MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa1 to City of Batavia, IL's $20M GO Refunding Bonds, Ser. 2015

Global Credit Research - 24 Nov 2015

Maintains Aa1 rating on outstanding GO debt

BATAVIA (CITY OF) IL
Cities (including Towns, Villages and Townships)
IL

Moody's Rating

ISSUE	RATING
General Obligation Refunding Bonds, Series 2015	Aa1
Sale Amount $19,995,000	
Expected Sale Date 11/26/15	
Rating Description General Obligation	

Moody's Outlook NOO

NEW YORK, November 24, 2015 --Moody's Investors Service has assigned a Aa1 rating to the City of Batavia, IL's $20 million General Obligation (GO) Refunding Bonds, Series 2015. Concurrently, Moody's has maintained the Aa1 rating on the city's outstanding GO debt. Post-sale, the city will have $35.6 million in outstanding GO debt.

SUMMARY RATING RATIONALE

The Aa1 rating reflects the city's home rule status, moderately sized tax base west of Chicago (Ba1 negative), healthy operating reserves, low debt burden, and somewhat elevated unfunded pension liabilities.

OUTLOOK

Outlooks are usually not assigned to local government credits with this amount of debt outstanding.

WHAT COULD MAKE THE RATING GO UP

-Sustained growth in the city's tax base valuation

-Enhanced socioeconomic profile

-Moderation of unfunded pension liabilities

WHAT COULD MAKE THE RATING GO DOWN

-Continued tax base depreciation or weakening of the city's socioeconomic profile

-Decreases in the city's operating reserves

STRENGTHS

-Home rule status provides significant revenue raising flexibility

-Sizable tax base located in the Chicago metropolitan area

-Relatively low debt burden

-Additional liquidity maintained in Capital Improvements Fund

CHALLENGES

-Declines in tax base valuations

-Somewhat elevated unfunded pension liabilities

RECENT DEVELOPMENTS

The city closed fiscal 2014 with an Operating Fund (inclusive of the General Fund and Debt Service Fund) surplus of $1.3 million, increasing its available operating fund balance to $15.9 million or 63.2% of Operating Fund revenue. Management projects that fiscal 2015 will close with an operating surplus of approximately $900,000. The city is planning to implement a 2% liquor tax, a one cent increase in the gas tax and an increase in the leaf and brush fee.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: SUBURBAN TAX BASE EXPECTED TO STABILIZE FOLLOWING YEARS OF VALUATION DECLINES

Despite recent valuation declines, we expect the city's moderately sized $2.7 billion tax base to stabilize over the long-term due to the city's favorable location in the Chicago metropolitan area. The city's tax base valuations experienced steady single digit declines in recent years, due primarily to depreciation of home values. The city is relatively built out but some modest retail development is occurring, including the construction of a new housing development consisting of 63 homes with prices ranging from $500,000 to $700,000, a new gas station and new restaurants in the downtown area. PartyLite Worldwide LLC, a major employer in the city, recently relocated its headquarters to Batavia, expanding on the company's distribution and production facilities that were already located in the city. The city has additional development capacity on more than 400 acres of greenfield property, although there are no current development plans for the land. The city's revenue base is diverse, with the top 10 tax payers comprising 6.9% of the assessed value.

Resident income levels are above average with median family income at 161.9% of the national median from 2008 to 2012 as estimated in the American Community Survey. The city's unemployment rate of 4.8% was below the state (5.6%) and national averages (5.2%), as of August 2015.

FINANCIAL OPERATIONS AND RESERVES: HEALTHY OPERATING RESERVES; ADDITIONAL LIQUIDITY AVAILABLE IN OTHER FUNDS

The city's financial position is expected to remain stable due the revenue raising flexibility afforded by home-rule status. The city's fund balance policy is to maintain at least 60 days of operating expenses in General Fund reserves. The city closed fiscal 2014 with an Operating Fund (inclusive of the General Fund and Debt Service Fund) surplus of $1.3 million, increasing its available operating fund balance to $15.9 million or an ample 63.2% of Operating Fund revenue. The city is planning to implement a 2% liquor tax, a one cent increase in the gas tax and an increase in the leaf and brush fee. Combined, these revenue increases would result in an additional $580,000 annually.

The city implemented an additional 0.5% home rule sales tax in fiscal 2014. The additional revenue is meant to be a short-term replacement for the electric utility's PILOT payment and will also reimburse the General Fund for administrative related costs associated with running the utility. The sales tax increase added $1 million in revenues while the elimination of the PILOT payment reduced revenues by $750,000. The city intends to use the additional revenue to reduce expenses in the electric utility and provide rate relief to electric ratepayers for three years. The electric utility will resume making full PILOT payments in 2017, after which the city may choose to keep the increased sales tax rate and use the additional revenues for general operations. In addition to the electric utility, the city's waterworks and sewerage utilities are stable, ending fiscal 2014 with adequate liquidity and positive net income.

Property taxes are the city's largest revenue source, which comprised 26.8% of fiscal 2014 Operating Fund revenues. In addition to the property tax revenues, the city's main revenue sources intergovernmental revenues, utility taxes and other taxes, each comprising 14.1%, 15.8% and 20.3% of fiscal 2014 Operating Fund revenues, respectively. The state has proposed cutting income tax distributions from the Local Government Distributive Fund to local governments by 50%, which would decrease the city's revenue by approximately 5%, or $1.2 million.

As a home-rule municipality, the city has significant revenue raising flexibility as it is not subject to caps on its property tax levy and it has the power to impose variety of taxes without voter approval.

Liquidity

The city closed fiscal 2014 with an Operating Fund (inclusive of the General Fund and Debt Service Fund) net cash position totaling $13.7 million, or a healthy 54.6% of Operating Fund revenues. The city has additional liquidity in its Capital Improvements Fund totaling $4 million, or 16% of Operating Fund revenue.

DEBT AND PENSIONS: LOW DEBT BURDEN WITH SLOW AMORTIZATION SCHEDULE; SOMEWHAT ELEVATED UNFUNDED PENSION LIABILITIES

The city's debt burden is expected to remain low. The city's enterprise systems support $27.7 million of the city's $35.6 million in gross direct debt. The city's current net direct debt burden totals $8.5 million, or a low 0.3% of the city's full value and 0.3 times its Operating Fund revenues. The city's debt service payments decreased in recent years. The city's 2014 debt service payment totaled $1.2 million, or 5% of total Operating Fund revenues. The city's fixed costs (inclusive of debt service payments, OPEB contributions and net pension contributions) totaled $4 million, or 15.9% of Operating Fund revenues. The city may issue additional debt in late 2016 or early 2017 related to the redevelopment of a city owned site.

Debt Structure

The city's outstanding debt is fixed rate. Amortization is relatively slow with 57.9% of GO debt retired within 10 years.

Debt-Related Derivatives

The city has no exposure to derivatives.

Pensions and OPEB

Batavia has a somewhat elevated employee pension burden, based on unfunded liabilities for two single-employer plans and its share of a multiple-employer agent plan administered by the state. Reported unfunded pension liabilities consist of $21.1 million for the city's single-employer Police Pension Plan, $6.5 million for the city's single-employer Firefighters' Pension Plan and $6.6 million for the city's portion of the statewide Illinois Municipal Retirement Fund (IMRF). The city's total reported unfunded liability for its Police Pension Plan increased by $4.3 million, to $21.1 million in fiscal 2014 from $16.9 million in fiscal 2013. The increase was driven by change in actuarial assumptions which included the use of updated mortality tables.

The fiscal 2014 Moody's adjusted net pension liability (ANPL) for the city, under our methodology for adjusting reported pension data, is $70.7 million, or 2.6 times Operating Fund revenues (inclusive of General and Debt Service Funds) and 2.4% of the city's full value. The adjustments are not intended to replace city's reported liability information, but to improve comparability with other rated entities.

Notably, the city's pension contributions have exceeded the full annual required contributions (ARC) for its single employer Police Pension Fund and its single employer Firefighter's Pension Fund in recent years. In fiscal 2014, the city contributed 103.7% of the ARC for its Police Pension Fund and 104.1% of the ARC for its Firefighter's Pension Fund. The city's total pension contribution in 2014, net of enterprise support, was $2.6 million, or 10.6% of total Operating Fund revenues.

MANAGEMENT AND GOVERNANCE: HOME RULE STATUS PROVIDES FLEXIBILITY

Illinois cities have an institutional framework score of 'A' or moderate. Cities are dependent on property and sales taxes, with largely predictable expenditures. Cities may be exposed to declining state payments if shared income tax receipts are cut as recommended by the Governor. Batavia's income tax distributions totaled $2.5 million, or 10% of operating revenues in fiscal 2015.

Batavia's home rule status provides significant financial flexibility as it is not subject to property tax levy limits, has no statutory debt ceiling and has the power to impose a variety of taxes without voter approval. Management has a strong history of running operating surpluses.

KEY STATISTICS

-Full valuation: $2.7 billion

-Estimated full value per capita: $103,000

-2012 American Community Survey median family income: 161.9%

-Fiscal 2015 Available Operating Fund balance: 63.2%

-5-Year Dollar Change in Operating Fund Balance as % of Revenues: 12.8%

-Fiscal 2015 Net operating cash balance: 54.6%

-5-Year Dollar Change in Cash Balance as % of Revenues: 0.68%

-Institutional Framework: A

-Operating History: 5-Year Average of Operating Revenues / Operating Expenditures: 1.05x

-Net Direct Debt / Full Value: 0.3%

-Net Direct Debt / Operating Revenues: 0.3x

-3-Year Average of Moody's ANPL / Full Value: 2.4%

-3-Year Average of Moody's ANPL / Operating Revenues: 2.6x

OBLIGOR PROFILE

Located approximately 35 miles west of Chicago (Ba1 negative) in Kane County (Aa1), the city encompasses approximately 10 square miles and has a population of approximately 26,000 residents.

LEGAL SECURITY

Debt service on the city's GO bonds, including the 2015 bonds, is secured by the city's GO unlimited tax pledge in which the full faith, credit and resources of the government are pledged, and are payable from a dedicated ad valorem tax, which may be levied without limitation as to rate or amount.

USE OF PROCEEDS

The bonds will refund the city's outstanding Electric System Revenue Bonds, Series 2006 for interest savings. Although the bonds are secured by the city's GOULT pledge, debt service is expected to be paid from electric enterprise revenues.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Analysts

Benjamin VanMetre
Lead Analyst
Public Finance Group
Moody's Investors Service

Rachel Cortez
Additional Contact
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA

Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.
MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.