THE VILLAGE OF Wilmette EST. 1872

Date: June 19, 2020

To: Michael Braiman, Village Manager

From: Melinda Molloy, Finance Director

Subject: Moody's Reaffirms Wilmette's Aaa Rating

Moody's Investor Service has reaffirmed the Village as Aaa (their highest rating) with a Stable outlook

On June 10th, the Village conducted a call with Moody's to obtain a rating for the upcoming bond issuance. The topics covered were capital planning and future debt issuances; stormwater fee details, local economy and tax base changes; 2019 financial results; 2020 financial performance with an emphasis on the potential impact of COVID-19; and public safety pension funding. Moody's was appreciative of the thoroughness and responsiveness of staff and the level of detail we were able to provide in terms of the potential impact of the pandemic on the Village's reserves.

The rating rationale highlights the Village's strong socioeconomic profile, home rule authority, sound financial operations and healthy fund balance as credit strengths. Factors cited that could lead to a downgrade are further growth in pension or debt burdens and reduction in liquidity or reserves. In regards to the COVID-19 pandemic, they noted that, "the situation surrounding coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis". Their view is that there is not "any material immediate credit risks" for the Village.

The credit weaknesses cited are an unfavorably high pension liability and exposure to economically sensitive sales and income tax. Moody's rating system relies on their proprietary calculation of municipal pension obligations. In general, Moody's looks for a community's unfunded pension liabilities to be less than 3x annual operating revenues. That number for the Village has grown from 3.01 in 2014 to 4.0 in 2019. Unfunded pension liability is the primary credit pressure for a significant portion of Illinois communities. The Village is seeking to address this credit pressure through the new 15 year rolling amortization funding policy approved by the Board in 2019. It is expected that this policy will help address the pension funds' growing unfunded liability and Moody's noted it as a credit positive. Although sales and income tax are noted as a credit weakness, the report highlights that the Village does have relatively divers revenues and does not have a significant dependence on any single business, car dealerships or large retailers.

A copy of the Press Release and Credit Opinion issued by Moody's is attached.

MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Aaa to Wilmette, IL's GO bonds

17 Jun 2020

New York, June 17, 2020 -- Moody's Investors Service assigns a Aaa rating to the Village of Wilmette, IL's $28 million General Obligation Bonds, Series 2020A. Moody's maintains a Aaa rating on the village's outstanding general obligation unlimited tax (GOULT) debt. Following the sale, the village will have $92 million of GOULT debt outstanding. The outlook is stable

RATINGS RATIONALE

The Aaa GOULT rating is supported by the village's very high resident incomes and broad revenue raising flexibility given its status as a home rule unit of local government. Financial operations are sound and operating fund balance and liquidity are expected to remain healthy as revenue loss from the response to the coronavirus outbreak will partially be offset by cost saving measures. The rating also considers the village's elevated long-term leverage that is driven primarily by very high unfunded pension benefits.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. The coronavirus crisis is not a key driver for this rating action. We do not see any material immediate credit risks for Wilmette, IL. However, the situation surrounding coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of Wilmette, IL changes, we will update the rating and/or outlook at that time.

RATING OUTLOOK

The stable outlook reflects the expectation that the village's financial position will remain sound given strong budgetary management and that pressure from growing pension contributions will be modest given the village's affluent tax base and ability to raise local revenue to support higher pension contributions.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

- Not applicable

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- Further growth in pension or debt burdens

- Reduction in operating reserves or available liquidity

LEGAL SECURITY

The village's outstanding GOULT bonds, including the Series 2020A Bonds, are secured by the village's full faith and credit pledge to levy ad valorem taxes unlimited as to rate and amount. While the Series 2020A bonds are GOULT obligations, the village intends to abate the ad valorem tax and use the net revenues of the village's sewer and water systems to pay debt service.

USE OF PROCEEDS

The Series 2020A bonds will finance improvements to the village's storm water and water systems.

PROFILE

Wilmette is located in Cook County (A2 stable) approximately 16 miles north of downtown Chicago (Ba1 stable). The village provides public safety (police and fire), water service (supply, treatment and distribution), sewer service (distribution only) and general governmental services to approximately 27,000 residents.

METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in September 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?

docid=PBM_1191097. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security 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 credit rating action on the support provider and in relation to each particular credit 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.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569 .

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.

Daniel Simpson
Lead Analyst
Regional PFG Chicago
Moody's Investors Service, Inc.
100 N Riverside Plaza
Suite 2220
Chicago 60606
US
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Eric Harper
Additional Contact
Regional PFG Chicago
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

MOODY'S
INVESTORS SERVICE

MOODY'S INVESTORS SERVICE

CREDIT OPINION
19 June 2020

Rate this Research

Contacts

Daniel Simpson +1.312.706.9965
AVP-Analyst
dan.simpson@moodys.com

Eric Harper +1.312.706.9972
VP-Senior Analyst
eric.harper@moodys.com

Wilmette (Village of) IL

Update to credit analysis

Summary

Wilmette, IL's (Aaa stable) credit profile benefits from very high resident incomes that far exceed the median for the rating category and broad legal flexibility to raise local taxes and fees to address rising expenditure pressures given its status as a home rule village. The village is a mature Chicago (Ba1 stable) suburb. Financial operations are sound and fund balance and liquidity are expected to remain healthy. The village's main credit challenge is its above average pension burden.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. We do not see any material immediate credit risks for Wilmette. However, the situation surrounding the coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of Wilmette changes, we will update our opinion at that time.

Credit strengths

» Very affluent suburban community with economic ties to Chicago metro area

» Significant legal authority to raise local revenue as a home-rule village

» Healthy operating reserves relative to budget

Credit challenges

» Very high pension burden

» Exposure to economically sensitive sales and income taxes

Rating outlook

The stable outlook reflects the expectation that the village's financial position will remain sound given strong budgetary management and that pressure of growing pension contributions will be modest given the village's affluent tax base and ability to raise local revenue to support high pension contributions.

Factors that could lead to an upgrade

» Not applicable

Factors that could lead to a downgrade

» Further growth in pension or debt burdens

» Reduction in operating reserves or available liquidity

Key indicators

Exhibit 2

Wilmette (Village of) IL	2015	2016	2017	2018	2019*
Economy/Tax Base					
Total Full Value ($000)	$4,757,760	$4,629,099	$5,777,151	$5,888,451	$5,713,073
Population	27,420	27,367	27,393	27,419	27,419
Full Value Per Capita	$173,514	$169,149	$210,899	$214,758	$208,362
Median Family Income (% of US Median)	241.1%	257.9%	258.3%	258.0%	258.0%
Finances					
Operating Revenue ($000)	$40,828	$42,202	$42,315	$44,094	$44,921
Fund Balance ($000)	$10,503	$13,217	$14,993	$16,998	$19,038
Cash Balance ($000)	$9,181	$11,797	$14,205	$15,499	$11,659
Fund Balance as a % of Revenues	25.7%	31.3%	35.4%	38.5%	42.4%
Cash Balance as a % of Revenues	22.5%	28.0%	33.6%	35.1%	26.0%
Debt/Pensions					
Net Direct Debt ($000)	$31,083	$28,685	$31,233	$28,490	$25,698
3-Year Average of Moody's ANPL ($000)	$121,896	$141,896	$153,168	$162,996	$179,615
Net Direct Debt / Full Value (%)	0.7%	0.6%	0.5%	0.5%	0.4%
Net Direct Debt / Operating Revenues (x)	0.8x	0.7x	0.7x	0.6x	0.6x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	2.6%	3.1%	2.7%	2.8%	3.1%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	3.0x	3.4x	3.6x	3.7x	4.0x

Fiscal 2019 is unaudited. Current total full value is $6.3 billion. Operating revenue includes the village's general, debt service and motor fuel tax funds.
Source: US Census Bureau, Moody's Investors Service, audited financial statements

Profile

Wilmette is located in Cook County (A2 stable) approximately 16 miles north of downtown Chicago (Ba1 stable). The village provides public safety (police and fire), water service (supply, treatment and distribution), sewer service (distribution only) and general governmental services to approximately 27,000 residents.

Detailed credit considerations

Economy and tax base: affluent Chicago suburban tax base

The coronavirus is driving an unprecedented economic slowdown. We currently forecast US GDP to decline significantly during 2020 with a gradual recovery commencing toward the end of the year. Local governments with the highest exposure to tourism, hospitality, healthcare, retail and oil and gas could suffer particularly severe impacts. Wilmette is a mature residential suburb of Chicago that is not materially reliant on the aforementioned sectors. The village's unemployment is comparatively low at 10% as of April 2020, which is below the national rate (14%) and Illinois' rate (17%).

Wilmette derives tax base and economic stability from its very strong socioeconomic profile. The village is very closely linked to the diverse Chicago economy, with residents having direct transportation access to the Chicago downtown and high income jobs via the regional commuter rail. Median family income in the village is a very high 258% of the national figure, exceeds the median of 183% for the Aaa rating category.

Wilmette's capacity to tap its local wealth for revenue is strong, given its unlimited authority to raise local property and sales taxes. While tax base valuations are volatile in Cook County, fluctuations do not have an impact on the village's property tax receipts, given the village sets its annual levy on a dollar basis and is not subject to tax cap limitations. The village's full valuation is currently $6.3 billion.

Financial operations and reserves: sound financial operations support healthy reserves

We expect the village's financial position will remain sound given moderate revenue loss from slowed economic activity, healthy reserves, and strong budgetary management. The village is currently expecting revenue losses from the response to the coronavirus outbreak to be approximately $3 million (8% of fiscal 2020 budgeted revenue). Cost saving measures of approximately $400,000 have been identified and will offset a portion of the revenue loss but general fund reserves will cover the remaining shortfall. Based on these figures, the cash basis general fund balance for fiscal 2020 (fiscal year ends 12/31) is projected to end at approximately $11 million, or a still sound 23% of budgeted operating expenses and well below the village's fund balance policy of 30% of operating expenditures.

In fiscal 2019, the village posted a $2 million general fund surplus due to larger than budgeted permit revenue, increasing available general fund balance to $14 million, 36% of general fund revenue. Available operating fund balance stood at $14.7 million across the village's major operating funds (general, debt service and motor tax fuel funds), or 35% of operating fund revenue at the close of fiscal 2019. Nearly all of this fund balance was in the general fund rather than the debt service fund, indicating a high degree of reserve flexibility.

Wilmette's general fund revenues are relatively diverse as they include property taxes (30% of budgeted revenue), sales taxes (16%), charges for services (9%) and state income tax distributions (9%). Consistent with a primary residential tax base, the village does not have a significant dependence on any single business for sales tax receipts. The village does not have car dealerships or large retailers.

The village has two major enterprise funds to account for water and sewer service. Both funds posted operating surpluses and ended fiscal 2019 with a solid financial position. In addition to serving village residents, the water system is a wholesale supplier of water to the villages of Glenview (Aaa stable), Kenilworth (Aaa stable), and Golf. In fiscal 2020, the village will add North Main Utilities as a wholesale customer, which is expected to generate additional net wholesale revenue of $1 million annually. The village annually budgets a transfer of approximately $1 million from its water fund to its general fund to support governmental operations.

LIQUIDITY

The village closed fiscal 2019 with net cash and investments across its general, debt service, and motor fuel tax funds of $11.7 million, or 26% of operating revenue. Across all governmental funds, the village reported net cash and investments of $13.6 million or 31% of operating revenue.

The village's water and sewer funds each held $2.1 million, or 155 days and 437 days of O&M expenses, respectively, at the close of fiscal 2019.

Debt, pension and OPEB: high pension burden; moderate debt burden heavily supported by enterprise funds

We expect the Wilmette debt burden will increase over the next few years as it plans to issue up to $40 million in GO bonds to finance a stormwater utility. Inclusive of the Series 2020 bonds, the village has $92 million of GO bonds outstanding, but its water and sew enterprises are currently repaying $56 million of the outstanding GO bonds from annual net revenue. Net of the enterprise-supported debt, the village's debt burden is low compared to full value (0.6% of full value) but more moderate when compared to operating revenue (0.8x fiscal 2019 operating revenue). The village expects to issue up to $40 million in additional GO bonds over the next five years to finance a stormwater utility to address flooding in certain areas of the village. The GO stormwater bonds will be supported by a new stormwater fee on residential and nonresidential properties that will be included in the monthly utility service (water, sewer and refuse) bills. Debt service expense totaled $3.7 million, or 8% of fiscal 2019 operating revenue.

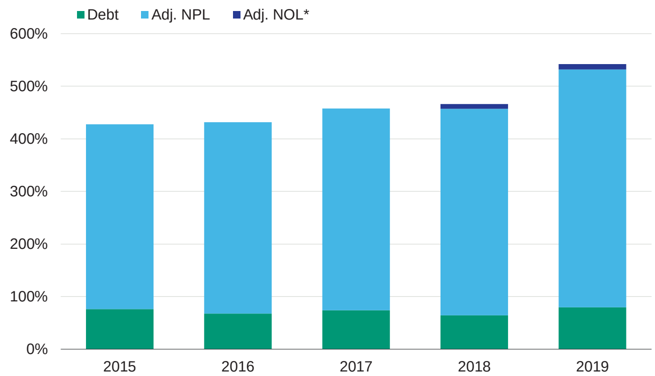
The village's pension burden is high and represents a significant share of the village's leverage (See Exhibit 2). Moody's adjusted net pension liability (ANPL), based on a 3.2% discount rate, was $180 million or a high 2.9% of full value and 4.0x fiscal 2019 operating revenue. In comparison, the village's net pension liability, based on a 7.25% discount rate, was $57 million in fiscal 2019. The village's total pension contribution was $6 million, or 14% of fiscal 2019 operating revenue.

While the village's pension burden is high, its OPEB burden is modest. Moody's adjusted net OPEB liability (adjusted NOL), based on a 3.2% discount rate, totaled a modest $4.6 million as of fiscal 2019, or 0.1x fiscal 2019 operating revenue.

Fixed costs, inclusive of debt service, pension and OPEB contributions, totaled $9.9 million, consuming 22% of fiscal 2019 operating revenue.

Exhibit 2

Pension burden is primary driver of balance sheet leverage

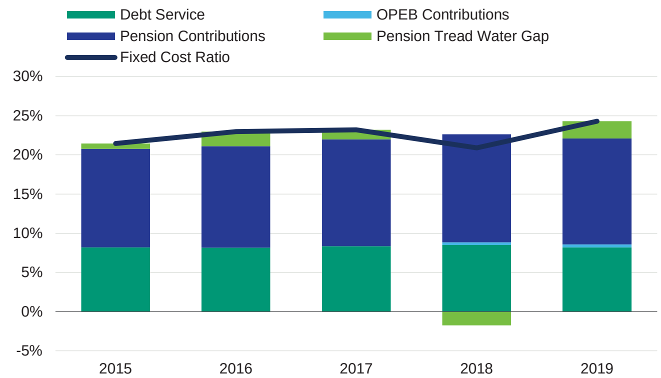


*Adj. NOL not available pre-GASB 75

Source: Village's financial statements

Exhibit 3

Pension contributions are the largest component of fixed costs



Source: Village's financial statements

DEBT STRUCTURE

All of the village's debt is fixed rate and an average 50% of post-sale principal is scheduled to be repaid within 10 years. The village's outstanding GOULT is secured by the village's full faith and credit pledge and authorization to levy ad valorem taxes unlimited as to rate and amount.

DEBT-RELATED DERIVATIVES

The village is not party to any debt-related derivative agreements.

PENSIONS AND OPEB

Village employees participate in one of two single-employer defined benefit pension plans (police and fire) or the Illinois Municipal Retirement Fund (IMRF), a defined benefit, multi-employer agent plan. The public safety plans are the primary driver of the village's pension burden accounting for nearly 80% of the village's ANPL. In fiscal 2019, the village contributed $5.1 million (11% of operating fund revenue) in fiscal 2019, which was 90% of the amount that is sufficient to cover annual interest accruals on accumulated unfunded liabilities. The tread water[1] shortfall across both plans was $670,000 (1.5% of operating fund revenue), indicating a modest structural gap. However, this gap is based on the plans' own actuarial assumptions, which include an investment return of 7.25%. The village recently updated its pension funding policy and shortened the amortization period of the police and fire plans' unfunded liabilities to rolling 15 year open amortization periods. The change will increase public safety pension contributions by $1.5 million over the next three years to $6.6 million by fiscal 2023, which is credit positive. The emergence of a larger structural budget or growing pension burden because of weaker than planned pension contributions by the village, could lead to credit pressure.

ESG considerations

ENVIRONMENTAL

Environmental considerations have a limited impact on the village's credit profile. Data from Moody's affiliate Four Twenty Seven indicate that Cook County has a relatively high exposure to heat stress compared to counties nationally. Rising temperatures could affect the region's agriculture production over the long-term, but we expect near term challenges will be mitigated by the strength and diversity of the local economy

SOCIAL

Social considerations are material to the village's credit profile. Resident incomes and wealth are very high. Median family income is 258% of the national figure and full value per capita is $228,079. The village's population has been stable as it is a mature Chicago suburban community

The coronavirus outbreak is a social risk under our ESG framework, given the substantial implications for public health and safety. The village is working with local, state and federal partners to keep the community informed about the coronavirus. The village maintains a website that informs residents of the latest news about the coronavirus outbreak. Illinois is currently in phase three of the governor's five-phase reopening plan. Though the plan divides the state into four regions, all moved into phase three on May 29.

GOVERNANCE

Wilmette benefits from prudent management practices and strong financial policies. Management recently updated its formal fund policy that calls for a minimum fund balance of 30% of operating expenditures, a level it exceeds, and added that any excess to be directed toward infrastructure improvements or public safety pension plans. The village also maintains a 5-year capital improvement plans and has completed a cybersecurity risk assessment and provides cybersecurity awareness training to employees.

Illinois cities have an Institutional Framework score of "A," which is moderate. Revenue-raising ability is moderate but varies considerably. Non-home rule entities are subject to tax rate limitations. In addition, total operating tax yield for entities subject to the Property Extension Limitation Law (PTELL) is capped to the lesser of 5% or CPI growth, plus new construction. Home rule entities have much greater legal flexibility than the rest of the sector with substantial revenue-raising authority. Revenue predictability is moderate, with varying dependence on property, sales and state-distributed income taxes. Expenditures are moderately predictable but cities have limited ability to reduce them given strong public sector unions and pension benefits that enjoy strong constitutional protections. Fixed costs are driven mainly by debt service and employer pension contributions. For single employer public safety plans, the State of Illinois requires most entities to make annual pension contributions that cover current benefit accruals, plus an amount designed to achieve a 90% funded ratio by 2040.

Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 4

Rating Factors	Measure	Score
Economy/Tax Base (30%) [1]		
Tax Base Size: Full Value (in 000s)	$6,253,693	Aa
Full Value Per Capita	$228,079	Aaa
Median Family Income (% of US Median)	258.0%	Aaa
Finances (30%)		
Fund Balance as a % of Revenues	42.4%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	21.3%	Aa
Cash Balance as a % of Revenues	26.0%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	16.0%	Aa
Management (20%)		
Institutional Framework	A	A
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures (x)	1.1x	Aaa
Notching Factors:[2]		
Other Analyst Adjustment to Management Factor (specify): home rule		Up
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	0.6%	Aaa
Net Direct Debt / Operating Revenues (x)	0.8x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	2.9%	A
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	4.0x	Baa
	Scorecard-Indicated Outcome	Aa1
	Assigned Rating	Aaa

[1] Economy measures are based on data from the most recent year available.
[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.
[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication.
Source: US Census Bureau, Moody's Investors Service

Endnotes

1 Our "tread water" indicator measures the annual government contribution required to prevent reported net pension liabilities from growing, based on reported assumptions. An annual government contribution that treads water equals the sum of employer service cost and interest on the reported net pension liability at the start of the fiscal year. A pension plan that receives an employer contribution equal to tread water will end the year with an unchanged net pension liability relative to the beginning of the year if all plan assumptions hold. Net liabilities may decrease or increase in a given year because of factors other than the contribution amount, such as an investment performance that exceeds or falls short of a plan's assumed rate of return. Still higher contributions will always reduce unfunded liabilities faster, or will allow unfunded liabilities to grow more slowly than lower contributions. The degree to which contributions fall below the "tread water" indicator can help quantify a structural operating imbalance stemming from pensions, even under reported assumptions. A contribution below the "tread water" level in effect suppresses expenditures by leaving an implied interest on net pension liabilities unpaid, akin to borrowing at the assumed rate of return for operations.

REPORT NUMBER 1234200

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

MOODY'S INVESTORS SERVICE