

CREDIT OPINION

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Update

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Park Ridge (City of) IL

Rating Update - Moody's Affirms Park Ridge, IL's Aa2 GO Rating; Negative Outlook Removed

Summary Rating Rationale

Moody's Investors Service has affirmed the City of Park Ridge, IL's general obligation unlimited tax (GOULT) rating at Aa2 affecting \$39.1 million in Moody's rated debt. The negative outlook has been removed.

The Aa2 rating reflects the city's stabilizing, moderately-sized tax base with an affluent demographic profile; improved financial position characterized by recent operating surpluses and healthy reserves; manageable debt burden; and above average pension liabilities.

Credit Strengths

- » Strong socioeconomic profile
- » Healthy financial position
- » Financial flexibility derived from home rule status

Credit Challenges

- » Recent declines in tax base valuation
- » Above average pension burden

Rating Outlook

Removal of the negative outlook reflects the city's improved financial position driven by an increase in the property tax levy that led to operating surpluses and elimination of operating support for the Uptown TIF district.

Factors that Could Lead to an Upgrade

- » Significant expansion of the city's tax base
- » Moderation of pension liabilities

Factors that Could Lead to a Downgrade

- » Weakening of the city's tax base valuation
- » Narrowed fund balance or liquidity
- » Growth in the city's debt or pension burden

Key Indicators

Exhibit 1

Park Ridge (City of) IL	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value (\$000)	\$ 5,680,172	\$ 5,183,558	\$ 4,792,403	\$ 3,938,777	\$ 3,980,927
Full Value Per Capita	\$ 151,552	\$ 137,864	\$ 127,049	\$ 104,093	\$ 105,207
Median Family Income (% of US Median)	163.4%	161.5%	161.5%	161.5%	161.5%
Finances					
Operating Revenue (\$000)	\$ 32,786	\$ 34,895	\$ 32,032	\$ 35,394	\$ 38,576
Fund Balance as a % of Revenues	25.4%	13.5%	21.6%	20.7%	29.4%
Cash Balance as a % of Revenues	9.1%	5.8%	14.9%	19.6%	28.6%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 39,685	\$ 45,650	\$ 43,665	\$ 41,810	\$ 39,100
Net Direct Debt / Operating Revenues (x)	1.2x	1.3x	1.4x	1.2x	1.0x
Net Direct Debt / Full Value (%)	0.7%	0.9%	0.9%	1.1%	1.0%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	2.0x	2.7x	2.7x	2.6x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	1.4%	1.8%	2.4%	2.5%

Source: City's Audited Financial Statements; Moody's Investors Service; US Census Bureau

Detailed Rating Considerations

Economy and Tax Base: Stabilizing Tax Base with Strong Demographic Profile

Park Ridge's tax base has weakened considerably and future growth may be moderate relative to the pre-recession trend given the maturity nature of the city's profile. Following four consecutive years of tax base depreciation the city's \$4.0 billion tax base grew 1.1% in 2015, but the current valuation remains 34% below its 2010 peak of \$6.0 billion. Management expects a second consecutive year of positive growth to the tax base in 2016 driven by recent development in the city. An estimated \$243.0 million in permitted property improvements have been completed since 2014 or are in progress now, including 300 new construction residential units, a new Walgreens Pharmacy set to open in July 2016, and a new Fitness Formula Club currently under construction. Population in Park Ridge has remained relatively stable in recent decades as the city is a fully mature inner-ring suburb located sixteen miles northwest of downtown Chicago (Ba1 Negative). Median family income is estimated at 162% of the US figure. Full value per capita is above average at \$105,000. The city's February 2016 unemployment rate was 5.2%, compared to 7% for the state and 5.2% for the nation.

Financial Operations and Reserves: Recent Operating Surpluses and Improved Reserve Position

We expect the Park Ridge's recently improved financial profile to remain stable supported by recent budgetary adjustments and ample revenue raising flexibility. At the end of fiscal 2015 the city's operating funds (General Fund, Debt Service Fund and IMRF) held available reserves of \$11.4 million, or a healthy 29.4% of revenues, a significant improvement from \$4.7 million, or a 13.1% of operating revenues available in fiscal 2012. The improvement is primarily due to an increase in property taxes levied by the Debt Service Fund, which totaled \$2 million in fiscal 2015 and is up from \$129,000 in fiscal 2012. Previously, the General Fund supported debt service for an underperforming TIF district through annual transfers and at the end of fiscal 2012 the Uptown TIF owed the General Fund \$5 million. For fiscal 2016, management projects an operating surplus of \$3.1 million and an improved available reserve position of \$14.8 million, or an ample 38.4% of operating revenues. Officials have budgeted for a more modest operating surplus of \$484,000 in fiscal 2017.

LIQUIDITY

Cash and investments across the city's operating funds were \$11.0 million, or 28.6% of operating revenues in fiscal 2015.

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Debt and Pensions

The city's debt and pension burdens are expected to remain manageable supported by rapid principal amortization. Direct debt is an average 1.0% of full value and 1.0 times fiscal 2015 operating fund revenue. Total fixed costs, inclusive of debt service and pension and OPEB contributions, consumed a manageable 24.1% of fiscal 2015 operating fund revenue. City officials do not plan to issue additional debt in the near future.

DEBT STRUCTURE

The entire debt portfolio is fixed rate and amortizes rapidly with 95% of principal scheduled to be retired in ten years.

DEBT-RELATED DERIVATIVES

Park Ridge is not party to any interest rate swaps or other derivatives.

PENSIONS AND OPEB

City employees are members of one of three defined benefit pension plans. The city administers two single employer plans, one for police officers and the other for firefighters. The city also participates in one multi-employer agent plan, the Illinois Municipal Retirement Fund (IMRF). Across all three plans, the city's fiscal 2015 actuarially-determined annual required contribution was \$4.7 million. The city's contribution was slightly below at \$4.5 million, or 11.6% of operating revenue but management expects to correct the shortfall with a payment slightly above the actuarial requirement in fiscal 2016. The Moody's adjusted net pension liability (ANPL) for the city is \$100.8 million, or an above average 2.49% of full value and 2.6 times operating fund revenue. The adjustments are not intended to replace the city's reported liability information.

Although the city's police and fire pension plans are single employer plans, benefits and employee contribution levels are established by the State of Illinois. State statute also outlines minimum employer contributions. State legislation enacted in 2010 requires local governments to fund the police and fire plans such that they reach a 90% funded ratio by 2040. The city is in full compliance with this statutory requirement and plans to exceed that requirement by targeting a 100% fund ratio by 2040.

The city operates a single-employer OPEB plan for retiree healthcare. As of April 30, 2014, the reported unfunded actuarial accrued liability was \$6.3 million. The city's fiscal 2015 pay-go contribution was \$118,000, or 0.3% of operating fund revenue.

Management and Governance: Home Rule Status Provides Flexibility

Illinois cities have an institutional framework score of "A," or moderate. Revenue predictability is moderate, with varying dependence on property, sales, and state-distributed income taxes. Revenue-raising ability is also moderate but varies. Home rule entities have substantial revenue-raising authority. Non-home rule entities are subject to tax rate limitations, and total operating tax yield for nonhome rule entities subject to the Property Extension Limitation Law (PTELL) is capped at the lesser of 5% or CPI growth, plus new construction. Expenditures are moderately predictable but cities have limited ability to reduce them given costs for pension benefits that enjoy strong constitutional protections.

As a home rule unit of government, Park Ridge has broad legal flexibility to raise certain taxes, enhancing our assessment of its institutional framework. Property taxes are the city's largest source of annual operating fund revenue at 28%, followed by other local taxes, including the city's home rule sales tax, at 24%. Intergovernmental revenue sharing, which includes the city's share of state income and sales taxes, accounts for 21% of annual operating fund revenue.

Legal Security

The city's outstanding GOULT is secured by the pledge and authorization to levy a dedicated property tax, unlimited as to rate or amount, to pay debt service.

Use of Proceeds

Not applicable.

Obligor Profile

The City of Park Ridge encompasses approximately seven square miles in Cook County, sixteen miles northwest of Chicago. The city has an estimated population of 37,511.

Methodology

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

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