S&P Global
Ratings

RatingsDirect®

Summary:

# Naperville, Illinois; General Obligation

**Primary Credit Analyst:**
Jessica Olejak, Chicago + 1 (312) 233 7068; jessica.olejak@spglobal.com

**Secondary Contact:**
Andrew J Truckenmiller, Chicago + 1 (312) 233 7032; andrew.truckenmiller@spglobal.com

## Table Of Contents

**Summary:**

# Naperville, Illinois; General Obligation

| Credit Profile | | |
| --- | --- | --- |
| US$21.14 mil GO bonds ser 2024 due 12/01/2044 | | |
| *Long Term Rating* | AAA/Stable | New |
| Naperville GO | | |
| *Long Term Rating* | AAA/Stable | Affirmed |

## Credit Highlights

- S&P Global Ratings assigned its 'AAA' long-term rating to the City of Naperville, Ill.'s anticipated $21.14 million series 2024 general obligation (GO) bonds.
- S&P Global Ratings also affirmed its 'AAA' rating on the city's GO debt outstanding.
- The outlook is stable.

### Security

The city's unlimited-tax GO pledge secures the bonds. Naperville will use the majority of the bond proceeds to fund water and wastewater utility system projects. Although they are not pledged, the city intends to repay the bonds with water and wastewater utility revenues. A small portion of the bonds may be used to refund the series 2013, if the city can achieve interest savings.

### Credit overview

Naperville holistically maintains credit stability indicative of a 'AAA' rating, including a robust, growing economy that is independently strong, but also part of a broad and diverse metropolitan statistical area; a high level of reserves; consistently stable financial operating results with no discernible budgetary pressures; low debt levels; and a sophisticated and knowledgeable management team. Somewhat of an offsetting factor is the relatively high pension obligation burden compared with that of national peers, but the city's pension is one of the best funded single-employer plans in the state. Given the strength of the tax base to support the pension obligations in addition to management's funding discipline, we don't believe this weakens Naperville's overall extremely strong credit profile.

The city's most recent audit (year-end Dec. 31, 2022) saw a 29% increase in general fund reserves, resulting from higher state sales and income tax distribution, ambulance fees, and real estate transfer taxes. Fiscal 2023 estimates show a 20% increase in reserves (totaling $79 million, over 50% of expenditures), following conservative budgeting for projected inflation; revenues were also higher than budgeted. For fiscal 2024, Naperville budgeted for a slight surplus, with no major changes in revenues or expenditures. With the fund balance well above the 25% policy, management indicates that it's possible that reserves could be brought down due to transfers to the city's self-insurance fund, but there are no plans for that in place. We believe that the city could maintain a 'AAA' credit profile, even with a material reduction in the reserves, given its measured and planned.

The rating further reflects our view of Naperville's:

- Very strong and expanding local economy, with numerous large residential and commercial developments underway and, despite the city being nearly built out, an ability to annex more land for development;
- Large annual pension contributions for police and fire pension plans, with funding levels falling to about 70% due to low investment returns in 2022. Management believes that 2023 positive investment results will get the city back to about 80%. The plans have an entry age normal cost method, with 100% funding closed amortization in nine years, which we believe will result in a decreased likelihood of escalated costs over time; and
- Strong management, with above-average policies and practices that focus on financial stability highlighted by: monthly monitoring of budget to actuals and investment performance, formal investment and fund balance policies, and comprehensive long-term capital spending plans. The institutional framework score for Illinois home-rule cities and villages is strong.

### Environmental, social, and governance

We view the city's environmental, social, and governance risks as neutral within our credit rating analysis.

### Ratings above the sovereign

Naperville's GO debt is eligible to be rated above the sovereign, because we believe the city can maintain better credit characteristics than the nation in a stress scenario. Under our criteria, "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions," published Nov. 19, 2013, we consider U.S. local governments to have moderate sensitivity to national risk. The city's ad valorem tax pledge is the primary source of debt security, which severely limits the possibility of negative sovereign intervention in the payment of the debt or in the city's operations. The nation's institutional framework for local governments is predictable, allowing Naperville significant autonomy and independent treasury management. In addition, there is no history of government intervention.

## Outlook

The stable outlook reflects our view of the stability across all credit factors, particularly our belief that debt levels will remain low and reserves will be held at very strong levels given Naperville's 2018 increase in home rule sales tax that is exclusively used for capital projects and to pay down debt.

### Downside scenario

We could take a negative rating action if the city experiences weakening across multiple factors, such as a slowdown leading to declining economic metrics, significantly lower revenue performance, and materially lower reserves.

| Naperville, Illinois--Key credit metrics | | | | |
|---|---|---|---|---|
| | **Most recent** | **Historical information** | | |
| | | **2022** | **2021** | **2020** |
| **Very strong economy** | | | | |
| Projected per capita EBI % of U.S. | 161 | | | |
| Market value per capita ($) | 168,506 | | | |
| Population | | 148,422 | 146,777 | 147,375 |
| County unemployment rate(%) | | 3.9 | | |

| Naperville, Illinois--Key credit metrics (cont.) | | | | |
|---|---|---|---|---|
| | Most recent | Historical information | | |
| | | 2022 | 2021 | 2020 |
| Market value ($000) | 25,010,001 | 23,768,259 | 23,338,926 | |
| Ten largest taxpayers % of taxable value | 2.2 | | | |
| **Strong budgetary performance** | | | | |
| Operating fund result % of expenditures | | 11.1 | 10.7 | 3.1 |
| Total governmental fund result % of expenditures | | 9.1 | 9.5 | 9.0 |
| **Very strong budgetary flexibility** | | | | |
| Available reserves % of operating expenditures | | 49.4 | 39.5 | 30.4 |
| Total available reserves ($000) | | 66,497 | 51,542 | 37,482 |
| **Very strong liquidity** | | | | |
| Total government cash % of governmental fund expenditures | | 106 | 97 | 97 |
| Total government cash % of governmental fund debt service | | 1670 | 1404 | 1908 |
| **Strong management** | | | | |
| Financial Management Assessment | Good | | | |
| **Very strong debt & long-term liabilities** | | | | |
| Debt service % of governmental fund expenditures | | 6.3 | 6.9 | 5.1 |
| Net direct debt % of governmental fund revenue | 41 | | | |
| Overall net debt % of market value | 0.9 | | | |
| Direct debt 10-year amortization (%) | 73 | | | |
| Required pension contribution % of governmental fund expenditures | | 12.6 | | |
| OPEB actual contribution % of governmental fund expenditures | | 0.5 | | |
| **Strong institutional framework** | | | | |

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

## Related Research

- 2023 Update Of Institutional Framework For U.S. Local Governments, Nov. 28, 2023
- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.