Research Update:

Naperville, IL Series 2026 GO Bonds Assigned 'AAA' Rating; Outlook Stable

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Overview

- S&P Global Ratings assigned its 'AAA' long-term rating to the City of **Naperville**, Illinois' anticipated $37.955 million series 2026 general obligation (GO) bonds.
- At the same time, we affirmed our 'AAA' rating on the city's existing GO debt.
- The outlook is stable.

Rationale

Security

The city's unlimited-tax GO pledge secures the bonds. Naperville will use the bond proceeds to fund water, wastewater, and electric utility system projects. Although they are not pledged, the city intends to repay the bonds with water, wastewater, and electric utility revenues (rates have been adjusted to accommodate the debt service).

Credit highlights

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, along with a high level of reserves; consistently stable financial operating results, with no immediate budgetary pressures; low debt; and a sophisticated and knowledgeable management team.

Fiscal 2026 (year-end Dec. 31) is following the city’s historical trend of positive operating results, as the year-to-date sales and income tax revenue is 4% over budget and expenditures are on budget. The growing property tax base has allowed a budget increase of 6.6% toward funding additional capital investment and services, with a lower property tax rate expected. The city relies on sales and income tax from state-shared revenue (50% of general fund revenue), and its home rule sales tax funds about 50% of expenditures from the capital project fund. Management said it is positioned to withstand a potential decrease in more economically sensitive revenue if facing a recession through a reduction of expenditures and use of its excess fund balance.

The city's most recent audit (year-end Dec. 31, 2025) included a 7% general fund surplus, resulting from higher state sales and income tax distributions. A surplus of $13 million increased total reserves to $97.8 million (60% of revenue), with the fund balance well above the 25% policy, and management has no plans to draw down reserves. We believe the city could maintain a ‘AAA' credit profile even with a material reduction in reserves.

The rating further reflects our view of Naperville's:

- Robust and expanding local economy, with numerous large residential and commercial developments underway.
- Consistently strong financial performance. Our financial performance assessment incorporates our view that we expect the budget to remain in surplus.
- Robust 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 improvement plans. The city takes comprehensive steps to mitigate cyber risks.
- Stable debt profile, with the inclusion of an expected $30 million to be issued within the next three years.
- Moderating annual pension contributions for police and fire pension plans, with funding rising to 89% in fiscal 2025 due to higher investment returns over the past several years. The plans have an entry age normal cost method, with 100% funding closed amortization in seven years, which we believe will result in a decreased likelihood of escalated costs over time.
- Institutional framework that is typical for an Illinois municipality. For more information, see "Institutional Framework Assessment: Illinois Local Governments," Sept. 10, 2024.

Environmental, social, and governance

We view the city's environmental, social, and governance factors as neutral in our credit analysis.

Rating 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," 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 significantly limits the possibility of negative sovereign intervention in the payment of debt or the city's operations. The nation's institutional framework for local governments is predictable, allowing Naperville significant autonomy and independent treasury management. There is no history of government intervention.

Outlook

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

Downside scenario

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

Naperville, Illinois--credit summary

Institutional framework (IF)	2
Individual credit profile (ICP)	1.37
Economy	1.0
Financial performance	1
Reserves and liquidity	1
Management	1.35
Debt and liabilities	2.50

Naperville, Illinois--key credit metrics

	Most recent	2025	2024	2023
Economy				
Real GCP per capita % of U.S.	159	--	159	163
County PCPI % of U.S.	135	--	135	136
Market value ($000s)	32,493,860	29,615,212	26,537,170	25,010,001
Market value per capita ($)	219,031	199,627	178,879	167,987
Top 10 taxpayers % of taxable value	1.9	1.8	2.3	1.9
County unemployment rate (%)	3.7	3.9	4.3	3.5
Local median household EBI % of U.S.	168	--	168	168
Local per capita EBI % of U.S.	161	--	161	156
Local population	148,353	--	148,353	148,881
Financial performance				
Operating fund revenues ($000s)	--	175,171	159,752	153,531
Operating fund expenditures ($000s)	--	162,195	155,301	143,120
Net transfers and other adjustments ($000s)	--	64,993	1,246	2,446
Operating result ($000s)	--	13,015	5,697	12,857
Operating result % of revenues	--	7.4	3.6	8.4
Operating result three-year average %	--	5.6	7.3	9.3
Reserves and liquidity				
Available reserves % of operating revenues	--	60.8	52.9	51.5
Available reserves ($000s)	--	97,798	84,565	79,047
Debt and liabilities				
Debt service cost % of revenues	--	5.5	5.6	6.1
Net direct debt per capita ($)	1,066	850	662	606
Net direct debt ($000s)	158,072	126,141	98,142	90,189
Direct debt 10-year amortization (%)	53	57	77	--
Pension and OPEB cost % of revenues	--	10.0	11.0	10.0
NPLs per capita ($)	--	545	1,114	1,099
Combined NPLs ($000s)	--	80,906	165,271	163,575

Naperville, Illinois--key credit metrics

	Most recent	2025	2024	2023

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. Local population is sourced from Claritas. Claritas estimates are point in time and not meant to show year-over-year trends. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

Ratings List	
New Issue Ratings	
US$37,955,000 Naperville, Illinois, General Obligation Bonds, Series 2026, dated: Date of Delivery, due: December 1, 2046	
Long Term Rating	AAA/Stable
Ratings Affirmed	
Local Government	
Naperville, IL Unlimited Tax General Obligation	AAA/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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 https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.