

CREDIT OPINION

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City of Naperville, IL

Update to credit analysis

Summary

The [City of Naperville](#) (Aaa stable) benefits from a growing economic base, strong financial profile supported by considerable budgetary flexibility associated with its home rule status and position as the second largest economy in Illinois (A3 stable).

Credit strengths

- » Large and growing economic base in the [Chicago](#) (Baa3 positive) metropolitan area with very strong resident income and full value per capita
- » Significant financial flexibility afforded by the city's home rule status

Credit challenges

- » Reserves are solid but trail other Aaa rated entities

Rating outlook

The stable outlook reflects the city's large economic base and broad revenue raising ability, which will support stable reserves.

Factors that could lead to an upgrade

- » N/A

Factors that could lead to a downgrade

- » Cash position consistently below 30% of revenue
- » Increase in leverage to level notably beyond peers

Key indicators

Exhibit 1

Naperville (City of) IL

	2019	2020	2021	2022	Aaa Medians
Economy					
Resident income ratio (%)	195.4%	188.2%	186.7%	180.9%	170.6%
Full Value (\$000)	\$21,680,737	\$22,376,736	\$23,362,290	\$23,792,050	\$8,680,662
Population	147,501	147,734	149,013	149,089	36,119
Full value per capita (\$)	\$146,987	\$151,466	\$156,780	\$159,583	N/A
Annual Growth in Real GDP	0.9%	-5.4%	5.5%	1.3%	4.9%
Financial Performance					
Revenue (\$000)	\$402,545	\$409,690	\$428,721	\$425,312	\$101,733
Available fund balance (\$000)	\$125,167	\$151,589	\$171,937	\$173,581	\$62,520
Net unrestricted cash (\$000)	\$135,342	\$162,767	\$180,204	\$201,962	\$88,880
Available fund balance ratio (%)	31.1%	37.0%	40.1%	40.8%	61.7%
Liquidity ratio (%)	33.6%	39.7%	42.0%	47.5%	91.1%
Leverage					
Debt (\$000)	\$119,755	\$127,035	\$112,087	\$104,859	\$68,781
Adjusted net pension liabilities (\$000)	\$661,596	\$763,552	\$691,182	\$471,839	\$105,726
Adjusted net OPEB liabilities (\$000)	\$15,060	\$19,266	\$19,025	\$14,758	\$11,674
Other long-term liabilities (\$000)	\$15,628	\$17,590	\$14,855	\$14,274	\$3,903
Long-term liabilities ratio (%)	201.7%	226.4%	195.3%	142.4%	258.2%
Fixed costs					
Implied debt service (\$000)	\$9,963	\$8,731	\$9,097	\$7,862	\$4,899
Pension tread water contribution (\$000)	\$20,172	\$16,903	\$14,351	\$11,569	\$3,333
OPEB contributions (\$000)	\$664	\$822	\$917	\$988	\$503
Implied cost of other long-term liabilities (\$000)	\$935	\$1,139	\$1,260	\$1,042	\$262
Fixed-costs ratio (%)	7.9%	6.7%	6.0%	5.0%	11.2%

For definitions of the metrics in the table above please refer to the [US Cities and Counties Methodology](#) or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published [US Cities and Counties Median Report](#).

The real GDP annual growth metric cited above is for the Chicago-Naperville-Elgin, IL-IN-WI Metropolitan Statistical Area [issuer specific] Metropolitan Statistical Area.

Sources: US Census Bureau, Naperville (City of) IL's financial statements and Moody's Ratings, US Bureau of Economic Analysis

Profile

The City of Naperville is in [DuPage County](#) (Aaa) in northeastern [Illinois](#) (A3 stable), about 28 miles southwest of downtown Chicago. The city provides an array of municipal services including public safety, street maintenance and utilities to about 150,000 residents.

Detailed credit considerations

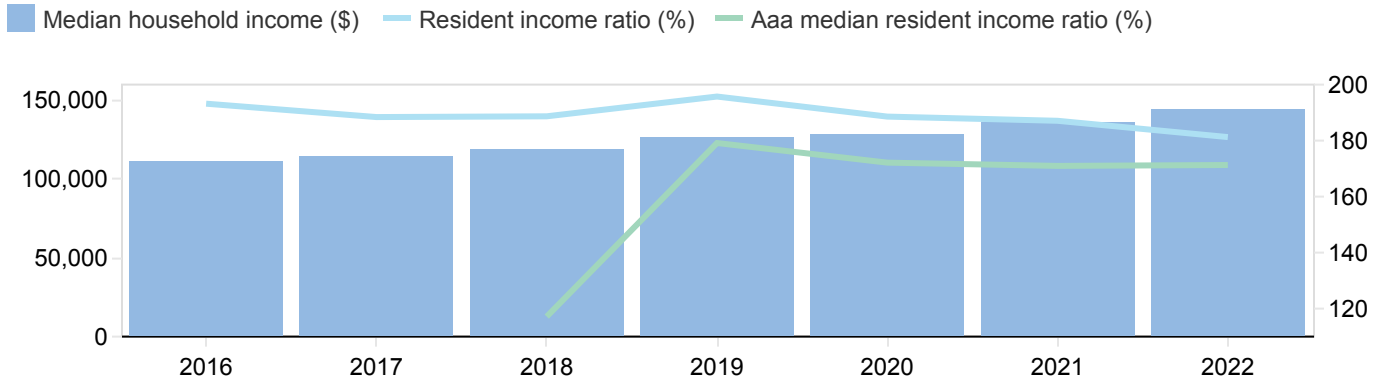
Naperville will continue to benefit from a large and growing economic base, supported by significant ongoing residential, commercial, and industrial development. Continued growth combined with a diverse array of revenue streams and conservative budgeting have resulted in a stable financial position. Fiscal 2022 closed with cash equal to about 48% of revenue, which is solid but somewhat lower than Aaa peers. The city operates enterprise funds for electric, water, and wastewater utility services, which collectively account for about half of the city's revenue.

Fiscal 2023 unaudited results show a \$13 million general fund surplus. The fiscal 2024 budget includes a small surplus of \$800,000, which is likely conservative. Long-term liabilities are currently low compared to peers, representing about 140% of revenue in 2022. The city has identified roughly \$370 million in capital needs over the next five years, some of which will be financed with debt. Even with some additional debt plans, leverage will likely remain lower than peer medians.

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Economy

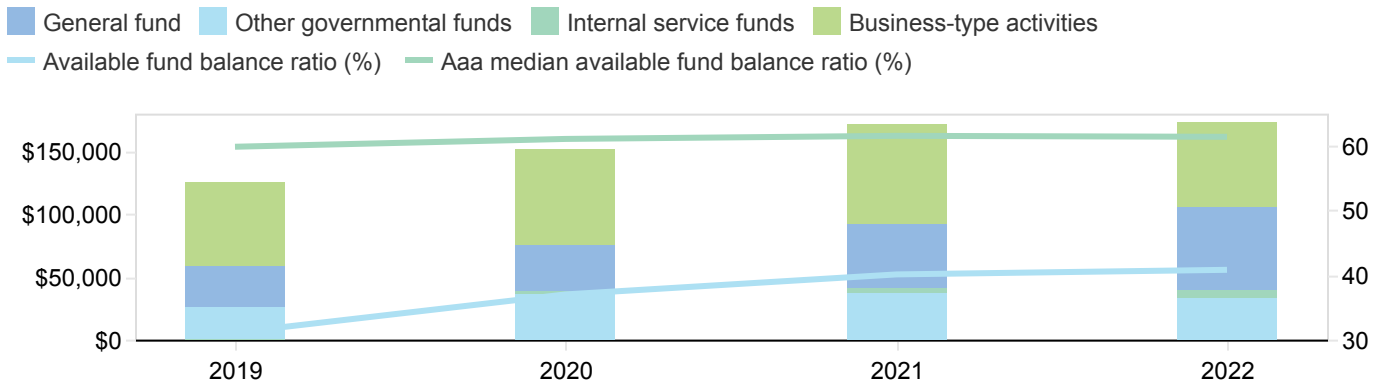
Exhibit 2
Resident Income



Source: Moody's Ratings

Financial operations

Exhibit 3
Fund Balance



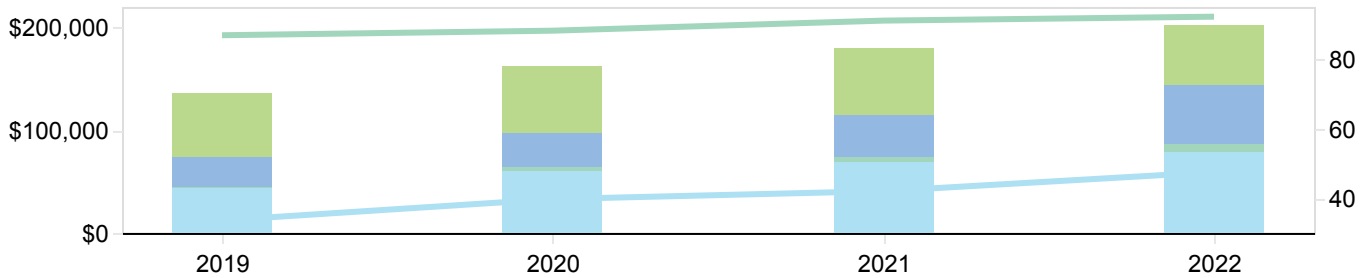
Source: Moody's Ratings

Liquidity

Exhibit 4

Cash

■ General fund
 ■ Other governmental funds
 ■ Internal service funds
 ■ Business-type activities
 — Liquidity ratio (%)
 — Aaa median liquidity ratio (%)



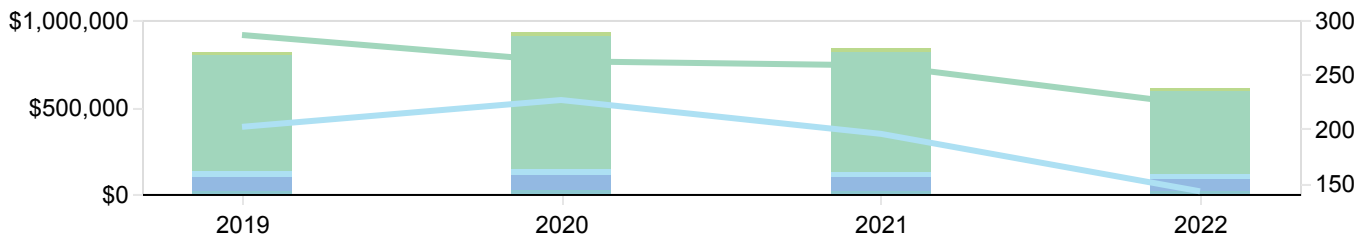
Source: Moody's Ratings

Leverage

Exhibit 5

Total Primary Government - Long Term Liabilities

■ Governmental Debt
 ■ Business-Type Activity Debt
 ■ Adjusted net pension liabilities
 ■ Adjusted net other post-employment liabilities
 ■ Other long-term liabilities
 — Long-term liabilities ratio (%)
 — Aaa median long-term liabilities ratio (%)



Source: Moody's Ratings

ESG considerations

Environmental

Environmental risks do not present a material credit risk for the district. DuPage County is primarily exposed to heat stress and extreme rainfall. One of the primary impacts of extreme heat is on agricultural production, which is not an economic driver for the county. The district is mostly developed and outdoor labor is limited, mitigating heat stress factors. The county is ultimately responsible for operating flood control facilities during extreme rainstorms and ensuring adequate maintenance is performed on these facilities.

Social

Social considerations are generally a positive factor in city's credit profile. The city's population increased by more than 250% since the 1980s, growing to about 150,000 residents in 2020 from about 43,000 in 1980. The median age of city residents (39) is on par with the state and national medians (38).

Governance

Naperville has a wide array of revenue raising options afforded by the city's home rule status. The city implemented its first home rule sales tax of 0.5% in 2015 and increased the rate to 0.75% during 2018 to reduce the property tax burden on residents. The city target pension funding to reach 100% funded by 2033, a goal that exceeds the state minimum of 90% by 2040.

Rating methodology and scorecard factors

The US Cities and Counties Rating Methodology includes a scorecard, which summarizes the rating factors generally most important to city and county credit profiles. Because the scorecard is a summary, and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned.

Exhibit 6

Naperville (City of) IL

	Measure	Weight	Score
Economy			
Resident income ratio	180.9%	10.0%	Aaa
Full value per capita	167,609	10.0%	Aa
Economic growth metric	-1.3%	10.0%	A
Financial Performance			
Available fund balance ratio	40.8%	20.0%	Aaa
Liquidity ratio	47.5%	10.0%	Aaa
Institutional Framework			
Institutional Framework	Aaa	10.0%	Aaa
Leverage			
Long-term liabilities ratio	142.4%	20.0%	Aa
Fixed-costs ratio	5.0%	10.0%	Aaa
Notching factors			
No notchings applied			
Scorecard-Indicated Outcome			Aa1
Assigned Rating			Aaa

The Economic Growth metric cited above compares the five-year CAGR of real GDP for Chicago-Naperville-Elgin, IL-IN-WI Metropolitan Statistical Area [issuer specific] Metropolitan Statistical Area to the five-year CAGR of real GDP for the US

Sources: US Census Bureau, Naperville (City of) IL's financial statements and Moody's Ratings

Appendix

Exhibit 7

Key Indicators Glossary

	Definition	Typical Source*
Economy		
Resident income ratio	Median Household Income (MHI) for the city or county, adjusted for Regional Price Parity (RPP), as a % of the US MHI	MHI: US Census Bureau - American Community Survey 5-Year Estimates RPP: US Bureau of Economic Analysis
Full value	Estimated market value of taxable property in the city or county	State repositories; audited financial statements; continuing disclosures
Population	Population of the city or county	US Census Bureau - American Community Survey 5-Year Estimates
Full value per capita	Full value / population	
Economic growth metric	Five year CAGR of real GDP for Metropolitan Statistical Area or county minus the five-year CAGR of real GDP for the US	Real GDP: US Bureau of Economic Analysis
Financial performance		
Revenue	Sum of revenue from total governmental funds, operating and non-operating revenue from total business-type activities, and non-operating revenue from internal services funds, excluding transfers and one-time revenue, e.g., bond proceeds or capital contributions	Audited financial statements
Available fund balance	Sum of all fund balances that are classified as unassigned, assigned or committed in the total governmental funds, plus unrestricted current assets minus current liabilities from the city's or county's business-type activities and internal services funds	Audited financial statements
Net unrestricted cash	Sum of unrestricted cash in governmental activities, business type activities and internal services fund, net of short-term debt	Audited financial statements
Available fund balance ratio	Available fund balance (including net current assets from business-type activities and internal services funds) / Revenue	
Liquidity ratio	Net unrestricted cash / Revenue	
Leverage		
Debt	Outstanding long-term bonds and all other forms of long-term debt across the governmental and business-type activities, including debt of another entity for which it has provided a guarantee disclosed in its financial statements	Audited financial statements; official statements
Adjusted net pension liabilities (ANPL)	Total primary government's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Adjusted net OPEB liabilities (ANOL)	Total primary government's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Other long-term liabilities (OLTL)	Miscellaneous long-term liabilities reported under the governmental and business-type activities entries	Audited financial statements
Long-term liabilities ratio	Debt + ANPL + ANOL + OLTL / Revenue	
Fixed costs		
Implied debt service	Annual cost to amortize city or county's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Investors Service
Pension tread water contribution	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Investors Service
OPEB contribution	City or county's actual contribution in a given period	Audited financial statements
Implied cost of OLTL	Annual cost to amortize city or county's other long-term liabilities over 20 years with level payments	Audited financial statements; Moody's Investors Service
Fixed-costs ratio	Implied debt service + Pension tread water + OPEB contributions + Implied cost of OLTL / Revenue	

*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the [US City and Counties Methodology](#).

Source: Moody's Ratings

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