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CREDIT OPINION
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New Issue

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City of Highland Park, IL

New Issue - Moody's assigns Aaa to Highland Park, IL's $9.1M GO Bonds, Ser. 2016

Summary Rating Rationale

Moody's Investors Service has assigned a Aaa rating to the City of Highland Park, IL's $9.1 million General Obligation Bonds, Series 2016. Moody's maintains the Aaa rating on the city's outstanding general obligation (GOULT) debt, which will amount to $53.4 million post sale. The Aaa rating incorporates the city's sizeable and affluent tax base; well-managed financial operations supported by healthy reserves, prudent fiscal management, and substantial financial flexibility derived from the city's home-rule designation; and modest direct debt burden.

Credit Strengths

» Large tax base with high income indices

» Stable financial operations supported by ample reserves

Credit Challenges

» Exposure to economically- sensitive sales and income tax revenues

» Recent declines in full valuation

Rating Outlook

Outlooks are not usually assigned to local governments with this amount of debt.

Factors that Could Lead to an Upgrade

» N/A

Factors that Could Lead to a Downgrade

» Significant declines in taxable values and/or weakening of the city's demographic profile

» Material declines in the city's General Fund financial reserves and/or economically-sensitive revenues

Key Indicators

Exhibit 1

Highland Park (City of) IL	2010	2011	2012	2013	2014
Economy/Tax Base					
Total Full Value ($000)	$ 8,121,352	$ 7,662,989	$ 6,976,273	$ 6,496,408	$ 6,197,026
Full Value Per Capita	$ 258,173	$ 257,467	$ 234,394	$ 218,271	$ 208,212
Median Family Income (% of US Median)	212.9%	212.9%	216.9%	216.9%	216.9%
Finances					
Operating Revenue ($000)	$ 37,124	$ 38,084	$ 40,506	$ 38,836	$ 41,943
Fund Balance as a % of Revenues	95.2%	101.7%	105.5%	112.9%	108.7%
Cash Balance as a % of Revenues	81.1%	90.3%	96.3%	102.4%	95.1%
Debt/Pensions					
Net Direct Debt ($000)	$ 49,146	$ 30,920	$ 27,229	$ 28,327	$ 20,679
Net Direct Debt / Operating Revenues (x)	1.3x	0.8x	0.7x	0.7x	0.5x
Net Direct Debt / Full Value (%)	0.6%	0.4%	0.4%	0.4%	0.3%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	N/A	2.9x	3.3x	3.4x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	N/A	1.7%	2.0%	2.3%

Source: Moody's Investors Service

Detailed Rating Considerations

Economy and Tax Base: Large residential tax base located in Chicago area characterized by high wealth indices

Given the composition of the local tax base, we believe Highland Park will maintain its healthy economic profile for the foreseeable future. Located approximately 26 miles north of the City of Chicago (Ba1 negative), in suburban Lake County (Aaa), Highland Park benefits from its favorable location along Lake Michigan. The tax base, fully valued at $6.2 billion, has seen valuation declines averaging 5.4% annually over the last five years and largely as a result of the downturn in the broader economy and softening of the real estate market. Residential property comprises approximately 91% of taxable value and resident income levels far exceed state and national averages. Additionally, the median home value of $579,700 is a considerable 286% of the state average, reflecting the long-standing desirability of real estate in the area. Median family income in the city is estimated at a strong 216.9% of the national figure.

Financial Operations and Reserves: Strong financial operations with healthy reserve levels

Despite the expectation of modest, planned draws on operating reserves, the city is expected to maintain a strong financial position over the near-term given conservative budgeting policies, the maintenance of healthy reserve levels, and additional financial flexibility derived from its home-rule status. The city's General Fund balances continue to remain very healthy. While management budgeted for a capital expenditure driven operating deficit of $1.3 million in fiscal 2014, audited results reflect a more favorable $1 million operating surplus driven by favorable revenue trends. The favorable result increased General Fund reserves to $43.5 million, or a very healthy 130.6% of revenues. Of this figure, $18.2 million was committed for employee retirement and pension obligations. Therefore, an unassigned fund balance of $19.7 million, or a still healthy 59.3% of revenues, is a better representation of the General Fund reserve position. The city's total fund balance is expected to decline to approximately $25 million in fiscal 2015 due to the redemption of the city's outstanding pension obligation bonds. The city issued the bonds in 2004 to pay the unfunded liabilities in its police and firefighter pension funds. Highland Park and its neighbor, the Village of Northbrook (Aaa), both issued $16.6 million that was subsequently placed with the other issuer to fund their respective pension liabilities. The bonds were redeemed in full. Despite the sizable reduction, the city's undesignated fund balance is projected to be strong at $19 million, or 57% of 2014 revenues.

The city budgeted a $2.7 million General Fund operating deficit in fiscal 2015 to fund capital projects and expenditures. Based on preliminary figures, the General Fund concluded the year with a more modest $700,000 operating deficit. The favorable variance was

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both revenue and expenditure driven as sales tax and building permit revenues came in stronger than budget, while expenditures were down by approximately $800,000. City management has budgeted for a $2.4 million General Fund operating deficit in fiscal 2016. The budget conservatively assumes a 50% reduction in state shared income tax and flat collections on other economically sensitive revenues.

Similar to many Illinois (Baa1 negative) cities and villages, Highland Park is relatively dependent upon economically sensitive sales tax receipts (39% of General Fund revenues in fiscal 2014). Favorably, management is familiar with the cyclical nature of this revenue source and has historically maintained healthy reserves to buffer against volatility in sales tax receipts. The city retains significant flexibility to generate additional revenues through its designation as a home-rule form of government. Officials have demonstrated a willingness to exercise this flexibility when implementing a 1% Food and Beverage Tax, 1% Packaged Liquor Tax, and a $0.02 per gallon Motor Fuel Tax in the past. Together, these revenue streams have allowed the city to continue investing in infrastructure improvements on a pay-as-you-go basis.

LIQUIDITY

The city's net operating cash in its operating funds (General, Debt Service, Public Safety Pension Levy Funds) was $39.9 million, or a strong 95.1% of operating revenues.

Debt and Pensions: Low debt burden; above average pension liabilities

The city's debt burden will likely remain manageable due to support from non-property tax sources and average principal amortization. Highland Park's debt burden is average at 2.1% of estimated full value (0.4% direct) and incorporates $101 million of debt from overlapping governments, most of which is attributable to school districts. Mitigating the impact on the general levy, a substantial portion of the city's direct debt is supported by non-property tax sources, home-rule sales taxes, and water revenues.

DEBT STRUCTURE

All of the city's debt is fixed rate and amortizes over the long-term.

DEBT-RELATED DERIVATIVES

The city is not a party to any derivative agreements.

PENSIONS AND OPEB

Highland Park has an above average employee pension burden, based on unfunded liabilities for two single-employer plans and its share of a multiple-employer agent plan administered by the state. Reported unfunded pension liabilities consist of $33.2 million for the city's single-employer Fire Pension Plan, $40.6 million for the city's single-employer Police Pension Plan and $6.7 million for the city's portion of the statewide Illinois Municipal Retirement Fund (IMRF). The fiscal 2014 Moody's adjusted net pension liability (ANPL) for the city, under our methodology for adjusting reported pension data, is $167 million, or 3.4 times Operating Fund revenues and 2.3% of the city's full value. The adjustments are not intended to replace city's reported liability information, but to improve comparability with other rated entities.

Management and Governance: Moderate Financial 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 non-home 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.

Legal Security

Debt service on the Series 2016 bonds is secured by the city's GO unlimited tax pledge in which the full faith, credit and resources of the city are pledged, and will be payable from ad valorem taxes, which may be levied without limitation as to rate or amount.

Use of Proceeds

Proceeds of the current offering will finance various infrastructure, water, sewer, and library improvements.

Obligor Profile

Highland Park is located 26 miles north of the Chicago central business district and is one of eight Chicago suburban communities north of Chicago fronting on Lake Michigan collectively referred to as the "North Shore.". The population at the 2010 Census was 29,763.

Methodology

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

Ratings

Exhibit 2

HIGHLAND PARK (CITY OF) IL

Issue	Rating
General Obligation Bonds, Series 2016	Aaa
Rating Type	Underlying LT
Sale Amount	$9,075,000
Expected Sale Date	01/11/2016
Rating Description	General Obligation

Source: Moody's Investors Service

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