

New Issue: MOODY'S ASSIGNS Aaa RATING WITH STABLE OUTLOOK TO THE CITY OF EVANSTON'S (IL) \$19.2 MILLION GO CORPORATE PURPOSE BONDS, SERIES 2011A

Global Credit Research - 18 Jul 2011

Aaa RATING WITH STABLE OUTLOOK APPLIES TO \$170 MILLION OF GOULT DEBT, INCLUDING CURRENT BONDS

Municipality
IL

Moody's Rating

ISSUE	RATING
General Obligation Corporate Purpose Bonds, Series 2011A	Aaa
Sale Amount	\$19,240,000
Expected Sale Date	07/20/11
Rating Description	General Obligation Unlimited Tax

Opinion

NEW YORK, Jul 18, 2011 -- Moody's Investors Service has assigned a Aaa rating to the City of Evanston's (IL) \$19.2 million General Obligation Corporate Purpose Bonds, Series 2011A. Concurrently, we have affirmed the Aaa rating on the city's outstanding general obligation unlimited tax (GOULT) debt. The City of Evanston has \$170 million of total GOULT debt, including the current issue. The rating outlook remains stable.

On July 13, 2011, Moody's placed the U.S. government's Aaa rating on review for downgrade, and published a Special Comment, "Implications of a U.S. Rating Action on Aaa-Rated Municipal Credits." The report, which is available at www.moody's.com, states that we will review all Aaa-rated municipal issuers in the Local Government sector during the weeks of July 18th and July 25th to determine whether their ratings should also go on review for possible downgrade in light of the sovereign rating action. Any review for downgrade of the City of Evanston's rating will be announced at that time.

SUMMARY RATING RATIONALE

Debt service on the current offering is secured by the city's GOULT pledge. Proceeds of the Series 2011A bonds will: finance various projects outlined in the city's capital improvement plan; refinance outstanding maturities of the city's General Obligation Bonds, Series 2003B; and refinance outstanding maturities due on a sewer system loan from the Illinois Environmental Protection Agency (IEPA). Affirmation and assignment of the Aaa rating and stable outlook reflect the mature, affluent community's proximity to the City of Chicago (general obligation rated Aa3/stable outlook); economic stability provided by Northwestern University (Aaa/stable outlook) and several health care institutions; satisfactory General Fund operations despite some dependence on economically sensitive revenue sources; significant public safety pension liabilities; and manageable debt profile.

STRENGTHS

*Higher education and health care institutional stability supports an affluent and diverse tax base that plays a key role in the Chicago regional economy

*Significant financial flexibility afforded by the city's home rule status

*Manageable and conservatively structured debt program

CHALLENGES

*Some General Fund reliance on economically sensitive revenue sources, including sales taxes (16% of fiscal 2010 General Fund revenues) and state shared income tax (7%)

*Underfunded status of police and firefighter pension plans (42% and 40% funded ratios, respectively, as of March 1, 2010)

DETAILED CREDIT DISCUSSION

MATURE, AFFLUENT COMMUNITY ADJACENT TO CHICAGO; NORTHWESTERN UNIVERSITY AND SEVERAL HEALTH CARE ORGANIZATIONS PROVIDE CONSIDERABLE ECONOMIC STABILITY

Due to largely to the city's beneficial location adjacent to Chicago and the stabilizing influence of Northwestern University and several health care institutions, we believe that Evanston's tax base will remain well positioned for long term growth. Located 13 miles north of downtown Chicago in Cook County (Aa3/stable), Evanston is home to Northwestern University, which is the city's top employer (more than 8,700 employees). In addition to higher education, health care is an anchor of the city's economy. North Shore University Health System (Aa2/stable) and St. Francis Hospital employ approximately 4,000 and 1,200 people, respectively. Interstate 94 and multiple commuter rail stations provide residents with access to additional employment centers in Chicago and throughout the region. Although university students account for more than 10% of the city's population, the per capita income, median family income, and median home value of Evanston residents have consistently exceeded state and national norms for at least the past four decades. Unemployment rates have historically trended below those of Illinois and the U.S.

Although the university and hospitals represent a significant amount of tax exempt valuation, Evanston's tax base is sizeable, with a 2009 full

value of \$10 billion. Nearly 80% of the city's assessed valuation is classified as residential, with most of the remaining taxable property classified as commercial. Like most mature communities in Cook County, Evanston experiences significant valuation growth during triennial reassessments, with very modest growth during the intervening years. Full value increased at an average annual rate of 10% between 2004 and 2009, which included triennial reassessment increases of 21% in 2004 and 23% in 2007, as well as the decertification of a tax increment district that contributed to a 13% increase in valuation in 2009. Tax base growth reflects both appreciation of existing properties and redevelopment in the city's downtown and eight business districts. We note that Evanston's 2010 valuation is not yet available, and due to broader economic trends, we believe that the city's prior trend of robust growth will moderate in the near term. However, the fundamental strengths of this mature community should preclude severe weakening of the tax base.

SATISFACTORY GENERAL FUND OPERATIONS DESPITE SOME DEPENDENCE ON ECONOMICALLY SENSITIVE REVENUE STREAMS; SIGNIFICANT PUBLIC SAFETY PENSION LIABILITIES

We expect Evanston's financial operations to remain satisfactory, although sizeable unfunded public safety pension liabilities continue to be a key credit challenge. Despite some fluctuation in the nominal amount of year end General Fund balances, the General Fund balance as a percent of revenues has remained relatively stable in recent years. At the close of each fiscal year between 2003 and 2010, the General Fund balance equaled between 24% and 30% of annual General Fund revenues. However, General Fund cash levels have declined in recent years: the net cash position equaled 10% of revenues in fiscal 2010, compared with 22% of revenues in fiscal 2004. While General Fund liquidity is more narrow, we believe that General Fund cash remains at levels that support the Aaa rating.

Based on unaudited financial statements, the General Fund balance increased from \$20.2 million in fiscal 2010 to \$22.0 million (a sound 25% of General Fund revenues) in the 12-month fiscal year that ended on February 28, 2011. The city is transitioning from a February 28 fiscal year end to a December 31 fiscal year end. The current fiscal year is ten months (March 1, 2011 through December 31, 2011). Beginning in 2012, the city's fiscal years will begin on January 1 and end on December 31.

For the 10-month fiscal year ending December 31, 2011, city management expects balanced General Fund operations. Officials budgeted for 0% change in most General Fund revenue line items, including property taxes (which represented 19% of General Fund revenues in fiscal 2010) and state shared income taxes (7% of 2010 revenues), although management is bracing for a potential 30% reduction in income tax revenues from the State of Illinois (general obligation rated A1/negative outlook). In the fall of 2010, the city council approved a 10% increase in water system rates. The city makes regular transfers from the Water Enterprise Fund to the General Fund. The fiscal 2010 transfer amount of \$2.7 million equaled just 3% of General Fund revenues but was a significant 60% of the water utility's net revenues, which underscores the importance of healthy financial operations in this fund. (Unaudited results for the 12-month fiscal year ending February 28, 2011 show a \$3.3 million transfer from the water utility.) Expenditure controls for the 10-month fiscal year ending December 31, 2011 include a 0% merit adjustment for the salaries of all non-unionized employees and three unpaid furlough days for all non-unionized and AFSCME employees. Additionally, the budget calls for the reduction of 15 Full Time Equivalent (FTE) positions. These adjustments should allow for the maintenance of reserves in accordance with city policy, which calls for a minimum fund balance of 8.3% of annual budgeted expenditures.

Management continues to address the city's growing unfunded police and firefighter pension liabilities. During the past decade, the city has contributed the actuarially determined Annual Required Contributions (ARC) to both public safety pension plans, as well as to the Illinois Municipal Retirement Fund (IMRF). Furthermore, in fiscal 2009, a one-time payment of \$4.5 million was made from the General Fund to improve funding levels in the public safety plans. Despite these efforts, the city's unfunded pension liabilities have increased significantly in recent years due to shortfalls in investment returns and state-mandated increases in benefits. Between fiscals 2004 and 2010, the combined unfunded liability of the city's police and firefighter pension plans increased from \$85.3 million to \$174.7 million. During the same period, the plans' funded ratio decreased from 52% to approximately 40%. Actuarial assumptions include an investment return of 7.0%, while the amortization period is a relatively lengthy 30 years. As officials consider options for addressing the liabilities, they plan to continue to fully fund the ARC. Should pension pressures significantly impact liquidity in the General Fund or other funds, the city's credit quality may weaken. At this time, however, officials report no plans to use significant amounts of available liquidity to fund long term pension obligations, although increasing ARC payments could pose budgetary pressures. Given management's demonstrated willingness to reduce expenditures, as well as its unlimited ability to raise revenues (including property taxes, sales taxes, and water and sewer system rates) afforded by its home rule status, we believe Evanston's financial operations and reserve levels will remain in line with the Aaa rating.

MANAGEABLE DEBT PROFILE

With a sound amortization rate and moderate future borrowing plans, we expect the City of Evanston's debt profile to remain manageable. At 1.6% and 3.3% of full value, respectively, the city's direct and overall debt burdens are slightly above state and national medians but are still affordable. Following the issuance of the current bonds, the city will have \$170 million of outstanding general obligation debt. In addition to general obligation debt for capital improvements (including those related to the city's sewer utility and parking enterprise), the city's outstanding debt includes non-general obligation borrowing of more than \$100 million in state loans for sewer system improvements and \$2 million in revenue bonds for water system improvements. Amortization of the city's general obligation debt approximates the median rates for cities in Illinois and the U.S., with 78% of the principal on the city's general obligation debt is retired in ten years. City management expects to borrow an additional \$80 million in GOULT debt during the next four years to finance projects outlined in the multi-year capital improvement plan. In the past decade, Evanston issued several series of variable rate debt, but currently, all of Evanston's outstanding debt is in fixed rate mode, and the city is not a party to any derivative agreements.

Outlook

The outlook for the City of Evanston's GOULT rating is stable, as we expect the city's strong economy, well-managed financial operations, and moderate debt levels to continue to offset the credit challenges associated with city's unfunded pension plan liabilities.

What could change the rating DOWN or change the outlook to negative:

- Severe deterioration of the city's tax base and/or socioeconomic profile
- Declines in liquidity and/or fund balances to levels not commensurate with the Aaa rating
- Further reductions in pension funding levels

KEY STATISTICS

2000 census population: 74,239 (1.4% decrease since 1990)

2010 estimated population: 74,486 (0.3% increase since 2000)

2009 full value: \$10.0 billion

2008 full value per capita: \$134,945

1999 per capita income as a % of US: 156%

1999 median family income as a % of US: 158%

2000 median home value as a % of US: 243%

April 2011 city unemployment rate: 6.4%

Fiscal 2010 General Fund balance: \$20.2 million (23% of revenues)

Fiscal 2011 General Fund balance: \$22.0 million (25% of revenues) (unaudited)

Direct debt burden: 1.6%

Overall debt burden: 3.3%

Payout (10 Years): 78%

GOULT debt outstanding: \$170 million, including the current bonds

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides relevant regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides relevant regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides relevant regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Information sources used to prepare the credit rating are the following: parties involved in the ratings, parties not involved in the ratings, public information, confidential and proprietary Moody's Investors Service information, and confidential and proprietary Moody's Analytics information.

Moody's considers the quality of information available on the rated entity, obligation or credit satisfactory for the purposes of issuing a rating.

Moody's adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

Please see ratings tab on the issuer/entity page on Moodys.com for the last rating action and the rating history.

The date on which some Credit Ratings were first released goes back to a time before Moody's Investors Service's Credit Ratings were fully digitized and accurate data may not be available. Consequently, Moody's Investors Service provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moodys.com for further information.

Please see the Credit Policy page on Moodys.com for the methodologies used in determining ratings, further information on the meaning of each rating category and the definition of default and recovery.

Analysts

Rachel Cortez
Analyst
Public Finance Group
Moody's Investors Service

Thomas Aaron
Backup Analyst
Public Finance Group
Moody's Investors Service

Edward Damutz
Senior Credit Officer
Public Finance Group

Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA



© 2011 Moody's Investors Service, Inc. and/or its licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ARE MOODY'S INVESTORS SERVICE, INC.'S ("MIS") CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MIS DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS DO NOT CONSTITUTE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS ARE NOT RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. CREDIT RATINGS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MIS ISSUES ITS CREDIT RATINGS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable, including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody's.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Any publication into Australia of this document is by MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657, which holds Australian Financial Services License no. 336969. This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001.

Notwithstanding the foregoing, credit ratings assigned on and after October 1, 2010 by Moody's Japan K.K. ("MJKK") are MJKK's current opinions of the relative future credit risk of entities, credit commitments, or debt or debt-like securities. In such a case, "MIS" in the foregoing statements shall be deemed to be replaced with "MJKK". MJKK is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO.

This credit rating is an opinion as to the creditworthiness or a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be dangerous for retail investors to make any investment decision based on this credit rating. If in doubt you should contact your financial or other professional adviser.