Summary:
Kane County, Illinois; Appropriations; General Obligation

Primary Credit Analyst:
Helen Samuelson, Chicago (1) 312-233-7011; helen_samuelson@standardandpoors.com

Secondary Contact:
Kathryn Horan Clayton, Chicago (1) 312-233-7023; kathryn_clayton@standardandpoors.com

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Credit Profile

US$16.8 mil taxable GO alternate RZED bnds (Riverboat Rev Alternate Rev Source) ser 2010 due 12/15/2030		
Long Term Rating	AA+/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' long-term rating to Kane County, Ill.'s series 2010 taxable general obligation (GO) alternate revenue source bonds. At the same time, Standard & Poor's affirmed its 'AA+' rating and underlying rating (SPUR) on the county's outstanding GO bonds and its 'AA' SPUR -- one notch below the county's GO SPUR -- on the county's outstanding debt certificates, reflecting the limited nature of the security.

The 'AA+' GO long-term rating and SPUR reflect the county's:

- Participation in the deep and diverse Chicago MSA economy,
- Strong wealth and income indicators, and
- Maintenance of very strong financial reserves despite challenges posed by fluctuating revenue streams.

In our opinion, the county's tax base currently lacks the depth and diversity that is consistent with a higher rating.

Kane County will use 2010 bond proceeds to pay for various capital expenses. The county pledges its riverboat revenues as the alternative revenue source, and the bonds are further secured by the county's unlimited-tax GO pledge. We understand that the county expects to issue the bonds as federally taxable Recovery Zone Economic Development Bonds, which would make the debt eligible for a federal interest subsidy at an amount equal to 45% of semiannual interest payments on the debt. Officials tell us they will annually abate the debt service levy once the bond fund is fully funded.

Kane County, located about 40 miles from downtown Chicago, is one of Chicago's suburban collar counties and is home to an estimated population of 511,000. County residents have access to a wide variety of employment opportunities both locally and throughout the western suburbs. In addition, downtown Chicago can be accessed via Metra commuter train in about one hour. The county experienced rapid growth in residential and commercial development in past years due to the outward expansion of the metropolitan area, and tax base growth averaged 8.6% annually from 2005 to 2008. Growth has recently slowed due to the recession, flattening property tax revenue growth and challenging other county revenue streams that are economically sensitive. The tax base dropped 2.5% year over year to $15.5 billion for levy year 2009. The leading 10 taxpayers account for a very diverse 1.6% of equalized assessed value. The fair market value of the tax base is an estimated $46.4 billion, or what we consider a very strong $90,853 per capita. At 10.3%, the county's 2009 unemployment rate was higher than the state's 10.1% average. As of September 2010, the county's unemployment rate stood at 8.9%, below the state's 9.5%. Income levels for county residents are considered strong, as represented by the county's median household effective buying income, which in 2009 was 121% of the state level and 125% of the national level.

The county is subject to a property tax levy cap equal to the lesser of 5% or the rate of inflation, except with regard to new construction. In spite of the cap, the county has been able to sustain strong reserves due to, in our view, conservative financial management. Although property taxes are relatively flat, sales taxes, recording fees, and development permits have declined. Management has imposed various budget cuts to align its expenditures with revenues, and was able to report a $3.26 million general fund surplus in 2009 (ended November 30) after three years of deficits. Property taxes accounted for 42% of general fund revenues, followed by sales taxes at 16%. Charges for services were nearly $15 million (20% of general fund revenues), but declined 1.4% year over year. The unreserved general fund balance stood at $42.9 million, or, in our view, a very strong 57% of expenditures. Officials tell us they expect a surplus in 2010 -- although they implemented no new budget cuts this year, revenues have exceeded projections and some departments have held back on spending. The 2011 general fund budget, which calls for a slight surplus, allows for some growth in judicial public safety expenditures, but the remaining department budgets have not increased. The budget also allows for slight growth in property and sales taxes, but the remainder of the county's revenues are expected to stay flat. All of the county's contracts are currently under negotiation, and the settlements may affect general fund performance.

Kane County's management practices are considered "good" under Standard & Poor's Financial Management Assessment (FMA) methodology. An FMA of "good" indicates that practices exist in most areas, although not all may be formalized or regularly monitored by governance officials. Key items include monthly financial reporting, a formal debt management policy, and a formal fund balance policy of maintaining at least three months' expenditures, which the county has historically adhered to.

The county's overall GO debt burden, most of which is due to overlapping school district debt, is moderate at 4.3% of market value and $3,942 per capita. Debt service carrying charges were elevated at 18% of total governmental funds expenditures less capital outlay in fiscal 2009. In our opinion, this is at least partially mitigated by the fact that debt amortizes rapidly, with 85% retired over 10 years and all debt retired within 20 years. We understand that the county has no additional debt plans at this time.

Outlook

The stable outlook reflects our expectation that the county will maintain at least a strong financial position despite economically sensitive revenue streams and the potential for unbudgeted increases in personnel-related costs. We also expect that the county's good planning and financial management efforts will likely allow officials to adopt structurally balanced budgets. The county's participation in the diverse Chicago metropolitan area economy lends stability to the rating.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

Ratings Detail (As Of December 9, 2010)		
Kane Cnty GO		
Long Term Rating	AA+/Stable	Affirmed
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Ratings Detail (As Of December 9, 2010) (cont.)		
Kane Cnty GO (FGIC)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Kane Cnty (Regl Transp Auth Sales Tax Alternate Rev Source)		
Long Term Rating	AA+/Stable	Affirmed
Kane Cnty ser 2006 debt certs		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Kane Cnty GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Kane Cnty GO (CIFG)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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