

September 10, 2009

Summary:

Sycamore, Illinois; General Obligation

Primary Credit Analyst:

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

Secondary Credit Analyst:

Blake Yocom, Chicago (1) 312-233-7056; blake_yocom@standardandpoors.com

Table Of Contents

Rationale

Outlook

Related Research

Summary:

Sycamore, Illinois; General Obligation

Credit Profile

US\$3.5 mil taxable GO bnds (Build America bnds) ser 2009 dtd 09/30/2009 due 01/01/2025

Long Term Rating

AA/Stable

New

Rationale

In Standard & Poor's Ratings Services' opinion, the 'AA' long-term rating assigned to Sycamore, Ill.'s series 2009 general obligation (GO) unlimited-tax bonds reflects the following credit characteristics:

- A stable and growing tax base, with access to jobs in the western suburbs of the deep and diverse Chicago metropolitan area economy;
- Strong wealth and income levels;
- Balanced financial operations and very strong general fund reserve levels; and
- Moderate debt coupled with limited future capital needs.

The city's reliance on economically sensitive revenues offsets the above strengths.

The city's unlimited-tax GO pledge secures the bonds. Of the current offering, we understand that the city plans to issue the series 2009 bonds as federally taxable Build America Bonds, pursuant to the American Recovery and Reinvestment Act of 2009. Management will initially levy the full amount for debt service, but will abate the levy upon receipt of the subsidy payment to pay a portion of the debt service on the bonds.

Sycamore is located roughly 70 miles west of downtown Chicago. The city covers an area of 5.6 square miles in DeKalb County and has a population of roughly 17,200 as of 2007 (a 43% increase since 2000). Sycamore is DeKalb County's seat, and is adjacent to the city of DeKalb. DeKalb is home to Northern Illinois University, which enrolls 22,000 students on a full-time basis and employs more than 3,500. Other leading employers include Kishwaukee Community Hospital (employs 1,200), Ideal Industries (613, electrical tools, headquarters), and Johnson Controls (300, car seats). In addition to jobs found locally, Sycamore residents also have access to jobs in the far western suburbs of the Chicago metropolitan area. We feel wealth and income levels are strong, as demonstrated by median household effective buying income that totaled 106% and 112% of the state and national averages, respectively, in 2008. Market value in the city was \$1.32 billion as of 2008, or a strong \$77,056 per capita. The city is primarily residential (76%) and commercial (20%). Management tells us that although there is a slowdown in new development, the city expects a roughly 5% increase in equalized assessed value in 2009. Leading taxpayers account for a very diverse 7.8% of equalized assessed value. Unemployment in DeKalb County was 6.0% in 2008, slightly below the state's 6.5% rate.

As a home rule community, the city is not subject to property tax caps. We observe that the city maintained, in our view, very strong fund balances during fiscals 2006-2008. As of audited fiscal 2008 (April 30 year-end), the city reported a \$5.94 million general fund balance (a very strong 52% of expenditures), all of it unreserved, following a large \$2.8 million transfer out that resulted in a \$1.9 million general fund deficit. Management tells us the transfer out was planned, and its purpose was to offset at least part of the cost of a capital project. At 31%, sales tax

revenue (both home rule and municipal) accounted for the largest component of the general fund revenue stream in 2008. The city last increased the home rule sales tax rate by 0.5% as of July 1, 2008. Property taxes accounted for 20% of overall general fund revenues. Officials tells us their draft audit for fiscal 2009 will show a shortfall in the general fund of about \$1 million, with roughly \$800,000 of it attributed to underperforming sales tax revenues, and an ending balance of \$4.9 million. For fiscal 2010, the budget calls for a \$250,000 general fund shortfall (net of transfers), and a projected ending balance of \$4.6 million. We are told the city has adjusted discretionary expenditures to minimize the impact of softened revenues and is relying on that strategy for 2010 as well.

Sycamore's financial management practices are considered "good" under Standard & Poor's Financial Management Assessment (FMA). An FMA of good indicates that practices exist in most areas, although not all may be formalized or regularly monitored by governance officials. The city provides monthly status reports on budget-to-actual results and investment holdings and performance to elected officials. A three-year capital improvement plan is updated annually, with all revenue sources identified. The minimum general fund reserve target is roughly 25%, or four months' expenditures.

The city will use bond proceeds to build and equip a new police facility. Overall net debt is moderate, in our view, at 4.3% of market value and \$3,292 per capita. Debt amortization is rapid, with 59% due to mature in 10 years and 100% by 2025. However, debt service carrying charges are a low 5.7% of total governmental expenditures. The city currently has no plans for additional GO debt issuance.

Outlook

The stable outlook reflects Standard & Poor's expectation that the city will continue to maintain healthy reserve levels and moderate debt levels through continued fiscal discipline, as suggested by its good financial management assessment. The outlook is further supported by the city's access to jobs in the western portions of the metropolitan Chicago area.

Related Research

USPF Criteria: "GO Debt," Oct. 12, 2006

Complete ratings information is available to RatingsDirect subscribers at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Ratings in the left navigation bar, select Find a Rating.

Copyright © 2009, Standard & Poors, a division of The McGraw-Hill Companies, Inc. (S&P). S&P and/or its third party licensors have exclusive proprietary rights in the data or information provided herein. This data/information may only be used internally for business purposes and shall not be used for any unlawful or unauthorized purposes. Dissemination, distribution or reproduction of this data/information in any form is strictly prohibited except with the prior written permission of S&P. Because of the possibility of human or mechanical error by S&P, its affiliates or its third party licensors, S&P, its affiliates and its third party licensors do not guarantee the accuracy, adequacy, completeness or availability of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. S&P GIVES NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall S&P, its affiliates and its third party licensors be liable for any direct, indirect, special or consequential damages in connection with subscribers or others use of the data/information contained herein. Access to the data or information contained herein is subject to termination in the event any agreement with a third-party of information or software is terminated.

Analytic services provided by Standard & Poor's Ratings Services (Ratings Services) are the result of separate activities designed to preserve the independence and objectivity of ratings opinions. The credit ratings and observations contained herein are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. Accordingly, any user of the information contained herein should not rely on any credit rating or other opinion contained herein in making any investment decision. Ratings are based on information received by Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during the ratings process.

Ratings Services receives compensation for its ratings. Such compensation is normally paid either by the issuers of such securities or third parties participating in marketing the securities. While Standard & Poor's reserves the right to disseminate the rating, it receives no payment for doing so, except for subscriptions to its publications. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

Any Passwords/user IDs issued by S&P to users are single user-dedicated and may ONLY be used by the individual to whom they have been assigned. No sharing of passwords/user IDs and no simultaneous access via the same password/user ID is permitted. To reprint, translate, or use the data or information other than as provided herein, contact Client Services, 55 Water Street, New York, NY 10041; (1)212.438.7280 or by e-mail to: research_request@standardandpoors.com.