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ISSUER COMMENT
29 November 2016

RATING

General Obligation (or GO Related)[1]	
Aa1	No Outlook

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City of Batavia, IL

Annual Comment on Batavia

Issuer Profile

The City of Batavia is located primarily in Kane County in northeastern Illinois, approximately 35 miles west of downtown Chicago. Kane County has a population of 527,306 and a population density of 1,014 people per square mile. The county's per capita personal income is $42,868 (2nd quartile) and the August 2016 unemployment rate was 5.1% (2nd quartile).[2] The largest industry sectors that drive the local economy are manufacturing, professional/scientific/technical services, and health services.

Credit Overview

Batavia's credit position is very high quality, and its Aa1 rating exceeds the median rating of Aa3 for US cities. The credit drivers include a robust financial position, a sizable tax base with a wealthy socioeconomic profile, and an exceptionally low debt liability with a heavy pension burden.

Finances: The financial position of the city is very strong, which is slightly favorable with respect to the assigned rating of Aa1. The available fund balance as a percent of operating revenues (64.9%) far exceeds the US median. In addition, Batavia's net cash balance as a percent of revenues (59.0%) is significantly above other Moody's-rated cities nationwide and rose materially between 2012 and 2015.

Economy and Tax Base: The city has a very strong economy and tax base, which are comparable to its Aa1 rating. The full value per capita ($103,849) is slightly above the US median. Moreover, the median family income equals a robust 174% of the US level. Lastly, the total full value ($2.7 billion) is slightly stronger than the US median, and this metric fell from 2012 to 2015.

Debt and Pensions: The debt and pension liabilities of the city are affordable, yet they are a slight weakness relative to its Aa1 rating. Batavia's net direct debt to full value (0.3%) is materially below the US median. On the other hand, the Moody's-adjusted net pension liability to operating revenues (2.9x) is unfavorably well above the US median, and this indicator rose from 2012 to 2015.

Management and Governance: Surplus operating margins demonstrate strong financial management. Favorably, on average, Batavia ran surpluses over the past several years.

Illinois cities have an institutional framework score [3] 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.

Sector Trends - Illinois Cities

Illinois cities (a sector that includes cities, towns, and villages) face uncertainty stemming from the state's budgetary challenges. Proposals have been made to cut income tax distributions to cities and to freeze property tax revenues. Property valuation declines have been severe in the northern region of the state, translating into reduced operating revenue for some municipalities. However, downstate valuations have remained largely stable in recent years. Most cities have been making pension contributions at or near actuarial guidelines and are therefore not expected to face dramatic pension cost increases in 2016 when the state can enforce minimum contributions.

Exhibit 1

Key Indicators[4] [5]

Batavia, IL

	2012	2013	2014	2015	US Median	Credit Trend
Economy / Tax Base						
Total Full Value	$2,995M	$2,873M	$2,744M	$2,705M	$1,722M	Weakened
Full Value Per Capita	$116,572	$110,752	$105,927	$103,849	$85,195	Weakened
Median Family Income (% of US Median)	161.9%	167.7%	174%	174%	115.2%	Improved
Finances						
Available Fund Balance as % of Operating Revenues	53.6%	59.0%	63.2%	64.9%	32.1%	Improved
Net Cash Balance as % of Operating Revenues	45.2%	51.6%	54.6%	59.0%	34.4%	Improved
Debt / Pensions						
Net Direct Debt / Full Value	0.35%	0.33%	0.31%	0.29%	1.2%	Stable
Net Direct Debt / Operating Revenues	0.46x	0.40x	0.34x	0.30x	0.94x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	1.6%	1.9%	2.3%	2.8%	1.7%	Weakened
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	2.09x	2.36x	2.56x	2.92x	1.35x	Weakened

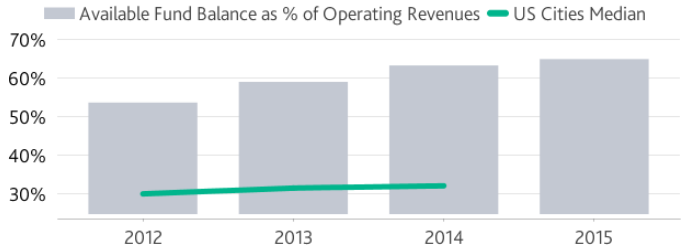
Source: Moody's

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Exhibit 2

Available fund balance as a percent of operating revenues increased between 2012 and 2015

Available Fund Balance as a Percent of Operating Revenues

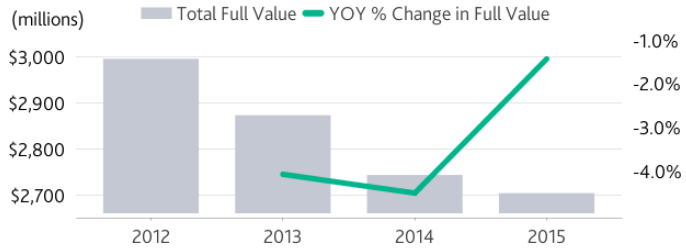


Source: Issuer financial statements; Moody's

Exhibit 3

Total full value decreased from 2012 to 2015

Total Full Value

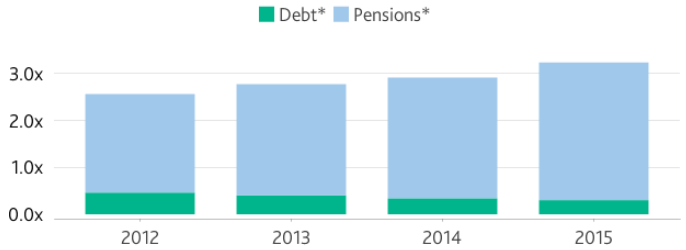


Source: Issuer financial statements; Government data sources; Offering statements; Moody's

Exhibit 4

Moody's-adjusted net pension liability to operating revenues increased from 2012 to 2015

Net Direct Debt and Adjusted Net Pension Liability / Operating Revenues



*Debt is represented as Net Direct Debt / Operating Revenues. Net Direct Debt is defined as gross debt minus self supporting debt. Pensions are represented as ANPL / Operating Revenues. ANPL is defined as the average of Moody's-adjusted Net Pension Liability in each of the past three years.
Source: Issuer financial statements; Government data sources; Offering statements; Moody's

Endnotes

1 The rating referenced in this report is the government's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally a security backed by the full faith and credit pledge and total taxing power of the local government. See Local Government GO Pledges Vary Across States. for more details. GO-related ratings include issuer ratings, which are GO-equivalent ratings for governments that do not issue GO debt. GO-related ratings also include ratings on other securities that are notched or otherwise related to what the government's GO rating would be, such as annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantee or enhancement programs or bond insurance.

2 The per capita personal income data and unemployment data for all counties in the US census are allocated to quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile. The first quartile consists of the top 25% of observations in the dataset, the second quartile consists of the next 25%, and so on. The median per capita personal income for US counties is $46,049 for 2014. The median unemployment rate for US counties is 4.9% for August 2016.

3 The institutional framework score measures a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See US Local Government General Obligation Debt (January 2014) for more details.

4 For definitions of the metrics in the Key Indicators Table, US Local Government General Obligation Methodology and Scorecard User Guide (July 2014). The population figure used in the Full Value Per Capita ratio is the most recently available, most often sourced from either the US Census or the American Community Survey. Similarly, the Median Family Income data reported as of 2012 and later is always the most recently available data and is sourced from the American Community Survey. The Median Family Income data prior to 2012 is sourced from the 2010 US Census. The Full Value figure used in the Net Direct Debt and Moody's-adjusted Net Pension Liability (3-year average ANPL) ratios is matched to the same year as audited financial data, or if not available, lags by one or two years. Certain state-specific rules also apply to Full Value. For example, in California and Washington, assessed value is the best available proxy for Full Value. Certain state specific rules also apply to individual data points and ratios. Moody's makes adjustments to New Jersey local governments' reported financial statements to make it more comparable to GAAP. Additionally, Moody's ANPLs reflect analyst adjustments, if any, for pension contribution support from non-operating funds and self-supporting enterprises. Many local government pension liabilities are associated with its participation in the statewide multiple-employer cost-sharing plans. Metrics represented as N/A indicate the data were not available at the time of publication.

5 The medians come from our most recently published local government medians report, Medians – Growing Tax Bases and Stable Fund Balances Support Sector's Stability (March 2016). The medians conform to our US Local Government General Obligation Debt rating methodology published in January 2014. As such, the medians presented here are based on the key metrics outlined in the methodology and the associated scorecard. The appendix of this report provides additional metrics broken out by sector, rating category, and population. We use data from a variety of sources to calculate the medians, many of which have differing reporting schedules. Whenever possible, we calculated these medians using available data for fiscal year 2014. However, there are some exceptions. Population data is based on the 2010 Census and Median Family Income is derived from the 2012 American Community Survey. Medians for some rating levels are based on relatively small sample sizes. These medians, therefore, may be subject to potentially substantial year-over-year variation. Our ratings reflect our forward looking opinion derived from forecasts of financial performance and qualitative factors, as opposed to strictly historical quantitative data used for the medians. Our expectation of future performance combined with the relative importance of certain metrics on individual local government ratings account for the range of values that can be found within each rating category. Median data for prior years published in this report may not match last year's publication due to data refinement and changes in the sample sets used, as well as rating changes, initial ratings, and rating withdrawals.

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