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ISSUER COMMENT
30 March 2020

RATING

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

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McHenry County, IL

Annual Comment on McHenry County

Issuer Profile

McHenry County is located in northeastern Illinois, bounded on the north by the Wisconsin state line. The county seat of Woodstock is approximately 50 miles northwest of downtown Chicago. The county has a population of 307,789 and a moderate population density of 510 people per square mile. The county's median family income is $97,998 (1st quartile) and the January 2020 unemployment rate was 3.6% (1st quartile) [2]. The largest industry sectors that drive the local economy are manufacturing, retail trade, and health services. We regard the coronavirus outbreak as a social risk under our Environmental, Social, Governance framework, given the substantial implications for public health and safety. We do not see any material immediate credit risks for McHenry County. However, the situation surrounding Coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of McHenry County changes, we will update our opinion at that time.

Credit Overview

The credit position for McHenry County is superior, and its Aaa rating is above the median rating of Aa2 for US counties. The notable credit factors include a very healthy financial position, an extensive tax base and a strong wealth and income profile. It also reflects an exceptionally light debt burden and a somewhat elevated pension liability.

Finances: The county has a robust financial position, which is aligned with the assigned rating of Aaa. The fund balance as a percent of operating revenues (66.2%) is far superior to the US median. Yet, it decreased slightly from 2014 to 2018. Also, the cash balance as a percent of operating revenues (72.2%) is far above the US median.

Economy and Tax Base: The economy and tax base of McHenry County are very healthy, yet this factor is slightly weak in comparison to its Aaa rating position. The total full value ($24 billion) exceeds the US median, and grew markedly between 2014 and 2018. Furthermore, the median family income equals a strong 132.5% of the US level. Lastly, the full value per capita ($77,965) is consistent with other Moody's-rated counties nationwide.

Debt and Pensions: Overall, the debt and pension liabilities of the county are low, yet they are unfavorable in comparison to the assigned rating of Aaa. The net direct debt to full value (0.4%) approximates the US median, and stayed flat from 2014 to 2018. In addition, the Moody's-adjusted net pension liability to operating revenues (2.2x) is unfavorably higher than the US median.

Management and Governance: Illinois counties have an institutional framework score [3] of "A", which is moderate. Most counties are non-home rule and are subject to tax rate

limitations. However, these rate limitations can be overridden with voter support. Total operating tax yield for non-home rule entities subject to the Property Extension Limitation Law (PTELL) is capped to the lesser of 5% or CPI growth, plus new construction. Revenue predictability is moderate, with varying dependence on property, sales, and state-distributed income taxes. Expenditures, which are primarily for criminal justice and human services, are moderately predictable. Counties have limited ability to reduce expenditures given strong public sector unions and pension benefits that enjoy strong constitutional protections. Fixed costs are mainly driven by debt service and employer pension contributions.

Sector Trends - Illinois Counties

Counties have some exposure to the State of Illinois emanating from state shared revenue, but the impacts from the state's budget challenges have been minimal to date. Sales tax revenue trends remain largely positive though growth is slowing for many issuers. Property valuations in the northern part of the state are experiencing robust recovery, though valuations remain well below previous peaks. Downstate valuations were largely stable throughout the economic cycle and have seen steady growth in valuations in recent years. Fixed costs arising from debt and pensions are moderate for most Illinois counties. A minority of counties face financial pressure arising from health or nursing home facilities or jail operations.

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 1

Key Indicators [4] [5] McHenry County

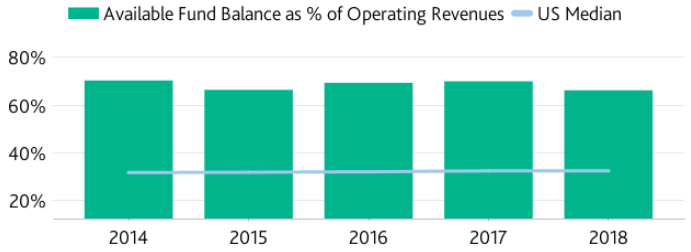
	2014	2015	2016	2017	2018	US Median	Credit Trend
Economy / Tax Base							
Total Full Value	$21,590M	$20,823M	$21,300M	$22,698M	$23,996M	$7,665M	Improved
Full Value Per Capita	$70,125	$67,749	$69,382	$73,685	$77,965	$85,725	Improved
Median Family Income (% of US Median)	136%	136%	136%	134%	133%	93%	Stable
Finances							
Available Fund Balance as % of Operating Revenues	70.3%	66.4%	69.3%	70.0%	66.2%	32.5%	Stable
Net Cash Balance as % of Operating Revenues	73.1%	69.0%	71.9%	73.7%	72.2%	37.8%	Stable
Debt / Pensions							
Net Direct Debt / Full Value	0.2%	0.7%	0.6%	0.5%	0.4%	0.5%	Stable
Net Direct Debt / Operating Revenues	0.41x	1.30x	1.17x	0.98x	0.90x	0.59x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	0.6%	0.8%	0.9%	1.1%	1.0%	1.1%	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	1.15x	1.47x	1.80x	2.13x	2.16x	1.38x	Weakened

	2014	2015	2016	2017	2018	US Median
Debt and Financial Data						
Population	307,888	307,357	307,004	308,043	307,789	N/A
Available Fund Balance ($000s)	$76,541	$73,910	$77,707	$81,487	$76,651	$24,307
Net Cash Balance ($000s)	$79,622	$76,770	$80,594	$85,845	$83,594	$27,626
Operating Revenues ($000s)	$108,852	$111,316	$112,056	$116,472	$115,777	$72,972
Net Direct Debt ($000s)	$44,826	$144,910	$131,379	$113,826	$104,466	$40,162
Moody's Adjusted Net Pension Liability (3-yr average) ($000s)	$125,333	$163,464	$201,813	$247,567	$249,803	$89,312

Source: Moody's Investors Service

EXHIBIT 2

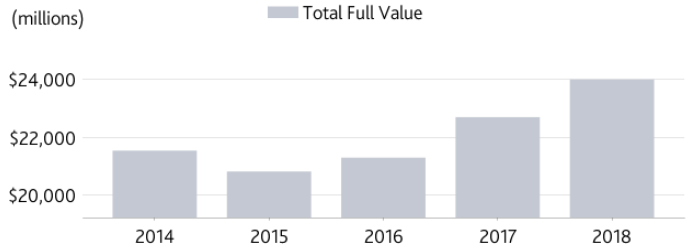
Available fund balance as a percent of operating revenues decreased from 2014 to 2018



Source: Issuer financial statements; Moody's Investors Service

EXHIBIT 3

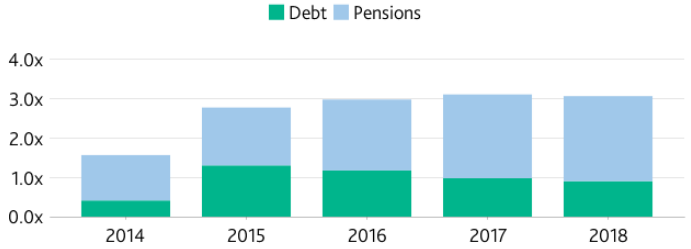
Full value of the property tax base increased from 2014 to 2018



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

EXHIBIT 4

Moody's-adjusted net pension liability to operating revenues increased from 2014 to 2018



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

Endnotes

1 The rating referenced in this report is the issuer's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally backed by the full faith and credit pledge and total taxing power of the issuer. GO-related securities include general obligation limited tax, 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 guarantees, enhancement programs or bond insurance.

2 The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.

The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into 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.

3 The institutional framework score assesses 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 (December 2016) methodology report 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) . 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 - Tax base growth underpins sector strength, while pension challenges remain (May 2019) which is available on Moodys.com. The medians presented here are based on the key metrics outlined in Moody's GO methodology and the associated scorecard.

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