FINANCIAL ADVISORY BOARD AGENDA ITEM (August 20, 2018)

ACTION REQUESTED:
Review and Discuss the Impact of Credit Rating Scores on Rates

DEPARTMENT: Finance Department

SUBMITTED BY: Franco Bottalico, Budget Analyst

BOARD/COMMISSION REVIEW:
N/A

BACKGROUND:
At its August 20, 2018 special meeting, the FAB reviewed the impact of a credit rating score on rates. Additionally, the FAB reviewed the rates of comparable communities with similar credit rating scores.

DISCUSSION:
Staff has provided the FAB with a comparison spreadsheet on other AAA-rated communities, from both S&P and Moody's. There are three other communities that share AAA ratings from both creditors: Buffalo Grove, Northbrook, and Vernon Hills. Staff recommends reviewing their reserve and debt policies as guidance when reviewing the City's policies.

Staff has attached an analysis from our consultant, Speer Financial, Inc., regarding the impact a credit rating change from AAA to AA+ has on a local government's rate. Our consultant advised that when comparing issuer rates, there is not one clear answer to the impact of a downgraded rate from AAA and AA+. This is due to many factors affecting rates regardless if the comparing issuers sold on the same day. These factors include:

- The issuer's name,
- The county or state of the issuer,
- Maturity dates and/or optional call date, and
- Local bank's participation.

Additionally, when analyzing an issuer that was downgraded from AAA to AA+ and comparing pricing, an area of concern is the amount of time between the issues that were sold. This is because interest rates and spreads vary greatly from year to year. It is more valuable to review issues sold during the same time period from a AAA and a AA+. The attached analysis is presented using this format.

Our consultant advised that in the recent market, the benefit of a AAA rating versus a AA+ rating is between 10 and 20 basis points.

In 2017, the City's total interest rate of 2.82% on a $6.89 million issuance equaled approximately $2.4 in interest over twenty years. Adding 20 basis points to this issuance would've resulted in an incremental $150,000 of interest.

Based upon the current financial goals, the City has an estimated $7.25 million annual borrowing cap. Therefore, any increase in interest costs may impact the City’s ability to reach its 25% deduction reduction goal by 2022.