



DATE: June 20, 2018

TO: Council Budget and Finance Committee

FROM: Director of Finance

SUBJECT Review of Credit Status & Implications

RECOMMENDATION

That the Committee reviews and provides feedback on this report.

SUMMARY

As with all organizations seeking credit, the City is subject to credit review processes. One which takes place routinely is the credit rating process. The report below provides background information on the credit rating process and the City's most recent rating and outlook.

BACKGROUND

As part of the normal course of business, leveraging different financing instruments to provide immediate access to funding for significant capital projects, equipment and other specific projects, the City has used various financing instruments. Some of the instruments that the City uses require a formal credit rating from a public rating agency. Among the agencies the City has used for credit ratings are Moody's, Standard & Poors, and Fitch Ratings.

Credit ratings are opinions about credit risk, credit worthiness, and risk of loss by an unbiased party to provide potential investors (those who may purchase a bond or other offerings from the City) with a forward-looking ranking (grade or rating) of the City. Ratings are published by a public rating agency after it has analyzed the City's history of, ability and willingness to meet its financial obligations in accordance with the terms of (potential) debt obligations.

DISCUSSION

To fund the acquisition of capital equipment or construction of specific projects (eg. the 21st Century Library & Learning Center), the City will at times issue a financing tool (bond, COP, lease-purchase agreements, etc.) to facilitate the work. When offered on the publicly traded market, these instruments, in many cases, will include a credit rating, which offers potential investors, among other things, an indication of the City's likelihood and ability to make required payments in accordance with the terms of the agreement. In many cases, a credit

rating will relate to risk and could deter risk averse investors and therefore, may impact the interest rate associated with the offering. Typically, when there are similar offerings from like organizations, the one with a higher credit rating will pay lower interest for the life of the offering.

During the rating process, it is likely that the following attributes of an organization are considered and evaluated:

- Institutional and Legal Framework
- Operating Environment/Economy
- Governance and Management
- Budgetary Performance and Financial Flexibility
- Debt, Liquidity and Contingent Liabilities
- Extraordinary Support (support from other sources that could secure the offering)

These are not the only criteria considered and each is weighed with a different level of significance dependent on the rating agencies view of importance.

When a rating is released, it is done so coupled with what is known as an “outlook”. An outlook is the rating agency’s opinion regarding the likely direction of an issuer’s rating in the extended future. Rating outlooks fall into a few categories: Positive, Negative, Stable, and Developing (contingent upon an event).

In May 2018, the City received a rating from Moody’s which upheld its previous overall credit rating, but changed the City’s outlook to negative. This indicates that the City remains creditworthy but Moody’s cited the projected use of General Fund reserves as shown in the City’s long range financial forecast and large unfunded pension and OPEB related liabilities as factors for the change in outlook.

The City has taken many steps over the past ten years to correct the structural imbalance in the City’s General Fund. These steps have included additional employee contributions to benefit costs, new revenues, adjusted fees to more fully recover service costs, expenditure reductions, and others. Recently, the City undertook a comprehensive review of our ten year financial forecast in partnership with Management Partners. This review culminated in a work session with the City Council on October 14, 2017, where the Council reviewed the model and developed a five year action plan with associated strategies for balancing the General Fund budget while fully funding the required annual OPEB and PERS contributions. More recently, the City has been able to secure new agreements with some of the employee labor unions that have resulted in savings over what the financial forecast projected, further shoring up the City’s financial stability. The City will need to continue to explore a number of strategies in order to stabilize our financial picture and reassure credit agencies that the City’s outlook should be considered stable and/or positive.

NEXT STEPS

Finance Department staff will continue to work to improve the City’s financial standing and improve the credit worthiness and rating. While there is not a current timeline for a public

debt offering, undoubtedly in time the need will arise and it is of the utmost importance that the City have the ability to do so at the highest possible credit rating achievable.

Prepared & Recommended by: Dustin Claussen, Director of Finance

Approved by:

A handwritten signature in black ink, appearing to read 'K. McAdoo', is positioned above a horizontal line.

Kelly McAdoo, City Manager