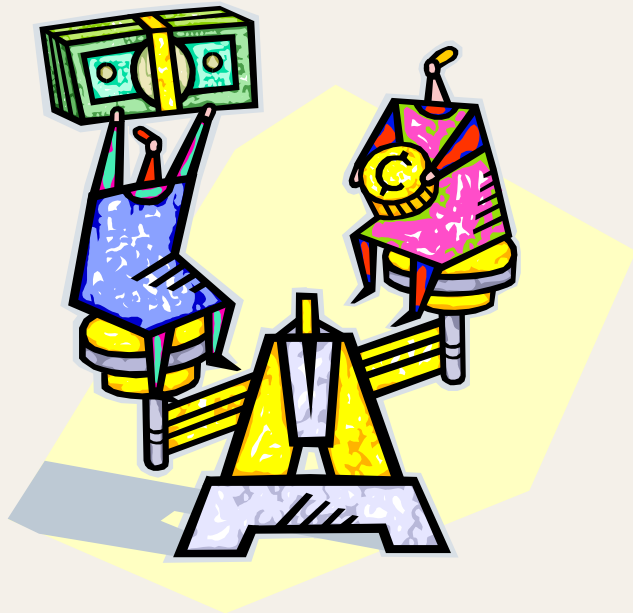


Public Sector Advisors





Your District's Credit Rating

PRESENTATION TO:

Great Start

July 25, 2009

PRESENTER:

DeeDee Kahring, Vice President, Client Representative

Agenda

- Credit Rating Definition and Purpose
- Credit Enhancement
- Rating Agencies and Rating Grades
- Interest Rates
- Rating Costs

Agenda

- Rating Factors
- Rating Process
- The Rating Call
 - Preparing
 - Conducting
- How to Enhance Your Rating
- Maintain and Improve Credit Rating

What is a Credit Rating?

- Assessment of an issuer's ability to repay debt
- Provides an independent opinion for investors to use in making decisions
- Not a recommendation to buy, sell, or hold a security
- Not an opinion of a community's quality of life or school district's academic quality
- Underlying vs. enhanced ratings

Source: Moody's Investor Services

Who Uses Credit Ratings?

- Investors
 - Help assess credit risk
 - Compare different issuers & debt issues
 - Investment decisions
 - Managing portfolios
- Intermediaries (Investment Bankers)
 - Benchmark relative credit risks of:
 - Debt issues
 - Initial pricing for debt issues they structure

Who Uses Credit Ratings?

- Issuers
 - Provide independent view of their creditworthiness
 - Help to anticipate the interest rate offered
- Business & Financial Institutions
 - Lending decisions
 - Credit exposure to financial firms
 - Evaluation of potential partnerships and business relationships

Benefits of a Strong Credit Rating

- Ability to issue:
 - Short term debt
 - Long term debt
 - Refinance existing debt
- Lower Interest rates
- Reduced levy
- Commitment to fiscal integrity and consistency
- District reputation

Credit Enhancement

- Definition: The issuance of a guarantee or additional collateral reinforcing the credit strength of a project financing
- Providers
 - Municipal bond insurance companies
 - Letter of Credit (LOC) providers

Credit Enhancement *cont.*

- Credit Enhancement program
 - Adopted in the early 90s by the State
 - State guarantees principal and interest payment on bonds
 - Bond rating: Moody's = Aa2; S & P = AAA
 - Lower interest rates
 - Paying agent required as part of program
 - Simple process
 - Resolution & application

Rating Agencies and Grades

- Moody's - Aaa – C / 1,2,3



– www.moody.com

- S&P - AAA – C / +/-



– www.standardandpoors.com

- Fitch - AAA – C / +/-

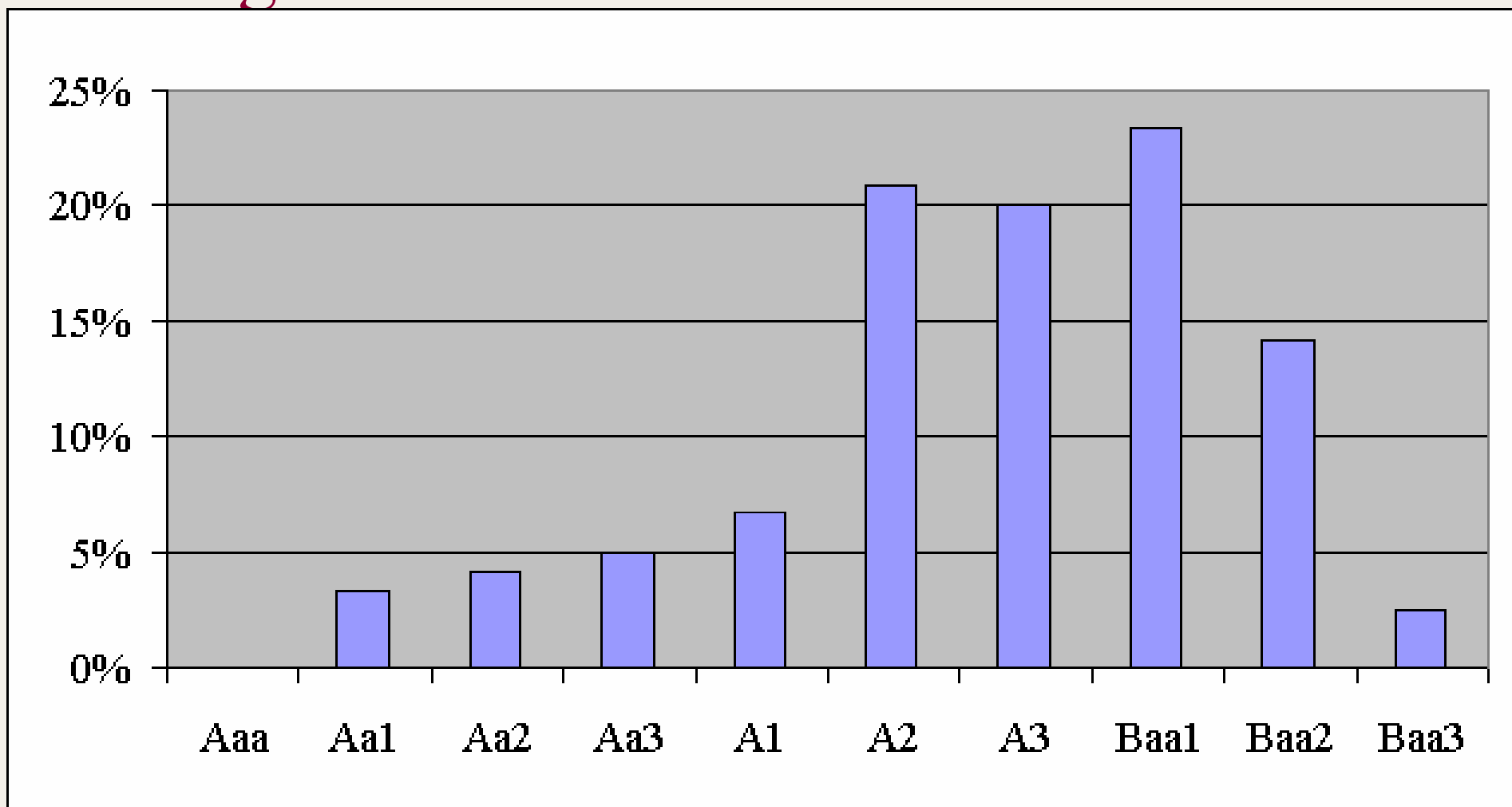


– www.fitchratings.com

Rating Grades by Agency

Rating	S&P	Moody's	Fitch
Highest quality	AAA	Aaa	AAA
High quality	AA	Aa	AA
Upper medium quality	A	A	A
Medium grade	BBB	Baa	BBB
Somewhat speculative	BB	Ba	BB
Low grade, speculative	B	B	B
Low grade, default possible	CCC	Caa	CCC
Low grade, partial recovery possible	CC	Ca	CC
Default, recovery unlikely	C	C	C

Moody's Underlying General Obligation Ratings on 120 Minnesota School Districts

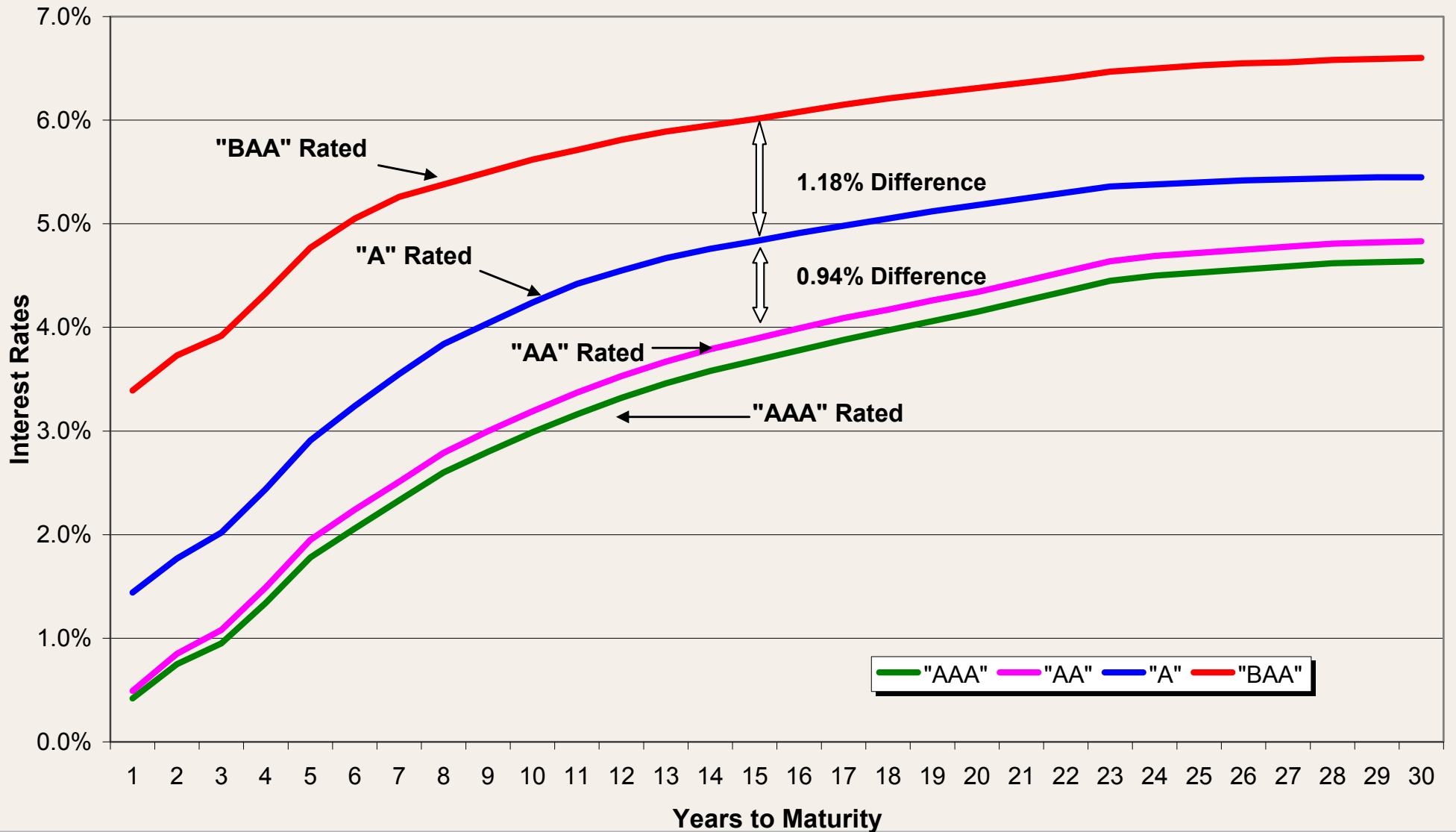


Source: Moody's Investor Services

What Does It All Mean?

- Different interest for different credits
 - Rates
 - Cost

Credit Spread Comparison



Municipal Market Data (MMD)
(as of 7/17/2009)

Interest Rate Difference

	AAA	AA	A
1 Year	0.42	0.49	1.44
5 Year	1.78	1.95	2.91
10 Year	2.99	3.19	4.24
20 Year	4.15	4.34	5.18
30 Year	4.64	4.83	5.45

Municipal Market Data
July 17, 2009

Interest Cost Difference

- Issue size - \$10,000,000
- 20 year bonds
- Level debt service

Scale	Total Interest Paid	AVG Annual Payment
Aaa	\$4,327,233	\$716,362
Aa	\$4,606,343	\$730,317
A	\$5,923,344	\$796,167

Key Credit Factors

- Economy
 - Location and type: urban, suburban, rural
 - Tax base size and growth trends
 - Residential and commercial development
 - Diversity and status of top taxpayers and employers
 - Institutional presence: education, health care
 - Socioeconomic profile: population, income levels, unemployment rates, housing values

Source: Moody's Investor Services

Key Credit Factors

- Debt
 - Levels: direct, overall, adjusted
 - Amortization
 - Debt service as a percent of total budget
 - Purpose: new buildings, renovations, OPEB
 - Voter approval of debt requests
 - Future debt and capital improvement plans
 - Security
 - 105% debt service levy

Source: Moody's Investor Services

Key Credit Factors

- Finances
 - Reserves: size, composition, trends, total vs. unreserved vs. undesignated
 - Operating performance: historical and projected
 - Enrollment trends
 - State aid
 - Excess operating levies
 - Expenditure pressures
 - SOD

Source: Moody's Investor Services

Key Credit Factors

- Management
 - Willingness and ability to pay bondholders
 - Multiyear financial planning and budgeting assumptions
 - Fund balance and debt management policies
 - Succession planning
 - Investment practices and policies
 - Management staff and school board

Source: Moody's Investor Services

Costs for a Credit Rating

- Agencies receive payment from
 - Issuer
 - Fee
 - Publish rating to public
 - Subscriber (receives rating and related credit reports)
 - Charge investors and other market participants for access to rating
 - Criticism
 - Large institutions, leaving out smaller institutions
 - Limited access by rating agencies to issuers

Estimated Costs for a Credit Rating

- Underlying Rating

- Under \$5.0 M \$3,800 - \$7,200
- \$5.0 – 25.5 M \$8,500 - \$13,850
- \$25.0 - \$50M \$13,500 - \$19,000

- Credit Enhancement Rating

- Under \$5.0M \$1,650 – \$5,500
- \$5.0 - \$10.0M \$7,750

Bond Transaction Participants

- Issuer
- Financial Advisor
- Bond Attorney
- Underwriter
- Rating Agency
- Paying Agent
- Investors

Surveillance

- Keep ratings current
- Identify issues
- Consider many factors
 - Business climates
 - Regulatory changes
 - New technology
 - Credit markets
- Frequency
 - Depends on specific risk considerations of issuer
 - Periodical

Maintain and Improve Credit Rating

- Understand your rating
- Provide positive community relations
- Address weaknesses
- Request site visit
- Request local business leaders to advocate on your behalf

Maintain and Improve Credit Rating *cont.*

- General fund balance policy
- Keep the rating agencies informed
- Establish or enhance reserves
- Establish budget to recognize problems early
- Emphasize credit factors over time
- Timely audit financial reports

Maintain and Improve Credit Rating *cont.*

- Prioritize spending plans and establish contingency plans
- Formal capital improvement plan
- Establish debt limits/affordability
- Long-term liability planning (i.e. OPEB)
- Establish and maintain effective management
 - Succession plan
 - Voter referenda

Rating Call

- Participants
 - Analyst
 - Business Manager/Superintendent
 - Financial Advisor
 - Optional: School Board member or Community member
- Timing
 - One week prior to sale



Rating Call *cont.*

- Data Needed
 - Enrollment
 - Financial statements
 - Board goals
 - Management policies



Required Documentation

- Three years of audited financial statements
- Current and future operating budgets
- Capital improvement plans
- Preliminary official statement
- Bond counsel opinion
- Resolution
- Trust indenture

Source: Moody's Investor Services

Rating Call Questions/Discussion

- What is the purpose of bonds?
- What has been going on in the community?
 - Major growth/development
 - Changes in businesses
 - Signs of economic vitality
- What has been happening with demographics?
 - Enrollment projections
 - Population changes

Rating Call Questions/Discussion *cont.*

- What is happening with your facilities?
 - Age
 - Condition
 - Capacity
- What are the benefits of the project?
 - Students
 - Community

Rating Call Questions/Discussion *cont.*

- What are the trends in building permits?
 - Expectations: Rest of year, future, and foreclosures
 - Tax base growth
- What is occurring with expenses?
 - Cost containment
 - Plans for unfunded liabilities
 - Health insurance cost containment
 - OPEB liabilities
 - Negotiations

Rating Call Questions/Discussion *cont.*

- What new initiatives are planned or have occurred?
 - Computer systems
 - Software
 - New policies
 - Visioning
 - Projection models
- What are you anticipating for future debt?

Summary

- Understand your rating
- Be prepared during your rating call
- Tell your story
- Effective management
 - Succession
 - Referenda
 - Planning tools

Summary *cont.*

- Use best financial practices
 - Policies: General fund balance; debt; non-recurring revenue; investments
 - Budget review and contingency plan
 - Capital planning
 - Forecasting: Revenue, expenses, and debt

Questions?

DeeDee Kahring

Vice President/Client Representative

651-223-3099

dkahring@springsted.com

www.springsted.com