



# ILLINOIS COMMUNITY COLLEGE CREDIT RATINGS: WHERE ARE THEY NOW AND WHERE ARE THEY HEADED?

ILLINOIS COMMUNITY COLLEGE  
CHIEF FINANCIAL OFFICERS  
SPRING CONFERENCE

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- A credit rating is an opinion about credit risk
  - Ability and willingness of an issuer to meet its financial obligations in full and on time
  - Likelihood of default
- Helps investors determine whether to invest in a community college's bond issue
- Higher credit rating = lower cost of borrowing

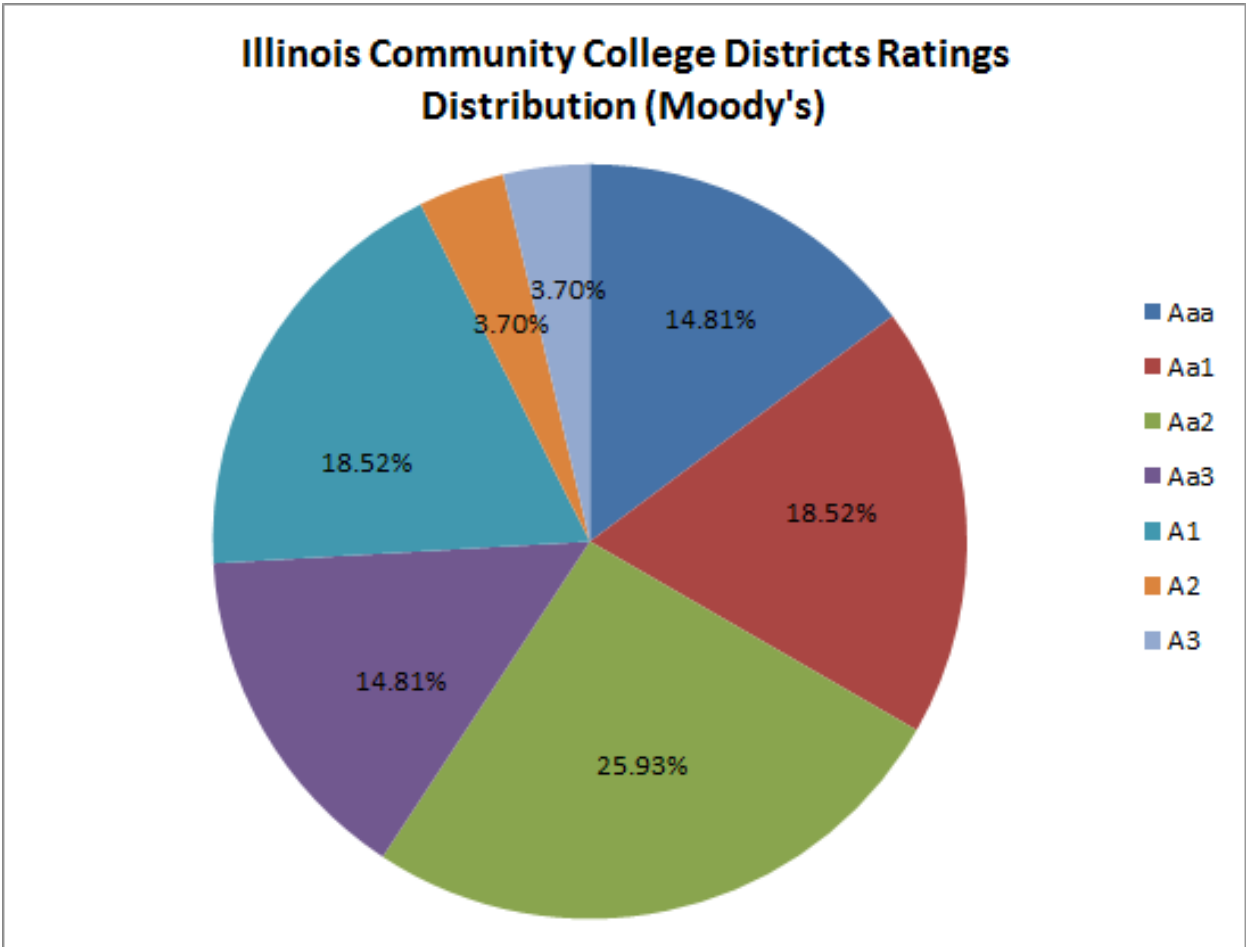
	<u>Moody's</u>	<u>S&amp;P</u>	<u>Fitch</u>	<u>Kroll</u>		
<b>Investment Grade</b>	Aaa	AAA	AAA	AAA	Extremely strong capacity to meet financial obligations.	
	Aa1	AA+	AA+	AA+	Very strong capacity to meet obligations.	
	Aa2	AA	AA	AA		
	Aa3	AA-	AA-	AA-		
	A1	A+	A+	A+	Strong financial capacity but susceptible to adversity.	
	A2	A	A	A		
	A3	A-	A-	A-		
	Baa1	BBB+	BBB+	BBB+	Adequate financial capacity but adverse conditions will lead to weakness.	
	Baa2	BBB	BBB	BBB		
Baa3	BBB-	BBB-	BBB-			
<b>Non-Investment Grade</b>	Ba1	BB+	BB+	BB+	Non-Investment Grade Speculative	
	Ba2	BB	BB	BB		
	Ba3	BB-	BB-	BB-		
	B1	B+	B+	B+	Highly Speculative	
	B2	B	B	B		
	B3	B-	B-	B-		
	Caa	CCC+		CCC+	Extremely Speculative	
	Ca	CCC	CCC	CCC		
	C	CCC-		CCC-		
				DDD	CC	Default
				DD	C	
	D	D	D	D		

- Key variables in a municipal credit analysis\*
  - Management (20%)
  - Local economy (30%)
  - Financial position (30%)
  - Direct and Overlapping Debt as well as pensions (20%)
  
- These criteria are the main focus of both Moody's and S&P; however, S&P has different criteria for cities and counties, which it will apply to community colleges and school districts at some point in the future

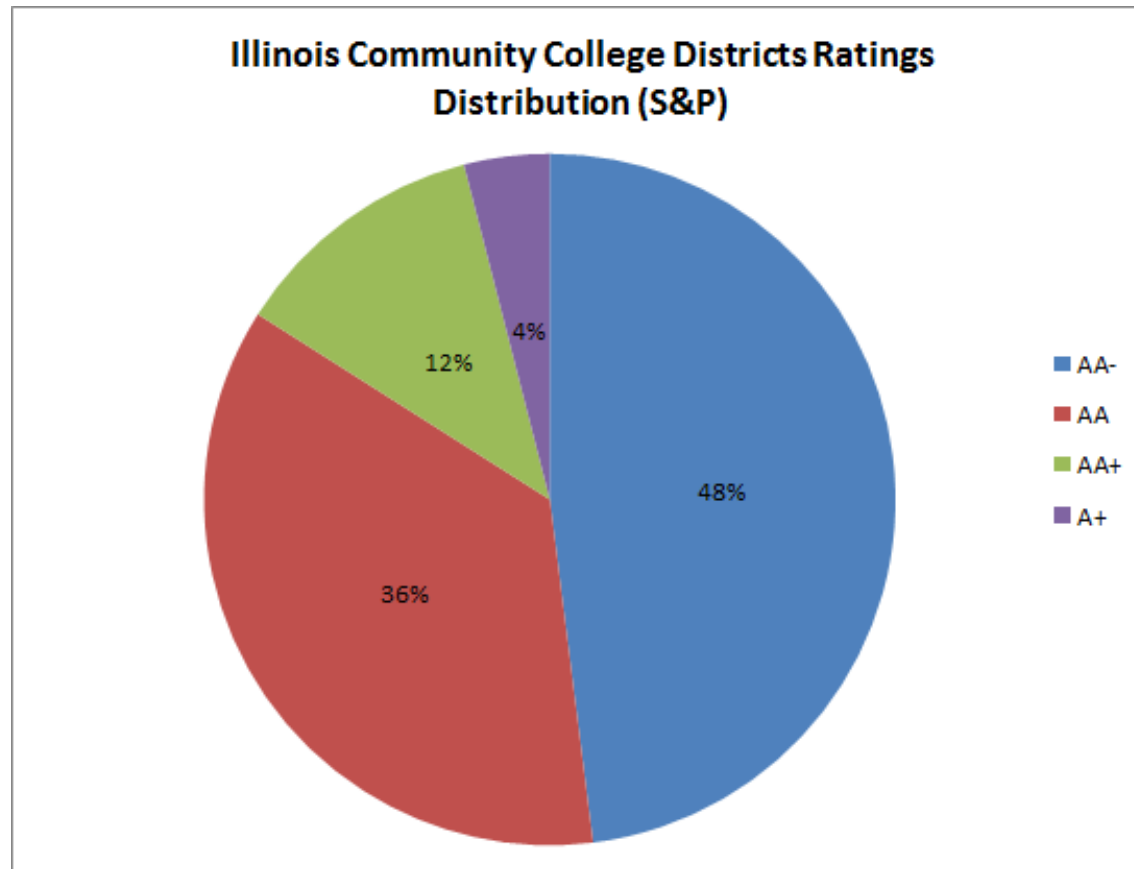
\*Weights are for Moody's

- Moody's and S&P have increased their focus on Illinois Community Colleges
  - 26 community colleges in the State carry a S&P Rating
  - Moody's has a credit rating on 27 Illinois community colleges
- A couple months ago Moody's decided to review all of its community college ratings in Illinois

- Moody's activity to date:
  - Ratings affirmed: 9
  - Downgrades: 11 (includes 2 former Aaa CCs)
  - Ratings still under review: 7
- Moody's assigned negative outlooks on most of the ratings, as well



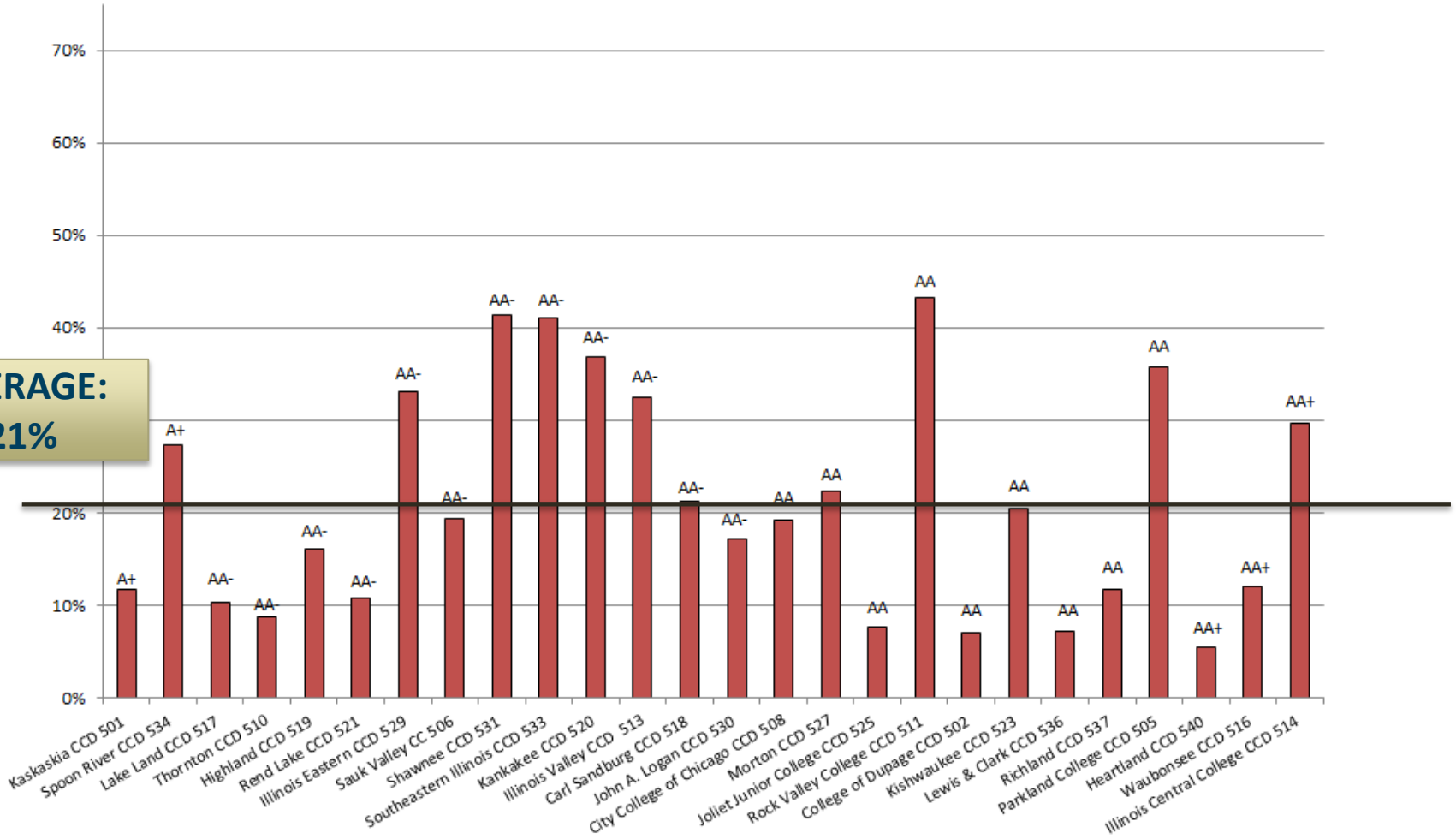
- Almost 15% of Moody's IL CC credit ratings are Aaa
- 59% of Moody's IL CC credit ratings are in the Aa category

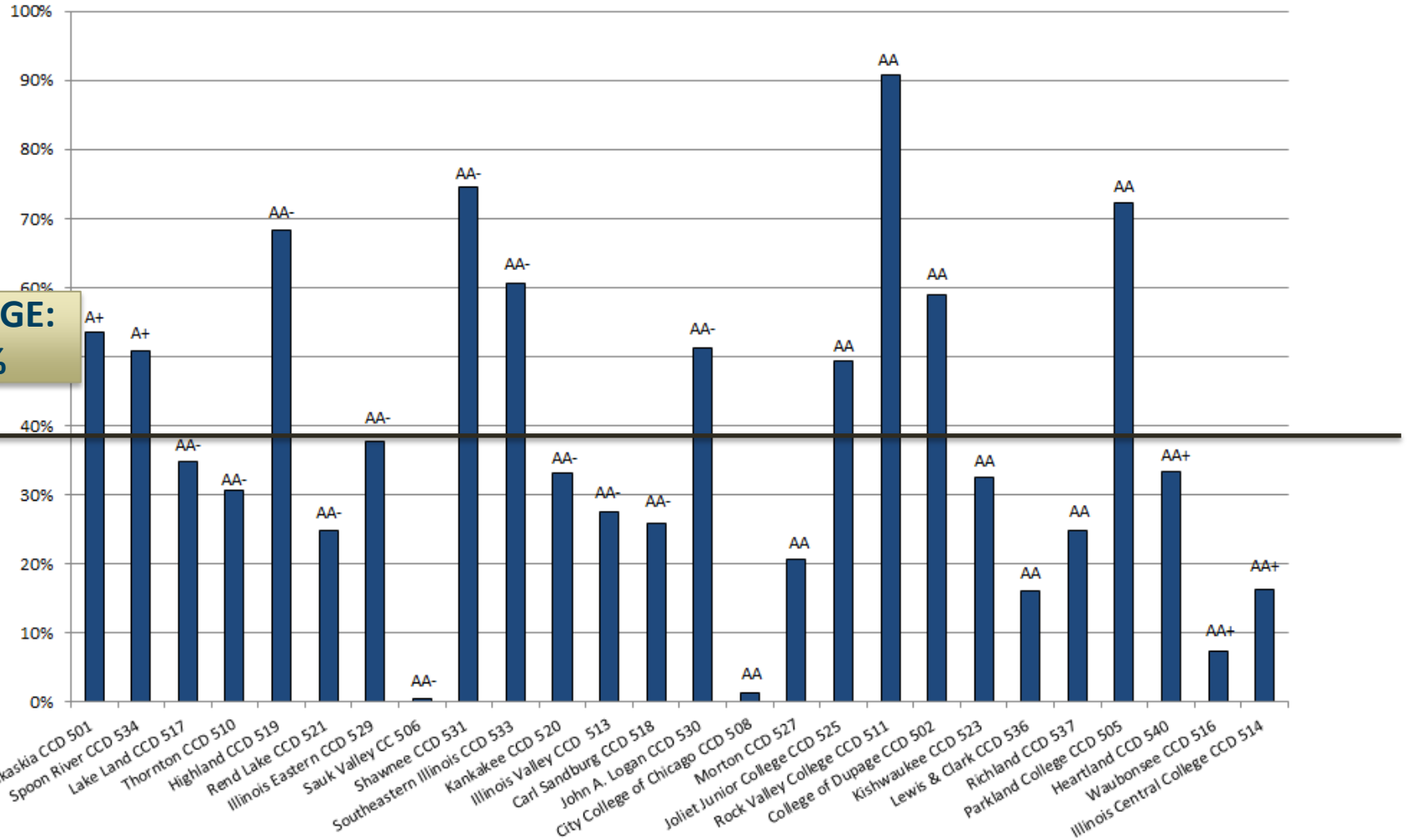


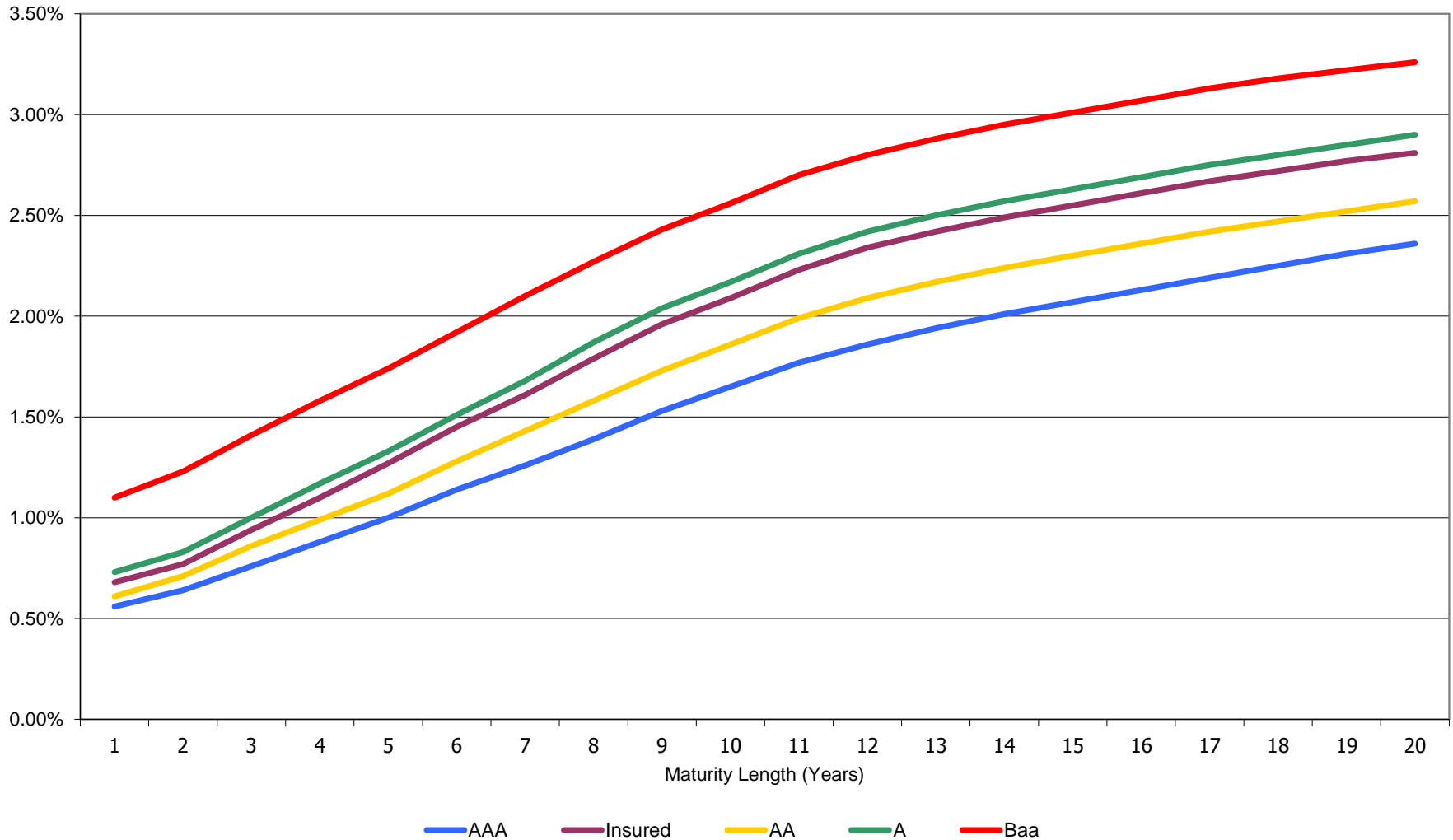
- None of the IL CCs rated by S&P carry a AAA rating
- 96% of S&P's IL CC credit ratings are in the AA category



**AVERAGE:  
21%**







\*The Municipal Market Data "MMD" is a municipal bond market index produced by TM3. As of April 22, 2016.

- S&P released a report regarding the IL CC market on April 4<sup>th</sup>
- “Downward rating pressure is likely for community college districts with less than very strong reserves and revenue streams that are overly reliant on state revenue”
- As of its report S&P had downgraded three IL CC ratings

- The “spark of hope” bill will provide short-term relief
- Given the uncertainty regarding state funding for IL community colleges, rating pressure will continue
- IL community colleges should focus on:
  - Maintaining fund balances
  - Aligning revenues and expenditures without state revenue
- In its April 4<sup>th</sup> report S&P stated that it does not anticipate any rating upgrades until the state situation and funding environment stabilizes, which it does not expect over the next two years



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