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## MEMORANDUM

Date: August 4, 2010

To: John Stunson, City Manager

Via: Horace McHugh, Assistant City Manager 

From: William F. Underwood, II, Director Financial Services

Subject: Water and Sewer Credit Rating

City staff met with the credit rating agencies in New York to present our case as to why the City should receive a good investment grade credit rating. In my opinion, the meetings went well and the results indicative of that fact. It is with great pleasure that I have this opportunity to advise you the City has been successful in obtaining a high quality investment grade for its upcoming water and sewer revenue bond issue.

A rating history I retrieved in March 2010 reflects the City's underlying rating as of May 1973 was a "Baa" and by September 1980 the City's rating improved to an "A", and in September 1994 the rating was withdrawn. I suspect it was withdrawn due to the City purchasing insurance for a 1994 water and sewer revenue bond issue.

The City of Oakland Park's underlying credit rating for the upcoming water and sewer bond issue has been rated by FitchRatings and Standard & Poor's as:

**AA-**

The impact of the improvement from Baa to AA\_ equates to approximately a 75 basis point (3/4 of 1%) reduction in interest cost. On a bond project of this approximately \$17,000,000, this equates to about \$2,700,000 in savings on debt service. Congratulations to the citizens, the City Commission and the administration of the City of Oakland Park.

Credit rating agencies such as Standard & Poor's and Fitch use a credit rating scale to indicate the credit worthiness of a particular issue and issuer. Obviously, higher risk issues and issuers that receive a BBB- will pay lender's a higher rate of return on borrowed funds than the much less riskier AAA issues and issuers.

<b>Investment Category</b>	<b>Standard &amp; Poor's</b>	<b>FitchRatings</b>
Best Quality	AAA	AAA
High Quality	AA+	AA+
	AA	AA
	AA-	AA-
Upper Medium Grade	A+	A+
	A	A
	A-	A-
Medium Grade	BBB+	BBB+
	BBB	BBB
	BBB-	BBB-

Typically, local governments receive a rating as a result of purchasing an insurance policy, to protect bond holders, and they can also receive a rating on their underlying credit factors. The importance of obtaining and maintaining a high rating is how the credit rating translates into the interest cost the City will carry over the life of the bond issue. A universal maximum is the higher the rating, the lower the interest cost on borrowed funds.

An issuer such as the City could receive an investment grade rating from BBB-, the lowest investment grade level, up to AAA, the highest investment grade.

In order to make this happen, it is important to acknowledge the assistance this office received from David Womacks, Director Public Works, Ming Meyer, Comptroller, Susan Smith, Assistant Public Works Director, Robert Anathan, Budget Director, and Mark Voight, Capital Project and Purchasing Manager, Paul Samuels, Utilities and Billing Services Manager.