

# Preparing For A Rating Meeting

Matthew Shipley, Moderator  
- Chief School Business Official, Indian Prairie District #204



Melanie Shaker, Speaker  
- Senior Vice President, FHN Financial Capital Markets



Bob Lewis, Speaker  
- SVP, Managing Director, PMA Securities LLC



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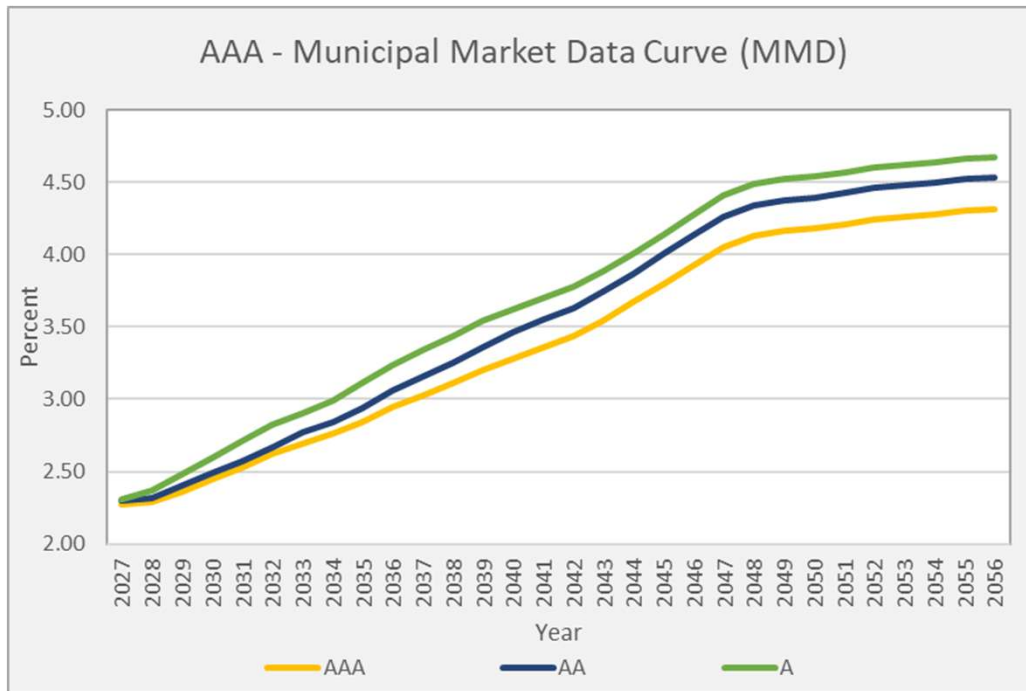
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# Ratings: Why do we care?

- A strong rating indicates higher credit quality, which will position a district for less interest cost during a bond issuance (relative to lower rated districts).
- Simply put: just like an individual, a higher credit rating means a better interest rate when issuing debt of any kind.
- A rating has real financial impact on a borrower and needs to be taken seriously. A lack of preparation could cost even the most highly rated issuer a negative result.
- **Bond ratings mean the difference of thousands, potentially millions, of net interest cost!**

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\*The MMD is a AAA municipal bond market index produced by TM3. As of April 13, 2026

To the left is the MMD\* (Municipal Market Data) yield curve, which is the benchmark in the industry for tax-exempt, municipal bonds.

- Daily Interest Rates Scale Published based on trades in the primary and secondary markets
- A national AAA yield curve from which all transactions are spread
- Factors that will affect the spread of any specific credit: the security type, the size of the transaction, the amortization structure; historic trades – in addition to macroeconomic conditions
- Ratings include outlooks (Positive, Stable and Negative). This is an indication that the rating could change in 6 to 8 months



**The bonds will price at the lowest rating level assigned by agencies; outlooks influence investors**

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# Ratings: Interest costs relative to rating level

	AAA Scale	AA Scale	A Scale
Dated Date	6/1/2026	6/1/2026	6/1/2026
Delivery Date	6/1/2026	6/1/2026	6/1/2026
Last Maturity	6/1/2046	6/1/2046	6/1/2046
Arbitrage Yield	3.2619%	3.4147%	3.5653%
True Interest Cost (TIC)	3.6519%	3.7694%	3.8853%
Net Interest Cost (NIC)	3.9602%	4.0582%	4.1534%
All-In TIC	3.6519%	3.7694%	3.8853%
Average Coupon	5.0000%	5.0000%	5.0000%
Average Life (years)	12.096	12.097	12.096
Duration of Issue (years)	9.193	9.156	9.118
Par Amount	44,415,000	44,890,000	45,360,000
Bond Proceeds	50,001,211	50,004,126	50,004,745
Total Interest	26,861,750	27,151,500	27,433,000
Net Interest	21,275,539	22,037,374	22,788,255
Total Debt Service	71,276,750	72,041,500	72,793,000
Maximum Annual Debt Service	3,566,250	3,604,750	3,642,500
Average Annual Debt Service	3,563,838	3,602,075	3,639,650

Increase in Total DS (vs, AAA)	NA	764,750	1,516,250
Increase in All-In TIC (vs, AAA)	NA	0.118%	0.233%

\*FHNCM estimates based on MMD as of April 13, 2026

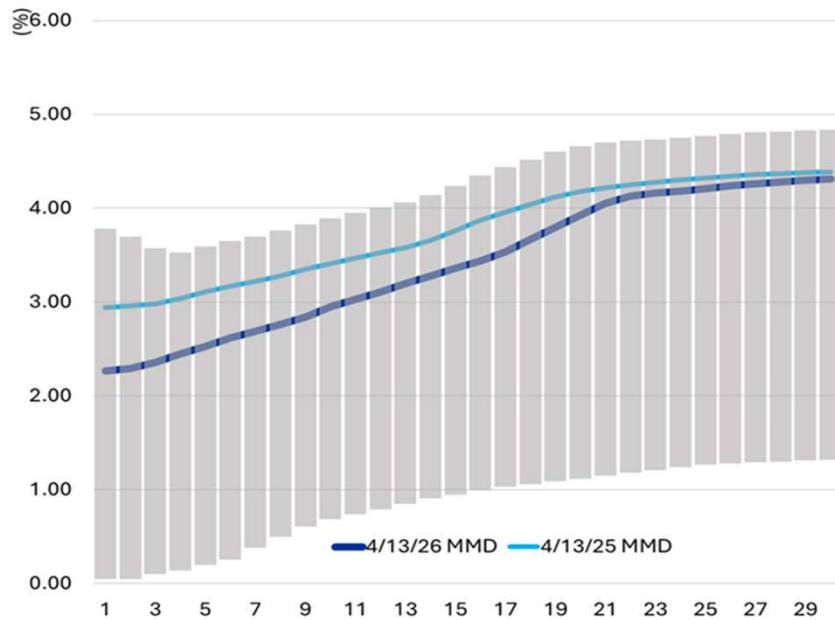
- For example, a \$50 Million, level debt service, 20 year borrowing will cost the issuer in net interest cost, over the life of the bonds:

- **AAA \$21.28 Million**
- **AA \$22.04 Million**
- **A \$22.79 Million**



**Bottom line: RATINGS CAN MEAN MILLIONS OF DOLLARS IN A GIVEN TRANSACTION**

# Tax Exempt Yield Curve: 2025 vs 2026



\*The MMD is a AAA municipal bond market index produced by TM3. As of April 13, 2026

## Current Market Drivers

- Economic Data - Labor Market and Inflation Data
- Federal Reserve's Interest Rate Path – Next Meeting: April 28-29
- Conflict in Iran; Shutdown of Strait of Hormuz
- Elevated Oil Prices; Higher Gasoline Prices = Higher Inflation
- Available Supply; Level of Redemptions and Relationship of Ratios

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# Factors Impacting Price/Yield of Municipal Bonds

- Comparable Transactions
- Size of Transactions or Par Amount of Bonds
- Structure (Coupon/Maturity)
- **Published Credit Rating (Investor Perception)**
- Overall Marketplace Supply (Primary & Secondary)
- Type of Transactions – GO vs Debt Certificate vs Alternate Bond
- Alternative Investment Opportunities (Other Markets)
- Federal Reserve Commentary on Interest Rates
- Investor Cash Position/Market Outlook
- Current Holders of the District's Bonds

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# The Rating Agencies

- There are two major credit rating agencies used by IL schools: Moody's Investor's Service and S&P Global
- Fitch Ratings is another rating agency primarily used by large issuers, and Kroll Bond Rating Agency has entered the market in the past ten years, providing some competition
- A District may choose which agency to engage on a bond issuance in consultation with their advisor and underwriter. Districts, depending on the size of borrowing and other factors, may choose to engage more than one agency
- Rating agencies review and analyze a District's financial information to render an opinion relating to their creditworthiness (i.e. how likely they are to repay the Bonds)
- If the District's rating is AA- or lower, credit enhancement (i.e. bond insurance) is often obtained for some or all maturities to get a lower interest rate

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# The Rating Scale

Investment Grade (Moody's/S&P/Fitch/Kroll)		Non-Investment Grade (Moody's/S&P/Fitch/Kroll)	
Aaa/AAA/AAA/AAA	Highest Quality	Ba1/BB+/BB+/BB+ Ba2/BB/BB/BB Ba3/BB-/BB-/BB-	Non-Investment Grade Speculative
Aa1/AA+/AA+/AA+ Aa2/AA/AA/AA Aa3/AA-/AA-/AA-	Very Strong Capacity	B1/B+/B+/B+ B2/B/B/B B3/B-/B-/B-	Highly Speculative
A1/A+/A+/A+ A2/A/A/A A3/A-/A-/A-	Strong Capacity	Caa1/CCC+/CCC/CCC+ Caa2/CCC/CCC/CCC Caa3/CCC-/CCC/CCC-	Substantial Risk
Baa1/BBB+/BBB+/BBB+ Baa2/BBB/BBB/BBB Baa3/BBB-/BBB-/BBB-	Adequate	CA/CC/CCC/D -D/DDD/D -D/DD/D -D/D/D	Default

\*Sources: Moody's Investors Service; S&P Global; Fitch Ratings; KBRA

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# Investor Preferences by Rating

- A minimum rating is often a criteria bonds must meet as a matter of the investor's policy
- Notice that the "A" rating is an important cut-off for typical trusts, funds, corporations, and insurance companies. Below a BBB- rating, the bonds are not considered "investment grade"
- High yield investors are willing to take on speculative credits given the wider spreads/higher yields
- High-Yield/Non-Investment Grade bonds are typically only purchased by high yield funds, hedge funds, and other speculators

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# The Rating Process

- The Process begins when an agency is engaged
  - Typically after the Official Statement is drafted
  - You will have two to three weeks to submit information
  - Rating meeting preparation can take place well before an Agency is engaged
- The agency will request specific information from a District
  - At least three years of audits and any financial projections
  - Demographics – typically an agency will have and use access to US statistics, so it's important that a District is familiar with its figures
    - Equalized Assessed Value of the District
    - Wealth levels (the data used is from the US Bureau of Economic Analysis and EBI (S&P))
      - Average property value; per capita personal income levels; average household income
    - Debt information including debt per capita and other debt ratios

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## The Rating Process, continued: Information to know not in the ACFR or OS?

- Describe the development that is taking place
- Talk to the assessor(s) about expected EAV trends
- Know the status of significant property tax appeals (PTAB)
- Understand your pension liabilities and have a credible management plan if needed
- Disclose direct-purchase debt (avoid onerous covenants like acceleration)
- Be ready to explain revenue raising flexibility
  - Know what untapped revenue sources are in \$\$
  - Discuss willingness and history of raising revenues
- Be prepared to address prior deficits and causes
- Be prepared to provide year-to-date budget-to-actual numbers
- Capital Plan, preferably more than the life safety survey
- Policies, more to come

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# The Rating Process, cont'd: The Outcome

- Ratings are decided by a majority vote of a committee of analysts
  - This means that the decision-makers are more than just the analysts you meet/talk with
  - It is typically a cross section of various levels of experience (i.e., titles); sectors (i.e., health care or States); and region (i.e., Midwest and NY)
- Once the rating is decided, the agency will contact the advisor and/or the District and inform them of results of the “committee decision”
- You will have a limited amount of time (i.e., hours) before the rating is published and the bond markets are informed – including investors, the ultimate holders of the bonds
- For Moody’s, a press release is issued followed by a lengthier, more detailed report
- The agency will then revisit the rating annually, so expect check-ins through the life of the bonds (see surveillance later in the presentation)

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# Steps to address well before the next rating review

- Does the District have...
  - A fund balance policy? The percentages in the standard PRESS policy are likely too low.
  - A debt policy?
  - A capital improvement plan with needs and funding sources identified that is updated annually?
  - Long range financial projections?
- How often does the administration provide a report on investment holdings to the governing body (at least quarterly is suggested)?
- How often does the administration report on intra-year trends in revenues and expenditures?
- Is the budget amended and for what reasons?

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# How to address long-term benefit liabilities in the near term?

- Educate the governing board on pension related liabilities, if applicable in the IMRF fund, and the consequences of deferring tough decisions (see State of Illinois and the City of Chicago)
  - Establish policies and procedures
  - The rating agencies still talk about the pension cost shift
- If pension liabilities are increasing, create a credible plan to address the liabilities especially if trends are worsening
- Make additional contributions to reduce net pension liabilities
  - Utilize excess fund balances, especially if in the IMRF fund
  - Borrow tax exempt for capital expenditures in lieu of using funds on hand to pay capital expenditures

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# What is a Surveillance Call?

- Provides a rating agency with an opportunity to make credit ratings do not become “stale”
  - Accountability to the investor community
  - Regulations and policy require at least a “Passive” review annually
- Frequency of “Active” surveillance may vary, but it is happening much more often than before
- The District is provided a list of questions
  - It’s important to be responsive
  - Typically given a couple weeks to prepare for the call

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# Surveillance Call Best Practices

- Treat the surveillance call like a rating presentation for a bond sale
  - Take time to prepare detailed responses to each question
- Talk the analyst through your written responses
- Consult with your municipal advisor as soon as you receive the email or phone call requesting the surveillance call

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# Surveillance Call Considerations

- Has the District done everything communicated during the last rating review?
  - Review the most recent rating report
  - Be prepared to address differences
  - How did your actuals compare to estimates provided to the rating agency in the last review?
- What circumstances have changed since the last rating review?
- Has anything made it difficult to achieve what was anticipated during the last rating review?

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# Conclusion

- Your Financial Recognition ISBE Scorecard rating is great, but it's not the same as a bond rating
- Don't wait to prepare for a rating call until three weeks prior to your next bond issue
  - Review policies
  - Examine reporting and long-term planning practices
- *Structural deficits can tarnish a rating and take years to recover the rating*
- Trade off between using fund balances for projects and programs versus retaining them in an attempt to get a higher rating

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# Questions and Answers

*We thank you for your time!*

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# Presenters

## MODERATOR INFO:

Matthew Shipley, Chief School Business Official; Indian Prairie District #204  
(331) 204-9984; matthew\_shipley@ipsd.org

## PANELISTS INFO:

Melanie Shaker, Senior Vice President; FHN Financial Capital Markets  
(773) 663-1990; melanie.shaker@fhnfinancial.com

Bob Lewis, SVP, Managing Director; PMA Securities, LLC  
(630) 657-6445; robert.lewis@ptma.com

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