



## FY 2017 Recommended Budget Budget Question

Board Question #: 102

**BUDGET QUESTION:** What is the difference in interest rates at A, AA, AAA ratings? Compare the interest costs on a \$1 million bond at each of these rating categories.

**RESPONSE:** The difference in interest rates from one bond rating grade to another is known as the “spread.” The spread is dependent upon supply and demand in the bond market. To answer this question, staff is using data provided by Davenport (the County’s financial advisors) following our last transaction in the bond market. This data is from Davenport’s September 22, 2015 presentation to the Board.

Interest Rate Spreads	
Between A and AA	0.38%
Between AA and AAA	0.23%

Given the rates assumed for this summer’s bond issuances, the difference in total interest costs for \$1 million at A, AA and AAA are estimated as follows for a 20-year bond assuming level principal payout:

Interest Costs for \$1M Over 20-Year Term		
Rating	Assumed Interest Rate	Total 20-yr Interest Costs
A	4.13%	\$433,650
AA	3.75%	\$393,750
AAA	3.52%	\$369,600

Staff realizes that the reduction of an estimated 0.23% in our interest rate if we were to be upgraded to an AAA rating is a seemingly small percentage difference. However, that difference in the interest rate amounts to \$3.1 million over the term of the debt planned in the CIP for issuance over the next five years. Of even greater magnitude would be the continual savings on every bond issued after having received the AAA rating. At the time of their report to the Board last fall, Davenport staff noted that a 0.23% reduction in interest costs on the \$293 million in debt outstanding at that time would have saved \$7.4 million in interest costs.

Staff is attaching Davenport’s September 22, 2015 as another source of information on the importance of credit ratings and the key drivers to the ratings. Note slides 7 and 10 in reference to what could make our ratings go up or down, and what our financial advisors have advised us needs to occur as we continue working towards AAA.