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MEMORANDUM

Date: May 3, 2016

To: Honorable John P. Daley, Chairman, Cook County Board of Commissioners
Finance Committee

Cc: Honorable Toni Preckwinkle, President, Cook County Board of Commissioners
Cook County Board of Commissioners
Brian Hamer, Chief of Staff, Office of the President
Patrick Carey, Special Assistant - Governmental and Legislative Affairs
Office of the President

From: Ivan Samstein, Chief Financial Officer, Bureau of Finance 

Subject: Proposed Bond Refunding Ordinance, Agenda Item 16-2696

Chairman Daley, thank you for your inquiry dated May 2nd, 2016. Attached for your review please find specific answers to the questions you have raised.

- 1) What portion of the bond refunding will go toward debt service savings and what portion will be used for restructuring current debt?** The proposed refunding bonds are anticipated to generate significant interest rate savings, currently estimated at \$27 million as measured in today's dollars (referred to as net present value basis). The entirety of the proposed refunding bonds will be used to refinance outstanding Series 2006A Bonds for savings, with no restructuring principal currently contemplated for this proposed bond issue. Our intended long term target for debt service is to moderate the growth rate of debt service, including all anticipated new money needs in the 2016 Capital Budget as approved by the Board of Commissioners. In order to do so we do anticipate additional refinancing opportunities, including one in 2017 for the Series 2006B Bond issue. We would target savings from these future refunding's to include some potential principal deferral/restructuring in a manner to create a long-term sustainable debt service structure for the County with annual increases that do not exceed 2% a year going forward, inclusive of forecasted new borrowings.
- 2) Given the exorbitant interest rate paid by the other government issuers and the various bond rating drops, what do we anticipate the interest rate will be on this bond issue?** The interest rate climate as you have noted has been increasingly negative for many local issuers here in Illinois, though less so for Cook County than for other entities which are being penalized for below investment grade bond ratings. The exact interest rate on the proposed refunding bonds will be set at the time of pricing, which would not occur until June, and will be subject to market conditions at the time of the sale. However, at present we anticipate the interest cost on the bonds will be below 3.95%, as compared with an average cost of 4.83% on the bonds that will be refinanced.
- 3) Is the County fully disclosing all relevant information, particularly the County's pension information, in the official bond offering?** Yes, the County anticipates fully disclosing all relevant and necessary information for perspective investors on the bond sale. This includes a comprehensive discussion of the unfunded pension liabilities at the Cook County Officer and Employees Annuity and Pension Fund. In recent years the County has focused on bolstering our disclosure process and documentation and we anticipate continuing to do so with the proposed bonds if approved by the Board of Commissioners.

- 4) **Is the county fully disclosing the negative impact of the State of Illinois budget stalemate on the County's operating budget? If so, what are we disclosing?** Yes, we anticipate that the Offering Statement would include a section entitled "Investment Considerations". This section would be used to describe possible risks to potential purchasers of the bonds, to include a discussion of the State Budget impasse and its potential impact to Cook County government.
- 5) **What do we anticipate the rating of the new bonds to be? Are we anticipating a bond rating decline, and if so, why?** We would formally request ratings from the three major rating agencies, Standard and Poor's, Fitch and Moody's following board action on the proposed Bond Ordinance, if approved. We would anticipate meeting with the rating agencies later during the month of May to discuss the County's credit position, and any rating actions would be known after those discussions. However, we can look to the current ratings and recent written commentaries from the Rating Agencies for some measure of guidance. The County's General Obligation Bond Ratings are currently: AA (with a negative outlook) from Standard and Poor's, A+ (with a negative outlook) from Fitch, and A2 (with a negative outlook) from Moody's. The negative outlooks demonstrate a very real possibility of future downgrades to the County Bond rating over the next 24 months; however, both Fitch and Moody's have recently noted the positive credit implications of the Board's actions with regards to the sales tax adoption and supplemental pension funding appropriation included in the FY2016 budget.

Thank you for the opportunity to respond to these matters, and please contact myself or Ammar Rizki with any further questions that may arise on the proposed bond refunding.