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MEMORANDUM

Date: **October 25, 2016**

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

Cc: **Cook County Board of Commissioners**
Brian Hamer, Chief of Staff, Office of the President
Vasyl Markus, Special Assistant - Governmental and Legislative Affairs

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

Subject: **Submitted Questions Regarding Capital Budget Recommendation**

Honorable Chairman Daley, thank you for your questions regarding the proposed Capital Budget contained within the President's Executive Budget Recommendation. Responses to your questions appear below:

1. **Is any of the County's existing debt is being pushed out longer in order to assist with balancing the FY17 budget? If so, how much?**

   The County's FY17 Executive Budget Recommendations do not contain any balancing measures that resulted from restructurings of the County's legacy debt.

   In keeping with our previous communications, we continue to believe the County is best served by a long-term plan to manage its legacy debt service costs and future borrowing needs in a responsible and prudent manner, so that these costs do not provide undue stress on its operating budget in future years. To that end, the County began to utilize its 2006A Bonds refunding in July 2016, and anticipated subsequent refunding opportunities, to focus savings in key years which will help to ultimately create a debt structure that rises by no more than 2% annually even when including all anticipated new issuances. That growth rate would match the long term Federal Reserve inflation target.

   In order to accomplish that goal, we anticipate utilizing future refinancing opportunities, to target savings in key years over the next decade; including some potential principal deferral/restructuring as needed including a refunding opportunity of the County's 2006B Bonds that we anticipate becoming possible in the 4th quarter of 2017, however no such actions would have an impact on the 2017 budget.

2. **Which rating agencies changed their outlook on the County to positive?**

   All three ratings agencies, Moody's Investor Services, Fitch Ratings and Standard and Poor's upgraded their outlook to Stable from Negative.

3. **Have the rating agency changes resulted in lower interest costs?**

   Whenever the County issues bonds, there are a couple of key factors that determine the interest cost it pays for those bonds. Those key factors are the County's overall long term fiscal position, which is represented by the ratings assigned to the bonds by the three major rating agencies and market conditions at the time of the issuance. The stable outlook by all three agencies helped the County secure significantly lower interest cost on the recent refunding of its Series 2006A bonds.

   The County saved $56.6 million in reduced interest cost as a part of the Series 2006A refinancing in July 2016. The County's credit spread – the interest cost above the tax exempt benchmark interest cost for a AAA tax exempt bond – had peaked a full 2% higher versus the benchmark in July 2015, shortly after the Illinois Supreme Court invalidated SB-1 and the associated state pension reforms that affected the market's view of all bond issuers in Illinois. Since then the County had made significant strides in addressing its pension liabilities by raising the 1% Sales Tax and dedicating it to shore up the Pension Fund; a fact that was recognized by all three rating agencies as reflected in their upgrade of the County's ratings outlook to Stable. This resulted in the County's credit spread being cut by half from its peak in July 2015, which generated approximately $23.5 million of the total $56.6 million in reduced interest costs savings. The remaining savings were generated by market timing as the County priced its offering during a week when the 10-year tax exempt municipal benchmark hit the second lowest value on record at that time.

4. **How much new debt is planned for FY17?**

   The FY17 Capital Budget Recommendations calls for $284.2 million in new bond issuance to support the capital plan. However, traditionally the County collectively only spends about 80% of Capital Budget appropriations in a given year; therefore, we expect to issue closer to $225 million in new debt throughout FY17. A little less than half of this debt will be taken on to pay for the new board-approved clinical and administration building at the Health System, with a significant amount used to fix-out the Tax Exempt Revolving loan approved by the Board of Commissioners in 2014 to finance numerous initiatives including major technology projects like the Enterprise Resource Planning system, scheduled to come online in December with subsequent waves scheduled to go live through 2017 and mid-2018. Notably, the FY17 Capital Budget Recommendation includes $20.3 million in capital equipment which will be financed from operating funds, commonly referred to as pay-as-you-go funds. We anticipate continuing to use significant pay-as-you-go funds to limit the use of debt as much as practical in coming years.

We hope that you find these answers responsive to your questions and we remain available to answer any further questions that may arise, and we appreciate your consideration in advance.