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Credit Ratings for Illinois Community Colleges



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Today's Topics

- ▶ Credit Rating Agency Criteria
- ▶ Credit Ratings in 2020 and 2025
- ▶ Rating Agencies' Areas of Focus

Credit Rating Criteria



What is a Credit Rating?

- ▶ A bond rating is an alphabetical and/or numeric symbol used to give relative indications of credit quality of a bond issue for investors
- ▶ A credit rating is an opinion about credit risk
 - ▶ Ability and willingness of an issuer to meet its financial obligations in full and on time
 - ▶ Likelihood of default
 - ▶ Higher credit rating = lower cost of borrowing



Credit Rating

- ▶ Credit ratings are *forward looking*
- ▶ A credit rating helps investors determine whether to invest in a community college's bond issue
- ▶ Bond ratings play a prominent role in the municipal bond market. A rating is almost obligatory for the sale of any major bond issue in the public market

Credit Rating Scales and Definitions

	<u>Moody's</u>	<u>S&P</u>	
Investment Grade	Aaa	AAA	Extremely strong capacity to meet financial obligations.
	Aa1	AA+	
	Aa2	AA	Very strong capacity to meet obligations.
	Aa3	AA-	
	A1	A+	
	A2	A	Strong financial capacity but susceptible to adversity.
	A3	A-	
	Baa1	BBB+	
	Baa2	BBB	Adequate financial capacity but adverse conditions will lead to weakness.
	Baa3	BBB-	
Non-Investment Grade	Ba1	BB+	
	Ba2	BB	Non-Investment Grade Speculative
	Ba3	BB-	
	B1	B+	
	B2	B	Highly Speculative
	B3	B-	
	Caa	CCC+	
	Ca	CCC	Extremely Speculative
	C	CCC-	
		D	Default

- Rating agencies may also provide “rating outlooks”, which indicate the likely direction of a credit rating over the next two years



Credit Enhancers

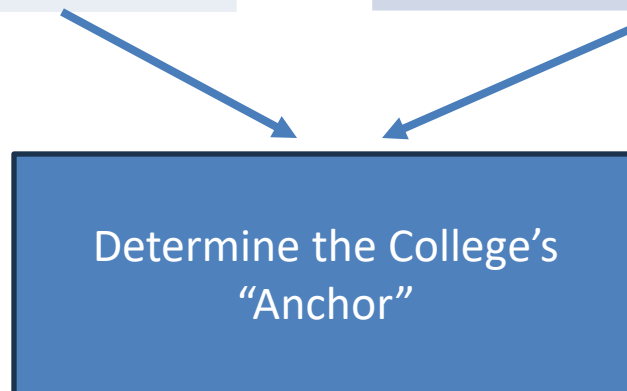
- ▶ Credit enhancement denotes the credit of a stronger, more highly rated entity (such as a bond insurer), that is used to strengthen or enhance the credit of a lower-rated issuer
 - ▶ Bond insurers currently carry a “AA” rating



S&P Rating Criteria

Enterprise Risk Profile	Weight
Industry Risk	10%
Economic Fundamentals	10%
Market position	60%
Management and governance	20%

Financial Risk Profile	Weight
Financial Performance	30%
Financial Resources	35%
Debt and Contingent Liabilities	35%





S&P Credit Rating Criteria

- ▶ Once the anchor has been established, S&P will conduct a holistic analysis
- ▶ S&P's Questionnaire is an essential part of its analytical review
 - ▶ Student Data
 - ▶ Economic Overview
 - ▶ Management & Governance
 - ▶ Financial Data & Debt



Moody's Scorecard Metrics

	Weight
Scale (operating revenue)	15%
Market Profile	20%
Operating Performance	10%
Financial Resources and Liquidity	25%
Leverage and Coverage	20%
Financial Policy and Strategy	10%



Moody's Qualitative Factors

Brand and Strategic Positioning	Financial Policy and Strategy	Operating Environment
Consistency of revenue generation to support operations	Quality of financial management, oversight and planning	Strength and predictability of government financial support
Revenue diversity and academic program alignment	Sufficiency of financial resources for strategic reinvestment	Support provided by regulatory and policy framework
Complexity of organizational structure	Risk appetite and efforts to manage risks	Flexibility of expense structure



What is a Rating Surveillance Call?

- ▶ Provides a rating agency with an opportunity to make sure a credit rating does 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 typically at least once every couple years
- ▶ The community college is provided with a list of questions
 - ▶ It’s important to be responsive
 - ▶ Typically given at least a couple weeks to prepare for the call



Best Practice

- ▶ Review and implement policies and procedures that are best for a rating outcome prior to needing a rating review for a bond issue
- ▶ With the help of its municipal advisor, a community college should prepare a comprehensive presentation for a discussion with a rating agency

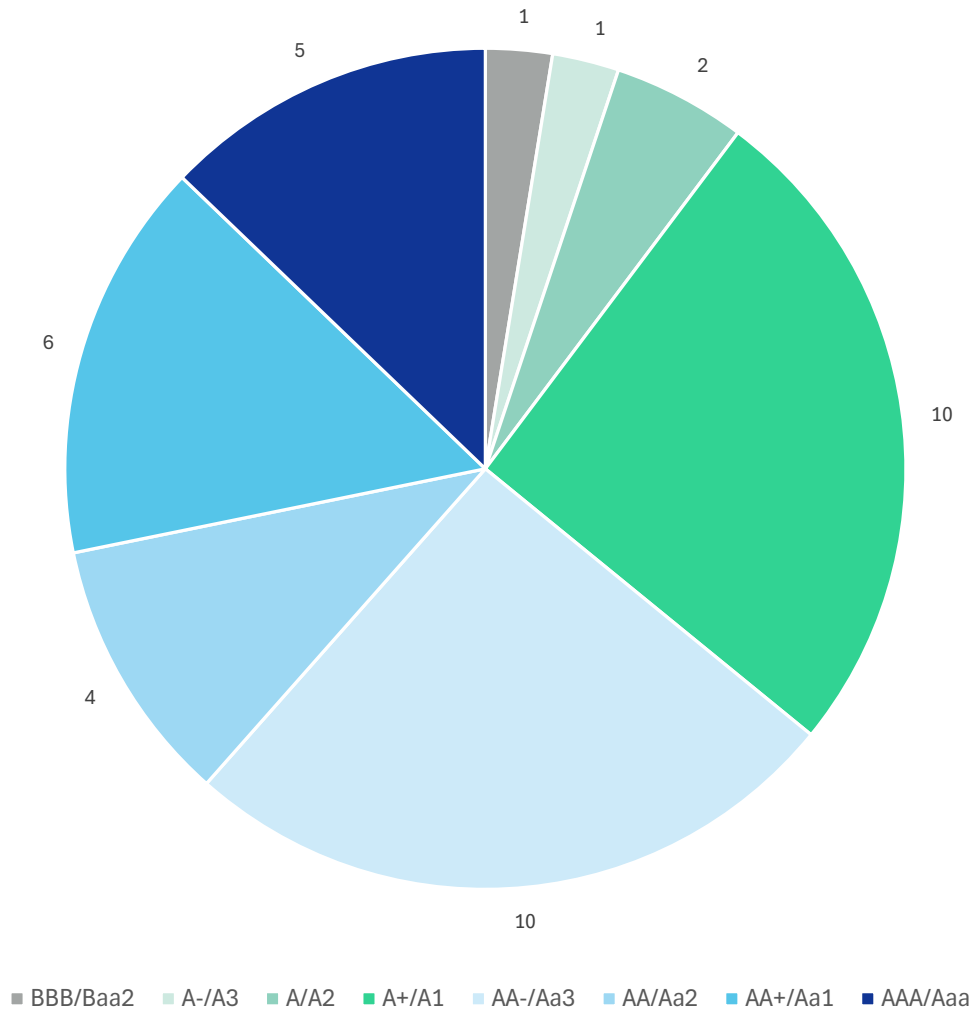
Credit Ratings in 2020 and 2025



Illinois Community College Credit Ratings Pre-2020

- ▶ From 2015 to 2017, Illinois community colleges were in a financial crisis due to a prolonged state budget impasse
 - ▶ Drastically reduced state funding
 - ▶ Illinois community colleges received only 30% of their FY15 appropriation in FY16
 - ▶ Led to delayed payments, tuition increases, program cuts and **several credit rating downgrades**

Illinois Community College Credit Ratings in 2020

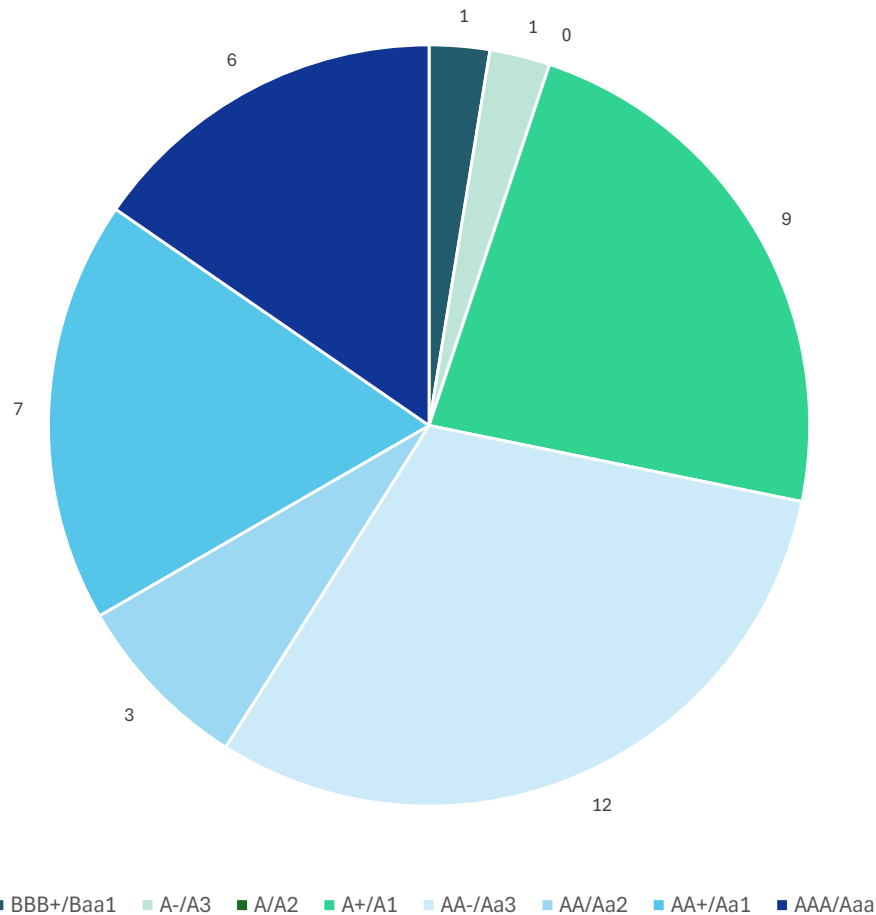


- Median Illinois community college credit ratings in 2020 were Aa2/AA-
- 59% of IL CC ratings were with Moody's; 41% were with S&P

Source: Moody's Ratings and S&P Global Ratings



Illinois Community College Credit Ratings in 2025

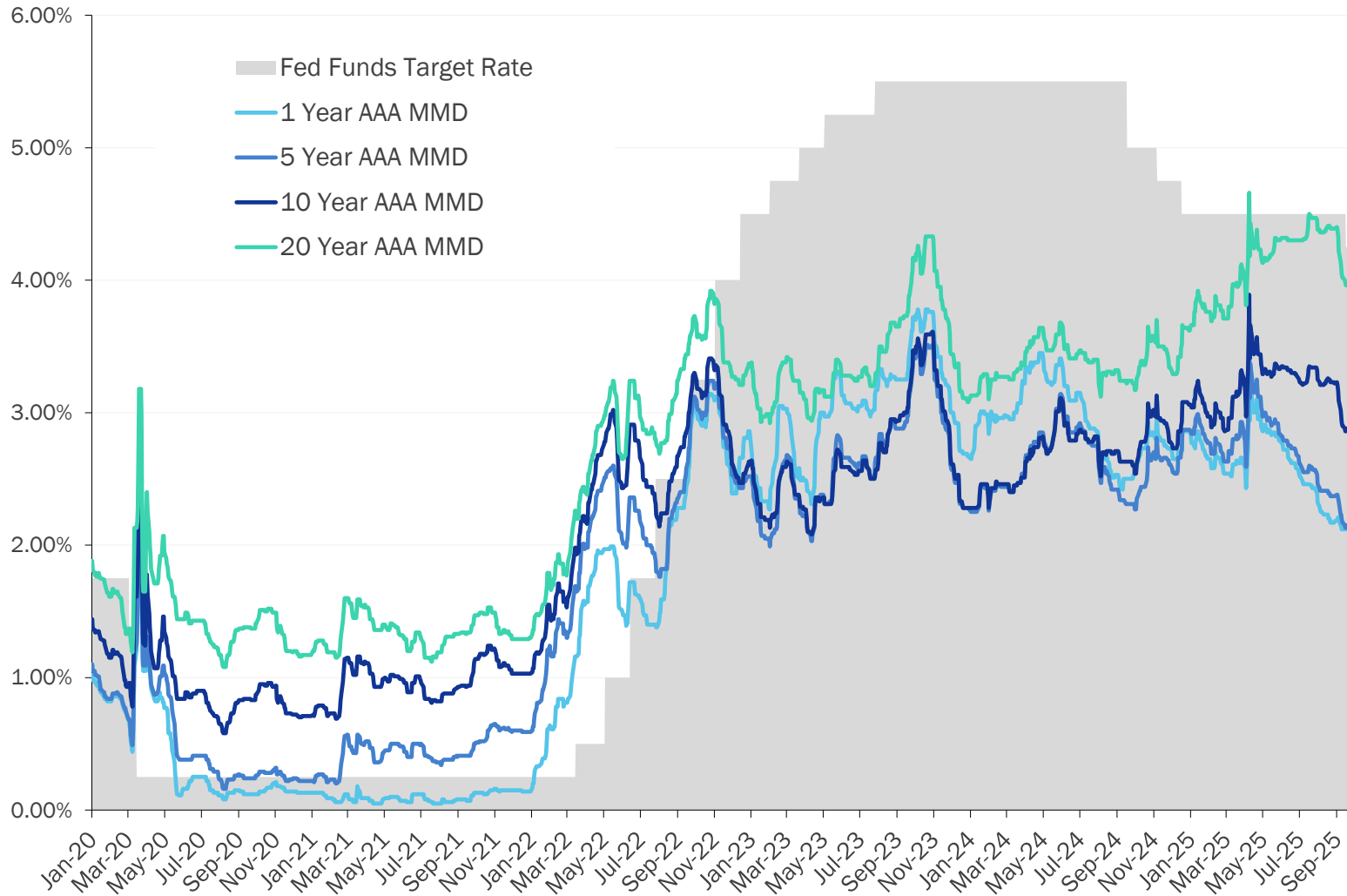


- 7 Illinois community colleges were upgraded between 2020 and 2025
- There were no downgrades
- **Median credit ratings are now Aa1/AA-**

Source: Moody's Ratings and S&P Global Ratings



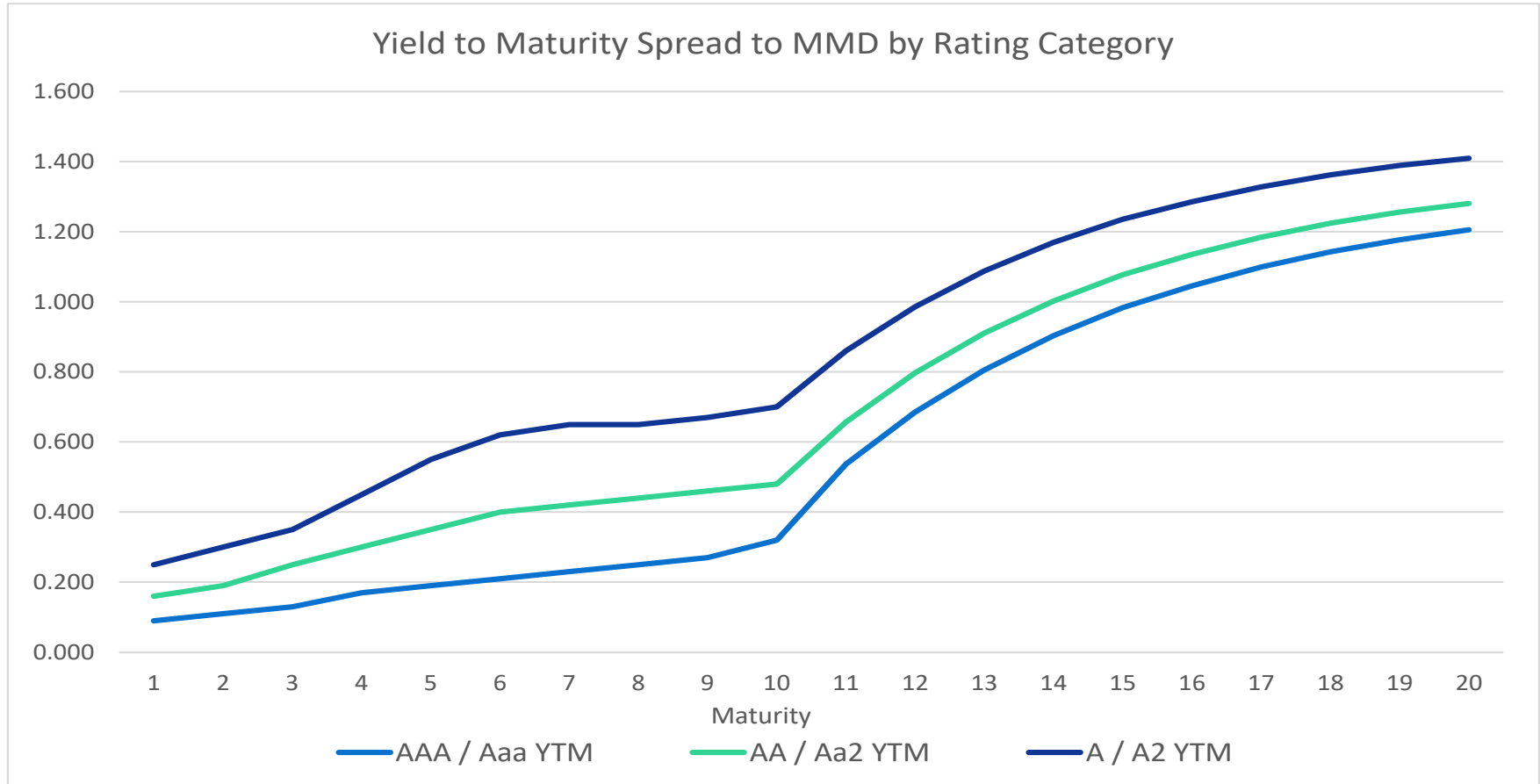
Historical Interest Rate Graph



(1) Municipal Market Data (MMD) Index as of September 26, 2025.



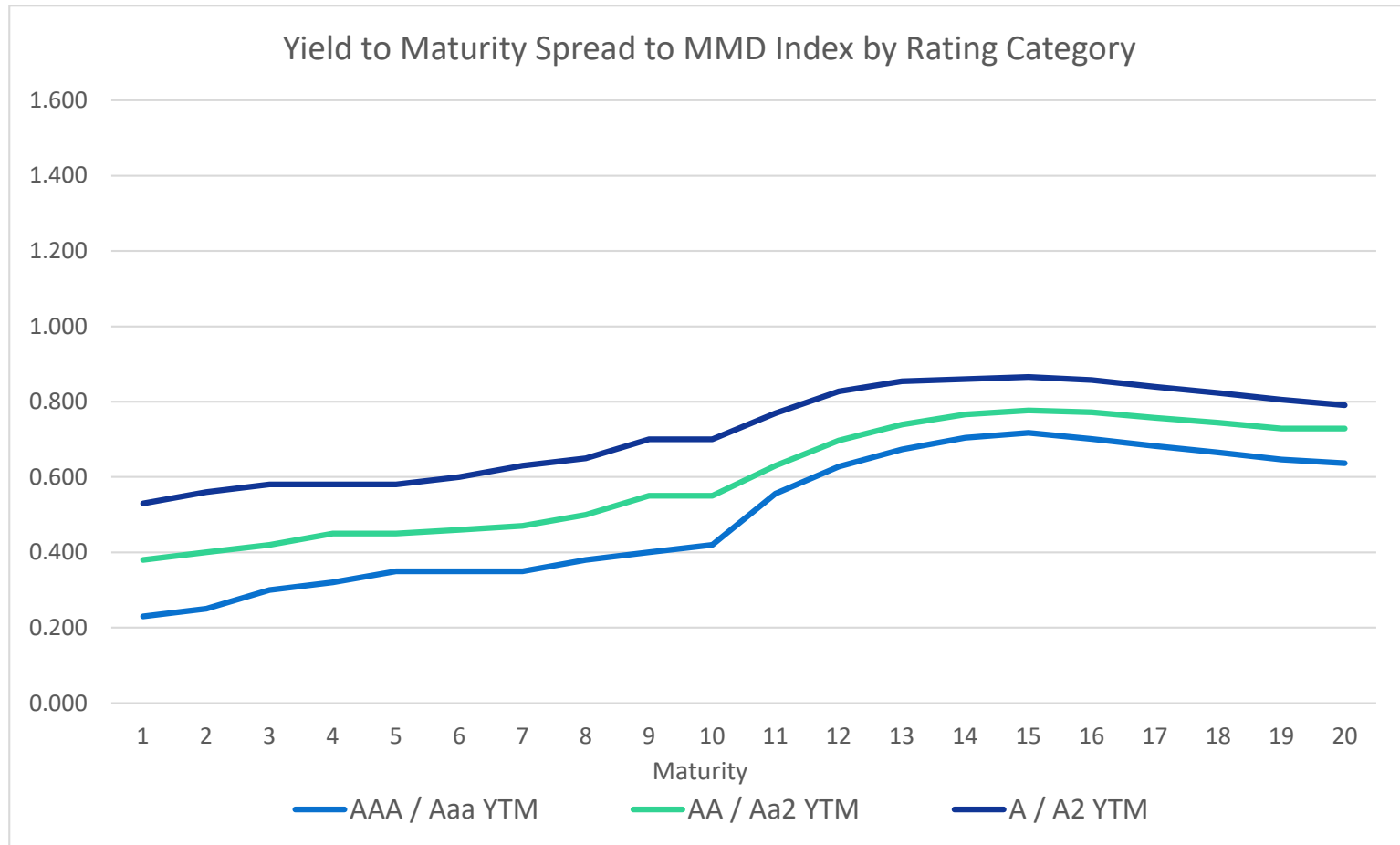
Illinois Credit Spreads as of January/February 2020



A notch was worth between 0.06% and 0.07%



Illinois Credit Spreads as of September 2025



A notch is currently worth about 0.05%



Rating Agencies' Areas of Focus



Areas of Focus

- ▶ Strategic Plans
 - ▶ Alignment with annual operating budgets
- ▶ Enrollment Management Plans and Trends
 - ▶ Program Offerings
- ▶ Facilities Master Plans and Preventive Maintenance Plans
- ▶ Magnitude of Federal Revenue
- ▶ Revenue Flexibility



Questions?



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