

The Town's Bond Rating: An Explanation of Our Standard & Poor's Recent Upgrade

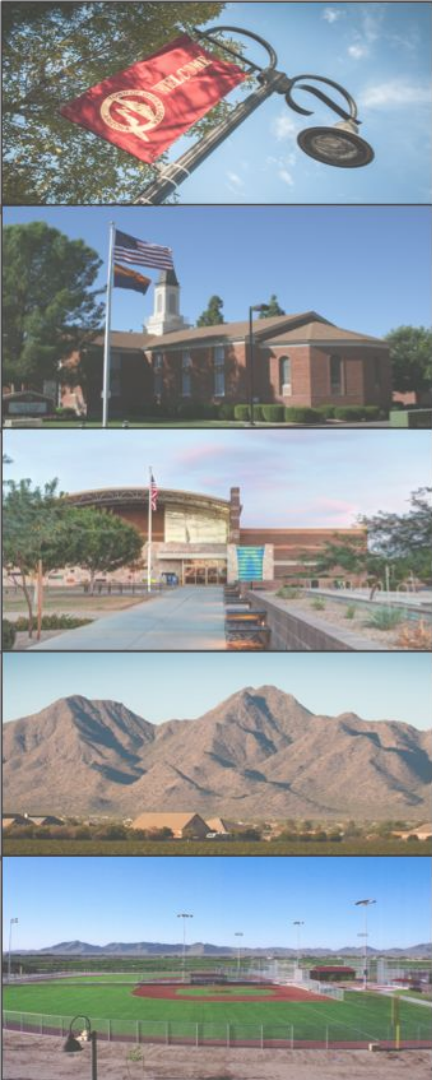
Town Council Meeting

October 2, 2019



S&P September 2019 Upgrade

- Issuer Credit Rating (ICR) Increase
- One-Notch Upgrade to **AA** from AA-
- ICR Reflects the Town's **Overall** Creditworthiness and Financial Strength
- It is a Starting Point for Determining the Town's Debt Ratings



Higher Rated Communities Have Lower Borrowing Costs

- When Issuing Debt/Accessing the Capital Markets the Credit Rating of the Issue is the Basis of Determining Rates Relative to a Current Market Index
 - Each Debt Issue Has a Dedicated Source of Repayment and Covenants with its own Credit Rating

Macro Look at Ratings

- Town is “On the Right Track”
 - Managing Growth can be a Huge Challenge
 - Improving a Rating is a Long-Term Process Taking Planning, Time and Effort
 - Examples of ICR Ratings
 - ‘AAA’: Scottsdale, Tempe, Chandler, Gilbert
 - ‘AA’: Mesa, Surprise, Goodyear
 - Other Town Ratings
 - Excise Tax and State Shared Revenues Rated: AA

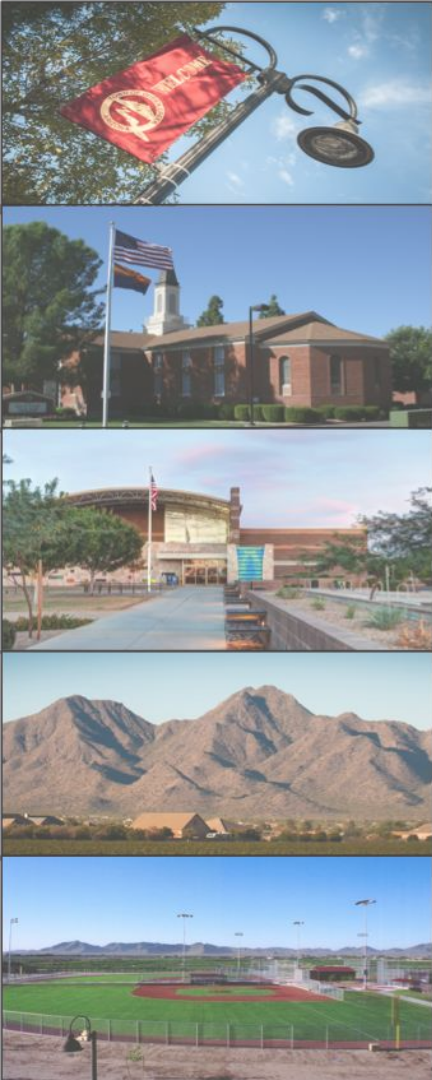


Takeaways

1. Reinforces Town's Financial Policies and Practices

- Pensions
 - Comprehensive / Aggressive Funding Policy
 - ~\$22M Internal Pension Reserves
- Strong Property Value Growth
 - Recent Annexations
 - Banner Hospital, Ironwood Crossing





Takeaways (continued)

1. Reinforces Town's Financial Policies and Practices (concluded)

- Conservative Budgeting Results in Actual Performance Outperforming Adopted Budgets
- Multi-Year Financial Plans
- Very Strong Debt Service Coverage

Takeaways (continued)

2. Opportunities for Improvement

- Improve Debt Service Coverage Ratio
 - Expand “Pledge Revenue” Definition
- Update Debt Management Policy



Takeaways (concluded)

3. Plan for the Future

- Ratings Review of the Excise Tax and State Shared Revenue Rating
 - Currently 'AA'
- Establish a Combined Utility System Debt Rating
 - Combine the Water & Wastewater Revenue Pledge





Questions and Comments