



CITY COUNCIL AGENDA REPORT

Meeting Date: November 6, 2025
From: Jeremy Dennis, City Manager, and Carolina Yuen, Finance Director
Subject: Bond Rating Update

Recommendation

Staff recommends Council review and accepts the Bond Rating Update.

Background

The City periodically issues bonds to fund major infrastructure projects, capital acquisitions or to refinance existing debt. Obtaining a bond rating helps determine interest rates and marketability for the bonds as a bond rating is an independent assessment of a bond issuer's creditworthiness. Investors often rely on credit ratings to assess the risk associated with a debt instrument. A favorable rating can boost investor confidence, potentially leading to a larger pool of interested investors and better terms for the debt issuance. The rating process involves a thorough analysis of the issuer's financial health and fiscal sustainability. This transparency can be beneficial for both the issuer and investors, as it provides a clear picture of the risks and opportunities associated with the debt issuance, including helping investors gauge the risk of default. Ratings range from high-grade (e.g., AAA) to speculative (e.g., B or lower). If S&P withdraws a rating, it means the bond is no longer rated,

The City issued bonds in 2015 for Utility-related capital improvements and in 2014 to refinance debt issued in 2005 for the City Hall Renovation and Expansion Project. The City elected to use Standard and Poor's Global Ratings (S&P) as one of the most recognized and respected credit rating agencies in the world. A rating from S&P can enhance the credibility of the debt issuance, making it more attractive to potential investors.

Requirements of issuing bonds include continuing annual disclosure of compliance requirements per the bond documents and publishing annual audited financial statements. S&P and investors use the audited financials to review the City's and Utility's financial condition.

In September 2025, S&P notified the City that the bond ratings would be removed for the 2015 Utility bond as well as for the City's 2014 general bond as a result of financial statements not being available for fiscal year 2023. The City would have to apply to have the bond ratings reinstated after financial statements became available for fiscal years 2023 and 2024. The

withdrawal of the bond rating limits the City's funding options as issuing bonds would be prohibitive until the rating can be reestablished.

Discussion

Unaudited financial statements for 2023 and 2024 have been filed with S&P and other bond agencies to comply with the reporting requirements as scheduled. However, the City must follow up with audited financials for S&P to consider them as timely. S&P and our other debt holding financial institutions have accepted our timelines and explanations for the delay. Although the City had been meeting regularly with S&P to review results and projections, S&P's internal policy requires audited financial statements to be issued within 24 months of fiscal year end to be considered "timely." S&P could no longer extend our deadline and still comply with their policy, and therefore officially withdrew our bond ratings due to the absence of audited financial statements for fiscal year 2023. This action followed a prior CreditWatch placement for the 2015 Utility Bond in May 2025. The City had been meeting with S&P to review the financial condition of the Utility operations and working with the auditors to help meet the timeline and complete and issue the financial statements. However, there were additional obstacles that delayed the release of the financials.

The implications of a withdrawn rating are:

- **Market Access:** The City cannot issue new bonds until ratings are reinstated.
- **Investor Confidence:** Some institutional investors may be restricted from holding unrated debt.
- **Reputational Risk:** The withdrawal may raise concerns about fiscal transparency and governance. However, losing a rating appears not to be uncommon as other cities have also found themselves in this similar situation for a variety of reasons, especially after COVID. Therefore, staff is confident that once the audited financials are issued, the City will be able to have the bond rating reinstated.

There were a variety of reasons for the delay in finalizing the audited financials for fiscal year 2023, but following are the primary root causes:

- **Budget software issues** - The budget tool used for fiscal year 2023 had limitations including, (a) the software was updated annually with significant functional changes, (b) the tool was found not to be as compatible with the City's needs, (c) generating reports from the tool required manual processes, and (d) limited access to vendor support staffing. The challenges encountered ultimately resulted in manual intervention to rebuild chart of accounts and labor costing detail to integrate budget data to the accounting system which is a required step to complete the audit and issue the financial statements.
- **Staffing constraints** – There were significant staffing changes commencing with the retirement of the Assistant City Manager in December 2022, expected and

unanticipated staffing changes within the Finance and City Manager Departments, and personal leaves.

- Operational conflicts - there were unanticipated additional projects outside of day-to-day operations requiring significant time from Finance Department resources including the implementation of the Land Permitting and Marina software applications, the FEMA grant application related to the 2022/23 storms and the 2023 bond issuance. The Finance Department's operations are demanding and continually interactive with all departments and external customers with frequent deadlines. Additional projects can add strain to the department's resources.
- Scheduling - Auditor delays and coordination challenges due to City-staff and Audit-staff vacations and running into the audit "busy" season.

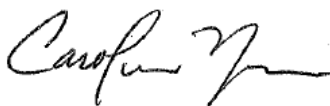
The following steps are being implemented to restore the City's bond rating and prevent a recurrence of this issue:

- Audit Completion: FY23 financials are in final draft and expected in November. Once the 2023 financials are issued, the auditors can reconvene to complete reviews of the FY24 records which already started with their interim field.
- Engagement with S&P: Ongoing dialogue with analysts to keep them informed and prepare for re-evaluation. The City will request reinstatement of ratings no later than Q1-2026.
- Technology: A change in budget software was made in 2025 to automate the budget process going forward, limiting manual spreadsheets which promotes a simplified data integration with the accounting system
- Staffing: Improvements in audit readiness by expanding cross-training and refining Finance Department position responsibilities.
- Transparency: continued updates with City management and City Council to review progress.

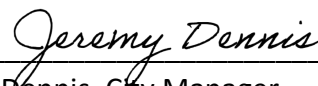
While this rating withdrawal is a setback, it is also an opportunity to strengthen our financial reporting processes. We are committed to full transparency and to restoring the City's credit standing as swiftly as possible.

Fiscal Impact

The City will need to release the audited financial statements in order to borrow again.



Carolina Yuen, Finance Director



Jeremy Dennis, City Manager