To: Dr. Mike Riggle  
Board of Education

From: Dr. R.J. Gravel

Date: Monday, September 26, 2016

Re: Update on Bond Ratings

Throughout the months of August and September we have been working closely with Elizabeth Hennessy of William Blair & Company to prepare for two bond rating presentations, in advance of our upcoming debt issuance. The purpose of a rating presentation is to share information about the school district, and the planned debt issuance. Using the information provided during the presentation, and a supplemental report provided in advance of the meeting, an agency issues a rating that represents the creditworthiness of the debt, and the likelihood of repayment.

On Friday, September 9, 2016, Mr. Shein, Dr. Riggle, Dr. Ptak, Mrs. Hennessy, and I presented to analysts from Moody’s Investors Services and S&P Global Ratings. Each presentation lasted approximately 90 minutes, and provided an opportunity for the rating agency’s analysts to learn about:

- Our school district’s boundaries, the economic development of Glenview and Northbrook, student enrollment trends and the accomplishments of our students and staff;
- The leadership structure of the district, and management philosophy leveraging data and defined formulas to make informed decisions ensuring generational equity in educational experiences for our residents;
- The ongoing commitment of the Board of Education to maintain fund balances in excess of the District’s stated policy, as well as annual efforts to implement operational efficiencies through collective bargaining, outsourcing, and shared services;
- The District’s financial position, including our historical revenue and expenditure trends, fund balances projections, and our approach to building and managing an annual budget that can meet the challenges of potential legislation;
- Our current debt profile and proposed debt structure for the refunding of existing bonds, and the issuance of life safety bonds.

It is with great enthusiasm that I share with the Board of Education that our school district received the highest bond ratings possible from both Moody’s Investors Services and S&P Global Ratings:

**Moody’s Investors Services**

Aaa - Obligations rated Aaa are judged to be of the highest quality, subject to the lowest level of credit risk.

**Strong** - The district’s management team is strong as demonstrated by the maintenance of ample reserve levels and a healthy operating history.
**S&P Global Ratings**

**AAA** - An obligation rated ‘AAA’ has the highest rating assigned by S&P Global Ratings. The obligor’s capacity to meet its financial commitment on the obligation is extremely strong.

FMA of **Strong** - An FMA of strong indicates that management practices are strong, well embedded, and likely sustainable.

As documented in the attached rating reports provided by Moody’s and S&P, these ratings are representative of our school district’s ongoing and long term commitment to financial stability and the implementation of consistent and effective budgetary practices. Both rating agencies commented favorably regarding our budgetary methodology that utilizes structured formulas, and year-long collaborative processes for identify future expenditures. As a result of these ratings, our school district is positioned to receive the most competitive rates available as we bring these bonds to market.
Cook County H.S.D. 225, IL

New Issuance - Moody’s Assigns Aaa to Cook County H.S.D 225 IL's GO Bonds

Summary Rating Rationale
Moody’s Investors Service has assigned a Aaa to Cook County High School District 225 (Northfield Township), IL’s $42.2 million General Obligation Refunding School Bonds, Series 2016A and $4.6 million General Obligation Limited School Bonds, Series 2016B. Concurrently, Moody’s affirms the Aaa on the district’s previously issued general obligation unlimited tax (GOULT) bonds. Moody’s has also confirmed the Aaa rating on the district’s Series 2009 Taxable General Obligation Limited Tax Lease Certificates. This action concludes a review of the Series 2009 Taxable General Obligation Limited Tax Lease Certificates undertaken in conjunction with the Publication on July 26, 2016 of the Lease, Appropriation, Moral Obligation, and Comparable Debt of US State and Local Governments Methodology. The outlook is stable.

The Aaa rating on the GOULT debt reflects the district’s large and affluent tax base; healthy financial profile and low debt and pension liabilities. The lack of rating distinction on the GOULT bonds is due to the presence of a dedicated property tax levy, unlimited as to rate but limited by the amount of the district’s debt service extension base (DSEB). The confirmation of the Aaa rating on the Series 2009 lease certificates reflects a strong legal structure and a financed project, a school special education facility, that we view as “more essential”.

Credit Strengths
» Very large and affluent tax base located north of Chicago (Ba1 negative)
» Especially healthy financial reserve position
» Strong fiscal management

Credit Challenges
» Potential exposure to increased pension costs should the State of Illinois shift responsibility for pension funding
» Material tax base depreciation in recent years

On September 19, 2016, the press release was corrected as follows: In the description of issuance, the expected sale date was changed to September 28, 2016 from September 21, 2016 for the district’s Series 2016A and Series 2016B Bonds.
Rating Outlook
The stable outlook reflects our belief that the district’s large and affluent tax base, healthy financial profile and limited state exposure will support stable district operations.

Factors that Could Lead to an Upgrade
» Not applicable

Factors that Could Lead to a Downgrade
» Resumed tax base depreciation or weakening of socioeconomic indices
» Reduction in operating fund reserve levels
» Increased debt leveraging

Key Indicators

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<td><strong>Cook Co. H.S.D. 225 (Northfield Township), IL</strong></td>
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<tr>
<td><strong>Economy/Tax Base</strong></td>
<td></td>
</tr>
<tr>
<td>Total Full Value ($000)</td>
<td>$16,238,235 $15,126,689 $13,462,196 $13,638,161 $13,185,042</td>
</tr>
<tr>
<td>Full Value Per Capita</td>
<td>$190,547 $177,036 $156,265 $157,241 $152,037</td>
</tr>
<tr>
<td>Median Family Income (% of US Median)</td>
<td>182.1% 182.9% 184.7% 187.5% 187.5%</td>
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<tr>
<td><strong>Finances</strong></td>
<td></td>
</tr>
<tr>
<td>Operating Revenue ($000)</td>
<td>$116,280 $115,814 $126,497 $135,309 $147,453</td>
</tr>
<tr>
<td>Fund Balance as a % of Revenues</td>
<td>62.5% 67.8% 61.6% 59.7% 55.3%</td>
</tr>
<tr>
<td>Cash Balance as a % of Revenues</td>
<td>64.3% 70.1% 63.0% 61.7% 57.2%</td>
</tr>
<tr>
<td><strong>Debt/Pensions</strong></td>
<td></td>
</tr>
<tr>
<td>Net Direct Debt ($000)</td>
<td>$95,083 $91,679 $89,103 $85,695 $81,992</td>
</tr>
<tr>
<td>Net Direct Debt / Operating Revenues (x)</td>
<td>0.8x 0.8x 0.7x 0.6x 0.6x</td>
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<tr>
<td>Net Direct Debt / Full Value (%)</td>
<td>0.6% 0.6% 0.7% 0.6% 0.6%</td>
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<tr>
<td>Moody’s - adjusted Net Pension Liability (3-yr average) to Revenues [x]</td>
<td>N/A 0.4x 0.3x 0.3x 0.3x</td>
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<tr>
<td>Moody’s - adjusted Net Pension Liability (3-yr average) to Full Value (%)</td>
<td>N/A 0.3% 0.3% 0.3% 0.3%</td>
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Source: Audited Financial Statements

Detailed Rating Considerations

Economy and Tax Base: Large and Affluent Tax Base
The district’s tax base is expected to remain a credit strength given its large full valuation and above average resident income indices. At $13.2 billion as of assessment year 2015, the district’s tax base remains well above the U.S. median despite recent tax base depreciation. Over the last five years, the district’s tax base has depreciated at an annual average rate of 6.2%. Tax base growth is expected over the near-term given continued development activity within the villages of Glenview (Aaa) and Northbrook (Aaa). Tax base concentration is low as the 10 largest taxpayers accounted for 8.4% of the district’s most recent equalized assessed valuation (EAV). Median family income within the district is well above average and is estimated at 187.5% of the national median.

The district expects to receive approximately $7.4 million in make whole payments from a Glenview Tax Increment Financing (TIF) district in fiscal 2017. The TIF expires in 2022, at which point the district’s tax base will grow by an estimated $400 million.

District enrollment totaled 5,059 in 2016 and is expected to increase to 5,221 by 2020.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.
Financial Operations and Reserves: Healthy Operating Reserve Levels
The district’s financial profile is expected to remain sound given ample reserve levels and prudent management. At the close of fiscal 2015, available operating fund (combined Education, Operations and Maintenance, Debt Service, Transportation, IMRF and Working Cash funds) reserves totaled $81.6 million and a very healthy 55.3% of operating fund revenues. Five years prior, at the close of fiscal 2010, available operating reserves totaled $69.9 million and 58.6% of operating revenues. For fiscal 2016, the district expects to end the year with near-balanced operations, inclusive of a $2.1 million transfer to the Capital Projects Fund. For fiscal 2017, the district has conservatively budgeted for a $1.5 million operating deficit due to one time capital expenditures for facility improvements.

LIQUIDITY
The district maintains a healthy unrestricted cash position across its operating funds. At the close of fiscal 2015, operating fund net cash totaled $84.3 million and 57.2% of operating revenues.

Debt and Pensions: Low Debt and Unfunded Pension Liabilities
The district’s debt burden is expected to remain low, given limited plans for additional debt issuances over the near-term. Inclusive of the current offerings, the district’s debt burden is a modest 0.6% of full valuation and 0.6 times operating revenues. The district’s overall debt burden, which incorporates the district’s share of debt issued by overlapping government entities was a more elevated 3.2% of full valuation. Debt service expenditures totaled $10.1 million and 6.9% of operating revenues in fiscal 2015. Overall fixed costs (combined debt service, pension and other post-employment benefit expenditures) totaled $13.9 million and 9.4% of operating revenues.

DEBT STRUCTURE
All of the district’s debt is fixed rate and long term. An above average 90% of principal on outstanding debt is expected to be retired over the next ten years. The district plans to retire all outstanding debt by 2027, given increased pay-go financing for capital needs. The district’s debt profile includes $70.7 million in GOULT debt, $9.4 million in GOLT DSEB debt and $955,000 in lease certificates. The district’s DSEB is $2.3 million and increases each year by the consumer price index (CPI). Using an annual growth assumption of 1%, the levy provides adequate coverage on the current issuance and outstanding DSEB debt.

DEBT-RELATED DERIVATIVES
The district has no derivative exposure.

PENSIONS AND OPEB
The district’s three year average Moody’s adjusted net pension liability (ANPL) is $41.9 million equivalent to 0.3 times operating revenue and 0.3% of full value. District teachers participate in the Teachers Retirement System (TRS) of Illinois, a multiemployer defined benefit pension plan, and non-teaching district employees participate in the Illinois Municipal Retirement Fund (IMRF), an agent multi-employer plan. The state is primarily responsible for funding TRS through payments made on behalf of school districts. The state's contributions to TRS was just 63% of our “tread water” indicator in fiscal 2015 a decline from 77% in fiscal 2014. The "tread water" indicator measures the annual employer contribution required to prevent the reported net pension liability from growing, under plan assumptions. After accounting for employee contributions, annual government contributions that tread water equal the sum of current year service cost and interest on the reported net pension liability at the start of the fiscal year. The district’s contributions to IMRF were much stronger in fiscal 2015 at 145.8% of the tread water.

The legislature has in the past considered changes to the contribution structure by shifting a larger share of contributions to districts and/or district employees. Whether the Illinois General Assembly will again consider shifting additional pension costs to local school districts is currently unknown. Past proposals have included a phased-in shift of pension funding responsibility to the districts from the state equivalent to up to 1% of payroll each year for several years to cover the system's normal costs.

Management and Governance: Moderate Institutional Framework; Low Dependence on State Aid
Illinois school districts have an institutional framework score of “A,” or moderate. Revenue predictability is disparate across the state but is moderate overall. School districts have moderate revenue-raising ability since they are subject to tax caps, but districts can seek voter approval for additional local property tax funding. Expenditures consist primarily of personnel costs, which are highly predictable. Expenditure reduction ability is moderate. Strong unions somewhat limit districts’ expenditure reduction ability. Still, districts have some cost-cutting ability given manageable fixed costs, as the state currently assumes most pension costs.
Net of on-behalf pension payments, property taxes and state aid accounted 86% and 3% of operating fund revenues, respectively. The district currently levies well below the statutory maximum in its Education Fund and Operations and Maintenance Funds. Therefore, the district has been able to increase its tax rate to offset valuation declines and receive the maximum permissible under the Property Tax Extension Limitation Law (PTELL). Under the PTELL, the district’s operating property tax levies can grow up to the lesser of 5% or growth in the CPI, plus new construction. The district’s management team is strong as demonstrated by maintenance of ample reserve levels and a healthy operating history.

**Legal Security**
The district's GOULT debt, including the Series 2016A Bonds is secured by a dedicated property tax levy, unlimited as to rate and amount.

The district’s GOLT debt, including the Series 2016B Bonds, is secured by a dedicated property tax levy unlimited as to rate, but limited by the amount of the district’s debt service extension base. The district's Debt Service Extension Base (DSEB) totaled $2.3 million in 2016 and increases each year by the consumer price index (CPI). Using an annual growth assumption of 1%, the levy provides adequate coverage on the current issuance and outstanding DSEB debt. Assuming no growth in CPI, the district’s DSEB would leave $1.3 million to be financed by the district from all available funds. The district has covenanted to retain at least $1.3 million in its Working Cash Fund to cover any potential shortfall. As of fiscal 2015, the district had $19.6 million in its Working Cash Fund.

The district's Series 2009 Taxable General Obligation Limited Tax Lease Certificates are payable from any funds of the district legally available and annually budgeted for such purpose. Additionally, the district irrevocably agrees to budget sufficient funds to make lease payments.

**Use of Proceeds**
Proceeds from the Series 2016A Bonds will be used to refund the district’s Series 2007A and 2007B Bonds for an estimated net present value savings of 15.3%.

Proceeds from the Series 2016B Bonds will be used to finance various fire prevention and life safety improvements.

**Obligor Profile**
The high school district primarily serves students living in the Villages of Glenview and Northbrook. District enrollment totaled 5,059 in 2016 and is expected to grow modestly to 5,231 by 2020.

**Methodology**
The principal methodology used in the general obligation rating was US Local Government General Obligation Debt published in January 2014. The principal methodology used in the lease rating was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments published in July 2016. Please see the Ratings Methodologies page on www.moodys.com for a copy of these methodologies.

**Ratings**

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<tr>
<td><strong>Issue</strong></td>
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<tr>
<td>General Obligation Refunding School Bonds, Series 2016A</td>
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<tr>
<td>Rating Type</td>
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<td>Sale Amount</td>
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<td>Expected Sale Date</td>
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<td>Rating Description</td>
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<tr>
<td>General Obligation Limited School Bonds, Series 2016B</td>
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<td>Rating Type</td>
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<tr>
<td>Sale Amount</td>
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<tr>
<td>Expected Sale Date</td>
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</tbody>
</table>
Rating Description

Source: Moody’s Investors Service

General Obligation
Limited Tax
MOODY'S INVESTORS SERVICE

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Summary:
Cook County Township High School District No. 225 (Northfield), Illinois; General Obligation

Primary Credit Analyst:
Jessica Akey, Chicago 312-233-7068; jessica.akey@spglobal.com

Secondary Contact:
David H Smith, Chicago (312) 233-7029; david.smith@spglobal.com

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Cook County Township High School District No. 225 (Northfield), Illinois; General Obligation

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Northfield Twp High Sch Dist #225

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<tr>
<td>AAA/ Stable</td>
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Rationale

S&P Global Ratings assigned its 'AAA' rating to Cook County Township High School District No. 225 (Northfield), Ill.'s series 2016A general obligation (GO) refunding bonds and series 2016B GO limited school bonds. At the same time, S&P Global Ratings affirmed its 'AAA' rating on the district's GO bonds outstanding. The outlook is stable.

Bond proceeds from the 2016A issue will refund a portion of the 2007A GO school bond and 2007B GO capital appreciation school bonds for interest savings. The bonds are secured by the unlimited property tax pledge without limitation to rate or amount. Series 2016B bond proceeds will fund construction of fire prevention and life safety improvements. The district's debt service extension base (DSEB), which is limited as to amount but unlimited as to the rate, secures these bonds. The combined annual pro forma debt service for the limited tax bonds exceeds the current DSEB of $2,291,878 (assuming no growth in the DSEB) for the life of the bonds in the amount of approximately $2,222,745 (this includes the pro forma debt service for the anticipated series 2017 bonds that will be have the same repayment source). The district has pledged in the bond resolution to set aside the lesser of $2.5 million or the difference between the debt service (for the series 2016B and anticipated series 2017 bonds) and the DSEB in its working cash fund at closing; therefore, we rate the bonds on par with the unlimited tax GO bonds. Legally available funds also secure both issues.

The rating reflects our assessment of the district's:

- Participation in the Chicago metropolitan statistical area's deep and diverse economy, coupled with extremely strong wealth and very strong income levels;
- Very strong reserve levels;
- Strong management practices and techniques; and
- Manageable debt burden.

Economy

The district serves an estimated population of 86,747. Median household and per capita effective buying incomes in the district are very strong at 155% and 174% of national levels, respectively. Estimated market value totaled $13.2
billion in 2016, which we consider extremely strong at $151,842 per capita. Equalized assessed valuation declined by a total of 2.1% since 2014 to $4.4 billion in 2016. Roughly 8.4% of equalized assessed valuation comes from the 10 largest taxpayers, representing a very diverse tax base in our opinion.

The district is 25 miles northwest of downtown Chicago, between interstates 294 and 94. Two commuter rail stations and an Amtrak stop service the area. Residents have access to jobs in Chicago and locally. Although the district has a thriving residential community, it also is home to several major corporations including Allstate Corp. (8,000 employees), Walgreen Co. (2,500 employees), UL LLC (2,000 employees), Baxter International Inc. (1,700 employees), and CVS Caremark (1,400 employees), among other pharmaceutical, food product research (Kraft Heinz Foods), and insurance companies. Management reports that there is continued commercial and residential growth in the district. A large tax increment financing (TIF) district, known as The Glen, is located within the district, but the district is receiving "make whole" payments through the expiration of the TIF in 2022. The district will receive $7.4 million in fiscal 2017 from The Glen.

Enrollment totaled 5,059 students in 2016, having increase every year since 2012. Projections show continued growth, with an estimated 5,173 students in 2020. The district operates two high schools, and expects neither to exceed its maximum capacity.

**Finances**

The district's available fund balance of $61.2 million (which consists of the combined educational and operations-and-maintenance funds, referred to as the general fund, as well as additional liquidity in the working cash fund) is very strong in our view, at 46% of general fund expenditures at fiscal year-end 2015 (June 30). Of that amount, $41.6 million (32% of expenditures) is in the general fund, and $19.5 million (14.8% of expenditures) is in the working cash fund. The district reported a surplus operating result of 0.4% of expenditures in 2015. It depends primarily on property taxes for general fund revenue (69.2%), followed by state aid (22.5%), including on behalf revenues from the state for teachers' pension contributions.

The district has a large history of achieving general fund surpluses. The fiscal 2016 expected results are essentially break-even, with an $11,451 deficit in the general fund. We expect the fiscal 2016 working cash balance of $19.5 million to not change. The fiscal 2017 tentative budget calls for balanced operations, but also a $1.5 million draw down in reserves to pay for renovating learning spaces at both high schools. We still expect the district's reserves to remain very strong through fiscal 2017.

The district's largest taxpayer, Allstate, which represents 1.5% of the total equalized assessed value, has tax appeals outstanding on its assessed valuations for levy years 2004 through 2009. The cases are still pending. If the courts were to rule in the company's favor, the district would have a number of years to plan for repayment. The district has come to agreements for Allstate's 2016, 2017, and 2018 assessed valuations, pending approval by the district's board of education.

**Management**

We consider Northfield 225's management practices strong under our Financial Management Assessment (FMA) methodology. An FMA of strong indicates that practices are strong, well embedded, and likely sustainable.
The district has extensive budgeting policies and practices that include a year-round schedule for developing the yearly budget. It uses historical and outside information to project the revenue and expenditures assumptions. Northfield 225's provides the board with monthly budget-to-actual reports and can amend the budget as necessary. It has a five-year, rolling, long-term financial plan that the boards reviews and updates yearly. The district's extensive 10-year term capital plan has very detailed projects, includes funding sources; the board also reviews and updates this yearly. Northfield 225 has an investment policy and updates the board quarterly on holdings and earnings. Its debt management policy restrict debt instruments and outlines procedures, but does not establish a debt limit lower than the state statutory limit. Its reserve policy calls for 33% of expenditures; this amount was established to handle cash flow needs, volatility, and new programs that arise midyear.

Debt
As a percentage of market value, we consider Northfield 225's overall net debt to be moderate, at 3.4%, but high per capita, at $5,079. With 100% of the district's direct debt scheduled to be retired within 10 years, amortization is rapid. Despite this, debt service carrying charges were only 7.0% of total governmental fund expenditures excluding capital outlay in fiscal 2015, which we consider low.

The district does not have any privately placed or direct-purchase debt. It plans to issue $8.5 million of debt in fiscal 2017.

Pension and other postemployment benefit liabilities
Northfield 225 paid its full required contribution of $1.8 million toward its pension obligations in fiscal 2015, or 1.2% of total governmental expenditures. In fiscal 2015, it also paid $1.9 million, or 1.3% of total governmental expenditures, toward its other postemployment benefit (OPEB) obligations. Combined pension and OPEB carrying charges totaled 2.5% of total governmental fund expenditures in 2015.

The district began reporting its pension liabilities in accordance with government accounting standards board statement No. 68 starting in the fiscal 2015 audit. Teaching staff participate in the Teachers' Retirement System of the State of Illinois (TRS), a cost-sharing, multiple-employer, define benefit pension plan. The state makes on behalf payments for Northfield 225 to TRS. The district manages its defined benefit pension plan for regular employees through the Illinois Municipal Retirement Fund (IMRF), a multiemployer plan. The district's portion of the IMRF is funded at 95%, with a $3.2 million unfunded liability.

Outlook
The stable outlook reflects our expectation that Northfield 225 will maintain its strong financial operations, reserves, and manageable debt burden. Given the district's planning processes and ability to adjust expenditures as needed to keep pace with revenues, we do not expect to lower the rating during the two-year outlook time frame. We could consider a downgrade if Northfield 225 significantly reduces its reserve level, thereby diminishing its fiscal flexibility.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria.
Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.