



U.S. Public Finance: Criteria, Credit Trends and Outlook

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Topics to Discuss

- Criteria: Tax Supported and Water/Sewer
- Analytical Evolution
- Current Outlook

Overview of Fitch USPF Tax and Water/Sewer Rating Criteria

- Tax Supported Ratings
 - Four major categories—Finances, Debt/Liabilities, Economy, Management
 - No specific weighting /categories are interactive
 - Also consider legal, structural framework and security
- Water and Sewer Ratings
 - Four major categories
 - Governance and management
 - Financial profile
 - Debt profile
 - Operating profile
 - No category weighting

Analytical Evolution

- Tax Supported Ratings Over Past Decade
 - OPEB
 - Financial crisis—housing
 - Pensions and other long-term liabilities
 - Labor issues
 - Revenue and expenditure control/flexibility
 - Direct bank purchases
- Water/Sewer Ratings Over Past Decade
 - Financial focus shift—coverage and free cash
 - Regulatory changes
 - Drought and other environmental issues
 - Long term liabilities

Current Sector Outlooks

- U.S. Local Governments--2014
 - Sector Outlook is Negative
 - Improving revenue performance but questions remain
 - Limited expenditure flexibility
 - Benefit pressures continue
 - Bankruptcy precedents
 - 2015 outlook likely to reflect improving economic conditions
 - Revenues showing steady growth
 - Pressure to cut spending abating
 - Pension outlook remains mixed
 - Texas Outlook
- Water and Sewer Sector--2014
 - Sector Outlook is Stable
 - Sound fundamentals—essential services, monopolistic nature
 - Improving financial metrics
 - Debt ratios remain moderate
 - 2015 outlook also likely to reflect strengthening economy
 - Texas Outlook

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