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# **Recent Methodology Developments**

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# Discussion Summary

1. What are Ratings?
2. New Local Government Methodology
3. New Utility Methodology – RFC closed
4. Questions

# Meaning of Credit Ratings

## What They Are:

- » Independent, objective assessments of the relative creditworthiness of debt obligations
- » Shorthand symbols denoting the relative ability and willingness of debt issuers to make full and timely payment
- » Opinions about the future

## What They Are Not:

- » Ratings are not recommendations to purchase, sell, or hold particular securities
- » Ratings are not predictors of non-credit-related market price movements
- » Ratings are not audits, and do not guarantee the authenticity of information from issuers
- » Ratings are not public policy report cards, although politicians may use them as such
- » Ratings are not fixed; they may change over time
- » Rating analysts are neither financial advisors nor investment bankers

# Moody's Long-Term Debt Rating Scale

Lowest  
Risk



Highest  
Risk

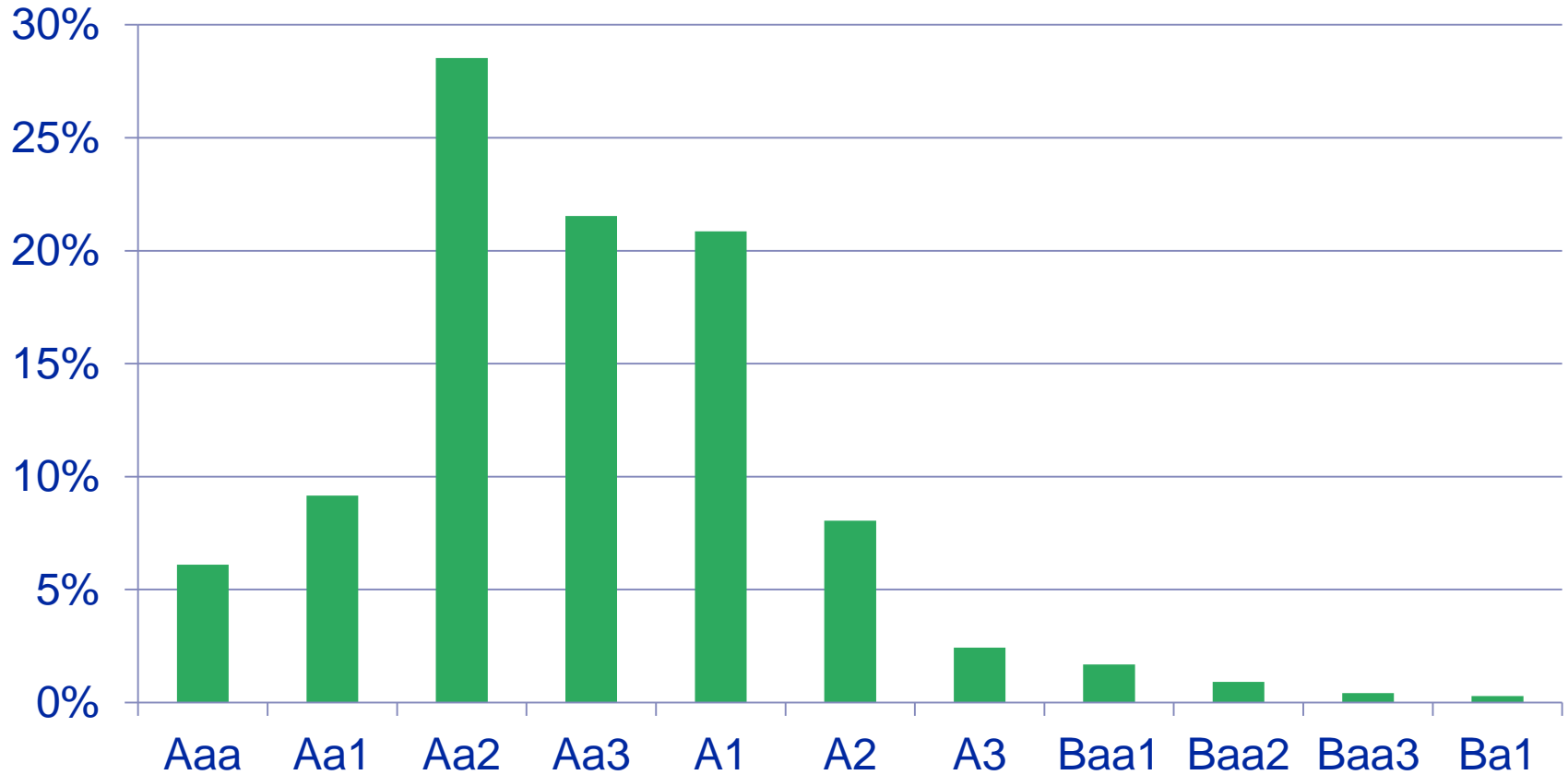
<b>Aaa</b>	Obligations rated Aaa are judged to be of the highest quality, subject to the lowest level of credit risk.
<b>Aa</b>	Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.
<b>A</b>	Obligations rated A are considered upper-medium grade and are subject to low credit risk.
<b>Baa</b>	Obligations rated Baa are judged to be medium-grade and subject to moderate credit risk and as such may possess certain speculative characteristics
<b>Ba</b>	Obligations rated Ba are judged to be speculative and are subject to substantial credit risk.
<b>B</b>	Obligations rated B are considered speculative and are subject to high credit risk.
<b>Caa</b>	Obligations rated Caa are judged to be speculative of poor standing and are subject to very high credit risk.
<b>Ca</b>	Obligations rated Ca are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.
<b>C</b>	Obligations rated C are the lowest rated class and are typically in default, with little prospect for recovery of principal or interest.

Investment  
Grade

Speculative  
Grade

*Note: Moody's appends numerical modifiers 1, 2, and 3 to each generic rating category from Aa through Caa. The modifier 1 indicates that the issuer or obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.*

# National GO Rating Distribution for Cities



Source: Moodys.com – Municipal Financial Ratio Analysis® as of 6/13/2014

# ASSIGNING GO RATINGS: NEW GO METHODOLOGY AND SCORECARD

# ***New Local Government GO Methodology & Scorecard***

## **Goals of New Methodology:**

- Update prior methodology to reflect recent trends & key issues, including pensions
- Develop quantitative scorecard

## **Purpose and Use of the Scorecard:**

- Enhances the transparency of our rating process
- Not an exhaustive list of factors that we consider in every local government rating
- Each subfactor is a quantitative metric
- May notch up or down from scorecard-indicated rating based on additional factors
- Scorecard acts as a starting point for a more thorough and individualistic analysis
- Final rating is determined by a Rating Committee

# New GO Scorecard

Changes from Previous Methodology:

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Factor 1 Economy/Tax Base	Factor 2 Finances	Factor 3 Management	Factor 4 Debt/Pensions
<b>30%</b>	<b>30%</b>	<b>20%</b>	<b>20%</b>
Was 40%	Unchanged	Unchanged	Was 10%

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# GO Scorecard – Factors, Sub-factors and Weights

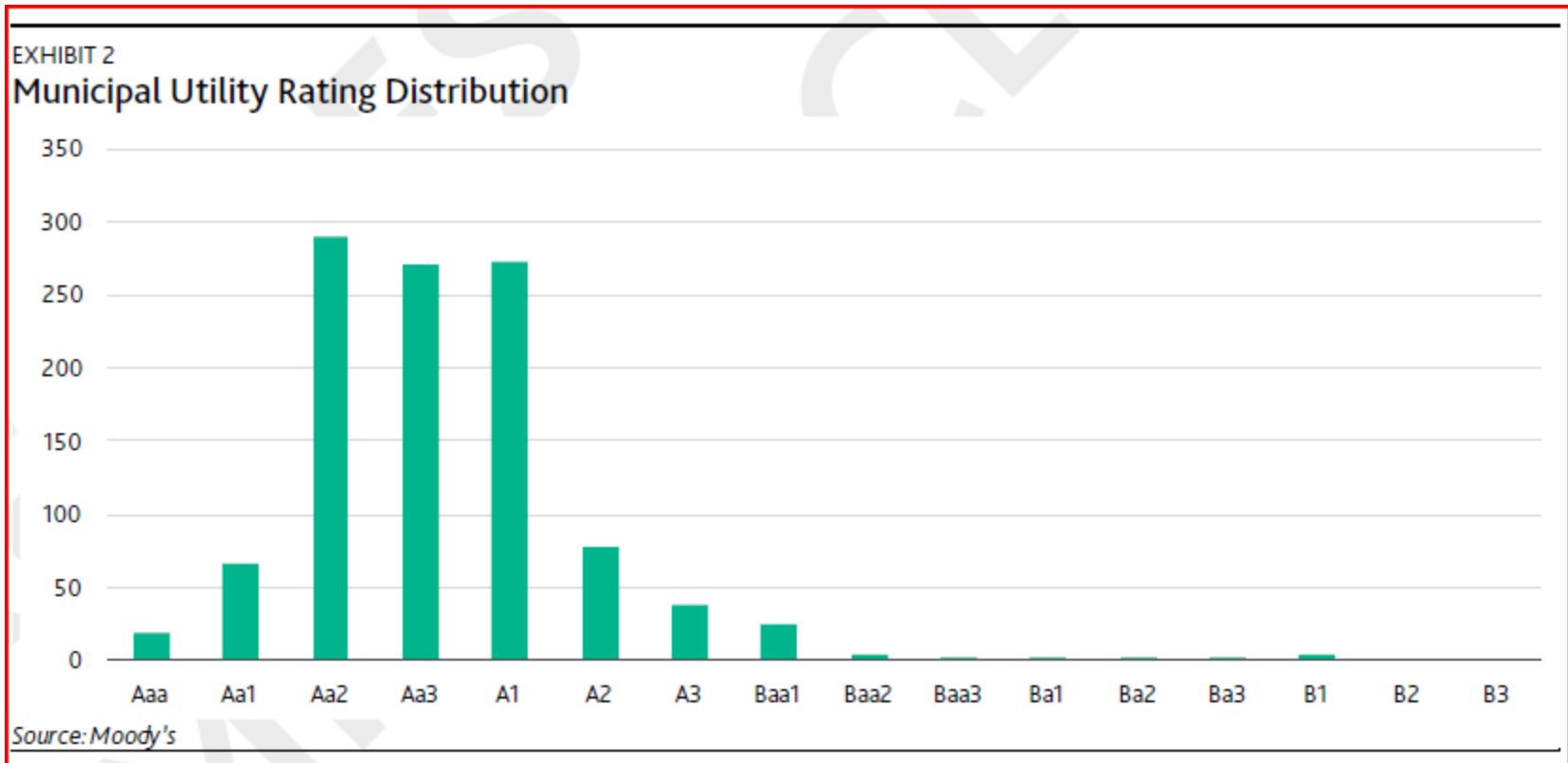
Factors & Sub-Factors	Weights
<b>Factor 1: Economy/Tax Base</b>	<b>30%</b>
Full Value (market value of taxable property)	10%
Full Value per Capita	10%
Median Family Income	10%
<b>Factor 2: Finances</b>	<b>30%</b>
Fund Balance as % of Operating Revenue	10%
5-Year Dollar Change in Fund Balance as % of Revenues	5%
Cash Balance as % of Revenues	10%
5-Year Dollar Change in Cash Balance as % of Revenues	5%
<b>Factor 3: Management</b>	<b>20%</b>
Institutional Framework	10%
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	10%
<b>Factor 4: Debt/Pensions</b>	<b>20%</b>
Net Direct Debt / Full Value	5%
Net Direct Debt / Operating Revenue	5%
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value	5%
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues	5%

## GO Scorecard – Notching Factors

Adjustments/Notching Factors	
Description	Direction
<b>Economy/Tax Base</b>	
Institutional presence	up
Regional economic center	up
Economic concentration	down
Outsized unemployment or poverty levels	down
Other analyst adjustment to Economy/Tax Base factor (specify)	up/down
<b>Finances</b>	
Outsized contingent liability risk	down
Unusually volatile revenue structure	down
Other analyst adjustment to Finances factor (specify)	up/down
<b>Management</b>	
State oversight or support	up/down
Unusually strong or weak budgetary management and planning	up/down
Other analyst adjustment to Management factor (specify)	up/down
<b>Debt/Pensions</b>	
Unusually strong or weak security features	up/down
Unusual risk posed by debt/pension structure	down
History of missed debt service payments	down
Other analyst adjustment to Debt/Pensions factor (specify)	up/down
<b>Other</b>	
Credit event/trend not yet reflected in existing data sets	up/down

# US MUNICIPAL UTILITY REVENUE DEBT METHODOLOGY – RFC CLOSED

# Municipal Utility Rating Distribution for Cities



Source: Moodys.com – As of July 30, 2014

## Municipal Utility Revenue Scorecard – RFC closed

EXHIBIT 5

### Municipal Utility Scorecard Factors

Broad Rating Factors	Factor Weighting	Rating Sub-Factor	Sub-factor Weighting
System Characteristics	35%	Asset Condition (Remaining Useful Life)	15%
		Service Area Wealth (Median Family Income)	12.5%
		System Size (O&M)	7.5%
Financial Strength	35%	Annual Debt Service Coverage	15%
		Days Cash on Hand	12.5%
		Debt to Operating Revenues	7.5%
Management	20%	Rate Management	10%
		Regulatory Compliance and Capital Planning	10%
Legal Provisions	10%	Rate Covenant	5%
		Debt Service Reserve Requirement	5%
Total	100%	Total	100%

# Q&A

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