Preparing for a Rating Agency Meeting

September 2024

bakertilly

Presenters

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Capital planning process

- Debt planning starts with the capital planning process
- Capital planning process occurs annually and may cover multiple years
- Often, using cash, grants to fund all capital projects in not feasible
- Shortfalls in capital funding can be supplemented by borrowing/debt issuance process
- Debt planning can commence a year or more before the issuance/funding date
- Each bond issue should be part of a "plan of finance"
- The plan of finance will determine the purpose of the financing, estimated terms, timing, security, method of sale and other details

Bond issuance process

- Once the plan of finance is in place, there are three big steps to bond issuance
  - Authorization
  - Documentation and rating process
  - Sale and closing process
- The plan of finance and method of sale will dictate if a rating is needed
  - Capital markets bond issuance – Long term rating
  - Capital markets note issuance – Short term rating
  - Bank purchase or private placement – not rated
- Rating agencies will review all outstanding debt including private placements, State loans (OWDA) and contingent liabilities/pledges.

When do I need a rating?

- If you are planning on issuing bonds in the capital market, a bond rating is typically sought to indicate credit quality and attract investors
- Bonds sold without ratings have much higher interest rates
- What if I don't have a rating?
  - If borrowing long term – establish an inaugural rating with a national rating agency
- What if I am already rated?
  - Request a rating on a new issuance of bonds
- What if I am rated, but don't plan on issuing for awhile?
  - Rating surveillance
  - Provide annual audit/ACFR

What will my rating be?

- Rating agencies publish specific rating criteria and methodologies
- Methodologies are specific to the security type and borrower type
- Online tools available to help determine rating level/scale
- Municipal advisors and underwriters can assist in preliminary evaluation and likely outcomes of the bond rating process

What will my rating be?

Economy (20%)

	Result	Gross County Product	County Population	US GDP	US Population
Gross county product per capita as a % of U.S. GDP per capita	*123.61%*	$106,987,632,000	1,321,820	$21,822,037,000,000	333,271,411

Calculation: (Gross County Product / County Population) / (US GDP / US Population)

	Result	County PCPI	US PCPI
County per capita personal income as a % of U.S. PCPI	90.84%	$59,473	65,473

Calculation: County PCPI / US PCPI

Adjustments to the Initial Assessment

Local Income Adjustment	EBI (% of County) >135% and EBI (% of U.S.) 100% - 120%	Positive 2.0

Estimated Economic Fundamentals Score **1.0**

Financial Performance (20%)

	Result	Year 1 Result	Year 2 Result	Year 3 Result
Operating Result %	*0.93%*	-11.18%	2.34%	11.63%

Calculation: Three-year average of (operating revenues - operating expenditures) / operating revenues

Adjustments to the Initial Assessment

No Adjustment

Estimated Financial Performance Score **2.0**

What will my rating be?

Reserves and Liquidity (20%)

	Result	General Fund Balance	Nonspendable Balance	Operating Revenues
Available reserves % of revenues	*90.94%*	$55,223,527	$7,932,610	$52,000,000

Calculation: (General Fund Balance - Nonspendable Balance) / Operating Revenues

Adjustments to the Initial Assessment

No Adjustment

Estimated Reserves and Liquidity Score **1.0**

Management (20%)

	Result	1	2	3	4
Budgeting practices (35%)	*1*	Budgets are forward-looking with robust monitoring	Budgets are realistic with sufficient monitoring	Budgets are limited in scope with informal monitoring	Budgets are unrealistic and lack monitoring
Long-term planning (35%)	*1*	Robust culture of long-term planning	Some long-term planning	Informal long-term planning	No long-term planning
Policies (30%)	*1*	Robust, well-defined policies with thorough reporting	Basic policies with regular reporting	Informal policies exist with little or no reporting	No policies or policies not followed

Adjustments to the Initial Assessment

No Adjustment

Estimated Management Score **1.0**

What will my rating be?

Debt and Liabilities (20%)

	Result	Gov. Annual Debt Service	Annual Pension Exp.	Annual OPEB Exp.	Total Gov. Revenues
Current cost for debt service and liabilities % of revenues (50%)	*16.82%*	$7,218,375	13,564,912	-$1,425,574	115,088,364
Calculation: (Annual Debt Service + Pension & OPEB Expense) / Total Government Revenues					

	Result	Gross Direct Debt	Self-supporting Debt	Issuer Population
Net direct debt per capita (25%)	*$1,840*	$77,075,000	7,245,000	37,958
Calculation: (Gross Direct Debt - Self-supporting Debt) / Issuer Population				

	Result	Total Pension Liab.	Total OPEB Liab.	Issuer Population
Net pension liabilities per capita (25%)	*$1,818*	$66,567,966	2,440,521	37,958
Calculation: (Pension Liability + OPEB Liability) / Issuer Population				

Adjustments to the Initial Assessment

Current costs	Debt amortization above 80% over 10 years, significantly front-loading debt service payments	Positive 0.5

Estimated Debt and Liabilities Score **2.5**

Estimated Individual Credit Profile Score **1.5**

What will my rating be?

Anchor Determination (excluding any overriding factors)

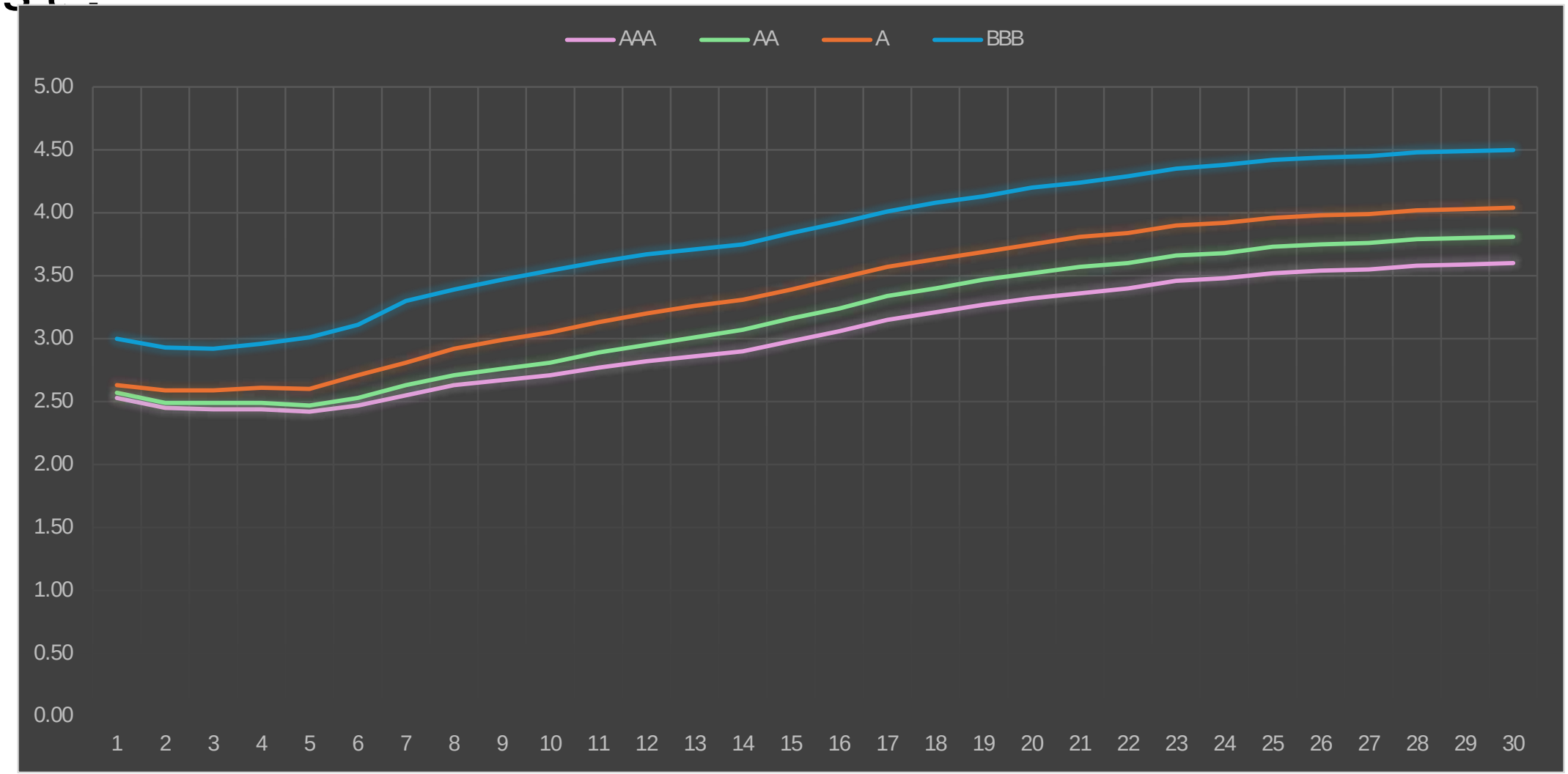
Individual Credit Profile	Institutional Framework Assessment					
	1	2	3	4	5	6
1.0	AAA	AAA	AA+	AA-	A	BBB+
1.5	AAA	AA+	AA	A+	A-	BBB
2.0	AA+	AA	AA-	A	BBB+	BBB-
2.5	AA	AA-	A+	A-	BBB	BB+
3.0	AA-	A+	A	BBB+	BBB-	BB
3.5	A+	A	A-	BBB+	BB+	BB-
4.0	A	A-	BBB	BB+	BB-	B+
4.5	A-	BBB+	BBB-	BB	B+	B
5.0	BBB	BBB-	BB+	BB-	B	B-
5.5	BB+	BB	BB-	B	B-	B-
6.0	BB-	B+	B	B-	B-	B-

Estimated Unadjusted Anchor Score	AA+

What will I need for the rating process?

- Preliminary official statement
  - Primary disclosure document for bond offering
  - Bond legislation
  - Audit, historical audits
  - Capital plan, operating forecast
  - Financial policies (cash balance, debt, investment)
  - Examples of monthly reporting
  - Rating presentation/supplemental information
    - Rating presentation allows for more detailed discussion of
      - Local economy
      - Economic development
      - Financial performance
      - Management

How will a bond rating impact by borrowing cost?



Questions?

S&P Global
Ratings

Understanding the Bond Rating Process

Ohio GFOA 2024 Annual Conference

Stephanie Megas
Associate Director
U.S. Public Finance | S&P Global Ratings
Local Governments | Central

September 26, 2024

S&P Global

Agenda

- Credit Ratings: What's the Big Deal?
  - Understanding S&P Global's Ratings
  - The Rating Scale
- Determining a Credit Rating
  - Our Local Government Criteria
  - The Rating Process
- Portfolio Overview: Ohio Municipalities & Counties
- Questions

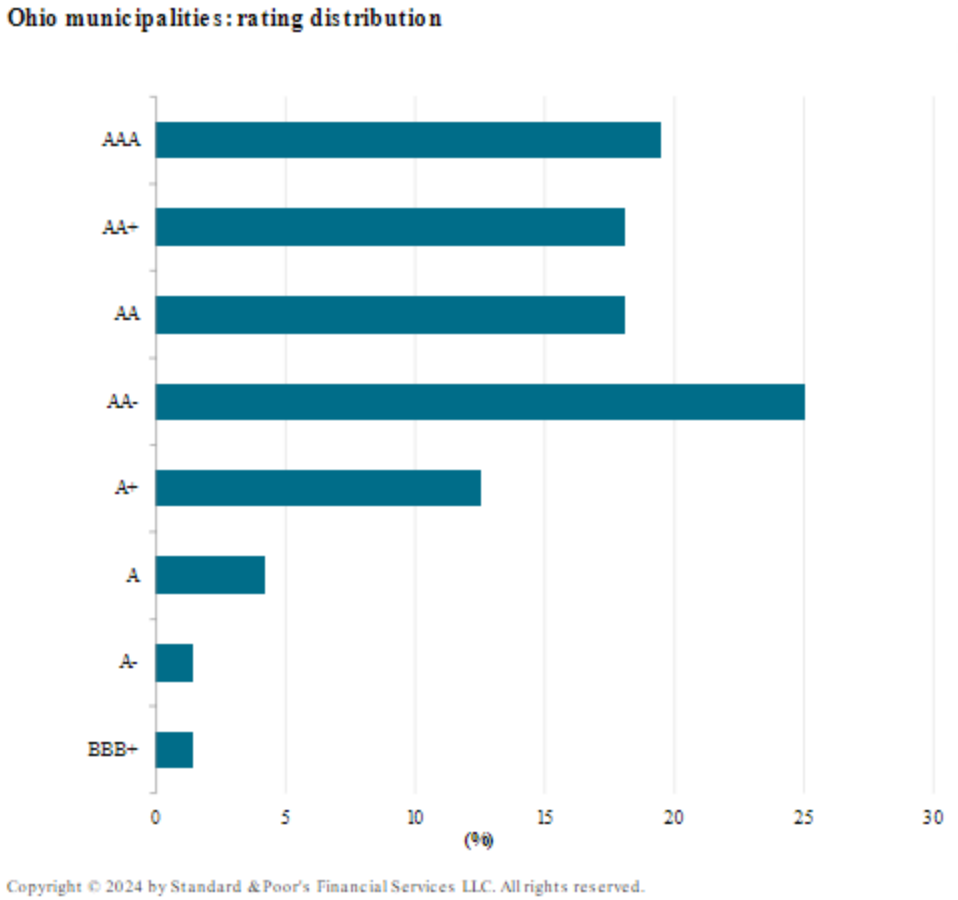
Credit Ratings: What's the Big Deal?

Understanding S&P Global's Ratings

- Credit ratings are an evaluation of an issuer's ability and willingness to pay debt in a timely manner
- Credit ratings are forward looking
- The Ratings scale is relative and based on the creditworthiness of an issuer or credit quality of an individual debt issue, from strongest to weakest, within a universe of credit risk
  - The rating scale provides a basis for comparison across asset classes, geographies, and peers
- Criteria provide the analytic framework to derive the rating opinion
  - Different criteria for different obligator and security types
- Credit ratings are not a recommendation to buy or hold a security instrument
- S&P Global ratings are opinions, not guarantees of credit quality or exact measures of the probability that a particular issuer or particular debt issue will default

S&P Global's Ratings Scale

- AAA
  - Investment Grade: Extremely strong capacity to meet financial commitments
- AA
  - Investment Grade: Very strong capacity to meet financial commitments
- A
  - Investment Grade: Strong capacity to meet financial commitments, but somewhat susceptible to economic conditions and changes in circumstances
- BBB
  - Investment Grade: Adequate capacity to meet financial commitments, but more subject to adverse economic conditions
- BB, B, CCC, CC, C, D
  - Speculative Grade



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Determining a Credit Rating

How is a rating determined?

We evaluate issuers based on credit fundamentals and issues/series of bonds on security type, pursuant to the applicable criteria.

U.S. Governments Criteria published September 9, 2024 – 10,700 public ratings nationwide

- Consolidates criteria for states, counties, municipalities, school districts, and special government districts.
- We expect approximately 95% will remain unchanged.
- Credits placed Under Criteria Observation (UCO) will be reviewed within six months.

Institutional Framework

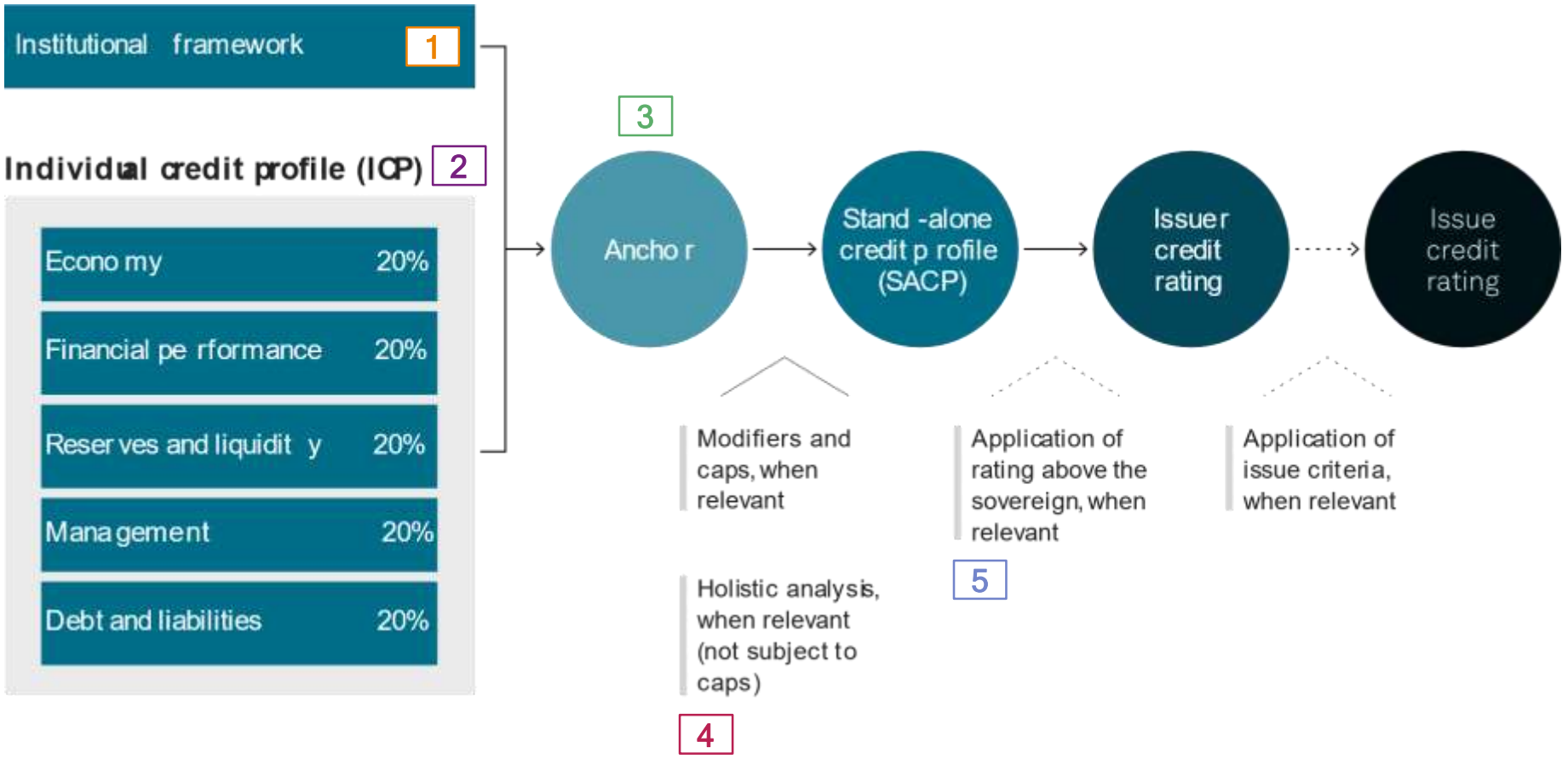
- Predictability
- Revenue/Expenditure Balance and Support
- Transparency and Accountability

Individual Credit Profile

- Economy
- Financial Performance
- Reserves and Liquidity
- Management
- Debt and Liabilities

U.S Governments Criteria

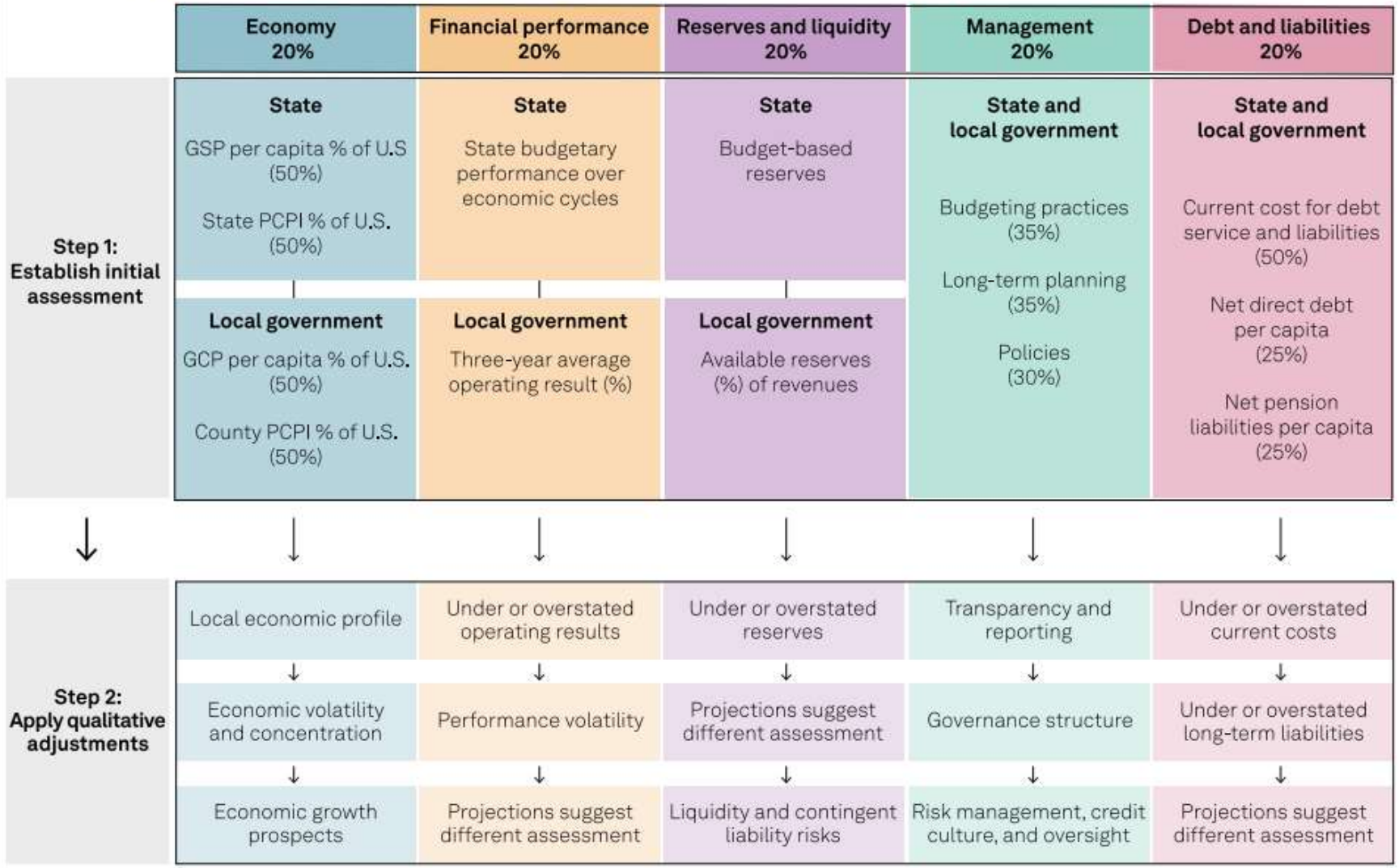
Framework for ratings U.S. governments



We determine the issuer credit rating (ICR) by:

1. Assessing the Institutional Framework (IF)
2. Establishing the individual credit profile (ICP)
3. Combining IF and the ICP to establish the anchor
4. When relevant, adjusting the anchor for credit-specific modifiers and caps
5. When relevant, applying our methodology for rating U.S. governments above the sovereign

Establishing the individual credit profile (ICP)



GSP--Gross state product. GCP--Gross county product. PCPI--Per capita personal income.
Source: S&P Global Ratings.
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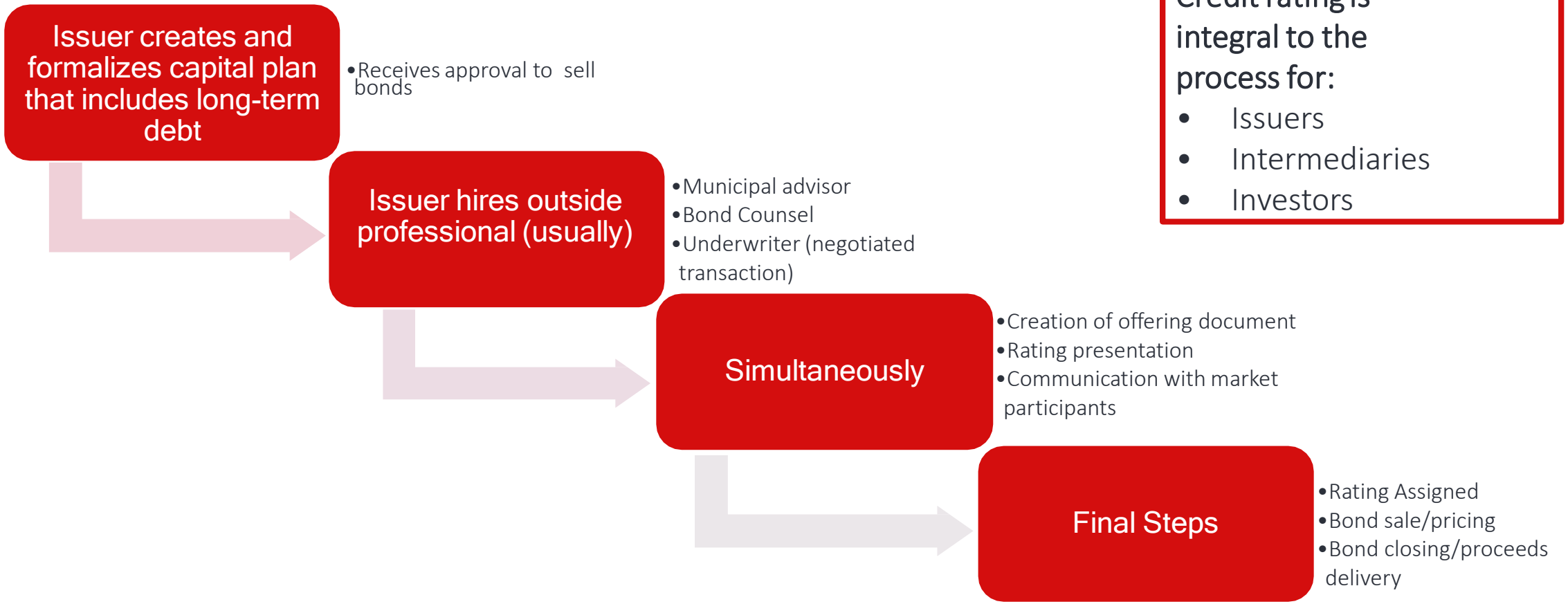
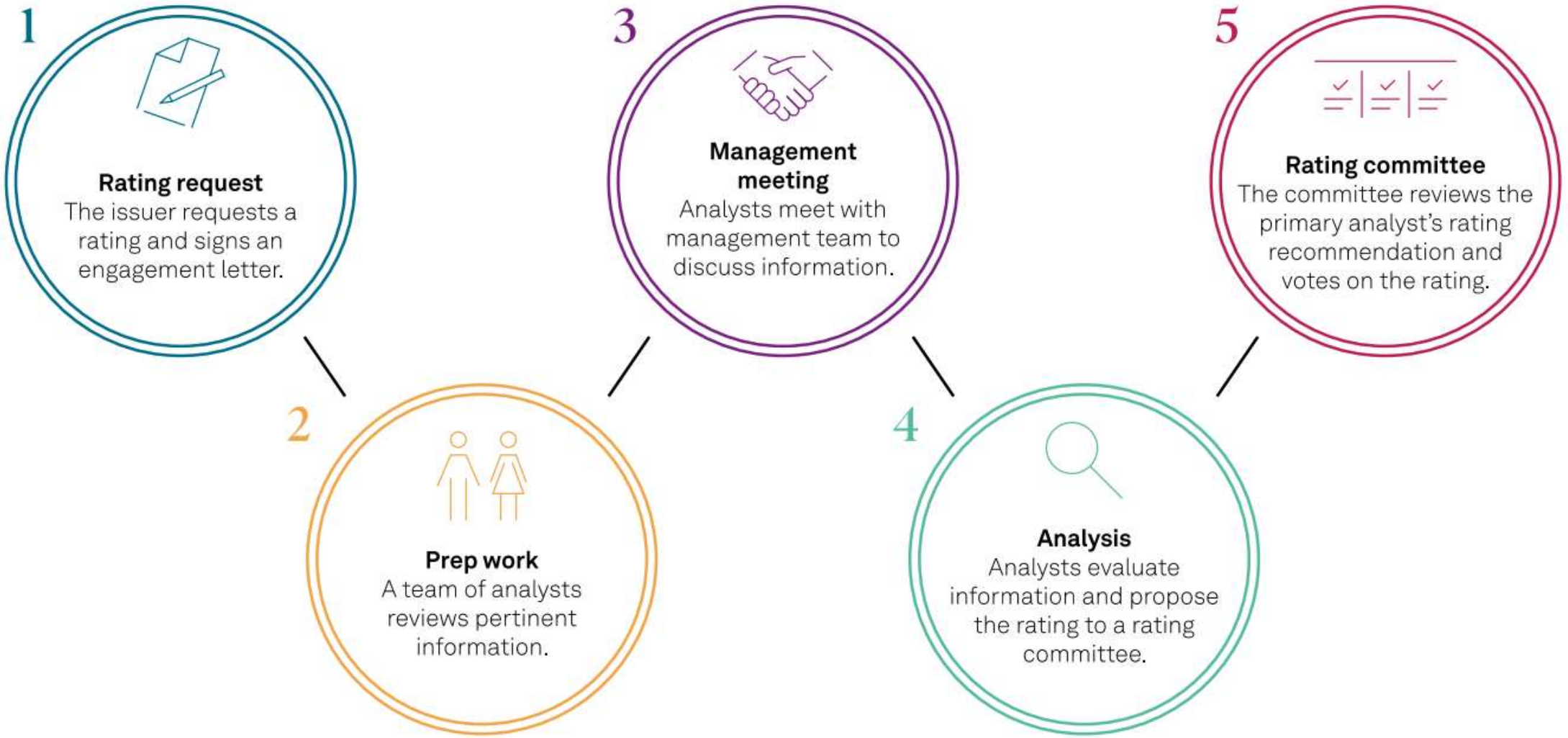
Bond Rating Process



Credit rating is integral to the process for:

- Issuers
- Intermediaries
- Investors


1
Rating request
The issuer requests a rating and signs an engagement letter.
2
Prep work
A team of analysts reviews pertinent information.
3
Management meeting
Analysts meet with management team to discuss information.
4
Analysis
Analysts evaluate information and propose the rating to a rating committee.
5
Rating committee
The committee reviews the primary analyst's rating recommendation and votes on the rating.

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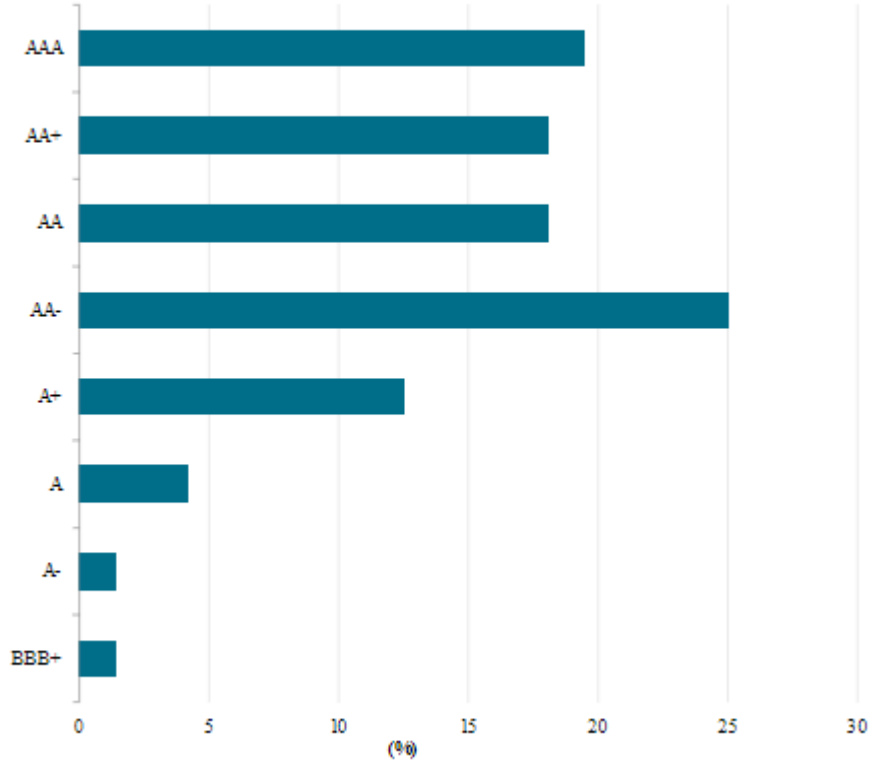
Rating committee
The committee reviews the primary analyst's rating recommendation and votes on the rating.
6
Notification
We generally provide the issuer with a pre-publication credit report for fact-checking and accuracy purposes.
7
Publication
We typically publish a credit report announcing the public rating and post the rating on www.spratings.com.
8
Post-sale
The issuer is required to provide updated information through the term of the bonds.
9
Surveillance
We maintain a current rating on the rated issuer or issue until maturity and might contact the issuer for updated information.

Trends: Ohio Municipalities and Counties

Rating Distribution

Ohio municipalities: rating distribution



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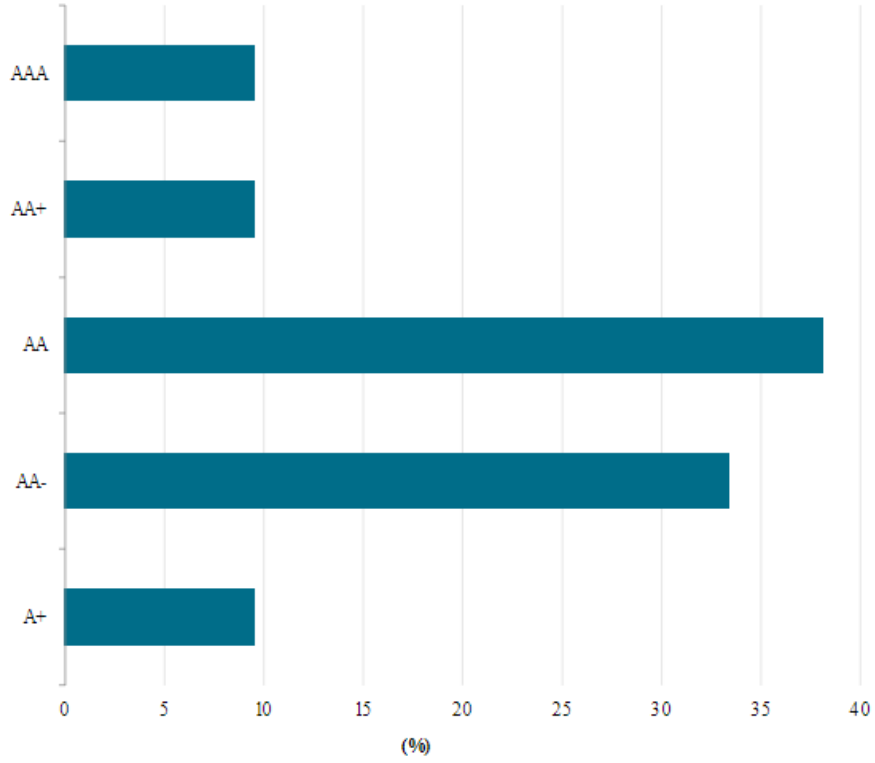
Ohio counties: rating distribution



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Credit Fundamentals

- Financial profiles are strong, with median available reserves of approximately 79% for municipalities and 49.6% for counties, supported by recently strong revenue growth for cities and counties
- Most funding for municipalities and counties is derived from local revenue sources, including property, income, and sales taxes; reliance on state support from the state's local government fund has waned since cuts during the Great Recession
- Fixed costs, such as debt, pension, and other postemployment benefits payments, are currently moderate and manageable

Ohio municipalities: medians

	AAA	AA+	AA	AA-	A+	A	A-	BBB+ or lower
Projected per capita EBI (%)	163	121	94	83	76	73	65	163
Market value per capita ($)	140,637	95,239	81,775	58,838	56,756	41,231	40,399	140,637
Available general fund (%)	124	116	73	59	45	25	22	124
Cash and expense (%)	153	140	120	112	167	60	33	153
Carrying charge (%)	7.1	6.4	4.5	7	10.4	3.9	5.1	7.1
Pension ARC + OPEB as % expense	6	6.4	7.5	7.5	8	9.2	7.6	6

Ohio counties: medians

	AAA	AA+	AA	AA-	A+
Projected per capita EBI (%)	125	103	87	81	74
Market value per capita ($)	99,913	87,386	78,030	76,179	73,783
Available general fund (%)	68	50	67	44	92
Cash and expense (%)	66	106	106	107	74
Carrying charge (%)	3.0	2.7	1.8	2.4	0.7
Pension ARC + OPEB as % expense	3.9	4.5	5.0	5.2	5.5

What we're watching

Income Tax Trends	Sales Tax Trends	ARPA Sunset	Manufacturing Sector	Oil/gas Industry
Tourism/Hospitality Industry	State's Credit Rating (AAA/Stable)	Property Tax Reform	Aging Infrastructure	State Tax Cuts & Revenue Performance
Pension Health	Slow Population Growth and In-migration	Economic Development & Job Creation	Marijuana Tax Revenue	Cyber Threats

Appendix

Associated Articles

- U.S. Local Governments Credit Brief: Ohio Municipalities And Counties Means And Medians, July 2, 2024
- Pension Spotlight: Ohio, July 31, 2023
- What to Expect from S&P Global Ratings' U.S. Public Finance Rating Process, Aug. 29, 2023
- Methodology For Rating U.S. Governments, Sept. 9, 2024
- Credit FAQ: A Closer Look At The New Methodology For Rating U.S. Governments, Sept. 9, 2024

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Advice From An Issuer

City of Upper Arlington

Preparing for Your Rating Agency Meeting

- Don’t Stress!
- Figure out the logistics
- Who should attend?
  - Finance Director/Treasurer
  - City Manager/Mayor/Superintendent, etc.
  - Economic Development Director
  - Bond Counsel
  - Municipal Advisor
- Be Prepared
  - Know your project
  - Know your numbers and key financial policies
  - Provide supporting documentation
- Discuss upcoming plans/risks

DISCUSSION AND QUESTIONS