

# Understanding the S&P Global Ratings Process

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**S&P Global**  
Ratings

# Credit Ratings

## Expressed by a letter grade rating symbol

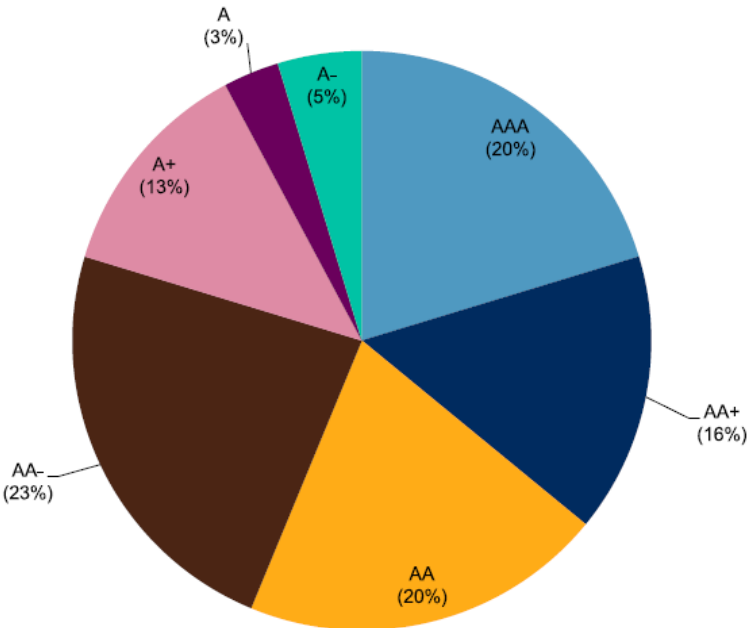
Investment Grade	<b>AAA</b>	Extremely strong capacity to meet financial commitments. Highest rating
	<b>AA</b>	Very strong capacity to meet financial commitments
	<b>A</b>	Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances
	<b>BBB</b>	Adequate capacity to meet financial commitments, but more subject to adverse economic conditions
	<b>BBB-</b>	Considered lowest investment-grade by market participants
Speculative Grade	<b>BB+</b>	Considered highest speculative-grade by market participants
	<b>BB</b>	Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions
	<b>B</b>	More vulnerable to adverse business, financial and economic conditions but currently has the capacity to meet financial commitments
	<b>CCC</b>	Currently vulnerable and dependent on favorable business, financial and economic conditions to meet financial commitments
	<b>CC</b>	Highly vulnerable; default has not yet occurred, but is expected to be a virtual certainty
	<b>C</b>	Currently highly vulnerable to non-payment, and ultimate recovery is expected to be lower than that of higher rated obligations
	<b>D</b>	Payment default on a financial commitment or breach of an imputed promise; also used when a bankruptcy petition has been filed or similar action taken

Ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

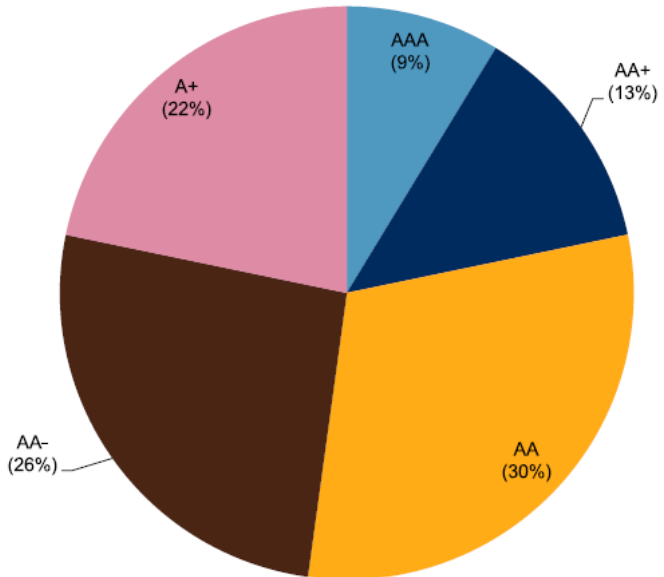
# Underlying Credit Ratings

## Ohio Rating Distribution

### Municipalities



### Counties



# Credit Ratings

## Outlooks and CreditWatch

**Outlook:** assessment of potential direction of an issuer's long-term debt rating over a **two-year** time horizon

- Positive: At least 1-in-3 chance the rating may be raised within two years
- Negative: At least 1-in-3 chance the rating may be lowered within two years
- Stable: rating is not expected to change over the next two years

**CreditWatch:** situational changes developing over **90** days

- CreditWatch Positive
- CreditWatch Negative
- CreditWatch Developing

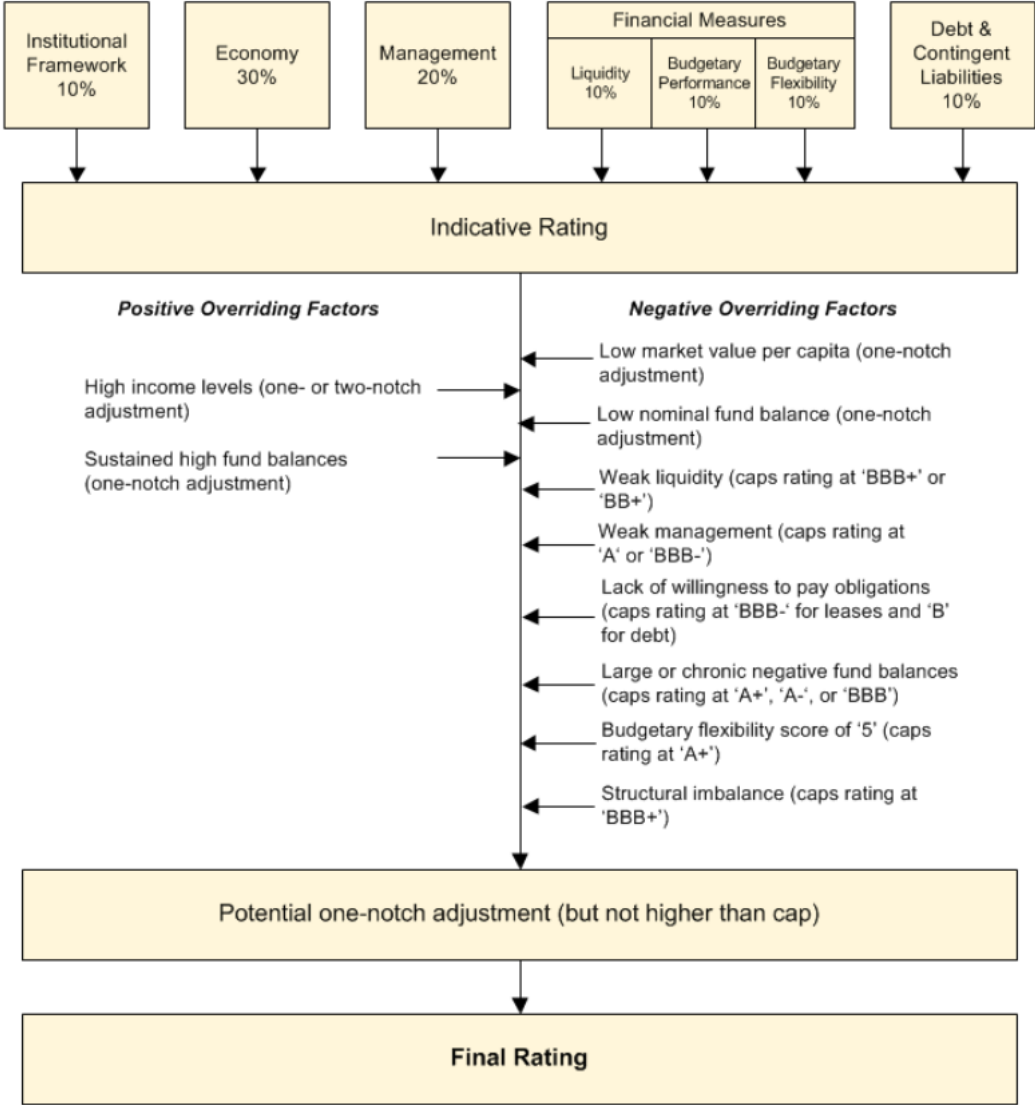
# S&P Global Criteria

## Overview

- Analytical framework for determining credit ratings
- Addresses fundamental factors, analytical principals, methodologies, and key assumptions used in rating process
- Helps users understand our rating approach and how we arrive at ratings
- Forward looking and transparent

# S&P Global Criteria

## U.S. Local Governments General Obligation Ratings



# S&P Global Criteria

## Economy

The economic score assesses the Projected per capita EBI as a percentage of the U.S. level, and TMV per capita combine to form the initial economic score due to the data availability of these statistics at the local level and their correlation with overall economic activity and local government revenues.

### *Positive Qualitative Adjustments*

- Participation in broad & diverse economy
- Stabilizing institution influence- i.e. major employer- Higher Education

### *Negative Qualitative Adjustments*

- County unemployment rate > 10%
- Employment concentration
- Population decline > 5%

# S&P Global Criteria

## Management Score

### Financial Management Assessment

- ✓ Budgetary Revenue and Expense Assumptions
- ✓ Budget Amendments & Updates
- ✓ Long Term Financial Planning
- ✓ Long Term Capital Planning
- ✓ Investment Management Policies
- ✓ Debt Management Policy
- ✓ Reserve Policy

Scores= Strong, Good, Standard and Vulnerable



# S&P Global Criteria

## Management Score- Continued

### Qualitative Adjustments

- Political Instability
  
- Straight to “Weak” Condition
  
- Management Team Lacks Relevant Management Skills

# S&P Global Criteria

## Budgetary Performance

- General Fund Performance
- Total Governmental Fund Performance
- Criteria is being finalized and is subject to change from the RFC
- Qualitative Adjustments can be positive or negative
- Cyclical Revenues
- Structural Imbalance with No Plan to Correct

# S&P Global Criteria

## Budgetary Flexibility

### Qualitative Adjustments

- Room under the tax cap
- Projections for Better Score
- Limited Capacity to Cut Spending
- Highly Questionable Receivables
- Expectation for Reserves to remain above 75% (one-notch above)

# S&P Global Criteria

## Liquidity

### Qualitative Adjustments

- ❖ Access to Markets
- ❖ Aggressive use of Investments
- ❖ Direct Purchase Debt
- ❖ Contingent Liabilities

# Rating Process

## Debt Profile

### Qualitative Adjustments

- Large Pension and/or OPEB liabilities
- No Plan to Address Pension or OPEB liabilities

# Hot Topics

## Pension/OPEB

- Rising unfunded liabilities due to demographic shifts, increase in life expectancy, and lower investment returns
- The impact of pension and OPEB liabilities is primarily measured within our debt and contingent liabilities assessment:
  1. Is there exposure to large unfunded liabilities? (**typically <80% funded ratio**)
  2. Is there a risk of acceleration of payment obligations? (**what are the trends and assumptions?**)
  3. What's the magnitude of budgetary stress due to increasing payments? (**10% of total governmental fund expenditures**)
  4. What is management's plan to address the risks? Does the entity have budgetary flexibility to address increased costs?
- For cost-sharing multiple employer plans (like OP&F and OPERS), we recognize that LGs have little flexibility, but we still assess their ability to manage potential payment acceleration.
  - Potential stress could also be reflected in management, budgetary flexibility, and budgetary performance scores.

# Q&A

# Thank you

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