

# RatingsDirect®

---

Criteria | Governments | U.S. Public Finance:

## U.S. Local Governments General Obligation Ratings: Methodology And Assumptions

**Primary Credit Analysts:**

Jeffrey J Previdi, New York (1) 212-438-1796; jeff.previdi@standardandpoors.com  
Christopher M Krahe, Chicago (1) 312-233-7063; christopher.krahe@standardandpoors.com  
Lisa R Schroeer, Charlottesville (1) 434-220-0892; lisa.schroeer@standardandpoors.com  
Horacio G Aldrete-Sanchez, Dallas (1) 214-871-1426; horacio.aldrete@standardandpoors.com  
Karl Jacob, Boston (1) 617-530-8134; karl.jacob@standardandpoors.com  
Matthew T Reining, San Francisco (1) 415-371-5044; matthew.reining@standardandpoors.com  
Jane H Ridley, Chicago (1) 312-233-7012; jane.ridley@standardandpoors.com

**Criteria Officer, U.S. Public Finance:**

Cathy L Daicoff, New York (1) 212-438-6766; cathy.daicoff@standardandpoors.com

**Chief Credit Officer - Americas:**

Lucy A Collett, New York (1) 212-438-6627; lucy.collett@standardandpoors.com

### Table Of Contents

---

I. SCOPE OF THE CRITERIA

II. SUMMARY OF CRITERIA UPDATE

III. SUMMARY OF CHANGES FROM THE REQUEST FOR COMMENT

IV. IMPACT ON OUTSTANDING RATINGS

V. EFFECTIVE DATE AND TRANSITION

VI. METHODOLOGY

A. Local Government Rating Calibrations

## Table Of Contents (cont.)

---

B. Framework For Determining A U.S. Local Government Rating

C. The Institutional Framework Score

D. Economic Score

E. Management Score

F. Budgetary Flexibility Score

G. Budgetary Performance Score

H. Liquidity Score

I. Debt And Contingent Liabilities Score

VII. APPENDIX I: Selected Historical Statistics

VIII. APPENDIX II: Relationship To The State Rating

IX. APPENDIX III: Changes Since The Request For Comment

X. GLOSSARY

XI. RELATED CRITERIA AND RESEARCH

Related Criteria

Related Research

# U.S. Local Governments General Obligation Ratings: Methodology And Assumptions

*(Editor's Note: We originally published this criteria article on September 12, 2013. We're republishing this article following our periodic review completed on August 14, 2014. On Nov. 21, 2013, we replaced the link in paragraph 13 to "Methodology And Assumptions: Request For Comment: Ratings Above The Sovereign--Corporate And Government Ratings" with a link to the new criteria published on Nov. 19, 2013, after the review process. The new criteria article is titled, "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions.")*

1. Standard & Poor's Ratings Services is updating its methodology and assumptions for assigning issuer credit ratings (ICRs) and issue credit ratings based on general obligation (GO) pledges of local governments in the United States. This update follows our request for comment (RFC), "Request For Comment: U.S. Local Governments: Methodology And Assumptions," published on March 6, 2012. This update provides additional transparency and comparability to help market participants better understand our approach to assigning local government ratings, to enhance the forward-looking nature of these ratings, and to enable better comparisons between U.S. local government ratings, local government ratings in other countries, and all other ratings. The "Principles of Credit Ratings", published on Feb. 16, 2011, form the basis of this criteria.
2. For the ratings in scope, this criteria supersedes the following articles:
  - GO Debt, Oct. 12, 2006
  - Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
  - Does Bigger Always Mean Better? Sizing Up The Impact Of Size On Municipal Ratings, April 22, 2008
  - Location, Location, Location: What Does It Mean For My Community's Rating? April 22, 2008
3. All capitalized terms are defined in the glossary, section X, paragraphs 90-97.

## I. SCOPE OF THE CRITERIA

4. The criteria apply to all U.S. local government issuer credit ratings and issue ratings on GO bonds issued by municipal governments that are not special purpose districts. Examples of local government entities in the scope include cities, counties, towns, villages, townships, and boroughs, called municipalities in the criteria. Examples of special purpose districts excluded from the scope include school districts, library districts, park districts, and forest preserve districts, among others. The criteria also do not apply to U.S. states or territories but do apply to the District of Columbia.

## II. SUMMARY OF CRITERIA UPDATE

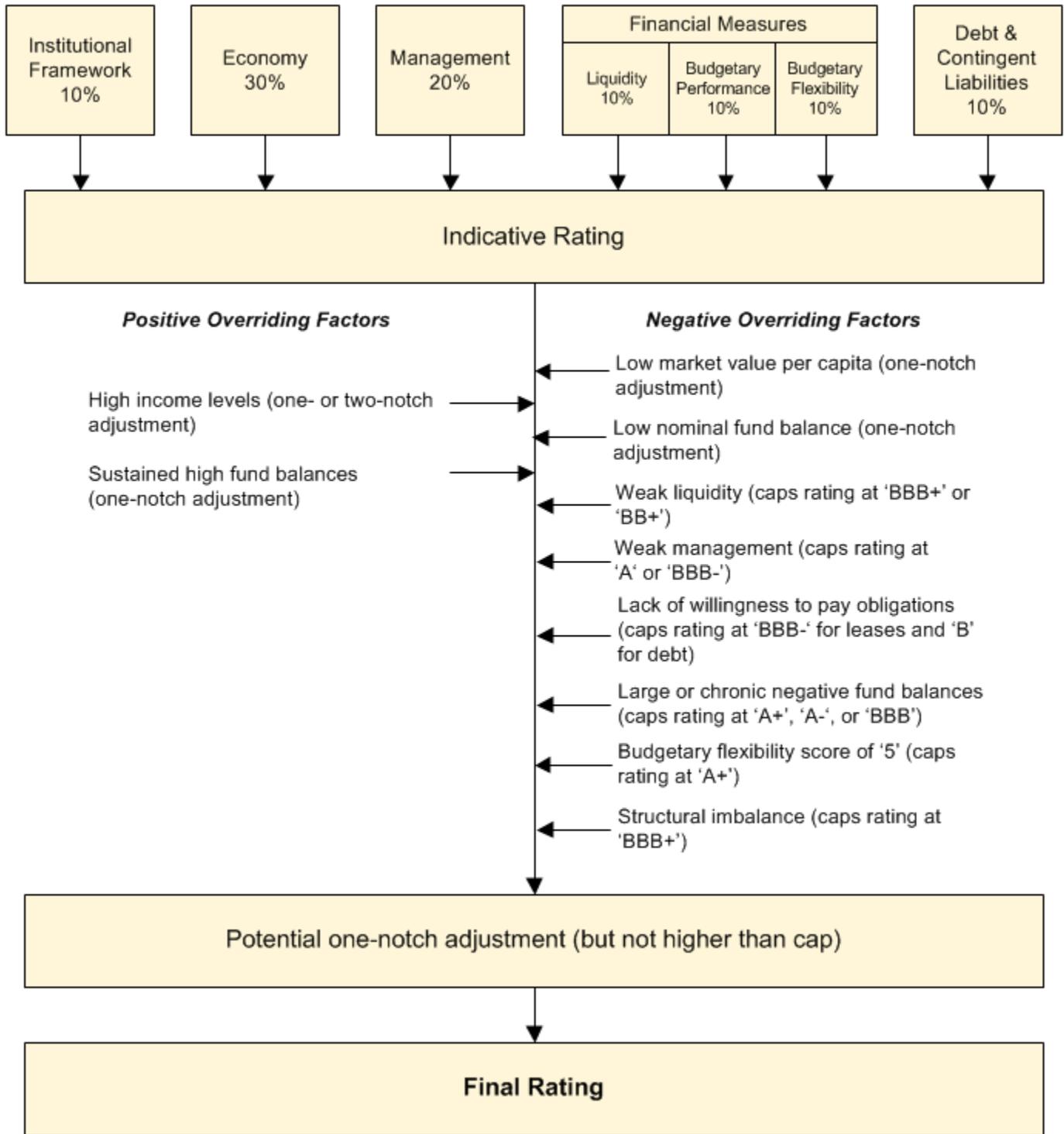
5. The criteria use the same major elements as our criteria for rating local and regional governments outside the U.S. (see "Methodology For Rating International Local And Regional Governments", published Sept. 20, 2010). Specifically, the criteria assign ratings based on the assessment and scoring of seven key factors:

- Institutional framework;
- Economy;
- Management;
- Budgetary flexibility;
- Budgetary performance;
- Liquidity; and
- Debt and contingent liabilities.

Although the criteria assess the same factors, the measures used to assess these factors are detailed in a manner consistent with the characteristics and reporting conventions of U.S. public finance obligors.

6. The initial indicative rating results from a weighted average of the factors detailed above. The economy score receives a 30% weight, and the management score receives 20%. The financial-related scores, liquidity, budgetary performance and budget flexibility, each account for 10% of the total score. The institutional framework score also receives a 10% weight, as does the debt and contingent liabilities score. Certain score levels result in ratings different from those suggested by the weighted average. Chart 1 outlines a summary of the analytical framework for assigning a local government's GO rating.

Chart 1  
Analytical Framework For Local GO Ratings



© Standard & Poor's 2013.

### III. SUMMARY OF CHANGES FROM THE REQUEST FOR COMMENT

See Appendix III in Section IX.

### IV. IMPACT ON OUTSTANDING RATINGS

7. Standard & Poor's maintains issuer credit ratings or ratings on GO debt (or debt equivalent to or based on the GO rating) for more than 4,000 governments included in the scope of the criteria. Assuming that governments maintain their current credit characteristics, testing suggests that about 60% of the ratings would remain unchanged under the criteria while about 30% of the ratings would increase and about 10% would decrease, generally by one notch.

### V. EFFECTIVE DATE AND TRANSITION

8. The criteria described in this article are effective immediately and apply to all new and outstanding ratings within scope. We intend to complete our review of issuers affected within the next 12 months.

### VI. METHODOLOGY

#### A. Local Government Rating Calibrations

##### 1. Local Governments Globally

9. Local governments exist to provide services to the population. Services may be mandated by a higher-level government, but often the levels and choice of services to be provided are at the local government's discretion. Governments may rely on locally levied and collected taxes or user charges, or on taxes, grants, or aid distributed from higher levels of government to fund services. Local governments often have little direct control over funds distributed from higher levels of government, and higher-level governments may place restrictions on local taxing levels--if local taxes may be levied at all.
10. A local government's ability and willingness to make fiscal adjustments and its legal and political relationships with higher levels of government can be more important to its ability to meet debt service than its economic trends or financial position. An overall economic decline can threaten the ongoing paying ability of a company more directly than a government because the company may find it difficult to raise prices or reduce costs due to demand elasticity. Although unpopular, governments with sufficient autonomy may raise taxes or cut services without seeing mass outmigration from the jurisdiction relative to the demand volume reduction faced by a company. For governments without such autonomy, relationships with higher-level governments are key for restoring balance.
11. Variables such as economic conditions, debt levels, and financial performance can suggest when difficult decisions to restore fiscal balance might become necessary, but do little to suggest whether prudent decisions will be made. Different government responses can therefore produce different default outcomes for periods with the same level of

stress. Accordingly, predictions of precise default amounts and probabilities become more suspect. This complicates the calibration of criteria to economically-based stress scenarios but does not prohibit it. The long-term and repeating trend of higher local-government defaults following periods of significant economic stress is well-established and dates back to ancient Greece.

## **2. The Specific Case Of U.S. Local Governments**

12. From a global perspective, U.S. local governments have a fairly high degree of autonomy. Virtually all U.S. local governments levy some sort of tax and levy various other fines, fees, and charges. U.S. census data show that own-source revenues account for 63% of local general government revenues. However, this total includes school districts which typically receive a large amount of state funding. For municipalities and counties specifically, data for credits rated by Standard & Poor's suggest this percentage is 79%. Direct funding from the federal government represents only about 4% of total local government revenues, much of which represents funds designated for capital spending.
13. Due to the federalist structure of the U.S. government, individual states, rather than the U.S. government, make most of the laws regarding what taxes local governments may raise, how much debt they can issue, and other matters of local government finance. A local government rating is not automatically constrained by the U.S. sovereign rating or its respective state rating. The economic and fiscal relationships, dependencies, and/or interdependencies between levels of governments will determine the credit linkages along with our framework to rate entities above a sovereign rating (see "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions" published Nov. 19, 2013).
14. Although states do have significant power over their local governments, their use of this power pales in comparison to the use of such powers by sovereign or regional governments in other countries. Although states have at times tinkered with the mix of local government revenues and imposed various limits or regulations around the use of debt and taxes, the basic tenets of U.S. local government finance have remained largely in place since colonial times. Neither American independence, the American civil war, nor severe economic downturns, such as those witnessed in the late 1830s, late 1870s, and early 1930s, have changed the basic premise of local governments relying largely on own-source revenues to fund different service levels of their own choosing. Some studies suggest to us that this self-reliance drives the low debt levels and fiscal stability observed in U.S. local governments and similar jurisdictions (see Jonathan Rodden in Related Research).
15. Property taxes remain a cornerstone of U.S. local government finance and often provide stability to finances. This stability results from laws in many states that delink tax base growth from overall market volatility. In addition, the lag between market cycles and their effect on revenues allows public officials to adjust rates to offset market effects. The recent downturn illustrates this. Property tax revenues actually grew in 2009, while income tax revenues declined 17% and sales taxes declined 7.5%. Owing to the aforementioned lag, analysis done by the Pew Charitable Trusts using U.S. Census data shows that property tax revenue did decline in 2010, but only by 1.05%. Although conditions vary, data from local governments rated by Standard & Poor's show no decline in property tax revenues for the average government in fiscal 2010. For more information, see Lutz, Molloy, and Shan in Related Research.

### **3. The Strength Of The General Obligation Pledge And State Level Incentives For Debt Payment**

16. A general obligation pledge usually obligates a local government to use all legally available funds to pay debt service and—if such current funds are not sufficient—to take actions necessary to increase those funds. This includes an obligation to levy additional property taxes specifically for debt service, although state tax caps may limit this pledge. A limited tax pledge may affect the rating (see "Standard & Poor's Refines Its Limited-Tax GO Debt Criteria", published Jan. 10, 2002).
17. In addition, some states have laws that empower state governments to take over local governments when their financial position deteriorates significantly or to direct state-appropriated monies for debt repayment. Even temporary relief from debt payments may elude local governments if GO debt enjoys the additional benefits of dedicated taxes or other "special revenues". About one-half of states' statutes either fail to provide specific authorization for municipalities to file for bankruptcy, as currently required for a bankruptcy filing under the U.S. Bankruptcy Code, or prohibit such a filing. Of the remaining 28 whose statutes authorize bankruptcy, 15 states only authorize municipal bankruptcy subject to approval or other conditions, and many states have used this approval power to intervene before a bankruptcy can occur.
18. While the nature of the GO pledge may best explain the miniscule net losses experienced on municipal debt during the Great Depression (net losses amounted to 0.4% of debt outstanding), in our view the limitations associated with Chapter 9 bankruptcy, and states' use of their additional oversight powers also contribute to the sector's extraordinarily low default rate by reducing political risk. Faced with the potential for longer-term costs of reduced market access and reputational damage for state and local officials, nonpayment of debt, in our view, makes little sense for most governments experiencing fiscal stress.

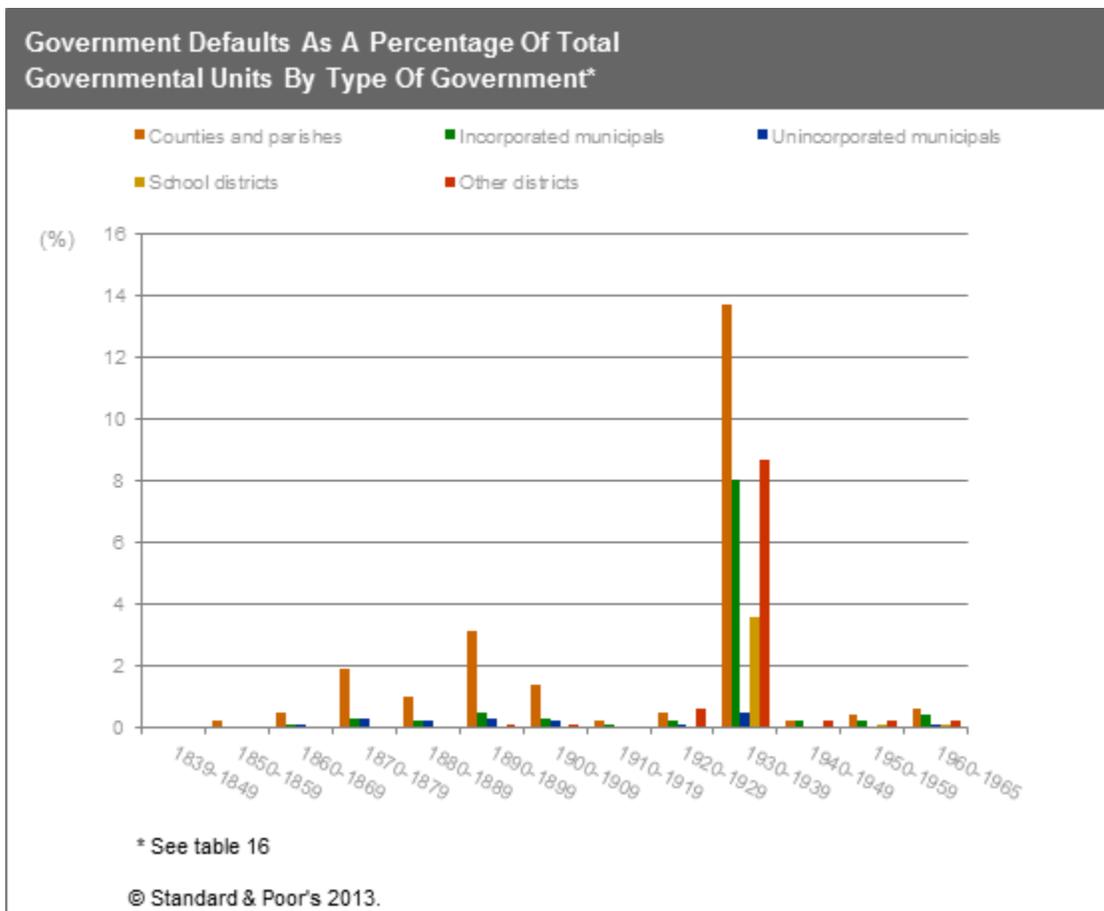
### **4. U.S. Local Government Payment Performance**

19. Some proponents of current local government stability criticize references to local government defaults in periods such as the Great Depression or earlier. They cite changes such as lower government debt levels, improved revenue diversification, stronger state oversight, and fundamental changes to the economic and banking sectors as reasons why such previous default performance is less relevant. While the criteria recognize and incorporate many of these changes, such statements, in our view, overlook important reasons to consider past payment performance. First, given the experience of the recent recession and current economic challenges, the idea that the municipal performance seen only since World War II will continue regardless of future conditions is itself suspect. Rather than blind speculation, past performance provides observable data with which to compare and contrast different scenarios. Second, the period since World War II generally does not provide sufficient stressful periods with which to calibrate general obligation criteria (see "Understanding Standard & Poor's Rating Definitions", published June 3, 2009). Although the recent recession may demonstrate that municipal credits in general are investment grade, it provides little insight as to whether the current criteria appropriately differentiate 'A', 'AA', and 'AAA' credits as suggested by the article above. That evaluation requires more stressful periods.
20. Several studies provide what we consider to be good summaries of past municipal credit performance. The work most often quoted is George Hempel's "The Postwar Quality of State and Local Debt", published by the National Bureau of Economic Research (NBER) in 1971. The criteria also take Hempel's 1964 University of Michigan dissertation, "The Postwar Quality of Municipal Bonds", on which the NBER publication is based as a resource because it provides a bit

more detail. A major source for Hempel's work that focuses specifically on local government debt is Albert M. Hillhouse's "Municipal Bonds: A Century of Experience". Both works provide summaries and discussion, but do not present the underlying data. Hillhouse's "Defaulted Municipal Bonds (1830-1930)", lists every recorded default over the 100-year period referenced. When considering relationships between state and local governments, William A. Scott's "Repudiation of State Indebtedness" provides details on the actions of states under stress.

21. Hillhouse and Hempel come to similar conclusions on municipal defaults. On the one hand, local government defaults occur across all types of governments (see Appendix I in Section VII), in both good and bad economic times. On the other hand, the number of local government defaults becomes worrisome only during very stressful periods, and even then a majority of governments continue to pay their debts (see chart 2 and Appendix I). Both agree that the ultimate repayment record for local governments when they default is very strong.

**Chart 2**



22. The criteria consider the overall strong payment performance even after adjusting for differences in economic stress. The criteria are calibrated to provide rating results consistent with the extraordinarily historically low levels of local government defaults.

23. We do not expect a change in the historically extraordinarily low default rates in this sector. When there is a rapid deterioration, we do expect to continue to see multiple-notch downgrades. Please see "The Time Dimension Of Standard & Poor's Credit Ratings", published Sept. 22, 2010, for a description of potential ratings migration.

## B. Framework For Determining A U.S. Local Government Rating

24. The criteria assess seven factors:

- Institutional framework (see paragraphs 36-40);
- Economy (see paragraphs 41-47);
- Management (see paragraphs 48-58);
- Budgetary flexibility (see paragraphs 59-64);
- Budgetary performance (see paragraphs 65-68);
- Liquidity (see paragraphs 69-77); and
- Debt and contingent liabilities (see paragraphs 78-84).

Scores for each factor range from '1' (the strongest) to '5' (the weakest). The economy score receives a 30% weight and management receives 20%. These scores receive the highest weight because of management's ability to tap the local economic base for additional revenues if it chooses to do so in a timely manner. The financial scores combined receive 30%, with liquidity, budgetary performance, and budgetary flexibility each accounting for one third of the 30%. The institutional framework score and debt and contingent liabilities score each receive 10% (see chart 1). Table 1 shows the indicative rating outcomes that result from the weighted average of these scores. Absent the overriding factors detailed in table 2, the final rating assigned to the GO issue or the ICR will be within one notch of the indicative rating shown in table 1, with one-notch differentials determined based on trends and comparisons with similarly rated peers. When the overriding factors detailed in table 2 notch the rating (rather than cap the rating), the one-notch differentials of the prior sentence can still be applied. Importantly, certain data are adjusted to facilitate comparability and consistency. Please refer to paragraphs 94 to 102 for a list of defined terms and related adjustments. In addition, please refer to the article, "S&P U.S. Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency," published Sept. 12, 2013, for a more extensive summary of data adjustments.

**Table 1**

Indicative Rating Outcomes Resulting From The Weighted Average Of Seven Factors	
Factor Score Weighted Average	Indicative Rating
1.00 – 1.64	AAA
1.65 – 1.94	AA+
1.95 – 2.34	AA
2.35 – 2.84	AA-
2.85 – 3.24	A+
3.25 – 3.64	A
3.65 – 3.94	A-
3.95 – 4.24	BBB+
4.25 – 4.54	BBB
4.55 – 4.74	BBB-

**Table 1**

Indicative Rating Outcomes Resulting From The Weighted Average Of Seven Factors (cont.)	
4.75 – 4.94	BB
4.95 – 5.0	B

The indicative rating results from the weighted average outcomes as shown above. The final rating may differ from the indicative rating above by one notch based on trends and comparisons with peers in that range. The final rating may also differ from the indicative rating due to the presence of overriding factors described in paragraphs 25-35. For ratings below 'B-' please see "Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings" published Oct. 1, 2012, and "Standard & Poor's Ratings Definitions", published June 17, 2013.

### Overriding Factors

25. The criteria employ a series of overriding factors that can result in the final rating assigned to the local government being different from the indicative rating outcome suggested by table 1. Table 2 summarizes these factors. Certain conditions result in the final rating moving a specified number of notches above or below the indicative rating. If multiple notch overrides exist, the final rating is based on the net effect of those overrides.
26. Certain other conditions result in the final rating being capped at a certain level. When such conditions exist, the final rating could be lower than the cap depending on the severity of the condition present, and the final rating could be lower than the indicative rating even if the indicative rating is lower than the ratings cap in table 2. Rating caps are absolute, meaning that the positive relative adjustments described below do not allow ratings to exceed the cap. If multiple cap overrides exist, the rating cap used is the lowest cap of all the individual overrides that apply.
27. If multiple overrides involving both caps and notches exist, the final rating will be based on the lower of the lowest rating cap or the indicative rating as adjusted by the notch overrides. For example, a local government could have an indicative rating of 'A', a negative one-notch override, and a condition that results in a capped rating of 'A+'. In such a case, the indicative rating as adjusted by the notch override would equal 'A-'. Since 'A-' is lower than the rating cap, the final rating could be at most 'A' (if the one-notch adjustment described in paragraph 24 were applied) or any lower rating given that a cap override applies. If, instead, the indicative rating were 'AA' in this example, then the indicative rating as adjusted by the notch override would be greater than the rating cap of 'A+'. Therefore, the rating outcome could be no higher than 'A+' (the one-notch adjustment cannot increase a rating above a rating cap), but could be any lower rating given that a cap override applies. We acknowledge that the assignment and removal of caps may cause an increase in ratings volatility and potentially steeper rating transitions.

**Table 2**

Summary Of Overriding Factors (see paragraphs 25-35)	
Overriding Factor	Result
<b>Notch Overrides</b>	
Projected per capita EBI* > 225% of U.S. projected per capita EBI	Final rating one notch higher than that suggested by table 1
Projected per capita EBI* > 300% of U.S. projected per capita EBI	Final rating two notches higher than that suggested by table 1
Total Market Value per capita < \$30,000	Final rating one notch lower than that suggested by table 1
Available Fund Balance > 75% of general fund expenditures for the most recently reported year, the current year and next year and is expected to continue	Final rating one notch higher than that suggested by table 1

**Table 2**

Summary Of Overriding Factors (see paragraphs 25-35) (cont.)	
Available Fund Balance < \$500,000	Final rating one notch lower than that suggested by table 1
<b>Cap Overrides (rating capped)</b>	
Liquidity score equals '4'	Final rating capped at 'BBB+'
Liquidity score equals '5'	Final rating capped at 'BB+'
Management score equals '4'	Final rating capped at the lower of 'A' and one notch lower than that suggested by table 1
Management score equals '5'	Final rating capped at the lower of 'BBB-' and two notches lower than that suggested by table 1
Management score equals '5' due to a lack of willingness to support unconditional debt obligations	Final GO rating on debt not in default capped at 'B'
Available Fund Balance < -10% of general fund expenditures for the most recently reported year or budget flexibility score equals '5'	Final rating capped at 'A+'
Available Fund Balance < -5% of general fund expenditures for the two most recently reported years	Final rating capped at 'A-'
Available Fund Balance < -5% of general fund expenditures for the three most recently reported years	Final rating capped at 'BBB'
Budget performance: For local governments that exhibit characteristics of structural imbalance expected to continue and the government does not have a credible plan to restore balance	Final rating capped at 'BBB+'

\*EBI--Effective Buying Income (see glossary)

## Factors That Notch From The Indicative Rating

### a) Rating adjustments for certain economic measures

28. When variables measured as part of the overall economic score take on extreme values, adjustments from the indicative rating occur. When projected per capita Effective Buying Income (EBI) as a percentage of the U.S. projected per capita EBI exceeds 225% (50% higher than the top income threshold in table 8), the final rating is raised by one notch to account for the extreme income levels in the tax base. When projected per capita EBI exceeds 300% of the U.S. level, the final rating is raised by two notches. No similar adjustment applies to Total Market Value (TMV) per capita because high scores often result from concentrated tax bases. When TMV per capita is less than \$30,000, however, the final rating is lowered by one notch to reflect the limited tax base supporting debt.

### b) Sustained large positive fund balances

29. An abnormally large sustained Available Fund Balance signifies heightened flexibility if projections suggest that it will endure. Accordingly, the maintenance of an Available General Fund Balance exceeding 75% of general fund expenditures for the most recently reported year, the current and next year, and that is projected to continue at that level raises the final rating by one notch.

### c) Low nominal fund balances

30. The Available Fund Balance as a percentage of expenditures measure, used in the budgetary flexibility score, can mask vulnerability when absolute nominal levels of reserves are low. Accordingly, when the Available General Fund Balance for the most recently reported year is below \$500,000 (but above a level that causes a rating cap to occur -- see paragraph 34), the final rating is lowered by one notch to reflect this vulnerability.

## **Factors That Cap The Final Rating**

### **d) Liquidity**

31. Although liquidity receives limited weight in determining the indicative rating because of a local government's ability to make fiscal adjustments, its importance grows as the liquidity score weakens. A liquidity score of '4' caps the final rating on a local government at 'BBB+' regardless of other strengths. An overall liquidity score of '5' limits the final rating to no higher than 'BB+'.

### **e) Management**

32. The decentralized and autonomous nature of U.S. local governments creates a stronger link between management and credit quality, particularly when limited or weak management exists. Accordingly, an overall management score of '4' results in a final rating at least one notch below the indicative rating outcome and limits the rating to no higher than 'A'. A score of '5' results in a final rating at least two notches below the indicative rating outcome and limits the rating to no higher than 'BBB-'.
33. When a management score of '5' results from a current lack of willingness to pay a debt, capital lease obligation, or a moral obligation pledge (see paragraph 53), the rating cap depends on the nature of the obligation. A current lack of willingness to pay an unconditional debt obligation of the government would cap the final rating on other GO debt of the government at no higher than 'B' and would likely be lower. While the ICR of a local government would fall to 'D' or 'SD' following a default on an actual debt obligation, the payment prospects for other GO debt may remain stronger (such as when the default results from insufficient funds for limited-tax GO debt and other GO debt enjoys an unlimited-tax pledge). Consistent with our criteria for appropriation-backed obligations, a failure to pay a capital lease obligation also caps the GO rating (see "Appropriation-Backed Obligations", published June 13, 2007). A current lack of willingness to pay a capital lease or other obligation subject to annual appropriation by the government, including a moral obligation pledge, would limit the GO rating to no higher than 'BBB-' even though the government was not legally obligated to make payment on the appropriation obligation without the appropriation.

### **f) Large or chronic negative fund balances**

34. A government's Available Fund Balance forms the initial score for budgetary flexibility. Even when other forms of flexibility exist, however, a nontrivial fund balance deficit signifies heightened pressure, especially when the deficit endures. The presence of such pressure is consistent with the capped ratings suggested by table 2, even though the government may retain a significant capacity to repay debt. Accordingly, an Available Fund Balance of less than negative 10% of general fund expenditures in the most recently reported year caps the final rating at 'A+'. Ratings above 'A-' are typically for cases where we believe the Available Fund Balance will not be less than negative 5% beyond the most recently reported year. A budget flexibility score of '5' signifies limited flexibility and also caps the final rating at 'A+'. An Available Fund Balance of less than negative 5% for the two most recently reported years caps the final rating at 'A-'. Ratings above 'BBB' are typically for cases where we believe the Available Fund Balance will not be less than negative 5% beyond the most recently reported year. The existence of such Available Fund Balance for the three or more of the most recently reported years signifies to us a chronic problem and caps the final rating at 'BBB-'.

### g) Structural imbalance

35. The final rating is capped at 'BBB+' when the entity has structural imbalance. For this purpose structural imbalance is determined over a four-year horizon (past two years, current year, and next fiscal year). Additionally, management does not have a credible plan to adequately correct the imbalance. Characteristics of structural imbalance include:
- Significant use of one-time revenue,
  - Borrowing for ongoing operations,
  - Unplanned fund balance drawdowns,
  - Recurring unbudgeted expenditure and revenue mismatch, and
  - Significant dependence on volatile revenue.

## C. The Institutional Framework Score

36. The institutional framework score assesses the legal and practical environment in which the local government operates. Accordingly, all governments of the same type within the same state receive the same score. Since state constitutions and state laws generally dictate the terms under which local governments may operate, the score reflects these state-specific elements. To enhance comparability with local governments outside the U.S., the criteria assess the same areas as detailed in paragraph 39 of our criteria, "Methodology For Rating International, Local, And Regional Governments", published Sept. 20, 2010. Specifically, these areas include predictability, revenue and expenditure balance, transparency and accountability, and system support. Scores for each area, however, use slightly different measures that are more specific and more relevant to the U.S. and range from '1' (the best) to '5' (the worst). The criteria then average each of the scores equally to determine the overall institutional framework score as detailed in table 3.

**Table 3**

Institutional Framework Score Outcomes	
Score Range	Institutional Framework Score
1 – 1.5	1 (very strong)
1.75 – 2.75	2 (strong)
3.0 – 3.75	3 (adequate)
4 – 4.5	4 (weak)
4.75 – 5	5 (very weak)

The institutional framework score results from the average of the scores for predictability, revenue and expenditure balance, transparency and accountability, and system support (see paragraphs 37-40). Each score receives equal weight in the average.

### 1. Predictability

37. Predictability assesses the extent to which a local government can forecast its revenues and expenditures on an ongoing basis. The ability and frequency of changes to municipal responsibilities or revenue raising capabilities resulting from state or statewide voter actions can complicate local government decision making. An inability to sufficiently plan and implement strategies to accommodate these changes can affect a government's fiscal position. Table 4 details the scoring for predictability.

**Table 4**

Assessing Predictability	
Score	Description
1 (very strong)	None of the following elements are true: voter initiative or referenda rights exist to automatically alter revenues or expenditure responsibilities; the state has significantly changed its statutes governing local government revenues or expenditure responsibilities in the past eight years (to the detriment of this type of municipality); the state has changed the disbursement pattern of state-shared revenues in the past eight years (to the detriment of this type of municipality) and these revenues are a major portion of local government revenues.
2 (strong)	One of the elements in 1 is true, but such events are not frequent from a long-term perspective. The nature of deliberation and implementation of change allow sufficient time for local government planning and adjustment.
3 (adequate)	More than one of the elements in 1 is true, or at least one of the elements is recurring. The nature of deliberation and implementation of change allow sufficient time for local government planning and adjustment.
4 (weak)	At least one of the elements in 1 is true, but the pace of change does not allow for planning and adjustment.
5 (very weak)	The system is volatile, with ongoing and ill-prepared large-scale transformations that do not allow for planning and adjustment. Legal rights and obligations between the state and local level are unclear, adding to the lack of clarity.

## 2. Revenue and expenditure balance

38. Revenue and expenditure balance assesses the extent to which local governments have the ability to finance the services they provide. The focus is on revenue raising capability in scores one, two and three under the presumption that most municipalities have significant control over their expenditures. Only when revenue raising capacity is limited, and there are significant unfunded or partially unfunded expenditure mandates, are scores of four or five likely. Additionally, the criteria treat state provisions that require minimum balances as enhancing flexibility, while those that limit balances diminish it. Table 5 details the scoring for this measure.

**Table 5**

Assessing Revenue And Expenditure Balance	
Score	Description
1 (very strong)	Local governments within the state have statutory flexibility to raise local source revenues for operating purposes without voter approval. Where limits on the ability to raise revenues exist, they are such that most governments within the state still retain significant capacity to raise revenues.
2 (strong)	Local governments within the state have some flexibility to raise local source revenues for operating purposes without voter approval. Limitations (such as property tax caps) restrict flexibility, but still allow for most local governments to raise such revenues.
3 (adequate)	Virtually no ability exists to raise local source revenues for operating purposes without voter approval. Additional flexibility may come from state revenue sharing.
4 (weak)	No ability exists to raise local source revenues even with voter approval, or there are significant unfunded or partially unfunded expenditure mandates that overwhelm the average entity's budget.
5 (very weak)	No ability exists to raise local source revenues even with voter approval, and there are significant unfunded or partially unfunded expenditure mandates that overwhelm the average entity's budget.

A statutory minimum fund balance improves the score by one point and a statutory maximum fund balance worsens the score by one point.

## 3. Transparency and accountability

39. Transparency and accountability assess the overall institutional framework's role in encouraging the transparency and comparability of relevant financial information. When states require annual audits, this increases the likelihood that audits will be done and that late audits will be noted. States' regulations requiring audits and strong accounting standards such as generally accepted accounting principles (GAAP) usually enhance reporting detail and consistency across municipal credits, making it easier to have a sufficient uniform method of interpretation. States that allow cash

accounting tolerate a lesser degree of completeness and consistency. Table 6 details the scoring for this measure.

**Table 6**

Assessing Transparency And Accountability	
Score	Description
1 (very strong)	State statutes or other provisions require annual financial statements that comply with GAAP.
2 (strong)	State statutes or other provisions require audited annual financial statements, but no GAAP requirement exists. Most audits utilize accrual and/or modified accrual accounting.
3 (adequate)	State statutes or other provisions require annual financial statements, but no GAAP requirement exists. Most audits utilize cash or modified cash accounting.
4 (weak)	No requirement for annual financial statements exists or there is no requirement for an audit. Interim reports provide the only source of financial information for most local governments in some years.
5 (very weak)	No requirement for financial statements exists. Cash-basis reports provide the sole source of financial information for most local governments in most years.

#### 4. System support

40. System support addresses the extent to which local governments receive extraordinary support from a state government when the local government is under extreme stress. Forms of extraordinary support range from state government control and oversight to emergency loans or other liquidity assistance. Table 7 details the scoring for this measure.

**Table 7**

Assessing System Support	
Score	Description
1 (very strong)	A tested, formal mechanism for providing extraordinary support for local governments exists, which has restored fiscal stability. Such mechanisms may help with liquidity, capital market access, government management, or capital funding.
2 (strong)	Mechanisms for providing extraordinary support are less formalized, untested, or have not consistently restored fiscal stability but ongoing mechanisms to help with liquidity, capital market access, government management, or capital funding do exist.
3 (adequate)	No mechanisms for providing extraordinary support exist, but state statutes do not authorize local governments to file for bankruptcy or require further state approval.
4 (weak)	No mechanisms for providing extraordinary support exist and state statutes specifically authorize local governments to file for bankruptcy without state approval.
5 (very weak)	No mechanisms for providing extraordinary support exist, and the state has recently passed legislation that threatens the solvency of local governments without providing adjustment capabilities.

## D. Economic Score

41. The economic score assesses both the health of the asset base relied upon to provide both current and future locally derived revenues as well as the likelihood of additional service demands resulting from economic deterioration. 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. Table 8 details the manner in which different values of these two statistics combine to form the initial economic score.

**Table 8**  
**Assessing The Economic Score (see paragraphs 41-47)**

	Total Market Value Per Capita				
Projected per capita effective buying income as a % of U.S. projected per capita EBI	>\$195,000	\$100,000 to \$195,000	\$80,000 to \$100,000	\$55,000 to \$80,000	<\$55,000
>150	1	1.5	2	2.5	3
110 to 150	1.5	2	2.5	3	3.5
85 to 110	2	2.5	3	3.5	4
70 to 85	2.5	3	3.5	4	4.5
≤70	3	3.5	4	4.5	5

A score of '1,' '2,' '3,' '4,' and '5' means very strong, strong, adequate, weak, and very weak, respectively.

Qualitative factors with a positive impact on the initial score	Qualitative factors with a negative impact on the initial score
Participation in a larger broad and diversified economy (see paragraphs 45-47).	Negative budget impact from demographic profile: population decrease and/or high share of dependent population (>55%) have a material negative impact on future revenue growth and expenditure needs.
A stabilizing institutional influence with a longstanding role as a major employer, such as higher education, health care, military, or large and stable corporate presence.	High county unemployment rate (>10%).
	If employment concentration where an individual sector (excluding education/health, government, and transportation, trade and utilities) represents more than 30% of the nonfarm work base, or tax base concentration where the top 10 taxpayers represent more than 35% of the tax base exists, the score worsens by one point (1). If the top 10 taxpayers exceed 45% of the tax base, the score worsens by two points (2.0).

The adjustment impact of each qualitative factor counts for one point (1.0), except for employment and tax base concentration, where the score may differ by two points (2.0) as described above. The final economic score equals the initial score adjusted up or down based on the net effect of the qualitative factors. Metrics that equal a cut-off point between two initial scores will equate to the worse score. To calculate the market value per capita, the criteria use the most recent estimate available. To calculate projected per capita EBI, the criteria use the most recent local level EBI available, adjusted for per capita personal income growth expectations for the next five years. IHS Inc.(known as Global Insight) or another similar source is used for county-level data and U.S. income projections, while Nielsen (Claritas) or another similar source is used for local level data. To measure unemployment, the criteria use county-level data from the Bureau of Labor Statistics and take the annual rate for the last calendar year. For local governments located with multiple counties, county-level data is weight-averaged based on the percentage of the population of the local government in each county.

42. The final economic score will vary from that suggested by the initial score depending on the presence of one or more conditions, as shown in the table 8.

43. Local income and TMV statistics may underestimate fundamental economic strength. For example, local TMV statistics will not accurately reflect the economic activity and stability brought by a university, nor will student income

levels reflect their additional spending power coming from parent financing or student loans. Participation in a broader metropolitan area may bring nonresident spending into a community or provide additional job opportunities for residents beyond its borders--especially when the metropolitan area is economically strong.

44. By contrast, income and TMV per capita may fail to account for additional risks. The impact on income and economic activity from job losses may not immediately show up in income levels and market prices, and such losses are more likely to occur in more cyclical and concentrated tax bases. Because they do not exhibit strong cyclicality, concentration in the education/health, government, and transportation, trade and utilities sectors are not considered for this adjustment. County-level unemployment rates are used to reflect the wider view of the local economy. Population declines may also dampen the impact on per capita measures, and high Dependent Population levels can mean additional service requirements or different levels of willingness to support tax increases.
45. We assess participation in a larger broad and diversified economy at the Metropolitan Statistical Area (MSA) level. When the MSA is deemed to be broad and diverse, a positive adjustment of one point is applied to the initial economic score. The determination is based on an evaluation of three components--employment diversity, employment growth, and the employment base. Each of the three components is scored as strong, moderate, or weak and is equally weighted. Strong and weak scores offset each other, while a moderate score remains neutral. MSAs are considered to be broad and diverse when the net score of the three components is strong, and are not considered broad and diverse when the net score is weak. If the net score is moderate, applying the broad and diverse adjustment to the initial economic score may be warranted if we determine the local government benefits significantly from participation within its respective MSA.
46. Employment diversity within an MSA is primarily assessed using a Herfindahl Index that includes the share of total employment distributed across 12 general employment sectors. For this index, we consider less than 0.15 to be strong, between 0.15 and 0.18 to be moderate, and greater than 0.18 to be weak. Employment growth is primarily measured by the percentage change in total employment within an MSA for the prior five-year period. For this measure, we consider an MSA with a rate better than the sum of all MSAs as strong; if the MSA's rate is worse but within three percentage points of the sum of all MSAs it is considered moderate, and a rate more than three percentage points worse is considered weak. The employment base measures total employment within the MSAs across all sectors. For this measure, we consider population greater than 250,000 to be strong, between 100,000 and 250,000 to be moderate, and less than 100,000 to be weak.
47. Additional considerations include employment concentration within specific sectors if: 1) the Herfindahl index is greater than 0.067, excluding the education/health, government, and transportation, trade, and utilities sectors, or 2) any volatile sector is more than double the level found in the sum of all MSAs and a large 10-year percentage decline in total employment (greater than 10%). If any of these considerations exist, they may reduce the overall score from strong to moderate or moderate to weak.

## **E. Management Score**

48. The rigor of a government's financial management practices is an important factor in Standard & Poor's analysis of

that government's creditworthiness. Managerial decisions, policies, and practices apply directly to the government's financial position and operations, debt burden, and other key credit factors. A government's ability to implement timely and sound financial and operational decisions in response to economic and fiscal demands is a primary determinant of near-term changes in credit quality. The management score assesses the impact of management conditions on the likelihood of repayment. The score does not measure individual managerial quality, organizational efficiency, or any other performance indicator associated with management. Table 9 summarizes the scoring for the management score.

49. The Financial Management Assessment (FMA) methodology (see "Financial Management Assessment", published June 27, 2006) used in U.S. public finance forms the starting point for the management score. The FMA assesses only the policies and practices of a local government. Our criteria recognize the mere development of such practices as a principal method for preventing default as early as the 1930s evidenced in Hillhouse.

<b>Table 9 Assessing The Management Score (see paragraphs 48-58)</b>	
<b>Score</b>	<b>Characteristics</b>
1 (very strong)	FMA score of "Strong" and none of the factors in scores '4' or '5' are present.
2 (strong)	FMA score of "Good" and none of the factors in scores '4' or '5' are present.
3 (adequate)	FMA score of "Standard" and none of the factors in scores '4' or '5' are present.
4 (weak)	FMA score of "Vulnerable" or any of the following is present: there is a financial reporting restatement that has a material negative impact; any of the conditions in score '5' existed within the past three years; the structural imbalance override condition exists or existed within the past three years; or a very high debt, pension, and OPEB burden.
5 (very weak)	Regardless of the FMA score, any of the following is present: a management team that lacks relevant skills resulting in a weak capacity for planning, monitoring, and management; an auditor has delivered a going concern opinion; the government is exhibiting an unwillingness to support a debt or capital lease obligation; or the government is actively considering bankruptcy in the near term.
<b>Qualitative factors with a positive impact on the initial score</b>	<b>Qualitative factors with a negative impact on the initial score</b>
Consistent ability to maintain balanced operations.	Frequent management turnover inhibiting a current understanding of the government's financial position and its ability to adjust, or political gridlock, or instability that brings the same results.
Government service levels are limited.	Consistent inability to execute approved structural reforms for two consecutive years.
For each relevant qualitative factor, the score changes by one point. The final management score equals the initial score adjusted up or down based on the net effect of the qualitative adjustments. Qualitative adjustments cannot improve an initial management score of '5' or, in certain cases, a score of '4' (see paragraph 57).	

50. Regardless of the initial management score resulting from the FMA and any adjustment factors, certain conditions automatically cap the score at '4' or '5'. A capped score of '4' can occur if the financial reporting of the municipality is subject to material restatements to an extent that the uncertainty created is consistent with ratings no higher than 'A'. This does not include required accounting adjustments such as required changes by the Governmental Accounting Standards Board (GASB). Another instance when a capped score of '4' may occur is within three years after a condition that would cause or caused a management score of '5'. In such cases, the uncertainty surrounding management's ability to rebound from the condition(s) is also consistent with ratings no higher than 'A'. The same result can exist while the local government's finances are structurally imbalanced (see paragraph 35) or during the three-year period thereafter when management is rebounding from the structural imbalance condition. Finally, a capped score of '4' may result from having a debt, pension, and other postemployment benefits (OPEB) burden that is considered very high and management's lack of a credible plan to address the situation. Characteristics of a very high burden include:
- Total governmental funds debt service plus required annual pension payment plus annual OPEB payment as a percentage of total governmental funds expenditures above or expected to exceed 50%;
  - A growing recent and near-term expected trend of these fixed-cost charges; and
  - Fiscal flexibility unable to compensate for these elevated fixed-cost charges;
51. The first instance in which a municipality can receive a capped score of '5' occurs when a management team lacks the relevant skills to adequately plan, monitor, and manage the government's finances. Although rare, these conditions usually occur when the management organization concentrates nearly all management functions with one individual who then leaves. To receive a score of '5', a lack of qualified subordinates and delays in replacing the departed individual usually exist. As this period lengthens, the government's true financial position becomes less clear, and an auditor may have difficulty rendering an opinion on the government's financial statements.
52. The second instance occurs when an auditor has delivered a going concern opinion with the most recent review of the government's financial position. Other forms of qualified audit opinions do not result in a score of '5'.
53. The third instance occurs when a government shows an unwillingness to support a debt, capital lease obligation, or moral obligation pledge. A current lack of willingness to pay vendors, vendor leases, or other commercial obligations would not automatically result in a score of '5', although it could indicate increased financial pressure that could bring lower ratings through the other elements considered by the criteria. A current lack of willingness may or may not be clearly established before the actual payment date of the obligation concerned. Even before a government has formally chosen not to pay an obligation, downward rating adjustments could result from the expectation of such events.
54. The fourth instance occurs when representatives of the government take actions that indicate active consideration of bankruptcy filing in the near-term.
55. Various qualitative factors may raise or lower the final management score relative to the initial score, as shown in table 9.
56. Even when limited policies exist, the risk management poses to credit quality may still be limited. First, management may excel in consistently balancing operations despite the absence of formal policies. Second, when the government provides limited services, operational risk declines. The management score improves by one point when either of

these conditions exist. The criteria measure government operational risk by distinguishing between the following two categories:

- **Typical services:** the municipal government provides public safety, roads, basic planning and permitting, and some utility services. Governments providing significantly higher levels of complex or resource-intensive services also receive a score of 'typical'.
- **Limited services:** the municipal government maintains roads and provides only limited additional services that are mostly administrative or non-labor-intensive. It either does not provide public safety services or contracts them out to other governments. Any other services are limited and could be scaled back or discontinued if they became a burden.

57. No qualitative adjustment may raise the score if the initial score equals '5'. In some instances a score of '4' cannot be adjusted in a positive direction. No improvement in the final score occurs when a capped score of '4' is assigned because of the conditions described in paragraph 50.
58. Negative adjustments to the initial management score address circumstances or obstacles that prohibit management from planning and executing. Such conditions could include rapid management turnover or political gridlock or instability. The criteria also recognize that not all obstacles can be foreseen and use two consecutive years of failure to implement planned structural reforms as evidence that such an obstacle exists even if it has not been precisely identified.

## **F. Budgetary Flexibility Score**

59. The budgetary flexibility score measures the degree to which the government can look to additional financial flexibility in times of stress. Table 10 details the scoring for budgetary flexibility.

Table 10 Assessing The Budgetary Flexibility Score (see paragraphs 59-64)					
	Available Fund Balance As A % Of Expenditures				
%	>15	8-15	4-8	1-4	≤1
Score	1	2	3	4	5
A score of '1', '2', '3', '4', and '5' means very strong, strong, adequate, weak, and very weak, respectively.					
<b>Qualitative factors with a positive impact on the initial score:</b>			<b>Qualitative factors with a negative impact on the initial score:</b>		
If projections for the current year and the following year suggest a better initial score.			If projections for the current year and the following year suggest a worse initial score.		
Ability to avoid financial imbalances with demonstrated capacity and willingness to cut operational spending (by more than 2%), resulting from a flexible cost structure, flexible legislation, and/or widespread political support.			High levels of questionable receivables or amounts due from other funds with deficit balances.		
Existing state tax caps do not apply to the government, or the government retains substantial flexibility under the caps.			Limited capacity to cut expenditures due to infrastructure or operational needs or political resistance.		
Demonstrated ability and willingness to raise taxes when needed (and voter support is usually obtained when such approval is required).			Limited capacity to raise revenues due to consistent and ongoing political resistance which can include self-imposed restrictions through charter or local initiative processes.		
Timing of fiscal year and tax billing dates result in high cash with abnormally low fund balance levels.			Where cash accounting is used, the criteria use cash balances instead of fund balances and the score is worsened by one point.		
Maintenance of an available fund balance exceeding 30% of general fund expenditures for the most recently reported year, the current year and next year.					
For each relevant qualitative factor, the score changes by one point. The final budgetary flexibility score equals the initial score adjusted up or down based on the net effect of the qualitative factors. A metric that equals a cutoff point between two initial scores will equate to the worse score.					

60. Various qualitative factors may raise or lower the final budget flexibility score relative to the initial score, as shown in table 10.
61. The existing Available Fund Balances reflect the most obvious and measurable form of flexibility. However, we recognize that municipalities may have ongoing balances legally available for operations outside the general fund. Therefore, the Available Fund Balance in the initial score reflects all available funds legally available for operations. The initial score is the Available Fund Balance as a percentage of general fund expenditures. The measure uses data from the most recent reported year.
62. Qualitative adjustments to the budgetary flexibility score generally compensate for shortcomings in the fund balance measure or assess other forms of flexibility. GASB Interpretation No. 5 specifies how much of taxes already levied and possibly even collected must be deferred from a recognition perspective based on the timing of these elements relative

to the fiscal year. In some jurisdictions, this results in the accounting creation of low fund balances in a small number of credits that in reality have substantial resources. On the other hand, high fund balances as a percentage of expenditures may overestimate flexibility if the quality of receivables recognized is suspect. The Available Fund Balance measure will be net of any Available Fund Balance that includes questionable receivables that we do not expect to be collected, but if receivables are unable to be projected with confidence, the negative "questionable receivables" score adjustment is used instead of making an adjustment to the data (see table 10). For entities that report on a cash basis, the criteria use cash balances instead of fund balances. The score is worsened by one, however, to compensate for the lack of clarity on what funds are truly available. The maintenance of a consistently high fund balance -- exceeding twice the level associated with the top score -- that we expect to continue represents a positive adjustment that may offset a negative adjustment when both conditions exist.

63. Other forms of flexibility primarily include the ability to raise additional revenues or reduce expenditures. These tools are at least equal in power to the use of existing balances, but qualitative adjustments better suit their complexity due to the various forms they can take. With regard to tax caps, the institutional framework score incorporates the extent to which statewide tax caps exist, but the budgetary flexibility score differentiates those credits that retain flexibility despite the tax caps. The criteria separately assess local political support for increases, including cases where there are self-imposed limitations as a result of local charter initiatives or referenda.
64. The option to use fund balance in the near term can provide fiscal flexibility although fund balance drawdowns may impair future fiscal flexibility. Likewise, increasing fund balances can enhance fiscal flexibility. Our forward-looking analysis evaluates the budget performance for the current and next fiscal year. If our projections result in a score change, either up or down, the score is adjusted by one point in the relevant direction.

## **G. Budgetary Performance Score**

65. The budgetary performance score measures the current fiscal balance of the government, both from a general fund and total governmental funds perspective. Table 11 details the scoring for this measure.

Table 11 Assessing The Budgetary Performance Score (see paragraphs 65-68)					
	Total Governmental Funds Net Result (%)				
General Fund Net Result (%)	> -1	-1 to -5	-5 to -10	-10 to -15	≤ -15
(> 5)	1	2	3	3	4
(-1 to 5)	2	3	3	4	5
(≤ -1)	3	4	4	5	5
A score of '1', '2', '3', '4' and '5' means very strong, strong, adequate, weak, and very weak, respectively.					
Qualitative factors with a positive impact on the initial score:			Qualitative factors with a negative impact on the initial score:		
Expected structural improvement: if projections for the current year and following year suggested a better initial score, the score would improve by one point. The score would improve by two points only if required adjustments to revenues or expenditures to produce the result were already approved.			Expected structural deterioration: if projections for the current year and following year suggested a worse initial score, the score would worsen by one or two points. To worsen by two points, expected performance must fall to the commensurate level within the current year.		
			Deferred payments on a cash basis: in cases where good ratios hide significant underspending due to deferred payments, the deferral produces a better score.		
			Significant historic volatility in performance because of very cyclical revenues, (e.g. oil & gas or sales taxes on luxury goods and/or dependence on volatile state transfers) or exposure to event-related risks, and the sources of volatility remain.		
For each relevant qualitative factor, the score changes by one point, except for expected structural improvement or deterioration which could result in a difference of two points relative to the initial score. The final budget performance score equals the initial score adjusted up or down based on the net effect of the qualitative factors. Metrics that equal a cut-off point between two initial scores will equate to the worse score.					

66. Various qualitative factors may raise or lower the final budget performance score relative to the initial score, as shown in table 11.
67. The budgetary performance score begins with a measure based on the most recent year reported because it is observable and verifiable. The criteria will usually smooth planned capital expenditures to arrive at a more sustainable view of ongoing performance by eliminating the spending of borrowed funds for capital expenditures. Adjustments are also made for net transfers to identify the structural result.
68. However, future credit quality is dependent on current and future performance. Accordingly, the score can be adjusted by one or at most two points if actions or events subsequent to the date of the measure suggest different results in the coming years. Examples of actions warranting such adjustments include updated current-year estimates, new budgets, or budget amendments featuring approved revenue or expenditure adjustments. The criteria also compensate for artificially positive outcomes resulting from deferred expenditures, such as underfunding required pension

contributions, with a negative adjustment of one point. A negative adjustment of one point also exists for the uncertainty associated with governments facing increased volatility in revenues with a more-than 10% year-to-year decline, such as those highly dependent on oil and gas-related revenues or sales taxes on luxury goods or subject to event-related risk. The criteria include financial reporting restatements that are not material enough to warrant a management score (see paragraph 50) of '4' but inject a degree of uncertainty to the performance score, as a one-point negative adjustment. Event-related risk can also include sudden and material negative financial performance from enterprises owned by the entity.

## **H. Liquidity Score**

69. The liquidity score measures the availability of cash and cash equivalents to service both debt and other expenditures. Table 12 details the calculation of the initial score, as well as the manner in which other factors affect the liquidity score. The measure uses data from the most recently reported year.

Table 12 Assessing The Liquidity Score (see paragraphs 69-77)					
	Total Government Available Cash As % Of Total Governmental Funds Debt Service				
Total Government Available Cash As % Of Total Governmental Funds Expenditures	>120	100 to 120	80 to 100	40 to 80	≤40
>15	1	2	3	4	5
8 to 15	2	2	3	4	5
4 to 8	3	3	3	4	5
1 to 4	4	4	4	4	5
<1	5	5	5	5	5
A score of 1, 2, 3, 4 and 5 are very strong, strong, adequate, weak and very weak, respectively.					
Qualitative factors with a positive impact on the initial score:			Qualitative factors with a negative impact on the initial score:		
If projections for the current year (and the following year) suggest a better initial score, the score improves by one point.			If projections for the current year (and the following year) suggest a worse initial score, the score worsens by one point.		
If access to external liquidity is 'exceptional' as defined in table 13, the score improves by two points; if 'strong', the score improves by one point.			If access to external liquidity is 'uncertain' as defined in table 13, the score worsens by two points; if 'limited', the score worsens by one point.		
Very robust and stable internal cash flow generation capacity compared with peers in this category.			High refinancing risk over the next 24 months.		
			Aggressive use of investments.		
			Exposure to non-remote contingent liability risk that could come due within 12 months.		
See paragraph 77 for circumstances resulting in an automatic score of '4' or '5'. Extraordinary proceeds (such as unused short-term borrowing) that span fiscal years or that are otherwise dedicated will be adjusted out of Total Government Available Cash.					
For each relevant qualitative factor, the score changes by one point, except for access to external liquidity which could change the final score by two points and contingent liability exposure which could cap the score at '4' or '5'. The final liquidity score equals the initial score adjusted up or down based on the net effect of the qualitative factors. Metrics that equal a cut-off point between two initial scores will equate to the worse score.					

70. Various qualitative factors may raise or lower the final liquidity score relative to the initial score, as shown in table 12.

71. Because governments hold monies in various funds that may be accessed for short-term liquidity, the measure uses Total Government Available Cash held by the government and recognizes most governments' ability to engage in interfund borrowing. Undrawn amounts under committed bank lines and other facilities are included as cash, and drawn amounts are included with both debt service and total expenditures if due within the next 12 months.
72. Through adjustment factors, the criteria also recognize the role that capital markets and bank financing can play in local government liquidity, as well as the strengths and weaknesses associated with other conditions.
73. The access to external liquidity score detailed in table 13 measures a local government's access to capital market and bank financing.
74. Availability of liquidity varies and in part is a function of the current and near term financial condition. Our forward-looking analysis evaluates the cash, expenditures and debt service for the current and next fiscal year. If our projections result in a score change, either up or down, the score is adjusted one point in the relevant direction.

**Table 13**

**Assessment Of Access To External Liquidity (see paragraph 75)**

<b>Access To External Liquidity</b>	<b>Typical Characteristics</b>
Exceptional	There is well-tested access to capital markets through different capital financing programs as well as a history of tapping these markets for over 15 years through different economic cycles.
Strong	There is a record of sufficient access to capital markets, and no reason to believe access has diminished.
Satisfactory	There is no record of access to the capital markets in the last 20 years, but there is also no reason to believe that external financing could not be obtained at a price acceptable to the government.
Limited	Legal or market obstacles to the use of debt instruments for liquidity management exist; the availability of bank loans is limited.
Uncertain	Access to external liquidity is highly questionable, considering both capital market and bank sources.

75. Although local governments in general have enjoyed good market access even through the last economic downturn and credit tightening, the score assesses access relative to the specific local government rather than to the sector as a whole. Absent a market-based or issuer-specific reason to question future market access, the score will use the government's own record of market access in addition to any state-specific sources.
76. The criteria also recognize that future cash balances may be understated for credits with strong cash flow generation capabilities. Often, this results from conservative budgeting procedures that consistently produce positive budget variances.
77. By contrast, projected cash balances may be more at risk under certain conditions, including aggressive use of investments, high refinancing risk over the next 24 months, or exposure to other contingent liability risk that could come due within the next 12 months. Aggressive use of investments includes the use of derivatives for investment rather than hedging purposes, a focus on return over preservation of principal and liquidity, and the use of nontraditional instruments without an ability to articulate their risks and how they will be mitigated. High refinancing risk includes instances where the issuer could be forced to access outside financing due to a lack of internal liquidity, but the issuer will have limited warning when the need arises and has no credible plan to do so on a timely basis. Other contingent liquidity risks include payments resulting from rating triggers, legal judgments, deficits of other enterprises,

or other events that are foreseeable within our current-year estimate. When such events are likely, the coming year's cost of these obligations exceeds 25% of general fund revenues, and the government lacks a commitment to implement a credible plan to finance the obligation, the final liquidity score is capped at '5'. When such events are likely, the coming year's cost of these obligations exceeds 10% of general fund revenues, and the government lacks a commitment to implement a credible plan to finance the obligation, the final liquidity score is capped at '4'. Otherwise, the presence of such obligations worsens the liquidity score by one point. Any such element deemed certain is included as an expenditure in total cash as a percentage of total governmental funds expenditures. If the event would result in a higher debt obligation, the criteria also include the item as debt service in the total government cash as a percentage of total governmental funds debt service measure. For more information on contingent liquidity risks, see "Contingent Liquidity Risks In U.S. Public Finance Instruments: Methodology And Assumptions", published March 5, 2012.

## **I. Debt And Contingent Liabilities Score**

78. The criteria form the initial debt and contingent liabilities score from the combination of two measures: total governmental funds debt service as a percentage of total governmental funds expenditures and net direct debt as a percentage of total governmental funds revenue. Debt service as a percentage of expenditures measures the annual fixed-cost burden that debt places on the government. Debt to revenues measures the total debt burden on the government's revenue position rather than the annual cost of the debt, which can be manipulated by amortization structures. Net direct debt is calculated as of the date of our analysis, including any debt issuance we are currently rating. Debt to expenditures is measured similarly, recognizing any near-term changes due to the government's debt structure. Table 14 details the scoring for the debt and contingent liabilities score. For more information on debt measurement, see "Debt Statement Analysis", published Aug. 22, 2006.

Table 14 Assessing The Debt And Contingent Liabilities Score (see paragraphs 78-84)					
Total Governmental Funds Debt Service As A % of Total Governmental Funds Expenditures	Net Direct Debt As % Of Total Governmental Funds Revenue				
	<30	30 to 60	60 to 120	120 to 180	≥180
< 8	1	2	3	4	5
8 to 15	2	3	4	4	5
15 to 25	3	4	5	5	5
25 to 35	4	4	5	5	5
≥35	4	5	5	5	5
A score of 1, 2, 3, 4 and 5 are very strong, strong, adequate, weak and very weak, respectively.					
Qualitative factors with a positive impact on the initial score:			Qualitative factors with a negative impact on the initial score:		
Overall net debt as a percentage of market value below 3%.			Significant medium-term debt plans produce a higher initial score when included.		
Overall rapid annual debt amortization, with more than 65% coming due in 10 years.			Exposure to interest-rate risk or instrument provisions that could increase annual payment requirements by at least 20%.		
			Overall net debt as a percentage of market value exceeding 10%.		
			Unaddressed exposure to large unfunded pension or OPEB obligations leading to accelerating payment obligations over the medium term that represent significant budget pressure (see paragraph 82). If there is a plan to address the obligations, the final score worsens by one point; otherwise the score worsens by two points.		
			Speculative contingent liabilities or those otherwise likely to be funded on an ongoing basis by the government representing more than 10% of total governmental revenue .		
For each relevant qualitative factor, the score changes by one point, except for unaddressed exposure to unfunded pension or OPEB obligations which can worsen the final score by two points. The final debt and contingent liabilities score equals the initial score adjusted up or down based on the net effect of the qualitative factors. Metrics equal a cutoff point between two initial scores will equate to the worse score.					

79. Qualitative adjustments may raise or lower the final debt and contingent liabilities score relative to the initial score, as shown in table 14. The criteria consider pending debt issuance through an upward score adjustment when including

the planned or recently issued debt results in a worse score.

80. The criteria improve the final score by one point when above-average annual debt amortization (based on total direct debt) inflates the debt service as a percentage of expenditures score and masks the future flexibility stemming from an early deleveraging. The criteria do not apply this adjustment when the early amortization results from a near-to-medium term bullet maturity that will not be retired with funds on hand. Exposure to interest-rate risk or instrument provisions that cause amortization or interest-rate changes beyond the issuer's control increase the score by one point, reflecting additional uncertainty as to whether current debt service levels are representative of those going forward. Examples include unhedged variable-rate debt or higher interest rates resulting from failed remarketings in instruments such as auction-rate securities, variable-rate demand bonds, and certain direct purchase obligations.
81. An overall net debt to TMV level of above 10% worsens the score by one point, while a low level, below 3%, improves the score by one point. This statistic captures the burden of the local government's debt in addition to that of overlapping jurisdictions on the overall tax base. An atypical debt burden can present extra challenges or flexibility over and above that suggested by the individual government's debt burden alone.
82. The impact of pension and OPEB obligations depends on the degree to which such costs will likely escalate and whether the government has plans to address them. Relative to debt, governments have a higher level of flexibility to address these costs, both from a temporal payment perspective and from an obligation level perspective. Many governments have the flexibility to alter benefit levels, and some governments already have availed themselves of this ability. Most governments also can pay less than the annual required contribution without leaving the fund unable to meet actual payments in the current and following year. On the other hand, such delays accelerate the growth rate of future payments. When the potential for such accelerations exists and the increased payments increase budget stress, the final debt and contingent liabilities score worsens by one point when a specific and credible plan to address this burden is in place. Otherwise, the score worsens by two points relative to the initial score. Among the areas of analytic focus when assessing the pension and OPEB burden will be:
  - The required annual pension payment plus annual OPEB payment as a percentage of total governmental funds expenditures. A combined carrying charge of 10% or more will be considered elevated, however, we will consider whether we expect the elevated payments to result in lower future obligations.
  - The actuarial funded ratio(s) of the pension plan(s) a local government participates in or sponsors. If the ratio(s) are less than 80%, they will receive further review especially when the carrying charge is elevated. We also consider the magnitude of the unfunded obligation in tandem with the funded ratio(s) when assessing the potential for stress.
  - The contributions actually made to all pension plans a local government participates in or sponsors. The degree to which a local government contributes less than its full required contribution(s) could be an indication of either short-term cash flow issues or a willingness of management to defer difficult decisions.
  - The OPEB costs exceed 5% of total governmental funds expenditures and the local government has limited flexibility to change or amend these benefits.
83. Finally, another adjustment considers additional future contingent liabilities not yet requiring government support. While our debt burden calculation already considers other nondirect debt requiring government support and our liquidity score considers the near-term impact of any contingent liabilities, the adjustment to the debt score results

from a likelihood of ongoing payment obligations not yet occurring that represent more than 10% of total governmental funds revenues. Once the payment obligations become reality, they are included in the debt measure. Examples of contingent liabilities include potential legal judgments, currently self-supporting government enterprise debt that is likely to require support in the near future, guaranteed debt likely to need support in the near future, and additional costs resulting from pending changes in law.

84. As discussed in paragraph 50, a very high debt, pension, and OPEB burden can lead to a management score of '4', which caps the final rating at the lower of 'A' and one notch lower than that suggested by table 1. In cases where these liabilities are not determined to be excessive, the one-notch flexibility described in paragraph 24 may be used to account for the impact that elevated levels of these liabilities can have on credit quality.

## VII. APPENDIX I: Selected Historical Statistics

85. Selected historical statistics on local government defaults taken or derived from George Hempel's "The Postwar Quality of State and Local Debt" are shown in tables 15 and 16.

**Table 15**

Number Of Recorded Defaults From 1839-1965 By Type Of Governmental Unit						
Year	States	Counties and parishes	Incorporated municipals	Unincorporated municipals	School districts	Other districts
1839-1849	9		4			
1850-1859	2	7	4	4		
1860-1869	1	15	13	9		
1870-1879	9	57	50	46	4	2
1880-1889		30	30	31	5	1
1890-1899		94	93	50	9	12
1900-1909		43	51	33	11	11
1910-1919		7	17	5		7
1920-1929	1	15	39	10	14	107
1930-1939		417	1,434	88	1,241	1,590
1940-1949		6	31	7	5	30
1950-1959		12	31	4	23	42
1960-1965		17	70	20	41	44
Total defaults	22	720	1,867	307	1,353	1,846
Total state and local governmental units in 1963	50	3,043	17,997	17,144	34,678	18,323

**Table 16**

Government Defaults As A Percentage Of Total Governmental Units By Type Of Government						
Year	Counties and parishes (%)	Incorporated municipals (%)	Unincorporated municipals (%)	School districts (%)	Other districts (%)	
1839-1849	0	0	0	0	0	
1850-1859	0.2	0	0	0	0	
1860-1869	0.5	0.1	0.1	0	0	

**Table 16**

Government Defaults As A Percentage Of Total Governmental Units By Type Of Government (cont.)					
1870-1879	1.9	0.3	0.3	0	0
1880-1889	1	0.2	0.2	0	0
1890-1899	3.1	0.5	0.3	0	0.1
1900-1909	1.4	0.3	0.2	0	0.1
1910-1919	0.2	0.1	0	0	0
1920-1929	0.5	0.2	0.1	0	0.6
1930-1939	13.7	8	0.5	3.6	8.7
1940-1949	0.2	0.2	0	0	0.2
1950-1959	0.4	0.2	0	0.1	0.2
1960-1965	0.6	0.4	0.1	0.1	0.2

To derive the percentages, the table uses the study's total number of governments in 1963 for the total number of governments in all periods because this statistic is not available for all periods and the number of governments did not vary dramatically over these periods. The percentages above will overestimate annual default rates in many cases due to the multiyear nature of the periods.

## VIII. APPENDIX II: Relationship To The State Rating

86. Local governments have a number of connections to their state governments. State governments may change the levels of funding provided to local governments. State legislatures may also change laws on local government funding, debt issuance, or even expenditure responsibilities. In smaller or more concentrated states, the nature of the economic bases may also be similar.
87. Given the historical record and ongoing localized nature of local government finance, the criteria measure the impact of additional stress by state governments through the standard scores. Were a state to alter local government funding statutes or mechanisms for its own fiscal purposes, such decisions could result in changes to the predictability, revenue and expenditure balance, and system support scores for all related local governments (see paragraphs 37-40). As the direct impact on a local government's fiscal balance becomes clear, changes to the budgetary flexibility and budgetary stress scores could occur.
88. Probably due to the historical trends of ongoing local control described in subsection A, there is limited data to show that state credit stress directly brings local government stress. Where correlation does exist, there is little evidence to suggest causation. Hempel notes that following the panic of 1837, nine states defaulted, namely Arkansas, Florida, Illinois, Indiana, Louisiana, Maryland, Michigan, Mississippi, and Pennsylvania. He cites only two municipal defaults following the panic, only one of which was in these states (Mobile, Ala. and Detroit, Mich.). The low level of municipal debt outstanding at the time, however, also likely limited defaults.
89. By the time of the depression of 1873 through 1879, local government debt had also significantly increased, in part because of prior restrictions on state debt issuance following the 1837 experience. Based on statements from Hempel and Scott, 12 states appear to have defaulted on or repudiated their debt during this period. Exact numbers of local government defaults by state during this period are elusive. Hillhouse's "Defaulted Municipal Bonds (1830-1930)" provides perhaps the best source. The author does not provide dates for the more-than 860 defaults cited, but instead provides citations for pieces that provide further information on these defaults. Using these citations as a proxy for the

period in which these defaults occurred allows for an analysis of whether credits presumably defaulting in this period were also in states that defaulted. Table 17 provides this detail.

**Table 17**

**Reported Local Government Defaults In Defaulting And Nondefaulting States Over Various Periods (see paragraphs 19-23)**

	Local defaults 1837-1843	Local defaults 1873-1880	Local defaults 1936
In states that defaulted	0	56	290
In states that did not default	2	85	2,869

Source: "Defaulted Municipal Bonds and Municipal Bonds, A Century of Experience"

90. Finally, Hillhouse's primary work, "Municipal Bonds, A Century of Experience", also lists municipal defaults by state during the Great Depression. Of the 3,159 credits in default as of January 1936, 290 were in Arkansas, the one state experiencing payment difficulties. Of this total however, 279 were school districts or other special districts. With regard to cities with populations of 10,000 or more in default, Arkansas had one out of nine such cities in default. In comparison, Ohio had 24 of 61 such cities in default, Michigan had 21 of 41, and New Jersey had 18 of 54.
91. Of course many other municipal defaults occurred between the periods referenced in table 17, and others have followed since, despite the lack of periods generating additional state payment defaults. Common reasons for these defaults include periods of overleveraging followed by a decline in local revenues, real estate or other development speculation, and fraud or mismanagement. Sometimes these defaults occurred in a regional pattern, while other times they were idiosyncratic.
92. Although no additional state defaults have occurred recently, several were significantly tested during the last recession. Despite budget gaps too large for one-item solutions, state cutbacks have posed no serious credit threat to municipal governments. The reduction of aid in some states has resulted in the need for local government adjustment, but, in our view, the size of these cutbacks in no way threatened the outright solvency of municipalities or their ability to service debt.

## IX. APPENDIX III: Changes Since The Request For Comment

93. On March 6, 2012 Standard & Poor's published "Request For Comment: U.S. Local Governments: Methodology And Assumptions". Market participants who responded were generally positive about the increased transparency and clarity of the criteria. Some of them provided specific comments about certain metrics, data sources, and weighting of analytical factors (see "What's Happening With The Proposed U.S. Local Government Criteria? An Update On Feedback And Implementation", published Sept. 19, 2012). These comments and further analysis led to the following main changes between the criteria and the proposal presented in the RFC:
  - Several overriding factors have been added (see table 2). Among them are: Available Fund Balance of less than \$500,000, a budgetary flexibility score of '5', and exhibiting characteristics of structural imbalance.
  - The positive qualitative adjustment for participation in a broad and diversified economy in the economic score has been modified to reflect a more-robust analysis of MSAs to help determine if the adjustment will be made.
  - To further augment the forward-looking nature of our analysis, positive and negative qualitative adjustments have

been added to the budgetary flexibility and liquidity scores to account for situations when projections suggest better or worse scores. These adjustments had previously existed only in the budgetary performance score in the RFC.

- The liquidity score can be capped at '4' or '5' if certain levels of non-remote contingent liability risks exist to capture the significant stress these obligations can pose.
- Chiefly due to the changes listed above, the ranges for the indicative rating outcomes in table 1 were changed slightly to keep consistent our view of credit quality for the sector.
- Finally, additional characteristics were added to the description of the management score of '4' to capture situations where management is enduring or has recently endured conditions that pose credit stress.

## **X. GLOSSARY**

94. Available Fund Balance: the sum of the Available General Fund Balance + any other fund balances of the government legally available for operations. For entities that report on a cash basis, the criteria use cash balances instead of fund balances.
95. Available General Fund Balance: the portion of the general fund balance that is legally available for operations. Based on GASB 54 designations, this generally includes assigned and unassigned balances but may include committed if committed for emergencies or other uses intended to support operations if necessary.
96. Dependent Population: the total population of an area that is younger than 15 years plus the total population of an area older than 65.
97. Effective Buying Income (EBI): personal income (wages, salaries, interest, dividends, profits, rental income, and pension income) - federal, state, and local taxes and nontax payments (such as personal contributions for social security insurance).
98. General Fund Net Result (%) (total general fund revenues - total general fund expenditures + transfers in from other funds - transfers out to other funds) divided by general fund expenditures.
99. Metropolitan Statistical Area: geographic entities delineated by the federal government that contain a core urban area of 50,000 or more population. MSAs consist of one or more counties that include the core urban area as well as any adjacent counties that are highly integrated.
100. Total Government Available Cash: total cash (cash, and cash equivalents + investments (when grouped with cash in the audit)) – proceeds of borrowings that are otherwise dedicated – other encumbered cash + liquidation of certain highly liquid securities.
101. Total Governmental Funds Net Result (%): (total governmental revenues - total governmental expenditures) divided by total governmental fund expenditures.
102. Total Market Value: the estimated market value of all real and personal property within the jurisdiction, typically determined as part of a government or other independent appraisal to determine taxable or assessed value.

## XI. RELATED CRITERIA AND RESEARCH

### Related Criteria

#### Articles complementing the criteria

- Appropriation-Backed Obligations, June 13, 2007
- Contingent Liquidity Risks In U.S. Public Finance Instruments: Methodology And Assumptions, March 5, 2012.
- Debt Statement Analysis, Aug. 22, 2006
- Financial Management Assessment, June 27, 2006
- Methodology For Rating International Local And Regional Governments, Sept. 20, 2010
- The Time Dimension Of Standard & Poor's Credit Ratings, Sept. 22, 2010
- Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012

### Related Research

- What's Happening With The Proposed U.S. Local Government Criteria? An Update On Feedback And Implementation, Sept. 19, 2012)
- Municipal Bankruptcy: Standard & Poor's Approach And Viewpoint, Oct. 4, 2012
- Hempel, George Henry, "The Postwar Quality of Municipal Bonds", University of Michigan doctoral dissertation, 1964
- Hempel, George Henry, "The Postwar Quality of State and Local Debt", National Bureau of Economic Research, 1971
- Hillhouse, A.M., "Defaulted Municipal Bonds (1830-1930)", Municipal Finance Officer's Association of the United States and Canada, December 1935
- Hillhouse, A.M., Municipal Bonds, "A Century of Experience", Prentice-Hall, New York, 1936
- Hoene, Christopher W. and Pagano, Michael A., "City Fiscal Conditions in 2010", National League of Cities Research Brief on America's Cities, October 2010
- Lutz, Byron, Molloy, Raven, and Shan, Hui, "The Housing Crisis and State and Local Government Tax Revenue: Five Channels", Finance and Economics Discussion Series, Divisions of Research and Statistics and Monetary Affairs, Federal Reserve Board, Washington D.C., August 2010
- Rodden, Jonathan, "The Dilemma of Fiscal Federalism: Grants and Fiscal Performance around the World", MIT Draft Working Paper, Sept. 28, 2001
- Standard & Poor's Refines Its Limited-Tax GO Debt Criteria, Jan. 10, 2002
- Understanding Standard & Poor's Rating Definitions, June 3, 2009
- Standard & Poor's U.S. Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Methodology And Assumptions: Request For Comment: Ratings Above The Sovereign—Corporate And Government Ratings, April 12, 2013

These criteria represent the specific application of fundamental principles that define credit risk and ratings opinions. Their use is determined by issuer- or issue-specific attributes as well as Standard & Poor's Ratings Services' assessment of the credit and, if applicable, structural risks for a given issuer or issue rating. Methodology and assumptions may change from time to time as a result of market and economic conditions, issuer- or issue-specific factors, or new

empirical evidence that would affect our credit judgment.

(And watch the related CreditMatters TV segments titled, "Standard & Poor's New Methodology For Rating U.S. Local Governments Features Institutional Framework Scoring," and "What's Behind Standard & Poor's Revised Criteria For Rating U.S. Local Governments," dated Sept. 12, 2013.)

**Additional Contact:**

Steven J Murphy, New York (1) 212-438-2066; [steve.murphy@standardandpoors.com](mailto:steve.murphy@standardandpoors.com)

Copyright © 2014 Standard & Poor's Financial Services LLC, a part of McGraw Hill Financial. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription) and [www.spcapitaliq.com](http://www.spcapitaliq.com) (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).