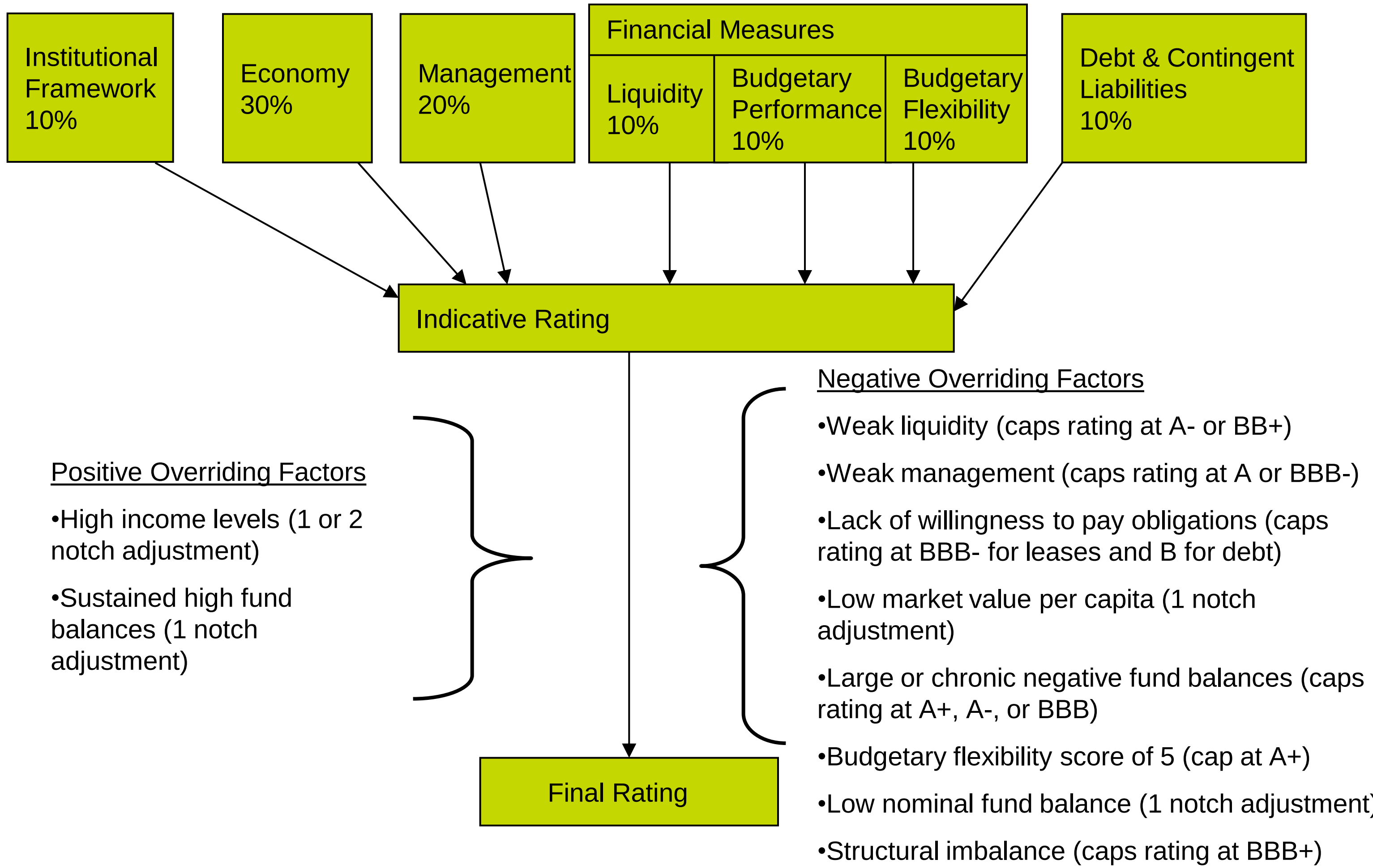
STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

Rhode Island GFOA

U.S. Local Governments: Methodology And Assumptions - An Overview of S&P's Local GO Criteria

Analytical Framework



 Source: Standard & Poor's Ratings Services.

Institutional Framework

Institutional Framework 10%

Assesses the legal and practical environment in which the local government operates

The score is based on the average of four discretely scored areas

- *Predictability*: the extent to which a local government can forecast its revenues and expenditures on an ongoing basis
- *Revenue and expenditure balance*: the extent to which a local governments have the ability to finance the services they provide
- *Transparency and accountability*: the overall institutional framework's role in encouraging the transparency and comparability of relative financial information
- *Systemic support*: the extent to which local governments receive extraordinary support from a state government when the local government is under extreme stress

Economic Score

Economy
30%

- Assess 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
- The initial score (1 through 5) is based on market value per capita and projected per capita income as a % of U.S.
- Per capita income is based on a 5-year projection
- Especially high income will lead to a positive override and especially low market value per capita will lead to a negative override

	Total Market Value Per Capita				
Projected Per Capita EBI 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 to150	1.5	2	2.5	3	3.5
85 to110	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

Source: Standard & Poor's Ratings Services.

Economic Score Adjustments

Economy
30%

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	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, the score worsens by one point. If the top 10 taxpayers exceed 45% of the tax base, the score worsens by two points.

Source: Standard & Poor's Ratings Services.

Management

Management
20%

Assesses the impact of management conditions on the likelihood of repayment

The initial score is based on our Financial Management Assessment (FMA) which was part of our prior methodology.

The management factor also introduces several circumstances that result in an automatic score of 4 or 5, regardless of FMA score

Qualitative factors with a positive impact on the initial score	Qualitative factors with a negative impact on the initial score
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 on approved structural reforms for two consecutive years.

Seven Areas Measured by the FMA

1. Revenue and expenditure assumptions
2. Budget amendments and updates
3. Long term financial planning
4. Long term capital planning
5. Investment management policies
6. Debt management policies
7. Reserve and liquidity policies

Debt and Contingent Liability

Debt & Contingent Liabilities
10%

Initial debt score: combination of two measures

- Total governmental funds debt service as a percentage of expenditures
  - Measures the annual fixed cost burden that debt places on the government
- Net direct debt as a percentage of total governmental funds revenue
  - 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

Assessing The Debt And Contingent Liabilities Score					
	Net Direct Debt As % Of Total Governmental Funds Revenue				
Total Governmental Funds Debt Service As A % of Total Governmental Funds Expenditures	<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

Source: Standard & Poor's Ratings Services.

Debt and Contingent Liability Adjustments

Debt & Contingent Liabilities
10%

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%.	Overall net debt as a percentage of market value exceeding 10%.
Overall rapid annual debt amortization, with more than 65% coming due in10 years.	Significant medium-term debt plans produce a higher score when included.
	Exposure to interest-rate risk or instrument provisions that could increase annual payment requirements by at least 20%.
	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 80). 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.

Source: Standard & Poor's Ratings Services.

Financial Measures

- Three components factor into our assessment of a municipality's financial credit characteristics
- Budgetary flexibility, budgetary performance, and liquidity
- Each factor is weighted 10% — all financial measures together are 30%

Financial Measures		
Liquidity 10%	Budgetary Performance 10%	Budgetary Flexibility 10%

- The budgetary flexibility score measures the degree to which the government can look to additional financial flexibility in times of stress.
- The budgetary performance score measures the current fiscal balance of the government.
- The liquidity score measures the availability of cash and cash equivalents to service both debt and other expenditures.

Medians - Municipalities

Municipalities

		Medians								
		$	%							
Rating	No.	MVPC	Proj PC EBI	FB/exp	GF op res	TGF op res	TG cash/exp	TG cash/DS	Net DD/rev	TGF DS/exp
AAA	65	157,536	150	29	2	2	45	465	87	9
AA	342	81,569	99	29	2	1	55	516	88	9
A	110	51,325	78	14	1	(2)	42	376	112	11
BBB and lower	24	51,805	73	(0)	(3)	(2)	25	292	95	10

iPad® App View: Credit Scenario Builder