



# Credit Ratings

Process, Methodologies & Policy Development

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## Key objectives

1. Overview of rating factors - Ehlers
2. The rating process - Moody's
3. General Obligation Methodology & Metrics - Moody's
4. Municipal utility revenue debt methodology - Moody's
5. Key Policies - Ehlers



# Rating factors





# Ratings

	Moody's	S & P	Fitch
Highest	Aaa	AAA	AAA
	Aa1	AA+	AA+
	Aa2	AA	AA
	Aa3	AA-	AA-
	A1	A+	A+
	A2	A	A
	A3	A-	A-
	Baa1	BBB+	BBB+
	Baa2	BBB	BBB
Lowest (Investment Grade)	Baa3	BBB-	BBB-



## When can rating changes occur?

1. When rating is obtained prior to sale of municipal securities
2. During preparation/review in conjunction with an annual issuer comment
3. Surveillance call outside of debt issuance process.

Rating movement up or down can occur anytime.



## Rating factor: debt profile

- Describe proposed bond issue & security pledged
- Timeline and status of project
- Detail any future requirements for capital outlays linked to project
- Provide summary of levy, TID, or user rate impact of proposed financing
- Provide an overview or model for future debt issuance.



## Rating factor: economy

- Answer inquiries such as performance of the housing market, any commercial vacancies, and status of TIF districts
- Significant news regarding major employers, taxpayers, or institutions
- Describe new construction or planned developments since last call What's expected incremental increase in market value?
- What's end of year projection for building permit activity?



## Rating factor: management

- Do you have a long-term capital plan?
  - ✓ How often is it updated?
  - ✓ Are funding sources identified?
- Do you have a reserve target or policy?
  - ✓ What is the minimum reserve?
  - ✓ Is the target or policy set for the total, or assigned & unassigned balance?
  - ✓ Why was this amount chosen?





## Rating factor: management (continued)

- Do you have your own investment policy?
  - ✓ Or...do you simply follow state guidelines?
  - ✓ How often are holdings, earnings reported to Governing Body?



## Rating factor: finances

- How do you anticipate current fiscal year will end - revenues and expenditures?
  - ✓ What are expectations for the following year?
- What portion (*if any*) of committed general fund balance could be considered available for operations?
- Do you have flexibility to raise additional revenue under tax limits (*set by either state statute or local charter*)?
- Describe recent capital expenditures and whether any may be recurring



## **Resources: have these on hand**

- Background information on any project to be financed
- Last three years' audited financial statements
- Current budget + draft budget for following year
- YTD financials
- Official Statement for bond issue
- Capital improvement plan
- Long-term financial plan
- Previous rating report(s)

**See separate Moody's presentation**



## Key policies

### 1. Fund balance

- ✓ Most policies based on unassigned & assigned fund balance as a percentage of operating revenues.
- ✓ Consider expanding to include debt service fund and others included in available fund balance calculation metric



## Key policies (continued)

### 2. Investment

- ✓ Consistent with state statutes
- ✓ Address concepts of safety, liquidity & yield
- ✓ Use of cash flow model
- ✓ Address investment of bond proceeds & general cash



## Key policies (continued)

### 3. Debt management

- ✓ CIP updates & format
- ✓ G.O. debt limit target
- ✓ Percentage of debt amortized within 10 years
- ✓ Tax rate target for debt service
- ✓ Use of revenue debt & short-term/interim financing



## Key policies (continued)

### 3. Debt management

- ✓ Debt structure objectives/approach
- ✓ Use of call provisions
- ✓ Approach regarding competitive & negotiated sales
- ✓ Refunding savings targets
- ✓ Post issuance compliance (i.e. arbitrage & continuing disclosure)





## Ehlers presenter



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