



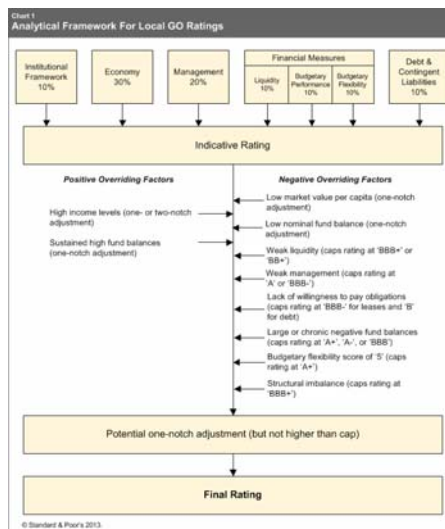
Brief Overview of S&P Global Ratings' Local Gov't GO Criteria

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Analytical Framework





Institutional Framework (#1 of 7 Factors)

Institutional Framework
10%

All governments of the same type within the same state receive the same score (5 categories in Wisconsin)

Each state's IF scores are reviewed annually

Institutional Framework Score Outcomes	
Score Range	Institutional Framework Score
1 – 1.5	1 (very strong) = No Wisconsin entities
1.75 – 2.75	2 (strong) = Wisconsin cities and counties with populations greater than 25,000
3.0 – 3.75	3 (adequate) = Wisconsin cities & villages with populations less than 25,000 + Wisconsin towns
4 – 4.5	4 (weak) = No Wisconsin entities
4.75 – 5	5 (very weak) = No Wisconsin entities

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

⁴ Source: S&P Global Ratings



Institutional Framework

- **New credit factor in addition to Economy, Finances, Debt & Management**
- **Assesses the legal and practical environment in which the local government operates:**

Predictability

Revenue & expenditure balance

Transparency & accountability

System support from the state

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Economy Score (#2 of 7 Factors)

Economy
30%

- **Assesses the ability of the asset base to provide local revenues + the likelihood of additional service demands during economic downturns**
- **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 EDS's 5-year projections**
- **Especially high income will lead to a positive override and especially low market value per capita will lead to a negative override**

Projected 2020 Per Capita EBI as a % of U.S.	Total Market Value Per Capita				
	>\$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

6 Source: S&P Global Ratings



Economy

- **The initial score is entirely data-driven,**
 - We will still ask about recent events and commuting patterns
- **Notables**
 - Ways to move rating up a notch:
 - High effective buying income levels over 225%
 - High effective buying income levels over 300% (2 notches)
 - Ways to move rating down a notch:
 - Low market value per capita of less than \$30,000

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Management Score (#3 of 7 Factors)

Management
20%

- **Assesses the impact of financial policies and practices on the likelihood of repayment**
- **Based on our Financial Management Assessment (FMA) which goes back to 2006**

Assessing the Management Score	
Rounded Score	Characteristics
1 (Very strong)	FMA score of "strong" and none of the factors in score '4' or '5' is present.
2 (Strong)	FMA score of "good" and none of the factors in score '4' or '5' is present.
3 (Adequate)	FMA score of "standard" and none of the factors in score '4' or '5' is 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 in 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 appears unwilling to support a debt or capital lease obligation; or the government is actively considering bankruptcy in the near term

8 Source: S&P Global Ratings



Management Factors

- Budget planning—revenue & expenditure projections
- Budget reports
- Financial modeling
- Capital planning
- Investment policy & reports
- Debt Management Policy
- Reserve policy or informal target

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Financial Measures

- Three financial factors: budgetary flexibility, budgetary performance, + liquidity
- Each factor is weighted 10% — total 30% of final score

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



Financial Measures: Budgetary Flexibility Score (#4 of 7 Factors)

Budgetary Flexibility
10%

The budgetary flexibility initial score measures the degree to which the government can draw upon reserves in times of economic stress

- Available fund balance as a % of general fund expenditures: for the most recently reported fiscal year
- When other fund balances outside of the government’s general fund are available beyond the current fiscal year, they are included in the calculation
- This measure can cap a rating or it can be a positive override if extremely strong

Budgetary Flexibility Score					
Available Fund Balance as a percentage of expenditures					
%	>15	8 to 15	4 to 8	1 to 4	≤1
Score	1	2	3	4	5

11 Source: S&P Global Ratings



Budgetary Flexibility Score Adjustments

Budgetary Flexibility
10%

Qualitative factors with a positive impact on the initial score	Qualitative factors with a negative impact on the initial score
Projections for the current year and the following year suggest a better initial score	Projections for the current year and the following year suggest a worse initial score
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 interfund receivables
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	Cash accounting with reserves less than 30%
Maintenance of an available fund balance exceeding 30% or 75% of general fund expenditures for the most recently reported year, the current year and the next year.	Available reserves less than \$500K—rating adjustment downward by one notch ('A+' to 'A')

12 Source: S&P Global Ratings



Financial Measures: Budgetary Performance Score (#5 of 7 Factors)

Budgetary Performance 10%

The budgetary performance initial score measures the current fiscal balance of the government

- Total governmental funds net result: the most recent year's net total governmental funds on a budgetary basis as a percent of expenditures
- General fund net result: the most recent year's general fund operational balance as a percent of expenditures

Budgetary Performance Score					
	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

13 Source: S&P Global Ratings



Budgetary Performance Score Adjustments

Budgetary Performance 10%

Positive Adjustments	Negative Adjustments
Expected structural improvement: if projections for the current year and following year suggest a better initial score, the score improves by 1 or points	Expected structural deterioration: if projections for the current year and following year suggest a worse initial score, the score will be lowered by 1 or 2 points
	Deferred payments: postponing of regular expenditures that artificially improves the score
	Significant historic volatility in performance because of very cyclical revenues (e.g., sales taxes on luxury goods and/or dependence on volatile state transfers)

14 Source: S&P Global Ratings



Financial Measures: Liquidity Score (#6 of 7 Factors)

Liquidity
10%

The initial score measures the availability of unrestricted cash, cash equivalents & short-term investments for all governmental and enterprise funds

Initial liquidity score: combination of two measures

- Total government cash as % of total governmental funds debt service
- Total cash % of total governmental funds expenditures

The Liquidity Score					
	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

15 Source: S&P Global Ratings



Liquidity Score Adjustments

Liquidity
10%

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 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 market access to external liquidity is 'exceptional' the score improves by two points; if 'strong', the score improves by one point	If access to external liquidity is 'uncertain' 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 (e.g., mandatory tenders)
	Aggressive use of non-liquid investments
	Exposure to non-remote contingent liability risk that could come due within 12 months (e.g., acceleration of bank loans and direct purchase obligations)

16 Source: S&P Global Ratings



Debt and Contingent Liability (#7 of 7 Factors)

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

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

17 Source: S&P Global Ratings



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 in 10 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%
	Large pension or OPEB obligations—10% or more of budget + low pension funded level (not an issue in Wisconsin!)
	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

18 Source: S&P Global Ratings



Putting it all Together

Indicative Rating

Positive Overriding Factors

- High income levels (1 or 2 notch adjustment)
- Sustained 75% available reserves (1 notch adjustment)

Negative Overriding Factors

- Market value per capita under \$30K (1 notch adjustment)
- Available reserves under \$500K (1 notch adjustment)

Rating Caps

- Weak liquidity (BBB+ or BB+)
- Weak management (A or BBB-)
- Lack of willingness to pay obligations (BBB- for appropriation default and B for GO debt default)
- Chronic negative fund balances (A- or BBB)
- Budgetary flexibility score of 5 (A+)
- Structural imbalance (BBB+)

*** ONE NOTCH FLEXIBILITY ***

FINAL RATING

19 Source: S&P Global Ratings



Q&A

S&P Global

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