Moody’s New Methodology Updates

Agenda

- General Obligation Methodology Update
  - GO Scorecard and Notching Factors

- Bond Anticipation Note Update
  - Scorecard and Notching Factors

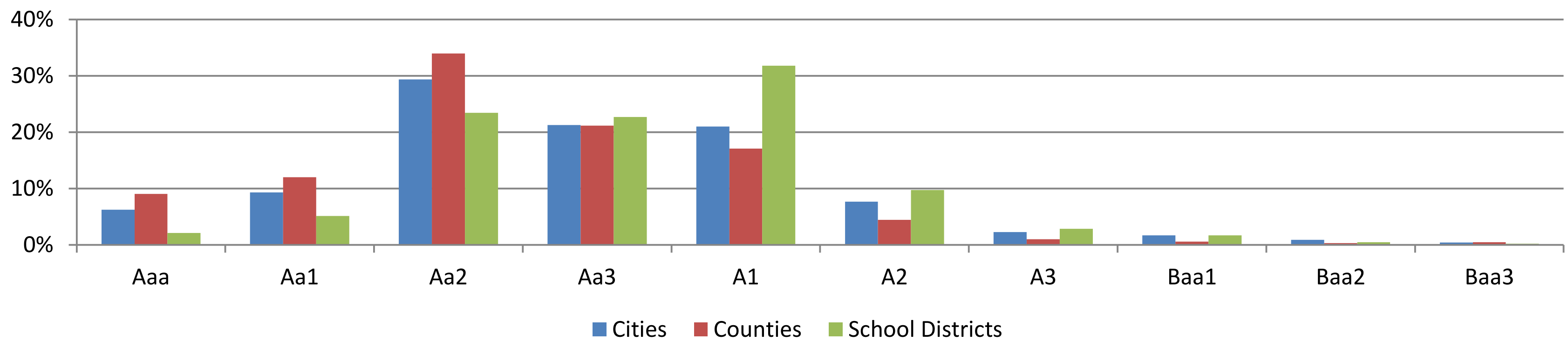
General Obligation Bonds

- This methodology focuses on local government ratings based on the General Obligation unlimited tax security
  - The methodology is based on a "typical" general obligation unlimited tax pledge
    - Contractual full faith and credit pledge of unlimited ad valorem taxing power
    - Specific definitions may vary by state

General Obligation Bonds – Rated Universe

- GO is the most commonly used security by local governments in the US
- We rate approximately 8,300 local government GO credits
- Strong sector due to the potency of the ad valorem taxing power, amortizing debt structures, and overall stable institutional frameworks
- Current ratings range from Aaa to Caa3
  - Sector median is Aa3
  - Only 2% rated Baa1 or below

Current Local Governments Ratings Distribution



New GO Scorecard

Change from previous Methodology:

Factor 1 Economy/Tax Base	Factor 2 Finances	Factor 3 Management	Factor 4 Debt/Pensions
30%	30%	20%	20%
Was 40%	Unchanged	Unchanged	Was 10%

New GO Scorecard

Rationale for Changes:

Factor 1 Economy/Tax Base	Factor 2 Finances	Factor 3 Management	Factor 4 Debt/Pensions
30%	30%	20%	20%
Was 40%	Unchanged	Unchanged	Was 10%

Change in Weightings:

- Factor 1 weighting lowered to reduce the influence of tax base size
- Factor 4 weighting increased to include a specific quantitative measure for pensions

New GO Scorecard

Purpose and Use of the Scorecard:

- Enhances the transparency of our rating process
- Captures the key considerations that correspond to particular rating categories
- Not an exhaustive list of factors that we consider in every local government rating
- Each subfactor is a quantitative metric
- May notch up or down from the scorecard-indicated rating based on the additional below-the-line factors
- The scorecard acts as a starting point for a more thorough and individualistic analysis
- Final rating is determined by a Rating Committee

New GO Scorecard Overview - Factors, Subfactors and Weights

Factors & Sub-Factors	**Weights**
Factor 1: Economy/Tax Base	**30%**
Full Value (market value of taxable property)	10%
Full Value per Capita	10%
Median Family Income	10%
Factor 2: Finances	**30%**
Fund Balance as % of Operating Revenue	10%
5-Year Dollar Change in Fund Balance as % of Revenues	5%
Cash Balance as % of Revenues	10%
5-Year Dollar Change in Cash Balance as % of Revenues	5%
Factor 3: Management	**20%**
Institutional Framework	10%
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	10%
Factor 4: Debt/Pensions	**20%**
Net Direct Debt / Full Value	5%
Net Direct Debt / Operating Revenue	5%
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value	5%
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues	5%

Scorecard Factor 1: Economy/Tax Base – 30%

	Very Strong	*Strong*	*Moderate*	*Weak*	*Poor*	*Very Poor*	
	Aaa	**Aa**	**A**	**Baa**	**Ba**	**B & Below**	**Weight**
ECONOMY/TAX BASE (30%)							
Tax Base Size: Full Value	> $12B	$12B ≥ n > $1.4B	$1.4B ≥ n > $240M	$240M ≥ n > $120M	$120M ≥ n > $60M	≤ $60M	10%
Full Value Per Capita	> $150,000	$150,000 ≥ n > $65,000	$65,000 ≥ n > $35,000	$35,000 ≥ n > $20,000	$20,000 ≥ n > $10,000	≤ $10,000	10%
Socioeconomic Indices: MFI	> 150% of US median	150% to 90% of US median	90% to 75% of US median	75% to 50% of US median	50% to 40% of US median	≤ 40% of US median	10%

- The tax base is the source of most local government revenues
- The tax base scorecard weight is reduced to 30%, which is still a significant weight
- Full value: The market value of taxable property accessible to the municipality
- Full value per capita: scales tax base strength to the number of residents
- Median Family Income (MFI): Important measure of the strength and resiliency of a tax base

Scorecard Factor 2: Finances – 30%

	Very Strong Aaa	*Strong* Aa	*Moderate* A	*Weak* Baa	*Poor* Ba	*Very Poor* B & Below	Weight
FINANCES (30%)							
Fund Balance as % of Revenues	> 30.0% > 25.0% for School Districts	30.0% ≥ n > 15.0% 25.0% ≥ n > 10.0% for SD	15.0% ≥ n > 5.0% 10.0% ≥ n > 2.5% for SD	5.0% ≥ n > 0.0% 2.5% ≥ n > 0.0% for SD	0.0% ≥ n > -2.5% 0.0% ≥ n > -2.5% for SD	≤ -2.5% ≤ -2.5% for SD	10%
5-Year Dollar Change in Fund Balance as % of Revenues	> 25.0%	25.0% ≥ n > 10.0%	10.0% ≥ n > 0.0%	0.0% ≥ n > -10.0%	-10.0% ≥ n > -18.0%	≤ -18.0%	5%
Cash Balance as % of Revenues	> 25.0% > 10.0% for School Districts	25.0% ≥ n > 10.0% 10.0% ≥ n > 5.0% for SD	10.0% ≥ n > 5.0% 5.0% ≥ n > 2.5% for SD	5.0% ≥ n > 0.0% 2.5% ≥ n > 0.0% for SD	0.0% ≥ n > -2.5% 0.0% ≥ n > -2.5% for SD	≤ -2.5% ≤ -2.5% for SD	10%
5-Year Dollar Change in Cash Balance as % of Revenues	> 25.0%	25.0% ≥ n > 10.0%	10.0% ≥ n > 0.0%	0.0% ≥ n > -10.0%	-10.0% ≥ n > -18.0%	≤ -18.0%	5%

- Fund Balance (10%) – the net financial resources available in the short term
- Cash Balance (10%) – the paramount liquid resource available; excludes accruals
- 5-Yr. $ Change in Fund Balance and Cash Balance as % of Revs (each 5%)
  - Incorporated to capture trend information; avoids overweighting point-in-time data
  - The focus here is on whether financial reserves and liquidity are increasing in step with budgetary growth

Scorecard Factor 3: Management – 20%

	Very Strong	*Strong*	*Moderate*	*Weak*	*Poor*	*Very Poor*	
	Aaa	**Aa**	**A**	**Baa**	**Ba**	**B & Below**	**Weight**
MANAGEMENT (20%)							
Institutional Framework	Very strong legal ability to match resources with spending	Strong legal ability to match resources with spending	Moderate legal ability to match resources with spending	Limited legal ability to match resources with spending	Poor legal ability to match resources with spending	Very poor or no legal ability to match resources with spending	10%
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	> 1.05x	1.05x ≥ n > 1.02x	1.02x ≥ n > 0.98x	0.98x ≥ n > 0.95x	0.95x ≥ n > 0.92x	≤ 0.92x	10%

- Overall factor weight maintained at 20%
- Institutional Framework
  - New factor for US Local Governments
  - Focuses on issuers' <u>legal</u> ability to match revenues with expenditures based on their legal apparatus
  - Standard inputs determined for each state/sector combination; revisited annually for possible updates
- Operating History
  - Measures the degree that an issuer has demonstrated the <u>practical</u> ability and willingness to match revenues with expenditures
  - Input: Five-year average of the ratio of operating revenues to operating expenditures

Scorecard Factor 4: Debt/Pensions – 20%

	Very Strong	*Strong*	*Moderate*	*Weak*	*Poor*	*Very Poor*	
	Aaa	**Aa**	**A**	**Baa**	**Ba**	**B & Below**	**Weight**
DEBT/PENSIONS (20%)							
Net Direct Debt / Full Value	< 0.75%	0.75% ≤ n < 1.75%	1.75% ≤ n < 4%	4% ≤ n < 10%	10% ≤ n < 15%	> 15%	5%
Net Direct Debt / Operating Revenues	< 0.33x	0.33x ≤ n < 0.67x	0.67x ≤ n < 3x	3x ≤ n < 5x	5x ≤ n < 7x	> 7x	5%
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value	< 0.9%	0.9% ≤ n < 2.1%	2.1% ≤ n < 4.8%	4.8% ≤ n < 12%	12% ≤ n < 18%	> 18%	5%
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues	< 0.4x	0.4x ≤ n < 0.8x	0.8x ≤ n < 3.6x	3.6x ≤ n < 6x	6x ≤ n < 8.4x	> 8.4x	5%

- Overall factor weight increased to 20% from 10% (to capture pension risks more fully)
- Specific metrics proposed:
  - Debt: Measures the magnitude of debt obligations relative to resources (using the tax base as a proxy) and operations (using operating revenues as a proxy)
  - Pensions: Utilize Moody's adjusted net pension liability metrics
    - Three-year average is used to smooth the volatility inherent in the metric
    - Debt breakpoints more restrictive than pensions, reflecting the fixed nature of debt obligations; pension measures are estimates, may be volatile across years and can be renegotiated and reduced

GO Scorecard - Notching Factors

Adjustments/Notching Factors	
Description	Direction
Economy/Tax Base	
Institutional presence	up
Regional economic center	up
Economic concentration	down
Outsized unemployment or poverty levels	down
Other analyst adjustment to Economy/Tax Base factor (specify)	up/down
Finances	
Outsized contingent liability risk	down
Unusually volatile revenue structure	down
Other analyst adjustment to Finances factor (specify)	up/down
Management	
State oversight or support	up/down
Unusually strong or weak budgetary management and planning	up/down
Other analyst adjustment to Management factor (specify)	up/down
Debt/Pensions	
Unusually strong or weak security features	up/down
Unusual risk posed by debt/pension structure	down
History of missed debt service payments	down
Other analyst adjustment to Debt/Pensions factor (specify)	up/down
Other	
Credit event/trend not yet reflected in existing data sets	up/down

Revised Bond Anticipation Note Rating Methodology

- New methodology was released on Monday, April 27.
- Three ratings out of 242 were put on review for possible downgrade, none in SC.
- Includes liquidity as a rating factor to incorporate resources available to an issuer to repay notes in the event of a market disruption
- Incorporates assessment of an issuer's management of takeout financing as a factor
- Introduces a scorecard: quantitative weighting of factors and sub-factors to frame rating outcome
- As of March 15, 2014 South Carolina was 10th nationally in par outstanding of rated BANs by Moody's.

New BAN Scorecard

OBLIGOR:							
	MIG 1	MIG 2	MIG 3	SG	Input	Weight	Score
LT Rating Min Threshold	A2	Baa1	Baa3	Ba1 and below			
LONG-TERM CREDIT QUALITY							
Long-Term Rating	Aaa-Aa3	A1-A3	Baa1-Baa3	Below investment grade	Aa2	40%	1.50
REFINANCING RISK							
Takeout management (15%)	**Very strong management planning** includes fully developed alternatives, including identification of process and expected cooperation of necessary parties, such as local banks and underwriters	**Moderate management planning** includes specific plans for alternatives, but does not include identification of process and necessary parties to implement	**Limited management planning** includes consideration of alternatives, but without specifics regarding implementation	No realistic alternative plans identified or considered	MIG 1	15%	1.50
Timing of takeout - historical track record and/or plan (15%)	Plan to price/sell **30 days or more** prior to maturity	Plan to price/sell **15 to 29 days** prior to maturity	Plan to price/sell **five to 14 days** prior to maturity	Plan to price/sell **less than five days** prior to maturity	MIG 1	15%	1.50
LIQUIDITY ANALSYSIS							
Liquidity coverage for debt service on and prior to BAN maturity date	Projected liquidity provides **at least 80% coverage** for all BANs, cash-flow notes and bullet maturities and self-liquidity supported putable debt maturing on and sixty days prior to maturity date	Projected liquidity provides **between 80% and 50% coverage** for all BANs, cash-flow notes and bullet maturities and self-liquidity supported putable debt maturing on and sixty days prior to maturity date	Projected liquidity provides **between 50% and 10% coverage** for all BANs, cash-flow notes and bullet maturities and self-liquidity supported putable debt maturing on and sixty days prior to maturity date	Projected liquidity provides **less than 10% coverage** for all BANs, cash-flow notes and bullet maturities and self-liquidity supported putable debt maturing on and sixty days prior to maturity date	100%	30%	1.00
LIQUIDITY RANGES:	100-80	80-50	50-10	10 to 0			
						Total Score	1.35
						Unadjusted Rating	MIG 1

Scorecard Notching

OBLIGOR:	0	
Rating Grid		
Factor	*Score*	
Long-Term Credit Quality	0.60	
Refinancing Risk	0.45	
Liquidity Analsysis	0.30	
Grid Score	1.35	
Grid Rating	**MIG 1**	
Other Considerations		
Factor	*adjustment*	picklist options
Market Presence (+):		
High (State or state-related agency and other major cities; eg LA, NYC, Chicago)	0.00	up to 1
Moderate (Larger municipalities with diverse economices; eg state capitals)	0.00	up to .5
Benefits from external 3rd party support rated A3 or higher	0.00	up to .5
FREQUENT ISSUER		
more than 1 sale in each of last 5 years	0.00	up to 1
1 or more sales in 3 of the last 5 years	0.00	up to .5
MARKET ACCESS DIFFICULTIES		
One time event	0.00	down to -.5
Multiple events over last 5 years	0.00	down to -1
LIMITATIONS/CONTINGENCIES TO ISSUING TAKEOUT FINANCING		
Notes are expected to be refinanced with notes that do not benefit from a security pledge (one indication of this is that the notes being rated do not benefit from a security)	0.00	down to -.5
Requires additional third party authorization	0.00	down to -1
Takeout financing + planned parity debt issuance prior to maturity exceeds debt limit	0.00	down to -1
Non-essential project with potential for cost overruns or loss of political support	0.00	down to -3
Revenue growth required for takeout financing to meet rate covenant or additional bonds test	0.00	down to -3
Essential project with completion risk	0.00	down to -1
Total Adjustments	0.00	
Adjusted Score	1.35	
Adjusted Rating	**MIG 1**	
Comments		

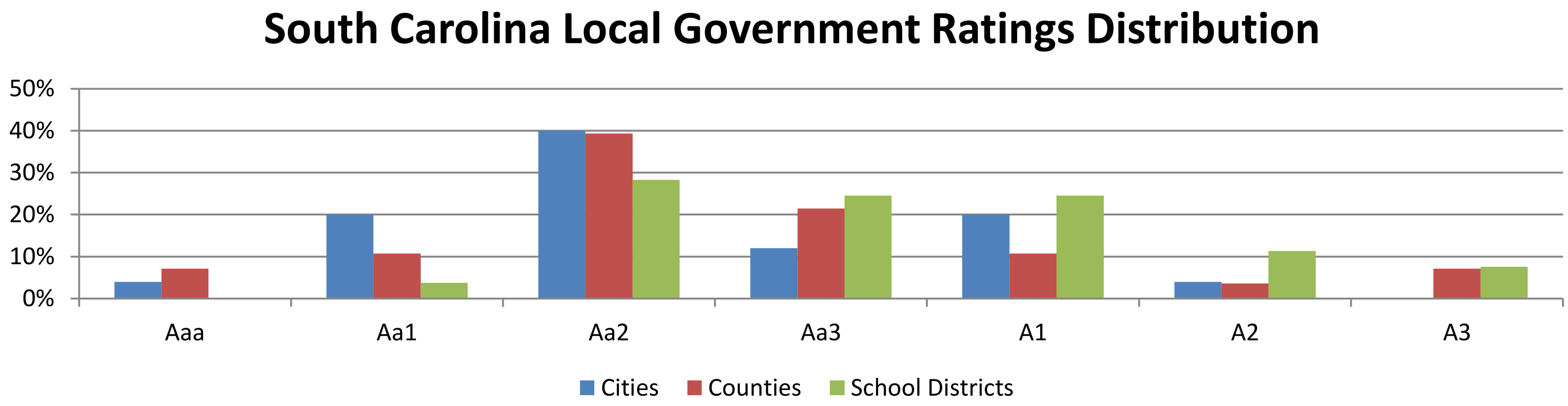
Applying the Analytical Factors

- Analysts will score each subfactor in the grid
- The weighted average of the analyst-assigned scores will determine a raw score that maps to Moody’s rating scale → the grid-indicated rating
- Analyst and Rating Committee will determine any notching factors → the adjusted scorecard rating
- The final public rating may differ from the adjusted scorecard rating

Vast Majority of General Obligation Ratings Unchanged

- Only a very small share of our ratings will change as a result of our updated US local government general obligation (GO) methodology.
- We assessed all of our nearly 8,300 US local government GO ratings and placed just 3% of them under review for a potential rating change due to the new methodology; of those, slightly more than half were placed under review for possible upgrade.
- No additional ratings will be placed under review as a result of the introduction of this methodology.
- We expect that our median GO rating will remain Aa3.
- We will continue to assess any new information related to an issuer's credit fundamentals as part of our regular rating monitoring process and any rating changes would stem from changes in the credit fundamentals.
- In South Carolina no ratings were put on review.

South Carolina Ratings Update



	2011		2012		2013		2014 Q1	
	DOWNGRADED	UPGRADED	DOWNGRADED	UPGRADED	DOWNGRADED	UPGRADED	DOWNGRADED	UPGRADED
GO	4	3	0	5	2	2	0	1
REV	1	0	0	0	0	0	0	0
Total	5	3	0	5	2	2	0	1

- Median ratings: Counties: Aa2; Cities: Aa2; School Districts: Aa3
- Ratings have been relatively stable as compared to remainder of nation.
- 4 SC muni GO ratings have positive outlooks while 3 have negative outlooks.
- No ratings changed or put on RUR as a result of the new methodologies.

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