



**STANDARD & POOR'S
RATINGS SERVICES**

McGRAW HILL FINANCIAL

An Overview of S&P's Local GO Criteria

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Introduction

The scope of the criteria

- All U.S. local government issuer credit ratings and issue ratings on General Obligation (GO) bonds issued by municipal governments that are not special purpose districts

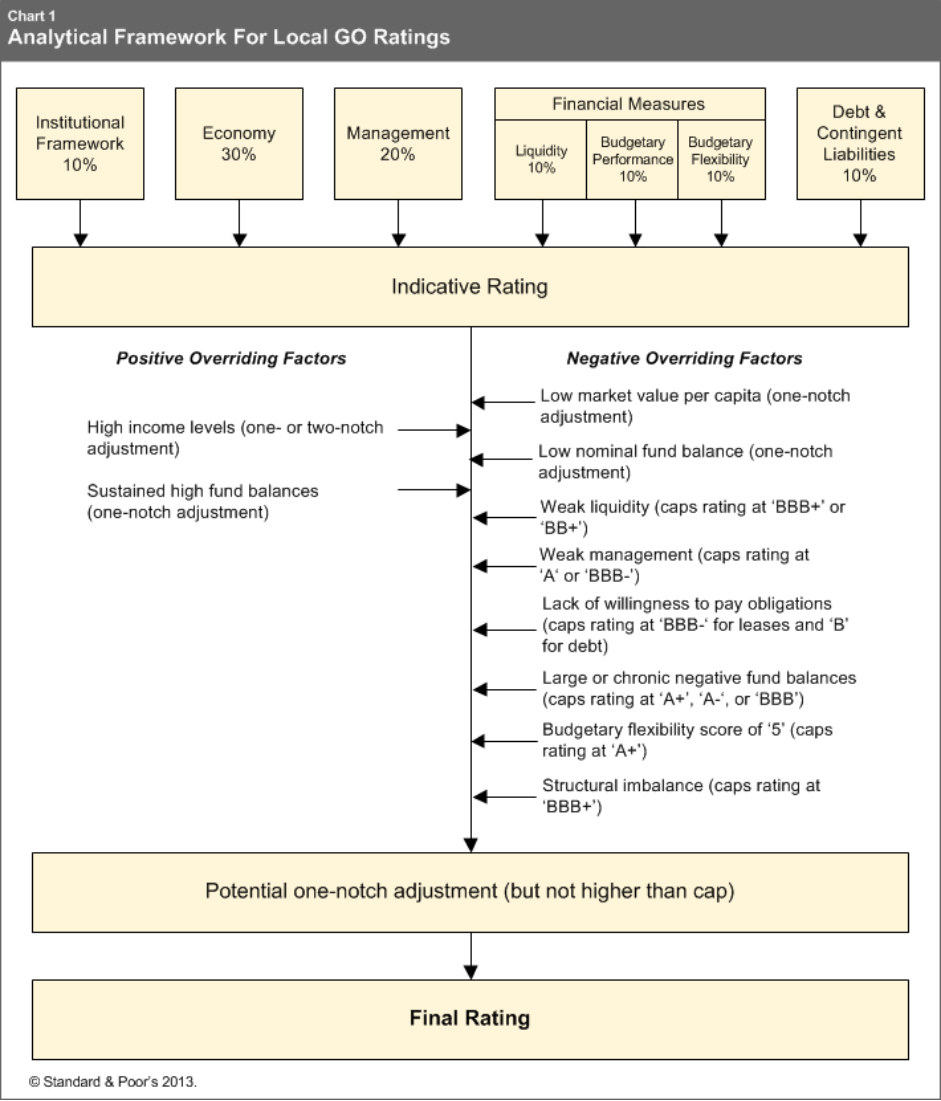
This criteria is intended to:

- Provide transparency into our rating process
- Enhance ratings comparability
- Formalize the forward-looking rating component

We expect rating implications to be moderate

- Reflects a desire to improve transparency, not a recalibration based on a different view of the sector

Analytical Framework



Institutional Framework (1 of 7 Factors)

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
- *System support*: the extent to which local governments receive extraordinary support from a state government when the local government is under extreme stress

All governments of the same type within the same state receive the same score

- Cities and counties can differ
 - Municipalities of the same type can differ based on home rule status, population, etc.

Institutional Framework (1 of 7 Factors)

Institutional
Framework
10%

South Carolina IF Scores

- All Counties – 2 (strong)
- All Municipalities – 2 (strong)

The institutional framework scores will be reviewed and maintained on an ongoing basis

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 systemic support (see paragraphs 37-40). Each score receives equal weight in the average.

Economy (2 of 7 Factors)

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**

| | 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 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 |

Economy

Economy
30%

Adjustments

| 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. |

Management (3 of 7 Factors)

Management
20%

- **Assess the impact of management conditions on the likelihood of repayment**
- **Financial Management Assessment (FMA) is based upon our current methodology**

Adjustments

| 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 approved structural reforms for two consecutive years. |

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 Measurers: Flexibility (4 of 7 Factors)

Budgetary
Flexibility
10%

The budgetary flexibility initial score measures the degree to which the government can create additional financial flexibility in times of 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

Table 10: Assessing The 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 |

Flexibility

Budgetary
Flexibility
10%

Adjustments

| 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. | 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 the next year. | |

Financial Measurers: Budgetary Performance (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

Table 11: Assessing The 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 |

Performance

Budgetary
Performance
10%

Adjustments

| 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 <u>underspending</u> 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 tax on luxury goods and/or dependence on volatile state transfers) or exposure to event-related risks, the sources of volatility remain. |

Financial Measures: Liquidity (6 of 7 Factors)

Liquidity
10%

The initial score measures the availability of cash and cash equivalents to service both debt and other expenditures

Initial liquidity score: combination of two measures

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

Table 12: Assessing 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 |

Liquidity

Liquidity
10%

Adjustments

| 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 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. |

Debt and Contingent Liabilities (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

Table 14: Assessing The Debt And Contingent Liabilities Score

| 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 |

Debt and Contingent Liabilities

Debt & Contingent Liabilities
10%

Adjustments

| 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%. |
| | 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. |

Putting it all Together

Indicative Rating

Positive Overriding Factors

- High income levels (1 or 2 notch adjustment)
- Sustained high fund balances (1 notch adj)

Negative Overriding Factors

- Low market value per capita (1 notch adjustment)
- Low nominal fund balance (1 notch adjustment)

Rating Caps

- Weak liquidity (BBB+ or BB+)
- Weak management (A or BBB-)
- Lack of willingness to pay obligations (BBB- for leases and B for debt)
 - Large or chronic negative fund balances (A+, A-, or BBB)
 - Budgetary flexibility score of 5 (A+)
 - Structural imbalance (BBB+)

***** ONE NOTCH FLEXIBILITY *****

FINAL RATING!

Summary

FAQ's

Our ratings look at comparable ratios nationally, not just by state

Once a rating is requested, it will be released to public unless you request “confidential rating” from the beginning

Issuers can review rating reports and rationales (for fact checking purposes) before we publish

You can always contact us for any reason even if you don't have a rating in the works

We perform surveillance on all outstanding credits we rate

Surveillance

We maintain our ratings for the life of the debt (so once a rating is assigned, the rating will be maintained until debt is defeased or unless issuer requests that rating be withdrawn)

We contact issuers periodically to update information on existing ratings

The S&P analyst will try multiple times to contact the issuer to obtain this information

- If no response, we alert that we will withdraw the rating**

Rating can change during a review

Medians for Counties Under Standard & Poor's Revised Local GO Criteria for First Six Months

Percent (%)

| Rating | No. | MVPC (\$) | Proj PC EBI | FB/exp | GF oper res | TGF op res | TG cash / exp | TG cash / DS | Net DD / rev | TGF DS / exp |
|---------------|-----|-----------|-------------|--------|-------------|------------|---------------|--------------|--------------|--------------|
| AAA | 55 | 109,300 | 120 | 25 | 2 | 0 | 43 | 587 | 66 | 8 |
| AA | 194 | 82,827 | 89 | 33 | 2 | 1 | 44 | 744 | 56 | 6 |
| A | 72 | 58,061 | 77 | 20 | 2 | 0 | 33 | 375 | 72 | 7 |
| BBB and lower | 4 | 45,576 | 80 | (10) | (4) | (3) | 16 | 277 | 57 | 7 |

Medians for Municipalities Under Standard & Poor's Revised Local GO Criteria for First Six Months

Percent (%)

| Rating | No. | MVPC (\$) | Proj PC EBI | FB/exp | GF oper res | TGF op res | TG cash / exp | TG cash / DS | Net DD / rev | TGF DS / exp |
|---------------|-----|-----------|-------------|--------|-------------|------------|---------------|--------------|--------------|--------------|
| AAA | 126 | 158,096 | 152 | 30 | 3 | 2 | 55 | 562 | 73 | 8 |
| AA | 774 | 86,775 | 103 | 29 | 3 | 1 | 51 | 532 | 85 | 9 |
| A | 285 | 50,247 | 80 | 21 | 1 | 0 | 50 | 439 | 113 | 11 |
| BBB and lower | 60 | 47,300 | 77 | 0 | 0 | (1) | 29 | 300 | 108 | 11 |

Current Rating Distribution – South Carolina Counties

| Ratings | Counties | Percent |
|---------|----------|---------|
| AAA | 3 | 10.0% |
| AA+ | 1 | 3.3% |
| AA | 7 | 23.3% |
| AA- | 9 | 30.0% |
| A+ | 7 | 23.3% |
| A | 3 | 10.0% |
| A- | 0 | 0.0% |
| BBB+ | 0 | 0.0% |
| BBB | 0 | 0.0% |
| | | |
| Total | 30 | 100% |

*As of May 2, 2014

Current Rating Distribution – South Carolina Municipalities

| Ratings | Cities | Percent |
|---------|--------|---------|
| AAA | 3 | 13.6% |
| AA+ | 2 | 9.1% |
| AA | 8 | 36.4% |
| AA- | 7 | 31.8% |
| A+ | 2 | 9.1% |
| A | 0 | 0.0% |
| A- | 0 | 0.0% |
| BBB+ | 0 | 0.0% |
| BBB | 0 | 0.0% |
| | | |
| Total | 22 | 100% |

*As of May 2, 2014

Current Rating Distribution – South Carolina School Districts

| Ratings | Counties | Percent |
|---------|----------|---------|
| AAA | 0 | 0.0% |
| AA+ | 2 | 4.9% |
| AA | 6 | 14.6% |
| AA- | 9 | 22.0% |
| A+ | 12 | 29.3% |
| A | 11 | 26.8% |
| A- | 1 | 2.4% |
| BBB+ | 0 | 0.0% |
| BBB | 0 | 0.0% |
| | | |
| Total | 41 | 100% |

*As of May 2, 2014

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