

The background of the slide is a photograph of the United States Capitol building in Washington, D.C. The building's iconic dome and neoclassical architecture, featuring numerous white columns and a pediment with sculptures, are visible against a clear blue sky. The image is partially obscured by a large yellow rectangular overlay in the center and a dark grey bar at the bottom.

KBRA

**KROLL BOND
RATING AGENCY**

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PANEL: DIFFERENCES OF OPINION

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HOW DOES KBRA'S RATING APPROACH DIFFER?

KBRA ratings of local government general obligation debt is based on an assessment of the issuer's ability and willingness to pay their debt on a timely basis as well as its relative credit strength.

KBRA Public Finance:

- Background of KBRA analysts is varied and diverse.
- Corporate culture supports sharing of expertise across credit and business sectors.

KBRA does not use a scorecard approach to rating assessments:

- KBRA's Local Government General Obligation Rating Methodology provides transparency through clear discussion of how rating factors impact ratings.
- KBRA rating reports are very thorough and detailed and discuss how methodology was applied.
- Rating review includes both quantitative and qualitative factors.
- KBRA does not apply specific weights to individual rating factors.

Our rating approach:

- Evaluation of rating factors taken together indicate ability and willingness to pay debt and the relative credit strength.

KBRA RATING APPROACH

KBRA puts emphasis on management as a central factor in the general obligation rating assessment:

- KBRA evaluates the management culture and how decisions are made.
- Management ability and willingness to make and implement hard decisions important to evaluation.

Legal analysis part of KBRA rating process:

- Every rating report includes a bankruptcy assessment for the particular issuer and credit.
- Special Revenue Analysis for certain general obligation property tax secured credits, i.e. California school districts.

KBRA ratings on bonds secured by special revenues not necessarily limited to issuer's general obligation rating:

- Special revenue bond rating is based on assessment of authorizing statutes and legal provisions.
- KBRA would evaluate strength of legal pledge of revenues, flow of funds and bankruptcy considerations.

KBRA LOCAL G.O. RATING METHODOLOGY

KBRA's rating evaluation of the long term credit quality of local government general obligation debt focuses on four key rating determinants:

- Governance and Management Structure and Policies
- Municipal Resource Base
- Debt and Additional Continuing Obligations
- Financial Performance and Liquidity

KBRA rating process:

- Assign a rating to each key rating determinant.
- Balance ratings for rating determinants and assign an overall rating to the credit.

RATING DETERMINANT 1: GOVERNANCE AND MANAGEMENT STRUCTURE AND POLICIES

- KBRA focuses on Governance and Management Structure and Policies as a central factor in evaluation of a general obligation credit.
- Management ability and willingness to make and implement hard decisions is important to evaluation.

KBRA evaluates:

- Existing statutory framework established by the state for local government operations as well as history of state funding priorities.
- Internal framework of financial management policies and procedures including budget process and revenue forecasting, monitoring of financial performance during fiscal year, process of budget adjustment, reserve requirements, long term planning, and debt management.
- Management experience and leadership qualities, including their ability to respond to external events , philosophy on funding and maintenance of reserves, approach to economic development and relationship with labor force.

KBRA considers differences in management structure based on size or level of service delivery: Not one size fits all

RATING DETERMINANT 2: MUNICIPAL RESOURCE BASE

- KBRA assessment of Municipal Resource Base reflects the economic profile of the municipality and its long term revenue generating capacity.
- KBRA reviews the demographics, employment and tax base measures as compared to the region and the U.S. as a whole.
- Important to understand the nature of the municipality and its relationship to surrounding area and regional economy.

RATING DETERMINANT 3: DEBT AND ADDITIONAL CONTINUING OBLIGATIONS

KBRA Assessment of Pension Liabilities and Funding:

KBRA's review evaluates the ability of a local government to manage its pension funding obligations, whether it is part of a state plan or manages its own pensions. Review pension plans on the basis of GASB 68 and on an actuarial basis.

- Assess pension funded ratios relative to industry standards
 - Assets
 - Investment returns: Review assumptions vs actual for short term/long term
 - GASB 68 Fund depletion analysis
 - Liabilities
 - Actuarial Cost method: Entry Age Normal
 - Amortization Period: Closed/Open, Length 20/30 years
 - Frequency of updates on Actuarial Studies
- Funding of pension obligations
 - History of actuarial funding
 - Budget burden: Percent of Governmental Expenditures, current and projected over amortization period
 - Is it sustainable? Identification of resources
- History/potential for pension reform
 - Legal ability to modify benefits/funding
 - Political willingness to make changes to investment assumptions, benefits and funding

RATING DETERMINANT 4: FINANCIAL PERFORMANCE AND LIQUIDITY

- KBRA's evaluation of local government's financial performance and liquidity centers on the capacity of the local government to manage its financial operations and maintain a sufficient cash position.
- Ability to operate with structurally balanced operations and sufficient reserves.
- Demonstrated ability and willingness to modify budget during fiscal year to maintain fiscal balance.
- Level of "sufficiency" of reserves impacted by volatility of revenues and flexibility in expenditures.
- Discipline in funding and maintaining reserve levels.

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