NEW YORK (Standard & Poor's) Sept. 12, 2013--Standard & Poor's Ratings Services has updated its methodology and assumptions for assigning issuer credit ratings and issue credit ratings based on general obligation (GO) pledges of U.S. local governments in a criteria article published today.

This updated criteria, "U.S. Local Governments General Obligation Ratings: Methodology And Assumptions", provides additional transparency and comparability to help market participants better understand our approach to assigning local government ratings, to enhance the forward-looking nature of these ratings, and to enable better comparisons between U.S. local government ratings, local government ratings in other countries, and all other ratings.

"Our goal in revising the criteria is to provide the market with an intuitive framework that guides the fundamental assessment of credit risk. This represents our latest effort in our continuous criteria enhancing process," said Steven Murphy, Senior Managing Director and head of the U.S. Public Finance group.
The criteria assess seven factors:
- Institutional framework: The institutional framework score assesses the legal and practical environment in which the local government operates (weighted 10%);
- Economy: The economic score assesses 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 (weighted 30%);
- Management: An assessment of managerial decisions, policies, and practices as they apply directly to the government's financial position and operations, debt burden, and other key credit factors (weighted 20%);
- Budgetary flexibility: The budgetary flexibility score measures the degree to which the government can look to additional financial flexibility in times of stress (weighted 10%);
- Budgetary performance: The budgetary performance score measures the current fiscal balance of the government, both from a general fund and total governmental funds perspective (weighted 10%);
- Liquidity: The liquidity score measures the availability of cash and cash equivalents to service both debt and other expenditures (weighted 10%);
- Debt and contingent liabilities: The criteria form the initial debt and contingent liabilities score from the combination of two measures: total governmental funds debt service as a percentage of total governmental funds expenditures and net direct debt as a percentage of total governmental funds revenue (weighted 10%).

Scores for each factor range from '1' (the strongest) to '5' (the weakest).

On March 6, 2012, we published "Request For Comment: U.S. Local Governments: Methodology And Assumptions". Market participants who responded were generally positive about the increased transparency and clarity of the criteria. Some of them provided specific comments about certain metrics, data sources, and weighting of analytical factors. These comments and further analysis led to the following main changes between the criteria and the proposal presented in the RFC:

- Several overriding factors have been added. Among them are: Available Fund Balance of less than $500,000, a budgetary flexibility score of '5', and exhibiting characteristics of structural imbalance.
- The positive qualitative adjustment for participation in a broad and diversified economy in the economic score has been modified to reflect a more-robust analysis of MSAs to help determine if the adjustment will be made.
- To further augment the forward-looking nature of our analysis, positive and negative qualitative adjustments have been added to the budgetary flexibility and liquidity scores to account for situations when projections suggest better or worse scores. These adjustments had previously existed only in the budgetary performance score in the RFC.
- The liquidity score can be capped at '4' or '5' if certain levels of
non-remote contingent liability risks exist to capture the significant stress these obligations can pose.

- Chiefly due to the changes listed above, the ranges for the indicative rating outcomes in table 1 were changed slightly to keep consistent our view of credit quality for the sector.
- Finally, additional characteristics were added to the description of the management score of '4' to capture situations where management is enduring or has recently endured conditions that pose credit stress.

The criteria are effective immediately and apply to all U.S. local government issuer credit ratings and issue ratings on GO bonds issued by municipal governments that are not special purpose districts. Examples of local government entities in the scope include cities, counties, towns, villages, townships, and boroughs, called municipalities in the criteria. Examples of special purpose districts excluded from the scope include school districts, library districts, park districts, and forest preserve districts, among others. The criteria also do not apply to U.S. states or territories but do apply to the District of Columbia.

Standard & Poor's maintains issuer credit ratings or ratings on GO debt (or debt equivalent to or based on the GO rating) for more than 4,000 governments included in the scope of the criteria. Over the past year, we have observed strong credit performance in the local government sector, with a few notable exceptions. (Please see "2012 U.S. Public Finance Defaults And Rating Transition Data: Defaults Increase, But The Sector Remains Stable Overall", March 28, 2013; "Ratings Roundup: Positive Rating Trends In U.S. Public Finance Accelerated During The Second Quarter Of 2013", July 30, 2013; "Standard & Poor's Does Not View Detroit's Chapter 9 Filing As The Start Of A New Trend", July 19, 2013; and "U.S. State And Local Government Credit Conditions Forecast: The Rebounding Housing Market Supports Slow Growth", July 8, 2013). Independent of our criteria change, we expect this trend to continue.

Given our expectation for a continuation of the gradual economic recovery during the 12-month implementation period for the new criteria, Standard & Poor's quantitative testing suggests that approximately 60% of the ratings would remain unchanged under the criteria while about 30% of the ratings would increase and about 10% would decrease, generally by one notch. However, these results are based on preliminary quantitative testing only and the final ratings distribution could vary due to individual credit analysis, which will include both the quantitative and qualitative aspects of the criteria, or changes in the economic environment.

In connection with the release of our revised criteria, we also published today institutional framework overviews of local governments for all 50 states and the District of Columbia. The scores reflect constitutional statutes and other legal framework unique to each state. All governments of the same type within the same state receive the same score.
We also published two explanatory articles, "S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency" and "How Updated Data Prompts Reviews Under S&P’s New Local GO Criteria".

The articles as well as other supporting information, including two CreditMattersTV videos regarding the criteria and the institutional framework scores can be found at our dedicated public Web site, www.standardandpoors.com/localGOcriteria, and on RatingsDirect.

RELATED CRITERIA AND RESEARCH
• Video: "What’s Behind Standard & Poor’s Revised Criteria For Rating U.S. Local Governments", Sept. 12, 2013

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The report is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. If you are not a RatingsDirect subscriber, you may purchase a copy of the report by calling (1) 212-438-7280 or sending an e-mail to research_request@standardandpoors.com.

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