

# S&P Global Ratings Rhode Island Municipal Training Conference

July 16, 2018



# Agenda

**S&P Global Ratings Process**

**S&P Global GO Methodology and Framework**

**Brief overview of the Financial Management Assessment (FMA) and Top Ten Management Characteristics of Highly Rated State and Local Borrowers**

**Typical Meeting Agenda: How to make meaningful presentations, what are S&P analysts focused on?**

**Q&A**

# Ratings Process



# ABCs of Ratings Scale

|                    |     |   |
|--------------------|-----|---|
| Investment Grade*  | AAA | Extremely strong capacity to meet financial commitments. Highest rating.  |
|                    | AA  | Very strong capacity to meet financial commitments.   |
|                    | A   | Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances.                    |
|                    | BBB | Adequate capacity to meet financial commitments, but more subject to adverse economic conditions.   |
| Speculative Grade* | BB  | Less vulnerable in the near term, but faces major ongoing uncertainties or exposure to adverse business, financial and economic conditions              |
|                    | B   | More vulnerable to adverse business, financial and economic conditions, but currently has the capacity to meet financial commitments.                   |
|                    | CCC | Currently vulnerable and dependent on favorable business, financial and economic conditions to meet financial commitments.                              |
|                    | CC  | Highly vulnerable; default has not yet occurred, but is expected to be a virtual certainty.   |
|                    | C   | Currently highly vulnerable to non-payment, and ultimate recovery is expected to be lower than that of higher rated obligations.                        |
|                    | D   | Payment default on a financial commitment or breach of an imputed promise; also used when a bankruptcy petition has been filed or similar action taken. |

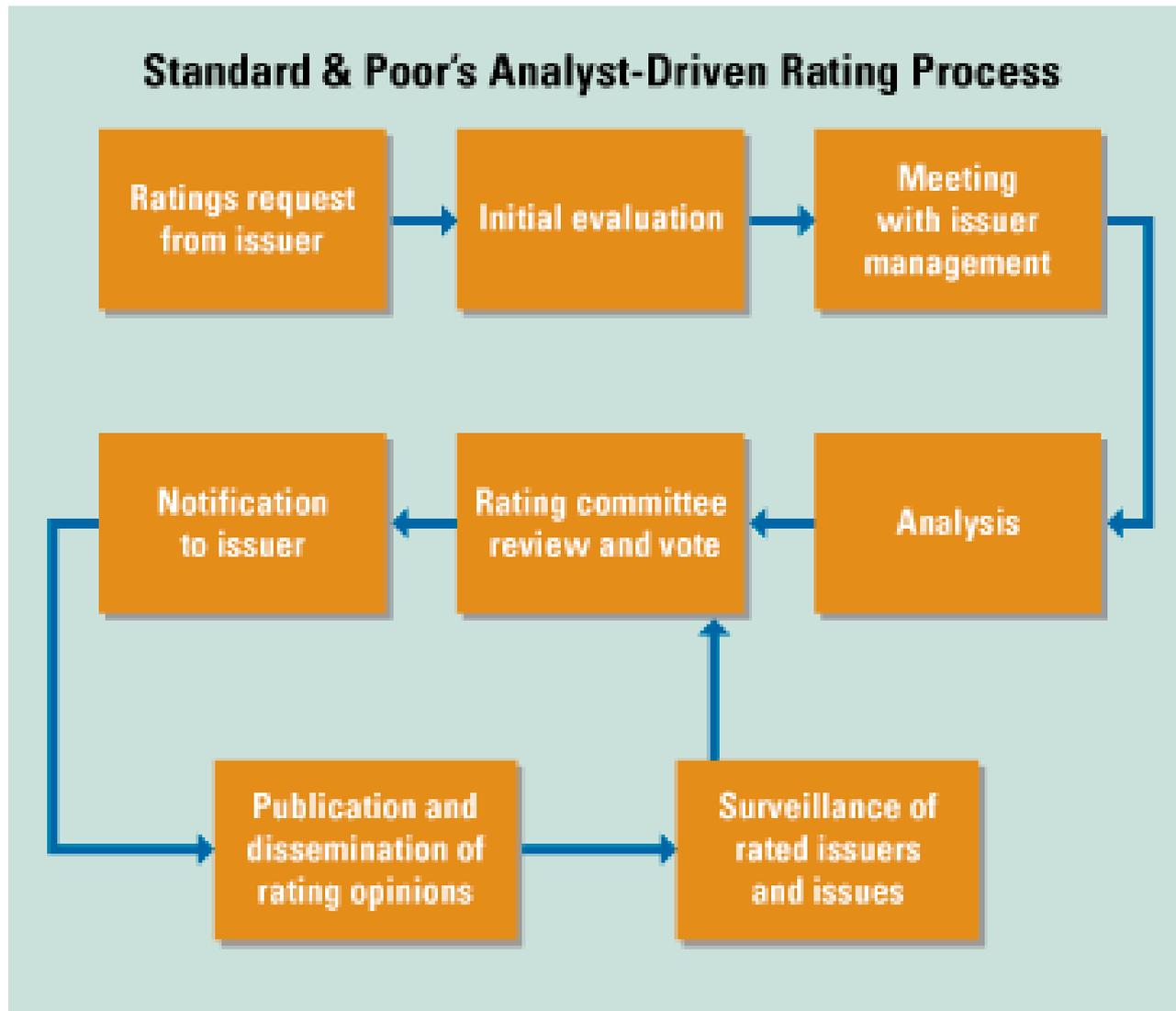
\* As considered by market participants

Ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

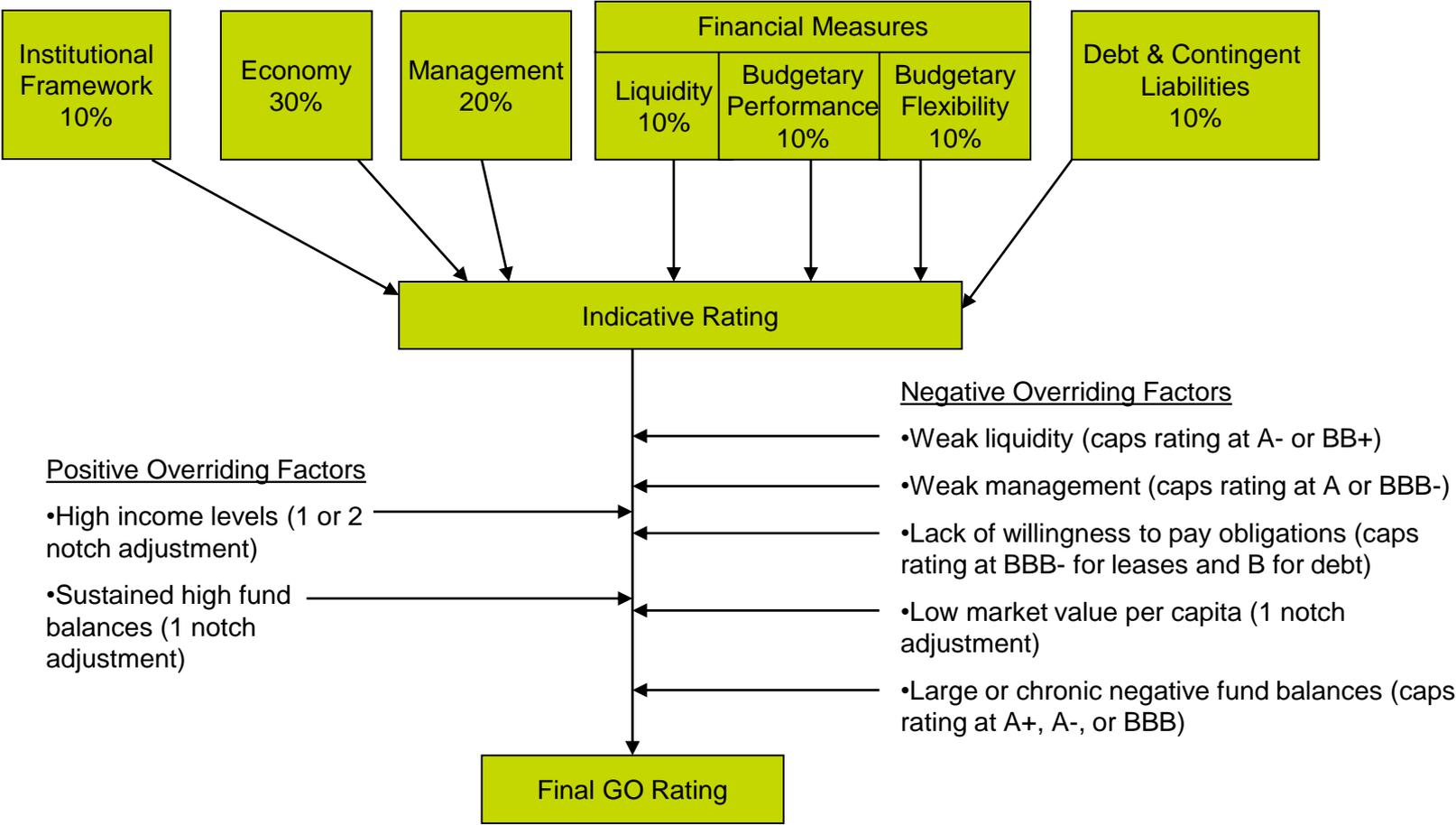
**S&P Global**  
Ratings

Source: "S&P Global Rating Definitions", Aug. 2016

# The Ratings Process



# Analytical Framework For determining the ICR



# Financial Management Assessment

# Financial Management Assessment

## What is the Financial Management Assessment?

- S&P Global Ratings has established an analytical methodology that evaluates established and ongoing management practices and policies in the seven areas most likely to affect credit quality.
- This assessment is based primarily on the existence and implementation of management practices, and not necessarily the results achieved by such practices.
- The purpose of the focus on policies and practices is to evaluate the potential for credit quality to move away from those currently indicated by results.

## What is not included in the Financial Management Assessment?

- The FMA is not an evaluation of the competency or aptitude of individual finance professionals; nor is it an evaluation of a finance department's ability to handle unique challenges.
- The nature of the entity's governing body, the effectiveness of its governance practices, and issues of public policy pursued by the government are beyond the scope of this analysis.

# Top 10 Management Characteristics of Highly Rated Credits S&P has observed.

1. Focus on structural balance
2. Strong liquidity management
3. Regular monitoring of revenues and economic trends to identify shortfalls early
4. An established “rainy day”/budget stabilization reserves
5. Prioritized spending plans and established contingency plans for operating budgets
6. Strong long-term and contingent liability management, including pension, OPEB and other obligations and risks
7. A multiyear financial plan in place that considers the affordability of actions or plans before they are part of the annual budget
8. A formal debt management policy in place to evaluate future debt profile
9. A pay-as-you-go strategy as part of the operating and capital budgets
10. Well-defined and coordinated economic development strategies

# Preparing for an S&P management meeting



# Meeting Agenda: How to best prepare for a due diligence meeting?

## DEBT

Discuss bond issue?

Update on future capital needs and funding.

Any future debt plans?

## ECONOMY

Tax base

- Update on economic developments that have occurred in the town— i.e. significant residential or commercial developments, employment etc.?
- What are you budgeting for new taxable levy growth?

# Meeting Agenda: How to best prepare for a due diligence meeting?

## FINANCES

### Fiscal 2017

- Recap the year end result including any significant variations from budget in terms of revenues or expenses.

### Fiscal 2018

- What are your revenue and expenditure projections for 2017 year end?
- Do you expect fund balance will materially change at year end?

### Fiscal 2019

- Highlight concerns or pressures heading into the year or any potential challenges to the budget relative to prior years?
- Are you anticipating appropriating free cash for capital or operations?
- Any changes to Pensions and OPEB
- Are there any out-year budget projections available?

Labor– Update on contracts?

# Meeting Agenda: How to best prepare for a due diligence meeting?

## **FINANCIAL MANAGEMENT POLICIES/PRACTICES**

**Discuss changes to any financial management policies/practices**

**If applicable, please provide us a copy of your:**

- **5-year capital improvement plan (CIP),**
- **Long term financial plan,**
- **Reserve policy,**
- **Investment management policy or**
- **Debt management policy?**

**Could we please get a copy of the most recent budget update and/or investment report (if they exist)?**

# Q&A

# Thank you

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