



# Your Town's Credit & Bond Rating

**Massachusetts Assoc. of Town Finance Committees**  
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# Credit Ratings: What They Are And Are Not

## Are:

- Opinions about relative credit risk
- Opinion about ability & willingness of an issuer to meet financial obligations in full & on time
- Forward looking and regularly evolving
- Intended to be comparable across different sectors and regions

## Are not:

- Investment advice
- Indications of market liquidity or price
- Guarantees of future credit risk
- Absolute measures of default probability
- Expected ultimate loss given default

# Rating Definitions

## Standard & Poor's Ratings Scale

### Investment-Grade

AAA → Strongest

AA+ }  
AA } Very Strong  
AA- }

A+ }  
A } Strong  
A- }

BBB+ }  
BBB } Adequate  
BBB- }

### Speculative-Grade

BB+ }  
BB } Least Speculative  
BB- }

B+ }  
B } Speculative  
B- }

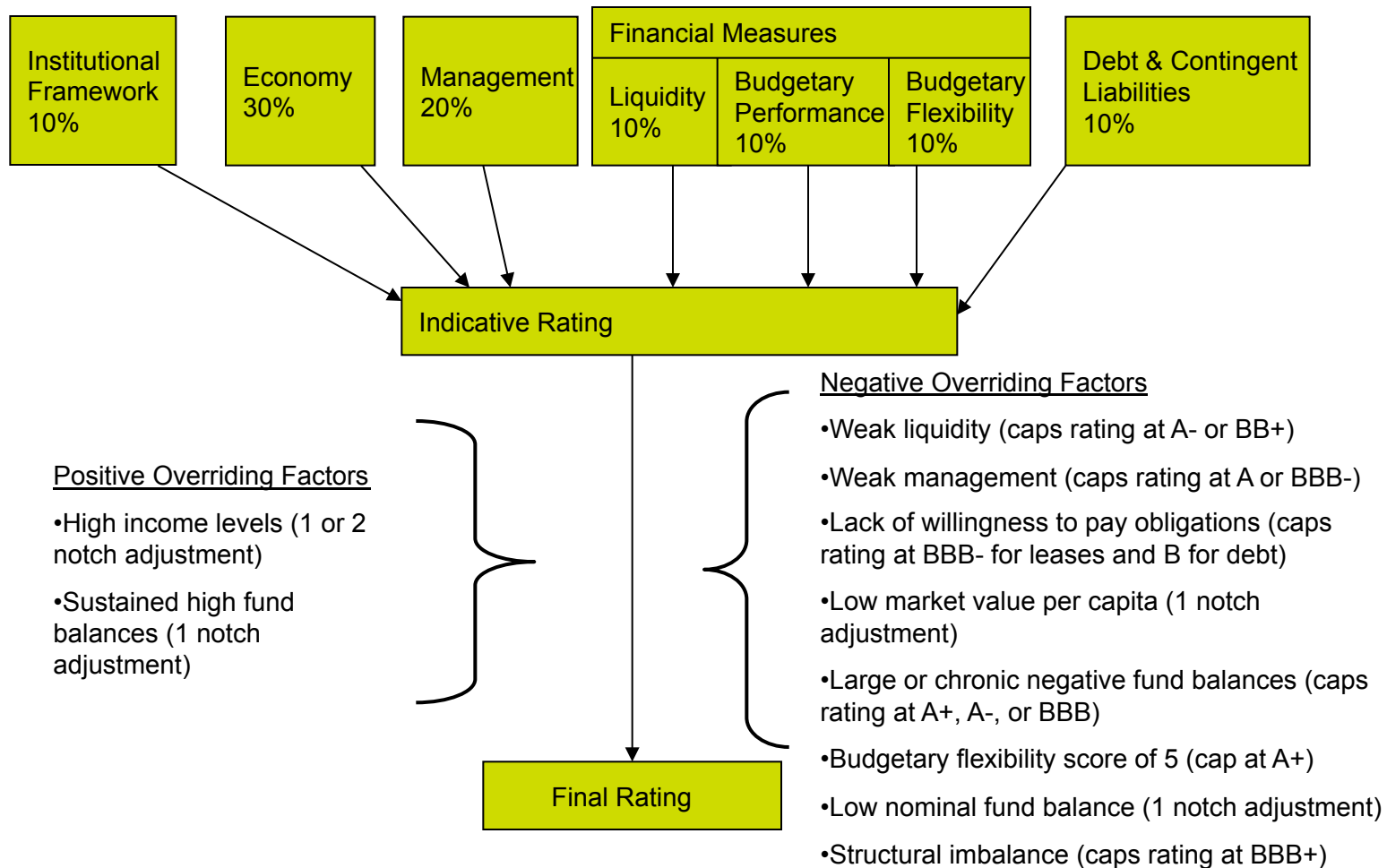
CCC }  
CC } Highly  
C } Speculative

D → In Default

# Summary of the Factors

The Local GO Criteria Factors

# Analytical Framework



# Institutional Framework (1 of 7 Factors)

**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 (Table 4)
- *Revenue and expenditure balance*: the extent to which a local governments have the ability to finance the services they provide (Table 5)
- *Transparency and accountability*: the overall institutional framework's role in encouraging the transparency and comparability of relative financial information (Table 6)
- *Systemic support*: the extent to which local governments receive extraordinary support from a state government when the local government is under extreme stress (Table 7)

# Institutional Framework (1 of 7 Factors)

**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

**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 36-39). Each score receives equal weight in the average.	

7 Source: Standard & Poor’s Ratings Services.

# Economic Score (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. (Table 8)
- Per capita income is based on a 5-year projection
- Especially high income will lead to a positive override and especially low market value per capita will lead to a negative override

	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 to150	1.5	2	2.5	3	3.5
85 to110	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



# Economic Score Adjustments

Economy  
30%

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 (see paragraphs 44 and 45).	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 Score (3 of 7 Factors)

Management  
20%

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

Table 9: Assessing the Management Score (see paragraphs 47-56)	
Rounded Score	Characteristics
1 (Very strong)	FMA score of “strong” and none of the factors in score ‘4’ or ‘5’ is present.
2 (Strong)	FMA score of “good” and none of the factors in score ‘4’ or ‘5’ is present.
3 (Adequate)	FMA score of “standard” and none of the factors in score ‘4’ or ‘5’ is present.
4 (Weak)	FMA score of “vulnerable” or any of the following is present: there is a financial reporting restatement that has a material negative impact; any of the conditions in score ‘5’ existed in the past three years; the structural imbalance override condition exists or existed within the past three years; or a very high debt, pension and OPEB burden.
5 (Very weak)	Regardless of the FMA score, any of the following is present: a management team that lacks relevant skills resulting in a weak capacity for planning, monitoring, and management; an auditor has delivered a going concern opinion; the government appears unwilling to support a debt or capital lease obligation; or the government is actively considering bankruptcy in the near term

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# 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 Measures		
Liquidity 10%	Budgetary Performance 10%	Budgetary Flexibility 10%

## Financial Measures: Budgetary Flexibility Score (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: the average of the most recently reported fiscal year and our estimate for the following year, which may differ from that shown in the original or amended budget
- 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 (see paragraphs 58-62)**

	Available Fund Balance as a percentage of expenditures				
%	>15	8 to15	4 to 8	1 to 4	≤1
Score	1	2	3	4	5

## Financial Measures: Budgetary Performance Score (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 (see paragraphs 64-66)**

	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

# Financial Measures: Liquidity Score (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** (table 12)

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

Table 12: Assessing The Liquidity Score (see paragraphs 68-72)					
	Total Government Available Cash As % Of Total Governmental Funds Debt Service				
Total Government Available Cash As % Of Total Governmental Funds Expenditures	>120	100 to120	80 to100	40 to 80	≤40
>15	1	2	3	4	5
8 to15	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

# Debt and Contingent Liability (7 of 7 Factors)

Debt & Contingent Liabilities  
10%

**Initial debt score: combination of two measures** (table 14)

- 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 (see paragraphs 77-81)**

	Net Direct Debt As % Of Total Governmental Funds Revenue				
Total Governmental Funds Debt Service As A % of Total Governmental Funds Expenditures	<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 Liability Adjustments

Debt & Contingent Liabilities  
10%

Table 14

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 80). 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.

16 Source: Standard & Poor’s Ratings Services.



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