

# Overview of S&P's Local GO Criteria & Maryland Local Government Credit Conditions

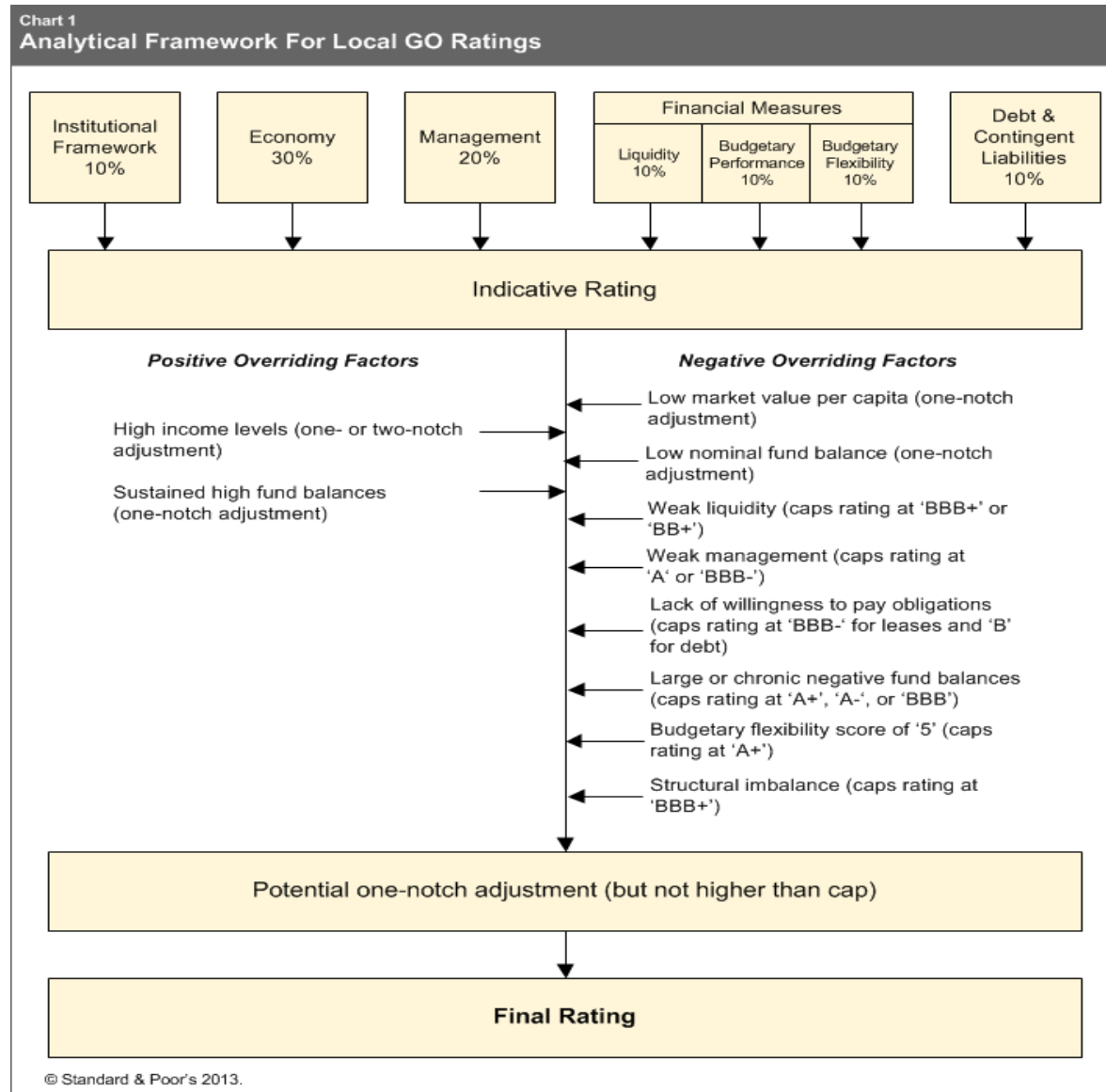
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**S&P Global**  
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# Local GO Criteria: Analytic Framework



# Economic Score (1 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.
  - Market Value Per Capita > \$30,000 is a negative notch 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 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

Source: S&P Global Ratings Services.

# Management Score (2 of 7 Factors)

**Management  
20%**

- Assess the impact of management conditions on the likelihood of repayment based on our Financial Management Assessment (FMA)
  - A “Vulnerable” FMA can cap the rating at an ‘A’

**Table 9: Assessing the Management Score**

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

Source: S&P Global's Ratings Services.

# Financial Management Assessment (FMA)

- Not an evaluation of the competency or aptitude of individual finance professionals
- Evaluates established and ongoing management policies and practices in seven areas we believe most likely to affect credit quality. These seven areas and what we believe to be some best practices include:
  - **Revenue/expense budget assumptions** – historical trend analysis, updated annually with independent revenue forecasting, as well as historical positive variances between actuals and budget
  - **Budget amendments & Updates** – formal monthly budget to actual reports provided to governing body with the ability to make intra-year revenue and expenditure updates as needed.
  - **Long term financial planning** – formalized five-year financial planning for both general fund revenues and expenses, updated on an annual basis
  - **Long term capital planning** – formalized five year capital improvement plan with funding identified for all years, updated annually
  - **Investment management policies** – formalized investment policy with strong reporting/monitoring mechanisms in place (i.e. monthly or quarterly reporting to governing body)
  - **Debt management policies** – formalized debt policy that is well defined in terms of affordability measurer and covers a full array of debt options
  - **Reserve/liquidity policies** – formalized reserve policy with targeted reserve levels clearly identified and adhered to



# Financial Measures

- Three components factor into our assessment of a municipality's financial credit characteristics

Financial Measures		
Budgetary Flexibility 10%	Budgetary Performance 10%	Liquidity 10%



# Financial Measures: Budgetary Flexibility Score (3 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
  - The initial score (1 through 5) is based available fund balance as a % of general fund expenditures for the most recently reported fiscal year
  - Available fund balance = GF unassigned balance + GF assigned
  - This measure can cap a rating, or it can be a positive override if extremely strong or a negative override if less the nominal balance is less than \$500,000

Table 10: Assessing The Budgetary Flexibility Score					
	Available Fund Balance as a percentage of expenditures				
%	>15	8 to15	4 to 8	1 to 4	≤1
Score	1	2	3	4	5

Source: S&P Global Ratings Services.

# Financial Measures: Budgetary Performance Score (4 of 7 Factors)

**Budgetary Performance 10%**

- The budgetary performance initial score measures the current fiscal balance of the government
  - The initial score (1 through 5) is based total governmental funds net result and general fund net result
  - Structural imbalances can cap the rating at a BBB+

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

Source: S&P Global Ratings Services.



# Financial Measures: Liquidity Score (5 of 7 Factors)

Liquidity  
10%

- Liquidity uses Total Government Available Cash held by the government and recognizes most governments' ability to engage in interfund borrowing.
  - The initial liquidity score (1-5) is based on the availability of cash and cash equivalents to service both debt and other expenditures
  - A final liquidity score of 4 (Weak) caps the rating at BBB+ and a 5 (Very Weak) caps the rating at BB

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

Source: S&P Global Ratings Services.

# Debt and Contingent Liability (6 of 7 Factors)

- The initial debt score measures the annual fixed cost burden that debt places on government the and the total debt burden on the government's revenue position
  - The initial score (1 through 5) is based on the total governmental funds debt service as a percentage of expenditures and net direct debt as a percentage of total governmental funds revenue
  - If carrying charges are more than 40% of the TGF expenditures, we could cap the rating at an 'A'

**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

Source: S&P Global Ratings Services.

# Maryland Institutional Framework (7 of 7 Factors)

**Institutional  
Framework  
10%**

Factor	Maryland Cities	Maryland Counties
Predictability	1 (Very Strong)	1 (Very Strong)
Revenue and Expenditure	1 (Very Strong)	1 (Very Strong)
Transparency	1 (Very Strong)	1 (Very Strong)
System Support	3 (Adequate)	3 (Adequate)
Overall Score	1 (Very Strong)	1 (Very Strong)

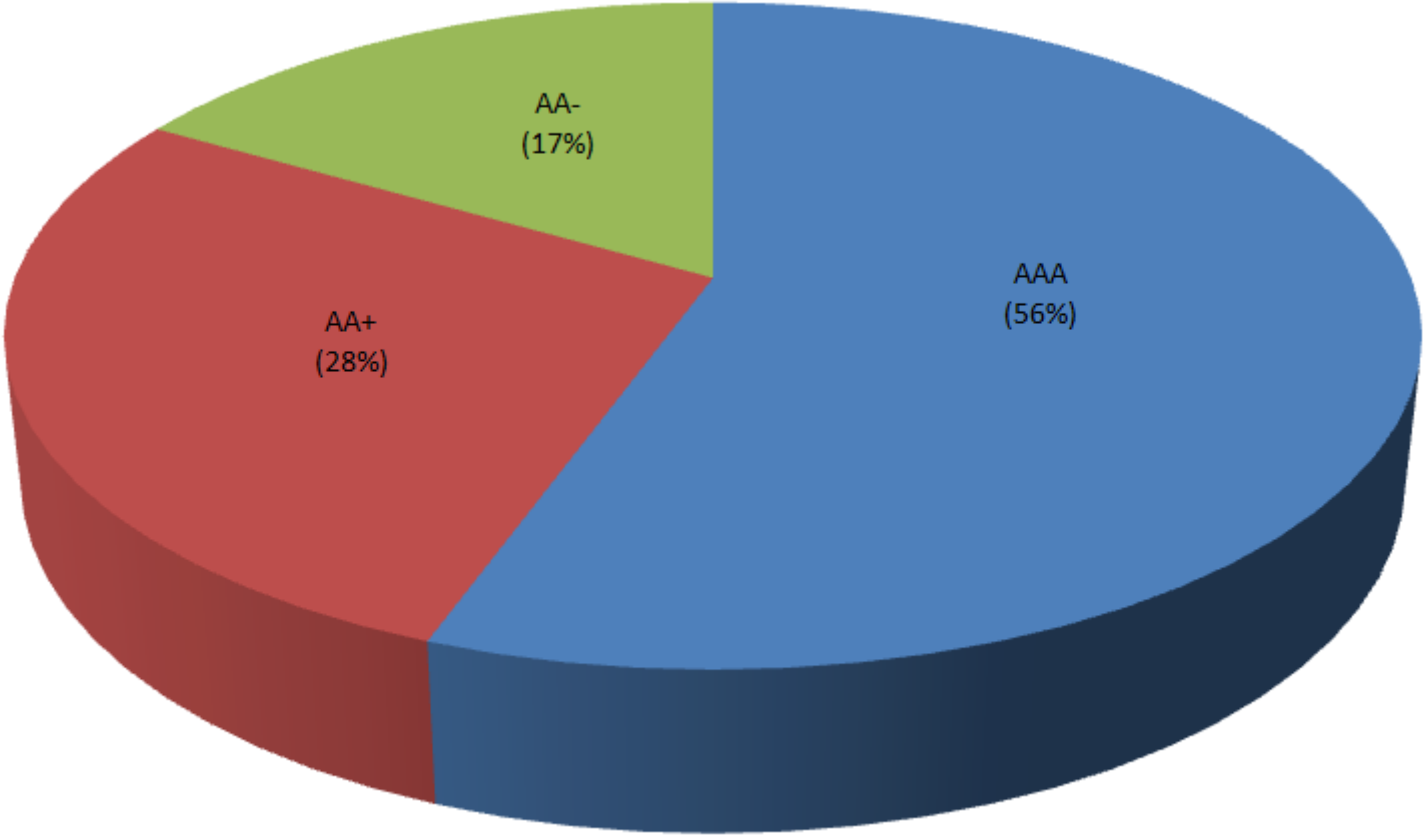
## **S&P Publication:**

2016 Update of Institutional Framework for U.S. Local Governments  
December 21, 2016

# Summary of Local Credit Conditions in Maryland

- Strong and stable credit conditions that are driven by strong economic fundamentals in addition to strong financial positions and policies
- More than 90% of local credits rated 'AA-' or higher, including 41% at 'AAA'
- Three positive rating actions and no negative rating action since January 1, 2016

# Maryland Counties: Rating Distribution



As of May 24, 2017

# Maryland Counties: Medians

	AAA	AA+	AA-	Total
Projected per capita EBI (%)	124	110	90	120
Market value per capita (\$)	114,037	95,020	76,555	107,891
Available general fund (%)	10	10	19	11
General fund performance (%)	1.7	0.7	2.6	1.7
Cash and expense (%)	26	26	36	28
Carrying charge (%)	8.2	5.8	5.4	6.9
Pension ARC + OPEB as % expense	5.0	3.3	1.9	4.3

EBI – Effective buying income. ARC – Annual required contribution. OPEB – Other postemployment benefits

# Maryland Counties: Percent Receiving Adjustments

	AAA	AA+	AA-	Total
Large balance (positive adjustment)	0	0	0	0
Broad and diverse (positive adjustment)	90	80	0	72
No plan for pension/OPEB (negative adjustment)	0	0	0	0

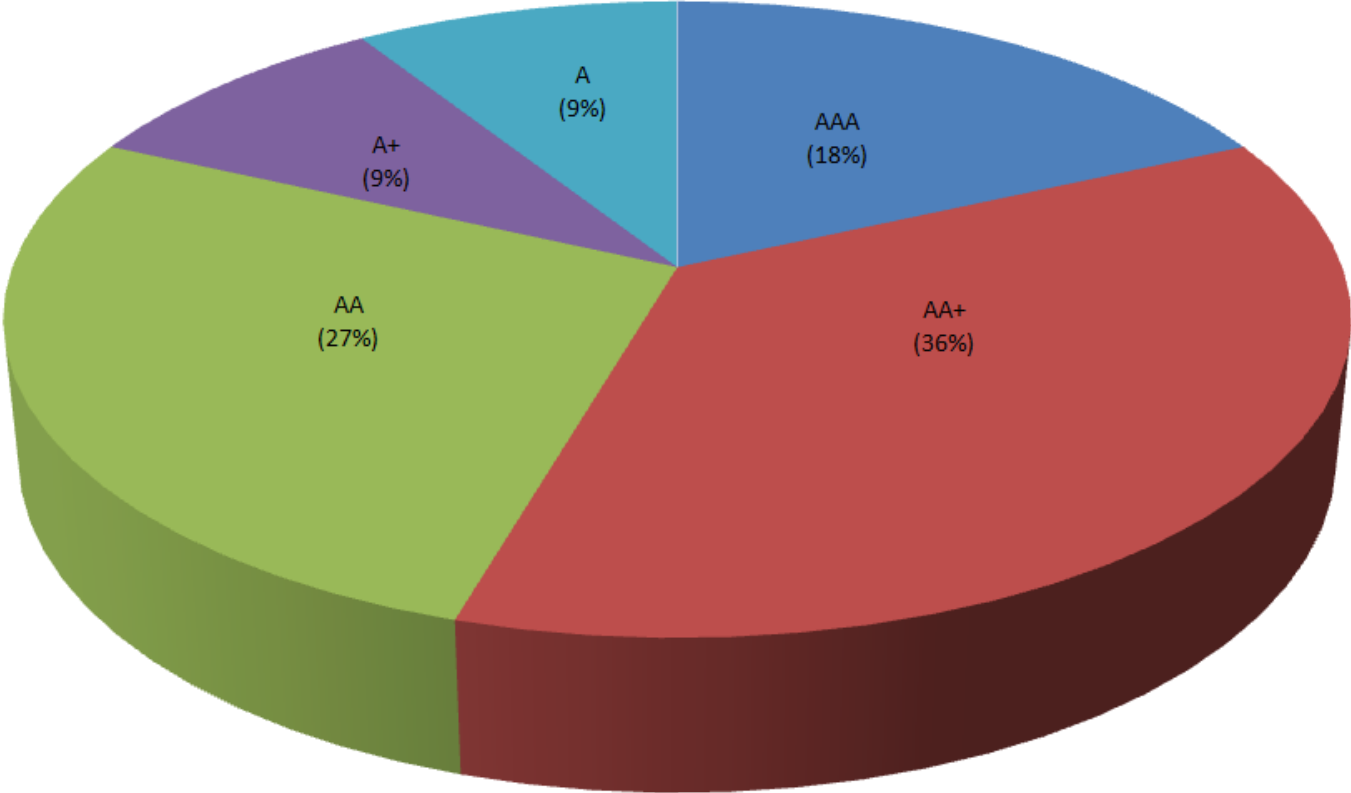
OPEB – Other postemployment benefits.

# Maryland Counties: Financial Management Assessment (FMA)

Score (%)	AAA	AA+	AA-	Total
Strong	80	100	0	72
Good	20	0	67	22
Standard	0	0	33	6



# Maryland Municipalities: Rating Distribution



As of May 24, 2017

# Maryland Municipalities: Medians

	AAA	AA+	AA	A+	A	Total
Projected per capita EBI (%)	156	122	79	82	77	93
Market value per capita (\$)	146,170	130,461	62,367	32,423	46,122	86,957
Available general fund (%)	59	25	26	259	4	26
General fund performance (%)	1.0	3.5	(0.5)	(7.7)	(12.6)	1.4
Cash and expense (%)	95	73	43	127	14	58
Carrying charge (%)	4.8	7.0	4.3	0.8	9.3	6.1
Pension ARC + OPEB as % expense	3.9	9.2	12.5	4.8	7.0	8.5

EBI – Effective buying income. ARC – Annual required contribution. OPEB – Other postemployment benefits.

# Maryland Municipalities: Percent Receiving Adjustments

	AAA	AA+	AA	A+	A	Total
Large balance (positive adjustment)	50	0	0	100	0	18
Broad and diverse (positive adjustment)	50	100	100	0	0	73
No plan for pension/OPEB (negative adjustment)	0	25	67	0	0	27

OPEB – Other postemployment benefits

# Maryland Municipalities: Financial Management Assessment (FMA)

Score (%)	AAA	AA+	AA	A+	A	Total
Strong	100	50	67	0	0	55
Good	0	50	33	0	0	27
Standard	0	0	0	100	100	18

# Current Tax Rates of Maryland Counties

County	Income	Property	County	Income	Property
Allegany	.0305	0.978	Hartford	.0306	1.042
Anne Arundel	.0250	0.923	Howard	.0320	1.014
Baltimore City	.0320	2.248	Kent	.0285	1.022
Baltimore County	.0283	1.1	Montgomery	.0320	0.723
Calvert	.0300	0.892	Prince George's	.0320	1.00
Caroline	.0273	0.98	Queen Anne's	.0320	0.8471
Carroll	.0303	1.018	St. Mary's	.0300	0.8523
Cecil	.0280	0.9907	Somerset	.0320	1.00
Charles	.0303	1.205	Talbot	.0240	0.536
Dorchester	.0262	0.976	Washington	.0280	0.948
Frederick	.0296	1.06	Wicomico	.0320	0.9516
Garrett	.0265	0.99	Worcester	.0175	0.835

# Uncertainties with the Federal Budget

- Federal budget cuts could result in a reduced federal workforce, creating risks for state employment and related income tax revenue
- Additional defense spending could boost economic activity from federal contracting employment

# Conclusion

- Overall credit quality for Maryland local credits should remain strong over the next year
- Strong financial performance and budgetary flexibility, supported by good growth in property taxes and significant revenue raising flexibility
- Nearly two-thirds of credits maintain highest Financial Management Assessment of 'strong'
- Annual pension and OPEB expenses not viewed to be too burdensome for most Maryland local credits
- We will continue to monitor uncertainties with the federal budget and any impacts to local government's revenues/expenses

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