

# S&P Global Ratings – Ratings Process and Pennsylvania Credit Trends

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# Agenda

- **Credit Ratings: What's the Big Deal?**
  - Understanding S&P Global's Ratings
  - The Rating Scale
- **Determining a Credit Rating**
  - Our Local Government Criteria
  - The Rating Process
- **Portfolio Overview: Pennsylvania Schools, Municipalities & Counties**
- **Questions**



# Credit Ratings: What's the Big Deal?

## Understanding S&P Global's Ratings

- Credit ratings are an evaluation of an issuer's **ability** and **willingness** to pay debt in a **timely manner**
- Credit ratings are **forward looking**
- The Ratings scale **is relative** and based on the creditworthiness of an issuer or credit quality of an individual debt issue, from strongest to weakest, within a universe of credit risk
  - The rating scale provides a basis for comparison across asset classes, geographies, and peers
- Criteria provide the analytic framework to derive the rating opinion
  - Different criteria for different obligator and security types
- Credit ratings are not a recommendation to buy or hold a security instrument
- S&P Global ratings are **opinions**, not guarantees of credit quality or exact measures of the probability that a particular issuer or particular debt issue will default

## S&P Global's Ratings Scale

- **AAA**

- **Investment Grade:** Extremely strong capacity to meet financial commitments

- **AA**

- **Investment Grade:** Very strong capacity to meet financial commitments

- **A**

- **Investment Grade:** Strong capacity to meet financial commitments, but somewhat susceptible to economic conditions and changes in circumstances

- **BBB**

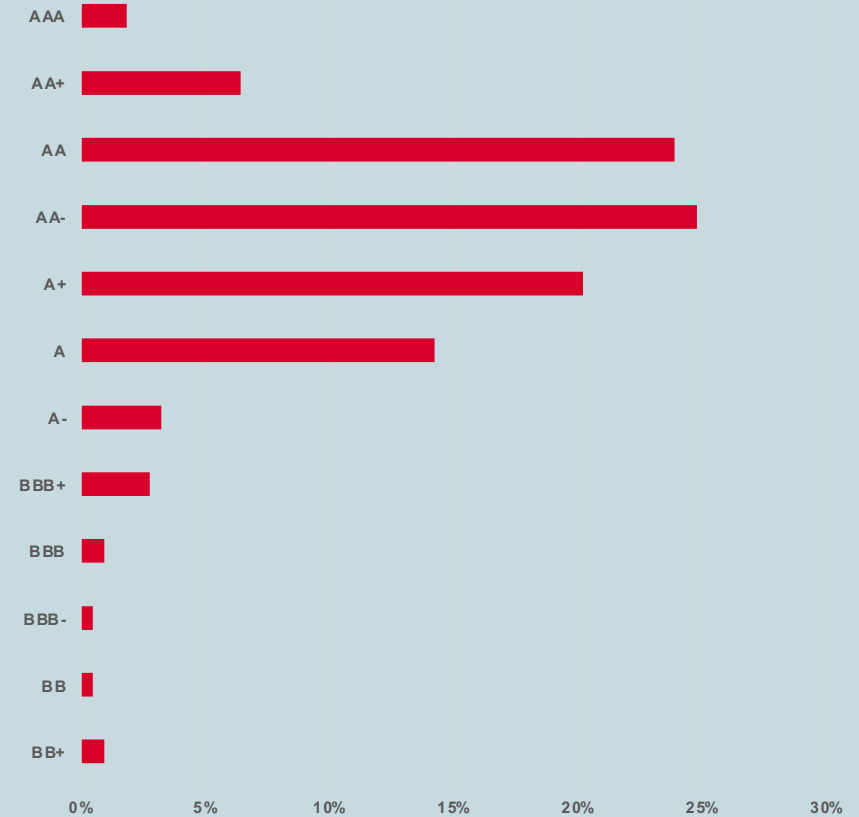
- **Investment Grade:** Adequate capacity to meet financial commitments, but more subject to adverse economic conditions

- **BB, B, CCC, CC, C, D**

- **Speculative Grade**

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Pennsylvania Municipalities Rating Distribution



# Determining a Credit Rating

## How is a rating determined?

We evaluate issuers based on credit fundamentals and issues/series of bonds on security type, pursuant to the applicable criteria.

**U.S. Governments Criteria published September 9, 2024** – 10,700 public ratings nationwide

- Consolidated criteria for states, counties, municipalities, school districts, and special government districts.
- Approximately 95% of ratings remained unchanged.

### Institutional Framework

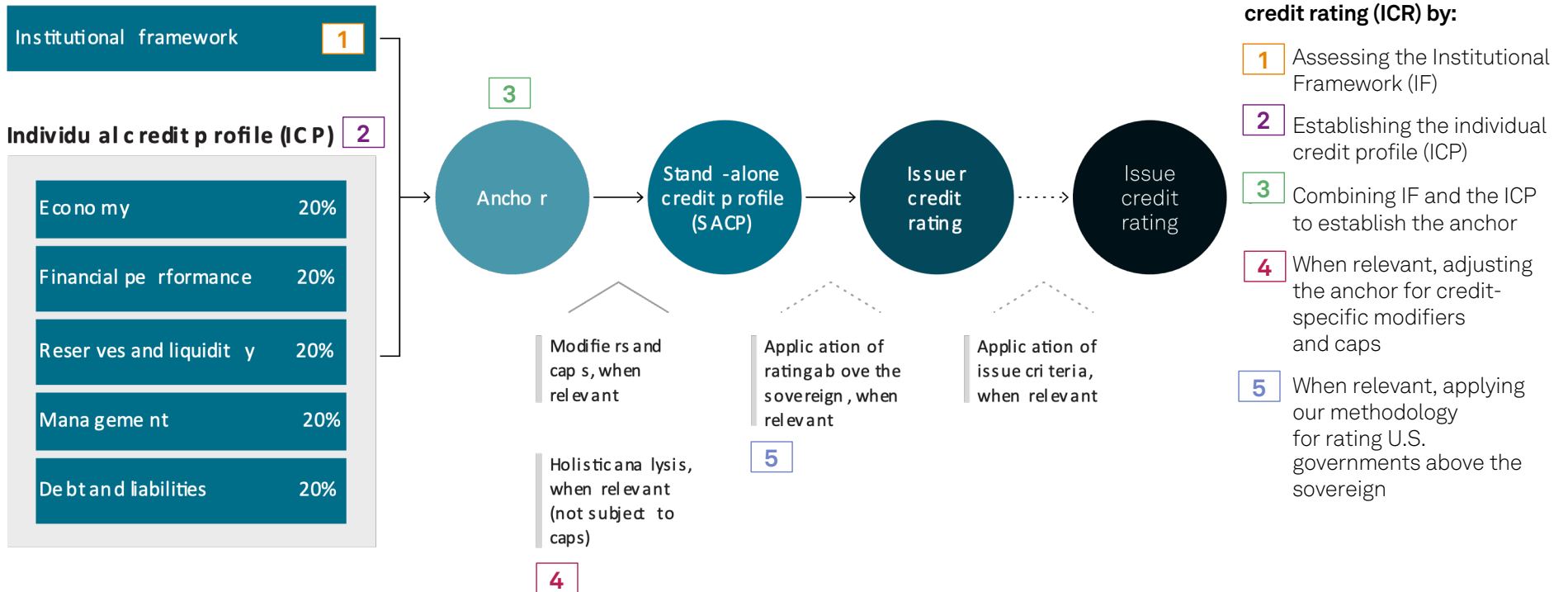
- Predictability
- Revenue/Expenditure Balance and Support
- Transparency and Accountability

### Individual Credit Profile

- Economy
- Financial Performance
- Reserves and Liquidity
- Management
- Debt and Liabilities

# U.S Governments Criteria

## Framework for ratings U.S. governments



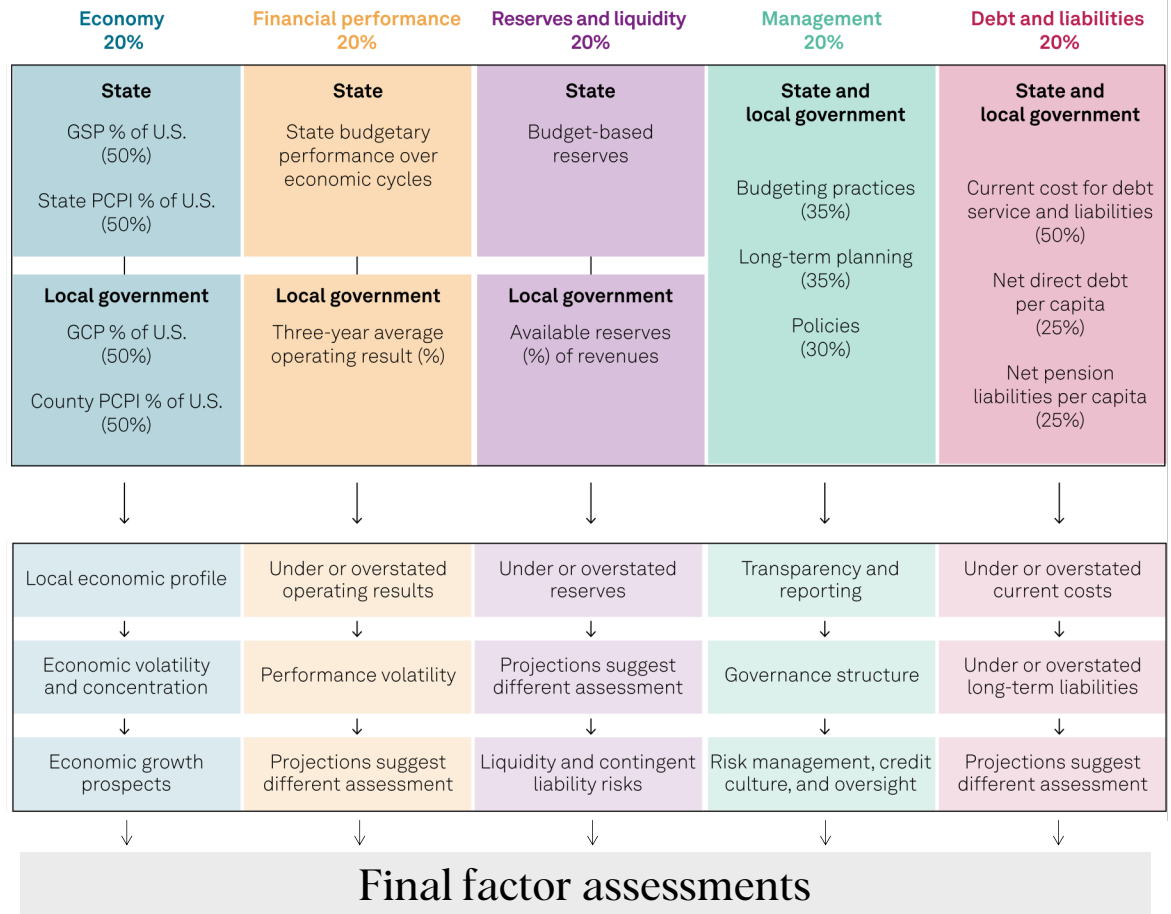
# Institutional Framework



# Framework For Establishing The Individual Credit Profile (ICP)

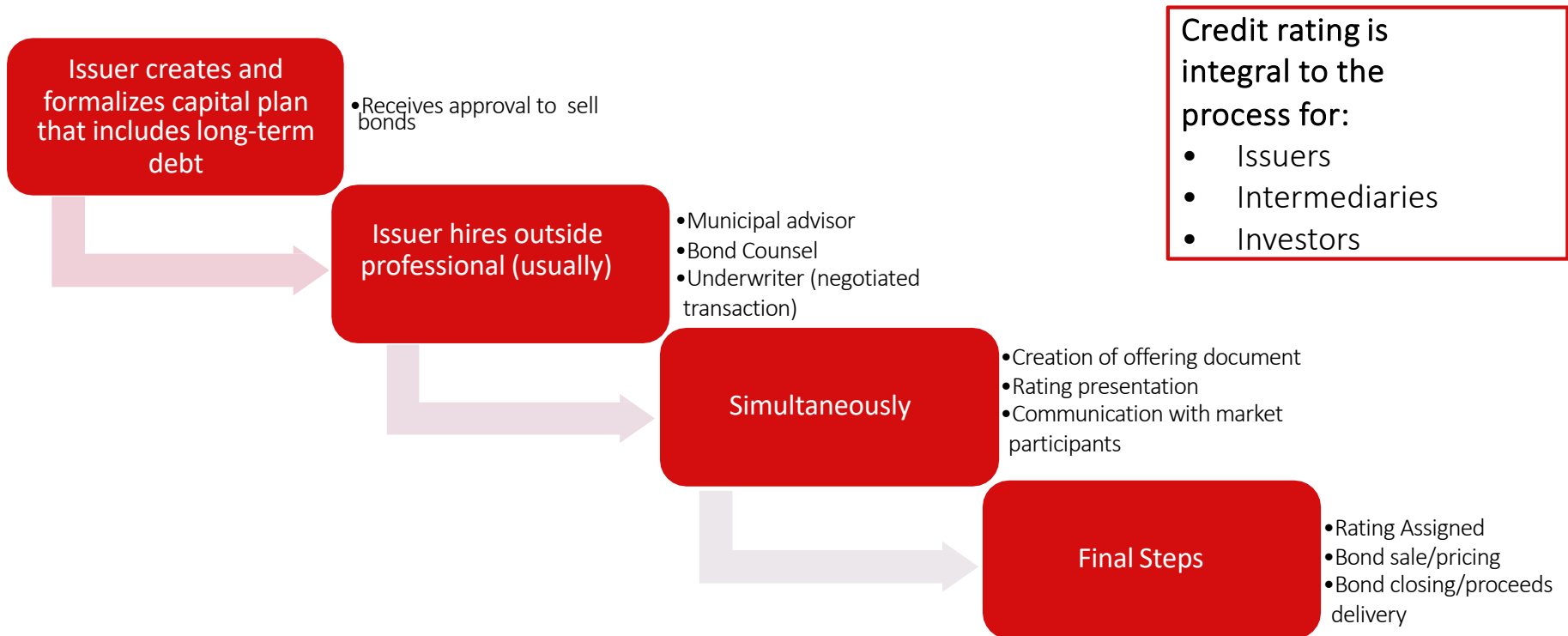
Step 1: Establish initial assessment

Step 2: Apply qualitative adjustments

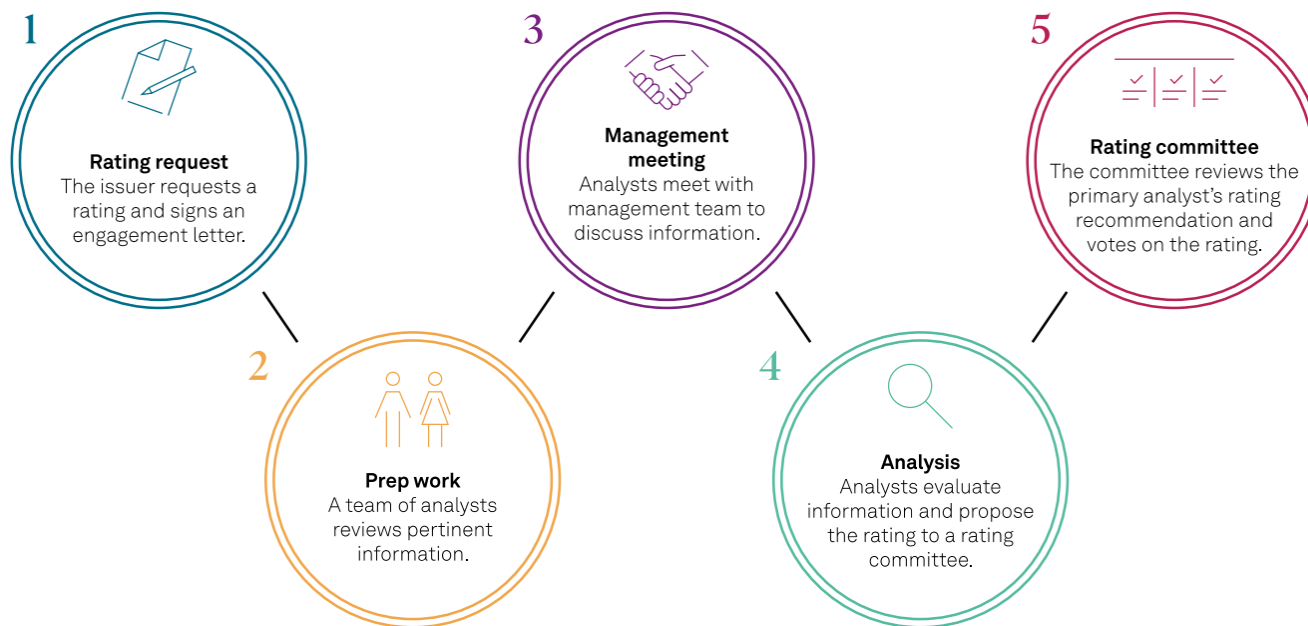


GSP--Gross state product. GCP--Gross county product. PCPI--Per capita personal income.

## Bond Rating Process



## The Rating Process in Detail



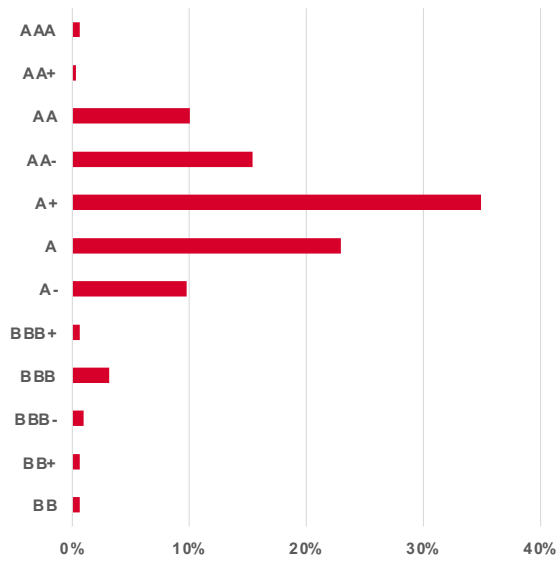
## The Rating Process in Detail



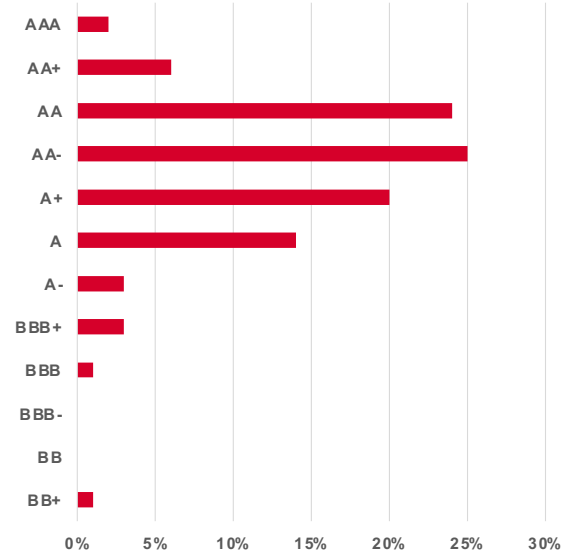
# Credit Trends: Pennsylvania Schools, Municipalities, and Counties

# Pennsylvania Portfolio: Rating Distribution

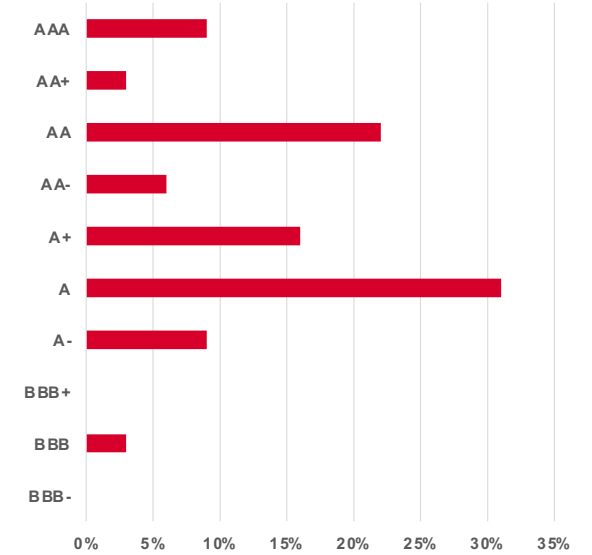
## Pennsylvania Schools Rating Distribution



## Pennsylvania Munis Rating Distribution



## Pennsylvania Counties Rating Distribution



## Credit Fundamentals

- Generally healthy reserves across the portfolio as median available fund balance positions for counties and municipalities are 34% and nearly 47%, respectively, of operating revenue. However, many municipalities report audits on a modified cash basis of accounting, which, in our view, weakens comparability to accrual-based peers nationwide
- Most funding for public schools comes from local revenue sources, predominately from property taxes and smaller reliance on earned income taxes, although some district are more reliant on state aid than local revenue.
- Positive school state aid environment in recent years, however, districts that are more reliant on funding from the state might have more difficulty balancing their budgets if state revenue does not continue to increase with inflation to meet rising costs.
- Pension and other post employment benefits (OPEB) costs continue to be a credit pressure for Pennsylvania school districts, often comprising nearly 15% of a district's budget, but the state funds approximately 50% of a district's pension costs, somewhat mitigating cost pressures

## Pennsylvania Schools: Medians

Pennsylvania schools: medians								
	AAA	AA+	AA	AA-	A+	A	A-	BBB+ or lower
Median County GCP (%) of the U.S.	129.8	127.3	86.1	77.25	66.4	63.2	63.1	92.6
Median County PCPI (%) of the U.S.	154.3	108.3	99.6	88.9	82.4	77.8	77.6	108.5
Median 3-Year Performance Average (%) of Revenues	0.2	1.8	0.5	1.85	1	1.5	1.75	1.7
Median General Fund Balance (%) of Revenues	8.3	18.5	18.5	20.9	21.2	17.5	10.5	5.5
Median Debt Service (%) of Revenues	6.1	4.5	8.5	6.7	6.7	6.45	6.9	2.1
Median Net Direct Debt Per Capita	1,344	2,273	2,339	1,993	1,675	1,455	1,944	998

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## Pennsylvania Municipalities: Medians

Pennsylvania municipalities: medians								
	AAA	AA+	AA	AA-	A+	A	A-	BBB+ or lower
Median County GCP (%) of the U.S.	141.0	129.0	127.3	93.2	72.0	61.8	64.0	78.1
Median County PCPI (%) of the U.S.	137.8	137.8	108.3	96.3	87.2	84.4	87.4	94.6
Median 3-Year Performance Average (%) of Revenues	4.2	3.1	3.5	4.3	6.2	1.7	6.2	0.4
Median General Fund Balance (%) of Revenues	43.6	49.8	44.5	48.1	45.0	39.6	36.7	10.3
Median Debt Service (%) of Revenues	3.5	5.6	5.7	6.3	6.1	4.6	7.4	7.2
Median Net Direct Debt Per Capita	857	692	885	1,088	949	1,393	1,801	999

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## Pennsylvania Counties: Medians

Pennsylvania counties: medians							
	AAA	AA+	AA	AA-	A+	A	A-
Median County GCP (%) of the U.S.	114.5	93.2	77.2	127.3	57.5	57.5	46.4
Median County PCPI (%) of the U.S.	126.9	119.7	87.8	108.3	72.4	77.35	81.7
Median 3-Year Performance Average (%) of Revenues	10.8	-2.6	1.2	0.5	9.4	4.0	-1.7
Median General Fund Balance (%) of Revenues	58.7	25.4	36.8	12.8	37.5	29.4	-0.8
Median Debt Service (%) of Revenues	7.3	3.8	3.9	3.4	4	4.6	5.8
Median Net Direct Debt Per Capita	557	555	366	844	376	481	364

## What we're watching

Federal policymaking	Earned Income Tax Trends	ARPA Sunset	Macroeconomic trends	Tourism/Hospitality Industry
Commonwealth Credit Rating (A+/Positive)	Cyber charter trends	Aging Infrastructure	Commonwealth Budget Trends	Pension Health
	Slow Population Growth and In-migration	PA Economic Development & Job Creation	Cyber Threats	

# Thank you

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