

What To Expect From S&P Global Ratings' U.S. Public Finance Rating Process

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What To Expect From S&P Global Ratings' U.S. Public Finance Rating Process

S&P Global Ratings provides more than 1 million ratings globally, and roughly 20,000 of those are within the U.S. Public Finance (USPF) group. The debt we rate finances a wide range of capital projects--from charter schools to highways; from sewers to airports; from public hospitals to housing projects. Nearly everything we rate in USPF helps to deliver public infrastructure.

Our ratings, research, and insights support transparency in the capital markets and help market participants and investors make educated, confident decisions. In short, we provide essential intelligence. Investors use our ratings to assess creditworthiness, compare different issuers and debt issues, supplement their own credit analysis, and meet investment guidelines. Issuers use our ratings as tools to help them access the debt capital markets, widen the pool of potential investors, and negotiate terms with banks and other counterparties. And investment bankers use our ratings to help facilitate the flow of capital from investors to issuers.

When issuers seek a public rating on a pending bond issue, S&P Global Ratings strives to make the experience as clear and transparent as possible. Our criteria for evaluating debt are publicly available at www.spratings.com. For certain security types, we provide an online tool with which issuers can model their potential rating outcome, using their unique inputs. Furthermore, our analysts endeavor to be accessible and responsive to the issuer and its agents, including bankers, advisors, and intermediaries, throughout the rating process.

For issuers undergoing the rating process for the first time, the experience can seem daunting. In this document, we outline how the rating process works, what to expect, and how to prepare. We also respond to frequently asked questions.

AN S&P GLOBAL RATING

The rating S&P Global Ratings assigns is a forward-looking opinion about the issuer's capacity and willingness to meet its financial obligations in full and on time. It incorporates our views on the relative likelihood of default of entities (issuers) and securities (issues). We strive to be globally comparable across sectors and so the key objective of our credit ratings is a rank ordering of the relative creditworthiness of issuers and obligations using our unique rating scale. Of note, and a difference from some other ratings assigned by S&P Global, a USPF rating does not factor post-default recovery into the rating.

A rating is one of many tools available to market participants, but is not a guarantee of credit quality, a measure of absolute default probability, investment advice, or an audit.

The Typical Rating Process

S&P Global Ratings typically only assigns a rating on request. In USPF, the majority of our ratings are issue credit ratings, which we assign to a specific bond series, but we can assign the broader issuer credit rating (ICR) (assigned to

the entity itself) in certain sectors. We only provide a rating when we have adequate information to form a credible opinion.

After we receive a rating request, we assign a team of two analysts with knowledge of the specific sector and security type (see chart 1). The analysts coordinate with the issuer or their designee (typically a municipal advisor or an investment banker) and will either call or have an in-person meeting with them. Should the rating be covered by SEC Rule 17g-5 (in public finance, typically select Housing group transactions), we use a password-protected website to share information. An S&P Global Ratings relationship manager can help you access this site once we receive the rating request.

Before the meeting, the analyst designated as the primary point of contact will request a variety of documents, including the most recent audit, the offering statement, the budget, quarterly statements, long-term financial and capital plans, and any financial policies. For issuers new to S&P Global Ratings, the initial document request could be larger. We look at quality and timeliness of information in the rating process (for more information, see "How Quality And Timeliness Of Information Are Incorporated Into U.S. Public Finance's Rating Process," published Oct. 25, 2016, on RatingsDirect).

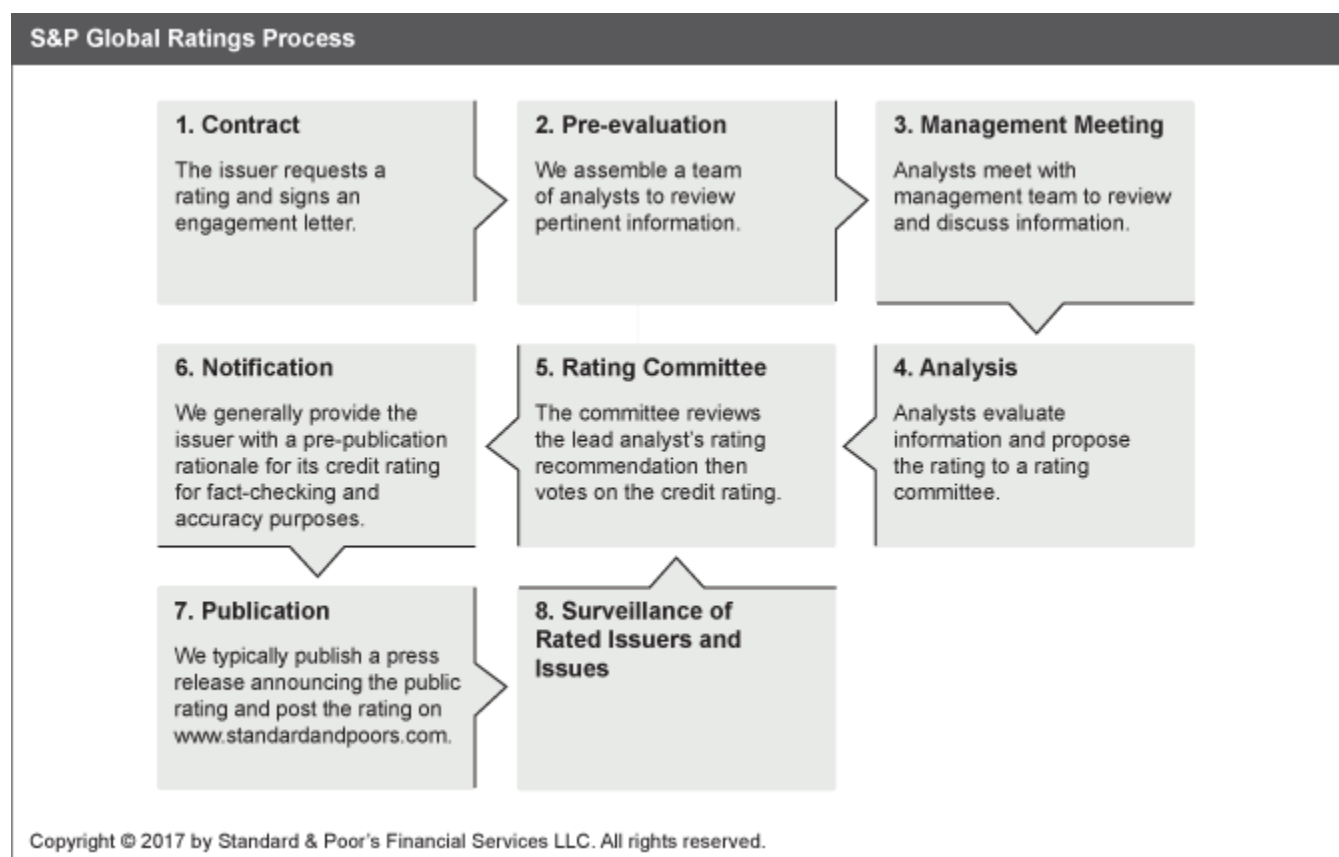
Once the analysts have received the information and reviewed the submissions, they will send a meeting agenda, which issuers can use to prepare for the conversation. Rating calls generally last an hour, but can be longer if needed. For first-time issuers, we usually take more than an hour.

After this meeting, the analysts begin their analysis. The USPF analytical team will prepare documentation to present to the rating committee, which is composed of analysts with sector experience from across the country. The committee will discuss all attributes of the issuer's credit quality, and will determine the rating and outlook (positive, negative, or stable). The committee includes the primary analyst, a back-up analyst, and several other analysts, and will be led by a chairperson. Additional analysts may be added if the rating committee can benefit from their expertise. The responsibility of chairing a committee is granted only after years of relevant experience.

Once the committee determines the rating, the analyst will communicate the rating to the issuer, along with salient points discussed at the rating committee. The issuer will also have an opportunity to fact-check the corresponding rating report. This review is not for editorial purposes, but simply to ensure that there are no misleading statements or confidential information. This fact-check is typically conducted within a two-business hour window, which can be scheduled at a mutually acceptable time. However, the analyst is also responsible for getting timely information to the market and may proceed with publication if the issuer is unavailable or unresponsive.

Issuers can also appeal a rating if they believe the criteria was applied in error, there is materially new information to share, or they believe there was an analytical mistake or oversight. After we receive and evaluate the issuer's feedback, we release the rating and publish the report.

Chart 1



General Approach To Evaluating Credits

We evaluate credits based on the debt's security, and its respective criteria, which are available on www.spratings.com.

In general, we consider economic factors, institutional or legal frameworks, debt levels, budgetary flexibility (or reserve levels), financial performance, and management, among other indicators.

Our rating scale (see chart 2) spans from 'AAA' (which we define as extremely high capacity to meet financial commitments) to 'D' (default). Anything 'BB' category or below is speculative-grade. Most, but not all, of our ratings in USPF are in the mid-to-high investment-grade categories, but the USPF universe of ratings runs the credit spectrum.

Issue credit ratings can be either long-term or short-term. Short-term ratings use a different scale than our long-term ratings. With the short duration of notes, there are only four rating categories ('SP-1+', 'SP-1', 'SP-2', and 'SP-3') compared with the 21 categories in the long-term rating scale. The 'SP-3' rating is speculative-grade, while the others are investment-grade.

Chart 2

S&P's Global 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.
	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.
<small>*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. Copyright © 2017 by Standard & Poor's Financial Services LLC. All rights reserved.</small>	

FREQUENTLY ASKED QUESTIONS

Preparing For A Rating

How does S&P Global Ratings assign analysts?

We assign analysts based on availability, capacity, and familiarity with the credit, its security pledge, or the region the issuer is in. We do not accept external requests for specific analysts. Whereas we appreciate the knowledge accumulated by our analysts covering a single issuer, in general, we believe rotation is beneficial because it brings new expertise to the rated issue. In fact, S&P Global Ratings limits the time that analysts can serve as primary analysts for a particular issuer of debt or equity securities, rated entity, or related third party. S&P Global Ratings also imposes a cooling-off period before an analyst can again be a primary analyst for a particular entity.

How do I prepare for the rating process?

With our criteria available online, we ask that the management team talks with the USPF analysts to familiarize themselves with the criteria we will use. If you have questions or concerns regarding our criteria, request a pre-call with your assigned analyst. Criteria articles, as well as questions the analyst sends, are useful in your preparation for the rating process. If you cannot retrieve information or provide responses to requests at the time of the call, that is not uncommon and we don't view it negatively. We simply ask that you follow up with the requested information.

Who should participate on the rating call, and who does S&P Global Ratings like to hear from at the issuer's end?

Individuals who are best suited to respond to credit attributes and the analyst's questions should be on the call. Participants often include the financial director, treasurer/collector, chief executive (such as a CEO, president, or city/town manager), debt manager, and economic development coordinator. The issuer will also often invite its financial advisor or investment banker to the call. The number of participants can vary greatly, but for us, it does not matter how many people are in the room, just that the right people are there.

When should we think about having S&P Global Ratings come to us for a site visit?

Although never required in the rating process, site visits could be scheduled if there has been a notable shift (either positive or negative) in the issuer's credit conditions. An issuer will schedule such a visit if it has experienced significant economic development; if there is a complicated aspect of the analytics that would benefit from a face-to-face meeting; or if the issuer believes there is discrepancy between the perceived and actual rating. Site visits should be scheduled well in advance to ensure analysts' availability.

Issuers also have the opportunity to come to any of the S&P Global Ratings offices for the meeting. We have offices with meeting space in Boston; Centennial, Colo.; Chicago; Dallas; New York; San Francisco; and Washington, D.C.

Can we ask for an upgrade during the rating call?

Yes, although a committee will consider both an upgrade and downgrade regardless of whether an issuer asks. The most effective cases for upgrades are made with familiarity of the relevant criteria and comparative ratings. Furthermore, issuers can request analytical feedback on the strength and weaknesses of their creditworthiness. Although analysts can discuss factors enhancing or limiting the rating, they cannot advise the issuer about what steps they should or could take to achieve an upgrade or prevent a downgrade.

During The Rating Process

How long does the process take?

The time it takes to get a rating can vary depending on the issue's complexity, the availability of information, and the time since the most recent rating review. In general, we require at least 10 business days from the time of the request to provide the rating, although complex issues might require much more time.

May I sit-in on or participate in the rating committee?

Committees are not open to individuals outside of S&P Global Ratings. In fact, only analysts who "need to know" are included, and outsiders (such as analysts from other groups, non-analytical managers, or commercial employees) cannot participate.

How does S&P Global Ratings determine the final rating?

S&P Global Ratings will evaluate the issue or issuer in accordance with the appropriate criteria and security. We determine ratings by vote of a rating committee through careful evaluation of the issuer's creditworthiness. The committee will also consider how the issuer compares to similar credits in size, geography, and specific indicators.

What is the difference between an outlook and a CreditWatch?

We can place ratings on CreditWatch when an unanticipated event or deviation from an expected trend has occurred and we believe we need additional information before any rating change. CreditWatch placements generally last for up to 90 days, although we can extend this when an event is still pending or more information is still required. An issuer on CreditWatch does not carry an outlook during the CreditWatch review period.

In contrast, long-term ICRs and some structured finance ratings carry outlooks. Outlooks cover a longer period--generally up to two years for investment-grade and one year for speculative-grade ratings--and can incorporate trends or developments that we believe have less-certain implications for credit quality than CreditWatch. Outlooks present S&P Global Ratings' opinion of possible changes to an issuer's credit quality over this longer period, not specific near-term events.

Not all credit ratings changes are preceded by a CreditWatch action or nonstable outlook. For more information on CreditWatch placements and outlooks, see "Use of CreditWatch And Outlooks," published Sept. 14, 2009.

Will analysts assign a positive outlook before any upgrade?

Not always. Similarly, a downgrade does not always follow a negative outlook. We will apply a nonstable outlook if we think there is a one-in-three chance the rating could change within two years. There are plenty of cases in which upgrades or downgrades occur without a preceding outlook revision.

Analysts can also place an issue or issuer on CreditWatch when the likelihood of taking a rating action within the subsequent 90 days is at least 50-50. CreditWatch is different than a nonstable outlook because it is applied for a shorter time period, and is typically used when S&P Global needs time to evaluate an event, criteria change or trend deviation.

Do you take into consideration rating(s) from other agencies?

No. Our analysis applies our unique criteria and focuses on our assessment of the credit qualities of the issuer or issue, and how the issuer or issue compares to similar credits we rate.

Can I appeal my rating?

If you think the criteria were applied in error either due to analytical mistake or oversight, or if you have materially new information to share, you may file an appeal. S&P Global Ratings will consider all appeals and will grant such appeals as appropriate. We could place the rating on CreditWatch during the appeal period. S&P Global Ratings will take any appeal request seriously, but it will reject requests that appear to be made solely for the purpose of delaying the rating's publication. In general, the rating decision of an appeal rating committee is final.

After The Rating Is Published

If we have to cancel or postpone the issue sale for any reason, for how long will the rating be valid?

Ratings generally have a shelf life of 60 days. However, we decide this case-by-case.

How often does S&P Global Ratings review and update ratings?

We review ratings regularly through our in-depth analytical process. We could also contact issuers if there is a notable shift in financial or economic indicators. However, we typically review ratings in conjunction with the release of the

issuer's or obligor's annual financial or audit report. S&P Global Ratings has a responsibility to inform investors of any perceived or actual changes to credit quality, and will often publish a report following analytical review. The process for this review is similar to the process of a new sale rating.

Other Questions

Who should I contact if I have a question about costs or other products?

We maintain a strict separation of commercial and analytical activities. Analysts are forbidden to discuss fees with the issuer or any other party. Any questions about fees should be directed to a relationship manager. This manager can also discuss other products, should a rating not fit your need. For fee quotes or more information, please email pfteesvcs@spglobal.com or call 1-877-299-2569.

What is the USPF organizational structure?

We have more than 170 analysts across six regional offices (Boston, Centennial, Chicago, Dallas, New York, and San Francisco). Our teams analyze charter schools, higher education, health care, housing, transportation, utilities, state governments, and local governments.

Only a rating committee may determine a rating action and this report does not constitute a rating action.

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