



Understanding County Debt Ratings

Analysis of Debt and Pensions

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CACTTC Education and Legislative Conference

Analysis of Debt and Pensions

- Debt and pensions is one of the “Four Factors” included in Moody’s rating methodology for General Obligation and related tax-supported debt:
 - » Economy/Tax Base
 - » Finances
 - » Management
 - » Debt and Pensions
- For California counties, debt consists of primarily of:
 - » General Obligation Bonds
 - » Pension Obligation Bonds
 - » Certificates of Participation/Lease Rental Bonds
- Moody’s rating methodology has always included an analysis of pension liabilities.
 - » Moody’s has proposed changes to the way we measure pension liabilities and incorporate them into our analysis.

Key Considerations in the Analysis of Debt

- Debt levels relative to the size of the county economy, tax base, and revenues.
 - » Including both direct and overlapping debt.
 - » Lower is better.
- Rate at which debt is repaid.
 - » More rapid is better.
- Amount of variable rate debt relative to total debt and available liquidity.
 - » Including SWAP exposure.
 - » Results in both interest rate risk and counter-party risk.
- Specific legal security.
 - » Ratings of COPs/Lease Revenue Bonds “notched” off the General Obligation rating.
- Debt policies and management.

Key Metrics Used in the Analysis of Debt

- **Direct Net Debt as % of Full or Assessed Value.**
- **Debt Burden** – Overall Net Debt as % of full or assessed value.
- **Direct Net Debt per Capita**
- **Overall Net Debt per Capita**
- **Payout** – Percent of principal scheduled to be repaid in 10 years.
- **Debt Service as a % of Total Operating Expenditures.**
- **Lease Burden** – Average of total scheduled annual lease payments for the next 5 years divided by current year General Fund revenues.

Moody's Medians for Key Debt Metrics

	All US Counties	All CA Counties
Direct Net Debt as % of Full or Assessed Value	0.50	0.30
Debt Burden (%)	1.93	1.90
Direct Net Debt per Capita (\$)	513	309
Overall Net Debt per Capita (\$)	1,977	2,445
Payout (%)	71.80	53.80
Debt Service as a % of Total Operating Expenditures	6.05	2.10
Lease Burden (%)	-	1.60

Moody's Rating Methodology has Always Included an Analysis of Pension Liabilities

➤ Pensions are a *credit issue*

- » Unfunded accrued liabilities are debt-like, due to the contractual nature of benefits.
- » UAALs have trended upward significantly over the past decade – more-so than other debt.
- » Annual contributions are straining budgets.
- » Pensions are causing or playing a role in negative rating actions.

Moody's Request for Comment on Proposed Pension Adjustments

- Proposed adjustments to enhance comparability among state and local governments.
 - » Liabilities for multiple employer cost-sharing plans would be allocated to government participants in proportion to contributions.
 - » Actuarial accrued liabilities would be adjusted based on a standard discount rate.
 - » Asset smoothing would be replaced with reported market fair value as of the actuarial reporting date.
 - » Annual pension contributions would be adjusted to reflect changes above as well as a common amortization period.
- Treating pension liabilities similarly to debt in the analysis of long-term liabilities of state and local governments.
 - » Including pension liabilities with debt in new comprehensive metrics.

Why are we proposing these adjustments?

- To improve the transparency and comparability of pension information across state and local governments.
- To facilitate measuring unfunded pension obligations similar to bonded debt as a liability on balance sheets and budgets.
- To address the fact that government accounting guidelines allow for significant differences in key financial assumptions that can make statistical comparisons in the sector very challenging.

Status of Request for Comments

- Period for comments closed September 30.
- Moody's is currently assessing the comments received.
- Expect to issue our final methodology by year end.

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