

Top Ten Management Characteristics of Highly Rated States

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Standard & Poor's Approach to Assigning GO Ratings

**Quantitative
Factors**



- **Economic, Financial, and Debt and Liabilities Ratios**
- **Other Quantitative Measures**

**Qualitative
Factors**



- **Management Characteristics**
- **Institutional and Policy Framework**

Our Opinion of the Management or Administrative Structure of a Government can Move a Rating up or Down More Swiftly Than Any Other Element of a Credit Review

Assessing Management: The Top Ten Characteristics

1. An Established Rainy-Day Fund / Contingency Reserve

- **Important Considerations In Our View:**
 - The Government's Cash Flow/Operating Requirements;
 - The Historic Volatility of Revenues And Expenditures Through Economic Cycles;
 - Susceptibility to Natural Disaster Events;
 - Will The Fund be a Legal Requirement or an Informal Policy;
 - Are Formal Policies Established Outlining Under What Circumstances Reserves can be Drawn Down; and
 - Will There Be a Mechanism to Rebuild Reserves Once They Are Used.

2. Regular Economic And Revenue Updates To Identify Shortfalls Early

- **Important Considerations In Our View:**
 - Formal Mechanism to Monitor Economic Trends and Revenue Performance at Key Intervals
 - Particularly Important to States Given Their Revenue Volatility
 - Evaluation of Historical Trends is Important Given the Particular Economic Characteristics of Each Government
 - Timely: The Earlier a Shortfall is Identified, the More Effective The Budget Response Can Be
 - Identify Unusual Trends

3. Prioritized Spending Plans

- **Important Considerations in Our View:**
 - Availability of Contingency Plans to Address Budget Imbalances
 - What Part of the Budget is Discretionary;
 - What Spending Areas Can Be Legally or Practically Reduced;
 - The Time Frame Necessary to Achieve Reductions of Various Programs;
 - Where Revenue Flexibility Exists; and
 - A Course Of Action on the Revenue Side Under Various Economic Scenarios.

4. A Formalized Capital Improvement Plan

- **Important Considerations In Our View:**
 - Comprehensive Account of Infrastructure Needs and a Plan To Fund Them
 - Realistic Plan That is Updated Annually
 - State Governments: Difficult to Develop a State-wide Plan Due to The Scale of The Projects Involved, But Many Have Accomplished This Task
 - Incorporation Of The Impact of Capital Projects On The Operating Budgets
 - Are Projects Truly Self-Supporting?

5. Long-Term Planning For All Liabilities

- **Important Considerations In Our View:**
 - Includes All Liabilities: Pension Obligations, OPEB Liabilities, Employment Benefits, and Other Contingent Obligations
 - Comprehensive Assessment of Future Budgetary Risks
 - Disclosure of Pension and OPEB Liabilities to Design a Strategy to Improve Funding Levels
 - Enterprise Functions That May Fall Out of the General Fund
 - States: Local Governments' Fiscal Difficulties

6. Formal Debt Management Policy

- **Important Considerations In Our View:**
 - Increased Adoption of Debt Management Policies and Debt Affordability Measures
 - Impact on Credit Quality: How These Policies Are Established and Used by The Government
 - Track Record of Adhering to These Policies Is Important
 - Process Enhances Capital Budgeting

7. Pay-As-You-Go Financing Strategy

- **Important Considerations In Our View:**
 - It Can Lower Debt Service Costs
 - Operating Budget Flexibility
 - Significant Financing Option for One-Time Revenue Sources
 - Recurring Revenues vs. Recurring Expenditures

8. Multi-year Financial Plan

- **Important Considerations In Our View:**
 - Is The Plan Comprehensive?
 - Multi-year Plans Provide a Valuable Tool To Policymakers To Close Out-year Identified Gaps
 - Feasibility Of Raising Taxes to Fill Out-Year Budget Gaps
 - Out-year Gaps Are Subject to Change: Focus Is On How These Multi-year Plans Allow Governments to Work Out, in Advance, the Optimal Method of Restoring Fiscal Balance

9. Effective Management and Information Systems

- **Important Considerations In Our View:**
 - Systems That Improve The Efficiency and Effectiveness of Governments
 - Significant Effort to Improve Systems Over the Last Decade
 - Financial Reporting and Monitoring Capabilities
 - Transparency

10. Well Defined Economic Development Strategy

- **Important Considerations In Our View:**
 - Increased Use of Economic Development Plans
 - Question Is Not If There Should Be An Economic Development Plan, but Rather: How Significant a Resource Commitment Should Be Dedicated to It?
 - What Matters For Credit Analysis: The Impact That These Plans Have on Employment, Revenue Diversification, and Income Growth
 - Coordination Between State and Local Governments



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