

# City of Lake Worth Beach, Florida

## Ratings Discussion



November 18, 2021

# Credit Ratings



- To issue debt in the public market, an issuer needs to obtain a credit rating from at least one of the three national credit rating agencies – Fitch Ratings (“Fitch), Moody’s Investors Service (“Moody’s), and S&P Global (“S&P).
- A credit rating measures a local government’s willingness and ability to pay its debt on time and in full.
  - The rating is a measure of risk that potential investors use to decide whether or not to purchase a government’s bonds. The higher the rating, the lower the risk that a default will occur.
- The chart to the right provides an overview of the rating scales (investment grade only) from all three national rating agencies, with Aaa/AAA being the highest possible rating.
- The City of Lake Worth Beach currently has a general obligation rating of ‘A1’ from Moody’s and ‘AA-’ from S&P.

	Moody's	Standard & Poor's	Fitch	
<b>Top Tier "Highest Possible Rating"</b>	Aaa	AAA	AAA	
<b>2nd Tier "Very Strong"</b>	Aa1	AA+	AA+	(Highest)
	Aa2	AA	AA	(Middle)
	Aa3	AA-	AA-	(Lowest)
<b>3rd Tier "Strong"</b>	A1	A+	A+	(Highest)
	A2	A	A	(Middle)
	A3	A-	A-	(Lowest)
<b>4th Tier "Adequate Capacity to Repay"</b>	Baa1	BBB+	BBB+	(Highest)
	Baa2	BBB	BBB	(Middle)
	Baa3	BBB-	BBB-	(Lowest)
Non Investment Grade				

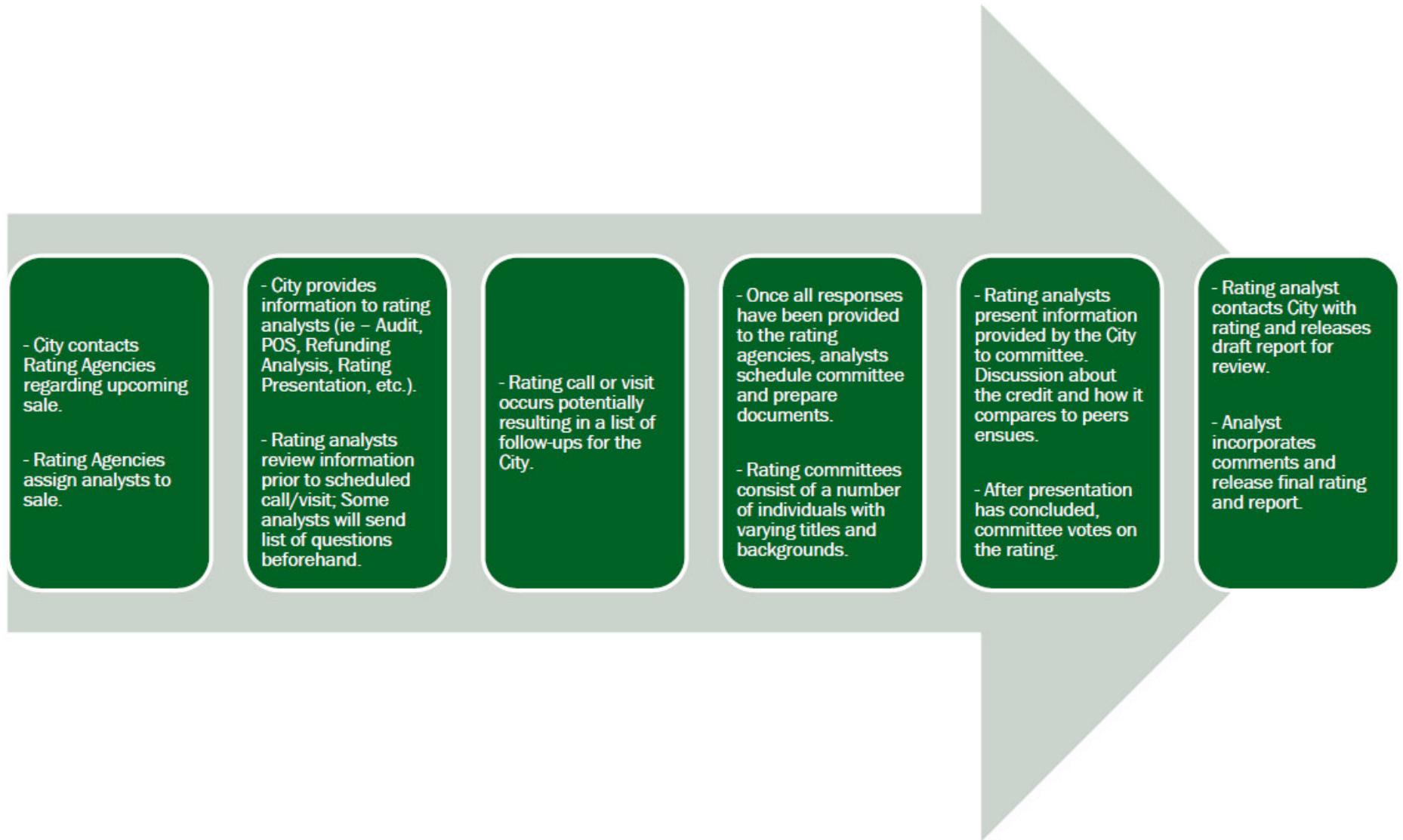
# Importance of Ratings

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- Formal credit ratings have multiple benefits to issuers including, but not limited to:
  - Playing a primary role in determining what interest rate and terms the City achieves for any borrowings or refinancings, with a higher credit rating resulting in lower interest rates;
  - Acting as a signal to business community about governance, management, and financial health of the City, which can help drive economic development opportunities; and

# Credit Rating Process



# Approach to Credit Ratings



- Over the last few years, all three rating agencies have updated their rating methodologies.
- Moody's and S&P have focused on being more transparent in their ratings and established rating scorecards that are used to help determine a rating.
- Fitch's new criteria does not include a scorecard, but its primary focus is on budgetary flexibility.

Moody's  
INVESTORS SERVICE

RATING METHODOLOGY

### US Local Government General Obligation Debt

This methodology explains how Moody's evaluates the credit quality of U.S. local government General Obligation (GO) debt. This document is intended to provide general guidance that helps local governments, investors, and other interested parties understand how key quantitative and qualitative risk factors may affect rating outcomes for local governments that issue GO bonds. This document does not include an exhaustive assessment of all factors that are relevant to our ratings but should enable the reader to understand the qualitative considerations, financial information, and other factors that are usually most important for ratings in this sector.

This rating methodology replaces the Rating Methodology for General Obligation Bonds issued by U.S. Local Governments published in April 2015. While reflecting many of the same principles that we have used in assigning ratings to this sector for many years, this updated methodology introduces a revision that quantifies several factors that we previously outlined in qualitative ways. A smaller number of ratings are expected to change as a result of the publication of this methodology.

The purpose of the document is to provide a reference tool that market participants can use to approximate most credit profiles within the local government sector. The document provides a general overview of the factors that we generally consider most important in assigning ratings to this sector. However, the document is a summary that does not include every rating consideration. The weights the document shows for each factor represent an approximation of their importance for rating decisions. In addition, the document was built based on historical results while our ratings are based on our forward-looking expectations. As a result, we would not expect the outcomes indicated rating to match the actual rating in every case.

The references to our analytical approach were outlined in a Request for Comments which we published in August 2015. We received no comments which we have sought to address where appropriate.

**THIS REPORT WAS PUBLISHED ON 2 FEBRUARY 2020. WE HAVE A SINGLE UPDATED PDF PAGE TO PROVIDING SUPPLEMENTARY AND ADDITIONAL INFORMATION. CONSIDERING OUR TRANSITION OF PUBLIC FINANCE RATING AND 1975 AN ISO 9001 CERTIFICATION, WE DO NOT APPLY TO THIS REPORT. 2020 AND 2021 RATING RATES WILL BE BASED ON OUR PUBLICATION UNTIL WE HAVE THE 2020 RATING RATES.**

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Criteria | Governments | U.S. Public Finance

### U.S. Local Governments General Obligation Ratings: Methodology And Assumptions

1. Standard & Poor's Ratings Services is updating its methodology and assumptions for assigning issuer credit ratings (ICRs) and issue credit ratings based on general obligations (GO) pledges of local governments in the United States. This update follows our request for comment (RFC), "Request For Comment: U.S. Local Governments: Methodology And Assumptions," published on March 6, 2019. This update provides additional transparency and comparability to help market participants better understand our approach to assigning local government ratings, to enhance the forward-looking nature of those ratings, and to enable better comparison between U.S. local government ratings, local government ratings in other sectors, and all other ratings. The "Principles of Credit Ratings," published on Feb. 16, 2011, forms the basis of this criteria.

2. For the ratings in scope, this criteria supersedes the following criteria:

- GO Debt, Oct. 12, 2008
- Key Credit Criteria: Kato Credit Ratings – Analysis Vs. History, April 2, 2008
- Does Bigger Always Mean Better? Strong Up The Impact Of Size On Municipal Ratings, April 22, 2008
- Location, Location, Location: What Does It Mean For My Community's Rating? April 22, 2008

3. All capitalized terms are defined in the primary, section X, paragraph 30-40.

#### I. SCOPE OF THE CRITERIA

4. The criteria apply to all U.S. local government issuer credit ratings and issue ratings on GO bonds issued by municipal governments that are not special purpose districts. Examples of local government entities in the scope include cities, counties, towns, villages, townships, and boroughs, and municipalities in the events. Examples of special purpose districts outside the scope include school districts, library districts, park districts, and forest preserve districts, among others. The criteria also do not apply to U.S. states or territories but do apply to the District of Columbia.

#### II. SUMMARY OF CRITERIA UPDATE

5. The criteria use the same major elements as our criteria for rating local and regional governments outside the U.S. (see "Methodology For Rating International Local And Regional Governments," published Sept. 20, 2016). Specifically, the criteria assign ratings based on the assessment and scoring of seven key factors:

- Institutional framework;
- Economic strength;
- Management;
- Budgetary flexibility;
- Budgetary performance;
- Financial performance;
- Financial performance.

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FitchRatings

Public Finance

Tax Supported / U.S.A.

### U.S. Tax-Supported Rating Criteria

Master Criteria

This criteria report outlines the methodology and assumptions for assigning issuer credit ratings (ICRs) and issue credit ratings based on general obligations (GO) pledges of local governments in the United States. This update follows our request for comment (RFC), "Request For Comment: U.S. Local Governments: Methodology And Assumptions," published on March 6, 2019. This update provides additional transparency and comparability to help market participants better understand our approach to assigning local government ratings, to enhance the forward-looking nature of those ratings, and to enable better comparison between U.S. local government ratings, local government ratings in other sectors, and all other ratings. The "Principles of Credit Ratings," published on Feb. 16, 2011, forms the basis of this criteria.

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# Moody's General Obligation Bond Methodology

- Moody's "US Local Government General Obligation Debt" methodology was last updated in September 2019 and focuses on the local government General Obligation security backed by either and unlimited or limited ad valorem taxing authority. The methodology and accompanying scorecard, outline four broad rating factors and their respective weights:
  - Economy/Tax Base (30%);
  - Finances (30%);
  - Management (20%); and
  - Debt (20%).
  
- These broad rating factors are then broken down into sub-factors, which hold their own respective weights.

Broad Rating Factors	Factor Weighting	Rating Subfactors	Subfactor Weighting
Economy/Tax Base	30%	Tax Base Size (Full Value)	10%
		Full Value Per Capita	10%
		Wealth (Median Family Income)	10%
Finances	30%	Fund Balance (% of Revenues)	10%
		Fund Balance Trend (5-Year Change)	5%
		Cash Balance (% of Revenues)	10%
		Cash Balance Trend (5-Year Change)	5%
Management	20%	Institutional Framework	10%
		Operating History	10%
Debt/Pensions	20%	Debt to Full Value	5%
		Debt to Revenue	5%
		Moody's Adjusted Net Pension Liability (3-Year Average) to Full Value	5%
		Moody's Adjusted Net Pension Liability (3-Year Average) to Revenue	5%



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