

SOUTH FLORIDA GOVERNMENT FINANCE OFFICERS ASSOCIATION

**'ANNUAL FINANCE AND INVESTMENT
SEMINAR RATING AGENCY UPDATE'**

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KROLL BOND RATING AGENCY, INC

WHAT ARE CREDIT RATINGS AND WHY ARE THEY USEFUL?



- A credit rating is an opinion by a rating agency of the credit-worthiness of a bond
- Credit ratings provide a measure of credit risk so that market participants can make appropriate investment decisions
- Credit ratings can help local governments fund public projects
- Credit ratings are typically provided by a Nationally Recognized Statistical Rating Organization (NRSRO)
- Credit ratings are based on specific rating methodologies developed by rating agencies

CURRENT NRSROs

Name	Year Started Rating	# of Analysts	2011 Revenue (Ratings and Research only)	Business Model (Pays for ratings)	NRSRO Granted
Moody's Investors Service	1909	1250	\$2.0 Billion	Issuer	1975
Standard & Poor's	1916	1309	\$1.8 Billion	Issuer	1975
Fitch Ratings	1924	1120	\$680 Million	Issuer	1975
Dominion Bond Rating Service	1976	150	Private	Issuer	2003
AM Best	1906	135	Private	Issuer & Subscriber	2005
HR Ratings	2014	13	Private	Issuer & Subscriber	2007
Egan-Jones Ratings	1994	20	Private	Subscriber	2007
Japan Credit Rating Agency	1985	75	Private	Issuer	2007
Morningstar (Realpoint)	2001	2705	Private	Issuer & Subscriber	2008
Kroll Bond Rating Agency	1984	138	Private	Issuer & Subscriber	2010

COMPANY TIMELINE

2010

Kroll Bond Ratings acquires L.A.C.E., thereby becoming an NRSRO.

2011

KBRA rates its first transaction.

2012

KBRA becomes recognized by NAIC as a CRP & becomes certified as a Credit Rating Agency by ESMA.

2013

KBRA is accepted & eligible under ERISA.

2012

2013

2014

2015

2016

January 2012: KBRA rates its first RMBS transaction.

May 2012: KBRA rates its first Public Finance transaction.

August 2012: KBRA rates its first ABS transaction.

September 2012: KBRA rates its first Private Placement.

September 2012: KBRA rates its first Project Finance transaction.

January 2013: KBRA rates its first Financial Institution.

May 2013: KBRA rates its first Aircraft Leasing Company.

May 2013: KBRA rates its first Business Development Company.

July 2013: KBRA rates its first Financial Guarantor.

November 2013: KBRA rates its first Single Family Rental transaction.

May 2014: KBRA introduces its CMBS subscription service.

June 2014: KBRA rates its first Public Airport.

June 2014: KBRA issues RMBS settlement analysis.

November 2014: KBRA rates its first timeshare transaction.

November 2014: KBRA launches iOS App.

May 2015: KBRA rates its first Equipment transaction.

June 2015: KBRA rates its first ABS solar securitization.

September 2015: KBRA's Financial Institutions Ratings on Bloomberg.

October 2015: KBRA publishes U.S. Equity REITs & REOC Methodology.

November 2015: SB/LL transaction coverage available within KCP.

November 2015: KBRA rates first School District.

November 2015: Wharf Street LLC becomes majority shareholder.

February 2016: KBRA rates first Consumer ABS Marketplace Lending Transaction.

March 2016: KBRA rates first Fleet Lease Transaction.

April 2016: KBRA publishes Inaugural Insurance Methodology.

May 2016: KBRA rates first Public Student Loan transaction.

May 2016: KBRA publishes its 200th Research Report.

August 2016: KBRA rates first CMBS Risk Retention transaction.

August 2016: KBRA Publishes inaugural Funds Methodologies.

KBRA RATING SCALES

Long-Term Rating Scales

KBRA's long-term credit ratings are intended to reflect both the probability of default and severity of loss in the event of default, with greater emphasis on probability of default at higher rating categories.

AAA: Almost no risk of loss
AA: Minimal risk of loss
A: Small risk of loss
BBB: Some risk of loss
BB: Moderate risk of loss
B: High risk of loss
CCC: Substantial risk of loss
CC: Near default with average recovery expectation
C: Near default with low recovery expectations
D: In default

Short-Term Rating Scales

KBRA's short-term ratings typically indicate an ability to meet obligations of three years or less. As compared to long-term ratings, greater emphasis is placed on an obligor's liquidity profile and access to funding.

K1: Very strong ability to meet short-term obligations
K2: Strong ability to meet short-term obligations
K3: Adequate ability to meet short-term obligations
B: Questionable ability to meet short-term obligations
C: Little ability to meet short term-obligations
D: In default on short-term obligation

EXAMPLES OF MUNICIPAL BOND MARKET ISSUES/ISSUERS

Types of Municipal Bonds

General Obligation Bonds

Revenue Bonds



Issuers

- Local Governments
- State Governments
- Transportation
- Utilities
- Higher Education
- Housing
- Healthcare

KBRA RATING APPROACH

LOCAL GOVERNMENT GENERAL OBLIGATION BONDS

The ability and willingness of a municipality to pay its General Obligation Debt. KBRA conducts a comprehensive review of a municipality's:

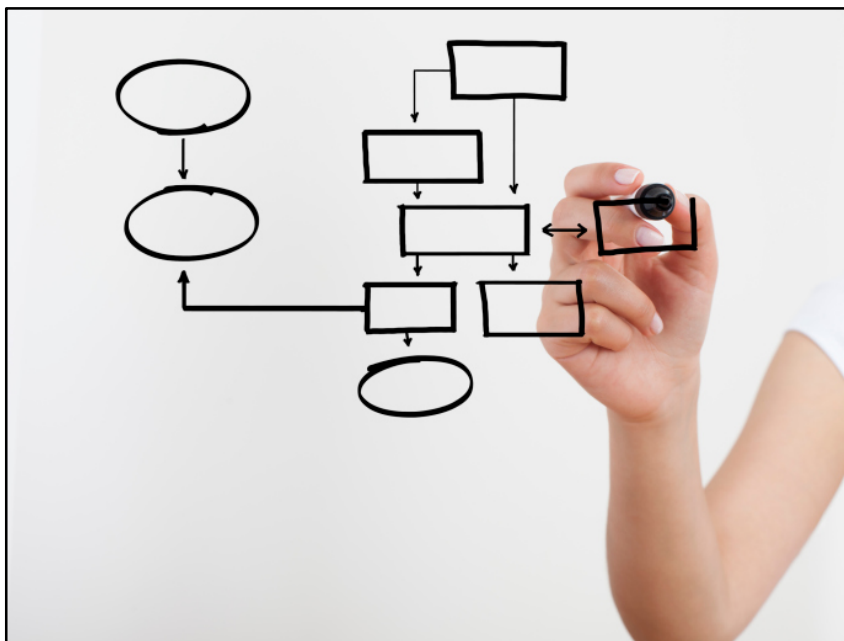
- Governance and Management Structure & Policies
- Municipal Resource or Economic Base
- Debt and Additional Continuing Obligations (Pension & OPEB)
- Financial Performance and Liquidity

KBRA's comprehensive approach supported by detailed and data rich credit report. Tear sheet provides a quick synopsis.



KBRA LOCAL GOVERNMENT BOND RATING DETERMINANT EXAMPLE

KBRA Local G.O. Rating Determinant #1: Governance and Management Structure & Policies



- ❖ Operating within **50** Unique State Statutory Frameworks
- ❖ Financial Management Procedures and Policies:
 - Budget Process
 - Forecasting
 - Reporting

KBRA FLORIDA LOCAL GOVERNMENT CREDIT RATINGS

Orange County, Florida

KBRA Rating: 'AAA' Stable

Key Rating Strengths

- Strong financial management policies and procedures, which include a comprehensive budget process and quarterly revenue monitoring and budget performance reports.
- Maintenance of a strong General Fund reserve position over the recent economic recession. The FY 2014 available fund balance was \$99.9 million or 14.4% of General Fund expenditures, which KBRA views as very strong.
- Orange County is one of the world's top visitor destinations and attracted more than 62 million visitors to the metropolitan Orlando area in 2014.
- Very strong levels of liquidity.

Key Rating Concerns

- County economic base has diversified, however, it is still somewhat reliant on the tourism industry.
- General Fund revenue mix is fairly concentrated with property taxes accounting for 72.6% of revenues in FY 2014 which creates volatility in the General Fund revenue base in times of housing market downturns.
- The County is limited in its ability to raise the property tax rate by property tax limitations in State Statute.

KBRA RATING APPROACH

AIRPORT REVENUE BONDS (GARB)

KBRA rating assessment based on GARB overall credit strength and reflects ability to make timely and in-full debt service payments. Identified six critical rating determinants:



- Management
- Economics/Demographics of the Service Area
- Airport Utilization
- Airport Debt/Capital Needs
- Airport Finances
- Legal Mechanics and Security Provisions

KBRA FLORIDA LOCAL GOVERNMENT CREDIT RATINGS

Miami-Dade County, Florida – Aviation Revenue Bonds

KBRA Rating: 'AA-' Stable

Key Rating Strengths

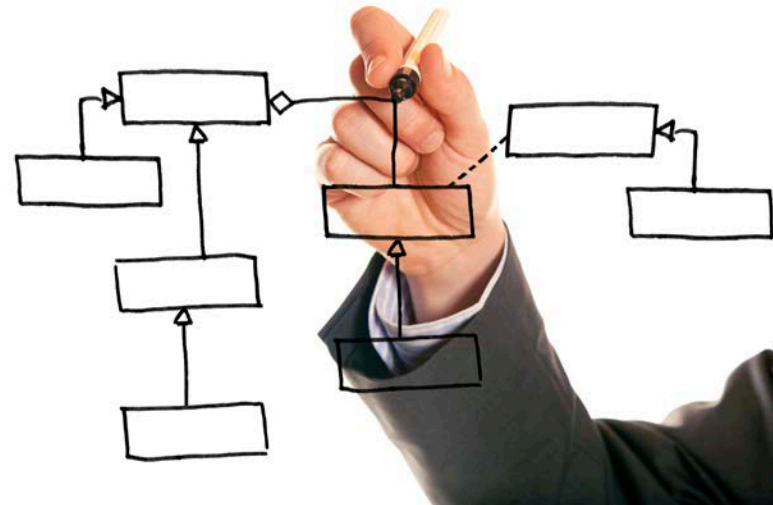
- Management has effectively steered MIA through its massive capital program.
- Southeastern U.S. location in relative close proximity to key destinations in Latin America and the Caribbean.
- Sizable foreign-born service area population that fosters international business and supports travel by family and friends.
- High yield routes temper concerns regarding high airline costs.
- Sound financial operations, characterized by ample coverage and comfortable liquidity.

Key Rating Concerns

- Airline cost per enplaned passenger (CPE) will remain high despite more modest borrowing on the horizon.
- Proximity of competing Fort Lauderdale-Hollywood (FLL) International Airport, which is served by several low cost carriers.

PUBLIC FINANCE METHODOLOGIES

- U.S. Local Government General Obligation
- U.S. State General Obligation
- General Revenue Bond
- U.S. State Annual Appropriation Obligation
- Special Tax Revenue Bond
- U.S. State and Local Government Short Term Cash Flow Note
- U.S. State and Local Government Abatement Lease
- U.S. Public Toll Roads, Bridges & Tunnels Revenue Bond
- Financial Guaranty
- General Property Tax/Assessment Revenue
- U.S. Municipal Water and Sewer Revenue
- Airport Revenue Bond
- Rural Electric Generation & Transmission Cooperative
- Private, Not-For-Profit U.S. Higher Education



DEFINED BENEFIT PENSION PLANS

- KBRA incorporates the net pension liability and budgetary burden of pension funding into its analysis of an issuer's debt and debt-like obligations
- Disclosure changes as a result of GASB 67-68 have improved transparency and comparability of public sector defined benefit pension plans
- KBRA analyzes pension burden on both a standalone basis and in conjunction with direct debt obligations

FULL LENGTH REPORTS SUPPORT TRANSPARENCY

Orange County, FL Sales Tax Revenue Bonds

Executive Summary

Kroll Bond Rating Agency (KBRA) affirms the long-term rating of AA+ with a stable outlook to Orange County, Florida's Sales Tax Revenue Bonds. This rating applies to all of the County's outstanding Sales Tax Revenue Bonds. As of FY 2014, the County had approximately \$238.4 million in Sales Tax Revenue Bonds outstanding.

This rating affirmation is based on KBRA's [U.S. Special Tax Rating Methodology](#), published on August 21, 2012. KBRA's rating evaluation of the long-term credit quality of special tax bonds focuses on five key rating determinants:

- Legal Framework
- Nature of Pledged Revenue Tax Base
- Economic Base and Demographics
- Revenue Analysis
- Coverage and Bond Structure

In the process of affirming the rating, KBRA reviewed multiple sources of information and spoke with County Management. Further information may be found in the [Orange County, Florida, Special Tax Surveillance Report](#) rating report published on October 23, 2014.

KBRA has also affirmed the general obligation rating of AAA with a stable outlook on Orange County, Florida. This affirmation is based on KBRA's [U.S. Local General Obligation Rating Methodology](#), published on May 31, 2012 and can be found [here](#).

Security

The County's Sales Tax Revenue Bonds are secured by a pledge of the portion of the Local Government Half-Cent Sales Tax collected within the County and distributed monthly from the Local Government Half-Cent Sales Tax Clearing Trust Fund of the State Treasury, referred to in this report as Sales Tax Proceeds.

Key Rating Strengths

- Very strong coverage of MADS by pledged Sales Tax Proceeds, which increased from 5.97x in FY 2013 to 6.40x in FY 2014.
- Manageable debt levels, with no plans to issue additional Sales Tax Bonds in the near term.
- Recovery of sales tax revenues post-recession, with a 31.4% increase from 2009 to 2014.

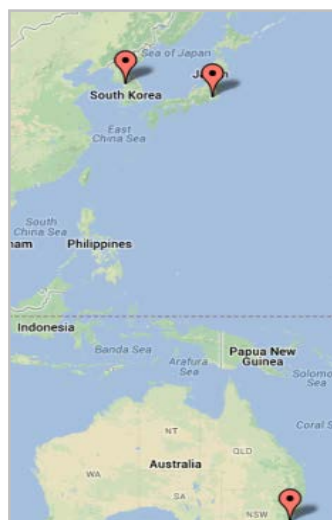
Key Rating Concerns

- County economic base has diversified, however, it is still somewhat reliant on the tourism industry, which is subject to certain event risks that could impair the level of sales tax revenues.
- Additional bonds test provides an adequate level of bondholder protection.

- Full credit analysis ranging from 10-35 pgs
- Rating Methodologies
- Key Rating Determinants
- Key Rating Strengths & Concerns

..and much more.

INVESTOR OUTREACH



Who has invested in KBRA rated transactions?

Most large banks, corporations, investment managers, asset managers, credit unions, insurance companies, mutual funds, and pension funds.

Investors located across the globe have invested in KBRA Only or KBRA +1 other agency rated transactions.



800+

one-on-one meetings with investors across all asset classes

85%

of investors have investment guidelines that allow the use of a KBRA only rating

Investors have indicated that they find KBRA rating reports to be more **informative**, **timely**, and **transparent** than other agency reports.

INVESTOR ACCESSIBILITY

Accessible to Investors

KBRA provides transaction reports in usable formats directly to a list of over 5,000 market participants.

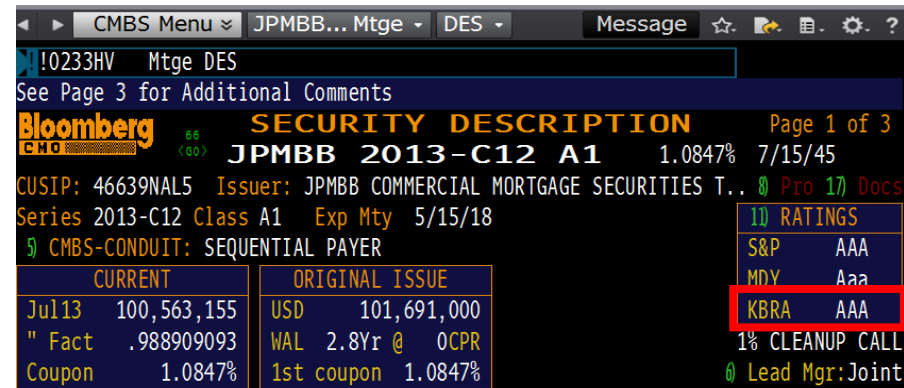
KBRA Research is accessible from multiple sources at no additional cost including:

1. www.kbra.com

- On average, each Public Finance rating report is downloaded by over **150** users

2. Bloomberg Terminals

- Reports are tagged to issue and issuer – **CN <Go>**
- Ratings are available on issue description – **DES <Go>**



FEATURED REPORTS



KBRA RATES MIAMI INTERNATIONAL AIRPORT



KBRA RATES TAMPA INT'L AIRPORT



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