

Navigating the Credit Rating Process

Florida GFOA

Learning Objectives

- 1. What does a Moody's credit rating represent?**
- 2. What are the steps involved in Moody's credit rating process?**
- 3. How does Moody's evaluate the credit quality of cities and counties?**
- 4. Property tax reform**

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1. Moody's Credit Ratings

Moody's Credit Ratings

What does a Moody's credit rating represent?

- Moody's credit ratings represent our forward-looking opinion of the relative credit risk of financial obligations issued by a range of entities (governments, corporations, financial institutions, etc.).
- Moody's defines credit risk as the risk that an entity may not meet its contractual financial obligations as they come due and any estimated financial loss in the event of default or impairment.

Source: Moody's "Rating Symbols and Definitions: published on January 2, 2025

Moody's Credit Ratings

Long-Term Rating Scale

- Long-term ratings are assigned to issuers or obligations with an original maturity of eleven months or more.
- Ratings Baa and above are considered investment grade.
- Ratings Ba and lower are considered speculative grade.

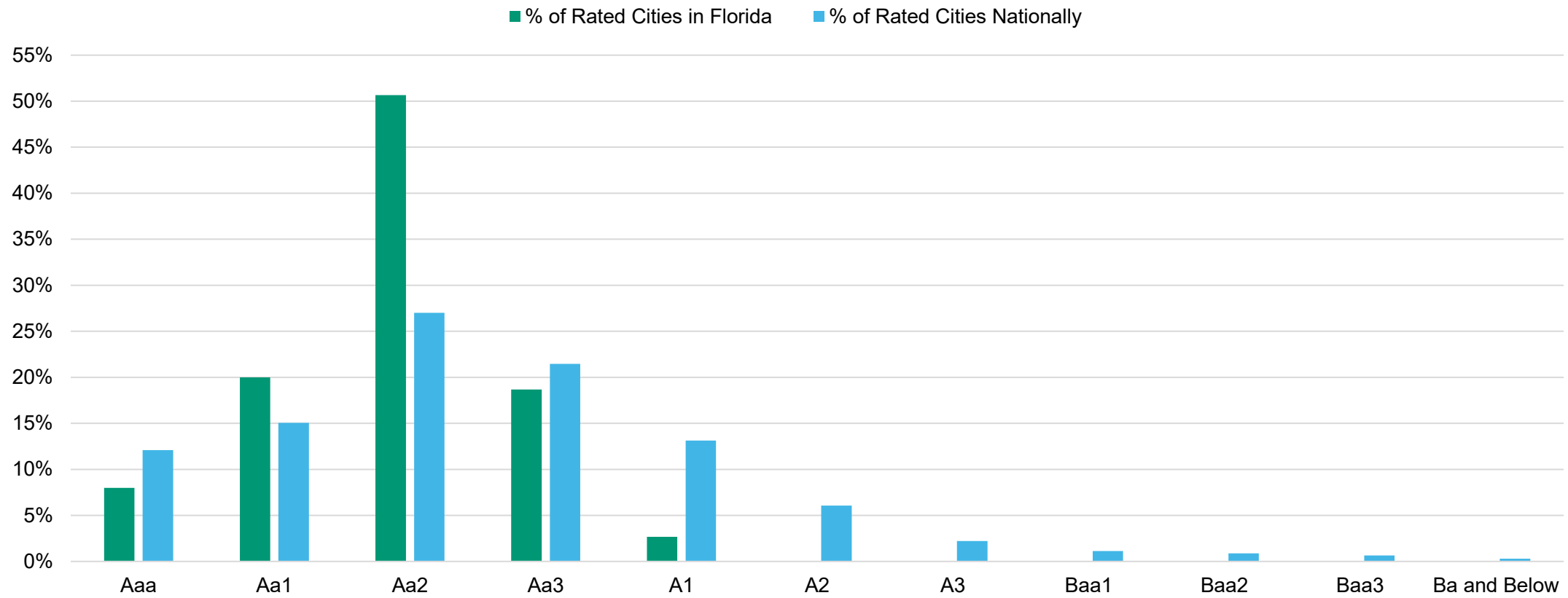
Global Long-Term Rating Scale	
Aaa	Obligations rated Aaa are judged to be of the highest quality, subject to the lowest level of credit risk.
Aa	Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.
A	Obligations rated A are judged to be upper-medium grade and are subject to low credit risk.
Baa	Obligations rated Baa are judged to be medium-grade and subject to moderate credit risk and as such may possess certain speculative characteristics.
Ba	Obligations rated Ba are judged to be speculative and are subject to substantial credit risk.
B	Obligations rated B are considered speculative and are subject to high credit risk.
Caa	Obligations rated Caa are judged to be speculative of poor standing and are subject to very high credit risk.
Ca	Obligations rated Ca are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.
C	Obligations rated C are the lowest rated and are typically in default, with little prospect for recovery of principal or interest.

Note: Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category. Additionally, a "(hyb)" indicator is appended to all ratings of hybrid securities issued by banks, insurers, finance companies, and securities firms.*

Source: Moody's "Rating Symbols and Definitions: published on January 2, 2025

Florida cities boast relatively high credit ratings

...Aa2 median, with fewer ratings in the lower range of the scale than national peers

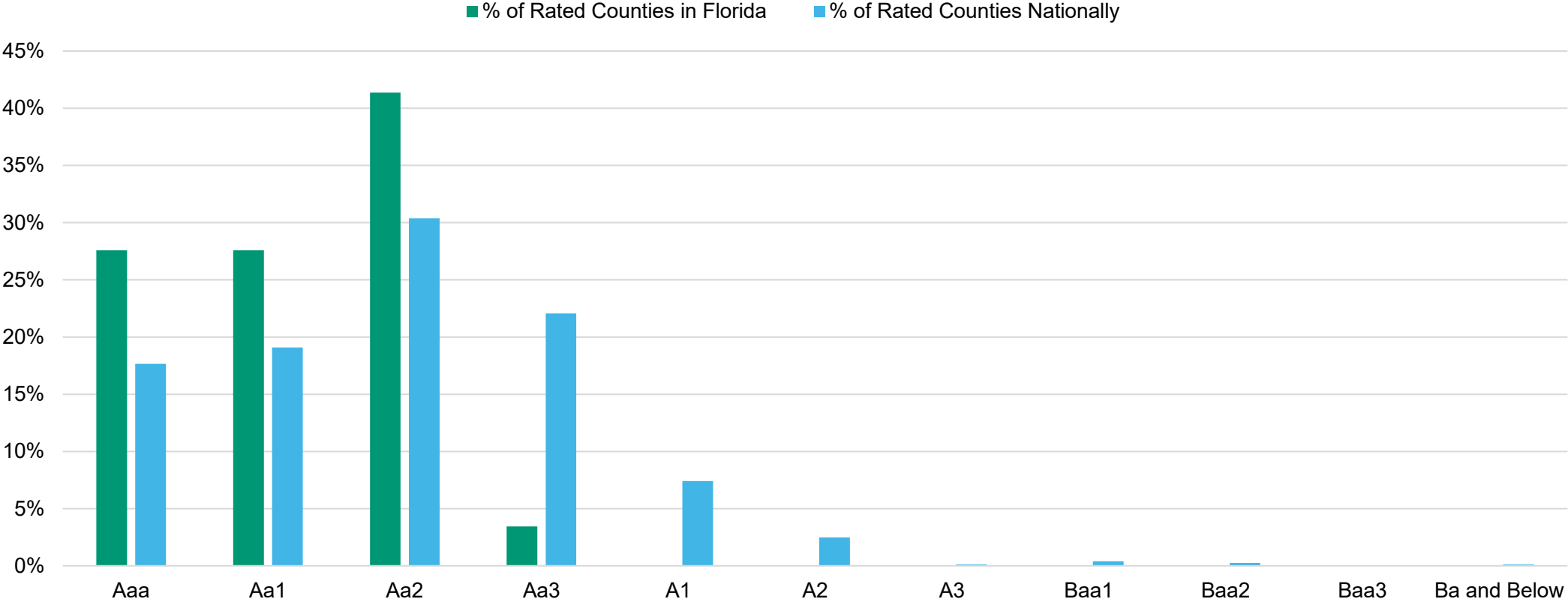


Ratings as of 6/10/2026
Source: Moody's Ratings



Florida counties boast relatively high credit ratings

...Aa1 median, with fewer ratings in the lower range of the scale than national peers



Ratings as of 6/10/2026

Source: Moody's Ratings



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2. Moody's Credit Rating Process

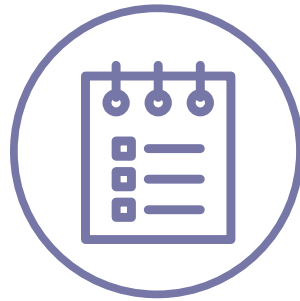
Moody's Credit Rating Process

ratings.moodys.io/ratings#rating-process



Step 1: Rating Request

- Issuer's team requests rating
- Moody's assigns analytical team based on sector and security type



Step 2: Information Gathering

- Issuer provides POS, audit, and supporting materials
- Moody's conducts initial review, sends questions to be covered in the rating call



Step 3: Rating Call / Meeting

- Issuer's leadership team meets with Moody's
- Discuss issuance, the issuer's credit story, and forward-looking expectations



Step 4: Rating Committee

- Moody's analytical team creates a credit profile, convenes committee
- Rating committee reviews the credit, votes and assigns the final credit rating



Step 5: Deliver Rating

- Moody's analytical team communicates rating to the issuer
- Draft press release and credit opinions sent to issuer for review

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2. Moody's Approach to Assigning Ratings to Local Governments

Moody's Sector-based Methodologies

US Cities & Counties



Methodology Framework



Scorecard Indicated Rating

The methodologies used to rate cities, counties, and K-12 school districts include a scorecard with key metrics that are standard across the sector.



Additional Considerations

In a rating committee, however, additional factors and forward-looking information are considered that might not be fully reflected in the scorecard.

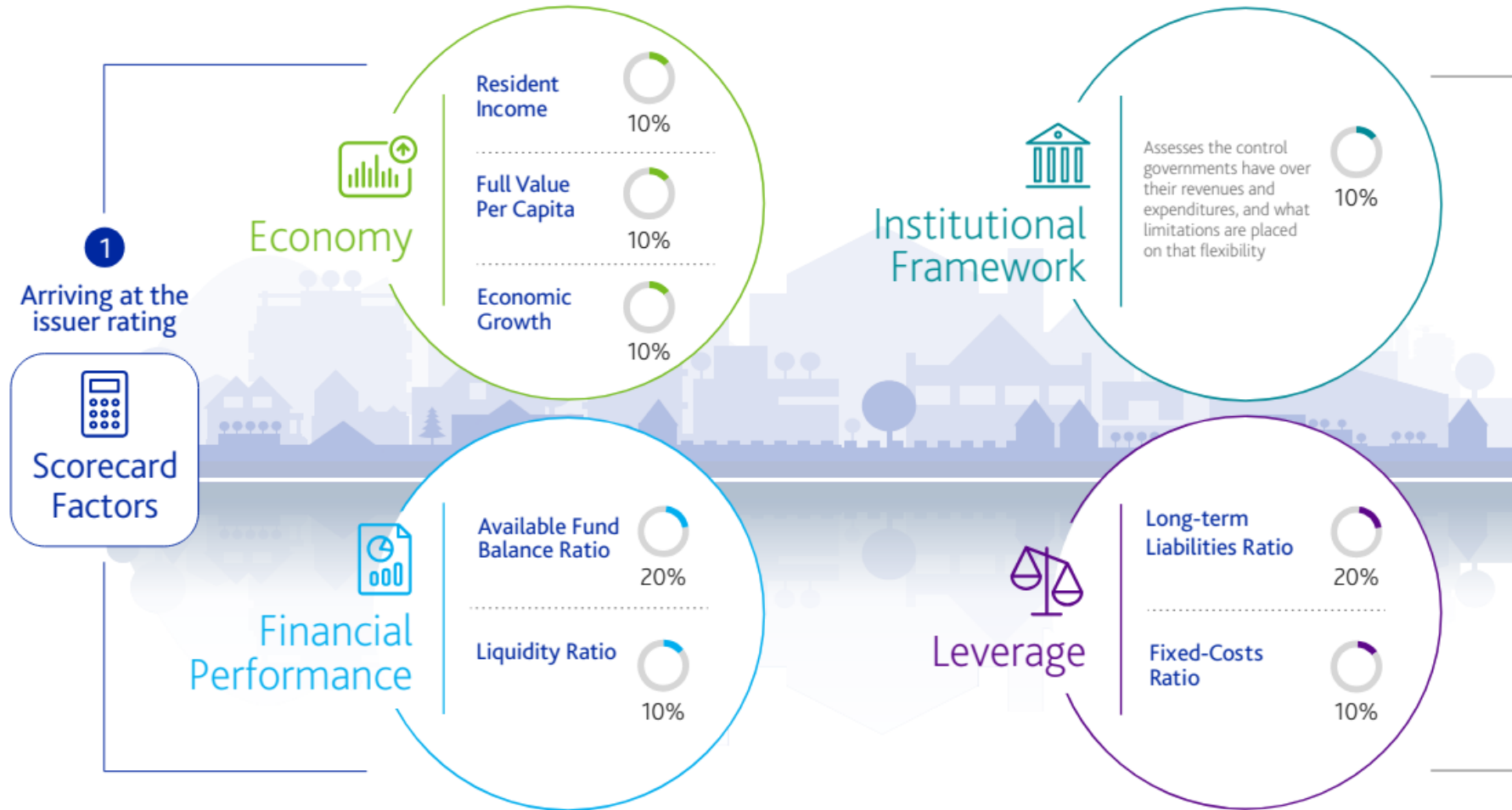


Assigned Rating

As a result, the final assigned rating does not always match the scorecard indicated outcome.

Methodology Scorecard Factors

For US Cities & Counties



Scorecard factor: Economy

US Cities & Counties

	Weight	Aaa	Aa	A	Baa	Ba	B	Caa	Ca
Factor: Economy (30%)									
Resident Income (MHI Adjusted for RPP/US MHI) ^[1]	10%	≥ 120%	100% - 120%	80% - 100%	65% - 80%	50% - 65%	35% - 50%	20% - 35%	< 20%
Full Value per Capita (Full Valuation of the Tax Base / Population) ^[2]	10%	≥ \$180,000	\$100,000 - \$180,000	\$60,000 - \$100,000	\$40,000 - \$60,000	\$25,000 - \$40,000	\$15,000 - \$25,000	\$9,000 - \$15,000	< \$9,000
Economic Growth (Difference Between Five-Year Compound Annual Growth in Real GDP and Five-Year CAGR in Real US GDP) ^[3]	10%	≥ 0%	(1)% - 0%	(2.5)% - (1)%	(4.5)% - (2.5)%	(7)% - (4.5)%	(10)% - (7)%	(15)% - (10)%	< (15)%

→ “Economic Growth” = an issuer’s real GDP growth rate for the prior five years compared to the US’s real GDP growth rate

→ For cities and counties within a Metropolitan Statistical Area, we use the entire MSA’s GDP

Scorecard factor: Finances

US Cities & Counties

	Weight	Aaa	Aa	A	Baa	Ba	B	Caa	Ca
Factor: Financial Performance (30%)									
Available Fund Balance Ratio (Available Fund Balance + Net Current Assets/Revenue) ^[4]	20%	≥ 35%	25% - 35%	15% - 25%	5% - 15%	0% - 5%	(5)% - 0%	(10)% - (5)%	< (10)%
Liquidity Ratio (Unrestricted Cash/Revenue) ^[5]	10%	≥ 40%	30% - 40%	20% - 30%	12.5% - 20%	5% - 12.5%	0% - 5%	(5)% - 0%	< (5)%

- Fund balance ratio’s numerator includes:
 - Unrestricted reserves held in all governmental funds
 - Net Current Assets of all enterprise funds
- Denominator includes revenues across all governmental funds and enterprise funds

Scorecard factor: Institutional Framework

Institutional Framework:	Factor Weight	Score	Description
Florida cities and counties	10%	Aa	The majority of revenue is subject to externally imposed caps but the governing body can increase revenue meaningfully without the approval of voters or other governments. Or The ability to meaningfully reduce expenditures is mildly constrained by externally imposed mandates or restrictions.

Scorecard factor: Leverage

US Cities & Counties

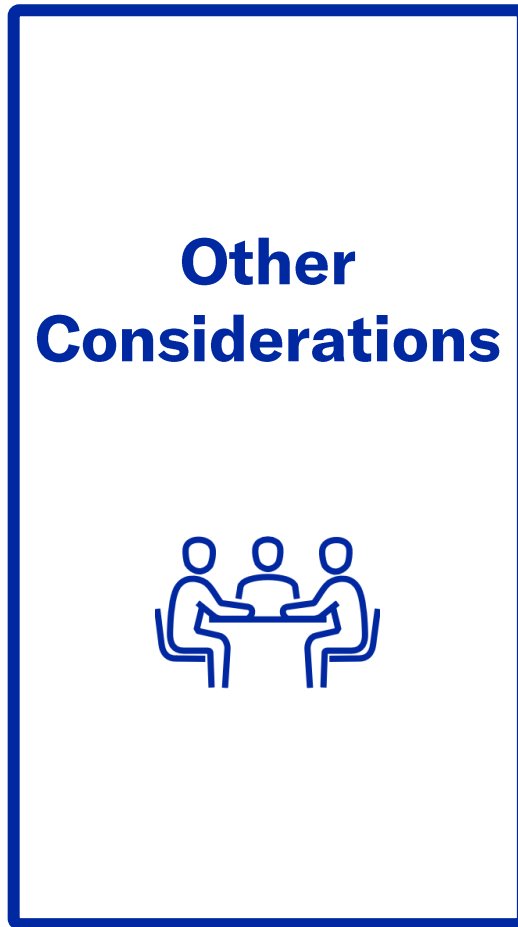
	Weight	Aaa	Aa	A	Baa	Ba	B	Caa	Ca
Factor: Leverage (30%)									
Long-term Liabilities Ratio (((Debt + ANPL + Adjusted Net OPEB + Other Long-Term Liabilities)/Revenue) ^[6]	20%	≤ 100%	100% - 200%	200% - 350%	350% - 500%	500% - 700%	700% - 900%	900% - 1,100%	> 1,100%
Fixed-costs Ratio (Adjusted Fixed Costs/Revenue) ^[7]	10%	≤ 10%	10% - 15%	15% - 20%	20% - 25%	25% - 35%	35% - 45%	45% - 55%	> 55%

→ Long-term liabilities includes:

- All debt obligations regardless of security (including governmental and business-type enterprise debt)
- Moody's adjusted net pension liability
- Moody's adjusted net OPEB liability

→ To enhance comparability of pension liabilities between rated entities, Moody's applies a standardized discount rate to adjust liabilities

Other Considerations



- The assigned rating can differ from the scorecard-indicated rating
- Rating committee assesses considerations not reflected in the scorecard
- Other considerations can include (but are not limited to):
 - Strengths or weaknesses related to economic concentration
 - Fund specific financial considerations
 - Strengths or weaknesses related to component units
 - Environmental, social, or governance considerations

Issuer and Instrument Ratings



Issuer Rating

Fundamental credit quality

+



Instrument Considerations

Evaluation of the legal security of a specific bond

=



Instrument Rating

Assigned to a specific bond and placed in relation to the issuer rating

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4. Property tax reform

Florida Property Tax Reform

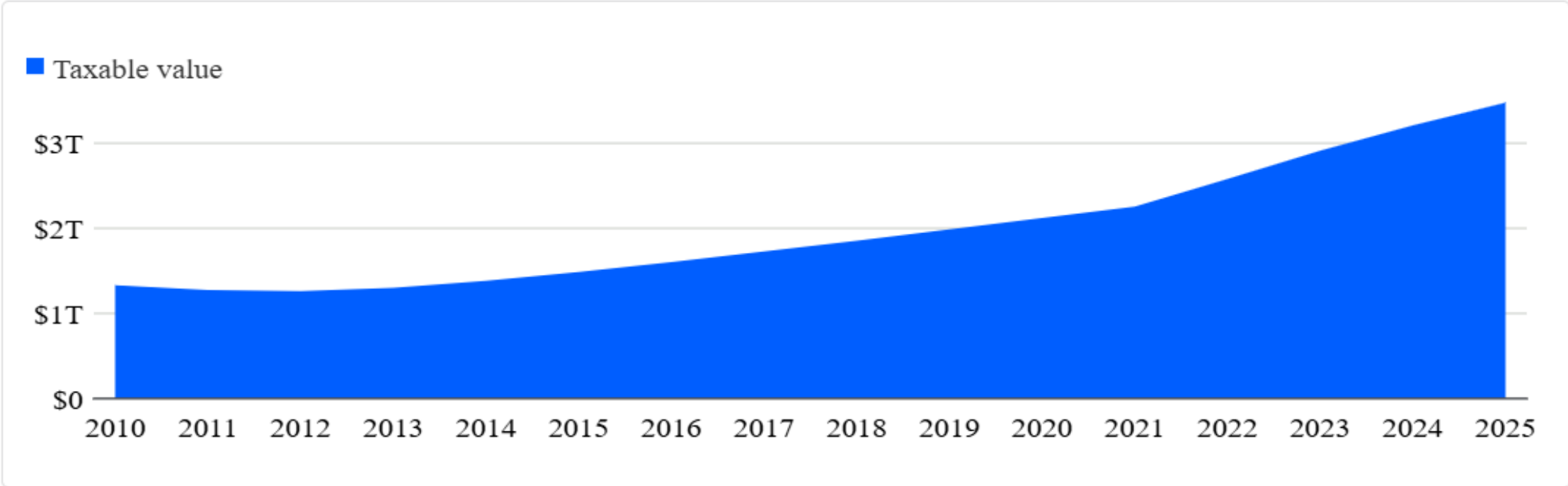
Property tax reform would limit revenue, policy choices will determine final impact

- 25% reduction in (non-school) ad valorem revenues with full implementation of the referendum
- For cities, this translate to an 11% aggregate decline in general fund revenues
- For counties, this would be a 7.2% aggregate decline in general fund revenues

- Florida cities and counties have strong reserves to mitigate the impact
 - Florida cities median fund balance is 68%
 - Florida counties median fund balance is 47%

- Greater risk is complete elimination of homestead property taxes in 2031
 - Municipal tax levies could decline by more than 50%, according to Florida League of Cities

Florida's taxable values have more than doubled over the past decade



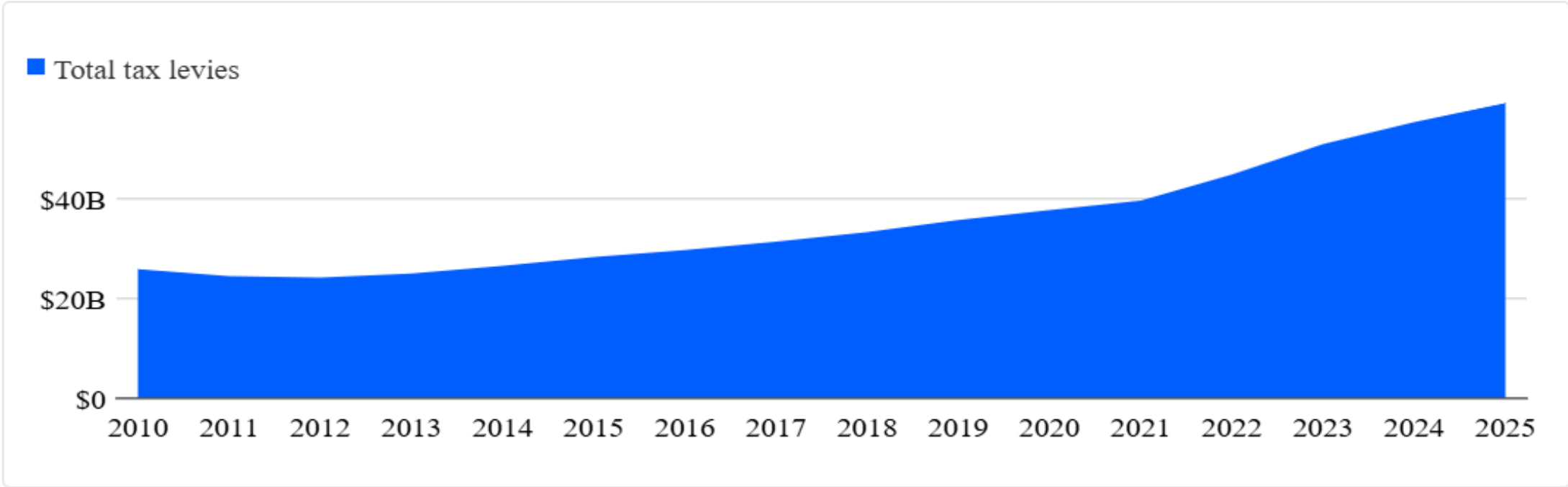
[1] Taxable value

Source: Florida Department of Revenue

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Property taxes have risen along with growth in tax bases

\$ billion



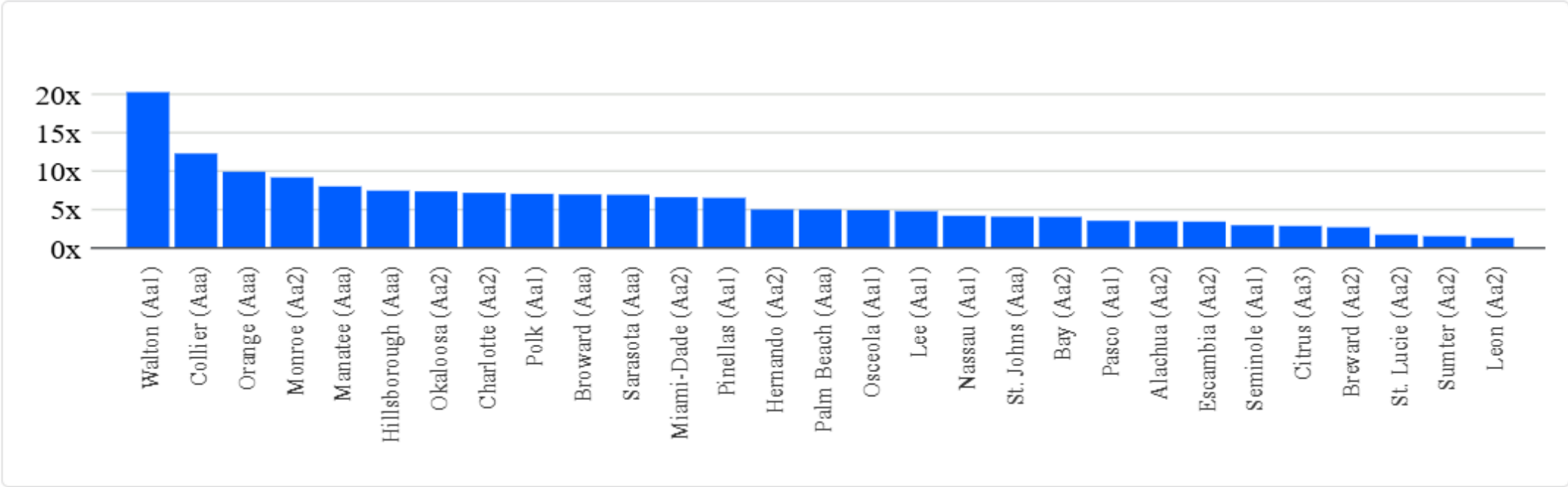
Total tax levies for all local governments, including school districts.

Source: Florida Department of Revenue

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All Florida counties have significant reserves relative to estimated revenue loss

Available fund balance relative to estimated annual revenue loss



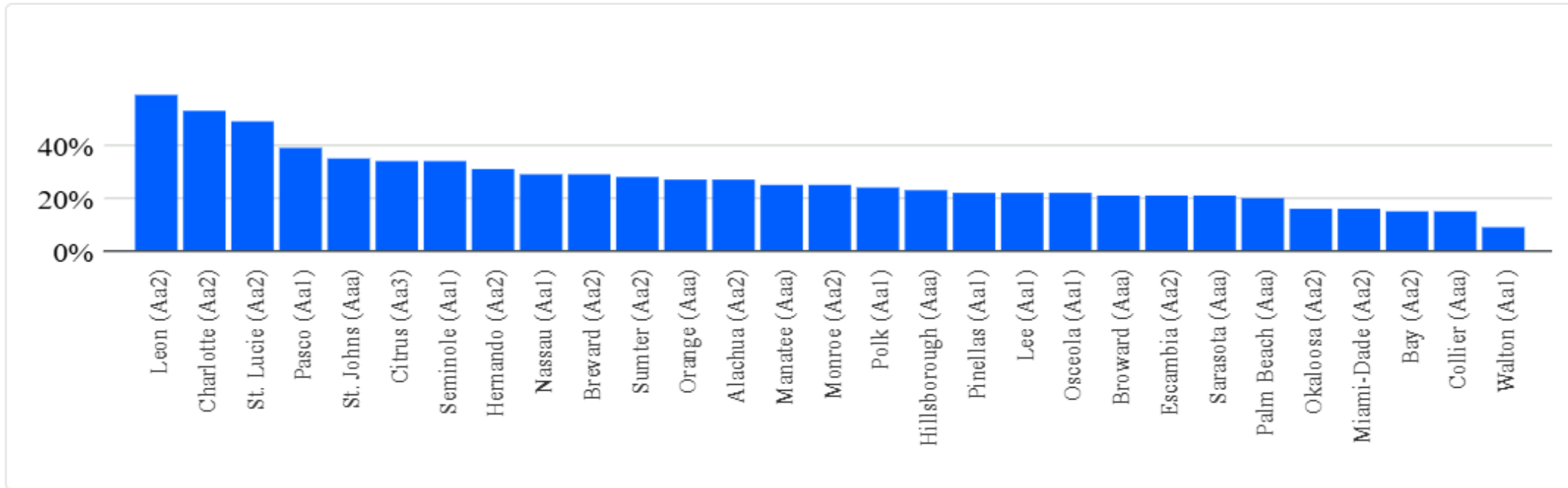
Note that our available fund balance metric includes the net current assets of business-type activities, meaning it captures reserves that may not be available for the general fund.

Source: Moody's Ratings

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Counties have varying exposure to reform

Estimated revenue loss for Moody's-rated counties, % of 2024 general fund revenue



Typically a portion of the tax levy is collected outside the general fund, so this number likely overstates the exposure for many counties. The estimated revenue loss is provided by the Florida Association of Counties, which we are scaling to county general fund revenue.

Source: Moody's Ratings, Florida Association of Counties

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