Rating Evaluation Service: For Public Finance Entities

S&P Global
Ratings

Our Rating Evaluation Service (RES) gives you a confidential, written assessment of the potential credit impact of your hypothetical securitization initiatives.

When Evaluating Strategic Options, Consider the Credit Impact

When exploring strategic options, you may want to assess ahead of time how your proposed initiatives may affect your creditworthiness. The decision to take on a major capital program, manage debt capacity, change an operating structure or vary the mix of security types issued can potentially have significant credit consequences. That's where we can help.

Obtain Useful Feedback and Gain Valuable Insight Before You Act

Our Rating Evaluation Service (RES) gives you a confidential assessment of the potential credit impact of your proposed strategic initiatives before you implement them, to identify the planned initiatives that could potentially lead to credit outcomes that you would view as more or less favorable. This can be a particularly valuable benefit whether you are considering only one plan or several alternatives.

Analysis Based on Your Scenarios

Provide us with the hypothetical scenarios you are considering and we'll provide you with timely feedback from a Rating Evaluation Committee based on each scenario you presented. Please note that the Rating Evaluation Service process and outcome remain confidential.

One Solution, Many Uses

Rating Evaluation Service has been used to gauge the potential ratings implications of important initiatives such as:

- Capital plan alternatives and/or additional debt being contemplated
- Funding and liquidity mix restructurings
- Mergers and acquisitions
- Composition of securities for an upcoming series of debt offerings
- Recapitalizations (including senior and subordinated debt)
- Document revisions (change in liens, dsc, reserve funds, specific language)
- State and federal credit program-related projects/credit instruments (e.g., EPA WIFIA)
- Lien arrangements for highway and toll road debt issues
- Public-private partnership projects
- New financing instruments, such as a commercial paper program

For Both Rated and Unrated Clients

Rating Evaluation Service has been used in a variety of ways by our clients and is available to both rated and unrated public and not-for-profit entities including:

Enterprise

- **Charter Schools:** Charter schools, private independent schools.
- **Higher Education:** 501(c)(3) and cultural institutions, privatized student housing, public and private higher educational institutions.
- **Health Care:** Human service providers, long-term care providers, not-for-profit hospitals and health systems.
- **Housing:** Community development financial institutions (CDFIs), housing finance agencies (HFAs), public housing authorities (PHAs), public or military housing providers.
- **Public Power:** Electric cooperatives, public power providers.
- **Transportation:** Airports, bridges, ports, toll road operators, transit systems.

Government

- **Local Governments:** Boroughs, cities, counties, local and regional governmental authorities, school districts, special districts, towns, townships, villages.
- **State Governments:** Pension funds, state governmental authorities, states.
- **Utility Revenue:** Municipal pools, solid waste, wastewater, water.
- **Transportation:** Airports, bridges, ports, toll road operators, transit systems.

Rating Evaluation Service in Action

Charter Schools: Capital Projects/New Ratings

A charter school had been planning a campus expansion project for a number of years, which included acquiring and renovating an existing building. The school wanted to raise new capital through a public debt offering; the funds would be used to purchase the building and to pay capitalized interest, create a debt service reserve fund and cover issuance costs. The school's administration asked us to provide an RES analysis to give feedback on its initial indicative rating if it moved forward with the project based on its financing scenario. The Rating Evaluation Service report provided management and the board with useful input for their decision-making process.

Higher Education: Off-Balance-Sheet Project

A university was planning an off-balance-sheet project centered on the development of mixed-use property next to its campus. The university's management sought to gain a better understanding of the potential effect on its existing rating if it were to proceed with the mixed-use development. They presented a single hypothetical scenario, and received our report which outlined the potential credit impact of the proposed mixed-use development on its existing rating. The RES feedback enabled the university's management to feel better informed about its long-term plans.

Infrastructure Authority: Buyback Program

A toll road operator was contemplating buying back its own bonds and wanted to get a better understanding of the potential effect this might have on its existing ratings. The operator was thinking about using excess cash on hand to buy back intermediate bonds outstanding which were coming due within 10 years. Additionally, the bond insurer for the operator's bonds wanted an indication of whether the operator's bond buyback program could potentially result in an adverse effect on the bond ratings. Through the Rating Evaluation Service, we determined the potential ratings impact of the different hypothetical scenarios presented by the management team.

Affordable Housing

A large commercial bank with a significant affordable housing lending business wanted to determine the mixture of properties and loans it could sell in the tax-exempt market in order to recapitalize its loan portfolio. The analytical team provided feedback on each alternative that helped the bank optimize the structure and marketability of the certificates.

Intergovernmental/Federal Loan Applications

Loan application requirements often require these entities to provide a rating indication, or a letter detailing the loan's effect on their existing rating. Issuers have used the RES to answer these very important questions, and provide required outcomes to satisfy the application requirements. One example of this is a rated transportation authority with a qualified TIFIA project to meet expansion needs for a growing regional economy that was looking at ways to relieve congestion on some of its major roadways. The authority was concerned with how the increased debt burden from the project would affect its ratings and, more importantly, if it would still qualify for the TIFIA loan.

Local Government: New Legal Structure for a New Credit

A city had been planning to take advantage of a state law under which local governments could borrow against state distributed funds, particularly sales tax distributions, to potential realize interest cost savings. The city was considering creating a special purpose entity for the sole purpose of issuing new debt that would be used to refund its current sales tax bonds. Before deciding to go ahead with their plans, they engaged us for our Rating Evaluation Service. They presented different financing scenarios that the city was contemplating issuing through its newly created special purpose entity. After receiving its indicative ratings, the company decided on a final structure that it considered advantageous to achieving its strategic objectives.

State Authority: New Debt Issuance and Refunding

A rated State Authority was considering the issuance of a new sales tax bond as well as a bond anticipation note to fund its ongoing capital program and refund existing debt. The authority wanted to understand how the new issuance would impact its existing ratings, and in particular, to receive an indication of the indicative ratings of its proposed sales tax bond issuance at both, a senior-lien and a subordinate lien level. Before proceeding, the authority engaged us for our Rating Evaluation Service and presented hypothetical scenarios to evaluate the financing alternatives and received indicative rating feedback for each scenario. The information helped the management team to decide on the financing structure that best suited its objectives.

Water/Sewer: Refunding/Capital Optimization

A water authority was contemplating the refunding of some outstanding debt in an effort to shorten the final maturity of its outstanding obligations, such that the new debt service would be breakeven to the prior debt service, resulting in substantial savings on the back end. The authority also planned to remove its debt service reserve fund (DSRF) requirement and apply the release of the DSRF along with an additional equity contribution to reduce the size of the borrowing. Management used our RES to evaluate these proposed changes, and the impact on their existing rating.

Health Care: Acquisitions/M&A

A health care system was considering an expansion project that included adding hospitals to its portfolio of facilities, but the company's management and board were concerned about the acquisitions' effect on its rating. Before deciding to go ahead with their plans, they engaged us for our Rating Evaluation Service. They presented three different scenarios that included variations of additional debt, equity and cash on hand. As part of the RES analysis, our analysts met with management and visited the sites of the two target acquisitions. To complete the process, we provided the health care system with our report that outlined the potential rating impact for each scenario it presented. With a growth strategy in place, the management team considered the RES results when deciding which financing approach would better achieve its strategic goals.

Learn how our Rating Evaluation Service can help you. Get in touch with a member of our U.S. Public Finance Relationship Management team:

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