PREPARING FOR THE RATING AGENCIES

Official Conference Title

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GEORGIA PUBLIC FINANCE

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SECTION 1

The Rating Agency Relationship

THE RATING AGENCY RELATIONSHIP

What do the rating agencies do?

The rating agencies assign credit ratings to securities that represent their opinion of the general creditworthiness of creditworthiness of an obligor with respect to a particular debt security or other obligation based on relevant risk factors.

Why get a rating?

The value of a rating is based upon the markets general acceptance of the rating agencies judgment.

What a rating is not.

A rating is not a recommendation to buy, sell or hold a security.
The rating agencies do not comment on the suitability of an investment.

Who are the Rating Agencies?

The three most widely used rating agencies are **Moody's, Standard and Poor's and Fitch**.

LONG-TERM DEBT RATING CATEGORIES

Aaa/AAA – Highest rating possible. The bonds carry the smallest degree of investment risk. The issuer's capacity to meet its financial commitment on the obligation is extremely strong

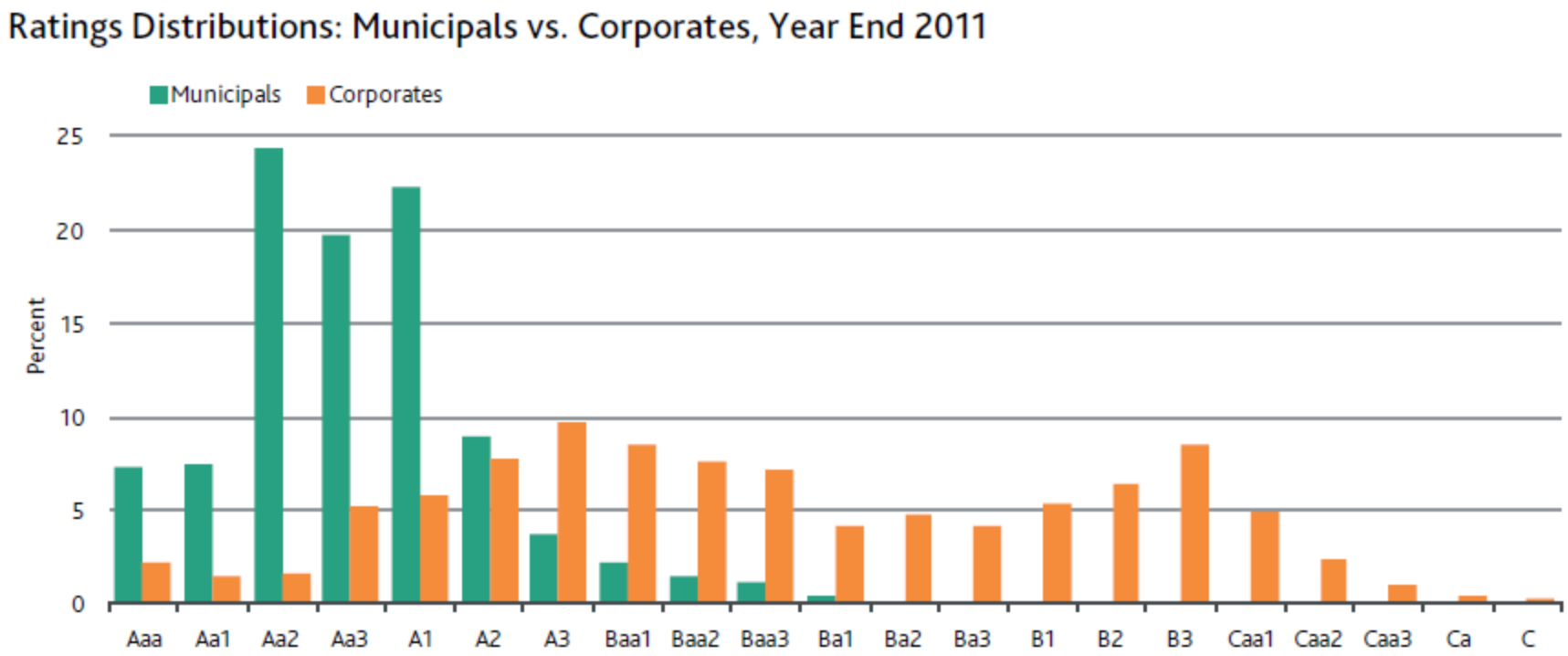
Aa/AA – Differs from Aaa by a small degree. Long-term risks are slightly greater than Aaa. The issuer's capacity to meet its financial commitment on the obligation is very strong.

A/A – Issuer is somewhat more susceptible to adverse changes in circumstances and economic conditions. The capacity to meet its financial obligations on the obligation is strong.

Baa/BBB – Adverse changes in circumstances and economic conditions are more likely to lead to a weakened capacity to meet its financial commitment on the obligation.

Below Baa/BBB – Non-investment grade or speculative investments.

RATINGS DISTRIBUTION



94% of Municipal Issuers are rated single-A or higher. By Comparison, approximately 34% of global corporate issuers are rated single-A or higher.

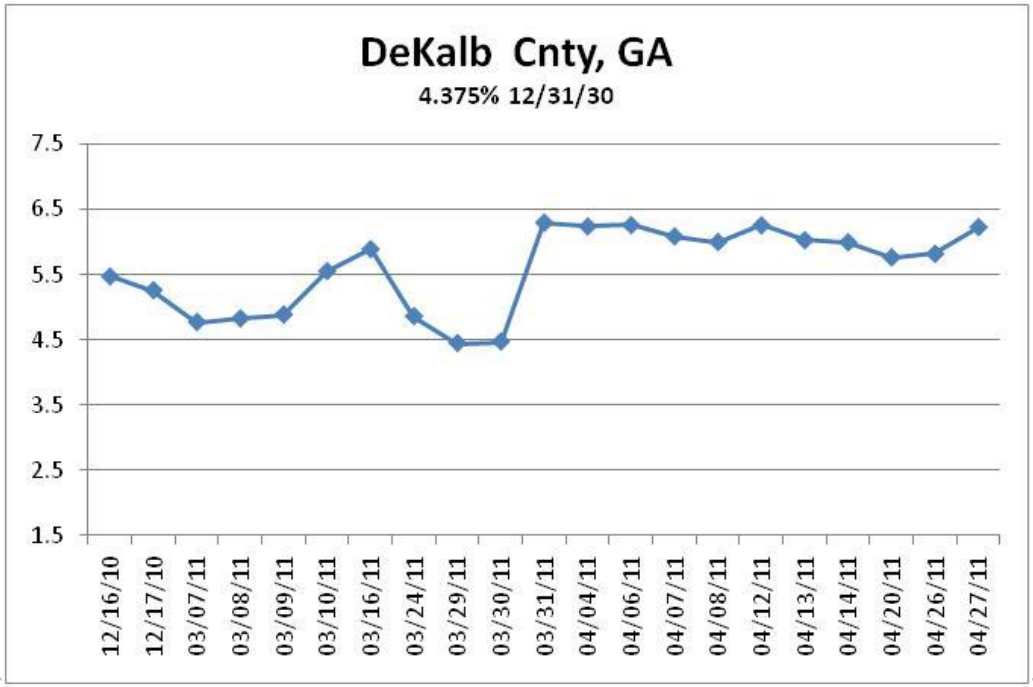
Source: U.S. Municipal Bond Defaults and Recoveries, 1970-2011, Moody's Investor Service, March 7, 2012

WHAT ARE THE REAL EFFECT OF RATINGS?

The Rating Tumble by DeKalb County Georgia has Potential Ramifications for Even Highly Rated Credits

- Investors were outraged – how could this happen so quickly?
- S&P cut DeKalb's rating by five notches from AA- to BBB. The rating agency immediately withdrew its rating, citing lack of available information in their decision. This cut follows an earlier cut in January from AAA. Such a tumble is atypical but shows what can happen if the message is not managed.

- There is a real cost to investors that will be borne by the issuers, in terms of future borrowing costs, but also impact potential advanced refunding opportunities and net savings in the future.
- Using MSRB odd lot trade data – bid dropped from a price of 98.9 on March 30th to 78.483 on March 31st.



SECTION 2

Steps of the Ratings Process

THE RATINGS PROCESS

The rating agencies evaluate two major things.

1) The underlying economic strength of the of the entity.

2) The effectiveness of the governing process to manage performance and to address problems.

How is this done?

Through analysis of past and projected financials and through correspondence with the staff and officials responsible for the repayment of the obligation.

MEETING THE RATING ANALYST

Typically a meeting will be held with each Rating Agency. That meeting can be one of several varieties:

New York Rating Agency Visit
Certain Key individuals can meet with analysts face-to-face at their offices

Conference Call
Key Individuals can discuss financials, projections and general economic conditions via a teleconference

Site Visit
The ratings analyst can come to the issuer to see the issuer or project first hand

WHAT WILL YOU NEED?

Typically the issuer will provide the following to the Rating Agencies:

All Financing Documents – Bond Resolution/Ordinace, Bond Counsel Opinions

Preliminary Official Statement – The offering document that is associated with the debt obligation.

Financials - At least three years of audits.

Financial Projections – Budgets, Engineering Reports, Tax Projections.

RATINGS ASSESSMENT QUESTIONS

Debt
Current Issue
Future Borrowing

Economy /Tax Base
Significant Development that could impact tax base
Projections for growth/decline in future years

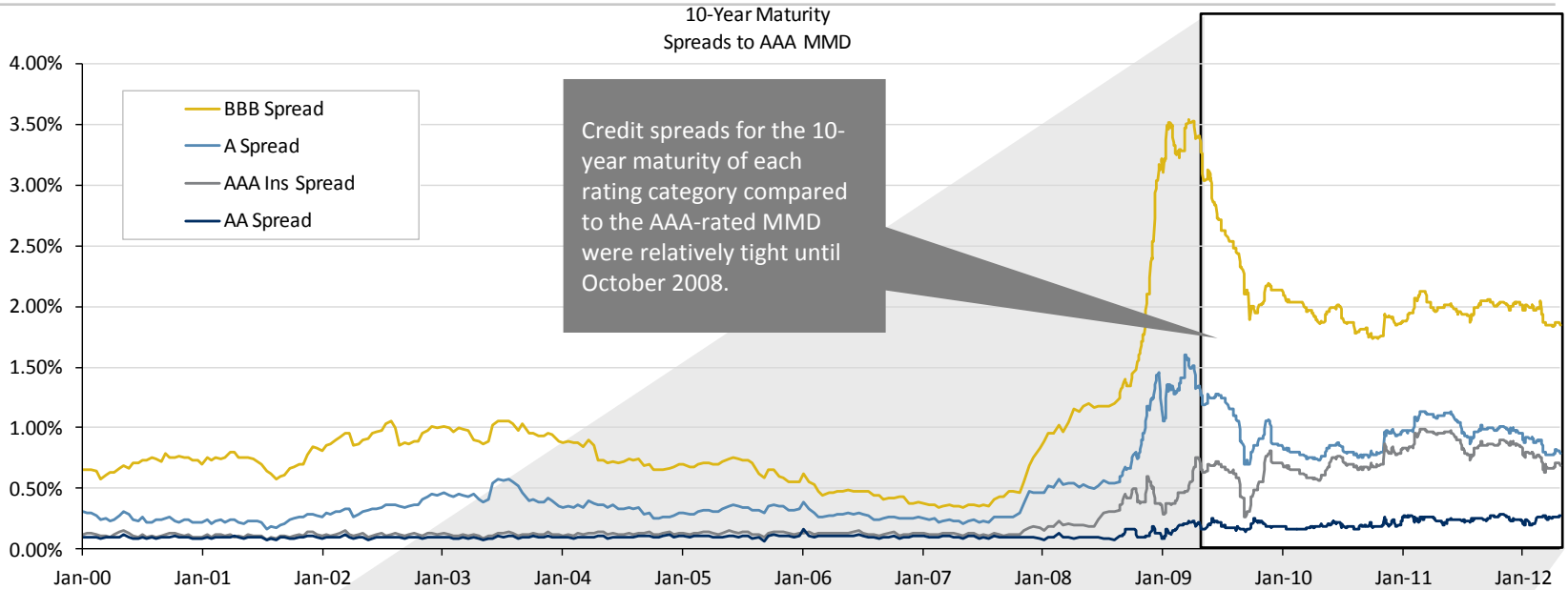
Finances
Changes in General Fund Balance/Other Reserves
Any Formal or Informal policies
Tax Collection Rates
Budget Variances
OPEB Liabilities
Significant Litigation/Special Circumstances

Management

SECTION 3

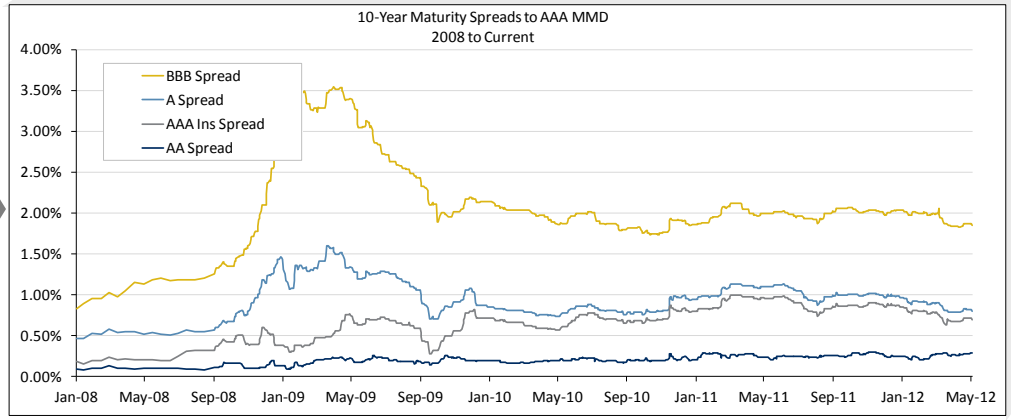
Challenges in the Current Market

HISTORICAL CREDIT SPREADS TO AAA MMD



Credit spreads for the 10-year maturity of each rating category compared to the AAA-rated MMD were relatively tight until October 2008.

At the start of the credit crisis in October 2008, spreads began to rise well above the AAA MMD, reflecting concerns with underlying credit quality.



THE DECLINE OF BOND INSURANCE

As rating agencies downgraded municipal bond insurers due to ongoing concerns about their exposure to subprime mortgages, collateralized debt obligations, and other financial instruments, the use of bond insurance has declined dramatically. There are currently no AAA-rated bond insurers.

- 5.3% of municipal bonds issued in 2011 were insured, continuing a decline in the insurance penetration rate. Less than 6.3% of municipal bonds issued in 2010 were insured, which is lower than the 8.6% insurance penetration rate in 2009 and sharply down from the record 57.1% rate in 2005.
- Most bond insurers, including Ambac, CIFG, FGIC, XL Capital (now Syncora) and Radian, are rated below investment grade and exited the market in 2008.
- Assured Guaranty Municipal (AGM) and Assured Guaranty Corporation are currently the only active bond insurers, with a market share of 100% in 2010.
- Berkshire Hathaway Assurance Corporation (BHAC) is a viable insurer but has not written a municipal bond policy in the primary market since late 2009.

Bond Insurer Ratings Grid

As of 05/07/2012

RATING ISSUED BY	Assured Guaranty	AGM (formerly FSA)	NPFG (formerly MBIA)	BHAC
Moodys	Aa3	Aa3	Baa2	Aa1
S&P	AA-	AA-	BBB	AA+
Fitch	NR	NR	NR	NR
Moodys	NEG WATCH	NEG WATCH	NEG	STABLE
S&P	STABLE	STABLE	DEVELOP	NEG
Fitch	-	-	-	-

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