PRESENTED BY:

FRAZER LANIER

Rating Agency Preparation 101 and Public Finance Market Updates

GFOAA

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF ALABAMA

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1. Frazer Lanier

The Frazer Lanier Company is an investment banking firm. With over 250 years of combined experience and an outstanding record, the company clearly demonstrates that there is strength in numbers.

Our firm is dedicated primarily to municipal finance. Since 1976, our company has served as an investment banker to cities, counties, states, local boards and agencies throughout the State. During calendar year 2019, 2020, and 2021 our firm ranked #1 in Alabama underwritings according to Thompson Reuters.

Our main office is located in Montgomery, with additional offices in Birmingham and Florence. The Firm has bankers strategically residing in Tuscaloosa and Mobile.

Johnny Dill (Florence)
Lee Garrison (Tuscaloosa)
Jason Grubbs (Birmingham)
Lance Hyche (Birmingham)
David Langham (Mobile)
John Mazyck (Montgomery)
Tamika Reed (Montgomery)
Brian Spear (Montgomery)
Andy Waid (Montgomery)
Bob Young (Montgomery)

1. The Frazer Lanier Company (Continued)

Robert H. Young, Jr. graduated from the public schools of Selma, Alabama, and from Auburn University with a Bachelor of Science degree in 1971. After serving in the United States Army, he entered the investment banking field in 1972 and joined The Frazer Lanier Company in 1976. Mr. Young has served as a member of the Auburn University Business School Advisory Committee, and as a Committeeman and Vice-Chairman on the District V Business Conduct Committee of the National Association of Securities Dealers.

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1. The Frazer Lanier Company (Continued)

L. Lee Garrison, graduated from the University of Alabama in 1997 with a Bachelor of Science degree in finance with a concentration in real estate as well as a minor in political science. Lee was elected to four consecutive terms on the Tuscaloosa City Council from 1997 to 2013. Lee served as Finance Chair of the Tuscaloosa City Council from 2001-2013. During those 12 years, the City of Tuscaloosa had an impeccable financial record, resulting in bond rating upgrades. In 2013, Lee opted to run and was elected citywide as Chair of the Tuscaloosa City Board of Education. Pledging to serve only one term and help turn the school system around, Lee led the Tuscaloosa City Board of Education in adopting a $200MM+ multiyear strategic plan that addressed curriculum, human resources, technology and facilities. Lee has been directly involved in many bond issues during his 20 years of elected public service.

Lee currently serves on the Board of Directors of the Business Council of Alabama, West Alabama Chamber of Commerce and the United Way of West Alabama Campaign Chairman's Cabinet. Lee has previously served on the Board of Directors for the Black Warrior Council of the Boy Scouts, the West Alabama Chapter of the American Red Cross, the Tuscaloosa Tourism and Sports Commission and the Black Warrior Solid Waste Disposal Authority. Lee also served as Chair of the Board of Directors for the Boys and Girls Clubs of West Alabama. In 2017, Lee was awarded the Chairman's Leadership Award from the West Alabama Chamber of Commerce. Lee enjoyed a successful career in the insurance services industry before joining Frazer Lanier.

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2. Rating Agencies and Bond Insurance Companies

Rating Agencies

S&P Global

FitchRatings

Moody's

Insurance Companies (AA rating)

BAM
BUILD AMERICA MUTUAL

ASSURED GUARANTY

3. Rating Scales

Credit Rating Scales by Agency, Long-Term

Moody's	S&P	Fitch	
Aaa	AAA	AAA	Prime
Aa1	AA+	AA+	High grade
Aa2	AA	AA	
Aa3	AA-	AA-	
A1	A+	A+	Upper medium grade
A2	A	A	
A3	A-	A-	
Baa1	BBB+	BBB+	Lower medium grade
Baa2	BBB	BBB	
Baa3	BBB-	BBB-	
Ba1	BB+	BB+	Non-investment grade speculative
Ba2	BB	BB	
Ba3	BB-	BB-	
B1	B+	B+	Highly speculative
B2	B	B	
B3	B-	B-	
Caa1	CCC+	CCC	Substantial risk
Caa2	CCC		Extremely speculative
Caa3	CCC-		Default imminent with little prospect for recovery
Ca	CC	CC	
	C	C	
C	D	D	In default
/			
/			

"Junk"

WOLFSTREET.com

4. Financial Management Assessment (S&P)*

“Answers to the Test”

- Revenue and Expenditure Assumptions
- Budget Amendments and Updates
- Long-Term Financial Planning
- Long-Term Capital Planning
- Investment Management Policies
- Debt Management Policies
- Reserve and Liquidity Policies

*per S&P publications

5. Revenue and Expenditure Assumptions

- Are the organization’s financial assumptions and projections realistic and well grounded from both long-term and recent trend perspectives?

- **Strong=**Formal historic trend analysis is performed and updated annually for both revenue and spending; regular effort is made to determine whether revenues or expenditures will deviate from their long-term trends over the next couple of years: evidence of independent revenue forecasting exists (where possible).

- **Standard=**Optimistic assumptions exist that, while supportable, add risk; assumptions are based on recent performance, but little evidence of questioning or validating assumptions exists.

- **Vulnerable=**Assumptions neglect likely shortfalls, expenditure pressures or other pending issues; assumptions exist which enjoy no prudent validation.

*per S&P publications

6. Budget Amendments and Updates

- Are there procedures for reviewing and amending the budget based on updated information and actual performance to ensure fiscal targets are met?

- **Strong=**At least quarterly budget surveillance is maintained to identify problem areas and enable timely budget adjustments; management exhibits ability and willingness to address necessary intra-year revenue and expenditure changes to meet fiscal targets.

- **Standard**=Semiannual budget reviews exist; management identifies variances between budget and actual performance.

- **Vulnerable=**No formal process exists for regular review and timely updating of budget during the year.

*per S&P publications

7. Long-Term Financial Planning

- Does management have a long-term financial plan that allows them to identify future revenues and expenditures as well as address upcoming issues that might affect these?

- **Strong=**A multi-year financial plan exists where future issues are identified and possible solutions are identified, if not implemented; revenue and expenditure decisions are made primarily from a long-term perspective. Structural balance is a clear goal.

- **Standard=**Multi-year projections are done informally; multi-year projections are done, but without discussion of pending issues, so that issues are not addressed; some one-shot actions exist, but the long-term consequences of these actions are acknowledged and communicated.

- **Vulnerable=**No long-term financial planning exists; operational planning is done on a year-to-year(or budget-to-budget) basis; one-shot budget fixes are used with little attention to long-term consequences.

*per S&P publications

8. Long-Term Capital Planning

- Has the organization created long-term capital improvement program (CIP)?

- **Strong=**A five-year rolling CIP with funding identified for all years exists and is linked to the operating budget and long-term revenue and financing strategies.

- **Standard=**A five-year CIP is done, but is generally limited to projects to be funded from the current budget plus a four-year wish list; some funding for out-year projects is identified, but not all.

- **Vulnerable=**No five-year CIP exists; capital planning is done as needs arise.

*per S&P publications

9. Investment Management Policies

- Has the organization established policies pertaining to investments, such as selection of financial institutions for services and transactions; risk assessment; investment objectives; investment maturities and volatility; portfolio diversification; safekeeping and custody; and investment performance reporting, benchmarking, and disclosure?

- **Strong=**Investment policies exist and are well defined; strong reporting and monitoring mechanisms exist and are functioning.

- **Standard=**Informal or non-published policies exist; policies are widely communicated and followed.

- **Vulnerable=**Absence or informal or non-published policies

*per S&P publications

10. Debt Management Policies

- Has the organization established policies pertaining to the issuance of debt, such as projects that may or may not be funded with debt (including economic development projects); maturity and debt service structure; use of security and pledges, credit enhancements, and derivatives; and debt refunding guidelines?

- **Strong=**Debt policies exist and are well defined; strong reporting and monitoring mechanisms exist and are functioning. If swaps are allowed, a formal swap management plan that follows S&P's guidelines (see the DDP) has been adopted.

- **Standard=**Basic policies exist; policies are widely communicated and followed. If swaps are allowed there is a swap management plan in place; but it does not follow S&P's guidelines.

- **Vulnerable=**Absence of basic policies or clear evidence that basic policies are followed. Swaps are allowed but there is no swap management plan in place, and/or there is no local (non-FA) knowledge about the swap.

*per S&P publications

11. Reserve and Liquidity Policies

- Has the organization established a formalized operating reserve policy, which takes into account the government's cash flow/operating requirements and the historic volatility of revenues and expenditures through economic cycles?

- **Strong=**A formal operating reserve policy is well defined. Reserve levels are clearly linked to the government's cash flow needs and the historic volatility of revenues and expenditures throughout economic cycles. Management has historically adhered to it.

- **Standard=**A less defined policy exists, which has no actual basis, but management has historically adhered to it.

- **Vulnerable=**Absence of basic policies or, if they exist, are not followed.

*per S&P publications

12. Rating Call Outline

SAMPLE OUTLINE FOR RATING CALL

On Friday, January 29th, we have a call at 9:00 am with Josh Travis and Karolina Norris. I expect the call will last between 1 ½ to 2 hours.

The outline indicates speakers for each topic, but all of you should feel free to make comments for further amplification.

I. Introduction

A. Participants

B. Purpose of issue

C. Security (change from 2015)

D. Timing

E. Indenture structure

YOUNG/HOSCH

II. Economics and Demographics

A. Location (tourism 6.9 million)

B. Government (duties)

1. Mayor
2. Council
3. Administrator

C. Population growth

D. Major employers in city/surrounding area

1. Effects of COVID

E. OWA

1. Developments to date
2. Partnering with City
    a. Hotel development
    b. Sports activities
    c. Effects of COVID - Protocols
    d. Employment

F. Tourism – not as low as predicted

G. Housing starts remain strong – breaking records

H. Hospital expansion

HELLMICH/TRAWICK

III. City

A. City Administrator is full time

B. Responsibilities of Administrator as COO of City

1. Department heads report to him

2. Day-to-day activities

THOMPSON

IV. Financial Information

A. Results 2016-2020

B. Cash goal

1. Present status

2. Receivables from FEMA/State

C. Major sources of revenue

1. All show increases except lodging in 2020

a. 2021 off with a bang

2. Positive effects of Sally

3. Future tax increases limited to Impact fees

Financial Information (continued)

D. Revenues growing with expenditures growing modestly

E. 2021 Budget

1. **Year-to-date results**
2. **Assumption for growth**
3. **Cash funded capital**
4. **Projected ending fund balance**

F. Financial Forecast

G. Future debt

THOMPSON/STEIGERWALD/BELL

V. Summary

A. Strong economy

B. Limited negative effects of Sally/COVID

C. Cash position

YOUNG

13. Continuing Disclosure

- Audits should be completed within 180 days from the end of the Fiscal Year or no later the 270 days

- Final audits should be posted on EMMA. For a nominal fee, companies like Digital Assurance Certification (DAC) assist issuers with EMMA audit posting and provide continuing disclosure monitoring

- Failure to provide timely audits may result in a continuing disclosure event and may also result in loss or downgrade of rating from the rating agencies

- Any change in rating (upgrade or downgrade) should also be listed on EMMA

14. Summary

- The rating agencies have their own rating criteria and may also zone in on different factors. For instance, S&P may view a pension liability more important to the overall rating than Fitch. However , the 7 major S&P criteria we covered in this presentation are very similar criteria with Moody's and Fitch.

- In some instances, issuers may need more than one rating for the same bond issue. That will depend on several variables, with size of the financing being the primary factor. When two ratings are generated for the same issuance, they may be split. For example, Moody's may issue a rating of Aa1, and Fitch may provide a AAA rating. This is considered a split rating.

15. Public Finance Market Updates

- Reinstatement of tax-exempt advance refundings (refinancing) is a possibility

- Increase the Bank Qualified limit from $10MM to $30MM is a possibility

- Direct Pay Taxable Bond Program (similar to Build America Bonds) is a possibility

- Interest Rates are still hovering around all time lows (refinancing/new money)

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