

Rating Approach: Dedicated Tax Revenue & Securitization Structures

Sarah Sullivant
Director, US Public Finance Ratings

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Special Tax Criteria

S&P Global Ratings applies its Special Tax Criteria to most* bonds secured by a pledge of specific, limited tax revenues

- Sales taxes
- Highway User/Motor Fuel tax
- Income tax
- Hotel/Occupancy tax
- Miscellaneous taxes (cigarette, luxury, etc)

Special tax criteria applies to the issue being rated, separately from issuer credit rating (GO, for instance)

Special tax bond ratings can exceed a GO rating **in certain circumstances**

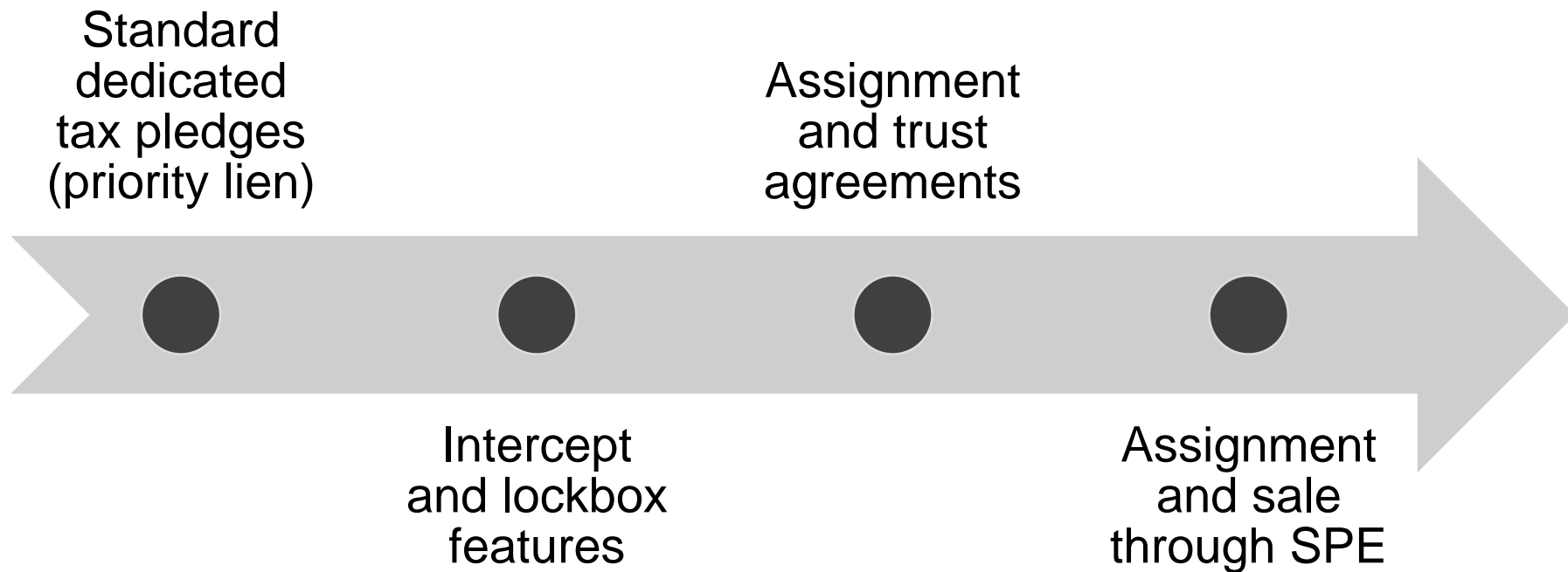
* We have proposed to exclude limited property taxes in our “Request for Comment: Limited-Tax General Operating Debt”

Special Tax Ratings Can Exceed a GO Rating

...in certain circumstances.

- Economic diversity in taxing base
- Revenue stability in economic downturns,
- Strong debt service coverage levels
- Legal provisions and structure provide strong protection

Continuum of Legal Protections



Municipal Securitization Structures

Attempt to isolate revenue completely from operating risk through an SPE

Rating Analysis:

- Special Tax criteria applies to the pledge of tax revenues
- Analysis begins with an analysis of bankruptcy remoteness and substantive consolidation risk informed by legal criteria for US Structured Finance Transactions: Special-Purpose Entities
- Analysis continues with consideration of the municipal context

SPEs in Municipal Context: Questions

- SPE Governance: Who formed it? Who governs it?
- Purpose, powers and limitations?
- What are the relevant laws governing the SPE?
- Does the entity have a (perfected) lien on future revenues?
 - Does the lien extend to bondholders?
 - Is it statutory?
- What could get in the way of the transfer of receipts?
 - Political and practical realities of the obligor/transferor
 - Its relationship to SPE?
- How does nature and purpose of a municipal entity affect the risk of delay or default in payment (as compared to a corporate entity)?
- How does it compare to other municipal securitization structures we rate?

Municipal Securitization Structures: General Issues

- We believe that **municipal entities and their revenues differ from corporate originators of securitized debt**
- This difference, coupled with the equity power of bankruptcy courts, makes drawing parallels from Chapter 11 cases potentially problematic.
- To our knowledge, the question of whether municipal tax revenues (including future flows) can be effectively sold has not been adjudicated.
- Even where many legal features exist to separate tax revenues from operating risk, we believe that credit fundamentals, including the obligor's economic base and credit risk, cannot be completely ignored.

Proposed Criteria Change: Special Tax Bonds

- On August 16, S&P Global Ratings released an Advance Notice of Proposed Criteria Change for Special Tax Debt
- Signaling that our Special Tax Criteria is under review
- Our review will examine all rating factors, linkages to the obligor and the state, and the evaluation of scenarios that may result in rating caps.
- **We will publish a request for comment** outlining our proposed criteria changes
- Subsequently, we will consider market feedback before publishing our updated criteria.

More Information on Criteria Changes

- [Spratings.com/criteria](https://www.spratings.com/criteria)
- **Email opt-in**
 - www.Myspprofile.com
 - Create login and update sector preferences (Cities, counties, states)
 - Sign up for USPF “In Case You Missed It” newsletter

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