

Criteria | Governments | U.S. Public Finance: U.S. State Ratings Methodology

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Table Of Contents

SCOPE OF THE CRITERIA

SUMMARY OF CRITERIA UPDATE

IMPACT ON OUTSTANDING RATINGS

EFFECTIVE DATE AND TRANSITION

METHODOLOGY

A. Overall Analytic Framework For U.S. States

B. Government Framework

C. Financial Management

D. Economy

E. Budgetary Performance

F. Debt And Liability Profile

APPENDIX

GLOSSARY

Related Criteria And Research

Criteria | Governments | U.S. Public Finance: U.S. State Ratings Methodology

(Editor's Note: This methodology replaces portions of U.S. Public Finance Criteria: GO Debt, published Oct. 12, 2006 and is related to Principles Of Corporate And Government Ratings, published June 26, 2010.)

1. Standard & Poor's Ratings Services is updating its methodology for rating United States state governments. We are publishing this article to help market participants better understand our approach to assigning state ratings. "Rating" refers to the rating assigned to general obligation (GO) debt of U.S. states or the issuer credit rating if no GO debt is outstanding. This methodology replaces portions of "U.S. Public Finance Criteria: GO Debt," published Oct. 12, 2006, and relates to "Principles Of Corporate And Government Ratings," published June 26, 2007.

SCOPE OF THE CRITERIA

2. These criteria apply to all U.S. state governments and U.S. Territories.

SUMMARY OF CRITERIA UPDATE

3. Standard & Poor's publicly rates all 50 U.S. states based on an analysis of a range of financial, economic, managerial, and institutional factors. Given the specific delegation of powers to states under the U.S. Constitution, we view states as having sovereign powers that warrant recognition in our criteria, and therefore we are separating our criteria for our analysis of states from our broader general obligation criteria.
4. We are keeping the existing general analytic framework for U.S. states, which involves five main factors:
 - Government framework;
 - Financial management;
 - Economy;
 - Budgetary performance; and
 - Debt and liability profile.
5. We provide greater transparency on how the rating for each state is determined using the combination of the various rating factors. We assess these factors using various credit metrics as outlined in Chart 1. These criteria follow the publication of the "Request for Comment: Methodology For U.S. State Ratings," published on May 11, 2010.

IMPACT ON OUTSTANDING RATINGS

6. We do not expect any significant rating changes as a result of these criteria.

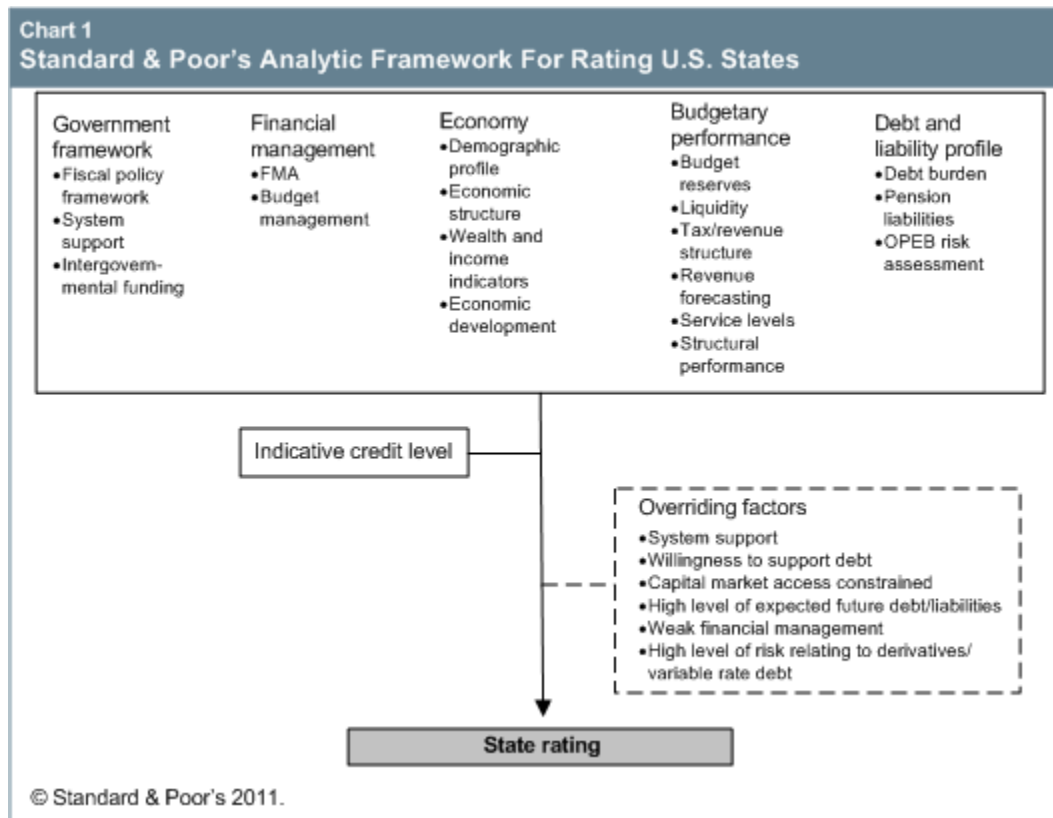
EFFECTIVE DATE AND TRANSITION

7. These criteria are effective immediately.

METHODOLOGY

A. Overall Analytic Framework For U.S. States

8. Standard & Poor's assigns credit ratings to U.S. states and Territories based on our qualitative and quantitative analysis of a range of financial, economic, managerial, and institutional factors. Our overall analytic framework centers around the following factors:
- Government framework;
 - Financial management;
 - Economy;
 - Budgetary performance; and
 - Debt and liability profile.
9. We assess each of these factors utilizing various metrics that we score on a scale from 1 (strongest) to 4 (weakest). For each metric there may be several indicators we evaluate to develop the metric score. We score each indicator individually on the same scale and average the indicators' scores to develop the overall score for the metric. We average the metrics for each factor to develop a composite score for each. The scores for the five factors are combined and averaged with equal weighting to arrive at an overall score which is then translated to an indicative credit level as illustrated in table 1. (A glossary of selected terms is provided at the end of this article.)



10. Table 1 below lists the indicative credit level that is associated with the overall score assigned. In most cases, we expect the final state rating to be within one notch of the indicative credit level, based on the state's position relative to all other states.

Table 1

Scores And Indicative Credit Level	
Score	Indicative Credit Level
1-1.5	AAA
1.6-1.8	AA+
1.9-2	AA
2.1-2.2	AA-
2.3-2.4	A+
2.5-2.6	A
2.7-3	A-
3.1-4	BBB category

Note: A rating below 'BBB' is possible based on various overriding factors as outlined in paragraphs 11-18.

1. Overriding factors impacting state ratings

11. In certain circumstances, the following overriding factors may result in a rating different from the indicative credit level as follows.
12. **System support score.** In the case of U.S. Territories and Commonwealths, where the policy and fiscal relationship with the federal government may result in a system support score that is different from the score assigned to all states, the rating may be multiple notches below the indicative credit level, as a result of the lower system score (see "Methodology for Rating International Local and Regional Governments," published Sept. 20, 2010).
13. **Willingness to support debt.** We view U.S. states as generally having a strong commitment to honor their legal obligation to pay debt even during difficult or stressful economic cycles. If we believe there is a change in a state's willingness to support its debt, we will assign a rating below what is indicated, possibly by several categories. For example, were a state to choose not to pay obligations we view as debt subject to annual appropriation, we would lower the state's GO rating or ICR, as detailed in our appropriation-backed obligations criteria ("Appropriation-Backed Obligations", published June 13, 2007). Were state officials who are charged with funding debt to suggest an unwillingness to fund debt in accordance with the priority payment status, we would likely assign the state a GO rating or issuer credit rating that is no higher than the 'BB' category. The rating would be no higher than the 'B' category and would likely be lower if we determined that this lack of willingness was likely to threaten a pending debt payment.
14. **Capital market access.** In addition, if we deem access to the capital markets or other sources of external liquidity as questionable and we view that access as necessary for the state to maintain regular operations, we will assign a rating no higher than the 'BBB' category. The rating may remain investment grade if we believe that internal liquidity, the priority claim enjoyed by bond holders, and the state's ability to manage disbursements provides good coverage of debt service. If we believe these internal factors provide questionable coverage of debt service and we perceive difficulties accessing the market for external liquidity to pay debt obligations, this would lead to a more rapid transition below the 'BB' category.
15. We also anticipate possible but limited circumstances where we will adjust a state's rating by one notch compared with the indicative credit level in table 1. These include:

16. **High level of expected future debt/liabilities.** In cases where we expect that a state's identified future debt obligations are likely to increase the majority of ratios used to measure the state's debt burden to levels that are higher than one-third above those indicated for a score of '4' (see paragraphs 62-69), we will assign a rating one notch below the indicative credit level in table 1. Instances where we anticipate future debt and liability metrics to be an overriding factor in the rating include (but are not limited to) when the state authorizes a large debt program that we expect to significantly alter its current debt position, or when a contingent liability (such as the debt of another government entity or an underlying level of government) becomes a direct funding responsibility of the state. Finally, if a state's pension funded ratio were to fall below 40%, the rating will be one notch below the indicative credit level in table 1. We believe that the inclusion of this overriding factor will allow for a forward-looking assessment of future debt and liabilities and its impact on the state's future operating budget performance.
17. **Weak financial management.** In cases where we score a state's overall financial management at '4' (see paragraphs 32-36) the rating will be one notch lower than the indicative credit level in table 1. In our opinion, weak financial management can result in rapid credit deterioration.
18. **High level of risk relating to derivatives/variable rate debt.** In cases where a state has a liquidity score of '4' (see paragraphs 46-51) and also has what we consider a high level of risk relating to derivatives/variable rate debt, the rating will be one notch lower than the indicative credit level in table 1. Specifically this includes the requirement to fund any accelerated payment provisions without having funds identified and available to make these payments.

2. Relationship to sovereign rating

19. Although many economic credit factors are similar and some expenditure responsibilities are linked, we do not directly link state ratings to the rating of the U.S. The rating on a state or local government can be higher than a sovereign rating (see "Methodology: Rating A Regional Or Local Government Higher Than Its Sovereign," published Sept. 9, 2009) if, in our view, the individual credit characteristics remain stronger than those of the sovereign in a scenario of economic or political stress. Other factors that we will review include our view of the predictability of the institutional framework that limits the risk of negative sovereign intervention and the state's ability to mitigate negative intervention from the sovereign due to the state's high financial flexibility and limited dependence on the federal government.

3. Standard & Poor's use of stress scenarios and calibration of state criteria

20. To calibrate the criteria for state ratings, Standard & Poor's uses the stress scenarios associated with each rating category level, as presented in Appendix IV of "Understanding Standard & Poor's Rating Definitions," published June 3, 2009 (hereafter called the "stress scenario article"). We believe that most states should be able to attain at least a 'AA' rating level, because we expect they should be able to meet their debt obligations, even in a very severe stress scenario, as defined in the stress scenario article. Under the U.S. Constitution, state governments have broad powers to establish their own tax structures and expenditure responsibilities and therefore possess unique administrative and financial flexibility. They are not eligible to file for bankruptcy under the U.S. Bankruptcy Code. They may adjust revenues, alter disbursements, and access reserves or other forms of liquidity when they consider it necessary in order to restore budgetary balance.
21. State public finance systems are in our view mature and accounting standards are well-developed, contributing to a high level of transparency relative to regional governments in other countries. U.S. states typically have balanced-budget requirements and well-developed revenue and expenditure monitoring policies and procedures. Although there is some variation among states in terms of economic diversity and wealth, when evaluated on a global basis we find that state economies as a whole are generally diverse and income levels are above average. The security features and priority of payment for debt service are generally well-defined and capital market access is also

generally well-established. We also believe U.S. states typically have a strong commitment to their legal obligation to pay debt despite difficult economic cycles as evidenced by only one observed default for the sector in more than one hundred years.

22. When defaults have occurred, reforms have generally followed. Although eight states (Arkansas, Illinois, Indiana, Louisiana, Maryland, Michigan, Mississippi, and Pennsylvania) plus the Territory of Florida defaulted following the panic of 1837, most debt issued for state and local purposes was issued at the state level, where large amounts of debt had been issued for economic development and public improvements. Following this episode, states' borrowing abilities were curtailed, and debt issuance for economic development purposes shifted primarily to local governments. Only one state (Arkansas) defaulted on debt during the Great Depression, and following this period governments further diversified their revenue streams by increasing their reliance on personal income taxes and implementing sales taxes—largely the structure we see today. Additional improvements to states' financial controls, reporting, and disclosure followed in the postwar period.

B. Government Framework

23. Government framework is the first factor we assess to arrive at the indicative rating level. A state's government structure and political environment can affect its powers as defined by federal and state law and influence its fiscal position. Fiscal policy framework, system support, and intergovernmental funding are the metrics we use to assess government framework. Each is scored individually, and we then average the scores to determine the overall government framework score.

1. Fiscal policy framework

24. The framework within which a state taxes, spends, and issues debt influences its ability to manage through various economic stress scenarios in our opinion. When evaluating the fiscal policy framework of a state we analyze five metrics that are averaged to determine the overall fiscal policy framework. These five metrics include: balanced budget requirement (table 2), revenue structure (table 3), disbursement autonomy (table 4), voter initiatives (table 5), and legal framework for debt (table 6).
25. **Balanced budget requirement (table 2).** In contrast to the federal government and many local governments, most U.S. states are required by statute or their constitution to propose or adopt a balanced budget. Others are required to ensure balance during the fiscal year. In our opinion, these requirements tend to encourage budgetary discipline.

Table 2 - As described in paragraph 25

Balanced Budget Requirement	
Score	
1	Constitutional/statutory requirement for balanced budget when introduced and adopted. The budget is required to stay in balance during the year.
2	Budget must be balanced when introduced or when adopted but no legal requirement to maintain balance during the year.
3	There is no requirement to propose or adopt a balanced budget but in our view there is a track record of doing so.
4	No balanced budget requirements exist and, in our view, there is no track record of doing so.

26. **Revenue structure (table 3).** Most states enjoy the flexibility to set and modify tax rates, deductions, exemptions, and collection dates. If, in our view, these can be achieved without major constitutional, legal, political, or administrative difficulty, these discretionary powers can quickly and favorably influence a state's fiscal condition.

Table 3 - As described in paragraph 26

Revenue Structure	
Score	
1	The state has autonomy to raise taxes and other revenues (rate and base); in addition, there is no constitutional constraint or extraordinary legislative threshold for approval (a simple majority requirement for approval of new taxes, for example) and state policymakers have, in our view, a proven track record of implementing tax increases as one of the alternatives to address budget imbalances.
2	The state has autonomy to raise most but not all taxes and revenues. In addition, in our view, the track record of implementing tax increases as a policy alternative to address budget imbalances is uneven, thus effectively reducing the state's revenue flexibility.
3	There are in our view significant constraints to adjusting taxes or revenues. These constraints can include constitutional prohibitions on tax increases, an above majority legislative threshold for approval, or the need to have voter approval for tax and revenue increases..
4	The state is both legally and, in our view, politically constrained in its ability to increase all key revenue sources. We view revenue flexibility as practically limited to the potential growth of the existing revenue base.

27. **Disbursement autonomy (table 4).** While state governments generally have broad service responsibilities, most enjoy what we view as considerable discretion in establishing funding levels for state assistance, shifting responsibilities to local government and establishing or changing disbursement dates for various programs. Absent constitutional or other legal mandates, this affords control over budgets and cash flow which, in our view, can positively affect fiscal standing. When assessing flexibility, we look at fixed costs relative to the total budget. Fixed costs include debt and contractual obligations. We also review the legal framework governing various program areas and how that affects the ability to reduce or eliminate spending and programs.

Table 4 - As described in paragraph 27

Disbursement Autonomy	
Score	
1	High degree of flexibility in adjusting disbursements; extends to nearly all program areas, including the ones with the highest impact on the budget.
2	Flexibility to adjust disbursements exists but adjustments may not be legally allowed for all program areas, including one or more of the state's largest expenditure programs such as education and health care.
3	Flexibility to adjust disbursements is constrained, and does not include the legal ability to adjust disbursements for large expenditure programs such as education and health care.
4	Flexibility to adjust disbursements is practically non-existent.

28. **Voter initiatives (table 5).** A state government's autonomy can be limited and this can affect relative credit standing in our view. Where decisions about specific tax or revenue levels, spending allocations, and debt issuance require approval from the electorate, states have reduced flexibility to respond to changing economic or financial situations, in our opinion.

Table 5 - As described in paragraph 28

Voter Initiatives	
Score	
1	Not a voter initiative state
2	State has some voter initiative activity but it has not historically negatively affected operations or limited flexibility.
3	State has an active initiative process which has affected state revenues and/or expenditures and flexibility has been diminished.
4	Initiative process is highly active and has substantially impaired operations of government in our view.

29. **Legal framework for debt (table 6).** We analyze both statutory and constitutional debt provisions.. This review includes consideration of the nature of the repayment pledge, the priority of payment for debt service, amortization features that are imbedded in constitution or statute, and legal restrictions related to debt issuance.

Table 6 - As described in paragraph 29

Legal Framework for Debt	
1	High degree of legal flexibility to issue debt for a range of purposes. There is a strong legal priority for payment of debt.
2	Some legal limitation on debt issuance which has not in our view inhibited planned issuance. There is a legal priority for payment of debt service but it is not a first claim on revenues.
3	Very limited legal right to issue debt; lack of voter support or limited access to alternative debt structures. There is no established legal priority for debt.
4	Cannot issue debt; there is a lack of voter support. There is no priority of payment for debt service.

2. System support

30. System support refers to our assessment of the predictability of the public finance system in a federal context. It is the same for all states and incorporates the predictability, transparency and accountability, and system support aspects of the institutional framework score as detailed in our criteria for rating international local and regional governments (see "Methodology For Rating International Local And Regional Governments," published Sept. 20, 2010). We assess the final element of the international public finance institutional framework, revenue and expenditure balance by the other metrics in the government framework analysis of the U.S. state criteria to capture the state constitutional and statutory differences that affect this area.

3. Intergovernmental funding

31. Table 7 details our assessment of a state's local government funding framework. How services and programs are provided across state and local governments and what the funding relationship has been over time are in our view important considerations because they influence revenues, spending and overall budget flexibility. We review the legal requirements and historical patterns of state assistance and revenue sharing arrangements. If a state has broad discretion in adjusting spending flows to local governments or the amount of these flows are limited, we view the state as having a high level of control over budgeting and cashflow. Conversely, if a state has limited legal capacity to adjust programs and spending levels or limited political willingness to do so, we view the state as having less autonomy, especially when this funding represents a significant state budget element.

Table 7 - As described in paragraph 31

Local Government Funding Framework	
Score	
1	Level of assistance to local governments is limited or highly flexible from a legal standpoint or by historic patterns; strong ability to downstream reductions or change revenue allocations.
2	Level of assistance to local governments is high; flexibility (either legal or practical) may be limited at times.
3	Level of assistance is high and is not flexible from a legal or practical standpoint; ability to reduce local government funding is restrained.
4	Very limited flexibility exists.

C. Financial Management

32. Financial management is the second of the five major factors shown in chart 1 contributing to our assessment of the indicative credit level. Our view of the rigor of a government's financial management practices is an important factor in Standard & Poor's analysis of creditworthiness. We believe managerial decisions, policies, and practices have a direct effect on a government's financial position and operations, debt burden, and other key credit factors. A government's ability to implement timely and sound financial and operational decisions in response to economic and fiscal demands is in our view a key factor in assessing credit quality. The financial policies (Financial Management

Assessment) and the budget management framework are the key metrics we use to assess financial management that are scored individually and averaged to develop an overall score for financial management.

1. Financial Management Assessment

33. Standard & Poor's analyzes the impact of financial management policies and practices through the use of the Financial Management Assessment (FMA). We believe the FMA provides a transparent assessment of a government's financial practices and highlights aspects of management that are common to most governments in a consistent manner (see "USPF Criteria: Financial Management Assessment," published June 27, 2006). Based on the current framework, a state is assigned a 'strong,' which equates to a score of 1, 'good' (score of 2), 'standard' (score of 3), or 'vulnerable' (score of 4) assessment.

2. Budget management framework

34. While the FMA outlines policies in a range of areas including budget amendments, our view of the framework for managing the budget (including legal framework as well as the policies in practice) is a factor in the high credit profile of U.S. states and we believe it is important in differentiating state credit ratings above or below the 'AA' rating level. Table 8 details our scoring methodology for this area.

Table 8 - Assessment of the framework is further detailed in paragraphs 34 and 35.

Budget Management Framework	
1	Framework is formalized, strong, and proactive; adjustments are timely, with emphasis on structural balance.
2	Framework is good but process may be less defined and adjustments may be less timely
3	Framework is adequate; budget monitoring is established but adjustments are not timely and response is uneven.
4	Framework is weak, which effectively prohibits timely adjustment; deficits carry forward into the next fiscal year.

35. To score the budget management framework, we review whether:
- There is a formal schedule for providing revenue and spending forecast updates throughout the year;
 - There are frequent (two or more times) updates during the fiscal year, especially during weak economic periods;
 - Budget adjustments are implemented in a timely manner to restore balance, generally within 30-60 days of budget gap being identified;
 - The executive branch/budget office has what we consider to be broad powers to adjust appropriations;
 - Legislative approval is required to restore balance and if the response is timely (adjustments begin within about 30 days of the gap being identified);
 - There is in our view a well-established track record of making difficult and politically unpopular revenue and spending decisions in order to restore balance during the fiscal year;
 - Gap-closing solutions are in our view generally focused on structural budget balance rather than relying on non-recurring revenue or spending actions; and
 - Deficits are not carried forward.
36. A state that meets all but one or two of the above budget management items will likely receive the highest score for its budget management framework while a state that exhibits only one or two of the these characteristics will likely result in the lowest score.

D. Economy

37. Economy is the third of the five major factors shown in chart 1 contributing to our assessment of the indicative credit level. Our economic review focuses on four metrics: demographic profile, economic structure including employment composition and performance, wealth and income indicators, and economic development. Each of these metrics is scored (1-4) and averaged to assess the overall economic fundamentals of a state. Where there are multiple indicators for each metric, they are also scored (1 to 4) and averaged to develop the metric score.

1. Demographic profile

38. We believe that the structure and growth characteristics of a state's population base provide critical information about revenue-generating capability as well as the costs of providing services and infrastructure. It is also a factor in revenue distribution at the federal level. We analyze historic population trends for each state relative to national trends. We also examine U.S. Census and other third party projections for future growth or decline. The age profile of the population base and changes in it over time are also considerations due to the high proportion of state spending tied to education and social service programs. To assess this we review the age dependency ratio calculated by the U.S. Census Bureau. As detailed in table 9, the key indicators of our demographic profile score are our view of:

- Population growth trends; and
- Age distribution of population.

Table 9 - As described in paragraph 38

Demographic Profile		
Indicators (scored separately then averaged)		
Score	Population growth trends	Age dependency ratio*
1	Strong population growth relative to U.S.	Relatively low dependent population (more than 5% below U.S. levels).
2	Stable population trends; steady growth over time in line with U.S.	Dependent population ratio in line with U.S. levels.
3	Demographic trends are weaker than the U.S.	Dependent population is well above U.S. (0- +5%).
4	Growth has declined for more than a decade.	Dependent population has significant variance (more than 5%-10% from U.S.).

* From the U.S. Census.

2. Economic structure

39. The composition, output, and diversity of the employment base plays a role in the link between a state's economy and its ability to generate revenues. A state's economic structure can also influence the level of services it provides and can contribute to spending growth pressures. A review of the economic structure, growth trends, and how various indicators perform during economic cycles allows us to assess the relative stability or cyclicity of a state's economy. We also review changes in the structure of the economy over time to assess diversification trends and how this may affect future economic performance. As detailed in table 10, the key indicators summarize our view of:

- Employment, labor force, and unemployment trends;
- Employment composition by sector and how it compares to the national distribution; and
- Gross state product growth trends and gross state product per capita.

Table 10 - As described in paragraph 39

Economic Structure				
Indicators (scored separately then averaged)				
Score	Unemployment	Employment composition/ diversity of base	GSP* per capita	GSP growth
1	Rate 2%+ below U.S.	Employment mix in line with U.S.; limited concentration; performance tends to be less cyclical than U.S.	>100% of U.S. Gross Domestic Product (GDP)	Growth consistently above U.S.
2	Rate within 2% +/- of U.S.	Employment base exhibits some concentration that contributes to more cyclical performance than the U.S. economy as a whole.	>85% of U.S. (GDP)	Growth in line with U.S.
3	Rate 2%+ above U.S.	Employment base is concentrated; performance has been cyclical and weak relative to the U.S. over the past decade	>75% of U.S. (GDP)	Growth below the U.S. periodically.
4	Rate 5% or more above U.S.	Employment base has high level of concentration relative to U.S. distribution which has contributed to cyclical performance and weak trends over decades.	<75% of U.S. (GDP)	Growth has consistently been below U.S. levels.

* GSP—Gross state product.

40. As part of our review of the employment composition and diversity of the employment base as outlined in table 10, we analyze the largest employers in the state relative to current economic conditions to assess the potential for cyclicity and how those firms might affect future growth and development. We include regional patterns of employment in the review if an individual state benefits from proximity to other labor markets.

3. Wealth and income indicators

41. We consider wealth levels of a state as part of the economic review. We believe that how income compares to national levels and how growth rates have trended over time can provide useful information about the ability to generate additional revenues. The key indicator to us is per capita personal income, as detailed in table 11.

Table 11 - As described in paragraph 41

Income And Wealth	
Score	Per capita personal income rank
1	>100% of U.S.
2	>85% of U.S.
3	75%-85% of U.S.
4	<75% of U.S.

4. Economic development

42. In addition to historic economic trends, we consider each state's economic development initiatives and future growth prospects as they are likely to affect future revenue generating capacity. We have identified areas that we believe drive future development. A state that we believe displays a preponderance of attributes in a given section below will be assigned that score. We express our assessment of economic development prospects as detailed in table 12:

Table 12 - As described in paragraph 42

Economic Development	
Score	
1	The state's resources, employment opportunities, cost of living, cost of doing business, and tax structure result in an economic environment that supports entrepreneurship, as well as significant levels of private sector investment. The majority of urban centers in the state are economically vibrant and continue to attract in-migration and investment. In addition, the state is home to the headquarters of employers with global operations, as well as prominent higher education anchors which serve as catalysts to continuous investment over time. A majority of the state's current employment is in economic sectors that are expected to perform at an above-average pace during periods of economic growth. Infrastructure is in place to support further growth and development.
2	The state's resources, employment opportunities, cost of living, cost of doing business, and tax structure result in overall growth in population and employment over time, but economic growth across the state is uneven, with only a few urban centers performing better than average, and the majority of urban centers exhibiting lackluster economic performance. Some, but not all, of the major urban centers are attracting private investment and are major centers of job creation. Higher education anchors exist, but are not situated near major urban centers or major employment centers, which could limit their effectiveness in attracting investment. Concentration of private investment and employment in economic sectors that have below-average growth prospects may limit overall economic growth.
3	We expect the state to experience limited employment and private investment growth or possibly decline for a range of reasons including one or both of the following: reliance on sectors that are experiencing structural decline in both output and employment; and a tax structure that may represent a competitive disadvantage (measured by historic levels of private investment, high cost of doing business, population flows, and recent loss of key employers).
4	Growth prospects are not evident and there is little focus by the state on economic development initiatives.

E. Budgetary Performance

43. Budgetary performance is the fourth of the five major factors shown in chart 1 contributing to our assessment of the indicative credit level. While states prepare financial statements each year using generally accepted accounting principles (GAAP), which includes accruals, the budget development, appropriations, budget monitoring, and reserves, are expressed on a budgetary basis, which is more closely aligned with a cash basis presentation. Budget-based financial information is a primary focus of our financial review because it shows how state finances are managed day-to-day. However, we also analyze the GAAP audited financial statements and variations between GAAP and budget-based financial disclosure to gain a more complete understanding of a state's financial condition. We assess six key metrics in order to evaluate budgetary performance: budget reserves, liquidity, tax/revenue structure, revenue forecasting, service levels, and structural budget performance. These metrics are scored individually and averaged to develop an overall assessment of budgetary performance. Where there are multiple indicators for each metric, they are also scored (1 to 4) and averaged to develop the metric score.

1. Budget reserves

44. State revenues tend to be cyclical and in our view generally are sensitive to changing economic conditions. Looking at the history of revenue shortfalls for states, we believe that no budget reserve fund could be sized to completely address the potential for volatility in a severe recession or revenue downturn. However, all other factors being equal, we believe states with well-funded reserves have greater flexibility to address shortfalls should and when they occur.

45. Over the past two decades states have generally exhibited greater formalization of budget reserve policies. We believe that a clearly articulated policy and steady funding of reserves is important to allow states to manage through challenging economic cycles. In addition to the level of funding, our review (detailed in table 13) includes an analysis of how the size of the reserve compares to historic revenue and spending patterns and gaps and of the track record of funding the reserve, including any replenishment mechanisms. If there is a stated policy but there is no track record of funding the reserve in positive economic periods, we will assess the reserve at the average level it is actually funded at historically. In addition to formal budget reserves, we review financial reserves and balances identified in funds outside of the state's main operating fund or general fund that may be available for budget

purposes. If there are other available reserves identified by the state in addition to the formal budgetary reserve, we will consider these as part of the overall reserve capacity of the state if they are available for state operating purposes.

Table 13 - As described in paragraph 45

Budget-Based Reserves Relative To Revenue And Spending	
Score	
1	There is a formal budget-based reserve relative to revenue or spending that is above 8%. In addition, there is a formal process or a demonstrated track record of restoring the reserve following depletion.
2	There is a formal budget-based reserve relative to revenue or spending that is between 4% and 8%. In addition, there is a formal process or a demonstrated track record of restoring the reserve following depletion.
3	There is a formal budget-based reserve relative to revenue or spending that is between 1% and 4%. In addition, there is a formal process or a demonstrated track record of restoring the reserve following depletion.
4	There is no formal budget reserve fund, or reserves are funded at less than 1% over time, or there is no process for accumulating reserves. No additional reserve funds are identified or available.

Note: Refers to reserve policy levels and not actual funding level as we observe that reserves are often depleted through economic cycles.

2. Liquidity

46. Standard & Poor's believes that a state's liquidity position is an important component of its overall credit profile. We generally regard available cash as the strongest form of liquidity, but many states rely on external borrowing and disbursement adjustments in order to fund priority payments including debt service. While the ability to adjust disbursements provides short term flexibility, it could result in additional cost pressure or fiscal strain later in the fiscal year if disbursement delays are frequent and represent a significant portion of the total budget. When assessing liquidity for a state, we focus on the resources it is legally allowed to access to fund cash flow requirements. In analyzing liquidity, we consider four areas: a) cash monitoring capabilities, b) cash flow predictability, c) internal cash flow generation capacity, and d) external cash flow borrowing. We combine our view of these four areas to arrive at our liquidity score. Below is a description of each of these areas and how they are combined into the overall score.
47. *(a) Cash monitoring capabilities.* We analyze states' cash monitoring capabilities to determine whether they include daily monitoring of balances and well-developed forecasting tools that enable swift reaction to imbalances. We also consider the ability to adjust disbursements and collections.
48. *(b) Cash flow predictability.* We evaluate the fluctuation in receipts and disbursements during the year and determine mismatches and how these change from year to year.
49. *(c) Internal cash flow generation capacity.* States often have what we view as broad discretion to access liquidity from other than general funds. We examine whether all funds are immediately available--which provides a high degree of flexibility--or whether legislative or executive authority is required to shift resources from other funds to cover key operating fund requirements. We also factor into our review of liquidity the level of reserves available for cash flow purposes across state government.
50. *(d) External cash flow borrowing.* We review borrowing for operations and how that has fluctuated over time.
51. Table 14 details the characteristics that we would generally expect to see at different levels for our liquidity score resulting from the combination of the above factors. We expect that a single state would exhibit most but not all of the characteristics listed.

Table 14 - As described in paragraphs 46-50

Liquidity	
Score	
1	Strong cash monitoring capabilities including regular cash flow forecasting; broad authority to access liquidity from pooled funds which allows for highly predictable cash management; receipts and disbursements are aligned; broad authority to adjust disbursements; little or no reliance on external borrowing and if necessary is conducted with ease.
2	Well-established cash monitoring capabilities and periodic cash flow forecasting. Access to pooled cash is available but may be limited to certain funds; receipts and disbursements may not be totally aligned during the fiscal year; well-defined contingencies are in place to augment internal resources; external borrowing is conducted with ease and stable over time relative to the size of the budget; ability to manage disbursements may be limited in some areas.
3	Cash monitoring is generally comprehensive but cash forecasting may be less established; access to internal liquidity is not sufficient to address timing or is restricted; recurring receipts and cash disbursements are not aligned and there may be variability that leads to external borrowing requiring regular adjustments through the course of the budget year, internal estimation of cash flow needs difficult to predict.
4	Cash monitoring is weak and cash forecasting is not done on a regular basis. Liquidity is weak and needs are volatile at times; state is meeting certain obligations only by deeply delaying payment on other obligations; ability to access pooled cash is limited; external borrowing is common and not predictable in terms of size and frequency; borrowing for cash flow is expanding relative to the size of the budget and may cross fiscal years.

3. Tax/revenue structure

52. Levying and collecting taxes has been a key tool for states in managing through a range of economic cycles. We believe that a state's tax structure, including the range of taxes, the ability and willingness to adjust them, and how they align with economic activity within its borders is an important credit factor. Our analysis of revenue structure considers the diversity of revenue sources (table 15) and the revenue adjustment history (table 16). In making these assessments we focus our analysis on the principal operating funds of the state.
53. *Diversity of revenue sources.* We evaluate the range of taxes levied and other revenues generated by each state and what the relative contributions are from each source. This includes a review of both the tax base and the rates to understand how they align with a state's economy and ultimately how they affect the volatility and predictability of revenues.

Table 15 - As described in paragraph 53

Revenue Diversity Score	
Score	
1	State has contributions from at least two major sources that generally contribute more than 15%-30% each.
2	State relies on one key revenue source, generally providing more than 65% to fund operations but revenue aligns with key economic strengths of the state.
3	State relies on one key revenue source for more than 65% of revenues; key revenue source does not align closely to economic fundamentals.
4	State relies on one revenue source to fund more than 90% of operations.

54. *Revenue adjustment history.* While we measure the legal framework for levying taxes and adjusting the tax rate and base as part of the government framework, we assess a state's practical ability and willingness to use these powers if needed as part of our assessment of the state's financial flexibility and performance.

Table 16 - As described in paragraph 54

Revenue Adjustment History	
Score	
1	Strong track record of revenue adjustments in our view; adjustments are timely.
2	There is demonstrated track record of revenue adjustments in our view; response is generally less timely and may lag by a fiscal year.
3	Revenue adjustments are made periodically but they are not timely and may lag structural imbalance by more than a year.

Table 16 - As described in paragraph 54

Revenue Adjustment History (cont.)	
4	Revenue adjustments are not implemented.

4. Revenue forecasting

55. State revenues tend to be volatile during economic downturns because they rely on personal income tax, sales tax, corporate income tax, and other economically sensitive sources. We have observed that these sources tend to react more swiftly to changing economic conditions. As a result, the revenue forecasting process is part of our review for each state. Specifically, we review what economic sources and assumptions provide the foundation for the forecast and how the economic assumptions and forecast compare to those of other states. We also evaluate the process in place to establish the forecast to determine if it is an independent process or a forecast negotiated by the executive and legislative branches. We analyze forecasts to determine whether they align with the current economic environment and historic performance.

Table 17 - As described in paragraph 55

Revenue Forecasting	
Score	
1	There is a formal independent revenue forecast that guides budget development and the forecast is reviewed several times during fiscal year.
2	There is a formal and detailed revenue forecast; may be done by executive and legislative branch separately with an attempt to align the forecast in advance of budget approval based on economic considerations.
3	The revenue forecast is detailed and comprehensive but the final outcome may be "negotiated" and there is some level of political influence over outcome.
4	There is no formal revenue forecasting process.

5. Service levels

56. The range and level of services provided by each state varies significantly. We believe that assessing expenditure composition and how this has changed over time is useful in assessing service levels and flexibility. Our analysis focuses on the legal requirements to provide services, the discretion available in providing services, and the predictability of the services provided, as detailed in table 18.
57. **Legal requirements to provide services.** We believe that the legal framework for funding various service responsibilities is important to the extent that it creates or constrains budget flexibility. Spending for Medicaid is an example of a federally mandated program that is costly and usually difficult to adjust. Certain states provide a high level of services under the program, while others provide less. These differences will affect overall budget flexibility. Other services may have a constitutional or statutory basis of funding. Funding for K-12 education is a constitutional obligation for nearly all states. A state defending a legal challenge to its funding system could face additional spending requirements, which could diminish flexibility.
58. **Discretionary vs. non-discretionary expenditures.** When evaluating the range of services provided we analyze which are non-discretionary (mandates, statutory, constitutionally required, or contractual) and difficult to reduce versus those that are discretionary.
59. **Predictability.** When evaluating state spending, we review how predictable the expenses are: do they fluctuate with the economic environment (social service programs are an example), are they regularly tied to other statutory actions (stringent prison sentencing laws translating to higher prison costs), or influenced by other policies or factors specific to a state (debt vs. pay-as-you-go policies or collective bargaining agreements).

Table 18 - As described in paragraphs 56-59

Service Levels	
Score	
1	Expenditures are predictable as measured by variance from budget expectations; high degree of flexibility to reduce services/expenditures in most program areas. This flexibility is measured in terms of the legal ability and our view of the political willingness to make adjustments.
2	Expenditures are generally predictable as measured by variance from budget expectations, but may experience cyclical trends; ability to cut services and expenditures is good in our view, but may not extend to all program areas from a practical or legal standpoint.
3	Expenditures tend to be cyclical and less predictable with variances relative to budget common in certain program areas; ability to cut services/ expenditures is adequate in our view but many program areas are excluded from a practical or legal standpoint.
4	Expenditures are very cyclical and unpredictable and variances relative to the budget are common for many program areas; the state has exhibited a persistent reluctance or inability in our view to reduce expenditures and service levels.

6. Structural budget performance

60. Table 19 details our assessment of structural budget performance. We consider a state's budget to be structurally balanced if recurring revenues equal or exceed recurring operating expenditures. We recognize that structural balance is difficult to maintain during economic downturns when revenue performance is weak and support expenses may increase, but we believe it is also difficult during periods of strong economic growth when excess revenue can lead to expansion of programs and services. Most state governments that do multi-year financial planning will almost always show out-year gaps regardless of the economic climate as scarce resources are balanced against virtually unlimited spending needs. Periods of imbalance are common for states but we believe that a track record of aligning recurring revenues and expenditures over time is an important element of fiscal performance.

Table 19 - As described in paragraph 60

Structural Budget Performance	
Score	
1	Surpluses are regularly recorded in periods of positive economic growth; surpluses are used to fund reserves and other non recurring items. In periods of economic decline, focus on addressing budget imbalance includes structural solutions (generally more than 50% of the gap) rather than all one time measures.
2	Balanced operating results are typically achieved during periods of positive economic growth; commitment to reserves and non-recurring program areas is not formalized and may not be consistent; in periods of decline, focus on budget balance may be more reliant on non-recurring measures (more than 50% of the gap) to restore balance.
3	Balanced operating results may be achieved in positive economic periods but there is limited commitment to reserves and non-recurring program areas (surpluses largely fund higher recurring spending). In periods of economic and revenue decline, focus on budget balance may be more reliant on non-recurring measures (more than 75% of the gap) to restore balance.
4	There is limited focus on structural budget balance; deficits are regularly carried forward into future fiscal years and reserves are not funded in periods of positive economic growth.

F. Debt And Liability Profile

61. The debt and liability profile is the fifth of the five major factors in our assessment of the indicative credit level. In particular, we review debt service expenditures and how they are prioritized versus funding of other long-term liabilities and operating costs for future tax streams and other revenue sources. We evaluate three key metrics which we score individually and weight equally: debt burden, pension liabilities, and other post employment benefits. For each metric there may be multiple indicators that we score separately and then average to develop the overall score for the metric.

1. Debt burden

62. Standard & Poor's debt ratio calculations for states aggregate all tax-supported debt, including GO bonds, appropriation obligations, and special-tax bonds such as sales, personal income, and gas tax bonds. In general, our tax-supported debt calculation do not include debt that is issued for true enterprises or is self-supported, such as toll revenue bonds if revenues are sufficient to cover debt service costs. (see "USPF Criteria: Debt Statement Analysis," published Aug. 22, 2006). Once we have determined a net direct tax supported debt figure, we calculate various ratios, as indicated in tables 20, 21, 22, 23, and 24.
63. We do not include grant anticipation revenue (GARVEE) bonds in state debt calculations if they are payable solely from dedicated federal revenues. We will also exclude bonds secured by tobacco settlement revenues from state debt calculations if they conform to our stress scenarios for rating such debt and are payable exclusively from settlement revenues. We exclude contingent obligations or moral obligation debt from the tax-supported debt calculation if there has been no state support required and we expect no need for support in the future see ("Moral Obligation Bonds," published June 27, 2006). There have not been a wide range of securitizations of assets or future revenues, but we will evaluate other structures to determine if they should be included as tax supported debt or a contingent liability. Similarly, as the use of public-private partnerships expands, we will evaluate the nature of a state's obligation under various long-term agreements to determine whether the obligation is considered part of a state's tax-supported debt burden or a contingent liability.
64. We examine a variety of ratios to measure debt burden. We score these individually and then average them to develop a score for debt burden. The indicators that we score include:
65. *Debt per capita (table 20)* Table 20 shows the scoring ranges for tax-supported debt per capita, based on the population that is served and pays for the debt.

Table 20 - As described in paragraph 65

Tax-Supported Debt Per Capita	
1	Below \$500 (Low)
2	\$500-\$2,000 (Moderate)
3	\$2,000-\$3,500 (Moderately high)
4	Above \$3,500 (High)

66. *Debt as a percentage of personal income (table 21)* We consider the ratio of debt to personal income to be relevant because we believe the capacity to pay is a critical factor in debt analysis.

Table 21 - As described in paragraph 66

Tax-Supported Debt/Personal Income	
1	Below 2% (Low)
2	2%-4% (Moderate)
3	4%-7% (Moderately high)
4	Above 7% (High)

67. *Debt service as a percentage of expenditures (table 22)* We believe the ratio of debt service to expenditures is an important indicator, as it indicates the level of inflexibility that debt places on the budget. The ratio of debt service to operating revenue and debt service to operating expenditures usually track closely, although distortions in the first ratio can occur if nonrecurring revenues are factored into state revenue bases.

Table 22 - As described in paragraph 67

Tax-Supported Debt Service As A % of General Government Spending	
1	Below 2% (Low)
2	2%-6% (Moderate)
3	6%-10% (Moderately high)
4	Above 10% (High)

68. *Debt to gross state product (table 23)* We use the ratio of debt to gross state product widely for sovereign and non-U.S. public finance and we believe it should allow enhanced comparability for government ratings.

Table 23 - As described in paragraph 68

Tax-Supported Debt As A % Of Gross State Product	
1	Below 2% (Low)
2	2%-4% (Moderate)
3	4%-7% (Moderately high)
4	Above 7% (High)

69. *Debt amortization (table 24)* Serial amortization is a common feature for government debt issuance in the U.S. We believe that debt service relative to the size of the budget is an important affordability measure but needs to be evaluated in the context of the overall debt amortization schedule. A low debt service carrying charge ratio could simply be a function of a very slow 30-year amortization, which we view differently from a 15-year schedule. We consider the benchmark of 50% of principal repaid in 10 years to be average. This indicator assumes serial debt amortization where rapid amortization can allow new debt to be issued without affecting debt burden measures.

Table 24 - As described in paragraph 69

Debt Amortization (10 year)	
1	80%-100% (Very Rapid)
2	60%-80% (Rapid)
3	40%-60% (Average)
4	Less than 40% (Slow)

2. Pension liabilities

70. We review state pension liabilities and trends related to funding progress. This analysis focuses on the principal state pension plans and includes changes in assets and liabilities, funded ratios, and unfunded actuarial accrued liabilities. Pension asset valuations can change, as can the actuarial liabilities. A state's commitment to funding the annual required contribution and how substantive and volatile these contributions are relative to the total budget are key credit considerations. We have historically not included pension liabilities in our calculation of tax supported debt ratios due to variation in how the liabilities are calculated. Specifically, under current accounting standards, there are a broad range of actuarial methods and assumptions allowed by the Governmental Accounting Standards Board (GASB) for governments in the U.S. and interest earnings assumptions differ by state. However, we have consistently analyzed and reported pension liabilities for states relative to population and personal income to allow a comparative framework for evaluating these liabilities relative to state tax supported debt. Our assessment of pension liabilities includes the following four indicators which are averaged to develop an overall score:

- Pension funded ratio (table 25),
- Pension funding levels (table 26),
- Unfunded pension liabilities per capita (table 27), and

- Unfunded pension liabilities relative to personal income (table 28).

We typically derive this information from audit reports as well as actuarial reports.

Table 25 - As described in paragraph 70

Pension Funded Ratio	
Strong (1)	90% or above
Above average (2)	80%-90%
Below average (3)	60%-80%
Weak (4)	60% or below

Table 26 - As described in paragraph 70

Pension Funding Levels	
Strong (1)	Consistently funds annual required contributions (ARC).
Above average (2)	Funds ARC in most years but occasionally contributes less.
Below average (3)	Has not funded ARC for 3 years.
Weak (4)	Has not funded ARC for more than 3 years.

Table 27 - As described in paragraph 70

Unfunded State Pension Liabilities Per Capita	
Strong (1)	Below \$500
Above average (2)	\$501-\$2,000
Below average (3)	\$2,001-\$3,500
Weak (4)	Above \$3,500

Table 28 - As described in paragraph 70

Ratio Of State Pension Liabilities To Personal Income	
Strong (1)	Below 2%
Above average (2)	2.1%-4%
Below average (3)	4.1%-7%
Weak (4)	Above 7%

3. Other post employment benefits (OPEB) risk assessment

71. Our analysis of OPEB liabilities is similar to that of pensions, although our overall assessment is a combined one as detailed in table 29. The legal and practical flexibility that a state has to adjust these liabilities and the overall strategy to manage the cost of these benefits will affect future contribution rates and budgetary requirements. All states are now reporting OPEB liabilities pursuant to GASB Statement 45. Currently, OPEB expenditures are funded generally on a pay-as-you-go basis. Under GASB Statement 45, liabilities attributable to OPEB and the annual required contribution for employers are actuarially determined and reported.

Table 29 - As described in paragraph 71

OPEB Risk Assessment	
Low (1)	Limited benefits provided or benefit consists of allowing some participation in the health plan (cost paid entirely by the retiree, implicit subsidy recorded), high level of discretion to change benefits, pay-go costs are not significantly different from the actuarial required contribution.
Moderate (2)	Moderate/average liability relative to other states, proactive management of the liability in our view, some flexibility to adjust benefit levels, contributions in excess of the annual pay-go amount have been made in order to accumulate assets to address the liability.

Table 29 - As described in paragraph 71

OPEB Risk Assessment (cont.)	
Elevated (3)	Above-average liability relative to other states, options to address the liability are being considered but plans are not well-developed in our view, there may be some flexibility to adjust benefits but changes have been limited.
High (4)	High liability relative to other states, high level of benefits that are viewed as inflexible based on statute/constitution/contract terms, a lack of management action to address the liability in our view which will lead to accelerating pay-go contributions.

APPENDIX

On May 11, 2010, Standard & Poor's published "Request for Comment: Methodology For U.S. State Ratings". We received several responses from market participants addressed to the criteria comments mailbox. The comments addressed a wide range of issues that extended beyond the questions asked in the RFC but in general there was a positive response to the enhanced transparency and greater clarity of the proposed criteria.

- On the first question regarding separating the GO criteria for U.S. states from the broader GO criteria, nearly all market participants agreed with this.
- On the second question, regarding whether the proposed rating factors and individual metrics focus on the key factors affecting state government, most market participants agreed that the information was useful in evaluating state creditworthiness. There was a range of opinions on the equal weighting of factors. There was also feedback that the security features of state debt and default history of the sector should be highlighted more significantly.
- On the third question regarding scoring each individual metric in order to establish an overall score for each factor and translating that score to an indicative credit level, there was some feedback that the scoring would allow for greater transparency. Other market participants expressed reservations about how the scores would be utilized.

There were other comments and observations on specific aspects of the methodology. We have analyzed each comment and have made some adjustments to the methodology. The main changes between the criteria presented in the Request For Comment and the final criteria as described in this article are the following:

- We have expanded the discussion of institutional framework (see "Standard & Poor's use of stress scenarios and calibration of state criteria") to highlight that the priority of payment, security features and the state sector's strong commitment to their legal obligation to pay debt are fundamental to our analysis of the state sector and contribute to its high credit profile.
- We have added additional clarity to the section "Overriding factors impacting state ratings."
- We have streamlined the metrics in the economic section and explained our approach to analyzing economic indicators for US states in a global context.
- We have adjusted the "reserve" section to better capture funding patterns as well as policy.
- We have changed the "future debt" metric as part of the Debt and Liability Profile score. We believe that forward looking measures are important to credit analysis and we will instead include this in the section "Overriding factors impacting state ratings" (see paragraph 16).
- In the area of pension liabilities, we added two additional measures, state pension liabilities per capita and state pension liabilities relative to personal income, to our assessment of this factor. We eliminated the three year average when assessing the funded ratio since nearly all state pension plans are subject to smoothing currently which phases in gains and losses over a multi year period.

GLOSSARY

Accelerated payment provisions. This term refers to an investor's ability to require early repayment of principal that is not scheduled based on certain events, with repayment required on a compressed timeframe, generally less than 180 days.

Bank bond exposure. Refers to bonds purchased by a bank following a failed remarketing (outlined under the terms of a letter of credit reimbursement agreement or a standby bond purchase agreement). The bonds typically have a significantly higher interest rate and a significantly shorter maturity schedule than the original bond.

Balanced budget. Many states have balanced budget requirements that require them to pass a budget that provides sufficient revenues to fund all expenditures at the time of passage.

Budget reserves. Excess financial resources accumulated either formally or informally to address budget balance or other requirements of a government.

Independent revenue estimating process. A forecast developed by a group of subject matter experts which can include economists, business leaders and practitioners based on knowledge of current economic conditions and the existing tax structure.

Contingent obligations. Includes explicit or implicit obligations that a state may incur under certain circumstances and that could affect its financial position if the state absorbs these obligations and is fully responsible for them. Contingent obligations are generally not recorded in the state's balance sheet and often are not disclosed as off-balance sheet liabilities.

Debt service. Principal and interest payable during the fiscal year.

Deficit. The result achieved when operating revenues and recurring transfers in are less than operating expenditures and recurring transfers out.

GAAP. Generally accepted accounting principles are the common set of accounting principles, standards, and procedures that most governments utilize. For local and state governments, GAAP is determined by the Governmental Accounting Standards Board (GASB).

Gross state product (GSP). A measurement of the economic output of a state. It is the value added in production by the labor and property located in a state. GSP for a state is the sum of the gross product originating in all industries in a state. GSP is considered the state counterpart of the nation's gross domestic product (GDP), the U.S. Bureau of Economic Analysis' featured measure of U.S. output.

Moral obligation debt. Moral obligation debt represents a commitment by a state to seek future appropriations for payment of debt service or replenishment of a debt service reserve fund should it fall below its required level.

Other post employment benefits (OPEB). Includes retiree health care, along with dental, vision, disability, long-term care, and life insurance benefits.

Revenue forecast. The forecast developed by a state that underlies its budget. This would be the expected revenue based on assumptions reflecting the conditions a state expects to exist and adjustments (authorized/proposed) to the rates/fees or the base they are levied on.

Self-supported. Debt is considered self-supported if it is funded by an enterprise operation without any subsidy or support from the state government.

Structural budget balance. Results from matching recurring operating revenues to recurring expenditures. In measuring structural budget balance we do not include nonrecurring intergovernmental transfers, proceeds from the sale of assets, and non-recurring capital expenditures.

Tax-supported debt. When calculating tax-supported obligations, we include GO bonds, appropriation obligations, and special-tax bonds such as sales, personal income, and gas tax bonds. We typically include debt secured by revenues or assessments and charges levied state wide. In general, our tax-supported debt calculation will not include debt that is issued for true enterprise or self-sustaining purposes, such as toll revenue bonds if revenues are sufficient to cover debt service costs (see "USPF Criteria: Debt Statement Analysis," Aug. 22, 2006). We do not include grant anticipation revenue (GARVEE) bonds in state debt calculations if they are payable solely from dedicated federal revenues. We will also exclude bonds secured by tobacco settlement revenues from state debt calculations if they conform to our stress scenarios for rating such debt and are payable exclusively from settlement revenues.

Related Criteria And Research

- Principles Of Corporate And Government Ratings, June 26, 2007
- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- Pension Funding And Policy Challenges Loom For U.S. States, July 8, 2010
- USPF Report Card: 2009 State Debt Review: Significant Challenges Lie Ahead, Dec. 16, 2009
- U.S. States' OPEB Liabilities And Funding Strategies Vary Widely , June 3, 2009
- Methodology For Rating International Local And Regional Governments, Sept. 20, 2010

These criteria represent the specific application of fundamental principles that define credit risk and ratings opinions. Their use is determined by issuer- or issue-specific attributes as well as Standard & Poor's Ratings Services' assessment of the credit and, if applicable, structural risks for a given issuer or issue rating. Methodology and assumptions may change from time to time as a result of market and economic conditions, issuer- or issue-specific factors, or new empirical evidence that would affect our credit judgment.

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