MOODY'S RATINGS

Public Finance Group

Financial Friday: Proposed New Special Tax Methodology April 2024

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Sector-Based Methodologies

Recap

US PFG has moved several government sectors into sector-based methodologies that rate certain debt instruments relative to the entity's issuer rating

- US K-12 Public Schools (January 2021)
- US States & Territories (March 2022)
- Cities & Counties (November 2022)

On January 16, Moody's published an RFC on a proposed update to the US Special Tax Methodology that would rate certain instruments relative to the entity's issuer rating

- This proposal reflects our view that the general economic, operational and financial profiles of the governments are a primary driver of credit strength or weakness for many special tax debt instruments

Issuer and debt instrument ratings

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Issuer Rating

Fundamental credit quality

Instrument Considerations

Evaluation of debt instrument characteristics

Debt Instrument Rating

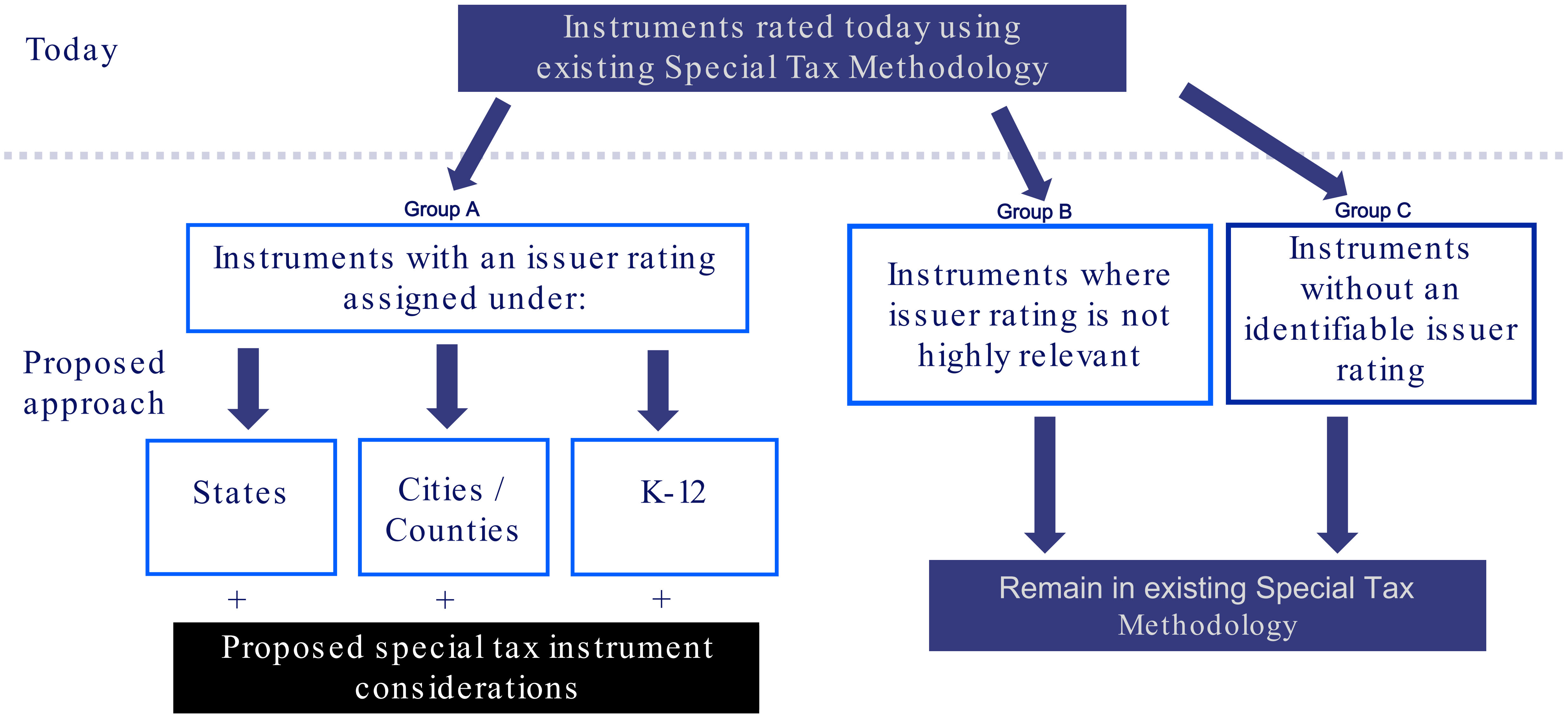
Placed relative to issuer rating

What is a special tax instrument?

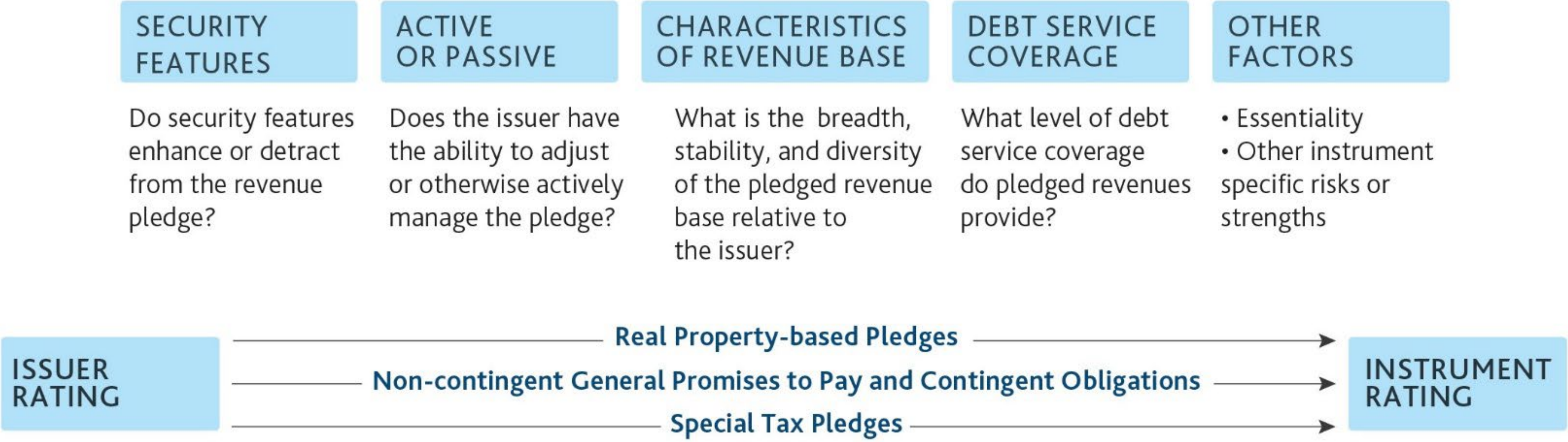
Pledge of special taxes, fees, assessments and similar revenues - other than real property taxes

Broad	Somewhat Broad	Narrow
» Sales and use tax » Income or payroll tax » Corporate gross receipts tax » Assessments on payrolls, insurance policies or other non-property bases » Allocations of broad taxes from higher levels of government	» Utility income or service tax » Gasoline tax » Restaurant food or beverage tax » Motor vehicle registration and similar surcharges or fees » Liquor tax » Lottery tax » Allocations of somewhat broad taxes from higher levels of government	» Hotel tax or fee » Cigarette tax » Gaming tax (other than lottery) » Extraction and production of natural resource tax » Real estate transaction tax » Parking tax » Motor vehicle rental tax » Court fines and fees » Allocations of narrow taxes from higher levels of government

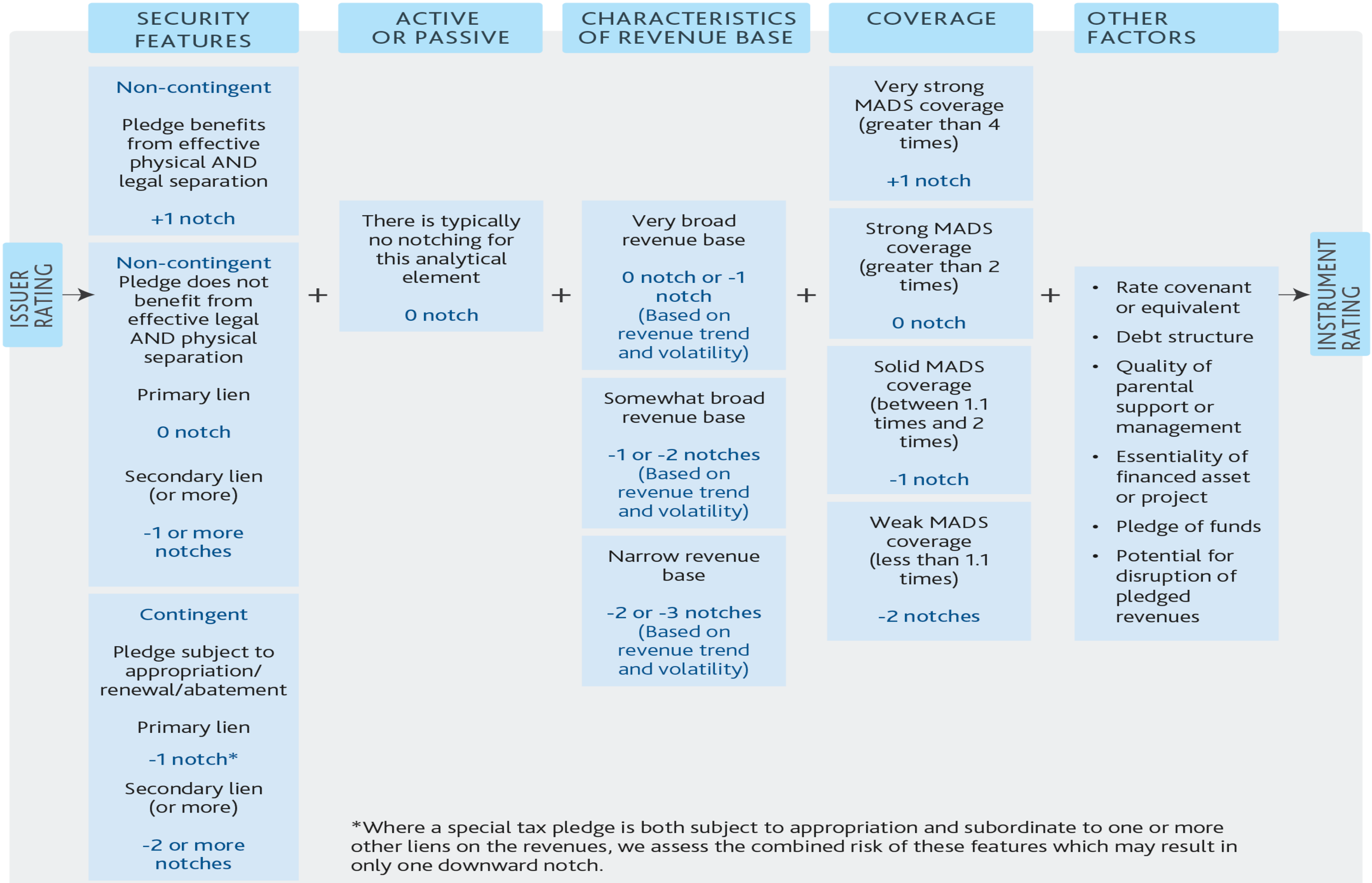
Proposed methodology placement for special tax credits



General approach for assigning instrument ratings



Special tax pledges: Illustrative notching



*Where a special tax pledge is both subject to appropriation and subordinate to one or more other liens on the revenues, we assess the combined risk of these features which may result in only one downward notch.

Identifying the issuer rating

Instrument has an issuer rating

Group A

- A government rated under the State, City & County or K-12 methodology* owns the revenue and either:
  - directly pledges the revenues to bondholders, or
  - assigns revenues to a related entity (i.e., conduit issuer or component unit) that is directly controlled by the government

Group B

- Credit profile of the government is not a highly relevant driver for the special tax instrument
  - Ex. geographic tax base is significantly smaller
- Special tax is assigned to a related entity (i.e. conduit issuer or component unit) that is independent or governed by multiple jurisdictions

Instrument lacks an issuer rating

Group C

- Obligated entity is not rated under the State, City & County or K-12 methodology
- Obligor is governed by multiple governments or special taxes are pledged by multiple governments
- Instruments issued by an entity that has meaningful operating risk that is not already captured in the Issuer Rating
  - Ex. special tax instruments issued by mass transits
- Obligor is a special purpose entity with independent authority to levy or collect pledged revenue

Proposed special tax instrument considerations (Group A)

Existing Special Tax Methodology (Groups B and C)

*Where there is no issuer rating, we would assign one using the relevant state or local government sector methodology.

Examples to be rated under new proposal

City Sales Tax Bonds

Pledge: Senior lien on 1% of the city's authorized sales tax levied on most retail activity across the entire city

Revenue detail: Tax is levied by the city

County Sales Tax Bonds

Pledge: Annual fixed allocation from the state of broad sales tax levied across the state

Revenue detail: Tax is levied by the state and allocated/remitted to the city as authorized by state statute

County Convention Center Bonds

Pledge: County's local and state-shared hotel taxes

Revenue detail: Local hotel taxes are levied by the county and state-shared hotel taxes are levied by the state and allocated/remitted to the city as authorized by state statute

Examples to be rated under existing Special Tax Methodology

Regional Transit Authority

Pledge: 1% *s*ales taxes collected throughout the city and county

Revenue detail: Tax is levied by the county, allocated to the transit system, and remitted directly to the trustee

Rationale: Independent transit board is appointed by multiple jurisdictions; operating risk of the transit system is not captured in the county issuer rating

Regional Convention Center Authority

Pledge: Sales and hotel taxes collected throughout the city and county

Revenue detail: Tax is levied by the city and the county and assigned to the trustee through the conduit issuer

Rationale: The taxes are levied by multiple jurisdictions and therefore one issuer rating from which the instrument rating would be notched cannot be determined

City Center Mall Project

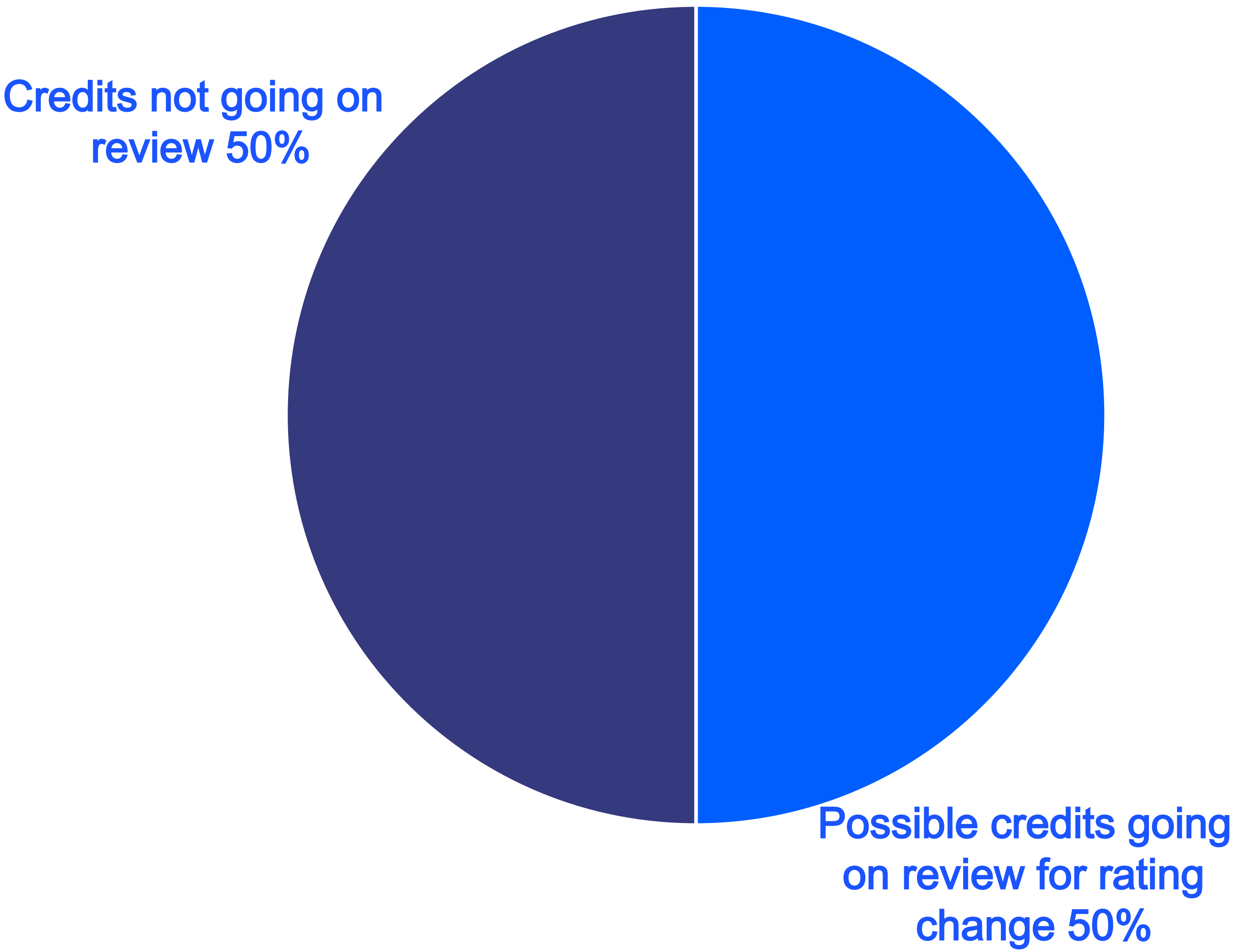
Pledge: Sales taxes levied only at one specific mall, not city-wide

Revenue detail: Tax is levied by the state and remitted to the city monthly

Rationale: The taxes are levied on a geographic area significantly more narrow than the obligor’s overall economic base

Possible ratings impact if methodologies updated as proposed:

- Approximately 50% of credits in the existing special tax methodology would be placed on review for possible upgrade or downgrade
- Most would go on review for possible upgrade, and we expect most rating changes would be by one notch



Methodology development process

1. Develop methodology proposal
2. Publish Request for Comment
3. Receive market feedback
4. Consider comments
5. Publish final methodology

Questions and Answers

Thank you

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Thank You

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