



Seifried & Brew, LLC (“S&B”) Due Diligence Model & Priority Rating Methodology

S&B’s Municipal Bond Ratings assess the underlying credit risk of a municipality. S&B features two rating and report types as distinguished by its two separate analytical models: the Standard Municipal Bond Ratings and Priority Municipal Bond Ratings. The methodology presented here focuses on Priority S&B ratings which evaluate financial data available electronically through Bloomberg Financial using the S&B Due Diligence Model. S&B offers two separate Priority reports: the Priority Investment Grade Report and the Priority Due Diligence Report. These reports are commonly used for pre-purchase analysis.

The S&B Due Diligence Model

The S&B Due Diligence Model analyzes two basic categories of Bonds: General Obligation Bonds and Revenue Bonds. The S&B Municipal Bond Due Diligence Model scores up to 24 financial indicators for General Obligation Bonds and up to 13 financial indicators for Revenue Bonds, depending upon the availability of financial information through the data provider. Financial indicators are typically calculated using three years of financial data and include year over year changes and financial ratios (see Appendix B). The model scores on a benchmark system, whereby each calculated indicator is scored against a specific benchmark, thereby generating a subscore.

The subscores are weighted, added together, and divided by total possible points to generate the overall numeric score. The overall numeric score determines the S&B rating according to the following scales:

| | | | | |
|---------------------------|--------------|--------------|--------------|--------------|
| GENERAL OBLIGATION | S&B 1 >0.775 | S&B 2 >0.600 | S&B 3 >0.400 | S&B 4 <0.325 |
| REVENUE | S&B 1 >0.700 | S&B 2 >0.450 | S&B 3 >0.250 | S&B 4 <0.250 |

For definitions of each rating level, please review Appendix A.

County Economic Profile

Key economic and demographic data for the County is generated within the Model. That data is converted into the following five-level performance scale: Strong, Above Average, Average, Below Average, Poor. County performance is compared to other Counties in the State and to the Nation as a whole. State performance level is compared to other States in the Nation and to National levels overall. The overall performance level is calculated on a relative basis. The County Economic Score does not factor into the Model score but is available for consideration. S&B uses various government data sources to generate the economic profile.

APPENDIX A: S&B Rating Scale

INVESTMENT GRADE REPORT RATING SCALE

The "**Pass**" designation indicates financial strength and that S&B believes there is minimal risk regarding the municipality's ability to pay principal and interest as expected.

The "**Watch**" designation indicates a municipality that has shown negative trends in financial management. Although S&B believes this municipality will pay principal and interest as expected, the credit should be monitored closely for any further deterioration.

The Pass and Watch designation are considered "investment grade".

The "**Substandard**" designation indicates a municipality with significant financial issues that could impact its ability to pay principal and interest as expected. The municipality would be considered impaired and would be classified for Other Than Temporarily Impaired (OTTI).

The "**Doubtful**" designation indicates a municipality with significant financial issues that is in violation of one of the covenants under the bond indenture. The municipality would be considered impaired and would be classified for Other Than Temporarily Impaired (OTTI).

The "**Loss**" designation indicates a municipality which has defaulted on its financial obligations. The municipality would be considered impaired and would be classified for Other Than Temporarily Impaired (OTTI).

The Substandard, Doubtful, and Loss designations are considered "non-investment grade".

DUE DILIGENCE REPORT RATING SCALE

THE RATING OF AN **S&B 1** INDICATES FINANCIAL STRENGTH and that S&B believes there is minimal risk regarding the municipality's ability to pay principal and interest as expected on its debt.

AN **S&B 2** RATING REVEALS SOME DECREASE IN FINANCIAL STRENGTH, but S&B believes there would still be minimal risk regarding the municipality's ability to pay principal and interest.

AN **S&B 3** RATING INDICATES A MUNICIPALITY THAT HAS SHOWN NEGATIVE TRENDS IN FINANCIAL MANAGEMENT. Although S&B believes this type of municipality will likely pay principal and interest as expected, the credit should be monitored closely for any further deterioration.

An S&B 1, S&B 2, and S&B 3 is considered "investment grade".

AN **S&B 4** RATING INDICATES A MUNICIPALITY WITH SIGNIFICANT FINANCIAL ISSUES THAT COULD IMPACT ITS ABILITY TO PAY PRINCIPAL AND INTEREST AS EXPECTED. While a municipal issue with an S&B 1, 2, or 3 rating would not be considered impaired for credit issues, an S&B 4 rating would be considered impaired and would be classified for "Other Than Temporarily Impaired (OTTI)".

An S&B 4 is considered "non-investment grade". From a classification perspective, an S&B 4 is considered a "Doubtful" or "Loss" credit.

Appendix B: Financial indicators used in the S&B Due Diligence Model, sorted by rating type and financial statement table.

GENERAL OBLIGATION BONDS

GENERAL FUND

Change in Revenues and Operating Surplus
Revenue Growth to Expenditure Growth
General Fund Balance to Expenditures
Unassigned General Fund
Change in General Fund Balance
Change in Property Tax Revenue
Change in Cash
Days Cash on Hand

GOVERNMENTAL FUNDS

Change in Property Tax Revenue
Change in Grant Funding
Change in Total Revenues
Debt Service to Total Revenues

GOVERNMENT WIDE

Net Profit Margin
Unrestricted Net Position to Expenses
Debt to Assets
Change in Unrestricted Net Position
Current Ratio
Quick Ratio
Interest Expense to Total Expense
Net Position to Expenses
Change in Cash
Change in Property Tax Revenue

REVENUE BONDS

Debt to Assets
Change in Revenues
Revenue Growth Compared to Expense Growth
Change in Operating Income
Net Profit Margin
Change in Cash and Unrestricted Cash
Days Cash on Hand
Current Ratio
Quick Ratio
Debt Service Coverage Ratio
Change in Unrestricted Net Position
Unrestricted Net Position to Expenses
Net Position to Expenses