

# US Public Finance Special Tax: Proposed Methodology Update

February 2024



Schedule & Materials

<https://live.moodys.io/us-public-finance-in-focus-channel>



Sign-up Once

Get regular updates on the US Public Finance in Focus program



Live Q&A

Engage with the analysts and get your questions answered

# Moderator



**Geordie Thompson**  
Sr. Vice President  
US Public Finance  
Moody's Investors Service

# Speakers



**Valentina Gomez**  
Vice President – Sr. Analyst  
US Public Finance  
Moody's Investors Service



**Baye Larsen**  
Vice President – Sr. Credit Officer  
US Public Finance  
Moody's Investors Service



**Lori Trevino**  
Assistant Vice President - Analyst  
US Public Finance  
Moody's Investors Service

# 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 (Jan 2021)
  - US States & Territories (March 2022)
  - Cities & Counties (Nov. 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
  - The 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



**Issuer Rating**

Fundamental credit quality

+



**Instrument Considerations**

Evaluation of debt instrument characteristics

=



**Debt Instrument Rating**

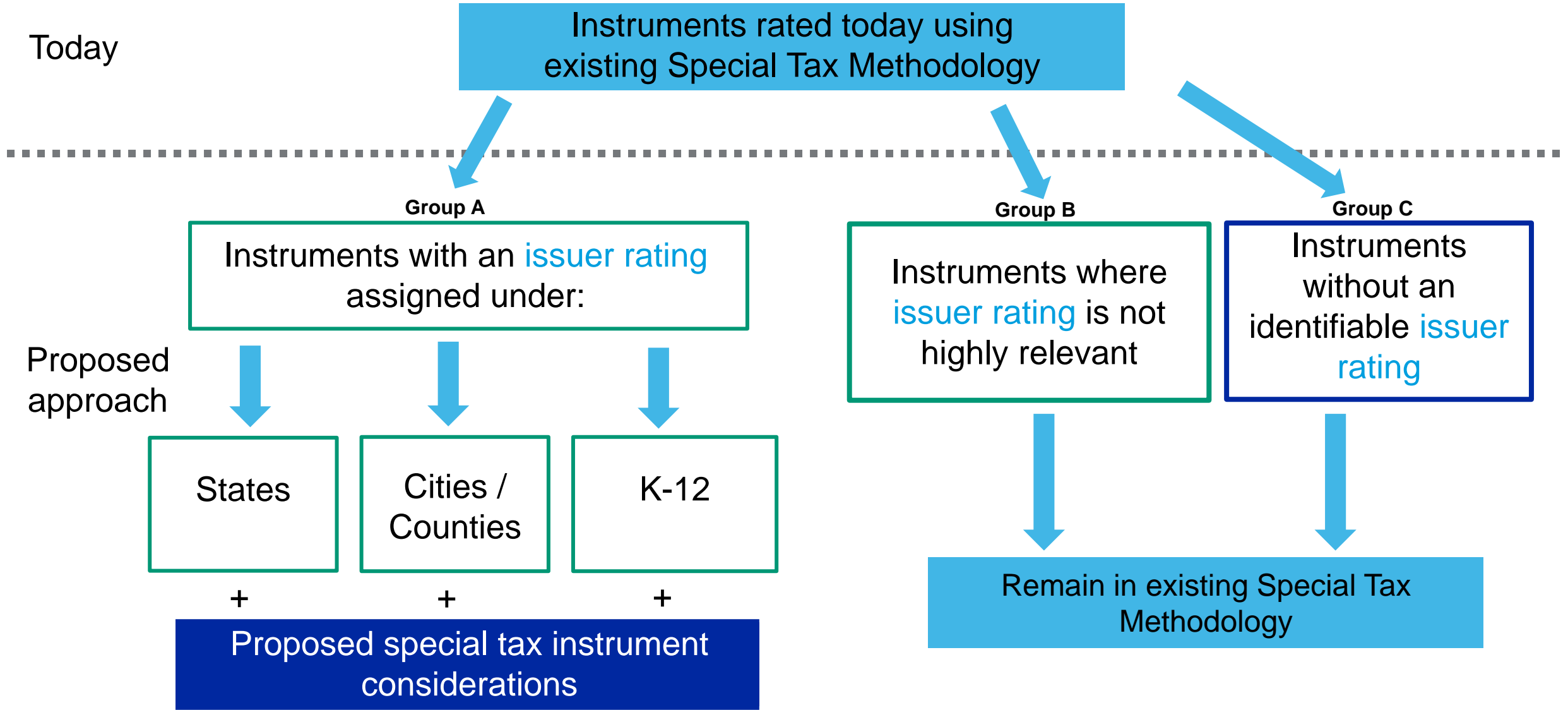
Placed relative to issuer rating

# What is a special tax instrument?

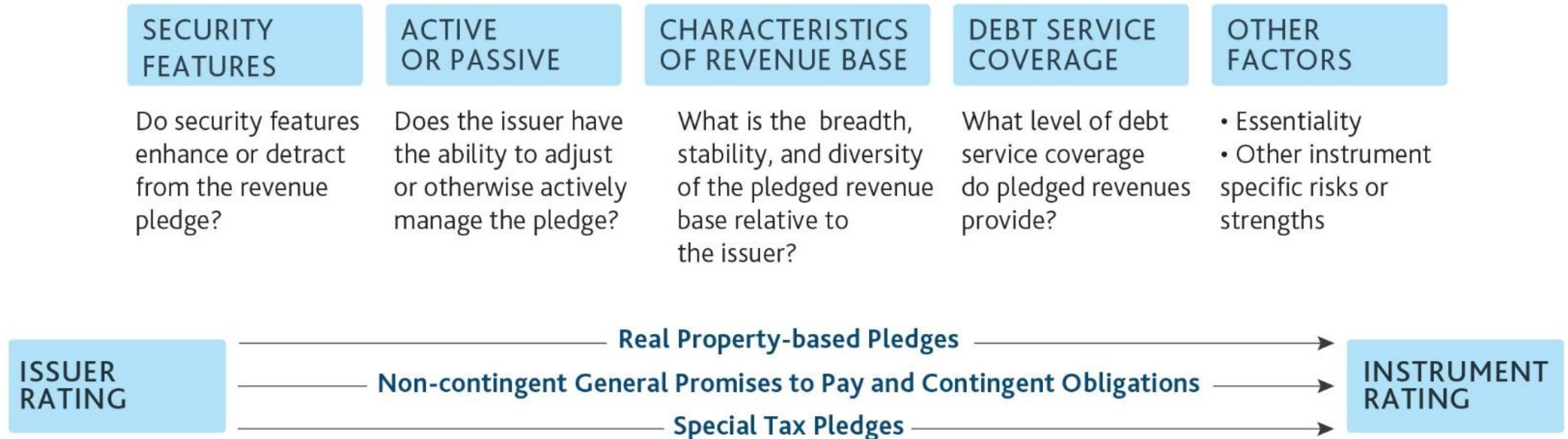
Pledge of special taxes, fees, assessments and similar revenues - other than real property taxes

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

# Proposed methodology placement for special tax credits

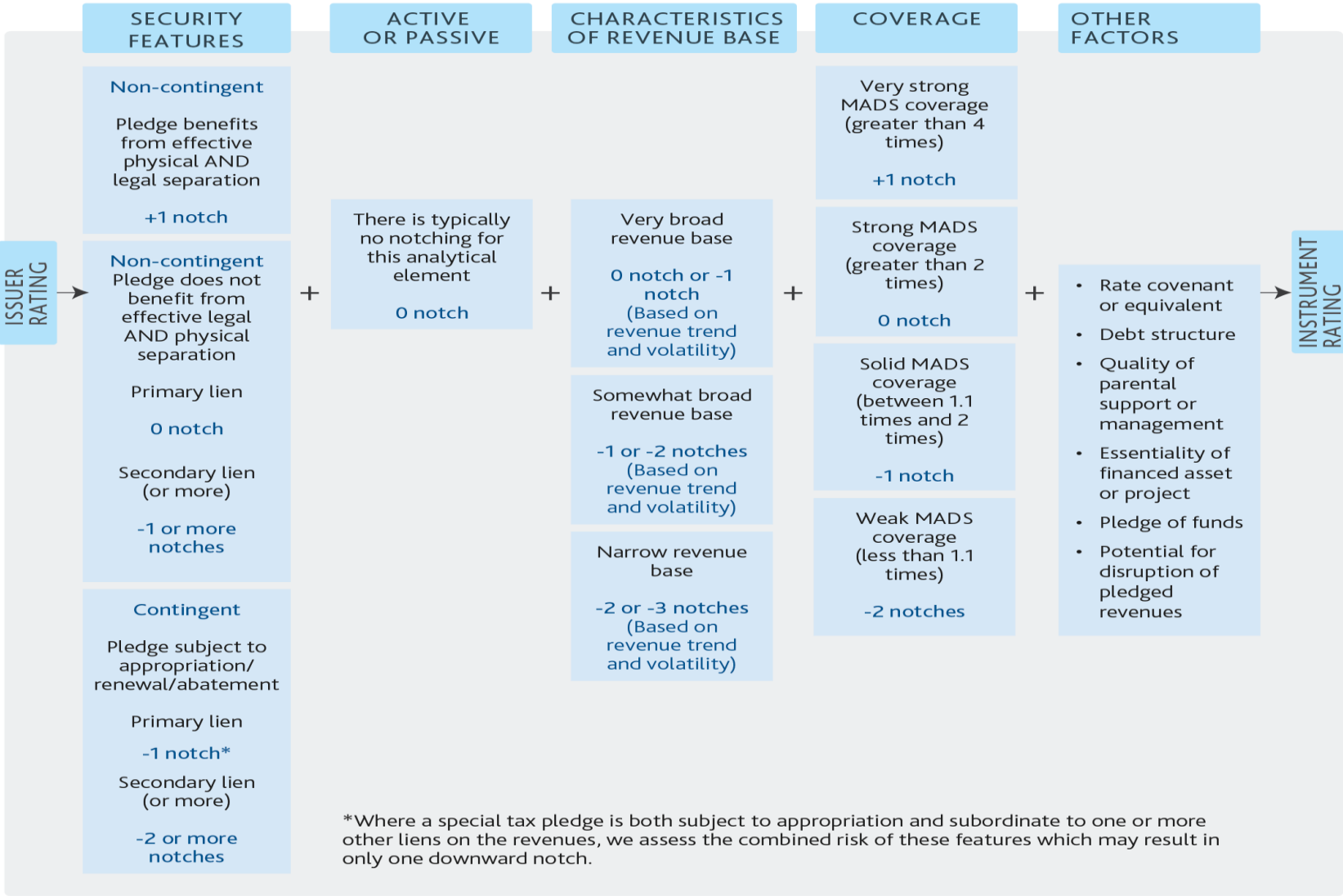


# General approach for assigning instrument ratings





# Special tax pledges: Illustrative notching



# Identifying the issuer rating

Instrument has an issuer rating		Instrument lacks an issuer rating
Group A	Group B	Group C
<ul style="list-style-type: none"> <li>» A government rated under the State, City &amp; County or K-12 methodology* owns the revenue and either:               <ul style="list-style-type: none"> <li>– directly pledges the revenues to bondholders, or</li> <li>– assigns revenues to a related entity (i.e., conduit issuer or component unit) that is directly controlled by the government</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>» Credit profile of the government is not a highly relevant driver for the special tax instrument               <ul style="list-style-type: none"> <li>– Ex. geographic tax base is significantly smaller</li> </ul> </li> <li>» Special tax is assigned to a related entity (i.e. conduit issuer or component unit) that is independent or governed by multiple jurisdictions</li> </ul>	<ul style="list-style-type: none"> <li>» Obligated entity is not rated under the State, City &amp; County or K-12 methodology</li> <li>» Obligor is governed by multiple governments or special taxes are pledged by multiple governments</li> <li>» Instruments issued by an entity that has meaningful operating risk that is not already captured in the Issuer Rating               <ul style="list-style-type: none"> <li>– Ex. special tax instruments issued by mass transits</li> </ul> </li> <li>» Obligor is a special purpose entity with independent authority to levy or collect pledged revenue</li> </ul>
<p style="text-align: center;"><b>Proposed special tax instrument considerations</b></p>		<p style="text-align: center;"><b>Existing Special Tax Methodology</b></p>

\*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% sales 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

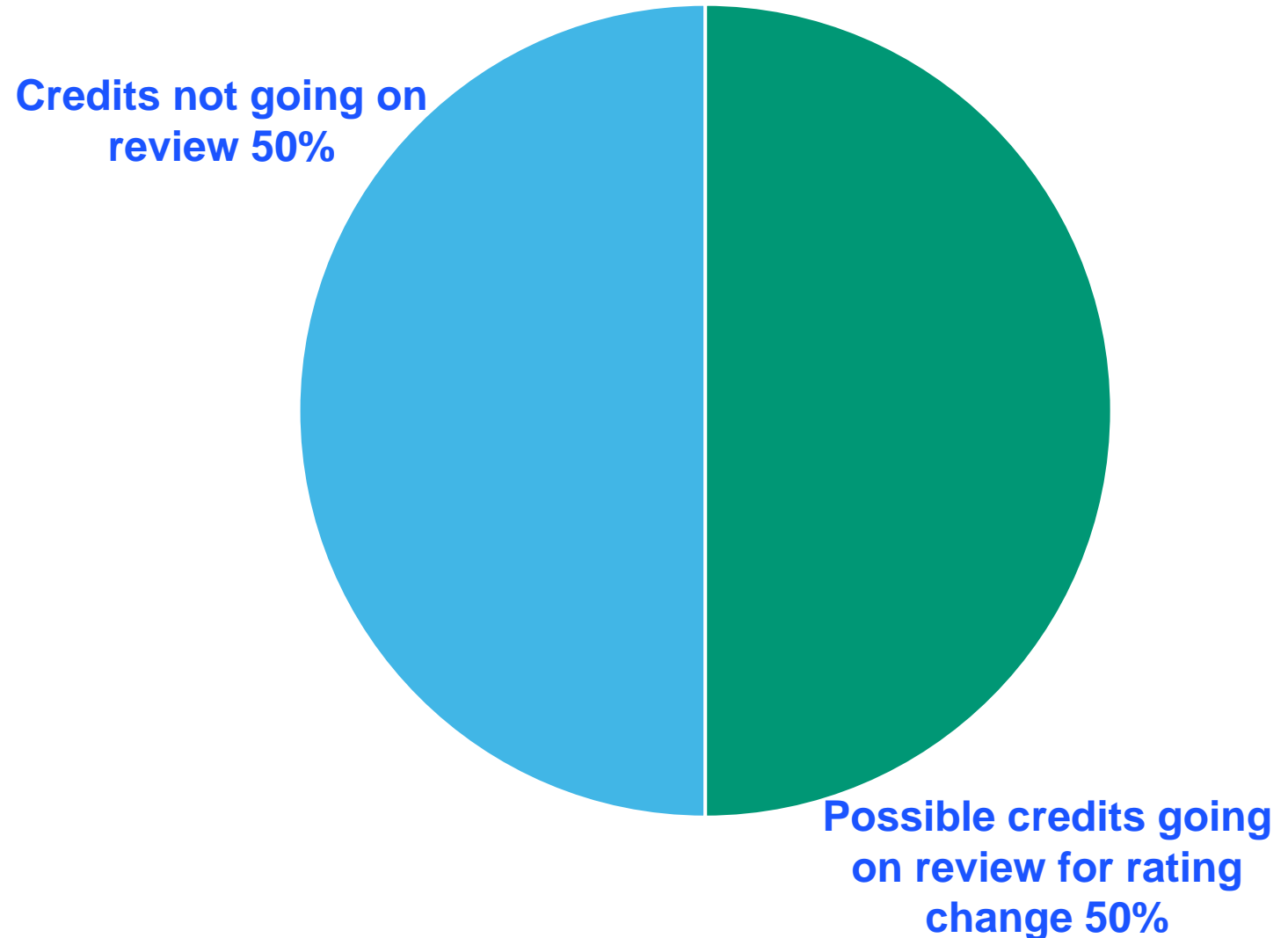
*Pledge:* Sales taxes levied only at one specific mall, not city-wide

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

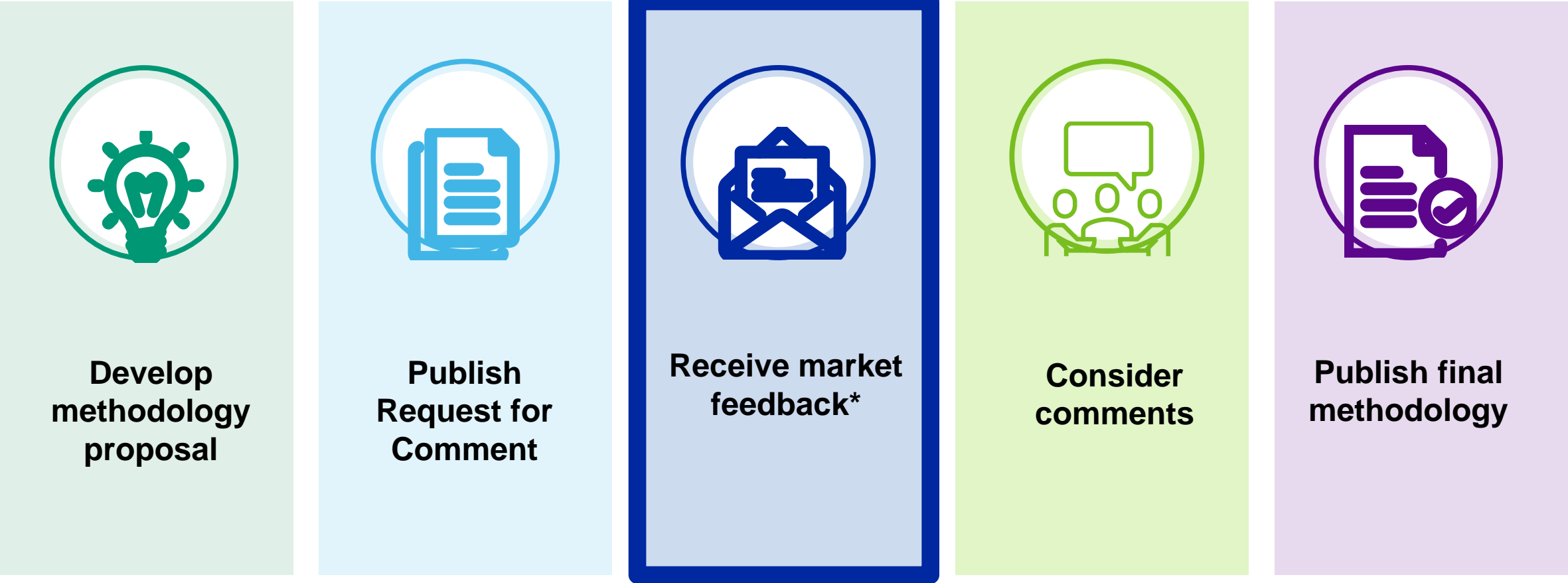
*Rationale:* The taxes are levied on a geographic area significantly more narrow than the obligor's overall economic base

# 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



\*Comments accepted *only* via the RFC link by **March 18, 2024**.

# Questions and Answers

# We Want to Hear From You!

Please complete our survey

A survey will appear on your screen at the end of our presentation. Please take a few moments to complete it and let us know how we can continue to improve.



Valentina Gomez  
(212) 553-4861  
Valentina.Gomez@moodys.com

Baye Larsen  
(212) 553-0818  
Baye.Larsen@moodys.com

Julie Beglin  
(212) 553-4648  
Julie.Beglin@moodys.com

Lori Trevino  
(415) 274-1757  
Lori.Trevino@moodys.com

Naomi Richman  
(212) 553-0014  
Naomi.Richman@moodys.com

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moodys.com](http://www.moodys.com) for the most updated credit rating action information and rating history.

© 2022 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

**CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.**

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moodys.com](http://www.moodys.com) under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.