Article Title: Criteria | Governments | U.S. Public Finance: Bond Anticipation Note Rating Methodology Data: (EDITOR'S NOTE: —On Sept. 21, 2022, we republished this criteria article to correct a publication error. See the "Revisions And Updates" section for details.) 1. The criteria article describes S&P; Global Ratings' methodology for rating bond anticipation notes (BANs). We are publishing this article to help market participants better understand our approach to reviewing bond anticipation notes. This article is related to the criteria article "Principles Of Credit Ratings," published on Feb. 16, 2011. 2. BANs are a type of debt generally structured to rely primarily on the proceeds of future bond or note sales for repayment of the BANs at maturity. Market access is integral to the credit quality of BANs given the central role an obligor's ability to sell debt in the capital markets plays in its ability to repay BANs. Periodic disruptions in the capital markets including episodes of illiquidity in some short-term debt markets could frustrate refinancing. 3. Reflecting the potential unpredictability of shifts in market preferences, the revised criteria do not presume that obligors will always have market access to issue takeout debt at the time of BAN maturity. SCOPE OF THE CRITERIA 4. These criteria are applicable to all BANs issued by U.S. public finance obligors including cities, school districts, states, airports, hospitals, universities, and various other state and local government and municipal enterprise entities. An S&P; Global Ratings U.S. municipal note rating reflects S&P; Global Ratings' opinion about the liquidity factors and market access risks unique to the notes. Issues with maturities of more than 36 months will generally receive long-term ratings. Notes due in three years or less will likely receive a note rating. Upon request, BAN issues with maturities of 13 to 36 months may receive a long-term rating if a repayment source other than future issuance is pledged and if we project that the obligor is likely to have funds on hand (other than those derived from the issuance of takeout debt) to retire the obligation at maturity. The BANs will have either a long-term rating or a note rating but will not be assigned both types. In determining which type of rating, if any, to assign, S&P; Global Ratings' analysis will review the following considerations (see box, "Application Of Municipal Short-Term Note Ratings Definitions"). 5. BANs may be backed by a specific pledge of revenue, a general obligation pledge, or a best-efforts pledge to issue debt in the future and to use the proceeds to retire the BANs. Regardless of the specific security pledged, the rating criteria presented in this article are applicable to obligations in which the retirement in part depends upon the obligor issuing its planned takeout debt prior to the BAN reaching maturity. In the somewhat uncommon instance where a BAN structure includes interest payments prior to maturity, such payments are typically inconsequential relative to the payment of principal and interest due at final maturity. If material payments are due prior to the final BAN maturity, the BAN rating criteria incorporate the relevant elements of the general obligation or short-term debt (for cash flow notes) criteria as appropriate. SUMMARY OF CRITERIA 6. BANs are debt instruments that provide a source of interim financing, usually for capital projects. BAN debt service is commonly structured with a bullet maturity and is typically repaid with the proceeds of a new bond or note issue. Under the revised criteria, S&P; Global Ratings rates BANs based on a combination of the obligor's long-term rating on the type of debt intended to be used to retire the BANs and an analysis of the market risk profile of the obligor. In assigning BAN ratings, market risk is scored 'low', 'neutral', or 'high' based on our evaluation of the legal authority for takeout debt and the degree of information availability. Whether the BAN is secured by specific proceeds (other than future proceeds) and whether the obligor has a high concentration of variable rate debt exposure can improve (in the case of a specific pledge) or worsen (in the case of high variable rate debt exposure) the resulting rating relative to that implied by the other fundamental factors, as set forth in our criteria. Table 1 details how specific note ratings result from specific combinations of our assessment of the long-term credit quality of the takeout financing and the market risk profile. 7. This paragraph has been deleted. 8. This paragraph has been deleted. 9. This paragraph has been deleted. 10. This paragraph has been deleted. METHODOLOGY 11. S&P; Global Ratings rates bond anticipation notes (BANs) of governmental entities (including governments and municipal enterprises) and nonprofit organizations (including colleges, universities, and hospitals). 12. BANs are debt instruments that provide a source of interim financing, usually for capital projects. BAN debt service is commonly structured with a bullet maturity and is typically repaid with the proceeds of a new bond or note issue. In addition to the obligor's long-term rating on the type of debt legally authorized to finance the takeout of the BANs, the rating criteria for BANs reflects the security pledged to repay the notes, and the obligor's projected ability to issue the takeout debt. The analytic emphasis rests more heavily on an obligor's long-term credit quality and on the projected ability of the obligor to issue the takeout financing. BAN rating criteria recognize that the long-term rating reflects much, but not all, of the potential credit risk of a note dependent on future market access for timely retirement. Historically, there have been instances in which obligors unable to make their BAN payments as they came due continued to pay similarly secured long-term debt. Obligors expected to have the ability to consistently fund the repayment of existing debt as it matures from the proceeds of newly issued debt are viewed as having market access. 13. Not all issuers with the same long-term rating enjoy the same market access. It is possible for debt of an obligor with which the market is very familiar to benefit from greater market liquidity and easier market access than that of a relatively unknown obligor with a higher long-term rating. Obligors whose ability to sell debt that is highly sensitive to investor confidence risk losing market access—which could jeopardize BAN retirement if a loss of confidence occurred prior to BAN maturity. This concept is the market risk associated with a particular obligor and its BAN issue(s). I. Overall Framework for BAN Analysis 14. The criteria result in BAN ratings based on a combination of the obligor's long-term rating on the type of debt legally authorized to be used to retire the BANs and an analysis of the market risk profile of the obligor. Market risk may be 'low', 'neutral', or 'high' based on the evaluation of the legal authority for takeout debt and the information availability for a given obligor. Table 1 details how specific note ratings result from specific combinations of the assessment of the long-term credit quality of the takeout financing and the market risk profile. 15. The BAN rating derived from the long-term rating on the takeout debt and the market risk profile may differ from the BAN rating assigned for several reasons (see overriding factors in table 1). For obligors at any long-term rating level, an 'SP-3' rating is assigned if the obligor lacks clear legal authority to issue the debt retiring the BANs or if the security for this debt is not legally specified. If additional tax base or revenue growth will be necessary for the obligor to issue the takeout debt and the obligor lacks tax- or rate-raising flexibility, an 'SP-3' rating will be assigned. 16. Although obligors with long-term ratings of 'AAA' and 'AA+' generally have market access and credit profiles consistent with the 'SP-1+' note rating, the converse also applies. Obligors incurring substantial remarketing risk should also expect this risk to be evaluated as part of the analysis on the long-term rating. II. The Long-Term Rating Component 17. The long-term rating on an obligor's intended takeout debt serves as the starting point for our short-term analysis. Even if the BANs themselves have a security different from that assigned to the takeout debt, the long-term rating applied in Table 1 is the rating associated with the security on the legally authorized takeout debt. For example, if the BANs are secured by a junior lien on the net revenues of a municipal water utility, but the utility has committed to retire the BANs with senior lien bonds, the long-term rating on the utility's senior lien debt drives the evaluation. Similarly, if a school district's BANs are not secured by a state credit enhancement program but the takeout bonds will be so secured, the long-term rating will typically reflect the rating associated with the state credit enhancement program. S&P; Global Ratings will assign a BAN rating only when there is a long-term rating on the type of debt intended to serve as the takeout financing. III. The Market Risk Profile 18. As stated in paragraph 15, an obligor's market risk profile may be 'low', 'neutral', or 'high.' Two factors form the starting point for the market risk profile: legal authority for takeout debt and information availability. Each is scored individually as 'strong', 'adequate', or 'weak'. Table 2 shows how assessments of these factors lead to different market risk profile outcomes. 19. As Table 2 also details, certain other factors may positively or negatively impact the market risk profile score over and above that implied by the scores for legal authority for takeout debt and information availability. The market risk profile score will improve by one if the BANs are backed by a governmental entity's pledge of its general obligation or all of its operating revenues (either net or gross). The market risk profile score will worsen by one if the rating on the debt intended to retire the BANs is 'AA-', 'A-', or 'BBB-' and is on CreditWatch with negative implications or has a negative outlook. Finally, the market risk profile score will worsen by one if the obligor's debt position presents a high level of exposure to confidence-sensitive debt. 20. High market confidence exposure exists when more than 50% of the obligor's total debt portfolio is subject to optional tender or relies on remarketing proceeds within 30 days of proposed BAN maturity. The market risk profile score will not worsen in situations in which the obligor has only one outstanding debt issue to lessen the likelihood of penalizing lowly leveraged credits. 21. For municipal enterprise obligors, the calculation includes any debt backed by the same revenue stream that the obligor intends to leverage as the source of repayment for the takeout bonds. Senior and subordinate debt regardless of the lien pledged to retire the BANs is included, as is any tax-secured debt issued by the enterprise for which the enterprise is the obligor. IV. Analysis Of Market Risk Profile Factors A. Legal authority for takeout debt 22. Legal authority for takeout debt is scored as weak, adequate, or strong. The governing board's legal representation (in its BAN resolution or other legal documentation) is the primary source of information regarding an obligor's plans to issue takeout debt. Because the specific provisions associated with leases and other debt subject to annual appropriation can vary considerably (potentially resulting in non-investment grade takeout financings), prior issuance of appropriation debt and the availability of legal documents for review improve clarity regarding the specific nature of the appropriation takeout and also affect our score when appropriation debt is the intended takeout. 23. 'Weak', 'adequate', and 'strong' legal authority are generally characterized as follows: 24. 'Weak':Legal authority is scored 'weak' if obligors require improved fundamental credit factors (i.e., tax base or revenue growth) in order to comply with a debt limitation threshold or additional bonds test (ABT). Any circumstance in which additional voter approval is required is scored as 'weak'. Instances in which the takeout debt is subject to annual appropriation, the issuer has not previously issued such debt and no draft lease or similar agreement is available are also scored as 'weak'. 25. 'Adequate': Legal authority is scored 'adequate' if such authority is present with no need for voter authorization but the practical ability to issue takeout debt is conditional on other factors (e.g., compliance with debt limitation threshold or additional bonds test). If additional administrative or legal preconditions need to be met prior to issuance of takeout debt, contingency plans such as the ability to issue rollover BANs should exist. 'Adequate' includes instances in which the takeout debt is subject to annual appropriation and the issuer has either previously issued such debt or has a draft lease or similar agreement available for review, but not both. 26. 'Strong':Legal authority to issue takeout debt is scored 'strong' if such authority exists with no material preconditions, and the risk of other limitations on the obligor's ability to incur the takeout debt are remote. Authority to issue takeout debt will be scored 'strong' even if there is a legal requirement of formal approval by the governing body at the time of issuance, provided this action is deemed routine. Obligors whose debt issuance authority is subject to an ABT, but have operating metrics indicating that the ABT is unlikely to present a practical limitation may also receive a score of 'strong'. For instances where the takeout debt is subject to annual appropriation, the legal authority is considered 'strong' if the issuer has previously issued such debt and has a draft lease or similar agreement available for review. B. Information availability 27. Empirical research suggests that municipal market inefficiencies result in part from information asymmetries and a lack of transparency. Additional information allows investors to make informed decisions and may influence their behavior, particularly in constrained market environments. In addition to credit ratings, ongoing disclosure and recent market issuance are two ways that investors gain additional information on issuers. Accordingly, the information availability score considers whether the obligor has issued debt during the past five years and whether the obligor regularly provides ongoing disclosure to the market (either through 15c2-12 filings, other similar filings, or through a public website). For the purposes of debt issuance, LOC debt is excluded. 'Weak' information availability exists when neither the issuance or disclosure tests are met, 'adequate' information availability exists when only one of the two tests are met, and 'strong' information availability exists when both of the tests are met. 28. This paragraph has been deleted. 29. This paragraph has been deleted. 30. This paragraph has been deleted. 31. This paragraph has been deleted. 32. This paragraph has been deleted. REVISIONS AND UPDATES This article was originally published on Aug. 31, 2011. These criteria became effective on Aug. 31, 2011. Changes introduced after original publication: Following our periodic review completed on Aug. 11, 2016, we updated the contact information, updated the "Related Criteria And Research" list, clarified the text in paragraph 4, and deleted outdated sections that appeared in paragraphs 7-10 and 28-32, which were related to the initial publication of our criteria and no longer relevant. Following our periodic review completed on Aug. 4, 2017, we deleted an outdated reference in paragraph 1, clarified language in paragraphs 4 and 15, and deleted commentary in paragraph 16. We also updated a criteria reference in the "Related Criteria And Research" section. On Sept. 24, 2019, we republished this criteria article to make nonmaterial changes to the contact information. On Sept. 1, 2021, we republished this criteria article to make nonmaterial changes to the contact information. On Jan. 28, 2022, we republished this criteria article to make nonmaterial changes to increase transparency by clarifying in paragraphs 12, 14, and 17 the legal authorization to finance the takeout of the BANs. We also removed related research references that were no longer relevant. On Sept. 21, 2022, we republished this criteria article to correct a publishing error. We deleted the footnote of table 2 because the language was unclear and the substance was duplicative with paragraph 19. RELATED CRITERIA AND RESEARCH Related Criteria Methodology And Assumptions For Analyzing Letter Of Credit-Supported Debt, Feb. 20, 2015 Short-Term Debt, June 15, 2007 Commercial Paper, VRDO, And Self-Liquidity, July 3, 2007 Principles Of Credit Ratings, Feb. 16, 2011