



Credit Assessment

Prepared for

Central Virginia Transportation Authority

Finance Committee

November 15, 2023

PFM Financial
Advisors LLC

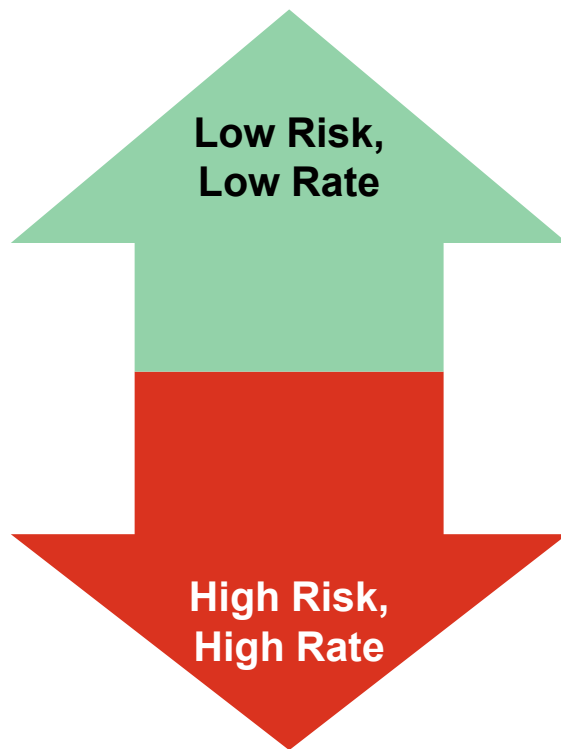
4350 N Fairfax Dr.
Suite 590
Arlington, VA 22203

www.pfm.com



What is a Credit Rating?

- Assigned by Moody's, Standard & Poor's and/or Fitch
- Reflects the risk of default based on quantitative & qualitative factors
- Drives the interest rate on the bonds



Rating Categories

	Moody's	S&P	Fitch
Investment Grade	Aaa	AAA	AAA
	Aa	AA	AA
	A	A	A
	Baa	BBB	BBB
Non-Investment Grade	Ba	BB	BB
	B	B	B
	Caa	CCC	CCC
	Ca	CC	CC
	C	C	C



What are rating modifiers, outlooks, and watches?

- Each category (except triple-A) has three “notches”
- Moody’s modifies with 1, 2, & 3
- S&P and Fitch modify with plus (+) and minus (-) signs
- Outlook reflects agency expectations for rating direction (up or down) over next several years
- Watch reflects expectations over next several months

Moody’s		S&P/Fitch	
Aaa	Aaa	AAA	AAA
	Aa1		AA+
Aa	Aa2	AA	AA
	Aa3		AA-
	A1		A+
A	A2	A	A
	A3		A-
	Baa1		BBB+
Baa	Baa2	BBB	BBB
	Baa3		BBB-



Targeted Senior Bond Ratings for CVTA

Moody's	S&P	Fitch
Aaa	AAA	AAA
Aa1	AA+	AA+
Aa2	AA	AA
Aa3	AA-	AA-
A1	A+	A+
A2	A	A
A3	A-	A-

} "Double-A" Category



Credit Methodology for CVTA Bonds

- Methodologies vary amongst the rating agencies, but similarities exist
- Moody's and S&P use a scorecard approach, specific for special tax bonds
- Fitch uses criteria for dedicated tax that is embedded in its U.S. Tax-Supported Rating criteria
- Coverage and additional bonds test are most important rating factors in the credit methodologies that govern special/dedicated tax backed debt



Common Credit Factors Applied to CVTA

Underlying economic
drivers of the revenue
streams

Breadth & concentration
of tax base

Revenue
trends/performance,
diversity &
volatility/sensitivity of
pledged streams

Collection mechanics

Debt service coverage

Legal protections for
bond holders, i.e., bond
covenants such as ABT,
reserves, flow of funds



Preliminary Credit Assessment

- PFM expects CVTA to achieve senior lien bond ratings in the “double-A” category from all three rating agencies, including Moody’s
- To achieve this outcome, CVTA must demonstrate that:
 - Taxable base is strong, consisting of a diverse regional economy
 - Governance and management approach reflects thorough transportation planning and regional collaboration
 - Sales tax revenues in the region have been stable and resilient through economic ups and downs
 - Careful and prudent financial management is embedded in the Authority’s planning culture



Indicated Rating	Overall Weighted Score
Aaa	0 to 1.9
Aa	1.91 to 4.9
A	4.91 to 7.9
Baa	7.91 to 10.9

CVTA Moody's Preliminary Scorecard

CVTA's projected preliminary score of 2.70, prior to any "notching" adjustments, puts CVTA in the Aa rating category.

Rating Factors, Subfactors and Weighting						
Rating Factors		Rating Sub-factors	% of Total Rating	Sub-Factor Indicated Rating	Estimated Numeric Value	Weighted Numeric Value
Taxable Base And Pledge	30%	Economic Strength	15%	A	5	0.75
		Nature of the Special Tax Pledge	15%	Aa	3	0.45
Legal Structure	30%	Additional Bonds Test	20%	Aa	3	0.60
		Debt Service Reserve Fund (DSRF) Requirement	10%	Aa	3	0.30
Financial Metrics	40%	Maximum Annual Debt Service Coverage Ratio (MADS coverage)	20%	Aaa	1	0.20
		Revenue Trend	10%	Aa	2	0.20
		Revenue Volatility	10%	Aa	2	0.20
Total Indicative Score						2.70



CVTA S&P Preliminary Scorecard

PFM estimates CVTA's projected weighted score to be 1.55, which maps out to AA+.

	Economic Fundamentals	Coverage & Liquidity	Revenue Volatility
Assessment	Very Strong	Strong	Low
Numerical score	1	1.5	2
Weights	20%	50%	30%
Weighted score	0.2	0.75	0.6
Total Weighted Score	1.55		

Weighted Average Factor Score	Initial Indicative Rating
1.00 - 1.30	aaa
1.30 - 1.60	aa+
1.60 - 1.90	aa
1.90 - 2.20	aa-
2.20 - 2.50	a+
2.50 - 2.80	a
2.80 - 3.10	a-
3.10 - 3.40	bbb+



Credit Strategy

- CVTA is planning to request a confidential, indicative ratings from Moody's Investors Service
 - Cost of \$55k, with a 20%-30% rebate against final public rating fee
- Moody's criteria is the most transparent amongst the three agencies
- This process allows CVTA to present up to three scenarios to be evaluated by Moody's
 - This will provide the Authority an opportunity to explore various coverage and reserve requirements with Moody's to test if the varying assumptions result in different credit rating outcome
- At the end of the process, Moody's will issue a confidential feedback letter that outlines their rationale, the rating outcome under each scenario, as well as CVTA's credit strengths and challenges