

## Mt. Lebanon's Bond Rating—Q & A

### What is a municipal bond rating, and how is it determined?

A bond rating is done by one of three firms, Moody's, Standard & Poor's, or Fitch, to indicate a municipality's credit worthiness with respect to other municipalities. The rating scale for Moody's is shown below. As you can see from the chart, Mt. Lebanon Municipality has one of the highest ratings, and our debt is deemed to be of high quality and subject to very low credit risk. The numerical notation on the rating indicates a municipality's rating compared to other municipalities in that category (1 – high end, 2 – mid-range, 3 – low end).

Global Long-Term Rating Scale	
<b>Aaa</b>	Obligations rated Aaa are judged to be of the highest quality, subject to the lowest level of credit risk.
<b>Aa</b>	Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.
<b>A</b>	Obligations rated A are judged to be upper-medium grade and are subject to low credit risk.
<b>Baa</b>	Obligations rated Baa are judged to be medium-grade and subject to moderate credit risk and as such may possess certain speculative characteristics.
<b>Ba</b>	Obligations rated Ba are judged to be speculative and are subject to substantial credit risk.
<b>B</b>	Obligations rated B are considered speculative and are subject to high credit risk.
<b>Caa</b>	Obligations rated Caa are judged to be speculative of poor standing and are subject to very high credit risk.
<b>Ca</b>	Obligations rated Ca are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.
<b>C</b>	Obligations rated C are the lowest rated and are typically in default, with little prospect for recovery of principal or interest.

Note: Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category. Additionally, a "(hyb)" indicator is appended to all ratings of hybrid securities issued by banks, insurers, finance companies, and securities firms.\*

Note: For more information on long-term ratings assigned to obligations in default, please see the definition "Long-Term Credit Ratings for Defaulted or Impaired Securities" in the Other Definitions section of this publication.

\* By their terms, hybrid securities allow for the omission of scheduled dividends, interest, or principal payments, which can potentially result in impairment if such an omission occurs. Hybrid securities may also be subject to contractually allowable write-downs of principal that could result in impairment. Together with the hybrid indicator, the long-term obligation rating assigned to a hybrid security is an expression of the relative credit risk associated with that security.

### Moody's has lowered Mt. Lebanon's bond rating from Aa1 to Aa2. Does that mean Mt. Lebanon is in financial trouble?

Not at all. As indicated in the Moody's rating determination, the municipality is in stable financial condition. The reason for the slight downgrade was not because Moody's determined the municipality is in financial trouble but because Moody's decided that our overall financial picture was more in line with other municipalities in the Aa2 category.

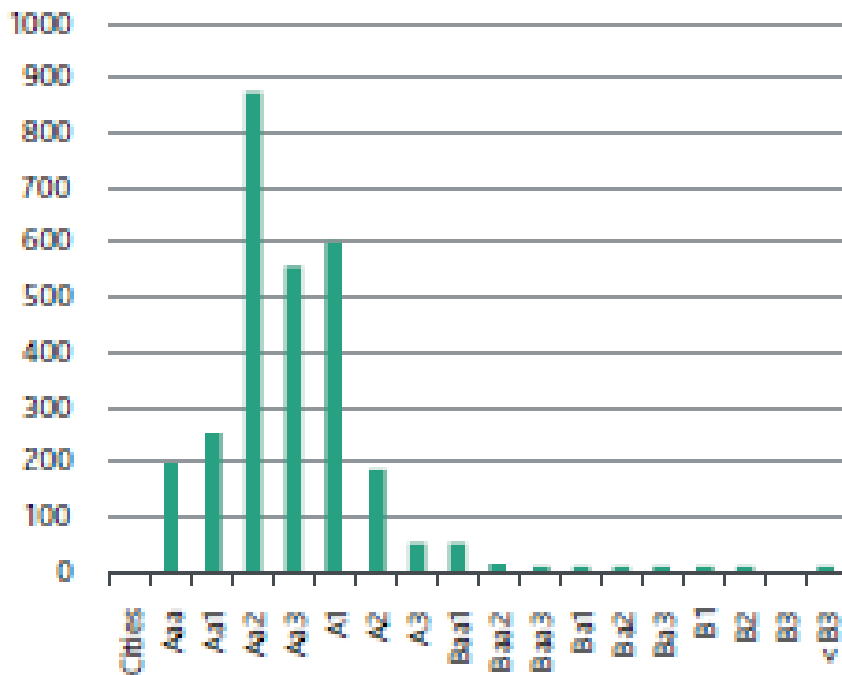
### How does our bond rating compare to neighboring communities or to comparable upscale communities in other parts of Pennsylvania or the USA?

Some regional comparables follow:

Pittsburgh – A1  
 Allegheny County – A1  
 Upper St. Clair – AA+ (S&P equivalent to Aa1)  
 Monroeville – Aa3  
 Haverford, Pa. – Aa2 (Main line Philadelphia area \$38M budget)  
 Abington, Pa. – Aa1 (Northeast Philadelphia, \$36M budget)  
 Lower Merion, Pa. – Aaa (Mainline Philadelphia area, \$126M budget)

Nationally, as the chart below shows, there are far more cities rated Aa2 than in any other category.

Cities



**We have had the Aa1 rating for only a short time. What did we do to earn an upgrade?**

Mt. Lebanon obtained the Aa1 rating when Moody's changed their scale in 2010. The Aa1 rating was reaffirmed three times prior to the most recent rating.

**What does the downgrade from Aa1 to Aa2 mean to Mt. Lebanon financially? How will it affect future bonds we issue or our overall bottom line?**

The rating may have a slight effect on interest rates with respect to our upcoming 2014 bond issue and future issues. Our underwriter for the 2014 bond issue estimated an increase of 4 to 6 basis points based on the rating change. Our bonds will still have a high marketability and will sell once they hit the market. As with any bond issue, it is about when the bonds hit the open

market. When compared to initial estimates before the rating, the total interest of the tentative 2014 final bond purchase came in approximately \$1,300 lower than initial estimates.

**Do we have any way of appealing the downgrade, if we do not agree with Moody's rating?**

No. We can seek another rating, but each rating costs approximately \$7,500. We could also go to another rating agency, but that could be viewed poorly in the market as “rating shopping.”

**What can we do in the coming months or years to get a higher rating?** As indicated by Moody's, consistent increases to the general fund balance to ratio levels consistent with other Aa1 rated municipalities would be viewed favorably and would be evidence used for a rating upgrade.

**What is the general fund balance and how does that compare to other municipalities within the Aa1 and Aa2 ratings?** The general fund balance was \$5,406,040 at the end of 2013. This was 16.5% of total general fund revenue. The median general fund balance ratios for Aa1 and Aa2 are 34.3% and 33.2%, respectively.

**What could happen that would cause another downgrade?** As indicated by Moody's, declines in general fund balance or drops in our real estate or earned income tax bases could cause another downgrade. We do not anticipate that happening.

**Who is responsible for determining our financial policies as we look toward the future?**

The Commission and staff led by the manager.

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*Prepared by the Mt. Lebanon Finance Department and Mt. Lebanon Public Information Office, August 2014.*