MOODY'S
RATINGS

Local Government Team

CDIAC Debt Essentials
Rating Agency Panel
September 2026

Helen Cregger

Executive Director, Public Finance

What is a Moody’s Credit Rating?

Provide investors with a simple system of gradation by which future relative creditworthiness of securities may be gauged

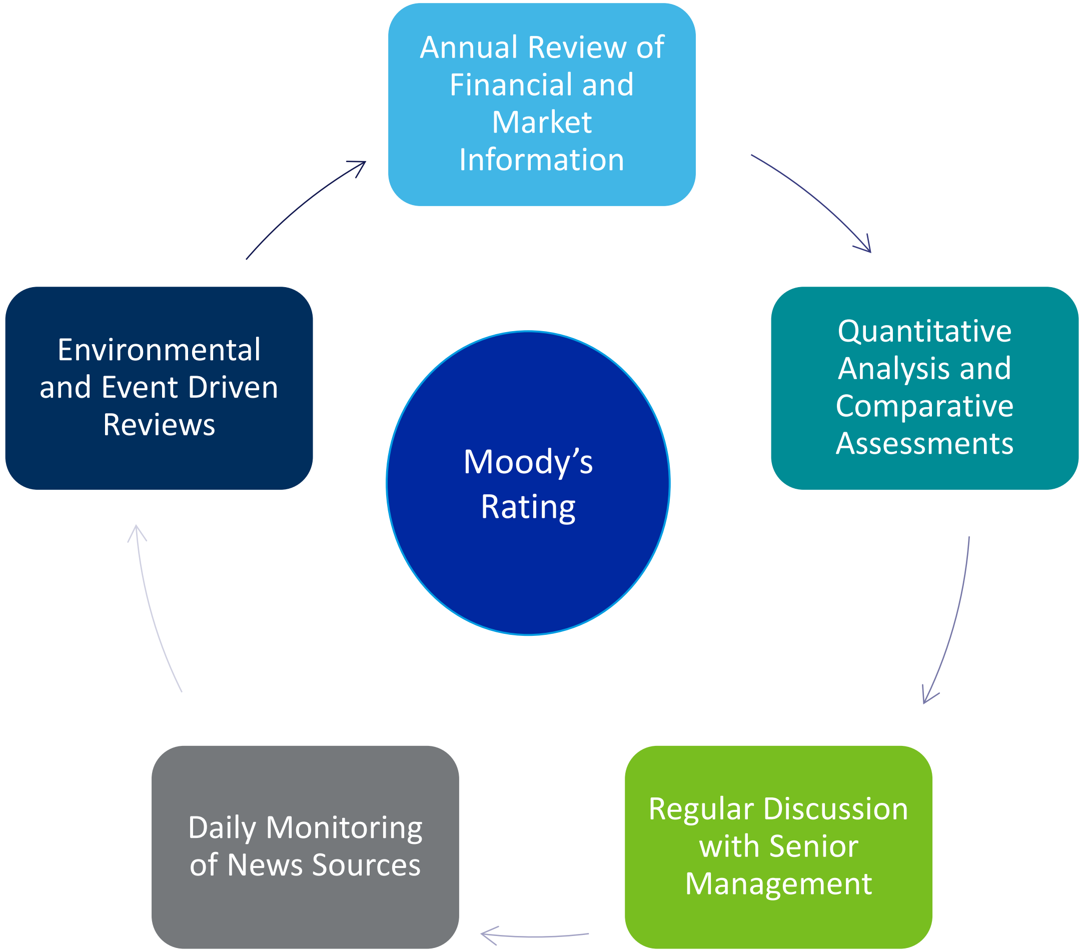
Rating	Description
Aaa	Highest quality, with lowest level of credit risk
Aa	High quality and subject to very low credit risk
A	Upper-medium grade and subject to low credit risk
Baa	Medium grade, moderate credit risk, and may possess certain speculative characteristics
Ba	Speculative and subject to substantial credit risk
B	Speculative and subject to high credit risk
Caa	Speculative of poor standing and subject to very high credit risk
Ca	Highly speculative and likely in, or very near, default, with some prospect of recovery of principal and interest
C	Typically in default, with little prospect for recovery of principal or interest

Committee is the end of a longer analytical process

Talking to our issuers is key to our analysis and helps to inform committee decision

Step 1: Methodology	Step 2: Analyst Assignment	Step 3: Analysis	Step 4: Discussions	Step 5: Committee	Step 6: Publication
Methodology	**Assignment**	**Analysis**	**Discussions**	**Committee**	**Publication**
The appropriate methodology is identified	The Lead Analyst and Co-Analyst are assigned	The Lead Analyst gathers information and begins to analyze the credit	The Lead Analyst holds a credit discussion with the Issuer (in-person/ conference call)	**The Lead Analyst develops a recommendation and presents it to a committee of senior analysts**	The Lead Analyst informs the marketplace of any rating actions by publishing a report

Long-term rating relationship with regular monitoring



MOODY'S
RATINGS

Moody’s Rating Methodologies

Published rating methodologies ensure **a consistent approach**

Methodologies include **a scorecard**: a summary of the main qualitative and quantitative factors considered

Methodologies provide **transparency for issuers and investors** to understand the rating outcome

It is **not an exhaustive treatment** of all factors reflected in Moody’s ratings: the indicated outcome from the scorecard can and does often differ from the actual rating assigned

All financial ratios are adjusted using **Moody’s Global Standard Adjustments**

Rating assignments/changes are made by rating committees, taking into account a wide range of factors, which are not restricted to credit metrics or the methodology

Rating Methodologies

All ratings are guided by application of a methodology

MOODY'S
RATINGS

U.S. Public Finance

RATING METHODOLOGY
4 June 2026

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Rating Methodology

US Cities and Counties

This rating methodology replaces the *US Cities and Counties* methodology published on 9 December 2025. We have updated references to the sources of GDP data that we use to assess the Resident Income and Economic Growth subfactors in the Economy factor.

Scope

This rating methodology applies to US cities, counties and other general government entities below the level of a state or territory (including towns, townships, villages, boroughs and parishes). In the sections that follow, we refer to all of these entities as cities and counties. This methodology also applies to US Native American tribal nations.

Cities and counties that we rate using this methodology are self-governing municipal entities that provide general public services to residents within defined geographic boundaries. These cities and counties have the legal ability to issue debt and may impose taxes, fees, fines or service charges. They may also have other legal means of financing public services and paying debt service. Cities and counties that we rate using this methodology have the power to issue debt on their own behalf or are the obligor of debt issued through an authority or dedicated financing vehicle.

We also use this methodology to assign ratings to the following types of city and county debt instruments: (i) general obligation unlimited tax; (ii) general obligation limited tax; (iii) general promises to pay; (iv) lease and contingent obligations; and (v) debt instruments supported by a pledge of special tax revenues where the credit profile of the city or county is a highly relevant driver of the instrument. Lease and contingent obligations also include moral obligations, non-lease annual appropriation obligations, abatement lease-backed obligations and comparable debt.

Special tax obligations that we rate using this methodology are debt instruments secured by a pledge of a city's or county's taxes other than real property taxes (e.g., sales taxes), including fees, transaction-based charges, allocations or disbursements the city or county receives, and similar types of revenue (collectively, special taxes).

This methodology also applies to the debt instruments of city or county enterprises, certain component units and other related entities that benefit from a city's or county's general obligation pledge or general promise to pay, or from a lease, appropriation or moral obligation or pledged special tax revenue of the city or county, provided that the credit profile of the city or county is closely related to the entity. Closely related entities and their cities or counties share key characteristics, which include a close governance relationship in which all or a majority of the related entity's governing body serves on the parent's governing body. These key characteristics also include city or county approval of the related entity's

MOODY'S
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U.S. Public Finance

RATING METHODOLOGY
4 June 2026

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Rating Methodology

US K-12 Public School Districts

This rating methodology replaces the *US K-12 Public School Districts* methodology published on 9 December 2025. We have updated references to the sources of GDP data that we use to assess the Resident Income subfactor in the Economy factor. These updates do not change our methodological approach.

Scope

This rating methodology applies to US public school districts that provide public education directly to students, typically from prekindergarten or kindergarten through 12th grade (K-12) or a subset of grades within this range. The entities that we rate using this methodology may operate as comprehensive K-12 school districts or as specialized or vocational schools. School districts that we rate using this methodology are operationally independent from a city or county government and have the power to issue debt on their own behalf or through a dedicated financing vehicle.

We use this methodology to assign issuer ratings and debt instrument ratings to school districts' general obligation unlimited tax, general obligation limited tax, general promises to pay, and lease and contingent obligations. Lease and contingent obligations include moral obligations, non-lease annual appropriation obligations, abatement lease-backed obligations and comparable debt. This methodology also applies to debt instruments supported by a pledge of special tax revenues where the credit profile of the school district is a highly relevant driver of the instrument's credit quality.

Special tax obligations that we rate using this methodology are debt instruments secured by a pledge of a school district's taxes other than real property taxes (e.g., sales taxes), fees, transaction-based charges, and similar types of revenue (collectively, special taxes). Special tax obligations also rated using this methodology include debt instruments issued by a school district and secured by a pledge of the allocation or disbursement of special taxes received from another government.

This methodology also applies to the debt instruments of school district enterprises, certain component units and other related entities that benefit from the school district's general obligation pledge or general promise to pay, or from a lease, appropriation or moral obligation or pledged special tax revenue of the school district, provided that the credit profile of the school district is closely related to the entity.

Closely related entities and their school districts share key characteristics, which include a close governance relationship in which all or a majority of the related entity's governing body serves on the parent's governing body. These key characteristics also include school district approval of the related entity's budget, debt issuance and revenue-raising actions, such as imposing taxes, fees, fines or service charges.

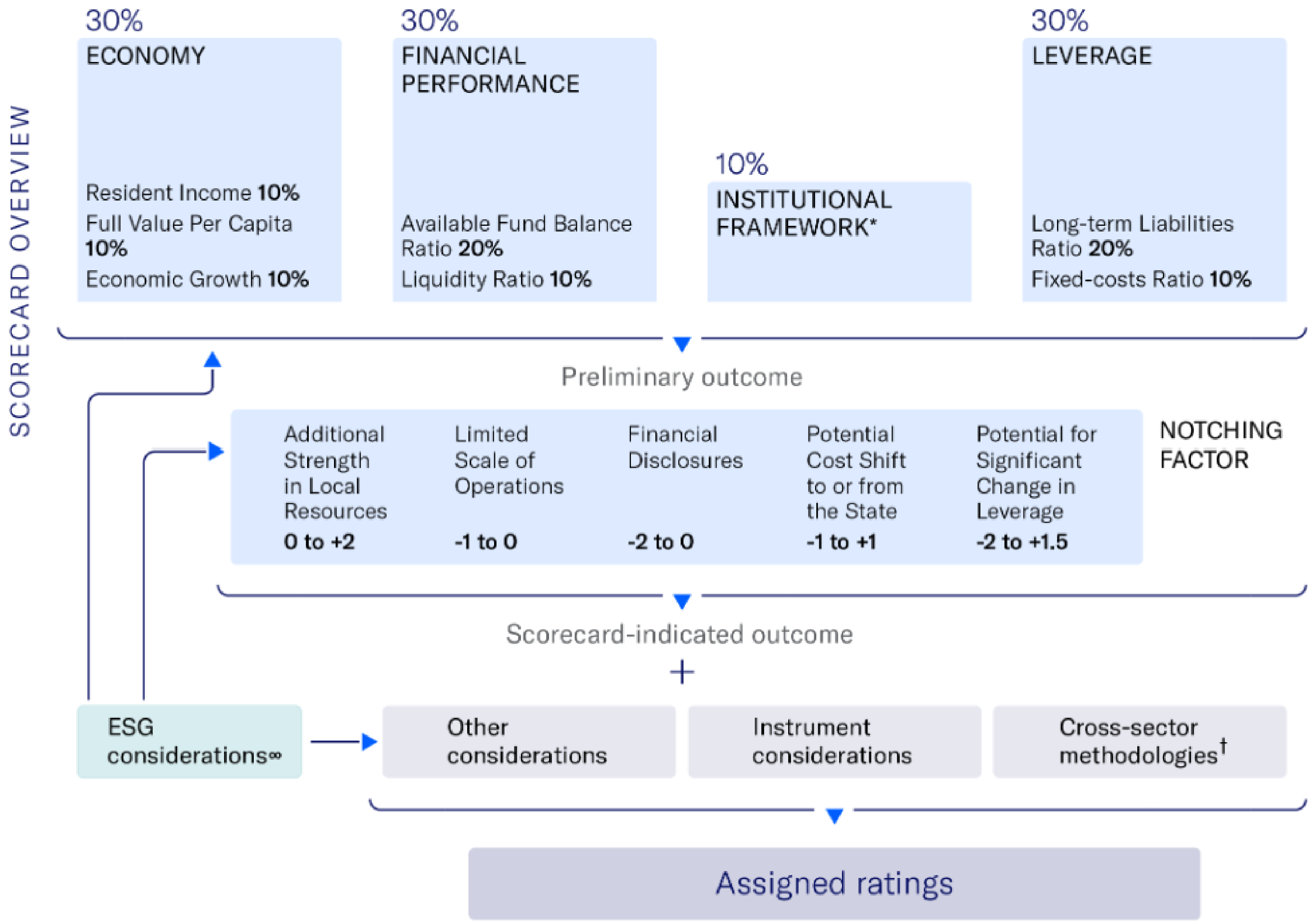
C&C Methodology and Scorecard

SCORECARD

FACTORS	SUB-FACTORS	WEIGHTS	INPUT	SCORE	Aaa	Aa	A	Baa	Ba	B	Caa	Ca
ECONOMY	Resident Income (MHI Adjusted for RPP / US MHI)	10.0%	106.8%	0.35	≥120%	100% - 120%	80% - 100%	65% - 80%	50% - 65%	35% - 50%	20% - 35%	<20%
	Full value per capita (full valuation of the tax base / population)	10.0%	$395,819	0.05	≥$180,000	$100,000 - $180,000	$60,000 - $100,000	$40,000 - $60,000	$25,000 - $40,000	$15,000 - $25,000	$9,000 - $15,000	<$9,000
	Economic Growth (5-year CAGR real GDP - 5-year CAGR US real GDP)	10.0%	2.3%	0.05	≥0%	(1)% - 0%	(2.5)% - (1)%	(4.5)% - (2.5)%	(7)% - (4.5)%	(10)% - (7)%	(15)% - (10)%	<(15)%
FINANCIAL PERFORMANCE	Available Fund Balance Ratio (Available Fund Balance + Net Current Assets/ Revenue)	20%	111.6%	0.10	≥35%	25% -35%	15% - 25%	5% - 15%	0% - 5%	(5)% - 0%	(10)% - (5)%	<(10)%
	Liquidity Ratio (Unrestricted Cash / Revenue)	10%	112.3%	0.05	≥40%	30% - 40%	20% - 30%	12.5% - 20%	5% - 12.5%	0% - 5%	(5)% - 0%	<(5)%
INSTITUTIONAL FRAMEWORK	Institutional Framework	10%	Aa	0.30	Aaa	Aa	A	Baa	Ba	B	Not applicable.	Not applicable.
LEVERAGE	Long-term Liabilities Ratio ((Debt + ANPL + Adjusted Net OPEB + Other Long-Term Liabilities) /Revenue)	20%	318.3%	1.37	≤100%	100% - 200%	200% - 350%	350% - 500%	500% - 700%	700% - 900%	900% - 1100%	>1100%
	Fixed-Costs Ratio (Adjusted Fixed Costs / Revenue)	10%	14.4%	0.42	≤10%	10% - 15%	15% - 20%	20% - 25%	25% - 35%	35% - 45%	45% - 55%	>55%
NOTCHING FACTORS	Additional strength in local resources		0.00	0 to +2								
	Limited Scale of Operations		0.00	-1 to 0								
	Financial Disclosures		0.00	-2 to 0								
	Potential Cost Shift to or from the State			-1 to +1								
	Potential for Significant Change in Leverage		0.00	-2 to +1.5								
	Total Factor Notching		0.00									
	Scorecard Indicated Outcome:		Aa2									

→ **The long-term liabilities ratio includes the city's or county's unfunded pension and OPEB liabilities. We make certain adjustments to the Plan's assumptions in order to standardize reporting across the nation.**

Our framework: Cities and Counties Methodology



Topics covered in the Rating Committee

Committee discussions include a comprehensive review of metrics and trends (including relative to peers) within the broad factor areas noted within the methodology.

A sample of some of the metrics and associated trends reviewed in our analysis and committee discussions is shown to the right.

Moody's ratings are **forward looking** and the expectations and projections we receive from issuers are key inputs in the committee analysis beyond just reviewing recent and past results

Economy

→ Resident Income

→ Full value per capita

→ Economic growth

Financial Performance

→ Available fund balance relative to revenue

→ Liquidity relative to revenue

Institutional framework

→ The control governments have over their revenues and expenditures, and what limitations are placed on that flexibility

Leverage

→ Long term liability ratio relative to revenue

→ Fixed costs ratio relative to revenue

Capital

→ Expected capital plans and how it affects leverage metrics

→ Any potential revenue growth

ESG

→ Environmental or extreme weather exposure

→ Social risks: demographics, labor and income, etc.

→ Governance: institutional structure, policy credibility and effectiveness, budget management, etc.

Other considerations

These considerations are qualitative and only relevant to certain issuers

- Environmental, Social and Governance Considerations
- Event risk
- Strengths or weaknesses related to economic concentration
- Unusual strengths or weaknesses related to budgets or liquidity
- Fund specific financial considerations
- Competitive enterprise risk in governmental or business-type activities
- Strengths or weakness associated with component units or other related entities
- Related local governments
- Likelihood of receiving extraordinary or ongoing support
- Financial controls
- Unusual Risk or Benefit Posed by Long-Term Liabilities
- History or likelihood of impaired liquidity or market access or missed debt service payments
- Expected decline or improvement in instrument-level credit quality
- Considerations specific to US Native American Tribal Nations
- Additional metrics

Rating agency discussions are a two-way conversation

Getting the most out of the discussion

→ Understand how your credit and issuance are viewed from the perspective of the rating agency. Know what methodology and scorecard will be applied.

→ Understand your relative positioning to other credits.

→ Evaluate what factors are within and outside of your control.

→ Acknowledge uncertainty and be prepared to discuss how you are addressing risks.

→ Share policies or practices that transcend a particular administration or governing board.

→ Feel free to ask how rating committee is likely to view your strengths and challenges

→ Ask for a transparency discussion if you have questions.

Local Governments – Cities and Counties

2026 Outlook – Cities and Counties

Negative as inflation exceeds revenue growth

→ **Inflation will exceed tax revenue gains.** Moderating property value appreciation will slow increases.

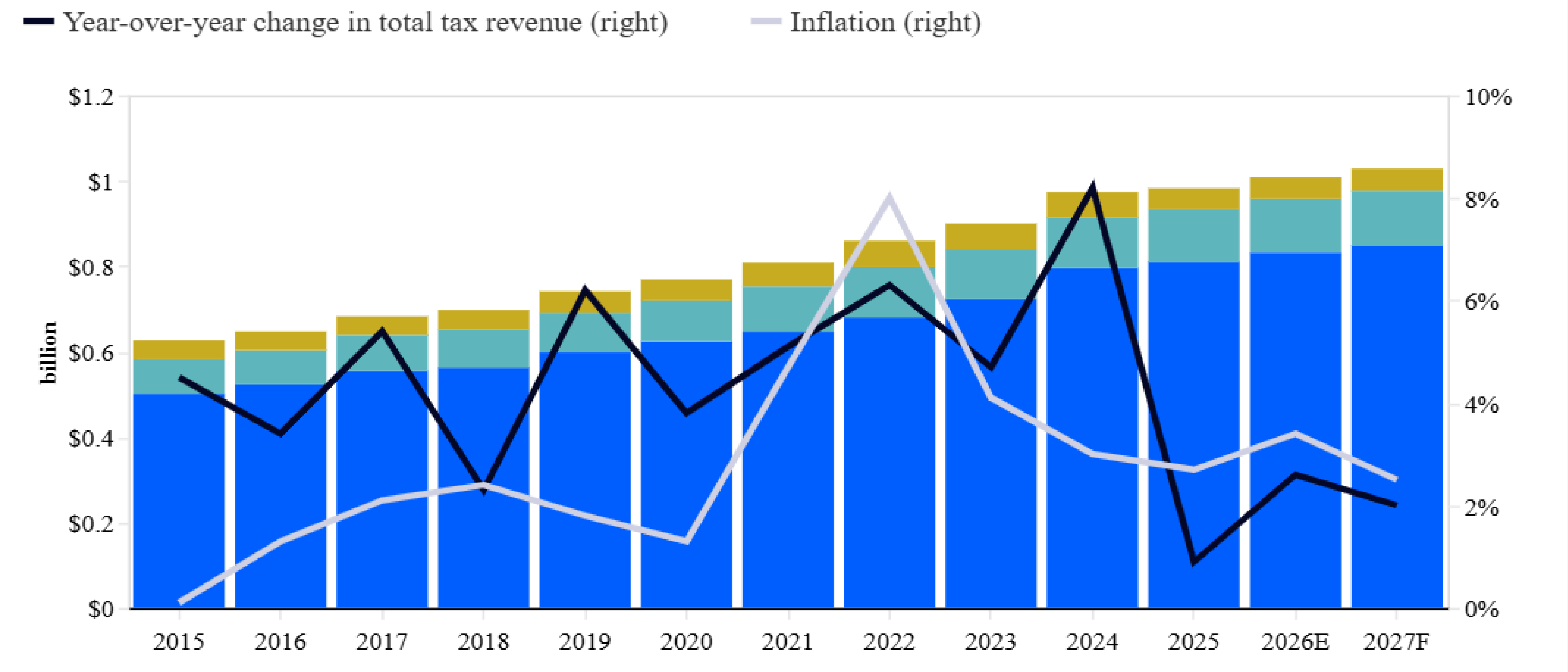
→ **Weaker US growth will constrain local government finances.** GDP growth of around 1.9% in 2026 and 2027 will increase demand for city and county services while slowing sales tax growth.

→ **Revenue growth faces increasing constraints.** Affordability pressures are reducing voter support for tax increases.

→ **Expenditure growth is straining budgets.** Wage increases, rising health care costs and capital spending needs are adding to pressure.

→ **What could change the outlook?** The outlook could shift to stable if median city and county tax revenue growth aligns with inflation or about 3% annually. We could revise the outlook to positive if we expect tax revenue growth to sustainably exceed inflation by 2 percentage points or rise above 5% annually while expenditure growth moderates and operating performance strengthens.

Aggregate revenue growth will remain below inflation



US Bureau of Labor Statistics and Moody's Ratings

California Cities and Counties

Scorecard Medians

California vs. National – 2024

Median values across the key rating scorecard factors, comparing California state medians against national medians.

Cities

n = 58 rated CA cities

Factor	Sub-factor	National	California
ECONOMY	Resident income ratio	107.8%	117.7%
	Full value per capita	$155,156	$227,475
	Economic Growth Metric	-0.9%	-0.1%
FINANCIAL PERFORMANCE	Available fund balance ratio	54.8%	74.1%
	Liquidity ratio	75.8%	95.9%
LEVERAGE	Long-term liabilities ratio	168.9%	232.9%
	Fixed-costs ratio	10.3%	13.3%

Counties

n = 20 rated CA counties

Factor	Sub-factor	National	California
ECONOMY	Resident income ratio	98.7%	114.7%
	Full value per capita	$142,825	$234,427
	Economic Growth Metric	-0.6%	-0.1%
FINANCIAL PERFORMANCE	Available fund balance ratio	44.0%	37.9%
	Liquidity ratio	74.6%	71.6%
LEVERAGE	Long-term liabilities ratio	112.8%	161.0%
	Fixed-costs ratio	6.6%	9.1%

Scorecard Medians by Rating Category

California vs. National - 2024, by rating group

National median (top figure)   California median (bottom figure)   *"–" indicates no rated California issuers in that category.*

Cities

n = 58 rated CA cities

Sub-factor	Aaa	Aa	A	Baa	Ba/below
Resident income ratio	165.4% 211.1%	111.9% 109.2%	85.8% 86.1%	75.5% 88.4%	77% –
Full value per capita	$278,817 $208,236	$163,193 $170,853	$97,431 $102,888	$76,535 –	$78,782 –
Economic Growth Metric	-0.9% 2.5%	-0.8% 2.5%	-0.9% 0.4%	-1.2% -	-1.2% -
Available fund balance ratio	66% 89%	57% 48%	44% 87%	20% –	21% –
Liquidity ratio	93% 124%	80% 103%	57% 101%	40% –	75% –
Long-term liabilities ratio	167% 176%	162% 182%	188% 219%	207% –	246% –
Fixed-costs ratio	9.8% 9.7%	9.8% 10.7%	11.6% 13.0%	14.2% –	15.7% –

Counties

n = 20 rated CA counties

Sub-factor	Aaa	Aa	A	Baa	Ba/below
Resident income ratio	121% 107%	98% 84%	84% –	91% –	129% –
Full value per capita	$196,709 $207,673	$140,128 $99,038	$107,979 –	$80,424 –	$142,825 –
Economic Growth Metric	-0.4% 2.5%	-0.6% 0.4%	-1.0% -	-0.1% -	-0.9% -
Available fund balance ratio	48% 52%	45% 35%	34% –	11% –	31% –
Liquidity ratio	77% 85%	76% 82%	58% –	28% –	125% –
Long-term liabilities ratio	133% 111%	112% 119%	100% –	120% –	45% –
Fixed-costs ratio	7.9% 5.0%	6.3% 6.3%	6.1% –	6.2% –	2.8% –

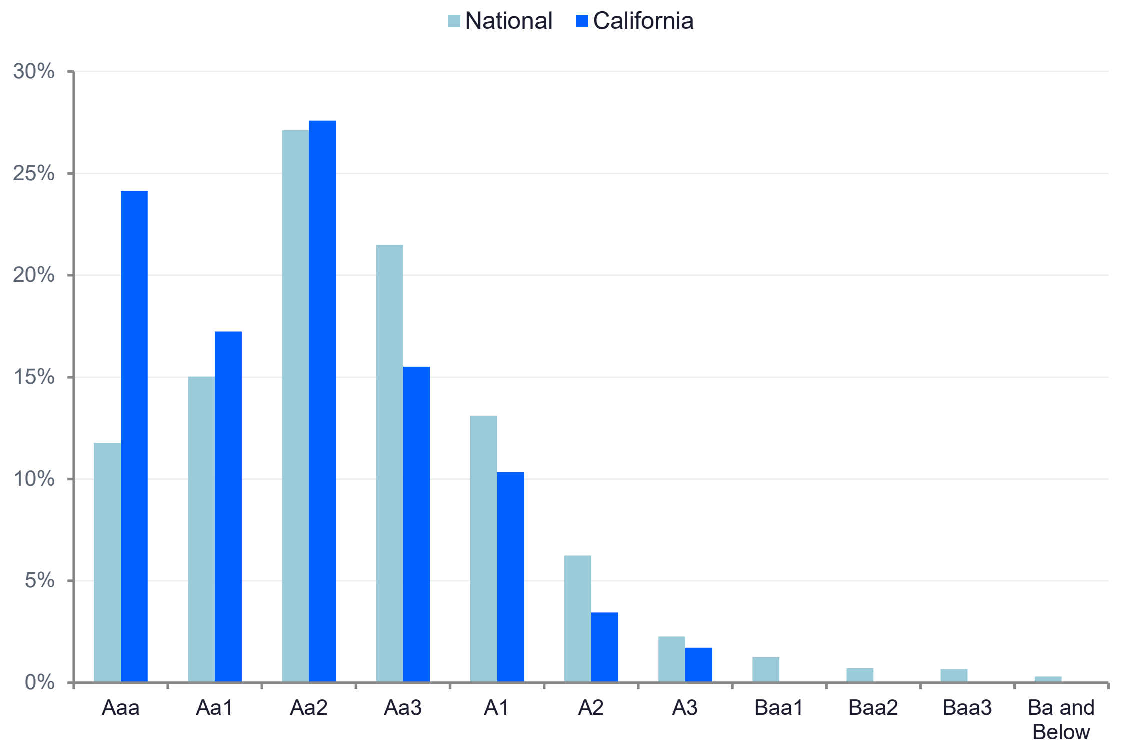
Rating Distribution

California vs. National

Share of rated issuers by rating category. Bars compare California’s distribution against the national distribution.

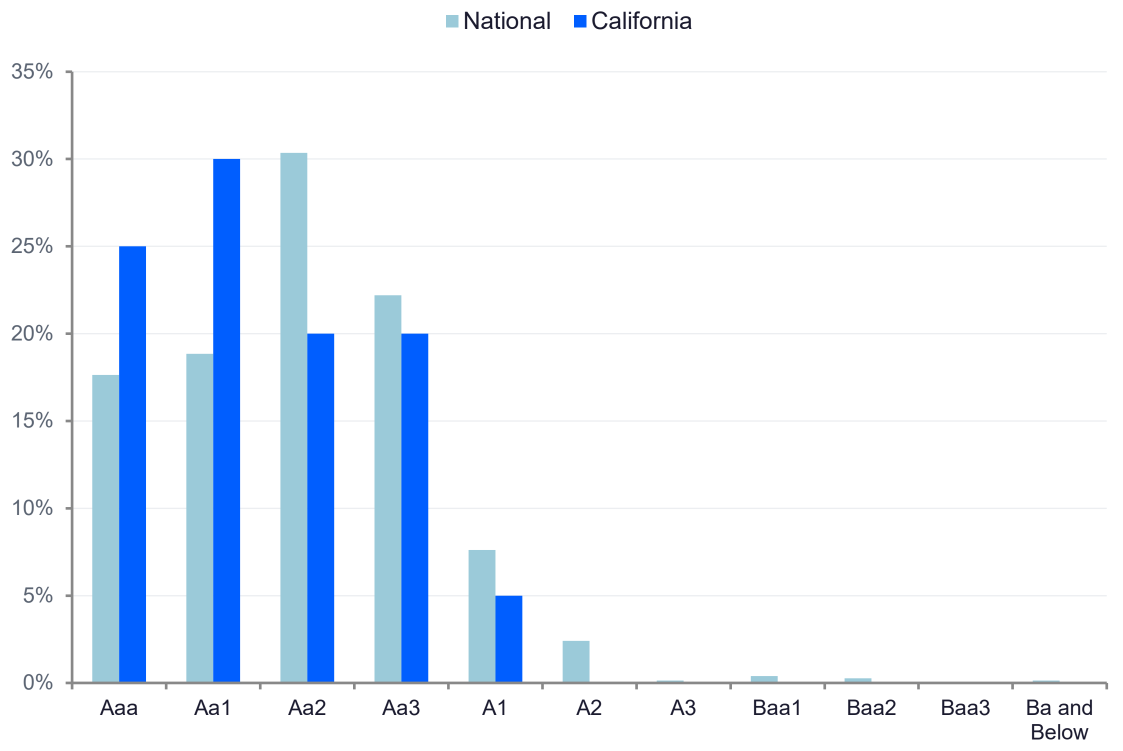
Cities

n = 58 rated CA cities



Counties

n = 20 rated CA counties



MOODY’S RATINGS

Environmental, Social and Governance Scoring (ESG)

Moody's Ratings ESG scores explained

Our scores are <u>NOT</u> an opinion about an entity's sustainability performance or ESG disclosures

Credit Impact Score (CIS)

Reflects the impact of ESG on the credit rating

NOT a combination of E, S and G-IPS

Example of Score

CIS-4

→ Indicates the extent to which the credit rating would have been different in the absence of ESG issues

→ Places ESG in the context of other rating considerations

→ CIS-1 assigned only if the credit rating is better because of ESG factors

Issuer Profile Scores (IPS)

IPS is our assessment of the issuer's exposure to Environmental (E), Social (S) or Governance (G) risks / benefits material to credit risk including relevant mitigants

Example of Score

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-4	S-2	G-1

→ Scores are global and comparable across sectors

→ Incorporate management's action/mitigants

→ E-1, S-1 or G-1 assigned only when considerations have material credit benefits

Scoring scale: 5 4 3 2 1

ESG classification incorporates credit relevant considerations

Categories that are the most material to credit

Environmental

- Physical climate risks
- Carbon transition
- Water management
- Waste and pollution
- Natural capital

Social

Private sector	Public sector
Customer relations	Access to basic services
Demographic and societal trends	Demographics
Human capital	Education
Health and safety	Health and safety
Responsible production	Housing
	Labor and income

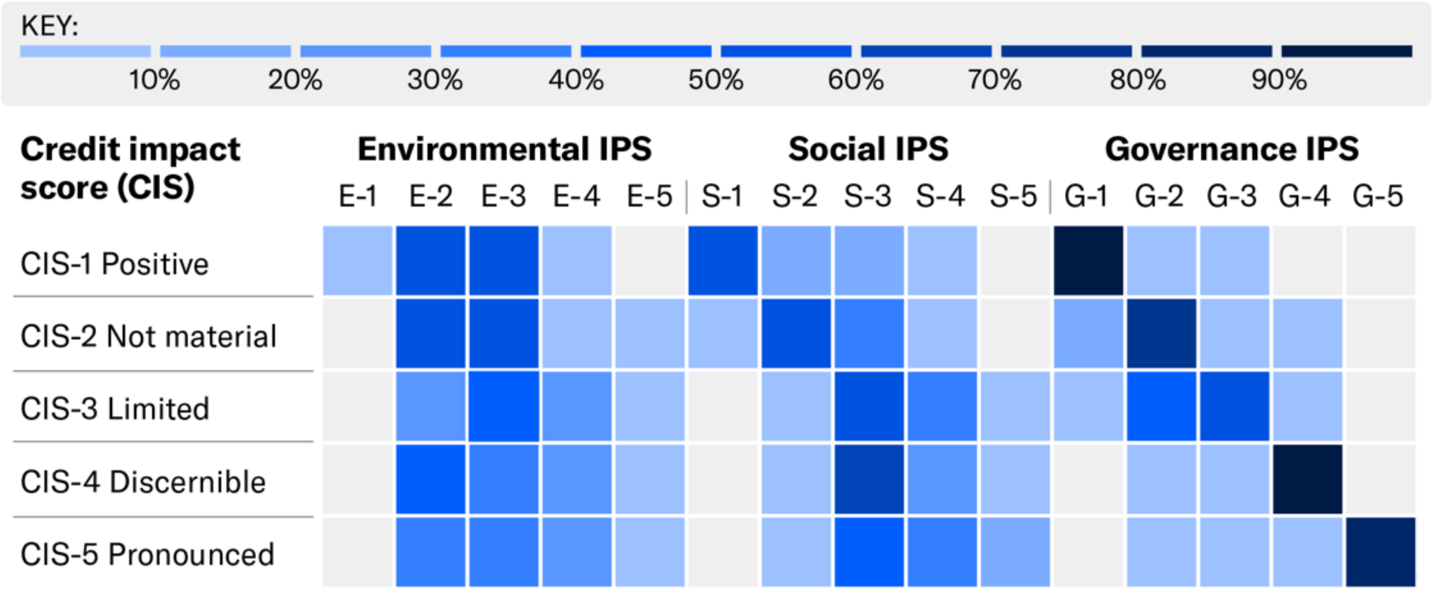
Governance

Private sector	Public sector
Financial strategy & risk management	Institutional structure
Management credibility & track record	Policy credibility and effectiveness
Organizational structure	Budget management
Board structure, policies & procedures	Transparency and disclosure
Compliance & reporting	

Source: Moody's Ratings

Governance considerations and credit impact have the highest correlation

- Around 90% of entities for which the credit impact is CIS-4 or CIS-5 have relative governance weaknesses, as indicated by their governance issuer profile scores (G-4) or (G-5). Nearly all entities for which the credit impact of ESG considerations is CIS-1 have relative governance strengths (G-1).
- Governance factors are an important driver of an entity's ability to repay debt in full and on time. They are likely to have an immediate impact on credit strength.



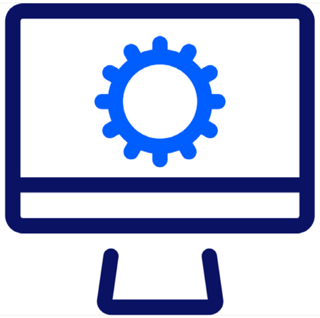
Source: Governance remains a key driver of credit impact; environmental and social risks vary, Moody's Ratings, 11 February 2026

Appendix

2026 Outlook – K-12

Negative as total sector funding stalls while expense growth persists

- **Revenue growth will trail inflation for the second consecutive year.**
- **Expenditures will grow as operating and instruction costs mount and districts do more with less.**
- **Competition will intensify as school-aged population declines; school choice accelerates.**
- **What could change the outlook?** The outlook could shift to stable if total revenue growth approximates the rate of inflation and is sufficient to fully cover annual operating expenditures – meaning year-over-year revenue increases of approximately 3% to 4%. A positive outlook would require revenue growth to exceed inflation by at least 1 to 2 percentage points, resulting in a clear surplus after accounting for all recurring expenses – meaning year-over-year revenue increases of 5% or more. In both cases, the improvement would need to be broad-based.



K-12 Methodology and Scorecard

SCORECARD

FACTORS	SUB-FACTORS	WEIGHTS	INPUT	SCORE	Aaa	Aa	A	Baa	Ba	B	Caa	Ca
ECONOMY	Resident Income (MHI Adjusted for RPP / US MHI)	10.0%	104.8%	0.38	≥120%	100% - 120%	80% - 100%	65% - 80%	50% - 65%	35% - 50%	20% - 35%	<20%
	Full value per capita (full valuation of the tax base / population)	10.0%	$436,748	0.05	≥$180,000	$100,000 - $180,000	$60,000 - $100,000	$40,000 - $60,000	$25,000 - $40,000	$15,000 - $25,000	$9,000 - $15,000	<$9,000
	Enrollment trend (three-year CAGR in enrollment)	10.0%	-1.1%	0.61	2 - 4%	0 - 2% or > 4%	(2) - 0%	(2) - (5)%	(5) - (8)%	(8) - (11)%	(11) - (14)%	< (14)%
FINANCIAL PERFORMANCE	Available fund balance ratio (available fund balance / operating revenue)	20%	13.8%	1.20	≥25%	17.5% - 25%	10% - 17.5%	5% - 10%	0% - 5%	(5) - 0%	(10) - (5)%	< (10)%
	Net cash ratio (net cash / operating revenue)	10%	19.0%	0.39	≥25%	17.5% - 25%	10% - 17.5%	5% - 10%	0% - 5%	(5) - 0%	(10) – (5)%	< (10)%
INSTITUTIONAL FRAMEWORK	Institutional Framework	10%	Aa	0.30	Aaa	Aa	A	Baa	Ba	B	Not applicable.	Not applicable.
LEVERAGE	Long-term liabilities ratio ((debt + ANPL + adjusted net OPEB) / operating revenue)	20%	263.3%	0.95	≤125%	125% - 250%	250% - 400%	400% - 550%	550% - 700%	700% - 850%	850 – 1,000%	> 1,000%
	Fixed-costs ratio (adjusted fixed costs / operating revenue)	10%	18.8%	0.38	≤15%	15% - 20%	20% - 25%	25% - 30%	30% - 35%	35% - 45%	45% - 55%	>55%
NOTCHING FACTORS	Additional strength in local resources		0.50	0 to +2								
	Limited scale of operations		0.00	-1 to 0								
	Weak financial reporting		0.00	-2 to 0								
	Potential cost shift from state		0.00	-1 to +1								
	Potential for significant change in leverage		0.00	-2 to +1.5								
	Total Factor Notching		0.50									
	Scorecard Indicated Outcome:		Aa3									

→ **The long-term liabilities ratio includes the district's unfunded pension and OPEB liabilities. We make certain adjustments to the Plan's assumptions in order to standardize reporting across the nation.**

Rating Methodologies

Examples of key rating methodologies

US K-12 Public School Districts

US Cities and Counties

US Municipal Utility Revenue Debt

Questions?

Thank you

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