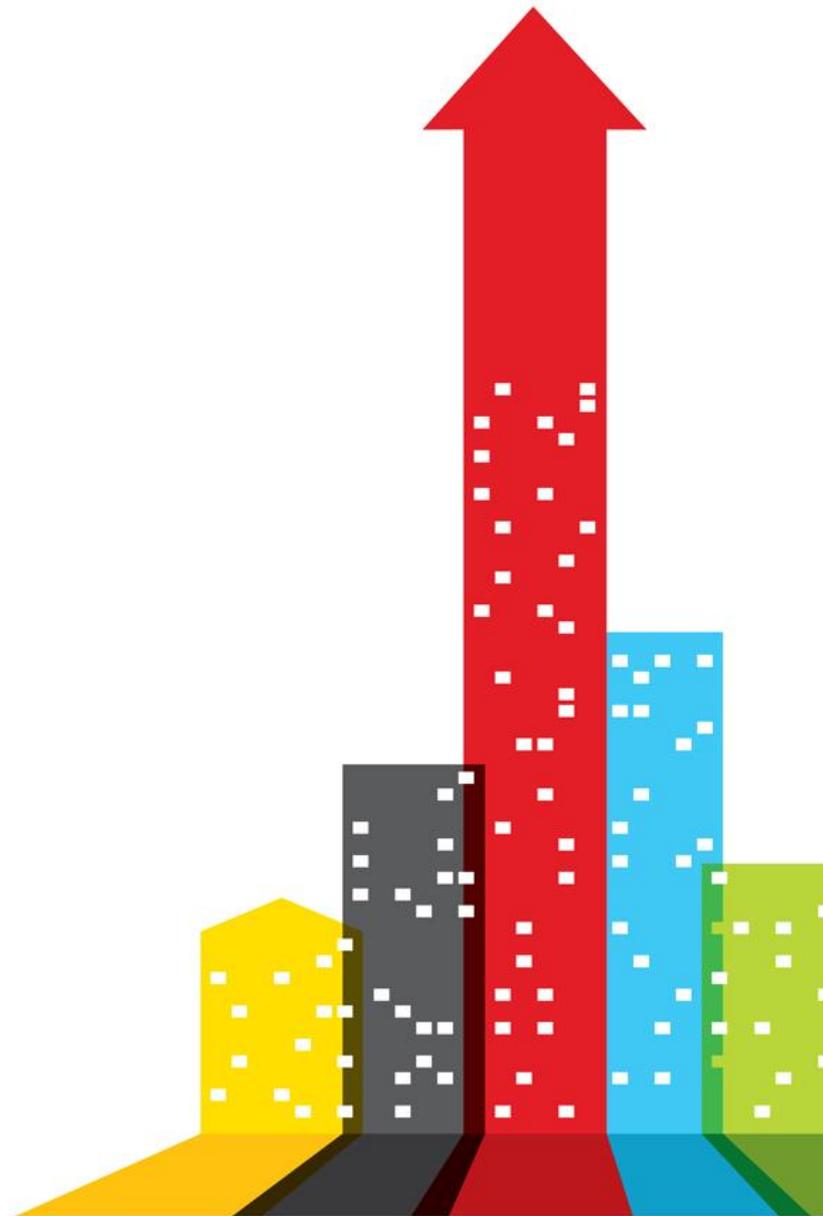


Standard & Poor's Presentation

Virginia GFOA

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General Obligation Bond Analysis

Key G.O. Ratings Factors We Consider

- Economy
- Finances
- Debt
- Management

Financial Management Assessment

An analytical methodology that evaluates established and ongoing management practices and policies in the seven areas most likely to affect credit quality.

1. Revenue and expenditure assumptions
2. Budget amendments and updates
3. Long term financial planning
4. Long term capital planning
5. Investment management policies
6. Debt management policies
7. Reserve and liquidity policies

“Strong”
or
“Standard”
or
“Good”
or
“Vulnerable”

Currently applicable only to general government tax- and appropriation-backed issues, excluding special districts.

S&P's View: Management: The FMA and So Much More

- Economic factors may set the foundation for credit quality, but
- We believe most downgrades are management related
- Most upgrades also have roots in management decisions, in our opinion
- Management factors we have observed influencing financial performance include finance staff competency, ability and willingness to execute strategies, management/governance relationships, staff turnover, and the extent to which policies and procedures exist
- The financial management assessment focuses on a small subset of the policies and practices

U.S. Local Government Proposed GO Criteria

- **The scope of the proposed criteria**
 - All U.S. local government issuer credit ratings and issue ratings on General Obligation (GO) bonds issued by municipal governments that are not special purpose districts
- **This proposed criteria is intended to:**
 - Provide transparency into our rating process
 - Enhance ratings comparability
 - Formalize the forward-looking rating component
- **We expect rating implications to be moderate**
 - Reflects a desire to improve transparency, not a recalibration based on a different view of the sector
- **We are requesting feedback on proposed ratings criteria for U.S. Public Finance local governments**
 - A 90-day comment period ending June 6, 2012

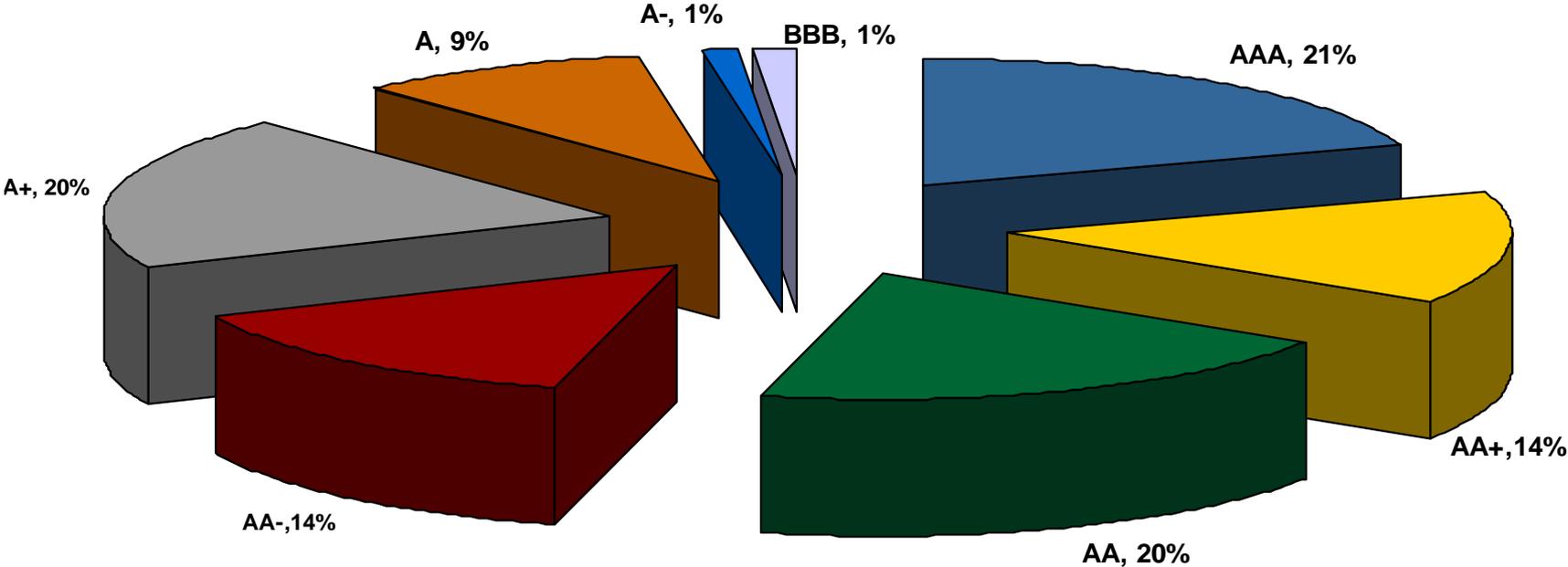
Virginia Credits in General



Virginia in General

- **In our opinion, localities in Virginia have managed well throughout the recession**
- **We believe that Virginia credits generally maintain strong credit characteristics including:**
 - Diverse local economies that have performed well throughout the recession
 - Conservative budgeting practices that have resulted in solid financial positions
 - Strong management teams that have adopted comprehensive financial policies and procedures

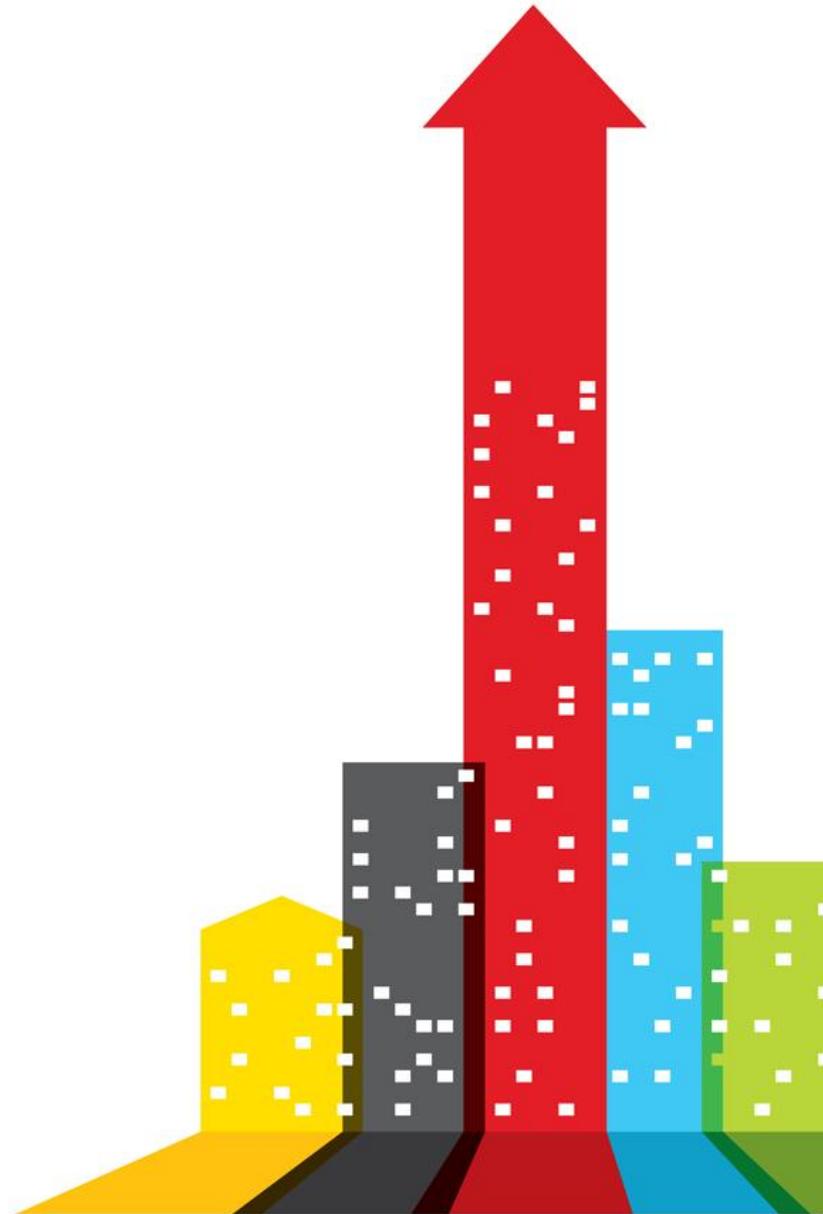
Approximately 69% of Standard & Poor's public GO ratings on Virginia localities are considered high investment grade:



In our view, Virginia's economy has several fundamental economic strengths, including:

- A sizable and stable federal and military employment base, which has kept unemployment well below national levels throughout the recession;
- Favorable business climate, including low costs, right-to-work laws and an extensive transportation network;
- Highly educated workforce and extensive higher education system;
- Growing population and above average income levels;

Pensions



Pensions: Overview

- Pension reforms efforts are underway in numerous states. Fiscal relief from these reforms remains to be seen;
- Upward pressure on recommended contributions persists;
- Lower discount rates would increase recommended contributions further;
- Deteriorating funded ratios and a lack of full actuarial contributions introduce potential for negative pressure on credit.

Virginia's Pension Systems

- **Commonwealth operates 4 defined benefit pension funds:**
 - Virginia Retirement System (VRS)
 - State Retirement System (SPORS)
 - Virginia Law Officer's Retirement System (VaLORS)
 - Judicial Retirement System (JRS)
- **The most recent actuarial study was performed for June 30, 2011**
- **Funding levels for all 4 funds dropped since 2009 and remain, in our opinion, below average:**
 - VRS: 72.4% funded
 - SPORS: 66.8% funded
 - VaLORS: 58.6% funded
 - JRS: 66.5% funded

House Bill 1130 and Its Potential Implications

- Pension Reform Legislation signed by the Governor on April 9th
- Intended to provide long-term savings to the Commonwealth and help shore up the Virginia Retirement System's funding levels
- It creates a hybrid retirement program that contains a defined contribution and a defined benefit component for all new employees hired after January 1, 2014
- According to the legislature's 2012 fiscal impact statement, projected general fund savings, making certain assumptions, would be \$132.6 million for the 2014-2016 biennium and \$3.6 million over 20 years
- The General Assembly's Bill requires local government employers to provide a 5% increase in compensation to offset the cost of the employee's contribution, which can be phased in
- Currently, the concern remains where the money will come from on the local level to support the 5% pay increase

Questions?

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