Standard & Poor’s in January 2011 updated its methodology for rating state governments. The update was designed to help market participants better understand the company’s approach to assigning state ratings. Standard & Poor’s assigns these ratings to a state’s general obligation debt; ratings also could refer to the issuer credit rating if a state has no general obligation debt outstanding. This methodology replaces portions of “U.S. Public Finance Criteria: GO Debt,” published Oct. 12, 2006, and relates to “Principles Of Corporate And Government Ratings,” published June 26, 2007.

Given the specific delegation of powers to states under the U.S. Constitution, Standard & Poor’s views states as having sovereign powers that warrant recognition in its criteria and has separated its analysis of states from its broader general obligation criteria.

- Standard & Poor’s assigns credit ratings to U.S. states and territories based on its qualitative and quantitative analysis of a range of financial, economic, managerial and institutional factors. Its overall analytic framework centers on the five factors (see Fig. C).
  - Government framework;
  - Financial management;
  - Economy;
  - Budgetary performance; and
  - Debt and liability profile.

Standard & Poor’s assesses each of these five factors using various metrics that are scored on a scale from 1 (strongest) to 4 (weakest). Each metric might have several indicators that are evaluated to develop the score. Each indicator is scored individually and the indicators’ scores are averaged...