Weekly Credit Outlook

U.S. Public Finance Edition

FEBRUARY 14, 2012

ALSO IN THIS EDITION

What is Moody's Weekly Credit Outlook, U.S. Public Finance Edition?

This new periodical provides concise reports on the credit implications of current events affecting the U.S. Public Finance sector. Also included is a recap of certain high profile Moody's reports published over the prior week that directly or indirectly relate to the U.S. Public Finance sector, and information on noteworthy credit rating assignments and revisions. The U.S. Public Finance edition of the Weekly Credit Outlook will generally be published every Tuesday with select exceptions for holidays.

FEATURE ARTICLES

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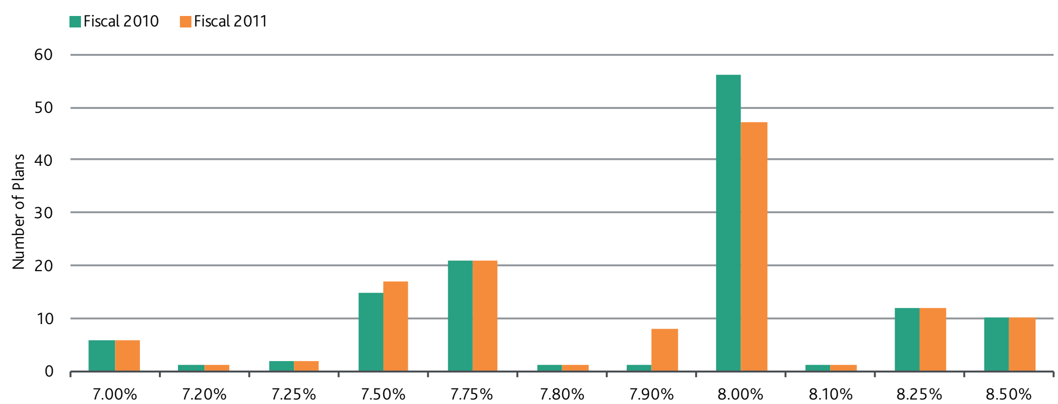
Public Sector Pension Plans' Reduced Investment Return Assumptions are Credit Positive

On February 2, the City of New York (Aa2 stable) and the California State Teachers' Retirement System (CalSTRS, issuer rating Aa3) announced that they intend to lower the assumed investment rates of return used to calculate their unfunded pension liabilities. The assumed rate of return is a key metric used to calculate a plan's unfunded liability. Although using a lower rate will require already stressed state and local governments to make larger payments, and creates additional budget pressure, it puts governments on a more sustainable path to ultimately fully funding their pension commitments, which is credit positive.

In contrast to private-sector pension accounting practices, the investment return assumptions used by public pension plans also form the basis for measuring the discounted value of plan liabilities. All else being equal, reducing an investment return assumption results in greater present value of unfunded liabilities, and can strain budgets by requiring larger annual contributions.

However, a lower investment return assumption also lessens the risk that future investment performance will fall short of assumed returns. Such shortfalls also cause unanticipated increases in required contributions. Higher assumed investment returns encourage pension systems to invest in riskier assets, with the result that returns are more volatile. According to the National Association of State Retirement Administrators (NASRA), the most common assumed rate of return among large public pension plans is 8%, but between fiscal 2010 and fiscal 2011 plans have started to use lower rates (see exhibit).

Large Public Pension Fund Nominal Investment Return Assumptions



Source: National Association of State Retirement Administrators

Market volatility and economic uncertainty increase the risk that pension returns will not meet actuarial investment return thresholds in fiscal 2012. After a turbulent first half of most state and local governments' fiscal year (July-December), the S&P 500 now stands only slightly higher than it did at the end of June. Pension asset portfolio performance will need to be robust throughout the second half of the fiscal year in order to meet actuarial expectations and avoid accumulation of greater liabilities and additional funding requirements.

Two of the most significant components of New York City's proposed change are to lower the assumed investment rate of return used by the New York City Retirement Systems to 7.0% from 8.0%, and to replace the current frozen initial liability actuarial funding method with the more commonly used entry age normal method. The city estimates the change will cost it an additional $1 billion annually (2.3% of estimated fiscal 2013 tax revenue), which it had already set aside in next year's budget. While pension costs in the budget will increase, the plan over the long run will lead to greater stability, since using the 7% rate will mitigate market volatility in actuarial calculations of the city's pension liabilities.

CalSTRS, the second-largest US public pension, cut its assumed annual rate of return to 7.50% from 7.75%, the second reduction since 2010. The change will lower the funded ratio of the plan (it had a 71% funded ratio as of 30 June 2010) and increase the unfunded liability. Lowering the rate adds $5.9 billion to its $56.0 billion unfunded liability, according to Milliman Inc., the fund's actuary.

California (A1 stable), teachers, and school districts each make contributions to the plan, and the change will increase the actuarially determined amount of their combined pension contributions. The contribution rate paid to CalSTRS, however, is made on a statutory basis, at levels that are lower than the actuarially required contribution (ARC). Because contribution levels are statutorily set, the rate assumption change may not impose near-term budgetary pressure on the state or school districts, although certain state costs related to pre-1990 benefits may increase. But it may place additional pressure on the legislature to raise contribution levels to something closer to actuarially determined contributions in the future, or increase pressure to enact other pension-related reforms.

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Governor's Proposed Budget Is Credit Positive for Michigan Local Governments

Last Thursday, Michigan Gov. Rick Snyder released the first state biennial budget in more than a decade that includes increased funding for all local governments. An additional $622.8 million in projected state revenues, compared with previously adopted revenue estimates, made the greater funding possible. The proposed budget is credit positive for Michigan local governments, which have struggled with flat or declining state aid for many years (see Exhibit 1).

EXHIBIT 1

Reduced State Spending for Local Governments ($ millions)

	FY2002	FY2012	Percent Decline
K-12 Education	11,221	10,550	-6%
Community Colleges	320	284	-11%
State Revenue Sharing	1,517	959	-37%

Source: Citizens Research Council of Michigan, The State of Michigan's New Fiscal Plan, July 2011

The new budget estimates annual revenue will increase by 15% for the General Fund and by 4% to the School Aid Fund versus fiscal 2010. Income, sales, and other tax receipts are increasing as the state's economy has begun to improve, led by the state's auto manufacturers.

The budget will enhance aid to school districts by making permanent funding that was scheduled to expire, providing increased state support for benefit costs, increasing incentive payments for meeting performance criteria, and providing stable per-pupil funding. The continuation of $155 million for payments to the Michigan Public Employees Retirement System (MPERS), which was originally planned to be one-time funding, and the addition of $24 million for retiree health care are critical to helping districts offset these growing personnel expenditures. Incentive payments to districts for meeting best-practice criteria and performance targets are 23% higher than in fiscal 2012.

Most significantly, the 2013 budget holds flat the base per-pupil foundation allowance for school districts. This reflects an important shift from recent years, when districts faced the prospect of substantial cuts that were only avoided through the use of non-recurring federal funding. In fiscal 2012, districts had to absorb a $470, or 6.4%, reduction in per-pupil funding. Further revenue losses would have necessitated expenditure reductions or the use of reserves as districts have limited ability to raise revenues. Many districts have already tapped both strategies. The additional aid to districts in the proposed state budget relieves districts from identifying limited remaining budgetary options.

The budget also includes increased revenue payments to cities, villages, and townships, which reverses a decade-long trend of declining funding to local governments. The following items are included in the proposed budget:

- Revenue sharing based on constitutional formulas increases by 2%
- The Economic Vitality Incentive Program funding for municipalities increases by 5%, or $10 million
- Grant funding for intergovernmental collaboration increases to $25 million from $5 million
- County statutory funding, which had been suspended in 2004 and temporarily replaced with property tax reserves, is restored in a new form as an incentive-based program and funded with $125 million
- Community colleges receive a 3% increase in funding and support for retiree health costs

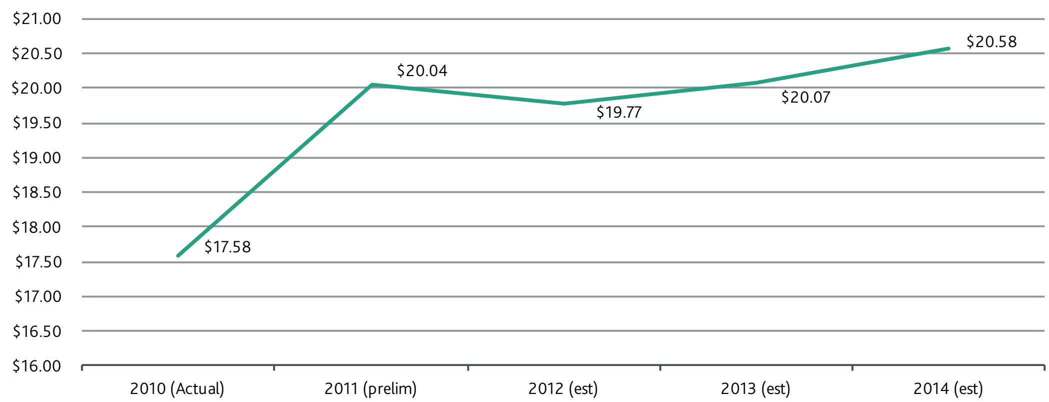
The budget includes new funds aimed at some of Michigan's most challenged communities. A new youth program primarily serving Pontiac, Flint, Saginaw and Detroit receives $5 million. Additionally, a 16% increase in funding for the Michigan State Police will be targeted towards high crime cities in the state

Much of the increased funding for local governments is tied to implementation of best practices, many of which would reduce expenses for compensation and other costs.

The proposed budget is a key turning point for the state. After years of declining revenue and reduced support to local governments, the state projects its revenues to grow over the next few years (see Exhibit 2). This biennial budget signals that the state is better positioned to provide more stable revenues for its local governments going forward.

EXHIBIT 2

Michigan Combined General Fund and School Aid Fund Revenues



Source: Senate Fiscal Agency's memorandum dated 13 January 2012

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Stronger State Aid Revenue Pledge Is Credit Positive for Michigan School Districts

On February 7, Michigan Gov. Rick Snyder signed Public Acts 1 and 2 of 2012 that, effective immediately, provide additional security to creditors of distressed school districts in the state. The acts strengthen the pledge of state aid revenues that districts typically use to repay short-term notes and, less frequently, long-term bonds. Districts have historically pledged state aid revenues to repay short-term notes issued through the Michigan Finance Authority (MFA). The new laws provide enhancements to existing and future state aid pledges made by particular districts.

Districts with large or sustained operating deficits are potential candidates for the eventual appointment of a financial emergency manager, who could then recommend bankruptcy. Public Act 1 clarifies that school districts with a state-appointed emergency manager, or that operate with a deficit fund position and have an approved deficit elimination plan, may enter into agreements with the MFA that provide for the direct payments of pledged state aid. Direct payments would be made from the treasurer to the MFA or its designated trustee for the sole purpose of repaying the district's outstanding debt that carries the state revenue pledge.

Public Act 2 offers additional security to bonds carrying the state aid pledge because it reduces the ability of a court to divert pledged state aid revenues in the event of bankruptcy. The law stipulates that upon entering into agreement with the MFA, state aid revenue pledged by distressed districts to pay debt service is protected by a statutory lien. With the lien in place, the pledged state aid can only be used toward repayment of the obligation carrying the pledge, preventing a court from diverting the pledged revenues to satisfy other creditors in bankruptcy proceedings. Previously, without the statutory lien, it was possible that a bankruptcy court could nullify the payment dedicated to retiring the obligation carrying the pledge.

While no Michigan school district has filed for bankruptcy, Public Act 4, passed in 2011, opens the door to potential filings by providing expanded power to emergency managers appointed by the state. One of those new powers is the ability to recommend to the governor that a school district file for bankruptcy. To date, two districts in Michigan, Detroit Public Schools (B1 negative) and Highland Park School District (NR), have an emergency manager appointed by the state.

There has been public opposition to Public Act 4 that could lead to its repeal. If these efforts are successful, the efficacy of Public Act 2 would be marginalized. Proponents of repeal expect to submit a signed petition later this month that would subject the law to public referendum in November 2012. If the petition is successful, it's likely that the governor would be unable to appoint further emergency managers until the referendum is decided. It remains uncertain how current emergency managers would operate under those conditions, specifically whether or not they would have the option to recommend bankruptcy.

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Greater Tax-Like Payments by Tax-Exempt Organizations Is Credit Positive for Local Governments, but Create Long-Term Risks

The City of Boston (Aaa stable) on January 20 reported that tax-exempt entities in the first half of fiscal 2012 have paid most of the increase in payments in lieu of taxes (PILOTs) the city requested. The apparent willingness of universities, hospitals, and other not-for-profits to increase PILOTs is credit-positive for Boston and other local governments, whose property tax revenues are generally suffering from stagnant or falling assessed valuations, state-imposed property tax caps, and a high volume of tax appeals.

Though far from immanent, greater PILOT revenue comes with long-term risks for some local governments should PILOTs grow so large that they impair not-for-profits' ability to create jobs and stimulate the economy, or encourage them to move elsewhere.

A task force established by the city in 2009 identified 45 tax-exempt Boston institutions whose properties were valued at more than $15 million. The city requested an increase in PILOTs of more than 40% from these institutions, which would mean more than $6 million in additional revenue. So far, they have paid 88% of the requested PILOTs, representing a 24% increase from the prior year's receipts.

Efforts by local governments to bolster PILOTs appear to be shaping into a trend. Last year, the City of Scranton, PA (NR) placed an increase in PILOTs at the center of its recovery plan. The mayor of the City of Providence, RI (A3 negative) requested an increase in PILOTs of $7.1 million this year, and the City of Worcester, MA (A1 positive), the Town of Framingham, MA (Aa2), and the City of Newton, MA (Aaa stable) have all taken steps to increase voluntary PILOTs.

EXHIBIT 1

Boston's Largest PILOTs Are Fraction of Would-Be Property Taxes

Major tax-exempt properties	Exempt Property Value	Would-be taxes *	FY 2011 Pilot	PILOT % of would-be taxes
Partners Healthcare (Aa2 stable)	$2,819	$87.51	$4.34	5.0%
Boston University (A2 positive)	$1,856	$57.61	$5.08	8.8%
Harvard University (Aaa stable)	$1,522	$47.25	$2.11	4.5%
Northeastern University (A2 stable)	$1,285	$39.90	$0.03	0.1%
Beth Israel Deaconess (CareGroup A3 positive)	$813	$25.24	$0.17	0.7%
Children's Hospital (Aa2 stable)	$661	$20.51	$0.11	0.5%
Tufts Medical Center (NR)	$569	$17.65	$0.91	5.2%
Boston College (Aa3 stable)	$526	$16.33	$0.30	1.8%
Boston Medical Center (Baa1 negative)	$317	$9.84	$0.14	1.4%
Museum of Fine Arts (Aa2 stable)	$282	$8.77	$0.07	0.8%
Dana-Farber Cancer Institute(A1 stable)	$248	$7.70	$0.10	1.3%
Emerson College (Baa1 stable)	$241	$7.47	$0.14	1.9%
Suffolk University (Baa2 stable)	$229	$7.10	$0.38	5.3%
Wentworth Institute (Baa1 negative)	$196	$6.10	$0.03	0.5%
Tufts University (Aa2 stable)	$158	$4.91	$0.23	4.7%
(dollars in millions)	(based on city tax rate)			

Source: City of Boston

PILOTs represent a potential revenue boon for local governments with high concentrations of tax-exempt properties in their tax bases, many of which are in the Northeast. A 2009 Congressional Research Service study estimated localities are foregoing as much as $32 billion in property taxes annually by not taxing exempt properties.

PILOTs are material for some local governments. More than 5% of the City of Lebanon, NH's (NR) budget comes from PILOT agreements, including one with the Dartmouth-Hitchcock Medical Center, which is associated with the medical school for Dartmouth College (Aa1stable). Almost 2% of the Borough of Princeton, NJ's (Aa1 no outlook) revenues come from a PILOT with the Princeton Theological Seminary (Aaa negative). And more than 1% of the City of New Haven, CT's (A1 negative) general fund budget comes from a variety of PILOT agreements, including one with the city's parking authority.

BITING THE HAND THAT FEEDS?

Increasing PILOTs also comes with some risks for local governments. In many regions of the US, research universities and academic medical centers are the largest employers and also promote economic development through start-up company spin-offs. The most notable example is Stanford University (Aaa stable), which played a central role in the growth of Silicon Valley. The City of New York's (Aa2 stable) recent invitation to top research universities to start a new research campus in New York is evidence of the widely recognized development potential of these major tax-exempt institutions.[1]

Placing a greater PILOT burden on these entities could reduce their financial and operating strength and ultimately reduce the employment and economic benefits they could create in the future. The incremental loss of operating independence and reduced financial capability to fund research, health care, training and education could hurt local governments that go far down this path. In general, local governments are still far from that tipping point.

[1] See "Cornell University and The Technion Partner to Expand in New York City," and "Stanford University Drops Its Bid to Expand in New York City, a Credit Positive," Weekly Credit Outlook, 12/19/2011

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Fiscal Crisis Declaration in Long Beach Boosts City Manager's Authority, a Credit Positive

Last Tuesday, the City of Long Beach, NY's (Baa3 review for downgrade) city council approved a resolution declaring the city to be in a fiscal crisis. The resolution is credit positive because it gives the city manager greater control over the city's financial operations, including the authority to implement budgetary initiatives to further fiscal stability. Importantly, it does not allow the city to forgo the payment of contractual agreements, including the payment of debt service.

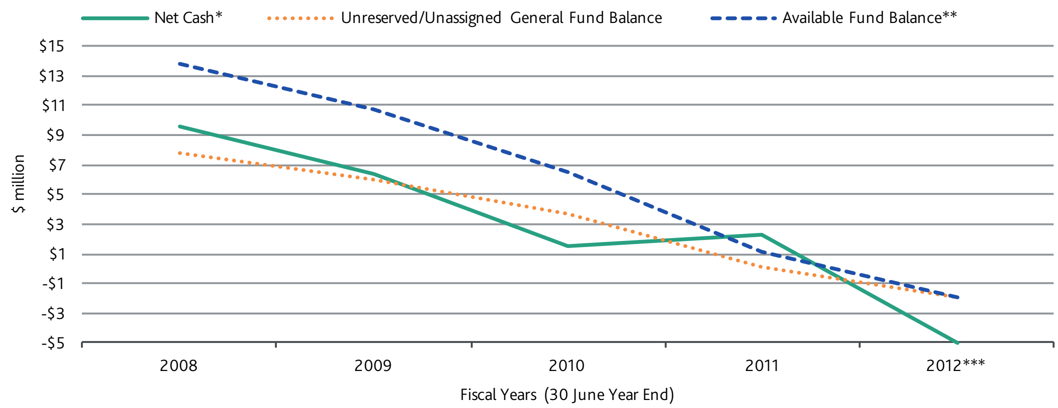
The city's fiscal crisis status gives the city manager greater control over the budget and power to implement initiatives that limit spending. All purchase requests from the city's department heads will need the city manager's approval. To address burdensome labor and overtime expenses, the city manager will implement policies that freeze the filling of non-essential positions and reduce overtime expenses in the public safety departments. These policies will require collaboration with employee bargaining groups to implement.

Overtime expenses have been a perennial strain on the city's $83.7 million budget. The city has already exceeded its entire annual overtime budget of $1.78 million by $561,868, just over half-way through the fiscal year. The city manager also gains the authority to make any and all amendments to the city's budget, including reductions in appropriations or transfers and adjustments to under-budgeted expenditures and overestimated revenues.

The declaration of fiscal crisis follows years of weakening financials as several of the city's departments have chronically spent beyond their budgets. For example, in fiscal 2011, spending by the fire department exceeded its budget by 25% and police department spending surpassed its budget by 10.3%.

As the exhibit below shows, the city's financial and liquidity positions have been in decline for several years. The city overestimated revenues from fiscal 2008 through 2011, especially those related to mortgage and utility taxes, and underestimated expenditures. Improper budgeting for transfers between the Debt Service and General Funds resulted in a draw of $1.7 million from the Debt Service Fund. As of 30 June 2011, the Unassigned General Fund balance declined to approximately $100,000, a mere 0.2% of 2011-12 expenditures. In December 2011, the city estimated that by 30 June 2012, the General Fund will have a deficit of $2 million. Consequently, in December, the city resorted to issuing cash flow notes to raise cash to meet its payroll obligations and at the time the city's projections indicated further deterioration of cash through the end of June.

Long Beach, New York, Financial Position Since 2008



* Net Cash reflects the city's cash position net of any cash flow borrowing

** Available Fund Balance consists of Undesignated/Unassigned General Fund balance plus Debt Service Fund balance

*** 2012 fiscal year end results are projected by the city as of December 2011

Source: 2008-11 Audited Financial Statements

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FAA Funding Reauthorization Is Credit Positive for US Airports

Last Monday, the US Congress approved a long-term extension of the Federal Aviation Authority's (FAA) reauthorization bill, providing much-needed stability to the funding and regulatory expectations of US airports. After 23 short-term extensions, the four-year reauthorization, with a higher-than-expected funding level of $3.35 billion per year through 2015, is credit positive for US airports, particularly those with large improvement projects. Such airports include Chicago O'Hare International Airport (A1 negative) and Broward County Airport Enterprise's (A1 stable) Fort Lauderdale International Airport.

Authorized funding for the FAA's Airport Improvement Program (AIP) was slightly below the $3.5 billion annualized funding approved for fiscal year 2011, but higher than an initial House bill that proposed $3 billion per year in AIP funding. The stability created with the long-term reauthorization more than compensates for the slight reduction in funding levels. However, we still see uncertainty in the ultimate funding process, since it is still dependent on two annual appropriations through the regular budget process. In the past, Congress has funded this program at or near authorized levels and we think the economic importance of air transportation promotes this practice.

Airports rely on AIP funding to fund improvements, with the program covering up to 75% of project costs for large and medium hub airports and 95% of project costs for small airports. By using grant funding, the airports are required to fund less capital through accumulated reserves or bond financing, preserving liquidity and lower debt ratios.

Metropolitan Washington Airport Authority's (MWAA, Aa3 negative) Ronald Reagan National Airport will be a particular beneficiary of the legislation because it removes restrictions on the airport's application for AIP or Passenger Facility Charge (PFC) (a per passenger airport usage charge) funding. Additionally, the legislation allows for more long-haul flight slots at the airport with a portion reserved for new entrant airlines. These are both credit positive because they will add new capital funding sources and increase passenger levels. While the possibility exists that these new flights may cannibalize MWAA's Dulles International Airport, the restrictions limit no more than eight flights, a reduction that would have a minimal impact on Dulles's enplanement levels.

While the annual funding rose from the earlier proposal, the reauthorization bill did not include an increase in the current maximum PFC of $4.50 per passenger. Airports hoped that lawmakers would raise the maximum rate, as inflation has eroded the value of the charge since the last increase in 2000. However, we think lower current construction costs because of the depressed construction market mitigate the threat of erosion from the current level of PFCs.

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New Fees on Natural Gas Wells Are Credit Positive for Pennsylvania Local Governments

Last Wednesday, lawmakers in Pennsylvania (Aa1 negative) passed legislation that allows counties in the state to levy a fee on natural gas wells. The new law, which Gov. Tom Corbett plans to sign, is credit positive for most of Pennsylvania's counties and municipalities as the revenue from the new fee is expected to total over $210 million in fiscal 2013, and could boost some counties' total annual revenues by up to 50%.

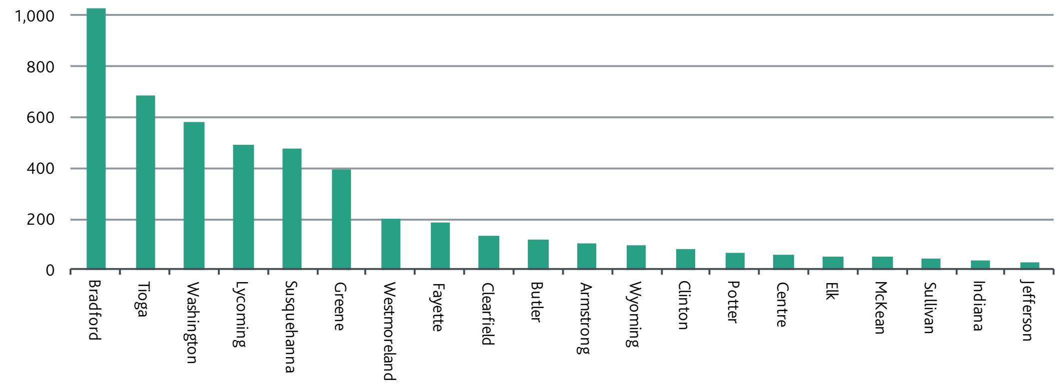
Natural gas drilling is becoming more prevalent in the state as improved technology for hydraulic fracturing (fracking) allows for greater extraction of gas from the Marcellus Shale. Until now, Pennsylvania did not authorize its counties to collect revenue from natural gas drilling. The fee provides local governments with a new revenue source at a time when growth in other municipal revenues, including earned income, sales and property taxes, are stagnant.

Under the bill, each county will have the option to charge a fee on wells within its borders, using a formula based on inflation and the average price of natural gas. If a county decides not to charge the fee, a majority vote of municipalities within the county can overrule the county's decision. The Pennsylvania Public Utility Commission will collect the fee annually. Of the total fee revenue generated each year, a small portion (approximately $20 million in fiscal 2013) will be allocated to various state environmental and public safety agencies to offset the administrative costs associated with regulating the natural gas industry. The state will distribute the remainder and largest portion of the revenue it collects to counties and municipalities based on a formula that takes into account drilling activity, population and highway miles within their borders. The legislation also standardizes the regulations imposed on drilling and overrides municipalities' power to enact and enforce their own ordinances.

Estimates of the volume of natural gas in the Marcellus Shale vary widely, but drilling activity in Pennsylvania has grown over the past several years, especially in the northern and southwestern portions of the state, where the natural gas industry believes reserves are most abundant. According to the Pennsylvania Department of Environmental Protection, 1,976 new Marcellus wells were drilled in the state in 2011, up from six in 2005. Increased drilling has contributed to economic improvement in the state by providing engineering and manufacturing jobs, as well as a rise in land values in gas-rich regions. Pennsylvania, which is competing with neighboring Ohio and West Virginia for natural gas development opportunities, initially delayed the passage of gas drilling fee legislation in order to give the industry in the state time to develop.

The amount of revenue generated in each county will depend on the number of drilling sites. Counties that will experience the most benefit are likely to be located in the southwest and northern portions of the state, including Bradford, Tioga, Washington, Lycoming, Susquehanna, Greene, Westmoreland (Aa2), and Fayette (A2 negative) (see exhibit).

Top 20 Pennsylvania Counties, by Natural Gas Wells Drilled (2005-11)



Source: Pennsylvania Department of Environmental Protection

RATING CHANGES

Arizona's Aa3 issuer rating affirmed; outlook changed to stable from negative

Feb. 6 – The action affects $4.1 billion of debt and is primarily due to significant improvement in the state's overall liquidity and stabilization of its budget position. The fiscal 2012 budget was balanced with moderate use of one-time measures, and state officials are currently projecting budget-basis operating surpluses for fiscal 2012 and 2013. A projected budget gap for fiscal 2014 appears manageable. A key contributor to the improved budget situation was the approval by the federal government of a Medicaid waiver that allows the state to contain program costs. The ratings reflect the persistence of GAAP-basis General Fund balance sheet deficits, which are unlikely to be eliminated in the foreseeable future. There is also uncertainty regarding the extent to which the state will choose to appropriate projected budget surpluses to pay for new programs or tax cuts.

Riverside County, CA's issuer rating downgraded to Aa3 from Aa2

Feb. 6 – The downgrade affects $1 billion of debt and largely reflects ongoing weakening in the county's already narrow financial position. Riverside, CA has faced substantial challenges as the weak economy cut into discretionary revenues. Management has been unable to overcome these challenges, and both operating and structural balance in the general fund remain elusive. The rating continues to reflect the county's very large tax base, which has long-term advantages such as low-cost real estate, sizable warehousing and distribution facilities, and a nascent alternative energy production sector. The effects of the recession are still palpable, including a weak housing market and high unemployment. The ratings also incorporate Riverside's manageable debt portfolio. The county's credit position will likely remain consistent with the current rating over the long term.

G.O. Debt of Davenport, IA, Downgraded to Aa2 from Aa1

Feb. 7 – The downgraded rating applies to the city's $208.3 million in post-sale general obligation unlimited tax debt. It reflects five years of declining general fund reserve levels; temporary depletion of general fund cash reserve levels at the close of fiscal 2011, followed by restoration of liquidity in fiscal 2012; and limited liquidity across the city's enterprise funds. Additionally, the rating incorporates the city's large tax base supported by its role as the regional economic center for the Quad Cities area; average socioeconomic indices; elevated debt position; and passage of the city's first biennial budget for fiscal years 2013 and 2014. Series 2012 bond proceeds will fund various capital improvements as part of the city's annual capital improvement plan. The city expects to abate a portion of debt service payments with sewer, special assessment, tax increment financing, and drainage revenues.

Pension bonds of Inglewood, CA, downgraded to A2 from A1

Feb. 10 – The change affects the issuer (implied general obligation) long-term rating on the city's 2005 pension obligation bonds. The rating action affects $60 million in Moody's-rated debt and primarily incorporates the consistent weakening of the city's financial position and declining tax base. In addition, the rating reflects the fact that the moderately sized $6.6 billion tax base located in Los Angeles County (Aa2 stable), 13 miles southwest of the city of Los Angeles (Aa3 stable), remains challenged. The rating also factors in the city's moderate but manageable debt burden of 1.2%, which is expected to decline given the absence of future debt plans, and an amortization of principal (35.8% within 10 years) that is slow relative to the payout of a comparable California city. All of the city's debt is fixed rate and the city is not party to any derivative agreements.

RESEARCH HIGHLIGHTS

CREDIT TRENDS: PRIVATIZED STUDENT HOUSING FINANCINGS DEMONSTRATE CREDIT STABILITY

Privatized student housing project bonds demonstrate stable performance as debt service and occupancy rates remain solid for most Moody's-rated financings. The overall credit quality of the portfolio has been resilient to the downturn in the real estate market and the mixed credit trends in the higher education sector with the majority of projects reporting healthy financial performance. New bond issuance has also seen a resurgence in recent years, with 10 new ratings assigned in 2010 and 2011, and we expect continued interest in the bond-financed student housing model in 2012. The following credit factors continue to represent core strengths for most financings:

» Strong market position because of competitive advantages such as location, floor plan, amenities, and integration with the university's existing housing stock.

» Rental rate growth, although at a slower rate than in prior years. Debt service coverage has returned to 2008 levels bolstered by rental rate growth.

» Resilient financial performance due to high student demand for housing units.

» Strong management that guided projects through the economic downturn.

DISSOLUTION OF CALIFORNIA REDEVELOPMENT AGENCIES INCREASES NEAR-TERM CASH FLOW RISK; LONG-TERM CHALLENGES PERSIST

A new California law that abolished all of the state's redevelopment agencies has heightened near-term credit risk to the agencies' tax allocation bonds (TABs) because it may prove challenging to implement, especially in the near term. Redevelopment agencies or RDAs used to focus on urban renewal, striving to eliminate blight and promote affordable housing within their communities. Their activities were funded with local property tax revenues that will now go to other local taxing agencies, most notably school districts, via successor agencies that will replace the RDAs. Moody's implemented a limited, one-notch downgrade across the Baa2-and-above rating spectrum on Jan. 17 to reflect the broad-based but modest nature of the new risks, and all TAB ratings remain on review for possible further downgrade. Initial implementation of the law will permit a reevaluation of the ratings within the standard 90-day review timeframe.

MOODY'S REQUEST FOR COMMENT ON PROPOSED CHANGE TO PUBLIC HOUSING AUTHORITY CAPITAL FUND BONDS METHODOLOGY

The proposed change in our rating methodology for bonds secured by capital funds will replace the current methodology: Update on Moody's Approach to Rating Public Housing Authority Capital Grant Anticipation Bonds, a methodology in place since August 2001. If implemented, the change would materially increases the debt service coverage levels associated with various rating categories to reflect substantial cuts in federal appropriation levels for Public Housing Authority (PHA) capital funds and the commensurate declines in debt service coverage of individual bond programs. The change would result in downgrades to the underlying ratings of nearly all of the 18 PHA capital fund bond programs that we rate and approximately $1.05 billion in outstanding debt. The downgrades would most likely be in a range of one to four notches in a range from A1 to low investment grade.

NEW JERSEY GOVERNOR EMBRACES REORGANIZATION OF STATE'S PUBLIC UNIVERSITY MEDICAL CARE, EDUCATION AND RESEARCH PROGRAMS

We take a generally positive view of the likely credit implications of a plan to redesign the public health sciences education and research system in New Jersey that has been proposed by the University of Medicine and Dentistry of New Jersey Advisory Committee. Recently embraced by Gov. Chris Christie, the recommendations, would result in new organizational combinations of universities to provide three separate centers of medical research and education, in northern, central, and southern New Jersey in a configuration that would bring the organization of New Jersey's public research universities more in line with nearly every other state. However, many details have yet to be worked out, including the ultimate allocation of debt servicing obligations among the affected universities. The final assignment of those obligations could affect the credit ratings of the affected institutions.

MOODY'S MUNICIPAL BOND YIELD AVERAGES (%)*

Yields (%)						Past 12 Months		Monthly Average **	
	2/9/2012	2/2/2012	1/26/2012	1/19/2012	1/12/2012	High	Low	January	December
20-Year									
Composite	3.86	3.75	4.06	3.99	4.26	5.57	4.32	4.32	4.47
Aaa	3.14	3.04	3.33	3.29	3.53	4.93	3.60	3.60	3.72
Aa	3.35	3.24	3.57	3.50	3.76	5.20	3.83	3.83	3.98
A	4.05	3.94	4.26	4.17	4.47	5.67	4.53	4.53	4.71
Baa	4.88	4.77	5.08	4.99	5.27	6.65	5.34	5.34	5.49
10-Year									
Aaa	1.89	1.87	2.01	1.97	1.93	3.49	2.11	2.11	2.24
Aa	2.09	2.07	2.25	2.17	2.16	3.76	2.33	2.33	2.48
VMIG	0.15	0.08	0.08	0.08	0.08	0.26	0.08	0.08	0.12

* Moody's Municipal Bond Yield Averages have been published weekly since 1937. They are derived from pricing data on unenhanced newly issued general obligation bonds. Each observation is an unweighted average, with the Composite average representing the unweighted average of the corresponding 20-Year observations. Highs and lows refer to monthly averages.

** Average of weekly observations.

FULLY SUPPORTED MUNICIPAL AND IRB DEALS

RATINGS ASSIGNED

February 7

New Jersey Economic Development Authority, Special Facility Revenue Bonds

62.50M Ser. 2003 B, due 2030 ... A1/VMIG 1

(Citibank, N.A. / Letter of Credit - Direct Pay)

(Port Newark Container Terminal LLC Project)

February 8

Eclipse Funding Trust (Muni. Deriv.) Custodial Receipts

$ 1.50M Ser. 2006-155 CR, due 2025 ... Aa2

$ 10.00M Ser. 2007-14A CR, due 2034 ... Aa2

$ 10.00M Ser. 2007-44 CR, due 2034 ... Aa2

$ 10.26M Ser. 2007-22 CR, due 2036 ... Aa2

$ 11.00M Ser. 2007-14 CR, due 2031 ... Aa2

$ 11.49M Ser. 2007-6 CR, due 2027 ... Aa2

$ 12.10M Ser. 2006-160 CR, due 2031 ... Aa2

$ 13.00M Ser. 2007-20C CR, due 2037 ... Aa2

$ 15.13M Ser. 2007-7 CR, due 2032 ... Aa2

$ 15.44M Ser. 2007-26 CR, due 2024 ... Aa2

$ 2.71M Ser. 2007-19 CR, due 2028 ... Aa2

$ 2.84M Ser. 2007-19A CR, due 2029 ... Aa2

$ 2.88M Ser. 2007-19D CR, due 2032 ... Aa2

$ 2.96M Ser. 2007-19B CR, due 2030 ... Aa2

$ 21.47M Ser. 2007-38A CR, due 2027 ... Aa2

$ 23.77M Ser. 2007-16 CR, due 2037 ... Aa2

$ 23.79M Ser. 2007-1 CR, due 2036 ... Aa2

$ 23.80M Ser. 2006-156 CR, due 2034 ... Aa2

$ 24.87M Ser. 2006-161 CR, due 2030 ... Aa2

$ 24.93M Ser. 2006-153A CR, due 2036 ... Aa2

$ 25.00M Ser. 2007-27 CR, due 2036 ... Aa2

$ 26.49M Ser. 2007-20A CR, due 2037 ... Aa2

$ 27.00M Ser. 2007-38 CR, due 2026 ... Aa2

$ 3.10M Ser. 2007-19C CR, due 2031 ... Aa2

$ 3.11M Ser. 2006-155A CR, due 2026 ... Aa2

$ 3.50M Ser. 2007-20B CR, due 2037 ... Aa2

$ 30.00M Ser. 2006-157 CR, due 2031 ... Aa2

$ 32.00M Ser. 2007-31 CR, due 2035 ... Aa2

$ 5.00M Ser. 2006-153 CR, due 2031 ... Aa2

$ 5.00M Ser. 2006-161A CR, due 2036 ... Aa2

$ 5.42M Ser. 2006-155B CR, due 2030 ... Aa2

$ 6.00M Ser. 2006-156A CR, due 2036 ... Aa2

$ 6.21M Ser. 2007-1A CR, due 2036 ... Aa2

$ 7.00M Ser. 2007-20 CR, due 2032 ... Aa2

(U.S. Bank National Association / Letter of Credit - Direct Pay)

Metropolitan Government of Nashville & Davidson County Health & Educational Facilities Board, TN, Multifamily Housing Revenue Bonds

$ 5.00M 2.5% Ser. 2012, due 2028 ... Aaa

(Willow Pointe Apartments Project)

February 9

Eclipse Funding Trust, (Muni. Deriv.) Solar Eclipse Certificates

$ 10.20M Ser. 2007-0044 (Solar), due 2034 ... Aa2/VMIG 1

$ 10.26M Ser. 2007-0022 (Solar), due 2036 ... Aa2/VMIG 1

$ 10.27M Ser. 2006-0155 (Solar), due 2030 ... Aa2/VMIG 1

$ 11.52M Ser. 2007-0006 (Solar), due 2027 ... Aa2/VMIG 1

$ 12.34M Ser. 2006-0160 (Solar), due 2031 ... Aa2/VMIG 1

$ 14.49M Ser. 2007-0019 (Solar), due 2032 ... Aa2/VMIG 1

$ 15.15M Ser. 2007-0007 (Solar), due 2032 ... Aa2/VMIG 1

$ 15.44M Ser. 2007-0026 (Solar), due 2024 ... Aa2/VMIG 1

$ 21.05M Ser. 2007-0014 (Solar), due 2034 ... Aa2/VMIG 1

$ 24.20M Ser. 2007-0016 (Solar), due 2037 ... Aa2/VMIG 1

$ 25.71M Ser. 2007-0027 (Solar), due 2036 ... Aa2/VMIG 1

$ 30.25M Ser. 2006-0156 (Solar), due 2036 ... Aa2/VMIG 1

$ 30.33M Ser. 2007-0001 (Solar), due 2036 ... Aa2/VMIG 1

$ 30.43M Ser. 2006-0161 (Solar), due 2036 ... Aa2/VMIG 1

$ 30.69M Ser. 2006-0153 (Solar), due 2036 ... Aa2/VMIG 1

$ 31.10M Ser. 2006-0157 (Solar), due 2031 ... Aa2/VMIG 1

$ 32.99M Ser. 2007-0031 (Solar), due 2035 ... Aa2/VMIG 1

$ 50.22M Ser. 2007-0038 (Solar), due 2027 ... Aa2/VMIG 1

$ 51.55M Ser. 2007-0020 (Solar), due 2037 ... Aa2/VMIG 1

(U.S. Bank National Association / Liquidity Facility)

RBC Municipal Products Inc. (Muni. Deriv.) FR Certificates

$ 248.10M Ser. E-32 FR, due 2021 ... Aa1/VMIG 1

$ 248.11M Ser. 2012-E32 CR, due 2021 ... Aa1

$ 8.27M Ser. O-23 (STICS) FR, due 2044 ... Aa2/VMIG 1

(Royal Bank of Canada / Letter of Credit - Direct Pay)

February 10, 2012

Deutsche Bank Securities Inc. (Muni. Deriv.) Custodial Receipts

$ 10.30M 6% Ser. DBE-1055 CR, due 2022 ... Aa3

(Deutsche Bank AG / Swap Agreement)

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