

U.S. Public Finance Rating Actions Second-Quarter 2013

Special Report

Rating Actions for Second Quarter

Downgrades Outnumbered Upgrades: During the second quarter of 2013 and for the 18th consecutive quarter, U.S. public finance rating downgrades outnumbered upgrades. The number of downgrades increased compared to the first quarter while the number of upgrades decreased.

Downgrades Increased from First Quarter: Fitch Ratings downgraded 68 credits, which represented approximately 6.5% of all rating actions and \$53.8 billion in par value. In the first quarter of 2013, Fitch downgraded 57 credits.

Upgrades Decreased from First Quarter: Fitch upgraded 24 credits, which represented 2.3% of all rating actions and \$9.7 billion in par value. In the first quarter of 2013, Fitch upgraded 31 credits.

Downgrade to Upgrade Ratios Increased: The number of downgrades exceeded upgrades by a margin of 2.8:1, which increased from 1.8:1 in the prior quarter. The downgrade to upgrade ratio by par value was 5.5:1, increased from 3.9:1 in the prior quarter.

Negative Outlooks Exceeded Positive: The number of Negative Rating Outlooks, 243, continued to exceed the number of Positive Rating Outlooks, 73, resulting in a 3.3:1 ratio at the end of the second quarter.

Share of Outlooks Unchanged: The share of U.S. public finance securities with a Negative Rating Outlook was roughly the same in the second quarter as the first quarter, 6.7% versus 6.6% at the end of March. The share of securities with a Positive Rating Outlook was also unchanged from the prior quarter at 2.0%.

Negative Watches Increased: There were 34 Negative Rating Watches at the end of the second quarter versus 19 in the prior quarter. There was one Positive Rating Watch at the end of the second quarter of 2013.

Most Rating Actions Affirmations: A majority of the rating actions (84%) during the second quarter were affirmations. Furthermore, 90% of ratings had a Stable Rating Outlook at the end of the second quarter.

Related Research

2013 U.S. Public Finance Outlooks
(January 2013)

Analysts

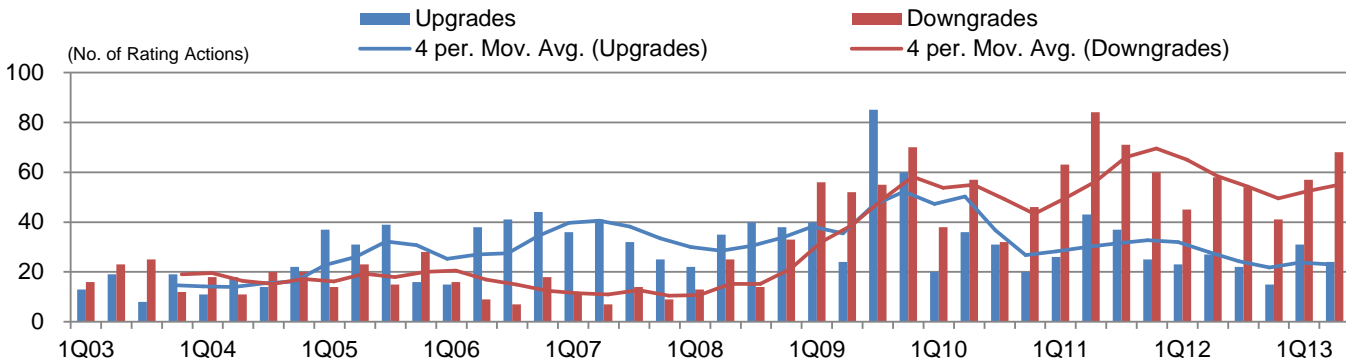
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Method

Rating actions are indicated by security. While each upgrade and downgrade that occurred during the quarter is counted, Rating Watches and Outlooks are tallied as of the end of the quarter.

U.S. Public Finance Upgrades and Downgrades

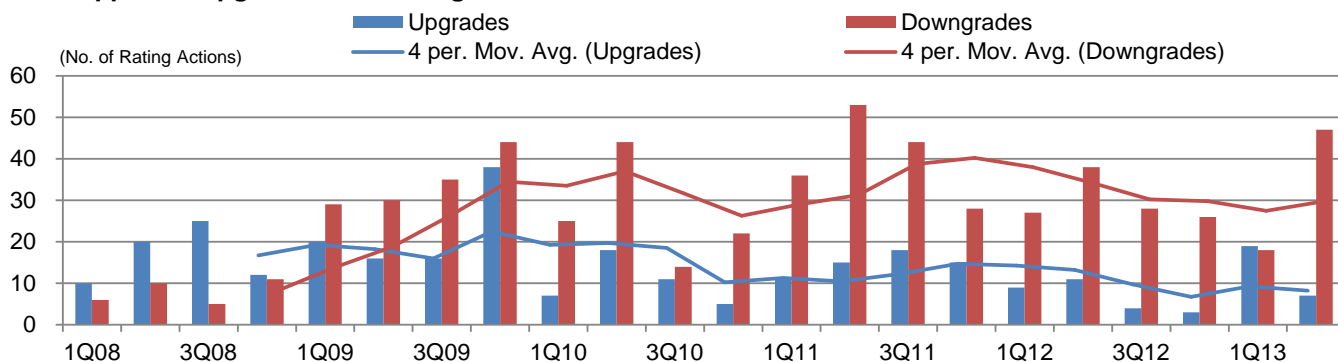


Upgrades and Downgrades

The increase in the number of downgrades in the second quarter was driven by the increase in the number of tax-supported downgrades, which jumped to 47 in the second quarter compared to 18 downgrades in the first quarter. The number of tax-supported downgrades was at its highest level since the second quarter of 2011. This is in contrast to first quarter, when the number of tax-supported downgrades was at its lowest level in 10 quarters. The increase reverses the mini-trend Fitch observed in which tax-supported downgrades decreased in each of the prior three quarters.

However, when measured over two quarters, the number of tax-supported downgrades in the first one-half of this year (65) is the same as the number of downgrades in the first one-half of 2012.

Tax-Supported Upgrades and Downgrades



While a total of 68 securities were downgraded, a number of these were related securities. Forty-five issuers were affected by downgrades in the second quarter. A total of 15 securities related to 10 school districts were downgraded in the second quarter. Seven of these issuers were California school districts.

Related Criteria

Revenue-Supported Rating Criteria
(June 2013)

Tax-Supported Rating Criteria
(August 2012)

Largest Downgrades by Par Amount

The downgrade of \$27.5 billion of Illinois' GO debt was the largest downgrade by par amount. The downgrade to 'A-' from 'A' on June 3 was spurred by the ongoing inability of the state to address its large and growing unfunded pension liability, most recently through the failure to pass pension reform during the regular legislative session that ended May 31, 2013. Fitch believes that the burden of large unfunded pension liabilities and growing annual pension expenses is unsustainable and that failure to achieve reform measures despite the substantial focus on this topic exacerbates concern about management's willingness and ability to address the state's numerous fiscal challenges.

In addition to Illinois, the top five downgrades by par amount were the Dallas-Fort Worth International Airport (DFW) revenue bonds, Puerto Rico Aqueduct and Sewer Authority (PRASA) revenue bonds, Detroit Water and Sewerage Department water revenue bonds and sewer revenue bonds, and Detroit GO bonds.

Upgrades and Downgrades of Fitch-Rated Public Finance Issuers

(No. of Credits)

	Upgrades						Downgrades					
	2Q12	3Q12	4Q12	1Q13	2Q13	Change from Previous Quarter	2Q12	3Q12	4Q12	1Q13	2Q13	Change from Previous Quarter
Healthcare	4	7	3	3	5	2	5	6	8	7	7	0
Higher Education and Nonprofit	3	0	3	1	0	(1)	3	1	2	26	2	(24)
Housing	3	0	0	0	0	0	2	0	0	1	0	(1)
Other Revenue	0	0	0	0	1	1	0	1	0	0	0	0
Public Power	4	4	5	0	1	1	1	2	1	1	0	(1)
Tax Supported	11	4	3	19	7	(12)	38	28	26	18	47	29
Transportation	1	2	0	3	4	1	5	14	1	0	4	4
Water and Sewer Revenue	1	5	1	5	6	1	4	2	3	4	8	4
Total	27	22	15	31	24	(7)	58	54	41	57	68	11

The downgrade of DFW's revenue bonds to 'A' from 'A+' reflected the sizable increase in airport borrowings to fund DFW's terminal renewal and improvement and ongoing capital programs. The rising debt burden over the next 12–24 months will result in high leverage, which is not consistent with the debt burden of other 'A+' rated large hub U.S. airports.

The downgrade of the Commonwealth of Puerto Rico in March 2013 was the major factor behind the downgrade of PRASA to 'BBB-' from 'BBB'. PRASA's historical reliance for both direct and indirect support from the commonwealth to balance its operations as well as the role the commonwealth has played in PRASA's ratemaking decisions create a significant linkage to the commonwealth's credit quality (GOs rated 'BBB-' with a Negative Rating Outlook by Fitch).

On April 1, Fitch downgraded Detroit's water senior and second lien revenue bonds and its sewer senior and second lien revenue bonds to 'BBB+/BBB', Rating Outlook Negative, from 'A/A-' due to weak financial performance below prior expectations as well as rising capital needs that could pressure the system's already highly leveraged debt profile in the case of the sewer bonds. Fitch was also concerned that potential actions by the emergency manager could negatively affect the system's long-term credit characteristics. On June 14, Fitch placed Detroit's respective water and sewer system revenue bond on Rating Watch Negative following the release of the emergency manager's proposal for creditors. The Negative Watch reflects

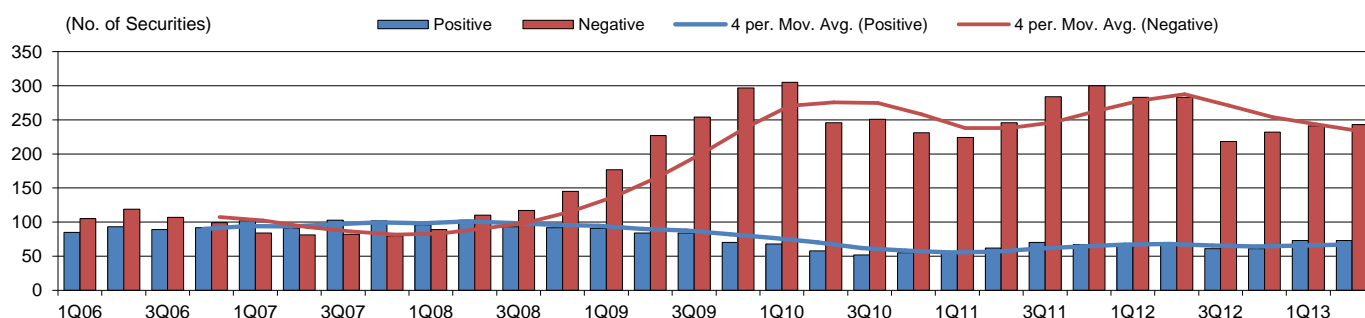
uncertainty regarding the intention of the city's emergency manager to seek a negotiated debt exchange and the response of creditors to that proposal.

Also on June 14, Fitch downgraded Detroit's unlimited tax GOs (ULTGOs), limited tax GOs (LTGOs), and certificates of participation (COPs) to 'C'. The downgrade was in response to the emergency manager's proposal that calls for a distressed debt exchange for ULTGO and LTGO bonds, which Fitch would consider a default. The proposal also stated that the city would not make the next debt service payment on the pension COPs. The COPs were subsequently downgraded to 'D' when the payment was missed.

Largest Upgrade by Par Amount

The upgrade of Michigan's GO debt to 'AA' from 'AA-', as well as upgrades of other Michigan debt ratings to 'AA-' from 'A+', was the largest upgrade by par amount. The upgrades were based on the state's solid economic and fiscal recovery over the past two years including the improved competitive posture of the state's auto industry after its restructuring. Moreover, the state has made considerable progress in bolstering its finances, with structurally balanced budgeting, growing reserves, and an improving cash balance.

U.S. Public Finance Outlooks



Source: Fitch.

Rating Outlooks and Watches

The elevated number of housing credits on Rating Outlook Negative (see table on page 5) is primarily due to the Rating Outlook Negative assigned to housing bonds whose repayments are secured by guarantees issued by agencies of the U.S. government (AAA/Rating Outlook Negative).

The increase from last quarter in the number of securities on Rating Watch Negative is also partially attributable to an action in the housing sector. In May, the housing group placed Idaho Housing and Finance Association's single-family indenture bonds series 2000A-2000E on Rating Watch Negative, reflecting the bonds' asset parity ratios that were no longer in compliance with their respective asset parity requirements. The action affected 10 securities. The Rating Watch Negative was resolved and nine of the securities were affirmed on July 2 after funds were transferred into the indentures to put them back in compliance. The series 2000C bonds were downgraded to 'AA' from 'AAA' as coverage was lower than historical asset parity coverage.

There was one rating on Rating Watch Positive in the second quarter.

Rating Watch and Rating Outlook

(No. of Credits)

	Positive						Negative					
	2Q12	3Q12	4Q12	1Q13	2Q13	Change from Previous Quarter	2Q12	3Q12	4Q12	1Q13	2Q13	Change from Previous Quarter
Rating Watch												
Healthcare	0	0	0	1	1	0	0	2	2	0	3	3
Higher Education and Nonprofit	0	0	0	0	0	0	2	27	27	2	3	1
Housing	0	0	0	0	0	0	4	6	6	3	10	7
Other Revenue	0	0	0	0	0	0	1	0	0	0	0	0
Public Power	0	0	0	0	0	0	2	3	1	1	1	0
Tax Supported	1	0	0	0	0	0	66	22	11	10	10	0
Transportation	0	0	0	0	0	0	1	2	0	0	0	0
Water and Sewer Revenue	0	0	0	0	0	0	2	3	3	3	7	4
Total	1	0	0	1	1	0	78	65	50	19	34	15
Rating Outlook												
Healthcare	14	11	14	14	18	4	21	17	19	22	20	(2)
Higher Education and Nonprofit	4	3	0	2	3	1	8	6	5	7	10	3
Housing	0	0	0	0	0	0	65	12	22	23	29	6
Other Revenue	0	1	1	1	0	(1)	1	1	1	1	0	(1)
Public Power	5	4	1	4	5	1	8	10	11	16	16	0
Tax Supported	31	31	34	40	38	(2)	136	144	148	147	145	(2)
Transportation	5	4	4	4	2	(2)	32	15	10	10	9	(1)
Water and Sewer Revenue	8	7	7	8	7	(1)	12	13	16	15	14	(1)
Total	67	61	61	73	73	0	283	218	232	241	243	2

Second-Quarter 2013 Upgrades and Downgrades

Issuer	Security Type	Rating	Rating Action	Outlook/Watch	Date
Healthcare					
Army Retirement Residence Foundation (The) (TX)	General Revenues	BBB-	Downgraded	Rating Outlook Negative	4/23/13
Baywood Court Retirement (CA)	General Revenues	BBB+	Upgraded	Rating Outlook Stable	6/7/13
Beatrice Community Hospital (NE)	General Revenues	BB+	Downgraded	Rating Outlook Stable	4/10/13
Cape Cod Healthcare, Inc. and Affiliates (MA)	General Revenues	A-	Upgraded	Rating Outlook Stable	5/20/13
Cathedral Village (PA)	General Revenues	BBB-	Downgraded	Rating Outlook Stable	5/3/13
Citrus Memorial Health Foundation, Inc (FL)	General Revenues	B	Downgraded	Rating Watch Negative	5/3/13
Doctors Community Hospital (MD)	General Revenues	BB+	Downgraded	Rating Outlook Stable	6/14/13
Elkhart General Hospital (IN)	General Revenues	AA-	Upgraded	Rating Outlook Stable	4/15/13
Great Plains Regional Medical Center (OK)	General Revenues	BB+	Downgraded	Rating Outlook Negative	5/8/13
Immanuel (NE)	General Revenues	AA-	Upgraded	Rating Outlook Stable	6/14/13
Olmsted Medical Center (MN)	General Revenues	A-	Upgraded	Rating Outlook Stable	4/2/13
Temple University Health System (PA)	General Revenues	BB+	Downgraded	Rating Outlook Stable	5/28/13
Education and Nonprofits					
Enterprise Charter School (NY)	General Revenues	BB	Downgraded	Rating Watch Negative	6/14/13
Sarah Lawrence College (NY)	General Revenues	BBB-	Downgraded	Rating Outlook Negative	4/24/13
Public Power					
Austin (TX)	Combined Utility Revenues	AA	Upgraded	Rating Outlook Stable	6/13/13

Second-Quarter 2013 Upgrades and Downgrades (continued)

Issuer	Security Type	Rating	Rating Action	Outlook/Watch	Date
Tax-Supported					
Addison Village (IL)	General Obligation - Unlimited Tax	AA+	Downgraded	Rating Outlook Stable	5/20/13
Buellton Union School District (CA)	General Obligation - Unlimited Tax	A+	Downgraded	Rating Outlook Stable	5/14/13
Chicago (IL)	Fuel Tax Revenues	BBB+	Downgraded	Rating Outlook Negative	6/14/13
Corte Madera (CA)	Implied General Obligation - Unlimited Tax	BBB+	Downgraded	Rating Outlook Negative	6/13/13
Corte Madera (CA)	Lease Obligations - Standard	BBB-	Downgraded	Rating Outlook Negative	6/13/13
Detroit (MI)	General Obligation - Limited Tax	C	Downgraded	[no outlook]	6/14/13
Detroit (MI)	General Obligation - Unlimited Tax	C	Downgraded		6/14/13
Detroit (MI)	General Fund Obligations	C	Downgraded		6/14/13
Detroit (MI)	General Fund Obligations	D	Downgraded		6/17/13
Essex County (NJ)	General Obligation - Unlimited Tax	AA	Upgraded	Rating Outlook Stable	6/10/13
Fulton County (GA)	Lease Obligations	AA-	Downgraded	Rating Outlook Negative	4/19/13
Fulton County (GA)	Limited Ad Valorem Tax	AA	Downgraded	Rating Outlook Negative	4/19/13
Fulton County (GA)	General Obligation - Unlimited Tax	AA	Downgraded	Rating Outlook Negative	4/19/13
Grand Blanc Township (MI)	General Obligation - Limited Tax	AA-	Downgraded	Rating Outlook Negative	6/17/13
Hamden (CT)	General Obligation - Unlimited Tax	BBB+	Downgraded	Rating Outlook Negative	4/16/13
Illinois, State of (IL)	Illinois Sports Facility Fund	BBB+	Downgraded	Rating Outlook Negative	6/3/13
Illinois, State of (IL)	General Obligation - Unlimited Tax	A-	Downgraded	Rating Outlook Negative	6/3/13
Kalamazoo (MI)	Implied General Obligation - Unlimited Tax	AA	Downgraded	Rating Outlook Negative	5/7/13
Kalamazoo (MI)	General Obligation - Limited Tax	AA-	Downgraded	Rating Outlook Negative	5/7/13
Kentucky School Aid Intercept Program (KY)	State School Bond Program Rating	A+	Downgraded	Rating Outlook Stable	4/11/13
King City Union School District (CA)	General Obligation - Unlimited Tax	A	Downgraded	Rating Outlook Stable	6/10/13
Maine Municipal Bond Bank (ME)	State Appropriation	A+	Downgraded	Rating Outlook Stable	4/5/13
Martin County School Board (FL)	Implied General Obligation - Unlimited Tax	A+	Downgraded	Rating Outlook Negative	6/3/13
Martin County School District (FL)	Lease Obligations	A	Downgraded	Rating Outlook Negative	6/3/13
Michigan, State of (MI)	Local Government Loan Program	AA-	Upgraded	Rating Outlook Stable	4/2/13
Michigan, State of (MI)	School Loan Program Revenues	AA-	Upgraded	Rating Outlook Stable	4/2/13
Michigan, State of (MI)	General Obligation - Unlimited Tax	AA	Upgraded	Rating Outlook Stable	4/2/13
Michigan, State of (MI)	Lease Obligations - State Appropriation	AA-	Upgraded	Rating Outlook Stable	4/2/13
Mojave Unified School District (CA)	Implied General Obligation - Unlimited Tax	A+	Downgraded	Rating Outlook Stable	4/25/13
Mojave Unified School District (CA)	Lease Obligations - Standard	A	Downgraded	Rating Outlook Stable	4/25/13
Mojave Unified School Facilities Improvement District No. 1 (CA)	General Obligation - Unlimited Tax	A+	Downgraded	Rating Outlook Stable	4/25/13
Nassau County (NY)	Lease Obligations	A-	Downgraded	Rating Outlook Negative	6/11/13
Nassau County (NY)	General Obligation - Limited Tax	A	Downgraded	Rating Outlook Negative	6/11/13
Nassau County (NY)	General Obligation - Unlimited Tax	A	Downgrade	Rating Outlook Negative	6/11/13
Natomas Unified School District (CA)	General Obligation - Unlimited Tax	BBB+	Upgraded	Rating Outlook Positive	4/18/13
New Haven (CT)	General Obligation - Unlimited Tax	A	Downgraded	Rating Outlook Negative	4/19/13
Pasadena (CA)	Implied General Obligation - Unlimited Tax	AA+	Downgraded	Rating Outlook Stable	5/24/13
Pasadena (CA)	Lease Obligations - Non-Standard	AA-	Downgraded	Rating Outlook Stable	5/24/13
Pasadena (CA)	General Fund Contractual Obligations - Pension	AA	Downgraded	Rating Outlook Stable	5/24/13
Pasadena (CA)	Lease Obligations - Standard	AA	Downgraded	Rating Outlook Stable	5/24/13
Redding Redevelopment Agency (CA)	Tax Increment Revenues - SHASTEC Redevelopment Project	BBB	Downgraded	Rating Outlook Stable	6/13/13
Robstown (TX)	General Obligation - Limited Tax	BBB	Downgraded	Rating Outlook Negative	4/3/13
Sacramento City Unified School District (CA)	Lease Obligations - Standard	A	Downgraded	Rating Outlook Stable	5/10/13
Sacramento City Unified School District (CA)	General Obligation - Unlimited Tax	A+	Downgraded	Rating Outlook Stable	5/10/13
San Ysidro School District (CA)	Lease Obligations - Standard	BBB	Downgraded	Rating Outlook Negative	5/21/13
San Ysidro School District (CA)	General Obligation - Unlimited Tax	BBB+	Downgraded	Rating Outlook Negative	5/21/13
Santa Ana Unified School District (CA)	General Obligation - Unlimited Tax	A+	Downgraded	Rating Outlook Negative	4/8/13
Seneca East Local School District (OH)	General Obligation - Unlimited Tax	A	Downgraded	Rating Outlook Stable	6/27/13
Syracuse Industrial Development Agency (NY)	Appropriation Based with Surety	AA-	Upgraded	Rating Outlook Positive	6/12/13
Taylorsville (UT)	Implied General Obligation - Unlimited Tax	AA	Downgraded	Rating Outlook Negative	4/22/13
Taylorsville (UT)	Sales Tax Revenues	AA	Downgraded	Rating Outlook Negative	4/22/13
West Oso Independent School District (TX)	General Obligation - Unlimited Tax	A	Downgraded	Rating Outlook Stable	4/10/13
West Warwick (RI)	General Obligation - Unlimited Tax	BBB-	Downgraded	Rating Watch Negative	6/21/13
Windsor Unified School District (CA)	General Obligation - Unlimited Tax	A+	Downgraded	Rating Watch Negative	5/31/13

Second-Quarter 2013 Upgrades and Downgrades (continued)

Issuer	Security Type	Rating	Rating Action	Outlook/Watch	Date
Transportation					
Buffalo & Fort Erie Public Bridge Authority (NY)	Toll Revenues	A	Upgraded	Rating Outlook Stable	4/23/13
Commonwealth Transportation Board (VA)	Federal Highway Reimbursements	AA+	Upgraded	Rating Outlook Stable	6/7/13
Dallas-Fort Worth (TX)	Airport Revenues	A	Downgraded	Rating Outlook Stable	4/10/13
Harris County (TX)	Toll Revenues	AA	Upgraded	Rating Outlook Stable	5/20/13
Manchester (NH)	Airport Revenues	BBB+	Downgraded	Rating Outlook Negative	5/3/13
Rhode Island Airports Corporation (RI)	Airport Revenues	BBB+	Downgraded	Rating Outlook Stable	5/3/13
St. Louis (MO)	Airport Revenues	BBB+	Upgraded	Rating Outlook Stable	6/14/13
Toll Road Investors Partnership II, L.P. (VA)	Toll Revenues	BB+	Downgraded	Rating Outlook Stable	4/15/13
Water and Wastewater					
Bexar Metropolitan Water District (TX)	Water Revenues	A+	Upgraded	Rating Outlook Stable	5/24/13
Detroit (MI)	Sewer Revenues (2nd Lien)	BBB	Downgraded	Rating Outlook Negative	4/1/13
Detroit (MI)	Water Revenues (2nd Lien)	BBB	Downgraded	Rating Outlook Negative	4/1/13
Detroit (MI)	Sewer Revenues	BBB+	Downgraded	Rating Outlook Negative	4/1/13
Detroit (MI)	Water Revenues	BBB+	Downgraded	Rating Outlook Negative	4/1/13
Eagle Pass (TX)	Water & Sewer Revenues	A	Upgraded	Rating Outlook Stable	5/10/13
Fort Worth (TX)	Water & Sewer Revenues	AA	Downgraded	Rating Outlook Stable	4/10/13
Lee County (FL)	Water & Sewer Revenues	AA	Upgraded	Rating Outlook Stable	6/24/13
Lewisville (TX)	Water & Sewer Revenues	AAA	Upgraded	Rating Outlook Stable	5/3/13
Mountain Regional Water Special Service District (UT)	Water Revenues	A+	Downgraded	Rating Outlook Stable	5/14/13
Puerto Rico Aqueduct & Sewer Authority (PR)	Water & Sewer Revenues	BBB-	Downgraded	Rating Outlook Negative	4/18/13
San Antonio (TX)	Water Revenues - DSP (2nd Lien)	A	Upgraded	Rating Outlook Stable	5/24/13
Sarasota (FL)	Water & Sewer Revenues	AA	Upgraded	Rating Outlook Stable	6/19/13
South Bayside System Authority (CA)	Sewer Revenues	A+	Downgraded	Rating Outlook Stable	5/30/13

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