

# CDFA // BNY MELLON DEVELOPMENT FINANCE WEBCAST SERIES

## Evaluating Credit Risk in the Muni Market

The Broadcast will Begin at 1:00pm EDT

- ▶ Submit your questions in advance using the GoToWebinar control panel
- ▶ View previous webcast recordings online at [www.cdfa.net](http://www.cdfa.net)

CDFA // BNY MELLON  
DEVELOPMENT FINANCE  
WEBCAST SERIES



BNY MELLON

Hello! Welcome to the webcast.



## Katie Kramer

Vice President  
Council of Development Finance Agencies  
Columbus, OH

### Are you a CDFA Member?

Members receive exclusive access to thousands of resources in the CDFA Online Resource Database.

Create your unique login today at [www.cdfa.net](http://www.cdfa.net)

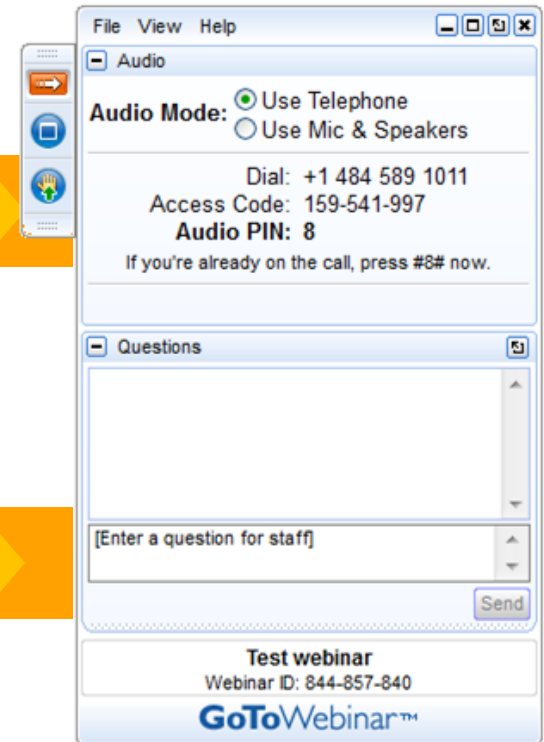
CDFA // BNY MELLON  
DEVELOPMENT FINANCE  
WEBCAST SERIES



BNY MELLON

Listen through the telephone for best audio quality.

Submit your questions to the panelists here.



CDFA // BNY MELLON  
DEVELOPMENT FINANCE  
WEBCAST SERIES



BNY MELLON



## CDFA Training Institute

14 courses in development finance designed for all skill levels. Learn more and register today at [www.cdfa.net](http://www.cdfa.net)

## Panelists

### Rena Nakashima, *Moderator*

Senior Project Manager  
BNY Mellon

### Richard Raphael

Managing Director  
Fitch Ratings

### Rachel Cortez

Vice President/Senior Analyst/Manager  
Public Finance Group  
Moody's Investor Service

### Laura Kuffler-Macdonald

Senior Director  
Standard & Poor's

## CDFA // BNY MELLON DEVELOPMENT FINANCE WEBCAST SERIES



BNY MELLON



## Rena Nakashima

Senior Product Manager  
BNY Mellon  
Los Angeles, CA

### What are you reading?

Your development finance toolbox isn't complete without a set of CDFA reference guides. Members save 15% on every purchase.

Order today at [www.cdfa.net](http://www.cdfa.net).

CDFA // BNY MELLON  
DEVELOPMENT FINANCE  
WEBCAST SERIES



BNY MELLON



## Richard Raphael

Managing Director

Fitch Ratings

### Are you a CDFA Member?

Members receive exclusive access to thousands of resources in the CDFA Online Resource Database.

Create your unique login today at [www.cdfa.net](http://www.cdfa.net)

CDFA // BNY MELLON  
DEVELOPMENT FINANCE  
WEBCAST SERIES



BNY MELLON





**Fitch**Ratings

## **CDFA Webinar- Fitch's State & Local Credit Update**

Richard Raphael  
Managing Director & Head, U.S. Public Finance  
Fitch Ratings

June 16, 2015

# Key State Credit Issues

- Budget challenges continue to be manageable in an environment of continued economic and revenue growth
  - Strength of Economic and Revenue Recovery
  - Ongoing Spending Pressures
  - Tax Relief Demands
- Risks Related to Federal Government Now Longer Term
- Core State Credit Strengths Unchanged
- State Credit Trends Largely Stable



# Strength of Economic and Revenue Recovery

- Most current year state budgets realistically assumed continued but below historical trend economic and revenue recovery.
- Revenues to date are generally in line with or exceeding estimates (energy related states an exception) but are still not robust.
- The continued economic and revenue recovery has led to demands on both the spending and taxing side of the equation. There are calls to increase program funding following years of constraint, as well as pressures to lower taxes. Thus far, budget managers have been cautious.

# Ongoing Spending Pressures

- Spending growth in some areas, particularly healthcare (Medicaid) and pensions, continues to outpace slower revenue growth in many states.
- Medicaid continues to be the focus of spending control, and possible alternatives to Medicaid expansion through federal waivers continue to be discussed in states that did not expand eligibility under ACA.
- Revenue caution continued during this budget development season, which combined with pent up demands contributed to challenging budget processes for more states than expected at this point in the recovery cycle.
- Pensions under control for most states with some notable exceptions including Ill, NJ, Pa, Ky.
- Pension/Legal Issues-- Recent pension related court decisions are State specific-- increasing clarity in such states--Or, RI, Ill, NJ.
- Transportation capital demands remain a funding pressure. Proposals to increase funding to this area have been met with mixed success.

# Tax Relief Demands

- Numerous states enacted tax cuts in their fiscal 2015 budgets with the stated goal of spurring economic development.
- Changes were relatively modest in scope.
- Enacted tax cuts in some states do not go into effect until the out years.

# Risks Related to Federal Government Now Longer Term

- The threat of federal action that derails economic recovery or materially lowers funding to the states has abated for the time being.
- Although the implementation of federal health care reform has presented challenges, the negative budgetary impact effecting some states has been manageable.
- Longer term, states remain significantly exposed to the possibility of federal funding cuts, although Fitch believes states would have time to adjust to any significant federal actions.
- Any material reduction in federal support for the Medicaid program could be negative for state credit, particularly in the absence of related mandate relief.
- Steep cuts to vulnerable discretionary programs and/or federal tax code changes also could have significant effects on state budgets and economies over time.

# State Credit Trends Largely Stable

- Fitch expects most state ratings to remain stable.
- States are continuing to manage budgets closely as the slow economic recovery supports revenue growth.
- Of Fitch's current U.S. state general credit ratings, four carry a negative outlook (Connecticut, Illinois, Mississippi, and New Jersey) and the rest are stable.

# Core State Credit Strengths Unchanged

- U.S. states have broad economies and tax bases and substantial control over revenue raising and spending.
- The states' primary role is funding rather than providing services, allowing additional flexibility to control expenditures by downloading fiscal challenges to service providers, including local governments and universities.
- These inherent strengths should continue to support high ratings in the sector.

# Key Local Credit Issues

- Moderate revenue recovery provides some budget relief but spending pressures are still present.
- Key credit issues include:
  - Stable Property Tax Tends
  - Other Revenues More Variable
  - Spending Under Control
  - Changing Labor/Management Relationship
  - Addressing Capital Needs
  - Mixed Pension Outlook
  - Bankruptcy Ramifications
  - Core Fundamentals Remain Strong



# Stable Property Tax Trends

- Recent Assessed Value and home price trends indicate modest to moderate near-term property tax revenue growth
  - S&P/Case-Shiller's 20-City Composite Home Price Index shows continued, but slower, year-over-year growth
- Fitch's First-Quarter 2015 Sustainable Home Price Report indicates national home prices are at sustainable levels
  - Continued economic growth should place modest upward pressure on prices for the foreseeable future
  - Home sales volumes are recovering, but production levels are low
  - Austin, Houston, Phoenix, Riverside, Miami, and San Antonio highlighted as the most overvalued
  - Analysis differentiates between cities with strong fundamentals but over-exuberant growth (San Francisco Bay area, Texas oil-patch cities) and those with constricted supplies (Miami, Las Vegas, Phoenix)
- Given the lag between changes in home prices and their impact on property taxes, revenue growth should continue into 2016

# Other Revenues More Variable/Economic Sensitive

- Many local governments receive funding from either local option or state-shared sales and income taxes
  - Revenue from these sources is subject to greater volatility than property taxes
- Moderate GDP growth should support revenue increases this year
  - Fitch's Global Economic Outlook forecasts GDP growth of 3.1% in 2015 and 3% 2016
    - Private consumption will remain the key growth driver
    - Lower oil prices, higher household disposable income, and strengthening labor market also support growth
    - Export performance will remain constrained by US dollar appreciation
    - Interest rate increases will start in mid-2015 and continue gradually
- Lower oil prices likely to have a moderate and gradual impact on local revenues
  - The direction and magnitude of the impact depends on composition of the economy, revenue composition, and valuation process
    - Oil-dependent regions expected to see some decline in drilling and exploration activity
    - Refining activity may improve
    - Other regions more likely to see benefit of lower prices
- State funding on a stable to positive trend
- Federal actions that affect states and in turn locals are assumed to be incremental
- Federal healthcare reform creates uncertainty for states, which in turn affects local governments
  - Local entities that are responsible for public hospitals face particular uncertainty
  - "Cadillac Tax" takes effect in 2018

# Spending Under Control

- A few local governments are still struggling to reduce spending to compensate for weak revenue performance and pension payment increases
- The more common challenge is addressing spending items that have long been postponed
  - Wage increases
  - Service restoration
  - Infrastructure and facility maintenance needs
- More manageable challenges than the heavy cuts required during the downturn
- Structural budget balance likely to prevail in the coming fiscal year
- Prudent reserve levels generally preserved or restored
- Most entities are regaining some capacity to reduce spending without threatening basic service levels

# Changing Labor/Management Relationship

- The downturn appears to have led to a growing focus on the components of the cost of providing services
- Labor costs are the largest component of local government spending and have received a large part of the attention
- Increased focus to strengthen governments' control over labor costs
- We look for a productive relationship among management, labor, and taxpayers whether organized labor is present or not, but have more concern when management's role is legally constrained.
- Recent labor settlements appear more cautious than many that were negotiated prior to the start of the downturn

# Addressing Capital Needs

- Debt issuance and pay-go capital spending was reduced or postponed well into the recovery
- As a result many finance officials now report deferred maintenance and capital needs as a concern
  - National League of Cities' 2014 survey of fiscal conditions indicates that finance officers rank infrastructure needs above healthcare benefits and pensions as having a significant negative budgetary impact
- We expect increased local government debt issuance
  - Increased volume in first quarter 2015 largely reflective of refundings
- Some concerns about the level of transparency given rise of direct loans

# Mixed Pension Outlook

- State and local pension plan reforms have mainly affected new employees, with minimal impact on unfunded liabilities in the near term.
  - New hybrid plans for Detroit have a meaningful impact on the liability but may not have been feasible without bankruptcy
- We anticipate improvement in funding status this year due to positive investment returns rather than reform efforts
- This highlights the dependence on market returns for pension plan health
- Reporting under new GASB standards has begun for plans; will begin for governments near year-end
  - Fitch generally views the changes positively
  - Will highlight weaknesses in plans with large unfunded liabilities and a high discount rate
  - Disclosure of liabilities for cost-sharing multiemployer plans will be enhanced
    - However, use of market instead of actuarial value of assets may lead to reduced reported liabilities and higher year-to-year volatility

# Bankruptcy Ramifications

- Both Stockton, CA and Detroit, MI plans of adjustment judged fair and equitable despite disparate treatment of creditors
- Existing pension plan participants received little (Detroit) or no (Stockton) impairment while debt repayments were reduced
- San Bernardino's recent proposed plan of adjustment provides full repayment of bonds for capital projects but minimal repayment of pension obligation bonds
- Concerning benchmark of issuer/court treatment of bonded debt vs. pensions in bankruptcy
- The impact on financial stability over time of the relief from long-term liabilities is unclear
- We expect municipal bankruptcy to continue to remain rare.



# Core Fundamentals Remain Strong

- Sector encompasses a vast array of special tax bonds including those supported by sales, gas, utility, and hotel taxes; tax increment revenues; and special assessments.
- The most common security is the full faith and credit, general obligation (GO) pledge.
- The GO pledge usually includes a requirement to levy ad valorem taxes unlimited as to rate or amount for debt service.
- The average GO rating of 'AA' reflects local governments' inherent strengths:
  - The authority to levy property taxes, nonpayment of which can result in property foreclosures
  - Additional taxing power that can include sales, utility, and income taxes
  - The ability to control spending to at least a moderate degree
  - The essentiality of and lack of competition for services provided by local governments
  - Moderate carrying costs relative to spending

# Key Recent Rating Actions

## Chicago, IL

- ULTGO, sales tax bond ratings downgraded to 'BBB+' / Negative Watch from 'A-' / Negative Outlook
- Key Rating Drivers
  - Downgrade Due to Heightened Pressures – recent events have amplified the city's numerous fiscal challenges, including high long term liabilities/underfunded pensions, and are likely to further limit the city's investor/lender base.
  - Near-Term Execution Risks – regarding the city's plans to avoid termination events under GO and sales tax swap agreements and events of default for its short-term borrowing program and bank support agreements for variable rate debt.
  - State Pension Ruling Effect Limited -- the city's legal argument supporting its reform plan for the Municipal and Laborers' pension plans is different than that of the state.
  - Underlying Credit Fundamentals Remain Sound -- the city is as an economic hub for the Midwestern region of the United States; its financial profile has markedly improved in recent years. The city's independent legal authority to raise revenues remains a key credit strength.

## U.S. Public Finance: Outlook Trend

- Nearly all sectors stable.
- Economic growth continues to support state and local revenues; spending pressures manageable.
- Only sector with negative outlook is Hospitals; volume and margins pressured from changing operating landscape.

## U.S. Public Finance: Key Risks

- Strength of economic recovery.
- Post-employment benefit costs.
- Uncertain status of healthcare reform; reimbursement changes on hospitals.
- Potential environmental regulation changes on utilities over the medium term.
- Affordability and demand pressures for higher education.



**Rich Raphael**

Managing Director  
Head of U.S. Public Finance  
+1 212-908-9188  
richard.rafael@fitchratings.com

## States



**Laura Porter**

Managing Director  
+ 1 212 908 0575  
laura.porter@fitchratings.com

### Related Research

U.S. States Snapshot – A Compilation of Fitch’s State Credit Assessments and Rating Histories  
New Pension Perspectives – Long-Awaited GASB Pension Changes Begin  
U.S. Public Finance Annual Rating Actions 2014  
State Gaming Growth Slows – But Favorable Terms Allow Share of Winnings to Climb

## Key Credit Issues

- Budget challenges manageable in environment of continued economic, revenue growth.
- Risks related to federal government now longer term.
- Core state credit strengths unchanged.
- State credit trends are largely stable.

Click [here](#) to view slides



## Local Governments

**Amy Laskey**

Managing Director  
+ 1 212 908 0568  
amy.laskey@fitchratings.com

## Key Credit Issues

- Stable property tax trends.
- Other revenues more variable.
- Spending under control.
- Changing labor/management relationship.
- Addressing capital needs.
- Mixed pension outlook.
- Bankruptcy ramifications.
- Core fundamentals remain strong.

Click [here](#) to view slides

### Related Research

The Florida Report – Favorable Credit Tailwinds – Fourth-Quarter 2014  
New Pension Perspectives – Long-Awaited GASB Pension Changes Begin  
U.S. Public Finance Annual Rating Actions 2014  
California Governor’s Budget Mostly Positive for Local Governments  
U.S. Public Finance - Munis Ready for Affordable Care Act Rollout in 2015

## Water & Sewer



**Douglas Scott**  
Managing Director  
+ 1 512 215 3725  
doug.scott@fitchratings.com

### Key Credit Issues

- Cost recovery and capital spending key.
- Drinking water supply pressures.
- Gradual tightening of environmental regulations.
- Improved environment for local governments.

### Related Research

Texas Water and Sewer 2015 Update  
2015 Texas Water and Sewer Retail Peer Study  
2015 Outlook: Water and Sewer Sector  
2015 Water and Sewer Medians  
Risk Radar Global 3Q14  
U.S. Public Finance Sector Briefing Roundup 3Q14  
U.S. Public Finance Rating Actions Third-Quarter 2014

Click [here](#) to view slides

## Public Power



**Dennis Pidherny**  
Managing Director  
+ 1 212 908 0738  
dennis.pidherny@fitchratings.com

### Key Credit Issues

- Environmental focus shifts to carbon.
- Rate pressures ease.
- Lower fuel costs and interest rates broadly positive.
- Improved environment for local governments.
- Lower consumption and sales growth anticipated.

### Related Research

Prairie State Energy Campus – Post-Completion Update  
U.S. Public Power Peer Study Addendum  
The Carbon Effect – Assessing the Challenges for Public Power  
The Credit Outlook

Click [here](#) to view slides

## Colleges and Universities



**Joanne Ferrigan**  
Senior Director  
+ 1 212 908 0723  
joanne.ferrigan@fitchratings.com

### Key Credit Issues

- Increased challenges for segments of the sector.
- Persistent affordability concerns ;potential margin compression
- Continuing shift of student demand/ demographic changes.
- Federal and state funding environment.
- Financial flexibility remains a key focus.

### Related Research

Risk Radar Global 1Q15  
Event Risk and Overall Credit Resiliency  
Online Learning Here to Stay – MOOCs' Role Remains Uncertain

Click [here](#) to view slides



## Housing



**Maura McGuigan**

Senior Director

+ 1 212 908 0591

maura.mcguigan@fitchratings.com

### Key Credit Issues

- Sound state housing finance agency (SHFA) financial trends.
- Deleveraging of bond programs.
- Increased equity.
- Alternative funding tools for new loan production.
- Shrinking loan portfolios.
- Replacement liquidity concerned muted.
- Changing first-time homebuyer.

### Related Research

State Housing Finance Agencies: Past, Present and Future  
State Housing Finance Agencies (Statistical Information)  
2015 Outlook: State Housing Finance Agencies  
State Housing Finance Agencies Interactive Peer Study  
What Drives Mortgage Performance?  
U.S. Public Finance Sector Briefing Roundup 3Q14

Click [here](#) to view slides

## Nonprofit Acute Care Hospitals and Health Systems



**James LeBuhn**

Senior Director

+ 1 312 368 2059

james.lebuhn@fitchratings.com

### Key Credit Issues

- Expectation for greater year-over-year volatility in financial performance.
- Margin pressures (move to high deductible health plans, reimbursement under Medicare) occurring more slowly than anticipated.
- Providers in Medicaid expansion states benefit from expanded coverage with sharp reductions in charity care.
- The ACA's increasing political and legal challenges.
- Consolidation within the sector is expected to be strong.

### Related Research

Trends in Not-for-Profit Hospital Pension Liabilities  
The Affordable Care Act: Early Impacts  
Risk Radar Global 1Q15  
U.S. Public Finance Annual Rating Actions 2014  
The Credit Outlook

Click [here](#) to view slides

## Nonprofit Continuing Care Retirement Communities

### Key Credit Issues

- Improving occupancy and core operating performance.
- Improving economy and housing prices.
- Significant improvement in access to capital.
- Key recent rating action.

### Related Research

2015 Outlook: Nonprofit Continuing Care Retirement Communities  
Nonprofit Continuing Care Retirement Communities Interactive Peer Study  
Risk Radar Global 1Q15  
The Credit Outlook

Click [here](#) to view slides

# Disclaimer

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2014 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. One State Street Plaza, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings, Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings can be affected by future events or conditions that were not anticipated at the time a rating was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion is based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at anytime for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.



**Fitch**Ratings

**New York**

33 Whitehall Street  
New York, NY 10004

**London**

30 North Colonnade  
Canary Wharf  
London E14 5GN





## Rachel Cortez

Vice President/Senior Analyst/Manager

Public Finance Group

Moody's Investor Group

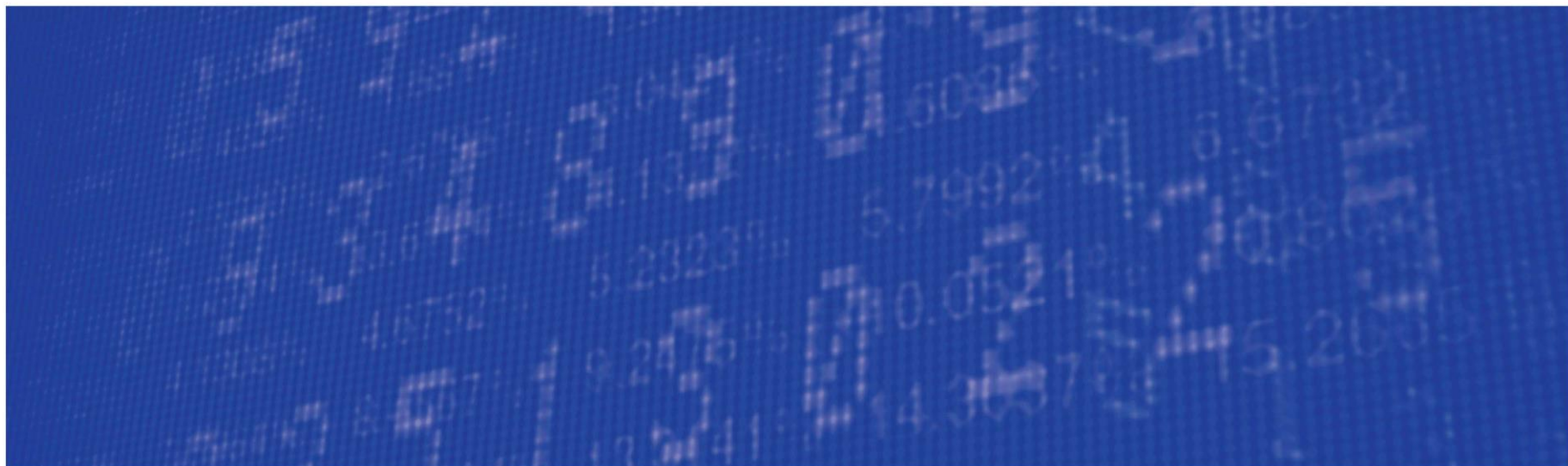
### CDFA Training Institute

14 courses in development finance designed for all skill levels. Learn more and register today at [www.cdfa.net](http://www.cdfa.net)

CDFA // BNY MELLON  
DEVELOPMENT FINANCE  
WEBCAST SERIES



BNY MELLON



---

# Families of Ratings: Relationships Among US Public Finance Credits

# Moody's "Families of Ratings" Concept

Ratings within the same family of credits influence one another.

Relationships exist throughout the rating scale but generally become most obvious under stress.

Two types of relationships that inform our credit opinions include:

- A common or related **revenue base**
- A common or related **governance or legal structure**

## Common or Related Revenue Base

Our methodologies for rating US local governments provide for an analysis of the base from which revenue is generated.

- For general obligation (GO) credits, we evaluate the property tax base and the source of any other income, such as intergovernmental revenue.
- For sales tax credits, we evaluate the sales tax base.
- For utility credits, we evaluate the system's customer base.

## Common or Related Revenue Base *continued*

To assess current and future **capacity** to generate income, we consider the revenue base's size, wealth, diversity, and stability.

To assess current and future **demands** on the revenue base, we analyze the aggregate governmental costs supported by the base. We consider expenses of the rated entity as well as those of other governments that access the same revenue base.

Example: Growing costs associated with the debt and unfunded pension liabilities of the City of Chicago and Chicago Public Schools have led to downgrades of the Chicago Park District and Chicago's Water and Sewer Enterprises. These entities share all or part of the same revenue base.

## Common or Related Governance or Legal Structure

Different credits may be linked through governance or legal ties:

- Identical composition of executive and legislative bodies
- Executive or legislative body of one entity appoints the executive or legislative body of another entity
- Established movement of monies between two entities through payments in lieu of taxes (PILOTS)
- Potential movement of monies between two entities given a lack of legal separation

Example: Governance and legal connections between the City of Chicago, Chicago Public Schools, the Chicago Park District, and Chicago's Water and Sewer Enterprises have led to downgrades of the Park District and the Water and Sewer Enterprises.

## Moody's Special Tax Methodology

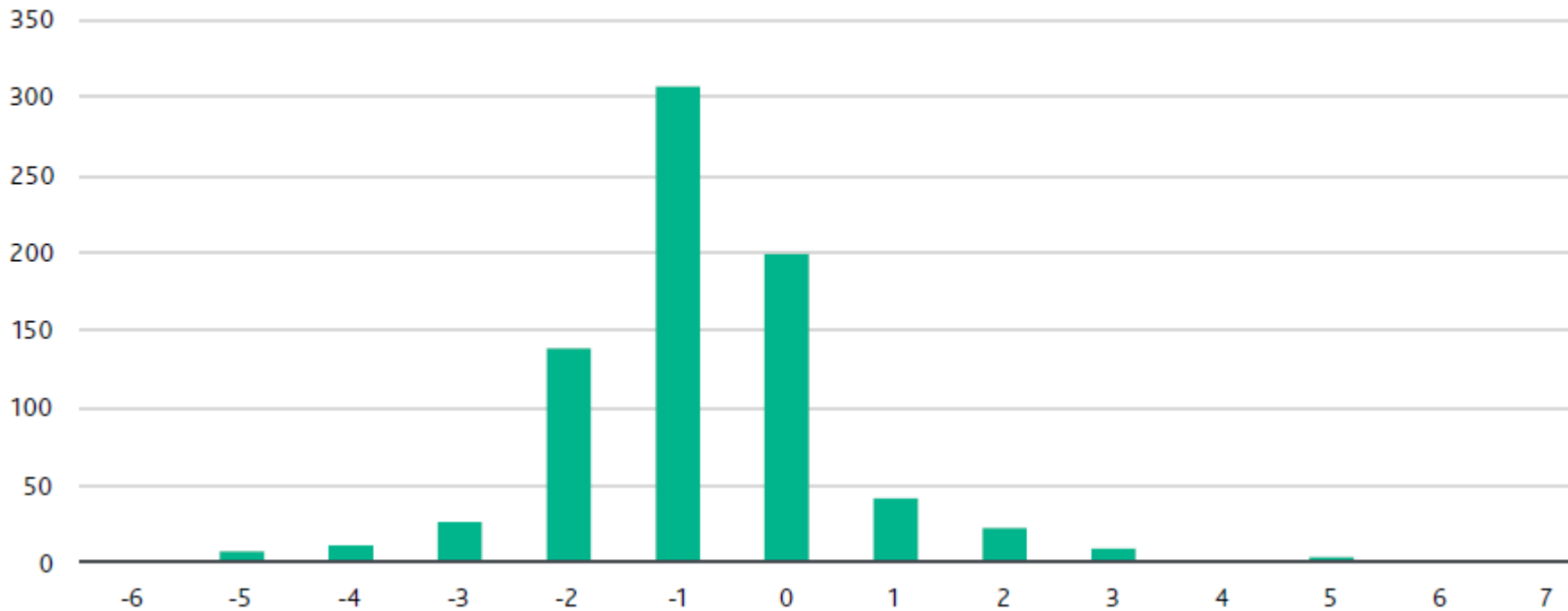
A special tax credit may be rated higher than the parent GO credit if the pledged special tax revenues are legally separated from the general government credit.

Example: The Nassau Interim Finance Authority (NIFA), a New York State agency, receives sales tax revenue and pays debt service before remitting remaining sales tax monies to Nassau County.



# Moody's Municipal Utility Methodology

(Negative means utility rating is lower than the GO, positive means it is higher; not all rated utilities are associated with rated general governments)



Source: Moody's Investors Service

## Other Considerations: State Ratings

States can strengthen local government and higher education credits...

Examples: In New York State, many stressed cities and counties have benefited from state intervention and support.

California has intervened on behalf of distressed school districts and community college districts to stabilize financial operations and strengthen management.

At the higher end of the rating scale, we upgraded Texas Tech to Aa1 stable in March 2015 due in part to consistent operating and capital support from the State of Texas.

## Other Considerations: State Ratings *continued*

...and states can weaken higher education and local government credits.

Example: New Jersey lawmakers have proposed pushing certain pension costs down to public school districts and reducing forms of intergovernmental revenue to municipalities. We recently downgraded several public universities that we believe are vulnerable to state budget pressures.

© 2015 Moody's Investors Service, Inc. and/or its licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. ("MIS") AND ITS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moody's.com](http://www.moody's.com) under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

For Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail clients. It would be dangerous for retail clients to make any investment decision based on MOODY'S credit rating. If in doubt you should contact your financial or other professional adviser.



## Laura Kuffler-Macdonald

Senior Director  
Standard & Poor's

### What are you reading?

Your development finance toolbox isn't complete without a set of CDFA reference guides. Members save 15% on every purchase.

Order today at [www.cdfa.net](http://www.cdfa.net).

CDFA // BNY MELLON  
DEVELOPMENT FINANCE  
WEBCAST SERIES



BNY MELLON



# U.S. Higher Education 2015 Outlook

**Laura Kuffler-Macdonald**  
**Senior Director and Analytical Manager**  
**U.S. Public Finance Ratings**

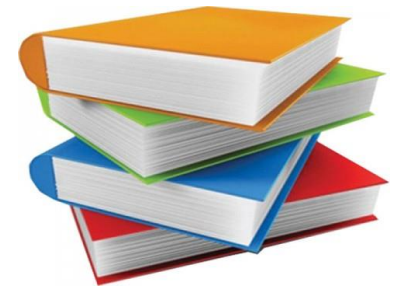
**June 16, 2015**

---

# U.S. Higher Education: Our Sector Outlook

## 2015 Outlook: Negative

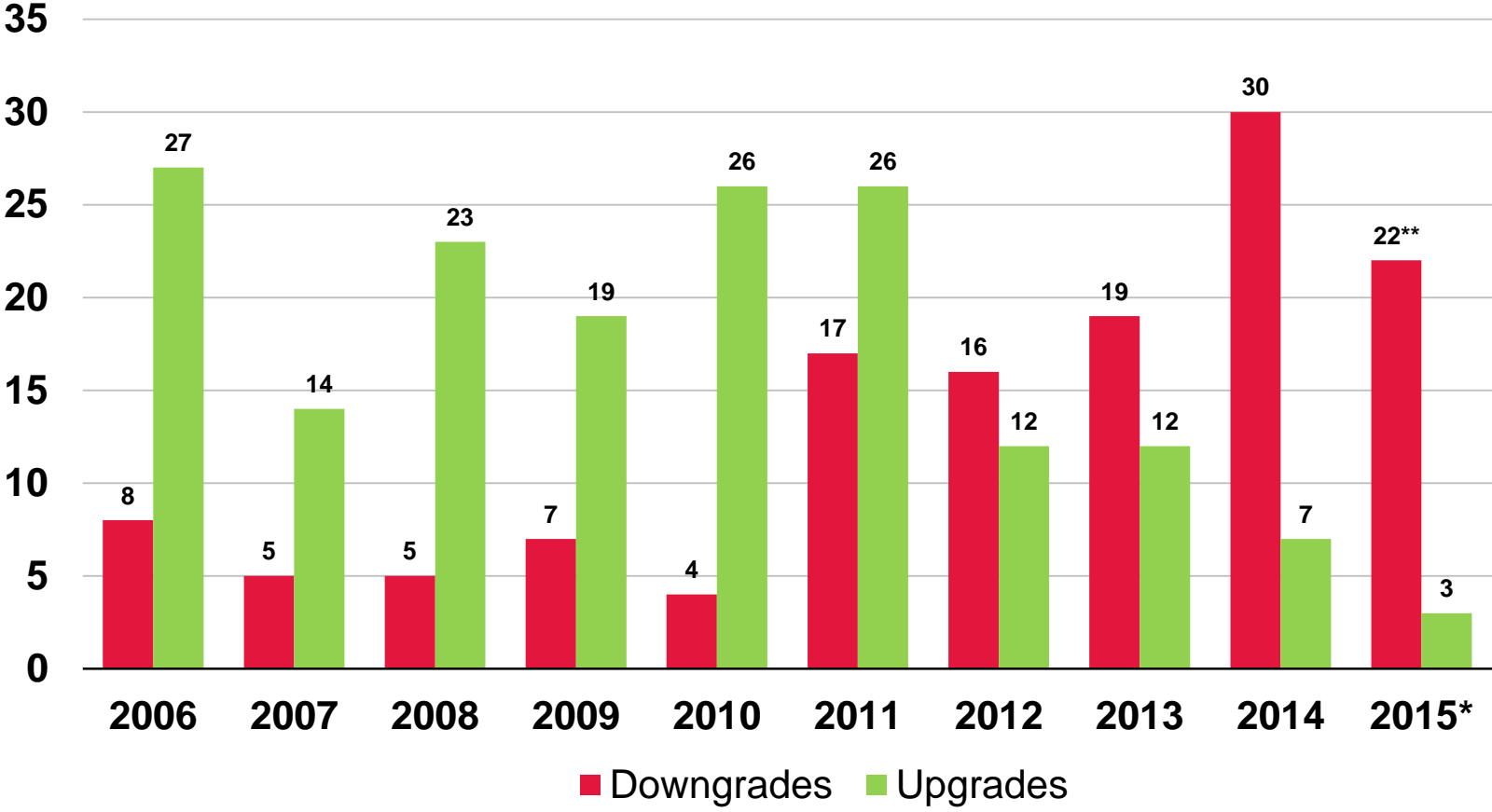
(We expect more negative rating actions than positive in 2015)



**2014 Rating Actions  
& Distributions  
Update as of June 8, 2015**

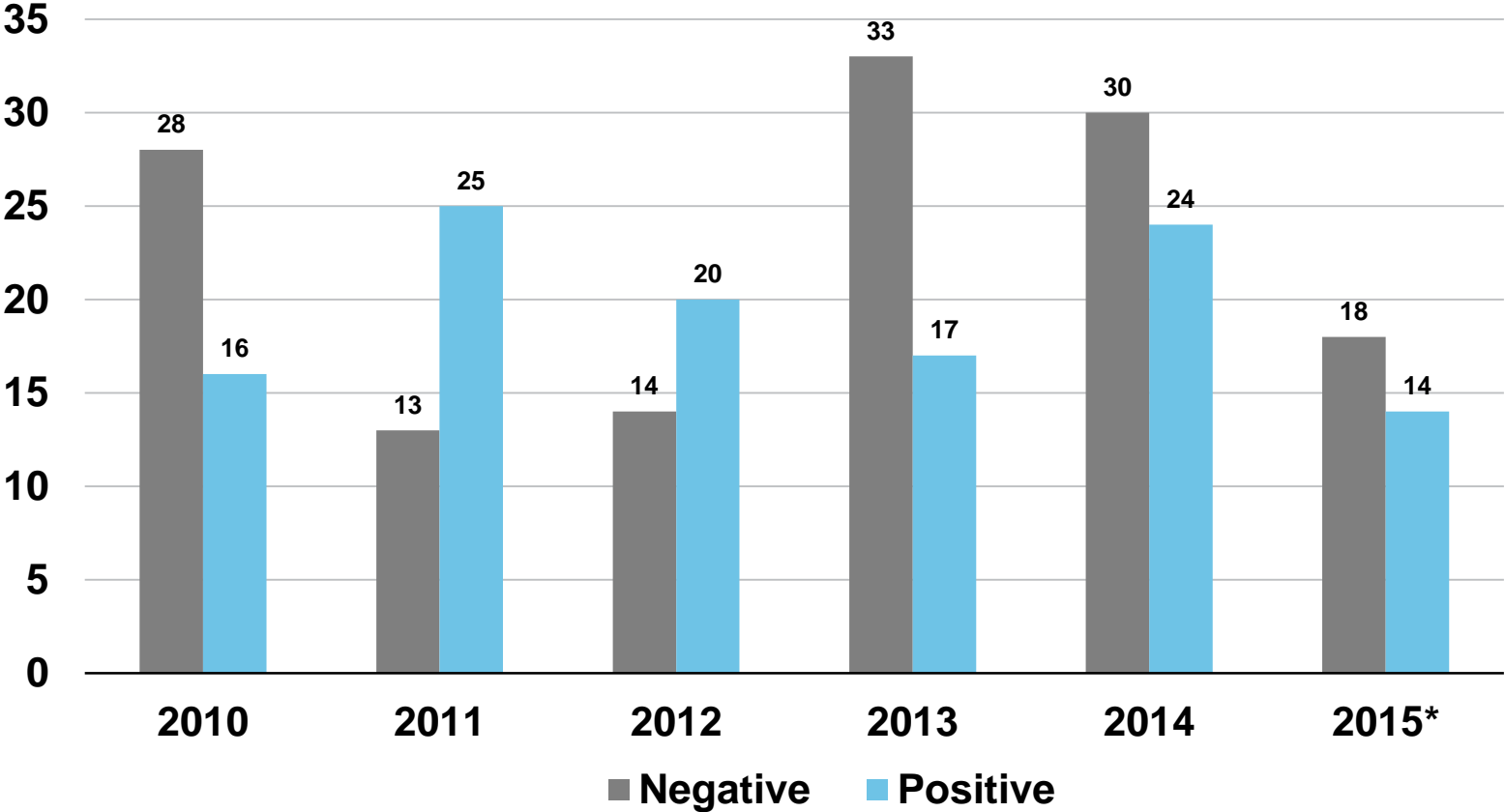


# U.S. Higher Education Rating Actions in 2015



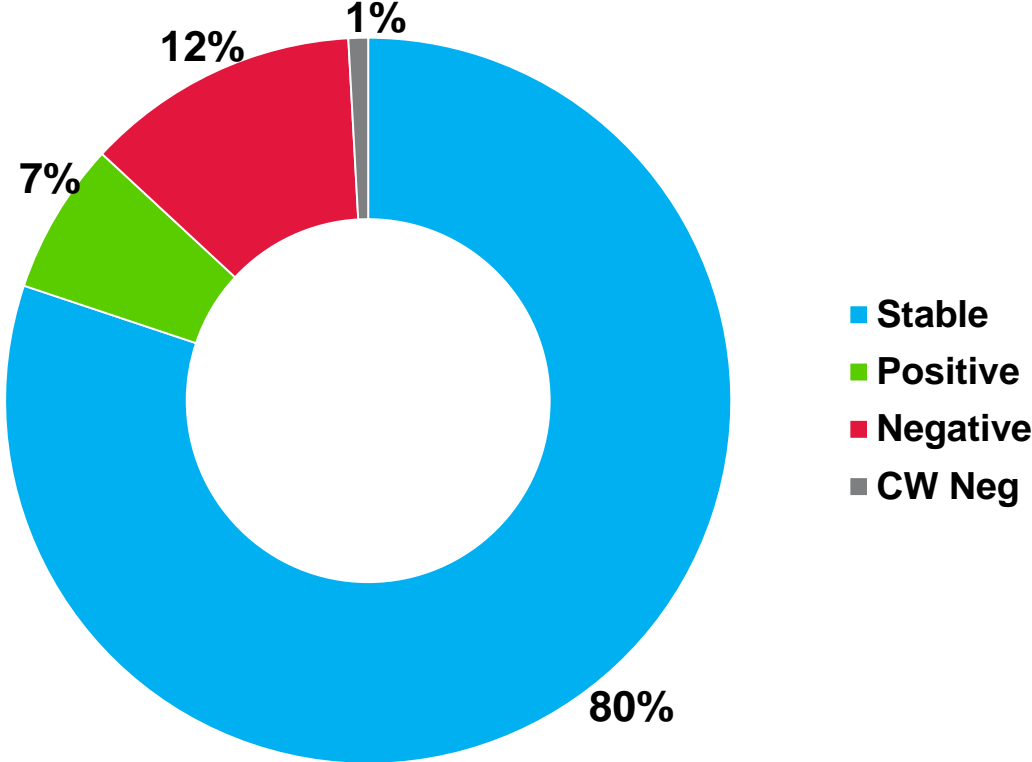
\*As of June 8, 2015. \*\*Includes multiple downgrades for University of Puerto Rico

# U.S. Higher Education Outlook Revisions in 2015



As of June 8, 2015

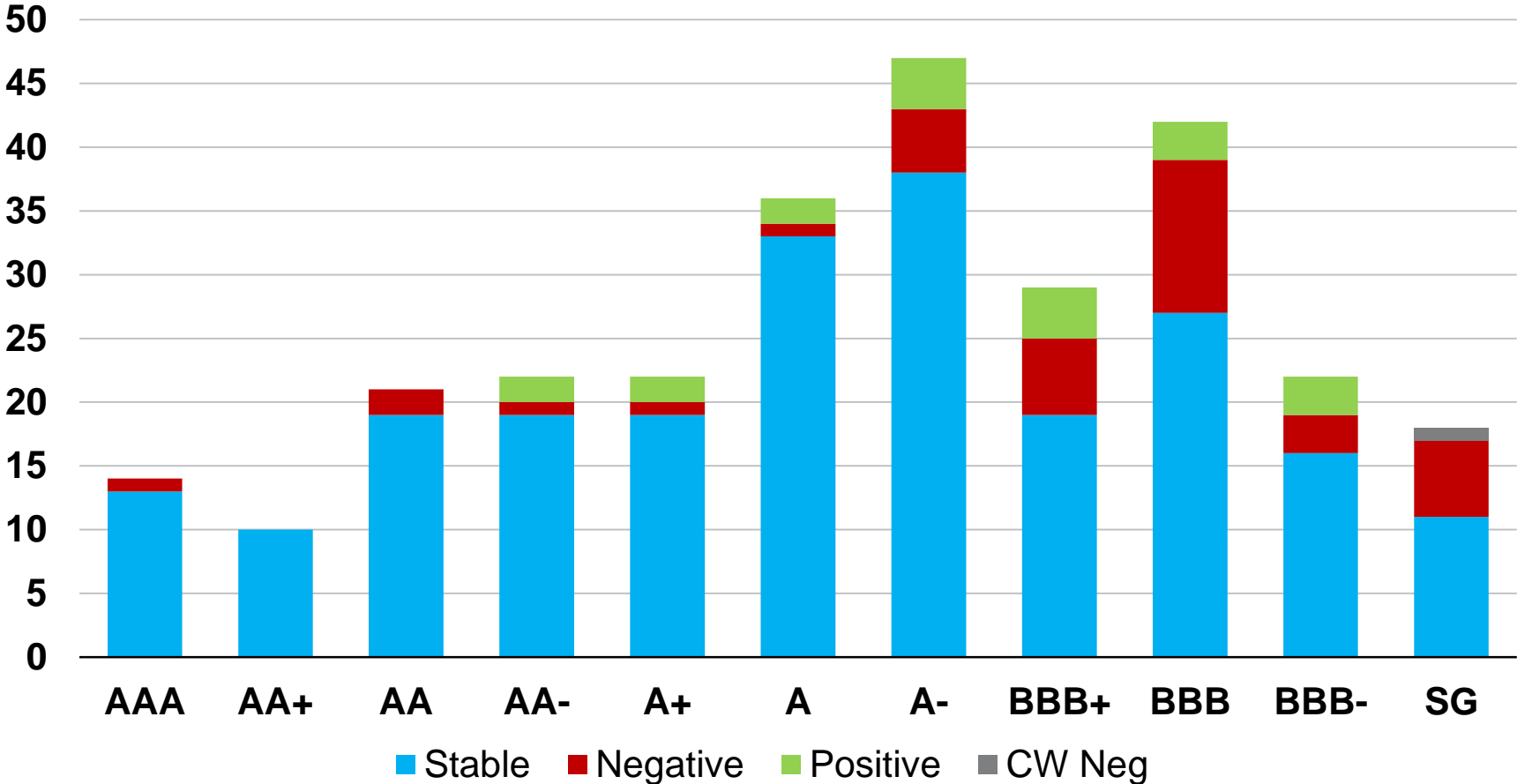
# U.S. Higher Education Outlook Distribution



As of June 8, 2015

# U.S. Higher Education Ratings Distribution

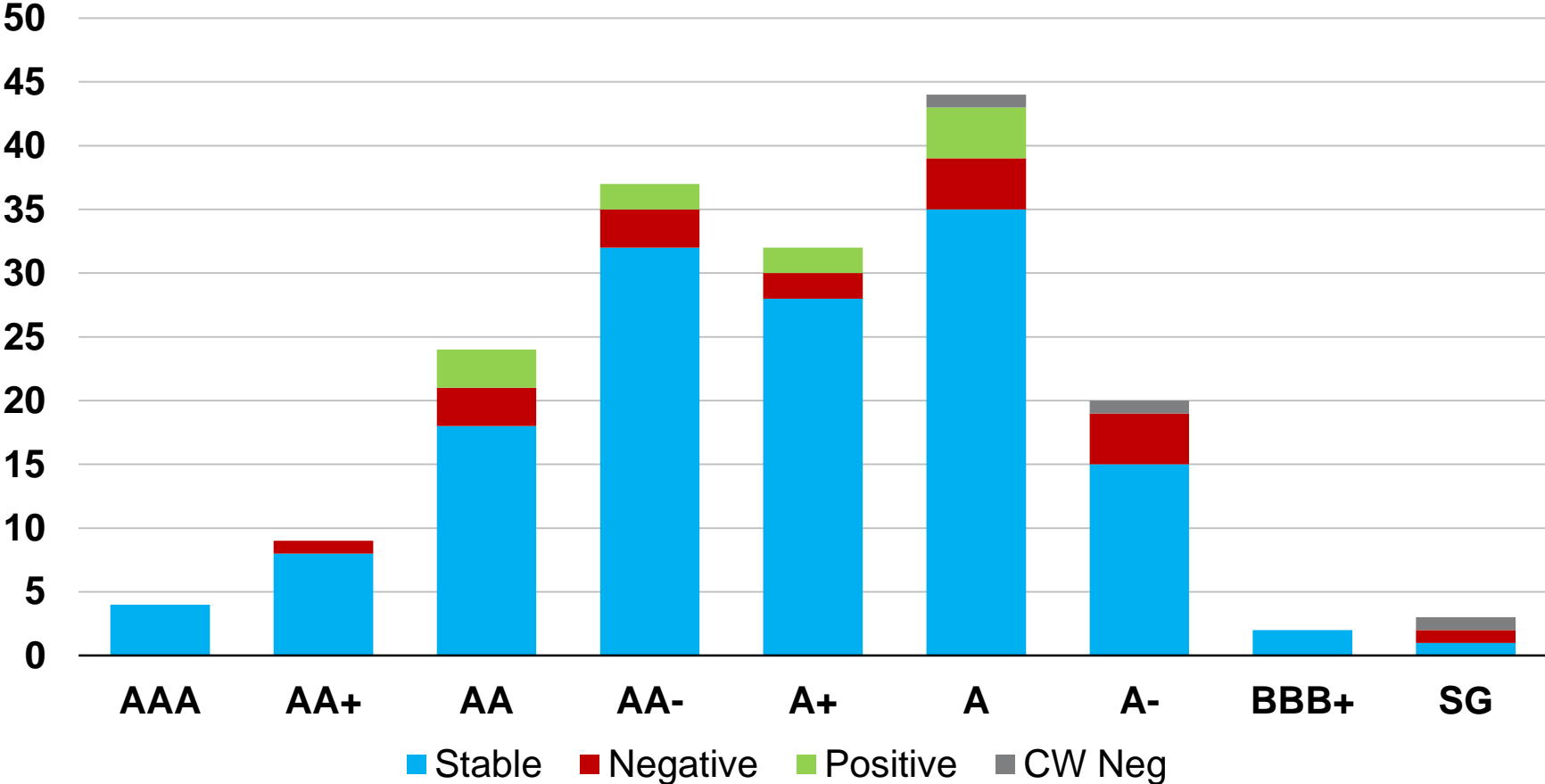
## Private



As of June 8, 2015

# U.S. Higher Education Ratings Distribution

## Public



As of June 8, 2015

# 2015 Outlook

# U.S. Higher Education: Essential or Optional?

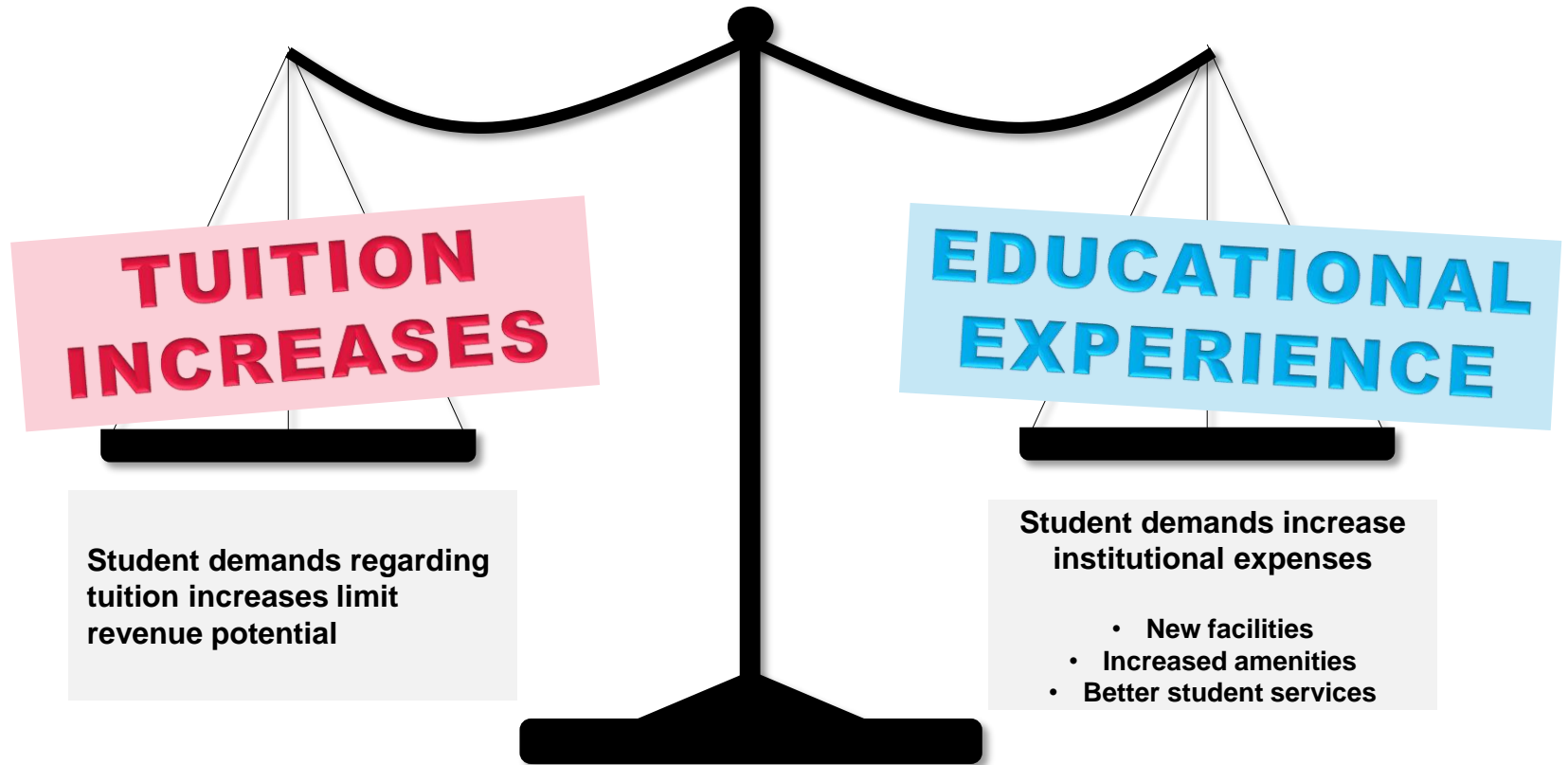
## TRANSPORTATION



## HIGHER EDUCATION

<b>Technical College</b>	<b>Ivy League University</b>	<b>Public University</b>
<b>Private Liberal Arts College</b>	<b>Community College</b>	<b>Online College</b>

# U.S. Higher Education: A Buyer's Market with Mounting Expenses





# Questions

# Thank You

## 2015 Higher Education Outlook

**Upping The Ante: Costs Of Luring Top Students Keep The Outlook  
Negative On U.S. Not-For-Profit Higher Education Sector - January 15, 2015**

**Laura Kuffler-Macdonald**

**Senior Director and Analytical Manager**

T: 212.438.2519

[laura.kuffler.macdonald@standardandpoors.com](mailto:laura.kuffler.macdonald@standardandpoors.com)

---

Copyright © 2015 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

Submit your questions to the panel now by using the GoToWebinar control panel.



CDFA // BNY MELLON  
DEVELOPMENT FINANCE  
WEBCAST SERIES



BNY MELLON



Register Online at [www.cdfa.net](http://www.cdfa.net)

**CDFA Summer School - St. Louis, MO**

**Fundamentals of Economic Development Finance Course**

August 10, 2015

**Intro Tax Increment Finance Course**

August 11-12, 2015

**Intro Public-Private Partnership (P3) Finance Course**

August 11-12, 2015

**Intro Bond Finance Course**

August 13-14, 2015

**Intro Rural Finance Course**

August 13-14, 2015

CDFA // BNY MELLON  
DEVELOPMENT FINANCE  
WEBCAST SERIES



BNY MELLON



▶ **CDFA // BNY MELLON DEVELOPMENT FINANCE WEBCAST SERIES**

Tuesday, July 14 @ 1:00 pm EDT

- ▶ **CDFA Kentucky Webcast: Unlocking the Development Finance Toolbox**  
Wednesday, June 17 @ 11:00 am EDT
- ▶ **CDFA New York/New Jersey Webcast: Financing the World Trade Center**  
Wednesday, June 24 @ 11:00 am EDT
- ▶ **CDFA Kentucky Webcast: Understanding the EB-5 Model in Kentucky**  
Wednesday, August 19 @ 11:00 am EDT

CDFA // BNY MELLON  
DEVELOPMENT FINANCE  
WEBCAST SERIES



BNY MELLON



## BNY MELLON

**Rena Nakashima**

Senior Product Manager

213-309-3413

Rena.nakashima@bnymellon.com



**Katie Kramer**

Vice President

614-705-1316

kkramer@cdfa.net

The material contained herein is for informational purposes only. The content of this is not intended to provide authoritative financial, legal, regulatory or other professional advice. The Bank of New York Mellon Corporation and any of its subsidiaries makes no express or implied warranty regarding such material, and hereby expressly disclaims all legal liability and responsibility to persons or entities that use this report based on their reliance of the information in such report. The presentation of this material neither constitutes an offer to sell nor a solicitation of an offer to buy any securities described herein.

CDFA // BNY MELLON  
DEVELOPMENT FINANCE  
WEBCAST SERIES



BNY MELLON