# Research

SIFMA™
Securities Industry and Financial Markets Association

## Municipal Bond Credit Report

The *Municipal Bond Credit Report* synthesizes, analyzes and presents aggregate credit information and trends in the municipal bond market. The report includes municipal bond rating information from the three major rating agencies—Moody's Investor Services, Standard and Poor's and Fitch Ratings.

December 2007


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### Credit Quality Trends

Solid fiscal conditions at state and local governments have been sustained despite the housing weakness and credit market volatility. The housing sector correction, however, will undoubtedly lower directly and indirectly housing related local government tax revenues such as property and transactional taxes, permit fees, and sales taxes flowing from construction and renovation. It should be kept in mind that property taxes and other housing-related revenue streams make up only a portion of state and local government tax receipts. Aggregate personal income tax revenue was up 8.7 percent in the second quarter and sales tax collections grew 3.1 percent compared to the same period a year earlier, exceeding the growth rates in the first quarter, as reported recently by the Nelson A. Rockefeller Institute of Government. Corporate income tax receipts moderated to 2.5 percent in the second quarter compared to the first quarter. Slower economic growth undoubtedly will affect state and local government tax revenue growth in the second half of the year. Although the effect of lower housing values on property tax assessments will not be fully reflected until after the next assessment period, many municipalities have prepared themselves by cushioning their reserve funds and incorporating the reduced property tax base projections in fiscal and budgetary plans.

The capital markets continue to play a critical role in state and local government's fiscal management decisions as expenses related to physical infrastructure, healthcare, education and post-employment benefit programs continue. Furthermore, issuers look for opportunities to lower financing costs through refunding. Long-term municipal bond issuance continued its impressive pace in the first half of 2007 with $231.0 billion issued, on pace to break the $408.2 billion record set in 2005. Along with much of the credit markets, the pace of long term municipal issuance slowed in July and August to $31.4 billion and $28.8 billion, respectively but remain over 20 percent ahead of 2007 year-to-date with a substantial forward calendar in place.

Along with the strong issuance volumes, credit conditions at state and localities look to be solid with the absolute dollar volume of total Aaa-rated issuance increasing to $132.0 billion in the first half of 2007, compared to $108.2 billion in the first half of 2006. On a dollar volume basis, the percentage of Aaa-rated municipal issuance did decline to 57.2 percent in the first half of 2007, from 67.7 percent at the same time last year, with much of the Aaa-rated decline coming from the revenue bond sector of the new issuance market. In the quarter, 69.5 percent of revenue bonds were rated Aa or above by Moody's. Based on dollar volume, 66.7 percent, or $49.7 billion of all general obligation (G.O.) issues were rated Aa or better, compared to 67.7 percent, or $37.1 billion, in the first half of 2006. Excluding un-rated issues, nearly 73.4 percent of the half's new G.O. issues were rated Aaa, and there were no issues rated below Baa. Within the revenue bond sector, 52.6 percent, or $82.4 billion, were rated Aaa, and 16.9 percent were rated Aa in the first half of 2007, compared to 57.6 percent and 17.5 percent in the first half of 2006.

Third-party credit enhancement continues to play an important role in the municipal market for both issuers and investors. In a reversal of recent trends, issuers slightly increased use of bond insurance and other forms of credit enhancement in the first half of the year. In the first half of the year, 48.8 percent of all new issues carried bond insurance, slightly higher than the 47.5 percent in the first half of 2006. About 21.0 percent of unenhanced new issues on a dollar volume basis were rated Aaa by Moody's, and 25.0 percent were rated AAA by Standard & Poor's (S&P).


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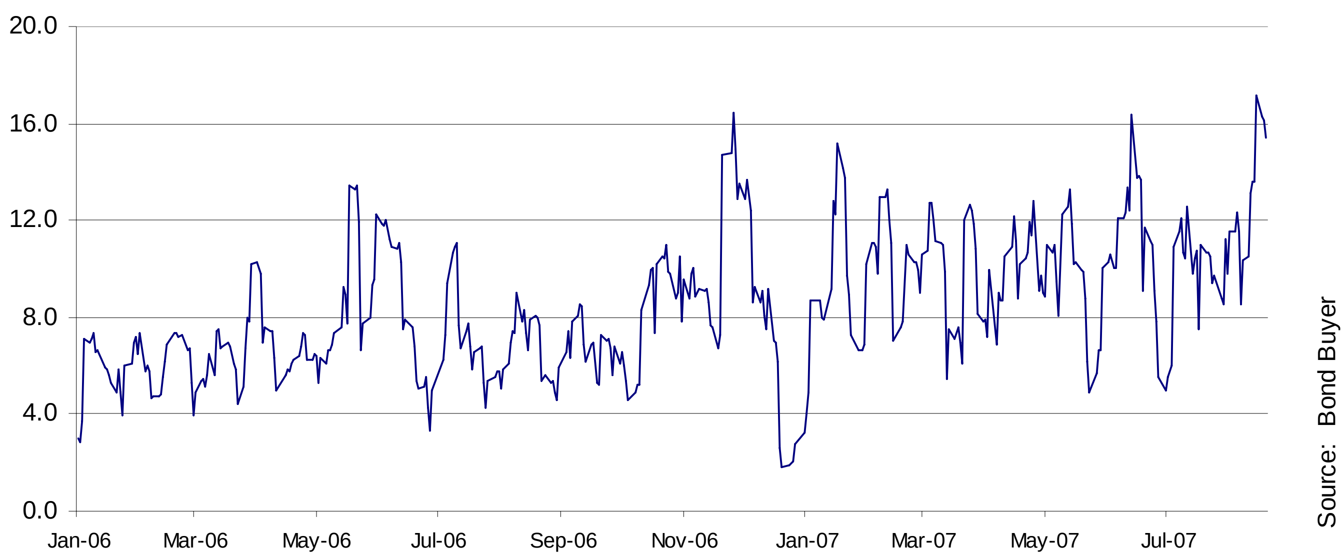
**Regional Trends**
Ratings on state general obligation debt remained consistently strong across regions with debt for eleven states carrying the highest investment grade rating from at least one agency. There were no G.O. issues rated eblow Baa during the half. The Southeast ranked first with 73.1 percent of the region's G.O. debt rated Aaa by Moody's and 94.6 percent rated Aa or above. Issuance growth in the region was buoyed by volume growth in Florida and Virginia, as well as issues related to tobacco, property insurance and Gulf Opportunity Zone bonds coming to market. Midway through the third quarter, Tennessee was upgraded by Moody's to Aa1 from Aa2 on improved fiscal stability, strong budget practices, and overall economic improvements in the region. The Midwest region followed with 72.9 percent of its G.O. debt rated Aaa, accounting for 20.8 percent of the nation's overall Aaa rated issuance in the quarter. However, it ranked behind the Far West and the Southwest for volume of long-term G.O. debt issued in the first half. In contrast to the generally strong rating performance in the region, the rating on Michigan's G.O. debt continues to face challenges as the state rebounds from a downgrade earlier in the year resulting from difficulties balancing the budget and maintaining economic stability given weakness in the auto sector.

The Northeast and Southwest had 65.8 percent and 65.1 percent of their respective G.O. debt rated Aaa in the first half. The Northeast ranked second in overall issuance volume with $55.9 billion issued in the first half.

## Municipal-to-Treasury Yield Ratios
The ratio of the AAA-rated, 10-year municipal yield to comparable maturity Treasury securities at the end of the first half of the year was at 81.6 percent, slightly lower than the 82.3 percent at the end of the first quarter, and the 82.2 percent ratio a year ago. The ratio has since climbed to 89.0 percent at the end of August. Municipal prices rallied during the first half of September with intermediate and long term municipal yields declining 10 to 12 basis points relative to Treasury yields. Following the Fed's rate cut in mid-September, the ratio of AAA-rated, 10-year municipal yield to comparable maturity Treasury securities has fallen back to 82.9 percent to come back in line with the long-term average municipal to Treasury yield ratio.

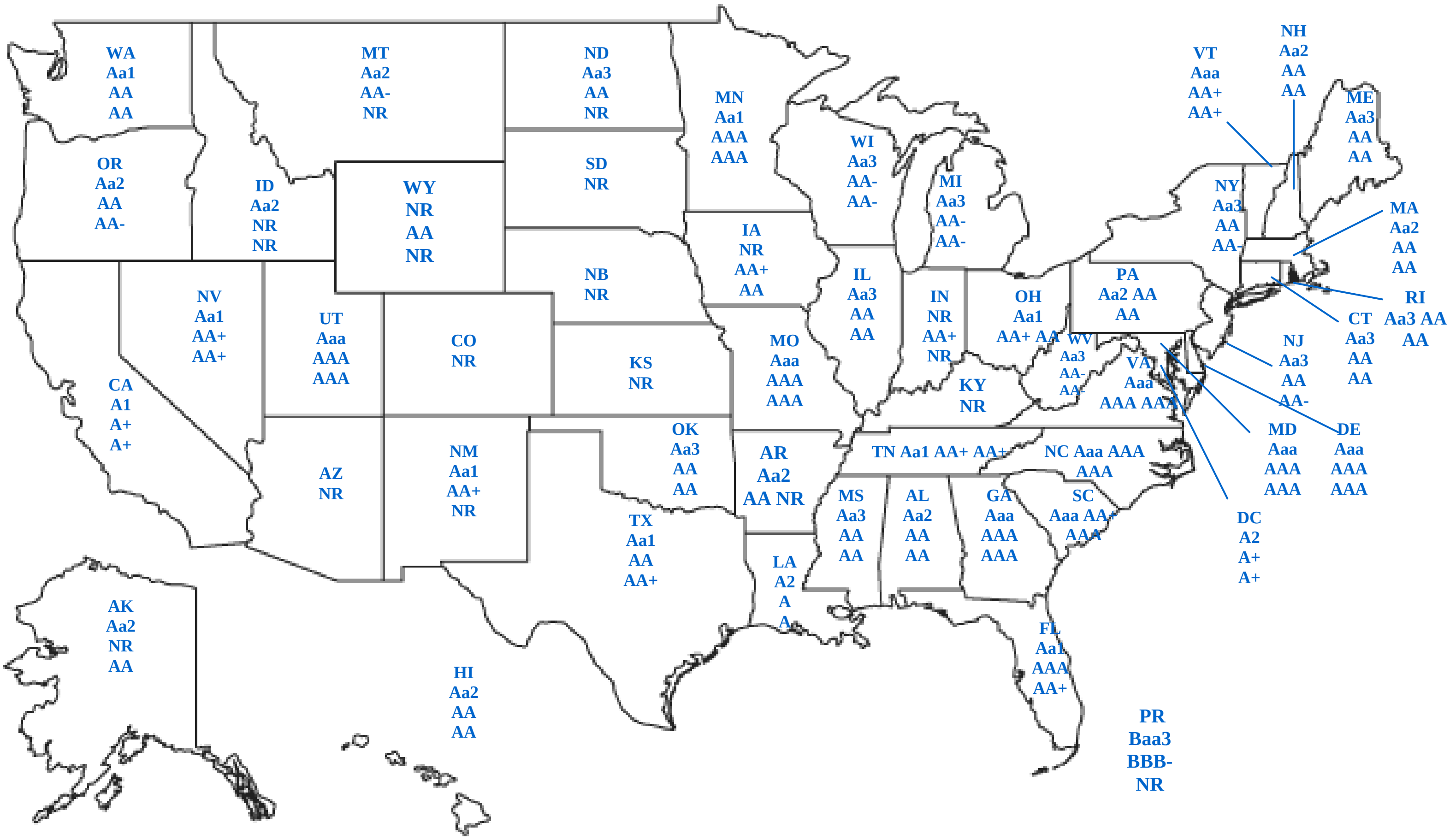
According to the Municipal Market Advisors' (MMA) Consensus scale, over the three month period ending September 27, yields across the maturity spectrum fell as prices rose, reflecting the general direction of interest rates. Compared to one year ago, short-term municipal yields were higher across all maturities. The MMA Consensus scale presents cumulative changes in AAA-rated municipal bond prices and yields for each maturity on the yield curve based on input from buy-side and sell-side firms.

**Bond Buyer 30-day Visible Supply**
Amounts in $ Billion



## State General Obligation Bond Ratings[1]

As of 8/22/2007




[1] The Moody's rating is listed first, S&P rating is second and Fitch rating is third.

## Long-Term Municipal State Issuance by Type

As of June 30, 2007

Amounts in $ Million

| State | Total Amount | G.O. | Revenue |
|---|---|---|---|
| **Alabama** | 3,572.5 | 658.1 | 2,914.4 |
| **Alaska** | 1,131.1 | 441.0 | 690.1 |
| **Arizona** | 5,081.8 | 1,984.0 | 3,097.8 |
| **Arkansas** | 888.6 | 409.5 | 479.1 |
| **California** | 41,375.0 | 14,288.0 | 27,087.0 |
| **Colorado** | 4,993.8 | 879.6 | 4,114.2 |
| **Connecticut** | 1,880.1 | 1,270.4 | 609.7 |
| **Delaware** | 647.8 | 239.0 | 408.8 |
| **D. of Columbia** | 2,250.8 | 1,051.8 | 1,199.0 |
| **Florida** | 15,295.9 | 1,042.5 | 14,253.4 |
| **Georgia** | 4,931.0 | 2,853.1 | 2,077.9 |
| **Guam** | - | - | - |
| **Hawaii** | 737.4 | 472.4 | 265.0 |
| **Idaho** | 603.7 | 153.9 | 449.8 |
| **Illinois** | 7,451.5 | 4,389.9 | 3,061.6 |
| **Indiana** | 3,546.6 | 532.7 | 3,013.9 |
| **Iowa** | 1,338.8 | 530.0 | 808.8 |
| **Kansas** | 1,433.2 | 670.2 | 763.0 |
| **Kentucky** | 2,053.9 | 106.4 | 1,947.5 |
| **Lousiana** | 3,038.5 | 157.3 | 2,881.2 |
| **Maine** | 822.7 | 196.5 | 626.2 |
| **Maryland** | 3,471.9 | 1,425.0 | 2,046.9 |
| **Massachusetts** | 7,579.5 | 2,196.8 | 5,382.7 |
| **Michigan** | 4,299.4 | 1,984.5 | 2,314.9 |
| **Minnesota** | 3,155.4 | 1,672.0 | 1,483.4 |
| **Mississippi** | 1,585.9 | 245.5 | 1,340.4 |
| **Missouri** | 3,210.1 | 822.0 | 2,388.1 |
| **Montana** | 511.2 | 131.3 | 379.9 |
| **Nebraska** | 2,651.1 | 288.6 | 2,362.5 |
| **Nevada** | 2,901.9 | 956.9 | 1,945.0 |
| **New Hampshire** | 769.5 | 104.5 | 665.0 |
| **New Jersey** | 7,334.2 | 907.1 | 6,427.1 |
| **New Mexico** | 1,056.3 | 205.4 | 850.9 |
| **New York** | 14,506.1 | 2,221.9 | 12,284.2 |
| **North Carolina** | 3,645.9 | 1,762.2 | 1,883.7 |
| **North Dakota** | 301.6 | 45.7 | 255.9 |
| **Ohio** | 4,847.7 | 2,023.4 | 2,824.3 |
| **Oklahoma** | 1,711.1 | 581.1 | 1,130.0 |
| **Oregon** | 3,113.3 | 1,713.0 | 1,400.3 |
| **Pennsylvania** | 9,485.4 | 2,700.2 | 6,785.2 |
| **Puerto Rico** | 5,885.8 | 900.0 | 4,985.8 |
| **Rhode Island** | 695.3 | 34.3 | 661.0 |
| **South Carolina** | 1,667.4 | 368.1 | 1,299.3 |
| **South Dakota** | 501.4 | 60.9 | 440.5 |
| **Tennessee** | 2,325.3 | 766.1 | 1,559.2 |
| **Texas** | 22,372.4 | 11,723.9 | 10,648.5 |
| **Utah** | 1,504.5 | 327.2 | 1,177.3 |
| **Vermont** | 533.7 | 207.6 | 326.1 |
| **Virginia** | 1,370.9 | 1,209.2 | 161.7 |
| **Virgin Islands** | 4,355.9 | - | 4,355.9 |
| **Washington** | 5,547.2 | 2,682.5 | 2,864.7 |
| **West Virginia** | 1,548.7 | 80.6 | 1,468.1 |
| **Wisconsin** | 3,266.3 | 1,785.9 | 1,480.4 |
| **Wyoming** | 198.2 | 8.2 | 190.0 |

| | |
|---|---|
| *G.O. Issuance* | *74,467.9* |
| *Revenue Issuance* | *156,517.3* |
| *Total LT Issuance* | *230,985.2* |

*Sources: Thomson Financial Securities Data*

## Long-Term Municipal Issuance

### Regional Issuance by Moody's Long-Term Rating

As of June 30, 2007

Amounts in $ Million

### General Obligation

| | Far West | Midwest | Northeast | Southeast | Southwest |
|---|---|---|---|---|---|
| **Aaa** | 12,803.1 | 10,311.5 | 8,849.3 | 6,764.7 | 10,928.8 |
| **Aa** | 1,390.7 | 1,961.8 | 3,064.7 | 1,983.4 | 3,179.0 |
| **A** | 6,033.9 | 172.1 | 9.0 | 49.9 | 108.4 |
| **Baa** | | 12.9 | 6.4 | 0.0 | 13.2 |
| **Below Baa** | | | | | |
| **Total Rated** | 20,227.7 | 12,458.3 | 11,929.4 | 8,798.0 | 14,229.4 |
| **Not Rated** | 619.3 | 1,677.3 | 1,525.5 | 451.0 | 2,551.5 |
| **Totals** | **20,847.0** | **14,135.6** | **13,454.9** | **9,249.0** | **16,780.9** |
| **% of Total LT Volume** | **28.0%** | **19.0%** | **18.1%** | **12.4%** | **22.5%** |

### Revenue

| | Far West | Midwest | Northeast | Southeast | Southwest |
|---|---|---|---|---|---|
| **Aaa** | 20,025.5 | 10,274.2 | 18,987.5 | 20,164.3 | 12,911.4 |
| **Aa** | 5,580.4 | 3,036.7 | 8,600.4 | 6,203.5 | 3,034.5 |
| **A** | 758.4 | 1,060.8 | 2,583.9 | 1,465.9 | 381.4 |
| **Baa** | 4,454.7 | 65.9 | 4,653.3 | 3,142.7 | 284.9 |
| **Below Baa** | 182.5 | 108.7 | 917.7 | 0.0 | 326.8 |
| **Total Rated** | 31,001.5 | 14,546.3 | 35,742.8 | 30,976.4 | 16,939.0 |
| **Not Rated** | 4,302.8 | 5,920.3 | 6,697.3 | 5,036.8 | 5,354.0 |
| **Totals** | **35,304.3** | **20,466.6** | **42,440.1** | **36,013.2** | **22,293.0** |
| **% of Total LT Volume** | **22.6%** | **13.1%** | **27.1%** | **23.0%** | **14.2%** |

Source: Thomson Financial Securities Data

## Long-Term Unenhanced Municipal Issuance

### Regional Issuance by Moody's Long-Term Rating

As of June 30, 2007

Amounts in $ Million

### General Obligation - Unenhanced

| | Far West | Midwest | Northeast | Southeast | Southwest |
|---|---|---|---|---|---|
| **Aaa** | 228.7 | 1,211.8 | 1,264.1 | 3,233.6 | 6,016.0 |
| **Aa** | 906.4 | 1,568.9 | 1,864.4 | 1,572.7 | 2,949.4 |
| **A** | 629.1 | 161.9 | 9.0 | 17.5 | 106.3 |
| **Baa** | 0.0 | 12.9 | 6.4 | 0.0 | 13.2 |
| **Below Baa** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total Rated** | 1,764.2 | 2,955.5 | 3,143.9 | 4,823.8 | 9,084.9 |
| **Not Rated** | 513.6 | 1,413.1 | 1,299.0 | 361.4 | 2,103.4 |
| **Totals** | **2,277.8** | **4,368.6** | **4,442.9** | **5,185.2** | **11,188.3** |
| **% of Total LT Volume** | **8.3%** | **15.9%** | **16.2%** | **18.9%** | **40.7%** |

### Revenue - Unenhanced

| | Far West | Midwest | Northeast | Southeast | Southwest |
|---|---|---|---|---|---|
| **Aaa** | 794.4 | 613.1 | 2,156.3 | 1,637.1 | 2,130.1 |
| **Aa** | 4,309.1 | 2,225.3 | 6,859.1 | 2,916.9 | 2,497.2 |
| **A** | 599.7 | 1,035.5 | 1,117.7 | 1,200.3 | 330.7 |
| **Baa** | 4,454.7 | 65.9 | 4,057.2 | 3,141.4 | 284.9 |
| **Below Baa** | 182.5 | 108.7 | 917.7 | 0.0 | 326.8 |
| **Total Rated** | 10,340.4 | 4,048.5 | 15,108.0 | 8,895.7 | 5,569.7 |
| **Not Rated** | 2,576.1 | 4,136.6 | 4,911.0 | 3,769.2 | 4,057.6 |
| **Totals** | **12,916.5** | **8,185.1** | **20,019.0** | **12,664.9** | **9,627.3** |
| **% of Total LT Volume** | **20.4%** | **12.9%** | **31.6%** | **20.0%** | **15.2%** |

Source: Thomson Financial Securities Data

**Long-Term Municipal Issuance - General Obligation**

**General Use of Proceeds**

**By Moody's Rating Category**

As of June 30, 2007

Amounts in $ Million

| Sector | Aaa Rating | Number of Issues | Aa Rating | Number of Issues | A Rating | Number of Issues | Baa Rating | Number of Issues | Below Baa Rating | Number of Issues | Unknown Rating | Number of Issues | Total Amount | Number of Issues |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Education** | 27,074.2 | 986 | 3,222.1 | 97 | 130.2 | 44 | 11.4 | 2 | - | - | 3,130.3 | 499 | 33,568.2 | 1,628 |
| **General Purpose** | 18,369.6 | 655 | 6,288.1 | 148 | 6,155.4 | 60 | 18.0 | 6 | - | - | 1,538.8 | 346 | 32,369.9 | 1,215 |
| **Utilities** | 1,623.3 | 101 | 342.5 | 20 | 6.8 | 4 | 1.8 | 1 | - | - | 1,725.2 | 139 | 3,699.6 | 265 |
| **Public Facilities** | 1,263.6 | 82 | 153.0 | 10 | 66.7 | 12 | - | - | - | - | 174.9 | 95 | 1,658.2 | 199 |
| **Transportation** | 963.1 | 36 | 1,381.1 | 11 | 10.3 | 4 | 1.3 | 1 | - | - | 86.1 | 39 | 2,441.9 | 91 |
| **Housing** | 9.0 | 2 | 144.9 | 4 | - | - | - | - | - | - | 3.9 | 2 | 157.8 | 8 |
| **Other** | 354.6 | 15 | 47.9 | 6 | 3.9 | 1 | - | - | - | - | 165.4 | 22 | 571.8 | 44 |
| **Totals** | **49,657.4** | **1,877** | **11,579.6** | **296** | **6,373.3** | **125** | **32.5** | **10** | **-** | **-** | **6,824.6** | **1,142** | **74,467.4** | **3,450** |
| **% of Total LT G.O.** | **66.7%** | **54.4%** | **15.5%** | **8.6%** | **8.6%** | **3.6%** | **0.0%** | **0.3%** | **-** | **-** | **9.2%** | **33.1%** | **100.0%** | **100.0%** |

Source: Thomson Financial Securities Data

**Long-Term Municipal Issuance - Revenue**

**General Use of Proceeds**

**By Moody's Rating Category**

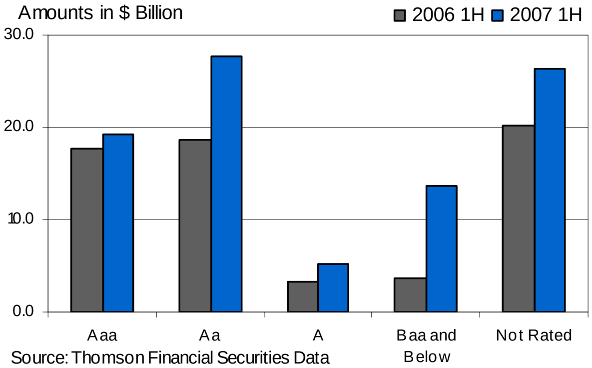
As of June 30, 2007

Amounts in $ Million

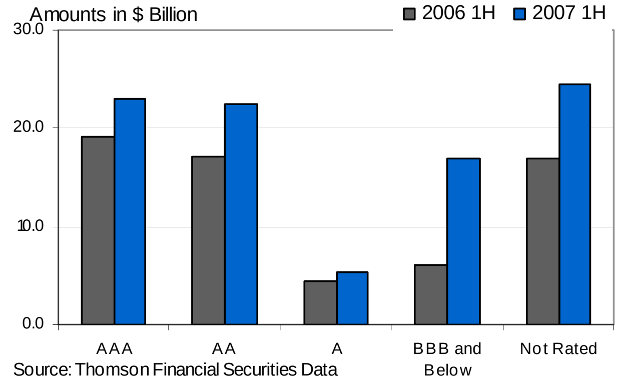
| Sector | Aaa Rating | Number of Issues | Aa Rating | Number of Issues | A Rating | Number of Issues | Baa Rating | Number of Issues | Below Baa Rating | Number of Issues | Unknown Rating | Number of Issues | Total Amount | Number of Issues |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Education** | 20,984.9 | 343 | 3,180.6 | 111 | 917.4 | 34 | 276.6 | 8 | | | 4,069.7 | 236 | 29,429.2 | 732 |
| **General Purpose** | 9,557.3 | 190 | 2,524.0 | 49 | 121.1 | 12 | 9,428.1 | 8 | | | 4,212.6 | 263 | 25,843.1 | 522 |
| **Utilities** | 15,168.9 | 254 | 5,280.0 | 36 | 36.7 | 8 | 2.6 | 1 | | | 386.3 | 91 | 20,874.5 | 390 |
| **Public Facilities** | 3,729.5 | 84 | 544.3 | 22 | 72.1 | 7 | | | | | 1,060.9 | 55 | 5,406.8 | 168 |
| **Transportation** | 11,560.7 | 94 | 2,796.5 | 26 | 162.4 | 5 | 615.7 | 2 | 378.7 | 2 | 2,346.7 | 25 | 17,860.7 | 154 |
| **Housing** | 5,465.6 | 168 | 5,298.8 | 103 | 99.4 | 5 | 1.3 | 1 | 12.5 | 1 | 5,018.7 | 182 | 15,896.3 | 460 |
| **Other** | 15,896.0 | 171 | 6,831.3 | 96 | 4,841.3 | 57 | 2,277.2 | 23 | 1,144.5 | 5 | 10,216.3 | 408 | 41,206.6 | 760 |
| **Totals** | **82,362.9** | **1,304** | **26,455.5** | **443** | **6,250.4** | **128** | **12,601.5** | **43** | **1,535.7** | **8** | **27,311.2** | **1,260** | **156,517.2** | **3,186** |
| **% of Total LT Rev.** | **52.6%** | **40.9%** | **16.9%** | **13.9%** | **4.0%** | **4.0%** | **8.1%** | **1.3%** | **1.0%** | **0.3%** | **17.4%** | **39.5%** | **100.0%** | **100.0%** |

Source: Thomson Financial Securities Data

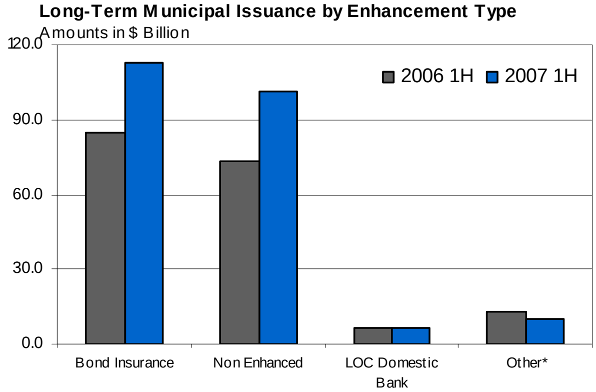
**Long-Term Unenhanced Issuance**
**As Rated by Moody's**




**Long-Term Unenhanced Issuance**
**As Rated by Standard & Poor's**



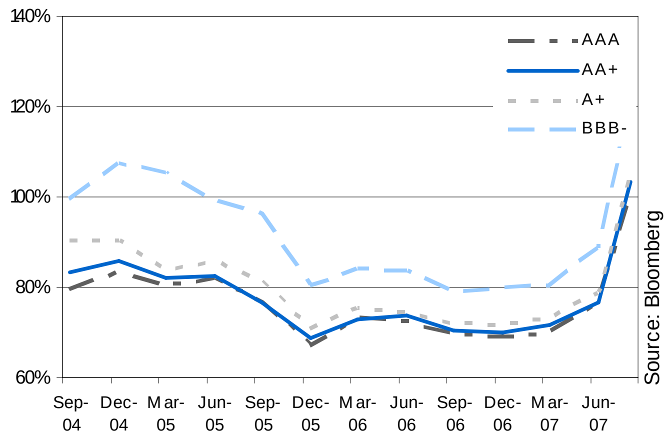

**Long-Term Municipal Issuance by Enhancement Type**



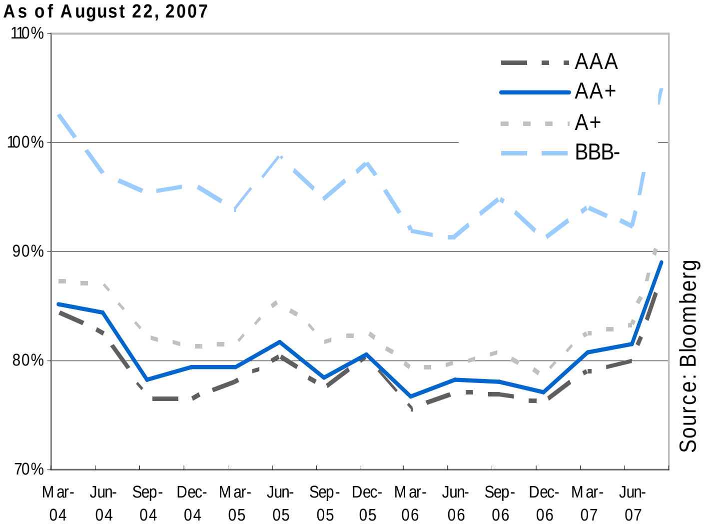

Total Issued with Credit Enhancement (2006Q2) $104.5 B; (2007Q2) $129.4 B
Total Long-Term Issuance: (2006Q2) $178.1 B; (2007Q2) $231.0 B
*Includes Standby Purchase Agreement, Mortgage-backed, LOC Foreign Bank, Investment Agreement and Guaranteed

Source: Thomson Financial Securities Data

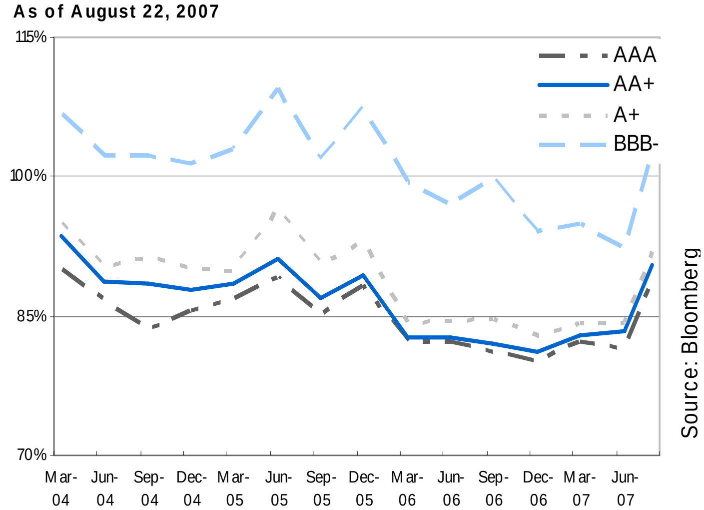
**Municipal G.O. to Treasury Ratio - 3-Month**
As of August 22, 2007

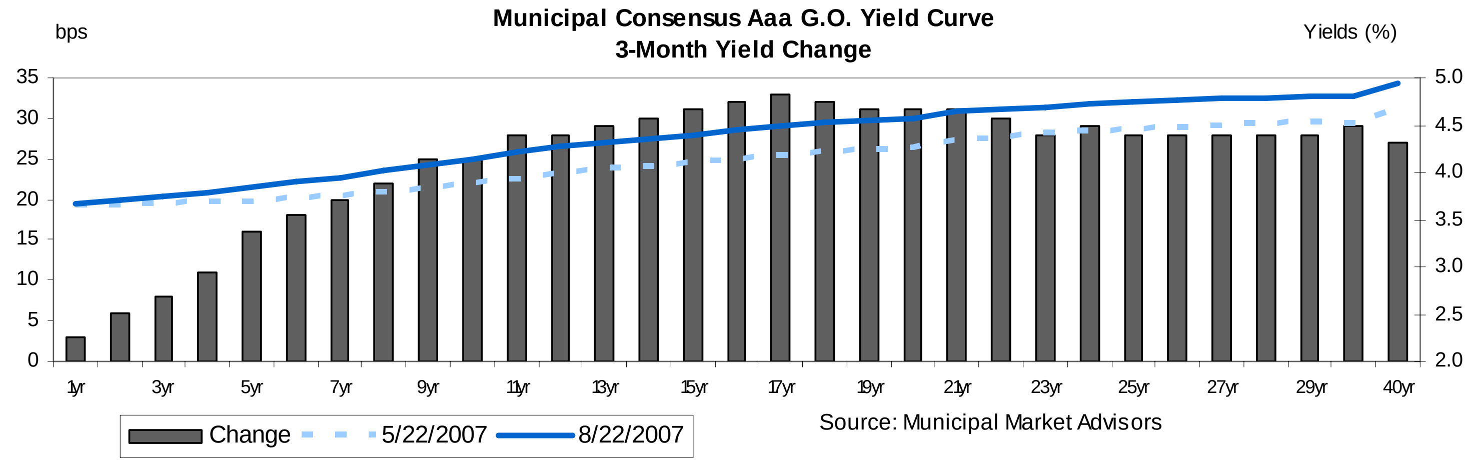


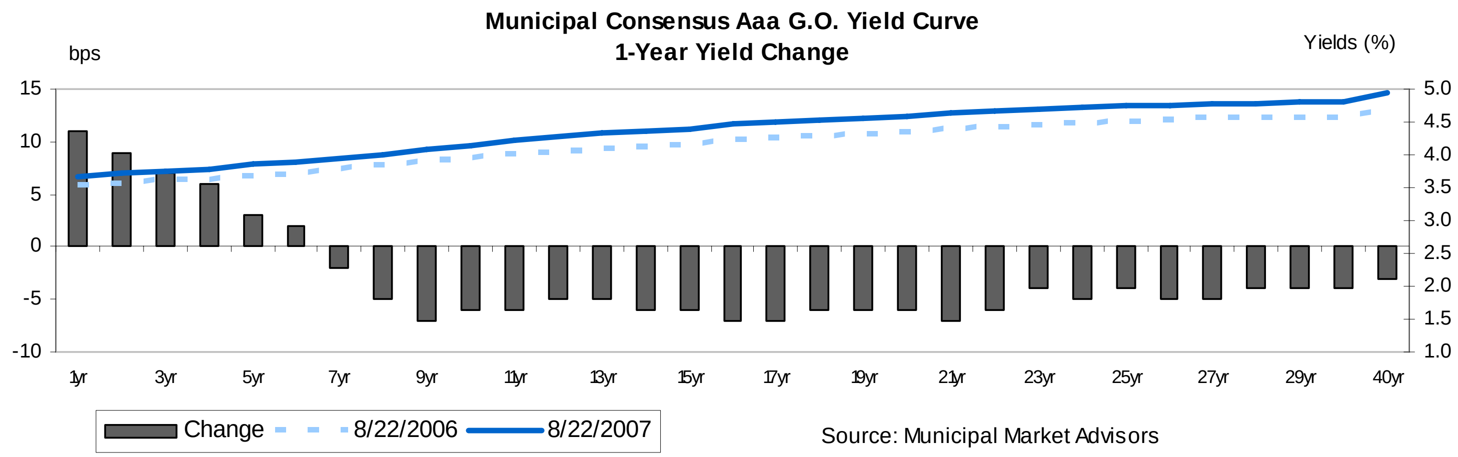

**Municipal G.O. to Treasury Ratio - 5 Year**
**As of August 22, 2007**




**Municipal G.O. to Treasury Ratio - 10 Year**
**As of August 22, 2007**






## A Description of Terminology in the Municipal Bond Credit Report[1 2]

**Long-Term Municipal Issue:** municipal securities with a maturity of 13 months or longer at the time the municipal security is issued[3]. Unless otherwise noted, the issuance volume is stated in millions of dollars.

**General Obligation or (G.O.) Bonds:** bonds issued by state or local units of government. The bonds are secured by the full faith, credit and taxing power of the municipal bond issuer. Such bonds constitute debts by the issuer and often require approval by election prior to issuance. In the event of default, the bondholders of G.O. bonds have the right to compel a tax levy or legislative appropriation to cover debt service.

**Revenue Bonds:** payable from a specific source of revenue and to which the full ffith and credit of an issuer and its taxing power are not pledged. Revenue bonds are payable from identified sources of revenue and do not permit the bondholders to compel taxation or legislative appropriation of funds not pledged for payment of debt service. Pledged revenues may be derived from sources such as the operation of the financed project, grants or a dedicated specialized tax. Generally, no voter approval is required prior to issuance of such obligations.

**Ratings:** are evaluations of the credit quality of bonds and other debt financial instruments made by rating agencies. Ratings are intended to measure the probability of the timely repayment of principal and interest on municipal securities. Ratings are typically assigned upon initial bond issuance. Ratings are periodically reviewed and may be amended to reflect changes in the issue or issuer's credit position. The ratings may be affected by the credit worthiness of the issuer itself or from a credit enhancement feature of the security such as guarantor, letter of credit provider,

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[1] The order of presentation is based on when the term first appears in the tables and graphs starting on page 2 of *The Municipal Bond Credit Report.*
[2] Unless otherwise specified, the definitions are based on the definitions in the Municipal Securities Rulemaking Board *Glossary of Municipal Securities Terms* (2004).
[3] Authors' own definition.

and bond insurer. Some rating agencies provide both long-term and short-term ratings on variable rate demand obligations. The ratings described herein are "long-term" ratings – that is, ratings applied to municipal bond issues with original maturity of 13 months or longer.

**State Rating:** indicates the G.O. credit rating a rating agency may apply to a state. The rating on a specific municipal bond issue or issuer located with the state may differ from the state rating.

**Rating Agency:** is a company that provides ratings that indicate the relative credit quality or liquidity characteristics of municipal securities as well as other debt securities. Moody's Investors Service ("Moody's") and Standard and Poor's are the largest agencies in terms of municipal securities rated, followed by Fitch Ratings.

**Moody's Ratings**[4]

Moody's describes its municipal credit ratings as "opinions of the investment quality of issuers and issues in the U.S. municipal and tax-exempt markets. These ratings incorporate a rating agency's assessment of the probability of default and loss severity of issuers and issues."

Moody's ratings are based upon the analysis of four primary factors relating to municipal finance: economy, debt, finances and administrative/management strategies. The rating classifications are defined as:

Aaa: the strongest creditworthiness relative to other U.S. municipal or tax-exempt issues of issuers.

Aa: very strong creditworthiness relative to other U.S. municipal or tax-exempt issues.

A: above-average creditworthiness relative to other U.S. municipal or tax-exempt issues of issuers.

Baa: average creditworthiness relative to other U.S. municipal or tax-exempt issues of issuers.

Ba: below-average creditworthiness relative to other U.S. municipal or tax-exempt issues of issuers.

B: weak creditworthiness relative to other U.S. municipal or tax-exempt issues of issuers.

Caa: very weak creditworthiness relative to other U.S. municipal or tax-exempt issues of issuers.

Ca: extremely weak credit worthiness relative to other U.S. municipal or tax-exempt issues of issuers.

C: issuers or issues demonstrate the weakest credit worthiness relative to other U.S. municipal or tax-exempt issues of issuers.[5]

**Standard and Poor's Ratings**[6]

Standard and Poor's describes a municipal issue credit rating as "a current opinion of the credit worthiness with respect to a specific financial obligation(s) or a specific program. It takes into consideration the credit worthiness of credit enhancement on the obligation."

Long-term issue credit ratings are based on:

- Likelihood of payment—capacity and willingness to meet the financial commitment in accordance with the terms of the obligation;
- Nature of and provisions of the obligation; and
- Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights.

AAA: extremely strong capacity to meet its financial commitments – the highest rating category.

AA: very strong capacity to meet financial commitments.

A: strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in the higher rated categories.

BBB: adequate capacity to meet its financial commitments though adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to meet financial commitments.

[4] Moodys.com, "Ratings Definitions."
[5] The lowest rating is a "D" at both Moody's and Standard and Poor's.
[6] Standardandpoors.com "Long-Term Issue Credit Ratings, May 17, 2002.

Rating “BB”, “B”, “CCC, and “CC” are regarded as having significant speculative characteristics. ‘BB’ indicates the least degree of speculation and ‘CC’ the highest.

BB: less vulnerable in the near term than other lower-rated obligors. However, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions which could lead to inadequate capacity to meet its financial commitments.

B: an obligation rated ‘B’ is more vulnerable to nonpayment than obligations rated ‘BB’, but the capacity to meet its financial commitment. Adverse business, financial, or economic conditions will likely impair the capacity or willingness to meet financial obligations.

CCC: currently vulnerable, and is dependent upon favorable business, financial, and economic conditions to meet financial commitments.

CC: highly vulnerable and is dependent upon favorable business, financial and economic conditions.

**Fitch Ratings**

Fitch Ratings provide an opinion on the ability of an entity or a securities issue to meet financial commitments such as interest, preferred dividends, or repayment of principal, on a timely basis.

Credit ratings are used by investors as indications of the likelihood of repayment in accordance with the terms on which they invested. Thus, the use of credit ratings defines their function: "investment grade" ratings (long-term 'AAA' - 'BBB' categories) indicate a relatively low probability of default, while those in the "speculative" or "non-investment grade" categories (international long-term 'BB' - 'D') may signal a higher probability of default or that a default has already occurred. Entities or issues carrying the same rating are of similar but not necessarily identical credit quality since the rating categories do not fully reflect small differences in the degrees of credit risk.

The ratings are based on information obtained directly from issuers, other obligors, underwriters, their experts, and other sources Fitch believes to be reliable. Fitch does not audit or verify the truth or accuracy of such information. Ratings may be changed or withdrawn as a result of changes in, or the unavailability of, information or for any other reasons.

Credit ratings do not directly address any risk other than credit risk. In particular, these ratings do not deal with the risk of loss due to changes in interest rates and other market considerations.

Note: “Not rated” refers to municipal bonds that were not rated by one of the major rating agencies listed above.

**General Use of Proceeds:** Refers to the type of project the proceeds or funds received from bond issuance are used. In the Municipal Bond Credit Report, the use of proceed classifications are general government use, education, water, sewer and gas, health care and a miscellaneous category, “other.”[7]

**Geographic Regions**[8]
The following states comprise the regions in this report

*Far West:* Alaska, California, Hawaii, Idaho, Montana, Nevada, Oregon, Washington, Wyoming
*Midwest:* Iowa, Illinois, Indiana, Michigan, Minnesota, Missouri, North Dakota, Nebraska, Ohio, South Dakota, and Wisconsin
*Northeast*: Connecticut, District of Columbia, Delaware, Massachusetts, Maryland, Maine, New Hampshire, New Jersey, New York, Pennsylvania, Puerto Rico, Rhode Island, Vermont
*Southeast:* Virginia, Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, West Virginia
*Southwest:* New Mexico, Texas, Utah, Arkansas, Arizona, Colorado, Kansas, Oklahoma

**Municipal G.O. to Treasury Ratio**: is a common measure of credit risk of municipal bonds relative to risk-free securities, Treasuries. It is a measure comparable to the “spread to Treasury” measure in the taxable markets. Note that the municipal yield is typically less than 100% of the Treasury yield due to the tax-free nature of municipal securities.

**Credit Enhancement:** is the use of the credit of an entity other than the issuer to provide additional security in a bond. The term is usually used in the context of bond insurance, bank letters of credit state school guarantees and credit programs of federal and state governments and federal agencies but also may apply more broadly to the use of any form of guaranty secondary source of payment or similar additional credit-improving instruments.

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[7] Authors’ own definition.
[8] The geographic region definitions are taken from the definitions provided by Thomson Financial SDC database (the source of the data for the geographic region section of the report) which in turn sources the *Bond Buyer* newspaper.

**<u>Bond Insurance</u>:** is a guaranty by a bond insurer of the payment of principal and interest on municipal bonds as they become due should the issuer fail to make required payments. Bond insurance typically is acquired in conjunction with a new issue of municipal securities, although insurance also is available for outstanding bonds traded in the secondary market.

**<u>Letter of Credit</u>:** a commitment, usually made by a commercial bank, to honor demands for payment of a debt upon compliance with conditions and/or the occurrence of certain events specified under the terms of the commitment. In municipal financings, bank letters of credit are sometimes used as additional sources of security with the bank issuing the letter of credit committing to in the event the issuer is unable to do so.