US Public Finance
Weekly Credit Outlook

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RATING CHANGE HIGHLIGHTS

Alliant, Interstate Power and Light and Wisconsin Power and Light's Outlooks Revised to Negative; Ratings A1-A3 18
The revisions to negative from stable, affecting a combined $3.8 billion, reflect reductions in debt coverage metrics.

City of Detroit, MI's Sewer Enterprise Senior and Second Lien Ratings Upgraded to Baa3 and Ba1; Outlook Positive 18
The upgrades, affecting more than $3 billion, incorporate management steps to increase efficiency and improve billing collections.

OSF Healthcare System (IL) Upgraded to A2; Outlook Stable 18
The upgrade to A2 from A3, affecting $950 million, reflects an expanding presence in northern and central Illinois.

West Jefferson Medical Center (LA) Downgraded to Ba2, Placed on Review for Downgrade 18
The downgrade to Ba2 from Baa2, affecting $136.2 million, reflects a precipitous downturn in fiscal 2014 operating performance.

Brockton, MA's GO Downgraded to A1; Outlook Negative 18
The downgrade to A1 from Aa3, affecting $106 million, reflects a reliance on reserves to balance operations.

Upper Trinity Regional Water District's, TX Regional Water Supply Revenue Bonds Upgraded to A2 18
The upgrade to A2 from A3, affecting $194 million, reflects a stable customer base and service area and stable financial operations.

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Hillview, KY Chapter 9 Filing Shows that Municipal Bankruptcy Is an Increasingly Viable Option

On August 20, the City of Hillview, KY (unrated) filed a bankruptcy petition arguing an $11.4 million legal judgment will leave it insolvent. Hillview's filing is more evidence that municipalities increasingly consider Chapter 9 as a way to cure balance-sheet problems, a credit negative for the city and the entire local government sector. Hillview has not defaulted on its general obligation bonds, which carry a full faith and credit pledge.

The filing follows examples such as the Town of Mammoth Lakes, CA (unrated), Boise County, ID (unrated) and the Township of Westfall, PA (unrated), where local governments also cited legal judgments as the reason for a Chapter 9 filing. After a period of failed negotiations, Mammoth Lakes successfully settled with a developer and requested dismissal of its filing. Westfall received court approval to reorganize under Chapter 9 and used the process to reduce repayment on a $20.8 million legal obligation to a developer.

Hillview had $13.8 million in total debt, including the legal judgment, equal to 40x the city's $347,000 unassigned general fund balance at June 30, 2014. Yet it still may face difficulties proving insolvency in federal bankruptcy court. Generally, a municipality must prove that it is not paying its debts on time or is unable to pay the obligations as they become due. Although the legal judgment is 4.5x the city's fiscal 2014 general fund revenues of $2.5 million, the city under state law can issue bonds to pay for losses in legal judgments, and Kentucky courts can order periodic payment of the judgment over a period not to exceed 10 years.

Also, the city has considerable ability to increase its two largest sources of operating revenue: occupational license taxes and property taxes. Occupational license taxes accounted for 50% of fiscal 2014 general fund revenues, while property taxes constituted 30%.

Despite obvious practical limitations, Hillview has full autonomy to increase its 1.5% occupational license tax rate levied on wages, salaries and business net profits earned within its taxing jurisdiction. Hillview can also increase its annual property tax levy up to 4% without voter approval. The city has significant margin to increase property tax rates and remain within the maximum rate of $7.50 per $1,000 of full valuation established by the Kentucky Constitution. The city's real and tangible property tax rates totaled $2.97 per $1,000 in fiscal 2015, which is 40% of the maximum permitted tax rate. Kentucky courts have held that local governments can exceed the maximum tax rate to pay debt service on general obligation bonds, providing a local government did not exceed the maximum tax rate at the time of the bond sale.

Fixed costs, including debt service and pension contributions, accounted for 20.1% of the city's fiscal 2014 general fund expenditures. Assuming level amortization of the legal judgment over 10 years, the additional principal payments alone would increase the city's fixed costs to 66.8% ($1.6 million) of 2014 general fund expenditures.

Unlike most recent Chapter 9 petitioners, Hillview participates in a multi-employer, cost-sharing pension plan, Kentucky County Employees' Retirement System (CERS). If bankruptcy is granted and reductions to pensions are part of Hillview's recovery plan, other entities that participate in the plan could be saddled with increased costs as Hillview's share of CERS' net pension liability is redistributed among other participating governments. Based on fiscal 2014 reporting of government contributions to CERS, we estimate that Hillview's share of the plan's NPL is approximately $2.3 million and a de minimus 0.05% of the plan's total net pension liability of $4.4 billion as of June 30, 2014.

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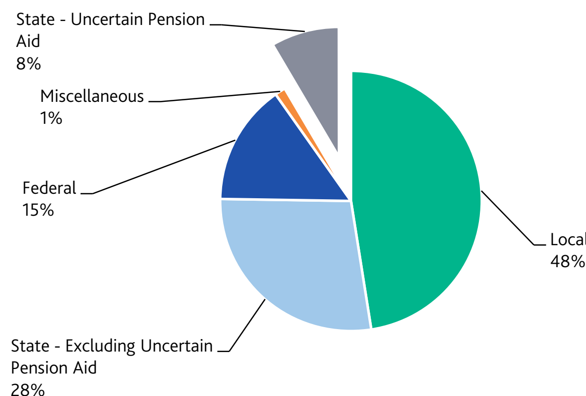
Chicago Public Schools Assume $480 Million of Uncertain Assistance from Illinois, a Credit Negative

On August 26, the Chicago Board of Education unanimously approved a $5.7 billion budget for the Chicago Public Schools (CPS, Ba3 negative) for fiscal 2016, which began on July 1. The board's action is credit negative because the budget is structurally imbalanced and relies heavily on several uncertain and non-recurring resources to close a $1.1 billion gap.

The budget assumes an additional $480 million in aid from the State of Illinois (A3 negative) to assist with the district's required annual pension contribution (see Exhibit), though it is not yet certain what form this assistance would take. The district's assumption of additional state support is risky because the state has not yet appropriated the additional funding. In fact, given the state's challenged finances and ongoing budget impasse, any such increase in state aid to CPS is uncertain. Two months after the start of the state's fiscal year, Illinois lawmakers have yet to pass a state budget for fiscal 2016.

Chicago Public Schools' Fiscal 2016 Budget Revenue Assumptions



Source: Chicago Public Schools

Should budgeted state revenue enhancements fail to materialize, the district would face a substantial budget gap, requiring measures such as significant increases to class sizes. The district has implemented nearly $1 billion in cumulative expenditure reductions since fiscal 2011. After years of such sizeable cuts, the district has less ability to further cut expenditures to offset budgeted state funds that do not come to fruition. In the event that the district does not receive the additional budgeted state resources and is unable to make commensurate budget adjustments, the district's financial position will likely become more reliant on access to capital markets to issue short-term debt.

Other non-recurring measures in the district's fiscal 2016 budget include:

» $200 million in reduced debt service costs through debt restructuring, which involves extending principal and interest payments on outstanding general obligation debt

» $79 million in reserve use from the district's $263 million General Operating Fund balance

» $55 million in reserve use from the district's non-operating funds

» $62 million in a one-time transfer of tax increment finance surplus from the City of Chicago (Ba1 negative)

An additional budgetary variable is the district's ongoing contract negotiations with the Chicago Teachers Union. A three-year contract between the district and the union expired on 30 June, and recent negotiations for a new contract remain unresolved. The expired contract was negotiated in 2012, following a multi-day strike. The approved 2016 budget optimistically assumes no salary increases. With salaries and benefits close to 70% of General Operating Fund expenditures, any personnel-related increases that result from contract negotiations would exacerbate the district's operating pressures.

Revenue shortfalls, including the failure to receive the budgeted $480 million of supplemental state aid for pensions, or higher personnel cost will exacerbate the size and scope of the district's structural imbalance. Failure to maintain access to short-term borrowing programs in an amount sufficient to maintain operations would be an additional credit pressure. Such variances and their effect on the district's liquidity and cash flow would likely result in a weaker overall credit profile.

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Quickening Pace of California Water Conservation Will Help Preserve Supply And Stave Off Additional Restrictions

On August 27, California's State Water Resources Control Board (SWRCB) announced that statewide water use in July declined by 31.3%, which exceeds Governor Jerry Brown's mandate of a 25% water use reduction for the second consecutive month. The usage decline was achieved despite continued warm and dry conditions that typically result in increased water use, particularly for landscaping and irrigation. The water savings brings the state to a cumulative 29.5% reduction since the mandatory water restrictions went into effect and keeps California on pace to achieve its goal of saving 1.2 million acre-feet of water through February 2016.

The increased rate of water conservation is a credit positive for the state's water utilities because it slows the rate of reduction of the state's already pressured water supplies. After four years of severe drought, the state's largest reservoirs are significantly depleted and as of August 31 are filled to only 41.5% of their historical average (see Exhibit 1).

EXHIBIT 1

Significantly Reduced Water In State's Major Reservoirs Emblematic Of The Need For Conservation

Reservoir	Capacity (thousand acre-feet)	% of Historical Average
Shasta	4,552	62%
Lake Oroville	3,538	46%
Trinity Lake	2,448	38%
New Melones	2,420	21%
San Luis	2,039	47%
Don Pedro	2,030	45%
Exchequer	1,025	17%
Pine Flat	1,000	33%
Folsom Lake	977	32%
Millerton Lake	520	65%
Perris Lake	500	47%
Castaic Lake	325	45%
Total	1,781	41.5%

Source: California Department of Water Resources

These conditions combined with diminished water storage at the local level and historically low Sierra snowpack prompted Governor Brown to enact a series of increasingly stringent water conservation measures culminating with the April 1 mandatory conservation requirements.

The conservation results are also a credit positive because they will forestall the state from considering additional, more severe restrictions. In absence of meeting the conservation target in the each of the last two months, the state would have likely sought more severe water use restrictions. This would have applied greater pressure on water agencies than currently expected, further reducing operating revenues and increasing their exposure to the potential for non-compliance fines.

These positives outweigh the negative credit effect of lower sales revenues resulting from conservation, because the sector as a whole entered this fiscal year in strong financial shape. This strength provides the sector with some cushion to absorb lower sales, while still maintaining credit quality. As shown in Exhibit 2, on average Moody's-rated California water enterprises' operating revenues and reserves increased significantly during the initial years of the drought while debt service coverage remained stable and healthy at better than two times.

EXHIBIT 2

California Water Utilities Have Strong Financial Profile That Will Cushion Effect Of Conservation

	2014	2013	2012	2011
Operating Revenues (millions)	$38.93	$24.56	$21.32	$19.54
O&M (millions)	$25.03	$19.13	$17.83	$16. 53
Annual Debt Service Coverage	2.3x	2.7x	2.1x	2.1x
Unrestricted reserves as % of O&M	116.1%	99.2%	93.8%	100.6%

Source: Moody's Investors Service

We anticipate that California water utilities will continue to implement moderate rate increases, which will mitigate some of the revenue impact of conservation and will result in a moderately weakened but still solid financial profile for the sector.

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Pennsylvania's Late Budget Will Not Immediately Imperil Appropriation Debt Bondholders

On September 1, the Commonwealth of Pennsylvania (Aa3 stable) paid its appropriation debt despite its budget stalemate, a credit positive.

The commonwealth remains mired in a budget impasse, with a newly elected governor and opposing-party legislature far apart on taxes and spending. The commonwealth's chronically late budgets reflect poorly on governance and are reflected in its below-average rating compared to other states. In the latest instance — Pennsylvania's ninth late budget in 13 years — the immediate threats to bondholders are minimal. Pennsylvania's general obligation bonds are constitutionally authorized to be paid regardless of a budget; some of its various other types of appropriation, lease and moral obligation bonds generally require budgetary appropriations to be paid, but we expect the commonwealth to make such appropriations or take other steps in time to pay bondholders on time and in full.
Because Pennsylvania is no stranger to late budgets, it has well-developed procedures to meet its obligations and keep government functioning. Consistent with any investment grade rating, Pennsylvania is committed to meeting its debt-related obligations on a timely basis.

For impending debt service payments, Pennsylvania has already taken steps to pay these bonds. While these steps are not the special appropriations or partial budgets more commonly used in late budget situations, bondholders will not experience an interruption in payments (see Exhibits 1 and 2).

EXHIBIT 1

Pennsylvania Debt Subject to Appropriation

	Par outstanding (12/31/2014)	Next debt service date
Commonwealth Financing Authority	$1.6 billion	December 1
Philadelphia Regional Port Authority	$24 million	September 1
Harristown Development Authority	$16 million	February 1
NORESCO (COPs)	$97 million	October 1
Pennsylvania Economic Development Finance Authority	$352 million	September 1
Sports & Exhibition Authority of Pittsburgh and Allegheny County	$291 million	November 1

Source: Commonwealth of Pennsylvania

EXHIBIT 2

Pennsylvania Debt Not Requiring Appropriation

	Par outstanding (12/31/2014)
General Obligation Bonds	$11.4 billion
PA Turnpike Commission Oil Franchise Tax Revenue Bonds	$735 million
PA Turnpike Commission Registration Fee Revenue Bonds	$410 million
PA Turnpike Commission Motor License Fee Enhanced Bonds	$970.5 million

Source: Commonwealth of Pennsylvania

The most immediate threat Pennsylvania's budget stalemate posed for bondholders was the September 1 debt service due on two series of bonds: the Pennsylvania Economic Development Financing Authority's Series 2012 Forum Place Lease Revenue Bonds (A2) and the Philadelphia Regional Port Authority's Series 2008 Lease Revenue Bonds (A1). The delayed budget did not delay September 1 debt service in either case.

- PEDFA bonds: The commonwealth's Department of General Services makes monthly lease payments to the trustee. The amounts on deposit with the trustee from fiscal 2015 are in excess of the debt service due September 1.
- PRPA bonds: The Pennsylvania Department of Transportation has borrowed money from the commonwealth's Motor License Fund to pay debt service due September 1.

The next obstacles, assuming the stalemate drags on, are payments due October 1. There are three certificates of participation series with debt service payments due that day.

In each case, Pennsylvania would make its best efforts to pay this debt service out of funds legally available during a budget impasse.

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HUD General Counsel's Opinion on Funding Sources for Down Payment Assistance Programs Is Credit Positive for HFAs

On August 11, the US Department of Housing and Urban Development's (HUD) general counsel provided an opinion on permissible funding sources for down payment assistance (DPA) programs offered by governmental entities, including state and local housing finance agencies (HFAs). The general counsel's memo is credit positive for HFAs because it provides legal support for their DPA practices, which facilitate their lending activities, further their missions and enhance their financial strength.

The opinion came in response to an audit report from HUD's Office of Inspector General (OIG), an independent oversight organization within HUD, that found a private lender had violated certain Federal Housing Administration (FHA) mortgage insurance rules when it originated FHA insured loans in connection with two local affordable housing financing programs in Arizona. FHA rules restrict the sources of DPA. In particular, while the OIG acknowledged that it is permissible for a lender to charge higher interest rates in exchange for covering borrower closing costs (so-called "premium pricing"), the OIG concluded that the lender impermissibly used premium pricing for down payments.

The HUD general counsel disagreed with the OIG's conclusions on the grounds that the lender's activities did "not represent premium pricing as defined by FHA requirements, and because FHA does not restrict the source of funds used for the DPA provided by governmental entities."

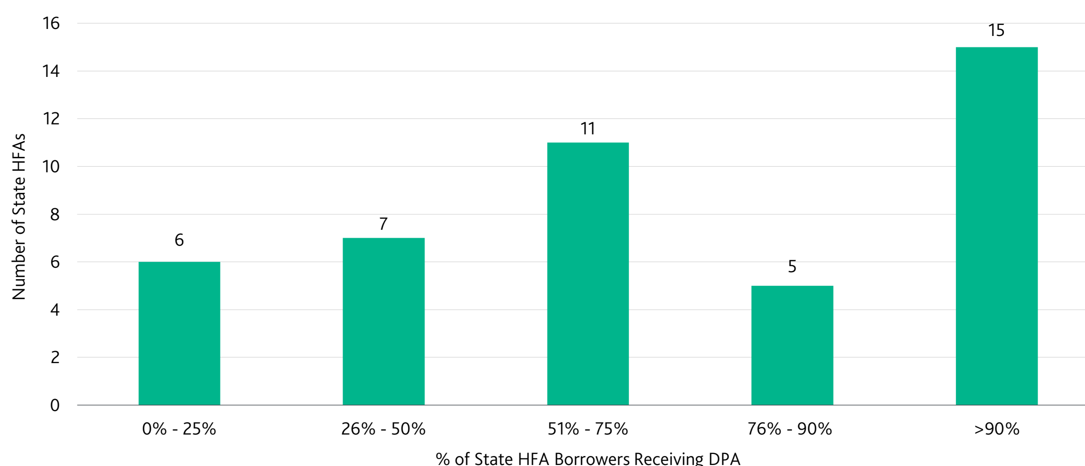
Although the general counsel's opinion does not constitute a final HUD position and does not resolve the controversy, it is nonetheless likely to impact HUD's deliberations on this matter.

HFAs fund their DPA programs in part through charging slightly higher interest rates on loans with down payment assistance. The additional revenue is used by the HFAs to recoup some of the DPA they provide. The general counsel's opinion supports the continuation of these practices.

DPA is a major part of most HFAs' affordable housing lending activities. For instance, 31 of the 44 HFAs we rate provide DPA to more than 50% of their borrowers (see Exhibit).

EXHIBIT

Large Percentage of State HFA Borrowers Receive Down Payment Assistance



Source: Moody's HFA Survey

Under FHA rules, borrowers with mortgage loans insured by FHA must make a down payment of at least 3.5% of the value of the property. However, coming up with the funds needed for a down payment can be difficult for the low-to-moderate income, first-time homebuyers eligible for FHA insurance. As a result, HFAs and similar housing support organizations provide DPA to certain borrowers to further their missions. In addition, offering DPA is a way in which HFAs can remain competitive with conventional lenders because their usual approach of offering lower interest rate loans funded with tax exempt bonds is ineffective in the current low interest rate environment. Loan originations are the primary means by which HFAs generate revenue and maintain and enhance their financial stability.

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Obama Administration's Renewable Energy Initiative Credit Positive for Privatized Military Housing Sector

On August 24, President Barack Obama announced a set of executive actions and commitments from the private sector to deliver renewable energy to households across the country. In the process, four privatized military housing developers committed to providing solar energy to projects at over 40 bases nationally. The initiative is credit positive for privatized military housing bond financings because it will reduce utility expenses, typically a project's highest expense. In one example, we estimate the effort will help developer Lincoln Military Housing reduce utility expenses at a San Diego project by up to $3.5 million a year (2% of overall expenses) and improve debt service coverage ratios by 5 basis points.

In response to the president's initiative, Lincoln Military Housing will join developers Balfour Betty, Corvias Solutions and United Communities in plans to deliver over 233 megawatts of solar energy to 40 projects, including six we rate. To date, the sector's infrastructure is using 72 megawatts of solar energy.

Bonds supporting military housing projects are primarily secured by rental revenues, net of operating expenses. Utilities are consistently a project's largest expense, routinely topping 30% by significant margins (see Exhibit 1). At Balfour Beatty's Navy Northeast project (Ba1 for Series 2007-A-1 & Series 2007-A-2 Class I and Ba3 for Series 2007-B Class II), utilities accounted for 39% of expenses in fiscal 2014.

EXHIBIT 1

Military Housing Utility Expenses Often Top 30%

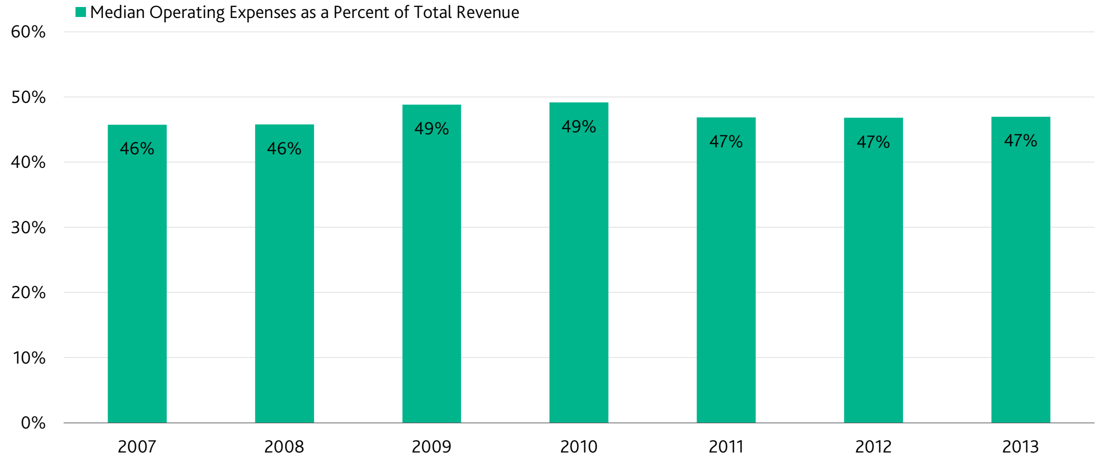
Manager	Base	FY 2014 Utility Cost as % of Total Expenses
Balfour Beatty	Navy Northeast	39%
Balfour Beatty	Ft. Hamilton	36%
Balfour Beatty	Leonard Wood	34%
Balfour Beatty	Ft. Carson	34%
Corvias	Ft. Bragg	27%
Lincoln	Navy San Diego	36%

Source: Moody's Adjusted Audited Financials

The solar energy initiative will produce utility cost savings by reducing energy consumption levels. For example, Lincoln Military Housing plans to leverage the current 20-megawatt system being installed at San Diego Family Housing, LLC (Aa1 for Class I; Aa2 for Class II; Aa3 for Class III) to install a new solar project that would add 60 megawatts of power-generating capabilities to its national portfolio. Lincoln Military Housing provides more than 31,000 family homes for military members across the United States. San Diego Family Housing has a total of $995 million in outstanding rated debt, which amounts to 10% of Moody's-rated privatized military housing financings nationwide. Our estimate that this effort will reduce utility expenses in San Diego by as much as $3.5 million per year (2% of overall expenses) and improve debt service coverage ratios by 5 basis points is significant, considering median operating expenses continue to equal nearly 50% of total revenue at Moody's-rated military housing projects (see Exhibit 2).

EXHIBIT 2

Military Housing Median Operating Expenses Equal Nearly 50% of Total Revenue



Source: Moody's adjusted audited financials

Utility expenses in privatized military housing projects provide a ripe opportunity for cost savings and improvement in credit profile. The upgrades may help mitigate the risk of price volatility associated with traditional sources of energy, which in turn can significantly strengthen a project's ability to meet its debt financing obligations. The cost for the energy upgrades will be included within existing construction budgets, as well as potential third-party contracts and financings. Projects will not incur any additional debt as a result of these initiatives.

The Obama administration's solar energy initiative follows a meeting earlier this summer convened jointly by the Department of Defense and White House Council on Environmental Quality to encourage developers to set goals for increasing the amount of solar energy generated on military privatized housing by 2016. At a time when many privatized military housing developers have seen operating expenses outpace revenue growth owing to lower-than-anticipated basic housing allowance (BAH) increases and growing competition with soft local real estate markets, we expect more developers to follow the four working with the Obama administration and adopt similar solutions for controlling expenses. Savings from such solar energy initiatives could be leveraged to expand existing projects or capitalize replacement reserve funds for future life-cycle needs of the projects.

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Phoenix, AZ Voters Approve Increased Transportation Tax and Pension Reform Measures

On August 25, Phoenix, AZ (Aa1 stable) voters approved several important propositions, including adopting a new transportation sales tax, implementing additional pension reforms and approving an override of spending limits. The approvals are credit positive for the city because they signal community support for an ambitious transportation plan, target savings on employee benefits and enhance hiring competitiveness. Poll results were still unofficial as of August 31.

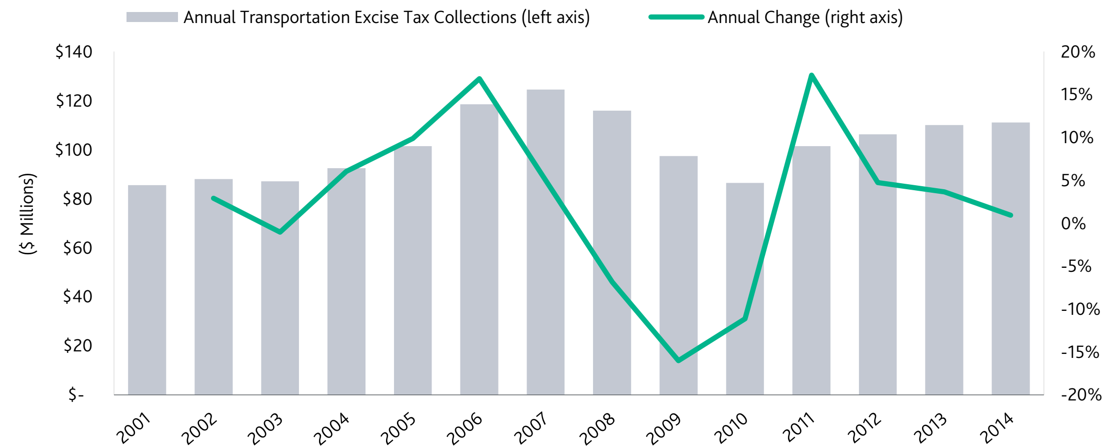
Voter endorsement of the city's $31.5 billion Transportation 2050 Plan through a 75% increase in the transportation sales tax rate will continue the city's investment in transportation and provide the city some modest budgetary flexibility. The plan focuses on maintaining and expanding the bus and light rail systems and provides funds for improvements to street and roads. In 2000, voters approved a 20-year 0.4% transit excise tax set to expire in 2020. The new vote (55% yes) increases the tax to 0.7% starting January 1 and will run for 35 years.

The Phoenix region was hit hard by two recessions in the 2000s resulting in tax collections for the transit plan coming in roughly $1 billion lower than originally projected. With the economic downturn, annual collections via the 0.4% tax ranged from a peak of $124.4 million in 2007 to a low of $86.5 million in 2010 (see Exhibit 1).

The new 35-year tax is projected to fund about 55% of the 2050 Plan, with the remaining $14.4 billion coming from federal and county funds and rider fares. The 2050 Plan apportions 50% of the funds for bus service, 33% for street improvements and 17% for light rail.

EXHIBIT 1

Phoenix, AZ's Tax Revenue for Transportation Improvement Plan Plummeted During Recession

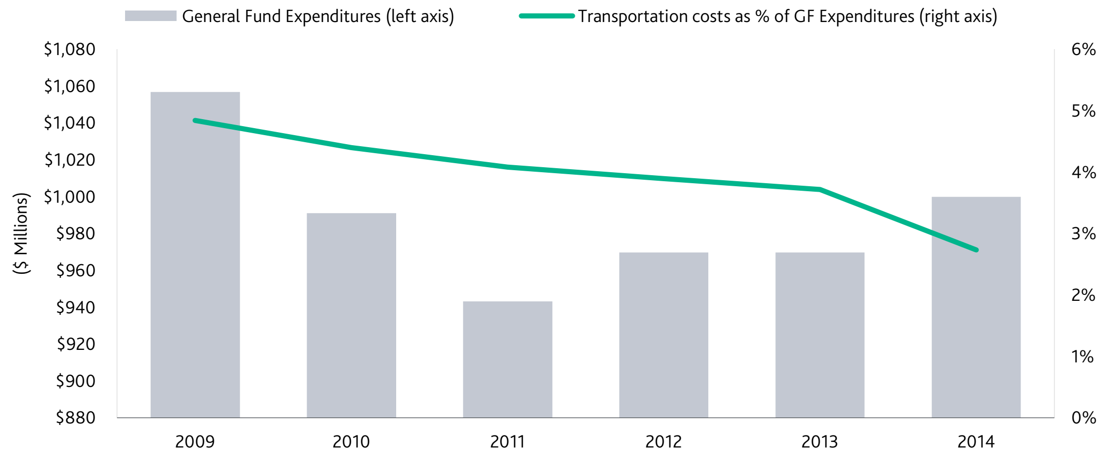


Source: City of Phoenix, AZ

The increase in the transportation tax will free up a modest amount of funds that the city can spend on other initiatives. Since the fiscal year that ended June 30, 2009, transportation-related costs in the general fund have averaged 3.9% of total general fund expenditures (see Exhibit 2).

EXHIBIT 2

Increased Transportation Tax Will Ease City's Rising Expenses, Freeing Some Funds for Other Spending



Source: City of Phoenix, AZ

Separately, the vote on pension reform would generate savings of approximately $304 million over 20 years for the city, mostly through a combination of capped pensionable pay, eliminating a sick leave service credit and changing the pension multiplier to five years from three. These components reflect the city's aggressive efforts to curb pension costs through statutory limits, reduced pension-spiking opportunities and other mechanisms.

The reform would not solve the city's large pension problem, but help manage a $3.9 billion three-year average Moody's Adjusted Net Pension Liability (ANPL) as of fiscal 2013. The city's 2013 ANPL was a high 3.4 times the size of operating revenues. Phoenix's three-year average ANPL is the 19th largest among the 50 largest Moody's-rated local governments. However, a large portion of the city's pension liability is driven by participation in the Arizona Public Safety Personnel Retirement System.

The reforms are not all aimed directly at savings, with a notable provision aimed at enhancing the city's ability to attract and retain employees. At a cost of $262 million, the city is lowering the contribution rate to 11% from 15.5% for Tier 2 and future employees. The city pays the remaining contributions. As a result, the city is susceptible to higher annual costs in the event that asset returns do not match city assumptions.

The need to hire new city employees could intensify in coming years. The city estimates that of the 7,535 active members in the City of Phoenix Employee Retirement System (COPERS), approximately 34% will be eligible to retire within the next five years.

Voter approval of Proposition 101 (70% yes) to override local constitutional spending limits is an endorsement of city leadership's ability to manage expenses. Voters face this issue of lifting the cap periodically. Absent approval, the city's budget would have been drastically reduced by nearly $1 billion to comply with a state ceiling imposed on cities in 1980.

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Texas' Capital Appreciation Bond Reform Takes Effect, a Credit Positive for Local School Districts

On September 1, Texas House Bill 114 took effect, limiting the use of capital appreciation bonds (CABs) to 25% of overall debt and shortening principal maturities of new CABs issued by political subdivisions. The bill is credit positive because it will deter school districts in particular from issuing debt based on uncertain future taxable value growth projections.

House Bill 114 limits CAB maturities to 20 years, substantially less than the 40-year maturities that many school districts had previously utilized. Reducing CAB maturities will force districts to issue debt more in line with current taxable values and more realistic taxable value growth projections. By shortening a CAB's maturity, the total cost over the life of the bonds (principal and interest) to a district will be lower because of fewer compounding periods. Although CAB principal and interest payments are deferred until maturity, interest continues to compound annually.

Under Chapter 45 of the Texas Education code, school districts can use a projected taxable value of the final year that bonds would mature as a proxy to illustrate repayment within the attorney general's so-called 50-cent test, which requires that school districts show that they can service additional debt at or below a debt service property tax rate of $0.50 per $100 of assessed value.

Districts will still be allowed to use projections of assessed values when seeking approval for a new bond issuance. For example, a school district using a 3% annual growth projection could show 217% taxable value growth at the end of a 40-year CAB, but a smaller (although still large) 75% taxable value growth at the end of a 20-year CAB. Shortening the maturity will reduce the bond amount that districts will be able to sell, limiting exposure to outsize projections. Historically, Texas school districts have used CABs to manage their tax rates and budgets by deferring the costs of current infrastructure projects until future assessed value growth is realized. In 2014, CAB issuances by school districts accounted for 99% of the local government CAB issued in the state.

The legislation also prohibits school districts from using CABs to purchase assets with a useful life shorter than 20 years, ensuring that districts use CABs only for long-term infrastructure projects, mainly the construction of new schools. Issuers cannot use CAB proceeds for operational, maintenance or transportation costs.

Although the bill will lead to more conservative debt structures, it also will inhibit high growth school districts' ability to finance new school facilities to keep pace with rapidly growing student populations. One of the main reasons that Texas school districts use CABs is to manage their tax rate at a level below the 50-cent test. The school districts with the highest par amount of CABs have recorded significant enrollment growth over the past 10 years. If high-growth districts are forced to build infrastructure in conjunction with current tax base growth, their ability to issue new money debt will be tempered. However, the bill will protect these districts from projecting decades of tax base growth that may not materialize.

RESEARCH HIGHLIGHTS

Frequently Asked Questions: Michigan School Bond Enhancement Program

Aug 31 - The State of Michigan enhances most of its school districts' bonds. The enhancement program obligates the state to issue loans to pay districts' debt service under certain conditions. The enhancement - the School Bond Qualification and Loan Program (SBQLP) - is established in the state constitution and covers approximately $13 billion, or more than 80% of school districts' debt. The program carries significant credit implications both for the state and school districts.

Illinois Late Budget Matters Less than Solving Pension and Revenue Problems

Aug 31 - Illinois' (A3 negative) prolonged budget impasse highlights the state's weak governance and is symptomatic of its severe fiscal challenges. Its pension funding pressures – more severe than any other US state – continue to intensify, and it lacks the ability to cut retiree health benefits, which are rising at 6.5% a year. Its fiscal deficit can be offset with spending cuts and higher income taxes.

RATING CHANGE HIGHLIGHTS

Alliant, Interstate Power and Light and Wisconsin Power and Light's Outlooks Revised to Negative; Ratings A1-A3

Aug 27 - We revised the outlook to negative from stable on the ratings of Alliant Energy Corporation (Alliant, A3 senior unsecured), Interstate Power and Light Company (IP&L, A3 senior unsecured), and Wisconsin Power and Light Company (WP&L, A1 senior unsecured), affecting $3.8 billion of debt securities. Given the small size of its unregulated business, Alliant's negative outlook is due largely to the negative outlooks at its two utility subsidiaries, IP&L and WP&L, both of which are experiencing reductions in their debt coverage metrics because of incremental debt and lagged operating cash flow recovery.

City of Detroit, MI's Sewer Enterprise Senior and Second Lien Ratings Upgraded to Baa3 and Ba1; Outlook Positive

Aug 27 - We upgraded the ratings on the City of Detroit's Sewer Enterprise senior and second lien revenue securities to Baa3 and Ba1, respectively. We also revised the outlook to positive from developing. The sewer enterprise has $2.2 billion of senior lien and $838.7 million of second lien debt outstanding. The upgrades incorporate improved operations of the Detroit Water and Sewer Department. The management team has implemented strategies to increase efficiency, improve billing collections, provide better services, track financial performance and update capital planning.

OSF Healthcare System (IL) Upgraded to A2; Outlook Stable

Aug 27 - We upgraded the rating on OSF Healthcare System's outstanding bonds to A2 from A3, affecting $950 million. The outlook is stable. The upgrade reflects OSF's large, multi-site system and expanding presence in several markets in northern and central Illinois, leading market positions in the largest markets, and strong and liquid investment position.

West Jefferson Medical Center (LA) Downgraded to Ba2, Placed on Review for Downgrade

Aug 27 - We downgraded West Jefferson Medical Center's bond rating to Ba2 from Baa2, affecting $136.2 million of outstanding debt issued through Jefferson Parish Hospital Service District No. 1. We also placed the rating on review for downgrade. The downgrade reflects the center's material and precipitous downturn in operating performance in FY 2014 (operating cash flow margin of 2.4%) after three consecutive years of stronger results. The drop is due largely to a downturn in volumes following a protracted period of partnership negotiations with another local health system in a quickly consolidating market.

Brockton, MA's GO Downgraded to A1; Outlook Negative

Aug 25 - We downgraded to A1 from Aa3 the rating on the City of Brockton's general obligation bonds, affecting $106 million. The outlook is negative. The downgrade reflects the city's increasing financial pressures and reliance on reserves to balance operations.

Upper Trinity Regional Water District's, TX Regional Water Supply Revenue Bonds Upgraded to A2

Aug 26 - We upgraded to A2 from A3 the rating on Upper Trinity Regional Water District's, TX Regional Treated Water Supply System Revenue Bonds, affecting $194 million of parity debt. The upgrade reflects the district's stable customer base and service area, strong management and stable financial operations.

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