



Massachusetts Cities & Towns— How are You Doing?

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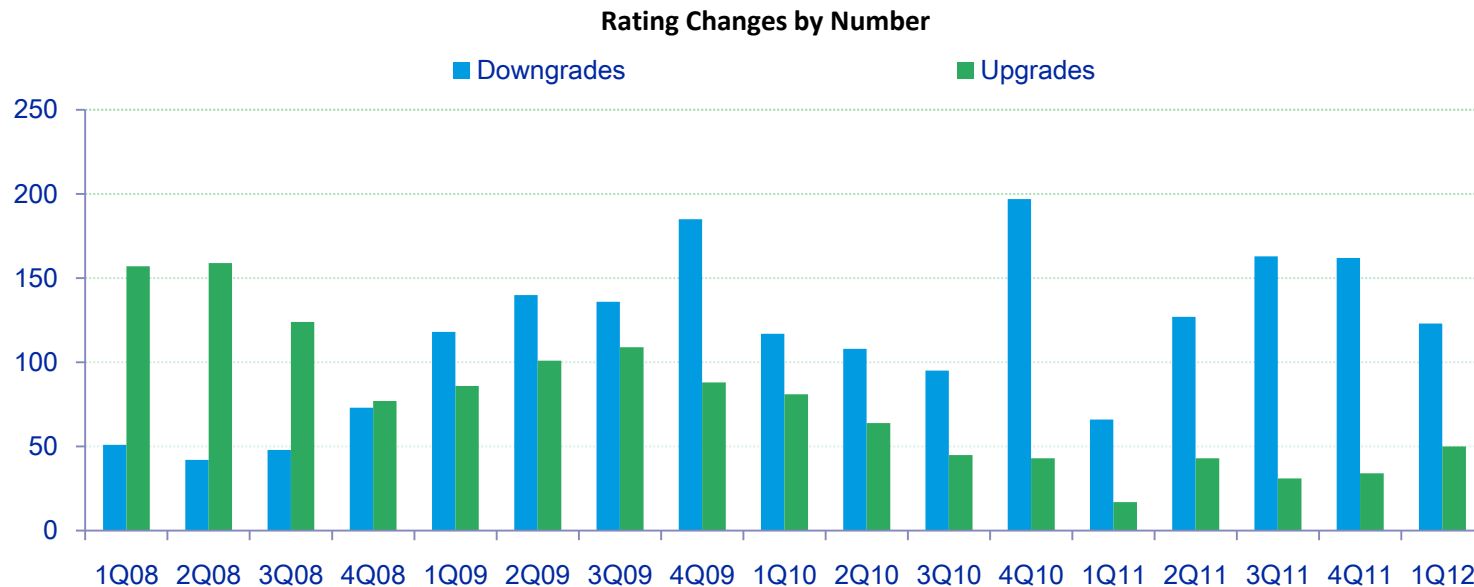
Muni Market Overview

Unprecedented Credit Stress Continues

- » Public sector finances for many issuers are materially weaker than prior to economic downturn
- » Most ratings are unchanged but downgrades are outpacing upgrades
 - This trend will continue
- » State and local defaults are expected to increase but will not be widespread

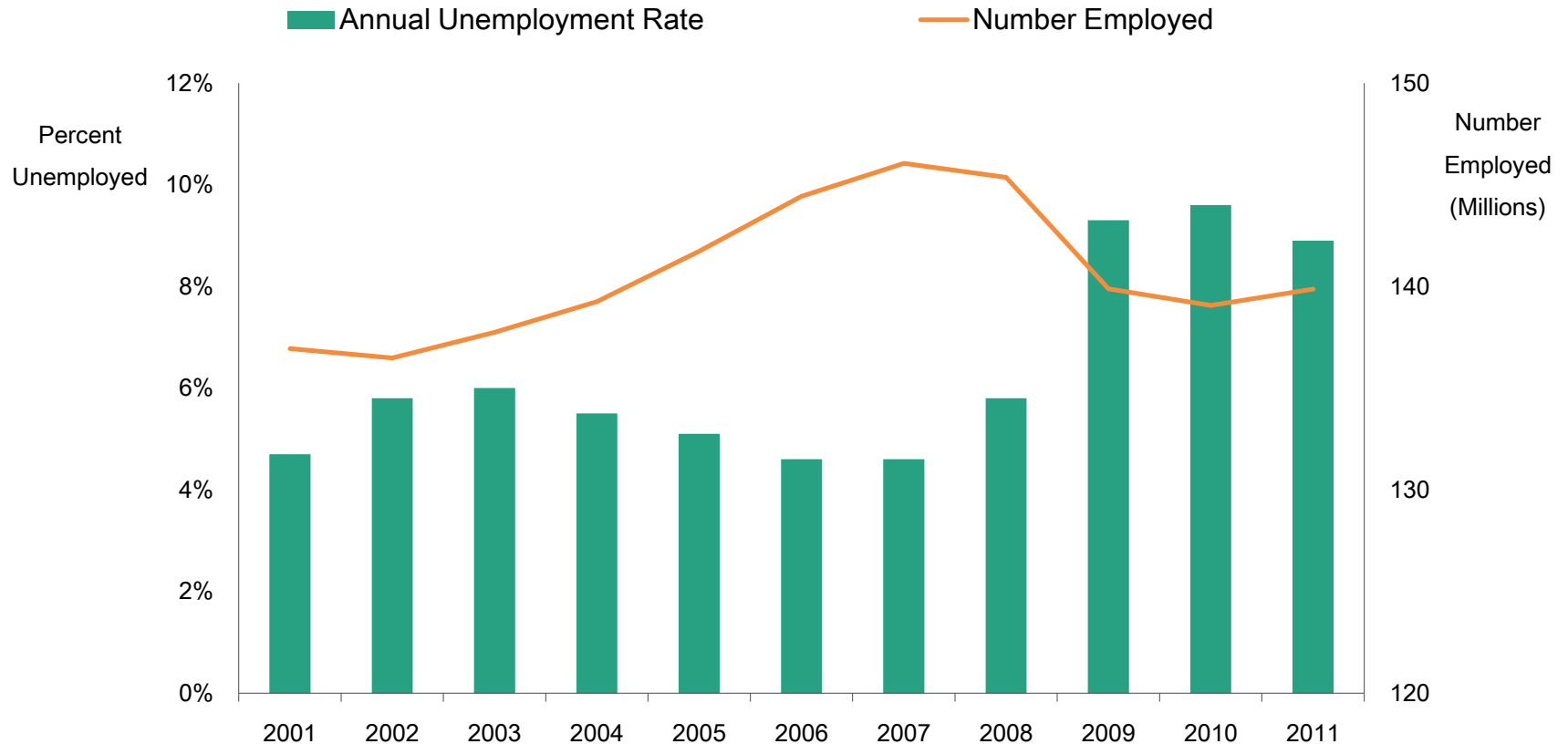
Downgrades Continue to Outpace Upgrades

- » Municipal market is broad and has diversity of credit risks
- » State and local governments continue to be stressed through the weak recovery
- » End of federal stimulus made 2011 an even more stressful year for state and local governments
- » Moody's has had negative outlooks on state and local governments for 4 years
- » Downgrades have outpaced upgrades for 13 consecutive quarters



Source: Moody's Investors Service

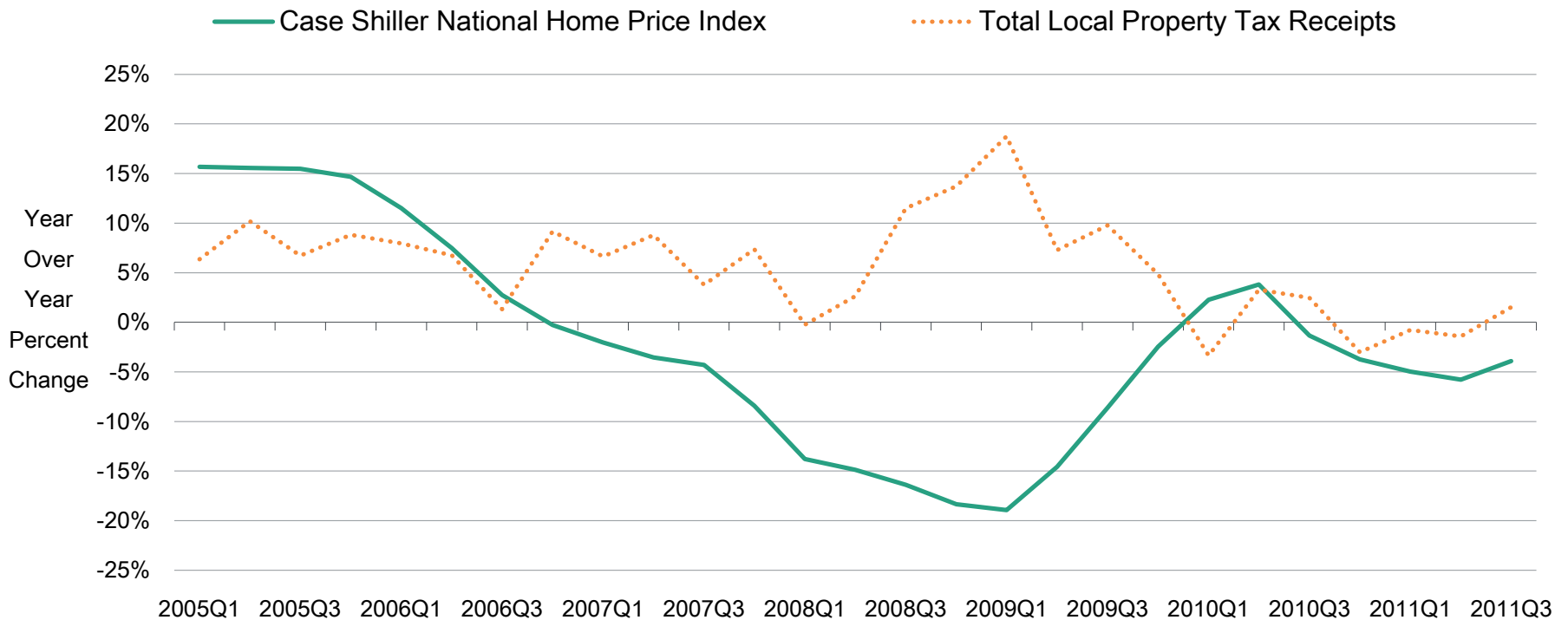
Weak National Economic Recovery is Primary Drag on Local Government Credit Quality



Source: U.S. Bureau of Labor Statistics

Property Tax Collections Lag Property Valuations

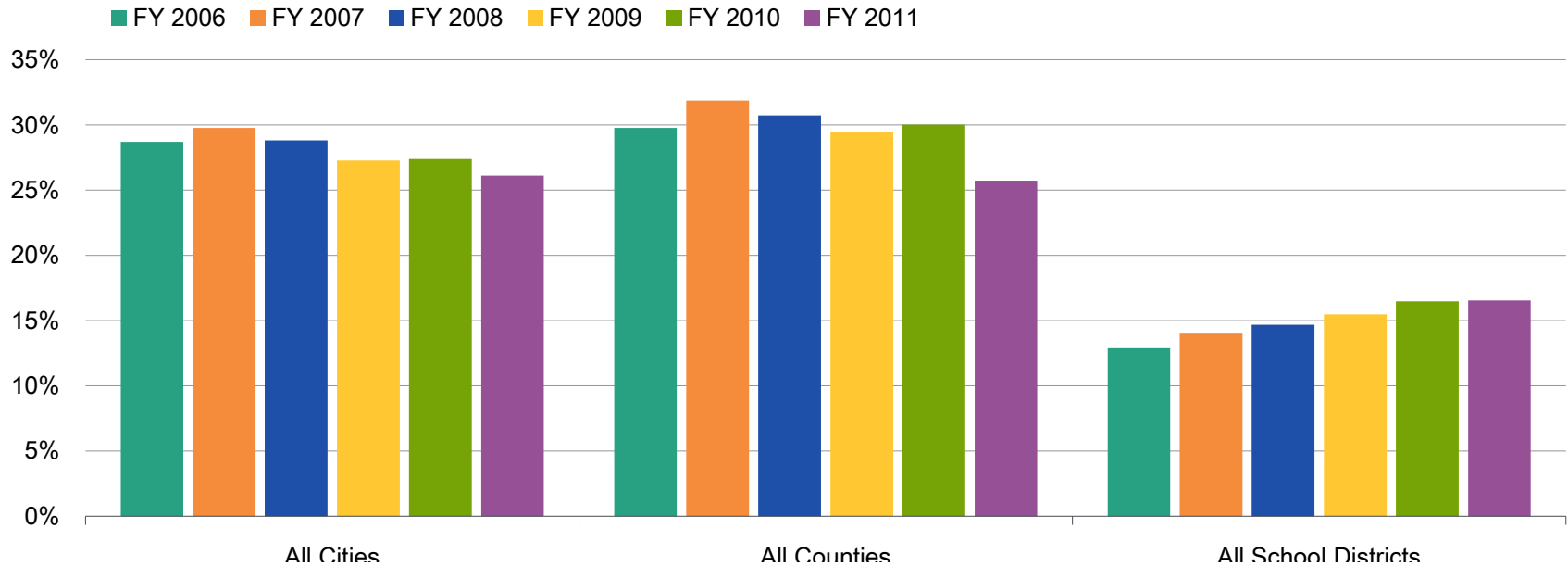
- » Tax appraisals typically occur 12 to 18 months before taxes are collected
- » Property value reductions in late 2010 and throughout 2011 are now beginning to affect local government revenues



Source: Case-Shiller Index, U.S. Census Bureau

Reduced Reserve Levels Bring Tough Choices

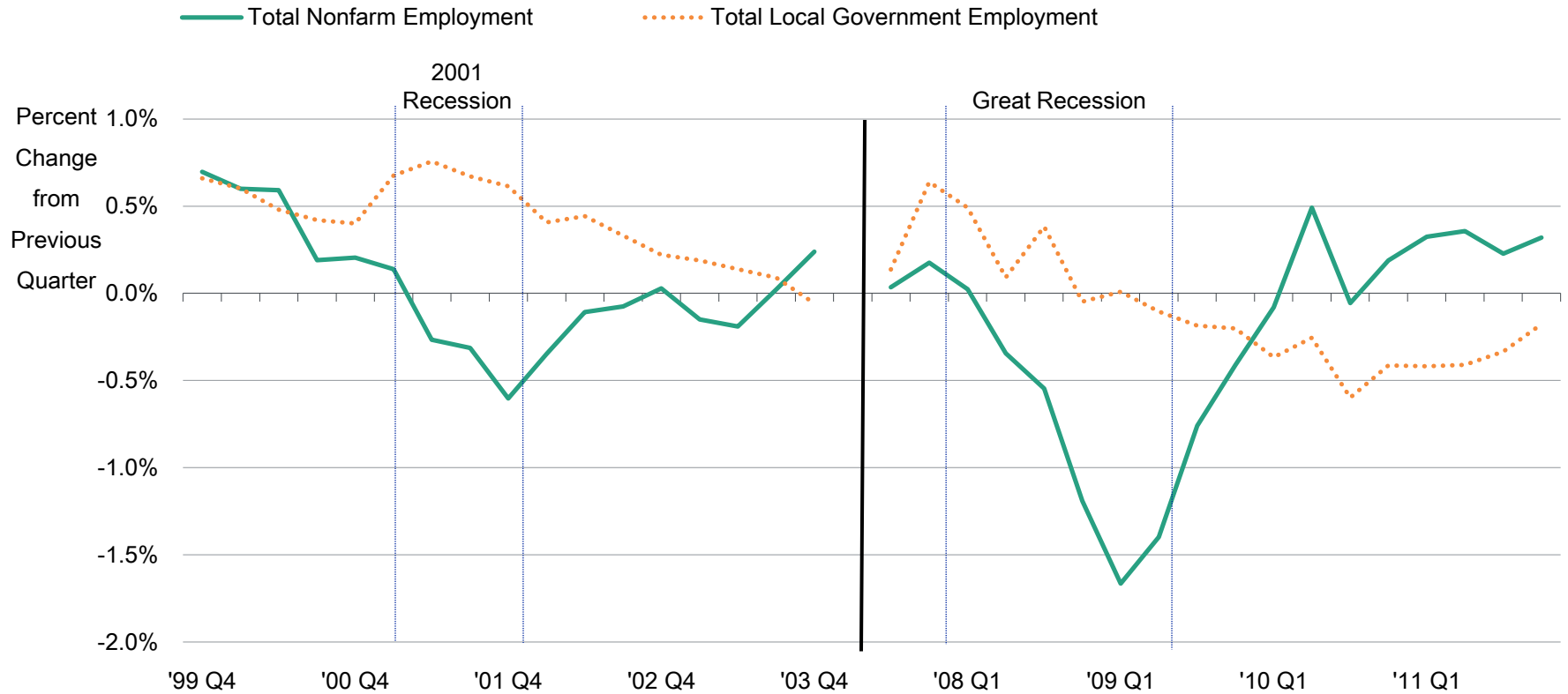
Median General Fund Balance as a Percent of Revenues



Budgetary Choices:

- » Reduce core services
- » Raise taxes
- » Further deplete reserves

Payroll is Primary Target to Reduce Expenditures

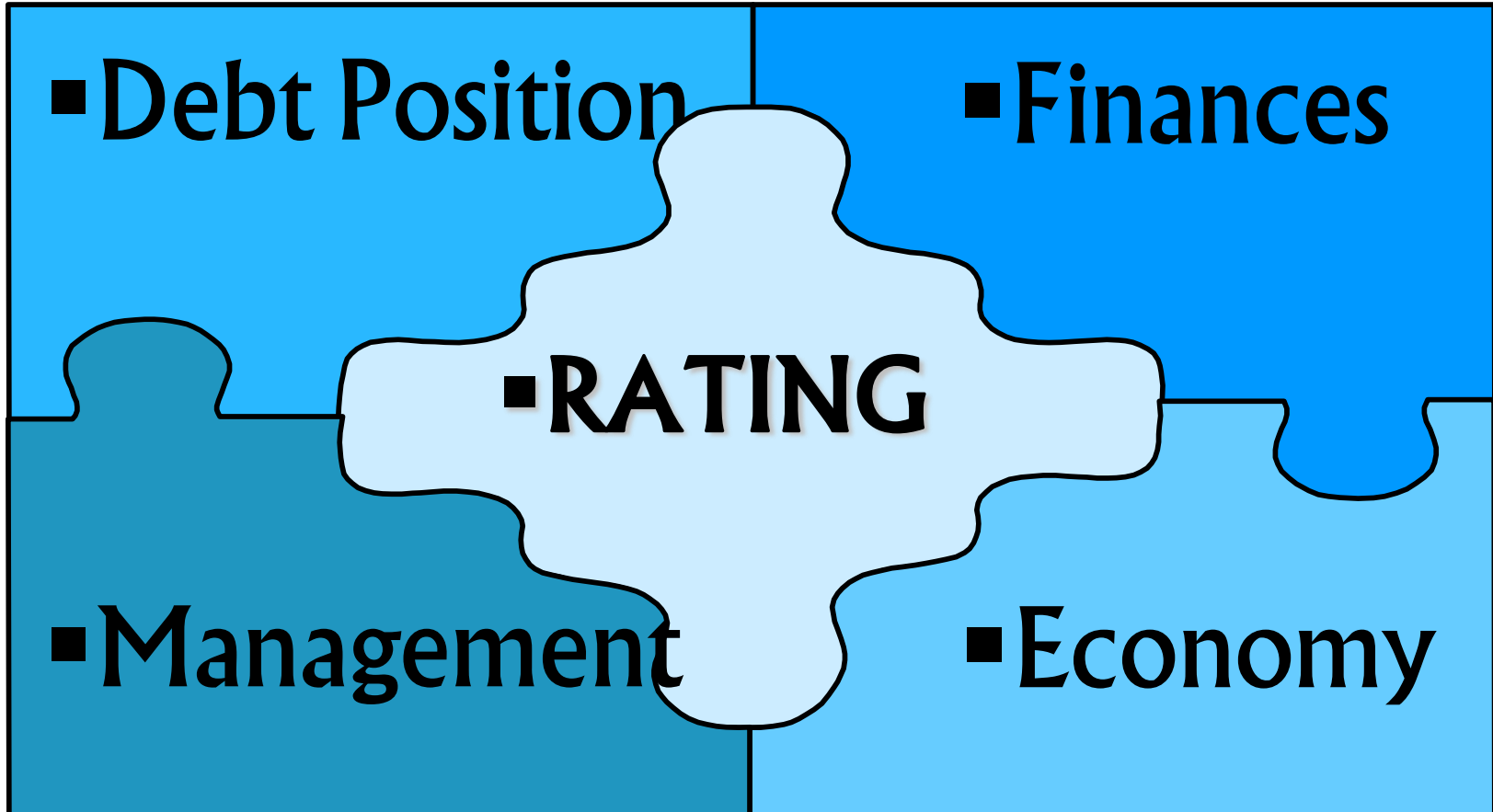


Source: U.S. Bureau of Labor Statistics

New Trend: Reducing Pension Benefits

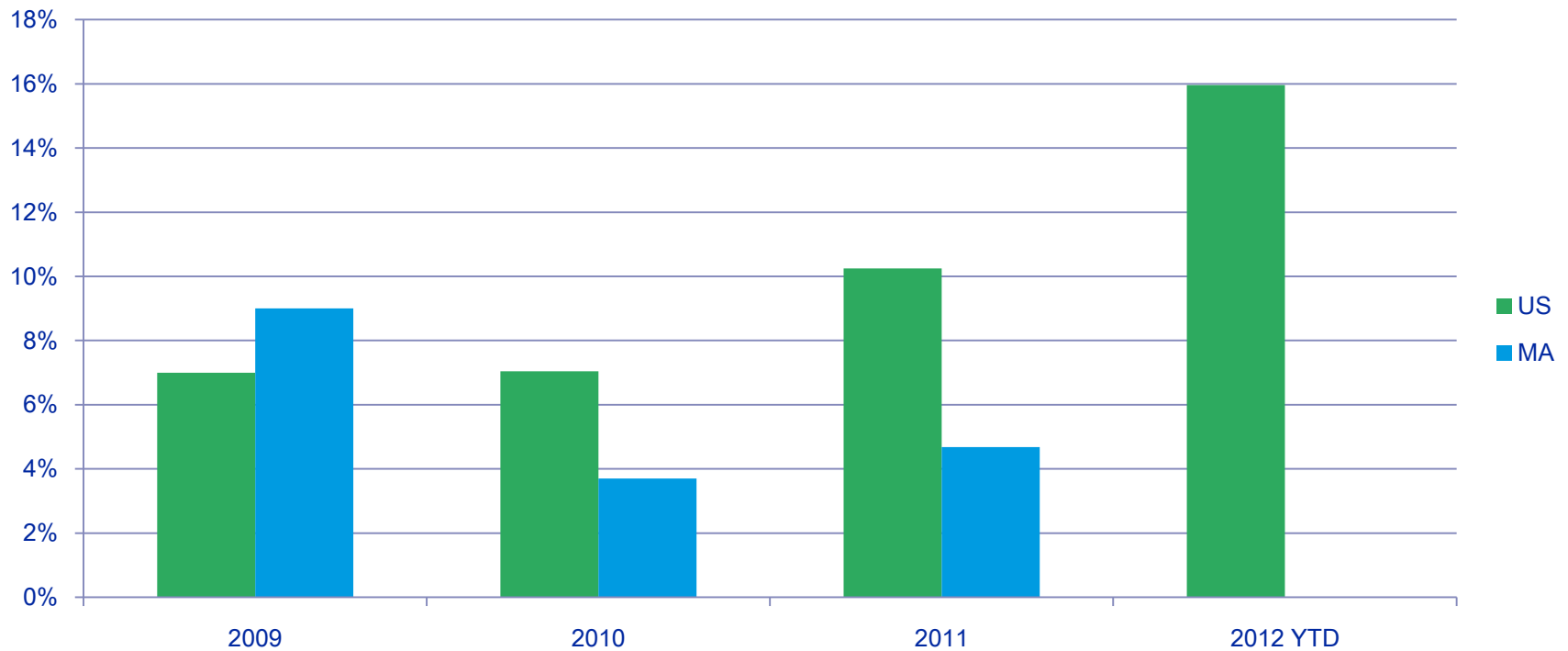
Massachusetts is Outperforming the Nation

Moody's Long-Term Credit Factors



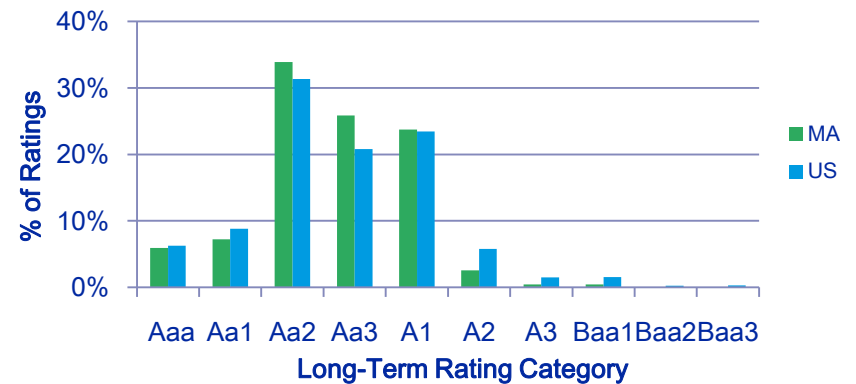
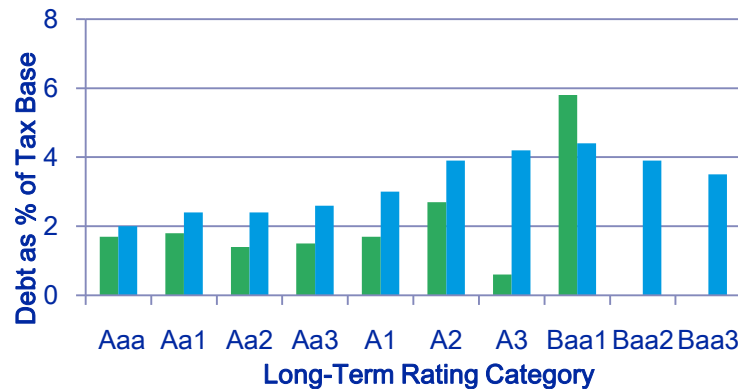
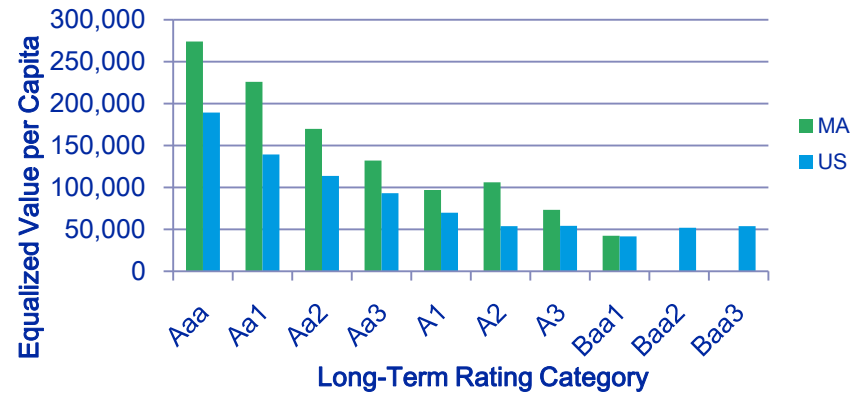
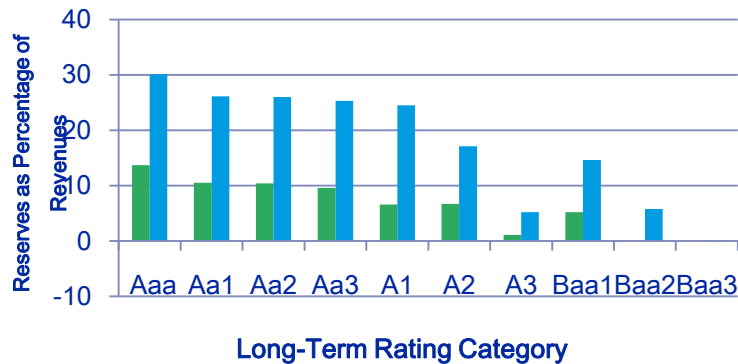
Fewer rating downgrades in MA

Downgrades 2009-2012 YTD
US v. MA



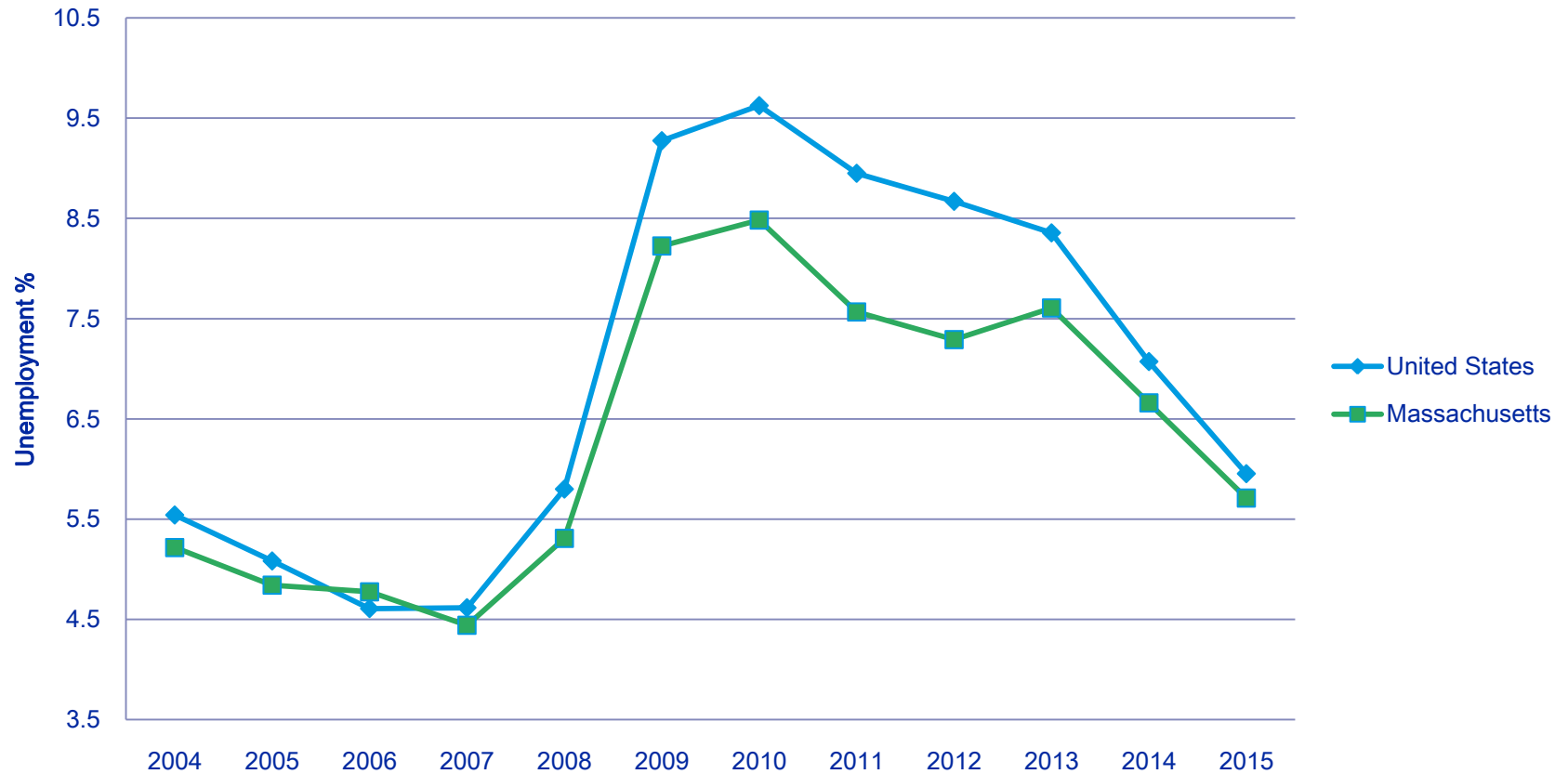
Source: Moody's

MA reserves and debt are low; wealth is high compared to US



Source: Moody's

Unemployment is lower in Massachusetts



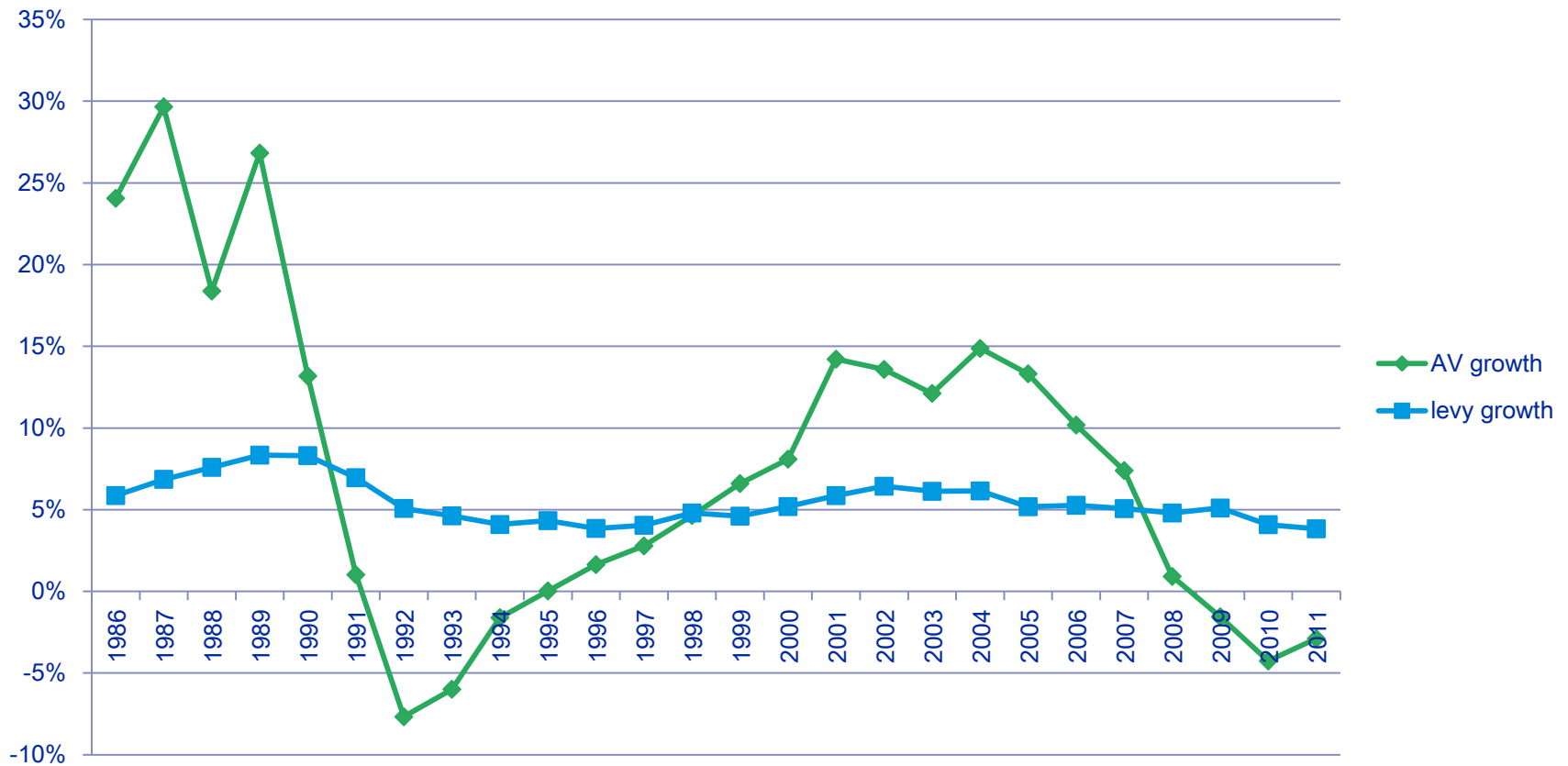
Source: US Bureau of Labor Statistics

Growth in MA property tax levy remains positive



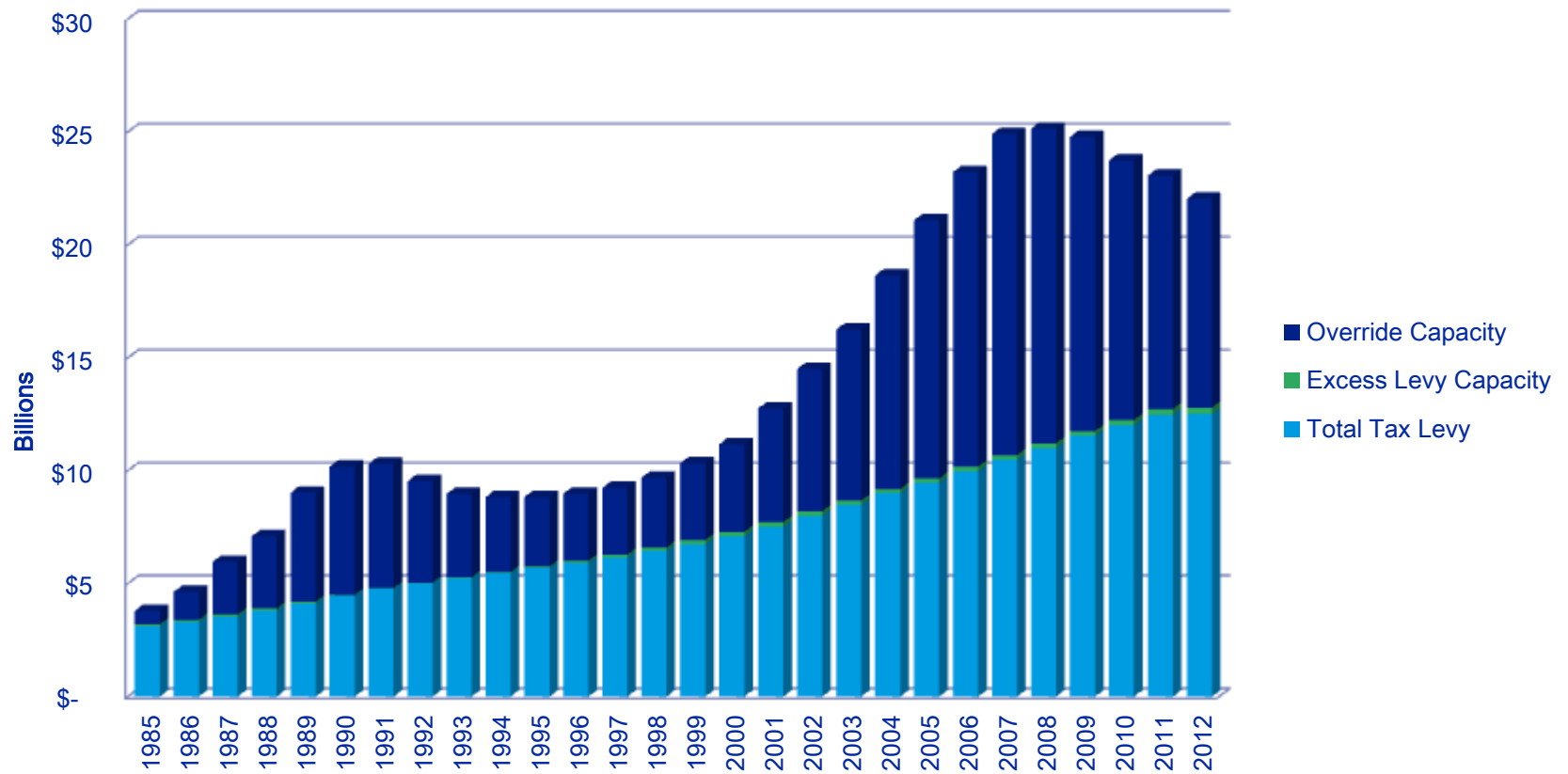
Sources: Mass DOR Municipal Data Bank & US BLS

AV and levy growth are independent



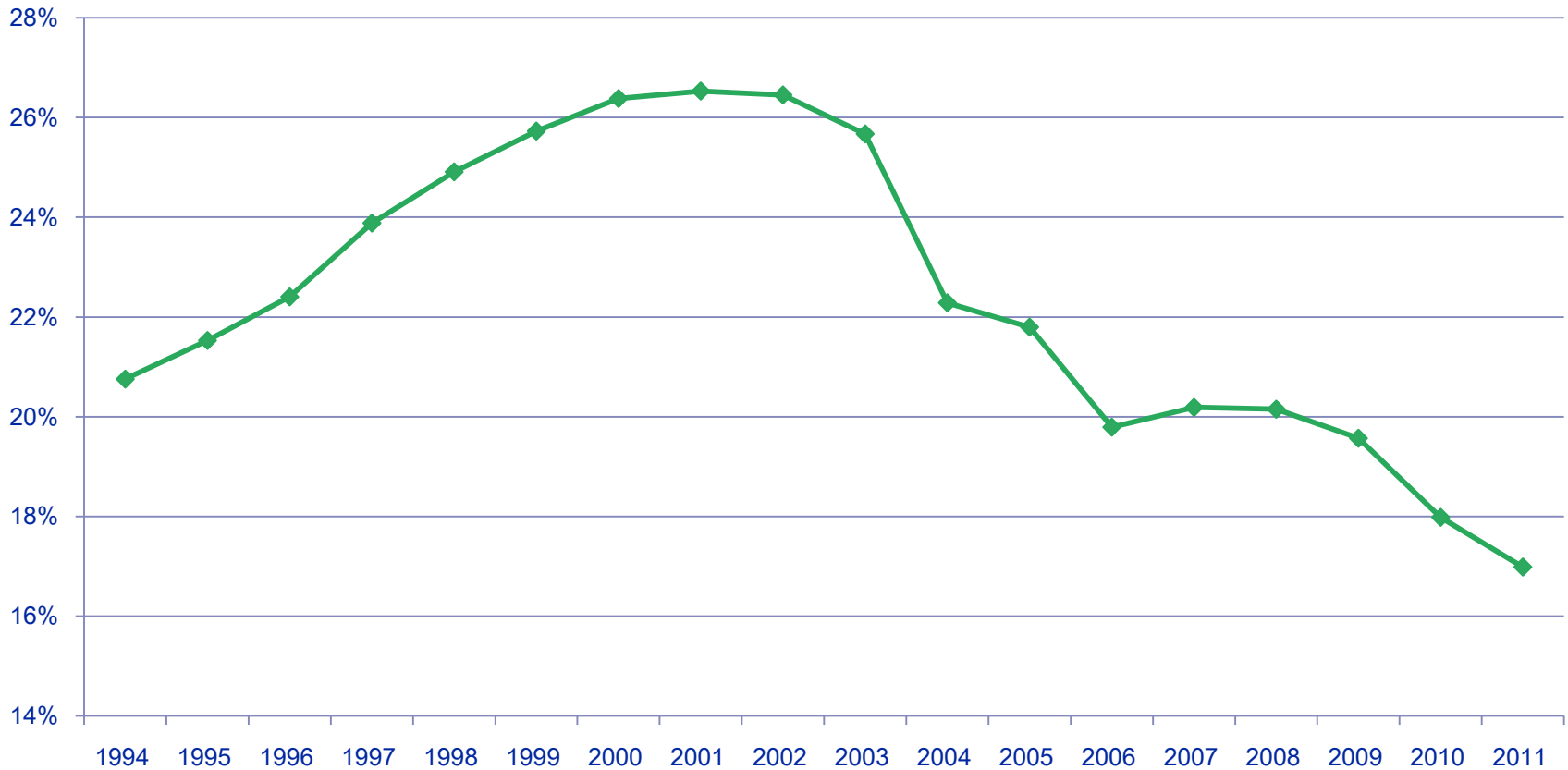
Source: Mass DOR Municipal Data Bank

Capacity under Proposition 2 ½ declining



Source: Mass DOR Municipal Data Bank

Net State Aid as % of budget has dropped



Source: Mass DOR Municipal Data Bank

What Are Signs of a Distressed City or Town?

Signs of Distress—Tax Base & Local Economy

- » Significant changes in major taxpayer or employers
- » Taxpayer concentration, especially in a stressed industry
- » Local economy dependence on a single industry
- » Deteriorating tax collections
- » High foreclosure rates
- » Steep declines in assessed valuations
- » Steady declines in population or weakening of demographic profile

Signs of Distress—Financial Condition

- » Qualified audit opinion or unfavorable management letter
- » Declining financial margins or liquidity
- » Large or growing receivables
- » Sizeable transfers out to other funds
- » Mismatch of recurring/nonrecurring revenues and expenditures
- » Growing reliance on fund balance appropriations
- » Rising or outsized mandated or fixed costs
- » Delayed tax or utility billing
- » Deficit fund balance

Signs of Distress—Debt

- » Increased cash flow borrowing
- » Deficit financing
- » Unfavorable debt structure
- » Large amount of off-balance sheet debt
- » Significant variable-rate or derivative exposure
- » Joint venture debt
- » Debt or guarantee exposure to enterprise risk, especially with an underperforming enterprise

Signs of Distress—Management

- » Non-compliance with adopted policies or management goals and procedures
- » Unrealistic long-range plans or forecasts
- » Failure to make mid-year adjustments when necessary
- » Late audit/CAFR or missing disclosure
- » Outstanding litigation with large exposure for unfavorable settlement
- » Non-appropriation for obligations

Signs of Distress—Enterprise Risk

- » Enterprise projects add strain to local governments
 - Some previously self-supporting enterprises are not meeting projections, unable to support debt and/or operations
 - The debts of some stressed competitive enterprises are falling on local government balance sheets
 - Due to legal guarantees the governments pledged to the debt
 - Or due to political or contractual pressure to support debt or operations of the failing enterprises
 - Examples include sports facilities, convention centers, healthcare facilities
 - Also includes other types of previously self-supporting debt, such as TIF or development related obligations

What are we watching? What could change?

- » Small, weaker local government issuers will be most stressed, some distressed
- » Risks:
 - Further state aid cuts
 - Some have exposure to enterprise risk with outsized debt levels
 - Exposure to financial institutions, liquidity and credit facilities expiring
 - Breakdown in political process that results in failure to pay debt, bankruptcy filing
 - Impact of federal debt ceiling / deficit reduction plans

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