RECENT ARTICLES RELATED TO BOND RATINGS

Moody's Investors Service U. S. Public Finance- rating agency analysis of the state local government sector.

1. <u>From the State Outlook September 19, 2011</u>

U.S. States Continue to Face Credit Headwinds (page 5)

"Pension Reforms Take Root
Large unfunded pension liabilities are being addressed by state actions and equity market recovery. Assets that were pummeled by the recession are recovering with the stock market. At the end of 2010, public employee retirement system assets were 35 percent higher than at the low point during the downturn, according to the National Association of State Retirement Administrators (NASRA). Many states are reporting investment returns of 20 percent or more for the fiscal year ending June 30, 2011, although these strong earnings cannot be expected to continue.
Many states are reducing pension benefits through changes in parameters such as increased contribution rates, adjustments to benefit formulas and cost-of-living reductions. Some pension systems are also adopting more conservative valuation approaches, lowering expected investment rates of return and thereby raising the estimated value of total liabilities. Twenty-five states enacted significant changes to their retirement systems in 2011, after 21 states did so in 2010, and reforms are under consideration in several of the remaining states, according to the National Conference of State Legislators (see Figure 4). The enactment of reforms and improved market performance are credit-positive developments for states."

2. <u>From the Local Government Sector Outlook September 19, 2011</u>

Sector Outlook for U.S. Local Governments Remains Negative (page 4)

"Fixed Expenditure Growth to Continue, but Some Changes Afoot
While local governments have been making adjustments to expense budgets in areas where they have discretion, fixed expenditures continue to grow, driven largely by growth in employee benefits. Although local governments have had success negotiating moderate changes in benefits with employee bargaining groups, healthcare benefits are likely to remain an ongoing source of expenditure growth for many local governments. Costs to maintain pension plans will also continue to rise as local governments increase their actuarially required contributions (ARC) to mitigate investment losses, which is a problem that will be exacerbated if stock market volatility continues. Many local governments have underfunded their ARCs in order to compensate for weak revenue growth, which is a practice that increases future liabilities. The recent Chapter 9 bankruptcy filing by Central Falls, RI, was at least partially driven by a structural imbalance due to an inability to meet ARC payments. Efforts to make changes in employee benefits have been challenging, but some recent successes have been achieved. For example, the enacted fiscal 2012 budget of Massachusetts was accompanied by the Municipal Health Insurance Reform Act, which enables cities and towns to participate in the state's Group Insurance Commission for health insurance, which provides cost savings for many communities and removes the need to negotiate healthcare plan changes with employees. Another example is the City of Detroit's police bargaining group, which agreed to modifications in benefits for current plan members, providing much-needed budgetary relief to the financially challenged city. Many states have made modifications to their retirement plans that could result in changes to locally administered plans as well. Broader, statewide pension and benefit reforms are likely to continue and additional relief from fixed expenditures will be a credit positive for local governments."

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Pensions&Investments

Fitch downgrades Cook County bond rating

By Timothy Inklebarger
Source: Pensions & Investments
Date: September 21, 2011

Fitch Ratings downgraded the general obligation bond rating of Cook County, Illinois, to AA- from AA on Wednesday, citing short-term "diminished financial flexibility" with the county's operating budget as well as its long-term pension liabilities.

As of December 2010, the $7.6 billion Cook County Annuity & Benefit Fund, Chicago, had an unfunded liability of $4 billion and a funded ratio of 63%, based on Fitch's conservative annual return assumption of 7%, according to a Fitch news release.

The Fitch report notes that the county has not paid its full annual pension contribution for at least the last five years, although county officials are working to lower the unfunded liability.

"As a credit positive, the county implemented a two-tiered benefit plan for employees beginning January 2011, which should help moderate future liability growth," according to the report.

Amy Laskey, a managing director at Fitch, said in a telephone interview that the funded ratio of the pension plan and the county's ability to control it as time goes on will have a greater impact on its bond rating.

"The longer term is getting shorter all the time," Ms. Laskey said. "The funding ratio now is sort of on the low end of adequate by our definition."

Daniel R. Degnan, executive director of the fund, could not be reached for comment.

The downgrade is the county's second this year after Moody's Investors Service downgraded the county to Aa3 from Aa2 in June.