

CMTA Outline for Discussion

How does Moody's view taxable debt?

- We do not distinguish ratings solely on if the debt is taxable or tax-exempt. Rather we want to understand management's reasons for issuing taxable vs. the more traditional approach of tax-exempt bonds.
 - More flexibility with the use of proceeds
 - Refunding opportunities
- We need to have an understanding of issuer's overall debt portfolio, including policies and strategies.

Start with what is securing the bonds?

- GO Bonds: full faith vs. statutory lien (California GOs)
- Revenue bonds
 - Look in the indenture to see the definition of "pledge revenue" - Example Eric mentioned BABs, we need to understand if the BABs subsidy is a pledged revenue securing the bonds when calculating our ratios such as debt service coverage for a revenue bonds.

Importance of overall credit fundamentals (example: Anaheim, CA; Aa3 and A1 lease revenue bond ratings)

- **Anaheim, CA**
 - Tax base: Large and stable (assessed value) at over \$40B poised for continued moderate growth, while some concentration in the tax base with Disneyland comprising about 12% of the AV, Disneyland is a stable; minimal risk of losing Disneyland as a taxpayer, and solid socioeconomics; median family income approximates the US median and unemployment rate is 4.7% which is below the US (4.9%) and State (5.2%)
 - Finances: Solid financial position supported by 5 years of consecutive operating surpluses and available general fund balance is about 12% of revenues
 - Management: Strong management team that implements prudent fiscal practices
 - Debt/pensions: Pension burden is high – ANPL 3.4x operations revenues (U.S. median is 1.4x operating revenues)
 - Four Series of outstanding lease revenue bonds (\$396M outstanding); 2008 Series is rated Aa3 (\$2M outstanding as of June 30, 2016) and 1997 and 2007 A&B Series are rated A1 (about \$394M)
 - \$36M of the \$394M outstanding are taxable bonds – issued to advance refund 1997 bonds
 - Why? The A1 rated bonds, while lease revenue bonds, have a much narrower pledge and secured by hotel taxes and certain sales taxes (Same name as Series 2008 - lease revenue bonds **but different security**).
- Compare to issuers within CA and on a national basis (annual outlook piece on each sector)

Due Diligence

- Rating agency credit reports and research
- Issuer's website
- EMMA – continuing disclosure, material events notice

Questions

1. What does Moody's see as the main challenge/headwind for local governments?
2. Is there a particular sector or sectors that Moody's view as having negative pressure to its credit quality?