

Outlook

Moody's U.S. Public Finance

February 2009

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Analyst Contacts:

| | |
|---|-----------------------|
| New York | 1.212.553.1653 |
| Edith ("Edie") F. Behr | 1.212.553.0566 |
| <i>Vice President - Senior Credit Officer and Team Lead</i> | |
| Nicole Johnson | 1.212.553.4573 |
| <i>Senior Vice President</i> | |
| Nick Samuels | 1.212.553.7121 |
| <i>Vice President - Senior Analyst</i> | |
| Mark Tenenhaus | 1.212.553.0849 |
| <i>Vice President - Senior Analyst</i> | |
| Maria Coritsidis | 1.212.553.4173 |
| <i>Assistant Vice President – Analyst</i> | |
| Ted Hampton | 1.212.553.2741 |
| <i>Assistant Vice President - Analyst</i> | |
| Emily Raimes | 1.212.553.7203 |
| <i>Assistant Vice President – Analyst</i> | |
| Kimberly Lyons | 1.212.553.4673 |
| <i>Analyst</i> | |
| Robert A. Kurtter | 1.212.553.4453 |
| <i>Team Managing Director</i> | |

Outlook Remains Negative for U.S. States:

Federal Fiscal Stimulus May Moderate Recession's Effects on U.S. States; Impact from Recession Will Not be Equal

The outlook for U.S. state ratings is negative. This outlook expresses Moody's expectations for the fundamental credit conditions in the sector over the next 12 to 18 months.

Summary Opinion

U.S. states are facing serious financial and budgetary pressure due to the slowing economy and the dislocation in the capital markets. While most states were better prepared for a downturn going into the current recession than they were for prior economic downturns, the breadth and depth of this recession is significantly straining available resources. At the same time, states are faced with escalating budgetary pressures in the areas of social services, retiree benefits and infrastructure. Additionally, market conditions have changed the financing landscape and states can no longer depend on timely and limitless borrowing to address financial underperformance. All of these factors combined lead us to extend our negative outlook on the state sector.

Nonetheless, recent actions by the federal government to aggressively stimulate the economy through capital spending, operating assistance to states and a variety of other measures may lessen the most severe aspects of the downturn on state finances.

Additionally, states continue to be financially strong and highly rated due to their constitutional authority to raise revenues, cut spending and manage their programmatic obligations.



Outlook Remains Negative for U.S. States

While the metrics Moody's uses to evaluate states' creditworthiness remain unchanged, there is considerable uncertainty around the six factors outlined below. The way in which each of the states performs relative to these six factors will be key determinants of whether or not an individual state's credit rating is likely to be impacted in 2009. The six critical factors for assessing the ratings impact on states in 2009 are:

1. **Revenue Declines** – The severity of the current recession is causing currently realized and projected state revenues to decline at a precipitous rate. The amount of revenue decline for an individual state will be a significant factor in evaluating the impact of the current environment on the state's rating as well as the level of reserves that it has maintained to buffer the effects of recession induced revenue shortfalls.
2. **Liquidity Position** – Liquidity will be adversely impacted for all states due to declining revenues and potentially higher budgetary needs, but some states that already operate with thin reserves or are dependent on market access for cash could experience not only budgetary deficits but cash deficits as well. States which experience strained cash positions are more exposed to downward rating pressure than states which maintain healthy liquidity positions.
3. **Recession Induced Spending Pressures** – All states are likely to experience higher spending pressures driven by rising unemployment and the increased demand for social services as individuals and families fall back on the social safety net. Some states with industry or sector concentration will be more significantly impacted due to severe downturns those industries or sectors.
4. **Deficit Financing** – Some states are more reliant on borrowing for operations than others and access to credit continues to be limited as credit spreads have widened, yield curves have steepened and institutional investors have become more discerning. States which rely on borrowing to close budget deficits for multiple years are more exposed to the uncertainties of the credit markets and therefore at greater credit risk than states which can manage without deficit borrowing or states with very limited deficit borrowing needs.

Offsetting these risk factors are two possible mitigants which have the potential to moderate the risks above.

5. **Deployment of Federal Fiscal Stimulus** – The federal fiscal stimulus plan will have a positive impact on state finances. As the bill moves its way through the legislative process and it becomes clear how much money will be available for what purposes and over what period of time, we will be able to assess how this stimulus will benefit individual states. How effectively the states deploy stimulus funds and close large projected budget gaps will affect the likelihood of negative rating actions.
6. **Management** – States have broad powers over taxing policy and spending programs, including the ability to delay payments to vendors and local governments as well as the ability to reduce support and shift costs to lower units of government. The willingness to promptly address financial problems as well as the ability to enact solutions without the constraints of state imposed statutory or constitutional barriers will also be considered as a factor in assessing creditworthiness.

While state ratings will continue to be evaluated according to the metrics set forth in our State Rating Methodology, in the current economic environment, special attention will be given to the above-referenced issues in determining the rating impact of the downturn on individual states during the near to medium term.

Outlook Remains Negative for U.S. States

The Current Economic Environment Supports The Negative Sector Outlook

Budgetary and Cash Pressures Coupled with Market Disruption Lead to Continuation of Negative Sector Outlook

U.S. states are experiencing severe financial stress as the recession that started in January of 2008 has negatively impacted revenues and has resulted in increased spending for social services and other critical programs. Unlike past recessions, this downturn is broad-based and deep and the recovery path remains uncertain.

At the same time, access to the credit markets has been significantly curtailed. Institutional buyers, on whom issuers of large quantities of debt had come to rely, can no longer be counted on to purchase securities in unlimited amounts. Nor can states be assured access to the market at any given time. This is particularly troublesome for states that have historically had unfettered access to the market to bridge cash-flow shortages and address deficits.

Current Conditions Are More Severe Than Anticipated in Early 2008

Moody's assigned a negative outlook to the U.S. state sector in February 2008 based on the decidedly weaker economic environment in which states were operating. Nationwide, states were seeing the effects of the housing downturn on their finances resulting in significant revenue underperformance and growing budget shortfalls.

Since then, the economy has continued to deteriorate. The recession that started with a real estate downturn initially affected the construction industry most directly. Then, as foreclosures increased and real estate values declined, access to capital narrowed. Collateralized mortgage securities collapsed, resulting in investment losses which ultimately toppled some of the oldest firms on Wall Street. At the same time, the price of oil skyrocketed to over \$140 per barrel, resulting in discretionary income being spent on fuel and increased airfares affected tourism. Consumer confidence eroded and automobile sales declined. Gaming revenues that had once been thought to be recession proof began to erode. As a result, state revenues, including sales taxes, personal income taxes, and corporate business taxes also declined. More recently, as the stock market plunged over 35% during 2008 -- the steepest decline since the Great Depression -- and unemployment has increased (to 7.6% as of January), states have adjusted their revenue projections down sharply.

States across the country are grappling with combined fiscal year 2009 and 2010 budget gaps of approximately \$100 billion.¹ Several states are reporting budget gaps for fiscal year 2010 equal to 20% to 25% of operating revenues. As a result, most states have cut expenditures. Hiring freezes and furloughs have been implemented and, in some states layoffs have been announced. In order to address revenue short-falls, one state halted all road construction projects and another has stopped payment on road and school infrastructure loans. Higher education funding has been reduced and a couple of states have also announced state aid cuts to local governments.

Special legislative sessions to consider fiscal remedies have been called in California, Florida, and New York. Some states including Arizona, Connecticut, Massachusetts, Minnesota, Nebraska, Nevada, Pennsylvania, and Virginia expect to use some or all of their rainy day funds.

¹ In its state budget update of December 4, 2008, the National Council of State Legislatures estimated a remaining aggregate budgetary gap of \$97 billion over an 18 to 24 month period. On January 14, 2009, the Center for Budget and Policy Priorities reported that budget gaps for the rest of fiscal year 2009 as well as fiscal years 2010 and 2011 amounted to more than \$350 billion.

Outlook Remains Negative for U.S. States

This is a national recession and every state is affected. Six states including Florida, Kentucky, Nevada, Ohio, Rhode Island and Wisconsin currently carry negative outlooks. These outlooks indicate that we believe there's a greater than 50% chance of downgrade over the medium term. One state, California, is on watchlist for possible downgrade.

Outlook Remains Negative for U.S. States:

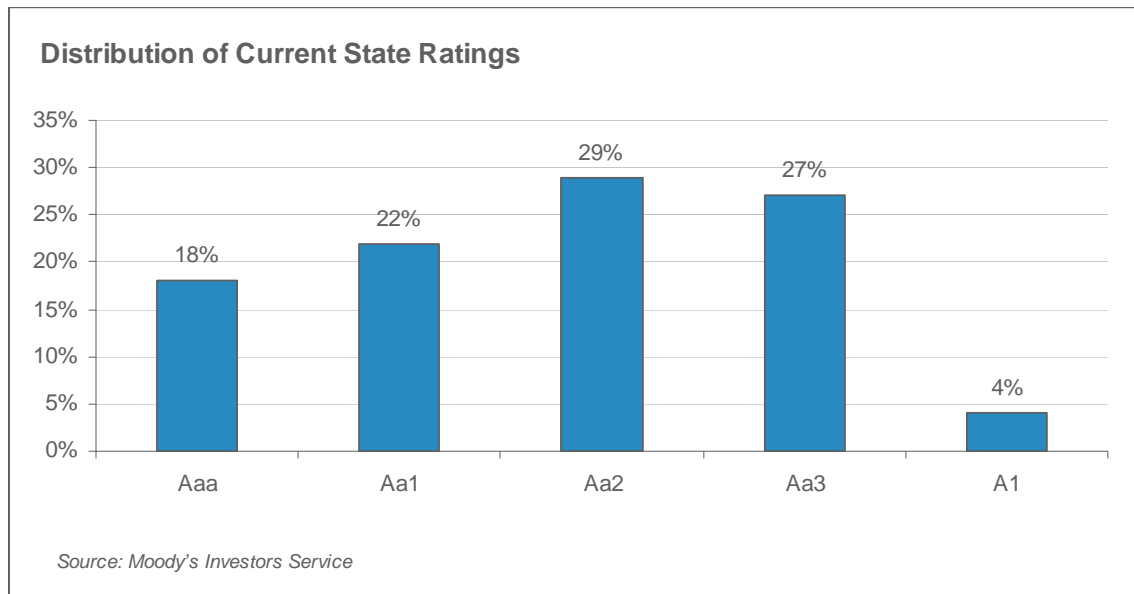
States that Currently Have Negative Outlooks

| State | Current Rating |
|--------------|--|
| Florida | Aa1 |
| Kentucky | Aa2 |
| Nevada | Aa1 |
| Ohio | Aa1 |
| Rhode Island | Aa3 |
| Wisconsin | Aa3 |
| California | A1 (on watchlist for possible downgrade) |

Ratings Incorporate Relative and Absolute Performance

Moody's ratings capture both the relative relationships among groups of credits and cardinal factors. In our methodology for U.S. state general obligation bond ratings, four broad credit factors are evaluated. These four credit factors are finances, governance, economy, and debt (Please refer to *Moody's State Rating Methodology*, dated November 2004).

Each credit is unique as to the strengths and weaknesses of the various rating components and ratings reflect this unique combination. However, there are times when a state outperforms or underperforms its rating level peers or when the fundamental attributes of a state change and that is when rating action is warranted. On the other hand, our ratings are intended to absorb some level of stress due to normal business cycles and we would not necessarily expect rating changes due to temporary weakening.



Outlook Remains Negative for U.S. States

Six Critical Factors Will Drive 2009 Rating Actions

In 2009, we expect that each state's performance as related to the six critical factors outlined above -- revenue declines; liquidity position; recession induced spending pressures; deficit financing; deployment of the federal fiscal stimulus; and management -- will distinguish which state's general obligation ratings are maintained and which are likely to be downgraded. Each of these factors needs to be viewed in light of the states' current rating levels as there are different expectations of performance and results that correspond to the various rating levels. The amount of latitude within each rating category is assessed by comparing conditions and metrics with those in similarly rated states. As always, our ratings are intended to measure the strengths and weaknesses of each credit against the strengths and weaknesses of other similarly rated credits. To that end, each of these indicators will be reviewed in tandem with similar information and metrics for other states as well as other entities rated at similar levels. When a state's credit components are inconsistent with a particular rating category, rating changes will be considered.

Despite the economic downturn, Moody's does not expect wholesale downgrades of state credits. However, if the fundamental credit of a state were to change or if a particular state were not to perform as well as its peers and there were little expectation of a swift recovery, that state may be subject to rating downgrade.

Revenue Declines

Revenue Loss Due to Economy Will Stress Ratings

The recession is broad based and has resulted in downward revenue forecasts throughout the past year. Initially, sales tax revenues came in below expectations as the housing market declined and home equity loans were harder to get. As the year progressed, however, corporate business taxes declined reflecting less demand for products and services, and personal income tax revenue fell reflecting lost jobs, diminished bonuses, and lower capital gains estimates. These three categories of revenues -- sales tax, corporate business tax, and personal income tax -- represent the three largest sources of state revenue. It is because of these revenue shortfalls that states have had to reduce expenditures, utilize reserves, and consider deficit financing. In some states, these revenue shortfalls have also begun to have an effect on liquidity, forcing states to rely on borrowing from various funds and issuing cash-flow notes for operations.

We will review budgetary gaps as a percentage of total revenues to determine the magnitude of the differential between revenues and expenditures and level of available reserves as a percentage of revenues to weigh a state's financial cushion. Another metric, the rate of job loss is a leading indicator that foreshadows future revenue loss and will also be used to assess revenue pressure. States presenting the greatest weakness in these categories are listed at the end of this report.

The shortfall in state revenues will not, in and of itself, result in rating downgrades. In addition to the absolute reduction in revenues, we will assess the timeliness and reasonableness of any corrective measures as well as the degree of flexibility still available to address further potential shortfalls.

States Sales Tax Bonds Directly Affected by Diminishing Sales Tax Receipts

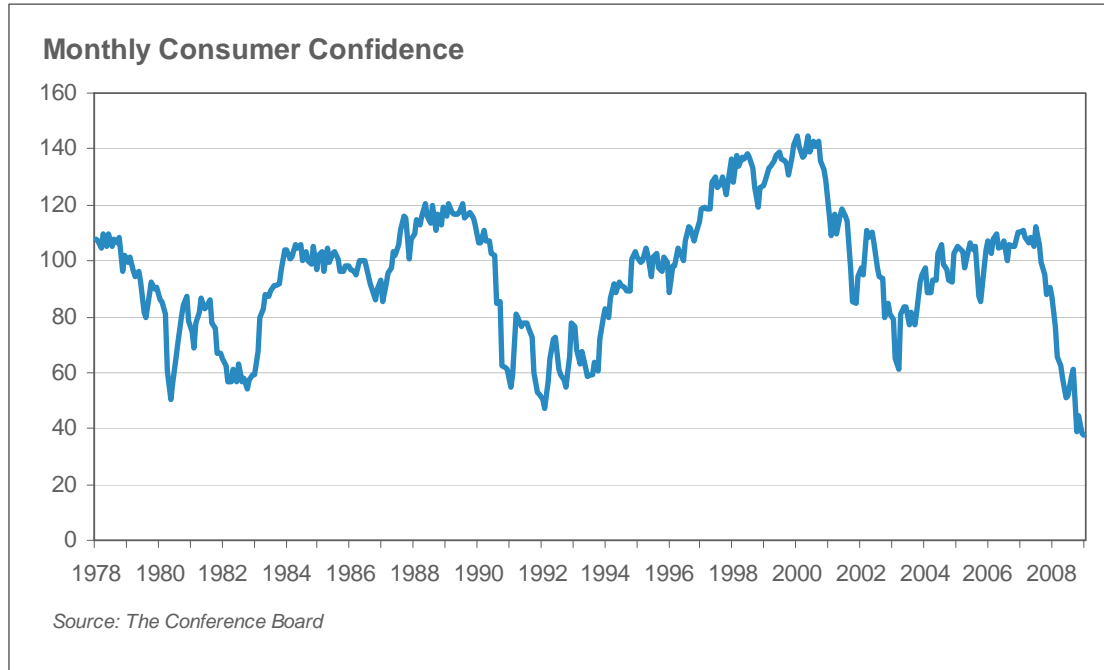
It is important to note that diminishing sales tax revenues directly affect sales-tax supported bonds issued at the state level such as California's Economic Recovery Bonds, Illinois' Build Illinois Bonds, and New York State's Local Government Assistance Corporation bonds as well as general state revenues.

Many Economic Factors Contribute to Revenue Loss

Downturn in Consumer Confidence Impacts Revenues Driven by Economic Activity

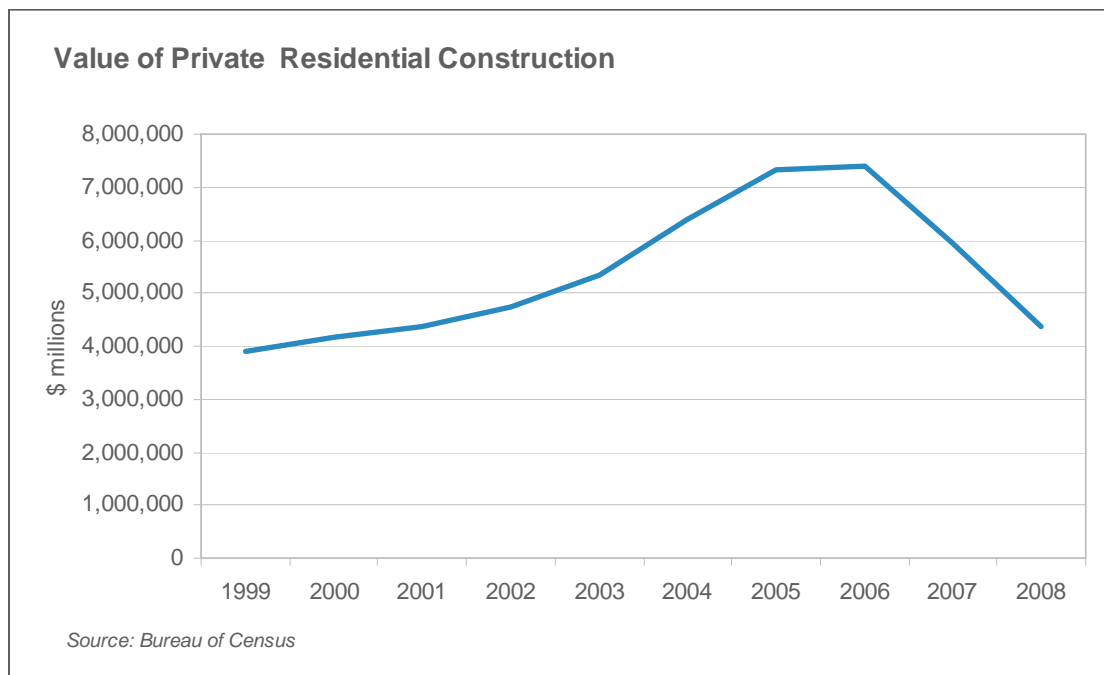
Reflecting a perception that business conditions were worsening and jobs were harder to get, the Consumer Confidence index fell to 38 at the end of December, a level that hadn't been experienced since the early 1990s. This downturn in consumer confidence negatively affected buying patterns and sales of big-ticket items, such as automobiles, which produce a major portion of the sales tax in most states.

Outlook Remains Negative for U.S. States



Continuation of Housing Downturn Impacts Sales Tax Receipts

The downturn in the housing market in terms of both new construction and prices continues to affect jobs, sales taxes, and consumer confidence. Sales tax collections have declined materially as the slowdown in home sales and home construction has negatively affected consumer confidence and home equity withdrawals.



According to the Case-Shiller house price indices, housing prices nationally have declined 21% since their peak in early 2006. The hardest hit states are Arizona, California, Florida, and Nevada. While not as severe, housing prices have also weakened in the Midwest. States with large energy sectors like Texas and Oklahoma experienced nominal housing price appreciation during 2008.

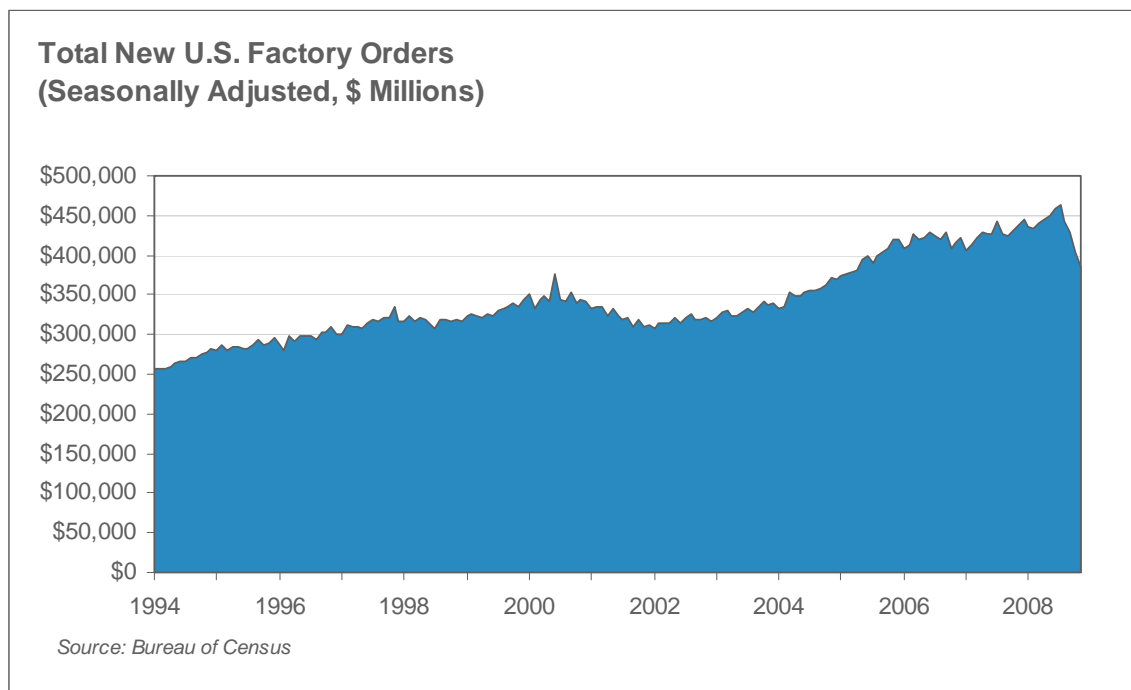
Outlook Remains Negative for U.S. States

Downturn in Tourism Affects Some States More Than Others

Last year, when the U.S. dollar was weak against foreign currencies and oil prices rose to over \$140 per barrel driving up the cost of air and road travel, tourists from overseas balanced the reduction in domestic travel. While the cost of fuel has come down in the last couple of months, Alaska, California, Florida, Georgia, Hawaii, Illinois, and New York, all of which boast a high percentage of business and/or leisure travelers, may suffer from the combination of weakened consumer confidence in the U.S. and the recent weakening of foreign currencies. A reduction in tourism affects all of the major revenue streams including sales taxes, corporate business taxes, and ultimately personal income taxes.

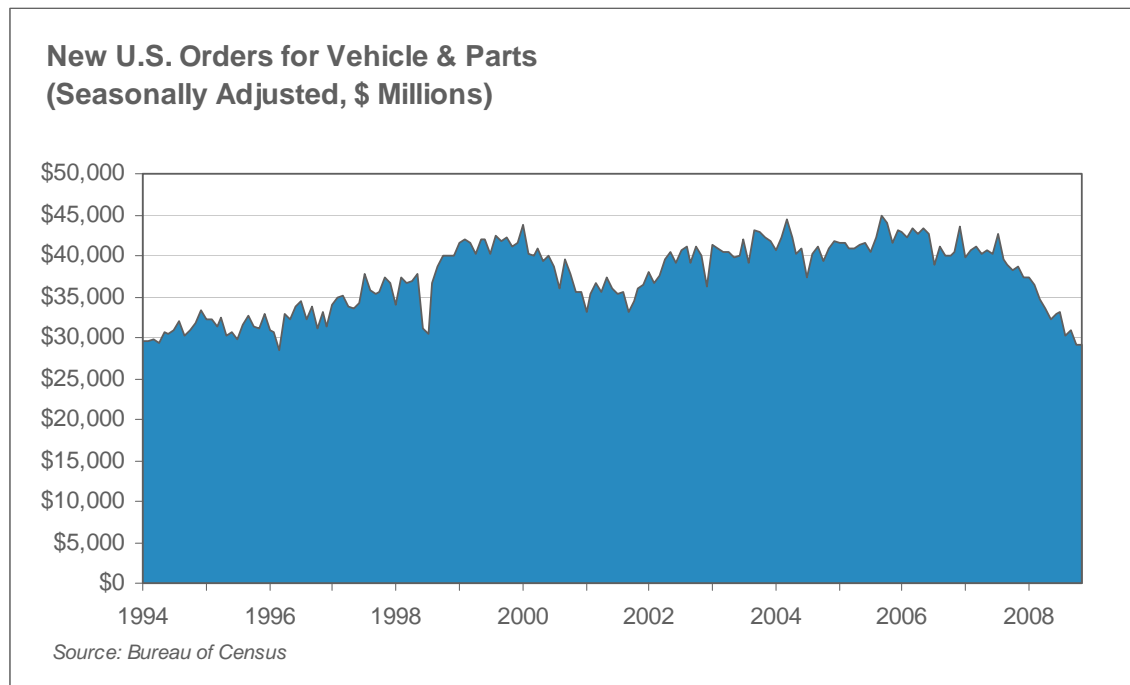
Continuing Erosion of Manufacturing Base Disproportionally Impacts the Rust Belt States

The manufacturing sector continues to erode. Total factory orders, on a seasonally adjusted basis, declined for five months through November 2008.



States with a high concentration in General Motors, Chrysler, and Ford motor vehicle and parts production such as Michigan, Indiana and Ohio are expected to be disproportionately and negatively affected by the downturn in this sector. The reduction in factory orders has already resulted in layoffs and plant closures, again impacting states' three major revenue sources.

Outlook Remains Negative for U.S. States



Gaming Revenue Declines Impact a Number of States

Gaming revenues from state lotteries and casinos are down. While this downturn has hit virtually every state that offers gaming to some degree, no state has suffered more than Nevada where we'd previously thought the casino industry was recession proof. Nevada's gaming revenue dropped an unprecedented 27% in December 2008, compared with the same month one year earlier, and other key statistics from the Las Vegas Convention and Visitors Authority show an acceleration of already negative trends. The most recent statistics available show that state revenues related to gaming wins dropped by more than 15.4% for the first six months of this fiscal year compared to last year. In the last recession, gaming revenue declines were much milder. In fiscal year 2002, gaming revenues fell 1.8%, and then were essentially flat in fiscal 2003 before rebounding in fiscal 2004 with growth of 21%.

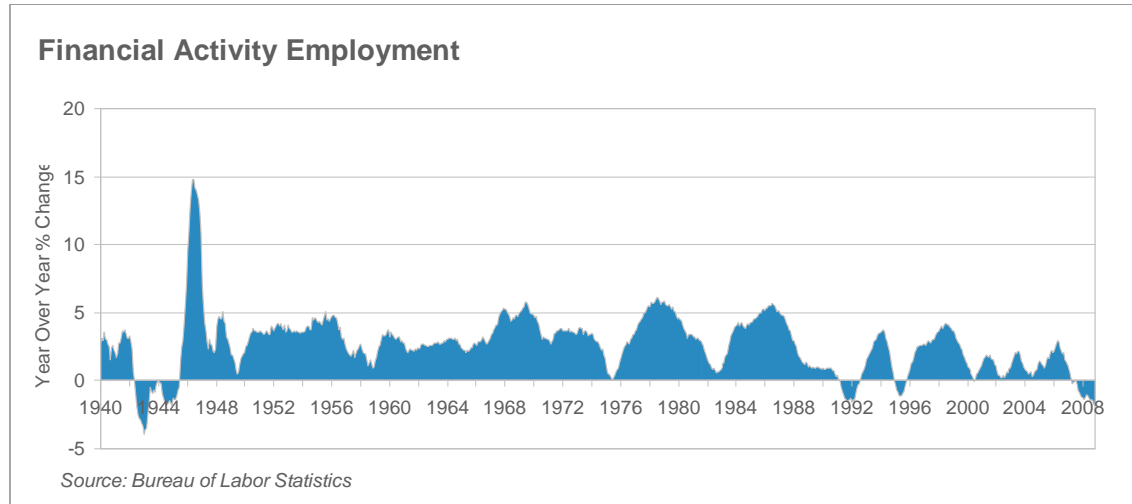
New Jersey, which has the second highest concentration of casinos in the country, is also suffering from a pull-back in gambling. Casino revenues declined 7.6% in 2008, suggesting fewer visitors and lower sales and corporation business tax revenue for the state. With Atlantic City unemployment at 10.4% as of November 2008, almost double the state rate of unemployment, this sector is expected to generate declining personal income tax revenues.

Other states with exposure to the gaming industry include Colorado, Connecticut, Delaware, Illinois, Indiana, Iowa, Louisiana, Michigan, Mississippi, Missouri, Rhode Island, South Dakota, and West Virginia.

Decline in Financial Services Industry Has a Particularly Significant Impact on Revenues in New York and Surrounding States

The financial services industry has been severely impacted by a series of events brought on by the collapse of mortgage-backed securities. As the value of these securities fell in tandem with the weakening of the residential real estate market, the balance sheets of financial institutions that were heavily invested in these instruments likewise weakened. The stock market tanked and credit dried up forcing some of the largest companies on Wall Street to close or merge with others. One financial institution, Lehman Brothers, declared bankruptcy.

Outlook Remains Negative for U.S. States



Employment in the financial activities sector reflects greater losses than any time since the 1940s. In New York alone, where 20% of state tax revenues are derived from Wall Street, financial sector layoffs are expected to total 45,000, 50% higher than after 9/11. Other states including Connecticut, Massachusetts, and New Jersey are expected to lose a disproportionate number of these high-paying jobs. The loss of these jobs is particularly important since these higher paying jobs produce a significant portion of personal income tax, an important source of most states' revenues. In New York State, for instance, approximately 60% of the state's revenues are derived from the personal income tax. Approximately 40% of the personal income tax is derived from the highest paid 1% of the workforce. In New Jersey, households reporting over \$100,000 in total income account for almost 85% of the income tax revenue.

Liquidity Position

Narrowing of Liquidity Challenges States' Ability to Pay Ongoing Expenses

As cash receipts decline and access to the capital markets is constrained, states are grappling with tightening liquidity. It is uncertain whether all states will have sufficient cash to satisfy ongoing expenses. Liquidity is especially important in this market environment given various factors related to short-term debt. For example, unexpected cash drains could arise from sudden increases in interest rates or the need to pay accelerated principal and interest in the event any of the state's variable rate bonds become bank bonds. We will assess a state's cash position as it relates to its total expenditures and as it relates to various non-budgeted risks. The issuance of cash-flow notes and deficit bonds are indicators of a lack of liquidity. A list of those states that have issued these types of securities in fiscal 2009 can be found at the end of this report.

Prior to this downturn, state governments were able to depend on borrowing to resolve any cash-flow pressure or deficit. However, with the narrowing of the capital markets, governments can no longer assume that this option will be available to them. Without market access, negative credit effects are likely to be more acute for governments such as California, Illinois, Michigan, New Jersey, Texas, and Wisconsin that routinely engage in cash-flow borrowing as part of their regular operating cycles. California and New York which historically have issued debt to address deficits, may be harder pressed to find alternatives. Instead, they may borrow from funds outside the general fund, transfer balances from state departments and agencies, and delay the payment of bills. Those states that exhaust their unemployment trust funds are expected to borrow from the federal government.

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Recession Induced Spending Pressures

Short-Term Expenses

Spending pressures can also be deduced from budgetary gap metrics and reserve levels. Unemployment figures also suggest expenditure pressure. A list of states with greater than average exposure in these areas can be found at the end of this report.

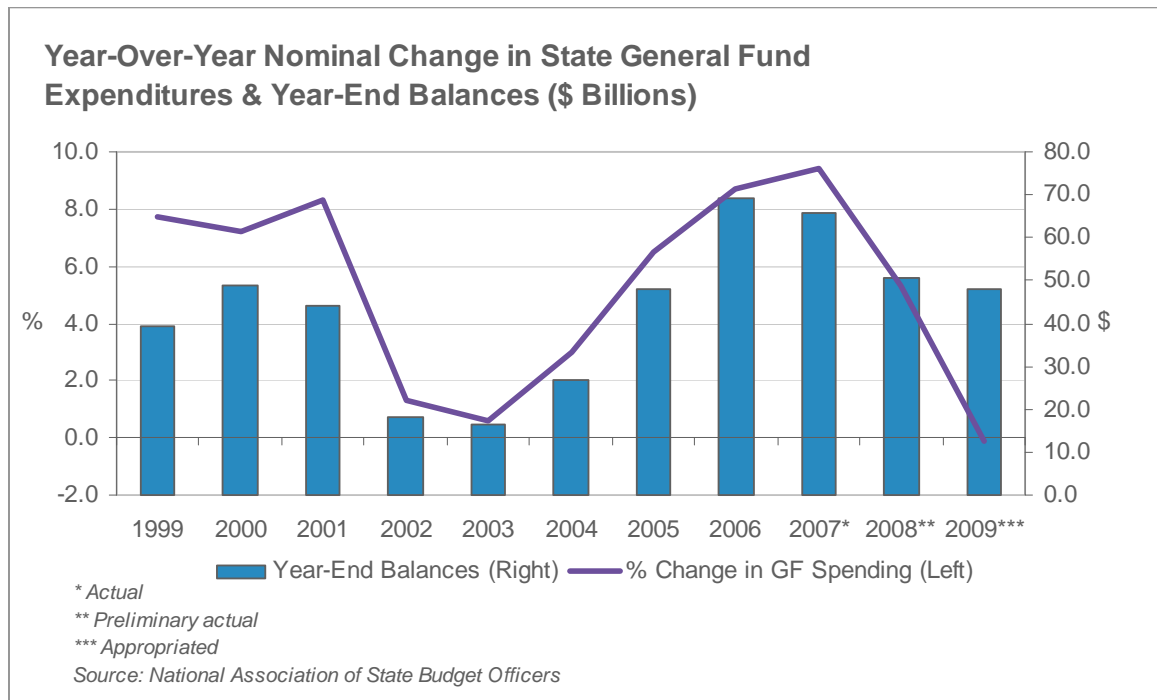
Despite the fact that most states are attempting to rein in spending, there are certain programs and projects that must be funded. In fact, as the economy worsens and more people join the ranks of the unemployed and underemployed, applications for various social services increase.

Longer-Term Obligations

The funded ratio of state pension funds is expected to decline as a result of the 35% drop in the stock market during 2008. These paper losses will be reflected over time as most state pension plans average the annual gains and losses over a five to seven year period. However, this may be an area where some states performed better than others and the budgets of those with the greatest losses will be further pressured.

The states' fiscal year 2008 audits are required, for the first time, to reflect the respective state's actuarial liability for other post-retirement employment benefits (OPEB) – primarily health care. As we do with pension liabilities, we will assess relative funding of OPEB and add that information to our evaluation of long-term liabilities. Even though pension and OPEB obligations do not legally constitute debt, they do represent long-term obligations and, as such, we will include relative measures of these liabilities in our debt assessment.

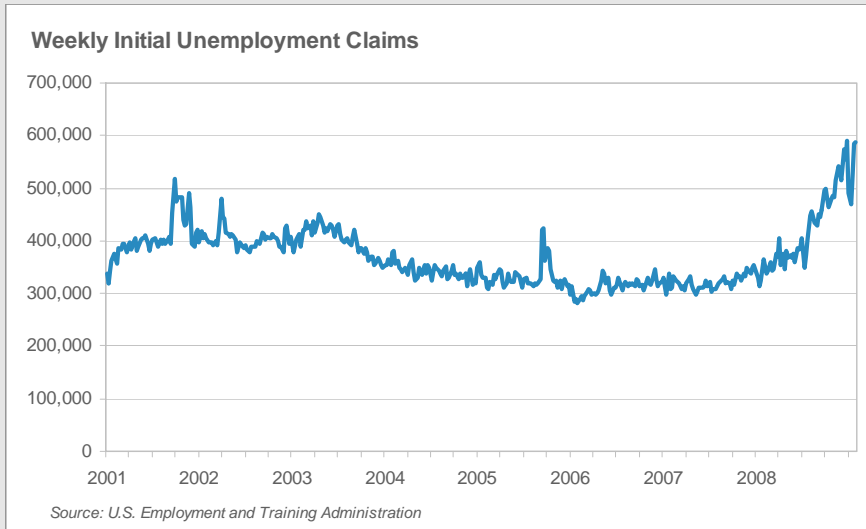
Debt could also increase rapidly if states issue deficit bonds to plug budget gaps and if states foot the bill for major infrastructure programs. A significant increase in debt relative to a state's peer group could factor into a rating adjustment.



Outlook Remains Negative for U.S. States

Increased Unemployment

Initial claims for unemployment insurance increased steadily during 2008 resulting in less spending (sales taxes) and lower personal income taxes. It also reflects a weakening in the business sector which results in lower corporate business taxes.



Most new claims for the final week of the year were in California, Kentucky, Michigan, Missouri and Indiana.



Source: Bureau of Labor Statistics

The most expensive of these social services programs for the state sector is Medicaid. States share the cost of this healthcare program for certain low-income individuals and families with the federal government roughly on a 50/50 basis (some states receive higher percentages and some receive lower percentages). Increased caseload caused by the economic downturn is not the only driver of rising costs. As states attempt to handle the rising demand for Medicaid, services, systems and personnel are being taxed, requiring additional staff and other resources.

These spending pressures come at a time when most states are grappling with aging infrastructure from roads and bridges to schools. Some states are choosing to hold off on additional commitments while others are concerned about contributing to additional unemployment and the risks inherent in unsafe infrastructure, therefore continuing to spend on these projects. Some states such as Georgia, Connecticut, and Oregon have proposed bonding programs to put people to work. Others are hoping the federal stimulus will meet these needs.

Outlook Remains Negative for U.S. States

Deficit Financing

Curtailed Access to Credit Markets Forces States to Pursue Other Options

The past year has seen a fundamental market change, with limitations in market access curtailing the planned issuance of debt and the scarcity of credit enhancement driving up the cost of borrowing. The option to purchase Aaa-rated bond insurance is almost entirely foreclosed and bank support for credit and liquidity is limited, forcing states to pursue other options.

Ongoing uncertainties affect a state's ability to fund projects, restructure debt to match lowered revenues, refinance variable rate debt that has become burdensome due to market conditions, replace credit or liquidity enhancements or complete deficit financings. Credit market disruption also raises the risks related to interest rate swaps, especially if already financially stressed governments are forced to post collateral or make termination payments on out-of-the-money swaps.

The more prolonged the credit disruption, the greater the pressures on state governments to continue servicing variable rate debt or unfavorable swap agreements, undertake higher cost borrowing, or maintain adequate cash flow. Most important to states is whether access to the market will be available to bail them out in the case of a deficit or cash-flow short-fall. Limited market access could result in an increase in the cost of borrowing reducing the amount of money available for operations. Lack of cash-flow may result in delayed payments to vendors and taxpayers as well as to local governments. Deposits to pension plans may also be deferred.

Cash adequacy is an important tenet of normally strong state ratings. States that resort to cash-flow borrowing outside of their normal practices as well as those that defer payments to buttress their liquidity positions may be downgraded. Generally, downgrades would be one rating notch at a time (e.g. Aa2 to Aa3). However, if cash continues to narrow, if a state needs to roll over its short-term borrowing, or if a state is unable to meet monthly cash needs with cash resources, a multiple notch downgrade may be considered. In any event, given the powers that states possess to increase revenues, reduce expenditures and push financial obligations to local governments, as well as the requirement in most states that debt service be paid before other expenditures, it is extremely unlikely that a state would default on its debt obligations.

Deployment of Federal Fiscal Stimulus

Recessionary pressures alone will not result in rating changes. It is these pressures combined with actions taken by state officials and possibly the federal government to address them that will feed into a particular state's credit. States facing reduced receipts and higher mandated expenditures can cut other expenses, use reserves, and increase revenues. Ordinarily, they could access the capital markets with either bond or note financings to plug their budgets, but this alternative can not be relied upon now as it has been in the past.

The federal government is adopting a fiscal stimulus package that will assist states. The current plan under discussion, the American Recovery and Reinvestment Plan, would include funding for Medicaid and for infrastructure. This legislation may be in place by as early as February in which case federal dollars may help to mitigate remaining shortfalls for fiscal year 2009 and help address projected gaps for fiscal year 2010.

The U.S. Congress has already enacted a funding bill for the automobile industry. This bill was intended to be a stop-gap measure until the Obama administration took office. Future funding for the automobile industry will likely help Michigan, Indiana, and Ohio the most. Conversely, if additional funding is not appropriated, these are the states that would suffer the most profoundly from the potential failure of one or more of the "Big Three" American automobile companies, General Motors, Chrysler, and Ford.

Last, the Congress could direct financial assistance to individuals, either in the form of cash or tax credits. While a similar fiscal stimulus bill was adopted last year, it did not, by and large have the desired effect of increasing spending, which in turn would have increased state revenues in the form of sales taxes, corporate profits taxes, and income taxes. Instead these funds were reportedly used primarily to pay down credit cards or purchase fuel.

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Management

Given that this recession has affected the economy of all states, the choices made by elected officials, especially with regard to finances and debt, can distinguish one credit from another. It is particularly difficult during periods of stress for executive and legislative leaders to decide how to budget. Stronger credits tend to budget conservatively, assessing revenues often and making timely expenditure adjustments. If reserves are tapped, these monies will represent only a portion of the solution or provide a financial bridge until another approach can be put in place. Expenditure reductions will be recurring in nature and revenues will be increased, if necessary.

Weaker credits tend to make more aggressive assumptions with regard to revenues or may not reevaluate them throughout the fiscal year. They may hold off on any action, hoping that finances will improve. When they do address budget shortfalls, they may use nonrecurring solutions including use of reserves, implementation or augmentation of cash-flow borrowing, or issuance of deficit bonds. These approaches are troubling and could put downward pressure on ratings because they add to the problem for future budgets and they depend on market access which is not as certain as it once was.

While management is an important core component of our state ratings, this factor is even more important in a period of fiscal stress. The way in which states manage through this recession will impact rating actions.

Measuring Performance Against the Six Critical Factors

Moody's utilizes a variety of metrics to assess credit quality. The metrics outlined in the chart on the following page are particularly useful in assessing each state's performance relative to four of the six critical factors. States performance against these metrics, as well as others, in 2009 will influence the likelihood of rating actions. In the chart, on the following page, we've identified which states are potentially more at risk relative to various metrics. These metrics will be compared to the same metrics for similarly-rated states. An important mitigant to any of these measurements is the way in which elected officials plan for and react to any of these situations. The scope of the federal financial stimulus package is still unknown and how effectively states deploy any stimulus dollars will take time to assess. The impact of any financial stimulus package will be factored into the evaluation of each state's performance against key rating metrics.

Outlook Remains Negative for U.S. States

Selected Comparative State Data

| States | Revenue Declines | | Liquidity Position | Deficit Financing | Recession Induced Spending Pressures | |
|----------------|--|---|---|---|--|--|
| | States with the Largest Budgetary Gaps as a % of their Annual Revenues for FY 2010 | States with the Lowest Estimated Available Reserves for FY 2008 as a % of their Annual Revenues | States that Issued Cash-flow Notes in FY 2009 | States that Issued Deficit Bonds in FY 2009 | States with Higher Job Losses than the Nation as a Whole (December Year-Over-Year) | States with Higher Unemployment than the Nation as a Whole (December 2008) |
| Alabama | | | | | ✓ | |
| Alaska | | | | | | ✓ |
| Arizona | ✓ | ✓ | | | ✓ | |
| California | ✓ | ✓ | ✓ | ✓ | | ✓ |
| Colorado | | | ✓ | | | |
| Connecticut | ✓ | ✓ | | | | |
| Delaware | ✓ | | | | | |
| Florida | ✓ | | | | ✓ | ✓ |
| Georgia | | | | | ✓ | ✓ |
| Hawaii | | | | | ✓ | |
| Idaho | | | ✓ | | ✓ | |
| Illinois | | ✓ | ✓ | | | ✓ |
| Indiana | | | | | ✓ | ✓ |
| Kentucky | | ✓ | ✓ | | ✓ | ✓ |
| Maine | | ✓ | | | | |
| Massachusetts | ✓ | | ✓ | | | |
| Michigan | | ✓ | ✓ | | ✓ | ✓ |
| Minnesota | ✓ | ✓ | | | ✓ | |
| Mississippi | | | | | ✓ | ✓ |
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| North Carolina | | | | | ✓ | ✓ |
| Ohio | | | | | | ✓ |
| Oregon | | | ✓ | | ✓ | ✓ |
| Rhode Island | | ✓ | ✓ | | ✓ | ✓ |
| South Carolina | | ✓ | | | ✓ | ✓ |
| Tennessee | | | | | ✓ | ✓ |
| Texas | | | ✓ | | | |
| Utah | | | | | ✓ | |
| Vermont | ✓ | | | | | |
| Washington | ✓ | | | | | |
| Wisconsin | ✓ | ✓ | ✓ | | ✓ | |

1. Available reserves equal unreserved, undesignated fund balance plus emergency, budget stabilization or rainy day funds available for contingencies but not reported in a state's unreserved, undesignated fund balance.

2. The following states do not fall into any of the above-referenced categories: Arkansas, Iowa, Kansas, Louisiana, Maryland, Montana, Nebraska, New Hampshire, New Mexico, North Dakota, Oklahoma, Pennsylvania, South Dakota, Virginia, West Virginia, and Wyoming.

Outlook Remains Negative for U.S. States

Conclusion

The outlook for the U.S. state sector remains negative reflecting the states' deteriorating financial positions as well as the reduced likelihood of being able to borrow their way out of a cash-flow short-fall or deficit position. States that benefit from any fiscal stimulus or react quickly to moderate their budgets and cash-flow needs without new or increased reliance on deficit financing or payment deferrals will likely maintain their ratings. However, those states that are slow to react, exhausting reserves instead of adopting recurring budget solutions, resorting to new or increased cash-flow borrowing and payment delays, and those whose fundamental credit profile has changed, may be downgraded.

States possess significant powers to increase revenues, reduce expenditures and push financial obligations to local governments and most states are required to pay debt service before other expenditures. As such, it is extremely unlikely that a state would default on its debt obligations.

Outlook Remains Negative for U.S. States

Moody's Related Research

Rating Methodology

- Moody's State Rating Methodology, November 2004 (89335)

Special Comment

- U.S. State Governments – 2008 sector Outlook, February 2008 (107409)

Credit Report

- State of California High Profile Report, January 2009 (114191)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Report Number: 114526

| Author | Editor | Production Associate |
|---------------|----------------|----------------------|
| Edith F. Behr | Robert Kurtter | David Ainsworth |

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