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Criteria | Governments | U.S. Public Finance:

State Credit Enhancement Programs

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State Enhancement Programs

State credit enhancement programs generally fall into four categories or program structures. Those categories are:

- Intercept/Withholding
- Standing or Annual Appropriation
- State Guarantee
- State Permanent Fund

The type of program and the contractual relationship between the state and the program participant dictates whether a program rating or outlook will change due to a related state rating action. Not all programs fit neatly into the four categories mentioned above. In these cases, whenever there is a state rating change, a program review will also take place to determine if there is a need to adjust the program rating or outlook.

In general, credit enhancement programs are designed to give bondholders additional security for particular general obligation and lease bonds. While the criteria differ depending on the program's structure and the specifics of a state's statutes and constitutional provisions, all programs typically include the following features:

- An independent paying agent, which acts as the state's notification agent in the event of a potential default;
- Sufficient coverage and liquidity of a revenue stream to be used for a debt service deficiency that is independent of the issuer; and
- State oversight of program participants to ensure a well-managed program.

Intercept/Withholding Programs

Intercept or withholding programs operate on the strength and availability of state aid, which can be diverted to a paying agent in the event a local government cannot make its full and timely debt service payment. Standard & Poor's Ratings Services rates intercept or withholding programs that meet certain requirements at a level one notch off of the state's GO rating – on par with the state's appropriation rating – reflecting the appropriation nature of the intercept or withholding mechanism. Accordingly, if the state rating changes so will the program rating. Other programs do not meet these requirements and are rated more than one notch off the state's rating. These program ratings will not change due to a change in the state rating unless and until they converge with the state's rating.

One category of intercept programs rated on par with appropriation debt are programs structured to provide full and timely payment of debt service directly to a paying agent, regardless of the amount of undisbursed state aid due to the entity at the time of intercept. Programs that fall under this category are:

- California Infrastructure Bank School Aid Intercept Program
- Colorado State Aid Intercept Program

- Massachusetts Qualified Bond Act
- Mississippi State Aid Capital Improvement Bond Program
- Missouri Direct Deposit of State Aid Program
- New Jersey Qualified Bonds Program

Although the specific structure of each program varies, these programs are also characterized by strong state oversight in addition to the other characteristics mentioned above.

Other intercept or withholding programs provide for payment of debt service only up to an amount equal to remaining undisbursed state aid. However, some of these programs are rated on par with appropriation debt because they require that participant's available state aid cover debt service by at least 2x maximum annual debt service (MADS), reducing the risk that available state aid will be insufficient to fully cover debt service. In order to achieve an appropriation-equivalent rating, Standard & Poor's requires that the coverage multiple be set equal to at least 2x MADS. Standard & Poor's considers this level of coverage to mitigate the risk of available state aid being insufficient when debt service is due. Programs that qualify for this rating based on coverage requirements include:

- Georgia State Aid Intercept Program (resolution enhanced – see program detail)
- Ohio State Aid Intercept Program
- Indiana State Aid Intercept Program (resolution enhanced – see program detail)
- Kentucky State Aid Intercept Program
- Kentucky State Aid Intercept Program for Commonwealth Universities

Those intercept or withholding programs that do not provide for full and timely payment of debt service or do not have the additional strengths discussed above are not viewed by Standard & Poor's as equivalent to state appropriations. Consequently these programs are rated lower than the state rating and their ratings will not necessarily change due to a change in the state's rating or outlook; however, in the event a state rating is downgraded to a level at, or below, the program rating, the program rating may be lowered to a level at or below the revised state rating. Programs in this category include:

- Georgia State Aid Intercept Program
- Indiana State Aid Intercept Program
- New York State Aid Intercept Program
- Pennsylvania State Aid Intercept Program
- Virginia State Aid Intercept Program

Standing Or Annual Appropriation Programs

Appropriation programs are dependent on a state's ability to use its cash reserves to make up any debt service deficiency for a participating local government's debt service payment. There is a distinction made between standing appropriation programs which are rated on par with the state's GO rating and annual appropriation programs which are subject to appropriation risk and are notched one notch below the state GO rating level. Standing appropriation program ratings are not subject to appropriation risk and reflect both the state's sovereignty and its constitutional obligation to fund education.

For both standing and annual appropriation programs, the state's credit quality is directly linked to the program's rating. Consequently, the program rating will move in tandem with its related state rating, keeping the relative rating differential between the program and state rating constant. The program's rating outlook will always reflect the state's outlook.

Standing appropriation programs:

- Minnesota State Standing Appropriation Program
- Minnesota County Credit Enhancement Program
- Texas Higher Education Bond Program
- West Virginia Municipal Bond Commission Program

States with Annual Appropriation Programs:

- New Jersey Fund for the Support of the Free Public Schools Program
- South Carolina Education Finance Program

State Guarantee Programs

Currently only four states have constitutionally-created state guarantees of eligible school general obligation bonds. In the event of a debt service shortfall of a participating school district, the state must use its general fund reserves or, in the case of Michigan and Oregon, issue general obligation bonds, if necessary, to make up any debt service deficiency in order that the bondholders receive full and timely payments. In this instance, the state and program ratings are the same. The program rating and outlook will be adjusted as state rating and/or outlook changes occur.

State Guarantee Programs:

- Michigan State School Bond Loan Fund Program
- Oregon School Bond Guarantee Program
- Utah School Bond Guaranty Program
- Washington School Bond Guaranty Program

State Permanent Fund Programs

Ratings on programs structured on the basis of permanent fund support do not have any direct link to the corresponding state's rating. These funds are constitutionally created, and the corpus of the fund is leveraged to provide a guaranty of a participating local government's debt service. The program rating is based on an analysis of the legal structure of the fund, investment policies, liquidity, and operating guidelines. In the event of a rating action on the state, any changes in the credit quality of the program will be determined independently of the state rating.

State Permanent Fund Programs:

- Nevada School District Bond Guarantee Program
- Texas Permanent School Fund Program
- Wyoming School District Bond Guarantee Program

State Programs

Two enhancement programs in California do not fit into the four categories listed above including: the California Construction Loan Insurance Fund and the California Motor Vehicle License Fees Program. The Construction Loan Insurance Program is managed by California's Office of Statewide Health Planning & Development, and ultimately provides for the issuance of state debt to pay debt service if other funds available in the insurance fund are not sufficient to make debt service. The program is rated on par with the state's GO rating and will move in tandem with the state rating. The Motor Vehicle License Fee Program was created by statute, and guarantees an intercept of monthly license fee revenues collected by the state and transferred to cities and counties for various purposes. The security provided by these funds is independent of the credit quality of the state, and any change in the program's rating will be determined separately from the state rating.

Program Descriptions

California Motor Vehicle License Fee Program ('A')
Governing statute: This program was authorized in 1990 under Assembly Bill 1375 and updated in 2004 to hold the program harmless against reductions in MVLF revenues in fiscal 2005 and beyond. This rating does not move in conjunction with the state rating.

Eligibility: The program is open to cities and counties to guarantee payment of GO bonds or lease obligations through their allocation of motor vehicle license fees.

Program provisions: Upon notification to the state from a trustee that a required payment was not made from other sources, the California State Controller is directed to make the payment from the community's share of license fee revenues. Given the historical volatility in statewide license fee revenues and the distribution formula's direct link to populations, only cities or counties with a population of at least 2,500 are eligible to participate in the program. The local unit also must demonstrate that its allocation of license fee revenues in each of the five preceding fiscal years will cover maximum future debt service at least 2.5x. The issuer must covenant not to similarly guarantee payment on other obligations, unless the 2.5x coverage level can be achieved on the new total future maximum debt service.

Final state legislation treats the loss of MVLF tax revenue differently for cities and counties. Cities will receive a partial replacement of lost revenue through state general fund appropriations in an amount that will grow based on what the prior MVLF tax would have produced. Counties will instead receive a portion of their lost MVLF revenues from a new local property tax allocation, and this new revenue source will grow only to the degree that local property taxes grow.

The cities' MVLF debt service intercept is held harmless under the legislature's recent bill AB 2115, amending state code Chapter 610, section 6e. This section provides that MVLF property taxes will constitute successor taxes for purposes of the MVLF intercept program.

Counties' MVLF debt service intercept is held harmless under separate legislation, SB 1096, amending Chapter 211, government code Section 25350.55, which requires a county auditor to intercept MVLF-related property tax payments in favor of debt service under the intercept program, instead of intercepting MVLF revenues.

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Additional Standard & Poor's requirements: To qualify for the program rating, the financings must account for the monthly distribution of license fee revenues, and the timing delay associated with the notification requirement. To receive the program rating issues must be structured to provide for monthly lease or sinking fund payments, include a fully funded debt service reserve, and have a paying agent, trustee, or similar representative acting in a fiduciary capacity to promptly notify that state of a locality's failure to make the required payment.

California Health Facility Construction Loan Insurance Program ('A+')

Governing statutes: The program began in 1969 and is managed by the Office of Statewide Health Planning & Development. The rating moves in conjunction with the state rating.

Eligibility requirements: The program is open to health care institutions participating in the California Health Facility Construction Loan Insurance Program.

Program provisions: The bonds are guaranteed by the insurance fund but the ultimate backing for the loans is the full faith and credit of the state. Thus, Standard & Poor's assigns the state's GO rating to participants in the California Health Facility Construction Loan Insurance Program. The Health Facility Construction Loan Insurance fund (HFCLIF) is funded by a one-time fee, not in excess of 3% of the principal and interest payable over the life of the loan. These reserves, along with the HFCLIF, are the only financial resources available to make up payment deficiencies in the portfolio prior to any state involvement. In the event of a default, the state can continue to make regularly scheduled debt service payments or issue debentures having a total face value of and bearing interest at the rate of the respective bonds that they replace.

Five days before an interest payment date, the trustee must notify the office of any deficiencies. The office must make up any shortfall three days before the payment date—first by drawing from the debt service reserve fund, and then, from the Construction Loan Insurance Fund. Since the inception of the program, there has been one default that was cured by payment from the Construction Loan Insurance Fund.

California Infrastructure Bank School Aid Intercept Program ('A+')

Governing statutes: The program began in 2005, and is managed by the state's California Infrastructure Bank. The interception of state aid, if necessary, is authorized under state law AB 1554, as amended by AB 1303. The statutory provisions intercept state general fund money distributed to local school districts under Proposition 98, as well as various forms of state categorical aid. Proposition 98 is a voter initiative, passed in 1988, that amended the state constitution to require, among other provisions, that the percentage of state general fund revenues devoted to K-14 school spending be no less than the prior year, unless overridden by a two-thirds vote of the state legislature. Proposition 98 school aid constitutes a continuing appropriation, even in the event of a late state budget. State statutory law prohibits school districts participating in the program from filing for federal bankruptcy protection. This program rating moves in conjunction with the state.

Eligibility requirements: Only school districts that have received emergency state loans to remain in operation participate in the program. The state uses the intercept program to refinance loans made to the failing districts. Schools receiving emergency loans must consent to state oversight until the loans are repaid.

Program provisions: Each bond issue under the program is separately secured under a separate lease and bond indenture. Each lease requires the respective school district to make lease payments equal to debt service, plus operating costs for its leased asset, usually school buildings and land. When school districts participate in the program, they provide the state controller with a schedule of future lease payments, and the state controller intercepts state school aid in an amount equal to debt service and remits it directly to the bond trustee, before providing the balance of state aid to the individual school district.

Proposition 98 state aid to school districts is apportioned under a statutory formula that sets a revenue limit per pupil for each district, and backfills state aid to the extent local property tax revenue does not achieve the revenue limit. Revenue limit state aid is distributed in seven equal monthly installments from July through January in the last three to five business days of each month. It is anticipated that each school district's rental payments, under its individual lease, will be due the last day of July, August, September, October, November, and December. The program rating assumes debt service will be structured to be paid February 15 and August 15, consistent with existing debt issued under this program. Under the state statutes, the state controller transfers pledged lease rental payments to the trustee prior to transferring other state aid funds to a participating district. Rental deficiencies from interceptable state aid, if any, are rolled over into the next month. School districts are still required to make pledged lease payments from their general fund if interceptable state aid is not sufficient.

Lease payments, and hence interceptable state aid, may be abated under the respective school district leases to the extent there is damage or destruction to the leased assets. To cover for this risk, participating school district leases will need to have pledged leased assets equal at least to the par value of the bonds and require under their leases casualty insurance, excluding earthquake insurance, equal to the replacement value of leased structures. Due to the absence of earthquake insurance, leased assets will need to pass Standard and Poor's seismic risk screening model. The leases will also need to contain provisions whereby the California Infrastructure Bank is required to actively monitor insurance in force and take action if it appears a casualty insurance policy is about to expire. The leases will also need to require two years' worth of business interruption insurance. Associated indentures are expected to require a debt service reserve equal to the lesser of maximum annual debt service, 10% of the par amount of bond issuance, or 125% of average annual debt service. The leases will also require maintenance and operations expenses for the leased assets to be paid by the participating school districts.

Standard & Poor's requires at least 2x coverage of annual lease payments by state aid in order to maintain the program rating upon the initial rating.

Colorado State Aid Intercept Program ('AA-')

Governing statutes: House Bill 1214 created a state aid withholding program to provide credit enhancement for Colorado school district bonds. Based on the provisions of this law, Section 22-41-110 of Colorado Revised Statutes, school districts must apply to the state to use this program as bond security. This rating moves with that of the state.

Eligibility requirements: Eligible financings include GO bonds issued by a school district on, or after, July 1, 1991, as well as electorate-approved, non-terminable leases and installment contracts. To qualify bonds for the program, a school district must file an issuance resolution, a copy of the bond offering document, and its agreement with an independent paying agent. In 1997, the state clarified that it will cover debt service payments even if it determines that a district is unlikely to repay the advanced funds. Therefore there is no requirement that existing state aid cover future maximum annual debt service as long as it is expected that district will continue to participate in the withholding program and be eligible for future state equalization.

Program provisions: If a paying agent has not received a debt service payment by the business day before the due date, the agent will notify the state treasurer and the school district. After notification, the state treasurer will contact the school district to determine whether payment will be made. If the district cannot make the payment, the state treasurer will forward the amount necessary in immediately available funds to the paying agent to be applied only to debt service, even if the state determines it is unlikely to be repaid in full by the district's available state aid under Article 53 over the following 12 months.

The state treasurer's policy stipulates that payment will be made by 1 p.m. on the due date to allow for timely payment to bondholders. Upon payment by the state, the state treasurer will notify the department of education, chief financial officer of the school district, and General Assembly. The department of education will initiate an audit to determine the reason for nonpayment and, if necessary, develop control measures that will prevent future nonpayment.

Georgia State Aid Intercept Program ('AA+' or 'A' depending on legal protections)

Governing statutes: Georgia's voluntary state aid intercept program authorized by House Bill 792 in 1991, allows the state to guarantee repayment of a local school district's GO bonds. Eligible financings include any bonded indebtedness that the local school district elects to have covered by the program. The AA+ rating moves with that of the state; the A program will not likely move with the state's rating.

Eligibility requirements: To participate in this program, a school district must, at the time of debt issuance, irrevocably authorize by resolution the State Board of Education to withhold aid payments for debt service purposes when necessary.

Program provisions: Under the program, the paying agent must notify the board if monies held in the sinking fund are insufficient to make timely payment of principal and interest no later than the 15th day of the month before the scheduled debt service payment date. Upon notification, the state transfers to the paying agent the lesser of an amount sufficient to make the debt service payment, or the balance of any funds due the local school district under any state education appropriation authorized for the current fiscal year.

Districts whose eligible principal and interest payments are expected to exceed their average monthly state aid payment are advised by the state against the selection of July 1 and Jan. 1 as the debt service due dates.

Additional Standard & Poor's requirements: To receive a rating under the basic program, Standard & Poor's requires minimum historical state aid coverage of at least 1x on maximum debt service.

Resolution based enhancements: Resolution based enhancements strengthen the structure of the program and make the program more similar to state appropriation debt. Consequently, a school district may qualify for a rating on par with the state's appropriation debt if it includes certain structural elements in its bond resolution. An amendment to the Georgia constitution in 1996 allows school districts to share in the 1% Special Purpose Local Option Sales Tax (SPLOST) revenue used by most of the state's counties. In recognition of the additional security provided by voter-approved SPLOST moneys and the state's increased commitment to fund education, the addition of structural elements to an individual school district's bond resolution can result in a program rating on par with the state appropriation rating. To be eligible to receive this higher program rating, a school district must incorporate one of two debt service coverage conditions in its bond resolution:

For bonds that carry the additional security of the state aid intercept:

- Maintenance of at least 2x state aid coverage of maximum annual debt service; and
- An additional bonds test requiring at least 2x state aid coverage of maximum annual debt service for all outstanding and subsequent bonds issued under the program.

OR

For bonds issued under the state aid intercept program that carry the additional security of the SPLOST:

- Maintenance of at least 1.5x state aid coverage of maximum annual debt service;
- An additional bonds test requiring at least 1.5x state aid coverage of maximum annual debt service for all outstanding and subsequent bonds issued under the program;

- At least 1x SPLOST coverage of annual debt service at the time of issuance, and projected 1x coverage for the life of the bonds; and
- An additional bonds test requiring at least 1x SPLOST coverage of debt service for all outstanding and subsequent bonds issued under the program with the additional SPLOST security.

For all bonds issued under the state aid intercept program, the debt service schedule should conform to the intent of the program's authorizing legislation. The debt service schedule should be established taking into account the availability and timing of state aid payments and be in accordance with the recommendations of the state board of education.

For SPLOST-supported bonds, Standard & Poor's will review the methodology used in calculating available SPLOST revenues. A five-year historical and projected schedule is required for review at the time of sale. An analysis of the schedule will be performed, taking into account actual performance and any new occurrence that could affect future sales tax collections. In general, Standard & Poor's would not expect to see sales tax projections that exceed historical performance without identifiable reasons.

Indiana State Aid Intercept Program ('AA ' or 'A' depending on legal protections)

Governing statutes: Based on Section 20.5.4.10 of the Indiana Code, the state treasurer is required to withhold state aid if a school corporation is unable to pay GO debt service requirements. The withholding guarantee also applies to lease rental payments made by a school corporation to meet a school building corporation's debt service. The 'AA-' rating moves with the state's rating; the 'A' rating will not likely move with the state.

Eligibility requirements: All school corporations are eligible for the program rating, provided state aid levels are equal to or greater than maximum annual debt service requirements.

Program provisions: If the school corporation is unable to meet its debt service obligation, the state treasurer must make the payment from the corporation's appropriated state aid for that calendar year. Payment is made directly to the paying agent on a school corporation's GO debt, and to the building corporation when lease rental payments are insufficient. If the next state aid payment does not cover the obligation, the balance is deducted from the following allotment. As required by state statute, deducted aid is first taken from the state's property tax relief funds to a school corporation, second from all other state aid funds except tuition support, and third from tuition support to the school corporation. Strong state budget and tax levy oversight decreases the likelihood that revenues will be insufficient for debt service and enhances the quality of the program. The state board of tax commissioners is statutorily required to review GO and lease rental property tax levies annually. If the proposed levies are insufficient, the board will establish a levy to meet the school corporation's obligations.

Resolution based enhancements: Indiana school district bonds and school corporation leases issued under the state aid intercept program will be assigned a higher rating if the following elements are added to the structure of a bond issue:

- State aid coverage of maximum annual debt service on outstanding and proposed program bonds must be at least 2x.

In addition, the school bond resolution must include provisions requiring:

- Transfer of debt service payments to the paying agent at least five business days in advance of the debt service due dates; and
- An independent paying agent or bond registrar with immediate notification and claimant responsibilities to the state, in the event a debt service deposit is not made or is insufficient.

As is the case with Indiana's basic program rating, the higher rating will carry a provisional ('pr') designation until the project construction certificate is received, since payments are contingent on successful project completion.

Kentucky State Aid Intercept Program ('A+')

Governing statute: State legislation revised in 1994 (KRS 157-611, 157-615-157-620) expanded Kentucky's debt service withholding mechanism to cover all school district general obligation and lease-secured bonds. This rating moves in conjunction with the state's rating.

Eligibility requirements: Prior to the 1994 legislative change, the Kentucky program was limited to school debt issues with at least partial debt service participation by the Kentucky School Facilities Construction Commission. The revised legislation now covers all school district general obligation and lease-secured bonds if the district meets the following criteria: a) it must levy a minimum equivalent tax rate of 25 cents as defined by KRS 157-615; and b) all new revenue generated by any tax increase required to meet the minimum equivalent tax rate must be placed in a restricted account for school building construction bonding and on June 30 of each year the district shall transfer all available local revenues to a restricted account for school building construction.

Program provisions: The program is based on the requirement for the state to withhold appropriated state aid if a school district is unable to meet debt service requirements. In connection with each program bond issue, it is the duty of the commission to send to each board of education at least thirty days before the due date of any payment a notice of the amount to become due and the date thereof and to require acknowledgement thereof; and to receive from the board of education in the event of failure, satisfactory evidence that sufficient funds have been transmitted to the commission or its agent, or will be so transmitted for paying debt service and administrative costs when due, as provided in the lease, to notify and request that the department withhold from the board of education a sufficient portion of any un-disbursed funds then held or set aside or allocated to it, and to request that the department transfer the required amount thereof to the commission for the account of the board of education.

Additional Standard & Poor's requirements: A school district's current annual state aid must cover maximum annual debt service by at least 2x.

Kentucky State Aid Intercept Program for Commonwealth Universities ('A+')

Governing statute: State Legislation revised in 2004 (KRS 160A.550- 164A.630) establishes a debt service withholding mechanism to cover debt obligations of the commonwealth's universities. This rating moves in conjunction with the commonwealth's rating.

Eligibility requirements: The legislation covers all debt issued by the commonwealth's state universities. The commonwealth's Office of Financial Management, (a division of the Finance and Administration Cabinet), reviews all debt issuance by the commonwealth's state universities, and reviews indentures to ensure inclusion of notification guidelines and responsibilities of the Secretary of the Finance and Administration Cabinet.

Program provisions: Under KRS 164A.608, if a university is unable to pay the required principal and interest payments due or fails to transmit to the paying agent bank or trustee the debt service or any payment when due as required by the bond issuance resolution, the paying agent bank or trustee shall notify the secretary of the Finance and Administration Cabinet in writing and request that the cabinet withhold or intercept from the governing board a sufficient portion of any appropriated state funds not yet disbursed to the institution to satisfy the required payment on the bonds. If the secretary determines that the institution is in risk of defaulting on the payment of the bonds, the secretary shall notify the governing board and within five (5) days remit payment to the paying agent bank or trustee such funds as are required from the appropriation to the institution. Thereafter, the governing board shall, to the extent that it is otherwise legally permitted, take action within sixty days (60 days) to adopt a resolution to generate additional revenues, such as increasing minimum rents, tolls, fees, and other charges, in order to positively adjust remittances to the funds accounts.

Additional program requirement: Provisions contained in the bond indenture must require the university to make sufficient sinking fund payments thirty days prior to debt service due date. If insufficient monies are available 30 days prior to the debt service due date, the trustee must be directed to transfer funds from a debt service reserve (to be funded at maximum annual debt service) to the sinking fund to forestall a default on the bonds. Ten days prior to the debt service due date, the trustee must notify, in writing, both the university and the commonwealth's Secretary of the Finance and Administration Cabinet of such an event and request that amounts be remitted to the trustee pursuant to KRS section 164.608 to cure such deficiency or to restore the amount transferred from the debt service reserve.

If, 10 days prior to the debt service due date, insufficient funds are available to make the debt service payment, or if the debt service reserve has been utilized to forestall a default, then such incidences qualify as an event of default that triggers the intercept, with the exercise of such and remittance of such prior to the debt service due date, representing a cure of the event of default.

In addition to the terms to be included in the bond indenture, Standard & Poor's requires that qualifying universities demonstrate a minimum of 2x coverage of maximum annual debt service on all outstanding debt (regardless of the indenture under which it is issued) from general fund appropriations from the commonwealth for the current fiscal year and the two most recent fiscal years. Furthermore, maintenance of the 'A+' rating will be dependent on maintaining a minimum coverage of 2x.

Massachusetts Qualified Bond Act ('AA-')

Governing statute: Under the Qualified Bond Act (Massachusetts General Law, Chapter 44A), the state treasurer pays debt service directly to the paying agent and withholds the amount of the payment from the borrower's annual state aid appropriation. This rating moves in conjunction with the state's rating.

Eligibility requirements: Approval by the State Emergency Finance Board, which oversees and monitors the program, is required. The program covers all pre-approved local debt issued by cities, towns and regional school districts.

Program provisions: The entity's treasurer certifies to the state treasurer the maturity schedule, interest rate, and dates of payment on the bonds within 10 days of issuance. If necessary, the state treasurer pays debt service and after payment withholds from the distributable aid payments or any other amount payable to the municipality or school district (all state aid is subject to annual appropriation) a sum sufficient to cover debt service. Entities participating in this program are required to appropriate and to include in their tax levies amounts necessary to pay qualified debt service. There is no coverage requirement in the Massachusetts law; however, state aid has historically been substantially higher than the amount of qualified debt service, resulting in multiple times coverage.

Michigan State School Bond Loan Fund Program ('AA')

Governing statutes: Section 16 of Article 9 of Michigan's constitution (adopted in 1963) created the Michigan School Bond Loan Fund Program to provide districts access to funds to avoid a default on qualified debt. This rating moves in conjunction with the state's rating.

Eligibility requirements: For a bond to be eligible for the School Bond Loan Fund Program, it must be a voter-approved qualified bond. The proceeds must be used for capital expenditure purposes, but not for maintenance. To participate in the program, a school district must apply for qualification of each bond issuance. The district must complete the qualification application forms and substantiate that the planned improvements are needed and the costs are reasonable. In order to borrow from the bond loan fund, the district is required to levy minimum property tax millages for debt service and for general operating expenses as the minimum local property tax effort.

Program provisions: If a school district fails to meet its debt service obligation for qualified debt, the state treasurer is notified and pays the required debt service. The loan from the bond loan fund becomes an obligation of the district, with the loan repayment scheduled as part of the district's annual debt service. Access to the loan fund is also available as a property tax relief mechanism for qualified principal and interest payments. In effect, borrowing from the fund to limit property tax levy requirements extends the debt retirement term. If the balance in the state's loan fund is insufficient to cover obligations, the state is required to make loans from the general fund and issue general obligation bonds if necessary to raise sufficient funds. Since the fund is an obligation of the state, the guarantee program is rated on par with the state's GO debt.

Minnesota State Standing Appropriation Program ('AAA')

Governing statutes: Authorized by Minnesota Statutes, Section 126C.55, the Minnesota program was designed to correct potential school district default situations and is backed by a standing appropriation from Minnesota's general fund. This rating moves in conjunction with that of the state.

Eligibility requirements: All school districts are eligible to benefit from this enhancement. To apply for participation in the School District Credit Enhancement Program, the school district files a school board resolution with the commissioner of education. Upon acceptance into the program, a participation certificate is issued to the applying school district.

Program provisions: A participating district must covenant to notify the commissioner of the department of a potential default as soon as possible, but not less than 15 business days before the debt service due date. A district must also covenant to deposit with a paying agent sufficient funds to make payments on its bonds at least three business days before the debt service due date. The school district must enter into a paying agent agreement that requires the paying agent to inform the commissioner of education if it becomes aware of a default, a potential default or if there are insufficient funds on deposit with the paying agent three business days before the debt service due date. Once a school district elects to enter this program and is accepted by the state, it cannot rescind its application as long as any debt obligation of that issue is outstanding. Upon notification to the commissioner of education, the commissioner of finance will issue a warrant authorizing the commissioner of education to pay the paying agent the amounts necessary on or before the date payment is due. The amounts needed for this purpose are appropriated to the Department of Education from the state general fund.

Minnesota County Credit Enhancement Program ('AAA')

Governing statutes: Authorized by Minnesota Statutes, Section 373.45, the Minnesota program was designed to provide a state guarantee of the payment of principal and interest on a county's GO or lease debt obligations issued after June 30, 2000 for the purpose of funding the construction of jails, correctional facilities, law enforcement facilities, social services and human services facilities, or solid waste facilities. This rating moves in tandem with that of the state.

Eligibility requirements: In order to qualify for participation in the County Credit Enhancement Program, the bonds must be issued after June 30th, 2000 and the county must apply to the Public Facilities Authority prior to issuing the bonds. The county must also enter into an agreement with the authority obligating the county to be bound by the provisions of Minnesota Statutes, Section 373.45 Subd. 3.

Program provisions: A participating county must enter into an agreement with the Public Facilities Authority obligating the county to:

- Deposit with the paying agent three days before the date on which the payment is due an amount sufficient to make that payment;
- Notify the authority, if the county will be unable to make all or a portion of the payment; and
- Include a provision in the bond resolution and county's agreement with the paying agent for the debt obligation

that requires the paying agent to inform the commissioner of finance if it becomes aware of a potential default in the payment of principal or interest on that issue or if, on the day two business days before the date a payment is due on that issue, there are insufficient funds to make the payment on deposit with the paying agent.

The provisions of this agreement are binding to an issue as long as any debt obligation of the issue remains outstanding.

After receipt of a notice of a potential default in payment of principal or interest in debt obligations covered by this agreement, and after consultation with the county, the paying agent, and after verification of the accuracy of the information provided, the authority shall notify the commissioner of the potential default. The notice must include a final figure as to the amount due that the county will be unable to repay on the date due. Upon receipt of this notice from the authority, the commissioner shall issue a warrant and authorize the authority to pay to the paying agent for the debt obligation the specified amount on or before the date due. The amounts needed for the purposes of this subdivision are annually appropriated to the authority from the general fund.

If Minnesota makes a guarantee payment on a participating county's behalf, the county is obligated to repay the state with interest and would be required to levy a property tax if necessary, to make such repayments.

Mississippi State Aid Capital Improvement Bond Program ('AA-')

Governing statute: The program was created under the state's Accountability and Adequate Education Program Act of 1997, which allows school districts to authorize the state board of education to withhold an amount of the district's Mississippi Adequate Education Program (MAEP) funds and pledge these funds for debt service on capital improvement bonds. The authorization that allowed districts to pledge MAEP funds for debt service expired on June 30, 1998. This rating moves in conjunction with that of the state.

Eligibility requirements: To qualify for the program, districts had to request that the state Department of Education directly deposit their MAEP funds with an independent paying agent and specify this in the bond resolution. Upon state approval of this request, the state irrevocably agreed to perform this function as long as program debt is outstanding.

Program provisions: State funds are deposited directly to a paying agent in advance of the debt service due date and these monies are held in investments that meet Standard & Poor's criteria. Bond issues using this security were sized according to the amount of MAEP allocation each district received (up to $160 per pupil based on average daily attendance) and bond maturities could not exceed 20 years. MAEP funds had to provide at least 1.0x debt service coverage. The state, by statute will take all actions necessary to ensure that the amount of the district's MAEP funds pledged to repay state aid capital improvement bonds will not be reduced as long as the program bonds are outstanding.

Missouri Direct Deposit of State Aid Program ('AA+')

Governing statutes: In 1995, the Missouri Legislature adopted Senate Bill 301 that established a program to assist Missouri school districts with their financing needs. This rating moves in conjunction with that of the state.

Eligibility requirements: Any school district is eligible to apply to the state to use the program as an additional bond security. Program guidelines specifically exclude any type of obligation other than GO bonds. Conditions for state approval include a state aid coverage requirement plus the district entering into a binding direct deposit agreement with the state to divert monthly state aid to a trustee-held debt service fund. To enter the program, districts must meet coverage requirements of state aid in each of the past three fiscal years covering maximum annual debt service by at least 1.5x and agree to the state making direct deposit of its monthly state aid payments to a state-selected direct deposit trustee. Once debt has been issued using this program, the district cannot pledge state aid as a primary or parity security to any non-program obligation as long as any program debt is outstanding. Participating school districts waive all rights and privileges to institute any action authorized by any act of Congress relating to bankruptcy.

Program provisions: The Missouri program provides for a first-dollar claim on monthly state aid, which will be directly deposited to a master bond trustee. Program oversight and management is the responsibility of the Missouri Health & Educational Facilities Authority (HEFA), as is the ability to establish operating guidelines. HEFA also pays certain issuance costs for participating school districts. Under the program, a school district enters into a direct deposit agreement with the state to fund a debt service payment account for either individual issues or participation in a HEFA-issued pooled financing. Upon application approval, a district can use this security enhancement for new and refunding issues.

The state aid flowing to the direct deposit trustee are the first dollars of the district's monthly state aid payment. The trustee, in turn, remits to each independent district paying agent the required principal and interest at the required times. HEFA, the Department of Elementary and Secondary Education, the Office of Administration, and the treasurer's office coordinate activities to operate the direct deposit mechanism. The direct deposit payments will be made in 10 level monthly increments, with payments starting the month of the bond issue close. If any monthly payment is insufficient to meet the 1/10th monthly increment requirement, the next direct deposit will make up the shortfall and include that month's required payment. Although the annual debt service payments will be made out of the first 10 months of a participating district's state aid, the direct deposit account has access to its entire annual state aid appropriation, if needed.

To eliminate the risks associated with late state budget adoptions or mid-year state aid reductions, debt service payment dates cannot be in the ending or beginning months of the state's fiscal year. All direct deposit funds and HEFA-held moneys will be invested in securities that meet Standard & Poor's investment criteria.

Nevada School District Bond Guarantee Program ('AAA')

Governing statutes: The Nevada permanent school fund was established under Article 11, Section 3 of the Nevada Constitution, to hold the proceeds of federal lands granted to the state by the U.S. Congress for school purposes, estates that escheat to the state, and fines collected under the state's penal laws. The constitution specifies that proceeds of the fund may be pledged only for educational purposes. Interest earnings may be apportioned to the various county districts for educational purposes. Nevada Revised Statutes' chapter 387 enables local school districts to apply for a guarantee of debt service from the state's permanent fund under the Nevada School District Bond Guarantee Program. This rating is independent of that of the state.

Eligibility requirements: The state treasurer will enter into a guarantee agreement with a school district only if the executive director of the department of taxation submits a written report to the state board of finance, indicating that the school district has the ability to timely service of its debt obligations.

Program provisions: Program debt is backed by the constitutional pledge of the permanent fund's assets. There is a statutory requirement that limits the program's guarantee amount to 250% of the lesser of cost or fair market value of the fund's assets. Additionally, the program limits the amount of bonds that may be guaranteed for any individual school district to no more than $25 million outstanding at any one time. A state board of finance policy limits permanent fund investments to U.S. Treasuries and agencies and specifies a minimum liquidity requirement. The minimum liquidity requirement is defined as the cash flow necessary to support 10% of guaranteed bonded indebtedness and such securities must mature within one year. Finally, legal features structured into the guarantee agreements provide for the early deposit of school district's debt service payment with the state treasurer or a designated paying agent, and immediate notification to the state treasurer if such payment is not made. The guarantee agreement requires that the district transfer debt service amounts to the state treasurer or a designated paying agent, not later than five business days prior to each scheduled payment date. If there is a shortfall, the treasurer pays the deficiency to the paying agent from guarantee funds at least one day prior to the debt service due date. If the guarantee is triggered, the state treasurer will withhold subsequent payments of money that would normally be distributed to the district from local school support taxes and the state distributive account to replenish the permanent fund.

New Jersey Additional State Aid Bonds Program ('AA-')

Governing statute: The New Jersey Additional State Aid Bonds Program is authorized by New Jersey Statutes 18A: 64A-22.1. Additional state aid bonds require the state to appropriate funds to pay debt service for school district bonds and for county GO bonds issued on behalf of community college districts. This rating will move in conjunction with that of the state.

Eligibility requirements: In order to participate in the program, the board of chosen freeholders of a county where a college is located must receive a certification from the state treasurer authorizing them to issue bonds or notes in an amount not to exceed 50% of the total cost of the project and not more than $265 million in principal. The board of chosen freeholders may issue bonds or notes within one year of receiving this certification from the state treasurer.

Program provisions: Within 10 days of issuing bonds secured by this program, the county treasurer or the treasurer of any other legally empowered issuer shall provide the state treasurer with a debt service schedule and the name and address of the paying agent. The state treasurer will appropriate and pay to the county, on or before the payment date, an amount equal to the payment due. The county, or other legally empowered issuer, shall use these funds solely for the timely payment of debt service to the paying agent.

New Jersey Fund for the Support of the Free Public Schools Program ('AA ')

Governing statute: The New Jersey Fund for the Support of the Free Public Schools Program is authorized by the Article VIII, Section 4 of the New Jersey Constitution. This rating will move in conjunction with that of the state.

Eligibility requirements: Local school bonds issued by school districts, municipalities, and counties are eligible for this program.

Program provisions: The program pledges a portion of a fund's assets for a school district's debt service should it be unable to meet principal and interest payments. The bonds carry a specific contractual relationship between the bondholder and the state fund. The treasurer acts as agent for the fund and, if needed, applies monies from the support fund to purchase maturing principal and interest due from the bondholder; these payments and purchases continue as long as the issuer remains unable to meet its debt service obligations.

New Jersey Statutes 18A:56-19, as amended, requires two reserve accounts to be maintained in the fund. The old school bond reserve account will be funded in an amount equal to at least 1.5% of aggregate school district debt issued by counties, municipalities, or school districts prior to July 1, 2003. The new school bond reserve account will be funded in an amount equal to at least 1% of aggregate school district debt issued on or after that date. In the event that the amounts in either the old school bond reserve account or the new school bond reserve account fall below the amount required to make payments on bonds, the amounts in both accounts are made available to make payments for bonds secured under the reserves. On or before September 15th of each year, fund trustees determine the aggregate amount of school purpose bonds outstanding and are responsible for maintaining appropriate reserve levels based on the market value of reserve investments. If at that time, the funds on deposit fall below the required levels, the State Treasurer is required to appropriate and deposit into the school reserve such amounts as may be necessary to meet fund level requirements. To ensure sufficient liquidity, at least one-third of the obligations in the fund must be due within a year. Fund assets are direct or guaranteed U.S. government obligations and are valued annually.

New Jersey Qualified Bond Program ('AA-')

Governing statute: New Jersey Statutes 18A:24-93 authorize the state treasurer to intercept a portion of city, township, and other local municipality qualified state aid to pay debt service on qualified bonds directly to the trustee. This rating moves in conjunction with that of the state.

Eligibility requirements: To qualify for this program, the issuer municipality must receive state approval for the planned capital improvements and the scheduled debt service.

Program provisions: The statute authorizes the state treasurer to intercept a portion of city, township, and other local municipality qualified state aid to pay debt service on qualified bonds directly to the trustee. The state treasurer forwards withheld amounts to the paying agent for payment of debt service on or before each principal and interest payment date. The balance of this state aid is then remitted to the appropriate municipalities.

Additional Standard & Poor's requirements: A municipality's state revenue must be at least equal to 1x maximum annual debt service.

New York State Aid Intercept Program ('A')

Governing statute: Section 99b of the state finance law authorizes the aid withholding and specifies the procedures that would be followed should the state be required to make a debt service payment for a program participant. This rating will not typically move with that of the state.

Eligibility requirements: All school districts are eligible for this program.

Program provisions: Upon notification of a default by a school district, the state comptroller is required to deduct from the next state aid payment due to the school district an amount sufficient to meet any deficiency in debt service. If this aid payment does not cover the obligation, the balance would be deducted from the succeeding allotment. The funds would be forwarded directly to the paying agent, and the comptroller would notify the school district of the payment. A technical default can occur on New York school district GO bonds, as the state finance law contains no provisions to activate the mechanism before actual default. However, the minimum guarantee program reflects the fact that a prompt cure of any such default is assured.

Additional Standard & Poor's requirements: A school district's annual state aid must cover maximum annual debt service by at least 1x.

Ohio State Aid Intercept Program ('AA' or 'AA-' rating depending on required coverage levels)

Governing statute: Pursuant to section 3317.18 of the Ohio Revised Code and section 3301-8-01 of the Ohio Administrative Code, the Ohio Credit Enhancement Program lets a school district enter into an agreement that allows the state to withhold state education funds due to the district under chapter 3317 of the revised code and apply those funds to the district's debt service payments. Section 3301-8-01 of the Ohio Administrative Code was revised in March 2004 to require 2.5x maximum annual debt service coverage levels. Prior to that time, the required coverage under the program was 1.25x. The ratings on bonds secured by the prior version of the enhancement program will be evaluated on a case-by-case basis, and issues that meet the Standard & Poor's requirement of 2x maximum annual debt service coverage will be upgraded to a 'AA' rating. Those that do not meet this coverage level requirement will continue to be rated 'AA-' For bonds issued after the program was amended in March 2004, the 'AA' rating applies. Both ratings move with the state's rating.

Eligibility requirements: To be eligible, a district must meet all program criteria including having the approval of both the state department of education and the office of budget and management to use the security. Districts applying for inclusion in the program must provide financial information to the department of education and the office of budget and management, including assessed value and taxpayer concentration information, audits and budgets, and schedules of proposed and outstanding debt. The program excludes noninvestment-grade rated issuers and requires an extensive review of the credit quality of unrated districts. The district must have an underlying credit rating determination by Standard & Poor's. Upon state approval, the contract between the state and local school district is irrevocable as long as any program debt is outstanding. At the time of state approval for program participation, projected state aid for the current fiscal year must be at least 2.5x the maximum annual debt service on the enhanced debt. In addition, on each debt service date during the current or any subsequent fiscal year, projected state aid remaining for that year must cover the remaining debt service for the year by 1.25x.

Program provisions: The district must certify to the state department of education and the paying agent whether or not it can make its full debt service payment 15 days before each debt service due date. Ten business days before the due date, the district must deposit with the paying agent an amount sufficient to make the debt service payment. If the district has failed to make a sufficient deposit, the paying agent will immediately contact the state department of education. In the event a district is unable to make a sufficient debt service payment and the payment will not be made by a credit enhancement facility, the department of education will pay the paying agent the lesser of the amount of the debt service due or the amount of state aid due to the district for the remainder of the fiscal year. This payment will be made at least one business day prior to the debt service payment date.

Oregon School Bond Guarantee Program ('AA-')

Governing statute: The Oregon legislature passed the school bond guaranty act in 1997 (Oregon Laws 1997, chapter 614). This rating will move in conjunction with that of the state.

Eligibility requirements: Participation in the program is voluntary and open to all common school districts, union high school districts, education service districts, and community college districts in the state.

Program provisions: The amount of debt that can be guaranteed by the state at any one time is limited to 0.5% of true cash value of taxable property in the state. The program is administered by the Oregon State Treasury, which has established administrative rules prescribing application procedures and qualification guidelines. Upon determination of a district's eligibility, the state treasurer issues a certificate of qualification valid for one year from the date of issuance, which may be applied to any or all GO bonds, including GO refunding bonds, issued by the district during that period.

Participating districts are required to submit to the state department of education audited financial statements and budget documents annually, as well as report any material changes or events that might affect their eligibility for participation in the program.

The business administrator of a participating district is required to transfer to its paying agent moneys sufficient to cover each debt service payment at least 15 days prior to the scheduled payment date for guaranteed bonds. If unable to do so, the district must notify the paying agent and the state treasurer. The paying agent must notify the state treasurer if sufficient funds are not transferred to the paying agent at least 10 days prior to the scheduled debt service payment date. The state treasurer will transfer sufficient funds to the paying agent to make the debt service payment no later than the scheduled payment date if sufficient funds have not been transferred to the paying agent.

A participating school district for which the state has made a guarantee payment is obligated to repay the state, with interest and, in certain instances, an additional penalty. The state may obtain such reimbursement from moneys that otherwise would be used to support the district's educational programs. The state is authorized to intercept any payments from its general fund, the state school fund, income from the common school fund, and any other operating moneys provided by the state to the district. If the state treasurer determines that intercepted funds, interest, and penalty payments will be insufficient to provide timely reimbursement, the state may require the district to meet its repayment obligations with the help of the state attorney general's office. Legal remedies include compelling the district to levy a property tax to pay debt service on its bonds and other obligations when due.

In the event the state is required to make a debt service payment on behalf of a participating district, if sufficient state funds are not on hand or available for such purpose, the state treasurer may obtain a loan from the common school fund or other qualified state funds. The constitutional amendment allows the state to issue property tax-supported GO bonds to provide funding to satisfy its guarantee obligations under the program, including the repayment of borrowed moneys from the common school fund.

Pennsylvania State Aid Intercept Program ('A' or 'A+' depending on legal protections)

Governing statutes: Pennsylvania's state aid intercept program for school districts is based on the withholding provisions of Act 150, which amended section 633 of the Public School code. Standard & Poor's also assigns a program rating to lease bond obligations of Pennsylvania's public school building authority based on the provisions of Sections 785 and 790 of the Pennsylvania Public School Code, and to debt obligations of community colleges under Section 1913-A of the Pennsylvania Public School Code. This 'A' rating will not typically move in conjunction with that of the state; the A+ rating will move with the state's rating.

Eligibility requirements: The program automatically applies to all school districts and community colleges.

Program provisions: Under these provisions, the secretary of education automatically withholds state aid from any school district or community college that fails to meet debt service or fails to pay lease rentals due the State Public School Building Authority, a municipal authority or nonprofit corporation. The withheld amount is the lesser of unpaid principal and interest or lease requirements, or the amount of state aid remaining for the fiscal year. These funds are transferred directly to the bond trustee, or the municipal authority or nonprofit corporation. The secretary of education requires a school district's annual financial report to include debt service payable during the fiscal year.

Additional Standard & Poor's requirements: To receive a program rating, Standard & Poor's requires minimum historical state aid coverage of at least 1.0x on maximum eligible debt service. To satisfy the debt service coverage requirement, the district must consider the timing and amount of debt service payments and state aid receipts. Amending the bond resolution regarding the notification timing in the event of a potential default can help enhance the program rating

Resolution based enhancements: A school district may receive a higher program rating if it includes certain structural elements in its bond resolution. Amendments to the Pennsylvania public school code enacted in 1998 allow a school district to voluntarily structure its bonds so that a failure to make a required sinking fund deposit prior to the debt service payment date triggers the intercept of the district's receivable state education aid. Prior to the amendment, this intercept was triggered only when a school district failed to pay or provide for the payment of debt service at the date of maturity or mandatory redemption, whether or not the district established a sinking fund.

The ability to leverage state aid receipts under the amended legislation into a higher program rating is contingent on the school district's inclusion of structural provisions in the bond legal documents. These provisions must specify notification and timing requirements such that the state is notified of an impending shortfall, state aid is withheld, and the necessary funds are transferred to the fiscal agent prior to the debt service payment date. As with the basic enhancement program, the district must demonstrate at least 1.0x coverage of maximum annual debt service by remaining state aid appropriations to qualify for the higher program rating. Increased debt service coverage is not required to achieve the higher program rating, because the timing of district receipt of state aid is largely statutorily defined.

South Carolina Education Finance Program ('AA')

Governing statute: The South Carolina program is based on 59-71-155 of the 1976 South Carolina Code. This rating will move in conjunction with that of the state.

Eligibility requirements: The program applies to school district general obligation bonds and does not require a special application to use this program as security - it is effective for all school bonds issued.

Program provisions: Under the program, county treasurers are required to notify the state treasurer 15 days in advance of a district's debt service payment date if insufficient funds are available for full and timely payment. The state treasurer monitors the situation until the third business day prior to the payment date. If amounts are still insufficient at that time, the state treasurer requires the county treasurer to use state distributed school district revenue to make up the deficiency or the state could advance general fund moneys for that purpose. The maximum amount of state general fund moneys available to be applied to a potential default is based on the total appropriation under the Education Finance Act for that year.

South Dakota State Aid Intercept Program ('A')

Governing statutes: The 1988 amendments to Title 13 of South Dakota Codified Laws authorize lease purchase agreements between the facilities authority and school districts. If a school district is unable to meet lease rental requirements to the facilities authority, Chapter 19 of Title 13 of the state's statutes permits the secretary of education to withhold state aid from the school district. This rating will not typically move with that of the state.

Eligibility requirements: Local school districts are eligible for the program. Due to South Dakota's GO debt limitations for school districts; major capital projects are funded by proceeds of bonds issued by the South Dakota Health & Educational Facilities Authority.

The structure of a lease purchase agreement between the facilities authority and a school district must meet statutory requirements. The school district has no option to cancel the agreement and must annually levy a capital outlay millage, which is limited to three mills. The capital outlay millage is the revenue source for lease rental payments. The millage is continuously levied for the life of the lease, eliminating the risk of non-appropriation. The lease is a net lease, entitling the trust agent and the facilities authority to full lease rental payments. Lease rentals are due to the trustee 45 days before debt service payments are due.

Program provisions: Lease rental payments are due to the trustee 45 days before debt service payments are due. If local revenues are insufficient to meet the lease rental requirements, the trustee notifies the facilities authority, as lessor. The authority requests the state Board of Education to direct the defaulting district's state aid to the trustee for payment of unpaid lease rentals. State aid is distributed three times per year (on or about August 15, January 15, and May 15th). Distribution is approximately 1/3, 1/3 and 1/3. The first distribution is an estimate because average daily attendance is not calculated until October so adjustments are made to subsequent payments. Lease payments are due 1/1 and 7/1. Debt service dates are 2/15 and 8/15.

Additional Standard & Poor's requirements: State aid must be at least equal to maximum annual debt service.

Texas Permanent School Fund Program ('AAA')

Governing statutes: The Permanent Fund was created by the state constitution to support public schools, with income generated from state-owned land and mineral interests. A voter-approved amendment to the Texas Constitution allows the Texas Permanent School Fund to guarantee qualified school district bonds. The 1983 amendment, Article VII, Section 5 of the constitution, extends the use of the endowment to ensure bondholders of timely debt service payments. This rating is independent of that of the state.

Eligibility requirements: School districts apply to the Commissioner of Education to qualify bonds for the permanent fund guarantee. The commissioner reviews district economic conditions, academic accreditation record, debt and capital needs and financial performance to determine potential future liabilities against the fund. Standard & Poor's requires evidence of the bond guarantee endorsement before assigning the enhanced Rating.

Program provisions: The amount of debt that can be guaranteed by the permanent fund is limited to the lesser of: a) 250% of the lower of cost or current fair value of the assets in the fund, excluding real estate; or b) 250% of the lower of cost or fair value adjusted by a factor that excludes additions to the fund since 1989. In the event of a default, the school district must notify the commissioner not later than five days before the maturity date of the guaranteed debt. The commissioner will then pay debt service to the paying agent and direct the state to later withhold district state aid to repay the Permanent Fund.

Standard & Poor's rating reflects the fund's strong asset quality and the legal provisions limiting the maximum amount of debt that may be guaranteed by the fund, which is twice the cost or market value of the fund. Additionally, the state's substantial oversight of the qualifying districts enhances the guarantee program.

Texas Higher Education Bond Program ('AA')

Governing statutes: In addition to the programs that benefit elementary and secondary education, an amendment to the state's constitution enhances debt obligations of certain public institutions of higher education. In accordance with Article VII, Section 17 of the Texas Constitution and the 1985 Excellence in Higher Education Act, there is a continuing annual appropriation of $100 million to support higher education. This rating moves with that of the state.

Eligibility requirements: Since 1985, the 26 state universities that do not benefit from the Permanent University Fund--those outside the University of Texas system and the Texas A&M system, each receive a portion of the annual $100 million appropriation. To participate in the program, universities must adhere to the Excellence in Higher Education Act of 1985.

Program provisions: The act allocates the annual appropriation among the universities according to a formula based on:

- Student enrollment capacity needs;
- Facilities condition;
- Institutional complexity;
- Existence of medical units; and
- Compliance with the Texas desegregation plan.

A maximum of 50% of each qualified institution's allocation may be pledged for debt service on bonds, while the remaining portion will be used directly for capital improvement projects. According to Vernon's Civil Statutes Article 4357, a university's board of trustees or a university system's board of regents must file a claim in the amount of the next debt service payment with the state comptroller. Filing of a claim will enable the bond trustees to receive a warrant for payment directly from the state at least 15 days prior to the principal and interest payment date. Bonds issued under Article 7, Section 17 of the state constitution are payable solely from these constitutional appropriations. Each issue must also be in serial form, offered for competitive bidding, and be approved by the state attorney general. Once approved, bonds are incontestable. The legislature may review the level of the appropriation and, with a two-thirds majority of both houses, reduce the amount of the constitutional appropriation for the succeeding five years. However, the legislature may not reduce the appropriation so as to impair the payment of the obligations created by the bonds or notes issued in accordance with Section 17 of the constitution.

Utah School Bond Guaranty Program ('AAA')

Governing statutes: Utah voters approved Proposition 4 in 1996, a state constitutional amendment providing a state general obligation guarantee on qualified local school district debt. The constitutional amendment allows for the implementation of the state's school bond default avoidance program under the Utah School Bond Guaranty Act. This rating moves in conjunction with that of the state.

Eligibility requirements: The state treasurer determines the eligibility of each school district for the program on consultation with the state superintendent of public instruction. Criteria for eligibility include the ability of a school district to meet its debt service obligations without state support.

Program provisions: Once a school district enters the program, the state's full faith and credit and unlimited taxing power are pledged to guarantee timely payment of principal and interest on the district's bonds. Local school district debt guaranteed by the state under the program will not count against the constitutional limit on the state's GO debt.

In order to qualify for a program rating, each school district's issuing bond resolution must provide for adequate and timely notice to the state treasurer, by an independent third party, of impending shortfalls in debt service. Once a state guarantee payment is triggered, the state treasurer will intercept state monies due the school district until the drawn amount is reimbursed to the state. Guarantee payments must be repaid by the school district to the state with interest, and in some cases with additional financial penalties. For additional liquidity, the state treasurer can borrow money from the state's Permanent School Fund to meet a guarantee payment, as well as use other resources.

Virginia State Aid Intercept Program ('A')

Governing statutes: Section 15.1225 of the Code of Virginia authorizes the governor to immediately intercept state aid appropriated for municipalities to pay principal and interest on GO debt in the event of default. This rating will not typically move with that of the state.

Eligibility requirements: The program automatically applies to local governments.

Program provisions: Bondholders must notify the governor of default by a local government. The governor is authorized to withhold debt service payments up to amount of state aid appropriated and payable. The funds would be forwarded directly to the paying agent. A technical default can occur since the notification can occur post default and the state law contains no provisions to force the mechanism before actual default.

Because Virginia's GO bond guarantee program is based on the governor's authority to withhold aid payments to local municipalities, the rating for the program reflects the state's creditworthiness and the legislative appropriations for local municipalities.

Additional Standard & Poor's requirements: To receive the guarantee program's rating based on the withholding provision, a municipality must demonstrate that state aid for each of the last five years was at least 1.25x future maximum annual GO debt service. Each bond issue also must have a paying agent, trustee, or similar fiduciary representative to promptly inform the state of a default.

Washington School Bond Guaranty Program ('AA')

Governing statutes: In November 1999, Washington voters passed by a vote of 60% to 40% a constitutional amendment that allows the state to provide a backup general obligation pledge to local school district voter approved GO bonds. The program is authorized in chapter 39.98 of the Revised Code of Washington.

The program provides pledges the full faith and credit of the state of Washington to the payment of voter-approved school district GO bonds. Upon request and receipt of a certificate evidencing the state guaranty from the Washington State Treasurer's Office, Standard & Poor's rates Washington state local school bond issues on par with the state rating and the rating will move in conjunction with that of the state.

Eligibility requirements: A school board electing to use the guarantee program must pass a resolution authorizing the district to apply to the state treasurer's office. This resolution can be included as part of the district's bond election resolution or can be a separate resolution. Following a successful bond election the district must submit an eligibility request to the state treasurer's office. The state treasurer's office reviews the request and determines eligibility.

Program provisions: If during the term of the bonds, the county treasurer is unable to apply funds sufficient to make debt service payments on district bonds guaranteed under the program, the county treasurer notifies the state treasurer who would immediately transfer sufficient funds to make the required debt service payment. The state treasurer's office would recover from the district any funds paid on the district's behalf as well as any interest, recovery costs or penalties.

West Virginia Municipal Bond Commission Program ('AA-')

Governing statutes: The program is authorized by Chapter 13, Article 3 of the West Virginia Code. West Virginia's Municipal Bond Commission is the successor to the state's Sinking Fund Commission. This rating will move in conjunction with that of the state.

Eligibility requirements: The program covers all local GO debt.

Program provisions: The bond commission serves as the bond trust agent, administering the GO debt sinking funds for the state's school districts and municipalities and oversees debt service. All funds collected to meet debt service on a municipality's general obligation bonds are turned over to the commission for payment of debt service.

In addition to this statutory provision, the commission's administrative guidelines include notifying the local government unit 35 days before a debt service payment if funds on hand are insufficient for debt service. If sufficient funds are not on hand 15 days before the debt service payment, the entity is contacted again. Since 1921, the state legislature has made an annual blanket appropriation in the budget authorizing the governor to meet any deficiency in the state sinking fund because of a school district or governmental unit's failure to meet its debt service obligations. The rating for West Virginia's program reflects the state's strong debt service oversight and the legislature's replenishment provision for the bond commission's sinking fund.

Wyoming School District Bond Guarantee Program ('AAA')

Governing statutes: Local school district bonds are eligible to be guaranteed by the Wyoming School District Bond Guarantee Program under Chapter 13 of the state's Farm Loan Board rules and regulations and Wyoming state statutes 9-4-701(j). This rating will move in conjunction with that of the state.

Eligibility requirements: School districts applying for qualification under the program must first provide the Office of State Lands and Investments a letter from a nationally recognized rating agency indicating that the bonds would be of at least investment-grade quality. Applications for bond issues over $5 million must be accompanied by the precise underlying rating before the guarantee can be granted.

Program provisions: No more than $300 million in school bonds may be guaranteed by the pledged guarantee fund, a very strong 3:1 leverage ratio. Bonds guaranteed under this program are backed by $100 million from the state's Common School Account. The $100 million guarantee fund is a fungible subset of the Common School Account.

The Common School Account is a state trust fund derived from mineral royalties on lands dedicated for school income and is, in turn, a non-fungible subset of the state Permanent Land Fund. While only $100 million is pledged from the Common School Account, and amounts over $100 million in the Common School Account could be dedicated in the future to other school programs, current implementation rules charge investment losses first against the non-obligated part of the Common School Account. This provides an even greater guarantee cushion, as the pledged fund would garner the last non-obligated $100 million in the fund in the event of investment losses.

The Common School Account can be used only for school purposes and currently contributes investment income for yearly distributions to schools. The state treasurer's investment policy sets guidelines intended to maximize yield within the constraints of maintaining book value. Outside money managers can be hired to manage a portion of investments. Outside managers' transactions are reported monthly and performance is judged quarterly. Each outside manager is expected to maintain an average portfolio credit quality of at least 'AA'. Up to 5% of a portfolio may be invested in unrated securities, provided that these securities are judged by the Board to be at least of investment-grade quality. No more than 5% of the portfolio may be invested in obligations of any single issuer other than the U.S. government. Investment allocations may change over time, but have historically been conservative. In addition, the guarantee program rules require that an amount at least equal to 10% of guaranteed bond principal be invested in U.S. government securities of three years' maturity or less to ensure liquidity. Debt service payments are not accelerated in the case of an underlying school district's default, preserving the liquidity of the guarantee fund.

Program rules provide adequate time for guarantee funds to cover debt service payments when due, if needed. An independent paying agent is required to notify the State Treasurer not less than five days before a debt service payment date if it becomes aware of a potential default on a guaranteed debt obligation. Program rules also require a school district to notify the state treasurer on its own 15 days before a due date, if it projects that it will not be able to pay debt service. If there is a debt service shortfall, the treasurer must pay the paying agent an amount to cover the shortfall at least one day before the debt service due date. The state requires a defaulting school district to repay the Common School Account for any draw, including lost interest on the fund.

Standard & Poor's Rated State Credit Enhancement Programs

State	Debt Type Covered	Rating	Outlook	Enhancement
California	Eligible city and county bonds	A	Stable	Motor Vehicle license fee and leases
California	Eligible health care bonds	A+	Stable	Construction Loan Insurance Fund
California	School districts that have received emergency state loans	A+	Stable	State aid withholding law
Colorado	Local school bonds	AA-	Stable	State aid withholding law
Georgia*	Eligible local school bonds	A	Stable	State aid withholding law
Georgia*	Eligible local school bonds	AA+	Stable	State aid withholding law with additional coverage of 1.5x state aid and 1x SPLOST or 2x state aid
Indiana*	Local school bonds, leases	A	Stable	State Withholding Law
Indiana*	Local school bonds, leases	AA	Stable	State Withholding Law with enhanced coverage provisions
Kentucky	Local school bonds, leases	A+	Stable	State aid withholding law
Kentucky	Commonwealth Universities	A+	Stable	State aid withholding law
Massachusetts	All pre-approved local	AA-	Stable	State direct deposit of state aid to paying agent
Michigan	Qualified local school bonds	AA	Neg	Constitutional School Bond Loan Fund; state general fund support
Minnesota	Eligible local school bonds	AAA	Stable	State standing appropriation law
Minnesota	Eligible counties	AAA		State standing appropriation law

Standard & Poor's Rated State Credit Enhancement Programs (cont.)				
Mississippi	Eligible local school bonds	AA-	Stable	State direct deposit of annual adequate education program funds to paying agent
Missouri	Eligible local school bonds	AA+	Stable	State direct deposit of state aid to paying agent
Nevada	Eligible local school bonds	AAA	Stable	Permanent School Fund
New Jersey	Local school bonds	AA	Stable	Constitutional Fund for the Support of Free Public Schools
New Jersey	Additional state aid bonds	AA-	Stable	State appropriations for school districts and community colleges
New Jersey	All pre-approved local qualified municipal debt	AA-	Stable	State direct deposit of state aid to paying agent
New York	Local school bonds	A	Stable	State aid withholding law
Ohio*	Eligible local school bonds	AA	Stable	State aid withholding law with 2x MADS coverage
Ohio*	Eligible local school bonds	AA-	Stable	State aid withholding law
Oregon	Qualified local school bonds	AA-	Stable	State guarantee
Pennsylvania*	Local school bonds	A	Stable	State aid withholding law
Pennsylvania*	Local school bonds	A+	Stable	State aid withholding law with enhanced resolution provisions
South Carolina	Local school bonds	AA	Stable	State aid withholding and general fund make-up provision
South Dakota	Local school bonds	A	Stable	State aid withholding law
Texas	Approved local school bonds	AAA	Stable	Constitutional Permanent School Fund
Texas	Higher education bonds	AA	Stable	Direct and continuing state appropriations
Utah	Qualified local school bonds	AAA	Stable	State guarantee
Virginia	All local G.O. debt	A	Stable	State aid withholding law
Washington	Qualified local school bonds	AA	Stable	State guarantee
West Virginia	All local G.O. debt	AA-	Stable	Continuing state appropriations to cover deficiencies
Wyoming	Eligible local school bonds	AAA	Stable	Common School Account, Permanent Land Fund

*See program detail.