

# ***Municipal Securities Research***

## **Municipal Commentary**

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## ***State Enhancement Programs, An Update***

State enhancement programs provide an additional layer of protection for bondholders of local governments, school districts and other institutions' securities in the event of a default or potential default, in our view. In addition, such bonds generally have the added value of a higher credit rating tied to the program itself over the underlying credit quality of the issuer. We update our previous report from May 23, 2011, titled *Small-Issuer Focus* and outline the many and various state enhancement programs.

Typically, enhancements are viewed based on 1) the timing of the intervention and 2) the type of enhancement.

**Timing of Intervention**— some programs can be initiated before payment is due, that is, pre-default (e.g., Kentucky State Aid Intercept), while others are triggered after a default (e.g., Indiana State Aid Intercept Program).

**Types of Enhancements**— enhancements generally fall into one of the following four categories:

1. Intercept Programs – they allow state aid allocated to a municipality to be diverted to pay down principal and interest. The mechanics of the program vary by state. In addition to the timing of the intervention, the capacity of the intercept is critical; some programs, for example, only provide up to the allocated amount for the given year (e.g., Georgia State Aid Intercept Program), where others provide the full amount of debt service as necessary (e.g., Colorado Bond Payment Act).

2. Appropriation Programs – these programs provide funding for principal and interest through existing state appropriations or reserves in the event that a locality cannot make debt service payments. Some states have standing appropriations, while others fund annually and, therefore, have some appropriation risk. For many programs, such funding is in the form of a loan to the municipality where, similar to an intercept program, state aid may be used (after the bonds are paid) to pay down

state loans. Unlike the intercept program, however, funding to the paying agent is not based on allocated state aid. An example of an appropriation program is the Minnesota City/County Credit Enhancement Program.

3. Fund Programs – in the event of a potential default, state assistance is provided through constitutionally created funds. The funds serve as a guarantee to a locality's ability to pay its debt. Ratings follow the mechanics of the fund itself rather than the state.

4. Guarantee Programs – under a guarantee program, the state provides its own credit to address payment deficiencies on municipal loans. Typically, these bonds are qualified bonds and, as such, require prior approval by a state entity prior to issuance. Ratings tend to move with a state's general obligation rating, and state aid is provided before a default occurs.

### **Outside the Benefit of Enhanced Ratings**

Not every state enhancement bond issue receives an enhanced credit rating tied to a program. South Carolina's constitution, for example, essentially provides an intercept provision of state aid for any subdivision that issues general obligation (GO) debt, a benefit that does not translate to enhanced ratings. Similarly, Colorado has an enhancement program for charter schools that is not reflected in rating such bonds.

In July 2013, Moody's modified its methodology for post-default intercepts such that these enhancements are to be based on the issuer's underlying rating and evaluated from a "bottom-up" approach; enhanced ratings would be capped at two notches below the state's GO rating. Prior to this, post-default intercept enhancements were tied to the state rating with programs rated generally two or three notches below the state rating. With this methodology change, Moody's withdrew programmatic ratings for post-default intercepts programs in Arkansas, Indiana, New York, Pennsylvania (Act 150) and Virginia. Because some

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of the issuers affected by this had insufficient information to determine an underlying rating, some enhanced ratings were withdrawn. This included 38 issuers in Pennsylvania and 222 issuers in Arkansas. In 2013, Arkansas modified its school district enhancement program to a pre-default intercept for bonds issued on or after July 1, 2013.

**State Enhancements and Bankruptcy**

How state enhancements function if a borrower is in municipal bankruptcy is still uncertain. This issue came up with respect to the city of Vallejo, Calif., bankruptcy. The city attempted to divert state aid from the California Motor Vehicle License Fee (MVLFF) intercept program, not recognizing this enhanced security feature with respect to the 1999 Certificates of Participation following default in 2010. The insurer, National Public Finance Guarantee (originally MBIA Insurance), challenged this.

The issue following the bankruptcy filing was whether such revenue was the “property of the estate”; if so, there should have been an automatic stay, or a halt on creditor actions. National made the argument that an intercept statute was not considered property of the estate under the Bankruptcy Code. The city argued such revenues belong to localities; a pledge of vehicle license fees to the trustee for the benefit of bondholders was not the same as a transfer of interest in property. Unfortunately, no opinion was issued by the court on this issue before an acceptable settlement between both parties was reached.

**Select State Credit Enhancement Programs**

<b>Arkansas</b>				
<b>Arkansas School District Enhancement Program (ACA 6-20-1204)</b>	<u>Enhancement Type:</u>	Intercept	<u>Intervention:</u>	Post-default
Following lack of payment by school district, paying agent to notify Commissioner of Education. Paying agent entitled to payment from withheld state aid due to the district in any amount sufficient to address payment deficiency. In the event next amount due to district is insufficient to cure delinquency, state shall continue to withhold state aid as due and remit it to paying agent until payment deficiency has been addressed.				
<u>Example</u>			<u>Program Rating</u>	
Arkadelphia School District No. 1, Clark County, Arkansas Refunding Bonds (October, 2012)		S&P -	Moody's -	Fitch -
<b>Arkansas School District Enhancement Program, Pre-default (2013) (ACA 6-20-1204)</b>	<u>Enhancement Type:</u>	Intercept	<u>Intervention:</u>	Pre-default
If trustee does not receive bond payment from school district at least five calendar days before principle and interest is due, Department of Education shall immediately make payment in full amount of deficiency to trustee. Act 110 of 2013 was enacted to allow for a pre-default intercept program. Legislation applies to school bonds issued on or after July 1, 2013. For school bonds issued prior to July 1, 2013, school districts may execute a bond amending resolution to voluntarily comply with Act 110.				
<u>Example</u>			<u>Program Rating</u>	
Ashdown School District No. 31 of Little River County, Arkansas Refunding Bonds (February, 2014)		S&P -	Moody's Aa2	Fitch -
<b>California</b>				
<b>California Motor Vehicle License Fee (CGC 37351.5C)</b>	<u>Enhancement Type:</u>	Intercept	<u>Intervention:</u>	Pre-default
For refunding issues with pledges through MVLFF. In the event payments on principle or interest can not be made, the Controller shall make funding available to trustee through available funds to the county through the MVLFF account.				
		S&P -	<u>Program Rating</u> Moody's -	Fitch -
<b>California Health Facility Construction Loan Insurance Program (Health &amp; Safety Code 129130)</b>	<u>Enhancement Type:</u>	Guarantee	<u>Intervention:</u>	Pre-default
Reflects the construction or rehabilitation of health care facilities. Under this program, in the event of a default, the Office of Statewide Health Planning and Development shall provide a sufficient amount to be transferred at least three business days prior to payment due date.				
<u>Example</u>			<u>Program Rating</u>	
California Health Facilities Financing Authority, Insured Refunding Revenue Bonds (Becoming Independent), Series 2013		S&P A	Moody's -	Fitch -
<b>California Infrastructure Bank School Aid Intercept Program (Education Code 41329.55)</b>	<u>Enhancement Type:</u>	Intercept	<u>Intervention:</u>	Pre-default
Managed by California Infrastructure Bank. When school district participates in program, it provides State Controller schedule of future lease payments; State Controller intercepts state school aid amount equal to debt service. Payment is made to bond trustee, first out of designated state aid allocation for district; balance is then paid to the school district. Triggered through an emergency loan through State Department of Education. Bonds are issued by state and used to pay down loan through a lease back arrangement.				
<u>Example</u>			<u>Program Rating</u>	
California Infrastructure and Economic Development Bank State School Fund Apportionment Lease Revenue Bonds, Series 2010		S&P A	Moody's -	Fitch BBB+

**Select State Credit Enhancement Programs**

**Colorado**

<b>Colorado Bond Payment Act</b> (CRS Section 22-41-110)	<u>Enhancement Type:</u> Intercept	<u>Intervention:</u> Pre-default
If paying agent has not received payment of debt service on bonds on the business day immediately prior to the date on which such payment is due, paying agent shall notify State Treasurer and school district. If determined district will not make payment on due date, the State Treasurer shall forward the amount in immediately available funds necessarily to make payment. State will recover amount by withholding future school district payments. Funding is unlimited and not restricted by state aid availability.		
<u>Example</u>	<u>Program Rating</u>	
Eagles County School District RE50J, Eagle, Garfield and Routt Counties, Colorado, GO Refunding Bonds, Series 2013	S&P AA-	Moody's Aa2 Fitch AA
<b>Colorado Higher Education Revenue Bond Intercept Program</b> (CRS Section 23-5-139)	<u>Enhancement Type:</u> Intercept	<u>Intervention:</u> Pre-default
If paying agent has not received payment of debt service on bonds on the business day immediately prior to the date on which such payment is due, paying agent shall notify State Treasurer and institution. If determined institution will not make payment on due date, the State Treasurer is required to forward the amount in immediately available funds necessarily to make payment. State will recover amount by withholding amounts from state fee for service payments, other state support, or through unpledged tuition funds collected by institution. State can not withhold more than 12 consecutive months of fee for service payments, but this does not limit the state's obligation to make bond payments.		
<u>Example</u>	<u>Program Rating</u>	
Board of Governors of the Colorado State University System, System Enterprise Revenue and Revenue Refunding Bonds, Series 2013A	S&P AA-	Moody's Aa2 Fitch -
<b>Colorado State Treasurer Charter School Intercept Program</b> (CRS 22-30.5-406)	<u>Enhancement Type:</u> Intercept	<u>Intervention:</u> Pre-default
Charter school may direct State Treasurer to withhold state funds that school is entitled to receive from charter authorizer and send funds directly to trustee for payment of debt service on qualified charter school bonds.		
<u>Example</u>	<u>Program Rating</u>	
Colorado Educational and Cultural Facilities Authority, Charter School Revenue Bonds (Community Leadership Academy, Inc. Second Campus Project), Series 2013	S&P -	Moody's - Fitch -

**Georgia**

<b>Georgia Intercept Program</b> (OCGA Sections 20-2-480, 20-2-170)	<u>Enhancement Type:</u> Intercept	<u>Intervention:</u> Pre-default
Upon notification by Paying agent that insufficient funds are available to pay debt service, the State Board of Education is authorized to withhold any state appropriation to which the school district is entitled to and apply the amount necessary to the payment of principle and interest on bonds due. Payment based on remaining aid due that year to school district.		
<u>Example</u>	<u>Program Rating</u>	
Jeff Davis County School District, Georgia, GO Bonds, Series 2013	S&P* A/AA+	Moody's Aa1 Fitch AA+

**Idaho**

<b>Idaho State School Bond (Sales Tax) Guarantee Program</b> (IC 33-53)	<u>Enhancement Type:</u> Guarantee	<u>Intervention:</u> Pre-default
School district applies to State Treasurer for guarantee on timely payment of principle and interest; good for life of the bond. School district superintendent is required to transfer moneys sufficient for debt service to paying agent at least 15 days before debt service payment date for bonds. If payment can not be made and notification is provided to State Treasurer, payment will be made by Treasurer and obligation for that payment becomes that of the State.		
<u>Example</u>	<u>Program Rating</u>	
School District No. 139 (Vallivue), Canyon County, State of Idaho, GO Bonds, Series 2013	S&P AA+	Moody's Aa1 Fitch -
<b>Idaho Credit Enhancement Program</b> (IC 57-728)	<u>Enhancement Type:</u> Guarantee	<u>Intervention:</u> Pre-default
School bonds participating in the Sales Tax Guarantee Program may also apply to this program, which is backed up the state's Public School Permanent Endowment Fund. Provides proceeds should moneys from sales tax become insufficient to pay debt service under the Sales Tax Guarantee Program.		
<u>Example</u>	<u>Program Rating</u>	
School District No. 271 (Coeur d'Alene), Kootenai County, State of Idaho, GO Bonds, Series 2012B	S&P AAA	Moody's Aaa Fitch -

**Indiana**

<b>Indiana State Aid Intercept Program</b> (IC 20-48-1-11)	<u>Enhancement Type:</u> Intercept	<u>Intervention:</u> Post-default
Should any school district fail to make debt service payments, the State Treasurer will provide payment. Funding would be deducted from state distributions to the school district. Payments are limited to amounts appropriated by the State General Assembly for distribution to the school district from state funds for the calendar year.		
<u>Example</u>	<u>Program Rating</u>	
Metropolitan School District of Wayne Township, Marion County, Indiana, Taxable GO Pension Refunding Bonds of 2013	S&P* A/AA+	Moody's - Fitch -

**Select State Credit Enhancement Programs**

**Kentucky**

<b>Kentucky State Aid Intercept Program</b> (KRS 160.160(5))	<u>Enhancement Type:</u>	Intercept	<u>Intervention:</u>	Pre-default
Rental payments tied to revenue bonds are due and payable not less than ten days prior to interest due date for debt obligations. In the event of failure to pay lease payments and if notified not less than three days prior to interest due date, the State Department of Education shall withhold sufficient portion of undisbursed funds that were due to the Board of Education. The Board can request Department or Commissioner of Education to transfer required amount to paying agent for such rentals.				
<u>Example</u>			<u>Program Rating</u>	
Elliott County School District Finance Corporation, School Building Revenue Bonds, Series 2013	S&P		Moody's	Fitch
	A+		Aa3	A+
<b>Kentucky State Aid Intercept Program for Commonwealth Universities</b> (KRS 164A.608)	<u>Enhancement Type:</u>	Intercept	<u>Intervention:</u>	Pre-default
If governing board of university, college, or technical institution is unable to pay required debt service on agency bonds issued by such postsecondary institution when due, the paying agent shall notify Secretary of the Finance and Administration Cabinet and request the withholding of state funding from the governing board to institution to satisfy required payment of bonds. If Secretary determines risk of default, governing board will be notified and payment shall be made within five days from undisbursed funds.				
<u>Example</u>			<u>Program Rating</u>	
Murray State University, General Receipts Bonds, 2013 Series A	S&P		Moody's	Fitch
	A+		Aa3	-

**Maine**

<b>Maine Health and Higher Education Facilities Authority Reserve Funds Bond</b> (MRS 22-4-413)	<u>Enhancement Type:</u>	Intercept	<u>Intervention:</u>	Pre-default
Under the Act, Authority may notify Treasurer of default or possible default on any of the Authority's bonds; upon notification, State is required to withhold any funds in Treasurer's custody that are due and payable to defaulting institution. Funds subject to withholding could include federal and state grants, contracts, allocations or appropriations.				
<u>Example</u>			<u>Program Rating</u>	
Maine Health and Higher Educational Facilities Authority, Revenue Bonds, Series 2013A	S&P		Moody's	Fitch
	-		-	-
<b>Maine Municipal Bond Bank Act Governmental Unit Intercept</b> (MRS 30A, Chapt 225-6014)	<u>Enhancement Type:</u>	Intercept	<u>Intervention:</u>	Post-default
If governmental unit has not paid or is in default of payment on any municipal bonds owned by the Bank, the State Treasurer, as custodian of any funds due to a governmental unit, shall withhold payment of funds until payment of principal or interest due and unpaid has been paid by the governmental unit to the Bank.				
<u>Example</u>			<u>Program Rating</u>	
Maine Municipal Bond Bank, Series 2013B	S&P		Moody's	Fitch
	-		-	-

**Maryland**

<b>Maryland Infrastructure Finance Intercept</b>	<u>Enhancement Type:</u>	Intercept	<u>Intervention:</u>	Pre-default
For governmental units receiving an infrastructure loan through bond proceeds, an agreement to pledge state shared revenues will be made. Upon notice and should scheduled payments not be made, the State Comptroller or Treasurer shall withhold local government payments.				
<u>Example</u>			<u>Program Rating</u>	
Maryland Community Development Administration, Local Government Infrastructure Bonds, Series 2013A	S&P		Moody's	Fitch
	-		Aa1	-

**Massachusetts**

<b>Massachusetts Intercept Program</b> (MGL Part I, Title VII 44-19A)	<u>Enhancement Type:</u>	Intercept	<u>Intervention:</u>	Post-default
If locality is unable to pay principle or interest, local manager will notify Commissioner of Revenue who, following investigation, will certify inability and notify State Treasurer. State Treasurer will pay paying agent amount due not later than three days after receipt of commissioner certification or one business day prior to date debt service is due, whichever is later. Appropriation is based on amount remaining from funding from state to locality in fiscal year and to continue in following fiscal year allocations.				
<u>Example</u>			<u>Program Rating</u>	
	S&P		Moody's	Fitch
	-		-	-
<b>Massachusetts Qualified Bond Act Program</b> (MGL Part I, Title VII 44A)	<u>Enhancement Type:</u>	Intercept	<u>Intervention:</u>	Pre-default
If under the Qualified Bond Act, the State Treasurer shall pay debt service to the paying agent for the qualified bonds. Payment will be obtained from withheld state aid to the locality.				
<u>Example</u>			<u>Program Rating</u>	
Town of Palmer, Massachusetts, GO State Qualified Municipal Purpose Loan of 2013 Bonds	S&P		Moody's	Fitch
	AA		Aa2	-
<b>Massachusetts Commonwealth Appropriation Intercept</b> (under Mass Act of 1963, Chapter 703)	<u>Enhancement Type:</u>	Intercept	<u>Intervention:</u>	Pre-default
Should Comptroller determine that there is lack of available funds to pay debt service, Comptroller must transfer amounts from given state university's legislative appropriations no later than applicable deposit date. Should pledge trust funds of applicable state university be exhausted, the State's Board of Higher Education is required to pay to trustee amount of remaining insufficiency from pledged appropriations of all state universities.				
<u>Example</u>			<u>Program Rating</u>	
Massachusetts State College Building Authority, Project Revenue Bonds, Series 2012C	S&P		Moody's	Fitch
	-		-	-

**Select State Credit Enhancement Programs**

<b>Michigan</b>				
<b>Michigan School Loan Revolving Fund (SLRF) Program</b> (MCL 388.921 to 388.984 and Public Act 92 (2005))				
	<u>Enhancement Type:</u>	Guarantee	<u>Intervention:</u>	Pre-default
Provides loans to school districts for annual debt retirement needs. In the event a school district can not pay principle or interest on debt service when due, the district can borrow from the state through the SLRF. Bonds need to be state qualified and this applies to state loans issued after July 20, 2005. The state has issued GO bonds to fund the program.				
<u>Example</u>				
Beecher Community School District, County of Genesee, Michigan, 2013 School Building and Site Bonds, Series I, GO Unlimited Tax	S&P AA-		Moody's Aa2	Fitch AA
<b>Michigan School Bond Loan Fund (SBLF) Program</b> (MCL 388.921 to 388.984 and Public Act 108 (1961))				
	<u>Enhancement Type:</u>	Guarantee	<u>Intervention:</u>	Pre-default
Provides loans to school districts for annual debt retirement needs. Bonds need to be state qualified to borrow under SBLF and applies to state loans provided before July 20, 2005. In the past few years, the state has issued GO bonds to fund the program.				
<u>Example</u>				
Northville Public Schools, Michigan, 2005 Refunding Bonds	S&P AA-		Moody's Aa2	Fitch AA
<b>Minnesota</b>				
<b>Minnesota City/County Credit Enhancement Program</b> (Statute, Section 446A.086 (formerly 373.45))				
	<u>Enhancement Type:</u>	Appropriation	<u>Intervention:</u>	Pre-default
Governmental unit must enter agreement with Minnesota Public Facilities Authority. Unit must cover debt obligations before due date, but if unable to make debt service payment, locality is to notify Authority. Paying Agent can also inform the Commissioner of Management and Budget if aware of default or potential default in payment of debt service two business days before the date a payment is due. If evidence of potential default is determined, the Authority will notify Commissioner, who will authorize authority to pay bond holders. Funding will be in the form of a loan that the locality is to pay back to the state. The state may reduce its aid to the local unit as part of repayment.				
<u>Example</u>				
City of Menahga, Minnesota, GO Improvement Bonds, Series 2013A and B	S&P AA+		Moody's Aa2	Fitch -
<b>Minnesota School District Credit Enhancement Program</b> (Statute, Section 126C.55)				
	<u>Enhancement Type:</u>	Appropriation	<u>Intervention:</u>	Pre-default
Notification to commissioner fifteen days prior to payment of debt services is required if school district believes it can not make payment. If paying agent becomes aware of potential default, notification is also made. After determination, request is transferred to Commissioner of Management and Budget who will authorize Commissioner of Education to pay the paying agent the debt obligation on or before due date. Source of funding is from state general fund.				
<u>Example</u>				
Independent School District No. 113 (Walker-Hackensack-Akley), Minnesota, GO Refunding Bonds, Series 2013	S&P AA+		Moody's Aa2	Fitch AA
<b>Minnesota State Standing Appropriation (MS 462A.36)</b>				
	<u>Enhancement Type:</u>	Appropriation	<u>Intervention:</u>	Pre-default
Annual state appropriations of funds from the general fund are available to the agency for the payment of outstanding bonds. Pursuant to Minnesota law, a standing appropriation may be reduced or repealed by the Legislature.				
<u>Example</u>				
Minnesota Housing Finance Agency, Nonprofit Housing Bonds, Series 2011	S&P AA+		Moody's -	Fitch -
<b>Mississippi</b>				
<b>Mississippi State Aid Capital Improvement Bond Program</b> (MCA 37-151-7)				
	<u>Enhancement Type:</u>	Intercept	<u>Intervention:</u>	Pre-default
School district may issue state aid capital improvement bonds secured by a continuing pledge of state funds through the Mississippi Adequate Education Program (MAEP). District can pledge sufficient amount as is necessary; MAEP funds are not to exceed \$160/pupil. Pledged revenue will be transferred by the State Department of Education to the paying agent for funding of bonds.				
<u>Example</u>				
Harrison County School District, Harrison County, Mississippi, State Aid Capital Improvement Refunding Bonds, Series 2013	S&P AA-		Moody's -	Fitch -
<b>Mississippi Community and Junior College State Aid Intercept Program (MCA 31-25-29)</b>				
	<u>Enhancement Type:</u>	Intercept	<u>Intervention:</u>	Pre-default
Under Act, Bank, Trustee and District enter into intercept agreement which authorizes State Treasury to withhold state aid to fund delinquent payments.				
<u>Example</u>				
Mississippi Development Bank, Special Obligation Bonds, Series 2012 (Pearl River Community College District Refunding Project)	S&P AA-		Moody's -	Fitch -
<b>Missouri</b>				
<b>Missouri Direct Deposit of State Aid Program (MRS Section 360.111)</b>				
	<u>Enhancement Type:</u>	Intercept	<u>Intervention:</u>	Pre-default
Under Direct Deposit program, school district or public community college may agree to transfer of portion of state aid payments to trustee in order to provide payment for debt service. On date of issuance, government unit will enter into a Direct Deposit Agreement with the State Office of the Treasurer that will outline the pledge of state aid.				
<u>Example</u>				
Webb City R-7 School District of Jasper County, Missouri, GO School Building Bonds, Series 2013	S&P AA+		Moody's Aa1	Fitch AA+

**Select State Credit Enhancement Programs**

**Nevada**

<b>Nevada Permanent School Fund Guarantee Program</b> (NRS 387.513 to 387.528)	<u>Enhancement Type:</u> Guarantee	<u>Intervention:</u> Pre-default
Proceeds from Nevada Permanent School Fund may be used as a guarantee on school district bonds to provide credit enhancement. If district fails to make timely payment no later than five business days prior to debt service due date, paying agent can notify the State Treasurer. The Treasurer will withdraw from the fund money due to paying agent no later than one business day prior to scheduled debt service due date. Withdrawal will take the form of the loan to the district; if district can not pay down loan, Treasurer may withhold payments due to locality.		
<u>Example</u>	<u>Program Rating</u>	
Churchill County School District, Nevada, GO School Improvement Bonds, Series 2013	S&P AAA	Moody's Aaa Fitch -

**New Jersey**

<b>New Jersey Municipal Qualified Bond Act (NJSA 40A:3-1)</b>	<u>Enhancement Type:</u> Intercept	<u>Intervention:</u> Pre-default
Any bonds of a municipality are qualified bonds under act. A portion of state aid allocated to the locality in an amount to pay debt service is to be withheld by the State Treasurer and forwarded to paying agent on or before debt service payment dates.		
<u>Example</u>	<u>Program Rating</u>	
Township of Weehawken, New Jersey, Qualified GO Bonds, Series 2013A	S&P A+	Moody's A1 Fitch A+

<b>New Jersey School Qualified Bond Act (NJSA 18A:24-85)</b>	<u>Enhancement Type:</u> Intercept	<u>Intervention:</u> Pre-default
Any bonds of a school district or applicable municipality are qualified bonds under act. A portion of state aid allocated to the school district in an amount to pay debt service is to be withheld by the State Treasurer and forwarded to paying agent on or before debt service payment dates.		
<u>Example</u>	<u>Program Rating</u>	
City of Newark, Essex County, New Jersey, Qualified School Bonds Series 2010C	S&P A+	Moody's A1 Fitch A+

<b>New Jersey Additional State Aid Bonds Program/College Bond Act</b> (Statutes 18A:64A-22.1 and 18A:72A-12.2)	<u>Enhancement Type:</u> Appropriation	<u>Intervention:</u> Pre-default
Under the Act, share of payment of principle and interest through annual appropriation by the state. Principle of bond amount can not exceed \$265 million for the whole program.		
<u>Example</u>	<u>Program Rating</u>	
County of Bergen, New Jersey, \$750,000 State Aid County College Bonds of 2013, Series B-2	S&P A+	Moody's - Fitch -

<b>New Jersey Fund for the Support of the Free Public Schools Program/School Bond Reserve Act (NJSA 18A:56-16 to 19)</b>	<u>Enhancement Type:</u> Fund	<u>Intervention:</u> Pre-default
All school bonds are secured by the School Bond Reserve established for the Fund for the Support of Free Public Schools. If a municipality, county or school district is unable to makes payment on debt service, it notifies Director of the Division of Local Finance ten days prior to payment due date. Director then certifies that trustees of Fund will purchase such bonds at par value and pay bond holders interest due or to become due. Any amount provided by the State will be deducted from allocated state aid to the locality.		
<u>Example</u>	<u>Program Rating</u>	
Board of Education of the Borough of North Arlington, Bergen County, New Jersey, School District Bonds, Series 2013	S&P AA-	Moody's Aa3 Fitch -

**New Mexico**

<b>New Mexico School District Credit Enhancement Program</b> (NMSA Section 22-18-13)	<u>Enhancement Type:</u> Intercept	<u>Intervention:</u> Pre-default
If paying agent has not received payment of principal or interest on bonds on business day immediately prior to the date on which it is due, agent shall notify state and school district. If determined payment by district can not be made, the State Department of Finance and Administration will forward needed amount. For bonds issued on or after March 30, 2007, funding will be from remaining state equalization guarantee distributions remaining in current fiscal year. If insufficient, additional distributions will be advanced at the beginning of the next fiscal year. For bonds issued prior to March 30, 2007, funding can be advanced up to twelve months of consecutive payments, crossing fiscal years.		
<u>Example</u>	<u>Program Rating</u>	
Bernalillo Municipal School District No 1, Sandoval County, New Mexico, GO School Building Bonds, Series 2013A & B	S&P -	Moody's Aa1 Fitch -



**Select State Credit Enhancement Programs**

**New York**

<p><b>New York State Aid Intercept Program</b> (Finance Law Section 99b)                      Program for bonds or notes issued for school purpose. Owner or holder of bond notifies State Comptroller of a default. If certified by Comptroller, state will deduct and withhold next allotment of state aid to locality as necessary to pay off principle and interest. If insufficient, payment will continue from succeeding allotment. Payment will be made to paying agent or similar agent.</p> <p><u>Example</u>                      Walton Central School District, Delaware County, New York, School District Bonds, 2013</p>	<p><u>Enhancement Type:</u> Intercept</p>	<p><u>Intervention:</u> Post-default</p>	<p><u>Program Rating</u></p>	<p>S&amp;P A</p>	<p>Moody's -</p>	<p>Fitch -</p>
<p><b>DASNY- Office for People With Developmental Disabilities (OPWDD) Intercept</b>                      Standby intercept agreement established between OPWDD and DASNY.</p> <p><u>Example</u>                      Dormitory Authority of the State of New York, Interagency Council Pooled Loan Program, Revenue Bonds, Series 2013A</p>	<p><u>Enhancement Type:</u> Intercept</p>	<p><u>Intervention:</u> Pre-default</p>	<p><u>Program Rating</u></p>	<p>S&amp;P -</p>	<p>Moody's Aa3</p>	<p>Fitch -</p>
<p><b>DASNY Master BOCES Program</b>                      All state aid payable to BOCES is subject to intercept by State Comptroller up to amount of the rental payments payable.</p> <p><u>Example</u>                      Dormitory Authority of the State of New York, Master BOCES Program Lease Revenue Bonds (St. Lawrence-Lewis Issue), Series 2011</p>	<p><u>Enhancement Type:</u> Intercept</p>	<p><u>Intervention:</u> Pre-default</p>	<p><u>Program Rating</u></p>	<p>S&amp;P -</p>	<p>Moody's Aa3</p>	<p>Fitch -</p>
<p><b>DASNY Court Facilities Program</b>                      Issued for New York City and Westchester County. Intercept aid for court facility lease revenue bonds</p> <p><u>Example</u></p>	<p><u>Enhancement Type:</u> Intercept</p>	<p><u>Intervention:</u> Pre-default</p>	<p><u>Program Rating</u></p>	<p>S&amp;P -</p>	<p>Moody's Aa3</p>	<p>Fitch -</p>
<p><b>DASNY Municipal Health Facilities Program</b>                      State Comptroller will pay DASNY out of next payment of state aid if New York City is unable to pay rent for health facilities.</p> <p><u>Example</u>                      Dormitory Authority of the State of New York, Municipal Health Facilities Improvement Program Lease Revenue Bonds (NYC Issue), Series 1</p>	<p><u>Enhancement Type:</u> Intercept</p>	<p><u>Intervention:</u> Pre-default</p>	<p><u>Program Rating</u></p>	<p>S&amp;P -</p>	<p>Moody's Aa3</p>	<p>Fitch -</p>
<p><b>DASNY School District Revenue Bond Financing Program</b>                      Intercept mechanism available where State Comptroller may pay state aid assigned to school district directly to DASNY.</p> <p><u>Example</u>                      Dormitory Authority of the State of New York, School Districts Revenue Bond Financing Program Revenue Bonds, Series 2013A-E</p>	<p><u>Enhancement Type:</u> Intercept</p>	<p><u>Intervention:</u> Pre-default</p>	<p><u>Program Rating</u></p>	<p>S&amp;P -</p>	<p>Moody's Aa3</p>	<p>Fitch -</p>

**North Dakota**

<p><b>North Dakota School District Credit Enhancement Program</b> (NC Century Code 6-09.4-23)                      If under program, if school district is unable to make bond payment and upon receipt of notice of potential default, the state will make payment three days prior to bond payment date from funds due.</p> <p><u>Example</u>                      Oakes Public School District No. 41, North Dakota, General Obligation Building Fund Refunding Bonds, Series 2014</p>	<p><u>Enhancement Type:</u> Intercept</p>	<p><u>Intervention:</u> Pre-default</p>	<p><u>Program Rating</u></p>	<p>S&amp;P -</p>	<p>Moody's Aa3</p>	<p>Fitch -</p>
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**Ohio**

<p><b>Ohio School District Credit Enhancement Program</b> (ORC 3317.18B)                      If under program, the state, paying agent and registrar will enter into an agreement establishing a mechanism for state aid directly to paying agent for the payment of debt service should a shortfall occur. If state is to provide payment, payment is no later than on day prior to debt service payment date.</p> <p><u>Example</u>                      Springfield Local School District (Mahoning County), Ohio, GO Classroom Facilities Improvement Bonds, Series 2013</p>	<p><u>Enhancement Type:</u> Intercept</p>	<p><u>Intervention:</u> Pre-default</p>	<p><u>Program Rating</u></p>	<p>S&amp;P* AA-/AA</p>	<p>Moody's Aa2</p>	<p>Fitch AA</p>
<p><b>Ohio Community College and Technical College Credit Enhancement Program</b> (ORC 3333.90)                      All or portion of state share of instruction payments (SSI payments) payable to the district may be transferred by Chancellor to the trustee. Payments will not be greater than periodic distribution of SSI payments due to the district.</p> <p><u>Example</u>                      Hocking Technical College, General Receipts Improvement Bonds, Series 2013</p>	<p><u>Enhancement Type:</u> Intercept</p>	<p><u>Intervention:</u> Pre-default</p>	<p><u>Program Rating</u></p>	<p>S&amp;P -</p>	<p>Moody's Aa2</p>	<p>Fitch -</p>

**Oklahoma**

<p><b>Oklahoma Credit Enhancement Reserve Fund (CERF) Guarantee</b> (OS, 74-5063.1-20)                      The Oklahoma Development Finance Authority administers CERF to pay principle or interest on any revenue bonds or other obligations issued by the Authority. Serves as a guarantee.</p> <p><u>Example</u>                      Oklahoma Development Finance Authority, Tillman County, Public Facilities Financing Program Revenue Refunding Bonds, Series 2011</p>	<p><u>Enhancement Type:</u> Guarantee</p>	<p><u>Intervention:</u> Pre-default</p>	<p><u>Program Rating</u></p>	<p>S&amp;P -</p>	<p>Moody's -</p>	<p>Fitch -</p>
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**Select State Credit Enhancement Programs**

**Oregon**

<b>Oregon School Bond Guarantee Program</b> (ORS 328.321 to 328.356)	<u>Enhancement Type:</u> Guarantee	<u>Intervention:</u> Pre-default
State Treasurer may issue certificate of qualification to a school district that allows a state guarantee on district debt service payments. If eligible, district must transfer funds for debt service payment fifteen days before payment due date; if funds are insufficient, paying agent will notify Treasurer at least ten days before due date. Treasurer will transfer sufficient funds to paying agent to make scheduled debt service payment. If one or more payments are made by state, the Treasurer shall intercept funds to recover cost. State funding is considered a guarantee.		
<u>Example</u>	<u>Program Rating</u>	
Crook County School District (Crook and Deschutes Counties, Oregon), GO Bonds, Series 2013	S&P AA+	Moody's Aa1 Fitch AA+
<b>Oregon Intercept Agreement</b> (ORS 238.692 to 238.698)	<u>Enhancement Type:</u> Intercept	<u>Intervention:</u> Pre-default
A public body may enter into a funds diversion agreement where issuer authorizes state to use state aid allocated to government unit to fund debt service.		
<u>Example</u>	<u>Program Rating</u>	
Oregon School Boards Association, Limited Tax Pension Refunding Obligations, Series 2012	S&P -	Moody's Aa2 Fitch -

**Pennsylvania**

<b>Pennsylvania State Aid Intercept Program- Act 150</b> (School Code Section 633)	<u>Enhancement Type:</u> Intercept	<u>Intervention:</u> Post-default
If school district fails to provide payment for indebtedness, the Secretary of Education will notify district and shall withhold appropriation due to district by an amount equal to what is due. The state will transfer funds to paying agent.		
<u>Example</u>	<u>Program Rating</u>	
Warren County School District, Warren County, Pennsylvania, GO Bonds, Refunding Series A of 2013	S&P* A/A+	Moody's - Fitch AA-
<b>Pennsylvania State Appropriation Intercept Agreement Program</b>	<u>Enhancement Type:</u> Intercept	<u>Intervention:</u> Pre-default
School district authorizes State Treasurer and Department of Education to withhold portion of appropriations due to the school district as long as given bonds are outstanding.		
<u>Example</u>	<u>Program Rating</u>	
Duquesne City School District (Allegheny County, Pennsylvania), GO Bonds, Series 2013	S&P -	Moody's Aa3 Fitch -
<b>Pennsylvania State Public School Building Authority Lease Revenue Intercept Program</b> (School Code Section 7-785a)	<u>Enhancement Type:</u> Intercept	<u>Intervention:</u> Pre-default
If school district fails to pay or provide rental payment due to the Authority in accordance with terms of lease, Secretary of Education shall withhold any appropriation due to the school district in the amount of rental owed and shall make payment.		
<u>Example</u>	<u>Program Rating</u>	
State Public School Building Authority, School Lease Revenue Bonds (School District of Philadelphia Project), Series 2012	S&P -	Moody's Aa3 Fitch AA-

**Rhode Island**

<b>Rhode Island Health and Education Building Corporation Intercept Program</b> (General Laws Section 45-12-32)	<u>Enhancement Type:</u> Intercept	<u>Intervention:</u> Pre-default
If borrower fails to pay amounts due to Corporation, General Treasurer shall intercept both state housing aid and basic education aid.		
<u>Example</u>	<u>Program Rating</u>	
Rhode Island Health and Educational Building Corporation, Public School Revenue Bond Financing Program Revenue Bonds, Series C/D	S&P -	Moody's A1 Fitch -
<b>Rhode Island Health and Education Building Corporation Intercept Program (Six Month)</b> (General Laws Section 45-12-32)	<u>Enhancement Type:</u> Intercept	<u>Intervention:</u> Pre-default
If borrower fails to pay amounts due to Corporation, General Treasurer shall intercept both state housing aid and basic education aid. Refers to communities that receive aid every six months.		
<u>Example</u>	<u>Program Rating</u>	
Rhode Island Health and Educational Building Corporation, Public School Revenue Bond Financing Program Revenue Bonds, Series 2012B (City of East Providence)	S&P -	Moody's Aa3 Fitch -

**South Carolina**

<b>South Carolina Education Finance Program</b> (SCCL 59-71-155)	<u>Enhancement Type:</u> Appropriation	<u>Intervention:</u> Pre-default
County Treasurer is required to notify the State Treasurer on the fifteenth day prior to the due date of any principal or interest on school district general obligation bonds if payment can not be met. On the third business day prior to the due date of the payment, if County Treasurer does not have funding, the state will transfer to the County Treasurer the sum necessary to make debt service payment. Amount can not exceed what is appropriated in the state's budget under the Educational Finance Act for the fiscal year. State will withhold its funding allocated to the school district to make up for the cost plus any foregone investment earnings.		
<u>Example</u>	<u>Program Rating</u>	
The Consolidated School District of Aiken County, South Carolina, GO Bonds, Series 2013	S&P AA	Moody's Aa1 Fitch AA+
<b>South Carolina Intercept</b> (SC Constitution, Article X)	<u>Enhancement Type:</u> Intercept	<u>Intervention:</u> Post-default
If any political subdivision fails to make punctual payment of principal or interest on its general obligation debt, State Treasurer shall withhold sufficient funds that are allocated to subdivision to be applied to principal and interest on debt due.		
<u>Example</u>	<u>Program Rating</u>	
City of Rock Hill, South Carolina, GO Bonds, Series 2013A	S&P -	Moody's - Fitch -



**Select State Credit Enhancement Programs**

**South Dakota**

<b>South Dakota State Intercept Program (SDCL 13-19-29)</b>	<u>Enhancement Type:</u>	Intercept	<u>Intervention:</u>	Pre-default
Pertains to lease purchase agreements between the facilities authority and school districts. In the event of failure to pay amounts due to the Health and Educational Facilities Authority, state aid under Title 13 may be applied to pay debt due.				
<u>Example</u>			<u>Program Rating</u>	
		S&P A	Moody's -	Fitch -

**Tennessee**

<b>Tennessee State School Board Authority Higher Education Intercept Program</b>	<u>Enhancement Type:</u>	Intercept	<u>Intervention:</u>	Pre-default
Authority has ability to intercept state appropriations for program bonds.				
<u>Example</u>			<u>Program Rating</u>	
Tennessee State School Bond Authority, Higher Educational Facilities Second Program Bonds, 2013 Series A		S&P -	Moody's Aa1	Fitch -
<b>Tennessee State School Bond Authority Intercept Program</b>	<u>Enhancement Type:</u>	Intercept	<u>Intervention:</u>	Pre-default
Authority has ability to intercept state appropriations for program bonds.				
<u>Example</u>			<u>Program Rating</u>	
Tennessee State School Bond Authority, Qualified School Construction Bonds, Series 2010		S&P -	Moody's Aa1	Fitch -

**Texas**

<b>Texas Permanent School Fund Guarantee Program (TAC, 19-33 and TEC - Chapt 45, Subchapt C)</b>	<u>Enhancement Type:</u>	Guarantee	<u>Intervention:</u>	Post-default
If a school district can not pay principal or interest on a guaranteed bond, the commissioner will transfer needed principal and interest to the paying agent from the fund; amount will be withheld from state funds payable to the district. For bonds issued after August 15, 1993 and guaranteed on or after December 1, 1993, withheld state funds would include funds received through the Available School Fund.				
<u>Example</u>			<u>Program Rating</u>	
Wink-Loving Independent School District (Winkler and Loving Counties, Texas), Unlimited Tax School Building Bonds, Series 2013		S&P AAA	Moody's Aaa	Fitch AAA
<b>Texas Higher Education Assistance Fund (TEC- Chapt62, Subchapt A)</b>	<u>Enhancement Type:</u>	Fund	<u>Intervention:</u>	Pre-default
Schools that do not have access to the Permanent University Fund may access this constitutionally provided fund for capital projects.				
<u>Example</u>			<u>Program Rating</u>	
		S&P -	Moody's -	Fitch -

**Utah**

<b>Utah School Bond Guaranty Program (UC 53A-28-201(2a))</b>	<u>Enhancement Type:</u>	Guarantee	<u>Intervention:</u>	Pre-default
State guarantee is pledged for full and timely payment of principle and interest on bond as payments are due.				
<u>Example</u>			<u>Program Rating</u>	
Board of Education of Granite School District, Utah, GO School Building Bonds, Series 2013		S&P AAA	Moody's Aaa	Fitch AAA

**Virginia**

<b>Virginia State Aid Intercept (VA Code Section 15.2-2659)</b>	<u>Enhancement Type:</u>	Intercept	<u>Intervention:</u>	Post-default
Upon proof of default by any local government on any general obligation bond, the Governor will direct the State Comptroller to withhold certain state aid to local government until payment on debt service is made.				
<u>Example</u>			<u>Program Rating</u>	
Virginia Public School Authority, School Financing Bonds, Series 2013A		S&P A	Moody's -	Fitch -
<b>Commonwealth Aid Intercept Provision (VA Code Section 62.1-216.1)</b>	<u>Enhancement Type:</u>	Intercept	<u>Intervention:</u>	Pre-default
Covers local obligations and local support agreements required by Virginia Resources Authority for Revenue Local Bonds. If determined by Governor that payment has not been made on local obligations, Governor shall direct Comptroller to withhold all further payment to the municipality until unpaid sum is obtained. Considered pre-default enhancement since payments are due in advance of payment dates of bonds.				
<u>Example</u>			<u>Program Rating</u>	
Virginia Resources Authority, Water and Sewer System Revenue Bonds, Refunding Series 2012		S&P -	Moody's Aa1	Fitch -

**Washington**

<b>Washington State School District Credit Enhancement Act (WRC Chapt 39.98)</b>	<u>Enhancement Type:</u>	Guarantee	<u>Intervention:</u>	Pre-default
A County Treasurer is required to notify State Treasurer if debt service payment can not be made on or prior to payment date. Paying agent is required to notify State Treasurer if sufficient funds are not transferred to make debt service payment. Under the Act, the state is required to provide appropriation. If transfer is not done in timely manner, the state will transfer funding directly to paying agent. School district is required to pay back state, plus any interest charged. Applies only to issued bonds after January 1, 2000.				
<u>Example</u>			<u>Program Rating</u>	
Marysville School District No. 25, Snohomish County, Washington, Unlimited Tax GO Refunding Bonds, 2013		S&P AA+	Moody's Aa1	Fitch AA+

**Select State Credit Enhancement Programs**

**West Virginia**

<b>West Virginia Municipal Bond Commission (WVC 13-3)</b>	<u>Enhancement Type:</u>	Fund	<u>Intervention:</u>	Pre-default
The Bond Commission serves as bond trust agent for all general obligation bond issues of municipalities in the state and administers interest and sinking funds to pay the debt service.				
<u>Example</u>			<u>Program Rating</u>	
		S&P	Moody's	Fitch
		AA	-	-

**Wyoming**

<b>Wyoming School District Bond Guarantee Program (WS 9-4-1001)</b>	<u>Enhancement Type:</u>	Fund	<u>Intervention:</u>	Pre-default
Provides credit support for general obligation bonds issued by school districts. If in the program, state shall assume responsibility for and make all payments to the district in amount necessary to pay principle and interest on bonds. If district fails to make payment, state provides payment directly to paying agent and intercepts funds allocated to the district. Currently only for refunding bonds. Legislature closed program in 2002 for future issues, except for refunding of bonds issued on or before November, 2001.				
<u>Example</u>			<u>Program Rating</u>	
		S&P	Moody's	Fitch
		AAA	-	-
<b>Wyoming Local Government Bond Guarantee Program (WS 9-4-1002)</b>	<u>Enhancement Type:</u>	Fund	<u>Intervention:</u>	Pre-default
Applies to cities, towns and counties. Under program, state assumes responsibility for payments necessary to pay debt service. As of June, 2012, no approved bond issues under this program.				
<u>Example</u>			<u>Program Rating</u>	
		S&P	Moody's	Fitch
		-	-	-

\* Alternative ratings based on additional enhancement provided under program.  
Source: Standard & Poor's, Moody's Investors Service, Fitch Ratings and Wells Fargo Securities, LLC.

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