

Market Spotlight: Pennsylvania GO Transactions

Radian recently provided credit enhancement for several transactions in Pennsylvania. These transactions utilized various forms of general obligation guaranties.

Key credit factors include general fund deficits, resulting primarily from escalating employee benefit costs, and tax base contraction fueled by the ongoing transition from industrial to service sector economies. Radian finds comfort in the GO security of the credits, redevelopment efforts, incentive programs, the ability of the municipalities to tackle rising costs, and the political resolve to raise taxes as needed. In addition, Radian views participation by some of the municipalities in Pennsylvania's "Early Intervention Program" or the Municipal Recovery Act ("Act 47") positively, as these programs provide effective oversight and additional financial management tools.

Recent deals range in size from \$1 million to \$8 million with final maturities as far out as 30 years. Structures include tax-exempt and taxable debt as well as capital appreciation bonds. Bond proceeds from each deal are typically used to refund existing debt, to make improvements to facilities or to fund accrued actuarial liability pension obligations. Radian will consider credits that do not have public underlying ratings if the credit characteristics indicate investment grade quality.

These issuers accessed the market at lower interest rates based on Radian's "AA" rating. In general, the issuers were able to obtain tax-exempt yields that ranged from +35-45bps over the Municipal Market Data Line AAA GO Index. Meanwhile, taxable yields ranged from +90-100bps over the comparable Treasury security.

Brief descriptions of recent deals are included below:

Erie Parking Authority, Guaranteed Parking Revenue Bonds

Par: \$6,041,580, UW: J.P. Morgan Securities, Inc., Dated Date: 7/19/06

- The Parking Authority's gross revenues secure the bonds. The City of Erie has also pledged its unlimited GO in the form of a guaranty agreement.
- The Authority owns and operates 20 parking lots with a total capacity of 5,904 spaces and controls 1,000-metered spaces.
- Debt service coverage on gross revenues improved to nearly 2.25x in 2005.
- Moody's currently rates Erie Baa3. Erie's assessed value equals approximately \$225 million with a market value of over \$2 billion. The top-ten taxpayers represent roughly 5% of total assessed value. The city participates in the state's Early Intervention Program.

Pennsylvania Highlands Community College

State Public School Building Authority, College Revenue Bonds

Par: \$4,800,000, UW: A.G. Edwards & Sons, Inc., Dated Date: 6/15/06

- The County of Cambria and the Commonwealth of Pennsylvania pay equal portions of debt service, but Pennsylvania's state aid intercept program is available to further secure the bonds as allowed by statute.
- Cambria County has over \$1 billion in assessed value, virtually no taxpayer concentration and a tax collection rate of 100%. The County allocates a .75 mill property tax for community college purposes, which can be increased to as much as 5 mills.

The Parking Authority of the City of Scranton, Guaranteed Parking Revenue Bonds

Par: \$5,695,000, UW: RBC Capital Markets, Dated Date: 6/1/06

- The Parking Authority's gross revenues secure the bonds. The City of Scranton has also pledged its unlimited GO in the form of a guaranty agreement.
- The Authority owns and operates 4 parking lots and garages with a total capacity of 2,115 spaces. They also control 1,100-metered spaces.
- S&P currently rates Scranton BBB. Scranton's assessed value is approximately \$387 million with a market value of \$2 billion. The top-ten taxpayers represent 6% of total assessed value. The City has operated under Act 47 status since 1992.

Borough of Ambridge, Federally Taxable General Obligation Bonds

Secondary Market Transaction, Dated Date: 5/24/06

- The Borough, located in the southeast corner of Beaver County, is approximately 15 miles from Pittsburgh, has a population of 7,400, and an assessed value of \$60 million with a market value of \$119 million. The top-ten taxpayers represent 8.5% of assessed value.
- In September of 2005 the State Auditor General directed the Borough to take appropriate actions to shore up its under-funded police, firefighter and non-uniformed municipal employee pension plans. Since that time, the Borough has hired a new manager and is in the final application stage for the state's Early Intervention Program.

Cambria Somerset Authority, Guaranteed Water Revenue Bonds

Par: \$3,596,869, UW: PNC Capital Markets LLC, Dated Date: 2/1/06

- The receipts and revenues of the Authority secure the transaction. Cambria and Somerset Counties have also each pledged their unlimited GO to pay equal portions of annual debt service in the form of a guaranty agreement.
- The Authority is the sole industrial water supplier in the region serving 13 customers in Cambria and Somerset Counties. Projected pro forma maximum annual debt service coverage in 2005 is 1.19x.
- Cambria County, with a population near 150,000, has over \$1 billion in assessed value, virtually no taxpayer concentration and a tax collection rate of 100%. Somerset County, with a population near 80,000, has \$1.3 billion in assessed value, less than 10% top-ten taxpayer concentration, strong collections, and an ending general fund balance of \$1.7 million in 2004.

City of New Castle, Federally Taxable General Obligation Bonds

Par: \$7,990,000, UW: Legg Mason Wood Walker, Incorporated, Dated Date: 8/15/05

- The City, located 40 miles north of Pittsburgh, occupies an area of 7.7 square miles with a population of 26,309, as per the 2000 census. It is the county seat and the commercial hub of Lawrence County, which has a population of approximately 96,000.
- The assessed value and market value both equal \$503 million. Residential properties comprise 75% of assessed value. The top-ten taxpayer concentration represents 5% of assessed value.
- The City participates in the state's Early Intervention Program.

To learn more about how to work with Radian on deals in Pennsylvania, please contact:

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