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Brian K. Krolicki
State Treasurer



John E. Adkins
Chief Deputy Treasurer

STATE OF NEVADA
OFFICE OF THE STATE TREASURER

Memorandum

To: William J. Raggio, Senate Majority Leader

From: Brian Krolicki, State Treasurer *BK*

Date: March 19, 2003

Re: Potential Rating Agency Actions

Per your request we have gathered more specific information from the various rating agencies regarding the financial position of the State of Nevada and the potential consequences of legislative action or inaction. In general, as our office gave testimony, they are all looking to each state to formulate a rational plan. At best, this plan should make up the revenues or payback planned withdrawals from "Rainy Day Funds", it should diversify the tax structure so that the state is not dependent on only one or two revenue streams, and it should include an analysis of expenses. Solid planning obviously serves to buffer the budget from cyclical trends or catastrophic events. The rating agencies are clearly anxious to see the results of this legislative session -- both in terms of new revenues to address the potential deficit in the current fiscal year and the reasonable construction of the biennial budget.

First, let me delineate the consequences of a downgrade in dollars and cents. Current market rates reflect that the difference in annual debt service between an "AA" rated issuer (Nevada's current rating) and an "A" rated issuer would be close to \$20,000,000 (based on the anticipated issuance of a 20 year \$500,000,000 issue later this year). A downgrade would also affect the value of our bonds already outstanding. The state has approximately \$2.4 billion in securities held by existing bondholders (potentially Nevada residents). A downgrade from "AA" to "A" for the state could result in an estimated market loss (based on that portfolio) in value of approximately \$60,000,000.

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All three agencies agreed that a withdrawal from the "rainy day fund", during this economic downturn would not, on its own, create the condition for a credit watch or downgrade. A majority of the rating agencies indicated that as long as a realistic revenue plan was in place and a realistic program to replenish the "rainy day fund" was legislated, they would be hesitant to place us on a credit watch or downgrade.

A negative fund balance at the end of the current fiscal year yielded cautious responses by the rating agencies. One response indicated that if a withdrawal from the "rainy day fund" was executed to cover a negative general fund cash position, a realistic broad based legislative plan could mitigate any negative consequences. The other response indicated that even the *potential* for a negative general fund cash position, would be viewed quite negatively, and one agency was more noncommittal.

One rating agency viewed the potential of having a more *stable* tax base (property tax proposal etc.), through a broad based tax plan, as a very positive action. Additionally, the other rating agencies reacted with concern, should the increase in revenue for the biennium be only sufficient to cover the projected deficit with no reserves other than the 5% currently required.

Obviously, the combination of any one or more of these negative scenarios creates a greater chance of a negative rating action. I would also like to remind you that these are not hard and fast answers, but only informal opinions based on narrow suppositions. Each potential action and reaction is surrounded by other realistic circumstances that would be taken into account in an actual rating analysis. I have attached information regarding rating changes of other municipalities experiencing similar problems and a chart indicating the State's eroding cash balances for the past fiscal year.

Special Comment

March 2003

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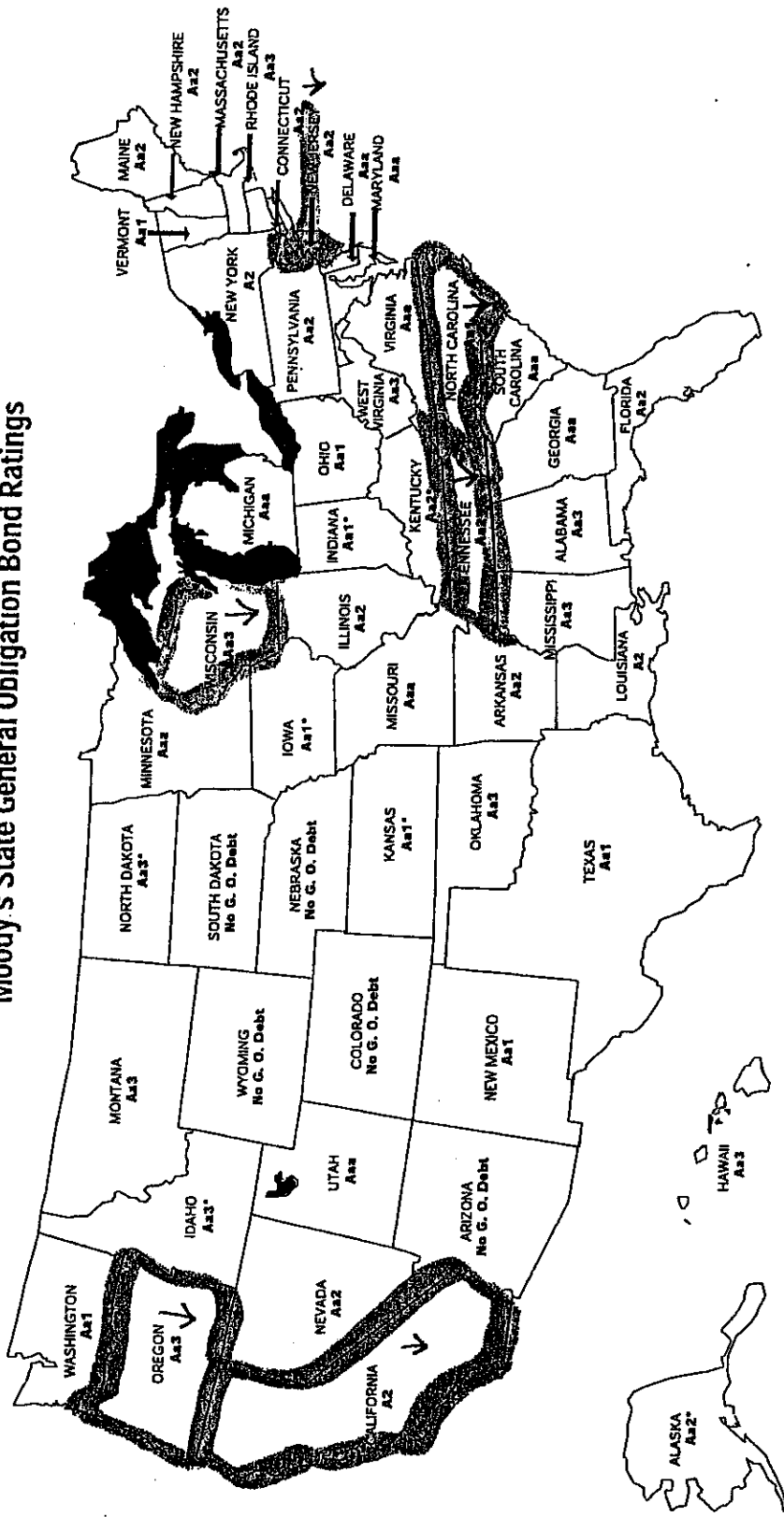
Rating Changes for the 50 States from 1973 to Date

March 14, 2003



Moody's Investors Service
Global Credit Research

Moody's State General Obligation Bond Ratings



*Issuer Rating: No General Obligation Debt

Rating Changes and Refinements for the 50 States from 1976 to Date March 17, 2003

Alabama

10/10/95
6/6/96

Arkansas

California

08/05/00
07/11/97
08/19/00
07/11/98

Colorado

08/05/00
07/11/97
08/19/00
07/11/98
02/10/02
01/06/01
04/10/00

Connecticut

02/10/01
06/10/97
06/09/00
10/10/95
06/07/97
01/04/96
10/10/95

Delaware

05/07/00
12/09/97
08/25/02
12/17/00
08/10/97
06/07/95
10/11/95

Florida

02/22/01
10/11/95

Georgia

10/08/97

Hawaii

10/09/00
04/09/00
01/02/97
01/08/97
02/03/96

Idaho

01/07/01
Issuer Rating
No General Obligation Debt

Illinois

06/11/98
02/10/97
02/10/95
08/12/92
09/05/98

Indiana

12/11/97
Issuer Rating
No General Obligation Debt

Iowa

11/05/01
Issuer Rating
No General Obligation Debt

Kansas

06/01/01
Issuer Rating
No General Obligation Debt

Kentucky

10/09/00
Issuer Rating
No General Obligation Debt

Louisiana

01/06/01
01/11/97
02/10/97
04/27/95
10/09/95
02/19/94

Rating Change Proposed

Rating Changes and Refinements for the 50 States from 1974 to Date March 11, 2008

Maine

06/01/98
06/01/98
06/01/98
06/01/98
06/01/98

Massachusetts

06/01/98

Mississippi

06/01/98
06/01/98
06/01/98
06/01/98
06/01/98
06/01/98
06/01/98
06/01/98
06/01/98

Michigan

06/01/98
06/01/98
06/01/98
06/01/98
06/01/98
06/01/98
06/01/98
06/01/98
06/01/98

Minnesota

06/01/98
06/01/98
06/01/98
06/01/98
06/01/98

Missouri

06/01/98
06/01/98

Montana

06/01/98

Nebraska

06/01/98
06/01/98
06/01/98
06/01/98

Nevada

06/01/98

New Hampshire

06/01/98
06/01/98
06/01/98

New Jersey

06/01/98
06/01/98
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06/01/98
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New Mexico

06/01/98
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06/01/98

New York

06/01/98
06/01/98
06/01/98
06/01/98
06/01/98
06/01/98

North Carolina

06/01/98
06/01/98
06/01/98
06/01/98
06/01/98
06/01/98

North Dakota

06/01/98

Ohio

06/01/98
06/01/98
06/01/98

Oklahoma

06/01/98
06/01/98

Oregon

06/01/98
06/01/98
06/01/98

Rating Changes and Refinements for the 50 States from 1973 to Date March 14, 2008

State	Rating	Refinement	State	Rating	Refinement	State	Rating	Refinement
Alabama	A-2	10/2/00	Arkansas	A-2	3/2/00	California	A-1	10/2/00
Alaska	A-1	10/2/00	Colorado	A-1	10/2/00	Connecticut	A-1	10/2/00
Arizona	A-1	10/2/00	Delaware	A-1	10/2/00	District of Columbia	A-1	10/2/00
Arkansas	A-2	10/2/00	Florida	A-1	10/2/00	Hawaii	A-1	10/2/00
California	A-1	10/2/00	Georgia	A-1	10/2/00	Idaho	A-1	10/2/00
Colorado	A-1	10/2/00	Illinois	A-1	10/2/00	Indiana	A-1	10/2/00
Connecticut	A-1	10/2/00	Iowa	A-1	10/2/00	Kansas	A-1	10/2/00
District of Columbia	A-1	10/2/00	Maine	A-1	10/2/00	Kentucky	A-1	10/2/00
Hawaii	A-1	10/2/00	Massachusetts	A-1	10/2/00	Louisiana	A-1	10/2/00
Idaho	A-1	10/2/00	Michigan	A-1	10/2/00	Madagascar	A-1	10/2/00
Illinois	A-1	10/2/00	Minnesota	A-1	10/2/00	Mali	A-1	10/2/00
Indiana	A-1	10/2/00	Mississippi	A-1	10/2/00	Malta	A-1	10/2/00
Iowa	A-1	10/2/00	Montana	A-1	10/2/00	Mauritius	A-1	10/2/00
Kansas	A-1	10/2/00	Nebraska	A-1	10/2/00	Mexico	A-1	10/2/00
Kentucky	A-1	10/2/00	Nevada	A-1	10/2/00	Moldova	A-1	10/2/00
Louisiana	A-1	10/2/00	New Hampshire	A-1	10/2/00	Monaco	A-1	10/2/00
Madagascar	A-1	10/2/00	New Jersey	A-1	10/2/00	Mongolia	A-1	10/2/00
Mali	A-1	10/2/00	New Mexico	A-1	10/2/00	Morocco	A-1	10/2/00
Malta	A-1	10/2/00	New York	A-1	10/2/00	Mozambique	A-1	10/2/00
Mauritius	A-1	10/2/00	North Carolina	A-1	10/2/00	Nicaragua	A-1	10/2/00
Mexico	A-1	10/2/00	North Dakota	A-1	10/2/00	Niger	A-1	10/2/00
Moldova	A-1	10/2/00	Ohio	A-1	10/2/00	Nigeria	A-1	10/2/00
Monaco	A-1	10/2/00	Oklahoma	A-1	10/2/00	Romania	A-1	10/2/00
Mongolia	A-1	10/2/00	Oregon	A-1	10/2/00	Russia	A-1	10/2/00
Morocco	A-1	10/2/00	Pennsylvania	A-1	10/2/00	Saudi Arabia	A-1	10/2/00
Mozambique	A-1	10/2/00	Rhode Island	A-1	10/2/00	Senegal	A-1	10/2/00
Nicaragua	A-1	10/2/00	South Carolina	A-1	10/2/00	Seychelles	A-1	10/2/00
Niger	A-1	10/2/00	South Dakota	A-1	10/2/00	Sierra Leone	A-1	10/2/00
Nigeria	A-1	10/2/00	Tennessee	A-1	10/2/00	Singapore	A-1	10/2/00
Romania	A-1	10/2/00	Texas	A-1	10/2/00	Slovakia	A-1	10/2/00
Russia	A-1	10/2/00	Vermont	A-1	10/2/00	Slovenia	A-1	10/2/00
Saudi Arabia	A-1	10/2/00	Washington	A-1	10/2/00	Somalia	A-1	10/2/00
Senegal	A-1	10/2/00	West Virginia	A-1	10/2/00	South Africa	A-1	10/2/00
Seychelles	A-1	10/2/00	Wisconsin	A-1	10/2/00	Spain	A-1	10/2/00
Sierra Leone	A-1	10/2/00	Wyoming	A-1	10/2/00	Sweden	A-1	10/2/00
Singapore	A-1	10/2/00				Switzerland	A-1	10/2/00
Slovakia	A-1	10/2/00				Taiwan	A-1	10/2/00
Slovenia	A-1	10/2/00				Tanzania	A-1	10/2/00
Somalia	A-1	10/2/00				Thailand	A-1	10/2/00
South Africa	A-1	10/2/00				Togo	A-1	10/2/00
Spain	A-1	10/2/00				Tonga	A-1	10/2/00
Sweden	A-1	10/2/00				Trinidad and Tobago	A-1	10/2/00
Switzerland	A-1	10/2/00				Tunisia	A-1	10/2/00
Taiwan	A-1	10/2/00				Turkey	A-1	10/2/00
Tanzania	A-1	10/2/00				Ukraine	A-1	10/2/00
Thailand	A-1	10/2/00				United Kingdom	A-1	10/2/00
Togo	A-1	10/2/00				United States	A-1	10/2/00
Tonga	A-1	10/2/00				Uruguay	A-1	10/2/00
Trinidad and Tobago	A-1	10/2/00				Uzbekistan	A-1	10/2/00
Tunisia	A-1	10/2/00				Venezuela	A-1	10/2/00
Turkey	A-1	10/2/00				Zimbabwe	A-1	10/2/00
Ukraine	A-1	10/2/00						
United Kingdom	A-1	10/2/00						
United States	A-1	10/2/00						
Uruguay	A-1	10/2/00						
Uzbekistan	A-1	10/2/00						
Venezuela	A-1	10/2/00						
Zimbabwe	A-1	10/2/00						

State General Obligation Bonds (by rating category)		
A-1 (9 States)	A-1 (6 States)	A-1 (13 States)
Delaware	Idaho	Maine
Georgia	Iowa	Massachusetts
Maryland	Kansas	Minnesota
Michigan	New Mexico	Montana
Minnesota	North Carolina	Nebraska
Missouri	Ohio	New Hampshire
South Carolina	Texas	New Jersey
Utah	Vermont	New York
Virginia	Washington	Pennsylvania
		Tennessee
A-2 (11 States)	A-2 (0 States)	A-2 (6 States)
Alabama		California
Arkansas		Colorado
Idaho		New York
Mississippi		
Missouri		
North Dakota		
Oklahoma		
Oregon		
Rhode Island		
West Virginia		
Wisconsin		

State Rating Outlooks		
State	Current Rating	Outlook
Alabama	A-3	Stable
Alaska	A-2	Stable
Arizona	A-1	Stable
Arkansas	A-2	Stable
California	A-2	Stable
Colorado	A-2	Stable
Connecticut	A-1	Stable
Delaware	A-1	Stable
District of Columbia	A-1	Stable
Florida	A-2	Stable
Georgia	A-2	Stable
Hawaii	A-2	Stable
Idaho	A-2	Stable
Illinois	A-1	Stable
Indiana	A-2	Stable
Iowa	A-2	Stable
Kansas	A-2	Stable
Kentucky	A-2	Stable
Louisiana	A-2	Stable
Maine	A-1	Stable
Maryland	A-1	Stable
Massachusetts	A-1	Stable
Michigan	A-2	Stable
Minnesota	A-2	Stable
Mississippi	A-2	Stable
Missouri	A-2	Stable
Montana	A-2	Stable
Nebraska	A-2	Stable
Nevada	A-2	Stable
New Hampshire	A-1	Stable
New Jersey	A-1	Stable
New Mexico	A-2	Stable
New York	A-1	Stable
North Carolina	A-2	Stable
North Dakota	A-2	Stable
Ohio	A-2	Stable
Oklahoma	A-2	Stable
Oregon	A-2	Stable
Pennsylvania	A-1	Stable
Rhode Island	A-1	Stable
South Carolina	A-2	Stable
South Dakota	A-2	Stable
Tennessee	A-2	Stable
Texas	A-2	Stable
Utah	A-2	Stable
Vermont	A-1	Stable
Virginia	A-1	Stable
Washington	A-1	Stable
West Virginia	A-2	Stable
Wisconsin	A-2	Stable
Wyoming	A-2	Stable

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