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Dear Mr. Seymour:

We are writing in response to your Request for Comment ("RFC") on the proposed revisions to your U.S. States Rating Methodology. The National Association for State Treasurers represents the state chief financial officers typically engaged in bond transactions at a state level. Our members routinely engage with Moody's and other rating agencies and are keenly interested in the methodology used in their analyses. We want to thank you for the opportunity to submit comments. As a group, we have outlined a few areas of concern.

At the highest level, our concerns with the proposed criteria relate to the inclusion of U.S. territories in the proposed new criteria and the proposed adjustment of the weights for three of the four factors, with economy increasing from 20% to 25%, debt and pensions increasing from 20% to 25% and governance decreasing from 30% to 20%.

Viewing Territories and States through the Same Criteria:

Given the massive disparities between most U.S. territories and states, it seems fairly problematic to use the same criteria for both states and territories. The political structure, revenue structure, economic strength and diversity, and other factors differ considerably between the two groups. There is a risk of unintended and unwarranted scoring consequences for states, including smaller states that do not share the attributes of U.S. territories.

Governance factor:

We ask that you reconsider reducing the weight of the Governance factor. We believe this is the strongest possible indicator of a state's ability to repay its debts. In fact, in many ways, Governance is the only factor over which a state government has immediate, full control and influence. It is the truest indicator of a state's political will to manage and balance its budget, maintain responsible practices, and cut spending or raise taxes when necessary.

Other factors in your analysis can be heavily influenced by national and regional economics and politics. Thus, they do not accurately measure the will of a state government to make what are often tough choices necessary to meet its obligations. In fact, when changes to economic or demographic circumstances are imposed upon a state, it is ultimately the manner in which the state reacts that truly demonstrates to the market the level of risk involved in purchasing that debt. That reaction and the capacity, ability, and will to react are measured by the Governance factor.

Finances Factor and Debt and Pensions Factor:

Previously, the Finances factor had three components: (i) revenue diversity, volatility and growth, (ii) structural balance and reserves, and (iii) liquidity. Under the new criteria, the two sub-factors, structural balance and reserves and liquidity remain, but the revenue diversity, volatility and growth subfactor has been replaced by a Fixed Cost Ratio. The Fixed Cost Ratio is calculated to be the sum of Moody's tread water annual pension cost, debt service and the annual OPEB payment divided by own source revenue. A strong argument can be made that the Fixed Cost Ratio adds to the weight of the debt and pensions factor since those costs are associated with a state's liabilities. The Debt and Pensions factor makes up 20% of the total rating score in the 2013 criteria. Under the proposed criteria, the stated Debt and Pensions factor increases to 25%. Adding in the "weight" of the new Fixed Cost Ratio, which is 10% of the overall scorecard rating, would essentially result in the total debt and pension weight increasing from 20% to 35%. Since the combined impact of these two debt/pension metrics is not stated explicitly in the proposed methodology (instead the proposed methodology states the weight of the debt and pensions factor increases to 25%), we would appreciate getting Moody's thoughts on this observation.

Calculation of ANPL:

Within the Debt and Pensions factor (25% of the total score), Moody's calculates an issuer's Adjusted Net Pension Liability (ANPL) independently. In calculating the ANPL, we understand Moody's methodology uses both market value of the liability and Citi's Pension Liability Index as a discount. Thus, ANPL calculation has the impact of relatively significant swings in an issuer's ANPL. For example, for the State of Washington, Moody's has calculated the ANPL / Own-Source Govt Funds Revenue to range from 45% in 2012 to 102.9% two years later in 2014. This significant volatility in the Moody's ANPL, will at times likely have a large annual scoring effect that might not reflect long-term credit changes. We note that the three-year average ANPL will likely result in less volatility.

Economic Factor and Nominal State GDP

The proposed change in the use of Nominal GDP as a 50% subfactor for the Economy Factor would represent 12.5% of the scorecard rating. The use of Nominal GDP as a subfactor would introduce a concept where the size of the state would directly affect the credit scoring. Your RFC states that "the size of an economy is a strong indicator of the breadth and diversity of a state and is a good proxy for its capacity to carry liabilities." This is a generalization, of course, and therefore has its limitations. Some states with small economies enjoy significant sector diversity. Great care must be taken in the application of Factor 6 to ensure that states with small but diverse economies are not unduly penalized for their size.

Qualitative subfactors:

Within the Structural Balance and Liquidity and Fund Balance factor (together these two subfactors represent 20% of the total score), Moody's uses very general terms like "ample, solid, adequate and weakening" to define its various categories. While we do not want to recommend specific

quantitative targets, we believe it would be helpful to improve the guidance for these subfactors to better understand how Moody's assesses these subfactors.

We recognize the difficult balancing act in which rating agencies must engage and appreciate the thoughtfulness you put into developing and reviewing your methodology. We also appreciate the opportunity to comment on these proposed revisions and thank you for your consideration of our comments.

Sincerely,

Shaun Snyder, JD, MBA
Executive Director