

Rating Action: Moody's downgrades the County of Rock Island's (IL) General Obligation to A3 from Aa3; negative outlook assigned

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Affects \$28.7M of outstanding GOULT debt

New York, July 21, 2014 -- Moody's Investors Service has downgraded the County of Rock Island's (IL) general obligation rating to A3 from Aa3 and assigned a negative outlook. The A3 rating and negative outlook apply to \$28.7 million in outstanding general obligation debt. The district's general obligation rating is secured by a dedicated property tax levy, unlimited as to rate or amount.

SUMMARY RATINGS RATIONALE

The downgrade to the A3 rating reflects six straight General Fund operating deficits that have resulted in a substantial decline in reserve levels, coupled with increased stress on the county's Hope Creek Care Center nursing home facility that currently relies on Tax Anticipation Warrants (TAWs) for cash flow purposes. Also incorporated in the rating is the county's sizeable tax base that includes a portion of the Quad Cities area and a modest direct debt burden. The negative outlook reflects our expectation that both the General Fund and Hope Creek Care Center Fund will struggle to stabilize in the near term as expenditure pressures and liquidity concerns continue to pressure operations.

STRENGTHS

- Large tax base that includes a portion of the Quad Cities area
- Not subject to PTELL property tax limitations

CHALLENGES

- Ongoing operating deficits and history of negative budgetary variances, resulting in a significant decline in General Fund reserves
- Limited revenue raising flexibility
- Increased cash flow borrowing for the county's Hope Creek Care Center Fund

Outlook

The negative outlook reflects our expectation that both the General Fund and Hope Creek Care Center Fund will struggle to stabilize in the near term as expenditure pressures and liquidity concerns continue to pressure operations.

WHAT COULD MOVE THE RATING UP (OR REMOVE THE NEGATIVE OUTLOOK)

- Sustained increases to General Fund reserves and/or improved financial liquidity
- Improved liquidity in the county's Hope Creek Care Center Fund
- Substantial growth in taxable valuation and/or increasing socioeconomic indicators

WHAT COULD MOVE THE RATING FURTHER DOWN

- Continued structural imbalance and the inability to maintain reserves at satisfactory levels
- Further declines in liquidity
- Erosion of the district's tax base and/or falling socioeconomic indicators

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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