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## **Fitch: Statutory Lien Treatment Lifts AZ, RI Local GO Ratings.**

Fitch Ratings-Austin-12 July 2018: Enhanced bondholder protection provided by statutory lien provisions in Arizona and Rhode Island local government statutes has resulted in general obligation (GO) bond ratings two notches above the local governments' Issuer Default Ratings (IDR) in those states, according to Fitch Ratings.

As discussed in Fitch's tax-supported rating criteria, a statutory lien is defined in Section 101(53) of the U.S. Code as a lien arising automatically by force of statute on specified circumstances or conditions. The statutory lien preserves bondholder rights to tax revenues securing the tax-backed bond received by the municipality after it enters bankruptcy court.

Although the automatic stay provisions of the Code would not prevent a payment default, the holder of a statutory lien is entitled to recover the value of the lien in the bankruptcy proceeding. The determination of value is not detailed in the Code, but recovery values may be substantially higher than an unsecured credit that competes with other general claimants for a claim on the municipality's revenues. As a result of the robust protection afforded bondholders benefiting from a statutory lien in a bankruptcy, Fitch rates ULTGO bonds issued by local governments in both states and backed by revenues with a statutory lien for bondholders two notches higher than the IDR.

Fitch acknowledged this credit feature in Arizona following 2016 and 2017 amendments to the state's local government statutes. Fitch reviewed the provisions and determined they provide bondholders with a substantial preferential right in a bankruptcy proceeding, warranting a GO bond rating two notches higher than an entity's IDR. The statutory lien applies only to ad valorem tax revenues and applies both to GO bonds previously issued and to be issued in the future. Rhode Island established a statutory lien for GO bondholders in 2011.

The GO bond ratings of the Arizona and Rhode Island entities (currently 18 in Arizona, six in Rhode Island) are linked to their IDR, and any change in credit quality that affects the IDR will also impact the GO bond rating.

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