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Moody's Revises 2014 Outlook for US Local Governments to Stable from Negative.

New York, December 04, 2013 — Moody's Investors Service has revised its outlook for the US local governments to stable from negative as housing markets continue to stabilize, municipalities' fund balances remain stable, and cities and school districts modify their expenses. Conditions, however, will remain more difficult for local governments than they were before the 2008 recession, and pockets of serious credit pressure remain.

"The 'new stable' will be an era of constrained resources, but the worst is over for local governments in most of the country," says Naomi Richman, a Moody's Managing Director, in the report "2014 Outlook — US Local Governments."

The outlook expresses Moody's expectations for the fundamental credit conditions in the sector over the next 12 to 18 months. A stable sector outlook indicates that Moody's does not expect conditions to change significantly.

Helping credit quality, local government revenues should increase over the next two years as housing markets stabilize, although not all areas are recovering at the same pace.

Most states have also begun to restore funding cuts to local governments as state finances improve. State assistance, however, remains below levels they reached before the recession.

Also supporting the stable outlook is that most local governments have recognized the more difficult fiscal landscapes they face and worked to control costs. They have become more discriminating in labor negotiations, trimmed salaries, and moved to decrease their leverage, says Moody's.

Although costs will continue to escalate because of pension and healthcare obligations, Moody's says the measures local governments have taken to slow increases will be enough for the sector to generally retain its financial stability.

A good part of this stability is based on the durability of property taxes, which have held up well since the economic downturn.

Pockets of credit weakness remain among the local governments, however, and the Moody's report lists the 12 states where downward credit stress lingers for cities, counties, or school districts.

These are areas where local governments have been slow to modify cost structures, the housing recovery lags, or where secular population and economic shifts have led to sustained declines in the tax base. Downgrades are likely to remain concentrated in these regions."Overall, however, the vast majority of local governments retain strong ratings, while a smaller number continue along a downward path," says Moody's Richman.

For more information, Moody's research subscribers can access this report at:

https://www.moodys.com/research/2014-Outlook-US-Local-Governments–PBM_PBM160299.

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