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S&P: U.S. Local Government Rating Review Shows Varied Economic Conditions Being Met With Sound Financial Underpinnings.

On Sept. 12, 2014, Standard & Poor's Ratings Services concluded its rating reviews for over 4,000 U.S. local government credits, an undertaking occasioned by the adoption a year earlier of updated rating criteria. Our credit-by-credit approach to criteria implementation resulted in a wealth of data and comparative metrics. These data help illustrate how our ratings are determined, and the general credit characteristics of each rating category. The transparent nature of the criteria allows us to report on not only the quantitative aspects of our credits, but also with more precision the qualitative credit characteristics.

We found that although the economy score varied widely across ratings, the majority of issuers managed to maintain adequate to very strong financial performance, liquidity, and flexibility, often allowing them to weather fluctuating macro conditions. We also noted that our score for management tended to be high across the spectrum, with weaker ratings being impacted by management's inability to address some financial challenges such as structural imbalance or liquidity pressures.

Below we detail some of these findings as well as highlight some commonly applied adjustments to scoring, and infrequent, but necessary, overrides.

Overview

- The average economy scores show the greatest difference across rating levels.
- The majority of ratings are in the 'AA' category, and the average is solidly 'AA-'.
- 80% of our 'AAA' ratings have very strong economy scores and 97% have very strong or strong management scores.
- Ratings below the 'A' category show greater differences from the national averages in financial metrics and management scores.
- The two most frequently used adjustments were "broad and diverse," which can strengthen an economy score, and "strong access to external liquidity," which impacts the liquidity score.
- The use of overrides has been infrequent, and was most likely to occur in the upper and lower rating categories.

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