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Ratings Value Questioned as More Municipal Borrowers Go Without.

Bond investors don't seem to mind Tallahassee, Florida's decision to provide them with one fewer opinion on the state capital's finances.

The city sold $95 million of revenue bonds last month at yields equal to comparable securities even after it decided to get one less credit rating than it has traditionally done for such debt sales. And city officials expect to save $20,000 a year on fees to boot.

Tallahassee isn't alone in questioning the value of the analysis from Standard & Poor's, Moody's Investors Service and Fitch Ratings, which were blamed for contributing to the credit crisis. The percentage of municipal deals with one rating has climbed this year to the highest since the 2008 market collapse, while the number with three ratings is the lowest, according to data compiled by Bloomberg.

"We're not hearing pushback from investors that one rating isn't enough," said Jay Wenger, managing director at Susquehanna Group Advisors Inc., a Harrisburg, Pennsylvania-based financial adviser.

The decline in the use of multiple municipal ratings doesn't appear to be doing much damage now to the bottom line of the three biggest providers, with revenue up among record sales of corporate securities.

Rising Revenue

"Moody's credit ratings and research continue to be widely sought by investors because they have proven to be a trusted and reliable source of information on credit risk," said David Jacobson, a spokesman for the New York-based firm.

McGraw Hill Financial Inc., of which S&P is part, saw 10 percent annual revenue growth from 2010 to 2014, and Moody's has notched 13 percent annual increase in the same period, according to reports by Bloomberg Intelligence analyst Joshua Yatskowitz. Bloomberg LP, the parent company of Bloomberg News, competes with McGraw Hill in providing financial information.

"Trends in the municipal market such as the one suggested here could be attributed to a number of factors, given the amount of change in this space over the last 12 months," April Kabahar, a spokeswoman at S&P, said by e-mail.

Institutional investors have bulked up their research departments after top-rated securities tumbled to below investment grade, or junk, during the financial crisis.

Credit Work

"In this day and age, most of the sophisticated investors have to do their own individual credit work,

and they will apply their own internal ratings," said Jaime Durando, head of municipal syndication at RBC Capital Markets in New York.

So far this year, 47 percent of new muni deals have had a single rating, compared with 32 percent in 2008, data compiled by Bloomberg show. The share of triple-rated deals stands at 7 percent, compared with 9 percent in 2008.

"Muni issues larger than $50 million mostly utilize two or three ratings, while those below $50 million typically use just one," Dan Noonan, a spokesman for Fitch said in an e-mail. "That trend is not new, although the volume of rated deals continues to grow for one, two and three- rated deals."

Jim Cooke, Tallahassee's treasurer-clerk, said analysts from S&P, Moody's and Fitch were calling more frequently on the different securities issued by the municipality, which entailed city employees providing repetitive information. "It just didn't feel efficient," he said.

Rating Fees

Tallahassee's energy revenue bonds were rated AA, third-highest, by S&P, and a step lower at Aa3 by Moody's. The 10-year maturity was priced in June to yield 2.64 percent, in line with AA revenue bonds, data compiled by Bloomberg show.

The city paid $50,000 to Moody's and $43,000 to S&P for an aggregate fee that represented 26 percent of the cost of issuance, Cooke said. Tallahassee decided against a rating from Fitch.

In the energy system's last sale in 2010 with all three grades, Moody's charged $47,000 and S&P and Fitch each charged $31,000, which totaled 28 percent of the deal's expenses, he said.

In addition to the $20,000 annual savings from cutting a rating, the city expects to save about $45,000 for each new debt issue that's sized around $95 million, Cooke said.

While municipalities generally had similar grades from three main raters before the credit crisis, shifting methodologies are now driving more cases of "multi-notch differences in opinion," said Chad Farrington, head of muni research in Boston at Columbia Threadneedle Investments that manages about $30 billion in local debt.

Issuers are examining the criteria more closely, given the experience of the raters in the credit crisis and with more transparency of their methods under the Dodd-Frank Act, said David Moore, director of Public Financial Management Inc.'s Southern region financial advisory practice.

"Typically, the end result of that analysis is they can pick two of the three and get the same reception in the market or materially the same," Moore said.

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by Romy Varghese

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