

# **Bond Case Briefs**

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## **Fitch Places Seven USPF Special Revenue Ratings on Negative Watch Pending Court Decision.**

Fitch Ratings-New York-11 April 2019: Fitch Ratings has placed the seven U.S. Public Finance ratings that are more than six notches higher than the Issuer Default Rating (IDR) for the associated local government on Rating Watch Negative. This action is in response to the March 26, 2019 ruling by the United States Court of Appeals for the First Circuit regarding the bondholder protections provided by special revenue status under Chapter 9 of the U.S. bankruptcy code.

### **KEY RATING DRIVERS**

**RATINGS MOST AFFECTED:** The ratings placed on Rating Watch Negative have the highest ratings relative to their associated governments' IDRs. Ratings on special revenue bonds that are closer to the associated government's IDR are less likely to be affected by a re-evaluation of special revenue protections. While special revenues offer substantial protections in the event of a bankruptcy filing, the ruling creates uncertainty about full and timely payment of special revenue obligations during the bankruptcy of the associated government. The potential impact of the ruling on such ratings will be reflected through tailored sensitivities.

**RULING AFFIRMS DISTRICT COURT DECISION:** In the ruling, the circuit court agrees with a 2018 district court opinion concerning Puerto Rico Highways and Transportation Authority (PRHTA) bonds that section 922(d) of Chapter 9 grants permission to, but does not require, a municipality to continue paying special revenue obligations during a bankruptcy proceeding. By stating such payments are optional, the ruling creates uncertainty about full and timely repayment of special revenue obligations during bankruptcy of the related municipality.

**INCONSISTENT WITH HISTORICAL TREATMENT:** The decision affirming the 2018 district court ruling was inconsistent with Fitch's and market participants' general understanding of the meaning of section 922(d) and the treatment of special revenue obligations in bankruptcy since the code was amended in 1988. Nevertheless, with an appeals court validation Fitch believes its impact on ratings must be evaluated.

**INFLUENTIAL NATIONWIDE:** While the ruling only directly affects districts in the First Circuit (Maine, Massachusetts, New Hampshire, Puerto Rico and Rhode Island), Fitch believes that this decision would be influential in future municipal bankruptcy cases nationwide.

**TIMING UNCERTAIN:** The plaintiffs in the PRHTA case have multiple avenues of appeal. Fitch will monitor any court proceedings as they occur and incorporate the results into any affected ratings.

### **RATING SENSITIVITIES**

**FINAL RESOLUTION:** A final ruling consistent with the March 26, 2019 Court of Appeals ruling would result in downgrades to the affected ratings to a level closer to the IDR.

### **FULL LIST OF RATING ACTIONS**

Fitch has placed the following ratings on Rating Watch Negative:

Chicago (IDR BBB-/Stable)

-Senior lien water revenue bonds 'AA'

Chicago Board of Education (IDR BB-/Positive)

-Limited ad valorem tax revenues 'A'

Maricopa County Special Healthcare District (IDR BBB/Stable)

-Limited tax general obligation 'AAA'

Oakland Unified School District (IDR BBB+/Stable)

-General obligation - unlimited tax - dedicated Tax 'AAA'

Palomar Health (IDR BB+/Positive)

-General obligation - unlimited tax - dedicated Tax 'AAA'

Sacramento City Unified School District (IDR BBB/Negative)

-General obligation - unlimited tax - dedicated Tax 'AAA'

Sweetwater Union High School District (IDR BBB+/Negative)

-General obligation - unlimited tax - dedicated Tax 'AAA'

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