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Debt Ceiling Impasse Would Hurt Muni Issuers - Moody's.

Funding to hospitals, states and other issuers in the $3.7 trillion U.S. municipal bond market would be jeopardized if Congress does not raise the federal debt limit by the Oct. 17 deadline, Moody's Investors Service said on Monday.

Without a deal on the debt ceiling, the U.S. Treasury will have only $30 billion every day to pay bills that can sometimes total twice that much for daily expenditures, Moody's said.

That would place even non-disretionary spending on the chopping block, including funding to public finance issuers.

"Issuers would also likely face higher borrowing costs, and market access would be challenging, particularly for issuers with thin liquidity and a need to refinance debt or access the short-term note market for cash-flow purposes," Moody's said in the report.

Most issuers have already prepared, setting aside funds or scheduling payments to protect against possible delays or reductions in federal fund transfer, the credit rating agency said.

Hospitals, especially those that treat many poor patients, would take a big hit because they rely so heavily on federal Medicaid and Medicare revenue.

Children's Hospital Central California, rated A1 with a stable outlook, gets 70.7 percent of its revenue from Medicaid reimbursements – the highest percentage of any hospital. All 10 hospitals that rely the most on Medicaid are children's hospitals, Moody's report said.

Separately, a potential federal government shutdown — which would happen on Monday at midnight if Democrats and Republicans fail to agree on a spending bill – could also hit some muni bonds, though the impact would likely be limited.

Among the bonds most at risk in that scenario are highway and mass transit debt, federal lease financings and military housing bonds, the report said.