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Moody's: Public Finance Downgrades Continue in Third Quarter but Pace Moderates.

More than 75% of US public finance rating actions in the third quarter continued to be downgrades, says Moody's Investors Service in "US Public Finance Rating Revisions for Q3 2013: Downgrades Continue but Pace Moderates." The exact percentage of rating actions that were downgrades in the third quarter, 77%, represented an improvement on the 83% that were downgrades for both the second and first quarters of 2013.

Moody's expects downgrades to continue to outpace upgrades through the rest of the year despite broader economic improvement as pockets of credit pressure remain.

Specifically, of the 235 rating actions Moody's took in the third quarter, 182 were downgrades. By par amount, Moody's downgraded \$53.9 billion of public finance debt in the third quarter, down from the \$92 billion downgraded in the second quarter but more than the \$27 billion downgraded in the first quarter.

The number of quarterly upgrades has increased modestly during 2013, from 36 in the first quarter to 45 and 53 in the second and third quarters. However, the par amount upgraded was \$8 billion in the third quarter, down slightly from the \$12 billion in each of the previous two quarters.

During the third quarter eight of the 10 largest downgrades in terms of par value were local governments. The most prominent of these were the City of Chicago, to A3 from Aa3, affecting \$8.2 billion in debt, Chicago Board of Education, to A3 from A2, affecting \$6.3 billion in debt and Philadelphia School District, to Ba2 from Ba1, affecting \$3.3 billion.

In all there were 145 downgrades of local governments during the quarter, affecting \$42 billion in debt. Nineteen local government downgrades were based on Moody's new approach for analyzing state and local government pensions, including those taken on the cities of Chicago, Cincinnati, and Minneapolis.

"The preponderance of local government downgrades underscores the credit pressure some local governments continue to face," says Moody's Analyst Chandra Ghosal. "We also see that despite broader economic improvement, there are still regional pockets of concentrated credit pressure."

One sign of these concentrations is the high share of downgrades in California, Illinois, and Michigan, where Moody's downgraded ratings of 79 issuers, accounting for over 40% of downgrades in the quarter.

The largest upgrade among the local governments was for the City of Atlanta's Water and Wastewater enterprise bonds to Aa3 from A1, affecting \$3.1 billion in par amount of debt.

In the higher education sector, Moody's downgraded 16 institutions with \$3.6 billion in debt in the third quarter, while it upgraded just three institutions with \$467 million in debt. Seven of the eight public universities Moody's rates in Illinois were downgraded because of their high dependence on

state funding, which has been delayed or reduced for several years. Among them was the University of Illinois, which Moody's downgraded to Aa3 from Aa2, affecting \$1.56 billion in debt.

In the infrastructure sector, there were no positive rating actions in the third quarter, while there were eight downgrades affecting \$4.5 billion. Of the seven, two were municipal electric utilities with exposure to nuclear-generation assets, highlighting the higher costs and risks associated with these facilities.

In the not-for-profit hospital sector, Moody's downgraded 10 hospitals and \$2.67 billion in debt and upgraded eight hospitals with \$2.31 billion in debt. Decline in patient admission volumes was a common driver of a majority of the downgrades. One significant upgrade in the sector was for the Indiana University Health, to Aa3 from A1, affecting \$1.4 billion par amount of debt.

The housing sector was the only one where upgrades outpaced downgrades, with 10 upgrades on \$474 million in debt against two downgrades on \$452 million in debt. The majority of rating actions were to privatized military housing credits.

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

https://www.moodys.com/research/US-Public-Finance-Rating-Revisions-for-Q3-2013-Downgrades-Continue-PBM_PBM159581.