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Moody's Reviews Tools and Tactics Available to Help Stressed Municipal Issuers.

New York, December 12, 2013 — Most governments have responded to credit stress by making tough decisions needed to preserve their fundamental credit strengths, says Moody's Investors Service. The Moody's report "Break in Case of Municipal Emergency — Tools Available to Stressed Muni Issuers" describes the seven most common actions: fiscal and operating adjustments, deferring tough decisions, seeking state oversight and support, merger or dissolution, default on debt, distressed exchange and filing for bankruptcy.

Least dramatically, bondholders are likely to benefit from the tactic of making fiscal and operating adjustments. The most extreme step, declaring bankruptcy, remains extremely rare among municipal issuers.

Moody's observes the vast majority of municipal governments and municipal bond issuers of all types weathered the financial crisis without serious deteriorations in credit quality. In the last five years less than 2% of Moody's-rated debt issuers have dropped below investment grade and only a handful of cities and other municipal credits have defaulted.

"Most municipal governments successfully rebalanced operations and did what was necessary to continue paying debt service and fund operations," says Al Medioli, the Moody's Vice President and Senior Credit Officer who wrote the report.

"As for those that face distress, one magic bullet rarely solves all problems, and issuers usually combine methods," says Moody's Medioli.

Most local governments took sharp and decisive steps to adjust revenues, cut operating costs through staffing and service reductions, or a combination of both and emerged through the recession with their credit profile intact.

"The challenge in these actions is to avoid overreacting if the revenue crisis is likely to be short term because it can be painful to trim staff and services," says Medioli.

Governments facing higher stress frequently defer action in the belief a problem will be easier to endure later or ultimately take care of itself. This approach can work if the crisis proves short-lived and government has enough reserves to weather the stress. A delay, however, can easily exacerbate a problem.

State intervention is more common, but is not guaranteed to prevent distress or even bond default. More drastic actions such as selective default, merger or dissolution remain very infrequent. The most dramatic action, filing for bankruptcy, remains so rare that legal precedents and tests of issues central to their resolution are scarce.

