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Moody's: High-Poverty US Cities Can Still Achieve High Credit Ratings.

New York, August 27, 2014 — A high rate of poverty does not preclude a large US city from having strong credit quality and attaining a credit rating in the upper investment grades, says Moody's Investors Service in a new report. In fact, in the report "High Poverty, High Ratings — 27 Large Cities Have Both," Moody's finds 27 of the 50 poorest large cities are rated Aa3 or higher.

Aa3 is also the median rating for the 50 large cities (population 100,000 or more) with the highest poverty rates. The median rating for all 210 large cities that Moody's rates is only one notch higher, at Aa2.

"Cities can overcome the many adverse effects of high poverty with a large and diverse tax base, healthy financial position, strong governance, and manageable fixed costs," says Moody's Associate Analyst Heather Guss. "We expect large municipalities with these characteristics to meet the challenges of a high poverty rate and continue to sustain robust credit profiles."

For all Moody's-rated cities with populations over 100,000, the rating agency finds a small correlation between higher poverty rates and lower ratings. The correlation is relatively weak (the correlation coefficient of 0.31), with a large number of outliers.

For example, Provo, UT, which is home to Brigham Young University, maintains a very strong rating of Aa1 despite a high poverty rate of 32.5%.

Poverty will invariably contribute to negative credit pressures such as weak tax collection rates and a high demand for government services. However, the credit positive features of a city can easily outweigh them.

Although large cities often have high poverty rates, they often play a central role in the economy of their region, leading to a strong tax base arising from institutions and also commuters, who bring revenues from income sales and parking taxes. For example, Cincinnati, which has a poverty rate of 29.4%, the nineteenth highest for a large city in the US, has a Aa2 rating due in part to a large number of corporate headquarters, healthcare organizations, and higher-education institutions.

Many cities also benefit from population growth as they attract young professionals who want to live near where they work. And many cities struggling with high poverty benefit from the significant institutional presence of government, military, healthcare and educational organizations. For example, Dayton, OH (Aa2 stable), with a poverty rate of 33.8%, borders Wright Patterson Air Force Base, the largest single-entity employer in Ohio.

Although many cities manage high poverty rates effectively, poverty remains a persistent challenge to local governments, says Moody's. Despite the ongoing economic recovery, the national poverty rate remains above prerecession levels. The 2012 poverty rate was the highest since 1993 after climbing 34.5% over the past decade.

For more information, Moody's research subscribers can access this report at https://www.moodys.com/research/High-Poverty-High-Ratings-27-Large-Cities-Have-Both-PBM_PBM174683.

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