Moody's: Credit Impact Mostly Positive for U.S. Public Finance as Oil Prices Remain Low.

New York, February 24, 2015 — The credit effects of lower oil prices for US public finance will vary broadly depending on each issuer's reliance on oil-related revenues, Moody's Investor Service says in a new report. However, it will have a mostly positive impact on most public finance sectors, with exceptions being states and local governments that rely on oil and gas revenues for a large percentage of their budgets.

Most states and municipalities will generally benefit from the drop in oil prices as consumer spending ramps up, owing to an increase in disposable income. States such as Florida (Aa1 stable) or Nevada (Aa2 stable) which rely on sales tax as a primary source of revenue will see a moderately positive credit influence.

But the State of Alaska's (Aaa negative) reliance on oil revenues for almost 90% of its budgetary needs leaves it vulnerable to sharp price swings. Local governments that also benefit directly from oil extraction revenues like Midland, TX (Aa1) are also vulnerable.

"The more dependent a sector is on oil revenue and consumer spending, the more negative the credit implications. These sectors will experience more pressure to budgets and debt coverage the longer and lower oil prices fall," says Marcia Van Wagner, Vice President — Senior Credit Officer and lead author of "Low Oil Prices Hit a Few US Municipal Sectors Hard, but Most Face Mildly Positive Effects."

Non-oil producing states and some local governments will experience moderate support from sales tax growth to their mass transit agencies, such as Dallas Area Rapid Transit (Aa2 stable) and the Metropolitan Atlanta Regional Transit Authority (Aa2 stable). Mass transit funded by enterprise revenues will see a mildly negative impact as commuters opt to drive.

Low gas prices should cause traffic to grow on US toll roads, with growing urban areas like San Francisco, and Denver benefiting the most. US airports will also benefit; Moody's says 2015 passenger boarding will increase between 3% and 4%, up from 2% in 2014.

The drop in oil prices is also positive for US seaports, which garner support from the reduction in fuel costs. The 2015 ports outlook changed to stable from negative amid cost reductions and lower fuel costs.

Water and sewer utilities will be positively affected by more flexibility to raise rates created by easing household budgets. However, the impact to public power and cooperative electric utilities is minimal since oil is an insignificant percentage of the fuel used to generate electricity, says Moody's.

The impact on public and private colleges will be mixed. While some colleges and universities will see reduced heating costs, public colleges located in oil-producing states like Louisiana may see reduced funding as state budgets tighten. State housing finance agencies will see a positive impact as HFA families will apply savings from lower heating and transportation to mortgages.

Not-for-profit healthcare will not see any effect from declining oil and gas prices since they purchase fuel through group purchasing organizations or suppliers through long-dated contracts.

The report is available to subscribers at

https://www.moodys.com/research/US-Public-Finance-Low-Oil-Prices-Hit-a-Few-US–PBC_1002874.