Bond Case Briefs

Municipal Finance Law Since 1971

The Phone Call That Could Help Governments' Credit Ratings.

Economic data, revenue reports and debt burdens may be built on cold, hard numbers, but there's a soft, squishy middle when it comes to how credit ratings agencies look at municipalities: the human touch.

All ratings agencies place value upon who's running the show (although there are varying degrees of value from agency to agency). As such, they encourage local officials to keep an open line of communication with them.

"We don't take things just at face value," said Richard Raphael, managing director at Fitch Ratings. "It's always a good idea when there's good news or bad news to give us a ring. Give us a sense from your perspective what's going on."

Raphael's comments came during a webinar hosted last week by the Council of Development Finance Agencies on risk in the municipal market. Because of Chicago's recent downgrade to junk status by Moody's Investor's Service, many are wondering if the city's struggles indicate weaknesses in the market as a whole. The response from the three major agency representatives on the call was that the market continues to be strong with a few pockets of concern.

In Chicago's case, Moody's is worried that its outstanding pension liabilities will place an insurmountable burden on its tax base. Chicago's pension liability works out to about $26,000 per resident, according to Rachel Cortez, a vice president at the agency. New York City is the next-highest at $18,000 per capita. Just before it filed for bankruptcy, Detroit's was nearly $14,000 per resident. Moody's downgraded Chicago's credit rating last month, after the Illinois Supreme Court overturned the state's proposed pension reforms. The agency said Chicago's hopes to fix its budget by enacting similar changes have now "narrowed considerably." Fitch and Standard & Poor's agencies also downgraded Chicago, but Moody's was the only one to drop it below investment grade.

Chicago isn't the only city where action on the state level had an adverse effect on the city's rating. After yet another budget deficit in New Jersey earned it a downgrade from Moody's in April, the agency also downgraded two public universities. Both New Jersey City University and William Paterson University (which each rely on the state for approximately a third of their operating budgets) were docked by Moody's this month because of expected declines in state funding.

Still, said Raphael, most governments are managing the new slow-growth economy. While some are still preoccupied with increasing pension costs, most are trying to address more discretionary expenses like restoring services, overdue raises for public workers and infrastructure investment.

"We still expect municipal bankruptcies to be rare," he said. "The core fundamentals of local governments remain strong."

GOVERNING.COM

BY LIZ FARMER | JUNE 22, 2015