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U.S. States Reduce Debt for First Time in 28 Years, Moody's Says.

The debt load of U.S. states declined in 2014 for the first time in almost three decades and probably won't rebound this year, showing lawmakers are still reluctant to borrow even six years after the recession.

Total net tax-supported debt among states fell 1.2 percent to \$509.6 billion last year, according to a Moody's Investors Service report released Wednesday. It marked the first annual drop in the 28 years the company has compiled the data.

States and cities have rejected raising fresh cash at the lowest interest rates since the 1960s, instead opting to tap the \$3.6 trillion municipal market mostly to refinance. The scars from the financial crisis and tepid economic growth have left lawmakers struggling to balance budgets and wary of embarking on capital projects.

"States continue to be reluctant to take on new debt with tight operating budgets, a slow economic recovery, and uncertainty over federal fiscal policy," analysts at New York-based Moody's said in the report. "We expect debt levels to remain stable or even decline again in 2015."

Credit Barometer

The debt medians can serve as a barometer of a state's creditworthiness. New York and California were two of the three states that paid down the most debt last year, according to the report. They both won rating increases in June 2014.

In contrast, Moody's two lowest-rated states, Illinois and New Jersey, had the largest increases in 2014 as they borrowed for transportation and other projects.

About two-thirds of the \$206 billion of munis sold this year through June 18 were for refunding, rather than new projects, according to Bank of America. That would be the biggest portion since 1993. Most refinancing deals don't add to municipalities' debt load because the higher-cost bonds are replaced with obligations carrying lower interest rates.

California, Massachusetts, Pennsylvania and Washington are among issuers with the biggest refunding deals of 2015, data compiled by Bloomberg show.

Debt Aversion

"Most states will continue to avoid major new debt service commitments in the face of moderate revenue growth and continuing pressure for increased education and health care spending," Moody's said. "Few states have announced large new borrowing initiatives."

An index of state obligations has lost 0.2 percent this year, compared with a 0.1 percent decline for all munis, Bank of America Merrill Lynch data show. The governments' securities have still outpaced

Treasuries and investment-grade company debt, which have fallen 0.6 percent and 0.9 percent, respectively.

Adjusted for inflation, tax revenue is still lower than at the start of the recession in 21 states, according to a report Tuesday from the Nelson A. Rockefeller Institute of Government in Albany, New York.

Connecticut, where officials are confronting limits in how much revenue they can squeeze out of their tax base, has the most debt per capita among states, at \$5,491.

Massachusetts, Hawaii, New Jersey and New York round out the top five, each with more than \$3,000 of obligations per person.

Puerto Rico, the junk-rated U.S. commonwealth, had \$55.5 billion of net tax-supported debt last year, more than all states except California and New York. That comes out to \$15,637 per person.

Bloomberg

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June 23, 2015 — 9:01 PM PDT Updated on June 24, 2015 — 6:42 AM PDT

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