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Moody's: No U.S. Municipal Defaults in 2014, But Credit Quality Erodes for Some Public Finance Credits.

New York, July 24, 2015 — There were no Moody's-rated US municipal defaults in 2014, but a deterioration in credit quality shifted a small but growing number of public finance credits deeply into speculative grade last year, according to the latest annual default study by Moody's Investors Service.

Despite the absence of municipal defaults, pressures already identified in prior Moody's default studies continue to weigh on public finance amid the expectation defaults will materialize in the future, as detailed in the report, "US Municipal Bond Defaults and Recoveries, 1970-2014."

Despite ongoing headwinds driven by long-term demographic changes and increasing balance sheet leverage from pensions and retiree health care, Moody's believes the municipal market will continue to see few defaults or bankruptcies in the near future. The median rating for all Moody's-rated public finance credits remains Aa3 and only 1.6% of Moody's 8,500 municipal credits were below investment grade at the end of 2014.

While still a low overall percentage, the number of speculative-grade local government cities and counties has more than doubled since 2011. This includes downgrades of Atlantic City (NJ), Perry County (KY) and Kankakee County (IL), and sharp downgrades of more than four notches among several credits in Puerto Rico and two school districts last year.

"Trends affecting public finance include a slow recovery and weak labor participation rate; aging demographics that affect consumer spending; and the continued growth of pension and health care entitlements that increase local government leverage and can crowd out other budgetary demands," author of the study and Moody's SVP Alfred Medioli says. Reflecting the deterioration in credit quality and as leverage increases, a very small but growing number of severely distressed municipalities are using municipal bankruptcy to adjust their liabilities.

"Municipal bankruptcy, though still rare, is becoming a more commonly considered tool to adjust liabilities in the public sector in situations of extreme stress. Jefferson County (AL), Harrisburg (PA), and Detroit all emerged from bankruptcy or receivership," Medioli says.

Moody's has also noted the growing trend of pensions being better protected in bankruptcy at the expense of debt liabilities and retiree health care benefits. This could mean larger losses to bondholders than pensioners are increasingly likely in any future Chapter 9 filings.

The study is available to Moody's subscribers [here](#).