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Fitch: Oil Price Effect on U.S. Locals Will Vary.

Fitch Ratings-New York/Chicago-25 August 2015: The recent decline in oil prices has raised the pressure on certain cities, counties and single-purpose districts in oil-producing states, Fitch Ratings says. In our view, some will be able to raise taxes (and other revenue sources), cut spending and use reserves. Others have sufficient size and economic diversity to weather the economic stresses. All will be affected to varying degrees by the decline. West Texas Intermediate (WTI) crude oil fell below $40 per barrel in trading yesterday for the first time since 2009.

Our recent review of historical financial and economic data from selected Fitch-rated local governments since the early 1980s shows a high correlation between energy prices and financial data. We considered total tax revenue, GDP, unemployment and home prices. For example, sales tax collections in Texas fell by 1.4% in June 2015 from the previous June due largely to a weaker energy industry, ending a more than five-year streak of monthly gains.

We believe cities like Houston are facing some risk due to the decline in oil. Most major regional and multinational energy companies have offices in the Houston area, exposing it to employment pressures. Houston has limited ability to raise property taxes to compensate for revenue losses, as Proposition 1 limits tax revenue increases to the lesser of 4.5% or the combined percentage increases in population and consumer inflation. However, Houston's job diversity may mitigate some of this risk. Roughly 30,000 workers there are employed by hundreds of refining plants in the area, which benefit from lower oil prices.

Terrebonne Parish, LA also serves as headquarters for some offshore oil and gas companies and faces economic-related risks. The recent decline in oil prices will likely affect local employment, sales tax collections and home prices. Any related state funding decline could compound the impact, as cities and parishes in Louisiana receive a portion of state severance taxes and royalties. For Terrebonne Parish, these two sources total $5.9 million in the fiscal 2015 budget, or roughly 25% of general fund revenues. And, at nearly $41 million, sales taxes represented more than 35% of budgeted parish governmental revenues in fiscal 2015. Property tax millage rates can be increased to counter tax base losses, but any hike in a local sales tax rate must be approved by voters.

In our view, two Fitch-rated local issuers are at the highest risk: Culberson County Hospital District and Zapata County, TX, which are in remote locations with limited economies. To read more about these issuers and our review of historical financial and economic data for other issuers, see Fitch's Aug. 17 special report on "How Will Local Oil Patch Governments Fare?"

Contact:

Steve Murray
Senior Director
U.S. Public Finance
+1 512 215-3729
111 Congress Avenue
Austin, TX

Rob Rowan
Senior Director
Fitch Wire
+1 212 908-9159
33 Whitehall Street
New York, NY