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Pennsylvania GO and Appropriation Ratings are Unchanged for Now Despite Absence of an Enacted Budget.

NEW YORK (Standard & Poor's) Sept. 9, 2015–Standard & Poor's Ratings Services today said its ratings, including its 'AA-' general obligation (GO) rating, on the State of Pennsylvania are unchanged despite the lack of an enacted budget for fiscal 2016. As we noted in our report in "Late State Budgets: Summer Cliffhangers No One Wants To See," published on June 4, 2015, on RatingsDirect, most state governments exhibit a strong commitment to debt repayment and have demonstrated willingness to honor their obligations even in the absence of a budget, in our view. This commitment could take different shapes or modalities, but whether it is a continuing resolution, a standing appropriation or some other method, the intended outcome is the same: to ensure full and timely payment of debt service.

Two months into fiscal 2016, Pennsylvania's lawmakers have yet to agree on a budget. Negotiations have continued as lawmakers try to reach an agreement on pension reform and education funding, without which budget passage is unlikely. From a credit standpoint, Pennsylvania's constitution provides that if sufficient funds are not appropriated for timely payment of all commonwealth general obligation (GO) bond debt service, the treasurer shall set apart from the first revenues thereafter a sum sufficient to pay principal and interest on the debt. As such, GO debt has a priority lien on state revenues and is paid even in the absence of a budget. Pennsylvania, which is no stranger to late budgets, typically schedules its non-GO debt to mature in December and June, with a few exceptions, which the state has currently addressed.

These include debt issued by the Pennsylvania Economic Development Financing Authority (PEDFA), lease revenue bonds, and certificates of participation (COPs). On Sept. 1, the state paid its debt service on PEDFA's series 2012 bonds for the Forum Place. The state made lease payments prior to the end of the previous fiscal year that were sufficient to cover debt service on Sept. 1, 2015. Philadelphia Regional Port Authority's lease revenue debt (series 2008), also due Sept. 1, was paid with proceeds from a loan to the Pennsylvania Department of Transportation from the state's Motor License Fund. Payments for debt service on COPs issued by the Department of Human Services (DHS) come due on Oct. 1 and are included in payments made to DHS to keep the facilities operating in order to ensure the health, safety, and welfare of its citizens. The state has also indicated that the payments for the Pittsburgh and Allegheny County Sports and Exhibition Authority, series 2010 lease revenue bonds will be made from the commonwealth's Gaming Economic Development Tourism Fund and are not subject to appropriation.

In the absence of a budget, there are no state aid payments that flow to Pennsylvania's school districts (see "Pennsylvania School District Ratings Based On State Aid Intercept Program Put On Watch Negative on Budget Delay," published Sept. 4, 2015).We believe that the lack of funding for school districts could translate into increased pressure on lawmakers and provide an incentive for them to reach budget consensus over the next couple of months. We will continue to monitor the state's ongoing budget deliberations to determine what impact, if any, the protracted budget negotiations have on Pennsylvania's credit quality.

Under Standard & Poor's policies, only a Rating Committee can determine a Credit Rating Action (including a Credit Rating change, affirmation or withdrawal, Rating Outlook change, or CreditWatch action). This commentary and its subject matter have not been the subject of Rating Committee action and should not be interpreted as a change to, or affirmation of, a Credit Rating or Rating Outlook.

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