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Pennsylvania Bond Penalty Grows as State Budget Impasse Deepens.

Pennsylvania is facing rising penalties from investors as Democratic Governor Tom Wolf plans to veto a temporary budget being advanced by Republican legislators, promising to prolong a political impasse that's left the state without a spending plan for more than two months.

The state's 10-year bonds yield about 2.87 percent, about 0.59 percentage point more than benchmark municipal debt, according to data compiled by Bloomberg. That's approaching the 0.61 percentage point reached in July, which was the highest since the data began in 2013.

"Each week and each month where they don't have a budget, that concern will increase," said Alan Schankel, a managing director at Janney Montgomery Scott LLC in Philadelphia. "They're playing a game of chicken."

Pennsylvania has been operating without a spending plan for the year that began in July because the Republican-led legislature and first-term governor have remained at loggerheads over proposed tax increases and overhauls to the public employee pension system.

The uncertainty led Moody's Investors Service last week to downgrade schools that issue debt through a state program that diverts aid to investors when needed.

The Pennsylvania Senate on Thursday is set to vote on a short-term budget that would provide state and federal funds to alleviate pressures on school districts and social service agencies.

Wolf told reporters Wednesday that he would veto the temporary spending plan because he wants them to consider his proposals for the full budget and concessions on the retirement system. He said the failure to compromise and balance the budget could imperil Pennsylvania's credit rating.

"We're going to continue to have the credit downgrades we've had because we're not doing anything else differently than we've done," Wolf said. "It's status quo."

The state's \$53 billion unfunded pension liability has weighed on its bonds. The Keystone State is paying more to borrow than any other state except Illinois and New Jersey, according to data on 20 major states compiled by Bloomberg.

Standard & Poor's and Fitch Ratings cut Pennsylvania's rating last year to AA-, the fourth-highest level, citing the pension burden. Moody's grades Pennsylvania Aa3, also the fourth-highest rank.

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