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Fitch: U.S. Military Housing Bonds Facing Longer Term Pressures.

Fitch Ratings-New York-18 November 2015: Recently announced details on personnel cuts by the U.S. Army should not affect ratings for military housing bonds for now, though they could come under pressure longer term if the force continues to shrink, according to Fitch Ratings in a new report on military housing.

This round of cuts stands to affect 30 Army installations, according to Senior Director Maura McGuigan. 'Of the 25 bases throughout the military branches that secure Fitch rated bonds, five are on the list planned for changes,' said McGuigan. 'One base will gain a small amount of personnel in the plan and the other four will lose approximately 5%-6% of its respective Army military personnel.'

The prospects of prolonged military personnel cuts and the shrinking of the force is a longer term trend Fitch will keep a close eye on over time. For the time being, though, they should not affect military housing bond rating performance, which has been largely stable. Fitch has affirmed 23 military housing bonds against just two downgrades while three bonds maintain Negative Outlooks. Helping the stable outlook has been the construction of military housing which has progressed as originally planned with no project missing original initial development phase end dates.

What is likely to continue to be affected next year is the Basic Allowance for Housing (BAH), with the Department of Defense (DoD) introducing modifications to BAH designed to slow its growth. This will ultimately reduce the rental revenue stream to MHBs. 'The fiscal 2016 proposal for the defense budget gradually slows the annual BAH increases by another 4% over the next two to three years until rates cover 95% of housing rental and utility costs,' said McGuigan.