

# **Bond Case Briefs**

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## **U.S. Local Government: Growing Tax Bases and Good Management Underpin Stable Outlook, Despite Some Pension and OPEB Stress.**

The local government sector has historically been characterized by solid credit quality and stable rating performance. Following this trend, Standard & Poor's Rating Services expects this sector to demonstrate another year of stable credit quality in 2016. Despite a small handful of struggling issuers (including Chicago, Detroit, and Atlantic City), we believe that the overall stability and growth of local economies, generally strong-to-very strong institutional framework (IF) scores, managements' ability to direct revenue and spending, and reliability and resilience of local revenue sources such as the property tax (even through the Great Recession) continue to support the stable credit quality outlook. This outlook is Standard & Poor's view of possible rating performance within the sector or specific geographic region in the medium term as gauged in part by the ratio of upgrades versus downgrades, a trend of positive versus negative outlooks, and broader key trends and issuer-level credit drivers.

The macroeconomic conditions and general financing conditions in North America, as well as those risks identified by Standard & Poor's Credit Conditions Committees, provide the foundation for our U.S. Public Finance sector outlooks (see "Volatility Risk Lingers As North America Readies Itself For Less Accommodative Credit Conditions," published Dec. 4, 2015, on RatingsDirect). Our rating outlooks are informed by our macroeconomic forecast of the U.S. down to the regional and sector level, if applicable (see "U.S. Public Finance 2016 Credit Conditions Outlook: Expect Growth But Hold The Cheer," published Jan. 11, 2016). Our focus in this article is on those broader industry trends that can have a large impact across our rated universe as well as developments we are seeing at the issuer-level that could drive credit quality.

### **Overview**

- The local government sector has historically been characterized by solid credit quality and stable rating performance.
- We expect our ratings on local government to remain stable in 2016 thanks to consistent tax bases and continued growth, along with increased reserve levels and improved management practices.
- Although the overall local government sector is stable, challenges lie ahead, especially for those governments with large pension and other postemployment benefit liabilities.
- Local governments continue to benefit from a low interest rate environment, but if further rate increases occur, governments that wait to borrow could miss the opportunity to finance capital needs at historically lower rates and subsequently affect costs in future budgets.[Continue reading.](#)

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