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[Public Debt Upgrades Top Downgrades in 2017: Moody's]

NEW YORK (Reuters) – In the U.S. public finance market, debt rating upgrades topped downgrades for the third year in a row in 2017 as the U.S. economy continued to improve, according to a report by Moody's Investors Service released on Monday.

The ratings agency said the upgrades indicated continued improvement in credit quality across the public finance sector but warned of "pockets of weakness," particularly in the healthcare and higher education sectors.

"While the number of upgrades continued to grow, the amount of upgraded debt declined for the fourth year in a row," the report said.

Despite the economic upswing, the dollar value of downgraded debt was $201.8 billion last year, double the $100.3 billion of upgraded debt. This was driven primarily by the downgrade of Puerto Rico and related issuers in the aftermath of Hurricane Maria, which devastated an already fragile economy.

California led in upgraded debt in 2017, helped by an upgrade of Los Angeles County's $1.6 billion worth of debt.

Nearly 35 percent of upgrades and 14 percent of upgraded debt in 2017 stemmed from a change in Moody's U.S. Local Government General Obligation Debt methodology, which revised the agency's approach to rating general obligation limited tax (GOLT) debt.

The change drove less than one percent of downgraded debt, and upgrades still topped downgrades when stripping out the effects of the change, Moody's said.

In general, housing and infrastructure bonds performed strongly in 2017. Annual toll increases contributed to a $2.8 billion upgrade of Central Florida Expressway Authority revenue bonds, and the California Housing Finance Agency's mortgage revenue bonds accounted for $1.2 billion of upgraded debt in 2017.

Performance was weak in the higher education and healthcare sectors.

Illinois, which accounted for the most credit downgrades last year as the state and local governments continued to face pension challenges, also had a number of downgrades to its public universities

The State of New Jersey marked the largest downgrade last year at $37 billion, followed by downgrades of over $20 billion each in Illinois, Puerto Rico, and Connecticut. These four entities accounted for almost 70 percent of downgraded debt in 2017.

Puerto Rico Electric Power Authority (PREPA) accounted for more than half of downgraded debt in the infrastructure space, which overall saw $9.4 billion worth of credit ratings lowered versus $19.8 billion of upgrades, Moody's said.

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