Bond Case Briefs

Municipal Finance Law Since 1971

Fitch Ratings: Leverage Isn't One-Size Fits All for Revenue-Supported Bonds.

Fitch Ratings-New York-11 September 2018: The stronger the business model a revenue-supported enterprise in U.S. public finance has, the more leverage it can carry without constraining its credit rating, according to Fitch Ratings in a new report.

Financial leverage for U.S. revenue supported public finance sectors varies widely and thus needs to be viewed through risks specific to each sector. Fitch's analysis shows large scale public universities and public utilities to have the strongest business models due largely to independent pricing powers and very strong demand characteristics. Conversely, public safety net hospitals and not-for-profit charter schools tend to have the weakest profiles.

In other words, a public safety net hospital without taxing authority would need to carry substantially less debt in order to reach a rating similar to that of a first tier public university.

Despite the attention it has received over the last several months, unfunded pension liabilities are not generally a pre-eminent driver of ratings. "The municipal market has been sharply focused on pensions in state and local government ratings but pensions are also part of the risk profile of public enterprises,' said Jessalynn Moro, Fitch's Head of U.S. Public Finance. 'Pensions' impact on ratings varies with the strength of the enterprise business model.'

Further evidence of this came in Fitch's recently completed not-for-profit healthcare ratings review following the release of its final criteria at the start of 2018. Of the 135 providers Fitch rates, only three significant rating changes were a direct result of large unfunded pension liabilities. One notable recent exception was Spartanburg Regional Health Services (SRHS) that Fitch recently downgraded to 'BBB' citing high overall leverage including a large unfunded pension liability reported in its most recent financial statements.

Fitch notes that the Spartanburg rating action has little relevance to ratings in the public higher education sector with its stronger business model. If SRHS had a business model like that of a public university with strong revenue defensibility and operating risk, it would have a much higher rating.

Fitch began its revenue sector criteria revisions last summer in an effort to improve the consistency and transparency of its ratings. Fitch's next sector-specific revenue supported exposure draft will be for Higher Education next month. See 'Higher Education Next in Revenue Sector Criteria Revisions' for more information. Fitch is also currently soliciting market feedback for its Public Power exposure draft published in June.

'Leverage, Ratings and the Relevance of Unfunded Pension Liability' is available here.

Contact:

Jessalynn K. Moro
Managing Director, Head of U.S. Public Finance

+1-212-908-0608
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Tom McCormick
Analytical Consultant
+1-212-908-0235

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email:
sandro.scenga@fitchratings.com

Additional information is available on www.fitchratings.com