Bond Case Briefs

Municipal Finance Law Since 1971

Fitch Ratings Responds to Investors' Muni Debt Questions Following Chapter 9 Ruling.

Fitch Ratings-New York-21 August 2019: Though the First Circuit Court's Chapter 9 ruling centered around a transportation authority in Puerto Rico, the wide-reaching nature of the ruling necessitates a change to how special revenue and 'true sale' municipal debt is analyzed, according to Fitch Ratings during a webinar it held earlier this month.

The webinar followed Fitch's release of a criteria exposure draft that proposes to introduce a ratings cap for special revenue debt and true sale structures relative to a municipality's Issuer Default Rating (IDR). The cap would be a total of up to six notches above the IDR depending on the strength of the legal security, and follows a March First Circuit Court Chapter 9 ruling related to Puerto Rico debt.

The public finance markets by and large were caught by surprise by the landmark ruling, which involved the Puerto Rico Highways & Transportation Authority. 'Since municipal bankruptcies are rare and typically resolved through negotiation, related case law is extremely limited,' said Managing Director Amy Laskey. 'The lack of precedent heightens the importance of the recent court decisions in the Puerto Rico matter.'

Fitch is proposing to apply its amended methodology to true sale structures, even though the First Circuit Decision did not address them. 'The legislative history surrounding the revision of Chapter 9 appeared to provide such a strong case that special revenue bondholders would continue to be paid during the pendency of a bankruptcy as long as pledged revenues were sufficient,' said Laskey. 'Now that the First Circuit's ruling has injected uncertainty into the payment of special revenue debt, we feel compelled to revisit the certainty of other legal protections as well.'

The criteria changes would be expected to affect fewer than 20 ratings. The limited rating impact results primarily from the very strong credit quality of U.S. municipalities, which are generally rated at least in the 'AA' category. With this strong baseline, a security rating cap of three-to-six notches above the issuer rating is not an actual constraint in the vast majority of cases. Fitch has six U.S. public finance ratings currently on Rating Watch Negative following the court ruling, which it expects to resolve once the criteria report is finalized.

Answers to the questions that Fitch analysts were asked during the webinar are detailed in the special report, 'What Investors Want to Know: Fitch's Proposed Change to the Evaluation of Local Government Security Ratings', which was released today and is available at 'www.fitchratings.com'.

Contact:

Amy Laskey
Managing Director
+1-212-908-0568
Fitch Ratings, Inc.
33 Whitehall Street

New York, NY 10004

Arlene Bohner
Senior Director, Head of U.S. State and Local Government Ratings
+1-212-908-0554

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

Additional information is available on www.fitchratings.com

Copyright © 2026 Bond Case Briefs | bondcasebriefs.com