

Moody's Places 256 US Local Government General Obligation Ratings Under Review in Conjunction with Updated Methodology

Moody's Investors Service has placed 256 US local government general obligation bond ratings under review – 52% for upgrade and 48% for downgrade (132 and 124, respectively) – in conjunction with its updated rating methodology published today. Moody's has also placed on review ratings that are dependent on these affected general obligation ratings. The updated methodology increases the weight in Moody's overall assessment on debt and pensions to 20% from 10%, decreases the weight on economic factors to 30% from 40%, and introduces a scorecard for US local governments to enhance the transparency of key rating considerations.

Moody's expects most rating changes resulting from the current reviews to be one or two notch movements and, depending on mitigating factors, some ratings could be confirmed at their current rating level. Most reviews should be completed within 90 days, but some could take as long as 180 days, if necessary. Moody's rates approximately 8,300 US local governments, mostly cities, counties and school districts.

The new scorecard provides a composite score based on various measures of the key factors Moody's considers most important to local government GO credit analysis. The scorecard, plus a number of "below-the-line" analyst adjustments, are used as a part of the rating process. "The scorecard is not intended to produce a final rating, only a starting point for analysis," says Matt Jones, Moody's Senior Vice President and one of the authors of the new methodology.

The increase in the weight attached to debt and pensions recognizes the potential for large pension liabilities to constrict a local government's financial flexibility, says Moody's. Because pension liabilities and debt each represent enforceable claims on the resources of local governments, Moody's has weighted the debt portion of its current methodology more heavily to capture the combined financial impact of both debt and pensions.

The reduction in weight attached to economic factors acknowledges that some local governments are either unwilling or unable to convert the strength of their local economies into revenues, says Moody's. Tax caps, anti-tax sentiment, the natural lag between economic activity and its conversion into government revenues, often place obstacles between municipal governments and the income generated by their local economies, as do a variety of other factors.

"There is an economic limit on the level of taxation that a municipality's tax base can bear," said Julie Beglin, Moody's Vice President and one of the authors of the new methodology. "From a legal perspective, the local government's mandate to provide essential public services and pay retiree pensions may also have strong claims on a government's revenue and taxing power, depending on the particular state's laws."

This final publication follows a Request for Comment period on the proposed methodology, which was open from August to November 2013. Market comments led to several small adjustments in the scorecard of the methodology as published. Certain scorecard breakpoints and notching factors were

amended, and the language in the methodology was bolstered to add transparency around the types of considerations that can lead to scorecard adjustments.

The updated methodology publication "US Local Government General Obligation Debt" is available on [Moody's.com](https://www.moodys.com).