

JUSC Releases Latest Study --- Regional Implications of Bond Rating Methodology

June 2005

The Joint Urban Studies Center (JUSC), a research-based think tank working in collaboration with six area colleges and universities, recently completed a study on the impact of bond rating methodology on the counties and communities in northeastern Pennsylvania.

Additional work by the JUSC points to the fact that this region – Luzerne and Lackawanna County and all of its communities – need to work together to enhance its assets while mitigating its challenges. JUSC's study shows that the major bond rating agencies (and insurers) – Standard & Poor's and Moody's look at the broader economic region as they determine the cost of capital for local government financing.

Recent examples point to delays and higher costs because of these concerns. JUSC's recommendations are clear. The bottom line or cost to local government and its taxpayers is affected by problems in surrounding communities. That alone is a compelling enough reason for communities to work together to solve problems. The purpose of this report is to demonstrate the economic interdependence within this region by understanding the methodology of the major bond rating agencies and the similarities facing the communities in our region. We did not analyze every bond issue by Lackawanna and Luzerne counties, and the cities of Scranton and Wilkes-Barre. Background on the purpose of municipal bonds and bond insurance is provided to set the context of the discussion.

A prior study by JUSC, entitled, "Why Aren't We Average?" identifies the similarities in our history and recent trends that point to the fact that northeastern Pennsylvania has more in common than not. JUSC's report, "Why Aren't We Average?" identifies historical issues and trends that permeate the entire Metropolitan Statistical Area (MSA) demonstrating, that the demographic changes during the past 50 years are quite similar. This explains why the cities of northeastern Pennsylvania are facing similar problems today. The region is seeing a declining population overall, less per capita and household income than the state average, and low job and business growth. All these factors contribute to lower revenue for local government to carry out its required functions. Combined, the impact is severe.

A strong example in proving our case is that Moody's considers the role that an issuer's local economy plays in its regional economy. Understanding a municipality's economic profile relative to its neighbors enables analysts to develop a context for economic indicators. This clearly states that the condition, fiscal or otherwise of one

community, has an effect on a neighboring community and, therefore, makes it part of a regional economy. Thus, it is proven that as part of a regional economy, the bottom line of the public sector is affected by the circumstance of other public sector entities.

Further, Moody's also studies commuting patterns to gain insight into a locality's role in the regional economy and the vibrancy of the employment market. One need only stand on Route 81 between Scranton and Wilkes-Barre, north or south during the early morning or late afternoon-evening rush hour, to see the number of commuters moving back and forth through Luzerne & Lackawanna counties.

This alone should be enough to demonstrate that the credit quality of a local government extends beyond the issuing jurisdiction's boundaries. Therefore, no jurisdiction in an economic region should act as an island. Parochialism is warranted in certain situations; however, collaboration to enhance assets, limit gaps; and mitigate challenges are most productive for a win-win situation for all entities.