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## CREDIT MARKETS

# Pittsburgh Debt Is Cut To Junk Status by S&P

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Standard & Poor's dropped its credit rating of Pittsburgh's municipal debt by five notches to junk status, underscoring the financial difficulties of many cities.

The decision by S&P, announced Wednesday, affects about \$879 million of Pittsburgh debt outstanding, all of which is insured, meaning any losses from a possible default would be born by insurance firms instead of investors.

But the action nevertheless made investors nervous as it was one of the sharpest downgrades of tax-exempt municipal debt since California's Orange County filed for bankruptcy protection in 1994.

"We're talking about a major city going below investment grade," says Tom Metzold, a portfolio manager for Eaton Vance Corp., a Boston asset-management firm.

Municipal bonds declined about 0.4% Wednesday, according to Merrill Lynch, losing about the same amount of ground as long-term Treasuries, which were hurt by stronger economic data. But investors sold off municipals more sharply than corporate and mortgage bonds. Traders reported only light activity in Pittsburgh's thinly traded bonds, but activity picked up toward the end of the day and Mr. Metzold said he expected the bonds to fall in coming days.

## ANALYSIS

[See real-time commentary<sup>1</sup>](#) covering releases, events and flows affecting the Treasury market, from Briefing.com.

## AUCTION RESULTS

Here are the results of the Treasury auction of four-week bills. All bids are awarded at a single price at the market-clearing yield. Rates are determined by the difference between that price and the face value.


Applications	\$37,957,308,000
Accepted bids	\$15,000,884,000
Accepted noncompetitively	\$37,419,000
Accepted frgn noncomp	\$0
Auction price (Rate)	99.932 (0.870%)
Coupon equivalent	0.889%
Bids at market-clearing yld accepted	35.39%
Cusip number	912795NW7

The bills are dated Oct. 16 and mature Nov. 13, 2003.

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## DOW JONES REPRINTS

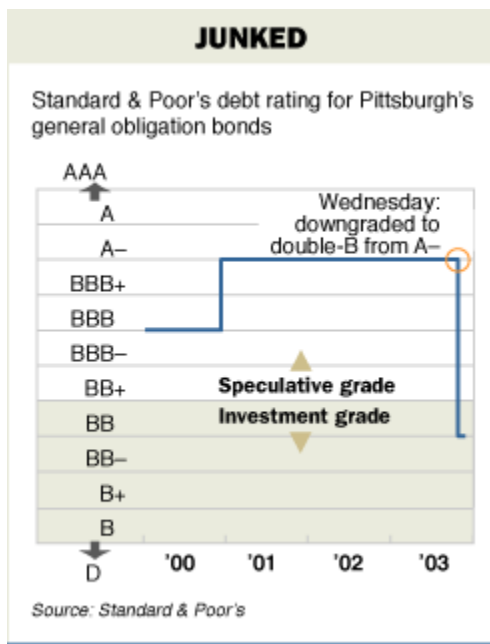
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While Pittsburgh's budget problems are more acute than those of some other cities, they aren't unique. The western Pennsylvania city of 330,000 has an aging population that isn't growing, rising health-care costs and an underfunded pension plan. In 1996 and 1998, the city borrowed more than \$200 million to shore up its then-severely underfunded pension plan. But the city and state have to pour about \$24 million this year into the plan to make up for losses in the stock market since 2000, though the fund's assets have bounced up a bit this year with the stock-market recovery.

Pittsburgh faces an estimated \$40 million deficit this year and an \$81 million shortfall next year. City officials have been lobbying the state of Pennsylvania for new taxing powers, to raise occupation taxes and impose new commuter and payroll taxes, with little luck, forcing the city to rely on further spending cuts.



S&P, in a note accompanying the downgrade, cited continued uncertainty about the ability of Pittsburgh Mayor Tom Murphy, a Democrat, to persuade the Republican-led state legislature, which favors spending cuts, to go along with his financial plan. Last month, the city said in its annual financial report that it may have to consider options under the Federal Bankruptcy Code if the plan isn't passed.

A spokesman for Mr. Murphy added that about 30% of the land in Pittsburgh is occupied by tax-exempt entities such as hospitals and universities, and that the occupancy tax on people who work in the city but live outside of it hasn't been increased since 1965.

Moody's Investors Service held its A3 rating on the bonds and Fitch Ratings kept its A-minus. Both are reviewing their ratings.

Pennsylvania Gov. Ed Rendell, a Democrat, has appointed a task force on Pittsburgh finances, which recommended that the city cut costs but said its deficit can't be erased without new revenue.

### Treasurys

Treasurys prices fell on stronger-than-expected economic reports Wednesday.

At 4 p.m., the benchmark 10-year note was down 15/32 point, or \$4.6875 per \$1,000 face value, at 98 26/32. Its yield rose to 4.401% from 4.343% Tuesday, as yields move inversely to prices. The 30-year bond's price was down 17/32 point at 101 8/32 to yield 5.288%, up from 5.251% Tuesday.

--Clare Ansberry, Stan Rosenberg and Agnes T. Crane contributed to this article.

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- (1) <http://online.wsj.com/documents/bcom-bonds.htm>
- (2) <mailto:aaron.lucchetti@wsj.com>

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