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Statistical analysis of municipal bond ratings under spatial correlation

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Abstract

This study uses a spatial logit model to evaluate the statistical effect of conditions of communities on municipal bond ratings. It finds that private (non-farm) earnings in the community positively explain bond ratings with statistical significance, while earnings from personal transfers negatively affect ratings. Own source of revenues of local governments (local taxes) increase ratings and inter-governmental revenues (transfers to local governments) negatively impact ratings. Outstanding debt fails to significantly explain ratings. The composition of the local economy (e.g., the service sector) weights heavily in a rating, and proximity of the local government to areas with high municipal bond ratings increases ratings.

Notes

¹ These refer to intergovernmental revenues received from the state and Federal governments.

² A larger number rating reflects a higher bond rating.

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