

AEI Panel: Jefferson County and Municipal Finance in the Wake of the Bubble

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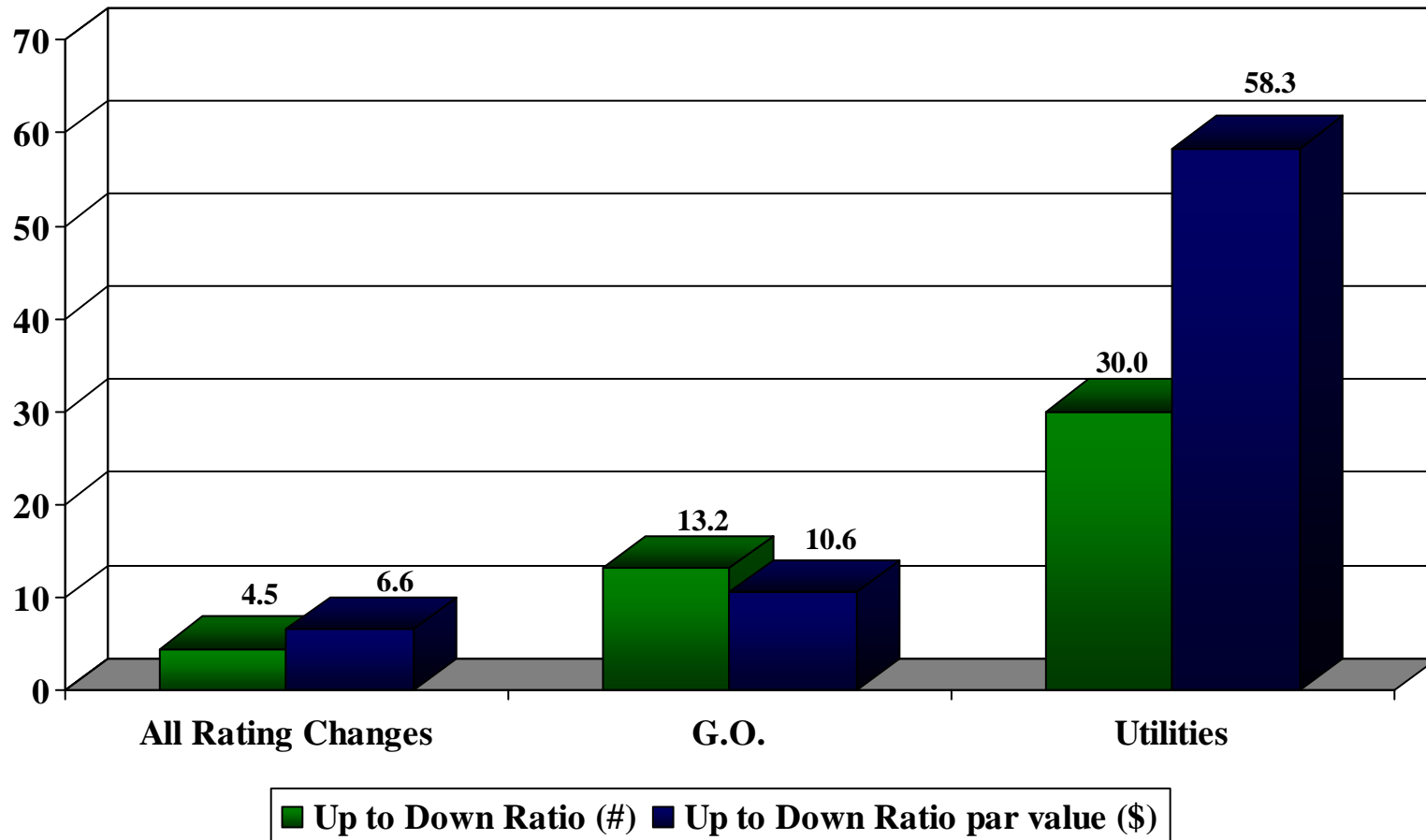
Jefferson County and Municipal Finance in the Wake of the Bubble

Lessons, Implications and Expectations

“Problems develop when the expectations of the borrower and lender prove to have been too optimistic. The danger of overoptimistic expectations is probably the greatest during periods of sustained economic prosperity.....Such optimistic expectations may lead many individual borrowing units into accepting future commitments dangerously large in relation to their resources and without sufficient allowances for possible future emergencies. For the total economy, there is a distinct danger of an overexpansion of economic capacity during such optimistic periods. This overcapacity is undesirable and may contribute toward and increase the severity of a subsequent recession.”

George Hempel, The Postwar Quality of Municipal Bonds, 1964 PhD dissertation on municipal defaults during the Great Depression

Municipal Rating Changes (All Three Agencies) 2008 YTD (thru Aug. 14)



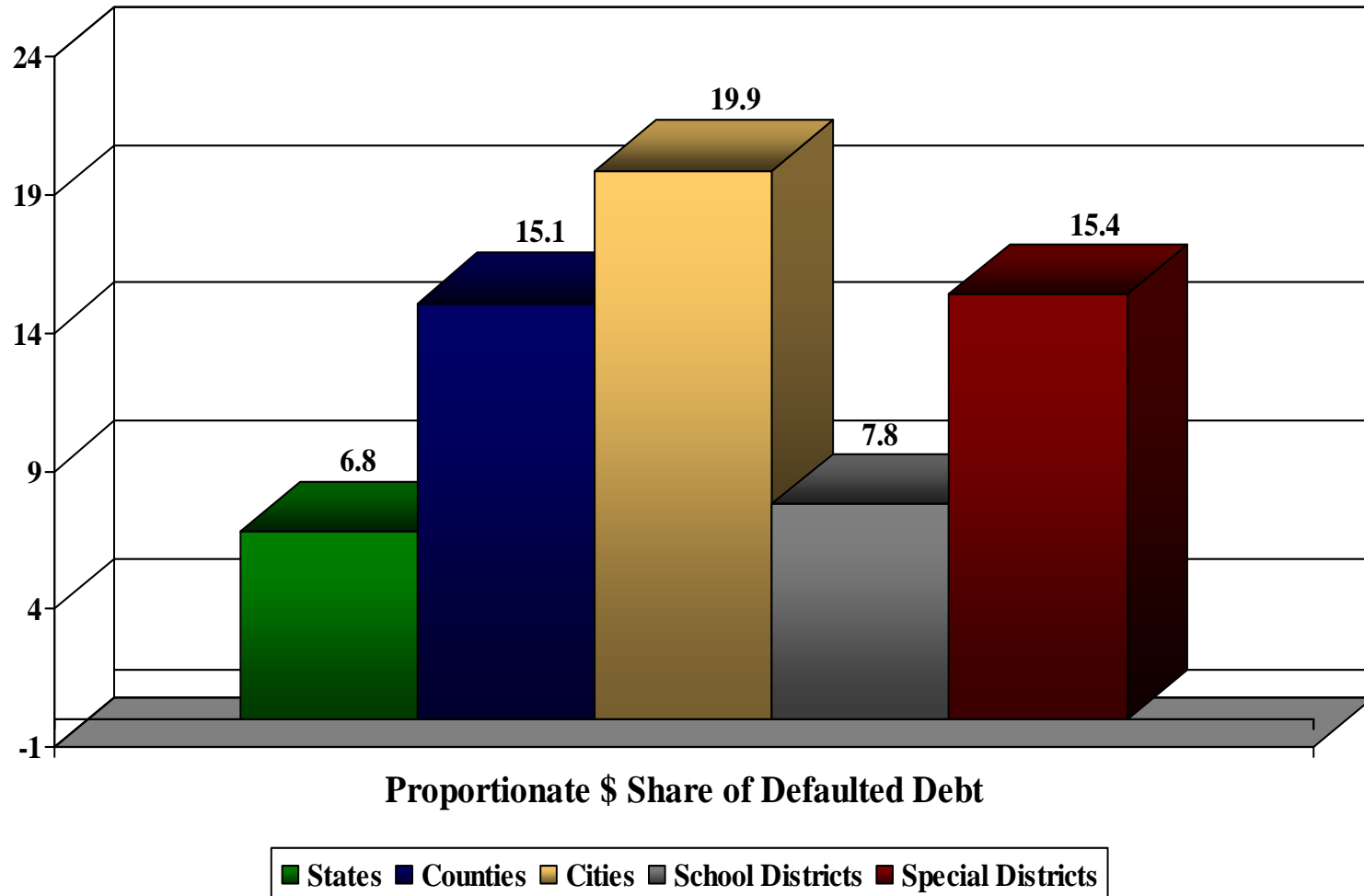
Source: Smith's Research & Gradings (Aug. 18, 2008)

Peak Number of Defaults on Municipal Bonds 1932 - 1946

Type	Peak Number in Default	Date
States	1	May 1, 1933
Counties	359	July 1, 1934
Cities & Towns	851	January 1, 1935
School Districts	882	August 1, 1935
Other Districts	299	September 1, 1935
Special Purpose & Special Districts	1173	May 1, 1938

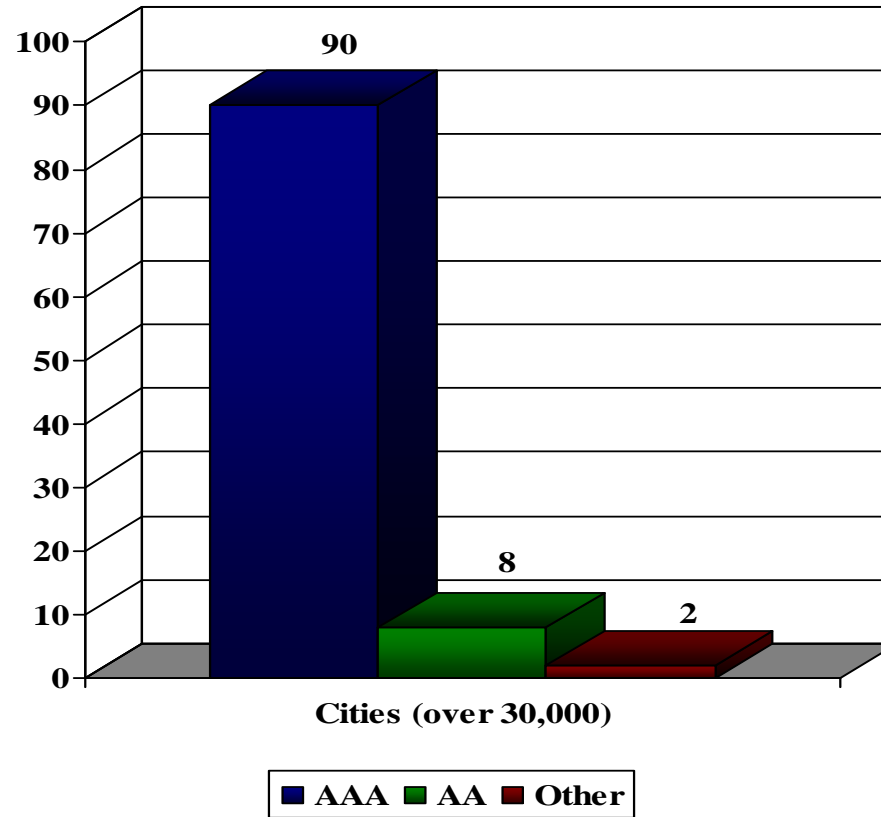
Source: George Hempel, *The Postwar Quality of Municipal Bonds*, 1964 PhD dissertation on municipal defaults during the Great Depression

Incidence of Depression Defaults by Type of Governmental Unit, 1929-1937 By Percent



Source: George Hempel, *The Postwar Quality of Municipal Bonds*, National Bureau of Economic Research 1971

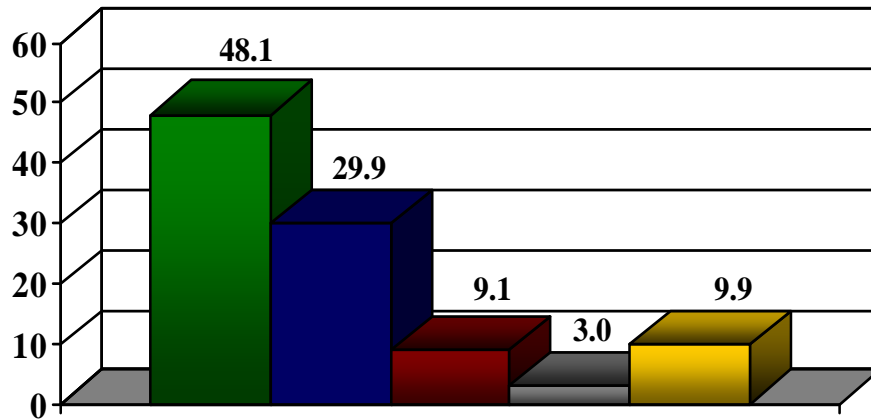
Municipal Bond Ratings for Cities (over 30,000) by Moody's in 1929



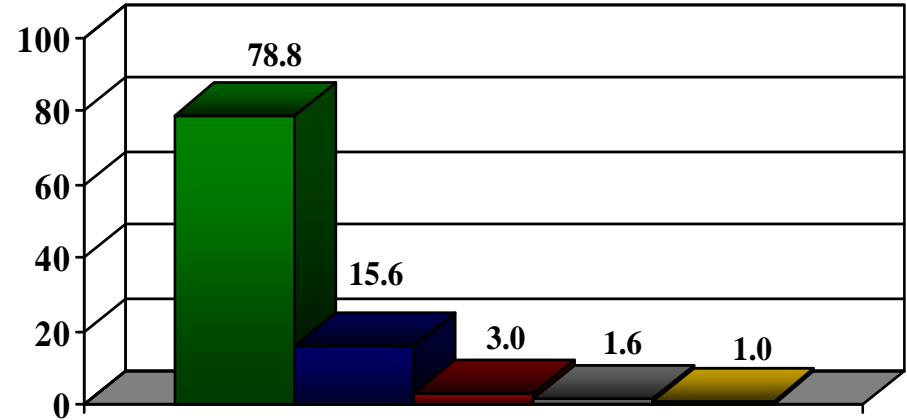
- Nearly 90% of the 310 cities with populations of over 30,000 were rated Aaa in 1929. Nearly 98% of this same group were rated Aa or better.

Source: George Hempel, *The Postwar Quality of Municipal Bonds*, 1964 PhD dissertation on municipal defaults during the Great Depression (page 125)

Bond Ratings for Defaulted Situations During Depression Based on Moody's Municipal Bond Ratings in 1929



% Defaulted (all credits)

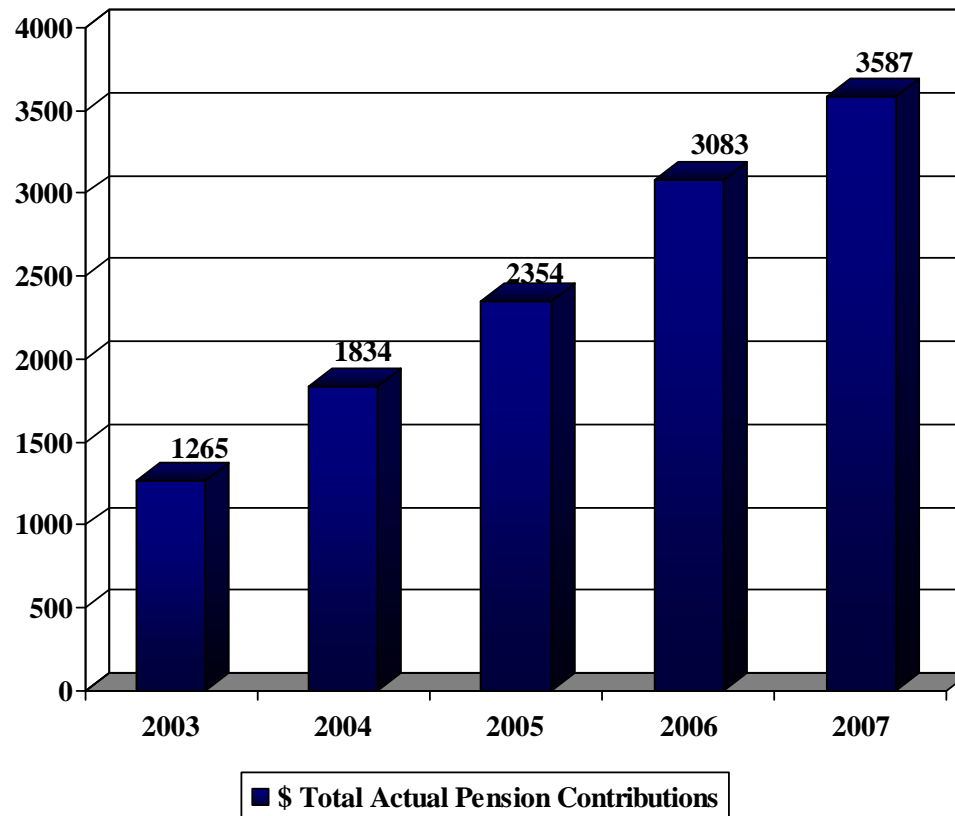


% Par Value of All Credits Defaulting



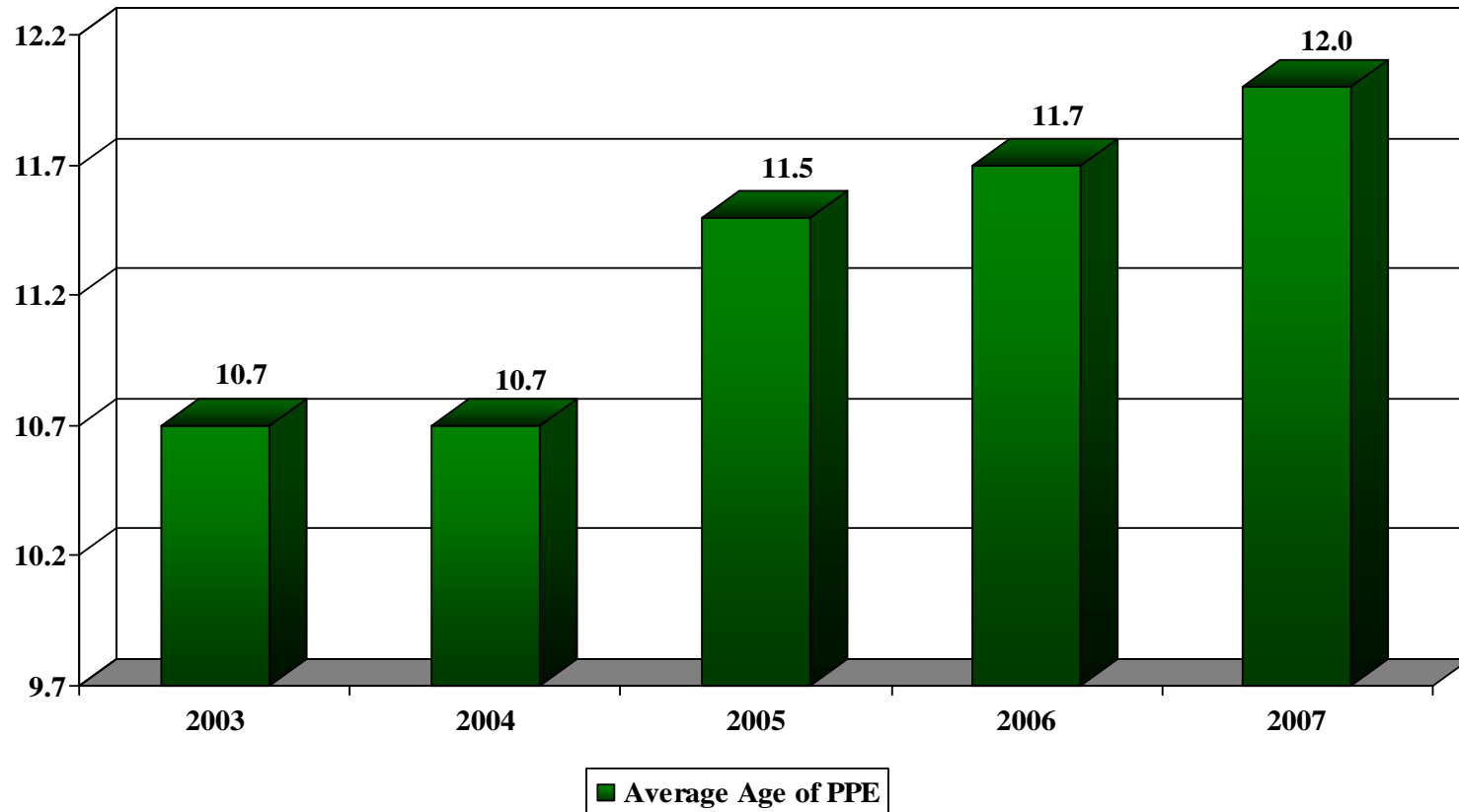
Source: George Hempel, *The Postwar Quality of Municipal Bonds*, 1964 PhD dissertation on municipal defaults during the Great Depression (pages 122-125)

Median Annual City Pension Contributions *National Sample 2003-2007*



Source: Merritt Research Services LLC data

Median Annual City Average Age of Property, Plant & Equipment *National Sample 2003-2007*



Source: Merritt Research Services LLC data

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