
Fitch: Midway through 2014 Uncertainty Evaporating for U.S. States.

The significant uncertainty with which U.S. States entered 2014 has largely dissipated as revenue and spending have, to date, been in line with budget forecasts, according to a Fitch Ratings report.

'Two anticipated risks to budget forecasts – healthcare reform and federal inaction – have had little negative impact on U.S. State credit this year. While the actual implementation of healthcare reform has been difficult, this has not had a material negative budgetary effect. Also, the congressional spending agreement has alleviated the threat that federal developments could derail the economic recovery or lower funding to states,' said Laura Porter, Managing Director, Public Finance at Fitch.

'April income tax results will be the final test of the accuracy of forecasts related to last year's income acceleration dynamic, and harsh winter weather in many places has had a negative economic effect, but states generally are seeing more upside than downside potential for revenue results at this point,' said Porter.

Governors' budget proposals for the coming fiscal 2015 year are fairly steady despite the fact that it is a big election year, with gubernatorial elections in 36 states. State forecasters are generally projecting continued growth for fiscal 2015.

States continue to fund pensions through increased contributions and benefit reforms. Notable pension reform was enacted in Illinois, the state with the largest unfunded pension liability burden, and Rhode Island may have reached resolution on legal challenges to the major reforms it enacted in 2011. Significant reform efforts continue in Pennsylvania, and may be gearing up again in New Jersey.

States' audited fiscal 2013 comprehensive annual financial reports reflect overall fiscal improvement due to continued positive baseline trends in the recovery and the taxpayer acceleration of income into calendar 2012 to avoid federal income tax increases, which benefitted fiscal 2013 in most states.

Fitch continues to expect most state ratings to be stable in 2014.

For more information, a special report titled 'Public Finance Credit View: States' is available on the Fitch Ratings web site at www.fitchratings.com, or by clicking on the link.

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