

# **Bond Case Briefs**

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## **S&P: Fiscal Resilience Among U.S. States Varies As Economic Expansion Surpasses Seven-Year Mark.**

A majority of the 10 U.S. states with the most tax-supported debt outstanding have only a limited capacity to withstand the effects of a moderate recession, S&P Global Ratings found when it assessed their 2016-2017 budgets. The results of our scenario analysis underscore that fiscal health across the U.S. state sector is subject to the powerful countervailing effects of pro-cyclical revenue trends and countercyclical expenditure pressures. We have previously asserted that from a credit perspective states fare better when they leverage periods of economic growth to restore fiscal alignment and build budgetary reserves. This simulation affirmed our view.

Throughout 2016, we have described state fiscal health as uneven. Several states have yet to fully recover from the recession that ended in 2009 and some remain ill-equipped to withstand unanticipated fiscal stress. Others—because their economic and revenue bases depend on oil extraction—are mired in more acute fiscal stress brought about by the dramatic fall in oil prices. Complicating matters is that since 2000, state tax revenues have, to varying degrees, grown increasingly responsive to changes in economic performance.

### **Overview**

- Fiscal imbalance in the latter stage of economic expansion indicates heightened vulnerability to a recession scenario;
- States with more volatile revenue bases necessitate relatively larger budget reserves to achieve the same budgetary protection from recessionary conditions as states with more stable revenues;
- Countercyclical Medicaid enrollment patterns exacerbate the fiscal pressure on states during economic downturns;
- The magnitude of revenue shortfalls in a recession is a function of baseline forecast assumptions and the sensitivity of the tax base to economic conditions;
- Stress scenario analysis illustrates that aggregate potential revenue shortfall of \$27 billion among the 10 states in our study could exceed these states' \$21 billion in budget reserves

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