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Fitch: Budget Wrangling Continues in Seven States.

Fitch Ratings-New York-06 July 2017: Illinois, Connecticut, Massachusetts, Pennsylvania, Oregon, Rhode Island, and Wisconsin remain without a budget for the new fiscal year, although Fitch Ratings anticipates no immediate rating implications, except potentially in the case of Illinois. Fitch placed the state on Rating Watch Negative, due partly to its inability to enact a budget in the prior two fiscal years.

The Illinois (Issuer Default Rating [IDR] of 'BBB'/RWN) legislature appears close to enacting its first full budget since fiscal 2015 but still needs to override the governor's vetoes. The budget bills approved by the legislature and vetoed by the governor, include permanent income tax increases and recurring expenditure reductions, along with a plan to issue bonds to pay down a portion of the state's significant accounts-payable backlog. The state Senate overrode the governor's vetoes on Tuesday; the House will likely convene this afternoon for its own vote. The original House votes on the budget bills had enough legislative support to override the vetoes.

Weak revenue performance has complicated budget negotiations in several states without enacted budgets while idiosyncratic issues have pushed others beyond their June 30 deadline. Many states retain statutory or constitutional authority to make debt service payments without enacted budgets. Fitch anticipates states will take appropriate measures to make timely payments in accordance with their generally high credit quality.

Revenue shortfalls in the prior fiscal year in Connecticut ('A+'/'Stable') and Pennsylvania ('AA-'/'Stable') contributed to structural budget gaps for the current year, challenging legislators and governors to come to fiscal agreement. Connecticut's House rejected the governor's proposal for a short-term budget and negotiations are at a standstill on how to address the sizable projected budget gap in the 2018-2019 biennium. The governor has signed an executive order authorizing limited current spending until the budget is resolved.

The Pennsylvania legislature and governor have agreed on a spending bill though negotiations are ongoing for a revenue plan. The commonwealth took the same approach last year and the governor has until midnight on July 10 to sign, veto or allow the spending bill to go into law without his signature.

Massachusetts ('AA+'/'Stable') also dealt with a revenue shortfall in fiscal 2017, creating a budget challenge for 2018. The commonwealth has already enacted a one-month interim budget through the end of July to provide additional time to negotiate a full-year budget (similar to the approach taken in recent years). In Wisconsin ('AA-'/'Stable'), legislators have been working to address a shortfall in transportation funding. The state also enacted its last biennial budget two weeks late.

Oregon's ('AA+'/'Stable') budget process includes multiple bills. Most have been approved for the current biennium. The legislature is still deliberating over several measures including a bill to cut state spending through various means including the merger of two boards that provide health benefits to teachers and state employees, and changes to state hiring practices.

Rhode Island's ('AA'/Stable) late budget is arguably the most surprising development. Legislative leadership and the Governor had appeared set to finalize a budget on June 30. Before final approval, the state Senate amended the House's proposed six-year phase-out of a car tax levied by local governments, with the state reimbursing municipalities for the lost revenue. The Senate's amended bill would freeze the phase-out along with state reimbursements if the state accessed its Budget Reserve and Cash Stabilization Account (rainy day fund). The state last drew on the fund in fiscal 2009, during the last recession. Rhode Island's House did not take up the revised bill and the Speaker has indicated he may hold his chamber out of session indefinitely. Without a budget, the state operates under fiscal 2017 appropriations levels per statutory provisions.

Several states resolved budget disputes over the holiday weekend. Delaware ('AAA'/Stable), Maine ('AA'/Stable), and New Jersey ('A'/Stable) all enacted budgets several days into their new fiscal years. Delaware and New Jersey's budgets were delayed primarily by disagreements on policy issues rather than spending plans, and late negotiations in both states led to resolution. Maine's budget was the first to be signed into law by the current governor, rather than enacted over his veto, in three biennia.

Washington ('AA+ '/Stable) enacted its budget less than an hour before the start of the new fiscal year, with the legislature voting on a budget bill the same day it was publicly released. The budget includes significant additional state funding, primarily through an increase in the state property tax levy, to address long-standing demands from the state's Supreme Court to address education funding issues.

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