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Fitch: U.S. Public Finance Strengthening Despite Uptick in 3Q Downgrades

Fitch Ratings-New York-11 October 2021: U.S. public finance sectors hit hard by the coronavirus pandemic continued to move away from the pandemic's fallout last quarter, according to Fitch Ratings in its latest quarterly rating actions report.

Fitch upgraded 26 U.S. public finance ratings and downgraded 30 in third-quarter 2021 (3Q21) compared with 28 and 18, respectively, in 2Q21. The uptick in downgrades last quarter was partly driven by unusual downgrade activity in the public power sector, namely among Texas public power and electric cooperatives.

The uptick in downgrades was driven in part by changes Fitch made to its criteria for U.S. life plan communities (LPC) earlier this year; subsequent review of credits placed 'Under Criteria Observation' contributed modestly to the number of downgrades. Overall, about 87% of U.S. public finance ratings carry a Stable Rating Outlook.

The fiscal turnaround continues for U.S. states with Fitch revising its Rating Outlooks for New Jersey and Nevada to Stable from Negative and Ohio's Rating Outlook to Positive from Stable last quarter. Updated revenue forecasts for fiscal years 2021 and 2022 generally reflect improved economic performance and outlooks. However, 'caution is warranted for some states around the tax revenue effects if services spending rebounds while goods spending weakens,' according to Arlene Bohner, Fitch's Head of U.S. Public Finance.

Fortunes also continue to improve more broadly for not-for-profit hospitals with most providers well positioned to absorb future coronavirus aftershocks, even with cases on the rise again. Colleges and universities are also seeing improvement with no downgrades in 3Q21, one upgrade and six favorable Outlook revisions thanks to better-than-anticipated enrollment and favorable operating performance. That said, net tuition revenue growth will remain stagnant through both this academic year and the next.

'U.S. Public Finance Rating Actions Report and Sector Updates: Third-Quarter 2021' is available at 'www.fitchratings.com'.

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