Bond Case Briefs

Municipal Finance Law Since 1971

S&P: Collapsing Oil Prices Seep Into State Credit Profiles.

In its recent state sector outlook, Standard & Poor's Ratings Services identified 11 states as coming under negative fiscal pressure at the start of 2016. Low and declining oil prices explain much of the pressure in at least five of these states. Not all states with significant oil producing sectors are faced with fiscal pressure to the same degree, however. There are several variables that explain why some oil producing states are more immediately affected in their budgets by falling oil prices than others. These include:

- What oil price did the state assume in its budget?
- How much does the state's operating budget rely on oil-related tax revenue?
- Did the state accumulate reserves while oil prices were high?

In short, the more aggressive a state was with regard to its assumptions and use of oil-related revenues during the oil boom, the more acute its fiscal pressure now, in the oil price bust. For states with greater budgetary reliance on oil-related revenue, the unrelenting decline in prices places a larger burden on state lawmakers to identify and enact corrective fiscal measures. Short of something not easily forecasted, such as a supply shock stemming from turmoil in the Middle East, it's unlikely that state policymakers will be bailed out by a sharp rebound in oil prices. On the contrary, as of early 2016, and with sanctions on Iran being lifted, oil prices have continued to fall and are now well below what the states had forecasted. At this point, all of the states in our survey still have a higher price forecast for 2016 than does Standard & Poor's ($40 per barrel). For fiscal 2017, only one state (North Dakota) forecasts a price range in line with our forecast price ($45 per barrel); the other states still have a more bullish outlook. This suggests that as they head into budget season, fiscal pressures in these states could be more intense than what their official forecasts currently anticipate. (See "S&P Lowers Its Hydrocarbon Price Deck Assumptions On Market Oversupply; Recovery Price Deck Assumptions Also Lowered," published Jan. 12, 2016 on RatingsDirect.)

Some oil producing states have partially mitigated the effect of commodity market volatility on their budgets by segregating the oil-related revenue, putting most of it in reserves or special funds. But with producers reining in their operations, economic losses are not confined to just the energy sectors in these states. Overall job growth from among the oil producing states in our survey is now materially lower than for the nation as a whole. According to the Bureau of Labor Statistics, whereas total nonfarm payroll jobs increased 1.9% during the 12-month period through November 2015, the eight states in our survey saw job growth of just 0.9%. Not surprisingly, lower than expected job and economic growth is showing up in the recent revenue data reported by Texas, North Dakota, Louisiana, and Oklahoma, where collections have fallen short of the budget forecast. There are also signs of expenditure side pressure where job losses translate to higher demand for social services. For example, public assistance expenditures in Texas are running ahead of budget in fiscal 2016 while tax collections are lagging fiscal 2015 receipts through the same date. This environment contributes to our belief there is potential for an uptick in rating volatility in the state sector during 2016.

Continue reading.

21-Jan-2016