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Fitch: Majority of US State & Local Govts Inherently Stable Despite Growing Divergence from Minority.

Fitch Ratings-New York-22 November 2016: While the vast majority of state and local governments are able to maintain high credit quality with no risk of missing debt service commitments during economic stress, there is a growing divide from a minority of issuers who face fundamental credit weaknesses, according to a new Fitch Ratings report.

“There is growing divergence between the vast majority of state and local governments which are stable and strong, and a small number that continue to struggle deep into the economic expansion. The struggling governments have been unable to address the credit issues they face because of fundamental credit weakness,” said Eric Kim, Director.

U.S. tax-supported credits do face significant credit issues that could threaten credit quality if left unaddressed, including rapid fixed cost growth, rising healthcare spending, weakening demographic trends, and infrastructure.

Some state and local governments continue to face significant difficulty maintaining structural balance. Challenges like rising pension burdens are particularly acute for certain credits.

These governments remain isolated cases and not reflective of the overall condition of U.S. state and local government credit quality. Most governments have strong ability to address budget challenges through reasonable revenue and cost measures.

Fitch’s average annual rating default rate for U.S. subnational governments between 1999 and 2015 was just 0.02%. This reflects an average general government rating in the ‘AA’ rating category; by contrast, the average corporate rating is in the ‘BBB’ rating category.

The full report titled ‘Looking Beyond the Headlines: State and Local Credits Maintain Underlying Strength and Stability’ is available at www.fitchratings.com.

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