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Fitch: Budget Challenges Await Some U.S. States in 2018.

Fitch Ratings-New York-06 December 2017: U.S. states are well positioned to meet budget forecasts next year so long as the economy continues to grow, though five states could run into some issues, according to Fitch Ratings in its 2018 outlook report.

The Rating Outlooks for most U.S. states are Stable and expected to remain so over the next 12 months. Federal action remains the pre-eminent factor driving state credit ratings in the coming year. Decisions around Medicaid and tax policy present the most immediate risks while infrastructure, trade and other policy areas will affect economies and budgets over time, all with varying degrees by state.

Nearly one year into the new federal administration, many areas of policy remain unresolved. Throw in increasingly contentious state budgeting sessions and policy becomes more of a challenge for states next year. However, “state budget makers are historically conservative, which should make budget forecasts attainable for the vast majority of U.S. states,” said managing director Laura Porter.

Helping matters is the likelihood of the broader economy continuing to grow next year, which is what Fitch is projecting. “Changes to federal funding could present a challenge without mandate relief, though states would likely rely on their strong ability to manage budgets and download fiscal challenges were federal changes to take place, protecting ratings,” said Porter.

The overall stable outlook for the sector, however, is not without its outliers. Not surprisingly, Illinois and New Jersey are once again on Fitch’s “states to watch” list in 2018 along with Connecticut, Kentucky and Louisiana. “Illinois will enter 2018 with an enacted budget for the first time in nearly three years, though whether the budget will be successfully implemented remains a lingering question mark,” said Porter. “If Illinois reverts back to a pattern of deferring payments for near-term budget balancing, their credit rating could face more immediate pressure.”

The full report, ‘2018 Outlook: U.S. States’ is available at ‘www.fitchratings.com’

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