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Fitch: Outlook for U.S. Local Government Ratings Stable in 2018.

Fitch Ratings-New York-06 December 2017: Numerous questions concerning Federal policy and infrastructure adequacy will not impede the financial resiliency of U.S. local government ratings next year, according to Fitch Ratings in its 2018 outlook report.

Fitch's stable outlook for U.S. local government ratings remains in place for 2018 thanks in large part to their financial dexterity in uncertain times, both economic and otherwise.

"Local governments have long demonstrated the ability to close budgetary gaps throughout economic cycles," said Managing Director Amy Laskey. "Also helping matters are reserve levels, which going into next year are well in excess of what is needed to offset a recessionary revenue decline."

Federal policy uncertainties around Medicaid, the federal tax system and international trade could heighten the risks associated with local government non-property tax revenue. Depending on the outcome of each of these areas, school districts would be most at risk as a result of changes to Federal policy since they are most reliant on state aid. Also worth watching are localities bordering Canada and Mexico that would be vulnerable to loss of direct revenues resulting from changes in trade policy.

Infrastructure remains an ongoing concern and more so in light of Hurricanes Harvey, Irma and Maria, which caused widespread damage in parts of Texas, Florida, and much of Puerto Rico and the Virgin Islands. That said, local government ratings should remain well insulated from ongoing rebuilding costs as they are largely shouldered by the federal government.

"Local governments will not have to issue much debt that is not reimbursable by the federal government, so the recent storms should not affect debt service or long-term liability burdens," said Laskey.

Another area of note in the coming year is the desire by some local governments to create structures that protect bondholders from a government's general operating risk. One such structure is securitization, as evidenced by the recent creation of Chicago's Sales Tax Securitization Corporation.

"Several California issuers along with the Chicago Board of Education have also issued bonds secured by tax revenues that lead Fitch to analyze the debt without regard to operations, and increased interest among some other local government entities is a real possibility headed into 2018," said Laskey.

The report "Fitch 2018 Outlook: U.S. Local Governments" is available at 'www.fitchratings.com'

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