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Agreement at Start of New Budget Year in Fitch's '5 U.S. States to Watch'

Fitch Ratings-New York-10 July 2018: The new fiscal year began smoothly last week with most states passing budgets on time and with limited contention, according to Fitch Ratings in a new report that provides brief budgetary overviews for all Fitch-rated states.

July 1 came and went with enacted budgets in place in all but two states, and lingering issues for the two outliers (Massachusetts and South Carolina) either have been or are likely soon to be resolved. Among the states with agreements in place were the five “U.S. states to watch,” a designation Fitch came up with at the start of 2018 for states that were grappling with heightened budgetary issues.

“Connecticut benefited from substantial windfall revenues related to federal tax changes and now has a budget reserve funded at a post-recession high despite ongoing budget challenges,” said Managing Director Laura Porter. Elsewhere, “Illinois passed an on-time budget for the first time in four years, although significant structural problems persist.”

Illinois’ lingering structural issues include a lack of progress in addressing its sizable accounts payable backlog and questions around \$400 million in unpaid step-pay increases. Nonetheless, “enacting an on-time budget with bipartisan support allows Illinois to enter the new year with a clear fiscal plan and clarity for the state’s key fiscal partners,” said Porter.

Other timely starts to the budget year include Louisiana, which addressed a budget gap resulting from temporary tax expiration with help from revenues related to federal tax changes. For the first time in over a decade, Kentucky’s budget includes full actuarial pension contributions for all of the state’s pension plans, but long-term budgetary challenges are not fully resolved.

Budget sessions were not without some fireworks. Passing its budget at the 11th hour and averting a government shutdown was New Jersey, which is now under one-party control for the first time in eight years. The governor and legislators compromised on a series of tax increases to support projected revenue growth of almost 6%. “New Jersey’s budget will grow by about 4% as the state addresses a wide swath of critical needs while gradually ramping up its pension contribution,” said Porter.

Fitch’s “U.S. State Budget Update” is available at ‘www.fitchratings.com’.

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