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Fitch Ratings: Medicaid, Infrastructure Among Key Focuses for U.S. States

Fitch Ratings-New York-04 December 2018: U.S. state governments are up against numerous potential headwinds heading into next year, though revenues should continue to grow so long as the broader economy continues its upward trajectory, according to Fitch Ratings in its 2019 outlook report.

Fitch has a stable outlook for U.S. state government ratings for 2019 thanks largely to the sector's overall strengths – broad economies and tax bases and substantial control over revenue raising and spending. The debate in most states will be around whether to allocate additional revenues to spending priorities or tax reductions. That said, developments in some states could affect their rating performance in the coming year. Fitch's states to watch in 2019 are Alaska, California, Connecticut, and Illinois, and the Rating Outlooks on Hawaii (Positive) and Pennsylvania (Negative) also indicate an elevated likelihood of change this year.

Federal government action remains the biggest risk for U.S. state government ratings, though a House/Senate split following the recent midterm elections has alleviated some concern. Medicaid spending will remain one of the largest fiscal hurdles of state budgets despite an expected near-term respite from congressional attempts to fundamentally restructure the program.

While Medicaid is likely at or near the top of the priority list of items state governments will be focused on, the inadequacy of current transportation funding remains a concern for state policymakers. Interestingly, infrastructure funding seems a potential area of bipartisan agreement on the federal level at a time of divided government.

Most states will be debating budgets next year, at a time of many new governors and state revenues that have become more difficult to forecast. Fitch rates to fundamentals rather than the political cycle, though a material change in fiscal policy could become a credit issue, particularly if economic conditions deteriorate notably.

Fitch's '2019 Outlook: U.S. States' report is available at www.fitchratings.com.

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