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Fitch Ratings: U.S. Local Governments Largely Downturn-Ready Headed into 2019

Fitch Ratings-New York-04 December 2018: U.S. local governments are heading into next year by and large well-prepared fiscally for the next economic downturn whenever it comes, according to Fitch Ratings in its 2019 outlook report.

'The most prepared local governments have ample reserves and sound budgetary flexibility,' said Fitch Managing Director Amy Laskey. Local governments that rely primarily on property taxes will generally see at least some revenue growth given continued increases in home values. The sector is not without its outliers; some communities are still trying to regain fiscal resilience lost during the last economic downturn. 'The biggest struggles for some challenged local governments remain continual pension pressures and lack of revenue control.'

As such, the ability to curb expenditure growth will be a priority for local governments in order to stem the tide of slowing revenues, wage pressures and increasing pension and other benefit costs. Expenditure pressures are particularly stark for school districts. 'Expenditure cuts remain a likely solution, but avoiding an impact on the classroom is becoming more challenging,' said Laskey.

Expenditure pressures will make finding funds to address infrastructure needs even more difficult headed into 2019. Infrastructure needs continue to weigh negatively on local budgets. A federal infrastructure program would help address at least some of the growing unfunded needs and may become more likely with the upcoming change in Congress.

Outliers notwithstanding, Fitch expects continued stability for local government financial operations in 2019. Ratings in this sector remain high and concentrated largely within 'AAA'/'AA' territory, reflecting core sector strengths.

'Fitch Ratings 2019 Outlook: U.S. Local Governments' is available at 'www.fitchratings.com'.

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