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Moody's: New Jersey's Recession Preparedness Reserves are Weak.

Three years after Moody's Corp. municipal finance analysts last evaluated U.S. states' recession preparedness, it has published an update that looks at four fiscal and credit variables to determine how well states can weather a moderate recession without significant adverse credit impact.

While Moody's found that most states will be able to weather a moderate recession – due in part to healthy reserves and inherently strong fiscal flexibility, Moody's found preparedness is stronger for 22 states and moderate for 26 – New Jersey (rated A3/stable) and Illinois (rated Baa3/stable) showed weaker recession preparedness.

States were rated on the following credit factors: revenue volatility, coverage by reserves, financial flexibility and pension risk.

"While current economic conditions are strong, states are aware that a downturn will come eventually and are building reserves to prepare," said Emily Raimes, vice president and senior credit officer at Moody's, in a prepared statement. "While most states have healthy reserves and inherently strong fiscal flexibility, Illinois and New Jersey both have low levels of reserves relative to the potential revenue decline in our recession scenario.

"In addition, they both show weakness in their pension risk scores," Raimes said.

While New Jersey has recently added to its reserves as the state works to improve its fiscal preparedness, Illinois is developing a strategy to improve its pension funding and structural budget balance.

Moody's added that while fiscal expansions at the federal level have offset state revenue shortfalls in previous recessions, the economy will enter the next recession with less fiscal space than before the financial crisis.

Wide federal budget deficits, a rising debt burden and a polarized political environment have reduced the fiscal space of the United States compared with its position before the most recent recession. The federal government, therefore, might not be in a position to help states in the next recession as it has in the past.

Moody's says that one way states can deal with a revenue shortfall when a recession hits is to plug a portion of the budget gap with reserves. When estimates of expected reserve levels were applied, Moody's saw coverage of a revenue decline equal to the state's largest one-year revenue decline. In this scenario, 26 states would be able to cover the decline solely with reserves.

By: NJBIZ STAFF

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