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Fitch Ratings: Fiscal 2020 Off to Mostly Smooth Start for U.S. States

Link to Fitch Ratings' Report(s): U.S. State Budget Update (Strong Fiscal 2019 Revenue Gains Support 2020 Budgets, but Outlook is Cautious)

Fitch Ratings-New York-01 August 2019: Most U.S. states have begun fiscal 2020 with newly enacted budgets and little in the way of significant delays, including four that Fitch Ratings designated as 'States to Watch' at the start of 2019 in a new report. Following budget enactment, Fitch revised the Rating Outlooks on Pennsylvania and Illinois to Stable from Negative.

Continuing its fiscal prudence, California coasted to an enacted budget on time and in fairly short order. "The California budget continued the prudent path set during the prior administration, with revenue growth directed to one-time spending, building budgetary resilience, and also to limited on-going spending," said Karen Krop, Senior Director and Fitch's lead analyst for California.

A fiscal 2020 budget is also in place for Alaska, though it ran into a stumbling block over its permanent fund payment to residents, which the enacted budget did not appropriate, leaving it to a special legislative session to address.

Fitch's other two 'States to Watch' also notably made it to the finish line on time by ameliorating some of their respective fiscal challenges. "Connecticut closed a significant projected budget gap through tax increases, better than expected revenue expectations and by cutting expenditures," said Senior Director and lead Connecticut analyst Marcy Block.

"Illinois has begun to dig out of four years of gridlock thanks to unexpectedly high revenue collections in fiscal 2019 that made budget balancing decisions for fiscal 2020 less onerous," said Eric Kim, Senior Director and lead analyst for Illinois.

The start of 2020 is not without its roadblocks, however. Seven states started the fiscal year on July 1 without an enacted fiscal 2020 budget in place. The governors of New Hampshire and North Carolina vetoed the legislatively approved budgets and will have to continue relying on short term remedies until they come to agreement on budgets for fiscal 2020. Oregon has yet to pass its biennial budget, while Rhode Island, Wisconsin, and Ohio each ran into minor delays before enacting their respective state budgets. The Massachusetts budget is awaiting the governor's signature.

Also of note in the next 12 months, not surprisingly, will be pensions. Concerns over the long-term sustainability of pension obligations and rising contribution burden are still key issues for states. Several states made notable changes to pensions. California directed billions of dollars from robust revenue collections into its public employee and teacher systems to reduce future contribution pressure on the state and schools. Texas' legislature materially raised its contributions for teachers' pensions to improve chances of funding progress, while Connecticut extended its teacher plan amortization to reduce the risk of a contribution spike over roughly the next decade.

Fitch's 'U.S. State Budget Update' for Fiscal 2020 is available at 'www.fitchratings.com' or by

clicking on the link.

Contact:

Arlene Bohner
Senior Director, Head of U.S. State and Local Government Ratings
+1-212-908-0554
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Karen Krop
Senior Director
+1-212-908-0661

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

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