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S&P: Oklahoma Court Ruling On Johnson & Johnson In Wake Of Opioid Crisis Is Not Likely To Affect Municipal Credit Quality

NEW YORK (S&P Global Ratings) Aug. 27, 2019—S&P Global Ratings does not expect Monday's court ruling in Oklahoma imposing a \$572 million judgment on Johnson & Johnson for contributing to the state's opioid crisis to affect municipal credit quality.

Although the opioid crisis is real (see "The Opioid Crisis Is Real, But Not Yet A Threat To State Credit Quality," published Oct. 31, 2017, on RatingsDirect), the direct financial impact on the various states for the costs of the crisis has not been high enough to date to affect a municipal bond rating. In this particular case, the judge has ruled that judgment proceeds should be directed to opioid mitigation programs; therefore we believe it would be unlikely to affect state unreserved fund balances. The size of the judgment also needs to be placed in context with Oklahoma's \$8.1 billion enacted fiscal 2020 budget, assuming the judgment is not reduced on appeal. We rate Oklahoma's general obligation debt AA/Stable.

In the wake of this ruling, other states and other opioid manufacturers might pursue private legal settlements that could impose fewer restrictions on the use of settlement proceeds, similar to settlements reached in earlier state litigation over the costs of tobacco use. That master tobacco settlement essentially imposed no restrictions on state use of settlement proceeds. Some minor favorable increase to state budgets is possible if opioid settlements increased state coffers, but as has happened following the earlier tobacco settlement, we do not expect to change an individual state rating based on expected settlement outcomes. That tobacco settlement provided ongoing state revenue from continued smoking consumption, while in the opioid situation the states' goal is to end misuse of opioids. As a result, opioid settlement proceeds are likely to be of a one-time nature, and even less likely to affect long-term credit quality.

This report does not constitute a rating action.

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