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Fitch Ratings: U.S. State and Local Governments to Hold Steady in 2020

Fitch Ratings-New York-10 December 2019: Stability is in the cards for most U.S. state and local governments next year even with a slowing economy making revenue forecasting more difficult, according to Fitch Ratings in its 2020 outlook report.

Fitch has a stable outlook for both sectors in 2020 despite uncertainties related to economic growth, the effect of federal policy, and spending demands for labor and infrastructure. 'Governments will continue to exercise their considerable control over revenues and spending to maintain sound financial resilience,' said Arlene Bohner, Fitch's Head of U.S. state and local governments.

Fitch has identified three states to watch in 2020 that could see tangible changes in credit quality. 'Alaska and Illinois both face potential constitutional amendments that could alter Fitch's assessments of credit quality, while Kentucky will have a gubernatorial transition as it deals with ongoing budgetary challenges,' said Bohner.

Alaska will face key questions on gubernatorial proposals that may weaken operating flexibility. Alaska's governor will continue to seek a full dividend payment for residents and legislative approval for a set of constitutional amendments, which, if enacted, could weaken the state's budgetary operating flexibility and negatively affect the state's Issuer Default Rating.

Illinois voters will decide in November on a constitutional amendment to allow a graduated individual income tax. The credit implications depend on whether Illinois uses any increased revenues to address structural budget challenges, or if the state can adequately adjust its budget to work toward structural balance if the amendment fails.

Kentucky's new Democratic governor will need to work with the Republican-controlled legislature to address persistent budgetary challenges with enactment of a new biennial budget due in the first half of 2020. Maintaining structural spending while reducing reliance on non-recurring budget measures could prove challenging if the political environment deteriorates.

'Fitch Ratings 2020 Outlook: U.S. States and Local Governments' is available at www.fitchratings.com.

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