

# Bond Case Briefs

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## S&P U.S. Local Government Mid-Year Sector View: Unprecedented And Unpredictable

### **Mid-Year Sector View: Negative**

Disruptions caused by COVID-19 and the related recession came on quickly, but will create fiscal strain for local governments for some time to come. In light of this, we expect revenue shortfalls and imbalanced budgets will lead to credit pressure through 2020 and beyond, and in many instances long after much of the rest of the economy has normalized. Falling revenues from sales and other user taxes will pressure ratings, particularly for issuers with limited revenue and/or expenditure flexibility. Uncertainty regarding the amount of federal stimulus that may be forthcoming only adds to issuers' short-term planning pressures. We expect many issuers will use reserves to bridge gaps in revenue shortfalls. In our view, that would not necessarily exert downward pressure on ratings; we expect downgrades will be more likely for issuers who do not address issues that jeopardize structural balance over the next two to three years, and beyond.

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