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State of Michigan: Fitch New Issue Report

Revenue Framework - 'aa' Michigan's tax revenues are diverse and dominated by economically sensitive income and consumption taxes, although other revenue sources are also significant. Fitch expects the natural pace of revenue growth to track close to inflation as extraordinary federal support for the economy subsidizes. There are no material limits on Michigan's ability to levy new taxes or enact tax rate increases. Expenditure Framework - 'aa' Fitch expects the state's natural pace of spending growth to be in line with, or slightly ahead of, revenue growth over the long term requiring ongoing policy action to control costs. The state has ample ability to reduce spending through economic cycles, partly as a result of having low carrying costs. Long-Term Liability Burden - 'aaa' Michigan's liabilities for debt and pension obligations are low and represent a small burden on economic resources. Direct debt has fallen given limited issuance over the past decade. Pension changes that shifted future obligations to a defined contribution plan have also limited growth in state pension liabilities and exposure to fluctuations in investment returns and retiree longevity associated with the plans. Operating Performance - 'aaa' Michigan's gap-closing capacity is exceptionally strong and stems from both a consistent willingness to make material budgetary adjustments that at times have included deep spending cuts to maintain structural balance, as well as the state's rainy-day fund, which has been built to an historically high level equal to nearly 15% of general fund spending. Contingent liability risks associated with distressed local governments have abated considerably given an improved economy, extra aid infusions to some municipalities and state and local management efforts.

ACCESS REPORT

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