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Fitch: Labor Issues Cloud Otherwise Strong 2Q for U.S. Public Finance

Fitch Ratings-New York-20 July 2023: Ongoing inflationary pressures did little to stunt positive rating momentum for U.S. public finance overall last quarter, though Fitch Ratings' latest quarterly update points to labor woes being a continued sore spot for hospitals and life plan communities (LPCs).

Fitch upgraded 61 U.S. public finance ratings against 20 downgrades in 2Q23 with much of the positive rating activity emanating from state and local governments. Notable state upgrades were New Jersey and Kentucky, with Nassau County (NY), Las Vegas (NV), St. Louis (MO) and Cleveland (OH) of note for local government upgrades last quarter.

"Fiscal 2024 state budgets are largely in place, though we saw more challenges this year with five states still without enacted budgets, the most since the start of the pandemic over three years ago," said Arlene Bohner, Fitch's head of U.S. public finance. "Property taxes should continue to be a source of stability for local governments, however, we expect home price growth to decelerate in many areas given continued affordability challenges."

Conversely, labor challenges are the proverbial thorn in the side for public finance, particularly with regard to Not-For-Profit hospitals (two upgrades and six downgrades in 2Q23) and, to a lesser extent, LPCs (one upgrade against two downgrades in 2Q23). "After the most operationally challenging year on record for many in 2022, we still expect operations to improve slowly, although margins will likely remain below pre-pandemic levels for 2023," said Bohner.

Fitch's "U.S. Public Finance Rating Actions Report and Sector Updates: Second-Quarter 2023" is available at www.fitchratings.com.

Contact:

Arlene Bohner
Managing Director Head of U.S. Public Finance
+1-212-908-0554
arlene.bohner@fitchratings.com
Fitch Ratings, Inc.
Hearst Tower 300 W. 57th Street
New York, NY 10019

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

Additional information is available on www.fitchratings.com

