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Should States and Localities Be Worried About the U.S. Downgrade?

Or about the possibility of another one amid the budget showdown in Congress? Fitch Ratings' decision to knock the federal government's credit rating down a notch last month doesn't directly affect state and local credit quality. But it's a warning shot.

Welcome back to Route Fifty's Public Finance Update! I'm Liz Farmer, and lately I've been wondering why Fitch Ratings' downgrade of the federal government last month didn't generate much hand-wringing among state and local officials. It's a big contrast to 2011, when S&P Global Ratings knocked Uncle Sam down from AAA to AA+ following the Great Recession. That decision, the first-ever downgrade of the U.S. government, caused all sorts of questions about the downstream effect on states and localities.

"With the federal debt downgraded, it's hard to imagine that state and local bonds won't be far behind," an op-ed in The Fiscal Times reasoned at the time.

Fitch's downgrade in August to AA+ was partly due to how the federal government had handled the debt crisis, mirroring S&P's 2011 downgrade, which also followed a debt ceiling standoff in Congress. But the recent ratings cut didn't generate as much of a splash at the state and local level because it's now well-established that subnational credit quality is measured somewhat separately from the U.S. government's.

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SEPTEMBER 20, 2023

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