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State of Rhode Island: Fitch New Issue Report

The Rating Outlook revision to Positive from Stable reflects the State of Rhode Island's generally declining long-term liability burden as a share of personal income, supported by improvements in debt management and growing financial relief from pension changes enacted more than a decade ago. Fitch anticipates that Rhode Island's revenues will grow on a nominal basis over the long term given Fitch's expectations for slow economic growth in the state. The state has complete legal control over its revenue system through mechanisms such as base-broadening and the ability to levy new taxes and fees and to adjust rates. The state maintains ample expenditure flexibility with low carrying costs and the broad expense-cutting ability common to most U.S. states. Medicaid remains a key expense driver and a focus of expenditure-control efforts. Moderate revenue growth prospects temper Fitch's assessment of the natural pace of spending relative to expected revenue growth, with growth in spending likely to exceed new revenue formation in the absence of policy action. Rhode Island's long-term liabilities are moderate but well above the median for U.S. states. Pension obligations exceed outstanding debt, driven in part by past funding practices and the state carrying a sizable share of teacher liabilities. Rhode Island has high gap-closing capacity, wide-ranging budgetary management powers and a strong commitment to maintaining a prudent fiscal reserve through economic cycles. Policy measures implemented over the past decade have positioned the state effectively to deal with moderate economic downturns while maintaining a high level of financial flexibility.

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