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Fitch: Relative Calm for U.S. State & Local Governments in 2024

Fitch Ratings-San Francisco/New York-11 December 2023: Both U.S. state and local government ratings are in a strong fiscal position with a recession looking less likely in 2024, according to Fitch Ratings in its outlook report for the sectors.

Fitch has a neutral sector outlook for state and local governments in the coming year despite slowing economic growth for the U.S. That said, the country should be able to avoid tipping into a technical recession in 2024, which is good news for state and local government fiscal dynamics as they are closely tethered to the macro environment.

“A combination of strong reserves, significant liability reductions and other prudent budget management measures leave state and local governments well positioned,” said Senior Director Eric Kim.

Though the pace of tax policy changes slowed in 2023, it remains historically high with some measures altering the fundamental provisions of a tax code. “Tax cuts can have unexpected consequences for taxpayer behavior and economic response, particularly cuts that cover broad aspects of tax policy as Fitch observed in some states,” said Kim. Revenue volatility that significantly exceeds a state’s expectations could pose near- and medium-term fiscal risks.

Commercial real estate exposure, and particularly office exposure, is another area of increased focus for local governments, most of which have sufficiently diverse revenue structures and predominantly residential tax bases. “Larger urban centers with substantial commercial office space remain sensitive to secular changes in office policies and commuting patterns,” said Senior Director Michael Rinaldi.

Fitch’s ‘U.S. States and Local Governments Outlook 2024’ is available at ‘www.fitchratings.com’.

Contact:

Eric Kim
Senior Director, Head of U.S. State Government Ratings
+1-212-908-0241
Fitch Ratings, Inc.
Hearst Tower, 300 W. 57th Street
New York, NY 10019

Michael Rinaldi
Senior Director, Head of U.S. Local Government Ratings
+1-212-908-0833

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

Additional information is available on www.fitchratings.com

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