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US State Credit Quality Declines on 'Destabilizing' Trump Orders.

- **MMA revised down its outlook for states, state housing finance**
- **Cuts to federal funding, staffing poised to challenge states**

The "rapid and chaotic activity" of the Trump administration is undermining the credit quality of US states, according to a new report from Municipal Market Analytics.

MMA has lowered its state-sector outlook to neutral from positive, citing a bevy of White House executive orders and policies that have broad implications for federal funding and staffing. States rely on assistance from Washington for numerous programs including supporting public education and healthcare.

The uncertainty created by real or threatened changes in federal funding raises the likelihood that states will tap their reserves and may cut or pause projects. That may reduce state aid to local governments, colleges or hospitals, the research firm said. States do have an "exceptional" levels of reserves, according to MMA.

"The destabilizing actions of the federal government are a challenge to state credit quality," Matt Fabian and Lisa Washburn of MMA wrote in the report. "State governments receive about one-third of their funding from the federal government and rely on such to provide essential services to their constituents."

MMA lowered its outlook for state housing finance agencies, also pointing to cuts to federal funding and staffing as increasing the risk of a negative action on the US government's bond ratings. It also highlighted the looming threat that the administration could eliminate the muni market's tax-exemption entirely, or in part.

"States are also incurring increased costs from these actions in terms of distraction from normal government activities, increased costs for advisors and consultants to evaluate alternatives, and litigation costs related to challenging the federal government's actions," the researchers said.

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