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S&P U.S. Local Governments Credit Brief: Pennsylvania Counties And Municipalities Means And Medians

Overview

Pennsylvania local government (LG) credit quality should hold in the near term, considering the portfolio's steady revenue sources and strengthened reserves resulting partly from pandemic-related federal stimulus funds. Although S&P Global Ratings notes ongoing uncertainty around federal policymaking, bolstered reserve positions for LGs are likely to help mitigate current and future economic difficulties. S&P Global Ratings recently lowered its projections for economic growth, and anticipates U.S. economic expansion to slow sharply in 2025 and remain below the long-term average. (See "Economic Outlook U.S. Q2 2025: Losing Steam Amid Shifting Policies," published March 25, 2025, on RatingsDirect, and "'Liberation Day' Tariff Announcements: First Take On What It Means For U.S. And Global Outlook," published April 3, 2025.)

The potential for a broader economic slowdown in the short term could soften operating performance across the commonwealth. Budget constraints resulting from rising operating and capital costs amid slowing economic growth could intensify as LGs wean off federal stimulus. LGs that depend heavily on economically sensitive revenue such as earned income tax (EIT) and that have limited expenditure flexibility are the most exposed to pressure. Federal funding is not a significant portion of revenue for Pennsylvania LGs, although any unknown effects of tariffs and re-emerging price pressures, coupled with reductions in grant funding, may pressure LGs, especially those with limited operational and revenue-raising flexibility.

S&P Global Ratings maintains ratings on 207 municipalities and 30 counties. Credit quality has largely held, though 6.8% of municipalities and counties experienced rating changes in calendar 2024. Since Jan. 1, 2024, we raised our ratings on four counties and five municipalities, including Philadelphia (A+/Stable general obligation rating), attributable to some combination of sustained or improved financial positions, improved fiscal management practices, and measures taken to manage long-term liabilities. During the same period, we lowered our ratings on three counties and two municipalities, largely predicated on deteriorating financial positions, especially in LGs with economic limitations and comparably weaker management profiles.

Continue reading.

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