

# Local & State Government Credit Update & Outlook

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# State and Local Government Credit Forum

Atlanta, GA

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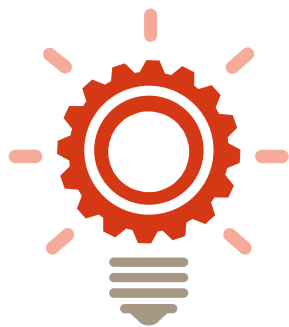
Geoff Buswick, Managing Director, Sector Leader, Local Government



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# Agenda – U. S. Public Finance

## U.S. Public Finance Ratings Performance



- S&P's Global Ratings Scale
- U. S. Public Finance default performance

## State and Local Government Credit Overview



- State Rating and Outlook Distribution
- U. S. State Outlook and credit trends
- U.S. Local Government Outlook and credit trends

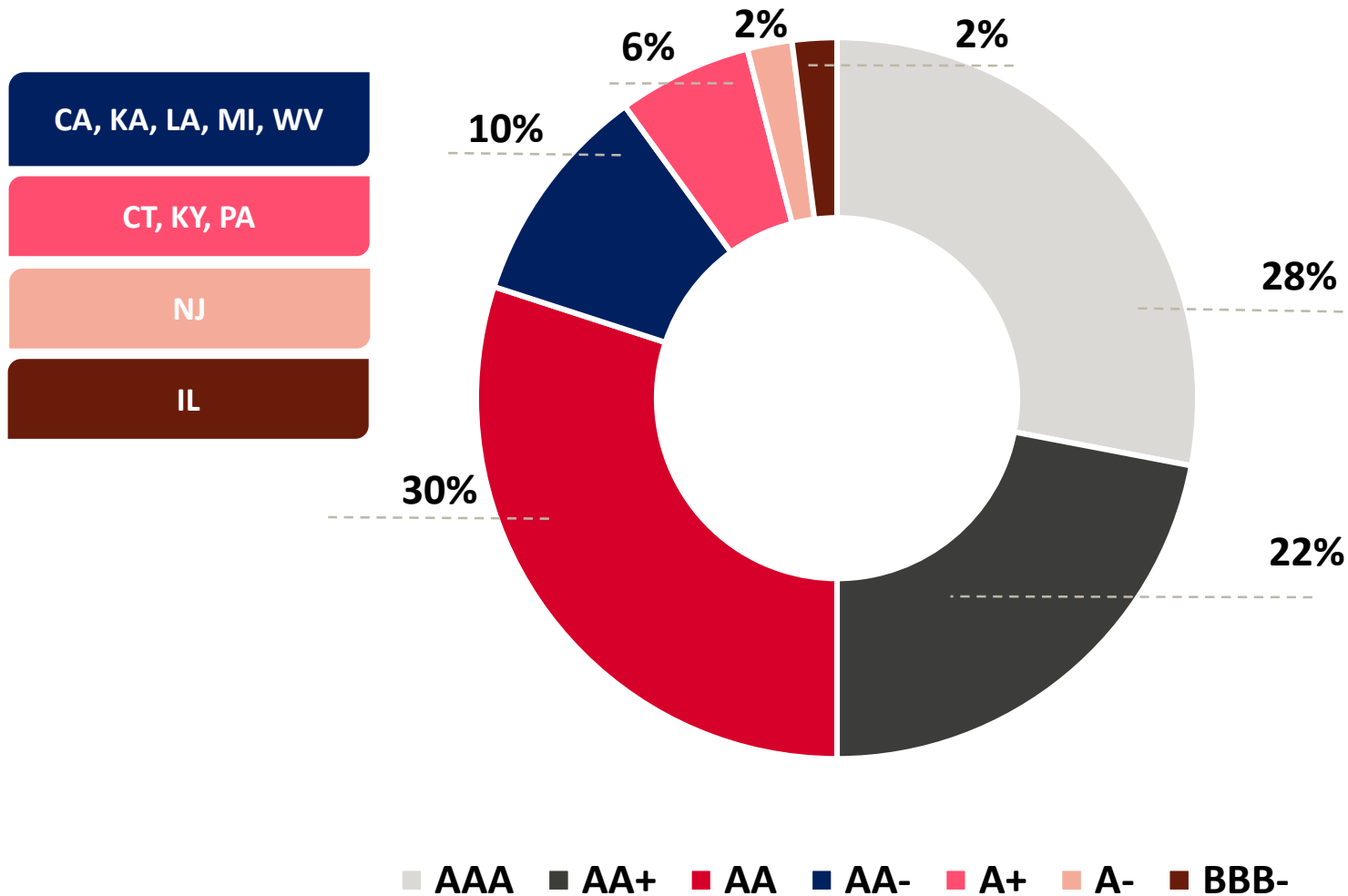
## Q&A



- Q&A

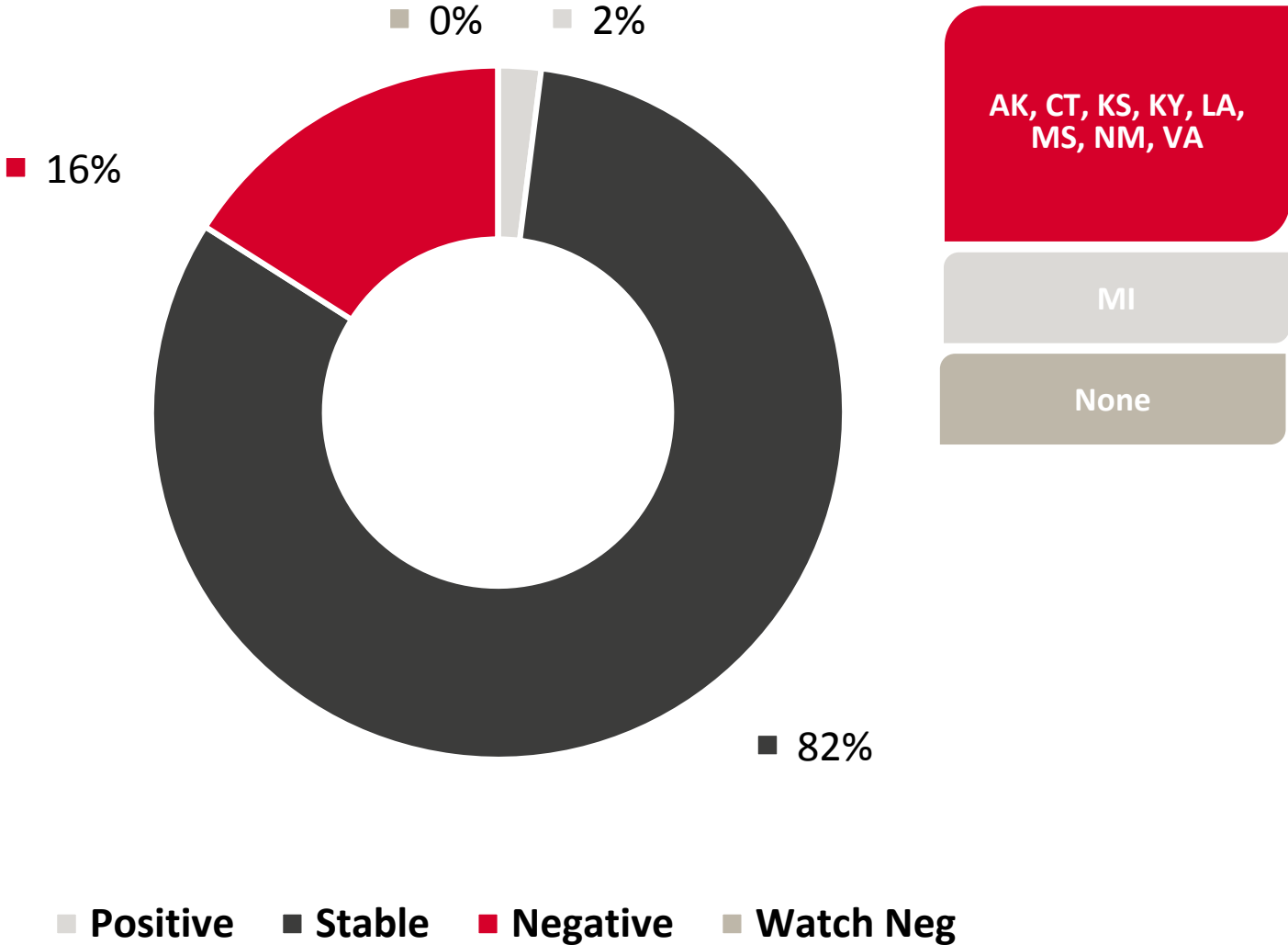
# U.S. State Ratings and Outlook Distribution

# U.S. States Ratings Distribution



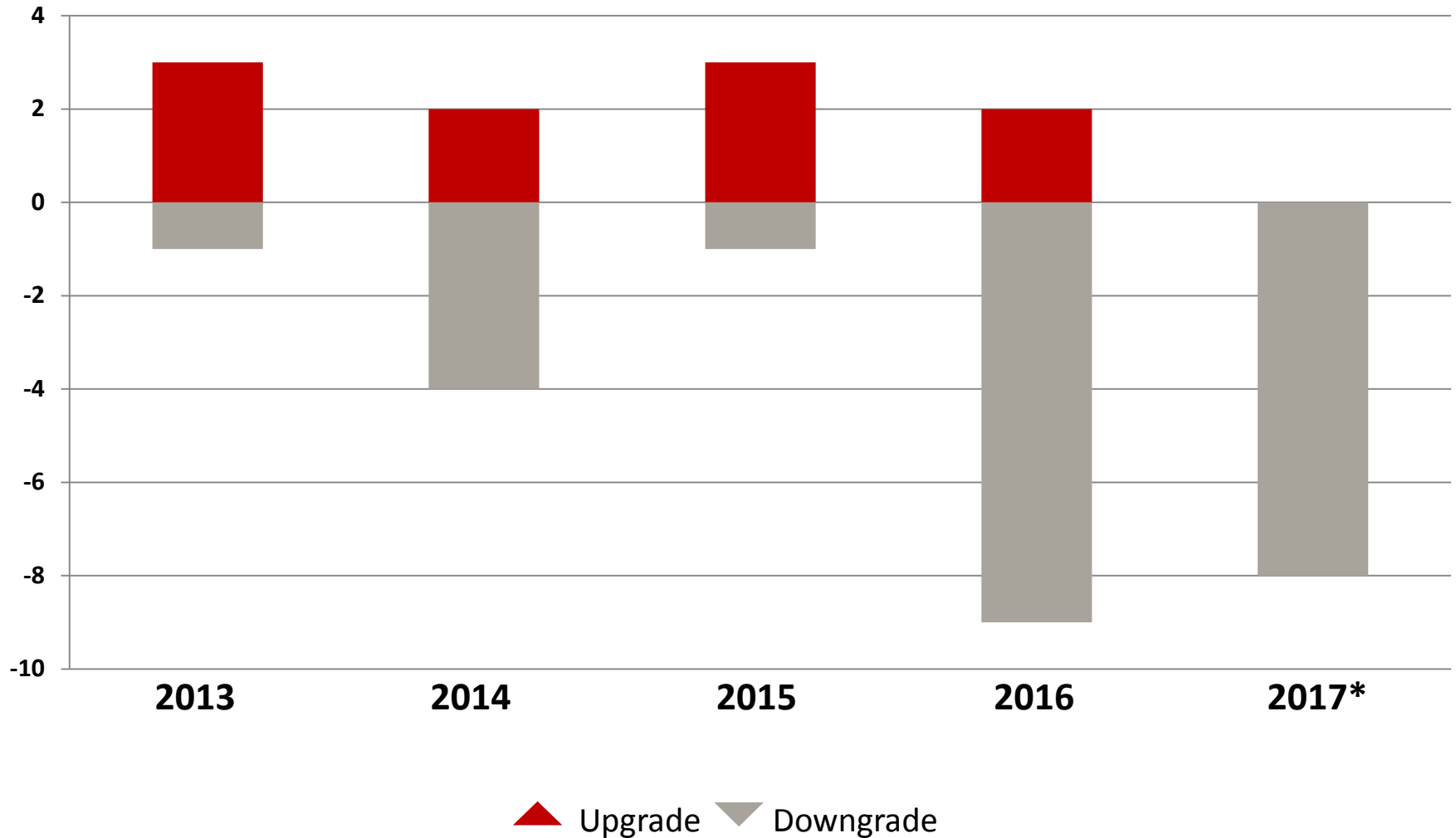
Source: S&P Global Ratings U.S. State Ratings And Outlooks: **Current List 10/13/17**

# U.S. States Outlook Distribution



Source: S&P Global Ratings U.S. State Ratings And Outlooks: Current List 10/13/17

# Ratings Movements For U.S. States

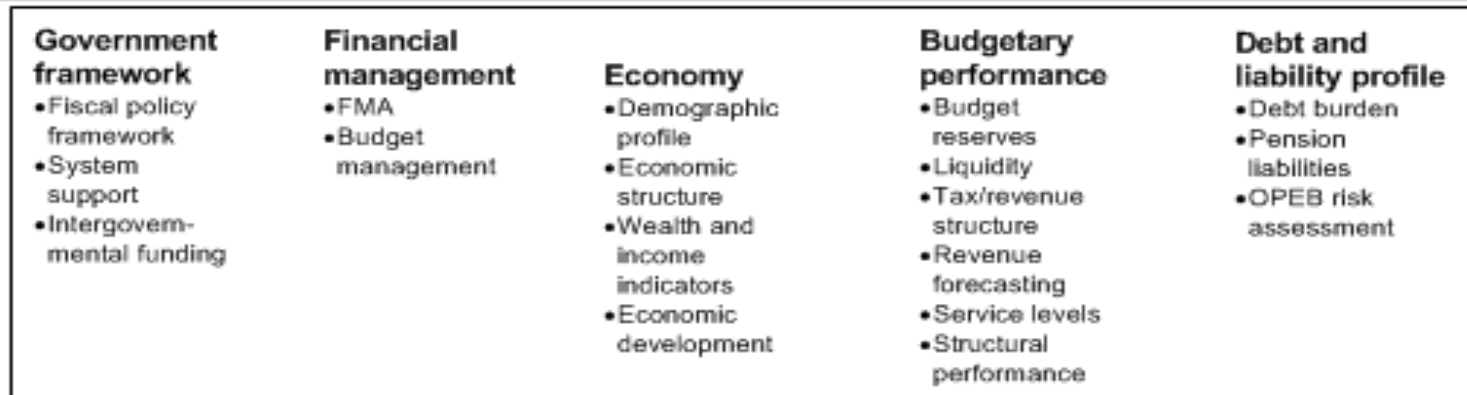


Source: S&P Global Ratings History of U.S. State Ratings 10/13/17. \*As of 10/13/17. Includes multiple rating changes for same state within a year

# Analytical Framework – U.S. States

Chart 1

Standard & Poor's Analytic Framework For Rating U.S. States



Indicative credit level

Holistic analysis  
(one-notch adjustment, subject to any applicable rating cap)

**Overriding factors:**

- System support
- Willingness to support debt
- Liquidity and capital market access
- High level of expected future debt/liabilities
- Weak structural budget performance
- High level of contingent liquidity risk

State rating

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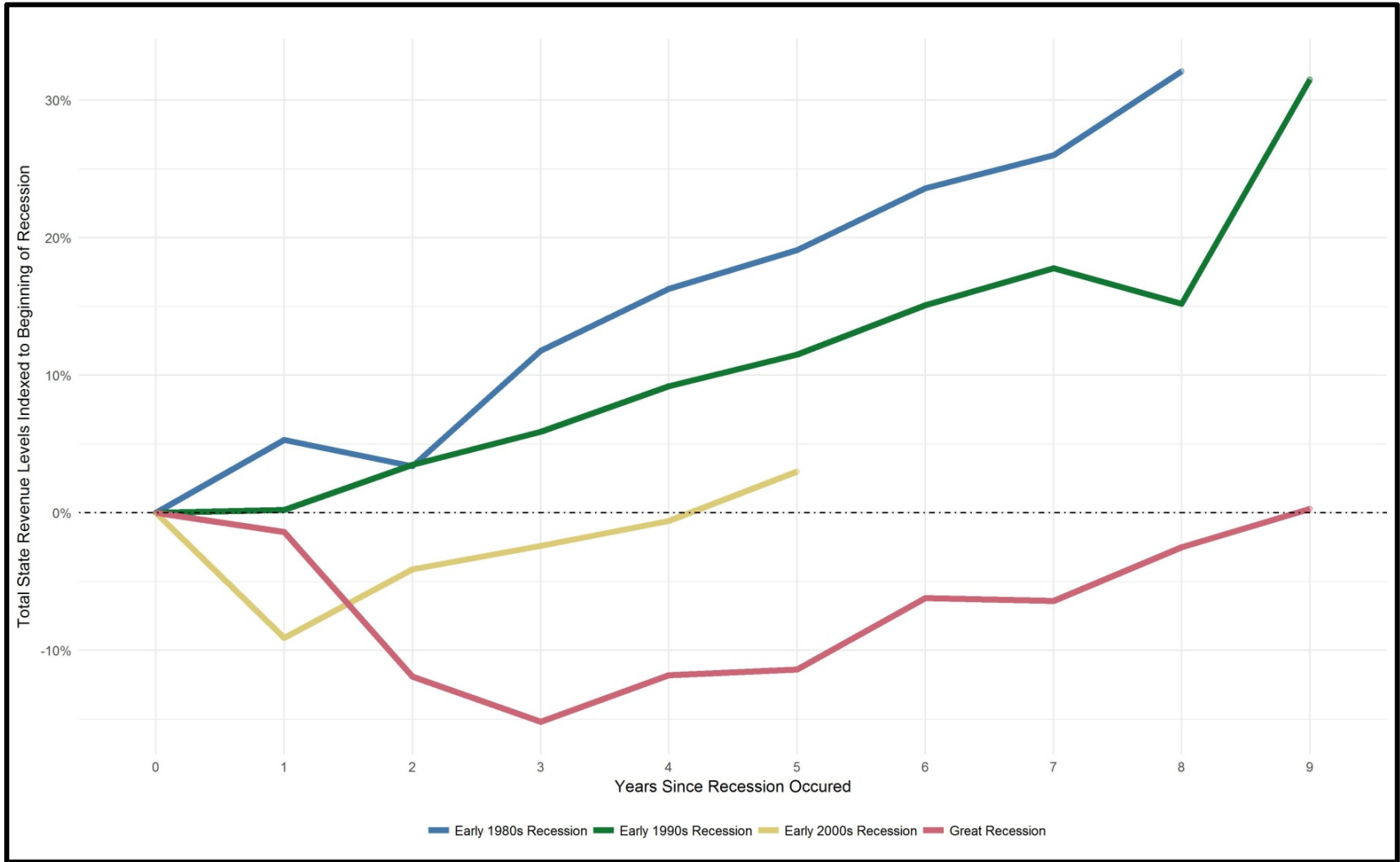


# U.S State Budget Outlook and Themes

# Key themes for 2017

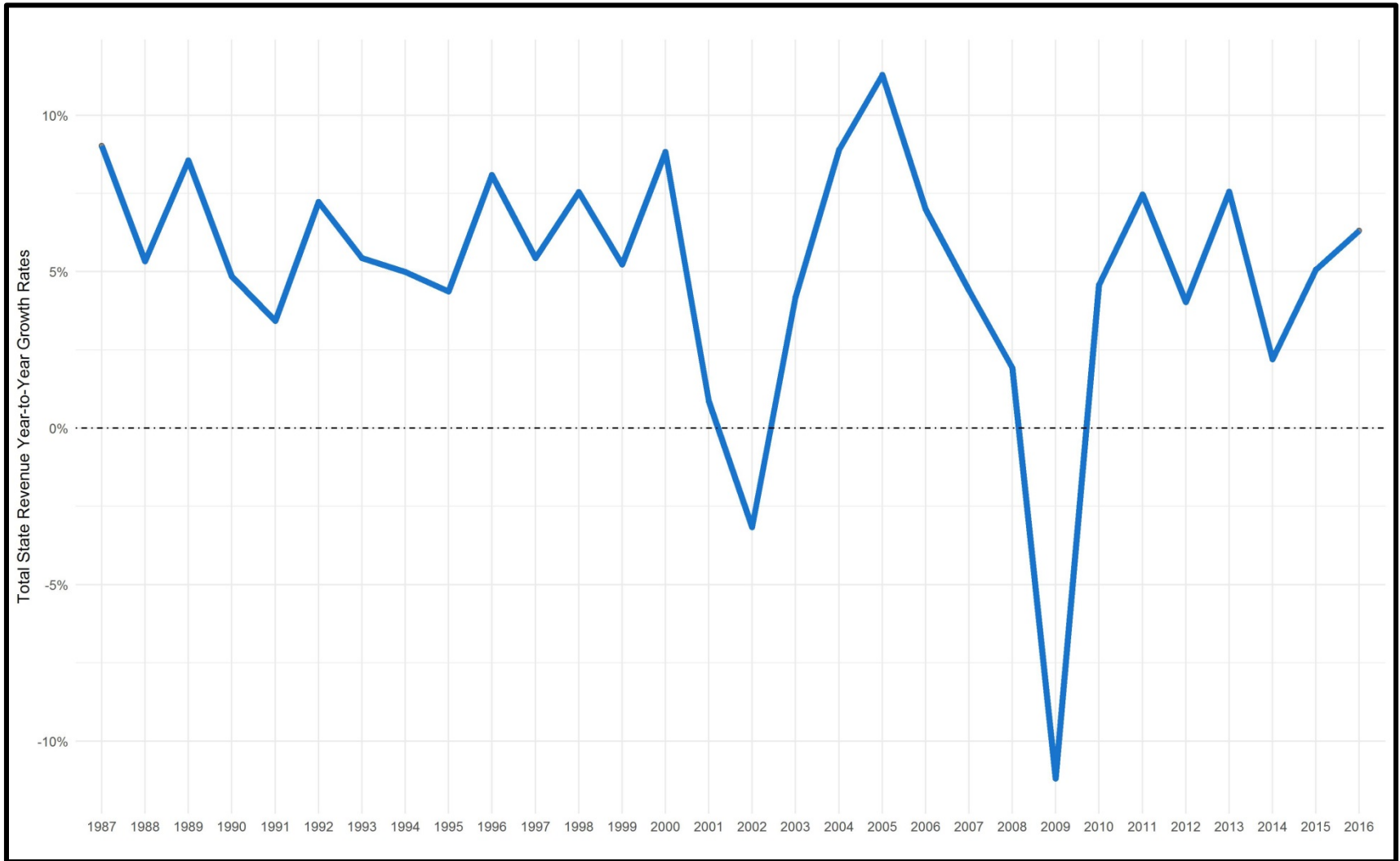
| Tax Revenue Performance  | Narrow Fiscal Margins   | Diminished Recession Preparedness  | Trade Headwinds   | Federal Fiscal Policy  |
|--|---|--|---|--|
| <ul style="list-style-type: none"> <li>As of early calendar 2017, 60% of states that report collections relative to budget were experiencing revenue collection shortfalls.</li> <li>Potential for slight revenue rebound in fiscal 2018 - accumulation of unrealized gains, continued job growth</li> </ul> | <ul style="list-style-type: none"> <li>Rising expenditures in a range of less discretionary areas</li> <li>As of May 2017, 20 states began the fiscal 2018 budget process projecting deficits</li> <li>State finances will remain challenged by large unfunded pension and retiree health care liabilities</li> </ul> | <ul style="list-style-type: none"> <li>Rising costs related to pensions, OPEB, and debt service reduce flexibility</li> <li>In a 2016 stress scenario analysis, 7 of 10 largest debt portfolio states had insufficient reserves</li> <li>Increases in real consumer spending growth may ease burden</li> </ul> | <ul style="list-style-type: none"> <li>Ongoing speculation as to trade agreements and the current administration</li> <li>Although export improvement in early 2017 with firmer global demand and fading effects of strong dollar</li> <li>Exports equaled 3.5% or more of state GDP in CA, IL, FL, LA, MI, NY, WA in 2015</li> </ul> | <ul style="list-style-type: none"> <li>The federal government may provide less fiscal aid in the event of a downturn</li> <li>Adjustment in Medicaid funding could transform federal-state fiscal relationships</li> <li>Prospect of federal tax reform and revenue deferrals</li> </ul> |

# Revenue Recovery Has Lagged Prior Economic Expansions



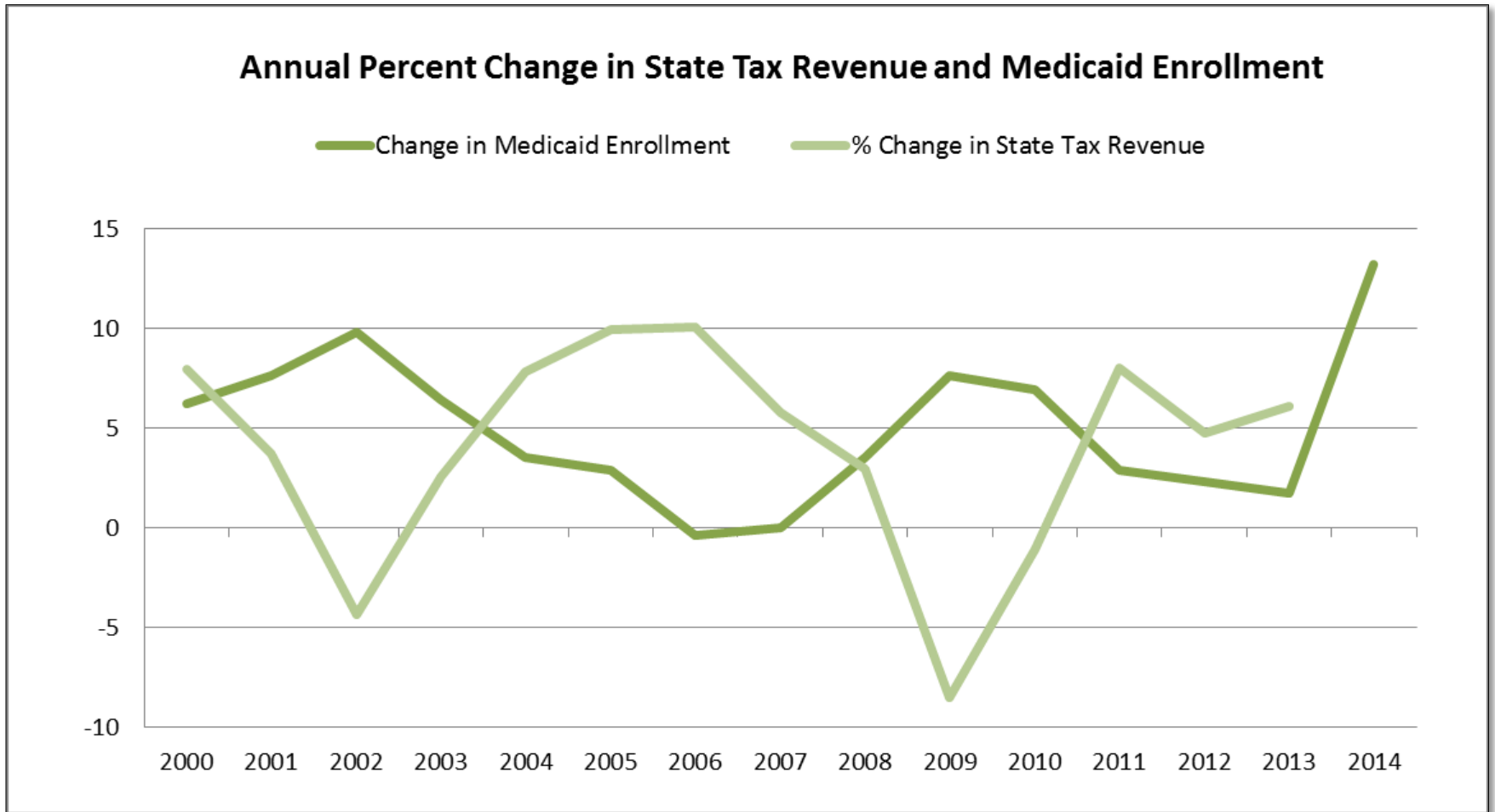
Source: National Association of State Budget Officers (Fiscal Survey of the States)

# Downside Volatility Of State Tax Revenues Has Increased”



Source: US Census Bureau (Quarterly Summary of State and Local Tax Revenues)

# States Are Institutionally Ill-Suited To Fund Entitlements



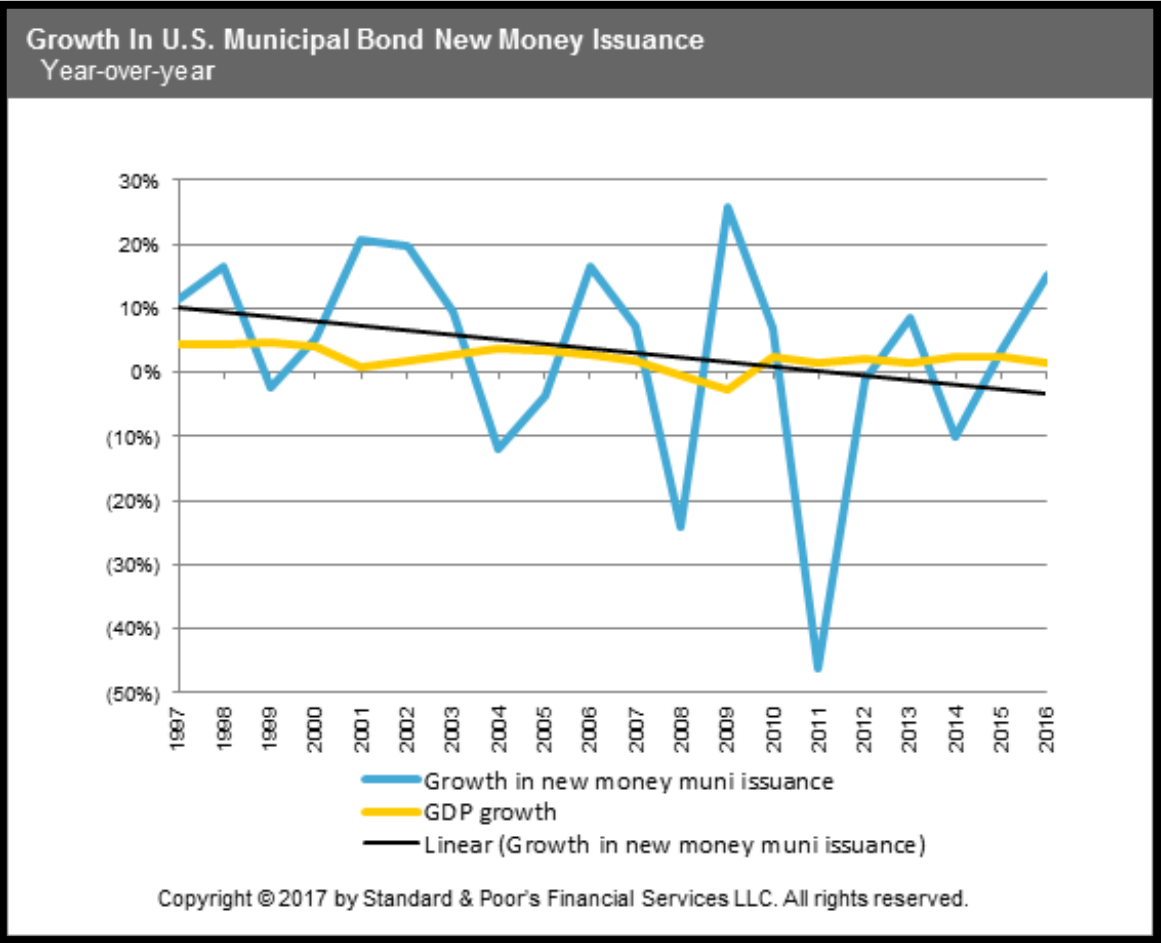
Source: U.S. Census Bureau, Center for Medicare and Medicaid Services

# Debt Profile

# **State and local government debt trends are sustainable**

- **The state and local government sector has long exhibited sustainable debt trends.**
- **Debt levels had increased overall with recovery post-recession, but has trailed economic growth**
- **Generally, debt service as a percentage of general spending remains manageable and small compared to other fixed costs**

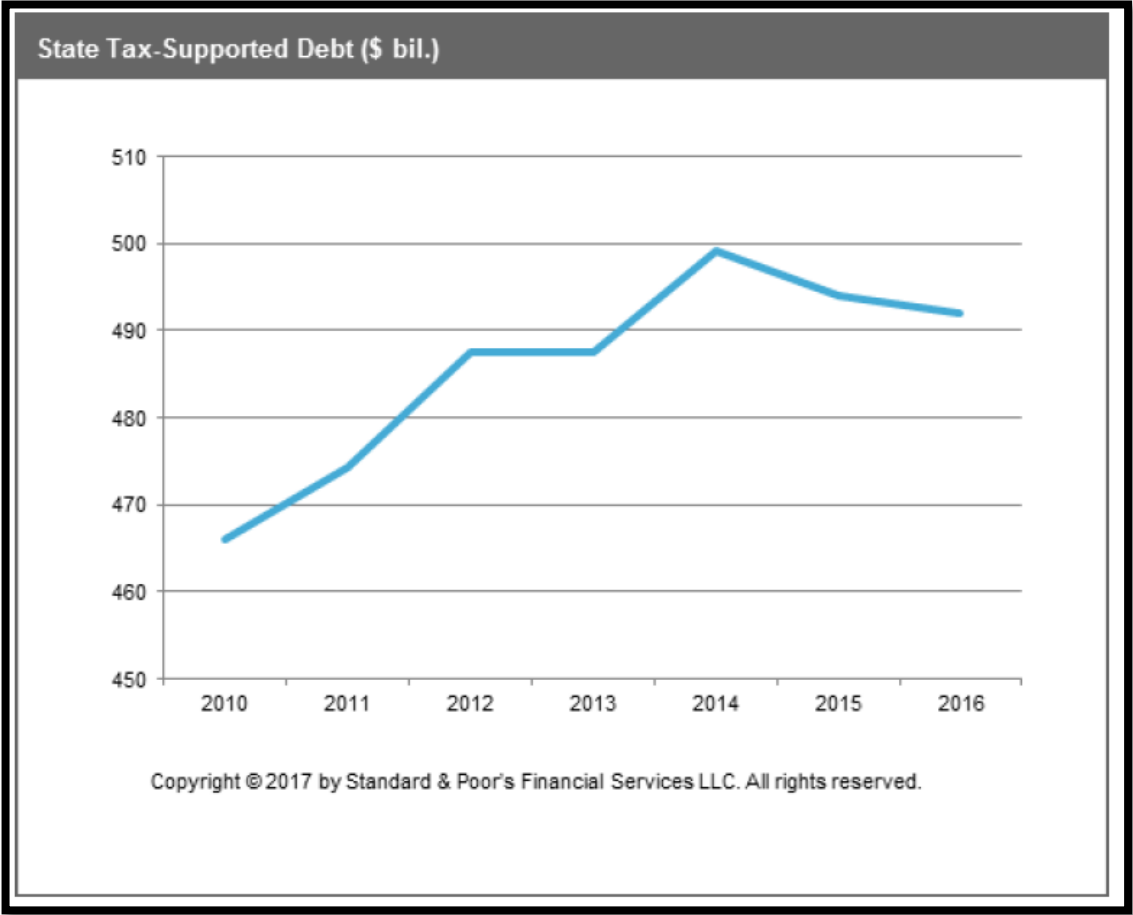
# Growth in new money municipal bond issuance relative to GDP



Source: S&P Global Ratings U.S. State Debt Levels Continue to Flatline Despite State Efforts To Raise Transportation Revenues, July 17, 2017  
Source: SIFMA



# State Tax-Supported Debt

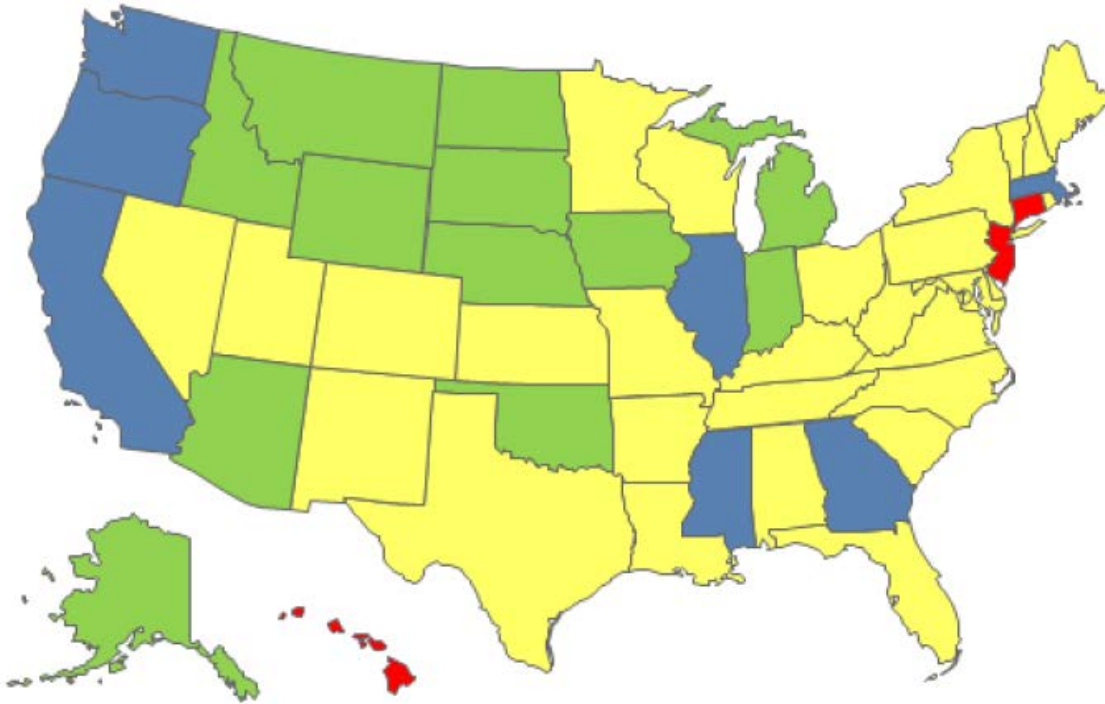


Source: S&P Global Ratings U.S. State Debt Levels Continue to Flatline Despite State Efforts To Raise Transportation Revenues, July 17, 2017

# U.S. State Debt Service Costs

Tax-Supported Debt Service As A Percentage Of General Government Spending (FY 2016)

■ < 2% (low)    ■ 2%-6% (moderate)    ■ 6%-10% (moderately high)    ■ > 10% (high)

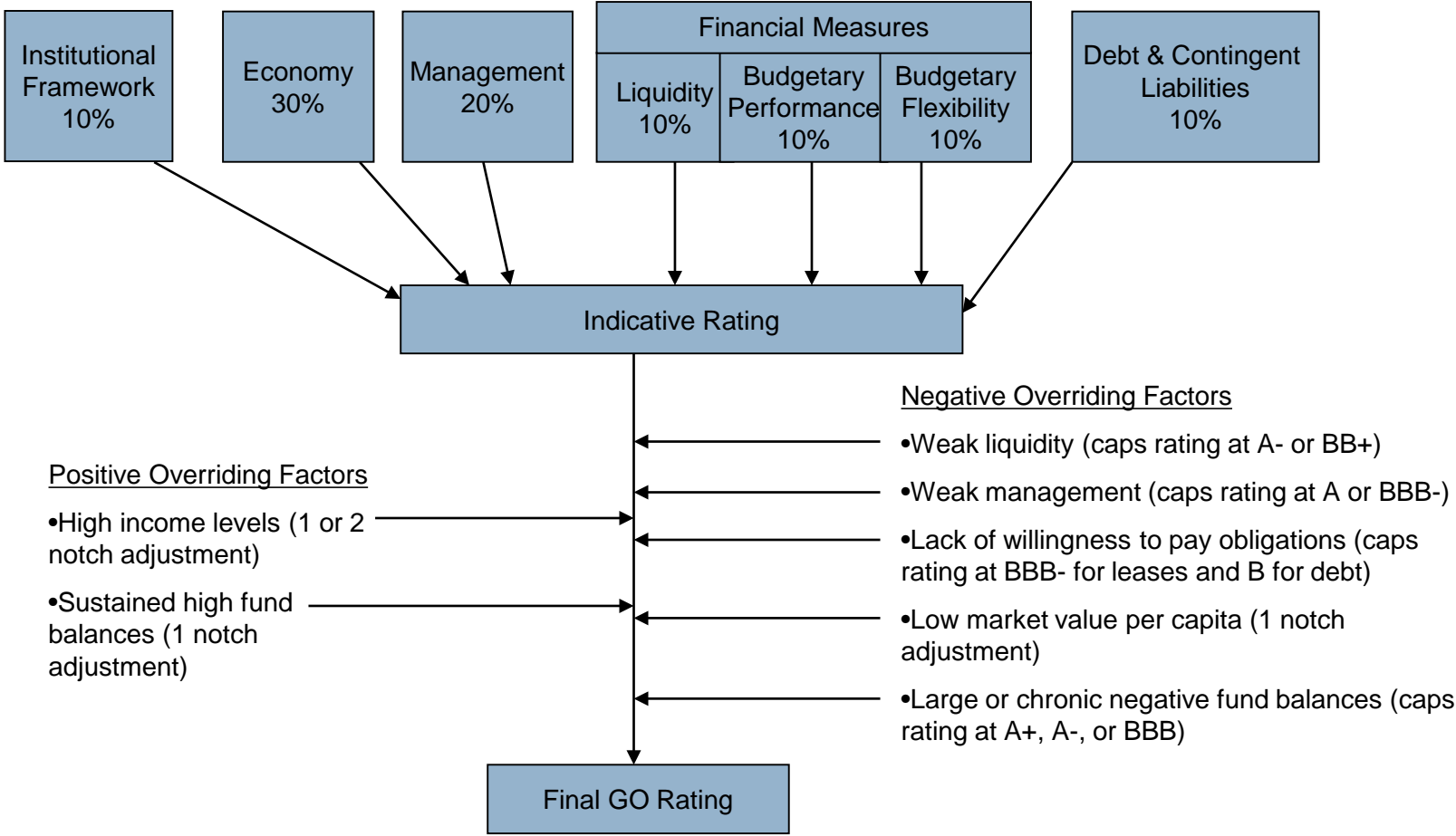


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Source: S&P Global Ratings U.S. State Debt Levels Continue to Flatline Despite State Efforts To Raise Transportation Revenues, July 17, 2017

# U.S Local Government Outlook and Themes

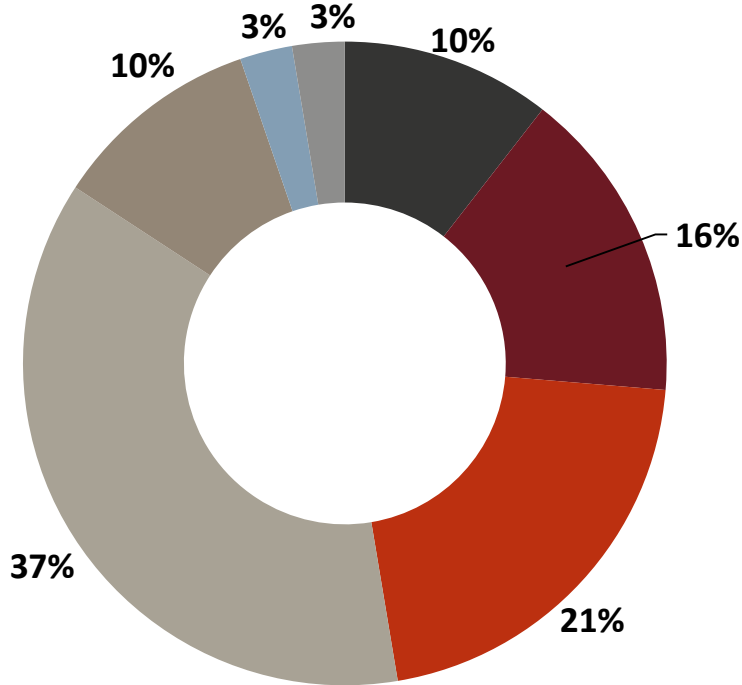
# Analytical Framework For Local GO Ratings



# Georgia County & Muni Rating Distributions

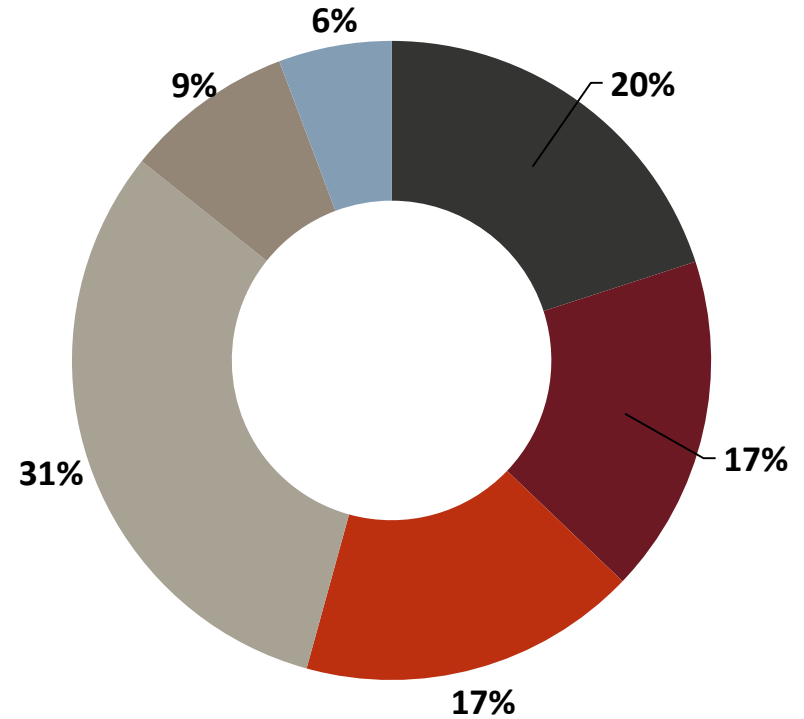
As of 10/31/17

## Counties



■ AAA ■ AA+ ■ AA ■ AA- ■ A+ ■ A ■ BBB

## Municipalities

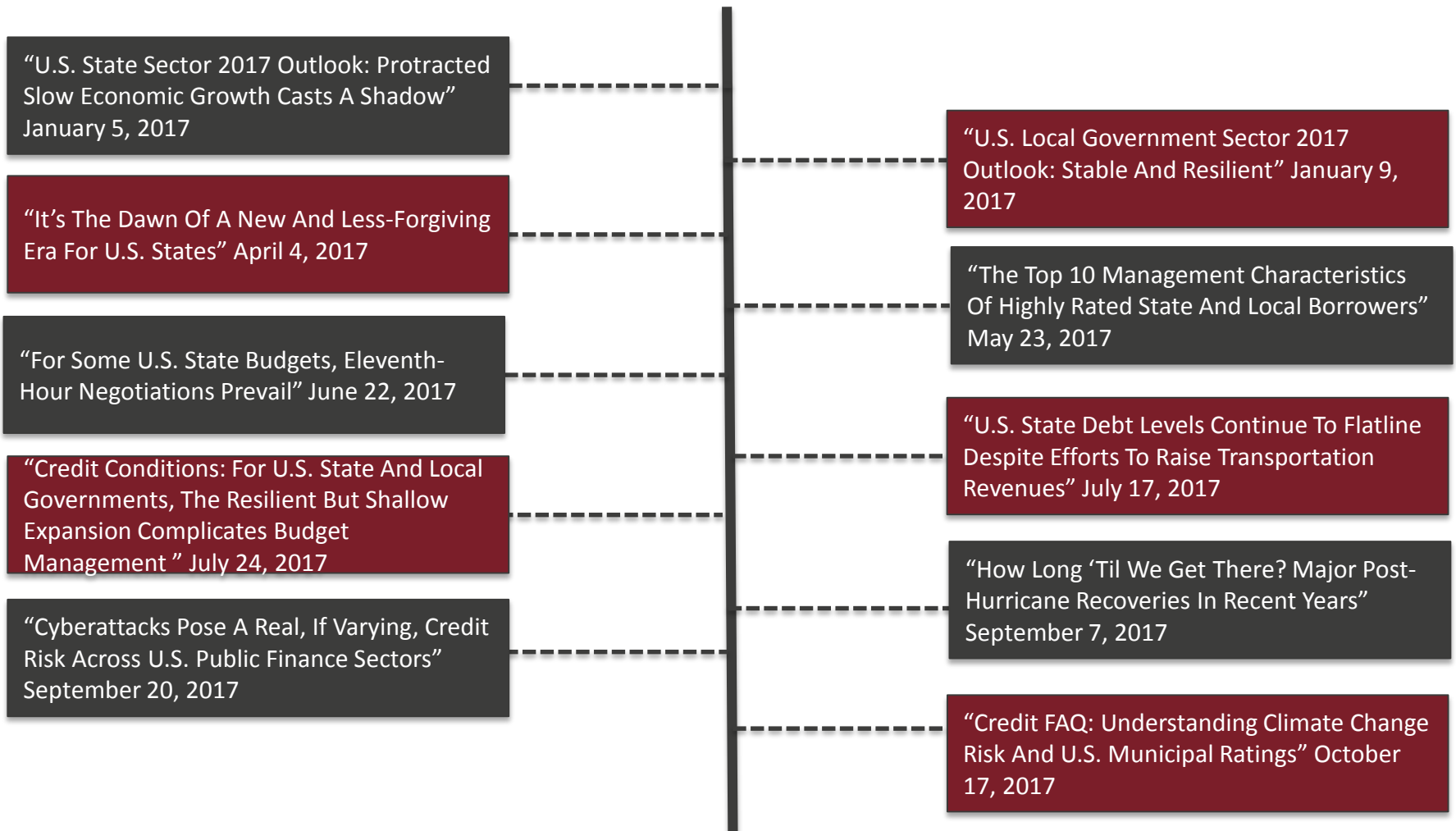


■ AAA ■ AA+ ■ AA ■ AA- ■ A+ ■ A

# Hot Topics in the Southeast and Local Government More Broadly

- **Hurricane/Natural Disaster Risks**
- **Nuclear Projects**
- **Changing Institutional Framework**
- **Continued Credit Pressures**
- **Bankruptcy Views**

# S&P: Select U.S. Public Finance 2017 Publications



As of November 1st, 2017

# Thank you

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