2023 NCSL Legislative Fiscal Directors Preconference

Rating in Times of Volatility

August 13, 2023

S&P Global
Ratings

Geoffrey Buswick
Managing Director &
U.S. Governments Sector Lead

Understanding S&P Global's Ratings

- An issuer's ***ability*** and ***willingness*** to pay debt in a ***timely*** manner
- Credit ratings are forward looking
- S&P Global ratings are opinions, not guarantees of credit quality or exact measures of the probability that a particular issuer or particular debt issue will default
- The Ratings scale is relative and based on the creditworthiness of an issuer or credit quality of an individual debt issue, from strongest to weakest, within a universe of credit risk
- Criteria provide the analytic framework to derive the rating opinion

[Understanding Credit Ratings | S&P Global Ratings (spglobal.com)]

USPF 2023 Midyear Sector Summary
States

What we're watching

- Monthly revenues actual-to-budget as the economy slows
- Medicaid redeterminations and the stepdown of eFMAP reimbursement levels

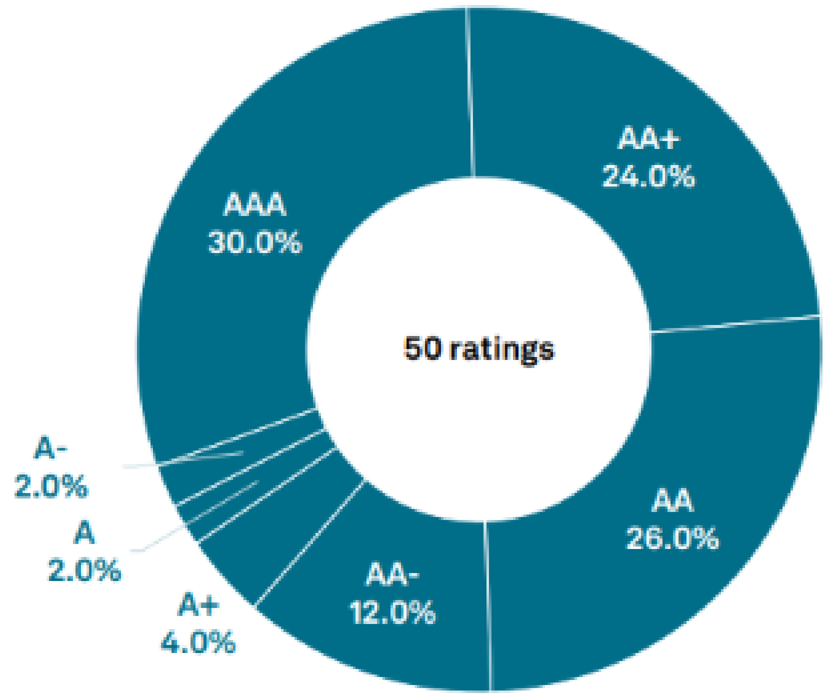
Trends

- Reserves holding steady at all-time highs
- Pay-as-you-go capital used in lieu of upsizing borrowing as costs increase

Rest of year expectations

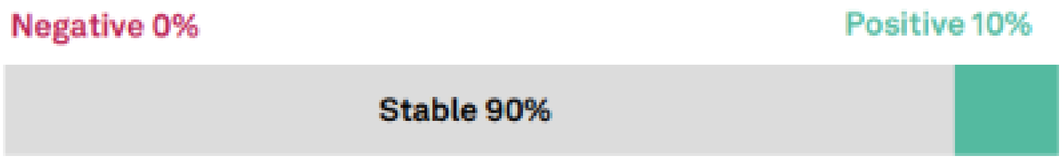
- Workforce retention and attraction challenges remain, but hiring counts improve
- Pension costs lessen as market rebounds from 2022 lows

Ratings distribution



Source: S&P Global Ratings.

Outlook distribution



Source: S&P Global Ratings.

USPF | Credit Conditions: Summer 2023

What we're watching

- Higher interest rates and inflation continue to be headwinds for most issuers from a debt issuance and operation and capital budget perspective
- Summer storm and fire season heightens the possibility of catastrophic events that require swift response and resource allocation

Trends

- Credit conditions have been largely stable, and upgrades have exceeded downgrades this year for most sectors
- Federal stimulus and healthy financial reserves continues to provide significant flexibility

Rest of year expectations

- Our baseline U.S. economic forecast is now for GDP growth below potential, but skirting a recession

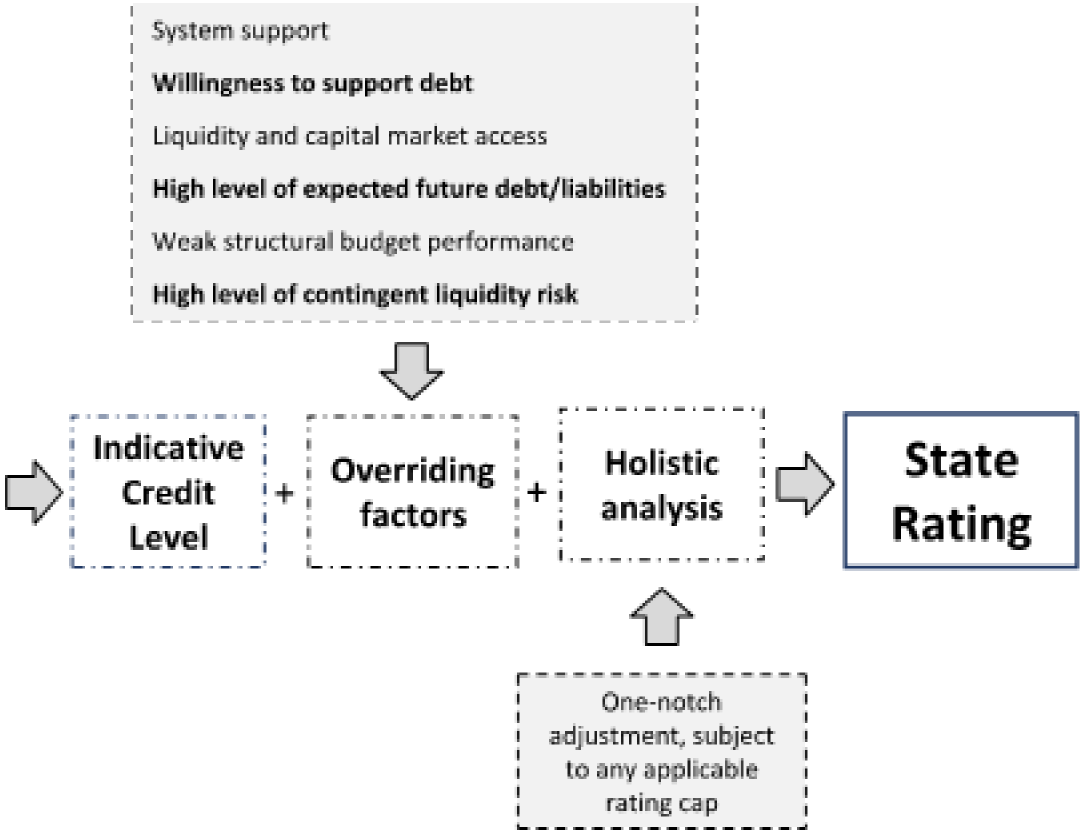
S&P Global Ratings' U.S. Economic Forecast Overview
Key indicators

	2019	2020	2021	2022	2023f	2024f	2025f	2026f
Real GDP (annual average % change)	2.3	-2.8	5.9	2.1	1.7	1.3	1.5	1.8
Real consumer spending (annual average % change)	2.0	-3.0	8.3	2.8	2.0	1.2	1.4	2.1
Real equipment investment (annual average % change)	1.3	-10.5	10.3	4.3	-0.7	1.4	2.0	2.7
Real nonresidential structures investment (annual average % change)	2.3	-10.1	-6.4	-6.5	8.0	0.2	-0.3	1.1
Real residential investment (annual average % change)	-1.0	7.2	10.7	-10.5	-11.5	1.1	4.4	1.8
Core CPI (annual average % change)	2.2	1.7	3.6	6.2	5.0	3.3	2.4	2.2
Unemployment rate (%)	3.7	8.1	5.4	3.6	3.5	4.0	4.5	4.6
Housing starts (annual total in mil.)	1.3	1.4	1.6	1.6	1.4	1.3	1.4	1.4
Light-vehicle sales (annual total in mil.)	17.0	14.5	15.0	13.8	15.1	15.1	15.9	16.0
10-year Treasury (%)	2.1	0.9	1.4	3.0	3.7	3.6	3.4	3.3

As of June 15, 2023. All percentages are annual averages, unless otherwise noted. Core CPI is consumer price index excluding energy and food components. f--forecast.
Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, The Federal Reserve, Oxford Economics, S&P Global Economics' forecasts.

U.S. States | U.S. State Ratings Methodology (GO)

Government Framework	Fiscal policy framework System support Intergovernmental funding
Financial Management	FMA Budget management
Economy	Demographic profile Economic structure Wealth and income indicators Economic development
Budgetary Performance	Budget reserves Liquidity Tax/revenue structure Revenue forecasting Service levels Structural performance
Debt and Liability Profile	Debt burden Pension liabilities OPEB risk assessment



Source: S&P Global Ratings U.S. States Ratings Methodology, October 17, 2016

U.S. States | What We're Watching

Inflationary pressures

Will wages, as well as construction and insurance costs, continue to rise?

Revenue stability

Will sales and income taxes continue to hold strong as consumer confidence softens?

Monthly revenues

Monthly revenue declines are often a bellwether of recessions

Expected recession

Reserve levels, liquidity positions, and management options will allow states to weather a shallow recession

Proactive management

In a recession, management may need to cut expenses, raise revenues, or draw from reserves

New Congress

The past 3 years have seen record levels of federal aid flow to the states. That period has ended

Event risks

Cyber attacks and extreme weather events will continue to challenge management

Demographics

Will international migration return and will hiring challenges slow economic growth?

U.S. States | By The Numbers

$280B
2023f

$121B
2019

Aggregate reserves 130% higher than pre-pandemic

5.1%
U.S. (unadjusted) hourly wage gains in 2022

81.7%
Average state pension funded ratio for FYE 2021, expected to decline FY22

0
States with negative outlooks

6
States with positive outlooks

Core CPI forecast
(% change)

FY23
4.7%

2022
6.3%

18.7 mil.
Medicaid and CHIP enrollment increase (or 26.4%) between Feb. 2020 and Aug. 2022

20.8%
State Fiscal Recovery funds still to be appropriated (as of Aug. 31)

4.7 mil.
More jobs open in Nov. than active job seekers (10.3 mil. open to 5.6 mil. actively seeking work)

5
Consecutive years with international migration to the U.S. declining

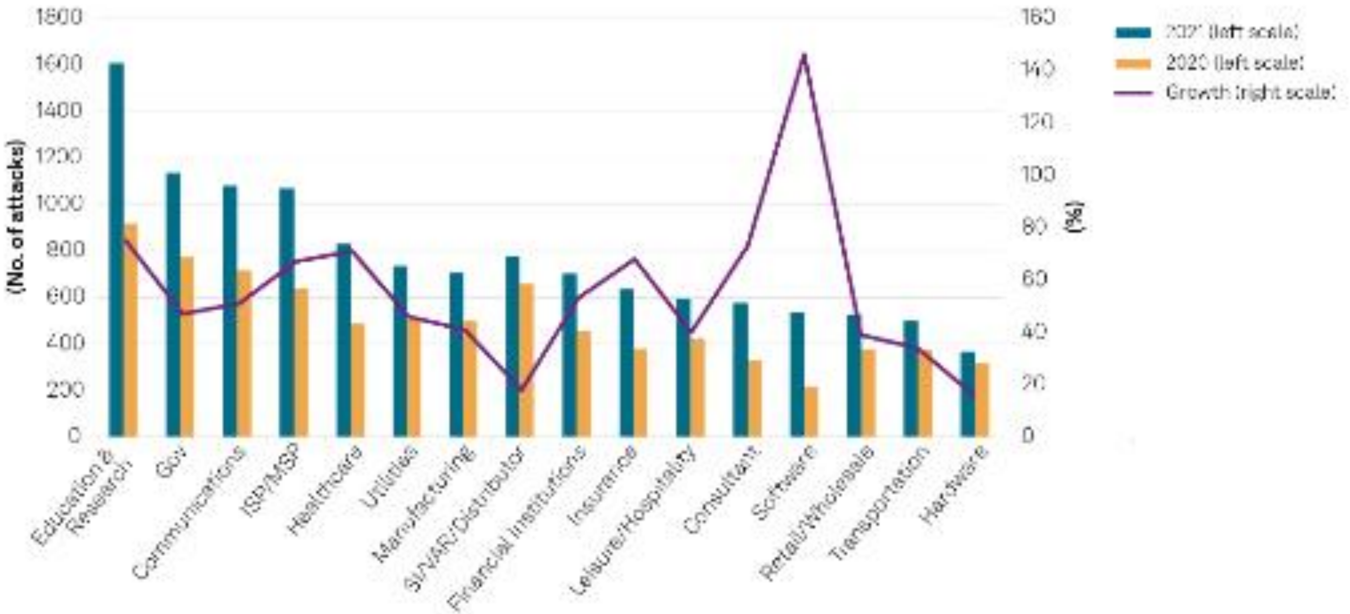
25
States in which deaths exceeded births in 2021

Sources: National Association of State Budget Officers; S&P Global Economics; Centers for Medicare & Medicaid Services; Federal Funds Information For States; U.S. Census Bureau; Bureau of Labor Statistics

Event Risks | Risk Management

Cyberattacks Increasing Across All Industries

Average Weekly Cyberattacks Per Organization By Industry



Cryptocurrency and Decentralized Finance

Source: Check Point Research
As Threats Rise, U.S. Public Finance Entities Take On Mounting Challenges To Secure The Digital Front Line, published Dec. 13, 2022

Source: Exploring Crypto And DeFi Risks In Credit Ratings, published June 30, 2022

Q&A

S&P Global
Ratings

spglobal.com/ratings