

2023 NCSL Legislative Fiscal Directors Preconference Rating in Times of Volatility

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S&P Global
Ratings

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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

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

Negative 0%

Positive 10%

Stable 90%

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

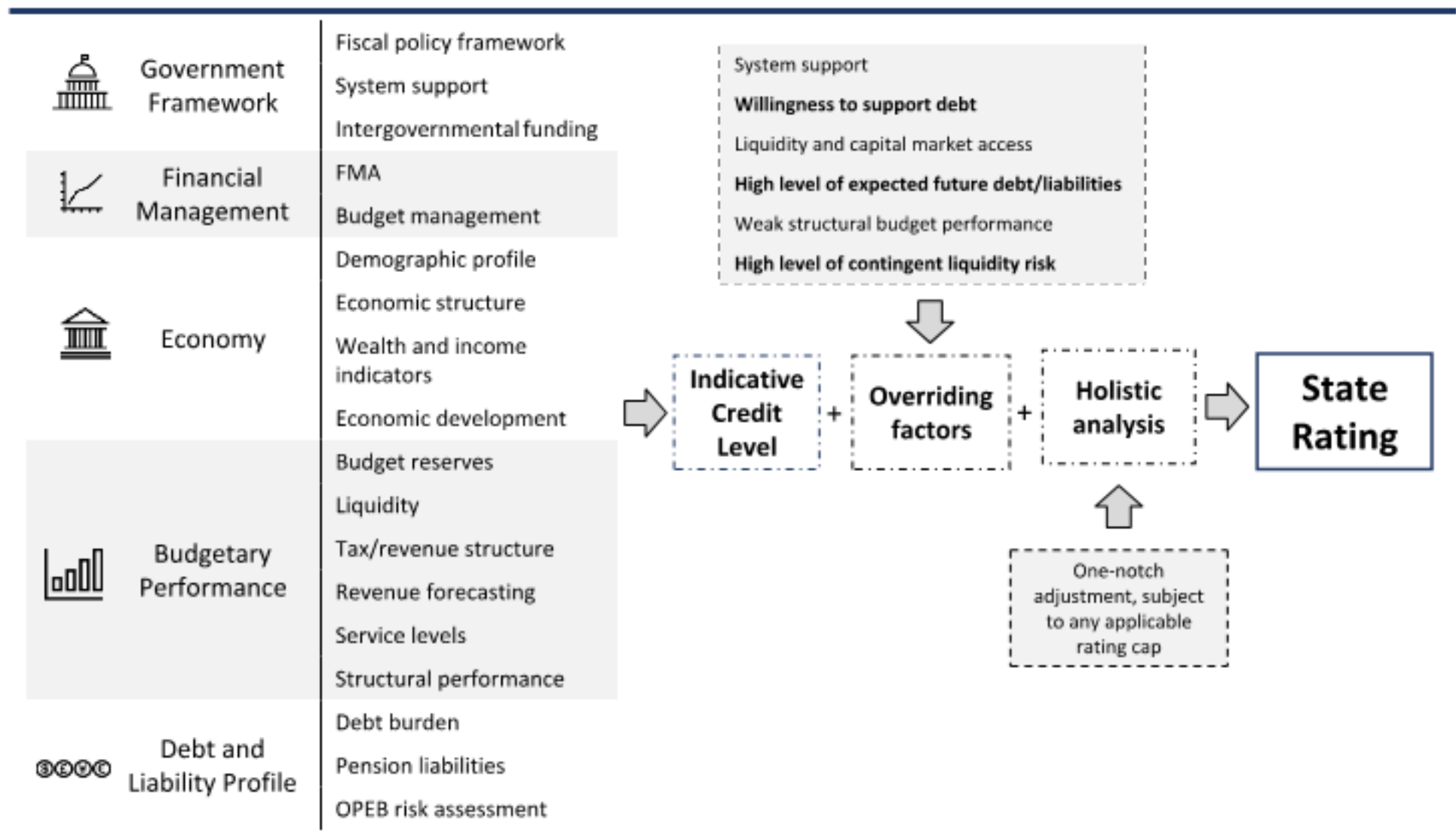
- Our baseline U.S. economic forecast is now for GDP growth below potential, but skirting a recession

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

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



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



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



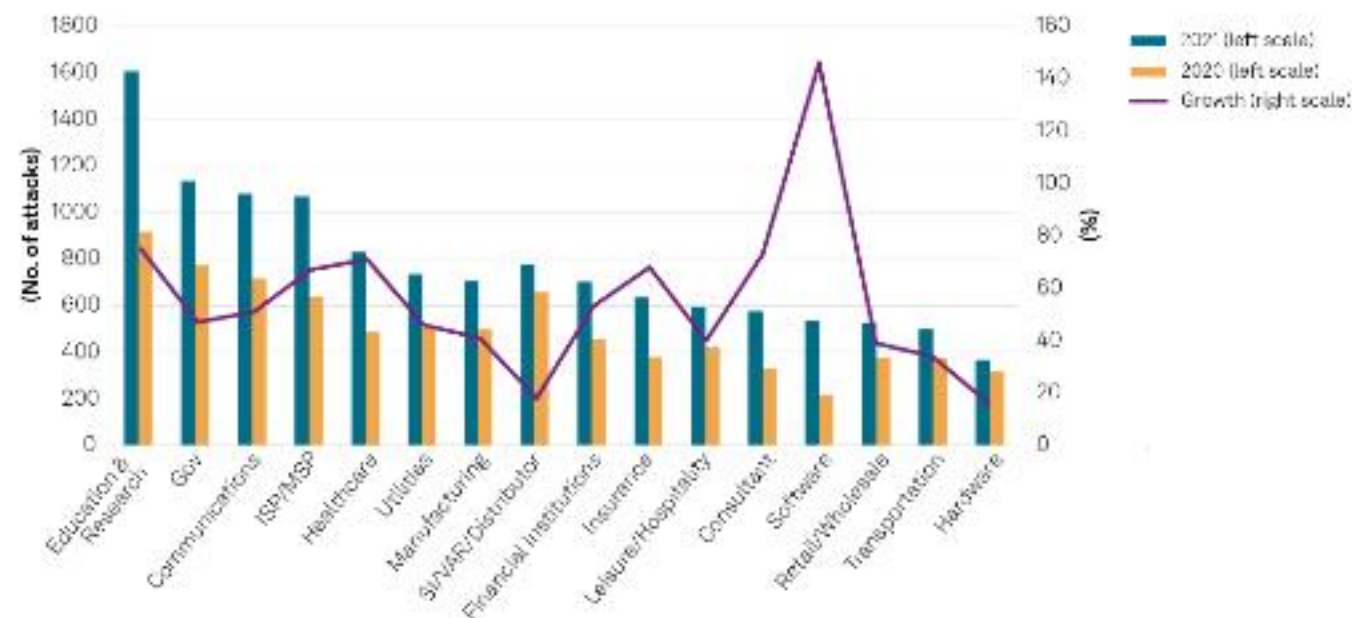
25

States in which deaths
exceeded births in 2021

Event Risks | Risk Management

Cyberattacks Increasing Across All Industries

Average Weekly Cyberattacks Per Organization By Industry



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

Cryptocurrency and Decentralized Finance



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

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