

U.S. State Fiscal Health

State Credit Mainly Improved & Most Positioned to Withstand a Recession

Difficulties were raised and concerns heightened about U.S. state government credit quality leading up to COVID-19. Blackrock questioned whether Illinois should even have market access in 2016. "Your state is probably facing a new dawn of public finance problems," wrote the state sector lead of S&P Global in The Hill at the beginning of 2017. "For some state and local governments, decades of financial mismanagement and massive pension liabilities are threatening to upend the full faith and credit pledge," wrote Franklin Templeton in 2019. We assigned a "Cautious" outlook to the U.S. State government sector in August, 2019 citing an unprecedented level of credit deterioration, budget stress and pension obligations.

In the face of inflationary pressure, high interest rates, and now prospects for weaker economic growth, U.S. state fiscal health has mostly improved. State revenues have been plentiful and federal aid propped up balance sheets. We raised our municipal sector outlook on U.S. States to "Positive" in February 2022. Connecticut, New Jersey, and Illinois were among the most challenged state credits before COVID, and they have all been upgraded. However, structural balance remains elusive for the states most fiscally challenged. Unfunded pension liabilities remain at issue. Although U.S. states are mostly benefitting in the short-term from the substantial federal transfers, we are concerned reliance on federal relief could make it more difficult for states to find and maintain structural balance. The potential for recession looms. Most states can withstand a Moody's Analytics fiscal shock assuming a moderate recession. Illinois is forecast to have the worst shortfall as a percentage of 2021 general fund revenues, at -18.7%.

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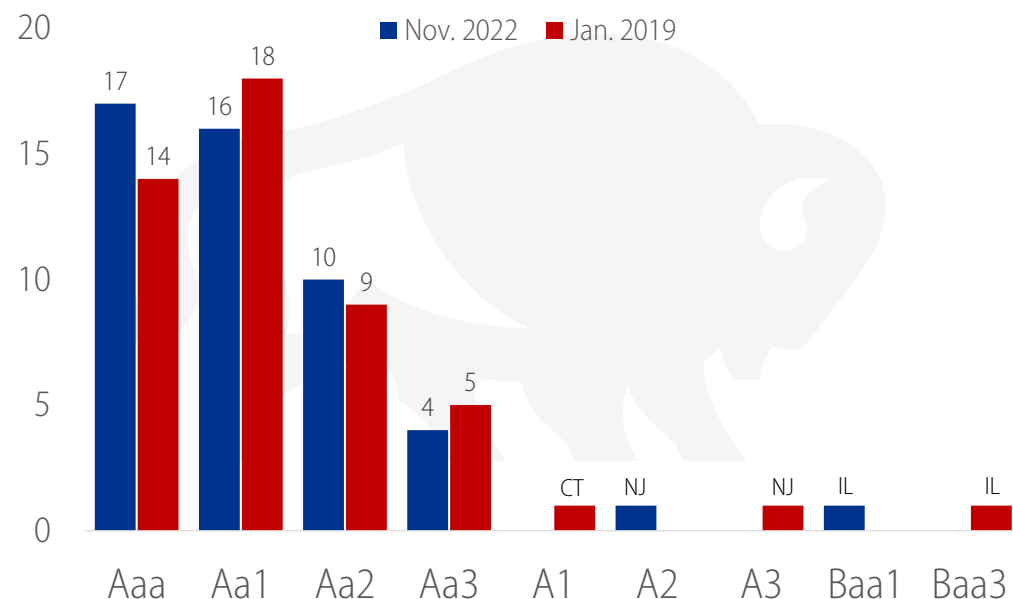
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The U.S. State Ratings Distribution Has Shifted Higher, For Now



Source: Moody's Investor Service and HilltopSecurities.

Please see disclosure starting on page 3.

Select U.S. State Fiscal Health Indicators

State	Spread to 10 Yr (bps)		Surplus/shortfall after mod. rec. fiscal shock	MOODY'S INVESTOR SERVICE			S&P GLOBAL			FITCH RATINGS		
	MMD as of Jan 2, 2019	MMD as of Nov 30, 2020		Rating	Outlook	Last	Rating	Outlook	Last	Rating	Outlook	Last
North Dakota (*)	19	17	84.6%	Aa1	Stable	4/16/2010	AA+	Stable	2/18/2016	-	-	-
Wyoming (*)	5	14	84.4%	-	-	-	AA	Stable	6/19/2020	-	-	-
Idaho (*)	18	18	37.7%	Aaa	Stable	3/22/2022	AA+	Stable	3/29/2011	AAA	Stable	6/15/2011
California	13	4	36.8%	Aa2	Stable	10/14/2019	AA-	Positive	9/2/2021	AA	Stable	8/5/2013
Delaware	0	0	31.7%	Aaa	Stable	4/16/2010	AAA	Stable	2/22/2000	AAA	Stable	4/13/2006
Tennessee	0	0	31.2%	Aaa	Stable	4/16/2010	AAA	Stable	5/26/2016	AAA	Stable	4/5/2010
Nebraska (*)	17	15	30.1%	Aa1	Stable	9/27/2017	AAA	Stable	5/5/2011	-	-	-
Florida	8	4	27.9%	Aaa	Stable	6/21/2018	AAA	Stable	7/12/2011	AAA	Stable	4/5/2010
Texas (*)	14	11	27.7%	Aaa	Stable	4/16/2010	AAA	Stable	9/27/2013	AAA	Stable	4/5/2010
New Mexico	10	13	26.0%	Aa2	Stable	6/18/2018	AA	Stable	4/30/2021	-	-	-
North Carolina	0	0	25.2%	Aaa	Stable	4/16/2010	AAA	Stable	6/25/1992	AAA	Stable	
Oregon	7	10	19.3%	Aa1	Stable	4/16/2010	AA+	Stable	3/9/2011	AA+	Stable	4/5/2010
Michigan	9	15	19.2%	Aa1	Stable	7/24/2015	AA	Stable	6/30/2021	AA+	Stable	7/21/2022
Utah	0	0	19.0%	Aaa	Stable	4/16/2010	AAA	Stable	6/7/1991	AAA	Stable	4/13/2006
Ohio	10	14	18.1%	Aa1	Positive	10/11/2022	AA+	Stable	7/15/2011	AAA	Stable	9/9/2022
Minnesota	5	7	16.6%	Aaa	Stable	7/28/2022	AAA	Stable	8/26/2021	AAA	Stable	7/7/2011
Average, Sum	23	22	14.2%	-	-	-	-	-	-	-	-	-
Montana	5	17	13.3%	Aa1	Stable	4/16/2010	AA	Stable	5/5/2008	AA+	Stable	4/5/2010
Vermont	2	6	13.3%	Aa1	Stable	10/23/2018	AA+	Stable	8/19/2022	AA+	Stable	4/5/2010
Connecticut	85	34	13.2%	Aa3	Stable	3/31/2021	AA-	Stable	11/21/2022	AA-	Stable	7/2/2013
Alabama	10	19	13.1%	Aa1	Stable	4/16/2010	AA	Stable	10/7/2004	AA+	Stable	5/3/2010
South Carolina	2	5	12.8%	Aaa	Stable	4/16/2010	AA+	Stable	7/11/2005	AAA	Stable	4/13/2006
Missouri	1	6	10.2%	Aaa	Stable	4/16/2010	AAA	Stable	2/16/1994	AAA	Stable	4/13/2006
Maryland	7	4	9.5%	Aaa	Stable	4/16/2010	AAA	Stable	5/7/1992	AAA	Stable	4/13/2006
Massachusetts	14	13	9.3%	Aa1	Stable	4/16/2010	AA	Positive	10/7/2022	AA+	Stable	4/5/2010
West Virginia	18	22	9.1%	Aa2	Stable	2/21/2017	AA-	Stable	4/21/2016	AA	Stable	7/8/2011
Indiana (*)	11	15	8.6%	Aaa	Stable	4/16/2010	AAA	Stable	7/18/2008	AAA	Stable	4/5/2010
Virginia	0	0	7.8%	Aaa	Stable	4/16/2010	AAA	Stable	6/8/2018	AAA	Stable	4/13/2006
Oklahoma	20	20	7.7%	Aa2	Stable	3/31/2020	AA	Stable	4/13/2021	AA	Stable	4/5/2010
Iowa (*)	10	17	7.4%	Aaa	Stable	4/16/2010	AAA	Stable	9/11/2008	AAA	Stable	4/5/2010
Georgia	3	0	6.6%	Aaa	Stable	4/16/2010	AAA	Stable	7/29/1997	AAA	Stable	8/23/2013
Wisconsin	10	16	6.2%	Aa1	Stable	8/4/2017	AA+	Stable	8/25/2021	AA+	Stable	4/5/2010
Nevada	19	17	5.4%	Aa1	Stable	11/5/2019	AA+	Stable	9/22/2021	AA+	Stable	4/5/2010
Hawaii	15	22	4.0%	Aa2	Stable	10/13/2022	AA+	Stable	9/21/2021	AA	Stable	4/13/2006
New Jersey	65	51	3.8%	A2	Positive	9/30/2022	A-	Positive	8/19/2022	A	Positive	9/12/2022
Colorado (*)	19	25	3.1%	Aa1	Stable	4/16/2010	AA	Stable	6/7/2018	-	-	
Kansas (*)	20	20	2.9%	Aa2	Stable	4/30/2014	AA-	Stable	5/4/2018	-	-	-
New York	5	16	1.6%	Aa1	Stable	4/13/2022	AA+	Stable	6/11/2021	AA+	Stable	5/31/2011
Arkansas	13	21	0.5%	Aa1	Stable	4/16/2010	AA	Stable	7/24/1991	-	-	
Washington	15	12	0.1%	Aaa	Stable	8/23/2019	AA+	Stable	11/13/2007	AA+	Stable	7/19/2013
South Dakota (*)	12	9	-1.7%	Aaa	Stable	7/11/2016	AAA	Stable	5/4/2015	AAA	Stable	4/5/2010
Kentucky (*)	22	25	-2.6%	Aa3	Stable	7/20/2017	A	Positive	1/28/2022	AA-	Positive	4/28/2022
Rhode Island	20	18	-3.4%	Aa2	Stable	4/16/2010	AA	Stable	6/18/2014	AA	Stable	7/18/2011
Louisiana	33	21	-4.0%	Aa2	Stable	5/25/2022	AA-	Stable	8/24/2018	AA-	Stable	4/5/2010
Maine	7	14	-8.1%	Aa2	Stable	4/16/2010	AA	Stable	5/24/2012	AA	Stable	1/23/2013
Pennsylvania	51	24	-8.4%	Aa3	Stable	8/5/2016	A+	Stable	8/4/2021	AA-	Positive	4/11/2022
New Hampshire	7	12	-10.2%	Aa1	Stable	4/16/2010	AA	Positive	2/2/2022	AA+	Stable	4/5/2010
Mississippi	21	22	-10.9%	Aa2	Stable	4/16/2010	AA	Stable	9/7/2018	AA	Stable	11/5/2013
Arizona (*)	20	25	-13.3%	Aa1	Stable	11/19/2019	AA	Stable	5/20/2015	-	-	
Alaska	35	27	-16.4%	Aa3	Stable	4/22/2021	AA-	Stable	3/21/2022	A+	Stable	4/13/2022
Illinois	180	171	-18.7%	Baa1	Stable	4/21/2022	BBB+	Stable	5/6/2022	BBB+	Stable	5/5/2022

Source: Refinitiv, Moody's Analytics, Moody's Investor Service, S&P Global, Fitch Ratings and HilltopSecurities.

(*) Denotes a Lease or Issuer Credit Rating.

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