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State Ratings Trends

Since our last survey of state credit ratings in January 2013, the rating trend for states continues to be mixed. After generally solid growth in Fiscal Year 2012 (ended June 30, 2012), state revenue performance appears to have been more variable in FY2013. Growth did continue in most states, though at levels generally below FY2012 and in many cases below budget projections. As a result, many states were forced to manage budget gaps mid-year 2013 and have had to close fresh budget gaps in their just-passed FY2014 budgets.

While the federal spending cuts triggered by the sequester haven't been an obvious drag on state credit quality, the overall slow pace of housing and employment growth has been. Though states are now beginning to see housing prices in many markets strongly rebound, those improvements won't be felt in state and local revenue flows until well into the 2014 fiscal year and beyond. In the near term, state revenue performance will be largely driven by the pace of growth in employment (through personal income tax payments) and in the overall level of economic activity (through sales tax revenues).

Over the past six months, one state (Illinois) had its general credit ratings downgraded while two were upgraded (California and Michigan). The Commonwealth of Puerto Rico was also downgraded again. In addition to the rating changes, the rating agencies revised their outlooks on six states and Puerto Rico. The table on pages 2 and 3 shows the current ratings and outlook for the 50 states and Puerto Rico, with changes highlighted in **bold, italicized text**.

As a group, the states have mostly stabilized and many are beginning to show financial improvement as evidenced by modest budget surpluses and growing rainy day reserve funds. Those issuers facing significant structural budget problems – Illinois and Puerto Rico, most notably – continue to see deteriorating credit ratings as they work to find politically palatable solutions to their issues. For Illinois in particular, the intermediate term rating trend will largely be driven by the Legislature's and the Governor's ability to reach some sort of comprehensive pension funding overhaul.



Brian Tournier
Director of Research
Ascent Investment Partners

Recent State Rating and Outlook Changes

State	Rating Action
California	S&P upgrade to A from A- Fitch outlook change to Positive from Stable
Connecticut	Fitch outlook to Negative from Stable
Illinois	Moody's downgrade to A3 from A2, outlook remains Negative Fitch downgrade to A- from A, outlook remains Negative
Kentucky	S&P outlook to Negative from Stable
Michigan	Moody's outlook to Positive from Stable S&P outlook to Positive from Stable Fitch upgrade to AA from AA-
Missouri	Moody's outlook to Negative from Stable
Puerto Rico	S&P downgrade to BBB- from BBB, outlook remains Negative Fitch downgrade to BBB- from BBB+, outlook remains Negative

Sources: Moody's; S&P; Fitch

Updated Credit Ratings of the 50 States – 7/12/13

State	Ratings (1)	Rating Outlooks
Alabama	Aa1 / AA / AA+	Stable / Stable / Stable
Alaska	Aaa / AAA / AAA	Stable / Stable / Stable
Arizona (2)	Aa3 / AA- / nr	Stable / Stable / na
Arkansas	Aa1 / AA / nr	Stable / Stable / na
California	A1 / A / A-	Stable / Stable / Positive
Colorado (2)	Aa1 / AA / nr	Stable / Stable / na
Connecticut	Aa3 / AA / AA	Stable / Stable / Negative
Delaware	Aaa / AAA / AAA	Stable / Stable / Stable
Florida	Aa1 / AAA / AAA	Stable / Stable / Negative
Georgia	Aaa / AAA / AAA	Stable / Stable / Stable
Hawaii	Aa2 / AA / AA	Stable / Stable / Stable
Idaho (2)	Aa1 / AA+ / AA	Stable / Stable / Stable
Illinois	A3 / A- / A-	Negative / Negative / Negative
Indiana (2)	Aaa / AAA / AA+	Stable / Stable / Stable
Iowa (2)	Aaa / AAA / AAA	Stable / Stable / Stable
Kansas (2)	Aa1 / AA+ / AA	Negative / Stable / Stable
Kentucky (2)	Aa2 / AA- / AA-	Negative / Negative / Stable
Louisiana	Aa2 / AA / AA	Stable / Stable / Stable
Maine	Aa2 / AA / AA	Negative / Stable / Stable
Maryland	Aaa / AAA / AAA	Negative / Stable / Stable
Massachusetts	Aa1 / AA+ / AA+	Stable / Stable / Stable

State	Ratings (1)	Rating Outlooks
Michigan	Aa2 / AA- / AA	Positive / Positive / Stable
Minnesota	Aa1 / AA+ / AA+	Negative / Stable / Stable
Mississippi	Aa2 / AA / AA+	Stable / Stable / Stable
Missouri	Aaa / AAA / AAA	Negative / Stable / Stable
Montana	Aa1 / AA / AA+	Stable / Stable / Stable
Nebraska (2)	Aa2 / AAA / nr	Stable / Stable / na
Nevada	Aa2 / AA / AA+	Stable / Stable / Stable
New Hampshire	Aa1 / AA / AA+	Stable / Stable / Stable
New Jersey	Aa3 / AA- / AA-	Stable / Stable / Stable
New Mexico	Aaa / AA+ / nr	Negative / Stable / na
New York	Aa2 / AA / AA	Stable / Positive / Positive
North Carolina	Aaa / AAA / AAA	Stable / Stable / Stable
North Dakota	Aa1 / AA+ / nr	Stable / Positive / na
Ohio	Aa1 / AA+ / AA+	Stable / Stable / Stable
Oklahoma	Aa2 / AA+ / AA+	Stable / Stable / Stable
Oregon	Aa1 / AA+ / AA+	Stable / Stable / Stable
Pennsylvania	Aa2 / AA / AA+	Stable / Negative / Negative
Puerto Rico	Baa3 / BBB- / BBB-	Negative / Negative / Negative
Rhode Island	Aa2 / AA / AA	Negative / Stable / Stable
South Carolina	Aaa / AA+ / AAA	Stable / Stable / Stable
South Dakota (2)	Aa2 / AA+ / AA	Stable / Stable / Stable
Tennessee	Aaa / AA+ / AAA	Stable / Positive / Stable
Texas	Aaa / AA+ / AAA	Stable / Stable / Stable
Utah	Aaa / AAA / AAA	Stable / Stable / Stable
Vermont	Aaa / AA+ / AAA	Stable / Stable / Stable
Virginia	Aaa / AAA / AAA	Negative / Stable / Stable
Washington	Aa1 / AA+ / AA+	Negative / Stable / Negative
West Virginia	Aa1 / AA / AA+	Stable / Stable / Stable
Wisconsin	Aa2 / AA / AA	Stable / Stable / Stable
Wyoming (2)	nr / AAA / nr	na / Stable / na

(1) Long-term debt ratings from Moody's / S&P / Fitch.

(2) No GO debt outstanding. Listed ratings and outlooks reflect the highest issuer rating or state supported appropriation debt rating.

Sources: Moody's; S&P; Fitch

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