S&P Global
Ratings

U.S. Public Finance 2024 Midyear Outlook
A Cooldown Ahead

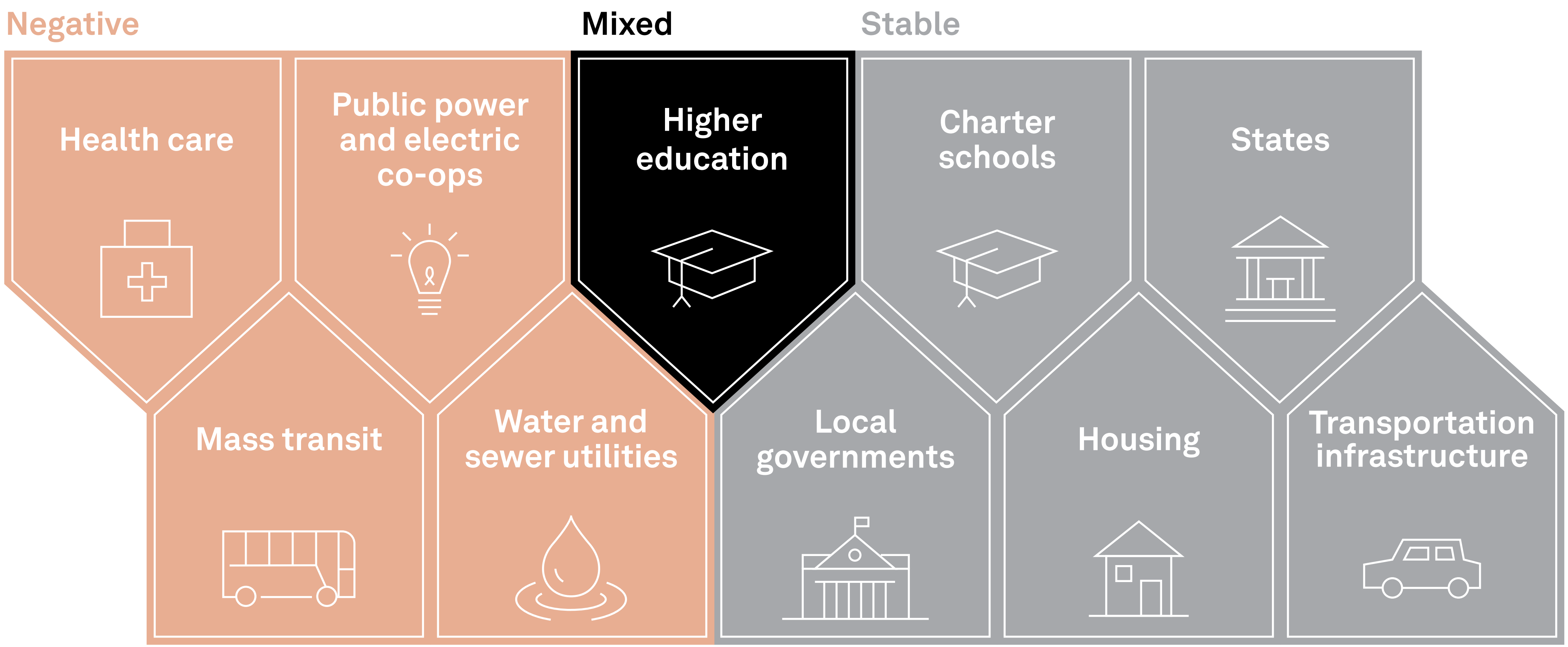
Robin Prunty
Chief Analytical Officer, Governments

Eden Perry
Head of Public Finance, Americas

July 15, 2024

This report does not constitute a rating action

U.S. Public Finance Sector Views



Mixed=some negative, some positive. Source: S&P Global Ratings.

USPF 2024 Midyear Outlook

What we're watching

- Higher interest rates and inflation remain headwinds for most issuers from a debt issuance and operating and capital budget perspective
- Summer storm and fire season heightens the possibility of catastrophic events that require swift response and resource allocation
- Federal policy uncertainty given the upcoming elections

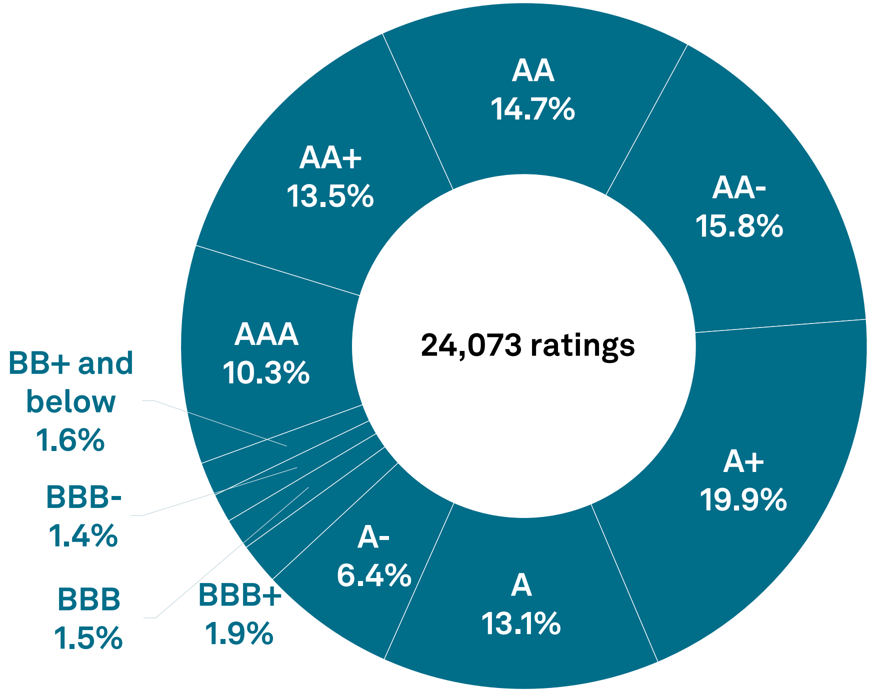
Trends

- Credit conditions have been mostly stable, but credit pressure has accelerated for some sectors and the outlook distribution has weakened
- The U.S. economy has been remarkably resilient, but income growth has lagged spending growth so we expect consumer spending will slow
- The phase-out of federal stimulus has created imbalances for some, but healthy financial reserves continue to provide flexibility

Rest of year expectations

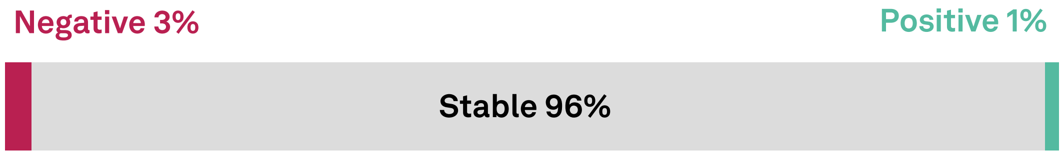
- Our baseline U.S. economic forecast is now for slower growth through the rest of the year with monetary policy easing unlikely until the end of the year; however, we don't expect this to disrupt credit stability for most issuers

U.S. Public Finance ratings distribution



Source: S&P Global Ratings.

Outlook distribution



Source: S&P Global Ratings.

S&P Global Ratings

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

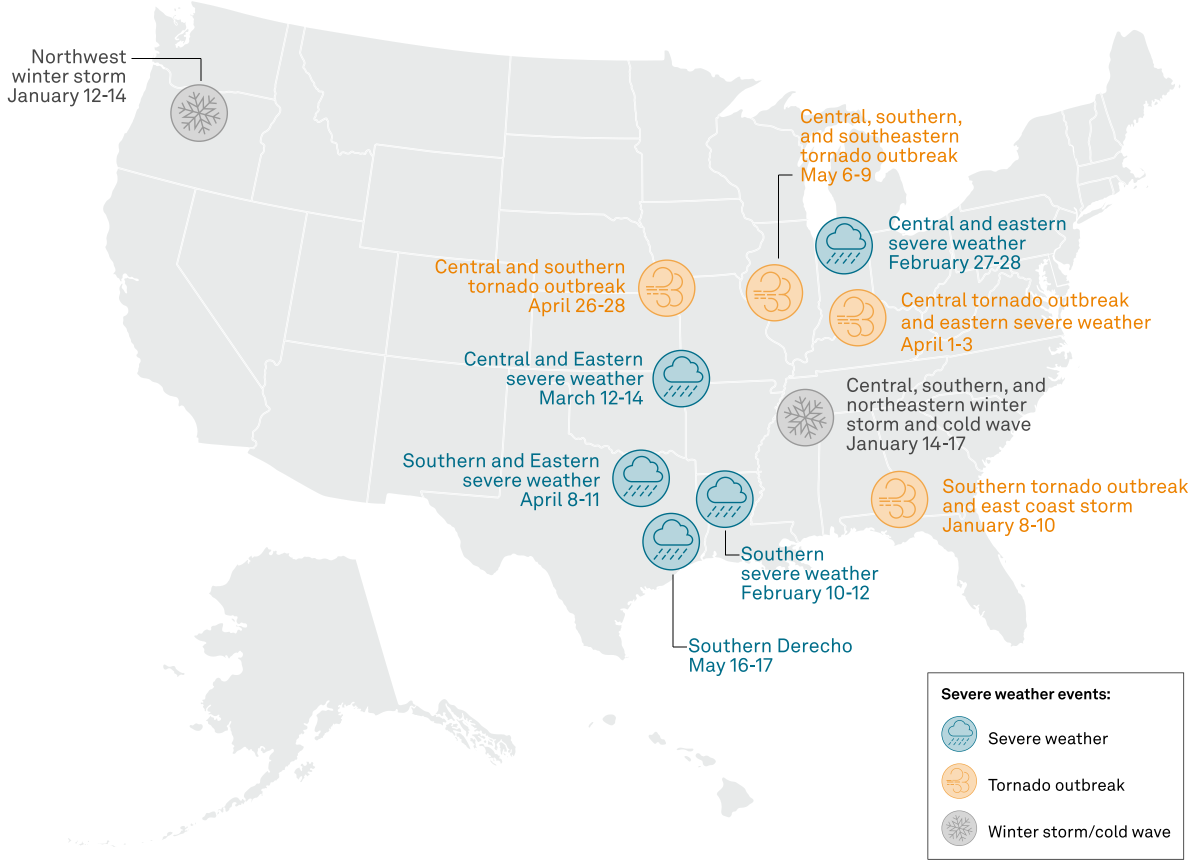
	2020	2021	2022	2023	2024f	2025f	2026f	2027f
Real GDP (annual average % change)	-2.2	5.8	1.9	2.5	2.5	1.7	1.8	1.9
Consumer spending (annual average % change)	-2.5	8.4	2.5	2.2	2.5	2.0	2.1	2.4
Equipment investment (annual average % change)	-10.1	6.4	5.2	-0.3	1.4	4.3	3.3	3.3
Nonresidential structures investment (annual average % change)	-9.5	-3.2	-2.1	13.2	4.6	1.4	1.0	0.3
Residential investment (annual average % change)	7.2	10.7	-9.0	-10.6	4.7	2.0	2.8	2.2
Core CPI (annual average % change)	1.7	3.6	6.2	4.8	3.4	2.5	2.2	2.1
Unemployment rate (%)	8.1	5.4	3.6	3.6	3.9	4.2	4.4	4.1
Housing starts (annual total in mil.)	1.39	1.60	1.55	1.42	1.40	1.40	1.40	1.42
Light-vehicle sales (annual total in mil.)	14.5	15.0	13.8	15.5	15.6	15.7	15.9	16.0
10-year Treasury (%)	0.89	1.44	2.95	3.96	4.23	3.62	3.45	3.46

As of June 24, 2024. 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.

Extreme Weather: An Evolving Risk

- Extreme weather events, including hurricanes, droughts, and flooding remain one of the key evolving risks we're watching for U.S. governments and not-for-profit enterprises
- Through July 9, 2024, the National Oceanic and Atmospheric Administration reported 15 separate $1 billion events (up from seven by mid-2023), leading to almost $38 billion in costs
- These events exclude Hurricane Beryl that made landfall on July 8 as a Category 1 storm along the southeastern coast of Texas and spurred flooding and tornadoes as far east as Arkansas
- Our credit rating methodologies provide the analytical approach to capture events linked to climate hazards that could alter the trajectory of the credit factors underpinning our ratings and allow for a forward-looking view
- For example, the financial and operating impacts incurred by major storms in recent years has had limited impact on U.S. local governments' credit quality to date. However, a dwindling federal Disaster Relief Fund, which is the Federal Emergency Management Agency's primary funding source, could compound fiscal risks for issuers most vulnerable to storms

U.S. 2024 billion-dollar weather and climate disasters



Note: this map denotes the approximate location of the eleven separate billion-dollar weather and climate disasters that impacted the United States through May 2024. Source: National Oceanic and Atmospheric Administration.

USPF 2024 Midyear Sector Summary
Charter schools

What we're watching

- Liquidity levels generally remain strong, but cuts to per-pupil funding could create operating stress for schools
- Learning loss gaps are improving, but slowly, and it's not yet clear what uneven testing results might mean for charter renewal risk

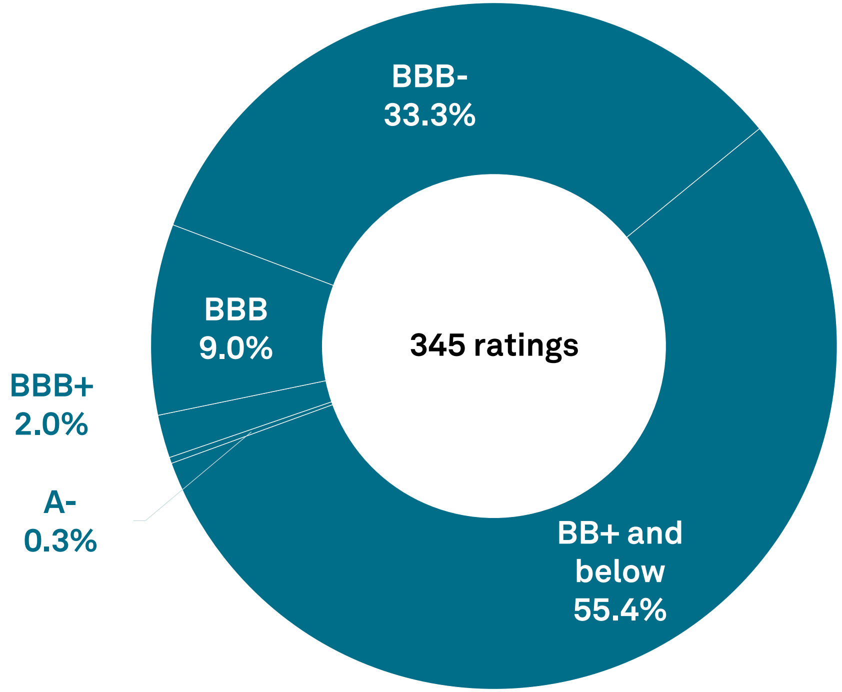
Trends

- Demand has been rising but it's uncertain if this trend will continue into fall 2024 amid demographic and competitive pressures
- Credit stress exists among lower-rated issuers as operating strain mounts due to rising costs

Rest of year expectations

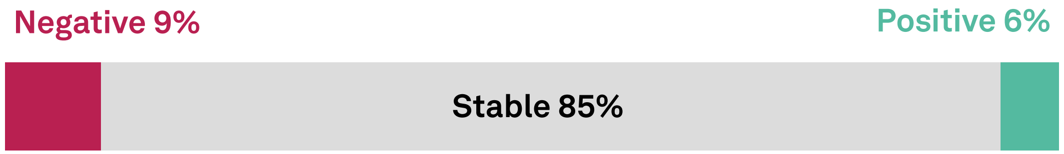
- We expect credit quality will remain stable through the end of the year, though we are monitoring state budgets for flat or weakening funding trends that could cause stress beyond 2025, especially as ESSER funds roll off
- The number of covenant violations in the sector has increased markedly; more on the horizon are likely

Ratings distribution



Source: S&P Global Ratings.

Outlook distribution



Source: S&P Global Ratings.

USPF 2024 Midyear Sector Summary
Higher education

What we're watching

- Amid rising tuition and fees, the value proposition debate for four-year college or university intensifies, affecting enrollment
- Operating costs continue to rise, pressuring cash flows and capital spending

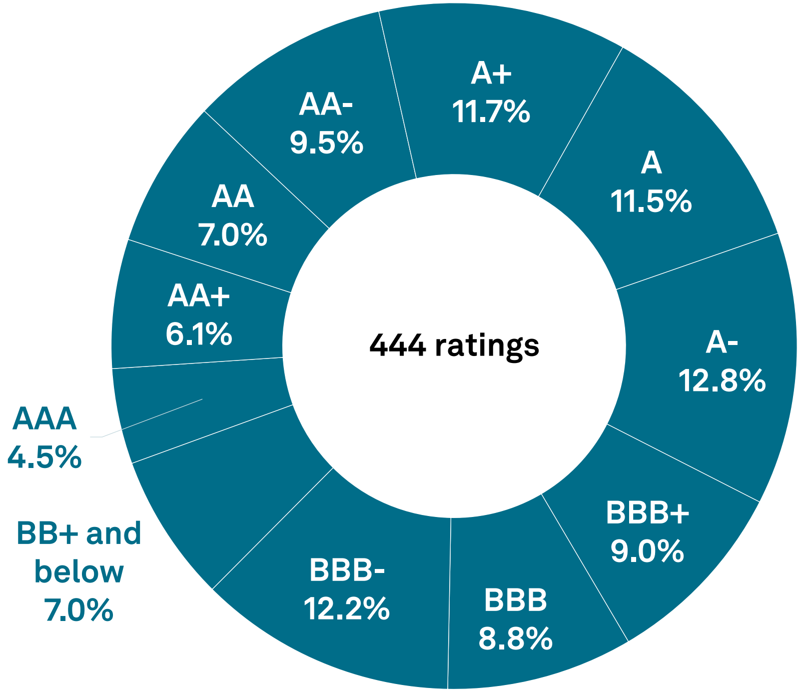
Trends

- Credit quality is diverging, with pressure on ratings prominent at the lower end of the ratings spectrum
- We expect fiscal 2024 operating margins to be weaker year over year, given limited revenue recovery, net tuition revenue strain, and increasing costs
- Consolidations and closures continue at an elevated rate

Rest of year expectations

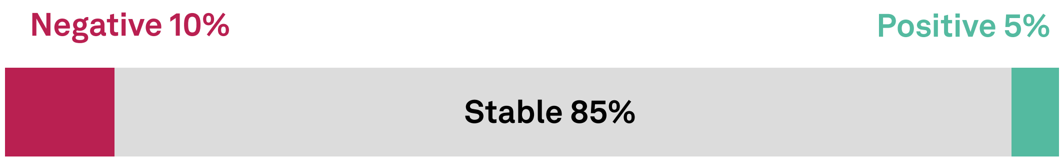
- Ongoing credit quality divergence, with weaker-positioned institutions experiencing budgetary stress and covenant violations
- Increasing financial aid and the demographic cliff stand to affect institutions longer term

Ratings distribution



Source: S&P Global Ratings. Includes public and private universities.

Outlook distribution



Source: S&P Global Ratings.

S&P Global Ratings

USPF 2024 Midyear Sector Summary
Health care

What we're watching

- Cash flow improvement from 2023, but uneven and slow recovery for many
- Balance-sheet flexibility that may be tested with additional debt and ramp-up of capital spending, which could strain reserves given lower cash flow

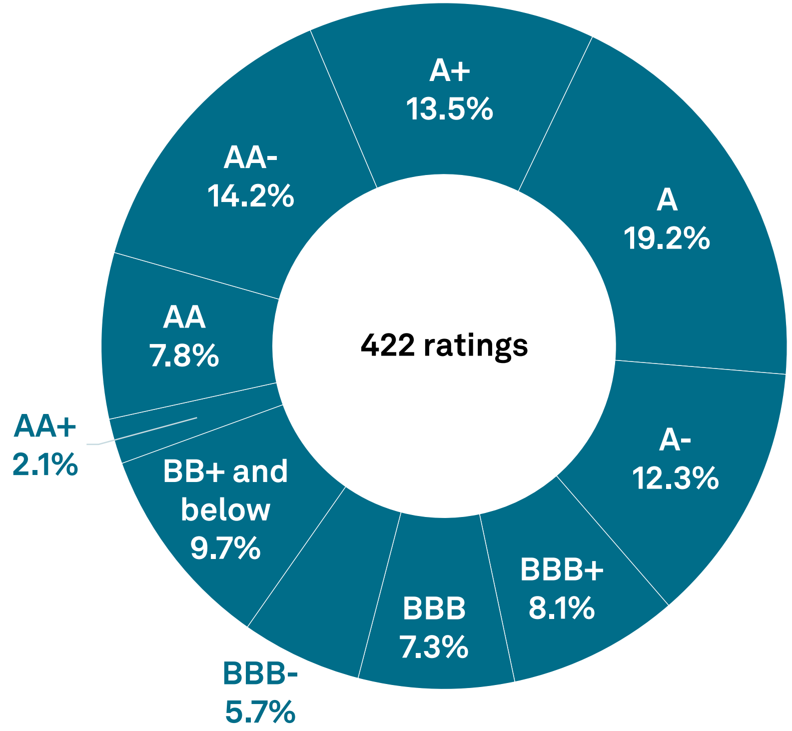
Trends

- Higher expense base tied to ongoing labor pressures, though lessening from recent years, and strategic and IT investments
- Solid revenue growth from demand, high acuity of services, and state supplemental programs, with mixed payor trends
- Focused strategies to increase cash, meaningfully reduce cost structure, and diversify revenues

Rest of year expectations

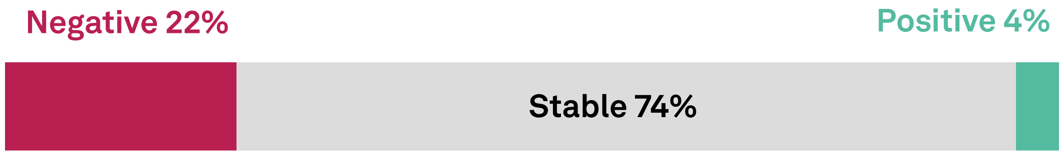
- Variability in cash flow rebound as many still lag performance targets and as most one-time industry revenue items (340b settlement, FEMA, etc.) wane
- Improving YTD trend of favorable to unfavorable outlook revisions could be a signal toward stability although downgrades still outpace upgrades

Ratings distribution



Source: S&P Global Ratings.

Outlook distribution



Source: S&P Global Ratings.

USPF 2024 Midyear Sector Summary
Housing

What we're watching

- Housing affordability remains a national challenge, particularly as the mortgage "lock-in" effect curtails existing housing supply
- Higher operating expenses from payroll costs, utilities, and insurance premiums will likely continue to squeeze owners and operators of affordable housing projects absent rent increases

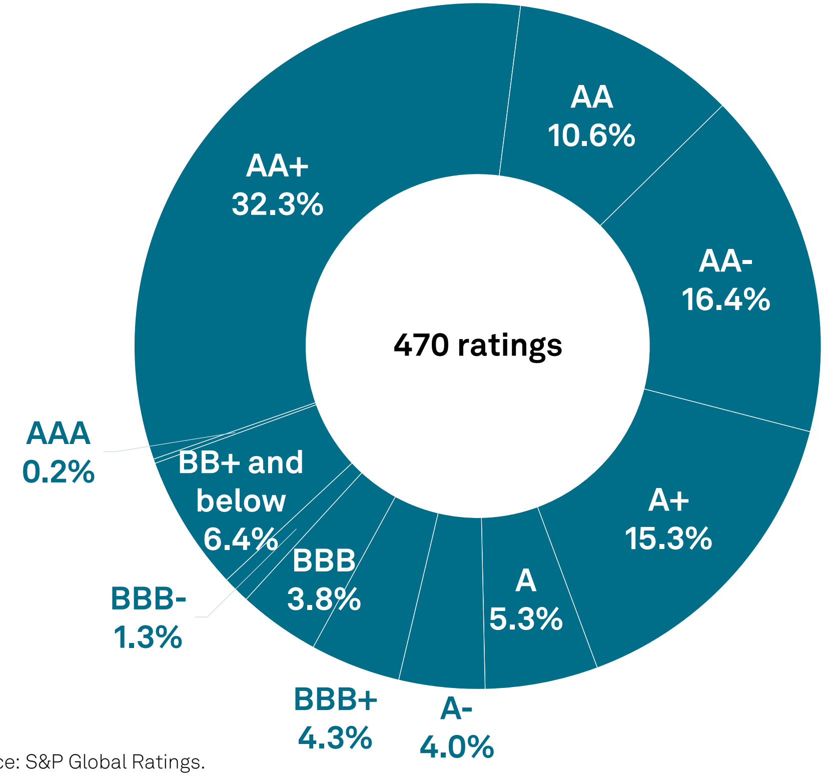
Trends

- Housing finance agencies continue to innovate and evolve their down payment assistance programs to support originations
- Cyber attacks and intrusions for lenders and developers remain top of mind and could lead to higher technology costs to replace or enhance hardware and software

Rest of year expectations

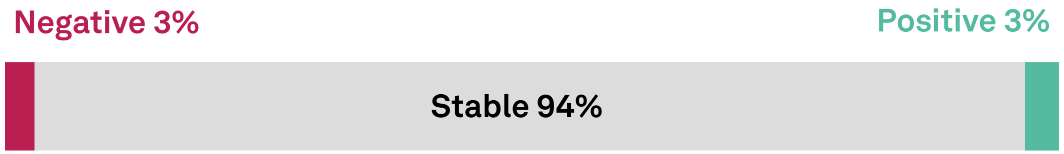
- Generally stable rating performance expected across the sector, with pockets of pressure observed in stand-alone rental housing bond projects
- Higher for longer interest rates, with initial Federal Reserve cuts expected in December 2024, will likely underscore robust debt issuance by lenders and developers through year-end

Ratings distribution



Source: S&P Global Ratings.

Outlook distribution



Source: S&P Global Ratings.

USPF 2024 Midyear Sector Summary
Local government

What we're watching

- Possibility of erosion in financial performance particularly when weakening revenues are accompanied by inflation-induced expenditure growth
- Potential for school district credit deterioration from the expiration of ESSER funds in September 2024, especially where funds were used for ongoing operating expenditures

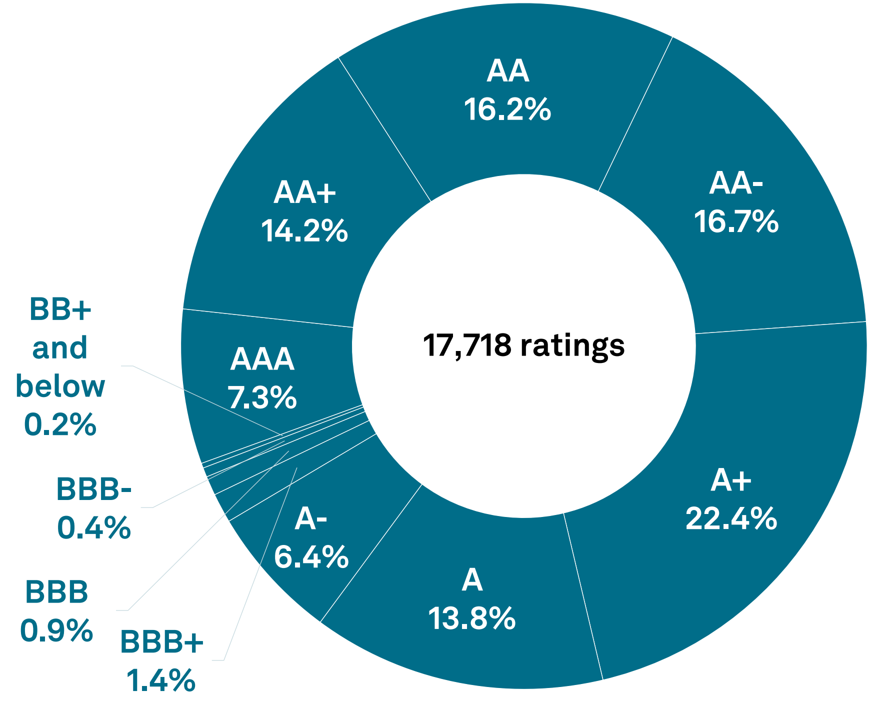
Trends

- Most issuers continue to experience good revenue collections, including from economically sensitive revenue sources
- Generally strong reserve levels continue to provide a cushion to address budgetary gaps or any revenue softening

Rest of year expectations

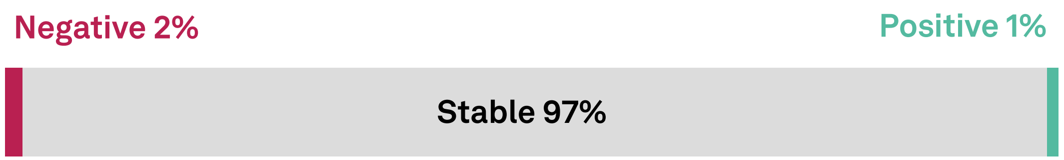
- Without additional authorization, FEMA funding could fall short, a notable concern given a summer storm season that is expected to be heavier than normal
- Unspent federal stimulus dollars will continue to support local governments, but as the spending deadline looms and funds are spent down, budget gaps could emerge

Ratings distribution



Source: S&P Global Ratings.

Outlook distribution



Source: S&P Global Ratings.

USPF 2024 Midyear Sector Summary
Public power and electric cooperative utilities

What we're watching

- The financial and operational effects of legislative and regulatory energy transition mandates
- The extent to which the elevated costs of debt, construction materials, and labor diminish ratemaking flexibility and weaken financial metrics

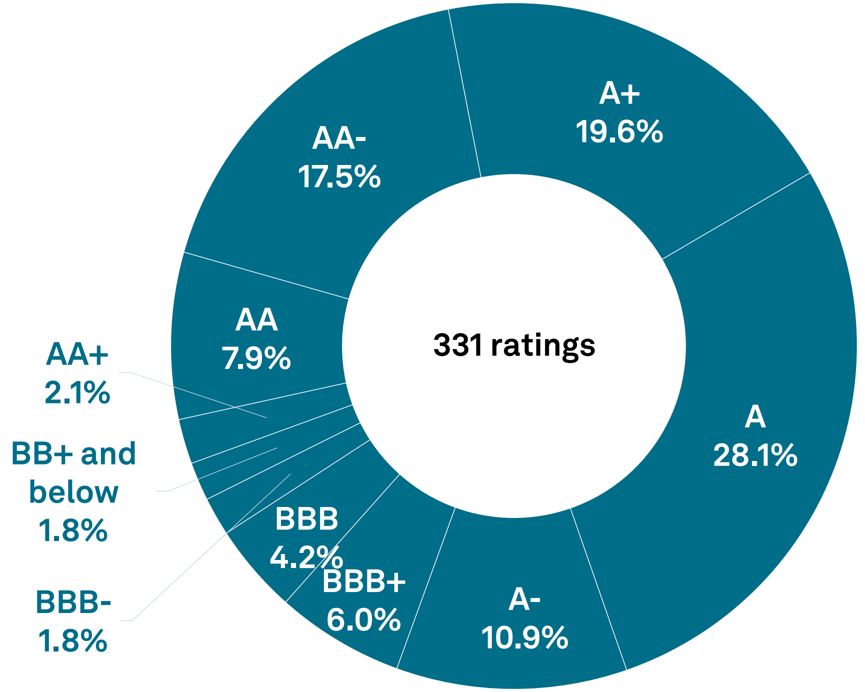
Trends

- Debt service coverage and liquidity metrics generally provide capacity to temper inflationary pressures and rate affordability considerations
- However, we are increasingly observing that economic conditions are diminishing rate affordability and are simultaneously reducing willingness to adjust retail rates in proportion to higher operating and capital costs

Rest of year expectations

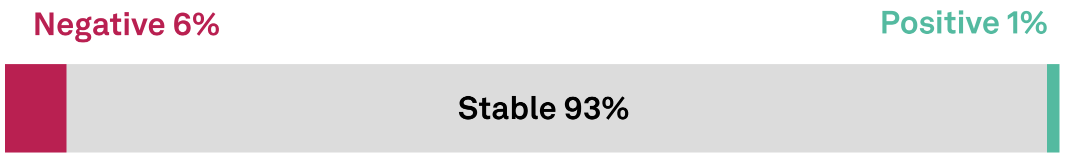
- Retail electricity rate inflation will remain above the broader Consumer Price Index
- The negative bias for rating actions and the sector outlook will likely continue as utilities and their customers face increasing cost pressures

Ratings distribution



Source: S&P Global Ratings.

Outlook distribution



Source: S&P Global Ratings.

S&P Global Ratings

USPF 2024 Midyear Sector Summary
Transportation

What we're watching

- Back to baseline, GDP-linked growth rates in activity metrics across asset classes with passenger traffic at U.S. airports demonstrating continued strength
- Spend-down of remaining pandemic federal operating assistance by transit operators is prompting policymakers to seek solutions for sustainably balancing operating budgets (and capital funding) from non-fare revenue sources
- Sizable capital projects and debt issuance at many large, medium, and small hub airports to meet anticipated demand and replace outdated facilities; continued expansion of lane miles for toll operators in U.S. South and West
- Slowdown in sales tax growth in some markets

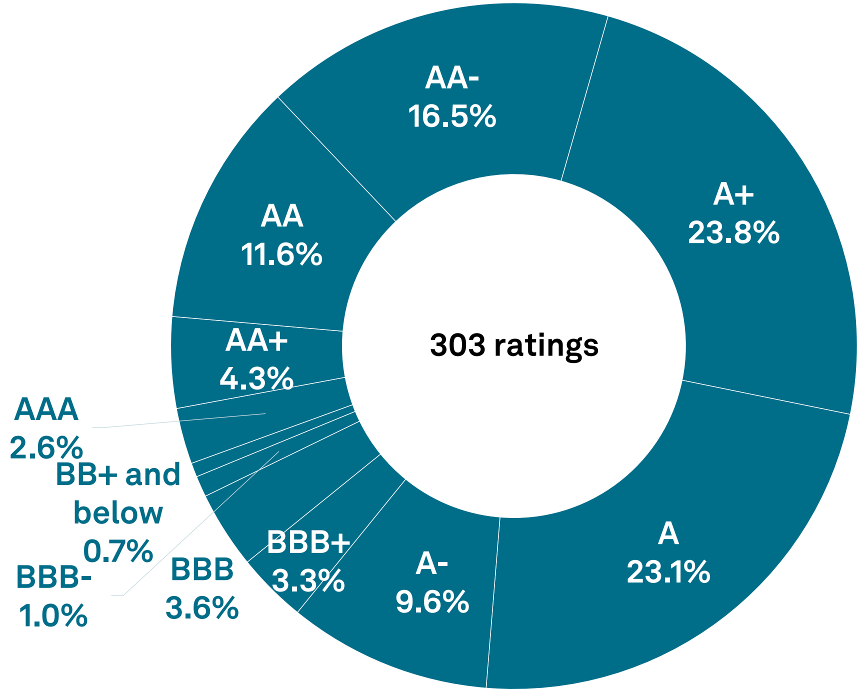
Trends

- Return of large capital programs
- Improved credit quality in 2024 as demand levels, rate increases, and new business terms with tenants enhance forward-looking metrics

Rest of year expectations

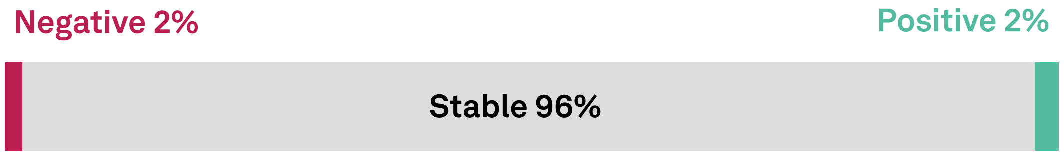
- Moderating construction inflation on permanently higher project base
- Continued steady airport passenger traffic levels
- No disruptions to the largely normalized supply chain

Ratings distribution



Source: S&P Global Ratings.

Outlook distribution



Source: S&P Global Ratings.

S&P Global Ratings

USPF 2024 Midyear Sector Summary
States

What we're watching

- State tax cuts could create pressures if the economy weakens
- Lower Medicaid reimbursement rates and enrollment decisions could be a budget and policy challenge

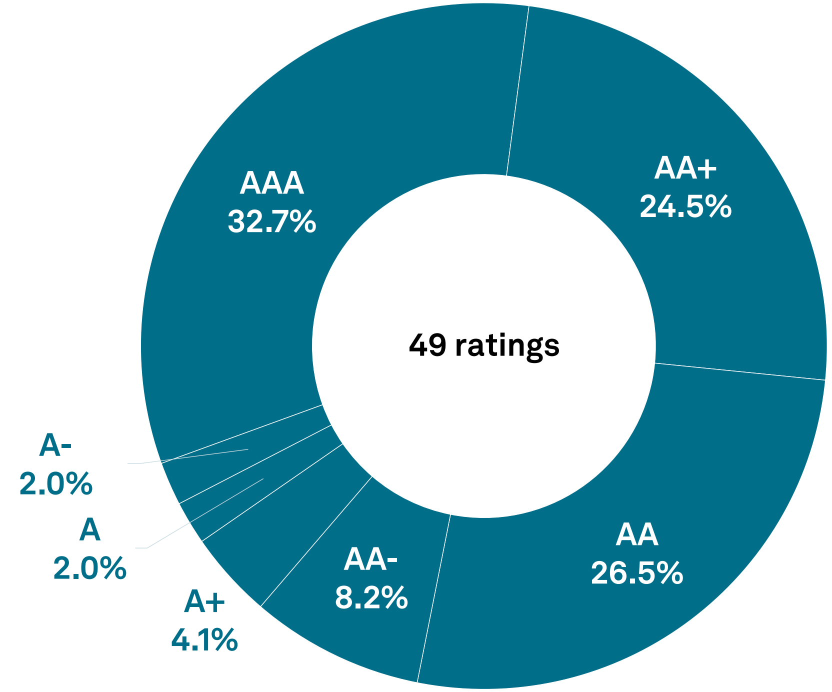
Trends

- Record-high reserves will cushion credit stability, even as states begin to tap these balances
- Worker shortages and wage increases to attract candidates will continue to stress budgets, but generative AI could help

Rest of year expectations

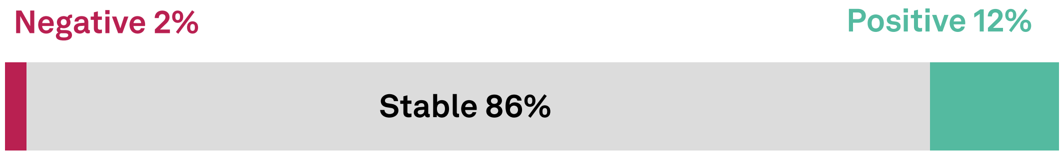
- Fiscal 2025 revenues and expenditures will return to more normal trends after years of pandemic-induced anomalous performance
- Incidence of severe weather events and associated insurance premium growth will add cost pressures for some but strong balance sheets will help blunt budget impacts

Ratings distribution



Source: S&P Global Ratings.

Outlook distribution



Source: S&P Global Ratings.

USPF 2024 Midyear Sector Summary
Utilities

What we're watching

- Ambitious regulatory environment, especially with respect to emerging containments that will require substantial capital investment and increase operating costs
- Climate volatility continues to challenge utilities, especially throughout the western region where hydrological whiplash has influenced recent revenue performance

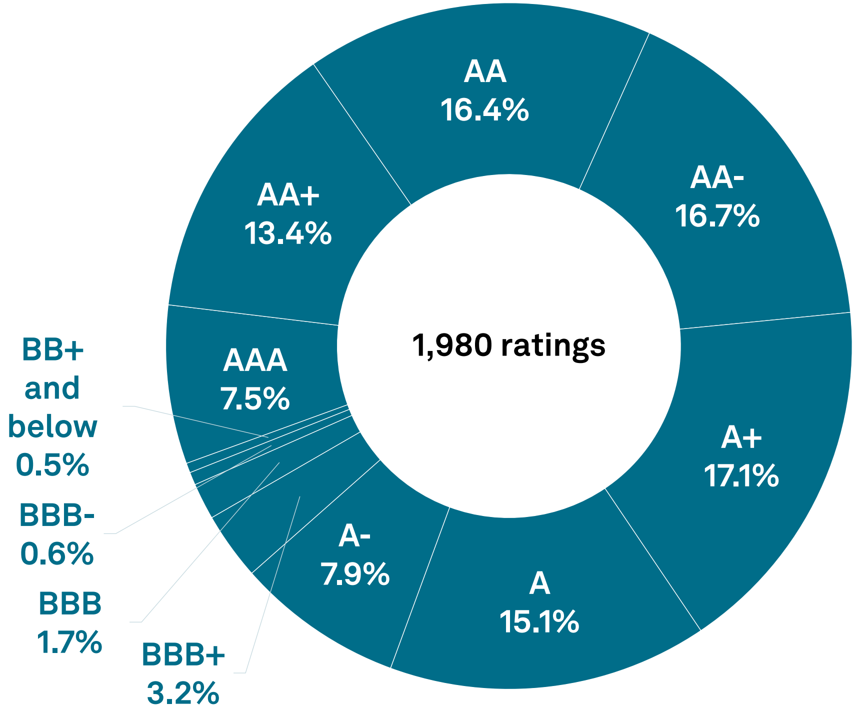
Trends

- Rising energy and chemical costs pressure operating margins while revenues are lagging due to rate deferrals, weather, and stubborn delinquencies
- Affordability is diminishing given economic conditions resulting in greater resistance to full cost recovery

Rest of year expectations

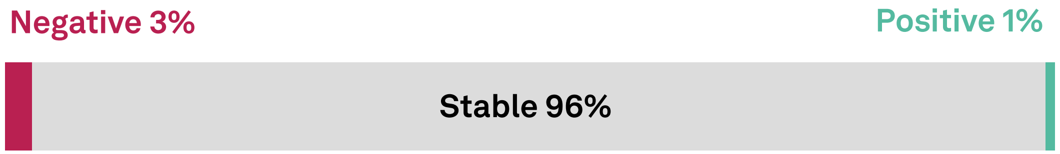
- Downgrades have significantly outpaced upgrades in 2024, which we expect will continue into next year, resulting in a revision of the sector view to negative
- Smaller systems will be more vulnerable to credit deterioration given lower nominal liquidity, lesser access to economies of scale benefits, and greater event risk, given more limited management

Ratings distribution



Source: S&P Global Ratings.

Outlook distribution



Source: S&P Global Ratings.

Related Research

- U.S. Charter Schools Sector Fiscal 2023 Medians: Healthy Financial Metrics Amid Looming Fiscal Cliff, June 25, 2024
- AI In Healthcare: A Path To Long-Term Immunity?, June 25, 2024
- Rising Covenant Violations Are A Symptom Of The Pressure Facing Lower-Rated U.S. Higher Education Entities, June 21, 2024
- U.S. Transportation Infrastructure Airport Update: Air Travel Rides The Jetstream, For Now, June 18, 2024
- Your Three Minutes In The 2024 Atlantic Hurricane Season : U.S. Federal Disaster Relief Funding Will Be Stressed To Withstand An Intense Season, June 11, 2024
- U.S. States' Fiscal 2025 Budgets Navigate Evolving Risks As Economic Growth Prospects Wane, May 28, 2024
- Record U.S. Infrastructure Spending Is Colliding With Higher Construction Costs And Other Hurdles, May 14, 2024
- Cyber Risk Insights: Hackers Are Knocking On The Door Of U.S. Affordable Housing Issuers, May 14, 2024
- U.S. State Enhancement Programs And Their Impact On Charter Schools, May 7, 2024
- U.S. State Medicaid Transition: Stable Condition Near Term, With Outyears Demanding Care, May 2, 2024
- Preliminary 2023 Medians For U.S. Acute Health Care Providers Indicate Continued Operating Pressures For Many, April 30, 2024
- U.S. Not-For-Profit Health Care Covenant Violations Will Continue To Affect Pressured Issuers, April 29, 2024
- Navigating Uncertainty: U.S. Governments And Physical Climate Risks, April 23, 2024
- Credit Quality For U.S. Cities Holds Up Despite Challenging Commercial Real Estate Market, April 22, 2024
- U.S. Transportation Infrastructure 2024 Activity Estimates Indicate A Return To Pre-Pandemic Levels And Growth, With Transit Ridership Still Recovering, March 21, 2024

Analytical Contacts

Robin Prunty

Chief Analytical Officer

Managing Director

robin.prunty@spglobal.com

Jessica Wood

Charter Schools & Higher Education

Managing Director

jessica.wood@spglobal.com

Geoffrey Buswick

Governments

Managing Director

geoffrey.buswick@spglobal.com

Suzie Desai

Health Care

Managing Director

suzie.desai@spglobal.com

Jane Ridley

Local Governments

Managing Director

jane.ridley@spglobal.com

Sarah Sullivant

Local Governments

Managing Director

sarah.sullivant@spglobal.com

Jenny Poree

Utility Revenue

Managing Director

jenny.poree@spglobal.com

David Bodek

Municipal & Cooperative Power

Managing Director

david.bodek@spglobal.com

Nora Wittstruck

Housing

Managing Director

nora.wittstruck@spglobal.com

Kurt Forsgren

Transportation

Managing Director

kurt.forsgren@spglobal.com

Charlotte Perry

Analytics & Research

Director

charlotte.perry@spglobal.com