Wisconsin GO Debt Rating Raised To 'AA+' From 'AA' On Sustained Financial Improvement; Other Ratings Raised

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NEW YORK (S&P Global Ratings) Aug. 25, 2021--S&P Global Ratings raised its long-term rating on the state of Wisconsin's general obligation (GO) debt one notch to 'AA+' from 'AA'. At the same time, we assigned our 'AA+' rating to the state's series $283.565 million GO refunding bonds of 2021, series 4 (federally taxable). The outlook on all ratings is stable.

In addition, S&P Global Ratings also raised its rating on Wisconsin's appropriation-secured debt to 'AA' from 'AA-' and the state's moral obligation debt rating to 'AA-' from 'A+' on bonds backed by the state's moral obligation pledge. We also raised our rating to 'A+' from 'A' on the Wisconsin Center District appropriation bonds (Milwaukee Arena Project). The outlook on all outstanding long-term ratings outstanding is stable.

Finally, we raised our rating to 'AAA' from 'AA+' on Wisconsin's transportation revenue bonds (TRBs) outstanding, which under our "Priority-Lien" criteria (published Oct. 22, 2018, on RatingsDirect), is limited to one notch above our GO rating. For more information on the credit characteristics of TRB debt, see our most recent analysis, published July 16, 2021, on RatingsDirect.

"The upgrade reflects S&P Global Ratings' view of sustained financial improvement for Wisconsin stretching over the last two biennia and reporting of budgetary surpluses in four of the previous five fiscal years, which have increased the state's combined reserve balance and liquidity positions to levels we view as very strong entering the fiscal 2021-2023 biennium," said S&P Global Ratings credit analyst Thomas Zemetis. The rating action also reflects our view that Wisconsin has well-embedded statutory procedures in place that reinforce a commitment to preserve considerable reserve flexibility in its budget stabilization fund (BSF) over the longer-term to mitigate fiscal volatility in future economic recessions. It also incorporates our expectation that Wisconsin will continue to take responsive budgetary measures to maintain structural balance amid lingering pandemic-induced public health and safety risks and a potentially uneven recessionary recovery within segments of its economy. This is supported by the executive branch's broad statutory authority to make intra-year spending adjustments in response to potential revenue shortfalls, and Wisconsin's development of long-term financial forecasts that incorporate conservative revenue growth assumptions and enacted legislative changes to the budget, while also identifying possible out-year structural gaps through the end of the fiscal 2023-2025 biennium. At the same time, we view Wisconsin's fully funded pension system and relatively low exposure to other post-employment benefit (OPEB) costs as key factors underpinning its longer-term credit stability.

In general, S&P Global Ratings considers Wisconsin's social risks in line with the sector, although the state's aging working-age population and relatively slow population growth and outmigration rates compared with the sector will likely weigh on its long-term demographic conditions and economic growth forecasts. We view the state's governance and environmental risks as being in line with the sector, and the state has historically maintained a policy framework to manage current service demands and long-term fixed costs (particularly pensions and OPEB) effectively. Wisconsin has also integrated climate change and cybersecurity preparedness planning across states agencies and has made capital investments to respond to these emerging risks.

Although we anticipate that Wisconsin will uphold budget oversight practices and make commensurate budgetary adjustments when necessary, should counterbalancing budgetary solutions prove insufficient or difficult to implement in response to a material structural budget misalignment, and Wisconsin demonstrates a lack of commitment to sustaining its reserve or liquidity position at levels we view as commensurate with peers, we could lower the rating. In our view, the state's higher concentration in more cyclical economic sectors could also intensify this downside risk should a slower-than-forecasted economic recovery and weaking revenue collections lead to less manageable projected budget gaps in the current and future fiscal biennia.

While unlikely over the outlook period, if Wisconsin's economic growth and income metrics strengthen to a level that more closely aligns with the broader U.S. economy and higher-rated peers, and the state capitalizes on economic development initiatives that diversify its economic base and sustains it in a way that we believe better insulates the state from economic and revenue cyclicality, we could raise the rating. Positive rating action would also be predicated on legislative and executive consensus on recurring solutions to achieve and sustain structural budget stability in the current and subsequent biennia, while also reducing its currently moderate-to-moderately high debt burden.