

## **FITCH WIRE**

# **U.S. States in Strong Fiscal Position Despite Weaker Revenues**

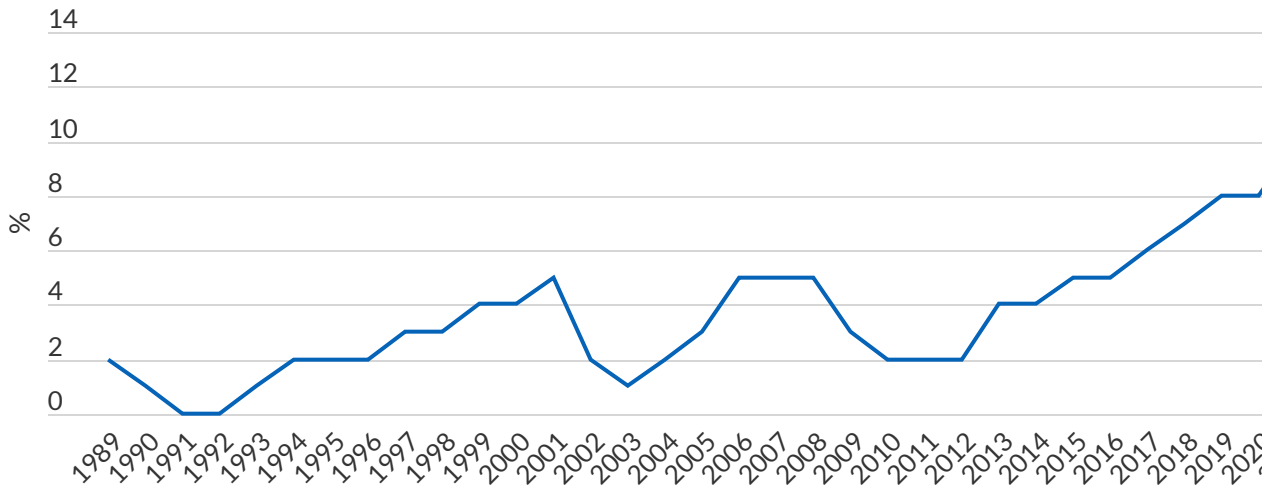
Wed 14 Feb, 2024 - 12:00 PM ET

Fitch Ratings-New York-14 February 2024: Prior-year surpluses and prudent actions will enable most states to manage lower revenue growth or revenue declines in 2024 without affecting overall fiscal resilience and credit ratings, Fitch Ratings says. States that have made large tax cuts or are planning additional cuts are particularly vulnerable to further revenue weakening in the coming year.

Fiscal 2023 was the third straight year state revenues exceeded forecasts. The surpluses helped expand state rainy-day fund balances by \$90 billion between 2020 and 2023, growing from a median 8.4% of spending to 12.3%, according to National Association of State Budget Officers (NASBO). States like New Jersey and Illinois have used surplus revenues to pay down long-term liabilities and fund capital expenditures with cash rather than borrowing, further bolstering resilience against future revenue weakness.

# State Median Rainy-Day Fund Balance

Percentage of Expenditures



<sup>a</sup> Figures for fiscal 2023 are preliminary; figures for fiscal 2024 are projected based on states' enacted budgets. Figures for fiscal 2024 exclude Georgia and Wisconsin.

Source: Fitch Ratings, National Association of State Budget Officers

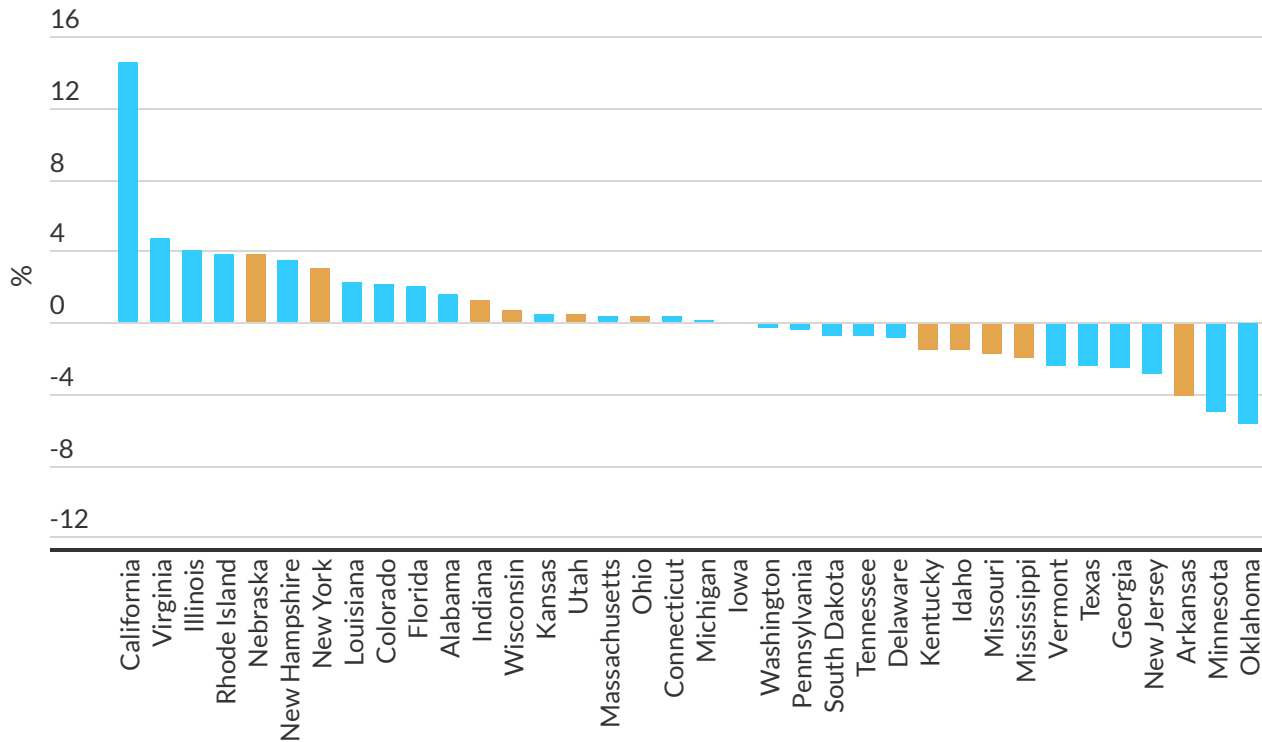


State tax revenue trended weakly through the second half of calendar 2023 (first half of fiscal 2024 for most states), continuing a sharp reversal in revenue trends that began in fiscal 2023. A Fitch review of 41 states' monthly revenue reports found YOY declines in 21 states and overall median growth slightly below zero, driven by lower personal savings, cooling inflation, and tax cuts. Monthly revenue reports vary greatly by state, with different presentations of tax revenue. This data is timely and indicative, but not necessarily definitive.

# State Tax Revenue Weakened in Second Half of 2023

## YOY growth in total state taxes

States with PIT rate cuts in 2023 indicated in orange



Note: Includes states that have reported December 2023 revenue. In 2023, California's tax filing deadline was extended from April to November, inflating collections in the July-December 2023 period. Data for Georgia adjusts for the gas tax suspension in 2022, as reported by the state. Data for Kentucky and Nebraska exclude pass-through entity tax payments in 2023 which will be offset in subsequent years. Data for Idaho represents general fund revenue prior to distributions. Source: Fitch Ratings analysis of monthly state revenue reports



Slower revenue growth or revenue declines are not immediately triggering budget challenges in all states. The extent of fiscal pressure depends on how revenues perform relative to budget expectations. Despite a deep revenue decline, West Virginia is not planning major budget changes as the fiscal 2024 budget anticipated lower revenues. Conversely, Arizona's revenues are falling short of budget and the governor has proposed mid-year balancing actions.

In many states, revenue growth would have been more robust if not for large tax cuts adopted in the last few years. NASBO estimates that states enacted \$13 billion in cuts to fiscal 2024 general fund revenue, about 1.1% of forecasted revenues. These reductions are on top of \$19.3 billion in tax revenue cuts to fiscal 2023 revenues. NASBO estimates 40% of the cuts to fiscal 2024 revenues were one-time reductions, meaning \$7.9 billion were permanent cuts.

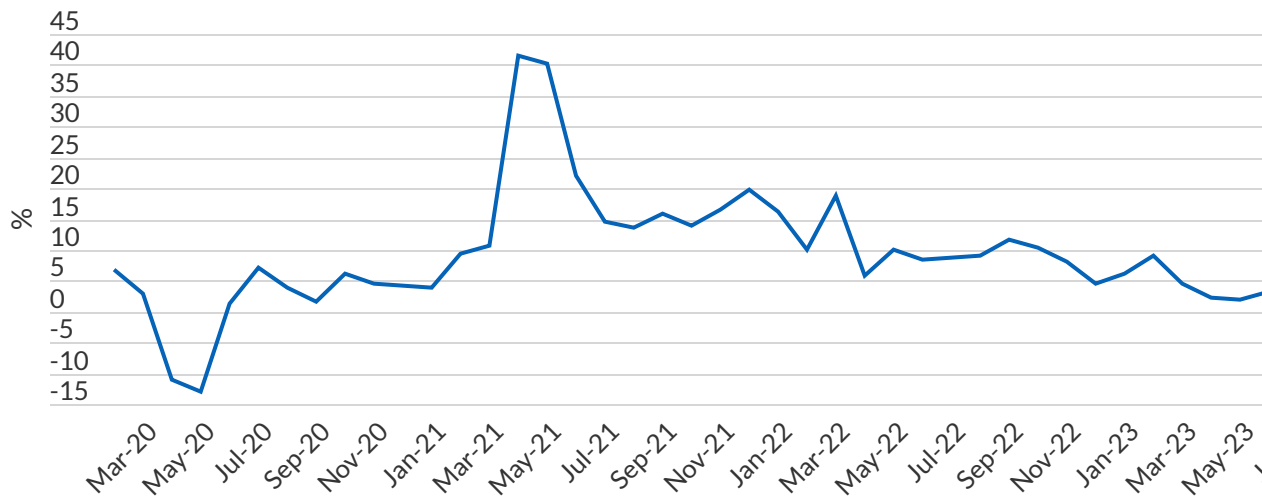
The majority of tax cuts were personal income tax (PIT) reductions. Rate cuts varied widely from modest reductions for the lowest tax brackets in Wisconsin to a 21.25% across-the-board rate cut in West Virginia. Several states adopted reductions that phase in over multiple years, including some that could significantly lower PIT revenue further if statutory triggers are met, such as in Kentucky and West Virginia.

While some governors, including those in Georgia, Iowa, Mississippi and Oklahoma, have called for additional income tax cuts, Fitch expects to see less wide-ranging tax reductions across states in the current budget cycle, given forecasts for slower revenue and economic growth.

In fiscal 2023, revenues in states with greater reliance on sales taxes generally fared better than those more dependent on PIT revenue. However, sales taxes are no longer recording the massive growth that marked the post-pandemic recovery. A general slowdown in sales tax revenue growth that began in 2022 continued through 2023 and turned negative in some states with the slower pace of consumer spending and cooling inflation. Rate cuts and new exemptions also depressed sales tax growth in states such as South Dakota, Tennessee and Florida. Median state sales tax YOY growth was just 0.5% in November 2023, and we expect sales tax revenue growth to contract further in 2024 given our projections for lower consumer spending growth of 1.2% in 2024 from 2.2% in 2023.

# State Sales Tax Growth Has Fallen Dramatically from Pandemic-Era Highs

Median YOY Change in State Sales Tax Revenue



Source: Fitch Ratings, Urban Institute

**Fitch**Ratings

## Contacts:

Tammy Gamerman

Director, US Public Finance

+1 212 908 0216

[tammy.gamerman@fitchratings.com](mailto:tammy.gamerman@fitchratings.com)

Fitch Ratings, Inc.

Hearst Tower

300 W. 57th Street

New York, NY 10019

Eric Kim

Senior Director, Head of US State Ratings

US Public Finance

+1 212 908 0241

[eric.kim@fitchratings.com](mailto:eric.kim@fitchratings.com)

Sarah Repucci

Senior Director, Fitch Wire

Credit Policy - Research

+1 212 908 0726

[sarah.repucci@fitchratings.com](mailto:sarah.repucci@fitchratings.com)

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email:

[sandro.scenga@thefitchgroup.com](mailto:sandro.scenga@thefitchgroup.com)

The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article can be accessed at [www.fitchratings.com](http://www.fitchratings.com). All opinions expressed are those of Fitch Ratings.

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers.

Please read these limitations and disclaimers by following this link:

<https://www.fitchratings.com/understandingcreditratings>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at

<https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information,

access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. The information in this report is provided 'as is' without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues

issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the 'NRSRO'). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the 'non-NRSROs') and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

Copyright © 2024 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.