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Stable but Slowing: State Revenues Start to Squeeze Policy Ambitions

After years of rapid growth, states are starting to see revenue declines. Tax cuts red states enacted could become more costly in future years, while some blue states are debating tax increases.

In Brief:

- Total state revenues are stagnating, with overall declines in sales tax collections.
- The factors that fueled growth in recent years, notably federal aid, are no longer boosting treasuries.
- Given healthy reserves, the picture is not dire but policymakers have entered an age of tough choices if not austerity.

California has been facing a massive budget shortfall — estimates vary, but in the $50 billion range — so it was not at all surprising that the spending package passed last month included serious cuts. The state will reduce its spending by about $16 billion, including an 8 percent reduction in funding for almost all departments.

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July 5, 2024 • Alan Greenblatt

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