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Fitch Rtgs: US State 2019 Revenues Up Sharply but Sustainability Unclear

Fitch Ratings-US-15 August 2019: US states' revenue collections for fiscal 2019 exceeded expectations for the second consecutive year but growth will likely slow and revenue forecasting will be more challenging, says Fitch Ratings. While some portion of growth reflects the decade-long economic expansion, one-off factors, namely the December 2017 federal tax changes, commonly referred to as the Tax Cuts and Jobs Act (TCJA), and the US Supreme Court's Wayfair v. South Dakota (Wayfair) decision, contributed to the surge in revenues. These one-off factors affected collection trends and may continue to do so, complicating states' revenue forecasting and budget planning. Revenue increases in some states eased budget pressures and contributed to revisions of several Negative Rating Outlooks to Stable but they will not lead directly to rating movement in the short term.

States' median tax collections grew 7.0% yoy in fiscal 2019, exceeding the 5.0% median growth rate for fiscal 2018 based on data from states that have reported fiscal 2019 revenue results. We reviewed publicly available monthly revenue reports for fiscal 2019 (35 states) and fiscal 2018 (39 states). The data excludes the four states that do not use a June 30 fiscal year-end. Fitch used total state revenues if total tax collections were not specifically provided, but in all cases tax revenues were the dominant source of collections.

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