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Fitch: Fiscal 2022 Much Smoother for U.S. State Budgets.

Fitch Ratings-New York-23 August 2021: A stronger economy and Federal Aid have helped U.S. states weather the disruption caused by the coronavirus pandemic with a smoother budget season firmly in place for 2022, according to Fitch Ratings in its latest annual report for U.S. state budgets.

Fiscal 2022 budgets have been enacted so far by 47 states with North Carolina, Oregon and Michigan (whose fiscal year begins on October 1) as the only outliers so far. This represents a return to more normal budgeting and is in stark contrast to the upheaval the pandemic induced last year that led to a steep drop in state tax revenue.

Many states are still determining how to allocate funds received under the American Rescue Plan Act, and renewed concerns about the trajectory of the pandemic pose a downside risk. That said, 'Strong fiscal 2021 revenue performance led many states to make upward revisions to their forecasts for fiscal 2022, bringing many close to pre-pandemic revenue estimates,' said Senior Director Karen Krop.

Going into this latest fiscal year, a primary focus for states will be rebuilding their budget resilience through adding to reserves and paying down liabilities. Whereas only a few states drew on their rainy day funds to close out fiscal 2020 and several budgeted reserve draws in fiscal 2021, states are now drawing down reserves less than budgeted and are adding to reserves in fiscal 2022.

'With additional available revenues, many states are addressing issues such as displaced workers and employment issues, mental and other health programming, and education spending,' said Krop. 'Health care is also still a key driver with many states using additional available tax revenues to support various programs, though several states are still struggling with whether or not to expand Medicaid under the Affordable Care Act ten years after its passage.'

'U.S. State Budgets Bounce Back in 2022' is available at www.fitchratings.com.

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