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Slower Growth Ahead: Revenue Surpluses Boost U.S. State Budget Flexibility, For Now

Key Takeaways

- Most U.S. state budgets are benefiting from recent strong revenue collections although national economic conditions will likely temper, slowing fiscal 2023 revenue growth.
- Many states are responding to surplus revenues by either pursuing tax rate reductions or building reserve accounts while few are choosing to address long-term pressures such as retirement liabilities or high fixed-cost burdens.
- Rainy-day reserves are at historical highs as the ability to use these funds remains a crucial tool for budgetary management.
- States must focus on long-term structural budget balance to preserve credit quality as economic growth slows.

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