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Fitch: US State Tax Revenues Continue to Rise but Show Signs of Slowdown

Fitch Ratings-New York-07 March 2023: State coffers continue to benefit from a strong labor market and nominal growth in consumer spending, but signs are mounting that the unprecedented tax revenue growth of the past couple years will soon moderate, Fitch Ratings says. While last year's large tax surpluses are unlikely to be repeated this year, widespread state actions to date to build reserves and address long-term liabilities will protect US states' credit quality as revenue growth slows.

More than halfway through most state fiscal years, total tax revenues are up almost 6% on average over the prior year, based on Fitch's review of monthly revenue reports from the 18 largest states with available data for the seven months ending January 2023. In most states, solid revenue growth compares favorably to forecasts set nearly a year ago. According to the National Association of State Budget Officers (NASBO), enacted state budgets for FY23 forecasted a 3.1% revenue decline from preliminary FY22 actual collections, providing a substantial cushion in the current year. Texas, Michigan and New York have fiscal years that begin on Sept. 1, Oct. 1 and April 1, respectively.

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