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Fitch: State Revenues Weakened in FY2023 but Resilience Remains High

Fitch Ratings-New York-01 August 2023: State financial resilience remains robust despite weakening tax revenue growth or revenue declines in fiscal 2023, Fitch Ratings says. A combination of conservative revenue forecasting and large surpluses accumulated in 2021 and 2022, due to extraordinary tax revenue growth fueled by high inflation and federal pandemic stimulus, cushioned the revenue contraction. This will enable most states to maintain spending plans without threatening their improved financial positions.

Through the 12 months ending in June 2023, tax revenue was down from the prior year in 17 states, while another six states had growth of less than 1%, based on Fitch's review of 37 states with reported collections. States' monthly revenue reports vary greatly and use different presentations of tax revenue. This data is timely and indicative, but not necessarily definitive.

Revenue tracked above or close to last year for most of fiscal 2023 (July 2022-June 2023 for 46 states) until the spring, when monthly state personal income tax collections fell at a median rate of more than 30% in April 2023 from record high collections in 2022, based on data from the Urban Institute. Almost every state with an income tax had a large drop in April collections, as taxpayers reflected 2022 stock market losses and lower non-wage income on their final returns. From July 2022 through May 2023, total state tax collections were about 5% below the prior year.

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