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Fitch: U.S. States' Credit Not Affected by Weak April Tax Collections

Fitch Ratings-New York-12 June 2024: Weak overall tax collection growth through April 2024 should not result in negative credit implications for U.S. states, given ample reserves and broad budgetary flexibility, Fitch Ratings says.

State reserves remain robust due to large surpluses accumulated in 2021 and 2022, with state rainy day funds averaging 13.8% of prior-year revenues in fiscal 2023 compared with 7.9% in fiscal 2019. However, states that have made large tax cuts and/or may implement additional cuts are more vulnerable to credit pressure if lower revenue growth or revenue declines weaken financial resilience. Recent tax cuts have not yet been tested by a cyclical downturn, which could have a more pronounced effect on collections.

April collections were generally in line with states' expectations. Average state tax collections for fiscal 2024 are on track to be roughly flat over 2023 and close to state forecasts.

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