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Fitch: US State Budgets Downshift Into a Slower New Normal

Fitch Ratings-New York-09 September 2024: U.S. states are taking a slow and steady approach to their fiscal 2025 budgets, according to Fitch Ratings in its latest annual report.

State budgets are in fiscally sound positions with extraordinary post-pandemic revenue performance buying them time to strengthen their financial operations. This prudent approach is proving useful, says Senior Director Karen Krop.

“States have returned to more typical budgeting practices for fiscal 2025, with modest revenue growth expectations and a need to address some expenditure pressure,” said Krop. “The end result is still robust dedicated operating reserves, with some states dipping into accumulated balances for one-time spending and others tapping rainy day funds to help balance their budgets.”

The wave of significant tax policy changes seems to have peaked. Fewer states are incorporating tax cuts into their budgets, with some notable exceptions. Few states are raising revenues, although California did so on a temporary basis to address its revenue gap. New Jersey and Illinois similarly raised revenues.

Slower revenue growth means states are moderating spending expectations after relatively high budget growth during and after the pandemic. They continue to fund high-priority initiatives, including addressing homelessness and housing affordability. Several states, including Massachusetts, New York, Utah, Vermont, and Oregon, are investing in programs. “States are also allocating resources for natural disaster response, such as wildfire recovery in California and Hawaii, flood damage response in Vermont, and adding funds for emergency preparedness in Florida,” said Krop.

‘2025 U.S. State Budgets Back to Normal’ is available at www.fitchratings.com.

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