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Fitch: U.S. States' Credit Quality Remains Resilient Despite Mixed Revenue Trends

Fitch Ratings-New York-10 February 2025: Weak tax revenue growth in fiscal 2025 is not expected to broadly affect states' credit quality, Fitch Ratings says. We expect fiscal resilience to remain strong despite a challenging budgetary environment due to the end of pandemic-era assistance and potential reductions in federal grants, although any federal spending cuts remain unclear. Despite slower growth, states are generally maintaining record-high dedicated operating reserves.

State tax revenue growth has slowed following robust post-pandemic gains. The National Association of State Budget Officers (NASBO) reported median projected growth in general fund revenues, predominantly taxes, of 0.3% in fiscal 2025, down from 1.3% in fiscal 2024 and 15% in fiscal 2022. Despite this slowdown, state rainy-day funds increased to a median of 13.5% of expenditures in fiscal 2024, with NASBO projecting an increase to 14.4% in fiscal 2025. On a calendar year basis from January to November, the Urban Institute reported growth in states' cumulative tax collections narrowed recently, trending below expenditure growth. However, average annual growth of more than 5% since 2019 supported expansion of reserves.

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