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S&P: Uncertainty Clouds 2026 U.S. State Budgets

Key Takeaways

- U.S. state executive fiscal 2026 budget recommendations were proposed early in the 2025 calendar year, before several federal policy changes were announced that we believe could introduce significant uncertainty for state finances and the U.S. economy.
- The recent trend of states enacting recurring tax reductions without offsetting revenue enhancing measures has slowed but continues.
- State revenue assumptions vary wildly, and downward revisions are likely on the horizon for states with more aggressive growth forecasts.
- State balance sheets remain healthy, with rainy-day funds largely maintained near all-time highs, which could provide short-term financial relief as budget officers navigate potentially worsening financial conditions.

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