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2024 U.S. State Budgets Resilient

States Juggle Spending Pressure and Slower Revenue Growth

> "States budgets are well positioned to address economic uncertainty despite spending pressure and ongoing tax policy actions."
>
> Karen Krop, Senior Director

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State budgets are in a sound position entering fiscal 2024, despite some economic headwinds. States benefited from extraordinary revenue performance as they emerged from the coronavirus pandemic, allowing them to build significant resilience into their financial operations.

Slower economic growth and persistent inflation continue to pose some downside risk but states are well positioned to address a potential downturn.

Surprising Delays in Budget Passage

Given the recent history of strong revenue performance and the significant balances and reserves built up by most states, it is somewhat surprising that four states with July 1 fiscal years did not have budgets in place on time. North Carolina does not yet have an enacted budget for fiscal 2024, while Oregon, Pennsylvania and Massachusetts enacted their budgets in early August.

Spending is More Expansive

States are increasing ongoing spending, having spent many years restraining spending in favor of building fiscal resilience, including reserves. The effects of inflation and a tight labor market are evident in salary increases and other positive adjustments to compensation. States are increasing spending on education, healthcare, transportation, the environment, affordable housing and numerous other priorities.

Tax Cutting Continues

Tax cuts are a notable feature of the fiscal 2024 budgets as states take advantage of strong post-pandemic growth and accumulation of sizeable balances to make both temporary and permanent tax policy changes. However, the wave of significant tax policy changes seems to have peaked and, for the most part, tax cuts will have more modest effects on revenue growth compared to prior years. As with increases in ongoing programmatic spending, permanent tax reductions that rely upon temporary revenue surges or draw on accumulated balances pose a potential risk to financial resilience.

Budgets Remain Resilient

Even with the increase in spending and changes in tax policy, states continue to enhance fiscal resilience by building reserves, using one-time or temporary spending, paying down long-term liabilities and conservatively estimating revenues. Fitch believes states are well positioned to weather economic turbulence in the current fiscal year.

State Budgets Remain Sound

Slower Revenue Growth a Return to Trend

State budgets are in generally strong positions entering fiscal 2024 despite slower revenue growth and some uncertainty ahead. States took advantage of the favorable macroeconomic environment emerging from the pandemic to consolidate fiscal gains and enhance fiscal resilience, supporting the passage of on-time budgets for almost all states.

Massachusetts wrapped up its budget with the governor's signoff on Aug. 9, after operating with a partial budget since July 1. Similarly, Oregon's budget and Pennsylvania's primary budget bill were signed on Aug. 4, although further legislative action is needed to finalize all elements of Pennsylvania's spending plan. North Carolina does not yet have a fully enacted budget.

Most states are anticipating slower revenue growth in fiscal 2024, albeit more of a return to trend than a revenue retrenchment. The extraordinary tax revenue growth of 2021 and 2022, fueled by higher inflation and federal pandemic stimulus, ended for many states in fiscal 2023. Growth slowed in all states as consumer spending cooled and nationwide declines in personal income tax (PIT) revenue led to yoy declines or flat revenue growth in over half of the states.

Revenue had tracked above or close to the prior year for most of fiscal 2023 until the spring, when monthly state PIT collections fell from record collections in 2022. Almost every state with an income tax had a large drop in April collections, as taxpayers incorporated 2022 stock market losses and lower nonwage income on their final returns. A combination of conservative revenue forecasting and large surpluses accumulated from prior years cushioned the revenue reversal, enabling most states to maintain spending plans without threatening higher levels of financial resilience achieved in recent years.

Economic Forecast of Slower Growth

The slowing of state revenue growth is largely linked to changing economic conditions. While most states experienced growth through fiscal 2023, that growth has slowed and, in some states, reversed, with Indiana and Connecticut experiencing GDP declines in 1Q23. Thirty-two states had 1Q23 economic growth rates that were in line with or slower than their pre-pandemic growth rates compared to 1Q22, when only 11 states were not exceeding their pre-pandemic rates.

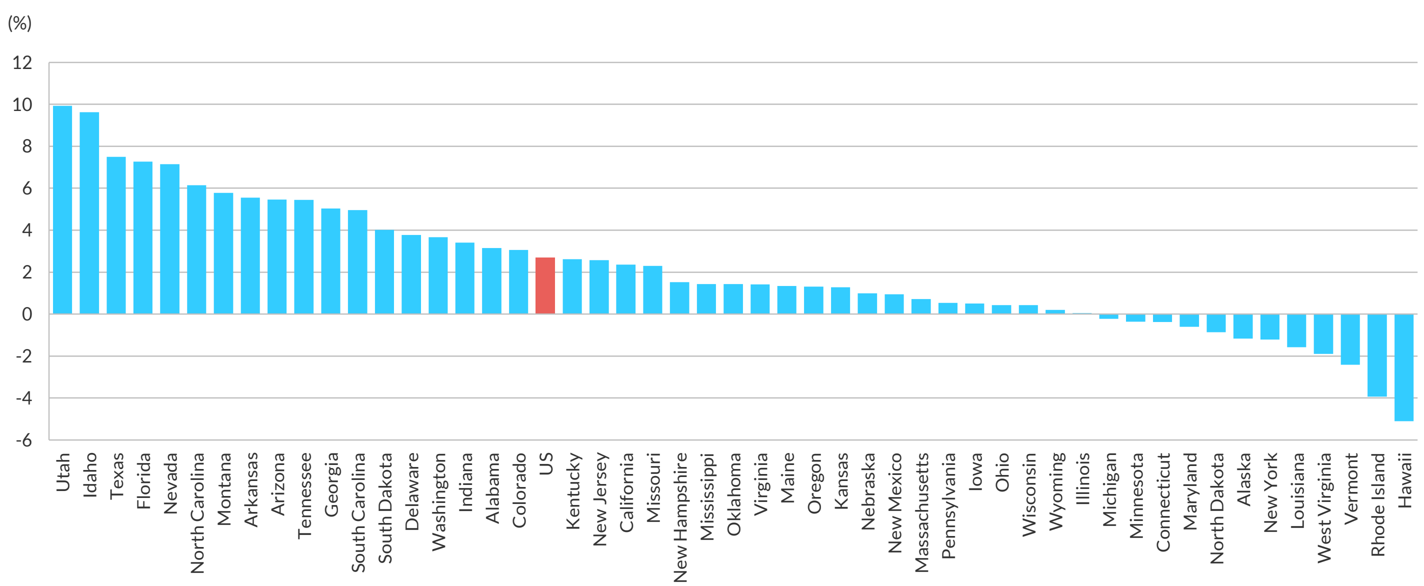
Labor markets tell a similar story of continued recovery but at a slower pace. Through June 2023, national nonfarm payrolls were 2.7% ahead of pre-pandemic February 2020 levels. Twelve states still had net job losses in May 2023 as compared to February 2020, including the tourism-associated economy of Hawaii and the natural resource-dependent economies of Alaska, North Dakota and West Virginia. States with faster population growth and more diversified economies have experienced a stronger recovery, including Utah, Texas and Florida.

States Ramping Up Spending…

With fund balances at high levels, rainy day funds largely filled and ongoing growth in spending having been restrained for many years, states are spending more in the upcoming fiscal year. Almost all states are reporting tight labor markets and wage pressure that is contributing to fairly significant wage increases.

Spending for K–12 education is increasing, with states fully funding education funding formulas, providing higher per pupil funding, contributing to capital projects, supporting increased teacher pay and enhancing school safety. Several states are creating or expanding voucher or “school choice" programs to funnel state funds to private schools — and often away from public schools. The scope and cost of these programs are increasing, with states expanding the programs

U.S. States Job Growth
% Difference from February 2020



Source: Fitch Ratings, U.S. Bureau of Labor Statistics to include all students rather than using a needs-based approach for low income households or students with disabilities.

More than 30 states now have some type of voucher program, according to "The ABCs of School Choice, 2023 Edition" (available at www.edchoice.org), with at least six states adding or expanding their programs this year.

Several states are raising the rates paid to Medicaid providers and in other ways expanding access to healthcare, e.g. by providing services to immigrants or, in the case of Hawaii, equalizing Medicaid provider rates with those paid to Medicare providers. Two states, North Carolina and South Dakota, are implementing Medicaid expansion under the Affordable Care Act, although North Carolina's will not go into effect until the budget is enacted. Many states are struggling with high housing costs and homelessness and are spending to address affordable housing and the many problems associated with homelessness.

…and Continuing to Reduce Taxes

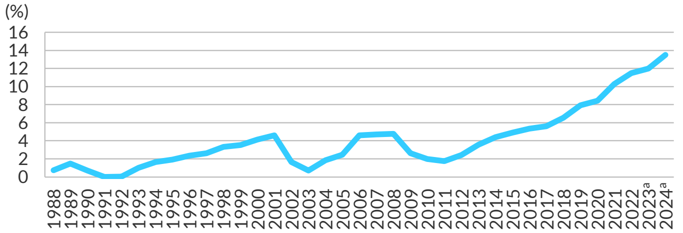
Tax cuts are another notable feature of states' response to strong revenue performance in recent years. States have been revising their tax regimes in both temporary and permanent ways, including by lowering tax rates, raising exemptions, flattening progressive tax structures, allowing sales and gas tax holidays and providing local tax relief by using state revenue to offset local spending or taxation. Although 24 states have adopted tax reduction measures of some form in their fiscal 2024–2025 budgets, the scope of changes has narrowed from prior years, with fewer states opting for major restructurings of tax brackets or deep cuts to tax rates.

However, several states that abstained from prior rounds of tax cuts are enacting ambitious reduction plans as part of their fiscal 2024 budget adoption processes. In particular, North Dakota, South Dakota, Michigan and West Virginia have all enacted notable tax policy changes as part of their fiscal 2024 budget adoption processes.

Focus on Fiscal Resilience

Although states are ramping up spending and reducing taxes while facing slower revenue growth, they are maintaining their improved fiscal resilience. In fiscal 2024, states intend to spend accumulated cash balances on one-time items, including for transportation, technology, infrastructure and deferred maintenance projects; adding to and creating new reserves; and paying down liabilities. States are also using temporary program expansions to address future revenue uncertainty. These steps provide states with time to adjust if the economy weakens or revenues grow even more slowly than anticipated.

State Median Rainy Day Fund Balance
Percentage of Expenditures



[a]Figures for fiscal 2023 are estimated; figures for fiscal 2024 are projected based on governors' recommended budgets. Figures for fiscal 2023 exclude Georgia; figures for fiscal 2024 exclude Georgia, Mississippi, Texas and Wisconsin. Historical rainy day fund balance data shown in this table may differ from figures published in previous editions of The Fiscal Survey of States, as figures for some years were updated based on a review of original source data.
Source: Fitch Ratings, National Association of State Budget Officers

Continued Paydown of Unemployment Trust Fund Loans

States have made substantial progress in eliminating borrowing from the Federal Unemployment Account (FUA) that was used to satisfy unemployment claims during the deep economic dislocation caused by the onset of the pandemic and subsequent sudden, exponential rise in unemployment claims, which in turn rapidly depleted states' unemployment insurance (UI) trust fund (UTF) balances.

State UTFs are funded by dedicated payroll taxes (SUTA) levied on all employers, which are restricted in use and removed from state budgetary considerations. Fitch considers these funds to have no nexus with state fiscal operations, and bonds issued after the Great Recession to refinance borrowing from the federal government were rated without linkage to state Issuer Default Ratings (IDRs).

The Department of Labor reports that three states and the U.S. Virgin Islands (USVI) had outstanding FUA loans as of Aug. 1, 2023, totaling $24.9 billion, down from $53.3 billion (six states and the USVI) as of July 29, 2022. Several states used federal pandemic aid to pay down those loans, rebuild their own unemployment insurance trust funds and avoid raising taxes on employers. Several states considered issuing bonds to repay FUA loans, with only Massachusetts issuing $2.7 billion in special obligation bonds (AAA/Stable), paid from a special assessment on Massachusetts employers.

Trust Fund Loans

(As of Aug. 1, 2023)

State/Territory	Outstanding Loan Amount ($)
California	18,004,339,507
Connecticut	903,689
New York	6,759,714,152
U.S. Virgin Islands	87,841,261

Source: U.S. Department of Labor

Analysis of Enacted Budgets for States with Fitch IDR

Alabama

Alabama's revenue performance (fiscal year ended Sept. 30) continues to be positive in both of the state's operating funds, the general fund and the education trust fund (ETF). Although the fiscal 2023 budget assumed a return to trend of slower revenue growth, general fund revenues are up 15.7% yoy as of June, led by exceptional interest earnings on state deposits and growth in online sales and use tax revenues (up 19% yoy).

The enacted fiscal 2024 budgets for both the ETF and the general fund include spending increases that the state deems sustainable in anticipation of revenue growth returning to a more normal, slower trajectory. The general fund budget, at just over $3.2 billion, incorporates a 2% pay increase for state employees and increases for most state agencies, with the largest increases allocated to the department of corrections and Medicaid. The budget addresses escalating costs of construction due to higher inflation, including for two large prisons under construction.

The record high $8.8 billion fiscal 2024 ETF budget provides increases for both higher and K–12 education, including 2% pay raises for teachers and other school staff, stipends for special education teachers, incentives for math and science education and $75 million in new grant funds for K–12 capital needs. The state also passed a $2.8 billion supplemental spending bill for fiscal 2023 that taps accumulated excess revenue collections to fund an income tax rebate and a new $510 million reserve account, the Educational Opportunities Reserve Fund, to supplement the existing rolling-reserve account and the ETF rainy day fund.

Strong post-pandemic revenue performance has allowed the state to fund budget reserves separate from and in addition to the fully funded rainy day funds, which in Alabama take the form of access to borrowing from the $3.4 billion Alabama Trust Fund (or ATF; market value as of fiscal 2022).

The general fund reserve balance totals $150 million, or 4.9% of fiscal 2024 revenues, and it has access to $291.6 million in borrowing from the ATF (10.2% of fiscal 2024 revenues). The ETF budget reserve balance totals $673.3 million, or 6.3% of fiscal 2024 ETF revenues, and it has access to $585.2 million in borrowing from the ATF. This is in addition to the $510 million reserve fund established in the fiscal 2023 supplemental.

Alaska

Alaska's fiscal 2024 enacted budget adopts a cautious posture as it sustains an anticipated second year of declining energy prices following the spike at the start of the war in Ukraine in early 2022.

As of the spring 2023 revenue forecast, the forecast average price for Alaska North Slope crude oil is $73 per barrel in fiscal 2024, down from $85.25 in fiscal 2023 and the actual average of $91.41 in fiscal 2022. The result is that petroleum revenue received in the unrestricted general fund (UGF), the state's main budget fund, is forecast to drop 28% in fiscal 2024, to $2.2 billion, following an estimated 11% drop in fiscal 2023. Overall, the state anticipates approximately $6.3 billion in UGF revenues in fiscal 2024, down 10% from the approximate $7.0 billion estimate for fiscal 2023, driven largely by the petroleum revenue outlook.

Despite unfavorable energy price trends, Alaska's huge reserve balances are supporting budget stability. Under a 2018 law that established the percentage of market value (POMV) mechanism for accessing realized earnings of the Alaska Permanent Fund, the state anticipates a $3.5 billion POMV draw in fiscal 2024, representing about 56% of forecast UGF revenues.

The annual permanent fund dividend covered by the draw is estimated at $1,304 per person in fiscal 2024, down from $3,284 in fiscal 2023, which included a one-time energy relief payment. Net of the dividend, more than $2.6 billion will be used to support UGF needs, almost 2.1x higher than the $1.3 billion available for UGF needs in fiscal 2023. As of June 2023, the Alaska Permanent Fund Corporation forecasts an $8.8 billion earnings reserve balance at fiscal YE24, net of the POMV draw and other distributions, including for inflation-proofing.

UGF expenditures are budgeted at just under $5.1 billion in fiscal 2024 following the governor's vetoes, 9.8% below fiscal 2023 spending including supplementals. Elementary and secondary education, the largest line item, rises only 1.9% to just under $1.4 billion, while health, including Medicaid, rises 8.2% to $998 million.

The enacted fiscal 2024 budget assumes a small UGF surplus of $297 million. The constitutional budget reserve, a separate reserve funded by oil revenues and investment earnings, is available to cushion against further weakness. Its fiscal YE23 balance is estimated at approximately $2.5 billion, or about 35% of UGF sources, and is forecast to rise in fiscal 2024 to over $2.8 billion, or roughly 45% of UGF sources.

California

The enacted fiscal 2024 budget addresses lower than anticipated revenues and slower growth by tapping resilience built into the fiscal 2023 and previous budgets without dipping into the rainy day fund (the budget stabilization account) or making deep cuts to ongoing spending. The budget assumes fiscal 2023 general fund revenues, prior to transfers, will be $17 billion (7.5%) lower than the June 2022 enacted budget estimate and down 7.7% yoy. General fund revenues are forecast to increase a modest 1.5% to $208.7 billion in fiscal 2024 and remain well above pre-pandemic levels.

One source of forecast uncertainty is the deferral of approximately $42 billion in income tax payments from April to October 2023, a result of the state conforming its tax filing and payment deadline to that of the federal government. The federal government's extension was a form of relief following severe storms in the spring of 2023. While this is not expected to have a budgetary impact, since the delayed revenues will accrue to the fiscal 2023 budget, it affects cash flow and increases forecast uncertainty.

Although general fund spending of $225 billion is 3.7% lower yoy, it requires drawing on the considerable balance that accumulated over two years of robust revenue collections. The budget does not make deep cuts in ongoing spending but also does not create significant new ongoing spending commitments. The budget continues multiyear spending commitments from prior budgets but shifts some spending from the general fund to special funds, delays spending across multiple years, utilizes internal borrowing and incorporates trigger reductions that can be restored if revenue performance is better than anticipated.

An anticipated shift to pay-as-you-go capital financing will revert to debt issuance and other one-time actions, such as using general fund revenues to pay down federal unemployment insurance trust fund borrowing.

Funding priorities include initiatives in climate resilience, childcare investment, transitional kindergarten, universal school meals, higher education investments and expanding healthcare access. The budget continues a multiyear investment in various statewide infrastructure projects and housing development to address homelessness and affordability.

The budget also maintains the accelerated paydown of state retirement liabilities, as required by Proposition 2, with $1.7 billion in additional payments in fiscal 2024. The enacted budget maintains the budget stabilization fund (BSF) at over $22 billion, which is considered full funding at 10% of general fund revenues, and allocates $15.6 billion to other operating reserves.

Connecticut

Connecticut's fiscal 2024–2025 biennium budget is balanced, employing the state's strong budgetary management policies. Specifically, a revenue cap mechanism limits the state's ability to budget appropriations at a fixed percentage of projected revenues (98.75% of projected revenues in the current biennium). Excess revenues over the cap flow mainly to a budget reserve fund (BRF).

Additionally, Connecticut employs a volatility cap that provides the state some insulation from fluctuations to nonwithholding PIT and pass-through entities tax receipts above a threshold to the BRF. Together, these mechanisms may lessen the state's ability to rely upon one-time revenues to fund new ongoing programs.

Total fiscal 2024 budgeted revenues of $22.5 billion are down 2.0% from preliminary fiscal YE23 revenues. Fiscal 2025 revenues are budgeted to increase 2.7% to $23.9 billion. Fiscal 2024 expenditures grow a modest 0.1% to $22.1 billion, with 3.2% growth to $22.8 billion in fiscal 2025. Most substantial new budgeted expenses are nonrecurring, although salary adjustments and new positions are ongoing. Higher baseline spending for debt service, pensions and healthcare, among other needs, are partially offset by administrative efficiencies from an anticipated wave of state employee retirements.

Budget balance through the biennium does not account for the future cumulative effects of multiple rounds of tax reductions the state has passed in the past two years. Following a fiscal 2023 budget that included $160 million in recurring property and vehicle tax cuts, the fiscal 2024 budget introduced recurring tax policy changes starting at $251 million in fiscal 2024 before building up to $567 million annually by fiscal 2028.

These cuts are largely to PIT rates ($93 million in fiscal 2024, increasing to $465 million in fiscal 2028), an earned income tax credit (EITC) expansion ($45 million annually beginning in fiscal 2024) and adjustments to the treatment of certain retirement vehicles ($21 million in fiscal 2024, increasing to $57 million in fiscal 2028). Fitch notes that expenditure pressure on state finances in the out years from multiple tax reductions becomes more acute because of the state's budgetary management policies.

Delaware

Delaware's revenues continue to outperform estimates, with frequent upward revenue revisions post-pandemic. Estimated fiscal 2023 general fund revenues of $6.3 billion were 8% above the June 2022 budget forecast, allowing the state to carry a $730 million operating balance into fiscal 2024.

The fiscal 2024 budget is based upon a revenue estimate that assumes revenues will decline yoy to $6.0 billion. The budget appropriates 98% of anticipated revenues and maintains a fully funded rainy day fund at 5% of estimated revenues ($316.4 million), as well as a separate Budget Stabilization Account (BSA) at $402.6 million. When combined, these reserves provide a cushion of 12% of fiscal 2024 revenues.

The $5.6 billion general fund budget finances priorities in education, higher education, water resources and economic development, among others, and controls ongoing spending by allocating funds to nonrecurring expenditures, including capital. It provides significant pay increases to state employees (3% to 9%) and teachers (9%) and implements a $15 minimum wage for state employees, all to address workforce and recruiting and retention challenges. The budget also increases ongoing spending by $100 million for Medicaid and provides $29 million for school enrollment growth.

Florida

Florida adopted a total fiscal 2024 budget of $116.5 billion and a general fund budget of $46.1 billion, increasing 5.0% and 7.7%, respectively, over the fiscal 2023 budget. The budget was based on the state's March 2023 economic and revenue forecast, which projected $45.3 billion in fiscal 2024 general fund revenues, down 2.1% from estimated 2023 revenues.

Total state and local funds for K–12 education will grow to about $26.8 billion, up 9.4% yoy, reflecting a 4.9% increase in per-student funding and a projected 3.9% enrollment increase. The education budget accounts for the first year of a universal school voucher program, which will shift funding from public school districts to participating private schools, and includes an additional $250 million (for a total of $1.1 billion) to continue raising the minimum K–12 teacher salary.

Additional fiscal 2024 budget items include $1.4 billion in tax relief, including permanent sales tax exemptions for baby and toddler products; $200 million to defease state bonds; 5% raises for state employees; and $1.6 billion for Everglades restoration efforts.

General fund reserves, including unspent general revenue, reached a record $20.1 billion in fiscal 2022, or 45.5% of general revenue. General fund reserves are estimated to decline to $17.2 billion by fiscal YE23 and $13.7 billion in 2024, as the state uses cash to fund one-time investments. The fiscal 2024 budget authorized a transfer of $1.0 billion to the BSF, increasing the fund to $4.1 billion in 2024, or about 9.2% of projected general revenue.

Georgia

Georgia's revenue outlook largely reflects a return to more normalized growth following an unusually robust fiscal 2022. Phased-in income tax changes also affect the outlook, although the state still anticipates solid revenue growth over the medium term. The state's amended fiscal 2023 budget anticipates a roughly 12% yoy decline in tax revenue. Through April, actual fiscal 2023 collections were far ahead of this pace, showing 0.9% yoy growth. For fiscal 2024, the adopted budget anticipates 1.1% yoy tax revenue growth.

The state's formal reserve fund, the Revenue Shortfall Reserve (RSR), has been fully funded at 15% of net revenues of the prior year since fiscal YE21. As of fiscal YE22, the RSR totaled $5.2 billion, in addition to nearly $7.0 billion in unreserved, undesignated surplus. The state anticipates ending fiscal years 2023 and 2024 with a fully funded RSR. Given revenue performance YTD that exceeds even the amended fiscal 2023 estimate, Fitch anticipates a meaningful unreserved, undesignated surplus at fiscal YE23. The conservative forecast for fiscal 2023 suggests the state may be in line for an additional revenue surplus in fiscal 2024.

Tax rebates, drawing on the large unreserved, undesignated surplus at fiscal YE22, were the primary tax policy changes enacted in the spring 2023 legislative session. In total, the state approved over $3.0 billion in one-time tax rebates split across income tax refunds, a gas tax suspension and property tax relief grants.

In terms of expenditures, the enacted fiscal 2024 budget incorporates continued state workforce investments with nearly $600 million in wage increases, including $2,000 increases for fulltime state employees and certified prekindergarten, K–12 and assistant teachers. The budget also includes a sizable $840 million funding increase for school employee healthcare. The state notes that its employer contribution had not been adjusted in over a decade; as such, future increases, if occurring annually, will be much less significant.

Hawaii

Preliminary results indicate a 1.7% yoy decline in Hawaii's fiscal 2023 (ended June 30) general fund revenues, down from prior forecasts, with wide differences between tax types. Excluding an income tax refund implemented to meet a constitutional requirement following large revenue surpluses, revenues were up 1.7%. Individual income tax (IIT) collections dropped sharply, while general excise tax (GET) and transient accommodations tax (TAT) grew solidly. The refund lowered income tax revenues by more than $300 million (out of a roughly $660 million total IIT decline).

The state's council on revenues (COR; its official revenue-forecasting body) suggests that real estate market declines could have driven down nonwithholding revenues. Withholding revenue was up over 6%, while GET and TAT gains reflect ongoing tourism recovery. For fiscal 2024, the COR estimates 4% gains, with growth in all major taxes.

Despite weaker than anticipated revenues, Hawaii's formal reserves still more than doubled in fiscal 2023 to reach over $1.1 billion, or just over 11% of total revenues. The enacted biennial budget for fiscal 2024–2025 includes another $500 million contribution this fiscal year. General fund ending balance is substantial as well, at $1.6 billion as of fiscal YE23. The new biennial budget utilizes a significant portion of this balance to fund various one-time items, including policy priorities and a $500 million deposit to the state's Emergency and Budget Reserve Fund (EBRF).

Hawaii's enacted fiscal 2024–2025 biennial budget appears structurally balanced following vetoes to address the lowered revenue forecast and inclusive of a set of new tax credits. The tax credits, approved for five years, total just over $100 million annually and are targeted toward lower income households. The governor intends to revisit a much more extensive set of tax policy changes in a future legislative session.

The biennial budget also includes $425 million in K–12 spending growth, targeted for teacher pay raises. Medicaid spending is up, in part to bring provider rates in line with Medicare rates in an effort to expand healthcare access. Finally, the budget includes approximately $500 million for measures intended to address the state's affordable housing shortage.

Idaho

Idaho authorized $5.2 billion in general fund appropriations for fiscal 2024, up 12.0% from original fiscal 2023 budget appropriations. The substantial expansion included a $381 million (16.4%) rise in K–12 support, fulfilling the Idaho Legislature's commitment during a September 2022 special session to use $330 million in state surplus to increase education spending.

The state forecasts baseline revenue will decline 5.5% to $5.5 billion in fiscal 2024. The budget also accounts for about $120 million in property tax relief that the legislature authorized during its 2023 session. Homeowners could receive further relief if the state ends fiscal 2023 with a larger than expected surplus.

Large revenue surpluses in recent years led to a $1.4 billion general fund balance at the start of fiscal 2023. The state chose to spend down the surplus through several rounds of income tax cuts, rebates and one-time allocations to infrastructure investment, resulting in a forecast balance of $416 million at fiscal YE23, before dropping to $272 million at fiscal YE24.

Idaho has also built up reserves, including a $32 million transfer to the BSF in the 2024 budget, which will raise the fund to $880 million. Including an approved $29 million transfer to the public education stabilization fund, total reserve funds are expected to rise above $1.1 billion at fiscal YE24, or about 19% of projected 2024 general fund revenues.

Illinois

Illinois' fiscal 2023 (ended June 30) tax revenue collections were relatively flat yoy, following two years of blockbuster gains as reported by the Commission on Government Forecasting and Accountability (CGFA; the legislative fiscal office).

Still, collections were comfortably ahead of initial budgeted expectations by more than $3.0 billion. For fiscal 2024, the enacted budget anticipates moderate state tax revenue growth of just over 2% yoy. The state used the fiscal 2023 revenue surplus to make one-time deposits of nearly $2.0 billion to the unemployment insurance trust fund, $1.18 billion to reserves and $200 million toward pensions. The state also enacted more than $500 million in supplemental operating appropriations, including for Medicaid and costs associated with asylum seekers.

The state's reserves are at an all-time high of nearly $2.0 billion, with another $138 million anticipated in fiscal 2024 from several dedicated revenue streams. The dedications include 10% of cannabis tax revenues (approximately $25 million) and $45 million each from the general revenue fund (GRF) and unemployment insurance trust fund (to repay a GRF loan). At fiscal YE24, the BSF balance would be vastly improved but still relatively modest, at just over 4% of projected spending.

The fiscal 2024 budget increases spending in several key areas, including $350 million more for K–12 evidence-based funding aid and $550 million for a state-funded immigrant healthcare program, as well as $400 million in a "deal-closing" fund the administration can use for economic development projects.

In particular, the $550 million for the immigrant healthcare program is down notably from an earlier estimate of over $1.0 billion in new funding to support the program. The budget provides the governor with broad executive authority to revise the existing program, which the administration anticipates will reduce costs. The state also intends to seek federal reimbursement for portions of the program.

Indiana

Indiana ended fiscal 2023 (June 30) with revenue collections essentially flat yoy, as solid sales tax growth offset declines in individual and corporate income taxes (CITs). Collections were comfortably ahead of budgeted expectations from the biennial budget's initial enactment in spring 2021 (covering fiscal 2022 and 2023). For fiscal 2024, the state estimates revenues will rebound with nearly 4% yoy growth. The state used revenue surplus from fiscal 2023 and earlier years for various one-time uses, including a $3.2 billion supplemental pension contribution, $800 million for prison system upgrades and $500 million for an economic development "deal-closing" fund.

Total reserves including general fund ending balance declined in fiscal 2023 given the abundance of one-time spending, but formal reserve funds (Medicaid reserve, tuition reserve and rainy day fund) increased notably to $2.1 billion, or 10% of total revenues. The new biennial budget for fiscal years 2024 and 2025 projects formal reserves will remain relatively stable, with a modest decline in general fund ending balance. On a combined basis, all reserves covered 13.6% of total revenues at fiscal YE23 and are estimated to cover nearly 13.2% of fiscal 2024 revenues.

Education spending is a major focus of the new biennial budget with a nearly 8% yoy increase in the state's tuition support (its primary mechanism for supporting K–12 education statewide) in fiscal 2024 to reach $8.8 billion. This rises another 2% in fiscal 2025 to just over $9.0 billion. Additionally, Indiana has expanded a school choice program by significantly loosening eligibility requirements, which the state estimates will raise program costs from $309 million in fiscal 2023 to $500 million–$600 million annually in the current biennium.

Fitch notes that the school choice program functions as an open-ended entitlement with potentially higher costs if enrollment materially exceeds state expectations.

Indiana also adjusted significant tax policy changes implemented in 2022 by removing revenue triggers and accelerating the pace of rate cuts. Fitch anticipates the quicker pace of revenue reductions remains well within the state's ability to manage without undue fiscal burden. However, more rapid changes add risk and could require more aggressive budgetary management in the future as fiscal and economic conditions inevitably tighten.

Iowa

Iowa adopted an $8.5 billion general fund budget for fiscal 2024, a 3.7% increase from the revised fiscal 2023 budget. Spending growth includes a 3% increase ($107 million) in per pupil funding for K–12 public schools and increases in Medicaid reimbursement rates for nursing homes and mental health facilities. The budget also includes $116 million for the first year of a new education savings account program. The initiative provides $7,600 in public funds to pay for private schooling for current public school students, incoming kindergarteners and private school students with family incomes below 300% of the poverty line.

Iowa's revenue estimating conference (REC) estimates a 1.2% contraction in general fund revenues in fiscal 2024, following a 0.5% decline in 2023, partly reflecting tax cuts enacted in the past two years. Despite the estimated decline, revenues are projected to exceed general fund expenditures by $1.1 billion in fiscal 2024. Combined with surplus funds from prior years, Iowa expects to end fiscal 2024 with a $2.0 billion surplus.

The fiscal 2024 budget maintains Iowa's constitutional and statutory reserve fund balances at their legally mandated levels. Iowa's cash reserve fund (CRF), which acts as the state's constitutional rainy day fund, and statutory economic emergency fund balances remain at their statutorily mandated $962 million cap for fiscal 2024, or a combined 10% of net general fund revenues. After the reserve funds reach their limits, excess revenues flow into the taxpayer relief fund, which is projected to increase to over $3.5 billion in 2024, from $2.7 billion in fiscal 2023.

Kentucky

Kentucky is entering the second year of its fiscal 2023–2024 biennium. The biennial budget included an 8% pay increase for commonwealth employees in fiscal 2023, followed by a 6% increase in fiscal 2024. The budget also included $1.2 billion of supplemental pension contributions and a 9.6% boost for K–12 education funding. The biennial budget is structurally balanced, resolving a long-term challenge for Kentucky, and includes full actuarial pension contributions for the sixth consecutive year.

The budget also continues to rebuild the budget reserve trust fund (BRTF), Kentucky's primary fiscal reserve, raising its balance to $2.75 billion, or 19.5% of fiscal 2023 general fund spending. Fitch believes recent BTRF deposits have materially bolstered Kentucky's financial resilience. House Bill 8 (HB 8), adopted as part of the biennial budget, reduced Kentucky's flat IIT rate to 4.5% from 5.0% on Jan. 1. HB 8 contemplates a gradual IIT phaseout over several years via staggered 0.5% rate cuts, subject to various statutory and policy conditions and action by the commonwealth assembly.

In February 2023, the Kentucky Legislature approved a second IIT rate cut, to 4.0% from 4.5%, effective Jan. 1, 2024. Commonwealth officials estimate a $312 million half-year revenue loss in fiscal 2024, as a result. Given that the IIT accounts for 40% of general fund revenues, Fitch believes the gradual IIT phaseout could slow Kentucky's medium-term pace of new revenue formation.

Louisiana

Louisiana's revenue performance once again exceeded expectations from the state's REC (its official forecasting body) in fiscal 2023, continuing a multiyear trend. The Department of Revenue, whose collections represent roughly 70% of state revenues, reports major revenue collections were up 7% yoy (on a cash basis) in fiscal 2023, while the enacted budget assumed a 6% yoy decline in direct general fund revenues. Robust gains in severance taxes and corporation and franchise income tax more than offset slower IIT growth.

For fiscal 2024, the REC's May 2023 estimate (used for the enacted budget) forecasts declines in all primary tax revenues, with the largest declines in corporation and franchise tax and severance taxes. Fitch views the forecast as reasonable and prudent in its relative conservatism.

Reserves have increased rapidly in recent years, reaching a historical high of $1.8 billion, or 15% of state general fund revenues, by fiscal YE22 before growing to nearly $2.0 billion. Under constitutional and statutory provisions, the revenue stabilization trust fund and BSF are in line for significant additional contributions in fiscal 2024.

The 2023 legislative session and enacted fiscal 2024 budget incorporated relatively modest recurring expenditure revisions given the REC revenue forecast. The legislature and governor allocated over $2.0 billion in revenue surplus/excess to largely one-time uses, including over $300 million each toward the pension liability and transportation trust fund, along with $148.4 million for coastal protection.

The budget also includes a $2,000 pay increase for teachers in 2024, which will require further legislative action to become a recurring action. Following extensive tax changes in its 2021 session, the legislature approved further modifications to corporate franchise tax in the spring of 2023, which the governor subsequently vetoed.

Maine

The Maine Legislature approved the state's fiscal 2024–25 biennial budget on March 30, 2023. The plan totals $9.89 billion, representing a 9.5% increase in expenditures from $9.4 billion adopted in the prior biennium (i.e. fiscal 2022–23). The budget funds core governmental services at 95% of the amount proposed in the January executive budget, in compliance with Maine's statutory cap on annual budgetary appropriations. The cap is set at 95% of general fund revenues forecast for the biennium.

In December 2022, Maine's Revenue Forecasting Committee (RFC) estimated $5.0 billion in fiscal 2023 general fund revenues, or a 6.5% yoy decline, followed by $5.2 billion and $5.3 billion in fiscal years 2024 and 2025, respectively. The governor and legislature relied on these estimates to shape the biennial budget. The legislature was expected to reconvene this summer to consider $500 million in added spending for capital and other one-time projects beyond the core budget approved in March.

An new RFC report released May 1 contained a slightly more positive revenue forecast: fiscal 2023 revenues are expected to finish at $5.26 billion (a 2.4% yoy decline), providing more resources to support the budget.

The fiscal 2024–25 biennial budget adopted in March fully funds 55% of K–12 education costs for a third consecutive year, maintains two years of free community college for Maine residents and holds state revenue-sharing with municipalities at 5% of state collections. All three measures align with the prior biennial budget. The 2024–25 budget includes salary increases of $200 per month for childcare workers and raises to $150 an hour for defense attorneys representing indigent clients. It also includes $200 million to restore the homestead property tax exemption. The budget is based on modest revenue growth assumptions of 2.8% for fiscal 2024 and 2.7% for fiscal 2025.

Maine's BSF, which concluded fiscal 2022 with an $896 million balance, equal to nearly 18% of general fund revenues, was not drawn upon in fiscal 2023. The biennial budget contemplates an unchanged BSF balance across the 2024–25 biennium.

Maryland

Maryland's fiscal 2024 budget balances modest yoy revenue growth with lowered spending, as the state has reduced one-time spending from prior years. The budget incorporates a one-time $400 million transfer from the rainy day fund to the Blueprint Fund, as well as almost $200 million in recurring tax revenue decreases from expansion and extension of the state EITC and modification of family leave benefits.

With the planned drawdown, Maryland's fiscal 2024 budget maintains the rainy day fund at a strong 10% of general fund revenues ($2.5 billion), the target set by the state's Spending Affordability Committee (a bicameral legislative fiscal advisory group). The budget also includes significant draws on the general fund ending balance (excluding the rainy day fund), to $357 million from $2.4 billion, mainly for one-time capital investments.

As with many states, Maryland's multiyear budget outlook (reported by the Department of Legislative Services) forecasts deficits that the state will need to address. The projected deficit grows from $426 million, or 2% of general fund revenues in fiscal 2025, to $1.8 billion (6%) by fiscal 2028. Annual revenue growth, projected at 3.3%, trails spending growth at 5.1%.

Maryland's strong budgetary and administrative institutions have allowed the state to navigate various budgetary issues, including forecast budget deficits even when the executive and legislative branches were represented by different political parties. Fitch anticipates that the state will be able to significantly mitigate projected out-year funding gaps and maintain structural balance.

Massachusetts

After robust revenue growth emerging from the pandemic, revenues slowed in fiscal 2023, with taxes estimated to be 4.8% below the prior year and marginally lower than budgeted at $39.2 billion. The consensus tax revenue estimate of $40.4 billion for fiscal 2024 incorporates modest 1.6% tax revenue growth relative to revised fiscal 2023 benchmarks, with an additional $1.0 billion available for distribution to transportation and education initiatives from implementing the 4% surtax on personal income over $1.0 million, approved by voters in November 2022.

Massachusetts enacted its budget in mid-August, well after the fiscal year began, with the legislature and governor agreeing to a one-month interim financial plan followed by a short extension to enable the commonwealth to continue operating as budget details were finalized. After modest vetoes, at $56 billion, the fiscal 2024 budget increases spending 5.1% yoy, with a significant portion of increased spending dedicated to education and transportation, using the $1.0 billion in estimated collections from the surtax on higher incomes.

Of the $1.0 billion, $523 million will be applied to education initiatives that include school facilities, energy infrastructure, early education initiatives and a portion of the permanent implementation of free school meals. The remaining $477 million will be distributed for various transportation initiatives, including half to the Massachusetts Bay Transportation Authority (MBTA) for station repairs, bridge maintenance and safety and workforce needs. The balance will fund local and highway road and bridge improvements and regional transportation authorities.

Along with increased funding via the income surtax, notable items include a $594 million (9.9%) increase in chapter 70 aid to cities and towns to more fully fund the school funding formula, $558 million for environmental programs, $475 million for early education providers and a sizable funding increase for an emergency assistance family shelter program, among other commonwealth priorities. The budget holds back $581 million for a potential tax relief package that the legislature is expected to consider this fall.

The stabilization fund, the commonwealth's budget reserve, is expected to increase to $8.0 billion, equal to roughly 20% of tax revenue, as of fiscal YE23. This increase stems from the required transfer of capital gains revenue above the statutory threshold, albeit below the transfer amount anticipated earlier in the year.

Michigan

Michigan's major revenue streams are underperforming estimates for fiscal 2023 (ending Sept. 30), attributable mainly to an automatic income tax cut mandated under a 2015 state statute. Michigan's flat PIT rate was reduced to 4.05% from 4.25% in May 2023, retroactive to Jan. 1, due to exceptionally strong prior year revenue performance. Some debate exists within the legislature as to whether the reduction is permanent or must return to its prior level on Jan. 1, 2024.

The REC lowered its general fund revenue forecast by $990 million in May to $13.8 billion, down from $14.8 billion in the prior forecast. The fiscal 2023 budget relied upon a May 2022 general revenue forecast of $15.2 billion, which was flat compared to fiscal YE22 results (i.e. predicting no net yoy revenue growth). General and school aid fund revenues combined are now expected to finish at $1.5 billion below the fiscal 2023 forecast and 9.4% below prior year actuals.

The automatic PIT rate cut, combined with a package of tax cuts adopted in March 2023 that exempt pension income from taxation and raise Michigan's EITC, are also contributing to weaker revenue growth. Because Michigan budgeted $14 billion in fiscal 2023 general fund appropriations, the revenue decline will, at worst, lead to a very modest deficit, assuming no offsetting spending cuts.

Michigan approved its $81.7 billion fiscal 2024 budget on Aug. 1. The new fiscal year begins Oct. 1. The adopted budget represents a $4.7 billion increase from fiscal 2023 and will use Michigan's remaining American Rescue Plan Act (ARPA) moneys ($350 million) and $5.0 billion in one-time funds — mostly surpluses accumulated in the prior two fiscal years — to support nonrecurring spending, which temporarily expands Michigan's tuition-free associates' degree program and makes major investments in IT and water infrastructure.

Additionally, K–12 education funding will expand by $611 million (5%) yoy in fiscal 2024. Michigan's K–12 students will be funded at $9,608 per pupil in fiscal 2024, versus $9,150 in fiscal 2023.

The fiscal 2024 budget redirects $500 million of excess CIT revenues into the Strategic Outreach Attraction Reserve to provide financing for major development projects. The budget also includes a $400 million deposit to the Michigan Public School Employees Retirement Fund (MPSERS) reserve account, $200 million to reduce public universities' MPSERS obligations, $350 million to provide state matching funds for federal Infrastructure Investment and Jobs Act (IIJA) grants and $450 million to establish a new School Aid Fund reserve account.

The adopted budget also makes a $200 million deposit to the rainy day fund, raising its balance to $2.0 billion, or 16.3% of general fund spending, a historic highpoint for the State of Michigan.

Minnesota

Minnesota has leveraged recent rapid tax revenue growth and resulting ample general fund surpluses to engage in an ambitious combination of tax cuts and new programs that are currently not funded in full by recurring revenues. Fitch anticipates that Minnesota's continuing economic growth and broad authority to control expenditures will support a timely return to budgetary balance.

The enacted 2024–25 biennial budget allocates $69.5 billion in expenses against $54.4 billion of net revenues, principally by employing existing surpluses toward $9.0 billion of one-time expenditures over the biennium, including approximately $1.0 billion each for an advance income tax credit, a cash capital program, housing investments and transportation programs.

Significant one-time expenditures are also budgeted to fund pensions and jumpstart state-level paid family leave. The biennial budget also includes over $6.0 billion in recurring new costs, comprising over $3.0 billion for education, $2.0 billion for health initiatives, $1.0 billion in ongoing tax policy changes and other major housing and public safety programs.

The budget conservatively assumes fiscal 2024 revenues will decrease 4.3% from preliminary fiscal 2023 actuals to $28.8 billion. Most of this decrease originates from a 7.7% decline in PIT receipts and a 3.7% decrease in CITs.

The PIT decrease is due largely to the net effects of the $1.1 billion one-time tax credit in fiscal 2024. Total revenues are projected to rebound back to fiscal 2023 levels by fiscal 2025, with 10.7% personal income growth as the tax credits roll off and a further CIT decline of 6.1%. Taken together, the current 2024–25 biennium budget draws down $10.7 billion in general fund balances outside the BRF. Importantly, Minnesota's BRF and cash flow account remain stable at a combined $3.2 billion.

Mississippi

Mississippi's revenues have continued to outperform, with revenues $699.6 million (10%) over forecast in fiscal 2023, led by strong sales tax, CIT and PIT collections. This is despite implementing the first installment of a four-year plan to incrementally replace the progressive tax structure with a 4% flat tax on income over $4,000 expected to reduce revenues by $185 million per year once fully implemented. No additional tax policy changes were made in the fiscal 2024 budget.

While the enacted fiscal 2023 budget assumed a 5.4% decline in revenues to $7.0 billion, compared to exceptionally strong revenue collections in fiscal 2022, revenues increased an estimated 4.1% yoy. The fiscal 2024 revenue forecast, at $7.5 billion represents a 2.1% yoy decline as compared to estimated fiscal 2023 revenues.

The Mississippi Legislature set aside approximately $150 million (2% of expected revenues) as a buffer against revenue volatility and appropriated $6.7 billion for fiscal 2024, or a 5.9% yoy increase in spending. Overall, the majority of state agencies received budget increases. The K–12 education budget was increased 3.5%, although the state's education funding formula was not fully funded. The budget provides $104 million to support struggling rural hospitals and invests $620 million in a variety of capital projects, including for roads.

The state enters fiscal 2024 with an estimated $635.3 million in the working cash stabilization reserve (the state's rainy day fund), equal to 10% of fiscal 2024 estimated revenues and a significant carryover balance that will be available for future appropriation.

Missouri

Missouri's $51.8 billion adopted fiscal 2024 operating budget is the largest on record for the second year running. The budget assumes 0.7% revenue growth due to a slowing economy, combined with a statutory cut in Missouri's top PIT rate to 4.8% from 4.95% currently. Estimated fiscal 2024 revenue represents a halving of fiscal 2023 growth that included a 1.4% revenue growth estimate. Notably, fiscal 2023 GRF receipts were tracking above estimate through May, with collections of $12 billion, net of refunds, versus $11.4 billion recorded in the same period one year prior. Fiscal 2023 revenues through June 29 indicated a 2.6% increase over fiscal 2022.

The fiscal 2024 budget represents a less significant expansion in spending yoy yet does contain several notable increases, particularly for education. The GRF portion of the budget is sized at $14.7 billion without netting out projected tax refunds, equaling a $183 million (1%) yoy increase. The budget boosts GRF spending on K–12 education by $111.2 million (2.9%), public colleges and universities by $112.7 million (10.5%), the office of administration by $1.4 billion (375%), public safety by $27.2 million (26%) and corrections by $70 million (8.9%). By contrast, spending on employee benefits and some social services is set to decline.

Several major spending items are nonrecurring in nature, including $2.8 billion to add an extra lane to I-70, which spans the width of the state. Missouri appropriated $1.4 billion of accumulated GRF surpluses as one-time revenues to fund half of fiscal 2024 costs related to the lane expansion project. The fiscal 2024 budget also utilizes $2.7 billion of Missouri's remaining ARPA funds for a variety of one-time purposes. ARPA funds are being appropriated mainly for water system and IT system improvements and broadband services expansion.

Similar to last year, the fiscal 2024 budget includes pay increases for public employees amounting to $273 million. Direct state employees will receive salary raises that include an 8.7% COLA. In another continuation of fiscal 2023 spending priorities, the adopted budget includes $233 million of spending, mostly from the GRF, to fully cover transportation costs for K–12 public school districts, while a $117.5 million allocation will help to maintain the state's K–12 foundation formula at the constitutionally mandated level.

Montana

Montana achieves its constitutional requirement for a balanced budget with a fiscal 2024–2025 biennial budget that preserves budget stabilization reserves while implementing school finance reforms, reducing the top marginal tax rate, paying off all of the state's GO debt and expanding the state's EITCs. Fitch anticipates that Montana's economic growth will support a timely return to budgetary balance.

Montana's biennial budget anticipates ongoing general fund revenues growing 4% while ongoing expenditures contract slightly. The state anticipates PIT will grow modestly beyond fiscal 2023 levels despite a cut to the top marginal tax rate and expansion of the state’s EITC that the state's nonpartisan Legislative Fiscal Division estimates will reduce revenues by around $180 million annually. The state is also reforming its school funding regime, reallocating over $435 million in annual general fund property tax revenues to a new special revenue fund for education.

The fiscal 2024–2025 biennium budget contains $1.4 billion in one-time expenses, following $2.0 billion of one-time expenditures in fiscal 2023. Notably, the fiscal 2024–2025 biennium budget contains a $164 million drawdown that is part of a $265 million effort to pay off all of Montana's general fund debt obligations — an initiative it has named “Debt Free in ‘23.”

The Legislative Fiscal Division's June 2023 legislative fiscal report on the biennium forecasts that one-time expenditures and tax policy changes will draw general fund balances down slightly to $593 million (18.2% of fiscal 2025 revenues). These funds are buttressed by budget stabilization reserves that are projected to remain level from fiscal 2023, at $496 million (16.7% of fiscal 2025 revenues).

Nevada

Nevada's revenues exceeded pre-pandemic levels during the just-completed fiscal 2022–2023 biennium (ended June 30), benefiting from the rebound in economic activity and stimulus provided by federal coronavirus relief. Revenues in both years of the biennium exceeded forecast, with the state's Economic Forum now estimating biennium revenues at $11.2 billion, 22% above forecast and 30% higher than the prior biennium. This estimate incorporates strong growth across all revenue categories but particularly in sales and use taxes, gaming and entertainment taxes and the modified business tax.

Revenue growth in fiscal 2024–2025 is expected to be more modest, increasing 4.3% to $11.6 billion, with stronger growth in sales tax offsetting slightly slower growth in gaming taxes. Fiscal 2024 general fund revenue after tax credits is expected to total $5.7 billion, marginally above the fiscal 2023 estimate, followed by 2.7% growth in fiscal 2025 to reach $5.9 billion.

Slower general fund revenue growth is due partially to changes in current law that will shift the general fund portion of net proceeds from the minerals tax and tax on gross revenue of gold and silver mining to the state’s education fund, with estimated impacts of $103 million and $121 million in fiscal years 2024 and 2025, respectively. There are no other significant tax policy actions incorporated in the budget other than a reduction in the modified business tax that was already state law.

The enacted 2024–2025 biennial budget increases general fund spending from $9.3 billion in 2022–2023 to $11 billion in 2024–2025, including $5.2 billion in 2024 and $5.8 billion in 2025. The budget incorporates significant pay raises of 11%–13% in the first year of the biennium, followed by 11% increases in fiscal 2025, to address sizable vacancies in a tight labor market. The budget increases K–12 education funding by $2.0 billion over the biennium from all funds, an increase of approximately 26%, which will significantly increase per pupil funding.

The budget also provides $250 million in matching funds to help local school districts pay for salary increases. Higher education received a large boost, restoring pandemic-era budget cuts, increasing graduate student stipends and providing $60 million for deferred maintenance projects. Community colleges received a one-time spending increase to hold them harmless for pandemic-related enrollment declines. The state is in the process of shifting Medicaid to a statewide-managed care model and has budgeted a small amount, including $1.9 million in general funds, to prepare for implementation.

Nevada is required by statute to transfer 1% of anticipated revenues to the rainy day fund at the start of each fiscal year, amounting to approximately $115 million for the biennium. A second statutory trigger based on the prior year's ending balance resulted in an additional sizable $296 million deposit to the rainy day fund at the start of fiscal 2022, with another $270 million authorized from the fiscal 2023 surplus. The rainy day fund balance is expected to be $1.3 billion at fiscal YE25 (or 21% of fiscal 2025 estimated revenues).

New Hampshire

Revenue performance in the fiscal 2022–2023 biennium (ended June 30) vastly outpaced the forecast, generating nearly $1.0 billion in excess revenue. Fiscal 2022 operating revenues for the combined general and education trust funds were $435.5 million (15.6%) above forecast and fiscal 2023 operating revenues were $538 million (20%) above forecast, notwithstanding tax policy changes that were expected to contribute toward relatively flat revenue performance. The state appropriated a portion of the fiscal 2022 surplus for one-time costs, including to help citizens with energy costs and local governments with retirement expenses.

Given the large fiscal 2023 surplus, the state appropriated funds, in concert with passing the fiscal 2024–2025 budget, for one-time and ongoing spending and expects to transfer an additional $62.8 million to the rainy day fund, bringing its balance to $223 million as of fiscal 2023 (7% of combined revenues).

Following this exceptionally strong revenue performance, the underlying fiscal 2024–2025 budget forecast assumes relatively flat revenues, increasing 1.3% yoy in fiscal 2024 to $3.2 billion for the combined general and education trust funds before dropping 0.3% in fiscal 2025. The revenue forecast incorporates a small tax policy change, the elimination of the interest and dividend tax effective Jan. 1, 2025, expected to reduce fiscal 2025 revenues by $17.4 million.

The new biennium's operating appropriations total $3.0 billion in fiscal 2024 and $3.1 billion in fiscal 2025. The enacted budget incorporates a significant 10% pay raise for state workers in fiscal 2024, followed by an additional 2% in fiscal 2025, at an estimated cost of $100 million over the biennium. It provides a 9% increase in education spending to support changes in the funding formula, a reduction in local property taxes and expanded free and reduced-price lunches. The budget also provides $134 million to increase Medicaid provider payment rates.

The spending increase does not appear to create a structural budget imbalance given the rapid increase in revenues in recent years relative to ongoing state spending. With a modest additional transfer of $3.2 million to the rainy day fund in fiscal 2025, the balance is expected to reach $226 million at the end of the biennium (7.1% of combined revenues).

New Jersey

New Jersey has continued to address longstanding fiscal challenges, in both fiscal 2023 and the enacted fiscal 2024 budget, despite a moderate decline in estimated fiscal 2023 revenues.

Fiscal 2023 total revenues are estimated at $51.9 billion, down 1.4% yoy but above the $50.4 billion forecast in the fiscal 2023 appropriations act. The decline is due to a much weaker nonwage gross income tax (GIT) during the spring filing season. The GIT is estimated at $18.8 billion, down 9.1%, versus a budgeted 3.6% decline. Although a strong labor market supported an estimated 5% withholding gain, market volatility drove a 40% final payment drop in April. Sales and use taxes are estimated to be up 4.8% on robust consumption, reaching $13.1 billion, above the budgeted 0.2% decline.

The enacted fiscal 2024 budget continues to strike a cautious note, with revenue forecast to rise only 1.6%, to $52.7 billion; GIT growth of 3.5%, to $19.5 billion; and sales tax growth of 1.7%, to $13.4 billion. The corporate business tax surtax, enacted in 2018 and extended early in the pandemic, will expire, lowering receipts by $330 million in fiscal 2024 and $1.0 billion annually thereafter.

With elevated economic uncertainty, the state is prioritizing strong fiscal resilience, both in the surplus revenue fund (the state's rainy day reserve) and undesignated fund balance. The fiscal 2023 combined fund balance is projected at $10.2 billion, equal to 19.7% of revenues. In fiscal 2024, the combined fund balance is forecast at $8.3 billion, or 15.6% of total revenues.

The enacted budget continues to focus on reducing liabilities. Pensions are budgeted to receive $7.1 billion, including lottery contributions, the third consecutive full actuarially determined contribution (ADC). Although net pension liabilities (NPLs) remain comparatively high, if future performance approximates plan assumptions, contribution growth is likely to be slower now that the state has fully ramped up full contributions. Another $400 million deposit to the debt defeasance and prevention fund (DDPF) from fiscal 2023 resources brings total deposits since fiscal 2021 to $9.25 billion.

The DDPF has been used to legally defease outstanding debt or replace new borrowing, lowering outstanding direct debt and generating debt service savings. With the latest deposit, $2.0 billion remains in the fund.

The budget also focuses on education and property tax relief. K–12 school formula aid increases to almost $10.8 billion, $832 million higher than the previous year. A new, triggered property tax relief program, NJ Stay, commences in 2026, subject to fully funding pension ADCs, school formula aid and constitutional property tax relief programs — and to a budgeted surplus of at least 12%, well over recent historical levels.

New York

New York enacted a total All Funds budget of $229 billion for fiscal 2024, which began on April 1, an increase of 3.9% from the prior year. Excluding federally funded spending and capital projects, state operating funds disbursements are budgeted to rise 1.3% in fiscal 2024 to $125 billion.

The state's use of recent surplus receipts to prepay debt service, including net debt service prepayments of $4.9 billion in fiscal 2023, substantially distorts overall yoy spending growth, leading to a lower rate than actual underlying spending growth. Budgeted state operating funds disbursements include a 9.7% school aid increase (school year basis) under the final year of a phased, three-year K–12 foundation aid increase, a 7.0% increase in Department of Health Medicaid spending and a 4.2% increase in state agency operations.

State operating funds tax receipts in fiscal 2024 are expected to fall 8.1% to $101 billion, reflecting the state's expectation for a mild national downturn in 2H23 and the lagged revenue effects of financial market weakness in tax year 2022. Sharp declines in final and estimated PIT payments contributed to a 40% yoy drop in April 2023 tax collections, leading the state to subsequently lower total tax revenue projections by more than $5.0 billion in the current year and in each year of the financial plan.

The fiscal 2024 enacted budget also accelerated planned $5.3 billion deposits to principal reserves. These reserves consist of the rainy day reserve, tax stabilization reserve and the portion of the general fund balance informally designated for economic uncertainties, bringing their combined balance to $19.5 billion at fiscal YE23, or 16% of fiscal 2024 state operating funds spending, reaching the state's target two years ahead of schedule.

For the second consecutive year, the New York State Legislature raised the cap on the rainy day reserve balance and contribution, expanding the maximum allowable balance to 25% from 15% of general fund spending and the maximum deposit to 15% from 3% of general fund spending.

The state budget agreement also included provisions to stabilize the finances of the Metropolitan Transportation Authority (MTA) and offset sustained levels of lower ridership and related fare revenue. In addition to a $300 million one-time payment from the state, the legislature approved a $1.1 billion annual increase in the MTA's payroll mobility tax, required a higher paratransit contribution from New York City and directed future licensing fee and tax revenue from up to three downstate casinos to the MTA.

North Carolina

Nearly two months after the July 1 start to the fiscal year, North Carolina has yet to enact a budget for the 2023–2025 biennium. As was the case in the previous two biennia (fiscal 2019–2021 and fiscal 2021–2023), the state will operate until a budget is passed under state law that continues appropriations in the absence of a budget at the prior year's level of recurring expenditures. What is unusual this time is that the differences delaying budget passage are between the two houses of the legislature and not between the governor and the legislature, notwithstanding the legislature's veto-proof majorities.

Revenue performance was very strong in fiscal 2021–2023. The enacted budget had assumed revenues would fall 4.3% in fiscal 2022, followed by a small 1.2% increase in fiscal 2023. Strong revenue performance led the state to raise the revenue forecast by $4.2 billion in fiscal 2022 and $2.0 billion in fiscal 2023, with revenues exceeding even the higher forecast. Fiscal 2023 revenues of $33.5 billion were $3.0 billion (10%) over the revised forecast and increased 1% yoy. The revenue forecast used to formulate the budget for the fiscal 2023–2025 biennium assumes flat revenues of $33.8 billion in fiscal 2024 and $33.9 billion in fiscal 2025.

Fiscal 2023 spending of $26.8 billion was approximately $1.2 billion under budget, partially reflecting a significant number of agency vacancies amid a tight labor market.

The legislature's House and Senate have both passed versions of the 2023–2025 biennium budget that authorize annual spending at $29.8 billion in fiscal 2024, followed by $30.8 billion in fiscal 2025, but they differ in key areas that include tax reductions and level of state reserves. In conference-budget negotiations, the House has advocated for a policy to link future tax reductions to revenue performance, providing some guardrails against a revenue downturn. The Senate would accelerate by two years the reduction in IIT rates that is currently enacted into law, from 4.75% to 3.99% in 2025 (instead of 2027) and then further to 2.49% in 2030.

The legislature has reportedly made progress on teacher and state employee raises, authorization of four new casinos and wider legalization of video lottery terminals. Although proposed by the governor, neither the House nor the Senate budget proposals fully fund the ramp-up to full funding of the Comprehensive Remedial Plan, which is intended to remediate inequitable school funding.

Separately enacted legislation to expand Medicaid under the Affordable Care Act will take effect upon budget enactment. The state's portion of the $5.5 billion eventual cost at full rollout will be covered by additional hospital assessments and a portion of the gross premiums tax. There is no anticipated impact on the general fund.

Last year's mid-biennial budget revision increased the rainy day fund to $4.75 billion (14% of fiscal 2023 revenues), and the state funded a new $1.0 billion reserve to address potential effects of a recession in terms of inflation and revenue shortfalls. The Senate version of the fiscal 2023–2025 budget would add $250 million to the rainy day fund, bringing its total to $5.0 billion (14.8% of fiscal 2024 revenues).

Ohio

The adopted budget, signed on July 4, assumes GRF revenues will be $42.3 billion in fiscal 2024, 0.6% below fiscal 2023 levels, followed by 6.3% yoy growth in fiscal 2025. GRF appropriations are budgeted below estimated revenues in each fiscal year ($820 million in fiscal 2024 and $178 million in fiscal 2025), maintaining a conservative structural balance.

The budget includes various tax policy changes estimated to cut revenues by $1.0 billion and $1.1 billion in fiscal years 2024 and 2025, respectively, relative to baseline estimates. These include eliminating sales taxes on baby products; tax credits for developing lower income multifamily housing and affordable single-family housing; and creating commercial activity tax (CAT) exclusions that would exempt Ohio businesses from paying CAT on their first $3.0 million and $6.0 million of revenue in 2024 and 2025, respectively. The CAT's loss effects are largely offset by crediting all net CAT revenues to the GRF. The budget also consolidates Ohio's PIT rate brackets from four to two brackets.

The new lower bracket begins at $26,050 of personal income and ends at $100,000 with a 2.75% rate, replacing the two lower rates of 2.8% and 3.2%. The new top rate will be set at 3.5% of income for incomes above $100,000 per year versus the prior 3.69% and 3.99% top two rates. The adopted budget also includes an expanded sales tax holiday, taking effect in August 2024.

Among the governor's 44 line item vetoes were adjusting the proposed sales tax holiday from two weeks to a length that would be determined next year by the state's director of budget management, tax commissioner and county commissioners' association, with the intent of more accurately estimating revenue losses associated with the holiday.

On the spending side, the budget increases recurring spending for K–12 education, higher education and Medicaid. State GRF support for K–12 spending is set to rise by 10.4% in fiscal 2024 over fiscal 2023 expenditures and by 2.2% in fiscal 2025 over fiscal 2024 appropriations. Higher education spending would rise by 6.8% in fiscal 2024 over fiscal 2023 expenditures and by 2% in fiscal 2025 over fiscal 2024 appropriations. Under the enacted budget, fiscal 2024 Medicaid spending would rise by 10.8% in fiscal 2024 and 13.9% in fiscal 2025.

Ohio maintains a $1.2 billion Medicaid reserve to cushion the general fund against higher costs and the phaseout of the 6.2% enhanced federal medical assistance percentage (FMAP) in fiscal 2024.

In a notable departure from recent years, the majority of Ohio's biennial capital budget will be funded with available cash balance rather than bond issuance. The adopted transportation budget will increase by 70% yoy in fiscal 2024, from $4.9 billion to $8.4 billion, as Ohio expends over $3.0 billion on bridge and highway upgrades. Transportation spending will revert to $5.1 billion in fiscal 2025.

Oklahoma

Oklahoma's $12.6 billion fiscal 2024 all-funds budget represents a $1.65 billion (15%) spending increase over fiscal 2023, inclusive of $1.5 billion in accumulated prior year surpluses and other nonrecurring revenues to be used to fund one-time expenditures. The budget portion used to fund state agencies (the “nonrestricted funds” budget) appropriates $10.6 billion of recurring revenues, including $8.55 billion in estimated GRF moneys. This represents a $340 million decrease from fiscal 2023 actuals of $8.89 billion.

Lower severance taxes on oil and gas extraction and weaker income tax growth due to a projected U.S. economic slowdown account for most of the projected decline. Oklahoma's economic forecasting body predicts a recession for late 2023.

Aside from one-time spending, the fiscal 2024 budget included $10.8 billion of recurring spending that opened a $205 million (2%) gap between recurring revenues and spending; as such, the budget is not structurally balanced, and the governor refused to sign the budget for this reason. However, the budget automatically becomes law two weeks after a gubernatorial refusal to sign without enacting a veto. Fitch will closely follow next year's budget deliberations to determine if Oklahoma's fiscal 2024 budgetary imbalance will carry over into the next fiscal year.

Increases to recurring spending include a $787 million boost (21%) to K–12 education that works in teacher pay raises and higher formula spending. The budget raises higher education funding by $230 million (15%), intended to allow for lower tuition increases in the coming academic year. The budget also includes spending increases on public health and road infrastructure. The adopted budget includes only minor tax policy changes that amount to nearly $50 million of lost revenues in fiscal 2024. Chief among these changes are the elimination of the “marriage penalty” for joint filers.

Most of the fiscal 2024 budget's $2.0 billion in one-time revenues will flow through the GRF to fund one-time spending. Among the most notable one-time items are $200 million of gap funding for public hospitals, $150 million for school safety measures, $18 million of teacher stipends and a host of additional spending on state healthcare, IT systems, school capital and K–12 literacy programs.

The 2024 budget includes $471 million of deposits to dedicated fiscal reserves, designed to enhance Oklahoma's resilience against future cyclical downturns. The state has rebuilt its constitutional reserve fund (CRF), or rainy day fund balance, from a recent low of $289 million (4.4% of GRF revenues) in 2020 to $1.0 billion at fiscal YE22. Further deposits to the CRF and revenue stabilization fund (RSF) balance will boost combined fund balance to $1.93 billion at fiscal YE24 (June 30, 2024), equal to approximately 22.5% of estimated state general fund (SGF) revenues.

Oregon

Oregon's strong economic performance continued in the fiscal 2021–2023 biennium, supporting record tax revenue growth. PIT and CIT vastly outperformed budgeted expectations, and a large portion of the PIT will be returned to taxpayers in the 2023–2025 biennium.

The state's June 2023 forecast estimates fiscal 2021–2023 biennium net tax revenues of $28.8 billion, 23% higher than the baseline forecast from the 2019–2021 close of session. This triggers PIT and CIT kickers totaling $7.3 billion. The $5.5 billion PIT kicker will be returned to taxpayers as a refundable credit on their April 2024 tax returns, lowering the net amount of PIT the state will collect. The $1.8 billion CIT kicker will not affect general fund revenue, as it is allocated to K–12 public education within the general fund.

The current legislatively authorized expenditure budget for the 2023–2025 biennium, based on the June 2023 forecast, includes general fund expenditure growth of $4.0 billion to $31.9 billion, a 14% increase over the previous biennium. General fund revenue is budgeted to decrease 13% to $25.1 billion, net of the $5.5 billion PIT kicker. Absent the kicker, general fund revenues would climb 6.2% to $30.7 billion.

The budget bridges the anticipated revenue gap by drawing down over $4.0 billion in general fund balance, including over $250 million in carryover reversions from the 2021–2023 biennium. The budget transfers an additional $271 million in general fund balance to the rainy day fund by the end of the biennium. The state projects $3.1 billion in designated reserves by the biennium's end: $2.1 billion in the rainy day fund and $1.0 billion in the education stabilization fund (11.6% of net general fund revenues). The state projects general fund balance of $438 million at the end of the biennium for total available reserves of $3.5 billion (13.3% of net general fund revenues).

Expenditure growth for the 2023–2025 biennium is primarily due to increased human services spending to fund ambitious new services aimed at reducing homelessness statewide; funds to backfill the phaseout of enhanced public health emergency FMAP subsidies; and increased education spending. Even as expanded human services now claim about one third of combined general and lottery expenditures, education still drives general fund spending at 42% of combined general and lottery expenditures.

Pennsylvania

About five weeks after the fiscal year began, the governor signed the bill to approve a $45.0 billion general fund budget for fiscal 2024 (excluding federal stimulus funding), up 5% from an enacted budget of $42.8 billion in fiscal 2023.

The final appropriations bill includes a $567 million increase (7.8%) for K–12 basic education funding, with an additional $100 million for low income school districts through the Level-Up program; $125 million for school safety and environmental improvement grants; and $7.5 million to fund criminal indigent legal defense for the first time. The budget did not include major changes to tax laws but continues a phase-in of corporate rate reductions (adopted in fiscal 2022) that will reduce revenue by an estimated $300 million in fiscal 2024.

However, as of mid-August, the Pennsylvania Legislature had not yet approved code bills that must accompany the appropriations bill, thereby delaying the implementation of several new initiatives and about $1.0 billion in spending.

Budget action had already been delayed by disagreement between the House and Senate over the Pennsylvania Award for Student Success (or PASS) scholarship program. Tension in the legislature occurred after the governor reached an agreement with the Republican-controlled Senate to support a new school voucher program and other initiatives proposed by the governor; however, the Democratically-controlled House refused to approve the budget unless the voucher funding was removed. To resolve the impasse, the governor agreed to veto the $100 million voucher program, eliciting objections from Senate leadership.

The governor's proposed fiscal 2024 budget was based on a projected 1.6% general fund revenue decline, from $43.9 billion in fiscal 2023 to $43.2 billion in fiscal 2024. However, actual fiscal 2023 revenues totaled $44.9 billion, about $1.0 billion higher than the executive budget estimate, rendering the fiscal 2024 revenue forecast more conservative than anticipated. In June 2023, the commonwealth's Independent Fiscal Office (IFO) revised its 2024 general fund revenue forecast to $45.3 billion, based on actual 2023 performance and projected declines in corporate tax revenue, offset by a return to growth in the PIT.

The commonwealth transferred $2.1 billion into the Budget Stabilization Reserve Fund (BSRF) in September 2022, raising the commonwealth's rainy day reserves to $5.0 billion or 11.1% of fiscal 2023 general fund revenues. The commonwealth will transfer a portion of any fiscal 2023 surplus to the BSRF, as required by law, in September 2023.

Rhode Island

Rhode Island adopted a $14 billion budget for fiscal 2024, up 2.9% from the enacted fiscal 2023 budget. The fiscal 2024 budget provides additional funding for K–12 education, expands programs for housing and homelessness, cuts business taxes and funds a new $30 million low income housing tax credit program.

The budget increases K–12 school aid funding by 6.0% ($57 million) to $1.0 billion, including $20 million in hold-harmless aid to compensate districts that have experienced recent enrollment declines. Other items in the approved budget include $35 million for a rebate on utility bill taxes, a $50,000 exemption to the tangible property tax for business equipment and $10 million to fund tuition-free junior and senior years for state residents at Rhode Island College. Using surplus revenue, the state allocated $88 million to improve roads and bridges and leverage federal infrastructure funds.

The state will also contribute $55 million, or about 1% of general revenue, to a supplemental rainy day fund after reaching the maximum 5% of general revenues in the primary rainy day fund.

As of the state's May REC, the state expects general revenue to fall 2% in fiscal 2024, declining from $5.2 billion to $5.1 billion. Based on actual revenue performance to date, the state has lowered its fiscal 2023 revenue estimate by about $61 million. This stands in contrast to fiscal 2022, when actual collections exceeded expectations by over $500 million.

South Carolina

South Carolina's $14 billion general fund budget for fiscal 2024 represents a $53.9 million (0.4%) spending increase from the prior year. The adopted budget includes $2.0 billion of nonrecurring revenue to finance infrastructure projects, reserves and maintenance of state-owned property.

The state previously appropriated $580 million of remaining federal ARPA moneys for one-time spending focused on resilience and transportation. An additional $1.3 billion in funding from fiscal 2022 surpluses and projected fiscal 2023 surpluses were allocated to infrastructure and economic development for Project Connect, in support of the planned Scout Motors manufacturing plant in Richland County.

The fiscal 2024 budget assumes $474 million in modest revenue declines yoy (to $12.6 billion, from $13 billion in fiscal 2023); this reflects forecasters' concerns of a U.S. recession later in 2023, along with a “return to the mean” in collections after three years of exceptionally strong growth.

The fiscal 2024 budget raises constitutional reserves to 5.5%, from 5.0% of prior year revenues, with a $140 million contribution that brings constitutional reserves to $715 million. The state will raise the balance by 0.5% annually until a new cap of 7% of prior year revenues is reached in fiscal 2027. The budget also boosts the separate rainy day fund balance to 3% of prior year revenues, up from 2%, bringing total reserves to $1.1 billion.

The adopted fiscal 2024 budget includes a 3.8% increase ($146 million) to K–12 education spending; a $124 million funding increase (14.3%) for institutions of higher education to accommodate a tuition freeze; $156 million in salary increases of at least 5% for all state employees; and an additional $89 million for retention and recruitment. The budget also utilizes $600 million in one-time revenues for economic development funding.

Similar to last year, the K–12 education budget includes a rise in minimum teachers' salaries to $42,500, from $40,000 currently, and raises the per pupil formula funding to $8,214 from $7,694 (a 6.75% increase). As mentioned above, all state employees will receive salary increases of at least 5%.

Fiscal 2023 collections have remained solid and surpassed revised estimates by $86 million (0.6%) through May 31. SGF revenues were poised to top $13 billion on June 30, 2023, about 4.6% below prior year levels ($13.65 billion), factoring PIT rate cuts that went into effect on Jan. 1, 2023.

South Dakota

South Dakota adopted a total budget of $7.4 billion for fiscal 2024, a 6.3% increase from fiscal 2023, reflecting a 22% rise in federal funds and a 1% decline in the general fund budget. In November 2022, South Dakota voters approved a constitutional amendment to expand Medicaid coverage under the Affordable Care Act, starting July 1, 2023. The federal government will cover about 96% of an estimated $580 million in new Medicaid spending in fiscal 2024, before federal reimbursement drops to 90% after the first two years.

The budget also funds a 7% salary increase for education and state employees and a 5% inflation increase for healthcare providers, in addition to a reduction in the state sales tax to 4.2% (from 4.5%) for the next four years at an annual cost of about $100 million. Fiscal 2023 general fund receipts are expected to grow 7.6% from fiscal 2022, exceeding the 2023 adopted budget forecast by $360 million, before declining by 5.8% in 2024, with ongoing receipts estimated at $2.3 billion.

Following several years of surplus revenue, the state's rainy day fund, the budget reserve, and a secondary reserve, the general revenue replacement fund, totaled $423 million at the start of fiscal 2023, equal to approximately 17% of general fund revenues. The state has also appropriated surplus revenue for one-time infrastructure investments, including $70 million for procurement and financial systems in fiscal 2023 and $390 million for state prison facilities over the past two years.

Tennessee

Tennessee adopted a $56.2 billion budget for fiscal 2024, roughly flat to the amended fiscal 2023 budget. The fiscal 2024 appropriations bill added $2.7 billion in total funds and $2.6 billion in general funds to the fiscal 2023 budget due to revenues exceeding the adopted forecast. General fund tax revenue is expected to slow considerably to 2.25% in fiscal 2024, after estimated growth of about 8% in fiscal 2023.

In recent years, the state has largely used surplus revenues for one-time uses, including deposits to the state's rainy day funds, paying down long-term liabilities and using cash for capital needs. The fiscal 2024 budget included a new, cash-funded $3.0 billion Transportation Modernization Fund that will provide $750 million to each of the state's four regions, intended to address traffic congestion and other transportation needs. Excess state cash resources were also allocated to the state's colleges of applied technology, law enforcement communication networks and state parks.

The fiscal 2024 budget included over $400 million in tax cuts, including a three-month sales tax holiday for grocery sales and targeted funding increases for school aid, teacher pay, school safety and higher education. Over the past two years, the state has increased school aid by $1.0 billion.

The state also used surplus revenue to fund a $250 million transfer to the rainy day fund, raising the fund to $2.05 billion in fiscal 2024, or about 9% of budgeted tax revenue. The budget also allocated $250 million to address unfunded other post-employment benefit (OPEB) liabilities and $300 million to the state pension fund.

Texas

Revenue performance in the fiscal 2022–2023 biennium (ending Aug. 31) has been much stronger than anticipated in the enacted budget, with all revenue sources performing well but led by particular strength in the sales tax and oil and gas production taxes.

After 26% yoy growth in fiscal 2022, the state controller revised the forecast of revenues available for general purpose spending in fiscal 2023 upward by 20% to $80 billion, from $67 billion previously. The controller's Biennial Revenue Estimate (BRE; as of January 2023), which was used to formulate the fiscal 2024–2025 budget, forecast $166 billion in general revenue-related collections, up 5.7% over the revised estimate for the fiscal 2022–2023 biennium.

The enacted budget appropriates $144 billion, an approximate 10.5% increase over the fiscal 2022–2023 biennium. The budget funds programmatic increases across a variety of programs, including for public safety, border security, wage increases for employees and retired teachers, an expansion of the state park system and improvements to the energy grid, among other priorities. Salary increases for teachers and additional school funding were not addressed in the enacted budget but may be addressed in a special legislative session after the start of the fiscal year.

The Texas Legislature also passed supplemental appropriations for the fiscal 2022–2023 biennium, including $7.4 billion in GRFs to cover Medicaid costs, hospital construction, park land acquisition, flood mitigation and school safety measures. Some components of the enacted budget will require voter approval during the November 2023 election, including a $1.5 billion program to expand broadband statewide and $1.0 billion for water infrastructure.

In a special session subsequent to passage of the budget, the legislature and governor approved a significant property tax reduction bill that would add more than $13.3 billion in tax relief to $5.3 billion that was previously in state law. This plan must also be approved by voters in November. State funds will replace certain locally generated taxes and the legislation provides a bypass of the state's constitutional spending limit to pay for the property tax relief. The state will draw down its substantial accumulated carryover balance and will likely remain responsible for a greater portion of school district funding, as a result.

A second, smaller tax policy change will reduce business franchise taxes by approximately $600 million. Unlike the more significant property tax relief bill, this tax reduction does not require voter approval.

With its strong revenue performance, the state anticipates sizable transfers to the Economic Stabilization Fund (ESF), bringing its total to $13.7 billion by the end of the current biennium, or 17% of estimated fiscal 2023 general revenues. An additional $6.2 billion in oil and gas tax collections will be transferred to the ESF in the next biennium, along with half of any remaining fiscal 2023 unencumbered balance.

Utah

Utah administered its expenditures prudently during a pandemic period in which revenues consistently outperformed forecasts, often pairing one-time revenues with one-time expenditures to minimize the risk of a fiscal cliff should economic growth slow.

Revenues for the combined general, education and uniform school funds are forecast to decrease 3.5% yoy to $11.3 billion. The lower revenues can be attributed to newly approved recurring tax cuts, led by $400 million in decreases to PITs and over $50 million in expanded tax credits.

Although Utah's fiscal 2024 budget funds a sizable increase in spending, ongoing spending is restrained to within anticipated ongoing revenues. Fiscal 2024 appropriations for the combined general, education and uniform school funds increased 25% to $14.6 billion, comprising $11.3 billion in recurring and $3.4 billion in one-time appropriations. The heightened appropriations include almost $2.0 billion in increased ongoing spending, with the largest portion directed toward public education. Higher education, social services, infrastructure and general governmental services also received ongoing increases.

The fiscal 2024 budget also uses one-time funds to prepay infrastructure debt ($775 million) and to cash-fund capital expenditures in lieu of issuing bonds ($140 million).

The state continues to add to reserves, bringing the general fund and education fund reserves to $292 million and $856 million, respectively, by fiscal YE23. These combined rainy day reserves of $1.1 billion (approximately 10.2% of preliminary fiscal 2023 revenues) represent a trend of sustained healthy yoy gains. The state also maintains restricted reserve accounts for natural disaster recovery, student growth and Medicaid, bringing total reserves to a projected $1.4 billion at fiscal YE23.

Vermont

Vermont's $8.4 billion all-funds budget for fiscal 2024 represents a 2.3% decrease in spending from fiscal 2023 appropriations, including supplemental spending approved in the second half of the fiscal year. The decline in overall spending reflects the rolling off of federal stimulus moneys after $565 million of ARPA funds were included in last year's budget. Federal funds are set to decline by 2% yoy in fiscal 2024 due to the end of the 6.2% enhanced FMAP that was included in federal Medicaid transfers to the states during the pandemic.

The $2.3 billion general fund portion of the budget, which relies upon state-source rather than federal moneys, would raise proposed spending by $279 million (13.2%) over prior year levels, due mostly to the inclusion of nonrecurring moneys sourced from prior years' (i.e. fiscal years 2022 and 2023) operating surpluses. The general fund budget also includes $78 million of new recurring spending, targeting programs for affordable housing and supporting the state's childcare sector.

Through May, revenues for Vermont's three principal operating funds — the general, education and transportation funds — were tracking at a combined $30 million (1%) above the January revenue estimate. The fiscal 2024 education and transportation budgets include yoy spending increases of 7% and 4%, respectively. Education fund revenues are forecast to rise by 4.4% in fiscal 2024, even as appropriations increase by 7%; unallocated surplus moneys from prior years will bridge the gap. Transportation fund spending will also utilize unallocated surplus from prior years.

The fiscal 2024 budget includes full actuarial contributions for the state's pensions systems, consistent with prior years. It also includes additional $9.0 million payments to each plan. Fiscal 2024 contributions will decline by 4.5% yoy due to strong investment performance in the plans' 2021 fiscal years. Fiscal 2022 contributions were materially higher than prior years, stemming from updated actuarial assumptions and $225 million of supplemental contributions. Fitch expects contributions to rise again in fiscal 2025 as weaker investment returns in 2022 are factored into funded levels. Fitch anticipates future contribution increases will be manageable.

Vermont's consensus revenue forecasting group, the E-Board, anticipates a sizable revenue deceleration in fiscal 2024. This forecast projects general fund revenues will decline 7.2% yoy due to the exhaustion of federal stimulus funds coupled with higher inflation and consumer spending reverting to pre-pandemic patterns that emphasize spending on services.

Virginia

Virginia is in the second year of its fiscal 2023-24 biennium. The adopted budget raised operating spending by $8.8 billion, or 5.9%, over the prior biennium. Higher K–12 spending accounted for the largest share of the increase. Overall K–12 funding and higher education spending have grown by $3.2 billion and $688 million, respectively. The K–12 funding boost included 5% annual pay raises for all staff and $850 million for school capital projects. The budget also added $1.1 billion to the RSF and bolstered pay-as-you-go capital by $2.1 billion.

Tax relief measures totaling $4.0 billion were included in the biennial budget. These included exempting military retirement income from income tax at a cost of $483 million over three years, $1.0 billion of one-time tax rebates and increasing the standard deduction through 2025, for a revenue loss of $1.64 billion. The budget also eliminated the 1.5% state sales tax on grocery items (a $560 million loss) and created a refundable EITC equal to 15% of the federal EITC through 2025 ($315 million in revenue losses).

Virginia's use of some cash balances for tax relief and nonrecurring spending was balanced by the commonwealth's awareness that revenue growth would slow over the current biennium. Virginia's consensus forecasting group estimated in November 2022 that fiscal 2024 general fund revenues would expand by 9.6% over estimated fiscal 2023 general fund revenues, including the effects of tax reduction measures passed in 2022. Actual revenues could underperform these projections if the anticipated U.S. recession, originally forecast for mid-2023, instead occurs in late 2023/early 2024. Virginia plans to update its revenue forecasts in November 2023.

Washington

Conservative revenue forecasting practices have allowed the state to prudently navigate challenging yet ultimately favorable economic conditions over the past four years. In June 2023, the state's Economic and Revenue Forecast Council (ERFC) projected fiscal 2023–2025 biennium revenues would be 24% higher than those of 2019–2021. State revenues have been propelled by unexpectedly high inflation, which has powered the state's price-driven sales taxes. The state's June 2023 economic forecast projects slow growth as real state GDP and employment growth continue while real personal income recovers from inflation-induced declines in 2022 and 2023.

Retail sales and use taxes generate about half of total general fund state revenues with the business and occupations tax contributing 20% of revenues and state property tax adding approximately 15%. The property tax is statutorily dedicated to meeting the state's K–12 funding obligations. Fitch expects strong revenue growth that outpaces national GDP, reflecting cyclical trends while buttressed by the state's ongoing population growth and economic expansion.

In concert with its June forecast, the state enacted a 2023–2025 biennium budget that uses reserves to balance slow, 1.6% overall near general fund (NGF) revenue growth with 5.6% appropriations growth. NGF is the designation for the state's primary operating funds. Budgeted increases to appropriations are broad-based across priority areas of health, education, transportation and the environment.

Notably, a new capital gains tax, accruing outside the general fund for education, survived challenges at the state Supreme Court in March 2023. Revenue from the new tax is expected to nearly triple preliminary estimates of $248 million in fiscal 2023, with $500 million budgeted annually by fiscal 2025.

The state has added over $4.0 billion in reserves compared to pre-pandemic levels. The June 2023 revenue forecast projects fiscal 2023 ending combined reserves of $7.3 billion (22% of projected NGF revenues). This is more than double the $3.6 billion in reserves at fiscal YE19.

In the current Four-Year Budget Outlook (a statutorily required forecast that reflects the June 2023 revenue update), the state budgeted for $3.6 billion in reserve drawdowns by the end of the 2025–2027 biennium. If realized, these draws would bring reserves below pre-pandemic levels. Fitch anticipates that, absent unknown revenue or expense shocks, the state will be able to significantly mitigate projected out-year funding gaps.

West Virginia

West Virginia appropriated $4.9 billion for the fiscal 2024 budget, about 5% higher than 2023 appropriations. The 2024 budget continues the state's practice of conservative revenue estimates, which have limited spending growth and generated large surpluses in recent years. The official fiscal 2024 revenue estimate is about $1.6 billion less than actual 2023 collections of $6.5 billion. At the end of June 2023, the governor announced that actual fiscal 2023 collections were $1.8 billion above initial estimates.

Following three years of strong revenue performance, West Virginia adopted a package of permanent tax cuts during its 2023 legislative session, including an immediate 21.25% PIT rate reduction. The tax package also includes a provision to trigger automatic future cuts that will constrain nonseverance tax revenue growth to inflation, costing an estimated $793 million by 2025. The state's updated unofficial revenue forecast for 2024, incorporating the tax cuts and recent performance, is $5.3 billion. The 2024 budget also includes $2,300 raises for public school and state employees, which will offset increases in employee health insurance premiums.

As of May 31, 2023, the state's rainy day funds held $949 million, equal to 16% of fiscal 2023 appropriations. Legislation passed in 2022 requires the first 50% of surplus GRFs to be deposited into the Revenue Shortfall Reserve Fund — Part A until the aggregate amount in the state's two rainy day funds equals 20% of total appropriations for the most recently concluded fiscal year. West Virginia also appropriated about $1.0 billion of surplus revenue in the 2023 session for fiscal 2024 one-time expenses, including economic development, water and sewer projects and broadband expansion. This includes a $400 million deposit to the PIT Reserve Fund.

Wisconsin

Wisconsin's post-pandemic revenue performance has been very strong. The Legislative Fiscal Bureau (LFB) estimates fiscal 2022–2023 biennium revenues were $4.5 billion (12%) higher than the forecast on which the budget was enacted. As a result, the state carried a $6.9 billion undesignated general fund balance into the fiscal 2024–2025 biennium, which began July 1, over 31% of general fund revenues. This compares to a 6% undesignated general fund balance at the end of the fiscal 2018–2019 biennium, just prior to the onset of the pandemic.

The LFB forecast for the fiscal 2024–2025 biennium assumes revenue growth will continue but at a slower pace, with tax revenues expected to increase 1.3% yoy in fiscal 2024, followed by 1.6% growth in fiscal 2025.

The enacted biennial budget increases gross appropriations, prior to lapses, transfers and other adjustments, by 14.8% in fiscal 2024, followed by a 7.1% decline in fiscal 2025. The budget provides salary increases of 4% and 2% in fiscal years 2024 and 2025, respectively, with substantial additional adjustments for some employees, notably correctional officers.

The budget also includes $1.2 billion for capital funding, applies $400 million to retire a portion of outstanding general fund annual appropriation bonds (previously issued to purchase back rights to future tobacco settlement revenues), provides $525 million for affordable housing and earmarks $125 million to address PFAS (per-and polyfluoroalkyl substances) contamination.

K–12 education spending received a $625 million boost across the biennium and, notably, the governor used his partial veto power to extend a $325 per student increase in locally allowed property taxes until the year 2425, rather than through fiscal 2025, as approved by the Wisconsin Legislature. While this does not directly increase school funding, it provides predictability and stability in budgeting and planning for local districts by reducing the need for these districts to approach voters for additional operating revenues.

With the governor's veto that reduced a major income tax cut from $3.5 billion to $175 million, combined with the legislature's decision to not expand Medicaid under the Affordable Care Act or enact other proposed spending increases, the state will continue to carry sizable undesignated fund balances of approximately $4.0 billion through the biennium.

The state did not draw on its rainy day fund (the BSF) during the pandemic-related downturn and, with strong revenue performance, it made a $968 million fiscal 2021 deposit. As this balance is above a 5% statutory threshold, the state is not required to make deposits to the BSF in the current biennium, although the BSF is growing due to retention of investment earnings that are expected to bring its total to $2.0 billion at the end of the biennium (9.1% of forecast revenues).

U.S. States Ratings and Analyst Coverage

(As of May 12, 2023)

State	Primary Analyst	Issuer Default Rating	Rating Outlook/Watch
Alabama	Karen Krop	AA+	Stable
Alaska	Douglas Offerman	A+	Stable
California	Karen Krop	AA	Stable
Connecticut	Bryan Quevedo	AA–	Stable
Delaware	Karen Krop	AAA	Stable
Florida	Tammy Gamerman	AAA	Stable
Georgia	Eric Kim	AAA	Stable
Hawaii	Eric Kim	AA	Stable
Idaho	Tammy Gamerman	AAA	Stable
Illinois	Eric Kim	BBB+	Rating Outlook Positive
Indiana	Eric Kim	AAA	Stable
Iowa	Tammy Gamerman	AAA	Stable
Kentucky	Michael D'Arcy	AA	Stable
Louisiana	Eric Kim	AA–	Stable
Maine	Michael D'Arcy	AA	Stable
Maryland	Bryan Quevedo	AAA	Stable
Massachusetts	Karen Krop	AA+	Stable
Michigan	Michael D'Arcy	AA+	Stable
Minnesota	Bryan Quevedo	AAA	Stable
Mississippi	Karen Krop	AA	Stable
Missouri	Michael D'Arcy	AAA	Stable
Montana	Bryan Quevedo	AA+	Stable
Nevada	Karen Krop	AA+	Stable
New Hampshire	Karen Krop	AA+	Stable
New Jersey	Douglas Offerman	A+	Stable
New York	Tammy Gamerman	AA+	Stable
North Carolina	Karen Krop	AAA	Stable
Ohio	Michael D'Arcy	AAA	Stable
Oklahoma	Michael D'Arcy	AA	Stable
Oregon	Bryan Quevedo	AA+	Stable
Pennsylvania	Tammy Gamerman	AA–	Rating Outlook Positive
Rhode Island	Tammy Gamerman	AA	Stable
South Carolina	Michael D'Arcy	AAA	Stable
South Dakota	Tammy Gamerman	AAA	Stable
Tennessee	Tammy Gamerman	AAA	Stable
Texas	Karen Krop	AAA	Stable
Utah	Bryan Quevedo	AAA	Stable
Vermont	Michael D'Arcy	AA+	Stable
Virginia	Michael D'Arcy	AAA	Stable
Washington	Bryan Quevedo	AA+	Stable
West Virginia	Tammy Gamerman	AA	Stable
Wisconsin	Karen Krop	AA+	Stable
District of Columbia	Bryan Quevedo	AA+	Stable

Source: Fitch Ratings

Latest Fitch State Rating Actions

Date	State	Current Rating/Rating Outlook	Prior Rating/Rating Outlook
May 11, 2023	Kentucky	AA; Rating Outlook Stable	AA−; Rating Outlook Positive
April 10, 2023	New Jersey	A+; Rating Outlook Stable	A; Rating Outlook Positive
March 29, 2023	Illinois	BBB+; Rating Outlook Positive	BBB+; Rating Outlook Stable
Sept. 12, 2022	New Jersey	A; Rating Outlook Positive	A−; Rating Outlook Positive
Sept. 8, 2022	Ohio	AAA; Rating Outlook Stable	AA+; Rating Outlook Positive
July 21, 2022	Michigan	AA+; Rating Outlook Stable	AA; Rating Outlook Positive

Source: Fitch Ratings