2025 U.S. State Budgets Back to Normal

States Juggle Spending Pressure and Slower Revenue Growth

"States returned to more typical budgeting practices in fiscal 2025, with modest revenue growth expectations and a need to address expenditure pressure."

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State budgets are in a sound position entering fiscal 2025. Revenue growth has stabilized, returning to a more typical, slower growth trajectory. U.S. states are adjusting spending to this slower trend, having enhanced budgets during a period of higher availability of state and federal revenues.

States Adjust to Slower Growth

With slower revenue growth, driven both by moderating economic conditions and tax policy changes, U.S. states are moderating spending expectations but continue to invest in a broad array of priorities. Spending drivers include rising Medicaid costs, employee retention efforts and the continuing effects of inflation. States are also focusing spending on education, climate response and housing affordability, as well as a number of other priorities.

Fewer Tax Policy Changes

The wave of significant tax policy changes appears to have peaked, with fewer states incorporating tax cuts into their budgets, although several notably do. As with increases in ongoing programmatic spending, permanent tax reductions that reflect prior temporary revenue surges or draws on accumulated balances pose a potential risk to financial resilience. A number of states have multiyear tax reductions incorporated from prior legislation. Few states are raising revenues, although California, New Jersey and Illinois are among the states increasing revenues on a temporary or permanent basis to provide operating budget support.

Budgets Remain Resilient

Most states built significant resilience into their financial operations during the period of extraordinary revenue growth that followed the pandemic recession. States continue to focus on maintaining fiscal resilience, including by paying down accumulated liabilities and maintaining robust reserves. Some states are dipping into accumulated balances for one-time spending, and a few states are tapping rainy-day funds for budget balancing. Fitch Ratings believes states are well positioned to weather economic turbulence in the current fiscal year.

Budgets Signal Return to Normalcy

State budgets marked a return to normal budgeting in fiscal 2025, following revenue and expenditure volatility during and since the pandemic. States have transitioned from booming to slowing and, now, to normal growth, with revenues overall expected to be flat or slowly growing in fiscal 2025. Almost all states passed on-time fiscal 2025 budgets, with only Massachusetts and Pennsylvania missing their deadlines. Massachusetts wrapped up its budget at the very end of July, after operating with a one-month partial budget from July 1, and Pennsylvania adopted its budget shortly after the start of the July 1 fiscal year.

Slow Growth Ahead

Revenue performance has been volatile in recent years, driven by the sharp economic contraction during the pandemic, followed by a revenue boom when the economy reopened. As revenues slowed in fiscal 2023, states generally anticipated a continuation of slow growth in fiscal 2024. Fiscal 2024 revenue outcomes were mixed, with some states outperforming fairly conservative forecasts. One bright spot for states has been investment earnings, with large cash balances and higher interest rates contributing to a windfall of interest income. This revenue source is expected to revert in future years as interest rates decline and states spend down cash balances. Revenues have also been held down in states that took advantage of recent extraordinary revenue growth to implement tax cuts, leading to lower overall revenues for some states.

States remain conservative in their revenue forecasting, with most anticipating slow growth in fiscal 2025 after two consecutive years of relatively weak overall tax collections in fiscal years 2023 and 2024. This largely reflects an expectation of slower growth in the U.S. economy, even as it seems to have avoided an outright recession. State labor markets have largely recovered from the pandemic. Through June 2024, national non-farm payrolls were 4.2% ahead of the pre-pandemic February 2020 level. Only four states still had net job losses in June, compared to February 2020, including the tourism-associated economy of Hawaii, as well as Louisiana, Maryland and Vermont. The states with faster population growth leading into the pandemic have experienced a stronger recovery, including Idaho, Utah and Nevada.

Few Tax Policy Actions

While fewer states have adopted major new tax policy actions in the 2025 budget cycle, some, including Iowa and Idaho, have adopted additional cuts. Others continue to phase in enacted multiyear reductions or could see further cuts if certain revenue triggers are met. West Virginia recently announced that personal income taxes will be cut another 4% after meeting a trigger adopted in 2023. Mississippi notes the continued implementation of its transition to a flat tax from a progressive income tax structure. States that have made large tax cuts and/or may implement additional cuts cite large balances or the potential economic stimulus of lower tax rates, but also may be more vulnerable to credit pressure if lower revenue growth or revenue declines weaken financial resilience.

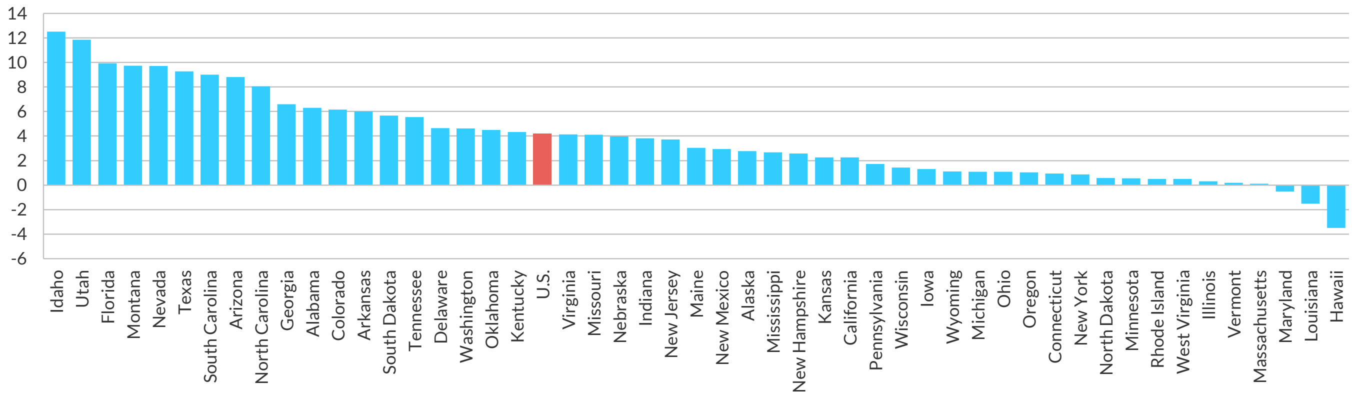
A few states are implementing revenue increases, generally to close budget gaps. California is temporarily adjusting certain business tax provisions and raising its managed care organization tax. Illinois similarly is changing business tax provisions and increasing the tax on sports betting. New Jersey is implementing a new temporary fee on corporations, with receipts dedicated to transit.

States Adjust Spending to Slower Growth

In this lower growth environment, states are moderating spending expectations, following higher levels of growth in pandemic-era budgets that were driven in part by federal stimulus spending and the temporary surge in state revenues. There are pockets of spending pressure, including rising Medicaid costs, in part influenced by the end of enhanced FMAP, continued efforts to recruit and retain state and public education employees, and the overall effect of inflation, although that is moderating.

States continue to support K-12 education, with fully funded education funding formulas, higher per-pupil funding, contributions to capital projects and support for increased teacher pay. Several states continue to shift education funding to private schools, often from public schools, through vouchers or "school choice" programs. The scope and cost of these programs continue to increase, with several states expanding the programs to include all students, rather than using a need-based approach for low-income households or students with disabilities.

U.S. States Job Growth
(% Difference from February 2020, through July 2024)



Source: Fitch Ratings

Alabama, for example, enacted a policy of universal or near-universal choice, to be phased in over several years. The costs for these programs are generally borne by states for new students or students previously enrolled in private schools or home-schooled. However, in many states enacting or expanding choice programs, local school districts are bearing costs for public school students moving to private schools, as the funding follows the student.

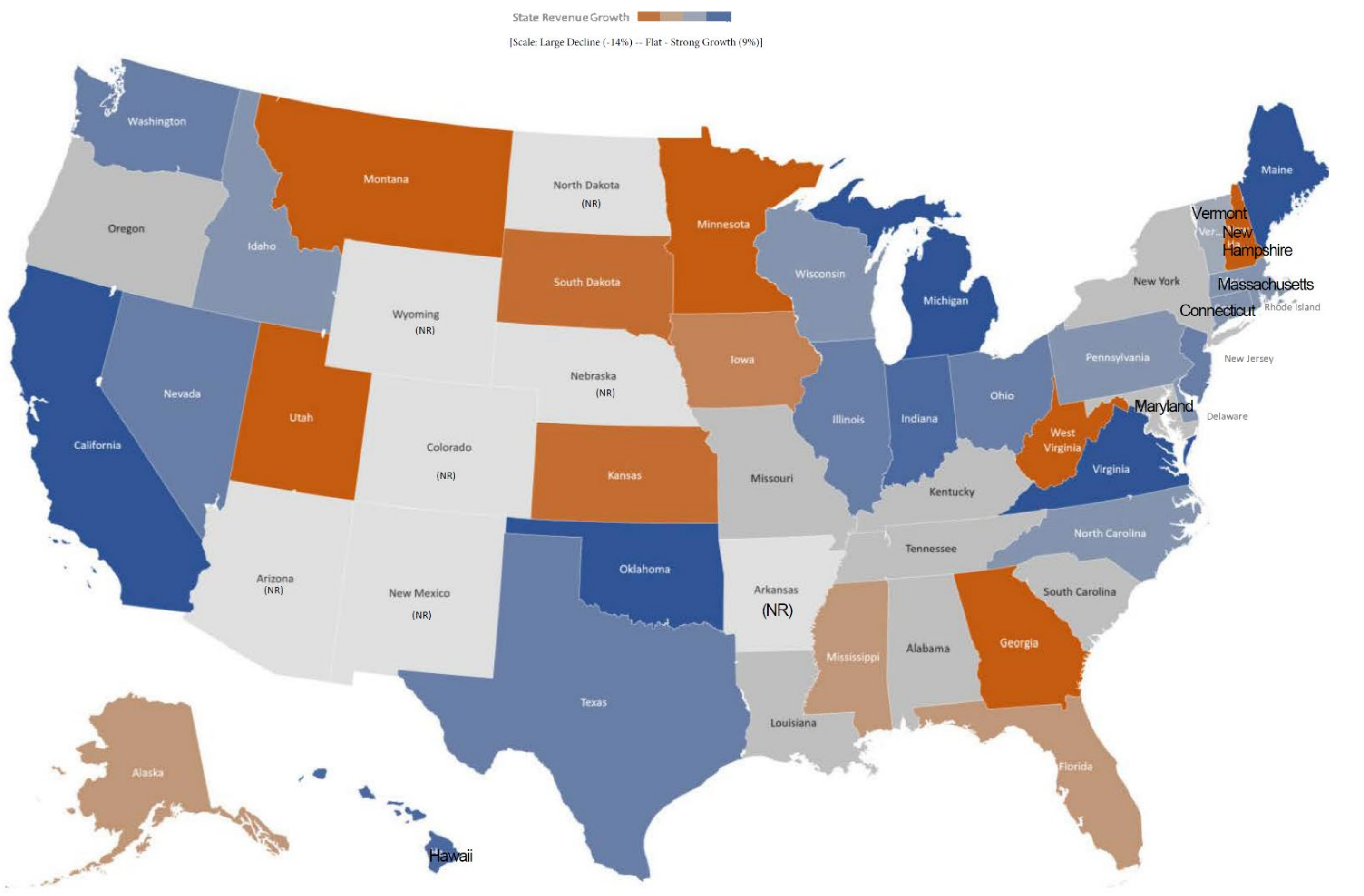
Other high-priority initiatives include addressing homelessness and housing affordability, with several states including Massachusetts, New York, Utah, Vermont and Oregon each investing in programs. States are also allocating resources for natural disaster response and preparedness, such as wildfire recovery in California and Hawaii, flood damage response in Vermont and the addition of funds for emergency preparedness in Florida.

Having previously allocated surplus funds to one-time spending, such spending is reduced in the fiscal 2025 budgets, leading to overall less spending in some states in fiscal 2025. One notable exception is New York, which is allocating $2.6 billion in one-time funds to address issues related to migration and asylum seekers.

States Retain Fiscal Resilience

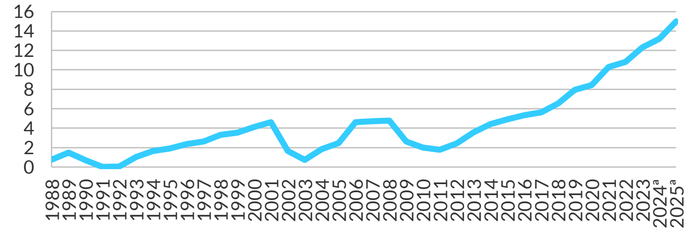
States continue to focus on maintaining fiscal resilience in fiscal 2025. Over the past few years, states have spent cash balances on one-time items, added to and created new reserves, and paid down liabilities. In fiscal 2025, dedicated operating reserves remain robust and some states have rainy-day funds (RDFs, part of dedicated operating reserves) that have reached statutory maximums and other caps. A few states are withdrawing funds from very robust reserves, typically for one-time spending including for infrastructure. California and Maryland are pulling from their RDFs to help with budget balancing.

Median State Revenue Growth of 1% in Fiscal 2025 Budgets Compared to Fiscal 2024 Estimates



1. Fiscal 2024 revenues generally include revenues as estimated by the state at some point during fiscal 2024, or earlier. Many states ended fiscal 2024 with higher revenues than the estimate used to create the budget for fiscal 2025.
2. NR - Not rated by Fitch Ratings and no revenue information displayed.

State Median Rainy-Day Fund Balance
(% of expenditures)



Note: Figures for fiscal 2024 are estimated; figures for fiscal 2025 are projected based on governors' recommended budgets. Figures for fiscal 2024 exclude Georgia, and figures for fiscal 2025 exclude Georgia, Mississippi, Virginia 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

Unemployment Trust Fund Loans Stabilized

States have made substantial progress eliminating borrowing from the Federal Unemployment Account (FUA), which was used to satisfy unemployment claims during the deep economic dislocation caused by the pandemic. The sudden exponential rise in unemployment claims led to a rapid depletion of states' unemployment insurance (UI) trust fund (UTF) balances, leading to the need for many to borrow from the FUA.

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 to refinance borrowing from the federal government are 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 July 26, 2024, totaling $25.6 billion, down from $53.3 billion (six states and the USVI) as of July 29, 2022 but up slightly from Aug. 1, 2023. These loans had been reduced virtually to zero prior to the pandemic after peaking at over $40 billion during the Global Financial Crisis.

Several states used federal pandemic aid to pay down loans, rebuild their own UI trust funds and avoid raising taxes on employers. Several states considered issuing bonds to repay the 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 July 26, 2024)

State	Outstanding Loan Amount ($)
California	19,436,400,148
Connecticut	37,478,541
New York	6,072,776,426
U.S. Virgin Islands	80,111,493

Source: Fitch Ratings, U.S. Department of Labor

Analysis of Enacted Budgets for States with Fitch IDR

Alabama

Alabama's revenue performance (fiscal year end 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 2024 budget assumed general fund revenues would decline after extraordinary revenue performance in fiscal 2023, revenues are up 9% yoy as of June, led by exceptional interest earnings on state deposits and growth in online sales and use tax revenues (up 15% yoy). Revenue performance in the ETF, which relies primarily on the state income tax, has thus far met the forecast of minimal yoy growth after strong growth in fiscal 2023.

The enacted fiscal 2025 budgets for both the ETF and the general fund anticipate revenue growth returning to a more normal, slower trajectory. The general fund budget, at just under $3.4 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 general fund budget also prioritized one-time capital expenditures, with the state Legislature also providing a supplemental appropriation to address escalating costs of construction due to higher inflation, including for the two large prisons under construction.

The record-high $9.3 billion fiscal 2025 ETF budget provides increases for both higher and K-12 education, including 2% pay raises for teachers and other school staff, and continuing incentives for math and science education. The state passed a $651 million supplemental spending bill for fiscal 2024 that taps accumulated excess revenue collections to fund a $50 million allocation to charter schools and additional allocations to K-12 and higher education for one-time expenses, including for construction.

Strong post-pandemic revenue performance has allowed the state to fund budget reserves separate from and in addition to the fully funded RDFs, which in Alabama takes the form of access to borrowing from the $3.5 billion ATF (assets as of March 31, 2024). The general fund reserve balance totals $150 million, 4.9% of fiscal 2025 revenues, and the general fund can borrow up to $326 million from the ATF.

The ETF budget stabilization balance totals $710.3 million, 7.0% of fiscal 2025 ETF revenues, and the ETF can borrow up to $726 million from the ATF. This is in addition to a $767 million educational opportunities reserve fund established in the fiscal 2023 supplemental and a $1.75 billion Education Trust Fund Advancement and Technology fund. The state is appropriating $1 billion from the ETF technology fund to pay for one-time expenses related to construction and technology.

Alaska

Budgetary revenue in Alaska, unique among the states, is tied closely to revenue from its large and cyclical petroleum sector on the Alaska North Slope (ANS) and to investment revenue drawn from realized earnings of the $80.3 billion Alaska Permanent Fund (APF). Following a sharp oil price spike in fiscal 2022 tied to global geopolitical uncertainty, state unrestricted general fund (UGF) revenue is forecast to continue trending downward. The spring 2024 revenue forecast anticipates fiscal 2024 UGF revenue of $6.5

billion, down 7.2% from fiscal 2023, with fiscal 2025 UGF revenues of $6.4 billion, down another 1.5%.

Unrestricted petroleum revenue is forecast to drop 22% in fiscal 2024, to $2.4 billion from $3.1 billion in fiscal 2023, and another 9.7% in fiscal 2025, to $2.2 billion. Petroleum revenue trends reflect an ANS price per barrel at $84.08 in fiscal 2024, down from $86.63 in fiscal 2023; it drops to $78 per barrel in fiscal 2025.

Beyond oil, the APF is continuing to support state spending under the 2018 law that established the percentage of market value (POMV) mechanism for accessing realized investment earnings. Following a POMV draw of $3.5 billion in fiscal 2024, which constituted 53% of UGF revenue, the enacted budget anticipates a $3.7 billion POMV draw in fiscal 2025, or 56% of forecast UGF revenue.

The annual permanent fund dividend covered by the draw is estimated at $1,718 per person in fiscal 2025, including about $296 in energy relief payments per person, up from $1,304 in fiscal 2024. Net of the dividend, more than $2.7 billion of the POMV will be used to support fiscal 2025 UGF spending needs, just above the $2.6 billion available for UGF needs in fiscal 2024. UGF expenditures are budgeted in fiscal 2025 at $5.4 billion, following the governor's vetoes, 4% below fiscal 2024 spending including supplementals. Elementary and secondary education, the largest line item, rises 2.8% in fiscal 2025, to just over $1.4 billion, while health, which includes Medicaid, falls 1.8%, to $994 million.

As of the fiscal 2025 enacted budget, the state assumes a small UGF surplus of $128 million in fiscal 2024, rising to $173 million in fiscal 2025. The constitutional budget reserve, a separate reserve funded by oil revenues and investment earnings, ended fiscal 2024 with an asset balance of $2.7 billion, equal to 41% of UGF revenue, and is forecast to remain near that level in fiscal 2025, given deposits of any surpluses, oil and gas dispute resolution proceeds and investment revenue. The earnings reserve balance from which annual POMV draws derive is estimated at $9.7 billion in fiscal 2024, net of the POMV draw, almost 1.5x UGF revenue. The Alaska Permanent Fund Corporation forecasts the balance will rise to $9.9 billion at the end of fiscal 2025, almost 1.6x the forecast UGF revenue.

California

California's enacted budget for fiscal 2025 addresses the revenue gap that emerged in fiscal 2024, although further actions will be needed in the outyears to achieve structural balance. California's rollercoaster revenue performance during and immediately after the pandemic complicated budget planning and required the state to take balancing actions more typically seen in economic downturns. Revenue volatility was exacerbated, and budgeting made more difficult, by revenue collection delays related to the extension of the income tax filing deadline to Nov. 15, 2023, well after the adoption of the fiscal 2024 budget. Despite falling below the original budget forecast, fiscal 2024 revenues forecast as of the fiscal 2025 enacted budget are expected to increase 6.5% yoy to an estimated $190.3 billion, nearly 33% above the pre-pandemic level, representing a rapid CAGR of 5.8% over five years. The initial year-end reports indicate revenues outperformed this estimate by at least $3 billion.

To move the budget toward structural balance, California is raising revenues, cutting expenditures, drawing on reserves and implementing one-time measures. The budget implements two revenue enhancements: a temporary suspension of net operating loss provisions and limit on business tax credits, expected to generate $5.95 billion in fiscal 2025, and an increase in the managed care organization (MCO) tax, expected to generate $5.1 billion. With this additional revenue, fiscal 2025 revenues prior to transfers are forecast to rise 8.9% to $207.2 billion.

Ongoing spending is reduced by approximately $16 billion, including 7.95% cuts to most state agencies and the elimination of funding for empty positions, and approximately $6 billion of spending is shifted from the general fund to other funds. These shifts can be repeated in future years. Additional savings are achieved through suspension of the Proposition 98 school funding minimum guarantee in 2023-2024, which lowers the state's immediate obligation but creates a future repayment obligation.

The budget defers $1.6 billion in general fund spending by shifting one pay period from fiscal 2025 to fiscal 2026 and delays $524 million in payments to state university systems. Additionally, it applies $1.3 billion of Proposition 2 debt repayment funding to reduce the overall pension liability and required employer contributions in fiscal 2025. Some of these gap-closing measures will require additional decision-making in future years to achieve structural balance.

Having fully drawn the Proposition 98 Public School System Stabilization Account ($8.4 billion) to close the fiscal 2024 gap, the fiscal 2025 budget taps the RDF ($5.1 billion) and anticipates a further draw of $7.1 billion in fiscal 2026. California's remaining reserves ($22 billion, 10.7% of projected fiscal 2025 revenues) still support strong gap-closing capacity.

Connecticut

Projected total fiscal 2024 revenues of $22.5 billion are down 1.3% from unaudited fiscal YE23 revenues, in line with budgeted expectations. Fiscal 2025 revenues are budgeted to increase 2.5% yoy to $23.1 billion. Fiscal 2024 expenditures are expected to grow 0.1% to $22.1 billion, with 3.2% yoy growth 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 savings from an anticipated wave of state employee retirements.

Although the budget is balanced through the biennium, cumulative effects of multiple rounds of tax reductions passed in the 2022 and 2023 legislative sessions are likely to increase budgetary expense pressures in later 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. No new tax policy changes were passed in the 2024 session.

These cuts are largely to personal income tax (PIT) rates ($167 million in fiscal 2024, increasing to $418 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 expects that the state will employ its various budgetary management policies to handle accumulating out-year tax reductions while maintaining financial balance and preserving the BRF at statutory maximum levels.

Additionally, Connecticut employs a volatility cap that provides the state some insulation from fluctuations to non-withholding PIT and pass-through entity tax receipts above a threshold to the BRF. Together, the revenue and volatility caps can temper the state's ability to commit to new programs from revenue spikes.

Delaware

Delaware's revenues continue to outperform estimates, with frequent upward revenue revisions post-pandemic. The fiscal 2024 budget assumed revenues would decline on a yoy basis to $6.0 billion. Revenues are outperforming the forecast and were revised upward in June 2024 by the Delaware Economic and Financial Advisory Council (DEFAC) to $6.4 billion, a 1.2% yoy increase.

The enacted budget for fiscal 2025 is largely in line with the governor's proposed budget and suggests relative fiscal stability for the state. Revenue is anticipated to grow a modest 1.3% as compared to the June estimate for fiscal 2024, to $6.45 billion. The budget appropriates 98% of anticipated revenues, allows growth targeted to the DEFAC benchmark, and maintains two reserves — a fully funded rainy-day fund (RDF) at 5% of estimated revenues ($341.3 million) and a separate budget stabilization account (BSA) at $410 million. These reserves combined provide a cushion of 11.7% of fiscal 2025 estimated revenues.

The $6.1 billion general fund budget funds employee raises, particularly for new teachers, covers healthcare cost inflation, and continues investments in infrastructure, climate change response and economic development. After sizable pay raises incorporated in the fiscal 2024 budget, the fiscal 2025 budget includes a more modest 2% increase for most state employees. The budget increased ongoing spending by $94 million for Medicaid and provided $39 million for school enrollment growth.

The Legislature also passed a $168 million supplemental appropriation bill for fiscal 2024, to fund a $51 million COLA for state retirees, $56 million for retiree health costs, and technology investments and other one-time appropriations.

Florida

After the governor vetoed $950 million in spending, Florida's overall budget for fiscal 2025 totals $116.5 billion, slightly below the adopted 2024 budget. On a general-fund basis, fiscal 2025 appropriations of $48.6 billion, net of vetoes, are 5.5% higher than in the year prior. Vetoed items included $593 million of nonrecurring general fund spending approved by the Legislature.

At the January 2024 Revenue Estimating Conference, the state forecast a slight 0.2% decline in net general revenues in fiscal 2024, followed by a 1.6% increase in 2025, prior to budget actions. However, through May, actual net general fund revenues for fiscal 2024 were 2.3% higher than in the prior year, exceeding the January estimate by $1.1 billion.

Total state and local funds for K-12 education will grow to $28.4 billion in fiscal 2025, an increase of 6.7% yoy, reflecting a 2.8% increase in per-student funding and a 3.9% projected increase in enrollment. K-12 education funding in 2025 includes $2.8 billion for Family Empowerment Scholarships for nearly 316,000 private and home-schooled students, up from about $2.1 billion for 217,000 vouchers in 2024. The additional funding for vouchers is offset by reductions in school aid to public school districts, but to the extent that vouchers are used by children that would not have otherwise attended public school, additional costs will accrue to the state.

Additional items in the fiscal 2025 budget include a 3% raise for state employees, $245 million to further reduce outstanding state debt, and $1.1 billion in mostly one-time tax relief, including various sales tax holidays and a one-year exemption for residential property insurance taxes. The state also used surplus funds from fiscal 2024 to extend $450 million in toll relief for frequent commuters for an additional year and to provide an additional $370 million for the Moving Florida Forward traffic congestion relief plan. The fiscal 2025 budget also transfers $500 million to the Emergency Preparedness and Response Fund and $300 million to the Budget Stabilization Fund, increasing the fund to $4.4 billion, or about 9.3% of projected general revenue.

Georgia

Georgia ended fiscal 2024 with a sizable revenue surplus, despite collections falling yoy as tax cuts took effect. Fiscal 2024 preliminary general fund net tax revenues (only those collected by the Department of Revenue) were $32.2 billion, down less than 1% yoy. However, adjusting for the suspension of motor fuel taxes through more than half of fiscal 2023, the decline was more than 3%. Importantly, this was still more than $2 billion ahead of the enacted budget estimate for fiscal 2024. The yoy decline partially reflects income tax cuts initially enacted in 2022 and then enhanced in the 2024 legislative session. Flat sales and use tax revenues after several years of robust growth reflected the continuing consumer shift away from goods and toward services, as well as some economic slowing. Interest earnings were an important driver of performance ahead of the budget forecast. Amended fiscal 2024 budgeted interest, fees and sales totaled $3.3 billion, versus $2.2 billion budgeted and $3 billion in fiscal 2023. For fiscal 2025, the state's enacted budget conservatively anticipates modest state general funds revenue growth of 1.6%. The budget anticipates declines in the individual and corporate income tax and sales and use tax, while the motor fuel tax is up, reflecting a full year of collections after being suspended for the first 2.5 months of fiscal 2024. Interest, fees and sales revenue is lower yoy, down to $2.8 billion, as the state projects lower interest earnings.

The state's dedicated operating reserve, the Revenue Shortfall Reserve (RSR), has been fully funded at 15% of net revenues of the prior year since the fiscal year-end (FYE) 2021. At FYE 2023, the RSR totaled $5.4 billion, with an additional nearly $11 billion in unreserved, undesignated surplus. The state ended fiscal 2024 with a fully funded RSR and anticipates the same for fiscal 2025. As noted earlier, Fitch anticipates a meaningful unreserved, undesignated surplus once fiscal 2024 results are finalized. The conservative forecast for fiscal 2024 suggests the state may be in line for an additional revenue surplus in fiscal 2025.

Fiscal 2024 legislative session fiscal actions reflected the strength of recent revenue surpluses with significant allocations of one-time resources to one-time needs, and modest growth in the fiscal 2025 enacted budget. In its fiscal 2024 midyear amendments, the state appropriated $2 billion in surplus funds toward economic development and infrastructure, and deposited $500 million into the state employee pension system as a supplemental contribution. For fiscal 2025, the state reports structural balance with recurring needs met with recurring revenues and general spending growth of $3.7 billion, or between 11% and 12% with significant allocations toward one-time items. The budget includes cost-of-living salary increases for both state employees ($262 million) and pre-K to 12 educators ($427 million), continuing a multiyear trend as Georgia looks to improve recruitment and retention. For healthcare, the budget includes $322 million for rate increases for Medicaid and behavioral health providers. The state also appropriated nearly $900 million for capital projects, fully cash funding its capital needs for the year.

Hawaii

Monthly tax collections indicate solid yoy growth, which has been important in allowing the state to absorb unanticipated expenses associated with the Maui wildfire in August 2023. For fiscal 2024, the state's department of taxation reports general fund tax revenues were 4% ahead of the prior fiscal year. Tourism activity slowed, partially due to the wildfire, with visitor arrivals and spending down between 4% and 5%. The general excise tax and the transient accommodation tax, both linked to tourism, reflected this weakness (0.9% growth and a 5.2% decline, respectively). Individual income tax (IIT) was up sharply (5.8%) led by withholding growth (8.2%). For fiscal 2025, the state's council on revenues (COR, its official forecasting body) estimates strong 4.8% growth, which Fitch considers aggressive. The COR anticipates wildfire recovery, including federal assistance, will stimulate economic activity.

Hawaii has successfully built up its reserves, with a series of one-time deposits including one for $500 million in fiscal 2024, bringing total dedicated operating reserves to $1.7 billion, or 16% of general fund revenues, an all-time high. Separately, the general fund ending balance is down considerably from historical highs, as the state draws on it to cover various one-time spending items.

While the state enacted its biennial budget last year, the spring 2024 legislative session included a number of fiscal bills. Most significantly, Hawaii enacted a sweeping tax cut package that significantly reduces the IIT over several years from tax year 2024 to 2031. A Department of Taxation analysis indicate a rapid ramp-up in revenue effects ($240.3 million in 2025, $922.7 million by 2028 and $1.4 billion by 2032). The administration's analysis indicates the tax savings accrue most significantly toward lower income earners, or ALICE households (asset-limited, income-constrained, employed). Additionally, the state enacted $362 million in supplemental appropriations to cover Maui wildfire costs. The governor vetoed approximately $550 million in additional spending including supplemental contributions toward the RDF and pensions. With the vetoes, the budget is on track for a roughly $300 million ending general fund balance.

Idaho

Idaho authorized $5.3 billion in general fund appropriations for fiscal 2025, an increase of 1.7% from fiscal 2024. The modest increase in 2025 follows a more substantial 10.9% increase in the fiscal 2024 budget. After a large increase last year, general fund appropriations for K-12 public school support fell 1.7%, reflecting healthcare insurance savings and a small decline in enrollment.

After rising to $6.2 billion in fiscal 2022, general fund revenues in Idaho fell 4.0% to $5.95 billion in 2023 and are forecast to decrease another 5.1% in 2024. The revenue declines, in part, reflect multiple rounds of recurring income tax cuts and recurring sales tax distributions. Legislation passed during the 2024 session further reduced the individual and corporate income tax rate to 5.695% at an annual cost of about $60 million. Despite the recurring tax cuts and sales tax distributions, recurring general fund spending remains well below projected revenues in fiscal 2024 and 2025.

In recent years, Idaho has significantly increased K-12 operating support and, more recently, capital support, primarily by dedicating sales tax distributions, which lowers general fund revenue. The adopted 2025 budget expands upon a school district facility and property tax relief program enacted last year that will be funded with a dedicated allocation equal to 5.5% of sales tax revenue, augmented by surplus funds at the end of the fiscal year and about $50 million per year in lottery funds. The adopted 2025 budget also approved $125 million per year in sales tax distributions to a newly created School Modernization Facilities Fund.

The state has also used recent surplus funds for one-time allocations to infrastructure investment, deferred maintenance and debt defeasance. Nonrecurring spending actions totaled $2.2 billion in fiscal 2023, $746 million in fiscal 2024 and $580 million in the adopted 2025 budget. At FYE 2023, the state's general fund balance remained historically high at about $496 million, but down significantly from $1.4 billion at the start of fiscal 2023. One-time spending contained in the fiscal 2024 and 2025 budgets is projected to further lower the general fund balance, to below $200 million, at FYE 2025.

The state has also built up reserves, including a $32 million transfer to the budget stabilization fund in the 2024 budget, which will raise the fund to $880 million. Including an approved $32 million transfer to the public education stabilization fund, total reserve funds are expected to rise to more than $1.1 billion at FYE 2024, or about 20% of projected 2024 general fund revenues.

Illinois

Illinois' general funds tax revenue collections for fiscal 2024 (ended June 30) were up slightly yoy to $45.3 billion, less than 2% over the original enacted budget estimate, as reported by the Governor's Office of Management and Budget (GOMB). Of the largest tax revenues, the personal income tax (PIT) was up a strong nearly 8% yoy, in line with the enacted budget estimate. The sales and use tax (SUT) was essentially flat yoy and also largely in line with the enacted budget. Non-tax revenues, particularly interest income, were up sharply yoy by approximately $250 million. For fiscal 2025, the state's enacted budget anticipates yoy growth of just over 3% to $46.7 billion in state taxes, with the key taxes (PIT and SUT) both projected for solid gains of more than 3% and 4%, respectively. Fitch considers the sales tax estimate as slightly aggressive given the more modest gains observed in the past two fiscal years.

The state's reserves continue to hit all-time highs, reaching just over $2.1 billion as of July 2024, with another $198 million anticipated in fiscal 2025 from several dedicated revenue streams. Based on the enacted budget, at the end of fiscal 2025, the BSF balance would be vastly improved from pre-pandemic levels, but still relatively modest compared to most other states at between 4% and 5% of projected general funds revenues.

This spring, the Legislature adopted a supplemental fiscal 2024 budget, reflecting some midyear spending pressure. Spending needs included healthcare costs (including Medicaid and state employee healthcare benefits) and asylum-seeker expenses. The fiscal 2025 budget continues prior-year spending increases in several key areas, including $350 million more for K-12 evidence-based funding aid and $629 million for a state-funded immigrant healthcare program ($440 million from general funds), as well as $182 million for the joint response to the influx of migrants to Chicago, alongside investments from the city and Cook County. The budget includes a 4% cost of living allowance increase for general state employees, and an increase for legislators and constitutional officers as well. The budget also includes $750 million in revenue increases, rather than significant spending cuts, as the state faced its first initial budget deficit since the pandemic's onset. A change in the corporate income tax, increasing the cap on allowable losses to $500,000, comprises $526 million of the new revenue. An increase in taxes on sports betting raises another $200 million.

Indiana

Indiana ended fiscal 2024 (June 30) with general fund revenue collections up modestly yoy to $21.5 billion, largely aligned with the state's December 2023 revenue forecast. Growth yoy in individual income tax revenues (IIT; $520 million), offset declines in SUT ($95 million) and CIT revenues ($266 million). For fiscal 2025, the state's December 2023 forecast estimates revenues will rebound with nearly 4% yoy growth, which Fitch considers somewhat aggressive. SUT and IIT rise moderately, while CIT spikes nearly 25% in the fiscal 2025 forecast. Interest income also declines sharply to $407 million in 2025 from $572 million. This is still more than 10x fiscal 2022 interest income.

The state's reserve position remains strong. Both total reserves and dedicated operating reserves declined in fiscal 2024, given continued use of general fund balance for one-time spending and a draw on the Medicaid reserve. In its fiscal 2024 close-out report, the state budget agency (SBA) projects dedicated operating reserves (Medicaid reserve, tuition reserve and rainy day fund (RDF) decreased slightly to $1.9 billion, still a solid nearly 9% of general fund revenues. SBA drew down $271.2 million to address a shortfall in Medicaid funding, which the state attributed to a forecasting miss in the original biennial budget. SBA reports revising its Medicaid forecasting process to minimize future shortfalls.

The state enacted its biennial budget in 2023, and the 2024 legislative session made only very modest changes, reducing general fund spending by $7.5 million in fiscal 2024 and increasing fiscal 2025 spending $13.7 million, according to the SBA's post-session report. As noted above, the most significant fiscal move this year was the use of Medicaid reserve funds. Fitch anticipates the state will consider additional operational changes to Medicaid in its next biennial budget cycle.

Iowa

Iowa adopted a $8.9 billion general fund budget for fiscal 2025, a 4.2% increase from the revised fiscal 2024 budget. Spending growth includes a 2.5% increase in per-pupil school aid and additional funding to increase the minimum starting teacher salary to $47,500 in school year 2025 and to $50,000 in 2026.

As of March 2024, Iowa's revenue estimating conference (REC) estimated a 0.7% increase in net general fund revenues to $9.7 billion in fiscal 2025, prior to legislative actions in the 2024 session. The governor proposed accelerating and deepening previously scheduled tax cuts by implementing a retroactive income tax cut from 5.7% to 3.65% in 2024 and to 3.5% in 2025. Instead, the state Legislature adopted a flat 3.8% income tax rate beginning in tax year 2025 and rates for 2024 were unchanged. Under legislation from 2022, a flat rate of 3.9% had been scheduled to take effect in 2026. The adopted cut will cost a projected $328 million in fiscal 2025, $605 million in 2026 and about $100 million in future years, on top of previously adopted reductions.

Despite the income tax cuts, revenues are projected to exceed general fund expenditures by about $450 million in fiscal 2025. Combined with surplus funds from prior years, Iowa expects to end fiscal 2025 with a $2.4 billion general fund ending balance. The fiscal 2025 budget keeps Iowa's statutory reserve funds, the Cash Reserve Fund and the Economic Emergency Fund, at their statutorily mandated cap of $930 million for fiscal 2025, equal to a combined 10% of net general fund revenues.

After the reserve funds reach their limits, excess revenues flow into the state's Taxpayer Relief Fund, which is projected to remain at close to $3.7 billion at FYE 2024 and FYE 2025. As part of the most recent tax cuts, the Legislature modified the statute governing use of the Taxpayer Relief Fund. Under the new change, for fiscal years 2025 to 2029, if actual net revenues for the general fund are less than net general fund appropriations, 50% of the difference will be transferred from the Taxpayer Relief Fund to the general fund, providing temporary budget relief.

Kansas

Kansas' all-funds fiscal 2025 budget is sized at $25.4 billion, including state general fund (SGF) spending of $10.6 billion. The SGF portion includes a notable $613.3 million (6.2%) rise in spending from $9.97 billion — including supplementals — in fiscal 2024; however, the all-funds budget represents only a $40 million (0.2%) increase compared to the year prior.

Total appropriations are $1.1 billion below those included in the executive budget proposal due to the Legislature's decision not to pursue Medicaid expansion (estimated first-year cost of $715 million) and its appropriation of only $24.7 million for debt reduction versus the $498 million proposed by the governor. A separate proposal for $377 million to construct a new state prison was also nixed.

The fiscal 2025 budget factors in expectations for modest growth in collections in line with prior-year levels, given GDP growth forecasts in the 1.9% to 2.1% range. Per Kansas' May 2024 consensus revenue estimate, SGF tax revenues were projected to increase by $135 million (1.3%) over fiscal 2024 revised. Total SGF receipts were estimated to expand by $220 million (2.2%) to $10.4 billion from $10.2 billion.

As a result, most spending increases are modest, with SGF health and human services outlays increasing by $52.7 million (1.8%) yoy and public safety up by $28.6 million (4.5%), while higher education expenditures grow more significantly by $110.5 million (9.2%) yoy. K-12 education is the big winner with SGF appropriations expanding by $334.7 million (7.3%) yoy. However, in the all-funds, higher education spending is up by only $37.7 million (3.1%), while overall K-12 spending declines by $178.8 million (down 2.6%) due to the expiration of pandemic-era federal stimulus.

Following formal budget adoption on April 24, the Legislature met in a special session in June to implement a set of tax cuts that had been vetoed on three prior occasions. The governor and Legislature agreed to a compromise package on June 20 that shifts Kansas to a two-bracket PIT system at 5.2% and 5.58% from the prior three brackets, exempts social security income, raises the standard deduction, and creates a new child and dependent care tax credit.

Related revenue losses will approximate $541 million in fiscal 2025 and roughly $420 million per year in the four succeeding years. The cuts open up a $793 million structural imbalance in the fiscal 2025 budget, as they will reduce SGF receipts to $9.79 billion versus $10.6 billion of appropriations.

Fitch believes Kansas has ample resources to draw on to cover its spending plan, given an accumulated SGF balance of $1.8 billion, plus a separate RDF balance also equaling $1.8 billion (17.9% of revenue). However, the magnitude of the enacted cuts will likely necessitate a shift in spending priorities next year for Kansas to achieve a structurally balanced fiscal 2026 budget. The shift is likely to include major cuts to one-time items and less generous education spending increases than what the state afforded in fiscal years 2023 through 2025.

Kentucky

Kentucky's adopted fiscal 2025-2026 biennial budget assumes general fund revenues, not including tax changes and fund transfers, will be essentially flat at $15.55 billion in fiscal 2025 due to a slowing U.S. economy and an IIT rate cut effective Jan. 1, 2024, that reduced Kentucky's flat IIT to 4.0% from 4.5%. IIT receipts will decline by an estimated $232 million (4%) in year one as a result. Sales taxes are forecast to expand by $253 million (4.4%).

The budget assumes fiscal 2026 revenues will expand by $453 million (2.9%) yoy as general fund revenues rise to $16 billion, supported by stronger GDP growth. The Legislature did not enact a further IIT rate cut for Jan. 1, 2025, as statutory revenue triggers were not met. Kentucky's consensus revenue forecasting group anticipates steady growth in business taxes, the property tax and other revenues.

The general fund portion includes $31.8 billion of biennial spending versus $31.85 billion of recurring revenues, making it structurally balanced. Fiscal 2025 spending will expand by $1.6 billion (11.2%) from fiscal 2024 supplemental levels due to higher Medicaid program spending. Overall spending then rises by $758 million (4.7%) in fiscal 2026 due to recurring increases, mainly for salaries. The adopted increases were less than those in the executive budget, given the elimination of proposed universal pre-K and larger teacher salary increases. Recurring spending in the previous biennium was well below recurring revenues, providing room for spending to catch up with revenues.

School and state employees will receive a 3% salary increase in each year. K-12 education funding expands by $688 million (7.7%) over the biennium. Base per-pupil formula funding will expand to $4,326 (3%) in fiscal 2025 and $4,586 (6%) in fiscal 2026. K-12 increases are weighted toward teacher salaries, capital maintenance and Teachers' Retirement System employer contribution matches. The budget raises higher education funding by $293 million (10.4%), most of it focused on capital projects.

The largest expenditure increases are for Kentucky's Medicaid program. Biennial general fund Medicaid spending is set to rise by $1.14 billion, or 25.5%, primarily due to expiration of the enhanced federal share for Medicaid during the pandemic, and to keep up with inflationary service cost increases. The budget includes full actuarially determined contributions (ADCs) for state pension plans plus a $730 million supplemental payment, $600 million of which goes to the KERS Non-hazardous Plan.

The Kentucky House and Senate included $3.1 billion of draws on the state's budget reserve trust fund (BRTF) — the commonwealth's RDF — to finance one-time spending. Major one-time items include $450 million for state highways, $450 million for economic development, $300 million for portions of the I-69 Crossover Bridge and Mountain Parkway, and the supplemental pension payments. Nearly $2.9 billion of fresh deposits to the BRTF are also included, which will partially replenish the aforementioned draws and result in an estimated ending BRTF balance of $3.5 billion, equal to 22% of forecast fiscal 2026 revenues.

Louisiana

Louisiana's revenue growth slowed in fiscal 2024, but remained ahead of the forecast from the state's Revenue Estimating Conference (REC; its official forecasting body), continuing a multiyear trend. The Department of Revenue (DOR), whose collections represent approximately 70% of state revenues, reports collections of major revenues were up 1% yoy in fiscal 2024 on a cash basis. Gains in IIT and general sales tax offset flat growth in the corporation and franchise income tax, per the DOR cash-based report. For fiscal 2025, the REC's May 2024 estimate (used for the enacted budget) forecasts just under a 1% yoy decline in direct general fund revenues to $12.1 billion versus a conservative fiscal 2024 estimate of $12.2 billion. Fitch considers the forecast reasonable and prudent in its relative conservatism. Importantly, the forecast incorporates an ongoing ramp-up ($326.8 million in fiscal 2025) in the shift of motor vehicle sales tax collections to the transportation trust fund (TTF) from the general fund. The forecast also prudently anticipates a significant decline in interest income in fiscal 2025 to $220 million, after a sharp increase in fiscal 2024 to $380 million.

Reserves have rapidly increased over the past several years, reaching an historical high of $3.2 billion, or approximately 26% of state general fund revenues, by FYE 2023 and an estimated $3.3 billion at FYE 2024. Under constitutional and statutory provisions, the Budget Stabilization Fund received another modest contribution in fiscal 2024. The Legislature redirected $717 million from a separate reserve, the Revenue Stabilization Trust Fund (Revenue Stabilization Fund; or RSF), toward a series of one-time investments including for transportation, criminal justice and higher education. May 2024 REC projections reflect a $718 million deposit into the RSF for fiscal 2024. Fiscal 2024 revenue collections are not yet complete or available. Final revenue collections will include the 45-day accrual period that ended on Aug. 14 and the final pre-audit adjustments that will end around mid-September 2024. The balance in the RSF does not include any deposits for fiscal 2024 or the $718 million transfer for fiscal 2025. Act No. 723 of the 2024 regular session mandates that the RSF balance be at least $2.2 billion through fiscal 2025.

The 2024 legislative session and enacted fiscal 2025 budget incorporated relatively modest recurring expenditure changes, given the REC revenue forecast and looming fiscal cliff posed by the expiration of a 0.45% temporary sales tax surcharge at FYE 2025. The administration estimates the expiration will leave a roughly $500 million budget gap, which Fitch notes is compounded by approximately $300 million in general fund revenue loss from the previously mentioned tax shift to the TTF. General fund spending is down 1.3% in the fiscal 2025 budget to $12.1 billion. The most significant spending increases are one-time in nature, including nearly $200 million for one-time payments to teachers and school support staff, and the $717 million transfer from the revenue stabilization trust fund.

Maine

Maine's approved fiscal 2024-2025 biennial budget totaled $9.89 billion, representing a 9.5% increase in spending from $9.4 billion adopted for the last biennium. Supplemental appropriations enacted through May 2024 result in $10.47 billion of budgeted spending. Much of the increase over fiscal 2022-2023 is driven by the expiration of one-time savings from enhanced federal support for Medicaid and a funding change for Maine's Homestead Exemption program.

Fiscal 2024 spending rose by 14.2% over fiscal 2023 actuals. Fiscal 2025 appropriations will rise 6.2% over fiscal 2024. The budget also includes allocation of prior surpluses to fund $349 million of nonrecurring items, but complies with Maine's statutory cap on annual appropriations. The cap is set at 98% of 2024 general fund revenues forecast at December 2023, adjusted annually by a growth factor.

Maine's Revenue Forecasting Committee's (RFC) December 2023 estimate was for general fund revenues to total $5.2 billion (down 0.5% yoy) and $5.3 billion (up 2.7%) in fiscal years 2024 and 2025, respectively. The governor and Legislature relied on these estimates to shape the budget; the Legislature added $445 million in one-time spending during a special session in July 2023.

Given later upward revisions to revenue growth assumptions, Fitch believes sufficient revenues will be available to support spending. Fiscal 2024 revenues were revised up to $5.35 billion (down 0.9% yoy but 2.5% above the original estimate), and fiscal 2025 revenues are expected to reach $5.31 billion (down 0.5% yoy). The flattening revenue growth trajectory reflects tax cuts in the budget, slower personal income growth, and new and higher general fund transfers out to the Maine Milk Pool and highway fund.

The budget fully funds 55% of K-12 education costs for the second consecutive biennium, maintains two years of free community college, keeps state revenue-sharing with municipalities at 5% of collections and includes $200 million to restore the homestead tax exemption. Fiscal 2024 actual appropriations are estimated at $5.08 billion.

The Legislature had initially proposed over $300 million of new spending in the supplemental budget. The Senate voted in favor of these measures, but the House adjourned on May 10 without voting on the bills. Notably, both chambers advanced a bill to revise Maine's income tax bracket structure from three (5.8%, 6.75% and 7.15%) to six brackets (5.8%, 6.75%, 7.15%, 7.55% and 7.15% for incomes $205K to $500K, and 8.45% for annual incomes above $500K). The governor vetoed the bill, and the Legislature lacked the necessary two-thirds majority for an override.

Maine's Budget Stabilization Fund (BSF) ended fiscal 2024 (June 30, 2024) with a balance of $968 million, equal to 18% of general fund revenues. In fiscal 2025, $60 million will be transferred from the BSF to the Infrastructure Adaptation Fund ($50 million) for regionally significant infrastructure improvements and $10 million to fund recovery and resilience grants.

Maryland

Maryland's fiscal 2025 budget continues to grapple with a post-pandemic slowdown in revenue growth, alongside increased ongoing spending commitments. The budget incorporates a one-time $900 million transfer from the rainy-day fund (RDF) to the Blueprint for Maryland's Future Fund (Blueprint Fund) in fiscal 2024, as well as almost $200 million in new recurring tax revenue decreases as a result of the expansion and extension of the state earned income tax credit and modification of family leave benefits. A new tax on adult cannabis use taking effect in fiscal 2024 is expected to increase general fund revenues by $18 million in its first year.

Maryland's fiscal 2025 budget continues a recent trend of drawdowns in the general fund balance while maintaining the long-run RDF at around 10% of general fund expenditures. The RDF reached a high of $2.9 billion (12.5% of general fund revenues) in fiscal 2023, and the 2025 budget projects RDF balances will stay in the $2.3 billion to $2.6 billion range through fiscal 2029. The fiscal 2029 RDF of $2.6 billion projected in the state's fiscal year outlook would constitute 8.3% of $28.1 billion general fund revenues.

Maryland built up its Revenue Stabilization Account (RSA) and sizable general fund balances during the pandemic, with largely one-time uses for these accumulated balances since the pandemic focused mainly on capital spending, resulting in a net decrease in fund balances to levels that Fitch considers adequate to support Maryland's robust financial resilience. The latest budget projections show unbalanced general fund operations beginning in fiscal 2026, with the state projecting imbalance through the fiscal 2029 projection horizon. Out-year deficits are the norm for Maryland state budgets, although at 13.7% of expected revenue, the gap currently anticipated in fiscal 2029 represents a larger share of general fund revenues than in any out-year projection since the Great Recession. Fitch expects the state to sustainably mitigate these gaps in subsequent budget cycles.

Minnesota

Minnesota has leveraged recent rapid tax revenue growth, and the ample general fund surpluses that this growth facilitated, to engage in $9 billion in large expenditures and tax breaks, a mix of one-time and recurring programs. The use of one-time surpluses and fund balance to support recurring expenses creates potential future budgetary pressure for the state. Fitch anticipates that Minnesota's continuing economic growth and broad authority to control expenditures will support a timely return to budgetary balance. Importantly, dedicated budget reserves (primarily the budgetary reserve and cash flow account) collectively increased at a rapid pace coming out of the pandemic, even as the state spends down ending general fund balances.

As adopted in 2023, the 2024-2025 biennial budget allocates $71.0 billion in expenses against $60.1 billion of net revenues, principally by employing existing surpluses toward $9 billion of one-time expenditures over the biennium, including approximately $1 billion each for a child income tax credit expansion, increased cash funding of the capital program, housing investments and transportation programs. The biennial budget also includes over $6 billion in recurring new costs, comprising over $3 billion for education, $2 billion for health initiatives, $1 billion in ongoing tax policy changes, and other major housing and public safety programs. The Spring 2024 legislative session fell in the middle of the biennium, and made relatively modest changes, appropriating $450 in mostly one-time expenditures, highlighted by $100 million each for the Hennepin v. Tyler legal settlement and for health and human services.

Preliminary fiscal 2024 tax revenues ended at $30.2 billion, 2.9% above fiscal 2023 levels, outperforming an initially budgeted 4.3% decrease. This increase comes as declines in PIT receipts are offset by a slight increase in CITs. The drop in PITs is attributable to the net effects of the $1.1 billion one-time tax credit in fiscal 2024.

The state's sophisticated focus on reserve levels and replenishment demonstrates its ability and willingness to rapidly rebuild financial flexibility at times of economic and revenue growth. Pursuant to state law, revenue overperformance during economic expansions is first applied to fund dedicated budget reserves up to their policy targets, then to reverse any prior payment deferrals. Fitch anticipates that, following significant one-time expenditures drawing on unprecedented surpluses in the current biennial budget, Minnesota will rapidly rebalance its fiscal operations to control the pace of spending growth compared to new revenue growth, allowing it to further augment reserves and cash, and preserve budgetary flexibility for future downcycles.

Massachusetts

Massachusetts' fiscal 2024 tax revenue forecast was revised downward in January 2024, from the $40.4 billion assumed when the budget was enacted to $38.9 billion, excluding surtax revenues. Governor Healey announced $375 million in midyear expenditure reductions and identified $675 million in additional nontax revenues, including from higher-than-projected interest collections and other departmental revenues, to address the shortfall. As of its mid-June report, tax revenues appear to meet the lower forecast at $38.4 billion, a 4.8% yoy increase compared to the mid-June 2023 report.

Massachusetts enacted its fiscal 2025 budget at the end of July, well after the start of the fiscal year, with the Legislature and governor agreeing to a one-month interim budget to enable the state to continue operating while the details of the spending plan are finalized. The fiscal 2025 budget is based on a consensus tax revenue estimate of $40.2 billion that incorporates 3.4% growth in tax revenues relative to the revised fiscal 2024 benchmark, with an additional $1.3 billion available for distribution to transportation and education initiatives from the 4% "Fair Share" surtax on personal income over $1 million. After modest vetoes, the $57.8 billion fiscal 2025 budget increases spending 1.1% and, as in fiscal 2024, dedicates increased spending to education and transportation initiatives.

The budget allocates $761 million of the Fair Share surtax to education initiatives, of which $239 million will go to higher education incorporating $93 million to expand access to free community college to all students. K-12 public education will receive $244 million, including $170 million to make the free school lunch program permanent, and $20 million to expand access to evidence-based reading. The balance of $539 million will be distributed for various transportation initiatives, including $250 million to the commonwealth transportation fund to be used to leverage up to $1 billion in borrowing, $110 million for regional transit grants, and $45 million in supplemental funding for municipal roads and bridges.

In addition to increased funding from the income surtax, other notable items include a 4% increase to $6.86 billion in chapter 70 aid to cities and towns to more fully fund the school funding formula, $545 million to address housing and homelessness with funds for the emergency assistance family shelter program and low-income housing vouchers, $475 million in grants for early education and care providers, and a 3% increase in unrestricted general government aid for local governments.

The stabilization fund, the commonwealth's budget reserve, was close to $9 billion as of FYE 2024, or roughly equal to 23% of tax revenue.

Michigan

After substantial increases to recurring and nonrecurring spending in the two prior budgets, Michigan's $82.6 billion fiscal 2025 all-funds budget represents a shift to a slower pace of recurring spending growth after the volatile patterns that marked the pandemic. Given that most of its accumulated surpluses, federal aid and carryover appropriations were expended on one-time projects in fiscal years 2023 and 2024, Michigan envisions fiscal 2025 as a “reset year” for financial operations.

The all-funds budget is increasing by $850 million (1%) from $81.8 billion in fiscal 2024, including supplementals; however, general fund-general purpose (GF-GP) spending will decline by $359 million (down 2.3%) to $14.9 billion from $15.3 billion, due to the phasing-out of various one-time items. The budget is built on the May consensus revenue estimating committee (CREC) forecast of $14.26 billion in gross GF-GP revenues for fiscal 2025, a $309 million (2.2%) yoy increase from the fiscal 2024 year-end estimate (at Sept. 30, 2024). The $14.9 billion of adopted fiscal 2025 GF-GP appropriations includes $1.2 billion of one-time spending — only half the $2.4 billion included in the fiscal 2024 budget.

More than one-third of GF-GP spending areas are set to decline. A handful of services will see spending increases in fiscal 2025, including health and human services (HHS) caseload spending, which will rise by $241 million (3.7%) yoy. Appropriations for public colleges and universities will rise by $88 million (5.2%), with core aid increasing 2.5% as the state aims to limit tuition hikes.

By contrast, labor and economic development, technology and administration, and education department spending will decline by double digits, largely due to reductions in one-time items. Labor and economic development expenditures, for example, will drop by $498.8 million (38%) to $803 million, which is above pre-pandemic levels but well below last year's $1.3 billion spending peak.

Baseline spending rises by 2.5% on average. K-12 per-pupil foundation aid is unchanged at $9,608 per student, but the state is redirecting $598 million of GF-GP moneys to cover school districts' shares of teacher pension contributions to free up an equal amount of local funds for classroom costs. Revenue sharing with non-school localities will increase by 14%.

By Sept. 30, 2025, GF-GP ending balances will equal $320 million, as most of the $1.6 billion in unencumbered balances estimated for

FYE 2024 will be directed to a combination of recurring and one-time expenditures. Michigan's rainy-day fund (RDF) will hold $2 billion at FYE 2024, equal to 16.4% of revenues. Fiscal 2025's $50 million budgeted deposit will marginally increase this balance. State officials expect GF-GP and state aid fund revenues to expand by 4.4% and 2.3%, respectively, in fiscal 2026, as the effects of a temporary income tax cut in calendar 2023 recede and U.S. GDP is forecast to expand by nearly 2%.

Mississippi

Mississippi's revenues have continued to outperform, with fiscal 2024 revenues estimated to be $183 million (2.4%) over forecast, led by strong sales and use taxes (SUTs), corporate income tax (CIT) and insurance premium tax collections. The personal income tax (PIT) fell short of forecast by $94.9 million (4.1%), as the state continues to implement the incremental replacement of its progressive tax structure with a 4% flat tax on income over $4,000. At the time of its passage, the move to a flat tax was expected to reduce revenues $185 million per year once fully implemented. While the enacted budget for fiscal 2024 assumed a 2.1% decline in revenues to $7.5 billion compared to fiscal 2023 strong revenue collections, revenues increased 2.4% yoy. The revenue forecast for fiscal 2025, at $7.6 billion, represents a 1.4% yoy decline compared to estimated revenues for fiscal 2024.

The Legislature set aside approximately $152 million (2% of expected revenues) as a buffer against revenue volatility and appropriated $7.0 billion for fiscal 2025, a 4.4% yoy increase in spending. The K-12 education budget was increased $217.5 million (8%), boosted by implementation of the state's new education funding formula, and higher education received close to a 5% increase. Corrections also received a sizable 4.7% uptick in funding. The budget funds 2% salary increases, a 5% increase to cover increased healthcare costs and a 0.5% increase ($15 million) for higher retirement contributions to PERS. The PERS increase is the first of five scheduled increments to raise the PERS contribution by 2.5% over five years.

The state enters fiscal 2025 with an estimated $633.4 million in the working cash stabilization reserve (the state's RDF), equal to 8.3% of fiscal 2025 estimated revenues. It also transferred what would have been a significant carryover balance of 765.7 million to the capital expense fund. The budget invests $121.4 million in a variety of capital projects, leaving a substantial $854 million balance in the capital expense fund.

Missouri

Missouri's $51.2 billion adopted fiscal 2025 all-funds budget represents a lower level of spending (3.3% decline) compared to last year's $52.9 billion enacted budget. It assumes very slow (0.2%) growth in general revenues due to the combined effects of a weaker economic expansion in calendar 2025, coupled with a cut to Missouri's top PIT rate — to 4.8% from 4.95% — that went into effect on Jan. 1, 2024. Fiscal 2024 collections finished 1.5% above the prior year with general revenues of $13.43 billion versus $13.23 billion in fiscal 2023, above the 0.7% 2024 growth forecast.

The $15.1 billion general revenue fund (GRF) budget includes $1.3 billion of one-time spending funded with accumulated cash. Fiscal 2025 GRF spending will decline by $599 million (3.8%) from fiscal 2024's $15.7 billion GRF budget; the latter included $2.8 billion of one-time spending.

The fiscal 2025 GRF budget utilizes $276 million of unspent fiscal 2024 capital appropriations and $13.4 million of appropriations carried over from fiscal years 2021 through 2023. The budget reduces overall K-12 education expenditures by $12.9 million (0.3%) and boosts higher education spending by $89.5 million (7.5%), not including $338 million of one-time moneys for capital projects. Public safety spending will increase by $4 million (3.1%) and corrections by $26 million (3%). Missouri's Medicaid managed care program is receiving $336 million of augmented funding to replace enhanced federal support during the pandemic. The budget raises teachers' base starting salaries, increasing them to $40,000 per annum from $25,000 per annum.

Missouri's one-time spending will decline significantly in fiscal 2025, falling 54% to $1.3 billion versus $2.8 billion the year prior. Major nonrecurring spending items in fiscal 2025 include $214 million for improvements to Interstate Route 44, $100 million for rural and low-volume road repairs, and $180 million for three highway upgrades. The budget includes $1.5 billion of both recurring and nonrecurring moneys to finance broadband expansion.

Similar to last year, the fiscal 2025 budget includes pay increases for public employees, amounting to $112.4 million, with state employees receiving a 3.2% cost-of-living adjustment. In another continuation of recent spending priorities, the budget includes $361.4 million, mostly from the GRF, to cover transportation costs for K-12 public schools. Another $120.6 million goes to maintaining the K-12 foundation formula at constitutionally mandated levels. Missouri's governor signed the budget on June 28, enacting 173 line-item vetoes that reduced spending by $506 million.

Montana

Established in fiscal 2017, Montana's budget stabilization reserve (BSR) had grown to its current statutory cap of $496 million at FYE 2023 (10% of combined general fund + SEPTR expenditures). Beginning in fiscal 2024, almost all statewide property tax revenues and treasury account interest have been directed from the general fund to the new SEPTR Account, which is classified as a special revenue fund. SEPTR funds are transferred directly to local school districts, and the state expects SEPTR expenses to always equal revenues. Fitch considers that Montana's Fire Suppression Account (FSA), established in fiscal 2013, also reduces a longstanding financial risk to the state.

Montana's fiscal 2023-2025 biennium general fund budget maintains ongoing spending below revenues, despite state PIT, business equipment tax and capital gains tax cuts enacted in 2022 that will reduce annual revenues by approximately $60 million upon their full implementation in 2025. The state now expects to modestly outperform legislative fiscal report projections for the current biennium due to higher-than-expected CITs offsetting lower PITs.

Combined BSR and FSA reserves of $687 million in fiscal 2023 represented 14% of combined general fund and SEPTR expenditures, in line with states' average reserves. Montana's biennial budget anticipates that, with reduced general fund spending, combined reserves will decline to $620 million, representing 18% of combined GF plus SEPTR expenditures, while each fund will remain at its respective statutory cap.

Nevada

Nevada's fiscal 2024-2025 biennial budget assumed a return to modest revenue growth, following the strong post-pandemic boost of the prior biennium. The budget anticipated a 4.3% biennial revenue increase to $11.6 billion, driven by stronger sales tax growth offsetting slightly slower growth in gaming tax revenue. General fund revenue, after tax credits, was forecast to total $5.8 billion in fiscal 2024, marginally above the fiscal 2023 estimate, followed by 2.6% growth in fiscal 2025 to $5.9 billion. Slower general fund revenue growth is partially attributable to changes in current law that shifts the general fund portion of the net proceeds of minerals tax and tax on the gross revenue of gold and silver mining to the state education fund, with an estimated impact of $103 million in fiscal 2024 and $121 million in fiscal 2025.

Revenue performance in the first year of the biennium is slightly exceeding forecast by about 3%, with revenues reported in different months. Sales taxes lagged the forecast, down 2.2% yoy through March. Other key revenue sources performed slightly better, with gaming tax revenues 4.4% over plan through May, insurance premium taxes 5% over plan through March and modified business taxes 8% over plan through March, despite the reduction noted above. Overall, revenues are up 5% yoy.

The enacted 2024-2025 biennial budget increased 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 incorporated significant pay raises of 11%-13% in fiscal 2024, followed by 11% increases in fiscal 2025, to address sizable vacancies in a tight labor market. The budget increased K-12 education funding $2 billion over the biennium from all funds, an increase of approximately 26%, significantly increasing per-pupil funding. The budget also provided $250 million in matching funds to help local school districts pay for salary increases. Higher education received a large boost, restoring Covid-19-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 budgeted a small amount to prepare for implementation.

Nevada is required by statute to transfer 1% of anticipated revenues to the RDF at the start of each fiscal year, amounting to approximately $115 million for the biennium. A second statutory trigger based on the prior year ending balance resulted in an additional $296 million deposit to the RDF at the start of fiscal 2022, with another $270 million from the fiscal 2023 surplus. The balance in the RDF was $904 million at FYE 2023 (15.7% of fiscal 2023 revenues) and is expected to be $1.3 billion at FYE 2025 (21.5% of fiscal 2025 estimated revenues).

New Hampshire

Following exceptionally strong revenue performance in the fiscal 2022-2023 budget, the forecast underlying the fiscal 2024-2025 budget assumed 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. Through May, revenues were outpacing the forecast, with combined general and education trust fund revenues at 5% over expectations, led by strong performance in dividend taxes and lottery taxes. This was despite a small interest tax policy change and the elimination of the interest and dividend tax, which was accelerated in the 2023 legislative session to become effective Jan. 1, 2024. The tax change is expected to reduce revenues by $122.8 million in fiscal 2024 and $82 million in fiscal 2025. Business tax collections, which had been ahead earlier in the year, have slowed with lower-than-forecast business enterprise taxes offsetting still-strong growth in business profit taxes.

The fiscal 2024–2025 biennial budget for the combined general and education trust funds appropriates $3.0 billion in fiscal 2024 and $3.1 billion in fiscal 2025. The enacted budget incorporated 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 provided 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 provided $134 million to increase Medicaid provider payment rates.

The increase in spending does not appear to create a structural budget imbalance, given the rapid increase in revenues in recent years relative to state spending. With a modest additional transfer of $3.2 million to the RDF in fiscal 2025, the balance is expected to reach $296 million at the end of the biennium (9.3% of combined revenues).

New Jersey

Fiscal 2024 estimated budgetary performance was relatively steady, with total revenue of $52.9 billion, just over the $52.7 billion budget target. While the gross income tax (GIT) and corporation business tax (CBT) both underperformed, with GIT receipts down 0.8% yoy to $18.7 billion and CBT receipts down 5.3% yoy to $5.2 billion, net sales tax receipts rose 1% to $13.2 billion. Following $56.1 billion in appropriations, the fiscal year concluded with an ending balance of $8.6 billion, equal to 16.2% of total revenue, well above pre-pandemic levels but lower than the $10.5 billion level in fiscal 2023, as a budgetary structural imbalance emerged.

Similar budgetary trends are continuing in fiscal 2025. The enacted budget assumes steady economic growth, with total revenue rising 3% to $54.5 billion. Revenue growth is driven by the GIT, up 5.6% to $19.7 billion, given solid withholding and capital gains. Net sales tax receipts increase 3.7% to $13.6 billion, supported by steady consumption. CBT revenue declines 16.9% to $4.3 billion, reflecting the sunset in tax year 2023 of a CBT surtax imposed in 2018. The most notable tax law change includes a new 2.5% corporate transit fee on companies with net income greater than $10 million, with receipts dedicated to New Jersey Transit. The fee generates just over $1 billion in fiscal 2025, given retroactive application to tax year 2024; future annual collections are forecast at about $800 million before it sunsets at YE28. New revenues in fiscal 2025 will support the budget. From fiscal 2026, corporate transit fee revenue will address, along with fare increases, a sizable New Jersey Transit projected deficit as federal pandemic aid expires.

Fiscal 2025 appropriations rise 1%, to $56.7 billion, with spending priorities in line with those of recent years. Reducing liabilities remains a key state priority; the budget appropriates $7.2 billion for pension contributions from budget resources and lottery receipts, the fourth consecutive contribution at or above actuarial levels.

The budget also directs $400 million in debt defeasance and prevention fund (DDPF) resources for pay-go capital; since inception in fiscal 2021, the DDPF has received $9.25 billion in appropriations targeted for early debt retirement or pay-go capital. The enacted plan concludes a multiyear school formula aid ramp-up with a $908 million increase, bringing total formula aid to $11.7 billion. Additionally, appropriations for direct property tax relief through multiple state programs total $3.6 billion. Fiscal 2025 is forecast to end with a balance of $6.1 billion, equal to 11.2% of projected revenue. The structural imbalance that emerged in fiscal 2024 persists into fiscal 2025, with enacted spending above forecast revenues by $2.2 billion.

New York

New York enacted a total all funds budget of $239 billion for fiscal 2025, which began on April 1, an increase of 1.8% from the prior year. Excluding federally funded spending and capital projects, state operating fund disbursements are budgeted to rise 2.8% in fiscal 2025 to $132 billion.

In recent years, state spending growth has been distorted by prepayments and timing-related payments and reimbursements, including debt service and pension prepayments and federal Covid-19 assistance. Adjusted for these types of actions, state operating fund spending will increase 9.7% in fiscal 2025, according to the state budget office. The 2025 budget also reflects substantial one-time spending, including $2.6 billion in extraordinary assistance for asylum seekers and migrants. Excluding nonrecurring actions, the state budget office reports that spending would rise by about 6% in 2025.

After fully funding the foundation aid formula for school aid in the prior year's budget, the state adopted a 4.1% increase in state operating fund school aid (school year basis), marking a return to more typical historical levels of school aid growth. The budget also included a 11.3% increase in Department of Health Medicaid spending, in part reflecting the loss of $1.7 billion in expired enhanced FMAP in fiscal 2024 and a 7.2% increase in state agency operations, after adjustment for planned prepayments and timing-related transactions and reimbursements.

The state expects state operating fund tax receipts to improve in fiscal 2025 after receipts fell 4.7% in fiscal 2024 due to the delayed effects of financial market losses in tax year 2022. Overall tax revenues are forecast to rise 4.1% to $111 billion, including forecast growth of 5.9% in personal income tax (PIT) revenue.

The fiscal 2024 enacted budget accelerated planned deposits of $5.3 billion to the state's principal reserves, which consist of the rainy-day reserve (RDR), tax stabilization reserve and the portion of the general fund balance informally designated for economic uncertainties. At FYE 2024, the combined principal reserve balance was $20.1 billion, or 15.6% of fiscal 2024 state operating fund spending. An additional planned deposit of $1.5 billion to the RDR in fiscal 2025 is projected to raise principal reserves to 16.3% of state operating spending.

North Carolina

North Carolina is in the second year of the fiscal 2023-2025 biennium and the Legislature has made only minimal supplemental changes to the budget since it was enacted four months into fiscal 2024, in October 2023. The state carried significant balances into the current biennium, following strong revenue performance in the fiscal 2021-2023 biennium and delays in budget passage that somewhat limited spending.

The enacted budget assumed revenues would be relatively flat in the current biennium, decreasing less than 1% in fiscal 2024, after strong fiscal 2023 performance, to $33.8 billion, followed by a modest 1.3% yoy increase to $33.9 billion in fiscal 2025. Revenues largely met budget in fiscal 2024 ($33 million below forecast), but are expected to improve in fiscal 2025 with the May 2024 consensus estimate revising revenues upward by $799 million to $34.2 billion.

The enacted budget appropriated $29.7 billion in fiscal 2024 and $30.9 billion in fiscal 2025. Key investments included increasing employee compensation to address high vacancy rates, raising teacher salaries and significantly expanding the school voucher program. Although proposed by the governor, the enacted budget did not fully fund the ramp-up to full funding of the Comprehensive Remedial Plan, which is intended to remediate inadequate and inequitable school funding. The budget appropriated some of its significant balances for capital projects, including for hospitals and higher education, as well as making investments in cybersecurity and modernization of the tax system.

Separately enacted legislation to expand Medicaid under the Affordable Care Act took effect in December 2023, following budget enactment. The state's portion of the $5.5 billion eventual cost at full roll-out will be covered by additional hospital assessments and a portion of the gross premiums tax. There is no anticipated impact on the general fund.

The state carried a $4.75 billion RDF balance (14% of fiscal 2024 revenues) into the biennium and funded a new $1 billion reserve to address the potential effect of a recession in terms of inflation and revenue shortfalls.

Ohio

Ohio's fiscal 2024-2025 biennial budget assumed general revenue fund (GRF) revenues would decline to $42.3 billion in fiscal 2024, 0.6% below fiscal 2023 levels, followed by 6.3% yoy growth in fiscal 2025. GRF appropriations were budgeted below estimate for each year ($820 million in fiscal 2024 and $178 million in fiscal 2025), with the intent of maintaining structural balance.

The budget included tax policy changes estimated to reduce revenues by $1.0 billion in fiscal 2024 and $1.1 billion in fiscal 2025 relative to prior forecasts. These included elimination of sales taxes on baby products, tax credits for lower-income and affordable housing construction, and new exclusions for the commercial activity tax (CAT). Ohio's PIT rate brackets were also consolidated from four to two. The new brackets are 2.75% for personal incomes ranging from $26,050 to $100,000 and 3.5% for incomes above $100,000 per year.

Preliminary fiscal 2024 data indicate that GRF revenues underperformed budget, with state-source revenues concluding $891 million (3%) below prior-year levels and $120 million (0.4%) below budget. Overall, Ohio's tax revenues ended the year $485 million (1.7%) under budget and $971 million (3.3%) below fiscal 2023 levels. The largest negative variance is in PIT receipts: collections trailed budget by $1.3 billion, or 11.8%, reflecting greater-than-anticipated losses from the PIT rate compression.

The budget boosted GRF-supported K-12 spending by 10.4% in fiscal 2024 and 2.2% in fiscal 2025; higher education spending rose by 6.8% in fiscal 2024 and will increase 2% in fiscal 2025. GRF spending on Medicaid rose 4.6% in fiscal 2024, much less than the 10.8% budgeted, and will grow by 20.6% in fiscal 2025 against a lower base, as fiscal 2024 Medicaid expenses were under-budget. For fiscal 2024, state officials estimate that Ohio underspent budget by $481 million (1%) overall.

The majority of Ohio's biennial capital budget is funded with available cash, rather than bonds. The transportation budget alone grew 55%

yoy in fiscal 2024, from $5.8 billion to $9 billion, with $4.4 billion spent on bridge and highway preservation and upgrades. Transport spending reverts to $4.8 billion in fiscal 2025, in line with pre-pandemic levels.

The Ohio Legislature recently passed a supplemental biennial capital budget. The $6.2 billion bill makes appropriations for state-owned infrastructure, colleges, universities and school districts. In addition to $3.5 billion in traditional capital funds and nearly $2 billion for ongoing projects, the capital budget includes $700 million of state funds to be invested in community development projects designed to promote economic opportunity. These funds were set aside using federal relief dollars received in 2021 and 2022.

Oklahoma

Oklahoma's fiscal 2025 state source budget is structurally balanced and sized at $12.47 billion, representing a $700 million (5.4%) drop in spending from the year prior. Fiscal 2024 was notable for incorporating $2.2 billion of one-time spending funded mainly through accumulated budget surpluses and leftover federal stimulus moneys. Following the depletion of these funds, Oklahoma is reducing one-time appropriations in fiscal 2025.

The budget includes $11.1 billion of certified revenues collected in the near-general fund (i.e. the general fund and adjacent funds supporting core governmental operations), reflecting the Oklahoma Board of Equalization's (BOE) February 2024 consensus forecast. The $11.1 billion of certified revenues represent a $500 million (4.7%) increase from the $10.6 billion certified for the fiscal 2024 budget cycle.

The nonrestricted funds budget is sized at $11.5 billion for fiscal 2025, compared with the $10.8 billion in fiscal 2024. Nonrestricted fund spending will be supported by the $11.1 billion of certified moneys plus $400 million of unspent funds carried over from prior fiscal years. The general revenue fund (GRF) will generate $8.79 billion of the $11.1 billion certified revenue total, a $140 million (1.4%) increase from the $8.65 billion of certified GRF revenues estimated for fiscal 2024. Lower severance taxes and weaker income growth account for fiscal 2025's relatively sluggish growth estimate.

The budget incorporates the creation of a capital assets management fund to finance facilities maintenance at public colleges, state parks and other agencies via an initial $350 million deposit. Another notable item is a $110 million (2.7%) drop in K-12 education spending due to the elimination of $170 million of nonrecurring grants used in last year's budget. The fiscal 2025 budget also includes a $440 million recurring appropriations boost for the Oklahoma Health Care Authority (OCHA), reflecting a return to pre-fiscal 2024 state appropriations after using $600 million in federal stimulus funds to cover nearly half of OCHA's fiscal 2024 budget.

The state enacted legislation in February 2024 to eliminate the grocery portion of the state sales tax. This action will reduce GRF revenues by an estimated $308 million in fiscal 2025 compared to prior forecasts.

The budget includes an $84 million deposit to the state's revenue stabilization fund. The state has rebuilt its dedicated fiscal reserves to a combined $2.93 billion at fiscal year-end (June 30, 2024). This amount equals approximately 33% of estimated fiscal 2024 state general fund revenues.

Oregon

Despite a relatively slower labor market, Oregon's overall strong economic performance continued in the fiscal 2022–2023 biennium, supporting record tax revenue growth. PIT and corporate income tax (CIT) vastly outperformed budgeted expectations, and a large portion of the PIT growth will be returned to taxpayers in the fiscal 2024–2025 biennium.

The state ended the fiscal 2022–2023 biennium with net tax revenues of $30.7 billion, 30% higher than the baseline forecast from the 2022–2023 close of session. This triggers PIT and CIT kickers totaling $7.3 billion. The $5.6 billion PIT kicker will be returned to taxpayers as a refundable credit on their April 2024 tax returns, artificially lowering the net amount of PITs the state will collect this year. 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.

Oregon is at the midpoint of its fiscal 2024–2025 biennium. The fiscal 2024–2025 budget bridges the anticipated revenue gap by drawing down over $4.0 billion in accumulated general fund balance, including over $700 million in carryover reversions from the fiscal 2022–2023 biennium. The state is also budgeting to transfer an additional $363 million in general fund balance to the RDF by the end of the fiscal 2024–2025 biennium. Expenditure growth for the fiscal 2024–2025 biennium is primarily due to large, one-time expenditures related to new human services programs aimed at reducing homelessness statewide, funds to backfill the phaseout of enhanced public health emergency federal medical assistance percentage (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 41% of combined general and lottery expenditures.

The state projects $2.9 billion in designated reserves by the end of the fiscal 2024–2025 biennium: $1.9 billion in the RDF and $1.0 billion in the education stability fund (11.2% of net general fund biennium revenues). Additionally, the general fund balance is projected at $1.7 billion at the end of the biennium for total available reserves of $4.5 billion (18% of net biennial general fund revenues). Fitch's analysis of issuer resilience focuses solely on the designated reserves in the RDF and ESF, although Fitch expects the state to manage its budget without sustained draws on its general fund balance.

Pennsylvania

After a long impasse over the fiscal 2024 budget last year, the Commonwealth of Pennsylvania adopted a budget for fiscal 2025 in early July. The commonwealth approved a $47.6 billion general fund budget, up 6.0% from estimated expenditures of $44.9 billion in fiscal 2024. As adopted, spending would exceed estimated revenues by about $3.3 billion in fiscal 2025, necessitating use of the commonwealth's surplus cash balance, which totaled $7.4 billion at FYE 2024 before the statutory 10% rainy-day fund (RDF) transfer requirement. Following completion of this transfer, the general fund balance will total $6.6 billion.

Spending growth largely stems from a $1.3 billion increase in the education budget and a $900 million increase in the human services budget. Additional education funding was in part spurred by a February 2023 commonwealth court ruling that education funding was unconstitutional. In addition to a $285 million increase for K-12 basic education funding, the commonwealth added $526 million for Ready to

Learn Block Grants, $100 million for special education costs and $100 million for public school facility improvement grants. The budget also approved $500 million in economic development funding for site development, authorizing an additional $15.4 million in debt service for PA SITES bonds in fiscal 2025.

The commonwealth expects net general fund revenues to rise 1.9% in fiscal 2025. The budget included additional business tax reductions and continues a phase-in of corporate rate reductions adopted in 2022 that will reduce the rate from 8.99% in 2023 to 7.99% in 2025. Actual fiscal 2024 gross general fund revenues were $556 million (1.2%) above the prior year and $863 million (1.9%) above the adopted estimate. An 8.0% decline in corporate net income tax revenue due to rate cuts was offset by moderate growth in other tax revenue plus a $327 million increase in Treasury receipts (interest income), reflecting large cash balances and higher interest rates.

The commonwealth's RDF fund has materially increased in recent years and will continue to grow under the adopted 2025 budget and existing statute that requires 10% of the year-end general fund balance to be deposited into the budget stabilization reserve fund (BSRF). Based on FYE 2024 results, the commonwealth will transfer $737 million into the BSRF by the end of September 2024 and expects to deposit another $361 million at FYE 2025. Following the expected transfer this year, rainy-day reserves will increase to about $7.0 billion, or 16% of fiscal 2024 net general fund revenues.

Rhode Island

Rhode Island adopted a $14.0 billion all-funds budget for fiscal 2025, a 1.2% decrease from estimated final spending in 2024. The yoy decline is driven by a 9.7% decrease in federally funded expenditures offset by a 4.9% increase in general fund expenditures. The budget provides a 6.2% increase in general fund spending for K-12 education and includes $164 million to fully fund Medicaid reimbursement rate increases as recommended by the Office of Health Insurance Commissioner.

As of the state's May Revenue Estimating Conference, the state expects general revenue to increase 1.8% in fiscal 2025 to $5.5 billion, prior to enacted revenue actions. Based on actual revenue performance to date, the state expects actual general fund collections in fiscal 2024 to exceed the May 2023 forecast by about $264 million, a difference of 5.2%.

Last year, the state contributed $55 million, about 1% of general revenue, to a supplemental RDF, after reaching the state's RDF maximum of 5% of general revenues, and required 50% of revenues in excess of the adopted forecast to be transferred to the state pension system and 50% to the new supplemental reserve. In the 2025 budget, the Legislature rejected a proposal from the governor to repeal the required transfer to the supplemental reserve but allowed the $6.5 million transfer from fiscal 2023 to be recaptured. The budget stabilization and cash reserve account is expected to reach $289 million by FYE 2025.

The adopted budget also included several enhancements to retiree benefits. The state repealed the suspension of full annual cost-of-living adjustments (COLAs) for state employees who retired before 2012, when state pension changes took effect. For people who retired after July 1, 2012, the pension funding threshold for the COLA to be reinstated was lowered from 80% to 75%. The budget also changes the calculation for pension benefits to be based on the highest three consecutive years of earnings, instead of five. Collectively, the measures will increase required state pension contributions by $27.5 million in fiscal 2025, and the state and local unfunded pension liability would increase by about $400 million.

South Carolina

Similar to the past three fiscal years, South Carolina's adopted fiscal 2025 state budget focuses heavily on infrastructure improvements and increased funding for public education. The general fund portion of the budget includes $12.4 billion in recurring expenditures — a $784 million (6.7%) increase over fiscal 2024 — along with $1.64 billion of nonrecurring spending. The $40.2 billion all-funds budget represents a $1.3 billion (3.6%) increase over fiscal 2024. Higher spending on roadway and bridge replacement, along with one-time costs associated with the establishment of a new veterinary school at Clemson University, are among the drivers of higher spending.

South Carolina's Board of Economic Advisors (BEA) projected in May that the state general fund will receive $13.35 billion of recurring revenues in fiscal 2025, virtually unchanged from the $13.35 billion estimated for fiscal 2024. The essentially zero revenue growth forecast reflects the BEA's expectation for continued deceleration in sales tax receipts, with sales taxes expanding by 1.9%, set against declines in CIT receipts and interest income due to lower anticipated profitability for many businesses in 2024-2025, along with expected Fed interest rate cuts.

The adopted fiscal 2025 budget factors in the revenue effects of a PIT rate cut included in the final budget that reduced South Carolina's top PIT rate to 6.2% from 6.4% retroactive to Jan. 1, 2024. The estimated first-year cost is $200 million due to lower withholdings and refunds. One-half the cost will be covered by accumulated sales tax surpluses on deposit in the state's homestead exemption fund (HEF), which will be directed to support operations.

On the recurring spending side, the budget incorporates $293 million of higher K-12 education spending, with $200 million associated with increased per-pupil formula funding that also provides a one-time pay boost for teachers, raising their minimum starting salary to $47,000 from $42,500. A tuition freeze at public colleges will remain in effect for the fiscal year at a cost of $70 million; $94 million of workforce scholarships are being provided to technical college students. State employees receive pay raises of $1,125 or 2.25% -- whichever is greater.

On the nonrecurring side, the budget utilizes $417 million of surplus sales taxes (out of $645 million on deposit in the HEF) to finance road and bridge repairs and $80 million of lottery funds to finance need-based scholarships. To finance construction of the new veterinary school at Clemson, the state allocated $125 million of nonrecurring and capital reserve fund moneys.

Combined rainy-day balances in the general and capital reserve funds entered the 2025 fiscal year at historical highs of $1.1 billion (nearly 9% of prior-year revenues), following a deposit of $320 million of accumulated surpluses into those accounts. When additional balances held in the contingency reserve fund are included, dedicated reserves equal nearly 12% of revenues.

South Dakota

In March 2024, South Dakota adopted a total budget of $7.3 billion for fiscal 2025, about $70 million (1%) lower than for the current year.

General fund spending will rise to $2.4 billion, an increase of $135 million (6%) from 2024, but federal funding is projected to decrease by more than $250 million (7%), reflecting a decline in federal pandemic aid. Spending in the all-funds budget is set to decline as a result. The fiscal 2025 budget includes a 4% inflationary increase for state school aid, healthcare and state employee wages. This increase follows a 7% increase for school aid and state employee wages, and a 5% inflation increase for healthcare providers in the fiscal 2024 budget.

The 2025 budget maintains a four-year reduction in the state sales tax rate from 4.5% to 4.2% that began in fiscal 2024 and is expected to cost about $100 million annually. Despite an expected decrease in sales tax revenue in fiscal 2024, the state expects overall general fund ongoing receipts to increase 4.6% in fiscal 2024, followed by growth of 0.6% in 2025. The fiscal 2025 budget also continues the full implementation of Medicaid expansion, which was approved by South Dakota voters in November 2022. Based on current enrollment trends, the state estimates that Medicaid expansion will add $170 million in additional claims in fiscal 2024 and $388 million in fiscal 2025, most of which will be funded by the federal government. Federal reimbursement will be elevated in the first two years of the expansion and then drop to 90% in subsequent years.

Following several years of operating surpluses, the state's RDF, the budget reserve and a secondary reserve, the general revenue replacement fund, totaled $336 million at the start of 2024, equivalent to approximately 14% of estimated fiscal 2024 general fund revenues. The state has also appropriated a portion of its surplus revenues for one-time infrastructure investments, including $70 million for procurement and financial systems in fiscal 2023 and about $640 million for state prison facilities over the past three years. The Legislature appropriated funding in the fiscal 2025 budget to maintain reserves at 10% of budgeted spending.

Tennessee

Tennessee adopted a $52.6 billion all-funds budget for fiscal 2025, a decrease of 15.8% from estimated 2024 expenditures. The decline reflects significant one-time actions in 2024, including the use of accumulated surplus funds to pay down long-term liabilities and cash fund capital projects. The state expects general fund tax revenue to be roughly flat in fiscal 2025, after growth slowed considerably in 2024.

From August through June, fiscal 2024 general fund tax revenue was 0.9% lower than in the prior year, well below the state's initial projected growth of 2.25%. While sales tax revenue, the state's largest source of tax revenue, has seen YTD growth of 1.7% over the past year, franchise and excise taxes have declined 5.9%, falling $328 million short of YTD expectations. With the passage of the 2025 appropriations bill, the state lowered its general fund tax revenue estimate by $719 million for fiscal 2024 and set aside an additional $150 million to cushion against further revenue underperformance. In contrast, the state increased its 2024 forecast for interest earnings on state funds by $505 million due to large cash balances and higher interest rates.

Under separate legislation, the state adopted significant corporate tax cuts, including $393 million in recurring franchise tax cuts and $1.6 billion in nonrecurring funding to allow businesses to retroactively adjust their returns for the past three years. Concerns about the constitutionality of the franchise tax formula and possible litigation led the governor to propose the change and retroactive refunds.

Additional items in the budget included $261 million for the Tennessee Investment in Student Achievement formula, including funding for teacher salary increases, and $144 million to implement a new statewide school voucher program. However, the Legislature and governor have not yet reached an agreement on the program and enabling legislation has not been passed. The approved 2025 budget also included a $150 million transfer to the RDF, raising the fund to $2.2 billion in 2025, about 10% of budgeted tax revenue.

Texas

Texas is in the second year of the fiscal 2024-2025 biennium (FYE Aug. 31). The biennial revenue estimate (BRE; January 2023) used in the formulation of the fiscal 2024-2025 budget forecast $166 billion in general revenue-related collections, a 4.8% increase over actual revenues for the fiscal 2022-2023 biennium. The certification revenue estimate (CRE; October 2023) marginally increased the total to $167 billion. Revenue performance through the first 10 months of fiscal 2024 has been mixed, with sales tax slightly underperforming but other sources, particularly investment income, coming in higher than forecast. The comptroller does not anticipate a further revision to the revenue forecast.

The enacted budget appropriated $144 billion of general revenue, an approximate 10.5% increase over the fiscal 2022-2023 biennium. The budget and other appropriation legislation funded 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, grant and loan programs for water supply and infrastructure, and improvements to the energy grid, among other priorities. Salary increases for teachers and additional school funding remain to be addressed in a future legislative session. The Legislature will also need to address an approximate $557 million gap in Medicaid funding, having increased the budget to account for caseload growth but still falling short in terms of inflationary costs and provider rate increases.

Voter approval was required for a number of components that were included in the enacted budget at the November 2023 election, including creating a $5 billion fund for energy projects, $3 billion for qualifying state universities to enhance their research capabilities, a $1.5 billion program to expand broadband in the state, $1 billion for water infrastructure, and $1 billion to acquire and develop state parks. These programs will draw on the substantial $39 billion accumulated fund balance carried into the current biennium.

Voters also approved the significant property tax reduction bill that replaces locally generated taxes with state funds and shifts a greater portion of school district funding to the state on an ongoing basis. Although state officials expect to be able to absorb the increase, estimated by the state comptroller's office at just over $6 billion per year, within normal revenue growth, there is some risk to the state in funding a significant new ongoing expense with accumulated balances that by definition are one-time in nature.

With strong post-pandemic revenue performance, the state has been making sizable transfers to the economic stabilization fund (ESF), which totaled $14.2 billion at the end of the last biennium, 17% of fiscal 2023 general revenues. After transferring the remaining fiscal 2023 unencumbered balance, and an additional $5.7 billion in oil and gas tax collections in the current biennium, the ESF is expected to total to $24.2 billion at FYE 2025, 28.6% of forecast revenues.

Utah

Utah's fiscal 2025 budget increases ongoing expenditures for education, environmental resilience and affordable housing by about $450 million (a 4.1% increase), while spending on one-time projects decreases $1.2 billion yoy (a 46% drop). Overall, fiscal 2025 appropriations for the combined general fund, income tax fund and uniform school fund drop 5.3% to $12.9 billion, comprising $11.6 billion recurring and $1.4 billion one-time appropriations. Public education funding increases 8% to a new high of $5.1 billion.

Fiscal 2025 revenues for the combined general fund, income tax (formerly education) fund and uniform school fund (a special revenue fund) are budgeted to slightly increase 0.9% yoy to $11.6 billion. Slowed revenue growth follows a cumulative $228 million in decreases in fiscal 2025.

Despite slight near-term revenue declines resulting largely from tax policy changes, the new revenue baseline is high enough to accommodate the approximately $260 million in combined new general and income tax fund appropriations budgeted for fiscal 2025. The largest portion of the new expense is directed to public education, with higher education, social services, infrastructure and general governmental services also slated for increases. The fiscal 2025 budget also uses one-time funds to prepay infrastructure debts ($775 million) and to fund tax policy changes ($59 million).

The state is budgeting to maintain its steady formal budgetary reserves within statutory limits in fiscal 2025, with general fund rainy-day reserves at $330 million and income tax (formerly education) fund reserves at $856 million at FYE 2024. These combined $1.1 billion reserves (approximately 8.5% of fiscal 2025 combined general fund and income tax revenues) follow a trend of healthy yoy gains. The state also maintains restricted reserve accounts for natural disaster recovery, student growth and Medicaid, bringing total reserves to a projected $1.3 billion at FYE 2025. Budgeted combined reserves are essentially unchanged since FYE 2023.

In 2023, the Legislature authorized a November 2024 ballot measure to remove the constitutional dedication of income tax revenues for education purposes. If passed, this referendum would also repeal the 1.75% state sales tax on food (approximately $165 million annually). If passed, the Legislature would be free to reprogram income tax revenues in excess of a to-be-determined amount fulfilling the requirement that the state “maintain a statutory public education funding framework that: (i) uses a portion of revenue growth for expenditures from the uniform school fund for changes in student enrollment and long-term inflation; and (ii) provides a budgetary stabilization account."

Vermont

Vermont's adopted fiscal 2025 budget reverts to pre-pandemic growth patterns and includes less one-time spending than in the prior two fiscal years. The budget assumes essentially stagnant revenues, with minimal (less than 1%) growth in recurring revenues in fiscal 2025 and a $340 million (12.9%) decline in total general fund sources. The latter number factors in the prior use of $337 million of carryover funds expended in fiscal 2024 that are not available for fiscal 2025. Base appropriations will rise 3% yoy.

Nonrecurring spending in the new budget is much lower than in fiscal 2024, totaling $74 million, compared with $281 million the year prior, due to the aforementioned spending down of prior-year surpluses. Modest growth in the 2% range is forecast for the transportation fund. Base appropriations are expanding by similar amounts. The education fund budget for fiscal 2025 is an outlier, as it will expand spending by $175 million (8.3%) over fiscal 2024 enacted levels.

With less one-time funding available for nonrecurring projects in fiscal 2025, the state will use its available resources to provide enhanced grant funding, primarily for essential housing needs ($40 million of one-time spending), and to provide pay increases for state employees ($30.6 million). The all-funds budget, which totals $8.6 billion, also includes state matches for Federal Emergency Management Agency (FEMA) grants to reimburse damage sustained by Vermont during the July 2023 flood events, along with matching funds for federal infrastructure and clean energy grants.

The fiscal 2025 budget includes full actuarial contributions for Vermont's public pension systems, consistent with prior years. Fiscal 2025 actuarial contributions will rise 4.5% from prior-year levels due to weak investment performance in the plans' 2022 fiscal years. Fitch expects contribution levels to fall in fiscal 2026 as better 2023 returns are factored into plan funded levels. Fitch anticipates future contribution increases will be in line with, to slightly above, annual state budgetary growth.

The state education fund's nonproperty tax revenues are forecast to expand 5% in fiscal 2025. The Vermont General Assembly's education funding bill (H. 887) raises statewide property tax rates by 12.5% to fund an expansion of education spending in fiscal 2025. The education bill also establishes a commission to find ways to control future education costs. The governor vetoed the bill, as he believed the property tax increase was inadvisable. The General Assembly overrode the governor's veto — along with five other vetoes of unrelated bills — during Vermont's June 17 special legislative session.

Virginia

Virginia's adopted $64.7 billion fiscal 2025-2026 biennial general fund budget is notable for its emphasis on higher social spending, primarily for early childhood care and education, community and behavioral health services.

Health and human services (HHS) spending will rise by $3.3 billion (12% yoy) with $809 million of the total covering expected growth in Virginia’s Medicaid program. Medicaid spending will rise 4.6% in fiscal 2025 and 5.4% in fiscal 2026. Another $176 million of increased HHS funds will be directed to enhance services for Virginians with behavioral and substance use disorders. Another $208 million of funds will boost the availability of waiver services for persons with developmental disabilities.

Virginia's funding for early childhood care and education will increase by 184% ($571 million) across the biennium, as the commonwealth uses state-source funds to backfill federal support for childcare deployed during the pandemic.

Total K-12 spending from state funds increases by $1.7 billion (8.6%) to $21.6 billion for the biennium. Virginia will also fund the state share of a 3% annual salary increase for all state formula funded local (K-12) teaching and support positions, and for state employees. Virginia's higher education budget is increasing by $1.25 billion (20%) to offset rising costs at public universities.

The budget includes $951.6 million of pay-go capital spending, much of it directed at state facilities, the purchase of equipment for new facilities and to cover project cost overruns due to Covid-19 supply-chain issues. In addition, up to $245 million of general fund support is authorized to enhance the I-81 Corridor Improvement Program.

General fund collections are forecast to grow 1.0% yoy in fiscal 2025, with total revenues rising 5.1% yoy due to transfers in from a variety of sources. The budget estimates $28.6 billion of recurring general fund revenues in fiscal 2025, followed by $30.3 billion (+6%) in fiscal 2026. The first year will utilize nearly $3.0 billion of unreserved cash and $1.1 billion of inter-fund transfers to fund $32.5 billion of appropriations. During the biennium's second year, the general fund will rely on $1.7 billion of transfers in to fund $32.2 billion of appropriations. Transfers will primarily come from unclaimed property and the revenue reserve fund ($805 million).

As with the last biennium, the governor's initial budget proposal included a variety of tax policy changes focused on reducing PIT rates and shifting the commonwealth to a more consumption-driven revenue structure. The latter included a proposal to raise the statewide sales tax rate to 5.2% from 4.3% while extending the tax to more digital goods and services.

None of these proposals were ultimately included in the adopted 2025-2026 budget due to legislative opposition. Fitch believes these proposals could be revisited in future budgets, particularly the proposal to expand taxation of digital goods and services. This proposal had both gubernatorial and legislative support at various stages of the negotiations, and is likely to be revived in the future.

Washington

Conservative revenue forecasting and sophisticated budgeting practices enabled Washington to prudently navigate uncertain, yet ultimately favorable, economic conditions over the past four years. State reserves, particularly the general fund balance, grew to unprecedented levels as state revenues were propelled through the pandemic era by, among other factors, unexpectedly high price growth. As economic growth slows to a still-strong annual pace of 3%-4%, Washington's four-year budget outlook currently brings on line new broad-based programs across priority areas of health, education, transportation and the environment, initiatives partially funded through significant drawdowns of general fund balance. Fitch expects the state to maintain a solid reserve position, continuing to build its budgetary stabilization account (BSA) by employing its very strong gap-closing capacity.

In addressing pandemic-era uncertainty, Washington also reshuffled its reserve position. Washington entered the pandemic with formal reserves in its BSA of $1.6 billion (7% of annual near general fund (NGF) revenues). By fiscal 2021, the state drew down almost all of its BSA, to just $19 million, while building up a new Washington Rescue Plan Transition Account (WRPTA) to $1 billion. Washington also grew its general fund balance to an unprecedented $6.3 billion by fiscal 2022. Total available funds grew to a new high of $8 billion (24% of NGF revenues) in fiscal 2023, with $2.7 billion (8%) of that amount formally reserved in either the BSA ($652 million) or WRPTA ($2.1 billion).

Washington is nearing the midpoint of it 2023-2025 biennium. As of its April 2024 enacted budget outlook, which harmonizes the February 2024 revenue forecast with the enacted 2024 supplemental budget, the state budgeted to draw down its general fund balance to only $100 million by the end of the 2025–2027 biennium. In the same period, formal reserves are budgeted to decrease to $2.1 billion (6%) by fiscal 2027, a $600 million decrease from $2.7 billion in fiscal 2023. The WRPTA is now budgeted to be fully drawn down by FYE 2025, two years earlier than previously budgeted. Notably, the 2024 supplemental budget maintains progress on rebuilding the BSA, adding $1.4 billion to $2.1 billion. The state's latest revenue report, in June 2024, is essentially unchanged from April, with tracked revenues coming in only 0.1% above the February 2024 forecast.

West Virginia

West Virginia appropriated $5.2 billion in general revenue fund appropriations for the fiscal 2025 budget including May 2024 supplemental appropriations, up slightly from $4.9 billion in fiscal 2024. The state did appropriate an additional $2 billion for one-time funding needs in fiscal 2024 primarily from prior-year surplus. As of July 1, 2024, the official general fund revenue estimate for fiscal 2025 is $5.26 billion, which would be $446 million, or 7.8%, below actual 2024 collections, continuing the state's history of conservative revenue projections. For fiscal 2024, general fund revenue ended the year $773 million (12%) below the prior year but $826 million (17%) above initial estimates.

Revenue declines in fiscal 2024 were the result of substantial tax policy actions and a sharp contraction in severance taxes on the extraction of natural resources. In March 2023, West Virginia adopted a package of permanent tax cuts, including an immediate 21.25% PIT rate reduction and a provision to trigger automatic future cuts if actual non-severance tax revenues exceed an inflation-adjusted baseline. In July 2024, the governor announced that actual non-severance tax revenues of $5.34 billion in fiscal 2024 exceeded the inflation-adjusted baseline by nearly $100 million, triggering a 4% reduction in PIT rates effective on Jan. 1, 2025.

As the state was finalizing the 2025 budget, concerns arose that the federal government may claw back $465 million in pandemic education aid because the state had not met maintenance of effort requirements. After the situation resolved favorably for the state, the Legislature held a special session in May and restored about $180 million in cuts to the Department of Human Services, of which about $90 million addressed a projected shortfall in Medicaid funding. The Legislature also passed 10 supplemental appropriation bills, including $150 million for highway maintenance and equipment and $50 million for a new agricultural lab facility at West Virginia State University.

During the May 2024 special session, the state also modified the formula for determining annual deposits to the state's rainy-day funds (RDFs), which held about $1.26 billion as of June 30, 2024, equal to 26% of adopted fiscal 2024 general appropriations. Legislation passed in 2022 had previously required the first 50% of surplus general revenue funds to be deposited into the Revenue Shortfall Reserve Fund - Part A until the aggregate amount in the state's two RDFs equals 20% of total appropriations for the fiscal year just ended. The newly adopted revision modified the calculation to 20% of the average of the preceding three fiscal years of general fund appropriations as enacted, thereby excluding supplemental appropriations and unappropriated surplus balance from the calculation, and reducing the current calculation to about $934 million.

Wisconsin

Fiscal 2025 is the second year of Wisconsin's fiscal 2024-2025 biennium. After strong revenue performance immediately following the pandemic, the fiscal 2023-2025 biennial budget assumed a return to more modest tax revenue growth of 1.3% yoy in fiscal 2024, followed by 3.0% growth in fiscal 2025. Revenues through the first year of the biennium met this forecast, with collections through May up 1.3% yoy, led by a 2.1% yoy increase in PIT collections and a 1.9% increase in sales tax collections. Corporate taxes were down marginally and excise taxes were down 6% yoy. Since passage of the budget, the state expanded its childcare tax credit, which is expected to reduce tax revenues a modest $73 million annually.

The enacted biennial budget increased gross appropriations, prior to lapses, transfers and other adjustments, by 11.1% in fiscal 2024, followed by a 7.1% decline in fiscal 2025. The budget provided salary increases of 4% in fiscal 2024 and 2% in fiscal 2025, with substantial additional adjustments for some employees, notably correctional officers. The budget included a $1.5 billion transfer to the local government fund for capital expenditures, applied $400 million to retire a portion of the outstanding general fund annual appropriation bonds issued to purchase back the right to future tobacco settlement revenues, and provided $525 million for affordable housing and $125 million to address PFAS contamination.

K-12 education spending received a $625 million boost across the biennium; notably, the governor used his partial veto power to extend a $325 per-student increase in locally allowed property taxes until 2425, rather than through fiscal 2025, as passed by the 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 go to voters for additional operating revenues; however, ongoing litigation contests this provision.

With the governor's veto last year that reduced a major income tax cut from $3.5 billion to $175 million, and the Legislature's decision to not expand Medicaid under the Affordable Care Act or enact other proposed spending increases, the state continues to carry sizable undesignated fund balances over $3 billion through the biennium. The state did not draw on its RDF (the budget stabilization fund; BSF) during the pandemic-related downturn, and with strong revenue performance, made a $968 million fiscal 2021 deposit. As the balance is above a 5% statutory threshold, the state is not required to make deposits into 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 billion at the end of the biennium (9.2% of forecast revenues).