

STATE REVENUES AND MUNICIPAL CREDIT QUALITY ARE HOLDING UP WELL

State Tax Revenues Remain Solid

Mirroring the resilient national economy, State tax revenues have followed a relatively positive trend, particularly after a short-lived decline in late 2023 through early 2024. The trailing-twelve-month growth rate of +2.4% as of August 2025 is not remarkable, but more than strong enough to support essential budgetary needs.

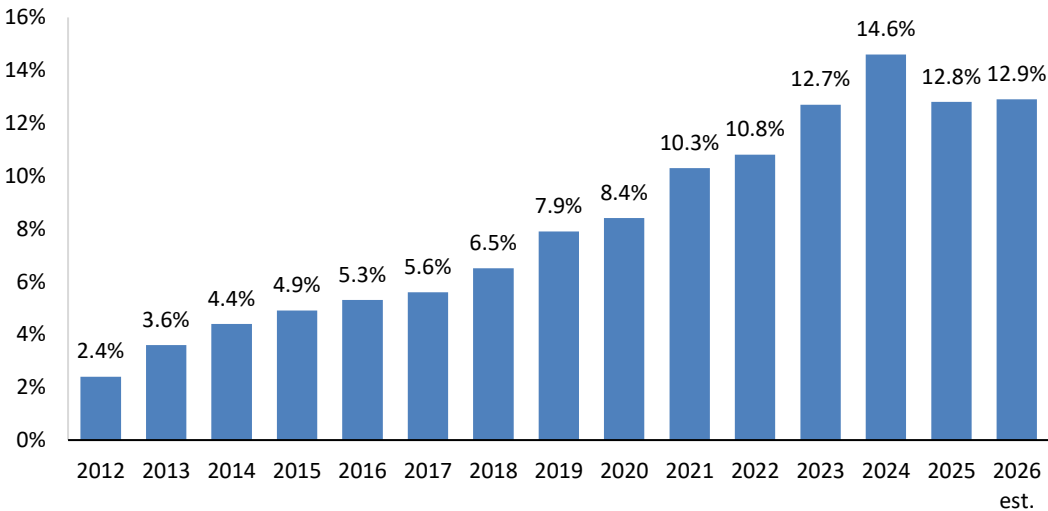


Source: Bank of America

Balance Sheet Strength

As revenues perform as expected there is less of a need to rely on reserves, and this is reflected in recent data. Median State Rainy Day Funds fell in 2025, but primarily due to spending of one-time pandemic funds, often for capital projects, debt paydown, or supplemental pension contributions. Rainy Day Funds are projected to end fiscal 2026 at 12.9% of expenditures, a level that remains conservative and well above the average position of 4.8% from 2010 through 2020. Formidable reserves offer States considerable flexibility in meeting essential expenditures should revenues surprisingly underperform.

States Maintain Reserves at Historically High Levels  
(Median State Rainy Day Fund as % of Expenditures)



Source: National Association of State Budget Officers, Spring 2025 Survey

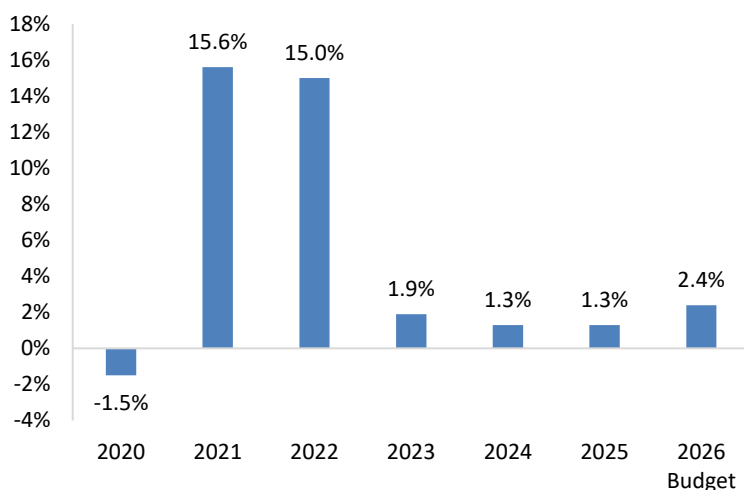
## STATE REVENUES AND MUNICIPAL CREDIT QUALITY ARE HOLDING UP WELL

### Conservative Budgeting Is Still Evident

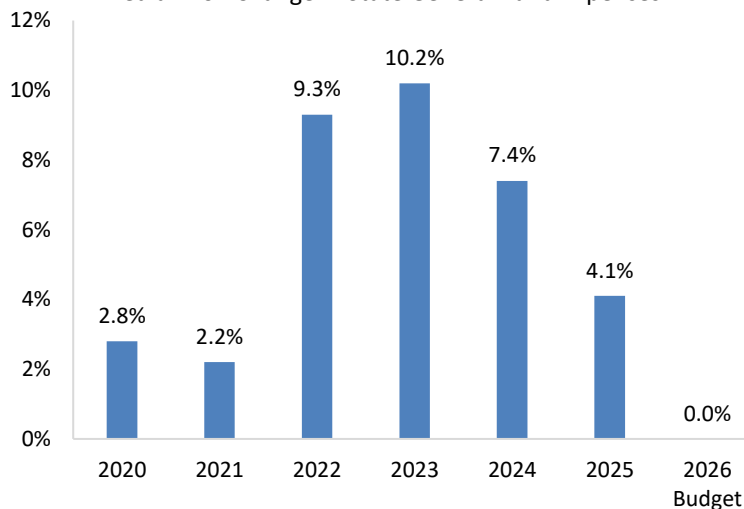
State budget officials are battling the same uncertainty that businesses and consumers are facing when it comes analyzing the impact tariffs, fiscal policy, and monetary policy will have on the economy. When it comes to budget conditions, that uncertainty tends to be a positive for credit quality, as it encourages conservatism. We've seen this play out similarly in prior years, including during the rate hiking cycle of 2022, or the "imminent recession" of 2023, as state budget officials reigned in revenue estimates and curtailed spending, leading to fiscal results that outperformed expectations and stable-to-improving reserves. And this conservatism is not new. Since 2010, on average, 75% of States have met or beat their annual revenue projections.

Following a surge of revenue during the pandemic recovery, State general fund revenues have been on a "normalization" trend the last few years. For fiscal 2026, state budgets project a modest +2.4% median growth rate. We view this as prudent given limited new revenue expectations, the spend down of pandemic aid, and an uncertain economic path for the broader U.S. economy. States are also required to pass a balanced budget, so conservative revenue projections serve as a mitigant to "uncontrolled" spending. Conservatively, States are also projecting no increase in spending for fiscal 2026 compared to 2025 based on median reported forecasts. This builds in a fiscal buffer, as revenues could modestly underperform and States would still have an ability to maintain spending, or a need to make only modest reductions.

Median YoY Change in State General Fund Revenue



Median YoY Change in State General Fund Expenses



Source: National Association of State Budget Officers, Spring 2025 Survey

### Summary

While we acknowledge the impossibility of predicting the next 12 months, we believe that States are in a strong position to weather whatever economic and/or fiscal changes are thrown at them, preserving high-quality credit conditions for the majority of State borrowers.

Our [sales and marketing team](#) is always available to support financial advisors and their clients. Please reach out if we can help.  
1-617-303-0754 | [sales@appletonpartners.com](mailto:sales@appletonpartners.com)

ONE POST OFFICE SQ. BOSTON, MA 02109 TEL. 617.338.0700 [WWW.APPLETONPARTNERS.COM](http://WWW.APPLETONPARTNERS.COM)

*This commentary reflects the opinions of Appleton Partners based on information that we believe to be reliable. It is intended for informational purposes only, and not to suggest any specific performance or results, nor should it be considered investment, financial, tax or other professional advice. It is not an offer or solicitation. Views regarding the economy, securities markets or other specialized areas, like all predictors of future events, cannot be guaranteed to be accurate and may result in economic loss to the investor. While the Adviser believes the outside data sources cited to be credible, it has not independently verified the correctness of any of their inputs or calculations and, therefore, does not warranty the accuracy of any third-party sources or information. Specific securities identified and described may or may not be held in portfolios managed by the Adviser and do not represent all of the securities purchased, sold, or recommended for advisory clients. The reader should not assume that investments in the securities identified and discussed are, were or will be profitable. Any securities identified were selected for illustrative purposes only, as a vehicle for demonstrating investment analysis and decision making. Investment process, strategies, philosophies, allocations, performance composition, target characteristics and other parameters are current as of the date indicated and are subject to change without prior notice. Registration with the SEC should not be construed as an endorsement or an indicator of investment skill, acumen, or experience.*