EAGLE Asset Management

State fiscal conditions and long-term outlook

Why credit research matters amid current pressures

State credit quality remains broadly resilient, but the shifting fiscal environment underscores the importance of disciplined credit research. Our Eagle Municipal Fixed Income credit team evaluates not only headline fiscal metrics, but also revenue volatility, reserve durability, fixed-cost burdens, federal funding exposure, pension obligations, and long-term infrastructure needs.

Governors tread carefully

Many states are becoming more cautious as revenue growth moderates and spending demands continue to rise. The National Association of State Budget Officers' (NASBO) Fiscal Survey of States shows that most governors are proposing fiscal year 2027 budgets that keep general fund spending largely flat.

Nearly half of states reported some form of spending reduction as part of their efforts to balance budgets, including:

- 14 reporting plans to eliminate vacant positions.
- 4 proposing hiring freezes.
- 8 indicating changes to retirement benefits.
- 4 also reporting layoffs or reductions in employee benefits.

These steps reflect the growing need to manage recurring expenses without significantly expanding long-term obligations.

Reserves remain a strength. But revenue growth moderates.

Despite these pressures, NASBO officials note that states remain relatively well positioned overall, largely because many took steps in recent years to control spending and strengthen reserves. Most states expect to increase their rainy-day funds in fiscal 2027. However, research from the Pew Charitable Trusts suggests that as costs rise, state reserve funds may cover fewer days of government operations than they did in prior years.

Revenue performance has been mixed but generally steady. For fiscal 2026, 29 states reported tax collections above forecast, 9 reported collections on target, and 11 reported revenues below expectations. Governors have proposed a combination of tax increases and tax reductions for the next fiscal year that NASBO expects will have a neutral net impact on general fund revenues.

This follows a period of unusually strong revenue growth in fiscal years 2021 and 2022, when states benefited from federal stimulus funding, strong consumer spending, and robust economic activity. Looking ahead, NASBO expects state revenue growth to be more modest due to a slower national economy, the lingering effects of prior state tax cuts, and changes in federal tax policy.

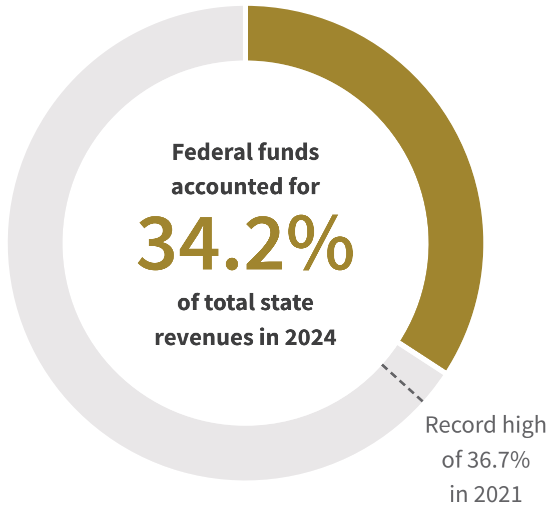
Tax policy on the rise

States looking for ways to manage tighter budgets are considering taxes on second homes, high-value assets, or earnings above certain thresholds. In April, Stateline reported that "millionaire tax" proposals were gaining traction as states face budget pressure. Maine and Washington were among the latest to enact higher taxes on wealthy households, and lawmakers in at least a dozen states have considered similar measures.

Supporters argue that such policies can raise revenue while making state tax systems more progressive. Opponents warn they could discourage investment, business activity, or spur high-income residents to leave. The broader challenge facing states lies in identifying sustainable revenue sources while balancing competitiveness, affordability, and long-term fiscal stability.

Key takeaways

- State credit quality remains broadly resilient, but slowing revenue growth, rising costs, and tighter operating budgets increase the need for credit differentiation at the issuer level.
- Governors' fiscal 2027 budget proposals point to a more cautious environment, with many states reducing spending, keeping spending largely flat, or using workforce measures to manage recurring costs.
- Reserves remain a key strength, but their practical cushion may be shrinking as operating costs rise and revenue growth returns to a more modest pace after the extraordinary gains of 2021 and 2022.
- Federal funding and health care policy changes, particularly around Medicaid, add uncertainty and could force states to absorb costs, reduce services, or identify alternative revenue sources.
- Deferred maintenance and infrastructure needs represent long-term fiscal risks that are not always fully visible in state budget documents, reinforcing the importance of disciplined, forward-looking credit research.



Source: Pew Research Center, "Federal Share of State Budgets Continues Decline From Pandemic Highs," as of May 28, 2026.

Federal funding – a key source of uncertainty

State and federal budgets are deeply interconnected, with federal dollars supporting major public services such as health care, education, public safety, transportation, and infrastructure. According to Pew, federal funds accounted for 34.2% of total state revenues in 2024, down from a record high of 36.7% in 2021.

If federal funding continues to decline, states could face additional pressure to absorb costs, reduce services, or identify alternative revenue sources.

Medicaid changes weigh on state health budgets

Medicaid, jointly funded by states and the federal government, is one of the largest areas of state spending. Federal policy changes will be especially important for state budget planning.

Medicaid changes are expected to reduce federal funding over the next decade; it is estimated that the One Big Beautiful Bill Act will reduce state Medicaid budgets by roughly $665 billion from 2025 to 2034, resulting in an $86 billion reduction to state general funds. States will draw down federal matching funds and face new limits on using provider taxes, which have historically helped finance Medicaid programs. Policymakers could be forced to draw more heavily from their general funds, reduce provider payments, limit optional benefits, tighten eligibility administration, or identify alternative revenue sources.

Impacts vary heavily by state. RAND highlights larger percentage reductions for Arizona, Iowa, and Nevada – expansion states with substantial use of state-directed payments and provider taxes – while California and New York see the largest dollar reductions. Florida, which is a non-expansion state that does not have substantial use of state-directed payments or provider taxes, avoids many of the provisions that hit other states hardest.

Medicare affects states through low-income seniors and people with disabilities who are eligible for both Medicare and Medicaid. Changes to Medicare Advantage, Part D, or programs serving dual-eligible individuals could affect state Medicaid costs, administrative responsibilities, and provider networks.

If federal support declines or program rules become more restrictive, states may face added pressure on safety-net providers, nursing homes, behavioral health services, and rural hospitals. This could make it harder for states to maintain structural balance, protect their reserves, and fund other priorities such as education, transportation, infrastructure, and public safety.

Aging infrastructure – a long-term risk

The Volcker Alliance estimates that the United States has accumulated roughly $1 trillion in deferred maintenance – an amount equal to about 4% of US gross domestic product (GDP). And that amount is expected to grow, potentially raising future costs, reducing the useful life of public assets, and creating hidden liabilities for state and local governments.

The American Society of Civil Engineers' 2025 Report Card for America's Infrastructure gave the US an overall grade of C, up from C- in 2021. This reflects progress from recent federal and state investments, but underscores that significant needs remain across transportation, water, energy, schools, transit, and other critical infrastructure systems.

Bonded debt, pension obligations, and other long-term liabilities are consistently reflected in state capital budgets and annual comprehensive financial reports. Deferred maintenance is not. Some states disclose portions of these needs through separate reports or agency-level planning documents, but practices vary widely. Policymakers, investors, and the public may not have a complete picture of the long-term costs associated with maintaining public infrastructure and facilities.

Implications for investors: Know your issuer

In coming years, states likely will need to place greater emphasis on structural budget balance, maintaining or building adequate reserves, long-term capital planning, and transparency around deferred maintenance obligations.

For municipal investors, this environment underscores the importance of selectivity, forward-looking issuer analysis, and disciplined credit research to identify credits best positioned to navigate a more constrained fiscal landscape.

10 states shaping the fiscal conversation

Illinois

Despite progress, long-term pressures.

Ratings and outlook: Moody's A2 / S&P A- Stable
Budget cycle: Annual
Fiscal year: July 1

BUDGET HIGHLIGHTS

Gov. JB Pritzker signed the state's fiscal 2027 budget in June. The plan focuses on improving affordability for working families while maintaining Illinois' long-term fiscal stability and preparing for potential federal funding challenges. The budget builds on seven years of work that has included reducing the state's bill backlog, improving its credit ratings, and replenishing the rainy day fund.

- Key tax changes include limiting certain federal tax benefits, such as the qualified small business stock break.
- The budget adds new taxes and fees on digital activity, including targeted advertising services and social media platform fees.
- A proposed 3% millionaires' tax on income over $1 million did not advance.
- Additional tax conformity changes helped close Illinois' $200 million fiscal 2026 deficit, while Pritzker proposed pausing the data center tax credit program for two years.

MODERATE MEDICAID AND GENERAL FUND REDUCTIONS

Illinois is projected to see a $16.7 billion reduction (a 4.09% decrease) in its state Medicaid fund by 2034. The state general fund is projected to decline by $10.9 billion (2.67%).

THE CONVERSATION

Illinois illustrates the distinction between recent fiscal improvement and long-term structural pressure. The state has made meaningful progress, but large pension obligations and other legacy liabilities continue to limit budget flexibility. Its long-term outlook remains heavily influenced by pension funding, debt management, population trends, and the need to sustain reserves through a slower revenue environment.

Illinois remains a case where recent fiscal improvement should be weighed against long-term pension, debt, and budget flexibility considerations.

Finances at a glance

General fund General fund balance as a % of expenses	**5.9%**
Federal funding Percentage of state revenue from federal funds 2024	**31%**
Pension funded ratio	**43.3%**
Net direct debt per capita	**$2,256**
Net direct debt as % of government activities revenue	**25.7%**

ECONOMY

5-year population change	**-1.5%**
Unemployment rate	**4.7%**
Per capita personal income	**$77,772**
Per capita personal income as % of US	**101.8%**

Click here to download more fiscal data on Illinois and all 50 states.

Sources: Investortools - Merritt Data; Tax Foundation: Facts & Figures How Does Your State Compare? 2026; US Bureau of Economic Analysis, ATTOM Foreclosure Activity Report by State – May 2026, Reason Foundation: Unfunded Public Pension Liabilities by State – 2024, Pew Research.

California

Financially strong. Structurally exposed.

Ratings and outlook: Moody's Aa2 / S&P AA- Stable
Budget cycle: Annual
Fiscal year: July 1

BUDGET HIGHLIGHTS

In late June, Gov. Gavin Newsom and legislative leaders announced an agreement to balance the budget with no deficit for the next two years by putting more than $6 billion of anticipated revenues in a holding account. Newsom's office said it has prioritized building reserves, reducing long-term liabilities, and investing in education, public safety, housing, health care, climate resilience, infrastructure, and economic opportunity. Part of the budget agreement was the Save for California's Future Act, a constitutional amendment to strengthen the state's Rainy Day Fund and prepare for future uncertainty.

- Newsom has proposed new revenue measures, including limits on corporate tax credits and applying sales tax to software.
- Lawmakers have advanced a proposal requiring multinational corporations to report more global income for California tax purposes.
- Several ballot measures could affect state and local revenues, including real estate transfer taxes, a one-time billionaire wealth tax, and a renewal of Proposition 55's top income tax rates.
- California approved a tax package aligning parts of state law with the federal tax code as of Jan. 1, 2025, with selected modifications.

LARGE MEDICAID FUND REDUCTION

California is projected to see a $112.3 billion reduction (a 6.7% decrease) in its state Medicaid fund by 2034. The state general fund is projected to decline by $102.1 billion (6.09%).

THE CONVERSATION

California remains financially strong but structurally exposed. The state benefits from the nation's largest economy, significant reserves, and a broad tax base, but its heavy reliance on high-income taxpayers and capital gains makes revenues unusually volatile. Recent budget gaps, rising program costs, federal funding uncertainty, housing affordability pressures, and long-term infrastructure and climate needs all point to a more constrained fiscal outlook.

Demographic trends also warrant attention. While headlines can sometimes overstate the near-term credit impact, slower population growth and continued domestic outmigration remain important long-term factors to monitor: They can affect labor markets, housing demand, tax base growth, and service needs. California is not in fiscal distress, but it illustrates how even economically powerful states can face recurring budget stress when ongoing spending commitments grow faster than stable revenues.

California reinforces the importance of looking beyond headlines and evaluating revenue volatility, reserve durability, demographic trends, and the state's ability to align recurring spending with more stable revenue sources.

Finances at a glance

General fund General fund balance as a % of expenses	**26.1%**
Federal funding Percentage of state revenue from federal funds 2024	**28%**
Pension funded ratio	**79%**
Net direct debt per capita	**$1,950**
Net direct debt as % of government activities revenue	**16.0%**

ECONOMY

5-year population change	**-0.4%**
Unemployment rate	**5.0%**
Per capita personal income	**$91,116**
Per capita personal income as % of US	**119.3%**

Click here to download more fiscal data on California and all 50 states.

Sources: Investortools - Merritt Data; Tax Foundation: Facts & Figures How Does Your State Compare? 2026; US Bureau of Economic Analysis, ATTOM Foreclosure Activity Report by State – May 2026, Reason Foundation: Unfunded Public Pension Liabilities by State – 2024, Pew Research.

Washington

High growth. Slowing revenue.

Ratings and outlooks: Moody's Aaa Negative / S&P AA+ Stable
Budget cycle: Biennial
Fiscal year: July 1

BUDGET HIGHLIGHTS

Gov. Bob Ferguson signed Washington's three separate budgets – operating, capital, and transportation – into law in April. Despite a continued budget shortfall, the final Operating Budget allowed Washington to maintain core services. The Capital Budget included the largest state-funded housing investment in state history. The Office of Financial Management also reached two collective bargaining agreements outside the standard biennial bargaining cycle. The agreements provided inflationary increases, competitive pay for low-wage workers, and targeted wage increases and premium pay for certain positions.

- In March, Ferguson signed tax legislation that made several major revenue changes, including a new 9.9% tax on income over $1 million beginning in 2028.
- The law expanded the Working Families Tax Credit, allowing about 460,000 more households to qualify for relief.
- The package also included targeted sales tax exemptions and business and occupation tax changes to raise revenue while supporting lower- and middle-income households.
- New revenue will help fund public education, child care, and other essential services as Washington addresses budget pressures.

SIGNIFICANT MEDICAID FUND REDUCTION, OFFSET BY GENERAL FUND GAIN

Washington is projected to see a $17.6 billion reduction (a 7.52% decrease) in its state Medicaid fund by 2034. The state general fund is projected to rise by $3.3 billion (1.41%).

THE CONVERSATION

Washington is a high-growth state in a slower revenue environment. It benefits from a strong economy, major technology-sector presence, and continued population and business activity, but its tax structure leaves it sensitive to shifts in consumer spending and business conditions.

Recent revenue forecasts have softened, and state officials have warned of future operating and transportation budget shortfalls. As costs rise for education, health care, housing, transportation, and infrastructure, Washington's fiscal outlook will depend on its ability to align recurring revenues with ongoing spending commitments while maintaining economic competitiveness. Recent tax policy changes add another factor to watch, particularly given their legal and political uncertainty.

Washington highlights the importance of evaluating how high-growth states balance economic competitiveness with the need for recurring revenue to support expanding public services.

Finances at a glance

General fund General fund balance as a % of expenses	**9.8%**
Federal funding Percentage of state revenue from federal funds 2024	**30%**
Pension funded ratio	**93.9%**
Net direct debt per capita	**$2,271**
Net direct debt as % of government activities revenue	**23.8%**

ECONOMY

5-year population change	**3.9%**
Unemployment rate	**5.1%**
Per capita personal income	**$89,396**
Per capita personal income as % of US	**117.0%**

Click here to download more fiscal data on Washington and all 50 states.

Sources: Investortools - Merritt Data; Tax Foundation: Facts & Figures How Does Your State Compare? 2026; US Bureau of Economic Analysis, ATTOM Foreclosure Activity Report by State – May 2026, Reason Foundation: Unfunded Public Pension Liabilities by State – 2024, Pew Research.

New York

Financial resilience. Long-term risks.

Ratings and outlook: Moody's Aa1 / S&P AA+ Stable
Budget cycle: Annual
Fiscal year: April 1

BUDGET HIGHLIGHTS

In May, Gov. Kathy Hochul signed New York's budget for fiscal year 2027. The budget expanded universal pre-kindergarten and early childhood education programs, increased childcare subsidies, and supported early childhood educators. It also provided for one-time energy rebate checks for approximately 8.2 million taxpayers and bolstered other efforts to reduce energy costs. Public safety investments included additional funds for law enforcement across New York City's subway system and youth diversion programs. The plan also incorporated legislation eliminating state income tax on up to $25,000 of tipped income, consistent with federal tax guidance. The budget included capital funding commitments for environmental and clean energy initiatives, transportation, clean water, affordable and supportive housing, economic and community development, health care, public safety, and higher education.

- Key revenue measures included a new luxury tax on second homes worth more than $5 million in New York City, an extension of the 7.25% top corporate tax rate, and changes to how New York treats certain federal depreciation tax cuts.
- The budget also included household-focused measures, such as $100 to $200 energy rebates, a tipped-income deduction, a modest child and dependent care credit expansion, and a new tax on nicotine pouches.
- The spending plan provided more support for New York City and invested billions in child care to make care free or more affordable for families.

MAJOR MEDICAID FUND REDUCTION

New York is projected to see a $62.6 billion reduction (a 5.2% decrease) in its state Medicaid fund by 2034. The state general fund is projected to decline by $5.3 billion (0.44%).

THE CONVERSATION

New York remains financially resilient but exposed to several long-term budget risks. The state benefits from a large economy, substantial tax base, and improved reserves, but its fiscal outlook is constrained by high recurring spending, Medicaid growth, infrastructure needs, and reliance on high-income taxpayers.

Federal funding uncertainty adds another layer of risk, particularly for health care and social service programs. New York is not facing an immediate fiscal crisis, but its long-term outlook depends on its ability to control recurring costs, protect its reserves, and maintain a stable tax base in a high-cost environment.

New York underscores the importance of monitoring high-income taxpayer exposure, Medicaid growth, preservation of reserves, and long-term fixed-cost pressures.

Finances at a glance

General fund General fund balance as a % of expenses	**46.5%**
Federal funding Percentage of state revenue from federal funds 2024	**40%**
Pension funded ratio	**93.4%**
Net direct debt per capita*	**$2,369**
Net direct debt as % of government activities revenue*	**16.4%**

ECONOMY

5-year population change	**2.0%**
Unemployment rate	**4.2%**
Per capita personal income	**$88,847**
Per capita personal income as % of US	**116.3%**

Click here to download more fiscal data on New York and all 50 states.

Sources: Investortools - Merritt Data; Tax Foundation: Facts & Figures How Does Your State Compare? 2026; US Bureau of Economic Analysis, ATTOM Foreclosure Activity Report by State – May 2026, Reason Foundation: Unfunded Public Pension Liabilities by State – 2024, Pew Research.

* Eagle research calculation using New York annual comprehensive financial report, New York financial condition report, and US Census Bureau data.

Texas

Growing fast, with long-term challenges.

Ratings and outlook: Moody's Aaa / S&P AAA Stable
Budget cycle: Biennial
Fiscal year: September 1

BUDGET HIGHLIGHTS

Texas' fiscal 2026-2027 budget reflects continued revenue strength and a focus on affordability, education, infrastructure, economic growth, and public safety. The plan prioritizes property tax relief, additional support for small businesses, and reforms to local property tax elections. It also emphasizes education investments, including a Universal Education Savings Account program, increased teacher compensation, expanded educator preparation programs, special education funding reforms, school safety enhancements, and career preparation opportunities for high school students. It increases higher education financial aid and supports community colleges, emerging research universities, and health care workforce programs. Areas of focus also include public safety, infrastructure, and oversight of the Texas Education Agency.

- State leaders are considering competing property tax relief plans, including eliminating school taxes on homesteads, capping assessment growth, and expanding exemptions for homeowners, seniors, and disabled residents.
- Lt. Gov. Dan Patrick has opposed Gov. Greg Abbott's proposal, warning it could require higher sales taxes, while his own plan would still significantly reduce property tax collections.
- Texas is reviewing its data center sales tax exemption, which could reduce state revenue by an estimated $3.2 billion over the next two years.
- Long-term infrastructure pressures are also rising, with communities projected to need $174 billion over 50 years to help avoid a severe water crisis.

MEDICAID FUND REDUCTION WITH GENERAL FUND INCREASE

Texas is projected to see a $32.4 billion reduction (a 4.75% decrease) in its state Medicaid fund by 2034. The state general fund is projected to increase by $13.4 billion (1.96%).

THE CONVERSATION

Texas remains one of the strongest fiscal and economic performers among the states, supported by population growth, business expansion, the energy industry, and a broadening economy. Its lack of a personal income tax is a competitive advantage, but it also makes the state more reliant on sales, business, and energy-related revenues.

The central fiscal challenge for Texas is not immediate weakness, but growth management. Rising demand for transportation, water, schools, housing, public safety, and electric grid reliability will require continued investment. Its long-term fiscal success will depend on balancing tax competitiveness with the cost of sustaining rapid population and economic growth.

Texas highlights the importance of assessing how fast-growing states balance tax competitiveness with the infrastructure and service demands created by continued population and economic expansion.

Finances at a glance

General fund General fund balance as a % of expenses	**40.7%**
Federal funding Percentage of state revenue from federal funds 2024	**33%**
Pension funded ratio	**77.0%**
Net direct debt per capita	**$270**
Net direct debt as % of government activities revenue	**4.4%**

ECONOMY

5-year population change	**7.6%**
Unemployment rate	**4.0%**
Per capita personal income	**$72,364**
Per capita personal income as % of US	**94.7%**

Click here to download more fiscal data on Texas and all 50 states.

Sources: Investortools - Merritt Data; Tax Foundation: Facts & Figures How Does Your State Compare? 2026; US Bureau of Economic Analysis, ATTOM Foreclosure Activity Report by State – May 2026, Reason Foundation: Unfunded Public Pension Liabilities by State – 2024, Pew Research.

Florida

Fiscal strength with significant long-term pressures.

Ratings and outlook: Moody's Aaa / S&P AAA Stable
Budget cycle: Annual
Fiscal year: July 1

BUDGET HIGHLIGHTS

Florida Gov. Ron DeSantis signed the state's 2026-2027 fiscal year budget in late June after issuing line-item vetoes that cut nearly $810 million from the $117.6 billion plan. Budget highlights included state spending that has declined four years in a row, a Rainy-Day Fund maxed out to its constitutional limit, and the retirement of more than half of all state debt ahead of schedule. The budget included record K-12 funding and per-student funding, as well as support for pre-kindergarten and school readiness programs. It reduced total state positions while funding state reserves that could be drawn upon in the event of storms and disasters, as well as economic development, transportation, environmental, and water quality programs.

- Lawmakers approved DeSantis's property tax ballot question during a brief special session, with final voter approval required in November.
- If approved, the homestead exemption would be raised to $250,000 over two years, and a legislative process would be prescribed for cities and counties to raise the exemption to cover all homestead valuations, excluding school property taxes.
- Lawmakers also approved tax bills to decouple Florida from certain federal corporate tax provisions, including bonus depreciation and research and development expensing.

MINIMAL NET MEDICAID FUND IMPACT

Florida is projected to see a $533.4 million increase (a 0.14% increase) in its state Medicaid fund by 2034. The state general fund is projected to decline by $157.1 million (0.04%).

THE CONVERSATION

Florida remains in a strong fiscal position, supported by population growth, tourism, business formation, and a tax structure that does not include a personal income tax. The state has prioritized building reserves, debt reduction, and tax relief, which have helped preserve flexibility. However, rapid growth and climate exposure create significant long-term pressures. Florida must continue to invest in transportation, water, housing, emergency management, and coastal resilience while managing rising insurance costs and disaster-related risks.

The state is financially sound, but its long-term outlook depends on how effectively it balances fiscal discipline with the infrastructure and resilience needs of a fast-growing, disaster-exposed economy.

Florida reinforces the need to evaluate growth-related infrastructure needs, climate and disaster exposure, insurance pressures, and the state's capacity to maintain fiscal flexibility.

Finances at a glance

General fund General fund balance as a % of expenses	**57.0%**
Federal funding Percentage of state revenue from federal funds 2024	**34%**
Pension funded ratio	**78.6%**
Net direct debt per capita	**$169**
Net direct debt as % of government activities revenue	**3.2%**

ECONOMY

5-year population change	**8.5%**
Unemployment rate	**4.6%**
Per capita personal income	**$76,440**
Per capita personal income as % of US	**100.1%**

Click here to download more fiscal data on Florida and all 50 states.

Sources: Investortools - Merritt Data; Tax Foundation: Facts & Figures How Does Your State Compare? 2026; US Bureau of Economic Analysis, ATTOM Foreclosure Activity Report by State – May 2026, Reason Foundation: Unfunded Public Pension Liabilities by State – 2024, Pew Research.

Alaska

A structural long-term challenge

Ratings and outlook: Moody's Aa2 / S&P AA Stable
Budget cycle: Annual
Fiscal year: July 1

BUDGET HIGHLIGHTS

In late June, Gov. Mike Dunleavy signed Alaska's fiscal 2027 budget into law. The budget invests in school infrastructure and raises funding to districts to help cover increased energy and related costs. Dunleavy noted that Alaska's revenues had been higher than expected because of a temporary increase in oil prices due to geopolitical unrest in the Middle East. At the same time, higher oil prices raised costs for energy, freight, construction materials, and essential maintenance. As a result, the budget directed part of this one-time revenue toward energy-related costs and overdue capital needs in schools.

- Dunleavy called a special session to revisit a proposed property tax break for a natural gas pipeline project after lawmakers raised concerns about the cost and lack of detail.
- The original proposal could reduce state revenue by an estimated $7.2 billion over 36 years.
- The governor's broader fiscal plan pairs new revenue with spending cuts and includes changes to oil, Permanent Fund Dividend, and corporate and sales tax policies.
- Lawmakers rejected a proposal to apply Alaska's corporate income tax to Hilcorp, while a Senate committee revised the pipeline plan to add fees and taxes to offset lost property tax revenue.
- The Legislature also approved a new 25% retail tax on e-cigarette products, Alaska's first tax on those products.

SMALL MEDICAID FUND REDUCTION WITH GENERAL FUND GAIN

Alaska is projected to see a $476.0 million reduction (a 1.4% decrease) in its state Medicaid fund by 2034. The state general fund is projected to increase by $84.3 million (0.25%).

THE CONVERSATION

Alaska is a clear example of a state where fiscal stability is closely tied to resource revenue and long-term savings policy. The state benefits from the Permanent Fund and natural resource wealth, but its lack of broad-based taxes and dependence on oil revenue create recurring budget volatility. Lower oil prices, dividend policy debates, high service-delivery costs, and heavy federal funding exposure all complicate the state's fiscal outlook.

Alaska's long-term challenge is structural: aligning recurring spending with stable recurring revenue while preserving the Permanent Fund and addressing significant infrastructure needs across a geographically large and high-cost state.

Alaska underscores the importance of analyzing revenue concentration, reserve policy, Permanent Fund decisions, and the state's ability to manage volatility in resource-dependent revenues.

Finances at a glance

General fund General fund balance as a % of expenses	**44.3%**
Federal funding Percentage of state revenue from federal funds 2024	**49%**
Pension funded ratio	**71.4%**
Net direct debt per capita	**$1,388**
Net direct debt as % of government activities revenue	**6.0%**

ECONOMY

5-year population change	**-2.1%**
Unemployment rate	**4.9%**
Per capita personal income	**$80,175**
Per capita personal income as % of US	**105.0%**

Click here to download more fiscal data on Alaska and all 50 states.

Sources: Investortools - Merritt Data; Tax Foundation: Facts & Figures How Does Your State Compare? 2026; US Bureau of Economic Analysis, ATTOM Foreclosure Activity Report by State – May 2026, Reason Foundation: Unfunded Public Pension Liabilities by State – 2024, Pew Research.

Maryland

In the shadow of federal policy

Ratings and outlooks: Moody's Aa1 Stable / S&P AAA Negative
Budget cycle: Annual
Fiscal year: July 1

BUDGET HIGHLIGHTS

Maryland's enacted fiscal 2027 budget included no new taxes or fees but reduced general fund expenditures from fiscal 2026 levels. Budget priorities included funding for renewable and clean energy programs, funds to support lower utility bills, and investments in research on energy resiliency and utility fee relief. Record levels of funding were included for the state's Child Care Scholarship program as well as for law enforcement through the State Aid for Police Protection Program, expansion of community-based programs to serve justice-involved youth, and support for correctional facilities improvements. The budget funded community-driven initiatives to address child poverty and 250 projects through the state's housing agency. It also increased funding for K-12 schools, invested in evidence-based literacy and math coaches, funded efforts to address teacher vacancies, and supported Community Schools that provide wraparound student and family support services.

- Gov. Wes Moore signed a budget in April that used spending cuts and one-time funding shifts to close a nearly $1.4 billion deficit without raising taxes or fees. The budget addresses the near-term shortfall but leaves longer-term deficits unresolved, with gaps projected to grow from $2.3 billion in 2027 to nearly $4 billion by 2030.
- The plan selectively follows some federal business tax rules while decoupling from others, including certain depreciation provisions.
- Lawmakers debated broader revenue measures and narrowly failed to repeal the information technology and data services surcharge, which has raised less revenue than expected.

LARGE PERCENTAGE REDUCTION IN MEDICAID FUND

Maryland is projected to see a $22.6 billion reduction (an 11.25% decrease) in its state Medicaid fund by 2034. The state's general fund is projected to increase by $2.3 billion (1.16%).

THE CONVERSATION

Maryland clearly reflects the connection between federal policy and state fiscal stability. The state benefits from a high-income economy, strong institutions, and proximity to the federal government, but those same strengths expose it to federal employment, procurement, grants, and program funding decisions.

Recent budget gaps have forced policymakers to consider spending reductions, revenue adjustments, and longer-term fiscal reforms. Maryland's outlook depends heavily on its ability to manage recurring spending, preserve competitiveness, and reduce vulnerability to federal funding shifts while investing in education, transportation, health care, and infrastructure.

Maryland reinforces the importance of assessing federal funding exposure, recurring budget gaps, economic competitiveness, and the state's ability to manage policy shifts from Washington.

Finances at a glance

General fund General fund balance as a % of expenses	**16.8%**
Federal funding Percentage of state revenue from federal funds 2024	**34%**
Pension funded ratio	**71.7%**
Net direct debt per capita	**$1,769**
Net direct debt as % of government activities revenue	**19.8%**

ECONOMY

5-year population change	**3.0%**
Unemployment rate	**4.4%**
Per capita personal income	**$81,834**
Per capita personal income as % of US	**107.1%**

Click here to download more fiscal data on Maryland and all 50 states.

Sources: Investortools - Merritt Data; Tax Foundation: Facts & Figures How Does Your State Compare? 2026; US Bureau of Economic Analysis, ATTOM Foreclosure Activity Report by State – May 2026, Reason Foundation: Unfunded Public Pension Liabilities by State – 2024, Pew Research.

New Mexico

Near-term boosts. Potential long-term challenges.

Ratings and outlook: Moody's Aa1 / S&P AA Stable
Budget cycle: Annual
Fiscal year: July 1

BUDGET HIGHLIGHTS

New Mexico's enacted fiscal 2027 budget includes investments to help expand behavioral health, housing, and long-term care services. It also raises education funding to increase the number of available preschool slots for 3-year-olds, to fund the first year of universal childcare, and to support the core operating expenses of colleges and universities. It provides a 1% cost-of-living adjustment for employees of state agencies, higher education institutions, and public schools.

- New Mexico has enacted corporate tax reforms to limit multinational tax avoidance by aligning with the federal NCTI (net controlled foreign corporations income) definition.
- The state also decoupled from several federal tax provisions, including bonus depreciation, the qualified property deduction, and business interest rules.
- Tax changes adopted by the state are expected to raise more than $110 million annually beginning in fiscal 2028.
- Gov. Michelle Lujan Grisham proposed eliminating the gross receipts tax on medical services and creating $150 million in tax credits for emerging industries.
- A recent review found that 24 economic development tax breaks, totaling $520 million in fiscal 2025, produced a negative return for state revenue.

SIGNIFICANT MEDICAID FUND REDUCTION

New Mexico is projected to see a $9.8 billion reduction (a 9.56% decrease) in its state Medicaid fund by 2034. The state general fund is projected to increase by $1.0 billion (0.98%).

THE CONVERSATION

New Mexico's fiscal position has improved significantly because of strong energy-related revenues and deliberate efforts to build reserves and long-term funds. However, the state's outlook remains tied to two major sources of volatility: oil and gas revenue and federal funding.

Recent budgets have supported increased investment in education, public services, and workforce needs, but sustaining those commitments will require careful management if revenue growth slows. New Mexico is financially stronger than it was in prior years, but its long-term fiscal stability will depend on converting temporary or volatile revenue gains into durable investments while limiting exposure to commodity cycles and federal policy shifts.

New Mexico highlights the need to distinguish between near-term fiscal strength and longer-term exposure to energy revenue volatility, federal funding shifts, and sustainability of expanded spending commitments.

Finances at a glance

General fund General fund balance as a % of expenses	**89.2%**
Federal funding Percentage of state revenue from federal funds 2024	**31%**
Pension funded ratio	**68.7%**
Net direct debt per capita	**$534**
Net direct debt as % of government activities revenue	**2.9%**

ECONOMY

5-year population change	**0.8%**
Unemployment rate	**4.6%**
Per capita personal income	**$61,645**
Per capita personal income as % of US	**80.7%**

Click here to download more fiscal data on New Mexico and all 50 states.

Sources: Investortools - Merritt Data; Tax Foundation: Facts & Figures How Does Your State Compare? 2026; US Bureau of Economic Analysis, ATTOM Foreclosure Activity Report by State – May 2026, Reason Foundation: Unfunded Public Pension Liabilities by State – 2024, Pew Research.

Pennsylvania

Slower growth. Rising demands.

Ratings and outlook: Moody's Aa2 / S&P A+ Stable
Budget cycle: Annual
Fiscal year: July 1

BUDGET HIGHLIGHTS

Pennsylvania's 2026-27 budget, signed in July by Gov. Josh Shapiro, included increased investments in education and support for workforce initiatives such as career and technical education; economic development and innovation in the private sector; and public safety.

- Pennsylvania's 2025-26 budget created a new state tax credit modeled on the federal Earned Income Tax Credit and equal to 10% of the federal credit. The state's corporate tax rate is scheduled to drop from 7.49% in 2026 to 6.99% in 2027.
- Lawmakers approved corporate tax changes that decoupled certain state tax revenues from the federal One Big Beautiful Bill Act, with a report on the impact to state revenues due by the end of 2026.
- Shapiro also has proposed taxing skill games and legalizing marijuana as additional revenue and policy measures.

MODEST MEDICAID FUND REDUCTION

Pennsylvania is projected to see a $12.7 billion reduction (a 2.47% decrease) in its state Medicaid fund by 2034. The state general fund is projected to increase by $884.3 million (0.17%).

THE CONVERSATION

Pennsylvania demonstrates the fiscal challenges facing large, mature states with slower growth and rising service demands. The state has improved its reserves in recent years, but recurring spending pressures continue to outpace recurring revenue growth. Medicaid, education, pensions, corrections, infrastructure, and aging-related services all place pressure on the budget.

Pennsylvania faces the cumulative effect of slower demographic growth, large fixed costs, and significant long-term investment needs. Its fiscal outlook will depend on whether the state can protect its reserves, manage program growth, and address infrastructure needs without relying too heavily on one-time resources.

Pennsylvania highlights the need to evaluate recurring budget balance, fixed-cost burdens, demographic trends, and the state's ability to preserve reserves while funding long-term needs.

Finances at a glance

General fund General fund balance as a % of expenses	**16.8%**
Federal funding Percentage of state revenue from federal funds 2024	**36%**
Pension funded ratio	**67.7%**
Net direct debt per capita	**$1,000**
Net direct debt as % of government activities revenue	**12.0%**

ECONOMY

5-year population change	**2.2%**
Unemployment rate	**3.7%**
Per capita personal income	**$74,231**
Per capita personal income as % of US	**97.2%**

Click here to download more fiscal data on Pennsylvania and all 50 states.

Sources: Investortools - Merritt Data; Tax Foundation: Facts & Figures How Does Your State Compare? 2026; US Bureau of Economic Analysis, ATTOM Foreclosure Activity Report by State – May 2026, Reason Foundation: Unfunded Public Pension Liabilities by State – 2024, Pew Research.

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