STATE FISCAL OUTLOOK

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CURRENT ECONOMIC AND FISCAL SITUATION
Fiscal 2018 expected to mark the 8th consecutive annual increase in general fund spending and revenues.

Budget environment for most states indicates slow growth.

Fiscal progress has been uneven across states, with some facing difficult budgetary challenges.

With long-term spending pressures and slow revenue growth expected, FY 2018 budgets are cautious.
FY 2018 State Budget Themes

- **K-12**: raising teacher salaries; investing in early education; funding formula re-examination
- **Workforce development**: career pathways; addressing skill gap; coordinating with K-12 and higher education
- **Child welfare services**: lowering caseloads; foster care improvement
- **Medicaid**: state match for expansion states; home-based care emphasis; cost-savings
- **Pension funding**: lowering assumed rate of returns; new employee plans; changes to existing plans
- **Transportation**: linking to economic development; multi-year needs assessments; large percentage increase past 2 years; increased revenue
- **Opioids**: continued investment in substance abuse and live-saving efforts
Governors’ budgets for fiscal 2018 propose general fund spending growth of just 1%, while assuming modest general fund revenue growth of 3.1%

States are contending with effects of back-to-back years of sluggish revenue growth of 1.8% in fiscal 2016 and 2.4% in fiscal 2017

33 states reported fiscal 2017 general fund revenue shortfalls, and at least 23 states have already made net mid-year budget cuts in fiscal 2017

**SPRING 2017 FISCAL SURVEY: KEY TAKEAWAYS**

Governors proposed tax and fee changes that would result in a net revenue increase of $3.7B in fiscal 2018

Governors’ budgets project a slowdown in Medicaid spending growth in fiscal 2018, as states continue to watch federal legislative efforts to repeal and replace the ACA and reform Medicaid

Most states continue to bolster their rainy day funds, with the median balance as a share of general fund spending rising from 2.0 percent in fiscal 2010-2011 to 6.0%(projected) in fiscal 2018
MAJOR CHALLENGES TO STATE BUDGETS:

- Modest economic growth = modest revenue growth
- Medicaid spending growing at higher rate than revenues
- Pensions and retiree health liabilities
- Maintaining infrastructure and new transportation demands
- Certain states impacted by energy prices, demographic changes, tax related issues, long-term liabilities, slow economic growth
- Federal uncertainty surrounding future funding levels, tax code, healthcare, infrastructure, municipal debt, etc.
FEDERAL UNCERTAINTY FOR STATES

1. The Affordable Care Act, especially Medicaid – Per capita caps, Expansion, Flexibility

2. Tax Policy Considerations – municipal debt, border-adjusted corporate tax, state/local tax deductibility

3. Infrastructure

4. The Fiscal 2018 Budget
FEDERAL BUDGET IMPACT ON STATES

- States spent $600 billion in federal grants in FY 2016
- States spent $260 billion excluding Medicaid benefits
- Nearly all from the Non-defense Discretionary budget
- Medicaid, Food stamps, Child nutrition, TANF – Mandatory budget
- Non-defense Discretionary budget is about $520 billion
- Pres. Trump budget -$54 billion cut – about 10%

Areas of Federal Fund Spending in States:
- Transportation - $46 billion in FY 2016
- Education - $54 billion in FY 2016
- Health & Human Services - $28 billion in FY 2016
- Agriculture, Labor, Energy & EPA, Justice, Homeland Sec - $20 billion
IMPACT OF PRESIDENT’S FY2018 BUDGET PROPOSAL ON STATES AND LOCALS

- New state financial requirements
  - First-time state matching funds for SNAP, and FEMA – State Homeland Security Grant and Urban Area Security Initiative
- Reduces funding
  - Workforce Investment and Opportunity Act, HUD rental assistance programs, TANF, and EPA categorical grants
- Eliminates funding
  - Community Development Block Grants, Social Service Block Grants, Low Income Home Energy Assistance Program, 21st Century Community Learning Centers, regional commissions, and various Housing and Urban Development Programs

Source: NASBO Blog – What the Federal Government is Telling States
CURRENT FISCAL SITUATION INDICATORS
STATE GENERAL FUND SPENDING GROWTH PROJECTED TO SLOW CONSIDERABLY IN FISCAL 2018

Annual General Fund Expenditure Growth (%)

*39-year historical average annual rate of growth is 5.5 percent.

**Fiscal 2018 percentage growth is based on recommended budgets.

Source: NASBO Fiscal Survey of States
GENERAL FUND SPENDING GROWTH:
NATIONAL MEDIAN VS. WESTERN STATES

Source: NASBO Fiscal Survey of States
GOVERNORS RECOMMEND CAUTIOUS BUDGETS
Total Spending Increase of $8.7B Compared to $23.9B in Fiscal 2017

Recommended General Fund Spending Changes by Program Area

Source: NASBO Fiscal Survey of States
SLUGGISH GENERAL FUND REVENUE GROWTH FOR TWO CONSECUTIVE YEARS
Modest Improvement Expected in Fiscal 2018

General Fund Revenue: FY 2008-FY 2018

Source: NASBO Fiscal Survey of States; Fiscal 2018 figure is based on recommended budgets.
*Aggregate revenue level needed to total at least $799 billion in fiscal 2017 to be equivalent with or exceed real 2008 spending level.
33 STATES REPORTING REVENUE COLLECTIONS BELOW BUDGET PROJECTIONS

General Fund Revenue Collections Compared to Original Budget Projections

Source: NASBO Fiscal Survey of States.
*Fiscal 2017 figures are based on data collected in spring 2017, before the end of the fiscal year and before April collections were in.
FY 2018 GENERAL FUND REVENUE FORECASTS - US vs. Western
BEFORE TAX POLICY CHANGES

<table>
<thead>
<tr>
<th></th>
<th>US General Fund Revenue Growth</th>
<th>+2.9%</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>48 States:</td>
<td></td>
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<tr>
<td></td>
<td>› Personal Income</td>
<td>+4.2%</td>
</tr>
<tr>
<td></td>
<td>› Sales</td>
<td>+3.9%</td>
</tr>
<tr>
<td></td>
<td>› Corporate Income</td>
<td>+3.0%</td>
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</tbody>
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|                       | Western General Fund Revenue Growth | +3.3% |
|                       | 13 States:                         |       |
|                       | › Personal Income                 | +4.8% |
|                       | › Sales                           | +4.3% |
|                       | › Corporate Income                | +5.4% |
GOVERNORS’ PROPOSED TAX AND FEE CHANGES WOULD RESULT IN A NET REVENUE INCREASE OF $3.7 BILLION

<table>
<thead>
<tr>
<th>Revenue Type</th>
<th># of States Proposing Increases</th>
<th># of States Proposing Decreases</th>
<th>Fiscal 2018 Net Change ($ in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Tax</td>
<td>8</td>
<td>7</td>
<td>$+1,685</td>
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<tr>
<td>Personal Income Tax</td>
<td>5</td>
<td>12</td>
<td>$-1,205</td>
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<tr>
<td>Corporate Income Tax</td>
<td>3</td>
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<tr>
<td>Cigarette/Tobacco Tax</td>
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<tr>
<td>Motor Fuel Tax</td>
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<tr>
<td>Alcohol Tax</td>
<td>4</td>
<td>0</td>
<td>$+104</td>
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<tr>
<td>Other Tax</td>
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<td>6</td>
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<tr>
<td>Fees</td>
<td>7</td>
<td>2</td>
<td>$+134</td>
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<tr>
<td>NET TOTAL</td>
<td>15</td>
<td>12</td>
<td>$+3,716</td>
</tr>
</tbody>
</table>

Source: NASBO Fiscal Survey of States
AT LEAST 23 STATES MADE MID-YEAR BUDGET CUTS IN FISCAL 2017, TOTALING $4.9 BILLION

Enacted Budget Cuts Made After the Budget Passed

Source: NASBO Fiscal Survey of States
STATES CONTINUE TO STRENGTHEN RAINY DAY FUNDS
27 STATES ESTIMATED INCREASES IN FISCAL 2017; 28 STATES PROJECT INCREASES FOR FISCAL 2018

Rainy Day Fund Balances, Fiscal 2008 to Fiscal 2018

*FY2017 and FY2018 totals exclude Georgia and Oklahoma. Source: NASBO Spring 2017 Fiscal Survey
RAINY DAY FUND AS A % OF EXPENDITURES: NATIONAL MEDIAN VS. WESTERN STATES

Source: NASBO Fiscal Survey of States
STRATEGIES USED TO MANAGE BUDGETS
FY 2018 (Proposed)

- **29 states**  
  TARGETED CUTS

- **4 states**  
  Across the Board Cuts

- **16 states**  
  Reorganize Agencies

- **8 states**  
  REDUCE LOCAL AID

- **2 states**  
  LAYOFFS

- **2 states**  
  HIGHER EDUCATION RELATED FEES

- **5 states**  
  TRANSPORT. RELATED FEES

- **11 states**  
  USER FEES

- **2 states**  
  GAMBLING EXPANSION

- **6 states**  
  CUTS TO EMPLOYEE BENEFITS
TOTAL STATE EXPENDITURES
BY FUND SOURCE

FISCAL YEAR 2016
$1,928 Billion

Source: NASBO State Expenditure Report
TOTAL STATE EXPENDITURES BY FUNCTION
ESTIMATED FISCAL 2016

Source: NASBO State Expenditure Report
General Fund Expenditures by Function
Estimated Fiscal 2016

- Medicaid: 20.3%
- Transportation: 0.9%
- Corrections: 6.6%
- Public Assistance: 1.2%
- Higher Education: 9.7%
- All Other: 26.2%
- Elementary & Secondary Education: 35.1%

Source: NASBO State Expenditure Report
Federal Funds Expenditures by Function
Estimated Fiscal 2016

- Medicaid: 56.8%
- Transportation: 7.5%
- Corrections: 0.1%
- Public Assistance: 2.4%
- All Other: 21.0%
- Higher Education: 3.4%
- K-12: 8.9%

Source: NASBO State Expenditure Report
LONG TERM SPENDING PRESSURES

- Medicaid and Health Care
- K-12 and Higher Education
- Demographic Changes
- Corrections
- Infrastructure
- Pensions
- Retiree Health Care
35 states proposed budgets with increases for FY 2018, but growth below average

Revenue growth projected to remain slow in FY 2018

Federal uncertainty regarding ACA, tax policy, infrastructure, debt, FY2018 budget, etc.

Tough competition for general funds

Dealing with infrastructure, long-term liabilities

States will continue to make some painful choices
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