



July 30, 2017

> CSG-Southern  
Legislative Conference

*Fiscal Leaders' Roundtable*

# STATE FISCAL UPDATE

**John Hicks**  
Executive Director

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National Association of State Budget Officers | **NASBO**

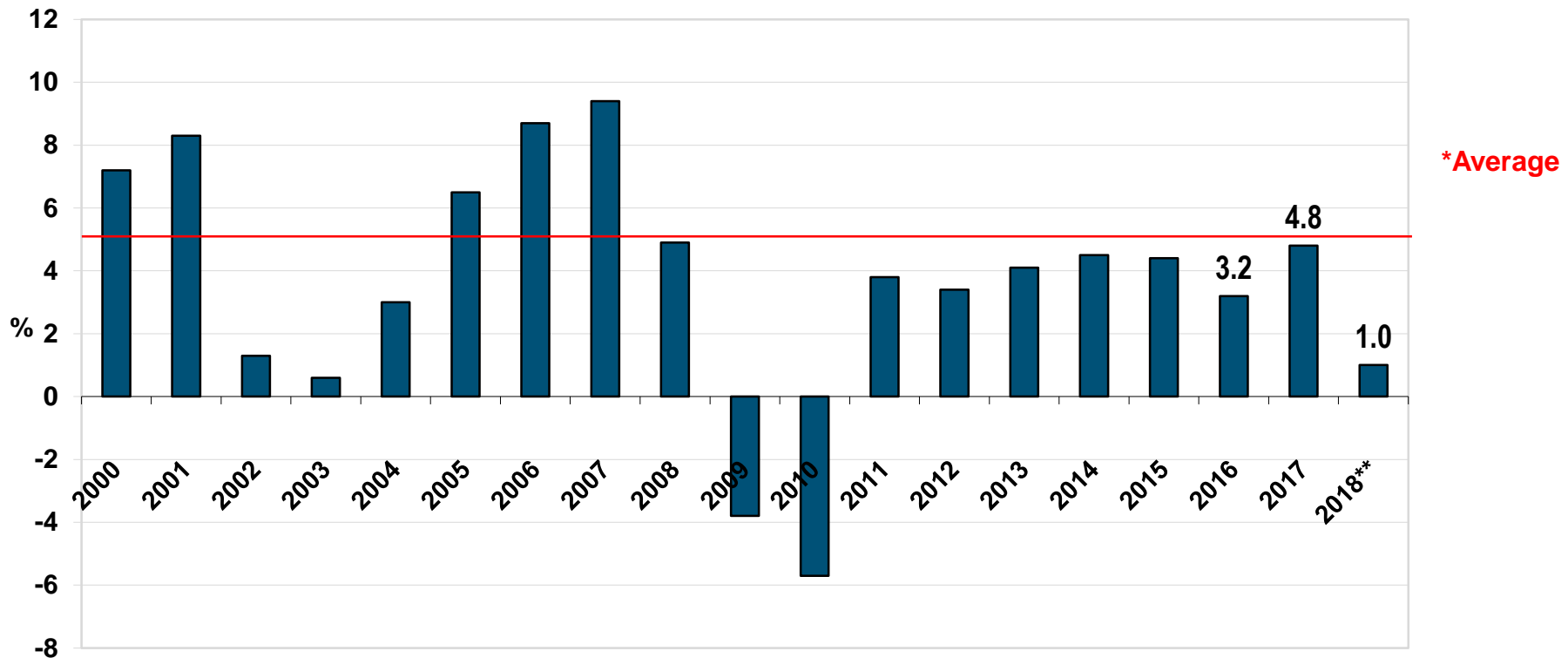


# **GENERAL FUND SPENDING & RECOMMENDED BUDGETS FOR FISCAL 2018**

*Photo by: Jake McGuire*

# STATE GENERAL FUND SPENDING GROWTH PROJECTED TO SLOW CONSIDERABLY IN FISCAL 2018

## Annual General Fund Expenditure Growth (%)



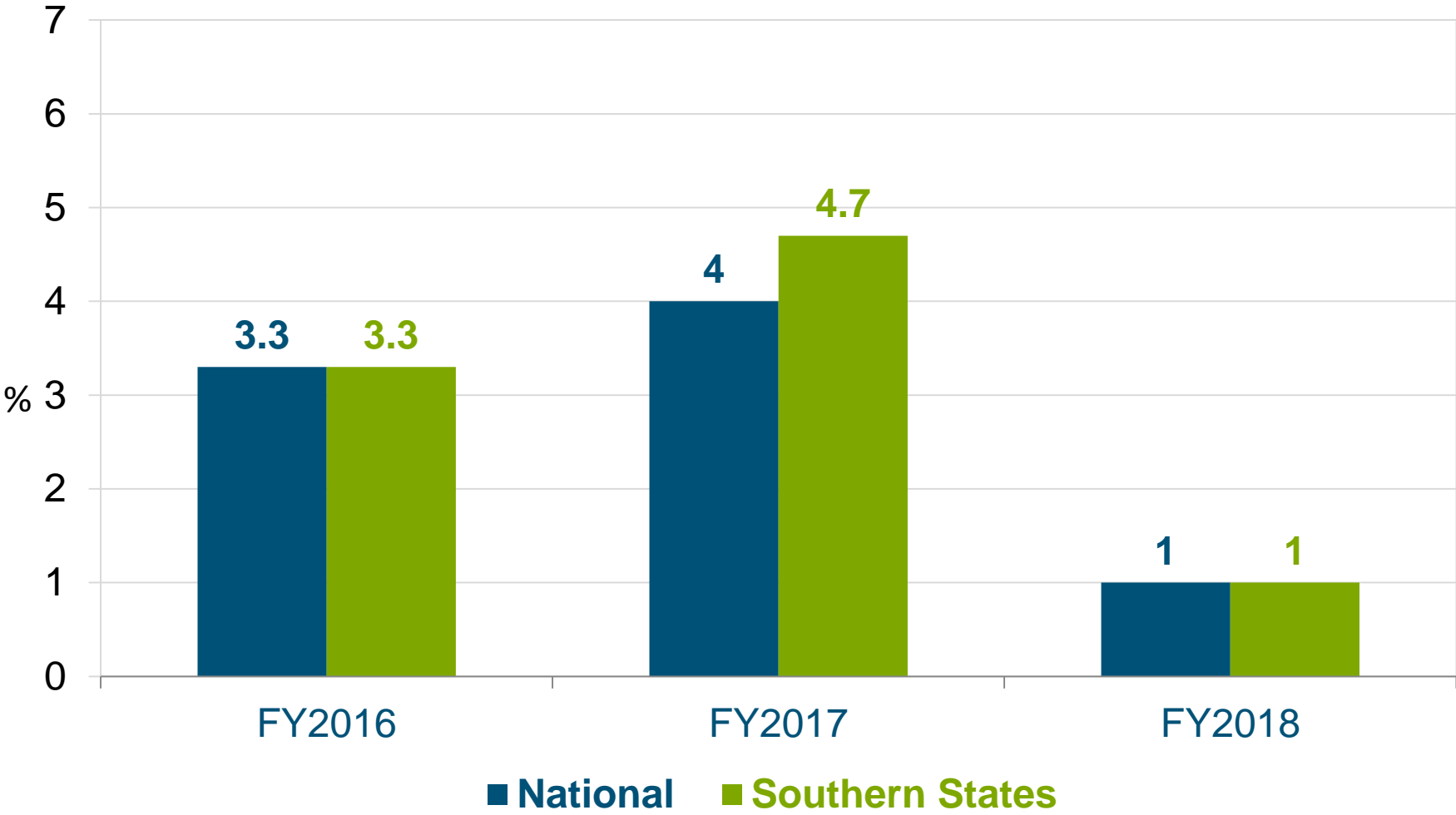
\*39-year historical average annual rate of growth is 5.5 percent.

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

Source: NASBO Fiscal Survey of States



# GENERAL FUND SPENDING GROWTH: NATIONAL MEDIAN VS. SOUTHERN STATES



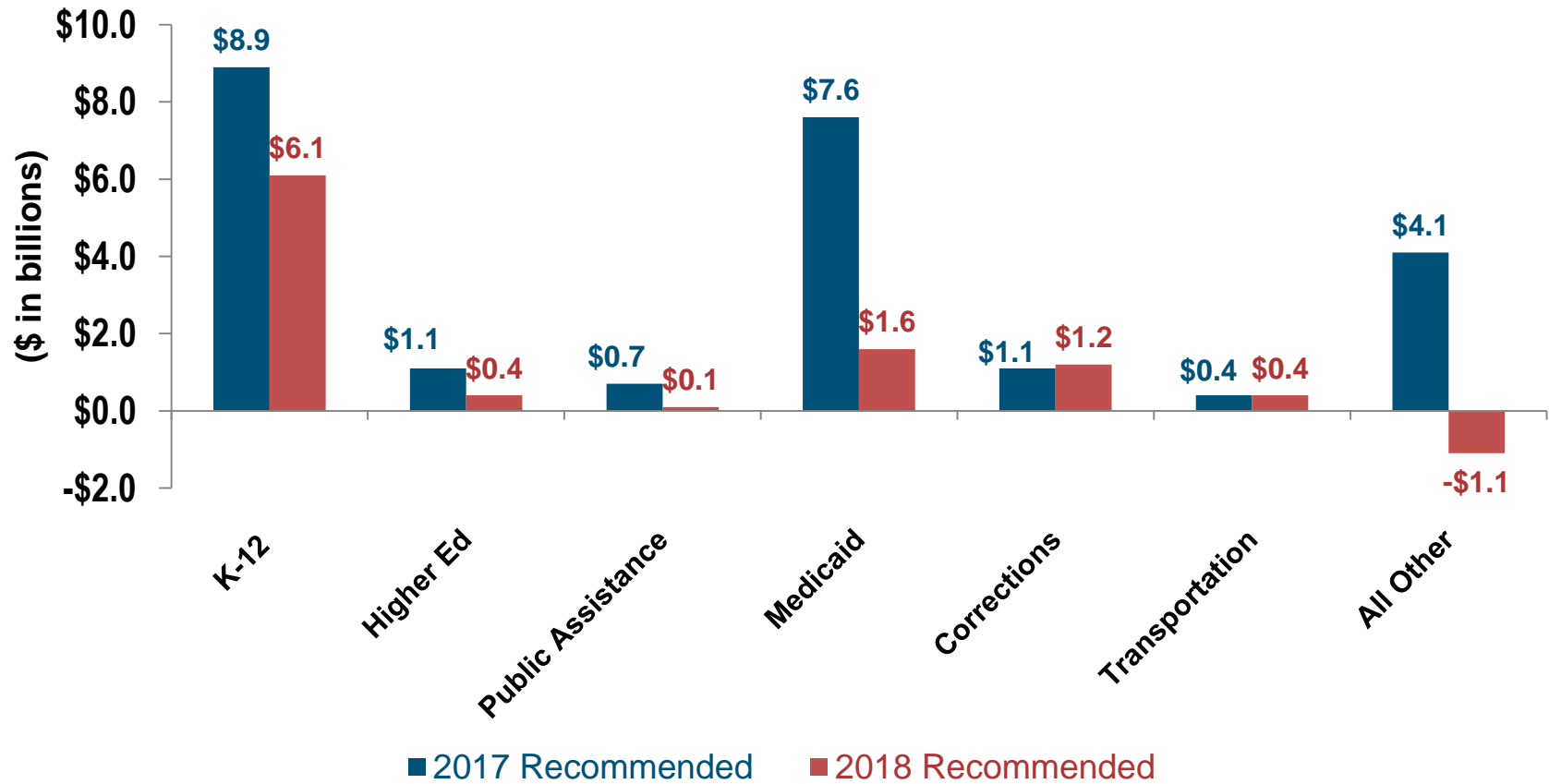
Source: NASBO Fiscal Survey of States



# 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



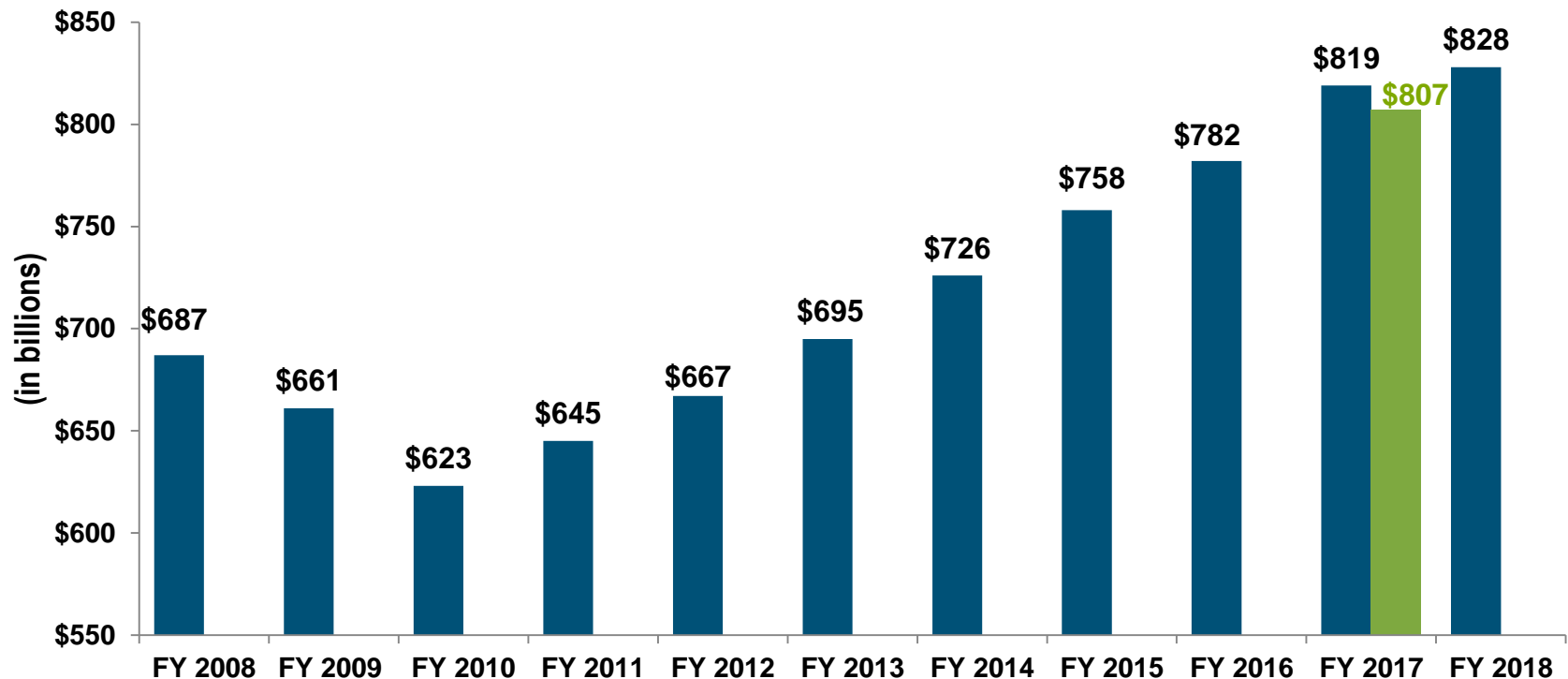
Source: NASBO Fiscal Survey of States



# FISCAL 2017 GENERAL FUND SPENDING

NOW EXCEEDS INFLATION-ADJUSTED PRE-RECESSION PEAK

## General Fund Spending: FY 2008 – FY 2018



Source: NASBO Fiscal Survey of States; Fiscal 2018 figure is based on governors' recommended budgets.

\*Aggregate spending level needed to total at least \$807 billion in fiscal 2017 to be equivalent with or exceed real 2008 spending level.



# **STATE BUDGET THEMES**

## **FY 2018 Budgets**

- **Improving Structural Budget Balance**
- **Reserves/Rainy Day Fund Increases**
- **Trimming Spending – some states still cutting; many still belt-tightening – flat funding**
- **Efficiency Efforts**
- **Reorganization/Consolidation of Services**



# STATE BUDGET THEMES

## FY 2018 Budgets

- **Elementary and Secondary Education**
  - › Teachers' Salaries
  - › Kindergarten/Early Learning
  - › Funding Formula Re-examination
- **Workforce Development**
  - › Career Pathways – secondary and post-secondary
  - › Addressing “Skills gap”
  - › Adult upskilling
  - › Free/Last Dollar post-secondary credential up to Associate's
- **Child Welfare Services**
  - › Lowering caseloads
  - › Foster care improvements and reform





# STATE BUDGET THEMES

## FY 2018 Budgets

- **Medicaid**
  - › 31 “expansion” states – state match 5% 2017, 6% 2018
  - › Payment delivery change initiatives
  - › Waiver population “slot” increases & home-based care emphasis
- **Pension Funding and Reforms**
  - › Getting out the checkbook
  - › New employee plans – defined contribution/hybrid cash balance plans
  - › Lower assumed investment rates of return
- **Transportation**
  - Multi-year needs assessments pushing resource decisions
  - Area of largest percentage spending increases in last 2 years
- **Opioids** – continued investment in substance abuse and life-saving efforts

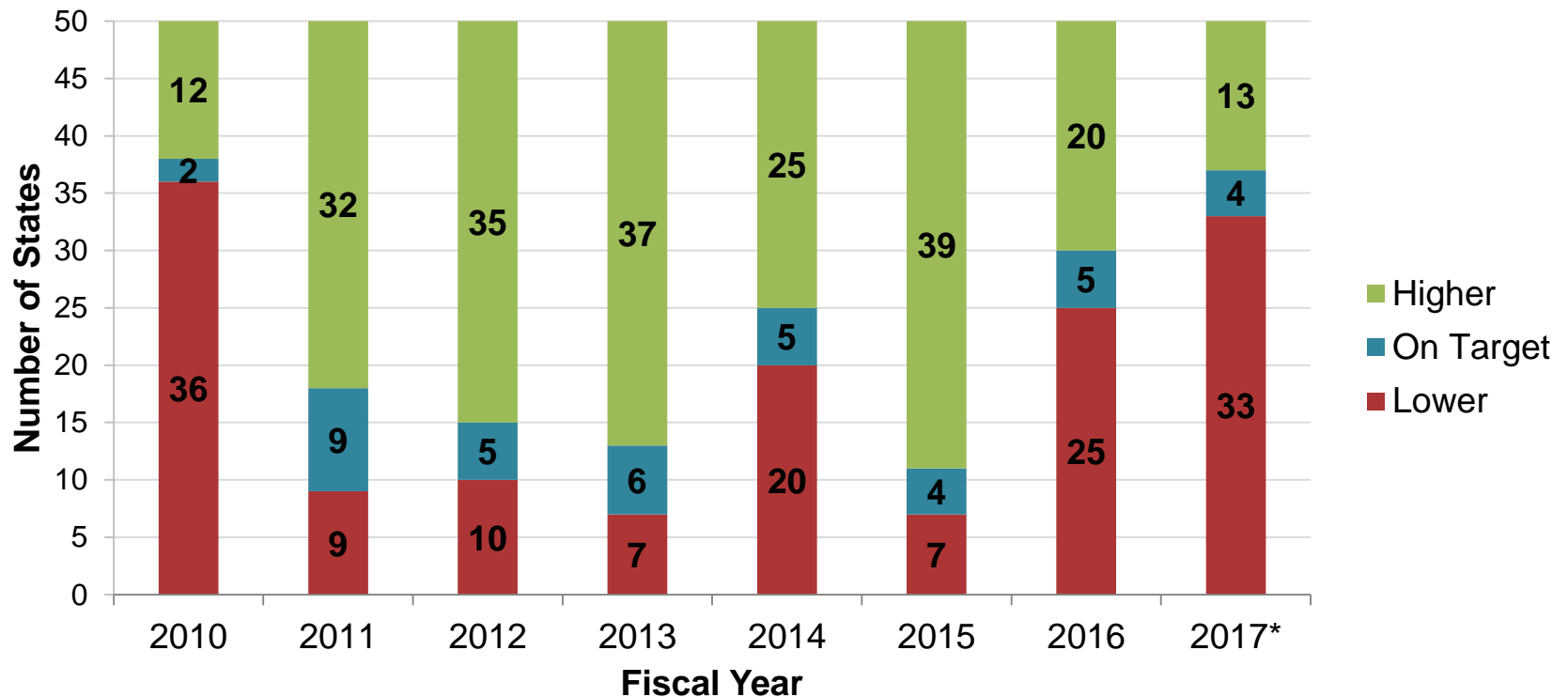


# **GENERAL FUND REVENUE COLLECTIONS FISCAL 2017 & FORECASTS FOR FISCAL 2018 & 2019**

*Photo by: Jake McGuire*

# 33 STATES REPORTING REVENUE COLLECTIONS BELOW BUDGET PROJECTIONS

## General Fund Revenue Collections Compared to Original Budget Projections



Source: NASBO Fiscal Survey of States.

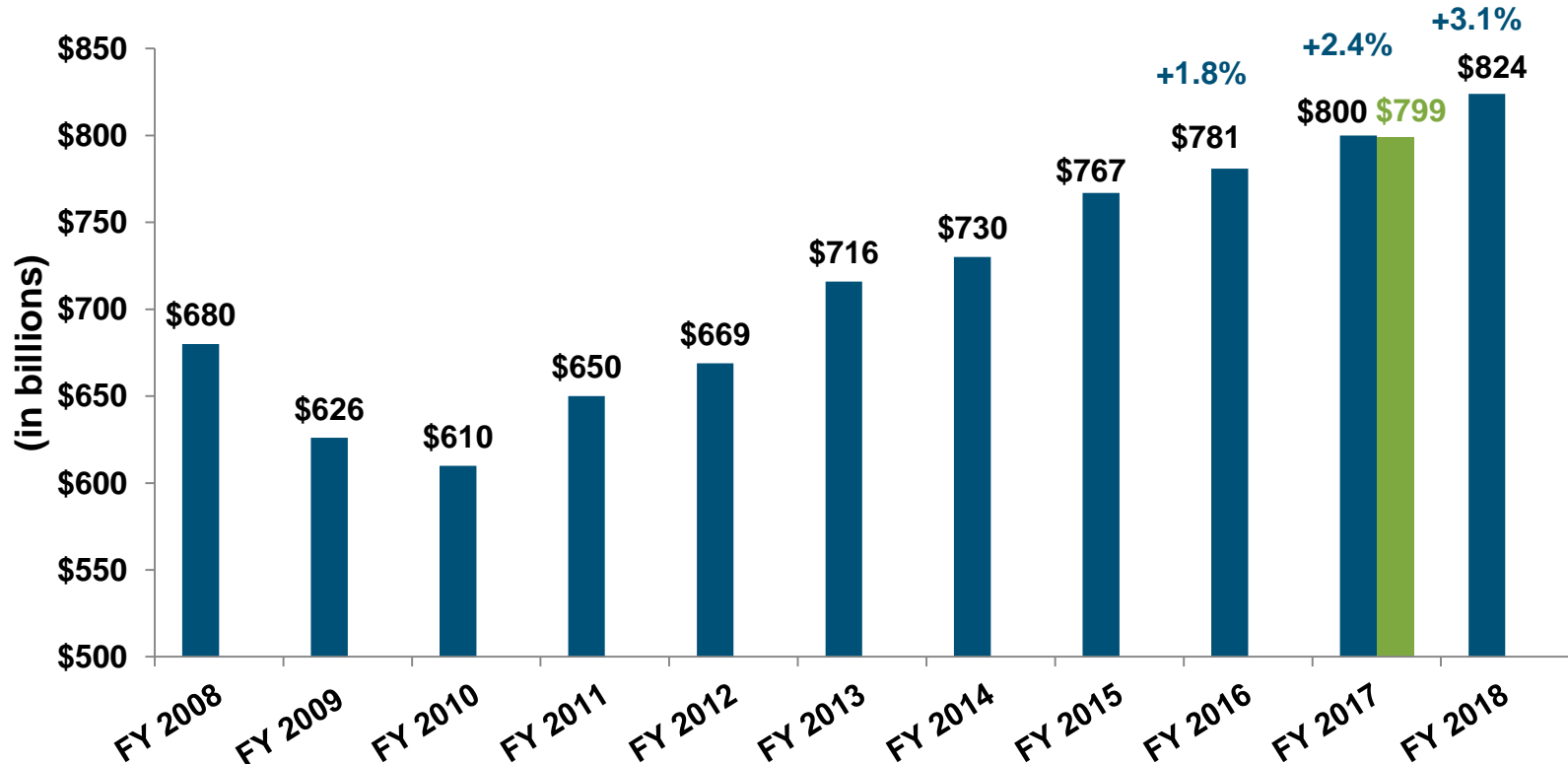
\*Fiscal 2017 figures are based on data collected in spring 2017, before the end of the fiscal year and before April collections were in.



# 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.



# **FY 2017 GENERAL FUND REVENUE UPDATE**

## **35 States Revised their Revenue Forecasts Downward**

### **10 of 15 Southern States**

- › Average Downward Revision of -2.0%
- › Economic forecasts of GDP and income were rosier than what actually happened
- › 5 states with a -4% or more downward revision
- › Sales taxes impacted by decline in price of tangible goods

## **14 States Revised Forecasts Upward**

- › Average Upward Revision of +2.3%



## **FY 2017 GENERAL FUND REVENUE FORECASTS - US vs. Southern**

**US General Fund Revenue Growth** **+2.4%**

**48 States:**

› Personal Income	+3.9%
› Sales	+2.9%
› Corporate Income	- 3.1%

**Southern General Fund Revenue Growth** **+2.6%**

**15 States:**

› Personal Income	+3.9%
› Sales	+2.8%
› Corporate Income	+ 1.7%





## **FY 2018 GENERAL FUND REVENUE FORECASTS - US vs. Southern BEFORE TAX POLICY CHANGES**

**US General Fund Revenue Growth +2.9%**

**48 States:**

› Personal Income	+4.2%
› Sales	+3.9%
› Corporate Income	+3.0%

**Southern General Fund Revenue Growth +2.6%**

**15 States:**

› Personal Income	+3.2%
› Sales	+3.5%
› Corporate Income	+0.0%



# FY 2019 GENERAL FUND REVENUE FORECASTS - 17 States BEFORE TAX POLICY CHANGES

**Total General Fund Revenue Growth** **+3.8%**

**17 Biennial Budget States:**

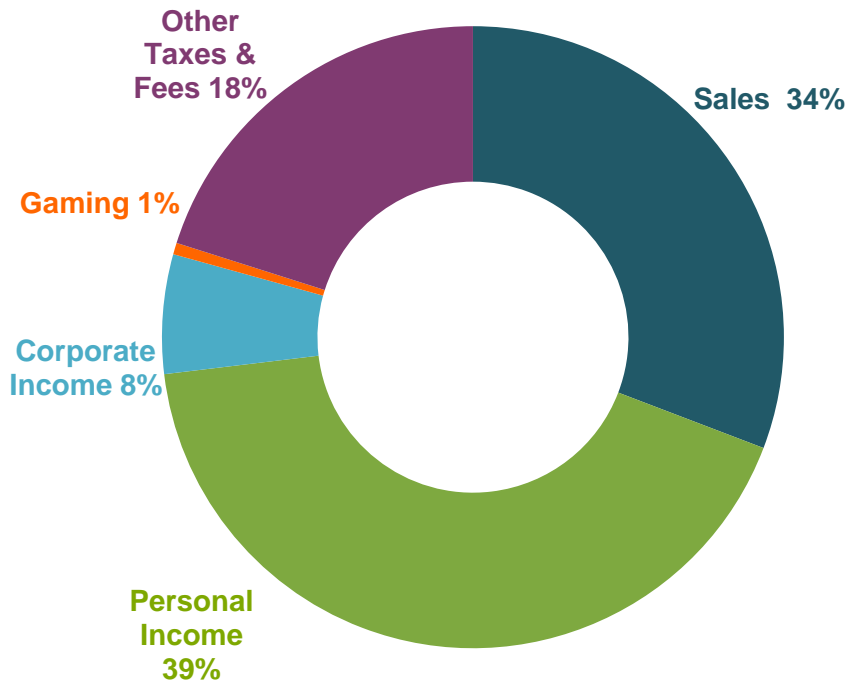
› Personal Income	+4.7%
› Sales	+4.0%
› Corporate Income	+2.6%



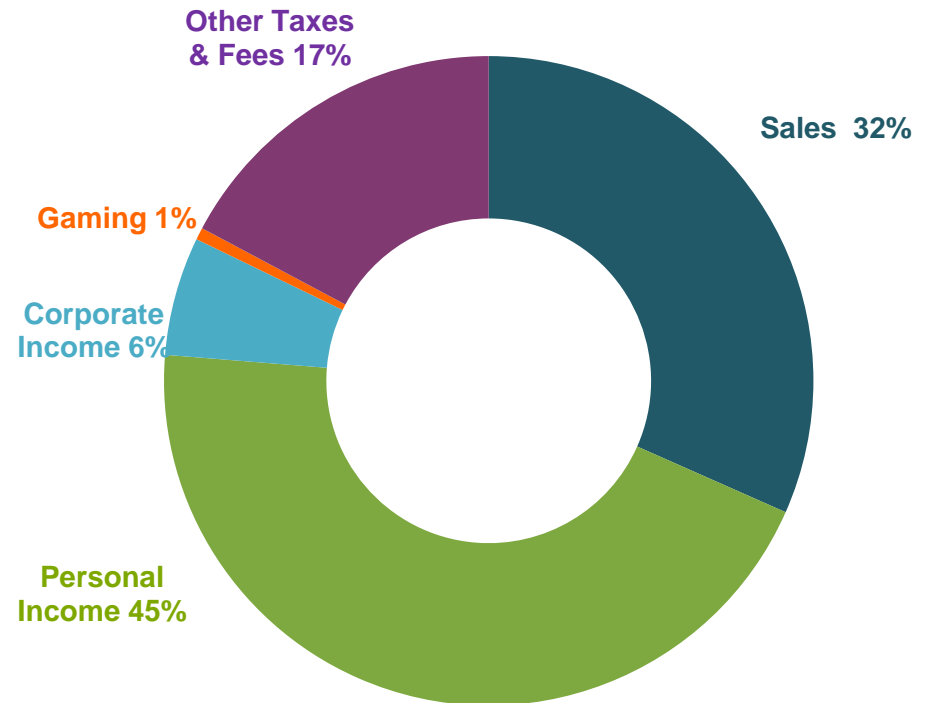
# GENERAL FUND REVENUE SOURCES

## ALL 50 STATES

**Fiscal 1998**



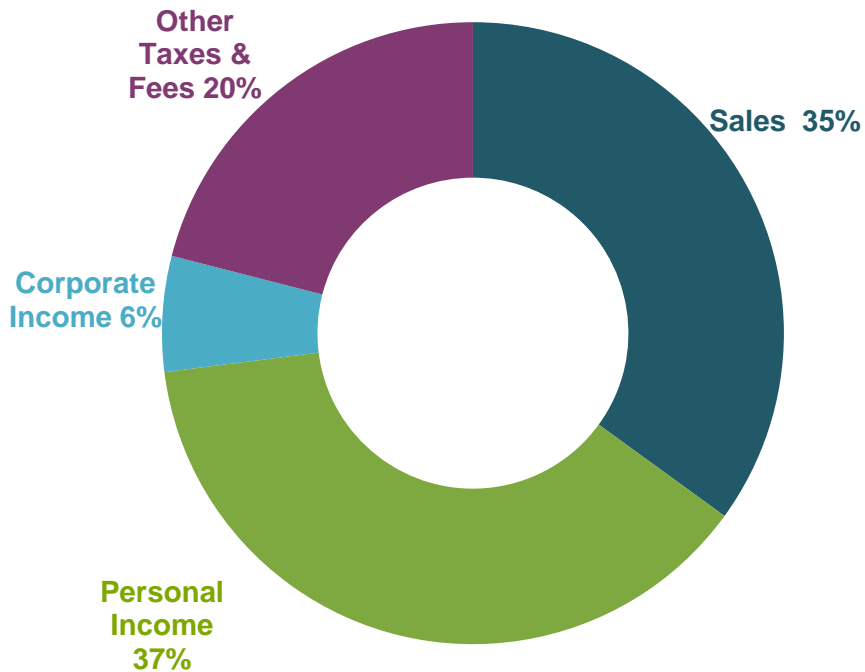
**Fiscal 2016**



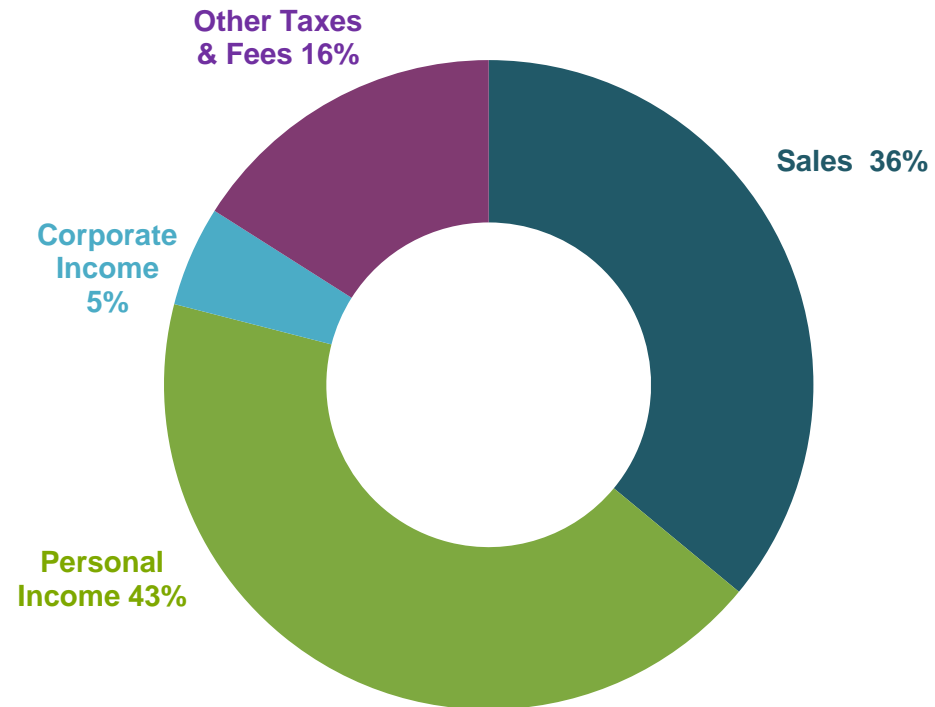


# GENERAL FUND REVENUE SOURCES (SOUTHERN STATES)

**Fiscal 1998**



**Fiscal 2016**



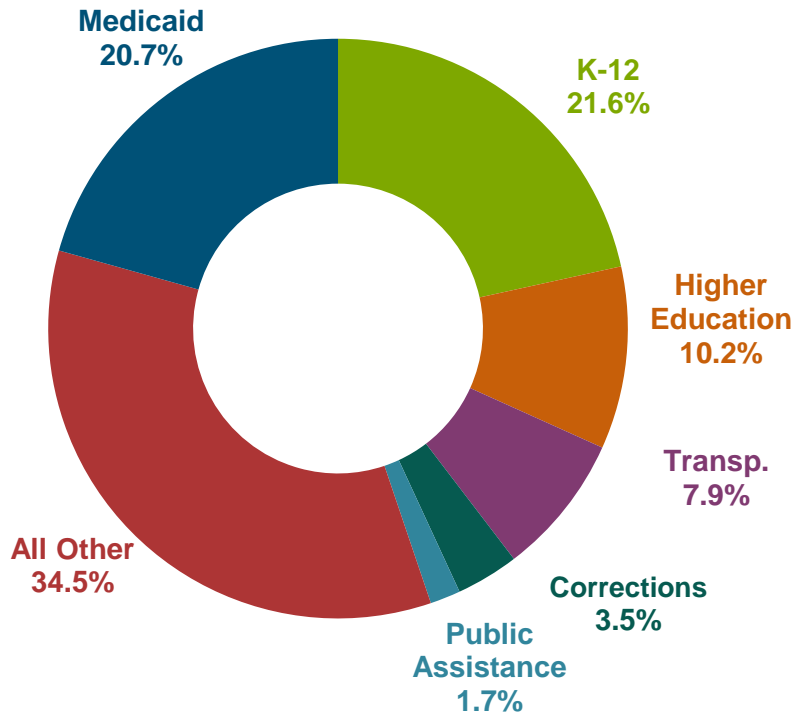


# STATE SPENDING TRENDS

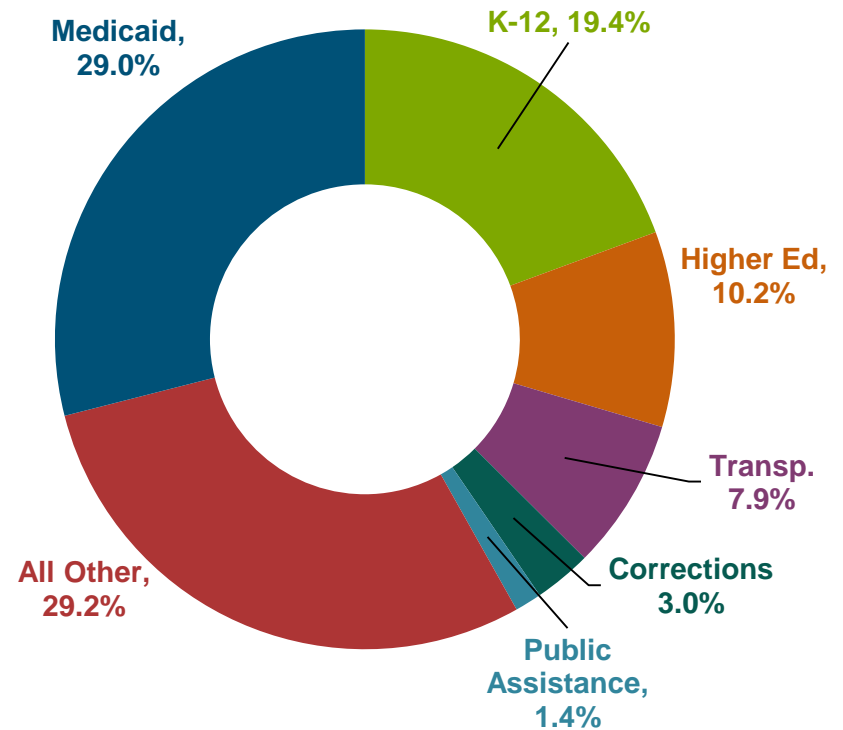
*Photo by: Jake McGuire*

# > TOTAL STATE EXPENDITURES BY FUNCTION

**FISCAL YEAR 2008**  
**\$1,479 Billion**



**FISCAL YEAR 2016**  
**\$1,928 Billion**



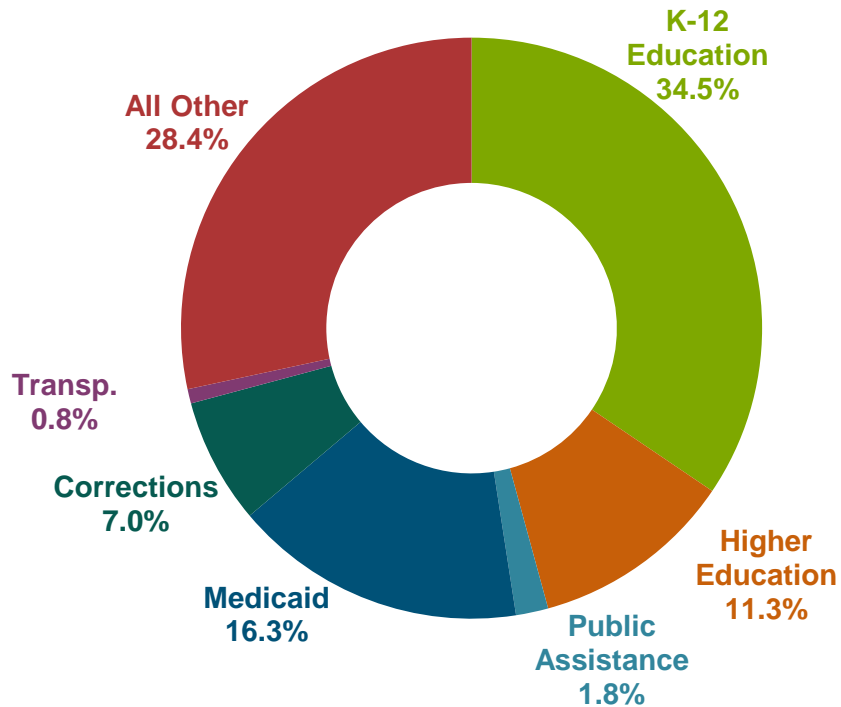
Source: NASBO *State Expenditure Report*. Total state expenditures include all federal and state funds. Percentages based on 50-state totals.



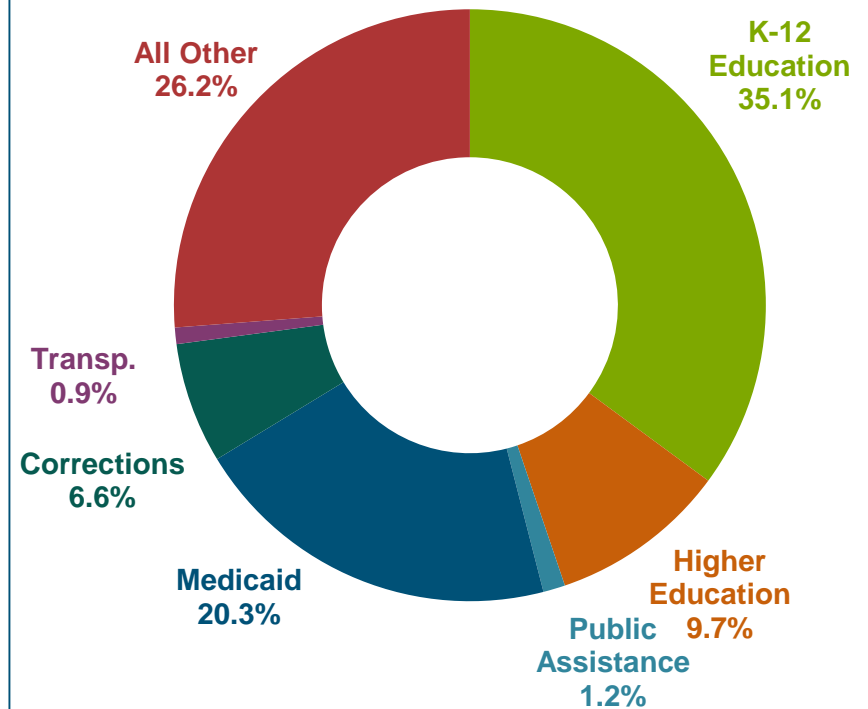
# > GENERAL FUND EXPENDITURES BY FUNCTION

## All 50 States

**FISCAL YEAR 2008**  
**\$687 Billion**



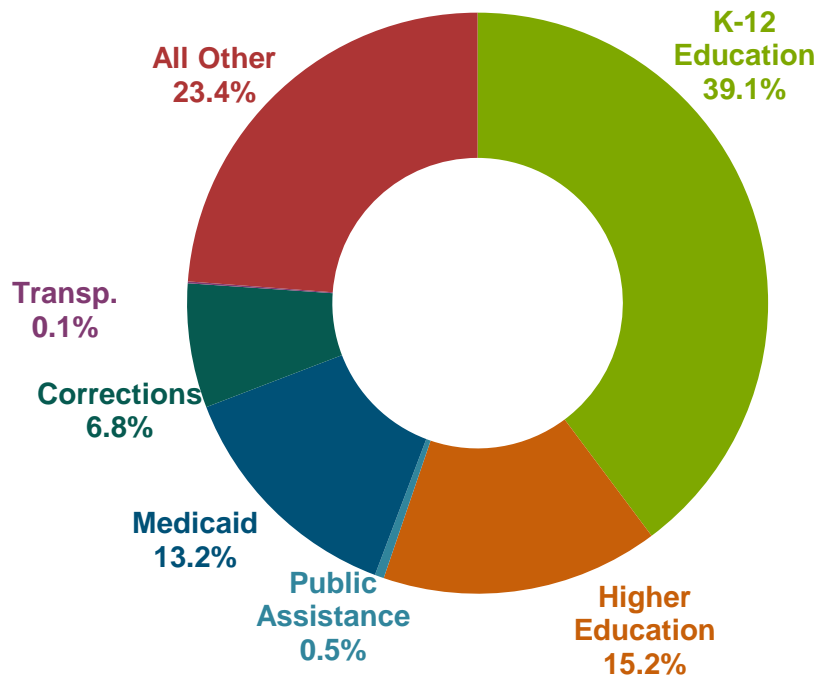
**FISCAL YEAR 2016**  
**\$779 Billion**



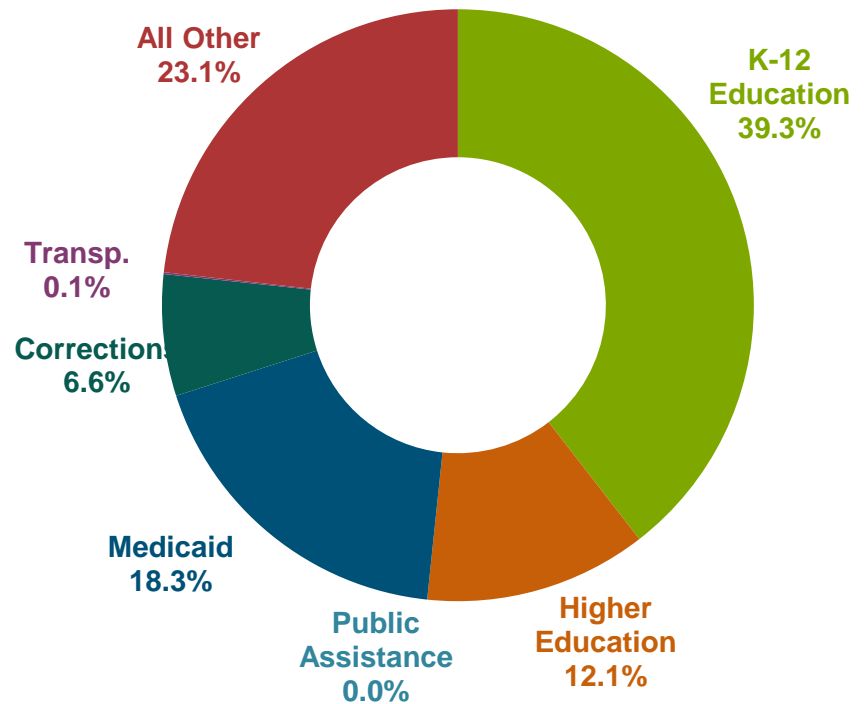
# GENERAL FUND EXPENDITURES BY FUNCTION

## 15 Southern States

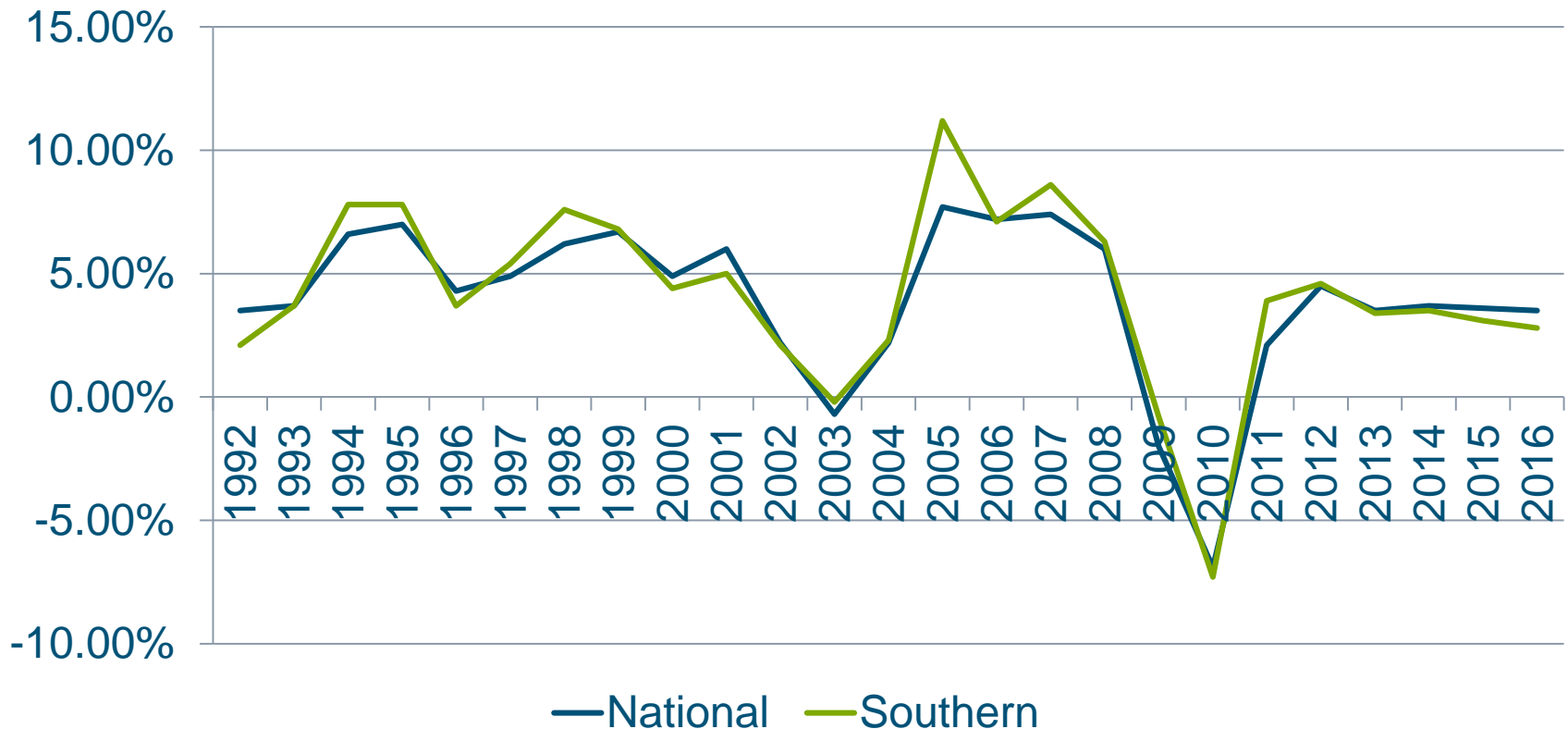
**FISCAL YEAR 2008**  
**\$197 Billion**



**FISCAL YEAR 2016**  
**\$229 Billion**

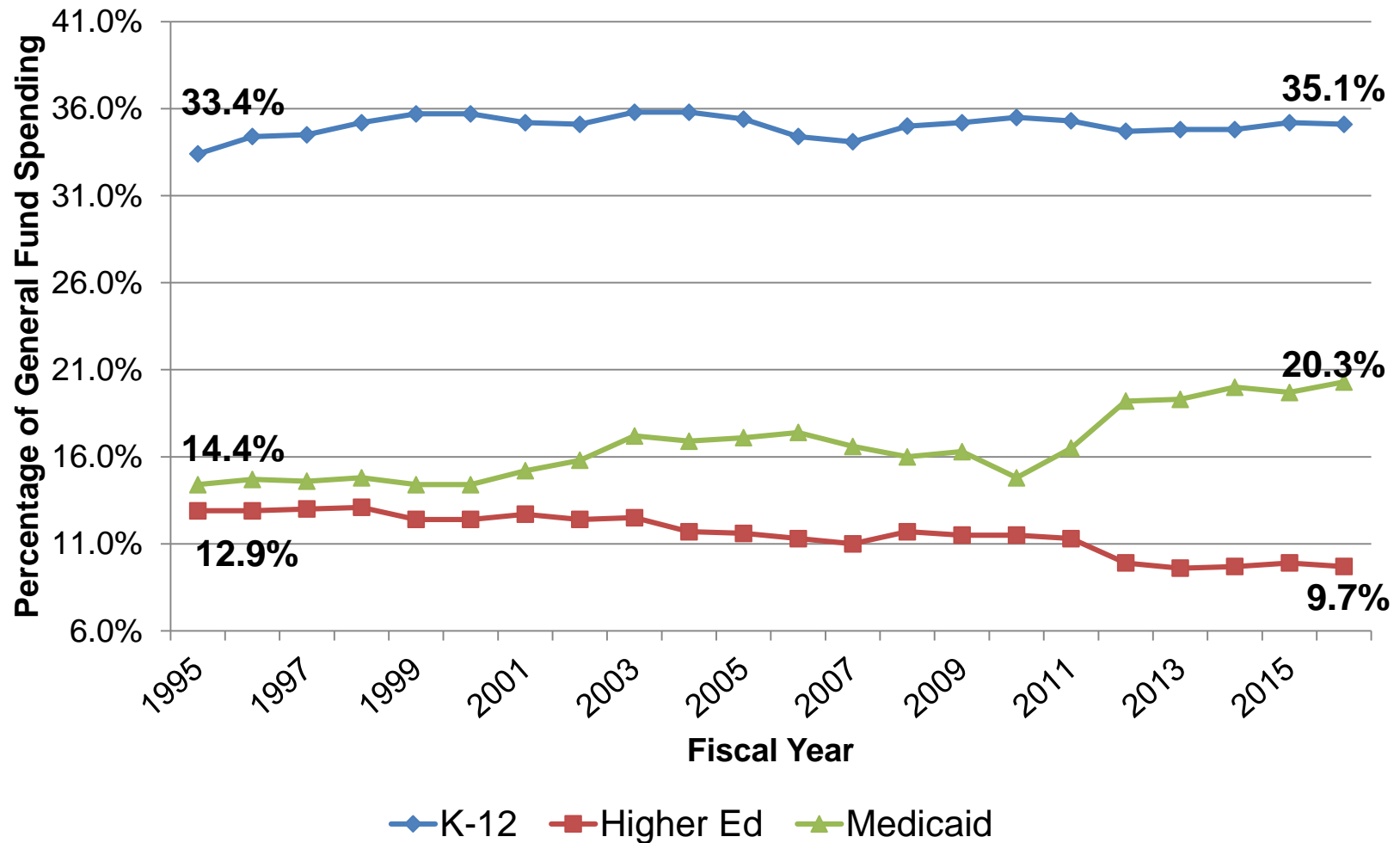


# GENERAL FUND ANNUAL SPENDING GROWTH



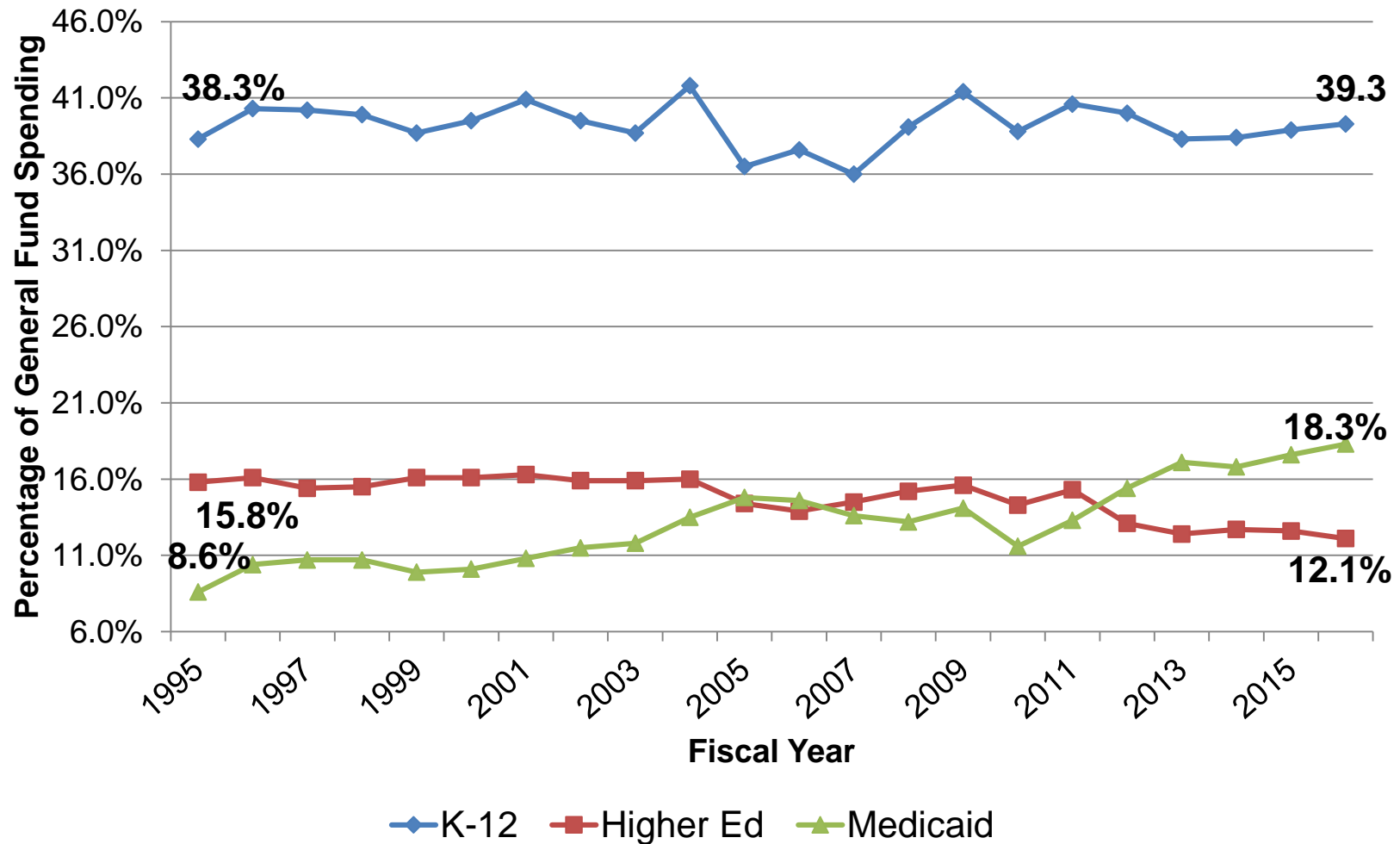
Source: NASBO Fiscal Survey of States

# Medicaid Has Increased as a Percentage of General Fund Spending Over Time – All States



Source: NASBO State Expenditure Report.

## Medicaid Has Increased as a Percentage of General Fund Spending – Southern States



Source: NASBO State Expenditure Report.



# **MEDICAID SPENDING GROWTH & NEW DATA ON EXPANSION EXPENDITURES**

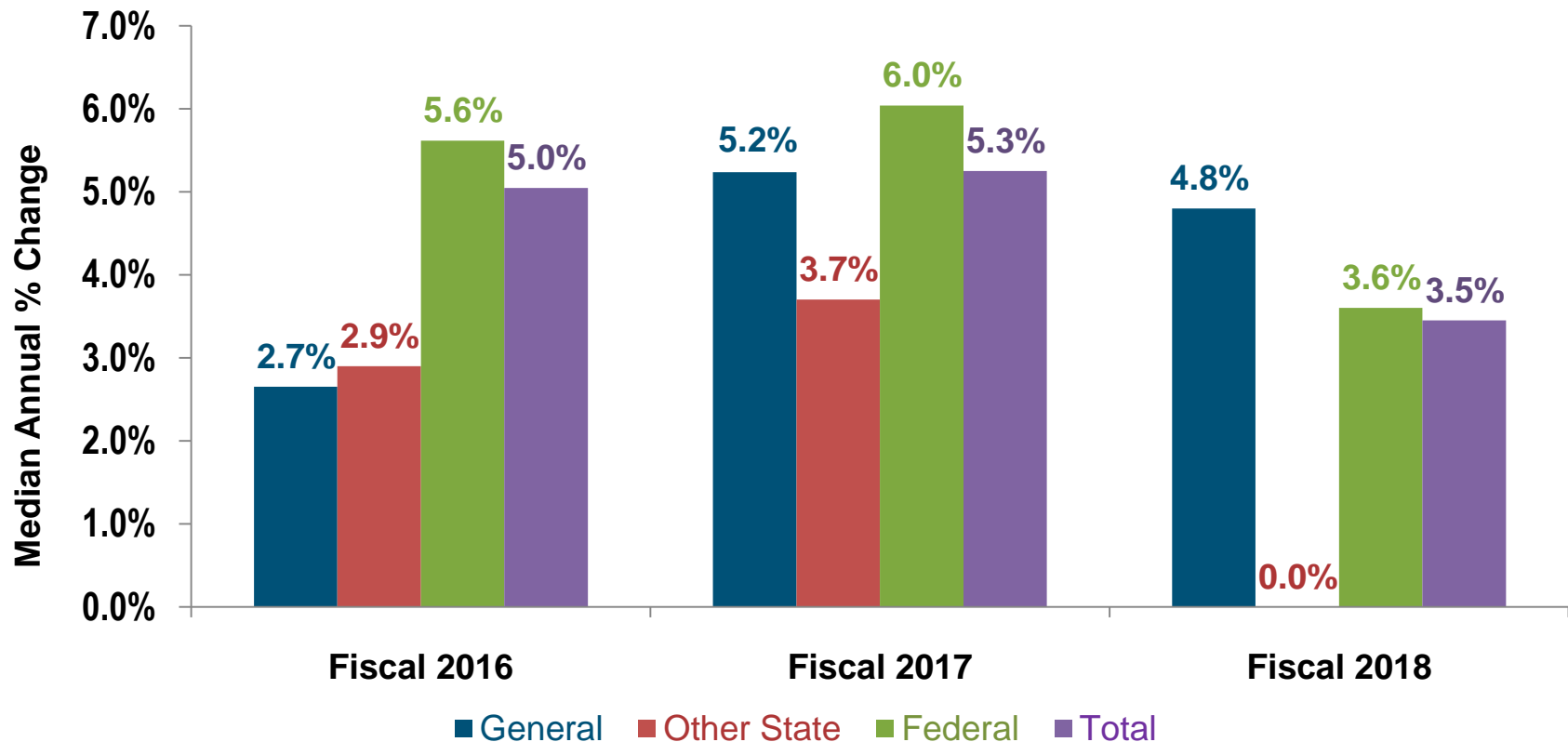
*Photo by: Jake McGuire*





# MEDICAID SPENDING GROWTH PROJECTED TO SLOW SOMEWHAT IN FISCAL 2018

## Median Percentage Growth in Medicaid Spending by Fund Source

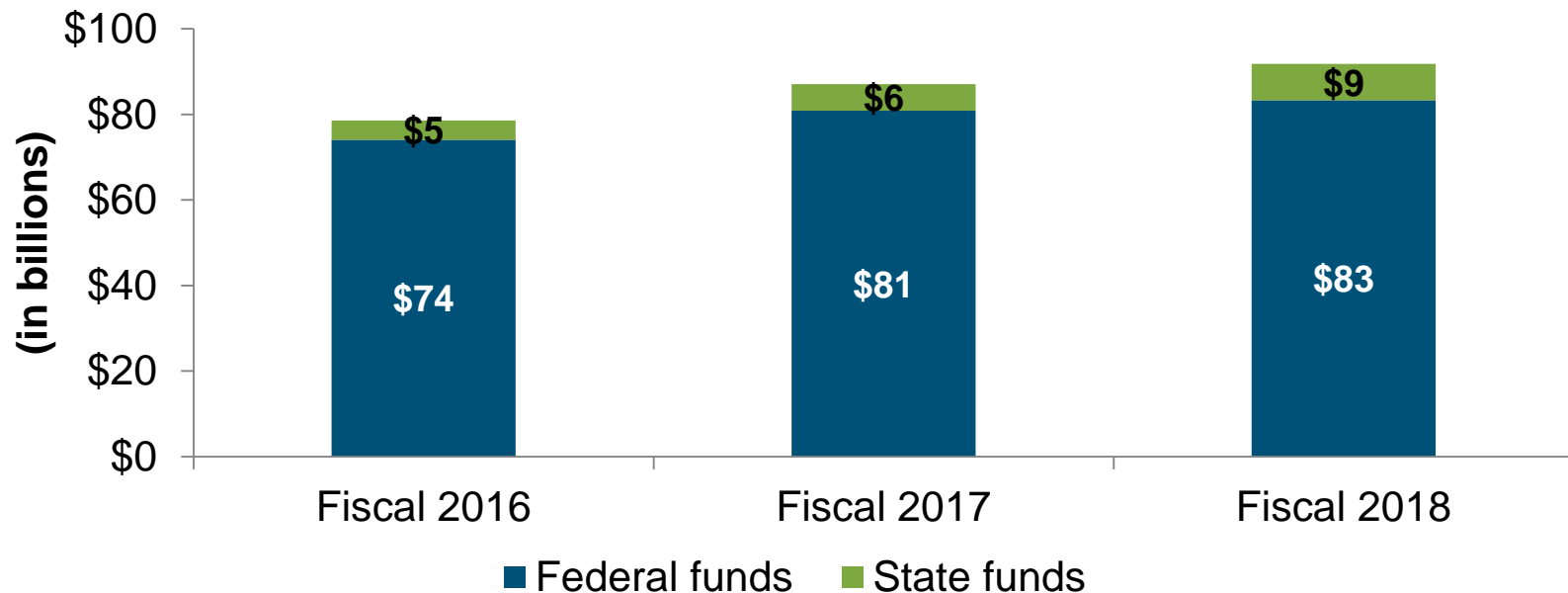


Source: NASBO Fiscal Survey of States



# NEW DATA: STATE SPENDING ON MEDICAID EXPANSION POPULATION

## Medicaid Expenditures on Expansion Only



Notes: Under the *Affordable Care Act*, the federal government agreed to cover 100 percent of costs for newly eligible adults under Medicaid expansion until January 1, 2017, when states began paying five percent of those costs. The state share is set to gradually phase up to 10 percent by 2020 under current law.

The figures above only represent expenditures for the new adult eligibility group (including both “newly eligible” and “not newly eligible”). Based on NASBO’s *State Expenditure Report*, states spent \$216 billion in state funds and \$342 billion in federal funds on Medicaid overall in fiscal 2016.



# TRANSPORTATION

*Photo by: Jake McGuire*

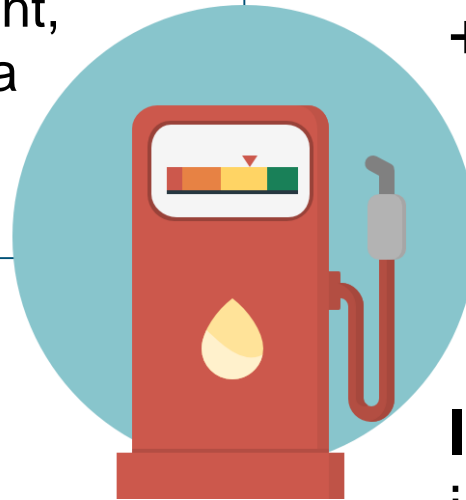
Gas taxes raised in  
**26 states** since 2013

-8 states in 2017

Sessions (Rate  
increases: Cal, Ind, Mont,  
Ore, SC, Tenn. Formula  
change: Utah, W Va)

**Average Number of  
Years** since last  
increase = 25

**Average Increase**  
+10 cents



**32 states** have  
Constitutional  
restrictions on how  
revenues in  
transportation fund can  
be spent

**Illinois & New Jersey**  
joined them through  
2016 ballot measures,  
**Connecticut** ballot  
measure in 2018



## TRANSPORTATION FUNDING – Other than Fuel Tax Increases – 2017 Sessions To-Date

- **Fees**
- **Increase in Vehicle Registration Fee:** Mont, Ore, SC, Tenn, Utah
- **New Electric Vehicle Fee:** Cal, Ind, Minn, Mont, Okla, SC, W Va
- **New Hybrid Vehicle Fee:** Cal, Ind, Mont, Okla, SC, W Va
- **New Transportation Improvement Fee:** Cal (based on vehicle value), Ind, Mont (for vehicles > \$150,000)
- **Truck Use/Weight Fee:** SC, Wyo
- **Vehicle Use/Sales Tax:** Okla, Ore, SC, W Va
- **Pay Back Past General Fund Transfers:** Cal
- **Divert Revenue Stream to Transp Fund:** Minn
- **Rental Car Charge:** Tenn
- **Toll Authorization:** Ind





# STATE SAVINGS ACCOUNTS (RAINY DAY FUNDS)

*Photo by: Jake McGuire*

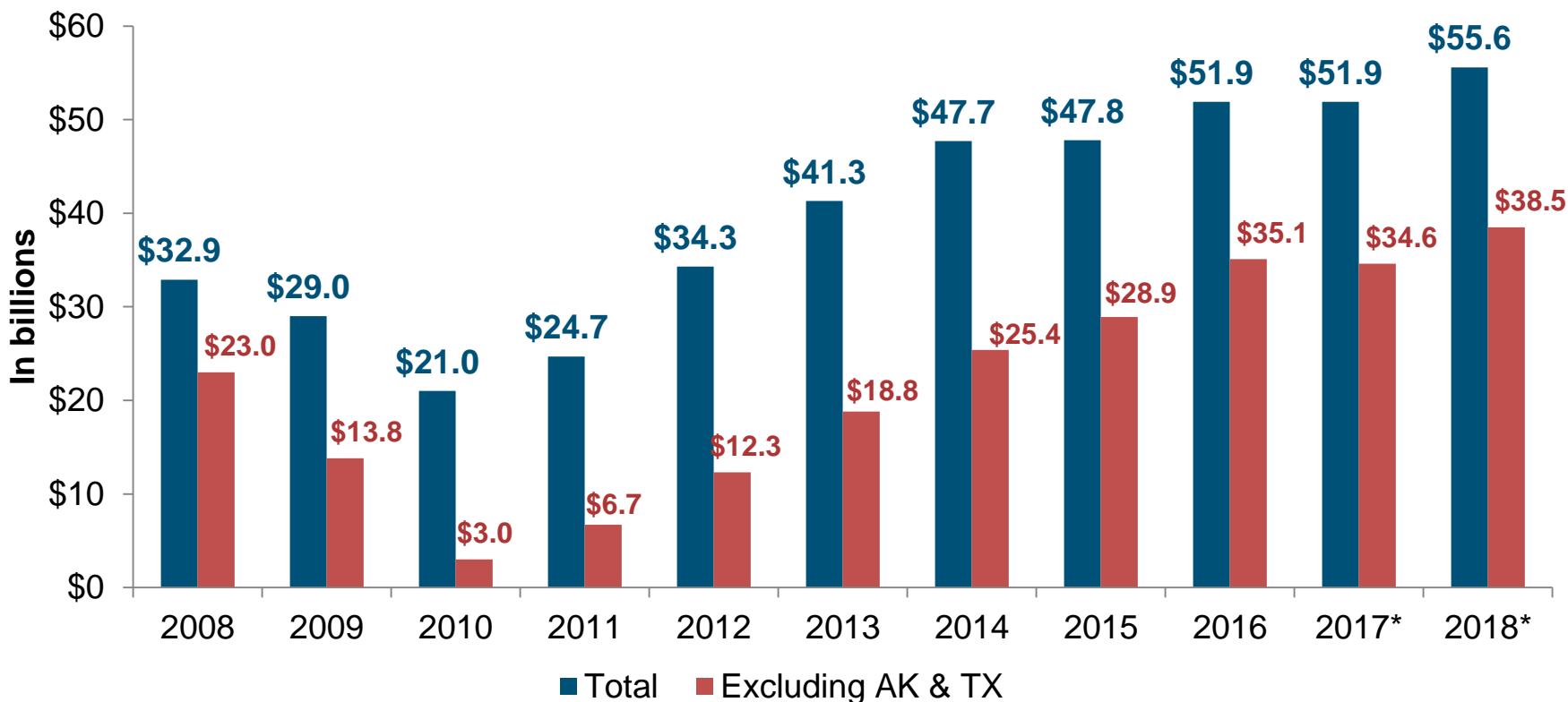




# STATES CONTINUE TO STRENGTHEN RAINY DAY FUNDS

27 STATES ESTIMATED INCREASES IN FISCAL 2017; 28 STATES PROJECT INCREASES FOR FISCAL 2018

## Rainy Day Fund Balances, Fiscal 2008 to Fiscal 2018



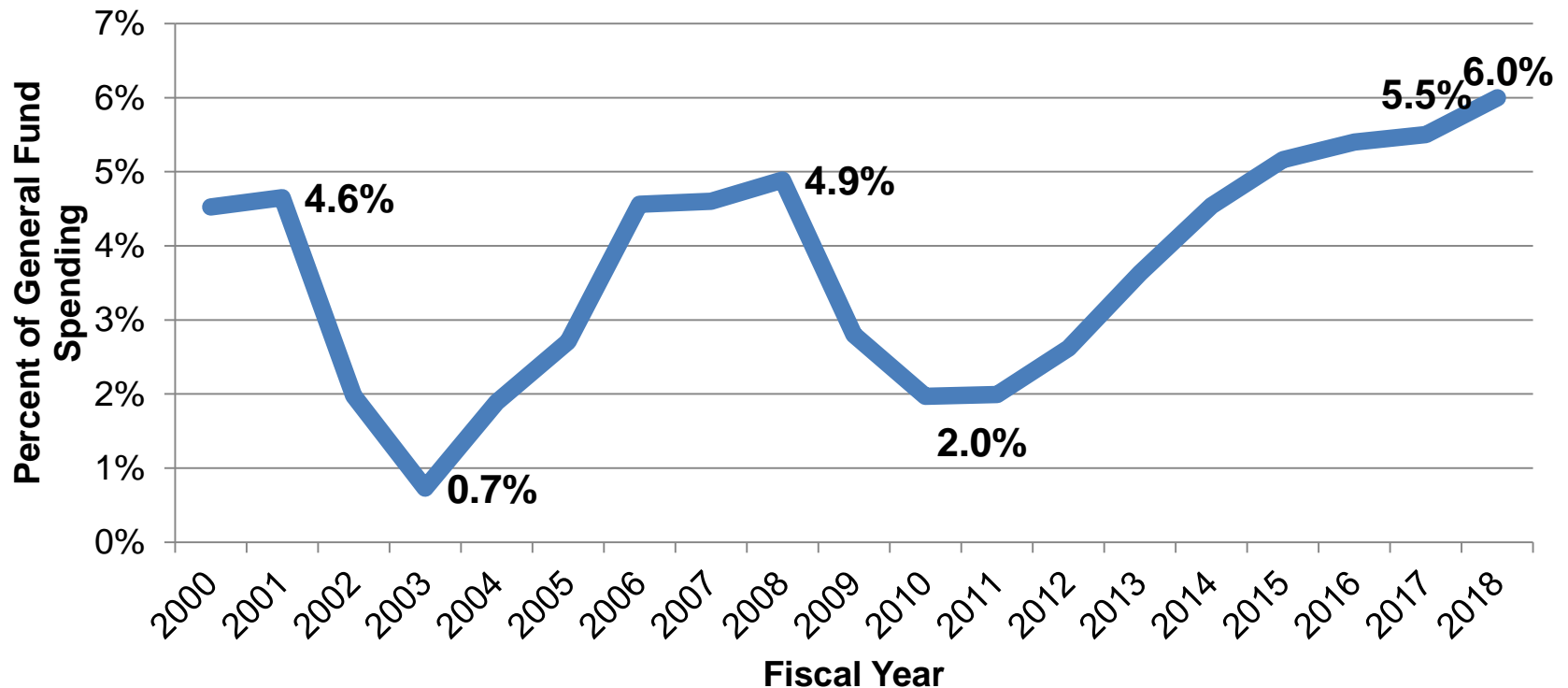
\*FY2017 and FY2018 are estimates.

Source: NASBO Spring 2017 Fiscal Survey

# > STATES CONTINUE TO STRENGTHEN RAINY DAY FUNDS SINCE HITTING RECENT LOW IN FISCAL 2010-2011

47 States

Median Rainy Day Fund Balance as % of Expenditures

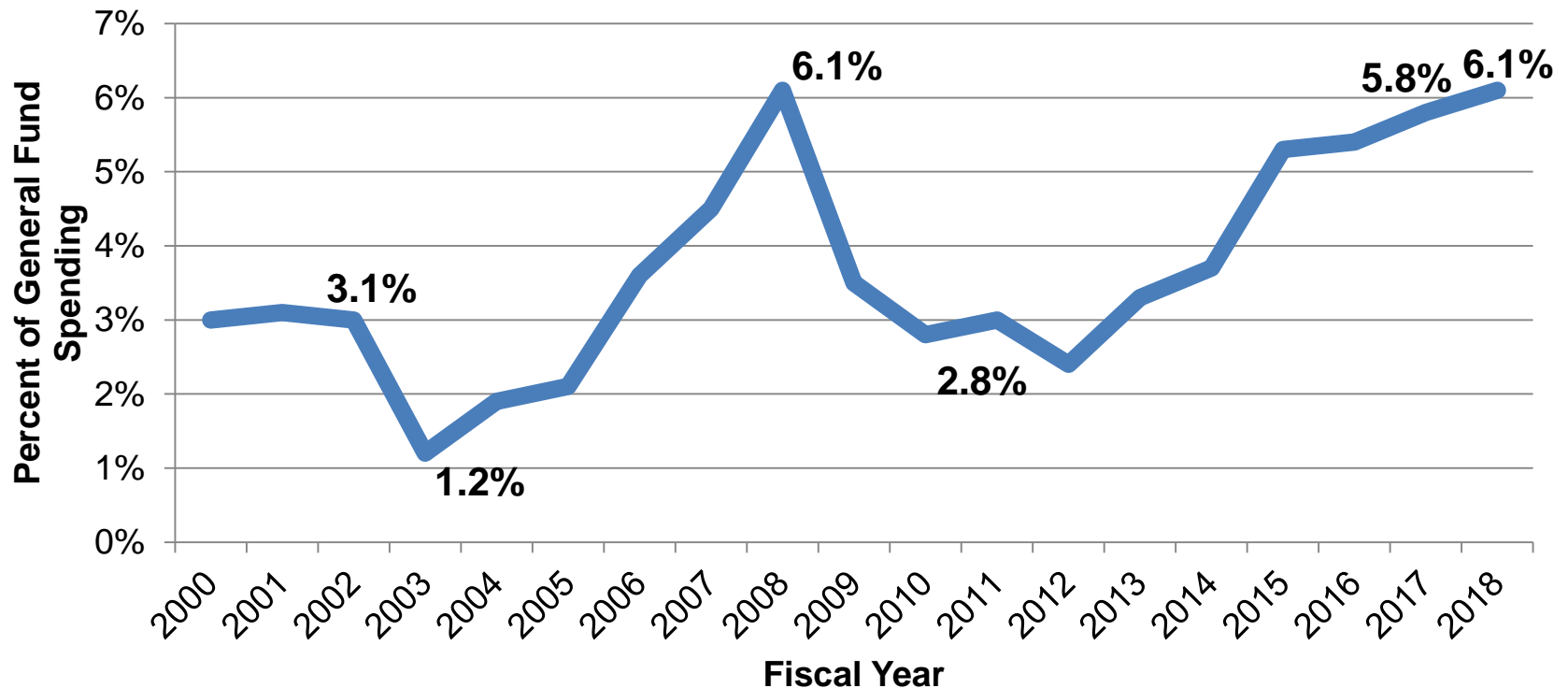


Source: NASBO Data

# STATES CONTINUE TO STRENGTHEN RAINY DAY FUNDS SINCE HITTING RECENT LOW IN FISCAL 2010-2011

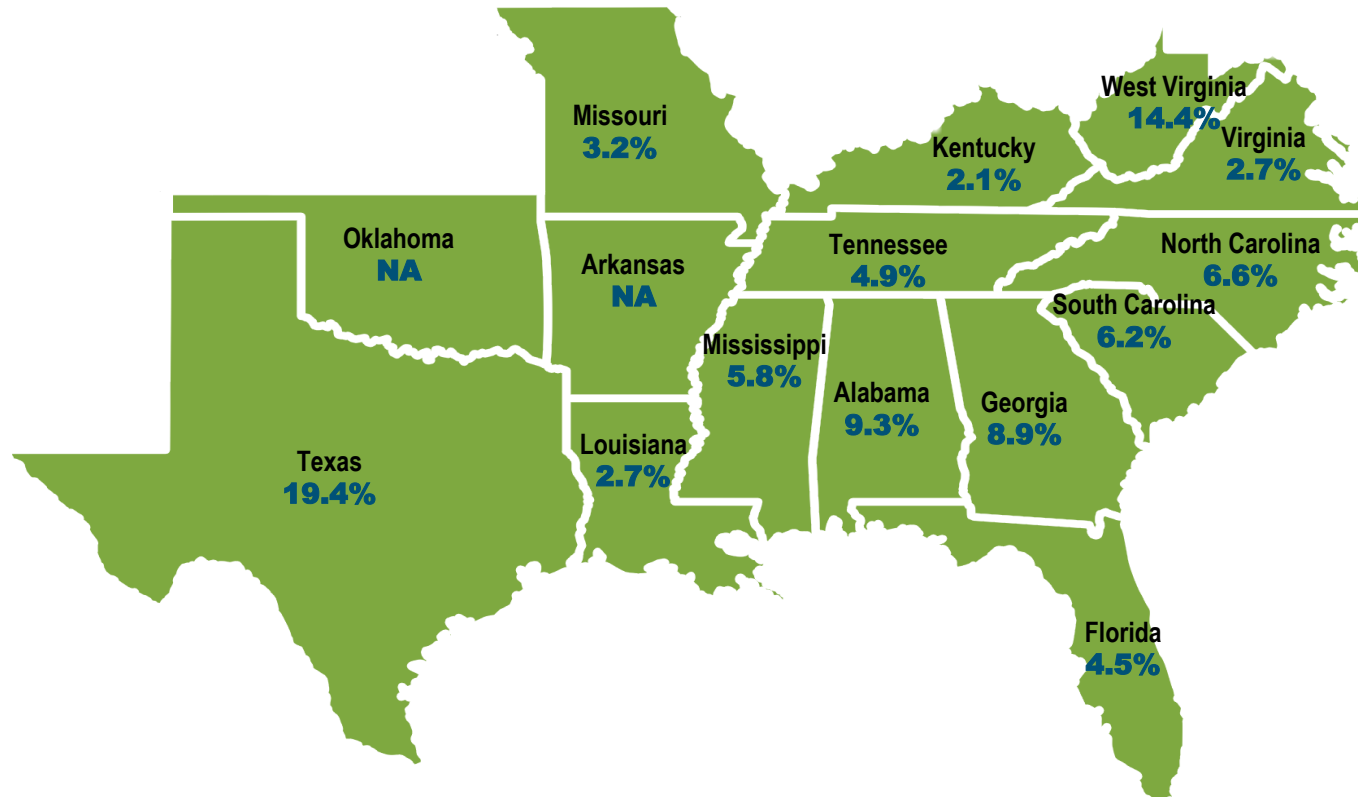
## 14 Southern States

Median Rainy Day Fund Balance as % of Expenditures



Source: NASBO Data

# > 2017 RAINY DAY FUND AS % OF EXPENDITURES (Reported as of March, 2017)



**Southern Median 5.8%**  
**U.S. Median 7.7%**



# FEDERAL OUTLOOK FOR STATES

*Photo by: Jake McGuire*





*Photo by: Jake McGuire*



# FEDERAL UNCERTAINTY FOR STATES

1

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

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2

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

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3

Infrastructure

4

The Fiscal 2018 Budget





## **MEDICAID – Repeal and Replace Legislation Per Capita Caps & Expansion Changes**

- Caps federal spending instead of sharing all eligible spending
- Per capita caps begin 2020 for 5 enrollment groups
- Per capita caps based on 2016 spending (House), 8 quarters (Senate)
- Per capita cap annual escalator – CPI-U Medical Care, +1%, then CPI-U (Senate in 2025)
- Phases down State Provider tax maximum rate from 6% to 5%
- CBO predicts costs to grow more than Federal funds will both versions
- Expansion enhanced funding ends 2020 (House-for new enrollees), 2024 (Senate)
- Expansion enrollees are permitted after that, at regular federal/state share
- New \$10 billion over five years for non-expansion states
- Eligibility redetermination required (House)/permitted(Senate) every 6 months
- Statutory flexibility changes for States not yet proposed



## FEDERAL BUDGET IMPACT ON STATES

- States spent \$600 billion in federal grants in FY 2016
- \$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



## **CHALLENGES: LONG TERM BEGINS NOW**

- **Tighter Resources for Years**
- **Debt and Pension Liability**
- **Infrastructure**
- **Medicaid Changes and Federal Budget Cuts**



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