STATE FISCAL UPDATE

Fiscal Leaders’ Roundtable

July 30, 2017

CSG-Southern Legislative Conference

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National Association of State Budget Officers | NASBO
GENERAL FUND SPENDING & RECOMMENDED BUDGETS FOR FISCAL 2018
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
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
- Personal Income: 39%
- Sales: 34%
- Corporate Income: 8%
- Gaming: 1%
- Other Taxes & Fees: 18%

Fiscal 2016
- Personal Income: 45%
- Sales: 32%
- Corporate Income: 6%
- Gaming: 1%
- Other Taxes & Fees: 17%
GENERAL FUND REVENUE SOURCES (SOUTHERN STATES)

Fiscal 1998
- Personal Income 37%
- Corporate Income 6%
- Other Taxes & Fees 20%
- Sales 35%

Fiscal 2016
- Personal Income 43%
- Corporate Income 5%
- Other Taxes & Fees 16%
- Sales 36%
TOTAL STATE EXPENDITURES BY FUNCTION

FISCAL YEAR 2008
$1,479 Billion

- Medicaid 20.7%
- K-12 21.6%
- Higher Education 10.2%
- Transp. 7.9%
- Corrections 3.5%
- All Other 34.5%
- Public Assistance 1.7%

FISCAL YEAR 2016
$1,928 Billion

- Medicaid, 29.0%
- K-12, 19.4%
- Higher Ed, 10.2%
- Transp. 7.9%
- Corrections 3.0%
- All Other, 29.2%
- Public Assistance, 1.4%

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

- K-12 Education: 34.5%
- Higher Education: 11.3%
- Public Assistance: 1.8%
- Medicaid: 16.3%
- Corrections: 7.0%
- Transp.: 0.8%
- All Other: 28.4%

FISCAL YEAR 2016
$779 Billion

- K-12 Education: 35.1%
- Higher Education: 9.7%
- Public Assistance: 1.2%
- Medicaid: 20.3%
- Corrections: 6.6%
- Transp.: 0.9%
- All Other: 26.2%
GENERAL FUND EXPENDITURES BY FUNCTION
15 Southern States

FISCAL YEAR 2008
$197 Billion

- K-12 Education 39.1%
- Higher Education 15.2%
- Medicaid 13.2%
- Public Assistance 0.5%
- Corrections 6.8%
- Transp. 0.1%
- All Other 23.4%

FISCAL YEAR 2016
$229 Billion

- K-12 Education 39.3%
- Medicaid 18.3%
- Public Assistance 0.0%
- Higher Education 12.1%
- Corrections 6.6%
- Transp. 0.1%
- All Other 23.1%
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

Percentage of General Fund Spending

Fiscal Year

1995 1997 1999 2001 2003 2005 2007 2009 2011 2013 2015

6.0% 11.0% 16.0% 21.0% 26.0% 31.0% 36.0% 41.0% 46.0%

K-12 Higher Ed Medicaid

Source: NASBO State Expenditure Report.
MEDICAID SPENDING GROWTH & NEW DATA ON EXPANSION EXPENDITURES
MEDICAID SPENDING GROWTH PROJECTED TO SLOW SOMEWHAT IN FISCAL 2018

Median Percentage Growth in Medicaid Spending by Fund Source

Fiscal 2016
- General: 2.7%
- Other State: 2.9%
- Federal: 5.6%
- Total: 5.0%

Fiscal 2017
- General: 5.2%
- Other State: 3.7%
- Federal: 6.0%
- Total: 5.3%

Fiscal 2018
- General: 4.8%
- Other State: 0.0%
- Federal: 3.6%
- Total: 3.5%

Source: NASBO Fiscal Survey of States
NEW DATA: STATE SPENDING ON MEDICAID EXPANSION POPULATION

Medicaid Expenditures on Expansion Only

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Federal Funds (in billions)</th>
<th>State Funds (in billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal 2016</td>
<td>$74</td>
<td>$5</td>
</tr>
<tr>
<td>Fiscal 2017</td>
<td>$81</td>
<td>$6</td>
</tr>
<tr>
<td>Fiscal 2018</td>
<td>$83</td>
<td>$9</td>
</tr>
</tbody>
</table>

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.
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)

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

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

**Average Increase** +10 cents

**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)
## 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

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>Excluding AK &amp; TX</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>$32.9 billion</td>
<td>$23.0 billion</td>
</tr>
<tr>
<td>2009</td>
<td>$29.0 billion</td>
<td>$13.8 billion</td>
</tr>
<tr>
<td>2010</td>
<td>$21.0 billion</td>
<td>$3.0 billion</td>
</tr>
<tr>
<td>2011</td>
<td>$24.7 billion</td>
<td>$6.7 billion</td>
</tr>
<tr>
<td>2012</td>
<td>$34.3 billion</td>
<td>$12.3 billion</td>
</tr>
<tr>
<td>2013</td>
<td>$41.3 billion</td>
<td>$18.8 billion</td>
</tr>
<tr>
<td>2014</td>
<td>$47.7 billion</td>
<td>$25.4 billion</td>
</tr>
<tr>
<td>2015</td>
<td>$47.8 billion</td>
<td>$28.9 billion</td>
</tr>
<tr>
<td>2016</td>
<td>$51.9 billion</td>
<td>$35.1 billion</td>
</tr>
<tr>
<td>2017*</td>
<td>$51.9 billion</td>
<td>$34.6 billion</td>
</tr>
<tr>
<td>2018*</td>
<td>$55.6 billion</td>
<td>$38.5 billion</td>
</tr>
</tbody>
</table>

*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)

Texas 19.4%
Missouri 3.2%
Arkansas NA
Louisiana 2.7%
Mississippi 5.8%
Alabama 9.3%
Tennessee 4.9%
Kentucky 2.1%
West Virginia 14.4%
Virginia 2.7%
North Carolina 6.6%
South Carolina 6.2%
Florida 4.5%
Southern Median 5.8%
U.S. Median 7.7%
I HAVE A VERY BAD FEELING ABOUT THIS.
<table>
<thead>
<tr>
<th></th>
<th>FEDERAL UNCERTAINTY FOR STATES</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The Affordable Care Act, especially Medicaid – Per capita caps, Expansion, Flexibility</td>
</tr>
<tr>
<td>2</td>
<td>Tax Policy Considerations – municipal debt, border-adjusted corporate tax, state/local tax deductibility</td>
</tr>
<tr>
<td>3</td>
<td>Infrastructure</td>
</tr>
<tr>
<td>4</td>
<td>The Fiscal 2018 Budget</td>
</tr>
</tbody>
</table>
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