



➤ **NASPE**  
**MID-YEAR MEETING**

# STATE BUDGET UPDATE

**John Hicks**  
Executive Director

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

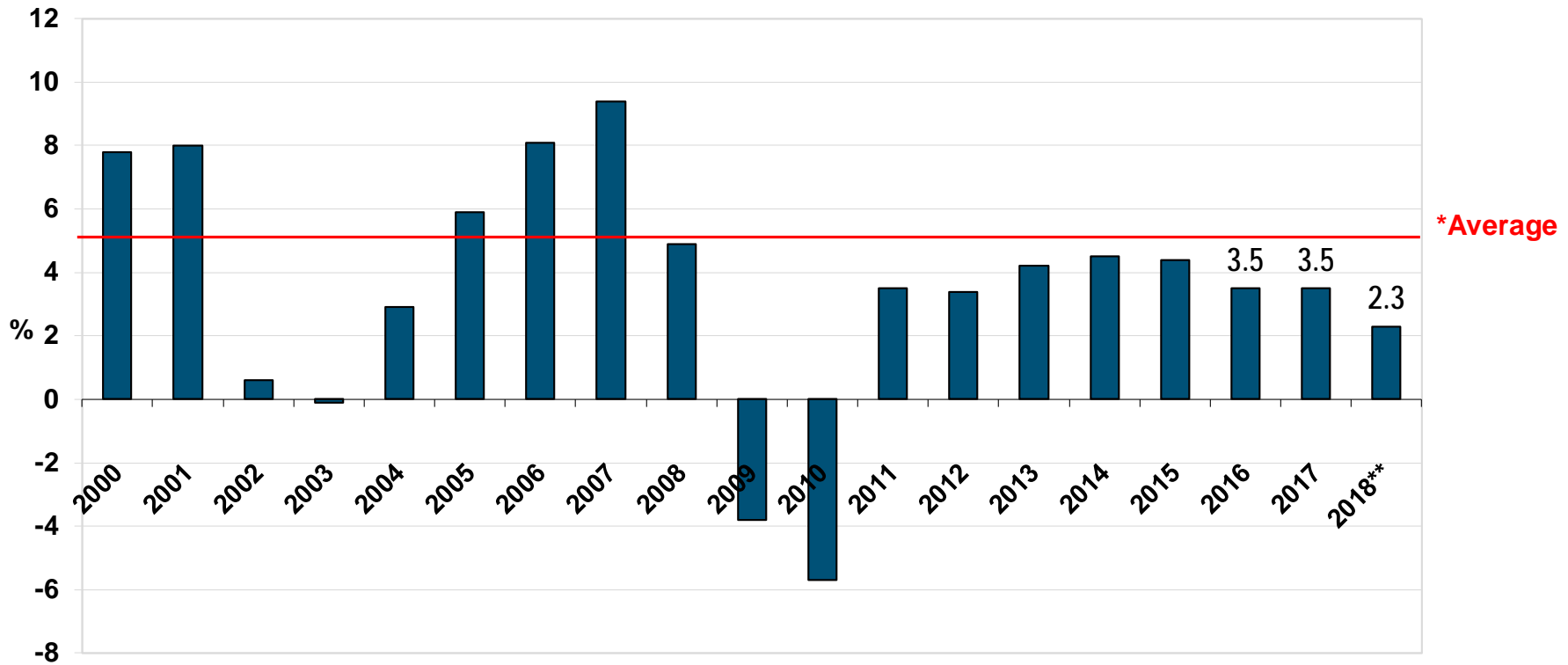


**CURRENT FISCAL SITUATION**  
**RECENT SURVEY RESULTS**

*Photo by: Jake McGuire*

# STATE GENERAL FUND SPENDING GROWTH PROJECTED TO SLOW 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 enacted budgets. Median growth rate for fiscal 2018 is 1.7 percent.

Source: NASBO Fiscal Survey of States

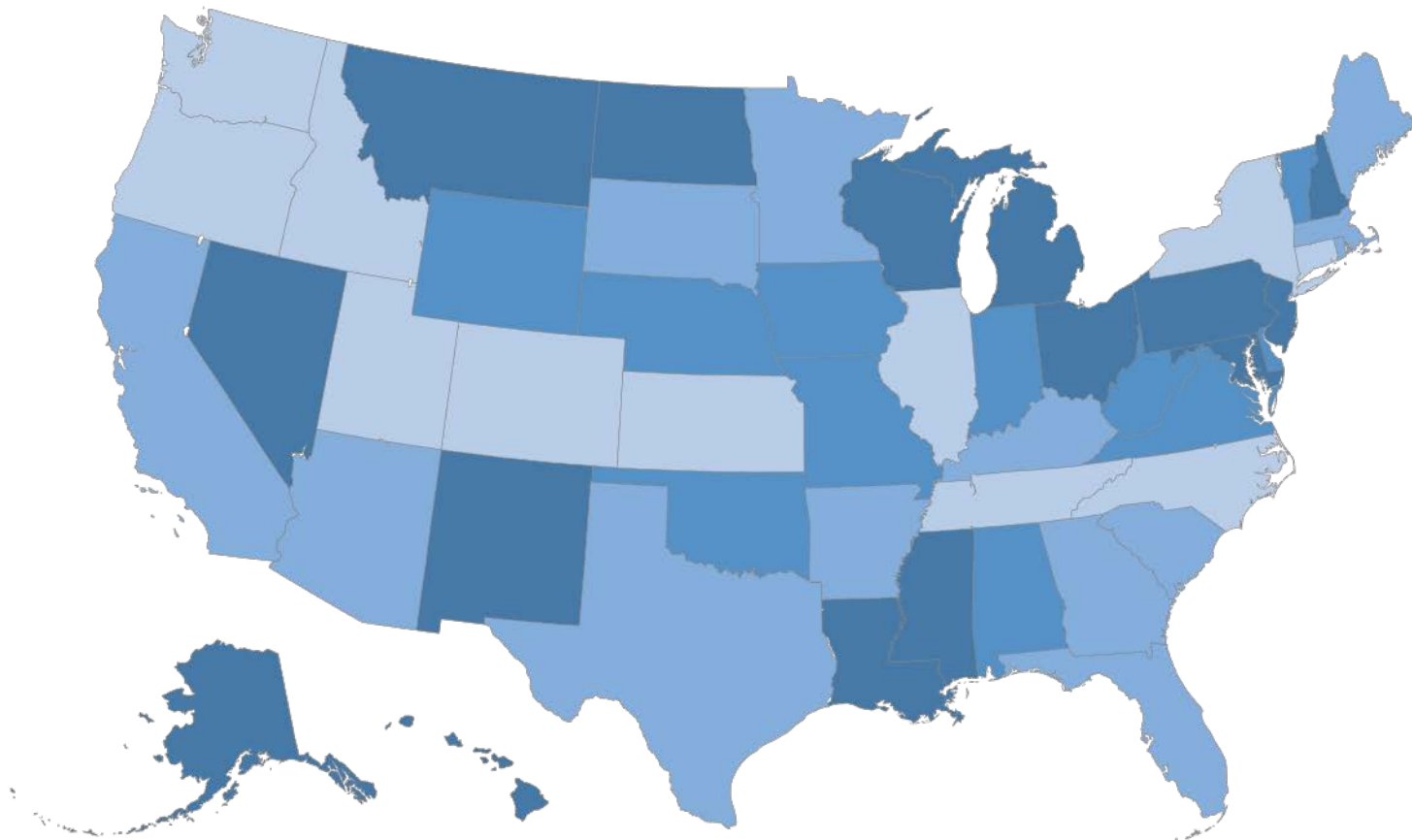


# > 26 STATES ENACTED 2018 BUDGETS WITH GENERAL FUND SPENDING GROWTH BELOW 2%

15 states with declines

State General Fund Spending Growth in Fiscal 2018 Enacted Budgets

■ <0% ■ 0-2% ■ 2-4% ■ >4%

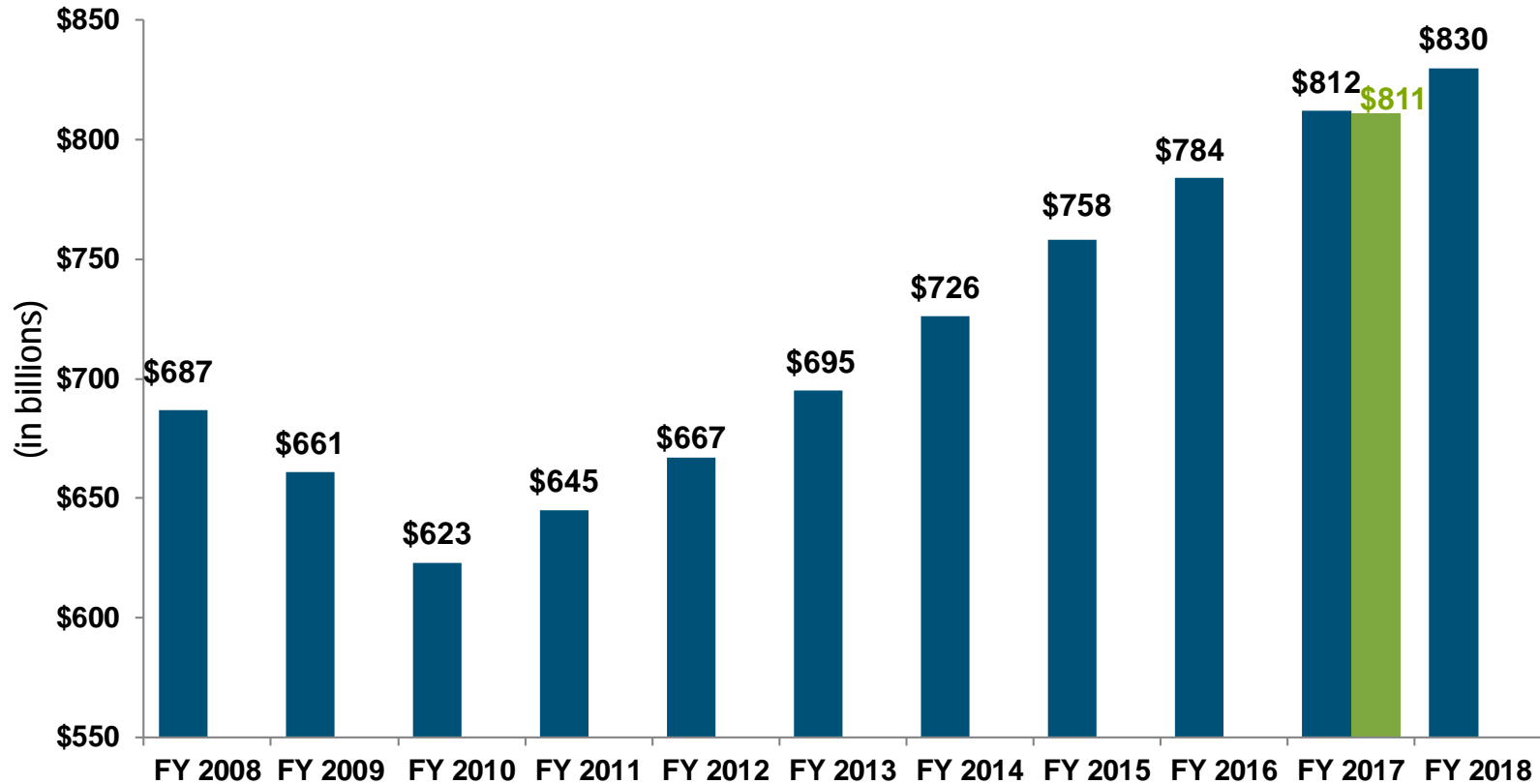




# FISCAL 2017 GENERAL FUND SPENDING

## BARELY 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 states' enacted budgets.

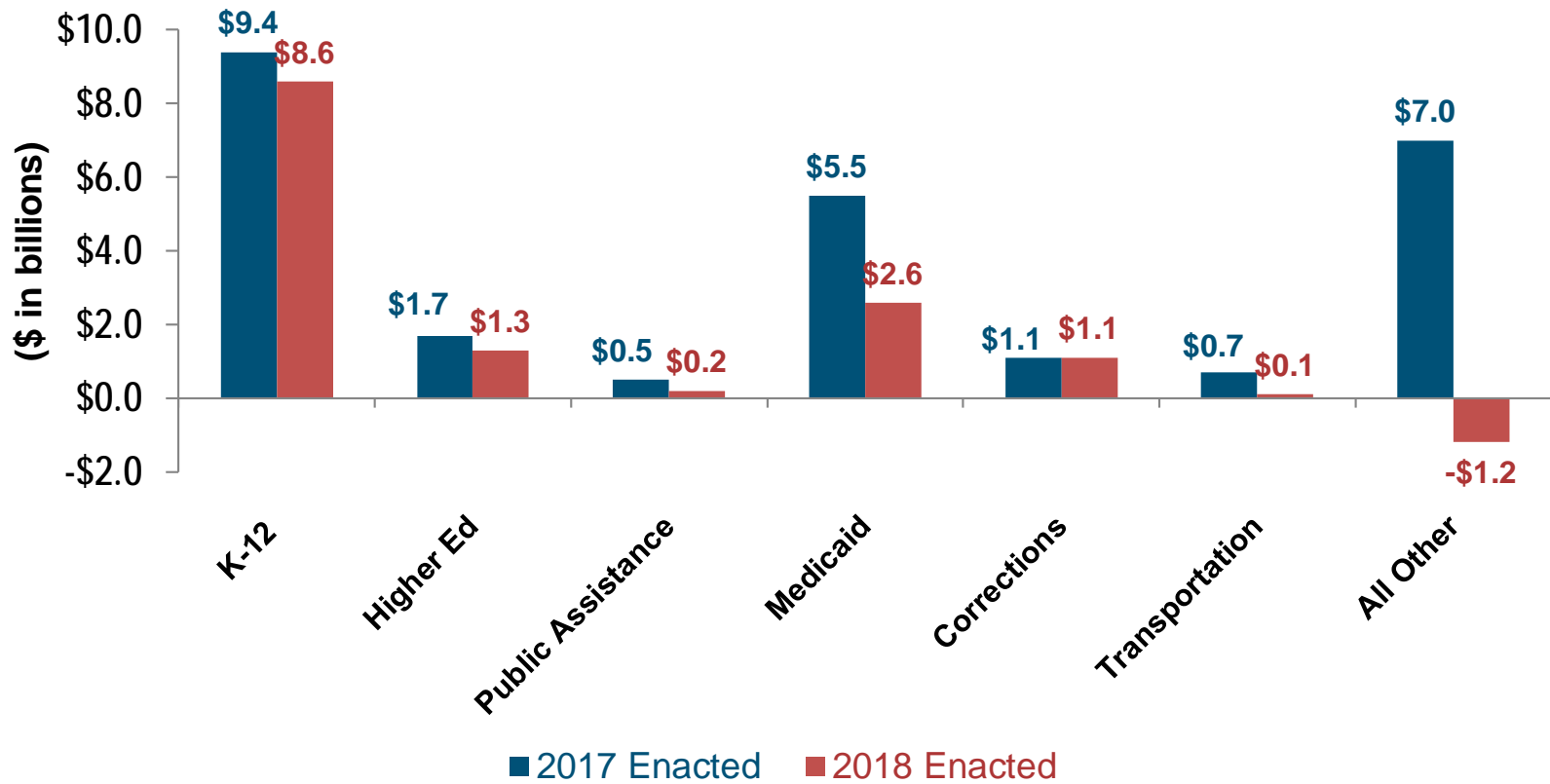
Median growth rate for fiscal 2018 is **1.7 percent**.

\*Aggregate spending level needed to total at least \$811 billion in fiscal 2017 to be equivalent with or exceed real 2008 spending level.

# STATES ENACT VERY MODEST SPENDING INCREASES

Total Appropriation Increase of \$12.7B Compared to \$25.8B in Fiscal 2017

## Enacted General Fund Spending Changes by Program Area



Source: NASBO Fiscal Survey of States



# **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 GOVERNMENT PERSONNEL & COST TRENDS

*Photo by: Jake McGuire*



# > STATE AND LOCAL EMPLOYMENT HAS DECLINED 277,000 From Their Peak Through October



**State** employment has **declined 123,000** from Aug. 2008 – Oct. 2017

- > State government employment increased 2,000 in October



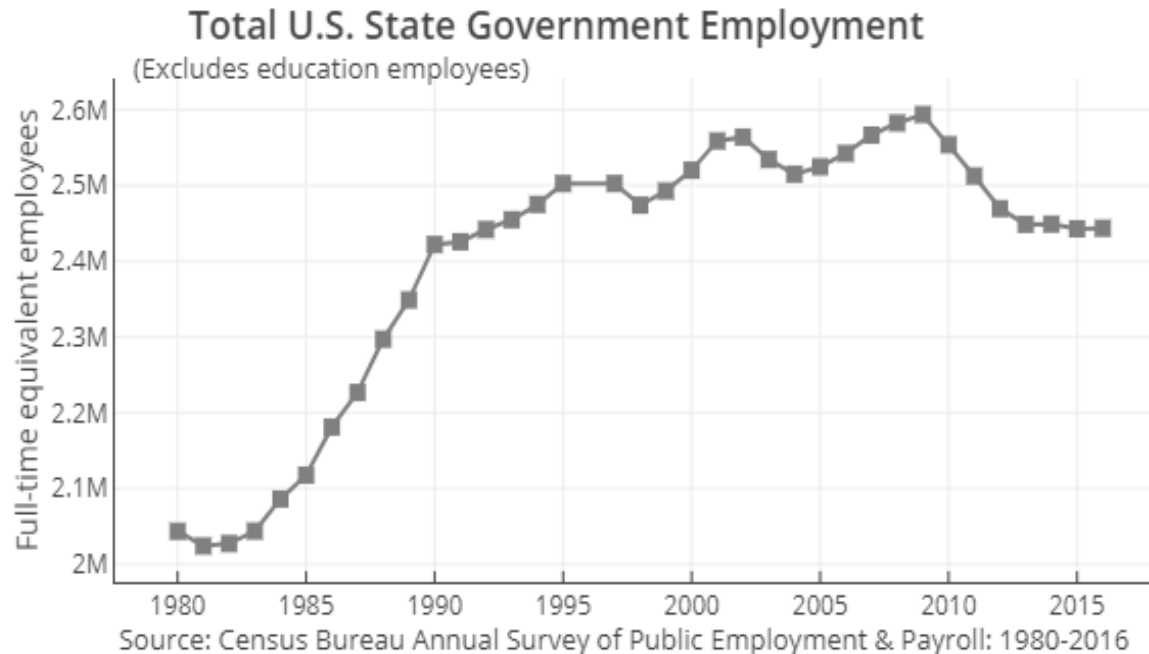
**Local** employment has **declined 154,000** from July 2008 – Oct. 2017

- > Locals positions increased by 2,000 in October

Source: Bureau of Labor Statistics



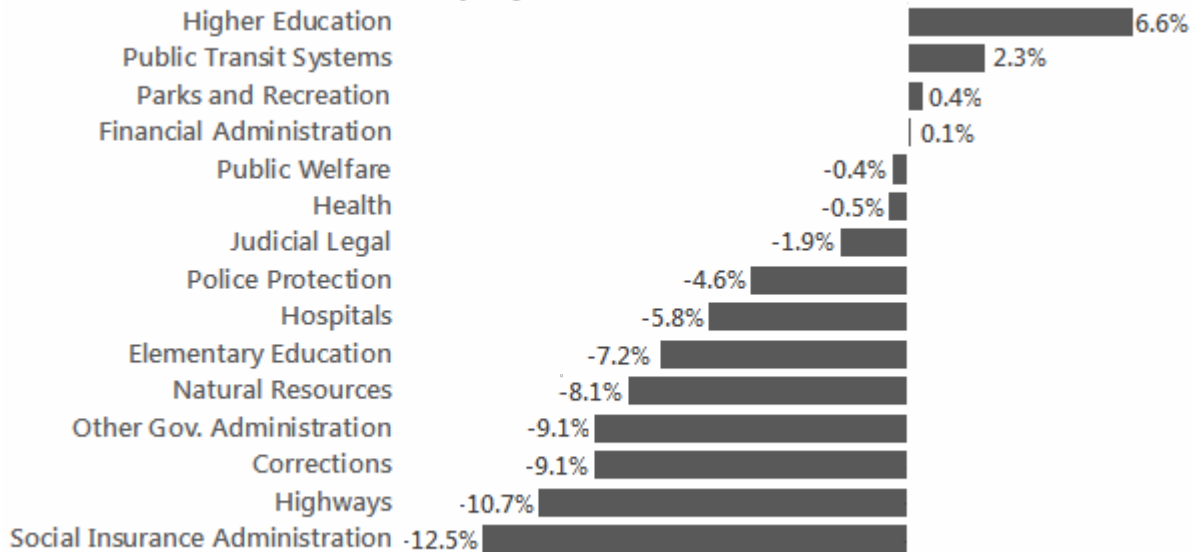
# State Government Employment – Excluding Education





# State Government Employment – Recent Changes

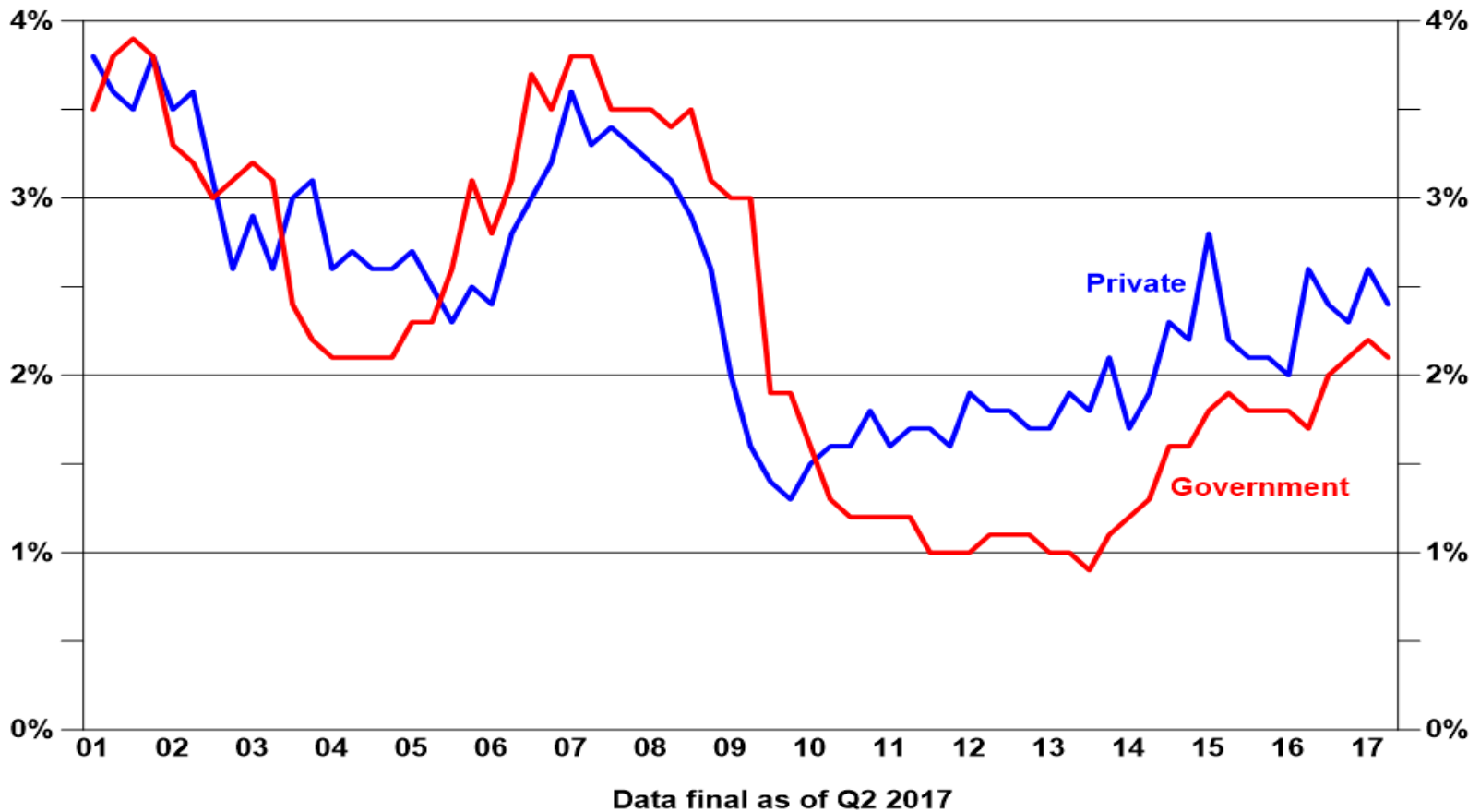
## U.S. State Government Employment: 2009 - 2016



Figures represent aggregate changes in full-time equivalent employees.  
SOURCE: Census Bureau Annual Survey of Public Employment & Payroll



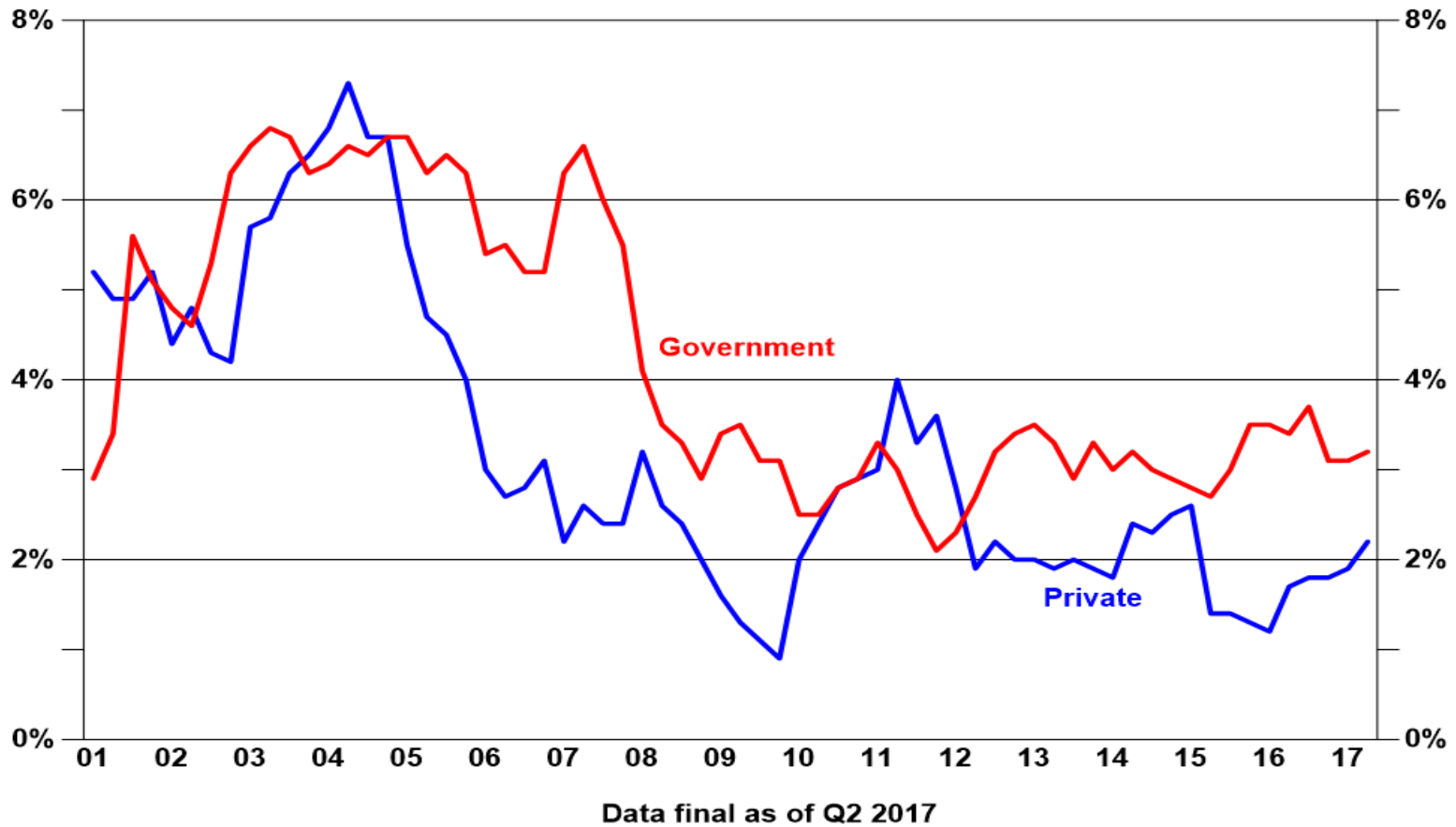
# ANNUALIZED QUARTERLY CHANGE IN WAGE AND SALARY COSTS FOR PRIVATE AND STATE AND LOCAL GOVERNMENT EMPLOYEES, 2001-2017



Source: Bureau of Labor Statistics



# ANNUALIZED QUARTERLY CHANGE IN BENEFIT COSTS FOR PRIVATE AND STATE AND LOCAL GOVERNMENT EMPLOYEES, 2001-2017



Source: Bureau of Labor Statistics





# GENERAL FUND REVENUES

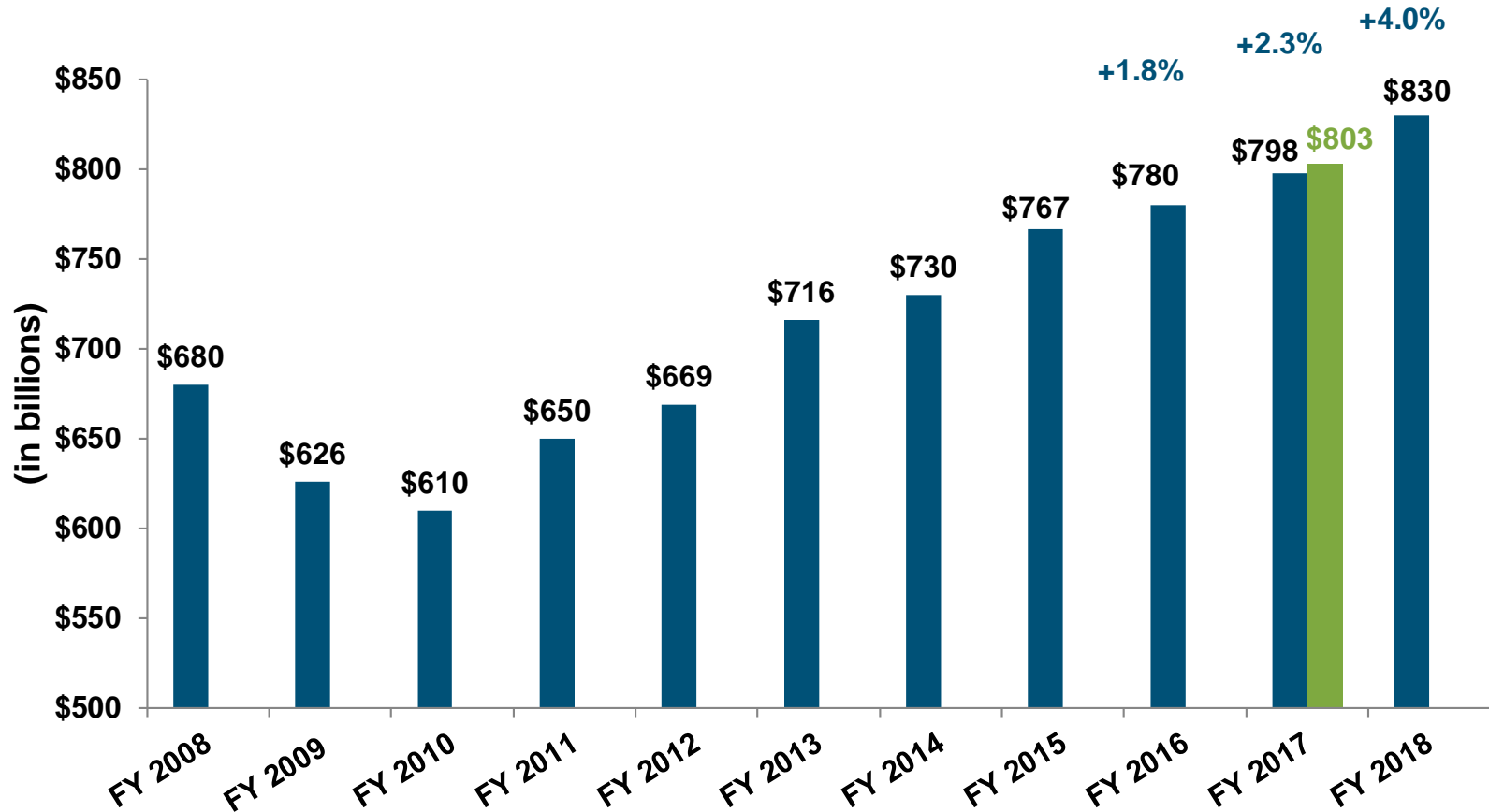
*Photo by: Jake McGuire*



# SLUGGISH GENERAL FUND REVENUE GROWTH FOR TWO CONSECUTIVE YEARS

## Modest Improvement Expected in Fiscal 2018

### General Fund Revenue: FY 2008-FY 2018



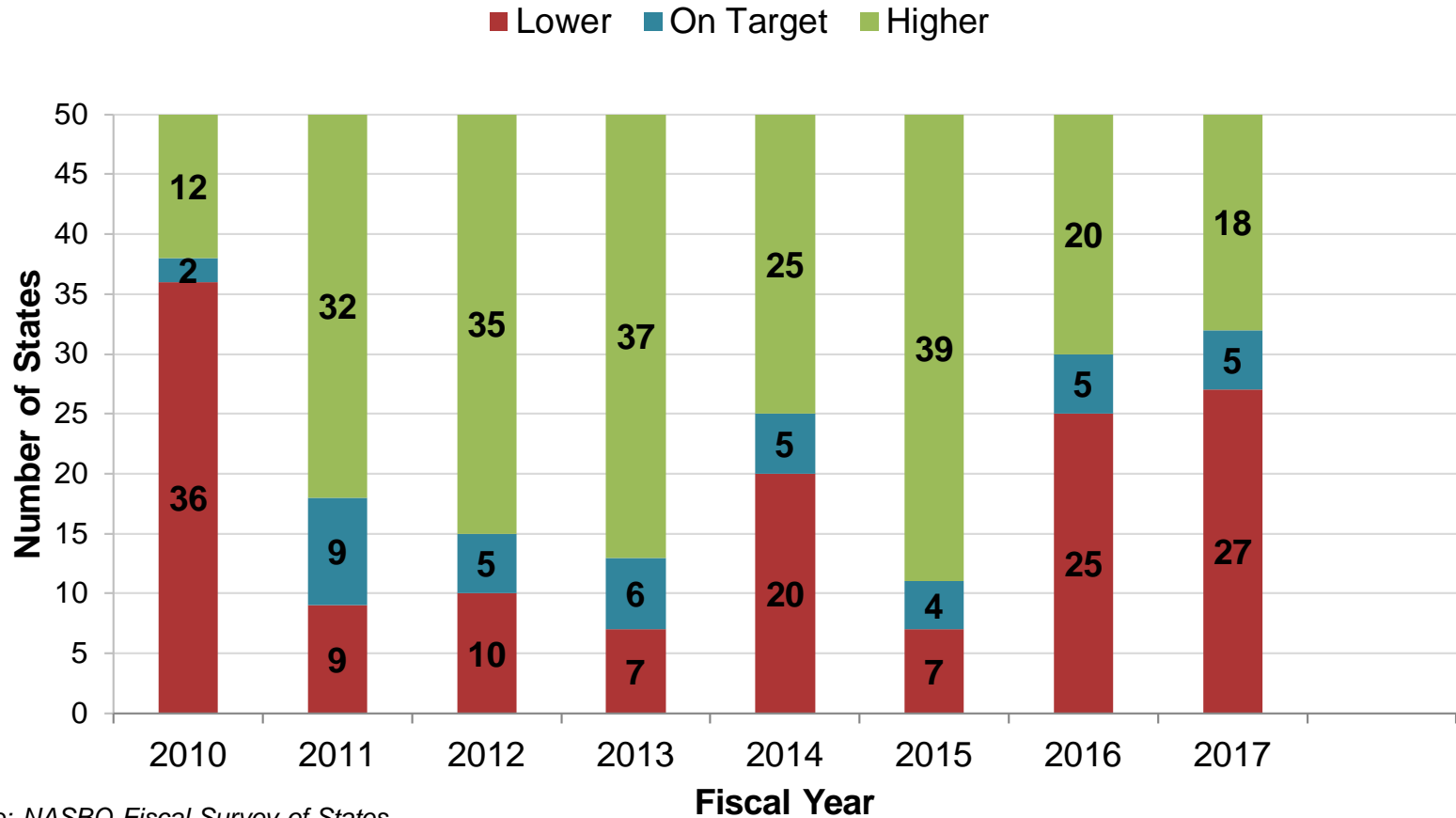
Source: NASBO Fiscal Survey of States; Fiscal 2018 figure is based on enacted budgets.

Median growth rate for fiscal 2018 is **3.2 percent**.

\*Aggregate revenue level needed to total at least \$799 billion in fiscal 2017 to be equivalent with or exceed real 2008 spending level.

# > 27 STATES REPORT REVENUE SHORTFALLS IN FISCAL 2017

## General Fund Revenue Collections Compared to Original Budget Projections



Source: NASBO Fiscal Survey of States.



**KEEPING AN EYE ON -  
ONLINE SALES TAX ACTIONS**

*Photo by: Jake McGuire*



## ONLINE SALES TAX STATE LEGISLATION ACTIVITY GROWING

### 2016 – Economic Nexus and Reporting

- › Colorado’s 2010 Reporting Law denied cert by US Supreme Court
- › South Dakota statute - \$100,000 sales threshold; 200+ transactions
- › Alabama statute - \$250,000 sales threshold for remote “entities”

### 2017 – Economic Nexus – South Dakota-like

- › **US SUPREME COURT TAKING UP SOUTH DAKOTA CASE!!!**
- › Indiana, North Dakota and Wyoming – new legislation
- › Massachusetts and Tennessee – new regulations

### 2017 – Marketplace Providers on Behalf of Sellers

- › Minnesota and Washington – first state laws - \$10K sales threshold
- › Attempt to put onus of collection on marketplace provider
- › Wash imposes notice/reporting obligations on marketplace providers

### 2017 – Substantial “Cookie” Nexus

- › Massachusetts, Ohio, Rhode Island

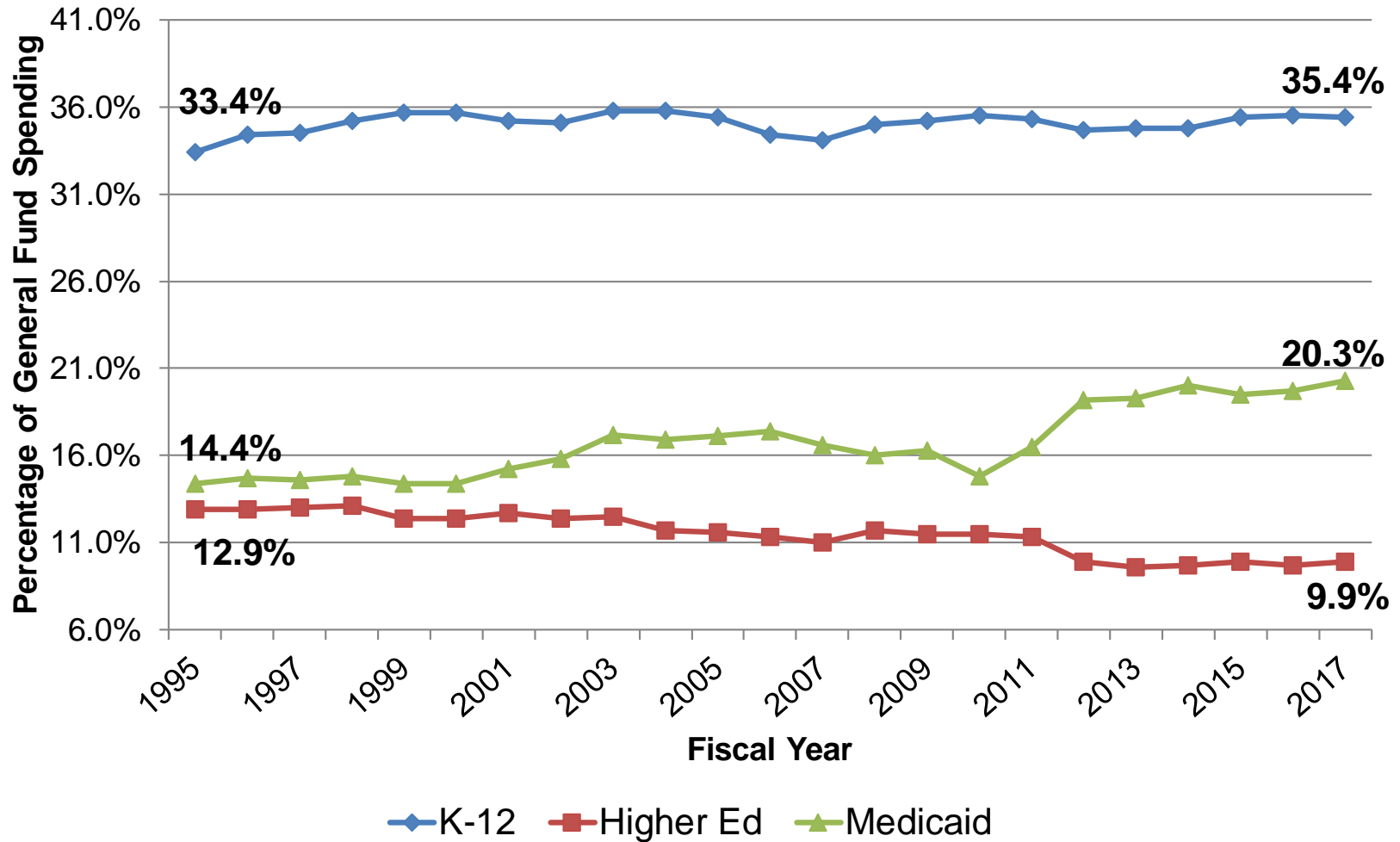




# STATE SPENDING TRENDS

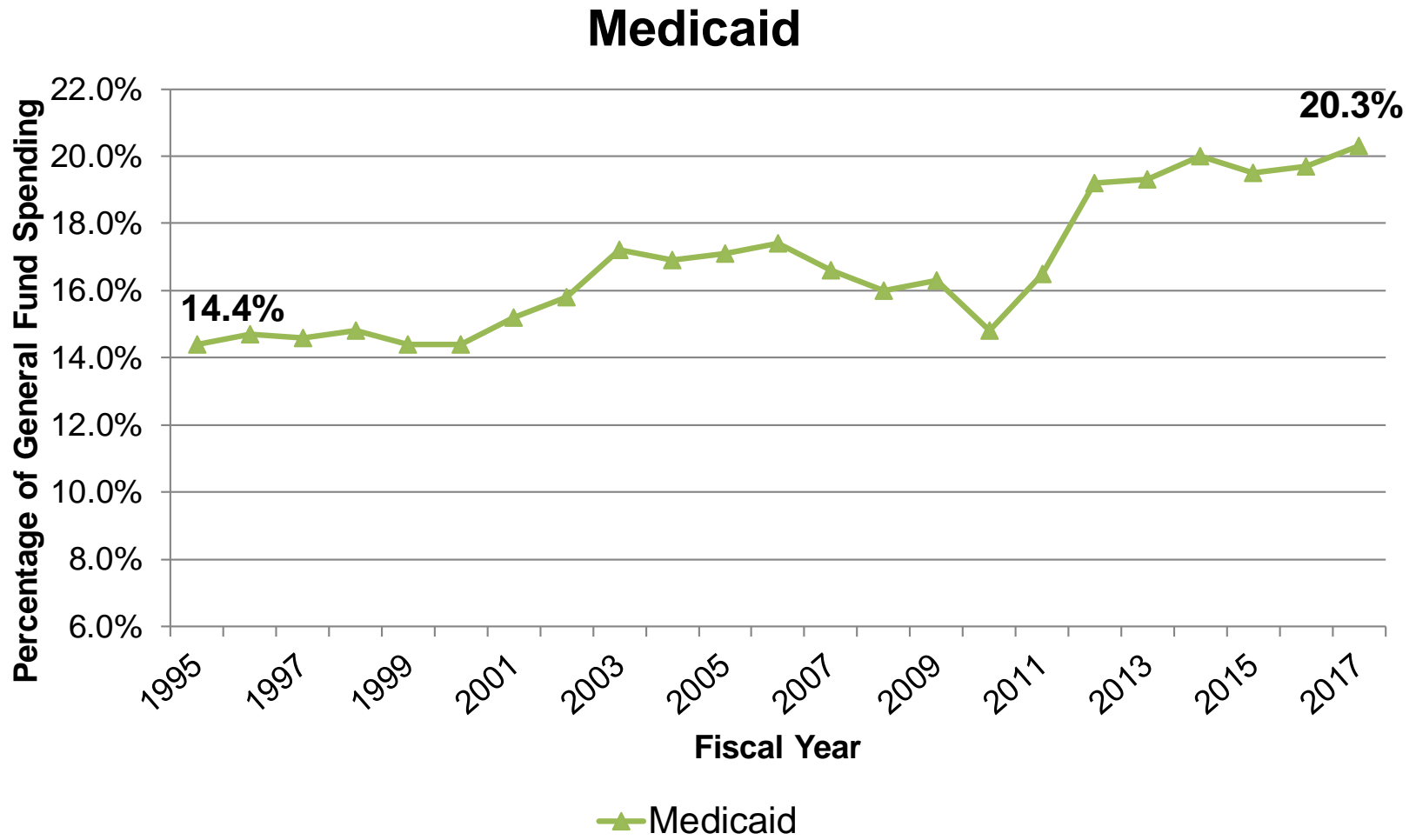
*Photo by: Jake McGuire*

# MEDICAID HAS INCREASED AS A PERCENTAGE OF GENERAL FUND SPENDING OVER TIME – ALL STATES



Source: NASBO State Expenditure Report.

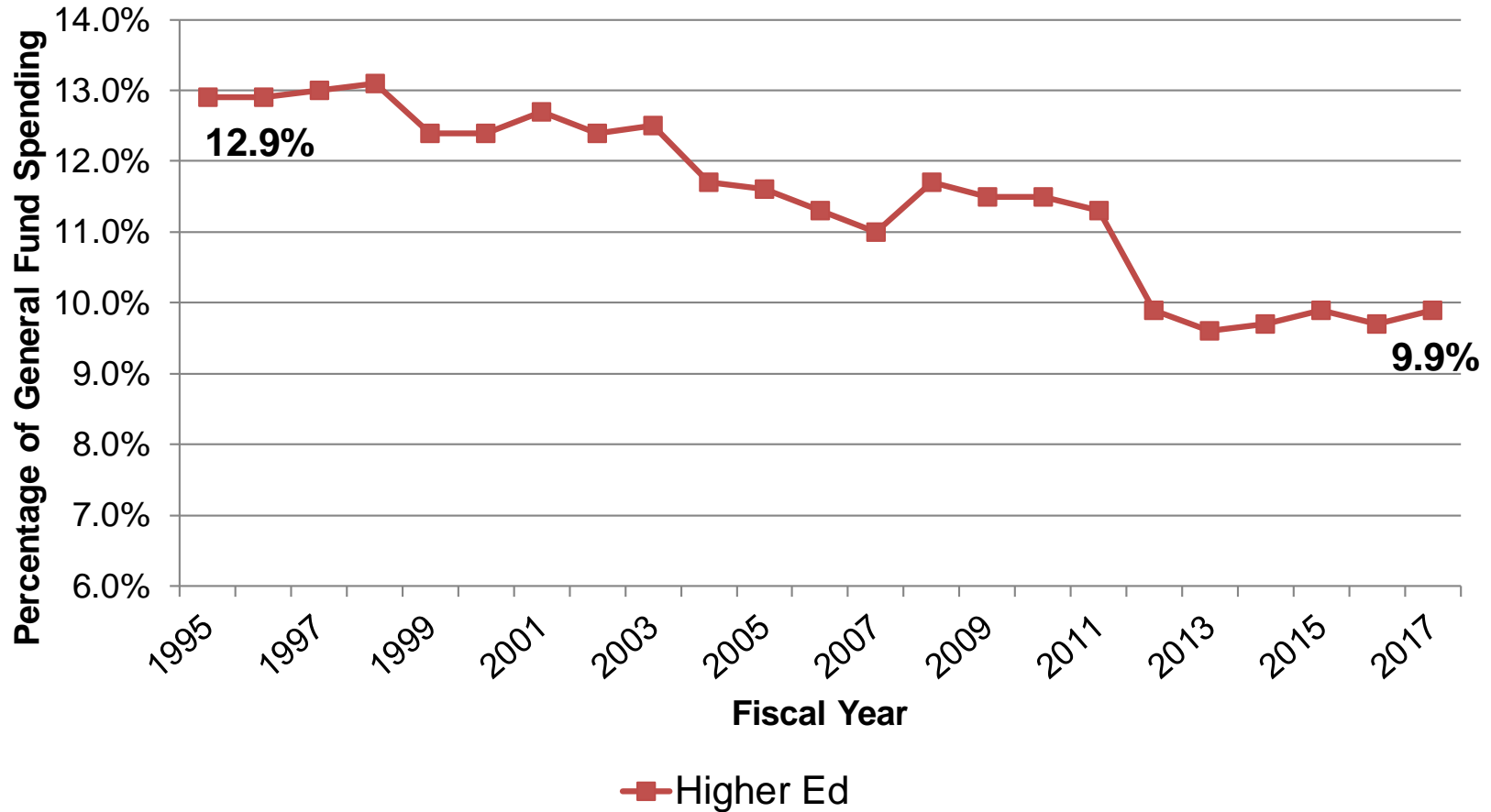
# MEDICAID HAS INCREASED AS A PERCENTAGE OF GENERAL FUND SPENDING OVER TIME – ALL STATES



Source: NASBO State Expenditure Report.

# HIGHER EDUCATION DECREASED AS A PERCENTAGE OF GENERAL FUND SPENDING OVER TIME – ALL STATES

## Higher Education



Source: NASBO State Expenditure Report.



# TRANSPORTATION

*Photo by: Jake McGuire*



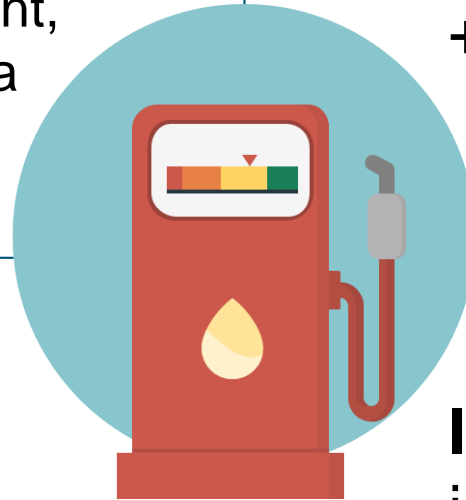
Gas taxes raised in  
**26 states** since 2013

-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

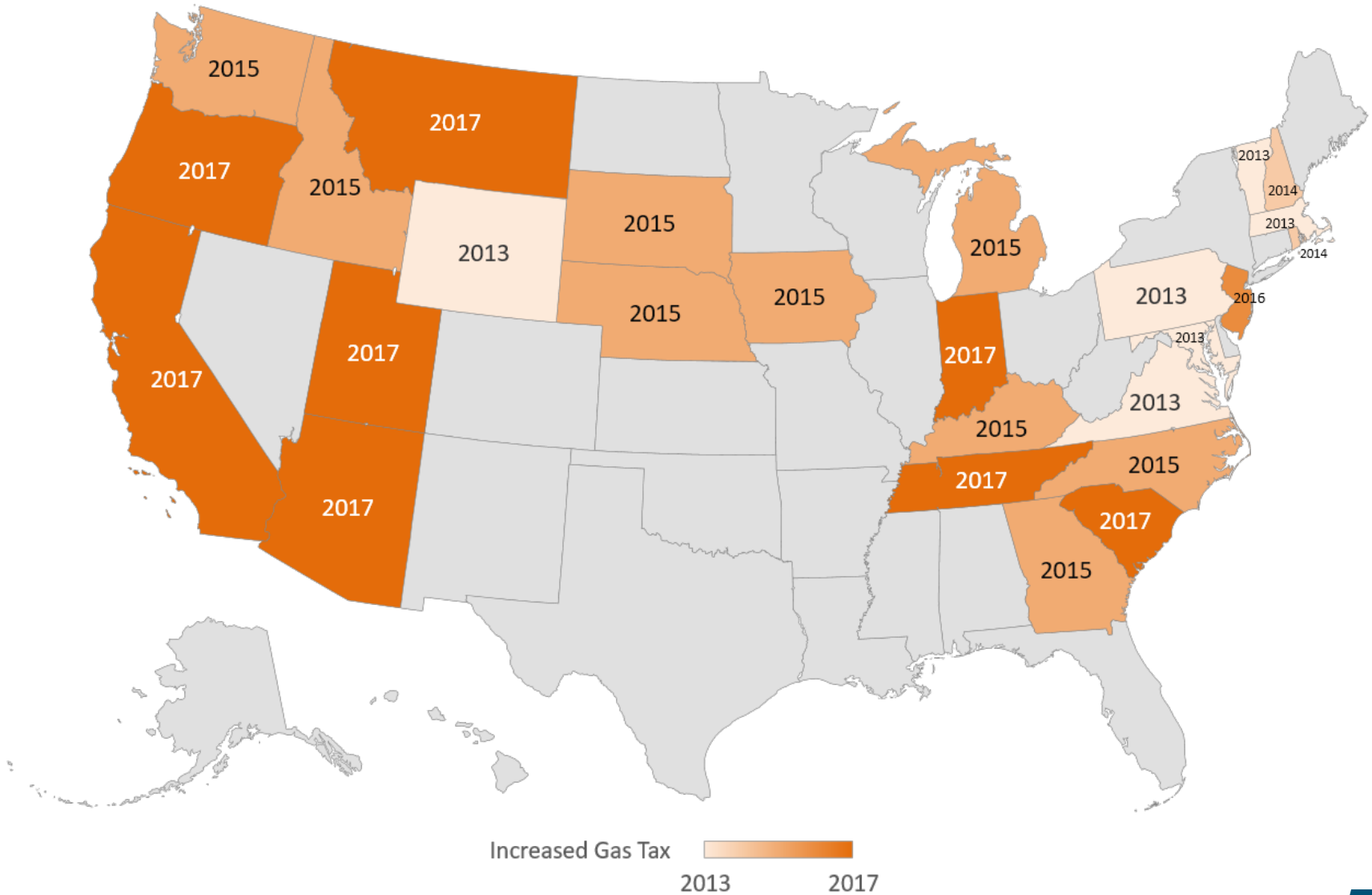


**32 states** have  
Constitutional  
restrictions on how  
revenues in  
transportation fund can  
be spent

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



# STATE GAS TAX INCREASES 2013 - 2017





## TRANSPORTATION FUNDING – Other than Fuel Tax Increases – 2017 Sessions

### 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



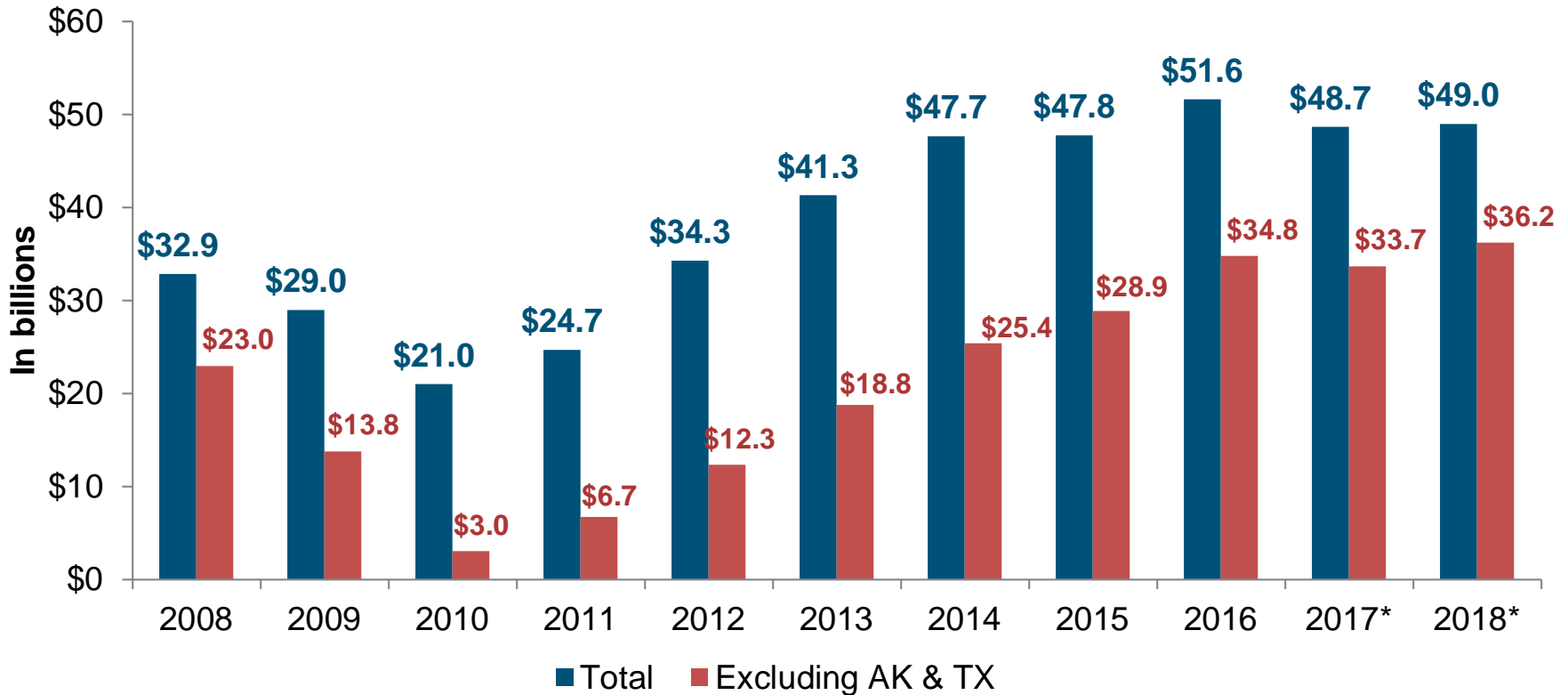
**STATE SAVINGS ACCOUNTS  
(RAINY DAY FUNDS)**

*Photo by: Jake McGuire*

# STATES CONTINUE TO STRENGTHEN RAINY DAY FUNDS

28 States Report Increases in Fiscal 2017; 25 States Forecast Increases in Fiscal 2018

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



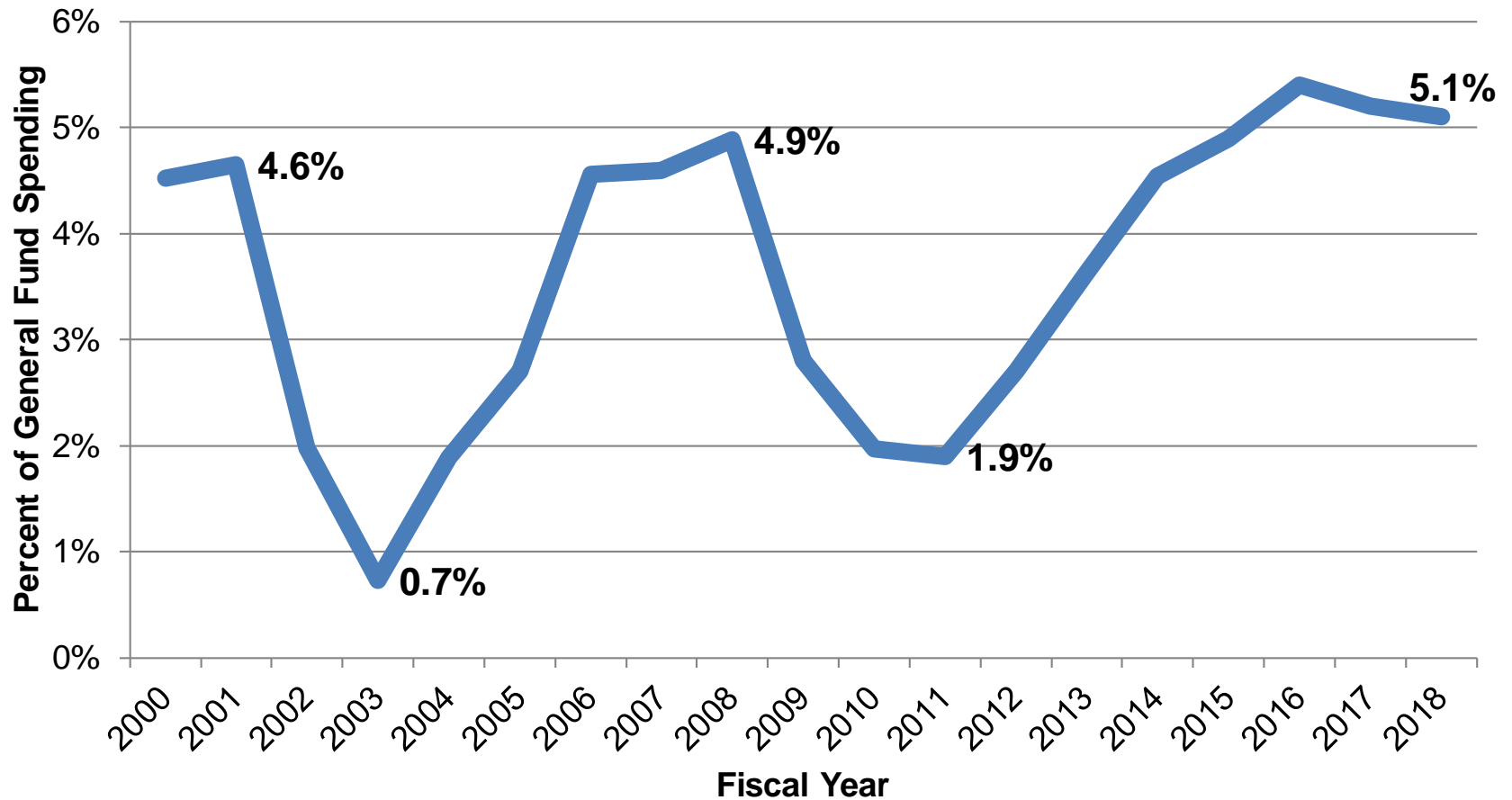
\*FY2017 totals excludes Georgia, and FY2018 totals excludes Georgia and Oklahoma.

Source: NASBO Fiscal Survey of States



# ➤ MEDIAN RAINY DAY FUND LEVEL EXCEEDS PRE-RECESSION PEAK

## Median Rainy Day Fund Balance Over Time



Source: NASBO Fiscal Survey of States



# FISCAL 2019 BUDGET PROPOSALS

*Photo by: Jake McGuire*



## FISCAL 2019 BUDGET PROPOSALS

- › 34 states will adopt a FY19 budget
- › 28 governors have proposed their budgets
- › 16 states already did so in their 2017 legislature
- › Revenue situation moderately better
- › Most states calling for another year of slow spending – a few proposing declines



# FISCAL 2019 BUDGET PROPOSALS

## SPENDING PRESSURES

- Education
- Pensions
- Building up reserves
- Corrections

## AREAS OF EMPHASIS

- K-12 Education
- Opioid Crisis
- Job Training & Workforce Development
- Behavioral Health
- Public Safety
- Infrastructure



# FEDERAL OUTLOOK FOR STATES

*Photo by: Jake McGuire*





# FEDERAL UNCERTAINTY FOR STATES

1

## Tax Policy

Considerations —  
personal & corporate tax,  
state/local tax deductibility

2

## The Fiscal 2018 Budget

Continuing Resolution  
Budget Caps  
What will 2019 bring?

3

## Infrastructure

4

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



## **FEDERAL TAX LAW CHANGES WHAT ARE STATES GOING TO DO?**

- **Very Little Time to React in 2018 Sessions – a major disrupter**
- **Conformity Will be a New Word in Your Vocabulary**
- **Uncertainty on the Real Impact – Many Variations**
- **Most States tie to Federal Adjusted Gross Income**
- **States just starting to measure possible impacts**



**WHAT DOES THIS MEAN  
FOR STATE PERSONNEL  
EXECUTIVES?**

*Photo by: Jake McGuire*

## > WHAT DOES THIS MEAN FOR PERSONNEL?

Better revenue situation for FY 2018 and 2019 than last two years.

Major uncertainty with federal tax law changes.

Mixture of tight labor market sectors and minimal pay increases

Pension costs growing share and K-12 priority remains

Cautious budgeting will be one result – efficiency in gov't continues to be the watchword.

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