

# SUMMARY: SPRING 2019 FISCAL SURVEY OF STATES

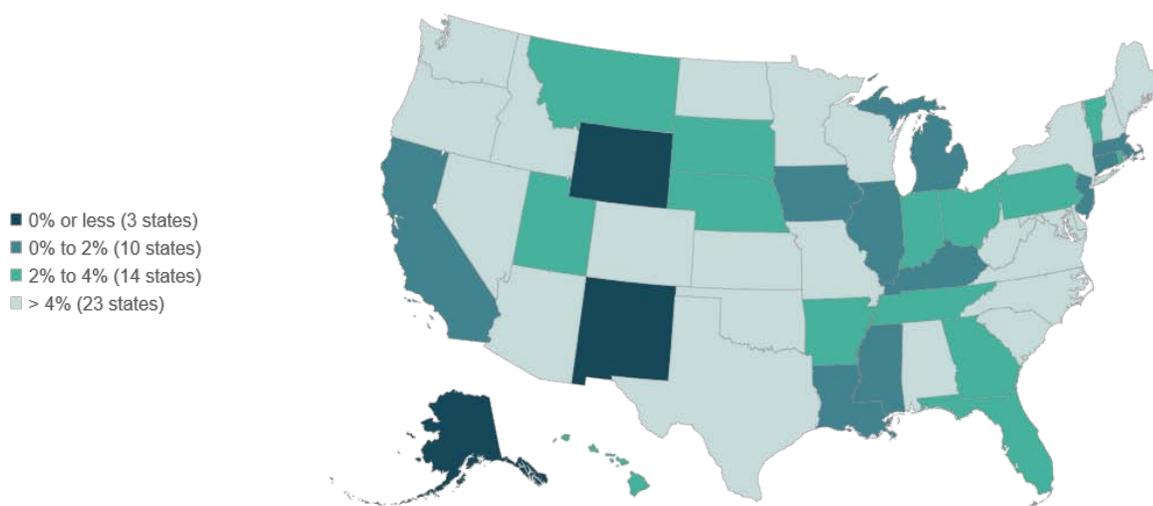
June 13, 2019

## Governors' Budgets for Fiscal 2020 Reflect Stable Fiscal Environment

Governors have recommended budgets for fiscal 2020 calling for moderate general fund spending and revenue growth. Proposed spending plans would increase general fund expenditures by 3.7 percent in fiscal 2020, with 47 states proposing spending increases and governors directing the majority of new money to education. Most states entered fiscal 2019 with sizable budget surpluses from robust revenue growth in fiscal 2018, which helped bolster state general fund spending and reserves. Most states have seen general fund revenue collections exceed their budget forecasts for fiscal 2019, and no states had to make mid-year budget cuts due to a revenue shortfall. Moderate general fund revenue growth is expected to

continue in fiscal 2020 in line with economic growth forecasts. Governors have recommended a series of revenue changes for fiscal 2020 consisting mostly of tax increases along with some modest decreases, with much of the new proposed revenue going towards transportation. Most states continue to strengthen their reserves as they leverage the recently improved revenue conditions and resulting budget surpluses to bolster rainy day fund balances. While fiscal conditions are stable overall, states continue to face long-term budget challenges to varying degrees, as spending demands for fixed costs such as pension contributions and health care are expected to grow faster than revenues over the long term. States are also budgeting cautiously as they remain vigilant for any signs of weakness in revenues or the potential for the next recession.

Figure 1. General Fund Spending Percentage Change In Fiscal 2020 Recommended Budgets\*



\*Compared to fiscal 2019 preliminary actual spending levels.



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## Governors Propose Moderate Spending Increases in Fiscal 2020 Budgets

Governors' budgets call for general fund spending to grow 3.7 percent in fiscal 2020, totaling \$915.9 billion across all 50 states. Overall, 47 states proposed general fund spending increases in fiscal 2020, with 23 of those states recommending increases greater than 4.0 percent, 14 states with spending growth between 2.0 and 4.0 percent, and 10 states with spending increasing between 0 and 2.0 percent, compared to fiscal 2019 spending levels. Three states reported fiscal 2020 budget recommendations that call for flat or declining general fund spending. (See **Figure 1.**)

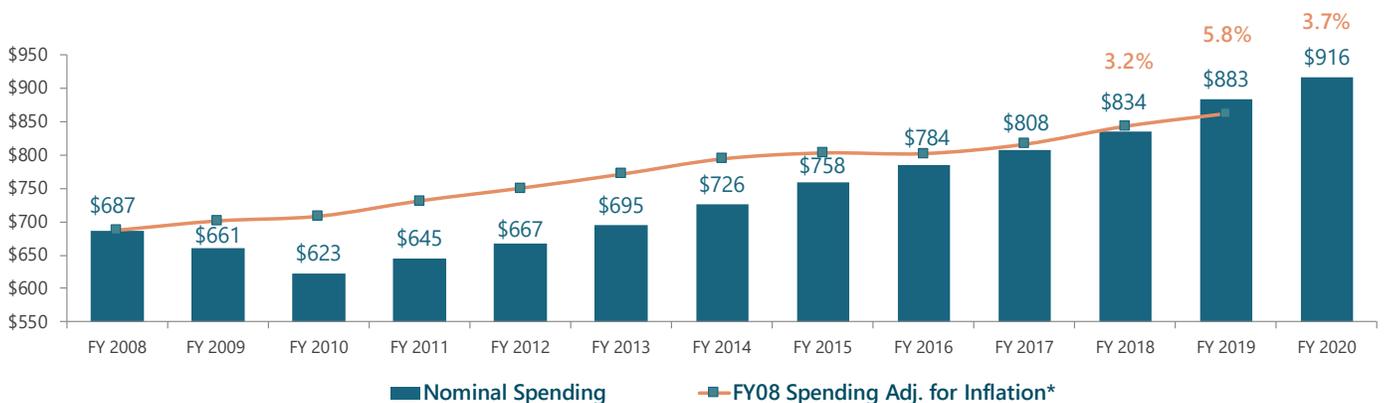
Estimated annual spending growth for fiscal 2019 came in at 5.8 percent, considerably higher than the 4.3 percent growth originally budgeted for fiscal 2019 as reported in NASBO's Fall 2018 Fiscal Survey of States. The strong expenditure growth observed in the states in fiscal 2019 can be attributed to rapid general fund revenue growth in fiscal 2018 that led to large surpluses in many states, rising revenue estimates in a number of states for the current fiscal year, and mid-year spending increases for

specific purposes, such as disaster recovery efforts, child welfare services, and rainy day fund deposits. Estimated general fund spending in fiscal 2019 surpasses the pre-recession peak level in fiscal 2008 in real terms. However, on a state-by-state basis, only half of the states spent more from their general funds in fiscal 2019 than they did in fiscal 2008, after adjusting for inflation. (See **Figure 2.**)

## States Direct the Majority of Appropriation Increases to Education

Governors' recommended appropriation changes for fiscal 2020 also reflect a strong state fiscal environment contributing to a significant amount of "new money" available to spend on key gubernatorial priorities. For fiscal 2020, governors proposed spending increases across all program areas totaling \$30.8 billion (compared to enacted fiscal 2019 appropriation levels). Elementary and secondary education stood out as the largest recipient of new money in fiscal 2020 by far, receiving \$14.1 billion in proposed appropriation increases. When combined with recommended higher education spending increases of \$3.6 billion, total education spending received the majority of new resources in governors' general fund

Figure 2. General Fund Spending, Fiscal 2008 To Fiscal 2020 (In Billions)



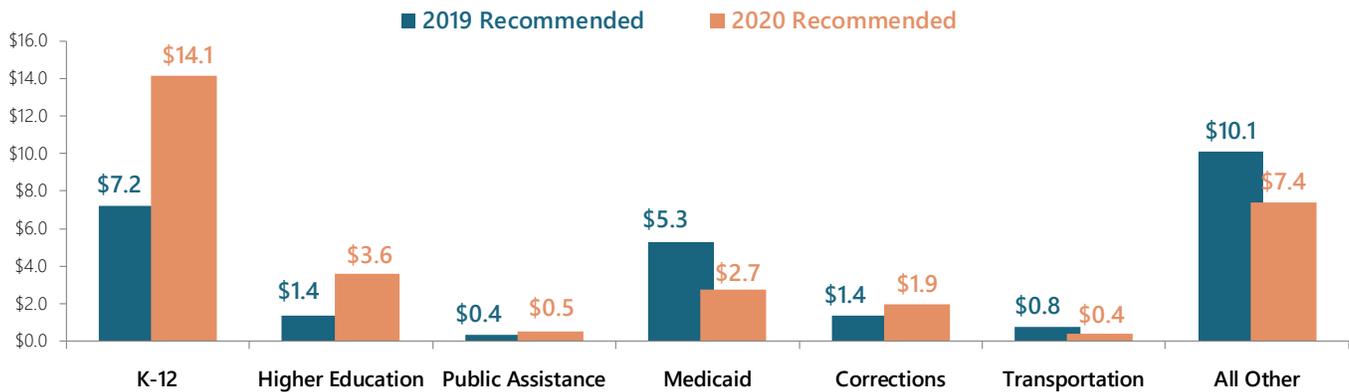
Fiscal 2020 figure is based on governors' recommended budgets.

Percentages shown represent total annual general fund spending growth. The median projected growth rate for fiscal 2020 is 3.4 percent.

\*Aggregate spending level needed to total at least \$862.6 billion in fiscal 2019 to be equivalent with or exceed real 2008 spending level.



Figure 3. Recommended General Fund Appropriation Changes by Program Area (In Billions)



\*Fiscal 2020 increases are compared to enacted appropriation levels for fiscal 2019; fiscal 2019 increases are compared to enacted appropriation levels for fiscal 2018.

budgets, totaling \$17.7 billion or 58 percent of the new money for fiscal 2020. By comparison, in their fiscal 2019 budgets, governors proposed increases for education totaling \$8.6 billion, less than half the boost they have recommended for fiscal 2020. This difference is largely a function of timing. When governors were putting their budgets together for fiscal 2019, states were for the most part just beginning to see revenue growth tick upwards. In contrast, governors were developing their fiscal 2020 budgets after states had already seen strong revenue gains in fiscal 2018 and early fiscal 2019, giving chief executives more time to craft and refine their investment proposals for education and other funding priorities.

The “all other” category of general fund spending also received sizeable proposed general fund appropriation increases in fiscal 2020 budget recommendations, with governors directing \$7.4 billion in additional funding to this broad category comprised of a diverse range of programs. Proposed appropriation changes in this category include spending increases for housing programs, other health programs besides Medicaid, deposits to reserve funds, pension fund contributions, public safety, environment and conservation projects, economic development, capital construction and debt service, children and

family services, local government assistance, and state parks. Thanks in part to a strong economy and low unemployment, Medicaid’s share of new money in fiscal 2020 is relatively small compared to most years, with governors calling for a \$2.7 billion increase (accounting for 9 percent of the total new appropriations by program area). (See **Figure 3.**)

## State Spending Accelerated in Fiscal 2019, With No Mid-Year Cuts Due to a Shortfall

Mid-year budget actions include any actions, whether legislative or executive (e.g., executive order, withholding of excess funds), that change the appropriated or authorized expenditure level compared to the original enacted budget. Looking at mid-year budget actions in fiscal 2019 offers another indicator of strong state fiscal conditions relative to a couple years ago. Notably, in fiscal 2019, no states reported making mid-year budget reductions due to a revenue shortfall. Just three states reported mid-year budget reductions made for other reasons, such as using offsetting resources available from another fund source, and the reduction amounts were modest, totaling just -\$76 million. In contrast, two years ago in fiscal 2017, 22



Figure 4.

Budget Cuts Made After The Budget Passed



Note: Beginning in Fiscal 2018, NASBO asked states reporting net mid-year budget reductions as to whether the reductions were made due, at least in part, to a revenue shortfall. Effective in FY2018 going forward, only states reporting mid-year budget cuts due to a shortfall are included in the totals reported in this figure. Prior to FY2018, particularly in non-recessionary periods, states that reported mid-year cuts that were due to other reasons, such as a reduction in caseload, would have been included in the counts above.

states made net mid-year spending decreases totaling \$3.5 billion. Meanwhile, 21 states reported making mid-year spending increases so far in fiscal 2019 totaling \$5.6 billion, for a net mid-year increase of \$5.5 billion in general fund spending after accounting for minimal reductions. This is the highest net dollar amount of mid-year spending increases recorded in the Spring Fiscal Survey in the last six years. Revenue surpluses from fiscal 2018 and upward revisions to fiscal 2019 revenue estimates provided most of the resources for these increases. The “all other” category was the largest recipient of mid-year (post-enacted) spending increases, which included funding for disaster response activities, rainy day fund deposits, and child welfare services. (See **Figure 4**.)

## Most States Are Meeting or Exceeding Fiscal 2019 Revenue Projections

After states saw robust revenue growth in fiscal 2018 of 7.0 percent overall (the highest growth rate observed since fiscal 2013), most states projected more moderate

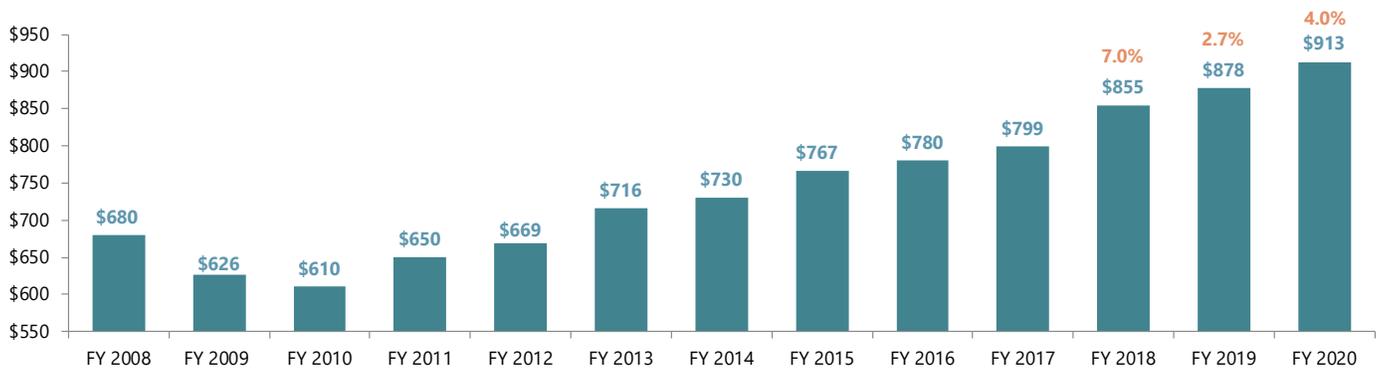
growth in general fund collections in fiscal 2019. Total general fund revenues are estimated to have increased 2.7 percent in fiscal 2019 compared to fiscal 2018, with a median growth rate of 3.3 percent. The figures reported in this survey predate April tax collections, when many states saw a substantial uptick in income tax collections, so it is expected that estimated revenue growth in fiscal 2019 is understated in this survey. NASBO’s Fall 2019 Fiscal Survey will provide an update after the closeout of fiscal 2019. (See **Figure 5**.)

Overall, fiscal 2019 general fund revenues are estimated to total \$877.8 billion, above the level projected in states’ enacted budgets for fiscal 2019, \$868.4 billion, as reported in NASBO’s Fall 2018 Fiscal Survey of States. This reflects the fact that most states have made upward revisions to their revenue estimates compared to original budget projections. Compared to original budget projections, 28 states reported general fund revenues were exceeding their targets for fiscal 2019, while 10 states were seeing revenues on target and 12 states reported coming in below projections at the time of data collection. Again, the figures reported in this survey predate April tax



Figure 5.

General Fund Revenue, Fiscal 2008 To Fiscal 2020 (In Billions)



Fiscal 2019 figure is estimated as of time of data collection, and predates April 2019 tax collections. Fiscal 2020 figure is based on governors' recommended budgets. Percentages shown represent total annual general fund revenue growth. The median estimated growth for fiscal 2019 is 3.3 percent; the median projected growth rate for fiscal 2020 is 3.1 percent.

collections, which are likely to help even more states beat their budgeted revenue projections for fiscal 2019. (See Figure 6.)

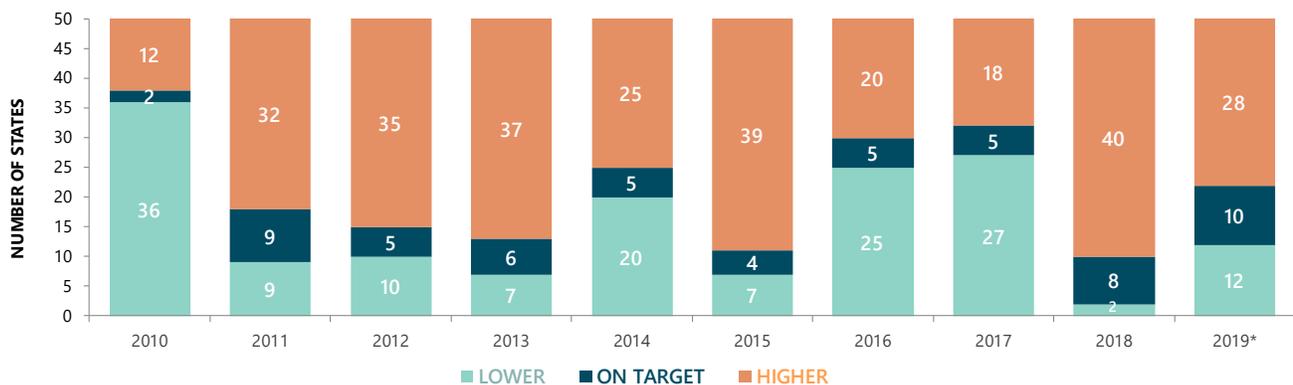
According to governors' recommended budgets for fiscal 2020, revenues are expected to total \$912.5 billion, a 4.0 percent increase compared to fiscal 2019 estimated revenues; the median revenue growth rate for fiscal 2020 is 3.1 percent. Compared to estimated revenue collections for fiscal 2019, general fund revenues from sales taxes are budgeted to grow 4.8 percent, personal income taxes

4.2 percent and corporate income taxes 4.0 percent in fiscal 2020.

### Governors' Proposed Revenue Actions Consist Mostly of Tax Increases

Governors recommended a series of revenue actions, mostly tax increases along with some more modest decreases, resulting in a projected net positive revenue

Figure 6. General Fund Revenue Collections Compared To Budget Projections (By Fiscal Year)



\*Fiscal 2019 revenue collections compared to budget projections are subject to change, as data were collected while the fiscal year was ongoing, prior to April 2019 tax collections.



impact in fiscal 2020 of \$8.1 billion, including \$3.9 billion in additional general fund revenues. A significant portion of the new revenue would be directed towards special revenue funds, particularly state transportation funds. Overall, 21 governors recommended net tax and fee increases totaling \$8.9 billion in fiscal 2020, while 11 governors proposed smaller net decreases totaling -\$0.7 billion. (See **Figure 7.**) Seven states proposed general fund revenue increases greater than one percent. Some of the more significant tax changes included personal and corporate income tax conformity changes in California, Minnesota, and Virginia; expanding the sales tax base and increasing health provider taxes in Connecticut; a new millionaire's tax on high-income earners in New Jersey; extension of higher personal income tax rates in New York; motor fuel tax hikes in Alabama, Arkansas, Michigan, Ohio and Wisconsin; a business and occupations tax in Washington; and miscellaneous tax changes in Illinois.

## Most States Continue to Strengthen Rainy Day Funds, as Median Reserve Balance reaches New All-Time High

One particularly promising trend in state finances in recent years has been the strengthening of states' reserves.

Improved revenue conditions recently have helped many states continue to bolster their ending balances and savings accounts, known as rainy day funds. States have made building up their reserves a priority since the Great Recession. Since fiscal 2010, the median rainy day fund balance level as a percentage of general fund spending has grown from 1.6 percent to 7.5 percent in fiscal 2019. (See **Figure 8.**) Rainy day fund balances are estimated to total \$68.2 billion in fiscal 2019, excluding three states unable to report estimated or future balance levels. Governors' recommended budgets predict that total rainy day fund balances will continue to rise, reaching \$74.7 billion at the end of fiscal 2020. Thirty-seven states estimate increases in their rainy day fund balances in fiscal 2019, and 32 states are projecting increases in fiscal 2020.

Total balances include ending balances and the amounts in states' rainy day or budget stabilization funds. Total balances reflect the surplus funds and reserves that states may use for liquidity to respond to unforeseen circumstances and to help resolve revenue shortfalls, though in some states, part of the ending balance may already be reserved for expenditure in a subsequent year. In fiscal 2018, total balances reached a new all-time high in both nominal dollars and as a share of general fund spending in fiscal 2018, totaling \$98.9 billion. Total balances are estimated to have remained flat overall in

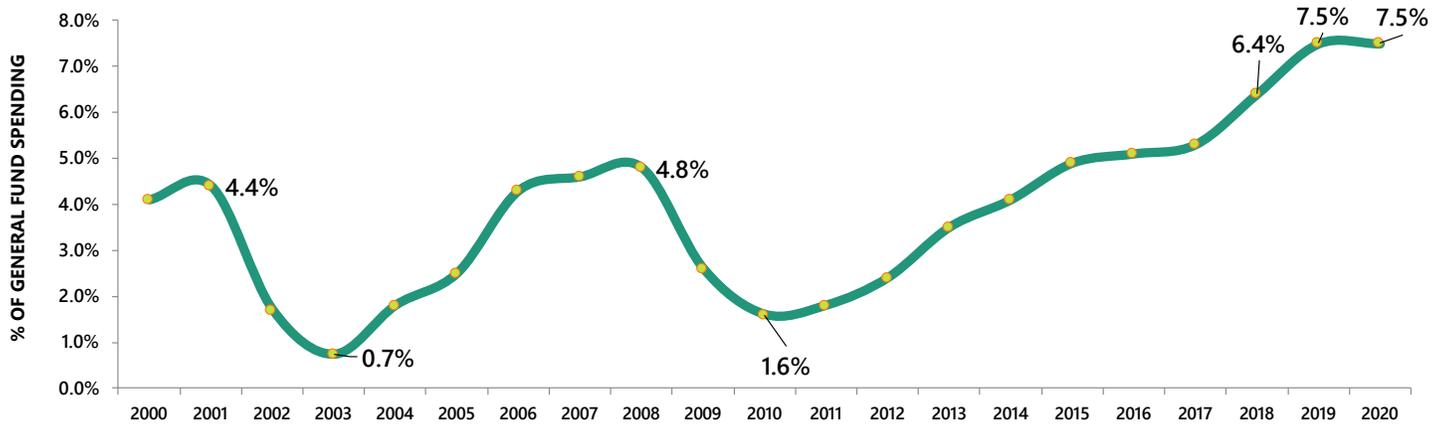
Figure 7. Summary of Recommended State Revenue Changes, Fiscal 2020

Revenue Type	 Sales Tax	 Personal Income Tax	 Corporate Income Tax	 Cigarette/Tobacco Tax	 Motor Fuel Tax	 Alcohol Tax	 Gaming/Lottery Revenue	 Other Tax	 Fees	 All Revenue Changes
# of Governors Proposing Increases	8	8	7	12	5	2	2	12	10	21
# of Governors Proposing Decreases	5	13	3	1	0	0	0	3	1	11
Net Change (\$ In Millions)	+\$823	+\$1,174	+\$1,136	+\$268	+\$2,593	+\$28	+\$341	+\$1,532	+\$250	+\$8,143



Figure 8.

Median Rainy Day Fund Balance Over Time



fiscal 2019, at \$98.7 billion, and are projected to decline slightly to \$93.8 billion in fiscal 2020, based on governors' budgets.

## States Expect Medicaid Spending Growth to Slow in Fiscal 2020

NASBO's spring edition of the Fiscal Survey of States also contains a special section on the Medicaid outlook for states. Medicaid spending from all fund sources is estimated to grow 5.3 percent in fiscal 2019 compared to fiscal 2018 levels, after growing at a similar rate of 5.2 percent in fiscal 2018. Looking just at spending from state fund sources, the growth rate for fiscal 2019 is a moderate 3.6 percent (3.6 percent general fund growth and 3.7 percent growth in other state funds). Medicaid spending from federal funds is estimated to grow 6.3 percent in fiscal 2019. Looking ahead, Medicaid spending growth is forecasted to slow slightly in fiscal 2020, based on governors' budgets. The growth rate for total Medicaid spending is projected at 4.0 percent for the upcoming fiscal year. State fund spending is projected to grow by 3.1 percent (3.7 percent general fund growth and 1.8 percent other state fund growth), while federal fund spending is expected to increase 4.5 percent. (See **Figure 9**.)

States that expanded Medicaid also reported on their expenditures for the new adult eligibility group (including

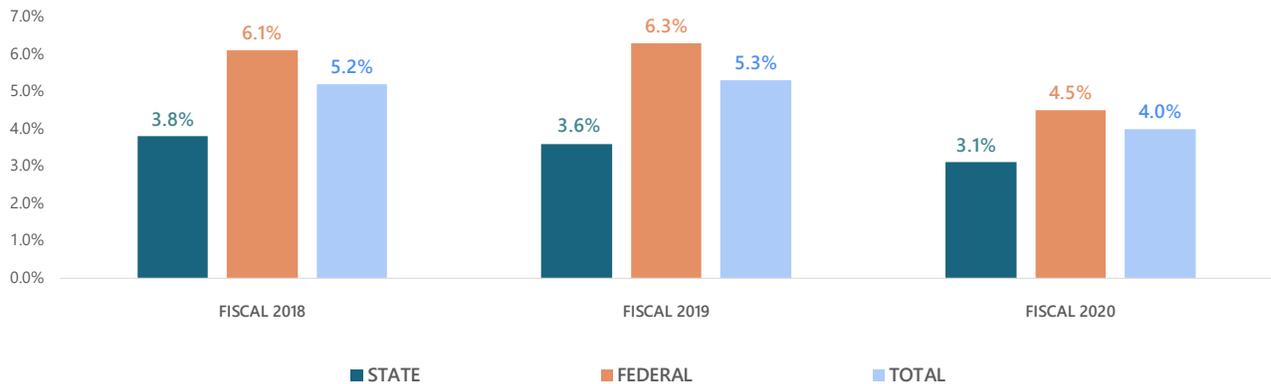
both "newly eligible" and "not newly eligible") by fund source. States began paying 5 percent of the costs for newly eligible adults in calendar year 2017, with the state share gradually set to increase to 10 percent by 2020. In this survey, 31 states reported Medicaid expansion spending in fiscal 2018, 33 states in fiscal 2019 with the addition of Maine and Virginia, and 38 states in fiscal 2020, with Idaho, Nebraska, and Utah as well as proposals by the governors of North Carolina and Wisconsin. As states have begun to pick up a larger share of the cost and more states have elected Medicaid expansion, spending from state funds is estimated to increase by \$927 million in fiscal 2019, and is projected to grow by another \$2.9 billion in fiscal 2020. Fiscal year 2020 also represents the first year of implementation in several states that recently adopted Medicaid expansion.

States reported on changes to their Medicaid programs implemented in fiscal 2019 and recommended in governors' budgets for fiscal 2020. With fiscal conditions fairly stable, a number of states reported increasing provider payments, expanding Medicaid benefits and enhancing access to behavioral health, while fewer states reported restricting payments or benefits. At the same time, cost containment and service delivery reform efforts continue, with states passing or considering policies to cut drug costs, enhance program integrity, and expand managed care.



Figure 9.

Percentage Change In Medicaid Spending (By Fund Source)



## Outlook: Investing in Key Priorities While Saving for Future Challenges

Governors' spending plans for fiscal 2020 reflect stable fiscal conditions and invest significant new resources in key policy priorities such as education and transportation. After robust revenue gains led to large budget surpluses in many states in fiscal 2018, revenue growth was expected to continue but at a slower pace in fiscal 2019. At the time of data collection, more than half of the states were beating their budgeted revenue estimates for fiscal 2019, and since that time, many states experienced a positive "April surprise" with strong growth in income tax collections. This is likely to help even more states meet or

exceed their revenue projections for fiscal 2019. Despite favorable revenue conditions, governors and other state officials are mindful that some of the recent revenue gains, especially from non-wage income, are likely temporary, and therefore are choosing to direct some new money in fiscal 2020 budgets towards one-time expenditures including paying down debt and making extra pension fund contributions. State officials are also continuing to bolster their states' rainy day fund balances in anticipation of the next economic downturn.

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