Summary: Spring 2021 Fiscal Survey of States

June 24, 2021

State Budgets Show Signs of Improvement but Remain Below Pre-Pandemic Projections

The pandemic has had a significant impact on state fiscal conditions, as evidenced by the data in NASBO's *Spring 2021 Fiscal Survey of States*. While the effects of COVID-19 on state budgets were not as severe as anticipated earlier in the crisis, both general fund spending and revenue levels remain below pre-pandemic projections.

When governors proposed their fiscal 2022 budgets, fiscal conditions were evolving, uncertain and uneven across states, though overall they were showing signs of improvement. In this environment, executive budgets were marked by a growing sense of optimism as state revenue projections strengthened and vaccine developments improved the nation's public health and economic outlook. These positive developments are reflected in state spending levels proposed by governors, with 39 executive budgets calling for increased general fund spending in fiscal 2022 compared to the prior fiscal year.

While revenue performance to-date and projections going forward have improved compared to forecasts earlier in the pandemic, most states have collected and are projecting to collect less revenue than what they were expecting before the COVID-19 crisis. States experienced a decline in general fund revenue in fiscal 2020 for the first time since the Great Recession, and current estimates show modest general fund revenue growth for fiscal 2021. State revenue forecasts used to build governors' budgets for fiscal 2022 also predict modest year-over-year growth.

State spending and revenue trends vary by state due to the uneven economic impacts of COVID-19. The pandemic has affected states in differing ways and differing magnitudes depending on their economies, tax structures, virus transmission levels, and other factors. States with an especially strong tourism and leisure industry, a revenue system highly reliant on the energy sector, or a higher unemployment rate have tended to see larger negative impacts on their budgets. These states were more likely to make spending reductions in fiscal 2021 and are recommending more modest budgets for fiscal 2022. They were also more likely to experience multiple years of declining revenues during the pandemic, as well as tap their rainy day funds and other reserves.

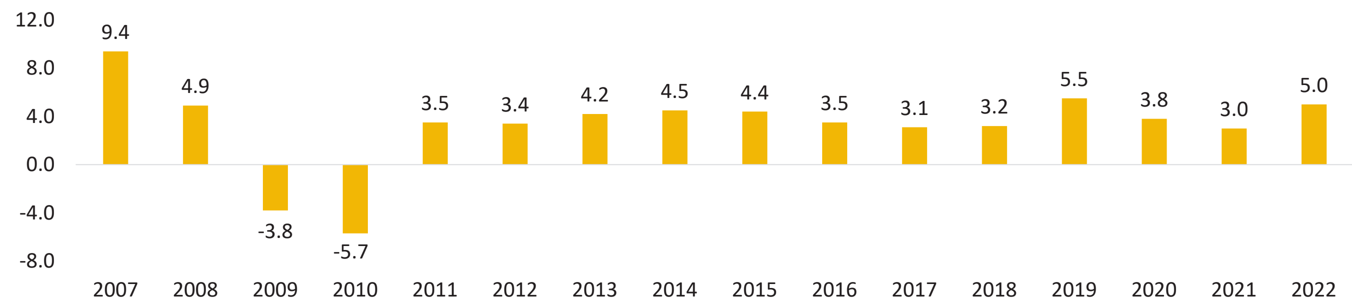
39 States Call for General Fund Spending Increases in Fiscal 2022

Governors proposed general fund spending in the amount of $963.6 billion in fiscal 2022 according to recommended budgets. This represents a 5.0 percent increase compared to estimated spending levels for fiscal 2021. Overall, 39 states are forecasting nominal spending increases in fiscal 2022, based on governors' recommendations. Projected spending growth in fiscal 2022 is driven in part by an increase in one-time expenditures as states spend down some of their unanticipated surplus funds from fiscal 2021.

Meanwhile, this report shows that general fund spending is on track to total $917.8 billion in fiscal 2021, a 3.0 percent increase. These figures are based on estimates at the time of data collection – and in some cases include governors' proposed supplemental changes. (See **Figure 1**.) While state budgets have not fared as badly as was feared during much of the pandemic,

Figure 1.

Annual General Fund Spending Changes, Fiscal 2008 To Fiscal 2022 (Percentage Change)



Note: Fiscal 2022 figure is based on governors' recommended budgets.

the impact of COVID-19 is still evident when comparing pre-COVID projections to current estimates and actuals. Fiscal 2021 estimated general fund spending is roughly 2 percent below what states were expecting to spend based on governors' budgets reported in NASBO's *Spring 2020 Fiscal Survey.*[1]

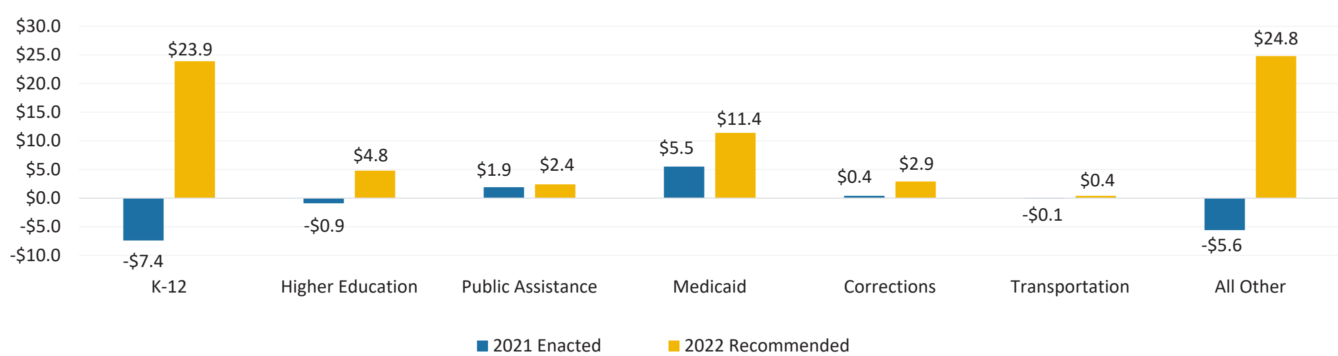
It should be noted that governors in the vast majority of states submitted their budget recommendations to the legislature in December, January or February, with a few that released in November and one state that released in March.[2] Variations in budget calendars across states played a role in shaping the conditions in which governors' budgets for fiscal 2022 were developed and what they reflect, as expectations around state revenue performance and federal aid evolved over the winter months.

Governors' Recommendations for Fiscal 2022 Call for Net Increases in All Program Areas Following Budget Cuts Enacted in Fiscal 2021

Governors proposed general fund appropriation increases for fiscal 2022 totaling $70.5 billion compared to fiscal 2021 enacted budget levels, with all program areas seeing net increases. While this figure demonstrates improvement in state fiscal conditions, it is also a reflection that some states' enacted budgets for fiscal 2021 (the baseline year used here) were considerably reduced. (See **Figure 2**.) Appropriation increases for fiscal 2022 also reflect a shift from reliance on federal funds in fiscal 2021 to a greater reliance on general funds in some

Figure 2.

General Fund Appropriation Changes By Program Area (In Billions)*



**Fiscal 2022 recommended spending changes are compared to enacted appropriation levels for fiscal 2021. Spending changes for fiscal 2021 are compared to enacted levels for fiscal 2020.*

areas. This is the case particularly since governors' budgets were almost all developed before the March 2021 passage of the *American Rescue Plan Act*, and in some cases before the federal package passed in December 2020. Some of the increases reported here represent one-time investments as well, as some governors proposed spending a portion of unanticipated surplus funds from fiscal 2021. It should also be noted that significant increases recommended in a couple large states make up the majority of the total appropriation increase.

States Turned to Various Strategies to Manage Budgets and Address Shortfalls

States employed a variety of strategies and tools to enact their budgets in fiscal 2021, as reported in NASBO's *Fall 2020 Fiscal Survey of States*. In the Spring 2021 edition, states were asked to indicate strategies they used to manage their budgets in the middle of fiscal 2021. The most commonly used mid-year strategies included targeted cuts, continuing hiring freezes, and reliance on other state funds, prior-year balances and reserves.

States reported once again turning to these strategies in governors' recommended budgets for fiscal 2022, including targeted cuts, hiring freezes and fund transfers, though all to a lesser extent than in fiscal 2021. Moreover, fiscal 2022 budgets were less likely to include across-the-board percentage cuts or furloughs compared to fiscal 2021. On the other hand, there is a notable uptick in states reporting agency reorganizations proposed for fiscal 2022. This may be a reflection of fiscal conditions stabilizing in order to allow for more deliberative, strategic policy and operational changes at the state level as well as a response to changing organizational needs as a result of the pandemic. (See **Figure 3**.)

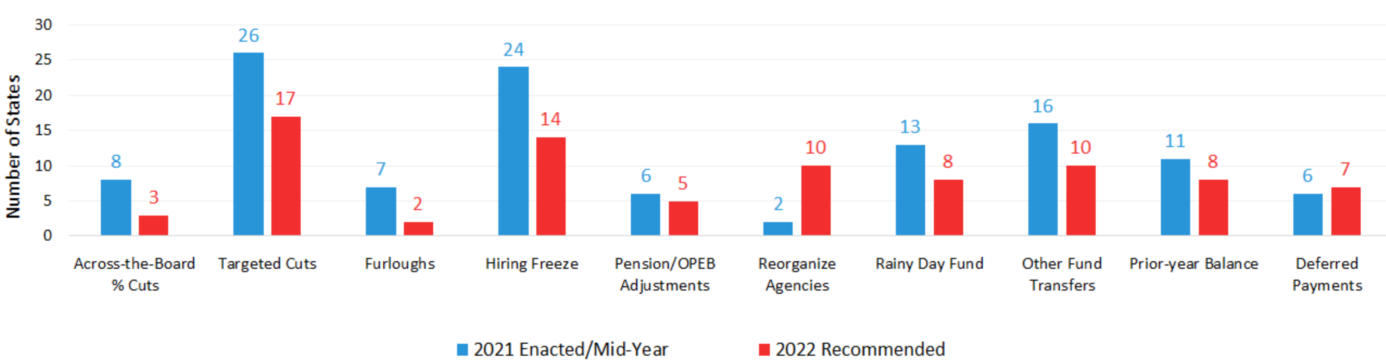
In addition to reporting on which budget management strategies were used, states also reported on mid-year spending actions for fiscal 2021 in quantitative terms. Overall, 18 states reported net mid-year decreases in general fund spending for fiscal 2021, while 12 states reported increases compared to their enacted budgets. Among the 18 states that reported net mid-year cuts, 12 of these states reported these cuts were made in response to a revenue shortfall, with spending reductions totaling $4.1 billion. (See **Figure 4**.) The other six states reported the reductions were attributed mostly to lower spending needs or in areas where federal assistance was able to be used in place of general funds. For the 12 states that reported net mid-year increases in general fund spending, these incorporate governors' proposed supplemental appropriations for fiscal 2021 – including for pandemic response – and restoration of spending cuts included in originally enacted budgets.

Revenue Collections Outperform Budget Projections for Most States in Fiscal 2021

General fund collections for fiscal 2021 from all revenue sources are coming in above original projections used to adopt budgets

Figure 3.

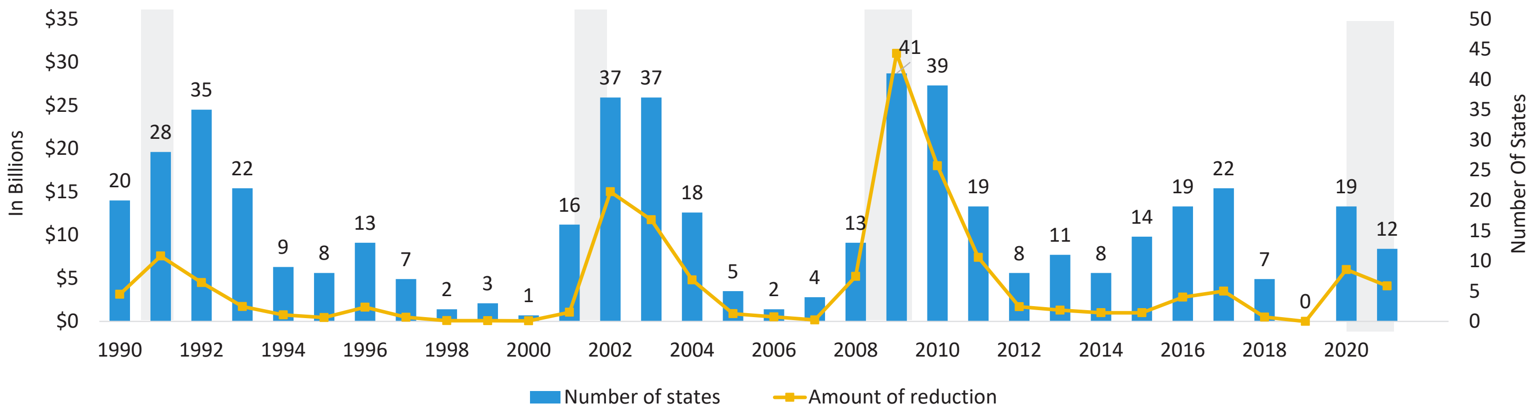
State Budget Management Strategies, Fiscal 2021 and Fiscal 2022



**Data for 2021 Enacted budget management strategies is from NASBO's Fall 2020 Fiscal Survey of States and combined with fiscal 2021 Mid-Year actions reported in NASBO's Spring 2021 Fiscal Survey of States. States that reported the same action for fiscal 2021 in both surveys are only counted once.*

Figure 4.

Budget Cuts Made After The Budget Passed



Gray boxes denote recessionary periods, based on a July-June fiscal year calendar that most states follow. Recession dates are as follows: Early 1990s recession (July 1990 to March 1991); Early 2000s recession (March 2001 to November 2001); Great Recession (December 2007 to June 2009); COVID-19 Recession (February 2020 - present).

Note: Beginning in Fiscal 2018, NASBO asked states reporting net mid-year budget reductions 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 revenue 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.

in 38 states, below forecasts in eight states, and on target in four states. (See **Figure 5**.) Overall, revenues have outperformed projections from earlier in the pandemic (when most states enacted their fiscal 2021 budgets). Compared to the most recent official revenue estimates (at the time of data collection), fiscal 2021 collections are coming in above those projections in 36 states and on target in 10 states (four states were unable to report how collections were performing compared to most recent estimates). This speaks to continued improvement in state revenue performance, which likely has been helped further by the passage of the December 2020 federal stimulus package and the *American Rescue Plan Act* on March 10, 2021.

Several factors help explain recent improvements in states' revenue outlooks, including: federal stimulus measures have put a lot of additional money into the economy, which helped to lessen state revenue losses; high-income earners have been relatively insulated from the pandemic's economic effects, which has limited impacts on personal income tax collections; the types of consumption most curtailed by the pandemic comprise a relatively small portion of states' sales tax bases; and the enabling of online sales tax collections following the U.S. Supreme Court decision in *Wayfair v. South Dakota.*

General Fund Revenue Expected to See Modest Growth in Fiscal 2022

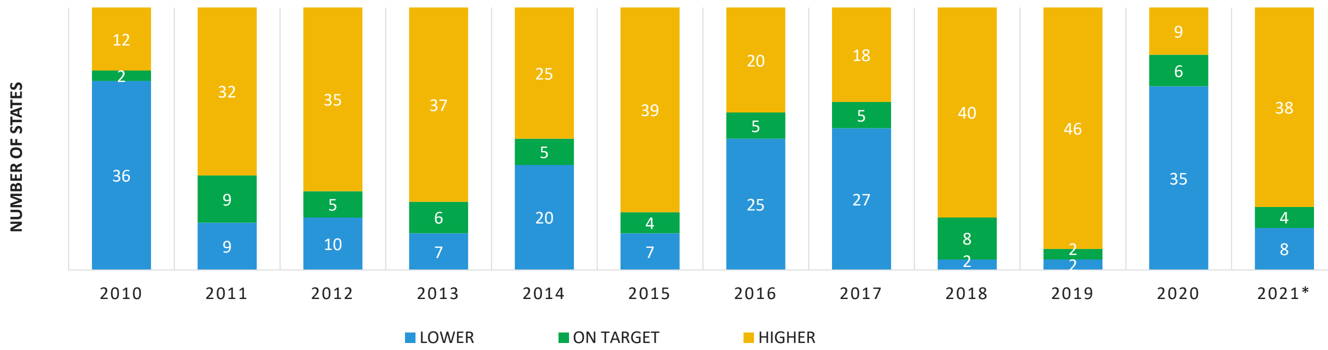
General fund revenues are expected to grow 2.3 percent in fiscal 2022 compared to fiscal 2021 estimated revenues, based on forecasts used in governors' budgets. The two largest sources of general fund revenue – sales taxes and personal income taxes – are both expected to see moderate growth in fiscal 2022 of 3.9 percent and 4.3 percent, respectively. Meanwhile, fiscal 2021 general fund revenues are on track to total $908.1 billion based on current estimates, representing 3.7 percent growth over fiscal 2020 actual collections.

In the aggregate, states recorded a general fund revenue change in fiscal 2020 of -0.6 percent. This marked the first time state general fund revenues declined year-over-year (without adjusting for inflation) since states experienced two consecutive years of declines during the Great Recession in fiscal 2009 and fiscal 2010.

It is important to note that general fund revenue growth in fiscal 2020, fiscal 2021 and fiscal 2022 was affected by the shift in the tax deadline from April 15, 2020 to July 15, 2020. Nineteen states reported that they recognized these revenues due to the deadline shift in fiscal 2021 instead of fiscal 2020, and 17

Figure 5.

General Fund Revenue Collections Compared To Original Budget Projections (By Fiscal Year)



Fiscal 2021 is ongoing and figures are subject to change. Some states' fiscal 2021 enacted budget projections pre-date COVID-19.

of those states were able to report estimated deferral amounts in NASBO's *Fall 2020 Fiscal Survey of States*. After using those reported deferrals to adjust revenue figures for the three years, general fund revenue grew approximately 0.6 percent in fiscal 2020, is estimated to increase 1.4 percent in fiscal 2021, and is projected to grow 3.4 percent in fiscal 2022. (See **Figure 6**.)

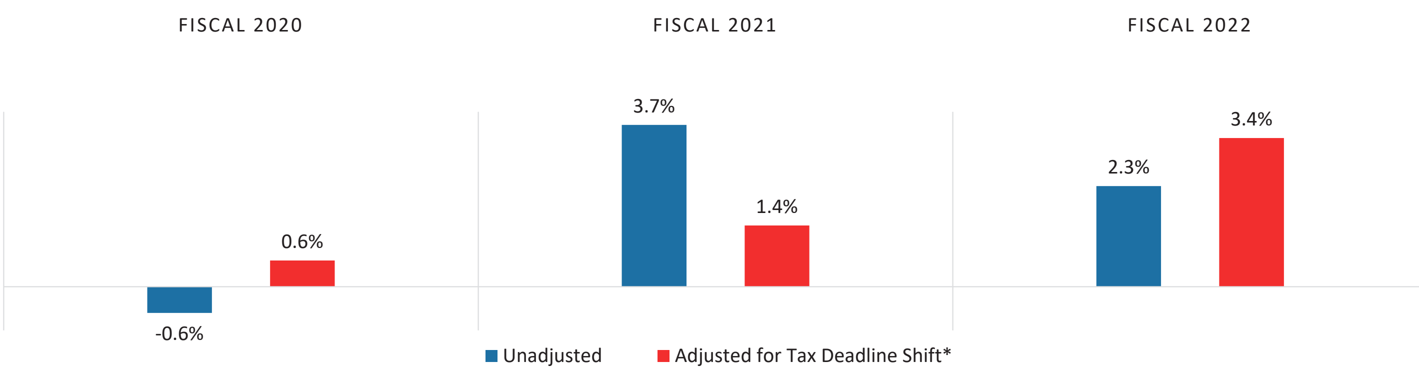
Current Revenue Estimates Compared to Earlier Projections

Based on the figures reported in this survey, states are expected to collect less revenue than what they were forecasting pre-COVID-19. Specifically, fiscal 2021 general fund revenue collections are 2.7 percent below pre-COVID forecasts, as reported in the *Spring 2020 Fiscal Survey*.[3] With fiscal 2021 ongoing, this comparison may change when final collections are determined but they will still likely be lower than pre-COVID projections for most states. Looking at fiscal 2020 and fiscal 2021 combined, states are on track to collect 2.8 percent less over those two years compared to what they were expecting before the COVID-19 crisis, according to the *Spring 2020 Fiscal Survey*.[4]

While general fund revenues continue to underperform pre-COVID revenue forecasts, current estimates for fiscal 2021 are considerably improved compared to estimates reported at the

Figure 6.

Annual General Fund Revenue Percentage Change



**In NASBO's Fall 2020 Fiscal Survey of States (Table 21), 19 states reported deferring revenue from fiscal 2020 to fiscal 2021 due to the tax deadline shift, with estimated deferred revenues totaling $10.15 billion. Two states were not able to report the impact of deferrals, so this amount is only adjusted for 17 out of the 19 states that deferred revenue to fiscal 2021. Adjustments for the tax deadline shift are derived by subtracting this aggregate deferred amount from fiscal 2021 and adding it to fiscal 2020 revenue totals. Adjusted figures are only approximate estimations of annual general fund revenue growth absent the tax deadline, as they do not account for all 19 states that deferred and rely on estimates reported in fall 2020.*

time of data collection for NASBO's *Fall 2020 Fiscal Survey*. Several factors made revenue forecasting especially challenging for states over the last year. Models for reliably projecting state revenues in unprecedented events such as a pandemic did not exist. Moreover, public health and economic conditions have evolved rapidly and unevenly across states over the course of the pandemic. A large influx of federal stimulus early on, coupled with uncertainty regarding additional federal aid, contributed to forecasting challenges as well. Compared to Fall 2020 survey estimates, general fund revenue estimates for fiscal 2021 are up 8.9 percent.[5] (See **Figure 7**.)

Governors Propose Tax and Fee Changes Resulting in Net Revenue Increase

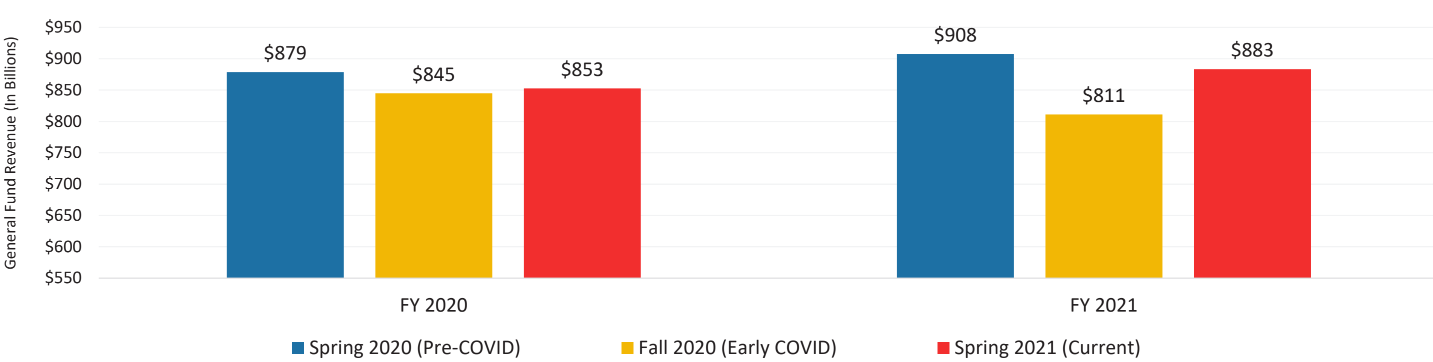
According to executive budgets, 15 states proposed net increases in taxes and fees while 19 states proposed net decreases, resulting in a projected net positive revenue impact in fiscal 2022 of $6.5 billion. Nearly all this additional revenue generated by governors' recommended changes would be deposited into states' general funds, in contrast to last year before the pandemic, when proposed increases were heavily skewed towards non-general fund revenue sources such as motor fuel taxes. The largest increases recommended by governors tended to be in the personal income and corporate income tax categories. Tax and fee decreases proposed in executive budgets were mostly modest and included numerous income tax changes to conform with changes at the federal level. (See **Figure 8**.)

Overall State Balances See Small Reductions During Pandemic

Before the COVID-19 crisis hit, state rainy day funds and total balances were at an all-time high, after a decade of rebuilding reserves following the Great Recession. In fiscal 2019, rainy day fund balances reached 9.1 percent as a share of general fund spending and total balances were at 14.0 percent of spending. As they coped with weakening revenue projections and increased spending demands in the wake of COVID-19, some states turned to their rainy day funds, other reserves, and prior-year balances as a tool to help manage their budgets. However, in the aggregate, balance levels recorded fairly small reductions in fiscal 2020 as a result of the pandemic, with rainy day fund balances dropping to 8.7 percent and total balances dropping to 12.8 percent. Due to higher-than-anticipated revenue projections in fiscal 2021, states reported a net increase in estimated balances at the end of fiscal 2021. Looking ahead, governors' budgets plan to spend down some of those surplus funds from their prior-year balances, including for one-time investments, with total balances projected at 10.6 percent of general fund spending. Rainy day fund balances are also projected to see a net decline, totaling 7.6 percent of general fund spending at the end of fiscal 2022. Note, two states (Texas

Figure 7.

General Fund Revenue Estimates Evolved Over the Course of the Pandemic



**Figures here represent data for 49 states. Comparisons between the figures in this survey edition and prior Fiscal Surveys are adjusted to exclude Ohio, as the state revised its reporting methodology in this survey to exclude federal Medicaid reimbursements from its general fund reporting, which were previously included.*

Figure 8.

Summary of Recommended State Revenue Changes, Fiscal 2022

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 States Proposing Increases	6	8	7	1	0	1	5	6	7	15
# of States Proposing Decreases	7	16	7	1	1	0	1	8	0	19
Net Change ($ In Millions)	+$232	+$3,982	+$1,978	+$1	-$3	+$20	+$60	-$284	+$475	+$6,462
Net Change – General Fund Only ($ in Millions)	+$215	+$3,982	+$1,978	+$1	-$1	+$20	+$38	-$451	+$197	+$5,980

and Wisconsin) are excluded from all balance figures for fiscal 2022, and Georgia is excluded for rainy day fund balance figures for fiscal 2021 and fiscal 2022. (See **Figure 9**.)

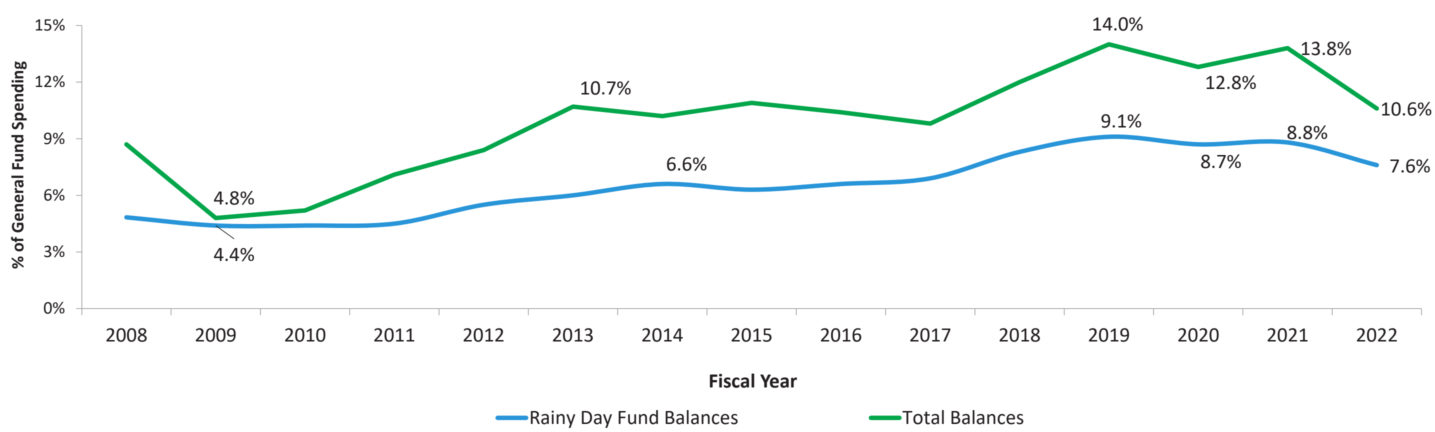
The use of rainy day funds across the states has been uneven, reflecting how the pandemic affected states to differing degrees, as well as how states entered the crisis with varying reserve levels. Fifteen states reported lower rainy day fund balances (in nominal dollars) estimated for fiscal 2021 compared to fiscal 2019 levels, with declines for those states totaling $5.9 billion. Meanwhile, 33 states reported higher balances over the same two-year period, with those increases totaling $8.3 billion (one state reported no change and one state was not able to report for fiscal 2021).

Medicaid Spending Saw Large Increase in Fiscal 2021, With More Moderate Growth Expected in Fiscal 2022

Medicaid spending figures reported in this survey for fiscal 2020 through fiscal 2022 reflect the impact of the COVID-19 pandemic and ensuing economic fallout affecting Medicaid

Figure 9.

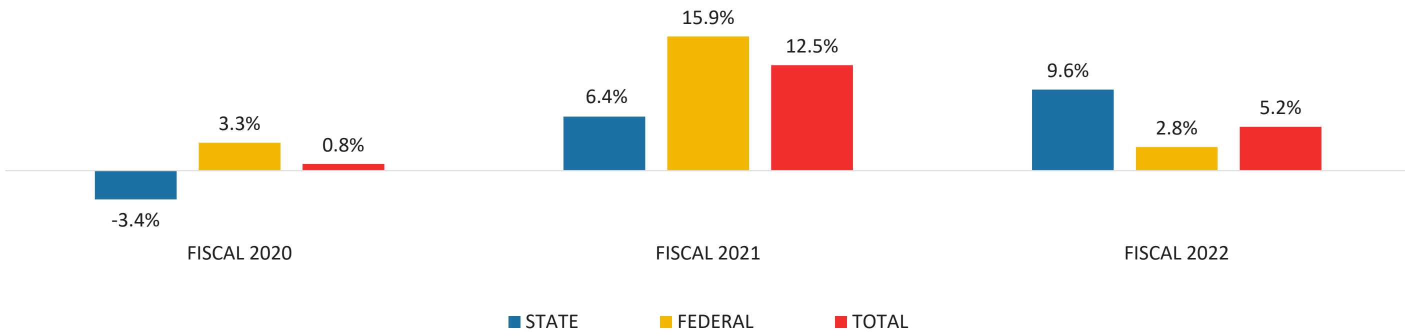
Rainy Day Fund Balances and Total Balances as a Percentage of General Fund Expenditures



Fiscal 2022 total balance and rainy day fund balance figures exclude Texas and Wisconsin. Fiscal 2021 and fiscal 2022 rainy day fund balance figures exclude Georgia.

Figure 10.

Percentage Change In Medicaid Spending (By Fund Source)



enrollment and spending, as well as the effects of enhanced federal aid for Medicaid. Medicaid spending from all fund sources is estimated to grow 12.5 percent in fiscal 2021 compared to fiscal 2020 levels. Looking only at state fund sources, spending is estimated to increase 6.4 percent in fiscal 2021 after declining 3.4 percent in fiscal 2020. Specifically, general fund spending on Medicaid is on track to grow 2.7 percent and spending from other state funds is estimated to grow 13.4 percent in fiscal 2021. Medicaid spending from federal funds, bolstered by the enhanced Federal Medical Assistance Percentage (FMAP) provided in the *Families First Coronavirus Response Act* that was passed in March 2020, is on track to grow 15.9 percent for fiscal 2021 after increasing 3.3 percent in fiscal 2020.

Looking ahead, Medicaid spending is forecasted to continue growing in fiscal 2022 but at a slower rate, based on governors' proposed budgets. Total Medicaid spending is projected to grow 5.2 percent for fiscal 2022. Spending from state fund sources is projected to grow 9.6 percent – with general fund spending increasing 12.5 percent and other state funds increasing 4.8 percent. Federal fund spending is expected to increase 2.8 percent in fiscal 2022. The impact of the FMAP increase can be seen in how much faster federal fund spending on Medicaid grew in fiscal 2020 and fiscal 2021 relative to state fund spending. In contrast, with virtually all states expecting the FMAP increase to expire sometime before the end of fiscal 2022, governors' recommended budgets show a faster rate of spending growth from state funds compared to federal funds. (See **Figure 10.**)

States also reported on Medicaid expansion expenditures. As of May 2021, 38 states and the District of Columbia have adopted Medicaid expansion. For fiscal 2020, 35 states that expanded Medicaid under the *Affordable Care Act* (ACA) reported total spending of $105.9 billion in fiscal 2020, including $10.9 billion in state funds and $95 billion in federal funds. In fiscal 2021, 36 states are estimated to spend $131.1 billion in all funds, including $15.8 billion in state funds, and $115.3 billion in federal funds. In 38 recommended budgets for fiscal 2022, projected spending for Medicaid expansion totaled $146.1 billion, with $18.8 billion in state funds and $127.3 billion in federal funds. Medicaid expansion spending from all fund sources increased by an estimated $25 billion in fiscal 2021 and is projected to increase by another $15 billion in fiscal 2022.

Additionally, states reported changes to their Medicaid programs in fiscal 2021 and recommended changes for fiscal 2022, both to contain costs and enhance their programs. In connection with the pandemic, for example, states made changes to managed care capitation rates to reflect decreased utilization of health care, while also expanding telehealth, increasing provider payments for vulnerable providers, and enhancing behavioral health services.

State Budget Outlook: Continued Improvement and a Focus on Recovery

State fiscal conditions continue to strengthen as the economy recovers from the pandemic and additional federal aid flows to state and local governments. As the data in this survey demonstrate, state budgets were affected by COVID-19 in numerous ways, but overall, the impacts have been less severe than anticipated earlier in the crisis. This is due to a combination of factors, including the large influx of federal stimulus, lower economic impact on high-income earners, consumption patterns, and the ability of states to tax online sales. Based on this survey and more recent data, state tax collections continue to outperform forecasts, and states are expected to enter fiscal 2022 in a stronger position than was expected a year ago. At the same time, the pandemic's impact has been uneven – hitting certain states, localities, industries and individuals especially hard – and it is uncertain how long it will take some communities and sectors to fully recover. Looking forward, states are expected to focus additional state resources as well as the recent influx of federal aid to assist individuals, businesses, and communities that were most affected by the pandemic, including with targeted, one-time investments, to support a robust economic recovery.

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Endnotes

[1] Data comparisons between the figures in this survey edition and prior Fiscal Surveys are adjusted to exclude Ohio, as the state revised its reporting methodology in this survey to exclude federal Medicaid reimbursements from its general fund reporting. Excluding Ohio, general fund spending was projected to be $908.1 billion in fiscal 2021.

[2] See NASBO, *Budget Processes in the States* (2021), Table 1 for detailed information on state budget calendars.

[3] Data comparisons between the figures in this survey edition and prior Fiscal Surveys are adjusted to exclude Ohio, as the state revised its reporting methodology in this survey to exclude federal Medicaid reimbursements from its general fund reporting. Excluding Ohio, general fund revenue was projected to be $907.7 billion in fiscal 2021.

[4] This analysis here looks at combined revenue collected over fiscal 2020 and fiscal 2021 to eliminate issues with some states shifting revenue from fiscal 2020 into fiscal 2021 due to the tax deadline shift. As noted previously in this report, data comparisons between the figures in this survey edition and prior Fiscal Surveys are adjusted to exclude Ohio, as the state revised its reporting methodology in this survey to exclude federal Medicaid reimbursements from its general fund reporting. Excluding Ohio, general fund revenue was projected to total $1,786 billion over fiscal 2020 and fiscal 2021 based on pre-COVID forecasts, compared to $1,736 billion in this survey.

[5] Data comparisons between the figures in this survey edition and prior Fiscal Surveys are adjusted to exclude Ohio, as the state revised its reporting methodology in this survey to exclude federal Medicaid reimbursements from its general fund reporting. Excluding Ohio, general fund revenue was projected to total $811 billion in fiscal 2021 according to the Fall 2020 Fiscal Survey of States.