Summary: Fall 2019 Fiscal Survey of States

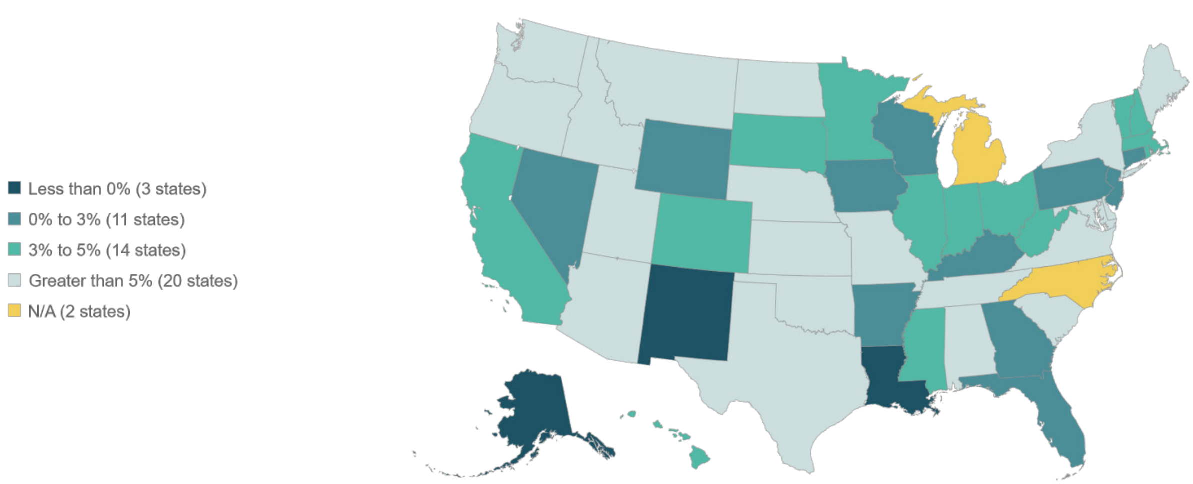
December 17, 2019

State Budgets for FY 2020 Invest in Key Priorities and Save for the Future

States' enacted budgets for fiscal 2020 allocated significant new resources for K-12, higher education, Medicaid, and other core government services, while also continuing to bolster reserves. For a second consecutive year, most states saw general fund revenue collections exceed original budget projections in fiscal 2019, ending the year with budget surpluses. In this fiscal environment, no states reported having to make mid-year budget cuts due to a revenue shortfall in fiscal 2019. Meanwhile, over half of states approved mid-year spending increases, much of which were one-time expenditures funded with nonrecurring revenues. Many states chose to direct some of their larger-than-expected ending balances in fiscal 2019 to one-time investments and additional rainy day fund deposits in fiscal 2020, helping to explain why general fund spending growth is forecasted to exceed revenue growth on a percentage basis in fiscal 2020. Improved revenue conditions recently have helped many states continue to strengthen their rainy day fund balances, with the median balance reaching a new all-time high. During the 2019 legislative sessions, states also approved a number of tax and fee changes, with most of the new revenue generated directed towards non-general fund sources, including state transportation funds and dedicated revenue streams for education and health care.

While fiscal conditions are solid and stable in the aggregate, spending and revenue trends continue to vary by

Figure 1. General Fund Spending Growth in Fiscal 2020 Enacted Budgets



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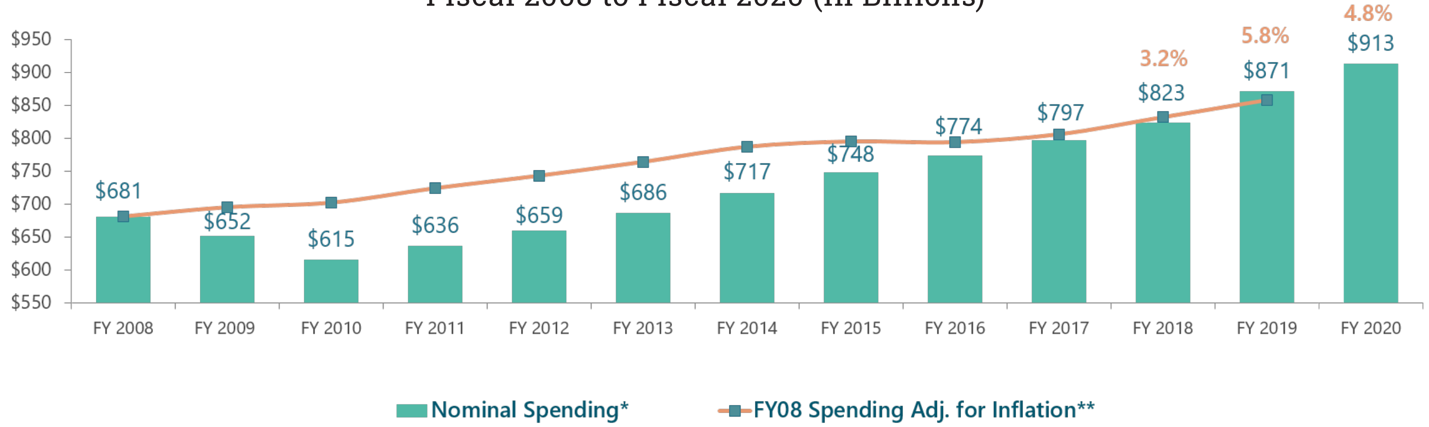
state due to a combination of factors, including demographic trends, regional disparities in economic performance, significant fluctuations in oil and gas prices for energy-rich states, and fiscal policy decisions. Despite these variations, all states to some extent are facing long-term spending pressures in areas ranging from health care and pension contributions to adequately funding education and infrastructure. As demonstrated by fiscal 2020 enacted budgets and revenue forecasts, state officials remain cautious about new ongoing spending commitments and continue to focus on bolstering their reserves.

Enacted Budgets Call for Moderate Spending Increases in Fiscal 2020

General fund spending is forecasted to grow 4.8 percent in fiscal 2020, totaling $913.2 billion, according to enacted budgets. Overall, 45 states approved general fund spending increases in fiscal 2020 compared to fiscal 2019 spending levels, with 20 of those states enacting increases greater than 5.0 percent, 14 states with spending growth between 3.0 and 5.0 percent, and 11 states with spending increasing between 0 and 3.0 percent. Three states enacted fiscal 2020 budgets that call for declines in general fund spending, while two states were not able to provide finalized enacted budget information at the time of publication. (See **Figure 1**.)

Preliminary actual spending growth for fiscal 2019 came in at 5.8 percent, the fastest rate of growth recorded in the Fiscal Survey since fiscal 2007, and considerably higher than the 4.3 percent growth originally budgeted for fiscal 2019 as reported in NASBO's Fall 2018 Fiscal Survey of States. Most states ended fiscal 2018 with budget surpluses and strong general fund ending balances, which along with continued revenue growth in fiscal 2019 helped states bolster their spending levels. A number of states also approved mid-year spending increases for specific purposes, such as disaster recovery efforts, child welfare services, and rainy day fund deposits. General fund spending in fiscal 2019 totaled $871.0 billion, surpassing the pre-recession peak level in fiscal 2008 in real terms. However, growth remains uneven across the states, and half of the states spent less from their general funds in fiscal 2019 than they did in fiscal 2008, after adjusting for inflation. (See **Figure 2.**)

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



*Fiscal 2020 figure is based on states' enacted budgets. Percentages shown represent total annual general fund spending growth. The median projected growth rate for fiscal 2020 is **4.0 percent.** *Beginning with the Fall 2019 Fiscal Survey edition, Massachusetts now excludes federal reimbursements in its general fund spending and revenue totals. NASBO has adjusted prior 50-state totals from the Fiscal Survey to remove Massachusetts' federal reimbursement amounts (as reported in the state's Comprehensive Annual Financial Report, or CAFR) for comparison purposes.*

***Aggregate spending level needed to total at least $858.3 billion in fiscal 2019 to be equivalent with or exceed real 2008 spending level.*

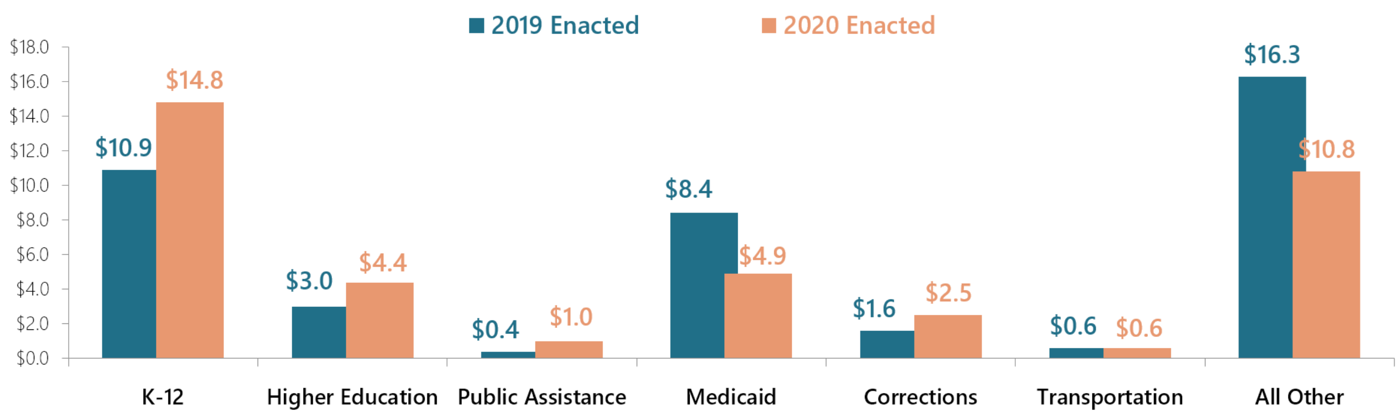
States Direct New Money to Education, Reserves & Other Key Priorities

States' enacted appropriation changes for fiscal 2020 reflect a strong state fiscal environment contributing to a significant amount of new resources available to spend on key priorities. For fiscal 2020, states approved spending increases across all program areas totaling $39.1 billion (compared to enacted fiscal 2019 appropriation levels). Elementary and secondary education stood out as the largest recipient of new money in fiscal 2020, receiving $14.8 billion in appropriation increases. Higher education also received sizeable increases totaling $4.4 billion. Several states also noted sizeable education investments in their enacted budgets that are funded from non-general fund sources and therefore not reflected in these figures. In addition, states approved net increases for Medicaid, corrections, public assistance, and transportation. The "all other" category received sizeable appropriation increases as well, which include additional funding 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.

It is also worth noting that 37 states reported authorizing across-the-board salary increases in fiscal 2020. This marks the highest number of states reported as doing so in the *Fiscal Survey of States* since fiscal 2007, prior to the Great Recession, another sign of strong state fiscal and economic conditions.

Total approved appropriation increases for fiscal 2020 exceeded those changes proposed by governors, as reported in NASBO's *Spring 2019 Fiscal Survey of States*, reflecting stronger revenue conditions at the time of budget enactment compared to when governors were putting together their budgets. Overall, the total amount of new resources approved for fiscal 2020 was similar to the new money added in fiscal 2019 enacted budgets. Adopted spending plans for fiscal 2020 allocated significantly more resources for K-12 education and higher education compared to fiscal 2019, whereas in fiscal 2019, the "all other" category recorded the largest gains. (See **Figure 3**.)

Figure 3. 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.*

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.

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. Notably, in fiscal 2019, no states reported making mid-year budget reductions due to a revenue shortfall. Just four states reported mid-year budget reductions made for other reasons, such as using resources available from another fund source, and the reduction amounts were modest, totaling just -$116 million. Meanwhile, 27 states reported making mid-year spending increases in fiscal 2019 totaling $10.7 billion, for a net mid-year increase of $10.6 billion in general fund spending. Revenue surpluses from fiscal 2018 and upward revisions to fiscal 2019 revenue estimates provided most of the resources for these increases. Over half of this net mid-year increase was attributable to spending adjustments in the "all other" category, including $3.4 billion in supplemental pension payments in California. Other sizeable mid-year increases included funding for disaster response activities, child welfare services, rainy day fund deposits, and other nonrecurring items from one-time revenues. (See **Figure 4**.) These mid-year spending increases helped further bolster fiscal 2019 general fund spending overall, contributing to the 5.8 percent general fund spending growth reported for fiscal 2019, the highest annual growth rate observed in the Fiscal Survey since fiscal 2007.

Vast Majority of States Exceeded Fiscal 2019 Revenue Projections

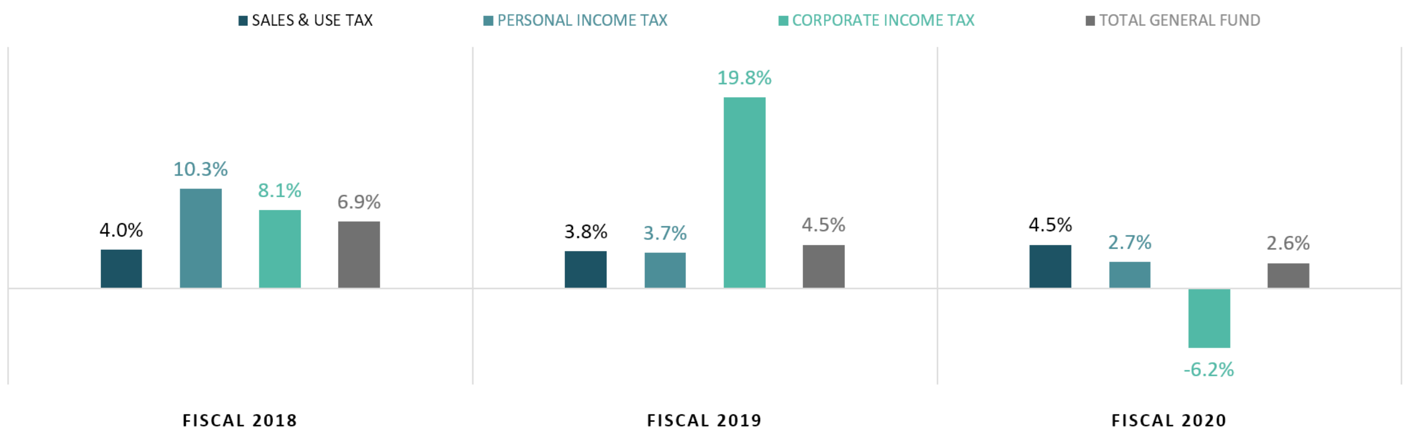
For a second consecutive year, most states saw moderate-to-robust growth in general fund revenues in fiscal 2019, following two years of sluggish growth. In the aggregate, general fund revenue growth was more moderate in fiscal 2019 at 4.5 percent, compared to 6.9 percent total growth in fiscal 2018. On a median basis,

however, general fund revenues grew 5.4 percent in fiscal 2019, similar to the 5.3 percent median growth rate observed in fiscal 2018. All three of the largest state revenue sources experienced gains. Personal income tax collections grew as a result of both the payroll withholding component and a second consecutive year of higher-than-usual collections from non-wage income sources. Corporate income tax receipts saw robust growth in fiscal 2019, as corporations had an incentive to shift taxable income from 2017 to the 2018 tax year to take advantage of a reduction in federal tax rates. Sales tax collections experienced solid growth as well, in part due to expanded online sales tax collections. A continued modest recovery in most energy-producing states following steep oil and gas price declines, and enacted tax increases in a few states also contributed to revenue growth in fiscal 2019.

For fiscal 2020, most states are predicting more modest revenue growth in personal income tax collections and sluggish or declining corporate income tax receipts, along with moderate gains in sales tax collections. Overall general fund revenue growth in fiscal 2020 is forecasted at 2.6 percent compared to preliminary actual revenue collections for fiscal 2019. (See **Figure 5**.) However, this modest growth rate is attributable in part to fiscal 2019 preliminary actual revenue collections coming in ahead of what was projected when states were enacting their fiscal 2020 budgets. The forecasted growth rates for fiscal 2020 are higher when compared to the fiscal 2019 estimates used during the budget development process, which were surpassed in most states by the close of the fiscal year.

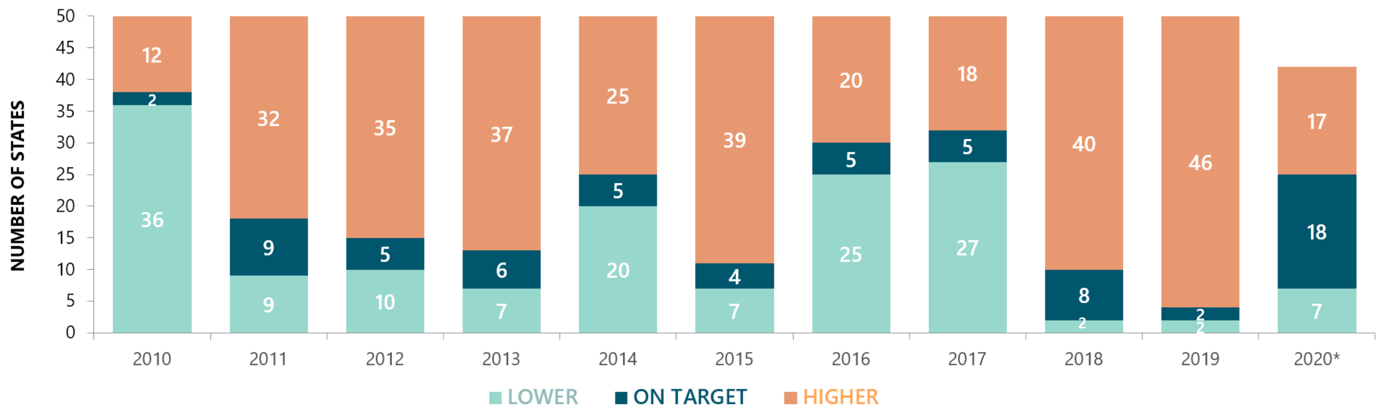
Compared to original budget projections, 46 states reported that general fund revenues exceeded their targets for fiscal 2019, an exceptionally high number and the most states to report doing so since fiscal 2006. Two states reported that revenues came in on target, while two states came in below their budget forecasts. Overall, preliminary actual general fund revenues came in 2.8 percent ahead of original budget projections. Based on early reports, most states are reporting that collections to date are coming in on target or above budget projections for fiscal 2020. (See **Figure 6.**)

Figure 5. Annual General Fund Revenue Percentage Change By Source*



**Fiscal 2020 figures are based on states' enacted budgets compared to preliminary actual revenues for fiscal 2019.*

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



**Fiscal 2020 data were collected early in the fiscal year and are subject to change; not all states were able to report on collections compared to budget projections for the current fiscal year.*

Enacted Revenue Actions Consist Mostly of Tax Increases

States enacted a series of tax and fee increases along with some modest decreases, resulting in a forecasted net positive revenue impact in fiscal 2020 of $6.7 billion. Very little of the expected new revenue – just $664 million – will be directed to states' general funds. Most of the additional revenue will go towards new or existing special revenue funds, including state transportation funds and dedicated revenue streams for education and health care. Overall, 22 states approved net tax and fee increases totaling $7.1 billion in fiscal 2020, while 15 states enacted mostly modest net decreases totaling -$0.4 billion. (See **Figure 7**.)

Some of the more significant tax increases in terms of revenue impact include managed care organization tax-

Figure 7. Summary of Enacted 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 States Enacting Increases	7	4	7	6	4	3	4	12	14	**22**
# of States Enacting Decreases	10	15	7	1	0	1	0	8	0	**15**
Net Change ($ In Millions)	+$325	+$255	+$1,264	+$8	+$939	+$8	+$123	+$2,451	+$1,320	**+$6,692**
FY20 Change (General Fund Only)	+$246	+$558	+$465	+$4	$0	+$5	+$34	-$769	+$122	**+$664**

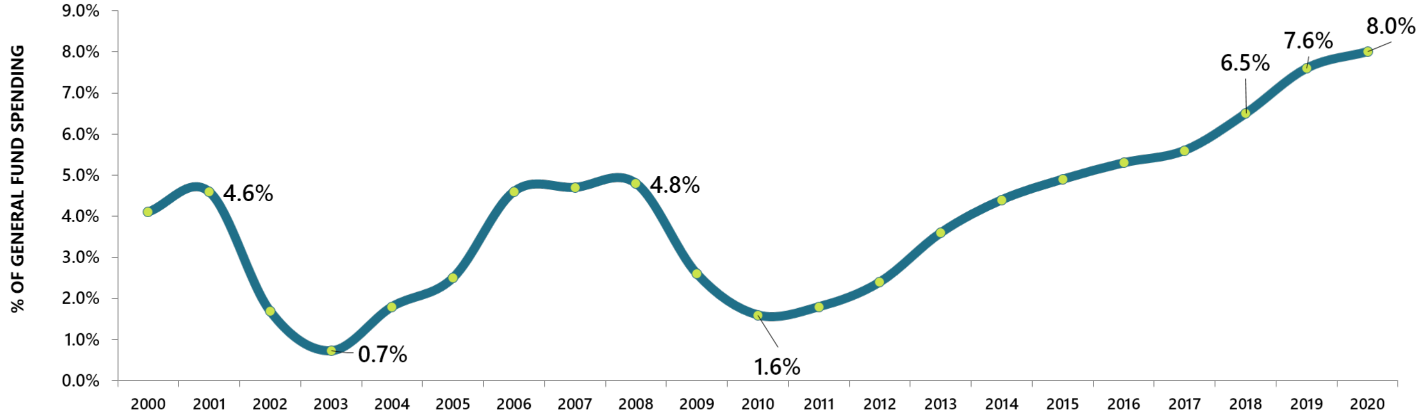
es/fees in California and Illinois, Connecticut's hospital user fee, Oregon's new corporate activities tax, Ohio's gas tax hike, South Carolina's motor fuel user fee, New York's extension of higher personal income tax rates, California's federal conformity changes to personal and corporate income taxes, and miscellaneous tax changes in Washington State. Some of the more significant decreases included personal income tax rate reductions in Ohio, Oregon and Wisconsin, as well as expansion of the earned income tax credit programs in California and Ohio.

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 7.6 percent in fiscal 2019, a new all-time high. (See **Figure 8**.) Rainy day fund balances totaled $72.3 billion in fiscal 2019, excluding one state unable to report estimated or future balance levels. States' enacted budgets provide for further increases to rainy day fund balances, and the median balance as a share of general fund spending is expected to rise further to 8.0 percent in fiscal 2020. Forty-one states increased 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 cashflow 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. Total balances reached a new all-time high in both nominal dollars and as a share of general fund spending in fiscal 2019, totaling $113.2 billion – or 13.0 percent of general fund spending. Just two years earlier, states ended fiscal 2017 with $79.4 billion in total balances, indicating states added roughly

Figure 8. Median Rainy Day Fund Balance
Fiscal 2000 to Fiscal 2020



$34 billion to their accumulated balances over the last two years. Total balances are budgeted to decline to $93.2 billion in fiscal 2020, as states plan to spend down some of their accumulated ending balances in the current budget cycle, particularly for one-time expenditures.

Outlook: Stable Fiscal Conditions and Budgeting with Caution in the States

States' enacted budgets for fiscal 2020 reflect stable fiscal conditions following two consecutive years of faster-than-expected revenue growth, which enabled elected officials to allocate significant new resources to key priorities, especially education. Looking ahead, revenue growth is expected to persist throughout fiscal 2020 but at a somewhat slower pace, in line with economic forecasts. Revenue conditions will vary by state due to differing demographic trends, tax structures, and other factors. States will also continue to face long-term budget challenges to varying degrees, as well as grapple with uncertainties regarding the federal budget and debt outlook, international trade tensions, and the looming threat of the next recession during what is now the longest U.S. economic expansion on record. States are expected to continue strengthening their rainy day fund balances, which are already at record levels, to increase their recession preparedness. Overall, state budgets demonstrate a cautious approach to ongoing spending commitments, a practice of directing non-recurring revenues to one-time expenditures, and a focus on promoting structural balance.

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