

# Summary: 2023 State Expenditure Report

December 6, 2023

## Overview: States Experience Moderate Growth in Total State Spending as State Funds Increase and Federal Funds Decline

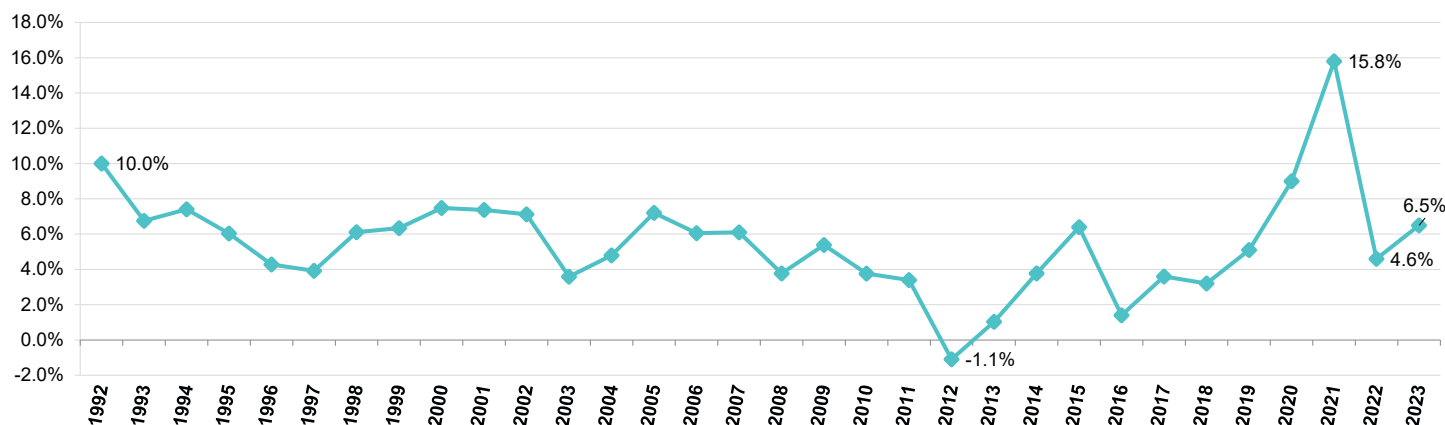
*This edition of the State Expenditure Report includes data from estimated fiscal 2023, actual fiscal 2022, and actual fiscal 2021. The report includes 50-state data broken down by fund source and program area, as well as data from three U.S. territories (Guam, Puerto Rico, and the U.S. Virgin Islands) and the District of Columbia. All data are reported in nominal terms (not adjusted for inflation).*

Over the past three years, total state spending has been heavily impacted by a combination of federal COVID-19 aid in response to the pandemic and rising state tax collections. In estimated fiscal 2023, total state spending reached \$2.96 trillion, increasing from \$2.78 trillion in fiscal 2022. This represents total state

spending growth of 6.5 percent with a median growth rate of 7.5 percent. Spending from states' own funds (general funds and other state funds combined, excluding bonds) rose 12.3 percent in fiscal 2023, or 10.7 percent on a median basis. The growth in state funds in fiscal 2023 largely derives from states spending surplus funds, including for one-time purposes, following two consecutive years of double-digit revenue growth. Federal funds declined 1.8 percent in fiscal 2023 while the median growth rate was 0.2 percent. Modest declines in federal funding in fiscal 2023 are likely due to states having expended *Coronavirus Aid, Relief, and Economic Security (CARES) Act* funding in the preceding years and having spent much of their *American Rescue Plan Act (ARPA)* funding in fiscal 2022. While federal funds expended by states declined in fiscal 2023, they remained elevated compared to pre-pandemic levels.

In fiscal 2022, total state spending grew 4.6 percent, while the median growth rate was 8.0 percent. Spending from states'

Increases In Total State Spending  
Year-Over-Year Percentage Increases in Total State Expenditures\*



\*Total state expenditures include spending from general funds, other state funds, bonds, and federal funds to states.

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own funds (general funds and other state funds combined, excluding bonds) rose 8.8 percent, or 6.9 percent on a median basis. When looking at general fund spending only, the fiscal 2022 growth rate was 14.3 percent, the highest rate in the 37-year history of the *State Expenditure Report*. On a median basis general fund spending increased 8.0 percent. Similar to fiscal 2023, states directed much of the additional state funds to one-time purposes to help promote economic growth and respond to the pandemic. Federal funds declined 1.7 percent in fiscal 2022 while the median growth rate was 6.5 percent. The decline in federal funds is due to several factors including the high baseline established in fiscal 2021, less federal fund spending from several heavily populated states, and reduced unemployment insurance benefit payments, which most states include in their totals.

While states experienced moderate growth in total state spending in both fiscal 2023 and fiscal 2022, in fiscal 2021 total state spending rose 15.8 percent, the highest growth rate in the history of the *State Expenditure Report*. The large increase in total state spending, led by strong gains from federal funds to states, was directly related to COVID-19 pandemic response and recovery efforts.

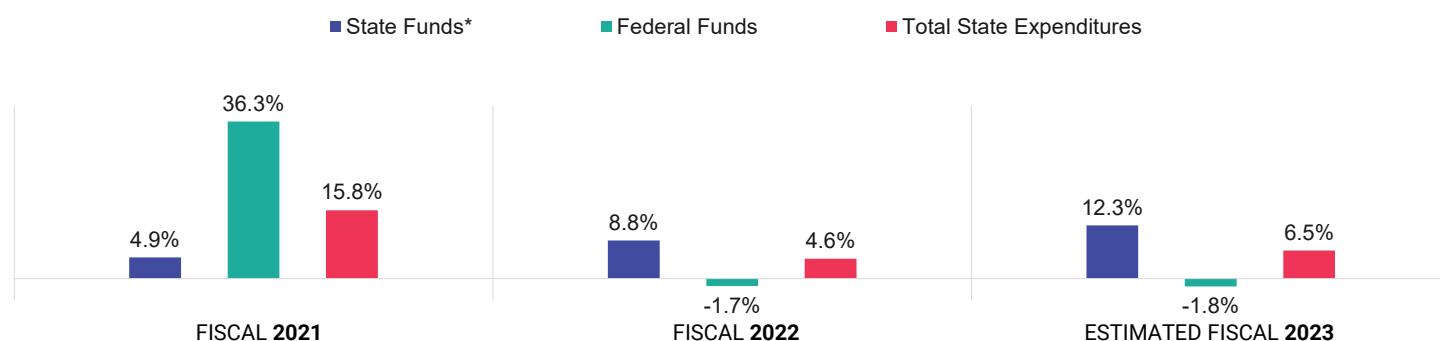
## Federal Funds Slightly Decline, Although Their Level Remains Elevated

Total state spending growth has been heavily impacted by changes in the level of federal funds to states over the past fourteen years including the passage and subsequent

winding down of the *American Recovery and Reinvestment Act* (ARRA), the enactment of the *Affordable Care Act* (ACA), and most recently significant federal COVID-19 aid provided in multiple legislative packages. In Spring 2020, the United States Congress passed a series of bills responding to the coronavirus outbreak with the largest bill being the *Coronavirus Aid, Relief, and Economic Security* (CARES) Act. The CARES Act provided significant funding to states which they began to spend in fiscal 2020 and continued to spend in fiscal 2021 and part of fiscal 2022. Additionally, in March 2021, the *American Rescue Plan Act* of 2021 (ARPA) was signed into law, allocating \$195.3 billion for states and the District of Columbia, and \$4.5 billion for territories, through the Coronavirus State and Local Fiscal Recovery Fund (CSLFRF), in addition to multiple other funding allocations. Also, to address the rise in Medicaid spending and provide state fiscal relief, the *Families First Coronavirus Response Act*, enacted in March 2020, provided a 6.2 percentage point increase in the Federal Medical Assistance Percentage (FMAP) spending during the public health emergency. In fiscal 2021, federal funds to states increased 36.3 percent, the highest rate in the history of the *State Expenditure Report*. The sizeable increase in federal funds spending in fiscal 2021 is largely due to the additional federal aid states received in response to the COVID-19 pandemic.

In fiscal 2022, federal funds expended by states are estimated to have declined 1.7 percent. The decline is due to several factors including the high baseline established in fiscal 2021, less federal fund spending from several heavily populated

Year-over-year Percentage Spending Growth By Fund Source



\*State funds are general funds and other state funds combined, excluding bonds. Total state expenditures are all federal and state funds.

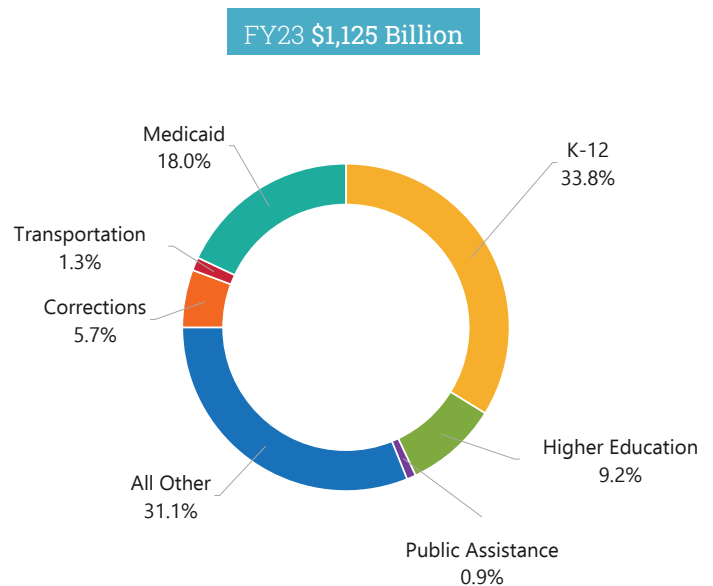
states, and reduced unemployment insurance benefit payments, which most states include in their totals. In addition, federal funds grew in fiscal 2022 if the “all other” category (in which unemployment insurance benefits is included) is removed from the totals. In estimated fiscal 2023, federal funds to states declined 1.8 percent. Declines in federal funding in fiscal 2023 are likely due to states having expended CARES Act funding in the preceding years and having spent much of the ARPA funding in fiscal 2022. On a median basis, federal funds to states grew in both fiscal 2022 and fiscal 2023 at 6.5 percent and 0.2 percent, respectively. Although overall federal funds to states have declined in recent years, the fiscal 2023 federal funds total is 58.9 percent higher than the pre-pandemic level of fiscal 2019, demonstrating the continued impact of federal COVID-19 relief aid.

## State General Funds Experience Record Two-Year Growth

General fund spending grew 14.3 percent in fiscal 2022, the highest growth rate in the 37-year history of the *State Expenditure Report*. In fiscal 2023, it is estimated that general fund spending growth slowed slightly to 11.3 percent, which still represents the second highest growth rate in the history of the *State Expenditure Report*. On a median basis, general fund spending grew 8.0 percent in fiscal 2022 and 9.0 percent in fiscal 2023. The strong general fund spending growth in fiscal 2022 and fiscal 2023 derives from two consecutive years of double-digit revenue growth in fiscal 2021 and fiscal 2022, as well as more modest revenue surpluses in fiscal 2023. States largely directed these surplus dollars to one-time uses such as deposits to rainy day funds and other state funds, supplemental pension payments, paying off debt, capital investments, COVID-19 related initiatives, and other purposes.

In fiscal 2023, all program areas saw an increase in general fund spending with transportation having the highest percentage growth at 96.0 percent (general funds make up a very small percentage of overall transportation spending), and elementary and secondary education the lowest rate at 4.7 percent. In fiscal 2022, all program areas except for public assistance experienced an increase in general fund spending.

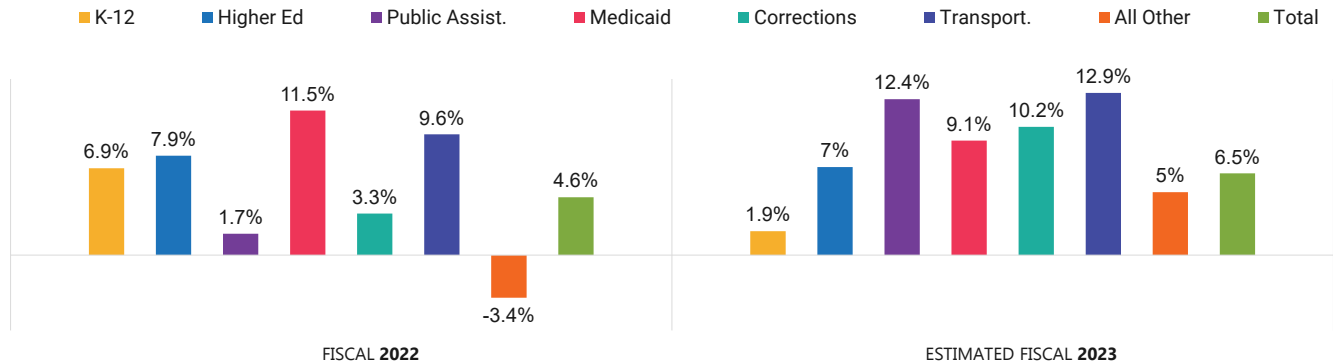
## General Funds Expenditures By Function



## Medicaid Saw the Largest Spending Increase in Fiscal 2022, while Transportation had the Highest Growth in Fiscal 2023

In fiscal 2022, all program areas except for the “all other” category saw at least a moderate increase in total state spending. The decline in “all other” spending in fiscal 2022 is likely due to both a high baseline established in fiscal 2021 and less federal fund spending on unemployment insurance benefits. Medicaid experienced the highest growth rate in fiscal 2022 due to an increase in the Federal Medical Assistance Percentage (FMAP) spending during the pandemic, a continuous coverage requirement, and additional state contributions. In estimated fiscal 2023, all program areas experienced an increase, with transportation experiencing the strongest growth. In recent years many states have taken action to increase transportation funds including raising fuel tax revenue and instituting registration fees on electric and hybrid vehicles. The growth in federal transportation funds in fiscal 2023 derives both from COVID-19 aid and states beginning to expend funds from the *Infrastructure Investment and Jobs Act* (IIJA). Elementary and secondary education had the slowest growth in fiscal 2023 due to a decline in federal funds resulting from less federal COVID-19 aid.

## Total State Expenditures Percentage Spending Growth By Program Area

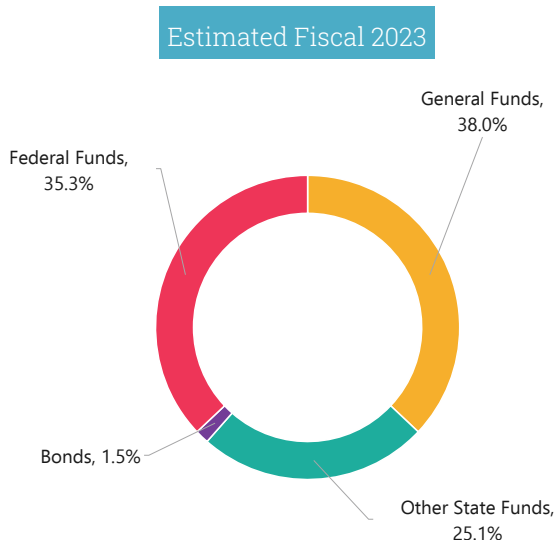


\*Total state expenditures include spending from general funds, other state funds, bonds, and federal funds to states.

## For the First Time Since FY20, General Funds Represent the Greatest Share of Total State Spending in FY23

In estimated fiscal 2023, general funds represented 38.0 percent of total state spending, with federal funds at 35.3 percent, other state funds at 25.1 percent, and bonds at 1.5 percent. This marked the first time since fiscal 2020 that general fund spending represented the largest share of total state spending. In both fiscal 2021 and fiscal 2022, federal funds represented the greatest share of total state spending due largely to the impact of federal COVID-19 relief funds. Fiscal 2021 and fiscal 2022 marked the only years in the history of the *State Expenditure Report* in which federal funds represented a greater share of state expenditures than general funds.

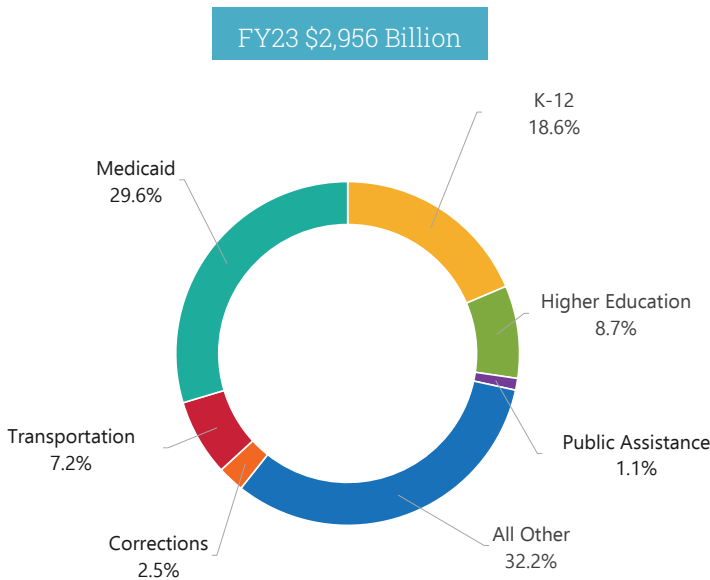
### Total State Expenditures By Fund Source



### Additional state expenditure details and trends include:

- Medicaid** continued to rise as a percentage of total state spending, reaching an all-time high of 29.6 percent in estimated fiscal 2023. After the start of the pandemic, Medicaid fell as a share of total state spending as its growth rate was outpaced by the “all other” category, which had seen large increases in spending partly related to the COVID-19 pandemic. However, Medicaid’s share has now grown for two consecutive years as “all other” spending growth has slowed. Elementary and secondary education remained the second largest area of total state spending in fiscal 2023 at 18.6 percent.
- Elementary and secondary education** total expenditures increased 1.9 percent in estimated fiscal 2023 and 6.9 percent in fiscal 2022. State funds for K-12 increased 6.0 percent in fiscal 2023 and 8.2 percent in fiscal 2022, while federal funds declined 11.5 percent in fiscal 2023 and grew 2.3 percent in fiscal 2022. State expenditures on K-12 education have been considerably impacted by the changing needs brought on by the pandemic as well as the influx of additional federal aid in response to COVID-19. Enrollment fluctuations and rising inflation have also contributed to K-12 expenditure adjustments in state funds.
- Total expenditures for higher education** increased 7.0 percent in estimated fiscal 2023 and 7.9 percent in fiscal 2022. State funds for higher education are estimated to

## Total State Expenditures By Function



have increased 9.1 percent in fiscal 2023 and 7.6 percent in fiscal 2022, while federal funds decreased 4.9 percent in fiscal 2023 after increasing 12.7 percent in fiscal 2022. Regarding state funds, robust revenue growth and widespread budget surpluses contributed to states making substantial investments in higher education, including for one-time purposes, in fiscal 2022 and fiscal 2023. Fiscal 2022 also marked the second consecutive year of a large annual increase in state higher education expenditures from federal funds, driven by temporary COVID-19 relief funding. In fiscal 2023, states recorded a net decline in federal fund expenditures as spending from some of those temporary sources began to wind down.

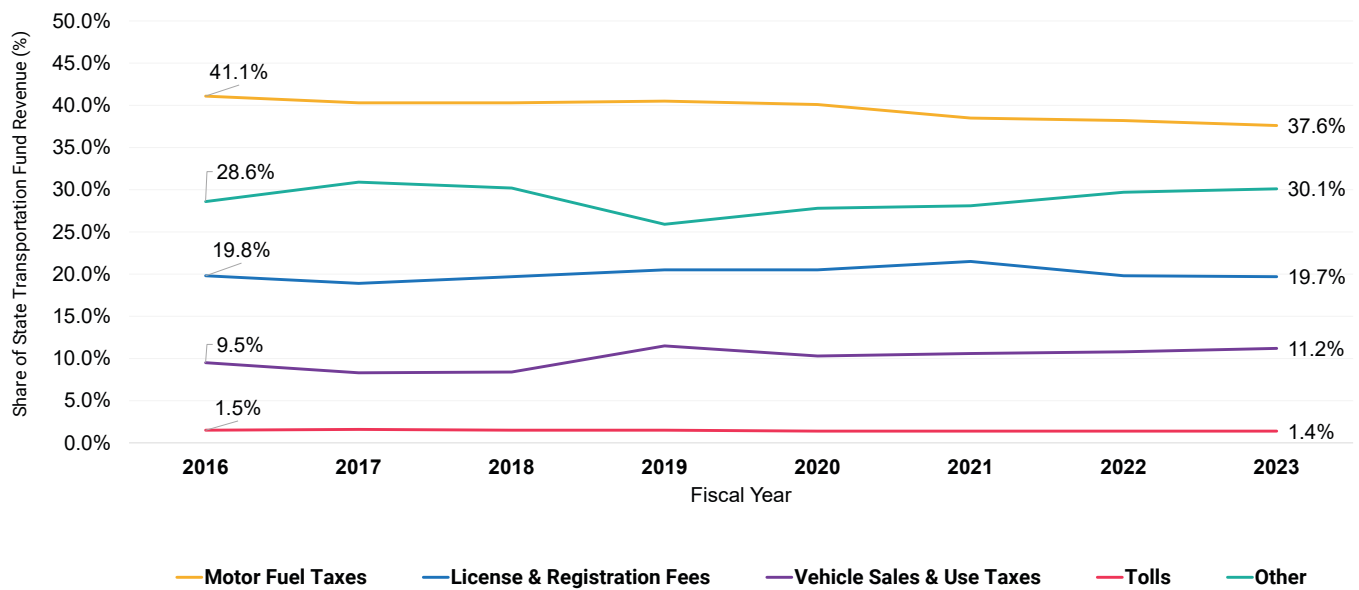
- **Public assistance** spending from all funds increased 12.4 percent in fiscal 2023, with spending from state funds increasing 18.6 percent and spending from federal funds increasing 8.4 percent. On a median basis, total public assistance spending increased 4.1 percent with state funds increasing 2.3 percent and federal funds growing 1.9 percent in fiscal 2023. Spending on public assistance from all funds increased 1.7 percent in fiscal 2022, with state funds decreasing 4.9 percent and federal funds increasing 6.4 percent. The timing of public assistance expenditures may vary from year-to-year and may not reflect underlying program activity in any given year. Large swings in some states, often due in part to timing and reporting issues,

can substantially affect average spending growth rates. Public assistance represented 1.1 percent of total state expenditures in fiscal 2023. Public assistance data in this report is narrowly defined as spending on the Temporary Assistance for Needy Families (TANF) program (although it does not reflect the totality of TANF spending) and other cash assistance programs. Programs in the “other cash assistance” category, which includes optional state programs for Supplemental Security Income (SSI) and General Assistance, are not funded in all states, and when funded, are relatively small programs. Other human and social services program spending is captured in the “all other” category.

- Total **Medicaid** spending increased 9.1 percent in fiscal 2023, with state funds increasing 16.6 percent and federal funds increasing 5.8 percent. In fiscal 2022, total Medicaid spending increased 11.5 percent with state funds increasing 5.4 percent and federal funds increasing 14.4 percent. Medicaid spending in fiscal 2021 through fiscal 2023 reflects the impact of the COVID-19 pandemic and federal aid on Medicaid enrollment and spending. To address the rise in Medicaid spending and provide state fiscal relief, the Families First Coronavirus Response Act, enacted in March 2020, provided a 6.2 percentage point increase in the Federal Medical Assistance Percentage (FMAP) spending during the public health emergency. The increase was conditioned on states meeting certain maintenance-of-effort requirements including continuous coverage for current enrollees, which inflates Medicaid enrollment by providing coverage for those who otherwise may have transitioned off the program. The Consolidated Appropriations Act, enacted in December 2022, ended the continuous eligibility requirements as of March 31, 2023, and phases down the FMAP during calendar year 2023.
- Total **corrections** expenditures increased 10.2 percent in estimated fiscal 2023 and 3.3 percent in fiscal 2022. State funds for corrections are estimated to have increased 16.8 percent in fiscal 2023 and 7.6 percent in fiscal 2022, while federal funds declined 62.7 percent in fiscal 2023 and 29.6 percent in fiscal 2022. Part of the fiscal 2023 corrections spending increase is likely attributable to one-time projects, such as construction of correctional



## Motor Fuel Taxes Gradually Decline as a Share of Transportation Revenue as Other Sources Grow



facilities, along with increased employee compensation. State general funds comprised 86.4 percent of corrections spending in fiscal 2023, a number more in line with pre-COVID trends as the general fund share decreased in fiscal 2021 due to the increase in federal funds derived from the COVID-19 pandemic and associated federal relief. The large percentage decreases in federal funds are likely due to states spending down federal relief funds derived from multiple COVID-19 relief bills. In estimated fiscal 2023, corrections represented 2.5 percent of total state spending and 5.7 percent of general fund spending.

- Total **transportation** spending, representing 7.2 percent of total state expenditures, increased 12.9 percent in estimated fiscal 2023 and 9.6 percent in fiscal 2022. In fiscal 2023, it is estimated that state funds spending rose 18.6 percent and federal funds 15.9 percent, while spending from bonds decreased 28.3 percent. In estimated fiscal 2023, transportation saw the largest percentage increase among all program areas for all funds, state funds, and federal funds. Other state funds, which are typically earmarked revenue sources such as fuel taxes, comprised 59.5 percent of total transportation spending in estimated fiscal 2023, with federal funds at 26.6 percent, general funds at 7.1 percent, and bonds at 6.8 percent. States are concerned that in the long term, the current structure

of state and federal fuel tax revenue will not be able to meet transportation needs as most gas taxes are set at fixed rates and do not rise with inflation, new vehicle fuel economy continues to increase, and the sale of electric and hybrid vehicles grows. Recent actions by states include the institution of registration fees on electric and hybrid vehicles, the increased use of tolls and express lanes, and the exploration of road usage charges (or mileage-based user fees).

- States were also asked to detail **transportation fund revenue** sources. Forty-seven states reported having a separate transportation fund. Motor fuel taxes represented the largest revenue source for transportation funds (37.6 percent), followed by license and registration fees (19.7 percent), vehicle sales and use taxes (11.2 percent), tolls (1.4 percent), and all other (30.1 percent). Since 2016, motor fuel taxes have declined as a percentage of transportation fund revenue going from 41.1 percent in fiscal 2016 to 37.6 percent in fiscal 2023.
- The “**all other**” category of state spending increased 5.0 percent in estimated fiscal 2023, with state funds (excluding bonds) rising 14.1 percent and federal funds declining 14.8 percent. In fiscal 2022, total spending in the “all other” category declined 3.4 percent, with state funds

increasing 11.5 percent and federal funds declining 25.3 percent. Over the past few years, “all other” spending has greatly fluctuated due to the passage of federal COVID-19 relief bills and the recent growth in state tax collections. The decline in federal funds in fiscal 2022 is likely due in large part to fewer unemployment benefit payments. Most states include unemployment insurance benefits in the “all other” category, with 23 states either excluding or partially excluding the benefits from their totals. Declines in “all other” federal funding in fiscal 2023 are likely due to states having expended CARES Act funding in the preceding years and having spent much of the ARPA funding in fiscal 2022. Much of the increase in “all other” state fund spending in recent years is due to one-time investments related to increased state tax collections and states’ responses to the pandemic. Spending increases from state funds have included one-time stimulus payments, housing programs, other health programs besides Medicaid, children and family services, deposits to reserve funds, pension fund contributions, environment and conservation projects, disaster recovery, economic development, local government assistance, and debt service. In estimated fiscal 2023, the “all other” category represented 32.2 percent of total state spending and 31.1 percent of general fund spending.

- States were also asked to separately detail their **debt service** spending. In estimated fiscal 2023, general funds represented 55.6 percent of total state spending on debt service and other state funds comprised the remaining 44.4 percent. In fiscal year 2023, debt service represented 3.0 percent of spending from state funds (general funds and other state funds combined, excluding bonds), and 2.7 percent of spending from the general fund only. Some states reflect no general fund spending for debt service because they earmark certain tax revenue streams to support bond repayments and direct those resources to state funds other than the general fund.
- **Capital** expenditures are made for new construction, infrastructure, major repairs and improvements, land purchases, and the acquisition of major equipment and existing structures. Capital spending increased by an estimated 10.9 percent in fiscal 2023 and 14.7 percent in

fiscal 2022. The fiscal 2022 growth rate of 14.7 percent is the highest annual figure since 1994. Capital spending will likely maintain high expenditure rates for the next several years as states continue to allocate funding from ARPA and IIJA. Under ARPA, through the Coronavirus State and Local Fiscal Recovery Fund (CSLFRF), states and localities are permitted to use federal funding for investments in infrastructure, including water, sewer, and broadband services. Meanwhile, IIJA includes approximately \$550 billion in new spending for roads, bridges, rail, transit, the electric grid, water systems, and broadband. In addition to increased federal funds through ARPA and IIJA, states’ own spending on capital has sharply increased the past two years partly due to one-time spending on infrastructure projects resulting from revenue surpluses in fiscal 2021, fiscal 2022, and fiscal 2023. State spending on capital (including general funds, other state funds, and bonds) increased 18.1 percent in fiscal 2022 and 8.4 percent in estimated fiscal 2023, with federal funds growing 4.7 percent in fiscal 2022 and 18.8 percent in fiscal 2023. States primarily use dedicated sources like the transportation fund, higher education tuition and fees, set-aside funding for capital projects, federal funds, and fund surpluses to finance capital spending. State cash sources represent 50.7 percent of capital spending in fiscal 2023, federal funds are 25.0 percent, and bonds are 24.3 percent. The vast majority of federal funds spent for capital purposes is for transportation (89.5 percent in fiscal 2023).

## Outlook

Although total state spending growth has slowed over the past two years, spending levels remain elevated compared to pre-pandemic levels. In fiscal 2023, total state spending was 40.7 percent higher than fiscal 2019’s pre-pandemic level, demonstrating the continued impact of federal COVID-19 aid and recent growth in state tax collections. Looking forward, states are anticipating the continued wind-down of federal funds along with slower growth in state tax collections. However, states remain well-positioned due to previous steps such as using one-time funds for one-time purposes, paying down debt, making supplemental pension payments, and increasing the size of rainy day funds to record levels.

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*Since its inception in 1987, the State Expenditure Report has developed into a definitive baseline for the analysis of state spending. This edition of the report includes data from estimated fiscal 2023, actual fiscal 2022, and actual fiscal 2021. The report details by funding source the seven main functional categories of state spending: elementary and secondary education, higher education, public assistance, Medicaid, corrections, transportation, and “all other.” In addition, the report separately breaks out capital spending by program area.*

If you would like additional information, please contact [Brian Sigritz](#).