Overview: Moderate Budget Growth Continues for States in Fiscal 2016

State budgets continue to grow at a moderate pace after several years of slow recovery in the national economy following the Great Recession. According to states’ enacted budgets, general fund spending is projected to grow 4.1 percent in fiscal 2016. This growth rate falls below the historical average, though the current inflation rate remains low as well. Forty-three states enacted spending increases in fiscal 2016 compared to fiscal 2015 levels, helping to bolster core services such as K-12 education and health care. At the same time, progress is slow for a number of states and structural issues remain. States vary in their fiscal health due to a combination of economic, demographic and policy factors. Long-term spending pressures in areas such as health care, education, infrastructure, and pensions continue to pose challenges for many states that will require difficult budgetary decisions. General fund revenue growth was solid in fiscal 2015, helping to strengthen states’ ending balances and bringing total balance levels to an all-time high in actual dollars, though not as a percentage of expenditures. However, revenues are expected to grow more modestly and total balances are projected to decline in fiscal 2016.

State General Fund Spending Expected to Increase 4.1 Percent in Fiscal 2016

In fiscal 2016, general fund expenditures are projected to increase by 4.1 percent, a slower rate of growth than the estimated 4.6 percent increase in fiscal 2015. Enacted budgets show general fund spending increasing to $790.3 billion in fiscal 2016, compared to $759.4 billion in fiscal 2015. General fund spending in fiscal 2014 reached $725.7 billion, a 4.5 percent increase over general fund spending in fiscal 2013.

Annual General Fund Spending

*Fiscal 2016 spending is based on states’ enacted budgets.
**Aggregate spending levels would need to total $789 billion in fiscal 2015 to be equivalent with real 2008 spending levels.
Enacted budgets in 43 states call for higher general fund spending levels in fiscal 2016 compared to fiscal 2015. However, new spending is expected to be limited, with few additional budget dollars available to address competing spending demands. A majority of states (30) enacted budgets with modest positive spending growth of less than five percent in fiscal 2016, while 13 states project growth of five percent or more. Among the remaining states, four enacted budgets that decrease spending in fiscal 2016, one enacted a budget with no net change in spending, and two states have yet to finalize their budgets for fiscal 2016.\(^1\)

Despite five consecutive years of budget growth and the low inflation environment, state general fund spending for fiscal 2015 for the 50 states combined remains below the fiscal 2008 pre-recession peak, after accounting for inflation. Aggregate spending levels would need to be at $789 billion, or 3.9 percent higher than the $759.4 billion estimated for fiscal 2015, to be equivalent with real 2008 spending levels.\(^2\)

**State Budgets Direct Most Additional Spending to K-12 Education and Medicaid in Fiscal 2016**

Once again, state budgets in fiscal 2016 directed most additional dollars to boost funding for K-12 education and Medicaid, the two largest areas of state general fund expenditures. Forty-one states enacted spending increases for K-12 education and 31 states enacted increases for Medicaid, for net increases of $14.7 billion and $9.2 billion, respectively. K-12 education and Medicaid together comprise a majority of state general fund spending, according to NASBO’s State Expenditure Report.

Spending increases were enacted for all other areas of the budget in fiscal 2016, with the exception of transportation. However, since most states primarily rely on other fund sources to finance transportation spending, general fund spending adjustments are not necessarily indicative of overall enacted state spending changes for transportation in fiscal 2016.

**General Fund Expenditures by Function, (Estimated Fiscal 2015\(^*\))**

*Source: NASBO State Expenditure Report*
likely to increase as the year progresses. In sharp contrast to fiscal 2009, 2010 and 2011, states have enacted minimal mid-year cuts over the last several fiscal years, indicating that states’ fiscal situations have stabilized, and budgets are successfully adapting to the current economic and budgetary environment.

Revenue Growth Expected to Slow in Fiscal 2016 after Accelerating in Fiscal 2015

Aggregate general fund revenues are projected to modestly grow in fiscal 2016, marking a sixth consecutive annual increase. Enacted budgets show revenue collections are projected to increase by 2.5 percent in fiscal 2016 — a significantly slower growth rate than the estimated 4.8 percent gain in fiscal 2015. The general fund revenue growth rate in fiscal 2015 can be partially attributed to the strong stock market performance in calendar year 2014, which helped to bolster income tax collections; personal income tax collections increased 8.0 percent in fiscal 2015.

Most states are expecting more modest revenue growth in fiscal 2016, with 28 states projecting positive growth below five percent. Nine states enacted fiscal 2016 budgets with general fund revenues growing more than five percent, while 11 states project negative revenue growth this fiscal year. Overall, most states show signs of returning to more stable, steadier revenue growth, though certain energy-producing states are seeing some negative impact on their revenues and economies from the recent decline in oil prices.

Enacted budgets project total general fund tax revenues of $784.7 billion in fiscal 2016, compared to the estimated $765.4 billion collected in fiscal 2015. Despite five years of consecutive growth, aggregate revenues are still 2.0 percent below fiscal 2008 levels after accounting for inflation. Fiscal 2015 revenues would have needed to reach $781 billion, rather than the estimated $765.4 billion, to be equivalent with inflation adjusted 2008 levels.

Personal income tax collections are expected to grow 3.3 percent in fiscal 2016, while sales tax collections are projected to increase by 3.9 percent and corporate income tax collections are projected to decline slightly by 0.5 percent. At the time of data collection, 16 states reported fiscal 2016 general fund revenue collections from all sources to date coming in higher than projections used to enact the budget, 20 states reported that collections are on target, and six states reported collections coming in below budget estimates.
SUMMARY: Fall 2015 FISCAL SURVEY OF STATES

Fourth Heading

States Enact a Mix of Tax Increases and Decreases in Fiscal 2016

Twenty-two states enacted net tax and fee increases in fiscal 2016, while 18 states passed net decreases in fiscal 2016, resulting in an aggregate net increase of $545 million. States with the largest increases in taxes and fees in fiscal 2016 include Connecticut and Louisiana, both of which modified certain provisions and reduced tax breaks across a number of revenue categories, Georgia, which increased taxes and fees to fund transportation projects, and Nevada, which enacted various tax increases to enhance funding for K-12 education. Texas enacted the largest tax decrease with its property tax relief and reduction in the business franchise tax rate (which both fall under the “other taxes” category), followed by Ohio’s personal income tax cuts. Tax changes on sales, corporate income, cigarette and tobacco products, and motor fuel all contributed to the net increase in taxes and fees. Meanwhile, states enacted a significant net decrease in personal income taxes, as well as very small net decreases in fees and alcohol taxes. A number of states also enacted a mix of increases and decreases in the other taxes category. In addition, states enacted $351 million in new revenue measures in fiscal 2016.

Total Balances Expected to Decline in Fiscal 2016 after Reaching All-Time High in Actual Dollars in Fiscal 2015

Total balances include both ending balances and the amounts in states’ budget stabilization funds (rainy day funds). Total balances reached a recent low in fiscal 2010 due to the severe decline in revenues and rise in expenditure demands tied to the recession. Since that time, states have made significant progress rebuilding budget reserves. In fiscal 2015, total

<table>
<thead>
<tr>
<th>Revenue Type</th>
<th># of States Enacting Increases</th>
<th># of States Enacting Decreases</th>
<th>Net Change ($ in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Tax</td>
<td>9</td>
<td>7</td>
<td>+$494</td>
</tr>
<tr>
<td>Personal Income Tax</td>
<td>9</td>
<td>15</td>
<td>-$1,264</td>
</tr>
<tr>
<td>Corporate Income Tax</td>
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<tr>
<td>Cigarette/Tobacco Tax</td>
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<td>+$535</td>
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<tr>
<td>Motor Fuel Tax</td>
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<td>1</td>
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<tr>
<td>Alcohol Tax</td>
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<td>Other Tax</td>
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<tr>
<td>Fees</td>
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</tr>
</tbody>
</table>

State Total Balances Over Time

The National Association of State Budget Officers
Balances amounted to $73.3 billion, representing an all-time high in actual dollars and 9.6 percent of general fund expenditures. Total balances are projected to decrease in fiscal 2016 to $61.0 billion or 8.8 percent of expenditures, resulting from an anticipated decline in ending balances. However, rainy day funds or budget stabilization funds, which tend to fluctuate less year-to-year than ending balances, are projected to increase to $43.5 billion in fiscal 2016.\(^5\)

**Conclusion: Modest Growth to Continue in Fiscal 2016 but Challenges Remain**

Enacted budgets for fiscal 2016 represent a sixth consecutive year of spending and revenue growth for states. Most states continue on a path of steady, modest budget increases, though some states face significant fiscal challenges that will need to be addressed going forward. Spending pressures on K-12 education, health care, pensions and other critical areas continue to increase, while state revenue growth is expected to remain limited. Overall, state fiscal conditions continue to be stable, but fiscal 2016 budgets remain cautious as they plan for modest revenue growth and seek structural balance.

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1. Illinois and Pennsylvania have not yet enacted operating budgets for fiscal 2016. In order to allow for year-over-year comparisons of aggregate state spending and revenue data, fiscal 2016 general fund 50-state totals in this report include the general fund amounts for Illinois and Pennsylvania reported in NASBO’s Spring 2015 Fiscal Survey of States, which were based on governors’ recommended budgets for fiscal 2016. These amounts are being used as placeholders in this report; NASBO plans to update this report with final enacted fiscal 2016 amounts for both Illinois and Pennsylvania once these states enact budgets.

2. The state and local government implicit price deflator cited by the Bureau of Economic Analysis National Income and Product Account Tables, Table 3.9.4, Line 33 (last updated on October 29, 2015), is used for inflation adjustments. Quarterly averages are used to calculate fiscal year inflation rates.

3. See Bureau of Economic Analysis National Income and Product Account Tables, Table 3.9.4, Line 33 in April 2015, which provides state and local government implicit price deflator. The fiscal 2015 inflation rate determined based on average of first three quarters.

4. Not all states were able to compare actual collections to-date to original projections at the time of data collection.

5. Fiscal 2016 figures for total balances and rainy day fund balances exclude Georgia, Oklahoma, and Wisconsin, due to complete balance data being unavailable for these years, as well as Illinois and Pennsylvania, which had not yet enacted budgets for fiscal 2016 as this report went to print.