Overview: Total State Spending Continues to be Impacted by Federal COVID-19 Aid and Rising State Tax Collections

This edition of the State Expenditure Report includes data from estimated fiscal 2022, actual fiscal 2021, and actual fiscal 2020. The report includes 50-state data broken down by fund source and program area, as well as information on state general fund revenue collections. All data are reported in nominal terms (not adjusted for inflation).

Total state spending over the past two years has been heavily impacted by a combination of federal COVID-19 aid in response to the pandemic and rising state tax collections. In fiscal 2022, total state spending reached $2.86 trillion, increasing from $2.66 trillion in fiscal 2021. It is estimated that total state spending grew 7.3 percent with a median growth rate of 8.2 percent in fiscal 2022. Spending from states’ own funds (general funds and other state funds combined, excluding bonds) rose 12.3 percent in fiscal 2022, or 7.8 percent on a median basis. Federal funds declined 0.2 percent in fiscal 2022 while the median growth rate was 9.3 percent. The overall increase in total state spending in fiscal 2022 was largely driven by increased general fund spending, which grew 18.1 percent, the highest rate in the 36-year history of the State Expenditure Report; on a median basis general fund spending increased 9.0 percent.

In fiscal 2021 total state spending grew 16.2 percent; the median growth rate was lower at 11 percent. Spending from states’ own funds rose 5.1 percent, or 1.9 percent on a median basis. When looking at only general fund spending, the fiscal 2021 growth rate was 2.2 percent with a 0.1 percent decline on a median basis. Federal funds, on the other hand, sharply increased 37.0 percent, and had a median growth rate of 29.9 percent.
percent. The large increases in total state spending, led by strong gains from federal funds to states, is directly related to COVID-19 pandemic response and recovery efforts including the Coronavirus Aid, Relief, and Economic Security (CARES) Act, the American Rescue Plan Act (ARPA), and other federal relief bills. In fiscal 2021, both total state expenditures and federal funds to states are estimated to have grown at their highest rates in the history of the State Expenditure Report.

Federal Funds Slightly Decline in Fiscal 2022, 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 thirteen 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 fiscal 2022, federal funds are estimated to have declined 0.2 percent. The decline 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. 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. While federal funds recorded a slight decline in fiscal 2022, their level remains high by historical standards as states continue to spend significant amounts of federal COVID-19 aid. In fiscal 2021, federal funds to states increased 37.0 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 additional federal aid states received in response to the COVID-19 pandemic from the CARES Act and ARPA, and enhanced Federal Medical Assistance Percentage (FMAP) spending provided through the Families First Coronavirus Response Act. Over the past three years, 41 states reported spending at least $646.2 billion in overall federal COVID-19 aid in total ($104.4 billion in fiscal 2020, $308.2 billion in fiscal 2021, and an estimated $233.6 billion in fiscal 2022).

State General Fund Spending Grows at Highest Rate on Record in Fiscal 2022

General fund spending grew 18.1 percent in fiscal 2022, the highest growth rate in the 36-year history of the State Expenditure Report, on a median basis general fund spending grew 9 percent. The increase in general fund spending mainly derives from states spending down surplus funds, largely for one-time purposes, following two consecutive years of double-digit revenue growth. States have directed these funds to additional investments in areas such as education, Medicaid, corrections, and transportation as well as expenditures for capital construction, paying off debt, rainy day fund deposits, and supplemental pension payments. In fiscal 2021 general fund spending grew at a slower rate of 2.2 percent; on a median basis general fund spending declined 0.1 percent.

In fiscal 2022, all program areas saw an increase in general fund spending with transportation having the highest percentage

### Year-over-year Percentage Spending Growth By Fund Source

<table>
<thead>
<tr>
<th>Fund Source</th>
<th>Fiscal 2020</th>
<th>Fiscal 2021</th>
<th>Estimated Fiscal 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Funds*</td>
<td>3.8%</td>
<td>5.1%</td>
<td>12.3%</td>
</tr>
<tr>
<td>Federal Funds</td>
<td>20.7%</td>
<td>37%</td>
<td>7.3%</td>
</tr>
<tr>
<td>Total State Expenditures</td>
<td>9%</td>
<td>16.2%</td>
<td>-0.2%</td>
</tr>
</tbody>
</table>

*State funds are general funds and other state funds combined, excluding bonds. Total state expenditures are all federal and state funds.*
The “All Other” Category Saw the Largest Gains in Fiscal 2021, while Transportation had the Highest Growth in Fiscal 2022

In both fiscal 2021 and fiscal 2022, all program areas saw at least a moderate increase in total state spending. Whereas in fiscal 2021 “all other” saw the sharpest increase in total state spending, in fiscal 2022 it had the slowest growth. The slower growth level in fiscal 2022 is likely due to both a high baseline established in fiscal 2021 and less federal fund spending on unemployment insurance benefits. The sizeable increase in “all other” spending in fiscal 2021 is largely due to additional federal aid states received in response to the COVID-19 pandemic.

In fiscal 2022 transportation had the highest growth rate due to increases in both state and federal funds. 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 2022 derives both from COVID-19 aid and states beginning to expend funds from the Infrastructure Investment and Jobs Act (IIJA).

Expenditures for elementary and secondary education continue to constitute the largest share of state general fund spending, followed by Medicaid and higher education.
Federal Funds Decline as a Share of Total State Spending in Fiscal 2022

In fiscal 2022, federal funds represented 38.0 percent of total state spending, with general funds at 36.6 percent, other state funds at 23.6 percent, and bonds at 1.8 percent. Fiscal 2022 marked the second time in the history of the State Expenditure Report, and the second consecutive year, in which federal funds represented the greatest share of total state spending. However, state funds (general funds and other state funds combined) still make up a greater share of total state spending than federal funds, 60.2 percent compared to 38.0 percent. In addition, federal funds declined as share of total state spending in fiscal 2022, going from 40.8 percent in fiscal 2021 to 38.0 percent in fiscal 2022, whereas general funds increased from 33.3 percent in fiscal 2021 to 36.6 percent in fiscal 2022.

Additional state expenditure details and trends include:

- For the first time since fiscal 2018, Medicaid rose as a percentage of total state spending, growing from 26.9 percent in fiscal 2021 to 27.6 percent in estimated fiscal 2022. In recent years Medicaid had fallen 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.

Elementary and secondary education remained the second largest area of total state spending in fiscal 2022 at 18.8 percent.

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1 All figures citing levels of state spending from federal COVID-19 aid are based on data reported by 41 states, as the remaining nine states were unable to provide this data.
• Total expenditures for higher education increased 9.4 percent in estimated fiscal 2022 and 1.7 percent in fiscal 2021. State funds for higher education are estimated to have increased 9.3 percent in fiscal 2022 after declining 0.3 percent in fiscal 2021, while federal funds rose 12.1 percent in fiscal 2022 and 15.0 percent in fiscal 2021. Regarding state funds, due to the early impacts of COVID-19 on revenue forecasts, some states had started to pull back on some recent investments in higher education. This, coupled with lower revenues from tuition and fees and auxiliary services due to the impacts of the pandemic on enrollment and utilization of services helped contributed to the slight decline in spending from state funds in fiscal 2021. After faster than expected revenue growth in fiscal 2021 and fiscal 2022, states directed one-time surplus funds as well as recurring revenue growth to program area investments and restoring budget cuts – including for higher education – which helps to explain the general fund growth in fiscal 2022. The large increases in state higher education expenditures from federal funds over the past two years are driven by COVID-19 relief funding. States reported higher education expenditures from federal COVID-19 aid totaling at least $23.6 billion so far ($3.3 billion in fiscal 2020, $9.9 billion in fiscal 2021, and $10.4 billion in fiscal 2022).

• Total public assistance increased 7.5 percent in estimated fiscal 2022, after increasing 19.4 percent in fiscal 2021. State funds for public assistance are estimated to have increased 2.3 percent in fiscal 2022 and 12.8 percent in fiscal 2021, while federal funds rose 10.8 percent in fiscal 2022 and 24.0 percent in fiscal 2021. Increases in public assistance spending in fiscal 2020 through fiscal 2022 were heavily driven by additional federal COVID-19 aid, with 41 states reporting $1.4 billion of federal COVID-19 aid for public assistance in fiscal 2020, $6.3 billion in fiscal 2021, and an estimated $6.8 billion in fiscal 2022. Also, the timing of public assistance expenditures may vary from year to year and may not reflect underlying program activity in a 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 2022. Public assistance data in this report is narrowly defined as spending on the Temporary Assistance for Needy Families (TANF) program 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 10.2 percent in fiscal 2022, with state funds increasing 9.5 percent, and federal funds increasing 10.6 percent. In fiscal 2021, total Medicaid spending increased 10.1 percent with state funds increasing 0.2 percent and federal funds increasing 15.3 percent. Medicaid spending in fiscal 2020 through fiscal 2022 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, provides a 6.2 percentage point increase in Federal Medical Assistance Percentage (FMAP) spending during the public health emergency. The increase is 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 increase in the FMAP is retroactive to January 2020 and is reflected in half of fiscal 2020 and in all of fiscal 2021 and fiscal 2022 for most states. States reported at least $11.4 billion in fiscal 2020, $25.7 billion in fiscal 2021, and $31.2 billion in fiscal 2022 for COVID-19 federal relief aid from the increased Medicaid FMAP.

• Total corrections expenditures increased 7.9 percent in estimated fiscal 2022 and 0.2 percent in fiscal 2021. State funds for corrections are estimated to have increased 12.5 percent in fiscal 2022 and declined 7.5 percent in fiscal 2021, while federal funds declined 27.2 percent in fiscal 2022 and increased 221.5 percent in fiscal 2021. Part of the fiscal 2022 corrections spending increase is
attributable to one-time projects, such as construction of correctional facilities, and other non-recurring spending on state priorities. State general funds comprised 81.3 percent of corrections spending in fiscal 2022, with other state funds at 10.0 percent, federal funds at 7.9 percent, and bonds representing 0.9 percent. General fund spending for corrections increased 11.5 percent in estimated 2022 as federal funds decreased 27.2 percent. The fiscal 2022 decline in federal funds followed a sharp increase in fiscal 2021. In fiscal 2021, general funds declined 8.5 percent while federal funds increased 221.5 percent. Comparing estimated fiscal 2022 to actual fiscal 2020 spending, state general funds increased 2.0 percent as federal funds increased 134.1 percent. The large percentage increases in federal funds are related to the small amount of federal funds for corrections prior to COVID–19; for example, in fiscal 2019 federal funds only comprised $531 million out of $63.2 billion in total spending on corrections.

- Total transportation spending, representing 7.3 percent of total state expenditures, increased 19.5 percent in estimated fiscal 2022 and 3.0 percent in fiscal 2021. In fiscal 2022, it is estimated that state funds spending rose 17.8 percent and federal funds 16.4 percent, while spending from bonds increased 43.5 percent. Other state funds, which are typically earmarked revenue sources such as fuel taxes, comprised 57.4 percent of total transportation spending in estimated fiscal 2022, with federal funds at 26.7 percent, bonds at 9.9 percent, and general funds only accounting for 6.0 percent. States estimated they expended $935 million in federal COVID-19 aid for transportation in fiscal 2020, $2.6 billion in fiscal 2021, and $4.8 billion in fiscal 2022. In addition, states began to expend funds from the Infrastructure Investment and Jobs Act (IIJA) in fiscal 2022.

- The “all other” category of state spending increased 1.9 percent in estimated fiscal 2022, with state funds (excluding bonds) rising 15.8 percent and federal funds declining 18.9 percent. In fiscal 2021, total spending in the “all other” category rose 30.3 percent, with state funds increasing 12.5 percent and federal funds rising 72.5 percent. The slow growth rate in total spending for “all other” in fiscal 2022 follows fiscal 2021’s rapid growth rate in this category. A large part of the reason for fiscal 2022’s slower growth rate in total spending was due to the high baseline established in fiscal 2021 as states received additional federal aid states in response to the COVID-19 pandemic. The decline in federal funds for the “all other” category in fiscal 2022 is likely due in large part to less 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. Unemployment insurance benefits declined in fiscal 2022 both due to the expiration of enhanced unemployment benefit programs established by the CARES Act as well as declining unemployment levels. Much of the increase in “all other” state fund spending in both fiscal 2021 and
fiscal 2022 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, employee compensation, environment and conservation projects, disaster recovery, economic development, local government assistance, and debt service.

- States were also asked to separately detail their debt service spending. States’ spending on debt service totaled $48.3 billion in fiscal 2020, $57.5 billion in fiscal 2021, and $56.9 billion in estimated fiscal 2022. In estimated fiscal 2022, general funds represented 52.7 percent of total state spending on debt service, while other state funds comprised the remaining 47.3 percent. In fiscal year 2022, debt service represented 3.3 percent of spending from state funds (general funds and other state funds combined, excluding bonds), and 2.9 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 15.3 percent in fiscal 2022, 3.6 percent in fiscal 2021, and 4.3 percent in fiscal 2020. The fiscal 2022 growth rate of 15.3 percent is the highest annual figure since 1994. Capital spending will likely maintain high growth rates for the next several years as states allocate funding from ARPA and IIJA. Under ARPA, states and localities are permitted to use federal funding for investments in infrastructure, including water, sewer, and broadband services. While IIJA includes approximately $550 billion in new spending for roads, bridges, rail, transit, the electric grid, water systems and broadband. Although states will see increased federal funding for capital and other infrastructure projects over the next several years, most of the fiscal 2022 increase in capital spending was due to increased state funds. State spending on capital (including general funds, other state funds, and bonds) increased 16.8 percent, or $15.3 billion, in estimated fiscal 2022, while federal funds grew 11.0 percent, or $3.6 billion. The increase in state’s own spending on capital in fiscal 2022 was partly due to one-time spending on infrastructure projects resulting from revenue surpluses in fiscal 2021 and fiscal 2022. 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 44.2 percent of capital spending in fiscal 2022, federal funds are 25.2 percent, and bonds are 30.6 percent. The vast majority of federal funds spent for capital purposes is for transportation (91.7 percent in fiscal 2022).

State General Fund Revenues Experience Double-Digit Growth Two Years in a Row

General fund revenue, the largest source of state expenditures and the most discretionary, totaled an estimated $1.18 trillion in fiscal 2022. Following declines in fiscal 2020, state revenues experienced double-digit growth for the second consecutive year in fiscal 2022, increasing 15.9 percent. A number of factors contributed to fiscal 2022’s revenue growth including economic gains following the initial effects of the pandemic, the role of federal COVID-19 relief aid, and the impact of inflation on both salaries and the price of goods. Strong year-over-year gains were seen in all major sources of state tax revenue. Personal income taxes were bolstered by employment growth, salary increases, and the strong stock market performance in calendar year 2021. Corporate income taxes rose as businesses saw higher profits. Sales taxes grew partly due to increased consumer spending, the shift to purchasing goods over services, and the impact of inflation on prices. Finally, states with a severance tax saw increased revenue due to higher collections from oil and gas production. When looking at 50-state totals, all revenue sources experienced growth in fiscal 2022 including sales tax (13.6 percent), personal income tax (11.5 percent), corporate income tax (61.5 percent), gaming and lottery revenue (5.2 percent), and all other general fund revenue (10.0 percent).
State revenues also rose sharply in fiscal 2021, increasing by 16.6 percent. Several factors help explain fiscal 2021’s strong growth including: federal stimulus measures infused additional money into the economy, which helped bolster state revenue collections; high-income earners were relatively insulated from the COVID-19 pandemic’s economic effects, which limited impacts on personal tax collections; the types of consumption that were most curtailed by the pandemic (such as services) 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. Fiscal 2021 revenue collections were also impacted by the shifting of the 2020 tax deadline from April 15 to July 15. According to NASBO’s Spring 2021 Fiscal Survey of States, 19 states reported they recognized these delayed revenues in fiscal 2021 instead of fiscal 2020 due to the deadline shift, depressing fiscal 2020 revenues and leading to greater growth in fiscal 2021. The lower fiscal 2020 revenue totals also helped lead to higher year-over-year percentage growth for fiscal 2021. When looking at 50-state totals, all revenue sources once again experienced growth in fiscal 2021 including sales tax (9.7 percent), personal income tax (18.1 percent), corporate income tax (47.1 percent), gaming and lottery revenue (15.2 percent), and all other general fund revenue (13.5 percent).

### Outlook

Looking forward, states are anticipating slower growth in tax collections in fiscal 2023 following two years of strong gains. Over the past two years, states have taken steps to prepare for any future slowdown in tax collections through actions 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.

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 2022, actual fiscal 2021, and actual fiscal 2020. 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, as well as contains data on general fund revenue collections.

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