

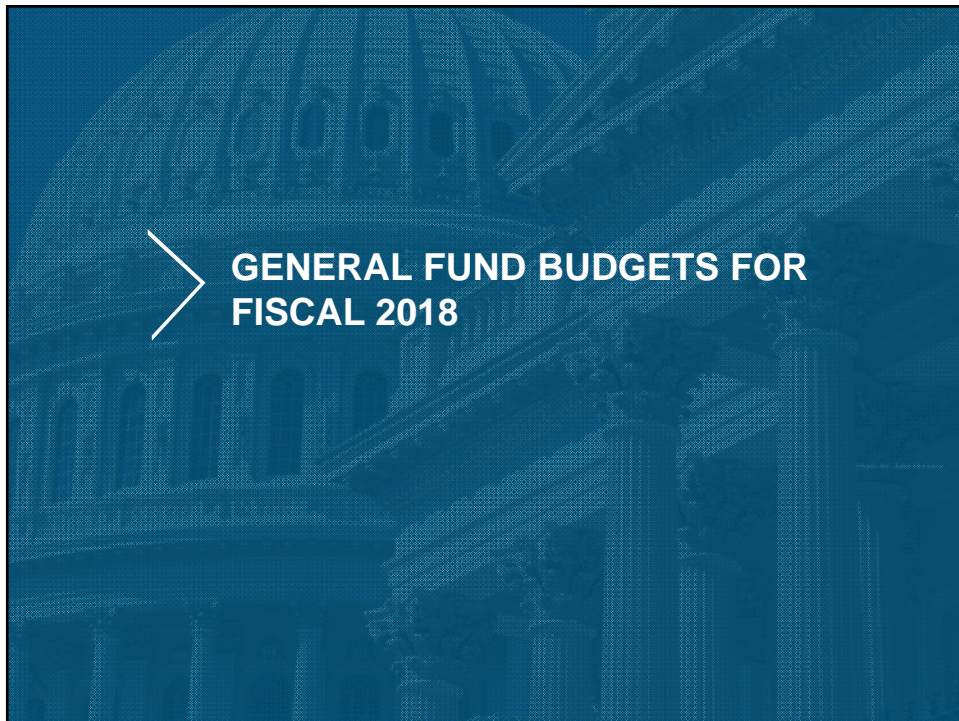


> December 12, 2017
**North Carolina
OSC Financial
Conference**

**FISCAL CONDITION OF
THE STATES**

John Hicks
Executive Director

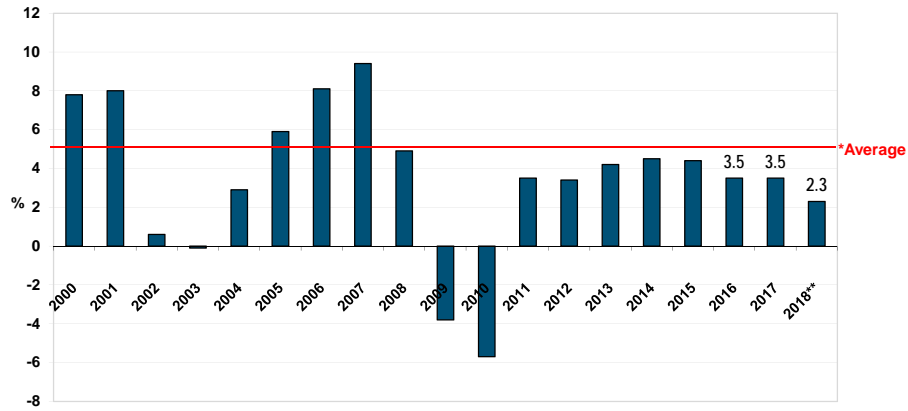
National Association of State Budget Officers | NASBO



> **GENERAL FUND BUDGETS FOR
FISCAL 2018**

STATE GENERAL FUND SPENDING GROWTH PROJECTED TO SLOW IN FISCAL 2018

Annual General Fund Expenditure Growth (%)



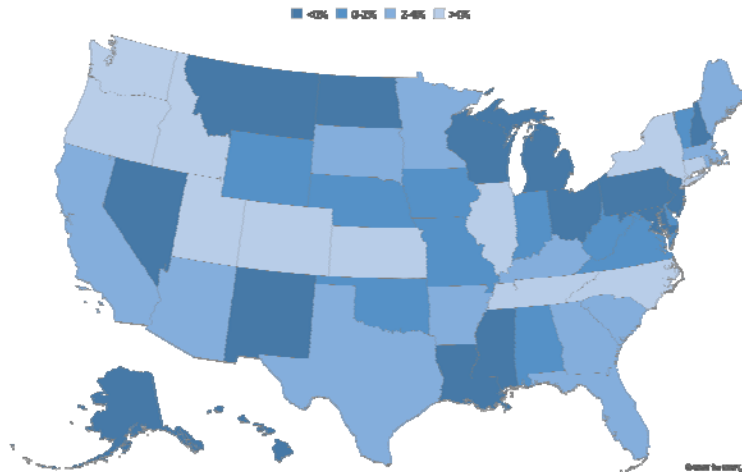
*39-year historical average annual rate of growth is 5.5 percent.
Source: NASBO Fiscal Survey of States

**Fiscal 2018 percentage growth is based on enacted budgets.



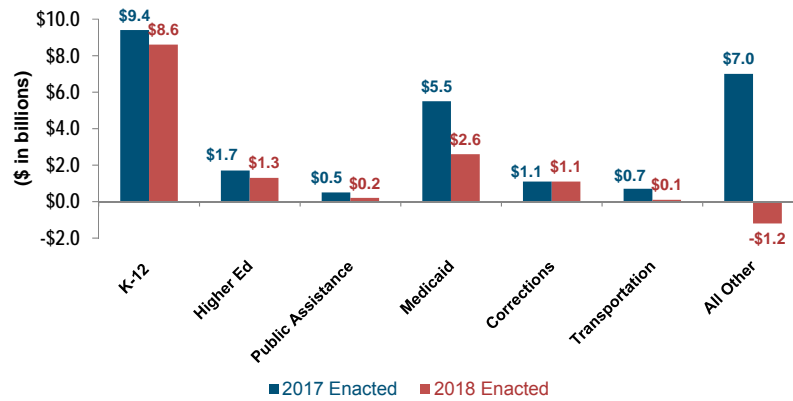
26 States Enacted Budgets with General Fund Spending Growth Below 2%

State General Fund Spending Growth in Fiscal 2018 Enacted Budgets



➤ **STATES ENACT VERY MODEST SPENDING INCREASES**
 Fiscal 2018 Increase of \$12.7B Compared to \$25.8B in Fiscal 2017

Enacted General Fund Spending Changes by Program Area

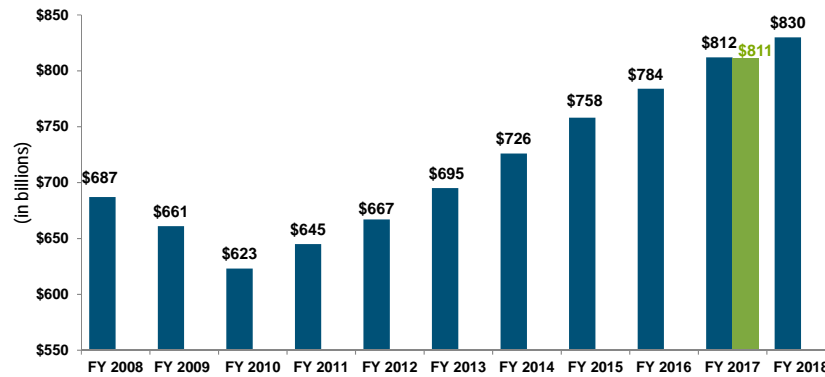


Source: NASBO Fiscal Survey of States



➤ **FISCAL 2017 GENERAL FUND SPENDING**
 BARELY EXCEEDS INFLATION-ADJUSTED PRE-RECESSION PEAK


General Fund Spending: FY 2008 – FY 2018



Source: NASBO Fiscal Survey of States; Fiscal 2018 figure is based on states' enacted budgets.

*Aggregate spending level needed to total at least \$811 billion in fiscal 2017 to be equivalent with or exceed real 2008 spending level.








STATE BUDGET THEMES


FY 2018 Budgets

- **Improving Structural Budget Balance**
- **Reserves/Rainy Day Fund Increases**
- **Trimming Spending – some states still cutting; many still belt-tightening – flat funding**
- **Efficiency Efforts**
- **Reorganization/Consolidation of Services**


STATE BUDGET THEMES

FY 2018 BUDGETS




Elementary and Secondary Education

- › Teachers' Salaries
- › Kindergarten/Early Learning
- › Funding Formula Re-examination






Workforce Development


- › Career Pathways – secondary and post-secondary
- › Addressing “Skills gap”
- › Adult upskilling
- › Free/Last Dollar post-secondary credential up to Associate’s







Child Welfare Services



- › Lowering caseloads
- › Foster care improvements and reform

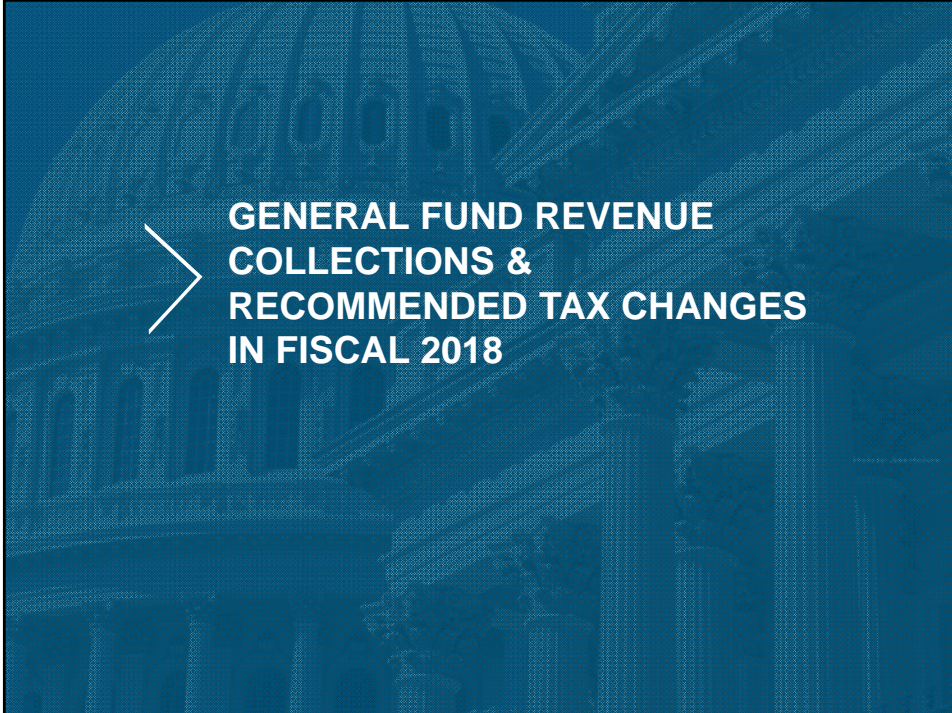






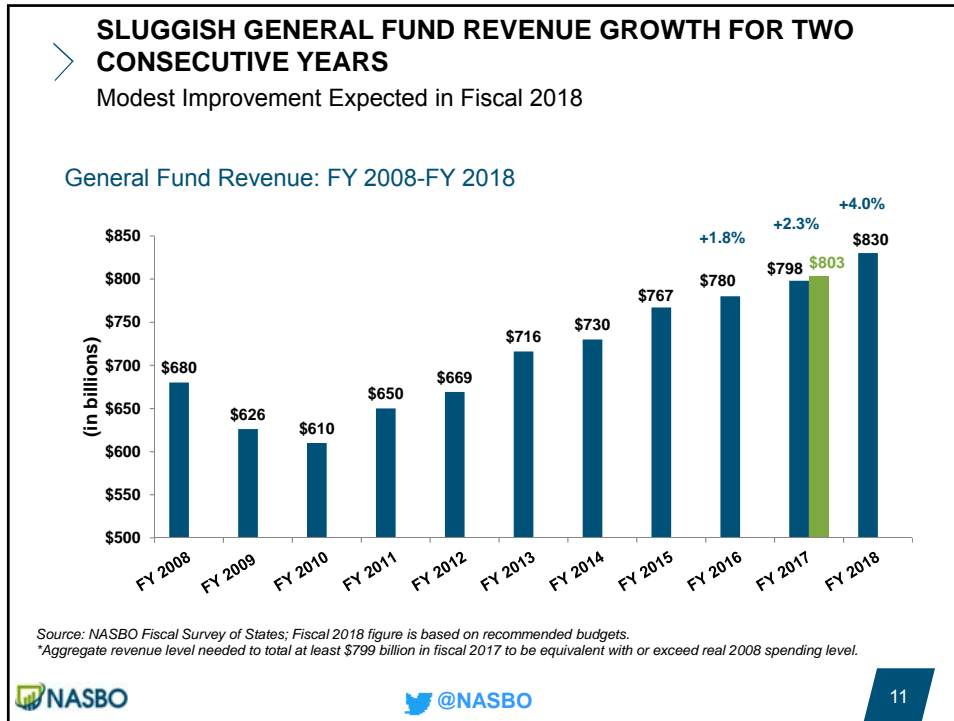
STATE BUDGET THEMES FY 2018 BUDGETS

- 
Medicaid
 - › 31 “expansion” states – state match 5% 2017, 6% 2018
 - › Payment delivery change initiatives
 - › Waiver population “slot” increases & home-based care emphasis
- 
Pension Funding and Reforms
 - › Getting out the checkbook
 - › New employee plans – defined contribution/hybrid cash balance
 - › Lower assumed investment rates of return
- 
Transportation
 - › Multi-year needs assessments pushing resource decisions
 - › Area of largest percentage spending increases in last 2 years
- 
Opioids
 - › Continued investment in substance abuse and life-saving efforts

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GENERAL FUND REVENUE COLLECTIONS & RECOMMENDED TAX CHANGES IN FISCAL 2018



FY 2017 GENERAL FUND REVENUE UPDATE

35 States Revised their Revenue Forecasts Downward

- 9 of 11 Eastern States
- 10 of 15 Southern States
- 11 of 11 Midwestern States
- 5 of 13 Western States

- › Average Downward Revision of -2.0%
- › Economic forecasts of GDP and income were rosier than what actually happened
- › 5 states with a -4% or more downward revision

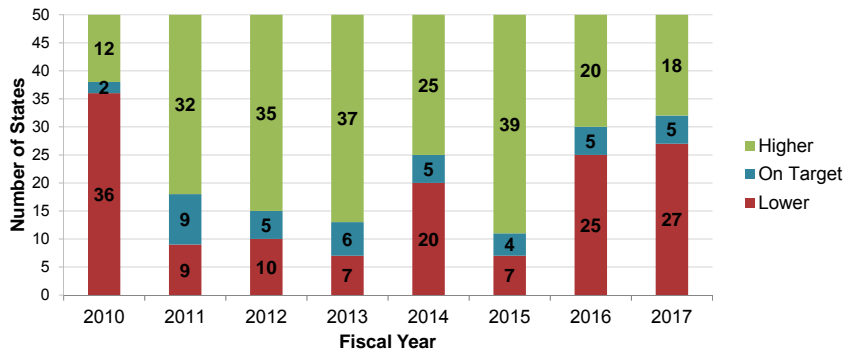
14 States Revised Forecasts Upward

- › Average Upward Revision of +2.3%

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➤ 27 STATES REPORT REVENUE SHORTFALLS IN FISCAL 2017

General Fund Revenue Collections Compared to Original Budget Projections

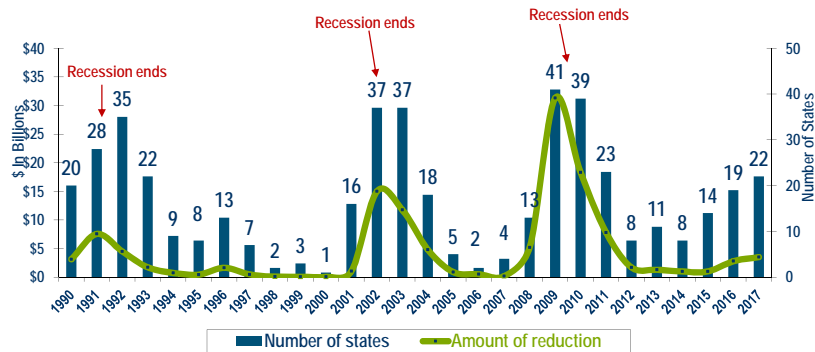


Source: NASBO Fiscal Survey of States.



➤ 22 STATES MADE MID-YEAR BUDGET CUTS IN FISCAL 2017, TOTALING \$3.5 BILLION

Enacted Budget Cuts Made After the Budget Passed



Source: NASBO Fiscal Survey of States



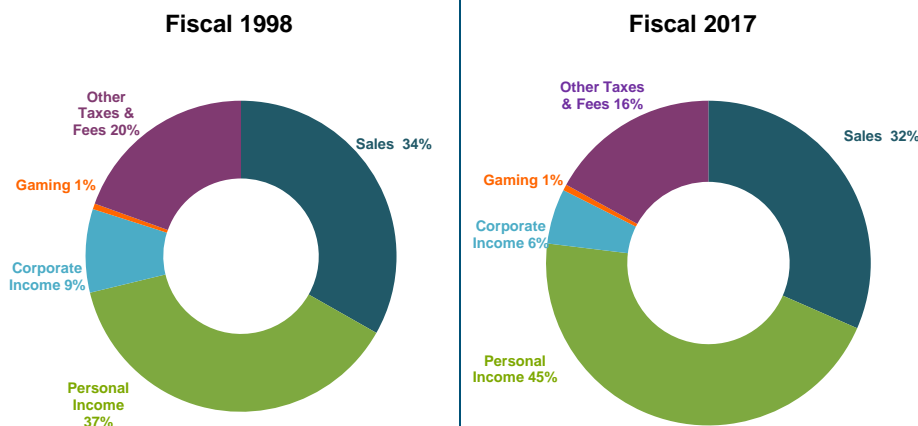
STATES ENACTED TAX AND FEE CHANGES THAT ADD \$9.9 BILLION IN NEW REVENUE (\$5.7 BILLION GENERAL FUND)

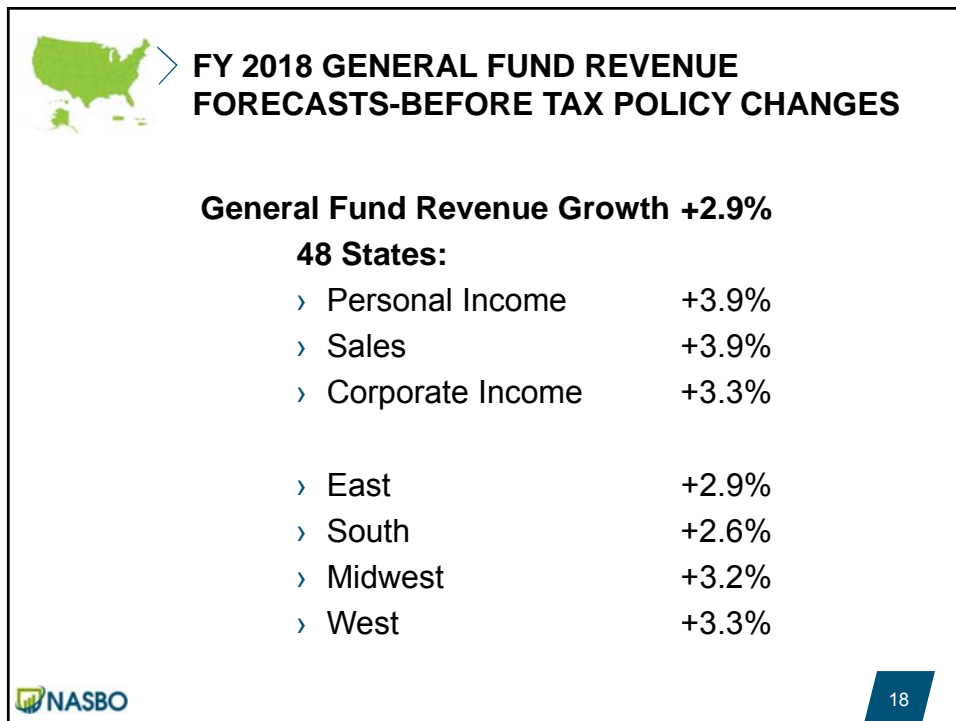
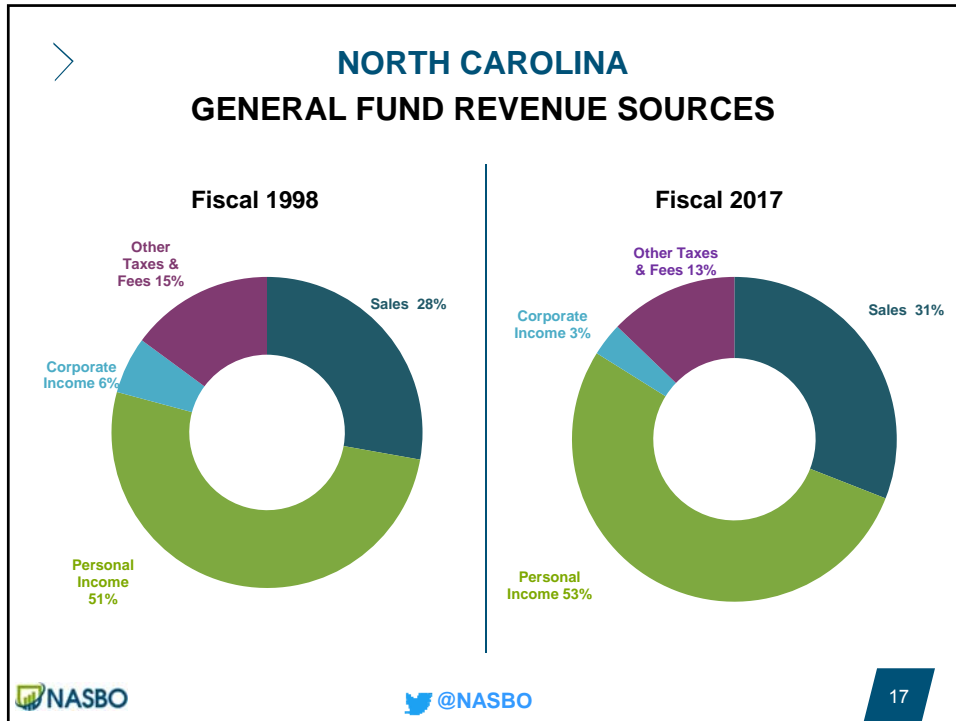
Revenue Type	# of States Enacting Increases	# of States Enacting Decreases	Fiscal 2018 Net Change (\$ in millions)	FY18 Change (General Fund Only)
Sales Tax	11	11	+\$13	-\$107
Personal Income Tax	8	13	+\$4,114	+\$4,133
Corporate Income Tax	5	8	+\$545	+\$552
Cigarette/Tobacco Tax	3	2	+\$51	+\$51
Motor Fuel Tax	8	1	+\$2,895	\$0
Alcohol Tax	2	1	+\$7	+\$7
Other Tax	10	7	+\$1,176	+\$1,009
Fees	14	2	+\$1,117	+\$56
NET TOTAL	21	13	+\$9,917	+\$5,700

Source: NASBO Fiscal Survey of States



GENERAL FUND REVENUE SOURCES ALL 50 STATES







FY 2019 GENERAL FUND REVENUE FORECASTS - 17 States BEFORE TAX POLICY CHANGES

General Fund Revenue Growth +3.8%
17 Biennial Budget States:

- › Personal Income +4.7%
- › Sales +4.0%
- › Corporate Income +2.6%



2017 State Ratings & Outlooks - July 2017

State	Moody's	S&P	Fitch	State	Moody's	S&P	Fitch
Alabama	Aa1 Stable	AA Stable	AA+ Stable	Missouri	Aaa Stable	AAA Stable	AAA Stable
Alaska	Aa3 Negative	AA Negative	AA+ Negative	Montana	Aa1 Stable	AA Stable	AA+ Stable
Arizona	(Aa2) Stable	(AA) Stable	* N/A	Nebraska	Aa2 ⁽¹⁾ Stable	(AAA) Stable	* N/A
Arkansas	Aa1 Stable	AA Stable	* N/A	Nevada	Aa2 Stable	AA Stable	AA+ Stable
California	Aa3 Stable	AA- Stable	AA- Stable	New Hampshire	Aa1 Stable	AA Stable	AA+ Stable
Colorado	(Aa1) Stable	(AA) Stable	* N/A	New Jersey ⁽²⁾	A3 Stable	A- Negative	A Stable
Connecticut ⁽²⁾	A1 Stable	A+ Stable	A+ Stable	New Mexico	Aa1 Negative	AA Negative	* N/A
DC	Aa1 Stable	AA Stable	AA Stable	New York ⁽²⁾	Aa1 Stable	AA+ Stable	AA+ Stable
Delaware	Aaa Stable	AAA Stable	AAA Stable	North Carolina	Aaa Stable	AAA Stable	AAA Stable
Florida	Aa1 Stable	AAA Stable	AAA Stable	North Dakota	(Aa1) Negative	(AA+) Stable	* N/A
Georgia	Aaa Stable	AAA Stable	AAA Stable	Ohio	Aa1 Stable	AA+ Stable	AA+ Stable
Guam	* N/A	BB- Stable	* N/A	Oklahoma	Aa2 Negative	AA Stable	AA Stable
Hawaii	Aa1 Stable	AA+ Stable	AA Stable	Oregon	Aa1 Stable	AA+ Stable	AA+ Stable
Idaho	(Aa1) Stable	(AA+) Stable	(AA+) Stable	Pennsylvania	Aa3 Stable	AA- Negative	AA- Stable
Illinois	Baa3 RUR**	BBB- Stable	BBB Negative	Puerto Rico	C Negative	D NM	D -
Indiana	(Aaa) Stable	(AAA) Stable	(AAA) Stable	Rhode Island	Aa2 Stable	AA Stable	AA Stable
Iowa	(Aaa) Stable	(AAA) Stable	(AAA) Stable	South Carolina	Aaa Stable	AA+ Stable	AAA Stable
Kansas	(Aa2) Stable	(AA-) Negative	* N/A	South Dakota	(Aaa) Stable	(AAA) Stable	(AAA) Stable
Kentucky	(Aa2) Stable	(A+) Negative	(AA-) Stable	Tennessee	Aaa Stable	AAA Stable	AAA Stable
Louisiana	Aa3 Negative	AA- Negative	AA- Stable	Texas	Aaa Stable	(AAA) Stable	AAA Stable
Maine	Aa2 Stable	AA Stable	AA Stable	Utah	Aaa Stable	AAA Stable	AAA Stable
Maryland	Aaa Stable	AAA Stable	AAA Stable	Vermont	Aaa Stable	AA+ Stable	AAA Stable
Massachusetts	Aa1 Stable	AA Stable	AA+ Stable	Virginia	Aaa Stable	AAA Stable	AAA Stable
Michigan	Aa1 Stable	AA- Stable	AA Stable	Washington	Aa1 Stable	AA+ Stable	AA+ Stable
Minnesota	Aa1 Stable	AA+ Positive	AAA Stable	West Virginia	Aa2 Stable	AA- Stable	AA Negative
Mississippi	Aa2 Negative	AA- Negative	AA Stable	Wisconsin ⁽²⁾	Aa2 Positive	AA Stable	AA Stable
				Wyoming	* N/A	(AAA) Negative	* N/A



Ratings in parentheses are issuer credit ratings or implied General Obligation ratings.
 Note: Green shaded box indicates upgrade and red shaded box indicates downgrade since January 1, 2017.
 * No general obligation, implied general obligation or equivalent issuer credit ratings.
 (1) Lease revenue and/or Certificate of Participation ("COP") rating.
 (2) Kroll Bond Rating Agency also assigns ratings to Connecticut (AA-/stable), Wisconsin (AA/stable), New York (AA+/Stable) and New Jersey (A/Stable).
 **Ratings Under Review



2016 State Ratings & Outlooks – Dec 2016

State	Moody's	S&P	Fitch	State	Moody's	S&P	Fitch
Alabama	Aa1 Stable	AA Stable	AA+ Stable	Missouri	Aaa Stable	AAA Stable	AAA Stable
Alaska	Aa2 Negative	AA+ Negative	AA+ Negative	Montana	Aa1 Stable	AA Stable	AA+ Stable
Arizona	(Aa2) Stable	(AA) Stable	* N/A	Nebraska	Aa2 ⁽¹⁾ Stable	(AAA) Stable	* N/A
Arkansas	Aa1 Stable	AA Stable	* N/A	Nevada	Aa2 Stable	AA Stable	AA+ Stable
California	Aa3 Stable	AA- Stable	AA- Stable	New Hampshire	Aa1 Stable	AA Stable	AA+ Stable
Colorado	(Aa1) Stable	(AA) Stable	* N/A	New Jersey ⁽²⁾	A2 Negative	A Negative	A Stable
Connecticut ⁽²⁾	Aa3 Negative	AA- Stable	AA- Stable	New Mexico	Aaa CWN	AA+ Negative	* N/A
DC	Aa1 Stable	AA Stable	AA Stable	New York ⁽²⁾	Aa1 Stable	AA+ Stable	AA+ Stable
Delaware	Aaa Stable	AAA Stable	AAA Stable	North Carolina	Aaa Stable	AAA Stable	AAA Stable
Florida	Aa1 Stable	AAA Stable	AAA Stable	North Dakota	(Aa1) Negative	(AA+) Stable	* N/A
Georgia	Aaa Stable	AAA Stable	AAA Stable	Ohio	Aa1 Stable	AA+ Stable	AA+ Stable
Guam	* N/A	BB- Stable	* N/A	Oklahoma	Aa2 Negative	AA+ Negative	AA+ Negative
Hawaii	Aa1 Stable	AA+ Stable	AA Stable	Oregon	Aa1 Stable	AA+ Stable	AA+ Stable
Idaho	(Aa1) Stable	(AA+) Stable	(AA+) Stable	Pennsylvania	Aa3 Negative	AA- Negative	AA- Stable
Illinois	Baa2 Negative	BBB+ Negative	BBB+ CWN	Puerto Rico	Caa3 Negative	C Negative	C CWN
Indiana	(Aaa) Stable	(AAA) Stable	(AAA) Stable	Rhode Island	Aa2 Stable	AA Stable	AA Stable
Iowa	(Aaa) Stable	(AAA) Stable	(AAA) Stable	South Carolina	Aaa Stable	AA+ Stable	AAA Stable
Kansas	(Aa2) Negative	(AA-) Stable	* N/A	South Dakota	(Aaa) Stable	(AAA) Stable	(AAA) Stable
Kentucky	(Aa2) Stable	(A+) Stable	(AA-) Stable	Tennessee	Aaa Stable	AAA Stable	AAA Stable
Louisiana	Aa3 Negative	AA Negative	AA- Stable	Texas	Aaa Stable	(AAA) Stable	AAA Stable
Maine	Aa2 Stable	AA Stable	AA Stable	Utah	Aaa Stable	AAA Stable	AAA Stable
Maryland	Aaa Stable	AAA Stable	AAA Stable	Vermont	Aaa Stable	AA+ Stable	AAA Stable
Massachusetts	Aa1 Stable	AA+ Negative	AA+ Stable	Virginia	Aaa Stable	AAA Stable	AAA Stable
Michigan	Aa1 Stable	AA- Stable	AA Stable	Washington	Aa1 Stable	AA+ Stable	AA+ Stable
Minnesota	Aa1 Stable	AA+ Positive	AAA Stable	West Virginia	Aa1 Negative	AA- Stable	AA+ Stable
Mississippi	Aa2 Stable	AA Stable	AA Stable	Wisconsin ⁽²⁾	Aa2 Positive	AA Stable	AA Stable
				Wyoming	* N/A	(AAA) Negative	* N/A

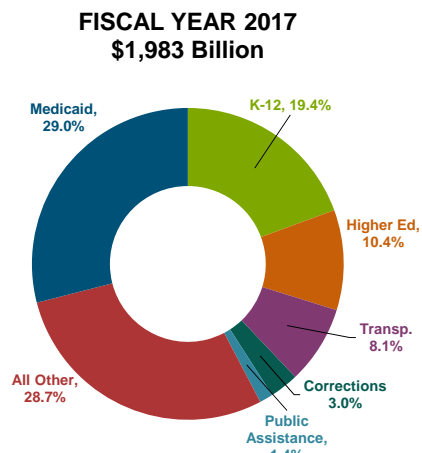
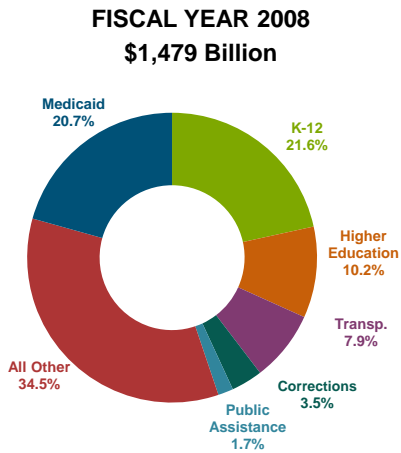
Ratings in parentheses are issuer credit ratings or implied General Obligation ratings
 Note: Green shaded box indicates upgrade and red shaded box indicates downgrade since January 1, 2016.
 * No general obligation, implied general obligation or equivalent issuer credit ratings
 (1) Lease revenue and/or Certificate of Participation ("COP") rating.
 (2) Kroll Bond Rating Agency also assigns ratings to Connecticut (AA-/stable), Wisconsin (AA/stable), New York (AA+/Stable) and New Jersey (A/Stable).
 CWN stands for Credit Watch Negative
 Sources: Moody's Investors Service, Standard & Poor's Ratings Services, Fitch Ratings, Kroll Bond Rating Agency; As of December, 2016.

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TOTAL STATE EXPENDITURES BY FUNCTION

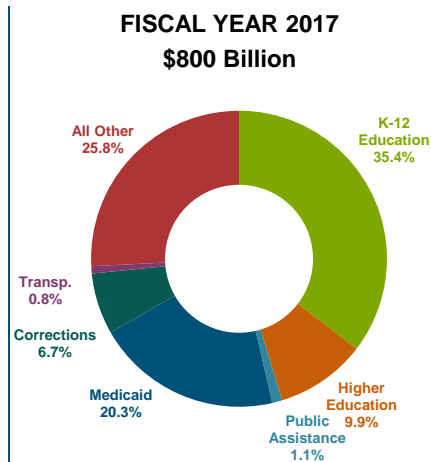
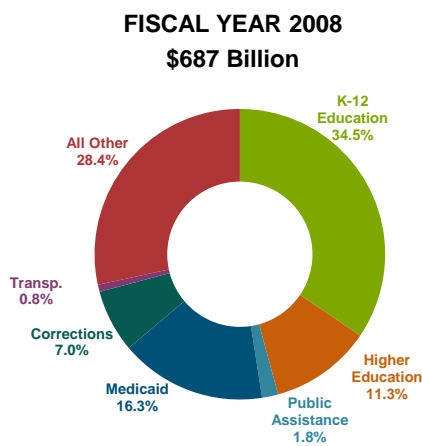


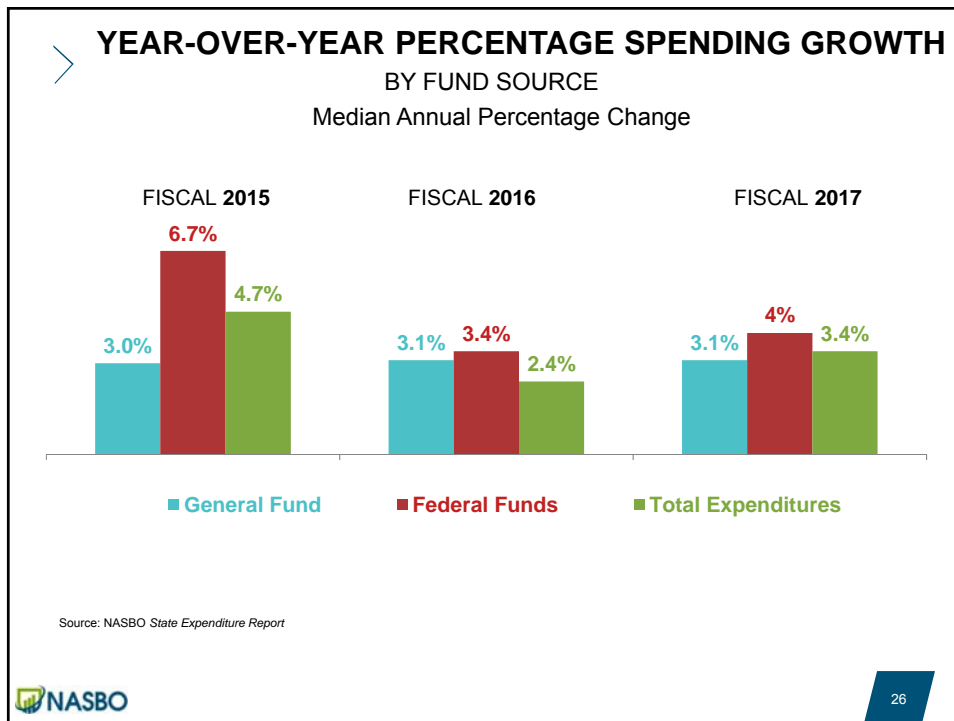
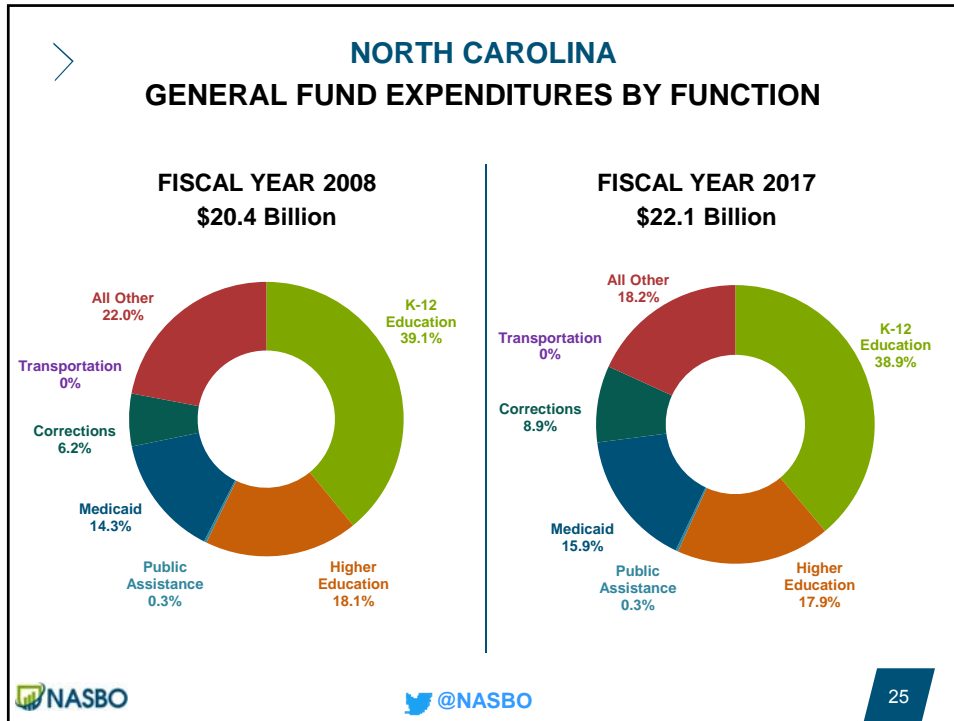
Source: NASBO State Expenditure Report. Total state expenditures include all federal and state funds. Percentages based on 50-state totals.



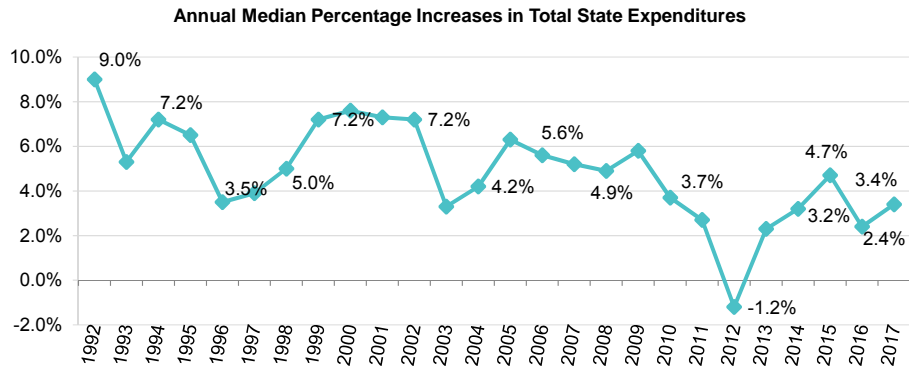
GENERAL FUND EXPENDITURES BY FUNCTION

All 50 States





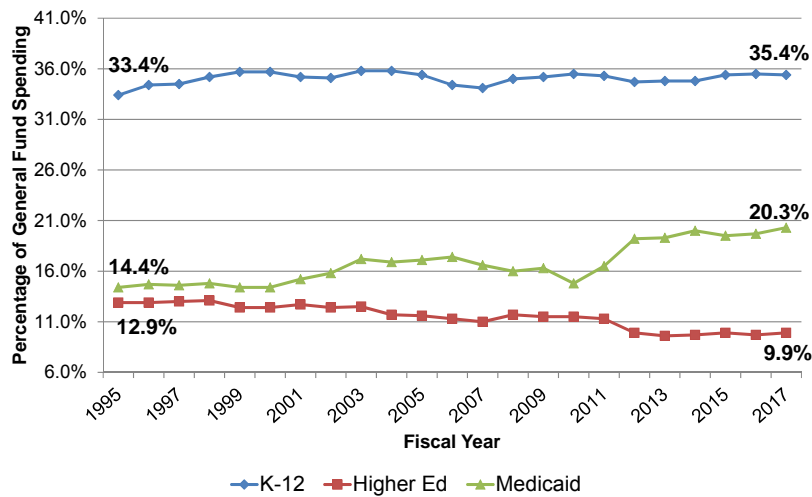
INCREASES IN TOTAL STATE SPENDING



Source: NASBO State Expenditure Report



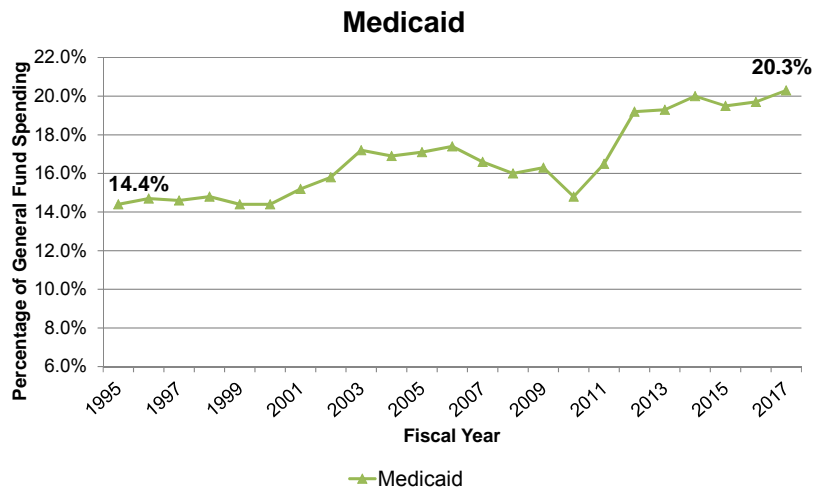
Medicaid Has Increased as a Percentage of General Fund Spending Over Time – All States



Source: NASBO State Expenditure Report.



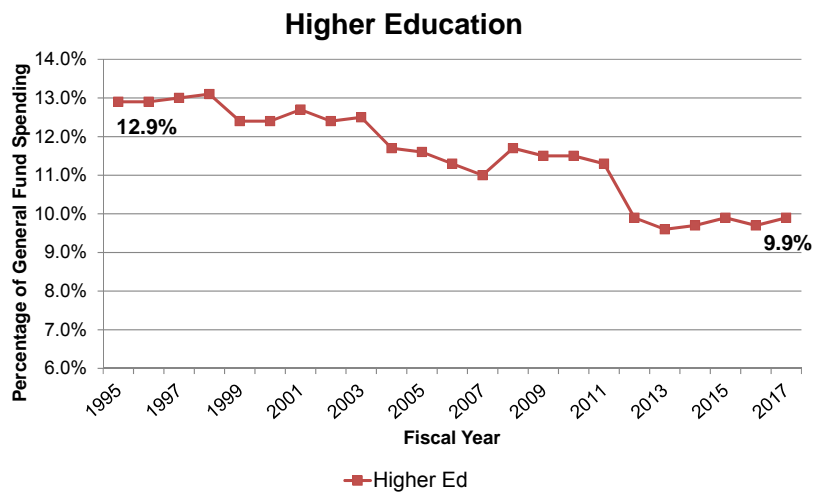
Medicaid Has Increased as a Percentage of General Fund Spending Over Time – All States



Source: NASBO State Expenditure Report.

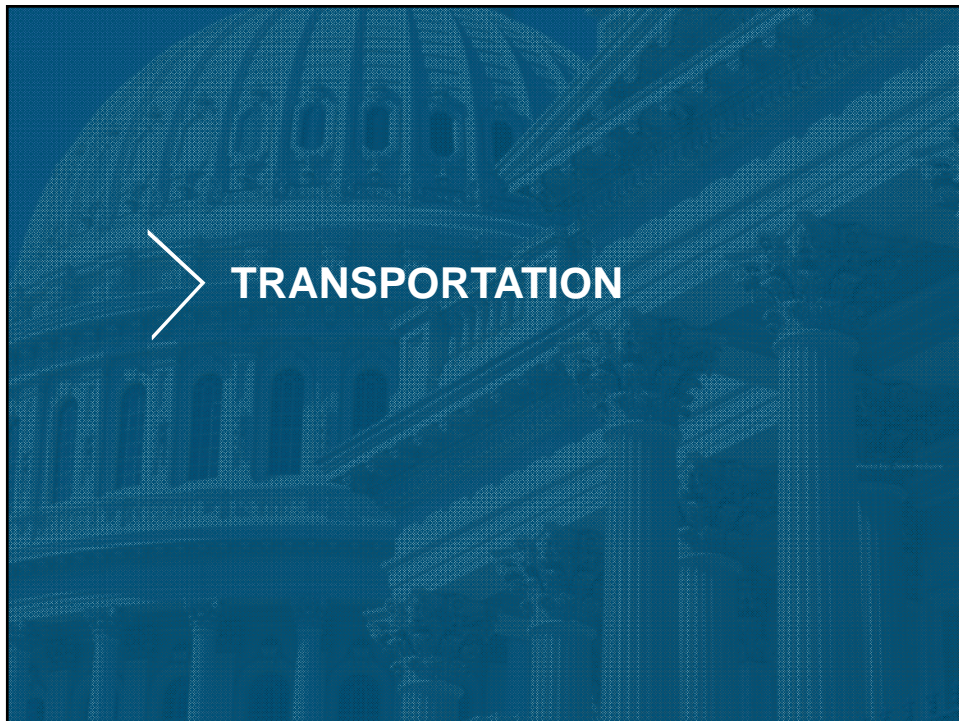
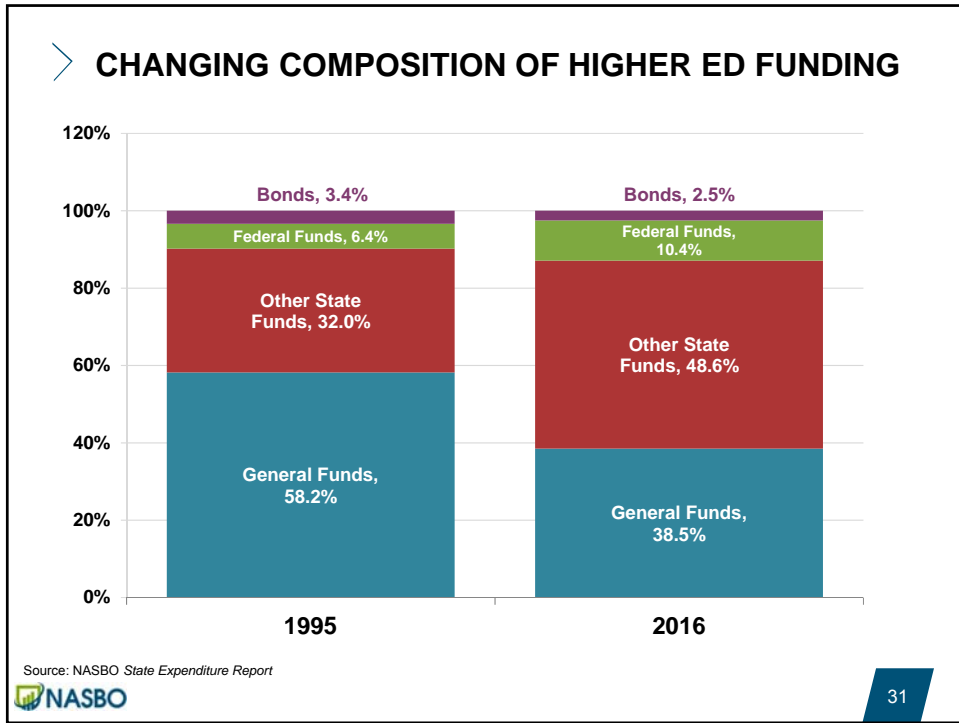


Higher Education Decreased as a Percentage of General Fund Spending Over Time – All States



Source: NASBO State Expenditure Report.



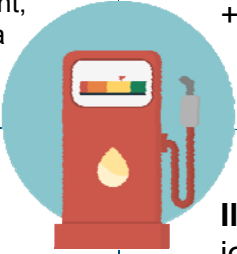


Gas taxes raised in 26 states since 2013

-8 states in 2017
Sessions (Rate increases: Cal, Ind, Mont, Ore, SC, Tenn. Formula change: Utah, W Va)


Average Number of Years since last increase = 25

Average Increase +10 cents

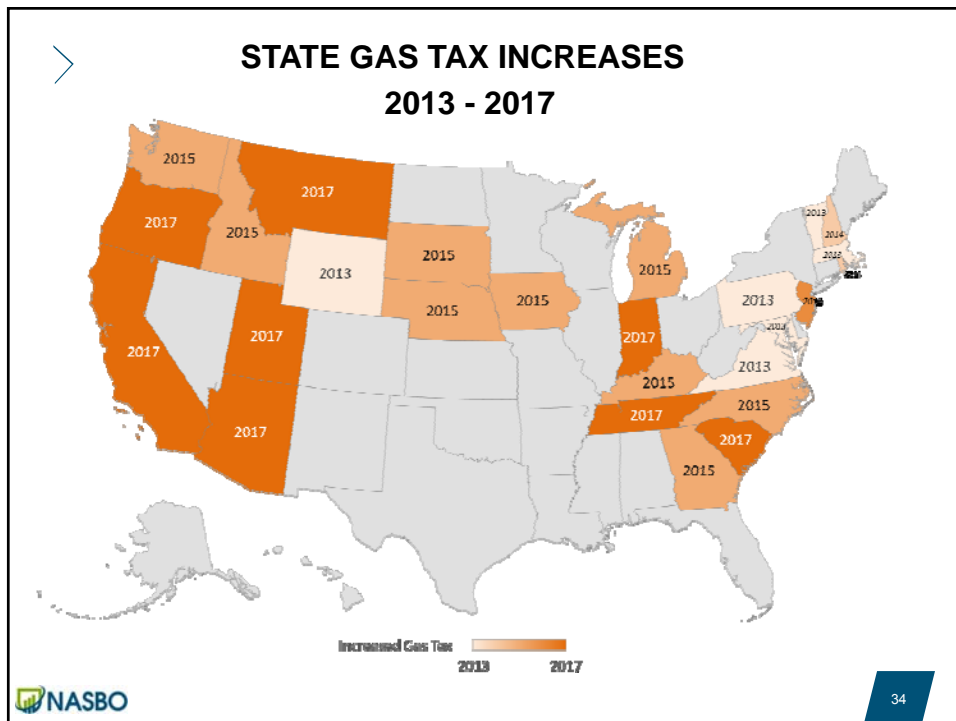


32 states have Constitutional restrictions on how revenues in transportation fund can be spent

Illinois & New Jersey joined them through 2016 ballot measures, **Connecticut** ballot measure in 2018



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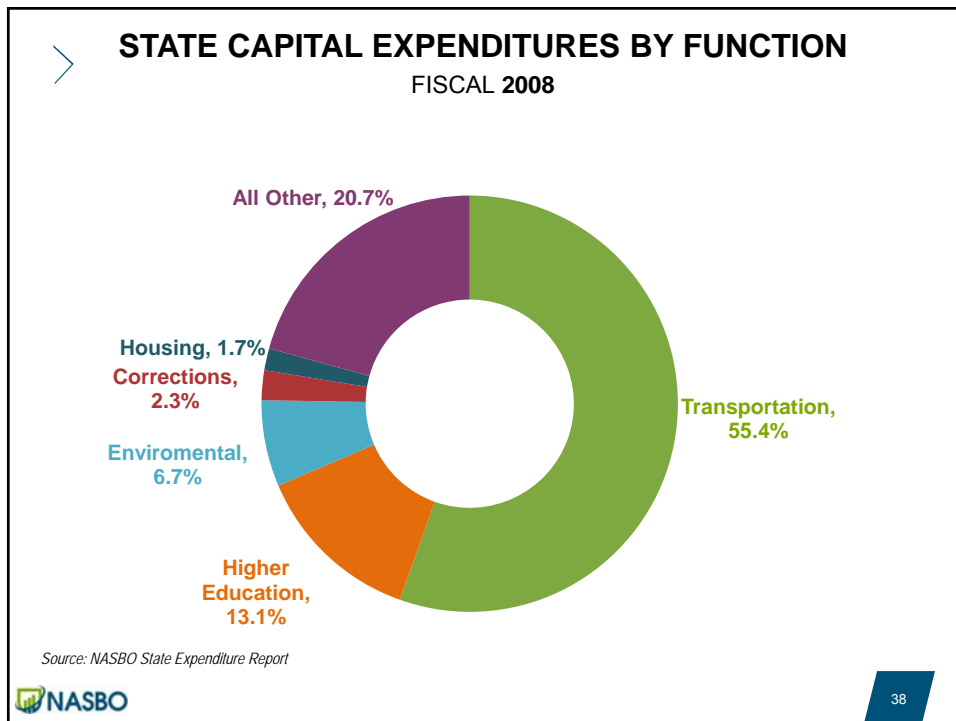
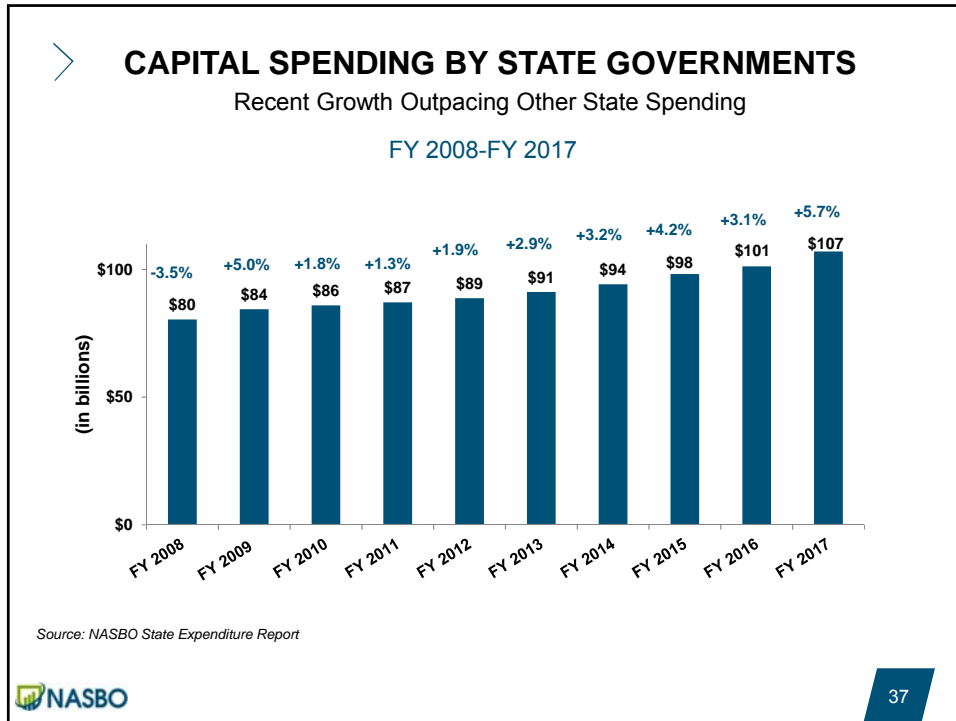
TRANSPORTATION FUNDING – Other than Fuel Tax Increases – 2017 Sessions

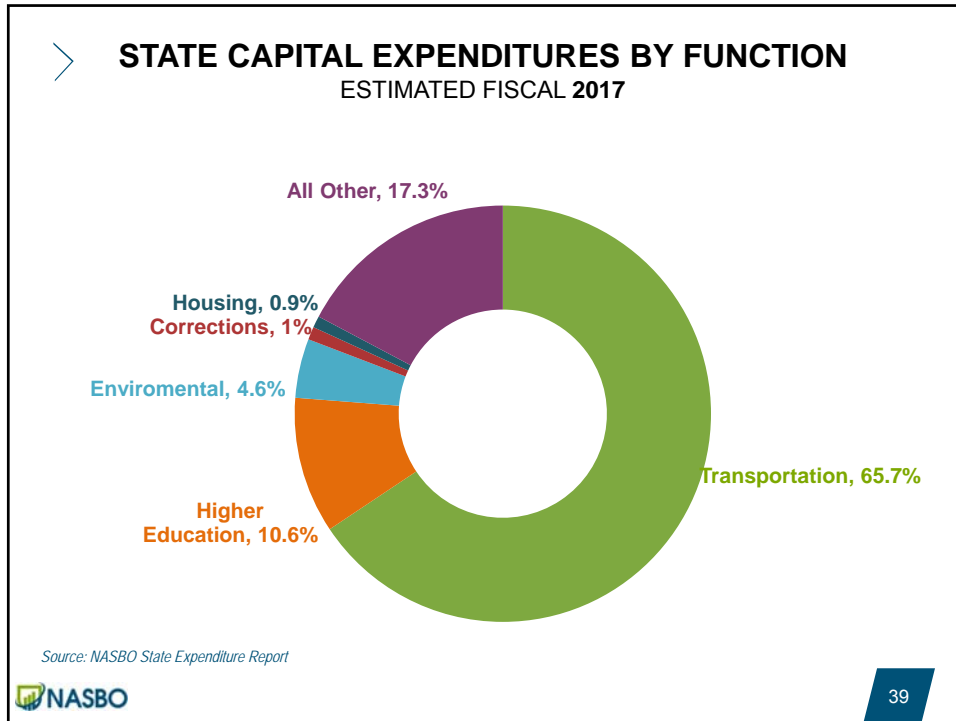
- **Fees**
- **Increase in Vehicle Registration Fee:** Mont, Ore, SC, Tenn, Utah
- **New Electric Vehicle Fee:** Cal, Ind, Minn, Mont, Okla, SC, W Va
- **New Hybrid Vehicle Fee:** Cal, Ind, Mont, Okla, SC, W Va
- **New Transportation Improvement Fee:** Cal (based on vehicle value), Ind, Mont (for vehicles > \$150,000)
- **Truck Use/Weight Fee:** SC, Wyo

- **Vehicle Use/Sales Tax:** Okla, Ore, SC, W Va
- **Pay Back Past General Fund Transfers:** Cal
- **Divert Revenue Stream to Transp Fund:** Minn
- **Rental Car Charge:** Tenn
- **Toll Authorization:** Ind



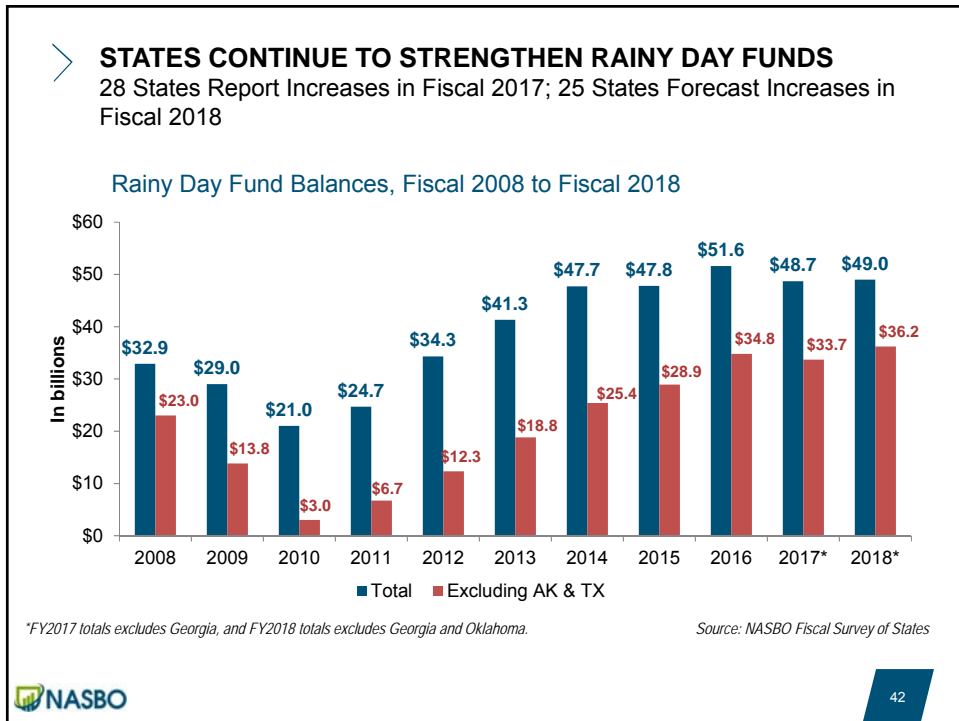
STATE CAPITAL SPENDING



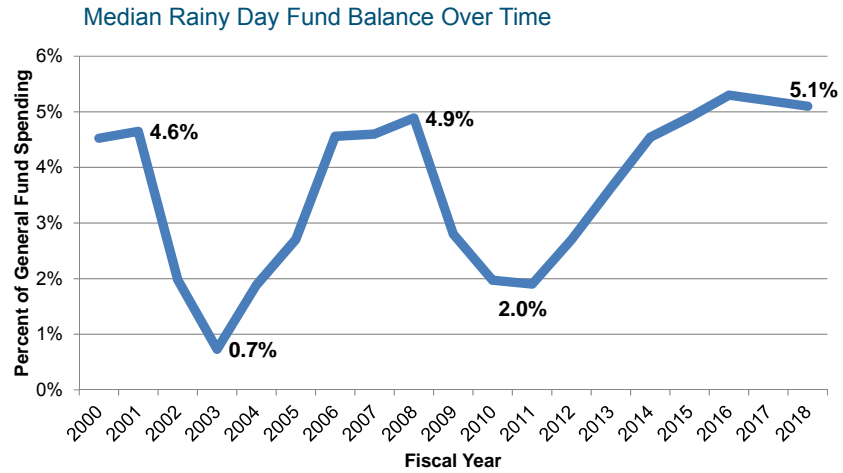


- ### FUNDING CAPITAL SPENDING IN STATES 1993-2017
- States' Own Funds = 63% over last 25 years
 - Federal Funds = 37%
 - Cash/Federal Funds = 70%
 - Debt = 30%
 - 62% of State "Pay as you go" for Transportation and Rising
- NASBO
- 40

STATE SAVINGS ACCOUNTS (RAINY DAY FUNDS)

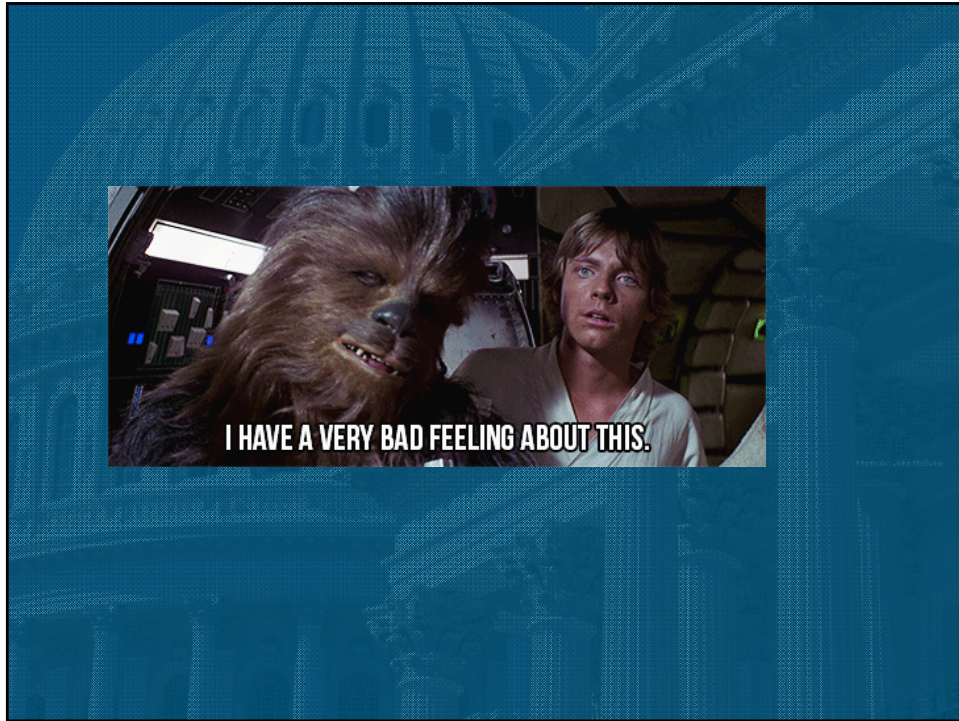



➤ **STATES CONTINUE TO STRENGTHEN RAINY DAY FUNDS SINCE HITTING RECENT LOW IN FISCAL 2010-2011**




Source: NASBO Spring 2017 Fiscal Survey

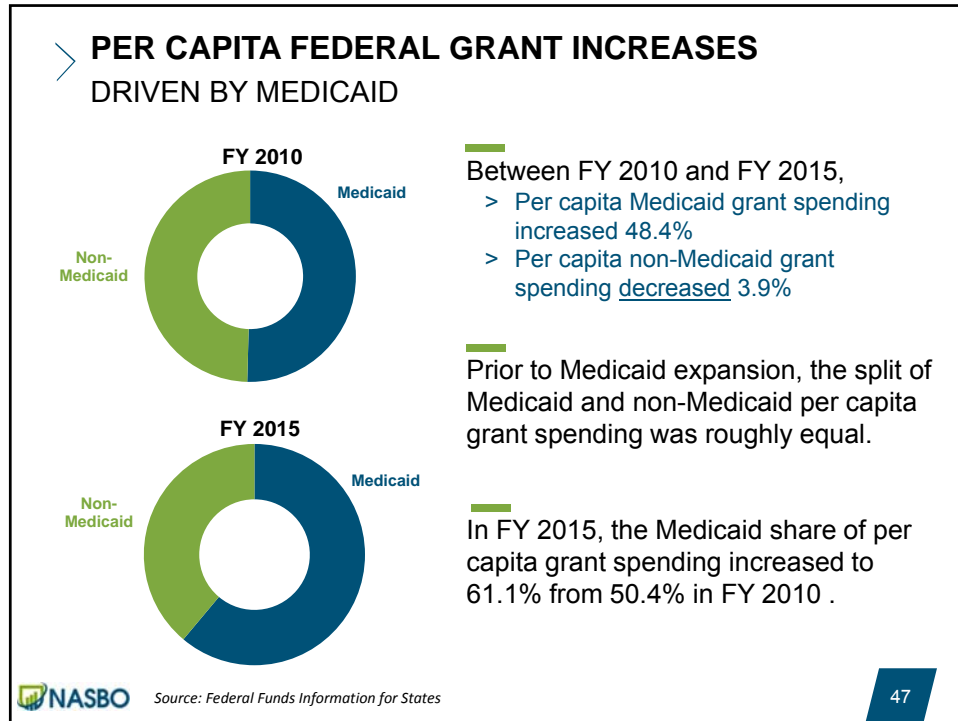




 > **FEDERAL UNCERTAINTY FOR STATES**

<p>1</p> <p>The Affordable Care Act, especially Medicaid – Per capita caps, Expansion, Flexibility</p>	<p>2</p> <p>Tax Policy Considerations – personal & corporate tax, state/local tax deductibility</p>
<p>3</p> <p>Infrastructure</p>	<p>4</p> <p>The Fiscal 2018 Budget Continuing Resolution Budget Caps What will 2019 bring?</p>

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FEDERAL TAX LAW CHANGES WHAT ARE STATES GOING TO DO?

- **Very Little Time to React in 2018 Sessions**
- **Uncertainty on the Real Impact – Not Easy**
- **Most States tie to Federal Tax (Adjusted Gross Income or Taxable Income)**
- **Conformity Will be a New Word in Your Vocabulary**

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CHALLENGES: LONG TERM BEGINS NOW

- **Tighter Resources for Years**
- **Debt and Pension Liability**
- **Infrastructure**
- **Medicaid Changes**
- **Federal Tax Law Changes and Budget Cuts**



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Executive Director

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