

December 10, 2019

FISCAL CONDITION OF THE STATES

North Carolina OSC Financial Conference



1

Current Fiscal Situation for States

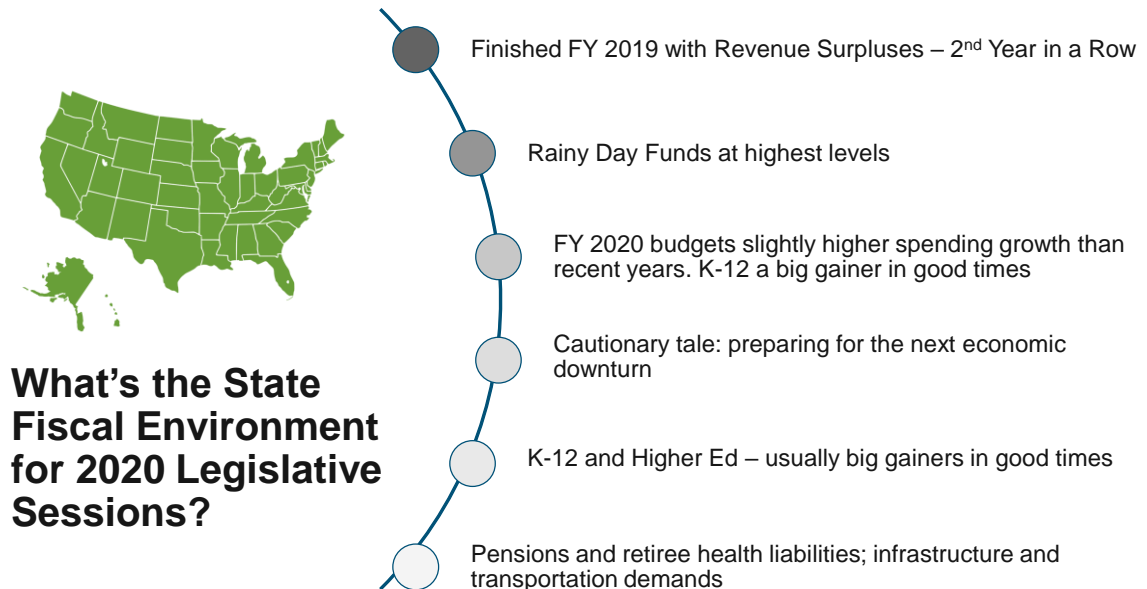
2

NASBO Publication: State Expenditure Report

- Published yearly
- Breaks down spending by fund source
- Contains data on program area spending, as well as general fund revenue and transportation revenue



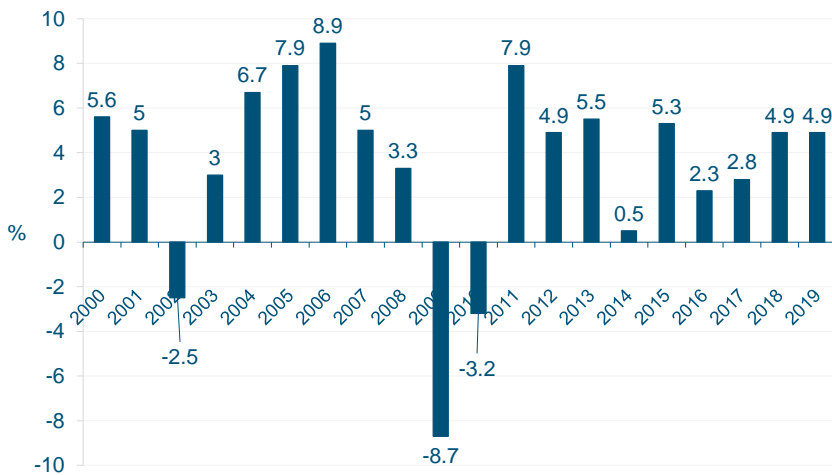
3



4

General Fund Revenues

5



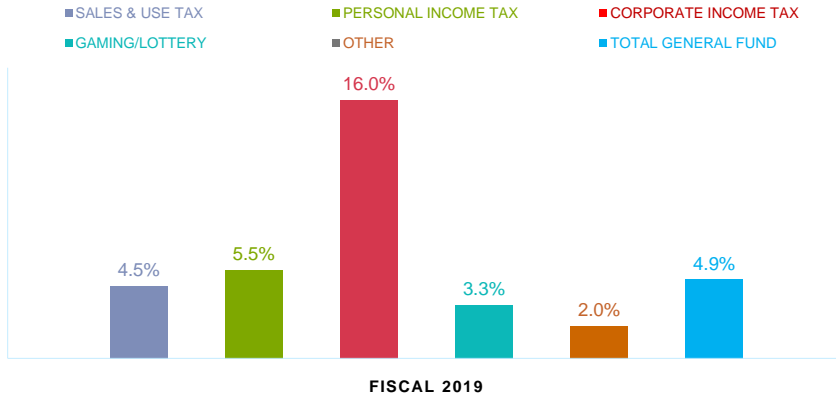
Source: NASBO State Expenditure Reports

General Fund Revenues – All Sources

Annual Median General Fund Revenue Change (%)

6

FY 2019 MEDIAN GENERAL FUND REVENUE PERCENTAGE CHANGE

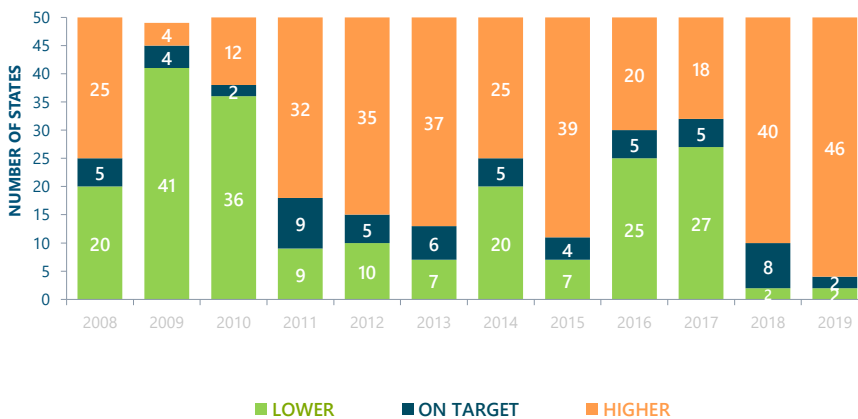


Source: NASBO State Expenditure Report 2019

Robust Growth in Fiscal 2019, Led by Personal Income Tax Collections

7

General Fund Revenue Collections Compared to Budget Projections by Fiscal Year

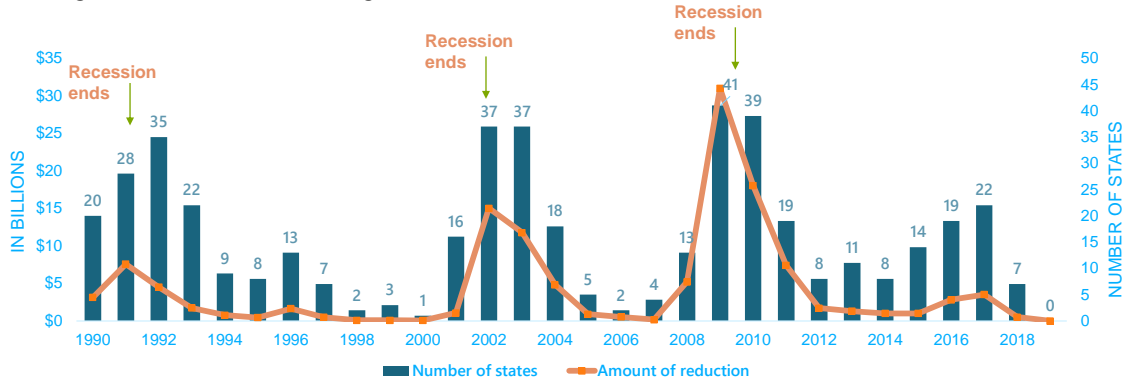


Most States Met or Exceeded Revenue Projections for Fiscal 2019

8

No States Made Mid-Year Budget Reductions in Fiscal 2019 Due to a Shortfall

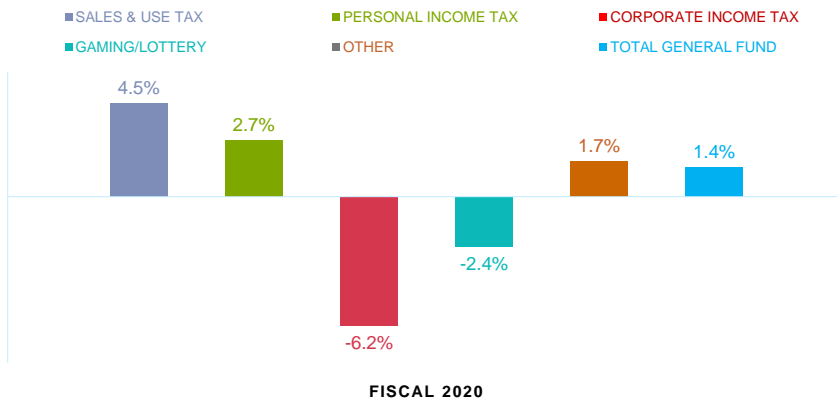
Budget Cuts Made After The Budget Passed



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.



FY 2020 ESTIMATED MEDIAN GENERAL FUND REVENUE PERCENTAGE CHANGE



Source: NASBO State Expenditure Report 2019

Fiscal 2020 Growth over Revised FY 2019.

Growth rates were higher when FY 2020 budgets were set. Subsequently, FY 2019 revenues came in above budget.

Early revised estimates for FY 2020 have higher growth rates.





Fiscal 2019 General Fund Revenue Growth

Forecasts and Actuals

Fiscal 2019 revised forecasts

- **US:** PIT +4.0%
- Sales +4.5%
- CIT +12.6%
- TOTAL +4.3%

- **NC:** PIT +4.0%
- Sales +4.6%
- CIT +12.7%
- TOTAL + 4.3%

Fiscal 2019 Actuals

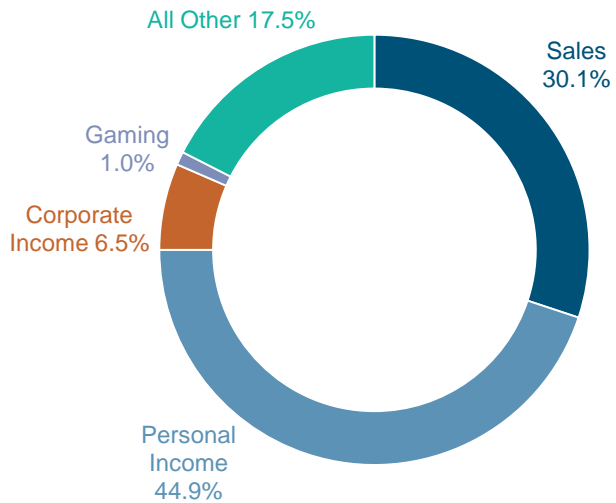
- **US:** PIT +5.5%
- Sales +4.5%
- CIT +16.0%
- TOTAL +4.9%

- **NC:** PIT +5.2%
- Sales +5.6%
- CIT 12.4%
- TOTAL +5.4%

All States - Revenue Sources in the General Fund

Percentage

Fiscal 2019

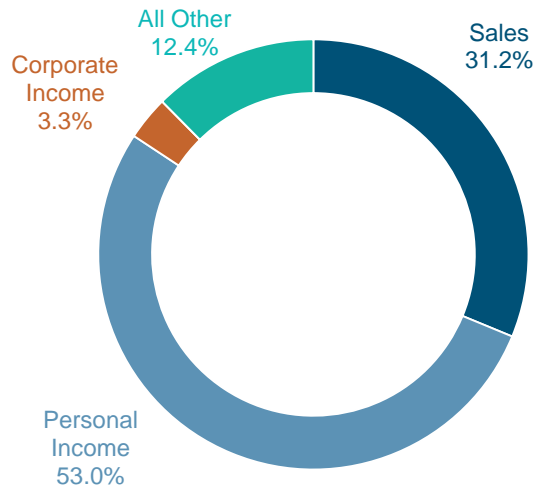


Source: NASBO State Expenditure Report 2019

North Carolina - Revenue Sources in the General Fund

Percentage

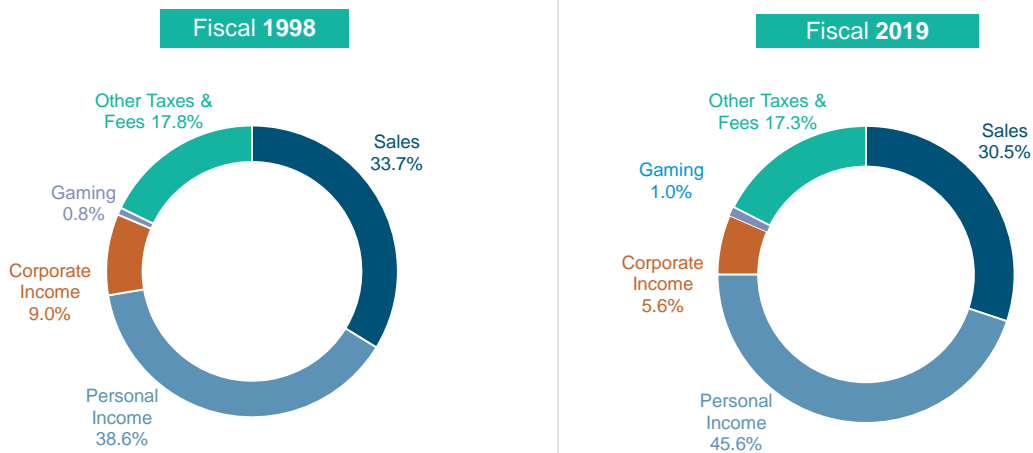
Fiscal 2019



Source: NASBO State Expenditure Report 2019

Revenue Sources in General Fund – All States

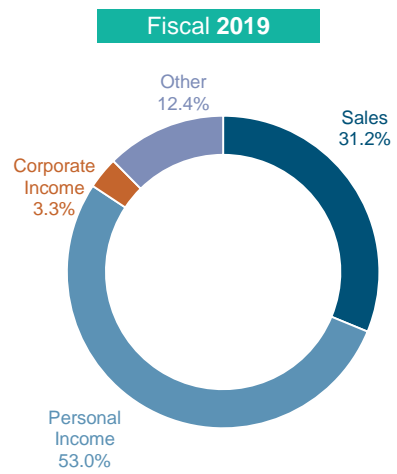
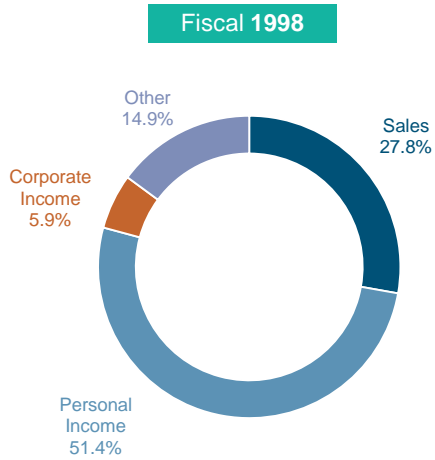
FY 1998 compared to FY 2019



Source: NASBO State Expenditure Report

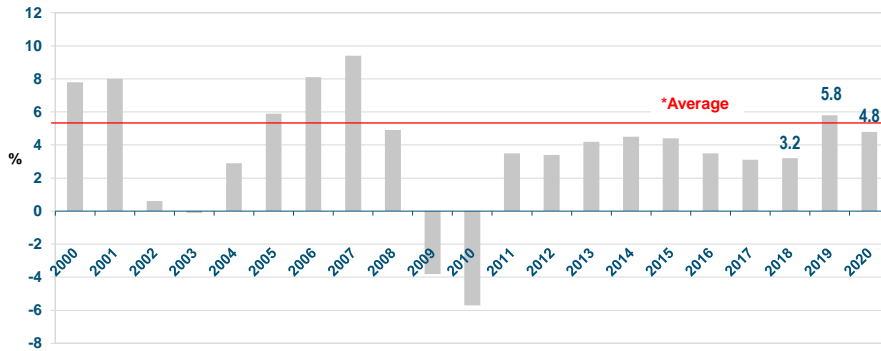
Revenue Sources in General Fund – North Carolina

FY 1998 compared to FY 2019



General Fund Spending

Annual General Fund Expenditure Growth, Nominal (%)



* 41-year historical average annual nominal growth rate in state general fund spending is 5.4 percent.

State General Fund Spending Expected to See Moderate Increase In Fiscal 2020, After Above-Average Growth in Fiscal 2019

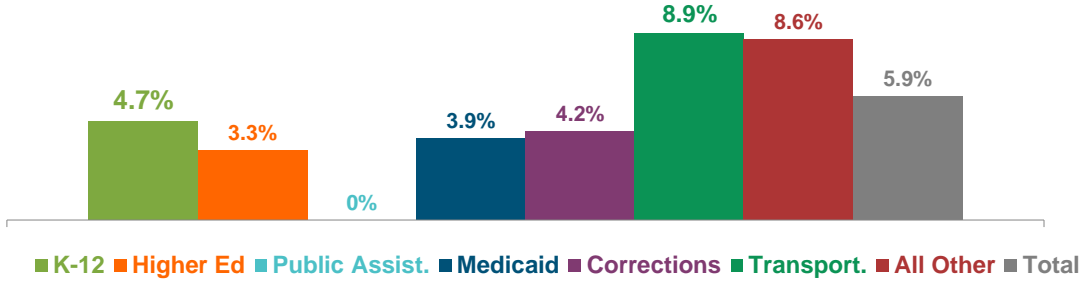


FY 2020 Budgets: Key Themes & Common Budget Items

- Teacher Pay Increases
- Early Education/Pre-K expansions
- One-time Spending from one-time funds – including Deferred Maintenance
- Medicaid Expansion and some supplemental funds for FY 2019
- Full funding of Pension contributions plus some extra for unfunded liabilities
- Children’s Service/Child Welfare
- Preparing for Next Recession
- More states starting and expanding last dollar “free” two-year college degrees
- State employee pay increases – many budgets have 2 to 3%. Most # states in many years
- Corrections employees – even more pay and minimum salary increases
- Workforce Development
- Housing in several states

STATE FUNDS PERCENTAGE SPENDING GROWTH BY PROGRAM AREA

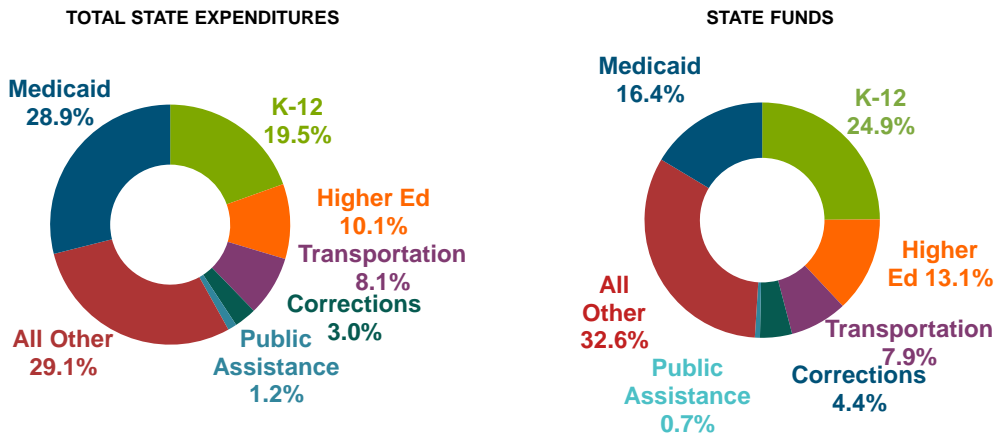
ESTIMATED FISCAL 2019



**State Funds are general funds and other state funds combined, excluding bonds*

19

EXPENDITURES BY FUNCTION ESTIMATED FISCAL 2019

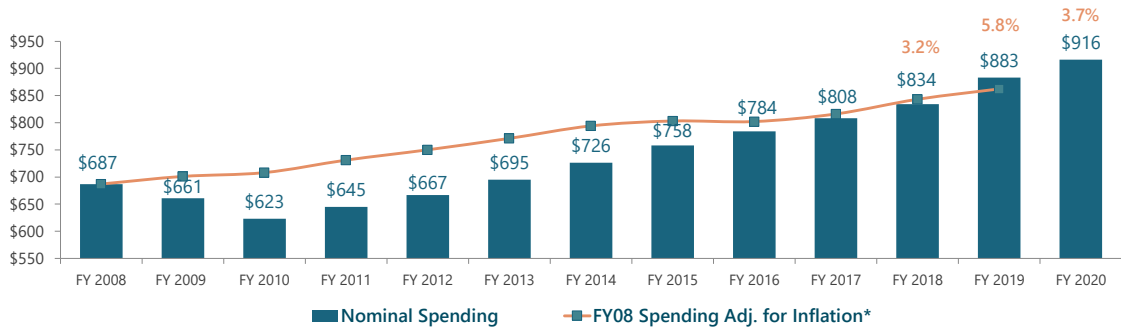


Total state expenditures are all federal and state funds. State funds are general funds and other state funds combined, excluding bonds.

20

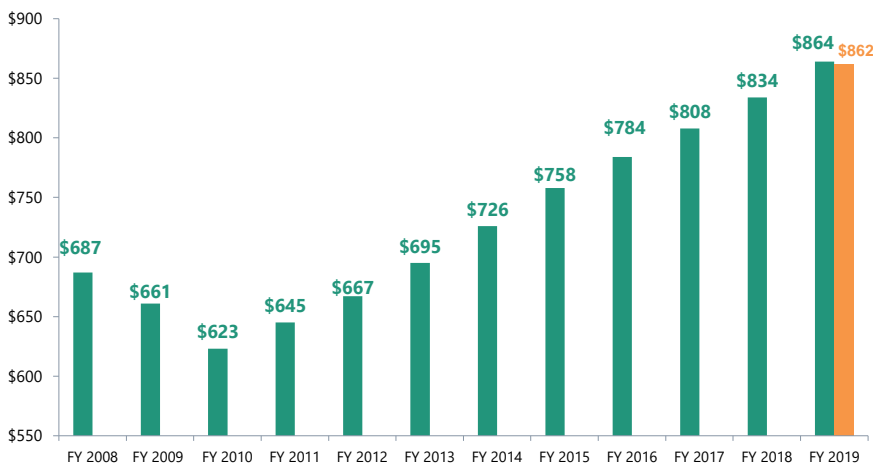
Fiscal 2019 General Fund Spending Exceeds Fiscal 2008 Level, Adjusted for Inflation

General Fund Spending, Fiscal 2008 To Fiscal 2020 (In Billions)



Fiscal 2020 figure is based on governors' recommended budgets.
 Percentages shown represent total annual general fund spending growth. The median projected growth rate for fiscal 2020 is **3.4 percent**.
 *Aggregate spending level needed to total at least \$862.6 billion in fiscal 2019 to be equivalent with or exceed real 2008 spending level.

General Fund Spending, Fiscal 2008 To Fiscal 2020 (In Billions)



Fiscal 2019 General Fund Spending

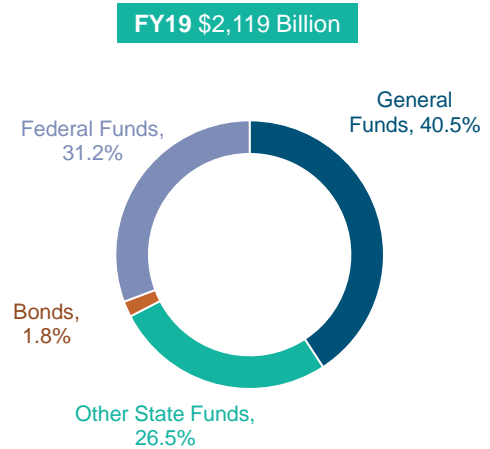
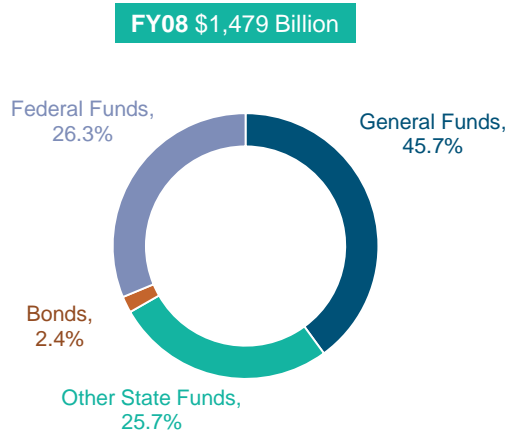
Exceeds Inflation-Adjusted Pre-Recession Peak

Yet 25 states are still below Inflation Adjusted Pre-Recession Level

Source: NASBO Fiscal Survey of States; Fiscal 2020 figure is based on governors' recommended budgets.
 Aggregate spending level needed to total at least \$862 billion in fiscal 2019 to be equivalent with or exceed real 2008 spending level.

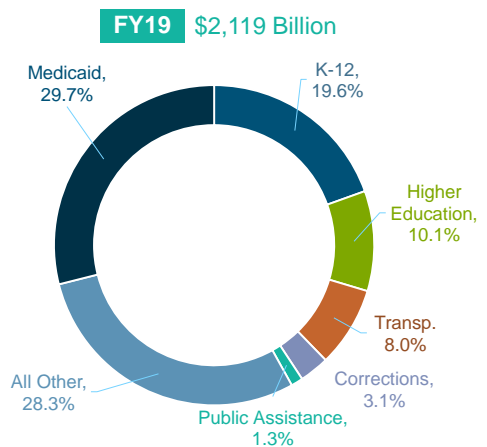
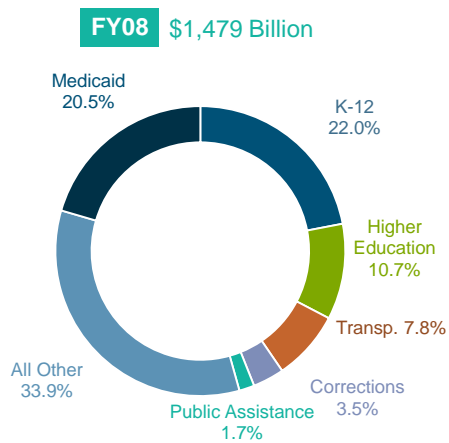
Total State Expenditures

By Fund Source



Total State Expenditures

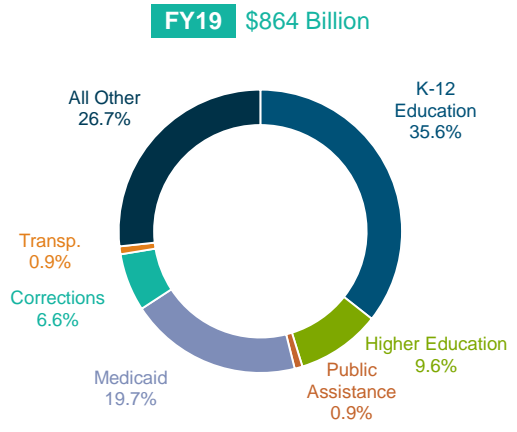
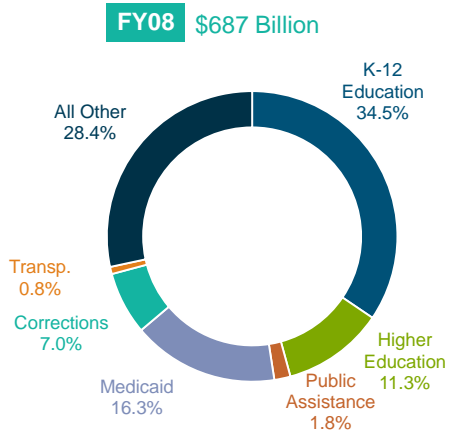
By Function



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

General Fund Expenditures

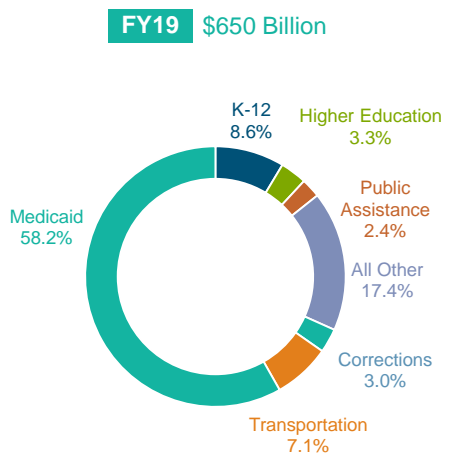
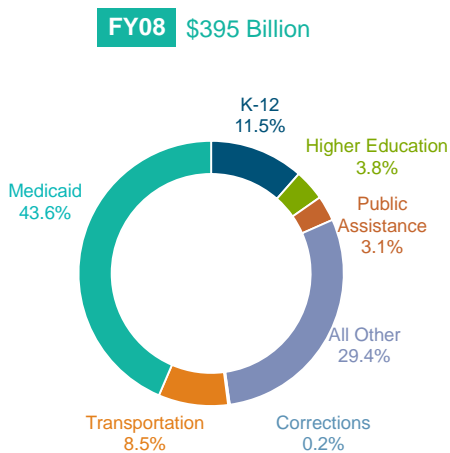
By Function



Source: NASBO State Expenditure Report. Percentages based on 50-state totals.

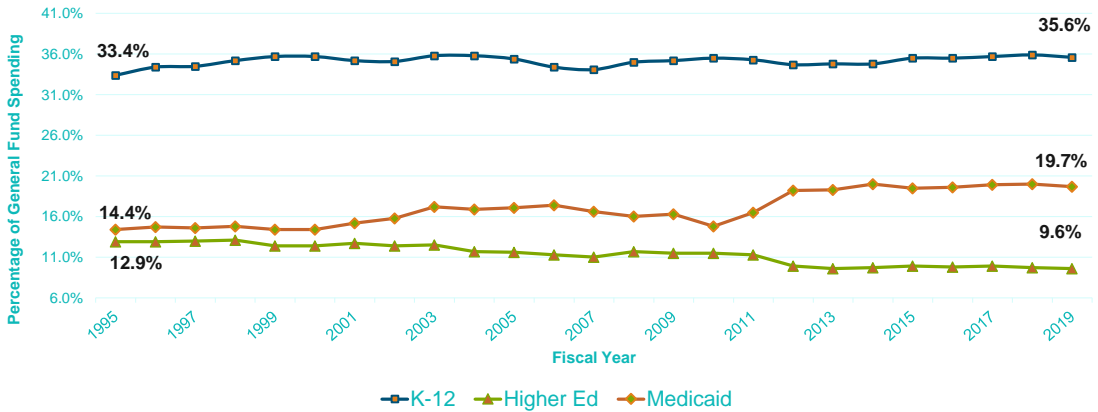
Federal Funds Expenditures

By Function



Source: NASBO State Expenditure Report. Percentages based on 50-state totals.

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

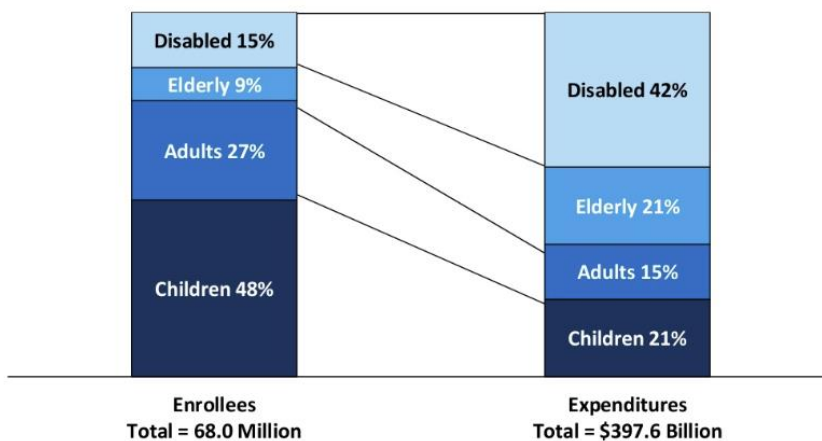


Source: NASBO State Expenditure Report

27

Figure 7

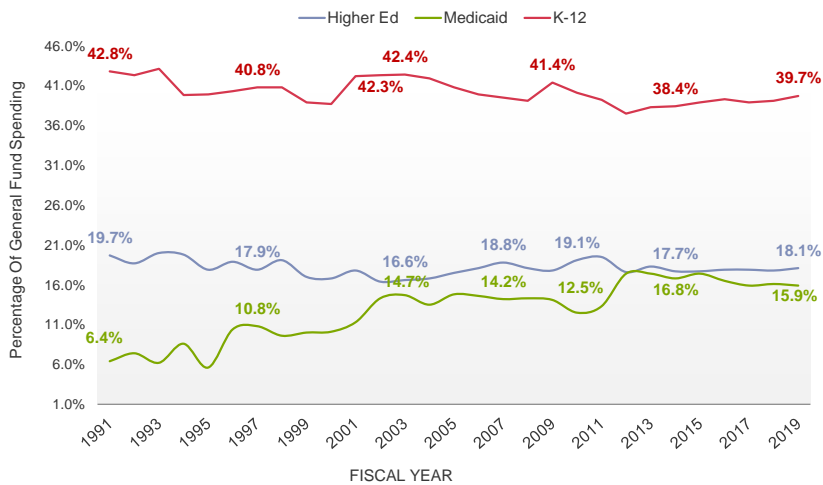
Medicaid spending is mostly for the elderly and people with disabilities.



SOURCE: KCMU/Urban Institute estimates based on data from FY 2011 MSIS and CMS-64. MSIS FY 2010 data were used for FL, KS, ME, MD, MT, NM, NJ, OK, TX, and UT, but adjusted to 2011 CMS-64.



28



Source: NASBO State Expenditure Report.

K-12, Higher Ed and Medicaid Spending as a % of General Fund

North Carolina



Pension Spending

- **Pensions** – 46 states and DC were able to report pension spending separately from OPEB spending
- **General Fund Pension Spending** – 34 states and DC were able to break out the General Fund portion
- **K-12 Education** – 29 states and DC explicitly budget amounts for K-12 pensions. 16 states do for K-12 OPEBs
- **Higher Education** – 26 states explicitly budget amounts for Higher Education pensions. 13 states do for Higher Education OPEBs

Source: NASBO



Pension Spending

Pension and OPEB Spending Median Annual Growth Rates FY 2014-2017		
Fiscal Year	General Fund	All Funds
2014	6.8%	8.5%
2015	5.3%	6.0%
2016	3.9%	3.1%
2017	4.3%	3.0%

Source: NASBO

Online Sales Tax





Online Sales Tax

Current Status of State Actions

- 42 of 45 Sales Tax States have statutes or regulations in place to require remote sellers to collect and remit – with small-seller thresholds
 - Not Yet: FL, KS, MO
 - Many states updated FY 20 revenue estimates with the impact of online sales tax revenues.
 - Averaged around 2% of sales tax totals.
- By July 2018: HI, OK, RI, PA, VT
 - Sept 2018: MS
 - Oct 2018: AL, IL, IN, KY, ME, MD, MA, MI, MN, NV, NJ, ND, WA, WI
 - Nov 2018: NC, SC, SD
 - Dec 2018: CO, CT
 - Jan 2019: GA, IA, NE, UT, WV
 - Feb 2019: WY
 - Later 2019: AR, AZ, CA, ID, LA, NM, NY, TN, TX, VA



Online Sales Tax

Marketplace Facilitator Laws – 33 States

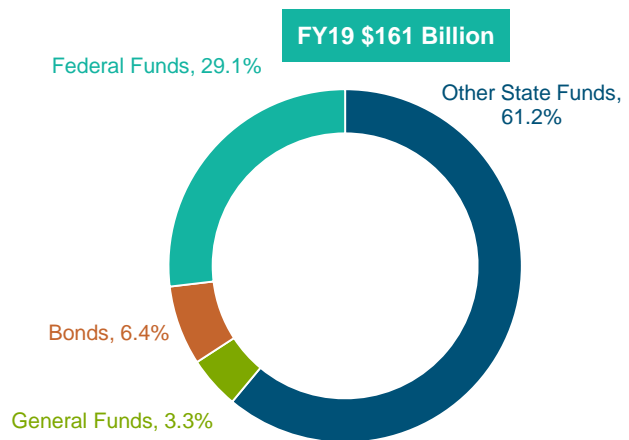
- Amazon, eBay, Etsy – examples of Marketplace Facilitators
 - Marketplace Facilitators “facilitates” the sale of a seller’s product through a marketplace for payment
 - States are moving quickly to require Marketplace Facilitators to collect and remit sales taxes from online sales
 - Relieves small businesses from the administrative burden of collecting and remitting sales taxes from their online sales.
- 2017 # of States passed these laws - 4
 - 2018 before Supreme Ct Decision – 4
 - 2018 after Supreme Ct Decision – 2
 - 2019 Legislative Session – 23
(As of Oct 2019: FL,GA,KS,LA,MI,MS,MO,NC,TN not yet)

Transportation

35

Transportation Expenditures By Funding Source

Estimated
Fiscal 2019



Source: NASBO State Expenditure Report

36

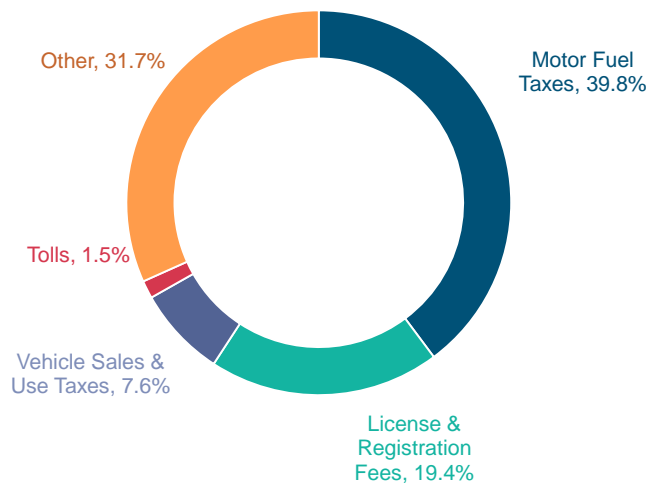
Transportation Fund Revenue Sources Fiscal 2019

46 States have a Dedicated Fund for Transportation

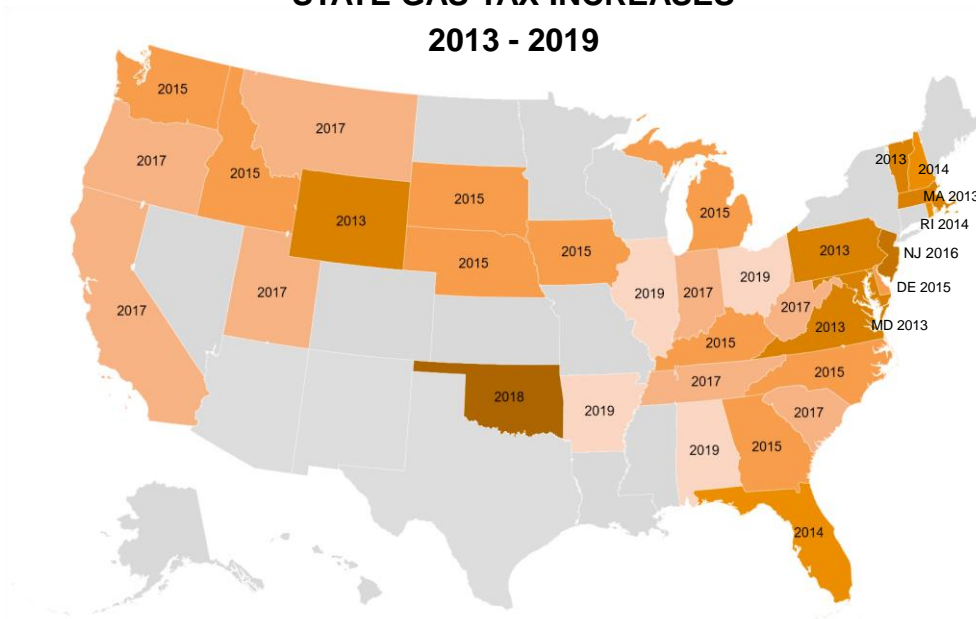
Since 2013, 33 states and DC have increased their state gas taxes.

22 states & DC have indexed or variable-rate

27 States have fees on electric vehicles

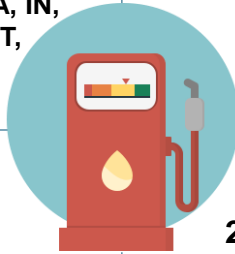


STATE GAS TAX INCREASES 2013 - 2019



Gas taxes raised in 33 states since 2013

-3 states in 2019 (AL, AR, OH)
-1 state in 2018 (OK)
-8 states in 2017 (Rate increases: CA, IN, MT, OR, SC, TN. Formula change: UT, WV)



Road Usage Charges

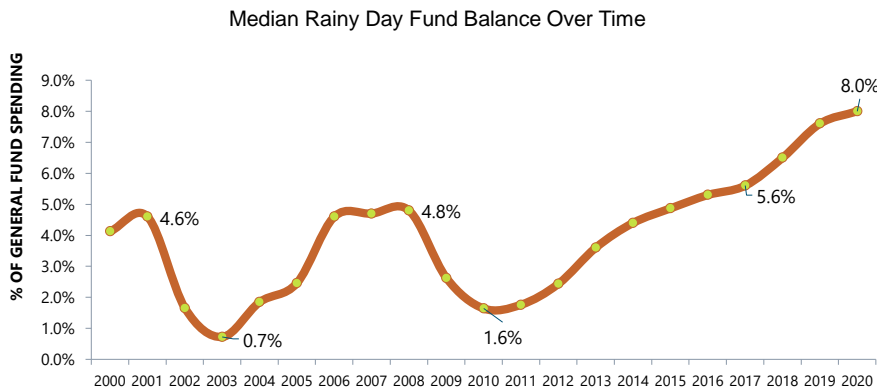
The next frontier of transportation resources

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

27 States now have electric vehicle fees

2016 – 9% of fleet were electric
2021 – 12% of fleet (est'd)

State Rainy Day Funds



Most States Continue to Strengthen Rainy Day Funds

37 States Report Increases in Fiscal 2019; 32 States Forecast Increases in Fiscal 2020

Federal Outlook and Impact on States



Federal Uncertainty

The Affordable Care Act, especially Medicaid

Per capita caps, Expansion, Flexibility, ACA struck down

Tax Policy Considerations

Municipal debt, border-adjusted corporate tax, state/local tax deductibility

Infrastructure

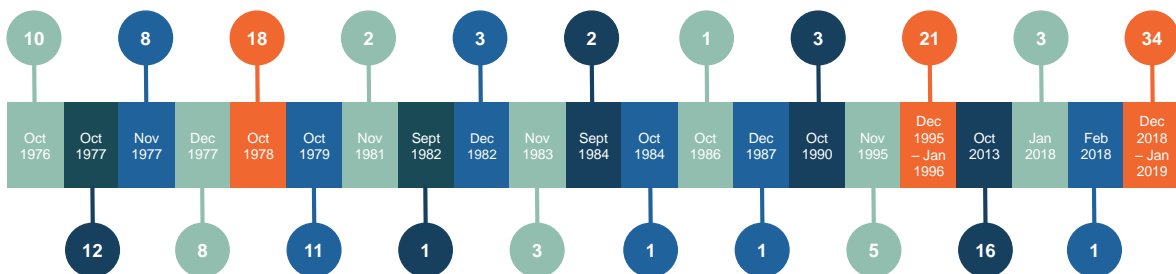
Infrastructure Week?

The Fiscal 2020 Budget

What happens after December 20?



FEDERAL GOVERNMENT SHUTDOWNS AND THEIR DURATION IN DAYS 1976 - 2019

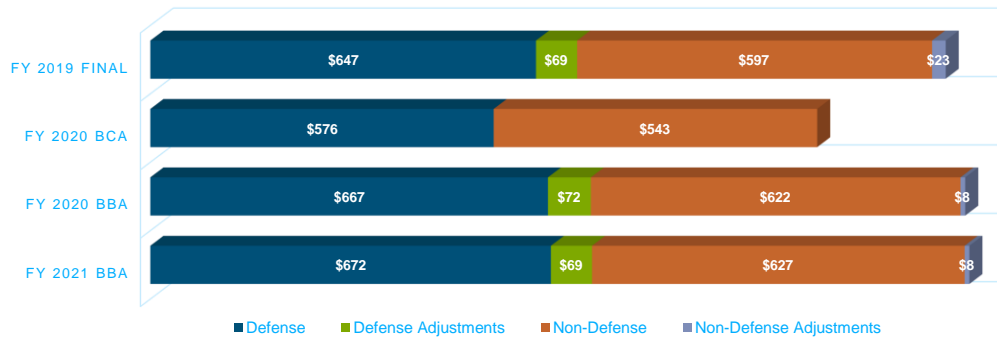


Source: From Congressional Research Service reports



FY 2020: How Did We Get Here?

DISCRETIONARY SPENDING (BILLIONS)



Source: Federal Funds Information for States, House Budget Committee



FY 2020: What Happens Next?

- Twelve appropriations bills: House and Senate different totals, need to reconcile.
- Continuing resolution (CR) funding the government through December 20.
- CR includes several program extensions: National Flood Insurance Program, HHS programs, TANF, and delays cuts to Disproportionate Share Hospitals.

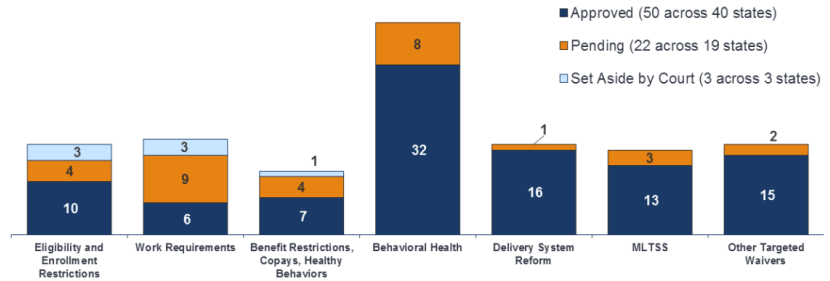


Beyond the Budget: Regulatory Changes

Medicaid Waivers

- Section 1115 of the Social Security Act provides authority for the Department of Health and Human Services to grant Medicaid waivers.
- Trump administration issued new waiver guidance in November 2017 and January 2018, addressing work requirements and no longer requiring increased coverage.

Landscape of Approved vs. Pending Section 1115 Medicaid Demonstration Waivers, October 9, 2019



NOTES: Some states have multiple approved and/or multiple pending waivers, and many waivers are comprehensive and may fall into a few different areas. Therefore, the total number of pending or approved waivers across states cannot be calculated by summing counts of waivers in each category. Pending waiver applications are not included here until they are officially accepted by CMS and posted on Medicaid.gov. For more detailed information on each Section 1115 waiver, download the detailed approved and pending waiver tables posted on the tracker page. *MLTSS* = Managed long-term services and supports.



Landscape of Approved vs. Pending Section 1115 Medicaid Demonstration Waivers, October 9, 2019



Beyond the Budget: Upcoming Census

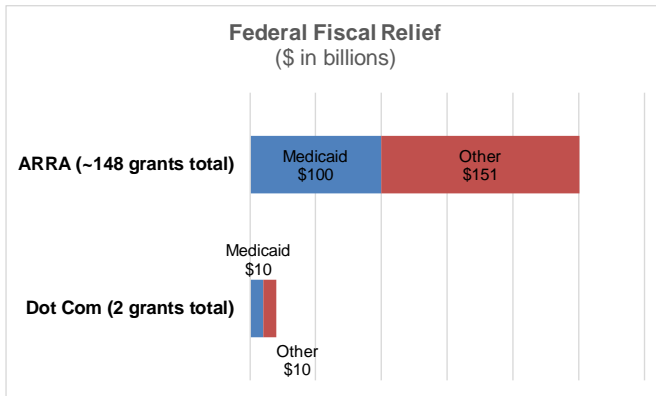
- Next decennial Census will take place in 2020.
 - The accuracy of each state government's 2020 Census count will affect its allocation of federal funding.
 - 36 states and D.C. have Complete Count Commissions or Committees.
 - 23 states have allocated over \$300 million for Census efforts.
- (Source: National Conference of State Legislatures)
- Census-guided programs:
 - Federal Medical Assistance Percentage (FMAP)
 - Highway Planning and Construction
 - Special Education
 - Women, Infants and Children
 - TANF
 - CHIP
 - Foster Care
 - LIHEAP

For more information on how the Census affects federal funds to states, visit [Counting for Dollars 2020](#) at the George Washington Institute of Public Policy.





Past is Prologue? Lessons Learned from the Great Recession



Source: Federal Funds Information for States

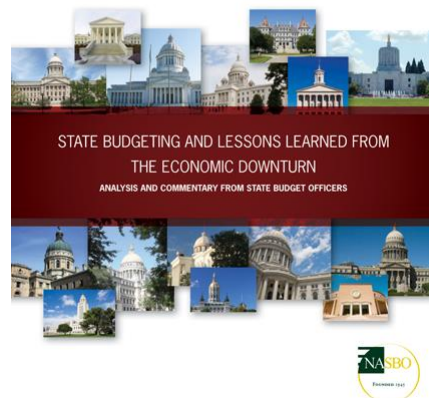
Key Findings and Recommendations

- In times of fiscal crisis, federal aid to states should continue to be directed through pre-existing payment systems.
- The timing of federal aid can be improved.
- The Recovery Act greatly helped to alleviate state fiscal troubles in the recession.
- But it also complicated future budgets.

NASBO Publication: Lessons Learned From the Economic Downturn

- Released in Summer 2013, this report highlights and discusses lessons learned by budget officers during the Great Recession.
- This report integrates budget officer commentary, state examples and fiscal trend analysis to provide a better understanding of state budget actions taken during the recession and what lessons were learned.

NATIONAL ASSOCIATION OF STATE BUDGET OFFICERS | SUMMER 2013





www.nasbo.org

National Association of State Budget Officers | **NASBO**

