State Budget & Tax Actions: Preliminary Results

NCSL Budgets & Revenue Committee
Overview

- Fiscal situation across the states is largely stable.
- Revenue growth remains steady but slow.
- Concern about the uncertainty of federal policy changes.
- Medicaid and other growing healthcare costs continue to challenge state budgets.
General Fund Revenue Growth

Source: NCSL survey of legislative fiscal offices, summer 2017.
General Fund Expenditure Growth

Source: NCSL survey of legislative fiscal offices, summer 2017.
State Year-End-Balances FY 1981 to FY 2018 (projected)

Source: NCSL survey of legislative fiscal offices, summer 2017.
Year-End Balance as a Percentage of State Spending

Source: NCSL survey of legislative fiscal offices, summer 2017.
FY 2018 Projected Tax Revenue Growth

Source: NCSL survey of legislative fiscal offices, summer 2017.
Summary of the State Fiscal Situation

- Largely described as stable.
- Revenue growth remains modest in most states.
- Sales and use taxes have been lackluster.
- Some improvement for energy related revenues.
Fiscal Challenges

- Budgeting for the uncertainty of Federal changes to healthcare and tax reform.
- Increasing cost of healthcare and Medicaid.
- Volatile and weak revenue growth.
- Preparing for potential shortfalls.
Questions?

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Resources
Fiscal Affairs Homepage:
http://www.ncsl.org/fiscal
Average State General Fund Expenditures

- **1992**
  - K-12: 32%
  - Higher Education: 13%
  - Corrections: 5%
  - Medicaid: 11%
  - Other: 39%

- **2004**
  - K-12: 37%
  - Higher Education: 11%
  - Corrections: 6%
  - Medicaid: 16%
  - Other: 30%

- **2016**
  - K-12: 36%
  - Higher Education: 10%
  - Corrections: 5%
  - Medicaid: 22%
  - Other: 27%

Source: NCSL survey of legislative fiscal offices.
State Tax Revenue Since the Start of the Recession

Cumulative % change since start of recession

Years since start of recession

Sources: Rockefeller Institute of Government
Notes: 4-quarter average of inflation-adjusted tax revenue. Data are shown only until the start of the next recession.
Net State Tax Changes by Year of Enactment
1995-2017

Billions of dollars (left axis)
Percent of previous year's collections (right axis)
FY 2018 Net State Tax Changes as a Percentage of 2016 Tax Collections

- Increase greater than 5%: 3
- Increase between 1-4.9%: 5
- No Significant Tax Changes: 26
- Decrease greater than 1%: 1
- Not Available: 20
State Tax Actions Highlights 2017

❖ Illinois- 13.1% increase over 2016 Tax Collections
  ▪ Increased PIT rate from 3.75% to 4.95% raising $4.5 billion in FY 2018 revenue
  ▪ Increased CIT rate from 5.25% to 7%, raising $500 million in FY 2018 revenue

❖ Kansas- 7.2% increase over 2016 Tax collections
  ▪ Reformed Personal income tax after 2013 reforms
    ▪ Repealed the non-wage business income exemption, increasing FY 2018 revenues by $270 million
    ▪ Reinstated a third income tax bracket, increasing FY 2018 revenue by $320 million

❖ Motor Fuels Tax Increases
  ▪ California, Indiana, Oregon, South Carolina, Tennessee, and West Virginia
    ▪ Increased motor fuels tax to fund road and infrastructure improvements.