Top 5 in 2017: Fiscal and Economic Development

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CSG Director of Fiscal and Economic Development Policy Jennifer Burnett outlines the top five issues in fiscal policy for 2017, including fiscal uncertainty, public employee retirement, health care costs, data- and evidence-based decision-making, and labor markets.

Navigating Uncertain Fiscal Conditions

About one out of every three dollars of state revenue comes from the federal government. But with a new Republican-controlled White House and Congress, the future of that funding is unclear, and any kind of uncertainty can make it difficult for states to complete budget proposals. Possible volatility in federal funding streams comes on top of a slow economic recovery that has impacted states’ bottom lines. Revenues are expected to continue their slow growth in 2017 and state fiscal woes aren’t going away. All state revenue sources have experienced weak growth in the last year, with some sources (corporate income taxes, for example) even seeing declines. More than half of states had shortfalls compared to projected revenues in fiscal year 2016 and weak revenue growth is driving projected deficits in a majority of states for fiscal 2017. That’s the highest number of states with a reported shortfall since the Great Recession hit.¹

Public Employee Retirement

More than a decade ago, analysts were predicting the next big challenge for state governments: The mass retirement of baby boomers. Then the Great Recession hit and baby boomers stayed put, delaying retirement until more prosperous times returned. With a strengthened economy, baby boomers are resuming their retirement plans. This trend is exacerbated by fiscal troubles coupled with continued concerns over the fiscal stability of state public retirement systems, less than stellar market returns for state public retirement systems, and a nearly $1 trillion funding gap,² and means that pensions will remain a significant area of concern for states in 2017.

Health Care Costs

Health care continues to be a growing and substantial part of state spending. Since the economic downturn, Medicaid has risen as a percentage of total state spending, from 20.5 percent in fiscal year
2008 to an estimated 29 percent in fiscal year 2016. With the fate of the Affordable Care Act up in the air, states may be facing a significant shift in how Medicaid is funded and will be tasked with prioritizing already stretched budgets to deliver health care services to residents.

**Data- and Evidence-Based Decision Making**

The slower than usual economic recovery has placed a strain on state budgets, making every dollar count. At the same time, state leaders are placing increasing emphasis on collecting and using good data to make decisions about where those dollars go and to set priorities. Using data to inform decision-making can allow state governments to make more informed budget, policy and operational decisions that improve outcomes for their constituents and better steward taxpayer dollars.

**Labor Markets**

While labor market measures, such as the unemployment rate and median household income, have seen gains, those gains have been moderate and vary significantly across states. For example, between 2014 and 2015, real median household income grew by more than 5 percent. Even with those significant gains, real median household income remains below the peak reached in 1999. That means states will continue looking for ways for the public, private and academic sectors to work together more efficiently to create and sustain high-paying jobs and foster an environment conducive to entrepreneurial investment. Workforce development strategies will increasingly include worker re-training and apprenticeship programs and leverage federal programs like the Workforce Innovation and Opportunity Act.

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