State fiscal conditions were the focus of several recent national studies — here are findings for the Midwest.

1. Amid strong revenue growth, states are saving more, spending moderately

Several encouraging signs marked the end of fiscal year 2018 and the start of FY 2019 in most Midwestern states, according to a December report from the National Association of State Budget Officers.

NASBO’s 50-state study — “The Fiscal Survey of States” — found that every state in the Midwest met or exceeded its FY 2018 estimates for tax collections (see map). During the first part of FY 2019, too, states such as Kansas, Nebraska and North Dakota were reporting higher-than-expected revenue growth. All other Midwestern states reporting early results for FY 2019 said that revenue estimates were on target.

Nationwide, led by a jump in personal-income tax collections, state general-fund revenue rose by 6.4 percent in FY 2018, the fastest rate of growth in five years. Most of the Midwest’s states reported increases of between 1 percent and 5 percent. (Illinois and Kansas had double-digit increases between FY 2017 and 2018, due in part to legislated tax increases.)

States remain fiscally cautious even with this stronger revenue picture, the NASBO report concludes: Spending growth is moderate by historical standards (it is estimated to be 4.3 percent in FY 2019), with states instead “bolstering their reserves to prepare for the next downturn” and to “seek long-term structural balance.”

At the end of FY 2018, among the 50 U.S. states, the median balance for rainy day funds as a share of general fund expenditures was 6.4 percent. Six states in the Midwest reported balances higher than this U.S. median: Indiana, Iowa, Michigan, Minnesota, Nebraska and South Dakota. In FY 2010, the median balance for state rainy day funds was 1.6 percent.

A separate end-of-the-year NASBO study (“State Expenditure Report”) found that state spending eclipsed $2.0 trillion for the first time in FY 2018. Two areas, K-12 education and Medicaid, consume more than half of what states spend in their general funds (see table).

2. Federal share of overall state revenue is on the rise, due largely to Medicaid

Federal dollars have long made up a significant portion of overall state revenue, and that trend is continuing, according to a November 2018 analysis by the Pew Charitable Trusts. In fiscal year 2016 (the last year in which federal data were available), the federal share of state revenue was 32.6 percent. That is the third-highest level since at least 1961, Pew researchers say. The highest levels were in 2010 and 2011, when states were digging out of fiscal holes from the Great Recession and using money from a federal economic stimulus.

The more recent uptick is the result of additional federal assistance to states for health care, particularly the expansion of Medicaid. In the Midwest, the percentage of state revenue from federal funds in FY 2016 ranged from a low of 23.0
percent in Kansas to a high of 35.8 percent in Indiana. (See map for federal share in all of the Midwestern states.)

3. Eight Midwestern states get ‘A’ grades in evaluation of budget practices

Are states prepared to handle the next economic downturn and avoid a fiscal crisis? That is the focus of a December report of the nonpartisan Volcker Alliance, which grades states in five areas: budget maneuvers, legacy costs, reserve funds, budget forecasting and transparency. Eight Midwestern states received “A” grades in at least one of these five categories.

- Indiana, Iowa, Minnesota and Nebraska were singled out for not relying on various fiscal maneuvers to balance their budgets. These practices include using debt to pay for recurring expenses or transferring money from special funds to the general fund. These practices may help get budgets passed in the short-term, alliance researchers say, but they are unsustainable and can indicate deeper fiscal problems.
- According to the alliance, “meeting promised public employee pension and other retirement costs remains perhaps the most formidable challenge facing many states.” Iowa, Nebraska, South Dakota and Wisconsin stand out for being in strong positions to meet these obligations. Wisconsin’s pension system is 100 percent funded, the alliance study found, while South Dakota is the only U.S. state where the system is “overfunded” (exceeds 100 percent).
- Indiana, Michigan, Minnesota and North Dakota received “A’s” for the strength of their rainy day funds, as well as the rules that govern contributions to them. Ohio also is highlighted in the report for “building its rainy day fund even though revenues have been below expectations.”

4. Nebraska, South Dakota are top-ranked states in review of fiscal conditions

Nebraska and South Dakota ranked first and second in the nation, respectively, in a national study of state fiscal conditions. Conducted by researchers at the Mercatus Center at George Mason University, the study used five indicators of short- and long-term fiscal solvency. According to the center, those two Midwestern states stand out for the amount of the cash they have on hand to cover short-term obligations as well as their low levels of long-term debt and unfunded pension liabilities.

The center’s report also noted how tax cuts made between 2012 and 2017 have affected states differently. During this period, Indiana legislators cut corporate and income tax rates, but accompanied these reductions with a broadening of the tax base (by eliminating some tax incentives). The result: No negative effect on the state’s long-term fiscal solvency. In contrast, the center says, Kansas’ fiscal position was weakened during this period because its tax cuts were not offset by base-broadening or spending-reform measures.
Source URL:
http://knowledgecenter.csg.org/kc/content/state-fiscal-conditions-were-focus-several-recent-national-studies-%E2%80%94-here-are-findings

Links