Current Economic and Fiscal Situation
State Fiscal Overview

- Fiscal 2016 will likely mark the 6th consecutive annual increase in general fund spending and revenues.

- Signs of fiscal distress have subsided and the fiscal environment for most states indicates continued stability and slow growth.

- Some states are facing difficult budget environments due to a variety of issues.

- Fiscal improvements over the last several years have still not returned states to normal patterns of growth.
Slow Budget Growth Continues

General Fund Expenditure Growth (%)

*38-year historical average annual rate of growth is 5.5 percent
Source: NASBO Spring 2015 Fiscal Survey of States

*Fiscal 2015 numbers are estimated; fiscal 2016 are recommended
Fiscal 2016 Spending Projected to Increase by 3.1%

General Fund Spending: FY 2007-FY 2016

Source: NASBO Spring 2015 Fiscal Survey of States; Fiscal 2016 numbers are recommended.

*Aggregate spending levels would need to total $780 billion in fiscal 2015 to be equivalent with real 2008 spending levels.
Midyear Budget Cuts Relatively Minimal in Fiscal 2015 at $2B

Enacted Budget Cuts Made After the Budget Passed

Source: NASBO Spring 2015 Fiscal Survey

*Fiscal 2015 midyear cuts are ongoing
States Recommend $3B in Net Tax and Fee Increases for Fiscal 2016

Enacted State Revenue Changes, FY 1980 to FY 2016

($ In Billions)

Fiscal Year

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State Balance Levels Declining, Partly Due to Oil Prices

Total Year-End Balances, Fiscal 1980 to Fiscal 2016

* Fiscal 2016 totals are recommended

Source: NASBO Spring 2015 Fiscal Survey

**37-year historical average is 6.2%
Background on State Spending Trends
Total State Expenditures by Function
Estimated Fiscal 2014

- Medicaid: 25.8%
- Elementary & Secondary Education: 19.5%
- Higher Education: 10.1%
- Public Assistance: 1.4%
- Corrections: 3.1%
- All Other: 32.4%

Source: NASBO State Expenditure Report
State Funds* Expenditures by Function
Estimated Fiscal 2014

- Medicaid 15.3%
- Elementary & Secondary Education 24.2%
- Transportation 6.8%
- Corrections 4.5%
- Higher Education 12.9%
- Public Assistance 0.9%
- All Other 35.4%

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

Source: State Expenditure Report
General Fund Expenditures by Function
Estimated Fiscal 2014

Medicaid: 19.1%
Elementary & Secondary Education: 35.0%
Public Assistance: 1.4%
Higher Education: 9.4%
Corrections: 6.8%
All Other: 27.4%
Transportation: 0.9%

Source: NASBO State Expenditure Report
Medicaid Spending & Enrollment
Medicaid Outlook for FY 2016

- Growth in **state** spending on Medicaid projected to slow in fiscal 2016 – 3.1% (compared to 5.2% in fiscal 2015)

- **Total** Medicaid spending expected to grow by 5.2% in fiscal 2016 (compared to 18.2% in fiscal 2015)

- Medicaid enrollment projected to grow by 4.6% in fiscal 2016

- States cited numerous long-term concerns
  - Growing cost of pharmaceutical drugs
  - Funding the Medicaid state match in 2017 and beyond (for expansion states)

*Source: NASBO Spring 2015 Fiscal Survey of States*
Medicaid Outlook for FY 2016 and Beyond

- Growth in Medicaid spending exceeding overall economic/revenue growth
- Projected annual average growth rate of Medicaid expenditures from 2014 to 2023 of 6.2 percent exceeds the projection of the average annual gross domestic product (GDP) growth of 4.9 percent
- Scrutiny over waivers from Congress and GAO
- Uncertainty over costs—new enrollee costs, role of pharmaceuticals, federal government actions, impact from delivery and payment changes over time
- Impact of Medicaid expansion decisions
Outlook
State Fiscal Outlook

- 42 states recommended general fund spending increases in FY 2016, but growth still below average
- Revenue growth projected to remain slow in fiscal 2016
- Uncertainty remains concerning federal spending decisions and ACA implementation
- Tough competition for general funds
- Dealing with infrastructure, long-term liabilities
- States will continue to make some painful choices
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