



> **December 2, 2016**

STATE BUDGET OUTLOOK

**Higher Education Government
Relations Conference**

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**CURRENT FISCAL SITUATION
FOR STATE GOVERNMENTS**

Photo by Jake McGuire

Fiscal 2017 marks the **7th consecutive annual increase** in general fund spending and revenues

Budget environment for most states indicates continued **stability and modest growth**



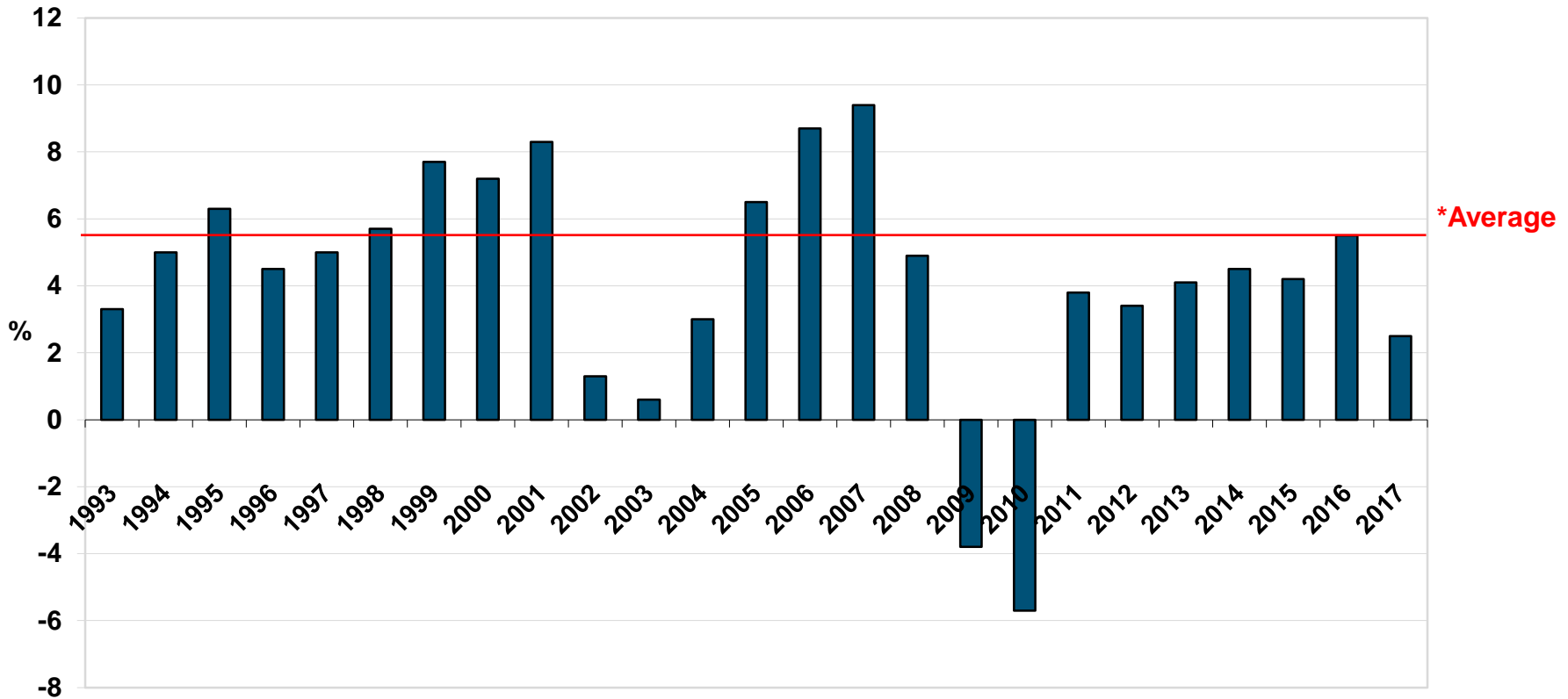
State Fiscal **OVERVIEW**

Fiscal progress has been **uneven across states**, with some facing difficult budgetary challenges (energy states especially)

With long-term spending pressures and slower revenue growth expected, **FY 2017 budgets are cautious**

MODEST BUDGET GROWTH CONTINUES

General Fund Expenditure Growth (%)



*38-year historical average annual rate of growth is 5.5 percent

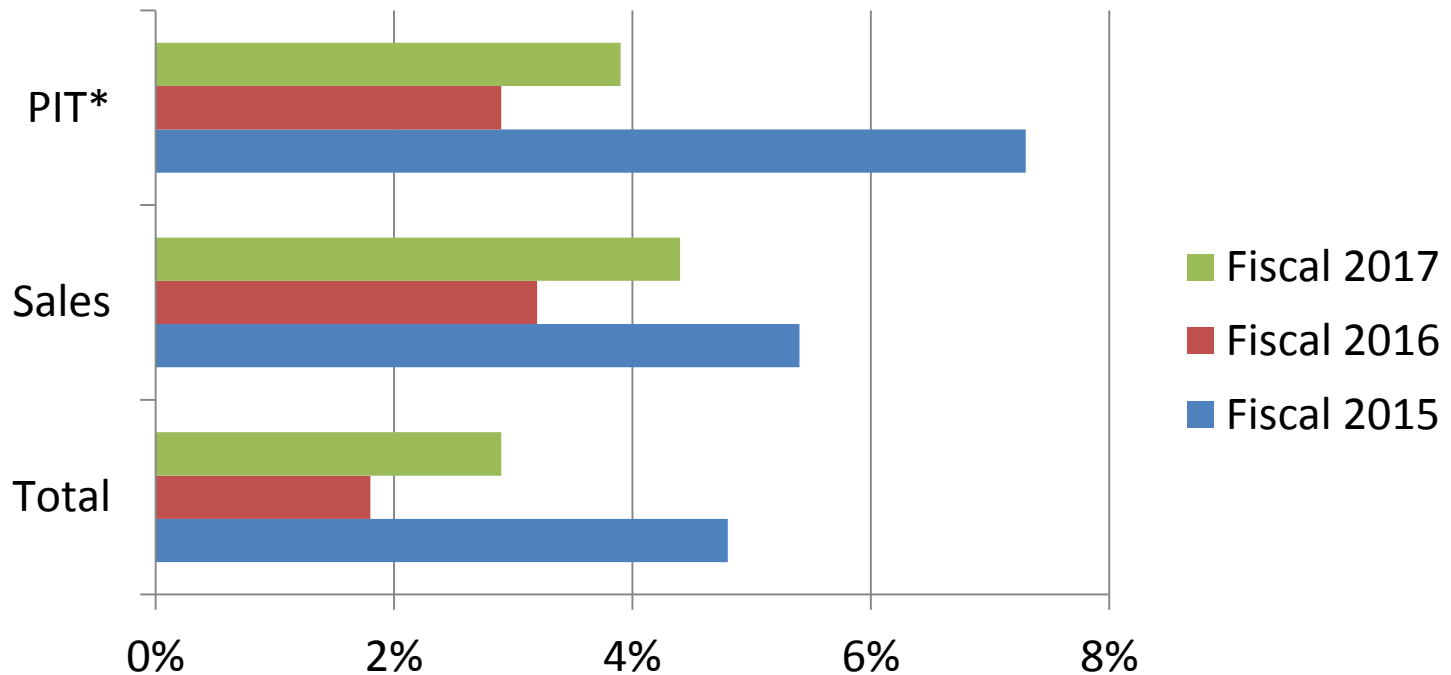
Source: NASBO Spring 2016 Fiscal Survey of States

Fiscal 2016 median growth was 3.8 percent

Fiscal 2017 numbers are recommended

➤ AFTER STRONG PERFORMANCE IN FISCAL 2015, REVENUE GROWTH SLOWS IN 2016 AND 2017

Percent Change in General Fund Revenues By Year and Tax Type



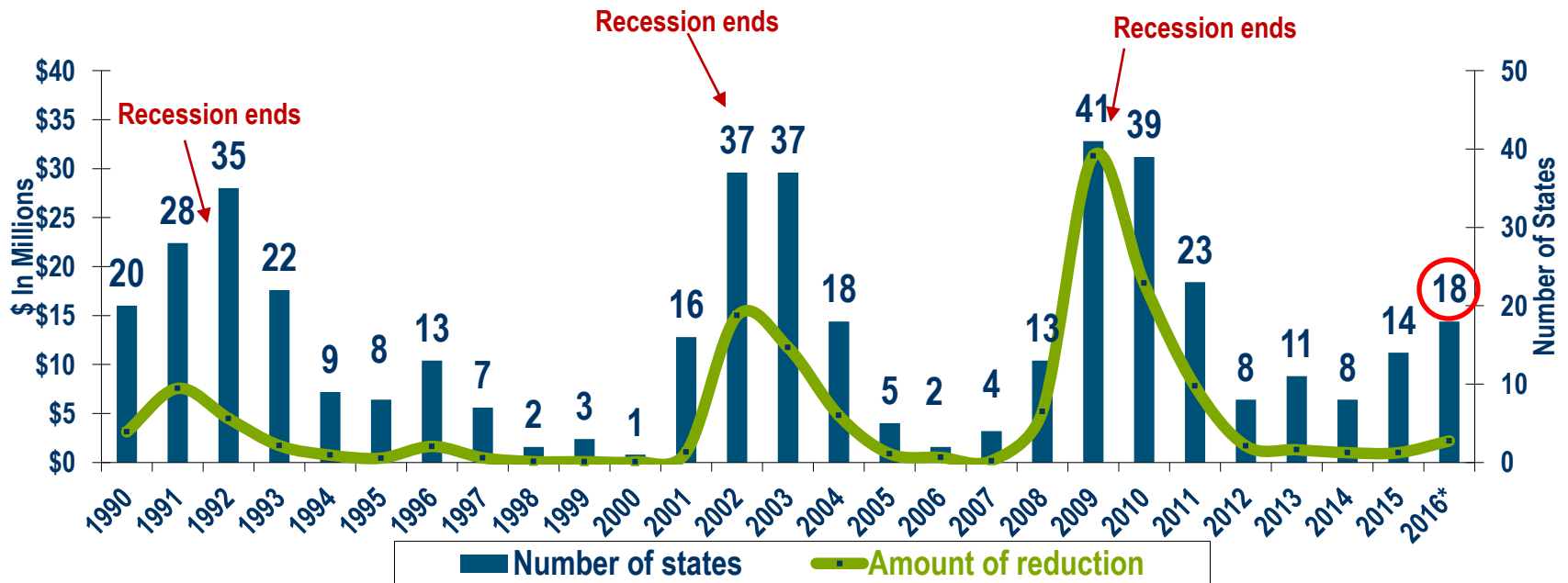
*PIT = personal income tax

Source: NASBO State Expenditure Report (fiscal 2015 actual and fiscal 2016 estimated) and Spring 2016 Fiscal Survey of States (fiscal 2017 recommended budgets).

MIDYEAR BUDGET CUTS – FY 2016

18 STATES AS OF SPRING 2016

Enacted Budget Cuts Made After the Budget Passed



Source: NASBO Spring 2016 Fiscal Survey

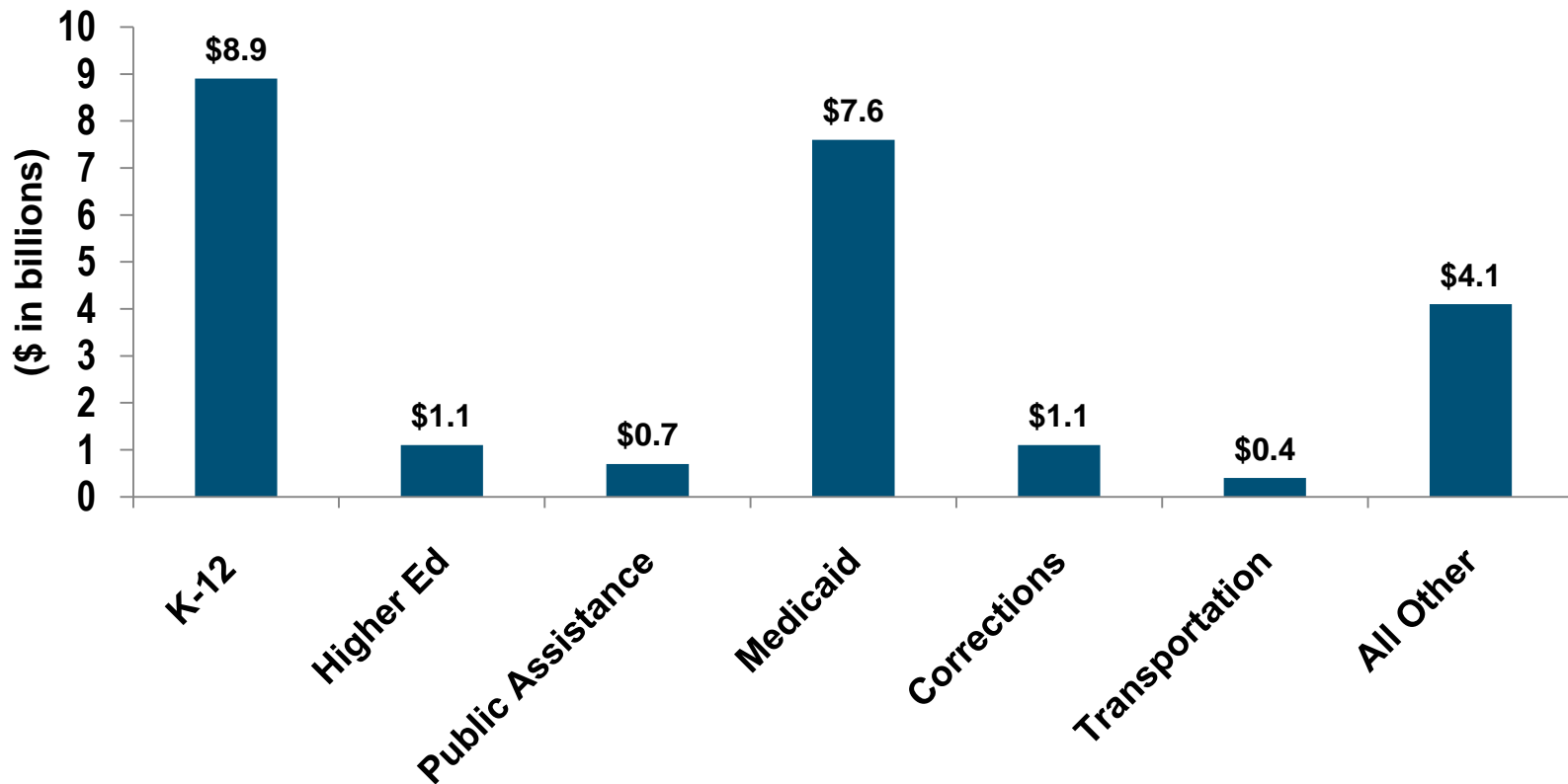
*Fiscal 2016 midyear cuts were ongoing at the time of data collection. More complete data will be available in NASBO Fall 2016 Fiscal Survey.



GOVERNORS' BUDGETS ARE CAUTIOUS FOR FISCAL 2017

DIRECT MOST NEW DOLLARS TO K-12 AND MEDICAID

FY 2017 Recommended General Fund Spending Changes by Category



Source: NASBO Spring 2016 Fiscal Survey



GENERAL FUND REVENUES RECENT DEVELOPMENTS

- > 19 states reported fiscal 2016 revenues below budget projections in NASBO *Spring Fiscal Survey of States* (data collected in March 2016)
- > Spring quarter (last quarter of fiscal 2016 for 46 states) resulted in a decline in both personal income tax and corporate income tax collections
 - > weak stock market performance in 2015
- > Oil producing states in particular are facing significant challenges
- > Early signs show sluggish revenue growth trend continuing in current fiscal year (fiscal 2017)
 - > Collections coming in below projections in a number of states
- > 47 states developing budgets for next year/biennium, with many facing tighter budget constraints

Source: *Spring 2016 Fiscal Survey of States & Updated Reports*

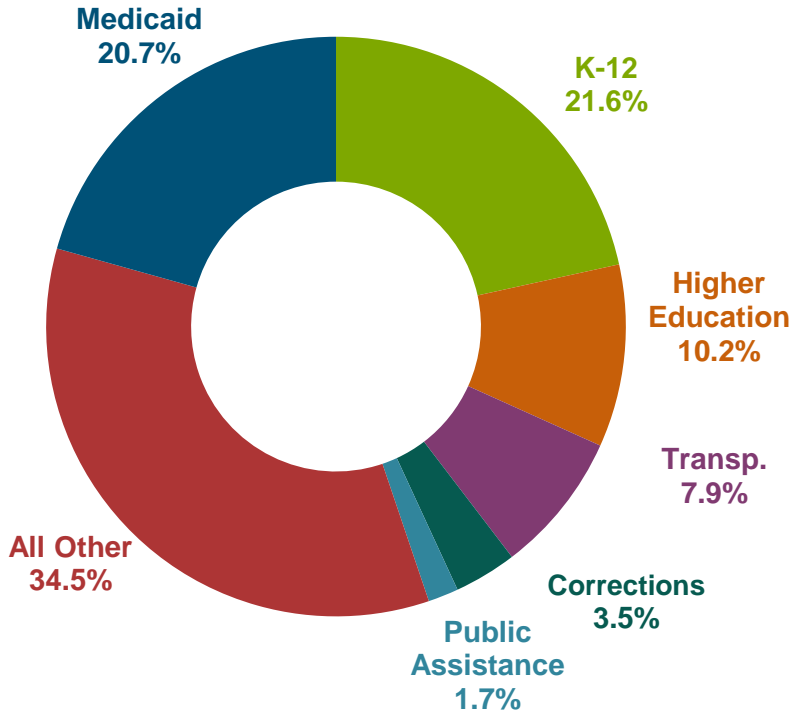


**BACKGROUND ON STATE
SPENDING TRENDS**

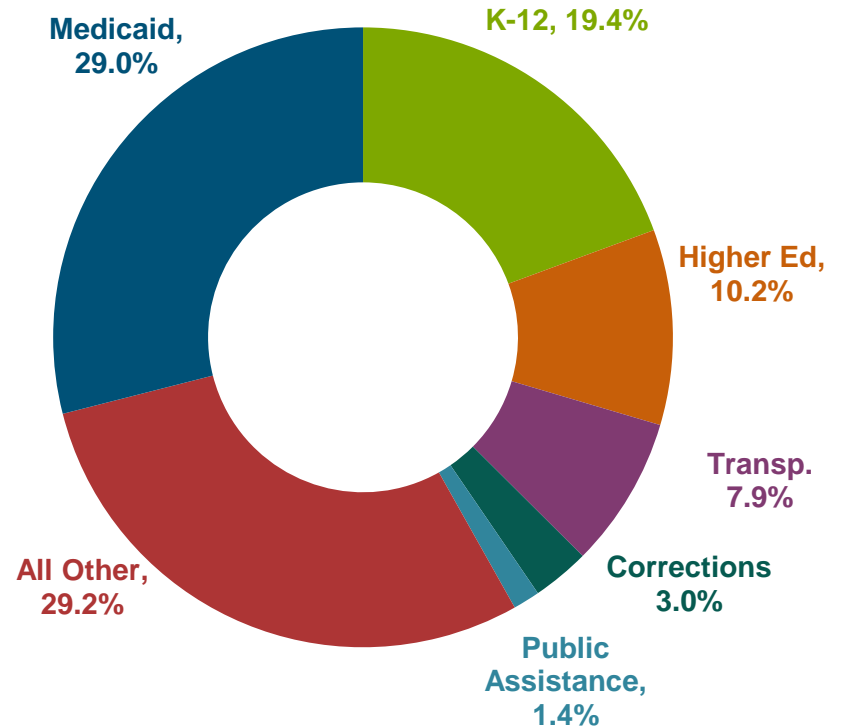
Photo by Jake McGuire

> TOTAL STATE EXPENDITURES BY FUNCTION

FISCAL YEAR 2008
\$1,479 Billion

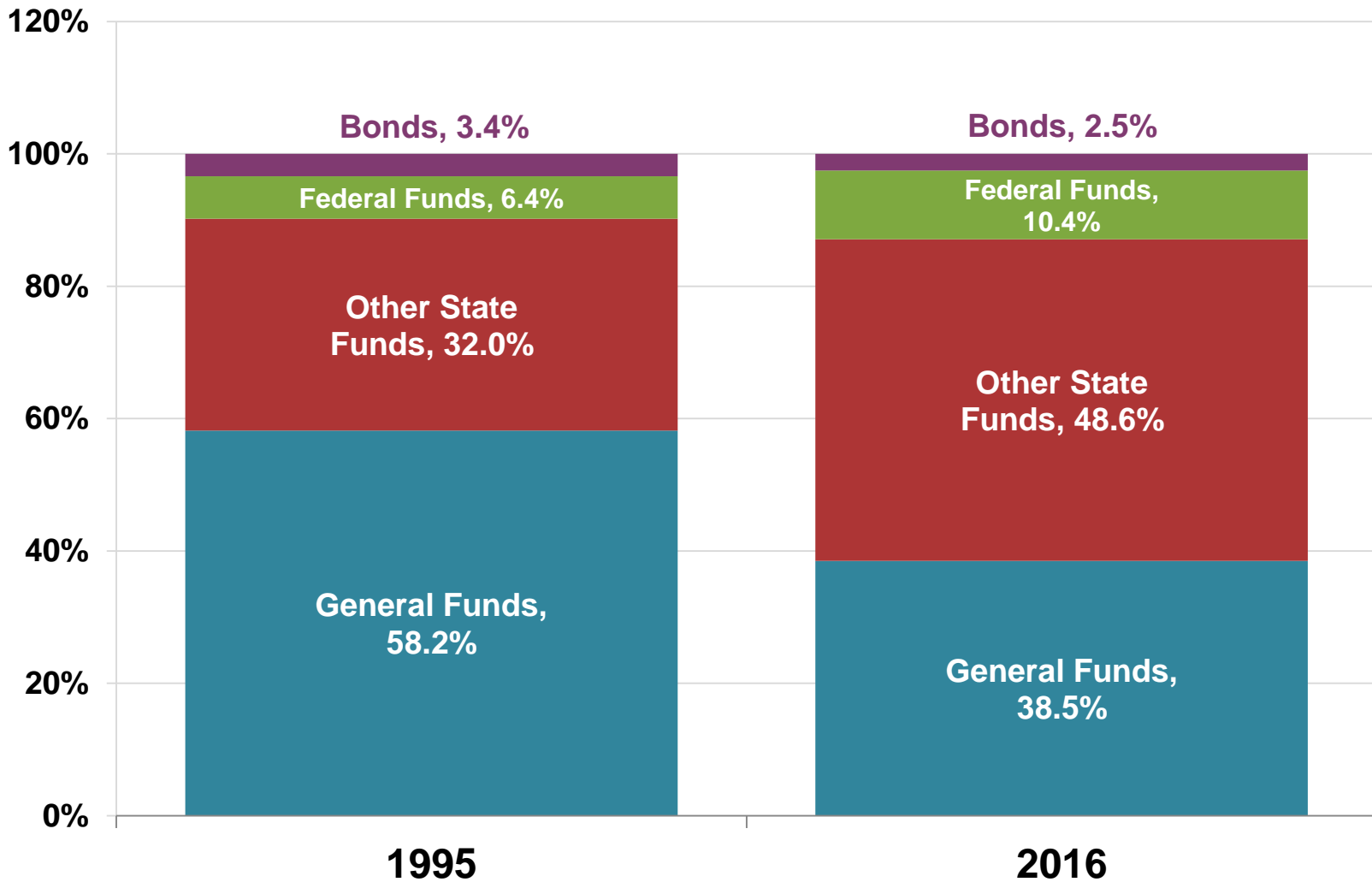


FISCAL YEAR 2016
\$1,928 Billion



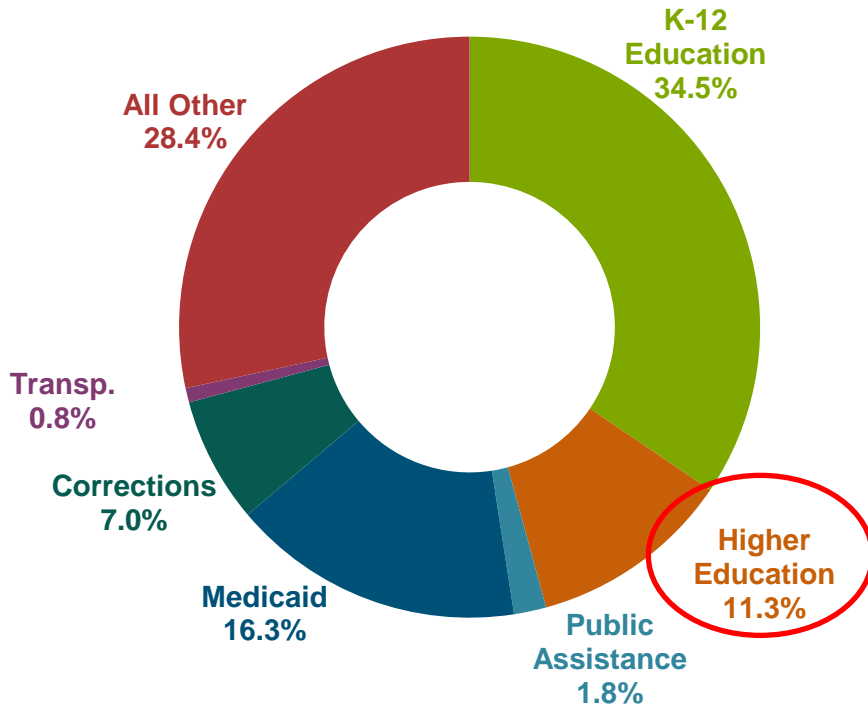
Total state expenditures include all federal and state funds. Percentages based on 50-state totals.

CHANGING COMPOSITION OF HIGHER ED FUNDING

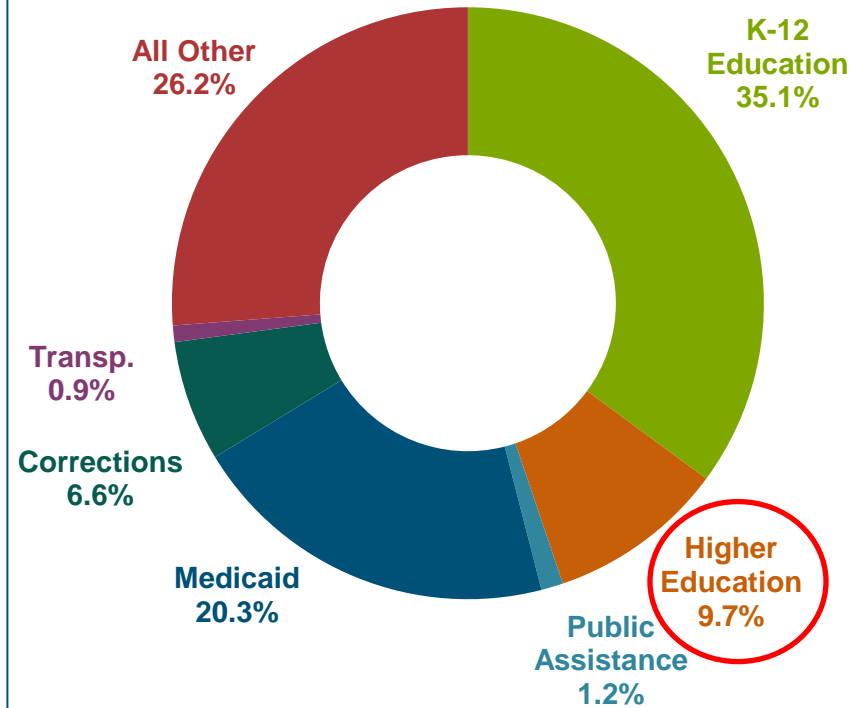


GENERAL FUND EXPENDITURES BY FUNCTION

FISCAL YEAR 2008
\$687 Billion

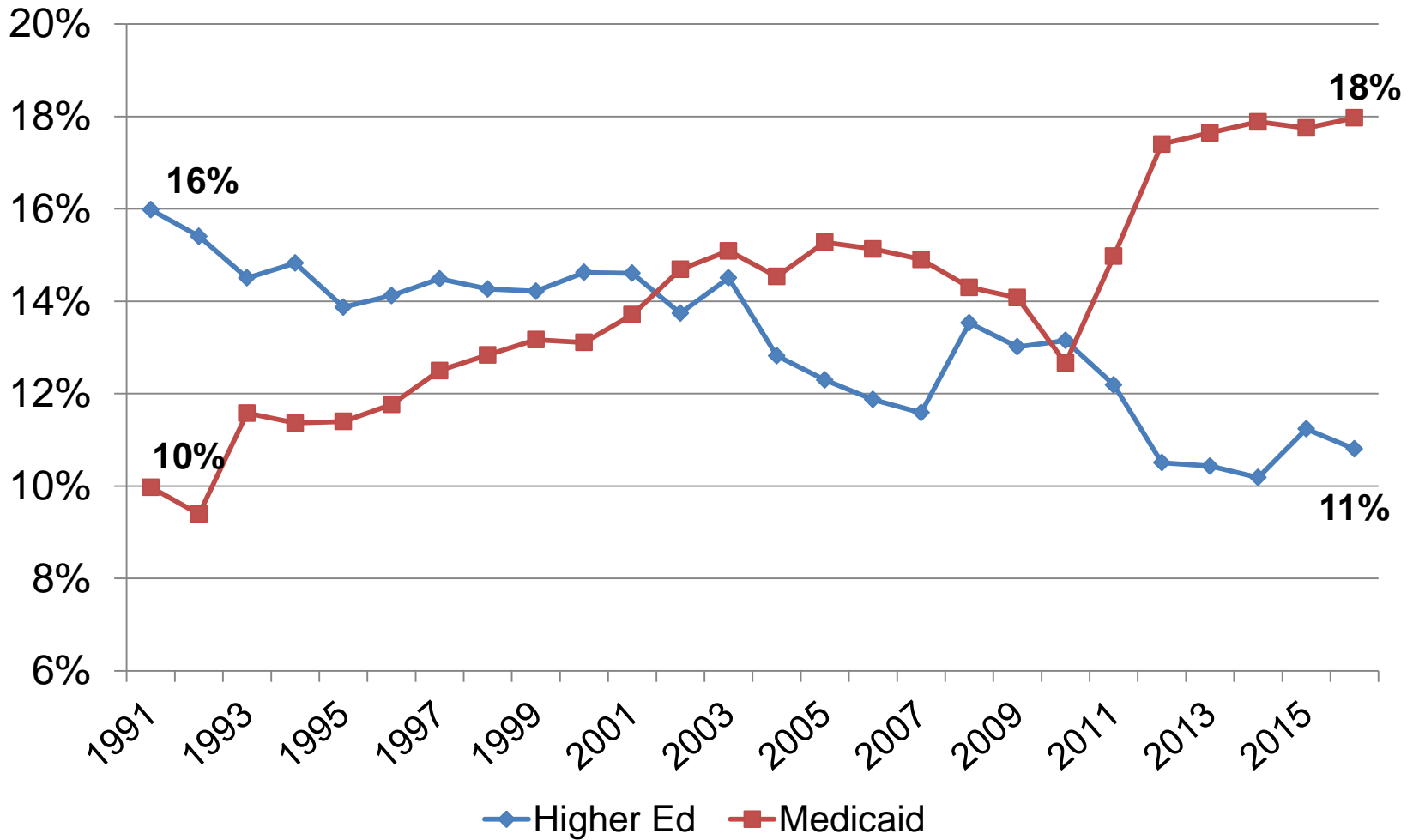


FISCAL YEAR 2016
\$779 Billion



Percentages based on 50-state totals.

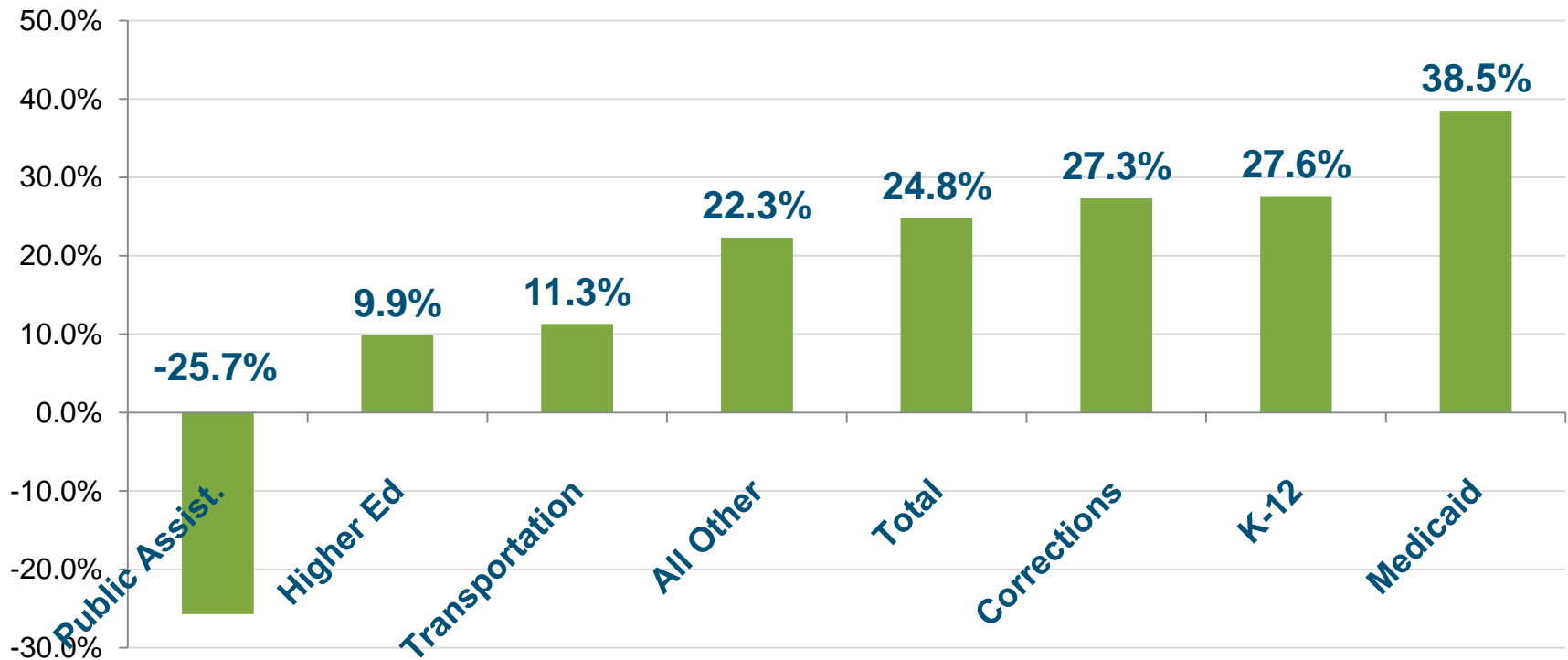
Higher Ed's Share of General Fund Has Declined Over Time, While Medicaid's Has Risen



Percentages represent median shares for each year, based on 50-state data.

GENERAL FUND PERCENTAGE GROWTH IN SPENDING CATEGORIES OVER 10 YEARS

Percentage Growth in Spending Categories
Between Fiscal 2006-Fiscal 2015 (General Funds)



Source: NASBO State Expenditure Report



> OUTLOOK

Photo by Jake McGuire

> MAJOR CHALLENGES TO STATE BUDGETS LOOKING AHEAD

Continued modest revenue growth and increasing spending pressures

Rising Medicaid and other health care costs

Pent-up demand due to prior budget cuts

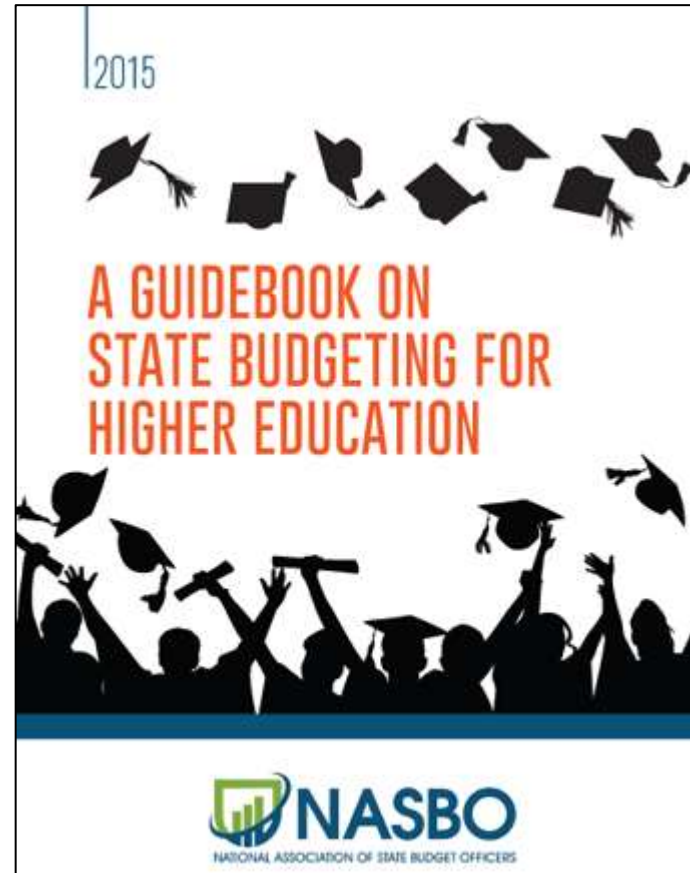
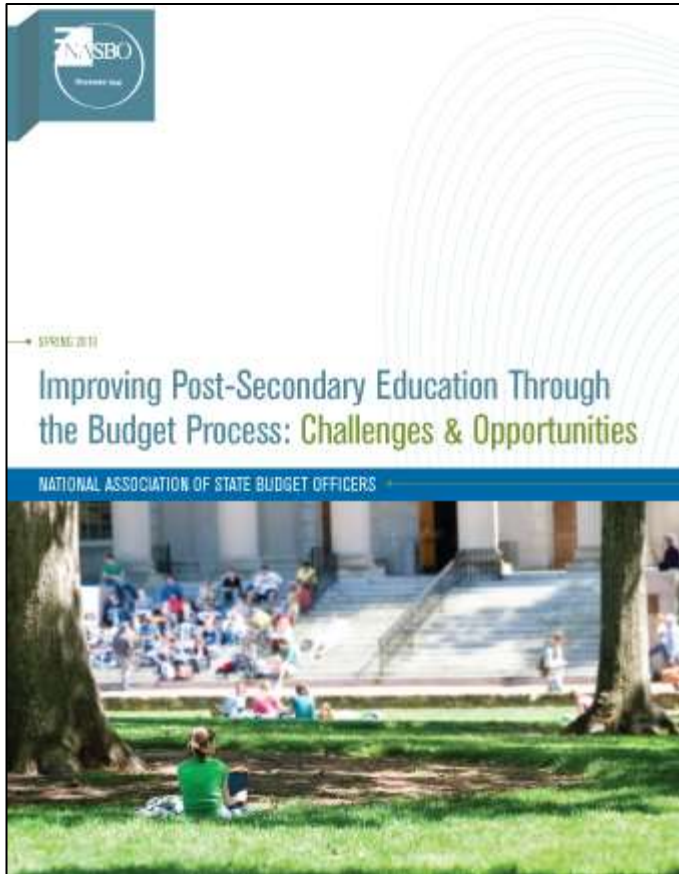
Infrastructure investment needs

Pensions, pensions, pensions

Certain states impacted by oil price declines

Federal uncertainty surrounding future funding levels, health care reform, tax policy changes, etc.

STATE BUDGET OFFICER PERSPECTIVE ON HIGHER EDUCATION FINANCE





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