

constrained fiscal environment, chose to cut or flat-fund a number of agencies, while increasing spending in priority areas.

Many states faced revenue shortfalls, and more states faced mid-year revenue shortfalls than any year since 2010.³ Key factors in revenue shortfalls for states include:

- Slower than average sales tax collection growth
- Tax cuts
- Falling energy prices
- Rate of stock market growth
- Pension fund gaps

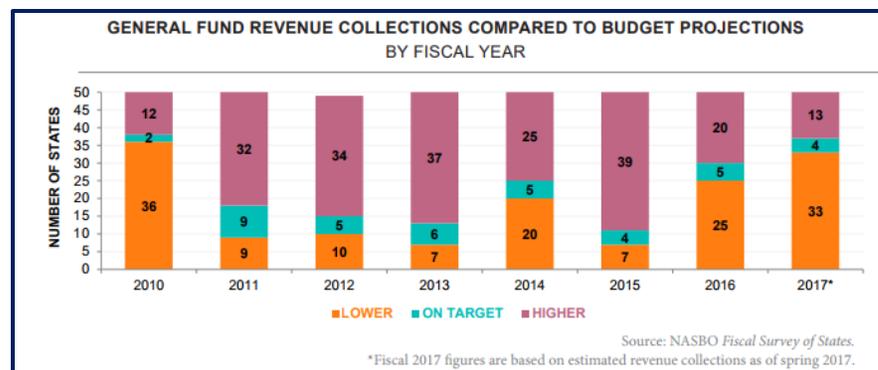
SHORT TERM BUDGET TRENDS

Forty-six states began fiscal year 2018 on July 1, and unlike last year, when a majority of states finalized their budget by the start of the fiscal year, several states had late budgets, with some having to call a special legislature session to resolve budget differences.

Revenue forecasts are vital in helping policymakers determine where spending should be raised or taxes should be cut. The median income tax forecast for fiscal year 2018 suggests 4.1 percent growth, up from 3.6 for 2017. The median sales tax forecast for fiscal year 2018 suggests 3.5 percent growth, up from 3.1 percent for 2017.

Priority areas for fiscal year 2018 budgets include: education funding formulas and structures, opioid epidemic mitigation efforts, reducing Medicaid spending growth, workforce development

³ <https://www.cbpp.org/sites/default/files/atoms/files/3-30-17sfp.pdf>



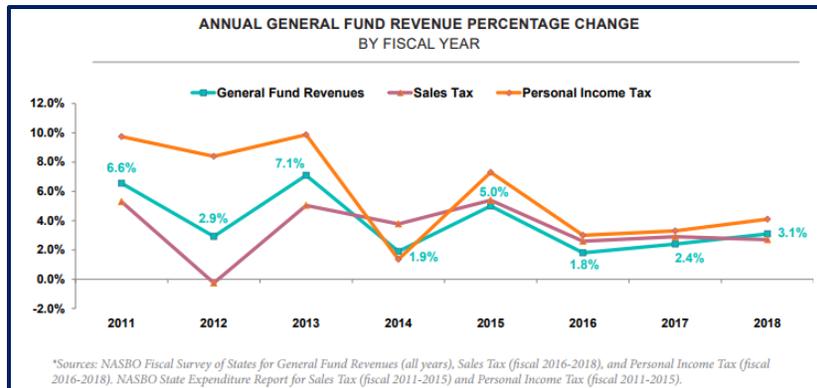
programs, multi-year transportation plans, and additional funding for child welfare issues to lower caseloads and make foster care improvements.

LONG TERM BUDGET TRENDS

The president's 2018 budget is projected to cut federal funding for the services states and localities deliver. By 2027, the cuts would amount to \$453 billion, which is about 37 percent of state budgets at that time.⁴ Most states are already struggling to balance their budgets, and the cuts, beginning in 2018, would require states to come up with an additional \$44 billion to maintain the programs that the federal government is cutting. The proposed budget will likely force states to scale back or eliminate programs, as it is unlikely that any state could raise these funds on their own.

The budget will present challenges for the many states that have not fully recovered from the recession, and states will have to make

⁴ <https://www.cbpp.org/sites/default/files/atoms/files/6-13-17sfp.pdf>



difficult choices regarding budget cuts due to dramatically declined revenues. States would have to make a substantial increase in income tax in order to make up for just the 2018 cuts.⁵

States and localities will not be able to fund many of their own programs that are affected by the federal budget cuts, and will most likely have to outright eliminate some of the programs they support. Income tax is their largest revenue source, followed by sales tax. While property taxes and state government funds are the major revenue sources for localities, 46 states and the District of Columbia limit local government's ability to raise property taxes. It is unlikely that states and localities could raise the funds necessary to make up for the loss of federal funding from the budget cuts.

⁵ <https://www.cbpp.org/sites/default/files/atoms/files/6-13-17sfp.pdf>

CONCLUSION

Revenue forecasters worry about risks, and in the latest forecasts, many have expressed concern about uncertainties related to the global economy, political risks in Europe, potential federal policy changes from the new administration, Federal Reserve Board actions, and changing demographics. The weak revenue forecasts that states are experiencing reflect anticipated slow economic growth, low oil prices, long-term demographic changes, anticipation of tax policy changes, and changing consumption and spending habits.⁶

In the short term, states are dealing with a difficult revenue environment with depressed budget forecasts due both to uncertainty and a variety of factors including slow economic growth, a delayed effect from stock market stagnation, as well as slow gains in tax collection among other factors.

Projections for the federal budget portend a future with less federal funding for states and localities. It will be difficult for many states and localities to maintain the level of programming they currently have, and will likely face much competition for alternative sources of funding.

⁶ http://www.rockinst.org/pdf/government_finance/2017-03-27-By_numbers_brief_no7.pdf

RESOURCES

“Summaries of Fiscal Year 2018 Proposed and Enacted Budgets”

https://higherlogicdownload.s3.amazonaws.com/NASBO/9d2d2db1-c943-4f1b-b750-0fca152d64c2/UploadedImages/Issue%20Briefs%20FY18_Proposed_and_Enacted_Budget_Summaries.pdf

“States Faced Revenue Shortfalls in 2017 Despite Growing Economy: Policymakers can take steps to strengthen their tax systems and reserves”

<https://www.cbpp.org/sites/default/files/atoms/files/3-30-17sfp.pdf>

“The Trump Budget’s Massive Cuts to State and Local Services Programs”

<https://www.cbpp.org/sites/default/files/atoms/files/6-13-17sfp.pdf>

“Governing with Tight Budgets”

<https://www.urban.org/sites/default/files/publication/66046/2000376-Long-Term-Trends-in-State-Finances.pdf>

“Trends in State and Local Finances: 1960 to 2015”

[http://www.mtc.gov/getattachment/Trends-in-State-and-Local-Finances-1960-to-2015-\(JMT-Nov-Dec-2016\).pdf.aspx](http://www.mtc.gov/getattachment/Trends-in-State-and-Local-Finances-1960-to-2015-(JMT-Nov-Dec-2016).pdf.aspx)

“2016: Another Lackluster Year for State Tax Revenue”

http://www.rockinst.org/pdf/government_finance/2017-05-08-By-numbers-brief-no9.pdf

“Weak Revenue Forecasts, Large Uncertainties Ahead”

http://www.rockinst.org/pdf/government_finance/2017-03-27-By_numbers_brief_no7.pdf

“Happy 8th Birthday Economic Recovery”

<http://www.ncsl.org/research/fiscal-policy/happy-8th-birthday-economic-recovery.aspx>

“State Budgets in 2016 and 2017: Modest Growth as States Contend with Weak Revenue Collections and Federal Uncertainty

<http://knowledgecenter.csg.org/kc/system/files/Sigritz2017.pdf>

“How States Fare in 2018 Federal Budget: Keep Your Eyes on Medicaid”

<http://knowledgecenter.csg.org/kc/content/how-states-fare-2018-federal-budget-keep-your-eyes-medicaid>

“State tax collections lagging behind overall growth in economy”

<http://knowledgecenter.csg.org/kc/content/state-tax-collections-lagging-behind-overall-growth-economy>