Fiscal Condition of the States

Ohio Educational Service Center Association

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Current State Fiscal Conditions & Priorities
State fiscal conditions over the past several years have been heavily impacted by combination of federal COVID-19 aid and rising state tax collections.

Virtually all states reported revenue surpluses for a second consecutive year in fiscal 2022. Rainy day funds and total balance levels continued to grow in nominal terms in fiscal 2022 after a steep rise in 2021.

State spending and state revenue is expected to continue to grow in fiscal 2023, although at a slower rates.

Most fiscal 2024 proposed budget are assuming continued slower spending growth. Revenue forecasts for fiscal 2024 remain conservative.

States have taken steps to prepare for an economic slowdown. Actions include building up rainy day funds, using one-time funds for one-time purposes, making additional pension payments, and paying down long-term debt.
2023 State of the State Speeches – Areas of Focus

As of April 11\textsuperscript{th}, governors in 46 states have given a State of the State speech or budget address

- Elementary and Secondary Education
- Higher Education
- Workforce
- Substance Abuse
- Mental Health
- Other Healthcare
- Housing and Homelessness
- Public Safety
- Natural Resources and Environment
- Infrastructure
- Budget and Fiscal Stability
- Economic Development
- Government Reforms
- Tax Relief
K-12 Themes in 2023 State of the State Speeches

• Increase funding
• Reform funding formulas
• Expand mental health programs
• Address learning loss
• Add support for low-income children, special education, and English learners
• Increase literacy efforts
• Improve school safety
• Expand school choice
• Increase teacher pay as well as other efforts to attract and retain teachers
Key K-12 Investment Areas in Governors’ FY24 Budgets

• Formula Funding Increases & Reforms
  • Widespread calls for increasing funding formulas
  • Some adjustments to formulas including more funding for English language learners and economically disadvantaged students

• Teacher Pay, Recruitment & Retention
  • Significant new investments in teacher compensation; states play varying roles in setting teacher pay
  • Funding for targeted strategies to improve teacher recruitment and retention including retention bonuses and apprenticeships

• Academic Instruction
  • New efforts in evidence-based literacy programs, enhancing math and computer science, tutoring, and out-of-school programing
Key K-12 Investment Areas in Governors’ FY24 Budgets (continued)

• Special Education
  • Several governors proposed specific budget initiatives related to special education

• Student Mental Health
  • Focus on student mental health including increasing school nurses, social workers, counselors, and psychologists

• Other K-12 Initiatives
  • Expanding school choice programs, providing universal free school meals, enhancing civics education, offering more dual enrollment and career and technical education opportunities, and one-time capital investments
General Fund
Revenue Collections
Annual General Fund Revenue Percentage Changes
Fiscal 2007 to Fiscal 2023

Note: Fiscal 2023 figure is based on states’ enacted budget forecasts. More recent collections data suggest that revenue will come in higher than original budget projections.

*Ohio’s nominal revenue growth was 16.5% in FY21, 7.2% in FY22, and an estimated 1.6% in FY23.

Source: NASBO Fiscal Survey of States
General Fund Revenue Collections

General Fund Revenue Collections Compared To Original Budget Projections (By Fiscal Year)

* Fiscal 2023 is ongoing; figures are subject to change, and not all states were able to report this early in the fiscal year.

Source: NASBO Fiscal Survey of States
### Summary of Enacted State Revenue Changes, Fiscal 2023

**31 States Adopted Net Tax Cuts in Fiscal 2023**

<table>
<thead>
<tr>
<th>Revenue Type</th>
<th>Sales Tax</th>
<th>Personal Income Tax</th>
<th>Corporate Income Tax</th>
<th>Cigarette/Tobacco Tax</th>
<th>Motor Fuel Tax</th>
<th>Alcohol Tax</th>
<th>Gaming/Lottery Revenue</th>
<th>Other Tax</th>
<th>Fees</th>
<th>All Revenue Changes</th>
</tr>
</thead>
<tbody>
<tr>
<td># of States Enacting Increases</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>6</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td># of States Enacting Decreases</td>
<td>19</td>
<td>26</td>
<td>16</td>
<td>2</td>
<td>3</td>
<td>0</td>
<td>1</td>
<td>15</td>
<td>4</td>
<td>31</td>
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<tr>
<td>Net Change ($ in Millions)</td>
<td>-$1,621</td>
<td>-$8,346</td>
<td>-$4,021</td>
<td>+$27</td>
<td>-$1,147</td>
<td>$0</td>
<td>-$3</td>
<td>-$1,218</td>
<td>+$91</td>
<td>-$16,237</td>
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<tr>
<td>Net Change – General Fund Only ($ in Millions)</td>
<td>-$1,600</td>
<td>-$8,319</td>
<td>-$3,989</td>
<td>-$5.5</td>
<td>-$650</td>
<td>$0</td>
<td>-$10</td>
<td>-$929</td>
<td>-$27</td>
<td>-$15,528</td>
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</tbody>
</table>
State Spending Trends
YEAR-OVER-YEAR PERCENTAGE SPENDING GROWTH BY FUND SOURCE

*State funds are general funds and other state funds combined, excluding bonds. Total state expenditures are all federal and state funds.
TOTAL STATE EXPENDITURES PERCENTAGE SPENDING GROWTH
BY PROGRAM AREA

<table>
<thead>
<tr>
<th>Program Area</th>
<th>Fiscal 2021</th>
<th>Estimated Fiscal 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>K-12</td>
<td>16.6%</td>
<td>8.0%</td>
</tr>
<tr>
<td>Higher Ed</td>
<td>19.4%</td>
<td>9.4%</td>
</tr>
<tr>
<td>Public Assist.</td>
<td>10.1%</td>
<td>7.5%</td>
</tr>
<tr>
<td>Medicaid</td>
<td>3.0%</td>
<td>10.2%</td>
</tr>
<tr>
<td>Corrections</td>
<td>16.2%</td>
<td>7.9%</td>
</tr>
<tr>
<td>Transport</td>
<td>0.2%</td>
<td>19.5%</td>
</tr>
<tr>
<td>All Other</td>
<td>1.7%</td>
<td>7.3%</td>
</tr>
<tr>
<td>Total</td>
<td>30.3%</td>
<td></td>
</tr>
</tbody>
</table>

*Total state expenditures include spending from general funds, other state funds, bonds, and federal funds to states.*
Annual General Fund Expenditure Percentage Changes
Fiscal 2007 to Fiscal 2023

Note: Fiscal 2023 figure is based on states’ enacted budgets.

*Ohio’s spending growth was 0.7% in FY21, 15.4% in FY22, and an estimated 3.2% in FY23.

Source: NASBO Fiscal Survey of States
Enacted Budgets for Fiscal 2023 Call for Significant Increases in Nearly All Program Areas Including K-12

General Fund Appropriation Changes By Program Area (In Billions)*

*Fiscal 2023 recommended and enacted spending changes are compared to enacted appropriation levels for fiscal 2022.
K-12 Experienced
Outright General
Fund Spending
Declines During
Great Recession;
Increases After
COVID-19 Pandemic
Mid-Year Budget Reductions Due to a Shortfall

Budget Cuts Made After The Budget Passed

Gray boxes denote recessionary periods, based on a July-June fiscal year calendar that most states follow. Recession dates are as follows: Early 1990s recession (July 1990 to March 1991); Early 2000s recession (March 2001 to November 2001); Great Recession (December 2007 to June 2009); COVID-19 Recession (February 2020 – April 2020).

Note: Beginning in Fiscal 2018, NASBO asked states reporting net mid-year budget reductions whether the reductions were made due, at least in part, to a revenue shortfall. Effective in FY2018 going forward, only states reporting mid-year budget cuts due to a revenue shortfall are included in the totals reported in this figure. Prior to FY2018, particularly in non-recessionary periods, states that reported mid-year cuts that were due to other reasons, such as a reduction in caseload, would have been included in the counts above.
State Rainy Day Funds & Total Balances
Rainy Day Funds Continue Rising After Steep Increase in Fiscal 2021

Rainy Day Fund Balances in Dollars and as a Percentage of General Fund Expenditures

*Ohio’s rainy day funds were at 0% in FY11 and then 11.5% in FY21, 10.0% in FY22, and a projected 9.8% in FY23.*
*Ohio’s total balance levels were 31.7% in FY21, 34.3% in FY22, and a projected 30.6% in FY23.
Paying off debt

Making supplemental pension payments

Using surplus funds for capital projects, reducing the need to borrow

Saving money for natural disasters

Other Fiscal Resiliency Measures

In addition to bolstering rainy day funds and cash reserves, states are taking further steps to strengthen their fiscal resiliency over the long term, such as:
Background on State Spending & Revenue
TOTAL STATE EXPENDITURES
By Fund Source

Estimated Fiscal 2022

Source: NASBO State Expenditure Report
K-12 EXPENDITURES
By Fund Source

Estimated Fiscal 2022

Federal Funds, 22.4%
Other State Funds, 10.2%
Bonds, 1.0%
General Funds, 66.5%

Source: NASBO State Expenditure Report
TOTAL STATE EXPENDITURES

By Function

FY 22
$2,856 Billion

Source: NASBO State Expenditure Report
GENERAL FUNDS EXPENDITURES
By Function

FY22
$1,046 Billion

Source: NASBO State Expenditure Report
K-12’s Share of General Fund Has Remained Mostly Consistent, While Medicaid Has Risen and Higher Ed Has Declined

Source: NASBO State Expenditure Report.
FEDERAL FUNDS EXPENDITURES
By Function

FY22
$1,085 Billion

Source: NASBO State Expenditure Report
Revenue Sources in the General Fund (%)

- **Sales**: 28.1%
- **Personal Income**: 44.1%
- **Corporate Income**: 11.4%
- **Gaming**: 0.8%
- **All Other GF Revenue**: 15.5%

**FY22**: $1,184 Billion

*Ohio’s revenue sources are sales (45.3%), personal income (37.4%), corporate income (6.9%), and all other (10.4%)

Source: NASBO State Expenditure Report
Looking Ahead
Overall states remain in a strong fiscal position

Monitoring economic risks and federal uncertainty

States have taken steps to prepare for a potential economic slowdown

Likely continued slower spending and revenue growth in fiscal 2024

Challenges include employee recruitment and retention; winddown of federal funds; and managing spending expectations