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Despite Slow Revenue Growth, State Spending Is Picking Up.

The increase in annual spending is largely due to rising health-care costs and increased investment in transportation.

After an anemic 2016, state spending is up this year thanks in large part to rising Medicaid costs and increased investment in transportation.

States collectively spent nearly $2 trillion in fiscal 2017, an increase of 5.2 percent, according to a newly released report from the National Association of State Budget Officers (NASBO). The growth rate is more than double that of fiscal 2016, which saw state budgets struggle to adapt to lower-than-expected revenues.

Illinois having its first signed budget in two years played a small role — about .6 percent — in this year's uptick. The state spent an estimated $67.2 billion in fiscal 2017, a $12 billion increase over the prior year and a figure more in line with the state's historic spending patterns.

All eight geographic regions saw at least a slight rise in total state spending, with the strongest growth reported in the West and the Southeast.

Whereas recent years' spending increases have been largely driven by aid from the federal government, 2017 saw states upping the ante on their own. State spending from their own funds increased by 4.9 percent. That's significant growth compared with 1.8 percent last year.

All this despite the fact that the revenue picture has seemingly improved very little. For the second straight year, corporate income tax revenue saw a nearly 6 percent decline, and growth in income and sales tax collections hovered below 3 percent.

Given the poor revenue picture and the increase in spending, it's likely that states employed one-time measures to close budget gaps in 2017, says NASBO Executive Director John Hicks. Still, he adds, it's notable that states invested more this year in nearly every major category.

Medicaid spending played a big role in this year's numbers as 2017 marked the first time that the 31 states which expanded Medicaid under the Affordable Care Act began to pay a portion (5 percent) of it.

Both higher education and transportation also saw strong spending growth. In fact, for three out of the past four years, states have increased higher education spending by at least 5 percent. Colleges and universities "took it on the chin in the last couple of recessions," says Hicks, "so those increases are a reflection of it being a higher priority and of initiatives like performance funding being [implemented] in more states."

Transportation spending was the second-highest growth category for state spending after Medicaid. The more than 6 percent hike is largely due to revenue-focused initiatives such as increased gas taxes and new or increased vehicle registration fees. Hicks notes that transportation spending growth in recent years has outpaced states' median spending growth. "That's intentional, resource-

driven activity," he says. "We expected to see it and we are."

This year did have at least one surprise: a 4.1 percent jump in total corrections expenditures, compared with just 1.5 percent growth in fiscal 2016. The rise comes as states have been trying to cut down on prison spending. Hicks attributes some of the increases in state spending on corrections to pay raises for correctional officers and the rising cost of inmate health care.

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