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Tired of Tax Reform? 3 Other Public Finance Trends to Watch in 2018.

For one, many states have to figure out how to manage their marijuana revenue.

Tax reform has grabbed a lot of attention when it comes to big changes to watch in 2018. But there are plenty of other headline-worthy trends emerging. Here's a look at three economic and policy issues finance officials across the country will be dealing with next year.

Protecting Pot Revenue

As more states have legalized recreational marijuana, managing the taxes and revenues from it has proven dicey.

For starters, not every city or county in a state wants to take part in the nascent industry. These places have acted by banning pot sales within their borders. But should they still be entitled to the revenues coming in from marijuana sales? A few states don't think so. California, Massachusetts and Oregon are withholding marijuana tax revenues from these cities and counties.

Then, there's the fact that marijuana businesses deal largely in cash. The federal government regards marijuana as an illegal drug; banks are regulated by the feds. Most won't touch cannabis cash. For state and localities, this makes tracking the product and collecting the revenues difficult. Some solutions are emerging.

Community financial institutions, for one, have become more open to serving the cannabis industry after the feds said they won't go after institutions that keep a watchful eye on their clients and report suspected wrongdoing.

That's where a company called PayQwick comes in. It electronically transfers money between marijuana growers, sellers, customers and their financial institutions. It also offers services allowing businesses to electronically pay their taxes.

Another government security company, SICPA, is providing county governments in Northern California's Emerald Triangle track-and-trace services for cannabis products. Counterfeit-resistant tax stamps are placed on products and scanned at various points along the supply chain. The stamps, which the company has already developed for cigarette packs to prevent fraudulent sales, can help prevent revenue from slipping through the cracks. It also has the added benefit of helping regulators ensure that operators aren't producing more product than they are legally allowed to.

The savings can be significant, says Alex Spelman, SICPA's vice president of business development. In 2005, when the company first put tax stamps on cigarette packs in California, which has a high per-pack tax rate, it saved an estimated $90 million in revenue from going out the door. He adds it can also give governments more flexibility in deciding whether to adjust their taxes because they can more closely track what's happening at each stage of the product's life.

‘Pay For Success’ Coming to a Small Town Near You?

There are about a dozen so-called pay for success financing projects around the country, and all are with large governments such as states, counties and major cities. But 2018 is likely to see smaller cities finally get in on the action.

Pay for success programs attract money from private and nonprofit investors for public programs that seek to bettter outcomes in early childhood education, workforce development and opioid misuse, among other things. Governments only pay investors back if and when positive results, such as cost-savings or reduced recidivism rates, are achieved. As mayors and cities continue to face funding pressures, many more are starting to look at pay for success as a possible tool, says Justin Milner, a senior fellow at the Urban Institute.

The results of a project in Denver holds promise for smaller-tier cities looking to launch their own pay for success program. That city launched a program to provide permanent housing and support services to at least 250 chronically homeless people over five years. After 18 months, the city cut its first check — for $188,000 — to the program’s financiers and put up an additional $670,000 in this year’s budget to expand the program.

The Urban Institute advised on the Denver project and is now working with smaller cities such as Eugene, Ore.; Spartanburg, S.C.; and Tallahassee, Fla.

Elsewhere, a Baltimore-area hospital is developing a project to bring nutritious meals, in-home safety checks and case management services to vulnerable older adults. New Orleans’ Mayor-elect Latoya Cantrell has said she wants to start a pay for success program aimed at creating jobs and reducing criminal justice costs. And projects to reduce children’s asthma are being developed in places such as Springfield, Mass., and Memphis, Tenn.

“If the next tier can build upon some of the successes of Denver,” says Milner, “if they can find that philanthropic interest and have the capacity to support launching a project, then I think you’ll see that movement in even the third- and fourth-tier cities.”

Increased Recession Worries

The U.S. economy is currently in one of the longest expansion periods in modern history — even though it doesn’t quite feel like it. And it’s that feeling, along with tight budgets and slow growth, that has many public officials worried that a recession is coming. “I think everybody is waiting, just holding their breath,” says Mike McCann, a vice president at OpenGov.

That elephant-in-the-room feeling is playing out in a few ways. For one, state and local governments are saving big time. Cities’ average savings level is at historic highs, according to the National League of Cities (NLC), equal to about one-quarter of annual budgets. Meanwhile, 26 states now have larger rainy day funds as a share of operating costs than they did before the recession.

When it comes to budgeting, governments are being extremely cautious in 2018. Municipal finance officers are expecting minimal growth this year — less than 1 percent — and far fewer of them believe they will be better able to meet the financial needs of their communities, according to NLC. At the state level, spending is expected to grow at the slowest pace since the recession.

Because of the pressure, McCann expects to see officials demand more transparency and accountability when it comes to budgeting. “I think people are increasingly unwilling to take a black box number out of a budget module and not be able to challenge it,” he says. “Old-school budgeting was so technical and some of the calculations so obtuse, that normal people weren’t allowed to see that. People just aren't tolerant of that anymore."

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