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Uncertain of the Future, States Save and Save Some More.

In the face of a politically and financially uncertain fiscal 2018, states are hunkering down, pulling back on spending increases and beefing up rainy day funds.

General fund revenues for fiscal 2017 are coming in below forecasts in 33 states, according to a [new survey](#) by the National Association of State Budget Officers (NASBO). That's the highest number since the recession, and it also marks the second straight year that more states have failed to meet projected revenues than exceeded them. As a result, it's increasingly likely that more states will be forced to make spending cuts (23 have already reported doing so).

The survey also finds that thanks to states' "thin margins," spending for fiscal 2018 will tick up by a mere 1 percent — the lowest growth rate since 2010, when states were in the midst of dealing with the recession. Most of those spending increases will be targeted toward education, where many states are still trying to make up for cuts following the recession, and Medicaid.

Despite slow revenue growth — or perhaps because of it — governors and legislatures in many places are prioritizing saving money for the next economic downturn. After a slight dip in 2017, rainy day fund balances are expected to hit the highest total ever at more than \$53 billion across 48 states. (Georgia and Oklahoma were not able to provide data.)

"We're seeing legislatures also tout being ready in some cases for whatever might be the next recession," says NASBO's Executive Director John Hicks. "They're talking with more emphasis about structural balance in budgets, having more reserves in place and being mindful of using one-time funds."

On a state-by-state level, the budgeting data is varied. Governors in 15 states propose outright general fund spending decreases in 2018. In most states, the declines amount to a less than 3 percent budget cut. North Dakota, however, is cutting its 2018 budget by roughly 23 percent. The state, which is suffering from lower oil revenues, is cutting nearly \$367 million from its budget — roughly one-third of that from education.

Meanwhile, governors in seven states (Colorado, Idaho, Nevada, North Carolina, Oregon, Tennessee and Washington) are proposing spending increases of at least 5 percent. North Carolina is increasing its general fund spending by nearly 6 percent, directing most of that increase into K-12. And Washington is putting more than half of its \$1 billion increase into Medicaid to help comply with a court-mandated expansion in coverage for hepatitis C patients.

Uncertainty at the federal level has also forced states to be more fiscally conservative. When asked about their top concerns, NASBO survey respondents said they were worried about "potential federal legislation that would repeal and replace the [Affordable Care Act] affecting both the Medicaid expansion and capping federal funds to the Medicaid program." Medicaid now represents \$1 out of every \$5 states spend.

Another major concern is the threat of federal tax reform, which some argue has already impacted

state revenues. A number of states saw sharp year-over-year declines in their income tax revenue collections this April, which is typically the biggest month for the tax. According to Fitch Ratings, Connecticut posted the steepest decline of nearly 14 percent while Massachusetts reported a more than 6 percent drop off. It's not clear whether the declines are real or whether taxpayers in these high-tax states are shuffling income into fiscal 2018 in anticipation of more favorable rates under federal tax reform.

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