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State Spending Grows at Lowest Pace Since Great Recession.

Amid uncertainty about federal tax reform, states are exercising caution with their fiscal 2018 budgets.

After several years of moderate spending growth, states are dialing it back amid federal policy uncertainty and unpredictable revenues.

States' general fund spending is projected to total $830.2 billion in fiscal 2018, which represents just 2.3 percent growth and the lowest spending increase since the Great Recession. Twenty-six states have already enacted budgets with general fund spending growth below 2 percent, and 15 states are cutting spending in fiscal 2018.

The new survey data was released Thursday by the National Association of State Budget Officers' (NASBO).

The shift comes amid uncertainty about how federal tax reform will ultimately affect states' revenues and taxpayer behavior in 2018. Meanwhile, two straight years of an unusually high number of states resorting to mid-year spending cuts has many policymakers taking a more conservative approach to this year's budget.

"There's plenty of reasons for caution at this point," said Michael Cohen, director of the California Department of Finance, on a call with reporters. "And we've not been willing to overcommit to ongoing spending."

Underscoring that caution is the fact that, for the first time in five years, states have collectively budgeted for revenue growth to outpace spending growth in fiscal 2018. Most states are forecasting general fund growth of 4 percent. Roughly a quarter of this growth can be attributed to tax and fee increases and other revenue measures enacted by states in the 2017 legislative session, often in the face of budget deficits.

Those increased revenues, said NASBO Executive Director John Hicks on the same call, are a way of "catching up" budgets to reality after many states employed one-time fixes to balance past budgets.

Many states are also continuing to strengthen their reserves, despite the recent revenue slowdown. Rainy day funds as a percent of general fund spending is now at 5.2 percent, compared to less than 2 percent in 2011.

State by state, the financial picture varies widely.

Some states have repeatedly turned to their rainy day funds to help address shortfalls. Connecticut, for example, is battling a weak local economy and has just over 1 percent of general fund spending in its reserves after withdrawals in recent years.

Alaska, New Mexico and North Dakota passed their third straight budgets with spending cuts thanks to weak oil and other energy-related revenues.

Meanwhile, 11 states, mostly in the faster-growing regions of the Southeast and West, increased general fund spending by more 4 percent.

When it comes to where states targeted their spending, most of the focus went to K-12 education, the largest single portion of state general fund spending. A total of 38 states increased education spending, while 10 states made cuts, resulting in a net increase of $8.6 billion this year.

Medicaid was also a big driver of spending with states collectively spending $2.6 billion more this year from their general funds than in fiscal 2017. (NASBO notes that figure is actually more than $5 billion when including Medicaid spending in Ohio that is now being withdrawn from special funds.)

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