

July 12, 2021

State Fiscal Outlook

Brookings Municipal Finance Conference

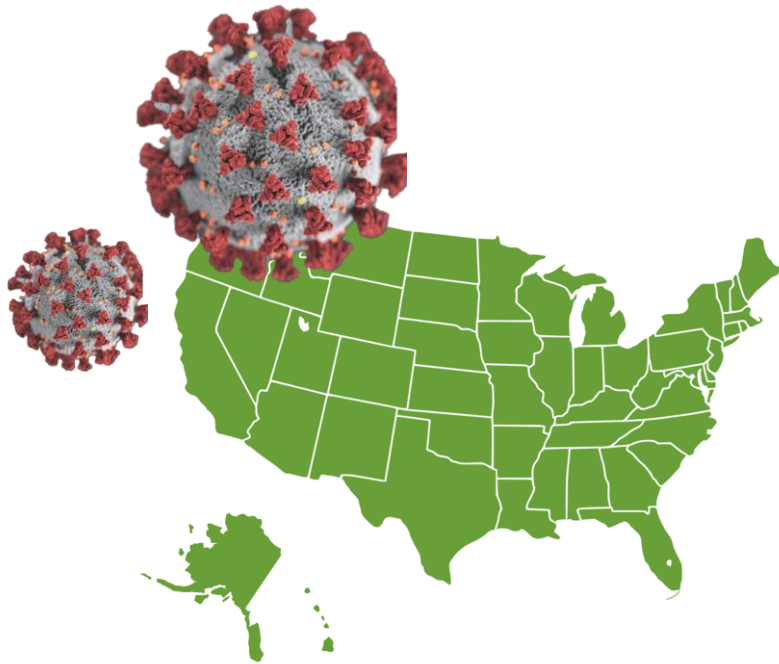


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COVID-ERA State Fiscal Environment

States saw revenue decline in fiscal 2020 after nine consecutive years of growth, with modest growth estimated for fiscal 2021

State revenue forecasts have improved considerably since this time last year, strengthened by federal stimulus and other factors

Pandemic's impact has been uneven, hitting all states but in different ways and magnitudes depending on economies, tax structures, virus transmission, etc.

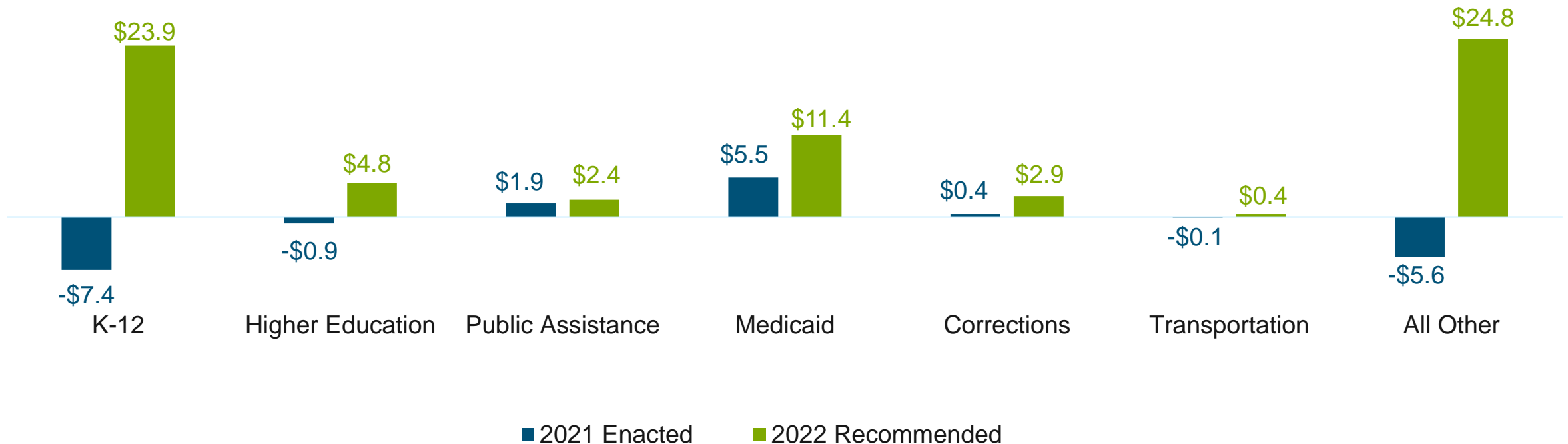
Rapidly evolving economic and public health conditions have presented extraordinary challenges and uncertainties for state budgeting

Despite recent improvements, state general fund spending and revenue levels remain below pre-pandemic projections



New Report on FY 2022 Budget Proposals Reflects Improvement in State Fiscal Conditions Compared to When States Adopted FY 2021 Budgets

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

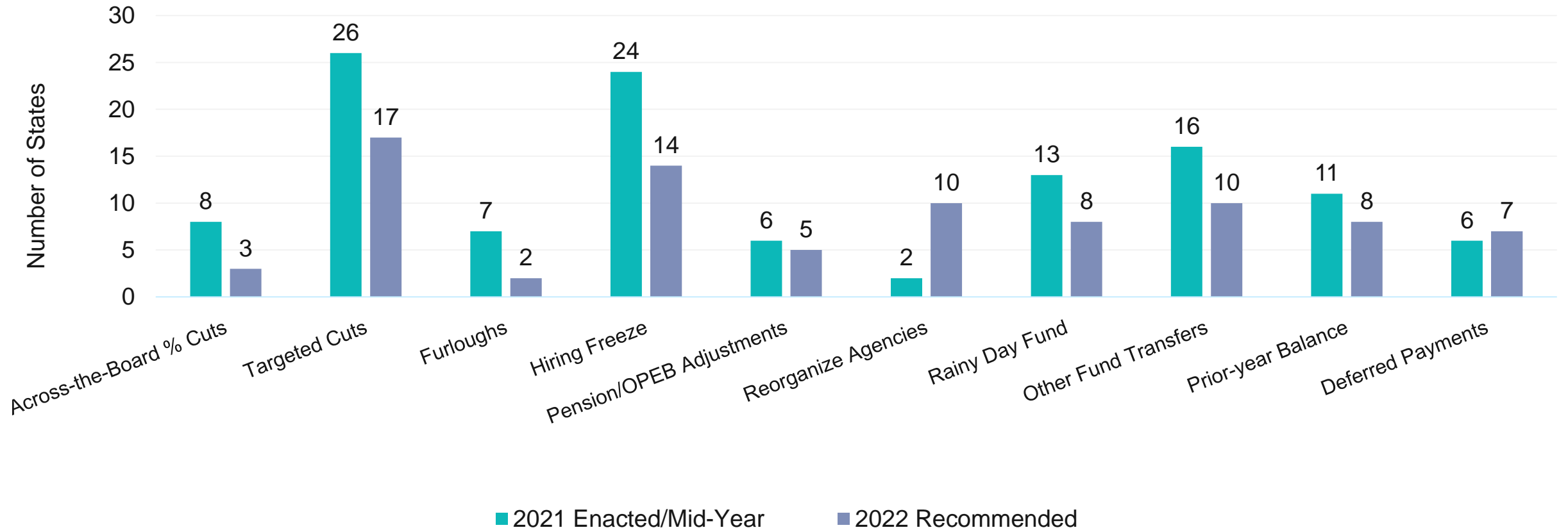


**Fiscal 2022 recommended spending changes are compared to enacted appropriation levels for fiscal 2021. Spending changes for fiscal 2021 are compared to enacted levels for fiscal 2020.



Governors Take Strategic Approach to Managing Budgets in Fiscal 2022

State Budget Management Strategies, Fiscal 2021 and Fiscal 2022

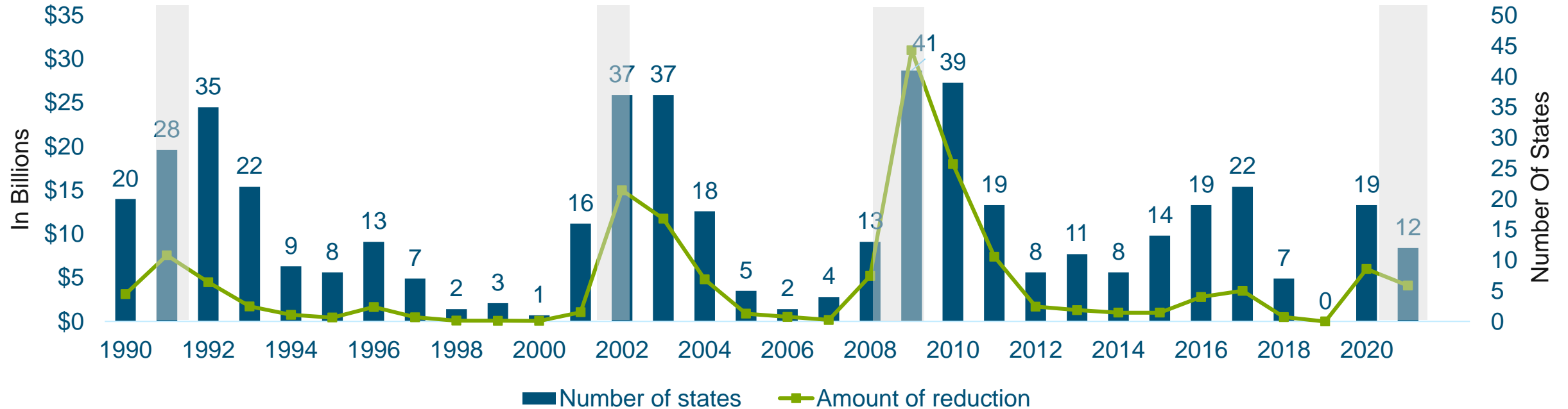


*Data for 2021 Enacted budget management strategies is from NASBO's Fall 2020 Fiscal Survey of States and combined with fiscal 2021 Mid-Year actions reported in NASBO's Spring 2021 Fiscal Survey of States. States that reported the same action for fiscal 2021 in both surveys are only counted once.



12 States Made Mid-Year Budget Reductions in Fiscal 2021 Due to a Shortfall

Budget Cuts Made After The Budget Passed



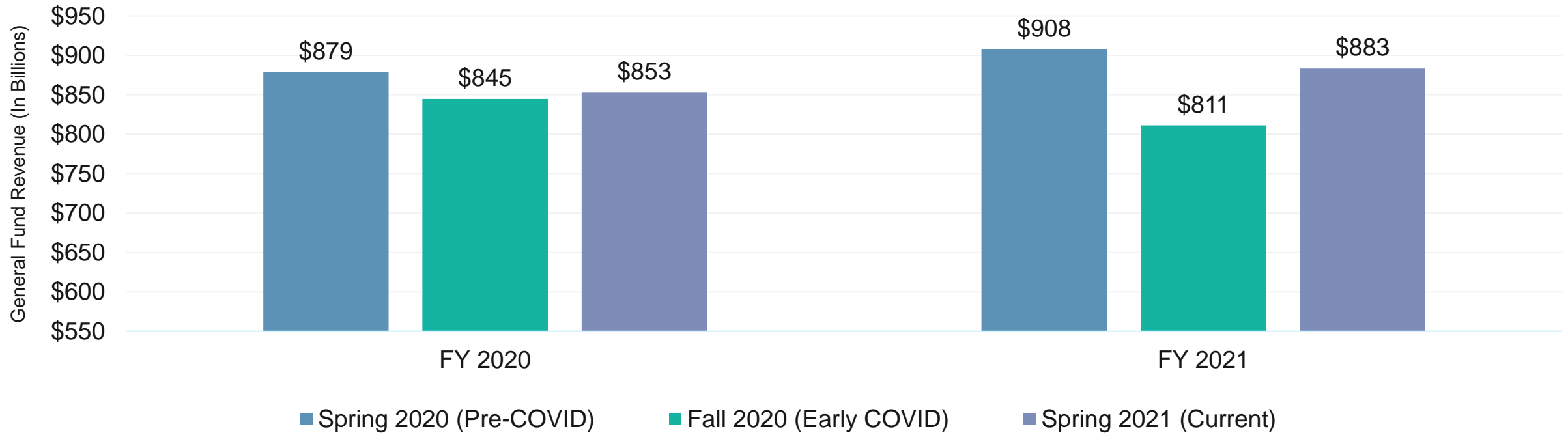
Gray boxes denote recessionary periods, based on a July-June fiscal year calendar that most states follow. Recession dates are as follows: Early 1990s recession (July 1990 to March 1991); Early 2000s recession (March 2001 to November 2001); Great Recession (December 2007 to June 2009); COVID-19 Recession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

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.



General Fund Revenue Estimates Remain Below Pre-Pandemic Projections, Despite Recent Improvements

General Fund Revenue Estimates Evolved Over the Course of the Pandemic

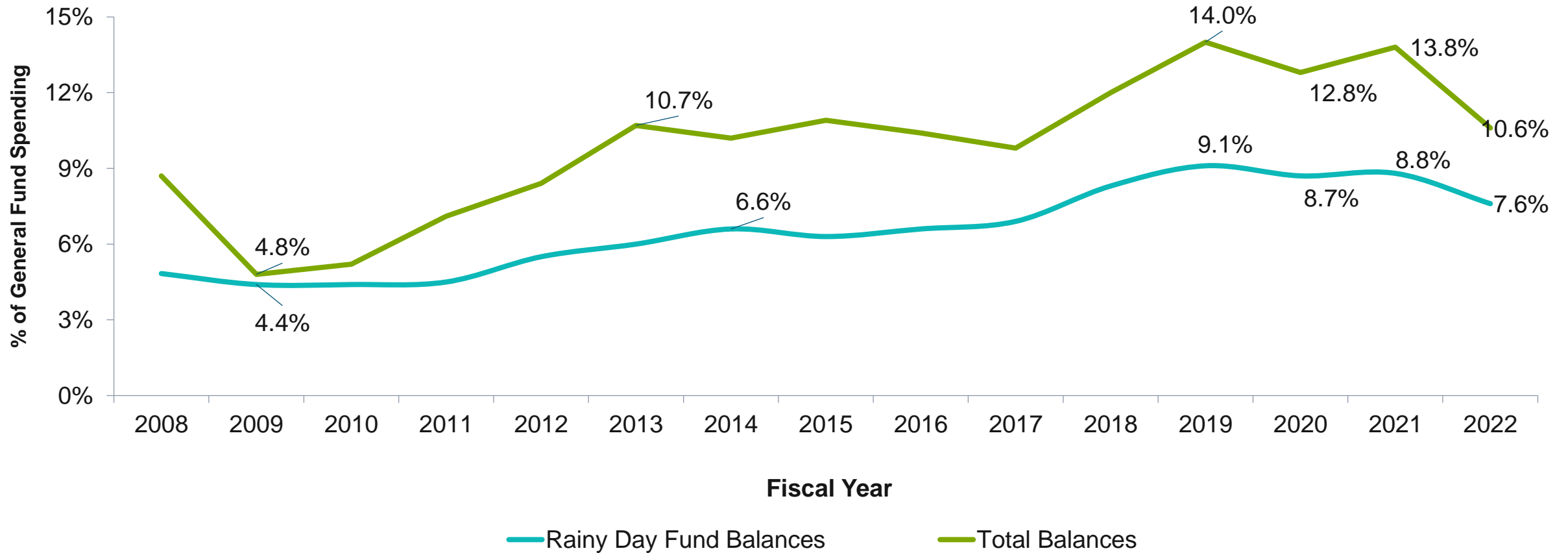


*Figures here represent data for 49 states. Comparisons between the figures in this survey edition and prior Fiscal Surveys are adjusted to exclude Ohio, as the state revised its reporting methodology in this survey to exclude federal Medicaid reimbursements from its general fund reporting, which were previously included.

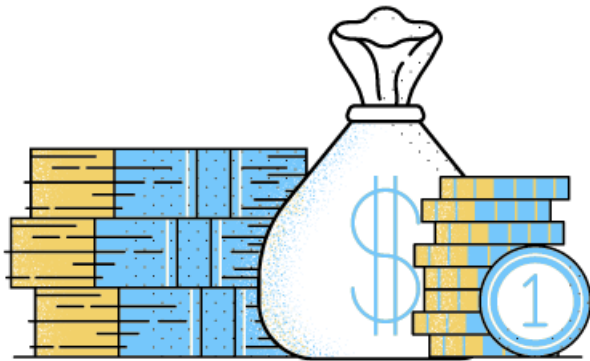


Overall State Balances See Small Reductions During Pandemic

Rainy Day Fund Balances and Total Balances as a Percentage of General Fund Expenditures



*Fiscal 2022 total balance and rainy day fund balance figures exclude Texas and Wisconsin. Fiscal 2021 and fiscal 2022 rainy day fund balance figures exclude Georgia.



State Budget Updates Since Data Collection

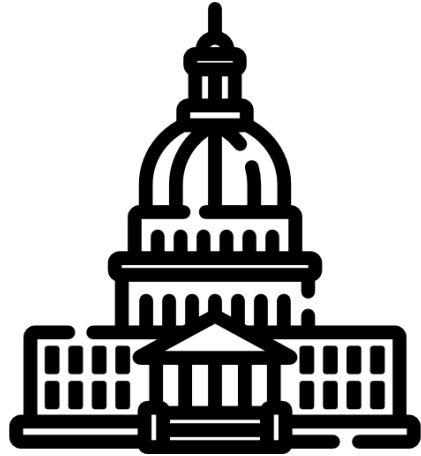
Governors' budget proposals for FY22 called for total state spending to be flat, with general fund spending growing moderately and federal funds declining.

Nearly all budget proposals were released before the passage of the American Rescue Plan, partly explaining the anticipated decline in federal funds.

Budget proposals forecasted modest revenue growth for FY22 overall, with year-over-year growth levels impacted by tax deadline shift.

After the release of budget proposals, many states revised revenue forecasts upwards. Some governors released supplemental recommendations.

States are directing additional funds towards a variety of purposes, including reserves, tax relief, assistance to those affected by the pandemic, restoring spending cuts, education and other key priorities.



American Rescue Plan Act (ARPA)



The American Rescue Plan Act included direct aid to states, including to cover lost revenues



Funding to respond to the pandemic, and prepare for future pandemics



Infrastructure Investments: broadband, water, wastewater



Premium Pay for workers



Prohibits using funds for transfers to pensions or savings, or for tax cuts



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