# Fiscal 50: State Trends and Analysis

**ARTICLE** April 23, 2019 Topics: Fiscal & Economic Policy Projects: State Fiscal Health Read time: 5 min

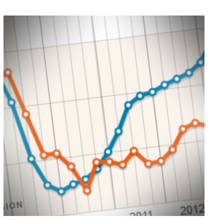
Pew's Fiscal 50: State Trends and Analysis presents 50-state data on key fiscal, economic, and demographic indicators and analyzes their impact on states' long-term fiscal health.

## In ninth year of recovery, states' fiscal and economic prospects perked up

After years of slow progress, states benefited from a more promising economic and fiscal environment in 2018. Pressure on state finances eased somewhat as the second-longest economic recovery gained momentum and state tax revenue jumped, at least temporarily. Still, not all states have fully recovered from the shocks of the Great Recession more than a decade ago. Some are in a stronger position than others as they gauge how long the recovery will last.

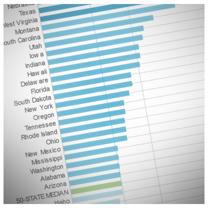
A surge in tax receipts provided budget relief for many states, though some of the extra money was due to short-lived effects on state tax receipts from the federal Tax Cuts and Jobs Act. Tax collections in 41 states—the most yet—had surpassed their recession-era peaks by late 2018, after adjusting for inflation. The extra revenue led a number of states to add to their rainy day funds, which could cover a bigger share of spending than before the recession in at least half the states.

Economically, employment rates and growth are on the upswing. Still, the estimated share of prime working-age adults with jobs was lower than before the recession in most states at the end of 2017, and growth measured by state personal income still lagged historic rates.



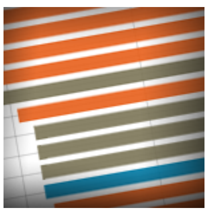
### Tax Revenue

States Add to String of Tax Revenue Gains. The strongest stretch of tax revenue growth in seven years extended into the third quarter of 2018, but at least some of the gains were temporary and are expected to fade in upcoming quarters. Overall, just nine states took in less tax revenue than before receipts plunged in the downturn, after accounting for inflation. State by state, the recovery has been uneven because of differences in economic conditions and tax policy choices. States with below-peak tax revenue still have less purchasing power than a decade earlier. View the indicator or print the analysis.



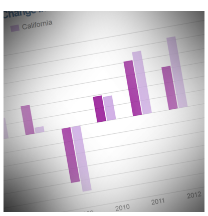
### Reserves and Balances

Budget Surpluses Are Helping Many States Boost Their Savings. States had more savings set aside at the end of fiscal 2018 to weather the next economic downturn than at any point since the 2007-09 recession. Nationwide, rainy day funds held a record amount of money, and at least 26 states' savings exceeded pre-recession levels when measured as a share of operating costs. A tax revenue surge in fiscal 2018 helped 32 states expand their rainy day funds. Still, just over half of states were less financially equipped, counting rainy day funds plus leftover general fund dollars, to cover their costs than just before the recession. View the indicator or print the analysis.



### Employment-to-Population Ratio

Employment Rate Up Again, but Lags Pre-Recession High. The U.S. employment rate for adults of prime working age rose in 2017 for a seventh consecutive year, though no state could boast that its core labor pool had clearly surpassed its pre-recession employment rate. The share of prime-working-age adults (ages 25 to 54) with a job clearly remained below pre-recession levels nationally and in 10 states. Employment rates for this population were lower than in 2007 in another 30 states and higher in 10, but not by statistically significant amounts, so the results were inconclusive. View the indicator or print the analysis.

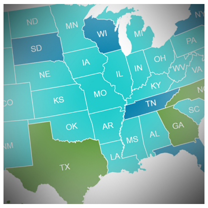


### State Personal Income

Western States Lead the Pack in Key Economic Indicator. The second-longest U.S. economic recovery has played out unevenly across states. Growth has been strongest in North Dakota and a group of mostly Western states and weakest in Connecticut, as measured by the rate of change in each state's total personal income since the start of the Great Recession. State personal income growth—a measure of the economy—has trailed its historical pace. But for just the sixth time since the end of the downturn, all states posted gains from a year earlier in the third quarter of 2018. View the indicator or print the analysis.

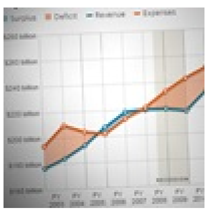
## Additional challenges await states

Even states that have overcome the effects of the recession may face financial and demographic pressures that could shape their budgets now and for years to come. A number of state governments face fiscal constraints today because of inherited shortfalls in funding for public employees' pension and retiree health care benefits; recurring deficits between annual state revenue and expenses; and weak population growth, which can affect economic prospects and revenue collections. Among other challenges facing states are rising costs for Medicaid, a health care program that accounts for the largest share of total federal aid to states, and tax revenue volatility, which can confound policymakers' efforts to balance budgets.



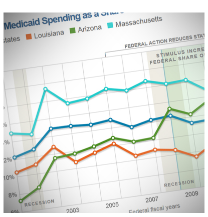

## Debt and Unfunded Retirement Costs

Long-Term Obligations Vary as a Share of State Resources. Unfunded pension benefits were the largest, most prominent, and fastest-growing of a selection of future costs facing states as of 2013. States reported $968 billion in unfunded pension costs—the equivalent of 6.9 percent of 50-state personal income, as well as $587 billion in unfunded retiree health care liabilities (4.2 percent of personal income) and $518 billion in outstanding debt (3.7 percent). If not properly managed, these costs can limit future budget flexibility and raise borrowing costs. View the indicator or print the analysis.



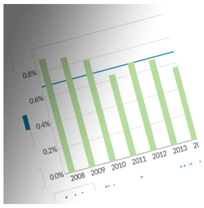
## Fiscal Balance

Over Long Term, Revenue Lags Behind Expenses in 10 States. Even in the aftermath of two recessions, most states amassed sufficient revenue between fiscal years 2003 and 2017 to cover all their expenses. But total revenue in 10 states fell short, jeopardizing those states' long-term fiscal flexibility and pushing off to future taxpayers some past costs for operating government and providing services. States can withstand periodic deficits without endangering their fiscal health over the long run. But chronic shortfalls are one indication of a more serious, unsustainable structural deficit in which revenue will continue to fall short of spending absent policy changes. View the indicator or print the analysis.



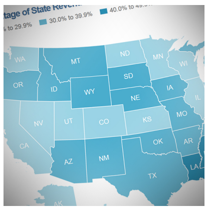
## State Medicaid Spending

More Than 17 Percent of State Revenue Goes to Medicaid. The share of states' own money spent on Medicaid grew in every state between fiscal 2000 and 2016. States' increases varied widely, however, from less than 1 cent to about 14 cents more per dollar of state-generated revenue, exerting different degrees of budget pressure. Medicaid's claim on state revenue surged in the wake of the Great Recession, after temporary federal economic stimulus dollars expired but before the federally funded expansion of Medicaid eligibility began, and has remained stable since. Medicaid is most state governments' second biggest expense, after K-12 education. View the indicator or print the analysis.. View the indicator or print the analysis.



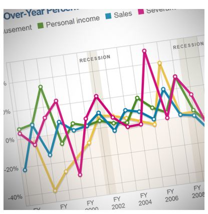
### Population Change

Western, Southern States Gain Residents the Fastest. All but two states—Illinois and West Virginia—added residents over the past decade, with those in the West and South growing fastest. Still, population growth is estimated to have slowed nationally and in most states over the past 10 years, continuing a long-term trend. In 2018 alone, nine states had fewer residents than a year earlier. Population changes are tied to states' economic fortunes and government finances, and are therefore useful for understanding both. View the indicator or print the analysis.



### Federal Share of State Revenue

Federal Share of State Revenue Rises for Third Year. The federal government is the second-largest source of state revenue—accounting for 32.6 percent of the total in fiscal 2016—meaning that federal budget decisions also play a key role in state budgets. But states' reliance on federal funds varies widely, ranging from about 21 percent of revenue in Virginia to more than 43 percent in Mississippi. The share of states' revenue made up by federal dollars in fiscal 2016 was the third-largest on record, capturing the first and second full year of expanded Medicaid eligibility in some states. View the indicator or print the analysis.



### Tax Revenue Volatility

Tax Revenue Volatility Varies Across States, Revenue Streams. Some states experience greater swings in tax revenue from year to year than others do, leading to surprise shortfalls or windfalls that can make it hard to manage budgets. Alaska experienced the greatest volatility over the past two decades and South Dakota the least, after removing the effects of tax policy changes. Taxes on oil and mineral extraction and corporate income were consistently more volatile than other major tax streams. View the indicator or print the analysis.

## RELATED EXPERTS


Barb Rosewicz
Project Director
Research and Content, State Fiscal Health

Kil Huh
Vice President
Government Performance