STATE FISCAL FUTURES: Planning for Uncertainty

State Budgets and Fiscal Federalism

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Executive Director

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The Who in Our Why




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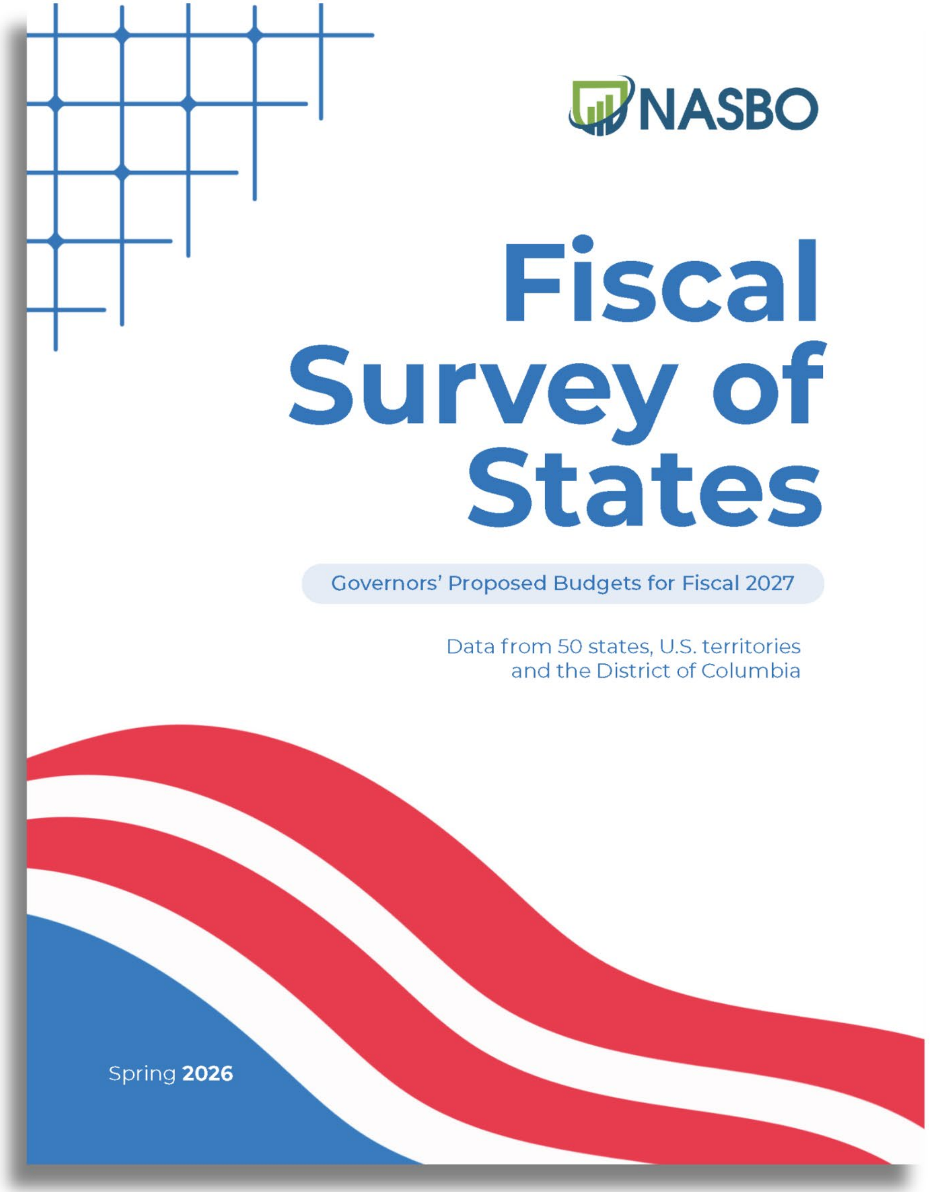
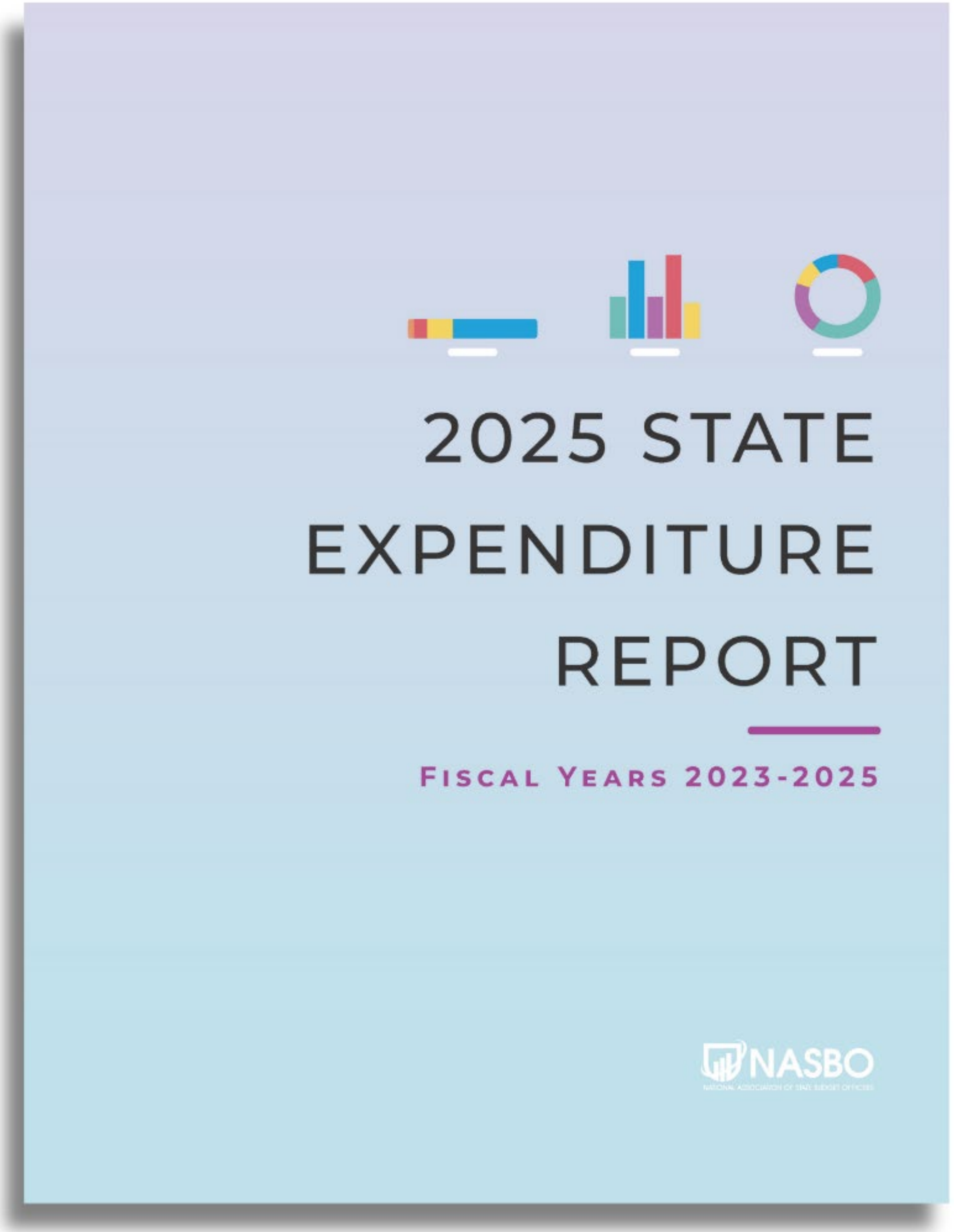
NASBO is an independent, nonpartisan, nonprofit research and educational organization. For more than 80 years, NASBO has been the professional membership organization for budget and finance officers across all states, territories, and DC.



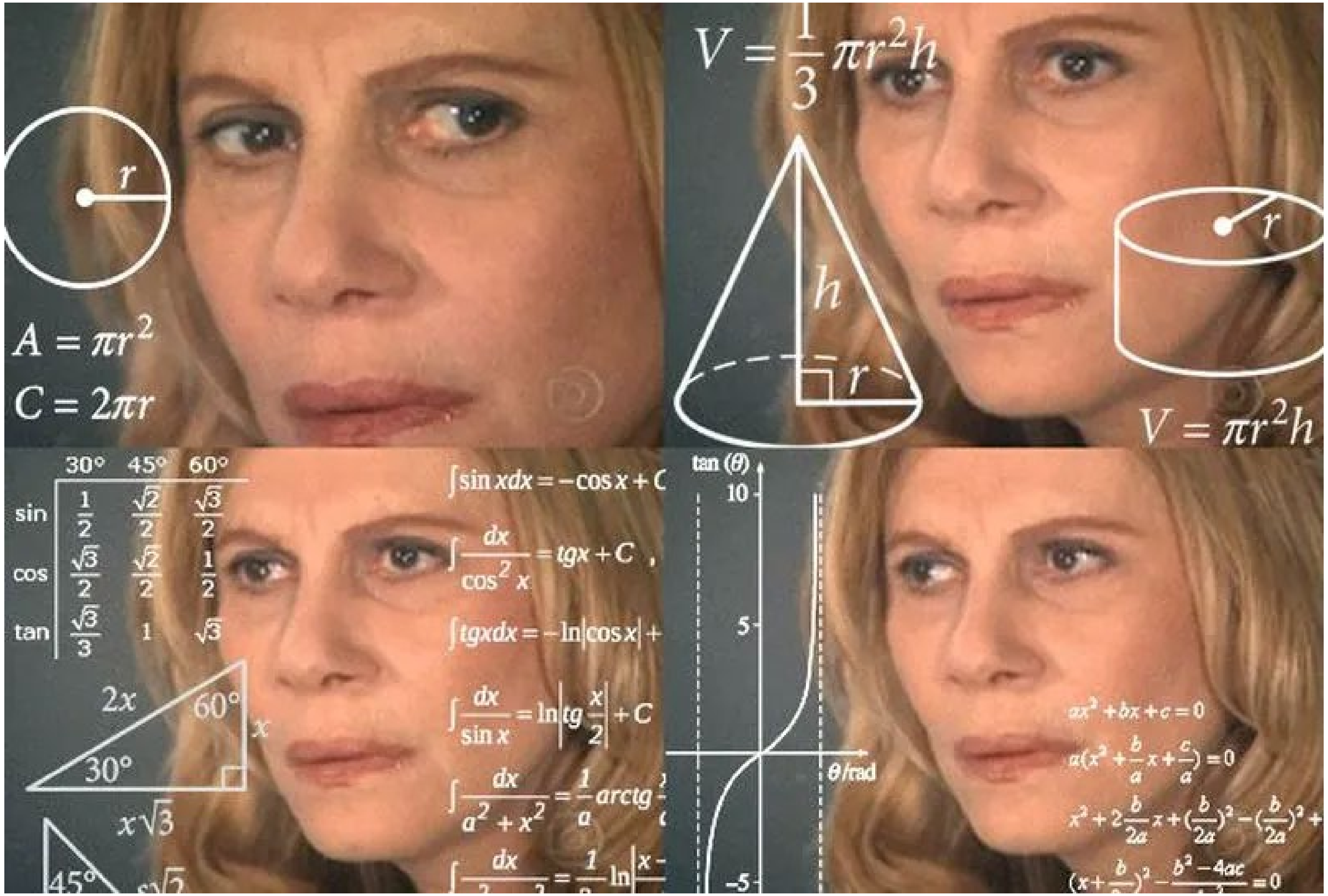
Spring Fiscal Survey of States, 2026

Recommended budgets for fiscal 2027 indicate states and territories face constrained conditions amid slow revenue growth and rising spending pressures



State Expenditure Report

The latest edition includes data from estimated fiscal 2025, actual fiscal 2024, and actual fiscal 2023. The annual report includes 50-state data broken down by fund source and program area, as well as data from three U.S. territories and the District of Columbia.



General Fund Revenues

- ✓ Stable
- ✓ Growing
- ✓ Exceeding forecasts

Overall Economic Environment

- ✓ Growing economy

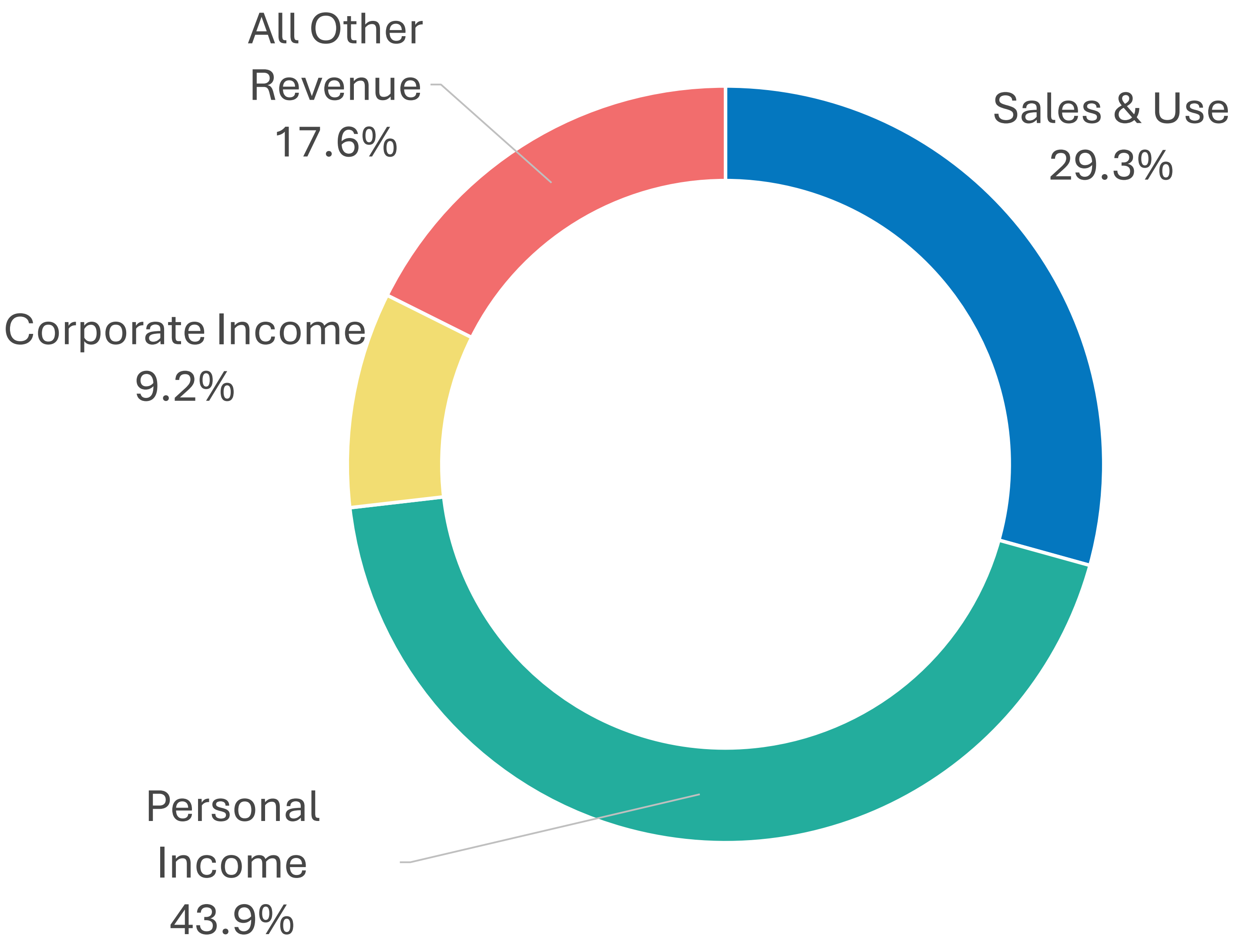
Yet State Budgets Are…

- ✓ Under pressure
- ✓ Tight
- ✓ Facing cuts to balance

State General Fund Revenue Trends

Composition of General Fund Revenue by Source

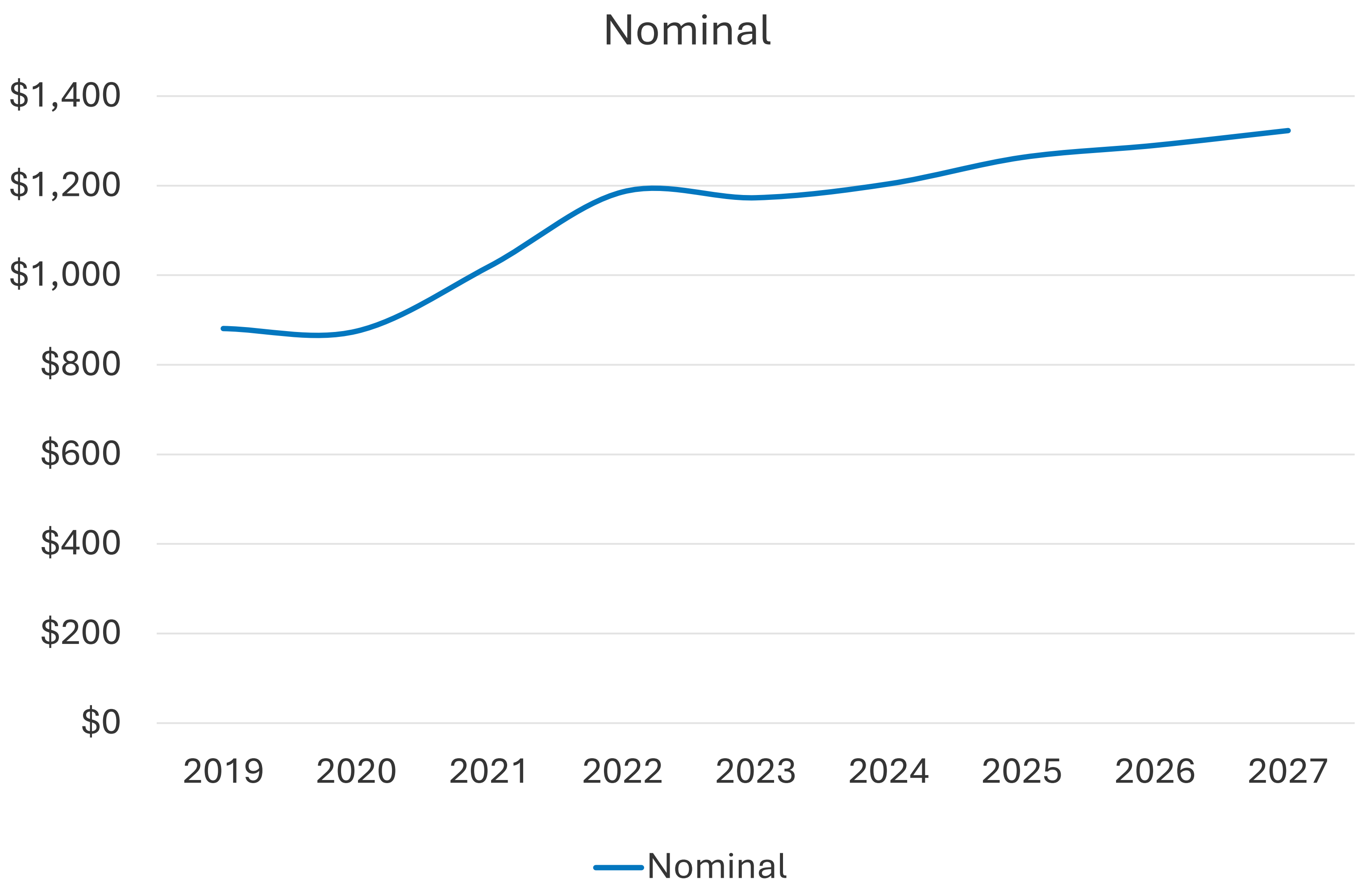
Fiscal 2027 Recommended



NASBO Fiscal Survey of States

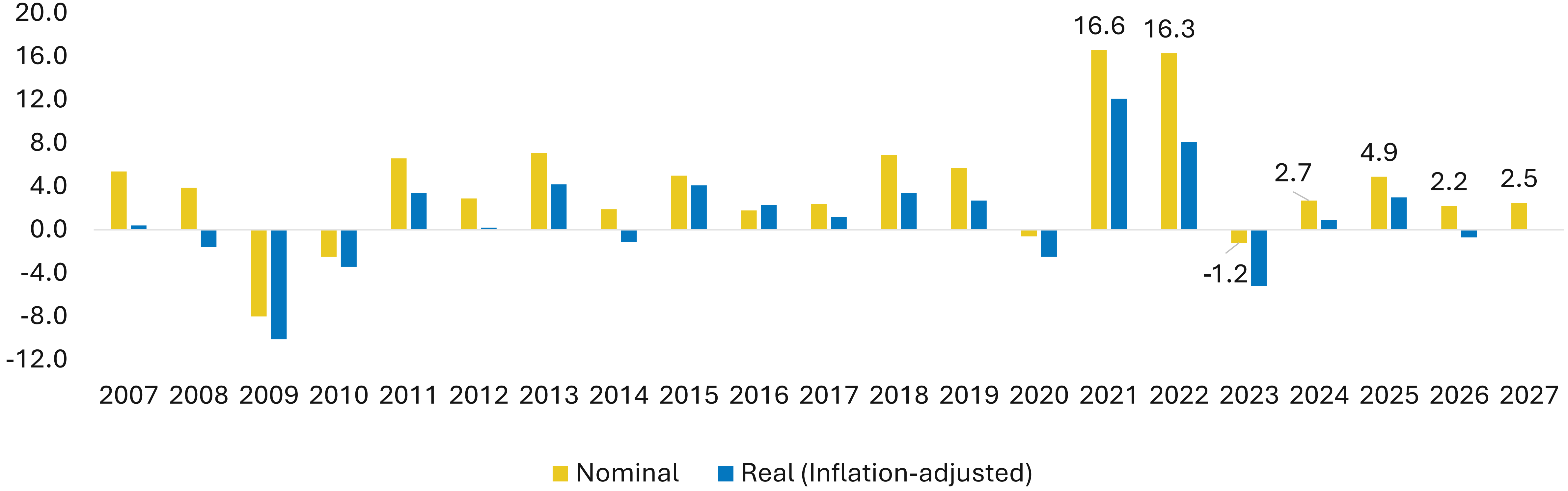
Annual General Fund Revenue (in Billions)

Fiscal 2019 to Fiscal 2027, FY 2027 Recommended Budgets



Note: Fiscal 2026 figure is estimated and fiscal 2027 figure is projected based on governors' recommended budgets. Fiscal 2019 figure adjusted to account for change in reporting methodology for Ohio beginning in the Spring 2021 Fiscal Survey.

Annual General Fund Revenue Percentage Changes
Fiscal 2007 to Fiscal 2027 – FY 2027 Recommended Budgets



Note: Fiscal 2026 figure is estimated and fiscal 2027 figure is projected based on governors' proposed budgets.

NASBO Fiscal Survey of States

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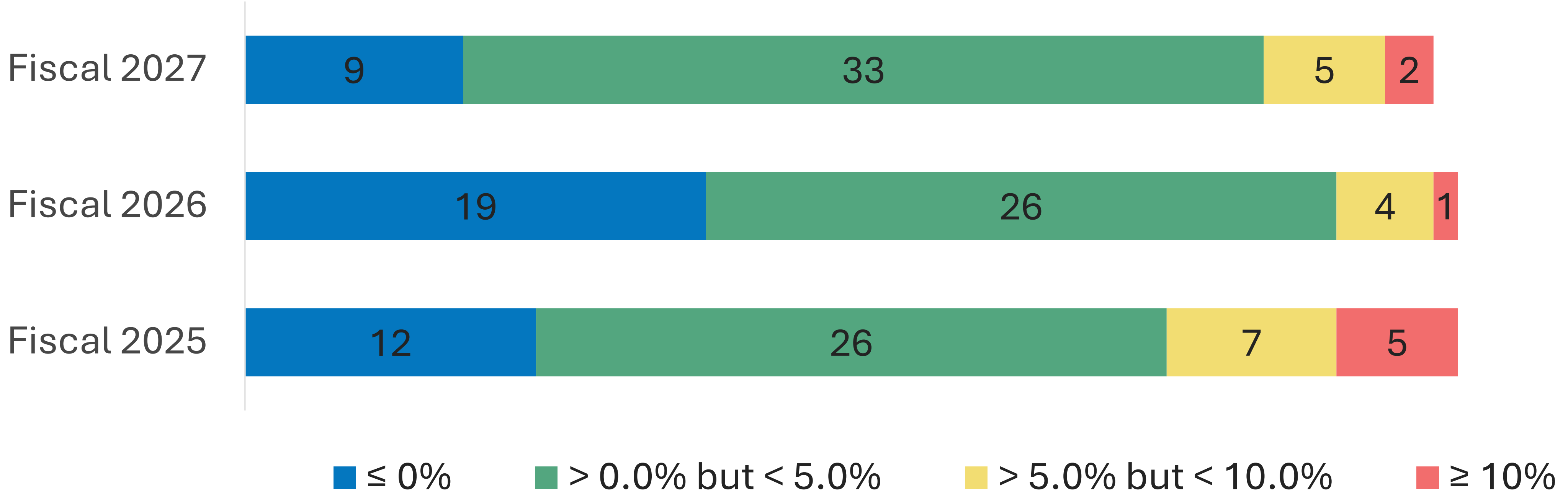
Annual Percentage Change in General Fund Revenue (Number of States), FY 2027 Recommended Budgets



Note: Fiscal 2025 reflects changes from fiscal 2024 (actual) to fiscal 2025 (actual). Fiscal 2026 reflects changes from fiscal 2025 (actual) to fiscal 2026 (estimated). Fiscal 2027 reflects changes from fiscal 2026 (estimated) to fiscal 2027 (recommended). One state (Virginia) was not able to report on revenue projection for fiscal 2027.

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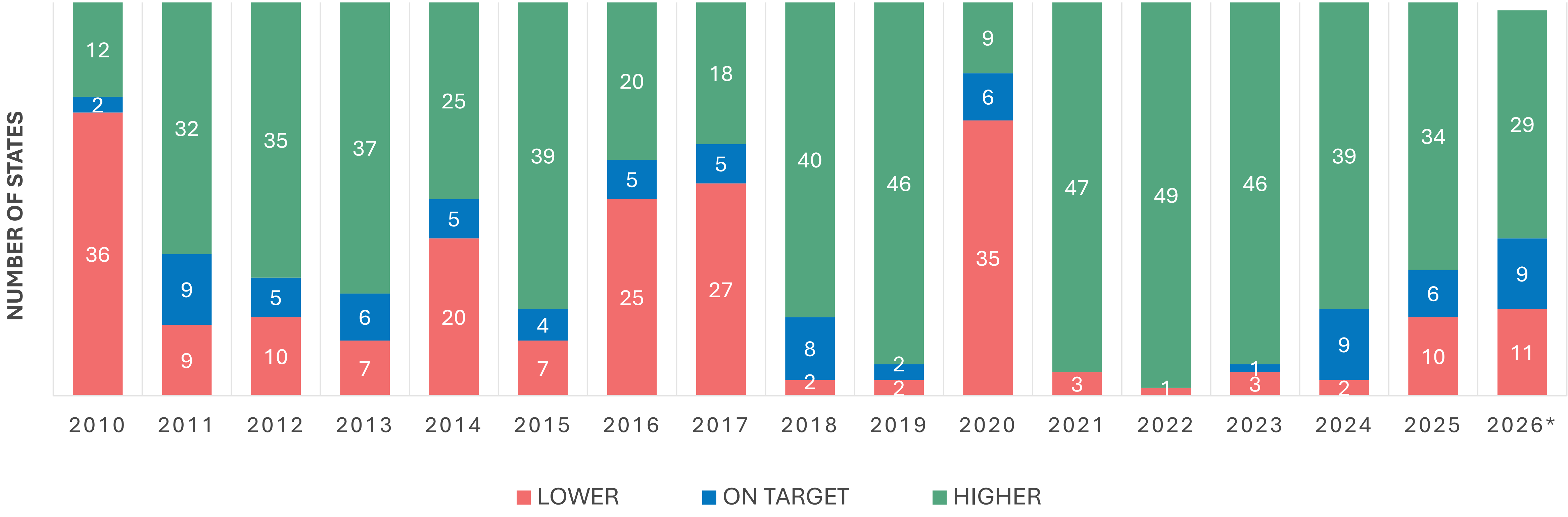
General Fund Revenue Collections

General Fund Revenue Collections Compared To Original Revenue Estimates (By Fiscal Year)



Fiscal 2026 is estimated and data are subject to change.

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Underlying State Fiscal Conditions

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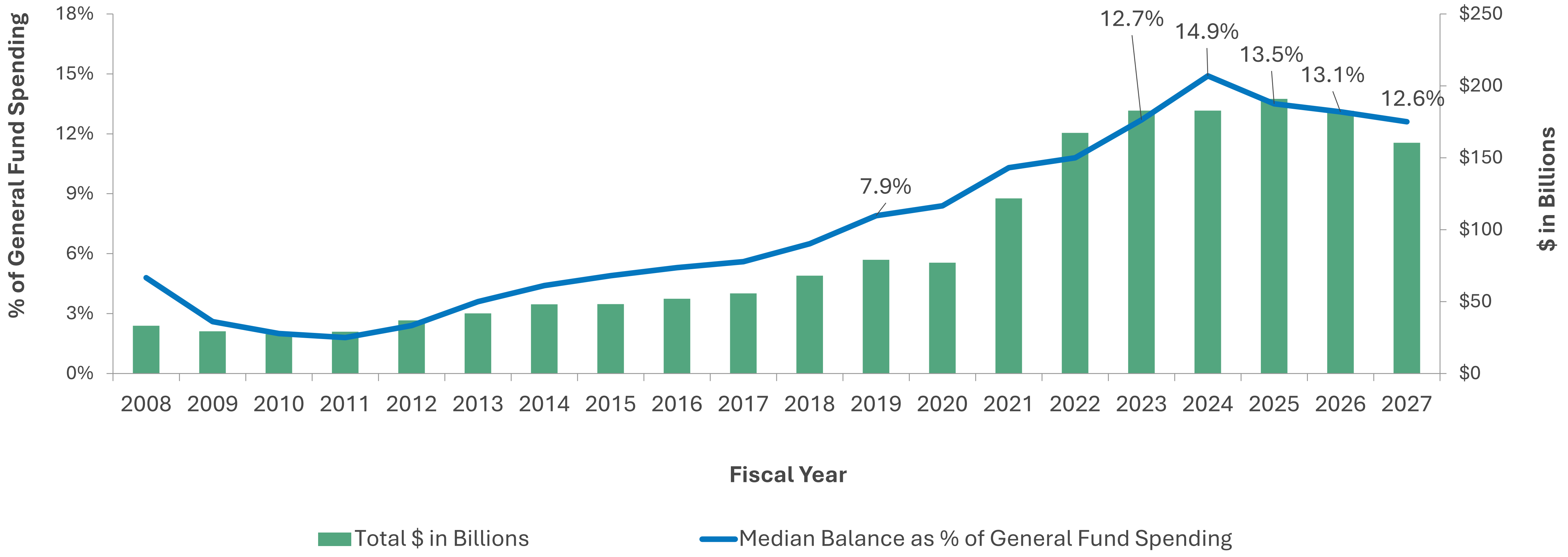
State Rainy Day Funds Fiscal 2008 to Fiscal 2027

Rainy Day Fund Balances in Dollars and Median Balance as a % of General Fund Spending



Note: Fiscal 2026 figure is based on estimated data; fiscal 2027 figure is based on governors' proposed budgets. Total dollar amounts for fiscal 2026 and fiscal 2027 have been adjusted to allow for year-over-year comparisons by including most recent rainy day fund balance figure available for states that were unable to report rainy day fund balance projections for those years.

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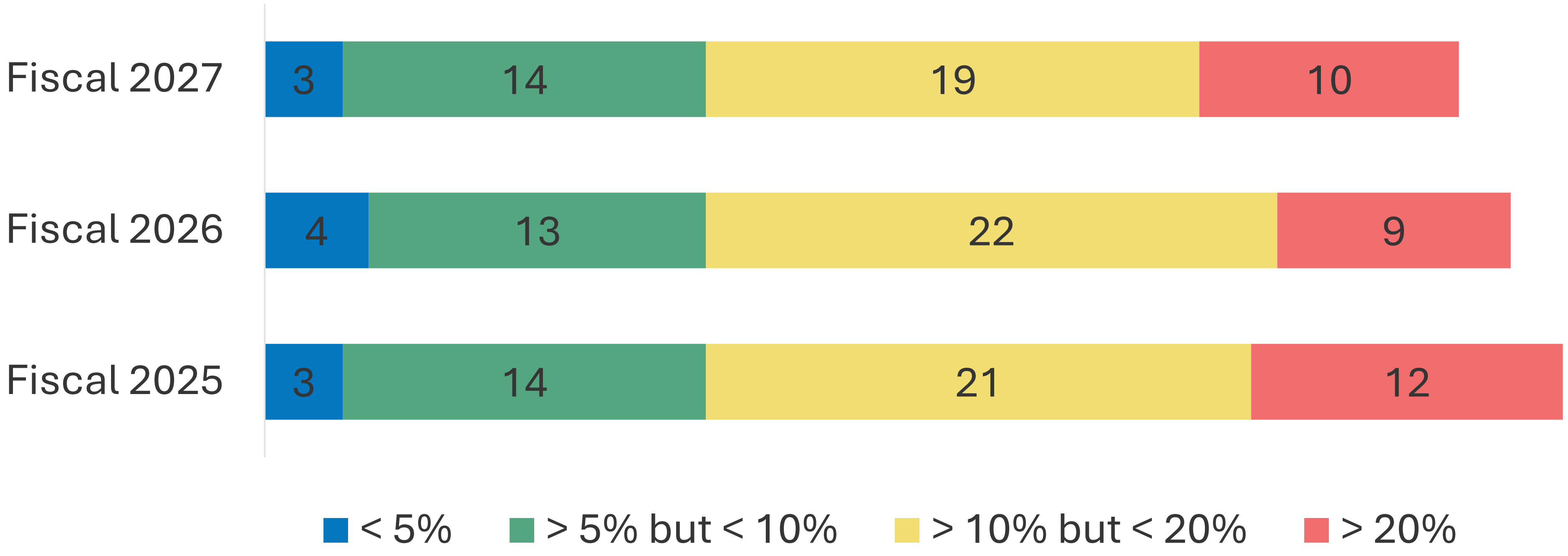
Rainy Day Fund Balance as a Percentage of General Fund Spending (Number of States)



Note: Fiscal 2026 is estimated; fiscal 2027 is projected based on governors' recommended budgets. Two states (Georgia and Wisconsin) were not able to report on rainy day fund balance projections for fiscal 2026, while four states (Georgia, Mississippi, Virginia, and Wisconsin) were not able to report for fiscal 2027.

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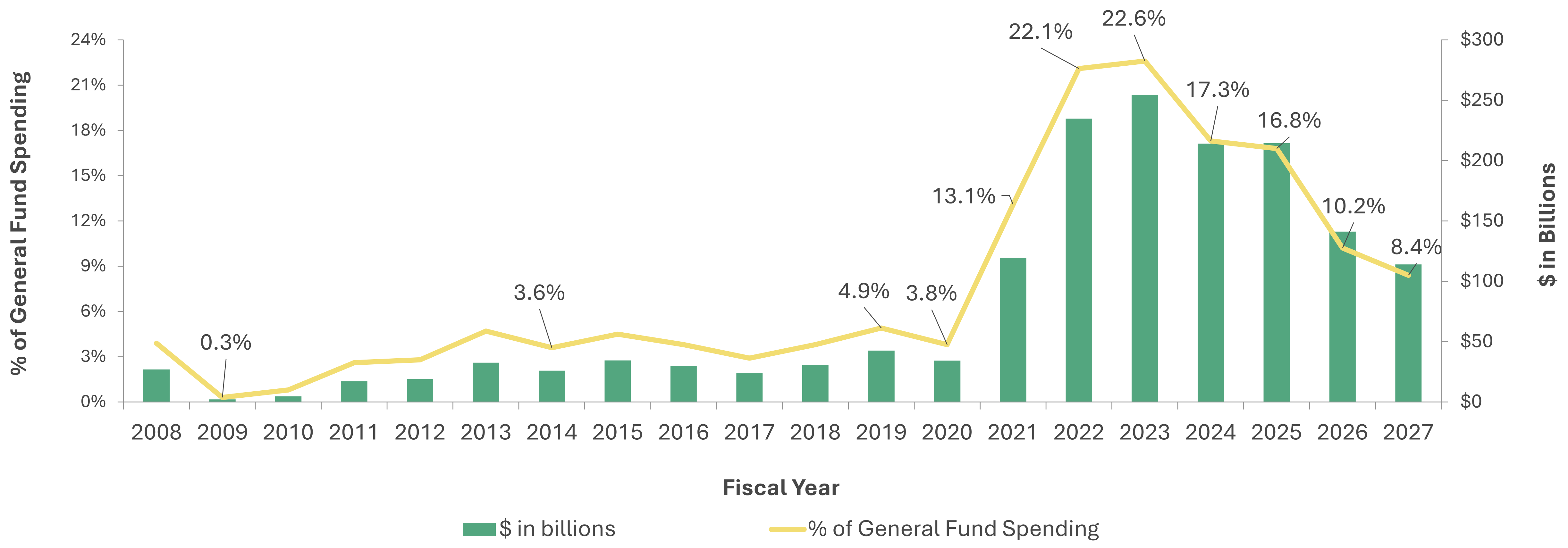
General Fund Ending Balances Fiscal 2008 to Fiscal 2027

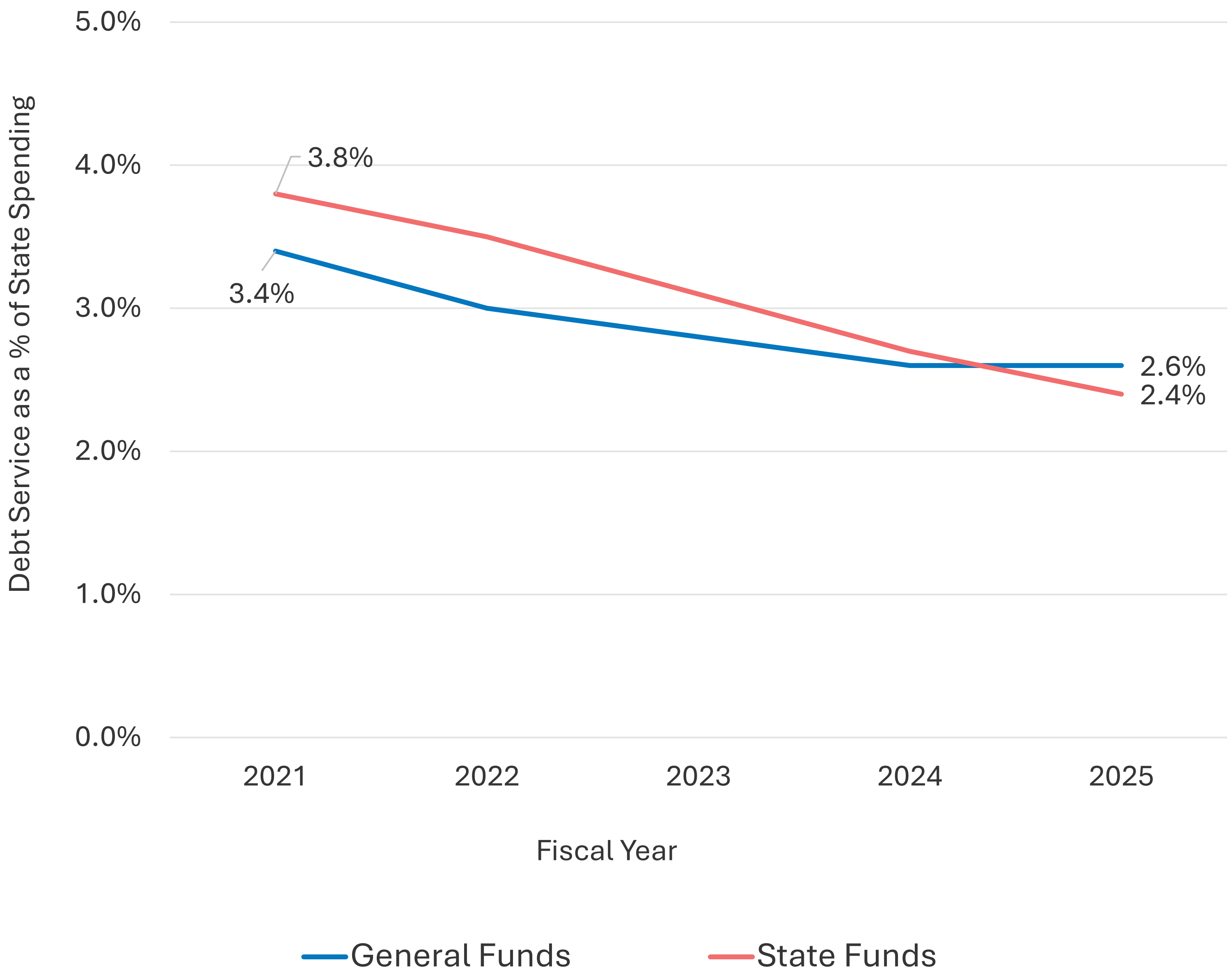
General Fund Ending Balances in Dollars and as a Percentage of General Fund Spending



Note: Fiscal 2026 figure is based on estimated data; fiscal 2027 figure is based on governors' proposed budgets. General fund ending balances shown here have been adjusted to exclude any designated rainy day funds held within a state's general fund.

NASBO Fiscal Survey of States

Debt Service Declines as a Percentage of State Spending



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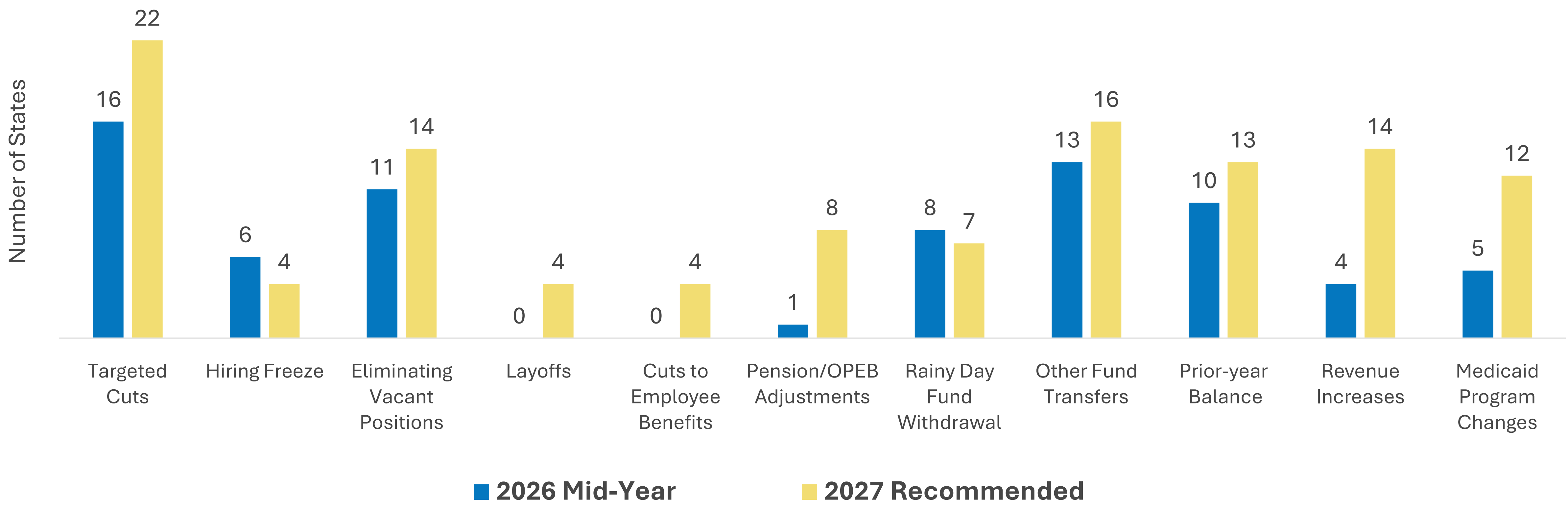
Tight Budgets

Use of Budget Management Strategies

Targeted cuts, personnel actions, and other actions commonly used in fiscal 2027 proposed budgets

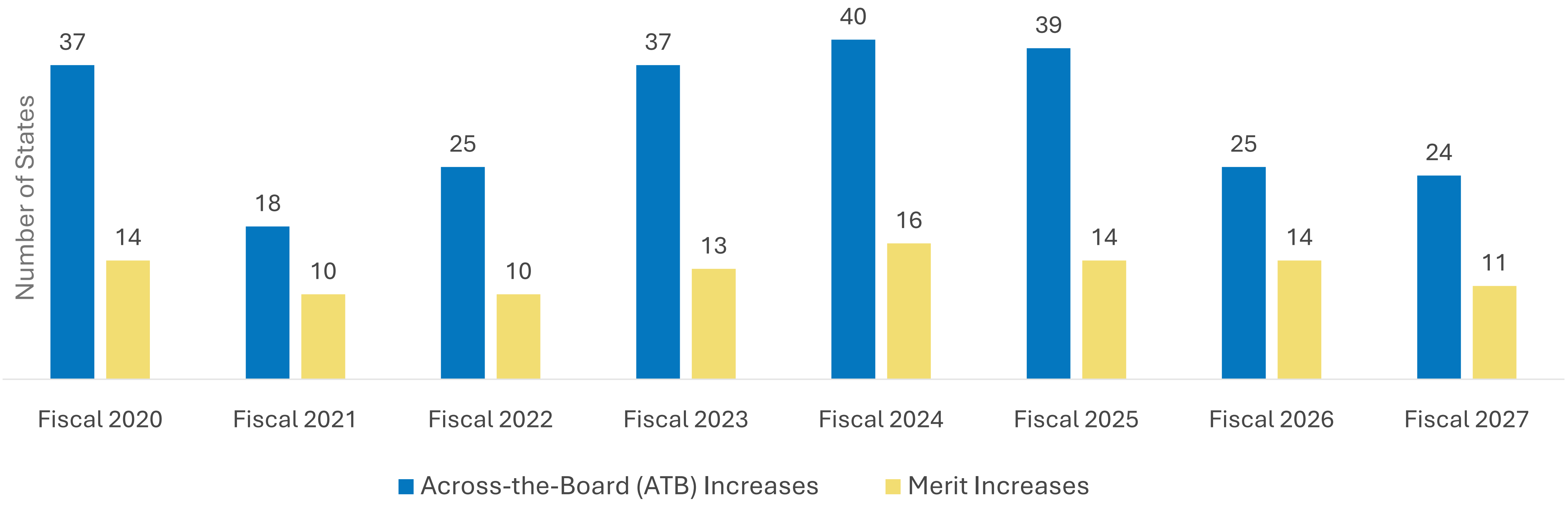


NASBO Fiscal Survey of States

Governors' Proposed Employee Pay Increases in Fiscal 2027
Enacted Employee Pay Increases Fiscal 2020 to Fiscal 2026

State Employee Compensation Changes

Across-the-board increases in Fiscal 2027 ranged from 1-5%, with a median increase of 2.4%.



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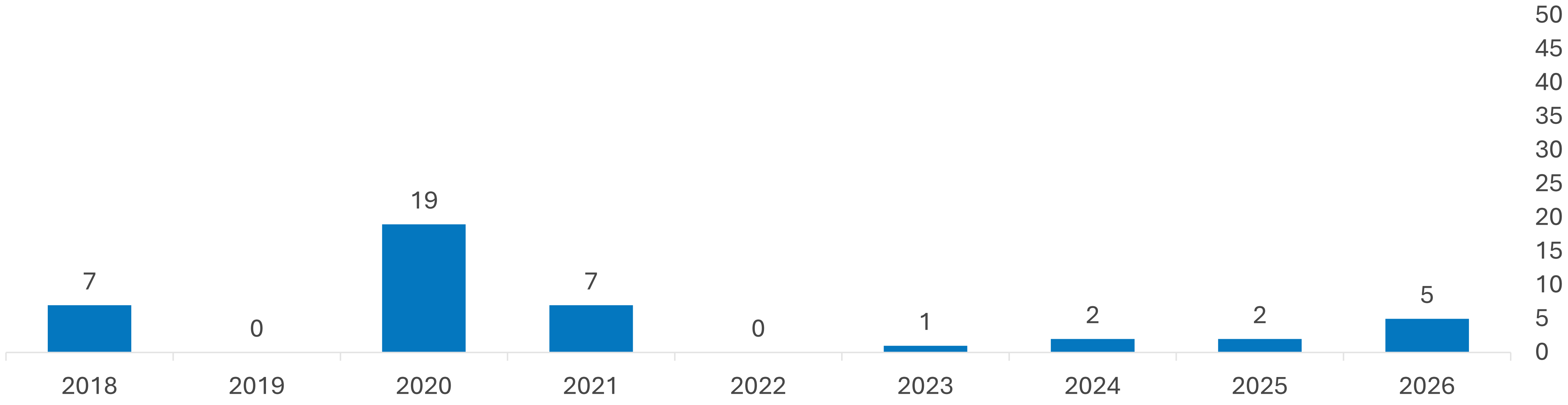
Mid-Year Budget Reductions Due to a Shortfall Fiscal 2018 to Fiscal 2026

Number of States Making Budget Cuts Made The Budget Passed Due to a Revenue Shortfall

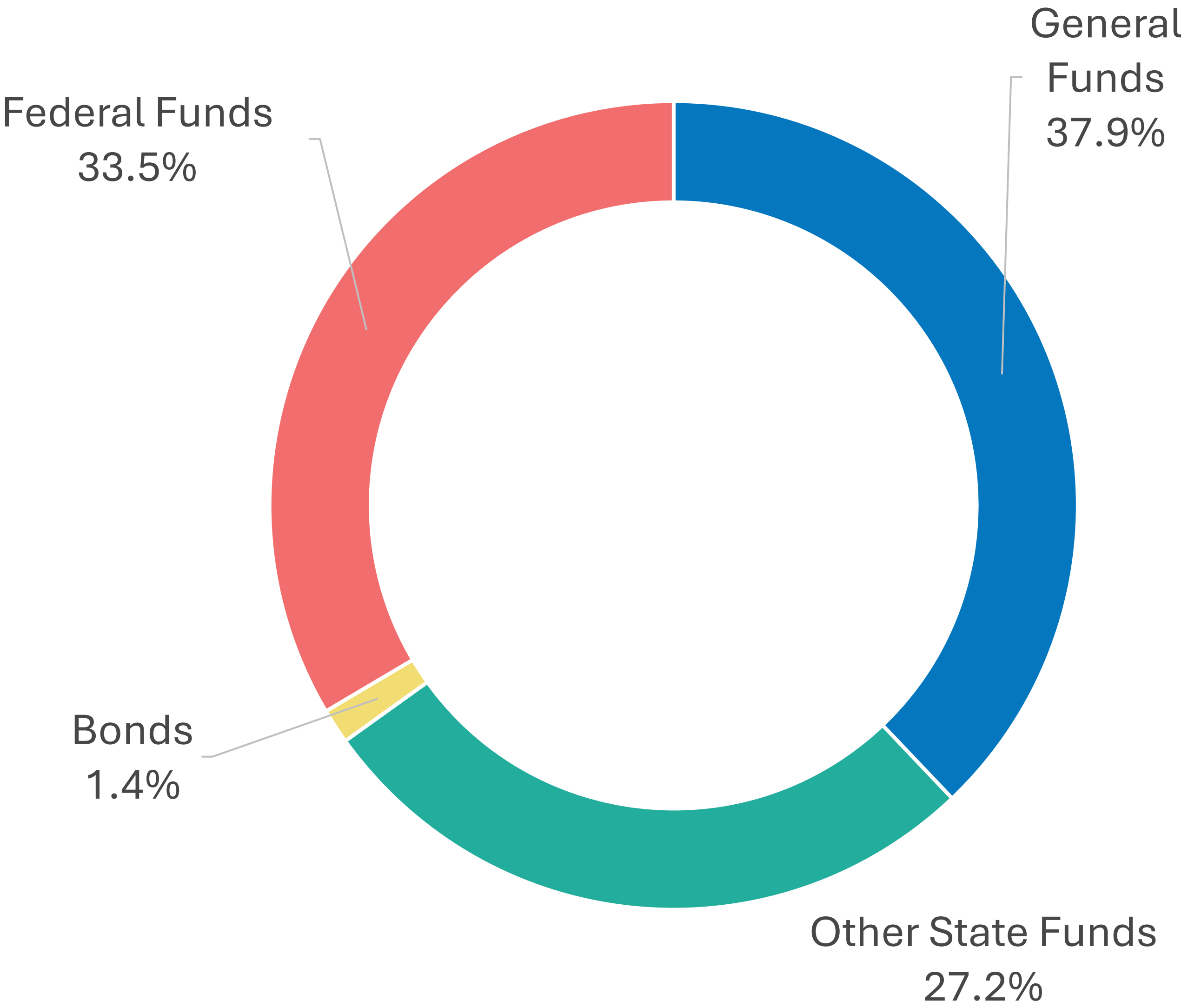


Fiscal 2026 is ongoing, includes proposed actions, and is subject to change.

NASBO Fiscal Survey of States

Total State Expenditures By Fund Source

Estimated FY2025



Source: NASBO State Expenditure Report

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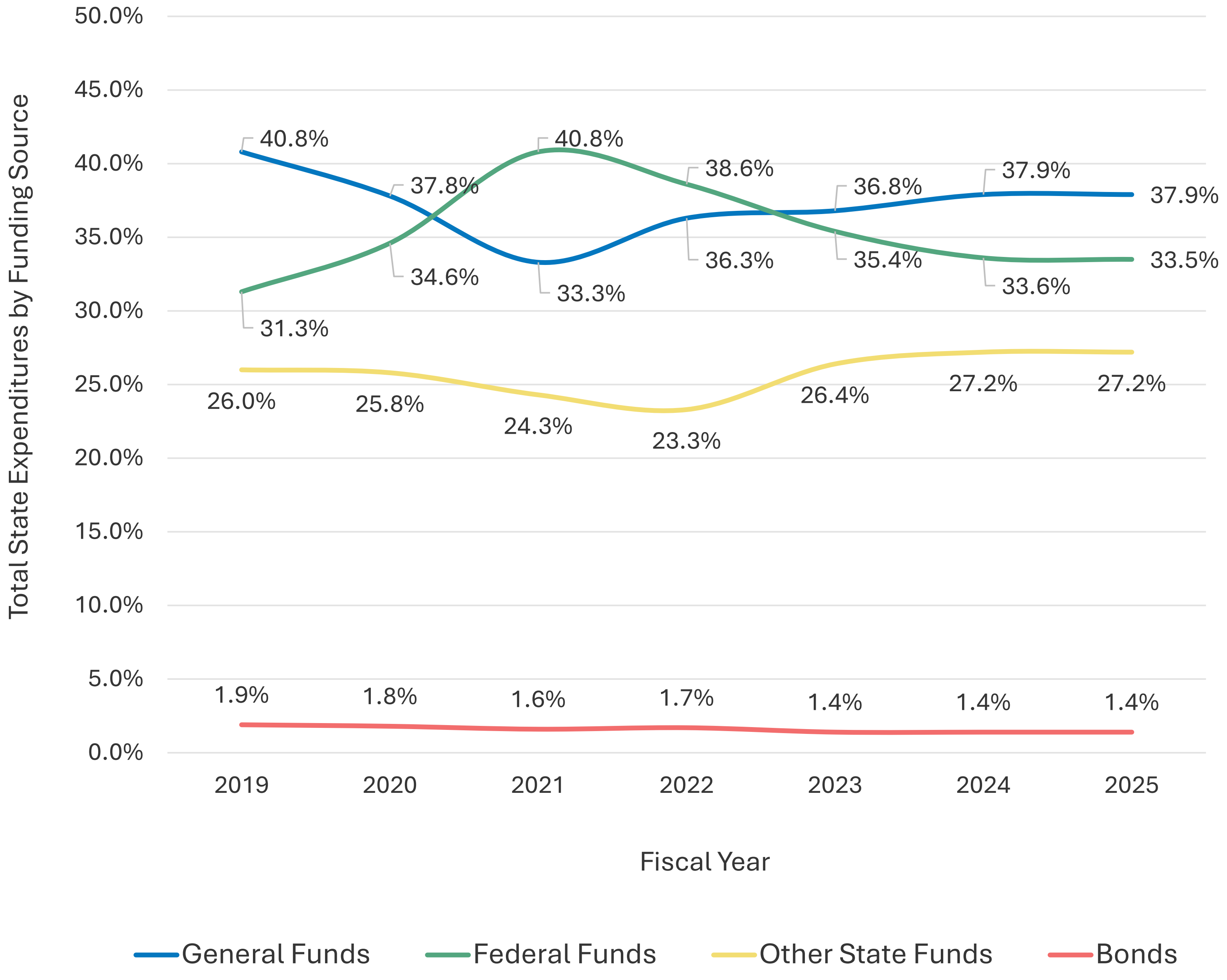
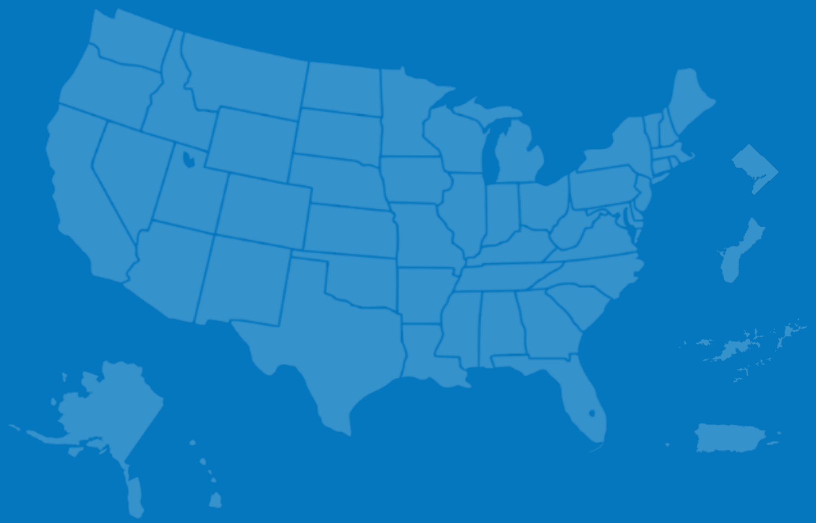
Federal Expenditures Are Returning to Normal Levels



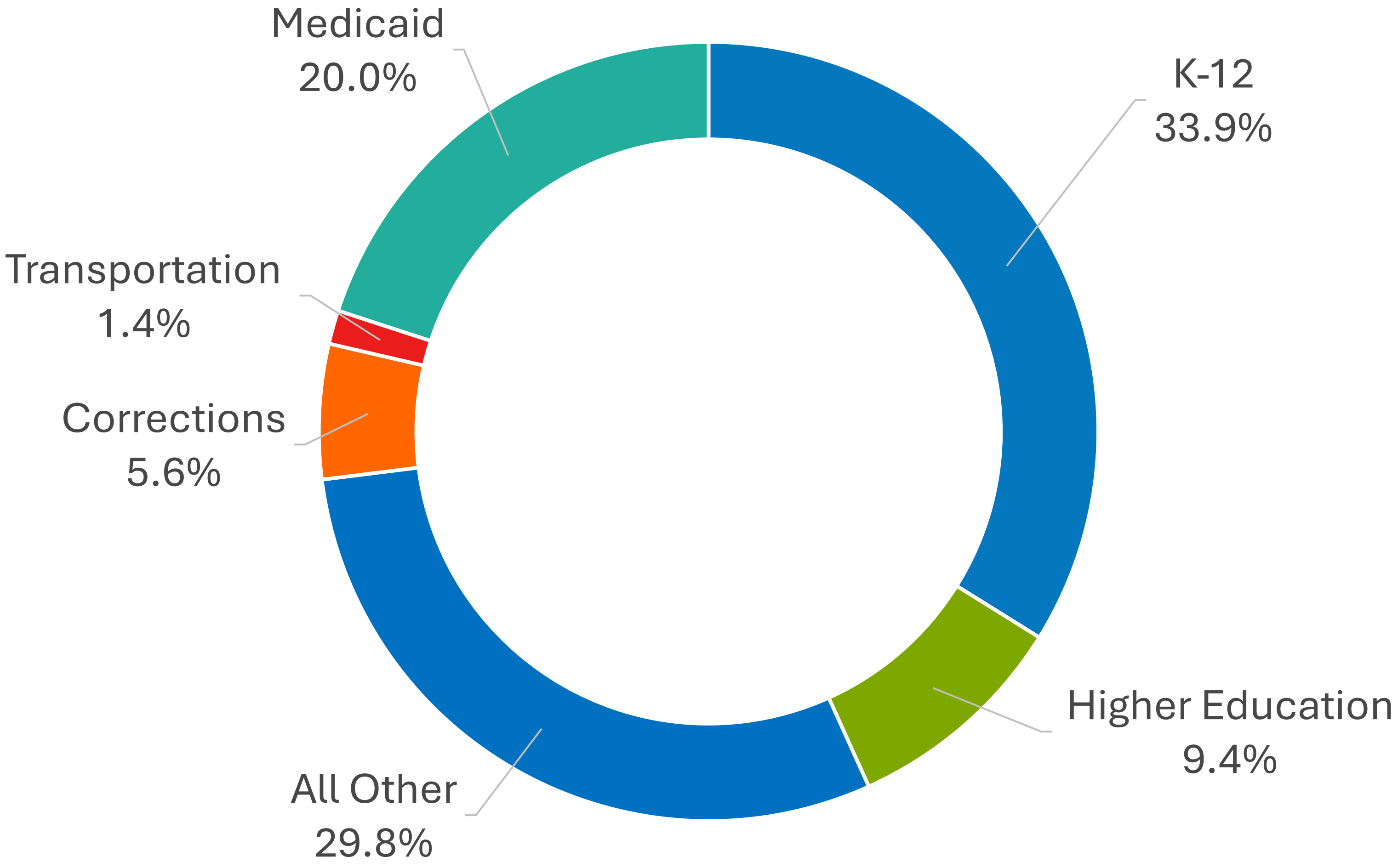
Medicaid: The Budget's Center of Gravity



$1,216 Billion

FY25

General Funds Expenditures By Function



Source: NASBO State Expenditure Report

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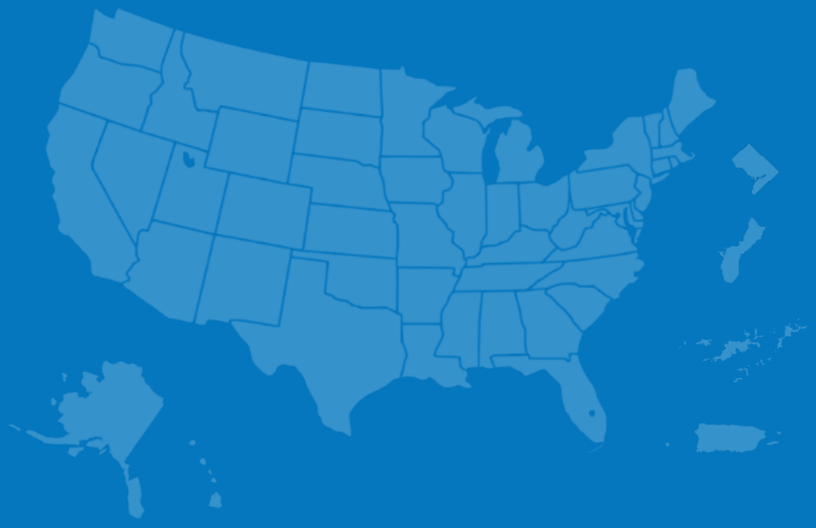
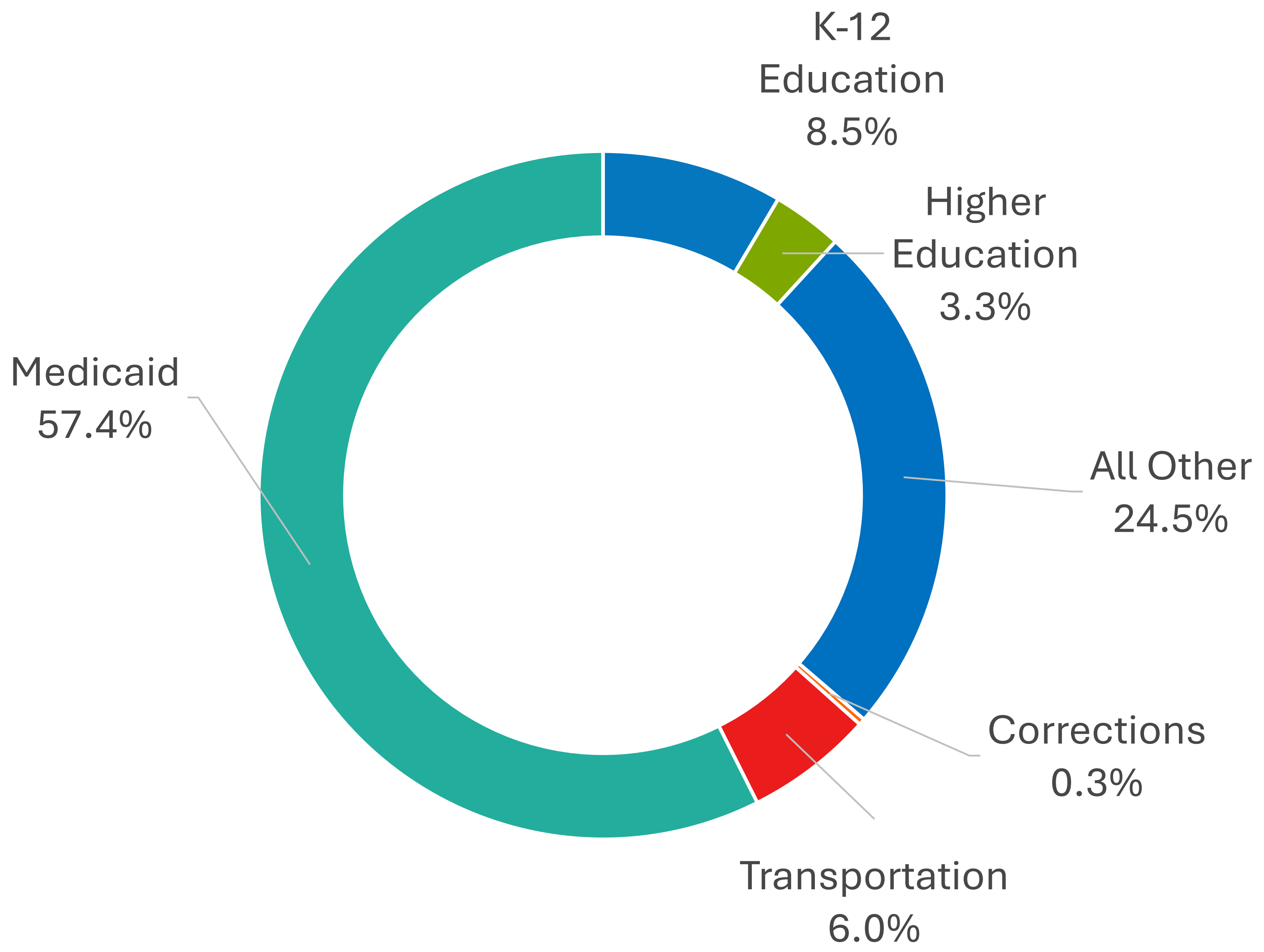
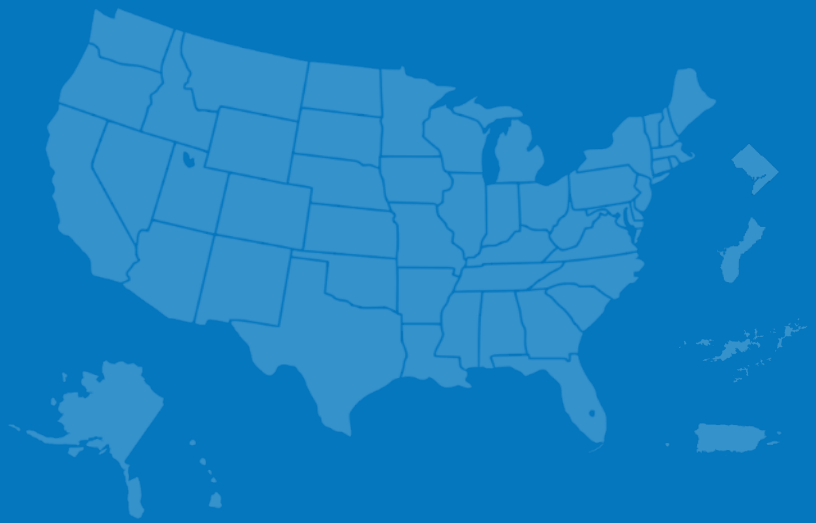


$1,077 Billion | FY25

Federal Fund Expenditures By Function

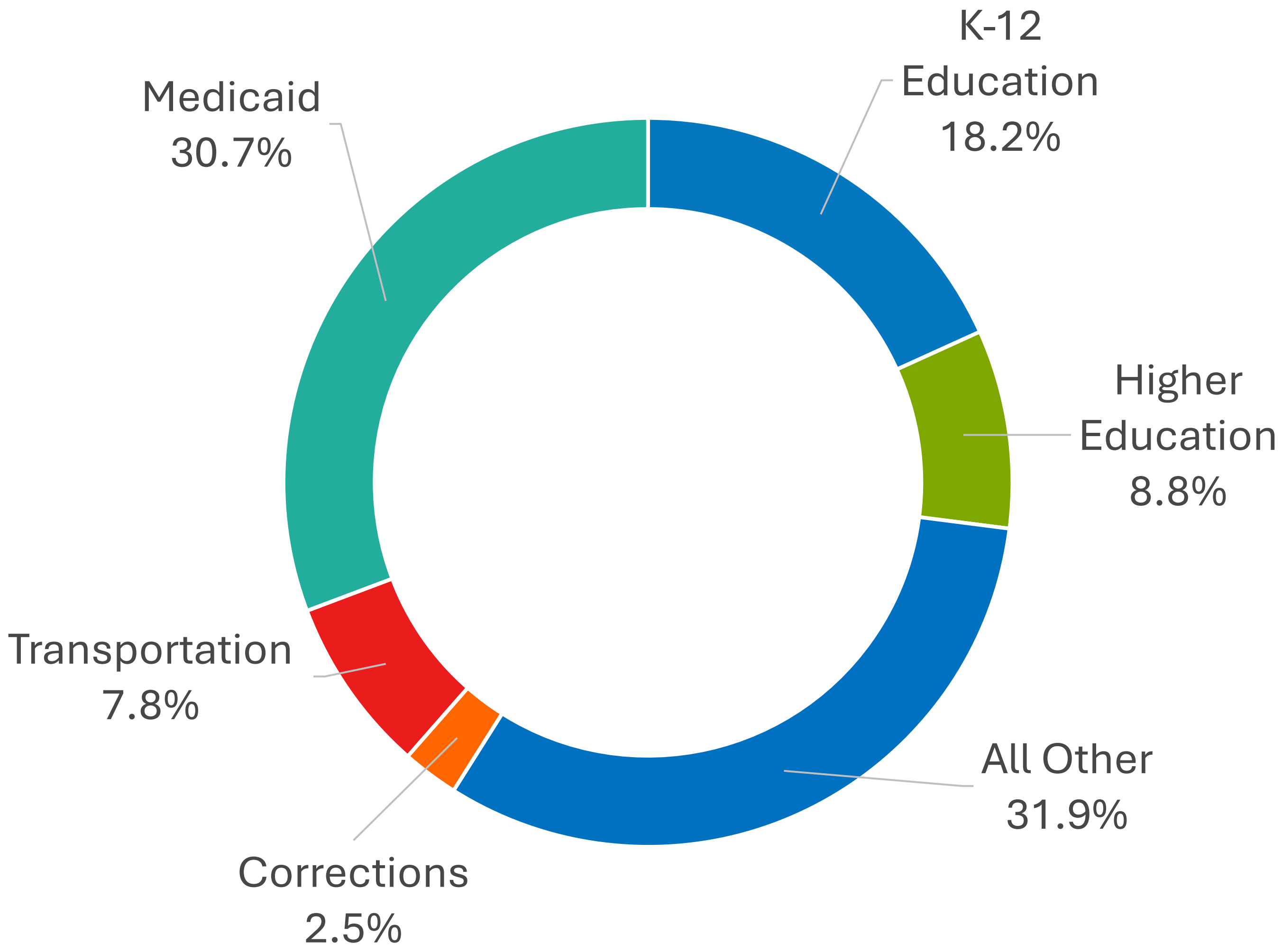


Source: NASBO State Expenditure Report



$3,212 Billion | FY25

Total State Expenditures By Function



Source: NASBO State Expenditure Report

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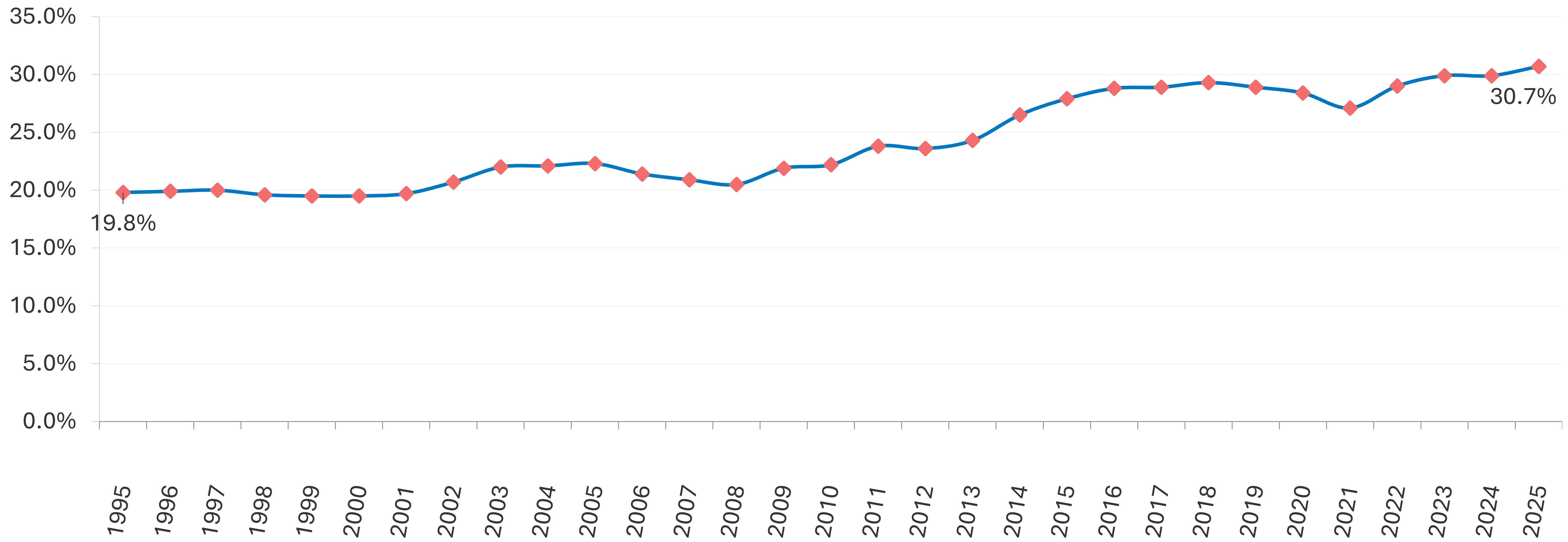
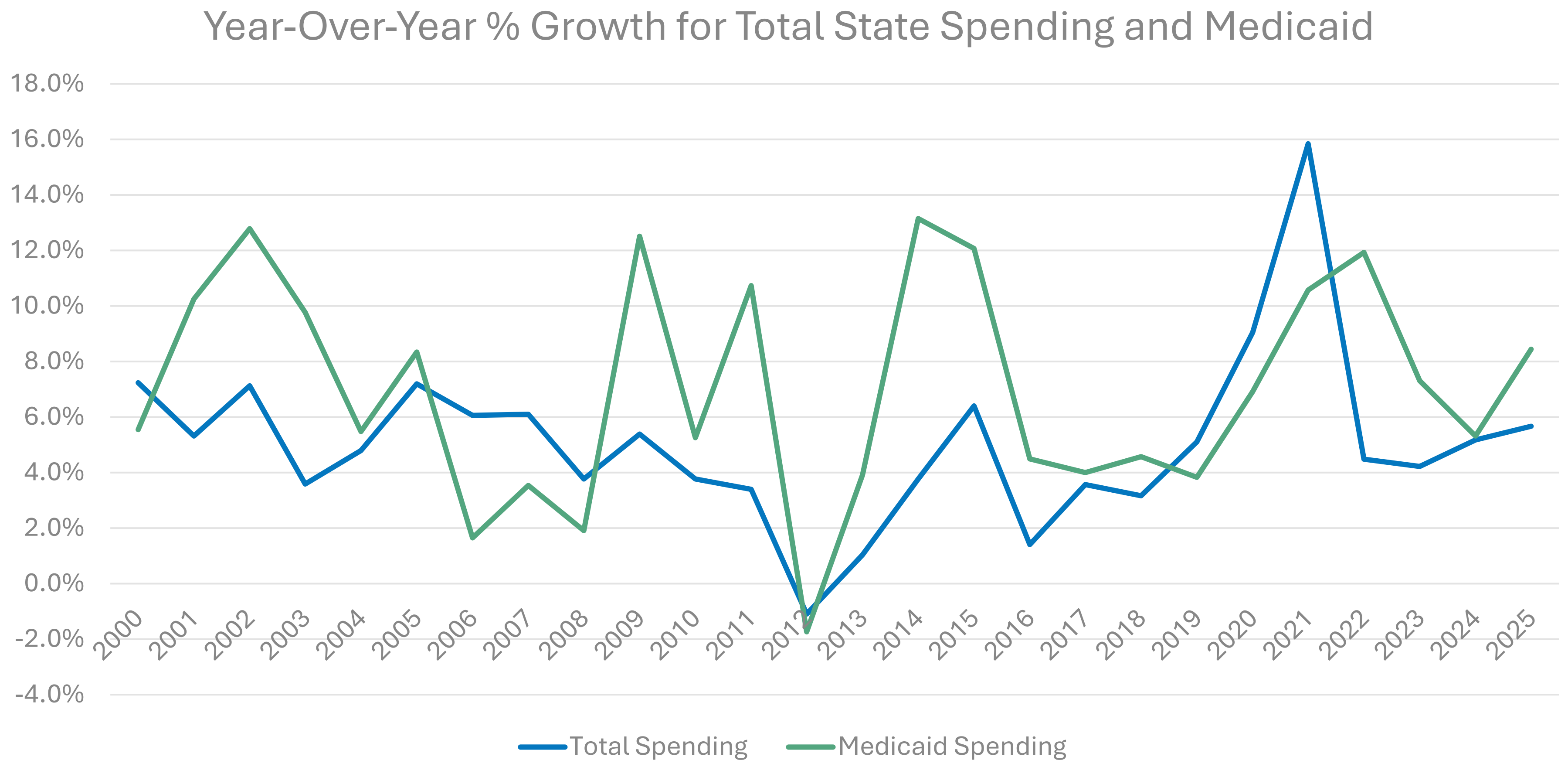
Medicaid as a Share of Total State Spending*



*Total state expenditures include spending from general funds, other state funds, bonds, and federal funds to states.

Total State Spending and Medicaid*

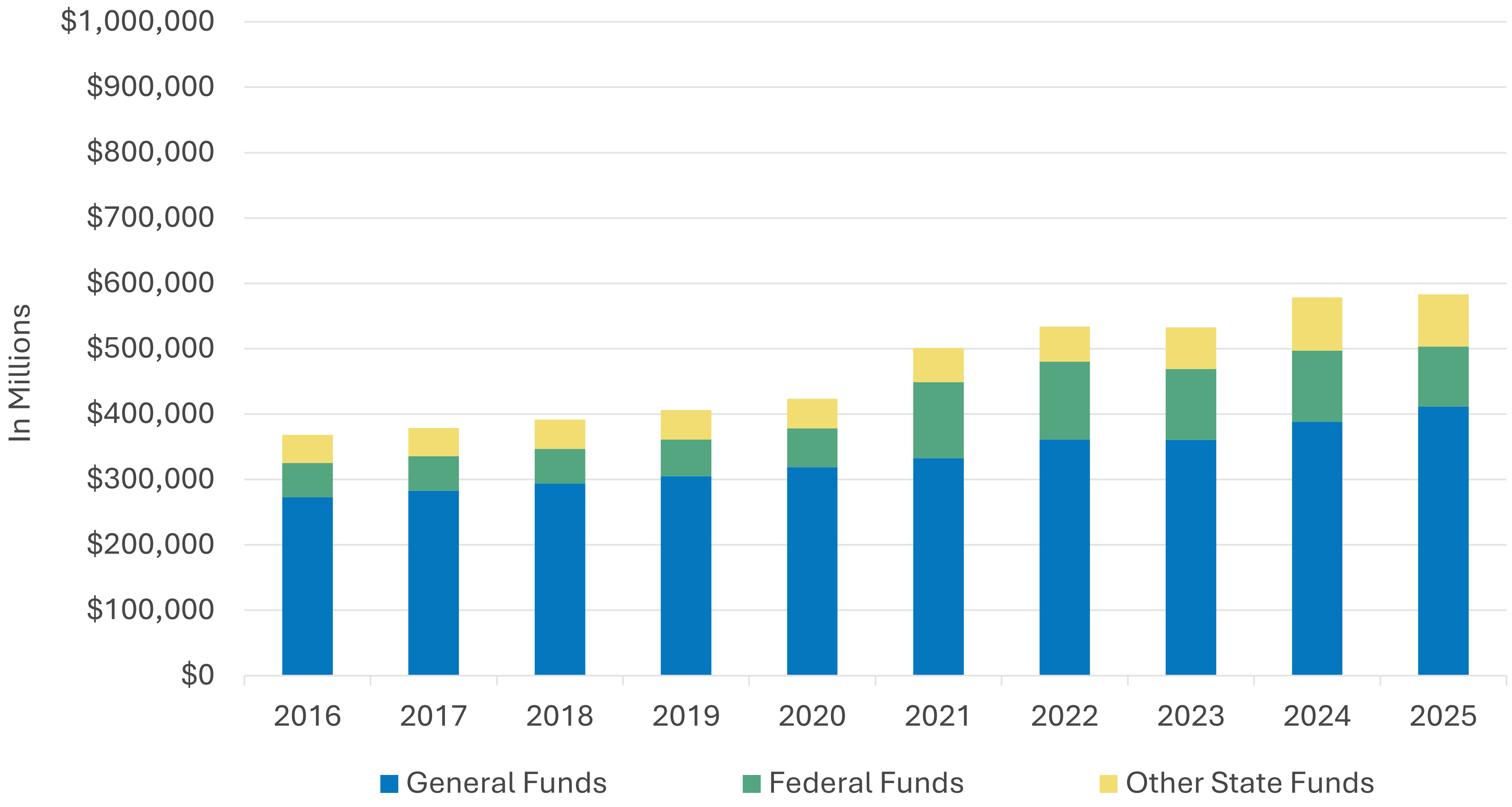


** Includes both state and federal funds*

State K-12 Spending by Fund Source Over Time

10-Year Change

Other State Funds	+84.1%
Federal Funds	+78.7%
General Funds	+55.8%
Total Funds	+62.1%

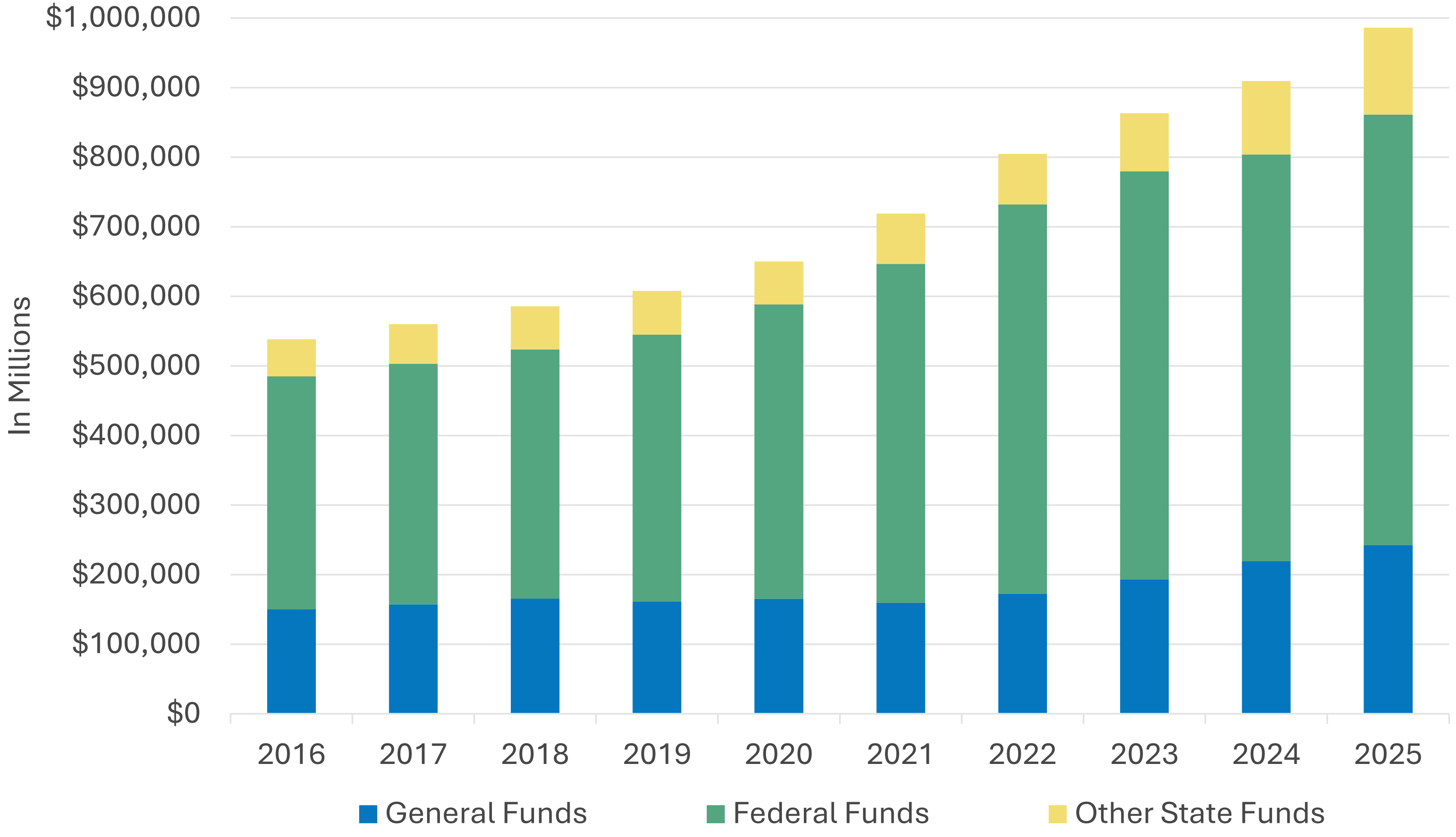


NASBO State Expenditure Report

State Medicaid Spending by Fund Source Over Time

10-Year Change

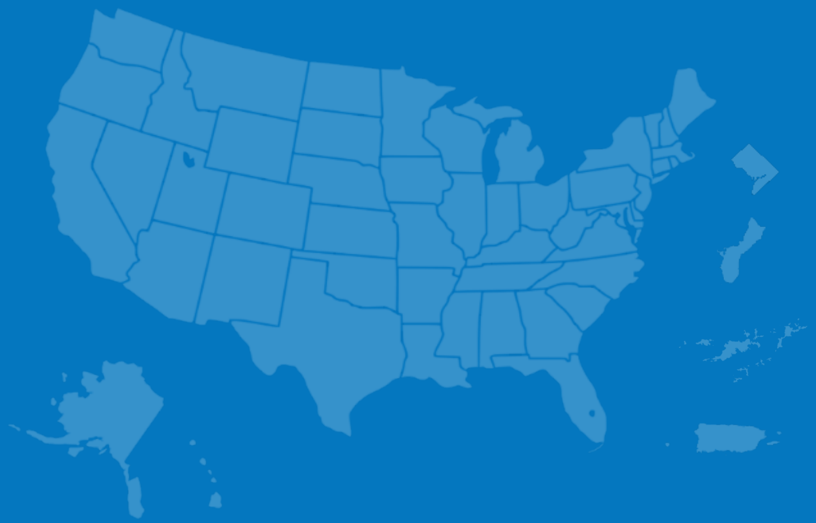
Other State Funds	+135.0%
Federal Funds	+95.4%
General Funds	+66.6%
Total Funds	+91.3%



NASBO State Expenditure Report

Major Expenditure Impacts Ahead: One Big Beautiful Bill Act

NASBO



Select OBBBA Provisions Affecting State Budgets

Fiscal Year 2027 - Increased state share of SNAP administrative costs from 50% to 75% (October 1, 2026); More frequent Medicaid eligibility checks and Medicaid work requirements (December 31, 2026)

Fiscal Year 2028 – Medicaid Provider taxes phase-down in expansion states (October 1, 2027); SNAP benefit state match begins (October 1, 2027); Grandfathered state directed payments phase-down begins (January 1, 2028)

Estimated Expenditure Impacts: Medicaid

Federal Medicaid Spending

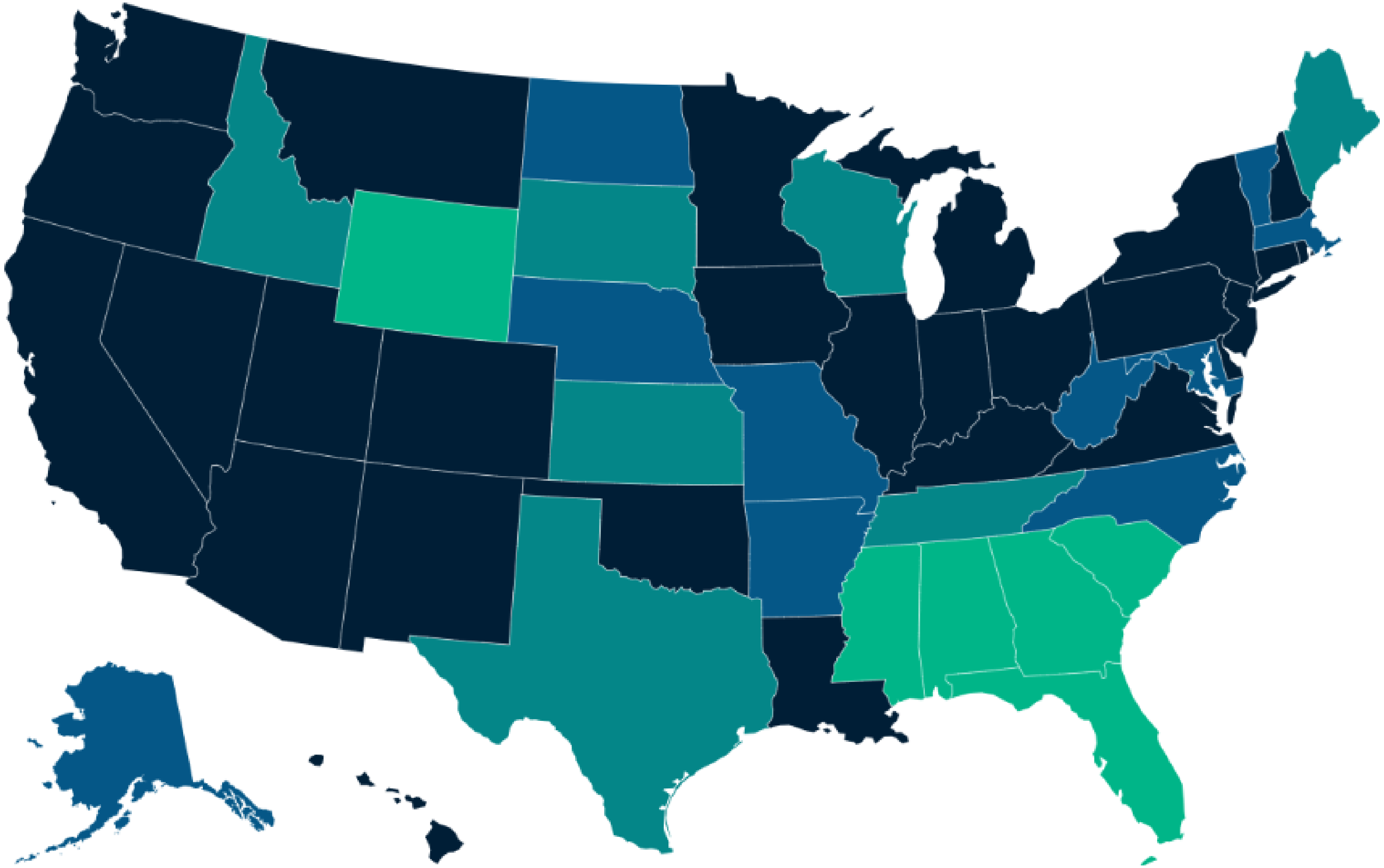
- Federal reductions over 10 years (2025-2034) would represent 14% of federal spending on Medicaid over the period, according to a KFF Analysis.
- KFF used CBO estimates of all Medicaid-related provisions in the package, net of estimated interactions.
- Another independent analysis by Rand, which modeled a subset of major Medicaid provisions in the law, had findings that closely tracked with CBO's estimates for those provisions.
- On an annual basis, 14% of FY 2025 federal Medicaid spending by states is **$86.6 billion**, using NASBO State Expenditure Report data.

Federal Medicaid Cuts in the Enacted Reconciliation Package, By State

As a % of 10-year baseline federal spending (2025-2034)

< 7% | 7%–10% | 10%–13% | ≥ 13%

KFF Data



Note: $911 billion in federal Medicaid spending cuts over the 10-year period is allocated across states, including $79B in estimated Medicaid spending interactions. See Methods in "Allocating CBO's Estimates of Federal Medicaid Spending Reductions Across the States: Enacted Reconciliation Package" for more details.

Source: KFF analysis of CBO estimates of the enacted reconciliation package • Get the data • Download PNG

KFF

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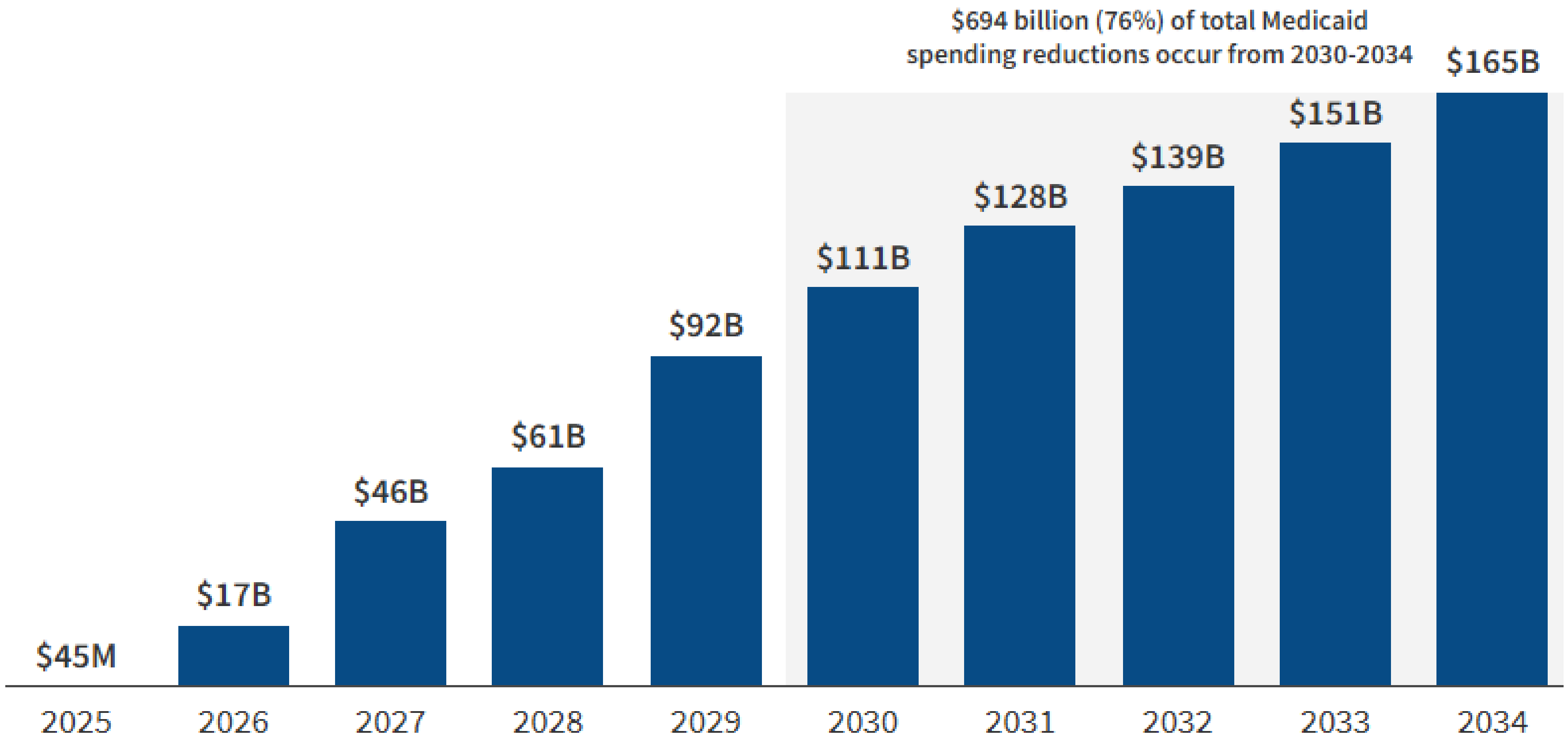
Federal Medicaid Cuts in the Enacted Reconciliation Package, By Year

KFF Data



Note: Estimated interaction effects are included each year. Over the 10-year period, the Medicaid spending reductions total $911B, including $79B in estimated Medicaid spending interactions. Without accounting for interactions, the total is $990B. See Methods in "Allocating CBO's Estimates of Federal Medicaid Spending Reductions Across the States: Enacted Reconciliation Package" for more details.

Source: KFF analysis of CBO estimates of the enacted reconciliation package • Get the data • Download PNG

KFF

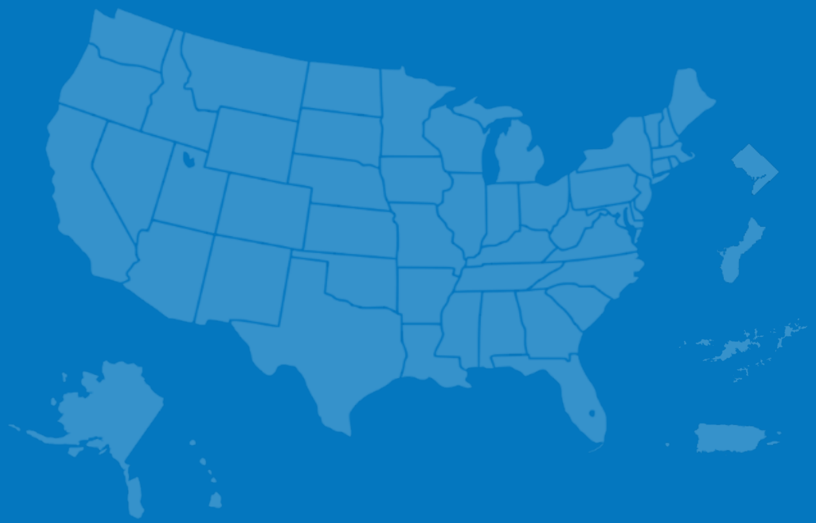
Estimated Expenditure Impacts: SNAP

SNAP Cost Sharing

- States with an error rate of 6% or more will be required to contribute at least 5% of total SNAP benefits, with the match rate rising depending on error rate.
- Based on FY 2025 error rates, states will be required to cover an estimated $9.4 billion in new costs for SNAP benefits, according to an analysis by FFIS.
- Increased administrative cost share from 50% to 75% will add another $3.0 billion in state costs.
- Combined, this cost shift exceeds **$12 billion**.

These are in addition to

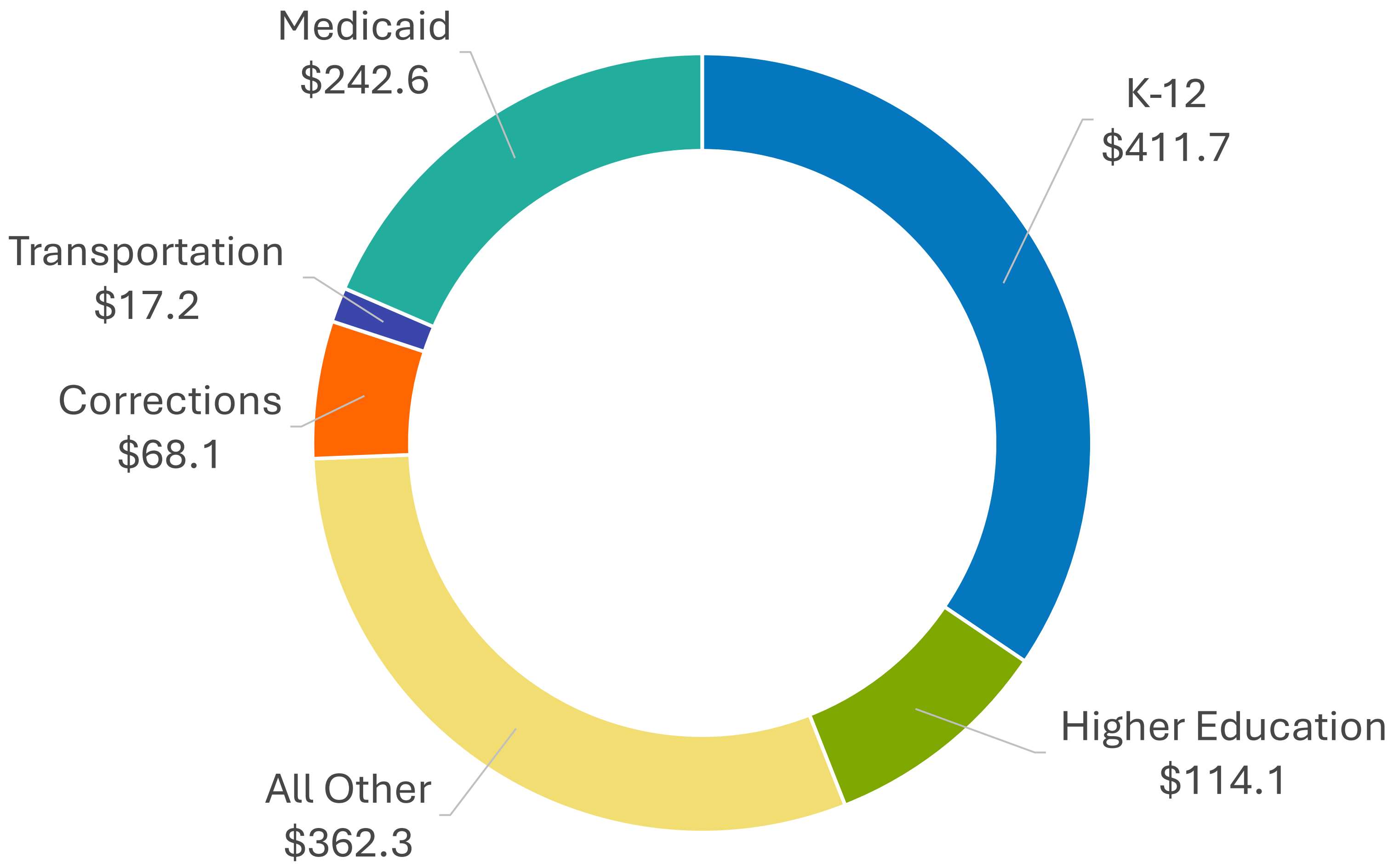
- Other cost shifts
- Cuts to Current Federal Grants
- Current Escalation in State Costs



$1,216 Billion

FY25

General Funds Expenditures By Function



Source: NASBO State Expenditure Report

Amount in Billions

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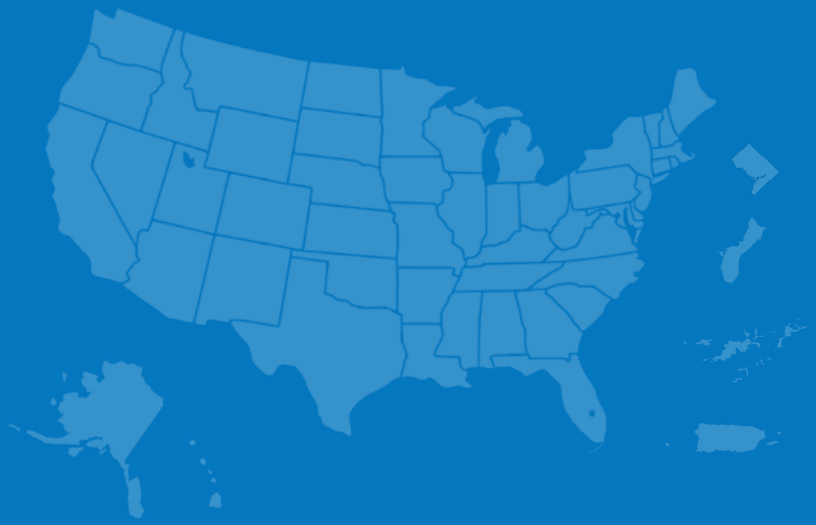
Options States Will Have to Balance Budgets In Response to Federal Actions

Raise revenue

Program reductions

Cuts in other areas

A mix of all three



OBBBA Impacts on States: Takeaways

Revenue impacts from OBBBA tax provisions have reduced general fund revenue growth, substantially in some states.

Expenditure impacts are phasing in with major expenditure impacts from OBBBA occurring in future years.

Impacts are not uniform across states, and state responses to the changes will also vary.

OBBBA changes will be part of state budgeting discussions and decisions for the coming decade.

States will see many changes in leadership before the OBBBA impacts are fully phased-in.

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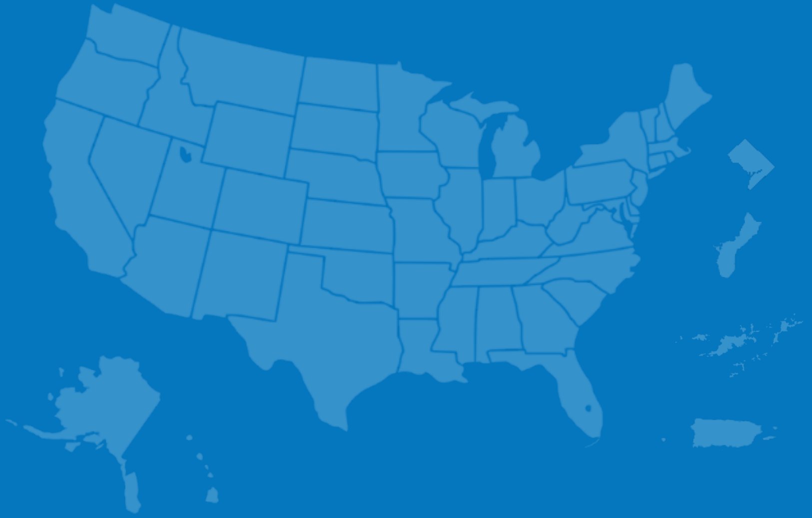

States Are Managing Expectations In A Tighter Environment

State general fund revenue growth is projected to be moderate.

Expenditure growth is outpacing revenue growth. Pressures include medical inflation, school choice, housing, natural disasters, and declining federal funds.

Declining federal funds include the end of pandemic-era federal funding and cancellation of federal grant funding, BEFORE major OBBBA expenditure impacts hit budgets.

OBBBA impacts for most states in Fiscal 2027 include tax conformity, increased SNAP administrative costs, staffing, and IT investments.

While states are facing budget pressures, underlying fiscal conditions remain positive and we are still seeing states highlight strategic investments, with a particular focus on improving affordability.

Questions?

Thank you

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