



# 2021-22 CSG Healthy States National Task Force

## Fiscal Health Subcommittee

### Meeting Summary No. 1 - June 23, 2021

The first meeting of The Council of State Governments (CSG) Healthy States National Task Force – Fiscal Health Subcommittee took place virtually Wednesday, June 23, 2021. The subcommittee explored issues and opportunities related to **innovative revenue sources** and **public-private partnerships**.

## Fiscal Health

### “State Fiscal Trends and Challenges Since COVID-19”

**Barbara Rosewicz** and **Angela Oh** (**The Pew Charitable Trusts**) led the subcommittee in a conversation around state fiscal trends and challenges since the start of the COVID-19 pandemic. Rosewicz and Oh highlighted that, while an economic recovery is taking hold across the states, long-term budget challenges remain in the areas of Medicaid and public pension funding. Rosewicz and Oh also stressed that states could manage uncertainty by forecasting expenditures for 3-5 years out, stress-testing their budgets under different economic scenarios, and creating contingency plans based on stress-test results. Other facts of interest include the following:

- In terms of cumulative change in receipts from March 2020 to March 2021, Idaho had the largest gain in revenue since COVID (12.7% increase) while Alaska has the largest loss (49.1% decrease). The average across all states (with the exception of Wyoming<sup>1</sup>) is a 0.7% increase.
- The 50-state median number of days states could run on rainy day funds alone in Fiscal Year 2020 was 28.5 days.
- State Medicaid spending as a share of own-source revenue has been mostly in decline since some states adopted the Medicaid Expansion, hitting 16.8% in Federal Fiscal Year (FFY) 2018 and falling below 16% in FFY 2019.

[Presentation Recording](#)

## Innovative Revenue Sources

### “Innovative State Revenue Models”

**Jared Walczak** (**Tax Foundation**) discussed with subcommittee members the many innovations in tax policy that have been implemented in recent years and their relative impact on state coffers. One primary takeaway: many of the models for innovative revenue sources – such as vehicle taxes, cannabis taxes, remote worker incentives, and more – have modest impacts on state budgets. But Walczak noted this does not mean the revenues are not meaningful. They will just be smaller than the revenue gained from traditional tax sources. Of the new revenue generating models, taxes on cannabis and online sales have seen the largest revenue gains.

<sup>1</sup> No data reporting for Wyoming

- Thirty states have legal sports betting. Most are taxing sports betting at a rate in the low teens; and only a few have tax rates above 15%.
- Recreational cannabis is legal in 18 states, doubling last year's number. While states are using a variety of tax mechanisms on cannabis, most of them tax price (ad valorem tax) – either by associating tax with weight or tetrahydrocannabinol (THC) content.
- Nine states have proposed a tax on either data possession or sales, but none of them have been adopted. Taxes also have been considered on digital advertising and social media.

[Presentation Recording](#)

## Public-Private Partnerships

### “Public-Private Partnerships: Overview and Best Practices”

**Tom Curtin (National Governors Association)** gave an overview of public-private partnerships and shared with the group some best practices for how to manage these relationships. The presentation explained that the benefit of public-private partnerships, or P3s, is that they allow state governments to offload some of the risks of a project to a partner who might be more equipped to mitigate the potential damage of those risks. The main reasons to consider P3s are that they enhance predictability, reallocate risk, foster innovation, yield higher value in the long term and are for projects that are not "business as usual."

[Presentation Recording](#)

### “Deploying Public-Private Partnerships with Pay for Success Principles”

**Nirav Shah (Social Finance)** discussed P3 Pay for Success arrangements that can help state governments complete projects in a way that allows them to pay for outcomes, not outputs. Specifically, the presentation showed examples of “social impact bonds” which involve private foundations funding a project and the public sector making repayment of that initial investment only if certain outcomes are met. Core principles of Pay for Success models include:

- Social Impact Bonds - Governments pay for outcomes instead of outputs.
- Outcome Rates Cards - Governments set prices for outcomes, rather than outputs or service delivery.
- Career Impact Bonds - Students pay for career success (a form of Income Share Agreement).
- Employer Payor Models - Employers pay for employee outcomes.

[Presentation Recording](#)

## Fiscal Health Subcommittee Focuses

The Fiscal Health Subcommittee discussed ways the Task Force could focus its efforts to highlight policy data and state policy examples, consider recommendations for improving state fiscal health and find innovative revenue sources along the following focus areas:

- **Unemployment trust funds** – Subcommittee members were interested in the impact of the COVID-19 pandemic on unemployment insurance funds and what states are doing to shore up losses in that area.
- **Cutting back on taxes** – There was discussion around the states that might cut taxes in 2021 as they realized more revenue than they anticipated. Subcommittee members want to dig into the challenges and opportunities.
- **Tax abatements** – A question was asked about the limited use of state tax credits to incentivize new businesses. The question remains: *Will states go back to using these incentives as an economic growth strategy post-pandemic?*
- **Cannabis taxation**– Subcommittee conversations circled around this topic in a variety of ways. *Will legal cannabis ever overtake the illegal cannabis market? What challenges exist for states that allow medical cannabis use when passing legislation that would allow for recreational use? Does a state's proximity to states that have not passed legal cannabis help or hurt that state's ability to generate tax revenue?* These questions and others were at the heart of several discussions during the subcommittee's meeting.
- **Remote work and income tax** – Subcommittee members explored the nuances of taxing remote workers who live in one state but work in another. Resources and conversations on this topic will continue to be explored.

## Resources

### Speaker links

#### Pew Charitable Trusts

- [Fiscal 50: State Trends and Analysis](#) (Web Resources)

#### Tax Foundation

- [Center for State Tax Policy](#) (Web Resources)

#### National Governor's Association

- [NGA Center for Best Practices](#) (Web Resources)

#### Social Finance

- [Paying it Forward: Adapting The Career Impact Bond Into A Public Policy Tool](#) (Article)

### Policy Examples Highlighted by Task Force Members and Partners

- **Hawaii** is using federal money to replenish its unemployment insurance fund.
- **Pennsylvania** is using P3 for a toll bridge project.
- **Utah's** method for forecasting state budgets includes the estimated effects of moderate and severe recessions as well as pandemic scenarios.
- **Washington** has a bill under consideration that would tax the sale of consumer data.

## Fiscal Health Subcommittee

- Lieutenant Governor Kate Marshall, Nevada (subcommittee co-chair)
- Representative Steven Rudy, Kentucky (subcommittee co-chair)
- Senator Ed Charbonneau, Indiana
- Representative Marcus Evans, Illinois
- Representative Leslie Herod, Colorado
- Senator Jean Hunhoff, South Dakota
- Representative Dontavius Jarrells, Ohio
- Representative Ryan Martinez, Oklahoma
- Senator Scott Meyer, North Dakota
- Lieutenant Governor Howie Morales, New Mexico
- Representative Jordan Rasmusson, Minnesota
- Senator Blake Tillery, Georgia
- Representative Mary Jane Wallner, New Hampshire

## Contact information

**2021-22 CSG Healthy States National Task Force**

[Website](#)

[Email](#)

### **Staff Contact**

Carl Sims, The Council of State Governments

[csims@csg.org](mailto:csims@csg.org)

859-244-8010