Executive Summary of

Enacted State Budgets FY2027



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Abigail Morgan, Ria Hegde, and Taylor Phillips

EXECUTIVE SUMMARY

This document summarizes states' enacted budgets for fiscal year (FY) 2027, with an emphasis on spending priorities related to healthcare, child and family well-being, and education. While many states adopt budgets annually, others operate on a biennial basis, as shown in Figure 1 below.

Figure 1. Current state budget schedule for FY2027, including annual and biennial budgets.

Budget Cadence	States	Count
Annual	AL, AK, AZ, CA, CO, DE, FL, GA, ID, IL, IA, KS, LA, MD, MA, MI, MS, MO, NJ, NM, NY, OK, PA, RI, SC, TN, UT, VT, WV	31
Odd-year biennial with mid-year amendments (FY026-2027)	CT, HI, ME, MN, NC, NE, WA	7
Odd-year biennial with no mid-year amendments (FY2026-2027)	IN, MT, NV, NH, ND, OH, OR, TX, WI	9
Even-year biennial (FY2027 - FY2028)	KY, VA, WY	3

States with odd-year biennial budgets with no amendments are excluded from this work. At the time of publication, all states have enacted FY2027 budgets. Six state legislatures (Massachusetts, Michigan, New York, North Carolina, Pennsylvania, and South Carolina) exceeded their constitutional deadlines to pass a budget but generally had a much shorter gap from continuing resolution to full budget compared to previous fiscal years. The following summary highlights four core themes and various subthemes we identified in our analysis of FY2027 budgets. All themes, subthemes, and examples in this executive summary are pulled from these documents with supportive documentation as needed. For full details on the state spending targets that we include under each theme and subtheme, please see our full FY2027 state budget profile document.

State of Play for Budgets:

Heading into FY2027, states are in a holding pattern. Generally, revenue growth has been steady; collections for FY2026 either met or exceeded projections in most states.[1] In conjunction, Rainy Day and other reserve funds remain at historic highs across states. This mirrors FY2025 revenue collections, which were overall modest but positive, coming down from the substantial growth in FY2021 and FY2022.[2] Pew Research indicates that, while growth exists, quarterly state revenue receipts remain below long-term trends.[3]

Looking ahead, states must weigh many different factors impacting their budgets in FY2027 and beyond:

- H.R. 1 and New Federal Policies
  - States must address FY2027 budgetary constraints stemming from H.R. 1, mostly centered around the Supplemental Nutrition Assistance Program (SNAP), as states will begin to take on new costs of administering the program this fiscal year and will need to reduce error rates by the end of calendar year 2026 before the benefit cost-sharing requirements fall into place on October 1, 2027 (Federal Fiscal Year 2028), disproportionately impacting states with higher error rates.

- New costs associated with implementing community engagement requirements, along with more frequent eligibility determinations for the Medicaid expansion population, will occur in FY2027 and beyond.
- Starting in FY2027 and continuing through FY2032, states must begin the phase-down of state-directed payment rates to **100%** or **110%** of Medicare rates; reduce the safe harbor threshold for provider taxes from **6%** to **3.5%**; and, potentially, incorporate new budget neutrality policies into their 1115 waiver demonstrations likely to result in disruptions to program operations.
- Finally, the federal government continues to signal that it will advance policies that direct increasing financial and administrative responsibilities to states for disaster mitigation planning and recovery after the FEMA Review Council released its final recommendations in May.[4]

○ Iran War

- Globally, tensions in the Persian Gulf have had a mixed impact on states. Some oil-rich states have experienced a boon from the cost of oil increasing, leading to higher-than-expected revenue collections. This includes estimated state revenue increases of **$850M** in New Mexico and **$545M** in Alaska, though portions are obligated to reserve funds.[5] However, all states and residents alike have felt the economic impact of global conflict with higher energy and materials costs.[6]

○ Tariffs and Economic Policy

- Tariffs and other economic policies have contributed to economic volatility and uncertainties despite the administration's goals of bolstering domestic production among other priorities.[7] While long-term financial success may result from these policies, short-term shock waves and current uncertainty could make it difficult for states to make projections. Similarly, the stock market may add to this uncertainty, as artificial intelligence continues to drive valuations increasingly higher, raising concerns about an AI bubble, even as the technology's transformative potential remains real.[8]

○ State Revenue Landscape

- Some states prioritized tax cuts or other revenue reduction policies to stimulate growth, focusing on personal income tax reductions, lowered corporate income taxes, or sales tax holidays.
  - Illinois created a back-to-school sales tax holiday.
  - Pennsylvania plans to continue its scheduled reduction of corporate net income taxes.
  - South Carolina will lower its personal income tax rate from **6%** to **5.21%**.
  - North Carolina, while slowing phased tax cuts, will reduce its personal income tax rate from **3.99%** to **3.49%** in 2027.
  - California will utilize **$100M** to provide a **50%** reduction on limited liability company taxes for new small businesses over three years.
- Other states raised taxes on certain groups. This includes millionaires' taxes; eliminating data centers' tax exemptions; creating new taxes for social media groups; and increasing other "sin taxes" on goods and services like marijuana and tobacco, sports and prediction market betting, and skills games.
  - Maine will levy a **2%** income tax surcharge on individual incomes above **$1M** per year.
  - Virginia will institute an energy consumption tax on data centers, expected to generate **$600M** in new revenue.

- Illinois, North Carolina, and South Carolina will all institute taxes or fees on prediction markets.
- Nebraska has raised the tax on profits from skill game machines.
- Arizona instituted a three-year moratorium on the state's data center tax credit.

- New Leadership
  - Eighteen states will have new governors in calendar year 2027: Alabama, Alaska, California, Colorado, Florida, Georgia, Iowa, Kansas, Maine, Michigan, Minnesota, New Mexico, Ohio, Oklahoma, South Carolina, Tennessee, Wisconsin, and Wyoming.[9] This will inevitably bring new priorities to those state budgets. Changes in governors may also result in the appointment of new Medicaid directors in some states.

STATE BUDGET THEMES

Medicaid and Healthcare

States are focused on mitigating the costs of complying with new H.R. 1-related requirements that were not present in FY2026, such as implementing community engagement requirements and six-month eligibility redeterminations for Medicaid expansion enrollees; directing Rural Health Transformation Program-related investments and executing reporting activities; supporting Medicaid providers at risk of closure; addressing behavioral health access gaps; and maintaining program integrity.

Several new H.R. 1 policies will drive state investments in FY2027, including the implementation of community engagement requirements and increasing the cadence of redeterminations for the Medicaid expansion population and the subsequent systems and IT upgrades required.[10] However, an important note is that the federal government offers an enhanced match on technical systems and related investments, mitigating some of the financial burden on states.[11] For example, of the **$50M** Kentucky appropriated to implement community engagement requirements over its FY2027-2028 biennium, only about **$10M** is General Funds.

Community Engagement Requirements. States can choose to take on additional costs to further support the implementation of community engagement requirements, like additional staffing. Examples include:

- Michigan has allocated **$40M** to increase staffing capacity for community engagement requirements in both SNAP and Medicaid.
- Illinois appropriated **$55M** in state funds to support staffing and systems upgrades ahead of implementation.
- Washington has appropriated approximately **$38M** for the development of a community engagement hub, supporting enrollees in finding opportunities to reach compliance.

Rural Health Transformation Program (RHTP). The RHTP allocates funding to each state to invest in rural health initiatives with the long-term goal of sustainability.[12] All states are working to distribute this funding and meet the goals outlined in their applications in FY2027. Examples include:

- In Tennessee, legislators appropriated **$125M** for capital projects and expanding the most effective models that emerge from the RHTP.
- Missouri plans to advance alternative payment and shared savings models via its RHTP goals with **$22.52M**.

Increased Medicaid Reimbursements. Continuing the trend from FY2026, several states appropriated funding to increase Medicaid reimbursements, largely for home- and community-based services or other long-term care. Examples include:

- Florida allocated **$205M** for provider rate increases.
- Utah dedicated **$21M** to personal care, skilled nursing, and nursing home rate increases.
- Delaware appropriated **$10M** to increase direct support professional rates.

- North Carolina used **$21M** to increase rates to Innovations Waiver providers.

Behavioral Health Services. Behavioral health services are a growing portion of state Medicaid budgets. In FY2027, many states focused on expanding opportunities for individuals to receive behavioral health supports while in crisis.[13] This work builds upon previous investments in behavioral health services and historical efforts to bolster the behavioral health workforce and infrastructure.[14]

- California has dedicated **$42.20M** to extend community-based mobile crisis response services through the end of FY2027.
- Minnesota has appropriated an additional **$3.80M** for mobile crisis grants. Similarly, Michigan and Georgia have increased funding for mobile crisis teams and units.

States are also looking to address the behavioral health needs of children and youth with similar programs.

- Alabama has appropriated **$5M** in FY2027 to launch a pilot program for mobile crisis centers focused on children and adolescents.
- Massachusetts has a large appropriation dedicated to providing mental health services to children and youth, totaling over **$138M**. This year, the Commonwealth allocated just over **$6M** to fund an emergency room diversion initiative to stabilize youth in crisis.

ACA Marketplace. New in FY2027, a few states are using state funds to offset the loss of federal enhanced premium subsidies in the ACA Marketplace when funding lapsed at the end of 2025. This includes **$300M** in California, **$38.10M** in New Mexico, **$17M** in Rhode Island, **$150M** in Virginia over the biennium, and **$55M** in Washington State for FY2027.

Fraud, Waste, and Abuse. An overarching theme among state budgets is a concerted effort to address fraud, waste, and abuse (FWA). While states already operate program integrity units and have plans to mitigate, identify, and address FWA, some states allocated additional funding to support this work in FY2026.[15] This includes:

- **$7M** in Minnesota to provide compliance training to high-risk Medicaid providers;
- **$2M** in New Jersey to review and assess program integrity efforts within the Medicaid agency and its managed care organizations; and,
- **$15M** in Missouri to procure third-party verification services to improve the accuracy of Medicaid, SNAP, and TANF eligibility determinations and redeterminations and reduce fraud.

Reductions in Medicaid Spending. Expanding on FY2026 trends, given competing financial pressures, both within Medicaid and outside of the health system, a subset of states reduced or paused Medicaid spending or found new ways to better utilize funding for higher priority items in FY2027.

- In Colorado, the legislature cut **$270M** in Medicaid reimbursement rates and certain optional Medicaid services.
- Maryland's Department of Health saw a substantial decrease from FY2026 to FY2027, of just over **$970M**. This includes a **$126M** reduction to the Developmental Disabilities Administration.
- Idaho's Department of Health and Welfare Division of Medicaid will see a nearly **$670M** reduction in FY2027, spanning the Coordinated, Enhanced, Basic, and Expansion Medicaid plans.
- Washington reduced funding for the state's adult immigrant Medicaid program and pre-release services to help close a projected deficit. Governors also made moves to reduce spending from the legislatively approved budget.
- Nebraska's governor recently announced **5%** across-the-board cuts, further trimming the Medicaid agency's budget.
- Georgia's governor paused certain legislative appropriations that would have increased Medicaid provider rates due to a large property tax relief bill being passed.
- Missouri's governor withheld a portion of certain line items under Medicaid to reduce spending and better position the state ahead of projected deficits.

Child and Family Well-Being

For the purposes of this summary and subsequent state profiles, child and family well-being encompasses several areas, including state benefits such as the Supplemental Nutrition Assistance Program (SNAP) and Temporary Assistance for Needy Families (TANF); the child welfare system and its associated prevention and family support efforts; and initiatives and programs that focus on workforce and educational development in support of families' and individuals' economic and academic growth.

New SNAP Policies and Increased Costs. Increased SNAP costs are of immediate concern for states, as H.R. 1 makes states responsible for sharing administrative costs in calendar year 2026 and a percentage of benefit costs on October 1, 2027.

While beginning the new task of allocating dollars for administrative work, states must simultaneously look ahead to the much larger cost for SNAP benefits, dependent upon the state's error rate at the end of 2026. States with SNAP error rates above **6%** will pay anywhere from **5%** to **15%** of the cost of benefits in addition to covering **75%** of administrative costs.[16] Only Idaho, Iowa, Kentucky, Nebraska, South Dakota, Utah, Vermont, Wisconsin, and Wyoming have error rates below **6%** according to FY2025 data.[17] Nearly every other state is funding efforts to reduce its error rate. Some examples include:

- In North Carolina, the state appropriated **$2.18M** to reduce the SNAP error rate.
- Maine's amended FY2027 budget allocates **$4.73M** to attempt to reduce its error rate.
- As an even-year biennial state, Virginia has appropriated **$135M** to address additional SNAP costs if the error rate does not reach **6%** by the end of calendar year 2026.

Relatedly, H.R. 1 also made eligibility for SNAP more stringent, limiting certain noncitizens from receiving benefits.[18] A handful of states have chosen to appropriate funding to maintain access for these populations or expand access to SNAP benefits to other groups.

- In Washington, the amended budget appropriates **$44M** for immigrants who are no longer eligible for the program.
- Illinois has appropriated **$70M** for families that have either been disenrolled or have experienced reduced benefits.
- In New Mexico, the state will use **$6.63M** to provide supplemental SNAP benefits for the elderly and disabled.

Child and Family Supports. States are also making investments in bolstering supports for families before they enter the child welfare system, reducing the need for families to be separated. This can include formal support programs or initiatives that make a positive impact on upstream factors of child welfare involvement.

- Louisiana allocated **$6.84M** for family violence prevention services.
- Kentucky appropriated **$10M** over the biennium to support the Health Access Nurturing Development Services (HANDS) program to support low-income families.
- Missouri funded evidence-based home visitation programs with **$13.53M**.
- New Jersey allocated **$12.32M** for child abuse prevention efforts.
- West Virginia appropriated **$43.09M** for Children's Services under the Bureau for Social Services, which includes **$1.57M** for the Family Preservation Program.
- Alaska appropriated **$23.52M** for family preservation services.
- Maryland will use **$32M** to fund its Engaging Neighborhoods, Organizations, Unions, Governments, and Households (ENOUGH) initiative to support community-driven initiatives to address child poverty. An additional **$750K** will be used to support child advocacy centers.

Workforce Development. States are funding initiatives to connect individuals and families to work and job training assistance. In two states, this explicitly supports compliance with the new community engagement requirements in Medicaid and revised work requirements in SNAP.

- In Virginia, **$1.50M** will work to connect individuals subject to work requirements in both programs to qualifying employment or volunteer activities.
- Michigan appropriated **$10M** for its local Michigan Works! Agencies to support job searching and job readiness activities, as well as placement assistance and skills training.
- West Virginia appropriated **$1.52M** for its WV Works state-based program to support education and employment assistance for low-income families.
- Florida allocated **$20M** for the Pathways to Career Opportunities Grant Program for apprenticeships.

Education

Alongside healthcare expenditures, education takes up a large portion of state budgets. [19] Nationally, public schools are experiencing declines in enrollment. Public school enrollment is projected to decline by **10%** for prekindergarten (pre-K) through grade 8 from 2019 through 2030. High school enrollment is projected to see a **2%** decrease over the same period.[20] However, strong investments are still needed to support increased school choice access, literacy efforts, academic recovery, and mental health.

Expanding School Choice. In FY2027, the states that operate school voucher programs saw additional funding to expand access to more families regardless of income.

- Arkansas saw a notable **$122M** increase in school voucher funding to bring the total to just under **$310M**, creating universal access.
- Missouri's program, MOScholars, increased funding by **$10M** in General Funds.
- West Virginia's Hope Scholarship has expanded to **$276M** for FY2027, compared to **$33.81M** in FY2026.
- Mississippi and Iowa appropriated more modest increases to their school voucher programs of **$14K** and **$22M**, respectively.

Literacy Programs and Academic Recovery. Math and literacy efforts are crucial to student success, with schools recovering from educational losses during the COVID-19 pandemic.[21]

- Michigan appropriated **$500M** from its Student Aid Budget, for literacy and achievement initiatives for K-12 education improvements, including expanded before- and after-school programming; science of reading initiatives; and tutoring supports.
- In Georgia, the enacted budget appropriates around **$90M** for a statewide literacy initiative to improve student outcomes.
- Mississippi was an early adopter of the "science of reading" work and will expand its literacy initiative with **$9M**.
- Vermont allocated around **$11M** for after-school and literacy programs.
- Math remediation was also a focus for Oklahoma, with a nearly **$71M** appropriation.

School-based Behavioral Health Services.
As pediatric behavioral health diagnoses continue to grow, mental and behavioral health services are increasingly critical for children and adolescents.[22] Schools can serve as a community hub to provide students with needed support beyond the existing programs and initiatives described earlier.[23] This work continues to expand on trends seen in previous fiscal years.

- In Tennessee, **$3M** will go towards expanding the state's school-based behavioral health liaison program.
- Pennsylvania will maintain **$100M** in funding for school-based mental health and safety.
- Washington will distribute **$7.64M** in grant funding for school-based health centers and behavioral health services.
- Kentucky appropriated **$7.40M** in each fiscal year of the biennium for school-based mental health services.

Policies to Address Cost-of-Living and Affordability Concerns

Affordability concerns have risen to the forefront of state budgets in FY2027.[24] While not a new topic, many of the pressures discussed here – increased healthcare, energy, and housing costs – have created a renewed focus among legislators and governors to address what many Americans consider to be unprecedented cost-of-living challenges in FY2027.[25]

State Employee Salary Increases. Many states were able to maintain or expand previous pay increases for state employees, including raising the starting salary for teachers.

- North Carolina's FY2027 budget provides a **3%** salary increase for nearly all state employees and a compensation bonus after missing the start of the FY2026-2027 biennium last year. The state also allocated **$117M** to provide a **16.20%** average pay raise for state law enforcement officers.
- Delaware state education employees will receive a minimum **3%** raise, with other educational staff receiving additional raises as recommended by the state's Public Education Compensation Commission (PECC).
- West Virginia also provided a **3%** pay increase for state employees, including teachers, highway workers, and law enforcement officers.
- South Carolina will provide a **2%** salary increase for state employees as well as a **$50,500** starting salary for teachers.
- Florida allocated **$1.56B** for teacher salary increases, with **$200M** set aside for teachers with at least **10** years of experience in the state's public schools.
- California appropriated just over **$300M** to increase state employee compensation and account for projected increases in healthcare and dental premiums in the upcoming plan year.

Providing Tax Relief to Residents. States are also looking to maintain or expand tax credits or other forms of tax relief for families and individuals. Many states are planning phased personal income tax reductions, such as South Carolina, North Carolina, and Nebraska. Both Nebraska and North Carolina slowed down their planned reductions to maintain financial health given budgetary constraints.

- In South Carolina, the personal income tax will fall from **6%** to **5.21%**.
- Pennsylvania continued its plan to reduce the corporate net income tax rate to **6.99%**.
- Rhode Island will introduce a new child tax credit and end its tax on Social Security for early retirees.
- New York will enhance tax credits that offset the cost of childcare, provide **$30M** in direct "tariff relief" to farmers, and use **$1.04B** to deliver "POWER" checks to help with energy affordability.
- Maine's FY2027 budget will transfer **$155M** from reserves to provide relief checks to approximately **514,000** residents to help address high costs.

Addressing Increases in Housing Costs. States are continuing the trend from FY2026 to expand investments in solutions to address rising housing costs, namely property taxes, in FY2027. Many states are looking to provide their residents with relief as tax rates have grown by **3.7%** since 2024.[26] Depending on the pathway for relief, local governments may see reduced revenues.[27] This has already been shown with property tax legislation produced in previous years. According to the National Association of Counties, the combined legislative action of **34** states between 2020 and 2025 resulted in a combined **$12B** reduction in annual revenue to local governments.[28] Indiana passed property tax relief policies in 2025 that are projected to total **$1.20B** in savings to homeowners from calendar year 2026 through 2028. However, local governments in Indiana face an estimated **$1.5B** shortfall over the same period, with governments cutting spending in the wake of budget deficits.[29] It is important to note that not all property tax relief efforts undermine the financial stability of local governments, such as providing targeted relief for specific populations, and some states have chosen to

direct state-level funding to municipalities to mitigate negative impacts.[30]

- In New York and Connecticut, the state will direct **$1B** and **$100M**, respectively, to towns, cities, and municipalities to lower or mitigate property taxes.
- Oklahoma will provide approximately **$75M** to reimburse counties for the loss of revenue associated with new property tax exemptions.
- Legislatures increased homestead exemptions to provide relief in South Carolina, Minnesota, and Idaho.
- Vermont appropriated **$101M** to reduce the projected statewide property tax increase as well as **$4M** to provide renter tax credits.
- New Jersey will provide more than **$4B** in property tax relief through several programs such as ANCHOR, Senior Freeze, and Stay NJ.

HEADING INTO FY2028:

Eighteen states will see new governors in 2027 due to term limits or the incumbent choosing not to run for re-election.[31] State budget offices will be preparing for the transition while also planning for the changes that will occur regardless of who wins the gubernatorial seats. Even if the incumbent party maintains the governor's seat, new administrations can bring new priorities that pivot from previous efforts. Large-scale changes to Medicaid are coming quickly, with community engagement requirements starting January 1, 2027, and Medicaid financing changes following soon after. The federal government has a short runway to provide guidance and promulgate rules for states to implement these policies. As a result, states must make operational decisions, and likely have already made decisions, on H.R. 1 implementation like community engagement rules, provider taxes, and SNAP cost-sharing based without much guidance. It is important to consider what unexpected costs might be for states to remain in compliance with H.R. 1 policies.

Additionally, **11** states have at least one tax policy change on the ballot this fall, ranging from income, property, and sales taxes.[32]

As mentioned above, property tax reform is top of mind, with North Carolina, Florida, and Tennessee all presenting their residents with the option to cap increases or expand exemptions. State economists in Florida estimate that cities, counties, and special taxing districts could face a **$5B** reduction in revenues in FY2028, growing to **$12B** in lost revenue in five years.[33] Missouri voters will be presented with the option to eliminate the sales tax cap for legislators to pursue personal income tax reductions. California voters will have the choice to impose a one-time **5%** "billionaires' tax" on individuals with a net worth that exceeds **$1B**, with an estimated revenue collection of approximately **$100B**.[34] Outside of ballot initiatives, Washington and Maine both enacted taxes on high earners, though Washington's tax will not be implemented until calendar year 2028.[35] These tax policies may spur economic development, boost business growth, and result in strong revenue collections for the state. However, they could also cause some financial strain, particularly at the local level in regard to property taxes.

While the economy remains resilient, uncertainty dominates the outlook, with conflicts in the Persian Gulf continuing; tariff disputes remaining unresolved; and growing unease in the stock market as AI valuations continue to climb.[36] If an economic downturn were to occur, states would need to navigate increased enrollment in Medicaid or higher uncompensated care costs within the confines of H.R. 1 policies. States may generally have strong reserves but may not be able to fully cover the gap. In states that allocate their revenue across many different accounts, such as California, New York, Louisiana, Texas, Pennsylvania, and Massachusetts, questions remain as to how this might obscure the financial health of a state and whether states will be able to remain flexible as these changes occur.

IN SUMMARY:

Compared to FY2026, our analysis of the FY2027 budgets reveals that the combined impact of inflation and new federal policies serves to

obscure true declines in spending, even as some states, such as Maryland, Nebraska, Washington, and Colorado, face growing financial pressures. Budget forecasts are tight, with uncertainties emerging from multiple sectors of the economy. Unlike the federal government, states – with the exception of Vermont – are mandated by their laws to pass a balanced budget.[37]

As costs shift from federal to state governments due to H.R. 1 implementation over the next ten years, states must absorb losses in federal funding and find ways to enact a balanced budget in each fiscal year: states must find ways to pay for both intermediate and long-term costs resulting from changing federal policy. However, all states find common ground in their priorities year after year: making sure students have ample educational opportunities and continue to achieve academic success; that families have access to social services and programs that fit their needs; safety net providers, from urban hospitals to Rural Health Centers, are supported and adequately funded to ensure patients receive needed services; and relief, whether through tax cuts or expanded social programs, is provided to residents.

SEARCH LESS. DO MORE. WHAT'S NEXT FROM SELLERS DORSEY

In the coming months, Sellers Dorsey will provide timely information on state and federal changes, including the state of play in elections and new federal regulations, through our weekly newsletter, the Sellers Dorsey Digest, and other thought leadership. As we move into FY2028, our firm will analyze themes from governors' proposed state budgets, giving a sense of where budgets will be heading in the next cycle.

We're also excited to introduce our newest offering, **Sellers Dorsey IQ**, a suite of practical, data-driven tools built for healthcare and Medicaid leaders. **Sellers Dorsey IQ** gives you convenient access to state budget dynamics, Medicaid managed care programs, and state plan approval documents on one platform so you can understand markets, monitor change, and act with confidence. When you sign up for **Sellers Dorsey IQ** you'll have access to a collection of interactive dashboards that equip you with the knowledge you need to make the best decisions for your organization.

ENDNOTES

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