

Kevin Minor: 0:05

episode 15 of the naspo pulse the podcast. We were monitoring issues in state procurement. You guessed it we got our finger on the pulse. I'm your host, kevin minor, and I'm excited for today's episode. Today we have not one, not two, but three voices on the pod, four if you include mine. We've got friend of the pod and NASPO's Director of Member Engagement and Strategic Partnerships, olivia Hook-Fry, back to co-host this episode with me, which is always special.

Kevin Minor: 0:40

Olivia and I are interviewing two very special guests today Shelby Kearns, executive Director of NASBO, national Association of State Budget Officers, and Erica McKellar, program Principal for NCSL, the National Conference of State Legislators. We discuss fiscal year 2020 projections, both pre and post pandemic. We ask them their thoughts and concerns on the 2021 fiscal year. We look at tools and strategies states may be looking at for fiscal recovery and how procurement officers can build a better relationship with their state budget office or to key legislators, plus a whole lot more. It's really an information-packed episode. You got questions, comments. We sure would love to hear from you.

Kevin Minor: 1:37

Email us podcast at naspoorg. If you haven't already, make sure you subscribe to us on Apple Podcast, spotify, google or wherever you get those sweet listeners. Make sure you check us out on the NASPO blog that's pulsenaspoorg and catch up on the latest in procurement articles written by your very own NASPO staff. Let's take that pulse. Erica and Shelby, thank you so much for joining me on the pod today. How are you guys? Great Thanks for having us. Yeah, thank you so much for joining me on the pod today. How are you guys?

Shelby Kerns: 2:06

Great Thanks for having us.

Kevin Minor: 2:08

Yeah, thank you so much for your time. Thank you for participating. So first I want a little bit of background on your organization and your role within the organization. Erica, can we start with you?

Erica MacKellar: 2:19

Sure, so I'm with the National Conference of State Legislatures and we are a bipartisan instrumentality of the states. We work with the legislatures in the 50 states, washington DC and the territories and we're dedicated to helping legislators and legislated staff become more efficient and improving and strengthening state legislatures. And I am in the fiscal affairs program with our organization and I primarily focus on state budget conditions and state budget process issues.

Olivia Hook Frey: 2:47

Great. And Erica, your name may be very familiar to many of our members and listeners because you actually gave a fiscal briefing several weeks back to one of our monthly COVID calls with our CPOs across the country. So thanks for joining us again today.

Shelby Kerns: 3:04

Happy to be here.

Kevin Minor: 3:05

Awesome and Shelby, how about you?

Shelby Kerns: 3:07

The National Association of State Budget Officers serves as a professional organization for all state budget officers

of the 50 states, dc and the US territories. Our members serve in the executive branch, so we're working for governors. We provide data and educational and networking opportunities for our members. I was named executive director of the association in March, which has made for an interesting start to the job.

Olivia Hook Frey: 3:31

And Shelby, your name is also very familiar, probably to our listeners, because you and Erica both spoke at our annual conference just about two weeks ago. But, shelby, I also recently learned that you in your past career, worked for the state of Idaho, and one of our members, one of our staff who worked for Idaho ramped me after the conference session and talked about how they had no idea you were speaking. They were so excited because you're such a rock star in Idaho. So if you just tell us a little bit briefly about your time with the state, I worked.

Shelby Kerns: 4:02

I spent 10 years in the state budget office in Idaho. Most of that was as the budget bureau chief, and then, most recently, I spent a year at the Idaho department of labor as a deputy director.

Kevin Minor: 4:14

So lots of different experience.

Shelby Kerns: 4:16

Lots I actually left out of there my time in international trade for the Idaho department of agriculture and also did rural economic development. So there was a lot, a lot of state experience.

Kevin Minor: 4:28

Great, great, and I'm sure that's really come in handy. And it's great to know, for our listeners to know that Eric and Shelby actually they did present at our annual conference a couple weeks ago and they covered a lot of this information, so all this may be a little repetitive for you guys. We really appreciate you coming back and talking about this Again. It is a very timely resource. I think a lot of our listeners are going to find it useful and interesting. So, prior to the pandemic, how were fiscal year 2020 projections looking, Shelby?

Shelby Kerns: 5:01

NASBO surveyed its members for our spring fiscal survey. It's like every time I talk, all right, I'm just waiting for my dog to hear your dog, shelby. I know, Isn't it awful? I don't know what it is. It's like she's fine. Until that whole time we were just talking, she was fine.

Olivia Hook Frey: 5:19

And it's like she's going to make my professional life hard. She's had a big life change. She just wants to be part of the podcast.

Shelby Kerns: 5:25

That's right. She wants to be internet famous. Coming into the pandemic. States were in a really good position when NASBO put out its spring fiscal survey. States reported that they expected to see about 3% revenue growth, and most states had also had multiple consecutive years of faster than expected revenue growth, so they'd had budget surpluses in many cases. We also had 17 states that expected their revenue to beat their projections in FY20, which closed on June 30th for most states.

Kevin Minor: 6:02

Wow. So that's abnormal, though right In your experience.

Shelby Kerns: 6:06

It is abnormal to have so many years of faster than expected revenue growth and then also to go from expecting to

exceed your projections to where we ended up in that last quarter.

Kevin Minor: 6:22

Interesting. And now that the pandemic has hit, what are those projections looking like?

Shelby Kerns: 6:29

We recently polled. Our members in the states that ended their fiscal year on June 30th reported that their revenue was about 3% below the prior fiscal year. So rather than 3% growth, they were 3% below. So it's about a 6% swing in revenue collections.

Kevin Minor: 6:49

Wow. So have states ever seen anything like this before?

Erica MacKellar: 6:55

I can jump in on that one, you know. I mean, I think certainly states have seen recessions before. You know they have a lot of tools in the toolbox to deal with them, but I don't think we've seen anything quite like what we've seen right now. We're asked to kind of compare what we're going through to the Great Recession a lot, since that's the most recent recession in memory for most people and I think for a lot of us we felt like a great recession was very sudden, you know. But I think compared to this, you know, we really kind of jumped off a revenue cliff.

Erica MacKellar: 7:23

You know economic activity just kind of stopped dramatically versus, you know, the recession. We felt the effects over a couple year period. So yes, we've seen recessions before, but I don't think in kind of modern memory we've seen anything that kind of rivals. What states are seeing right now?

Kevin Minor: 7:42

Yeah, and with recessions you have red flags, right, blips, and you didn't really have anything like that this time around, right?

Erica MacKellar: 7:57

this time around. Right, that's right. I think states did a lot to prepare for an upcoming recession prior to this, and I think nobody could have quite predicted the type of recession that we're seeing right now, right?

Kevin Minor: 8:06

So how does our current state of emergency differ from other downturns, erica?

Erica MacKellar: 8:13

Sure, I mean, normally we have some warning signs that a recession may be on the horizon, and I think this time states were really working to be prepared for another economic downturn. But I think nobody could have quite predicted the type and dramatic effect of the current economic crisis that we're seeing.

Kevin Minor: 8:33

Right.

Shelby Kerns: 8:39

I think to add to that. You know we're used to seeing some increased expenditures when we go into recession, on things like Medicaid and unemployment benefits. Oh yeah, but the added cost of dealing with a public health emergency is something that states were not prepared to address.

Olivia Hook Frey: 8:51

So what tools or strategies are states looking at, or should they be looking at, for fiscal recovery? Shelby, do you have anything to add there?

Shelby Kerns: 9:02

The main tools that states have are cutting spending, whether that's across the board or targeted cuts, use of savings. States really increased their savings after the Great Recession. I think that was a big lesson. Was we needed to have more in savings? So while those savings did increase and they were at an all time high both in median levels and in terms of aggregate spending the projected shortfalls still are higher than what could be accomplished from just using those savings.

Kevin Minor: 9:37

Yeah.

Olivia Hook Frey: 9:38

Any other tools or strategies for the states that you'd recommend?

Erica MacKellar: 9:42

Yeah, I mean, using savings and making cuts is kind of one side of the coin. The other tool that states have is, of course, kind of raising revenues. We haven't seen a lot of proposals in states for that yet, and I don't think that's something we'll see for the remainder of 2020. A couple of reasons. One, it just turns out to be the first tool that states reach for during economic downturns. But two, it is an election year and we typically just don't see as many tax increase proposals during election years.

Erica MacKellar: 10:16

You know, I think we could start to see some of that as states go back into session in January and states kind of get a better handle on the full revenue picture that they're facing, the shortfalls that they may be facing. You know, during the Great Recession some of the types of increases we saw were some temporary sales tax increases, broadening of the sales tax base, temporary taxes on high income earners and I think this time around there are a few products that weren't around during the Great Recession that states could turn to as well Taxing e-cigarettes and vaping products and potentially digital advertising Some of these things that weren't around during the Great Recession.

Shelby Kerns: 10:57

And there's. You know, the other tool that was really helpful during the Great Recession was federal aid, which is kind of the fourth piece of that, and to date federal aid's really been focused on addressing those increased expenditures to do with the public health emergency. But that would also be another piece that could be very helpful to states.

Olivia Hook Frey: 11:17

So, with those major revenue sources in mind, how do you expect the pandemic to affect the budgets for fiscal year 2021 and beyond?

Erica MacKellar: 11:25

Sure, I can kind of start with that. You know, I think there's a lot of uncertainty around fiscal year 2021 budgets. You know a few states are still working on completing a full fiscal year 2021 budget. A lot of states have waited to see what the revenue picture is going to look like. So there's a lot of question marks. I think a lot will depend what happens this fall if states are able to reopen more or if they'll have to roll back some of those reopenings. But you know, initially we've surveyed state legislative fiscal offices to try to get a sense of what they're planning for, what the states are planning for for the remainder of fiscal year 2021.

Erica MacKellar: 12:03

And it's really kind of across the board. States are experiencing some challenges, but those challenges are uneven. You have some states that are facing 20% general fund revenue shortfalls. You have other states that are still projecting small increases. So there's no doubt that the pandemic is affecting fiscal year 2021 budgets. Across the board, the severity has been somewhat uneven.

Olivia Hook Frey: 12:32

So you all mentioned raising taxes as an example of raising revenues for states that you've not really seen yet, but maybe on the horizon. What are some other examples of ways to increase revenue that you can predict seeing?

Erica MacKellar: 12:47

I think the other way that we see states sometimes raise revenues is, you know, raising fees can be another way that states can raise some revenues.

Kevin Minor: 12:56

Interesting. So what does recovery look like for states' budgets in fiscal year 2021, Shelby?

Shelby Kerns: 13:06

The recovery is probably still a few years away. We expect that fiscal year 2021 is going to bring actually some worsening conditions. We see that personal income tax, for instance, is based on this year came in strong because it was based on 2019 revenue. So in the next year, when we see it reflecting this economy that's not quite as strong I think we'll actually see the revenue picture be worse for states in fiscal year 2021.

Erica MacKellar: 13:38

Yeah, and so we've gotten some preliminary information from a survey that we've done and, on average, states are predicting that personal income tax revenues will be about 7.2% less than they were in fiscal year 2020, and sales tax revenue about 6.4% less. So, you know, I think states are going to be looking to close some shortfalls when they return to legislative session and you know, I think there could be some challenges into fiscal year 2022 as states write those budgets as well.

Olivia Hook Frey: 14:09

So 2020 has been really difficult for everyone. I think everyone's looking and hoping for a brighter 2021. So, basically, we're not out of the, we're not in the clear quite yet.

Shelby Kerns: 14:18

We're not, and you know, the other thing that's hitting right now is that the federal aid that's been propping up some of those revenue collections for states, the enhanced unemployment benefits, the paycheck protection program, all of those things are ending. So, unfortunately, I think we'll see a worsening economy and a worse picture for state budgets during this next year.

Kevin Minor: 14:43

Right. So what are? What are some of some of the bigger concerns? And, erica, you mentioned states need to look at closing some of the shortcomings. Can you elaborate just a little bit more on on that?

Erica MacKellar: 14:57

Sure, yeah. So you know, states are going to go back into legislative session, governors are going to start proposing their budgets and I think most states are going to be looking to kind of shore up those budgets in light of the situation. And you know, one of the things we're seeing states start to do is use those rainy day fund reserves that Shelby mentioned had been built up. You know, we typically look at a rainy day fund plus the state's closing and balance and you know those have been hovering around 12% prior to all of this and, from the preliminary data in

our survey, states expect that to drop to about 6.7% of state spending. So I think for the remainder of fiscal year 2021 and into FY 2022, we're going to see states bring down those reserves, and those are only going to go so far.

Erica MacKellar: 15:48

Those are only going to go so far. States are also furloughing employees and I think we'll be doing some across the board cuts and then potentially some more targeted agency budget cuts as well.

Kevin Minor: 15:56

So what are some of your biggest concerns with that?

Erica MacKellar: 16:00

Well, as Shelby mentioned, we see Medicaid rolls and unemployment insurance costs going up at the same time that states are having fewer resources to deal with those and I think we're still seeing in some of the tax collection data that we're seeing right now we're still seeing the positive effects of some of the federal funds that Shelby mentioned and I think if state economies can't open and the unemployment rate stays high without more federal aid, you know we could see more cuts and some steeper declines for states.

Shelby Kerns: 16:32

Well, you know, one of the concerns is that the state governments are really an economic driver. They contribute a lot to the economy, to its spending, through their payrolls, and so, as you see, layoffs and furloughs and those sorts of things, as well as the cancellation of your basic spending, that also has an economic impact. So it's a bit of a circle, if you will, and that's concerning as well that this could prolong the time that we really face this economic crisis.

Kevin Minor: 17:05

Sure. So so sort of a bleak picture we're painting. Are there any silver linings to look at towards the future?

Shelby Kerns: 17:15

Boy, it's really hard to find silver linings these days, isn't it? But there's. There's always a silver lining in reevaluating your spending and prioritizing your programs, and you know you hope that you don't have to cut into those things that are really essential to your citizens but there's always a silver lining in that regard that states can take a hard look at the programs they have and maybe the things that perform better.

Kevin Minor: 17:47

Right, Well, and and and being innovative. Right, Maybe, unfortunately forcing states to be more innovative in their spending.

Shelby Kerns: 17:56

Yes, I think that's very true. I think um to just even some of the technology that's probably being deployed right now is helpful and generating some cost savings.

Kevin Minor: 18:08

Right, absolutely.

Erica MacKellar: 18:09

Yeah, and I would just add you know we've talked about how states were preparing for an economic downturn. I think those rainy day fund reserves are a bright spot because they are hopefully helping to soften the blow a little bit of some of this. Also, you know the federal stimulus that the states did receive. I think there's some evidence that you know that did help soften the blow as well. It helped states kind of move their resources into other areas where they needed it most. So I think those are kind of bright spots as well.

Erica MacKellar: 18:38

I think we're also starting to see some tax collection reports come out of states that are a little better than we anticipated, and I think it's a little too early to say the reason for that, if that's a trend or if it's because of these lingering effects of some of the federal stimulus or what. But you know, hopefully that would be, that would be great if that turns out to be a trend and we start to see, you know, we start to see revenues come in higher than states are anticipating.

Olivia Hook Frey: 19:06

So, Erica and Shelby, you know that our members are the chief procurement officers and their staff in the state procurement office. So what role does the central procurement office, or the CPO, typically play in state budgets, and has that changed at all post-COVID?

Shelby Kerns: 19:21

I think they play a large role in state budgets. They help agencies stay within their budget. They help them find better deals for purchases and see more solutions than sometimes you can see in an agency, when maybe you have tunnel vision toward one solution to your problem, and not even just a product but a service. You know there's a lot of value that comes from that and I'm guessing right now, with emergency purchases and all of the things that are hitting, that procurement officers are really playing a large role in making sure that states are managing their money well and following laws and finding the best deals they can.

Olivia Hook Frey: 20:02

Absolutely. Is there any tip that you have or that you'd recommend for building a stronger relationship between our CPOs and the budget officers or other key legislators?

Shelby Kerns: 20:15

For state budget officers, it's really the same as dealing with anyone else you know, being proactive and helping find solutions when sometimes it can feel like there aren't any solutions, and just really taking advantage of all that knowledge that procurement officers have.

Olivia Hook Frey: 20:33

Yeah, Shelby, I think you hit a key word there being proactive. You know, I feel like everyone has felt like they've been, you know, underwater, just drowning, trying to keep their offices afloat. And to be proactive is so essential here. You know, those key players are the ones who are being proactive. It's a great point.

Shelby Kerns: 20:51

It is and it's hard, but there's a lot at stake and I think that procurement officials are really in a unique position to be proactive.

Olivia Hook Frey: 21:00

Absolutely.

Erica MacKellar: 21:01

And I would add from a legislative perspective, just to remember that you know most legislatures are part time, most legislators have another job that they're doing on top of this, so you know they are kind of in the weeds and to just be willing to answer questions and, as Shelby mentioned, you know answer them honestly and you know reach out to them and answer any questions that they might have.

Olivia Hook Frey: 21:22

Great great advice, Thank you.

Kevin Minor: 21:24

To that point. You know, we've seen just in the past six months some of our membership having to assume new roles on the fly purchasing officers who normally would be buying roadway equipment, helping to source PPE. Do you see in either of your organizations people taking on roles besides what they normally would do, kind of having to assume extra responsibility?

Shelby Kerns: 21:55

NASBO has definitely seen that with its members. It's not unusual for people in the budget office to wear many hats or be asked to take on other duties, but there's certainly been a lot of unusual activity where they were trying to chase down PPE or help develop medical plans. There's certainly a lot of stepping outside our comfort zone for everyone during this time and taking on new duties.

Erica MacKellar: 22:24

Yeah, I think legislative fiscal offices too. You know analysts are facing challenges they haven't before and, you know, becoming experts in things they never anticipated becoming experts in. And I think you know, during the Great Recession, we saw agencies and offices and everyone you know asked to do more with less and I think they rose to the challenge and I think that's something we can see again All right, and that's nice to hear.

Kevin Minor: 22:48

That's always just nice to hear. So what are some trends you predict in the continued pandemic response, and this one's for both of you?

Erica MacKellar: 22:57

Well, I don't know if you can say it's a trend or not, but I think. I think this uncertainty is going to linger with us for a long time unless we. You know, this uncertainty is going to linger with us for a long time unless we you know, there's a quick vaccine that's widely available.

Erica MacKellar: 23:09

I think it's an unusual position for states to be working so hard to try to understand how much revenue they'll have, and I think you know that uncertainty is going to linger and will be a part of the upcoming budget process for the next couple cycles.

Shelby Kerns: 23:26

I would agree with that. I think we'll see a lot of emphasis on how to deal with uncertainty and whether that's budgeting really conservatively, to stay below the revenue projections, or searching for some of those avenues to increase collections. A lot of states have taken advantage of the ability to collect online sales tax and I think those things might continue to grow and look at which tax sources are the most stable. I think a lot of those things will be trends over the next few years.

Kevin Minor: 24:01

So, before we go, we come to the point in the pod where I like to ask if you have any advice for our listeners, and you guys are no exception. So, erica, we'll start with you. Do you have any advice for the Pulse listeners?

Erica MacKellar: 24:16

Well, we've talked a lot about the uncertainty, so I wish I could offer advice on that, but I guess the only advice I can give is that it looks like we're going to kind of be in this situation for a while into the winter and winter's coming. So be like me and go get your OL bean slippers and get ready to kind of hunker down for the next few months.

Kevin Minor: 24:36

I think that's some good advice. Pre-order your slippers, because winter is coming. I like that. That is solid advice.

So, shelby, do you have any advice for our listeners?

Shelby Kerns: 24:43

That is solid advice, so, shelby do you have any advice for our listeners? You know, to stick with Erica's winter is coming theme, my advice would be to get outside. I think we'll probably be spending a lot of time indoors this fall and winter, so take care of yourself, get outside, get some vitamin D and enjoy it while you can Walk your dog.

Kevin Minor: 25:03

Walk your dogs.

Shelby Kerns: 25:04

That is the advice my dog has for everyone Walk your dogs, walk your dogs. That is the advice my dog has for everyone.

Kevin Minor: 25:07

Walk your dogs Well, erica and Shelby. Thank you both so much for joining us today.

Erica MacKellar: 25:13

Thank you, thanks for having us Appreciate you both.

Kevin Minor: 25:18

Email us your questions, thoughts, comments, answers. We would love to hear from you Podcast at NASPOorg and, if you haven't already, make sure to subscribe to us on Apple Podcasts, spotify, google wherever you get your podcasts. Make sure to check out our blog, pulsenaspoorg and catch up on some procurement articles written by your very own NASPO staff. I'm Kevin Miner. Until next time.