

	<p>State of the States: State Fiscal Outlook</p>
	<p>NSAA/NASC Joint Middle Management Conference</p> <p><i>Nashville, TN</i></p> <p>April 21, 2009</p> <p><i>Scott Pattison</i> <i>Executive Director</i> National Association of State Budget Officers</p> <p><small>444 North Capitol Street, NW, Suite 642 • Washington, DC 20001 • (202) 624-5382 • www.nasbo.org</small></p>

	<p>Economics</p>
<ul style="list-style-type: none"> ■ Most states in recession <ul style="list-style-type: none"> □ 44 states in recession; 6 at risk ■ 4th Quarter revised GDP at 6.3% decline ■ Revenue expected to weaken further ■ Possible 9-10% unemployment ■ Housing sector remains weak ■ Glimmers of hope: S&P 500 up 8.5% in March, best month since 2002 <p><small>Sources: Economy.com; Philadelphia Federal Reserve Bank</small></p>	
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This downturn vs. Post '01

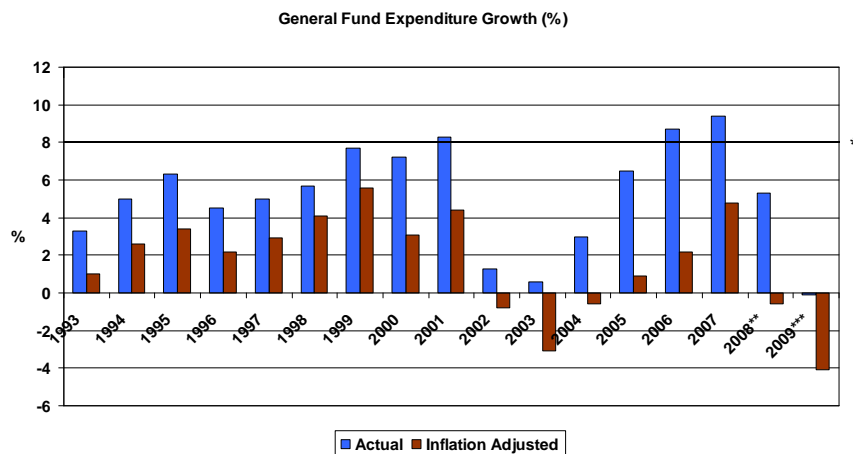
- **Last Time:**
 - **Housing sector strong in '01**
 - **Primarily income tax decline**
- **This Time:**
 - **Broad economic decline**
 - **Localities hit this time**
 - **Credit crisis this time**

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Negative Spending Growth Expected in Fiscal 2009



*31-year historical average rate of growth is 6.3 percent

**Fiscal 08 numbers are preliminary actual

***Fiscal 09 numbers are appropriated

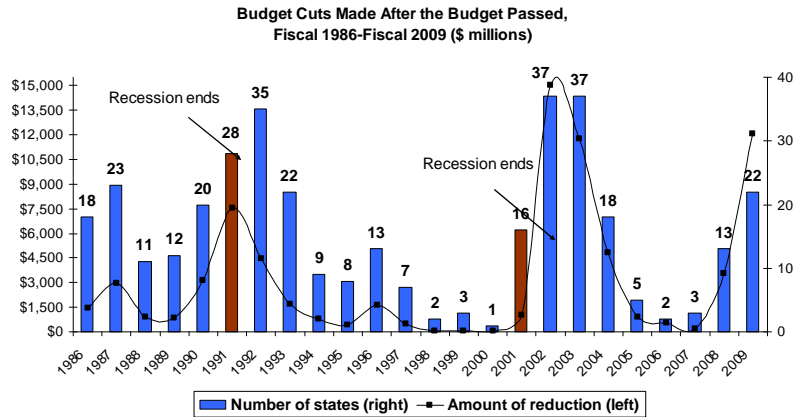
Source: NASBO Dec. 2008 Fiscal Survey of States

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Budget Cuts Increasing



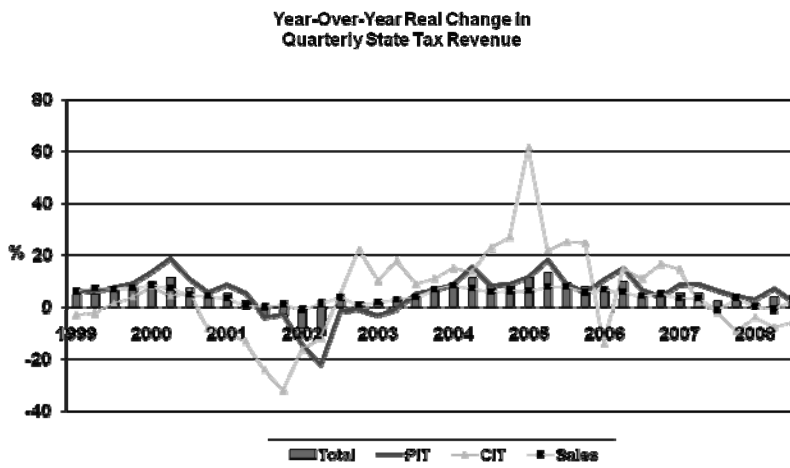
Source: December 2008 Fiscal Survey of States

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State Tax Revenue Decline



Source: Fiscal Studies Program, Rockefeller Institute of Government

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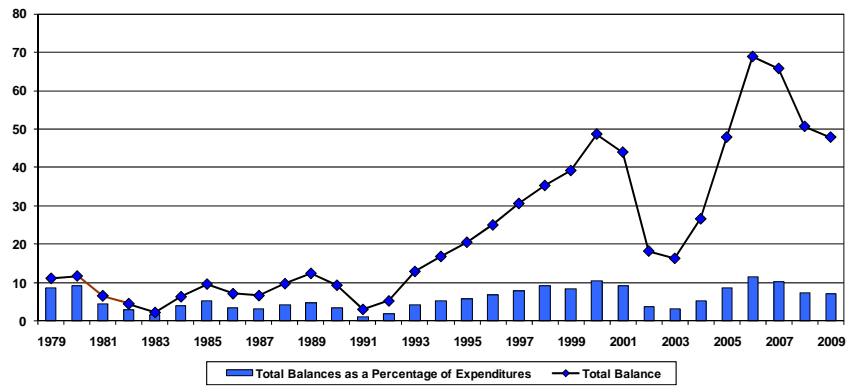
	<h2>Preliminary 4th Quarter Revenue Even Weaker</h2>
<ul style="list-style-type: none"> ■ Preliminary state tax collections for 4th quarter show a 4% decline in revenue ■ Majority of states reporting had decline both in personal income and sales tax ■ 1st and 2nd quarters of 2009 are expected to be even worse 	
<p><small>Source: Rockefeller Institute of Government</small></p> <p>NASBO 7</p>	

	<h2>March 2009 FTA State Tax Collections Survey</h2>
<ul style="list-style-type: none"> ■ 3-Month Moving Average shows total collections down 8.3% ■ Individual income down 8.6% ■ Sales tax declining 6.8% ■ Corporate income down 1.9% 	
<p><small>Source: Federation of Tax Administrators</small></p> <p>NASBO 8</p>	



Balances

Total Year-End Balances and Total Year-End Balances as a Percentage of Expenditures, Fiscal 1979-Fiscal 2009 (Appropriated)





*31-year historical average is 5.7%

Source: NASBO December 2008 Fiscal Survey of States



Stimulus ARRA

	<p>American Recovery and Reinvestment Act (Stimulus)</p>
<ul style="list-style-type: none"> ■ State Fiscal Stabilization Fund - \$53.6 billion: <ul style="list-style-type: none"> □ \$39.5 billion to schools and higher ed □ \$5 billion in incentive grants □ \$8.8 billion in flexible funds ■ Medicaid Funding: \$87 billion ■ Highway and Bridge Infrastructure: \$27.5 billion 	
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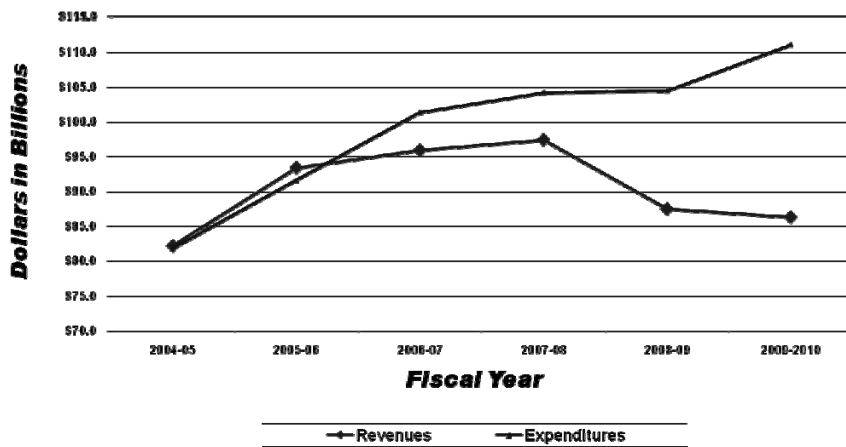
	<p>American Recovery and Reinvestment Act (Stimulus)</p>
<ul style="list-style-type: none"> ■ Although extremely helpful, the stimulus alone will not fully solve states' budget shortfalls ■ States will still need to cut spending, use rainy day funds, examine revenue increases ■ States will need to focus on reporting, accountability, and transparency ■ States will need to determine how to deal with the end of stimulus funding 	
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Background on State Spending Trends



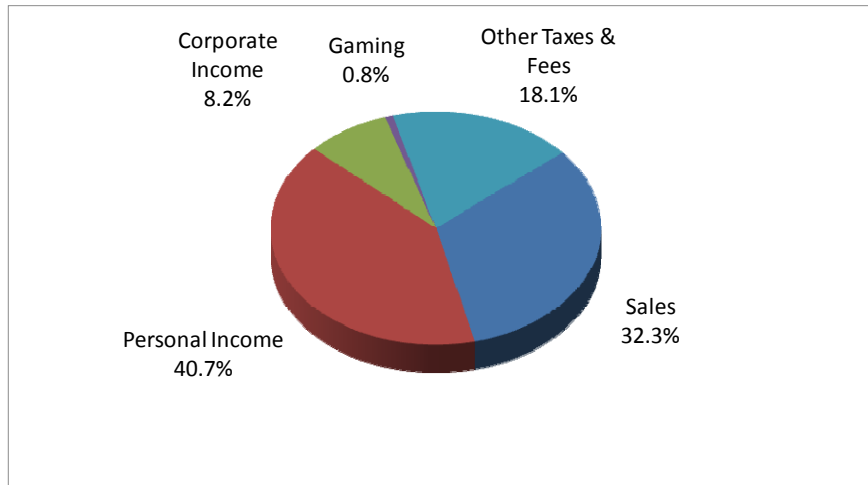
Structural Imbalance Continues: The Example of California



Source: California Governor's Budget 2009-10



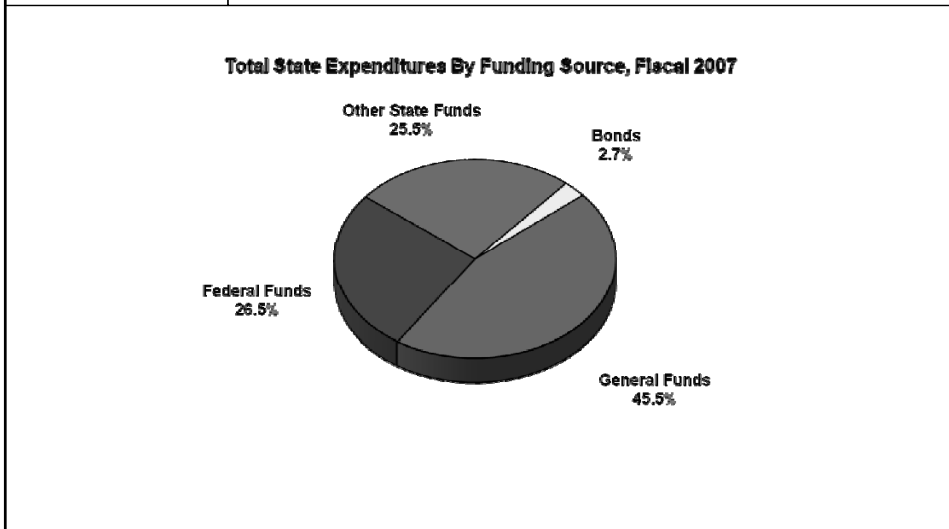
Revenue Sources in General Fund



Source: NASBO 2007 State Expenditure Report



Spending by Funding Source (Percentage)

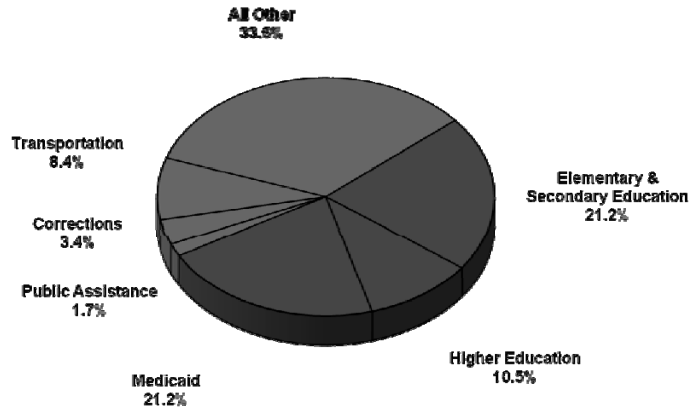


Source: NASBO 2007 State Expenditure Report



Total State Expenditures: Medicaid & Education Nearly 53%

Total State Expenditures by Function, Fiscal 2007



Source: NASBO 2007 State Expenditure Report

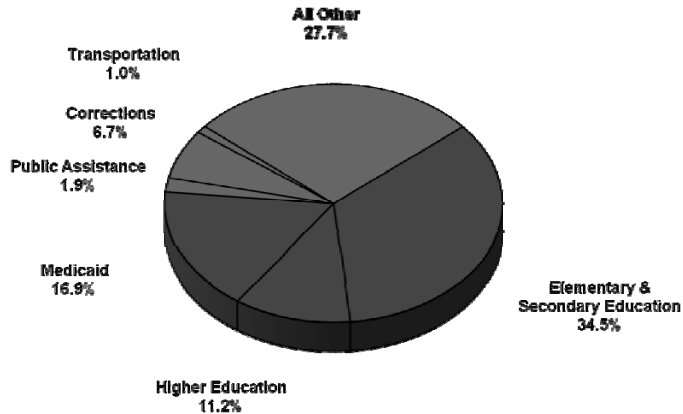
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General Fund: Medicaid & Education Nearly 63%


General Fund Expenditures by Function, Fiscal 2007






Source: NASBO 2007 State Expenditure Report

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<h1><i>Future Trends</i></h1>	
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	<h2>Long Term Spending Pressures</h2>
<ul style="list-style-type: none"> ■ Medicaid and Health Care ■ K-12 and Higher Education ■ Demographic Changes ■ Corrections ■ Infrastructure ■ Pensions <div style="display: flex; justify-content: space-around; align-items: center;">   </div>	
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State Fiscal Outlook

- Much will depend on the length and severity of the recession
- Expect continued drops in revenue and spending
- States will look for creative financing and revenue opportunities to meet these spending demands
- Opportunity for reform
- Recovery for states in FY '11



Silver Lining?

- **Efficiencies**
- **Prioritization**
- **Outsourcing when appropriate**
- **Necessary management reforms**
- **Restructuring**



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