



## *State of the States: State Fiscal Outlook*



# NASC

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*Scott Pattison  
Executive Director  
National Association of State Budget Officers*

444 North Capitol Street, NW, Suite 642 • Washington, DC 20001 • (202) 624-5382 • [www.nasbo.org](http://www.nasbo.org)



## *Economics*

- **Most states in recession**
  - 38 states in recession; 12 at risk
- **4<sup>th</sup> Quarter revised GDP at 6.2% decline**
- **Expected to last through at least 2009**
- **Revenue expected to weaken further**
- **Possible 9-10% unemployment**
- **Housing sector remains weak**

Sources: *Economy.com*; Philadelphia Federal Reserve Bank



## *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**



## *American Recovery and Reinvestment Act (Stimulus)*

- **State Fiscal Stabilization Fund - \$53.6 billion:**
  - **\$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**



## American Recovery and Reinvestment Act (Stimulus)

- 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

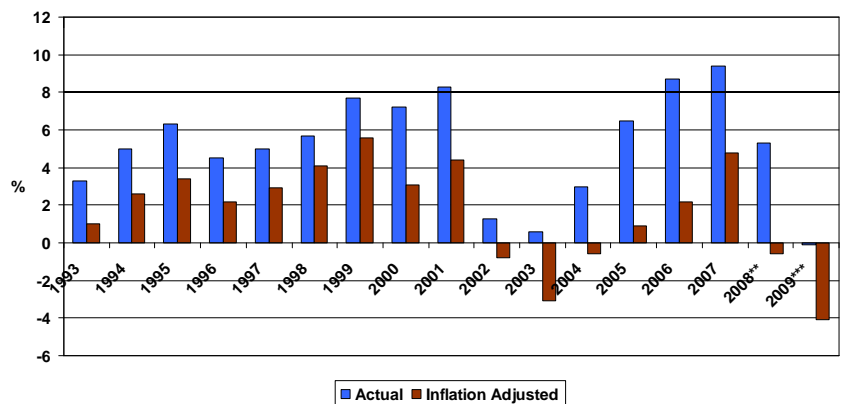
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## Negative Spending Growth Expected in Fiscal 2009

General Fund Expenditure Growth (%)



\*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

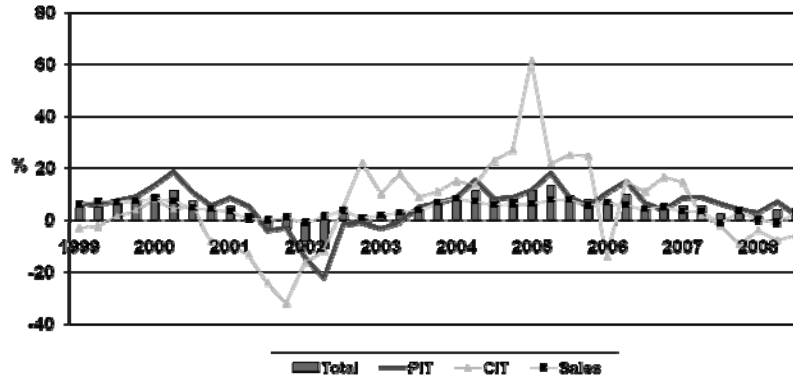
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## State Tax Revenue Decline

Year-Over-Year Real Change in Quarterly State Tax Revenue



Source: Fiscal Studies Program, Rockefeller Institute of Government

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## Preliminary 4<sup>th</sup> Quarter Revenue Even Weaker

- Preliminary state tax collections for 4<sup>th</sup> quarter show a 4% decline in revenue
- Majority of states reporting had decline both in personal income and sales tax
- 1<sup>st</sup> and 2<sup>nd</sup> quarters of 2009 are expected to be even worse

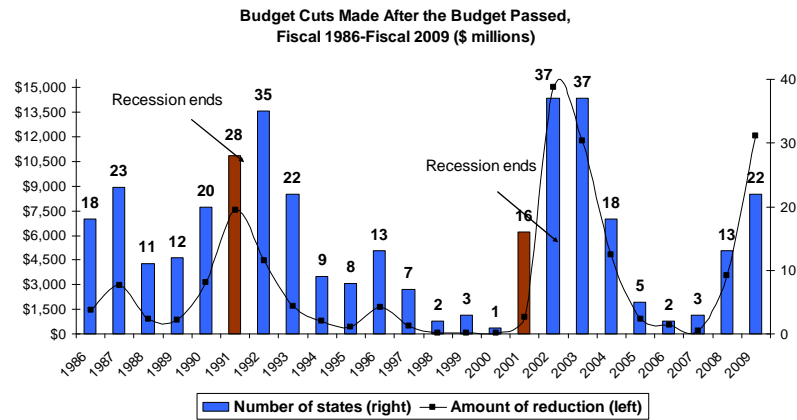
Source: Rockefeller Institute of Government

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## Budget Cuts Increasing



Source: December 2008 Fiscal Survey of States

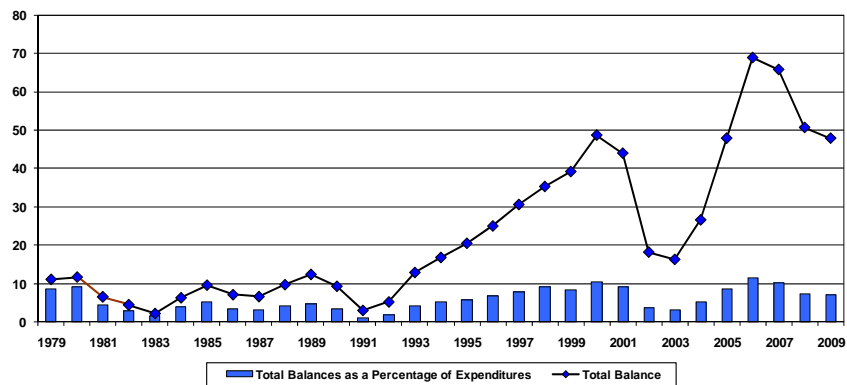
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## Balances Declining

**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

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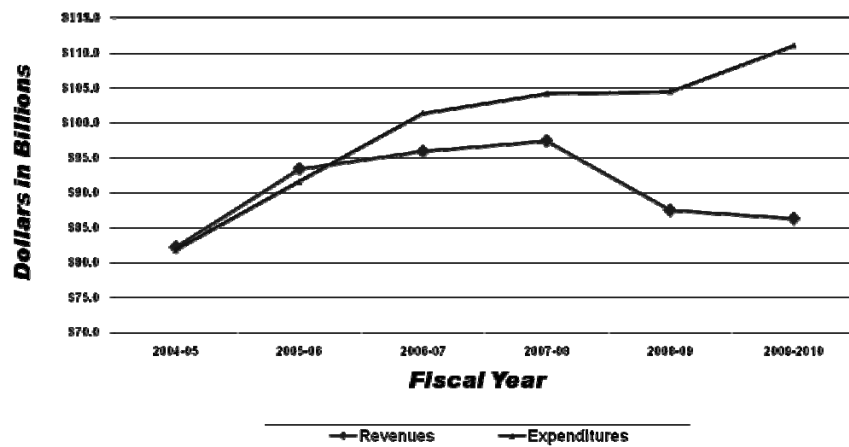
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## Background on State Spending Trends



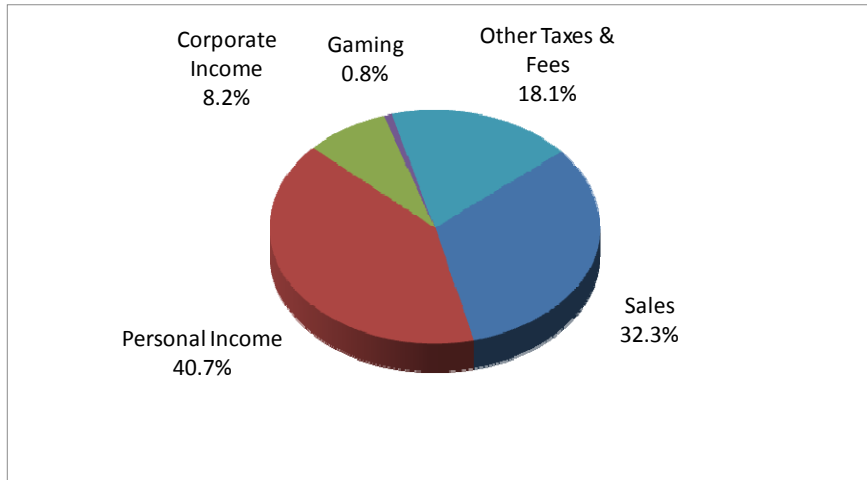
## Structural Imbalance Continues: The Example of California



Source: California Governor's Budget 2009-10



## Revenue Sources in General Fund

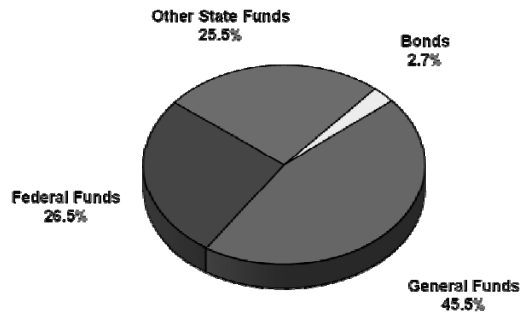


Source: NASBO 2007 State Expenditure Report



## Spending by Funding Source (Percentage)

Total State Expenditures By Funding Source, Fiscal 2007

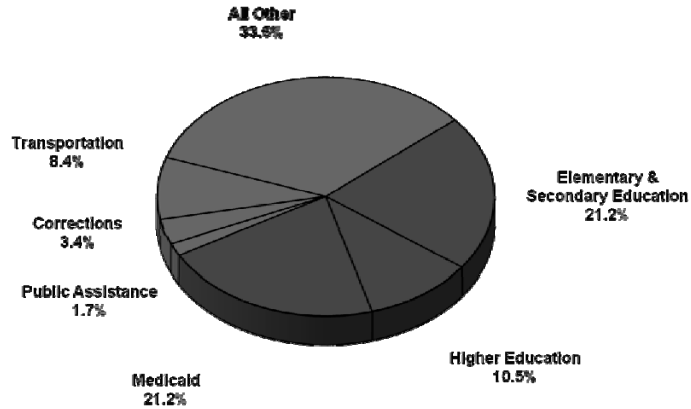


Source: NASBO 2007 State Expenditure Report



## Total State Expenditures: Medicaid & Education Nearly 53%

Total State Expenditures by Function, Fiscal 2007

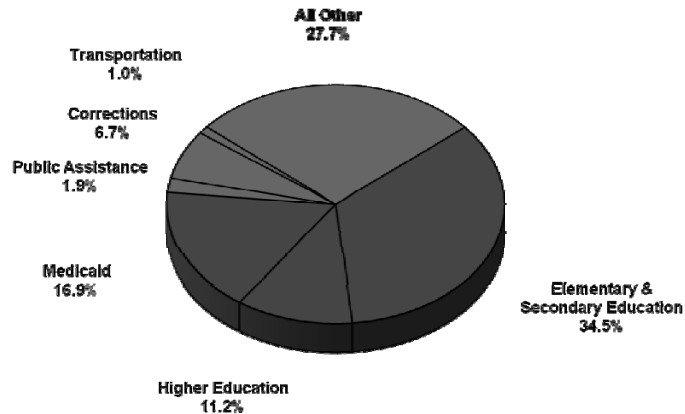


Source: NASBO 2007 State Expenditure Report



## General Fund: Medicaid & Education Nearly 63%

General Fund Expenditures by Function, Fiscal 2007



Source: NASBO 2007 State Expenditure Report



## *Long Term Spending Pressures*

- Medicaid and Health Care
- K-12
- Higher Education
- Demographic Changes
- Corrections
- Infrastructure
- Pensions



## *State Fiscal Outlook*

- Much will depend on the length and severity of the recession
- Expect continued significant 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 at best in FY '11





## *Silver Lining?*

- **Efficiencies**
- **Priorities**
- **Public-private partnerships**
- **Outsourcing**
- **Necessary reforms**
- **Restructuring**



*www.nasbo.org*

*Scott Pattison*  
*(202) 624-8804*  
*spattison@nasbo.org*

