

Washington Update



NASBO RELEASES FISCAL SURVEY OF THE STATES

The National Association of State Budget Officers has released its latest Fiscal Survey of the States. The report shows that state budgets are stable and continue to grow moderately, but notes:

“While states’ fiscal conditions have been steadily improving in recent years, progress has been slow and somewhat uneven, and state governments face significant financial challenges going forward. Requirements for spending on K-12 education, health care and other important areas continue to grow, often at faster rates than state revenue growth. Long-term critical challenges include pent-up demand for spending on infrastructure and rising pension and health care costs.”

Overall, state fiscal conditions are stable, but growth is modest and uneven. The Fiscal Survey of States presents aggregate and individual data on the states’ general fund receipts, expenditures, annual tax and revenue changes and balances. These general funds are used to finance most broad-based state services and are the most important elements in determining the fiscal health of the states. The full report can be found at www.nasbo.org/publications-data/fiscal-survey-states/fiscal-survey-states-fall-2015.

GOVERNMENT FUNDING APPROVED THROUGH NEXT SEPTEMBER

Waiting until the last day before the winter recess, Congress finally passed the large omnibus package of spending bills to keep the federal government operating through next September. Included in the package is a permanent extension of several tax extenders, including a provision that allows taxpayers to claim an itemized deduction for state and local general sales taxes in lieu of state and local income taxes, which applies to the seven states with no income taxes: Alaska, Florida, Nevada, South Dakota, Texas, Washington State and Wyoming.

The omnibus is also notable for what it doesn’t include: there is no bailout for financially-stressed Puerto Rico, which has indicated a possible default on bond payments at some point in 2016. Speaker of the House Paul Ryan (R-WI) said that he was directing the relevant House committees to come up with a solution to the island territory’s financial problems by the end of March.



GAO RELEASES 50-YEAR STATE GOVERNMENT FISCAL SIMULATION

The U.S. Government Accountability Office last week released a new report that provides a 50-year simulation of revenue and expenditure trends at the state and local government levels. The simulation finds that absent any policy changes, the state and local government sectors face a gap between expenditures and receipts in future years. GAO noted that closing this gap will require state and local governments to make policy changes to assure that receipts are at least equal to expenditures.

Items of interest in the report include:

- In the long-term, modelling suggests that at current rates, total tax revenues for the state and local government sectors, as a percentage of gross domestic product, will not return to the 2007 historical high until 2047.
- A primary driver of the operating balance in the long term is the rising health-related costs of state and local expenditures on Medicaid and the cost of health care compensation for state and local government employees and retirees.

- GAO calculated that closing the fiscal gap would require action to be taken today and maintained for each year equivalent to a five-percent reduction in state and local current expenditures. Closing the fiscal gap through revenue increases would require action of similar magnitude through increases in state and local tax revenues. More likely, closing the fiscal gap would involve some combination of both expenditure reductions and revenue increases

The full report can be viewed at www.gao.gov/assets/680/674205.pdf.

CONGRESS ADJOURNS FOR WINTER RECESS

The House and Senate have entered their winter recess period and will be returning to work on January 4, 2016. The next Washington Update will appear on Monday, January 11.

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