Fiscal Perspectives on the Road Ahead for States

CSG-WEST

August 1, 2013

Brian Sigritz
Director of State Fiscal Studies
National Association of State Budget Officers
The “Great Recession” was an extremely difficult fiscal period for states in all regions.

General fund revenues outpaced projections in fiscal 2013, but states benefited from one-time gains.

Fiscal 2014 recommended budgets show widespread improvements, but resources remain tight.

- General fund spending and revenue remain below pre-recession peaks when adjusted for inflation.

Federal uncertainty in a number of areas; federal spending expected to decline.

Pensions & retiree health care also remain a concern.
*The 36-year historical average annual rate of growth is 5.5 percent

Source: NASBO Spring 2013 Fiscal Survey of States

*Fiscal 2014 numbers are recommended
GF Spending Growth: Western States vs. National Average

- FY 2010: -5.7
- FY 2011: 3.8
- FY 2012: 4.2
- FY 2013: 4
- FY 2014: 4.1

National vs. Western States

Source: NASBO Fiscal Survey of States
States Restoring Some Cuts Made During Recession

Fiscal 2014 Recommended General Fund Spending Changes by Category ($ in Billions)

- K-12: $8.0
- Higher Ed: $3.3
- Public Assist.: $0.7
- Medicaid: $6.5
- Corrections: $0.9
- Transportation: $1.0

Source: NASBO Spring 2013 Fiscal Survey
GF Revenue Growth: Western States vs. National Average

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>National</th>
<th>Western States</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2010</td>
<td>-2.5</td>
<td>0.9</td>
</tr>
<tr>
<td>FY 2011</td>
<td>6.4</td>
<td>9.2</td>
</tr>
<tr>
<td>FY 2012</td>
<td>3.8</td>
<td>-1</td>
</tr>
<tr>
<td>FY 2013</td>
<td>4.2</td>
<td>5.5</td>
</tr>
<tr>
<td>FY 2014</td>
<td>2.8</td>
<td>2.6</td>
</tr>
</tbody>
</table>

Source: NASBO Fiscal Survey of States
States Recommend $2.9B in Net Additional Taxes and Fees for FY14

Enacted State Revenue Changes, Fiscal 1979 to Fiscal 2013, & Recommended Fiscal 2014 Changes

![Graph showing state revenue changes from 1979 to 2013.](image-url)
Fiscal 2014 Recommended Revenue Changes

- Sales Taxes ($1.2B): 5 states proposed increases, 5 proposed decreases
- Personal Income (-$207M): 8 increases, 7 decreases
- Corporate Income ($291M): 4 increases, 5 decreases
- Cigarettes/Tobacco ($273M): 3 increases
- Motor Fuels ($1.4B): 4 increases
- Alcohol ($63M): 1 increase
- Fees ($299M): 5 increases, 1 decrease

Source: NASBO Spring 2013 Fiscal Survey of States
States Rebuilding Reserves, but Haven’t Reached Peak Levels

<table>
<thead>
<tr>
<th>Year</th>
<th>All 50 States</th>
<th>Not Including Alaska &amp; Texas</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2006</td>
<td>11.5%</td>
<td>10.0%</td>
</tr>
<tr>
<td>FY 2007</td>
<td>10.1%</td>
<td>8.2%</td>
</tr>
<tr>
<td>FY 2008</td>
<td>8.6%</td>
<td>6.0%</td>
</tr>
<tr>
<td>FY 2009</td>
<td>5.7%</td>
<td>2.4%</td>
</tr>
<tr>
<td>FY 2010</td>
<td>5.2%</td>
<td>2.4%</td>
</tr>
<tr>
<td>FY 2011</td>
<td>7.1%</td>
<td>5.1%</td>
</tr>
<tr>
<td>FY 2012</td>
<td>8.3%</td>
<td>5.0%</td>
</tr>
<tr>
<td>FY 2013</td>
<td>8.3%</td>
<td>4.2%</td>
</tr>
<tr>
<td>FY 2014</td>
<td>7.4%</td>
<td>4.2%</td>
</tr>
</tbody>
</table>
Total Balance as % of Expenditures: Western States vs. National Average

<table>
<thead>
<tr>
<th>Year</th>
<th>National</th>
<th>Western States</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2010</td>
<td>5.2</td>
<td>3.2</td>
</tr>
<tr>
<td>FY 2011</td>
<td>7.1</td>
<td>9.4</td>
</tr>
<tr>
<td>FY 2012</td>
<td>8.3</td>
<td>13.4</td>
</tr>
<tr>
<td>FY 2013</td>
<td>8.3</td>
<td>13.5</td>
</tr>
<tr>
<td>FY 2014</td>
<td>7.4</td>
<td>13.6</td>
</tr>
</tbody>
</table>

Source: NASBO Fiscal Survey of States
Minimal Net Midyear Budget Cuts in FY 2013, 11 States Cut $1.3B

Budget Cuts Made After the Budget Passed ($ millions)

Source: NASBO Spring 2013 Fiscal Survey

*Fiscal 2013 midyear cuts are ongoing
Balanced Budget Requirements

Governor Must Submit Balanced Budget: 44 states
Legislature Must Pass Balanced Budget: 41 states
Governor Must Sign Balanced Budget: 37 states
May Carry Over Deficit: 7 states

Source: NASBO Budget Processes in the States Report
State Funds Have Recently Increased While Federal Funds Have Declined

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>State Funds</th>
<th>Federal Funds</th>
<th>Total State Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal 2010</td>
<td>-3.8</td>
<td>21.4</td>
<td></td>
</tr>
<tr>
<td>Fiscal 2011</td>
<td>0.7</td>
<td>4.1</td>
<td>2.8</td>
</tr>
<tr>
<td>Fiscal 2012</td>
<td>4</td>
<td>-8.2</td>
<td>0.1</td>
</tr>
</tbody>
</table>

Source: NASBO State Expenditure Report
Total State Expenditures by Function, Estimated Fiscal 2012

- Medicaid: 23.9%
- Elementary & Secondary Education: 19.8%
- Higher Education: 9.9%
- Public Assistance: 1.4%
- Transportation: 8.1%
- Corrections: 3.2%
- All Other: 33.7%

Source: NASBO State Expenditure Report
General Fund Expenditures by Function, Estimated Fiscal 2012

Elementary & Secondary Education: 34.7%
Medicaid: 19.6%
Higher Education: 10.0%
Public Assistance: 1.5%
All Other: 26.6%
Corrections: 7.0%
Transportation: 0.5%

Source: NASBO State Expenditure Report
Austere state budgets for at least the next several years (Slow revenue growth, spending pressures, economic uncertainty)
- Tough competition for general funds
- Dealing with long-term liabilities

Federal government will have an impact
- Limited federal funds
- Health care reform
  - Creating exchanges, Deciding on Medicaid expansion, etc.
  - Possible changes to tax code

States will continue to make painful choices
www.nasbo.org

Brian Sigritz
Director of State Fiscal Studies
(202) 624-8439
bsigritz@nasbo.org