



# State Budgets: What in the Wide, Wide World of Sports is Going On?

## ***FTA 75<sup>th</sup> Annual Meeting***

June 13, 2007

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***Executive Director***

***National Association of State Budget Officers***





# ***Current Fiscal Situation***



# The Current Fiscal Situation

- Fiscal 2006 state finances were strong and stable
- Overall fiscal 2007 state finances continue to be in good shape, although some pockets of weakness
- Somewhat tighter fiscal conditions expected in fiscal 2008, but growth expected
- Competition for dollars continues:
  - Medicaid, pensions, IT, transportation, education, corrections, accounting changes



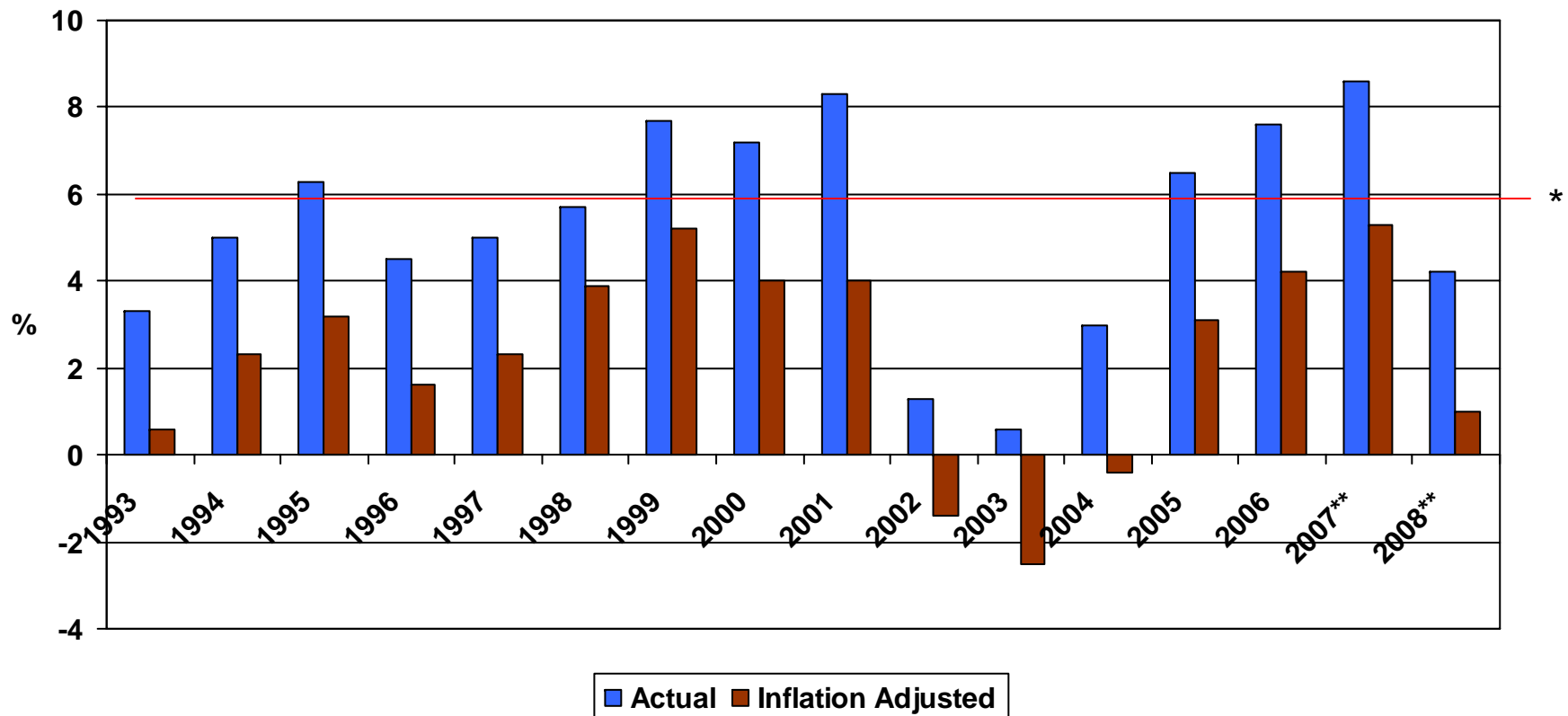
# Recent Trends

- Health Care
  - 34 Governors introduced plans this year to reduce the number of uninsured residents
  - Proposals for expanding child health care programs
- Calls for increasing early education programs
- Continued movement toward increased government accountability and transparency



# Above Average Expenditure Growth in Fiscal '07

General Fund Expenditure Growth (%)



\*29-year historical average rate of growth is 6.5 percent

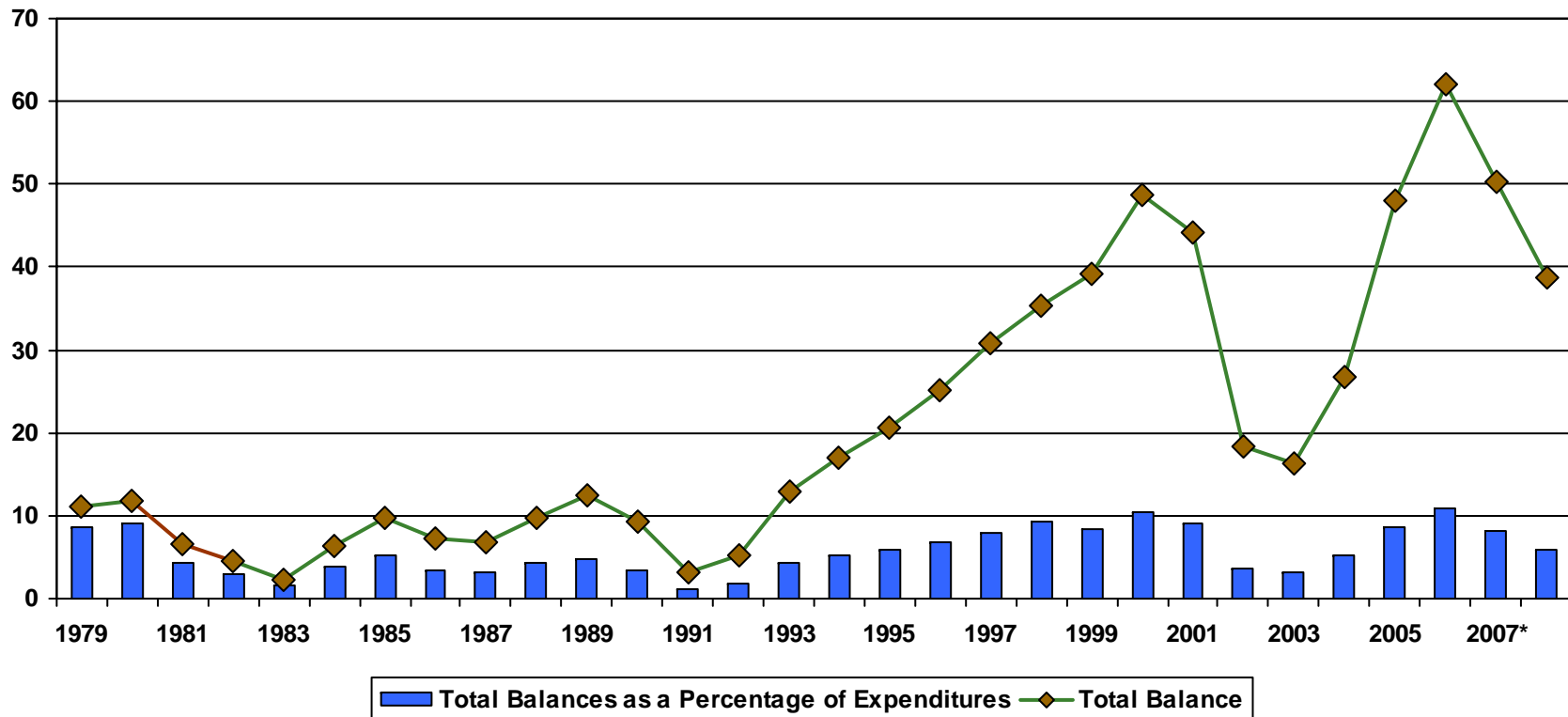
\*\*Fiscal 07 numbers are estimated; fiscal 08 reflect recommended budgets

Source: NASBO June 2007 Fiscal Survey of States - Draft



# Balances Remain Healthy; Some Decline Likely for Fiscal 2008

Total Year-End Balances and Total Year-End Balances as a Percentage of Expenditures, Fiscal 1979-Fiscal 2008 (Recommended)



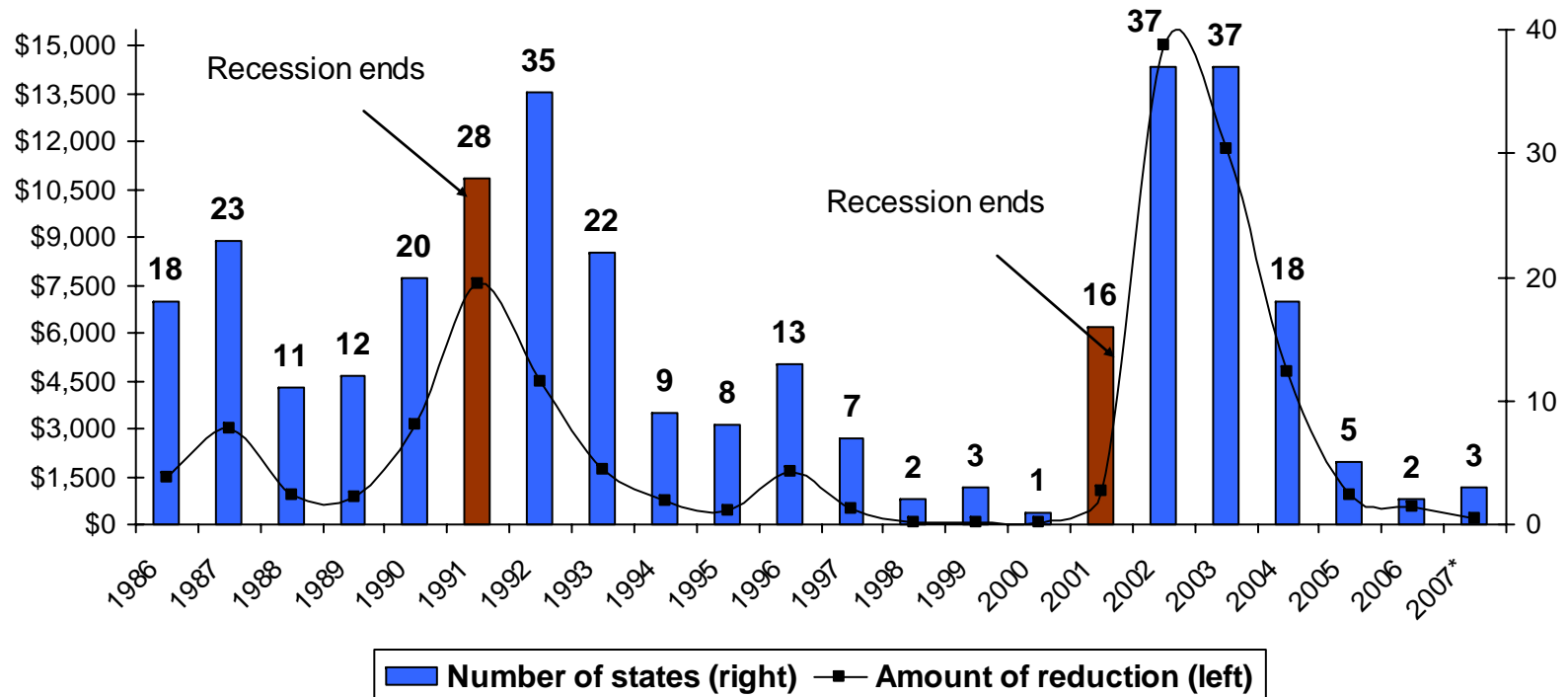
\*2007 figures are estimated; 2008 figures are recommended

Source: NASBO June 2007 Fiscal Survey of States - Draft



# Budget Cuts have Declined Since Early 2000's Downturn

**Budget Cuts Made After the Budget Passed, Fiscal 1986-Fiscal 2007 (\$ millions)**



\*MI, WI, and RI have made budget cuts so far in fiscal 2007

Source: June 2007 Fiscal Survey of States - Draft



# State Rating Changes

- **2006 changes were mostly positive**
  - California's rating upgraded to A1
  - Montana and Tennessee's outlooks were upgraded to positive, while Louisiana, Kansas, and Indiana were upgraded to stable
  
- **2007 rating changes have been more mixed**
  - North Carolina and Vermont's ratings upgraded to Aaa, Montana to Aa2, and Oregon Lottery Bonds to Aa3
  - Michigan's rating downgraded to Aa3, and Michigan and Ohio's outlooks downgraded to negative

*Source: Moody's Investors Service*

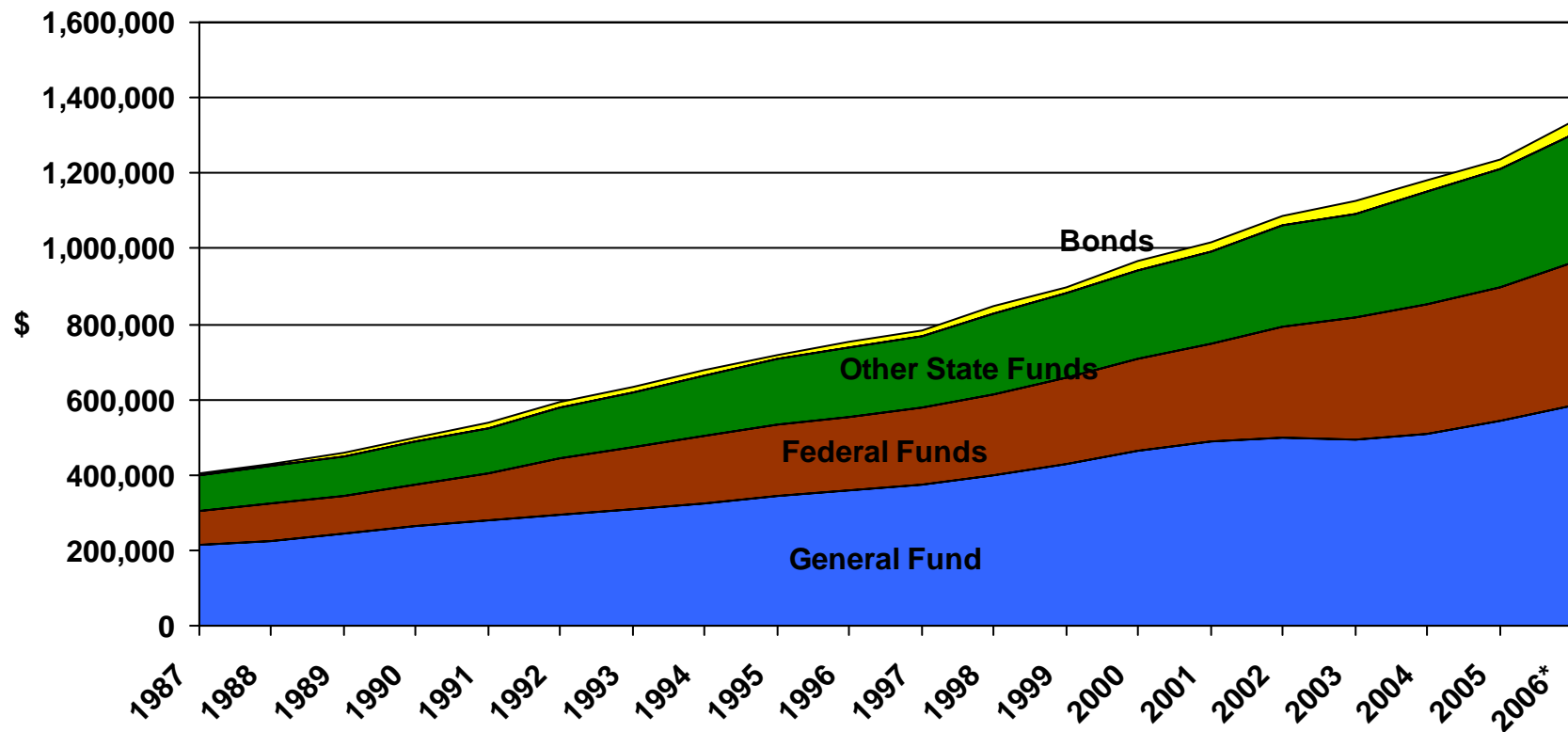


# ***Background on State Spending***



# Overall, State Expenditures Increasing

Total State Spending By Fund Source, Fiscal 1987-2006 (\$ millions)



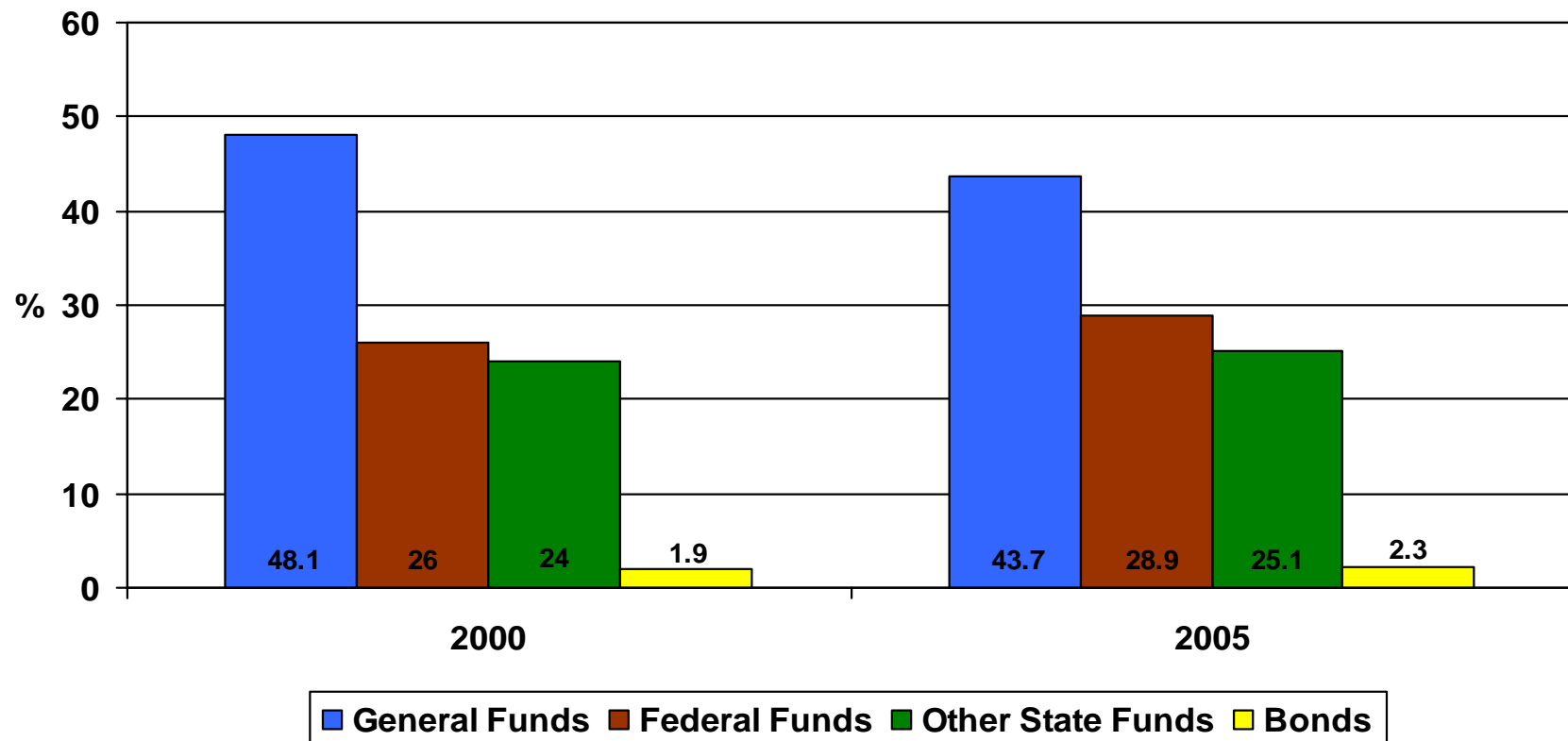
\*2006 numbers are estimates

Source: NASBO State Expenditure Report



# Spending by Funding Source: General Funds Decreasing

Total State Expenditures by Funding Source, Fiscal 2000 and Fiscal 2005

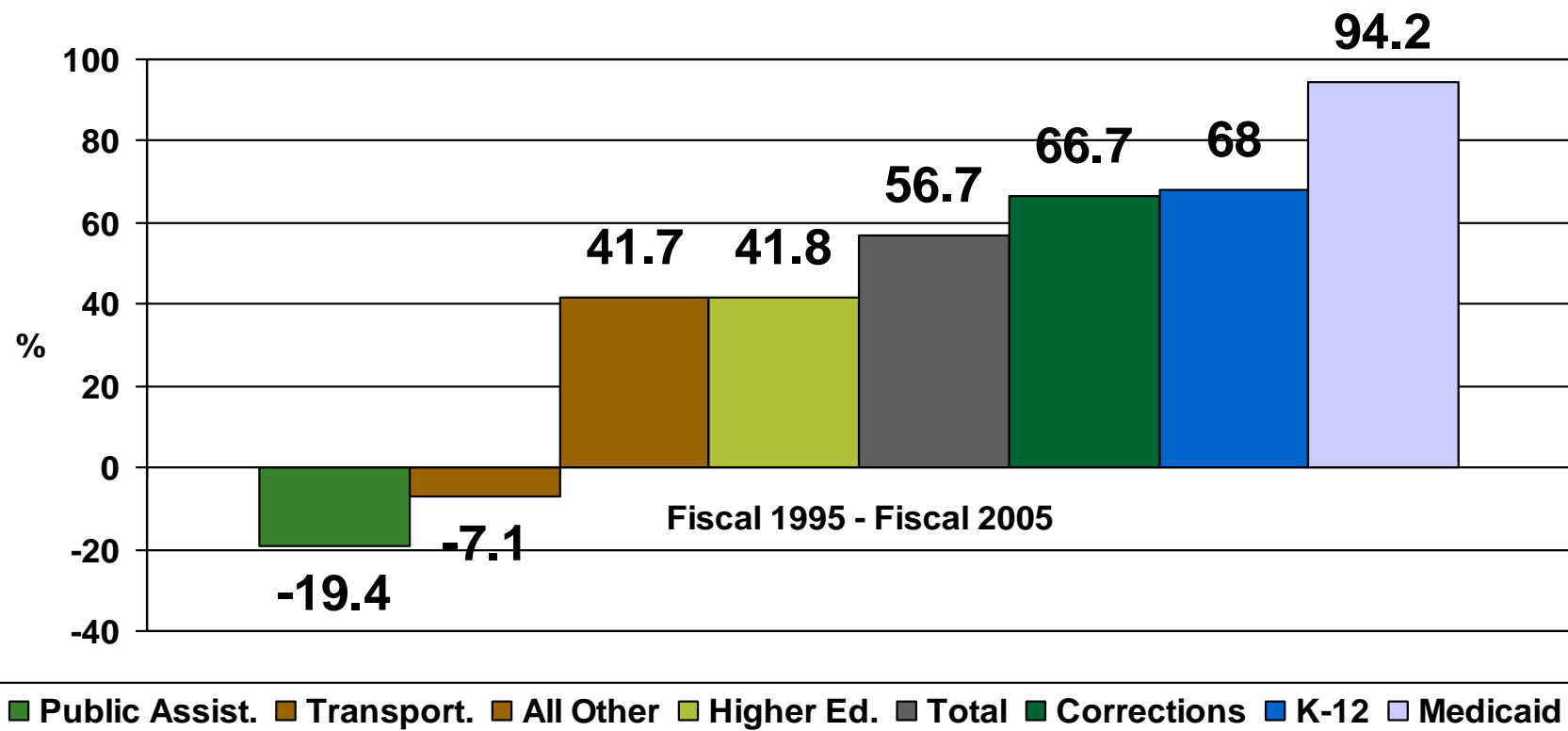


Source: NASBO, 2000 and 2005 State Expenditure Reports



# Percentage Growth in Spending Categories Over 10 Years

Percentage Growth in Spending Categories  
Between Fiscal 1995 and Fiscal 2005 (General Fund)

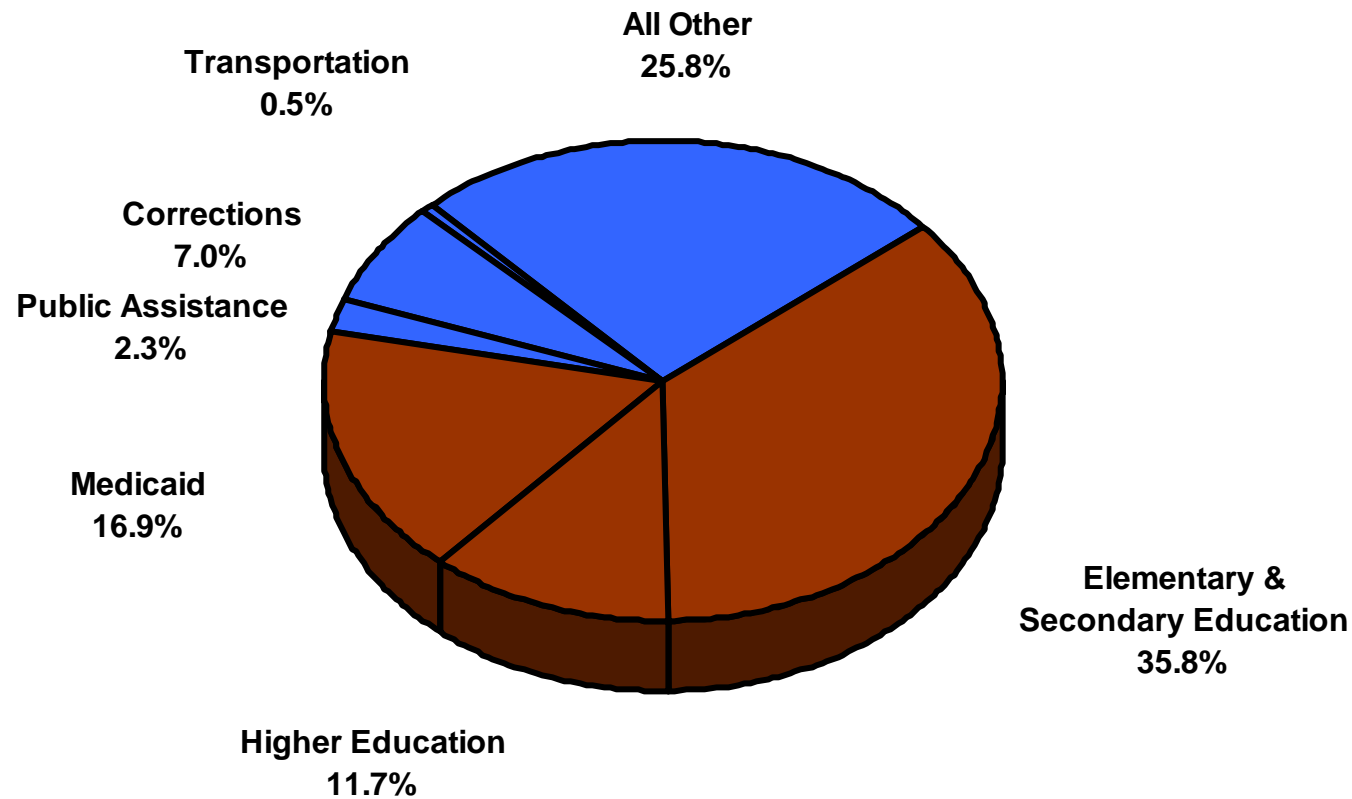


Source: NASBO State Expenditure Report



# Education and Health Care: Now 64% of General Fund Spending

General Fund Spending, Fiscal 2005



Source: NASBO 2005 State Expenditure Report



# *Spending Pressures*



# Spending Pressures in the News...

## “HENRY SIGNS BILL TO EXPAND HEALTH COVERAGE”

- Oklahoma, *Daily Ardmoreite*, 6/5/07

## “Ohio to Focus on Funding for Higher Education”

- Ohio, *Dayton Daily News*, 6/5/07

## “Federal Aid for Energy Bills Cut”

- Connecticut, *Hartford Courant*, 6/5/07

## “**RISING GAS COSTS, FALLING TAX REVENUE SQUEEZE ROAD PROJECTS**”

- Maine, *Kennebec Journal*, 5/30/07



# Competing Spending Pressures

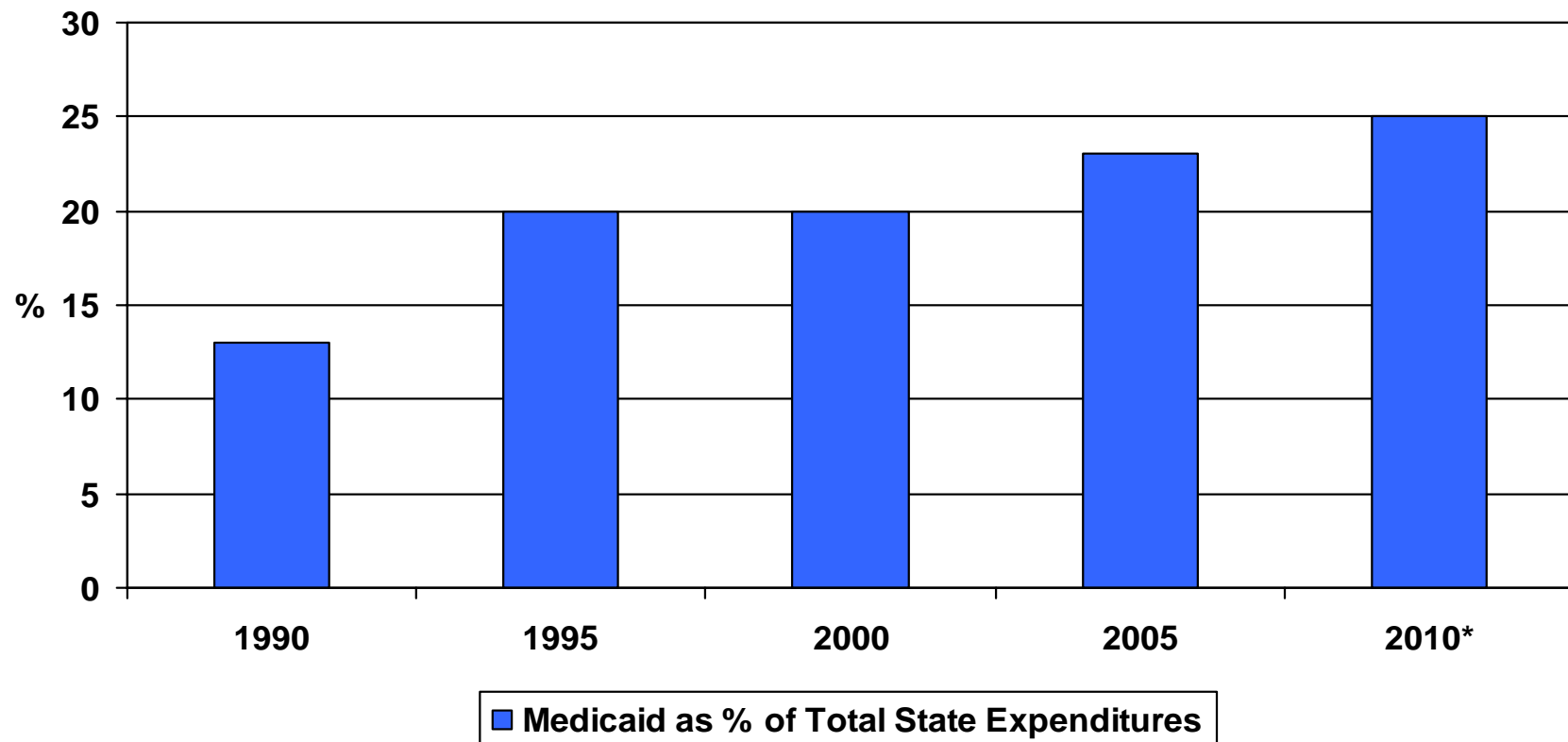
- **Medicaid and Health Care**
- **K-12 Increases**
- **Higher Education**
- **Demographic Changes**
- **Infrastructure**
- **Pensions**





# Medicaid: Fiscal Challenge for States

Total Medicaid Spending as Percentage of Total State Expenditures

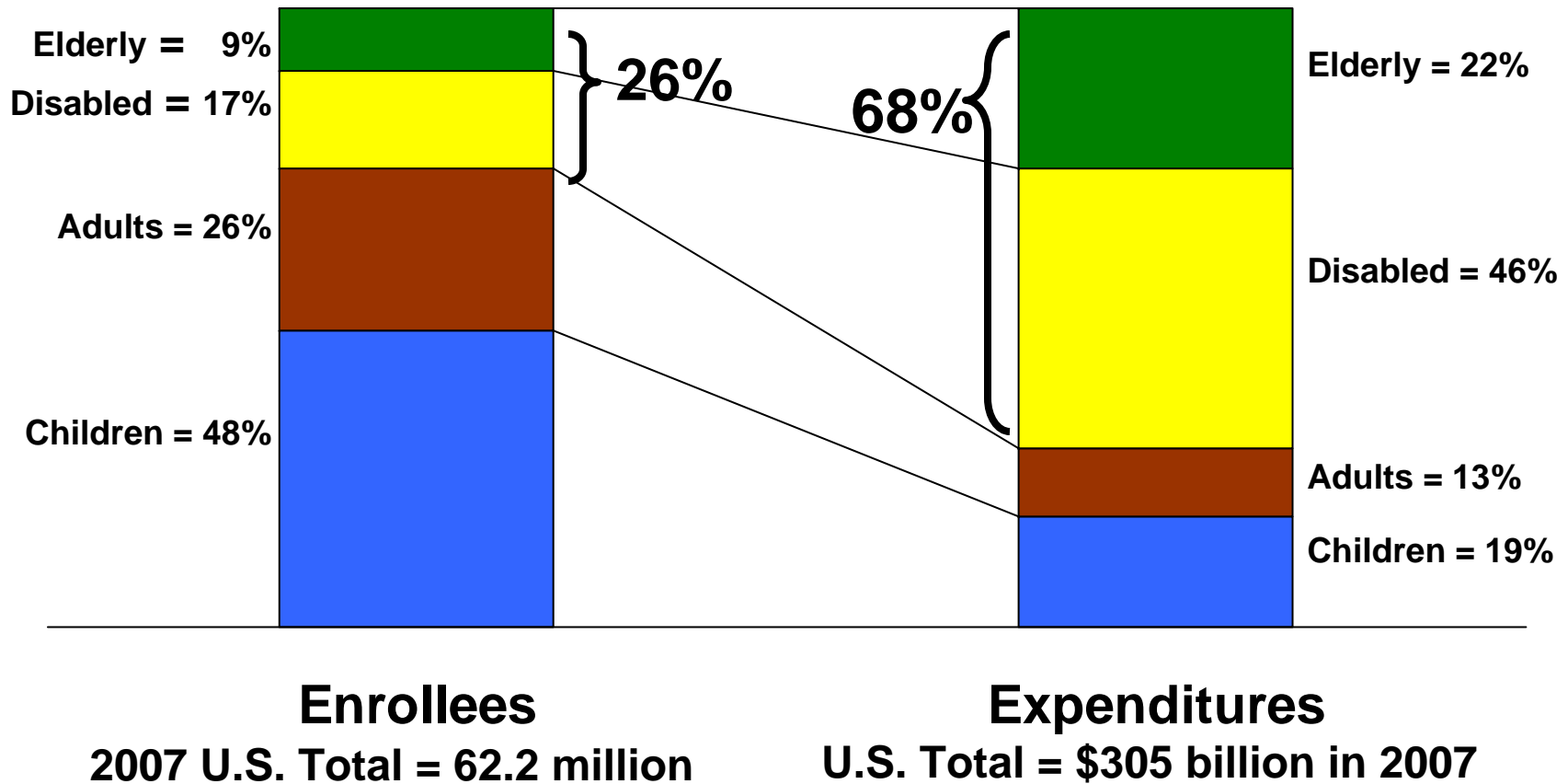


\*2010 percentage projected by Health Management Associates

Source: NASBO State Expenditure Report



# 68% of Medicaid Spending on Benefits in 2007 is for Elderly and Disabled



Source: Vernon Smith, Health Management Associates



# ***Federal Impact on State Expenditures***



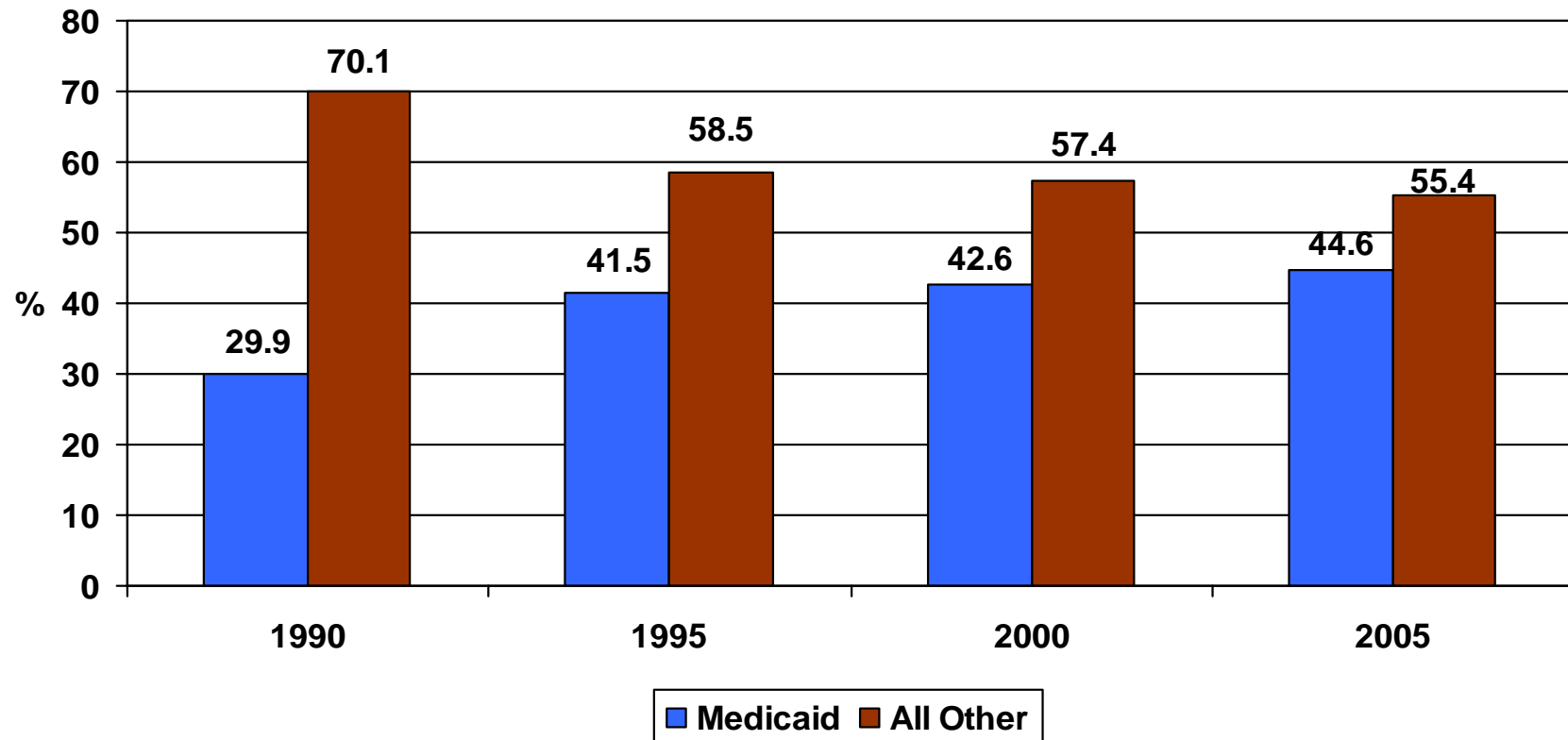
# Long-Term Federal Outlook

- Long-term federal fiscal imbalance could reduce federal funds to states
- Concord Coalition foresees a \$400 billion deficit in 2010, and an \$800 billion deficit in 2017
- Increase in mandatory spending results in less available discretionary funds
  - Mandatory spending represented 27% of federal spending in 1965, 42% in 1985, and 54% in 2006  
(source: CBO)



# Federal Funds to States: Medicaid Consuming Larger Share

State Spending from Federal Funds



Source: NASBO, 1990, 1995, 2000 and 2005 State Expenditure Reports



# Federal/State Relations

- Grant-in-aid to states have become more specific and restrictive
- Cost-shifting
  - NCSL estimates that the federal government has shifted \$100 billion in costs to states over last 4 years
- Increase in amount of unfunded mandates
  - REAL ID, Gov't Withholding Provision, NCLB
- Less money available for states to pursue own priorities

Source: "Our Fractured Fiscal System", *State Legislatures*, April 2007



# *Outlook*



# State Fiscal Outlook

- Revenue and spending growth likely to slow
  - Balances are healthy, Calendar Year '07 looks good
  - Housing decline and a slowing economy could be problematic
- Tough competition for state general funds
- Long-term federal fiscal imbalance threatens funds to states
  - Deficits
  - Increasing defense, retirement and health care costs





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