



Can You Balance the Budget on the Back of the Historic Preservation Department?

Federation of Tax Administrators
June 18, 2003

Scott Pattison
Executive Director
National Association of State Budget Officers



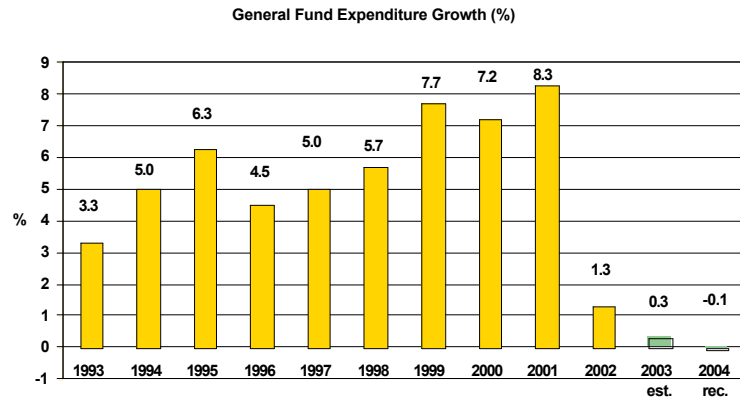
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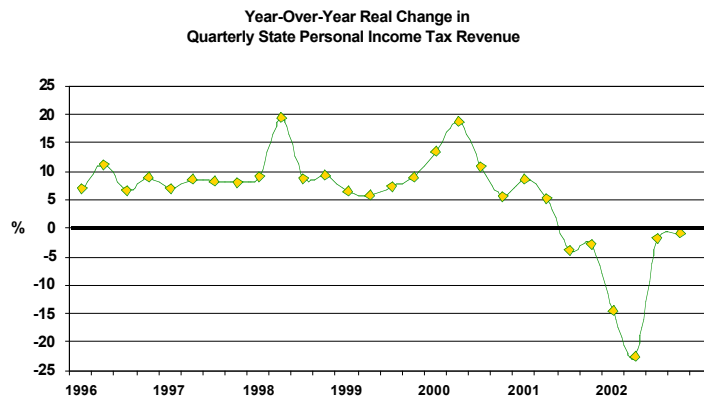
Fiscal Situation in the States



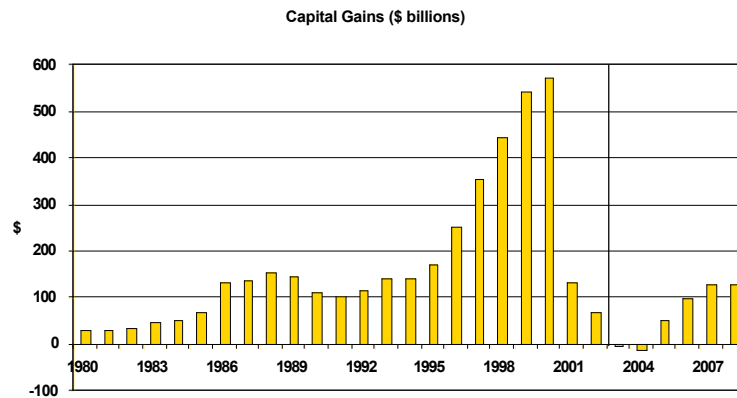
State Expenditures Grew at Historically High Levels in the 1990's, Then the "Boom" Ended



Revenues Have Fallen



The Stock Market Impact Significant



Source: Global Insight



What are States Doing to Balance Budgets?

- **One time only actions**
 - Rainy day funds
 - Tobacco settlements
 - Payments delayed
 - Transferring "special" funds
 - Construction delayed
 - Use of debt
 - Underestimating inflation
- **Revenue**
 - Cigarette tax increases
 - General tax increases
 - Fees and fines increased
 - Delaying tax refunds
- **Cuts**
 - Across-the-board budget cuts
 - Aid to localities cut
 - Benefit cuts
 - Specific cuts
 - Grants cut
- **Personnel**
 - Layoffs
 - Furloughs
 - Hiring freezes
 - Early retirement



What are States Doing to Balance Budgets?

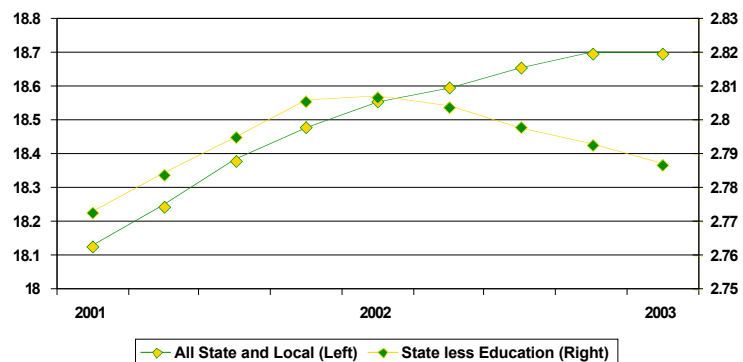
Answer:

Everything



State Employment is Shrinking

Quarterly Average State Employment (Millions)



Source: Moody's Investors Service





State Credit is Weak

- At least 16 states -- negative outlook
- Nine state downgrades since February 2001
- State note issuance rose sharply in fiscal 2003 and will again in fiscal 2004
- Weak revenues and spending pressure cause cash shortfalls and liquidity problems (NY, CA, IL, others)

Source: Moody's Investors Service

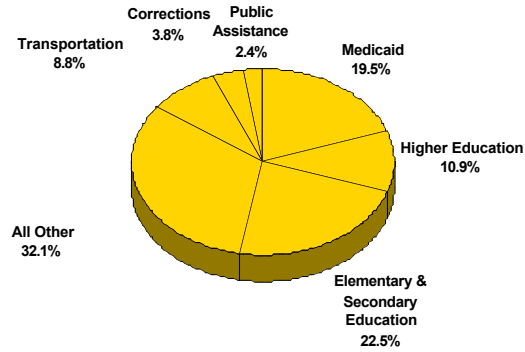


Fiscal Challenges for States



Avoiding Painful Cuts can be Very Difficult...

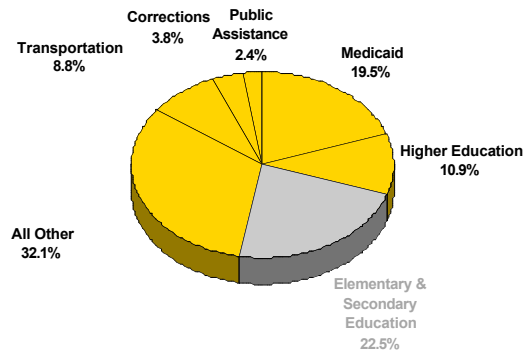
Total State Expenditures



Source: NASBO 2000 State Expenditure Report

Exempt K-12: Balance the Budget on 77.5%

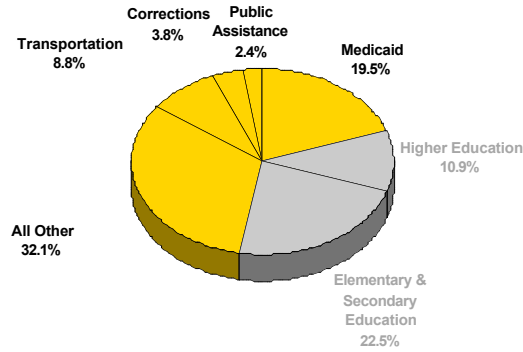
Total State Expenditures



Source: NASBO 2000 State Expenditure Report

Exempt Higher Ed: Balance the Budget on 66.6%

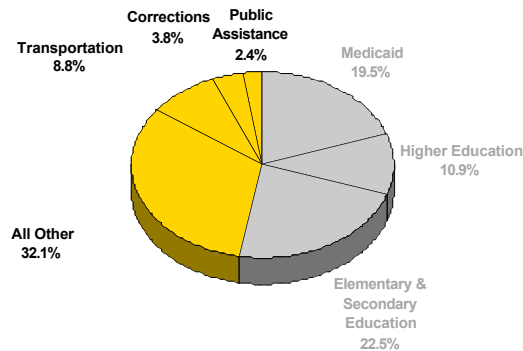
Total State Expenditures



Source: NASBO 2000 State Expenditure Report

Exempt Medicaid: Balance the Budget on 47.1%

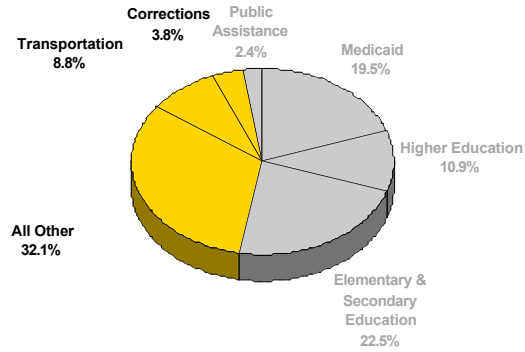
Total State Expenditures



Source: NASBO 2000 State Expenditure Report

Exempt Public Assistance: Balance the Budget on 44.7%

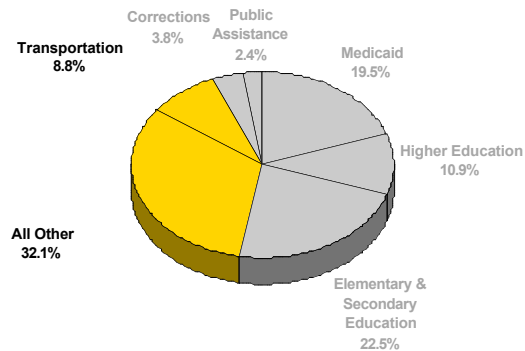
Total State Expenditures



Source: NASBO 2000 State Expenditure Report

Exempt Corrections: Balance the Budget on 40.9%

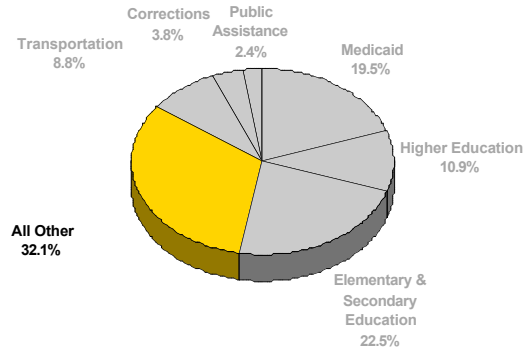
Total State Expenditures



Source: NASBO 2000 State Expenditure Report

Exempt Transportation: Balance the Budget on 32.1%

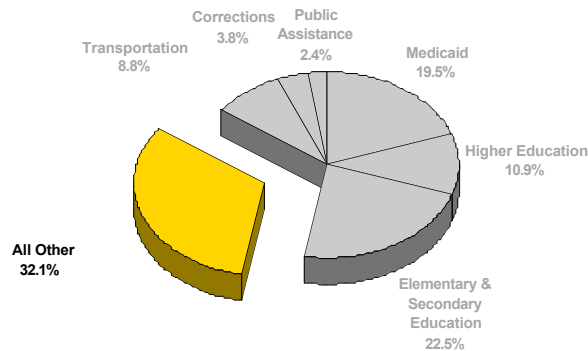
Total State Expenditures



Source: NASBO 2000 State Expenditure Report

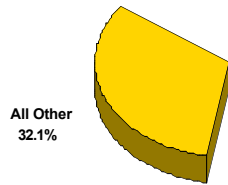
Balancing the Budget on Less Than 100%

Total State Expenditures



Source: NASBO 2000 State Expenditure Report

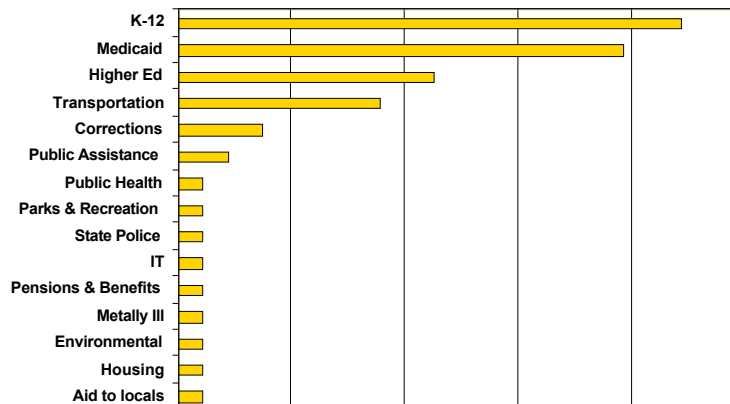
What's in "all other?"



- Public health
- Parks and recreation
- State police
- Employer contributions to pensions and benefits
- Information Technology
- Care for mentally ill and disabled
- Environmental
- Housing
- General aid to local government

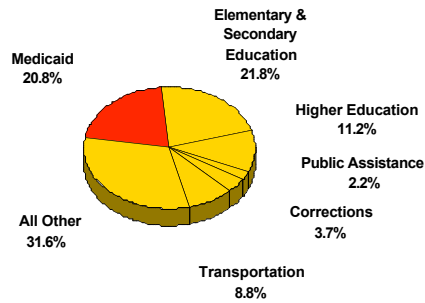


Exempting Some Functions From Budget Cuts Causes Problems



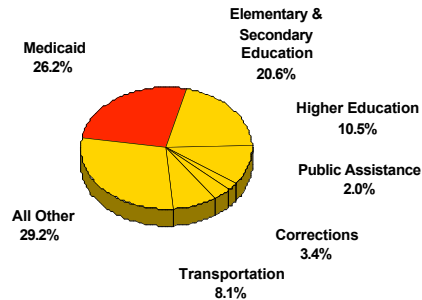
Spending pressures: the example of Medicaid

State Spending by Function as a Percent of Total State Spending, Assuming Current Growth Rate for Medicaid and Current Average Growth for All Other Categories, After 1 Year



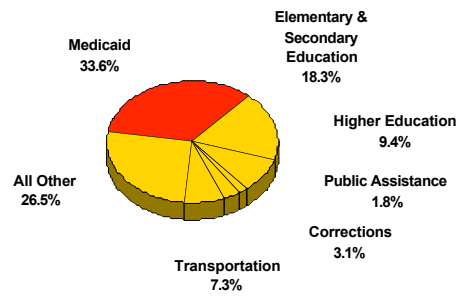
Spending pressures: the example of Medicaid

State Spending by Function as a Percent of Total State Spending, Assuming Current Growth Rate for Medicaid and Current Average Growth for All Other Categories, After 5 Years



Spending pressures: the example of Medicaid

State Spending by Function as a Percent of Total State Spending, Assuming Current Growth Rate for Medicaid and Current Average Growth for All Other Categories, After 10 Years

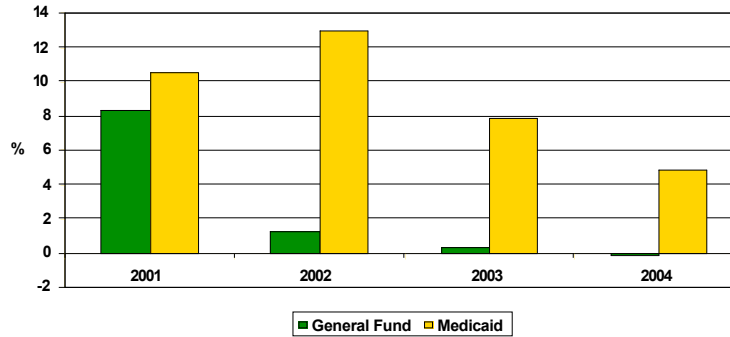


The Future



Medicaid spending cannot be sustained

General Fund Growth Rate Compared to Annual Percentage Medicaid Growth Rate (Excluding Federal Share)

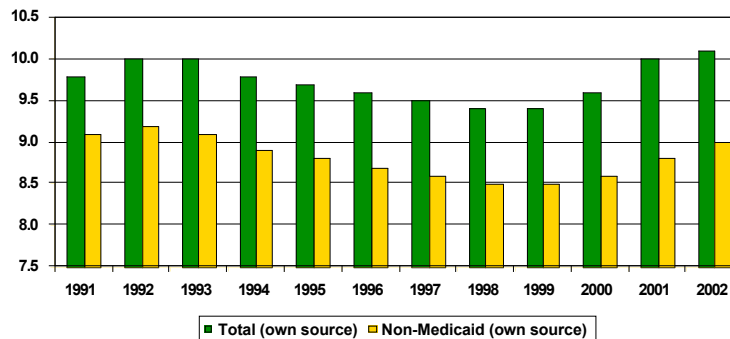


Source: NASBO, Fiscal Survey of States



State Spending Remains Relatively Constant

State and Local Government Expenditures as a Percentage of Gross Domestic Product (Federal Fiscal Years)

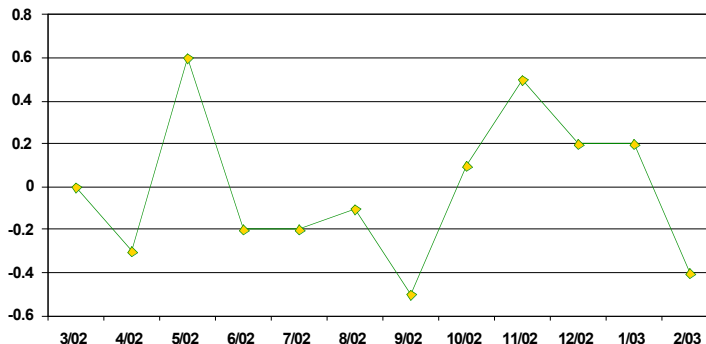


Source: Federal Funds Information for States and Historical Tables, Budget of the United States Government, Fiscal Year 2004.



Economic Uncertainty

Conference Board Index of Leading Indicators, Percentage Change

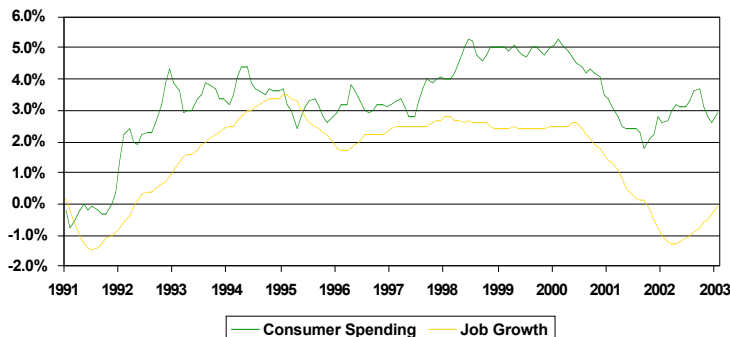


Source: Economy.com



Weak job growth cannot support consumer spending

Year-Over-Year Percentage Change in Consumer Spending and Job Growth, 3-Month Observations



Source: Moody's Investors Service





Conclusion

- Revenues will stabilize
- Tough decisions will still have to be made
- What changes will take place?
 - Tax system changes
 - Spending changes



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