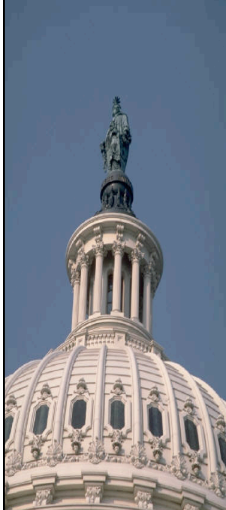




Current Fiscal Situation in the States



FTA Annual Meeting

Denver, CO

June 3, 2009

***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



Current Fiscal Situation



Recent State Fiscal Situation

- **Slowing spending/revenue growth**
 - Considerable declines from fiscal 2008
- **Many states experiencing *significant* shortfalls**
 - \$230B+ for fiscal years 2009-2011
- **Widespread budget cuts, layoffs/furloughs**
- **ARRA will help, but won't solve, shortfalls**



Economics

- **All states in recession**
 - Previous worst was 43 states in 1982 (Phila. Fed)
- **1st Quarter GDP declines 6.1%**
- **Slow growth of 1.5%-3% likely in 2010**
- **Glimmers of hope:**
 - Existing home sales rose 2.9% in April
 - 93% of economists forecast end of recession this year



This downturn vs. Post '01

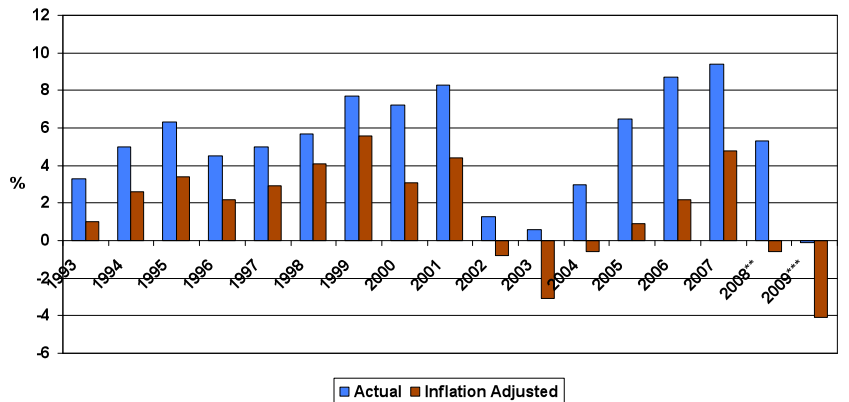
- **Last Time:**
 - Housing sector strong in '01
 - Primarily income tax decline
 - PIT declined 15%; sales only -1.5%

- **This Time:**
 - Broad economic decline; Longer recession
 - Localities will be hit this downturn
 - Credit crisis this time



Negative Spending Growth in Fiscal 2009

General Fund Expenditure Growth (%)



*31-year historical average rate of growth is 6.3 percent

**Fiscal 08 numbers are preliminary actual

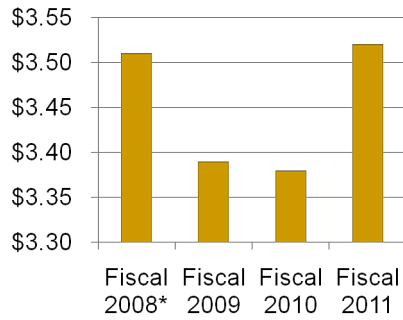
***Fiscal 09 numbers are appropriated

Source: NASBO Dec. 2008 Fiscal Survey of States

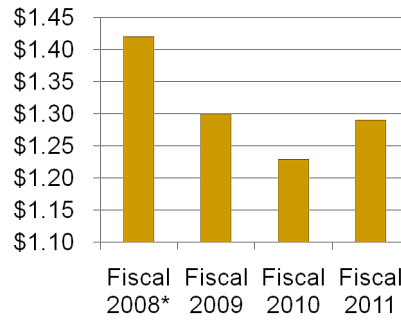


Revenue Forecasts

Nebraska Projected Revenue (in billions)



Vermont Projected Revenue (in billions)



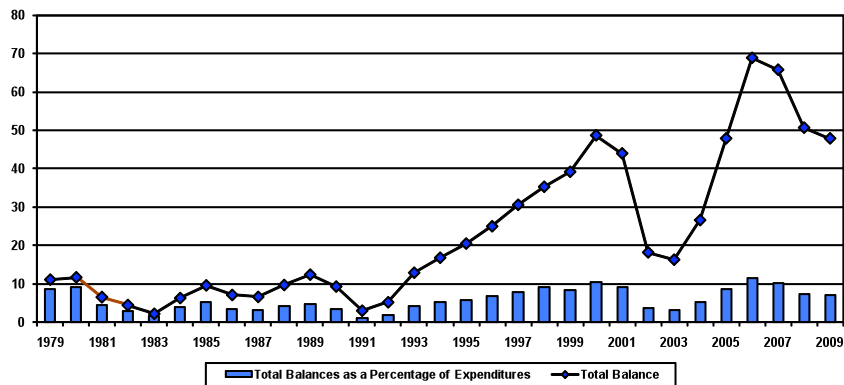
* Fiscal 2008 numbers are actual

Sources: Nebraska Economic Forecasting Board; VT JFO & Administration



Balances Declining

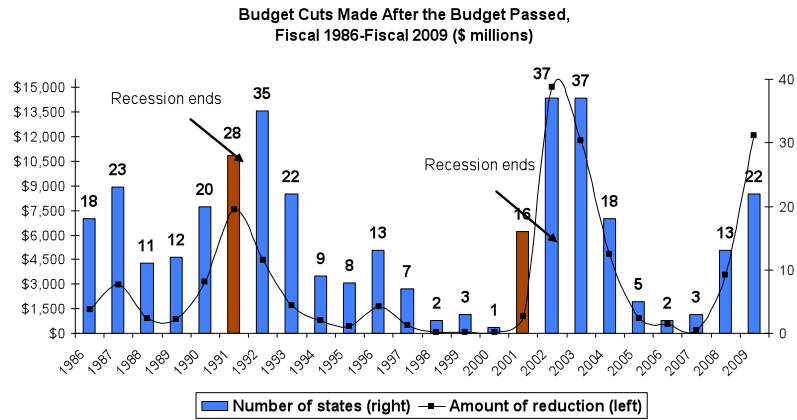
Total Year-End Balances and Total Year-End Balances as a Percentage of Expenditures, Fiscal 1979-Fiscal 2009 (Appropriated)



*31-year historical average is 5.7%

Source: NASBO December 2008 Fiscal Survey of States

Budget Cuts Increasing



Source: December 2008 Fiscal Survey of States

American Recovery and Reinvestment Act (ARRA)



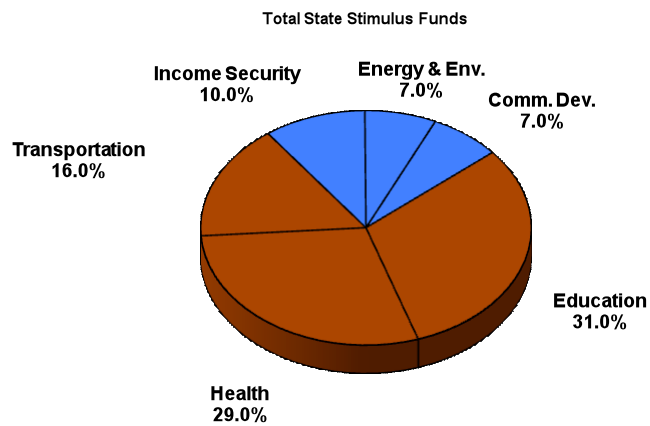
American Recovery and Reinvestment Act – State \$

Approximately \$246 billion+ going to or through states

- **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**
- **Also safety net expansions, economic development, other appropriated programs**



State Stimulus Funds: Education, Health & Transportation over 75%



Sources: Stateline.org; GAO; CBO; FFIS



Year-by-Year State Stimulus Spending

Total stimulus spending by year



Source: Stateline.org

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13



American Recovery and Reinvestment Act (Stimulus)

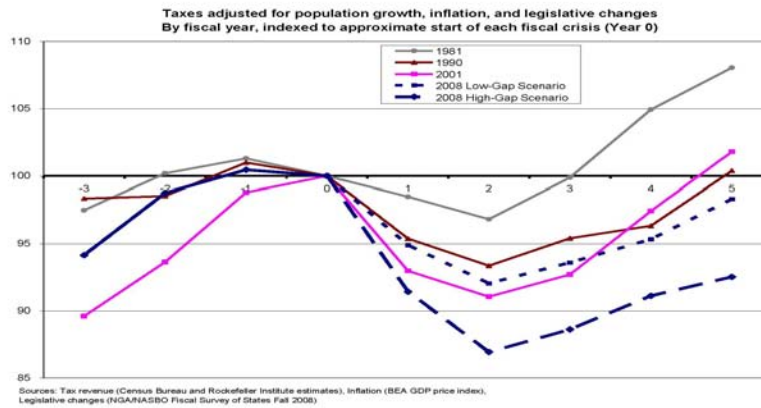
- Will not alone fully solve states' budget shortfalls
- States will still need to cut spending, use rainy day funds, examine revenue increases
- States focusing on reporting, accountability, and transparency
- States will need to determine how to deal with the end of stimulus funding

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14

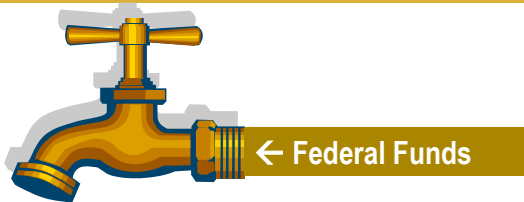
States may face 2nd downturn after stimulus money runs out

Will stimulus last until taxes recover?



8

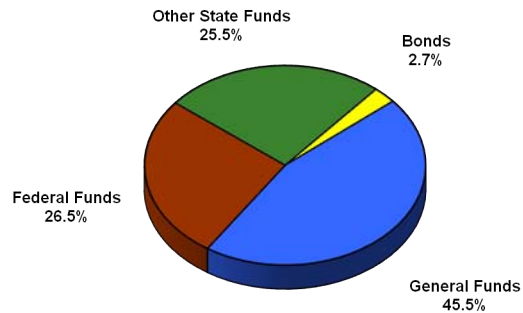
ARRA Funds to States



Background on State Spending Trends

Spending by Funding Source (Percentage)

Total State Expenditures By Funding Source, Fiscal 2007

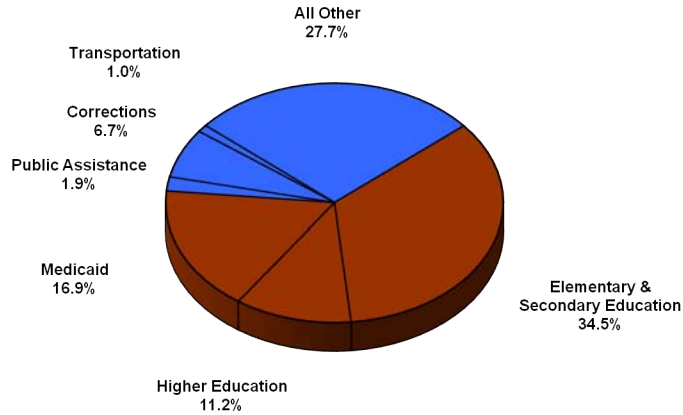


Source: NASBO 2007 State Expenditure Report



General Fund: Medicaid & Education Nearly 63%

General Fund Expenditures by Function, Fiscal 2007

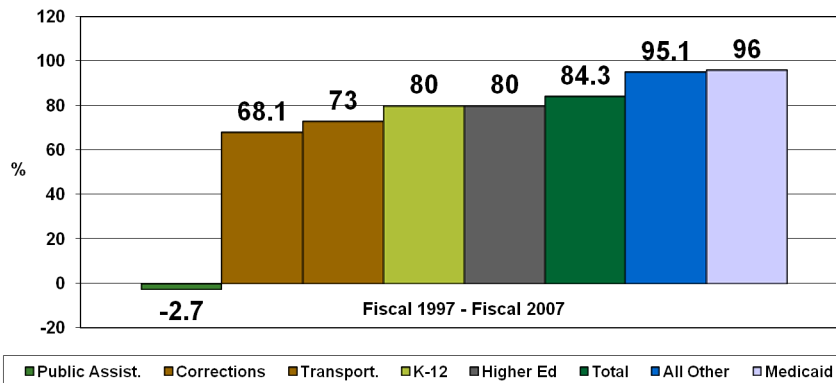


Source: NASBO 2007 State Expenditure Report



Total Expenditures Percentage Growth in Spending Categories Over 10 Years

Percentage Growth in Spending Categories Between Fiscal 1997 and Fiscal 2007 (Total Funds)

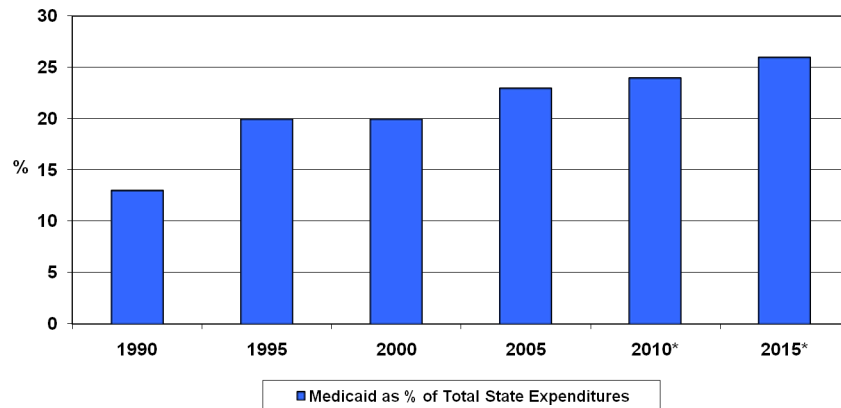


Sources: NASBO 1998 and 2007 State Expenditure Reports

Health Care and Medicaid

Medicaid Spending

Total Medicaid Spending as Percentage of Total State Expenditures

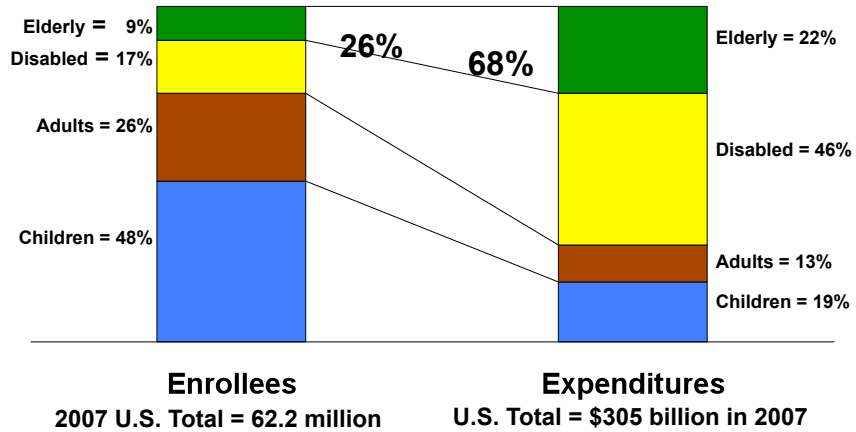


*2010 and 2015 projected by Health Management Associates

Source: NASBO State Expenditure Report



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



Source: Vernon Smith, Health Management Associates



Outlook



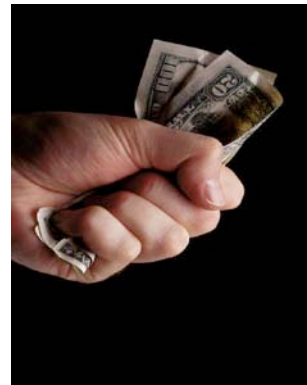
Long Term Spending Pressures

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



State Fiscal Outlook

- Much will depend on the length and severity of the recession
- Expect continued drops in revenue and spending
- States will look for creative financing and revenue opportunities to meet these spending demands
- Recovery for states at best in FY '11





Silver Lining?

- Opportunity for reform
- Efficiencies
- Priorities
- Public-private partnerships; Outsourcing
- Restructuring



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