Fiscal State of the States
FTA Revenue Estimating and Tax Research Conference
September 18, 2006

Presented by
Ronald Snell
National Conference of State Legislatures

Where States Are

• State revenues are performing well.
• Current spending demands appear stable.
• Many states anticipate longer-term structural deficits.
• The federal government is shifting its budget deficit to the states.
State Year-End Balances
As a Percentage of General Fund Expenditures

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FY 2006 Year-End Balances as a Percentage of General Fund Spending

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49 states reporting.
Percentage Change in FY 2006 Revenue Growth
Estimated vs. Actual

<table>
<thead>
<tr>
<th></th>
<th>Original Estimate</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage Change</td>
<td>2.7%</td>
<td>7.7%</td>
</tr>
</tbody>
</table>

49 states reporting.

Quote of Note

“We saw it coming, but what we didn’t see coming was the bounce that we got through capital gains revenues.”

– Susan Shimelman, Director, Office of Fiscal Analysis, Connecticut
Projected Percentage Changes in Revenue and Appropriations: FY 2007

<table>
<thead>
<tr>
<th>Appropriations</th>
<th>Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.6%</td>
<td>3.0%</td>
</tr>
</tbody>
</table>

49 states reporting.

FY 2007 Year-End Balances as a Percentage of General Fund Appropriations

- 0% to 1%, n = 3
- 1% to 4.9%, n = 15
- 5% to 9.9%, n = 17
- 10% and over, n = 14
- Not available, n = 1

49 states reporting.
Use of Unexpected Revenue in FY 2007

- Cut taxes on a targeted basis
- Reversed accounting measures or other one-time savings actions taken in prior years
- Put money into state reserve funds
  - Increased rainy day funds (13 states)
  - Increased other state reserves (7 states)
  - Increased both (5 states)

Use of Unexpected Revenue in FY 2007

- Targeted specific programs:
  - K-12 education funding (24 states)
  - Higher Education (20 states)
  - Medicaid (14 states)
  - Corrections funding (11 states)
  - Highway projects (10 states)
  - Other capital projects (14 states)
  - State aid to local government (six states)
  - State employee salaries or benefits (14 states)
  - Unfunded pension liabilities (eight states)
“Folks come out of the woodwork with all kinds of ideas and images of where we should spend. It puts tremendous pressure in the legislature to fund everything. The challenge becomes separating the good ones from the gleam in someone’s eye.

– David Abbey, Director, Legislative Finance Committee, New Mexico
2006 Net State Tax Changes
As a Percentage of 2005 Tax Collections

- Increase of more than 5%, n = 1
- Increase of 1% or more, n = 2
- Decrease of 1% or more, n = 5
- No significant changes, n = 36
- No response to date, n = 6

44 states reporting.

Net State Tax Changes
By Year of Enactment, 1997-2006*

* 44 states reporting for FY 2006.
2006 Net State Tax Changes

in millions of dollars

<table>
<thead>
<tr>
<th>Tax Source</th>
<th>Change in Millions</th>
<th>Total Tax Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal income tax</td>
<td>-$597.7</td>
<td></td>
</tr>
<tr>
<td>Corporate income tax</td>
<td>-123.7</td>
<td></td>
</tr>
<tr>
<td>Sales and Use tax</td>
<td>1,096.1</td>
<td></td>
</tr>
<tr>
<td>Health</td>
<td>291.1</td>
<td></td>
</tr>
<tr>
<td>Motor Fuel</td>
<td>259.8</td>
<td></td>
</tr>
<tr>
<td>Cigarette and Tobacco</td>
<td>477.9</td>
<td></td>
</tr>
<tr>
<td>Alcohol</td>
<td>0.0</td>
<td></td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>8.0</td>
<td></td>
</tr>
<tr>
<td><strong>Net Total</strong></td>
<td><strong>$1,411.5</strong></td>
<td></td>
</tr>
</tbody>
</table>

44 states reporting.
2006 Net State Revenue Changes
in millions of dollars

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes</td>
<td>$1,411.5</td>
</tr>
<tr>
<td>Fees</td>
<td>$78.6</td>
</tr>
<tr>
<td>Accelerations</td>
<td>$231.4</td>
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<tr>
<td>Other</td>
<td>$3,850.0</td>
</tr>
</tbody>
</table>

44 states reporting.

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State Structural Deficits
in FY 2007, FY 2008 and Beyond

<table>
<thead>
<tr>
<th>Year</th>
<th>States</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2007</td>
<td>37</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>10</td>
</tr>
<tr>
<td>FY 2008</td>
<td>26</td>
</tr>
<tr>
<td></td>
<td>19</td>
</tr>
<tr>
<td>Beyond FY 2008</td>
<td>19</td>
</tr>
<tr>
<td></td>
<td>20</td>
</tr>
</tbody>
</table>

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State Structural Deficits in FY 2007

- Yes, n = 10
- No, n = 37
- No response, n = 3

State Structural Deficits in FY 2008

- Yes, n = 19
- No, n = 26
- No response, n = 5
State Structural Deficits beyond FY 2008

- Yes, n = 20
- No, n = 19
- No response, n = 11

Longer-Term Fiscal Pressures

- K-12 education
- Medicaid
- Infrastructure
- Other

Are current commitments sustainable?
Composition of General Fund
Budgets, FY 1995

Composition of General Fund
Budgets, FY 2005

- Medicaid 12.0%
- Corrections 5.3%
- Higher Education 11.7%
- Other 41.1%
- Medicaid 12.0%
- Corrections 5.3%
- Higher Education 11.7%
- Other 33.4%
- K-12 Education 29.9%
- K-12 Education 33.6%
- Other 33.4%
- Higher Education 10.8%
- Medicaid 16.1%
- Corrections 6.1%
FY 2007 Budgeted Growth for Selected Categories of Spending

- General Fund: 7.6%
- K-12 Education: 5.3%
- Higher Education: 6.7%
- Corrections: 5.7%
- Medicaid: 4.9%

Longer-Term Fiscal Pressures

- Concern about future revenue growth: stability and performance
  - Antiquated tax systems
  - Heavy reliance on one major tax source
  - Sales tax pressures: declining consumer confidence, effects of high energy prices, moderating home equity values
  - Slowing personal income tax growth: effects of demographic changes
  - Volatility of energy-related taxes
Longer-Term Fiscal Pressures

- Federal government actions that affect state budgets:
  - Unfunded or underfunded federal mandates
  - Reduced federal funding for states
  - Federal tax reform
- Fewer options to address fiscal downturns
  - Voter mandated spending
  - A more conservative fiscal climate
  - Fewer one-time options

Quote of Note

"Things have gotten better lately, but we're still not out of the woods. If we go into a downturn, we'll have fewer options than in the past."

Brad Williams, Director, Taxes and Revenue, Legislative Analyst's Office, California
Conclusion

- State budgets are stable and improving in the near term.
- Many states face longer-term mismatches between revenue and spending growth.
- Federal actions could exacerbate state budget problems.

This report was prepared by the Fiscal Affairs Program staff of NCSL.

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