



Some Pretty Unusual Things going on for State Finances this Year: What On Earth is Goin' on?

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February 4, 2015

Current Economic and Fiscal Situation



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Overall

- **Modest Growth (Mirror Economy)**
- **Most States: Good/Decent**
- **Tough Decisions**
- **Some States Very Difficult**

Different Reasons for Tight Budgets

- **Energy States (AK, NM)**
- **Tax Related Issues (CO, IL)**
- **Federal Cuts (VA, MD)**
- **Modest Growth (Northeast)**
- **Limitations (NY, CO)**

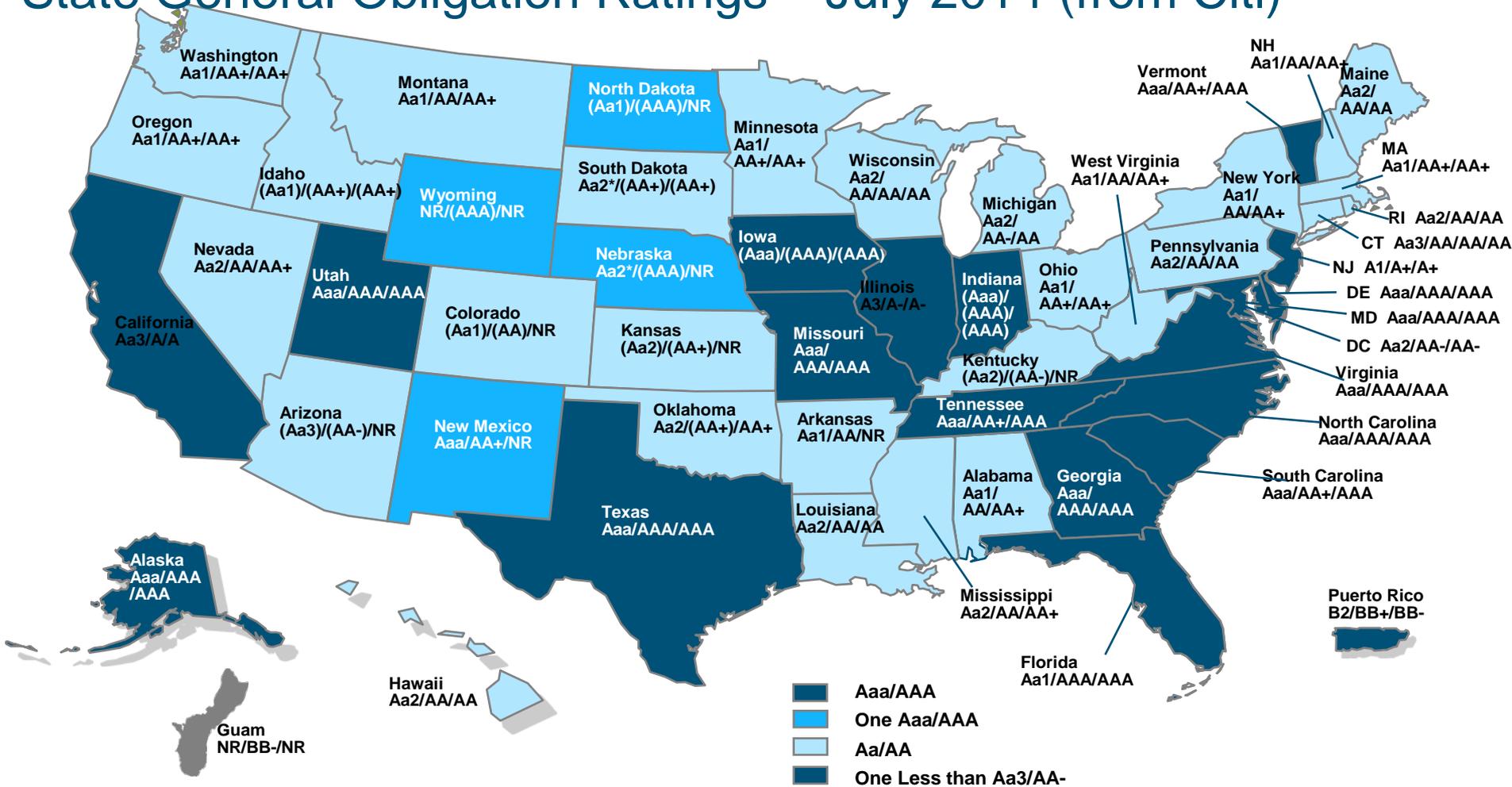
Top Issues

- **Infrastructure**
- **Education (FL, UT)**
- **Tax Cuts (Ark., ME)**
- **Shortfalls (Some States)**
- **Other Revenue Issues (Tolls, Sin Taxes)**
- **Health Care (Medicaid Issues)**

Oil Prices Falling

- **\$50ish per barrel**
- **Lower gas prices = increased revenue (sales)**
- **Hard to predict**
- **Most states benefit, but not all**

State General Obligation Ratings – July 2014 (from Citi)

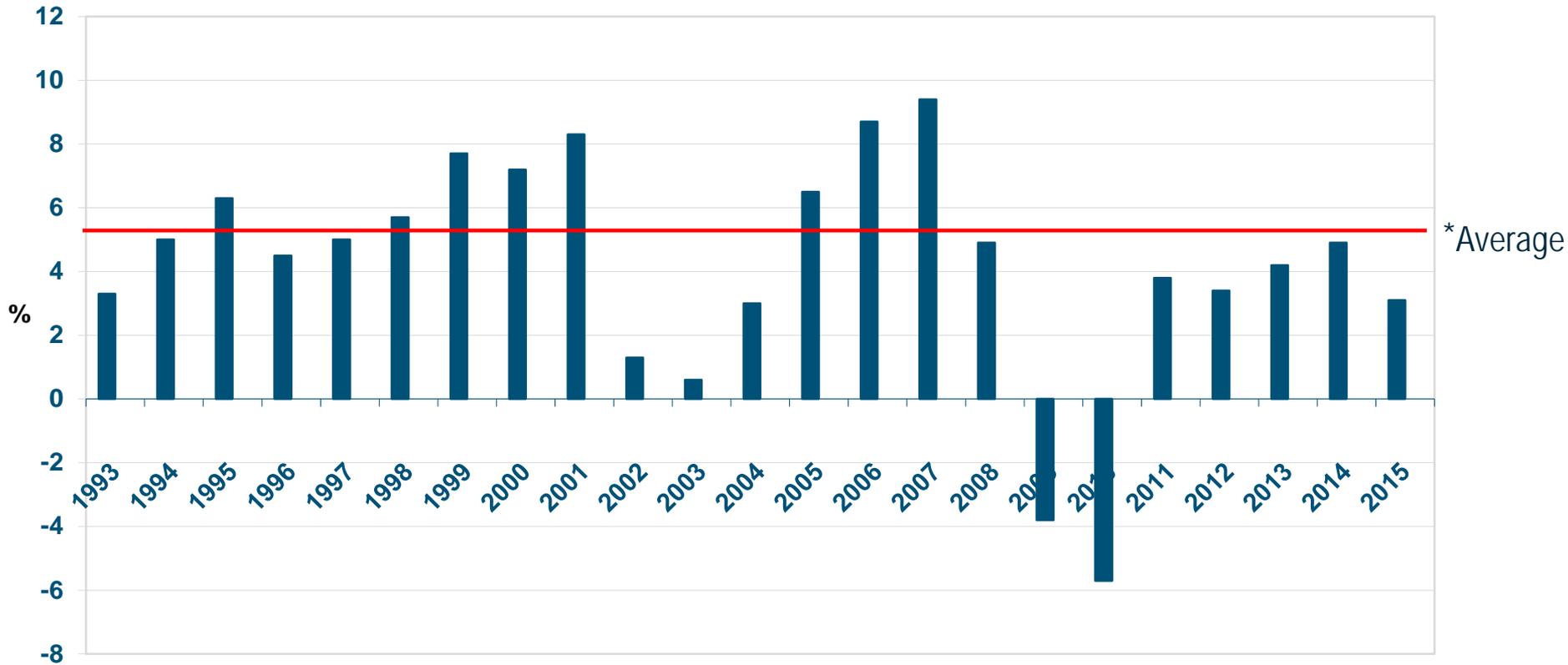


Order of Ratings: Moody's/S&P/Fitch/Kroll as of July 10, 2014.
 *Lease revenue and/or Certificate of Participation ("COP") rating
 NR: General Obligation Debt is Not Rated

Current Fiscal Situation: Indicators

Slow Budget Growth Continues

General Fund Expenditure Growth (%)

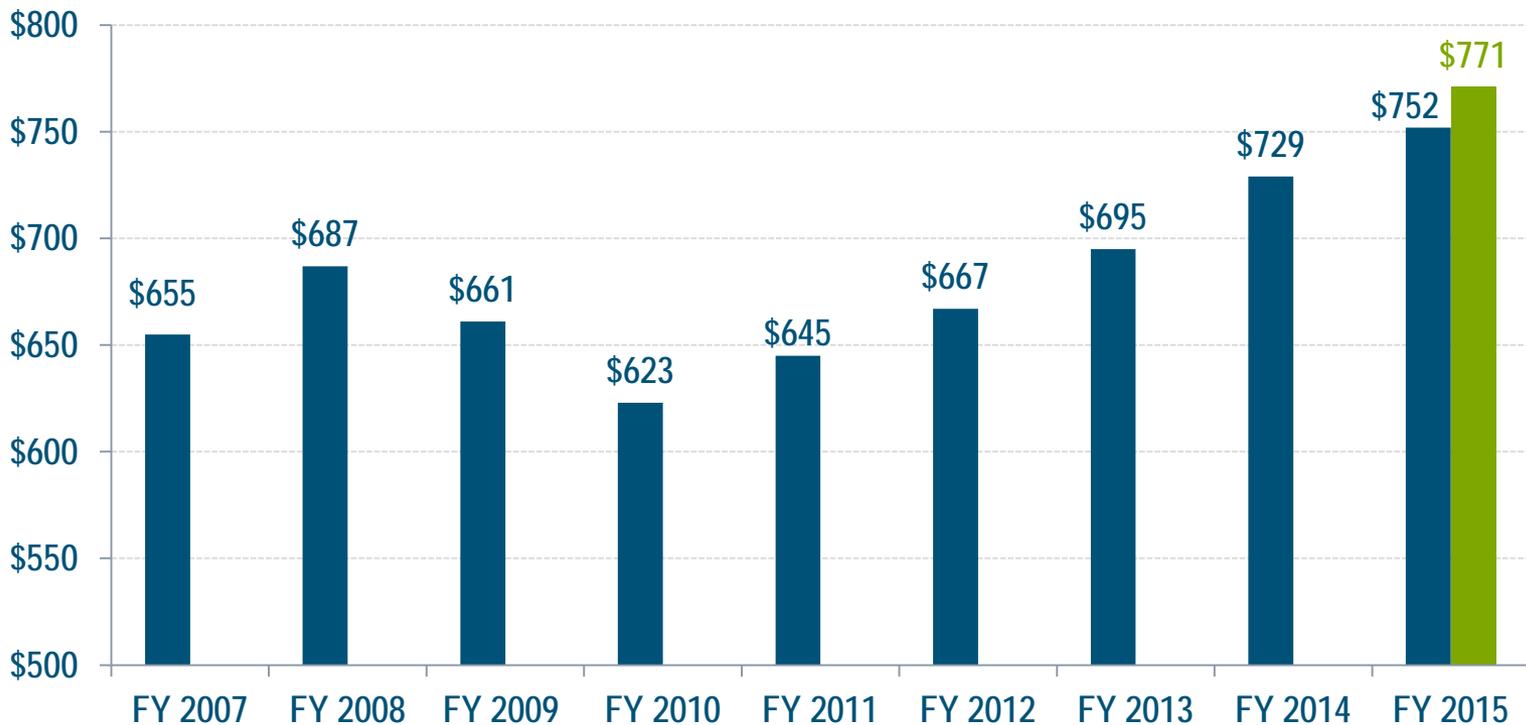


*37-year historical average annual rate of growth is 5.5 percent
 Source: NASBO Fall 2014 Fiscal Survey of States

*Fiscal 2015 numbers are enacted

GF Spending Still Below Pre-Recession Peak Adjusted for Inflation

General Fund Spending: FY 2007-FY 2015

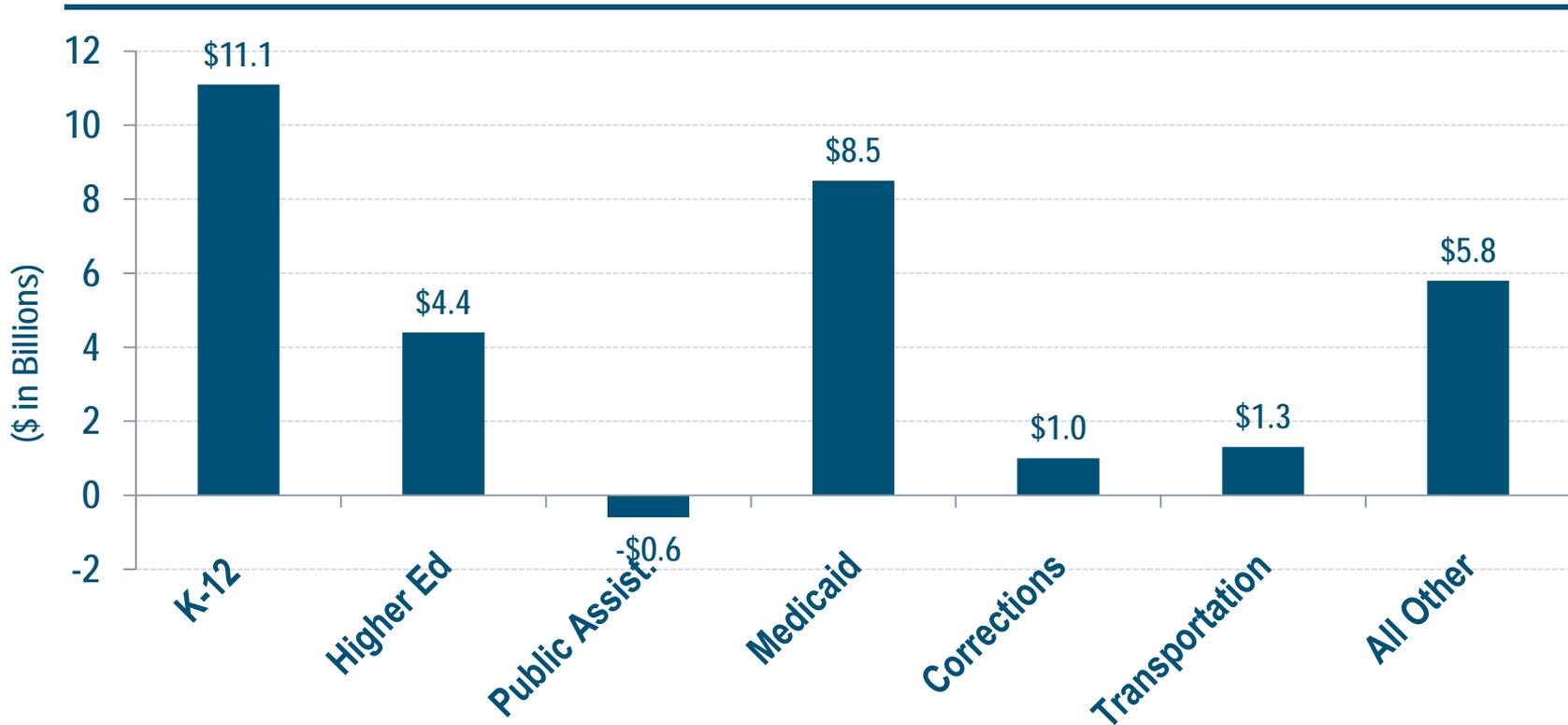


Source: NASBO Fall 2014 Fiscal Survey of States; Fiscal 2015 numbers are enacted

*Aggregate spending levels would need to be at \$771 billion to remain equivalent with real 2008 spending levels.

States Restoring Some Cuts Made During Recession

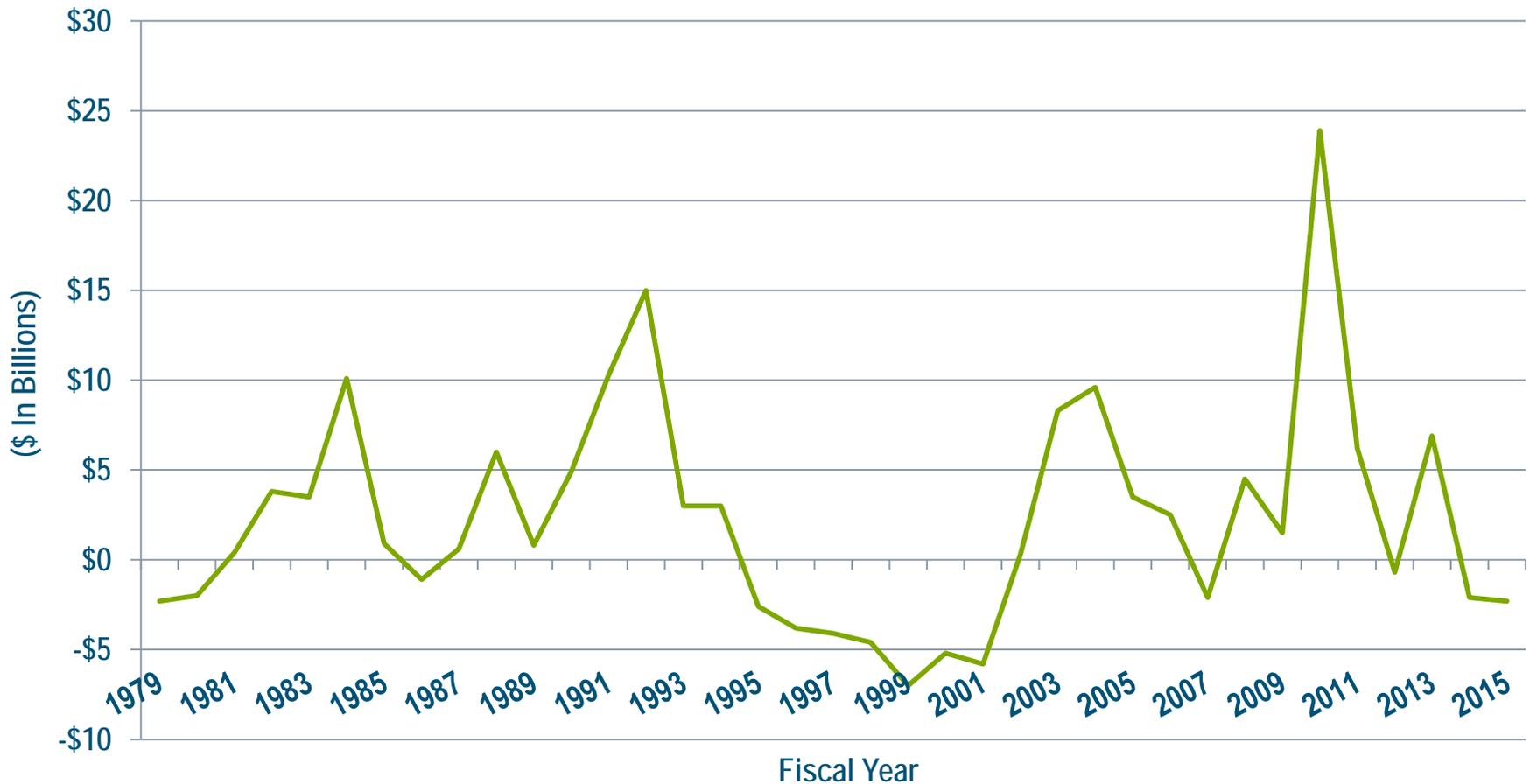
Fiscal 2015 Enacted General Fund Spending Changes by Category (\$ in Billions)



Source: NASBO Fall 2014 Fiscal Survey

States Enact \$2.3B in Net Tax and Fee Cuts for FY15

Enacted State Revenue Changes, Fiscal 1979 to Fiscal 2015

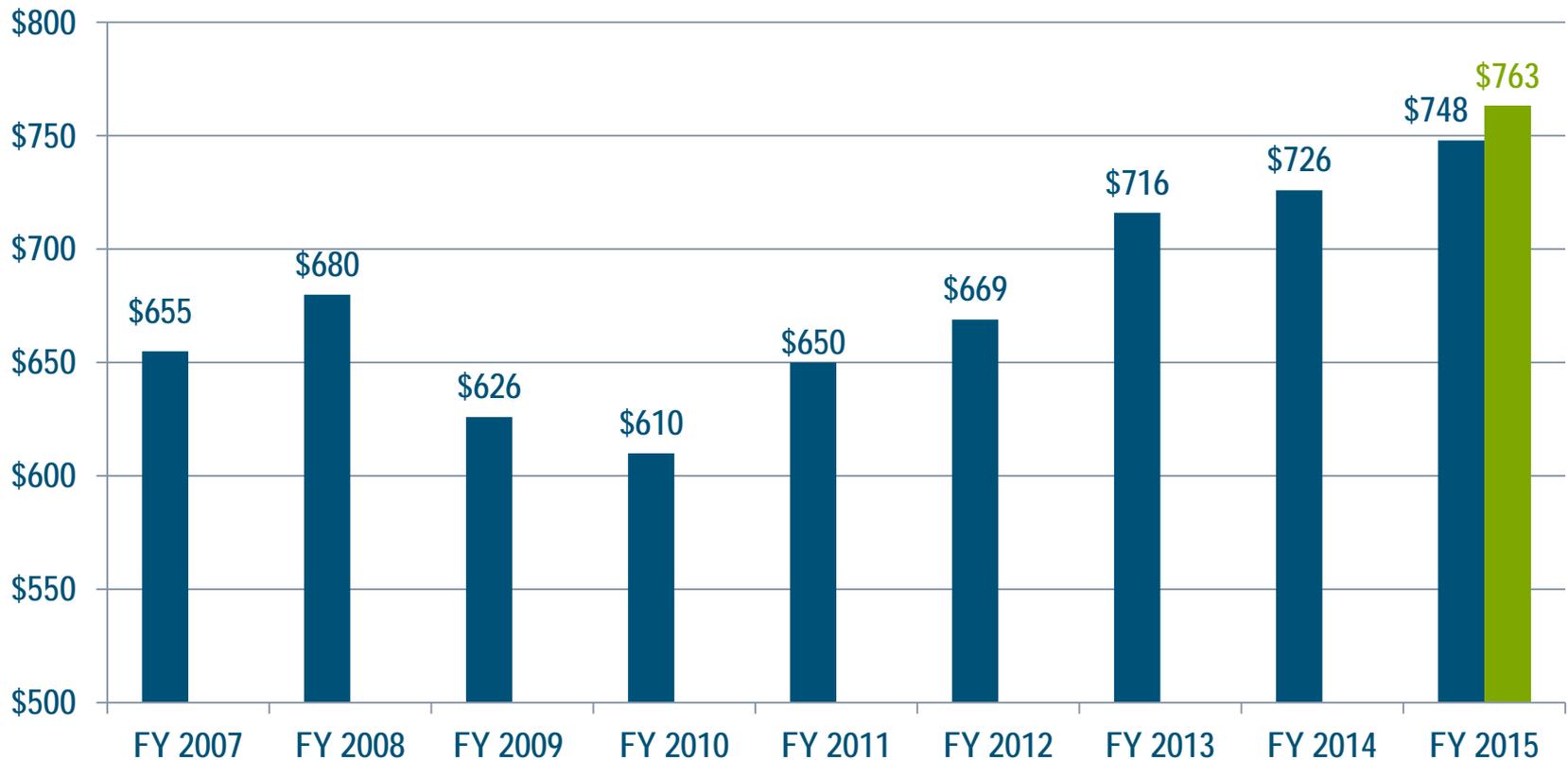


Latest on State Revenue Trends

- State tax revenues increased by 4.0% in 3rd quarter of CY 2014, according to Rockefeller Inst. preliminary data
 - PIT grew 4.3%, sales 5.9%
- Revenues declined 1.2% in 2nd quarter
- PIT decline in 2nd quarter likely due to impact of federal fiscal cliff the year prior

GF Revenue Also Below Pre-Recession Peak Adjusted for Inflation

General Fund Revenue: FY 2007-FY 2015



Source: NASBO Fall 2014 Fiscal Survey of States; Fiscal 2015 numbers are enacted

*Aggregate revenue levels would need to be \$763 billion to remain equivalent with real 2008 revenue levels.

Percent Change in FY 2014 and 2015 Collections by Major Tax

- **Fiscal 2014 revenues increased by 1.3%, slow growth partly due to federal tax changes**
 - PIT grew by 0.9%, sales 4.9%, and CIT 0.7%

- **Fiscal 2015 revenues projected to increase by 3.1%**
 - PIT projected to increase by 4.7%, sales 4.0%, and CIT 1.7%

General Fund Collections Compared to Projections

■ Fiscal 2014

- Revenue collections outpaced projections in 25 states
- Were on target in 5 states
- And came in below estimates in 20 states

■ Fiscal 2015

- Revenue collections have outpaced projections in 7 states
- Are on target in 26 states
- Are coming in below estimates in 10 states

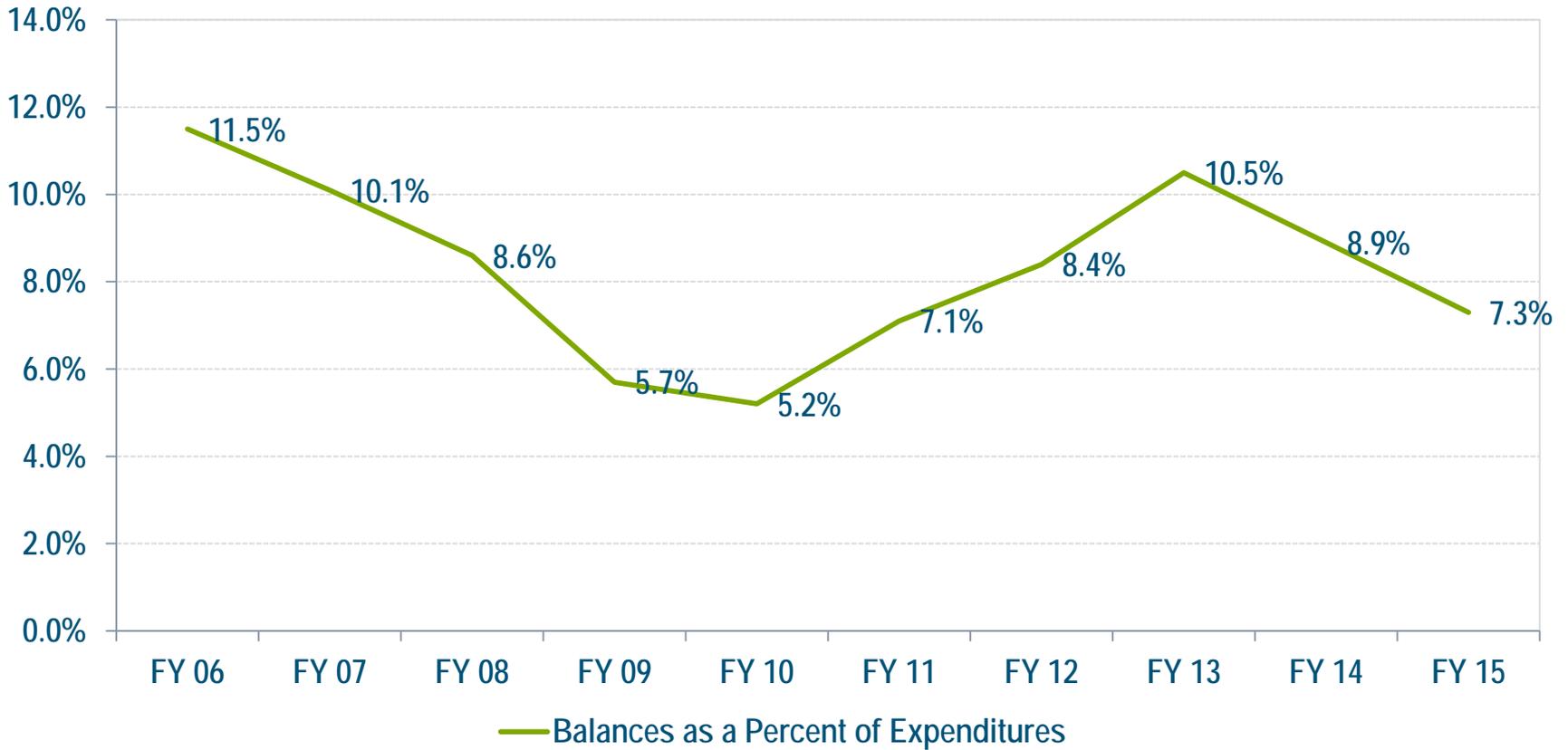
*Only 43 states reported collections compared to projections for fiscal 2015.

Fiscal 2015 Enacted Revenue Changes by Major Tax

- **Sales Taxes (-\$248M):**
5 states enacted increases,
13 enacted decreases
- **Personal Income (-\$747M):**
1 increase, 14 decreases
- **Corporate Income (\$207M):**
2 increases, 9 decreases
- **Cigarettes/Tobacco (\$8M):**
2 increases
- **Motor Fuels (\$33M):**
1 increase
- **Alcohol (-\$0.2M):**
1 increase, 1 decrease
- **Other Taxes (-\$698M):**
4 increases, 9 decreases

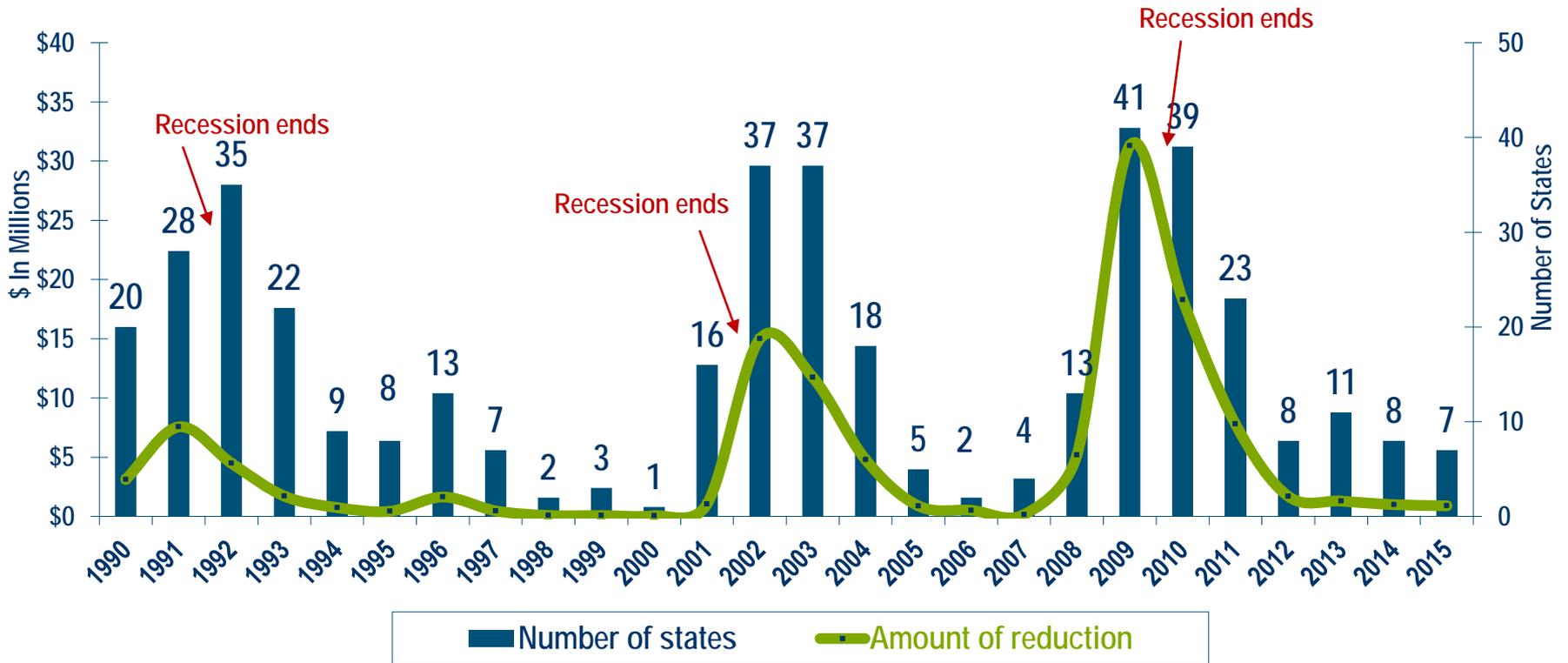
States Reserves Haven't Reached Peak Levels

Balances as a Percent of Expenditures



Minimal Midyear Budget Cuts So Far in Fiscal 2015

Enacted Budget Cuts Made After the Budget Passed (\$ In Millions)



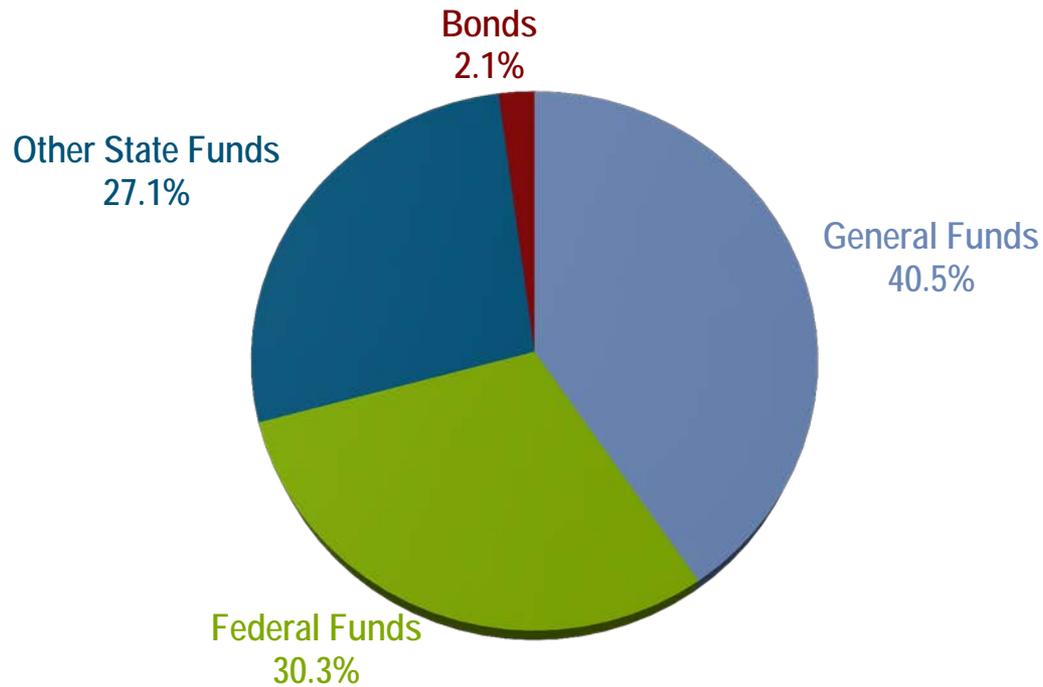
Source: NASBO Fall 2014 Fiscal Survey

*Fiscal 2015 midyear cuts are ongoing

Background on State Spending Trends

Spending by Funding Source (Percentage)

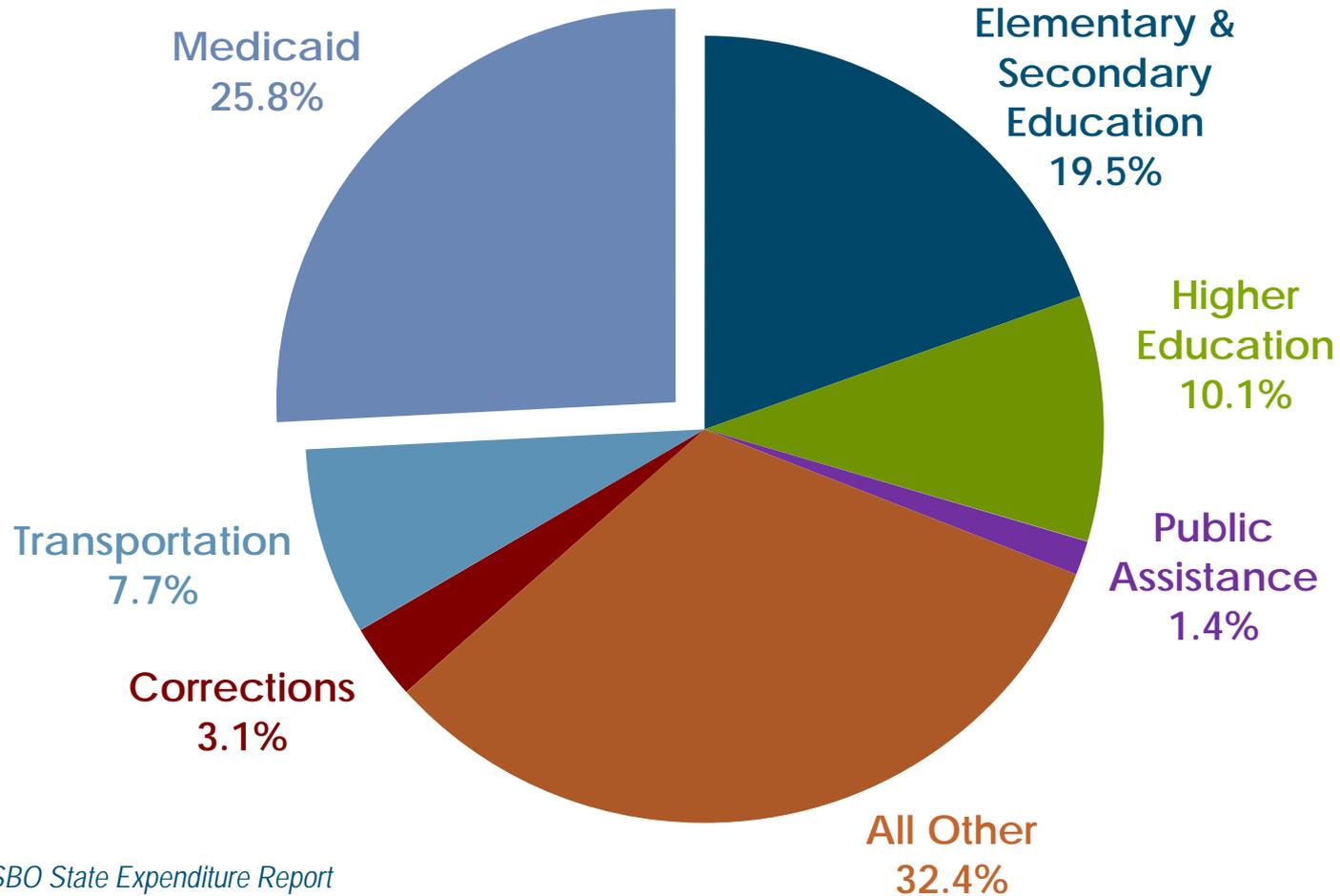
Total State Expenditures by Funding Source, Estimated Fiscal 2014



Source: NASBO State Expenditure Report

Total State Expenditures by Function

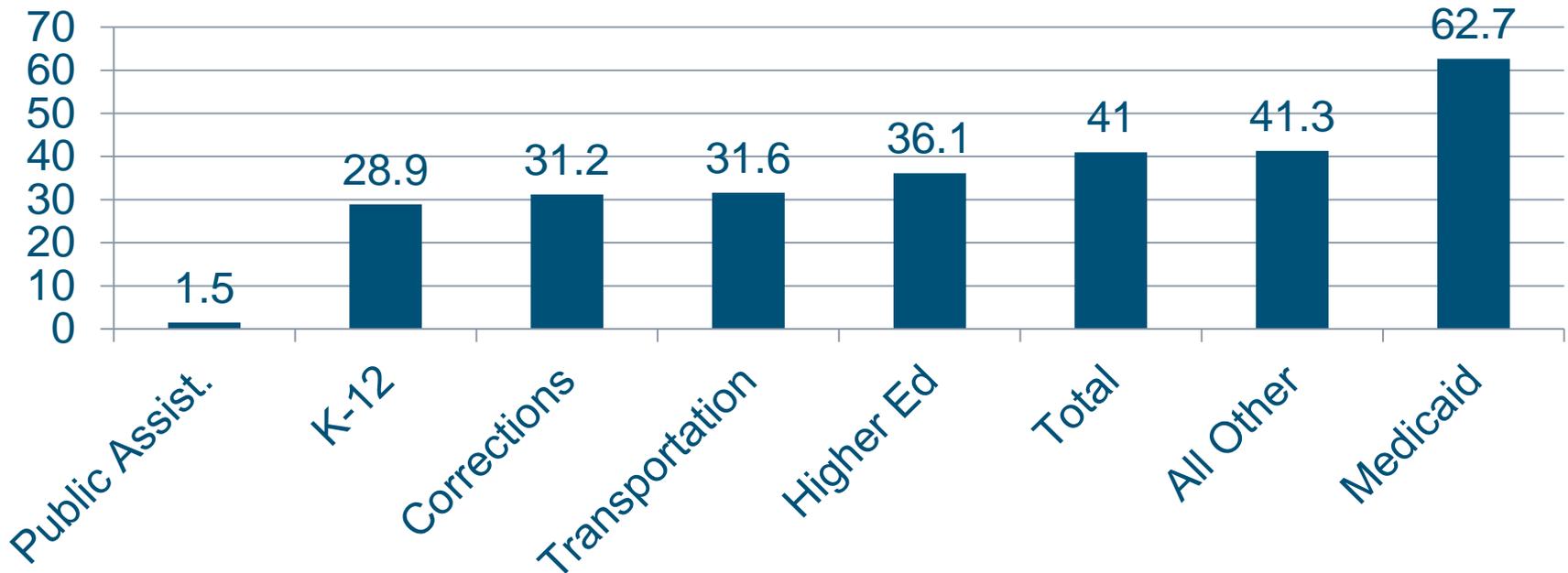
Estimated Fiscal 2014



Source: NASBO State Expenditure Report

Total Expenditure Percentage Growth in Spending Categories Over 10 Years

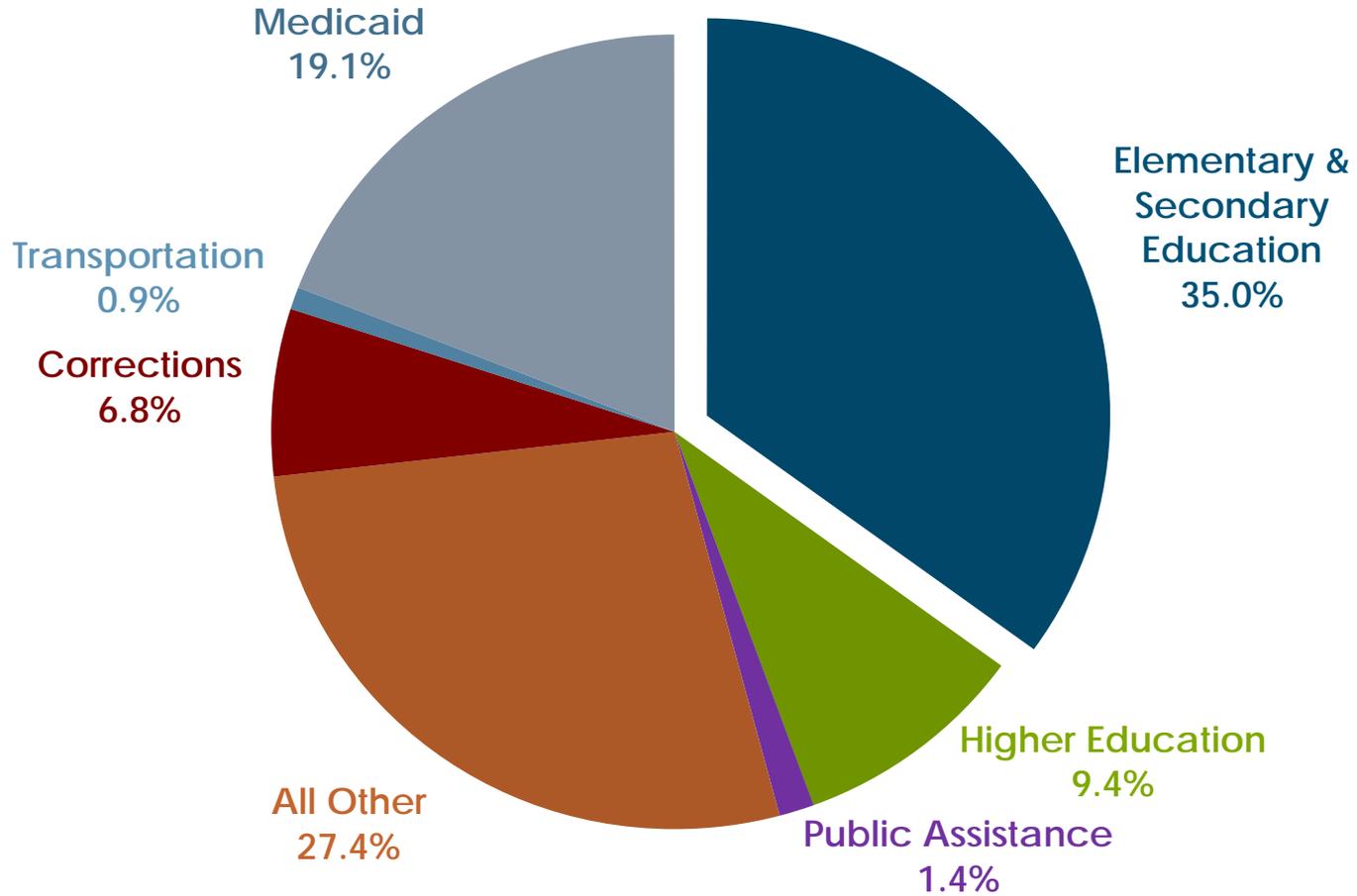
Percentage Growth in Spending Categories Between Fiscal 2005-Fiscal 2014 (Total Funds)



Source: NASBO State Expenditure Report

General Fund Expenditures by Function

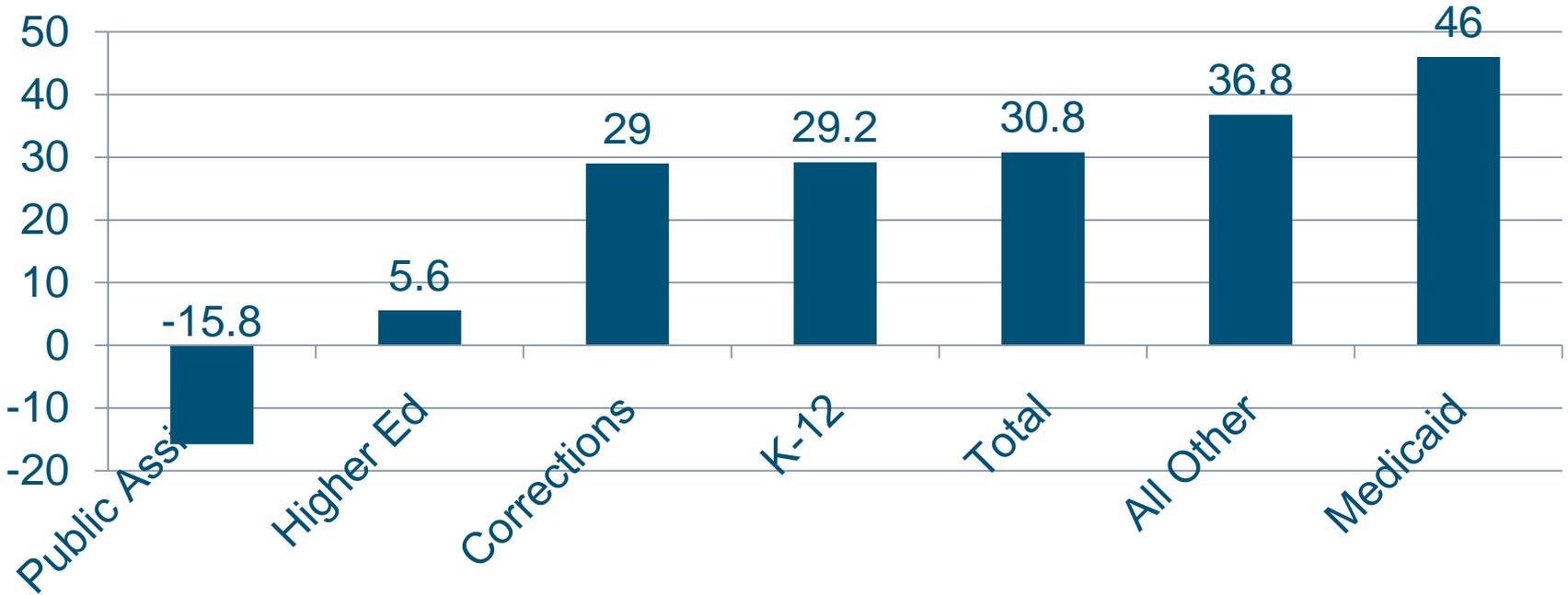
Estimated Fiscal 2014



Source: NASBO State Expenditure Report

General Fund Percentage Growth in Spending Categories Over 10 Years

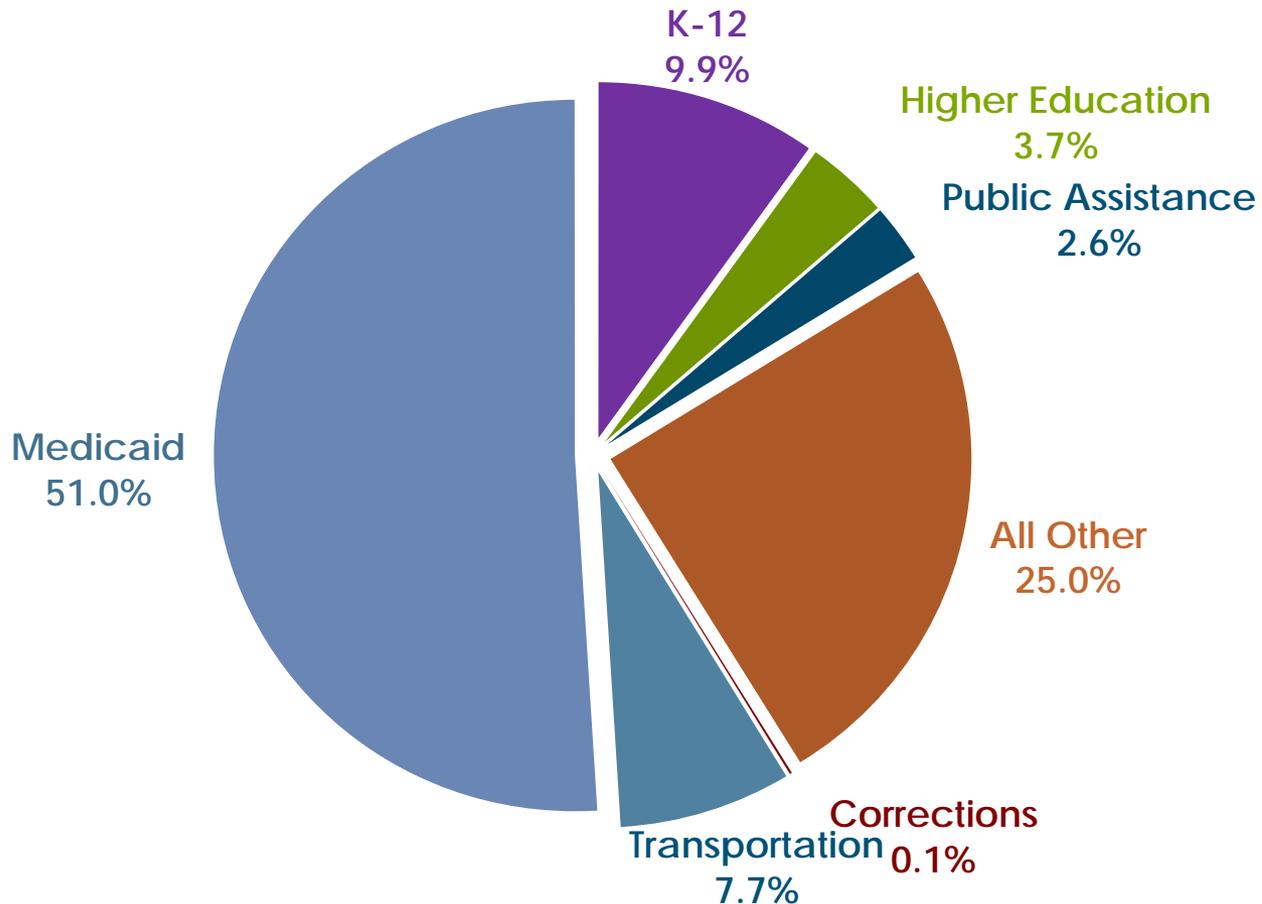
Percentage Growth in Spending Categories Between Fiscal 2005-Fiscal 2014 (General Funds)



Source: NASBO State Expenditure Report

Federal Funds Expenditures by Function

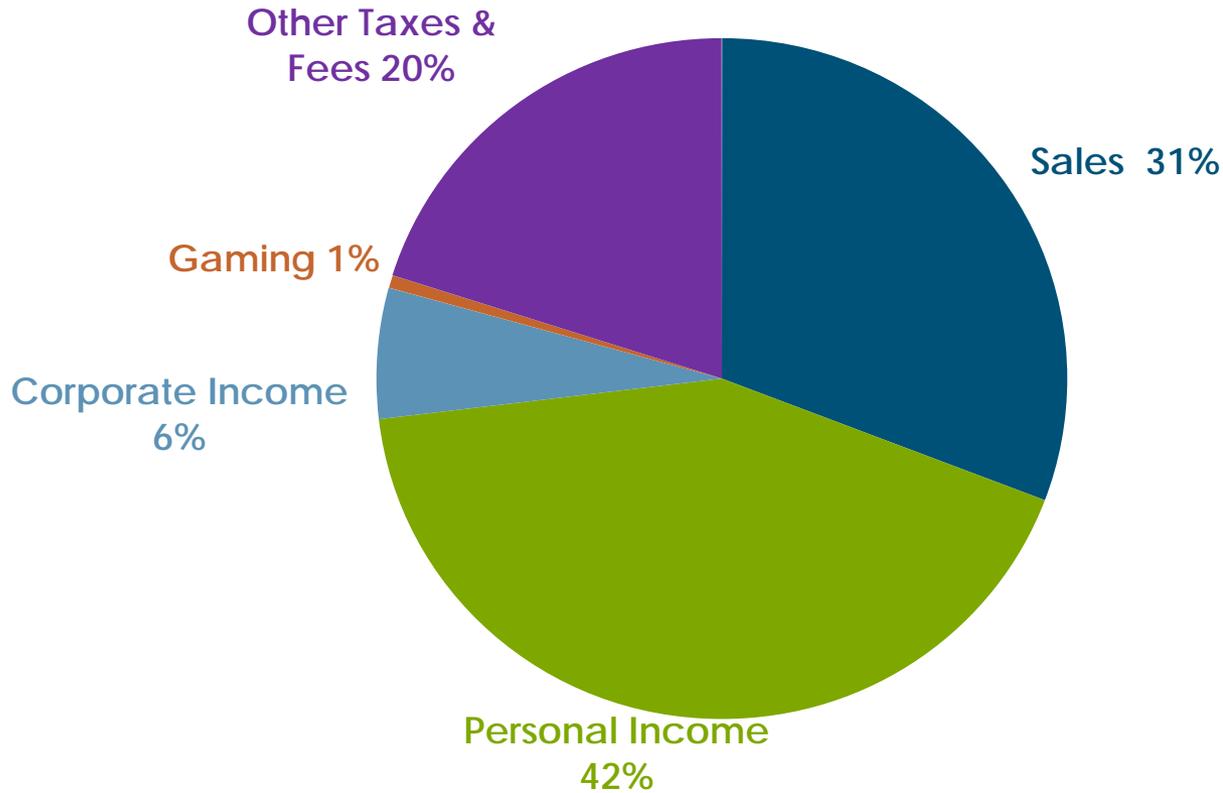
Estimated Fiscal 2014



Source: NASBO State Expenditure Report

Revenue Sources in the General Fund (Percentage)

Estimated Fiscal 2014

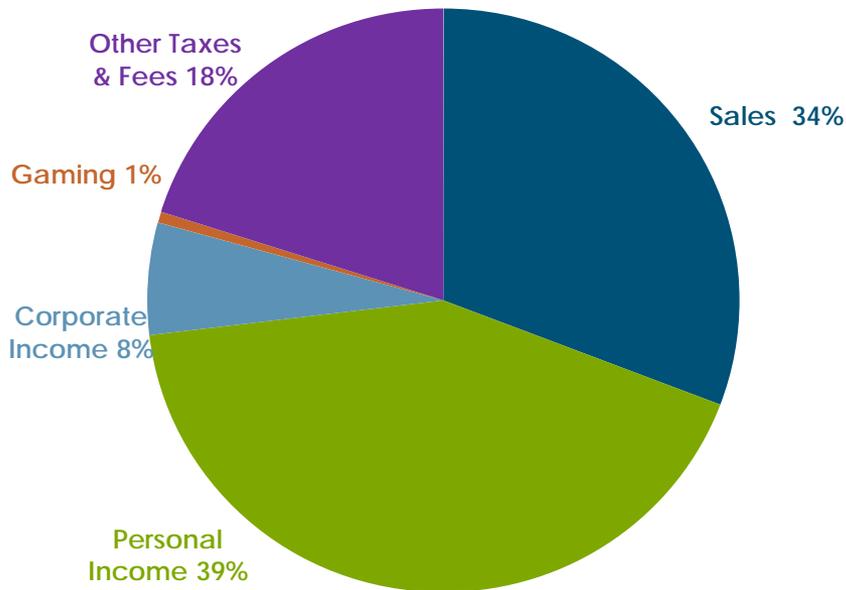


Source: NASBO State Expenditure Report

Revenue Sources in GF Relatively Consistent

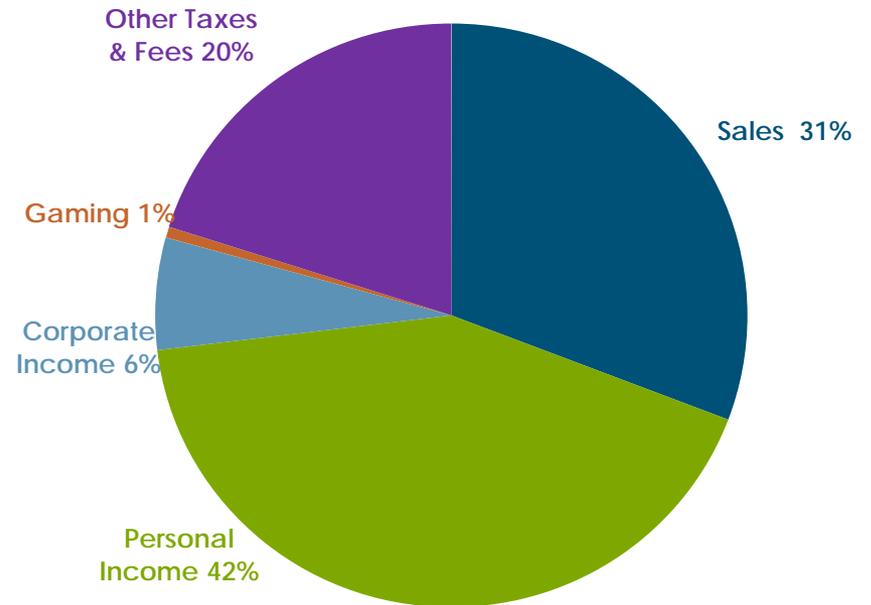
1998

Estimated Fiscal 2014



2014

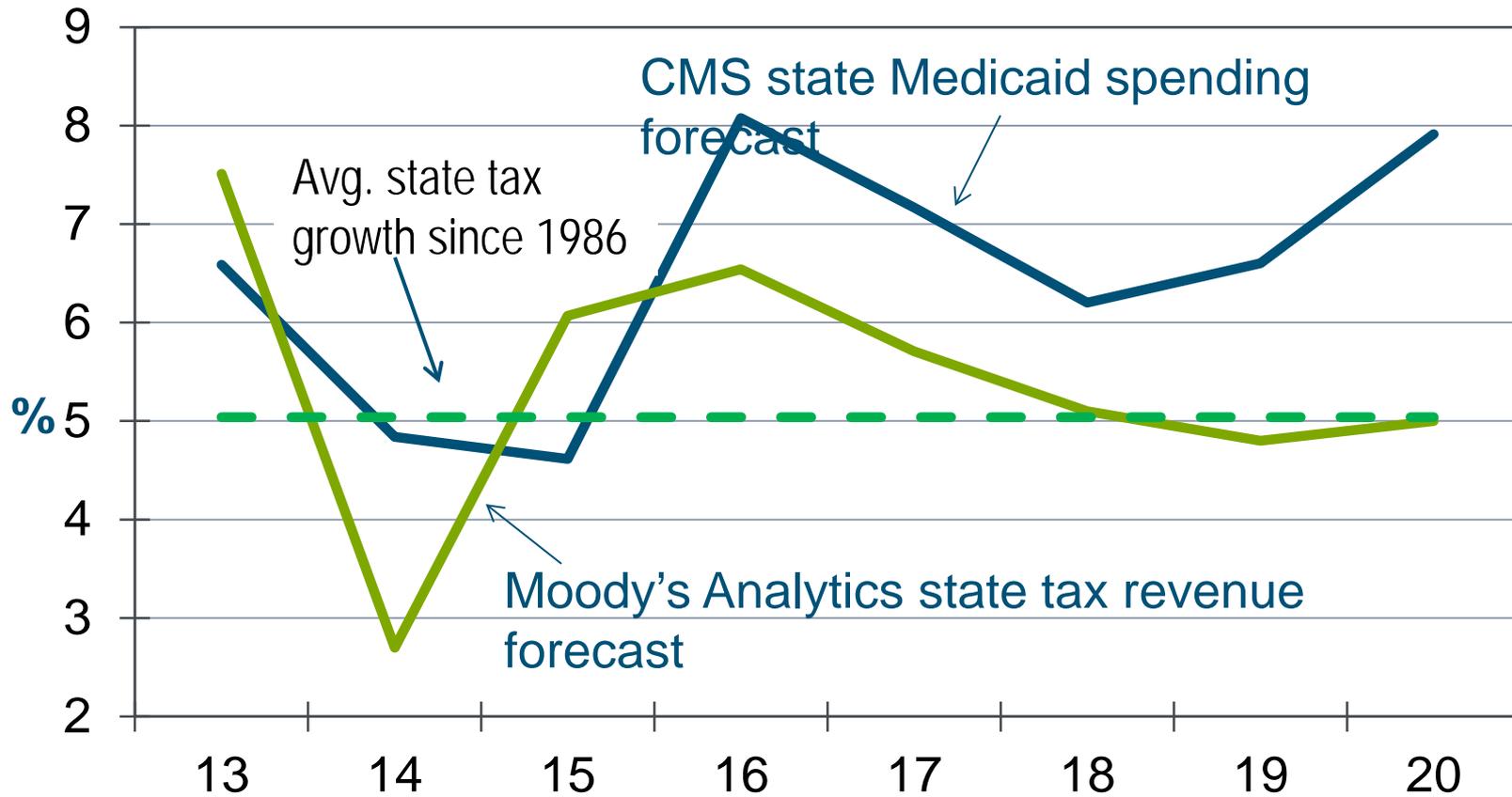
Estimated Fiscal 2014



Outlook

Structural Imbalance

Year ago % change, calendar year



Sources: Moody's Analytics, CMS, Census Bureau

Issues

- **Significant Income Tax Volatility**
- **Spending to Non-Economic Activity**
- **Crowd Out**
- **Revenue Collections Don't Capture Economic Activity**

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