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

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Current Economic and Fiscal Situation
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
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)

- K-12: $11.1
- Higher Ed: $4.4
- Public Assist.: $0.6
- Medicaid: $8.5
- Corrections: $1.0
- Transportation: $1.3
- All Other: $5.8

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

$500 $550 $600 $650 $700 $750 $800


$655 $680 $626 $610 $650 $669 $716 $726 $748 $763

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%

Source: Fall 2014 Fiscal Survey of States
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

Source: NASBO Fall 2014 Fiscal Survey of States
States Reserves Haven’t Reached Peak Levels

Balances as a Percent of Expenditures

FY 06: 11.5%
FY 07: 10.1%
FY 08: 8.6%
FY 09: 5.7%
FY 10: 5.2%
FY 11: 7.1%
FY 12: 8.4%
FY 13: 10.5%
FY 14: 8.9%
FY 15: 7.3%
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

- General Funds: 40.5%
- Federal Funds: 30.3%
- Other State Funds: 27.1%
- Bonds: 2.1%

Source: NASBO State Expenditure Report
Total State Expenditures by Function
Estimated Fiscal 2014

- Medicaid 25.8%
- Elementary & Secondary Education 19.5%
- Higher Education 10.1%
- Transportation 7.7%
- Public Assistance 1.4%
- Corrections 3.1%
- All Other 32.4%

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)

- Public Assist.: 1.5
- K-12: 28.9
- Corrections: 31.2
- Transportation: 31.6
- Higher Ed: 36.1
- Total: 41
- All Other: 41.3
- Medicaid: 62.7

Source: NASBO State Expenditure Report
General Fund Expenditures by Function
Estimated Fiscal 2014

- Elementary & Secondary Education: 35.0%
- Medicaid: 19.1%
- Higher Education: 9.4%
- Corrections: 6.8%
- Transportation: 0.9%
- All Other: 27.4%
- Public Assistance: 1.4%

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

- Medicaid: 51.0%
- K-12: 9.9%
- Transportation: 7.7%
- Higher Education: 3.7%
- Public Assistance: 2.6%
- All Other: 25.0%
- Corrections: 0.1%

Source: NASBO State Expenditure Report
Revenue Sources in the General Fund (Percentage)

Estimated Fiscal 2014

- **Personal Income**: 42%
- **Sales**: 31%
- **Corporate Income**: 6%
- **Gaming**: 1%
- **Other Taxes & Fees**: 20%

Source: NASBO State Expenditure Report
Revenue Sources in GF Relatively Consistent

1998

Estimated Fiscal 2014

- Sales: 34%
- Personal Income: 39%
- Corporate Income: 8%
- Gaming: 1%
- Other Taxes & Fees: 18%

2014

Estimated Fiscal 2014

- Sales: 31%
- Personal Income: 42%
- Corporate Income: 6%
- Gaming: 1%
- Other Taxes & Fees: 20%
Outlook
Structural Imbalance

Year ago % change, calendar year

- CMS state Medicaid spending forecast
- Avg. state tax growth since 1986
- Moody’s Analytics state tax revenue forecast

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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