State Finances

MTC
Albuquerque

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National Association of State Budget Officers

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Current Economic and Fiscal Situation for States
State Fiscal Overview

- Most states -- **stability** and **slow growth**
- Revenue growth **less** in fiscal 2014 and 2015 **than fiscal 2013**
- Most states: budgets with spending increases
- Additional spending on K-12, higher education, and healthcare
National Economic Indicators

- 1st Quarter GDP declined 2.9%

- Fed projects 2.2% GDP growth in 2014;

- Fed: 3.0% to 3.2% in 2015 (June 18th forecast)
Current Fiscal Situation: Indicators
Slow Budget Growth

*37-year historical average annual rate of growth is 5.5 percent

Source: NASBO Spring 2014 Fiscal Survey of States

*Fiscal 2015 numbers are recommended
States Restoring Some Cuts Made During Recession

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Change ($ in Billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>K-12</td>
<td>$10.9</td>
</tr>
<tr>
<td>Higher Ed</td>
<td>$3.5</td>
</tr>
<tr>
<td>Public Assist.</td>
<td>-$0.6</td>
</tr>
<tr>
<td>Medicaid</td>
<td>$4.9</td>
</tr>
<tr>
<td>Corrections</td>
<td>$1.5</td>
</tr>
<tr>
<td>Transportation</td>
<td>$1.1</td>
</tr>
<tr>
<td>All Other</td>
<td>$5.7</td>
</tr>
</tbody>
</table>

Source: NASBO Spring 2014 Fiscal Survey
Reductions in local aid have declined

Number of states reducing local aid to help eliminate budget gaps

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Number of States</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal 2006</td>
<td>1</td>
</tr>
<tr>
<td>Fiscal 2007</td>
<td>0</td>
</tr>
<tr>
<td>Fiscal 2008</td>
<td>2</td>
</tr>
<tr>
<td>Fiscal 2009</td>
<td>17</td>
</tr>
<tr>
<td>Fiscal 2010</td>
<td>20</td>
</tr>
<tr>
<td>Fiscal 2011</td>
<td>16</td>
</tr>
<tr>
<td>Fiscal 2012</td>
<td>17</td>
</tr>
<tr>
<td>Fiscal 2013</td>
<td>5</td>
</tr>
<tr>
<td>Fiscal 2014</td>
<td>2</td>
</tr>
</tbody>
</table>
GF Revenue Growth: National Average vs. Midwestern States

Source: NASBO Fiscal Survey of States
State Revenue Growth Slows in 1st Quarter of Calendar Year 2014

Year-Over-Year Real Change in Quarterly State Tax Revenue

Source: Fiscal Studies Program, Rockefeller Institute of Government; U.S. Census Bureau
States Have Rebuilt Reserves, but Haven’t Reached Peak Levels

Balances as a Percent of Expenditures

FY 2006: 11.5%
FY 2007: 10.1%
FY 2008: 8.6%
FY 2009: 5.7%
FY 2010: 5.2%
FY 2011: 7.1%
FY 2012: 8.4%
FY 2013: 10.6%
FY 2014: 8.6%
FY 2015: 7.4%

Balances as a Percent of Expenditures
Minimal Midyear Budget Cuts in Fiscal 2014

Budget Cuts Made After the Budget Passed ($ millions)

Source: NASBO Spring 2014 Fiscal Survey
Critical Challenges
Very sick few, but costly

2.5 per cent of patients account for 37 per cent of local health spending, new figures show

ANDREW DUFFY
OTTAWA CITIZEN

A tiny percentage of patients account for more than one-third of the health-care costs in the Ottawa region, new research shows.

These “high-need” patients — the sickest 2.5 per cent of those treated — generated more than $1 billion in health-care expenditures in 2011-12, the latest year for which statistics are available.

The figures are from a study produced earlier this year by the Champlain Local Health Integration Network, Ottawa’s regional health authority, and obtained by the Citizen. The study, which will be made public later this month, offers the first detailed portrait of a critically important patient population: those with complex conditions who draw heavily on expensive medical services.

Researchers found the high-need group of 26,744 patients accounted for 37 per cent of the $2.7 billion in examined health-care costs.

They also found that half of high-need patients in the Champlain LHIN were over 65, and more than one-third (36 per cent) had a diagnosed mental health condition.

Each patient in the high-needs cohort cost the system an average of $37,578 in 2011-12.

SEE STUDY ON A10
K-12 and Medicaid Spending as a % of Total State Expenditures

Source: NASBO State Expenditure Report
Dear Ol’ Uncle Sam

Highway Trust Fund
Few or no Approps by Oct 1
Sequestration in Place
Debt Limit: March 2015
Taxes
Revenue Issues

- Income Tax/Fiscal Cliff
- Sales
- Gaming becoming limited
Debt Aversion

- Infrastructure funding burden: 3.5% of GDP
- We spend: 1%
- New money muni debt: 42% below peak
Pensions

Illinois, Connecticut, Kentucky, Hawaii and Louisiana

Nebraska, Wisconsin, New York, Tennessee and Iowa
Background on State Spending Trends
Spending by Funding Source (Percentage)

Total State Expenditures by Funding Source, Estimated Fiscal 2013

- General Funds: 40.3%
- Federal Funds: 30.7%
- Other State Funds: 26.5%
- Bonds: 2.5%

Source: NASBO State Expenditure Report
Total State Expenditures by Function, Estimated Fiscal 2013

- Medicaid: 24.4%
- Elementary & Secondary Education: 19.8%
- All Other: 33.1%
- Higher Education: 10.3%
- Public Assistance: 1.4%
- Transportation: 7.9%
- Corrections: 3.1%

Source: NASBO State Expenditure Report
General Fund Expenditures by Function, Estimated Fiscal 2013

- Elementary & Secondary Education: 35.1%
- Medicaid: 19.0%
- Higher Education: 9.9%
- All Other: 27.2%
- Corrections: 6.8%
- Transportation: 0.6%
- Public Assistance: 1.5%

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

Estimated Fiscal 2013

- Sales: 20.4%
- Personal Income: 43.7%
- Corporate Income: 5.7%
- Gaming: 0.7%
- Other Taxes & Fees: 29.4%

Source: NASBO State Expenditure Report
Outlook
State Fiscal Outlook

- Slow increase in spending
- Revenue growth remains slow in fiscal 2015
- Challenges: infrastructure, long-term liabilities
- “Crowd Out”
- Federal impacts
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