



# State Finances

## ***MTC Albuquerque***

***July 30, 2014***

***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](http://www.nasbo.org)





# ***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

- **1<sup>st</sup> Quarter GDP *declined* 2.9%**
- **Fed projects 2.2% GDP growth in 2014;**
- **Fed: 3.0% to 3.2% in 2015 (June 18<sup>th</sup> forecast)**

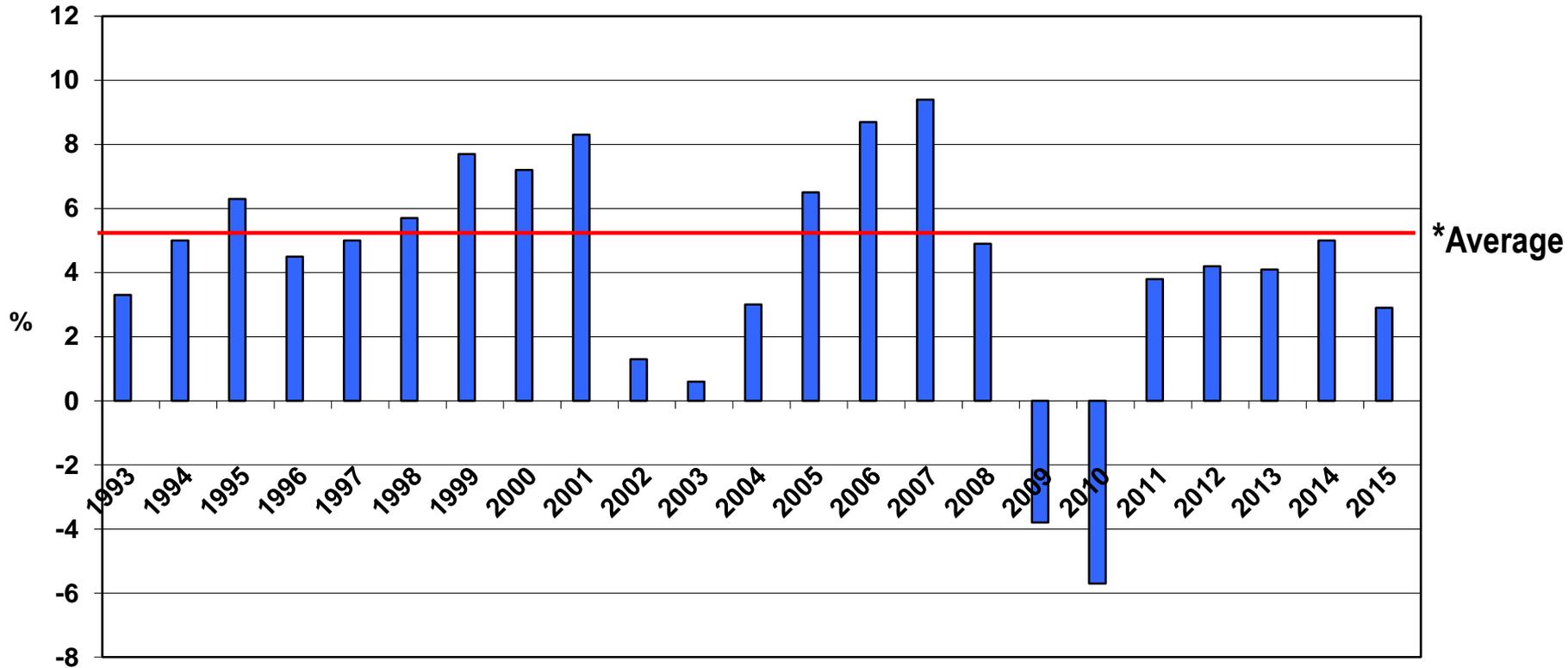


# ***Current Fiscal Situation: Indicators***



# Slow Budget Growth

General Fund Expenditure Growth (%)



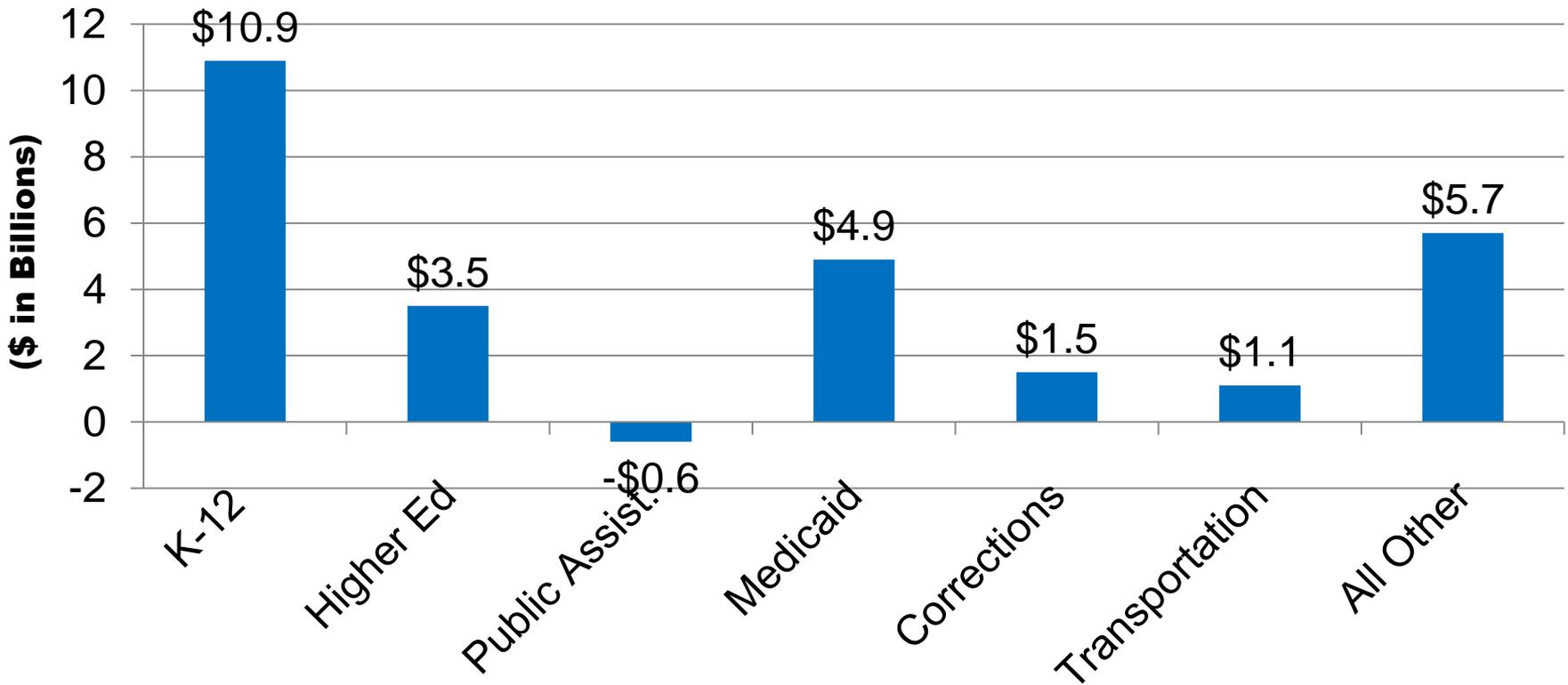
\*37-year historical average annual rate of growth is 5.5 percent  
Source: NASBO Spring 2014 Fiscal Survey of States

\*Fiscal 2015 numbers are recommended



# States Restoring Some Cuts Made During Recession

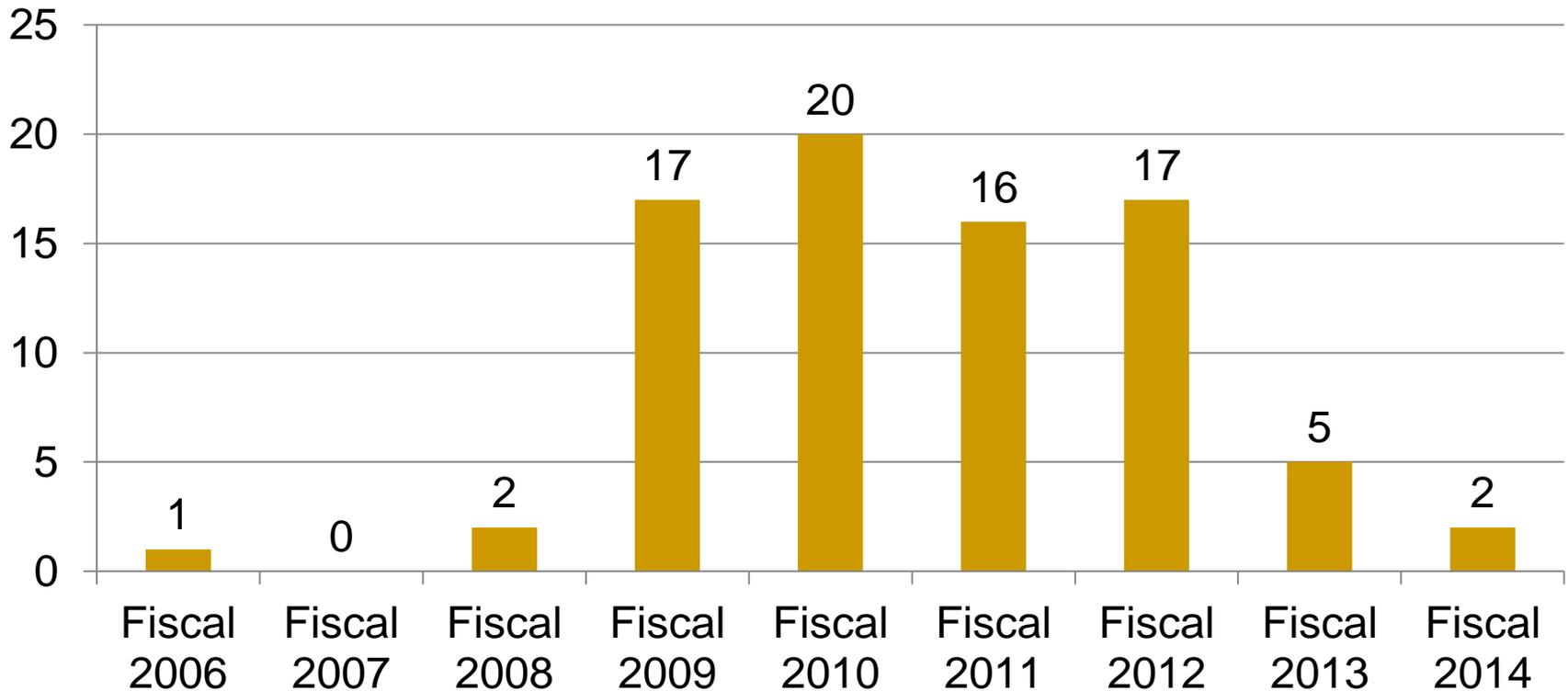
## Fiscal 2015 Recommended General Fund Spending Changes by Category (\$ in Billions)



Source: NASBO Spring 2014 Fiscal Survey

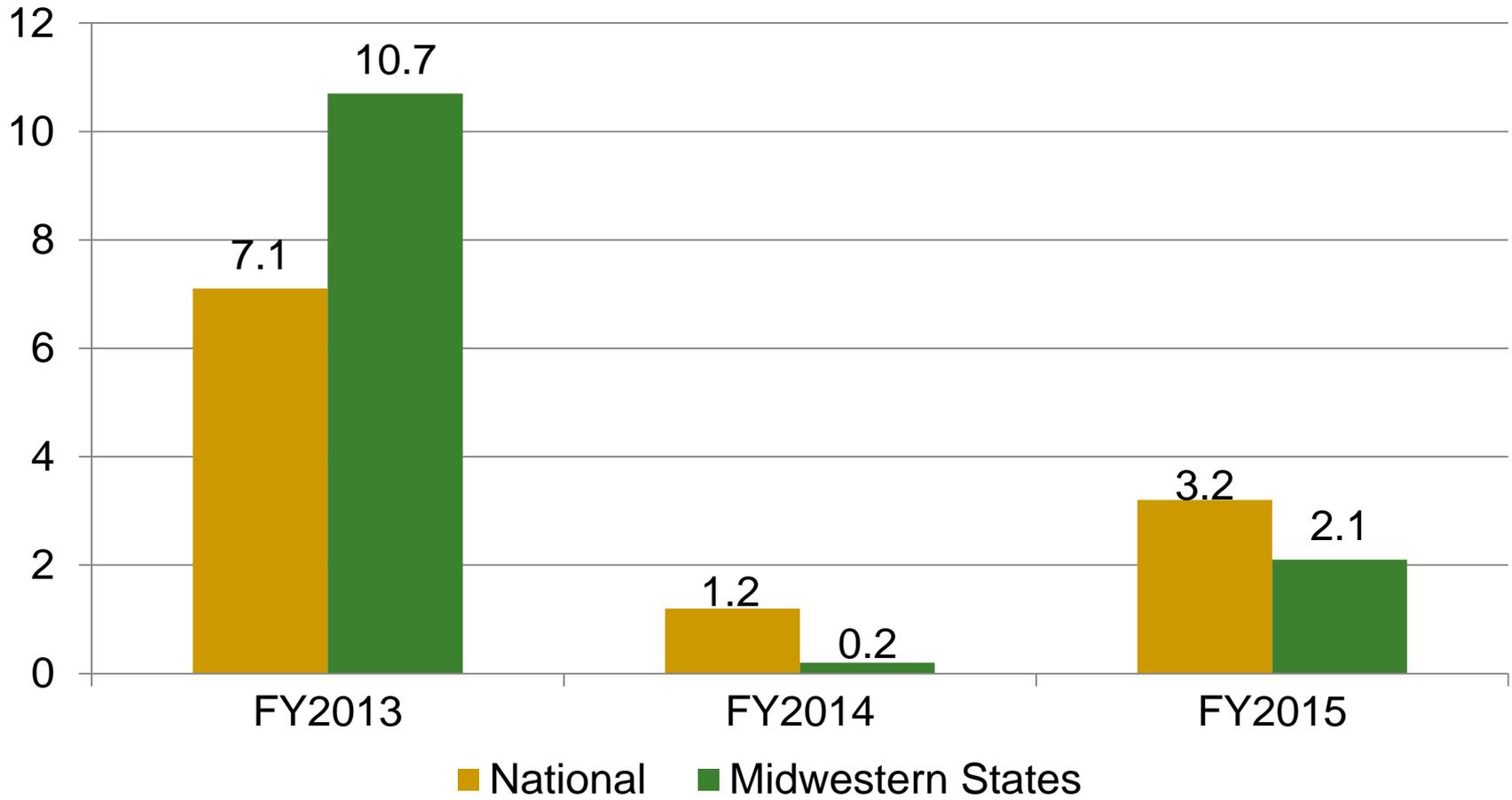
# Reductions in local aid have declined

**Number of states reducing local aid to help eliminate budget gaps**





# GF Revenue Growth: National Average vs. Midwestern States

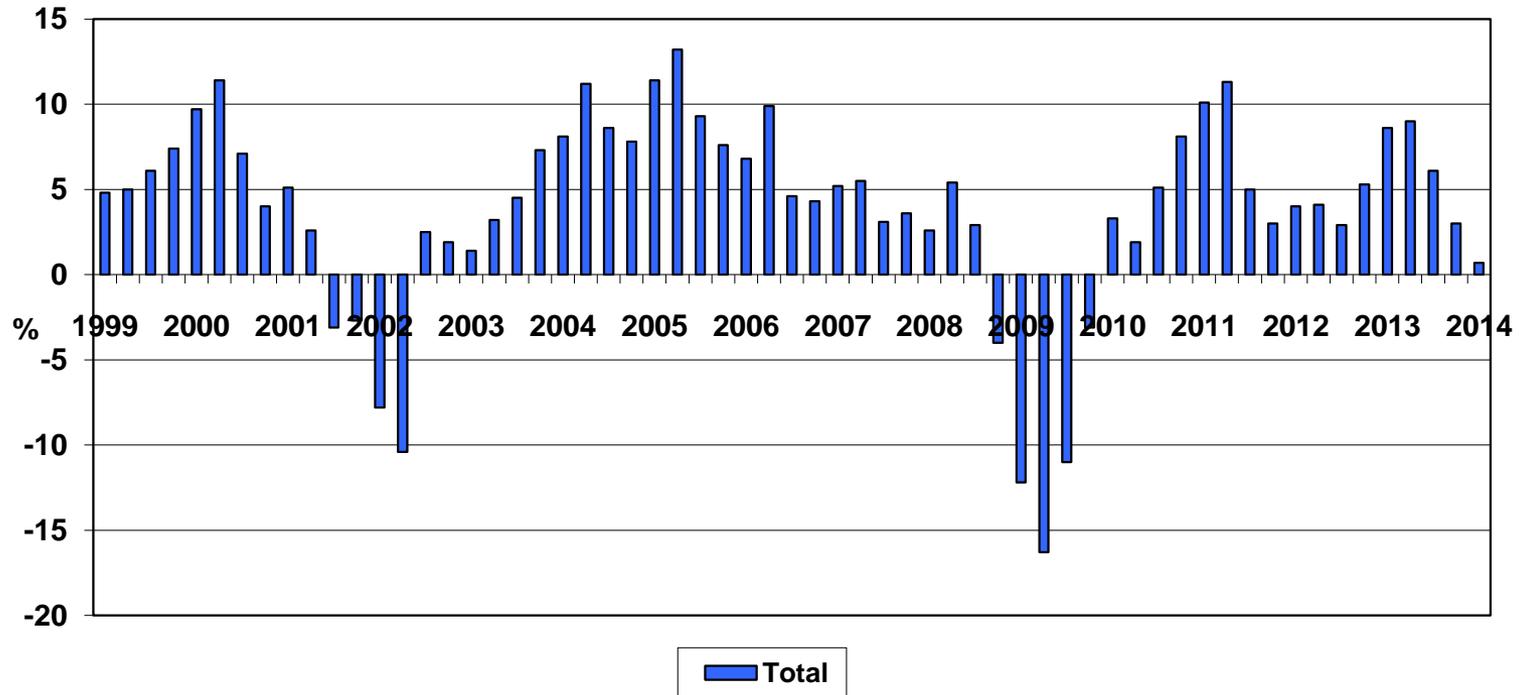


Source: NASBO Fiscal Survey of States



# State Revenue Growth Slows in 1<sup>st</sup> Quarter of Calendar Year 2014

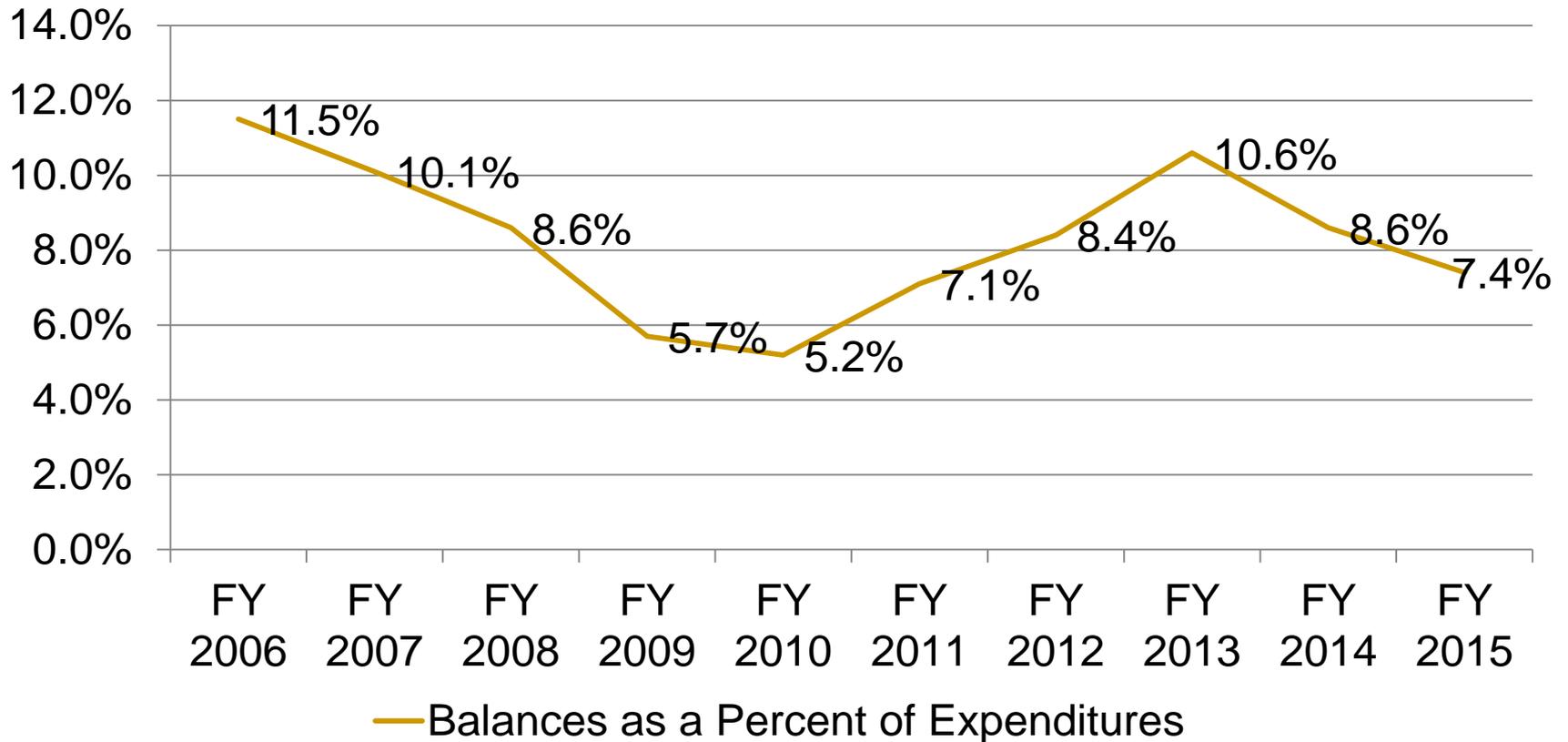
Year-Over-Year Real Change in Quarterly State Tax Revenue



Source: Fiscal Studies Program, Rockefeller Institute of Government; U.S. Census Bureau

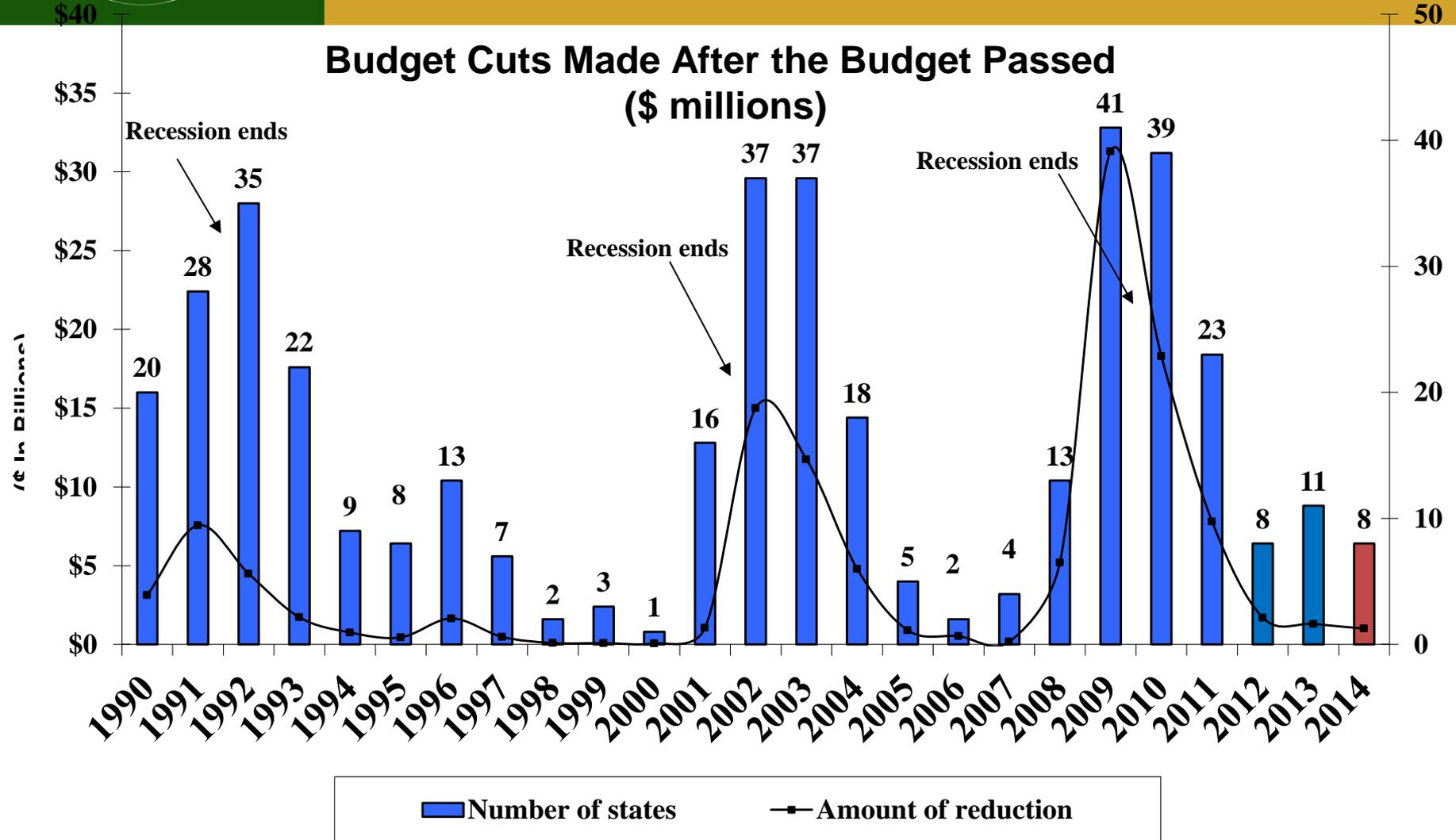
# States Have Rebuilt Reserves, but Haven't Reached Peak Levels

## Balances as a Percent of Expenditures





# Minimal Midyear Budget Cuts in Fiscal 2014



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.

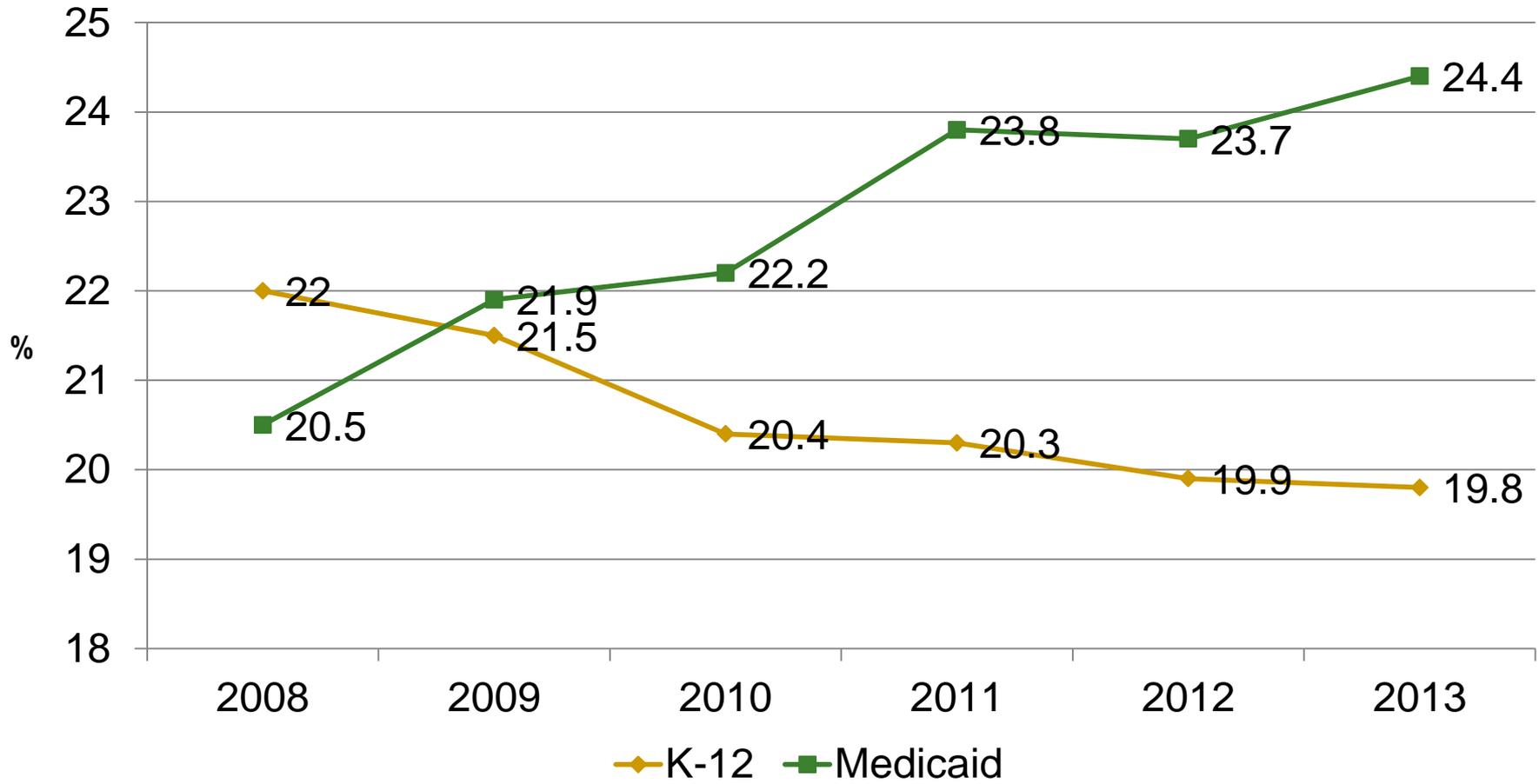
They also found that half of high-needs patients in the Champlain LHIN were over 65, and more than one-third (36 per cent) had a diagnosed mental health condition.

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**

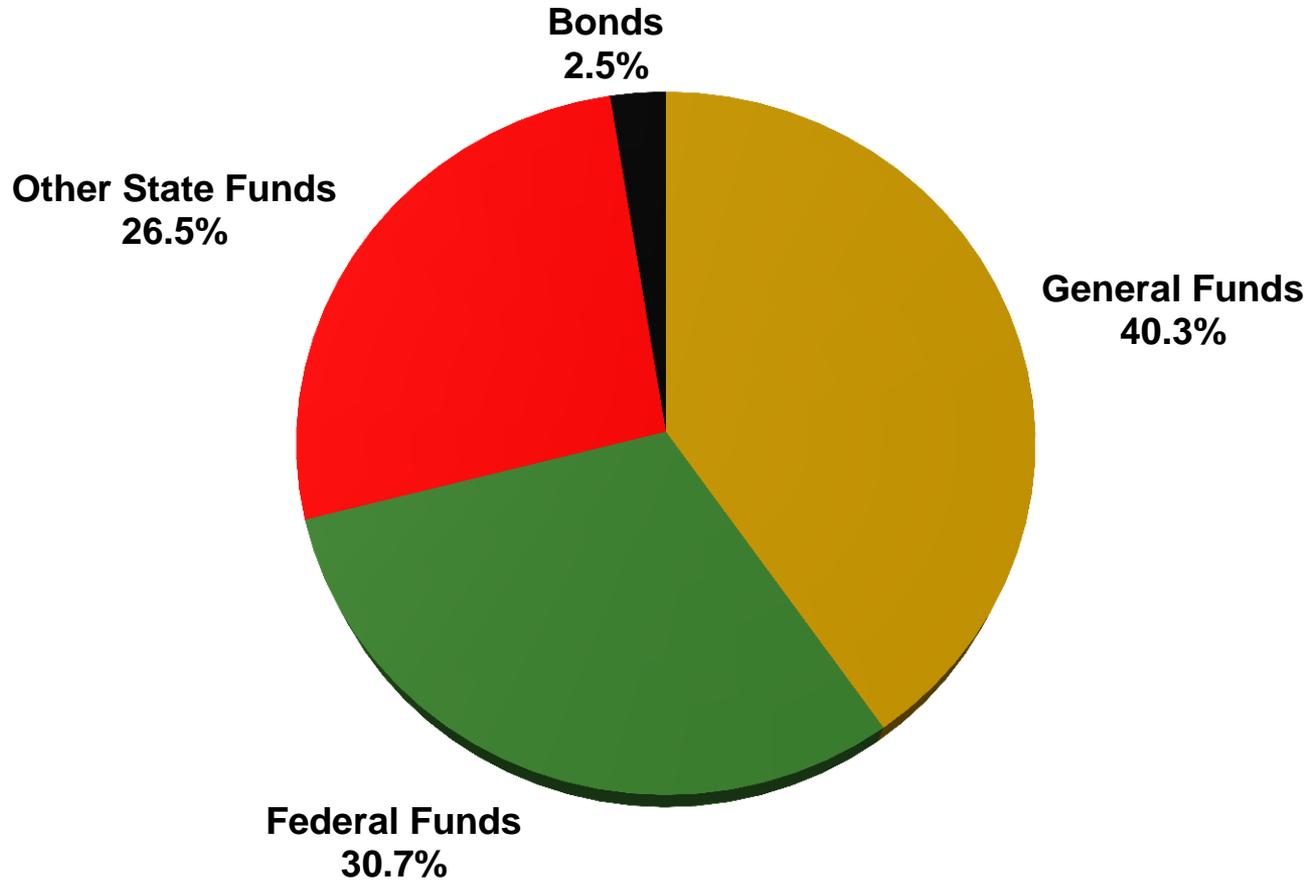


# ***Background on State Spending Trends***



# Spending by Funding Source (Percentage)

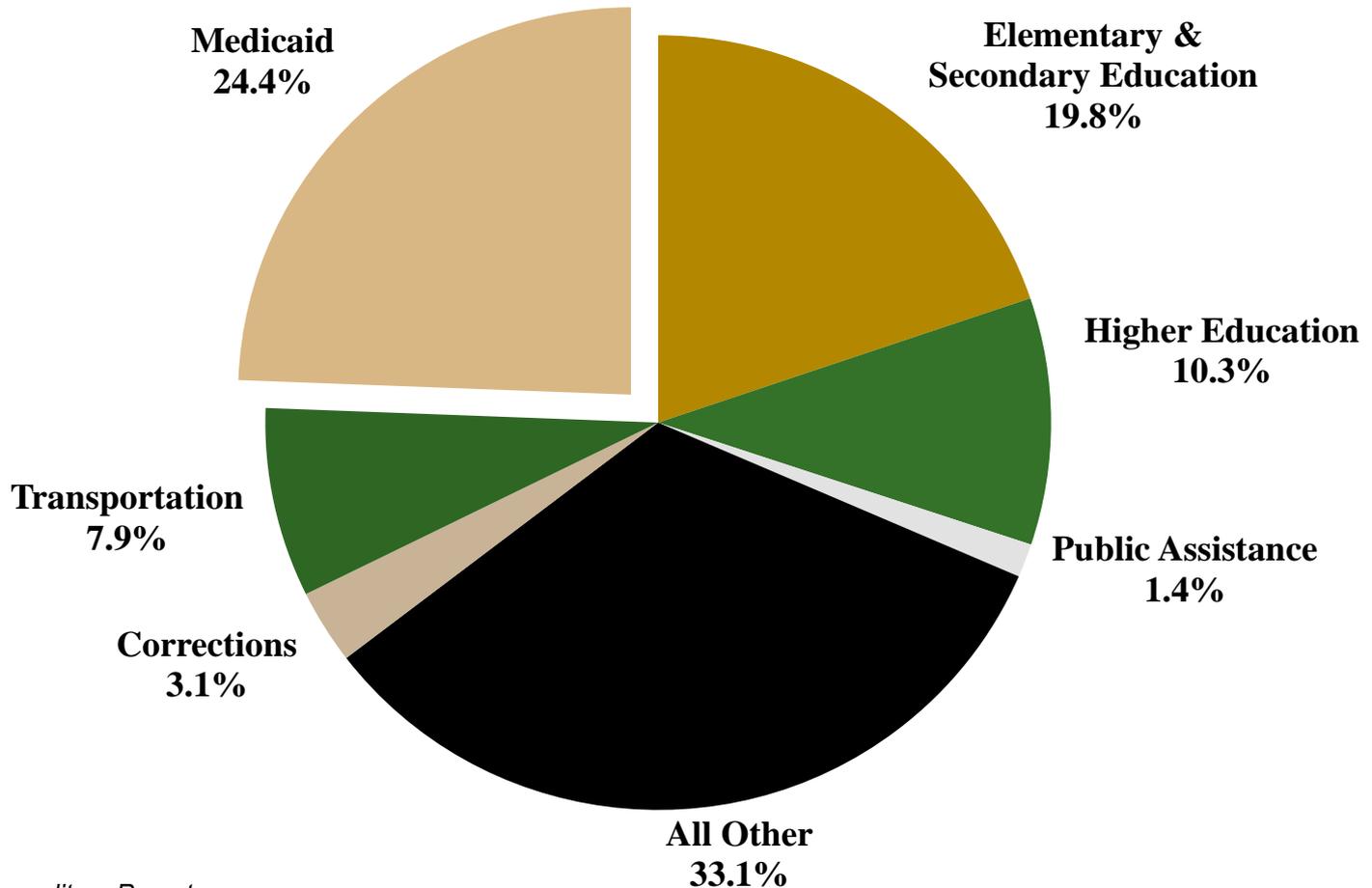
**Total State Expenditures by Funding Source, Estimated Fiscal 2013**



Source: NASBO State Expenditure Report



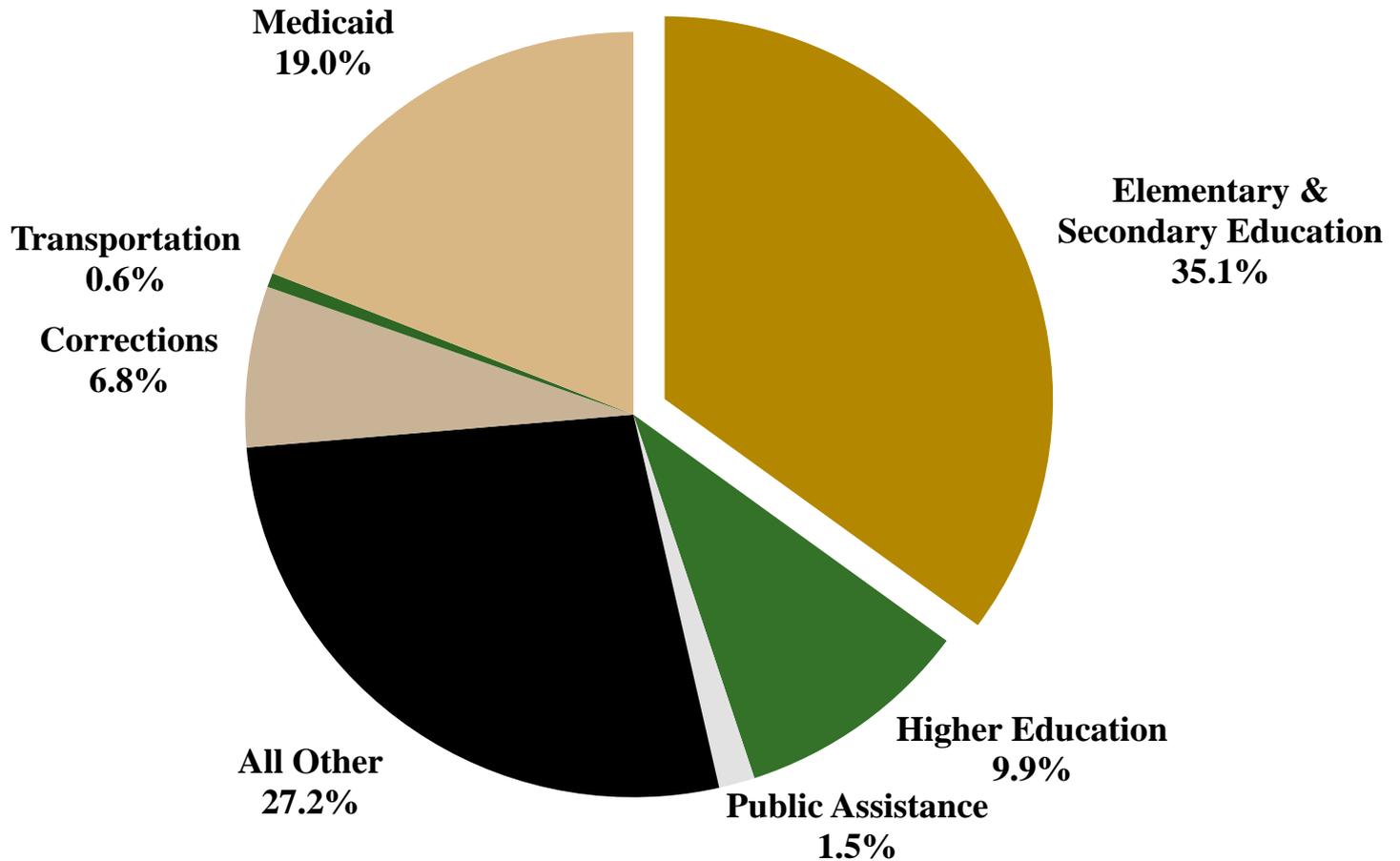
# Total State Expenditures by Function, Estimated Fiscal 2013



Source: NASBO State Expenditure Report



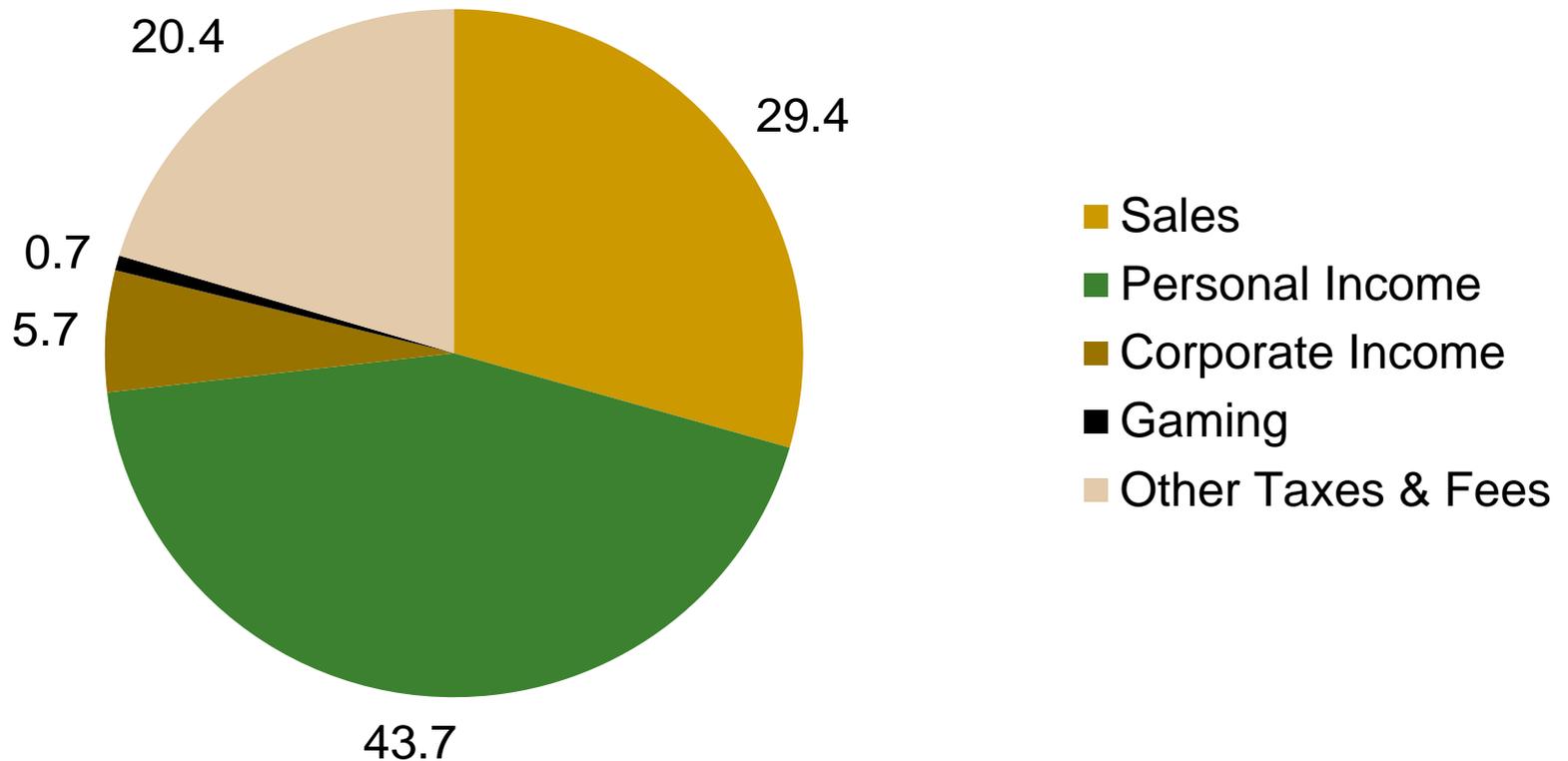
# General Fund Expenditures by Function, Estimated Fiscal 2013



Source: NASBO State Expenditure Report

# Revenue Sources in the General Fund (Percentage)

## Estimated Fiscal 2013





# *Outlook*



# State Fiscal Outlook

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



# www.nasbo.org

**Scott Pattison**

**(202) 624-8804**

**spattison@nasbo.org**



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