State Fiscal Outlook

TEF

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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

Current Fiscal Situation

MAJOR CHALLENGES TO STATE BUDGETS: Fiscal 2011 and 2012

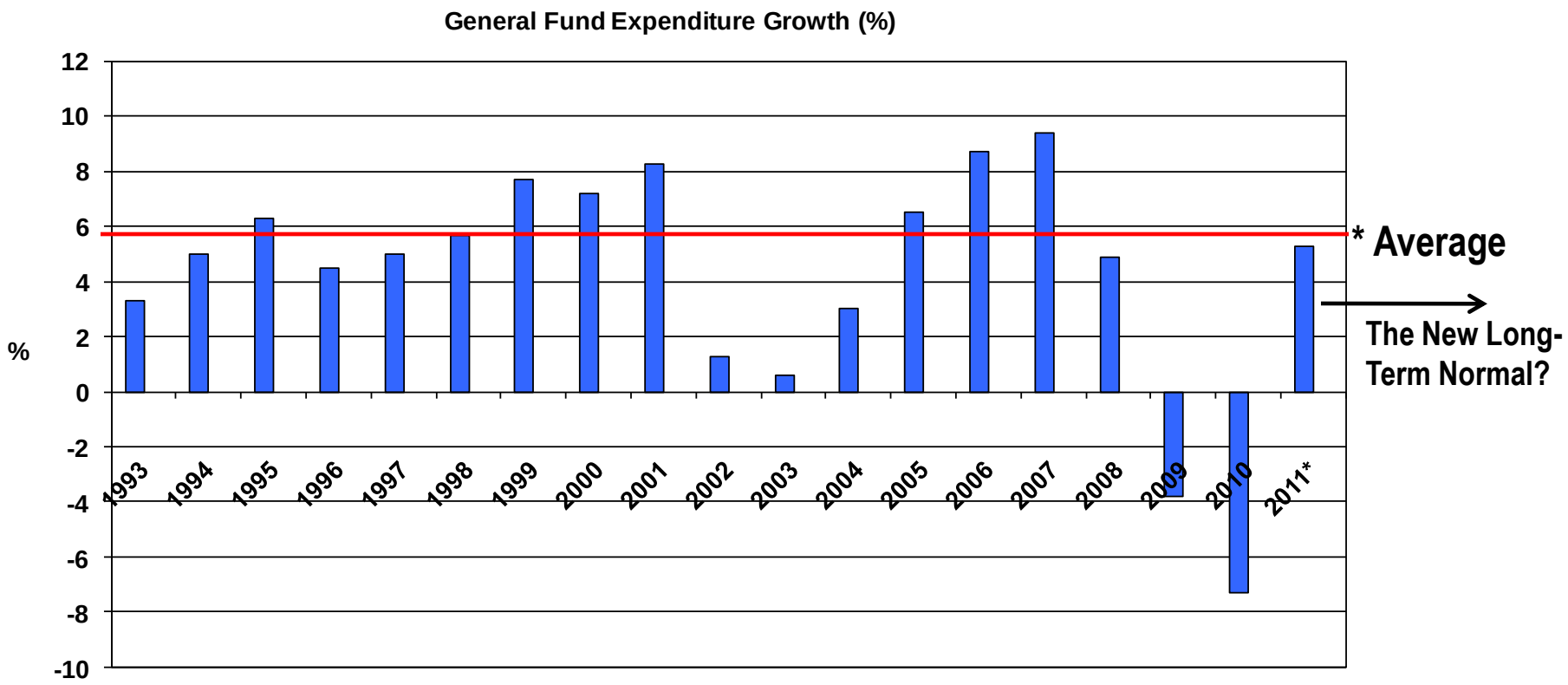
- **Slow Revenue Growth**
  Unlikely to return to 2008 levels until 2013 or 2014
- **Medicaid Enrollment Increase**
  8.5 percent growth in 2010, 6.1 percent growth estimate for 2011
- **Wind Down of Recovery Funds**
  $151 billion in flexible funding ends in June 2011
- **Dealing with Long Term Liabilities**
- **Health Care Reform**

Challenges: Are We Ready?

- Tighter Resources
- Demographic Changes
- Debt
- State Revenue
  - Will future revenue reflect economy?
  - Enough for infrastructure?
- Federal Changes
  - Decreased Military Presence
  - Decreased Federal Funds and Contracts

Current Fiscal Situation: Indicators

Negative Spending Two Years in a Row, Increase in 2011

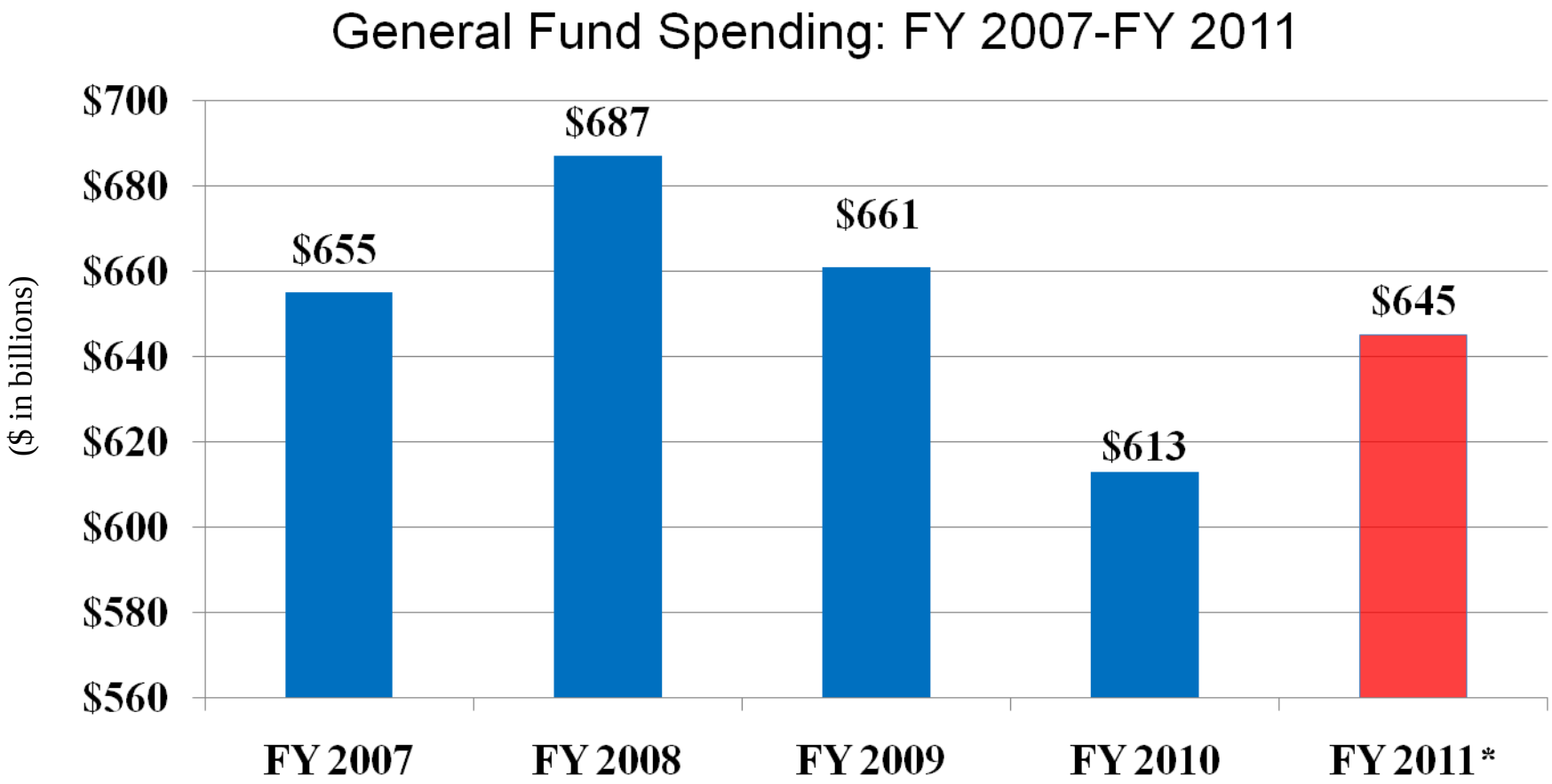


*33-year historical average rate of growth is 5.7 percent

Source: NASBO Fall 2010 Fiscal Survey of States

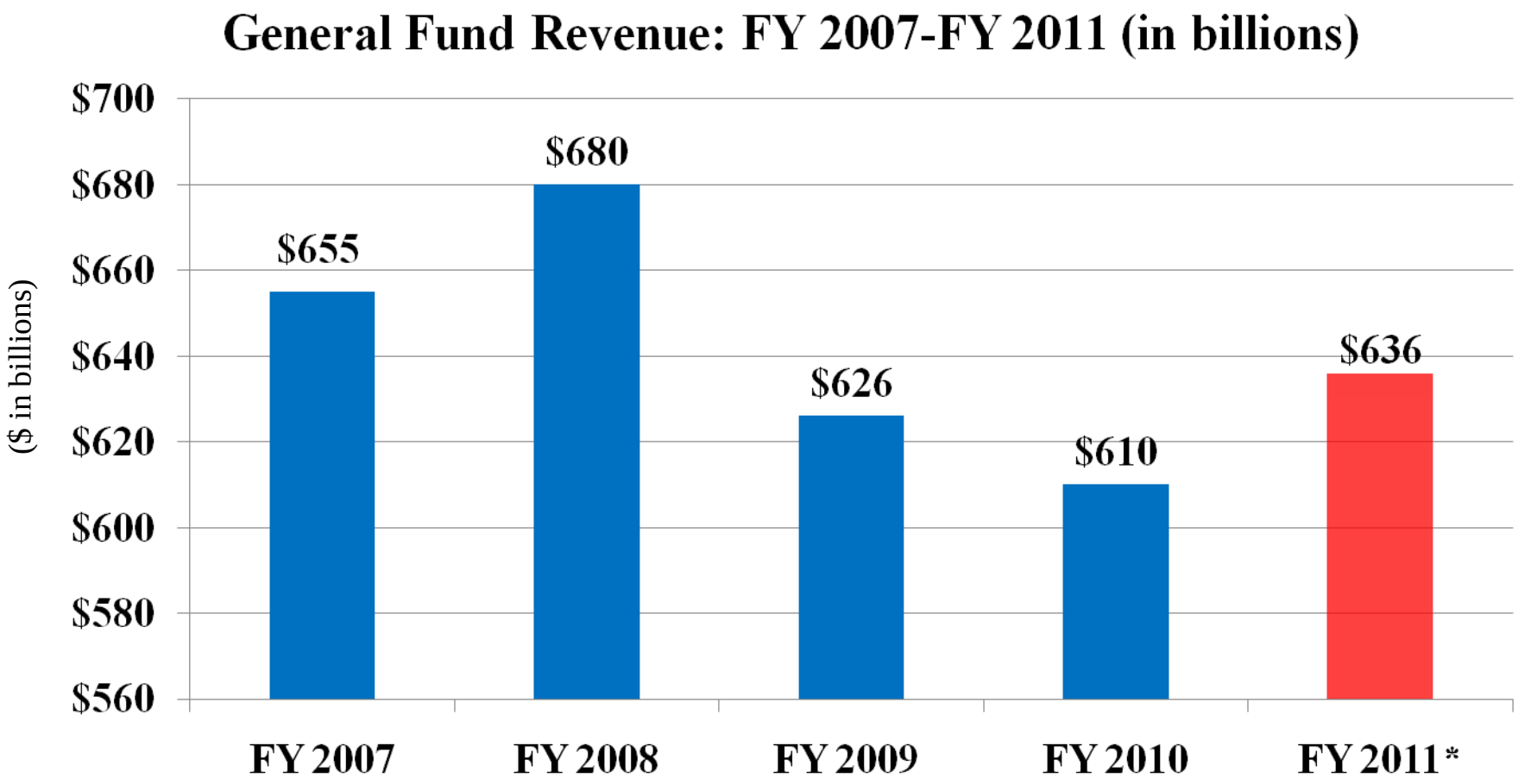
*Fiscal '11 numbers are enacted

FY 2011 Spending is $42 Billion Less than FY 2008



** FY 2007, 2008, and 2009 are actual. FY 2010 is preliminary actual and FY 2011 is enacted.*

Revenue Remains Well Below Pre-Recession Levels



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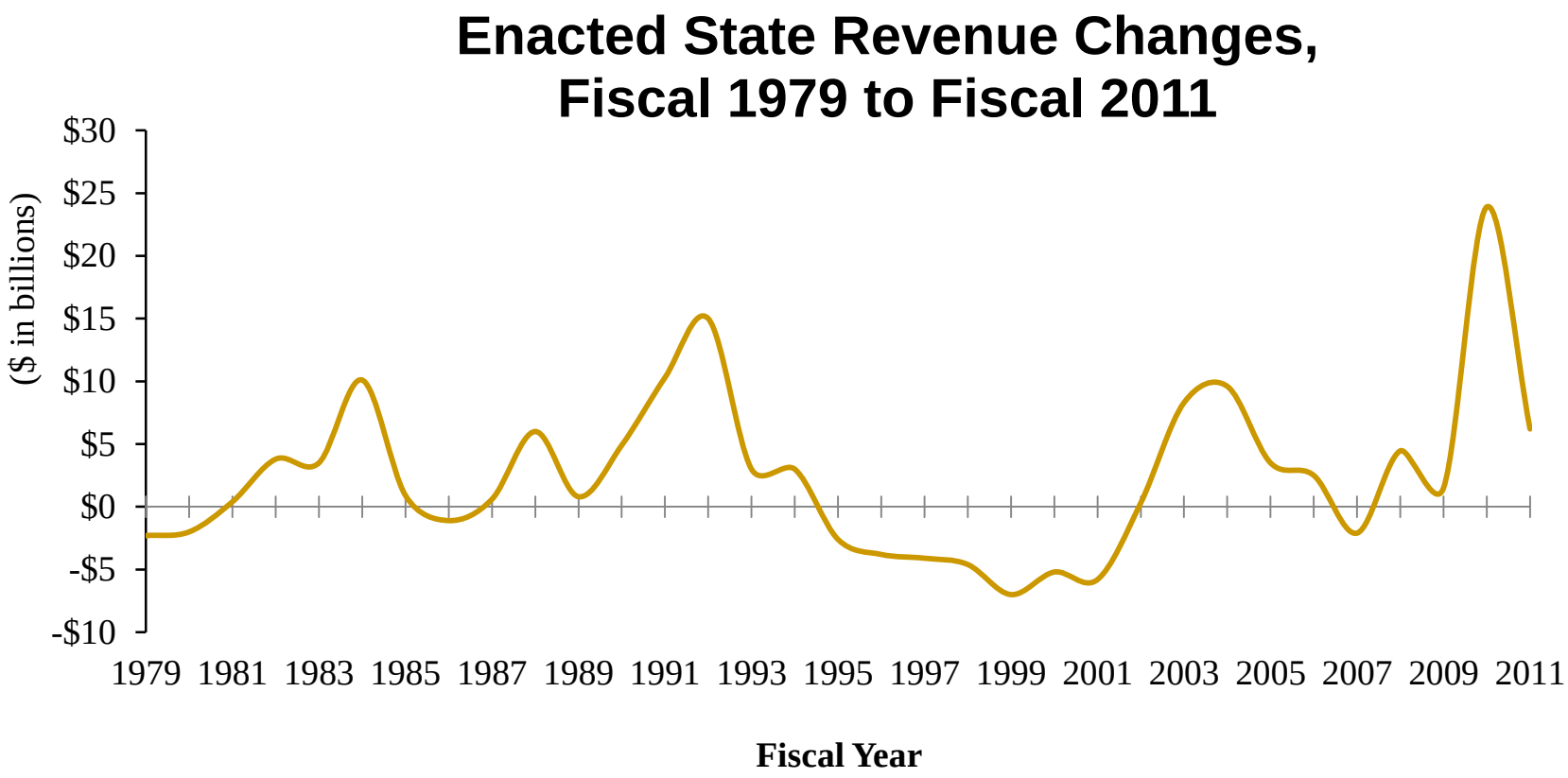
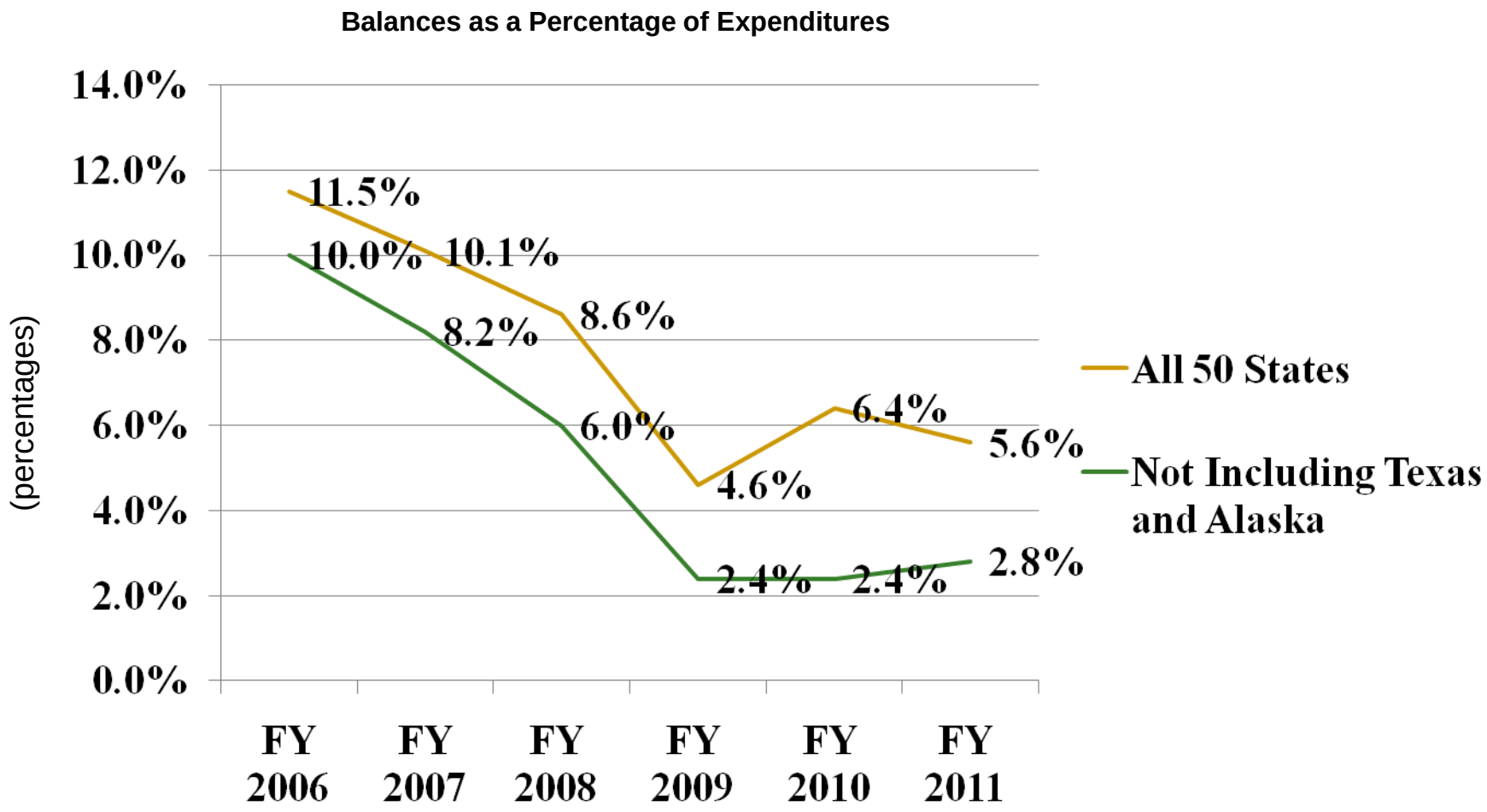
Tax and Fee Increases Continue



State Balances Near Historic Lows for Many States



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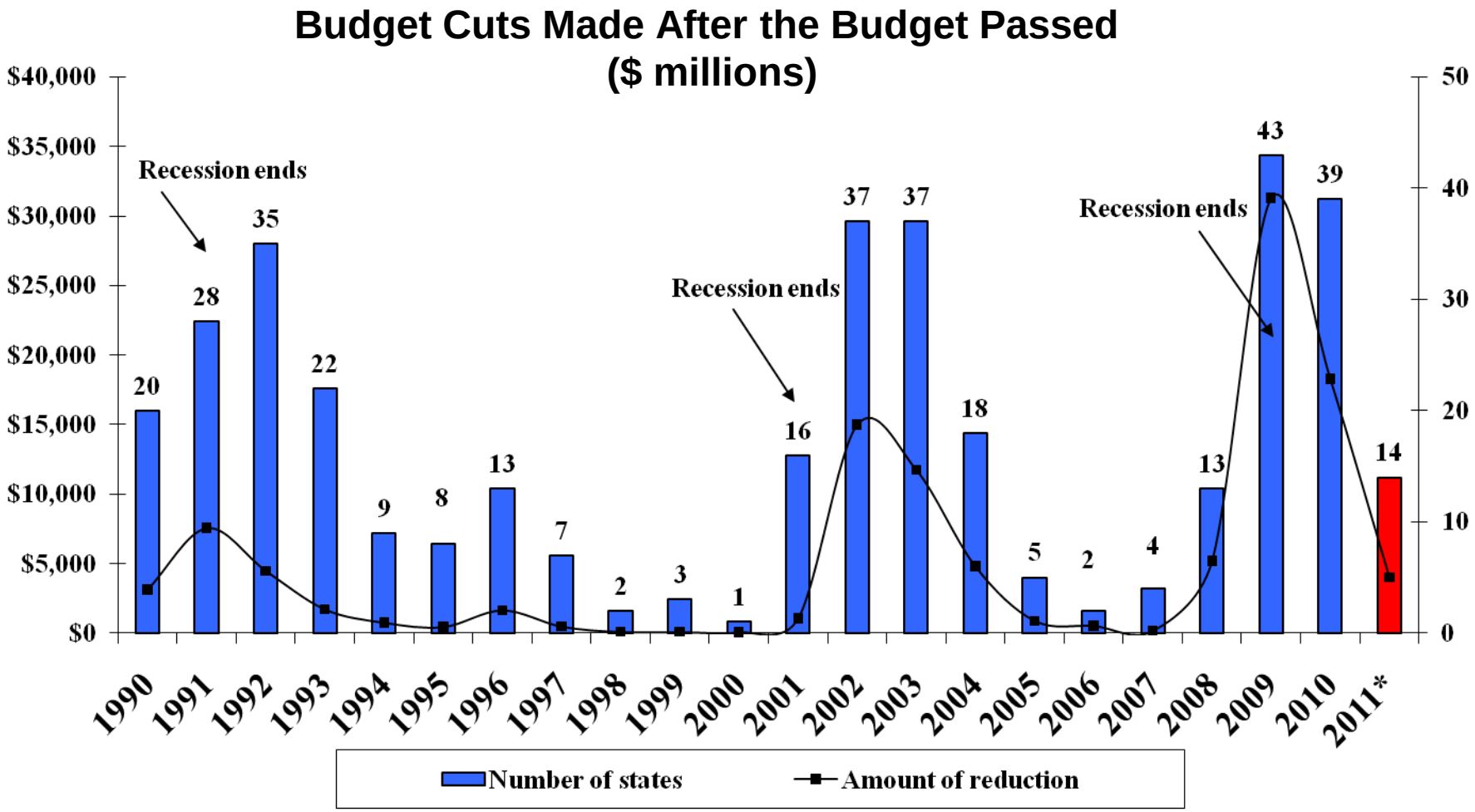
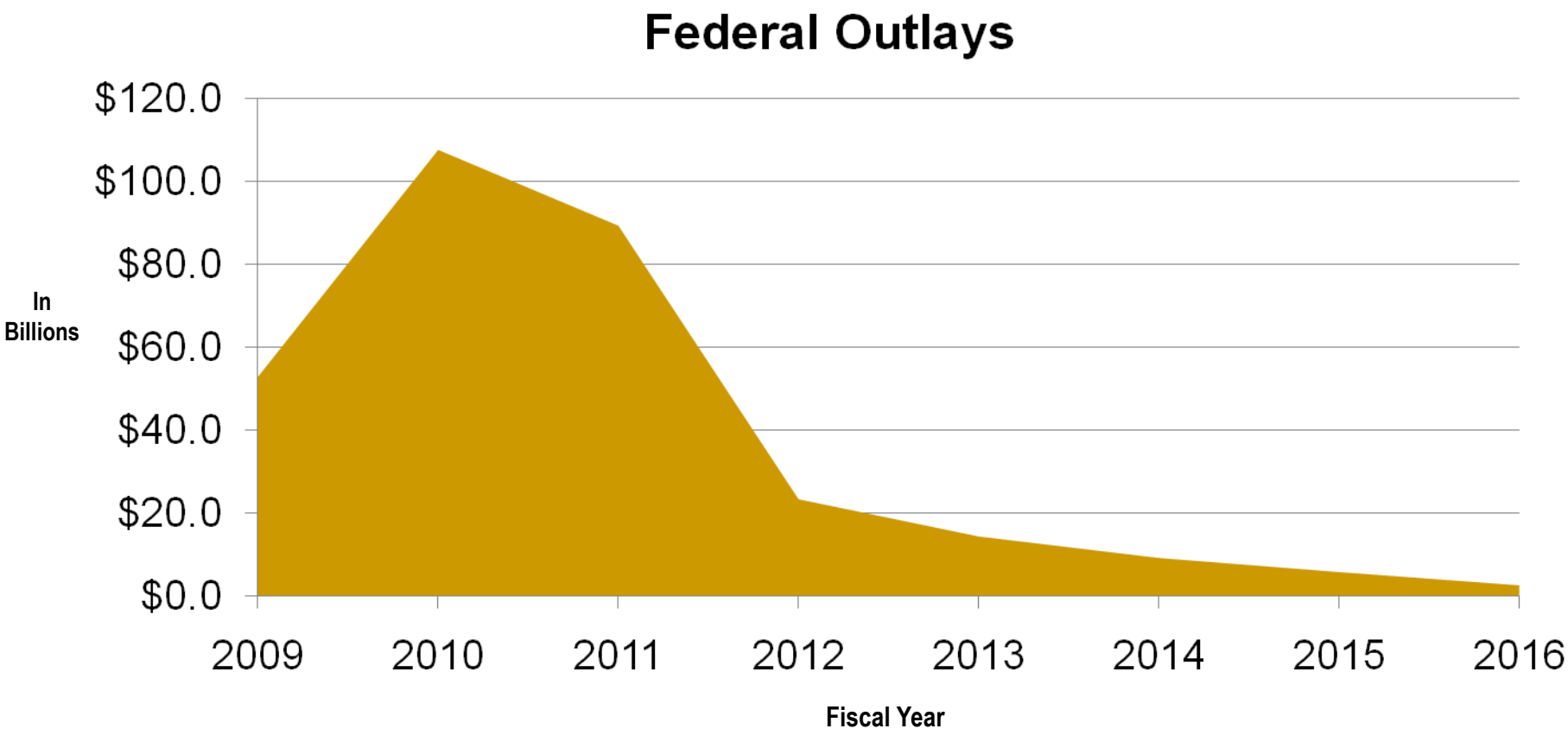
Mid-Year Budget Cuts Continue



*FY 2011 mid-year budget cuts are ongoing

The Cliff: Temporary Federal Aid to States

(FY '11 totals include both ARRA & Education Jobs Funds)



Source: Recovery Act data come from GAO Report to Congress, September 2010

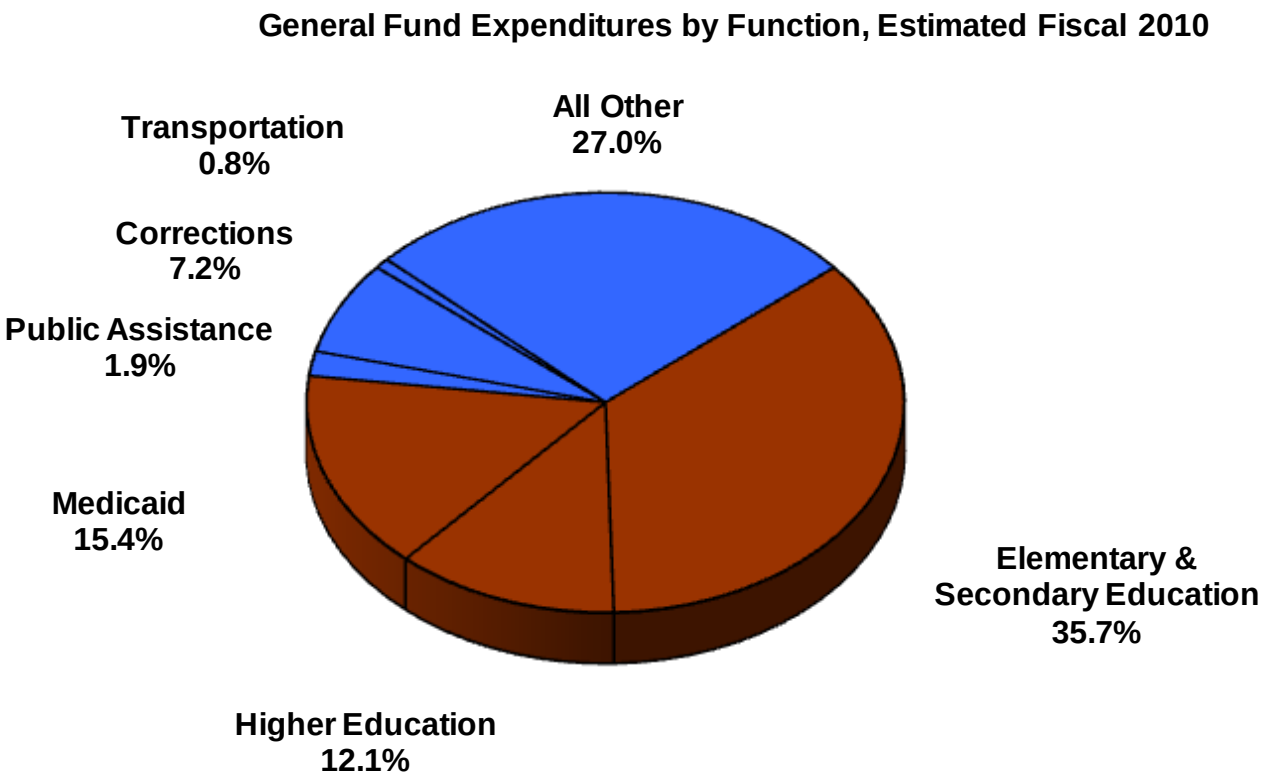
Tough Decisions: Background on State Spending Trends

California and New York

- "Kicking the can down the road…is simply out of the question."
  - Governor Jerry Brown, State of the State Address, January 31, 2011

- SUNY faces a 10% cut in the state budget proposed by Governor Andrew Cuomo

General Fund: Medicaid & Education Over 63%



Source: NASBO 2009 State Expenditure Report

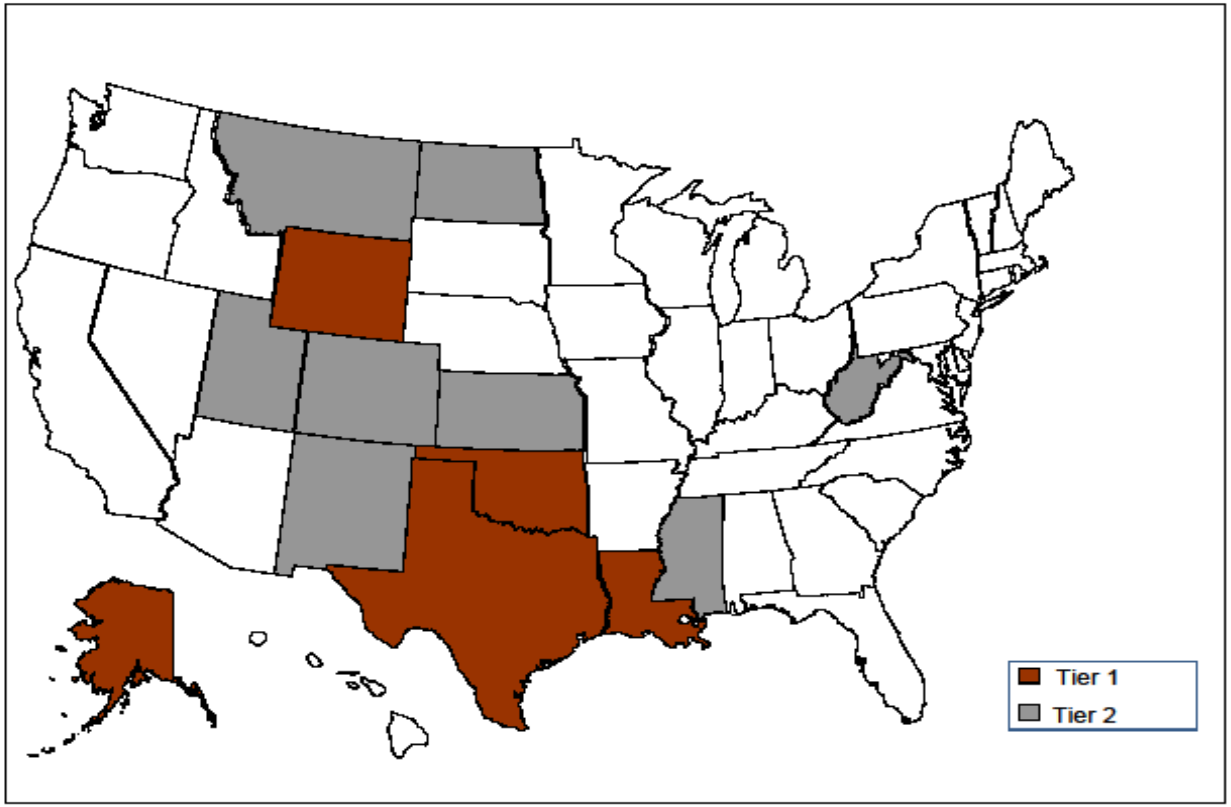
Outlook

No Additional Aid Likely from Federal Government

- "We have no expectation or intention to get involved in state and local finance."
  - Federal Reserve Chairman Ben Bernanke, January 7, 2011
- "I think most of the solutions for state government will have to come from state government."
  - Senate Majority Leader Harry Reid, January 17, 2011
- "We are not interested in a bailout."
  - House Budget Committee Chairman Paul Ryan, January 6, 2011

Who gets out first?

Historical Boost to State Earnings and Employment due to Oil & Natural Gas



Source: Federal Reserve Bank of Kansas City, Economic Review, Fourth Quarter 2009

State Fiscal Outlook

- Austere state budgets for at least the next several years
  - Slow revenue growth; ARRA declines
- Health care reform will have an impact on state finances
- Limited federal funds
- Tough competition for general funds, BUT…
- Opportunity for reform, restructuring

www.nasbo.org

Scott Pattison

(202) 624-8804

spattison@nasbo.org