



MTC Annual Conference

The State of State Finances

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Current Economic and Fiscal Situation



State Fiscal Overview

- Fiscal 2016 will likely mark the 6th consecutive annual increase in general fund spending and revenues
- Signs of fiscal distress have subsided and the fiscal environment for most states indicates continued stability and slow growth
- Some states are facing difficult budget environments due to various issues
- Fiscal improvements over the last several years have not returned states to normal patterns of growth

Absence of contagion changes whole Greek game

Reuters

Where is the Greek Contagion?

Financial Times

Puerto Rico investors seek answers in Monday's creditor meeting

Economic Times

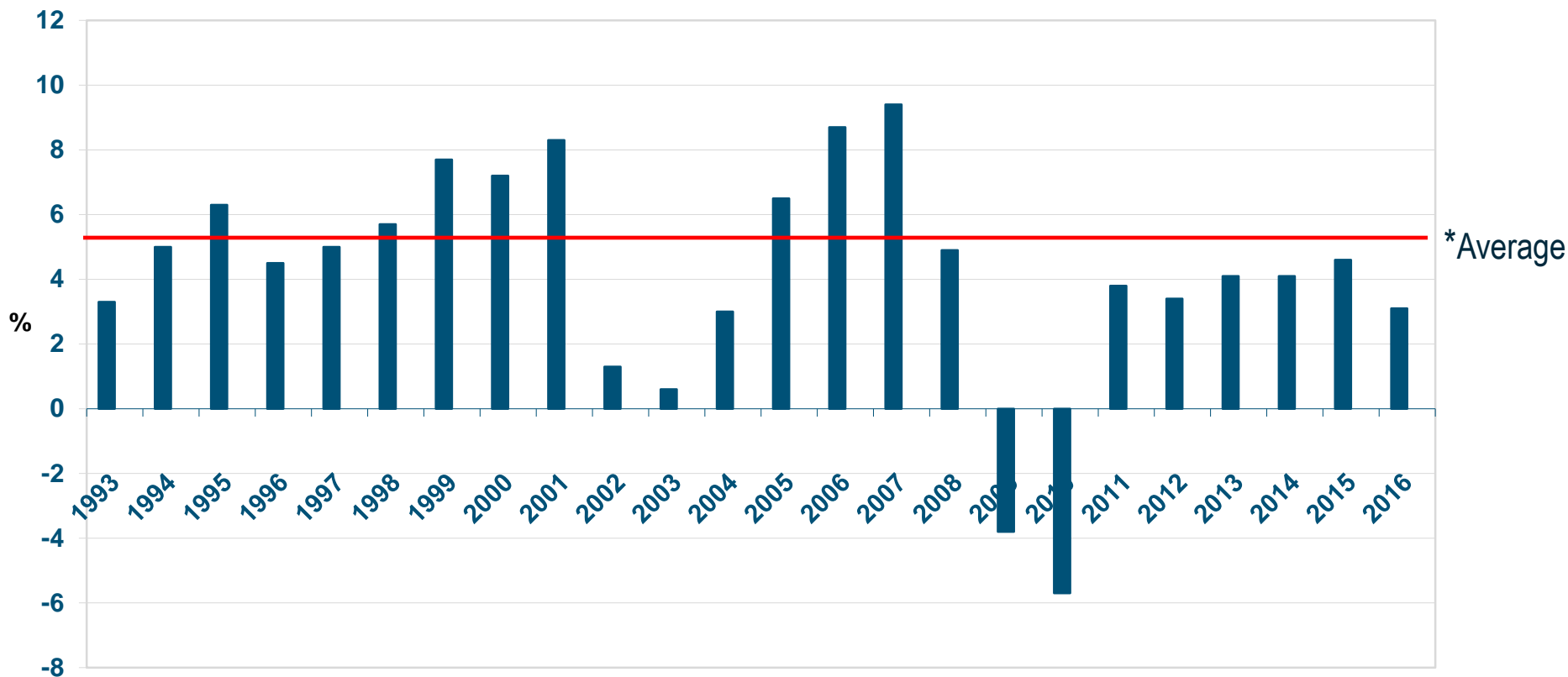
Challenges: Long Term Begins Now

- ✓ Tighter Resources for Years
- ✓ Demographic Changes
- ✓ Debt and Pension Liability
- ✓ State Revenue
- ✓ Infrastructure
- ✓ Federal Cuts

Current Fiscal Situation: Indicators

Slow Budget Growth Continues

General Fund Expenditure Growth (%)

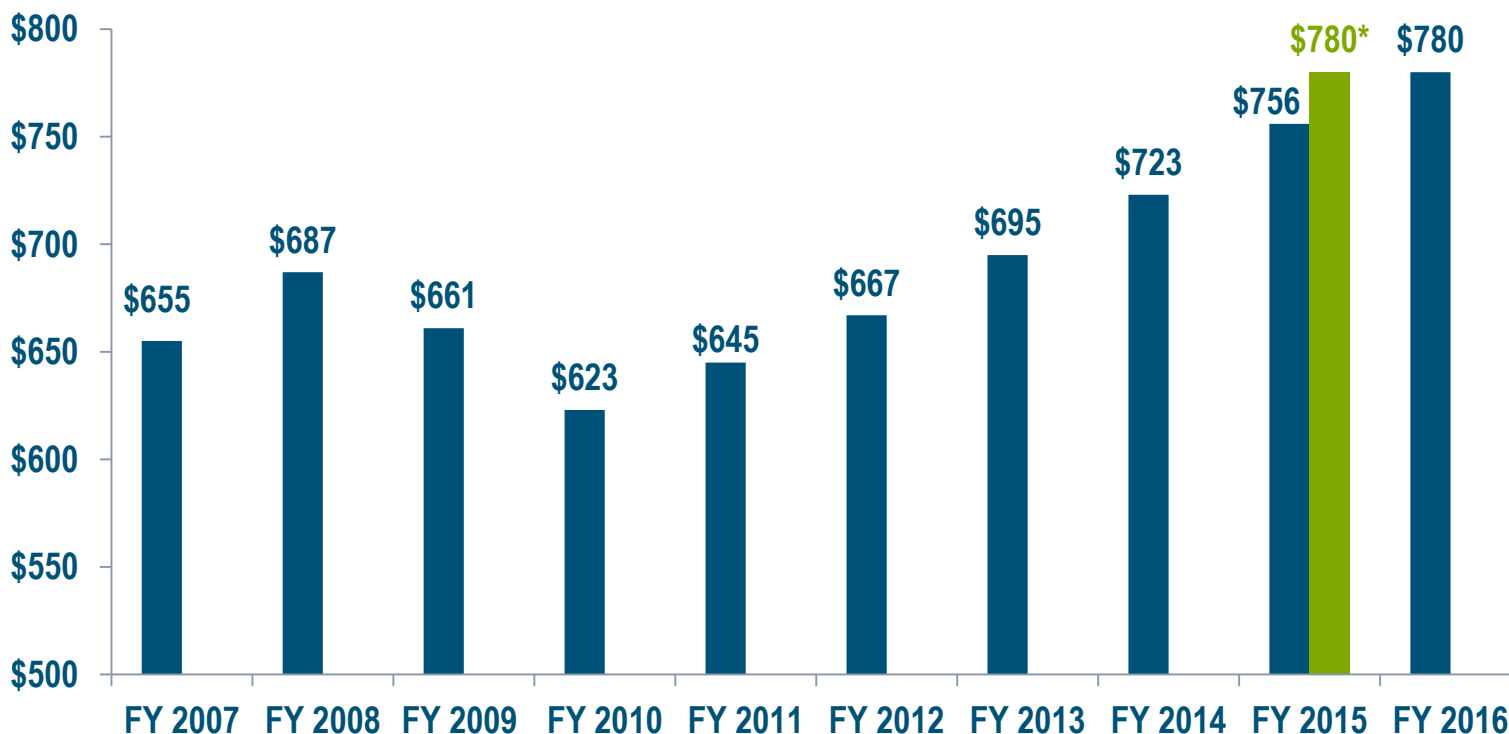


*38-year historical average annual rate of growth is 5.5 percent
 Source: NASBO Spring 2015 Fiscal Survey of States

*Fiscal 2015 numbers are estimated; fiscal 2016 are recommended

Fiscal 2016 Spending Projected to Increase by 3.1%

General Fund Spending: FY 2007-FY 2016

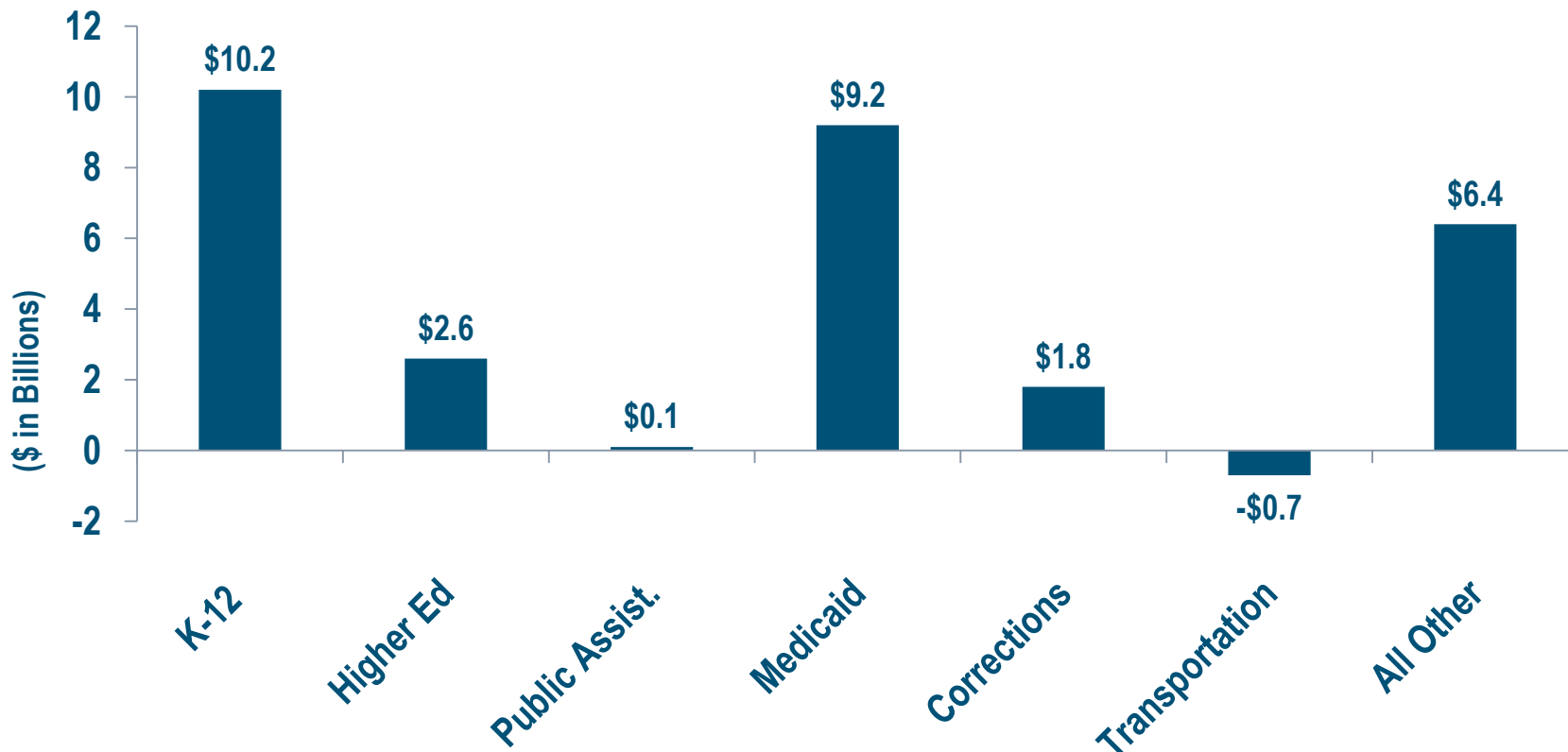


Source: NASBO Spring 2015 Fiscal Survey of States; Fiscal 2016 numbers are recommended.

*Aggregate spending levels would need to total \$780 billion in fiscal 2015 to be equivalent with real 2008 spending levels.

States Direct Most New Spending to K-12 and Medicaid

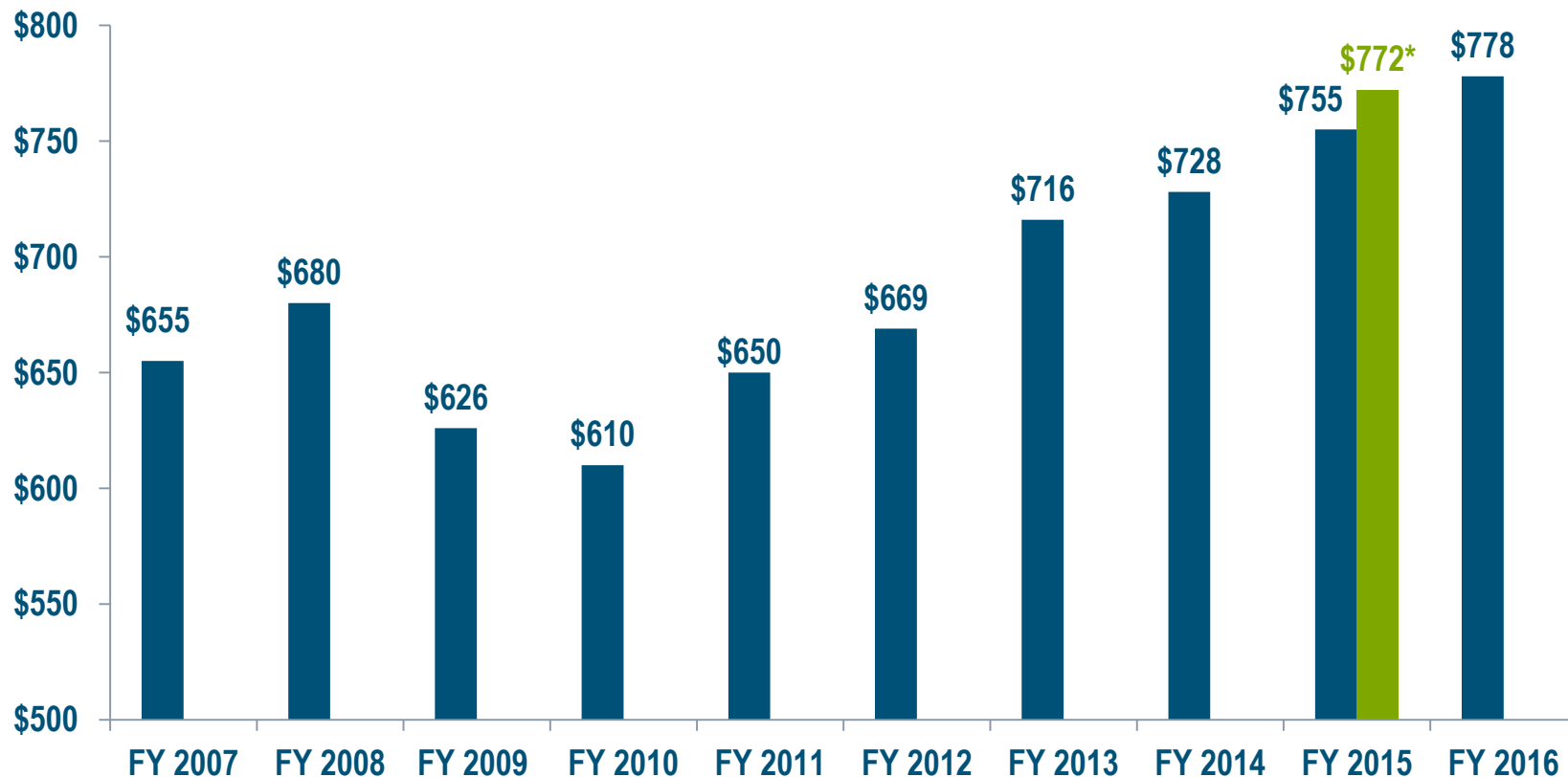
FY 2016 Recommended General Fund Spending Changes by Category



Source: NASBO Spring 2015 Fiscal Survey

Fiscal 2015 GF Revenue Below Pre-Recession Peak After Inflation

General Fund Revenue: FY 2007-FY 2016

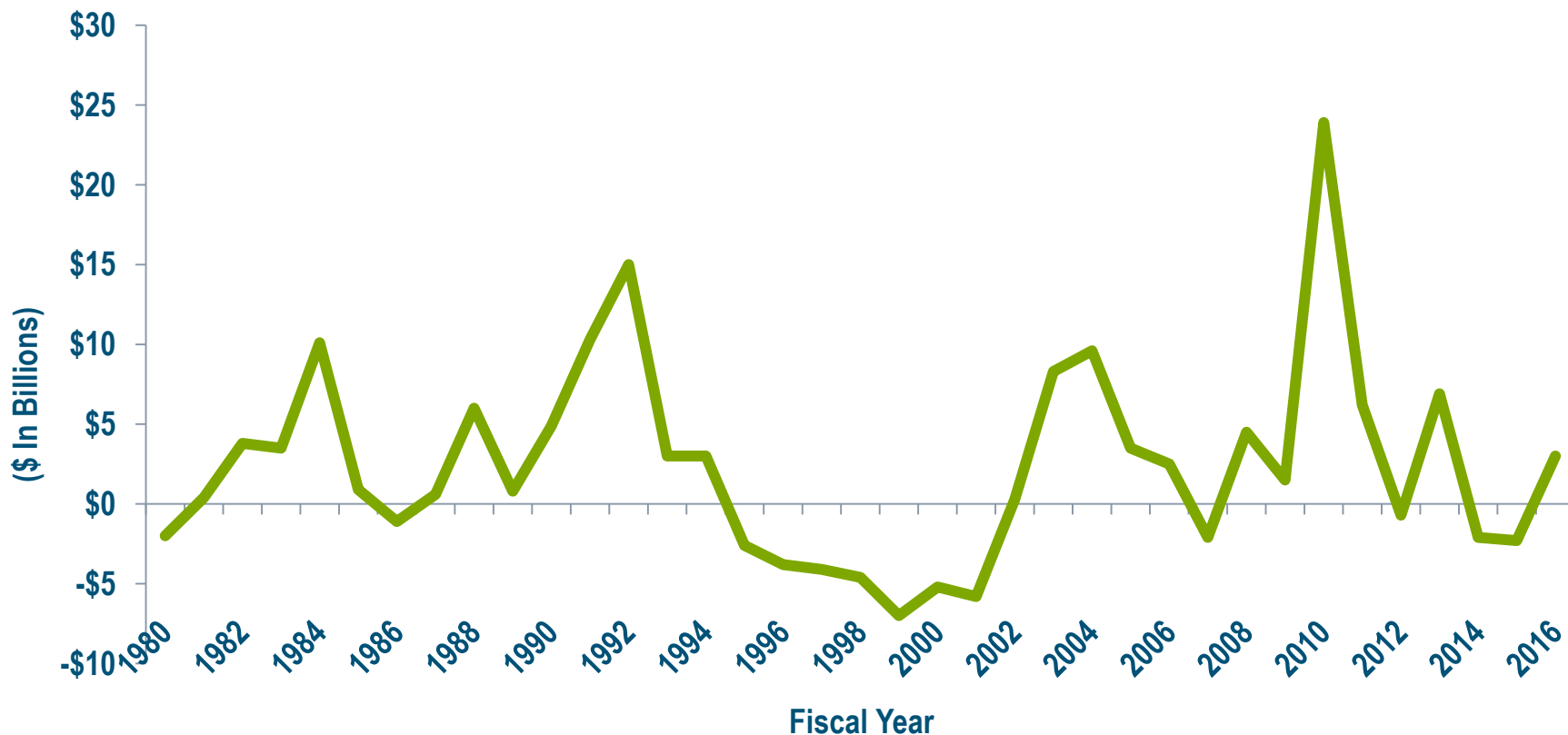


Source: NASBO Spring 2015 Fiscal Survey of States; Fiscal 2016 numbers are recommended

*Aggregate revenue levels would need to total \$772 billion in fiscal 2015 to be equivalent with real 2008 revenue levels.

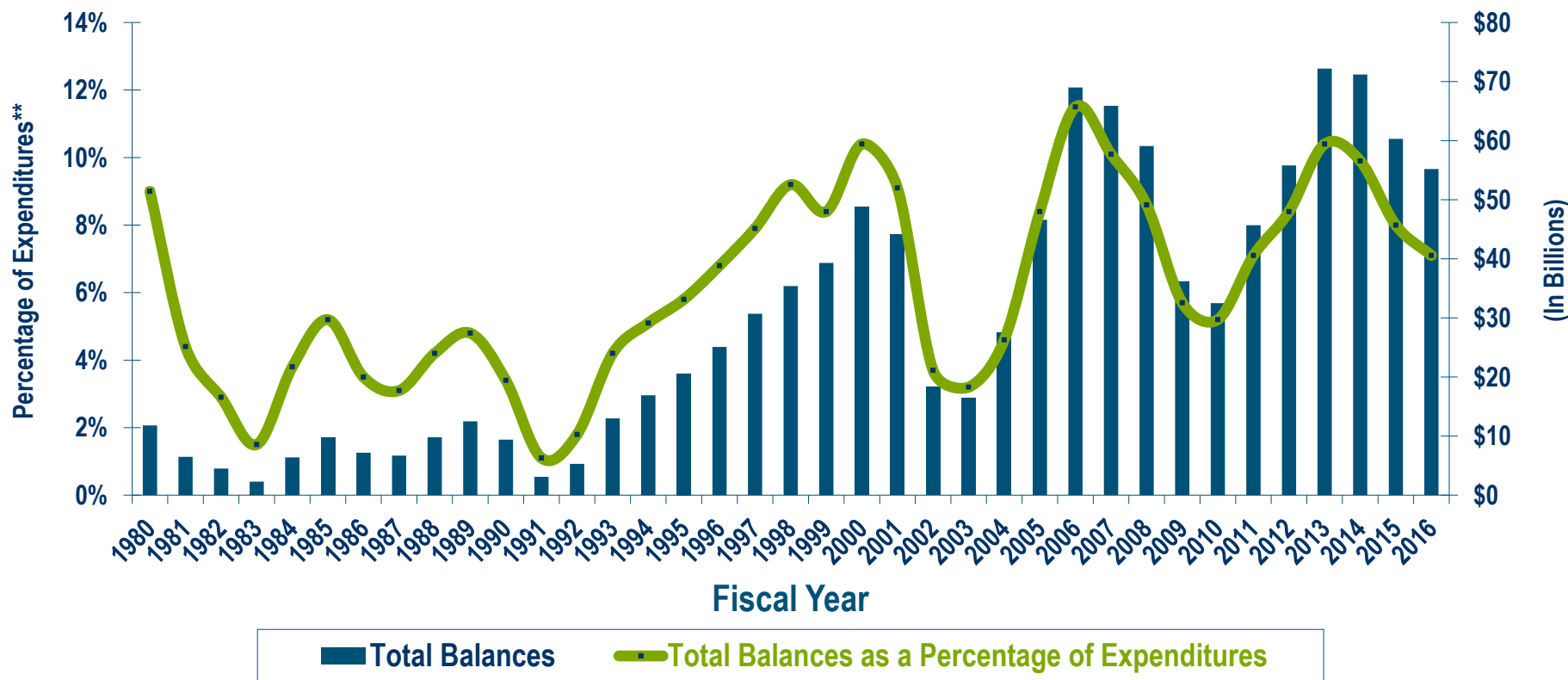
States Recommend \$3B in Net Tax and Fee Increases for Fiscal 2016

Enacted State Revenue Changes, FY 1980 to FY 2016



State Balance Levels Declining, Partly Due to Oil Prices

Total Year-End Balances, Fiscal 1980 to Fiscal 2016



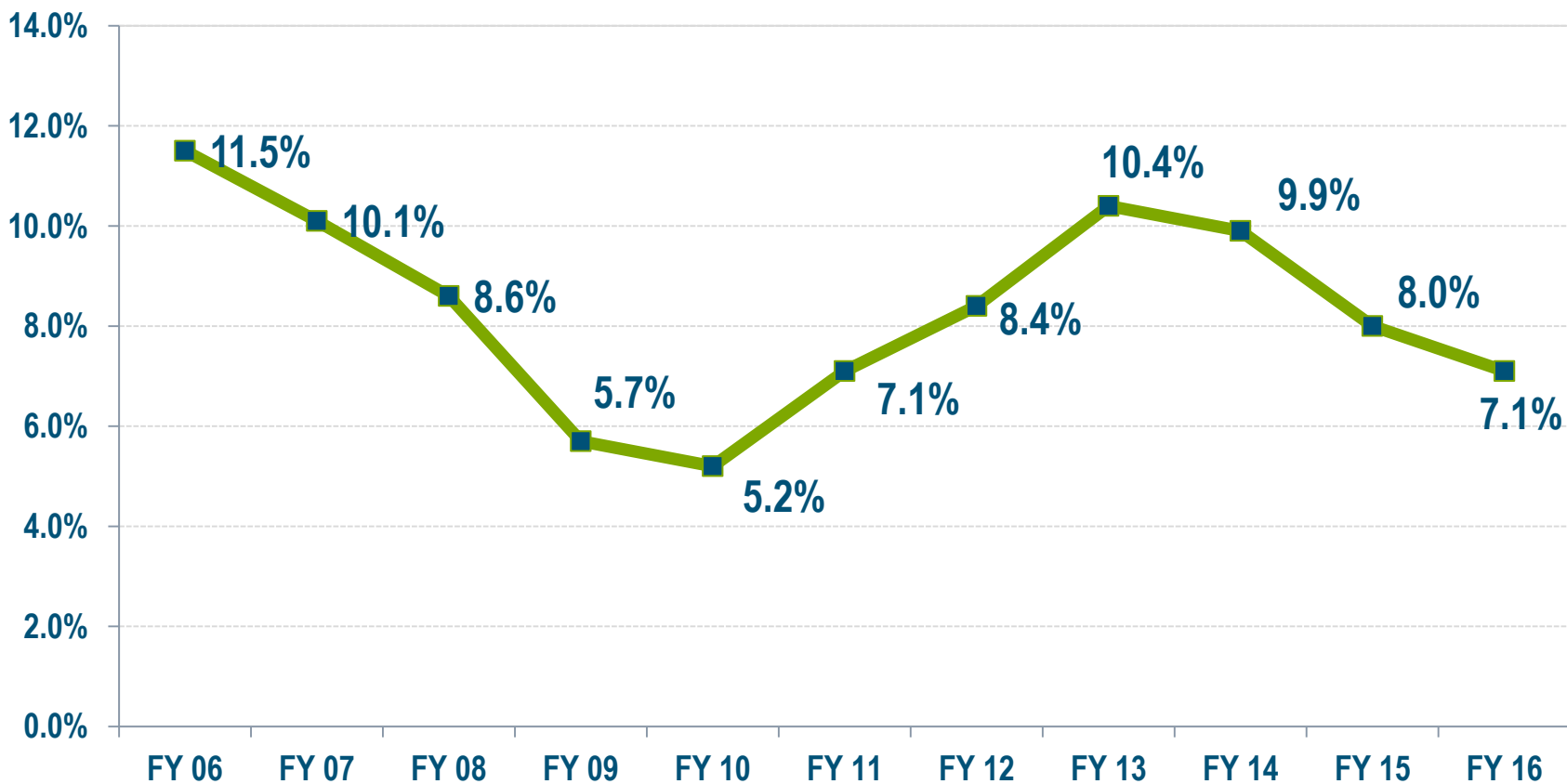
* Fiscal 2016 totals are recommended

**37-year historical average is 6.2%

Source: NASBO Spring 2015 Fiscal Survey

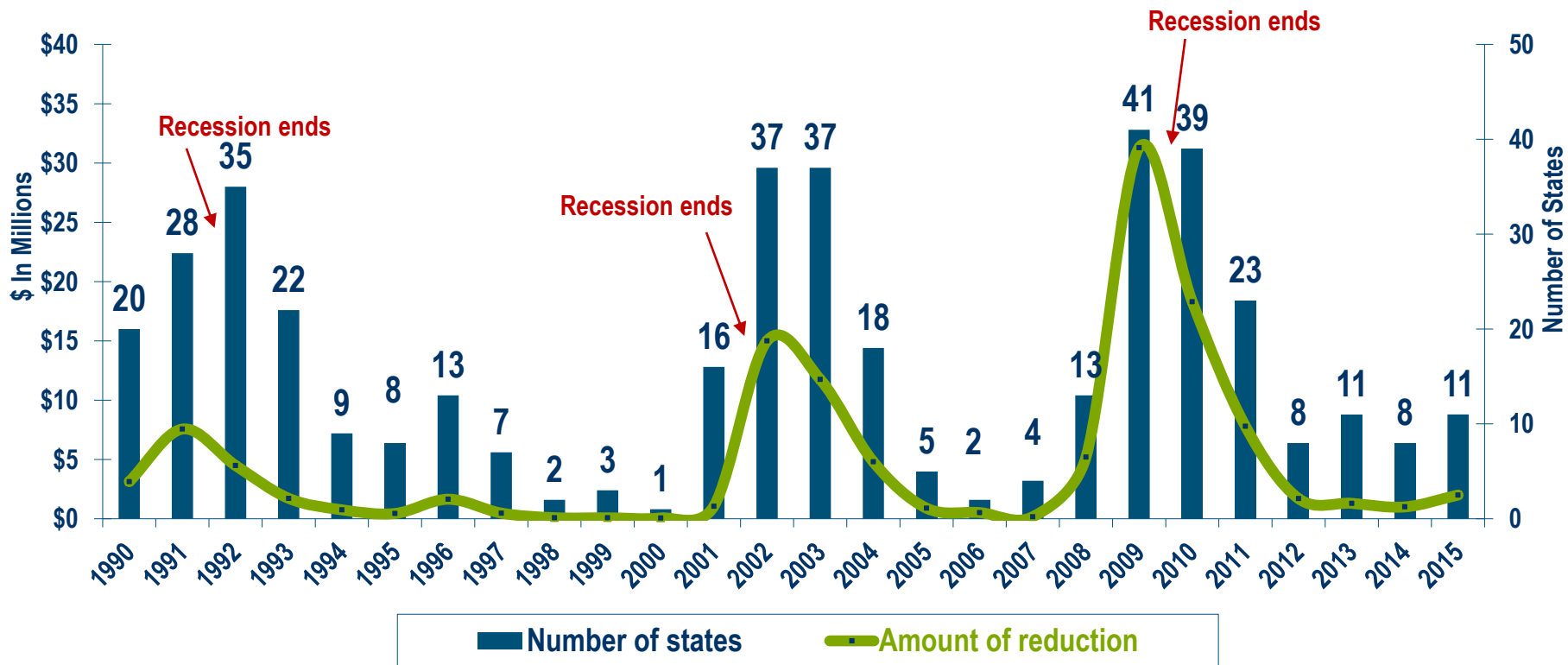
States' Reserves Haven't Reached Peak Levels

Balances as a Percent of Expenditures



Midyear Budget Cuts Relatively Minimal in Fiscal 2015 at \$2B

Enacted Budget Cuts Made After the Budget Passed

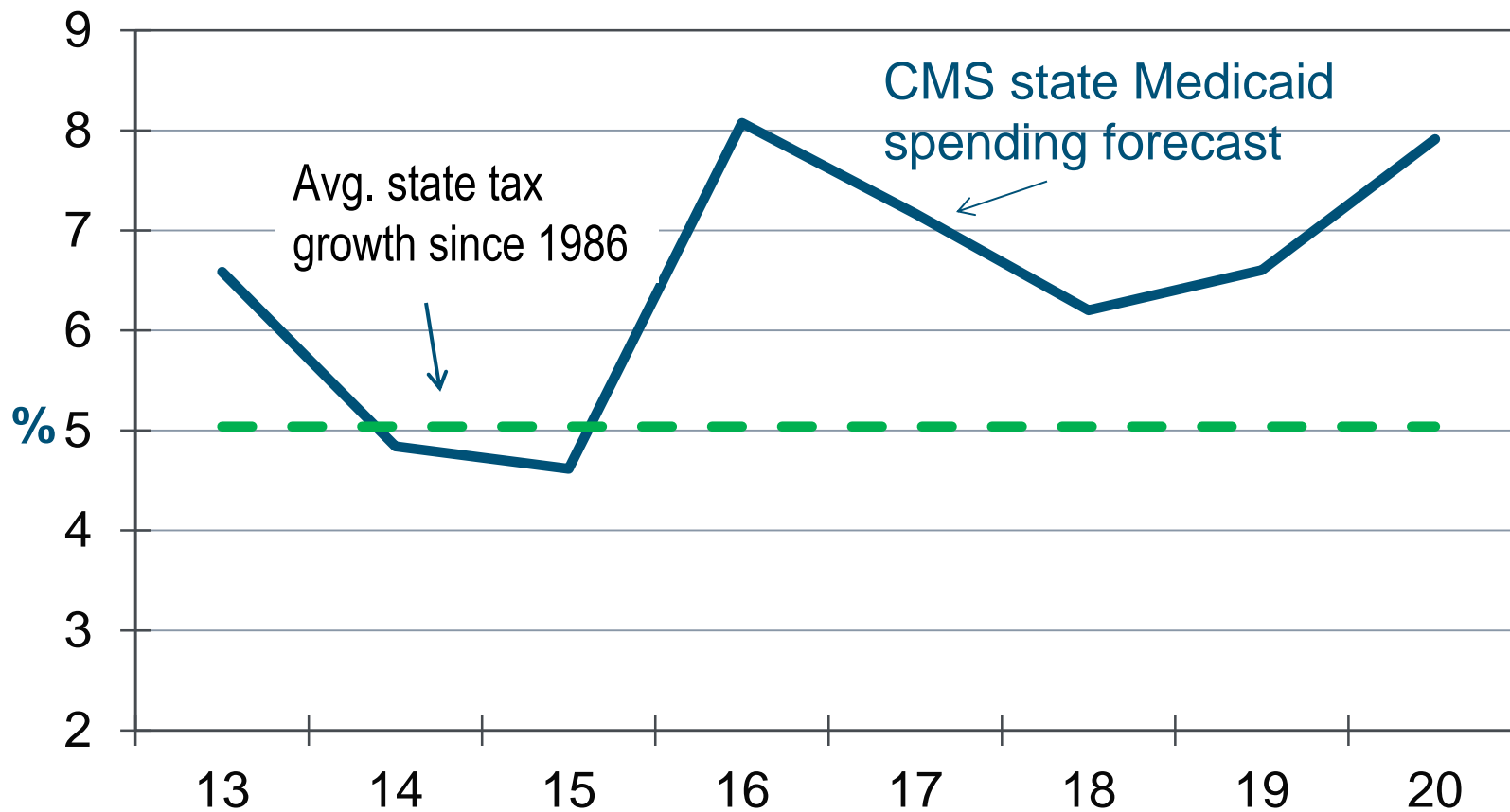


Source: NASBO Spring 2015 Fiscal Survey

*Fiscal 2015 midyear cuts are ongoing

Background on State Spending Trends

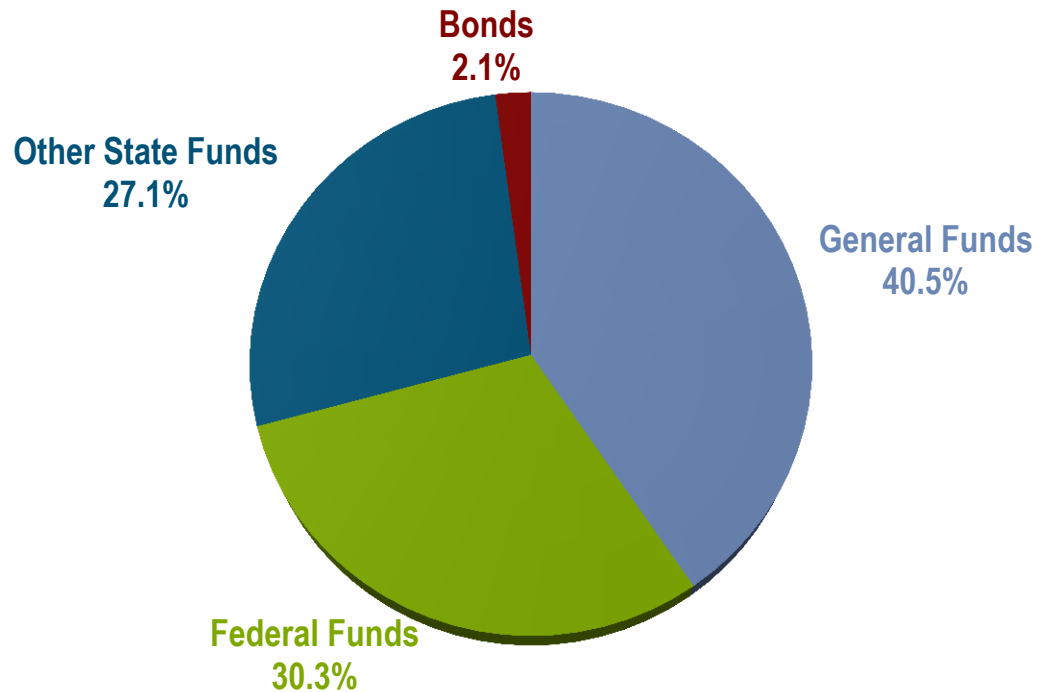
Structural Imbalance



Sources: Moody's Analytics, CMS, Census Bureau

Spending by Funding Source (Percentage)

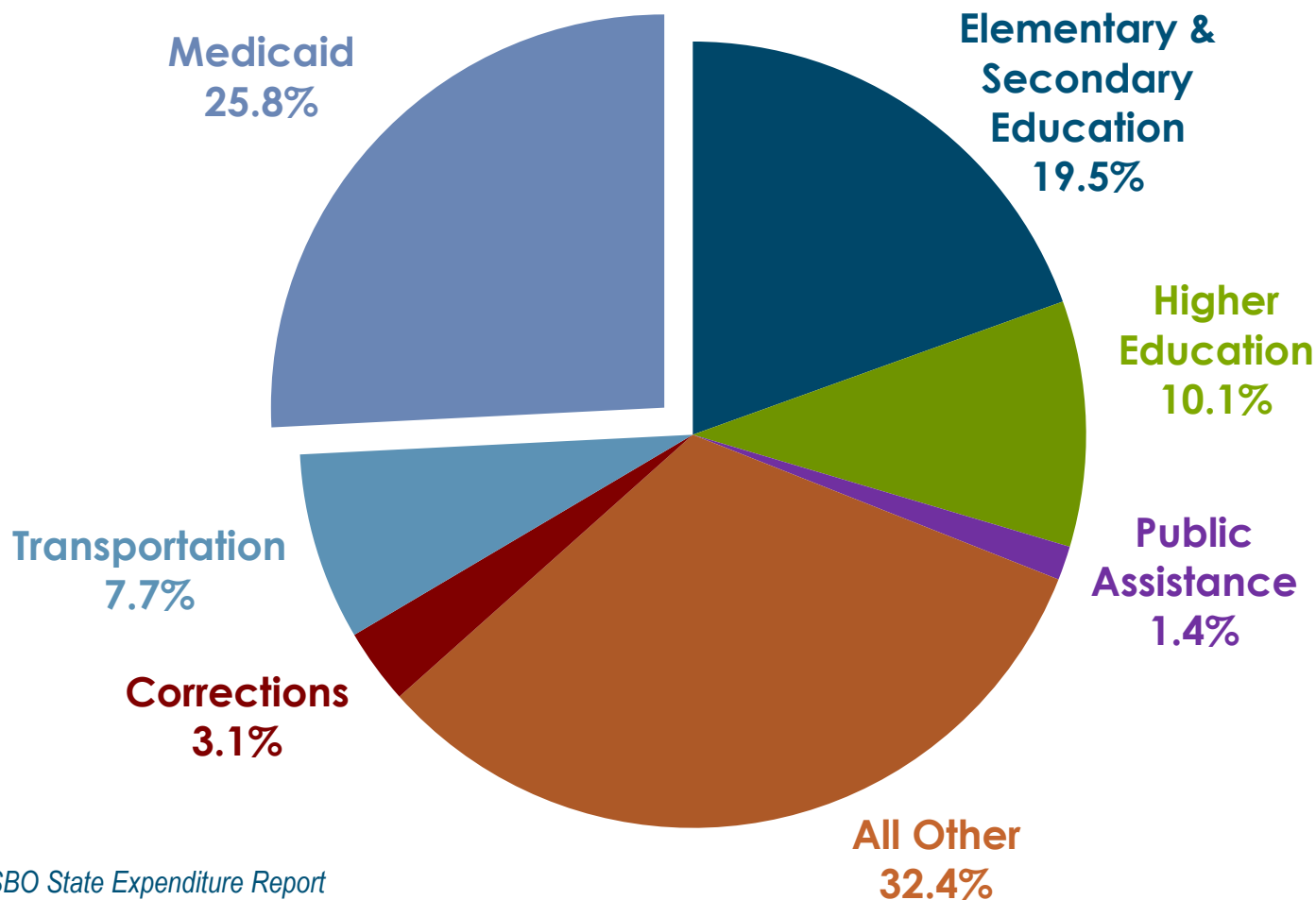
Total State Expenditures by Funding Source, Estimated Fiscal 2014



Source: NASBO State Expenditure Report

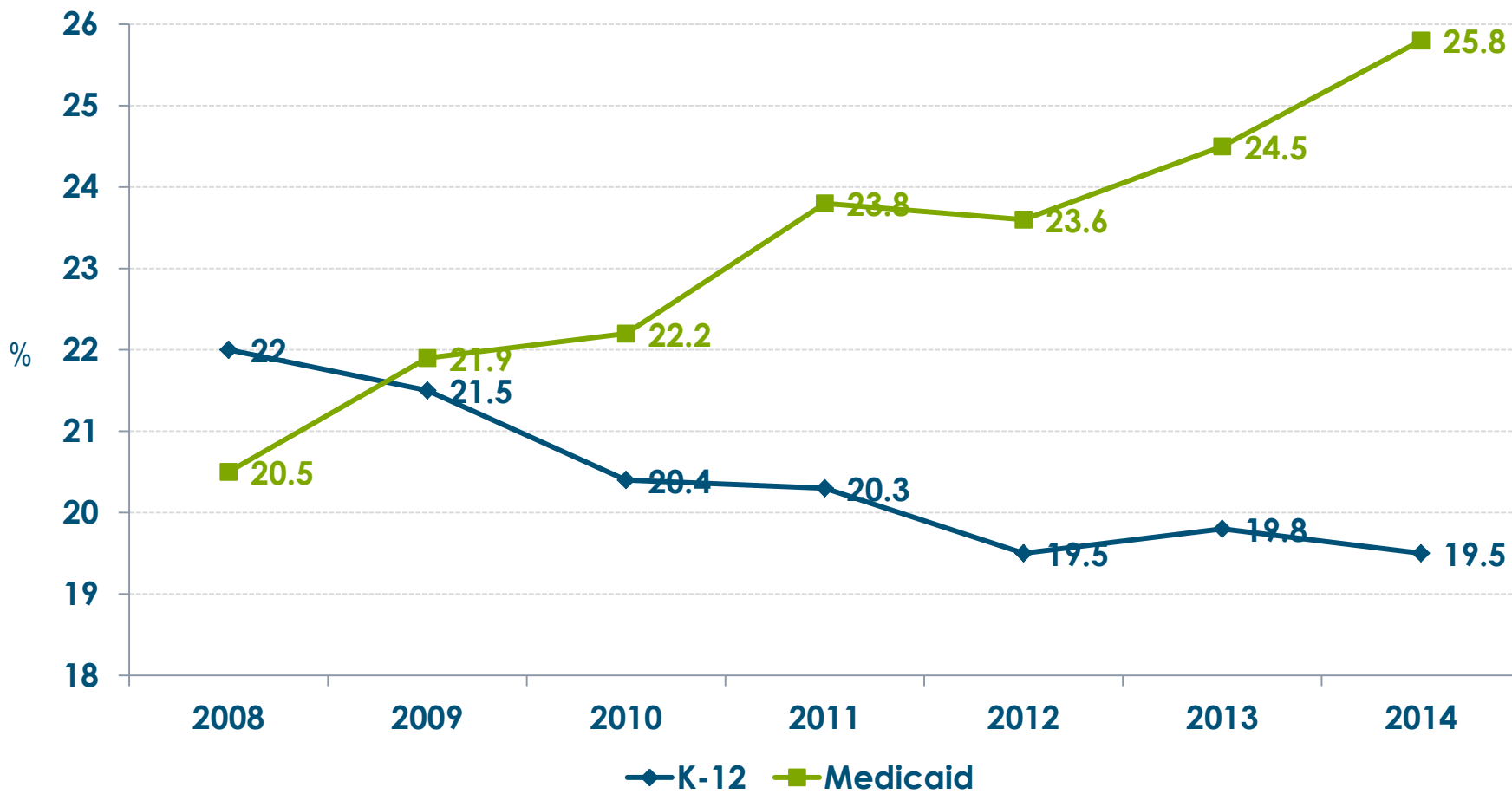
Total State Expenditures by Function

Estimated Fiscal 2014



Source: NASBO State Expenditure Report

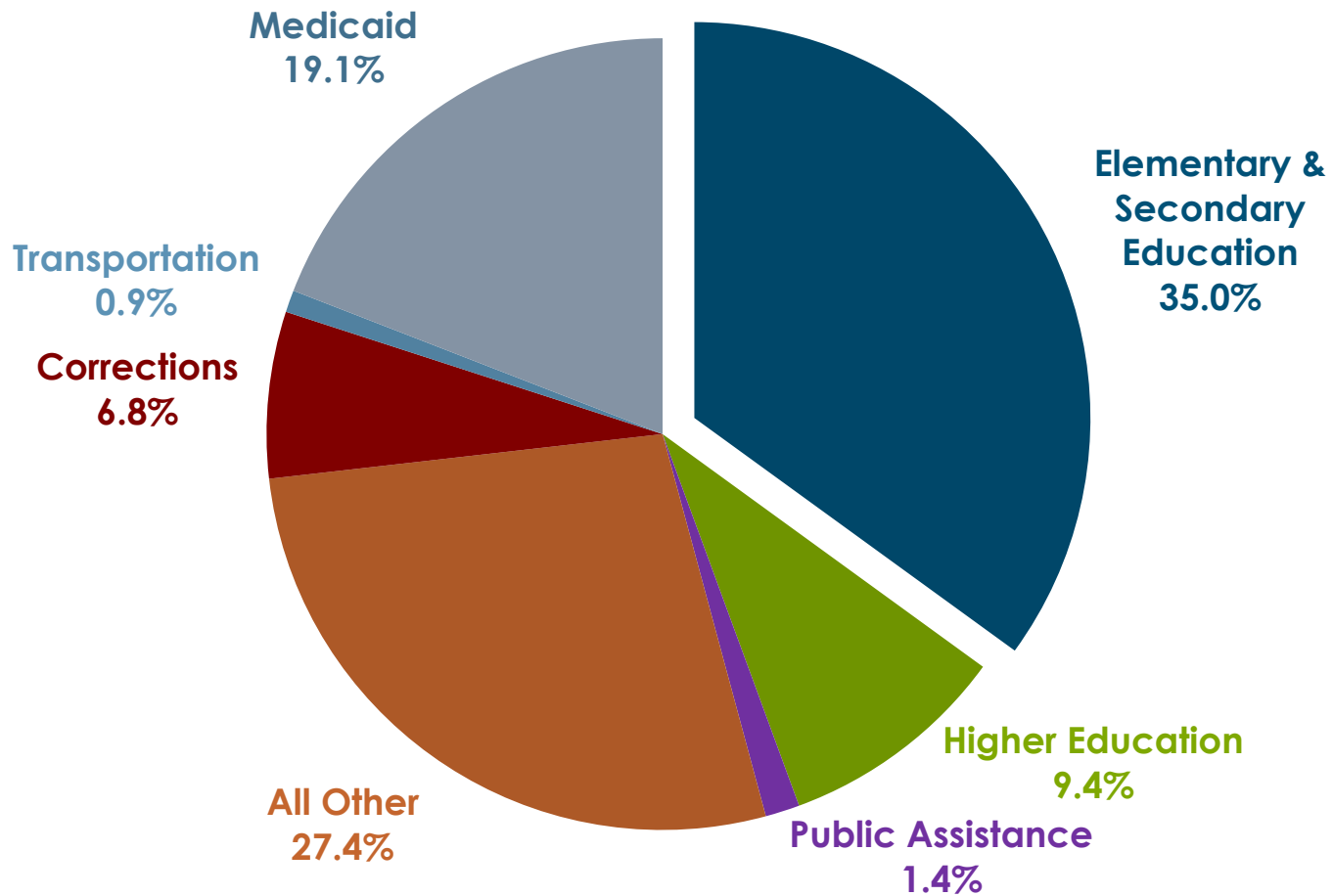
K-12 and Medicaid Spending as a % of Total State Expenditures



Source: NASBO State Expenditure Report

General Fund Expenditures by Function

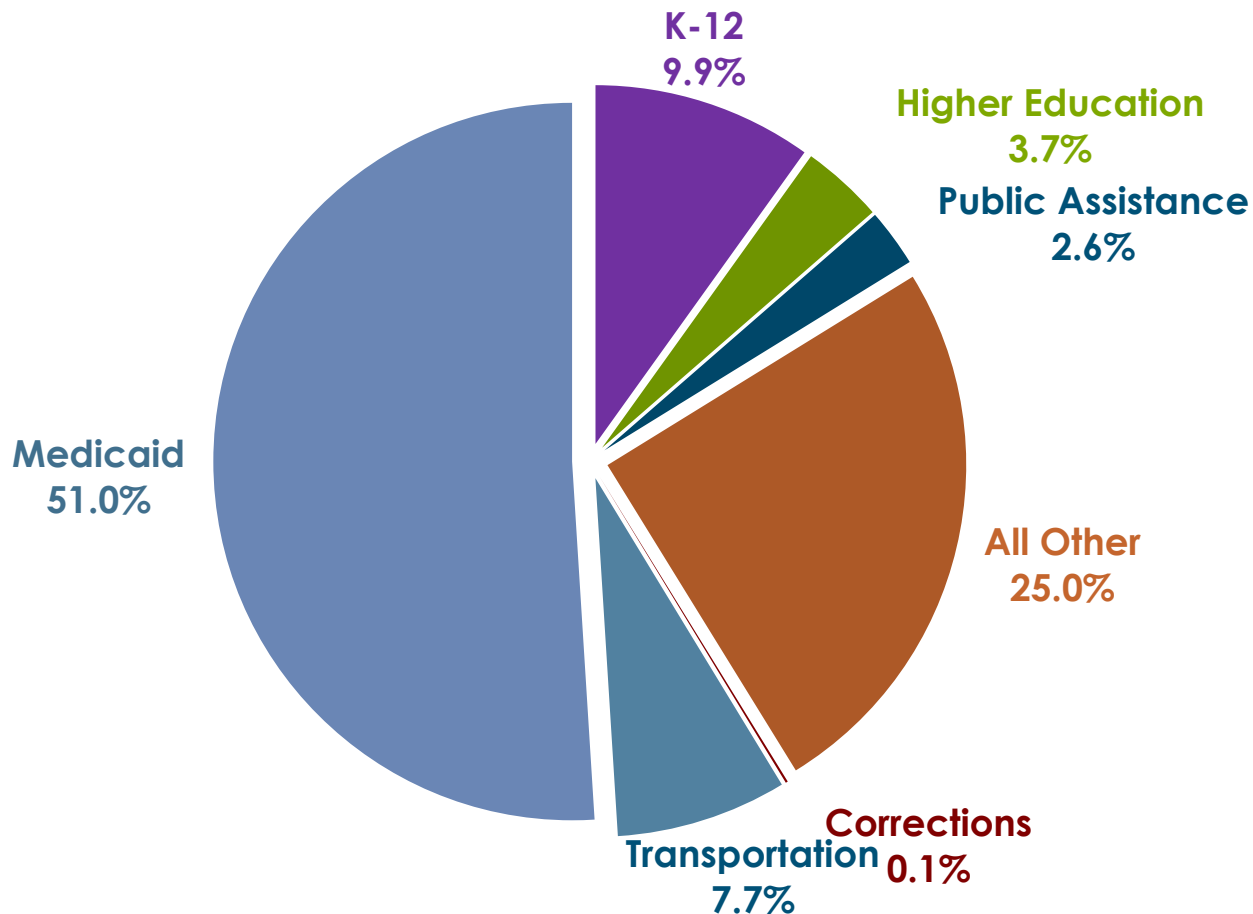
Estimated Fiscal 2014



Source: NASBO State Expenditure Report

Federal Funds Expenditures by Function

Estimated Fiscal 2014



Source: NASBO State Expenditure Report

Outlook

Long Term Spending Pressures:

- Medicaid and Health Care
- K-12 and Higher Education
- Demographic Changes
- Corrections
- Infrastructure
- Pensions
- Retiree Health Care



State Fiscal Outlook

- **42 states recommended general fund spending increases in FY 2016, but growth still below average**
- **Revenue growth projected to remain slow in fiscal 2016**
- **Uncertainty remains concerning federal spending decisions and ACA implementation**
- **Tough competition for general funds**
- **Dealing with infrastructure, long-term liabilities**
- **States will continue to make some painful choices**

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