State of the States:
State Fiscal Outlook

Council of Infrastructure Financing Authorities

April 20, 2009

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Major Issues

- State Fiscal Conditions
- Trends in State Revenues
- How States are Addressing Budget Gaps
- Impact of the Recovery/Stimulus Funds
Negative Spending Growth Expected in Fiscal 2009

General Fund Expenditure Growth (%)

*31-year historical average rate of growth is 6.3 percent

**Fiscal 08 numbers are preliminary actual

***Fiscal 09 numbers are appropriated

Source: NASBO Dec. 2008 Fiscal Survey of States
Budget Cuts Increasing

Budget Cuts Made After the Budget Passed, Fiscal 1986-Fiscal 2009 ($ millions)

Recession ends

Number of states (right) — Amount of reduction (left)

Source: December 2008 Fiscal Survey of States
This downturn vs. Post '01

- **Last Time:**
  - Housing sector strong in ’01
  - Primarily income tax decline

- **This Time:**
  - Broad economic decline with virtually all revenue sources affected—even those thought to be recession-proof
  - Localities hit this time
  - Credit crisis this time
4th Quarter 2008 Revenue Declined Sharply

- State tax collections for 4th quarter show a 4% decline in revenue
  - First decline in more than 6 years

- Sales tax declined 6.1% in nominal terms
  - Inflation-adjusted decline is lowest in 50 years

- Personal income tax declined 1.1%

- Corporate income tax down 15.5%

- Expect 1st Quarter 2009 to be even worse

Source: Rockefeller Institute of Government; U.S. Census Bureau
How are States Addressing Budget Gaps

- Cut budgets both targeted and across-the-board
- Use of reserve funds—rainy day and other reserves
- Workforce concessions
- Switch from cash finance to bond financing for capital projects
- Revenues—tobacco tax, fees, tax compliance, some proposals to increase broad-based taxes
Total Year-End Balances and Total Year-End Balances as a Percentage of Expenditures,
Fiscal 1979-Fiscal 2009 (Appropriated)

*31-year historical average is 5.7%

Source: NASBO December 2008 Fiscal Survey of States
American Recovery and Reinvestment Act (Stimulus)

- State Fiscal Stabilization Fund - $53.6 billion:
  - $39.5 billion to schools and higher ed
  - $5 billion in incentive grants
  - $8.8 billion in flexible funds
- Medicaid Funding: $87 billion
- Highway and Bridge Infrastructure: $27.5 billion
American Recovery and Reinvestment Act (Stimulus)

- Although extremely helpful, the stimulus alone will not fully solve states’ budget shortfalls

- States will still need to cut spending, use rainy day funds, examine revenue increases

- States will need to focus on reporting, accountability, and transparency

- States will need to determine how to deal with the end of stimulus funding
State Fiscal Outlook

- Much will depend on the length and severity of the recession
- Expect continued drops in revenue and spending—cost containment
- States will look for creative financing and revenue opportunities
- Concern about longer-term structural problems—expenditures outpacing revenues even with eventual recovery
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