

Fiscal State of the States

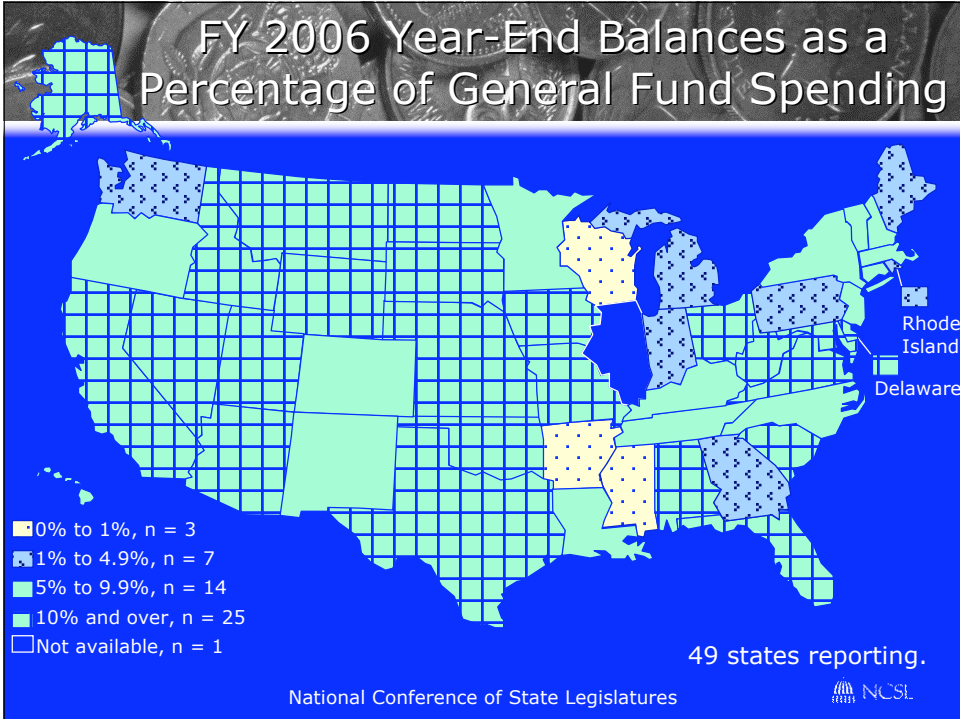
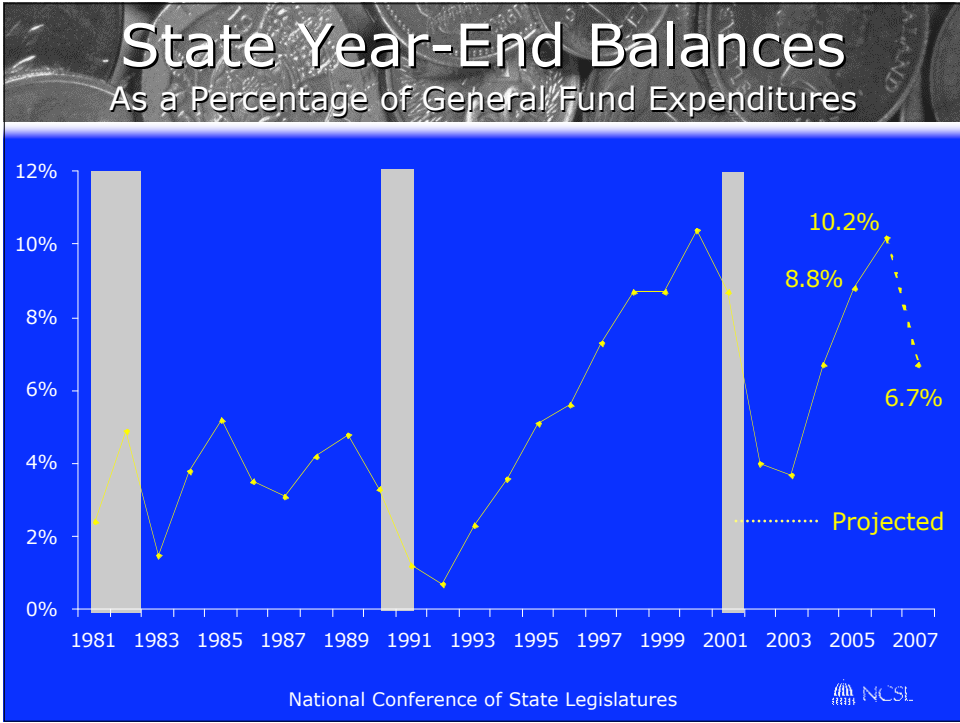
FTA Revenue Estimating and Tax Research Conference
September 18, 2006



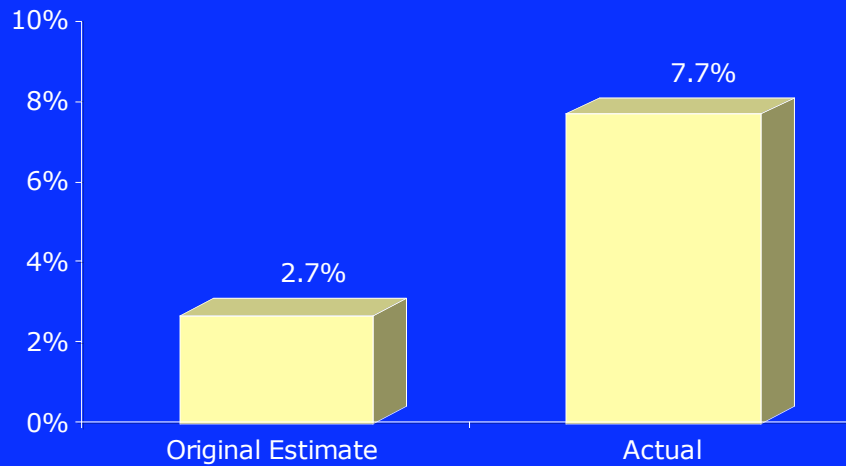
Presented by
Ronald Snell
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Where States Are

- State revenues are performing well.
- Current spending demands appear stable.
- Many states anticipate longer-term structural deficits.
- The federal government is shifting its budget deficit to the states.



Percentage Change in FY 2006 Revenue Growth Estimated vs. Actual



49 states reporting.

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Quote of Note

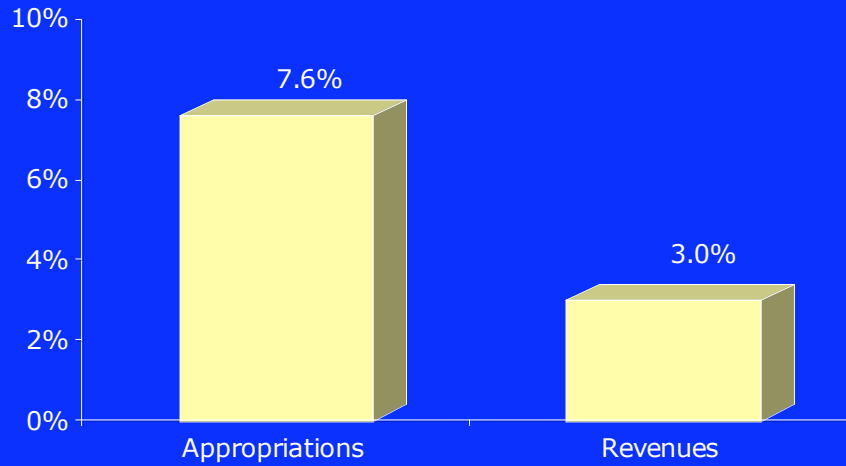
“We saw it coming, but what we didn’t see coming was the bounce that we got through capital gains revenues.”

– Susan Shimelman, Director, Office of Fiscal Analysis, Connecticut

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Projected Percentage Changes in Revenue and Appropriations: FY 2007

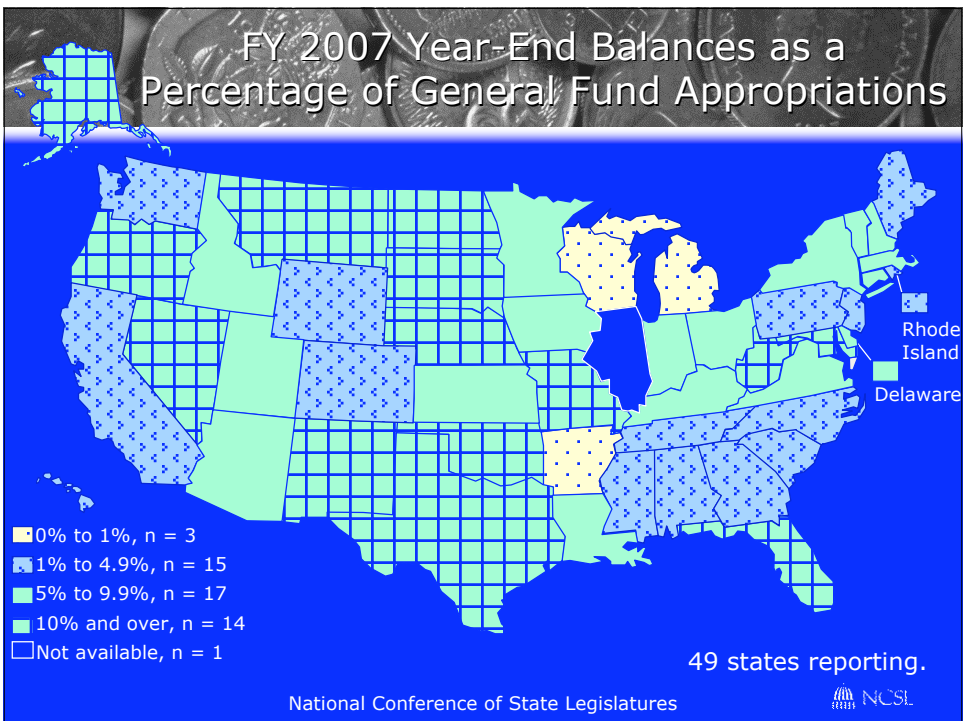


49 states reporting.

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FY 2007 Year-End Balances as a Percentage of General Fund Appropriations



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Use of Unexpected Revenue in FY 2007

- Cut taxes on a targeted basis
- Reversed accounting measures or other one-time savings actions taken in prior years
- Put money into state reserve funds
 - Increased rainy day funds (13 states)
 - Increased other state reserves (7 states)
 - Increased both (5 states)

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Use of Unexpected Revenue in FY 2007

- Targeted specific programs:
 - K-12 education funding (24 states)
 - Higher Education (20 states)
 - Medicaid (14 states)
 - Corrections funding (11 states)
 - Highway projects (10 states)
 - Other capital projects (14 states)
 - State aid to local government (six states)
 - State employee salaries or benefits (14 states)
 - Unfunded pension liabilities (eight states)

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Quote of Note

“Folks come out of the woodwork with all kinds of ideas and images of where we should spend. It puts tremendous pressure in the legislature to fund everything. The challenge becomes separating the good ones from the gleam in someone’s eye.

– David Abbey, Director, Legislative Finance Committee, New Mexico

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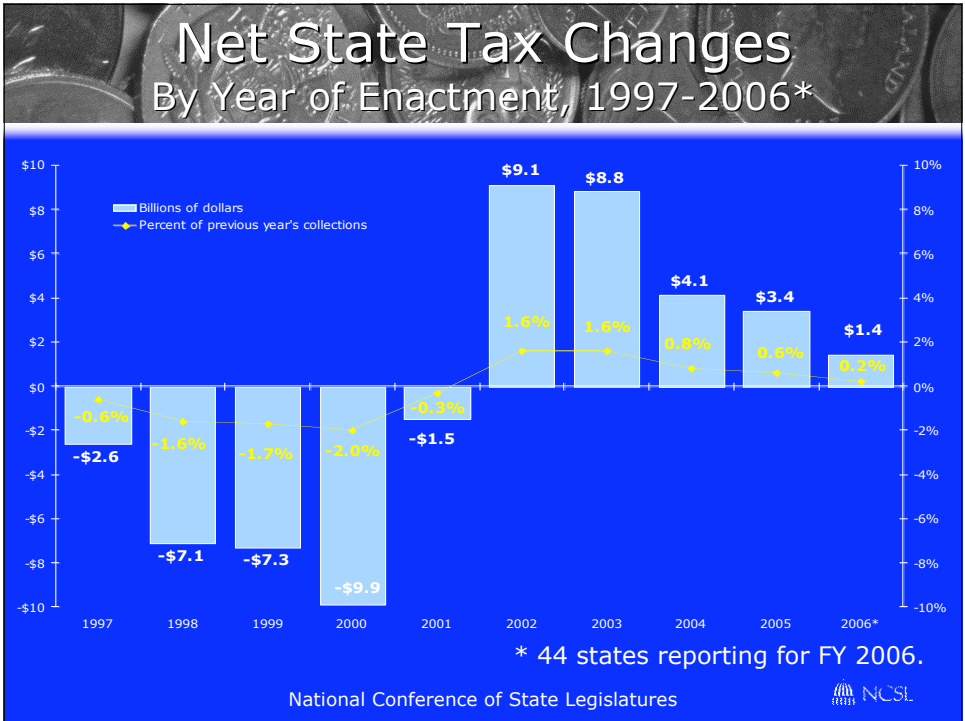
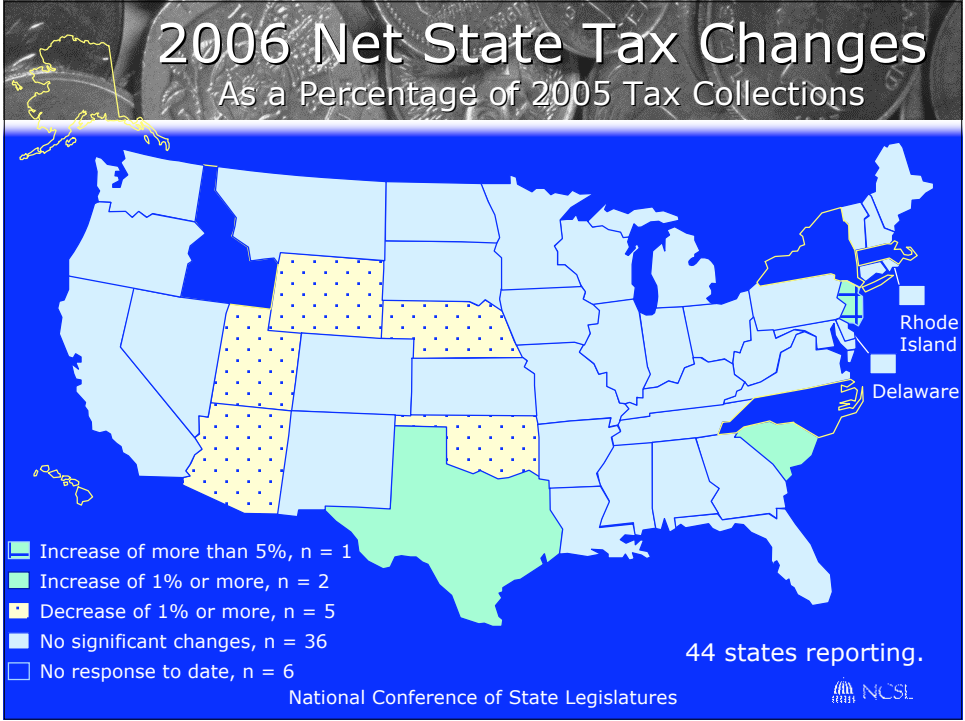


Use of Unexpected Revenue in FY 2007



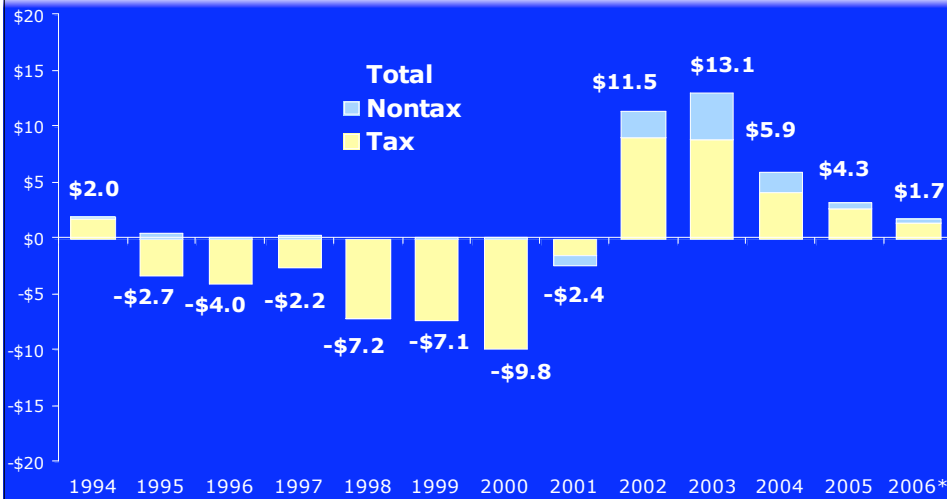
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Total Tax and Nontax Revenues

in billions of dollars



*44 states reporting for FY 2006.

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2006 Net State Tax Changes

in millions of dollars

Personal income tax	\$-597.7
Corporate income tax	-123.7
Sales and Use tax	1,096.1
Health	291.1
Motor Fuel	259.8
Cigarette and Tobacco	477.9
Alcohol	0.0
Miscellaneous	8.0
Net Total	\$1,411.5

44 states reporting.

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2006 Net State Revenue Changes

in millions of dollars

Taxes	\$1,411.5
Fees	\$78.6
Accelerations	\$231.4
Other	\$3,850.0

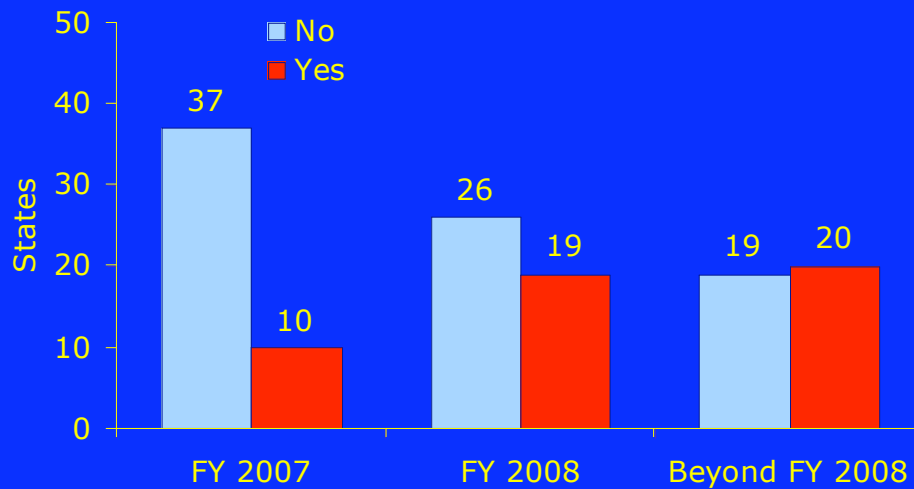
44 states reporting.

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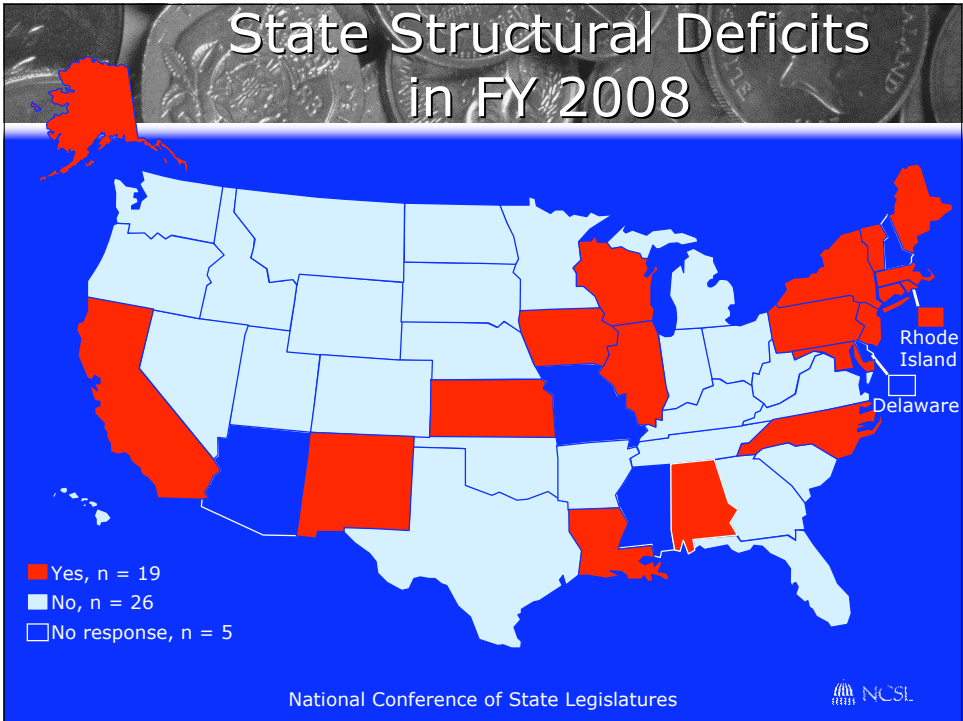
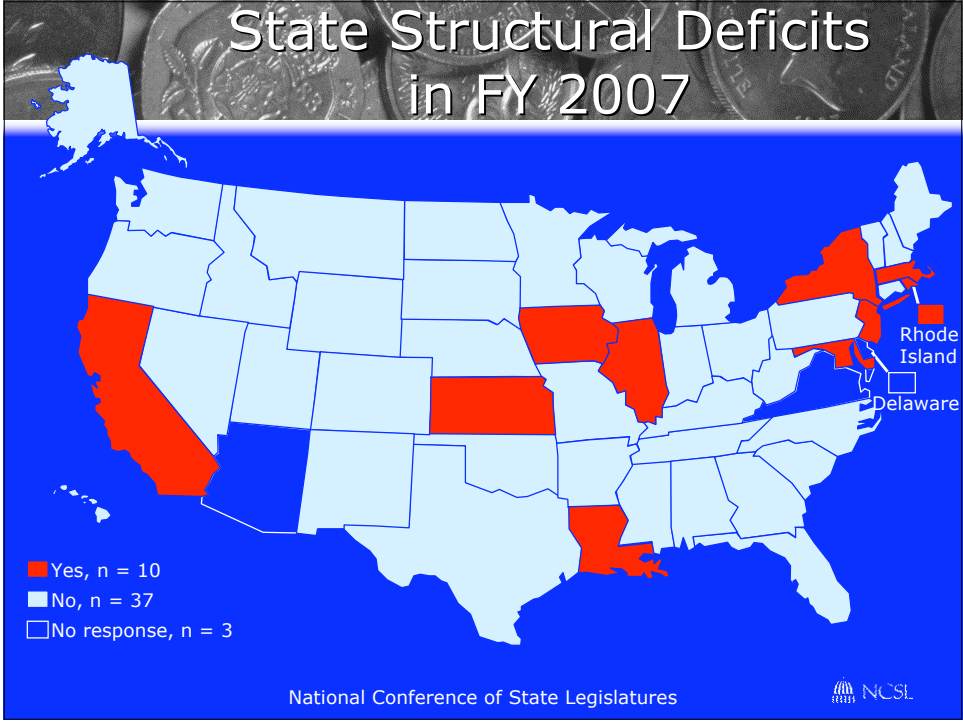
State Structural Deficits

in FY 2007, FY 2008 and Beyond

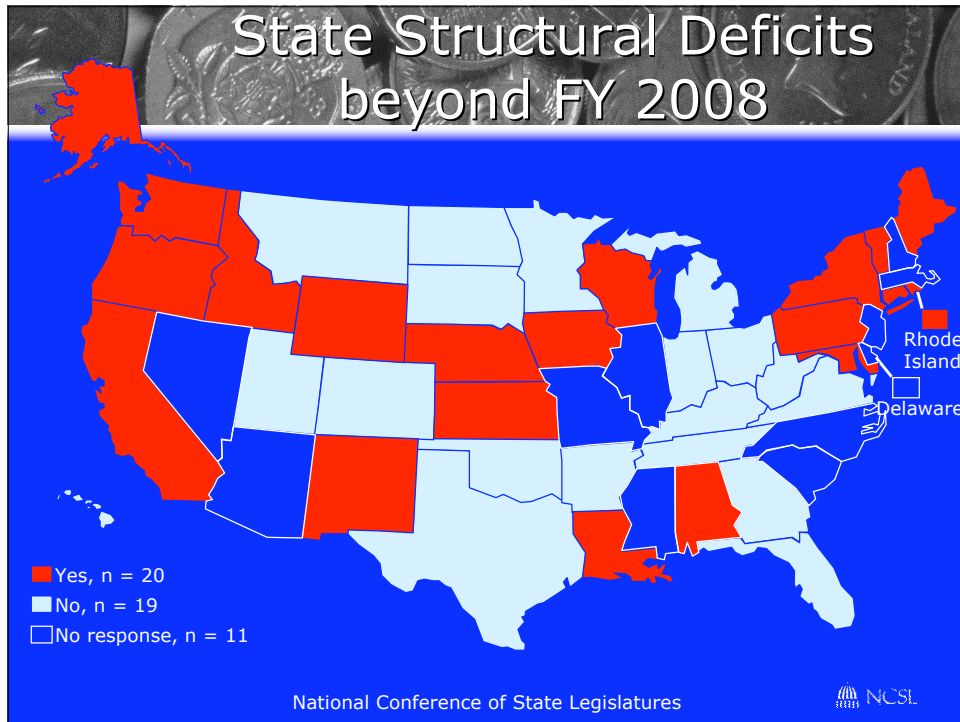


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State Structural Deficits beyond FY 2008



Longer-Term Fiscal Pressures

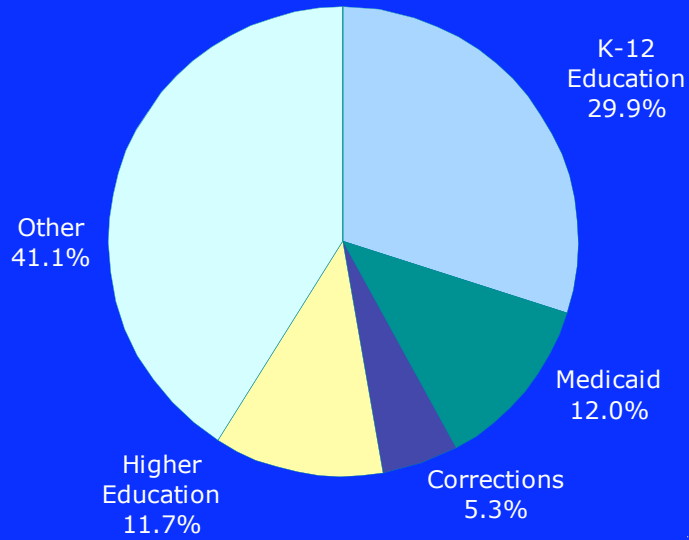
- K-12 education
- Medicaid
- Infrastructure
- Other

Are current commitments sustainable?

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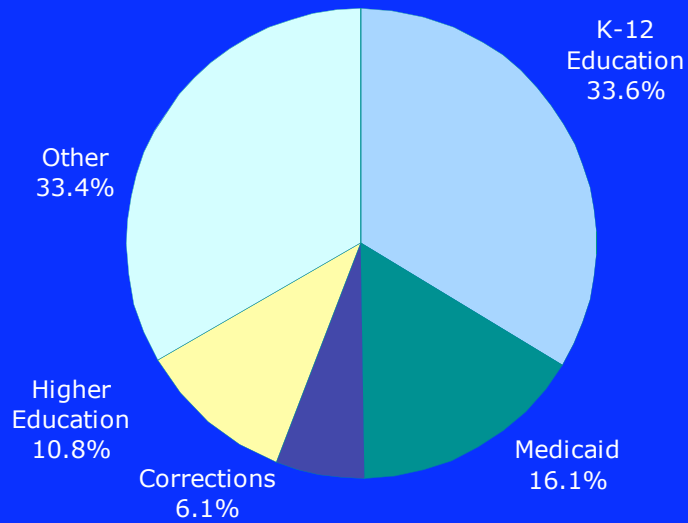
Composition of General Fund Budgets, FY 1995



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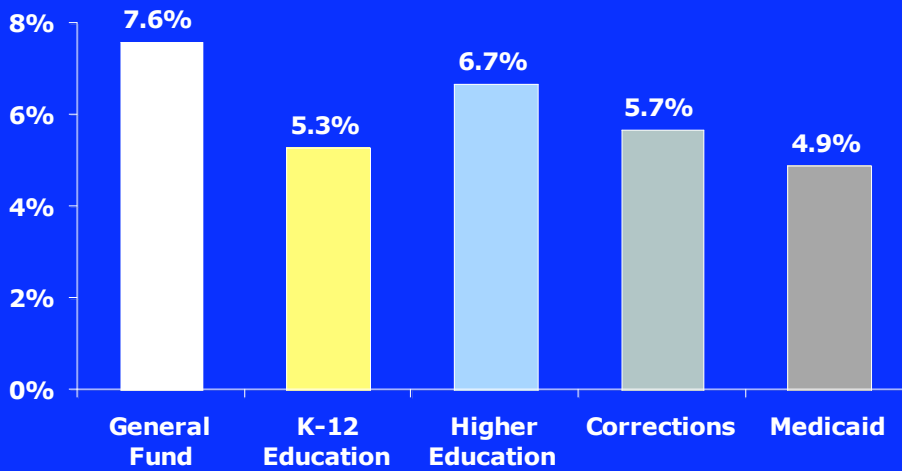
Composition of General Fund Budgets, FY 2005



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FY 2007 Budgeted Growth for Selected Categories of Spending



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Longer-Term Fiscal Pressures

- Concern about future revenue growth: stability and performance
 - Antiquated tax systems
 - Heavy reliance on one major tax source
 - Sales tax pressures: declining consumer confidence, effects of high energy prices, moderating home equity values
 - Slowing personal income tax growth: effects of demographic changes
 - Volatility of energy-related taxes

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Longer-Term Fiscal Pressures

- Federal government actions that affect state budgets:
 - Unfunded or underfunded federal mandates
 - Reduced federal funding for states
 - Federal tax reform
- Fewer options to address fiscal downturns
 - Voter mandated spending
 - A more conservative fiscal climate
 - Fewer one-time options

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Quote of Note

"Things have gotten better lately, but we're still not out of the woods. If we go into a downturn, we'll have fewer options than in the past."

Brad Williams, Director, Taxes and Revenue,
Legislative Analyst's Office, California

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Conclusion

- State budgets are stable and improving in the near term.
- Many states face longer-term mismatches between revenue and spending growth.
- Federal actions could exacerbate state budget problems.

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This report was prepared by the Fiscal Affairs Program staff of NCSL.

For more information:

www.ncsl.org

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