Top 5 Issues for 2015: Fiscal and Economic Development

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Jennifer Burnett, Program Manager for Fiscal and Economic Development Policy, outlines the top five issues in fiscal and economic development policy for 2015, including job creation strategies, state innovations in health care spending, public pension solvency, and federal funding uncertainty.

Paving the Way for Jobs Creation: More Than a Numbers Game
The post-recession economic recovery has been slow and painful, but states are finally starting to see some real progress as the national unemployment rate falls below 6 percent for the first time in six years. Now that the worst of the economic crisis has abated, state leaders in 2015 will be looking for ways to encourage job creation that is more than just moving the statistical needle. They will be looking for innovative ways to bring the public and private sectors together to create an environment conducive to entrepreneurial investment—and the 21st century industries and good-paying jobs that come with them. Another key ingredient to success will be a focus on international business—both bringing international investment to states and equipping domestic companies with the skills needed to export their goods and services.
Balancing the Recovery: Preparing for the Next Crisis
States have emerged from the recent fiscal crisis, but with recovery comes a set of new questions about fiscal direction: Should we shore up our savings or restore spending? As the fiscal crisis made clear, state rainy day funds were largely inadequate to overcome budgetary shortfalls, leading to cuts in essential programs like education and layoffs in the public workforce. State leaders in 2015 will be re-evaluating investment in rainy day funds, strategies to reduce budgetary instability in the future from volatile revenue streams, long-term costs related to public pensions and public retiree health care costs, and strengthening tax schemes. Along with conversations about strategies for future stability, state leaders will be looking at restoring some of the areas that saw budget cuts in the past, including renewed investment in infrastructure and education, both of which are essential ingredients to successful workforce development strategies.

Shifting Focus: Quality, Not Just Quantity
So far, the recovery has seen a lot of job growth in low-income sectors while jobs in higher paying sectors that propel the economy forward have been more elusive.

Average annual wage for jobs lost in recession
$61,637

Average annual wage for jobs added
$47,171

That's a 23% drop, equal to $93 billion lost wages.

SOURCE: The U.S. Conference of Mayors
**Federal Instability: Shifting Costs**

The 2014 midterm elections ushered in a Republican majority in both houses of Congress, which sets the stage for a more fiscally conservative approach in the federal government and increases the likelihood for the kind of political showdowns that led to the government shutdown in 2013. States will be faced with tightened federal purse strings and political instability; that could shift costs for some programs to states and localities. Taxation issues of significant concern to states’ bottom lines—like the Marketplace Fairness Act—now are more unlikely to pass, which could mean states will need to raise taxes to offset those losses. State leaders also may be less likely to take advantage of federal funds for programs that are matched with state dollars if they believe those funds will be withdrawn in the future, leaving them holding the bag.
Health Care: State Innovation Leads the Way
Medicaid spending is now the largest single component of state spending, accounting for nearly a 
quarter of total state expenditures. Because health care will continue to be such a substantial part of 
spending, states will invest more resources in 2015 for testing innovative models designed to 
efficiently deliver health care services to residents while keeping costs low by placing a bigger 
emphasis on evidence-based strategies. Increased health care spending has an impact on the 
workforce development landscape as well. In the six post-recession years, health care added 2.1 
million jobs to the economy, more than the next three industries—leisure and hospitality, professional 
services and education—combined.

Public Pensions and Retiree Health Care
As overall economic conditions have improved and states have taken on tough reforms, the solvency 
of public pensions has improved. But public pension solvency remains a key concern for state leaders 
and will continue to be a major topic for 2015. State leaders will continue to focus on the funding 
levels and stability of public pensions, including reconsidering investment return assumptions, which 
came under scrutiny in recent years. Further reforms to programs will continue to be discussed, 
particularly the amount current and future employees must contribute, how those pensions are 
structured and cost-of-living adjustments for current retirees.

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