While the percentage of total general expenditures for education has remained approximately the same over the past decade at about 36 percent, the percent spent on public welfare—which includes programs like Temporary Assistance for Needy Families and assistance for the elderly—has increased by 4.9 percentage points, moving from 24.8 percent in 2000 to 29.7 percent in 2012. Other categories like health and hospitals and highways also have remained relatively stable on a national level since 2000, although within states there is a lot more movement in how funding is distributed across categories.

While the recession had an unprecedented effect on state and local government employment—from a peak level of employment in 2008 to its lowest point in July 2013, state governments lost more than 150,000 jobs—state government job losses have leveled off and employment started to grow again in the latter half of 2013. In the larger labor market, unemployment rates fell to 6.7 percent in December 2013, the lowest level in five years. Although unemployment rates are falling, characteristics of the unemployed remain fundamentally altered due to the recession, including a marked increase in the number of long-term unemployed and a significantly lower labor force participation rate.

**State Fiscal Trends**

**Revenues**

State revenues collectively continued to rebound from the Great Recession in 2013 and state rainy day funds—also called budget stabilization funds (Table 7.1)—were being restored. According to the National Association of State Budget Officers, growth in state revenue for fiscal year 2014 is expected to significantly slow down, tracking projected national trends.

General fund revenues grew at an estimated rate of 5.7 percent in fiscal year 2013, but are expected to increase by only 0.8 percent in fiscal year 2014. Despite the projected slowdown in revenue growth, a majority of states—36—enacted budgets for 2014 with general fund revenues higher than 2013 collections.

After budget reserves declined in the 2009 and 2010 fiscal years, states have made progress in rebuilding them. By fiscal year 2012, budgetary reserves had increased to 8.4 percent of expenditures, or $55.8 billion, and in the 2013 fiscal year stood at 9.6 percent of general fund expenditures. Enacted fiscal 2014 budgets put balances at a slightly lower figure—8.2 percent of expenditures.

Based on data from the U.S. Census Bureau, state government general revenue totaled $1.63 trillion in the 2012 fiscal year, a decrease of 1.8 percent over the 2011 fiscal year (Table 7.21). Those revenues consist of four major categories:

- Taxes—49 percent
- Federal grants—31.6 percent
- Service charges—10.6 percent
- Other—8.8 percent

The decline in general revenue from 2011 to 2012 is due to the drop in federal grants going to states because of the end of funding from the American Recovery and Reinvestment Act. From 2011 to 2012, the percentage of state revenues from federal grants dropped from 34.7 percent to 31.6 percent, while tax revenue grew from 45.9 percent to 49 percent.

**Taxes**

According to data from the Rockefeller Institute of Government, state tax collections had grown for 15 consecutive quarters as of the third quarter of 2013. In the same quarter, growth slowed compared to previous quarters—year-over-year growth...
was 6.1 percent while year-over-year growth from the second quarter was 9 percent. According to the Rockefeller Institute, however, this decline can be attributed primarily to taxpayers shifting income due to changes in federal tax law in previous quarters and the current level of growth is more in line with the modest level of growth found in other economic indicators.

In 2012, taxes represented the largest single source of revenues across all state governments, comprising 49 percent of general revenues and totaling $798 billion. In 2012, tax revenue increased 4.7 percent over 2011.

In nominal terms, total state tax revenues reached pre-recession levels in 2011 after seeing year-over-year losses in 2009 and 2010. When adjusted for inflation, however, total tax revenues still remained slightly below pre-recession levels in 2013. In 2013 dollars, states hit a high of total taxes collected in 2007 at more than $848 billion—0.3 percent less than taxes collected in 2013.

The primary driver for growth in total tax revenues in 2013 was income taxes, which contributed 66.7 percent of the $48.5 billion year-over-year increase. Gains in sales tax revenue contributed another chunk to overall gains at 29.8 percent. A 1.6 percent decrease in year-over-year severance tax collections detracted from the increase in total tax collections.

In 2013, the largest component of tax revenues were sales and gross receipt taxes—46.4 percent (Table 7.10) of total tax revenues. Within this category, general sales and gross receipt taxes take up the biggest chunk—30.1 percent of all taxes—followed by selective sales taxes at 16.3 percent of all tax revenue. Selective sales taxes include taxes on alcohol—0.7 percent of total taxes; insurance premiums—2.1 percent; motor fuels—4.7 percent; public utilities—1.7 percent; and tobacco products—2 percent (Table 7.5).

After taking a hit during the recession, sales taxes have partially recovered, returning to pre-recession levels in nominal terms by 2011. From 2003 to 2007, sales taxes as a percentage of total tax revenue began to fall, starting at 49.9 percent in 2003 and ending at 46 percent in 2008. During and following the recession, that trend reversed and sales taxes as a percent of tax revenues grew—increasing 2.8 percentage points from 2008 to 2010. In 2011 and 2012 however, sales taxes started to fall again as a percent of taxes, dropping by 0.3 percentage points in 2011, 1.1 percentage points in 2012, and 1 percentage point in 2013, landing at a percentage closer to pre-recession levels in 2013.

The next largest component of tax revenue comes from income taxes and stood at 41.9 percent in 2013. Income taxes come from two sources—individual income and corporate income—with
the majority of revenue coming from individual income taxes. Individual income taxes (Table 7.12) make up 36.6 percent of all tax revenue, compared to corporate income taxes (Table 7.14), which make up 5.3 percent of revenue.

After dropping during the recession, income taxes have partially recovered, returning to their pre-recession levels in nominal terms in 2013. Income taxes, however, have not recovered to the pre-recession high in inflation-adjusted dollars reached in 2007. In 2013 dollars, income tax revenue remained 4.8 percent below the 2007 pre-recession high.

Income taxes have increased for three consecutive years, and from 2012 to 2013, income tax collections increased by 10 percent. During the recession, income tax collections fell significantly. In 2009, income tax collections dropped 13 percent and in 2010, by 3.6 percent.

Sales taxes and income taxes in 2009 and 2010 were actually mirror opposites of each other when it came to their changing contributions to total tax revenue. For example, income taxes as a percentage of total tax revenue fell in 2009 and 2010 collectively by 3.13 percentage points, while sales taxes increased by 2.8 percentage points over the same period. In 2003, sales taxes represented 50 percent of total tax revenue and income taxes represented 38.3 percent—an 11.6 percentage point gap. That narrowed significantly during the recession, reaching a low of 4 percentage points in 2008. For several years after 2008, the gap increased again, hitting 9.8 percentage points in 2010. Since 2010, the gap has shrunk back to pre-recession levels, hitting 4.5 percentage points in 2013.

Other significant sources of state taxes in 2013 included licenses at 6.6 percent of tax revenue; severance at 1.9 percent; and property at 1.6 percent (Table 7.21).

**Federal Grants**

The second largest component of state revenues in 2012 came from federal grants—31.6 percent—a significant drop from 2011 levels, which stood at 34.7 percent, but still slightly above 2009 levels of 30.4 percent. The largest components of state revenues from federal grants were in the category of public welfare. These grants made up 57.7 percent of federal intergovernmental spending to states and decreased 10.6 percent over 2011 levels. Federal welfare grants include spending on Temporary Assistance for Needy Families and Medicaid.

The second largest category of federal grants to states was in education, which stood at 17.6 percent of grants in 2012, down from 18.2 percent in 2011. State revenues from federal grants for education fell from $104.7 billion in 2011 to $90.3 billion in 2012. Federal spending in this category had been
Education—primary, secondary and higher education—is the largest functional spending category of state government spending (Table 7.23). States spent $588 billion in 2012 on education, or 35.8 percent of general expenditures. Education spending as a percent of general expenditures remained approximately the same from 2011 to 2012, but was down from 36.5 percent of expenditures in 2009. Overall, education expenditures fell 0.7 percent from 2011 to 2012.

In 2012, Indiana spent the most on education as a percentage of general expenditures at 46.3 percent, followed by Georgia at 45.7 percent and Texas at 45 percent. Thirteen states put 40 percent or more of total expenditures toward education in 2012. Seven states—Alaska, Connecticut, Illinois, Maine, Massachusetts, New York and Rhode Island—spent less than 30 percent on education.

On a state-by-state basis, Rhode Island increased its spending on education by more than any other state from 2011 to 2012—7.6 percent. Tennessee had the next biggest spending jump, increasing spend-
ing by 7.5 percent, followed by New Jersey with an increase of 6.7 percent. Nineteen states decreased spending on education from 2010 to 2011.

For the 2010–11 school year, states and the District of Columbia spent $527.2 billion on elementary and secondary schools (Table 9.4), or $5,277 per pupil. Vermont had the highest spending per pupil in public elementary and secondary schools for the 2009–10 school year, at $14,620 per pupil, followed by Hawaii at $11,617, Alaska at $11,104 and Wyoming at $10,053.

Public Welfare

Public welfare is the second largest functional spending category of state governments (Table 7.22). States spent $489.2 billion on this category in 2012, a 1.1 percent decrease over 2011 levels. Nationally, the percentage of general expenditures going toward the public welfare category has increased significantly since 2000, moving from 24.8 percent to 29.7 percent in 2012. The percentage is down, however, from 30.1 percent in 2011.

State government spending on public welfare was the highest in Tennessee at 38.4 percent of general expenditures, followed by Maine at 36.7 percent and New York at 36.2 percent.

Fourteen states spent 30 percent or more of general expenditures on public welfare in 2012, while five states—Alaska, Hawaii, North Dakota, Utah and Wyoming—spent less than 20 percent on public welfare.

From 2011 to 2012, four states increased public welfare spending by 10 percent or more, with Arkansas leading the pack with a 15 percent increase, followed by Colorado with a 11.6 percent increase, Minnesota with a 10.9 percent increase and North Carolina with an 10.4 percent increase. On the other hand, 22 states decreased spending on public welfare, with Arizona cutting spending the most—12.9 percent—followed by South Carolina at 11.3 percent and California at 10.8 percent.

Medicaid

Medicaid spending falls between several Census categories of state general expenditures, including public welfare, health and hospitals. As a single program, Medicaid expenditures from all sources were estimated to reach $419.9 billion in the 2013
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fiscal year, representing a 7.6 percent increase over the year before. Spending on Medicaid is estimated to account for 24.4 percent of total state spending in the 2013 fiscal year, up from 23.7 percent of expenditures in 2012. A majority of Medicaid funding comes from federal funds—57 percent in the 2012 fiscal year—with the remainder covered by state funding. While total Medicaid expenditures continue to increase, those increases have not been borne equally by states and the federal government. From the 2011 to the 2012 fiscal year, state funds for Medicaid increased by an estimated 16.2 percent, while federal funds actually decreased an estimated 7.8 percent. This uneven distribution is largely due to the end of enhanced federal funding—called FMAP funding—that was a part of the 2009 Recovery Act. From 2011 to 2012, state funding for Medicaid increased by 14 percent while federal funds decreased by 11.3 percent.

State Government Employment

The Great Recession had an unprecedented effect on state and local government employment. From a peak level of employment in 2008 to its lowest point in July 2013, state governments lost more than 150,000 jobs. Since July 2013, however, state government job losses have leveled off, and 35,000 jobs were added between July and November 2013. Public employment in 33 states fell between 2010 and 2011 (Table 8.3). Arizona, Indiana, Michigan, New Jersey, and New York saw the largest declines, each losing more than 4 percent of their employees. When combined, New York (-48,656), California (-33,464), and New Jersey (-22,672) shed more than 100,000 positions. Arkansas, on the other hand, added 7.9 percent more employees to its workforce; that was the largest percent increase of any state. Seventeen states added employees in 2011, ranging from a high of 13,947 full-time equivalents in Arkansas; 6,234 in Utah, a 4.4 percent increase;
and 2,946 in Maine, a 4.1 percent increase. Seven of those states whose workforce grew added 500 or fewer full-time equivalents.

In November 2013, state governments employed about 5.1 million people. Rhode Island had the fewest state government employees—16,218, while California had the most—479,254. State government employees made up 3.7 percent of total, nonfarm employment in 2013, but that percentage varies across states, from 2.5 percent in Illinois and 2.7 percent in Florida to 11.8 percent in Hawaii and 7.8 percent in Alaska.

**Economic Trends**

**Employment**

In January 2008, employment in the U.S. hit a historic high of 138.4 million workers. Just over two years later, that figure had fallen considerably, reaching a 10-year employment low of 129.7 million in February 2010. Since hitting that low more than four years ago, the U.S. has added almost 8.6 million jobs, but total employment is still 113,000 below the historic high reached in 2008. Only 15 states have returned to their pre-recession employment peaks.

**Unemployment**

In December 2013, the national unemployment rate fell to 6.7 percent, the lowest level in five years. After hitting a post-recessionary high of 10 percent in October 2009, the unemployment rate has fallen slowly and steadily, but remains nearly 2 percentage points higher than it was when the recession began in December 2007. In December 2013, North Dakota (2.6 percent), South Dakota (3.6 percent) and Nebraska (3.6 percent) had the lowest unemployment rates, while Rhode Island (9.1 percent), Nevada (8.8 percent) and Illinois (8.6 percent) had the highest rates.

While unemployment rates are falling, characteristics of the unemployed remain fundamentally altered due to the recession. For example, the number of long-term unemployed—defined as those
unemployed for 27 weeks or more—skyrocketed throughout the economic downturn. In 2011, the percentage of unemployed workers considered long-term unemployed increased significantly, hitting 44.6 percent in September—the highest percentage since the U.S. Department of Labor began calculating the rate in 1948. By 2012, the long-term unemployment rate stabilized and began decreasing slightly, hitting 39.1 percent in December; by March 2014, had fallen to 35.8 percent. Individuals received unemployment benefits an average of 35.6 weeks in March 2014—more than double the average duration of unemployment when the recession began in December 2007.

**Labor Force Participation**

Labor force participation rates—the proportion of the working age, civilian, noninstitutional population that either has a job or is actively looking for one—hit 63.8 percent in February 2013, the lowest rate since February 1979. Participation rates, however, vary significantly by state. West Virginia, with a labor force participation rate of 54.4 percent, had the lowest rate in the country in February 2013, followed by Alabama at 57.4 percent and Arkansas at 58.9 percent. Nebraska had the highest rate in the nation at 72.9 percent, followed by North Dakota at 71.9 percent and Minnesota at 70.9 percent.

The change in labor force participation rates since the recession began also varies by state. From February 2007 to February 2013, Utah had the biggest drop in its participation rate of any state, falling by 5.8 percentage points. Michigan and Hawaii were close behind, each falling 5.6 percentage points. Nebraska and Pennsylvania saw the smallest decreases in their participation rates, each shrinking by 0.3 percentage points, followed by New Jersey, which dropped 0.6 percentage points. No state over this period experienced an increase in its labor force participation rates.

### Gross Domestic Product

Forty-nine states and the District of Columbia saw an increase in real gross domestic product in 2012, with a national average increase of 2.5 percent. (Table 10.4) That’s compared to a 1.47 percent average annual increase in 2011. Each region performed differently, with 10 states posting more than a 3 percent gain and one state—North Dakota—posting a 13.4 percent gain. Thirty-two states fell between a 1 and 3 percent growth rate from 2011 to 2012. Connecticut was the only state in 2012 to experience a year-over-year drop in GDP.

### Personal Income

State personal income continued to increase in 2013, growing by 2.6 percent over 2012 (Table 10.4). That growth rate was slower, however, than in 2012, when income grew by 3.5 percent over 2011. State personal income growth ranged from a high of 7.6 percent in North Dakota to a low of 1.5 percent in West Virginia, while every state grew more slowly in 2013 than in 2012.

On a per capita basis, personal income was $44,543 for the nation in 2013, an increase of 1.8 percent over the per capita rate in 2012 of $43,735. In 2013, Connecticut had the highest per capita personal income at $60,847, followed by North Dakota at $57,084 and Massachusetts at $56,923. The three states with the lowest per capita personal income in 2012 were Mississippi at $34,478, Idaho at $35,382 and South Carolina at $35,453.

Growth rates in per capita personal income from 2012 to 2013 also varied significantly across states, ranging from a low of 0.4 percent in South Dakota to a high of 4 percent in North Dakota. All states saw positive growth in per capital personal income during this period.

### Notes

1 National Association of State Budget Officers’ Fall 2013 edition of the Fiscal Survey of States.
2 U.S. Census Bureau, State Government Finances Summary 2012. Note: 2012 is the most recent year for which the U.S. Census Bureau has released data on state government finances.
9 Ibid.
11 Ibid.
12 Ibid.
About the Author:

Jennifer Burnett joined CSG in 2006 and is the program manager for fiscal and economic development policy. She also coordinates the organization’s research efforts including the collection, analysis and presentation of data, particularly public access to interactive online databases. She created and manages States Perform, a website that provides users with access to interactive, customizable and up-to-date comparative performance measurement data for states in six key policy areas.

Prior to joining CSG, Burnett was a research associate at the University of Kentucky Center for Business and Economic Research and a legislative aide for a member of the Canadian Parliament. She holds bachelor’s degrees in economics and finance from the University of Kentucky, a master’s degree from the Patterson School of Diplomacy and International Commerce at the University of Kentucky, and a Juris Doctor from the Salmon P. Chase College of Law at Northern Kentucky University.