Federal Instability Trickles Down
When the federal government shut down last October, 850,000 federal workers were furloughed for an unprecedented 6.6 million combined days. Forecasters estimated the shutdown cost the economy between $2 billion and $6 billion in lost output. The kind of instability and intransigence in Washington, D.C., that led to the shutdown will continue to dampen the overall economic recovery and to affect the return of state revenues to prerecession levels. In addition, recent federal spending cuts and potential future cuts through sequestration have slowed the economy and left states to make up the difference in areas like education and infrastructure.

Revenues Recover from Recession but Remain Sluggish
As the national economy moves sluggishly toward recovery, state revenues will continue their slow climb to get beyond prerecession levels. State revenues started to collectively rebound in 2012 and 2013, while rainy day fund balances also were being restored. Both trends should continue in 2014. According to a State Revenue Report from the Rockefeller Institute of Government, states’ tax collections had grown for 14 straight quarters as of December 2013 and real revenues finally surpassed peak prerecession levels. The National Association of State Budget Officers’ Fall 2013 edition of the Fiscal Survey of States indicated states overall can expect a similar pattern in the 2014 fiscal year—slow, but relatively steady increases in revenue for most states, tracking trends in the national economy.

Health Care Costs Continue to Climb
Increasing health care costs—including current public employee costs, public retiree costs and Medicaid—will continue to be a major budgetary issue for states as overall health care costs and enrollments in Medicaid continue to rise. For the 25 states plus Washington, D.C. that chose to expand Medicaid eligibility under the Affordable Care Act, the fiscal impact of increased enrollment will be delayed. The Congressional Budget Office reported that states won’t pay any costs for the expansion until 2017. Between 2017 and 2020, the federal government will offset some of those additional costs to states, covering 90 percent by 2020 and leading to a 2.8 percent increase in state spending on Medicaid. In the 2013 fiscal year, Medicaid represented the single largest portion of state spending, estimated to account for 24.5 percent of total spending, according to the National Association of State Budget Officers. Expect states to continue to look for ways to control Medicaid spending while delivering more services to more people through programs such as managed care, and to address underfunded and increasingly expensive state retiree health benefits.

Rethinking Economic Development
State leaders will be taking a closer look at their economic development programs, including workforce reinvestment and the cost-effectiveness of providing tax and financial incentives to businesses. Some states will continue overhauling approaches to economic development, such as evaluating and reforming business incentive systems and their overall business tax climate, as a means to stimulate job growth in 2014. Others will look for opportunities to put people back to work through innovative workforce development strategies, regulatory systems assessments and infrastructure development projects, particularly if federal funds become available. Public transparency and oversight of specialized tax and financial incentives to businesses may become a political hot potato, especially as the topic gets more attention from the media and watchdog groups.

Labor and Wage Issues
States will be addressing increasingly difficult labor and wage issues this year, including stubbornly high unemployment rates and concerns over raising the minimum wage. Unemployment rates hit a five-year low of 7 percent in November 2013 after four consecutive months of robust job growth. The current unemployment rate, however, is still above prerecession rates of about 5 percent, and long-term unemployment remains at near historic highs. Economists predict that the unemployment rate likely will continue its slow descent in 2014, ultimately hitting about 6.5 percent by year’s end. President Obama has called for an increase in the federal minimum wage a number of times, but states already have taken action. Legislators and voters in five states decided to raise the minimum wage in 2013 and at least five more states will address the issue in 2014. .

For more information on these topics and for additional resources on fiscal and economic policy, see » www.csg.org/top5in2014
Jennifer Burnett joined CSG in 2006. She is currently the program manager for fiscal and economic development policy and coordinates the organization’s research efforts, including the collection, analysis and presentation of data, particularly public access to interactive online databases. Her areas of expertise are fiscal, economic and government operational policy, including labor, state budget and tax policy and performance management.

Burnett also 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 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.

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CSG provides state leaders a variety of regional and national opportunities to actively engage on issues of importance to their jurisdictions and constituents. CSG’s regional and national committees and task forces are designed to encourage multi-state problem solving, the sharing of best practices, and networking among state officials and between the public and private sectors.

CSG’s Fiscal and Economic Development Public Policy Committee is co-chaired this year by Sen. Jay Emle of Kansas and Rep. Kyle Yamashita of Hawaii. The committee was formed and met for the first time in 2013 and has so far largely focused on the effectiveness of state economic development initiatives, particularly tax and financial incentives. The committee will hold its next meeting as part of the combined CSG National & CSG West 2014 Annual Conference, August 9-13 in Anchorage, Alaska.

CSG’s interactive databases — including The Book of the States Online, States Perform, State Business Incentive Database, infographics and more — help policymakers access comparative information across states that is both reliable and easy to use. Visit www.csg.org/datacenter to see the innovative resources that CSG has to offer.

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» www.csg.org/energy
www.csg.org/environment
Brydon Ross
Director of Energy and Environmental Policy
(859) 244-8030
bross@csg.org

TRANSPORTATION
» www.csg.org/transportation
Sean Slone
Program Manager, Transportation Policy
(859) 244-8234
sslone@csg.org

HEALTH
» www.csg.org/health
Debra Miller
Director of Health Policy
(859) 244-8241
dmiller@csg.org

INTERSTATE COMPACTS
» www.csg.org/ncic
http://apps.csg.org/ncic/
Crady deGolian
National Center for Interstate Compacts
(859) 244-8068
cdegolian@csg.org

EDUCATION
» www.csg.org/education
Pam Goins
Director of Education Policy
(859) 244-8142
pgoins@csg.org

ENERGY & ENVIRONMENT
» www.csg.org/energy
www.csg.org/environment
Brydon Ross
Director of Energy and Environmental Policy
(859) 244-8030
bross@csg.org

TRANSPORTATION
» www.csg.org/transportation
Sean Slone
Program Manager, Transportation Policy
(859) 244-8234
sslone@csg.org

HEALTH
» www.csg.org/health
Debra Miller
Director of Health Policy
(859) 244-8241
dmiller@csg.org

INTERSTATE COMPACTS
» www.csg.org/ncic
http://apps.csg.org/ncic/
Crady deGolian
National Center for Interstate Compacts
(859) 244-8068
cdegolian@csg.org

EDUCATION
» www.csg.org/education
Pam Goins
Director of Education Policy
(859) 244-8142
pgoins@csg.org

KNOWLEDGE CENTER
» www.csg.org/knowledgecenter
Jennifer Horne
Associate Director of Policy and Special Libraries
(859) 244-8198
jhorne@csg.org

Regional Contacts »

CSG East » Wendell Hannaford, Director | (212) 482-2320 | whannaford@csg.org
CSG South » Colleen Cousineau, Director | (404) 633-1866 | ccousineau@csg.org
CSG Midwest » Mike McCabe, Director | (630) 925-1922 | mmccabe@csg.org
CSG West » Edgar Ruiz, Director | (916) 553-4423 | eruiz@csg.org

contact Jennifer Burnett | 859.244.8114 | jburnett@csg.org or visit www.csg.org/fiscal or http://www.statesperform.org