State Fiscal Outlook: BACKGROUND

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Current Fiscal Situation: Indicators
NASBO

Negative Spending in Both FY 2009 and FY 2010

*32-year historical average rate of growth is 5.6 percent
**Fiscal 10 numbers are appropriated

Source: NASBO Fall 2009 Fiscal Survey of States
Budget Cuts at Record Levels

Budget Cuts Made After the Budget Passed, Fiscal 1990-Fiscal 2010 ($ millions)

Source: NASBO Fall 2009 Fiscal Survey of States
State Revenue Down 4.2% in 4th quarter; 5th Straight Quarter

Year-Over-Year Real Change in Quarterly State Tax Revenue

Source: Fiscal Studies Program, Rockefeller Institute of Government; U.S. Census Bureau
Total Year-End Balances and Total Year-End Balances as a % of Expenditures, Fiscal 1979-Fiscal 2009

*2009 totals without AK & TX

**32-year historical average is 5.5%

Source: NASBO Fall 2009 Fiscal Survey
State Revenue and Spending Volatile

- State revenue sensitive to economic conditions -- especially noticeable with the income tax

- Reasons for increased volatility:
  - Reliant on upper income taxpayers
  - Capital gains and investment income have become increasingly important
  - Most states unwilling to raise taxes

Source: Leslie McGranahan & Richard Mattoon, Federal Reserve Bank of Chicago
High-end Taxpayers Greatly Influence PIT Revenues

- The top 0.1% paid 20% in 2007
- The top 1% paid 40%
- The top 5% paid 60%

Source: Moody’s, IRS data, Tax Foundation
Few Rating Downgrades So Far

- Through March 2010, there have been less rating downgrades this recession than prior recession
  - 14 rating downgrades in 2001-2003
    - 4 in 2001, 2 in 2002, 8 in 2003
  - 7 rating downgrades in 2007-2010
    - 1 in 2007, 0 in 2008, 6 in 2009, 0 in 2010
- 2001-2003 was a more sudden decline, this downturn was slower but deeper

Source: Moody’s Investors Services
Outlook
State Fiscal Outlook

- Austere state budgets for at least the next several years
- Tough competition for state general funds
- Demand for performance, transparency and results
- Opportunity for reform
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