



# State Fiscal Outlook: BACKGROUND

## **CSG** *Economic Summit*

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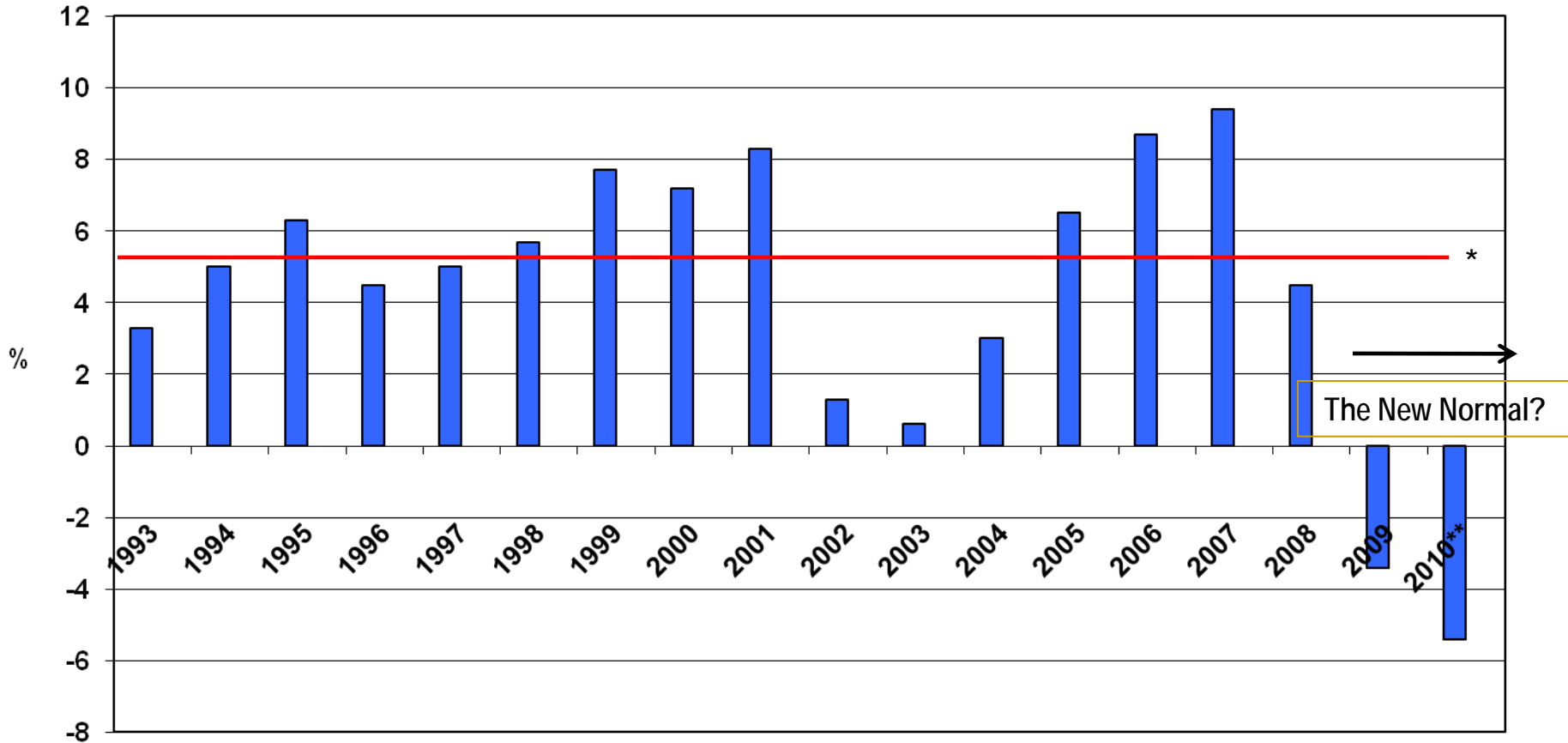


# ***Current Fiscal Situation: Indicators***



# Negative Spending in Both FY 2009 and FY 2010

General Fund Expenditure Growth (%)

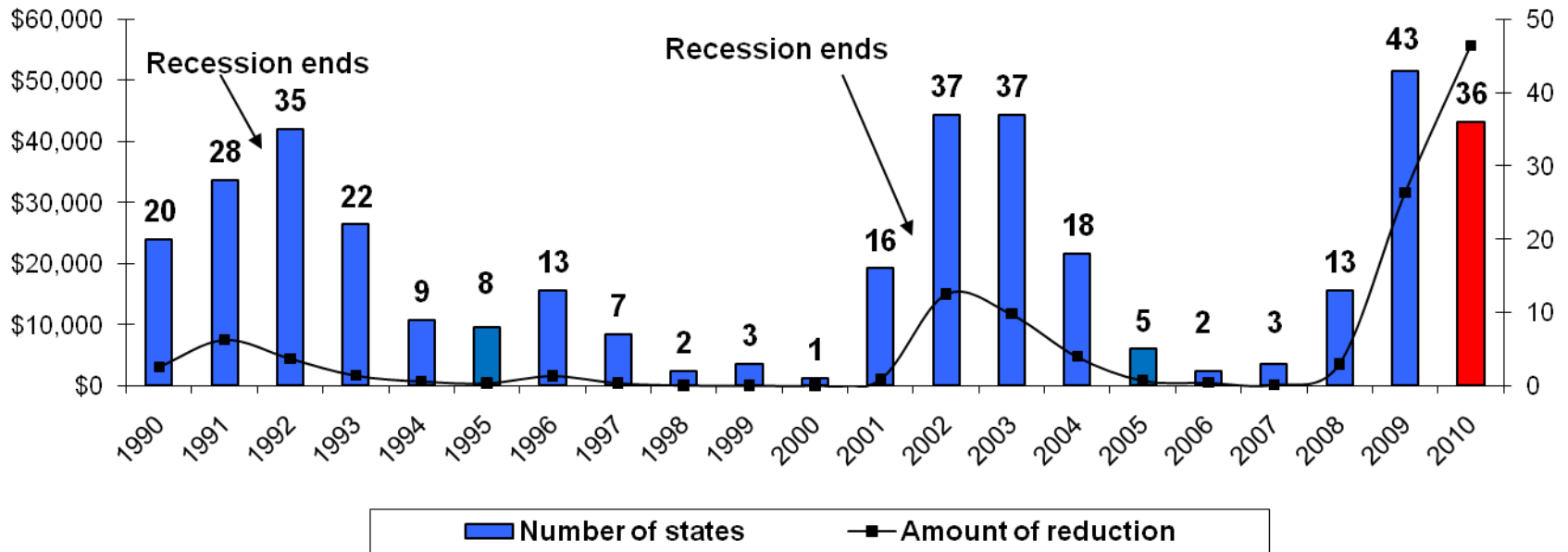


\*32-year historical average rate of growth is 5.6 percent  
Source: NASBO Fall 2009 Fiscal Survey of States

\*\*Fiscal 10 numbers are appropriated

# Budget Cuts at Record Levels

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

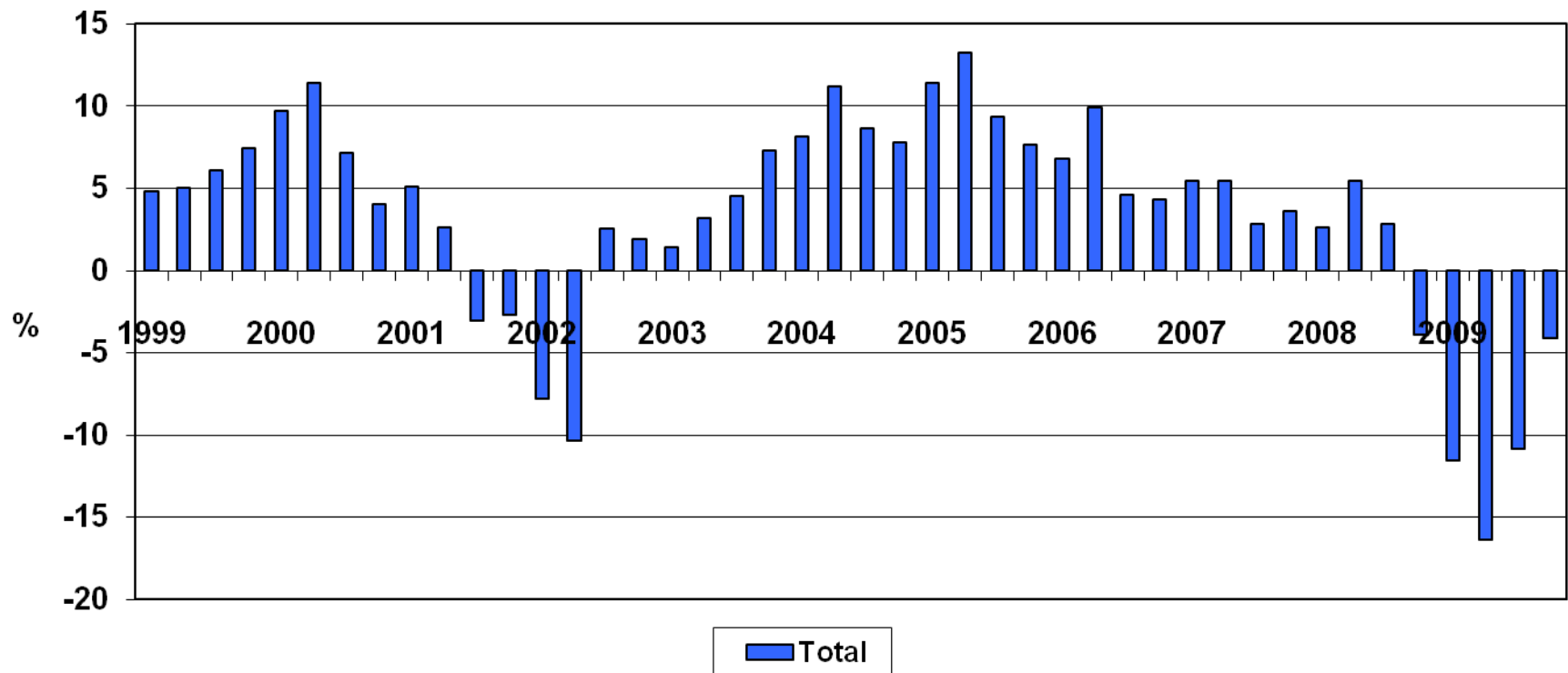


Source: NASBO Fall 2009 Fiscal Survey of States



# State Revenue Down 4.2% in 4<sup>th</sup> quarter; 5<sup>th</sup> Straight Quarter

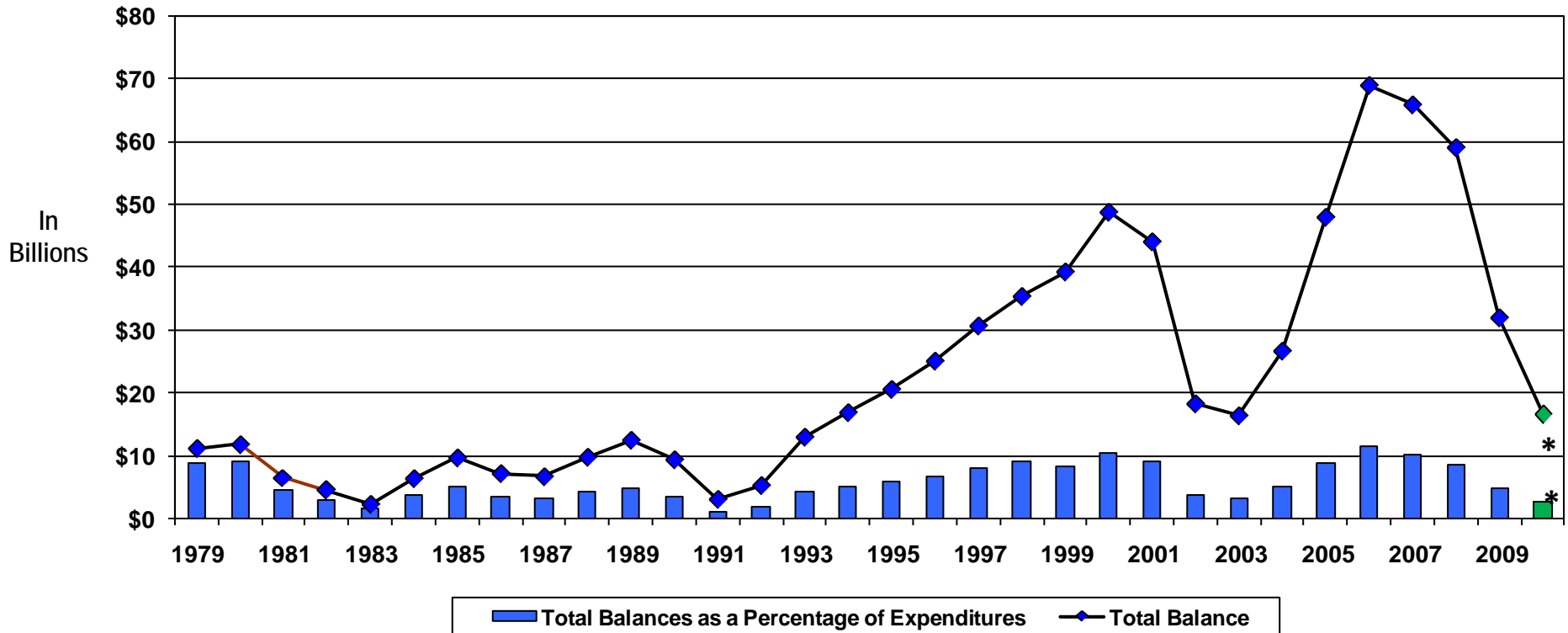
Year-Over-Year Real Change in Quarterly State Tax Revenue



Source: Fiscal Studies Program, Rockefeller Institute of Government; U.S. Census Bureau

# Balances Declining

**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**



# 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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