TOP 5 2012 ISSUES
FISCAL AND ECONOMIC

THE COUNCIL OF STATE GOVERNMENTS

Since 2009, states and territories ("the states") collectively have experienced budget shortfalls on a scale never before seen. The upcoming year will continue that trend, as states project shortfalls totaling more than $100 billion. Last year, some national economic indicators—like overall labor market conditions and household spending—experienced modest improvements, and those improvements likely will continue in 2012. Because state fiscal recovery traditionally lags national recovery, however, states will spend at least the next two years struggling to get back to pre-recession normalcy and prosperity. In the meantime, the dialogue among state policymakers will almost exclusively be on the topics of jobs and money.

» Jobs, Jobs, Jobs

As state leaders return to work, one question will undoubtedly be on their minds: What policies can we pursue that will help encourage job growth in our state NOW? Some states will continue overhauling their approaches to economic development, such as evaluating and reforming their business incentive systems and overall business tax climate, as a means to stimulate job growth in 2012. 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.

» Federal Funding Instability

The 2009 American Recovery and Reinvestment Act helped close as much as 40 percent of state budget shortfalls over the past few years and infused states with billions of dollars, which allowed states to minimize or delay cuts to some programs. Those federal funds have largely run out and the modestly improving revenue picture may not be enough to offset future losses. Political volatility in Washington, D.C., could threaten federal funding streams for education, infrastructure development, health care and entitlement programs—like unemployment benefit extensions—potentially leaving states to pick up the pieces at a moment's notice.

» Medicaid Spending

The end of Recovery Act funds will make 2012 another difficult year for countercyclical programs—particularly Medicaid—as demand for these services remains high and costs continue to grow. Medicaid will continue to be a major budgetary issue for states as overall health care costs and enrollment continues to rise, even before the expanded eligibility requirements of the Affordable Care Act are fully implemented. The Recovery Act provided states with an enhanced federal match for state Medicaid dollars, which has now expired, but the increased enrollment brought on by the recession has not dissipated. Expect states to continue to look for ways to control Medicaid spending and deliver services, such as managed care programs.

» Tax Reform and Revenues

Collectively, state revenues started to rebound in 2011 and rainy day fund balances are slowly being restored, which should continue in 2012. Expect states to take a closer look at reforming or reassessing current tax structures, particularly sales tax exemptions in some states; fees or temporary taxes that may be expiring in 2012; and taxes on out-of-state transactions, including online sales. Raising, lowering or capping taxes will again likely top the list of most popular ballot measures this election season.

» Cut to the Bone

Over the past several years, states have focused largely on cutting expenses rather than increasing revenues as a way to end the year in the black. The depth of the recent recession left states so low on revenue that even historically "sacred" areas of state budgets—like health care and education—saw significant cuts. While enacted 2012 budgets contain a 2.9 percent year-over-year increase in general fund spending, the amount is still $20 billion, or 3.1 percent, less than the pre-recession high of $687 billion in the 2008 fiscal year, according to data from the National Association of State Budget Officers. As revenues continue their modest rebound, expect states to re-evaluate some of the cuts made in recent years, especially in education.

For more information on these topics and for additional resources on fiscal and economic policy, see » ***www.csg.org/top5in2012***

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

YOUR CSG FISCAL AND ECONOMIC RESOURCE »
JENNIFER BURNETT

THE COUNCIL OF STATE GOVERNMENTS

Jennifer Burnett joined CSG in 2006. She coordinates the organization's research efforts, including requests for information from members, and manages 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 and territories 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.

GET INVOLVED »

State policymakers have data overload - with information and numbers coming at them from every angle - and it can be difficult to know what sources to trust. At the same time, using that data to strategically place resources is more important than ever as state leaders strive to implement the accountable, transparent and results-focused governance policies citizens expect. CSG's interactive databases - including *The Book of the States Online*, States Perform, State Business Incentive Database, and more - help you cut through the noise and 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.

CSG RESOURCES»

ENERGY & ENVIRONMENT

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

HEALTH

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

EDUCATION

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

TRANSPORTATION

» www.csg.org/transportation
Sean Slone
Senior Transportation Policy Analyst
(859) 244-8234
sslone@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

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