



»» **Fiscal Threats from Above**

An estimated 34.7 percent of state spending came from federal funds in 2010, up significantly from 26.3 percent in 2008. That big jump is largely due to the 2009 American Recovery and Reinvestment Act, but the pattern remains similar regardless of Recovery Act funding—the percentage of total state spending from federal sources has been growing. An increased reliance on federal funding leaves states particularly vulnerable to political volatility at the federal level in 2013 and beyond, much as the fiscal cliff and debt ceiling debates of 2012 illustrated. That volatility could threaten federal funding streams for education, infrastructure development, health care and entitlement programs—such as unemployment benefit extensions—potentially leaving states to pick up the pieces at a moment’s notice.

»» **Slow Revenue Recovery—but Recovery**

State revenues started to collectively rebound in 2011 and 2012, while rainy day fund balances were being restored; that should continue in 2013. According to the latest State Revenue Report from the Rockefeller Institute of Government, states’ tax collections had grown for 10 straight quarters as of June 2012, but even at a steady, slow growth rate, total state tax collections are still below 2008 peak levels. According to the National Association of State Budget Officers’ Fall 2012 edition of the Fiscal Survey of States, states overall can expect a similar pattern in 2013—slow, but relatively steady increases in revenue for most states, tracking trends in the national economy. Estimated revenues in enacted fiscal 2013 budgets predict that revenues will increase by 3.9 percent over fiscal 2012, although growth rates are uneven across states with 21 states still forecasting lower general fund revenues in fiscal 2013 when compared to prerecession levels.

»» **Medicaid**

The end of Recovery Act funds made 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. In 2011, Medicaid represented the single largest portion of state spending, estimated to account for 23.6 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.

»» **Current and Retired Employee Health Care Costs**

Underfunded and increasing state retiree health benefits will be a major concern for states in 2013. According to the Pew Center on the States, only 5 percent of states have the funds needed to pay for their retirees’ health care and other nonpension benefits, like life insurance. That includes 17 states with no money set aside to cover retiree health care liabilities. Where reforming pension systems to be more sustainable was a key focus of states in the past few years, addressing current and retired employee health care costs will be an area of increasing concern for state leaders in 2013 and beyond.

»» **Rethinking Development**

As state leaders return to work, one question has been and will continue to be on their minds: What policies can we pursue that will jumpstart economic growth in our state now and build an environment that encourages growth for tomorrow? Some states will continue overhauling their approaches to economic development, such as evaluating and reforming business incentive systems and overall business tax climate, as a means to stimulate job growth in 2013. 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. Expect states to take a closer look at the cost-effectiveness of providing specialized tax and financial incentives to businesses, especially as the topic gets more attention from the media and watchdog groups.

For more information on these topics and for additional resources on fiscal and economic policy, see »
www.csg.org/top5in2013.

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 »

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.

For the 2013-2014 biennium, CSG has created a new Fiscal and Economic Development Committee, which will hold its first meeting as part of the **NATIONAL CONFERENCE** in Kansas City, Missouri, September 19-22, 2013.

CSG RESOURCES»



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