

State Fiscal Conditions and the Federal Budget

Presentation by

Liz McNichol

Center on Budget and Policy Priorities

Annual Meeting of the Southern Legislative Conference

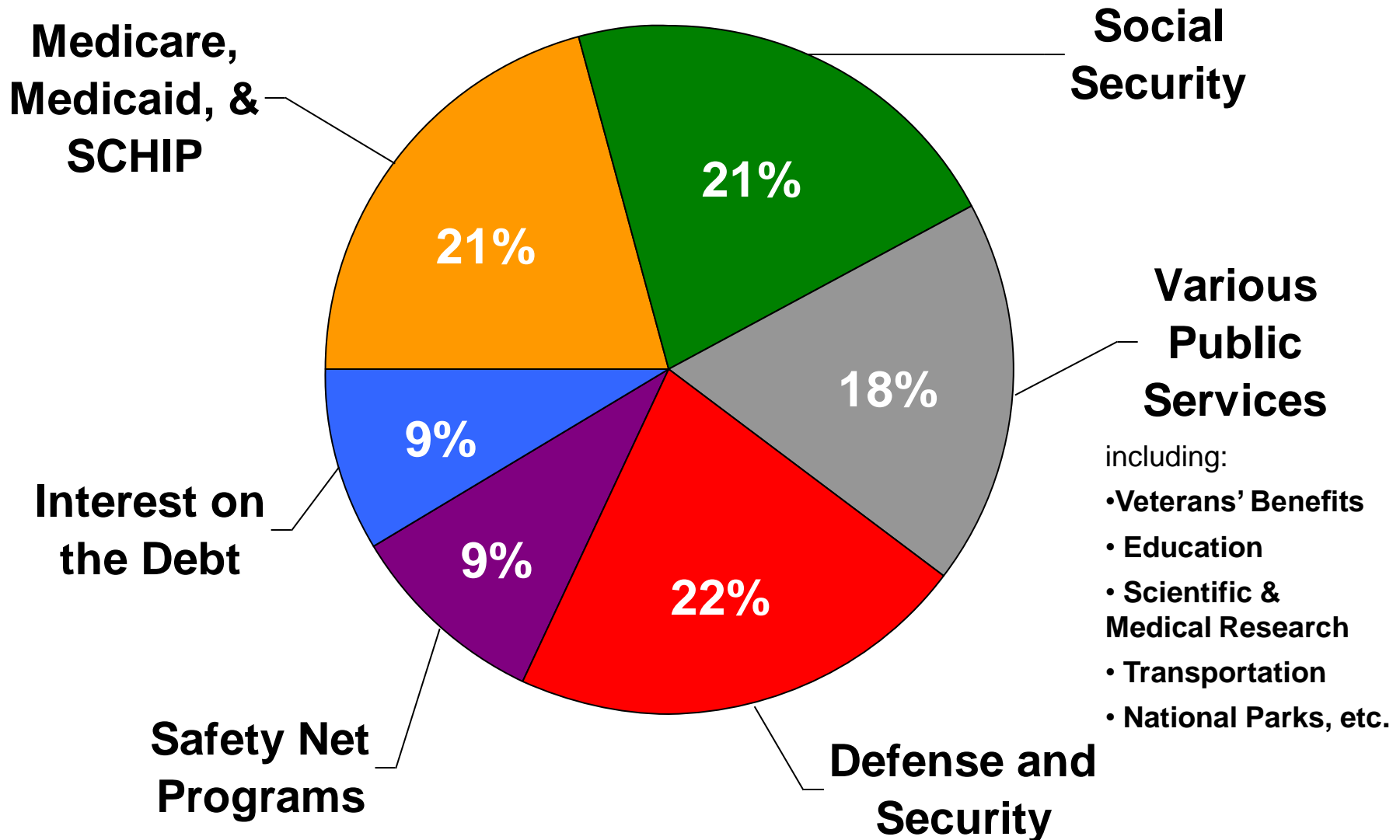
Council of State Governments

July 13, 2008

Links Between State and Federal Budget and Tax Policy

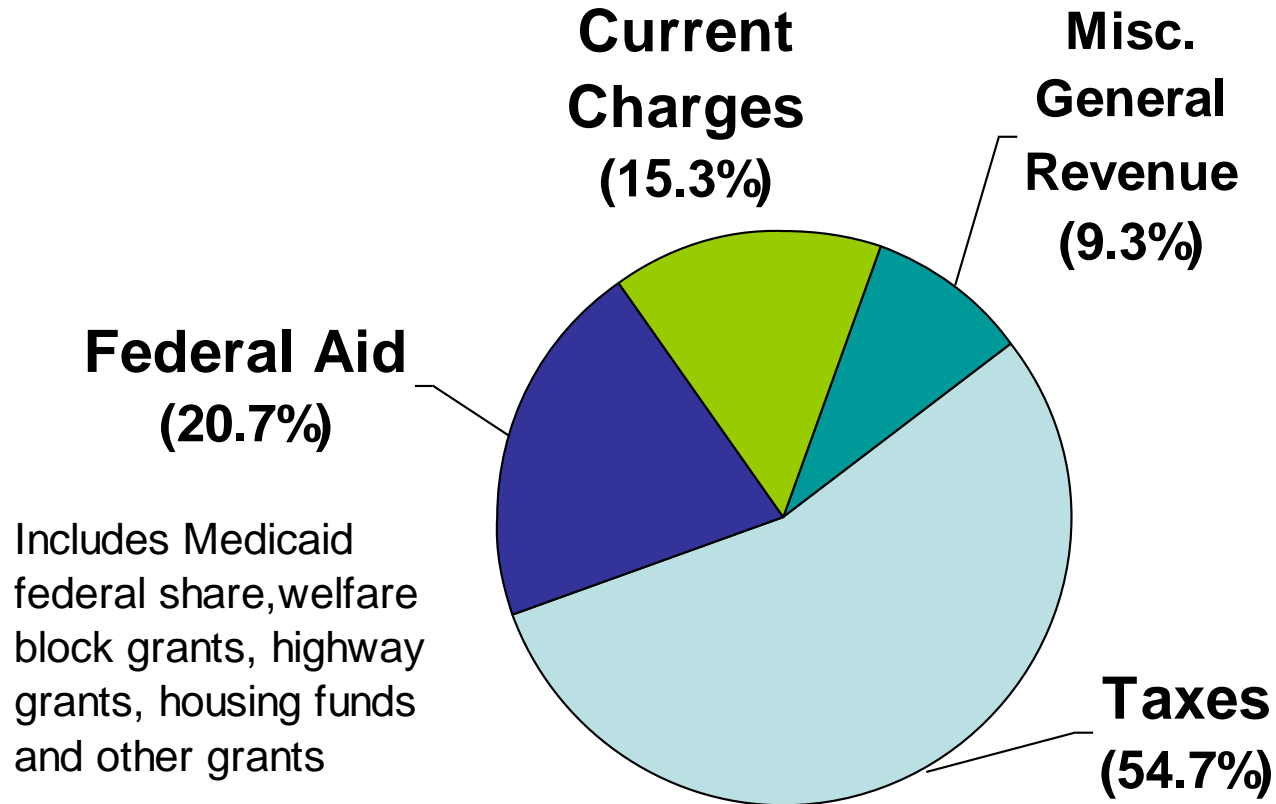
- Grants-in-Aid are an important revenue source for states
- State tax codes are connected to the federal tax code
- Federal rules govern the operation of some state programs

Composition of the Federal Budget in 2007



Source: Office of Management and Budget data.

Sources of Revenue for State and Local Government, FY 2006

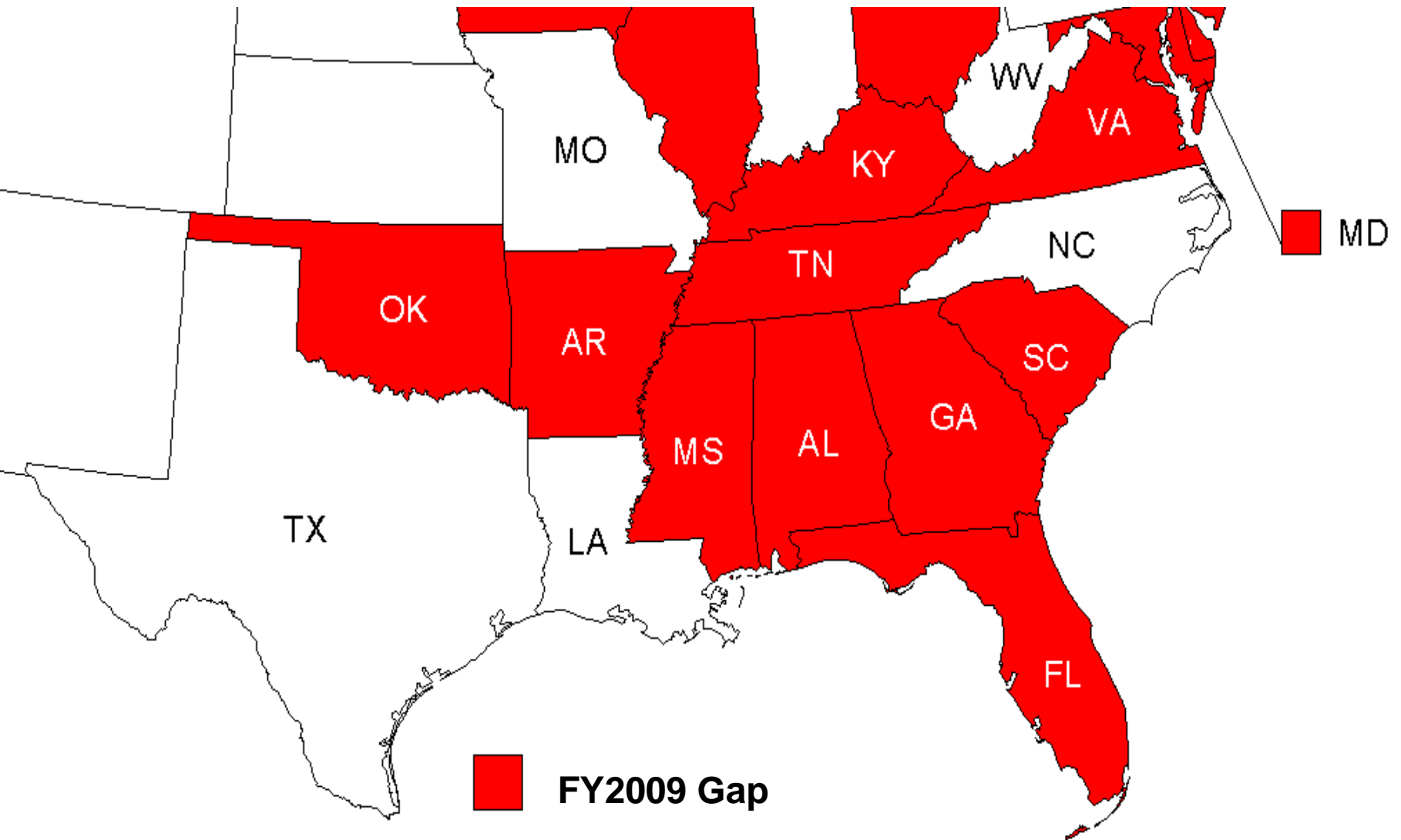


Source: Census Bureau, Government Finances, 2005-2006

How Southern States Are Linked to the Federal Tax Code

- Use Federal Taxable Income (2):
 - North Carolina, South Carolina
- Use Federal Adjusted Gross Income (8):
 - Georgia, Kentucky, Louisiana, Maryland, Missouri, Oklahoma, Virginia, West Virginia
- No Federal Starting Point (3):
 - Alabama, Arkansas, Mississippi
- No Personal Income Tax (3):
 - Florida, Tennessee, Texas

Most Southern States faced shortfalls.



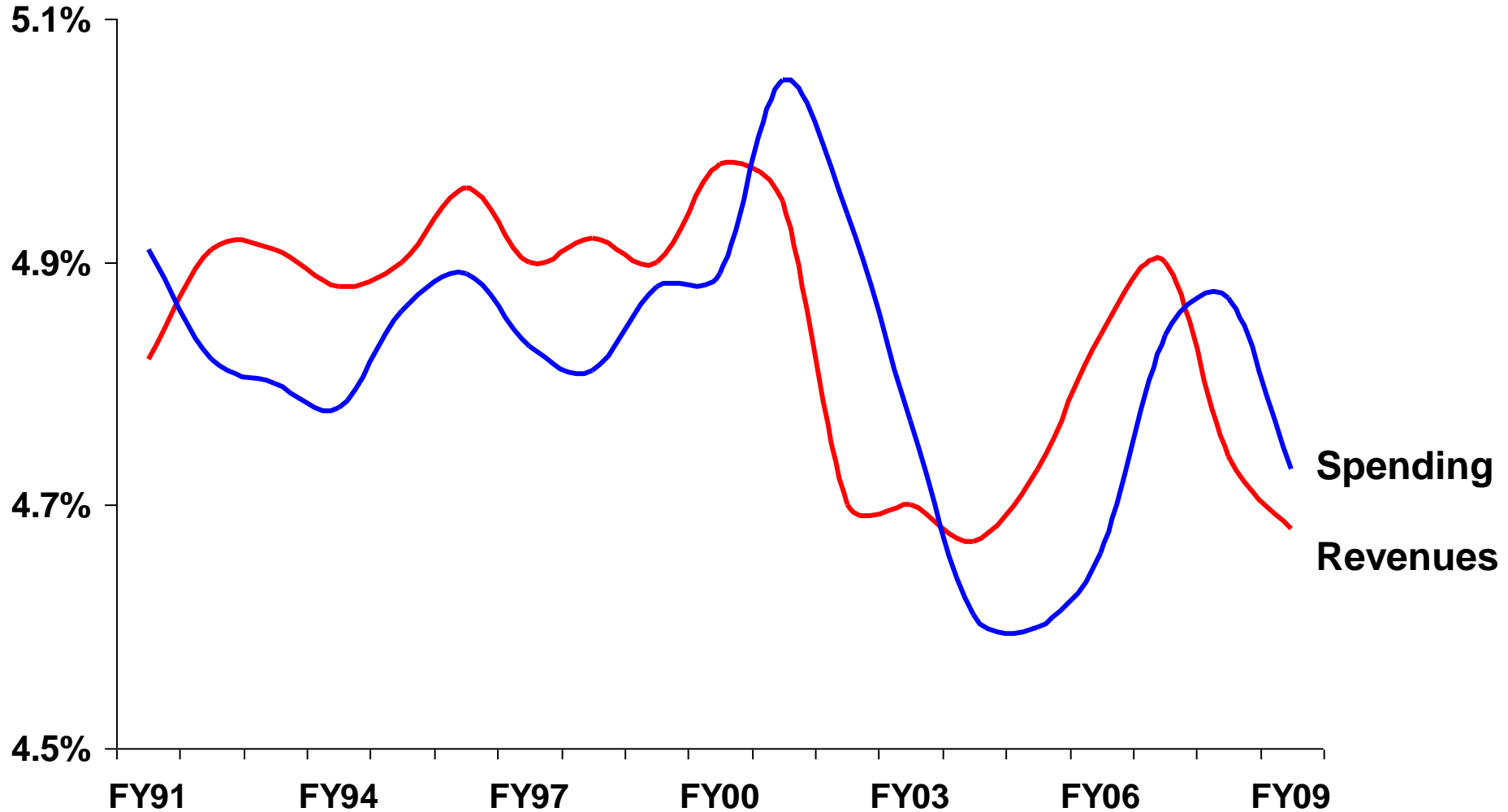
Southern States with Budget Gaps in FY2009		
State	Amount	% of FY2008 General Fund
Alabama	\$784 million	9.2%
Arkansas	\$107 million	2.5%
Florida	\$3.4 billion	11.0%
Georgia	\$200 million	1.0%
Kentucky	\$266 million	2.9%
Maryland	\$808 million	5.5%
Mississippi	\$90 million	1.8%
Oklahoma	\$114 million	1.6%
South Carolina	\$250 million	3.7%
Tennessee	\$468 million	4.2%
Virginia	\$1.2 billion	6.9%

Total = \$7.7 Billion

5.7%

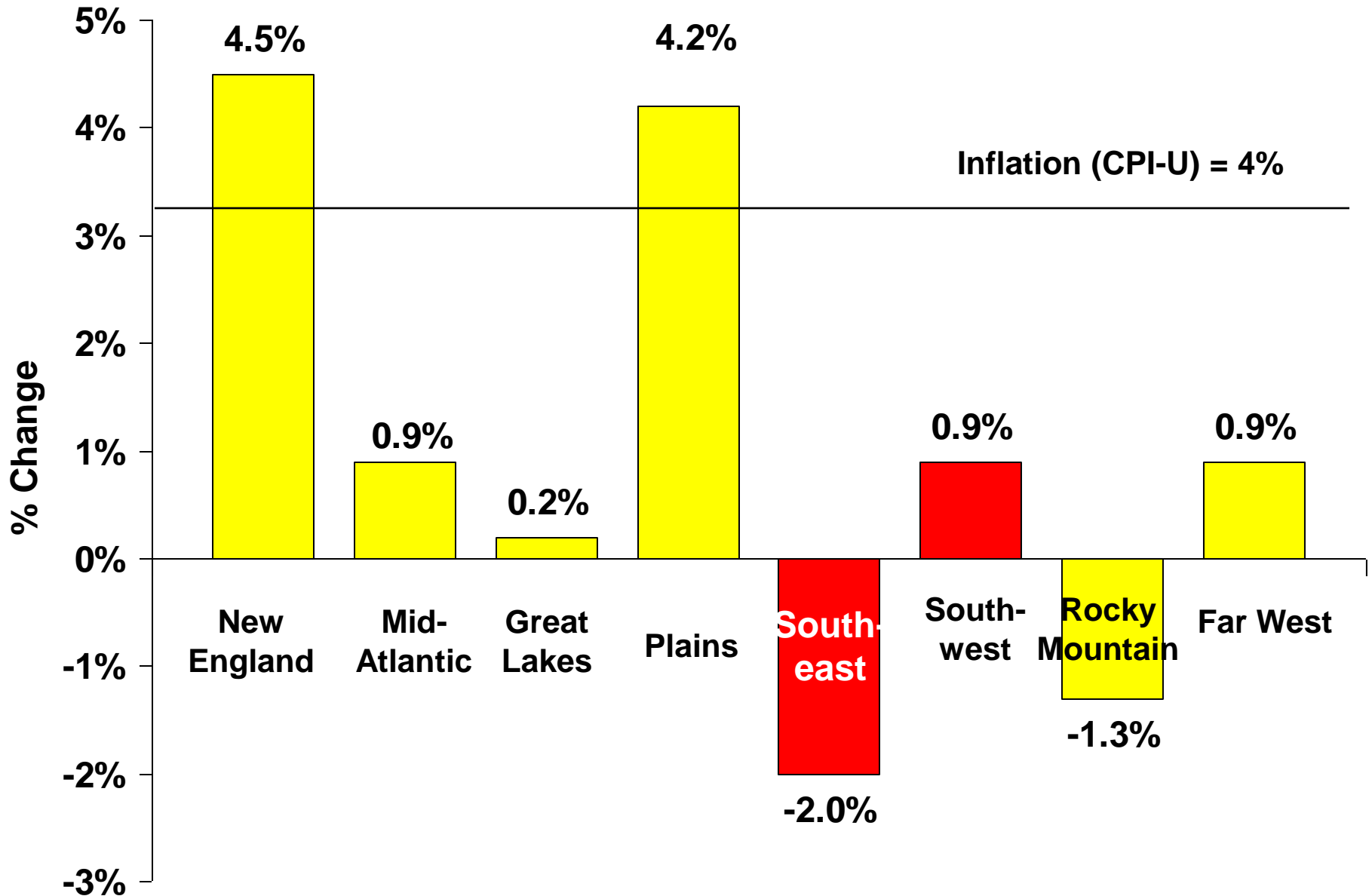
State revenues and expenditures never fully recovered from 2001.

Share of GDP



Source: CBPP calculations of NASBO, BEA, and CBO data. Revenues exclude beginning balances.

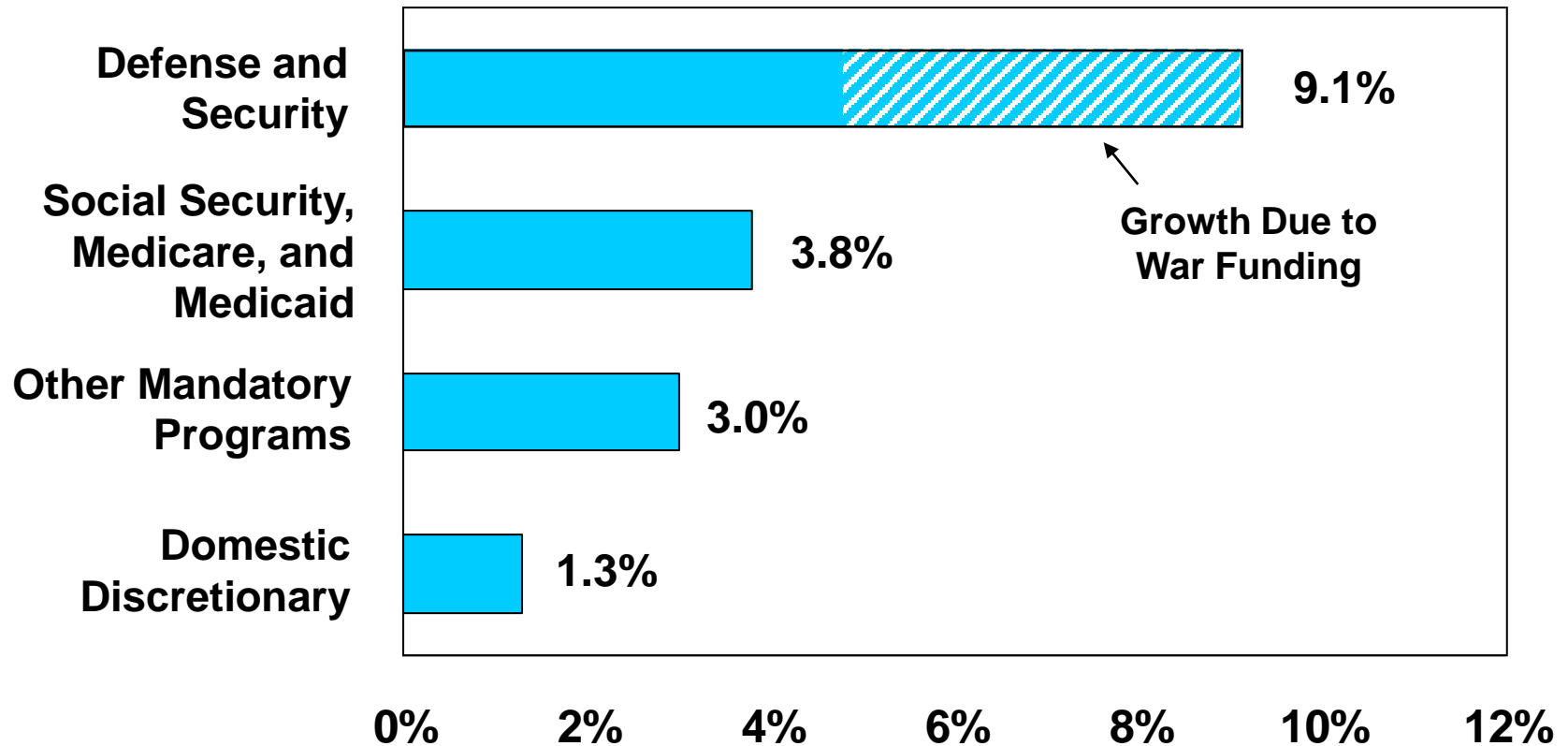
Tax Revenues: Jan - Mar 2008 vs. 2007



Source: Quarterly revenue data from the Rockefeller Institute, all values are nominal and adjusted for legislative changes.

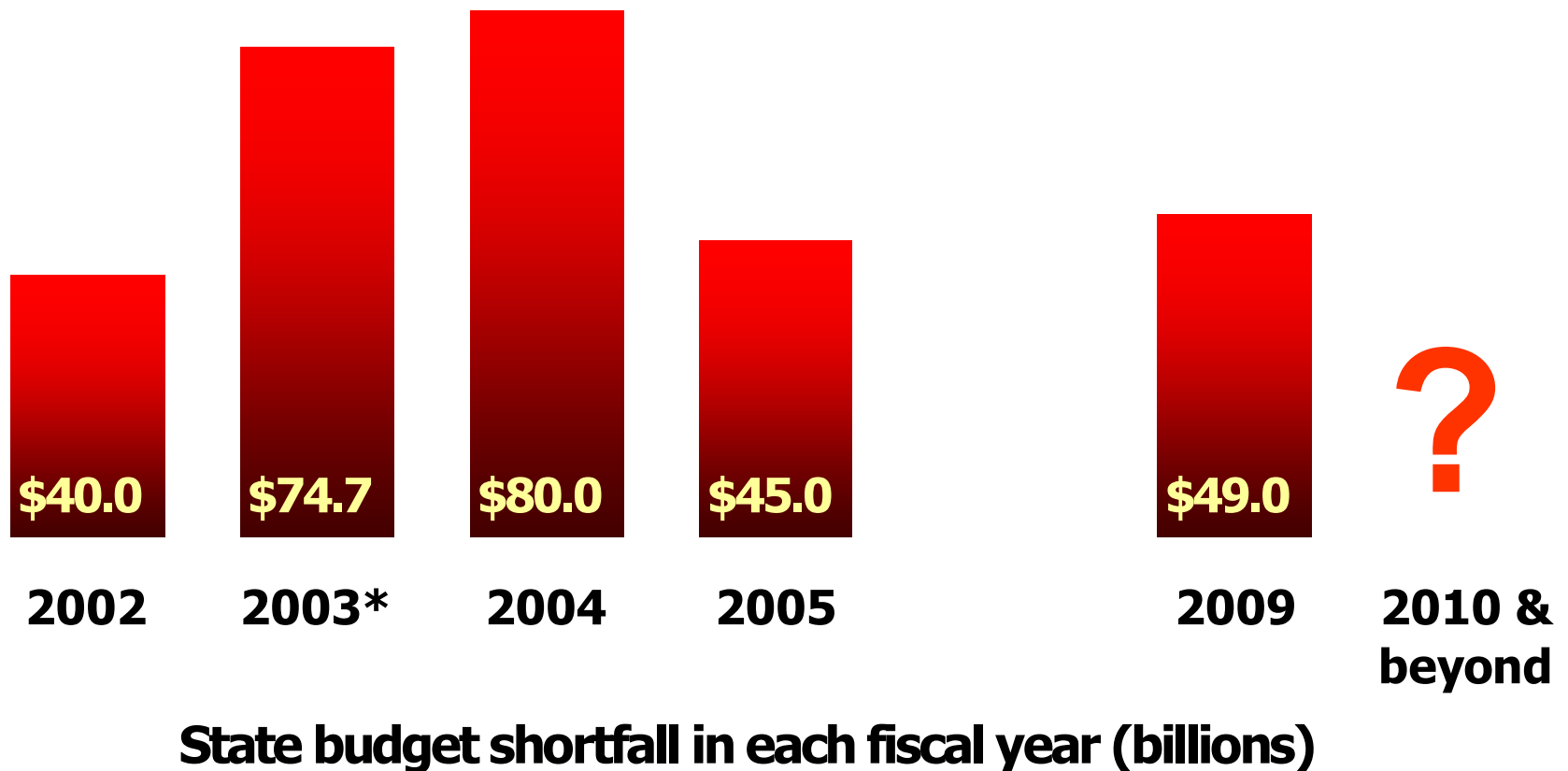
Domestic Spending Grew More Slowly Than Any Other Budget Area

Real Annual Average Growth, 2001-2008



Source: CBPP calculations based on OMB and CBO data. Totals include emergency and supplemental funding.

The last recession caused a four-year state fiscal crisis.

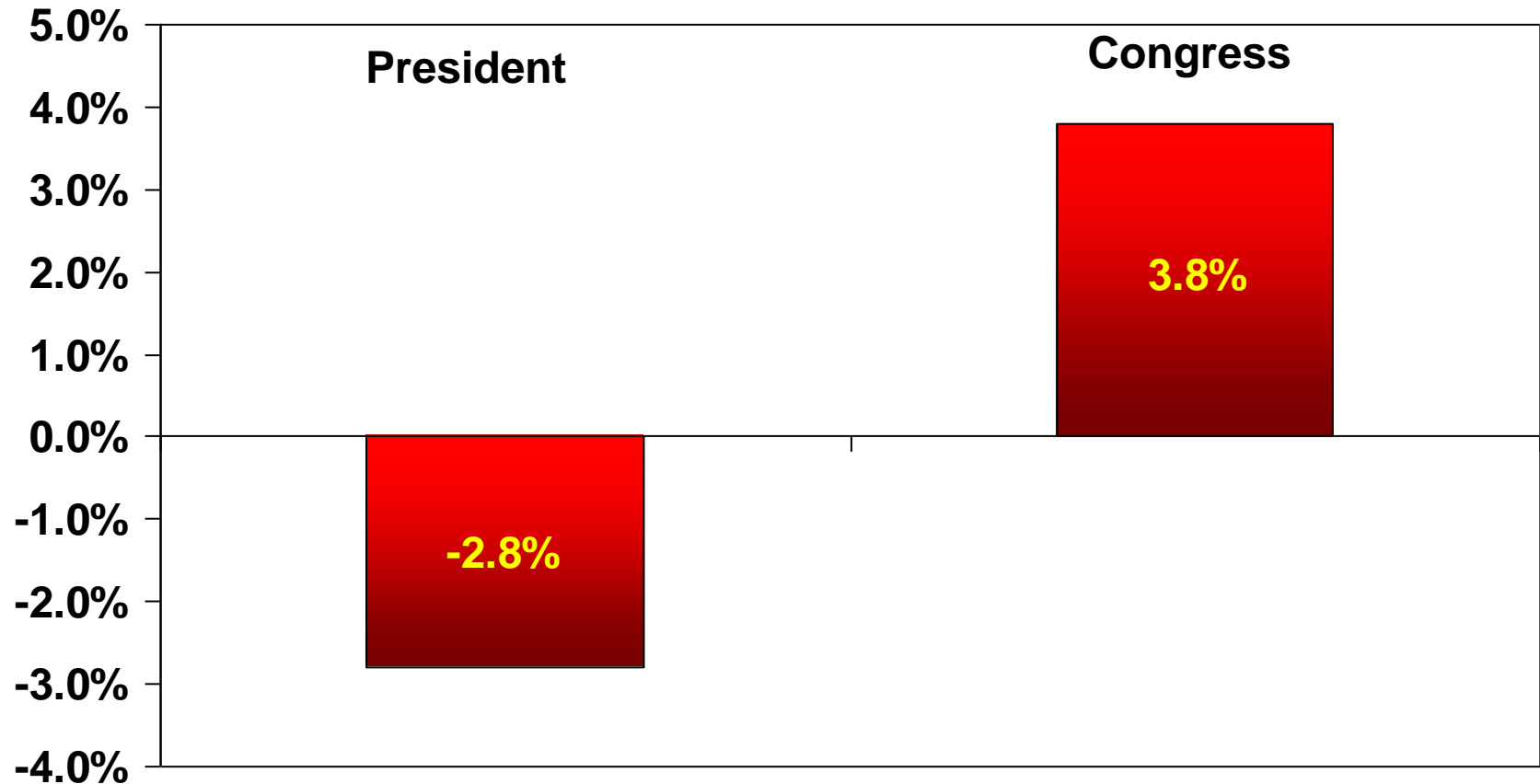


* Initial shortfall plus mid-year gap.

Sources: National Conference of State Legislatures; CBPP surveys (various years).

How much will federal aid to states change?

(Growth in domestic discretionary spending FY09 vs FY08, inflation adjusted)



Source: CBPP calculations of OMB, CBO data.

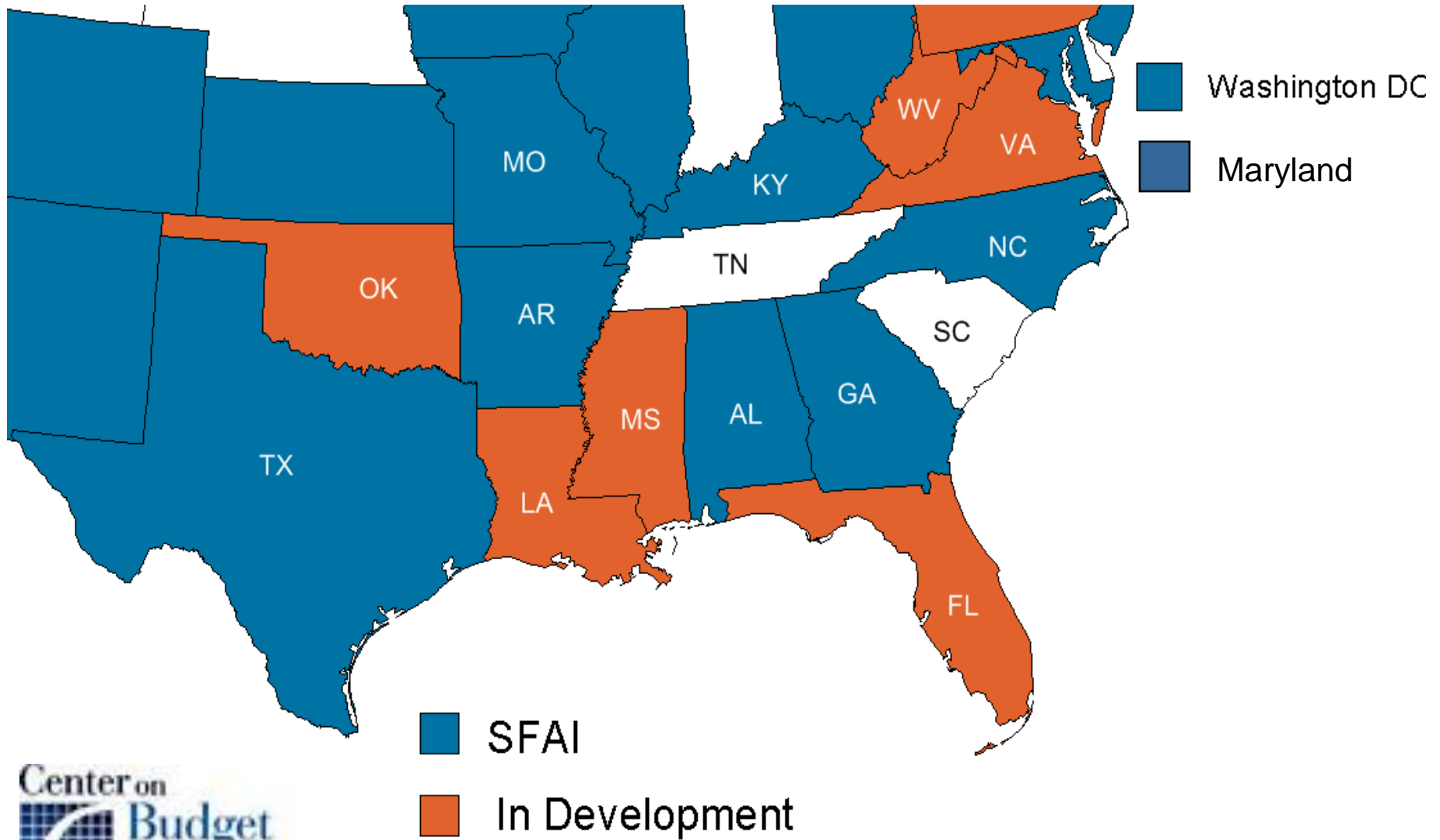
Three Main Drivers of the Looming Federal Fiscal Crisis

- 1. Rising health care costs in the private and public sectors alike**
- 2. The aging of the population, which raises the costs of Social Security, Medicare, and Medicaid**
- 3. The Bush tax cuts**

For More Information

- Center on Budget and Policy Priorities
website: www.cbpp.org
- State Fiscal Analysis Initiative contacts:
www.statefiscal.org
- My contact information:
mcnichol@cbpp.org

Southern Members of the State Fiscal Analysis Initiative



Appendix

Federal Aid as a Percent of General State Revenues

State	% Federal Funds
Alabama	26.0%
Arkansas	26.3%
Florida	19.1%
Georgia	20.4%
Kentucky	25.6%
Louisiana	29.9%
Maryland	18.8%
Mississippi	36.5%
Missouri	24.3%
North Carolina	23.1%
Oklahoma	24.1%
South Carolina	23.4%
Tennessee	24.0%
Texas	21.5%
Virginia	13.9%
West Virginia	26.7%
U.S. Total	20.7%

Fiscal Year 2009 Spending Change compared to previous budget

State	% Change
Alabama*	-2.3%
Arkansas	3.9%
Florida*	-8.7%
Georgia*	4.3%
Kentucky	-1.8%
Louisiana	6.3%
Maryland*	3.7%
Mississippi	0.4%
Missouri*	5.2%
North Carolina	4.2%
Oklahoma	3.0%
South Carolina	-8.5%
Tennessee	-0.7%
Texas	1.2%
Virginia	-1.8%
West Virginia	-5.6%

Source: NASBO, Fiscal Survey of the States, June 2008, includes executive budget proposals only.

*CBPP survey of state budget offices, includes FY09 enacted budgets.

**Total Tax Collections are Slowing:
Jan - Mar, 2008 vs. 2007**

State	% Change
Alabama	2.4%
Arkansas	2.8%
Florida	-10.3%
Georgia	-3.8%
Kentucky	1.2%
Louisiana	0.9%
Maryland	6.2%
Mississippi	-1.0%
Missouri	2.4%
North Carolina	-3.0%
Oklahoma	-5.8%
South Carolina	-8.1%
Tennessee	0.6%
Texas	4.4%
Virginia	0.7%
West Virginia	14.1%