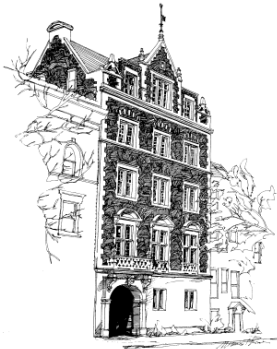


The State Budget Outlook and the Federal Budget

For a Conference Call of The Annie E. Casey Foundation's

KIDS COUNT Network

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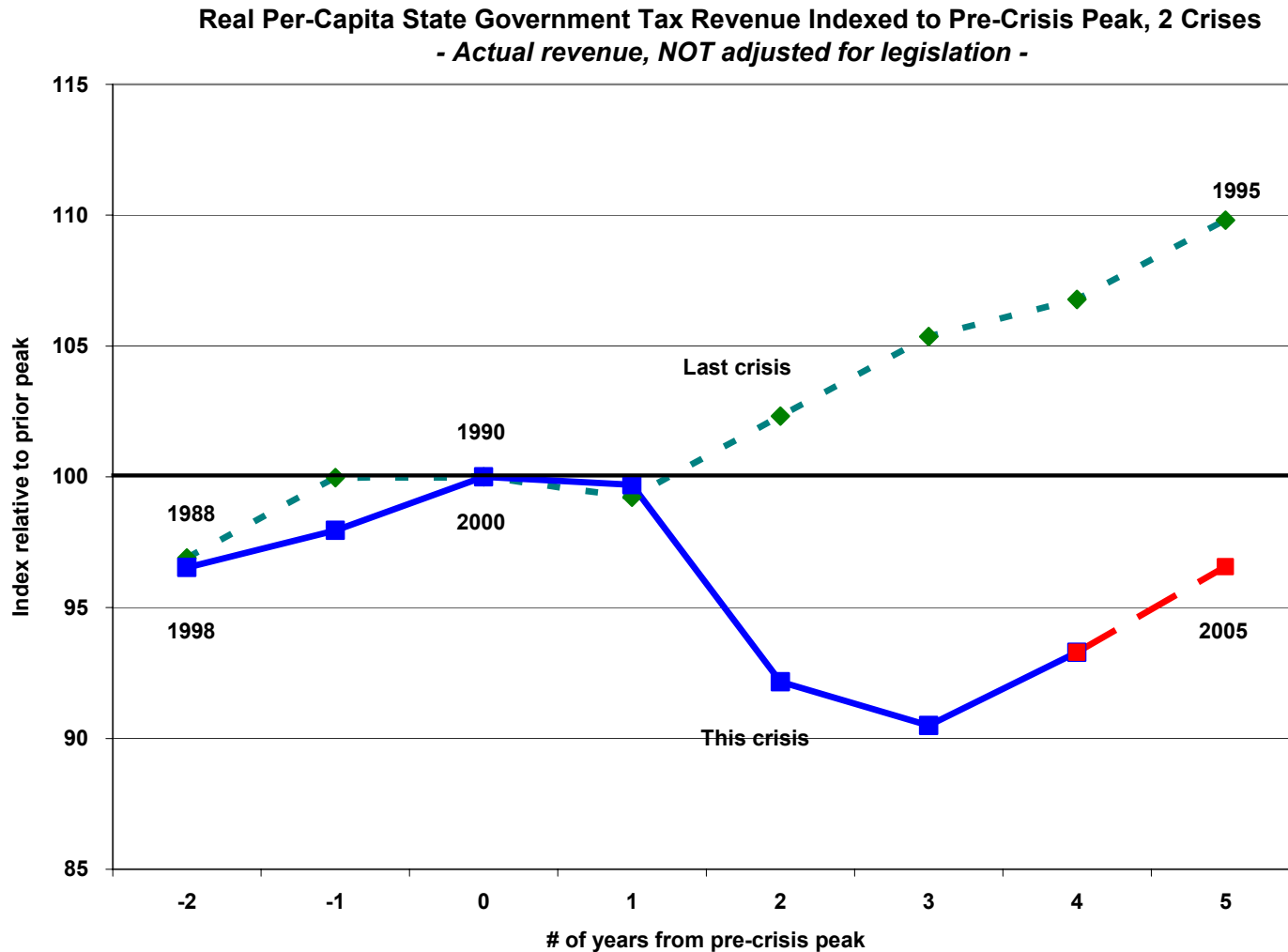
www.StateAndLocalGateway.rockinst.org

State Fiscal Conditions Have Improved

- Only 3 states reported gaps in 2005 after budget enactment, vs. 10 and 31 in 2 prior years
- Revenue on target, or better, in 46 states
- Spending running ahead of projections in about half of states, but not enough to cause budget gaps. Overages most common in Medicaid
- But states face fiscal pressures and risks...

Tax Revenue Is Still Well Below Prior Peak

– Now At 1998 Level –

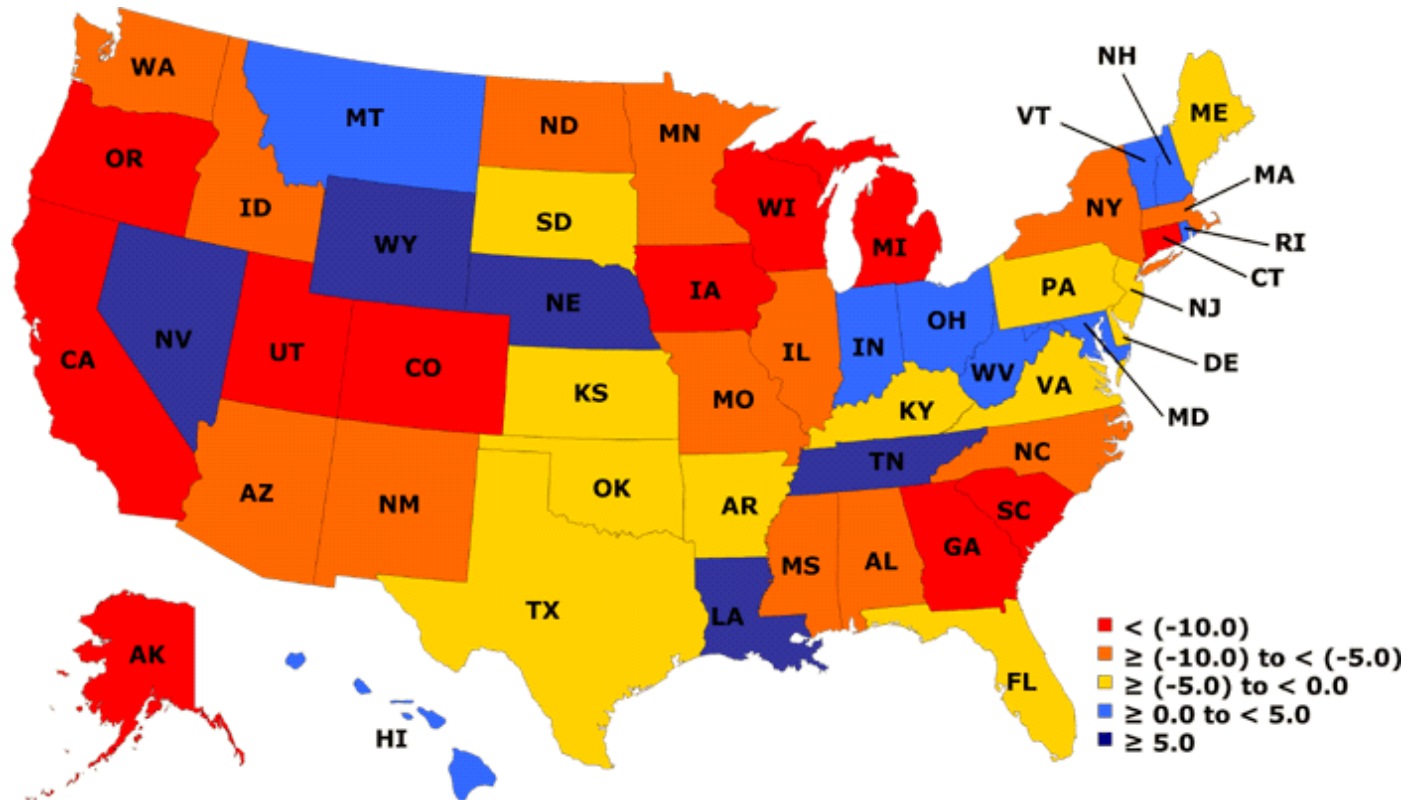


SOURCES: Census Bureau for tax revenue through 2003, and population. Rockefeller Institute for tax growth to 2004. State estimates from NASBO for growth to 2005. BEA for state & local government chain-weighted price index.

Pattern Different Across States

36 states still lower in 2004 than in 2000

Percentage Change in Real Per-Capita State Tax Revenue, 2000 to 2004



See appendix for state-specific data.

SOURCES: Census Bureau for tax revenue through 2003, and population. Rockefeller Institute for tax growth to 2004. BEA for state & local government chain-weighted price index.

Revenue Recovery Varies Across States

Recent recovery (2002 to 2004) in real per-capita tax revenue reasonably strong:

- Increased in 4 states (NE, NV, TN, WY) by double digits
- Increased in 26 states by single digit
- Declined in 20 states – mostly in southern and central regions of the country

But as map shows, most states are still well below the 2000 peak:

- Still lower in 2004 in 36 states – median of these states: down 8%
- 11 states down 10% or more: AK, CA, CO, CT, GA, IA, MI, OR, SC, UT, WI
- Median for the 14 states above 2000 is +2.1%

NOTE: See Appendix for state-specific data.

Legislated Tax Increases Helped

- FY 2003 – 30 states implemented legislated tax increases. In 23 states, tax increases boosted receipts by over 1%
- FY 2004 – 44 states implemented legislated tax increases. In 23 states, tax increases boosted receipts by over 1%
- Every region of the country had a net legislated tax increase in 2003 and 2004

NOTE: For state specific information see Rockefeller Institute State Fiscal Briefs #69, 70, 71, and 72

Medicaid Spending Has Increased Since 2000 Revenue Peak, But Other Areas Have Been Reduced

Real Per-Capita General Fund Operating Expenditures

	Amount per capita (2004 \$)		% change
	FY 2000	FY 2004	
Total	1,821.2	1,768.7	-2.9%
Elementary and secondary education	656.5	626.8	-4.5%
Medicaid	275.1	292.8	6.4%
Higher education	231.1	203.5	-11.9%
All other	658.5	645.6	-1.9%

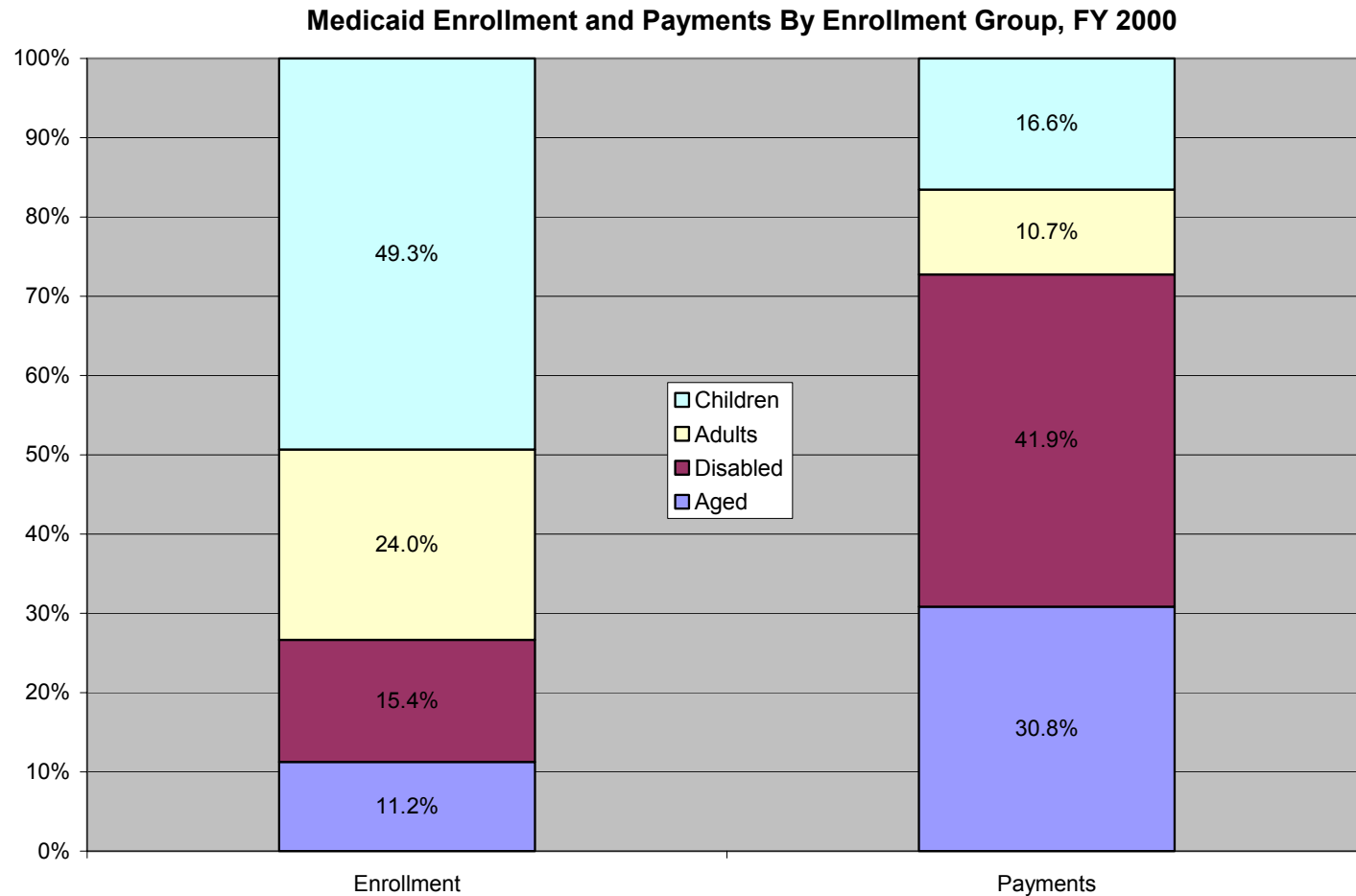
Sources: National Association of State Budget Officers Expenditure Report 2001 and 2003 (state expenditures), Bureau of Economic Analysis (state and local government chain-weighted price index), Bureau of the Census (population)

Medicaid Cost Pressures

- Now #1 area of state spending (#2 of own-source spending, after K-12)
- Has resumed rapid growth, after slowing in late 1990s
- Year after year, over budget in many states
- Medicaid growth surge driven by:
 - increases in prescription drug costs (now approximating 20% annually)
 - enrollment increases
 - increasing costs of long-term care
 - (plus efforts to maximize federal reimbursement)
- CMS analysts expect Medicaid to grow 5.4% points faster annually than inflation + pop growth, 2006-2014

SOURCES: Kaiser Commission/HMA survey, NCSL, NASBO, Heffler, Stephen, Sheila Smith, Sean Keehan, Christine Borger, M. Kent Clemens, and Christopher Truffer, "U.S. Health Spending Projections for 2004-14", Health Affairs – Web Exclusive, 23 February 2005.

Elderly and Disabled: One-Quarter of Enrollment, Nearly Three Quarters of \$ Payments



Source: Kaiser Commission on Medicaid and the Uninsured, *2000 State and National Medicaid Enrollment and Spending Data (MSIS)*, Tables 1 and 4, www.kff.org/medicaid/kcmu031104bpkg.cfm

Elderly Growth Will Place Pressure On Medicaid, Especially In Southwestern And Mountain States

Projected Growth in Population Aged 65+ - States Facing Fastest Growth, 2005 to 2010 -

	2005 to 2010	2005 to 2015
United States median	8.5%	24.7%
Nevada	28.8%	71.2%
Arizona	22.5%	57.9%
Alaska	21.5%	49.5%
Colorado	21.0%	52.4%
Utah	20.5%	52.2%
Idaho	19.0%	48.9%
Georgia	18.4%	48.4%
Washington	18.1%	46.7%
Oregon	17.6%	47.3%
Texas	15.2%	39.9%

Source: Rockefeller Institute analysis of projections
from Economy.com

K-12 Spending Pressures

- Enrollment will grow relatively slowly in coming years in most states
- But higher standards and court decisions are creating pressures
- No one can estimate costs of higher standards with any certainty, but they could be large
 - Economists Reschovsky and Imazeki estimated that bringing low-performing school districts in Texas up to statewide average would take a doubling of state aid
 - Court-appointed referees in New York lawsuit estimated an increased need of \$5.6 billion annually in New York City, a more-than-40 percent increase.
 - Consultant report in Ohio estimated meeting No Child Left Behind standards would require 11% increase

Federal Budget Impact...

- Federal grants – 30% of state gov't revenue, about 2/3 of \$ is for “discretionary” grants
- In FFY 2006 under proposed federal budget:
 - discretionary grants cut 9.2% in real per capita terms
 - mandatory outside of Medicaid cut 5.8%, real per capita
 - equivalent to about a 2.4% reduction in tax revenue
- By FFY 2010 – budget does not provide details, but under reasonable assumptions cuts could be equivalent to about 4% reduction in tax revenue
- States will face Medicaid cuts of \$34 billion or more over 10 years
- This may be just the first shoe...there will be continued pressure for further federal deficit reduction

* Excludes defense and entitlements, but includes non-entitlement grants and agency operations

Sources: Federal budget for FY 2006, unpublished OMB tables underlying federal budget, and Carlitz, Ruth, *Domestic Discretionary Funding Levels for 2006 through 2010, Detailed Data*, Center on Budget and Policy Priorities, February 28, 2005

Federal Tax Reform

- Most discussion is about national impacts
- From state-local perspective, potentially big fiscal issues
 - Deductibility of state and local taxes
 - Administrability of income tax
 - Federal intrusion into traditional state and local tax area
 - Municipal bond interest exclusion

Recap: Improvement, But Risks and Pressures

- Tax revenue is well below prior peak and recovery is weak by historical standards; spending has not been cut, or taxes increased, commensurately
- Medicaid costs continue to grow rapidly and are hard to stop or slow; reform proposals will create fiscal risks
- Standards movement and NCLB mean pressure to increase K-12 spending
- Enrollment growth and labor market demands create pressures for higher education
- Federal budget cuts will exacerbate state fiscal pressures
- Federal tax reform creates fiscal risks

Appendix

Tax Revenue Still Below 2000 Level In 36 States As Of FY 2004

State Tax Revenue - Real Per Capita % Change FY 2000 to FY 2004

Alaska	-23.1%	Texas	-4.9%
Colorado	-18.3%	Kansas	-4.7%
Georgia	-13.6%	Virginia	-4.6%
Michigan	-12.6%	Kentucky	-4.0%
Connecticut	-12.5%	Delaware	-4.0%
Utah	-12.3%	Florida	-2.2%
Oregon	-12.0%	Maine	-2.0%
California	-11.8%	Pennsylvania	-1.9%
Wisconsin	-11.3%	Arkansas	-1.8%
South Carolina	-10.6%	South Dakota	-1.3%
Iowa	-10.3%	Oklahoma	-0.5%
Massachusetts	-9.6%	New Jersey	-0.4%
Minnesota	-9.4%	Maryland	0.0%
Missouri	-9.1%	Hawaii	0.2%
Illinois	-8.9%	Vermont	0.3%
Mississippi	-8.6%	New Hampshire	0.6%
New Mexico	-8.4%	Ohio	0.8%
North Carolina	-8.1%	West Virginia	1.1%
New York	-7.9%	Montana	1.9%
Idaho	-7.6%	Rhode Island	2.3%
Washington	-7.2%	Indiana	3.7%
North Dakota	-7.0%	Tennessee	5.6%
		Nevada	5.7%
United States	-6.7%	Louisiana	6.9%
		Nebraska	8.7%
Alabama	-5.5%	Wyoming	31.5%
Arizona	-5.1%		

SOURCES: Census Bureau: tax revenue through 2003, and population; Rockefeller Institute: tax growth to 2004. BEA: state & local government chain-weighted price index.