# SUMMARY: FALL 2011 FISCAL SURVEY OF STATES

## States Not Back to Pre-Recession Levels; Constrained Fiscal Evironment Persists in FY 2012

November 28, 2011

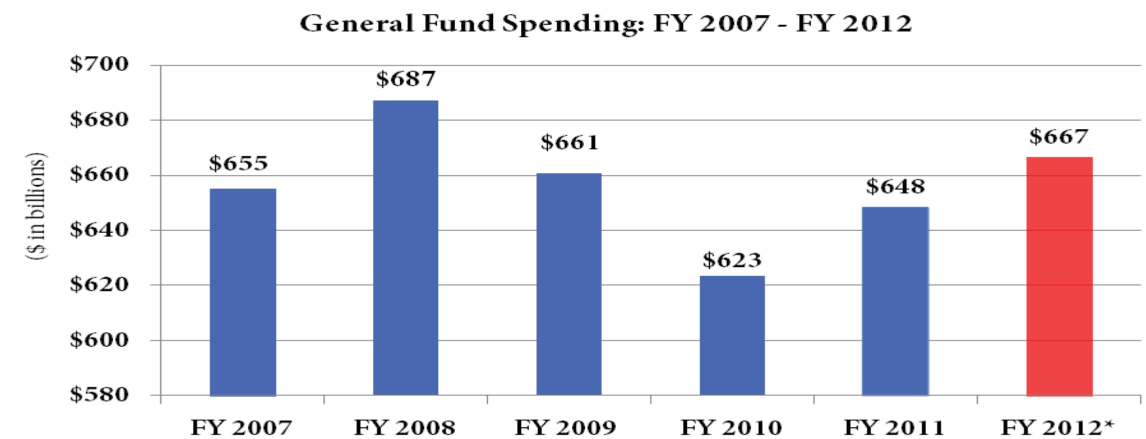
## Overall: States Not Back to Pre-Recession Levels

While the overall fiscal situation of states has improved from the depths of the recent recession, the *Fall 2011 Fiscal Survey of States* underscores the constrained financial situation facing states for this current fiscal year 2012. The data in this report show some relative financial improvement for states, with rising tax collections, growing general fund expenditures, and a slow restoration of state rainy day fund balances. Despite these recent relative gains, aggregate state revenues and spending figures remain below their pre-recession levels. That states have still not returned to pre-recession levels of either general fund spending or revenue demonstrates the continuing significant impact of the economic downtown and the current tepid growth in the national economy.

## General Fund Spending Rising, but Remains Below 2008

Forty-three states enacted a fiscal 2012 budget with higher general fund spending than fiscal 2011. Overall, state fiscal 2012 enacted budgets call for $667 billion in general fund expenditures, which represents a year over year 2.9 percent increase compared to $648 billion in general fund spending in fiscal 2011. However, even with this increase and the year over year 4.0 percent increase in fiscal 2011, total enacted general fund spending in fiscal 2012 is still $20 billion, or 3.1 percent, less than the pre-recession high of $687 billion in fiscal 2008. This reduction in general fund spending is illustrated by more than half (29) of the states enacting a fiscal 2012 budget with lower general fund spending than they had in fiscal 2008.

### FY 2012 Spending Remains $20 Billion Below FY 2008




* FY 2007 – 2010 are actual, FY 2011 is preliminary actual and FY 2012 is enacted.

The National Association of State Budget Officers

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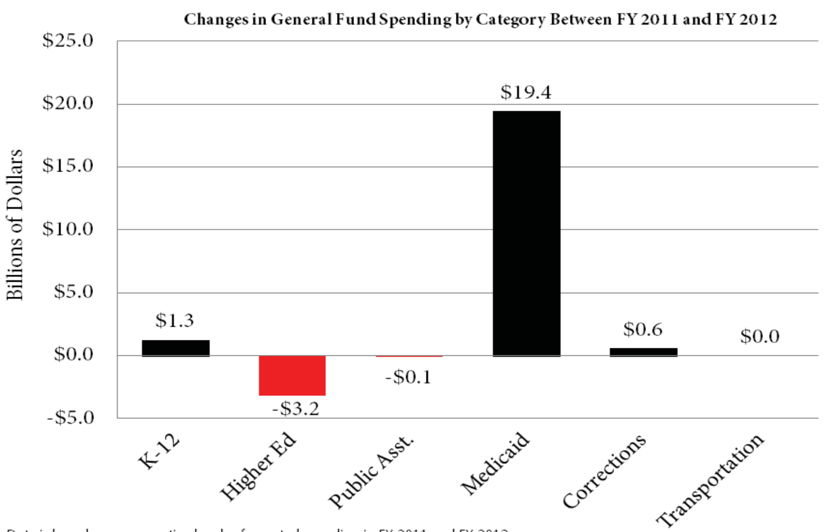
# States Face Significant Challenges: Medicaid in Particular

While overall state spending is expected to grow slowly over the next few years, spending on Medicaid is expected to consume an increasing share of state budgets and grow more rapidly than state revenue. Factors causing rapid growth in Medicaid costs for states include: increased enrollments (because of both the weak economy and eligibility requirements under health care reform); the elimination of federal funds associated with the enhanced matching rate of state costs from the Recovery Act; and per capita health care costs in general increasing faster than the economy. With future Medicaid costs expected to grow significantly and state revenue collections forecast to grow at a slower pace, states are likely to face tight fiscal conditions for the foreseeable future.

**Medicaid Spending Continues to Drive General Fund Spending Growth**

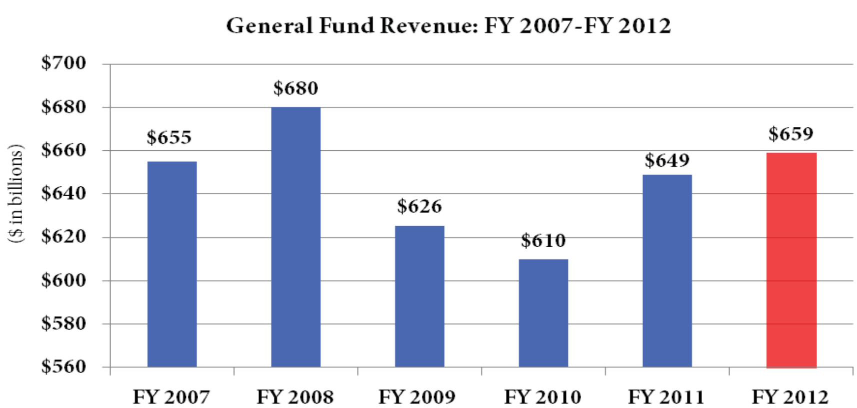



Data is based on comparative levels of enacted spending in FY 2011 and FY 2012

# Revenues Slowly Climbing Back

State enacted budgets for fiscal 2012 forecast total general fund revenues of $659 billion, which is 3.1 percent below revenues in 2008. Although state general fund revenues increased in both fiscal 2011 and fiscal 2012, the drastic declines in revenue collections experienced in fiscal 2009 and fiscal 2010 mean that total general fund revenues in fiscal 2012 will still be $21 billion below their fiscal 2008 level. Specifically, projected revenue collections in fiscal 2012 compared to 2011 reflect a 5.2 percent increase in personal income tax revenue, a 0.1 percent decrease in corporate income tax revenue, and a 0.3 percent decrease in sales tax revenue. The aggregate decrease in sales tax revenue in fiscal 2012 is mostly due to the end of temporary sales increases in a few states. In fiscal 2011, revenues from sales tax collections rose 4.8 percent, while personal income tax collections were 9.7 percent higher, and corporate income tax collections rose 9.4 percent.

**Revenue Remains Below Pre-Recession Levels**

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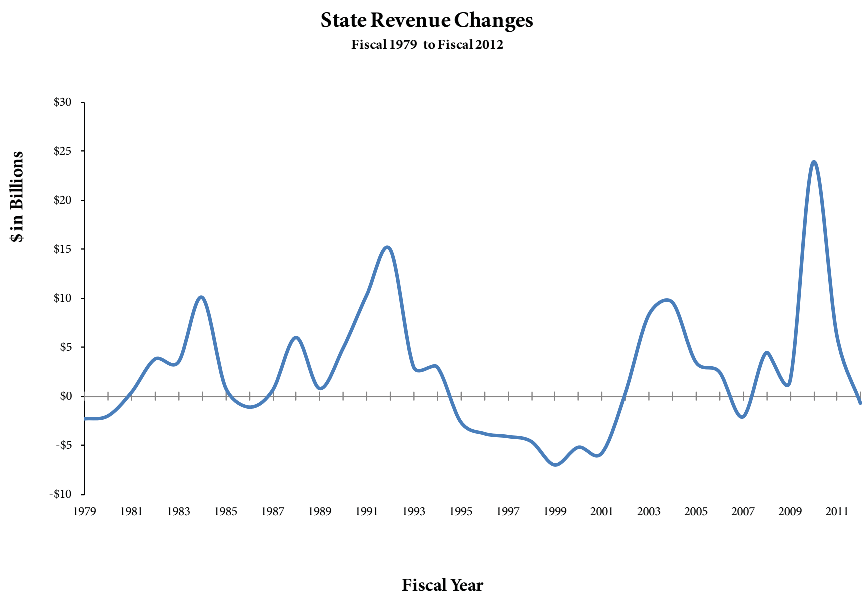
# States Enact First Net Tax and Fee Decrease Since 2007

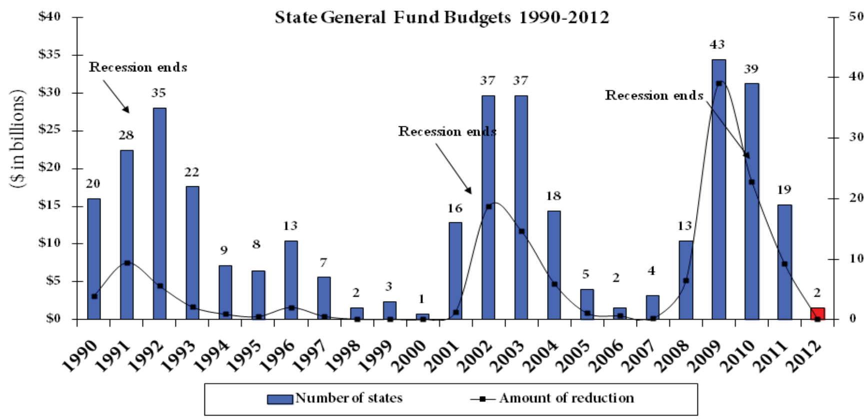
State enacted fiscal 2012 budgets include a $584 million reduction in new net taxes and fees. Specifically, 18 states enacted net decreases in taxes while 13 states enacted net increases. This is the first net reduction in new taxes and fees since fiscal 2007. In addition to the net reduction in new taxes and fees, states also enacted decreases of almost $2.6 billion in net revenue measures. Revenue measures differ from taxes and fees in that they enhance general fund revenue, but do not affect taxpayer liability and may rely on enforcement of existing laws, additional audits and compliance efforts, and increasing fines or late filings. Many of the larger state decreases in both new taxes and fees and new revenue measures are the result of expiring tax provisions that were not renewed. In response to the significant loss of revenue during the recession, states enacted $23.9 billion in increased taxes and fees along with an additional increase of nearly $7.5 billion in revenue measures in fiscal 2010 as well as $6.2 billion in new tax taxes and fees and $2.9 billion in revenue measures in fiscal 2011.




# Mid-Year Budget Cuts Fewer than in Recent Years

In fiscal 2011, 19 states enacted mid-year budget cuts totaling $7.4 billion, which is significantly less than in 2010. In fiscal 2010, 39 states made $18.3 billion in mid-year budget cuts and in fiscal 2009, 43 states made mid-year cuts totaling $31.3 billion. Thus far, two states reported making mid-year cuts to their fiscal 2012 budget. Although the number of states making mid-year cuts is likely to increase as the year progresses, the final number is unlikely to reach the level seen during the peak of the downturn.

## Mid-Year Budget Cuts Continue to Decline

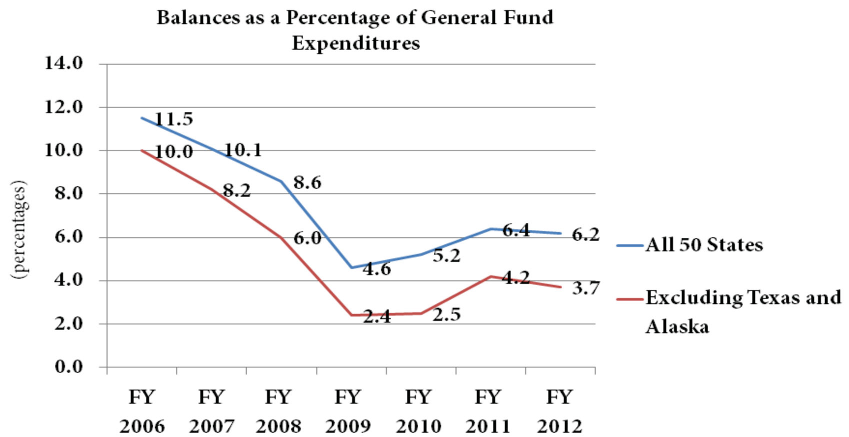



*FY 2012 mid-year budget cuts are ongoing

## State Balance Levels Begin to Grow

The slight improvement in state fiscal conditions is highlighted by the increase in states' balances. While balances had been built up during the middle of the last decade to a peak of $69 billion or 11.5 percent of general fund expenditures in fiscal 2006, the sudden and drastic loss of revenue resulted in a significant depletion of balance levels during the recession to $30.6 billion or 4.6 percent of expenditures at the end of fiscal 2009. However, based on states' enacted budgets for fiscal 2012, balances are expected to be $41.2 billion, or 6.2 percent of expenditures. Additionally, it is important to note that the balance levels of Alaska and Texas make up 45.2 percent of total state balance levels in fiscal 2012. Without these two states, the remaining 48 states have balance levels that represent only 3.7 percent.

**State Balance Levels are Beginning to Recover**

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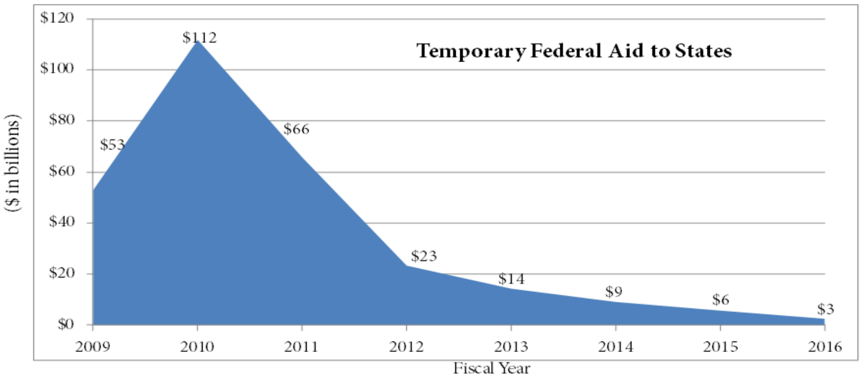
## End of Recovery Act Funds Amplifies Difficulties

In spite of all the actions states have already taken, the revenue recovery that began in fiscal 2011 and is forecast to continue in fiscal 2012 will likely not be enough to overcome the expiration of funds provided through the Recovery Act that began in fiscal 2011. Specifically, in 2010, temporary federal aid to states and localities totaled $112 billion but dropped to $66 billion in fiscal 2011, and will decline to $23 billion in fiscal 2012, with even further declines thereafter. These reductions, which include cuts in enhanced Medicaid funding and funding for the State Fiscal Stabilization Fund (SFSF), will put states in tight fiscal conditions over the next several years as state revenue collections slowly return to pre-recession levels.

**Significant Wind Down of Recovery Act Funds in FY 2012**




*Source: Recovery Act data come from GAO, November 2011*

## States Recovering from the Downturn, but not Recovered

Even though fiscal 2012 shows some improvement in state fiscal conditions over one of the worst time periods since the Great Depression, the combination of the effects of the economic downturn, tepid economic growth, and expiration of funds associated with the Recovery Act will continue to present states with significant financial management challenges..

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