



***The Fiscal Long Term:
Many Challenges for States***

Federation of Tax Administrators

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***Current Fiscal
Situation***

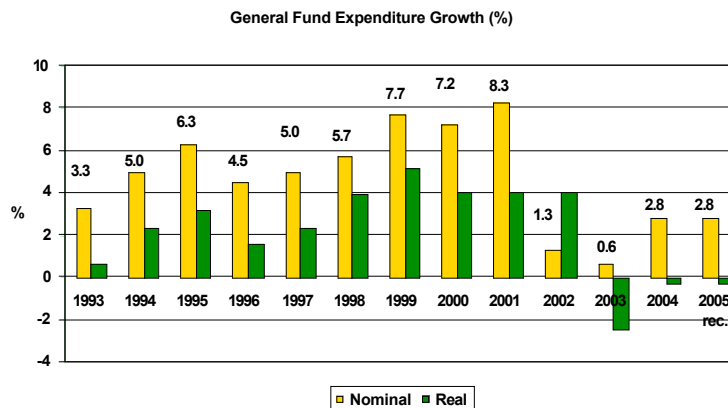


Overview – Current Situation

- Last three years – extremely difficult
- Uneven recovery is beginning
- Small, Medium states doing better
- Great Lakes, Manufacturing based states slower improvement
- State budgets face expenditure pressure into FY '05 and '06



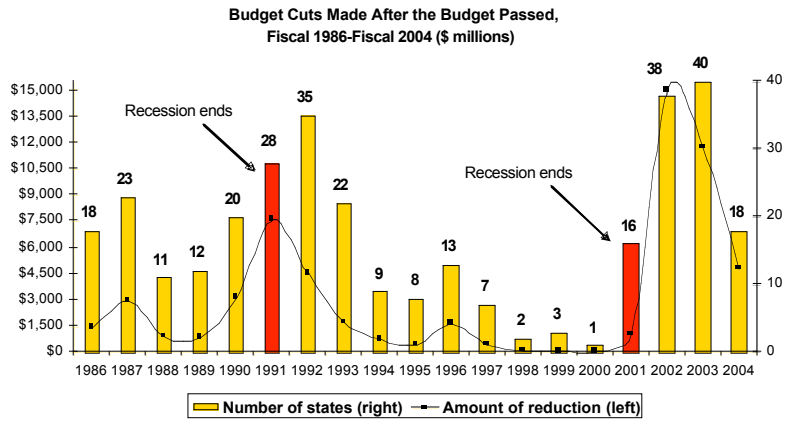
State Expenditures – Below Average



Source: NASBO, Fiscal Survey of States

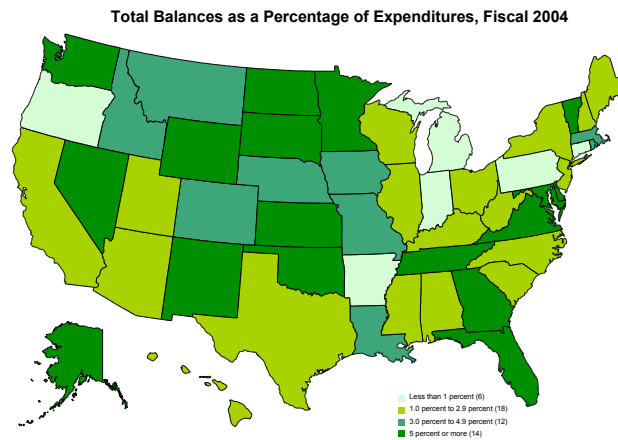


Cyclical Nature of State Budgets



Source: NASBO, Fiscal Survey of States

Balances are still weak



Source: NASBO, Fiscal Survey of States



Balances – Not Being Replenished

- Balances Reached Over 10.6% of State General Funds in FY 2000
- Down to just over 3% by FY 2002
- Still hovering around 3%



State Credit Tight But Improving

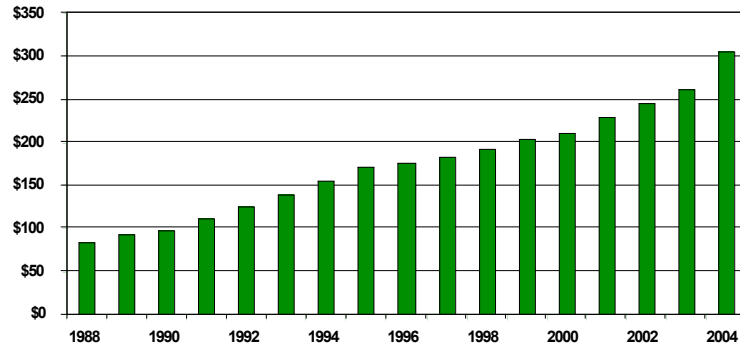
- Fourteen downgrades to 10 states since February 2001
- Eleven states currently have negative rating outlook
- Weak revenues and spending pressure caused cash shortfalls and liquidity problems

Source: Moody's Investors Service



State Debt Issuance Soaring...

Total Net Tax-Supported Debt in the 50 States (\$ Millions)



Source: Moody's Investors Service



Spending Pressures



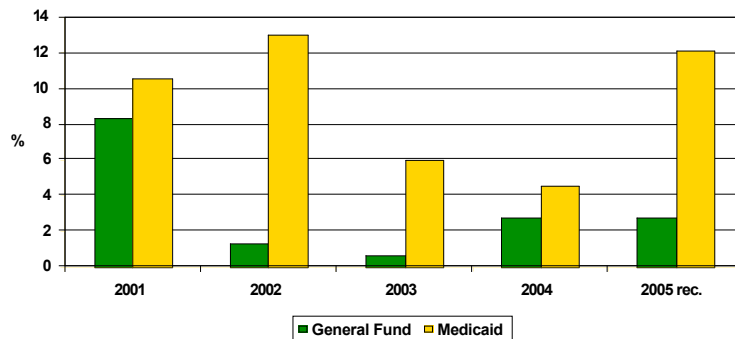
Pent Up Demand for:

- Restoration of Program Cuts
- Replenishing of Balances/Reserves
- Pay Increases for State Employees
- Increased Pension Funding
- New Programs
- Medicaid/Health Care Spending



Medicaid Spending Increasing Higher than Overall Spending

General Fund Growth Rate Compared to Annual Percentage Medicaid Growth Rate (Excluding Federal Share)

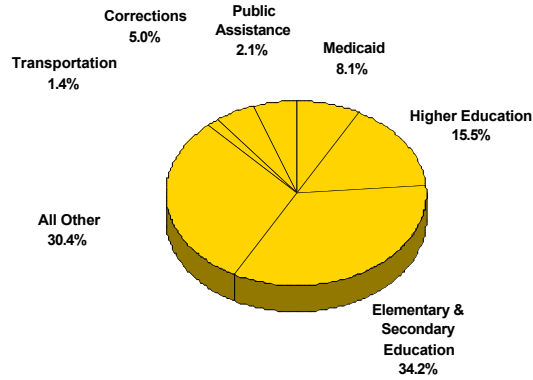


Source: NASBO, Fiscal Survey of States



State General Funds 1987: K-12 and Higher Ed

General Fund Expenditures: 1987

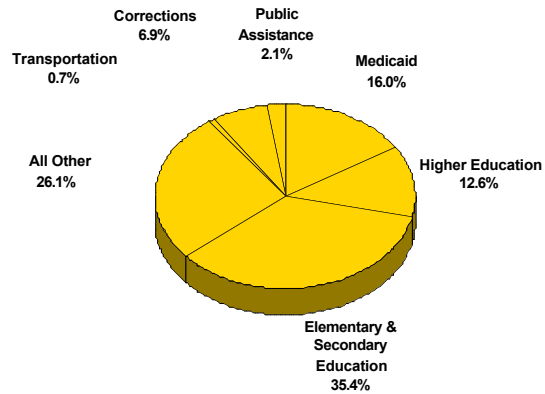


Source: NASBO, State Expenditure Report



State General Funds Now: Health Care and K-12

General Fund Expenditures: 2002

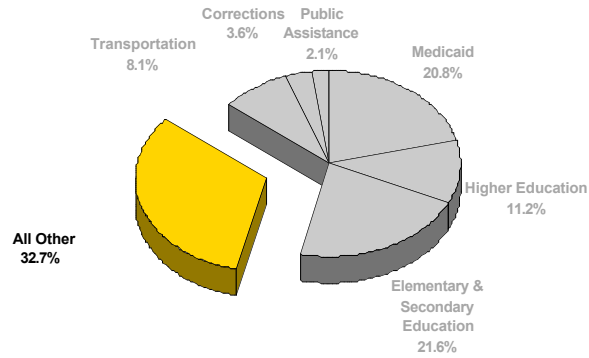


Source: NASBO, State Expenditure Report



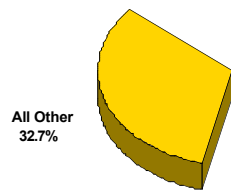
Balancing the budget on less than 100%

Total State Expenditures



Source: NASBO 2002 State Expenditure Report

What's in "all other?"



- Public health
- Parks and recreation
- State police
- Employer contributions to pensions and benefits
- Information Technology
- Care for mentally ill and disabled
- Environmental
- Housing
- General aid to local government





Long Term Challenges



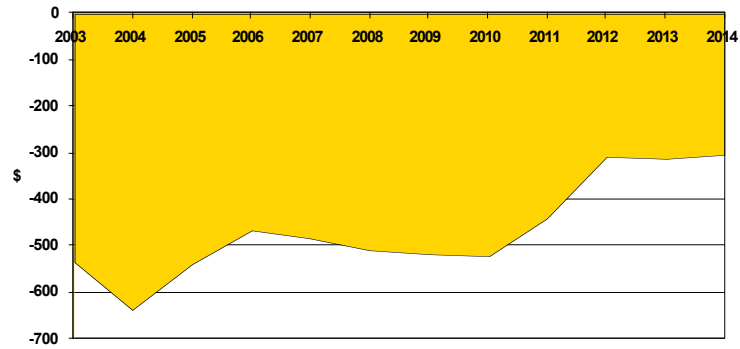
Future Challenges

- Decreasing Discretionary Funds
 - State
 - Federal
- Need for Replenishing Reserves
 - Rainy Day Funds
 - Pension Funds
- Demographic Changes
- Structural Changes



Future Federal funds may be limited

On-Budget Deficit, Federal Fiscal Years 2003 (Actual)-2014 (\$ Billions)

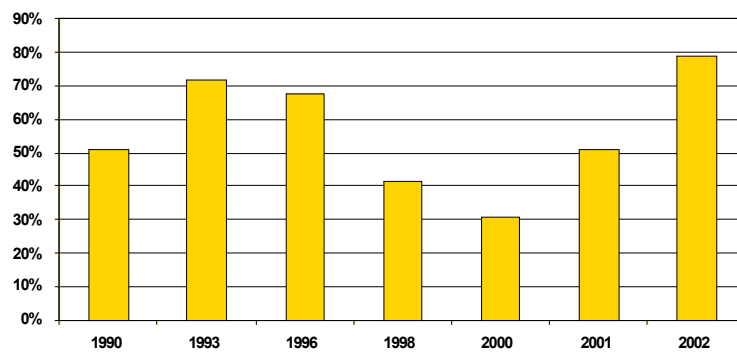


Source: Congressional Budget Office



State Pension System Needs

Percent of State Pension Plans that are Underfunded

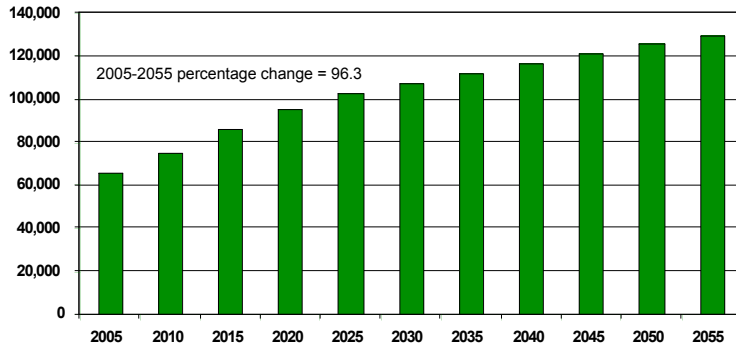


Source: Robert Borden, Louisiana State Employees' Retirement System



Demographic Changes

Projections of Age 55+ Population, 2005-2055 (thousands)

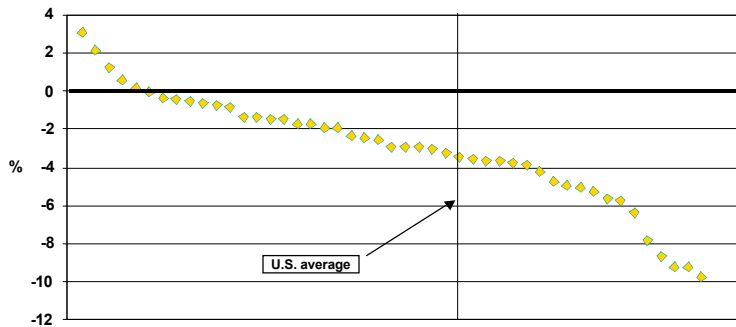


Source: Bureau of the Census



Structural Deficits

State and Local Surplus (Shortfall) as a Percentage of Revenue, After 8 Years*



Source: Don Boyd, Rockefeller Institute of Government





Conclusion

- Challenges, but Opportunities
- Primary Expenditures:
 - Medicaid/Health Care
 - K-12
- Tough Choices Must be Made
 - Revenue
 - Spending



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