





Follow the Money

Federation of Tax Administrators
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Current Fiscal Situation

The Current Fiscal Situation



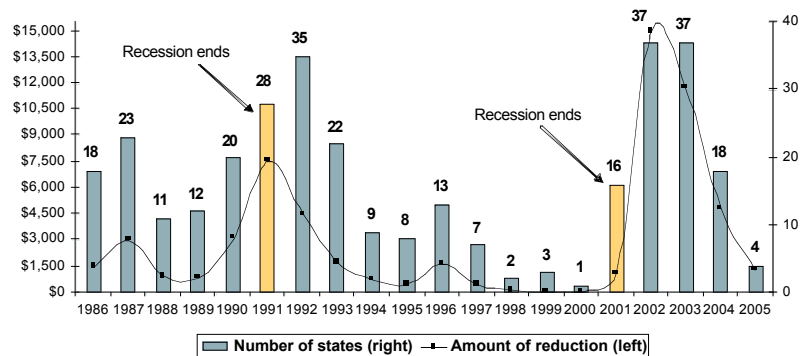
- Gradual recovery after three very difficult fiscal years for almost all states
- Most states reporting improvement in revenues *over* projected
- State budgets face expenditure pressure in FY'06 and beyond



Significant Improvement



Budget Cuts Made After the Budget Passed, Fiscal 1986-Fiscal 2004 (\$ millions)



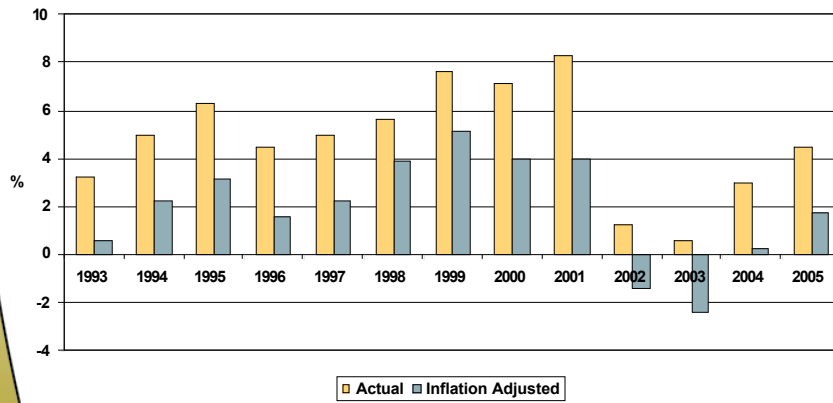
Source: NASBO, Fiscal Survey of States



State Expenditures: Sluggish Recovery



General Fund Expenditure Growth (%)

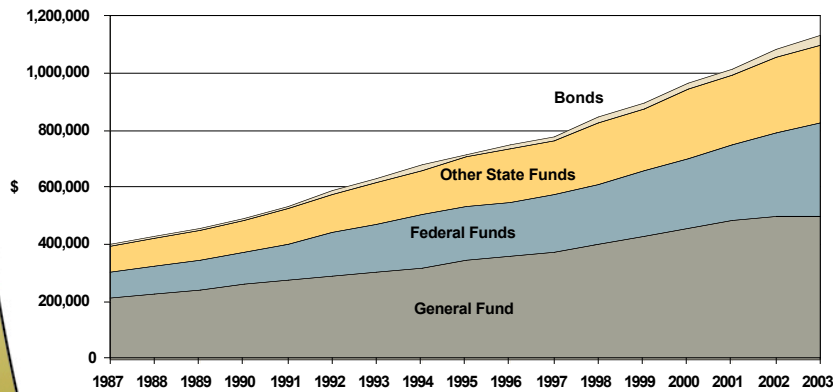


Source: NASBO Fiscal Survey of States

State Expenditures: Sluggish Recovery



Total State Spending By Fund Source, Fiscal 1987-2003 (\$ millions)

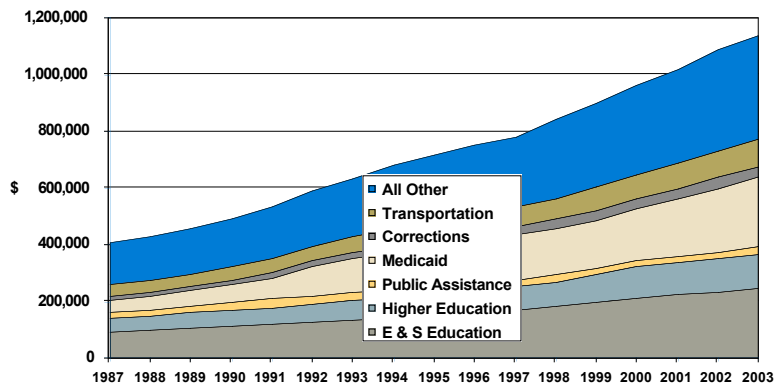


Source: NASBO, State Expenditure Report

State Expenditures: Sluggish Recovery



Composition of Total State Spending By Function, Fiscal 1987-2003 (\$ millions)



Source: NASBO, State Expenditure Report



Spending Pressure Remains High, May 2005



“Costs rising for Medicaid”

Delaware

“Public colleges facing shortfall”

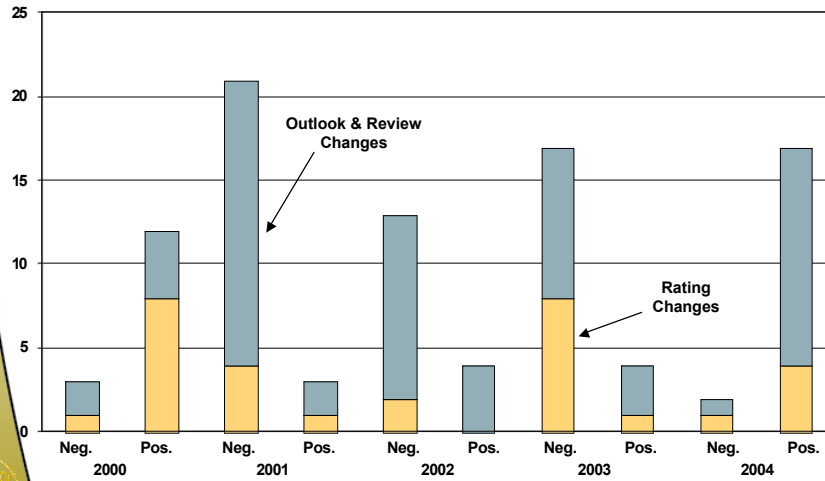
Louisiana

“Retirement fund short”

Mississippi



State Rating and Outlook Changes 2000-2004

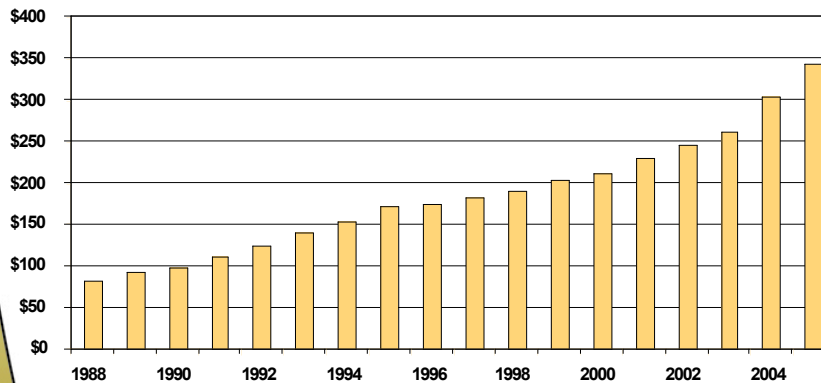


Source: Moody's Investors Service

State Debt Has Soared



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



Source: Moody's Investors Service



Spending Pressures



Competing Fiscal Pressures



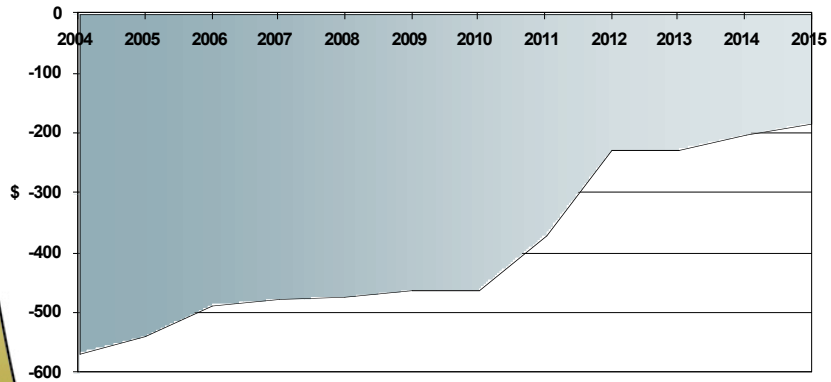
- **Medicaid and Health Care**
- **K-12 Increases**
- **Demographic Changes**
- **Infrastructure**



Future Federal Funds Will Be Limited



On-Budget Deficit, Federal Fiscal Years 2003 (Actual)-2015 (\$ Billions)



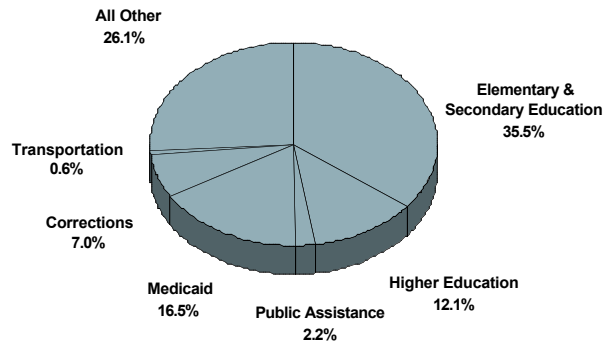
Source: Congressional Budget Office



State General Funds Today



General Fund Spending, Fiscal 2003



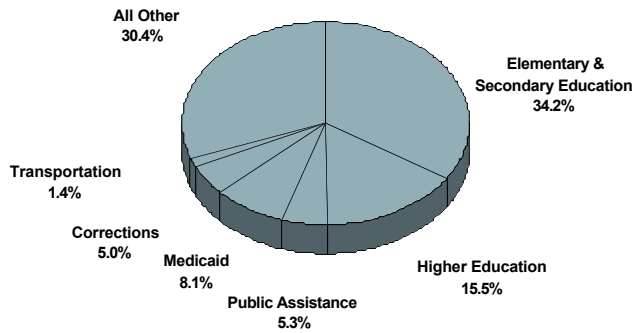
Source: NASBO 2003 State Expenditure Report



State General Funds: Medicaid has Doubled Just Since 1987



General Fund Spending, Fiscal 1987

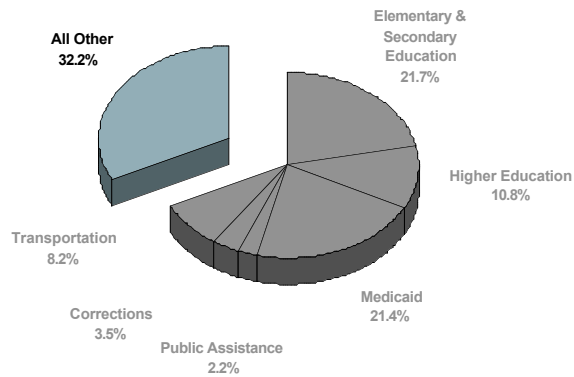


Source: NASBO 2003 State Expenditure Report

Balancing the budget on less than 100%



Total State Expenditures

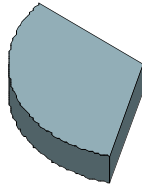


Source: NASBO 2003 State Expenditure Report

What's in "all other?"



All Other
32.2%



- 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



Medicaid – A Budget Driver





“I am a... liberal Democrat, but we can't sustain the current Medicaid program. It's fiscal madness. It doesn't guarantee good care, and it's a budget buster.”

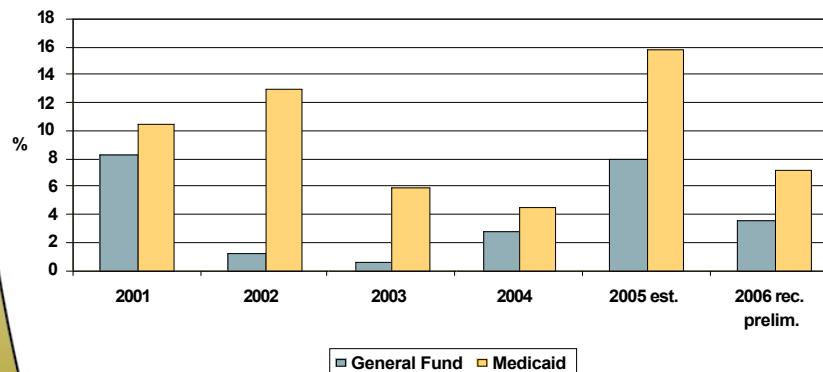
-- John Hurson, President, NCSL
and Delegate, Maryland



Medicaid Spending



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



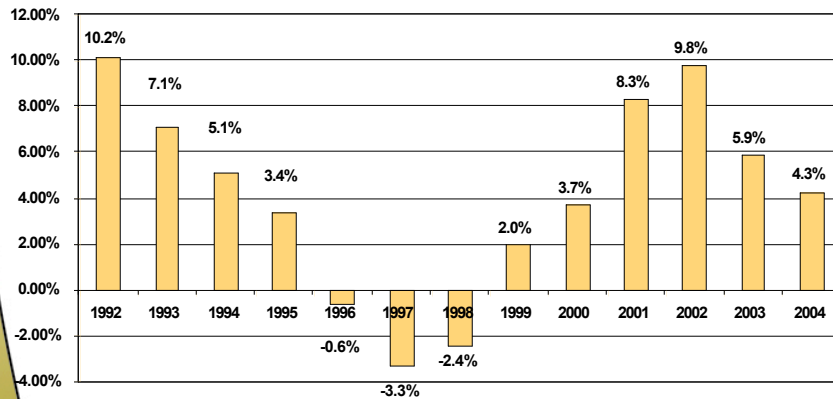
Source: NASBO, Fiscal Survey of States



Medicaid Enrollment



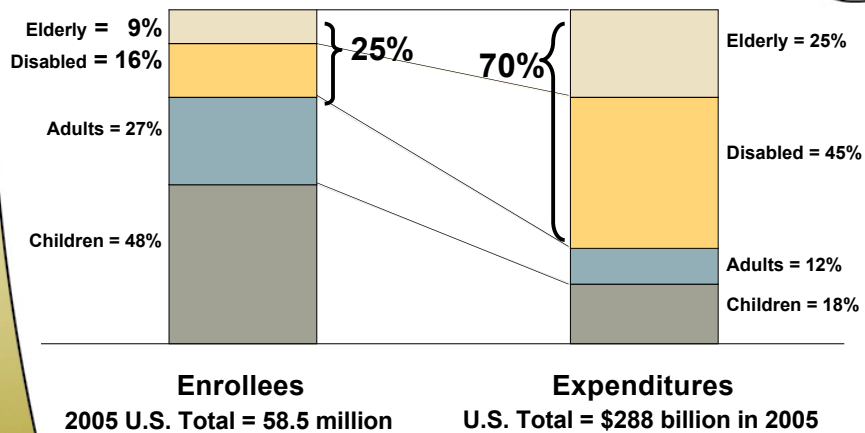
Percent Change in U.S. Medicaid Enrollment, FY 1992- FY 2004



Source: Vernon Smith, Health Management Associates





70% of Medicaid Spending on Benefits in 2005 is for Elderly and Disabled





Source: Vernon Smith, Health Management Associates





Outlook



Strengths

- Employment/Consumer spending good, sustainable
- Revenue growth strong
- Credit ratings improving
- State liquidity good

Risks



- Decreased federal funding
- Energy prices/inflation
- OPEB
- Possible housing bubble
- Health care costs



Competing Fiscal Pressures



- **Medicaid and Health Care**
- **K-12 Increases**
- **Demographic Changes**
- **Infrastructure**



The Next Ten Years



- Cyclical Revenue
- Less Federal Monies
- Tough Competition for State General Funds
- Budget Drivers
 - K-12
 - Medicaid and Health Care



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