

Figure 1

The Current State Fiscal Crisis And Its Aftermath

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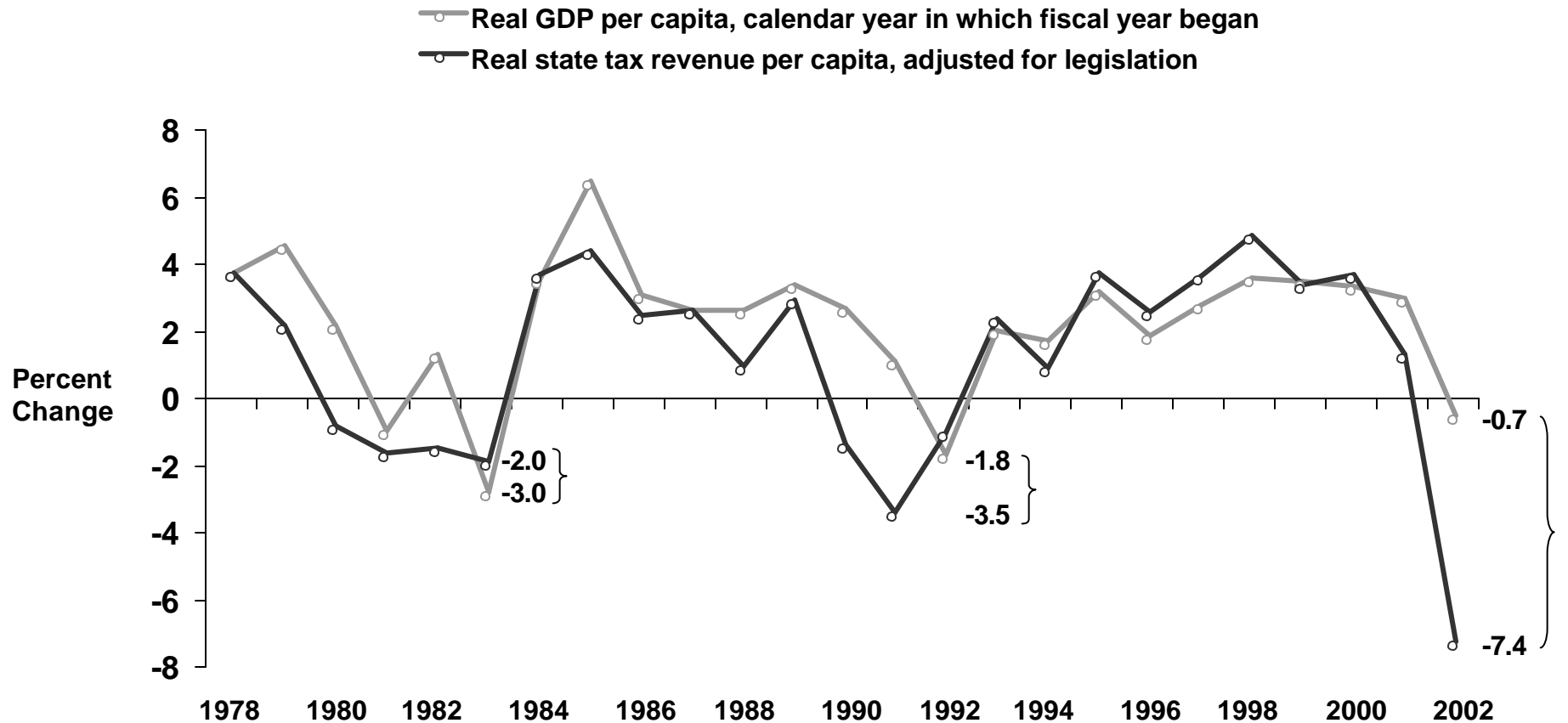
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**K A I S E R C O M M I S S I O N O N
Medicaid and the Uninsured**

Figure 2

State Tax Revenue Has Fallen Far More Sharply Relative to the Economy than in Previous Recessions (1980-82 and 1990-91)



SOURCE: U.S. Bureau of Economic Analysis; U.S. Bureau of the Census; *Significant Features of Fiscal Federalism – 1984* (ACIR); *Fiscal Survey of the States* (NGA); Rockefeller Institute of Government.

Figure 3

Why Is This Fiscal Crisis So Bad?

- Bursting of fiscal bubble
 - Capital gains fell nearly 50% in 2001 after quadrupling in late 1990s
 - Manufacturing weakness followed by a recession and war uncertainty
 - Consumption growth (important to sales taxes) slowed
 - Other positive trends of 1990s ended (stock options gone, welfare windfall used up, Medicaid spending picked up)
- Economy may be recovering, but
 - Employment decline has been steep and prolonged relative to the last recession

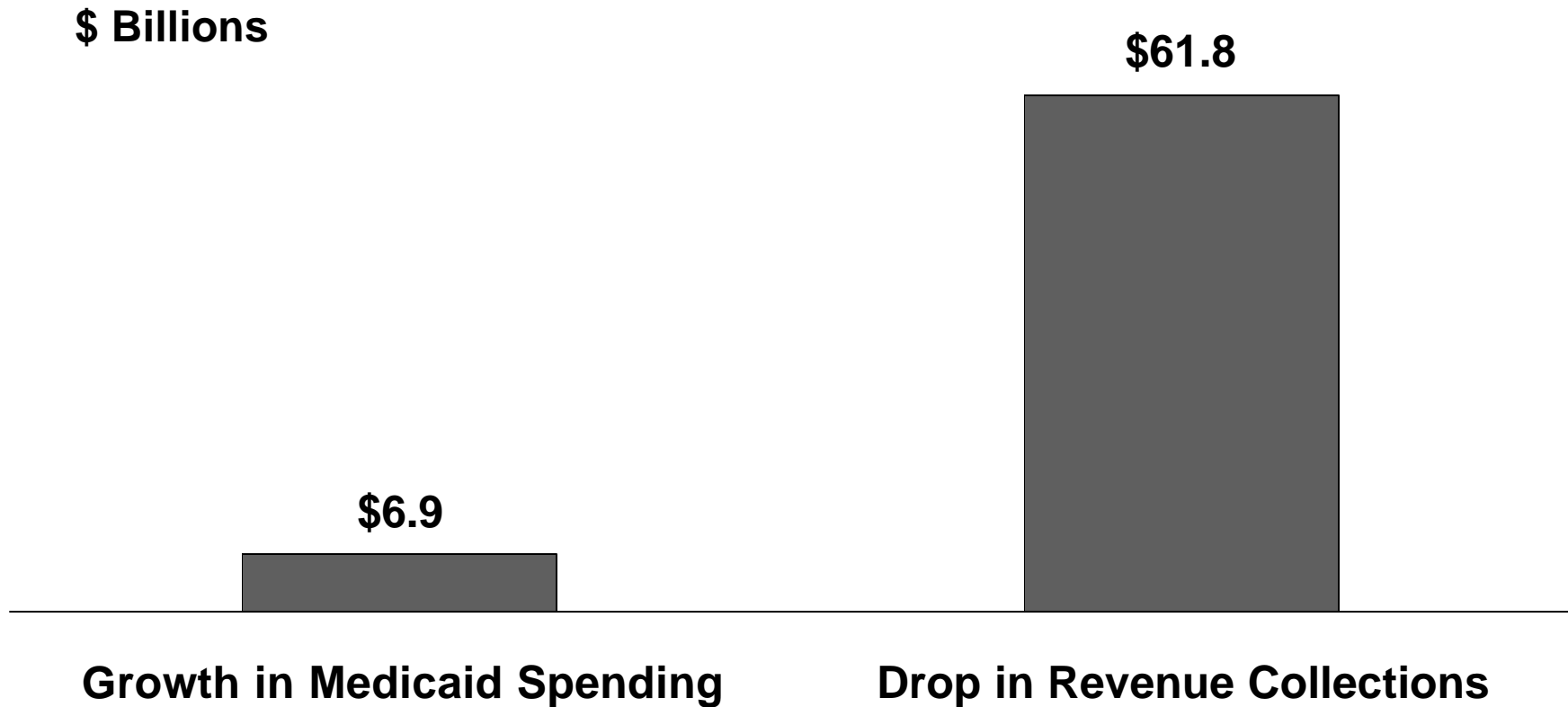
Figure 4

Revenue and Spending in the 1990s

- After last fiscal crisis, states cut taxes...
 - Still, tax revenue grew 6% as share of personal income - testament to extraordinary 1990s
- Increased spending...
 - 26% increase in spending from own funds
 - Smaller increase than in 1980s and 1960s, but larger than 1950s and 1970s
- And boosted reserves
 - 20-year high of 10.4% in FY 2000
 - Reserves now essentially depleted

Figure 5

Contributing Factors to State Budget Gaps in FY 2002 -- Illustrative Analysis --



NOTE: Growth in Medicaid spending and drop in revenue collections calculated compared to average growth rates for FY1994-FY2000.

SOURCE: Rockefeller Institute of Government for the Kaiser Commission on Medicaid and the Uninsured.

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Figure 6

Near and Middle-Term Outlook: Strained Finances

- Employment remains weak
- Will take states several years to work out of current crisis (one shots and other nonrecurring actions spread the problem out)
- Capital gains likely to be weak
 - Stock markets unlikely to generate gains of late 1990s
 - Carryover of capital losses could depress taxable gains for several years
- Downward pressure on sales taxes
 - Shift to services
 - Difficulty collecting taxes on Internet-related sales
- Continued spending pressures