Overview: Total Spending Declined in 2012 but Increased in 2013 as State Fiscal Conditions Stabilized

Fiscal 2012 was a year of transition for states as they continued to emerge from the national recession. By some measures, state budgets experienced positive growth in fiscal 2012. General fund spending increased 3.7 percent while spending from state funds (general funds and other state funds combined) rose 2.3 percent. However, federal funds to states declined 9.1 percent as most spending from the Recovery Act, or stimulus, ended. The combination of state funds slowly increasing and federal funds rapidly declining led to a 1.7 percent reduction in total state expenditures, the first nominal decline in total state expenditures in the 26-year history of the State Expenditure Report. The reduction in total state spending was largely due to state revenues not increasing as fast as federal Recovery Act funds declined. For example, state general fund revenues increased $23.3 billion in fiscal 2012, while Recovery Act funds declined $63.4 billion.

While total state expenditures declined in fiscal 2012, it is estimated that expenditures returned to more typical growth levels in fiscal 2013. State and federal funds are estimated to have grown by 5.3 percent and 2.3 percent respectively in fiscal 2013, resulting in a 4.6 percent increase in total state expenditures. Additionally, it is estimated that in fiscal 2013 state general fund revenues increased 5.4 percent, with sales, personal income, corporate income, gaming, and other taxes and fees all experiencing gains. Many state officials remain concerned about both the short- and long-term outlook, even though state finances are expected to moderately improve in fiscal 2014.

Federal Funds Decline as a Share of Total State Spending

The infusion of additional federal dollars in state budgets from the Recovery Act produced a shift in the funding sources for state expenditures. In fiscal 2008, the last year before the federal stimulus, general funds accounted for 45.9 percent of total state spending, federal funds were 26.3 percent, other state funds were 25.5 percent, and bonds reflected 2.4 percent of the total. By fiscal 2010, general funds accounted for 38.1 percent of total state expenditures, federal funds 34.9 percent, other state funds 24.9, and bonds were 2.2 percent of the total. However, due to the rapid decline in federal Recovery Act funds, general funds are starting to once again comprise a larger share of total state expenditures. In fiscal 2013, general funds are estimated to account for 40.3 percent of total state expenditures, federal funds 30.7 percent, other state funds 26.5 percent, and bonds 2.5 percent.
Medicaid Remains Largest Category of Total Spending, while K-12 is Largest from State Only Funds

Medicaid once again rose as a percentage of total state spending (all state and federal funds combined) in fiscal 2013, after declining slightly in fiscal 2012. In fiscal 2012 Medicaid represented 23.7 percent of total state expenditures, while in fiscal 2013 it is estimated to represent 24.4 percent. Meanwhile, elementary and secondary education has gone from representing 20.3 percent of total state expenditures in fiscal 2011, to 19.9 percent in fiscal 2012, to an estimated 19.8 percent in fiscal 2013.

While Medicaid continues to represent the greatest share of total state expenditures, elementary and secondary education remains by far the largest category of spending from state funds (general funds and other state funds combined, excluding bonds). In fiscal 2013 it is estimated that K-12 will represent 24.5 percent of state funds, with Medicaid the next largest category at 15.8 percent.

Outlook

Total state expenditures declined in fiscal 2012 for the first time in the history of the State Expenditure Report due to a unique set of circumstances. Both state revenue and spending from state funds moderately grew in fiscal 2012 as the economy gradually recovered, while federal funds to states rapidly declined due to the expiration of Recovery Act funds. Fiscal 2013, on the other hand, saw estimated state spending return to more historical growth levels and state finances stabilized overall. Spending from all funds and state revenues experienced modest growth in fiscal 2013 as the national economy continued to slowly improve. Looking beyond fiscal 2013, states remain concerned about both the short- and long-term outlook due to the slow pace of economic growth, uncertainty surrounding federal fund levels, questions regarding the future performance of state revenue, and increased spending demands. However, states are also hopeful that spending and revenue will continue to grow moderately along with the national economy and the budget volatility of recent years will subside.

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