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The State University  
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# *State Budget Stress: Pennsylvania in the National Context*

**Council on Foundations:  
Pennsylvania Philanthropy  
Conference**

**State College, PA**

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# Three major sources of fiscal stress

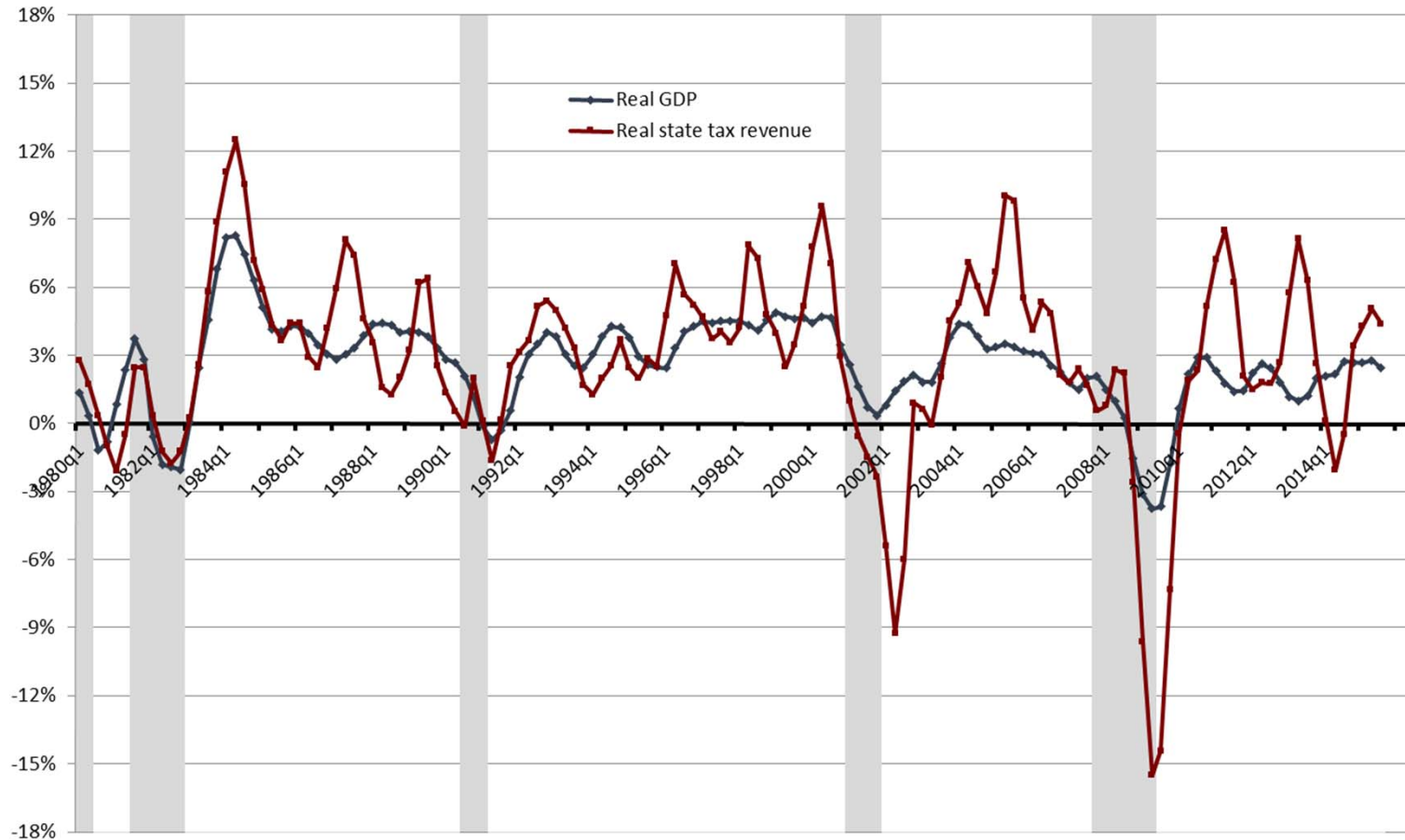
- Slow tax revenue growth
- Pension contribution growth, heavily concentrated in a few states
- Medicaid spending growth, driven primarily by recession-related enrollment

**Reshaping finances: States, dealing with strained resources & requirements for “mandatory” spending (pensions, Medicaid), are doing less of other things.**

# Three major sources of fiscal stress

# When the economy catches a cold, state budgets get the flu

Inflation-adjusted State Government Taxes and GDP for United States  
Year-over-year percentage change in two-quarter moving averages

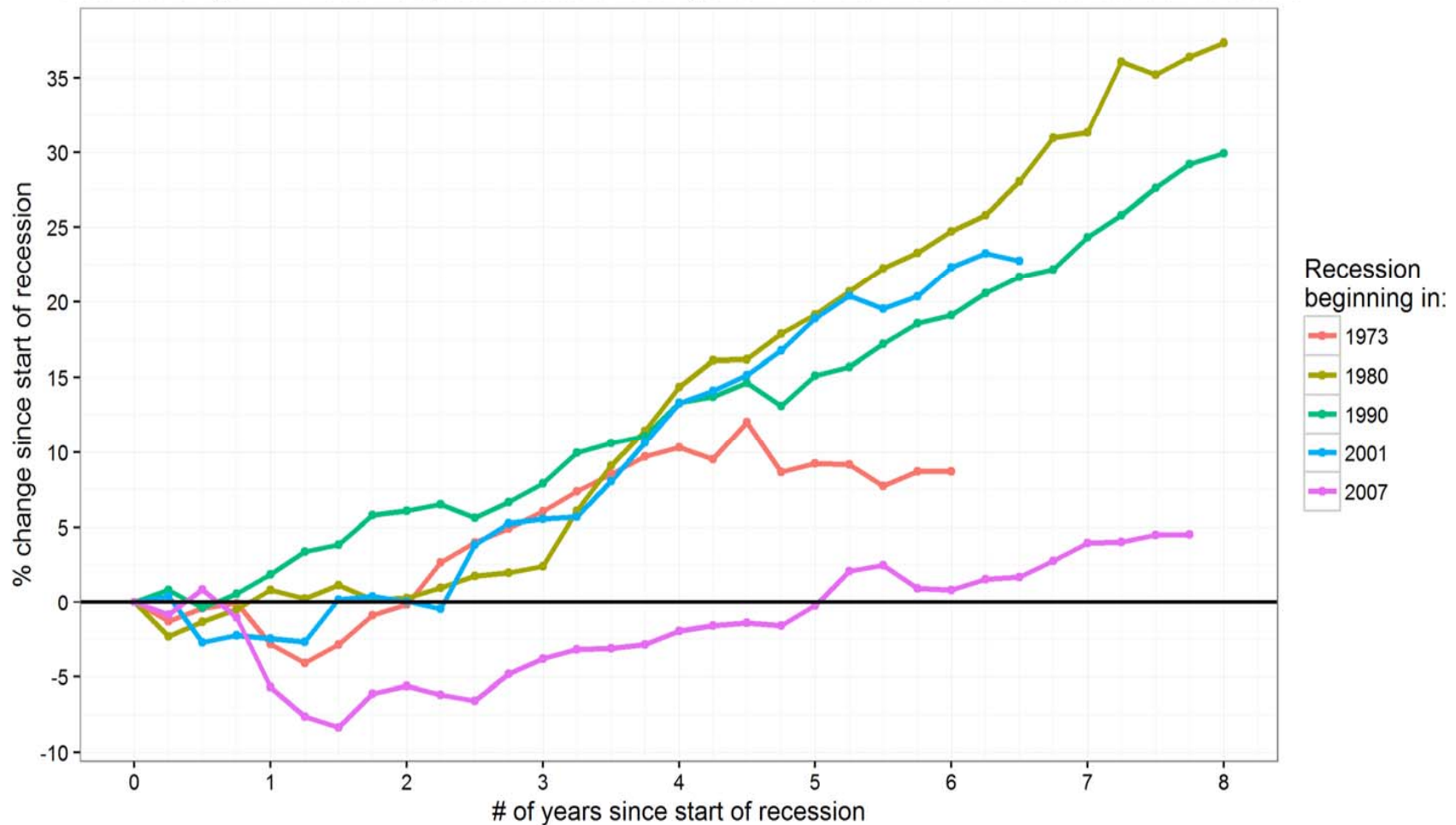


**Sources:** U.S. Census Bureau, Quarterly Summary of State & Local Government Tax Revenue and Bureau of Economic Analysis (real GDP).

**Notes:** (1) Percentage change in two-quarter moving average; (2) No legislative adjustments; (3) Recession periods are shaded.

# Tax revenue recovery slower than past recoveries

Percent change in inflation-adjusted state & local government tax revenue since start of recession

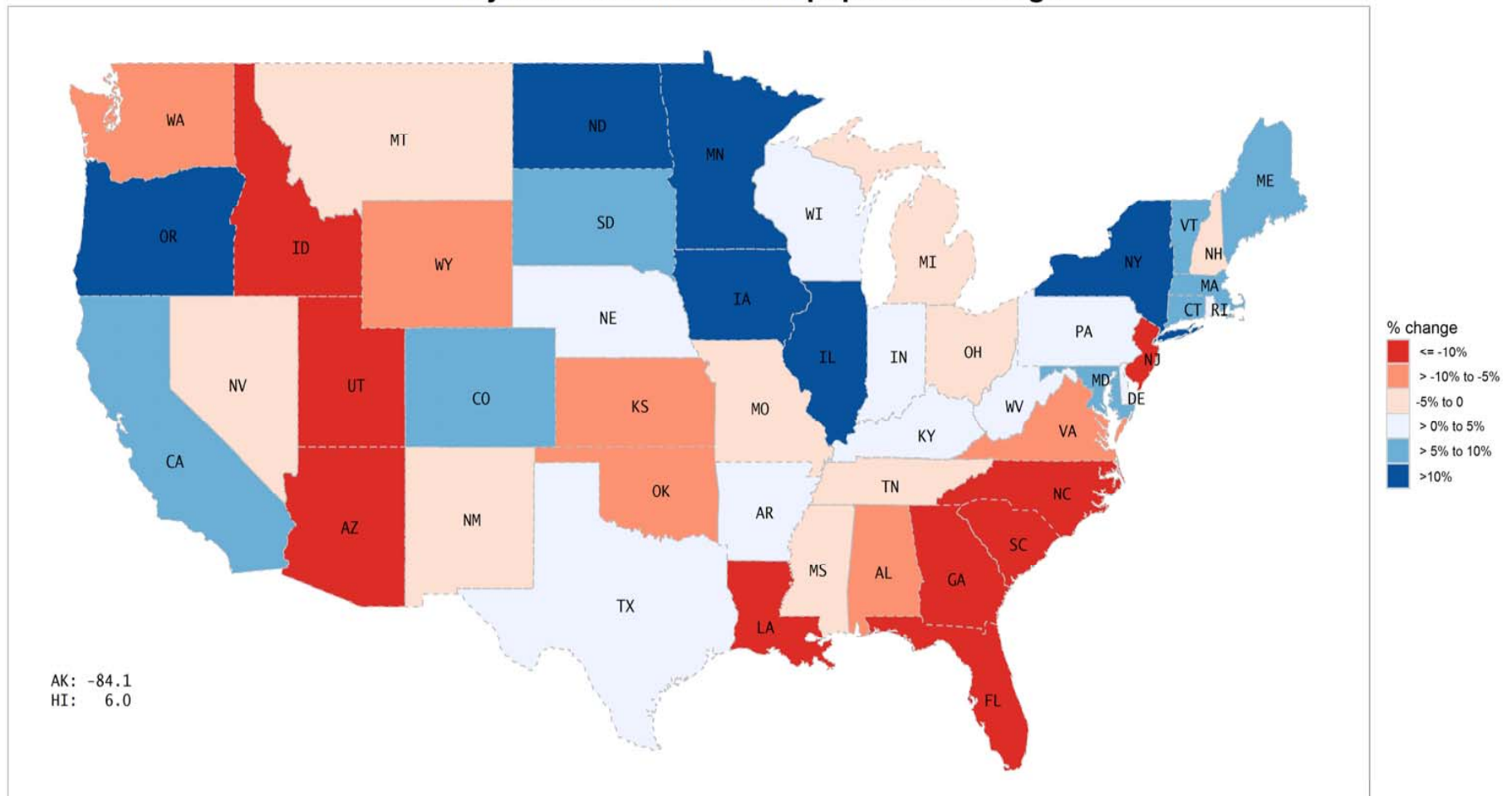


Source: Rockefeller Institute analysis of data from Bureau of Economic Analysis

Note: Data are shown only until the start of the next recession; 1980 and 1981 recessions are treated as single recession

# State taxes, adjusted for inflation and pop. growth, still below pre-recession in many states

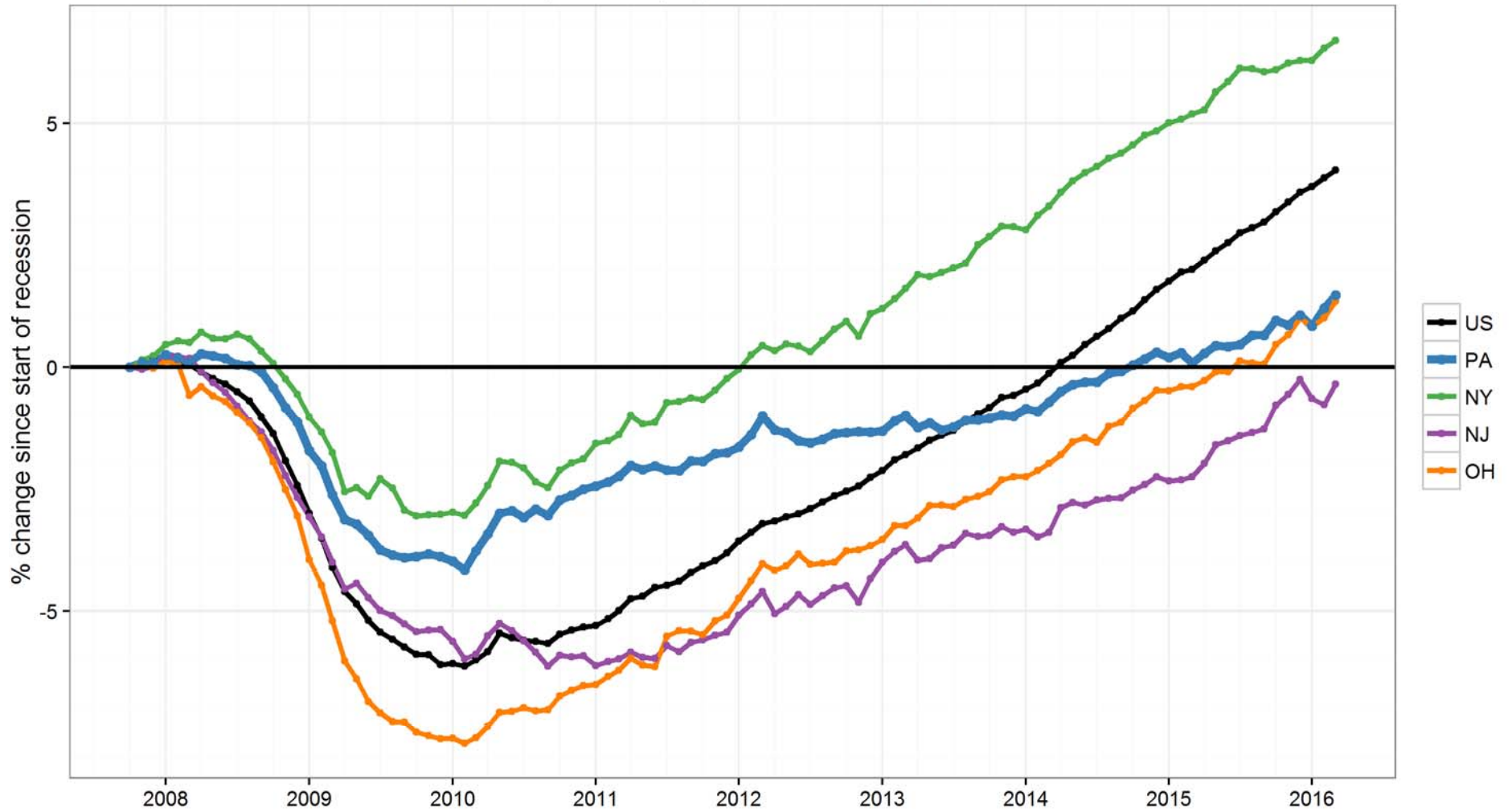
Percent change in 4-quarter sum of state tax revenue, 2007q4 to 2015q3  
Adjusted for inflation and population change



Source: Rockefeller Institute analysis of tax revenue and population from U.S. Bureau of the Census, GDP price index from BEA

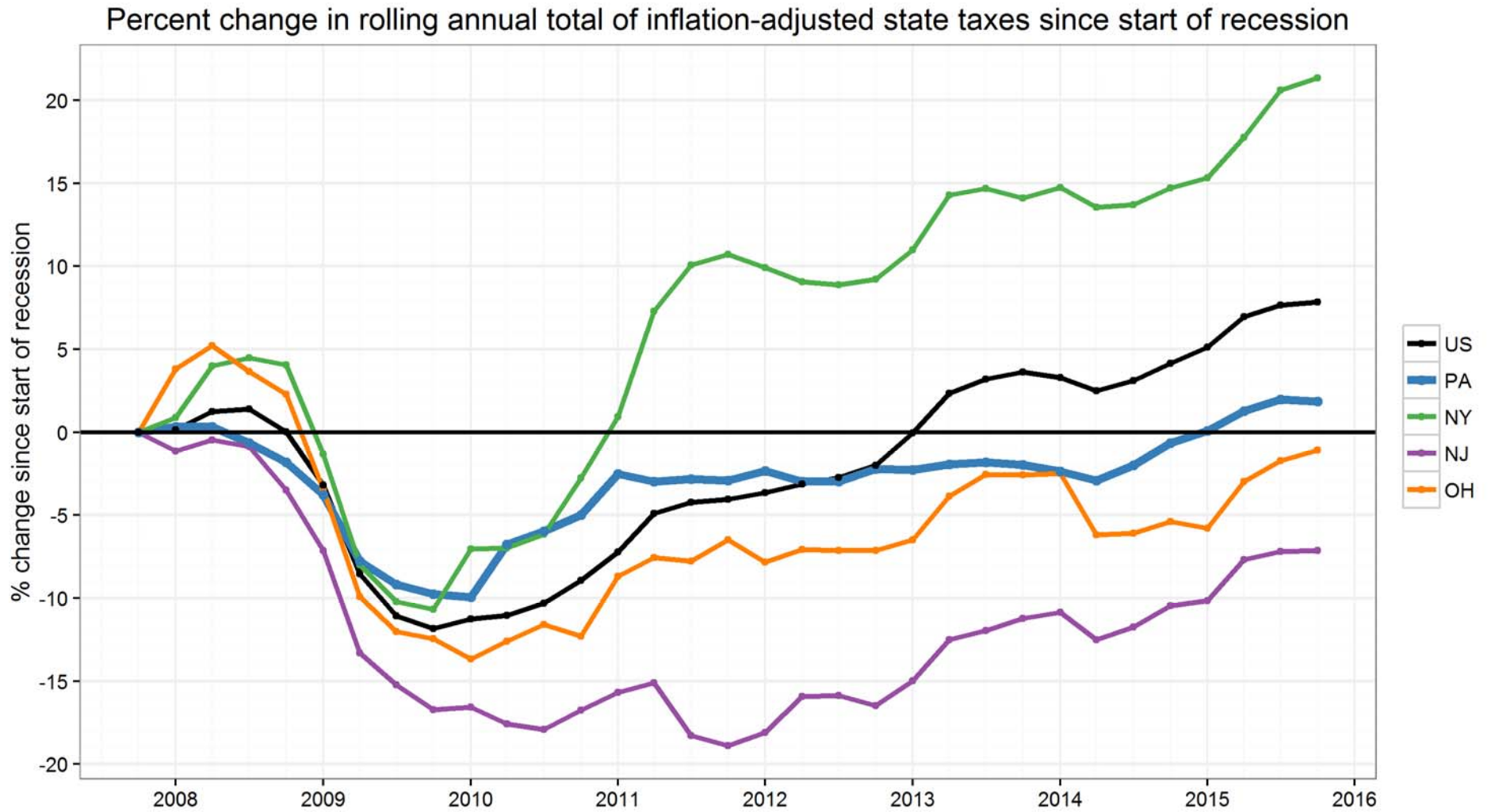
# PA employment underperforming US

Percent change in employment since start of recession



Source: Rockefeller Institute analysis of Current Employment Statistics from Bureau of Labor Statistics

# PA tax recovery underperforming US

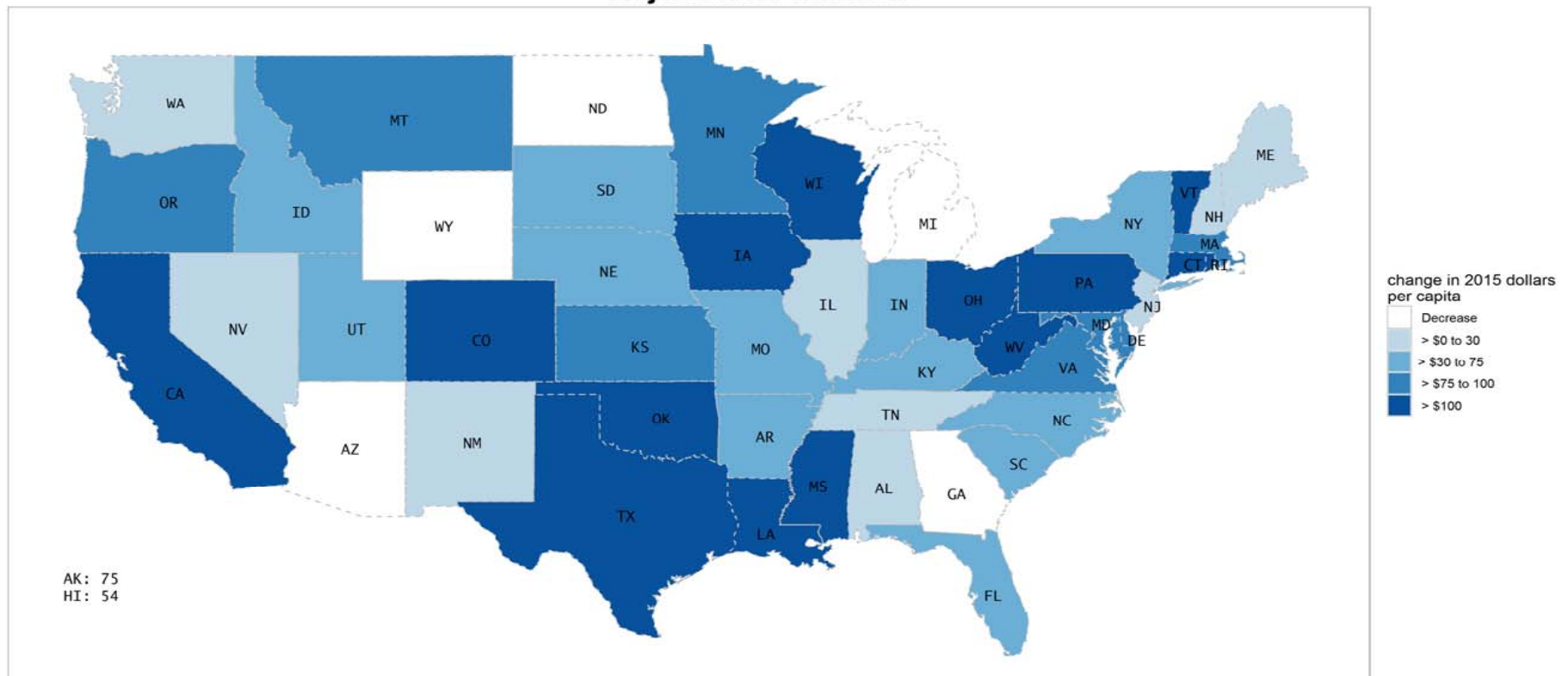


Source: Rockefeller Institute analysis of data from Census Bureau  
Note: Not adjusted for legislative changes



# Real Medicaid expenditures up \$37b (23%) since 2008, driven by recession-related enrollment. Real per-capita up in almost all states.

Change in per-capita state-funded Medicaid expenditures, 2008 to 2015  
Adjusted for inflation



Source: Rockefeller Institute analysis of data from CMS (Medicaid), Census (population), and BEA (GDP price index)

# Very little progress on pensions despite large contribution increases. Some states esp. affected

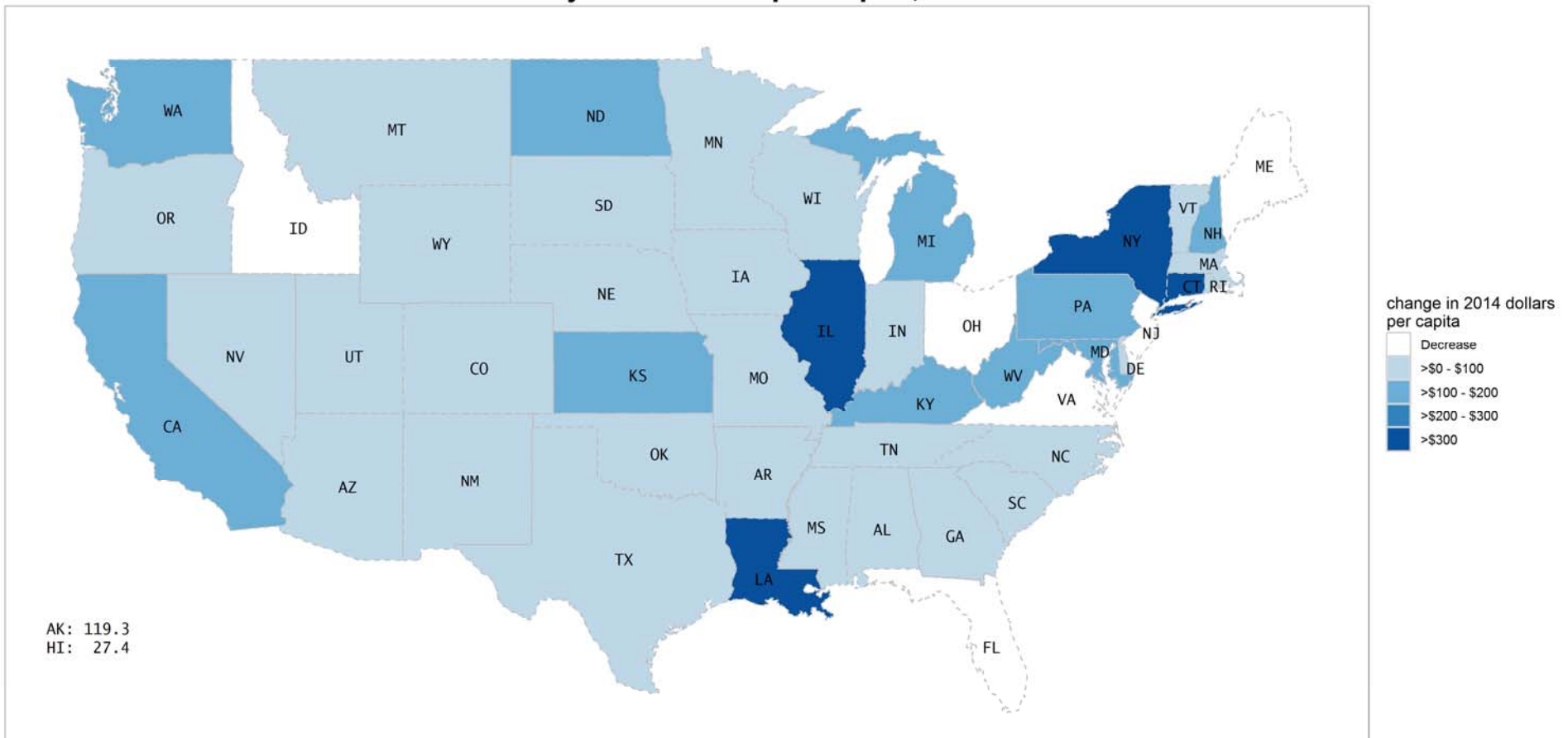
Funded ratio of state and local government defined benefit pension plans in the U.S.



Source: Federal Reserve Board, Financial Accounts of the United States

# PA S&L govts pension contribution \$2.7b greater in 2014 than 2007, 5<sup>th</sup>-largest real per-capita increase

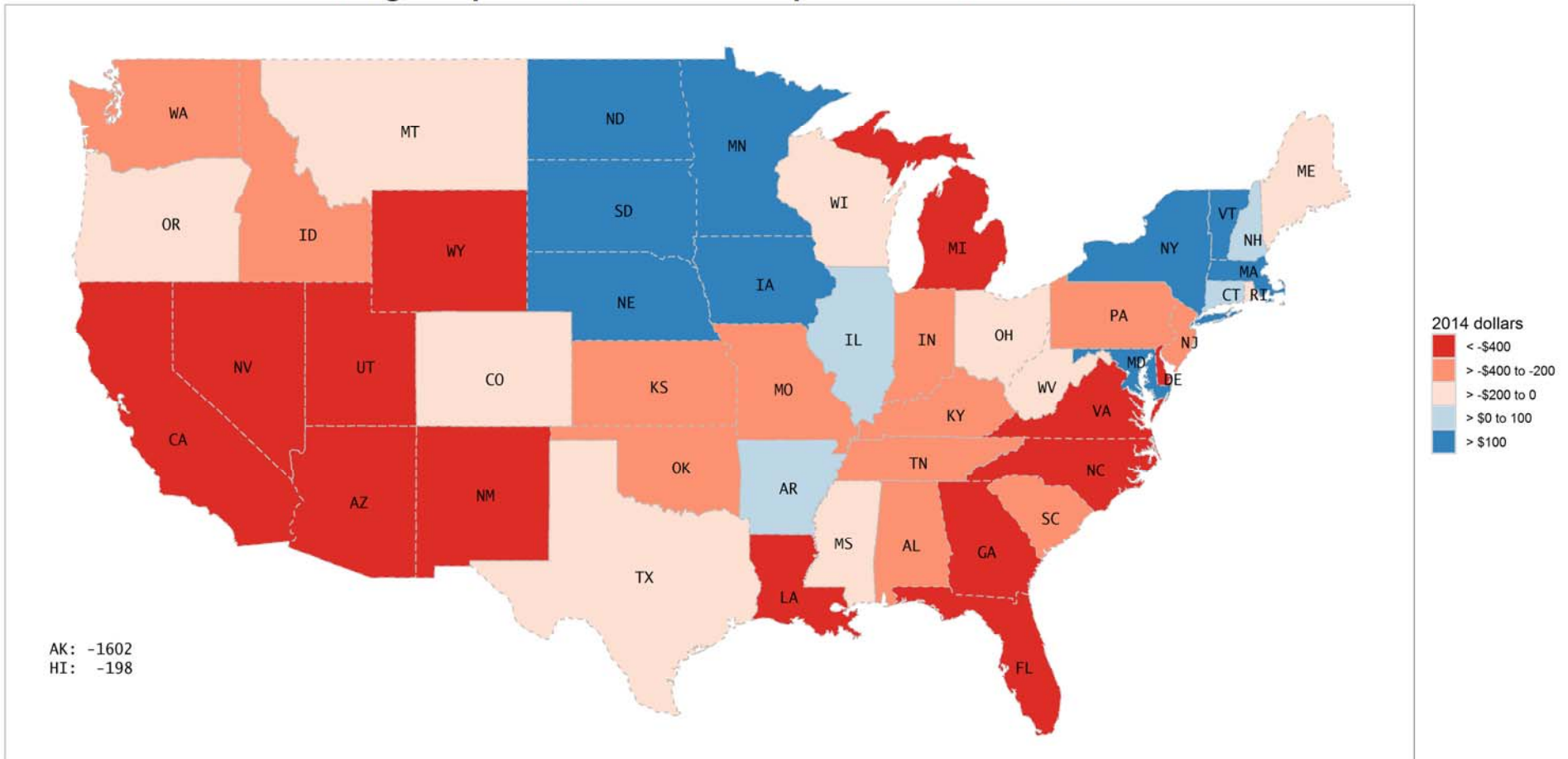
Change in state & local government pension contributions,  
Inflation-adjusted dollars per capita, 2007 to 2014



Source: Rockefeller Institute analysis of Annual Survey of Public Pensions, U.S. Bureau of the Census  
Note: 2008 data used for West Virginia due to extraordinary contribution in 2007 funded from bond proceeds

# Pensions+Medicaid outgrew S&L taxes in 37 states, 2007 to 2014. Not much \$ avail. for other priorities.

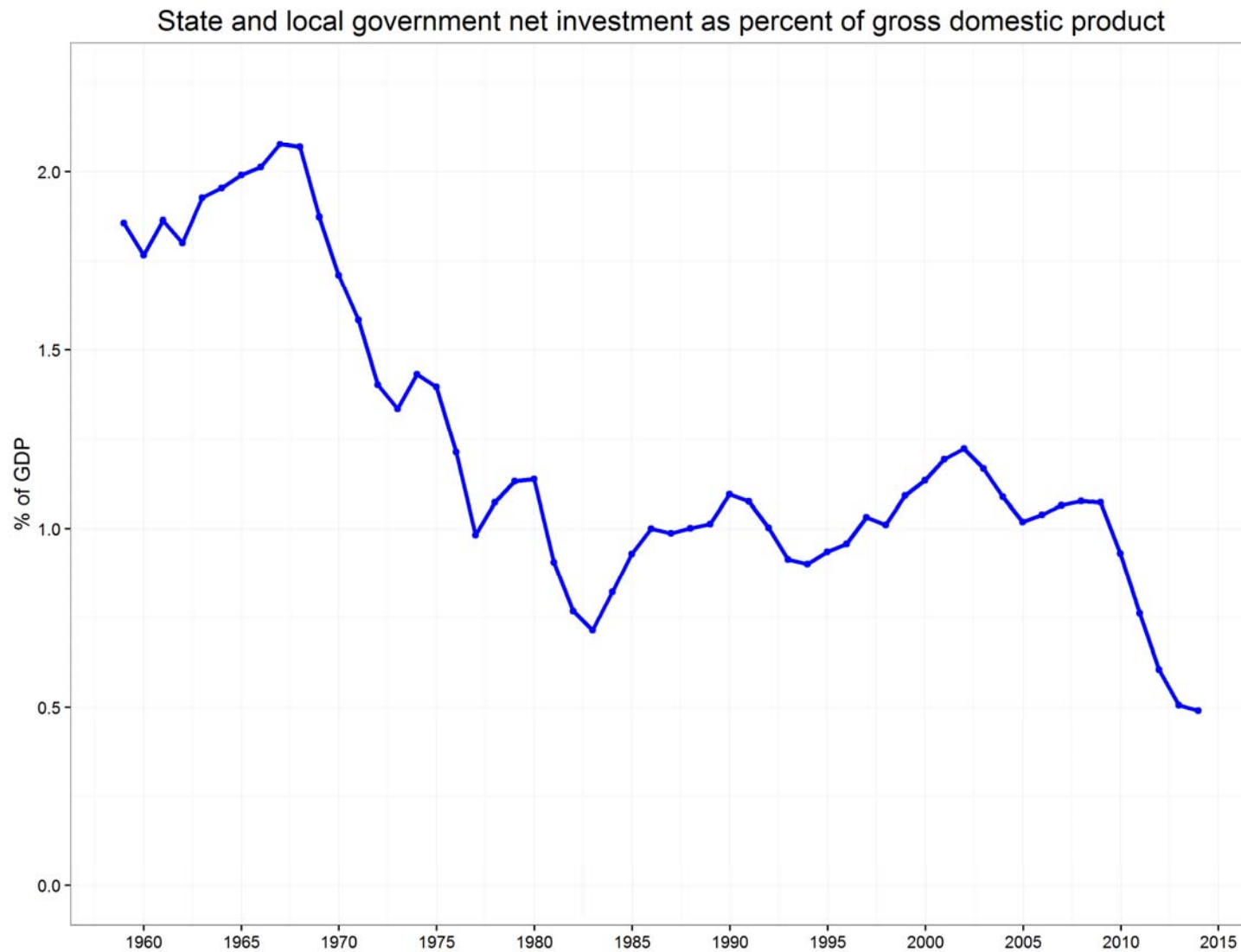
**Change in real per-capita state-local taxes from 2007 to 2014  
Minus change in: pension contributions plus state-financed Medicaid**



Source: Rockefeller Institute analysis of data from CMS, Census, and BEA. See text for details

# States are reshaping finances in response

# Net investment (much of it infrastructure) down ~50% since 2009



Source: U.S. Bureau of Economic Analysis

# Gross SLG investment down in most categories since 2009, especially educ. buildings, public safety

State & Local Government Inflation Adjusted Gross Investment  
(Billions of 2014 dollars)

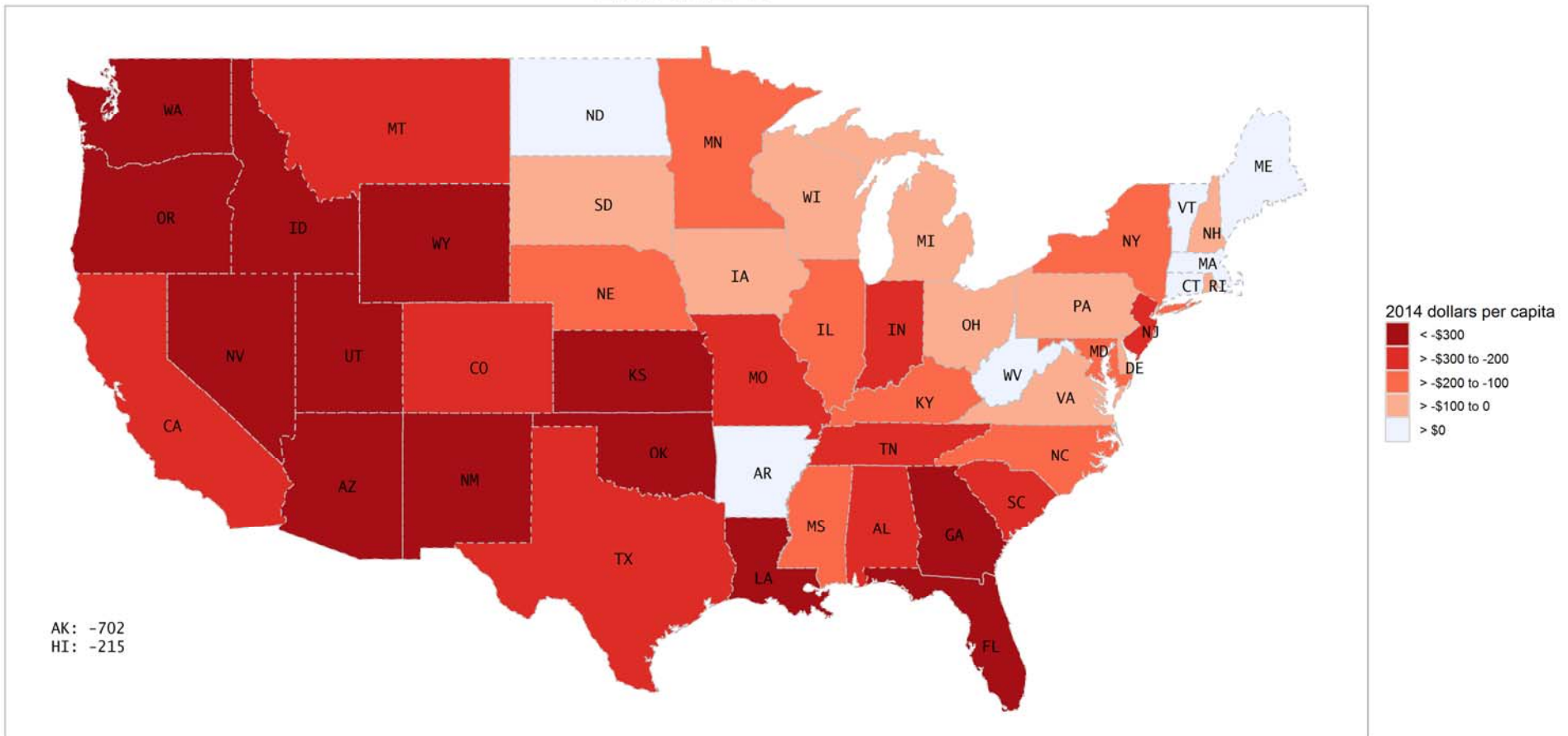
	2009	2014	Change	% change
Gross investment	\$394.6	\$331.3	(\$63.3)	-16.0%
Education	90.0	61.0	(29.0)	-32.2
Water & sewer systems	41.2	33.6	(7.6)	-18.4
Office	23.2	17.7	(5.5)	-23.5
Transportation total	110.7	106.1	(4.6)	-4.1
Highways and streets	87.4	83.5	(3.9)	-4.5
Other transportation	23.3	22.6	(0.7)	-2.8
Public safety	5.1	3.3	(1.8)	-35.4
Health care	6.6	5.6	(1.0)	-15.5
Amusement and recreation	8.4	5.3	(3.1)	-36.7
Power	12.2	9.7	(2.5)	-20.3
Equipment, intellectual property	87.1	80.3	(6.8)	-7.8
All other	10.2	8.7	(1.5)	-14.8

Source: U.S. Bureau of Economic Analysis

Note: All items adjusted by gross domestic product price index, not expenditure-specific indexes.

# Real per capita capital expenditures (much of it infrastructure) down in almost all states

Change in inflation-adjusted state and local government capital expenditures per capita  
2009 to 2013



Source: Rockefeller Institute analysis of data from Census Bureau (expenditures) and Bureau of Economic Analysis (GDP price index)



# S&L Govt employment down 1/2 million jobs since 2009, down in major functional areas

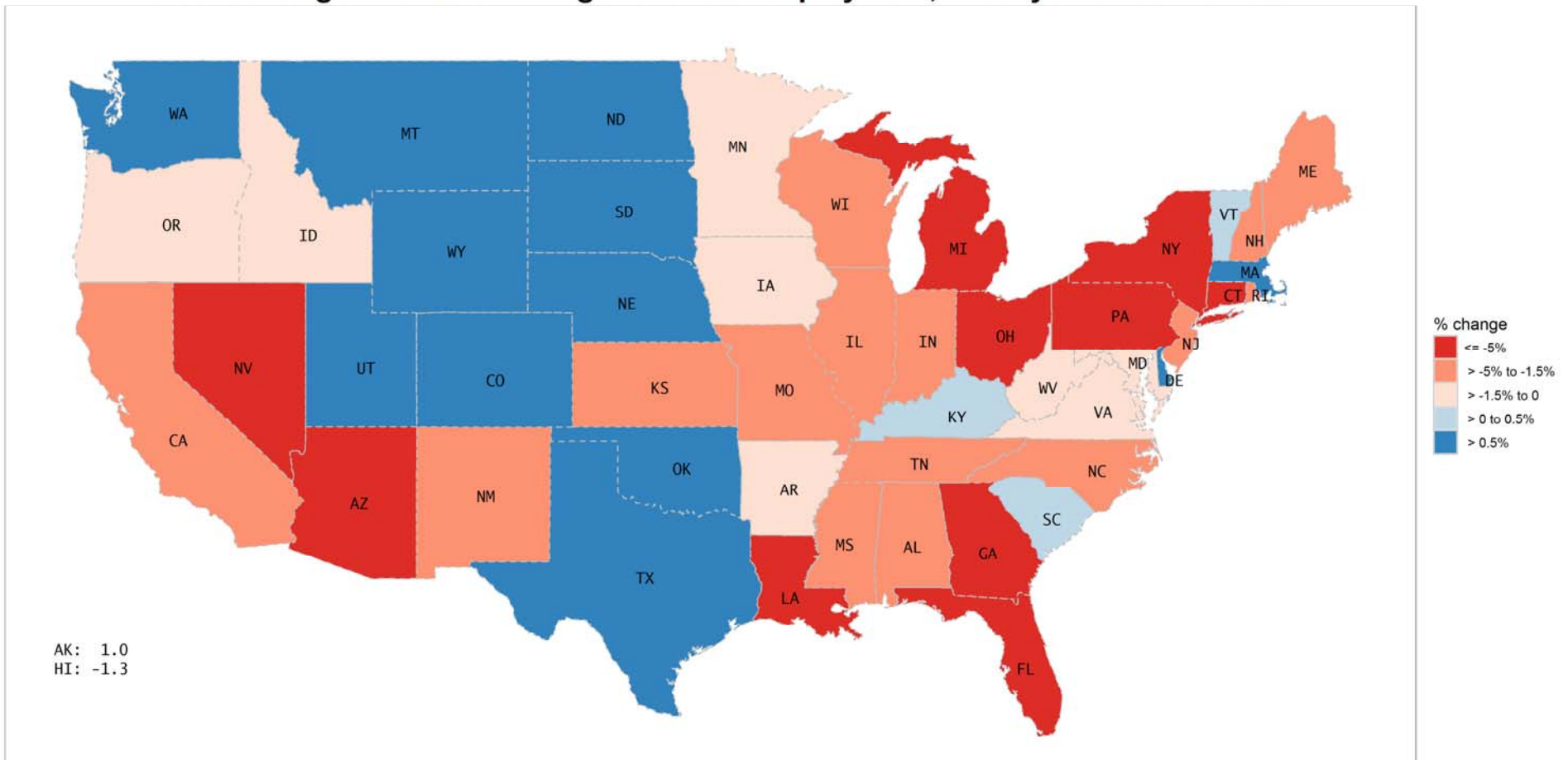
## State and Local Government Employment Most Recent Year Compared to Peak Following Start of Great Recession

	<i>Year ending June of:</i>		<i>Change</i>	<i>% change</i>
	<i>2009</i>	<i>2015</i>		
	<i>Employment in thousands</i>			
Total state and local government employment	18,888	18,372	(516)	-2.7%
Education	9,752	9,556	(197)	-2.0
Justice, public order and safety activities	1,674	1,618	(56)	-3.4
Health care	1,323	1,284	(39)	-3.0
Social assistance services for children, youth, elderly, disabled	235	237	2	0.9
General administration	4,312	4,117	(195)	-4.5
All other	1,591	1,560	(31)	-2.0

*Source* : Quarterly Census of Employment and Wages, U.S. Bureau of Labor Statistics.

# S&L Govt employment down 1/2 million jobs since 2009, down in many states

Percent change in state & local government employment, fiscal years 2009 to 2015



Source: Rockefeller Institute analysis of Quarterly Census of Employment and Wages from BLS

# Outlook & conclusions

- Many states face fiscal stresses discussed here. Plus additional pressures in oil/coal states.
- PA among the most stressed – along with KS, IL, CT, NJ, and oil/coal states. Pensions a major driver in non-oil states.
- Most sources of stress are likely to continue for several years or more. Pension stresses may worsen.
- There will be some tax increases, but voter/politician willingness to support higher taxes is much less than in several past stressful periods. Perhaps a reaction to stagnant incomes.
- Most state budgets: hard choices, continued downward pressure on spending, occasional restorations.

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