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The State University
of New York

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

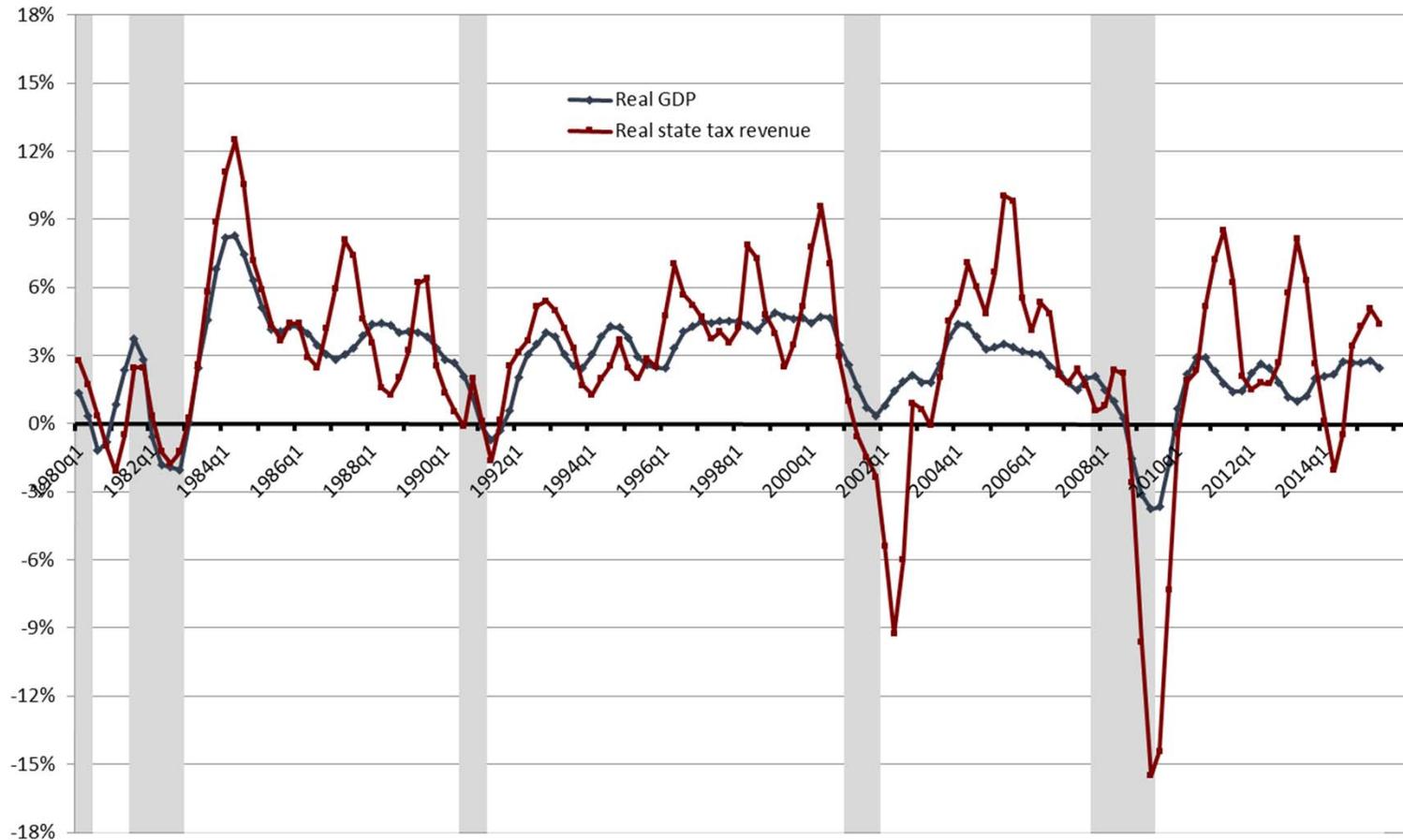
- Slow tax revenue growth
- Pension contribution growth, heavily concentrated in a few states
- Medicaid spending growth, driven primarily by recession-related enrollment

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

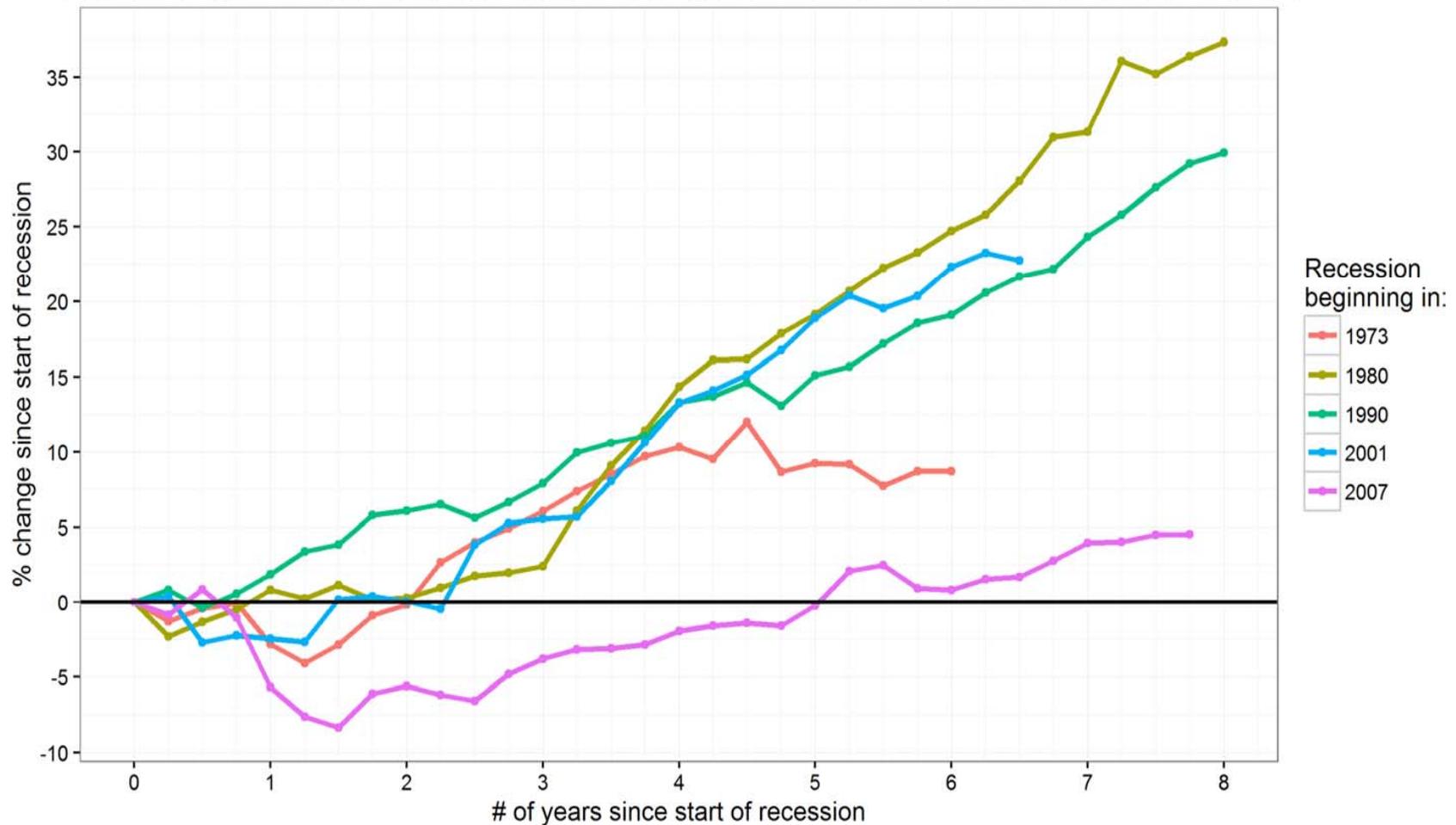


Sources: U.S. Census Bureau, Quarterly Summary of State & Local Government Tax Revenue and Bureau of Economic Analysis (real GDP).

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

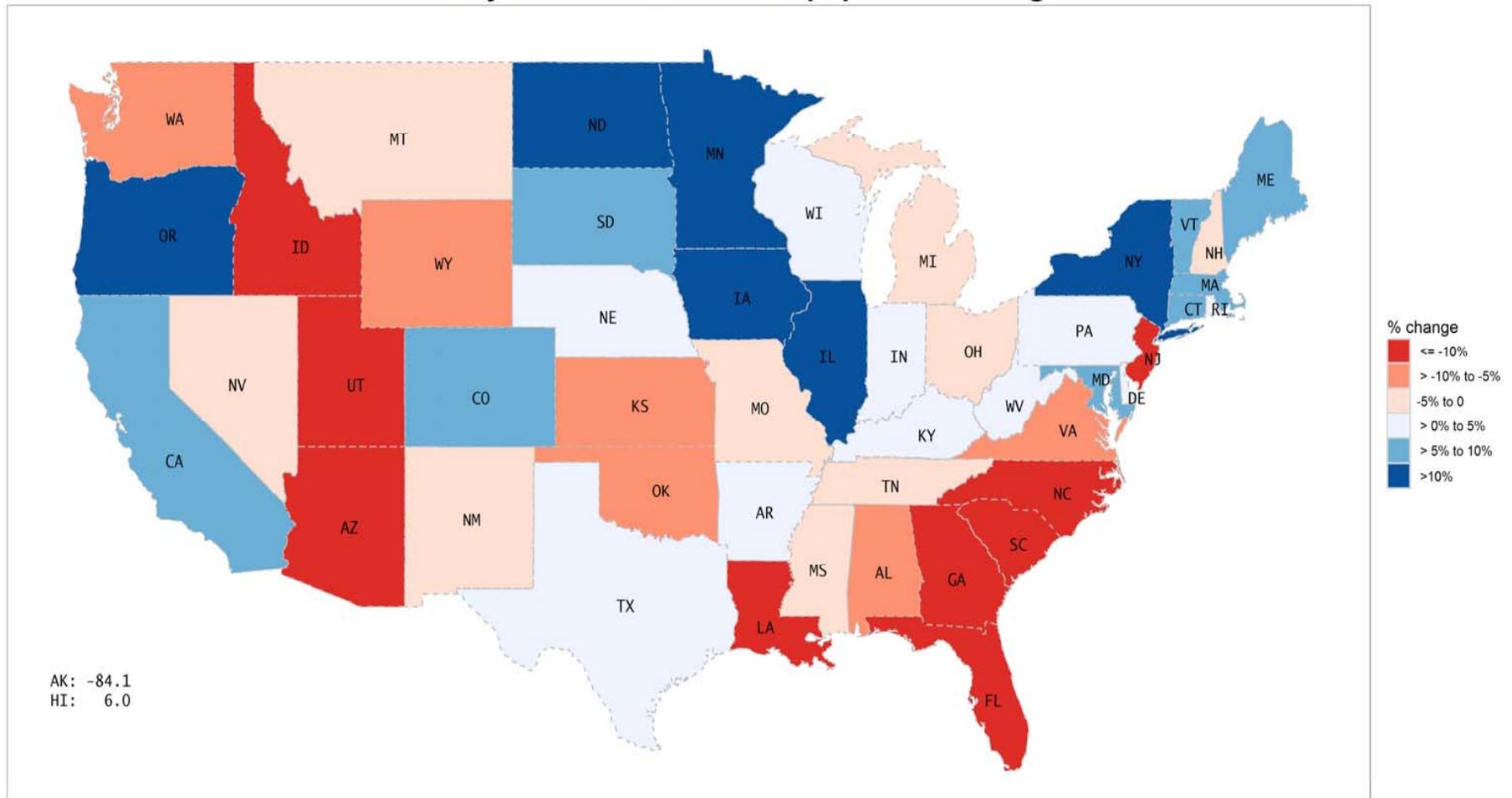


Source: Rockefeller Institute analysis of data from Bureau of Economic Analysis

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

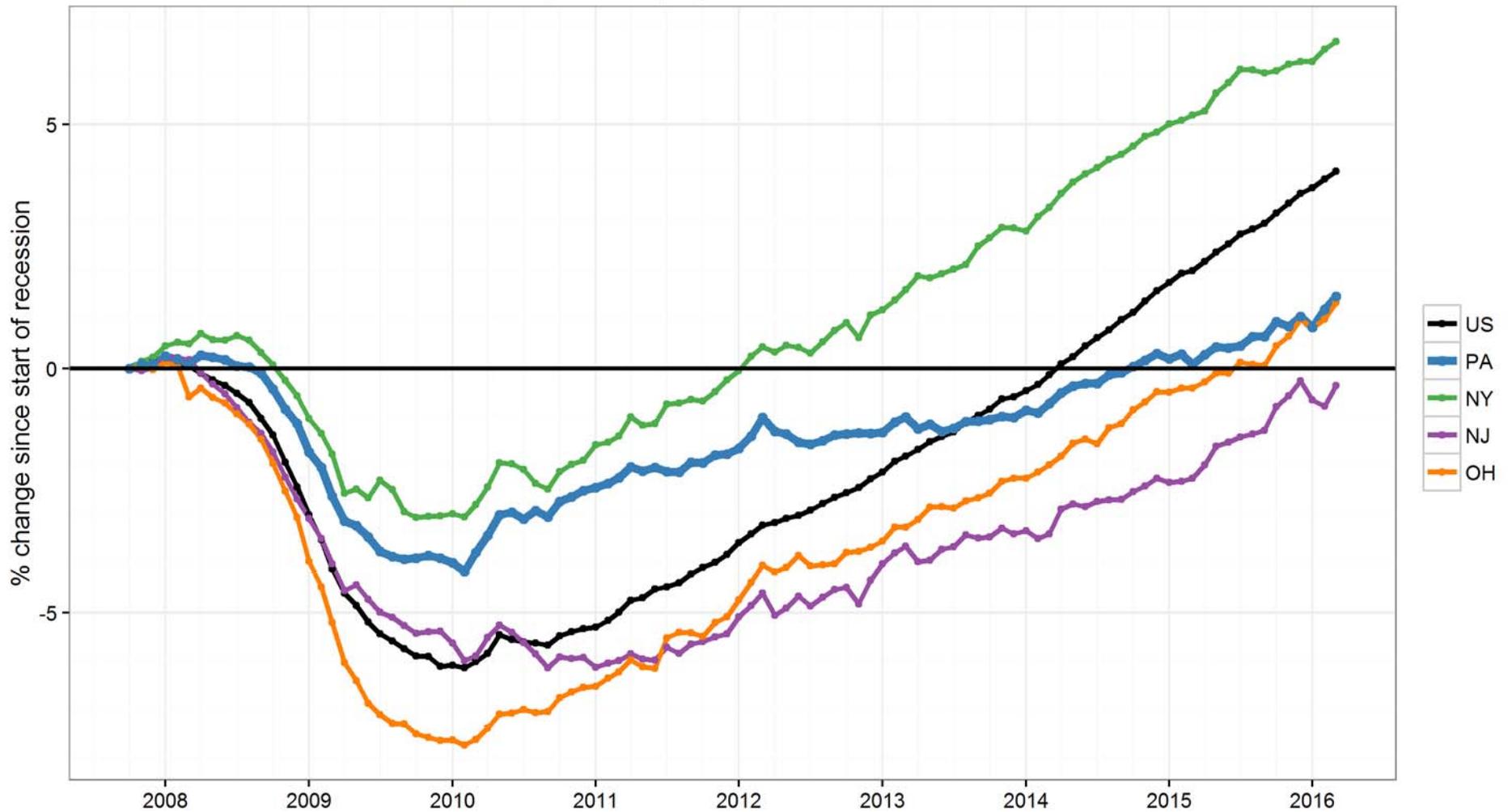
Percent change in 4-quarter sum of state tax revenue, 2007q4 to 2015q3
Adjusted for inflation and population change



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

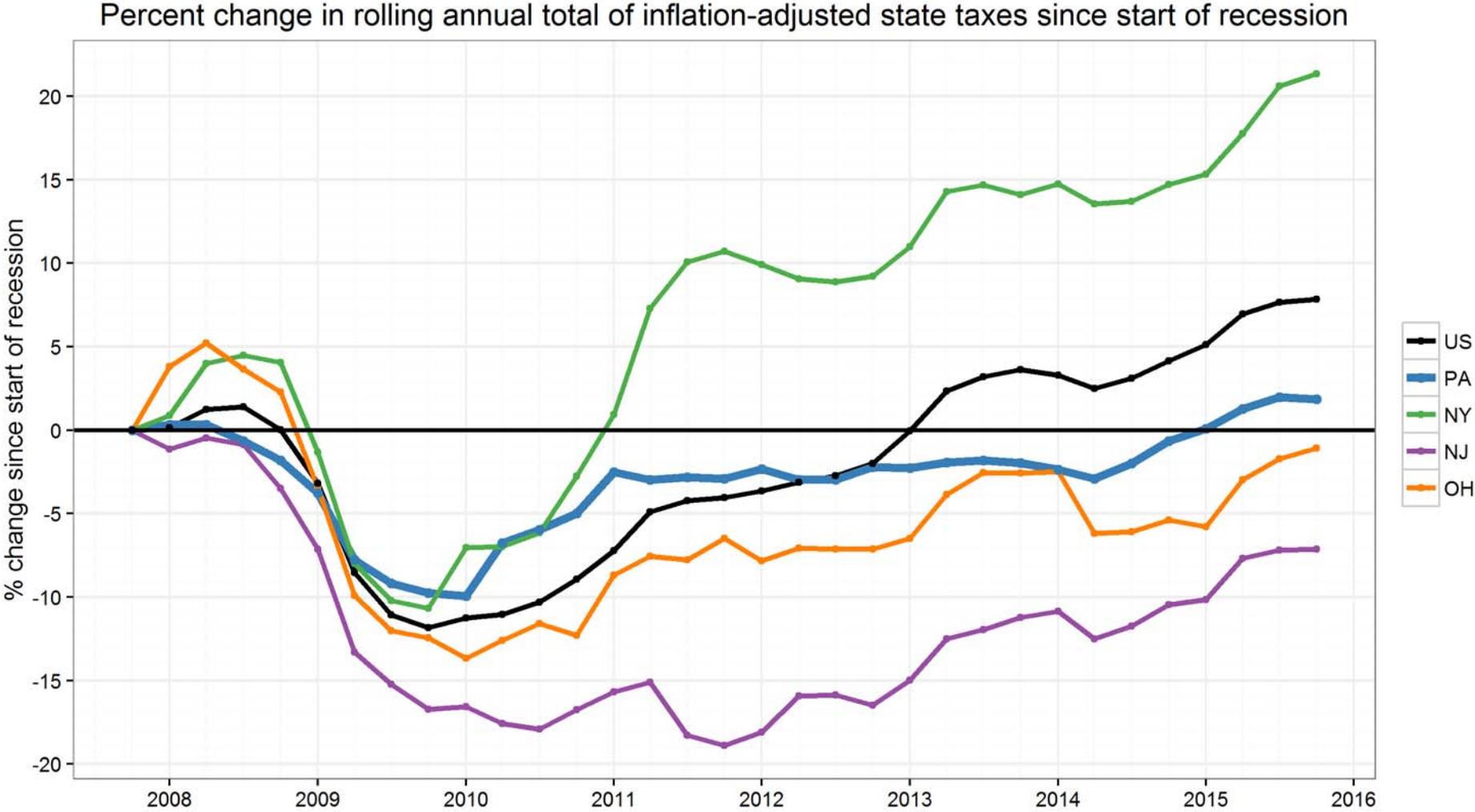
PA employment underperforming US

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

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

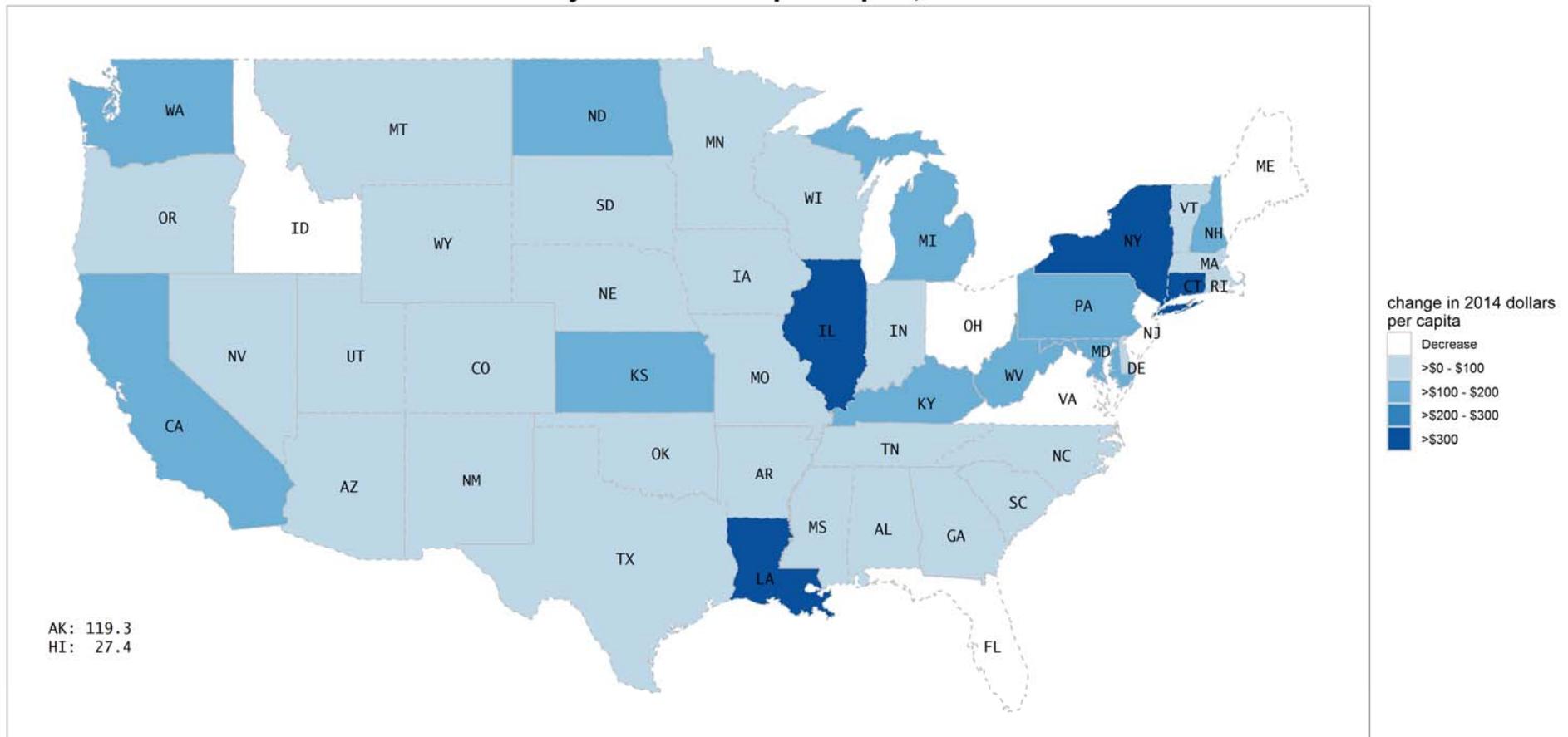
Funded ratio of state and local government defined benefit pension plans in the U.S.



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

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

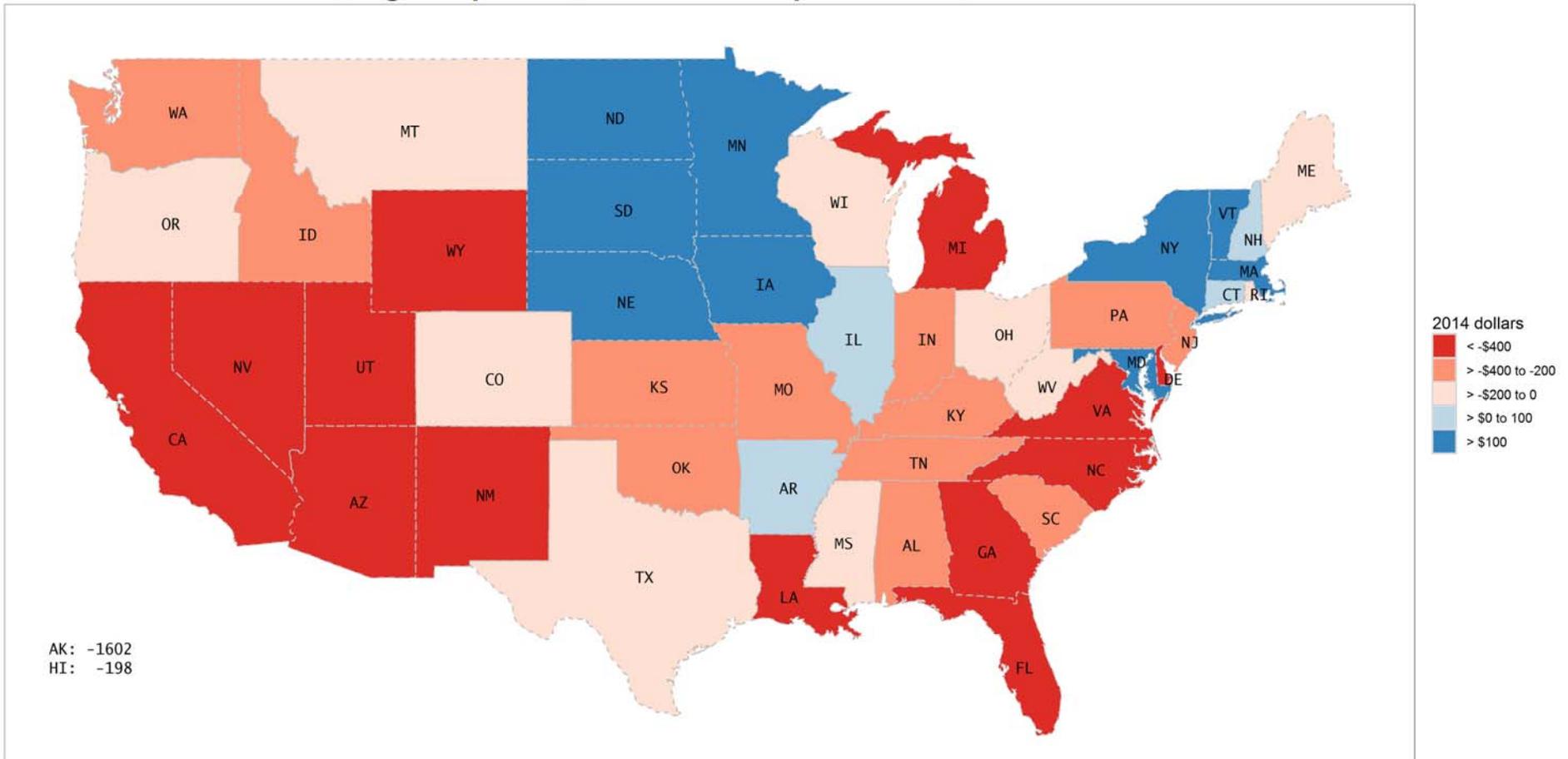
Change in state & local government pension contributions,
Inflation-adjusted dollars per capita, 2007 to 2014



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.

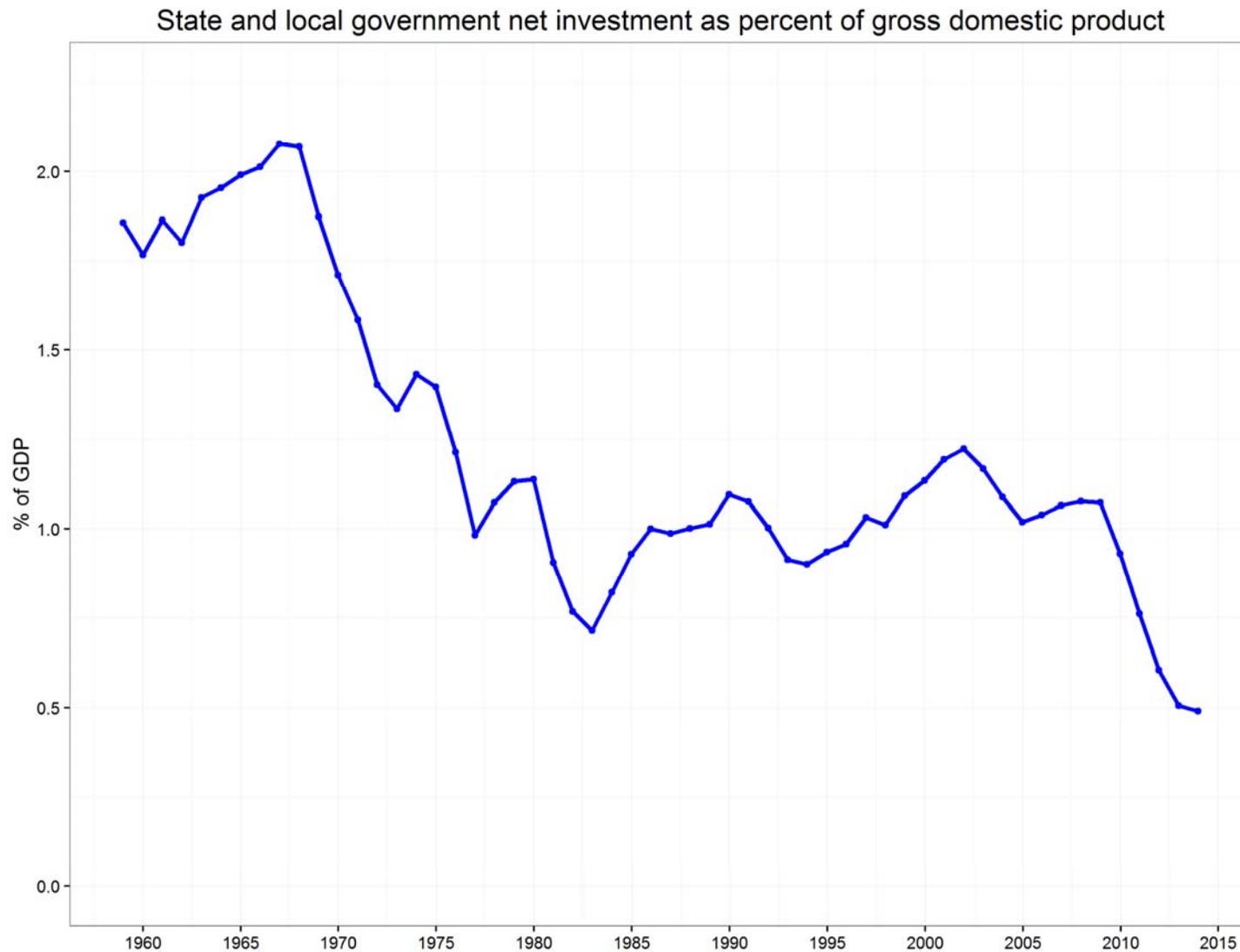
**Change in real per-capita state-local taxes from 2007 to 2014
Minus change in: pension contributions plus state-financed Medicaid**



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)

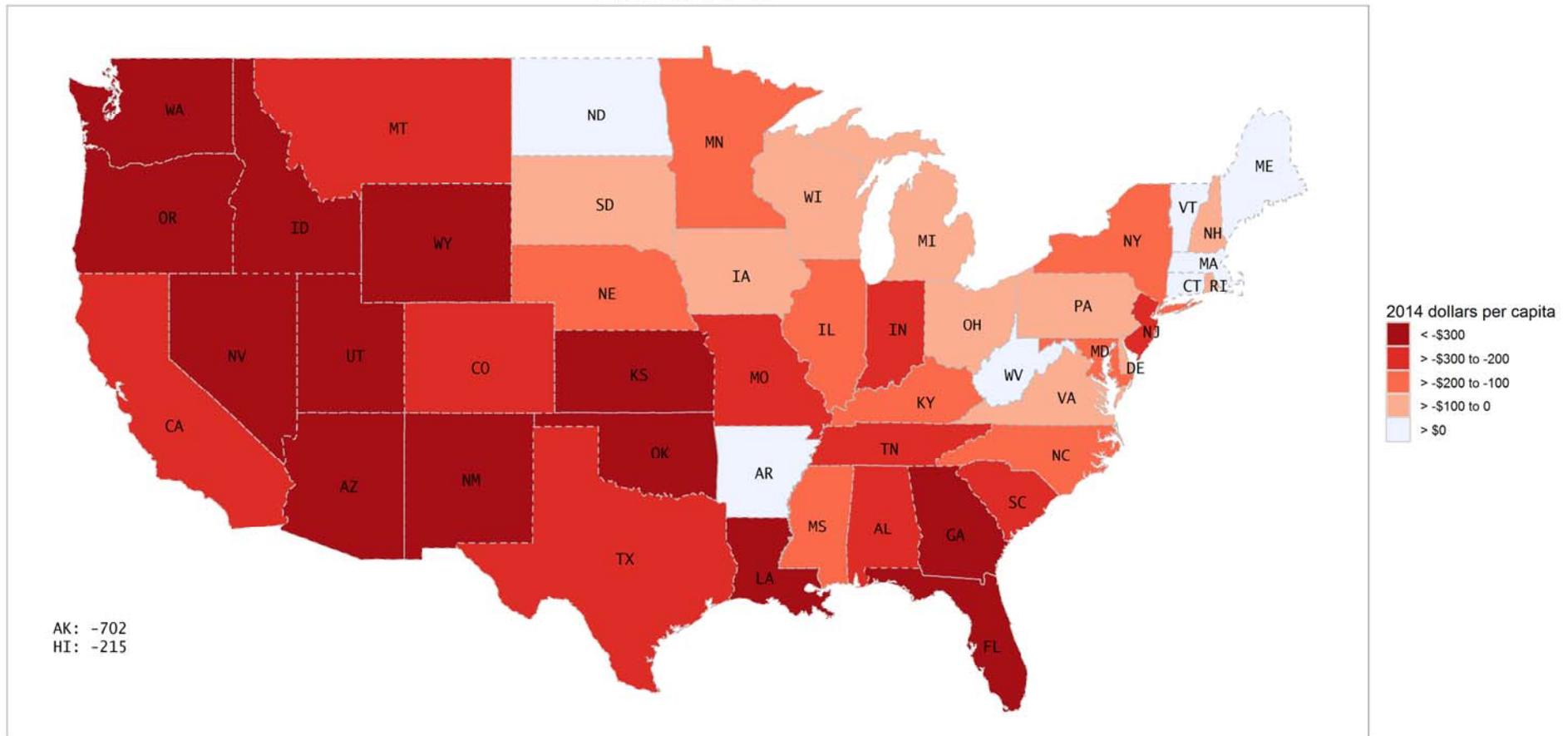
	2009	2014	Change	% change
Gross investment	\$394.6	\$331.3	(\$63.3)	-16.0%
Education	90.0	61.0	(29.0)	-32.2
Water & sewer systems	41.2	33.6	(7.6)	-18.4
Office	23.2	17.7	(5.5)	-23.5
Transportation total	110.7	106.1	(4.6)	-4.1
Highways and streets	87.4	83.5	(3.9)	-4.5
Other transportation	23.3	22.6	(0.7)	-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

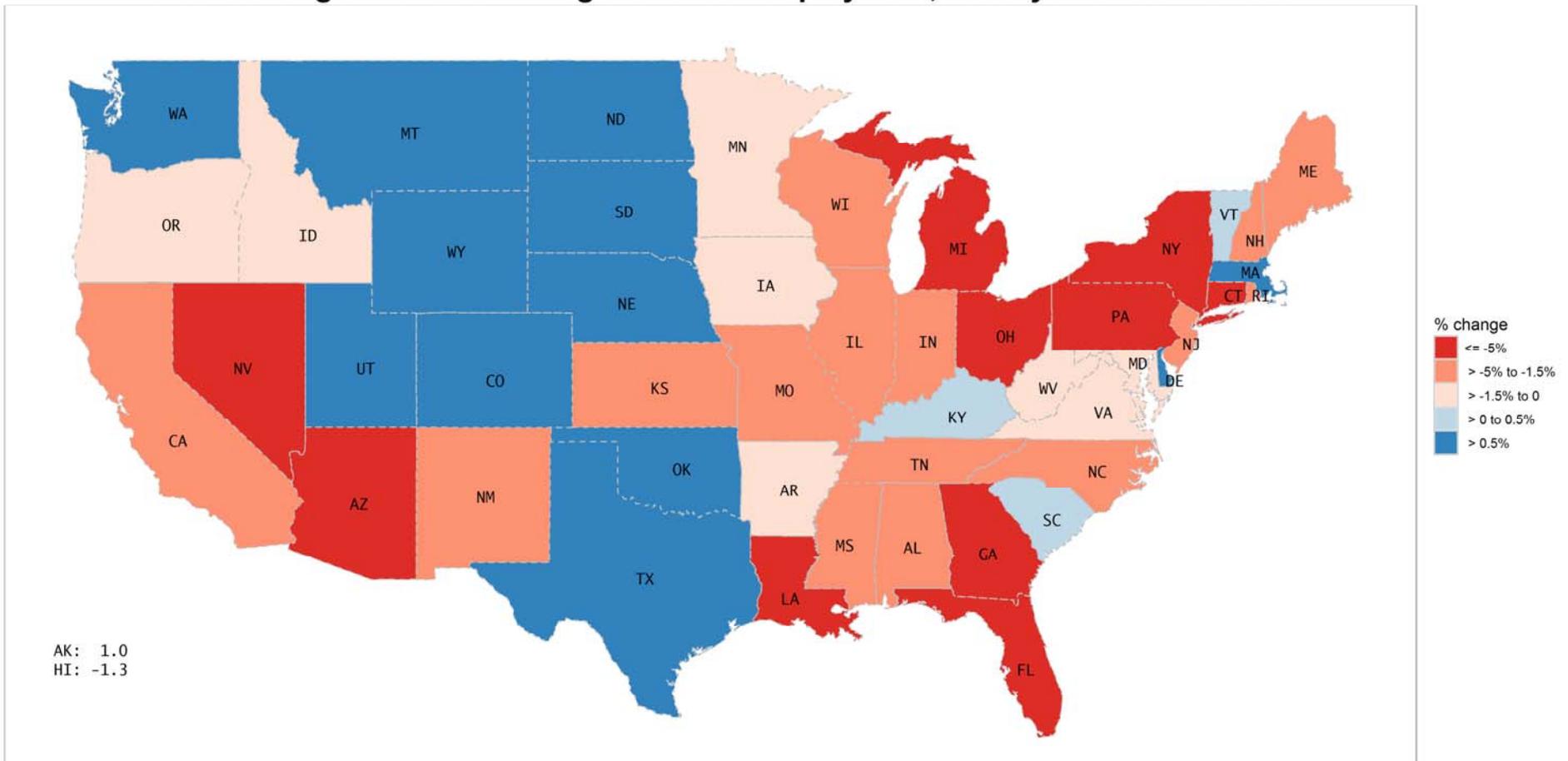
State and Local Government Employment Most Recent Year Compared to Peak Following Start of Great Recession

	<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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