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State Government Fiscal Stress and Federal Assistance

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Summary

No two state budgets are alike. States have different budget cycles, different ways of preparing revenue estimates and forecasts, different requirements concerning their operating and capital budgets, different roles for their governors in the budget process, and different policies concerning the carrying over of operating budget deficits into the next fiscal year.

Although no two state budgets are alike, all 50 states experienced heightened levels of fiscal stress during and immediately following the national economic recession, which officially lasted from December 2007 to June 2009. For example, state tax revenues from all sources, including sales, personal, and corporate income taxes, fell 10.3% (from $680.2 billion to $609.8 billion) from FY2008 to FY2010. The decline in state tax revenue, coupled with increased demand for social services and state-balanced operating budget requirements, created what the National Association of State Budget Officers (NASBO) characterized as "one of the worst time periods in state fiscal conditions since the Great Depression."

States closed nearly $230 billion in state budget shortfalls in FY2009 and FY2010; and $146.3 billion in state shortfalls in FY2011 and FY2012. Since then, state fiscal conditions have generally improved. In FY2013, state general fund spending surpassed pre-recession levels for the first time, reaching $693.7 billion, and 45 states increased their general fund spending in FY2013 compared with FY2012. Although state fiscal conditions have improved, state budgetary officials predict continuing budgetary challenges in virtually all states in FY2014, in part due to relatively slow state revenue growth, the need to replenish reserves, and increased costs for health care and other social services.

Congressional interest in state budgetary finances has increased in recent years, primarily because state action to address budget shortfalls, such as increasing taxes, laying off or furloughing state employees, and postponing or eliminating state infrastructure projects, could have an adverse effect on the national economic recovery. Also, if states reduce their service levels there could be additional pressure for the federal government to either provide those services or to provide additional federal assistance to states.

This report examines the current status of state fiscal conditions and the role of federal assistance in state budgets. It begins with an overview of state budgeting procedures and then provides budgetary data comparing state fiscal conditions in FY2008 to FY2013. The data indicate that (1) recent improvements in the national economy have enabled many states to increase their general fund spending, but states still face several fiscal challenges in part due to relatively slow state revenue growth, the need to replenish reserves, and increased costs for health care and other social services; (2) states are more reliant on federal assistance today than in FY2008; and (3) state officials anticipate an increase in federal assistance for Medicaid over the next several years, but they are concerned that federal budget constraints could lead to declines in federal assistance in other program areas.

This report concludes with an assessment of the consequences current levels of state fiscal stress may have for the 113th Congress.

Contents

Figures

Tables

Contacts

State Budgets

No two state budgets are alike.[1] For example, 29 states have an annual budget cycle, 19 states have a biennial budget cycle, and 2 states have an annual budget cycle for some agencies or purposes and a biennial budget cycle for others.[2] Most states (46) begin their fiscal year on July 1, 2 states begin their fiscal year on October 1 (Alabama and Michigan), 1 state begins its fiscal year on September 1 (Texas), and 1 state begins its fiscal year on April 1 (New York).[3]

States also have different ways of preparing their revenue estimates and forecasts that project the amount of revenue that will be available based on current law to support operating costs and capital outlays in the current and future fiscal years. These revenue estimates are important because they establish the general parameters for the state's budget at the outset of the budget process.[4] The state budget office is solely responsible for revenue forecasting in 13 states, a board or commission is solely responsible in 11 states, and the state revenue office is solely responsible in 3 states. The remaining states use a combination of agencies or boards to develop their revenue forecasts.[5]

All but one state (Vermont) has some form of a balanced operating budget requirement, either in statute or in their state constitution, but the stringency of these requirements varies, ranging from having only a requirement that the governor submit a balanced operating budget for the legislature's consideration (2 states) to having a prohibition against carrying a deficit forward and requirements that the governor propose, the legislature pass, and the governor sign a balanced operating budget (26 states).[6] Overall, governors in 44 states must submit a balanced operating

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[1] The state expenditure data presented in this report are drawn from the National Association of State Budget Officers' (NASBO) annual State Expenditure Reports. The data are self-reported by the states. In 2010, the Government Accountability Office (GAO) assessed the reliability of NASBO expenditure data for a report on state and local government use of funding provided by P.L. 111-5, the American Recovery and Reinvestment Act of 2009. GAO reviewed existing documentation related to the NASBO data sources and interviewed knowledgeable agency officials about the data. GAO determined that "the data are sufficiently reliable for the purposes of this report." See U.S. Government Accountability Office, *Recovery Act: Opportunities to Improve Management and Strengthen Accountability over States' and Localities' Use of Funds*, GAO-10-999, September 20, 2010, p. 205, at http://www.gao.gov/new.items/d10999.pdf. GAO has also examined the reliability of NASBO's semi-annual Fiscal Survey of States reports and found them to be reliable. See U.S. Government Accountability Office, *State and Local Governments: Knowledge of Past Recessions Can Inform Future Federal Assistance*, GAO-11-401, March 31, 2011, pp. 2, 52, at http://www.gao.gov/new.items/d11401.pdf. The Bureau of the Census also surveys state and local governments concerning their revenues and expenditures. NASBO data was used in this report because it includes more recent estimates.

[2] National Association of State Budget Officers, *Budget Processes in the States*, Washington, DC, Summer 2008, p. 5, at http://www.nasbo.org/sites/default/files/BP_2008.pdf; and Ron Snell, "State Experiences With Annual and Biennial Budgeting," National Conference of State Legislatures, April 2011, p. 1-3, at http://www.ncsl.org/research/fiscal-policy/state-experiences-with-annual-and-biennial-budgeti.aspx.

[3] National Association of State Budget Officers, *Budget Processes in the States*, Washington, DC, Summer 2008, p. 5, at http://www.nasbo.org/sites/default/files/BP_2008.pdf.

[4] Ibid., pp. 3, 20. For further information and analysis of state revenue estimates see Susan K. Urahn and Thomas Gais, "States' Revenue Estimating: Cracks in the Crystal Ball," The Nelson Rockefeller Institute of Government and the Pew Center on the States, Washington, DC, at http://www.pewstates.org/uploadedFiles/PCS_Assets/2011/States_Revenue_Estimating_final.pdf.

[5] National Association of State Budget Officers, *Budget Processes in the States*, Washington, DC, Summer 2008, pp. 3, 20, at http://www.nasbo.org/sites/default/files/BP_2008.pdf.

[6] Ibid., p. 40; and National Conference of State Legislatures, "NCSL Fiscal Brief: State Balanced Budget Provisions," Washington, DC, October 2010, pp. 4, 5, at http://www.ncsl.org/documents/fiscal/
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budget for legislative consideration, state legislatures in 41 states must pass a balanced operating budget, the governor must sign a balanced operating budget in 37 states, and 43 states have a prohibition against carrying an operating budget deficit forward.[7] Also, the extent of the governor's authority in the budget process varies among the states. The governor can spend unanticipated federal funds in 30 states, reduce enacted budgets in 38 states, veto an item within the appropriations bill in 41 states, veto selected words in 15 states, and use the veto to change the meaning of words in 4 states.[8]

Although 43 states have a prohibition against carrying an operating budget deficit forward, all states incur debt to finance capital projects, typically subject to limits on debt service (31 states), levels of authorized debt (44 states), or both (29 states).[9] State government debt was $1.148 trillion at the end of FY2012 (39.2% of total state and local government debt).[10]

Although no two state budgets are alike, all 50 states experienced heightened levels of fiscal stress during FY2009 and FY2010.[11] The national economic recession, which officially lasted from December 2007 to June 2009, led to lower levels of economic activity throughout the nation and reduced state tax revenues.

State tax revenues from all sources, including sales, personal, and corporate income taxes, fell from $680.2 billion in FY2008 to $609.8 billion in FY2010, a decline of 10.3%.[12] The decline in state tax revenue, coupled with state balanced operating budget requirements, created what the National Association of State Budget Officers (NASBO) characterized as "one of the worst time periods in state fiscal conditions since the Great Depression."[13] For example, even with an additional $120.3 billion in temporary federal assistance provided through P.L. 111-5, the American Recovery and Reinvestment Act of 2009 (ARRA) in FY2010, states reduced their general fund expenditures by 5.7% from FY2009 ($660.9 billion) to FY2010 ($623.4 billion), enacted $23.9 billion in increased taxes and fees, and raised an additional $7.5 billion through other revenue measures.[14]

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statebalancedbudgetprovisions2010.pdf.

[7] National Association of State Budget Officers, *Budget Processes in the States*, Washington, DC, Summer 2008, pp. 29, 40, at http://www.nasbo.org/sites/default/files/BP_2008.pdf.

[8] Ibid., pp. 29, 38.

[9] Ibid., p. 43.

[10] U.S. Census Bureau, *State Government Finances Summary: 2012*, Government Division Briefs, January 2014, p. 2, at http://www2.census.gov/govs/state/12statesummaryreport.pdf. For further analysis of state debt issues see CRS Report R41735, *State and Local Government Debt: An Analysis*, by Steven Maguire.

[11] National Association of State Budget Officers, *The Fiscal Survey of States*, Washington, DC, Fall 2010, pp. vii, viii, at http://www.nasbo.org/sites/default/files/Fall%202010%20Fiscal%20Survey%20of%20States%20-%20Final.pdf.

[12] National Association of State Budget Officers, *The Fiscal Survey of States*, Washington, DC, Fall 2011, pp. 4-6, at http://www.nasbo.org/sites/default/files/Fall%202010%20Fiscal%20Survey%20of%20States%20-%20Final.pdf.

[13] National Association of State Budget Officers, *The Fiscal Survey of States*, Washington, DC, Fall 2010, p. vii, at http://www.nasbo.org/sites/default/files/Fall%202010%20Fiscal%20Survey%20of%20States%20-%20Final.pdf.

[14] Ibid., pp. vii, viii; National Association of State Budget Officers, *The Fiscal Survey of States*, Washington, DC, Fall 2011, p. 4, at http://www.nasbo.org/sites/default/files/Fall%202010%20Fiscal%20Survey%20of%20States%20-%20Final.pdf; and National Association of State Budget Officers, *State Expenditure Report: Fiscal Year 2010*, Washington, DC, December 2011, p. 2, at http://www.nasbo.org/sites/default/files/2010%20State%20Expenditure%20Report_0.pdf.

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State Budgetary Procedures

Unlike the federal government, states budget separately for current operating expenditures and for capital expenditures. As mentioned previously, virtually all states (except Vermont) have some form of a balanced operating budget requirement, and most states have restrictions on the amount of debt that they issue to finance capital projects.[17]

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[15] National Association of State Budget Officers, *The Fiscal Survey of States*, Washington, DC, Spring 2011, p. i, http://www.nasbo.org/sites/default/files/Fall%202010%20Fiscal%20Survey%20of%20States%20-%20Final.pdf; and National Association of State Budget Officers, *The Fiscal Survey of States*, Washington, DC, Spring 2012, p. vii, at http://www.nasbo.org/sites/default/files/Spring%202012%20Fiscal%20Survey_1.pdf.

[16] National Association of State Budget Officers, "Facts You Should Know: State and Local Bankruptcy, Municipal Bonds, State and Local Pensions," Washington, DC, 2010, at http://www.nasact.org/downloads/downloads/02_11-state_local_fact_sheet.pdf; Dean Baker, "The Origins and Severity of the Public Pension Crisis," Center for Economic and Policy Research, Washington, DC, February 2011, at http://www.cepr.net/documents/publications/pensions-2011-02.pdf; The Pew Center on the States, "The Trillion Dollar Gap: Underfunded State Retirement Systems and the Road Ahead," Washington, DC, February 2010, at http://www.pewstates.org/uploadedFiles/PCS_Assets/2010/Trillion_Dollar_Gap_Underfunded_State_Retirement_Systems_and_the_Roads_to_Reform.pdf; The Pew Center on the States, "The Widening Gap Update," Washington, DC, June 18, 2012, at http://www.pewstates.org/uploadedFiles/PCS_Assets/2012/Pew_Pensions_Update.pdf; and CRS Report R41736, *State and Local Pension Plans and Fiscal Distress: A Legal Overview*, by Jennifer A. Staman.

[17] National Association of State Budget Officers, *Budget Processes in the States*, Washington, DC, Summer 2008, pp. (continued...)

Current State Operating Expenditures

Most states account for their current operating expenditures through four budgets:

- the *state general fund budget* refers to expenditures from revenues accruing to the state from taxes, fees, interest earnings, and other sources which can be used for the general operation of state government.
- the *state federal funds budget* refers to expenditures from funds received directly from the federal government.
- the *other state funds budget* refers to expenditures from revenue sources that are restricted by law for particular governmental functions or activities; for example, a gasoline tax dedicated to a state highway trust fund would appear in other state funds.
- the *state bonds budget* refers to expenditures from the sale of bonds, generally for capital projects.[18]

In addition, 48 states (Kansas and Montana are the exceptions) have a state budget stabilization fund, budget reserve account, or "rainy day" fund to cover unanticipated revenue shortfalls.[19] The amount of revenue set aside in these funds varies from state-to-state, generally ranging from 2% to 8% of state general fund expenditures.[20]

State end-of-year balances, which include ending balances and budget stabilization, budget reserve account, and "rainy day" funds, declined from 8.6% of total state general fund expenditures in FY2008 ($59.1 billion) to 5.2% in FY2010 ($32.5 billion). Since then, states have increased their budget reserves, with state end-of-year balances projected to be 8.2% of total state general fund expenditures in FY2014 ($56.7 billion).[21] However, state budget officials note that the combined balances for Texas and Alaska ($8.3 billion and $16.5 billion, respectively) account for 43.8% of total state end-of-year balances. The remaining 48 states have average projected end-of-year balances of 4.9% of total state general fund expenditures. Most budget analysts suggest as an informal rule-of-thumb that states set aside at least 5% of state general fund expenditures for unanticipated budget shortfalls.[22] In FY2014, 4 states are projecting end-of-year balances below 1% of total state general fund expenditures and 18 states are projecting end-of-

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40, 43, at http://www.nasbo.org/sites/default/files/BP_2008.pdf.

[18] Ibid., p. 107; and National Association of State Budget Officers, *State Expenditure Report: Fiscal Year 2009*, Washington, DC, December 2010, p. 4, at http://www.nasbo.org/sites/default/files/2009-State-Expenditure-Report.pdf.

[19] National Association of State Budget Officers, *Budget Processes in the States*, Washington, DC, Summer 2008, pp. 67-69, at http://www.nasbo.org/sites/default/files/BP_2008.pdf .

[20] National Association of State Budget Officers, *The Fiscal Survey of States*, Washington, DC, Fall 2013, p. 57, at http://www.nasbo.org/publications-data/fiscal-survey-of-the-states. The procedures used to expend these funds vary from state-to-state, with some states requiring a majority vote of the state legislature and others requiring a super majority vote to access the funds. See National Association of State Budget Officers, *Budget Processes in the States*, Washington, DC, Summer 2008, p. 50, at http://www.nasbo.org/sites/default/files/BP_2008.pdf .

[21] National Association of State Budget Officers, *The Fiscal Survey of States*, Washington, DC, Fall 2013, pp. 51, 57, at http://www.nasbo.org/publications-data/fiscal-survey-of-the-states.

[22] Ibid., p. 51.

year balances greater than 1% of total state general fund expenditures, but less than the recommended 5% level.[23]

The State Capital Budget

The state capital budget is associated with the acquisition or construction of major capital projects, including land, buildings, structures, and major equipment. Minor repairs and routine maintenance are typically reported as operating expenses. Funds for capital projects traditionally have come primarily from non-general fund sources. In FY2012, funds for capital projects came from bonds (33.7%), dedicated fees and surpluses (30.5%), federal funds (30.4%), and state general funds (5.3%).[24]

State capital spending totaled $80.3 billion in FY2008, $84.2 billion in FY2009, $86.1 billion in FY2010, $86.4 billion in FY2011, $88.5 billion in FY2012, and an estimated $93.4 billion in FY2013.[25] According to NASBO, the increase in state capital spending in FY2009 and FY2010 was at least partly due to increased federal funding provided by P.L. 111-5 (ARRA) and several ARRA bond provisions, such as Build America Bonds, Recovery Zone Economic Development Bonds, and School Construction Bonds.[26] In FY2012, transportation projects accounted for 59.0% of all state capital expenditures, followed by higher education projects at 12.5%, environmental projects at 5.7%, housing projects at 1.9%, corrections projects at 1.3%, and other capital projects, such as public school facilities, zoo improvements, health care infrastructure, and sports facilities, at 19.6%.[27]

Trends in State Expenditures

This section examines state expenditures, in nominal dollars, from FY2000 through FY2013, starting with total state expenditures (including the states' capital budgets) and followed by the states' four operating expenditures budgets (state general fund, federal funds, other state funds, and bonds). Changes in overall spending by all states combined and changes in spending by each state are examined. A comparison of state expenditures in FY2008 to FY2013 is also provided. FY2008 is used as a baseline for comparative purposes because FY2008 is used by many in Congress as the baseline for comparisons in federal budget debates.[28]

[23] Ibid., p. 56.

[24] National Association of State Budget Officers, *State Expenditure Report: Examining Fiscal Year 2011-2013 State Spending*, Washington, DC, November 2013, p. 78, at http://www.nasbo.org/publications-data/state-expenditure-report.

[25] National Association of State Budget Officers, *State Expenditure Report: Fiscal Year 2009*, Washington, DC, December 2010, p. 80, at http://www.nasbo.org/sites/default/files/2009-State-Expenditure-Report.pdf; and National Association of State Budget Officers, *State Expenditure Report: Examining Fiscal Year 2011-2013 State Spending*, Washington, DC, November 2013, p. 78, at http://www.nasbo.org/publications-data/state-expenditure-report.

[26] For further analysis of Build America Bonds, Recovery Zone Economic Development Bonds, and School Construction Bonds, see CRS Report R40523, *Tax Credit Bonds: Overview and Analysis*, by Steven Maguire.

[27] National Association of State Budget Officers, *State Expenditure Report: Examining Fiscal Year 2011-2013 State Spending*, Washington, DC, November 2013, pp. 81-86, at http://www.nasbo.org/publications-data/state-expenditure-report.

[28] For example, H.Res. 38, Reducing non-security spending to fiscal year 2008 levels or less (112th Congress), was passed by the House of Representatives, by a vote of 256-165, on January 25, 2011.

Total State Expenditures

As shown in **Table 1**, total state expenditures (capital inclusive) increased every fiscal year from FY2000 through FY2011, declined slightly in FY2012, and increased in FY2013. The decline in FY2012 was primarily due to a combination of relatively slow state revenue growth, state balanced operating budget requirements, and the expiration of ARRA-funded state federal assistance.

Table 1. Total State Expenditures (Capital Inclusive), FY2000-FY2013

($ in millions)

FY	Total Amount of State Expenditures	Change in Total Amount of State Expenditures from Previous FY	% Change in Total Amount of State Expenditures from Previous FY
2000	$946,086	$65,834	7.48%
2001	$1,015,813	$69,727	7.37%
2002	$1,088,207	$72,394	7.13%
2003	$1,127,261	$39,054	3.59%
2004	$1,181,330	$54,069	4.80%
2005	$1,266,396	$85,066	7.20%
2006	$1,343,118	$76,722	6.06%
2007	$1,425,028	$81,910	6.10%
2008	$1,478,782	$53,754	3.77%
2009	$1,558,416	$79,634	5.38%
2010	$1,617,118	$58,702	3.77%
2011	$1,663,097	$45,979	2.84%
2012	$1,634,192	($28,905)	(1.74%)
2013 est.	$1,719,780	$85,588	5.24 %

Source: National Association of State Budget Officers, *State Expenditure Report [FYs 2000-2009]*, Washington, DC, all p. 2, at http://www.nasbo.org/publications-data/state-expenditure-report/archives; National Association of State Budget Officers, *State Expenditure Report: Examining Fiscal 2010-2012 State Spending*, Washington, DC, December 2012, p. 7, at http://www.nasbo.org/sites/default/files/State%20Expenditure%20Report_1.pdf; and National Association of State Budget Officers, *State Expenditure Report: Examining Fiscal 2011-2013 State Spending*, Washington, DC, November 2013, p. 7, at http://www.nasbo.org/publications-data/state-expenditure-report.

As shown in **Table 2**, in FY2013, total estimated state expenditures (capital inclusive) are projected to be about $241.0 billion higher than in FY2008 ($1,719,780 million compared with $1,478,782 million). In FY2013, 2 states (Nevada, and Vermont) had a lower level of total state expenditures than in FY2008, and 48 states had a higher level of total state expenditures.

Table 2. Change in Total State Expenditures, FY2008-FY2013

($ in millions)

State	Total State Expenditures, FY2008	Total State Expenditures, FY2013 est.	Change in Total State Expenditures, FY2008 Compared with FY2013
Alabama	$19,840	$24,117	$4,277
Alaska	$11,656	$12,142	$486
Arizona	$25,247	$29,293	$4,046
Arkansas	$16,899	$21,585	$4,686
California	$194,276	$227,881	$33,605
Colorado	$25,129	$28,479	$3,350
Connecticut	$24,270	$28,138	$3,868
Delaware	$8,621	$9,162	$541
Florida	$64,379	$69,975	$5,596
Georgia	$38,494	$41,074	$2,580
Hawaii	$11,160	$11,584	$424
Idaho	$5,932	$7,242	$1,310
Illinois	$44,566	$66,447	$21,881
Indiana	$24,239	$27,766	$3,527
Iowa	$16,129	$19,609	$3,480
Kansas	$12,689	$14,405	$1,716
Kentucky	$22,995	$25,673	$2,678
Louisiana	$28,888	$29,662	$774
Maine	$7,427	$7,798	$371
Maryland	$30,408	$36,974	$6,566
Massachusetts	$43,807	$60,298	$16,491
Michigan	$43,982	$48,748	$4,766
Minnesota	$28,446	$35,766	$7,320
Mississippi	$15,539	$19,417	$3,878
Missouri	$21,432	$22,943	$1,511
Montana	$5,357	$6,040	$683
Nebraska	$8,711	$10,163	$1,452
Nevada	$9,240	$8,893	($347)
New Hampshire	$4,807	$5,024	$217
New Jersey	$48,704	$52,085	$3,381
New Mexico	$14,207	$14,543	$336
New York	$116,056	$133,097	$17,041
North Carolina	$41,588	$51,389	$9,801

State	Total State Expenditures, FY2008	Total State Expenditures, FY2013 est.	Change in Total State Expenditures, FY2008 Compared with FY2013
North Dakota	$3,597	$5,939	$2,342
Ohio	$56,763	$58,268	$1,505
Oklahoma	$20,730	$21,430	$700
Oregon	$22,174	$25,806	$3,632
Pennsylvania	$58,696	$67,880	$9,184
Rhode Island	$7,118	$8,133	$1,015
South Carolina	$20,787	$22,300	$1,513
South Dakota	$3,217	$4,131	$914
Tennessee	$26,033	$31,453	$5,420
Texas	$81,097	$96,925	$15,828
Utah	$11,323	$12,603	$1,280
Vermont	$5,308	$4,960	($348)
Virginia	$35,330	$44,595	$9,265
Washington	$31,732	$33,202	$1,470
West Virginia	$18,710	$23,363	$4,653
Wisconsin	$36,089	$42,769	$6,680
Wyoming	$4,958	$8,611	$3,653
Total	$1,478,782	$1,719,780	$240,998

Source: CRS computations from National Association of State Budget Officers, *State Expenditure Report: FY2009*, Washington, DC, p. 6, at http://www.nasbo.org/sites/default/files/2009-State-Expenditure-Report.pdf; and National Association of State Budget Officers, *State Expenditure Report: Examining Fiscal 2011-2013 State Spending*, Washington, DC, November 2013, p. 7, at http://www.nasbo.org/publications-data/state-expenditure-report.

Notes: Total state expenditures include expenditures from the state's general fund account, federal funds account, other state funds, and bonds. FY2013 total state expenditures are estimated from state budget documents.

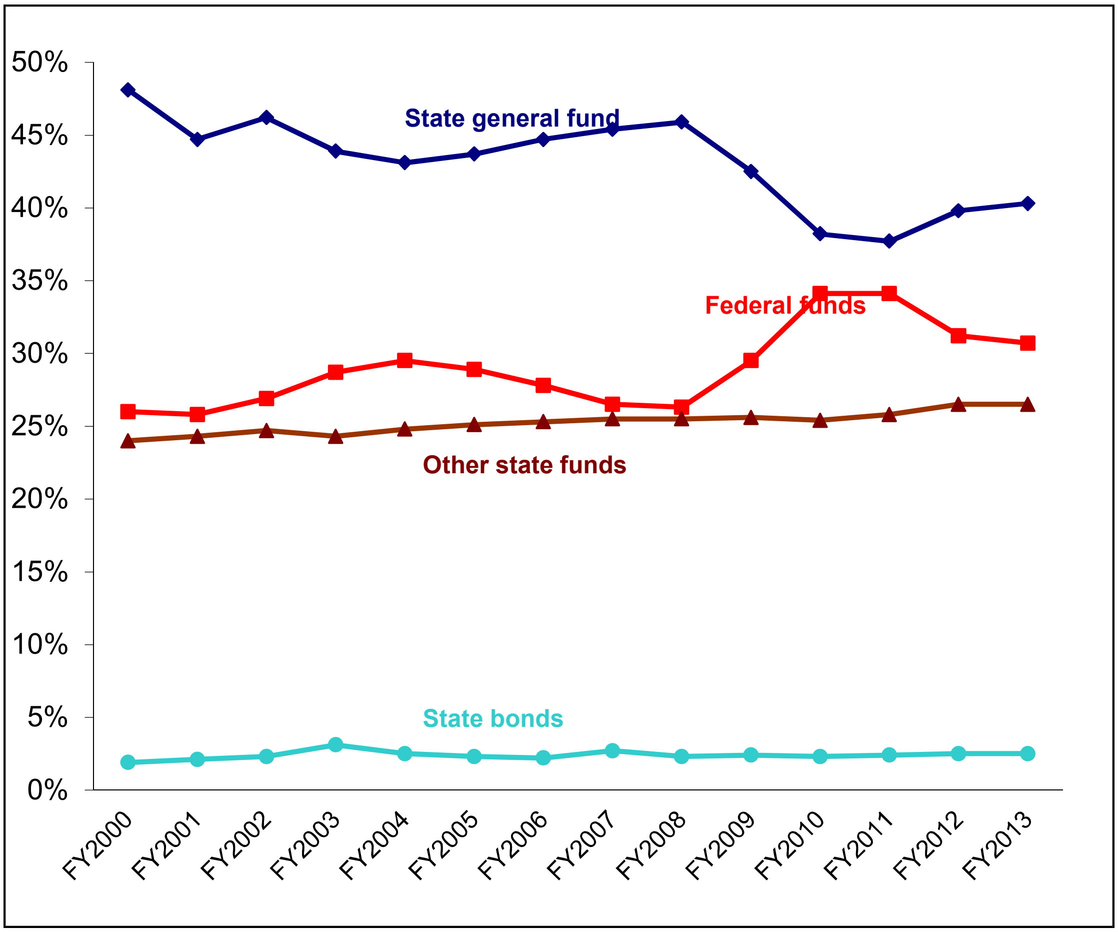
As shown in **Figure 1**, the share of total state expenditures held by the states' four operating expenditures budgets were relatively stable from FY2000 to FY2008, and then shifted from FY2008 to FY2013, with an increased reliance on federal funds, especially in FY2010 and FY2011. For example, in FY2008, the states' general fund expenditures accounted for 45.9% of total state expenditures, federal funds expenditures accounted for 26.3%, other state funds expenditures accounted for 25.5%, and state bonds expenditures accounted for 2.3%. State budget officials anticipate that in FY2013 the states' general fund expenditures will account for 40.3% of total state expenditures, followed by federal funds expenditures (30.7%), other state funds expenditures (26.5%), and state bonds expenditures (2.5%).[29]

[29] National Association of State Budget Officers, *State Expenditure Report: Examining Fiscal Year 2011-2013 State Spending*, Washington, DC, November 2013, p. 7, at http://www.nasbo.org/publications-data/state-expenditure-report.

The states' increased reliance on federal funds in FY2009, FY2010, and FY2011 was primarily attributed to temporary increases in federal funding to states under ARRA. More recently, the state's increased reliance on federal funds has been primarily attributed to increases in federal funding to states for health care (primarily Medicaid). In FY2008, Medicaid accounted for 20.5% of total state expenditures. In FY2013, Medicaid is anticipated to account for 24.5% of total state expenditures.[30]

Figure 1. Total State Expenditures for FY2000-FY2013, by Funding Source

(% of total state expenditures)



Source: National Association of State Budget Officers, *State Expenditure Report [FYs 2000-2009]*, Washington, DC, all p. 2, at http://www.nasbo.org/publications-data/state-expenditure-report/archives; National Association of State Budget Officers, *FY2010 State Expenditure Report*, Washington, DC, December 2011, p. 7, at http://www.nasbo.org/sites/default/files/2010%20State%20Expenditure%20Report_0.pdf; National Association of State Budget Officers, *State Expenditure Report: Examining Fiscal 2010-2012 State Spending*, Washington, DC, December 2012, p. 2, at http://www.nasbo.org/sites/default/files/State%20Expenditure%20Report_1.pdf; and National Association of State Budget Officers, *State Expenditure Report: Examining Fiscal 2011-2013 State Spending*, Washington, DC, November 2013, p. 7, at http://www.nasbo.org/publications-data/state-expenditure-report.

Notes: FY2013 total state expenditures and share from the state general fund, federal funds, other state funds, and state bonds are estimated from state budget documents.

[30] Ibid., p. 2.

State General Fund Expenditures

As shown in **Table 3**, state general fund expenditures declined in FY2003 (following the recession of March 2001 through November 2001), and in FY2009 and FY2010 (following the recession of December 2007 through June 2009). Since then, state general fund expenditures have increased, and are expected to exceed pre-recession levels in FY2013.

Table 3. State General Fund Expenditures, FY2000-FY2013

($ in millions)

FY	State General Fund Expenditures	Change in State General Fund Expenditures from Previous FY	% Change in State General Fund Expenditures from Previous FY
2000	$454,198	$32,728	7.77%
2001	$488,458	$34,260	7.54%
2002	$499,051	$10,593	2.17%
2003	$492,994	($6,057)	-1.21%
2004	$509,696	$16,702	3.39%
2005	$553,186	$43,490	8.53%
2006	$600,072	$46,886	8.48%
2007	$651,280	$51,208	8.53%
2008	$678,911	$27,631	4.24%
2009	$659,449	($19,462)	-2.87%
2010	$616,527	($42,922)	-6.51%
2011	$640,761	$24,234	3.93%
2012	$664,729	$23,968	3.74%
2013 est.	$693,688	$28,959	4.35%

Source: National Association of State Budget Officers, *State Expenditure Report [FYs 2000-2009]*, Washington, DC, all p. 2, at http://www.nasbo.org/publications-data/state-expenditure-report/archives; National Association of State Budget Officers, *State Expenditure Report: Examining Fiscal 2010-2012 State Spending*, Washington, DC, December 2012, p. 7, at http://www.nasbo.org/sites/default/files/State%20Expenditure%20Report_1.pdf; and National Association of State Budget Officers, *State Expenditure Report: Examining Fiscal 2011-2013 State Spending*, Washington, DC, November 2013, p. 7, at http://www.nasbo.org/publications-data/state-expenditure-report.

Notes: FY2013 total state general fund expenditures are estimated from state budget documents.

As shown in **Table 4**, in FY2013, 20 states had a lower level of state general fund expenditures than in FY2008, and 30 states had a higher level of state general fund expenditures.

Table 4. Change in State General Fund Expenditures, FY2008-FY2013

($ in millions)

State	State General Fund Expenditures, FY2008	State General Fund Expenditures, FY2013 est.	Change in State General Fund Expenditures, FY2008 Compared to FY2013
Alabama	$8,460	$6,897	($1,563)
Alaska	$5,090	$7,301	$2,211
Arizona	$10,368	$8,567	($1,801)
Arkansas	$4,274	$4,746	$472
California	$102,986	$95,665	($7,321)
Colorado	$7,908	$7,942	$34
Connecticut	$16,627	$19,030	$2,403
Delaware	$3,422	$3,659	$237
Florida	$27,513	$24,717	($2,796)
Georgia	$17,934	$18,303	$369
Hawaii	$5,407	$5,666	$259
Idaho	$2,799	$2,699	($100)
Illinois	$22,140	$29,260	$7,120
Indiana	$12,880	$14,189	$1,309
Iowa	$5,867	$6,231	$364
Kansas	$6,102	$6,198	$96
Kentucky	$9,334	$9,426	$92
Louisiana	$10,372	$8,156	($2,216)
Maine	$3,084	$3,042	($42)
Maryland	$14,488	$15,119	$631
Massachusetts	$28,934	$25,509	($3,425)
Michigan	$9,822	$9,164	($658)
Minnesota	$17,600	$20,056	$2,456
Mississippi	$4,842	$4,699	($143)
Missouri	$8,084	$8,022	($62)
Montana	$1,901	$1,947	$46
Nebraska	$3,247	$3,590	$343
Nevada	$4,031	$3,179	($852)
New Hampshire	$1,515	$1,262	($253)
New Jersey	$33,112	$31,618	($1,494)
New Mexico	$6,027	$5,656	($371)
New York	$53,385	$58,960	$5,575
North Carolina	$20,376	$20,602	$226

State	State General Fund Expenditures, FY2008	State General Fund Expenditures, FY2013 est.	Change in State General Fund Expenditures, FY2008 Compared to FY2013
North Dakota	$1,204	$2,220	$1,016
Ohio	$25,722	$31,514	$5,792
Oklahoma	$6,793	$6,892	$99
Oregon	$6,601	$5,960	($641)
Pennsylvania	$26,969	$27,761	$792
Rhode Island	$3,405	$3,268	($137)
South Carolina	$7,149	$6,350	($799)
South Dakota	$1,176	$1,302	$126
Tennessee	$11,570	$12,622	$1,052
Texas	$41,184	$43,521	$2,337
Utah	$5,784	$4,990	($794)
Vermont	$1,225	$977	($248)
Virginia	$15,099	$17,691	$2,592
Washington	$14,616	$15,633	$1,017
West Virginia	$3,824	$4,159	$335
Wisconsin	$13,527	$14,042	$515
Wyoming	$3,132	$3,709	$577
Total	$678,911	$693,688	$14,777

Source: CRS computations from National Association of State Budget Officers, *State Expenditure Report: FY2009*, Washington, DC, p. 6, at http://www.nasbo.org/sites/default/files/2009-State-Expenditure-Report.pdf; and National Association of State Budget Officers, *State Expenditure Report: Examining Fiscal 2011-2013 State Spending*, Washington, DC, November 2013, p. 7, at http://www.nasbo.org/publications-data/state-expenditure-report.

Notes: FY2013 state general fund expenditures are estimated from state budget documents.

State Federal Funds Expenditures

As shown in **Table 5**, state federal funds expenditures increased in every fiscal year from FY2000 through FY2011, with relatively large increases in FY2009 and FY2010. State federal funds expenditures declined in FY2012, primarily due to the expiration of temporary ARRA-related federal funding to states. State federal funds expenditures are expected to increase somewhat in FY2013, primarily due to anticipated increased federal funding for Medicaid.

Table 5. State Federal Funds Expenditures, FY2000-FY2013

($ in millions)

FY	State Federal Funds Expenditures	Change in State Federal Funds Expenditures from Previous FY	% Change in State Federal Funds Expenditures from Previous FY
2000	$241,317	$15,359	6.80%
2001	$260,567	$19,250	7.98%
2002	$295,752	$35,185	13.50%
2003	$325,102	$29,350	9.92%
2004	$343,561	$18,459	5.68%
2005	$365,787	$22,226	6.47%
2006	$368,668	$2,881	0.79%
2007	$379,271	$10,603	2.88%
2008	$388,184	$8,913	2.35%
2009	$462,980	$74,796	19.27%
2010	$562,255	$99,275	21.44%
2011	$567,694	$5,439	0.97%
2012	$516,211	($51,483)	-9.07%
2013 est.	$528,071	$11,860	2.25%

Source: National Association of State Budget Officers, *State Expenditure Report [FYs 2000-2009]*, Washington, DC, all p. 2, at http://www.nasbo.org/publications-data/state-expenditure-report/archives; National Association of State Budget Officers, *State Expenditure Report: Examining Fiscal 2010-2012 State Spending*, Washington, DC, December 2012, p. 7, at http://www.nasbo.org/sites/default/files/State%20Expenditure%20Report_1.pdf; and National Association of State Budget Officers, *State Expenditure Report: Examining Fiscal 2011-2013 State Spending*, Washington, DC, November 2013, p. 7, at http://www.nasbo.org/publications-data/state-expenditure-report.

Notes: FY2013 total state federal funds expenditures are estimated from state budget documents.

As shown in **Table 6**, state federal funds expenditures are anticipated to be nearly $139.9 billion higher in FY2013 than in FY2008. In FY2013, 2 states (Louisiana and Oklahoma) had a lower level of federal funds expenditures than in FY2008, and 48 states had a higher level of federal funds expenditures.

Table 6. Change in State Federal Funds Expenditures, FY2008-FY2013

($ in millions)

State	State Federal Funds Expenditures, FY2008	State Federal Fund Expenditures, FY2013 est.	Change in State Federal Fund Expenditures, FY2008 Compared to FY2013
Alabama	$6,291	$9,541	$3,250
Alaska	$2,314	$2,902	$588
Arizona	$7,820	$12,332	$4,512
Arkansas	$4,806	$6,189	$1,383

State	State Federal Funds Expenditures, FY2008	State Federal Fund Expenditures, FY2013 est.	Change in State Federal Fund Expenditures, FY2008 Compared to FY2013
California	$56,211	$81,299	$25,088
Colorado	$4,739	$7,334	$2,595
Connecticut	$2,117	$2,555	$438
Delaware	$1,113	$1,783	$670
Florida	$18,754	$24,737	$5,983
Georgia	$10,268	$11,752	$1,484
Hawaii	$1,760	$1,912	$152
Idaho	$2,005	$2,792	$787
Illinois	$11,073	$15,407	$4,334
Indiana	$7,818	$10,357	$2,539
Iowa	$4,565	$5,682	$1,117
Kansas	$3,522	$3,599	$77
Kentucky	$6,720	$8,001	$1,281
Louisiana	$12,883	$12,311	($572)
Maine	$2,182	$2,564	$382
Maryland	$6,561	$11,811	$5,250
Massachusetts	$2,525	$15,548	$13,023
Michigan	$12,660	$19,295	$6,635
Minnesota	$6,264	$8,637	$2,373
Mississippi	$6,434	$8,274	$1,840
Missouri	$5,632	$7,209	$1,577
Montana	$1,646	$2,115	$469
Nebraska	$2,411	$3,014	$603
Nevada	$1,780	$2,918	$1,138
New Hampshire	$1,498	$1,601	$103
New Jersey	$8,851	$12,485	$3,634
New Mexico	$4,506	$5,660	$1,154
New York	$34,680	$38,574	$3,894
North Carolina	$10,914	$17,459	$6,545
North Dakota	$1,241	$1,621	$380
Ohio	$9,655	$12,630	$2,975
Oklahoma	$9,030	$6,516	($2,514)
Oregon	$4,625	$7,452	$2,827
Pennsylvania	$18,037	$24,144	$6,107
Rhode Island	$1,939	$2,659	$720

State	State Federal Funds Expenditures, FY2008	State Federal Fund Expenditures, FY2013 est.	Change in State Federal Fund Expenditures, FY2008 Compared to FY2013
South Carolina	$6,654	$7,792	$1,138
South Dakota	$1,182	$1,487	$305
Tennessee	$9,343	$13,055	$3,712
Texas	$25,023	$33,147	$8,124
Utah	$2,503	$3,405	$902
Vermont	$1,312	$1,662	$350
Virginia	$6,342	$9,546	$3,204
Washington	$6,678	$7,744	$1,066
West Virginia	$3,287	$4,394	$1,107
Wisconsin	$7,534	$10,815	$3,281
Wyoming	$476	$2,353	$1,877
Total	$388,184	$528,071	$139,887

Source: CRS computations from National Association of State Budget Officers, *State Expenditure Report: FY2009*, Washington, DC, p. 6, at http://www.nasbo.org/sites/default/files/2009-State-Expenditure-Report.pdf; and National Association of State Budget Officers, *State Expenditure Report: Examining Fiscal 2011-2013 State Spending*, Washington, DC, November 2013, p. 7, at http://www.nasbo.org/publications-data/state-expenditure-report.

Notes: FY2013 state federal fund expenditures are estimated from state budget documents.

Other State Funds Expenditures

As shown in **Table 7**, total state other funds expenditures increased in each fiscal year from FY2000 to FY2011, declined somewhat in FY2012, and increased in FY2013.

Table 7. State Other Funds Expenditures, FY2000-FY2013

($ in millions)

FY	State Other Funds Expenditures	Change in State Other Funds Expenditures from Previous FY	% Change in State Other Funds Expenditures from Previous FY
2000	$230,684	$17,067	7.99%
2001	$243,918	$13,234	5.74%
2002	$265,918	$22,000	9.02%
2003	$275,361	$9,443	3.55%
2004	$297,685	$22,324	8.11%
2005	$319,517	$21,832	7.33%
2006	$344,550	$25,033	7.83%
2007	$358,688	$14,138	4.10%

FY	State Other Funds Expenditures	Change in State Other Funds Expenditures from Previous FY	% Change in State Other Funds Expenditures from Previous FY
2008	$376,894	$18,206	5.08%
2009	$400,059	$23,165	6.15%
2010	$402,527	$2,468	0.62%
2011	$416,443	$13,916	3.46%
2012	$416,226	($217)	(0.05%)
2013 est.	$455,137	$38,911	9.35%

Source: National Association of State Budget Officers, *State Expenditure Report [FYs 2000-2009]*, Washington, DC, all p. 2, at http://www.nasbo.org/publications-data/state-expenditure-report/archives; National Association of State Budget Officers, *State Expenditure Report: Examining Fiscal 2010-2012 State Spending*, Washington, DC, December 2012, p. 7, at http://www.nasbo.org/sites/default/files/State%20Expenditure%20Report_1.pdf; and National Association of State Budget Officers, *State Expenditure Report: Examining Fiscal 2011-2013 State Spending*, Washington, DC, November 2013, p. 7, at http://www.nasbo.org/publications-data/state-expenditure-report.

Notes: FY2013 total state other funds expenditures are estimated from state budget documents.

As shown in **Table 8**, other state funds expenditures increased about $78.2 billion from FY2008 to FY2013, with 9 states having a lower level of other state funds expenditures in FY2013 than in FY2008, and 41 states having a higher level of other state funds expenditures.

Table 8. Change in Other State Funds Expenditures, FY2008-FY2013

($ in millions)

State	Other State Funds Expenditures, FY2008	Other State Funds Expenditures, FY2013 est.	Change in Other State Funds Expenditures, FY2008 Compared to FY2013
Alabama	$4,537	$7,490	$2,953
Alaska	$4,226	$1,389	($2,837)
Arizona	$6,405	$7,624	$1,219
Arkansas	$7,756	$10,447	$2,691
California	$26,674	$38,656	$11,982
Colorado	$12,482	$13,203	$721
Connecticut	$3,494	$3,618	$124
Delaware	$3,811	$3,281	($530)
Florida	$14,916	$18,437	$3,521
Georgia	$8,773	$10,211	$1,438
Hawaii	$3,376	$3,271	($105)
Idaho	$1,097	$1,718	$621
Illinois	$11,047	$19,825	$8,778
Indiana	$3,380	$3,220	($160)

State	Other State Funds Expenditures, FY2008	Other State Funds Expenditures, FY2013 est.	Change in Other State Funds Expenditures, FY2008 Compared to FY2013
Iowa	$5,668	$7,539	$1,871
Kansas	$2,787	$4,193	$1,406
Kentucky	$6,941	$8,246	$1,305
Louisiana	$5,342	$8,791	$3,449
Maine	$2,053	$2,176	$123
Maryland	$8,520	$8,909	$389
Massachusetts	$10,928	$17,135	$6,207
Michigan	$21,081	$20,107	($974)
Minnesota	$3,891	$6,263	$2,372
Mississippi	$4,029	$5,660	$1,631
Missouri	$7,165	$7,712	$547
Montana	$1,810	$1,978	$168
Nebraska	$3,053	$3,559	$506
Nevada	3,028	$2,769	($259)
New Hampshire	$1,680	$2,080	$400
New Jersey	$5,233	$6,735	$1,502
New Mexico	$3,091	$3,227	$136
New York	$26,122	$32,305	$6,183
North Carolina	$10,098	$12,543	$2,445
North Dakota	$1,125	$2,072	$947
Ohio	$20,633	$12,950	($7,683)
Oklahoma	$4,803	$7,878	$3,075
Oregon	$10,763	$12,262	$1,499
Pennsylvania	$12,952	$15,175	$2,223
Rhode Island	$1,589	$2,122	$533
South Carolina	$6,866	$8,158	$1,292
South Dakota	$842	$1,307	$465
Tennessee	$4,969	$5,394	$425
Texas	$12,634	$18,318	$5,684
Utah	$3,033	$3,739	$706
Vermont	$2,734	$2,248	($486)
Virginia	$13,040	$16,191	$3,151
Washington	$8,617	$7,809	($808)
West Virginia	$11,422	$14,736	$3,314
Wisconsin	$15,028	$17,912	$2,884

State	Other State Funds Expenditures, FY2008	Other State Funds Expenditures, FY2013 est.	Change in Other State Funds Expenditures, FY2008 Compared to FY2013
Wyoming	$1,350	$2,549	$1,199
Total	$376,894	$455,137	$78,243

Source: CRS computations from National Association of State Budget Officers, *State Expenditure Report: FY2009*, Washington, DC, p. 6, at http://www.nasbo.org/sites/default/files/2009-State-Expenditure-Report.pdf; and National Association of State Budget Officers, *State Expenditure Report: Examining Fiscal 2011-2013 State Spending*, Washington, DC, November 2013, p. 7, at http://www.nasbo.org/publications-data/state-expenditure-report.

Notes: FY2013 state other state fund expenditures are estimated from state budget documents.

State Bonds Expenditures

As shown in **Table 9**, state bonds expenditures have been relatively volatile from FY2000 through FY2013. Over this time period, state bond expenditures increased nine times from the previous fiscal year and decreased five times. Overall, state bond expenditures have more than doubled since FY2000, increasing from nearly $19.9 billion in FY2000 to a projected $42.9 billion in FY2013.

Table 9. State Bonds Expenditures, FY2000-FY2013

($ in millions)

FY	State Bonds Expenditures	Change in State Bonds Expenditures from Previous FY	% Change in State Bonds Expenditures from Previous FY
2000	$19,887	$680	3.54%
2001	$22,870	$2,983	15.00%
2002	$27,486	$4,616	20.18%
2003	$33,804	$6,318	22.99%
2004	$30,388	($3,416)	-10.11%
2005	$27,906	($2,482)	-8.17%
2006	$29,828	$1,922	6.89%
2007	$35,789	$5,961	19.98%
2008	$34,793	($996)	-2.78%
2009	$35,928	$1,135	3.26%
2010	$35,809	($119)	-0.33%
2011	$38,199	$2,310	6.45%
2012	$37,026	($-1,173)	-3.07%
2013 est.	$42,884	$5,858	15.82%

Source: National Association of State Budget Officers, *State Expenditure Report [FYs 2000-2009]*, Washington, DC, all p. 2, at http://www.nasbo.org/publications-data/state-expenditure-report/archives; National Association of State Budget Officers, *State Expenditure Report: Examining Fiscal Year 2010-2012 State Spending*, Washington, DC, December 2012, p. 7, at http://www.nasbo.org/sites/default/files/State%20Expenditure%20Report_1.pdf; and

National Association of State Budget Officers, *State Expenditure Report: Examining Fiscal 2011-2013 State Spending*, Washington, DC, November 2013, p. 7, at http://www.nasbo.org/publications-data/state-expenditure-report.

Notes: FY2013 total state bonds expenditures are estimated from state budget documents.

As shown in **Table 10**, state bonds expenditures increased about $8.1 billion from FY2008 to FY2013, with 10 states (Colorado, Indiana, Kentucky, Missouri, Montana, Nebraska, New Mexico, South Carolina, Wisconsin, and Wyoming) having no state bonds fund expenditures in FY2013. Overall, 17 states anticipate having a lower level of state bonds fund expenditures in FY2013 than in FY2008, 6 states anticipate having the same amount, and 27 states anticipate having a higher level of state bonds fund expenditures.

Table 10. Change in State Bonds Fund Expenditures, FY2008-FY2013

($ in millions)

State	State Bonds Fund Expenditures, FY2008	State Bonds Fund Expenditures, FY2013 est.	Change in State Bonds Fund Expenditures, FY2008 Compared to FY2013
Alabama	$552	$189	($363)
Alaska	$26	$550	$524
Arizona	$654	$770	$116
Arkansas	$63	$203	$140
California	$8,405	$12,261	$3,856
Colorado	$0	$0	$0
Connecticut	$2,032	$2,935	$903
Delaware	$275	$439	$164
Florida	$3,196	$2,084	($1,112)
Georgia	$1,519	$808	($711)
Hawaii	$617	$735	$118
Idaho	$31	$33	$2
Illinois	$306	$1,955	$1,649
Indiana	$161	$0	($161)
Iowa	$29	$157	$128
Kansas	$278	$415	$137
Kentucky	$0	$0	$0
Louisiana	$291	$404	$113
Maine	$108	$16	($92)
Maryland	$839	$1,135	$296
Massachusetts	$1,420	$2,106	$686
Michigan	$419	$182	($237)
Minnesota	$691	$810	$119
Mississippi	$234	$784	$550

State	State Bonds Fund Expenditures, FY2008	State Bonds Fund Expenditures, FY2013 est.	Change in State Bonds Fund Expenditures, FY2008 Compared to FY2013
Missouri	$551	$0	($551)
Montana	$0	$0	$0
Nebraska	$0	$0	$0
Nevada	401	$27	($374)
New Hampshire	$114	$81	($33)
New Jersey	$1,508	$1,247	($261)
New Mexico	$583	$0	($583)
New York	$1,869	$3,258	$1,389
North Carolina	$200	$785	$585
North Dakota	$27	$26	($1)
Ohio	$753	$1,174	$421
Oklahoma	$104	$144	$40
Oregon	$185	$132	($53)
Pennsylvania	$738	$800	$62
Rhode Island	$185	$84	($101)
South Carolina	$118	$0	($118)
South Dakota	$17	$35	$18
Tennessee	$151	$382	$231
Texas	$2,256	$1,939	($317)
Utah	$3	$469	$466
Vermont	$37	$73	$36
Virginia	$849	$1,167	$318
Washington	$1,821	$2,016	$195
West Virginia	$177	$74	($103)
Wisconsin	$0	$0	$0
Wyoming	$0	$0	$0
Total	$34,793	$42,884	$8,091

Source: CRS computations from National Association of State Budget Officers, *State Expenditure Report: FY2009*, Washington, DC, p. 6, at http://www.nasbo.org/sites/default/files/2009-State-Expenditure-Report.pdf; and National Association of State Budget Officers, *State Expenditure Report: Examining Fiscal 2011-2013 State Spending*, Washington, DC, November 2013, p. 7, at http://www.nasbo.org/publications-data/state-expenditure-report.

Notes: FY2013 state bonds fund expenditures are estimated from state budget documents.

State Capital Expenditures

The total state expenditures amounts presented in **Table 2** included state capital expenditures. State capital spending totaled $80.3 billion in FY2008, $84.2 billion in FY2009, $85.9 billion in FY2010, $86.4 billion in FY2011, $88.5 billion in FY2012, and an estimated $93.4 billion in FY2013.[31] As shown in **Table 11**, three states (Montana, South Carolina, and Wisconsin) reported that they did not anticipate making any state capital expenditures in FY2013. Overall, 18 states anticipate having a lower level of state capital expenditures in FY2013 than in FY2008, 3 states anticipate having the same amount, and 29 states anticipate having a higher level of state capital expenditures.

Table 11. Change in State Capital Fund Expenditures, FY2008-FY2013

($ in millions)

State	State Capital Fund Expenditures, FY2008	State Capital Fund Expenditures, FY2013 est.	Change in State Capital Fund Expenditures, FY2008 Compared to FY2013
Alabama	$1,256	$860	($396)
Alaska	$2,606	$3,683	$1,077
Arizona	$1,234	$1,474	$240
Arkansas	$107	$101	($6)
California	$5,210	$9,754	$4,544
Colorado	$1,798	$282	($1,516)
Connecticut	$2,032	$3,063	$1,031
Delaware	$652	$652	$0
Florida	$12,671	$10,264	($2,407)
Georgia	$3,229	$2,158	($1,071)
Hawaii	$1,047	$1,175	$128
Idaho	$479	$558	$79
Illinois	$2,378	$4,482	$2,104
Indiana	$477	$201	($276)
Iowa	$598	$1,036	$438
Kansas	$782	$1,040	$258
Kentucky	$875	$697	($178)
Louisiana	$1,710	$1,884	$174
Maine	$235	$315	$80
Maryland	$2,980	$3,685	$705

[31] National Association of State Budget Officers, *State Expenditure Report: Fiscal Year 2009*, Washington, DC, December 2010, p. 80, at http://www.nasbo.org/sites/default/files/2009-State-Expenditure-Report.pdf; and National Association of State Budget Officers, *State Expenditure Report: Examining Fiscal 2011-2013 State Spending*, Washington, DC, November 2013, p. 80, at http://www.nasbo.org/publications-data/state-expenditure-report.

State	State Capital Fund Expenditures, FY2008	State Capital Fund Expenditures, FY2013 est.	Change in State Capital Fund Expenditures, FY2008 Compared to FY2013
Massachusetts	$1,985	$2,754	$769
Michigan	$1,832	$2,492	$660
Minnesota	$1,503	$1,843	$340
Mississippi	$1,384	$1,468	$84
Missouri	$223	$108	($115)
Montana	$0	$0	$0
Nebraska	$851	$1,010	$159
Nevada	1,240	$526	($714)
New Hampshire	$300	$244	($56)
New Jersey	$4,896	$4,250	($646)
New Mexico	$866	$220	($646)
New York	$6,131	$7,540	$1,409
North Carolina	$0	$3,491	$3,491
North Dakota	$403	$838	$435
Ohio	$3,004	$3,007	$3
Oklahoma	$1,572	$1,626	$54
Oregon	$310	$147	($163)
Pennsylvania	$738	$800	$62
Rhode Island	$429	$363	($66)
South Carolina	$436	$0	($436)
South Dakota	$74	$86	$12
Tennessee	$1,609	$1,758	$149
Texas	$148	$3,213	$3,065
Utah	$1,735	$1,551	($184)
Vermont	$225	$332	$107
Virginia	$1,192	$1,034	($158)
Washington	$3,576	$3,434	($142)
West Virginia	$1,091	$1,633	$542
Wisconsin	$0	$0	$0
Wyoming	$239	$245	$6
Total	$80,348	$93,377	$13,029

Source: CRS computations from National Association of State Budget Officers, *State Expenditure Report: FY2009*, Washington, DC, p. 82, at http://www.nasbo.org/sites/default/files/2009-State-Expenditure-Report.pdf; and National Association of State Budget Officers, *State Expenditure Report: Examining Fiscal 2011-2013 State Spending*, Washington, DC, November 2013, p. 80, at http://www.nasbo.org/publications-data/state-expenditure-report.

Notes: FY2013 state capital fund expenditures are estimated from state budget documents.

Federal Assistance and State Fiscal Stress

As the data in the preceding tables indicate, states were more reliant on federal assistance in FY2013 than they were in FY2008. Over this time period, state federal funds expenditures increased $139.9 billion, compared to an increase of $14.8 billion in state general funds expenditures, an increase of $78.2 billion in state other state funds expenditures, and an increase of $8.1 billion in state bonds expenditures.

As shown in **Table 12**, state federal funds expenditures, as a share of total state expenditures, peaked at 34.8% in FY2010, and is anticipated to be about 30.7% in FY2013.

Table 12. State Federal Funds Expenditures: Total Amount and as a Share of Total State Expenditures (Capital Inclusive), FY2000-FY2013

($ in millions)

FY	Total Amount of State Federal Assistance	% Share of Total State Expenditures
2000	$241,317	26.0%
2001	$260,567	25.8%
2002	$295,752	26.9%
2003	$325,102	28.7%
2004	$343,561	29.5%
2005	$365,787	28.9%
2006	$368,668	27.8%
2007	$379,271	26.5%
2008	$388,184	26.3%
2009	$462,980	29.7%
2010	$562,255	34.8%
2011	$567,694	34.1%
2012	$516,211	31.6%
2013 est.	$528,071	30.7%

Source: National Association of State Budget Officers, *State Expenditure Report [FYs 2000-2009]*, Washington, DC, all pp. 4, 8, at http://www.nasbo.org/publications-data/state-expenditure-report/archives; and National Association of State Budget Officers, *State Expenditure Report: Examining Fiscal 2011-2013 State Spending*, Washington, DC, November 2013, p. 7, at http://www.nasbo.org/publications-data/state-expenditure-report.

Consequences for State Policy Makers

The states' increased reliance on federal assistance during and immediately following the December 2007-June 2009 recession raised concerns that states were approaching a level of dependence on federal assistance that threatened their ability to design programs in a way that they believe best meets their needs. For example, some worried that federal conditions attached to the increased level of federal funds was increasing the federal government's ability to substitute its policy preferences for the state's policy preferences. There was also a concern that the states' increased reliance on federal assistance was also limiting the states' ability to finance non-federal programs because many federal grants, including Medicaid, have mandatory state matching requirements.[32]

These concerns have been lessened somewhat in recent years as most of the ARRA-funded state federal assistance has expired and improvement in economic conditions in many states has led to somewhat higher levels of optimism concerning state revenue growth.

State budget officials now worry that, with the exception of Medicaid funding which is projected to increase as a result of the passage of P.L. 111-148, the Patient Protection and Affordable Care Act, federal budget concerns could lead to quick and deep reductions in other state federal assistance programs. If that were to occur, given the relatively slow rate of state revenue growth, state budget officials worry that they may have to take actions, such as laying off public employees, cutting back on state service levels, or increasing state taxes and fees, that could have an adverse effect on the national economic recovery, and, as a consequence, on the higher rates of revenue growth which they are currently experiencing. For example, Daniel Crippen, Executive Director of the National Governors Association (NGA), indicated on December 14, 2012, that

> The uncertainty surrounding federal efforts to cut its debt and the implications this has on states leaves governors with their hands tied. Another recession would be devastating for states, especially when many states have barely recovered from the last recession. Governors recognize that there will be reductions in federal funding for state programs, but they should be done equitably and in consultation with governors.[33]

The counter-argument is that reducing state federal assistance may force some state governments to make difficult policy choices, but, given the federal government's budget deficit and debt, federal policy makers face similar difficult choices. In addition, it could be argued that the states' increased reliance on federal assistance has created conditions in which state service and benefits levels have become artificially "elevated" to levels that, in the absence of additional federal assistance, would not have been enacted in the first place. As will be discussed in the next section, this last argument involves value judgments concerning the appropriate size and scope of state government.

Variations in State Fiscal Stress

Although state economic downturns generally occur around the same time as national recessions, the states' responses to national recessions "vary in magnitude, duration, and timing and do not necessarily coincide with dates identified for national recessions."[34] The variation in the states'

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[32] Others argued that the states' increased reliance on federal assistance could induce a moral hazard issue by encouraging states to expect similar increases in federal assistance during future economic slowdowns. The concern was that by providing states additional federal assistance the states' "incentives to properly manage risks," by taking such actions as fully funding their "rainy day" reserve funds or making other policy choices to restrain state budget growth during good economic times, could be weakened. See U.S. Government Accountability Office, *State and Local Governments: Knowledge of Past Recessions Can Inform Future Federal Fiscal Assistance*, GAO-11-401, March 31, 2011, p. 30, at http://www.gao.gov/assets/320/317223.pdf.

[33] National Governors Association, "NGA, NASBO Say States Concerned About Uncertainty As They Slowly Emerge From Recession," December 14, 2012, Washington, DC, at http://www.nga.org/cms/home/news-room/news-releases/page_2012/col2-content/nga-nasbo-say-states-concerned-a.html.

[34] U.S. Government Accountability Office, *State and Local Governments: Knowledge of Past Recessions Can Inform* (continued...)

economic responses to the most recent recession helps to explain the variation found in the states' change in state general fund expenditures from FY2008 to FY2013, with some states increasing their state general fund expenditures and others reducing them.

Consequences for Congress

GAO has recommended that Congress take variations in state fiscal stress into consideration when deciding whether, when, and how to provide federal assistance to state and local governments during and immediately after national economic downturns.[35] Specifically, GAO found that the federal government has provided fiscal assistance to state and local governments in response to three of the six national recessions since 1974, and, after examining the efficacy of those efforts in ameliorating state fiscal stress and enhancing national economic growth, recommended that Congress consider the following when developing a policy strategy to address state and local government fiscal stress during and following national recessions:

- Timing/triggering mechanisms—federal policy strategies specifically intended to stabilize state and local governments' budgets may have to be timed differently than those designed to stimulate the national economy, because state budget difficulties often persist beyond the end of a recession.
- Targeting—if federal fiscal assistance to state and local governments is targeted based on the magnitude of the recession's effect on each state's economy, this approach can facilitate economic recovery and moderate fiscal distress at the state and local level.
- Temporary—while a federal fiscal stimulus strategy can increase economic growth in the short run, such efforts can contribute to the federal budget deficit if allowed to run too long after entering a period of strong recovery.
- Consistency—the design of federal fiscal assistance occurs in tandem with consideration of the impact these strategies can have on other federal policy objectives. For example, a standby federal fiscal assistance policy could induce moral hazard by encouraging state or local governments to expect similar federal action in future crises, thereby weakening their incentives to properly manage risks. Another consideration is the policy objective of maintaining accountability while promoting flexibility in state spending. Past studies have shown that unrestricted federal funds are fungible and can be substituted for state funds, and the uses of such funds can be difficult or impossible to track.[36]

GAO provided Congress a list of recommended economic indicators that could be used to serve as triggering mechanisms to either time or target state federal assistance to respond to the effects of a particular recession, including, among others, employment and unemployment data, hourly earnings, personal income, wages and salaries, and weekly hours worked.[37] GAO excluded indicators of state fiscal stress, such as declines in state tax receipts or state budget gaps, "because

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(...continued)

Future Federal Fiscal Assistance, GAO-11-401, March 31, 2011, p. 3, at http://www.gao.gov/assets/320/317223.pdf.

[35] Ibid., p. 28.

[36] Ibid., p. 30.

[37] Ibid., p. 32.

they are dependent on state government's policy choices and because state definitions and measurement techniques vary for calculations such as budget gaps."[38]

Benchmarks for Measuring Variation in State Fiscal Stress

Although GAO chose not to measure variations in state fiscal assistance, one measure of state fiscal stress that is often used is the difference between the state's current and previous year's general fund budget expenditures. It could be argued that if the state is facing a need to reduce its general fund expenditures from the previous year's level, either in real (inflation adjusted) dollars or in current (nominal) dollars, it is experiencing fiscal stress. Generally speaking, after taking into account factors such as state population differences or differences in the size of the states' general fund budgets, as the amount needed to reduce the state's general fund expenditures increases (typically referred to as the state's budget gap), the state's fiscal stress also increases.

Issues with Using State General Fund Expenditures as a Benchmark

The difference between each state's current and previous year general fund budget expenditures is relatively easy to compute and is often used as an indication of state fiscal stress by various organizations. However, as GAO has noted, there is little guidance available to determine if the state's general fund expenditures for the current, or for the previous year, are "appropriate" baselines to use for measuring state fiscal stress. For example, depending on one's personal values concerning the appropriate size and scope of state government, it could be argued that state expenditures are too high or too low. Also, as mentioned previously, in the absence of an agreement concerning which baselines to use in measuring state fiscal stress, it could be argued that the states' current fiscal stress has as much to do with their previous budgetary decisions (or non-decisions) as with the national economic slowdown's adverse effect on state revenue growth. This is an important issue for federal policy makers because if state fiscal stress is viewed as being largely a result of state policy decisions, it is likely that there will be less support for federal action to ease that fiscal stress than would be the case otherwise.

Measuring the Relative Size of State Governments

The data presented in **Table 13** are provided to help inform congressional debate concerning the extent to which the states' varying levels of fiscal stress are due to changing economic conditions or to state policy choices. The data provide a framework for measuring differences in the size of state governments relative to each other, rather than to a preconceived "ideal" state budget that would, by necessity, be based largely on personal value judgments concerning the appropriate size and scope of state government. This information may prove useful as a reference when debating the role of state policy choice in state fiscal stress.

As shown in the table, total state expenditures, both on a per capita basis and as a percentage of state gross domestic product (GDP), vary.[39]

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[38] Ibid.

[39] Another factor that could be used to compare total state expenditures is the extent to which the state relies on local governments to provide services. It could be argued that some states look "bigger" than others because they carry greater responsibility for providing services than their local governments when compared to other states. Unfortunately, data on local government finance are typically delayed for at least two years. For example, at the time of this writing, (continued...)

Table 13. Total State Expenditures, Per Capita FY2013 and as a Percentage of State GDP FY2012

State	Total State Expenditures FY2013 ($ in millions)	Total State Expenditures FY2013, Per Capita	State GDP FY2012 ($ in millions)	Total State Expenditures FY2013 as a % of State GDP FY2012
Alabama	$24,117	$4,989	$183,547	13.14%
Alaska	$12,142	$16,517	$51,859	23.41%
Arizona	$29,293	$4,421	$266,891	10.98%
Arkansas	$21,585	$7,294	$109,557	19.70%
California	$227,881	$5,945	$2,003,479	11.37%
Colorado	$28,479	$5,406	$274,048	10.39%
Connecticut	$28,138	$7,825	$229,317	12.27%
Delaware	$9,162	$9,897	$65,984	13.89%
Florida	$69,975	$3,579	$777,164	9.00%
Georgia	$41,074	$4,111	$433,569	9.47%
Hawaii	$11,584	$8,250	$72,424	15.99%
Idaho	$7,242	$4,492	$58,243	12.43%
Illinois	$66,447	$5,158	$695,238	9.56%
Indiana	$27,766	$4,226	$298,625	9.30%
Iowa	$19,609	$6,345	$152,436	12.86%
Kansas	$14,405	$4,978	$138,953	10.37%
Kentucky	$25,673	$5,841	$173,466	14.80%
Louisiana	$29,662	$6,413	$243,264	12.19%
Maine	$7,798	$5,871	$53,656	14.53%
Maryland	$36,974	$6,236	$317,678	11.64%
Massachusetts	$60,298	$9,009	$403,823	14.93%
Michigan	$48,748	$4,926	$400,504	12.17%
Minnesota	$35,766	$6,598	$294,729	12.14%
Mississippi	$19,417	$6,491	$101,490	19.13%
Missouri	$22,943	$3,796	$258,832	8.86%

(...continued)

the latest available data at the Bureau of the Census for both state and local government expenditures are for FY2011. Those data indicate that in FY2011 the state share of total state and local government expenditures varied among the states, ranging from 49.1% in Nebraska to 85.2% in Vermont. The states' average share of state and local government expenditures was 63.4%, with 15 states below the national average and 35 states above the national average. States more than 10 percentage points below the average were: Florida and Nebraska; states more than 10 percentage points above the average were: Alaska, Arkansas, Delaware, Hawaii, Kentucky, Mississippi, Montana, New Mexico, North Dakota, Vermont, and West Virginia. CRS calculations from U.S. Bureau of the Census, "State and Local Government Finances: 2011 State and Local Government," at http://www.census.gov/govs/local/.

State	Total State Expenditures FY2013 ($ in millions)	Total State Expenditures FY2013, Per Capita	State GDP FY2012 ($ in millions)	Total State Expenditures FY2013 as a % of State GDP FY2012
Montana	$6,040	$5,950	$40,422	14.94%
Nebraska	$10,163	$5,439	$99,557	10.21%
Nevada	$8,893	$3,187	$133,584	6.66%
New Hampshire	$5,024	$3,796	$64,697	7.77%
New Jersey	$52,085	$5,853	$508,003	10.25%
New Mexico	$14,543	$6,974	$80,600	18.04%
New York	$133,097	$6,773	$1,205,930	11.04%
North Carolina	$51,389	$5,218	$455,973	11.27%
North Dakota	$5,939	$8,210	$46,016	12.91%
Ohio	$58,268	$5,036	$509,393	11.44%
Oklahoma	$21,430	$5,565	$160,953	13.31%
Oregon	$25,806	$6,566	$198,702	12.99%
Pennsylvania	$67,880	$5,314	$600,897	11.30%
Rhode Island	$8,133	$7,735	$50,956	15.96%
South Carolina	$22,300	$4,670	$176,217	12.65%
South Dakota	$4,131	$4,889	$42,464	9.73%
Tennessee	$31,453	$4,842	$277,036	11.35%
Texas	$96,925	$3,665	$1,397,369	6.94%
Utah	$12,603	$4,345	$130,486	9.66%
Vermont	$4,960	$7,915	$27,296	18.17%
Virginia	$44,595	$5,399	$445,876	10.00%
Washington	$33,202	$4,763	$375,730	8.84%
West Virginia	$23,363	$12,599	$69,380	33.67%
Wisconsin	$42,769	$7,448	$261,548	16.35%
Wyoming	$8,611	$14,779	$38,422	22.41%
Total	$1,719,780	NA	$15,456,284	NA
National Average	$34,396	$5,451	$309,126	11.13%

Source: CRS computations from National Association of State Budget Officers, *State Expenditure Report: Examining Fiscal 2011-2013 State Spending*, Washington, DC, November 2013, p. 7, at http://www.nasbo.org/publications-data/state-expenditure-report; U.S. Bureau of the Census, "Population Estimates, July 1, 2013," at http://www.census.gov/popest/data/state/totals/2013/index.html; and U.S. Department of Commerce, Bureau of Economic Analysis, "Gross Domestic Product By State," at http://www.bea.gov/newsreleases/regional/gdp_state/gsp_newsrelease.htm.

Notes: FY2013 total state expenditures are estimated from state budget documents. The national median for total state expenditures in FY2013, per capita, was $5,703. The national median for total state expenditures in FY2013 as a percentage of state GDP in FY2012 was 12.15%. Because state GDP for FY2013 was not available, the figures presented for total state expenditures as a percentage of state GDP should be viewed as an estimate.

As shown in **Table 13**, in FY2013, total state expenditures ranged from $4,131 million in South Dakota to $227,881 million in California. The national average for total state expenditures was $34,396 million, with 34 states below the national average and 16 states above the national average.

In FY2013, total state expenditures on a per capita basis varied from $3,187 in Nevada to $16,517 in Alaska. The national average for total state expenditures on a per capita basis was $5,451, with 24 states below the national average and 26 states above the national average.

State GDP in 2012 (the latest available data) ranged from $27,296 million in Vermont to $2,003,479 million in California. The national average for state GDP was $309,126 million, with 35 states below the national average and 15 states above the national average.

Total state expenditures in FY2013 as a percentage of state GDP in FY2012 ranged from 6.66% in Nevada to 33.67% in West Virginia. The national average for total state expenditures in FY2013 as a percentage of state GDP in FY2012 was 11.13%, with 18 states below the national average and 32 states above the national average.

Concluding Observations

State fiscal conditions have improved in recent years. As the NGA has noted, "signs of [state] budget volatility have subsided compared to the years immediately following the recession when states had to make substantial cuts and take other actions to balance their budgets."[40] However, although state revenues are expected to grow over the next several years, many states continue to face fiscal challenges as they replenish their reserves, address infrastructure projects that were postponed due to the recession, and face rising health care and education costs.[41] Also, state federal assistance is included in federal domestic discretionary spending, an area of the federal budget expected to receive much attention over the next several years by federal policy makers as they seek ways to address the federal deficit and debt.

Given these fiscal challenges, it is likely that states will continue to look to the federal government for financial assistance. Federal assistance could be provided in several ways, for example (1) granting of waivers of federal grant program requirements, (2) temporary or permanent relief from federal grant matching requirements, (3) relaxation or elimination of state program-related maintenance of effort requirements that are often attached to federal grant programs, and (4) providing additional direct federal assistance.

GAO has recommended that Congress consider variations in state fiscal stress when deciding whether, when, and how to provide federal assistance to state and local governments during and immediately after national economic downturns. As mentioned previously, GAO also provided a list of economic indicators, such as employment and unemployment data, hourly earnings,

[40] National Governors Association, "NGA, NASBO Say States Concerned About Uncertainty As They Slowly Emerge From Recession," December 14, 2012, Washington, DC, at http://www.nga.org/cms/home/news-room/news-releases/page_2012/col2-content/nga-nasbo-say-states-concerned-a.html.

[41] Ibid. For further information and analysis of state revenue estimates see Susan K. Urahn and Thomas Gais, "States' Revenue Estimating: Cracks in the Crystal Ball," The Nelson Rockefeller Institute of Government and the Pew Center on the States, Washington, DC, at http://www.pewcenteronthestates.org/uploadedFiles/States_Revenue_Estimating_final.pdf.

personal income, wages and salaries, and weekly hours worked, that could be used as triggers for providing states federal assistance.[42] GAO excluded indicators of state fiscal stress, such as declines in state tax receipts or state budget gaps, "because they are dependent on state government's policy choices and because state definitions and measurement techniques vary for calculations such as budget gaps."[43]

Disagreement over the appropriate size of state government has always been an issue in discussions of the role of federal assistance in state budgeting. The data presented in **Table 13** suggest that state governments, both in terms of total state expenditures on a per capita basis and as a percentage of state GDP, vary in size. Some argue against providing additional federal assistance to states because, in their view, the states' current level of fiscal stress, especially in states with a relatively high level of state expenditures, could have been ameliorated if the states had been more prudent with their fiscal choices prior to the recent recession. Others suggest that the federal government's fiscal challenges have reached a point at which providing additional federal assistance to states is out of the question. Still others assert that if the federal government does not continue to provide the states additional assistance, then the states will take actions that will have an adverse effect on the national economic recovery. Some also contend that the states' increased reliance on federal assistance to provide services could displace state priorities with federal priorities. The data and analysis in this report provide a framework for assisting Congress as it considers these various viewpoints concerning whether, when, and how to provide federal assistance to state and local governments during times of state fiscal stress.

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[42] U.S. Government Accountability Office, *State and Local Governments: Knowledge of Past Recessions Can Inform Future Federal Fiscal Assistance*, GAO-11-401, March 31, 2011, p. 32, at http://www.gao.gov/assets/320/317223.pdf.

[43] Ibid.