



# STATE BUDGET SOLUTIONS

Bringing transparency and real solutions to State broken budgets

## State Budgets in the 2000s: Debunking the Myths

By Bryan Leonard and Olivia Leonard

Debt ceiling talks have brought federal government financial woes to the forefront of media attention, but red ink also plagues the budgets of another often-overlooked group of government spenders: the states. State Budget Solutions' (SBS) research and analysis of ten-year budget trends in every state explains just how states ended up where they are today, and debunks the myths of states' "balanced budget" and "adjusted numbers" claims.

Strong economic growth and high tax revenue in the 1990s and early 2000s led to a substantial increase in state spending on entitlements, employee compensation, and other projects. When the recent financial collapse hit, states found themselves with vast spending obligations and little revenue. The ARRA stimulus bill served as a temporary stop-gap, but now stimulus dollars have dried up and states must confront the structural deficits that they have been ignoring for years.

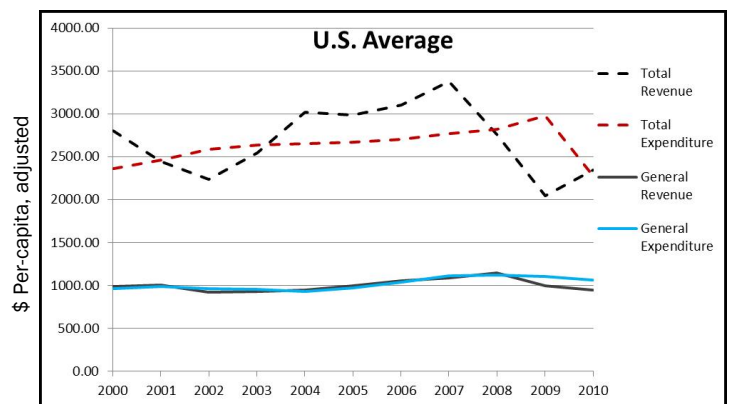
Of course, the economy has a big impact on the demand for state services and the supply of revenues available to states to meet the demand. Recessions can be a one-two punch to state budgets because they increase entitlement obligations while decreasing revenues. But while pundits claim that states' current budget problems are due to economic factors beyond their control, SBS' analysis of ten-year budget trends paints a more accurate picture of the states' responsibility for their own problems.

### The General Fund Deception:

Each year, states scramble to balance their general fund budgets in accordance with their constitutions, citing those "balanced budgets" as proof that their spending is in check while actually presenting a very small part of their overall budget for review. While the

general fund budget may be balanced, the total fund budget is often far off the mark. To make matters worse, neither the state's general fund budget or its total fund budget take into account [unfunded pension liabilities](#), which—thanks to their status of payments due in the future—are not included in annual fiscal year budgets.

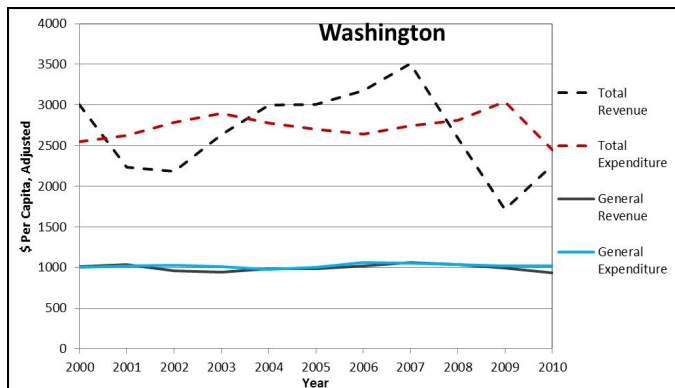
In order to find out the truth about state budgets, SBS analyzed both the general funds and total funds of each state, looking at each year in the past decade. As the 2000s were chaotic years for the national economy, this research took a close look at how states have managed their money in times of growth and recession. By comparing the general fund revenues and expenditures, drawn from the National Association of State Budget Officers' "[State Expenditure Report](#)" to total government revenues and expenditures from the Census Bureau's "[Annual Survey of State Government Finances](#)," as well as looking at revenues and expenditures are from each state's 2010 Comprehensive Annual Financial Report, the study ranks the ten best and worst states for both general fund and total fund budgeting. These rankings provide a perfect example of the false comparison between general and total funds.



## Inflation and Per-Capita Adjustment:

When state officials come under fire for out-of-control spending numbers, they frequently use the defense that the rising numbers are proportionate to inflation and population growth. All numbers in SBS's research are presented in real (adjusted for inflation), per-person terms, providing a consistent picture of expenditure relative to changing economic times and population growth in the last decade. This points out a key discrepancy between popular claims and reality: if spending was truly in step with inflation and an increasing population, then the trend of states' adjusted per-capita spending should be roughly horizontal. Even a cursory glance at the graphs in this study reveals that the trend in state spending over the past decade is anything but flat.

General fund spending and revenue are relatively steady, but states' total spending has (for the most part) grown faster than inflation and population and is highly volatile. [Washington](#) is an example of a state whose overall spending is in constant flux despite a relatively steady general fund.



To get a more concrete idea of how states measure up, the research ranks states based on how much per-capita spending has grown each year over the last ten years, with the per-capita spending growth score as the average of a state's per-capita spending growth in each year over the last decade. A positive number indicates that expenditures have grown faster than population and inflation, and a negative number indicates that spending has actually grown slower than inflation.

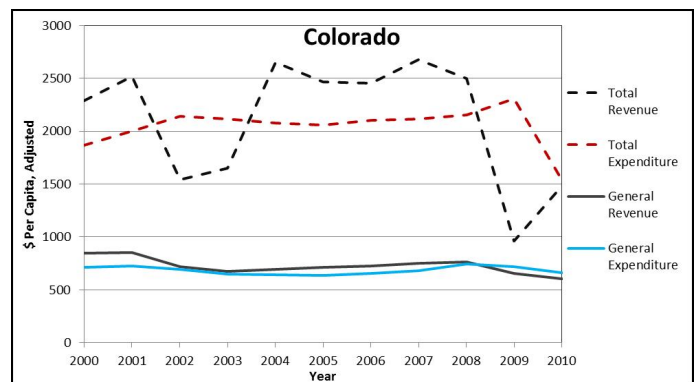
## Reality-Based Budgeting:

In contrast to the short-sighted policy adopted by many states, SBS advocates [Reality-Based Budgeting](#): the idea that states should prioritize the essential func-

tions of government and *then* determine what level of services they can provide within available revenues. While this is commonsense for any household budget, it is a rare tactic amongst state legislatures.

To assess whether or not states approximate reality-based budgeting, SBS's research creates a ranking based upon how well states stayed within their available means, with fund surplus scores representing the average revenue percentage that each state left unspent in each of the last ten years. In other words, a score of 10% would indicate that a state, on average, spent only 90% of their available revenues within the last ten years. Leaving aside the question of how much revenue should be left unspent in an ideal world, those states that manage to stay within their means perform better in this ranking.

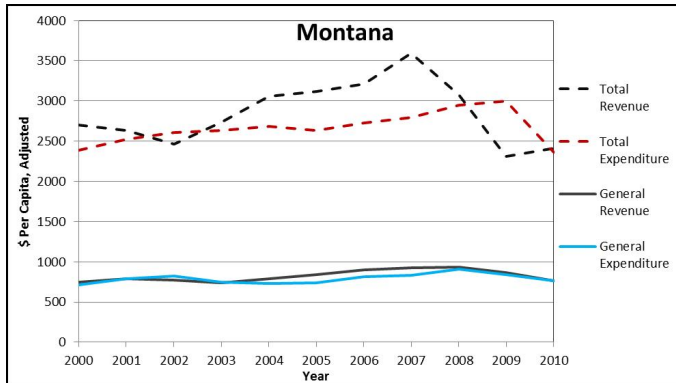
One immediate eye-opener provided by the rankings is the marked disparity between general fund and total funding rankings for each state. Many of the states leading the pack in general fund surplus fall into the bottom third of states when it comes to total fund surpluses. For example, [Colorado](#) ranks 6th for their general fund surplus, but comes in 44th in terms of their total surplus.



This highlights the limited nature of general fund analysis. The fact that nearly every state has a constitutional amendment mandating that their general fund be balanced (but no such requirements existing beyond the general fund) creates perverse incentives for accounting games that shift money out of other funds to make the general fund look presentable. As the data shows, it is impossible to safely assume that a balanced general fund makes for a fiscally healthy state.

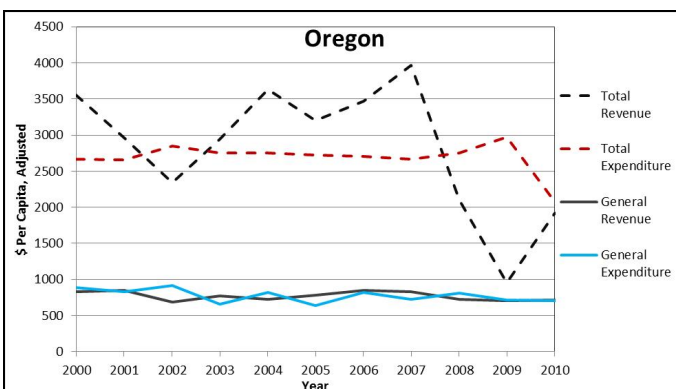
## Conclusions:

SBS's study clearly illustrates that a state's general fund cannot be used to assess that state's overall fiscal responsibility. First, a state's general fund budget often accounts for only a small percentage of overall revenue and spending. Compare [Montana's](#) general fund spending, consistently below \$1,000 per-capita, to their overall spending, which is closer to \$3,000 per-capita.



Looking at the general fund to measure the entire state budget is the equivalent of looking at a household's monthly budget and gauging the level of responsible spending by considering the allocation and expenditure of the utilities budget while ignoring the money used for groceries, insurance, etc. It's not necessary to be a budget analyst to see the problems with this practice.

Second, the relative stability of general funds compared to other state funds shows that they are a relatively poor reflection of fluctuations in the financial health of a state. States are required to balance their general funds each year; it makes sense that they lack volatility. A quick look at [Oregon's](#) general fund revenues and expenditures over the last ten years would give the idea that the state's finances are stable, but analysis of their total spending shows wild swings in per-capita revenues.



Finally, a balanced general fund can actually indicate more turbulent overall budget conditions. Because most states have to balance their general fund, they engage in accounting tricks and budget gimmicks to shift money out of other funds into the general fund. These budgetary gimmicks and games leave the rest of the state budget in disarray, such as when [payments for program costs are delayed](#) just long enough to slip them onto the next fiscal year's budget, when [money is shifted around between categories](#) depending upon the most convenient labels or pay dates, or when lawmakers [optimistically assume zero population growth](#) and make unrealistic budget commitments.

Many states have chosen to play with numbers and justify or ignore their out-of-control spending habits, and that choice is only sinking them deeper into debt. They can no longer hide behind "balanced budgets" that only look at general funds, or claims of "adjusted numbers" that only mask their spending increases. It's time for states to take responsibility for their budget crises and give reality a try.

### Sources:

General Fund Revenues and Expenditures are from the National Association of State Budget Officers' "State Expenditure Report" 2001-2009. <http://nasbo.org/Publications/StateExpenditureReport/StateExpenditureReportArchives/tabid/107/Default.aspx>

Total Government Revenues and Expenditures are from the Census Bureau's "Annual Survey of State Government Finances for 2000-2009." <http://www.census.gov/govs/state/>

2010 Revenues and Expenditures are from each state's 2010 Comprehensive Annual Financial Report.

### Methodology:

Fund Surplus (Deficit) Scores represent the average fraction of revenues left unspent over each of the last ten years. For example, a score of 7% implies that on average, a state spent 93% of their revenue each of the last ten years. Negative scores give the relative size of a state's deficit or shortfall. For example, a score of negative 5% implies that a state overspent their budget by an average of 5% over the last ten years.

Per-capita expenditure scores represent the percentage increase in adjusted per-capita expenditures. If a state's spending is just keeping up with the rates of inflation and population growth, then their score would be zero. As such, this score is a rough measure of the growth of a state's government relative to its population. For example, a score of 10% implies that state expenditures grew an average of 10% faster than did population and inflation over the last ten years.

State	General Fund Surplus (Deficit)	General Fund Surplus Ranking	Total Funds Surplus (Deficit)	Total Funds Surplus Ranking
Alabama	-16.18%	48	-1.76%	24
Alaska	5.19%	8	5.09%	5
Arizona	-7.25%	42	-3.54%	33
Arkansas	21.69%	2	1.69%	13
California	-1.67%	30	-8.35%	46
Colorado	5.56%	6	-7.73%	44
Connecticut	-0.83%	24	-3.19%	30
Delaware	-2.66%	33	1.67%	14
Florida	-2.07%	31	-1.82%	26
Georgia	5.13%	9	-3.30%	31
Hawaii	-0.15%	21	-9.20%	47
Idaho	1.12%	20	2.78%	8
Illinois	11.72%	3	-6.15%	40
Indiana	-3.74%	37	0.55%	18
Iowa	9.72%	4	-1.81%	25
Kansas	-1.50%	29	-4.34%	35
Kentucky	-2.69%	34	-4.41%	36
Louisiana	3.82%	12	2.71%	9
Maine	-2.09%	32	-0.47%	20
Maryland	-5.30%	38	-5.63%	39
Massachusetts	-35.01%	49	2.54%	10
Michigan	-9.82%	46	-3.77%	34
Minnesota	-7.02%	41	-4.61%	38
Mississippi	4.07%	11	-1.73%	23
Missouri	-7.82%	43	1.21%	16
Montana	3.81%	13	5.03%	6
Nebraska	2.45%	16	4.21%	7
Nevada	-5.46%	40	2.20%	12
New Hampshire	38.45%	1	0.56%	17
New Jersey	-1.17%	26	-2.63%	28
New Mexico	-9.05%	45	-6.38%	41
New York	8.14%	5	-4.58%	37
North Carolina	-0.91%	25	0.29%	19
North Dakota	5.11%	10	14.39%	2
Ohio	2.30%	17	-11.25%	48
Oklahoma	-8.14%	44	2.49%	11
Oregon	-1.48%	28	-12.42%	49
Pennsylvania	3.37%	14	-7.65%	43
Rhode Island	1.67%	18	-2.71%	29
South Carolina	-1.42%	27	-7.91%	45
South Dakota	1.17%	19	1.39%	15
Tennessee	-10.71%	47	-1.97%	27
Texas	-2.74%	36	5.15%	4
Utah	-0.22%	22	-0.59%	21
Vermont	5.48%	7	-0.95%	22
Virginia	-0.78%	23	-3.47%	32
Washington	-2.73%	35	-7.06%	42
West Virginia	2.65%	15	6.16%	3
Wisconsin	-5.31%	39	-29.14%	50
Wyoming	-103.21%	50	21.56%	1

State	Increase in Per Capita General Expenditures	Per Capita General Spending Increase Ranking	Increase in Per Capita Total Expenditures	Per Capita Total Spending Ranking
Alabama	4.80%	48	-0.50%	14
Alaska	2.18%	42	-0.24%	20
Arizona	0.02%	22	0.14%	27
Arkansas	-0.16%	18	3.24%	50
California	-0.37%	17	-0.33%	18
Colorado	-0.61%	11	-1.16%	7
Connecticut	1.68%	39	0.42%	32
Delaware	0.48%	29	0.01%	24
Florida	-2.18%	7	0.32%	31
Georgia	-3.39%	3	-0.94%	10
Hawaii	1.28%	37	2.07%	48
Idaho	-0.59%	12	-0.30%	19
Illinois	-2.44%	6	0.95%	41
Indiana	0.27%	25	0.07%	25
Iowa	-1.20%	10	-0.59%	13
Kansas	-0.50%	15	0.48%	35
Kentucky	-0.53%	14	0.17%	29
Louisiana	3.25%	46	2.65%	49
Maine	-0.44%	16	0.95%	40
Maryland	1.03%	35	1.33%	44
Massachusetts	1.94%	41	-1.90%	2
Michigan	-3.63%	1	-1.12%	9
Minnesota	-0.05%	20	-0.39%	17
Mississippi	0.60%	31	1.39%	45
Missouri	-2.48%	5	0.45%	33
Montana	1.01%	34	0.19%	30
Nebraska	0.58%	30	-0.19%	21
Nevada	3.16%	45	-1.66%	4
New Hampshire	-0.01%	21	-0.47%	15
New Jersey	1.71%	40	1.30%	43
New Mexico	1.62%	38	0.66%	38
New York	72.26%	50	0.56%	36
North Carolina	-3.44%	2	-0.62%	12
North Dakota	4.74%	47	-0.19%	22
Ohio	-0.10%	19	-0.74%	11
Oklahoma	0.27%	26	2.01%	47
Oregon	-0.57%	13	-1.90%	3
Pennsylvania	0.09%	23	0.11%	26
Rhode Island	0.30%	27	0.66%	37
South Carolina	-3.06%	4	-1.37%	6
South Dakota	0.87%	33	0.47%	34
Tennessee	1.25%	36	1.23%	42
Texas	0.73%	32	0.15%	28
Utah	-1.44%	9	-1.58%	5
Vermont	2.52%	43	1.40%	46
Virginia	0.35%	28	-0.45%	16
Washington	0.21%	24	-0.08%	23
West Virginia	2.97%	44	0.72%	39
Wisconsin	-1.51%	8	-1.13%	8
Wyoming	32.03%	49	-1.90%	1