State and Local Governments Face Increasing Fiscal Challenges

Percentage of GDP

Surplus
(Positive balance)

Deficit
(Negative balance)

Year

2005 2010 2015 2020 2025 2030 2035 2040 2045 2050 2055 2060

Percentage of GDP

Source: GAO simulations, updated April 2013.

Note: Historical data are from BEA’s National Income and Product Accounts. Data in 2012 are GAO estimates aligned with published data where available. GAO simulations are from 2013 to 2060, using many CBO projections and assumptions, particularly for the next 10 years.
Health and Nonhealth Expenditures of State and Local Governments

Note: Historical data are from BEA’s National Income and Product Accounts. Data in 2012 are GAO estimates aligned with published data where available. GAO simulations are from 2013 to 2060, using many CBO projections and assumptions, particularly for the next 10 years.
Own-Source Revenue for State and Local Governments

Source: GAO simulations.

Note: Historical data are from the Bureau of Economic Analysis's National Income and Product Accounts from 2005 to 2010. Data in 2011 are GAO estimates aligned with published data where available. GAO simulations are from 2012 to 2060, using many Congressional Budget Office projections and assumptions, particularly for the next 10 years. Simulations are based on current policy.
Three Sources of Revenue

- Investment earnings
- Employer contributions
- Employee contributions

Cumulative percentage distribution of pension fund revenue sources nationwide, 1982-2009

- Investment returns: 58%
- Employer contributions: 28%
- Employee contributions: 14%

Actions by State and Local Governments Toward Pension Plan Sustainability

- **Reduced benefits**
  - Adjusted benefit formula: 24 states
  - Raised age or increased service requirements: 29 states
  - Reduced or eliminated postretirement increases: 18 states

- **Increased employee contributions**: 25 states
- **Switched to a hybrid approach**: 3 states

**35 states reduced benefits** in at least one of the three categories above

Source: GAO analysis of annual NCSL reports.
Local Property Tax as a Share of Local Tax Revenue, 2010

Individual Income Tax, as a Share of Total State Tax Revenue, 2011

General Sales Tax as a Share of Total State Tax Revenue, 2011

Aggregate Shifts in State and Local Intergovernmental Grants

Federal Grant Revenues, 1980

- Income security: 30%
- Economic affairs: 16%
- Housing and community services: 6%
- Education: 11%
- Health: 24%
- Other: 3%
- General public service: 10%

Federal Grant Revenues, 2010

- Income security: 18%
- Education: 14%
- Economic affairs: 3%
- Housing and community services: 4%
- Other: 2%
- General public service: 1%
- Health: 58%


Note: Medicaid grants comprised 91 percent of health grants in 2010. ‘Other’ includes national defense, public order and safety, and recreation and culture.
State and Local Health Care Spending
By Category, 2013

- Medicaid Payments: 76%
- Health care contributions for active employees: 18%
- Health care contributions for retirees: 4%
- Other Health Care Payments: 2%

State Revenues: Key and Increasing Role of Federal Grants


Note: The components of general revenue are own-source revenues (taxes, charges, miscellaneous revenues, etc.) and intergovernmental revenues (revenues received from federal and local government). These data represent aggregates for the sector. State revenue sources vary considerably by state. For example, seven states have no state income tax: Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming. Two others, New Hampshire and Tennessee, tax only dividend and interest income.
Local Revenues: Largest Source are State Grants (Which Include Federal Pass-Through Dollars)


Note: The components of general revenue are own-source revenues (taxes, charges, miscellaneous revenues, etc.) and intergovernmental revenues (revenues received from federal and state government). These data represent aggregates for the sector. Local governments receive a wide variety of revenues from diverse sources. For example, Boston's major revenue source is property tax, while Philadelphia's largest source is a wage tax and Phoenix's is sales tax.
State Expenditures: Education and Public Welfare Are the Key Drivers


Note: The components of general current expenditure include current operations, interest on debt, assistance and subsidies, and intergovernmental expenditures.
Local Expenditures:
Education is Largest and Fastest Growing

Note: The components of general current expenditure include current operations, interest on debt, assistance and subsidies, and intergovernmental expenditures.
GAO on the Web
ARRA Oversight: http://www.gao.gov/recovery/
Long Term Federal and State/Local Fiscal Outlook: http://www.gao.gov/special.pubs/longterm/

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