

GAO Highlights

Highlights of [GAO-20-437](#), a report to congressional requesters

Why GAO Did This Study

State and local governments work together with the federal government to deliver a broad range of public services. GAO's prior work has shown that the state and local government sector will likely face fiscal pressures during the next 50 years due to a gap between spending and revenues. The fiscal sustainability of the state and local government sector is essential to effectively implement intergovernmental programs.

GAO was asked to review recent trends in state and local government expenditures and revenues, fiscal pressures for state and local governments with intergovernmental implications, and the implications of federal policy for these pressures. This report (1) examines trends in state and local government expenditures and revenues during the past two decades; and (2) synthesizes expert views regarding the effects of federal policy on state and local government fiscal conditions.

GAO analyzed data from the Bureau of Economic Analysis National Income and Product Accounts, the U.S. Census Bureau and the National Association of State Budget Officers.

GAO also interviewed a nongeneralizable sample of experts from organizations that represent state and local governments, professionals who provide financial and credit risk information (credit rating agencies), and researchers from think tanks to better understand how federal policies affect state and local government fiscal conditions.

View [GAO-20-437](#). For more information, contact Michelle Sager at (202) 512-6806 or sagem@gao.gov.

March 2020

INTERGOVERNMENTAL ISSUES

Key Trends and Issues Regarding State and Local Sector Finances

What GAO Found

During the past two decades, the state and local government sector experienced overall growth in spending and revenue. Specifically, inflation-adjusted spending increased from about \$1.7 trillion in 1998 to about \$2.8 trillion in 2018. Health spending accounted for the largest increase. Inflation-adjusted revenues increased from about \$1.6 trillion in 1998 to about \$2.6 trillion in 2018. Taxes comprised the largest revenue category.

From 1997 to 2017, state and local government expenditures and revenues grew faster than state gross domestic product in most states. On average, growth in expenditures outpaced growth in revenues by 0.3 percentage points per year during the period. Increases in public welfare spending drove spending growth (spending largely for states' share of Medicaid), while federal grants and user charges drove revenue growth.

State and Local Government Expenditures and Revenues Grew Faster Than State Gross Domestic Product (GDP) in Most States from 1997 to 2017

	U.S. average annual growth rate (%)	Number of states with growth exceeding state GDP growth	Number of states with growth slower than state GDP growth
Expenditures	2.8	43	8
Revenues	2.5	35	16
State GDP	2.3	—	—

Source: GAO analysis of U.S. Census Bureau and Bureau of Economic Analysis data. | GAO 20-437

Note: "U.S." indicates the aggregate value for the state and local government sector across all 50 states and the District of Columbia. For each state and the District of Columbia, we compared average annual compound growth in real (inflation-adjusted) expenditures or revenues, as appropriate, to average annual compound growth in inflation-adjusted state GDP.

Experts identified a range of issues facing state and local governments that could affect the sector's fiscal condition. Those most frequently mentioned included:

Health care. Experts expressed concerns regarding their ability to meet future Medicaid enrollment demands in an economic downturn.

Federal budget uncertainty. Uncertainty in the future of federal assistance as well as the timing of federal appropriations, including federal government shutdowns, affected state and local governments' program planning.

Physical infrastructure. Aging infrastructure costs and uncertainty in federal funding sources placed pressure on the sector to identify alternative revenue sources for transportation projects.

Tax policy. Provisions of the law known as the Tax Cuts and Jobs Act had varied effects on the sector, but most experts agreed it is still too early to assess the act's full effects on state and local government revenues.

Natural disasters. Experts acknowledged the important contribution of federal financial support for disaster response and recovery and noted some states' mitigation efforts to address the increasing frequency and cost of disasters. Credit rating firms are considering the effects of climate change in their credit analyses of state and local governments.