



Highlights of [GAO-10-358](#), a report to the Congress

Why GAO Did This Study

Fiscal sustainability presents a national challenge shared by all levels of government. Since 2007, GAO has published long-term fiscal simulations for the state and local government sector. These simulations show that, like the federal government, the state and local government sector faces persistent and long-term fiscal pressures.

Using the Bureau of Economic Analysis's National Income and Product Accounts (NIPA) as the primary data source, GAO's model projects the level of receipts and expenditures for the sector until 2060 based on current and historical spending and revenue patterns. GAO assumes the current set of policies in place across federal, state, and local governments remains constant. This update incorporates NIPA data including increased federal grant funding made available to the sector through the American Recovery and Reinvestment Act of 2009. The model simulates the long-term fiscal outlook for the state and local sector as a whole and, while the model incorporates the Congressional Budget Office's economic projections, adjustments are made to capture the budgetary effects of near-term cyclical swings in the economy. Because the model covers the sector in the aggregate, the fiscal outcomes for individual states and localities cannot be captured. This product is part of a body of work on the nation's long-term fiscal challenges. Related products can be found at <http://www.gao.gov/special.pubs/longterm/>.

View [GAO-10-358](#) or [key components](#). For more information, contact Stanley J. Czerwinski at (202) 512-6806 or czerwinski@gao.gov or Thomas J. McCool at (202) 512-2700 or mccoolt@gao.gov.

STATE AND LOCAL GOVERNMENTS' FISCAL OUTLOOK

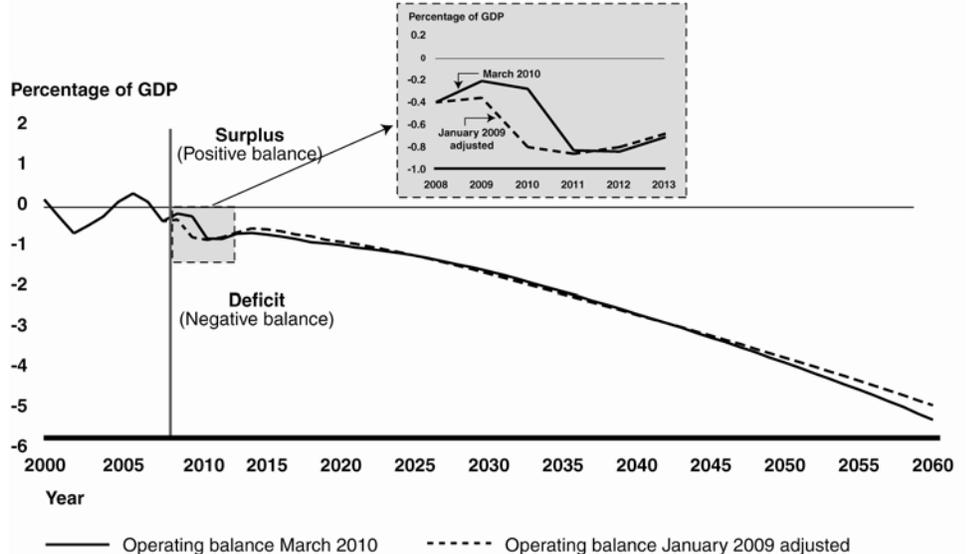
March 2010 Update

What GAO Found

The state and local government sector continues to face near- and long-term fiscal challenges which grow over time. Although the sector's near-term operating balance remains negative, increases in federal grants-in-aid—largely from the Recovery Act—alleviated some near-term pressure. As shown in the insert to the figure below, the March 2010 operating balance measure (including 2009 Recovery Act funds) shows an improvement compared to the January 2009 simulation. In the near-term, the sector's fiscal position can be attributed to several factors, including steep revenue declines.

GAO projects that the sector's long-term fiscal position will steadily decline through 2060 absent any policy changes, as shown in figure 1. The decline in the sector's operating balance is primarily driven by rising health care costs. The fiscal challenges confronting the state and local sector add to the nation's overall fiscal difficulties. Because most state and local governments are required to balance their operating budgets, the declining fiscal conditions shown in GAO's simulations suggest the fiscal pressures the sector faces and the extent to which these governments will need to make substantial policy changes to avoid growing imbalances.

State and Local Operating Balance Measure, as a Percentage of Gross Domestic Product
 Insert magnifying near-term fiscal position



Source: GAO simulations, updated March 2010 and January 2009 adjusted.

Notes: The operating balance is a measure of the sector's ability to cover its current expenditures out of current receipts. Historical data are from the Bureau of Economic Analysis's NIPA accounts from 1980 to 2008. Data in 2009 are GAO estimates aligned with published data where available. GAO simulations are from 2010 to 2060, using many Congressional Budget Office projections and assumptions, particularly for the next 10 years. Simulations are based on current policy.