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.

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