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Policy Basics is a series of brief background reports on issues related to budgets, taxes, and government assistance programs.

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Given the budget problems states face due to the recession, policymakers will confront major choices about how to pay for important government services and programs. To inform this crucial decision making, it is useful to examine where state tax dollars go as well as changing trends over time.

In total, the 50 states and the District of Columbia spent a little more than \$1 trillion in state revenues in fiscal year 2008, according to the most recent survey by the National Association of State Budget Officers (NASBO).

By far the largest areas of state spending, on average, are education (both K-12 and higher education) and health care. But states also fund a wide variety of other services, including transportation, corrections, pension and health benefits for public employees, care for the mentally ill and developmentally disabled, assistance to low-income families, economic development, environmental projects, state police, parks and recreation, housing, and aid to local governments.

Overall state spending as a share of the economy has remained at about the same level since the early 1990s. Education stayed a fairly constant share of state spending over this period. The shares of state budgets devoted to Medicaid and corrections have grown, however, while the shares devoted to transportation and cash assistance to low-income families have declined.

Most State Dollars Go Toward Education and Health Care

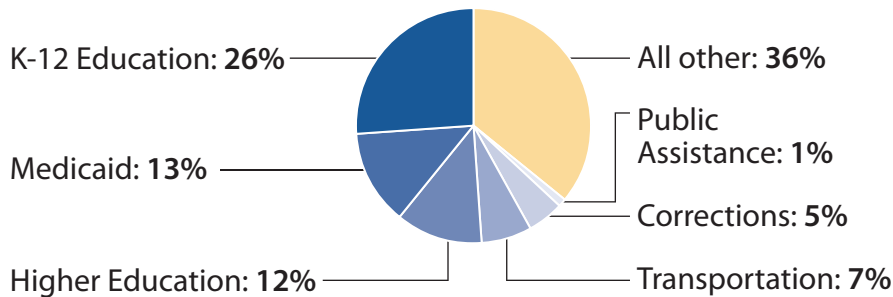
Three areas of spending make up over half of state spending, on average:

- **K-12 education**

States are one of the main funders of the nation's public elementary and secondary schools, which some 50 million students — almost nine out of ten school-age children — attend. About one-fourth of state spending on average, or about \$275 billion, goes toward public education. States generally provide grants to local school districts (or to cities or counties, where those entities are responsible for administering schools) to fund schools, rather than paying teacher salaries and other school costs directly.

Local governments are the other primary funder of public schools. The federal government pays less than 10 percent of public school costs.

State Spending Fiscal Year 2008



Note: "All Other" includes care for residents with disabilities, pensions, and health benefits for public employees, economic development, environmental projects, state police, parks and recreation, and general aid to local governments. Totals may not sum due to rounding.

Source: NASBO State Expenditure Report FY 2008, December 2009.

- **Higher education**

States play a large role in funding higher education through their support of public community colleges, university systems, and vocational education institutions. This support accounts for about 12 percent of state spending, or some \$130 billion.

- **Health care**

Along with the federal government, states fund health insurance for low-income families through Medicaid and the Children's Health Insurance Program (CHIP). These programs provide health coverage or coverage for long-term care to more than 45 million low-income children, parents, elderly people, and people with disabilities in a typical month. Together, they constitute about 13 percent of state budgets, or about \$140 billion.

While education's share of total state spending has remained relatively constant since NASBO began its annual survey of state spending in 1987, Medicaid's share has grown. This growth is due to rising health care costs and increased enrollment, especially of children. Medicaid remains a significantly smaller share of state budgets than education, however.

States spend the remaining half of their budgets on a wide variety of programs. For example:

- **Transportation**

State funding for transportation totals some \$73 billion, accounting for 7 percent of state spending on average. These funds are used to build and repair roads and bridges and for public transit systems.

- **Corrections**

Prisons, juvenile justice programs, and parole and other corrections programs make up about 5 percent of state budgets, or \$50 billion. While these costs have grown significantly over the years, overall they remain a relatively small share of state spending.

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- **Assistance for the poor**

Cash assistance to low-income individuals through Temporary Assistance to Needy Families (TANF) and some smaller programs, such as general assistance, makes up only a tiny share of state spending — about 1 percent or \$13 billion.

- **Other programs**

Comparable national data do not exist for the individual programs that make up the remaining 36 percent of state budgets. But some of the larger programs in this “Other” category are contributions to public employees’ pension and health benefits and general aid to local governments, such as unrestricted aid to cities and counties or funds for property tax relief.

States Can Vary Widely from National Averages

The figures above show how states spend their tax dollars *on average* for the entire country. But the specific mix of spending varies from state to state, depending on such factors as how the state and its localities share funding responsibilities for public services and how much state policymakers choose to invest in health care, education, and other programs.

In some cases, this variation is significant. For example, Alaska and West Virginia each spend 11 percent of their budgets on K-12 education, while Michigan, at the other end of the spectrum, spends 30 percent. Similarly, Medicaid makes up 10 percent or less of state budgets in Alaska and Wyoming but more than 30 percent of the budgets in Missouri and Pennsylvania.

Though the mix varies from state to state, it is clear that tax dollars raised in states fund essential services — and that revenue declines caused by the downturn place those services at risk.