INTRODUCTION TO CSG
PRESENTATION OUTLINE

Part I: National Economy and Fiscal Position of the States

Part II: State Strategies to Balance Budgets

Part III: Structural Flaws in State Tax Systems

Part IV: Looming Expenditure Categories

Part V: “Bright Sparks” on State Economic Landscape
PART I: NATIONAL ECONOMIC POSITION
PART I: NATIONAL ECONOMIC POSITION

Length of Contraction Period (in months)

- August 1929 - March 1933: 43 months
- May 1937 - June 1938: 13 months
- February 1945 - October 1945: 8 months
- July 1953 - May 1954: 11 months
- August 1957 - April 1958: 10 months
- April 1960 - February 1961: 8 months
- December 1969 - November 1970: 16 months
- March 1973 - March 1975: 11 months
- January 1980 - July 1980: 16 months
- July 1981 - November 1982: 6 months
- March 2001 - November 2001: 8 months
- December 2007 - June 2009: 19 months

Source: National Bureau of Economic Research (NBER)
PART I: NATIONAL ECONOMIC POSITION

U.S. Gross domestic product (GDP): 2008 (1st quarter) - 2011 (3rd quarter)

Percent change from previous quarter

Source: United States Department of Commerce, Bureau of Economic Analysis
PART I: NATIONAL ECONOMIC POSITION

National Unemployment Rate
January 2008 - October 2011

Source: U.S. Department of Labor, Bureau of Labor Statistics
PART I: NATIONAL ECONOMIC POSITION

Monthly Change in Total Nonfarm Employees, January 2008 - October 2011

Source: U.S. Department of Labor, Bureau of Labor Statistics
PART I: NATIONAL ECONOMIC POSITION

Foreclosure Filings:

• Quarter III 2011 saw an increase of under 1 percent compared to Quarter II 2011
• Quarter III 2011 compared to Quarter III 2010 saw a decline of 34 percent

Housing Activity:

• In September 2011, privately-owned housing starts expanded by 15 percent over August 2011 and 10.2 percent more than September 2010
• In September 2011, building permits for privately-owned units declined by 5 percent over August 2011 but expanded by 5.7 percent compared to September 2010
• In September 2011, housing completions expanded by 2.1 percent compared to August 2011 and 2.1 percent over September 2010
PART I: NATIONAL ECONOMIC POSITION

S&P 500 Performance
(as of 09-Nov-2011)

Source: Standard & Poor’s
PART I: NATIONAL ECONOMIC POSITION

Nonfarm Non-Financial Corporate Business - Total Liquid Assets (in $ billion)
PART I: NATIONAL ECONOMIC POSITION

Source: Thomson Reuters/University of Michigan Surveys of Consumers, October 28, 2011
PART I: NATIONAL ECONOMIC POSITION

U.S. Box Shipments (in billion square feet, BSF)

Source: Fibre Box Association
PART I: STATE FISCAL POSITION

Figure 1:
Largest State Budget Shortfalls on Record

Total state budget shortfall in each fiscal year, in billions

<table>
<thead>
<tr>
<th>Year</th>
<th>Shortfall (in billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>'02</td>
<td>-$40</td>
</tr>
<tr>
<td>'03</td>
<td>-$75</td>
</tr>
<tr>
<td>'04</td>
<td>-$80</td>
</tr>
<tr>
<td>'05</td>
<td>-$45</td>
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<tr>
<td>'09</td>
<td>-$110</td>
</tr>
<tr>
<td>'10</td>
<td>-$130*</td>
</tr>
<tr>
<td>'11</td>
<td>-$103*</td>
</tr>
<tr>
<td>'12</td>
<td>-$46**</td>
</tr>
<tr>
<td>'13</td>
<td>-$191</td>
</tr>
</tbody>
</table>

*Reported to date, **preliminary

Source: CBPP survey, revised June 2011.

Center on Budget and Policy Priorities | cbpp.org
PART I: STATE FISCAL POSITION

General Fund Revenue: FY 2007-FY 2012 (in billions)

*FY 2007, 2008, 2009, 2010 are actual, FY 2011 is estimated and FY 2012 is proposed.

Source: NGA/NASBO Spring 2011 Fiscal Survey of States
PART I: STATE FISCAL POSITION

Year-Over-Year Nominal Change in State Tax Collections

- PIT
- Sales Tax
- Total Tax

Sources: U.S. Census Bureau.
Notes: Data for the most recent quarter may reflect adjustments by the Rockefeller Institute to include information released after initial publication.
PART I: STATE FISCAL POSITION

Medicaid Enrollment Rates (State Funds):

- Decrease of -4.5 percent in FY 2010 (Actual)
- Increase of 17.5 percent in FY 2011 (Estimated)
- Increase of 18.6 percent in FY 2012 (Recommended)

Unemployment Insurance Trust Fund Balances:

- Quarter 2, 2008 – $39.7 billion
- Quarter 2, 2009 – $19.2 billion
- Quarter 2, 2010 – $14.7 billion
- Quarter 2, 2011 – $16.0 billion
PART I: STATE FISCAL POSITION

General Fund Spending: FY 2007-FY 2012 (in billions)

* FY 2007, 2008, 2009, 2010 are actual, FY 2011 is estimated and FY 2012 is proposed.

Source: NGA/NASBO Spring 2011 Fiscal Survey of States
PART I: STATE FISCAL POSITION

Top Ten Foreclosure States: October 2011

Key:
State Abbreviation
1 of every X Households in Foreclosures

Source: RealtyTrac

U.S. Average 563
PART II: STATE STRATEGIES TO BALANCE BUDGETS

1. Slashing Spending
2. Tapping Rainy Day Funds
3. Expanding Gaming
4. Increasing Borrowing
5. Raiding State Funds
6. Raising Taxes and Fees
PART II: STATE STRATEGIES TO BALANCE BUDGETS – SLASHING SPENDING

1. Program Area Cuts through Fiscal Year 2011

- Health – 31 states
- Elderly and Disabled – 29 states
- K – 12 Education – 34 states
- Higher Education – 43 states
- Workforce – 44 states
### Part II: State Strategies to Balance Budgets – Tapping Rainy Day Funds

<table>
<thead>
<tr>
<th>State</th>
<th>FY 2005 Balance</th>
<th>FY 2012 Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Massachusetts</td>
<td>$1,728 Billion</td>
<td>$572 Million</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>$329 Million</td>
<td>$1 Million</td>
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<tr>
<td>Indiana</td>
<td>$317 Million</td>
<td>0</td>
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<tr>
<td>Ohio</td>
<td>$575 Million</td>
<td>0</td>
</tr>
<tr>
<td>Minnesota</td>
<td>$1,340 Billion</td>
<td>$9 Million</td>
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<tr>
<td>Florida</td>
<td>$988 Million</td>
<td>$492 Million</td>
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<tr>
<td>Arizona</td>
<td>$165 Million</td>
<td>0</td>
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<tr>
<td>Oklahoma</td>
<td>$461 Million</td>
<td>0</td>
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</tbody>
</table>

Source: Fiscal Survey of the States (Spring), FY 2006 and FY 2011
PART II: STATE STRATEGIES TO BALANCE BUDGETS – EXPANDING GAMING

Trends in State Gambling Revenue, FY 1998-2010
VLT Revenues Included in Lotteries

Source: Rockefeller Center, June 2011
PART II: STATE STRATEGIES TO BALANCE BUDGETS – INCREASED BORROWING

Total Net Tax-Supported Debt of the 50 States ($B)
PART II: STATE STRATEGIES TO BALANCE BUDGETS – RAIDING FUNDS

• Governor Scott in Florida approved a $150 million raid on the state’s transportation trust fund;

• Governor Abercrombie in Hawaii authorized a $42 million raid on the state’s hurricane fund;

• In Washington, the Legislature proposed tapping a state fund that provides low-interest loans to local governments for public works projects;

• In Louisiana, Governor Jindal proposed diverting a portion of the state’s tobacco settlement fund to pay for the state’s college scholarship program.;

• Georgia (and 10 other states) re-allocated monies from their 911 funds to cover budget shortfalls.
PART II: STRATEGIES TO BALANCE BUDGETS – RAISING TAXES AND FEES

• For fiscal year 2012, states have proposed a net revenue increase of $13.8 billion, more than the $6.2 billion proposed in fiscal year 2011 but less than the $23.9 billion proposed in fiscal year 2010;

• Among the fiscal year 2012 proposed tax changes (mostly net increases):
  • Sales Taxes—Seven states (net increase of $6.1 billion)
  • Personal Income Taxes—Six states (net increase of $5.9 billion)
  • Corporate Income Taxes—Five states (net decrease of $537.2 billion)
  • Cigarette/Tobacco Taxes—One state (net increase of $54.3 million)
  • Motor Fuel Taxes—One state (net increase of $51.6 million)
  • Alcohol Taxes—Two states (net increase of $94 million)
  • Other Taxes—Seven states (net increase of $955.2 million)
  • Fees—Seven states (net increase of $1.3 billion)
PART III: STRUCTURAL FLAWS IN STATE TAX SYSTEMS

1. U.S. Economy Dominated by Service Sector Now

2. Rapid Growth in E-Commerce

3. Explosion in Sales Tax Exemptions
PART III: STRUCTURAL FLAWS IN STATE TAX SYSTEMS – SERVICE SECTOR’S DOMINANCE

Number of Services Taxed by Top 15 States

<table>
<thead>
<tr>
<th>State</th>
<th>Utilities</th>
<th>Computer Services</th>
<th>Fabrication, Repair &amp; Installation</th>
<th>Personal Services</th>
<th>Admissions/Amusements</th>
<th>Business Services</th>
<th>Professional Services</th>
<th>Other Services</th>
<th>Total</th>
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<tbody>
<tr>
<td>Hawaii</td>
<td>16</td>
<td>20</td>
<td>34</td>
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<td>18</td>
<td>41</td>
<td>160</td>
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<tr>
<td>New Mexico</td>
<td>16</td>
<td>20</td>
<td>32</td>
<td>8</td>
<td>14</td>
<td>9</td>
<td>18</td>
<td>41</td>
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<tr>
<td>Washington</td>
<td>16</td>
<td>20</td>
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<td>5</td>
<td>18</td>
<td>41</td>
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<td>Delaware</td>
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<td>33</td>
<td>6</td>
<td>10</td>
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<td>West Virginia</td>
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<td>13</td>
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<td>Iowa</td>
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<td>Connecticut</td>
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<td>Nebraska</td>
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<td>Wisconsin</td>
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<td>3</td>
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<td></td>
<td></td>
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<tr>
<td>Kansas</td>
<td>10</td>
<td>11</td>
<td>9</td>
<td>13</td>
<td>15</td>
<td>15</td>
<td>74</td>
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<tr>
<td>New Jersey</td>
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<td>16</td>
<td>15</td>
<td>15</td>
<td>74</td>
<td></td>
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<tr>
<td>Arkansas</td>
<td>16</td>
<td>7</td>
<td>12</td>
<td>11</td>
<td>13</td>
<td>12</td>
<td>11</td>
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<td>Mississippi</td>
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<td>8</td>
<td>13</td>
<td>13</td>
<td>22</td>
<td>72</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Federation of Tax Administrators
PART III: STRUCTURAL FLAWS IN STATE TAX SYSTEMS – SERVICE SECTOR’S DOMINANCE
PART III: STRUCTURAL FLAWS IN STATE TAX SYSTEMS – SERVICE SECTOR’S DOMINANCE
PART III: STRUCTURAL FLAWS IN STATE TAX SYSTEMS – E-COMMERCE
PART III: STRUCTURAL FLAWS IN STATE TAX SYSTEMS – E-COMMERCE

University of Tennessee Study

• Total State and Local Sales and Use Tax Revenue Losses from E-Commerce Sales (2007 -2012):
  $56.4 billion
  • California – $9.4 billion
  • Arizona – $1.8 billion
  • Texas – $4.3 billion
  • Georgia – $2 billion
  • Illinois – $2.5 billion
  • Indiana – $967 million
  • New York – $4.3 billion
  • Massachusetts – $650 million
PART III: STRUCTURAL FLAWS IN STATE TAX SYSTEMS – SALES TAX EXEMPTIONS

- Pennsylvania – Potentially billions of dollars in exemptions from purchases of trout to caskets to firewood to candy;
- Oklahoma – 480 exemptions worth $5 billion a year from the sale of horses to robots to oil drums to vitamins to oil drums;
- South Dakota – Legislative panel reviewing exemptions such as broadcast equipment to commercial aircraft to ski-lifts;
- Iowa – Reviewing exemptions, refunds and waivers to determine how much state was losing;
- Ohio – Estimated $7 billion in exemptions including a sales-tax cap on buyers of time share in aircraft to a credit for paying beer and malt-beverage taxes early.
PART IV: LOOMING EXPENDITURE CATEGORIES

1. Healthcare
2. Education
3. Public Pensions
4. Emergency management
5. Infrastructure
6. Transportation
7. Unemployment Insurance
PART IV: LOOMING EXPENDITURE CATEGORIES – PUBLIC PENSIONS

State and Local Funded Ratios, 1994 - 2010

Note: 2010 is authors’ estimate
Source: Center for Retirement Research, Boston College, May 2011
PART IV: LOOMING EXPENDITURE CATEGORIES – PUBLIC PENSIONS

- Increasing employee contributions;
- Moving workers away from DB plans to 401(k)-style, DC plans;
- Reviewing and Reducing COLA Increases;
- Adjusting age at which retirees are paid full benefits;
- Introducing different benefit tiers for current and future retirees;
- Capping annual retirement benefits;
- Reducing percentage of pay retirees get each year;
- Eliminating DROPs and “Double-Dipping”;
- Ending practice of employees serving a short period in a position to boost overall pension;
- Debating and ending lucrative health plans to retirees.
PART IV: LOOMING EXPENDITURE CATEGORIES – INFRASTRUCTURE

<table>
<thead>
<tr>
<th>Category and Grade</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Drinking Water: D</td>
<td>Schools: D</td>
</tr>
<tr>
<td>Levees: D-</td>
<td>Public Parks: C-</td>
</tr>
<tr>
<td>Roads: D-</td>
<td>Rail: C-</td>
</tr>
<tr>
<td>Wastewater: D-</td>
<td>Bridges: C</td>
</tr>
<tr>
<td>Aviation: D</td>
<td>Solid Waste: C+</td>
</tr>
<tr>
<td>Dams: D</td>
<td>Inland Waterways: D-</td>
</tr>
<tr>
<td>Hazardous Waste: D</td>
<td>Transit: D</td>
</tr>
<tr>
<td>Energy: D+</td>
<td></td>
</tr>
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</table>

In 2009, the American Society of Civil Engineers (ASCE) issued a comprehensive report that graded different elements of our nation’s infrastructure.
PART IV: LOOMING EXPENDITURE CATEGORIES – UNEMPLOYMENT INSURANCE

The Unemployment Insurance (UI) trust funds in most states are in distress.

UI trust fund solvency levels tracked by AHCM and HCM levels.

The recommended threshold for both measures = 1.

21 states have outstanding debt exceeding their fund balances.

<table>
<thead>
<tr>
<th>State</th>
<th>AHCM</th>
<th>HCM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alaska</td>
<td>1.00</td>
<td>0.52</td>
</tr>
<tr>
<td>D.C.</td>
<td>1.05</td>
<td>0.58</td>
</tr>
<tr>
<td>Louisiana</td>
<td>1.56</td>
<td>0.50</td>
</tr>
<tr>
<td>Mississippi</td>
<td>1.17</td>
<td>0.63</td>
</tr>
<tr>
<td>Nebraska</td>
<td>1.17</td>
<td>0.56</td>
</tr>
<tr>
<td>North Dakota</td>
<td>1.01</td>
<td>0.41</td>
</tr>
<tr>
<td>Washington</td>
<td>1.09</td>
<td>0.62</td>
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### PART IV: LOOMING EXPENDITURE CATEGORIES

#### UNEMPLOYMENT INSURANCE

<table>
<thead>
<tr>
<th>State</th>
<th>Outstanding Loan Amounts from the Federal Unemployment Account</th>
</tr>
</thead>
<tbody>
<tr>
<td>California</td>
<td>$9.1 Billion</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>$3.1 Billion</td>
</tr>
<tr>
<td>Michigan</td>
<td>$3.1 Billion</td>
</tr>
<tr>
<td>North Carolina</td>
<td>$2.5 Billion</td>
</tr>
<tr>
<td>South Carolina</td>
<td>$782 Million</td>
</tr>
<tr>
<td>Connecticut</td>
<td>$809.9 Million</td>
</tr>
</tbody>
</table>

As of Nov 7, 2011, 36 states owe a total of $37.3 Billion to the Federal Government
PART V: “BRIGHT SPARKS” - SOLAR

• OR – state department of transportation will open the world’s largest “solar highway” to power freeway lights;

• CO - $300 million GE solar panel plant, the biggest in the nation, in Aurora, will create 355 new jobs;

• TN - a dominant force with 2 major facilities (Hemlock and Wacker Chemie) in the last 2 years with investments totaling $2.2 billion joining Sharp, AGC Flat Glass and Shoals;

• Solar industry grew by 6.8 percent for the 12-month period ending August 2011 and more growth in expected in 2012.
PART V: “BRIGHT SPARKS” - WIND

- SC – GE Energy manufactures wind turbine generators in Greenville and has shipped over 10,000 units;
- GA – In Gainesville, a $98 million plant will make wind turbine gearboxes and generate 250 new jobs;
- AR – In Fort Smith, Mitsubishi builds a $100 million wind turbine facility employing 400 workers;
- IA – Study documented that wind energy accounts for up to 20 percent of the state’s total electricity production now.
PART V: “BRIGHT SPARKS” – BIO TECH (N.C. RESEARCH CAMPUS)

• NCRC, a $1.5 billion private-public venture created to foster collaboration and further knowledge in biotechnology, nutrition, agriculture, and health;

• Anchored by the David H. Murdock Research Institute, a nonprofit foundation that will house over $150 million of state-of-the-art scientific equipment;

• Partial client list includes Anatomics, Carolinas Medical Center, Dole Foods Research & Development Group, Inception Micro Angel Fund, Lab Corp, Pharmaceutical Product Development and Red Hat;

• Universities involved include Duke, UNC Chapel Hill, NC State, UNC Charlotte, NC Central, NC A&T and UNC Greensboro.
PART V: "BRIGHT SPARKS" – BIO TECH

• NC - Sequenom will build a molecular diagnostics lab in Wake County and create 242 jobs;

• FL – In Lee County, Algenol will add over 130 workers in the next year using algae to convert carbon dioxide into ethanol;

• NC - Metabolon in Durham has doubled the number of scientists at its facility in the last 2 years to 100 working on analytics for pharmaceutical companies.
PART V: “BRIGHT SPARKS” – AUTO INDUSTRY AND THE DRIVE TO MOVE SOUTH

• TN – Nissan is investing $1.4 billion at its Smyrna facility to produce the zero-emission *Leaf* and state-of-the-art lithium ion battery packs to power the *Leaf*;

• GA – Porsche will build its $100 million North American headquarters and a 1.6 mile test drive in Atlanta;

• MS – In Blue Springs, Toyota has already hired 1,250 direct employees at its latest $1.3 billion North American facility that will hire another 750 direct employees in the next year;

• AL – Hyundai’s economic impact in the state amounted to $3.8 billion in 2010 along with 34,000 full time jobs;
Scene from the Hyundai Assembly Plant in Montgomery, Alabama
PART V: “BRIGHT SPARKS” – AUTO INDUSTRY AND THE DRIVE TO MOVE SOUTH

• IN – Honda will start a second shift building the Civic at its Greensburg plant after hiring nearly 1,000 new employee.

• TN – Volkswagen’s Chattanooga site, announced in 2008, generates direct 2,000 jobs;

• MO – Ford will invest $1 billion in expanding its plant in Kansas City that will lead to hundreds of new jobs;

• NC – The state’s automotive cluster ranks in the nation’s top 10 and is poised to create more jobs in 2012.
PART V: “BRIGHT SPARKS” – AVIATION

- SC - In Charleston, Boeing will manufacture the new 787 Dreamliner, the world’s lightest aircraft in its class, and create an estimated 3,800 direct jobs;

- FL – Boeing reached an agreement with Space Florida to build ‘space taxis’;

- MA – Gulfstream announced an expansion of 100 workers (for a total of 230) building the new G650 luxury business jet;

- GA – Lockheed expanding production of the C-130 at its Marietta plant;

- NC – In Greensboro, Honda Aircraft will expand production.
PART V: “BRIGHT SPARKS” – OTHER

• MO – Honeywell is building a gigantic $1 billion nuclear weapons parts plant in Kansas City that will sustain 2,100 direct jobs;

• WA – HCL Technologies will open a new state-of-the-art global delivery center in Redmond that will employ 400 workers in the next 2 years;

• NC – Celgard, a supplier of lithium-ion batteries used in electric vehicles, will add another 250 manufacturing and engineering jobs at its Charlotte facility bringing total employment at the location to 600;

• NC – FMC Lithium, a company manufacturing the material necessary to power lithium-ion batteries, will invest another $50 million leading to a total of 215 high-tech jobs at its Gastonia plant;

• SC – German tire maker Continental and Japanese tire maker Bridgestone will invest $500 million and $1.1 billion, respectively in new manufacturing plants;

• NM – Union Pacific railroad began work on a $400 million refueling station in Southern New Mexico that will create 600 jobs at full capacity.
PART V: “BRIGHT SPARKS” – EXPORTS

U.S. Exports to World, Jan-June 2007 to Jan-June 2011
(in US$ billions)

Source: U.S. Department of Commerce, International Trade Administration
STATE FISCAL AND ECONOMIC OUTLOOK

Thank You
For Additional Information or Questions,
Please Contact:

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The Council of State Governments’
Southern Office
404/633-1866
scanagaretna@csg.org