State Fiscal Issues

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The Council of State Governments’ Southern Office Southern Legislative Conference (SLC)
Presentation Outline

- Part I: Fiscal Position of States
- Part II: State Strategies to Balance Budgets and Generate Revenue
- Part III: Structural Flaws in State Tax Systems
- Part IV: Looming Expenditure Categories
- Part V: “Green Shoots of Growth”
Part I: State Fiscal Position

Credit Freezes

Revenue Shortfalls

Confidence Drops

Output Declines

Housing/Mortgage Meltdown
Part I: State Fiscal Position

Figure 1. Percent Change in State tax Collections Versus Year Ago
Part I: State Fiscal Position

Largest State Budget Shortfalls On Record

Total state budget shortfall in each fiscal year, in billions

- 2002: $-40
- 2003: $-75
- 2004: $-80
- 2005: $-45
- 2009: $-110
- 2010: $-120
- 2011: $-121 reported to date
- 2012: $-102 reported to date

Estimates:
- 2011: $-180

Center on Budget and Policy Priorities

SOUTHERN LEGISLATIVE CONFERENCE
Part I: State Fiscal Position

States with Budget Shortfalls in FY 2011

<table>
<thead>
<tr>
<th>State</th>
<th>Gap as % of FY 2011 Budget</th>
<th>State</th>
<th>Gap as % of FY 2011 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arizona</td>
<td>36.6%</td>
<td>Nevada</td>
<td>54.0%</td>
</tr>
<tr>
<td>California</td>
<td>21.6%</td>
<td>New Hampshire</td>
<td>24.1%</td>
</tr>
<tr>
<td>Colorado</td>
<td>21.6%</td>
<td>New Jersey</td>
<td>38.3%</td>
</tr>
<tr>
<td>Connecticut</td>
<td>28.9%</td>
<td>North Carolina</td>
<td>30.3%</td>
</tr>
<tr>
<td>Florida</td>
<td>20.2%</td>
<td>South Carolina</td>
<td>25.6%</td>
</tr>
<tr>
<td>Georgia</td>
<td>26.2%</td>
<td>Vermont</td>
<td>30.2%</td>
</tr>
<tr>
<td>Illinois</td>
<td>41.5%</td>
<td>Wisconsin</td>
<td>23.9%</td>
</tr>
<tr>
<td>Maine</td>
<td>34.7%</td>
<td>U.S. Average</td>
<td>18.7%</td>
</tr>
<tr>
<td>Minnesota</td>
<td>26.0%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Part I: State Fiscal Position

General Fund Revenue: FY 2007–FY 2011 (in billions)

* FY 2007, 2008, and 2009 are actual. FY 2010 is estimated and FY 2011 is proposed.
Part I: State Fiscal Position

General Fund Spending: FY 2007-FY 2011 (in billions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Billions</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2007</td>
<td>$655</td>
</tr>
<tr>
<td>FY 2008</td>
<td>$687</td>
</tr>
<tr>
<td>FY 2009</td>
<td>$658</td>
</tr>
<tr>
<td>FY 2010</td>
<td>$613</td>
</tr>
<tr>
<td>FY 2011*</td>
<td>$635</td>
</tr>
</tbody>
</table>

* FY 2007, 2008, and 2009 are actual. FY 2010 is estimated and FY 2011 is proposed.
### State Expenditures, FY 2008 vs. FY 2011:

- **Increase in 11 states** (ND at 38% and WI at 2%)
- **Zero increase in 2 states** (NV and NY)
- **Decrease in 37 states** (SD at -2% and SC at -32%)
- **U.S. Average was -7%**

<table>
<thead>
<tr>
<th>State</th>
<th>FY 2008 ($ Billions)</th>
<th>FY 2011 ($Billions)</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>SC</td>
<td>$7,511</td>
<td>$5,135</td>
<td>-32%</td>
</tr>
<tr>
<td>OK</td>
<td>$6,359</td>
<td>$4,893</td>
<td>-23%</td>
</tr>
<tr>
<td>GA</td>
<td>$20,735</td>
<td>$16,052</td>
<td>-23%</td>
</tr>
<tr>
<td>WY</td>
<td>$1,813</td>
<td>$1,433</td>
<td>-21%</td>
</tr>
<tr>
<td>MI</td>
<td>$9,900</td>
<td>$7,870</td>
<td>-21%</td>
</tr>
<tr>
<td>AK</td>
<td>$5,732</td>
<td>$4,577</td>
<td>-20%</td>
</tr>
<tr>
<td>CA</td>
<td>$103,373</td>
<td>$82,901</td>
<td>-20%</td>
</tr>
<tr>
<td>UT</td>
<td>$5,887</td>
<td>$4,803</td>
<td>-18%</td>
</tr>
<tr>
<td>AL</td>
<td>$8,573</td>
<td>$7,022</td>
<td>-18%</td>
</tr>
</tbody>
</table>
Part I: State Fiscal Position

- Medicaid Growth Rates:
  - Increase of 6.6 percent in FY 2009
  - Increase of 10.5 percent in FY 2010
  - Increase of 1 percent in FY 2011

- Unemployment Insurance Trust Fund Balances:
  - Quarter 1, 2008 – About $33 billion
  - Quarter 1, 2009 – About $21 billion
  - Quarter 1, 2010 – About $7 billion
Police departments in Oakland, CA; Tulsa, OK; Newton, MA, stopped responding to fraud, burglary and theft calls;

Lauderdale Co., AL; Clinton Co., OH; Bannock Co., ID; Prince George’s Co., MD; Kenai Peninsula Borough, AK, shedding their public hospitals;

Fire departments across the nation – San Jose, CA; Lawrence, MA; Baltimore, MD; NYC – cutting jobs, closing firehouses and introducing “rolling brownouts”;

Atlanta, GA slashing road repair crews by half in the last three years;

Arizona, California, Virginia eliminating tax collectors.
Part I: State Fiscal Position

Civilian Labor Force and Unemployment by State, Seasonally Adjusted
August 2010, Preliminary

Source:
Part I: State Fiscal Position

Years When Per Capita Income Went Down

- United States

Source: Southern Regional Education Board
Part I: State Fiscal Position

Top Ten Foreclosure States: August 2010

- CA 194
- NV 84
- UT 230
- AZ 165
- ID 220
- MI 255
- IL 314
- FL 155
- GA 246
- HI 315

U.S. Average 381

Source: RealtyTrac

Key:
State Abbreviation
1 of every X Households in Foreclosures
Part II: State Strategies to Balance
Budgets and Generate Revenue

1. Slashing Spending
2. Tapping Rainy Day Funds
3. Expanding Gaming
4. Raiding State Funds
5. Raising Taxes and Fees
6. Leasing State Assets
Part II: State Strategies – Slashing Spending

1. Program Cuts since 2008 (46 States)
   ◦ Healthcare – 31 states
   ◦ Elderly and Disabled – 29 states
   ◦ K-12 Education – 33 states
   ◦ Colleges and Universities – 43 states
   ◦ Employees – 43 states
<table>
<thead>
<tr>
<th>State</th>
<th>FY 2009 Rainy Day Fund Balance ($ Millions)</th>
<th>FY 2011 Rainy Day Fund Balance ($ Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CT</td>
<td>$1,382</td>
<td>0</td>
</tr>
<tr>
<td>MA</td>
<td>$841</td>
<td>$520</td>
</tr>
<tr>
<td>PA</td>
<td>$755</td>
<td>0</td>
</tr>
<tr>
<td>IN</td>
<td>$365</td>
<td>0</td>
</tr>
<tr>
<td>AL</td>
<td>$188</td>
<td>0</td>
</tr>
<tr>
<td>KY</td>
<td>$7</td>
<td>0</td>
</tr>
<tr>
<td>AZ</td>
<td>$2</td>
<td>0</td>
</tr>
<tr>
<td>GA</td>
<td>$217</td>
<td>$104</td>
</tr>
<tr>
<td>VA</td>
<td>$575</td>
<td>$301</td>
</tr>
<tr>
<td>NE</td>
<td>$576</td>
<td>$325</td>
</tr>
</tbody>
</table>
Part II: State Strategies – Expanding Gaming

States’ revenue from legalized gambling

State tax revenues from gambling activities increased for 10 years before dropping as the recession hit. Much of the growth can be attributed to the proliferation of legalized gambling facilities in that time, particularly racetrack casinos (“racinos”). The long trend of rising gambling revenue has tempted states to legalize and tax gambling to plug budget deficits.

SOURCE: Rockefeller Institute

RICH CLABAUGH/STAFF
Part II: State Strategies – Expanding Gaming

Legalized gambling across the states

Sources: North American Association of State and Provincial Lotteries; American Gaming Association; National Indian Gaming Commission

Rich Clabaugh/Staff
Pennsylvania – installed 25,000 slot machines in last few years

New York – added 4,500 video lottery terminals to the Aqueduct Racetrack

Connecticut – seeks to add Keno in restaurants

Florida – joined Power Ball last year and placed lottery terminals in grocery stores

Maryland – installing 10,000 slot machines

Kansas – Promotes Dodge City and its 600 slot machines

Missouri – Casinos updated slots with 3-D graphics
Part II: State Strategies – Raiding Funds

- Louisiana - $182 million from 40 dedicated funds
- New Jersey - $128 million raided from the Retail Margin Fund
- Florida – House proposed sweeping $798 million while Senate proposed sweeping $295 million
- New York and New Hampshire – Diverted tens of millions from their Regional Greenhouse Gas Initiative Funds
- New York – Raided $1.1 million in state’s Cemetery Fund
- Hawaii – Sought to raid city transit funds
Part II: Strategies – Raising Taxes and Fees

States with highest per capita tax hikes since 2009:
- New York (2009-2011) - $8.2 billion, $419 per capita
- California - $11.5 billion, $312 per capita
- Delaware - $253 million, $286 per capita
- Connecticut - $777 million, $221 per capita
- Wisconsin - $900 million, $159 per capita
- Arizona - $1 billion, $154 per capita
- Kansas - $425 million, $151 per capita
- Washington - $982 million, $147 per capita
- Oregon - $541 million, $141 per capita
- Massachusetts - $890 million, $135 per capita
- New Hampshire - $161 million, $121 per capita
States Raising Other Taxes:

- Tobacco taxes have gone up in Hawaii, New Mexico, New York, South Carolina, Utah and Washington in 2010;
- Current overall states’ cigarette tax average is $1.45 per pack;
- Soda taxes have gone up in Washington, Colorado, Maine and proposed in New York, Mississippi and New Mexico in 2010.
Part II: State Strategies – Leasing Assets

- Highways (NJ, IN, PA, VA, TX, Chicago)
- Lotteries (CA, IL, IN, IA, MD, NJ, TX)
- Student Loan Portfolios (MO, IL)
- Liquor Stores (VA, PA, NC)
- Parking Meters (Chicago)
- Naming Rights for Transit Stations (CT)
- Commuter Railroads (South Bend, IN/Chicago, IL)
- Airports (NY, IL)
- Advertising Space on Bus Shelters, Newsstands, Garbage Cans (NYC)
- Naming Rights to Stadiums (San Francisco, Boston)
Increased Borrowing by States (Moody’s - 2010)

Total Net Tax-Supported Debt of the 50 States ($B)

Source: Moody’s Investors Service
## Increased Borrowing by States (Moody’s - 2010)

<table>
<thead>
<tr>
<th>State</th>
<th>Per Capita Net Tax-Supported Debt</th>
<th>National Ranking (Top 5 Indebted States)</th>
<th>Credit Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>CT</td>
<td>$4,859</td>
<td>1</td>
<td>Aa2</td>
</tr>
<tr>
<td>MA</td>
<td>$4,606</td>
<td>2</td>
<td>Aa1</td>
</tr>
<tr>
<td>HI</td>
<td>$3,996</td>
<td>3</td>
<td>Aa1</td>
</tr>
<tr>
<td>NJ</td>
<td>$3,669</td>
<td>4</td>
<td>Aa2</td>
</tr>
<tr>
<td>NY</td>
<td>$3,135</td>
<td>5</td>
<td>Aa2</td>
</tr>
</tbody>
</table>

**Median U.S.** $936  
**Mean U.S.** $1,297
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 – Service Sector’s Dominance

Number of Services Taxed by Top 15 States

Hawaii 160
New Mexico 158
Washington 158
South Dakota 146
Delaware 143
West Virginia 105
Iowa 94
Texas 83
Connecticut 79
Nebraska 77
Wisconsin 76
Kansas 74
New Jersey 74
Arkansas 72
Mississippi 72

Source: Federation of Tax Administrators

Utilities
Computer Services
Fabrication, Repair & Installation
Personal Services
Admissions/Amusements
Business Services
Professional Services
Other Services
Part III: Structural Flaws – Service Sector’s Dominance

Number of Services Taxed by State

Source: Federation of Tax Administrators
Part III: Structural Flaws – E-Commerce

Estimated Quarterly U.S. Retail E-commerce Sales as a Percent of Total Quarterly Retail Sales: 1st Quarter 2001 – 2nd Quarter 2010

Percent of Total

1Q 2Q 3Q 4Q 1Q 2Q 3Q 4Q 1Q 2Q 3Q 4Q 1Q 2Q 3Q 4Q 1Q 2Q 3Q 4Q 1Q 2Q 3Q 4Q 1Q 2Q
2001 2002 2003 2004 2005 2006 2007 2008 2009 2010

Red line: Not Adjusted
Blue line: Adjusted
University of Tennessee Study (April 2009) - Total State and Local Sales and Use Tax Revenue Losses from E-Commerce Sales, 2007 to 2012: $52.1 billion

- California = $8.7 Billion
- Texas = $3.9 Billion
- New York = $3.9 Billion
- New Jersey = $925 Million
- Michigan = $647 Million
- Wisconsin = $650 Million
Part III: Structural Flaws – Sales Tax Exemptions

- Wisconsin – At least $3.9 billion, a year (in 2006) covering computer services, legal services, advertising, accounting and public relations;
- Texas – In FY 2009, totaled $30 billion ranging from tattoos and pedicures to food, water and healthcare to aircraft sales, aircraft spare parts;
- Kansas – 99 exemptions costing $4.2 billion in FY 2009 covering machinery and equipment, utilities, labor service, youth/educational activities;
- Georgia – Former Gov. Roy Barnes, running for re-election in 2010, cited $10.9 billion in exemptions that need to be reviewed (as of 2006).
Part IV: Looming Expenditure Categories

1. Healthcare
2. Education
3. Public Pensions
4. Emergency management
5. Infrastructure
6. Transportation
7. Unemployment Insurance
Three Legs of the Metaphorical Retirement Stool (Main Sources of Income in Retirement)

- Social Security and Medicare
- Pension Income (Private and Public Sector)
- Personal Savings

Unfortunately, all these elements are on shaky ground
Part IV: Looming Expenditure Categories – Public Pensions

New Jersey:

- Rolled back benefits levels 9 percent for new hires;
- Introduced legislation so that individuals can only collect a pension from one job in the statewide system;
- Capped pension “spiking” by public safety and public works personnel;
- Required employees to contribute 1.5 percent of salary toward health benefits;
- Changed law so that pension credit will not be provided unless employees work at least 32 hours a week.
Part IV: Looming Expenditure Categories – Public Pensions

Illinois:

- Legislation requiring new state workers to be 67 to receive full retirement benefits – highest of any state (previously the eligibility age was 62);
- Placed a ceiling on pensions equal to the current Social Security earnings cap ($106,800) to curb abuses from pension spiking and pay-pyramiding;
- Raised vesting period to 10 years;
- Eliminated automatic 3% COLA increases for retirees;
- Stopped retiree “double dipping.”
Virginia – State employees hired after July 1, 2010, must pay 5 percent of their salary towards the state retirement system;

Minnesota – Vesting periods increased from three years to five years;

Iowa – For most public employees, the final average salary period revised making it 5 years instead of 3 years;

Florida – legislation making it harder to “double dip”;

Colorado – Imposing pension cuts not only on future employees but also on current employees and even people who have already retired.
Part IV: Looming Expenditure Categories – Unemployment Insurance
### Part IV: Looming Expenditure Categories – Unemployment Insurance

<table>
<thead>
<tr>
<th>State</th>
<th>AHCM</th>
<th>HCM</th>
</tr>
</thead>
<tbody>
<tr>
<td>FL</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>CA</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>AZ</td>
<td>0.18</td>
<td>0.08</td>
</tr>
<tr>
<td>NH</td>
<td>0.08</td>
<td>0.04</td>
</tr>
<tr>
<td>ME</td>
<td>1.18</td>
<td>0.80</td>
</tr>
<tr>
<td>OR</td>
<td>0.76</td>
<td>0.68</td>
</tr>
<tr>
<td>WV</td>
<td>0.22</td>
<td>0.17</td>
</tr>
<tr>
<td>SC</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
</tbody>
</table>

N.A. = These states have outstanding debt exceeding their fund balances

- 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
## Part IV: Looming Expenditure Categories – Unemployment Insurance

<table>
<thead>
<tr>
<th>State</th>
<th>Outstanding Loan Amount from the Federal Unemployment Account (As of Sept. 29, 2010)</th>
</tr>
</thead>
<tbody>
<tr>
<td>California</td>
<td>$8,337,081,257.90</td>
</tr>
<tr>
<td>Michigan</td>
<td>$3,814,145,999.11</td>
</tr>
<tr>
<td>New York</td>
<td>$3,176,873,427.71</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>$3,008,614,960.83</td>
</tr>
<tr>
<td>Ohio</td>
<td>$2,314,186,799.00</td>
</tr>
<tr>
<td>South Carolina</td>
<td>$886,662,351.97</td>
</tr>
<tr>
<td>Texas</td>
<td>$1,479,039,360.51</td>
</tr>
<tr>
<td>Georgia</td>
<td>$416,000,000.00</td>
</tr>
<tr>
<td>U.S. Total</td>
<td>$40,120,223,046.23</td>
</tr>
</tbody>
</table>
Maine’s Model UI Program:

- Maine transitioned to an “array system” of 8 rate schedules with varying rates within each schedule. Employers were placed into groups based on their unemployment experience rating. The higher an employer’s experience rating (fewer claims), the lower the tax rate the employer was assessed;

- Contribution rates within each schedule were linked to Maine wages, creating an index that would increase contribution rates in a manner similar to the benefit payments. This indexing to wages allowed employer contributions to rise at a similar rate as benefit payments;
Maine’s Model UI Program (Cont.):

- The maximum amount of taxable wages increased from the first $7,000 to the first $12,000 in earned wages. Nationwide, states with a higher taxable wage base have proven to be more likely to remain solvent;

- To prevent the UI fund balance from growing too excessive, a cap of 21 months’ worth of benefits was also enacted; however, this was subsequently lowered to 18 months. The U.S. DOL recommends a 12 month minimum balance for state Unemployment Trust funds.
Part V: “Green Shoots of Growth”
Part V: “Green Shoots of Growth” - Solar

- Tipton, Indiana - solar manufacturing facility at abandoned auto factory with 850 jobs;
- Dublin, Georgia - German-based Mage Solar manufacturing facility for solar modules with 350 jobs;
- Oregon – state department of transportation will open the world’s largest “solar highway” to power freeway lights;
- Senatobia, Mississippi - $175 million solar panel facility with create 512 jobs;
- Tennessee - now a dominant force in the solar industry with 3 major facilities in the last 18 months with plant investment totaling $2.5 billion.
Part V: “Green Shoots of Growth” - Wind

• Greenville, South Carolina – GE Energy’s manufactures wind turbine generators and has shipped over 10,000 units;
• Akron, Ohio - Karder Machine, a $30 million plant to manufacture and assemble giant three-bladed wind turbines that will create 400 jobs initially;
• Gainesville, Georgia – a German company will make wind turbine gearboxes and generate 215 new jobs;
Part V: “Green Shoots of Growth” - Wind

- Oregon – GE Energy will supply wind turbines to the nation’s largest wind farm, a $2 billion project that will employ 400 during construction and 35 during operation;
- Fort Smith, Arkansas - Mitsubishi will construct a $100 million wind turbine manufacturing facility that will employ about 400 workers;
- Iowa – Study documented that wind energy accounts for up to 20 percent of the state’s total electricity production now.
Part V: “Green Shoots of Growth” – 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, UNC Greensboro and Rowan Cabarrus Community College.
Part V: “Green Shoots of Growth” – Auto Industry

**Drive to Move South**

- Smyrna, Tennessee - Nissan is spending nearly $2 billion on a project to build a lithium-ion battery plant that will power a new mass-market electric car, the Leaf, also to be produced at the plant;
- Blue Springs, Mississippi - In June 2010, Toyota announced that it would resume construction at this $1.3 billion plant building compact cars while hiring 2,000 direct employees;
- Canton, Mississippi - Nissan announced that it would begin manufacturing new light commercial vans (for companies like FedEx) in early 2011;
Drive to Move South

• La Grange, Georgia – A Kia parts supplier announced a nearly $9 million investment that would result in 173 new jobs, adding to the 3,000 new direct jobs created by the automaker Kia in western Georgia; and

• Charlotte, North Carolina - Celgard, the lithium-ion battery manufacturer for automobiles, continues to flourish and a recent expansion will lead to 200 new direct jobs and more than 1,000 jobs among contractors and suppliers.
Dayton, Ohio - *Tech Town*, a former GM manufacturing site, will be a high-tech hub housing both startups and industry veterans like Boeing and General Dynamics;

- In Austin, Texas, Samsung will build a $3.6 billion chip plant expansion, adding 500 new jobs;
- In North Charleston, South Carolina, Boeing will manufacture the new 787 *Dreamliner*, the world’s lightest aircraft in its class, and create more than the estimated direct 3,800 jobs;
Part V: “Green Shoots of Growth” – I.T. and High Tech

- Atlanta, Georgia – Georgia is home to more than 60 game companies and more than 2,000 college students enrolled in classes teaching video game design and development;

- Columbia, Missouri - IBM will establish a new technology service delivery center creating 800 new direct jobs joining similar IBM centers in Dubuque, Iowa and Lansing, Michigan.
Thank You

For Additional Information or Questions, Please Contact:

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