

# STATE OF STATE BUDGETS

PRESENTATION AT THE 2011

AMERICAN CHEMISTRY COUNCIL

STATE AFFAIRS AND POLITICAL MOBILIZATION

ANNUAL MEETING

ORLANDO, FLORIDA

NOVEMBER 15, 2011

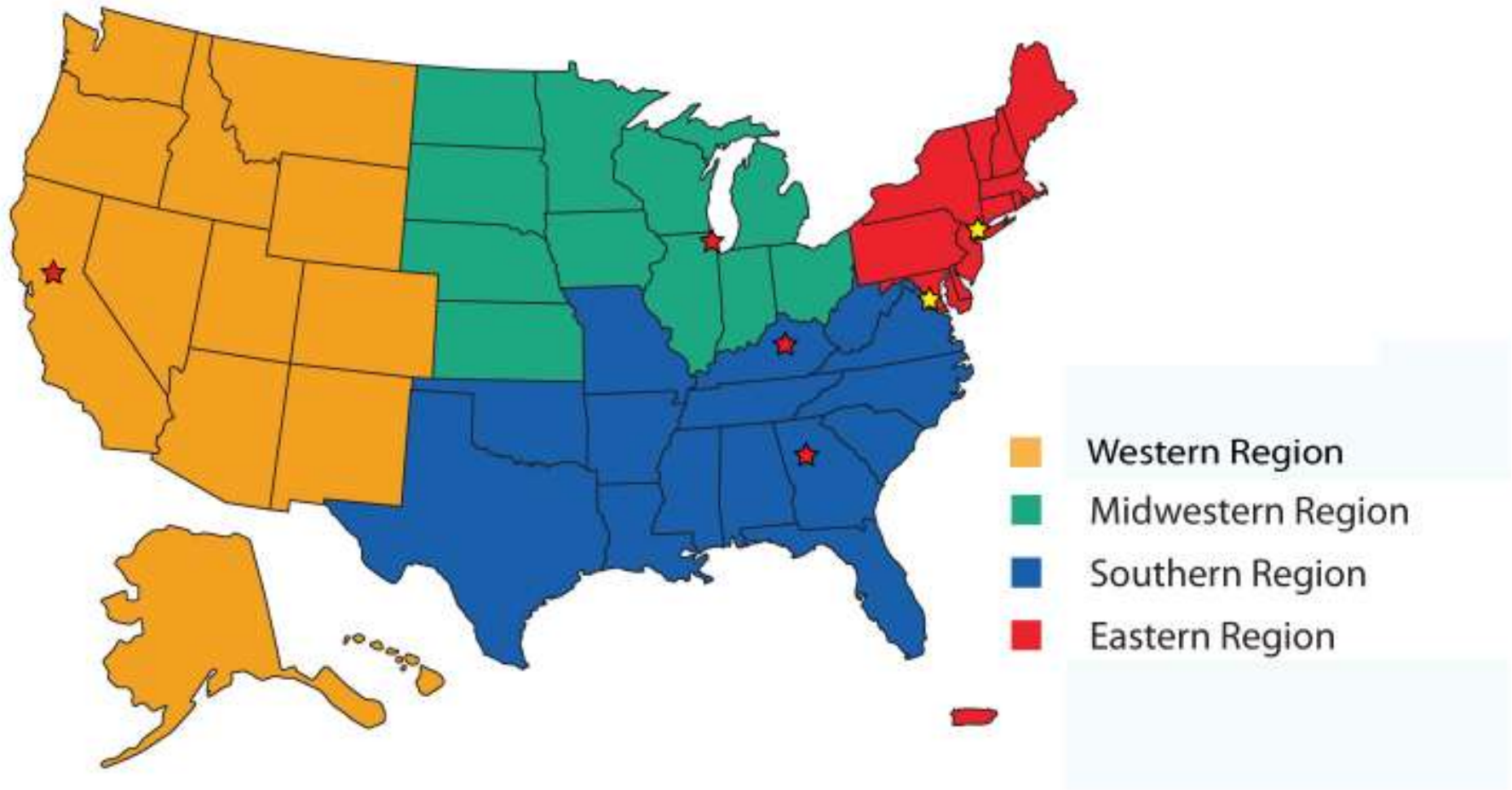
**SUJIT M. CANAGARETNA**

SENIOR FISCAL ANALYST

THE COUNCIL OF STATE GOVERNMENTS' SOUTHERN OFFICE

SOUTHERN LEGISLATIVE CONFERENCE (SLC)

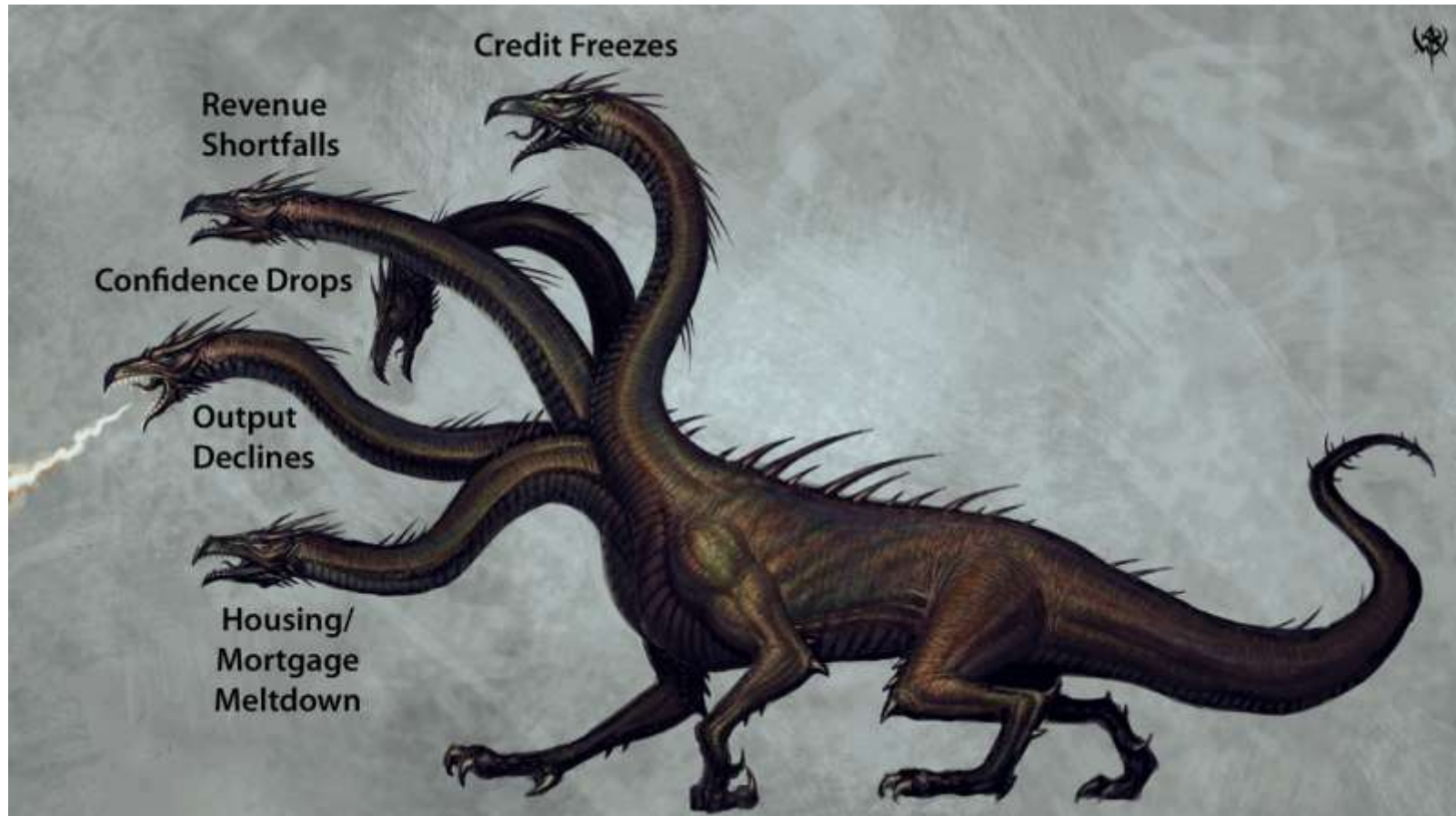
# INTRODUCTION TO CSG



# PRESENTATION OUTLINE

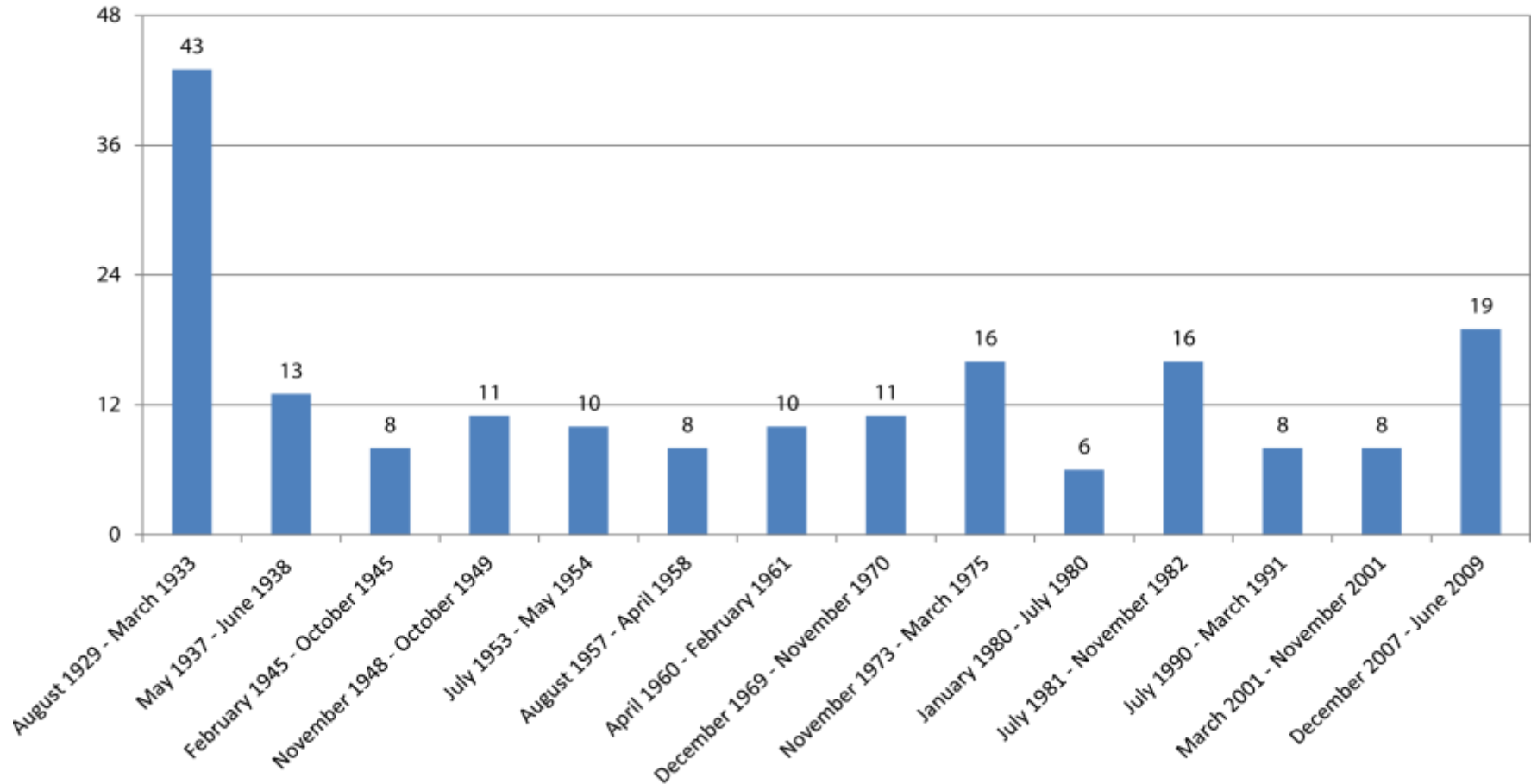
- Part I: National Economy and Fiscal Position of the States
- Part II: State Strategies to Balance Budgets
- Part III: Structural Flaws in State Tax Systems
- Part IV: Looming Expenditure Categories
- Part V: “Bright Sparks” on State Economic Landscape

# PART I: NATIONAL ECONOMIC POSITION



# PART I: NATIONAL ECONOMIC POSITION

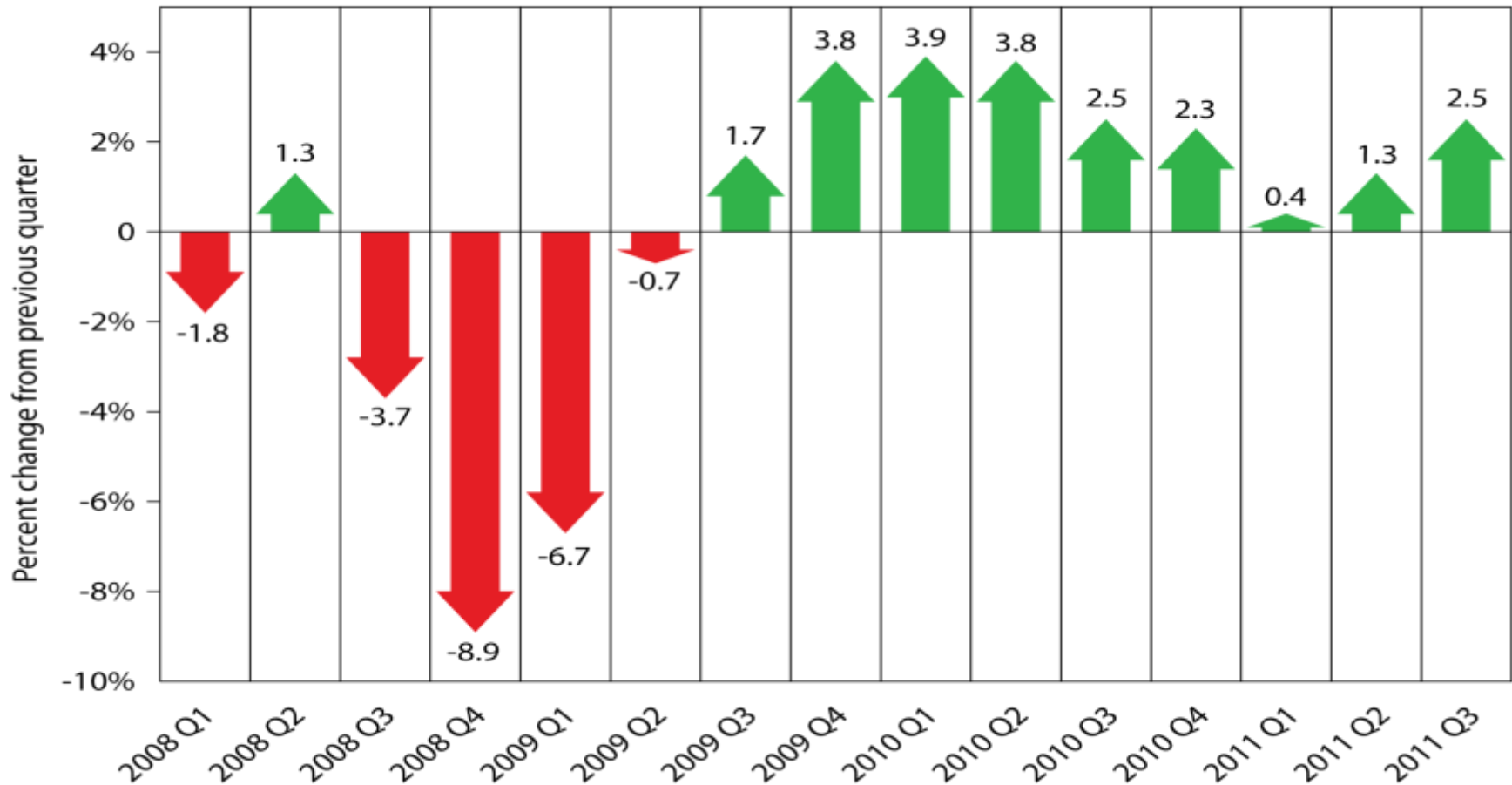
Length of Contraction Period (in months)



Source: National Bureau of Economic Research (NBER)

# PART I: NATIONAL ECONOMIC POSITION

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

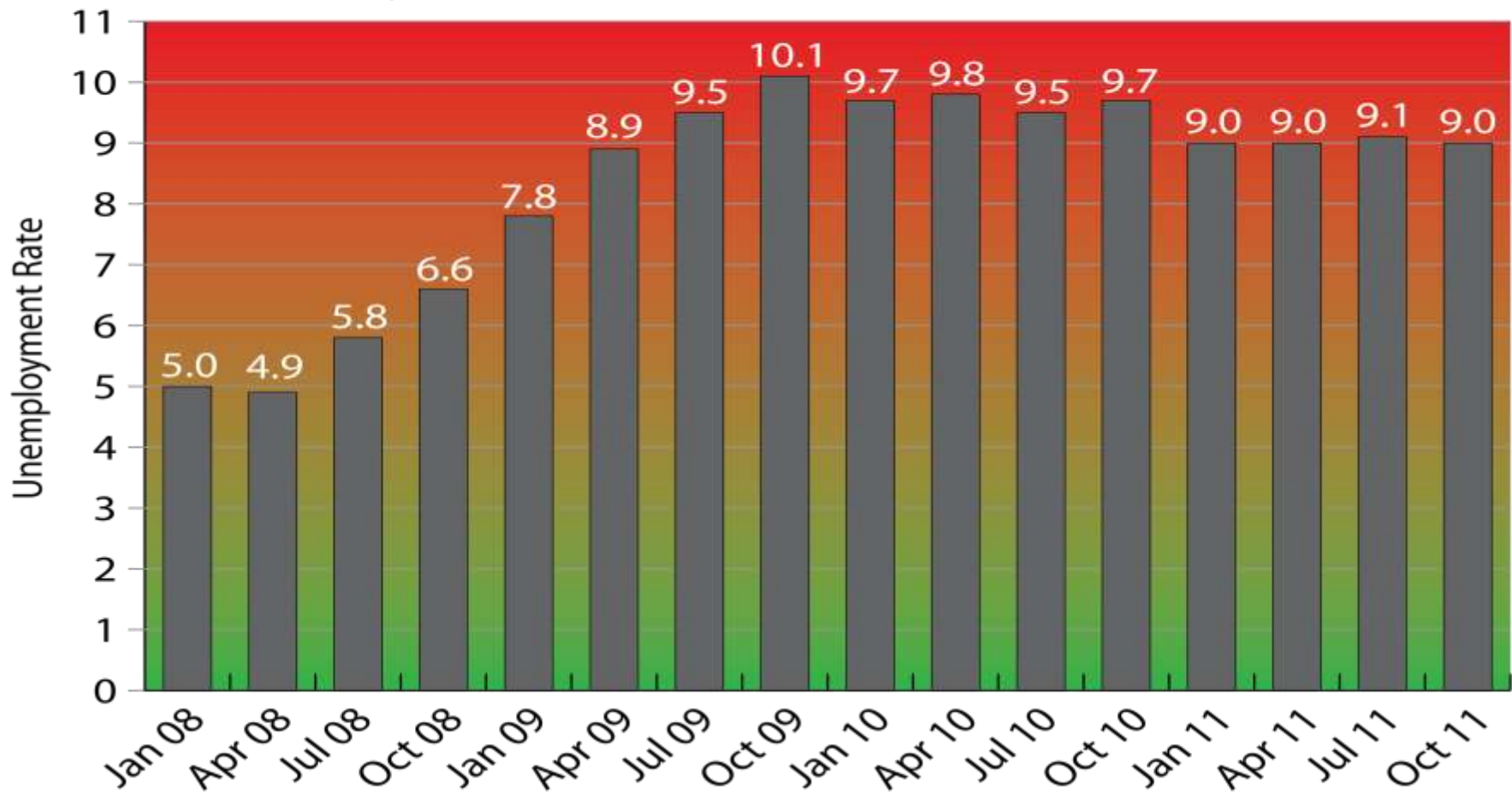


Source: United States Department of Commerce, Bureau of Economic Analysis

# PART I: NATIONAL ECONOMIC POSITION

## National Unemployment Rate January 2008 - October 2011

Source:  
U.S. Department of Labor,  
Bureau of Labor Statistics

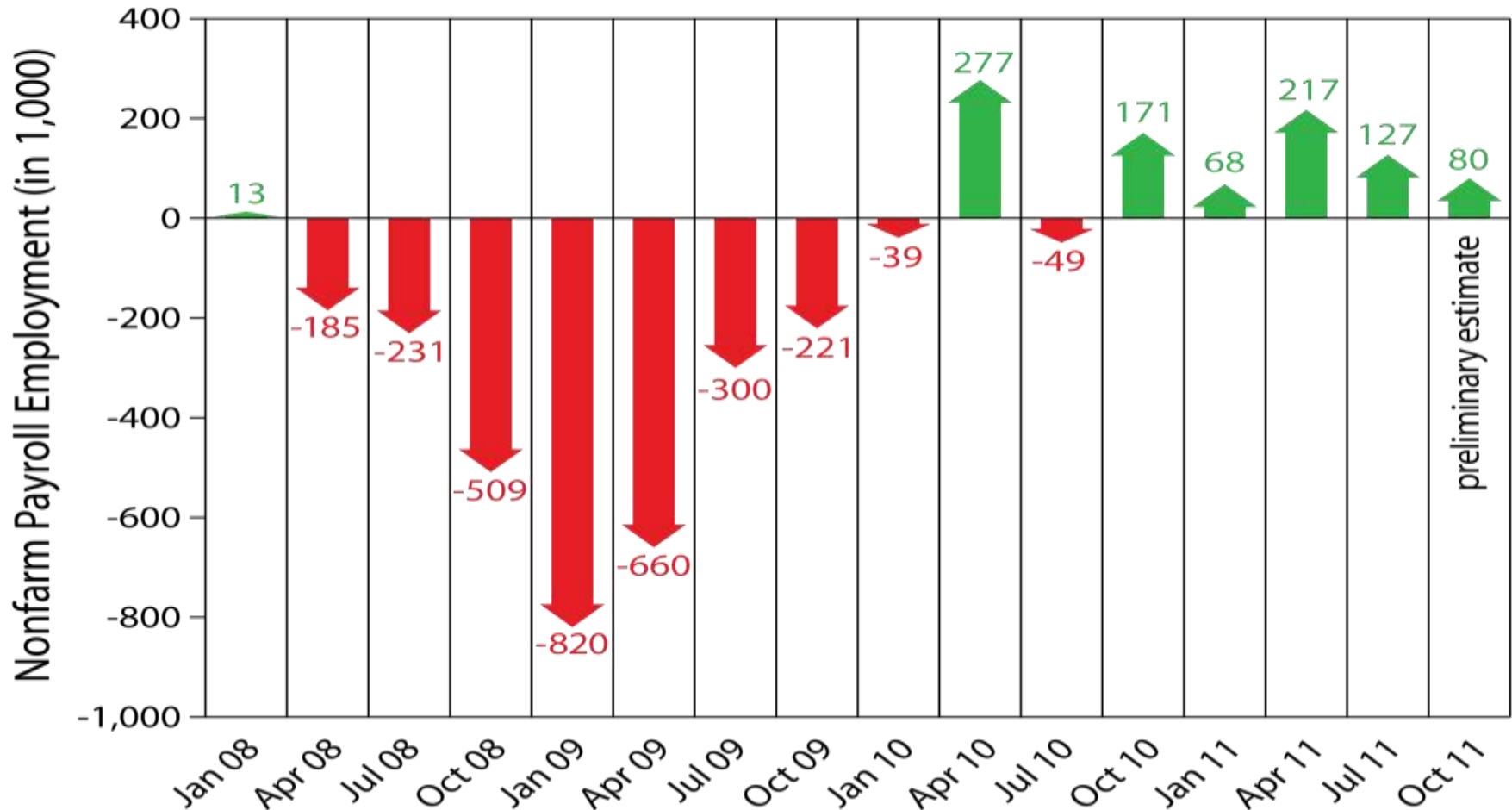




# PART I: NATIONAL ECONOMIC POSITION

**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:**

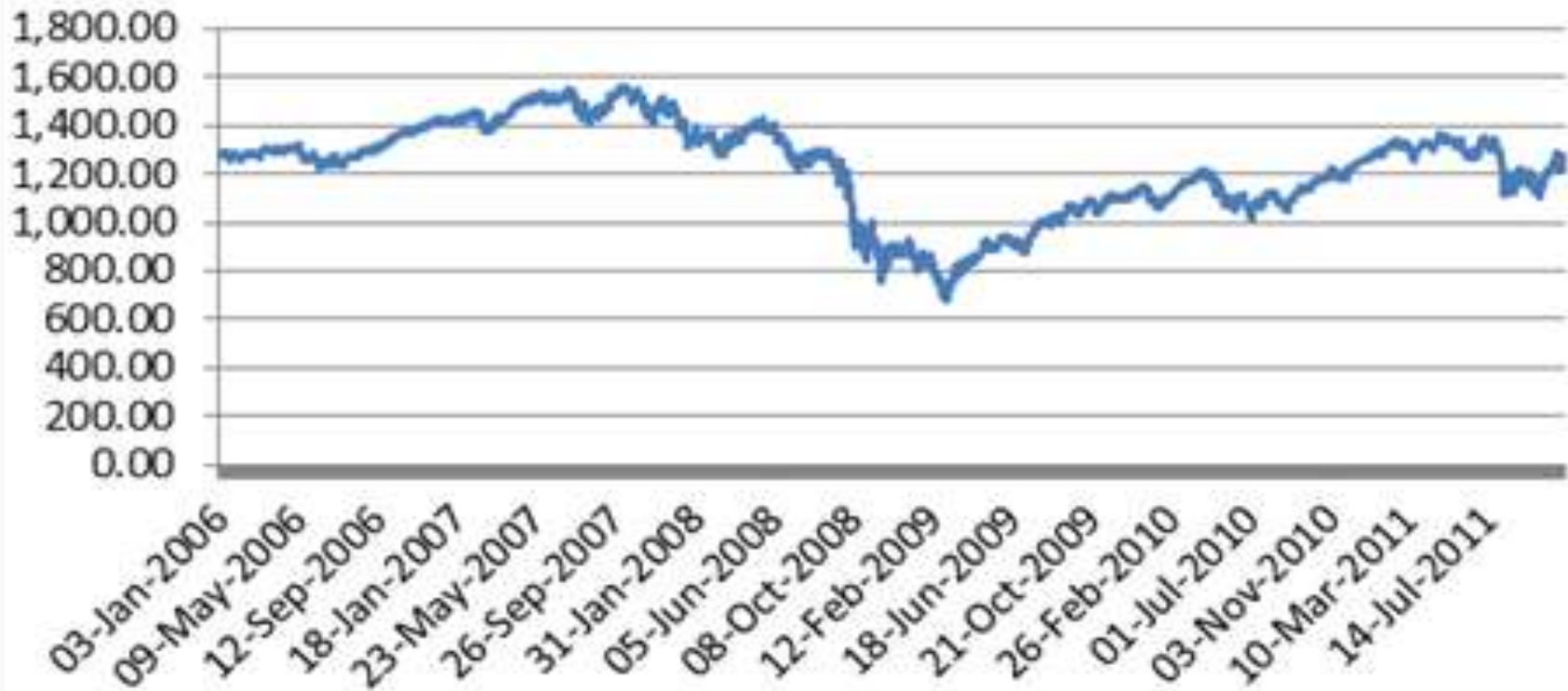
- Quarter III 2011 saw an increase of under 1 percent compared to Quarter II 2011
- Quarter III 2011 compared to Quarter III 2010 saw a decline of 34 percent

## **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

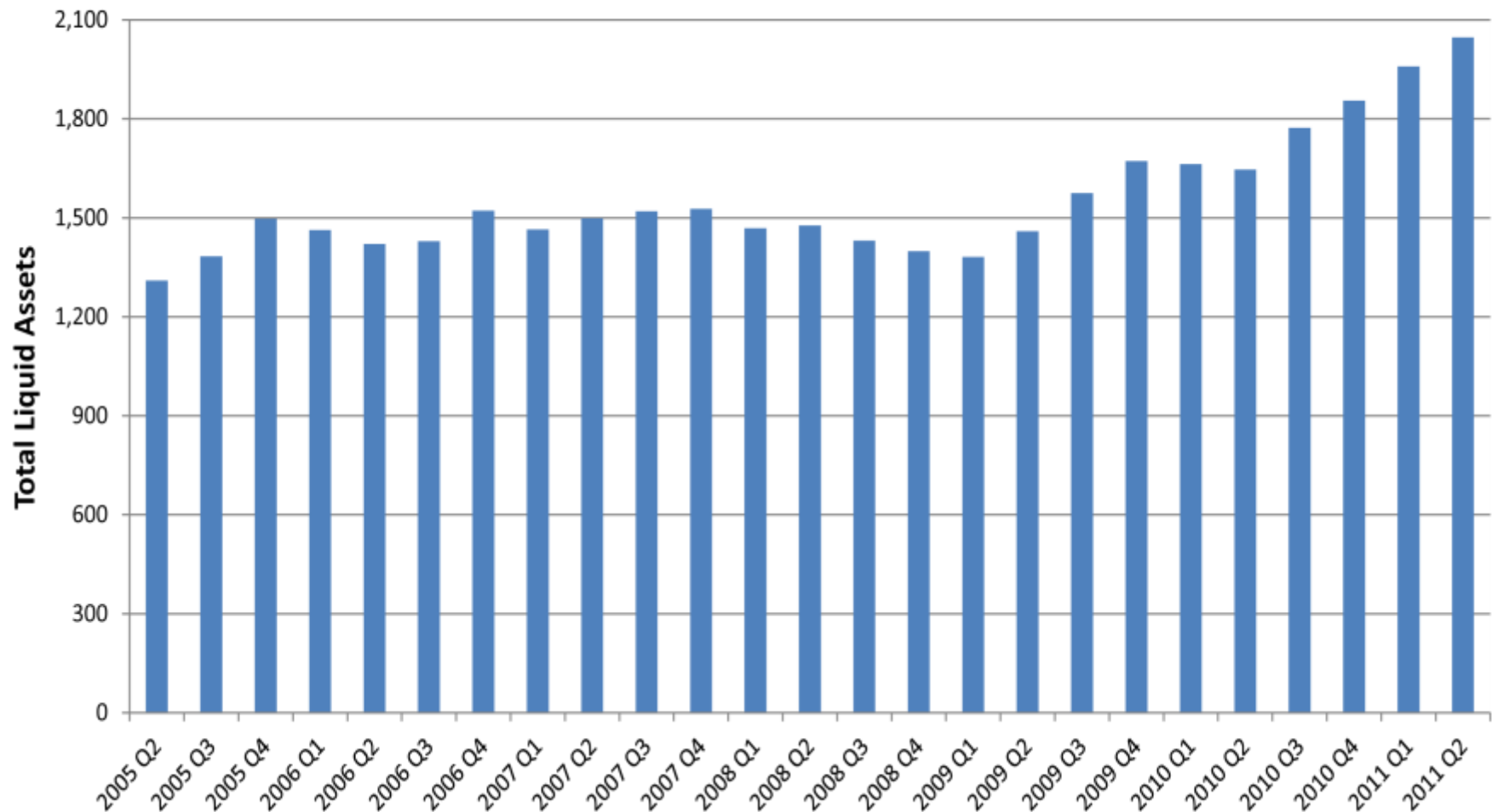
**S&P 500 Performance**  
*(as of 09-Nov-2011)*



Source: Standard & Poor's

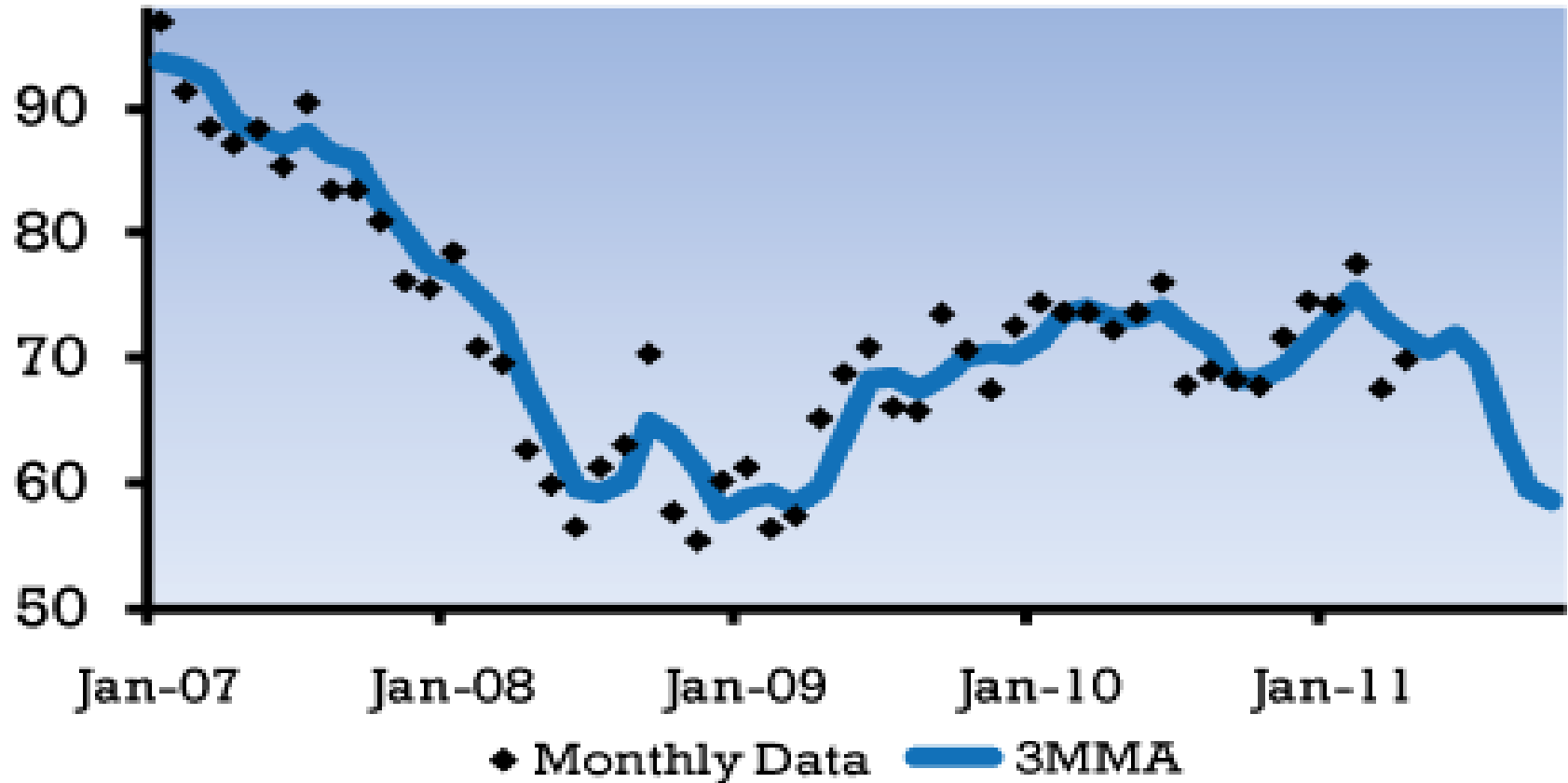
# PART I: NATIONAL ECONOMIC POSITION

Nonfarm Non-Financial Corporate Business - Total Liquid Assets (in \$ billion)



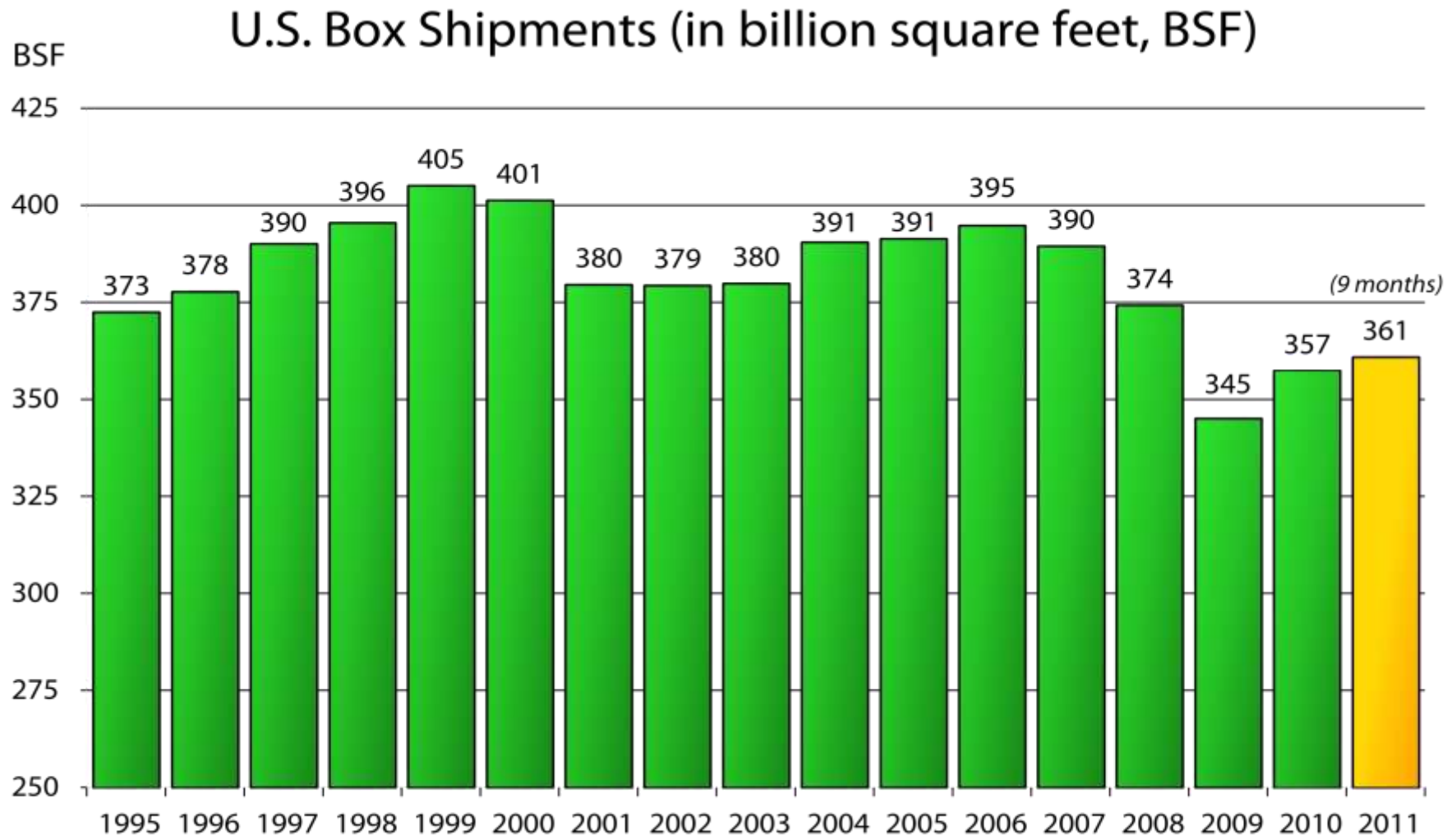
# PART I: NATIONAL ECONOMIC POSITION

## THE INDEX OF CONSUMER SENTIMENT



Source: Thomson Reuters/University of Michigan Surveys of Consumers,  
October 28, 2011

# PART I: NATIONAL ECONOMIC POSITION

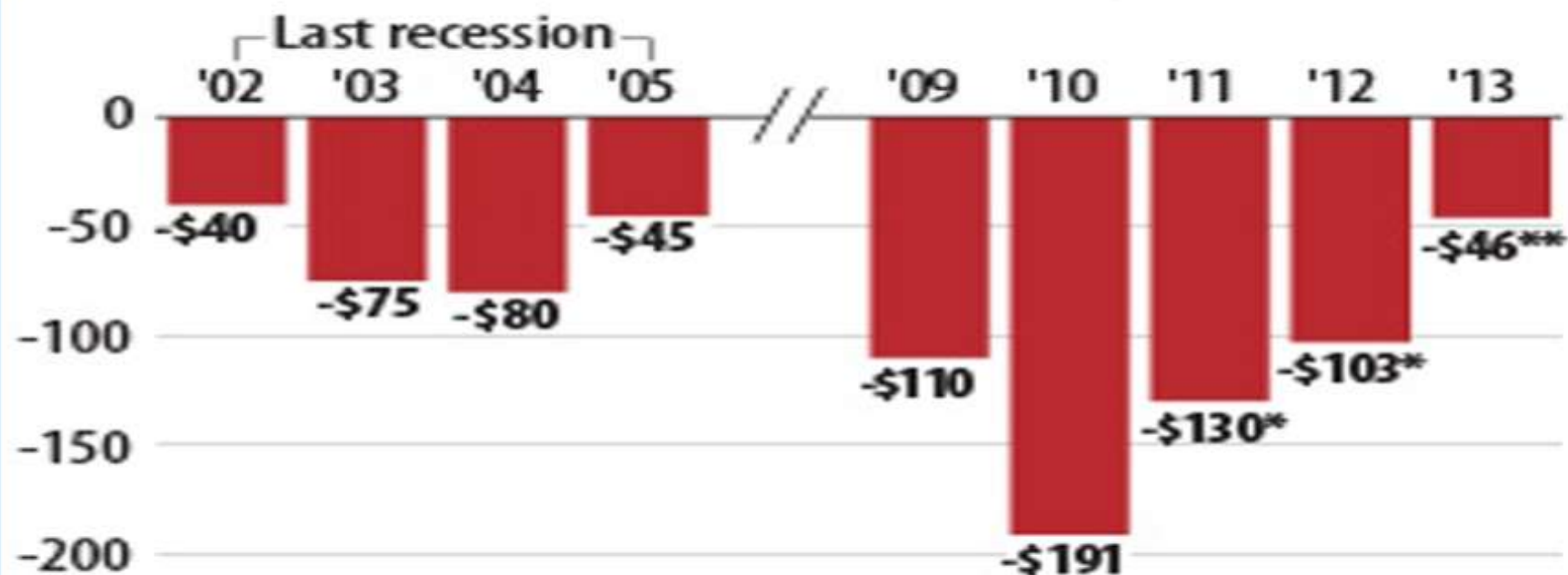


Source: Fibre Box Association

# PART I: STATE FISCAL POSITION

Figure 1:  
**Largest State Budget Shortfalls on Record**

Total state budget shortfall in each fiscal year, in billions



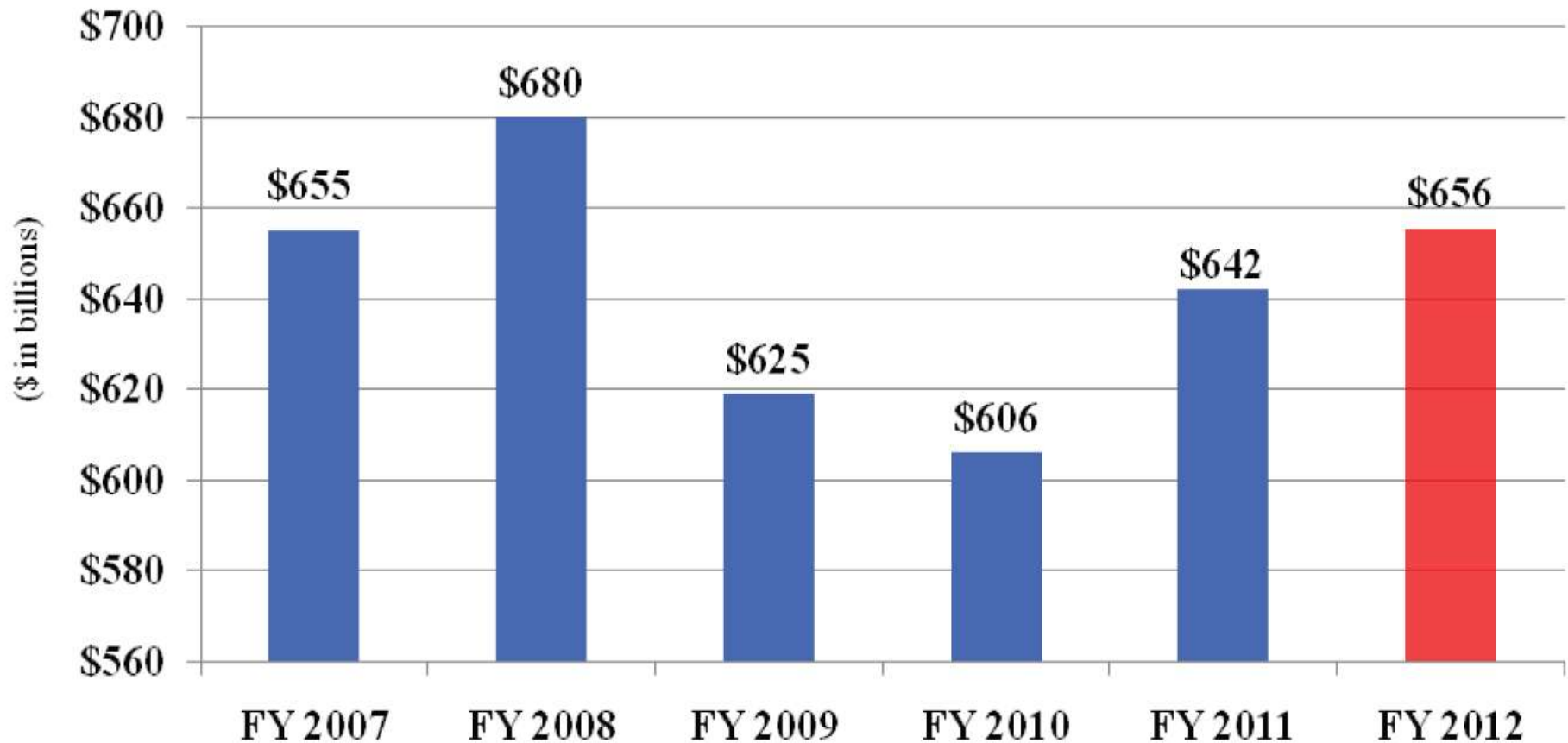
\*Reported to date, \*\*preliminary

Source: CBPP survey, revised June 2011.

Center on Budget and Policy Priorities | [cbpp.org](http://cbpp.org)

# PART I: STATE FISCAL POSITION

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



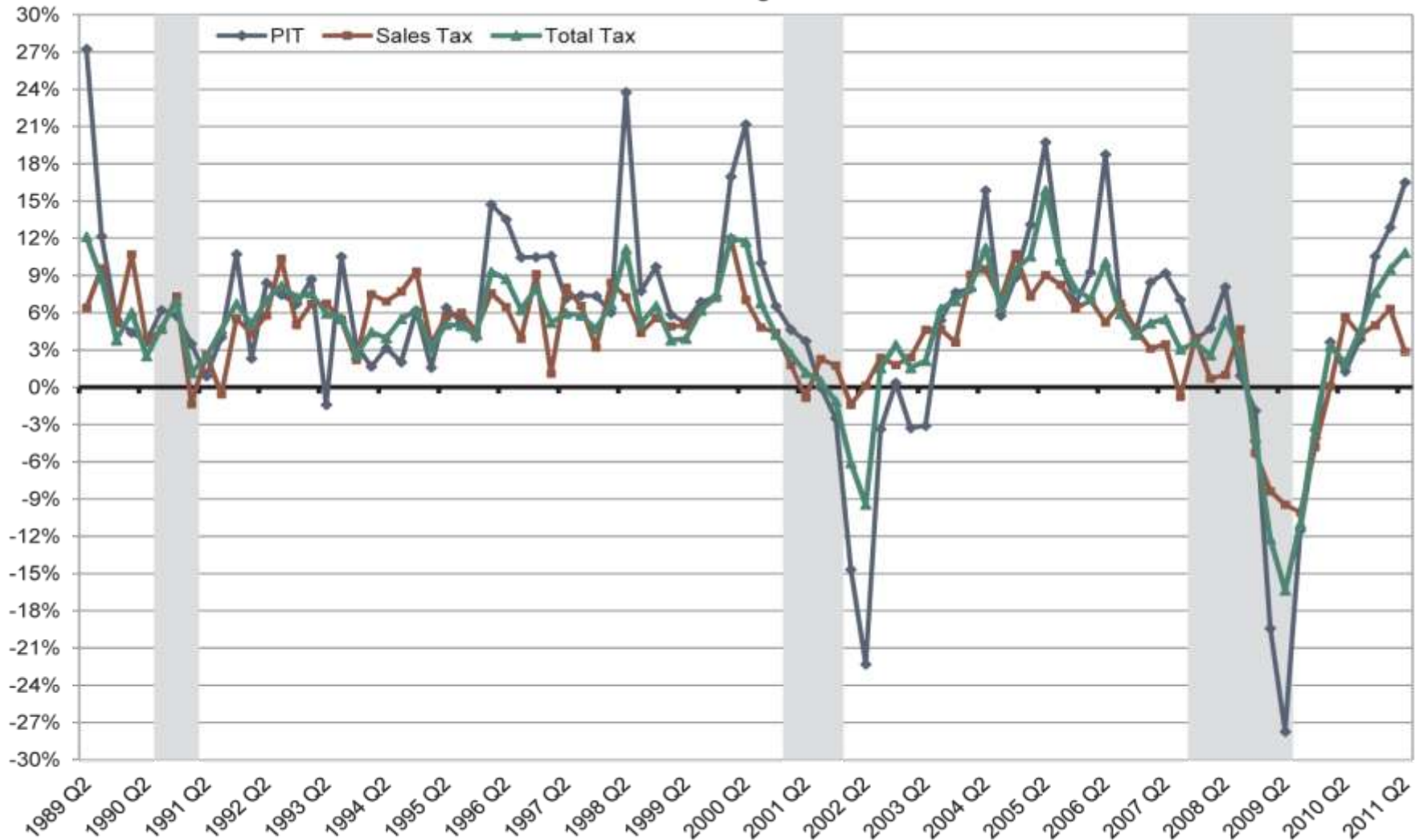
*\* FY 2007, 2008, 2009, 2010 are actual, FY 2011 is estimated and FY 2012 is proposed.*

*Source: NGA/NASBO Spring 2011 Fiscal Survey of States*



# PART I: STATE FISCAL POSITION

Year-Over-Year Nominal Change in State Tax Collections



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):**

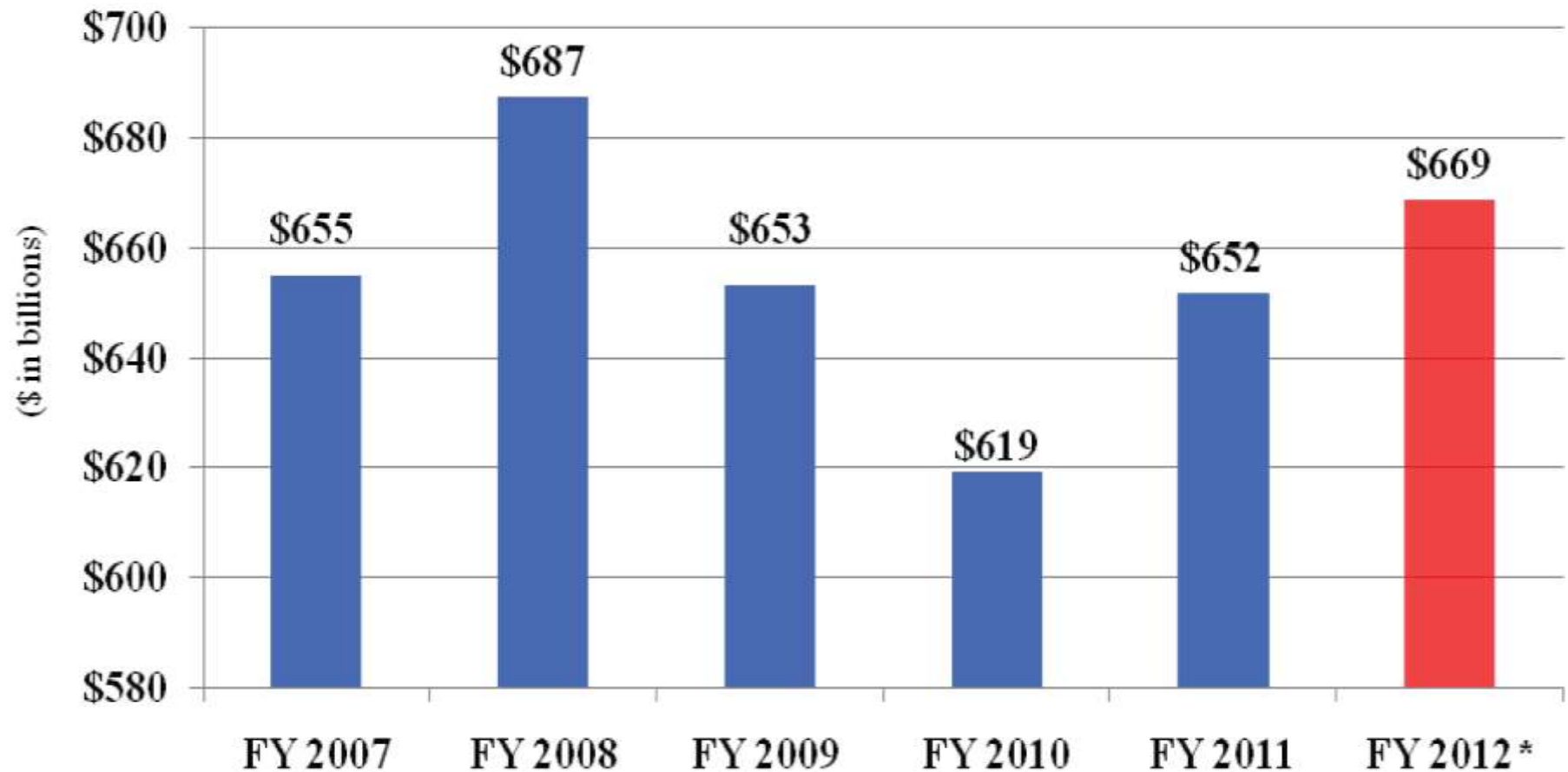
- Decrease of -4.5 percent in FY 2010 (Actual)
- Increase of 17.5 percent in FY 2011 (Estimated)
- Increase of 18.6 percent in FY 2012 (Recommended)

## **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)**

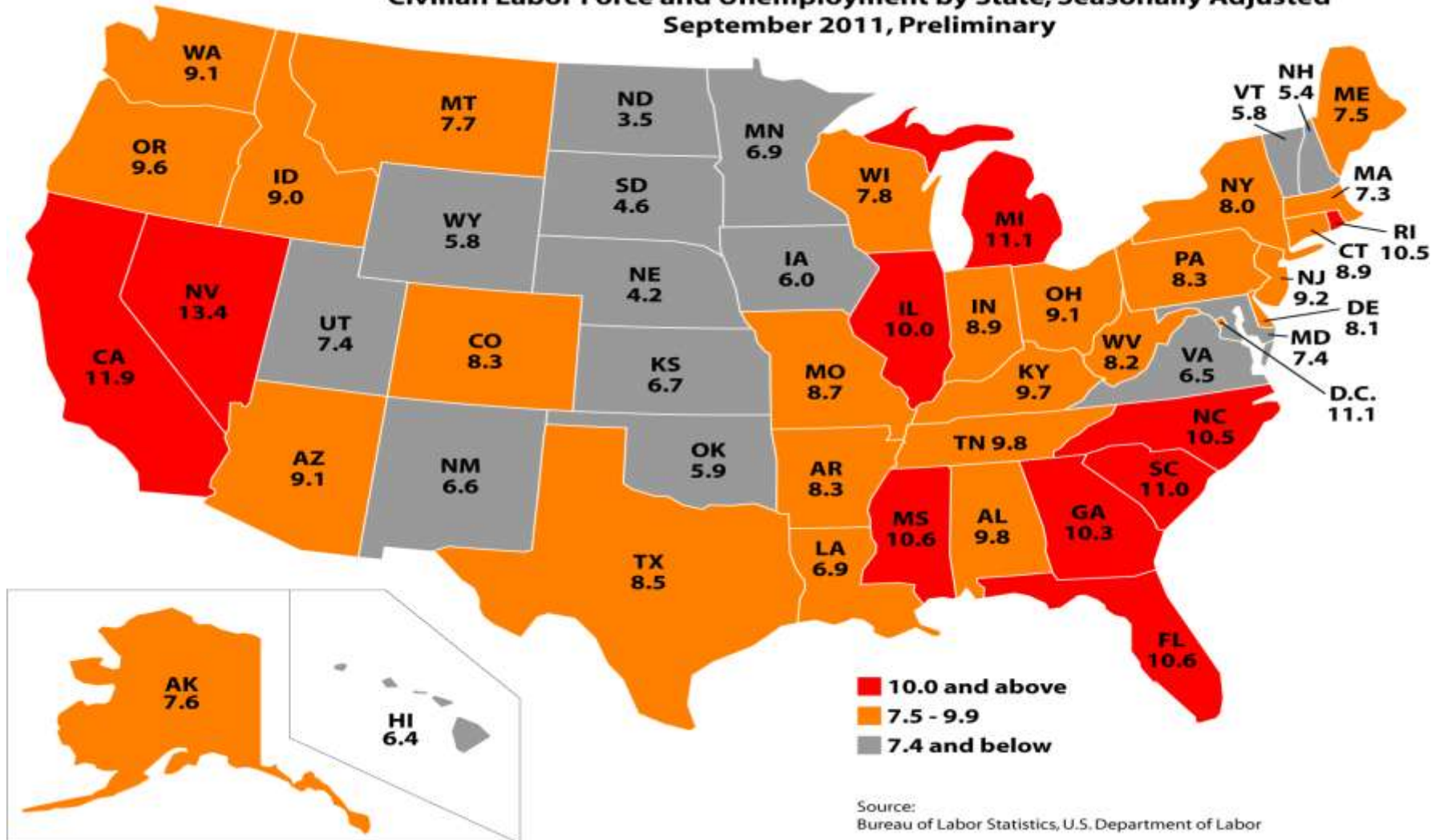


*\* FY 2007, 2008, 2009, 2010 are actual, FY 2011 is estimated and FY 2012 is proposed.*

*Source: NGA/NASBO Spring 2011 Fiscal Survey of States*

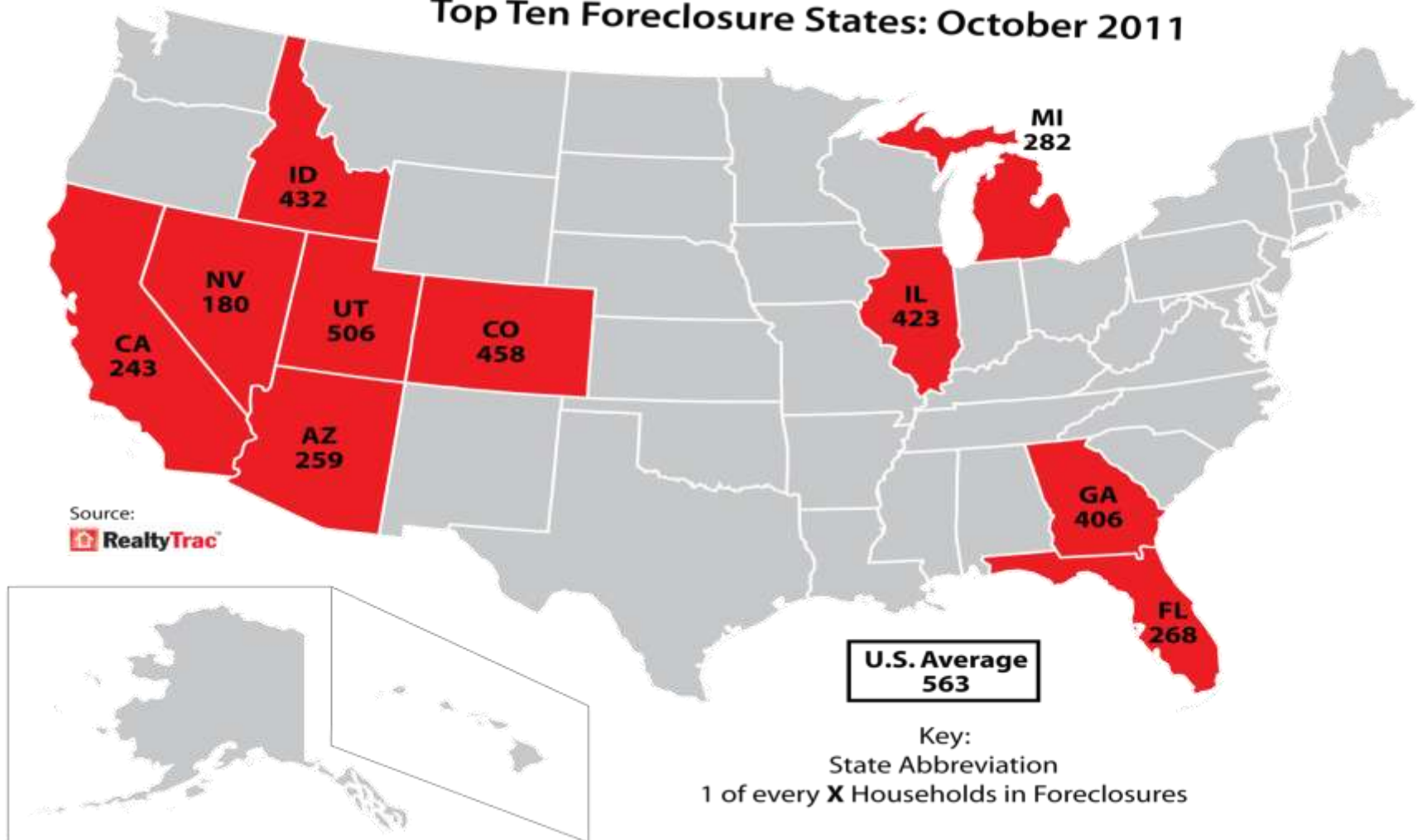
# PART I: STATE FISCAL POSITION

Civilian Labor Force and Unemployment by State, Seasonally Adjusted  
September 2011, Preliminary



# PART I: STATE FISCAL POSITION

Top Ten Foreclosure States: October 2011



# 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



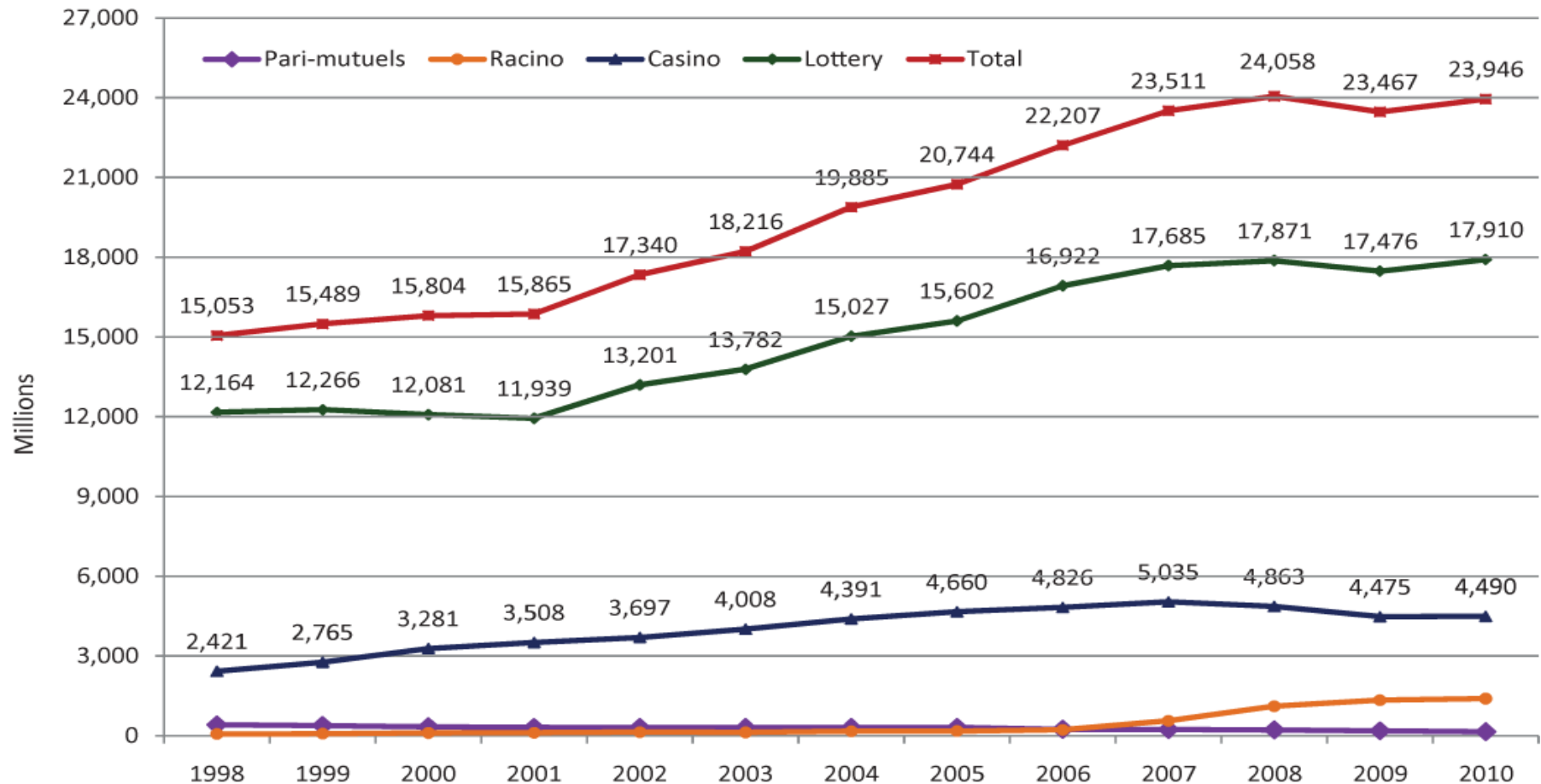
## PART II: STATE STRATEGIES TO BALANCE BUDGETS – TAPPING RAINY DAY FUNDS

| State         | FY 2005 Balance | FY 2012 Balance |
|---------------|-----------------|-----------------|
| Massachusetts | \$1,728 Billion | \$572 Million   |
| Pennsylvania  | \$329 Million   | \$1 Million     |
| Indiana       | \$317 Million   | 0               |
| Ohio          | \$575 Million   | 0               |
| Minnesota     | \$1,340 Billion | \$9 Million     |
| Florida       | \$988 Million   | \$492 Million   |
| Arizona       | \$165 Million   | 0               |
| Oklahoma      | \$461 Million   | 0               |

Source: Fiscal Survey of the States (Spring), FY 2006 and FY 2011

# PART II: STATE STRATEGIES TO BALANCE BUDGETS – EXPANDING GAMING

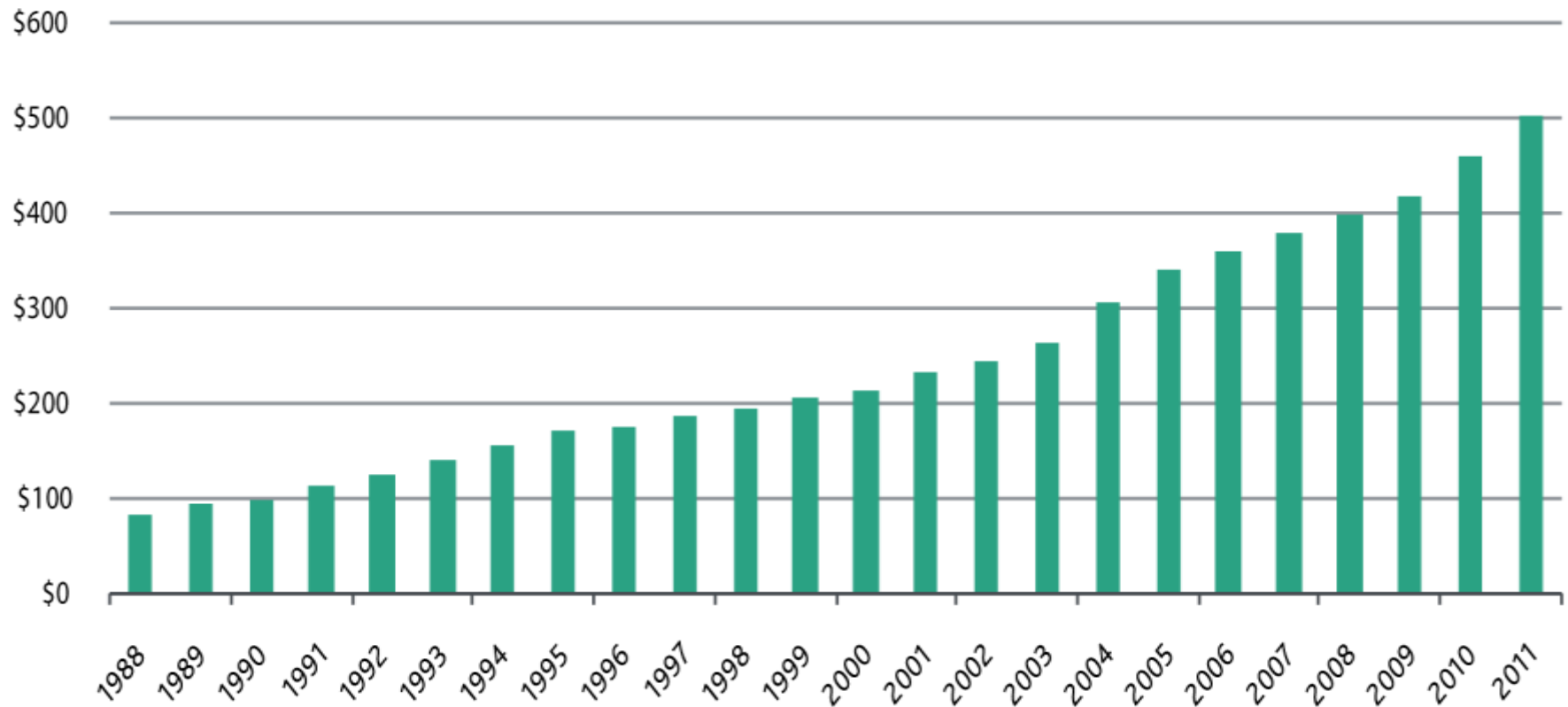
**Trends in State Gambling Revenue, FY 1998-2010**  
**VLT Revenues Included in Lotteries**



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

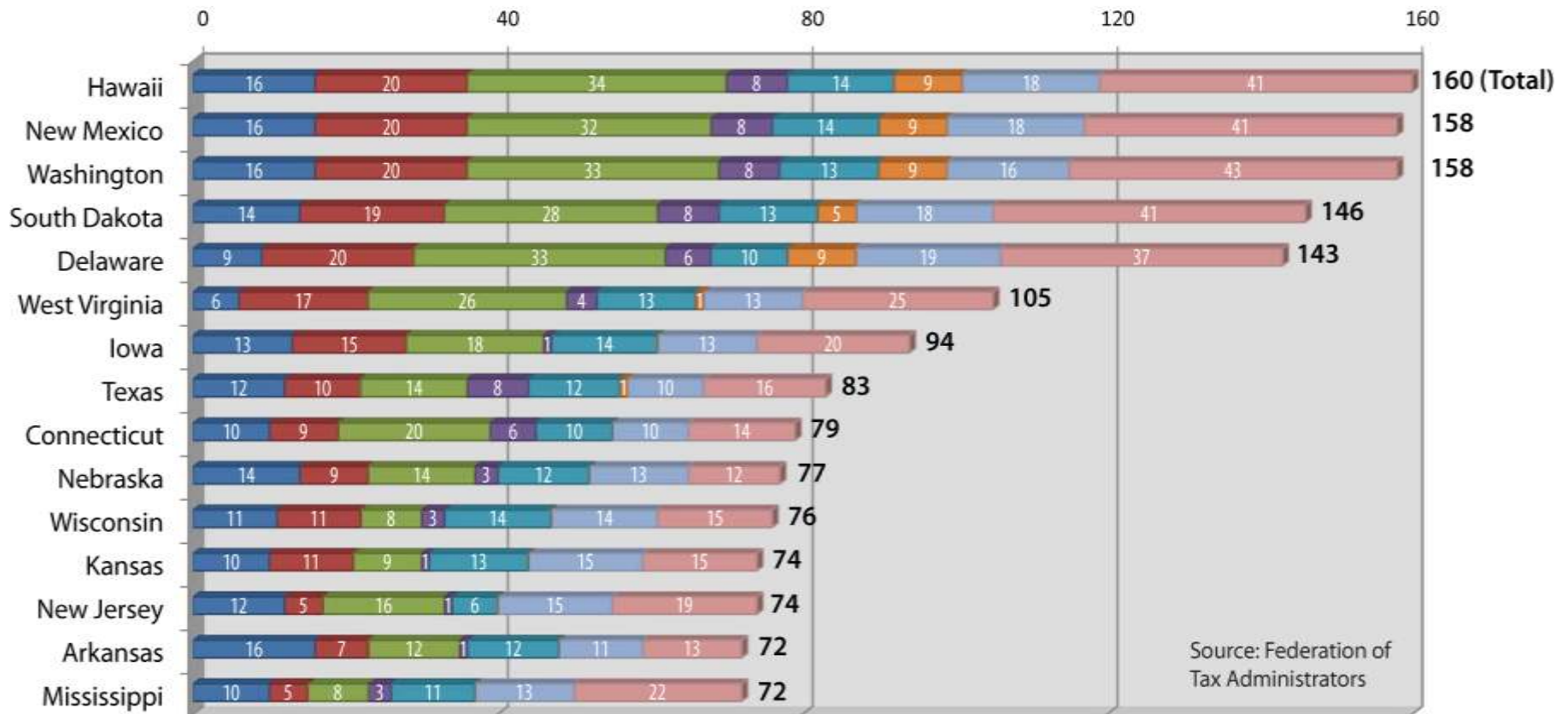
- For fiscal year 2012, states have proposed a net revenue increase of \$13.8 billion, more than the \$6.2 billion proposed in fiscal year 2011 but less than the \$23.9 billion proposed in fiscal year 2010;
- Among the fiscal year 2012 proposed tax changes (mostly net increases):
  - Sales Taxes—Seven 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



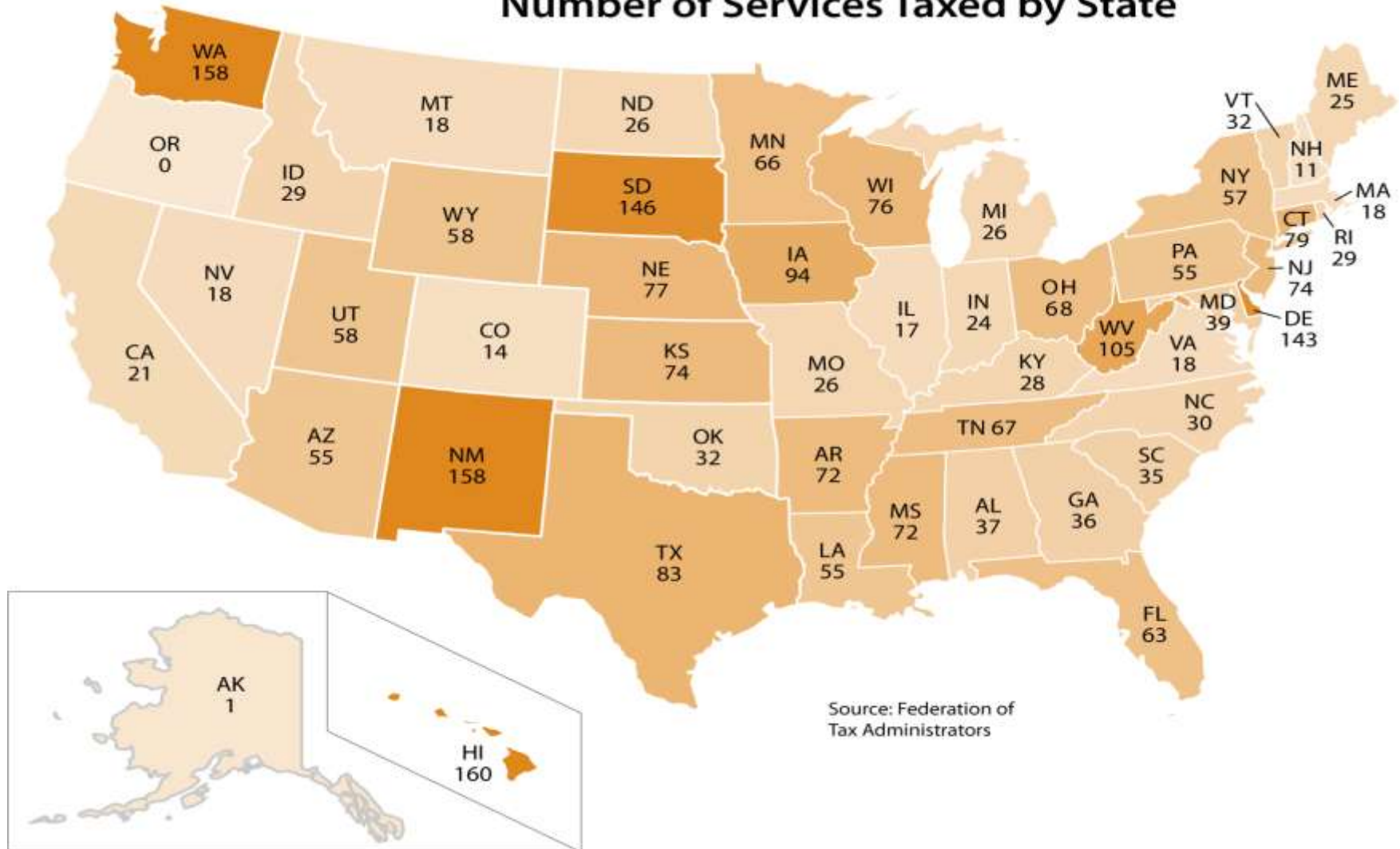
Source: Federation of Tax Administrators

- Utilities
- Personal Services
- Business Services
- Computer Services
- Admissions/Amusements
- Professional Services
- Fabrication, Repair & Installation
- Other Services



# PART III: STRUCTURAL FLAWS IN STATE TAX SYSTEMS – SERVICE SECTOR'S DOMINANCE

**Number of Services Taxed by State**



# PART III: STRUCTURAL FLAWS IN STATE TAX SYSTEMS – SERVICE SECTOR'S DOMINANCE

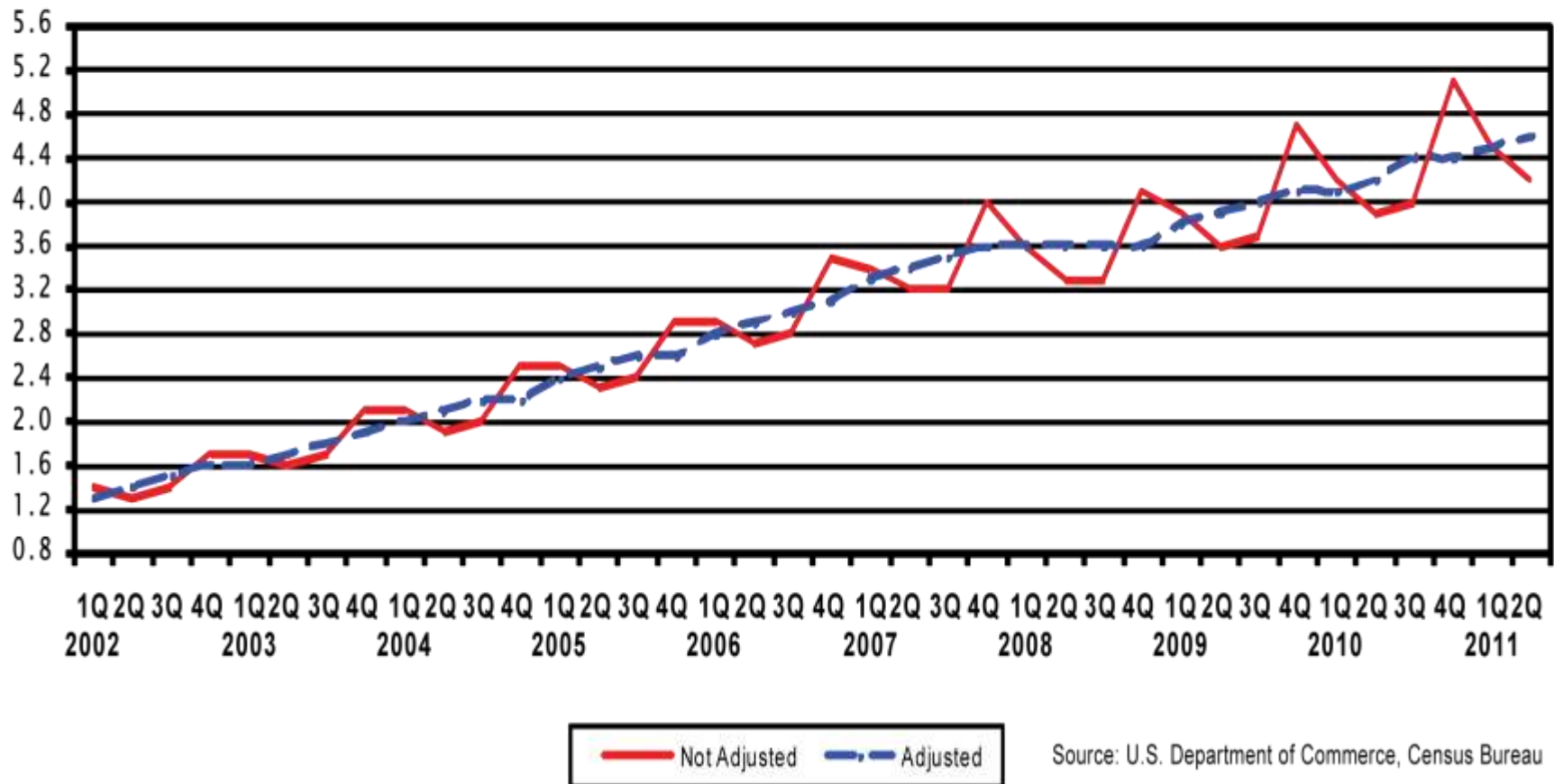
Professional Services Taxation in the United States



# PART III: STRUCTURAL FLAWS IN STATE TAX SYSTEMS – E-COMMERCE

Estimated Quarterly U.S. Retail E-commerce Sales as a Percent of Total Quarterly Retail Sales:  
1st Quarter 2002 – 2ND Quarter 2011

Percent of Total



# 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



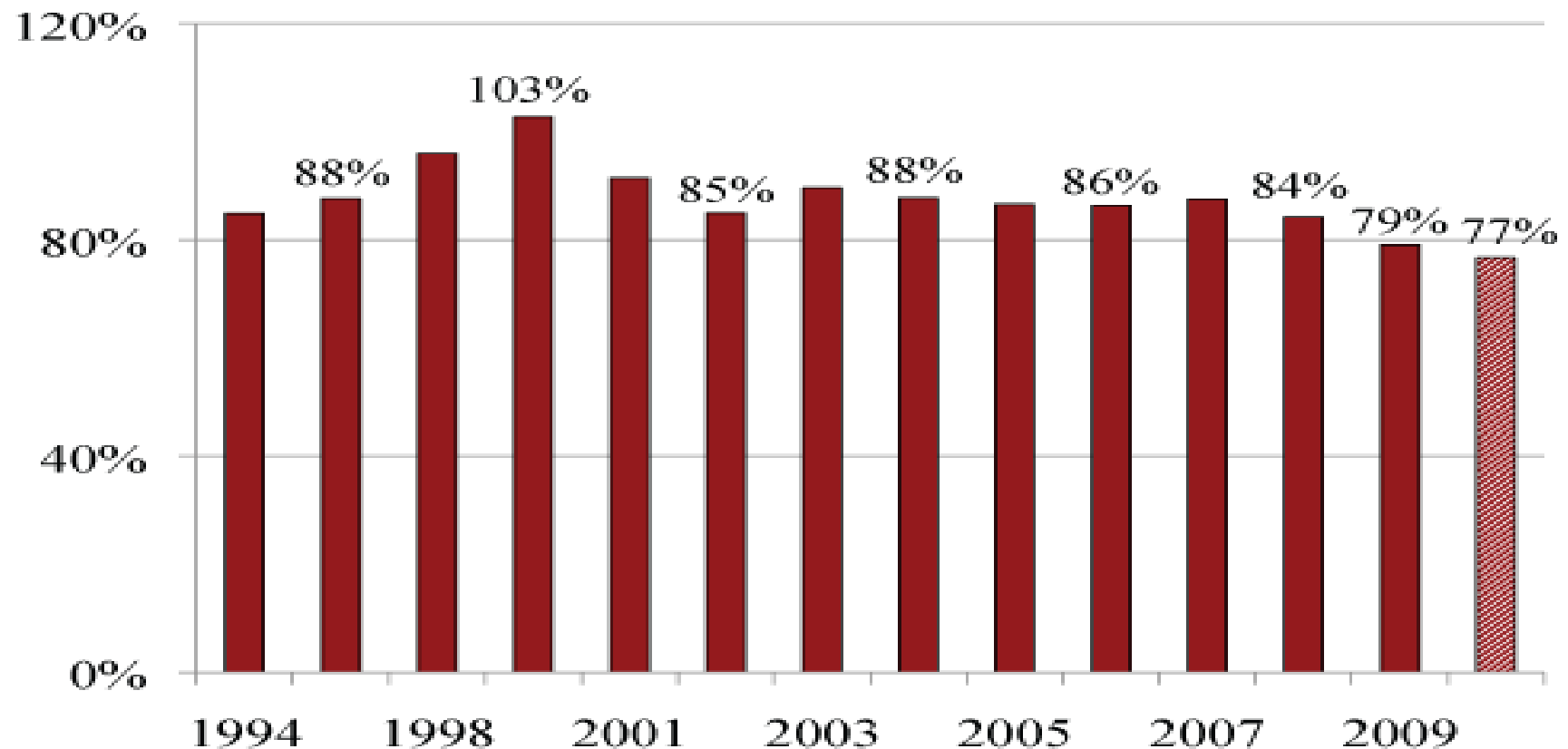
- Pennsylvania – Potentially billions of dollars in exemptions from purchases of trout to caskets to firewood to candy;
- Oklahoma – 480 exemptions worth \$5 billion a year from the sale of horses to robots to oil drums to vitamins to oil drums;
- South Dakota – Legislative panel reviewing exemptions 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

| Category and Grade |                      |
|--------------------|----------------------|
| Drinking Water: D  | Schools: D           |
| Levees: D-         | Public Parks: C-     |
| Roads: D-          | Rail: C-             |
| Wastewater: D-     | Bridges: C           |
| Aviation: D        | Solid Waste: C+      |
| Dams: D            | Inland Waterways: D- |
| Hazardous Waste: D | Transit: D           |
| Energy: D+         |                      |

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

| State        | AHCM | HCM  |
|--------------|------|------|
| Alaska       | 1.00 | 0.52 |
| D.C.         | 1.05 | 0.58 |
| Louisiana    | 1.56 | 0.50 |
| Mississippi  | 1.17 | 0.63 |
| Nebraska     | 1.17 | 0.56 |
| North Dakota | 1.01 | 0.41 |
| Washington   | 1.09 | 0.62 |

- 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

## PART IV: LOOMING EXPENDITURE CATEGORIES

### – UNEMPLOYMENT INSURANCE

| State          | Outstanding Loan Amounts from the Federal Unemployment Account |
|----------------|--|
| California     | \$9.1 Billion  |
| Pennsylvania   | \$3.1 Billion  |
| Michigan       | \$3.1 Billion  |
| North Carolina | \$2.5 Billion  |
| South Carolina | \$782 Million  |
| Connecticut    | \$809.9 Million  |

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 is 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;

# PART V: “BRIGHT SPARKS” – AUTO INDUSTRY AND THE DRIVE TO MOVE SOUTH



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.



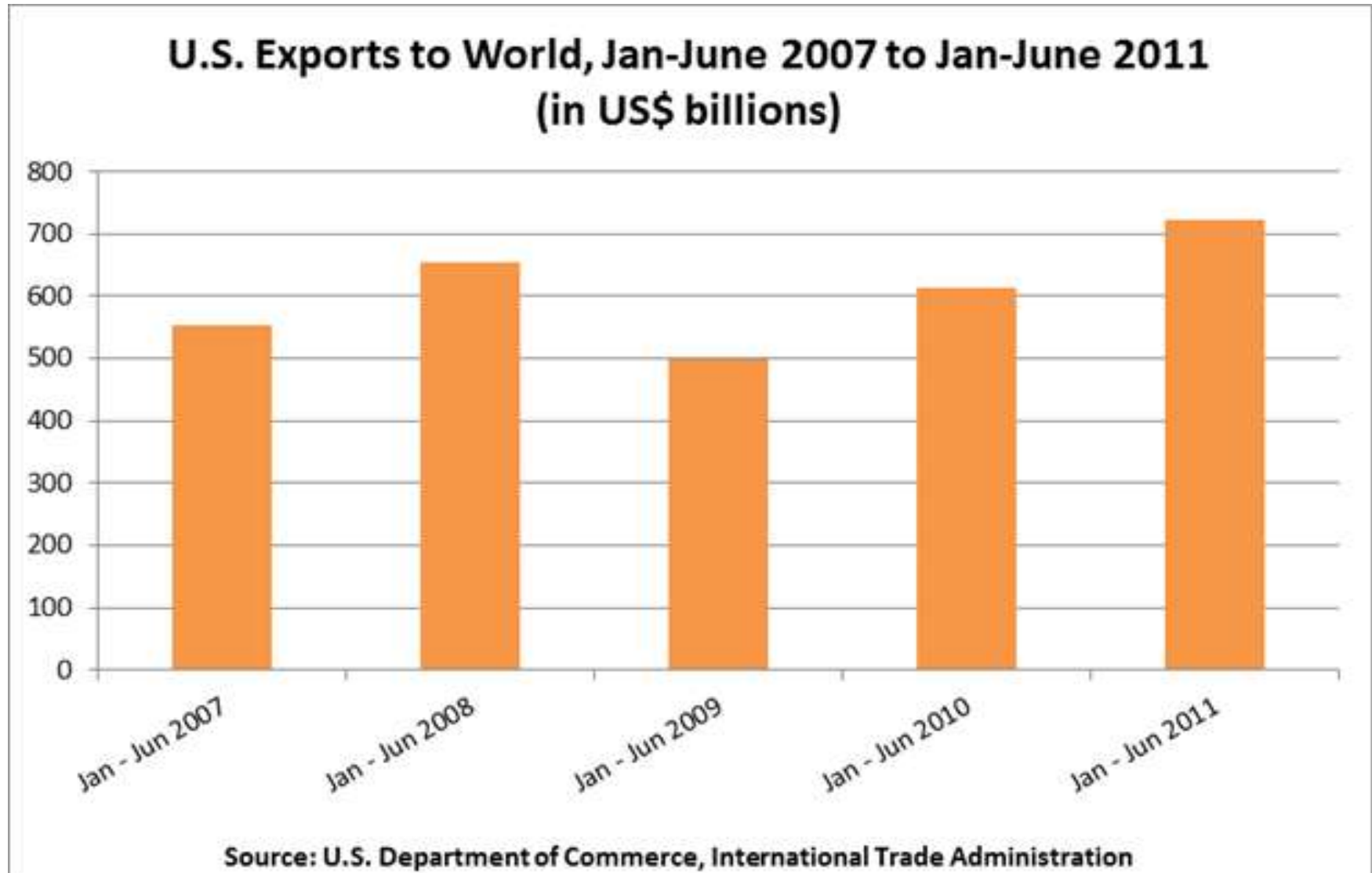
## PART V: “BRIGHT SPARKS” – OTHER



- 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





# STATE FISCAL AND ECONOMIC OUTLOOK

Thank You

For Additional Information or Questions,  
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