

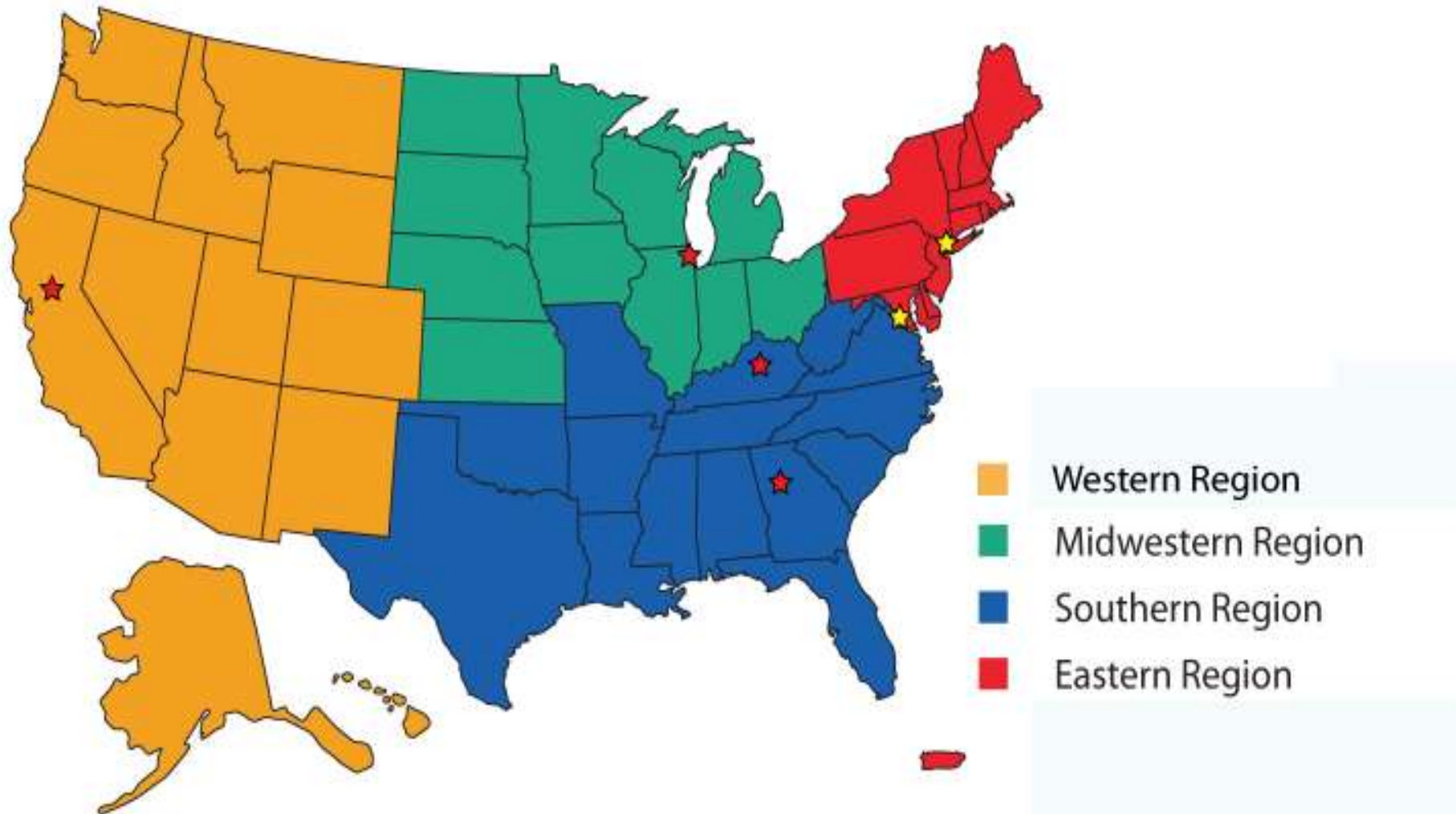
State Fiscal Issues

Presentation at the
2010 Division of Insurance and Research Economist
and Analyst Meeting
Federal Deposit Insurance Corporation (FDIC)
Dallas, Texas
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The Council of State Governments' Southern Office
Southern Legislative Conference (SLC)

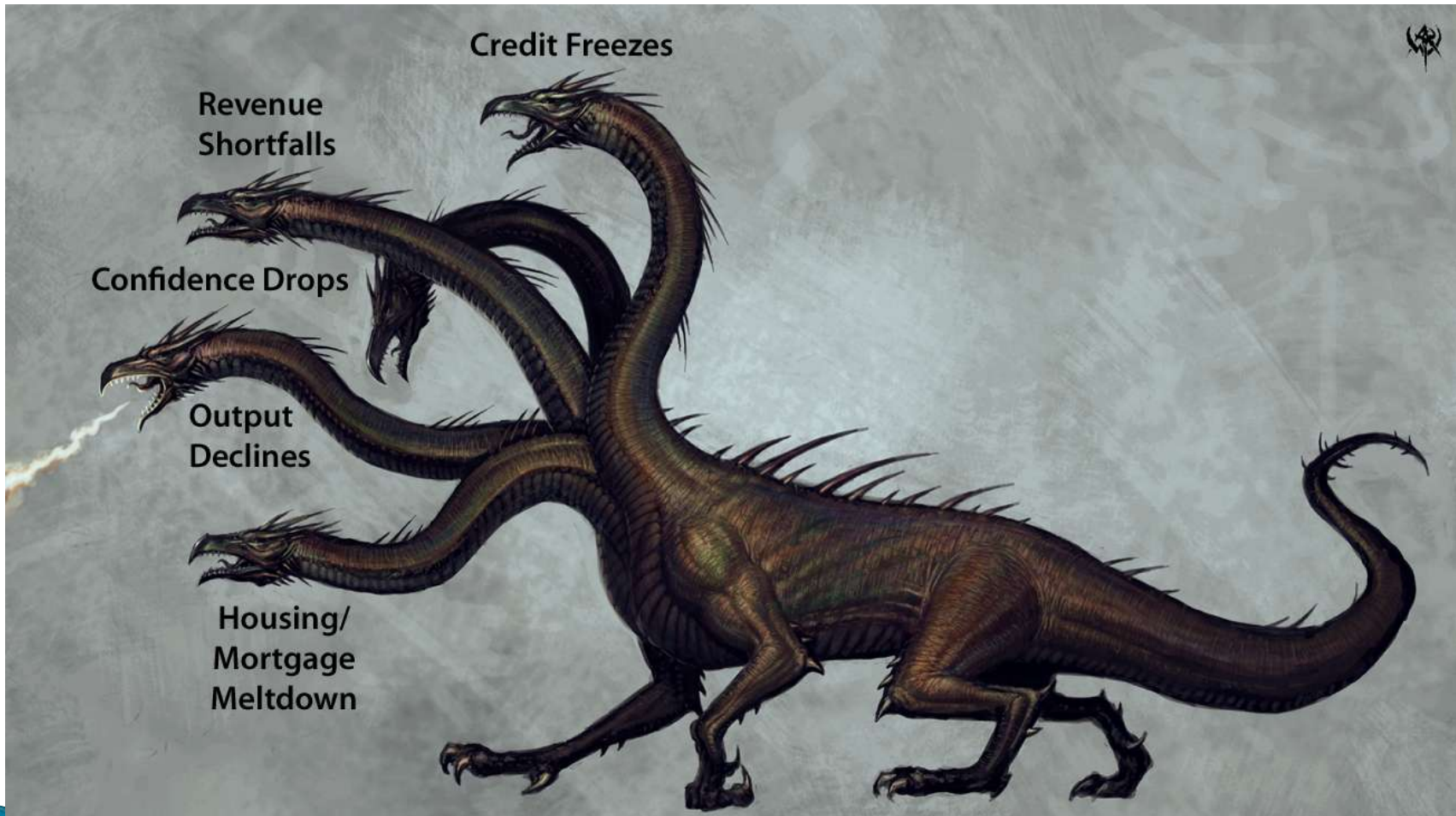
Introduction to CSG



Presentation Outline

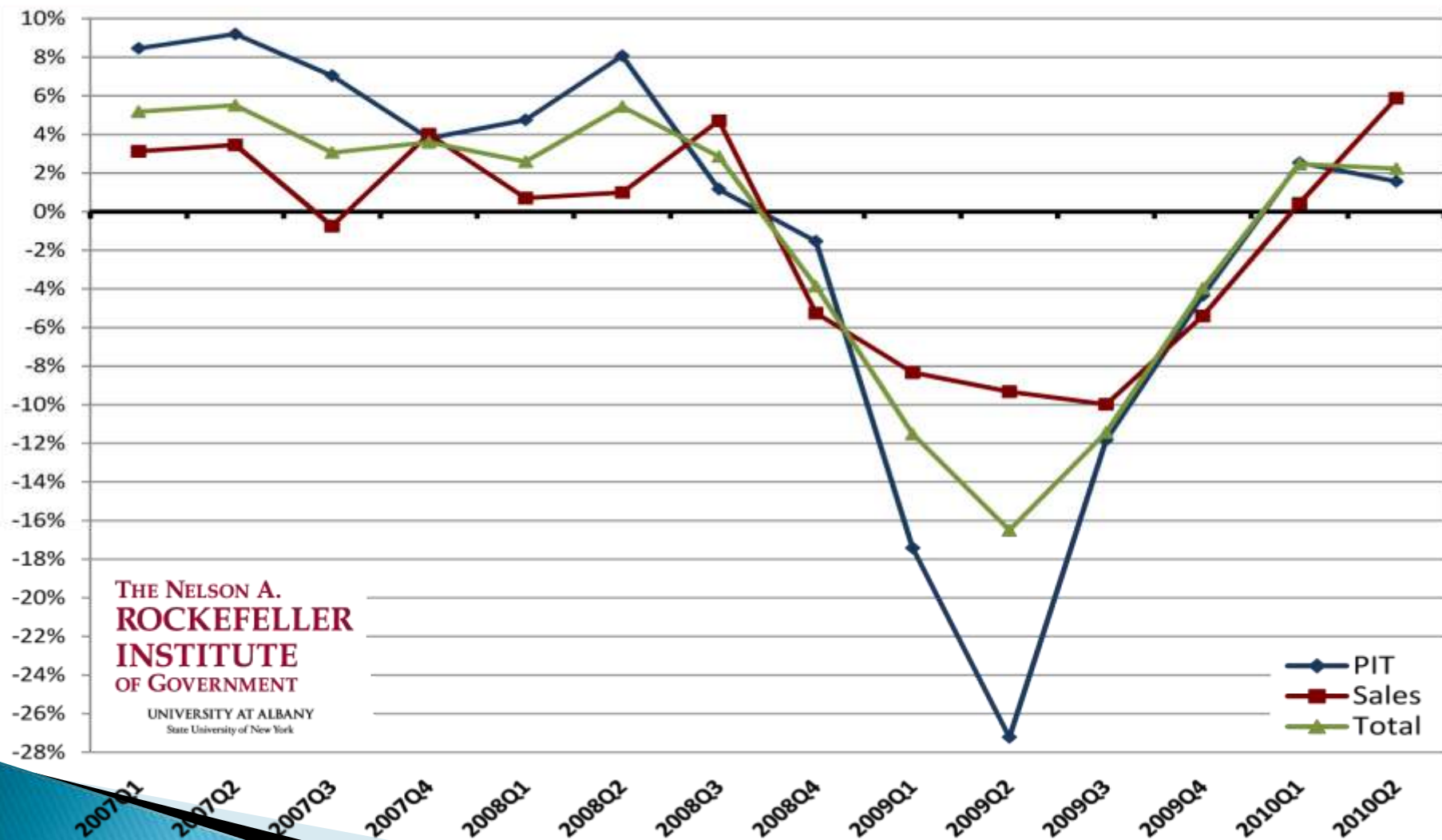
- ▶ Part I: Fiscal Position of States
- ▶ Part II: State Strategies to Balance Budgets and Generate Revenue
- ▶ Part III: Structural Flaws in State Tax Systems
- ▶ Part IV: Looming Expenditure Categories
- ▶ Part V: “Green Shoots of Growth”

Part I: State Fiscal Position



Part I: State Fiscal Position

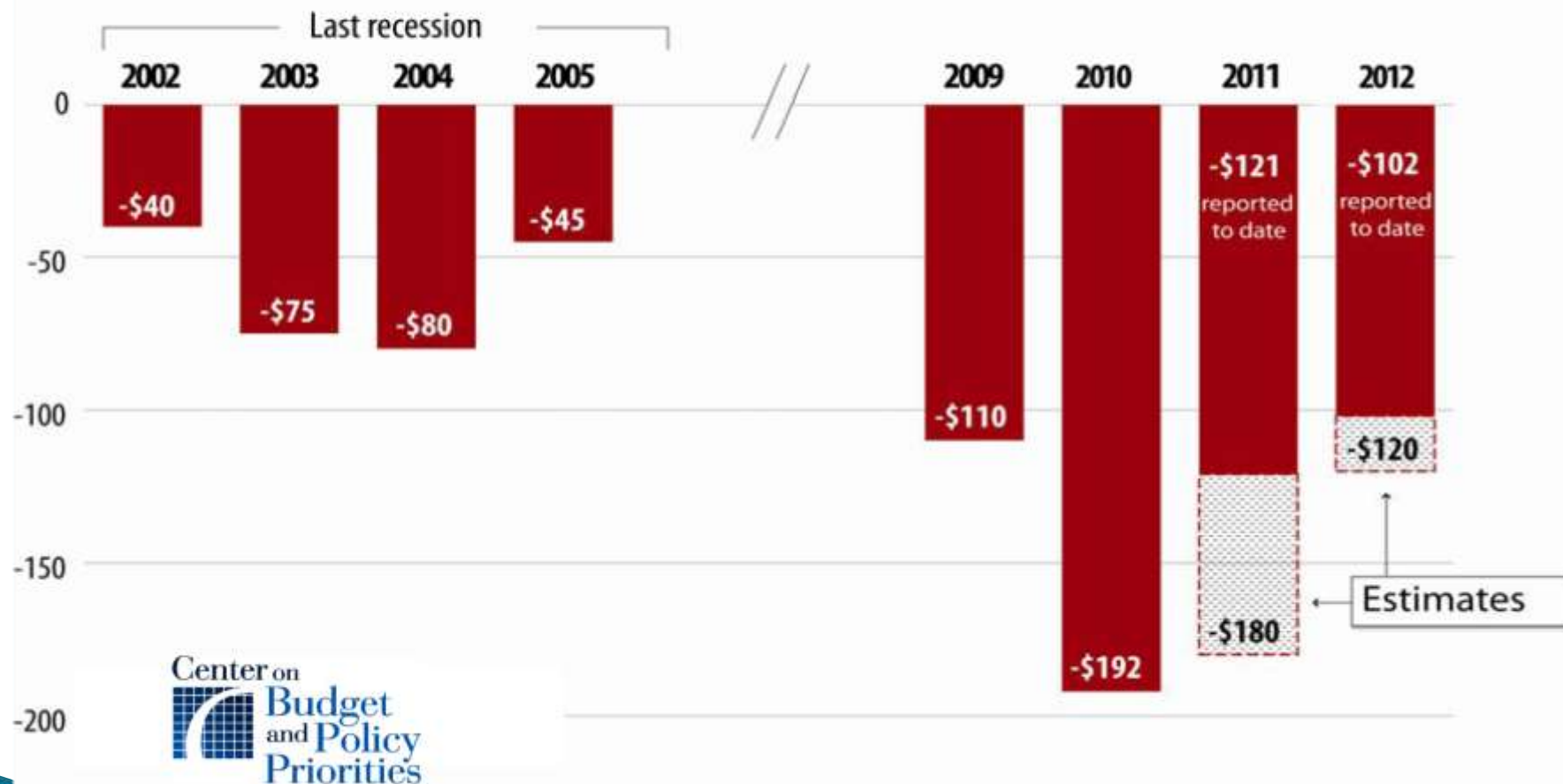
Figure 1. Percent Change in State tax Collections Versus Year Ago



Part I: State Fiscal Position

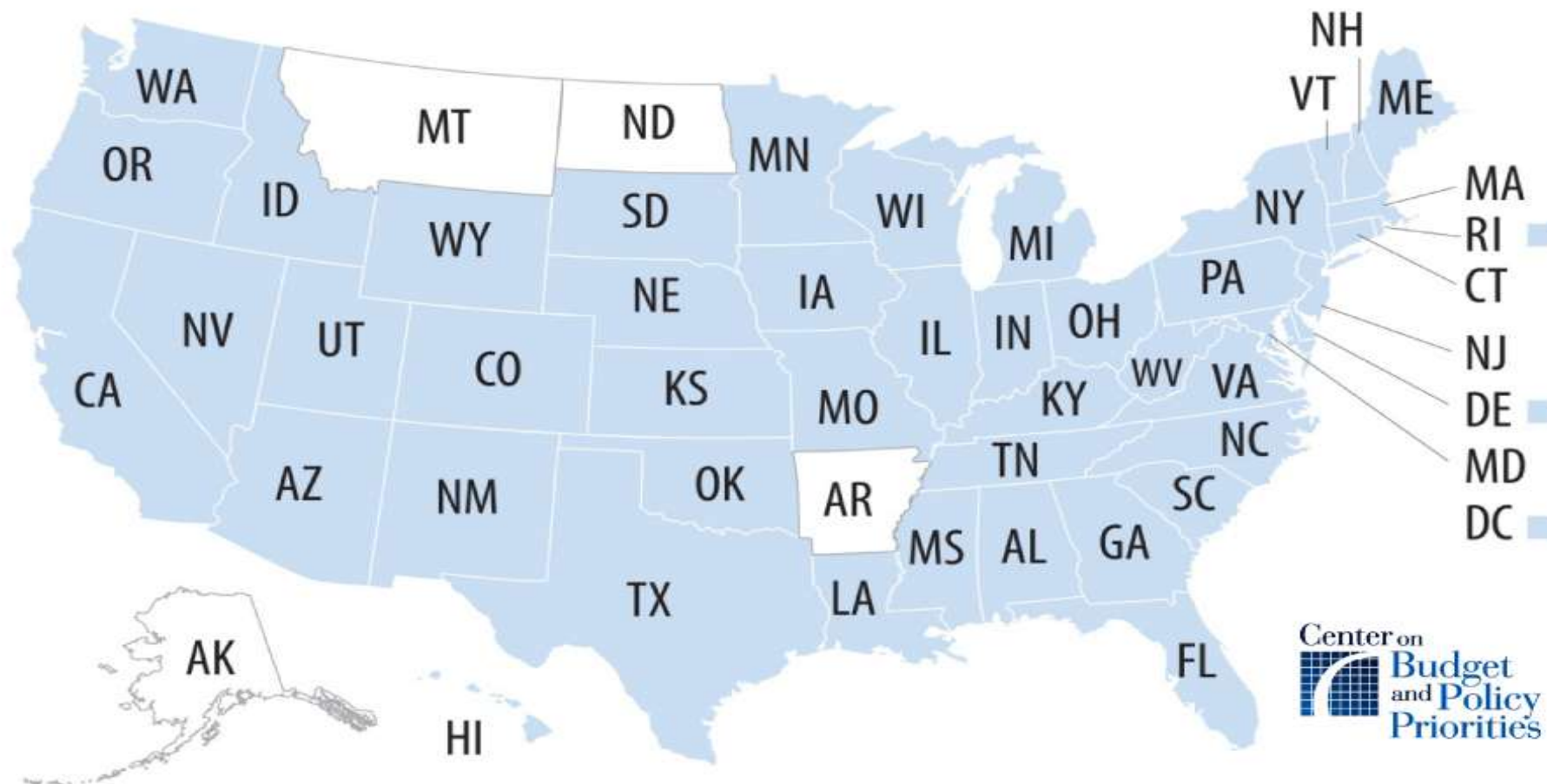
Largest State Budget Shortfalls On Record

Total state budget shortfall in each fiscal year, in billions



Part I: State Fiscal Position

States with Budget Shortfalls in FY 2011



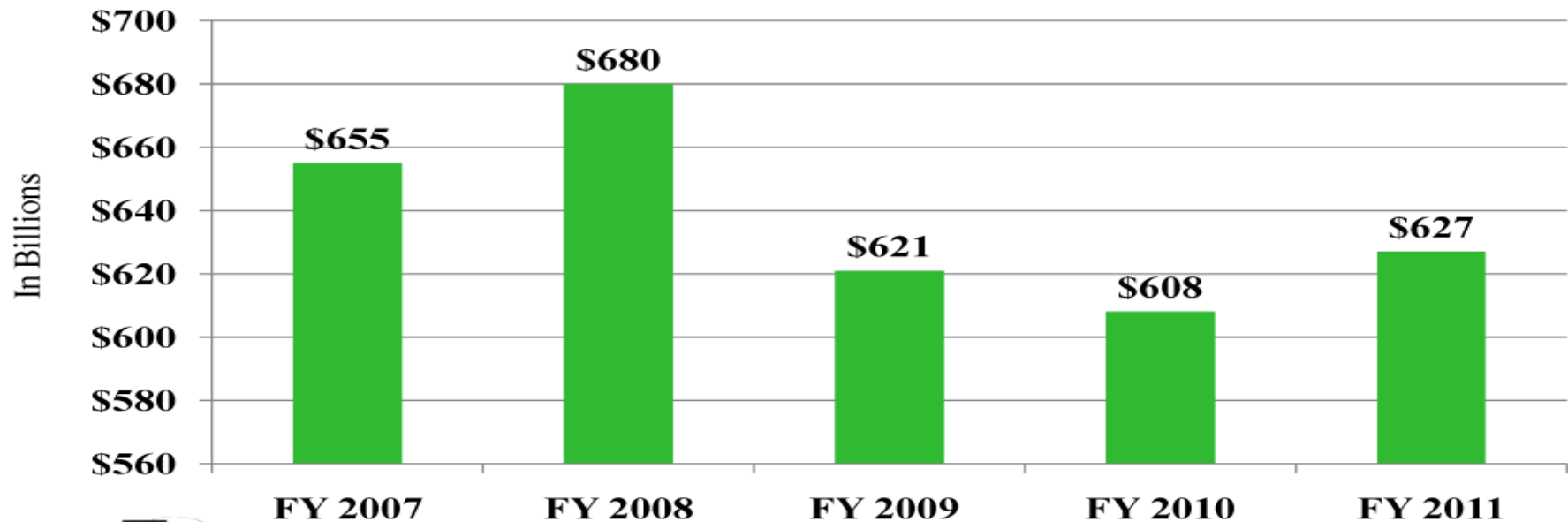
Part 1: State Fiscal Position

– Gaps Faced in FY 2011

State	Gap as % of FY 2011 Budget	State	Gap as % of FY 2011 Budget
Arizona	36.6%	Nevada	54.0%
California	21.6%	New Hampshire	24.1%
Colorado	21.6%	New Jersey	38.3%
Connecticut	28.9%	North Carolina	30.3%
Florida	20.2%	South Carolina	25.6%
Georgia	26.2%	Vermont	30.2%
Illinois	41.5%	Wisconsin	23.9%
Maine	34.7%		
Minnesota	26.0%	U.S. Average	18.7%

Part I: State Fiscal Position

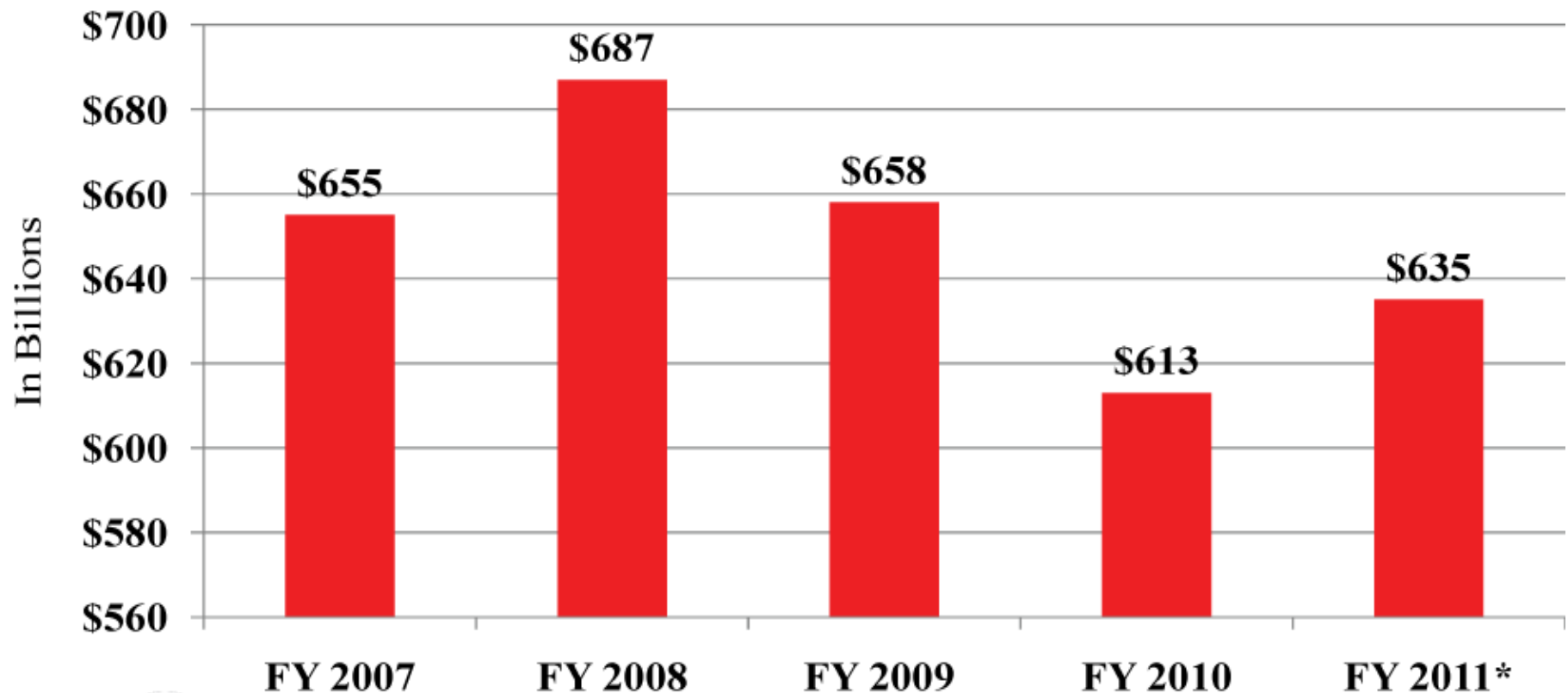
General Fund Revenue: FY 2007-FY 2011 (in billions)



** 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)



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

Part I: State Fiscal Position

State	FY 2008 (\$ Billions)	FY 2011 (\$Billions)	Change
SC	\$7,511	\$5,135	-32%
OK	\$6,359	\$4,893	-23%
GA	\$20,735	\$16,052	-23%
WY	\$1,813	\$1,433	-21%
MI	\$9,900	\$7,870	-21%
AK	\$5,732	\$4,577	-20%
CA	\$103,373	\$82,901	-20%
UT	\$5,887	\$4,803	-18%
AL	\$8,573	\$7,022	-18%

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%

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

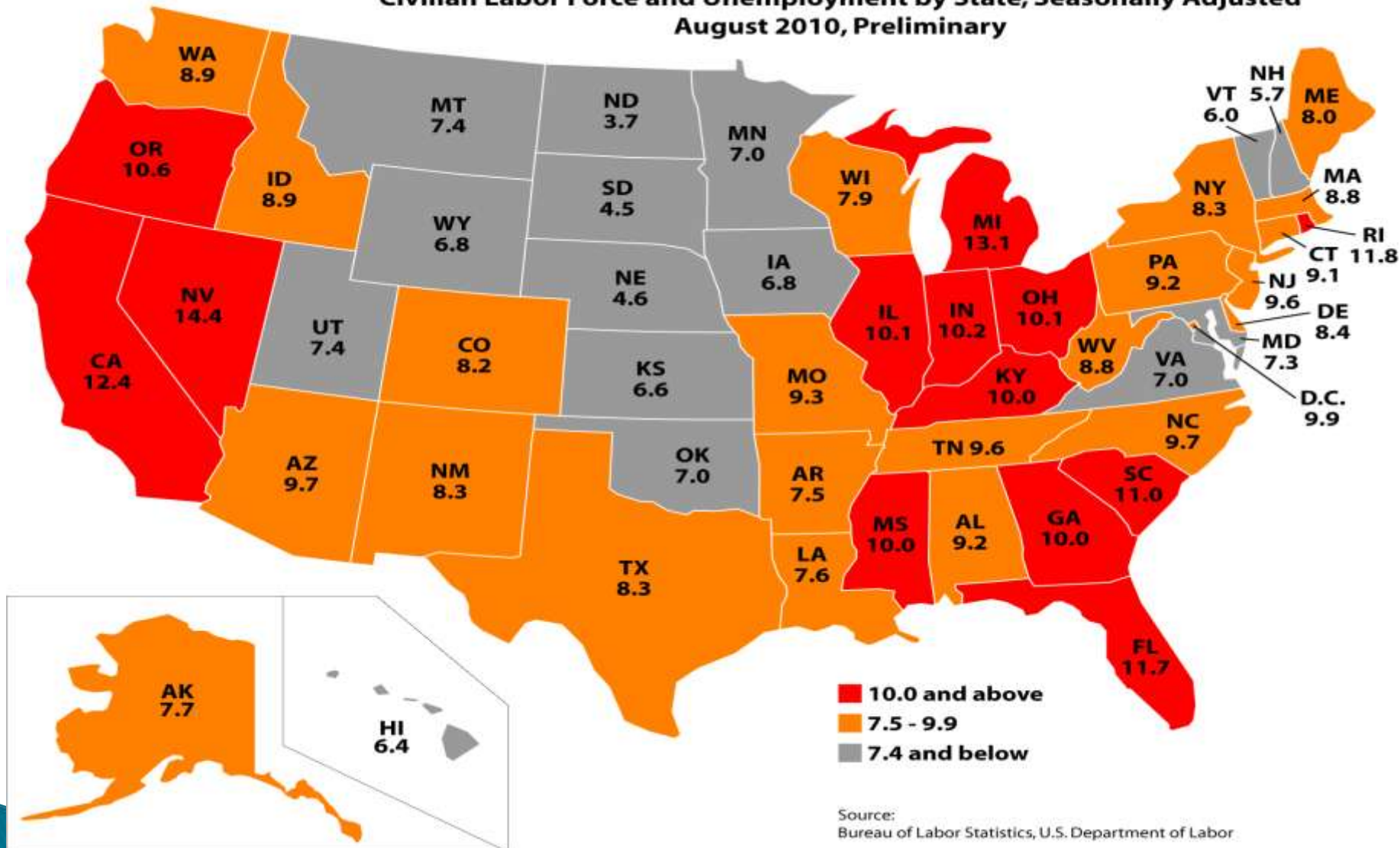


Part 1: State Fiscal Position- What Does This Mean?

- ▶ 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



Part I: State Fiscal Position

Years When Per Capita Income Went Down

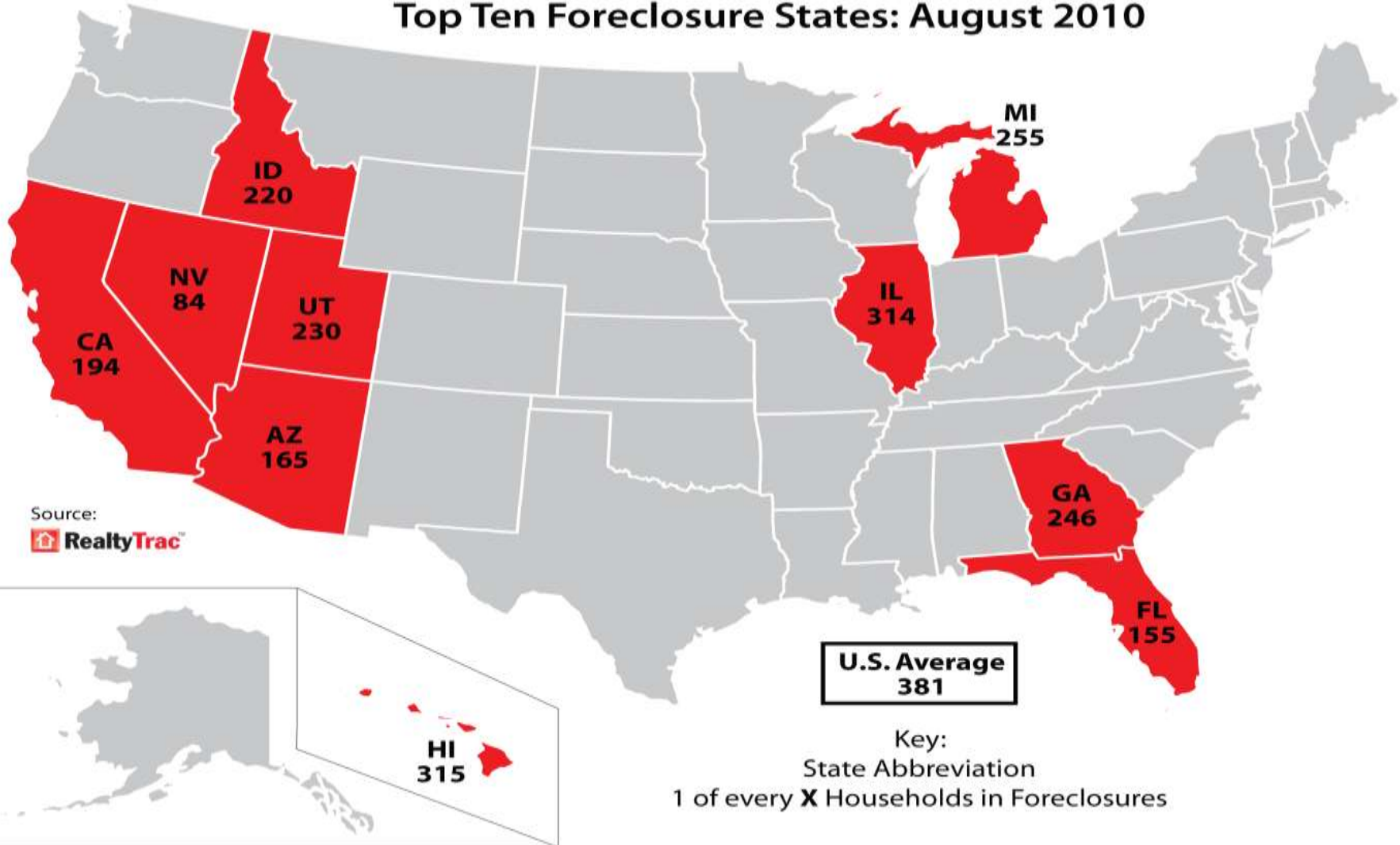
◆ United States



Source: Southern Regional Education Board

Part I: State Fiscal Position

Top Ten Foreclosure States: August 2010



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

Part II: State Strategies – Tapping Rainy Day Funds

State	FY 2009 Rainy Day Fund Balance (\$ Millions)	FY 2011 Rainy Day Fund Balance (\$ Millions)
CT	\$1,382	0
MA	\$841	\$520
PA	\$755	0
IN	\$365	0
AL	\$188	0
KY	\$7	0
AZ	\$2	0
GA	\$217	\$104
VA	\$575	\$301
NE	\$576	\$325

Part II: State Strategies – Expanding Gaming

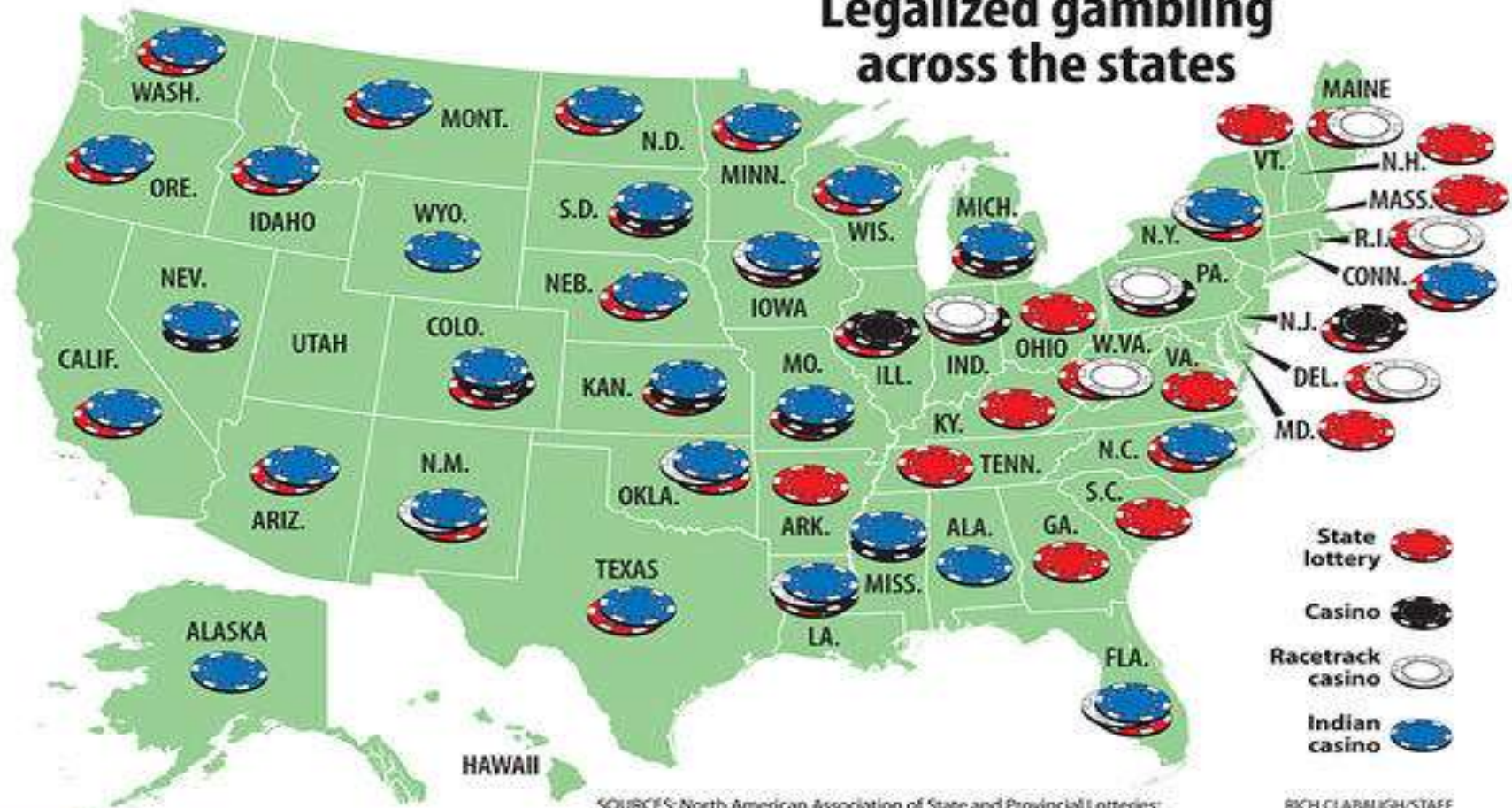


SOURCE: Rockefeller Institute

RICH CLABAUGH/STAFF

Part II: State Strategies – Expanding Gaming

Legalized gambling across the states



Part II: State Strategies – Expanding Gaming

- ▶ 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

Part II: State Strategies – Raising Taxes and Fees

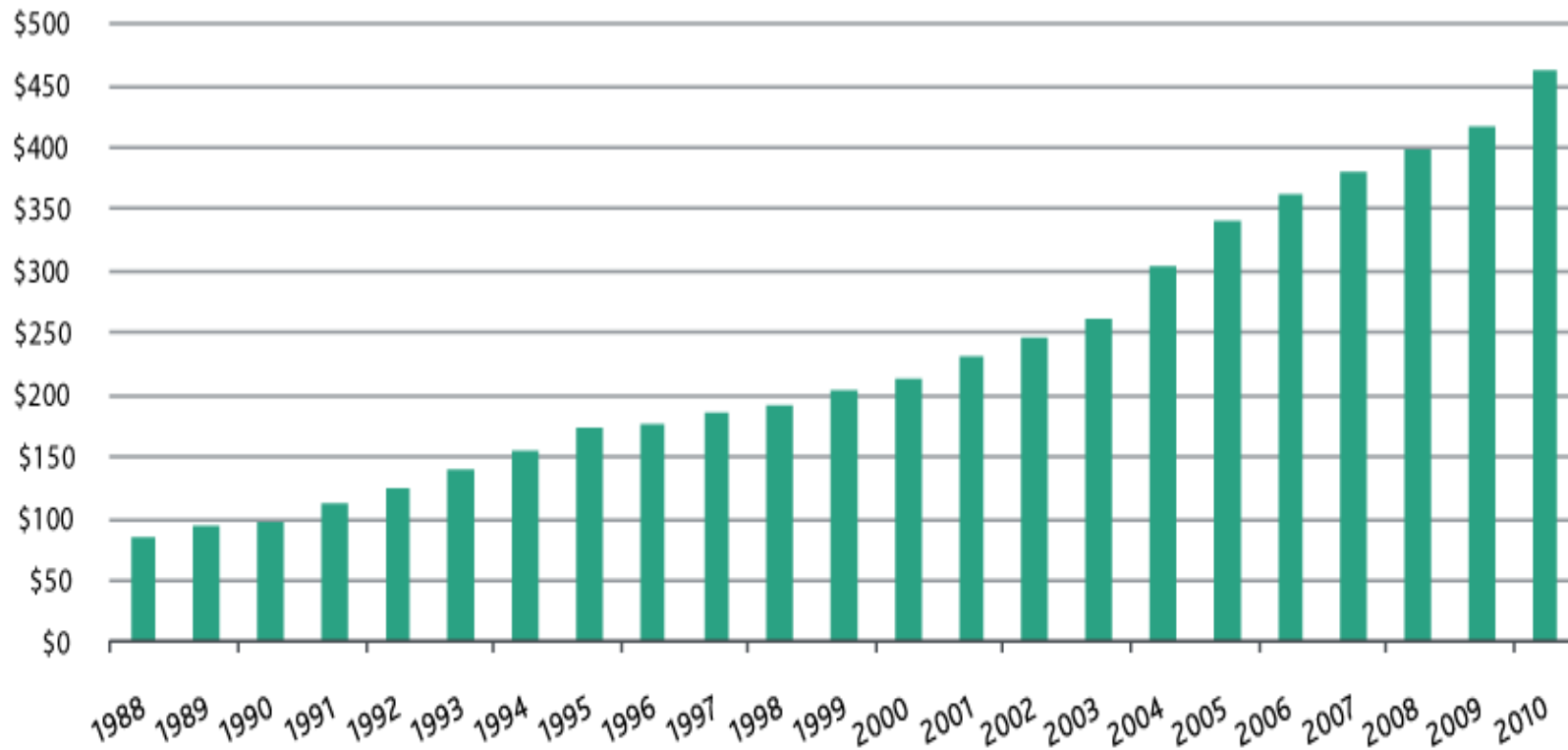
- ▶ States Raising Other Taxes:
 - Tobacco taxes have gone up in Hawaii, New Mexico, New York, South Carolina, Utah and Washington in 2010;
 - Current overall states' cigarette tax average is \$1.45 per pack;
 - Soda taxes have gone up in Washington, Colorado, Maine and proposed in New York, Mississippi 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)

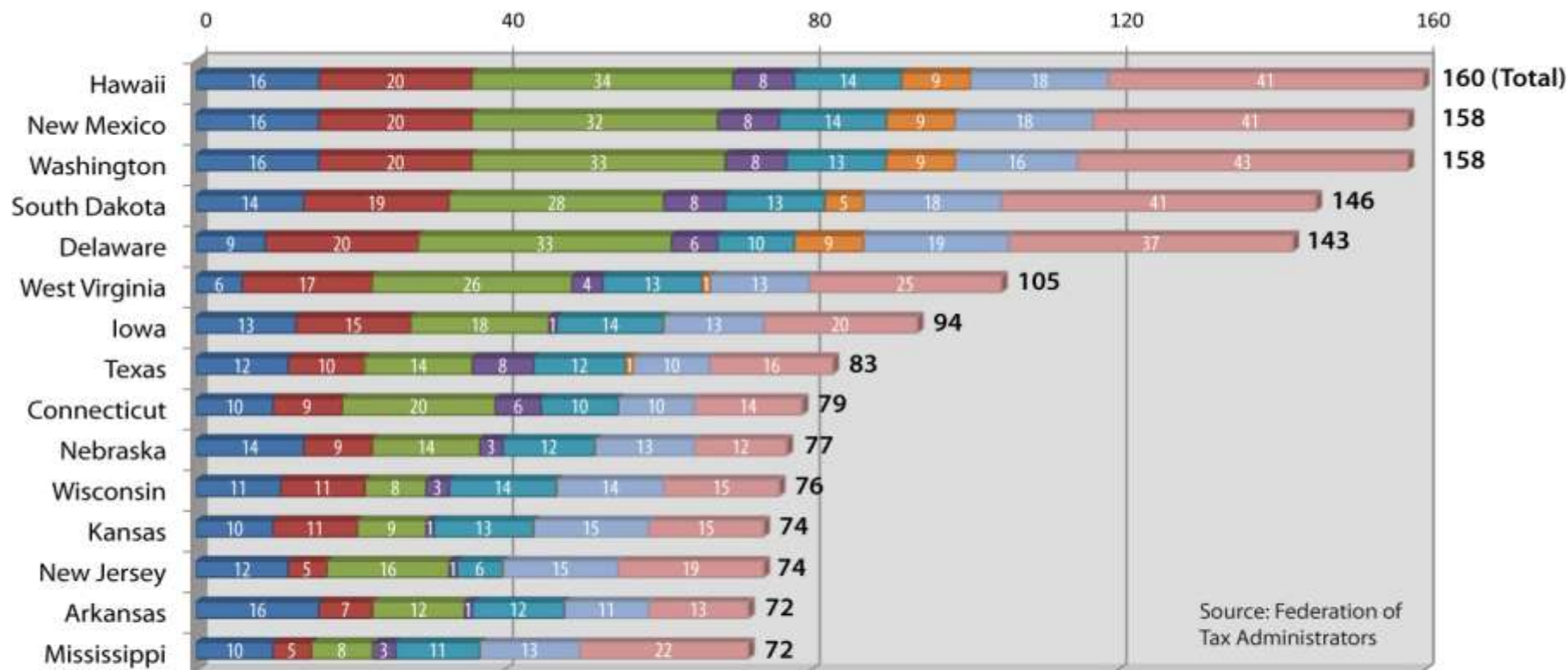
State	Per Capita Net Tax-Supported Debt	National Ranking (Top 5 Indebted States)	Credit Rating
CT	\$4,859	1	Aa2
MA	\$4,606	2	Aa1
HI	\$,3996	3	Aa1
NJ	\$3,669	4	Aa2
NY	\$3,135	5	Aa2
Median U.S.	\$936		
Mean U.S.	\$1,297		

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
- 
- Decorative blue and black geometric shapes are located in the bottom left corner of the slide.

Part III: Structural Flaws – Service Sector's Dominance

Number of Services Taxed by Top 15 States



Utilities

Computer Services

Fabrication, Repair & Installation

Personal Services

Admissions/Amusements

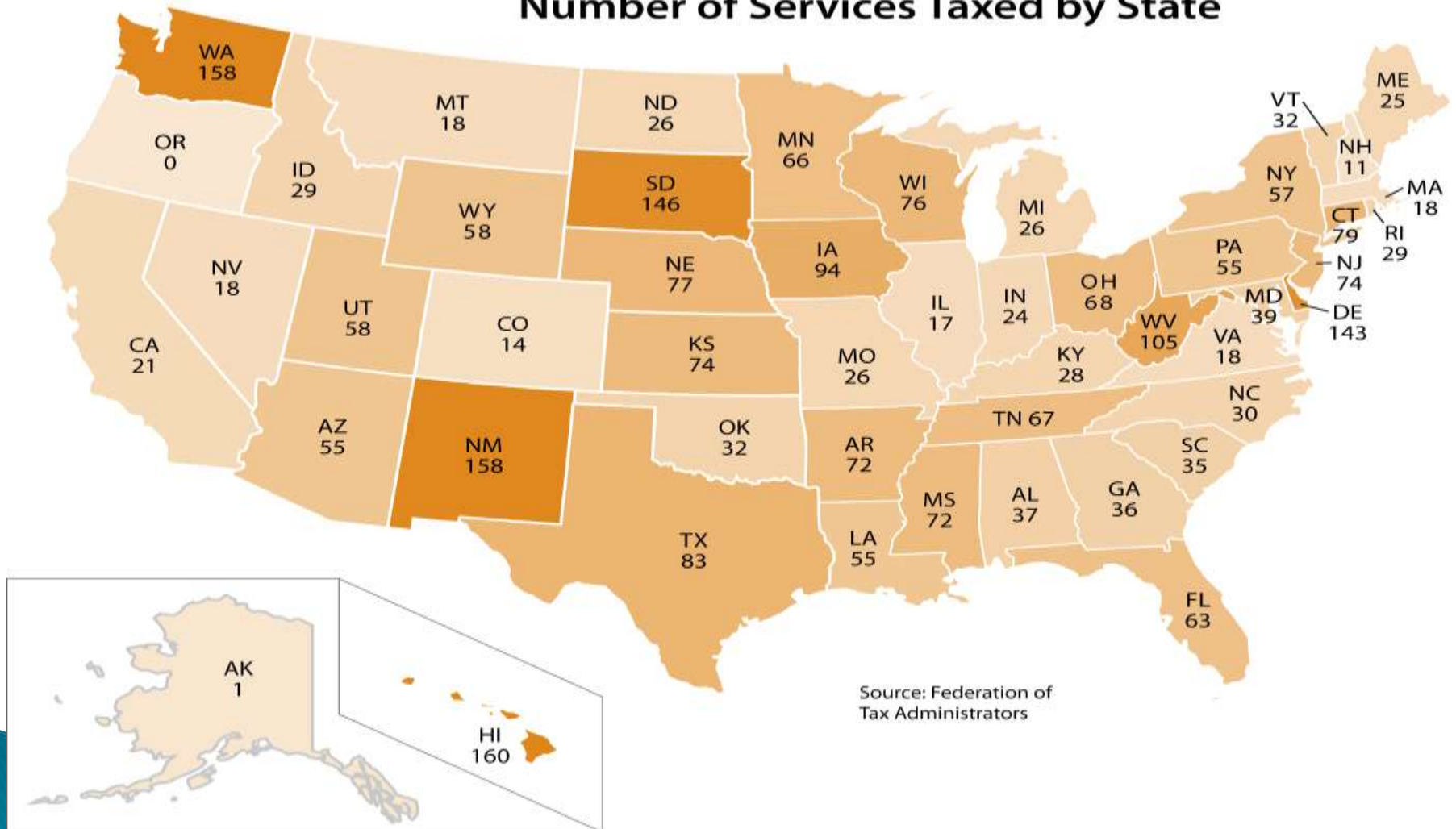
Other Services

Business Services

Professional Services

Part III: Structural Flaws – Service Sector's Dominance

Number of Services Taxed by State



Part III: Structural Flaws in State Tax Systems – Service Sector's Dominance

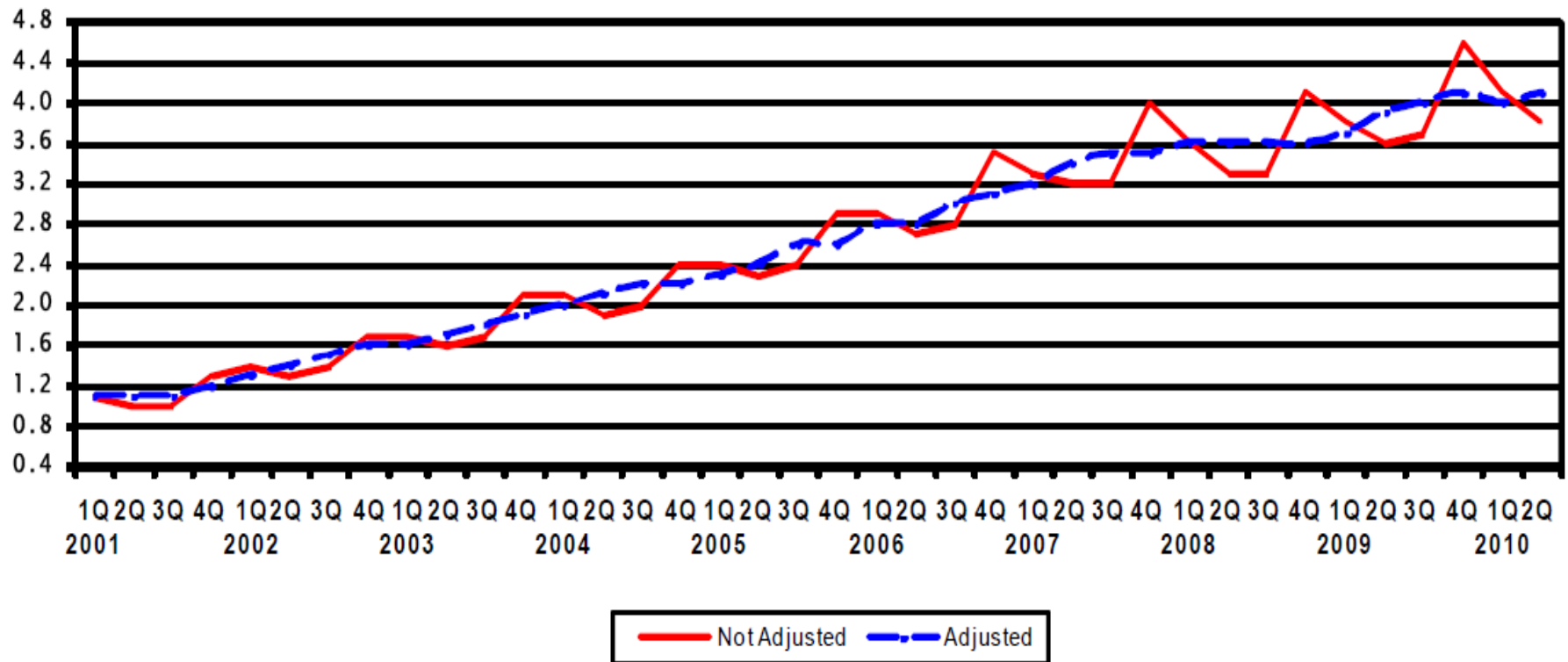
Professional Services Taxation in the United States



Part III: Structural Flaws – 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




Part III: Structural Flaws – E-Commerce

- ▶ 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
- 
- A decorative graphic element in the bottom left corner, consisting of a blue and black geometric shape that tapers towards the bottom right.

Part IV: Looming Expenditure

Categories – Public Pensions

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.”

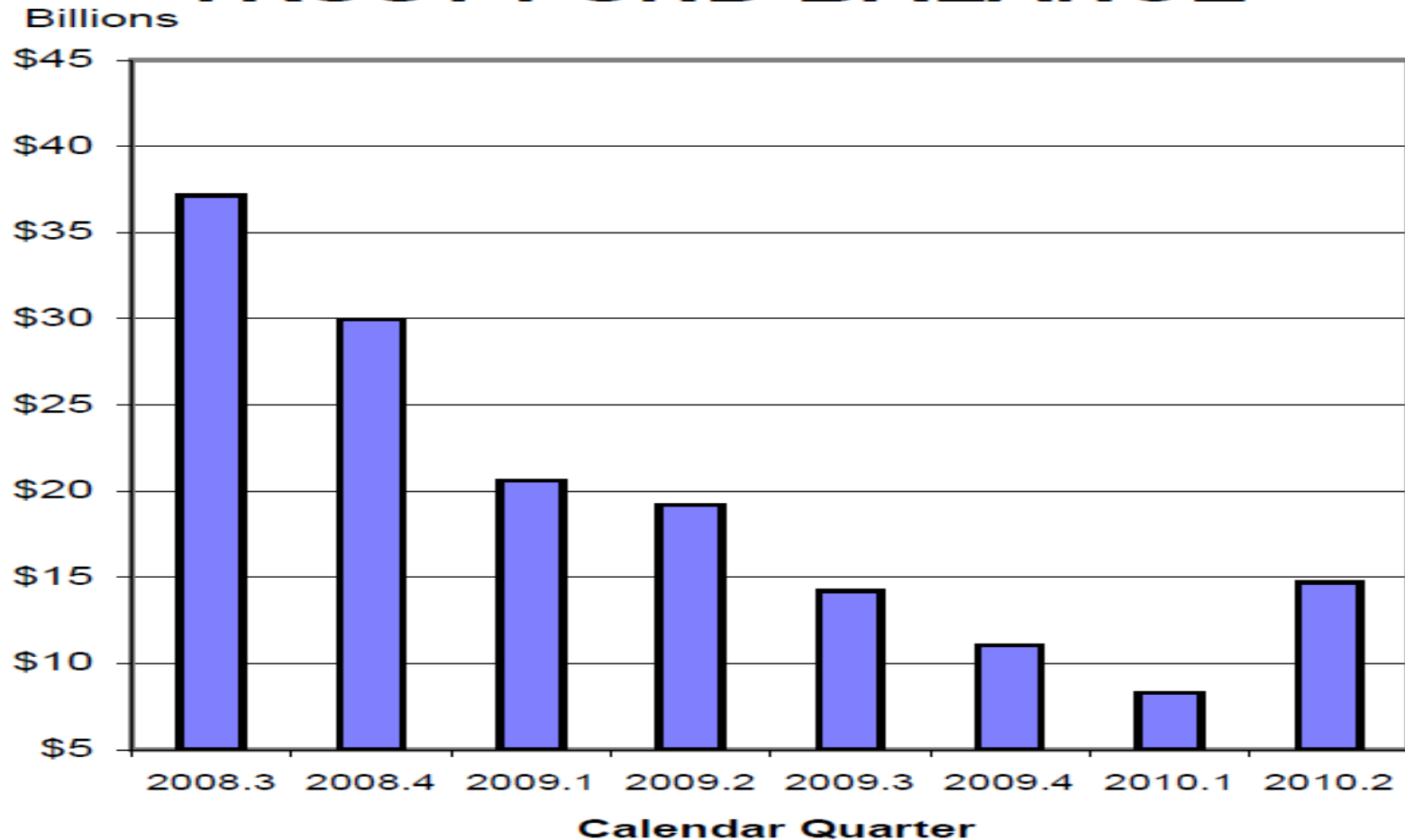
Part IV: Looming Expenditure

Categories – Public Pensions

- ▶ 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

TRUST FUND BALANCE



Part IV: Looming Expenditure Categories – Unemployment Insurance

State	AHCM	HCM
FL	N.A.	N.A.
CA	N.A.	N.A.
AZ	0.18	0.08
NH	0.08	0.04
ME	1.18	0.80
OR	0.76	0.68
WV	0.22	0.17
SC	N.A.	N.A.

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

State	Outstanding Loan Amount from the Federal Unemployment Account (As of Sept. 29, 2010)
California	\$8,337,081,257.90
Michigan	\$3,814,145,999.11
New York	\$3,176,873,427.71
Pennsylvania	\$3,008,614,960.83
Ohio	\$2,314,186,799.00
South Carolina	\$886,662,351.97
Texas	\$1,479,039,360.51
Georgia	\$416,000,000.00
U.S. Total	\$40,120,223,046.23

Part IV: Looming Expenditure Categories – Unemployment Insurance

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;



Part V: “Green Shoots of Growth” – Auto Industry

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.



Part V: “Green Shoots of Growth” – I.T. and High-Tech



- 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.

State Fiscal Issues



Thank You

For Additional Information or Questions,
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