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ISSUE 1

In This Issue

The Housing Bubble Revisited 2

There definitely has been a slowdown in house price increases, especially among the states that had the highest rates of increase a few years ago. Now, a different set of states in a different region of the country is leading the pack.

The Great GASB 6

The body that issues financial reporting rules for state and local governments has ruffled a few feathers with its most recent foray into performance measurement.

Comings and Goings 8

For 30 years, United Van Lines has kept track of where people move from and to. Last year's results confirm (for the most part) other migration evidence.

Ten Things to Do in 2007 10

NCSL has issued its prediction of the issues that will move to the front burner during state legislative sessions.

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ISSUE 2

In This Issue

The Year of Health Care Reform **2**

This year Massachusetts will set sail with its landmark health care reform program, California will debate the governor's similarly far-reaching plan, and the president acknowledged the need to increase health insurance coverage by offering new Medicaid flexibility and tax reforms.

A State Sale **7**

Are states fundamentally ill-suited to run enterprises such as lotteries? Would private sector firms do a better job of maximizing efficiency and profits in such operations? What about toll roads? And what, if any, are the drawbacks to shedding state assets in such a fashion? Recent privatization efforts in these two arenas have public finance specialists wondering whether the need for a large cash infusion is dictating public policy, or if good public policy is resulting in deals that provide a large cash infusion.

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JOINT ISSUE 3-4

In This Issue

Special February Federal Budget Joint Issue

The FY 2008 Budget Cycle Begins 2

As he does every February, the president released his budget for the next fiscal year early in the month. Increasingly, the long-term federal budget outlook is almost impossible to gauge, depending as it does on whether serious action is taken to curb growth in entitlement spending, whether temporary tax cuts enacted in 2001 and 2003 are extended and what (if anything) is done to restructure the Alternative Minimum Tax. The implications are significant for not only the federal government, but for state and local governments as well.

Impact of Federal Budget Actions on States 8

The AMT Moves to the Forefront 12

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ISSUE 5

In This Issue

Rethinking High-Quality Education 2

The annual *Quality Counts* study branches out this year to take a broader view of what constitutes a high-quality state educational system. Under the new paradigm, a Chance-for-Success Index is used to assess the degree to which states possess the attributes needed to insure that their children start out on the right foot and have a good place to land when their educations are finished. Under the new measure, **Virginia** earns the top spot.

New Mexico Joins the EITC Club 9

Flush with revenues from its healthy natural resources sector, **New Mexico** became the 20th state to adopt an earned income tax credit. It also is the poorest states to do so, meaning that the credit may reach more tax filers there than it does in other states.

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ISSUE 6

In This Issue

Index of State Economic Momentum 2

This update of the index reflects **Louisiana's** continuing hurricane recovery efforts. It also underscores the current strength of the natural resources sector, with states in that sector recording among the strongest economic momentum in the nation. Finally, it confirms the continuing divergent performance of the West and South on the one hand, and the East and Midwest on the other.

Delving Deeper into the Data 6

The newest personal income and population data allow examination of per capita income for 2006 and population changes between 2005 and 2006. **Arizona** outpaced **Nevada** in population growth and continues its ascendancy; it now is the 16th most-populous state. **North Carolina** nudged its way into the top 10 most-populous states, displacing **New Jersey**.

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ISSUE 7

In This Issue

The 2007 Camelot Index **2**

The Camelot Index was developed by *Reports* founding editor Hal Hovey several years ago. It is based on the premise that most people share a common set of preferences: fewer taxes are better than more, small class sizes are better than large, low death rates are better than high, less crime is better than more and so on.

Many studies incorporate such preferences, but they often focus on just one area. For example, a study may attempt to identify the “healthiest” state but ignore the fact that health care isn’t delivered in a vacuum; it may be traded off with something else.

The Camelot Index brings together measures of economic vitality, health, education, crime, society and government. In the current Index, many states rank consistently across measures, while others do quite well on some measures but not on others. Each of the geographical regions of the country is represented among the top-10 ranking states. The historic dominance of the Plains continues, with five states ranking among the top 10.

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ISSUE 8

In This Issue

Early Warning Signs? 2

The National Conference of State Legislatures (NCSL) recently released a new budget update for fiscal year (FY) 2007. Although the news is almost uniformly good, some softness in revenue collections suggests that states might be well-advised to plan for more moderate growth levels than they have seen in recent years.

Data to Illustrate the Point 4

The latest data from the U.S. Census Bureau allows comparisons of tax collections for the fourth quarter of 2006 relative to the fourth quarter of 2005. The data support the findings of the NCSL survey, especially with regard to some of the minor (and volatile) tax sources that have provided a windfall to certain states in recent years.

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ISSUE 9

In This Issue

Is Balance Better? 2

Once upon a time, an agency of the federal government argued that state-local tax systems should aim for balance among the three major tax sources: sales taxes, personal income taxes and property taxes. Some states achieve such balance and others don't, but it's hard to conclude that the "rule" should be applied to all states at all times. Too many other factors come into play.

Sales Tax Holidays Have Staying Power 8

Born in the fiscal heydays of the late 1990s, state sales tax holidays quickly caught fire, only to ebb when states were hit by the recession and enduring revenue slowdown of the early 2000s. The holidays have seen a limited resurgence, but they are limited in duration, scope and the dollar amount of purchases.

Defining Earmarks 10

The time-honored tradition of "bringing home the bacon" is under limited assault in Washington, DC. The focus is now expanding to include both legislative and executive earmarks.

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In This Issue

State and Local Finances in FY 2005 2

This month, the Census Bureau released its state and local finance series for fiscal year (FY) 2005. The full series had been released in only even-numbered years, with odd-numbered years relegated to national totals only. This year marks the resumption of the detailed annual series. The combined state-local data allow meaningful comparisons of tax structures and burdens among the states. This issue focuses on the revenue portion of the newly released data.

Defining Revenue 2

General Revenue 3

Intergovernmental Revenue 5

Own-Source General Revenue 7

Taxes 10

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ISSUE 11

In This Issue

The Continuum of State Fiscal Stress **2**

The recent release of *The Fiscal Survey of States* allows calculation of the Continuum of State Fiscal Stress. This is the first continuum to focus on fiscal year (FY) 2007, and it finds that state fiscal conditions are showing more signs of weakness than they did in FY 2006. However, the books have not yet closed on FY 2007, and the next update of the continuum is likely to reveal some improvement over the situation presented here.

Is the Party Over? **7**

The Fiscal Survey of States reports on a host of factors that contribute to general state fiscal condition. National trends show that state balances may have peaked, tax cuts have been modest and state spending has been robust. Medicaid spending growth, which was the source of much anxiety over the last several years, has moderated in most states. All in all, it looks like FY 2007 won't look quite as good as FY 2006, and FY 2008 may be a year for moderation in all things.

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STATE POLICY REPORTS

In This Issue

Index of State Economic Momentum 2

Westward ho! This might be the cry of someone looking at the latest Index of State Economic Momentum. The booming states of the Mountain West continue their ascent, boosted by strong mineral prices. Of some concern is the fact that more states lag the national economy than lead it.

House Prices 7

The latest data on house price increases shows a continuing decline in price increases, with two states recording year-over-year price declines. For the first time in some time, house price data align quite well with underlying state economies.

The Sales Tax Problem 9

House prices aren't the only things that align with underlying state economies. The most recent state tax collection data show that anecdotal evidence of weak sales tax collections is real, and that the states most likely to experience it are the states with weak housing markets and below-average economic momentum.

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In This Issue

Will NCLB Be Left Behind? 2

The time has come to renew the landmark federal law that governs most federal aid for K-12 education. But there are problems. First, states—and many members of Congress—think too little money has been provided. Second, many state officials see the federal government as having been too heavy-handed in implementing the law. And finally, the politically united Congress and administration that existed when the law was enacted in 2002 are now history, heightening the contentiousness around reauthorization. None of these bode well for smooth sailing.

A Federal Cigarette Tax Hike? 9

Among the items on the Congress's ambitious agenda is renewal of the State Children's Health Insurance Program. Congress would like to expand the program and is considering an increase in the federal cigarette tax to help fund such an expansion. The proposed increase could reduce state cigarette tax collections by as much as \$750 million per year.

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ISSUE 14

In This Issue

**States and the Federal Budget:
The Year of Living Dangerously** 2

A new federal fiscal year will begin in October. It is likely to get underway with few or no appropriations bills in place, no reauthorization for the landmark children's health insurance program, a similar fate for No Child Left Behind, and a highway trust fund on the brink of insolvency. Yes, the state-federal partnership is troubled, and likely to get worse before it gets better.

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JOINT ISSUE 15-16

In This Issue

End-of-Summer Roundup

Incomes: Up. Poverty: Down. Insurance: Down. 2

The newest Census Bureau data on household income, poverty rates and health insurance coverage show a continuation of last year's trends.

FY 2008: The First Word 8

The National Conference of State Legislatures has released a preliminary version of its annual report on state budget and tax actions. Like other analysts, the report's authors sound a note of caution about state fiscal strength in FY 2008.

Lotteries and State Tax Policy 9

The Tax Foundation recently published a paper that argues for treating state lotteries more like taxes and assessing their merits using the same criteria used to assess other taxes. The paper concludes that lotteries don't stack up too well when viewed in this way.

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In This Issue

The Broken Windows of the Federal Government 2

It seems that no matter where you look, there is evidence that the wheels of the federal government aren't spinning quite as smoothly as one would hope. This isn't surprising, given the combined effects of financing a war, offering a new prescription drug benefit and cutting taxes. The money has to come from somewhere, and it seems to be coming from the infrastructure of the federal government, both seen and unseen.

GAO: The Sky is Falling 6

The Government Accountability Office (GAO) has done extensive analysis of the long-term outlook for the federal budget. It recently completed companion work looking at the state-local sector. The news isn't good, but it isn't very surprising either.

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ISSUE 18

In This Issue

Index of State Economic Momentum 2

This update of the Index of State Economic Momentum shows little change from the previous version. The natural-resource dependent states of the West continue to set the pace, while states of the industrial Midwest continue to struggle. One new twist is evidence that a struggling housing market is affecting some state economies.

More Weakness in Housing 7

House prices continue to increase at a decreasing rate, which is bad news for a number of formerly high-flying markets along the two coasts. Moreover, many of the states with the weakest markets are among the wealthiest states, which could have implications for purchases of big-ticket items and, therefore, sales tax revenues.

The Sales Tax Slide 9

Sales tax collections picked up slightly in the latest quarter, but not enough to reverse a downward trend that doesn't bode well for the coming fiscal year. Continued weakness in the housing sector is likely to exacerbate the problem.

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In This Issue

Federal Spending in the States 2

The U.S. Bureau of the Census finally released its report for fiscal year (FY) 2005 that tracks the flow of federal funds to the states. States have come to use the report to determine whether they win or lose in their relationship with the federal government. The good news is that with a federal budget deficit, they all can win in the short term. The bad news is that the situation isn't sustainable.

Total Federal Spending 4

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In This Issue

Let Me Restate That 2

The Bureau of Economic Analysis recently released revised estimates of state personal income for 2006. The revisions were substantial in some cases, and had an unanticipated impact on Medicaid matching rates.

Tuitions Outpace Inflation 5

The latest data on tuitions at public colleges and universities show no end to the propensity of such charges to rise faster than the general price level. This hasn't gone over too well with Congress, which has taken notice of the continuing trend.

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ISSUE 21

In This Issue

The Best States for Women **2**

The Institute for Women's Policy Research observes that women have done much better in some states than in others, and has ranked states accordingly. On its eight measures, women lag men on all but two: the percentage working in professional or managerial jobs and the percentage with health insurance. Ultimately, however, the list of "best" states for women may be very similar to a list of "best" states for men, if such a list existed.

Stones Thrown from a Glass House **7**

Responding to a congressional request, the Government Accountability Office (GAO) recently released its analysis of state and local retiree programs. Its conclusions were well-understood prior to the report being undertaken: state and local pension plans are in reasonably good shape, while health care costs are a wild card. What the report doesn't note is that state and local plans face no greater risk than plans in any other sector of the economy, and are in better shape than some of those plans, most notably the federal government's.

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STATE POLICY REPORTS

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ISSUE 22

In This Issue

A Case of Double Standards **2**

The time has come to renew *No Child Left Behind*, the landmark legislation that rewrote federal aid to states for K-12 education. When the law was passed, it imposed significant new mandates on states but allowed flexibility for how states could design systems within the mandate. One result is that some states have adopted proficiency standards that are easily attained but virtually meaningless. The crux of the issue seems to boil down to who is going to take the lead in education reform: states (which contribute more than 45% of total K-12 funding) or the federal government (which contributes less than 10%)?

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JOINT ISSUE 23-24

In This Issue

Year-End Transition Issue

As 2007 comes to a close, it looks to have been a year of transition. The spreading weakness in the housing market is putting a damper on the economic momentum of two formerly high-flying states: **Arizona** and **Nevada**. It also is posing challenges for other states, especially those that are seeing double-digit house price increases replaced by anemic price gains or even declines. For the first time in three years, an increasing number of states are reporting weak revenues and potential budget gaps.

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