

SPR

STATE POLICY REPORTS

VOLUME 26

ISSUE 1

In This Issue

On the One Hand

2

Many observers would look at the state-federal relationship and declare that it is broken. Federal investment in state grant programs has been stagnant or even declining, federal pre-emption of state authority is on the rise, and a wave of new and potential mandates waits in the wings. Moreover, the rulemaking process has become a new area in which the federal government restricts state actions without having to win legislative approval.

And On the Other

6

The prospect of a federal stimulus package finds states eager to share in any of the funds that are dispersed. Although many states currently enjoy strong fiscal positions, the leaders of the major state associations foresee that changing as economic weakness spreads and ensnarls more states. It seems that when times are tough, states still rely on the federal government to ease the pain.

Technical Notes

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STATE POLICY REPORTS

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ISSUE 2

In This Issue

What It Is

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The Rockefeller Institute at SUNY – Albany has released its most recent report on state tax collections, and the picture is looking like a lot of downhill sledding. The data are from the third calendar quarter of 2007, when the national economy registered growth of 4.9%. What might it look like for the fourth quarter, when national growth was just 0.6%?

What It Could Be

7

Another Rockefeller report looks at how states might fare in a recession. It doesn't offer any conclusive answers, mainly because each recession is a unique event that may have little in common with earlier recessions. However, looking at state exposure to industries that are currently vulnerable seems to explain some of the current weakness.

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JOINT ISSUE 3-4

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SPECIAL FEDERAL BUDGET ISSUE

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| The Cycle Begins Anew | 2 |
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The president's budget was released at the beginning of February. It didn't include much good news, especially in the area of spending that includes aid to state and local governments. That said, there is little likelihood that the budget blueprint will be given serious consideration this year.

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| The Potential for Stimulus | 7 |
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One area of potential action is economic stimulus. As Congress moves to develop its fiscal year 2009 budget resolution, it is considering proposals to add to the stimulus package already enacted. This iteration would address safety net programs, and might even include some type of assistance for states. What could that assistance look like? What *should* it look like?

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ISSUE 5

In This Issue

Higher Education as the Big Bad Wolf 2

Mounting concern about the rising cost of college education has resulted in Congress proposing a new mandate on states, which would compel them to maintain funding levels over the course of the business cycle. The data on college costs and per pupil state spending seem to bear out the legitimacy of the concern, but the proposed solution does not get at the real problem: rapidly rising costs. As the stewards of the public university system, states will have to take a leadership role to either explain convincingly why costs need to rise at twice the rate of inflation, or figure out a way to get costs under control.

Blacking Out 9

In about a year, a federal regulation mandating conversion to digital-only television will take effect. Every state has households that potentially will be affected by the change, but some states have more than others.

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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 relative strength of the natural resources and agriculture sectors, with states in those sectors recording above-average economic momentum. Finally, it confirms the continuing divergent—albeit less so—performance of the West and South on the one hand, and the East and Midwest on the other.

More Data Dissection 6

The newest personal income and population data allow examination of per capita income for 2007 and population changes between 2006 and 2007. **Nevada** reclaimed its top ranking for population growth, bumping Arizona back to the #2 spot.

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March 2008



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STATE POLICY REPORTS

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ISSUE 7

In This Issue

The 2008 Camelot Index

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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. The historic dominance of the Plains continues, with four states ranking among the top five (but alas, not at the very top).

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ISSUE 8

In This Issue

How Low Will They Go? 2

The latest update from the National Conference of State Legislatures finds several states having to take actions to balance their FY 2008 budgets, and even more states grappling with FY 2009 gaps created by slowing tax receipts. The fiscal situation is characterized by the “haves” (largely states with large natural resource or agriculture sectors) and “have nots” (everybody else) but as weakness persists and spreads, an increasing number of states expect to move into the latter category.

Sales Taxes Tank 6

Stark evidence of the severity of the current slowdown appears in a recent revenue update from the Rockefeller Institute at the State University of New York, Albany. It shows a majority of reporting states with declines in their first quarter sales tax collections compared to a year ago.

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ISSUE 9

In This Issue

Federal Spending in the States	2
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The U.S. Bureau of the Census released its report for fiscal year (FY) 2006 that tracks the flow of federal funds to the states. Surprisingly, the report was issued just seven months after the FY 2005 report, suggesting a catch-up effort by Census.

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.

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ISSUE 10

In This Issue

Gas Taxes: At the Center of It All

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Everyone is talking about the rising price of gasoline. And, since the final price of gasoline consists of federal and state taxes, there is also talk about whether to suspend those taxes, at least for the summer. To do so would worsen an already-bleak outlook for the trust funds that finance most of the nation's transportation systems at precisely the time when such systems could use a shot in the arm.

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ISSUE 11

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Inflation and the States	2
It's been a long time since price inflation was a worry for average Americans. As governments at all levels grapple with how to address the problems faced by their residents, they also must deal with the inflation they face as consumers.	
The Impact of Inflation on Federal Spending	4
The Impact of Inflation on State Spending	6
Backloaders Beware!	9
In their quest to meet the 100% proficiency goal of No Child Left Behind, many states set modest achievement-gain standards in the early years, only to face a steep climb in the years leading up to 2014. A new analysis looks at the states that made this choice, the possible reasons for it and the task that confronts them as the window for achieving proficiency begins to close.	
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STATE POLICY REPORTS

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ISSUE 12

In This Issue

Index of State Economic Momentum 2

This update of the index brings into focus the emerging bimodal economy, with one group of relatively low-population states thriving under the influence of rising crop or energy prices, while another group of states (with generally larger populations) struggles under the weight of a weak housing, manufacturing or finance sector. On balance, while a roughly equal number of states may fall into each category, many more people live in states that are struggling than in states that are thriving. Also, the combination of a weak housing market and rising prices for food and energy eventually will affect now-thriving states.

Unemployment Rates 6

Housing Prices 7

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June 2008

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ISSUE 13

In This Issue

The Continuum of State Fiscal Stress 2

At the conclusion of fiscal year (FY) 2007, 20 states received the highest possible score on the Continuum of State Fiscal Stress; for FY 2008, that number stands at six. An increasing number of states are encountering revenue shortfalls and cutting enacted budgets or tapping reserves. The good news is that many states still have reasonably strong balance sheets, at least for the time being.

The Numbers Behind the Numbers 8

A recent report on state tax collections shows growing weakness. The most troubling—but expected—development is weakening sales tax collections, probably because rising food and fuel costs have begun to crowd out other purchases. The sales tax is the most widely used tax in state and local finance, making this trend even more worrisome.

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ISSUE 14

In This Issue

A Tale of Two Budget Proposals 2

One group of budget experts thinks that the three major federal entitlement programs are a train wreck waiting to happen. Another group responds, “Not so fast! It’s more complicated than that.” Thus begins another Washington debate over federal tax and budget policy. The reality is that the two groups have more in common than first meets the eye, but one favors resorting to budget process reform as an end-run around congressional inaction, while the other prefers to tackle tax and spending policies that it believes could solve the problem.

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JOINT ISSUE 15-16

In This Issue

They're Going Down, Down, Down 2

With each ensuing month, Americans are reversing a long trend of driving more and more miles every year. For the year ending in June 2008, the number of miles driven declined for the first time in at least 25 years. This will have important implications for road funding at both the national and state levels.

Late Summer Musings 4

The latest fiscal reports feel at once new and old. They are updates of a story that has been told many times: states are struggling, cutting budgets, reluctant to raise taxes, acting prudently. But maybe this time really is different. Or maybe not.

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ISSUE 17

In This Issue

State and Local Finances in FY 2006 2

Earlier this year, the Census Bureau released its state and local finance series for fiscal year 2006. The combined state-local data allow meaningful comparisons of tax structures and burdens among the states. This issue focuses on the revenue highlights of the newly released data.

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Index of State Economic Momentum

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This update of the index represents a transition. Prior to this update, one group of states was thriving, another was holding its own and a third group was struggling mightily. Now, the first group is getting smaller and the third group larger. Even though buoyed by economic stimulus rebates, state personal income growth was tepid in a number of states. Employment growth stalled altogether, with nearly half the states now recording job losses. More unsettling than the current data is the prospect that recent national developments will likely lead to much worse results in the coming months.

Unemployment Rates

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In This Issue

“We Don’t Believe This Anymore”

2

Once upon a time, the majority of state fiscal analysts believed that the state revenue collapse that characterized the last national recession could not happen again. Never again would states be likely to see such a run-up in capital gains tax receipts, followed by the crash of the industry from which such receipts were derived. Well, at least not until now.

Some Relief in Sight, for Some

6

With the beginning of a new federal fiscal year, most states have seen changes in the matching rates that dictate their share of Medicaid costs. For states that have been in economic turmoil for awhile, this year’s adjustment brings good news. But for states that went from boom to bust quickly, the adjustment amounts to kicking them while they’re down.

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Federal Spending in the States	2
The U.S. Bureau of the Census released its report for fiscal year (FY) 2007 that tracks the flow of federal funds to the states. The report was issued just months after the FY 2006 report, which was issued only seven months after the FY 2005 report, confirming a catch-up effort by Census. States use the report to assess how they fare in their fiscal relationship with the federal government.	
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In This Issue

Desperately Seeking Stimulus

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The conventional wisdom says that at least 40 states are now in recession. Not all of those states are looking for the federal government to help them out of a bad situation, but many are. They will be heartened by recent congressional testimony that underscores the important role that aid to states should play in any fiscal stimulus package.

Rainy Day Funds: A Good Start

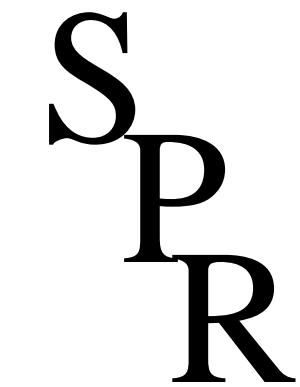
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Before fiscal aid to states was a foregone conclusion, some congressional staffers wondered why states couldn't simply use their rainy day funds to plug their budget holes. For starters, the states that have large balances aren't necessarily the states that have big budget holes. In addition, there are lots of rules around rainy day funds that hamper their ability to minimize the impact of economic downturns. This recession may motivate some states to amend their rainy day funds to improve their effectiveness going forward.

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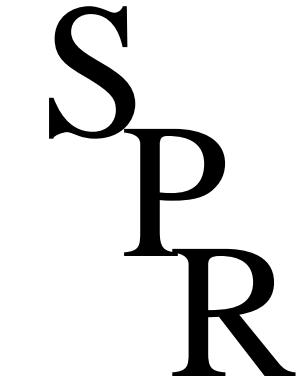
In This Issue

Assessing States

Three reports that assess state performance in key program areas are covered in this issue. The first examines the degree to which states are structured to exploit the opportunities of the new economy. The second looks at how children fare on a host of indicators of well-being. The final report grades states on their ability to make higher education available and affordable to their residents. One might react to any of the three by concluding that more state funding would help the situation, but that isn't very likely right now, given the extreme difficulties state budgets currently face.

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JOINT ISSUE 23-24

In This Issue

Tip-of-the-Iceberg Issue

If FY 2006 was the epitome of good times in state budgeting, and FY 2007 was a year of transition from fiscal health to instability, then FY 2008 may turn out to be the tip of the bad-news iceberg. In the face of faltering revenues, most states managed to get through the year with only modest tweaking of their enacted budgets. Some states cut spending, some states missed their revenue estimates and some states tapped their reserves. But whatever they did in FY 2008 is destined to be magnified many times in FY 2009.

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