THE NELSON A. ROCKEFELLER INSTITUTE OF GOVERNMENT

Economic Perspectives on State & Local Taxes

Lincoln Institute Of Land Policy
And
New England Public Policy Center
Federal Reserve Bank Of Boston

Session: Fiscal Challenges Facing State and Local Governments

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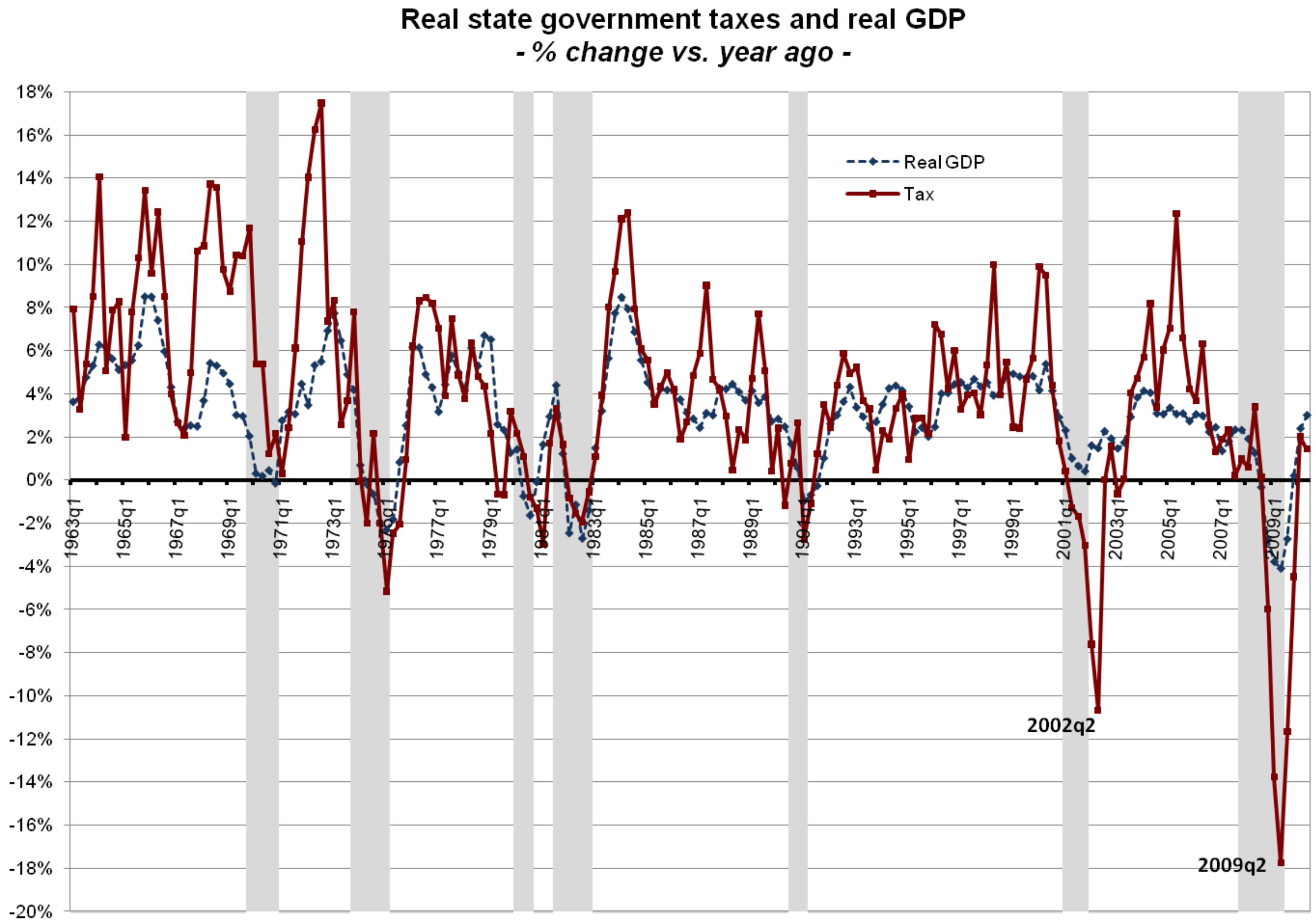
Revenue Crisis Easing, Fiscal Crisis Continues

- We’re so far down it will be a long slow way back
- State fiscal choices stretch out the crisis, but soften the blow
- Longer-term pressures loom after the cycle is behind us

It’s a long way back

- This recession far worse than past recessions
- Variables that drive revenue hit harder than broader economy, harder than before
- Revenue still way below prior peak; econ & rev recovery slow

Worst state government tax declines in 5+ decades
- worse than 2001 recession, worse than economy suggests -



Sources: Taxes: Census Bureau with Rockefeller Institute adjustment for 2010q2. Real GDP, and GDP price index: Bureau of Economic Analysis
Notes: (1) Tax revenue adjusted for inflation using GDP price index; (2) No legislative adjustments; (3) Recession periods are shaded.

This recession worse than past recessions, Revenue drivers worse than broad economy

Variables with important influences on state and local government tax revenue

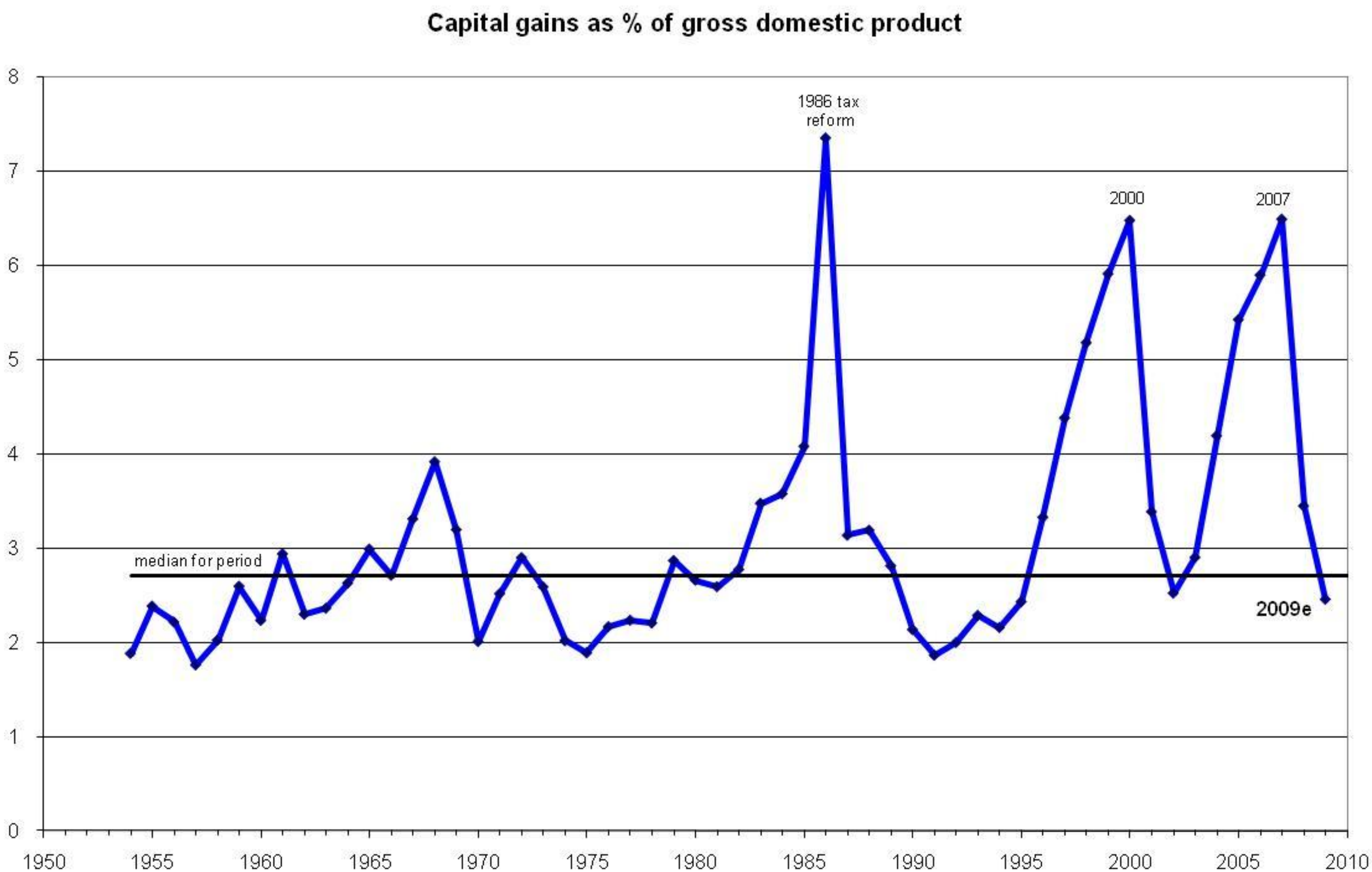
Selected recessions

		% change cycle peak to own trough (quarters)					Real capital gains (annual)		
Recession starting	Duration (months)	Real GDP	Personal income (real)	Commonly taxable components of personal income (real)	Commonly taxable consumption items (real)	Real single family home prices (adjusted for general inflation)	Tax years	% change	$ change as % of real GDP
1969q4	11	-0.2%	0.0%	0.0%	-1.3%	na	1968 to 1970	-47.0%	-0.4%
1973q4	16	-3.2%	-2.6%	-3.7%	-4.5%	na	1972 to 1975	-31.6%	-1.0%
1980q1	6	-2.2%	-1.2%	-1.4%	-4.5%	-8.7%	1979 to 1981	-7.7%	-0.2%
1981q3	16	-2.9%	-0.2%	-0.2%	0.8%	-4.8%	1981 to 1984	51.7%	1.5%
1990q3	8	-1.4%	-1.0%	-1.9%	-1.8%	-2.2%	1988 to 1991	-38.5%	-1.3%
2001q1	8	0.0%	-0.2%	-2.8%	-0.9%	real home prices rose	2000 to 2002	-59.9%	-4.3%
2007q4	18	-4.1%	-2.3%	-8.5%	-9.1%	-13.5%	2007 to 2009 (est.)	-63.0%	-4.5%

Notes: Taxable consumption defined as durables, nondurables other than food, plus food services, accommodations services, and recreation services; taxable personal income defined as sum of wages, nonfarm proprietors' income, interest income, and dividends. Consumption and income deflated by personal consumption expenditures price index. Capital gains deflated by GDP price index.

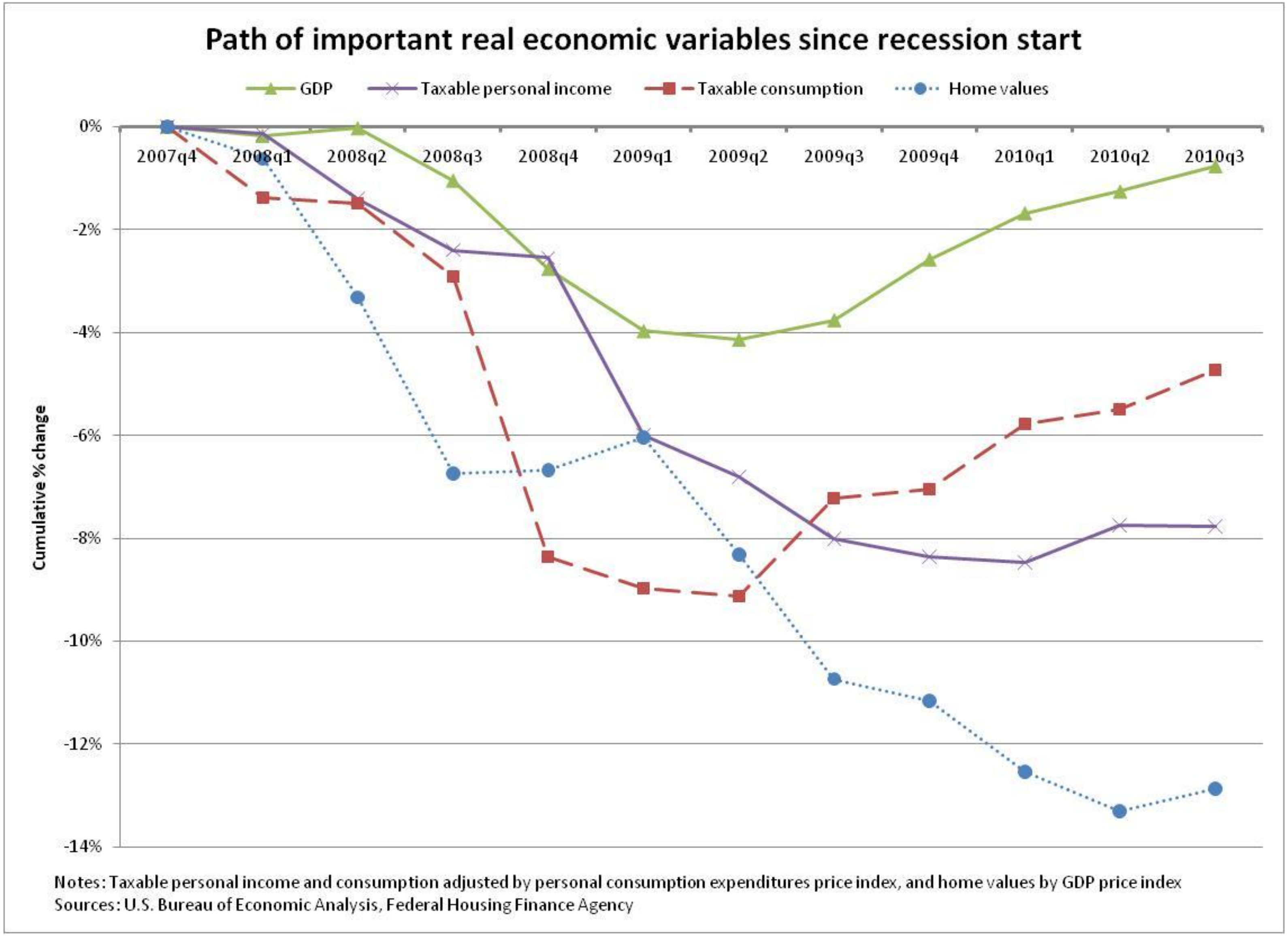
Sources: GDP, consumption, personal income, and price indexes from Bureau of Economic Analysis; capital gains from various IRS Statistics of Income documents; housing prices based on all-transactions index from Federal Housing Finance Agency

Capital gains down more than 60% from 2007

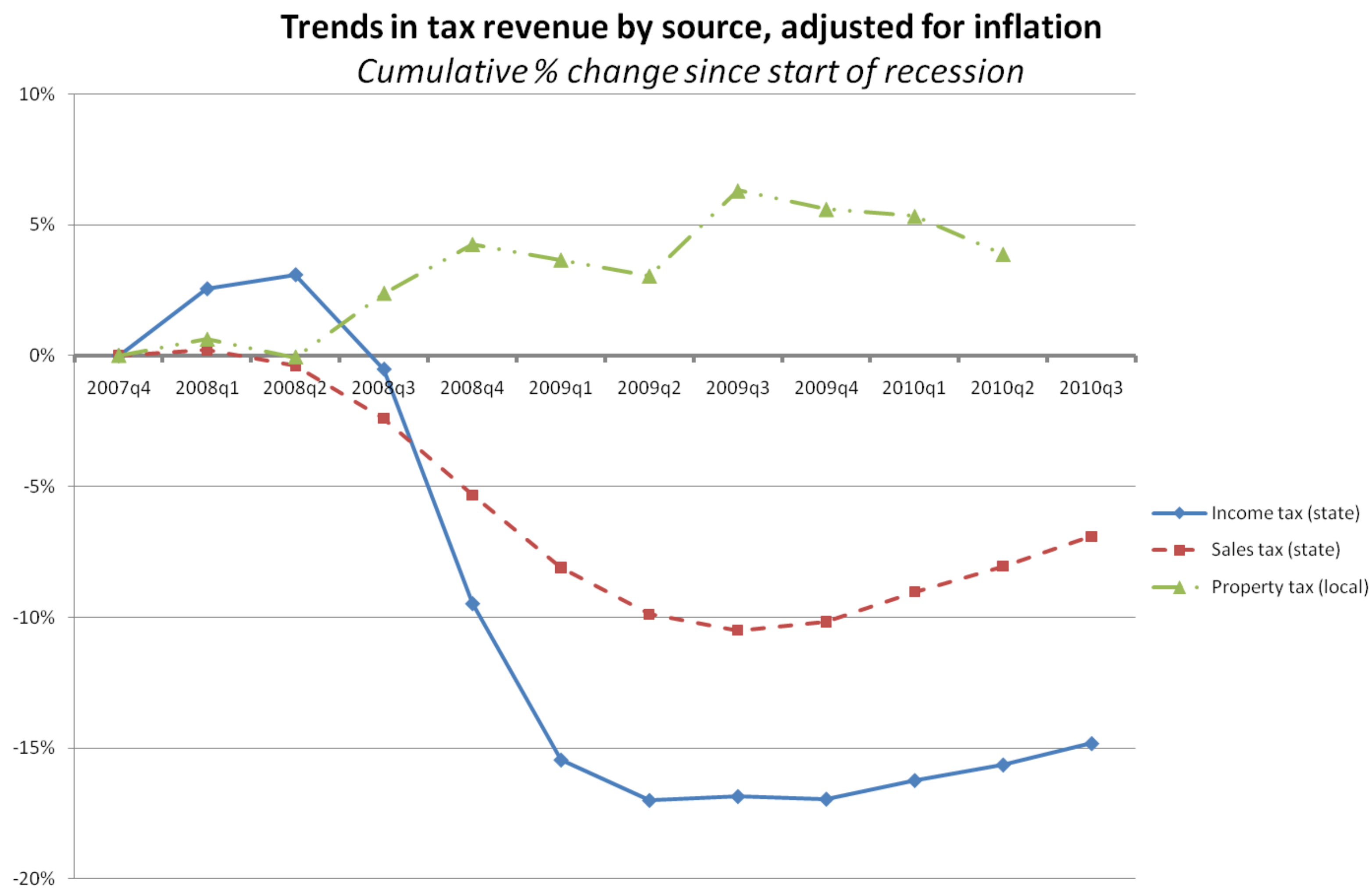


Sources: (1) Capital gains: 1954-1998: Table capgain1-2001.pdf from IRS Statistics of Income web site (www.irs.gov/taxstats); 1999-2008 08in14ar.xls and similar SOI files; (2) Gross domestic product from U.S. Bureau of Economic Analysis

GDP recovering, other key variables are far below peak
Real taxable income moving sideways



Sales tax fell early, PIT later but more sharply. Both recovering now. Property tax appears to be weakening. Sales & PIT declines worse than associated econ variables.



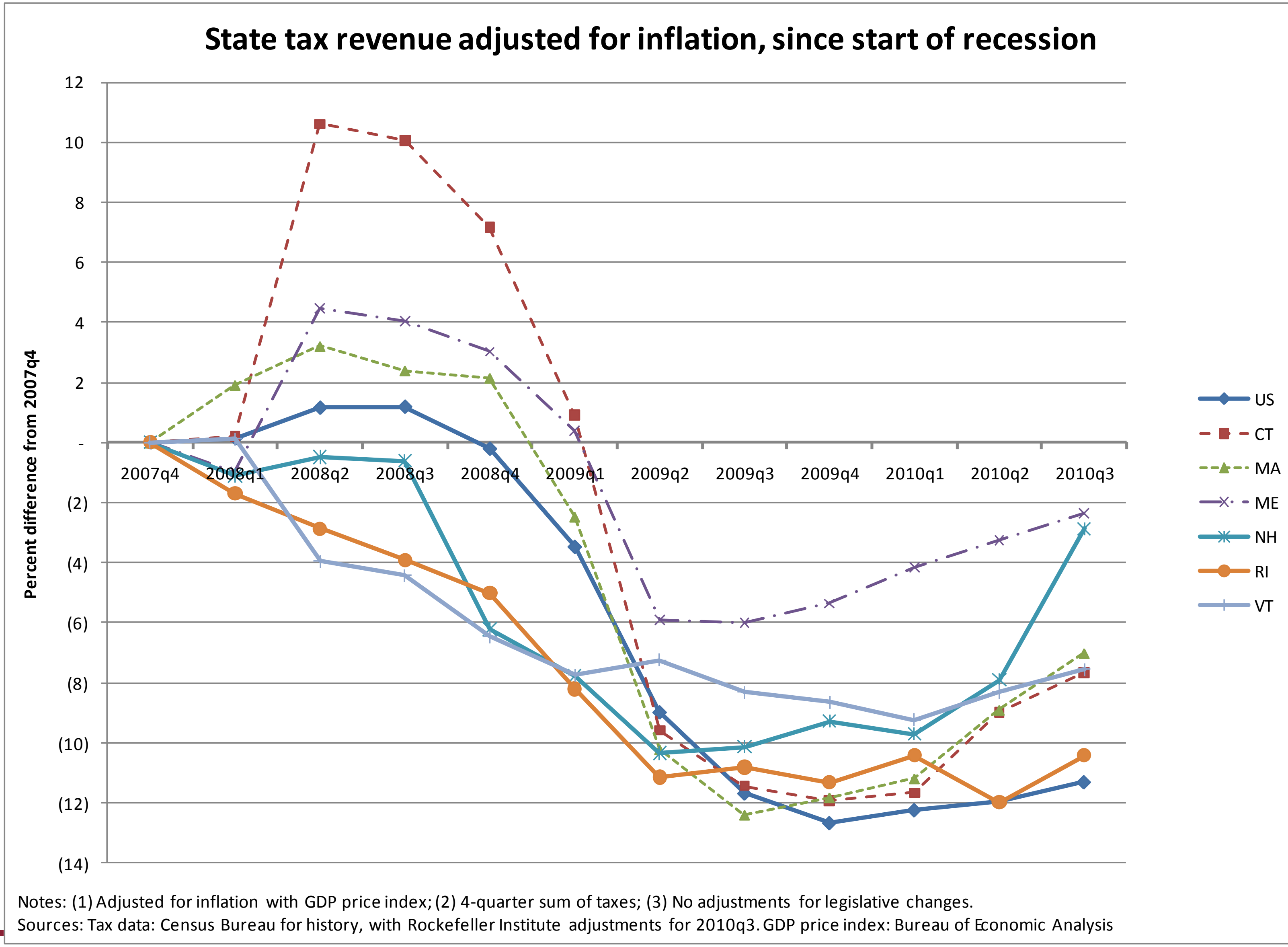
Notes: (1) Tax revenue adjusted for inflation with GDP price index; (2) Property tax adjusted by Rockefeller Institute for Census Bureau change in survey methods; (3) Tax revenue smoothed using local regression; (4) No adjustments for legislative changes.
Sources: Tax data: Census Bureau for history; Rockefeller Institute 2010q3. GDP price index: Bureau of Economic Analysis

Nominal state tax revenue in 48 states is lower than two years earlier– much lower, in most states

Percent change in state government tax revenue				
Year ending June 2010 vs. two years earlier				
	Sum of states	-10.8%		
Alaska	-41.4%		Maryland	-9.7%
Louisiana	-20.9%		Massachusetts	-9.7%
New Mexico	-19.4%		California	-9.4%
Georgia	-19.4%		Tennessee	-9.2%
Idaho	-19.2%		Indiana	-8.8%
Arizona	-18.8%		New York	-8.6%
South Carolina	-18.2%		Mississippi	-7.1%
Utah	-16.6%		Kansas	-7.1%
Ohio	-16.5%		Rhode Island	-6.9%
Oklahoma	-16.4%		Minnesota	-6.1%
Colorado	-16.0%		Kentucky	-5.9%
Connecticut	-15.7%		North Carolina	-5.7%
Illinois	-14.6%		Hawaii	-5.4%
New Jersey	-14.0%		New Hampshire	-5.2%
Texas	-13.8%		Maine	-5.2%
Wyoming	-13.8%		Pennsylvania	-5.0%
Montana	-12.8%		West Virginia	-4.6%
Nebraska	-11.3%		Arkansas	-3.8%
Virginia	-11.3%		Iowa	-2.8%
Missouri	-11.2%		Vermont	-2.3%
Alabama	-10.8%		Wisconsin	-2.2%
Michigan	-10.7%		Oregon	-1.2%
Florida	-10.6%		South Dakota	-0.7%
Washington	-10.6%		Nevada	0.7%
Delaware	-10.2%		North Dakota	14.4%
Source: U.S. Bureau of the Census and Rockefeller Institute of Government				

Note: Although Nevada's 2010 tax revenue was above 2008, it was below 2007 and barely above 2006.

New England states beginning to recover, generally somewhat better than U.S. average



Local taxes: National stability in property tax masks lagged local weakening, more likely to come

Property tax growth and housing prices

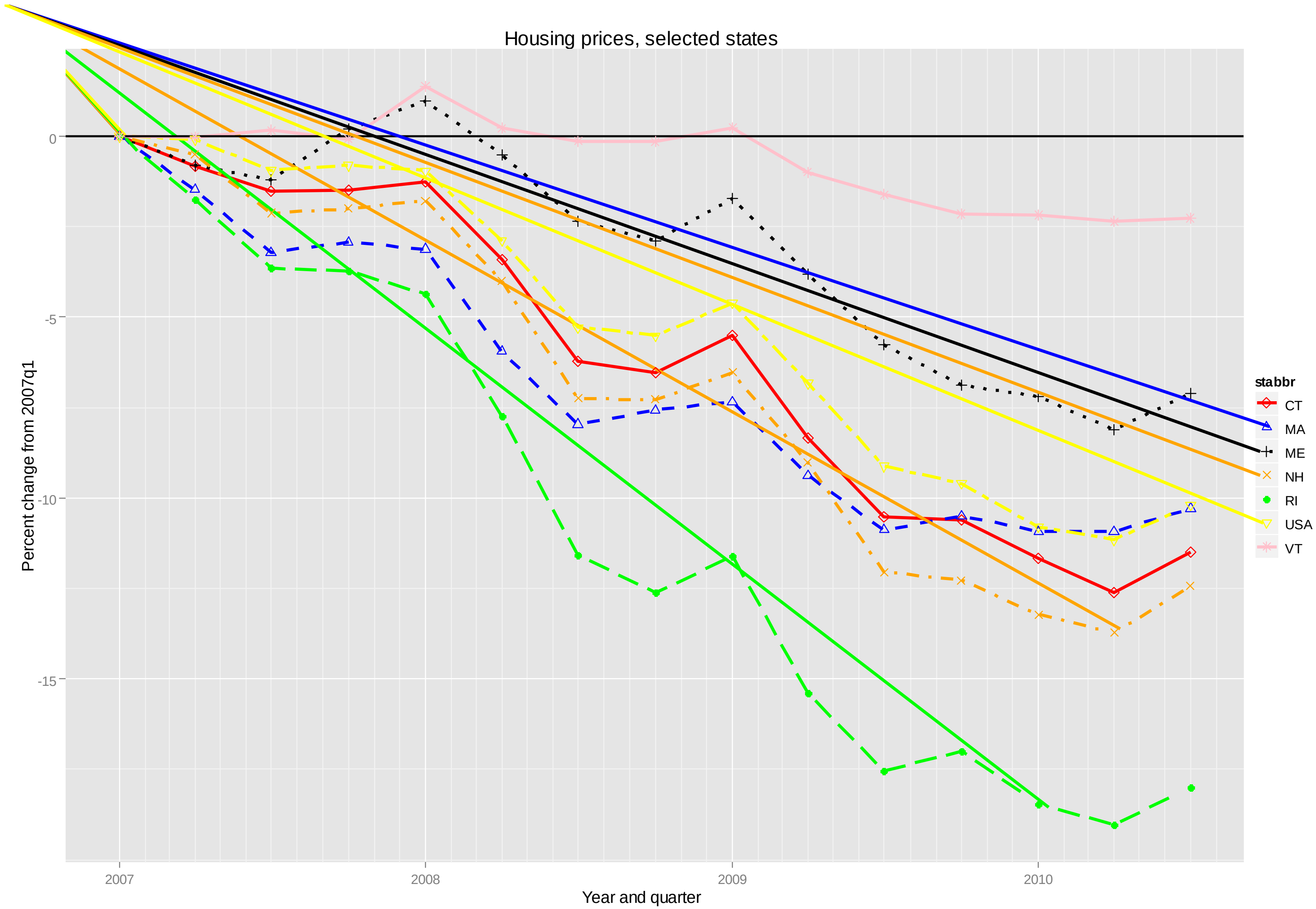
(Median property tax growth rates for localities reporting in each state)

	Property tax % growth rate for 4 quarters ending in: 2008q1*	Property tax % growth rate for 4 quarters ending in: 2010q3	2010q3 growth minus 2008q1* growth	Change in housing prices in prior year: 2007q1 to 2009q3
National median (property tax) or mean (housing prices)	4.6	2.6	(2.0)	(9.1)
States with property tax declines in many localities				
California	7.4	(2.1)	(9.6)	(31.3)
Florida	3.7	(4.7)	(8.4)	(30.9)
Michigan	4.6	(2.0)	(6.6)	(16.1)
New Hampshire	4.2	(1.5)	(5.6)	(12.0)
Virginia*	4.6	(1.3)	(5.9)	(9.3)
Median for group	4.6	(2.0)	(6.6)	(16.1)
States with property tax stability in many localities				
Connecticut	2.8	2.7	(0.1)	(10.5)
Georgia	8.1	4.3	(3.8)	(5.3)
Illinois*	7.9	3.1	(4.8)	(9.9)
Maine	6.6	1.8	(4.8)	(5.8)
Massachusetts	4.2	3.2	(1.0)	(10.9)
New Jersey	5.2	3.1	(2.2)	(12.7)
New York	4.1	2.5	(1.6)	(7.7)
Pennsylvania	4.1	3.3	(0.8)	(2.6)
Rhode Island	5.7	3.4	(2.3)	(17.5)
Tennessee	3.1	1.9	(1.2)	0.7
Texas	(2.1)	2.4	4.6	5.3
Wisconsin	5.6	4.6	(1.0)	(4.0)
Median for group	4.7	3.1	(1.4)	(6.8)

Source: Rockefeller Institute analysis of quarterly property tax data for individual units of government from the Census Bureau, and housing price index data from the Federal Housing Finance Agency

Note: See appendix for growth rate calculations and for "*"

New England house prices – a mixed bag



Source: Federal Housing Finance Agency (All-transactions Index)

Reprise: It's a long way back

- Revenue beginning to recover but way below peak in most states
- Employment and wage recovery likely to be slow
- Revenue recovery likely to be slow, local weakness ahead

Fiscal choices stretch out the crisis

- Budget decisions take time. Temporary measures come early
  - Reserve funds
  - Federal stimulus
  - One shots – asset sales, securitization, spending deferrals, etc.
  - Temporary taxes
- (There have been plenty of cuts, too)
- As temp measures fade, new cuts or tax increases needed if revenue still not recovered
- Lagged impacts on local govts, govt workers

Most states face significant 2012 gaps

- Per CBPP, at least 40 states have estimated budget gaps for 2012
- $113b in total
- 19% of budgets

TABLE 3: States with Projected FY2012 Gaps

	FY12 Projected Shortfall	Shortfall as Percent of FY11 Budget
Arizona	$1.4 billion	16.6%
California	$19.2 billion	22.2%
Colorado	$1.1 billion	15.3%
Connecticut	$3.7 billion	20.8%
Florida	$2.5 billion	10.4%
Georgia	$1.7 billion	10.3%
Hawaii	Yes, DK Size	na
Idaho	$300 million	12.6%
Illinois	$17.0 billion	50.9%
Iowa	$294 million	5.6%
Kansas	$492 million	8.8%
Kentucky	$780 million	9.1%
Louisiana	$1.7 billion	22.0%
Maine	$436 million	16.1%
Maryland	$1.6 billion	12.2%
Massachusetts	$2.0 billion	6.4%
Michigan	$1.4 billion	6.5%
Minnesota	$3.9 billion	24.5%
Mississippi	$634 million	14.1%
Missouri	$1.1 billion	14.4%
Montana	$154 million	8.3%
Nebraska	$314 million	9.2%
Nevada	$1.3 billion	37.1%
New Jersey	$10.5 billion	37.4%
New Mexico	$410 million	7.6%
New York	$9.0 billion	16.9%
North Carolina	$3.8 billion	20.0%
Ohio	$3.0 billion	11.0%
Oklahoma	Yes, DK size	na
Oregon	$1.8 billion	25.0%
Pennsylvania	$2.4 billion	9.7%
Rhode Island	$290 million	9.9%
South Carolina	$1.3 billion	26.6%
Tennessee	Yes, DK size	na
Texas	$10.0 billion	22.3%
Vermont	$112 million	10.4%
Virginia	$2.3 billion	14.8%
Washington	$2.9 billion	18.5%
West Virginia	$155 million	4.1%
Wisconsin	$1.8 billion	12.8%
States Total	**$112.7 billion**	**18.9%**

Note: **Kentucky** and **Virginia** have two-year budgets. They closed their FY2012 shortfalls when they enacted their budgets for the FY2011-FY2012 biennium.

Longer-term pressures loom

- Pensions
- Retiree health care
- Medicaid
- Federal budget cuts

Pensions

- Pay me now or pay me later (for the most part)
- Near-term (2-5 years): 2008 stock market decline drives contributions up
- Longer term: liabilities understated, will place great pressure on S&L govts

Obligations and responsibilities

	Debt	Pensions	OPEB	Medicaid
Nature of obligation	Fixed (usually)	Fixed (CW)	Changeable contractual promise	Entitlement but some options
Payment schedule	Fixed, level (usually)	Actuarial, …accelerating	Generally PAYGO, accelerating	PAYGO, faster than econ.
Purpose	Assets, still delivering services (often)	Payment for past services (in large part)	Payment for past services (generally)	Payment for current needs (generally)
Size (state & local)	$2.9T liab (but…offsets, & revenue from other entities supporting DS)	+/- $3T unfunded depending on method, annual about 3% of expend	Probably > $700b unfunded liab	>$350b annually, feds pay > half
Fiscal worry index (subjective)	#4	#1	#3	#2

Conclusion: Revenue Crisis Easing, Fiscal Crisis Continues

- We're down so far that it's a long way back
- State fiscal choices stretch out the fiscal crisis
- Longer-term pressures loom after the cycle is behind us

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Appendix:

More data, graphs, explanation, references, notes

Recessions and state-local finances

- "Automatic" impacts on revenue and spending. Revenue impacts tend to be much larger than spending impacts, and sooner; both generally work in the bad direction. Important lags.
- Differing fiscal and economic *structures and institutions* play important roles
- Policy responses - revenue, spending, other – also have important lags.
- *Dynamic* nature is crucial – impacts and responses roll out over time. Myopic planning and annual budget balance requirements lead to "stretching out" -- short-term crisis becomes longer-term fiscal problem. Impacts on local governments partially lagged.

"Automatic" revenue impacts

- Income taxes far more volatile than personal income. Capital gains, bonuses, business income all are volatile. (Mattoon & McGranahan) Can react with a short lag.
- Sales taxes more volatile than consumption or retail sales. Respond quickly down and up.
- Corporate income taxes small share of taxes, but large share of revenue declines and shortfalls.
- Property taxes slow and muted in response due to institutional factors. Declines can come with significant lags. (See Lutz 2008)
- Huge variation across recessions and governments.

Quick review: SLG revenue structure

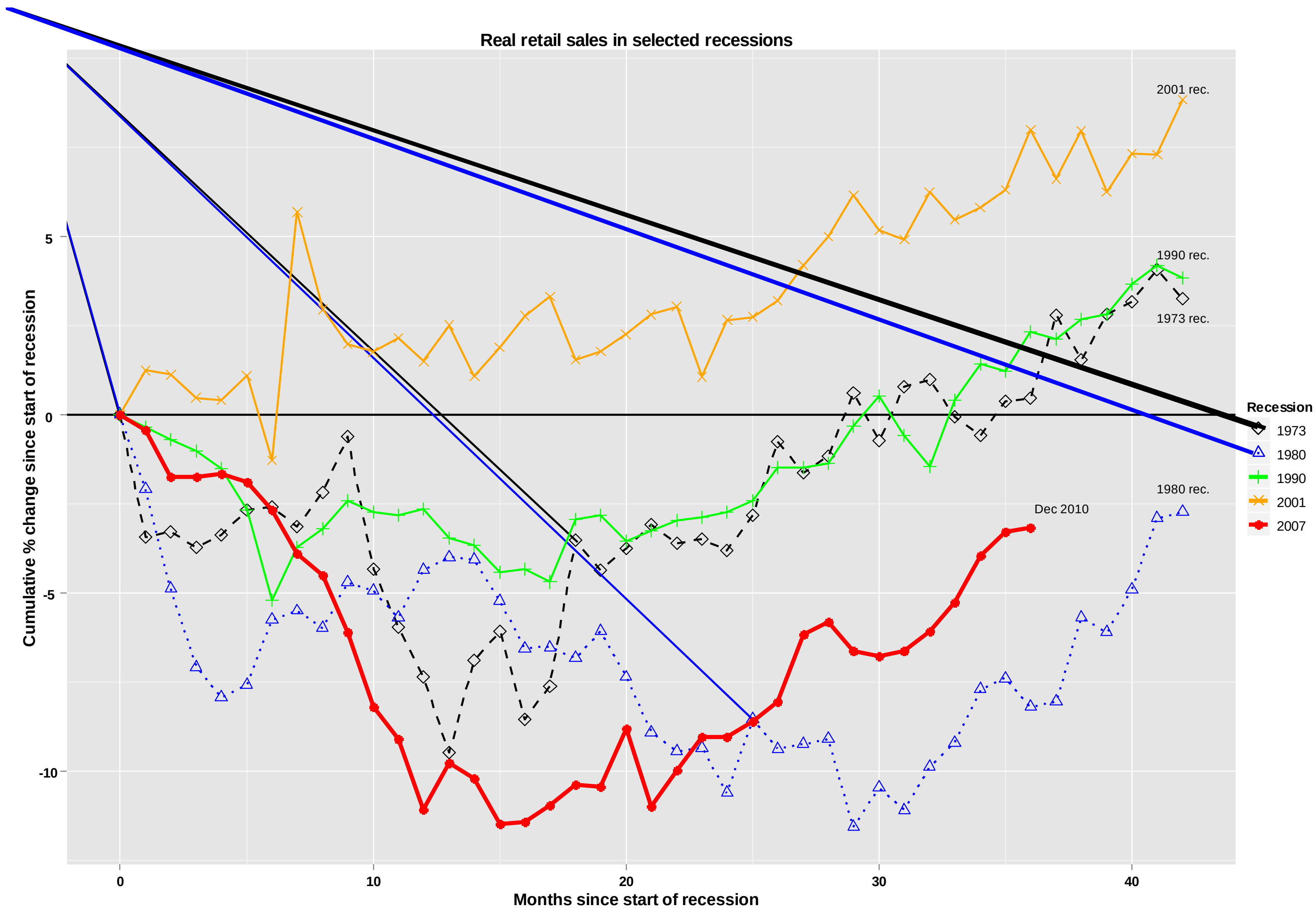
Caution: Huge variation around the nation

Composition of state and local government revenue in fiscal year 2008				
	State	Local	State	Local
	($ billions)		(% share)	
General revenue	1,514	1,401	100.0%	100.0%
Intergovernmental revenue from federal	423	58	28.0%	4.2%
Intergovernmental revenue from state	-	467	-	33.3%
Intergovernmental revenue from local	23	-	1.5%	-
Own-source revenue	1,068	877	70.5%	62.6%
Taxes	782	549	51.6%	39.2%
Property tax	13	397	0.8%	28.3%
Individual income tax	278	26	18.4%	1.9%
General sales tax	241	63	15.9%	4.5%
Selective sales taxes	118	27	7.8%	1.9%
Corporate income taxes	51	7	3.4%	0.5%
All other taxes	81	28	5.4%	2.0%
Charges	151	223	10.0%	15.9%
Miscellaneous	135	105	8.9%	7.5%

Note: State-local revenue cannot be obtained by simply summing state plus local because intergovernmental transactions must be eliminated

Source: Rockefeller Institute analysis of data from U.S. Bureau of the Census

Retail sales recovering but still below recession start



Sources: Cleveland Federal Reserve Bank (pre-1990 retail sales), Census Bureau (1990+), and Bureau of Labor Statistics (CPI)

Property taxes – lagged and muted response

- Intervening, mitigating, and exacerbating factors
  - Lags in reassessing existing property
  - Lags and caps on how assessed values relate to taxable assessed values
  - New construction slowdowns and deal cancellations
  - Delinquencies
  - Impacts of economy on other revenue – especially sales tax, state aid create pressure to raise the main locally controlled tax
  - Net impact on tax rates and levy
- Example of one potential support: acquisition value
  - Purchase in 2001: $200k
  - Market value grows 10%/year to 2007, new MV=$354k
  - Taxable AV limited to 2%/year, new TAV=$225k
  - MV falls 30% in 2008 to $248k
  - Where's my tax reduction? Still underassessed!
  - CA and FL have these rules; so do other places

Property tax growth calculation

1. For each of approximately 5,500 units of government in Census Bureau's property tax sample, for each quarter, compute 4-quarter sum of property taxes (i.e., current quarter plus 3 prior quarters)
2. Compute percent change vs. year ago (4-quarter-sum compared to year-ago 4-quarter-sum)
3. Discard percent change if data for any one of the 8 quarters needed (4 quarters in the numerator, 4 quarters in denominator) was either missing or estimated by the Census Bureau, rather than reported by the local government
4. Compute the median percent change across collecting units within each state (using only those remaining after step 3)
5. Show state-level median percent change only if 10 or more collecting units in the state had usable data

* Note: 2008 column shows growth for four quarters ending 2008q1 or next available quarter: Illinois (2008q2) and Virginia (2008q3)

Quick review: SLG expenditure structure
Caution: Huge variation around the nation

Composition of state and local government expenditures in fiscal year 2008					
	State	Local		State	Local
	($ billions)			*(% share)*	
General expenditures	1,502	1,391		100.0%	100.0%
K-12 education	308	559		20.5%	40.2%
K-12 expenditures - intergovernmental	300	2		20.0%	0.1%
K-12 expenditures - direct	8	557		0.5%	40.1%
Higher education	198	37		13.2%	2.6%
Public welfare	405	51		27.0%	3.6%
Medical vendor payments	289	4		19.2%	0.3%
Other public welfare	117	47		7.8%	3.3%
Public health, and hospitals	113	117		7.5%	8.4%
Highways	107	63		7.1%	4.5%
Police	12	78		0.8%	5.6%
Corrections	50	26		3.3%	1.8%
All other	309	462		20.6%	33.2%
Memo: Included in above					
Contributions to retirement systems	36	46		2.4%	3.3%
Note: State-local expenditures cannot be obtained by simply summing state plus local because intergovernmental transactions must be eliminated					
Source: Rockefeller Institute analysis of data from U.S. Bureau of the Census					

"Automatic" expenditure impacts (1)

- Medicaid – lagged impact on caseloads:
  - Holahan/Garrett estimates suggest u.r. rise from 4.6% (2007) to 10% would lead to 3.4m more children in Medicaid/SCHIP and 2.0m more adults; 5.8m more uninsured. FSL gov't costs of $25+b annually
  - Enrollment increased 6% in FY 2009, an estimated 8.3% in 2010, and a projected 5.4% in 2011 (NASBO/NGA Fiscal Survey, Spring 2010)

- Other social services – caseloads also rise but $ generally much smaller

"Automatic" expenditure impacts (2)

- K-12 education –some evidence of reduction in HS dropout rates (Dellas & Koubi); *$ impacts likely small*. Interstate migration.
- Higher education – rises in enrollment, particularly community colleges (Betts & McFarland, D&K). CC enrollment has risen about 17% from fall 2007 to 2009 (AACC 2009).
- Pensions – lagged impacts of stock market declines and (possibly changing) actuarial assumptions on ARCs. FOF assets fell 34% 2007q3 to 2009q1 (SP500 down 23%); still down 22% (2010q2). Increases can be dramatic (e.g., NYS ERS combined impact is employer contribution rate rise of 123% from 2010 to 2012).
- Still, automatic expenditure impacts tend to be MUCH smaller than revenue impacts

Federal stimulus aid and budgets

- $787b stimulus package (ARRA)
  - $135b (approx.) flexible fiscal relief to state and local gov'ts
    - $85b Medicaid FMAP relief
    - $48+b State Fiscal Stabilization Fund primarily for education (other less-flexible aid also provided)
      - Available for FY 2009, 2010, 2011; some maintenance-of-effort requirements
      - Despite a partial and temporary extension, the "cliff" is almost here – FY 2011 has less aid than 2010, and 2012 will have almost no stimulus aid.
      - Will economy and tax revenue recover fast enough to offset the loss of this aid? No.
  - Creative states can obtain fiscal relief from other aspects of ARRA (e.g., LAO cookbook)

Responses roll out over time – easiest actions often come first, followed by more painful choices

Timing of state government response to the 2001 fiscal crisis

	Indicators of the magnitude of the crisis		Responses as % of tax revenue (Positive numbers reduce the budget gap)			What happened to total spending?
Fiscal year	**Real per-capita tax revenue growth**	**Revenue shortfall (income, sales, and corporate taxes)**	**Use of fund balance**	**Midyear budget cuts**	**Tax and revenue enactments**	**Growth in real per-capita spending financed from own sources**
2001	0.1%	-0.1%	0.8%	0.3%	-1.0%	3.4%
2002	-7.0%	-9.5%	4.8%	2.6%	0.1%	2.0%
2003	-0.6%	-6.6%	0.3%	1.5%	1.5%	0.3%
2004	3.6%	1.6%	-1.9%	0.4%	1.6%	-2.2%
2005	5.3%	4.2%	-2.9%	0.1%	0.5%	2.7%

Sources: Rockefeller Institute analysis of (1) data on fund balances, midyear budget cuts, and tax and revenue enactments from NASBO/NGA Fall Survey of the States, and (2) Tax and expenditure data from the Census Bureau.

Historically, states face budget gaps and raise taxes well after recovery is underway

Enacted tax changes as % of tax revenue, four fiscal crises

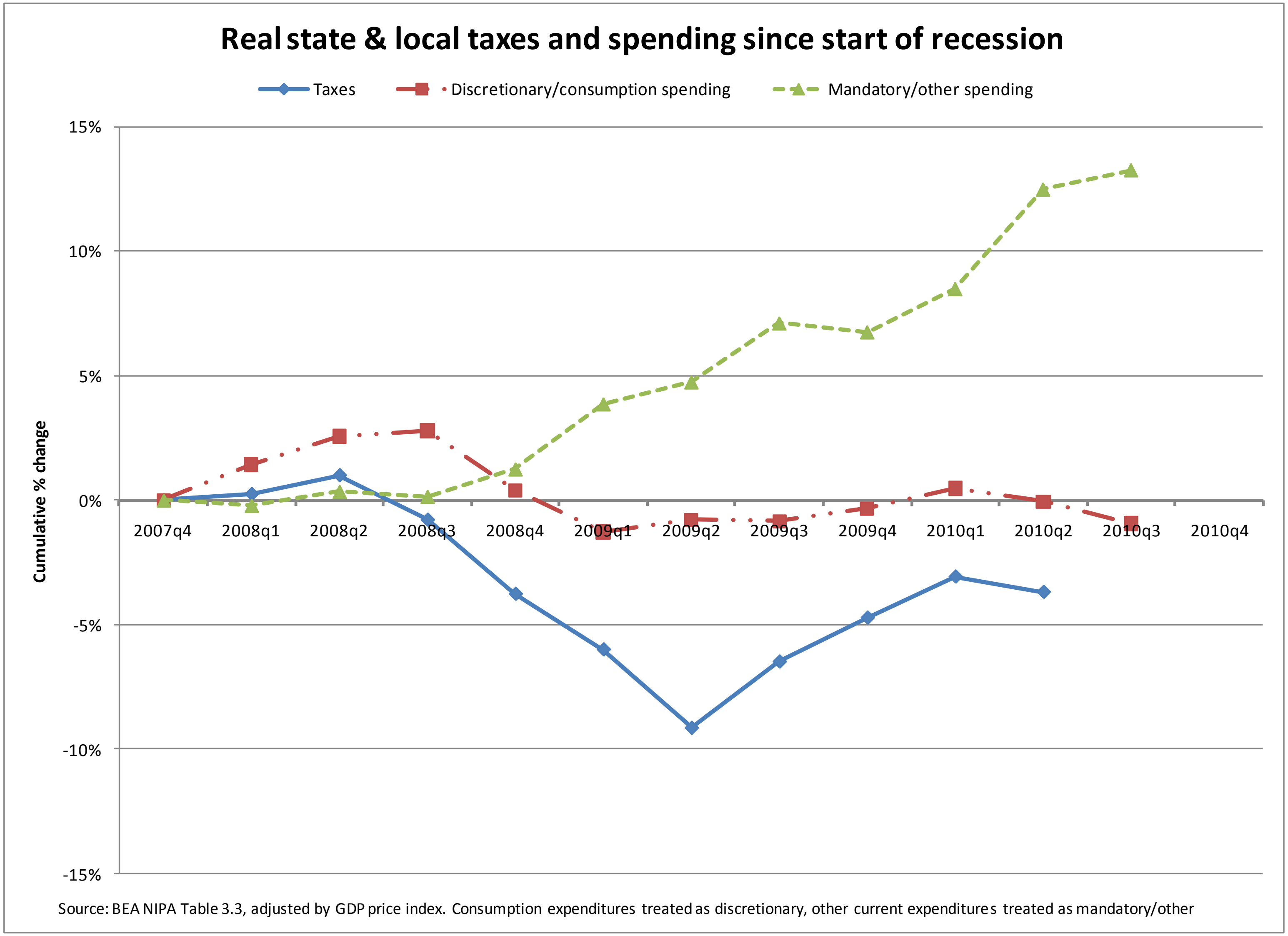
Recession(s) of: Jan 1980 to Nov 1982		*Recession of: Jul 1990 to Mar 1991*		*Recession of: Mar 2001 to Nov 2001*		*Recession of: Dec 2007 to Jun 2009*	
1980	-1.4%	**1989**	0.3%	**2001**	-1.0%	**2009**	0.2%
1981	0.3%	**1990**	1.7%	**2002**	0.1%	**2010**	3.3%
1982	2.4%	**1991**	3.4%	**2003**	1.5%	**2011**	0.4%
1983	2.1%	**1992**	4.7%	**2004**	1.7%	**2012**	?
1984	5.4%	**1993**	0.9%	**2005**	0.5%	**2013**	?

} means economic recovery underway

Notes: (1) Fiscal year is year in which change took effect, not year of enactment; (2) positive numbers are tax increases, negative numbers are tax cuts; (3) In almost all states, fiscal year ends on June 30 of year shown above; (4) Recession dates are month of start to month of end; (5) Jan 1980 to Nov 1982 recession period is combined period of two consecutive recessions

Sources: NGA/NASBO Fall 2009 Fiscal Survey of the States (tax change estimates); Census Bureau (tax collections); Rockefeller Institute (estimated 2009 and 2010 collections); National Bureau of Economic Research (recession dates)

SLGs have been cutting "discretionary" spending but tax revenue has fallen well below spending levels



Solutions so far

- $23.9b of tax increases for FY 2010. (CA, NY + NJ were 88% of nation's income tax increase; CA was 72% of nation's sales tax increase). Tax increases far less common for FY 2011.
- Spending cuts hard to quantify, but widespread and clearly deep. CBPP counted cuts in health care (31 states), services to elderly and disabled (29), K-12 education (33), higher education (33).
- Employee furloughs widespread. Employment data do not tell full story
- Many temporary “solutions”:
  - Fund balances drawn down: from 8.6% of expenditures year-end FY 2008 to 4.8% year-end 2009 (and lower after certain adjustments)
  - ARRA stimulus funds
  - Gimmicks
  - Temporary taxes
- Structure of state budgets remains unbalanced – FY 2012 (decisions made in early 2011) will have more difficult choices, and it is not generally an election year.

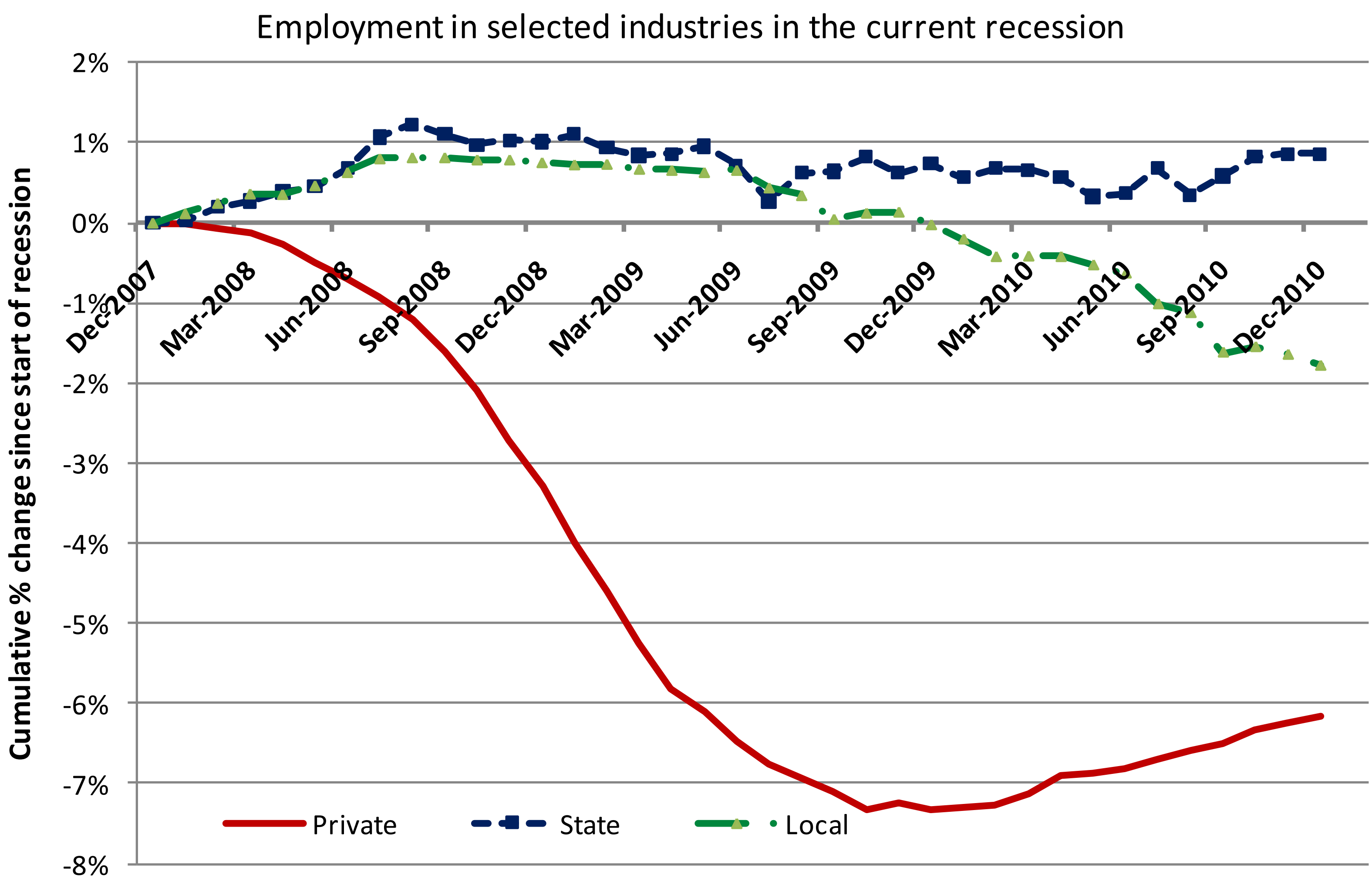
State & local government employment faring worse than in past recessions

Percent change in employment from start of recession to 34 months after start (October 2010 for the 2007 recession)									
	Recession that began in:								
	1957	**1960**	**1969**	**1973**	**1980**	**1982**	**1990**	**2001**	**2007**
Total nonfarm (00000000)	2.3	2.6	4.8	2.5	(2.2)	8.7	0.7	(1.6)	(5.4)
Total private (05000000)	1.2	1.6	3.9	1.6	(2.4)	9.8	0.4	(2.4)	(6.4)
Government (90000000)	8.7	8.2	9.0	6.7	(1.4)	3.7	2.1	2.8	(0.6)
Federal (90910000)	1.3	(1.1)	(1.7)	1.9	0.3	4.6	(6.4)	(0.8)	3.2
State government (90920000)	15.0	13.4	11.7	11.4	1.8	5.4	3.7	2.3	0.5
State government education (90921611)	21.5	21.9	12.1	12.7	3.6	8.4	5.6	8.4	3.7
State government, excluding education (90922000)	13.5	10.1	11.4	10.7	0.6	3.6	2.5	(2.1)	(2.2)
Local government (90930000)	10.9	11.5	12.5	6.6	(3.0)	2.7	4.0	3.8	(1.7)
Local government education (90931611)	13.7	14.3	12.4	5.6	(0.9)	4.1	4.6	3.8	(1.9)
Local government, excluding education (90932000)	8.3	8.6	12.5	8.0	(5.4)	1.5	3.3	3.7	(1.4)
Source: U.S. Bureau of Labor Statistics, Current Employment Statistics									

Great variation in home-price changes

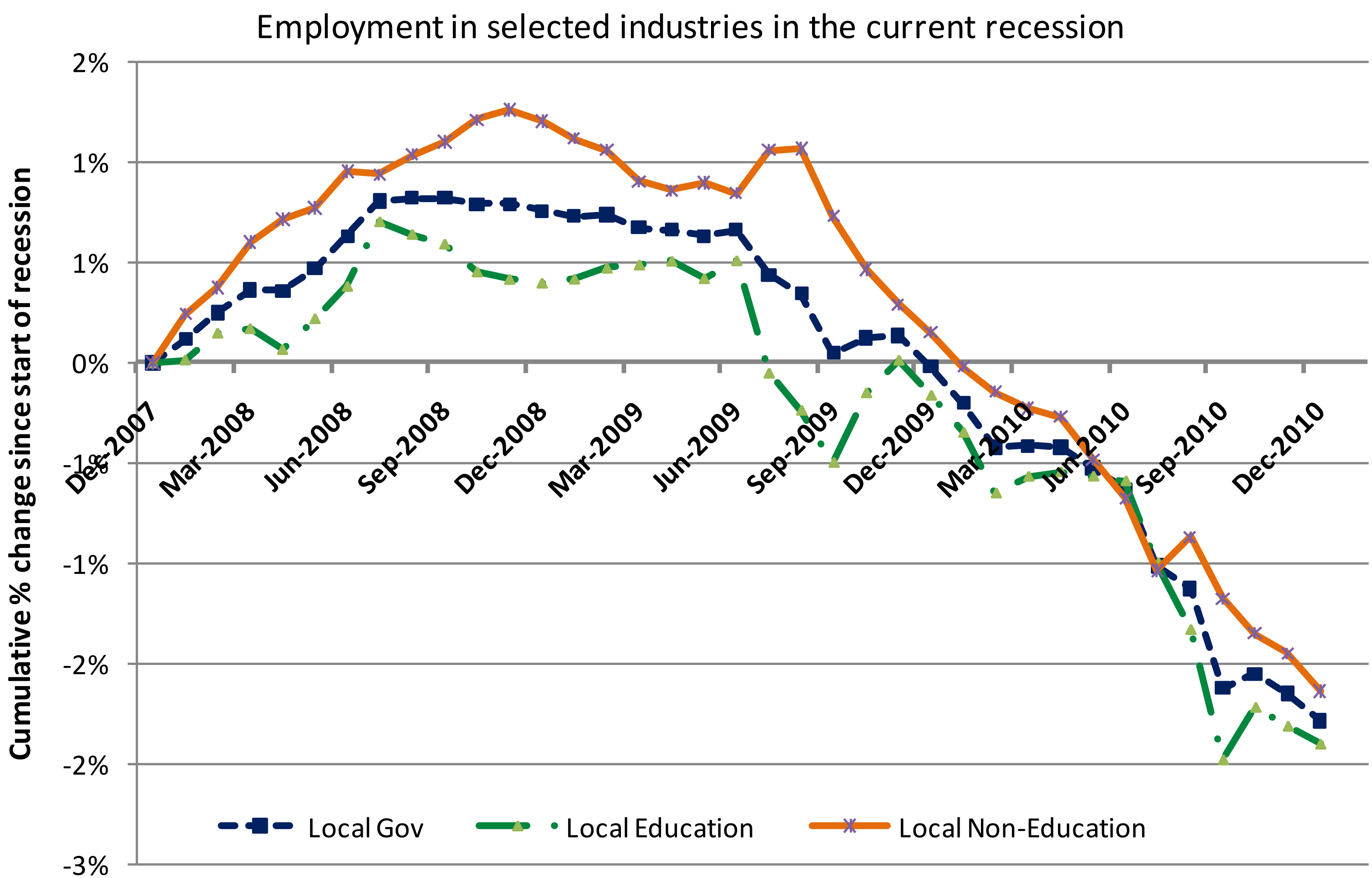
Percent change in single-family home prices				
2007q1 to 2010q2				
	Sum of states	-11.2%		
Nevada	-44.2%		Wisconsin	-5.5%
Florida	-35.6%		Missouri	-4.5%
Arizona	-35.0%		Pennsylvania	-4.3%
California	-31.1%		Colorado	-4.3%
Michigan	-20.4%		South Carolina	-3.7%
Rhode Island	-19.0%		Mississippi	-3.2%
Maryland	-18.7%		Indiana	-2.7%
Oregon	-14.8%		North Carolina	-2.6%
Hawaii	-14.6%		Montana	-2.3%
New Jersey	-14.3%		Vermont	-2.1%
Minnesota	-14.2%		Arkansas	-1.5%
Idaho	-14.2%		Tennessee	-1.4%
New Hampshire	-13.8%		Alabama	-1.2%
Washington	-13.2%		West Virginia	-0.5%
Illinois	-12.9%		Nebraska	-0.2%
Connecticut	-12.7%		Alaska	0.1%
Virginia	-11.7%		Kentucky	0.1%
Utah	-11.2%		Kansas	0.4%
Massachusetts	-11.1%		Louisiana	0.6%
Delaware	-10.2%		Wyoming	2.0%
Georgia	-10.0%		Iowa	2.0%
New York	-9.5%		South Dakota	4.1%
Maine	-8.2%		Texas	4.6%
Ohio	-6.5%		Oklahoma	4.8%
New Mexico	-5.9%		North Dakota	6.9%
Source: Federal Housing Finance Agency All-Transactions Index				

As is usual, state & local government employment since start of recession has been more stable than private sector employment



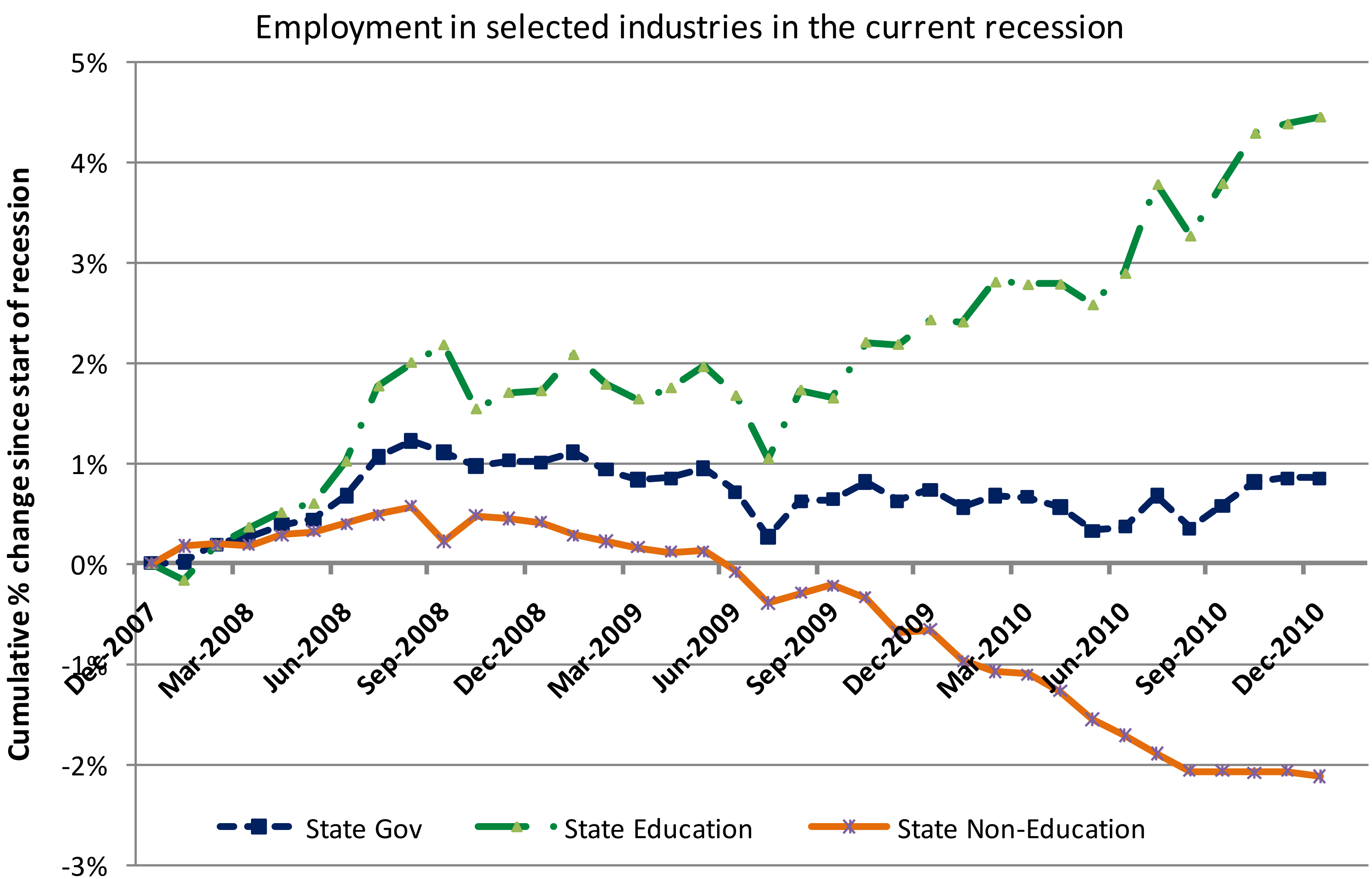
Source: U.S. Bureau of Labor Statistics (CES, seasonally adjusted).

Local gov't employment has turned sharply. Education down 210k jobs from its peak to Nov., non-ed down 187k jobs



Source: U.S. Bureau of Labor Statistics (CES, seasonally adjusted).

State gov't employment: Education up, all else down



Source: U.S. Bureau of Labor Statistics (CES, seasonally adjusted).

Stabilizing the state-local sector?

- State and local gov'ts are the workhorses of domestic policy. SLG direct spending on implementation of domestic policy is greater than federal government.
- They will be doing even more (health care reform)
- Demand for SLG services generally stable to rising – especially in recessions.
- Revenue structure highly cyclical – and more so than in past.
- Boom-bust fiscal cycles inevitable with current structures. Annual balance and myopic planning mean whipsawing policy a possible consequence.
- Is there a federal interest in stabilizing SLG finances and improving their management – e.g., loan/reserve funds, perhaps if states meet certain management and planning requirements?

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