



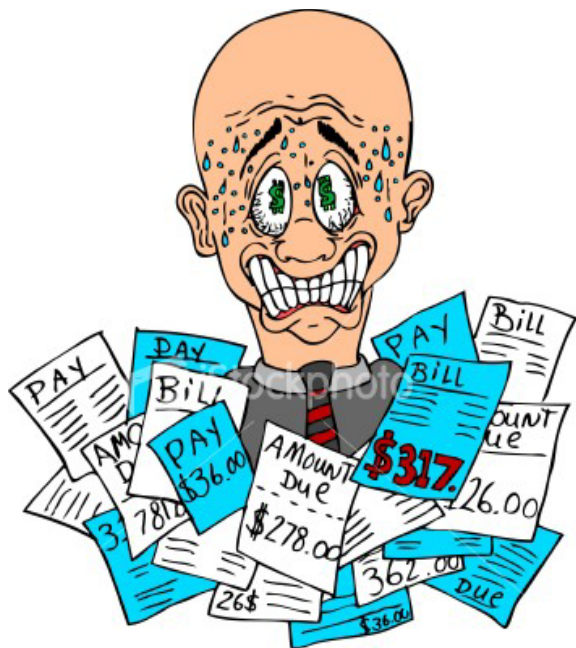
The Independent Source for Municipal Credit Information
NATIONAL MUNICIPAL RESEARCH, INC.

THE STATE OF THE STATES: READING THE TEA LEAVES

NFMA Advanced Seminar on Tax-Backed Bonds
February 11-12, 2010

Natalie R. Cohen
President, National Municipal Research, Inc.
ncohen@nationalmunicipal.com

Why are we gathered to talk about the states, long held as the strongest of municipal credits?



- Large deficits
- Weak economy
- Budget battles
- Ok, this is not news
- How can we best interpret the credit quality of the states?

A bit of financial history is called for:

- Early 1980's: Ronald Reagan's "Program for Economic Recovery", part of the "new federalism" devolved responsibility for many programs to the states
- Strong economic growth following 1982-1983 recession and state governments increased their budgets for seven straight years
- Early 1990's recession: mid-year budget crises, cuts in aid to local government and tax increases; record tax increases led to voter unrest and a number of stringent tax limitation measures
- Clinton administration mid-year elections lost House of Representatives to Republicans for the first time in 40 years
- Newt Gingrich and Republican "Contract with America" – 10 bills in 100 days – further devolved social programs to states
- Technology bubble and burst late 1990's early 2000's; 9/11, recession again, mid-year cuts, headline in 2003 "State Fiscal Crisis Worse Than Economy Suggests"
- Significant fed easing to maintain liquidity in economy; followed by mortgage run-up; federal policies directed towards increasing homeownership
- Bubble burst; here we are

Key areas of change over this time:

- Increased debt
- Increased taxes
- Employment and social service growth
- Budget expansion
- Pension promises
- There is significant diversity among the states; no single factor tells the whole story; generalizations are difficult



The Independent Source for Municipal Credit Information
NATIONAL MUNICIPAL RESEARCH, INC.

State	Debt Outstanding, Constant 1982 Dollars (000's)				Percent Change in Debt Outstanding, Constant 1982 Dollars			Debt as Percent of Gross State Product Using Constant 1982 Dollars
	1982	1992	2000	2008	1982-1992	1992-2000	2000-2008	2008
Massachusetts	6,420,794	17,111,929	22,625,476	33,391,203	167%	32%	48%	19.70%
Rhode Island	1,987,036	3,671,228	3,299,124	4,139,272	85%	-10%	25%	18.82%
Montana	399,215	1,331,202	1,485,100	2,287,176	233%	12%	54%	13.72%
Alaska	3,700,774	3,522,168	2,410,278	3,015,152	-5%	-32%	25%	13.55%
Vermont	673,362	1,099,480	1,257,351	1,566,125	63%	14%	25%	13.25%
New Hampshire	1,270,612	3,372,718	3,193,129	3,673,257	165%	-5%	15%	13.18%
Connecticut	4,620,575	8,522,097	10,717,930	12,797,892	84%	26%	19%	12.75%
New Jersey	8,795,893	14,102,780	16,805,042	24,516,611	60%	19%	46%	11.11%
Maine	860,782	1,879,581	2,357,992	2,459,920	118%	25%	4%	10.65%
West Virginia	1,804,135	1,849,126	2,166,275	2,956,571	2%	17%	36%	10.33%
Kansas	397,481	346,249	1,110,235	2,710,901	-13%	221%	144%	4.76%
Arkansas	554,540	1,384,297	1,594,401	1,989,301	150%	15%	25%	4.36%
Arizona	240,258	2,030,536	1,800,948	4,885,853	745%	-11%	171%	4.23%
Wyoming	532,745	637,768	725,618	623,637	20%	14%	-14%	3.80%
Minnesota	2,659,518	2,953,103	3,253,224	4,430,347	11%	10%	36%	3.63%
Georgia	1,645,941	3,186,587	4,114,919	6,071,637	94%	29%	48%	3.29%
Nebraska	295,479	1,250,337	975,797	1,262,936	323%	-22%	29%	3.27%
Nevada	648,313	1,378,577	1,736,440	1,973,357	113%	26%	14%	3.24%
Texas	2,587,117	5,702,907	11,166,173	15,466,256	120%	96%	39%	2.72%
Tennessee	1,587,121	2,000,261	1,911,913	2,028,030	26%	-4%	6%	1.73%



The Independent Source for Municipal Credit Information
NATIONAL MUNICIPAL RESEARCH, INC.

- There is wide variation among state employment levels – this speaks to different divisions of labor among state and local government as well as service level preferences
- A decline in the number represents the addition of state employees – that is, one state employee for 24 people in Hawaii in 2008 vs. one for 26.3 in 1982
- An increase does not necessarily mean greater efficiency; rather there are likely legacy pension and health benefits due. See Illinois, California, Florida at bottom of list. In these states, the gap is driven by revenues making declines and savings harder to get from layoffs -- need to come from tougher cuts – aid to local governments, pension reform, etc.

Population per state employee				
	1982	1992	2000	2008
Hawaii	26.3	24.9	24.7	24.0
Alaska	23.2	26.7	29.7	28.8
Delaware	36.0	39.4	37.6	37.4
North Dakota	52.9	47.0	48.9	43.3
Vermont	48.7	50.0	48.4	44.3
Wyoming	52.6	46.8	49.2	44.3
New Mexico	41.6	43.9	43.3	46.4
Arkansas	64.4	57.3	60.2	51.1
West Virginia	57.0	59.2	62.1	51.7
Louisiana	53.1	53.5	51.9	53.0
Mississippi	65.1	61.6	56.3	56.7
Rhode Island	47.2	56.5	59.4	57.2
Montana	55.9	57.1	58.5	57.5
Oklahoma	51.4	54.3	60.9	57.6
Alabama	64.1	56.4	63.5	58.8
Kentucky	65.0	59.6	61.9	59.6
New Jersey	86.6	73.2	67.9	60.6
Connecticut	64.8	66.9	58.6	61.9
South Carolina	55.3	51.4	55.2	62.8
Utah	56.6	51.3	52.9	63.8
Washington	63.6	65.3	65.0	63.9
Maine	62.6	62.6	70.9	64.4
Nebraska	57.8	64.2	65.8	66.1
South Dakota	58.0	59.8	65.2	68.0
Kansas	62.2	58.6	73.9	69.6

Population per state employee				
	1982	1992	2000	2008
Maryland	52.7	67.7	64.9	69.8
Iowa	69.6	72.0	68.8	70.4
Oregon	67.0	69.9	76.1	70.9
North Carolina	69.3	71.2	71.8	71.9
Virginia	58.3	64.8	70.2	72.0
Missouri	76.8	76.2	68.2	74.9
Massachusetts	77.3	78.9	73.9	76.0
Tennessee	71.5	73.7	81.3	79.9
Minnesota	78.4	87.3	83.7	80.4
Idaho	71.7	61.8	71.9	80.5
New Hampshire	69.8	79.5	78.7	81.0
New York	74.6	71.5	80.9	81.5
Indiana	87.5	75.0	86.0	81.8
Georgia	68.2	65.9	78.7	84.6
Michigan	80.2	87.2	89.0	87.1
Pennsylvania	96.1	106.8	92.4	88.4
Colorado	72.0	88.6	94.2	91.8
Texas	87.1	81.4	86.2	94.3
Ohio	97.3	94.8	99.9	96.5
Wisconsin	82.5	89.0	101.2	101.9
Arizona	80.9	83.3	92.7	103.0
Nevada	71.6	79.8	103.9	103.7
Florida	93.7	91.3	96.8	107.4
California	100.3	112.3	112.2	108.0
Illinois	97.7	96.0	112.7	117.7

Source: census bureau

The Independent Source for Municipal Credit Information
NATIONAL MUNICIPAL RESEARCH, INC.

- Funding of public pensions is an issue that will not go away
- Most plans assume an 8% return on investment so the funding levels are likely overstated

state	datapoint	state	datapoint
Oregon	110.46%	Ohio	81.18%
Florida	105.57%	Michigan	80.79%
North Carolina	104.78%	Missouri	80.79%
New York	104.26%	Montana	80.48%
Washington	99.58%	New Mexico	80.48%
Wisconsin	99.57%	Virginia	80.25%
Tennessee	98.70%	New Jersey	78.89%
Delaware	96.76%	Maine	77.12%
South Dakota	96.69%	Nevada	74.87%
Utah	96.33%	Alaska	74.26%
Georgia	96.21%	Colorado	74.13%
Wyoming	94.91%	Mississippi	73.26%
Idaho	94.72%	Massachusetts	72.13%
Minnesota	93.14%	South Carolina	71.00%
Vermont	91.98%	Kentucky	69.65%
Nebraska	88.75%	Kansas	69.44%
Texas	88.54%	Louisiana	67.09%
Iowa	88.42%	Hawaii	65.00%
California	87.36%	Indiana	64.73%
Pennsylvania	86.64%	New Hampshire	61.35%
Arizona	83.30%	Illinois	60.48%
Maryland	82.47%	Oklahoma	58.81%
Alabama	82.24%	Connecticut	56.38%
Arkansas	82.16%	West Virginia	54.73%
North Dakota	81.45%	Rhode Island	53.65%

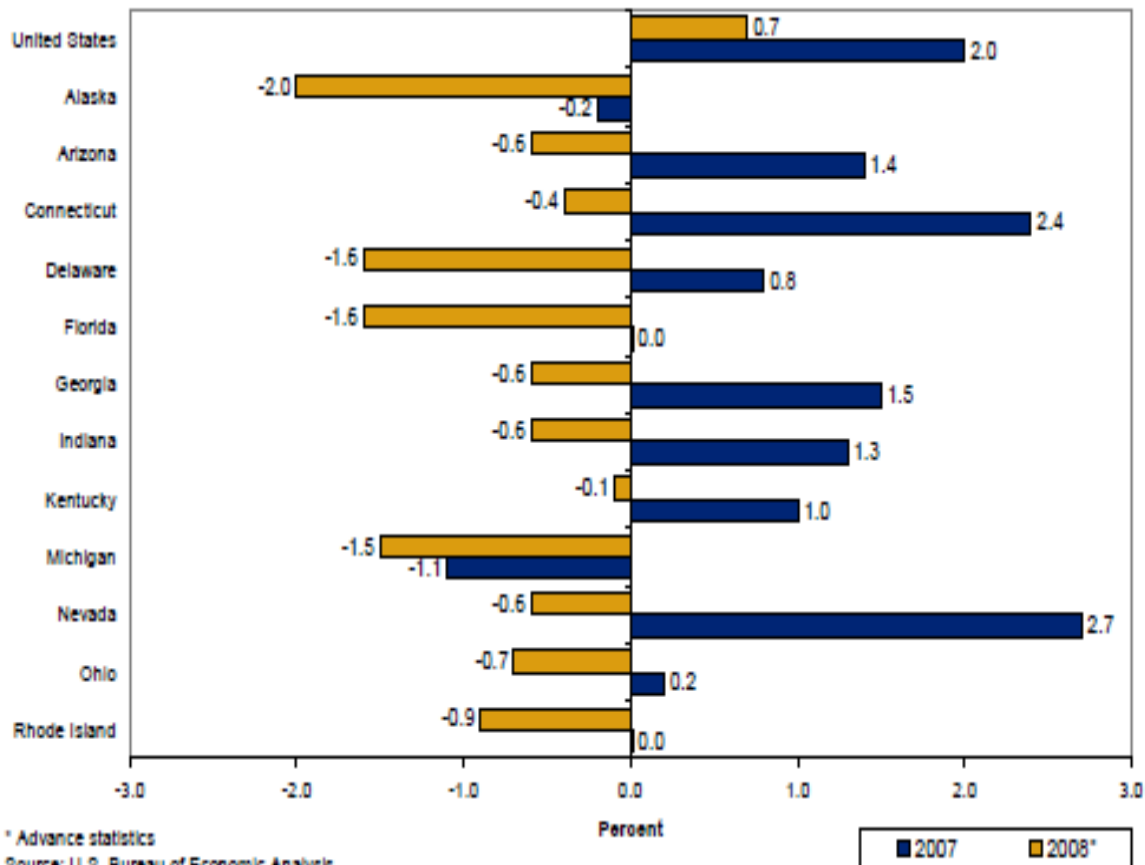


Factors to look at (resources and websites at the end):

- The revenue side -- volatility of state revenues – Rockefeller Institute
 - Income tax
 - Sales Tax
 - Mortgage transfer tax
- Expenditure side – NGA/NASBO reports, NCSL
 - Budget management
 - Flexibility
 - Spending guaranteed by constitution: i.e. pensions
 - Sleeper red flags: unemployment insurance borrowing (see ProPublica.org on this); increases in short term borrowing; capitalizing on-going operating costs; delayed vendor payments
- Budget Gaps – Center for Budget and Policy Priorities, Pew Center on the States
- Note: There is no legal structure in the US for state bankruptcy, states are sovereign entities under the U.S. Constitution. Therefore the solution is political and will be a messy slog among legislatures, taxpayers, unions, political groups, the federal government and retirees.

The Independent Source for Municipal Credit Information
NATIONAL MUNICIPAL RESEARCH, INC.

Percent Change in States with Contracting Real GDP in 2008



The Independent Source for Municipal Credit Information
NATIONAL MUNICIPAL RESEARCH, INC.



States with Notable Measures of Fiscal Stress					
	Dependency on Income tax*	December 2009 unemployment**	Dependency on Sales tax***	2010 Budget Gap as % of budget****	Pew Center on the States "Fiscal Peril" Score*****
Oregon	71%	11.3%	0%	29%	26
Massachusetts	54%	8.9%	21%	20%	19
New York	54%	9.0%	20%	38%	20
Virginia	53%	6.6%	19%	22%	13
Colorado	50%	7.5%	25%	21%	21
Connecticut	48%	8.8%	25%	27%	16
Georgia	47%	10.2%	34%	25%	21
California	46%	12.4%	29%	56%	30
North Carolina	46%	11.2%	24%	22%	15
Wisconsin	43%	8.7%	30%	23%	22
New Jersey	40%	9.7%	26%	31%	23
Rhode Island	37%	12.9%	31%	26%	28
South Carolina	35%	12.6%	41%	16%	17
Illinois	31%	11.0%	28%	41%	22
Arizona	27%	9.3%	45%	53%	28
Michigan	26%	15.1%	34%	12%	27
Florida	0%	11.8%	56%	23%	25
Nevada	0%	13.0%	51%	38%	26
*as percent of budget; Rockefeller Institute based on Census data					
**Bureau of Labor Statistics					
***as percent of budget; Rockefeller Institute based on Census data					
**** Center for Budget and Policy Priorities, Nov 2009 (important note: this is a cumulative gap going into 2010 budget plus mid-year gap; many states have raised taxes and cut expenditures to address these gaps; see cbpp.org)					
*****"Beyond California: States in Fiscal Peril" Pew Center on the States					

RESOURCES

- National Conference of State Legislatures: budget information: www.ncsl.org
- Fiscal Survey of the States, a joint publication of the National Governors Association (www.nga.org) and the National Association of State Budget Officers (www.NASBO.org)
- Concerning pensions: Center for Retirement Research at Boston College: www.crr.bc.edu, also part of the Council of State Governments, the Southern Legislative Council has published a number of reports detailing funding levels of the states: www.slcatlanta.org
- Rockefeller Institute: www.rockinst.org
- Center for Budget and Policy Priorities: www.cbpp.org
- Pew Center on the States: www.pewcenteronthestates.org and a service of Pew Charitable Trust is “Stateline” (which you can subscribe to) www.stateline.org
- Government sites: www.census.gov/govs; www.bea.gov (Bureau of Economic Analysis); www.bls.gov (Bureau of Labor Statistics); www.gao.gov (Government Accounting Office)
- The Tax Foundation follows changes in the states and has a good study of “tax burden”: www.taxfoundation.org
- Blogs:
 - www.thepublicpurse.com from National Municipal Research; sign up for an occasional e-mail newsletter
 - “Mish’s Global Economic Trend Analysis” has been covering state and local deficits, other municipal issues: <http://globaleconomicanalysis.blogspot.com/>
 - www.pensionsunami.com is a California-based daily clipping of pension related news around the US
- <http://projects.propublica.org/unemployment/> --ProPublica has put together current balances, additions, withdrawals and borrowing for each state’s unemployment

The independent source for municipal credit information

NATIONAL MUNICIPAL RESEARCH, INC.

HOME

CLIENTS & PROJECTS

ABOUT US

VISIT THE PUBLIC PURSE BLOG

National Municipal Research, Inc. is a New York City based consulting and research company focused on U.S. state and local government finance

How can we help you?

We will complete your project with speed and excellence. Contact us today to discuss your project:

917-679-3172

ncohen@nationalmunicipal.com

RISK MANAGEMENT

CREDIT ANALYSIS

START-UP EXPERTISE

TRAINING

DEFAULT DATA AND RESOURCES

CUSTOMIZED WRITTEN MATERIAL

BUSINESS DEVELOPMENT

Internet

150%

www.nationalmunicipal.com



Hide/show all post previews

The Public Purse offers you serious thinking about economic, financial and political trends at the U.S. state and local level with a focus on municipal credit risk

Categories

[bankruptcy and default](#)
[bond insurance](#)
[cities](#)
[housing mess](#)
[migration](#)
[municipal bonds](#)
[pensions](#)
[reports](#)
[states](#)
[Voter initiatives](#)

Tags

[ballot initiatives](#) [bond insurance](#)
[California Chapter 9](#)
[community development district](#) [Detroit](#)
[direct democracy](#) [fiscal](#)
[stress](#) [Florida](#) [General](#)
[Growth Properties](#) [liquidity](#) [Missouri](#)
[mortgage securities](#) [municipal](#)
[bankruptcy](#) [municipal bond](#)
[default](#) [municipal](#)
[bonds](#) [Nevada](#) [non-rated bonds](#)
[Prichard](#) [Alabama](#) [school district](#)
[securities](#) [lending](#) [special](#)
[district](#) [state and local](#)
[politics](#) [state income taxes](#)
[states](#)

Feb/10

1

State and Local Layoffs

0 Comments | Posted by *Natalie Cohen* in [cities](#), [municipal bonds](#)



A blogsite, "Mish's Global Economic Trend Analysis" recently aggregated a selection of news stories covering state and local government budget deficits and proposed layoffs. [Click here](#) to link to the post. There are a few differences between private sector layoff announcements and the public sector that are worth pointing out. The private sector typically announces layoff actions that are already decided. [...]

[fiscal stress](#), [Nevada](#), [state and local politics](#)

Jan/10

27

Oregon Tax Hikes Passed by Voters

0 Comments | Posted by *Natalie Cohen* in [Voter initiatives](#), [states](#)



Oregon voters passed Propositions 66 and 67 yesterday which support Governor Kulongowski's budget proposal. The following link will give you detail on the propositions, the vote, the key donors to each campaign and the groups advocating pro and con. Oregon is a high income tax state and ranks high among the states with large budget deficits and [...]

[ballot initiatives](#), [fiscal stress](#), [state and local politics](#), [state income taxes](#), [states](#)

Jan/10