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ISSUE 1

In This Issue

For the Health of It 2

New rankings identify the healthiest and least healthy states. The heavy weight given to death rates almost insures that states with low death rates do well on the overall rankings. But some of the other components—such as smoking and obesity rates—have a big influence on death rates, which makes them ripe for state public policy initiatives.

Acronym Alert: OPEB 8

A new accounting standard requires states to measure and report the unfunded liabilities they face relating to the future costs of non-pension retiree benefits, the largest of which is health care. Some observers believe the mere act of reporting this information will lead to efforts to reduce such benefits.

Right Idea, Wrong Reason 9

Some observers are noting that states are tackling a host of public policy issues that Washington has left unaddressed. The conventional wisdom is that states are acting because the federal government can't or won't. It is probably more accurate to say that states would rather craft their own solutions to many of these issues than follow Washington's dictates.

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Federal Spending in the States 2

The U.S. Bureau of the Census recently released its report for fiscal year (FY) 2004 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

Direct Payments 6

Grants 8

Procurement 12

Salaries and Wages 13

Looking Ahead 14

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In This Issue

The “How Are We Doing?” Issue

There are a handful of annual reports that assess state performance in specific program areas. This issue of *Reports* looks at two such analyses of long standing: *Education Week’s* annual assessment of state education efforts, known as *Quality Counts*, and CFED’s annual assessment of state economic development, known as the *Development Report Card*.

How Are We Doing: Education

2

According to this year’s update of state education reform efforts, there is a steady move toward standards-based curricula and assessments tied to them. Holding schools accountable for results proves trickier, as do insuring teacher quality, providing a school climate conducive to learning and distributing state education resources equitably. But regression analyses performed on this year’s results suggest that some of those factors may not weigh heavily on student achievement.

How Are We Doing: Economic Development

7

A second pillar of assessing state performance is CFED’s *Development Report Card*. This year’s report holds few surprises. States scoring well are those with highly educated and skilled workforces, large corporations of long standing that invest heavily in the states in which they are located, and robust high-tech sectors often tied to large universities.

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Taxing the Poor **2**

Over the last several years, states have made notable progress in restructuring their tax systems so that low-income residents are largely exempt from state income taxes. Some states even have implemented refundable tax credits that provide tax refunds to filers at or below the poverty level. But a recent analysis shows a number of states continuing to tax families at the poverty level.

States and the FY 2007 Federal Budget **6**

The president released his FY 2007 in early February. As expected, it called for cuts to a large number of state grant programs and outright elimination of others. The silver lining for states may be that political and time constraints will make it difficult to enact some of the more controversial proposals.

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In This Issue

Earmarks by Another Name 2

A federal budget watchdog group has published its annual list of federal budget earmarks by state. As widely reported, earmarks continue to grow both in terms of number and value.

Another Source of Federal Funds: Mineral Leasing 4

A few lucky states have been the recipients of rapidly increasing federal payments related to the value of natural resources extracted from their federal lands.

Beyond Earmarks and Minerals: The Big Picture 6

The Tax Foundation has released its annual analysis that compares the amount of federal taxes each state pays to the amount of federal spending it receives.

Outlook for the Future 9

A persistent federal budget deficit—combined with reluctance to raise taxes—means that states may have to settle for battling over slices of a pie that keeps getting smaller.

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In This Issue

Index of State Economic Momentum 2

This update of the index paints a picture of states continuing on a steady path of economic recovery. The underlying data aren't much changed from recent updates, although the use of new population data does have an effect on individual state rankings. There remain a few states that are struggling.

Personal Income	3
Employment	4
Population	5

Related Data 8

As always, the update includes data related to state economic performance: unemployment rates and housing prices. The unemployment rate has improved since the last update, and housing prices continue to surge in some states.

Putting the Pieces Together 10

Change (or its absence) can be a good thing or a bad thing. For states generally, this period of relative stability is almost certainly a good thing, allowing them to regain their fiscal footing.

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In This Issue

A Camelot for Every Region

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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. When all the data are combined, each of the geographical regions of the country is represented among the top-five ranking states. The historic dominance of the Plains states doesn’t reveal itself until the second group of five states.

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Will the Good Times Roll On? 2

As states continue to turn in solid economic and revenue performances, three new reports raise questions about whether the situation is all it's cracked up to be. The newest fiscal update from the National Conference of State Legislatures raises the issue of state structural deficits and finds more than half of the states that have looked out as far as FY 2009 are worried. A report from the Rockefeller Institute uses Census data to show that states have not returned to the revenue and employment benchmarks set before the 2001 recession. Finally, a new revenue report from the Rockefeller Institute finds moderating growth in state revenues with growing regional disparities.

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In This Issue

The Perils of Projections **2**

Following up on a project first undertaken by *Reports* founding editor Hal Hovey in 1999, the National Center for Public Policy and Higher Education has issued a series of updates on state structural deficits. The most recent update was released earlier this year and projects larger state structural deficits than earlier projections. This result is explained mainly by the study's assumptions regarding federal aid to states.

No Projections Needed **7**

Unlike states, which *may* be headed for structural deficits, the federal government is well-entrenched in a structural deficit that is likely to get much worse over time. Tax cuts enacted earlier in the decade have reduced federal revenues, while mandatory spending places enormous future spending requirements on the federal budget. A leading budget expert points to health care as the program most in need of reform.

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In This Issue

K-12 Education: Who Pays How Much? 2

Census data allow state-by-state comparisons of the share of total education funding coming from each level of government. The surprise is that after rising for many years, the state share has declined. In contrast, the federal share marches upward, a result that also may change now that the federal government is mired in budget deficits.

Who Spends How Much? 7

There is enormous variation in per pupil spending among the states. Once the spending is compared to underlying incomes, however, some of the states that look to be spending little are shown to be spending a relatively high proportion of their personal income, and vice versa.

A movement to require states to spend 65% of their school budgets on instruction is gaining momentum. The new census data show that only three states currently meet such a threshold. State results on one standardized measure of competency suggest that the share of spending devoted to instruction is not enough to explain state outcomes on the test.

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Continuum of State Fiscal Stress 2

Based on the most recent report on state fiscal condition, the vast majority of states are on sound fiscal footing while 13 states face a few hurdles and one state struggles. This may actually understate how well states are doing, as the final figures for fiscal year 2006 are likely to show that state balances are higher than the levels estimated when the survey was conducted a few months ago.

New Tax Collections Data 7

The latest quarterly state tax collection data show what appears to be a slowing of growth rates. It turns out that a tax amnesty in **California** explains the apparent slowdown, and when the proper adjustments are made the first quarter's results show improvement over the previous quarter.

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In This Issue

Index of State Economic Momentum 2

Little has changed in the performance of most state economies over the last several months. Hurricane-battered states continue to rebuild, mineral-dependent states continue to thrive and Michigan continues to struggle. As the economic recovery settles into a familiar pattern, the states with rapid population growth also tend to be the states with rapid employment and income growth.

Non-Meal School Food 8

The federal government regulates school lunches and breakfasts, but has little to say about the foods and beverages that schools offer in vending machines and through other venues. The Center for Science in the Public Interest (CSPI) finds that many states also fail to regulate such matters. In the interest of getting an early start on combating obesity and rising health care costs, the CSPI argues that states would do well to turn their attention to such policies, while the federal government should set basic national standards.

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Medicaid Takes a Breather 2

For the first year in several, total spending for Medicaid is not growing by leaps and bounds. A new analysis looks at the numbers and suggests some reasons for this development. The most obvious is the new Medicare drug program that is relieving states of some drug costs, while at the same time boosting the revenues of the companies that sell those drugs.

The Great Minimum Wage Debate 6

The U.S. House of Representatives was making good progress on its appropriations bills for fiscal year 2007 until an amendment to increase the minimum wage was slipped into one of the bills. That bill has now come to a standstill, even as several states have gone ahead and raised their minimum wages.

The New Year in New Jersey 9

Most states are in really good fiscal shape. New Jersey is not among them. The state endured a contentious start to its fiscal year and is likely to have to revisit the underlying problems in the not-too-distant future.

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Pondering Pensions **2**

The National Conference of State Legislatures (NCSL) recently expressed concern that the U.S. Congress may be interested in increasing its oversight of public pension systems. Declining funding ratios may explain the heightened interest, but NCSL is quick to note that there are lots of differences between the public pension situation and that in the private sector.

Declining Tobacco Fortunes **6**

When states started receiving annual payments from the tobacco industry in 1998, it was hailed as an important source of new revenue for states. Over time, the value of the payments has declined, primarily reflecting reductions in the number of cigarettes sold.

Of Clouds and Silver Linings **9**

The Congressional Budget Office (CBO) recently updated its federal budget estimates and projections. The good news is that the fiscal year 2006 budget deficit will be smaller than originally anticipated. The bad news is that the out-year projections are highly speculative because of assumptions CBO must make in preparing them. The worse news is that the long-term outlook isn't so hot.

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End-of-Summer Roundup

Too Good to Last? 2

In its most recent fiscal update, the National Conference of State Legislatures finds that most states are beating their revenue estimates and enjoying a long-desired respite from double-digit Medicaid spending growth.

Building a Better Block Grant 3

Block grants have a long and storied past in intergovernmental relations. One of the larger such programs—targeted at community development initiatives—may be in for some major changes in its underlying formula.

Counting Kids Again 7

The Annie E. Casey Foundation recently updated its annual assessment of how kids in the 50 states are faring.

Speaking of More Recent Data 11

The U.S. Census Bureau just released new data on household incomes, poverty rates and health insurance coverage. While most of the indicators showed slight improvement for 2005, the situation still lags its position prior to the 2001 recession.

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State and Local Finances in FY 2004 2

This summer, the U.S. Bureau of the Census released its state and local finance series for fiscal year (FY) 2004. This full series is released only every other year, with odd-numbered years relegated to national totals only. Unlike the state-only data, 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

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Index of State Economic Momentum **2**

Little has changed in the performance of most state economies over the last several months. Hurricane-battered states continue to struggle, mineral-dependent states continue to thrive and the industrial Midwest still lags other regions of the country. The housing boom has also finally slowed; housing prices in several states at the bottom of the index are not even keeping pace with inflation.

A Measure for Measuring Higher Ed **10**

The National Center for Public Policy and Higher Education has released its bi-annual report card for state policies on higher education. *Measuring Up 2006* finds that states are making progress in college student participation and completion rates, but warns that cuts in student aid and rapidly increasing tuitions are making college less affordable every year.

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Business Tax Climate **2**

A new study has been released that measures state tax systems based on their friendliness to business. The index goes in-depth on five separate taxes. While it ignores the spending side of the equation, it does offer some important observations about things states might do to broaden their tax bases and lower their rates. States with the highest ranks are those that lack one of the major state taxes.

Fat and Getting Fatter **9**

The most recent data on state rates of obesity and overweight show that only one state registered a decline in its three-year average obesity rate. The study highlights the correlation between being overweight and suffering from long-term health problems such as hypertension and diabetes. It also proposes a range of policies to address the problem, targeted at individuals, employers, governments and community planners.

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SAT v. ACT **2**

With all the changes and problems surrounding the SAT, some observers note an uptick in the number of students opting for its competitor, the ACT. The most recent data show wide variation in the preferred test in a given state, and an increase in the share of students taking both exams.

Higher Ed Cost Increases Moderating **4**

The College Board has released its annual survey of higher education costs. For public four-year institutions, tuition and fees have risen an average of 6%. While this is a more moderate increase than in many recent years, it caps a five-year period of unprecedented cost increases.

State Income and Product **7**

Fiscal analysts are familiar with the concept of state personal income, since it is widely used both as a measure of a state's well-being and as a factor in several formula grant programs. Less well-known is the concept of gross domestic product by state.

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States and Immigration

2

The U.S. Congress declined to address the issue of illegal immigration in its last session, and early indications are that the emotionally charged issue will not be given a high priority when a new Congress convenes in January. Absent a federal policy, many states have taken the immigration debate into their own hands, debating scores of bills that either extend or deny benefits for undocumented immigrants. A few studies have attempted a quantitative assessment of demands on the public purse imposed by such immigrants.

Federalism at a Crossroads

6

The executive director of the National Governors Association recently bemoaned the condition of state-federal relations, referring to the current situation as a “low point.” Two important legislative issues will help to set the tone for how a new Congress will deal with the states: implementing the Real ID Act and reauthorizing No Child Left Behind.

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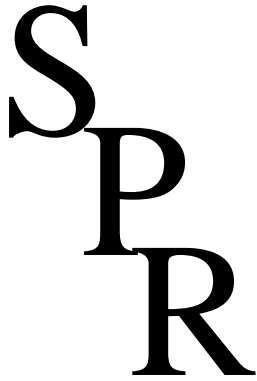
What and How States Spend 2

The National Association of State Budget Officers has released its annual report on state spending trends. This year's report holds no real surprises. Instead, it validates two long-term trends that many observers have noted: federal funds are becoming more important to states and Medicaid is becoming the dominant program in many state budgets. Of course, the two trends are linked, since Medicaid is the major source of federal funds in state budgets.

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Another Year-End Good News Issue

As 2006 comes to a close, the good news is even better than it was one year ago. State economies are growing, revenues are exceeding estimates and balances are at historically high levels. Spending is exceeding budgeted amounts, but that tends to happen in years without recessions.

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