Can We Cut Our Way to Prosperity?

ECONOMIC DEVELOPMENT AND STATE BUDGETS
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CEO, MARKET STREET SERVICES

August 2, 2012
Current Realities

State Budgetary Environment
The Uneven Recovery

State Unemployment Rates (June 2012)

Source: Bureau of Labor Statistics
Out of the Unemployment Line
But Out of the Labor Force Too

Source: Bureau of Labor Statistics

Lowest Level Since May 1983
State and Local Government Employment
Percent Change Since the Great Recession

Source: Bureau of Labor Statistics
State and Local Government Employment
Who’s Cutting the Most (May 2012)

Source: Bureau of Labor Statistics

Percent Change in Employment Since Recession

-10.0% -8.0% -6.0% -4.0% -2.0% 0.0% 2.0% 4.0% 6.0% 8.0% 10.0%

Wyoming 10.0% West Virginia 8.0% North Dakota 6.0% Tennessee 4.0% Oklahoma 2.0% South Dakota 0.0% Hawaii 4.0% Delaware 2.0% Maryland 0.0% Louisiana 2.0% North Carolina 4.0% Oregon 4.0% Iowa 2.0% Wisconsin 4.0% Indiana 4.0% South Carolina 2.0% Vermont 4.0% United States 0.0% Kansas 0.0% Missouri 0.0% Georgia 4.0% Maine 0.0% Florida 2.0% California 2.0% Rhode Island 2.0% Nevada 2.0%
Reassessing State Government Tax Revenue

State Tax Revenue Projections, Then and Now

Notes: Data have been seasonally adjusted by the Task Force and converted to annual rates.
Sources: U.S. Bureau of the Census and Bureau of Economic Analysis.
State Budgets and the Great Recession

State Budget Shortfalls

Source: Center on Budget and Policy Priorities
What Are State Governments Cutting?

Source: Center on Budget and Policy Priorities
Federal Funding Support Diminishes

What Will Fill the Gap?

American Reinvestment and Recovery Funds Available to States (In Billions)

Source: Center on Budget and Policy Priorities
Are We Making a Case for Economic Development?
Evaluating State Tax Incentives

Source: Pew Charitable Trust
What have the States Done?

(State Case Studies)
States Curbing Economic Development Incentives

• Many states have sought to scale back economic development incentives:
  
  – Faced with a $3.7 billion budget gap, North Carolina Governor Beverly Purdue proposed a 10 percent budget cut to the North Carolina Biotechnology Center, the Rural Economic Development Center and a fund that expands high-speed internet infrastructure.

  – In 2010, Oregon eliminated its Business Energy Tax Credit fund from $300 million to $3 million in order to plug its budget shortfall.

• Under harsh budget environments, incentives come under increased scrutiny:
  
  – Iowa established its first Legislative Tax Expenditure Committee tasked with reviewing tax incentives on a five-year cycle in 2011.

  – In 2009, Oregon enacted legislation that placed a six-year sunset on all economic development incentives and set up a formal incentive review process.
Oklahoma EDGE Fund Eliminated

• The EDGE (Economic Development Generating Excellence) fund was created in 2004 as a public grant source for technology-based R&D and commercialization.
  – Earnings on the endowment were to be reinvested to fund promising projects with the long-term goal of transforming Oklahoma into the “Research Capital of the Plains.”
  – The original endowment was pulled to finance roads and bridges.
• In 2007, a $150 million endowment was reestablished with the intention of growing it to $1 billion.
  – In its last four years, EDGE awarded grants totaling $29.4 million to 17 high-tech entities that are all still in business.
  – Legislature voted in May 2012 to eliminate the fund at the end of August 2012.
## Georgia Cuts K-12 Funding

### Georgia K-12 Education Funding, 2009-12

<table>
<thead>
<tr>
<th>Category</th>
<th>FY 2009 Original Budget</th>
<th>FY 2012 Original Budget</th>
<th>FY 2013 Governor's Budget</th>
<th>FY 2009 - FY 2013 Change (%)</th>
<th>FY 2012 - FY 2013 Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total State General Funds</td>
<td>$8,196,497,771</td>
<td>$6,969,195,136</td>
<td>$7,168,082,873</td>
<td>-12.5%</td>
<td>2.9%</td>
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<tr>
<td>Quality Basic Education Program</td>
<td>$6,789,985,513</td>
<td>$6,119,150,453</td>
<td>$6,317,596,097</td>
<td>-7.0%</td>
<td>3.2%</td>
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<tr>
<td>Nutrition, School Nurses, Special Needs</td>
<td>$240,766,268</td>
<td>$190,180,454</td>
<td>$183,707,738</td>
<td>-23.7%</td>
<td>-3.4%</td>
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<td>Scholarship, and Pupil Transportation</td>
<td>$548,529,543</td>
<td>$436,158,587</td>
<td>$436,158,587</td>
<td>-20.5%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Quality Basic Education Equalization</td>
<td>$617,216,447</td>
<td>$223,705,642</td>
<td>$230,620,451</td>
<td>-62.6%</td>
<td>3.1%</td>
</tr>
</tbody>
</table>

Source: Georgia Budget and Policy Institute
Higher Education Funding Slashed in California

• California’s 2012 budget reduced funding by more than $1 billion for the state’s two university systems.
  
  – University of California: Tuition for the 2011-2012 school year was increased 18 percent from the previous year. Over the last five school years, tuition has increased over 80 percent.
  
  – California State University: The state of California now provides the university system the same support as it did in 1999, even though it now serves 70,000 more students.

• The community college system has lost $809 million in state aid since 2008, including $564 million in the most recent budget.

• Voters will decide in November on a tax hike proposal to fund K-12 schools, higher education, and courts. If it fails to pass, another $6 billion will be cut from K-12 and higher education in January.
Wisconsin High-Speed Rail

• In 2009, Wisconsin was awarded $810 million to construct a high speed rail passenger line between Madison and Milwaukee, part of a larger vision to create a high speed rail corridor linking Minneapolis with Chicago.
  – Opponents cited the $7.5 million annual operating cost to the state and slower expected commute times as reasons to scuttle the project.
  – Governor Walker returned the funds after the Department of Transportation refused to let Wisconsin spend the grant monies on non-rail related projects.

• After Wisconsin rejected the funds, the Department of Transportation redistributed the grant to the following states:
  – California: $421.4 million
  – Florida: $230.9 million (also terminated)
  – Washington: $108.7 million
  – Illinois: $28.4 million
Tax Cuts in Kansas – Deep and Controversial

• In May, Governor Sam Brownback signed Tea Party-backed tax cut measures, purportedly to spur economic growth which Democrats and many Republicans say go “too far.”
  – Reduced the top individual state income-tax rate to 4.9 percent from 6.45 percent.
  – Eliminated income taxes on non-wage income for about 191,000 small businesses.
  – Created a 3 percent income tax for the first $15,000 of a single filer’s income, and the first $30,000 for a married couple.

• Cuts will result in a $677 million shortfall in 2014, or 11 percent short of the state’s 2014 expenditures according to the Wall Street Journal.

• Tax deductions for child care and small employer health benefit plan contributions were eliminated to help pay for the cut.
Missouri Wanes on Economic Development Investments

• Governor Jay Nixon’s key priorities for a comprehensive, bi-partisan job creation package, which was introduced during a special legislative session in September 2011 included:

  – Missouri Science and Innovation Reinvestment Act (MOSIRA) – Reinvests tax revenues collected from life science and technology firms back into initiatives to grow these sectors in Missouri.

  – Compete Missouri – Cuts red tape for businesses and makes the state’s economic tools more effective and user friendly.

  – A $360 million package aimed at turning Lambert into a hub for freight flown between China and the Midwest.

  – Incentives for the development of high-tech, next-generation data centers.

• Politicians failed to come to an agreement on housing and other tax credits, the legislation was ultimately not passed.
Cuts in Arizona

- Arizona has had among the worst budget gaps in the country, a combined total of $12.1 billion since 2009.

- Arizona Department of Commerce:
  - Between 2008 and 2010, the Department of Commerce experienced three budget cuts – reducing its budget by nearly two thirds.
  - In 2010, the Department’s director sought to reduce staff in an effort to create a “lean” organization and to shift some of the organization's 50 mandated programs to other state departments.

- Budget cuts impact Medicaid:
  - In fiscal year 2012, Arizona faced a $1.2 billion deficit, with more than 80 percent of deficit reduction coming from Medicaid costs.
  - To strive to balance its budget, legislators in Arizona revoked Medicaid eligibility of more than one million low-income residents.
Florida

Rough Start

• Florida Governor, Rick Scott, vetoed a nearly 20 year old project of the Orlando/Tampa Chambers of Commerce to build a high speed rail along the clogged I-4 corridor. The project was “shovel ready” and fully funded.

• Enterprise Florida has undergone staff and leadership changes:
  – The 20 year old state-level public-private partnership, Enterprise Florida, was reorganized and moved into the Governor’s Office. The director now reports to the Governor, not its board.
  – Under the reorganization, the newly formed Department of Economic Opportunity now oversees the Agency for Workforce Innovation, Workforce Florida, and the Department of Community Affairs.

• Governor Rick Scott has signed each of the 53 State Chamber supported bills over the last two years.

• After serious budget cuts the Governor has appointed a “Blue Ribbon Commission” chaired by the State Chamber Foundation to review Florida’s State University System.
Addressing the Harsh Budget Reality

Positive Pension Reforms

• Rhode Island’s state leadership passed a pension reform package that sought to plug the state’s $6.8 billion pension funding gap in 2011. Measures included:

  – A freeze on cost of living adjustments for all retirees.
  – An increase in the retirement age to 67 (from 62).
  – Created a hybrid benefits system that includes a traditional defined benefit plan and a 401(k).
  – Decreased its projected investment return on its public pension system from 8.25 percent to 7.5 percent to account for increased economic uncertainty.

• Current retirees will maintain their benefits; however, those hired in 2012 will be moved to the new pension plan.

• Under the new plan, the state’s unfunded pension liability is expected to be reduced by $3 billion.
Addressing the Harsh Budget Reality

Searching for New Revenues

• Governors, irrespective of their political party, have identified online sales tax as an opportunity to increase revenues:
  – Virginia, Nevada, Tennessee, and New Jersey have all indicated that they will begin levying online sales taxes in the near future.
  – The National Conference of State Legislatures estimates that the levy of sales taxes on online purchases could increase total state revenue by $23 billion annually.

• States such as New Jersey and Texas are finding creative ways to encourage online retailers to increase investment in their state:
  – In 2011, Texas State Comptroller sent Amazon a $269 million bill covering sales taxes the retailer did not collect from 2005 to 2009.
  – Amazon agreed to create 2,500 jobs, commit at least $200 million in capital investments, and levy sales taxes in 2013. In exchange, Texas dropped its demand for back taxes.
Mark Eagan, CCE

President and CEO, Albany-Colonie (NY) Regional Chamber of Commerce
Historically, New York hasn’t been known for having the best business climate...
Governor Cuomo “Gets it.”

Addressing competitive weaknesses of NYS
• Closed $12 billion in deficits
• No new taxes or borrowing
• Enacted first-ever 2% property tax cap
Taking on Public Unions
Passed a new pension tier
State Research Universities as greater engines for economic development
State Research Universities as greater engines for economic development
New and Streamlined Programs
Regional Economic Development Councils…

A bottom-up approach?
New York is on the right track

#10 Enterprising States Report
The Big Question
Jay Chesshir, CCE

President and CEO, Little Rock (AR) Regional Chamber of Commerce
Arkansas has weathered the economic uncertainties of the past few years deficit free and always with a balanced budget.

Arkansas can offer business fiscal responsibility and stability.
Regional Economic Development

• The state has facilitated and encouraged communities to organize into economic development regions

• There is greater strength in the regional approach
Incentives

• Communities and regions are strengthening their incentives by combining them with state incentives

• Take advantage of the Governor’s Quick Action Closing Fund
Education/Job Training

• Education and economic development are inseparable

• More resources are have been devoted to strengthening our four and two-year colleges to meet the specific needs of business

• Arkansas can provide the workforce you need today and produce the workforce you will need in the future.
Efficiency

• The Arkansas Economic Development Commission is operating with fewer people than it did 15 years ago with roughly the same budget

• Done by increasing efficiencies in our recruitment and marketing efforts, and creating partnerships with local economic developers across the state
Panel Discussion

*Audience Question and Answer*
Tough Choices

“How much less do we think would be good for our country? How much less education would be good for our children? How many fewer college degrees would make our state or our country more competitive? How much less research and development would be good for the innovation economy that we have an obligation and the responsibility, a duty and an imperative, to embrace? How many fewer hungry Maryland kids can we afford to feed? Progress is a choice: we decide whether to make the tough choices necessary to invest in our shared future and move forward together. Or we can be the first generation of Marylanders to give our children a lesser quality of life with fewer opportunities.”

Martin O’Malley
Governor of Maryland
Thank You

August 2, 2012