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State Revenue and Spending in Good Times and Bad:
Overspending During Economic Recovery

by Michael Flynn, Adrian Moore, Len Gilroy and Adam Summers

Reason Foundation

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Executive Summary

Even if the recession is technically over, by any measure the U.S. economy is a long way from whole, with unemployment still at 9.1% as of May 2011. As well, the economic downturn has put a great deal of pressure on state budgets. The Center for Budget Policies and Priorities pegs states falling short of desired revenue by $112 billion in the coming fiscal year. As economic activity declines, states collect less tax revenue. As people lose jobs and incomes drop, demand increases for state services like job training, health care support, welfare and unemployment compensation. The combination often leads to dramatic cuts in state services or even tax increases.

State leaders have responded to these drops in revenue with warnings of dire budget cuts and tax increases. Of course, the cuts are always calculated from what spending would have been if they had continued to increase it, not measured from any objective assessment of need. Hence the logic of tax increases is compelling to those who can only see spending increasing. In 2009 and 2010 36 states raised taxes or fees, including:

- New York: Total enacted and proposed new taxes, 2009–2011: $8.2 billion; $419 per person.
- California: Total: $11.5 billion; $312 per person.
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- Oregon: Total: $541 million; $141 per person.
- Massachusetts: Total: $890 million; $135 per person.
- New Hampshire: Total: $161 million; $121 per person.

Meanwhile the "stimulus" bill, the American Recovery and Reinvestment Act (ARRA), sent unprecedented sums from the federal Treasury directly to the states. *Federal Funds Information for the States* estimates that over $200 billion of the spending in ARRA was routed through state government.

Routing these federal funds through the states is partly explained by the evolution of the relationship between the federal and state governments. State governments are, to a certain extent, subsidiary branches of the federal government. Federal grants to transportation, education and welfare alone give the federal government tremendous influence over how states spend in those areas. Today, on average, for every dollar state government spends, around 28 cents comes from the federal government.

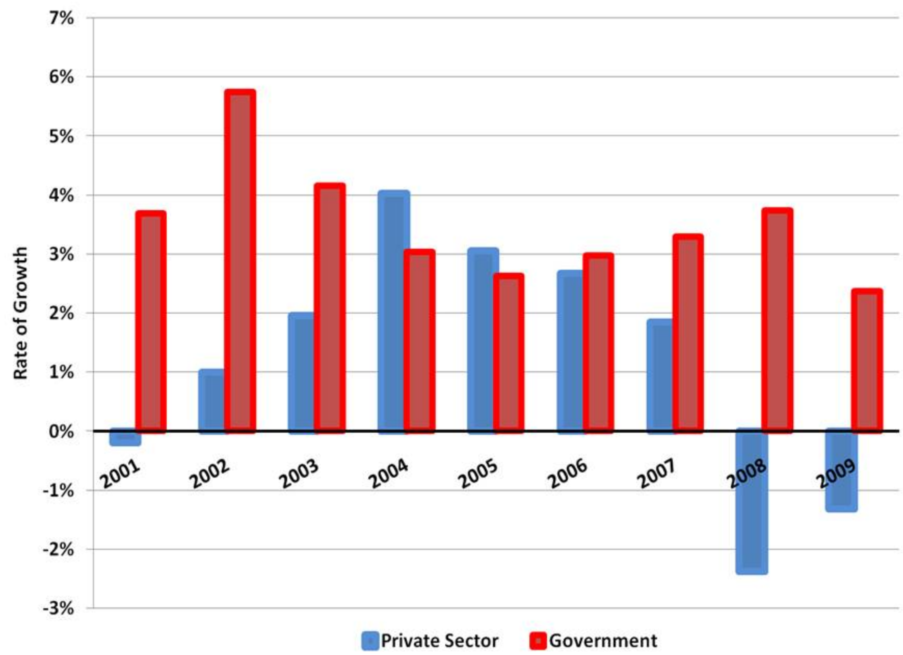
What's missing from discussions of state budget crises is any context. Even if one accepts the "shortfall" numbers at face value, it is not immediately clear to what extent the budget shortfall is due to the general economic downturn, or to policy decisions made by state leaders. For example, if a state has built a budget around revenue growing by 10% and revenue only grows by 8%, one could argue the state is experiencing a "shortfall", but not in a way that is meaningful to most people. If the economic downturn were the only culprit, all state budgets would be compromised, which is not the case. Missing from most stories are the answers to questions like: How do current revenue and spending compare to past years? How do they compare to population growth and inflation? What sources of revenue are falling? How has spending in different areas changed?

Nor do we know whether the current or projected budget is built on years of rapid increases in overall spending. If your current budget is built on several years of rapid expansion, a projected cutback may seem more severe than it actually is. If over the last six years you had received 10% raises each year, and spent them on a new car, RV and nicer vacations, yet this year you have to take a 20% cut, it may seem like a "shortfall." But in fact your income is still nearly 50% above where it was six years ago—not much of a hardship. Looking at state government's revenue and spending over the past decade tells a similar story.

Indeed, during the past decade, government grew considerably faster than the private sector. As Figure 1 shows, "[W]ith the exception of 2004 and 2005, government consumption and investment have grown more quickly than private expenditures and investment every year this decade. In the last ten years, the private sector has, on average, grown 1.2% annually, while the government has, on average, grown 3.5% annually."

Looking at state budgets in one- or two-year time frames is interesting, but ultimately irrelevant. It is worth asking, are we treating an illness or a hangover? Have the states been efficient stewards of public resources that now, reeling from an economic calamity, need federal support? Or, have they been on a spending bender during a robust economy, like other sectors of the economy, living as if the boom-years would never end? Will a federal infusion now merely put off the necessary steps that need to be taken to put state budgets on a more sustainable footing? Do we feed the addiction or feed the recovery?

Figure ES1: Government Growth Outpaces Private Growth this Decade



Source: Bureau of Economic Analysis

Produced by Mercatus Center at George Mason University

To help answer these questions, we looked at census data on state government finances from 2002–2008, and the picture is revealing. Census data provide a fairly thorough and consistent way to compare state revenue and spending over the years, though the most recent year of data is 2008. The years 2002–2008 provide a picture over a seven-year span, beginning just after the dot-com bust and going into the first year of the most recent recession and the beginning of the state budget crisis.

This comparison shows not only total revenue and spending trends, but shifts in where revenue has come from and where it has been spent. State lawmakers often like to complain about "federal mandates" on certain programs. Left unsaid, however, is that states are subjected to these mandates only because they choose to accept federal funds. For example, many state officials have complained about the testing requirements in the *No Child Left Behind* law. They had to comply with these requirements because of the education dollars they received from the federal government—about 8.3 cents on the dollar of total education spending. If states had turned down the federal money—again only pennies on the dollar—they would be free of not only the *NCLB* mandates, but every other federal mandate on education policy. But states don't seem willing to turn away from federal funds no matter how much it distorts their decisions. Taking all of this into account, this study focuses on *general expenditures*, so as to capture state spending including federal funds to reflect that bargain that states choose to accept.

This study ranks all the states in every category to show how each compares to other states and the national average. But perhaps most importantly it allows a comparison of all the states to the "baseline"—the growth of population and inflation. Over the span of seven years, some could argue that state revenue and spending has to grow with population and inflation as they increase the level of services required and the cost of providing them. To address this concern we combine a 20% inflation from 2002 to 2008 with the average state population growth of 5% to set a baseline of 25%. State revenue and spending growth that significantly exceed that baseline are excessive, and our findings demonstrate excessive state-level government growth during these years. This study concludes that the perceived "shortfall" that has driven many states into a financial crisis is no more than the consequences of spendthrift states being forced to rein in years of profligate spending.

Revenue

States receive around 30% of their revenue from the federal government. This is because many federal policies and programs use grants to the states as funding mechanisms, incentives and instruments of control.

This study shows that state revenues grew substantially between 2002 and 2008 at a rate greatly exceeding the rate of population growth and inflation. In those years states':

- Total revenue grew 48%
- General revenue grew 42%
- Transfers from the federal government grew 33%
- Sales tax revenues grew 32%
- Personal income tax revenues grew 43%
- Corporate income tax revenues grew 102%
- Average population and inflation grew 25%.

And these calculations *include* the dip in revenues in 2008 due to the recession. In 2007 total state revenues exceeded $2,000,000,000,000 ($2 trillion), nearly double the $1,097,000,000,000 ($11 trillion) they were in 2002, before falling substantially to $1,619,000,000,000 ($1.7 trillion) in 2008.

Put another way, states overall had increased revenue by $563,000,000,000 ($563 billion) more than justified by inflation and population growth. Even after the recession began in 2008, they were still taking in $182,000,000,000 ($182 billion) more than they needed to cover population growth and inflation since 2002.

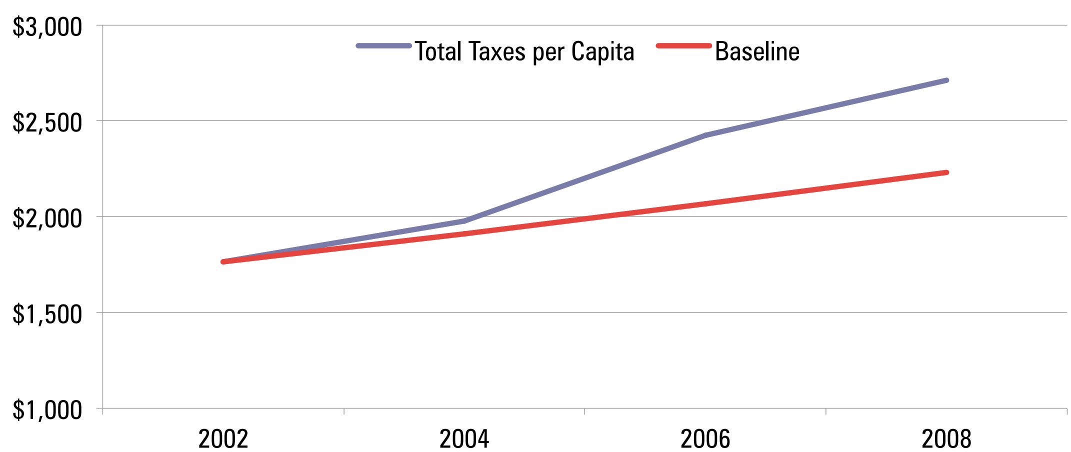
Let's put this in personal finance terms. In 2002, you come out of the recession with a job that pays you $50,000 a year. Over the next six years you receive cost-of-living adjustments from your employer so you can maintain your lifestyle. In 2007, you are earning $60,500, before the recession of 2008 causes your employer to cut everyone's salaries by 10% to avoid more layoffs, putting your salary back to $54,450. But your neighbor "state government," however, saw his salary grow to a stunning $90,500 and even the recession only knocked him back to $74,000—36% better off than you!

Taxes Per Capita

Across the nation, state total tax collections averaged $1,862 for every man, woman and child in 2002. In just six years, that figure had risen to $2,574, an increase of more than $700 for every citizen (which means an average roughly $2000 per household increase in state taxes). This increase of 34% is well above the 25% baseline.

Obviously, not every dollar of a state's total tax collections is paid directly by residents. The biggest increase in per capita collections was in states with significant natural resources that benefited from higher prices for oil, gas and other minerals. But demand for state services should roughly align with the rate of growth in population and the economy, unless the scope of government services is expanding as well. Since states were largely providing the same services in 2008 as they were in 2002, the growth in per capita tax collections represents higher costs for the same services, or surplus revenue. The magnitude of the increase—jumping by a third in just six years—is an indication of just how much costs were increasing or surplus revenue was flowing into the states' coffers.

Figure ES2: Total State Taxes Per Capita, 2002–2008

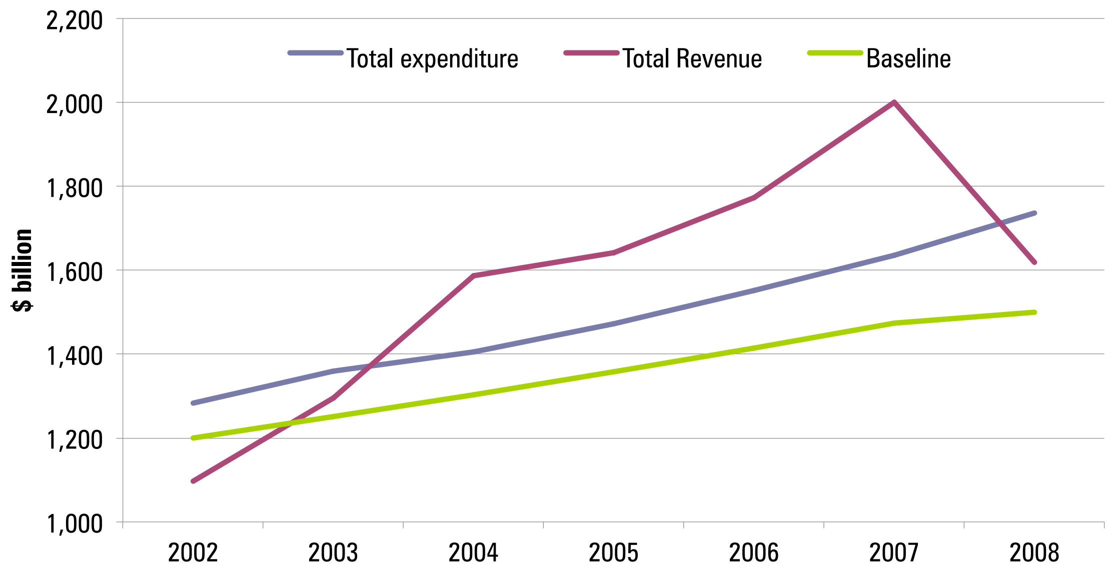


It is clear that over this seven-year period, states collected far more in taxes than was necessary to meet their needs. A prudent course for state governments would have been to systematically cut their taxes during this period of strong economic growth while controlling the growth in the cost of services. In doing so, they could have kept their per capita tax collections relatively stable. Because they didn't do this, their budgets are now based on a level of per capita tax collection that is unsustainable during an economic downturn.

Spending

As with state revenue, there are various ways to look at state spending. *Total state expenditures*, obviously, encompass every dollar spent by state government, irrespective of its source.

Figure ES3: Total State Revenue vs Total State Spending, 2002–2008



Notice in Figure ES3 how both total revenue and total expenditures greatly exceed the baseline. More interesting is that revenues exceeded expenditures for many years. In 2007 total revenue exceeded total expenditures by $264 billion, while in 2008 total revenues fell short of total expenditures by $137 billion. You would think the extra money collected in 2007 would have covered that, so why did the states all scream budget shortfall? Where did that extra revenue go? These data do not show the answer. One would think the states would have had massive rainy day funds to use to weather the recession. They certainly did not give the excess revenue back to the taxpayers.

This spending above baseline adds up. By 2008 states were spending $117 billion per year more than if they had stuck to the baseline. And this spending occurred when welfare and unemployment rolls were *declining*. Unemployment, for example, fell from around 6% in 2002 to around 4.6% in 2007, before rising again to 5.8% in 2008 as the recession began. Yet states massively expanded spending on welfare during this period. How ironic that the $117 billion *per year* in spending above the baseline by states was more than they requested in bailouts from the federal government at the height of the recession.

Five states (LA, WY, AZ, NM, DE) grew spending by more than 50%—more than *twice the rate of growth of the baseline*. And six more states grew their spending by more than 45% (NV, TX, ID, MD, MS, FL)—a spending spree. Two of these states, Louisiana and Mississippi, experienced devastating storms in 2005, which accounts for much of their increased spending. A few other states experienced faster population growth than the nation as a whole, but not twice as much, and in none of these states does this growth account for the higher spending.

It defies common sense to spend today what you won't have tomorrow. The economic growth from 2002 to 2008 pumped staggering sums of new money into state government coffers. As with economic booms in the past, state governments acted as if the good times would never end. But they did.

Conclusions and Recommendations

For the five years immediately preceding the economic downturn, states experienced both robust revenue growth and steady increases in overall spending. Their total spending far outpaced inflation. In fact, states collectively spent hundreds of billions more than was necessary to maintain programs at 2002 levels, after accounting for population growth and inflation. As this period coincided with falling unemployment and a generally strong economy, it is not unreasonable to ask how states could have justified such a large increase in spending.

There is no industry today that expects its costs to increase every year at more than the rate of inflation. Such a business model is unsustainable in today's globalized economy. Every industry and company is under constant pressure to trim costs and streamline service delivery to compete in the free market. Economic downturns provide an extra incentive to do this and generally help set the stage for a robust recovery. State governments shouldn't be immune to this. After 2007 we were clearly experiencing an economic downturn. If the states had merely maintained their existing programs in between economic downturns, they would have been able to deliver a $1 trillion tax cut at the end of 2007 to help the economy recover quickly.

Instead of seeking a temporary bailout from the federal government, states should roll up their sleeves and put their own fiscal house in order. No function, program or agency should be considered sacred, and each merits rigorous review and evaluation to determine whether it is achieving its mission, delivering services in a cost-effective manner and, ultimately, whether it merits continuation or not.

The recommendations that follow focus on implementing systemic, proven reforms designed to drive large, enterprise-wide changes across state government to help keep the costs of government—and the taxpayer burden—in check:

Reform #1: Adopt an Effective State Spending/Revenue Limit

Reform #2: Employ Outcome-Based Budgeting

Reform #3: Adopt a Sunset Review Process for State Agencies, Boards and Commissions

Reform #4: Utilize Non-Partisan Revenue Forecasts and an Independent Certification of the Budget

Reform #5: Create a Statewide Real Property Inventory and Take Advantage of Asset Sale and Lease Opportunities

Reform #6: Expand the Use of Privatization and Competitive Contracting

Reform #7: Establish a State Privatization and Efficiency Council

Reform #8: Implement Public-Private Partnerships to Finance Transportation Infrastructure

Reform #9: Enact School Empowerment and Student-Based Budgeting Reforms

Reform #10: Reinvent Higher Education Systems

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Part 1

Introduction

Even if the recession is technically over, by any measure the U.S. economy is a long way from whole, with unemployment still at 9.1% as of May 2011. As well, the economic downturn has put a great deal of pressure on state budgets. As economic activity declines, states collect less tax revenue. As people lose jobs and incomes drop, demand increases for state services like job training, health care support, welfare and unemployment compensation. The combination, it is often argued, throws state budgets out of balance and, because states are generally required to enact "balanced budgets," often leads to dramatic cuts in state services or even tax increases.

The news these days is still full of stories that reflect this imbalance. The fight between Governor Scott Walker and state workers in Wisconsin over budget cuts and the shutdown of the state government in Minnesota were but the most visible example of what is going on in many states as many new governors and state legislatures find the level of state spending to be no longer sustainable. A February 2011 *USA Today*/Gallup poll found that 64% of those surveyed said their state is in a budget crisis.[1] The Center for Budget Policies and Priorities pegs states falling short of desired revenue by $112 billion in the coming fiscal year.[2]

State leaders have responded to these drops in revenue with warnings of dire budget cuts and tax increases. Of course, the cuts are always calculated from what spending would have been if they had continued to increase it, not measured from any objective assessment of need. Hence the logic of tax increases is compelling to those who can only see spending increasing. In 2009 and 2010 36 states raised taxes or fees, including:

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Routing these federal funds through the states is partly explained by the evolution of the relationship between the federal and state governments. Originally construed as "separate, but co-equal" branches of government, state governments are, to a certain extent, subsidiary branches of the federal government. Many federal programs, like job training and welfare programs, are administered by state governments. In programs like education, the federal government provides states with financial support to meet federal priorities. For programs like Medicaid and transportation, the federal government provides general financial support—along with many strings—for states to operate their own programs. Today, on average, for every dollar state government spends, around 28 cents comes from the federal government.

What's missing from discussions of state budget crises is any context. Even if one accepts the "shortfall" numbers at face value, it is not immediately clear to what extent the budget shortfall is due to the general economic downturn, or to policy decisions made by state leaders. For example, if a state has built a budget around revenue growing by 10% and revenue only grows by 8%, one could argue the state is experiencing a "shortfall", but not in a way that is meaningful to most people. If the economic downturn were the only culprit, all state budgets would be compromised, which is not the case. Missing from most stories are the answers to questions like: How do current revenue and spending compare to past years? How do they compare to population growth and inflation? What sources of revenue are falling? How has spending in different areas changed?

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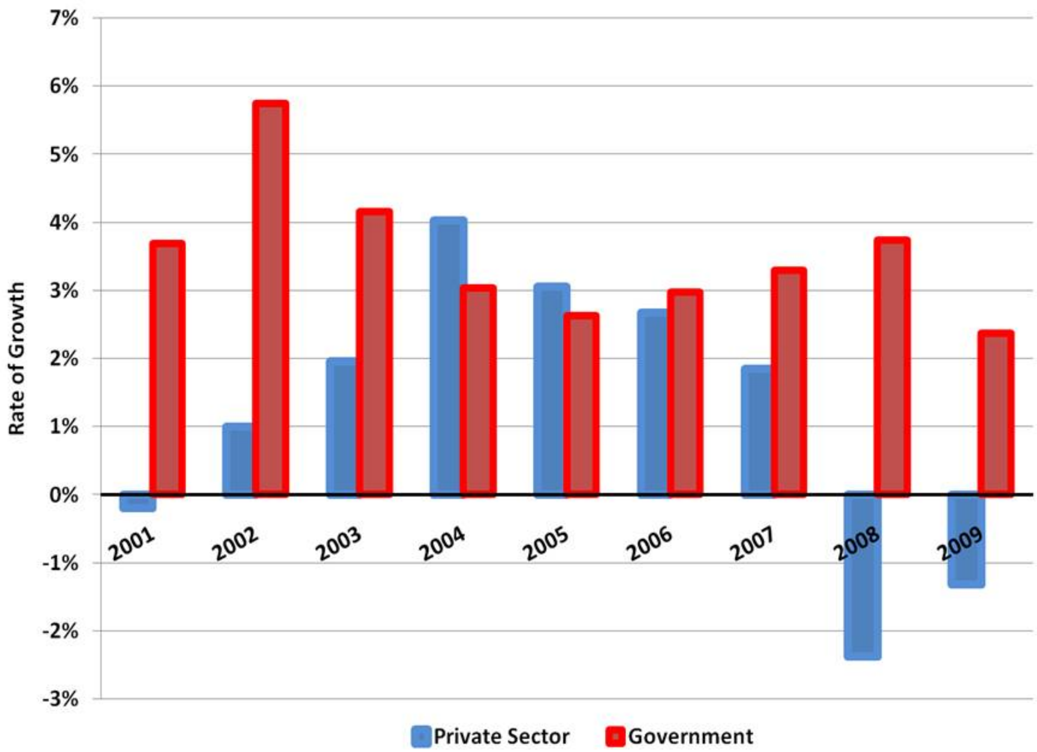

Source: Bureau of Economic Analysis. Produced by Mercatus Center at George Mason University

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To help answer these questions, we looked at Census data on state government finances from 2002–2008, and the picture is revealing.[5] Census data provide a fairly thorough and consistent way to compare state revenue and spending over the years, though the most recent year of data is 2008. This comparison shows not only total revenue and spending trends, but shifts in where revenue has come from and where it has been spent. The years 2002–2008 provide a picture over a seven-year span, beginning just after the dot-com bust and going into the first year of the most recent recession and the beginning of the state budget crisis.

Those years between the two recessions also shed light on the philosophy of government spending. These were boom years for the economy and thus for government revenue. If the theory of stimulus says that during a recession the government must spend more to stimulate the economy, then if follows that during and economic boom, there is less need for government spending. So we should wonder if state governments cut back during these boom times and saved for a rainy day.

Ranking all the states in every category shows how each compares to other states and the national average. But perhaps most importantly it allows a comparison of all the states to the "baseline"—the growth of population and inflation (see Box). Over the span of seven years, some could argue that state revenue and spending has to grow with population and inflation as they increase the level of services required and the cost of providing them. To address this concern we combine a 20% inflation from 2002 to 2008 with the average state population growth of 5% to set a baseline of 25%. State revenue and spending growth that significantly exceed that baseline are excessive, and our findings demonstrate excessive state-level government growth during these years. This study concludes that the perceived "shortfall" that has driven many states into a financial crisis is no more than the consequences of spendthrift states being forced to rein in years of profligate spending.

The "Baseline"

In this study we compare state revenue and spending trends with a "baseline" level of growth. Since one might expect revenue and spending to rise as population and inflation rise, we calculate a baseline rate of growth by combining inflation rate of nearly 20 percent from 2002 to 2008 with the average population growth rate of 5%. Some states had population growth rates substantially different from 5%. Rhode Island and Louisiana lost population during that time period, while Utah, Arizona and Nevada had population growth of over 15%. See Appendix 2 for a table of state population changes from 2002 to 2008. For most states, the difference between their population growth rate and the average won't affect the big picture comparisons in this paper. In Appendix 1 where we provide state by state analysis, we use baselines based on each state's growth.

Part 2

Revenue

States claim that the most immediate cause of strife in state budgets is current and anticipated drops in revenue. No doubt, a drop in economic activity will cause state revenue growth to falter. Whether revenues actually fall is the question. Additionally, it is instructive to look at revenue collections prior to the economic downturn. Just as we look at the prior decisions of other companies and sectors appealing for a federal bailout, it is important to look at the past history of state budgets. Are the states experiencing an extraordinary shock outside of their control, or did they succumb to their own excess?

There are many ways to look at state revenue. One could look at total state revenue, general fund revenue or tax revenue for different parts of the story. We present all of it. As the following graphs and tables show, state revenues grew substantially between 2002 and 2008 at a rate greatly exceeding the rate of population growth and inflation. In those years states':

- Total revenue grew 48%
- General revenue grew 42%
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And these calculations *include* the dip in revenues in 2008 due to the recession. In 2007 total state revenues exceeded $2,000,000,000,000 ($2 trillion), nearly double the $1,097,000,000,000 ($1.097 trillion) they were in 2002, before falling substantially to $1,619,000,000,000 ($1.619 trillion) in 2008.

Put another way, states overall had increased revenue by $563,000,000,000 ($563 billion) more than justified by inflation and population growth. Even after the recession began in 2008, they were still taking in $182,000,000,000 ($182 billion) more than they needed to cover population growth and inflation since 2002.

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A. Total Revenue

Total Revenue is the aggregate number of state resources, encompassing all the resources available to a state. This includes all tax revenue, money from the federal government, income from various trust funds, earnings from investments, and even state employee contributions to pension systems. It reflects every dollar available to state governments.

Figure 2: Total State Revenue Collections 2002–2008

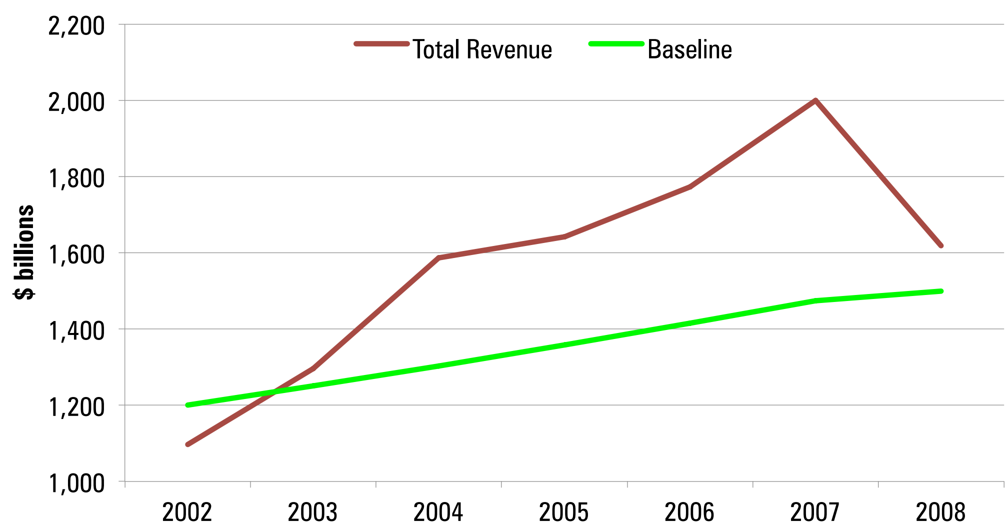


Table 1: Individual State Total Revenue Growth, 2002–2008

Rank	State	2002 Revenues ($ thousand)	2008 Revenues ($ thousand)	Difference
1	Alaska	5,018,805	16,027,757	219%
2	Wyoming	2,769,606	6,481,408	134%
3	Colorado	12,478,045	26,521,512	113%
4	Texas	60,386,905	119,140,582	97%
5	Massachusetts	26,885,248	51,759,773	93%
6	Utah	8,467,827	15,243,424	80%
7	New Jersey	32,709,241	55,046,270	68%
8	Louisiana	18,093,632	30,307,726	68%
9	North Dakota	3,016,825	5,018,609	66%
10	Georgia	24,846,501	41,266,892	66%
11	North Carolina	31,523,608	51,421,057	63%

Table 1: Individual State Total Revenue Growth, 2002–2008

Rank	State	2002 Revenues ($ thousand)	2008 Revenues ($ thousand)	Difference
12	Arizona	17,297,726	27,697,541	60%
13	Montana	4,033,180	6,402,859	59%
14	Hawaii	5,868,714	9,298,617	58%
15	Idaho	4,487,672	7,107,284	58%
16	Vermont	3,259,608	5,148,584	58%
17	Pennsylvania	46,164,524	71,492,127	55%
18	Washington	23,813,123	36,644,997	54%
19	Virginia	23,576,891	36,233,002	54%
20	Nevada	6,888,159	10,438,720	52%
21	Ohio	43,787,987	65,860,064	50%
	United States	1,097,045,283	1,619,325,776	48%
22	Arkansas	10,247,487	15,106,880	47%
23	New Mexico	8,746,253	12,892,523	47%
24	Mississippi	11,052,453	16,278,166	47%
25	Indiana	20,116,042	29,114,836	45%
26	Oklahoma	13,133,991	18,810,187	43%
27	Iowa	11,130,351	15,939,920	43%
28	Tennessee	17,951,931	25,699,084	43%
29	Florida	48,489,136	69,229,431	43%
30	Illinois	41,094,791	58,524,149	42%
31	Delaware	4,682,495	6,658,241	42%
32	New York	104,533,614	147,340,334	41%
33	Nebraska	6,001,930	8,387,599	40%
34	Kansas	9,694,312	13,541,510	40%
35	South Carolina	16,996,797	23,595,393	39%
36	Maine	5,451,423	7,551,956	39%
37	Rhode Island	4,891,253	6,691,311	37%
38	Maryland	20,787,889	28,422,851	37%
39	New Hampshire	4,636,375	6,291,580	36%
40	California	151,245,388	201,069,818	33%
41	Minnesota	22,438,505	29,707,313	32%
42	Missouri	19,085,356	25,243,465	32%
43	Kentucky	16,072,899	20,581,938	28%
	Baseline	N/A	N/A	25%
44	Connecticut	16,993,167	20,929,756	23%
45	Wisconsin	20,874,265	25,643,589	23%
46	Alabama	14,942,192	18,353,637	23%
47	West Virginia	9,130,217	10,853,751	19%
48	South Dakota	2,500,028	2,910,381	16%
49	Oregon	14,815,282	17,138,166	16%
50	Michigan	43,935,634	42,259,206	-4%

In 2002, total state revenue was just over $1 trillion ($1,097,000,000,000). In 2008, this figure had risen to almost $1.7 trillion ($1,619,325,776,000), a 48% growth rate, nearly twice the rate of population growth and inflation.

Indeed the rate of total revenue growth exceeded the baseline in 43 states. Only Michigan saw a fall in total revenue. Alaska, Wyoming and Colorado experienced triple-digit growth in total revenue.

B. General Fund Revenue

Some may argue, however, that total revenue isn't the appropriate focus. Some portion of the revenue is out of the direct control of elected officials, so it doesn't truly reflect the choices they've faced or the decisions they have made. The *general fund* is under the direct control of elected state officials and therefore more accurately reflects the day-to-day activities of state government. It funds all the programs we associate with states, e.g., education, Medicaid, road-building and DMVs. General fund revenue consists primarily of tax revenue and federal funds.

Figure 3: Total State General Fund Revenue 2002–2008

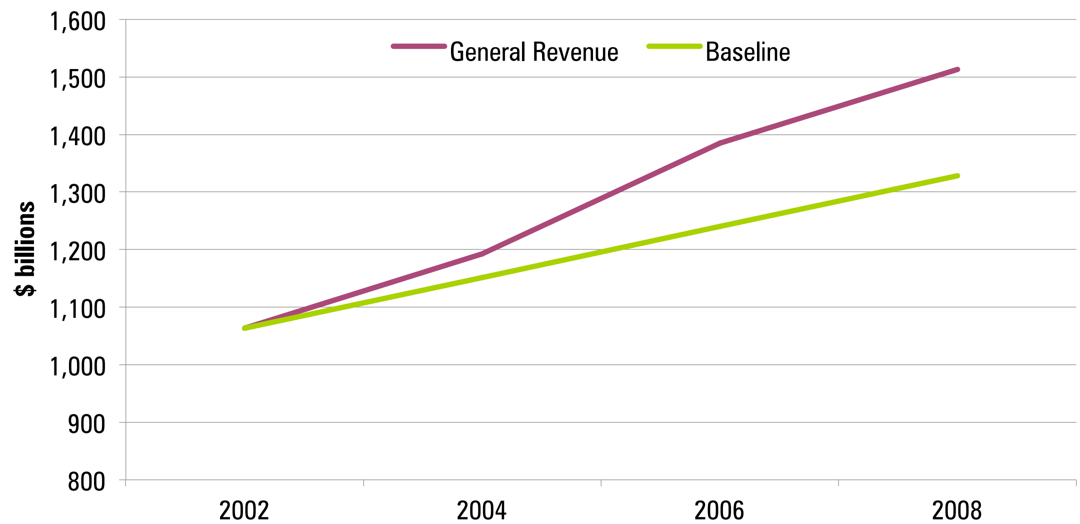


Table 2: Individual State General Fund Revenue Growth, 2002–2008				
Rank	**State**	**2002 Revenues ($ thousand)**	**2008 Revenues ($ thousand)**	**Difference**
1	Alaska	5,422,566	15,874,933	193%
2	Wyoming	2,768,326	5,387,523	95%
3	Arizona	15,860,392	27,087,538	71%
4	Louisiana	17,658,826	29,869,122	69%
5	North Dakota	2,868,404	4,655,088	62%
6	New Mexico	8,478,045	13,713,205	62%
7	Texas	61,979,817	99,020,859	60%
8	Massachusetts	26,475,973	41,607,421	57%
9	Idaho	4,375,145	6,764,195	55%

Table 2: Individual State General Fund Revenue Growth, 2002–2008

Rank	State	2002 Revenues ($ thousand)	2008 Revenues ($ thousand)	Difference
10	Hawaii	6,042,317	9,301,983	54%
11	Nevada	6,167,176	9,398,456	52%
12	New Jersey	33,896,598	51,395,700	52%
13	Utah	8,623,370	13,018,521	51%
14	Vermont	3,229,227	4,856,967	50%
15	Mississippi	11,043,568	16,530,098	50%
16	Montana	3,721,242	5,490,621	48%
17	Kansas	9,179,259	13,504,781	47%
18	Delaware	4,474,046	6,565,092	47%
19	Virginia	24,842,981	36,142,162	45%
20	Indiana	20,010,507	29,043,689	45%
21	South Carolina	14,476,608	20,995,455	45%
22	Maryland	19,909,070	28,815,445	45%
23	North Carolina	29,972,482	43,097,343	44%
24	New York	92,896,789	133,009,806	43%
25	Tennessee	17,619,979	25,178,170	43%
	United States	1,062,627,836	1,513,361,538	42%
26	Florida	47,593,877	67,717,478	42%
27	Washington	22,775,123	32,257,919	42%
28	Oklahoma	12,761,043	17,979,653	41%
29	Georgia	26,114,056	36,784,634	41%
30	Arkansas	10,483,188	14,761,215	41%
31	Colorado	13,999,486	19,617,888	40%
32	Nebraska	5,987,028	8,357,739	40%
33	Alabama	15,986,065	21,974,194	37%
34	California	141,480,665	194,295,986	37%
35	Illinois	40,339,722	55,256,729	37%
36	Iowa	11,025,846	15,013,513	36%
37	Ohio	40,232,128	54,681,803	36%
38	Minnesota	21,909,597	29,682,086	35%
39	Connecticut	15,381,824	20,837,566	35%
40	Maine	5,600,245	7,552,020	35%
41	West Virginia	8,052,506	10,751,555	34%
42	Rhode Island	4,835,556	6,387,409	32%
43	Kentucky	15,810,192	20,850,510	32%
44	Pennsylvania	46,544,216	61,150,215	31%
45	South Dakota	2,613,412	3,426,159	31%
46	New Hampshire	4,390,665	5,714,022	30%
47	Missouri	18,653,645	24,211,890	30%
	Baseline	N/A	N/A	25%
48	Wisconsin	22,874,127	27,976,030	22%
49	Michigan	40,886,394	49,151,148	20%
50	Oregon	14,304,517	16,648,004	16%

In 2002, state *general fund* collections were just over $1 trillion ($1,062,000,000,000). This figure had risen to $1.51 trillion ($1,513,000,000,000) in 2008, an increase of 42%.

Forty-seven states saw their general funds increase faster than inflation and population growth, with 15 states' general revenue growing more than twice as fast as the baseline.

1) Intergovernmental Funds

More than a quarter of state general fund monies originate from the federal government in the form of *intergovernmental funds*. These funds support federal initiatives in education, build roads or support Medicaid systems, among other uses.

Figure 4: Total State Intergovernmental Revenue, 2002–2008

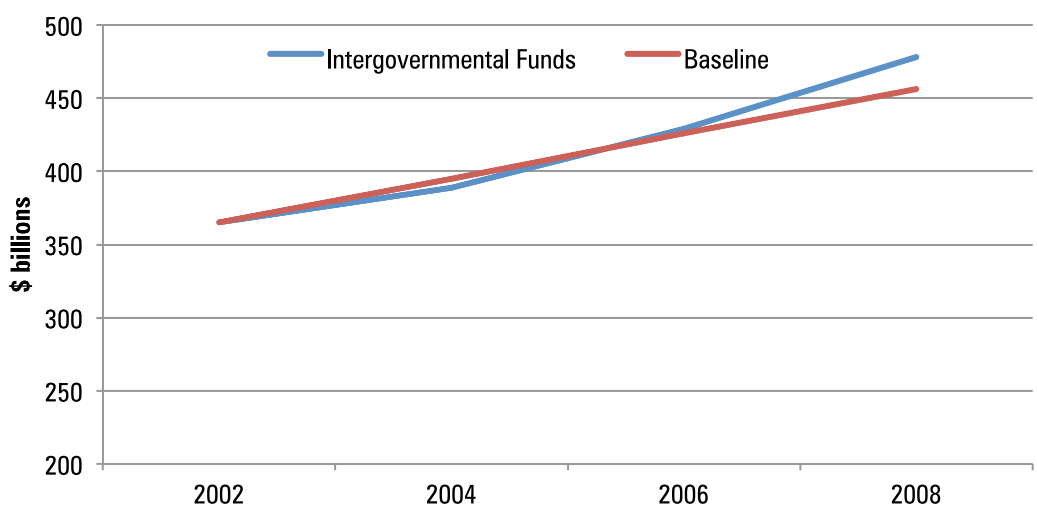


Table 3: Individual State Intergovernmental Revenue Growth, 2002–2008

Rank	State	2002 Revenues ($ thousand)	2008 Revenues ($ thousand)	Difference
1	Louisiana	6,048,661	14,180,841	134%
2	Wyoming	1,169,057	2,164,652	85%
3	Massachusetts	5,430,664	10,047,618	85%
4	Mississippi	4,534,595	7,718,794	70%
5	Arizona	5,259,991	8,887,402	69%
6	Texas	21,384,628	33,614,239	57%
7	Hawaii	1,366,988	2,092,852	53%
8	Georgia	8,610,629	13,090,193	52%
9	New Mexico	2,854,626	4,322,241	51%
10	Florida	13,140,984	19,876,444	51%
11	Utah	2,278,767	3,441,961	51%
12	Idaho	1,330,352	2,005,348	51%

Table 3: Individual State Intergovernmental Revenue Growth, 2002–2008

Rank	State	2002 Revenues ($ thousand)	2008 Revenues ($ thousand)	Difference
13	Delaware	923,253	1,335,675	45%
14	Alaska	1,556,466	2,190,854	41%
15	Nebraska	1,822,661	2,560,819	40%
16	Nevada	1,338,212	1,857,810	39%
17	Indiana	6,027,699	8,349,018	39%
18	Oklahoma	4,120,431	5,705,546	38%
19	Maryland	5,452,843	7,525,060	38%
20	Ohio	12,654,368	17,093,617	35%
21	Montana	1,426,854	1,919,126	35%
22	Iowa	3,445,261	4,630,352	34%
23	Virginia	5,531,423	7,404,341	34%
24	North Carolina	10,201,721	13,650,362	34%
25	Minnesota	5,426,937	7,255,639	34%
	United States	335,433,606	446,478,718	33%
26	Maine	1,830,398	2,427,894	33%
27	Arkansas	3,429,099	4,533,851	32%
28	New Hampshire	1,389,386	1,830,369	32%
29	Washington	6,348,456	8,303,676	31%
30	Vermont	1,086,896	1,420,594	31%
31	Kentucky	5,121,235	6,630,599	29%
32	New Jersey	8,676,521	11,217,573	29%
33	South Carolina	5,434,346	7,018,905	29%
34	Illinois	11,435,066	14,739,992	29%
35	Colorado	3,865,825	4,961,599	28%
	Baseline	N/A	N/A	25%
36	Missouri	6,818,675	8,500,589	25%
37	New York	37,729,771	46,623,511	24%
38	Alabama	6,275,399	7,712,748	23%
39	Rhode Island	1,719,728	2,088,153	21%
40	Pennsylvania	13,733,507	16,512,258	20%
41	California	43,860,532	51,914,572	18%
42	North Dakota	1,043,094	1,233,474	18%
43	South Dakota	1,072,483	1,256,446	17%
44	Kansas	2,991,803	3,495,517	17%
45	Michigan	11,507,263	13,359,341	16%
46	Connecticut	3,769,239	4,344,898	15%
47	Tennessee	7,316,497	8,308,154	14%
48	West Virginia	2,899,197	3,274,439	13%
49	Wisconsin	7,030,842	7,013,591	0%
50	Oregon	5,710,277	4,835,171	-15%

In 2002, states received $335 billion ($335,000,000,000) in revenue from the federal government. In 2008, they received $447 billion ($447,000,000,000)—a 33% increase. Again this is significantly higher than the baseline, with federal funding to states in 2008 at $22,000,000,000 more than needed to keep up with inflation and population growth.

Given Hurricane Katrina, it is no surprise that Louisiana tops the list in growth of federal funding. But 11 other states saw more than 50% growth in federal funds between 2002 and 2008. Only Oregon saw a drop in federal funding, while Wisconsin stayed level.

2) Taxes

About half of state general fund revenues come from *taxes*. In 2002, states collected $535 billion in tax revenue. In 2008, they took in $781 billion, an increase of 42%, or more than twice the rate of inflation and population growth, and an annual total of more than $250 billion more in tax revenue.

Figure 5: Total State Tax Revenue Growth, 2002–2008

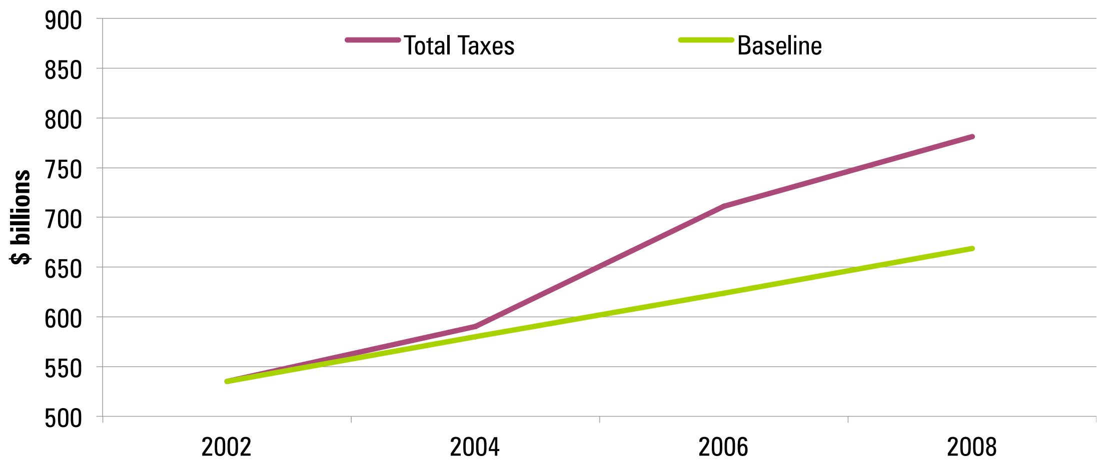


Table 4: Individual State Total Taxes Growth, 2002–2008

Rank	State	2002 Revenues ($ thousand)	2008 Revenues ($ thousand)	Difference
1	Alaska	1,089,504	8,424,714	673%
2	North Dakota	1,117,299	2,312,056	107%
3	Wyoming	1,094,402	2,168,016	98%
4	Montana	1,442,731	2,457,929	70%
5	Vermont	1,518,479	2,544,163	68%
6	New Jersey	18,328,814	30,616,510	67%
7	Arizona	8,477,321	13,705,901	62%
8	Idaho	2,271,075	3,651,917	61%
9	Texas	28,662,395	44,675,953	56%
10	New Mexico	3,628,055	5,645,649	56%
11	Nevada	3,945,329	6,115,584	55%
12	Utah	3,925,382	5,944,879	51%
13	New York	43,262,137	65,370,654	51%
14	California	77,755,376	117,361,976	51%
15	Hawaii	3,420,671	5,147,569	50%

Table 4: Individual State Total Taxes Growth, 2002–2008

Rank	State	2002 Revenues ($ thousand)	2008 Revenues ($ thousand)	Difference
16	Louisiana	7,356,936	11,003,870	50%
17	Kansas	4,808,361	7,159,748	49%
18	Connecticut	9,032,787	13,367,631	48%
19	Tennessee	7,797,681	11,538,430	48%
20	Massachusetts	14,822,592	21,908,599	48%
21	North Carolina	15,537,366	22,781,202	47%
	United States	535,191,161	780,689,445	46%
22	Indiana	10,200,590	14,916,295	46%
23	Arkansas	5,176,050	7,530,504	45%
24	Maryland	10,821,276	15,713,987	45%
25	Pennsylvania	22,135,537	32,123,740	45%
26	Virginia	12,781,149	18,408,276	44%
27	Mississippi	4,728,905	6,770,880	43%
28	Washington	12,628,567	17,944,925	42%
29	Illinois	22,474,774	31,891,497	42%
30	Florida	25,352,237	35,849,998	41%
31	Nebraska	2,992,522	4,228,800	41%
32	Oregon	5,163,687	7,278,717	41%
33	Oklahoma	6,052,680	8,484,227	40%
34	Maine	2,626,830	3,681,614	40%
35	Alabama	6,509,765	9,070,530	39%
36	Colorado	6,923,171	9,624,636	39%
37	South Carolina	6,087,792	8,455,463	39%
38	Minnesota	13,224,036	18,320,891	39%
39	Iowa	5,006,251	6,892,026	38%
40	West Virginia	3,551,756	4,879,151	37%
41	South Dakota	976,596	1,321,368	35%
42	Delaware	2,173,600	2,930,955	35%
43	Georgia	13,772,147	18,183,117	32%
44	Ohio	20,130,415	26,373,813	31%
45	Rhode Island	2,127,609	2,761,356	30%
46	Wisconsin	11,813,831	15,088,662	28%
47	Kentucky	7,974,690	10,056,293	26%
48	Missouri	8,728,932	10,965,171	26%
	Baseline	N/A	N/A	25%
49	New Hampshire	1,897,021	2,257,977	19%
50	Michigan	21,864,052	24,781,626	13%

The robust growth in state tax revenue over this six-year period is only part of the story, however. It is interesting to note the pace of this growth: rising slowly out of the dot-com recession, increasingly rapidly and then beginning to taper off in advance of the general economic slowdown. But as Figure 5 shows, tax revenue growth was still robust early in the recession.

However, the decline in the rate of tax revenue growth ought to have sent a signal to state budget drafters. Instead, it appears that they looked beyond the data and assumed continuing strong revenue growth. State budgets for fiscal year 2009, which were drafted in the last year analyzed here, 2008, called for an over 8% annual spending increase. There is little wonder that states had to make mid-year adjustments to their budgets in the middle of 2009, as the economy began to cool.

A quick look at sales, personal and corporate income tax collections over the same period shows this trend in even sharper relief.

Table 5: Total State Tax Revenue Growth by Category, 2002–2008

Revenue Category	2002 Revenue ($ thousands)	2008 Revenue ($ thousands)	Difference
Corporate Income Tax	25,123,137	50,688,869	102%
Personal Income Tax	185,646,573	266,355,603	43%
General Sales Tax	1,478,125,601	4,566,546,439	32%
Baseline	N/A	N/A	25%

a. Personal Income Tax

Nationally, the personal income tax is the largest single component of state tax revenue, accounting for 36% of all tax collections. (Because nine states do not have an income tax, personal income tax's share of tax collections in states with an income tax is actually slightly higher than this.) Personal income tax's share of total taxes rose slightly over the six-year period. In 2002, personal income tax collections accounted for 35% of all state tax revenue.

In 2002, states collected $185 billion in personal income taxes. By 2008, personal income tax collections had climbed to $266 billion, an increase of 43%, well above the baseline rate, representing an annual increase of $76 billion in revenue. Figure 6 shows the increasing rate of personal income tax revenue going into the recession.

Figure 6: Total State Personal Income Tax Collections 2002–2008

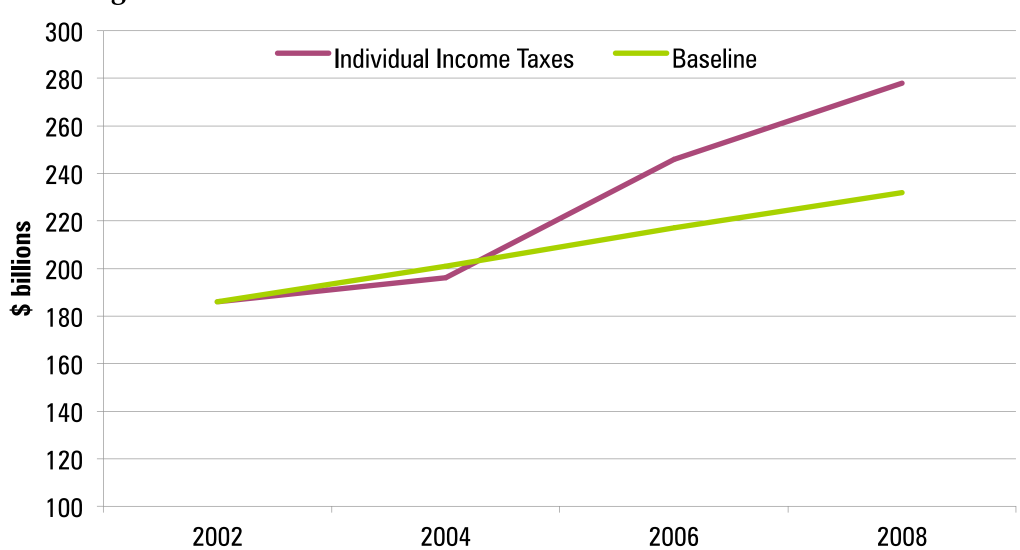


Table 6: Individual State Personal Income Tax Revenue Growth, 2002–2008

Rank	State	2002 Revenues ($ thousand)	2008 Revenues ($ thousand)	Difference
1	Tennessee	146,293	290,986	99%
2	Connecticut	3,685,244	7,000,225	90%
3	New Jersey	6,836,992	12,605,545	84%
4	Louisiana	1,788,733	3,169,686	77%
5	Idaho	842,375	1,438,518	71%
6	California	33,046,665	55,745,970	69%
7	Montana	517,568	870,064	68%
8	New Hampshire	71,433	117,936	65%
9	Arizona	2,090,645	3,408,576	63%
10	Utah	1,605,310	2,593,129	62%
11	Iowa	1,769,347	2,848,393	61%
12	North Dakota	199,590	317,249	59%
13	Kansas	1,854,848	2,944,851	59%
14	Massachusetts	7,912,934	12,496,142	58%
15	Mississippi	985,117	1,551,079	57%
16	Arkansas	1,513,221	2,344,876	55%
17	Pennsylvania	6,734,729	10,408,439	55%
18	Vermont	407,835	623,019	53%
19	Alabama	2,030,694	3,077,553	52%
20	North Carolina	7,265,242	10,993,927	51%
21	Virginia	6,710,771	10,114,833	51%
22	Nebraska	1,153,444	1,726,145	50%
23	Maryland	4,704,368	6,940,134	48%
24	West Virginia	1,034,665	1,518,746	47%
25	Colorado	3,475,760	5,067,981	46%
	United States	185,646,573	266,355,603	43%
26	New York	25,573,667	36,563,948	43%
27	Minnesota	5,443,355	7,777,259	43%
28	South Carolina	2,349,195	3,339,935	42%
29	Missouri	3,615,391	5,118,849	42%
30	Delaware	716,647	1,006,859	40%
31	Hawaii	1,111,590	1,544,835	39%
32	Illinois	7,471,385	10,320,239	38%
33	Indiana	3,540,819	4,837,524	37%
34	Georgia	6,487,638	8,845,476	36%
35	Oregon	3,674,962	4,968,791	35%
36	Maine	1,072,810	1,448,273	35%
37	Wisconsin	4,973,615	6,640,528	34%
38	Rhode Island	823,521	1,091,705	33%
39	Kentucky	2,678,330	3,483,138	30%
	Baseline	N/A	N/A	25%
40	New Mexico	982,891	1,213,522	23%
41	Oklahoma	2,286,110	2,787,445	22%
42	Ohio	8,335,554	9,847,506	18%
43	Michigan	6,125,270	7,181,055	17%

Table 6: Individual State Personal Income Tax Revenue Growth, 2002–2008

Rank	State	2002 Revenues ($ thousand)	2008 Revenues ($ thousand)	Difference
44	Alaska	0	0	0%
45	Florida	0	0	0%
46	Nevada	0	0	0%
47	South Dakota	0	0	0%
48	Texas	0	0	0%
49	Washington	0	0	0%
50	Wyoming	0	0	0%

Table 7: Individual State Personal Income Tax Share of Total Tax Revenue, 2008

Rank	State	Personal Income Tax (PIT) Revenues ($ thousand)	Total Tax Revenues ($ thousand)	Share of Total Taxes
1	Oregon	32,649,363	46,102,999	71%
2	New York	202,926,167	368,603,508	55%
3	Massachusetts	68,838,915	127,275,565	54%
4	Virginia	58,687,640	110,073,681	53%
5	Colorado	28,018,531	55,612,129	50%
6	Georgia	52,600,980	110,817,688	47%
7	North Carolina	61,343,071	132,858,637	46%
8	Connecticut	35,790,533	78,764,528	45%
9	California	305,431,496	684,555,613	45%
10	Missouri	29,315,655	67,869,856	43%
11	Maryland	40,096,231	92,929,547	43%
12	Wisconsin	39,823,063	93,060,447	43%
13	Utah	14,228,162	34,075,438	42%
14	Minnesota	44,739,719	111,253,843	40%
15	Maine	8,782,417	22,271,656	39%
16	Ohio	64,130,460	162,989,017	39%
17	Iowa	15,702,049	40,374,612	39%
18	New Jersey	65,162,950	169,488,417	38%
19	Kansas	15,717,957	41,066,437	38%
20	Rhode Island	6,743,159	17,691,007	38%
21	Nebraska	9,834,901	26,037,509	38%
22	Idaho	7,702,011	20,528,822	38%
23	South Carolina	19,120,100	51,467,058	37%
24	Montana	4,844,261	13,335,232	36%
	United States	1,575,901,025	4,566,546,439	35%
25	Oklahoma	17,505,861	49,813,628	35%
26	Delaware	6,141,543	17,953,366	34%
27	Indiana	29,040,996	88,778,487	33%
28	Kentucky	20,791,110	63,752,277	33%
29	Illinois	59,392,819	184,710,133	32%
30	Hawaii	9,356,028	30,434,052	31%
31	Pennsylvania	58,238,544	189,944,661	31%
32	Arkansas	13,128,254	44,379,065	30%

Table 7: Individual State Personal Income Tax Share of Total Tax Revenue, 2008				
Rank	State	Personal Income Tax (PIT) Revenues ($ thousand)	Total Tax Revenues ($ thousand)	Share of Total Taxes
33	West Virginia	8,507,364	29,287,501	29%
34	Alabama	17,709,592	63,257,555	28%
35	Louisiana	17,125,617	62,705,235	27%
36	Michigan	44,477,239	163,129,572	27%
37	Vermont	3,495,679	14,596,442	24%
38	New Mexico	7,486,548	31,676,966	24%
39	Arizona	19,215,332	89,512,971	21%
40	Mississippi	8,448,535	39,439,927	21%
41	North Dakota	1,764,743	10,644,167	17%
42	New Hampshire	555,325	14,386,003	4%
43	Tennessee	1,290,105	69,705,304	2%
44	Alaska	0	28,187,919	0%
45	Florida	0	225,564,785	0%
46	Nevada	0	37,034,612	0%
47	South Dakota	0	7,929,849	0%
48	Texas	0	242,880,197	0%
49	Washington	0	106,372,436	0%
50	Wyoming	0	11,871,324	0%

b. General Sales Taxes

General sales taxes are a large component of state tax revenue. In 2002, states collected $179 billion in general sales taxes. By 2008, state sales tax collections had climbed 34%, more than one and half times the rate of inflation and population growth, to $240 billion, and an annual increase in $61 billion in revenue.

Figure 7: Total State Sales Tax Revenues, 2002–2008

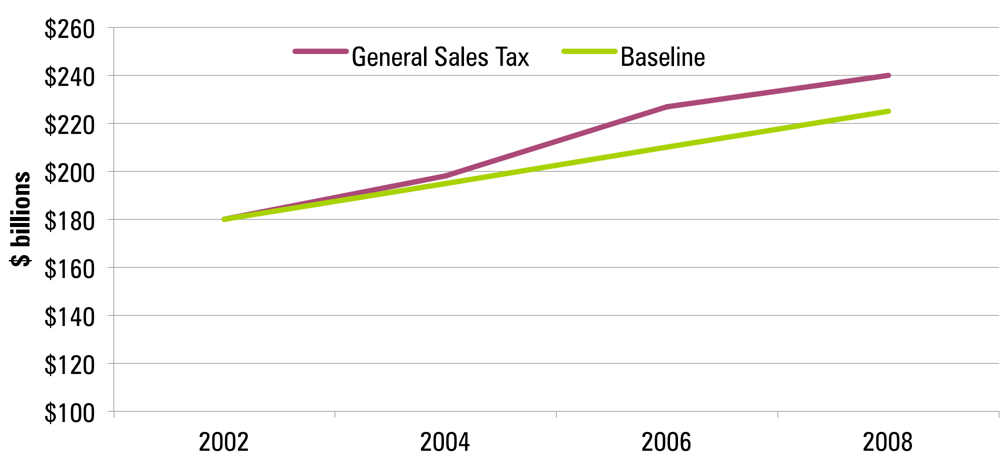


Table 8: Individual State Sales Tax Revenue Growth, 2002–2008				
Rank	State	2002 Revenues ($ thousand)	2008 Revenues ($ thousand)	Difference
1	Idaho	795,384	1,347,327	69%
2	Wyoming	445,479	744,371	67%
3	Hawaii	1,612,333	2,619,595	62%
4	North Dakota	335,613	530,078	58%
5	Vermont	214,746	338,941	58%
6	Indiana	3,798,490	5,738,829	51%
7	Arizona	4,283,681	6,433,468	50%
8	Florida	14,408,709	21,518,100	49%
9	Texas	14,559,504	21,668,972	49%
10	Louisiana	2,326,873	3,459,383	49%
11	New Jersey	5,996,839	8,915,515	49%
12	Nevada	2,070,013	3,077,433	49%
13	Tennessee	4,674,896	6,832,948	46%
14	New Mexico	1,337,321	1,949,768	46%
15	Arkansas	1,946,770	2,807,943	44%
16	Washington	7,904,003	11,344,622	44%
17	Nebraska	1,069,185	1,534,134	43%
18	North Carolina	3,740,715	5,269,929	41%
19	South Dakota	523,001	732,438	40%
20	Maryland	2,690,434	3,748,933	39%
21	Oklahoma	1,529,465	2,096,220	37%
	United States	179,665,257	240,415,097	34%
22	California	23,816,406	31,972,874	34%
23	Mississippi	2,340,474	3,135,390	34%
24	New York	8,607,718	11,294,737	31%
25	Utah	1,500,278	1,964,119	31%
26	Alabama	1,748,235	2,287,288	31%
27	South Carolina	2,335,170	3,051,608	31%
28	Virginia	2,799,526	3,656,789	31%
29	Maine	836,134	1,071,653	28%
30	Kansas	1,799,485	2,264,747	26%
	Baseline	N/A	N/A	25%
31	Kentucky	2,312,224	2,875,836	24%
32	Ohio	6,391,475	7,865,674	23%
33	Minnesota	3,741,390	4,550,838	22%
34	Colorado	1,901,972	2,312,731	22%
35	Pennsylvania	7,330,422	8,873,309	21%
36	Illinois	6,591,337	7,935,417	20%
37	Georgia	4,833,521	5,796,653	20%
38	Rhode Island	731,597	846,870	16%
39	Wisconsin	3,695,796	4,268,068	15%
40	West Virginia	962,756	1,109,822	15%
41	Missouri	2,854,718	3,228,274	13%
42	Massachusetts	3,695,874	4,098,089	11%
43	Michigan	7,784,308	8,225,599	6%

Table 8: Individual State Sales Tax Revenue Growth, 2002–2008				
Rank	**State**	**2002 Revenues ($ thousand)**	**2008 Revenues ($ thousand)**	**Difference**
44	Iowa	1,747,016	1,840,862	5%
45	Connecticut	3,043,971	3,178,903	4%
46	Alaska	0	0	0%
47	Delaware	0	0	0%
48	Montana	0	0	0%
49	New Hampshire	0	0	0%
50	Oregon	0	0	0%

Table 9: Individual State Sales Tax Share of Total Tax Revenue, 2008				
Rank	**State**	**General Sales Tax Revenues ($ thousand)**	**Total Tax Revenues ($ thousand)**	**Share of Total Taxes**
1	Washington	65,736,101	106,372,436	62%
2	Tennessee	42,101,220	69,705,304	60%
3	Florida	129,612,450	225,564,785	57%
4	South Dakota	4,393,519	7,929,849	55%
5	Nevada	18,873,760	37,034,612	51%
6	Texas	121,102,010	242,880,197	50%
7	Hawaii	14,974,567	30,434,052	49%
8	Mississippi	19,210,185	39,439,927	49%
9	Arizona	36,028,031	75,807,070	48%
10	South Carolina	19,992,498	51,467,058	39%
11	Indiana	34,265,851	88,778,487	39%
12	Arkansas	17,105,905	44,379,065	39%
13	Nebraska	9,964,714	26,037,509	38%
14	Idaho	7,506,202	20,528,822	37%
15	New Mexico	11,240,475	31,676,966	35%
16	Utah	12,066,091	34,075,438	35%
17	Kansas	14,260,512	41,066,437	35%
18	Michigan	55,727,771	163,129,572	34%
19	Georgia	37,350,935	110,817,688	34%
20	Louisiana	20,725,762	62,705,235	33%
21	Wyoming	3,923,559	11,871,324	33%
	United States	1,478,125,601	4,566,546,439	32%
22	Rhode Island	5,721,294	17,691,007	32%
23	Ohio	52,608,996	162,989,017	32%
24	Missouri	21,262,266	67,869,856	31%
25	Maine	6,713,406	22,271,656	30%
26	Wisconsin	27,927,292	93,060,447	30%
27	Iowa	12,104,560	40,374,612	30%
28	Pennsylvania	56,667,875	189,944,661	30%
29	California	202,031,327	684,555,613	30%
30	New Jersey	48,861,330	169,488,417	29%
31	Kentucky	18,202,554	63,752,277	29%
32	Connecticut	21,754,343	78,764,528	28%

Table 9: Individual State Sales Tax Share of Total Tax Revenue, 2008

Rank	State	General Sales Tax Revenues ($ thousand)	Total Tax Revenues ($ thousand)	Share of Total Taxes
33	Illinois	50,781,413	184,710,133	27%
34	North Dakota	2,915,870	10,644,167	27%
35	Minnesota	29,374,474	111,253,843	26%
36	Alabama	14,225,365	54,187,025	26%
37	Colorado	14,284,215	55,612,129	26%
38	West Virginia	7,422,603	29,287,501	25%
39	Oklahoma	12,136,621	49,813,628	24%
40	North Carolina	32,193,743	132,858,637	24%
41	Maryland	21,586,188	92,929,547	23%
42	Massachusetts	27,221,101	127,275,565	21%
43	Virginia	22,022,300	110,073,681	20%
44	New York	71,941,602	368,603,508	20%
45	Vermont	2,002,745	14,596,442	14%
46	Alaska	0	19,763,205	0%
47	Delaware	0	17,953,366	0%
48	Montana	0	13,335,232	0%
49	New Hampshire	0	14,386,003	0%
50	Oregon	0	46,102,999	0%

c. Corporate Income Taxes

Corporate income taxes make up a small but growing share of total state tax collections. In 2002, states collected $25 billion through the corporate income tax. In just six years this figure had more than doubled, to $51 billion in 2008, growing almost five times as fast as the baseline. The run-up to the recession did see a decline in the rate of growth of corporate income tax revenue; that also should have been a signal to state budget analysts to ratchet down revenue growth predictions.

Figure 8: Total State Corporate Income Tax Revenue, 2002–2008

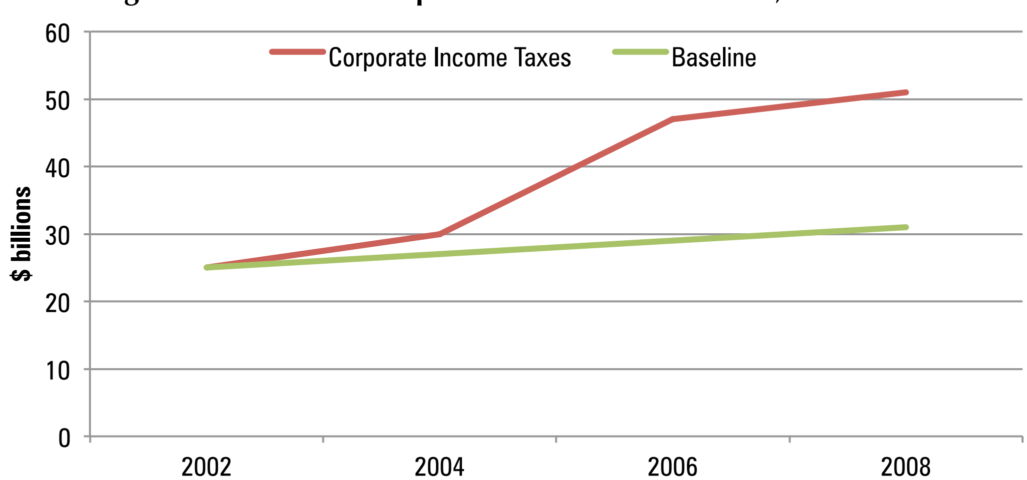


Table 10: Individual State Corporate Income Tax Revenue Growth, 2002–2008				
Rank	State	2002 Revenues ($ thousand)	2008 Revenues ($ thousand)	Difference
1	Rhode Island	28,273	145,866	416%
2	Kansas	121,931	528,011	333%
3	Iowa	88,310	347,248	293%
4	Alaska	269,273	981,673	265%
5	Connecticut	149,454	534,201	257%
6	Utah	110,989	394,638	256%
7	North Dakota	49,990	161,925	224%
8	New Mexico	124,327	354,588	185%
9	Massachusetts	812,257	2,179,956	168%
10	Louisiana	264,419	703,196	166%
11	New Jersey	1,101,296	2,819,906	156%
12	Virginia	308,554	787,229	155%
13	Idaho	76,769	190,194	148%
14	Colorado	205,217	507,986	148%
15	West Virginia	220,158	538,839	145%
16	Oregon	196,257	477,113	143%
17	Maine	77,366	184,515	138%
18	Montana	68,173	161,713	137%
19	Vermont	37,306	84,783	127%
20	Arizona	346,280	784,511	127%
21	Illinois	1,383,823	3,115,604	125%
22	New York	2,257,935	5,037,830	123%
23	California	5,333,036	11,849,097	122%
24	Nebraska	107,628	232,852	116%
25	Oklahoma	173,701	360,065	107%
26	Maryland	359,420	735,324	105%
	United States	25,123,137	50,688,869	102%
27	South Carolina	159,837	320,378	100%
28	Hawaii	52,640	105,294	100%
29	Tennessee	502,977	1,005,880	100%
30	Mississippi	195,814	384,643	96%
31	Minnesota	533,901	1,040,479	95%
32	Wisconsin	445,016	863,088	94%
33	Arkansas	176,874	342,529	94%
34	Pennsylvania	1,198,438	2,191,420	83%
35	Florida	1,218,864	2,208,600	81%
36	North Carolina	668,124	1,206,412	81%
37	Kentucky	302,129	533,630	77%
38	South Dakota	40,547	69,879	72%
39	Georgia	568,080	943,042	66%
40	New Hampshire	377,313	614,794	63%
41	Alabama	322,636	524,808	63%
42	Indiana	709,412	909,494	28%
43	Missouri	300,459	384,010	28%

Table 10: Individual State Corporate Income Tax Revenue Growth, 2002–2008				
Rank	**State**	**2002 Revenues ($ thousand)**	**2008 Revenues ($ thousand)**	**Difference**
	Baseline	N/A	N/A	25%
44	Delaware	251,643	308,676	23%
45	Nevada	0	0	0%
46	Texas	0	0	0%
47	Washington	0	0	0%
48	Wyoming	0	0	0%
49	Ohio	761,050	754,633	-1%
50	Michigan	2,065,241	1,778,317	-14%

Table 11: Individual State Corporate Income Tax Share of Total Tax Revenue, 2008				
Rank	**State**	**Corporate Income Tax Revenues ($ thousand)**	**Total Tax Revenues ($ thousand)**	**Share of Total Taxes**
1	New Hampshire	3,410,794	14,386,003	24%
2	Alaska	4,021,705	19,763,205	20%
3	Delaware	1,833,038	17,953,366	10%
4	New Jersey	15,824,895	169,488,417	9%
5	West Virginia	2,658,288	29,287,501	9%
6	California	61,056,038	684,555,613	9%
7	Massachusetts	10,776,602	127,275,565	8%
8	Tennessee	5,670,970	69,705,304	8%
9	Michigan	13,107,211	163,129,572	8%
10	Illinois	14,590,849	184,710,133	8%
11	Indiana	5,848,643	88,778,487	7%
12	Pennsylvania	12,363,946	189,944,661	7%
	United States	273,559,657	4,566,546,439	6%
13	New York	23,648,398	368,603,508	6%
14	Kentucky	4,055,058	63,752,277	6%
15	North Dakota	650,084	10,644,167	6%
16	Arizona	4,623,880	75,807,070	6%
17	North Carolina	7,755,541	132,858,637	6%
18	Montana	772,342	13,335,232	6%
19	Florida	12,729,374	225,564,785	6%
20	New Mexico	1,763,391	31,676,966	6%
21	Wisconsin	5,030,895	93,060,447	5%
22	Minnesota	5,997,743	111,253,843	5%
23	Mississippi	2,082,498	39,439,927	5%
24	Oregon	2,428,395	46,102,999	5%
25	Alabama	2,843,868	54,187,025	5%
26	Kansas	2,097,841	41,066,437	5%
27	Utah	1,734,718	34,075,438	5%
28	Nebraska	1,293,209	26,037,509	5%
29	South Dakota	389,182	7,929,849	5%
30	Idaho	991,353	20,528,822	5%
31	Maryland	4,479,411	92,929,547	5%

Table 11: Individual State Corporate Income Tax Share of Total Tax Revenue, 2008				
Rank	State	Corporate Income Tax Revenues ($ thousand)	Total Tax Revenues ($ thousand)	Share of Total Taxes
32	Louisiana	3,014,159	62,705,235	5%
33	Georgia	5,110,191	110,817,688	5%
34	Connecticut	3,443,050	78,764,528	4%
35	Rhode Island	773,095	17,691,007	4%
36	Maine	972,416	22,271,656	4%
37	Ohio	7,103,339	162,989,017	4%
38	Colorado	2,405,599	55,612,129	4%
39	Arkansas	1,886,925	44,379,065	4%
40	Virginia	4,195,200	110,073,681	4%
41	Oklahoma	1,806,169	49,813,628	4%
42	Iowa	1,461,937	40,374,612	4%
43	South Carolina	1,706,201	51,467,058	3%
44	Vermont	464,365	14,596,442	3%
45	Missouri	2,067,139	67,869,856	3%
46	Hawaii	619,712	30,434,052	2%
47	Nevada	0	37,034,612	0%
48	Texas	0	242,880,197	0%
49	Washington	0	106,372,436	0%
50	Wyoming	0	11,871,324	0%

d. Taxes Per Capita

Across the nation, state total tax collections averaged $1,862 for every man, woman and child in 2002. In just six years, that figure had risen to $2,574, an increase of more than $700 for every citizen (which means an average roughly $2,000 per household increase in state taxes). This increase of 34% is well above the 25% baseline.

Obviously, not every dollar of a state's total tax collections is paid directly by residents. The biggest increase in per capita collections was in states with significant natural resources that benefited from higher prices for oil, gas and other minerals. But demand for state services should roughly align with the rate of growth in population and the economy, unless the scope of government services is expanding as well. Since states were largely providing the same services in 2008 as they were in 2002, the growth in per capita tax collections represents higher costs for the same services, or surplus revenue. The magnitude of the increase—jumping by a third in just six years—is an indication of just how much costs were increasing or surplus revenue was flowing into the states' coffers.

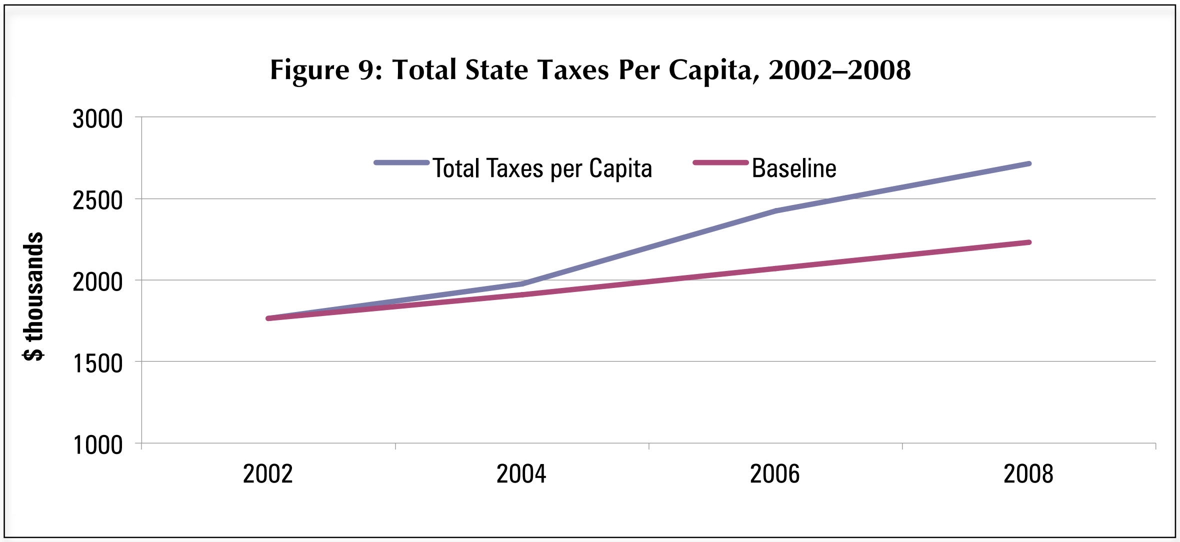


Table 12: Individual State Total Taxes Per Capita Growth, 2002–2008

Rank	State	2002 Total Taxes Per Capita	2008 Total Taxes Per Capita	Difference
1	Alaska	1,692	12,276	626%
2	North Dakota	1,762	3,604	105%
3	Wyoming	2,194	4,070	86%
4	Vermont	2,463	4,095	66%
5	New Jersey	2,134	3,526	65%
6	Montana	1,586	2,541	60%
7	Louisiana	1,641	2,495	52%
8	New York	2,258	3,354	49%
9	Connecticut	2,610	3,818	46%
10	Massachusetts	2,306	3,372	46%
11	New Mexico	1,956	2,845	45%
12	Hawaii	2,748	3,996	45%
13	Kansas	1,770	2,555	44%
14	California	2,214	3,193	44%
15	Pennsylvania	1,795	2,581	44%
16	Idaho	1,693	2,397	42%
17	Indiana	1,656	2,339	41%
18	Maryland	1,983	2,789	41%
19	Mississippi	1,647	2,304	40%
20	Texas	1,316	1,836	40%
21	Illinois	1,784	2,472	39%
	United States	1,860	2,574	38%
22	Tennessee	1,345	1,857	38%
23	Arkansas	1,910	2,637	38%
24	Maine	2,029	2,797	38%
25	Nebraska	1,731	2,371	37%
26	West Virginia	1,971	2,689	36%
27	Arizona	1,554	2,109	36%
28	Virginia	1,752	2,369	35%
29	Alabama	1,451	1,960	35%

Table 12: Individual State Total Taxes Per Capita Growth, 2002–2008				
Rank	**State**	**2002 Total Taxes Per Capita**	**2008 Total Taxes Per Capita**	**Difference**
30	Iowa	1,705	2,295	35%
31	Oklahoma	1,732	2,329	34%
32	Minnesota	2,634	3,509	33%
33	North Carolina	1,867	2,470	32%
34	Rhode Island	1,989	2,628	32%
35	Washington	2,081	2,740	32%
36	Oregon	1,466	1,920	31%
37	Ohio	1,763	2,296	30%
38	Nevada	1,815	2,352	30%
39	Florida	1,517	1,956	29%
40	Colorado	1,536	1,980	29%
41	Utah	1,695	2,172	28%
42	South Dakota	1,283	1,643	28%
43	South Carolina	1,482	1,887	27%
44	Delaware	2,692	3,357	25%
45	Wisconsin	2,171	2,681	23%
46	Kentucky	1,948	2,356	21%
47	Missouri	1,539	1,855	21%
	Baseline	N/A	N/A	20%
48	Georgia	1,609	1,877	17%
49	New Hampshire	1,488	1,716	15%
50	Michigan	2,175	2,477	14%

Even if each tax dollar isn’t directly paid by a resident, the per capita measurement is a good proxy for the resources available to state governments to meet their obligations. It is clear that over this seven-year period, states collected far more in taxes than was necessary to meet their needs.

A prudent course for state governments would have been to systematically cut their taxes during this period of strong economic growth while controlling the growth in the cost of services. In doing so, they could have kept their per capita tax collections relatively stable. Because they didn’t do this, their budgets are now based on a level of per capita tax collection that is unsustainable during an economic downturn.

It defies common sense to spend today what you won’t have tomorrow. The economic growth from 2002 to 2008 pumped staggering sums of new money into state government coffers. As with economic booms in the past, state governments acted as if the good times would never end. But they did.

Part 3

Spending

As with state revenue, there are various ways to look at state spending. *Total state expenditures*, obviously, encompass every dollar spent by state government, irrespective of its source.

Figure 10: Total State Spending Growth, 2002–2008

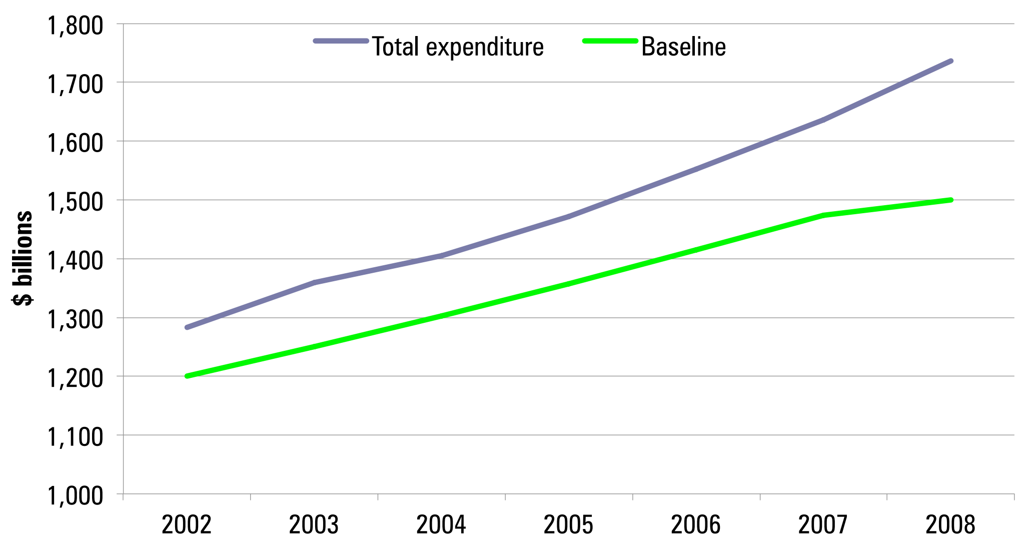


Table 13: Individual State Total Spending and Total Spending Per Capita, 2008

Rank	State	2008 Total Spending ($ thousand)	2008 Total Spending Per Capita ($ thousand)
1	Alaska	10,115,914	14,740
2	Wyoming	5,081,586	9,540
3	Delaware	7,151,941	8,192
4	Hawaii	10,533,869	8,177
5	Vermont	5,070,156	8,161
6	New York	157,397,509	8,076
7	New Mexico	15,793,049	7,959
8	Louisiana	33,003,929	7,483
9	Rhode Island	7,495,870	7,134
10	Massachusetts	45,634,948	7,023
11	New Jersey	58,539,173	6,742
12	Connecticut	23,528,530	6,720

Table 13: Individual State Total Spending and Total Spending Per Capita, 2008

Rank	State	2008 Total Spending ($ thousand)	2008 Total Spending Per Capita ($ thousand)
13	California	246,683,951	6,711
14	Minnesota	34,283,510	6,567
15	North Dakota	4,125,920	6,432
16	Mississippi	18,642,916	6,344
17	Montana	6,137,669	6,344
18	Maine	8,175,152	6,210
19	South Carolina	27,593,614	6,160
20	Washington	39,689,815	6,060
21	Maryland	34,029,818	6,041
22	Kentucky	25,421,531	5,955
23	Oregon	22,386,883	5,907
24	Ohio	67,788,590	5,902
25	Wisconsin	32,649,254	5,801
26	Pennsylvania	71,940,224	5,779
	United States	1,735,949,390	5,755
27	Michigan	56,869,012	5,685
28	West Virginia	10,139,699	5,588
29	Iowa	16,522,737	5,503
30	Arkansas	15,655,753	5,483
31	Alabama	24,892,739	5,379
32	Oklahoma	19,517,639	5,359
33	Kansas	14,968,811	5,342
34	Utah	14,293,669	5,223
35	Virginia	39,879,609	5,133
36	North Carolina	46,994,653	5,096
37	Idaho	7,675,083	5,037
38	New Hampshire	6,601,654	5,017
39	Illinois	63,368,160	4,912
40	Indiana	30,783,257	4,827
41	Arizona	30,778,930	4,735
42	Nebraska	8,443,129	4,734
43	Colorado	22,856,848	4,702
44	South Dakota	3,698,335	4,599
45	Missouri	26,788,804	4,532
46	Georgia	41,165,128	4,250
47	Tennessee	26,403,221	4,248
48	Florida	76,972,938	4,200
49	Nevada	10,845,375	4,171
50	Texas	100,938,886	4,149

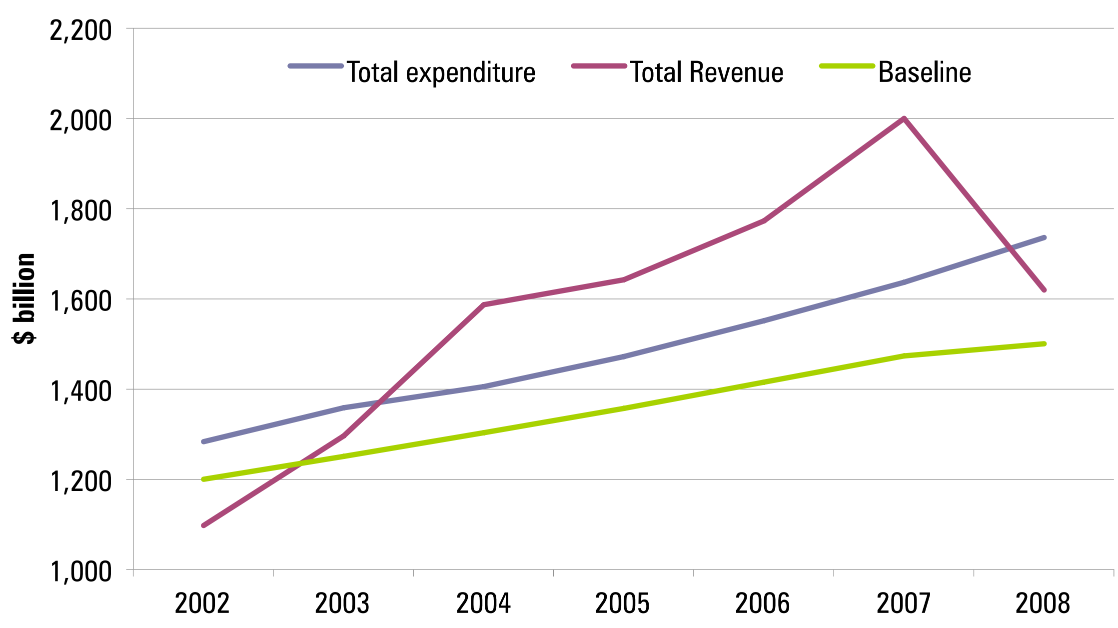
Table 14: Individual State Total Spending Growth, 2002–2008				
Rank	State	2002 Spending ($ thousand)	2008 Spending ($ thousand)	Difference
1	Louisiana	17,993,401	33,003,929	83%
2	Wyoming	2,948,182	5,081,586	72%
3	Arizona	18,606,630	30,778,930	65%
4	New Mexico	10,083,987	15,793,049	57%
5	Delaware	4,644,236	7,151,941	54%
6	Florida	51,838,351	76,972,938	48%
7	Idaho	5,234,047	7,675,083	47%
8	Nevada	7,410,738	10,845,375	46%
9	Mississippi	12,742,438	18,642,916	46%
10	Maryland	23,317,261	34,029,818	46%
11	Vermont	3,511,510	5,070,156	44%
12	Texas	70,036,258	100,938,886	44%
13	Montana	4,265,076	6,137,669	44%
14	Virginia	28,044,327	39,879,609	42%
15	North Carolina	33,123,528	46,994,653	42%
16	Hawaii	7,445,512	10,533,869	41%
17	Utah	10,107,055	14,293,669	41%
18	Kansas	10,591,633	14,968,811	41%
19	New Jersey	41,987,647	58,539,173	39%
20	Massachusetts	32,847,974	45,634,948	39%
21	Indiana	22,205,168	30,783,257	39%
22	Alabama	17,996,418	24,892,739	38%
23	Kentucky	18,424,584	25,421,531	38%
24	South Carolina	20,009,040	27,593,614	38%
25	New Hampshire	4,822,727	6,601,654	37%
26	Alaska	7,402,469	10,115,914	37%
27	North Dakota	3,020,393	4,125,920	37%
28	Arkansas	11,550,140	15,655,753	36%
	United States	1,282,852,187	1,735,949,390	35%
29	South Dakota	2,771,705	3,698,335	33%
30	California	184,927,602	246,683,951	33%
31	Oklahoma	14,727,332	19,517,639	33%
32	New York	119,198,996	157,397,509	32%
33	Colorado	17,324,984	22,856,848	32%
34	Tennessee	20,029,048	26,403,221	32%
35	Georgia	31,352,991	41,165,128	31%
36	Washington	30,378,008	39,689,815	31%
37	Maine	6,264,883	8,175,152	30%
38	Pennsylvania	55,170,768	71,940,224	30%
39	Rhode Island	5,766,687	7,495,870	30%
40	Iowa	12,720,752	16,522,737	30%
41	Nebraska	6,536,970	8,443,129	29%
42	Illinois	49,131,377	63,368,160	29%
43	Missouri	20,840,783	26,788,804	29%
44	Minnesota	26,692,608	34,283,510	28%

Table 14: Individual State Total Spending Growth, 2002–2008

Rank	State	2002 Spending ($ thousand)	2008 Spending ($ thousand)	Difference
45	Ohio	53,473,400	67,788,590	27%
	Baseline	N/A	N/A	25%
46	Oregon	18,029,157	22,386,883	24%
47	Wisconsin	26,749,270	32,649,254	22%
48	Connecticut	20,117,270	23,528,530	17%
49	Michigan	49,027,432	56,869,012	16%
50	West Virginia	9,409,434	10,139,699	8%

Notice in Figure 11 how both total revenue and total expenditures greatly exceed the baseline. More interesting is that revenues exceeded expenditures for many years. Where did that extra revenue go? These data do not show the answer. One would think the states would have had massive rainy day funds to use to weather the recession. They certainly did not give the excess revenue back to the taxpayers.

Figure 11: Total State Revenue vs Total State Spending, 2002–2008



Taking *total expenditures* and excluding spending on state liquor stores (in states where this anachronism still exists), utilities and many social insurance programs, including state employee retirement benefits, gives us *general expenditures*. This number also includes monies states receive from the federal government to support a variety of programs from highway construction to Medicaid. Excluding money from the federal government gives us *direct expenditures*, which encompass current operations, interest on debt, assistance and subsidies and capital outlays, among others.

When evaluating how states managed their fiscal affairs, it can be argued that *direct expenditure* is the best measure. Direct expenditure spending is most directly controlled by state elected officials. *General expenditure,* on the other hand, gives us a fuller picture of state spending. States receive around 30% of their revenue from the federal government. This is because many federal policies and programs use grants to the states as funding mechanisms, incentives and instruments of control. Federal grants to transportation, education and welfare alone give the federal government tremendous influence over how states spend in those areas.

State lawmakers often like to complain about "federal mandates" on certain programs. Left unsaid, however, is that states are subjected to these mandates only because they choose to accept federal funds. For example, many state officials have complained about the testing requirements in the *No Child Left Behind* law. They had to comply with these requirements because of the education dollars they received from the federal government—about 8.3 cents on the dollar of total education spending. If states had turned down the federal money—again only pennies on the dollar—they would be free of not only the *NCLB* mandates, but every other federal mandate on education policy. But states don't seem willing to turn away from federal funds no matter how much it distorts their decisions.

Taking all of this into account, we choose to focus on *general expenditures*, so as to capture state spending including federal funds to reflect that bargain that states choose to accept. We also look at specific categories of spending defined by the Census Department. These don't perfectly match up with categories defined by state-level groups like the National Governors Association or the National Association of State Budget Officers but they provide a consistent view of actual spending.

A. General Expenditures

In 2008, general expenditures in the states totaled just over $1.5 trillion, a 35% increase over 2002, when general expenditures were just over $1.1 trillion, and well above the baseline of inflation and population growth at 25%.

Figure 12: Total State General Spending Growth, 2002–2008

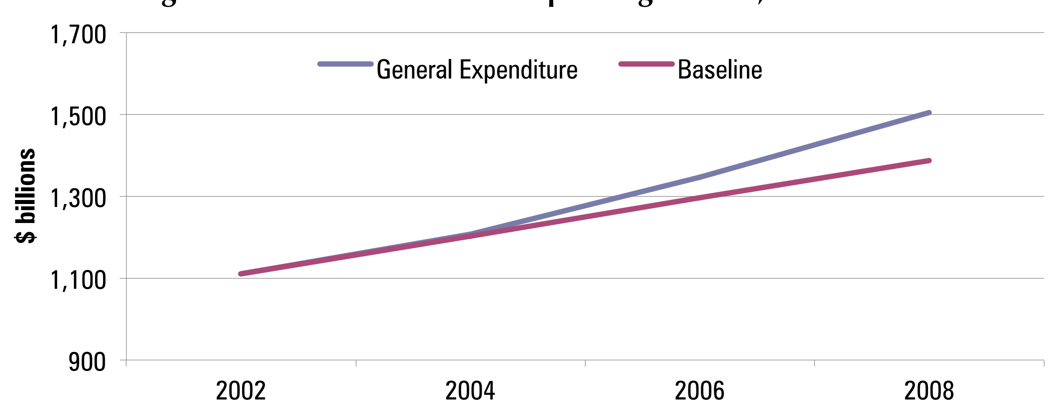


Table 15: Individual State General Spending Growth 2002–2008				
Rank	**State**	**2002 Spending ($ thousand)**	**2008 Spending ($ thousand)**	**Difference**
1	Louisiana	15,836,393	29,983,212	89%
2	Wyoming	2,608,940	4,564,285	75%
3	Arizona	16,734,370	27,568,941	65%
4	New Mexico	9,213,597	14,412,908	56%
5	Delaware	4,231,092	6,561,474	55%
6	Nevada	6,304,874	9,319,965	48%
7	Texas	61,532,766	90,576,780	47%
8	Idaho	4,624,686	6,806,589	47%
9	Maryland	20,704,431	30,328,008	46%
10	Mississippi	11,461,763	16,776,821	46%
11	Florida	47,291,632	69,155,854	46%
12	Montana	3,784,702	5,423,506	43%
13	Hawaii	6,683,606	9,567,007	43%
14	Vermont	3,291,008	4,707,185	43%
15	North Carolina	29,537,271	42,107,428	43%
16	Virginia	25,545,848	36,415,455	43%
17	New Jersey	32,935,974	46,810,441	42%
18	Massachusetts	28,470,834	40,398,126	42%
19	Kansas	9,617,322	13,645,502	42%
20	Utah	9,142,538	12,966,773	42%
21	Indiana	20,584,712	28,417,734	38%
22	Alabama	16,160,326	22,170,605	37%
23	Alaska	6,702,256	9,148,545	36%
24	Kentucky	16,394,058	22,363,052	36%
25	New Hampshire	4,176,687	5,672,446	36%
	United States	1,110,668,889	1,504,529,418	35%
26	Washington	25,160,311	34,091,969	35%
27	Arkansas	10,634,159	14,354,884	35%
28	South Carolina	17,048,314	22,988,332	35%
29	North Dakota	2,812,686	3,789,848	35%
30	Oklahoma	12,904,144	17,208,905	33%
31	South Dakota	2,554,212	3,400,145	33%
32	Tennessee	18,489,355	24,565,001	33%
33	New York	96,528,968	128,221,439	33%
34	California	158,235,437	208,782,657	32%
35	Maine	5,670,144	7,449,178	31%
36	Colorado	14,795,822	19,341,732	31%
37	Iowa	11,435,526	14,830,301	30%
38	Nebraska	6,219,242	8,024,395	29%
39	Pennsylvania	47,147,270	60,791,234	29%
40	Minnesota	23,477,924	30,255,260	29%
41	Ohio	42,361,985	54,580,967	29%
42	Rhode Island	4,842,611	6,228,442	29%
43	West Virginia	7,560,308	9,681,035	28%
44	Illinois	42,678,167	54,310,201	27%

Table 15: Individual State General Spending Growth 2002–2008				
Rank	**State**	**2002 Spending ($ thousand)**	**2008 Spending ($ thousand)**	**Difference**
45	Georgia	28,465,937	36,164,925	27%
46	Missouri	18,707,684	23,621,358	26%
	Baseline	N/A	N/A	25%
47	Oregon	14,884,121	18,076,076	21%
48	Wisconsin	23,118,991	28,019,994	21%
49	Connecticut	17,536,472	20,057,458	14%
50	Michigan	43,827,413	49,825,040	14%

This spending above baseline adds up. By 2008 states were spending $117 billion per year more than if they had stuck to the baseline. And this spending occurred when welfare and unemployment rolls were *declining*. Unemployment, for example, fell from around 6% in 2002 to around 4.6% in 2007, before rising again to 5.8% in 2008 as the recession began. Yet as the section below on welfare spending shows, states massively expanded spending on welfare during this period. How ironic that the $117 billion *per year* in spending above the baseline by states was more than they requested in bailouts from the federal government at the height of the recession.

And look again at Table 15. Notice that five states (LA, WY, AZ, NM, DE) grew spending by more than 50%—more than *twice the rate of growth of the baseline*. And six more states grew their spending by more than 45% (NV, TX, ID, MD, MS, FL)—a spending spree. Two of these states, Louisiana and Mississippi, experienced devastating storms in 2005, which accounts for much of their increased spending. A few other states experienced faster population growth than the nation as a whole, but not twice as much, and in none of these states does this growth account for the higher spending.

B. Spending by Major Categories

The above figures cover overall spending. Looking at major categories of spending and their growth over the six years between 2002 and 2008 provides insight into the spending priorities in the states. In percentage terms, debt payments grew the fastest, while in dollar terms spending on welfare, education and salaries grew a whopping $343 billion.

Table 16: Total State Spending Category Growth, 2002–2008			
Spending Category	**2002 Spending ($ thousands)**	**2008 Spending ($ thousands)**	**Difference**
Interest on General Debt	31,407,303	46,753,214	49%
Hospitals	37,500,128	53,682,058	43%
Public Welfare	288,593,877	412,141,472	43%
Education	389,407,676	546,825,678	40%
Salaries and Wages	167,841,309	229,818,658	37%
Corrections	38,875,374	49,897,531	28%
Highways	84,068,470	107,190,485	28%
Police Protection	10,705,936	13,594,279	27%
Natural Resources	17,821,117	22,522,407	26%

Table 16: Total State Spending Category Growth, 2002–2008			
Spending Category	**2002 Spending ($ thousands)**	**2008 Spending ($ thousands)**	**Difference**
Baseline	N/A	N/A	25%
Government Administration	41,065,153	53,698,587	24%
Health	50,549,676	60,957,320	21%
Parks and Recreation	6,183,538	6,396,814	3%

1) Public Welfare

In 2008, states spent over $412 billion on public welfare, making it the second largest spending category after education. Welfare spending grew by 43% from 2002, well above the baseline. Eight states (MA, DE, AZ, LA, NJ, NM, WY and VA) expanded welfare spending by over 75%. No state decreased spending on welfare during this period.

This category covers a range of spending, but Medicaid and nursing home care accounts for the overwhelming majority. In recent years, this has been one of the fastest rising areas of state spending. Add in federal spending on Medicaid and this has emerged as the single largest item in states' budgets. In the coming years it will consume ever larger shares of state budgets, crowding out other priorities. Some of this crowding out is evidenced in other categorical spending that is detailed below.

Figure 13: Total State Welfare Spending Growth, 2002–2008

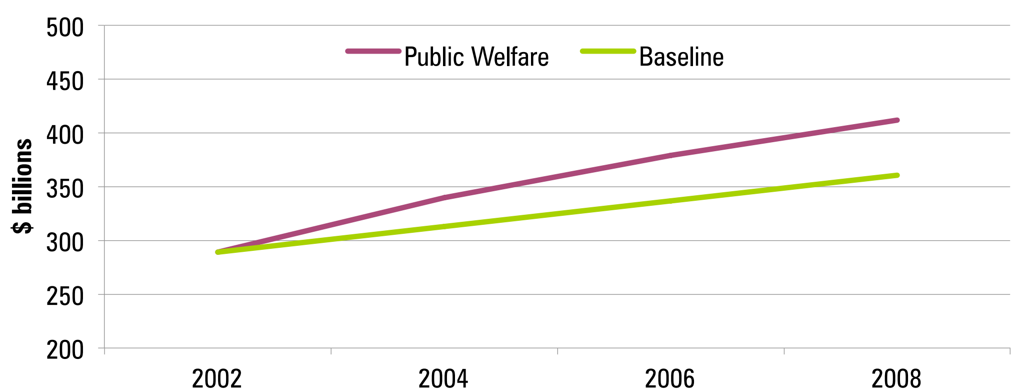


Table 17: Individual State Welfare Spending Growth, 2002–2008				
Rank	**State**	**2002 Spending ($ thousand)**	**2008 Spending ($ thousand)**	**Difference**
1	Massachusetts	5,987,846	12,682,783	112%
2	Delaware	702,892	1,451,463	106%
3	Arizona	3,998,137	7,927,027	98%
4	Louisiana	3,080,895	5,828,886	89%
5	New Jersey	6,703,300	12,420,936	85%
6	New Mexico	2,028,295	3,558,863	75%
7	Wyoming	374,206	656,176	75%
8	Virginia	4,199,553	7,354,674	75%

Table 17: Individual State Welfare Spending Growth, 2002–2008				
Rank	State	2002 Spending ($ thousand)	2008 Spending ($ thousand)	Difference
9	North Carolina	6,845,986	11,652,949	70%
10	Vermont	766,092	1,253,623	64%
11	Idaho	1,003,118	1,614,703	61%
12	Kansas	1,986,407	3,167,907	59%
13	New Hampshire	974,600	1,544,997	59%
14	Illinois	10,940,019	17,167,067	57%
15	Indiana	5,124,522	8,034,079	57%
16	Connecticut	3,599,348	5,621,038	56%
17	Maryland	4,625,705	7,118,659	54%
18	Florida	11,878,904	18,063,299	52%
19	Nevada	1,040,294	1,580,454	52%
20	Texas	15,270,585	23,048,973	51%
21	Oklahoma	3,202,402	4,821,034	51%
22	Iowa	2,617,128	3,904,781	49%
23	Arkansas	2,577,745	3,771,732	46%
24	Colorado	3,131,520	4,557,057	46%
	United States	288,593,877	412,141,472	43%
25	Michigan	9,524,431	13,430,826	41%
26	California	42,965,482	60,191,685	40%
27	Ohio	11,504,467	16,113,757	40%
28	Utah	1,580,580	2,203,414	39%
29	Hawaii	1,125,980	1,563,961	39%
30	Maine	1,801,953	2,492,721	38%
31	South Dakota	592,754	811,709	37%
32	Montana	659,976	888,748	35%
33	Minnesota	6,741,114	9,045,789	34%
34	Rhode Island	1,690,087	2,230,969	32%
35	New York	34,598,240	44,763,366	29%
36	Kentucky	4,796,130	6,198,814	29%
37	Mississippi	3,412,798	4,405,435	29%
38	Alaska	1,150,533	1,477,255	28%
39	Nebraska	1,661,269	2,099,052	26%
40	Pennsylvania	15,118,232	19,032,829	26%
41	Tennessee	6,896,284	8,664,226	26%
	Baseline	N/A	N/A	25%
42	South Carolina	4,373,330	5,477,881	25%
43	Washington	6,174,456	7,612,755	23%
44	North Dakota	627,303	773,278	23%
45	Georgia	7,825,282	9,644,769	23%
46	West Virginia	2,135,874	2,565,426	20%
47	Wisconsin	5,514,657	6,524,417	18%
48	Missouri	5,496,624	6,231,774	13%
49	Oregon	3,856,484	4,311,257	12%
50	Alabama	4,110,058	4,582,199	11%

2) Education

Education is the single biggest category of state spending. In 2008, states spent $547 billion on education, a 40% increase from 2002, far above the baseline rate of 25%. Eleven states (WY, MA, NV, MD, TX, DE, AL, NY, VT, ID, NJ) expanded education spending by over 50%, twice the baseline rate of growth. No states decreased spending on education during this period.

Figure 14: Total State Education Spending Growth, 2002–2008

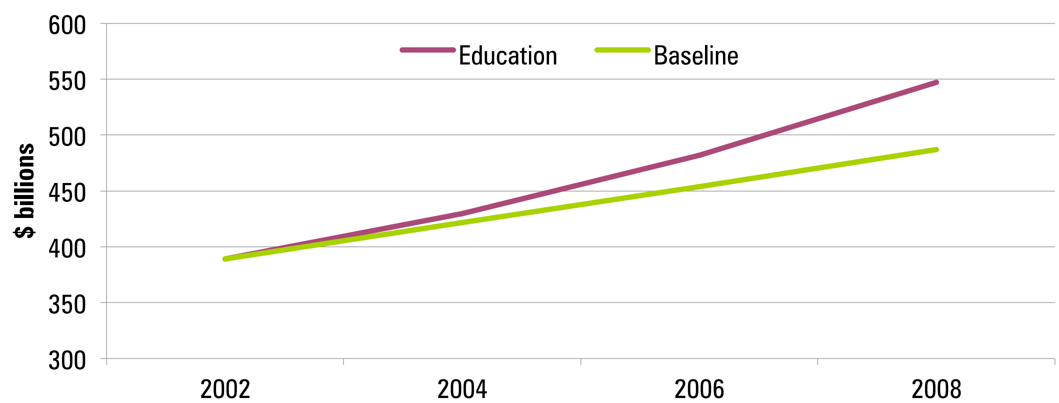


Table 18: Individual State Education Spending Growth, 2002–2009				
Rank	State	2002 Spending ($ thousand)	2008 Spending ($ thousand)	Difference
1	Wyoming	865,530	1,537,792	78%
2	Massachusetts	6,553,103	10,714,000	63%
3	Nevada	2,523,220	4,069,362	61%
4	Maryland	6,891,617	10,991,254	59%
5	Texas	25,763,230	40,672,485	58%
6	Delaware	1,433,753	2,263,320	58%
7	Alabama	6,811,434	10,658,472	56%
8	New York	25,562,251	39,764,174	56%
9	Vermont	1,340,246	2,062,824	54%
10	Idaho	1,829,520	2,774,669	52%
11	New Jersey	10,243,518	15,432,044	51%
12	Hawaii	2,257,402	3,393,565	50%
13	Louisiana	6,047,120	9,083,468	50%
14	Arizona	6,326,736	9,408,525	49%
15	Kentucky	5,870,554	8,718,692	49%
16	Florida	15,643,056	23,192,406	48%
17	West Virginia	2,495,321	3,676,900	47%
18	North Carolina	11,956,287	17,438,492	46%
19	Arkansas	4,375,237	6,311,833	44%
20	Kansas	3,987,803	5,750,358	44%
21	South Carolina	5,656,159	8,151,202	44%
22	New Mexico	3,514,151	5,024,928	43%
23	Virginia	9,848,113	14,053,415	43%

Table 18: Individual State Education Spending Growth, 2002–2009				
Rank	State	2002 Spending ($ thousand)	2008 Spending ($ thousand)	Difference
24	Montana	1,289,328	1,839,799	43%
25	Minnesota	8,819,706	12,424,773	41%
26	North Dakota	942,956	1,325,310	41%
	United States	389,407,676	546,825,678	40%
27	Mississippi	3,922,172	5,471,275	39%
28	Utah	4,327,496	6,036,050	39%
29	Pennsylvania	13,775,297	19,199,292	39%
30	Tennessee	6,094,892	8,479,938	39%
31	Alaska	1,566,815	2,165,387	38%
32	South Dakota	798,769	1,103,636	38%
33	Colorado	5,798,172	7,985,963	38%
34	Washington	10,298,100	14,109,473	37%
35	California	53,610,067	73,276,865	37%
36	Maine	1,505,432	2,018,539	34%
37	Indiana	7,930,896	10,616,678	34%
38	Oklahoma	5,268,719	7,046,621	34%
39	Georgia	12,154,631	16,179,676	33%
40	Nebraska	2,191,323	2,909,668	33%
41	New Hampshire	1,530,290	2,019,883	32%
42	Oregon	5,207,933	6,768,386	30%
43	Ohio	15,625,913	20,120,162	29%
44	Missouri	6,717,220	8,604,958	28%
45	Rhode Island	1,343,682	1,702,825	27%
46	Iowa	4,576,530	5,790,799	27%
	Baseline	N/A	N/A	25%
47	Wisconsin	8,299,045	10,329,906	24%
48	Connecticut	4,785,884	5,850,358	22%
49	Illinois	14,098,492	16,342,627	16%
50	Michigan	19,132,555	21,962,651	15%

3) Interest on Debt

In 2008, states spent just over $47 billion to service their debt, a 49% increase over 2002, almost twice the baseline rate of growth. At the end of FY 2008, general state debt stood at just over $1 trillion, 58% higher than in 2002. So, during years when both revenue and expenditures were greatly exceeding the baseline, *and* when general revenues were exceeding general expenditures, the states were more than doubling their debt burden. Thus some of their expenditure growth was debt-fueled, meaning there was even more excess revenue than the data shows.

Seven states (IA, AZ, KS, IN, CO, NM, OK) went on a rampage of borrowing, driving up their debt payments by over 100%—four times the baseline. At the same time, while not growing debt by as much, California's debt in 2008 was $123 billion, a huge share of its 2008 general revenues of $194 billion, and New York's $133 billion debt was well over its annual general revenue of $114 billion. Only three states (NE, HI, WY) reduced their spending on debt during this period.

Figure 15: Total State Interest on Debt Spending Growth 2002–2008

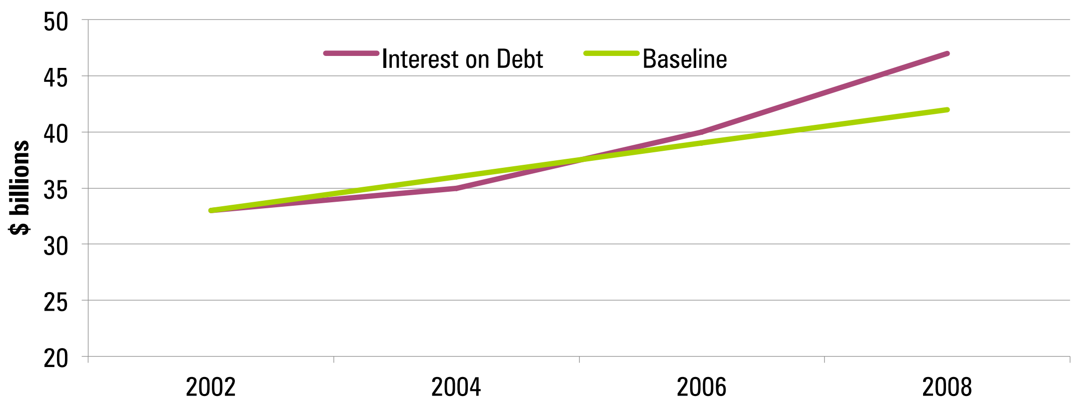


Table 19: Individual State Interest on Debt Spending Growth, 2002–2008

Rank	State	2002 Spending ($ thousand)	2008 Spending ($ thousand)	Difference
1	Iowa	123,134	391,988	218%
2	Arizona	185,777	493,484	166%
3	Kansas	126,813	334,469	164%
4	Indiana	397,443	967,653	143%
5	Colorado	352,320	848,776	141%
6	New Mexico	192,180	392,772	104%
7	Oklahoma	258,281	517,306	100%
8	North Dakota	86,602	164,425	90%
9	Pennsylvania	1,073,026	1,984,366	85%
10	Missouri	567,965	1,045,801	84%
11	Oregon	250,533	450,490	80%
12	California	3,404,946	6,084,752	79%
13	Louisiana	505,717	903,661	79%
14	New Jersey	1,198,998	2,057,817	72%

Table 19: Individual State Interest on Debt Spending Growth, 2002–2008				
Rank	**State**	**2002 Spending ($ thousand)**	**2008 Spending ($ thousand)**	**Difference**
15	Rhode Island	256,511	419,869	64%
16	Illinois	1,846,927	2,867,051	55%
17	Washington	673,936	1,039,159	54%
18	Florida	1,051,981	1,604,312	53%
	United States	31,407,303	46,753,214	49%
19	Maryland	710,689	1,046,312	47%
20	Utah	187,591	275,837	47%
21	Montana	142,663	209,308	47%
22	Wisconsin	736,856	1,060,901	44%
23	Minnesota	354,370	496,677	40%
24	Arkansas	138,389	193,767	40%
25	Nevada	149,556	206,948	38%
26	Massachusetts	2,687,146	3,716,517	38%
27	Georgia	433,247	598,122	38%
28	New York	3,647,059	4,974,321	36%
29	Alabama	241,867	328,836	36%
30	Vermont	134,013	181,054	35%
31	Texas	904,260	1,189,733	32%
32	Ohio	1,134,954	1,440,693	27%
	Baseline	N/A	N/A	25%
33	Michigan	1,063,637	1,309,650	23%
34	Virginia	721,485	882,679	22%
35	South Carolina	652,074	784,661	20%
36	New Hampshire	321,832	381,127	18%
37	North Carolina	582,690	676,360	16%
38	Alaska	275,884	317,643	15%
39	Idaho	141,541	162,233	15%
40	South Dakota	120,082	136,008	13%
41	Mississippi	210,862	238,668	13%
42	Kentucky	449,740	503,054	12%
43	Connecticut	1,137,938	1,265,952	11%
44	Maine	238,184	257,910	8%
45	Tennessee	198,272	214,413	8%
46	West Virginia	237,521	255,121	7%
47	Delaware	255,396	269,560	6%
48	Nebraska	109,795	107,999	-2%
49	Hawaii	462,296	441,026	-5%
50	Wyoming	72,324	61,973	-14%

4) Hospitals

States spent just over $54 billion on hospitals in 2008, a 43% increase over 2002, far above the baseline rate of growth of 25%. This category generally provides for the management, construction and upkeep of government-owned hospitals, chiefly those run by public universities. Five states (KS, FL, HI, KY, VT) increased hospital spending over 100%—four times the baseline. Eleven states (AZ, OR, TN, DE, MA, MT, RI, IN, LA, ND, WY) reduced hospital spending during this period.

Figure 16: Total State Hospital Spending Growth, 2002–2008

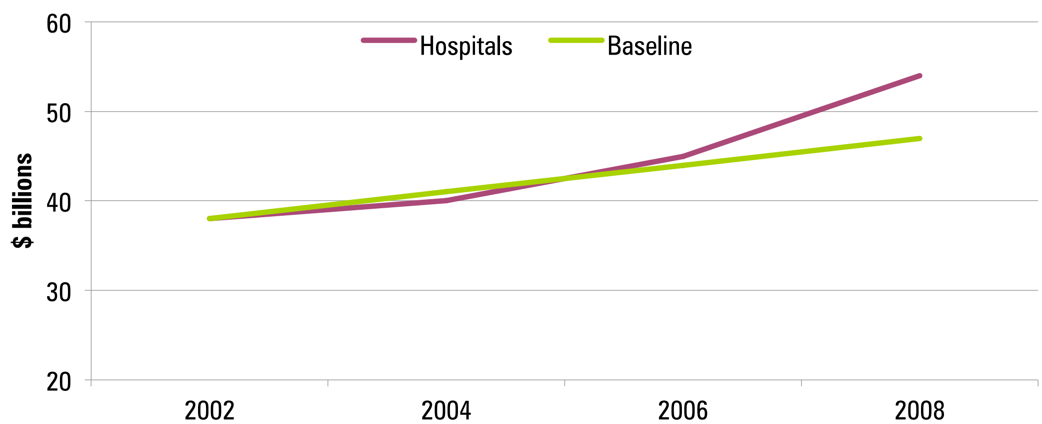


Table 20: Individual State Hospital Spending Growth 2002–2008

Rank	State	2002 Spending ($ thousand)	2008 Spending ($ thousand)	Difference
1	Kansas	104,270	973,004	833%
2	Florida	180,226	831,028	361%
3	Hawaii	184,789	531,055	187%
4	Kentucky	493,083	1,100,758	123%
5	Vermont	9,469	20,092	112%
6	Minnesota	206,749	404,712	96%
7	Washington	916,540	1,743,784	90%
8	New Mexico	399,073	749,990	88%
9	South Carolina	904,894	1,684,779	86%
10	Arkansas	454,503	810,637	78%
11	Nevada	131,858	234,044	77%
12	Colorado	253,652	437,822	73%
13	Wisconsin	657,460	1,106,220	68%
14	Utah	493,631	823,297	67%
15	Virginia	1,718,084	2,849,911	66%
16	Ohio	1,265,901	2,089,571	65%
17	Alabama	1,118,262	1,808,175	62%
18	California	4,356,641	6,888,770	58%
19	New Jersey	1,342,955	2,062,211	54%
20	Iowa	724,555	1,092,682	51%

Table 20: Individual State Hospital Spending Growth 2002–2008				
Rank	**State**	**2002 Spending ($ thousand)**	**2008 Spending ($ thousand)**	**Difference**
21	Missouri	888,708	1,322,145	49%
22	New York	3,393,257	4,896,242	44%
	United States	37,500,128	53,682,058	43%
23	Mississippi	665,019	953,339	43%
24	Michigan	1,630,410	2,299,233	41%
25	Nebraska	171,234	239,294	40%
26	South Dakota	44,001	60,769	38%
27	Maryland	400,821	541,820	35%
28	New Hampshire	45,600	60,361	32%
29	Oklahoma	172,039	227,554	32%
30	Georgia	634,079	805,443	27%
31	Pennsylvania	2,233,567	2,821,303	26%
	Baseline	N/A	N/A	25%
32	Maine	46,493	56,286	21%
33	North Carolina	1,289,041	1,460,906	13%
34	Texas	3,238,451	3,570,780	10%
35	Illinois	922,299	1,004,573	9%
36	Alaska	32,869	35,054	7%
37	West Virginia	101,720	106,482	5%
38	Idaho	45,326	47,310	4%
39	Connecticut	1,354,754	1,395,751	3%
40	Arizona	73,430	71,539	-3%
41	Oregon	1,190,151	1,154,493	-3%
42	Tennessee	436,774	407,688	-7%
43	Delaware	68,578	63,435	-7%
44	Massachusetts	513,301	466,869	-9%
45	Montana	50,060	44,955	-10%
46	Rhode Island	113,599	87,528	-23%
47	Indiana	268,447	198,120	-26%
48	Louisiana	1,489,729	1,021,434	-31%
49	North Dakota	44,311	16,426	-63%
50	Wyoming	25,465	2,384	-91%

5) Salaries and Wages

State employees took home just over $230 billion in salaries and wages in 2008, a 37% increase over 2002, well above the baseline 25%. This represents the third biggest line item in state budgets, although it is rarely reported as such. Note that this figure does not include the costs of benefits, such as health care and pensions. Eight states (NJ, DE, KS, SD, TX, UT, IL, ND) increased their spending on salaries and wages by over 50%—twice the baseline rate of growth. Only three states (MI, IA, ME) reduced spending on salaries and wages during this period.

Figure 17: Total State Salary and Benefit Spending Growth, 2002–2008

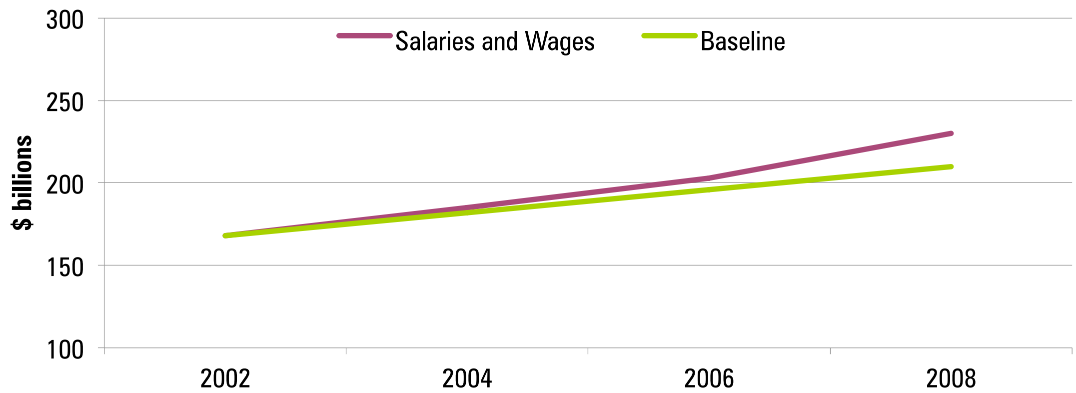


Table 21: Individual State Salary and Benefit Spending Growth, 2002–2008

Rank	State	2002 Spending ($ thousand)	2008 Spending ($ thousand)	Difference
1	New Jersey	2,024,907	9,891,720	389%
2	Delaware	1,073,747	2,267,018	111%
3	Kansas	1,598,382	3,174,710	99%
4	South Dakota	445,460	843,292	89%
5	Texas	8,212,409	14,102,858	72%
6	Utah	1,500,634	2,449,264	63%
7	Illinois	5,332,743	8,486,416	59%
8	North Dakota	518,629	816,227	57%
9	North Carolina	5,292,930	8,084,597	53%
10	Hawaii	1,733,613	2,563,142	48%
11	Oregon	2,685,408	3,901,453	45%
12	Wyoming	439,434	633,251	44%
13	New Mexico	1,579,540	2,256,305	43%
14	California	19,938,389	27,788,543	39%
15	Nevada	1,139,044	1,579,819	39%
16	Alaska	1,097,282	1,515,581	38%
17	South Carolina	2,643,426	3,639,952	38%
18	Wisconsin	3,066,228	4,203,579	37%
	United States	167,841,309	229,818,658	37%

Table 21: Individual State Salary and Benefit Spending Growth, 2002–2008				
Rank	State	2002 Spending ($ thousand)	2008 Spending ($ thousand)	Difference
19	Vermont	544,324	733,895	35%
20	Connecticut	3,182,095	4,287,819	35%
21	Alabama	3,115,437	4,194,385	35%
22	Florida	6,490,375	8,637,026	33%
23	Tennessee	2,783,821	3,695,776	33%
24	Virginia	4,682,335	6,214,596	33%
25	New Hampshire	715,703	947,324	32%
26	Mississippi	1,708,423	2,252,581	32%
27	Arizona	2,539,720	3,343,240	32%
28	Montana	672,507	879,718	31%
29	Minnesota	3,775,469	4,924,638	30%
30	New York	12,635,975	16,348,779	29%
31	Ohio	6,095,515	7,883,170	29%
32	Colorado	2,765,058	3,553,624	29%
33	Kentucky	2,933,671	3,737,072	27%
34	Georgia	3,951,121	5,008,399	27%
35	Washington	4,946,594	6,254,115	26%
	Baseline	N/A	N/A	25%
36	Idaho	850,004	1,040,874	22%
37	Indiana	3,125,020	3,742,390	20%
38	Maryland	3,974,484	4,724,830	19%
39	Pennsylvania	6,651,302	7,802,801	17%
40	Massachusetts	4,294,159	5,010,065	17%
41	Louisiana	3,709,689	4,262,552	15%
42	Missouri	3,216,297	3,661,593	14%
43	Nebraska	1,835,657	2,076,389	13%
44	Rhode Island	1,022,339	1,093,981	7%
45	Arkansas	1,755,130	1,855,064	6%
46	West Virginia	1,368,243	1,441,006	5%
47	Oklahoma	2,940,522	2,976,703	1%
48	Michigan	6,038,060	5,974,110	-1%
49	Iowa	2,402,008	2,301,969	-4%
50	Maine	798,047	760,447	-5%

6) Government Administration

States spent just over $54 billion running their government in 2008, a 24% increase over 2002, which was about the baseline rate of growth. However, 15 states increased their administrative spending more than 50%, and four (CO, WY, SC, PA) increased it more than 75%. Eight states (MO, OR, WV, IL, OH, KS, IN, VT) decreased spending on administration during this period.

Figure 18: Total State Administrative Spending Growth, 2002–2008

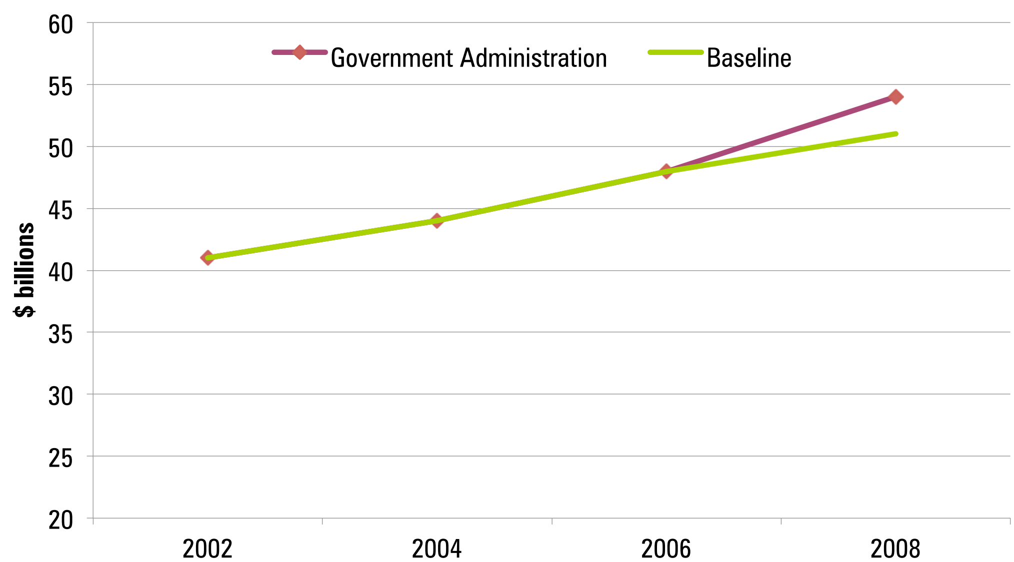


Table 22: Individual State Administrative Spending Growth, 2002–2008

Rank	State	2002 Spending ($ thousand)	2008 Spending ($ thousand)	Difference
1	Colorado	422,050	869,746	106%
2	Wyoming	100,346	200,990	100%
3	South Carolina	561,369	1,094,646	95%
4	Pennsylvania	1,406,324	2,508,325	78%
5	Tennessee	459,698	788,765	72%
6	Montana	218,190	362,540	66%
7	South Dakota	103,417	169,363	64%
8	Idaho	221,628	360,140	62%
9	Louisiana	577,908	929,882	61%
10	Mississippi	203,766	327,410	61%
11	Alaska	364,837	574,841	58%
12	Florida	1,932,140	2,982,756	54%
13	Utah	463,112	712,868	54%
14	Nevada	198,158	300,560	52%
15	New Mexico	349,026	528,382	51%
16	Maryland	844,086	1,243,982	47%

Table 22: Individual State Administrative Spending Growth, 2002–2008				
Rank	State	2002 Spending ($ thousand)	2008 Spending ($ thousand)	Difference
17	Arizona	522,310	767,263	47%
18	Washington	541,929	785,458	45%
19	North Carolina	816,862	1,177,769	44%
20	New York	4,080,248	5,875,815	44%
21	Arkansas	411,078	591,373	44%
22	Rhode Island	259,607	362,174	40%
23	Alabama	415,209	576,755	39%
24	Delaware	349,326	483,562	38%
25	New Jersey	1,359,144	1,861,067	37%
26	Massachusetts	1,277,967	1,666,967	30%
27	Hawaii	376,034	486,718	29%
28	Minnesota	672,031	857,460	28%
29	Maine	255,334	325,779	28%
30	California	6,933,060	8,838,202	27%
	Baseline	N/A	N/A	25%
31	Nebraska	164,848	204,921	24%
	United States	41,065,153	53,698,587	24%
32	Kentucky	682,808	840,386	23%
33	New Hampshire	194,141	237,721	22%
34	Connecticut	913,121	1,116,120	22%
35	Georgia	680,850	815,307	20%
36	North Dakota	104,385	122,952	18%
37	Michigan	932,106	1,073,964	15%
38	Texas	1,363,113	1,563,297	15%
39	Oklahoma	480,895	539,815	12%
40	Virginia	1,099,124	1,233,436	12%
41	Iowa	497,392	554,993	12%
42	Wisconsin	633,302	673,364	6%
43	Missouri	547,846	541,561	-1%
44	Oregon	901,671	888,704	-1%
45	West Virginia	429,462	412,403	-4%
46	Illinois	1,319,877	1,216,329	-8%
47	Ohio	1,961,432	1,797,276	-8%
48	Kansas	502,328	459,166	-9%
49	Indiana	767,851	638,989	-17%
50	Vermont	192,407	156,325	-19%

7) Highways

In 2008, states allocated just over $107 billion to highway construction and maintenance, a 28% increase over 2002. This is above the 25% baseline spending, but slightly below the rate of increase in overall state spending. These are state own-source funds and do not reflect federal spending on highways. Interestingly, a number of states actually reduced their expenditures on highways from 2002. Eight states (NV, NM, CT, CO, AR, MA, SC, RI) reduced highway spending during this period.

Figure 19: Total State Highway Spending Growth, 2002–2008

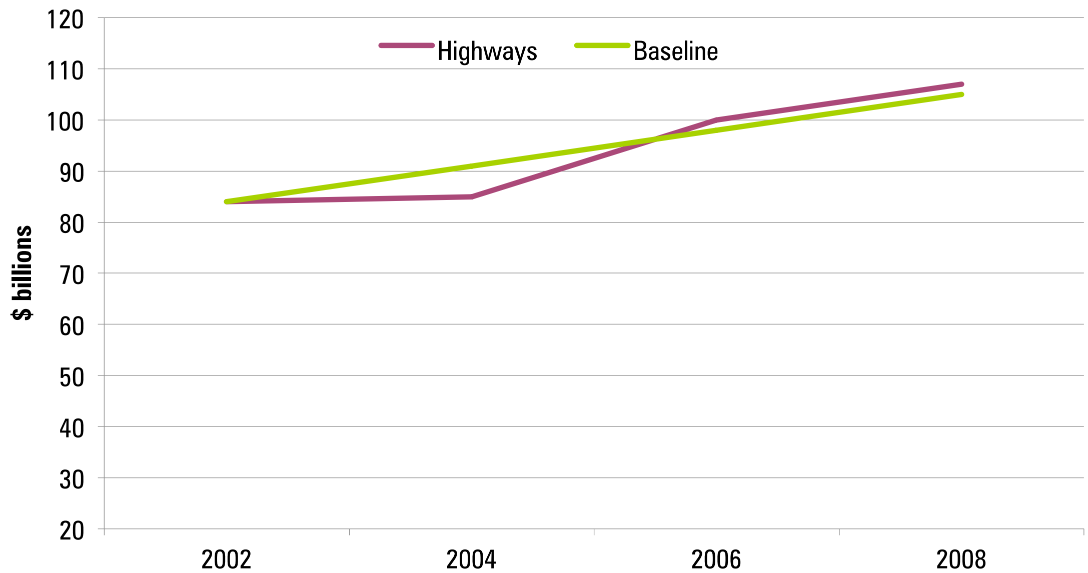


Table 23: Individual State Highway Spending Growth, 2002–2008

Rank	State	2002 Spending ($ thousand)	2008 Spending ($ thousand)	Difference
1	Louisiana	1,052,837	2,132,077	103%
2	Alaska	687,407	1,315,648	91%
3	Oregon	817,455	1,528,591	87%
4	Hawaii	235,699	407,711	73%
5	Washington	1,795,486	2,924,464	63%
6	Texas	5,026,554	7,915,817	57%
7	California	7,898,554	12,173,649	54%
8	Maryland	1,642,654	2,510,419	53%
9	Florida	4,825,770	7,163,763	48%
10	Wyoming	356,733	521,164	46%
11	Pennsylvania	4,566,041	6,570,331	44%
12	Arizona	1,679,641	2,367,086	41%
13	Idaho	499,916	696,062	39%

Table 23: Individual State Highway Spending Growth, 2002–2008				
Rank	State	2002 Spending ($ thousand)	2008 Spending ($ thousand)	Difference
14	Montana	452,804	617,439	36%
15	Delaware	369,702	496,382	34%
16	New York	3,295,118	4,380,808	33%
17	Mississippi	968,774	1,284,377	33%
18	Kentucky	1,730,952	2,241,275	29%
19	Minnesota	1,665,910	2,136,933	28%
	United States	84,068,470	107,190,485	28%
20	Indiana	1,569,976	1,996,582	27%
	Baseline	N/A	N/A	25%
21	Utah	856,014	1,061,364	24%
22	North Carolina	2,629,038	3,253,678	24%
23	Illinois	3,655,570	4,510,194	23%
24	North Dakota	376,668	458,616	22%
25	New Jersey	2,256,707	2,736,419	21%
26	Nebraska	526,457	631,028	20%
27	New Hampshire	377,200	440,079	17%
28	Oklahoma	1,263,088	1,472,367	17%
29	Georgia	2,004,684	2,287,471	14%
30	Virginia	2,822,839	3,146,902	11%
31	Wisconsin	1,716,735	1,901,463	11%
32	Vermont	296,473	324,868	10%
33	Alabama	1,255,800	1,373,098	9%
34	Tennessee	1,533,906	1,668,715	9%
35	Missouri	1,871,062	2,034,235	9%
36	Kansas	1,130,728	1,213,980	7%
37	Maine	462,147	479,580	4%
38	West Virginia	986,477	1,015,587	3%
39	Ohio	3,138,661	3,215,512	2%
40	South Dakota	420,346	429,629	2%
41	Michigan	2,716,985	2,763,775	2%
42	Iowa	1,360,300	1,381,730	2%
43	Nevada	630,771	609,250	-3%
44	New Mexico	938,380	895,994	-5%
45	Connecticut	851,493	795,191	-7%
46	Colorado	1,421,381	1,281,596	-10%
47	Arkansas	1,078,784	915,510	-15%
48	Massachusetts	2,743,702	2,245,666	-18%
49	South Carolina	1,348,549	1,064,541	-21%
50	Rhode Island	259,542	201,869	-22%

8) Natural Resources

In 2008, states spent just over $22 billion on natural resources, a 26% increase since 2002, just about the baseline rate of growth. Eleven states (TN, WY, LA, CO, NH, NM, AZ, NY, WI, CA, MT) increased spending in this area by over 50%—twice the baseline rate of growth. Eight states (WV, GA, MN, OH, RI, I, CT, IL) reduced spending on natural resources during this period.

Broadly speaking, "natural resources" covers state spending on land, forestry and rivers management. It also covers the costs of enforcing environmental and land use laws and regulations.

Figure 20: Total State Natural Resources Spending Growth, 2002–2008

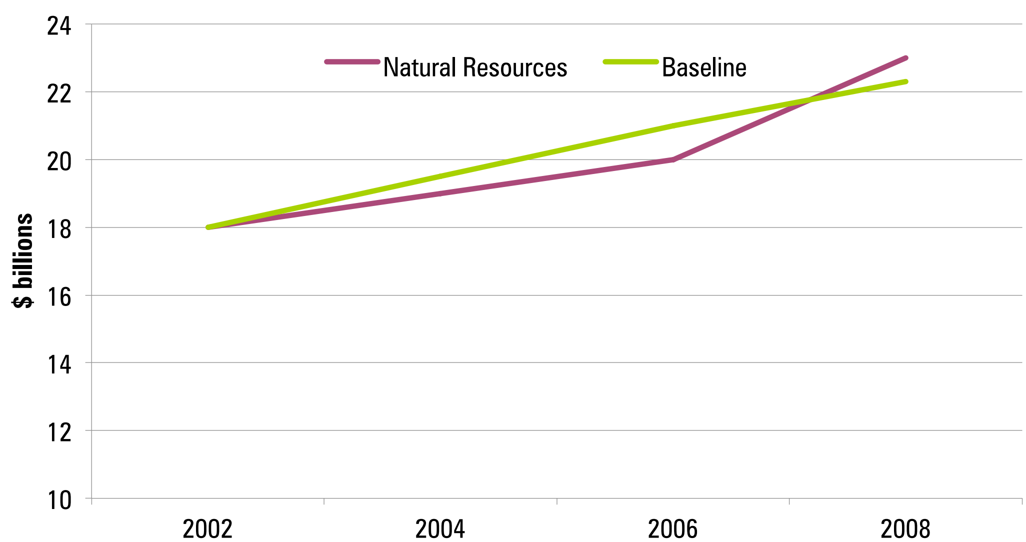


Table 24: Individual State Natural Resources Spending Growth, 2002–2008				
Rank	**State**	**2002 Spending ($ thousand)**	**2008 Spending ($ thousand)**	**Difference**
1	Tennessee	234,901	458,161	95%
2	Wyoming	159,625	310,037	94%
3	Louisiana	332,754	579,131	74%
4	Colorado	193,235	323,226	67%
5	New Hampshire	42,571	68,642	61%
6	New Mexico	138,367	221,810	60%
7	Arizona	203,588	321,173	58%
8	New York	351,875	547,896	56%
9	Wisconsin	420,295	646,438	54%
10	California	3,184,490	4,885,087	53%
11	Montana	182,521	279,698	53%
12	North Dakota	111,226	166,129	49%
13	Nevada	92,729	137,372	48%

Table 24: Individual State Natural Resources Spending Growth, 2002–2008				
Rank	**State**	**2002 Spending ($ thousand)**	**2008 Spending ($ thousand)**	**Difference**
14	Mississippi	198,375	285,285	44%
15	New Jersey	431,832	613,651	42%
16	Delaware	69,728	94,329	35%
17	Alabama	230,519	309,369	34%
18	Florida	1,397,333	1,833,040	31%
19	Idaho	164,520	213,597	30%
20	South Carolina	231,871	299,956	29%
21	Oregon	329,956	424,465	29%
	United States	17,821,117	22,522,407	26%
22	South Dakota	98,029	123,365	26%
	Baseline	N/A	N/A	25%
23	Texas	687,014	839,527	22%
24	Kentucky	310,703	373,489	20%
25	Pennsylvania	554,723	666,752	20%
26	Missouri	293,627	347,965	19%
27	Alaska	240,427	284,520	18%
28	Massachusetts	287,026	338,037	18%
29	Maryland	478,073	562,098	18%
30	Hawaii	98,076	113,560	16%
31	Virginia	185,871	214,336	15%
32	Kansas	179,368	205,394	15%
33	Washington	650,231	738,520	14%
34	Maine	149,602	167,216	12%
35	Nebraska	165,308	180,968	9%
36	Iowa	267,444	288,799	8%
37	Vermont	68,102	73,300	8%
38	Arkansas	234,315	249,560	7%
39	Oklahoma	202,183	215,089	6%
40	North Carolina	654,624	679,216	4%
41	Utah	178,944	185,613	4%
42	Indiana	285,590	293,931	3%
43	West Virginia	175,910	170,496	-3%
44	Georgia	539,051	516,792	-4%
45	Minnesota	542,161	511,888	-6%
46	Ohio	389,217	362,226	-7%
47	Rhode Island	46,840	41,480	-11%
48	Michigan	507,993	363,826	-28%
49	Connecticut	193,955	123,842	-36%
50	Illinois	454,399	272,110	-40%

9) Police Protection

In 2008, states spent almost $14 billion on state law enforcement agencies, a 27% increase over 2002, slightly above the baseline. Fourteen states (ND, TX, OK, KS, MS, MN, NC, NV, AZ, DE, NM, MA, NY, VT) increased state police spending by over 50%—twice the baseline rate. It is interesting that during the boom years between the recession, total state spending was mostly below the baseline on what is arguably the most core government service of police protection. It bears noting that the period 2002–2008 showed a general reduction in the rate of crime. Three states (SC, PA, WY) reduced spending on state police during this period.

Figure 21: Total State Police Spending Growth, 2002–2008

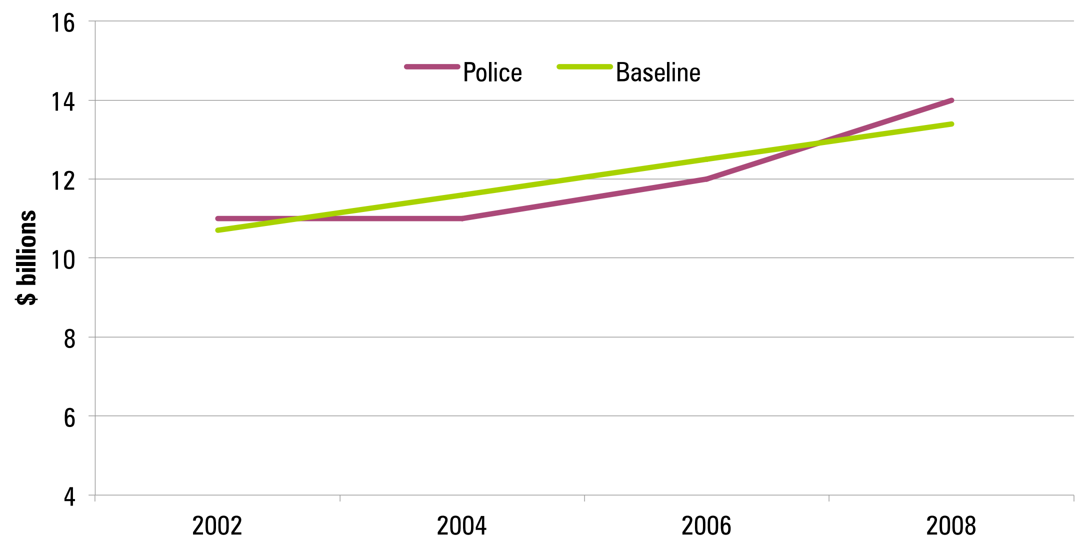


Table 25: Individual State Police Spending Growth, 2002–2008

Rank	State	2002 Spending ($ thousand)	2008 Spending ($ thousand)	Difference
1	North Dakota	13,903	27,949	101%
2	Texas	395,399	720,014	82%
3	Oklahoma	91,636	161,213	76%
4	Kansas	63,403	110,231	74%
5	Mississippi	67,902	117,202	73%
6	Minnesota	202,552	343,342	70%
7	North Carolina	336,111	567,801	69%
8	Nevada	63,671	105,594	66%
9	Arizona	166,831	273,533	64%
10	Delaware	70,807	113,596	60%
11	New Mexico	88,817	140,759	58%
12	Massachusetts	362,699	569,777	57%

Table 25: Individual State Police Spending Growth, 2002–2008				
Rank	State	2002 Spending ($ thousand)	2008 Spending ($ thousand)	Difference
13	New York	623,391	958,637	54%
14	Vermont	50,868	77,177	52%
15	Hawaii	9,228	13,808	50%
16	New Jersey	347,190	510,798	47%
17	Alabama	128,801	182,955	42%
18	New Hampshire	36,800	52,148	42%
19	South Dakota	22,400	31,514	41%
20	Louisiana	250,114	349,563	40%
21	West Virginia	47,790	65,468	37%
22	Colorado	103,053	140,723	37%
23	Washington	241,022	319,335	32%
24	Connecticut	164,226	216,795	32%
25	Wisconsin	102,421	132,283	29%
26	Indiana	200,006	254,012	27%
	United States	10,705,936	13,594,279	27%
27	Nebraska	66,750	84,698	27%
28	Virginia	547,206	689,989	26%
	Baseline	N/A	N/A	25%
29	Utah	103,937	129,182	24%
30	Rhode Island	47,946	57,953	21%
31	Maine	60,455	72,231	19%
32	California	1,376,082	1,642,063	19%
33	Tennessee	131,690	156,050	18%
34	Georgia	272,130	317,358	17%
35	Arkansas	71,768	81,440	13%
36	Iowa	86,461	96,991	12%
37	Idaho	45,973	51,314	12%
38	Illinois	392,153	437,448	12%
39	Montana	43,257	47,166	9%
40	Florida	425,266	453,620	7%
41	Alaska	77,758	82,585	6%
42	Maryland	387,251	405,655	5%
43	Ohio	256,546	264,055	3%
44	Michigan	336,613	346,258	3%
45	Kentucky	189,524	193,185	2%
46	Oregon	171,170	173,661	1%
47	Missouri	211,894	214,579	1%
48	South Carolina	221,406	208,518	-6%
49	Pennsylvania	906,273	816,191	-10%
50	Wyoming	25,386	15,862	-38%

10) Corrections

In 2008, states spent just over $50 billion on their correctional system, a 28% increase over 2002, which is just ahead of baseline. Nine states (WY, WA, NV, ND, AL, MT, CA, NM, VT) increased their spending on corrections more than 50%—twice the baseline rate of growth. Only Illinois reduced its correctional spending during this period. . It is interesting that during the boom years between the recession, total state spending was mostly below the baseline.

Figure 22: Total State Corrections Spending Growth, 2002–2008

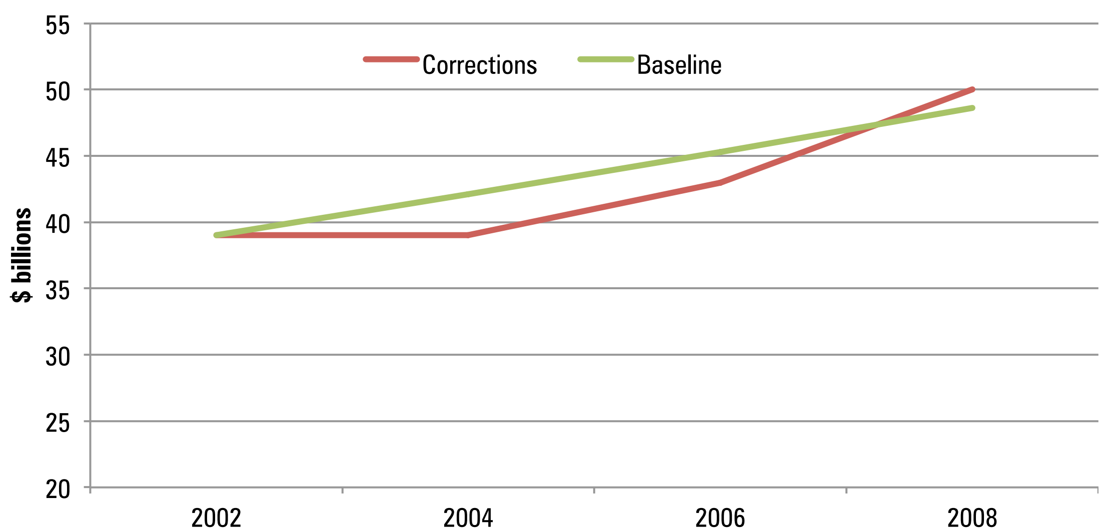


Table 26: Individual State Corrections Spending Growth, 2002–2008

Rank	State	2002 Spending ($ thousand)	2008 Spending ($ thousand)	Difference
1	Wyoming	83,268	164,617	98%
2	Washington	735,214	1,205,895	64%
3	Nevada	226,554	367,241	62%
4	North Dakota	38,522	61,368	59%
5	Alabama	331,476	525,281	58%
6	Montana	106,311	168,127	58%
7	California	5,596,427	8,829,940	58%
8	New Mexico	241,454	376,627	56%
9	Vermont	79,771	120,328	51%
10	South Dakota	74,880	110,268	47%
11	Tennessee	529,747	768,711	45%
12	North Carolina	923,487	1,324,484	43%
13	Idaho	171,684	244,504	42%
14	West Virginia	170,305	241,996	42%
15	New Hampshire	79,500	112,265	41%

Table 26: Individual State Corrections Spending Growth, 2002–2008

Rank	State	2002 Spending ($ thousand)	2008 Spending ($ thousand)	Difference
16	Alaska	173,844	243,961	40%
17	Arizona	734,167	1,023,693	39%
18	Hawaii	157,286	219,070	39%
19	Delaware	202,270	280,710	39%
20	Mississippi	272,024	369,248	36%
21	Colorado	734,457	996,266	36%
22	Maine	105,580	141,982	34%
23	Maryland	1,059,972	1,366,211	29%
24	Minnesota	417,273	536,760	29%
	United States	38,875,374	49,897,531	28%
25	Arkansas	284,600	361,537	27%
26	Rhode Island	157,531	199,394	27%
27	Florida	2,199,630	2,770,179	26%
28	New York	2,492,277	3,135,187	26%
	Baseline	N/A	N/A	25%
29	New Jersey	1,193,432	1,496,976	25%
30	Virginia	1,243,090	1,547,571	24%
31	Massachusetts	1,070,950	1,332,960	24%
32	Utah	267,607	332,828	24%
33	Nebraska	176,533	219,278	24%
34	Georgia	1,271,639	1,571,961	24%
35	Louisiana	627,743	773,076	23%
36	Missouri	619,674	754,740	22%
37	South Carolina	424,031	514,479	21%
38	Kentucky	435,206	527,311	21%
39	Oklahoma	520,912	616,933	18%
40	Oregon	616,568	720,504	17%
41	Ohio	1,440,803	1,668,729	16%
42	Pennsylvania	1,521,611	1,744,264	15%
43	Connecticut	637,897	723,346	13%
44	Texas	3,157,124	3,565,217	13%
45	Wisconsin	965,801	1,084,127	12%
46	Kansas	326,372	361,648	11%
47	Michigan	1,690,175	1,863,464	10%
48	Indiana	640,711	676,633	6%
49	Iowa	288,666	291,406	1%
50	Illinois	1,359,318	1,244,230	-8%

11) Health

In 2008 states spent $61 billion on health, a 21% increase over 2002, below the baseline rate of growth. Fourteen states increased health spending more than 50%—twice the baseline rate—and three states (WY, MO, VT) increased it over 100%. Eight states (PA, AL, AR, IL, OR, MA, KS, MI) reduced their spending on health over this period.

Figure 23: Total State Health Spending Growth, 2002–2008

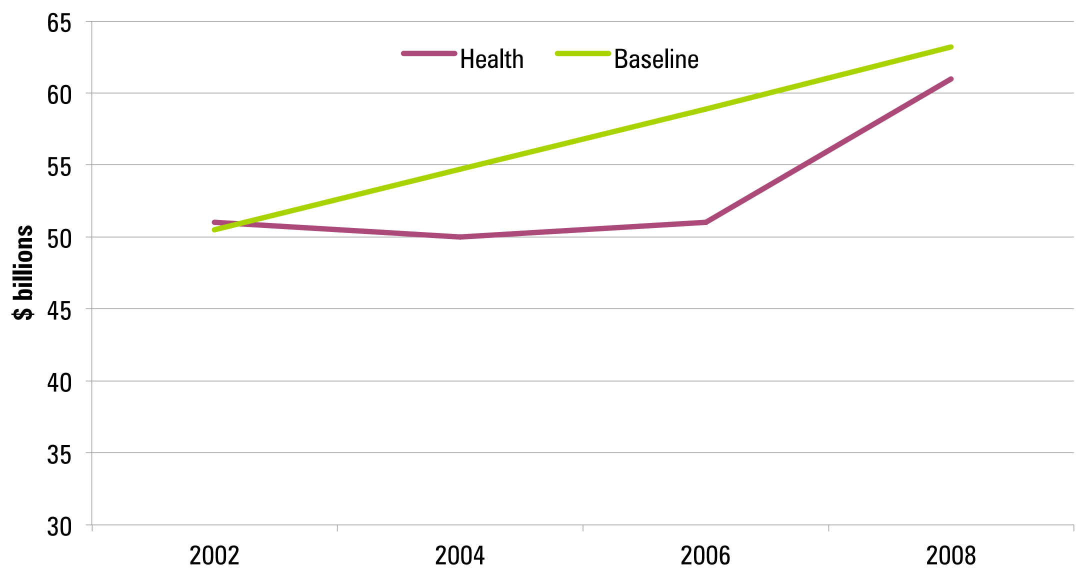


Table 27: Individual State Health Spending Growth, 2002–2008

Rank	State	2002 Spending ($ thousand)	2008 Spending ($ thousand)	Difference
1	Wyoming	113,368	281,247	148%
2	Missouri	485,805	1,163,167	139%
3	Vermont	72,310	167,140	131%
4	North Carolina	930,114	1,653,975	78%
5	Arizona	913,302	1,620,620	77%
6	Oklahoma	445,552	780,680	75%
7	Alaska	160,168	279,028	74%
8	West Virginia	209,521	356,647	70%
9	Tennessee	800,515	1,282,165	60%
10	Utah	239,515	383,324	60%
11	Georgia	808,960	1,258,721	56%
12	South Dakota	81,294	126,093	55%
13	Connecticut	592,071	901,164	52%
14	Delaware	260,745	393,259	51%
15	Hawaii	453,500	677,693	49%

Table 27: Individual State Health Spending Growth, 2002–2008				
Rank	**State**	**2002 Spending ($ thousand)**	**2008 Spending ($ thousand)**	**Difference**
16	Maryland	1,341,846	1,958,191	46%
17	South Carolina	721,138	1,051,239	46%
18	New Jersey	919,358	1,327,893	44%
19	New Mexico	340,031	490,852	44%
20	Louisiana	444,648	640,753	44%
21	Nevada	185,956	261,957	41%
22	Mississippi	267,921	368,652	38%
23	Florida	2,667,466	3,600,529	35%
24	Maine	366,293	491,007	34%
25	Idaho	112,840	150,626	33%
26	Minnesota	492,480	653,688	33%
27	Ohio	1,862,440	2,470,691	33%
28	Virginia	726,489	958,002	32%
29	New York	5,444,260	7,088,181	30%
30	Montana	253,857	329,501	30%
31	North Dakota	50,333	64,749	29%
	Baseline	N/A	N/A	25%
32	Texas	1,818,755	2,248,068	24%
33	California	9,714,786	11,992,534	23%
	United States	50,549,676	60,957,320	21%
34	Kentucky	530,081	626,189	18%
35	Washington	1,396,500	1,605,753	15%
36	Nebraska	363,668	415,172	14%
37	Indiana	557,640	627,263	12%
38	Wisconsin	637,922	703,266	10%
39	New Hampshire	147,828	158,845	7%
40	Iowa	233,740	240,951	3%
41	Colorado	792,620	809,170	2%
42	Rhode Island	181,541	180,822	0%
43	Pennsylvania	1,917,062	1,871,255	-2%
44	Alabama	718,443	699,309	-3%
45	Arkansas	268,398	249,653	-7%
46	Illinois	2,573,875	2,336,890	-9%
47	Oregon	580,917	407,430	-30%
48	Massachusetts	1,908,195	1,068,262	-44%
49	Kansas	503,625	252,179	-50%
50	Michigan	2,939,984	1,232,875	-58%

12) Parks and Recreation

In 2008 states spent a bit over $6 billion on parks and recreation, virtually unchanged from 2002. Interestingly, 20 states increased spending on parks and recreation by over 50%—twice the baseline rate of 25%—and eight (KS, NV, NH, IA, MT, NC, AL, AZ) increased spending in this area by over 100%. Meanwhile 16 states reduced their spending on parks and recreation during this period.

Figure 24: Total State Parks and Recreation Spending Growth, 2002–2008

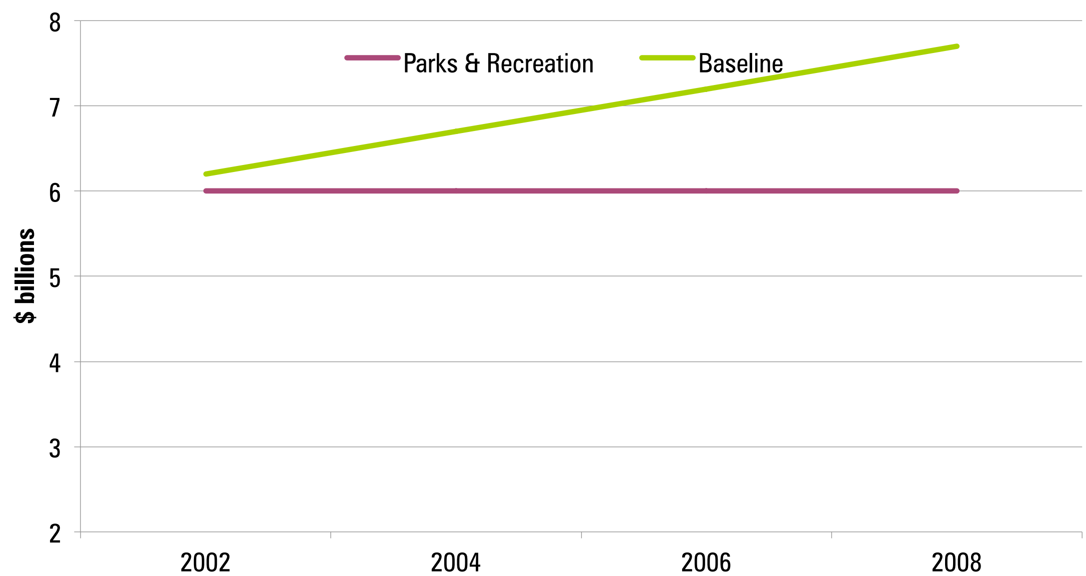


Table 28: Individual State Parks and Recreation Spending Growth, 2002–2008				
Rank	**State**	**2002 Spending ($ thousand)**	**2008 Spending ($ thousand)**	**Difference**
1	Kansas	5,416	37,074	585%
2	Nevada	17,053	46,373	172%
3	New Hampshire	6,300	16,713	165%
4	Iowa	25,468	61,112	140%
5	Montana	6,468	14,950	131%
6	North Carolina	126,277	278,930	121%
7	Alabama	23,155	50,268	117%
8	Arizona	62,661	132,563	112%
9	Oregon	52,244	103,461	98%
10	Virginia	76,498	148,721	94%
11	North Dakota	13,638	25,730	89%
12	South Carolina	65,008	120,343	85%
13	New Mexico	49,804	91,671	84%
14	Alaska	9,625	17,274	79%

Table 28: Individual State Parks and Recreation Spending Growth, 2002–2008				
Rank	State	2002 Spending ($ thousand)	2008 Spending ($ thousand)	Difference
15	Louisiana	211,102	371,160	76%
16	Pennsylvania	149,121	259,267	74%
17	South Dakota	26,193	42,124	61%
18	Hawaii	49,595	78,920	59%
19	Wyoming	21,640	34,369	59%
20	Indiana	47,645	71,753	51%
21	Tennessee	105,004	148,163	41%
22	Oklahoma	72,160	99,929	38%
23	Minnesota	140,020	192,704	38%
24	Georgia	163,060	209,191	28%
25	New York	460,646	583,040	27%
	Baseline	N/A	N/A	25%
26	Ohio	114,814	136,211	19%
27	Colorado	69,307	79,099	14%
28	Utah	59,692	65,910	10%
29	Mississippi	37,484	39,960	7%
30	Florida	184,632	195,516	6%
31	Delaware	52,147	54,763	5%
32	Texas	125,784	130,316	4%
	United States	6,183,538	6,396,814	3%
33	Idaho	40,872	41,137	1%
34	Maryland	268,944	269,711	0%
35	New Jersey	515,824	502,611	-3%
36	Maine	11,540	11,159	-3%
37	Vermont	15,008	14,370	-4%
38	Massachusetts	263,913	238,203	-10%
39	Nebraska	32,191	28,868	-10%
40	West Virginia	68,248	57,347	-16%
41	Kentucky	150,157	120,502	-20%
42	Missouri	50,672	37,236	-27%
43	Illinois	443,212	276,560	-38%
44	Arkansas	76,783	46,533	-39%
45	Washington	235,314	139,378	-41%
46	Wisconsin	61,972	35,926	-42%
47	California	949,480	483,692	-49%
48	Michigan	197,888	88,249	-55%
49	Connecticut	146,497	60,090	-59%
50	Rhode Island	25,362	7,664	-70%

Part 4

Conclusions and Recommendations

For the five years immediately preceding the economic downturn, states experienced both robust revenue growth and steady increases in overall spending. Their total spending far outpaced inflation. In fact, states collectively spent hundreds of billions more than was necessary to maintain programs at 2002 levels, after accounting for population growth and inflation. As this period coincided with falling unemployment and a generally strong economy, it is not unreasonable to ask how states could have justified such a large increase in spending.

There is no industry today that expects its costs to increase every year at more than the rate of inflation. Such a business model is unsustainable in today's globalized economy. Every industry and company is under constant pressure to trim costs and streamline service delivery to compete in the free market. Economic downturns provide an extra incentive to do this and generally help set the stage for a robust recovery. State governments shouldn't be immune to this. Instead of seeking a temporary bailout from the federal government, states should roll up their sleeves and put their own fiscal house in order. No function, program or agency should be considered sacred, and each merits rigorous review and evaluation to determine whether it is achieving its mission, delivering services in a cost-effective manner and, ultimately, whether it merits continuation or not.

Let's put this another way. After 2007 we were clearly experiencing an economic downturn. If the states had merely maintained their existing programs in between economic downturns, they would have been able to deliver a $1 trillion tax cut at the end of 2007 to help the economy recover quickly. Imagine the impact that would have had.

It is beyond the scope of this paper to explore the myriad of program-level and agency-level reform options to drive cost reductions and efficiency improvements in state government. Rather, the recommendations that follow focus on implementing systemic, proven reforms designed to drive large, enterprise-wide changes across state government to help keep the costs of government—and the taxpayer burden—in check. The following reforms are explained in more detail in the next section:

- Reform #1: Adopt an Effective State Spending/Revenue Limit
- Reform #2: Employ Outcome-Based Budgeting
- Reform #3: Adopt a Sunset Review Process for State Agencies, Boards and Commissions

- Reform #4: Utilize Non-Partisan Revenue Forecasts and an Independent Certification of the Budget
- Reform #5: Create a Statewide Real Property Inventory and Take Advantage of Asset Sale and Lease Opportunities
- Reform #6: Expand the Use of Privatization and Competitive Contracting
- Reform #7: Establish a State Privatization and Efficiency Council
- Reform #8: Implement Public-Private Partnerships to Finance Transportation Infrastructure
- Reform #9: Enact School Empowerment and Student-Based Budgeting Reforms
- Reform 10: Reinvent Higher Education Systems

Reform #1: Adopt an Effective State Spending/Revenue Limit

Many states have attempted to curtail spending (or, more accurately, spending growth) with mixed success. In fact, 45 states currently maintain some sort of spending limit, combined with rainy day funds. The effectiveness of the spending restraints and the size of the rainy day funds vary greatly, however.

One of the most successful checks on government spending has been the Taxpayer Bill of Rights (TABOR), adopted by Colorado taxpayers in 1992. Although TABOR is often referred to as a spending limit, it is actually a limit on the revenues the state may collect, and thus serves as a de facto spending limit. TABOR caps the growth in state tax revenues at the combined growth rates of inflation and population. Any amount collected above this limit must be returned to the taxpayers through refunds, temporary tax credits, or any other "reasonable means." The limit is calculated based on the previous year's allowable revenues or actual revenues, whichever is lower.

The state exceeded the revenue limit for the first time in FY 1997–98 and continued to exceed it in many of the intervening years. Since 1997, Colorado has returned over $3.2 billion to taxpayers, and while other states grappled with their fiscal woes in the 2001–2002 recession, Colorado enjoyed a balanced budget and still managed to issue $927 million in tax refunds.

Increases above the tax revenue limit may only be obtained by approval of the voters in a referendum, giving the system a degree of flexibility. Since TABOR's inception, several such referenda have been offered to the voters. Two such measures to pass include Amendment 23, which required education spending to increase at a certain rate regardless of state revenues, and Referendum A, which directed $44 million from the TABOR surplus toward property tax relief for qualified seniors. Both measures passed in the 2000 election. Amendment 23 was fundamentally incompatible with TABOR's revenue limits, and soon created budget problems.

Despite the fiscal responsibility and economic growth it had helped create, TABOR was blamed for the budget problems by various interests that sought to increase government spending, while the problems fostered by Amendment 23's spending mandates were ignored. Unfortunately, voters chose to side with increased spending over fiscal restraint, and TABOR was temporarily suspended for five years by Referendum C in 2005. If not for Referendum C's suspension of TABOR between 2005 and 2010, it is estimated that taxpayers would have had nearly $3.6 billion returned to them during that period.[6]

TABOR went back into effect at the start of fiscal year 2010–11 on July 1, 2010. However, Referendum C permanently changed the calculation of the TABOR revenue limit such that it can no longer adjust downward when actual revenues are less than the allowable limit. Thus, spending can now only "ratchet up," not down—the revenue limit will no longer be reset in the event of declining state revenues. It is estimated that under the new Referendum C revenue limit, Colorado will keep over $748 million in fiscal year 2010–11 that would have otherwise been refunded under the original TABOR provisions.[7]

In addition to the TABOR revenue limit, Colorado does have a spending limit as well. The Arveschoug-Bird limit, put in place in 1991, restricts general fund appropriations growth to 6% per year. Exceptions are made for federal mandates, court orders, Medicaid overexpenditures, and transfers to the state's Capital Construction Fund. According to State Treasurer Mike Coffman, "if the state collects tax revenues that exceed the Arveschoug-Bird limit but that are less than the total TABOR revenue limit … that money is normally spent on transportation and capital construction projects."

Although the "6% limit" was merely a statute, a specific provision of TABOR prohibits the state (and local governments) from weakening any spending limitations that existed at the time of TABOR's inception, including Arveschoug-Bird. Thus, the 6% limit has become "constitutionalized."

Overall, TABOR has had a strong and positive impact on the Colorado economy. In the words of University of Colorado economics professor Dr. Barry Poulson, "Colorado has achieved unprecedented growth over the past decade due to a favorable business climate."[8] By helping to keeping tax rates low and stable, TABOR has allowed taxpayers and business owners to invest more of their earnings into the economy, spurring further growth. Colorado's favorable business climate and economic growth are evidenced by the following:

- Colorado's 60% growth in per capita disposable income during the 1990s ranked first among all states.
- During this period, Colorado's population grew an average of 2.3% per year—the third-highest growth rate in the country. The number of full-time jobs increased 43%, from 1,655,000 jobs in 1990 to 2,363,000 jobs in 2000. What is more, most of the jobs created during the economic expansion were not for low-skilled work, but rather for relatively high-paying positions.

- Between 1995 and 2000, Colorado's 51% growth in gross state product was the second-fastest in the nation.

In addition, TABOR made the budgeting process more transparent. This allowed taxpayers to become more informed and have a stronger and more direct say as to what their tax dollars were buying. If taxpayers felt legislators were not adequately funding a program that truly needed funding, they could agree to set aside a special allotment for that purpose through the referendum process.

Since, under the TABOR system, any funds for such a program will be taken from revenues collected over the limit—revenues that would otherwise be returned to the taxpayers—taxpayers can make the funding priority decisions that legislators are unable, or unwilling, to make. The crucial point is that, under TABOR, excess tax collections are rightly recognized as property of the taxpayers, not the legislators. This implies that, when deciding whether or not spending (and thus, taxes) should be increased to pay for programs not covered under the TABOR limits, Colorado taxpayers can more easily factor in the costs of programs, and not simply focus on the benefits heralded by legislators or special interest groups, since the money to pay for such programs will be coming from their own tax refunds. Without such a check on the power of the purse, all tax dollars will be spent, regardless of whether or not the state collected too much money in the first place.

Despite its many attractive features, however, TABOR is not flawless. The main drawback is that Colorado lacks an effective "rainy-day fund" to resort to in times of economic hardship. While the state does maintain very limited emergency reserve funds, "it does not currently have a device in place to smooth government revenues and expenditures over the business cycle," according to Dr. Poulson. This is not so much a criticism of TABOR itself as it is the tax collection system as a whole, but it nonetheless deserves comment.

TABOR may be able to limit the amount that the state can collect, and thus spend, but it cannot prevent legislators from spending the maximum amount of tax dollars from the general fund and dipping into reserves not subject to the TABOR limit. Thus, while the pot may be smaller to begin with, lack of fiscal discipline will still cause it to be depleted, leaving little or nothing in reserve for use in the event of an emergency. Indeed, this has proven to be the case in Colorado. In the words of former Colorado State Treasurer Mike Coffman, "The problem is a legislature that spends to its legal limits in good times and is reluctant to set aside any of that money for the tough ones. What we need to do is ensure a balance that restrains government growth in prosperous times and permits the state to meet the needs of its citizens when times get tough."[9]

In addition to the lack of a rainy-day fund, TABOR has been weakened by the practice of pre-spending the surplus. In 1998, legislation passed that allowed the state to recognize the TABOR surplus obligation in the year after the money is realized instead of in the year in which revenue comes in the door. Thus, the surplus is treated as an asset in the year it occurs and a liability the subsequent year. According to the Colorado Office of State Planning and Budgeting:

> *Beginning in 1998, the state did not restrict the TABOR surplus revenue in the year it occurred. Rather the legislature, through House Bill 98-1414, obligated the TABOR refund from the next year's revenues. This pre-spending of the TABOR revenues in FY 1998–99 allowed $468.3 million in spending for capital construction and highways. If the TABOR surplus had been restricted in the year it was realized, only $287 million would have been available for capital and highway expenditures in FY 1998–99.*[10]

This raises a potential cash flow problem if the TABOR surplus is less than that of the preceding year or if an economic downturn causes revenues to come in under projections. In addition, permanent tax relief in the full amount of the surplus is now much more difficult, as the prior year's TABOR surplus must be incurred in the current year. If a similar measure is to be employed in other states, efforts must be made to avoid these dilutive effects and accounting gimmicks.

Limitations on revenues and/or spending would serve to prevent budget crises like the current one not only by enforcing fiscal discipline, but by fostering economic growth as well. Measures like TABOR create a favorable business climate by keeping tax burdens low, thus drawing increased investment to the state and encouraging small business and job growth. This incentive is a crucial prerequisite of a thriving economy.

In light of this, states should adopt the following:

- ***TABOR Revenue Limit***: Establish a revenue limit to impose discipline on spending, as well as on taxes.
- ***Tax Rebate/Revenue Reserve Fund***: Critics of TABOR point out that should the state spend exactly to the revenue limit each year, it might be possible that a year of falling revenue would produce a deficit. As a result, a TABOR measure should be designed to keep a running balance of up to 30% of the revenue over-collection accumulated during the previous five-year cycle. As a result, a maximum of 70% of over-collected revenues could be automatically rebated to the taxpayer, while provisions would be made for the retention of over-collections to meet the 30% reserve.
- ***Strong Spending Limit, with Spending Ratchet***: Adopt a strong spending limit and a spending ratchet formula for setting the spending limit each year. A spending ratchet technique focuses on actual spending instead of prior spending limits by re-setting the base year at the previous year's spending level. Thus, spending limits can be reduced and, once reduced, must grow from the lower base level.
- ***"Balanced Budget Trigger"***: Adopt a mid-year Automatic Spending Reconciliation—thus providing another way to correct for any intentional or accidental inflation of revenues. The "trigger" would adjust discretionary spending levels to achieve a balanced budget based on a program's proportion in the budget. This would make balancing the budget automatic and shield politicians from making the difficult votes of reducing spending on popular programs. Should the legislature actually want to craft its own package of reductions and take a formal vote, it certainly could. However, to ensure gridlock does not prevent the balancing of the budget, an automatic "trigger" would be necessary.

Additional Resources

Barry W. Poulson, *Colorado's Taxpayer Bill of Rights (TABOR) Amendment: An Experiment in Direct Democracy*, Americans for Prosperity Foundation, 2009.

Barry W. Poulson, *What Is at Stake in the Current Battle over Colorado's Tax and Spending Limits?*, Issue Backgrounder, Independence Institute, March 2009, http://www.i2i.org/articles/IB_2009_C_a.pdf.

Geoffrey F. Segal and Adam B. Summers, *The Sky Isn't Falling: Proven Strategies for Budget Reconciliation*, Americans for Prosperity Foundation and Reason Foundation, October 2005, http://reason.org/news/show/127597.html.

Reform #2: Employ Outcome-Based Budgeting

The adoption of a priority or outcome-based budgeting system would help state policymakers to more easily identify the governmental activities most important to taxpayers and to make difficult trade-off and cost-benefit decisions. It would also result in the provision of better, more efficient state government services while protecting taxpayers and maintaining fiscal responsibility.

There are surely some functions that state government can stop providing, but unfortunately the traditional budgeting process fails to facilitate this sort of downsizing. Traditional state budgeting focuses only on the increase to a base budget, and rarely are the "big picture" questions asked—in essence, the budget is on autopilot. The logic of autopilot budgeting is simple—that in order to maintain current service levels, agencies need to spend what they did last year plus an increase to account for inflation and population increases. Put simply, this moves the discussion to the margins of spending—the annual spending increase requests from agencies. Unfortunately, the other 90 to 95% of spending is left out of the debate and seldom is analyzed for its relative merits. In fact, it is generally assumed that the activities should continue to receive funding. Put simply, the traditional budgeting process effectively establishes a default position that state government will just continue to expand over time, representing an unsustainable approach to state fiscal management.

Several states (and more cities and counties) are changing their views about government budgeting. *Priority or outcome-based spending* treats spending as an investment—the type and amount of investment should change yearly as results, performance and needs change. Budgeting this way shifts the focus on the investments and what can be accomplished with available resources—when resources run out, spending stops. Using this model, deficits are nearly impossible.

States needs to follow the lead of Washington State, Iowa and others (see Table 22) and begin shifting to an outcome-based budgeting system, also known as Budgeting for Outcomes (BFO), in which policymakers and the public collaboratively rank programs according to how cost-effective they are at achieving the results citizens want. The state government then goes down the list, funds the most important programs first, "buying down" with available revenues until it runs out of money. This ensures that vital services are being funded before less-critical ones, and services not deemed of greater importance are reduced or eliminated. Kitchen table budgeting works this way, and there is no reason the state should not do the same.

Table 29: Jurisdictions That Have Used Budgeting for Outcomes

States	Counties
Washington Iowa South Carolina Michigan Louisiana Dept. of Culture, Recreation and Tourism	Snohomish, WA Multnomah, OR Mesa County, CO Polk County, FL Larimer County, CO Coconino County, AZ
Cities	**School Districts**
Azusa, CA Spokane, WA Dallas, TX Ft. Collins, CO Northglenn, CO Redmond, WA Eugene, OR Savannah, GA Baltimore, MD Tacoma Metro Parks, WA	Jefferson County, CO Billings, MT

Source: David Osborne, *The Next California Budget: Buying Results Citizens Want at a Price They Are Willing to Pay*, Policy Study 380, Reason Foundation, April 2010, p. 2.

Washington State—Priorities of Government Budgeting Model

Budgeting for Outcomes was first employed by Governor Gary Locke in the State of Washington in 2002 and was called the Priorities of Government (POG) model. At the time, Washington was facing a potential $2.4 billion budget shortfall (approximately 10–15% of the size of the general fund operating budget). Significant changes were needed to plug the hole in the budget. In an effort to make the most of limited resources and ensure that the most important governmental functions were properly funded, the Locke administration called for a top-to-bottom evaluation of what services the government provided and how.

The Public Strategies Group, led by author, reform expert and consultant David Osborne (who led Vice President Al Gore's "Reinventing Government" initiative at the federal level under the Clinton administration), developed the POG approach with the Locke administration as a central means of closing the budget deficit. The administration identified a set of ten key results that citizens expect from government:

- Improve student achievement in elementary, middle and high schools.
- Improve the quality and productivity of our workforce.

- Improve the value of post-secondary learning.
- Improve the health of Washington citizens.
- Improve the security of Washington's vulnerable children and adults.
- Improve the economic vitality of business and individuals.
- Improve statewide mobility of people, goods, information and energy.
- Improve the safety of people and property.
- Improve the quality of Washington's natural resources.
- Improve cultural and recreational opportunities throughout the state.

"Result teams" were formed to analyze government activities in each of the ten result areas. In Washington, result teams are comprised of six to eight subject-matter experts from state agencies, and are led by the Office of Financial Management. These teams analyzed and ranked government activities according to how well they achieved the desired outcomes as outlined in the ten governmental goals. The result teams were aided by a 10-member "guidance team" comprised of leaders of the public, private and nonprofit sectors. The guidance team was tasked with overseeing the prioritization process and reviewing the work of the result teams.

In order to aid in the decision-making process, result teams were each given a dollar allocation to serve as an upper spending limit for their purchase plans. Washington reached several key conclusions regarding the allocation limit:

- The prioritization process is often more meaningful when the allocation is less than the amount currently spent in that area.
- A dollar constraint encourages creativity, keeps proposals grounded in financial reality, and forces people to articulate priorities and choices.[11]

The priority rankings established by the result teams were then used to develop the 2003–05 biennial executive budget proposal. Activities were funded from the top of the list down until the spending limit was reached. Figure 1 offers an illustrative example of some of the spending priorities that were established.

The POG model is still used in Washington State today under the current administration, demonstrating the longevity of the approach and its resilience to changes in leadership.

Why Budgeting for Outcomes Works

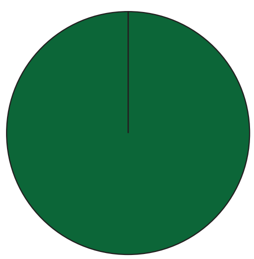
Across-the-board cuts are generally ill-advised—they treat and affect the highest performing and most important services equally with low performing and less important services. By focusing on performance and priorities, policymakers can target their cuts—ridding taxpayers of poor-performing, non-essential and non-core services.

Since politicians, special interests and bureaucrats often focus on narrow interests and spending priorities, ignoring the larger picture and the sacrifices necessary to accommodate those desires, perhaps the greatest benefit of BFO is simply making budgetary priority and trade-off decisions clear to all. As a U.S. Government Accountability Office report of innovative state performance budgeting efforts noted:

> *One Washington legislator said that [BFO] provided decision makers with proposed priorities in a clear and easily understood format that encouraged constructive debate. . . Legislative officials said that the greatest contribution of [BFO] was that it provides a strong, clear means of communicating budgetary trade-offs to both decision makers and the public.*[12]

Figure 25: Washington State POG Example

Funded Priorities:

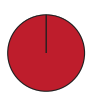


$24 Billion
(GF-8 & Health Services)

Purchased: $24 Billion (GF-8 and Health Services Account)

$10.2 billion	K-12 education for $1,000,000 students
$2.7 billion	Higher education for 215,000 students
$3.7 billion	Health care for 979,000 children and needy people
$3.8 billion	Protecting vulnerable children, adults and families
$1.4 billion	Public safety, including prison for 15,500
$125 million	Economic development
$310 million	Natural resources and parks
$133 million	Legislature
$82 million	Judicial
$369 million	Government operations
$1.3 billion	Debt service on capital projects
$55 million	Pension contributions
$344 million	Reserves (GF-9=$214m, Health Services=$78m, ERF=$67m)

Unfunded Priorities:



$2.4 Billion
(GF-8 & Health Services)

Reductions: $2.4 Billion (GF-8 and Health Services Account)

$109 million	Lower costs in higher education
$221 million	Future class size reduction
$112 million	K-12 programs beyond basic education
$112 million	Revised sentences for 1,200 non-violent and drug offenders
$187 million	Lower-priority programs for vulnerable children and adults
$389 million	Future expansion of Basic Health Plan
$277 million	Health coverage for 58,000 adults now on Basic Health Plan
$774 million	Pay increases benefits for state-funded employees, pension savings
$122 million	Consolidationand staff reductions of 2,600 FTE

Source: Washington State Office of Financial Management.

The BFO approach to budgeting has several other advantages over the traditional incremental "line-item" approach:

- BFO focuses on achieving results and developing statewide strategies for realizing goals, instead of focusing narrowly on agency "silos."
- BFO illustrates not only which programs are cut, but which programs are funded.
- BFO presents trade-offs and cost-benefit decisions in a way that is clear and easy for decision makers and citizens alike to understand.
- BFO makes performance information more relevant and useful to budget decisions.
- BFO allows decision makers to reward programs and activities that best serve state goals and helps reduce waste by identifying ineffective and duplicative programs and services.
- BFO helps identify statutory limitations that are obstructing more effective service delivery.

Adopting a BFO approach would be a major step for states toward bringing sanity and fiscal sustainability to the budget process. It integrates strategic planning, zero-based budgeting and performance-based budgeting in a workable, common-sense system that has been replicated in numerous state and local governments. Policymakers would be well advised to begin implementing a similar transformation in the budgeting process to ensure that taxpayer dollars are spent with maximum effectiveness and that the trade-offs among different categories of spending—especially in a budget crisis—are made clear and explicit.

Additional Resources

David Osborne, *The Next California Budget: Buying Results Citizens Want at a Price They Are Willing to Pay*, Policy Study 380, Reason Foundation, April 2010.

David Osborne and Peter Hutchinson, *The Price of Government: Getting the Results We Need in an Age of Permanent Fiscal Crisis*, (New York, NY: Basic Books, 2004).

Washington State Office of Financial Management website, "Priorities of Government," http://www.ofm.wa.gov/budget/pog/.

Reform #3: Adopt a Sunset Review Process for State Agencies, Boards and Commissions

Once created, government agencies or programs are rarely reevaluated to see if circumstances—or agency performance itself—justify their continued existence. Naturally, this promotes government "sprawl" and spiraling public sector costs. In the absence of any mechanism to continually prune away at government, it is typically far more difficult to shut down an agency or program than it is to create it in the first place.

Luckily such mechanisms exist, one of the more powerful being the use of a sunset review commission. Texas offers a powerful example of what a functional, effective sunset commission can achieve. The Texas legislature established a 12-member Sunset Advisory Commission in 1977 to conduct regular assessments of over 150 state agencies to determine: (a) if each agency is still needed, and (b) identify and eliminate waste, duplication and inefficiency in state government.

The fiscal impact of Commission recommendations over time has been impressive. Since the sunset process began in 1978, 58 state agencies have been abolished and another 12 agencies have been consolidated. Based on reviews conducted between 1982 and 2009, the Commission estimates a potential 27-year revenue savings of approximately $783.7 million through the sunset process, compared with expenditures of $28.6 million for the Commission.[13] Hence, for every dollar spent on the sunset process, Texas taxpayers have received $27 in return.

Each sunset review must include a recommendation to either abolish or continue the agency, and it may include additional recommendations for policy changes, efficiency improvements and the like. Notably, the Texas legislature has approved a large majority of the recommendations of the Sunset Commission over time. If the Commission recommends continuation of an agency, the Commission must provide draft legislation to the legislature to continue for up to 12 years and correct other problems identified during the sunset review.

Under the Texas system, an agency is automatically abolished unless the legislature passes a continuation bill. If an agency is abolished, the state's Sunset Act provides for a one-year "wind-down" period to conclude its operations and transfer all property and records to an appropriate state agency.

States should create a similar, permanent sunset review commission to recommend ways the state can cut costs, reduce waste and improve efficiency and service levels. This commission should review 20% of state programs each year, assess the importance of each agency's functions, and recommend the elimination or consolidation of unneeded or outdated programs.

Not only could a sunset review commission identify duplicative services and programs that have outlived their purpose, it could also help the legislature identify low-priority programs which the state may wish to fund during the luxury of good economic times, but are not imperative—and therefore not justified—in times of fiscal distress. With many states facing budget deficits and the prospects for ongoing fiscal challenges in a sluggish economy, state legislators and governors should take this opportunity to implement a strong sunset review process to reevaluate the government's core functions and responsibilities and streamline the state.

Additional Resources

Texas Sunset Advisory Commission, http://www.sunset.state.tx.us/.

Texas Sunset Advisory Commission, *Guide to the Sunset Process*, December 2009, http://www.sunset.state.tx.us/guide.pdf.

Reform #4: Utilize Non-Partisan Revenue Forecasts and an Independent Certification of the Budget

The current budgeting process allows much room for discretion in revenue projections, creating the opportunity for unrealistic projections to serve as the foundation for state spending. Two interrelated reforms can help to address this problem: (1) have a nonpartisan revenue forecast council that meets quarterly and publishes an official state revenue forecast, and (2) have an independent, third-party certification of the budget.

Using non-partisan revenue forecasts—which should account for all taxes, fees and charges by state government—can help eliminate the bureaucratic tendency to rely on higher-end revenue estimates just to balance the budget. States should also require the state treasurer (or a similar comptroller or state auditor position) to certify the budget, which would help to ensure that the budget relies on realistic revenue forecasts. Further, this approach creates a political incentive for accurate budgeting since the comptroller's professional credibility (and potential political future) is on the line.

The Texas State Constitution gives the comptroller in that state the authority to certify the state's budget. In advance of each regular legislative session, the comptroller prepares and submits to the governor and legislature a statement under oath showing the financial condition of the state treasury at the close of the last fiscal period and an estimate of the probable receipts and disbursements for the current fiscal year. The statement also contains an itemized estimate of the anticipated revenue based on the laws then in effect from all sources, showing the fund accounts to be credited during the succeeding biennium.

Except in the case of emergency or imperative necessity and with a four-fifths vote in each house, *no appropriation in excess of the cash and anticipated revenue of the funds from which such appropriation is to be made is considered valid*. No bill containing an appropriation can be considered as passed or be sent to the governor for consideration until and unless the comptroller certifies that the amount appropriated is within the amount estimated to be available in the affected funds.

Policymakers should close the current gap in their budgeting processes by adopting provisions similar to Texas's. Giving the state's chief financial officer the ability to prevent unrealistic budgets from being adopted until they match expected revenues would be an important step at tightening and strengthening the state's system of fiscal controls to keep the price of government in check.

Additional Resources

State of Texas, Senate Research Center, *Budget 101: A Guide to the State Budget Process in Texas*, January 2005, http://www.senate.state.tx.us/SRC/pdf/Budget101_2005.pdf.

Texas State Constitution, Article 3, Sec. 49a., "Financial Statement and Estimate by Comptroller of Public Accounts; Limitation of Appropriations."

Reform #5: Create a Statewide Real Property Inventory and Take Advantage of Asset Sale and Lease Opportunities

How much land does each state own, and how many assets are held by each state? These seem like basic questions that would have simple answers, but many states and counties do not have the kind of basic property and asset data that a well-run business or responsible family relies on to manage its finances. With millions of acres and thousands of assets in government portfolios, officials should take steps to identify what they own, determine whether government or private ownership is the most effective, and streamline the efficient disposal of all unneeded real property.

A real property inventory (RPI) is simply a written record of what land and assets a government owns. Real property assets are typically immovable property, such as office buildings, warehouses, heavy equipment or bridges. Governments can also track additional property, like vehicles, in a comprehensive inventory. Inventories can be built in many different ways, but whatever the shape an RPI takes, the end product should be able to answer five questions:

- What do we own?
- Where is what we own located?
- What is the condition of what we own?
- What is the value of what we own?
- What is the best use of what we own?

Real property inventories have a wide range of applications and value. The process of developing and maintaining an inventory allows government officials to assess their costs in managing property to find ways of being more efficient with taxpayer money. Inventories can even help monitor the effectiveness of spending projects and provide data to economic crisis early warning systems. There are additional non-financial benefits, such as legal compliance and mapping systems for emergency response units. Last, a comprehensive list of land and assets, up-to-date with their current use, allows a governing entity to assess what property it might be able to lease or divest to generate upfront cash in times of economic crisis.

The two most common and effective ways of extracting value from government assets are asset divestiture (the outright sale of government land or assets) and asset leases (long-term leases of public assets to private sector investor-operators). Government asset sales and leases can take a variety of forms. In some cases, government entities sell real property outright, in either an "as is" or "entitled" state (having secured necessary zoning approval). In other cases, these transactions are established as a long-term lease agreement or concession, particularly for revenue-generating enterprises like a golf course, toll road or parking facility. In other cases, such as government-owned buildings, approaches include sale-leasebacks, where the private sector purchases the property for a fixed price and agrees to lease back the facility to the government entity for an agreed-upon period of time. Importantly, the government entity can receive a lump-sum cash payment in all three scenarios.

A thorough centralized inventory of all state-owned real property and assets is a critical first step that will form the basis for planning, maintenance and operational decisions moving forward. Such a database can be used to generate benchmarking data to inform property management decisions and provide documented institutional memory in the face of changes in personnel.

The first step a state must take is to conduct an "inventory of inventories" to find out what the state already knows it owns. This survey project would involve coordinating various state agencies and creating common metrics to record ownership data to provide a benchmark for what next steps in the inventory process should be.

Afterward the governor should commission a review to categorize all state-owned property and move toward asset divestiture and realignment opportunities. Within existing staff, a position should be identified within the Department of Administrative Services (or similar department) to be directly accountable for overseeing this portfolio and given the necessary authority to exercise those duties on an ongoing basis. Ongoing support for asset inventory maintenance is key, as the state will benefit most from a dynamic database that it can add to and subtract property data from over time.

Upon completion of the asset inventory, the governor should commission a review to categorize all state-owned property as: (1) property currently serving a critical function (state courthouses and public safety facilities would be examples) and thus are unlikely candidates for sale or divestiture; (2) real estate that is unused, underutilized or not linked to concrete program goals; (3) revenue-generating assets that offer significant lease opportunities; or (4) non-critical assets that are not supporting a inherently governmental function (such as public golf courses) for which both sale or lease are viable options.

After the commission categorizes all state-owned property, the following steps should be taken:

1. Assemble a procurement team to prioritize asset lease opportunities. This team—appointed by the governor and composed of budget, policy, financial and legal experts—would conduct a rigorous assessment of potential asset lease opportunities and identify a recommended set of top-tier assets to advance toward privatization or public-private partnerships.

2. Incentivize quick identification and disposal. State officials should develop a system to disburse some portion of the proceeds from real property and asset sales to programs and departments, providing an incentive for those departments to participate in the divesture process. Agencies that identify assets for divestiture should benefit from those sales. For example, the department that operated the surplus property (Parks, etc.) should be given a "commission" for helping identify unneeded property—perhaps 10% of proceeds—which could be used for needed capital upgrades or other purposes. As it stands, in many states departments have few incentives to seek divestiture opportunities because they receive none of the benefits of surplus sales.

3. Contract with the private sector to conduct a market-value disposal of surplus property. Such opportunities include partnering with local private real estate brokers. Additionally, rather than conducting its own live auctions, the state can employ readily available online auction markets for the disposal of property. Whereas live auctions require a physical presence and severely limit participation, online auctions are global in their reach and participation.

The recent experience of states and local governments demonstrates the opportunities and potential of asset divestiture initiatives. For example, using technology and analysis systems developed by the vendor ARCHIBUS to manage state property, the state of Missouri saved $3 million directly through the consolidation of state facilities and an additional $10 million in annual savings from improved billing, space utilization, work order and lease management.

Georgia offers another powerful example of success using this process. In 2004, Georgia Governor Sonny Perdue realized each state agency was handling its own space management without cross-agency coordination, resulting in inefficient facility use and little or no opportunity for comprehensive management of real estate assets. He created the Governor's Commission for a New Georgia by executive order, one aspect of which was to develop a statewide land inventory.

When the state set out to inventory its property it found many cases of gross mismanagement of public resources. Using its state Building, Land & Lease Inventory of Property (BLLIP), Georgia identified several properties that were not being put to their full use. In one case, underused properties were consolidated into the Douglasville One Stop Shop, a collocation project of three state agencies.[14] This project resulted in:

- A cost savings totaling $150,000 annually (maintenance, security, etc.);
- An additional 18,000 square feet of office space;
- $22 million revenue to the state by selling surplus property (easily identifiable through
- BLLIP); and
- $1.1 million saved in 2006 through renegotiation and consolidation of leases that will save an estimated $20.5 million through 2012.

BLLIP also identified two properties in close proximity of each other that could be consolidated, saving Georgia $102 million over ten years.

The fiscal benefits Georgia attained did not come from passive management but intentional pursuit of efficiency. Lonice Barrett, director of implementation for the governor's commission, says, "Now we can ask why an agency is doing one thing with one property while another agency is doing something else with a similar property. We found examples where an agency had two buildings in one office park and were paying different rates for the two offices."[15]

Every state would similarly benefit from taking comprehensive steps toward being a better steward of the land it owns and streamlining the efficient transfer of all unnecessary or under-used real property. This would improve proper asset management, encourage economic growth, and generate—instead of consuming—tax dollars.

Additional Resources

Anthony Randazzo and John Palatiello, *Knowing What You Own: An Efficient Government How-To Guide for Managing State and Local Property Inventories*, Policy Study 383, Reason Foundation, June 2010, http://reason.org/news/show/managing-state-local-property.

John Palatiello, *What's in the Government's Attic?*, Policy Brief 33, Reason Foundation, December 2004, http://reason.org/news/show/whats-in-the-governments-attic.

Committee on Transportation and Infrastructure, *Sitting on Our Assets: The Federal Government's Misuse of Taxpayer-Owned Assets*, U.S. House of Representatives, October, 2010, http://mica.house.gov/UploadedFiles/FINAL_REPORT_Sitting_On_Our_Assets.pdf

Reform #6: Expand the Use of Privatization and Competitive Contracting

"It is better for the public to procure at the market whatever the market can supply; because there it is by competition kept up in its quality, and reduced to its minimum price."

— Thomas Jefferson, 1808

Though there are many causes of states' current fiscal woes, one contributing factor is that over the years governments at all levels have expanded into hundreds of activities that are commercial in nature. Many of these are support functions that service the bureaucracy. However, most of these functions are not inherent or unique to government; in fact, they can be found in the Yellow Pages in towns all over America. This trend should concern those who believe that government should be focused on performing its core functions well and should not be in competition with its own citizens to perform non-core functions. In many areas of government service delivery, state and local governments are literally cutting into the business of business.

In fact, public encroachment on commercial activity has been positively identified in many states. Policymakers can reasonably assume that thousands of state employees are engaged in activities that are commercial in nature and could be delivered by private sector firms at a lower cost and higher level of quality. Identifying areas where the private sector can perform government functions more efficiently and at a lower cost can be an important part of the budget solution, not only cutting costs, but providing corporate tax revenue to state coffers.

The term "privatization" refers to a broad array of strategies that governments increasingly employ to take advantage of the capabilities of the private sector and thereby provide better value for the public. It covers a spectrum ranging from a simple outsourcing contract—for example, contracting a private landscaping firm to mow the lawn around public buildings—to sales of government properties and to complex, joint public-private ventures to deliver assets (such as toll roads, bridges and public buildings) that are government-owned but are financed, built and operated by the private sector under long-term leases.

Policymakers and government administrators turn to privatization to achieve a number of different goals:

- ***Cost Savings***: A Reason Foundation review of over 100 privatization studies found that cost savings ranged between 5 and 50% depending upon the scope and type of service; cost savings through privatization typically average between 10 and 25%, according to Reason Foundation experts.[16] As perhaps the most impressive example at the statewide level, Florida used privatization competitive sourcing more than 130 times during the eight-year tenure of former Governor Jeb Bush, saving more than $550 million in actual dollars and preventing an estimated $1 billion in additional costs (see the discussion in "Reform #7: Establish a State Privatization and Efficiency Council" below).
- ***Access to Expertise***: Contracting gives governments access to expertise they do not have in-house on an as-needed basis. It is cheaper to retain architects, engineers and lawyers on an as-needed basis than to hire them as full-time employees.
- ***Better Quality***: Competition brings out the best in competitors, whether it is in sports or in the business of providing public services. Bidders have incentives to offer the best possible combination of price and service quality to beat their rivals.
- ***Improved Risk Management***: Contractors, rather than the government, are responsible for cost overruns, strikes, delays and other risks.[17]
- ***Innovation***: Competition to win and retain contracts spurs the discovery of new, cutting-edge solutions. Without competition, even top-notch employees may stop looking for ways to improve how they meet customers' needs.
- ***Meeting Peak Demand***: The cost of providing a public service can be raised considerably by the capital and manpower needed to satisfy demand at peak periods, even though those peaks may last only for a few hours a day, a few days a week or a few months a year. Contracting allows governments to obtain additional help when it is needed so that services are uninterrupted for residents.
- ***Timeliness***: "Time is money" if you are a contractor footing the bill, or if your contract with the city or state includes penalties for delays. Contractors can recruit additional workers or provide performance bonuses to meet or beat deadlines, options that often are unavailable to in-house staff.

All of these goals can be bundled under the banner of "performance." Using privatization to achieve a combination of cost savings and improvements in quality, innovation, speed, expertise and innovation is key to achieving higher performance in government service delivery.

Because every state government uses privatization to some degree—and in a myriad of ways—comprehensive studies of state-level use of privatization are difficult to produce and are rarely compiled. The most recent, comprehensive state-level privatization trend survey released by the Council of State Governments (CSG) in 2003 found that the amount of privatization largely remained the same or increased slightly across the states between 1998 and 2002. When asked about the primary motivations for privatization, a majority of state budget directors cited cost savings, while agency heads ranked a lack of personnel or expertise as the number one reason for privatization. The CSG survey also noted that privatization trends will likely continue in state agencies, with nearly half of surveyed officials responding that privatization in their state or agency was likely to increase and the other half responding it would remain the same.

While there are literally dozens of state services and government activities for which privatization could be applied, some of the most often privatized at the state-level include:

- Highway design and maintenance
- Building repair and maintenance
- Vehicle fleet operations, maintenance and ownership
- Information technology
- Administrative support services (e.g., human resources, payroll, accounting, mail, printing, etc.)
- Risk management (e.g., claims processing, loss prevention services)
- Facilities financing, operations and maintenance
- Park operations and maintenance
- Corrections and mental health (facility operations and management, health care, medical and food services)
- Core infrastructure (roads/transit, water, etc.)
- Engineering services
- Welfare-to-work programs
- Child care, child welfare and adoption programs
- Juvenile rehabilitation
- Environmental lab analysis

The success of any privatization initiative will depend on a variety of factors, but two stand out:

- ***Performance-based contracts***: The legal foundation of a privatization initiative is a contract that spells out all of the responsibilities and performance expectations that the government partner will require of the contractor. No detail is too small. Failure to meet the performance standards specified in the contract should expose the contractor to financial penalties, and in the worst-case scenario, termination of the contract.

- ***Strong contract monitoring and oversight***: Government does not walk away after signing a contract; in fact, in many ways the process—and an ongoing partnership with the contractor—is just beginning. Policymakers and administrators should develop strong oversight, monitoring and assessment protocols before entering into a contract to ensure compliance and performance, and should then follow through on full implementation. Monitoring should focus on quantifiable measures and achieving results, not on process.

People are by nature resistant to change. Privatization is a disruptive process in that it requires transformational change—a change in thinking among career civil servants and among appointees who are mastering new responsibilities. The significant budget cuts that states must make cannot be achieved through small tweaks in the status quo, but rather they demand a fundamental change in the way officials view state government operation. To help keep states' budgets in check and promote efficiency in government, it is critical to eliminate wasteful, non-essential government functions by continually challenging state entities to identify and focus on their core functions and competencies. Privatization and competitive contracting are vital tools in this process that involve looking at everything government agencies do and determining whether private firms could do the same things more efficiently and effectively. Additionally, minimizing government competition with businesses will help states retain (and grow) private sector jobs and increase state revenue by shifting tax-exempt properties and activities to the taxable sector.

Additional Resources

Leonard Gilroy and Adrian Moore, *Ten Principles of Privatization*, Legislative Principles Series No. 7, Heartland Institute, July 2010, http://www.heartland.org/custom/semod_policybot/pdf/27946.pdf.

Leonard Gilroy, *Streamlining Government through Privatization and Public-Private Partnerships*, Testimony before the New Jersey Privatization Task Force, April 7, 2010.

E.S. Savas, *Privatization and Public-Private Partnerships* (New York, NY: Chatham House Publishers, 2000).

Annual Privatization Report 2010, Reason Foundation, http://www.reason.org/apr2010.

Reform #7: Establish a State Privatization and Efficiency Council

As discussed in the previous section, policymakers should embrace privatization and the competitive contracting of government services to drive service delivery improvements and better value for each taxpayer dollar spent. A key lesson learned from global experience in privatization is that it works best when governments develop a centralized, independent decision-making body to manage privatization and government efficiency initiatives.

States should follow the lead of innovative states like Florida by creating a Council on Efficient Government designed to serve as the enterprise-wide gateway for best business practices in competitive contracting and to standardize how the state identifies and conducts competition initiatives (i.e., a state "center of excellence" in procurement).

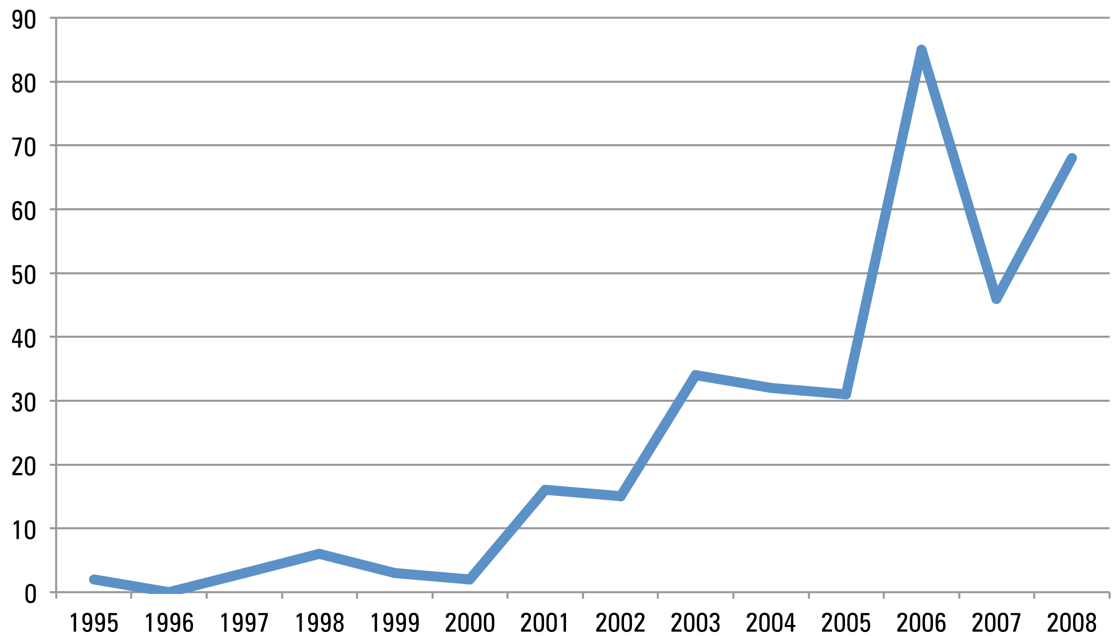
Florida's Council on Efficient Government was developed in 2004 during former Governor Jeb Bush's tenure and was a key component of a strategy that ultimately helped his administration realize over $550 million in cost savings through over 130 privatization and competition initiatives. When many other states were raising taxes, these initiatives helped Florida shed almost $20 billion in taxes during Bush's term.

Midway through his term, some of Bush's major privatization successes became overshadowed by the media spotlight on a few major outsourcing projects that experienced difficulties in implementation. Recognizing the need to improve (a) state procurement and (b) the state's ability to monitor the procurements, Govenor Bush signed an executive order in March of 2004 directing the Department of Management Services to create a "center of excellence" authorized to conduct a statewide evaluation of Florida's competitive sourcing efforts. The new Center for Efficient Government (subsequently codified by the legislature as the Council on Efficient Government) was empowered to "identify opportunities for additional [competition] initiatives, and oversee execution of future [competition] projects."

The CEG's mission is "to promote fair and transparent best business practices in government in order to foster accountability, competition, efficiency and innovation in the way state agencies serve Florida's citizens." It serves as the enterprise-wide gateway for best business practices in competitive sourcing and standardizes how the state identifies opportunities, conducts competitions, and awards and manages contracts for government services. Perhaps its most important responsibility is the preparation of business case evaluations of proposed privatization initiatives *before deciding whether or not to proceed* in order to help managers and policymakers thoroughly evaluate an initiative's merits from the outset.

Prior to 2001, Florida had a total of 16 outsourced projects reported by state agencies. From 2001 to 2006, the state initiated an average of 37 projects annually (see Figure 23). In FY 2008, state agencies identified 551 projects being outsourced with a lifetime value of over $8 billion.[18] Notably, the CEG was initially created in 2004, which coincides with the tremendous ramp-up in state privatization. Since Bush's departure, the CEG is still humming along. In 2009 alone, the Council evaluated 23 new business cases for potential agency outsourcing projects with a cumulative value of more than $225 million, identifying more than $31 million in projected savings to the state.[19]

Figure 26: Florida State Outsourcing Projects by Fiscal Year, 1995–2008



Source: Florida Council on Efficient Government[20]

A similar center of excellence should be established in every state and given the responsibility to:

- Develop a standardized, enterprise-wide process for identifying and implementing competitive sourcing;
- Assist agencies in developing business cases for any proposed privatization initiative—before procurement—that clearly outline the rationale for the initiative (cost savings, service quality improvements, changing antiquated business practices, etc.);
- Develop rules instituting performance-based contracting and business case development as requirements for state procurements;
- Disseminate lessons learned and best practices in competitive sourcing across state government;
- Conduct an annual or biannual inventory of all functions and activities performed by state government, distinguishing between inherently government and commercial activities;
- Create a uniform cost accounting model to facilitate "apples-to-apples" cost comparisons between public and private sector service provision (critical to ensure a level public-private playing field);
- Review and take action on complaints regarding inappropriate government competition with the private sector.

With widespread state fiscal crises deepening across the country, other state policymakers are increasingly looking to the example set by Florida and the other states that have pioneered this privatization "center of excellence" concept as they struggle to close large budget deficits. For example, in December 2009 Louisiana's Commission on Streamlining Government (established by Governor Bobby Jindal) released a set of 238 government downsizing recommendations—including a recommendation for a "center of excellence" in privatization, as well as over a dozen specific privatization proposals—that are estimated to save over $1 billion.

Similarly, the New Jersey Privatization Task Force established in 2010 by Governor Chris Christie has recommended that the governor announce as an administration priority that achieving efficiency through private sector competition become standard policy for all state agencies. To that end, the Task Force recommended that the Christie administration establish a centralized privatization entity for the state that would fulfill functions similar to Florida's CEG.

Having a Florida-style Council on Efficient Government in place would facilitate the regular, wholesale review of state government activities with an eye toward right-sizing government through competition and privatization. But, at the same time, it recognizes that successful privatization requires a high standard of due diligence in contracting. Hence, the Council would be responsible for establishing a standardized method for procuring and managing contracts in order to maximize accountability, transparency and competition, and deliver the best value for taxpayers.

Altogether, a sound privatization policy framework is essential to maximizing cost savings and value for money in the delivery of state services. Experience from Florida, Virginia and Utah—which have each implemented versions of the procurement "center of excellence" concept—also suggests that this approach has increased the public's confidence and mitigated perceptions of impropriety, a common public perception and concern with any privatization initiative. Further, having a dedicated unit manage the process on an enterprise-wide scale ensures that the benefits of lessons learned and best practices are shared among agencies.

Additional Resources

Leonard Gilroy and Adrian Moore, *Ten Principles of Privatization*, Legislative Principles Series No. 7, Heartland Institute, July 2010, http://www.heartland.org/custom/semod_policybot/pdf/27946.pdf.

Leonard Gilroy, *State Competitive Government Commission: A Tool for 'Right-Sizing' Kansas Government*, Reason Foundation testimony to the Kansas House Appropriations Committee, January 27, 2010, http://reason.org/news/show/state-competitive-government-c.

Henry Garrigo, "Look Before You Leap Into Privatization: Florida's Council on Efficient Government Sets a New Standard in Transparency, Due Diligence in Privatization and Contracting

Decisions," interview in Leonard Gilroy (editor), *Innovators in Action 2009*, Reason Foundation, January 2010, http://reason.org/news/show/innovators-in-action-2009.

Florida Council on Efficient Government, *Annual Report 2009*, http://dms.myflorida.com/index.php/content/download/63973/274570/version/1/file/Annual+Report+2009.pdf.

Reform #8: Implement Public-Private Partnerships to Finance Transportation Infrastructure

The current "perfect storm" of growing budget deficits, declining tax revenues and a sluggish economy has placed severe stress on state budgets, prompting policymakers to seek new solutions to maintain and expand their transportation facilities and other infrastructure assets. Many states find themselves at the convergence of two intersecting trends that demand attention. First, growing transportation needs are outstripping available capacity, and second, the need for maintenance and renovation of existing systems is eating up available financial resources. A failure to address these twin challenges will lead to even greater congestion in various forms and lowered reliability of service in the future. By any measure, these realities impact states' economic competitiveness and their citizens' quality of life.

Forward thinking states like Virginia, Florida, Texas and Arizona are increasingly looking to supplement dwindling "traditional" transportation revenues (federal grants, fuel taxes, vehicle fees, etc.) with private sector investment through public-private partnerships (PPPs). PPPs are just one tool in the box, but many states have left this promising and valuable option available to policymakers relatively untapped.

PPPs are contracts formed between public agencies and private companies that facilitate greater private sector participation in the delivery of transportation assets and services. PPPs offer a way to leverage private capital and expertise to provide a public service, and states are increasingly using them to deliver needed new transportation capacity while stretching limited taxpayer dollars. Although often thought of simply as "private toll roads," transportation PPPs actually allow for many options to finance, construct and/or maintain new and enhanced transportation facilities. PPPs come in many forms, including the development of new infrastructure, the maintenance of existing infrastructure, and the operation of existing services. PPPs are never going to completely replace the traditional means of funding transportation, but they are a very promising method in which to augment traditional transportation revenue sources and provide more transportation project delivery options and cost savings to taxpayers.

Workable legislation is generally needed to entice private sector investment, but some states currently lack broad enabling legislation for these partnerships. The reality is that transportation projects are going to states like Virginia, Florida and Georgia that have created a solid legal foundation for PPPs—where the law facilitates PPPs and where private investment and participation is welcomed and embraced. The modern use of public-private partnerships in the transportation arena in the United States originated over 15 years ago with California's enactment of AB 680 and adoption by the Commonwealth of Virginia of its Public-Private Transportation Act of 1995. Since the passage of these two enabling statutes, over half of the states have now adopted legislation authorizing the use of PPPs for the design, construction, financing, and operation and maintenance of transportation facilities.

Today, PPP toll projects are currently in operation or in development in states like California, Florida, Texas and Virginia. Since the beginning of 2009, Florida reached financial close on two Miami-Fort Lauderdale area PPP toll projects totaling over $2 billion in value, and Texas reached financial close on two PPP megaprojects in the Dallas area accounting for over $6 billion in investment. These are vital, congestion-busting projects that could not have advanced without private financing. Until state policymakers embrace PPPs and pass a workable enabling law to facilitate them, other states will continue to reap the benefits of an improved economy and business climate.

PPPs, when implemented properly and carefully, can benefit both the state and its citizens. Policymakers would then no longer be forced to choose between increasing costs to taxpayers or reducing services to motorists. Opportunities for PPPs exist in many important facets of transportation, including constructing new highways, building new bridges, and maintaining and operating state and local roads through competitive contracting. In fact, PPPs may offer a viable means of financing some large-scale capital improvement projects that currently lack a funding source.

Embracing PPPs could help states address their looming transportation funding shortfalls in order to keep people and goods—and, ultimately, their state economies—moving forward.

Additional Resources

Shirley Ybarra and Leonard Gilroy, *The Role for Public-Private Partnerships in Modernizing and Expanding Nebraska's Transportation System*, Platte Institute for Economic Research, December 2010, http://www.platteinstitute.org/docLib/20091208_NE_Transportation_Study_-_FINAL.pdf.

Leonard Gilroy, Robert Poole, Peter Samuel and Geoffrey F. Segal, *Building New Roads Through Public-Private Partnerships: Frequently Asked Questions*, Reason Foundation, March 2007, http://reason.org/news/show/1002866.html.

National Surface Transportation Infrastructure Financing Commission, *Paying Our Way: A New Framework for Transportation Finance*, Final Report, February 26, 2009, www.tinyurl.com/yl8xzvl.

Reform #9: Enact School Empowerment and Student-Based Budgeting Reforms

States should create one simple funding mechanism that distributes federal, state and local funding based on a "student-based budgeting" financing system that would include one base allocation equalized across the schools within a district and additional weighted funds for students with additional needs, including characteristics such as special education, poverty or English learners. Using student-based budgeting's decentralized system, education funds are attached to each student and the students can take that money directly to the public school of their choice.

This process would make school finance simpler and more equitable, and bring significant cost savings by reducing central office costs and redirecting some of this savings to increase per-pupil funding allocations in the classroom. In addition, states should require the funding to follow students down to the school level and allow principals discretion over school budgets.

Key student-based budgeting principles that improve educational outcomes as well as the transparency and accountability of schools include:

1. Funding follows the child to the public school of his choice;
2. Per student funding varies based on a child's educational needs, with special education students and others receiving larger amounts;
3. Funding arrives at individual schools in real dollars, not in numbers of teaching positions, staffing ratios, or as salary averages.

In addition, one of the most important factors in the success of schools is decentralized decision-making. Principals should have autonomy over their budgets and hiring teachers. This local flexibility allows principals to tailor their schools to best fit the needs of their students.

At least 15 school districts and the state of Hawaii have moved to this system of student-based budgeting and autonomous schools. The results from districts using student-based funding are promising. For example, prior to 2008, less than half of Hartford, Connecticut's education money made it to the classroom. Now, under student-based budgeting, over 70% makes it to the classroom. Hartford School District achieved this goal with a 20% reduction of central office expenses, including the reduction of over 40 district-level positions.

In 2008, Baltimore City Schools faced a $76.9 million budget shortfall. Superintendent Andres Alonso instituted student-based budgeting. He identified $165 million in budget cuts at the central office to eliminate the deficit and redistributed approximately $88 million in central office funds to the schools. By the 2010 school year, Alonso cut 489 non-essential teaching jobs from the central office, redirecting 80% of the district's operating budget to individual schools.

In California, student-based budgeting has successfully offered every public school autonomy in two urban school districts. San Francisco changed to a student-based budgeting system in 2002 and the district has outperformed the comparable large school districts on the California Standards

Tests for seven straight years. A greater percentage of San Francisco Unified students graduate from high school than almost any other large urban public school system in the country. And across the Bay, Oakland has produced the largest four-year gain among large urban districts on California's standardized tests since implementing a form of student-based budgeting in 2004.

The New York City Model. One case that is particularly relevant is the New York City example because it shows that it is possible to offer schools charter-like autonomy and take student-based budgeting to scale, and demonstrates that this could be taken to scale across an entire state.

Beginning in 2007–08, the New York City Department of Education began empowering all public schools, so that educational decisions happen in schools, where the people closest to students decide what will help students succeed. In New York, public school empowerment is built on the Empowerment Schools initiative pilot. In the 2006–07 school year, 332 New York City public schools took on greater decision-making power and resources in exchange for accepting accountability for results. These "Empowerment Schools" worked under performance agreements, committing to high levels of student achievement with clear consequences for failure. In exchange for this commitment, principals and their teams had the freedom to design educational strategies tailored to their students. These schools have hand-picked their support teams, hired additional teachers, implemented creative schedules, designed tailored assessments, invested in professional development, and purchased both internal and external services that meet their needs and their students' needs. Initial results are promising, with more than 85% of empowerment schools meeting the performance targets set by the Department of Education.

Following on that success, beginning in the 2007–08 school year, all New York public schools were empowered, giving their principals and their teams broader discretion over allocating resources, choosing their staffs and creating programming for their students.

Schools also have increased resources because of the Department's new student-based budgeting system called "Fair Student Funding." The New York City program is based on simple principles:

- School budgeting should fund students fairly and adequately, while preserving stability at all schools.
- Different students have different educational needs, and funding levels should reflect those needs as well as possible.
- School leaders, not central offices, are best positioned to decide how to improve achievement.
- School budgets should be as transparent as possible so that funding decisions are visible for all to see and evaluate.

In keeping with these principles:

- Money follows each student to the public school that he or she attends.
- Each student receives funding based on grade level.
- Students also may receive additional dollars based on need.

- Principals have greater flexibility about how to spend money on teachers and other investments—along with greater responsibility for dollars and greater accountability for results.
- Key funding decisions are based on clear, public criteria.

Why it Works. Student-based budgeting works because it generally includes every public school in a school district, education corporation or geographic area. It changes the culture of the public school system.

Everyone becomes focused on student outcomes because families have legitimate choices within the public school system. If an assigned, or neighborhood, school is not meeting a child's needs, that child can move to another school within the district and take his funding with him.

Every school in a state or a district becomes a school of choice and the funding system gives individuals, particularly school administrators, the autonomy to make local decisions. This autonomy is granted based on the contractual obligation that principals will meet state and district standards for student performance. It is a system-wide reform that allows parents the right of exit to the best performing schools and gives every school an incentive to change practices to attract and retain families from their communities.

The Way Ahead for States. Specific reforms states need to make include:

- The state-level funding formula should be changed so that the money follows the child to the school level rather than the district level.
- The state should implement school-level budgets so that school funding is transparent and equitable at the school level rather than the district level.
- Schools should receive revenue in the same way that the district receives revenue, on a per-pupil basis reflecting the enrollment at a school and the individual characteristics of students at each school.
- Principals must be able to make decisions about how to spend resources in terms of staffing and programs. The more "unlocked" dollars a principal controls, the more autonomy that principal has over designing the school to meet the needs of the students in the school. The state should require districts to place the majority of their operating budget, between 70 and 90%, into a school-level allocation to offer principals more autonomy and more real decision-making power.

Additional Resources

Lisa Snell, *Weighted Student Formula Yearbook 2009*, Reason Foundation, April 30, 2009, http://reason.org/news/show/weighted-student-formula-yearb.

Lisa Snell, *Fix the City Schools: Moving All Schools to Charter-Like Autonomy*, Reason Foundation, Policy Brief 87, March 2010, http://reason.org/files/pb87_fix_schools_charters.pdf.

Reform #10: Reinvent Higher Education Systems

The rising costs of higher education are a policy challenge even in good economic times. However, given that higher education spending typically ranks among the top state spending categories (with health care, K-12 education and corrections), the current fiscal malaise in the states is shining a spotlight on this important category of state spending.

States' ability to compete in the 21st century, knowledge-based economy demands that public higher education institutions more efficiently and effectively educate larger numbers of their citizens in what is likely to become an increasingly constrained budget environment. Yet, colleges and university systems are complex enterprises both from an operational and public policy perspective, and there are no silver bullet solutions for streamlining and modernizing higher education systems.

The need to tackle large-scale systemic reforms has prompted some governors to create post-secondary education reform commissions in recent years. In 2009, Louisiana Governor Bobby Jindal created the Postsecondary Education Review Commission to recommend to the Board of Regents and the legislature the most efficient and effective ways for the state to educate citizens in the context of the state's ongoing financial challenges. The Commission issued its final report in February 2010, outlining 22 substantive system reforms to modernize higher education in Louisiana. Similarly, in March 2010 Virginia Governor Bob McDonnell issued an executive order creating the Governor's Commission on Higher Education Reform, Innovation and Investment, which will focus on crafting a sustainable higher education funding model to systematically move Virginia toward higher levels of educational attainment and economic competitiveness over the next 15 years.

While a commission or task force may be necessary to explore the depth and finer details of system-wide spending—and would be an important first step—there is no need to wait to get started on the difficult work of higher education reform. The following sections discuss three key reforms that policymakers can use to begin the process of larger, system-wide reinvention in higher education.

Provide higher education grants directly to students, not universities: Just as local school districts are beginning to discover the benefits of "backpack"-based funding models (see previous section) that foster choice and competition among schools, similar lessons can be applied at the level of state higher education systems. Instead of lump-sum appropriations to public institutions, policymakers should consider reforming the funding model to distribute funds directly to students in the form of grants, and let the universities compete for their business.

Having to compete for students would create strong incentives for state higher education institutions to control their own costs, keep tuition rates in check and develop innovative educational offerings. Otherwise, if they fail to keep up with competing institutions—public or private—universities risk losing students and the education dollars they bring.

In 2005, Colorado created the College Opportunity Fund, the first statewide higher education grant system adopted in the nation.[21] Rather than making lump-sum payments to its public undergraduate institutions, funding goes directly to state undergraduates in the form of stipends. Like the federal Pell Grant program, students can use their grants at any in-state, public or private college or university of their choice.

A 2006 study by the Arizona-based Goldwater Institute recommended this approach for Arizona.[22] The study found that the $1.3 billion in operating funds (excluding capital and construction expenses) that had been allocated annually to public colleges and universities in Arizona via state and local lump-sum funding could have instead been used to give every projected resident student an $8,000 grant annually to attend a four-year institution (or $5,000 annually to attend a two-year college).

Notably, this would have left intact $2.4 billion in annual revenue Arizona public institutions were receiving from tuition and fees and other revenue (e.g., local, state and federal grants for capital and special projects, private gifts and grants, and endowment and auxiliary revenue). Also, the study finds that tying operating funding directly to students and indexing grant amounts to inflation would have saved an estimated $768 million annually over the state's lump-sum funding system, which does not account for student counts or inflation.

Privatize university support, administrative and commercial functions: Public institutions of higher education are similar to state governments as a whole in one important way—they tend to grow into large bureaucracies that expand into non-core, commercial functions and activities over time, rather than strategically using privatization and competitive contracting to deliver efficiencies and cost savings.

Privatization can typically lower the costs of service delivery by 10 to 25%. Some privatization opportunities at universities include:

- Facility maintenance;
- Landscaping and grounds maintenance;
- Security operations;
- Parking operations and maintenance;
- Transit services;
- Administrative support functions (e.g., information systems, accounting, payroll services, human resources, etc.); and
- Bookstores

Savings and operational changes can be significant, as two recent examples illustrate. In July 2010, the final report of the New Jersey Privatization Task Force estimated that colleges and universities in the Garden State could save approximately $27.4 million annually through the outsourcing of a variety of facility maintenance functions. Also, the University of Alaska-Fairbanks announced plans in 2010 to contract out the management of its bookstore to Follett Bookstores, the largest national college bookstore operator, citing high operating costs and Internet book downloads as impediments to a sustainable in-house operation. The privatization will return textbooks to the bookstore, improve the online store, and provide new services and a wider array of merchandise.

Embrace innovative finance and public-private partnerships (PPPs) for capital projects: State universities invest a tremendous amount of capital into new and expanded facilities—academic buildings, administrative complexes, dormitories and the like—but increasing fiscal pressures are making it increasingly difficult to do so. State university systems across the country are beginning to look beyond traditional tax-exempt financing (e.g., bonds, etc.) toward more innovative procurement models that bring private sector capital and expertise to bear on the financing of university facilities (see earlier discussion on PPPs in transportation).

At first glance, it may seem that tax-exempt financing would always present a more compelling option for public universities, as compared to taxable, private sector financing models that incur a higher cost of capital. However this analysis ignores some important points.

First, financing costs usually only account for roughly 25% of total project costs, and a 1–2% differential in tax-exempt versus private costs of capital will only translate to 5% of total project cost, leaving 95% of the remaining project costs presenting opportunities for cost savings and other efficiencies brought by PPPs.[23] Further, PPPs can deliver 15 to 30% life cycle cost savings for operations and maintenance and can be used to deliver projects significantly faster than under typical public procurement methods.[24] Oftentimes, thorough project analysis will reveal that the benefits of PPPs far outweigh the limited benefits of tax-exempt public financing.

A recent sampling of innovative PPP arrangements in higher education include:

- The University of California-Davis is using a PPP to deliver its West Village project, a 130-acre project that will provide 343 housing units, 1,980 student beds in apartment housing and 42,500 square feet of retail in a mixed-use development. The university will receive income from both the lease payments for apartments and retail uses and payments by resident faculty in the housing units. Using a PPP allowed the university to leverage its small, direct investment of $11 million into a viable $280 million project.[25]
- In March 2010, Florida Atlantic University (FAU) announced a PPP for a new $123 million, on-campus student housing community on its Boca Raton campus. Under the PPP, Balfour Beatty Campus Solutions and Capstone Development Corporation will oversee the development and management of the 1,216-bed student residential project, Innovation Village Apartments, which will also include mixed retail and office uses. Though this project is being financed through a combination of tax-exempt and Build America bonds issued by The FAU Finance Corporation, partner Balfour Beatty Capital has invested in the project by purchasing $3.4 million of tax-exempt bonds.

- Northern Illinois University's board of trustees approved a plan in early 2010 to develop a new, state-of-the art on-campus housing complex to attract more students, and have agreed to pursue a PPP model to deliver it. Under the plan, a private concessionaire would finance and construct the complex, which would then be managed by the university.

Given these and other experiences from public higher education systems across the country, public universities should evaluate all planned capital projects—and all future projects—regarding their potential viability for a PPP financing model to realize better value for money in the delivery of facilities and infrastructure over traditional procurement methods.

Additional Resources

Vicki E. Murray, Ph.D., *10 Questions State Legislators Should Ask About Higher Education*, American Legislative Exchange Council, http://www.alec.org/am/pdf/education/10questions/10Questions_full.pdf.

Vicki E. Murray, Ph.D., *Cash for College: Bringing Free-market Reform to Higher Education*, Goldwater Institute Policy Report #208, March 2006, http://www.goldwaterinstitute.org/article/1648

Bay Area Council Economic Institute, *Public-Private Partnerships: Alternative Procurement Methods for Campus Development in the University of California System*, June 2010.

Leonard Gilroy, Laura J. Davis, Sarah F. Anzia and Geoffrey Segal, *Privatizing University Housing*, Reason Foundation Policy Study No. 356, January 2007, http://reason.org/news/show/privatizing-university-housing.

About the Authors

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Related Reason Foundation Studies

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Policy Brief 73
Adam Summers and Anthony Randazzo
October 1, 2008

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Adrian Moore, George Passantino and Adam Summers
September 1, 2006

Appendix 1: State Spending and Revenue Profiles

Alabama

From 2002 to 2008, Alabama's spending increased the most in the parks and recreation (117%), hospitals (62%), corrections (58%), and education (56%) categories. The increase in corrections spending was the fifth-highest in the nation in terms of percentage. The spending categories that saw the least growth were welfare (+11%), highways (+9%), and health (-3%). The state's overall general spending increase of 37% put it in the middle of the states, ranking 22nd highest.

Alabama's total revenue growth of 23% ranked 46th for the period. Corporate income taxes were the fastest growing tax revenue category, increasing 63%, although that was less than the growth of the vast majority of states (ranking 41st highest). By contrast, the 52% increase in personal income tax revenue ranked 19th-highest in the nation.

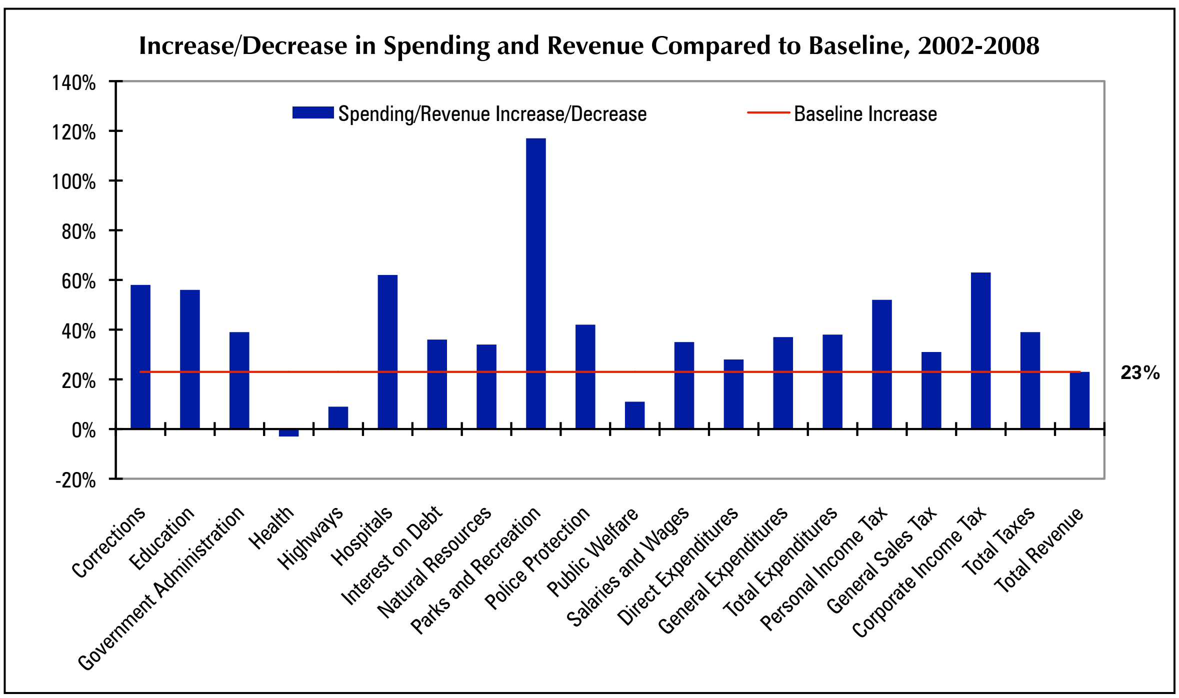
Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	331,476	48	525,281	43	+5	58%	5
Education	6,811,434	15	10,658,472	8	+7	56%	7
Government Administration	415,209	44	576,755	38	+6	39%	23
Health	718,443	24	699,309	31	-7	-3%	44
Highways	1,255,800	36	1,373,098	36	0	9%	33
Hospitals	1,118,262	4	1,808,175	3	+1	62%	17
Interest on Debt	241,867	43	328,836	45	-2	36%	27
Natural Resources	230,519	34	309,369	32	+2	34%	17
Parks and Recreation	23,155	48	50,268	43	+5	117%	7
Police Protection	128,801	37	182,955	33	+4	42%	17
Public Welfare	4,110,058	27	4,582,199	44	-17	11%	50
Salaries and Wages	3,115,437	21	4,194,385	19	+2	35%	21
Direct Expenditures	12,064,764	29	15,449,791	31	-2	28%	42
General Expenditures	16,160,326	32	22,170,605	31	+1	37%	22
Total Expenditures	17,996,418	33	24,892,739	33	0	38%	22

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	2,030,694	37	3,077,553	37	0	52%	19
General Sales Tax[2]	1,748,235	43	2,287,288	43	0	31%	26
Corporate Income Tax[3]	322,636	21	524,808	37	-16	63%	41
Total Taxes	6,509,765	47	9,070,530	42	+5	39%	35
Total Revenue	14,942,192	39	18,353,637	48	-9	23%	46

[1] Personal income tax per capita rankings are out of 43 since seven states do not collect personal income taxes.
[2] General sales tax per capita rankings are out of 45 since five states do not collect general sales taxes.
[3] Corporate income tax per capita rankings are out of 46 since four states do not collect corporate income taxes.

Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and Alabama's population increased by 3%. This yields a "baseline" growth of 23% for the period. The figure below compares the difference in Alabama's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.



Alaska

From 2002 to 2008, Alaska's spending increased the most in the highways (91%), parks and recreation (79%), health (74%), and administration (58%) categories. The increase in highways spending was the second-highest in the nation in terms of percentage. The spending categories that saw the least growth were debt service (12%), hospitals (7%), and police (6%). The state's overall general spending increase of 36% put it slightly above the average of all states (23rd). Alaska's per-capita spending ranked at or near the top in all categories except for hospitals and parks and recreation, surely due to the state's sparse population and unique geography.

Alaska's total tax revenue growth of 673% and total overall revenue growth of 219% were the highest in the nation for the period. On a per-capita basis, Alaska's total revenue ranked first in both 2002 and 2008, but total taxes jumped from 32nd in 2002 all the way to first in 2008. Corporate income tax revenue grew 265%, the fourth-greatest growth rate in the nation, although this is mitigated, in part, by the lack of personal income taxes or general sales taxes in the state.

Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	173,844	1	243,961	1	0	40%	16
Education	1,566,815	1	2,165,387	2	-1	38%	31
Government Administration	364,837	1	574,841	1	0	58%	11
Health	160,168	9	279,028	4	+5	74%	7
Highways	687,407	1	1,315,648	1	0	91%	2
Hospitals	32,869	39	35,054	40	-1	7%	36
Interest on Debt	275,884	1	310,066	2	-1	12%	39
Natural Resources	240,427	1	284,520	2	-1	18%	27
Parks and Recreation	9,625	32	17,274	20	+12	79%	14
Police Protection	77,758	1	82,585	3	-2	6%	41
Public Welfare	1,150,533	2	1,477,255	2	0	28%	38
Salaries and Wages	1,097,282	1	1,515,581	2	-1	38%	16
Direct Expenditures	5,646,660	1	7,660,896	1	0	36%	27
General Expenditures	6,702,256	1	9,148,545	1	0	36%	23
Total Expenditures	7,402,469	1	10,115,914	1	0	37%	26

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	0	N/A	0	N/A	N/A	N/A	N/A
General Sales Tax[2]	0	N/A	0	N/A	N/A	N/A	N/A
Corporate Income Tax[3]	269,273	1	981,673	1	0	265%	4
Total Taxes	1,089,504	32	8,424,714	1	+31	673%	1
Total Revenue	5,018,805	1	16,027,757	1	0	219%	1

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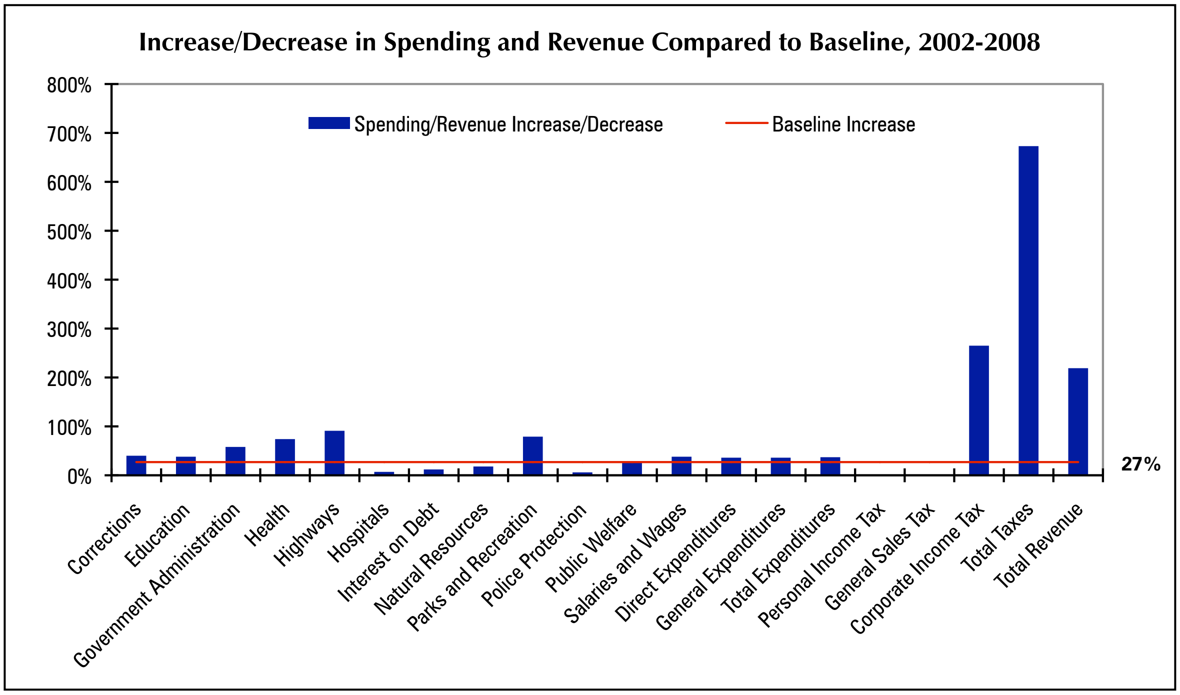

Arizona

From 2002 to 2008, Arizona's spending increased the most in the debt service (164%), parks and recreation (112%), welfare (98%), and health (77%) categories. These increases each ranked among the top eight in the nation in terms of percentage. The spending categories that saw the least growth were corrections (+39%), salaries and wages (+32%), and hospitals (-3%). The state's overall general and total spending increases of 65% each ranked third-highest among the states, and its 76% increase in direct spending, over which the legislature has the most control, was the second-highest in the country.

Arizona's total tax revenue growth of 62% ranked seventh-greatest for the period, and its total overall revenue growth of 60% ranked 12th. Corporate income taxes were the fastest growing tax revenue category, increasing 127% and ranking 20th-highest. Personal income tax revenue also saw significant growth, increasing 63% and ranking ninth-highest.

Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	734,167	19	1,023,683	25	-6	39%	17
Education	6,326,736	43	9,408,525	46	-3	49%	14
Government Administration	522,310	40	767,263	41	-1	47%	17
Health	913,302	21	1,620,620	12	+9	77%	5
Highways	1,679,641	28	2,367,086	26	+2	41%	12
Hospitals	73,430	49	71,539	49	0	-3%	40
Interest on Debt	185,777	50	490,912	43	+7	164%	2
Natural Resources	203,588	44	321,173	41	+3	58%	7
Parks and Recreation	62,661	36	132,563	28	+8	112%	8
Police Protection	166,831	32	273,533	27	+5	64%	9
Public Welfare	3,998,137	41	7,927,027	30	+11	98%	3
Salaries and Wages	2,539,720	45	3,343,240	49	-4	32%	27
Direct Expenditures	9,832,069	49	17,327,014	46	+3	76%	2
General Expenditures	16,734,370	47	27,568,941	41	+6	65%	3
Total Expenditures	18,606,630	47	30,778,930	42	+5	65%	3

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	2,090,645	39	3,408,576	40	-1	63%	9
General Sales Tax[2]	4,283,681	9	6,433,468	9	0	50%	7
Corporate Income Tax[3]	346,280	28	784,511	33	-5	127%	20
Total Taxes	8,477,321	40	13,705,901	39	+1	62%	7
Total Revenue	17,297,726	44	27,697,541	43	+1	60%	12

[1] Personal income tax per capita rankings are out of 43 since seven states do not collect personal income taxes.

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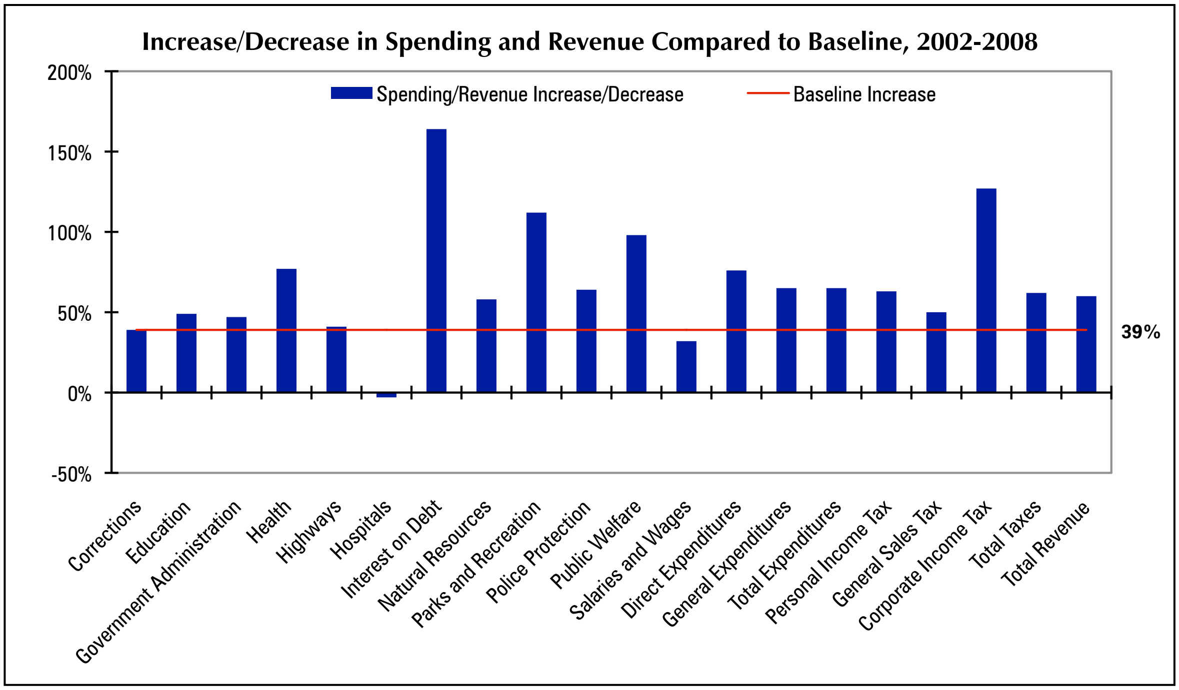


Arkansas

From 2002 to 2008, Arkansas's spending increased the most in the hospitals (78%), welfare (46%), education (44%), and administration (44%) categories. The increase in hospitals spending ranked 10th in the nation in terms of percentage. The state saw spending decline during the period in three spending categories, including health (-7%), highways (-15%), and parks and recreation (-39%). The state's overall general spending increase of 35% put it in the middle of the states, ranking 27th-highest.

Arkansas's total revenue growth of 47% put it in the middle of the states, ranking 22nd for the period. Corporate income taxes were the fastest growing tax revenue category, increasing 94% and ranking 33rd-highest. Relative to other states, Arkansas saw greater growth in personal income tax and general sales tax, increasing 55% (16th) and 44% (15th), respectively.

Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	284,600	36	361,537	36	0	27%	25
Education	4,375,237	11	6,311,833	9	+2	44%	19
Government Administration	411,078	26	591,373	23	+3	44%	21
Health	268,398	40	249,653	49	-9	-7%	45
Highways	1,078,784	14	915,510	36	-22	-15%	47
Hospitals	454,503	13	810,637	12	+1	78%	10
Interest on Debt	138,389	44	193,767	46	-2	40%	24
Natural Resources	234,315	17	249,560	25	-8	7%	38
Parks and Recreation	76,783	15	46,533	33	-18	-39%	44
Police Protection	71,768	38	81,440	44	-6	13%	35
Public Welfare	2,577,745	23	3,771,732	23	0	46%	23
Salaries and Wages	1,755,130	24	1,855,064	39	-15	6%	45
Direct Expenditures	7,562,945	22	9,962,544	26	-4	32%	37
General Expenditures	10,634,159	25	14,354,884	24	+1	35%	27
Total Expenditures	11,550,140	30	15,655,753	30	0	36%	28

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	1,513,221	34	2,344,876	29	+5	55%	16
General Sales Tax[2]	1,946,770	13	2,807,943	10	+3	44%	15
Corporate Income Tax[3]	176,874	27	342,529	35	-8	94%	33
Total Taxes	5,176,050	20	7,530,504	19	+1	45%	23
Total Revenue	10,247,487	30	15,106,880	27	+3	47%	22

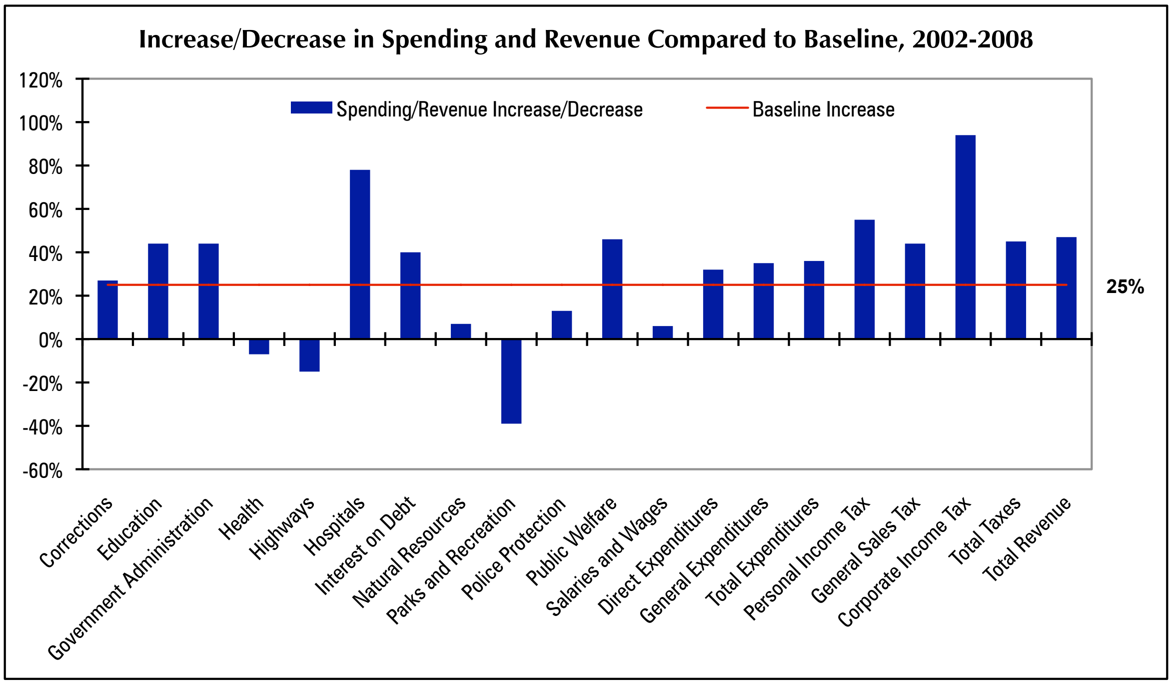
[1] Personal income tax per capita rankings are out of 43 since seven states do not collect personal income taxes.

[2] General sales tax per capita rankings are out of 45 since five states do not collect general sales taxes.

[3] Corporate income tax per capita rankings are out of 46 since four states do not collect corporate income taxes.

Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and Arkansas's population increased by 5%. This yields a "baseline" growth of 25% for the period. The figure below compares the difference in Arkansas's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.



California

From 2002 to 2008, California's spending increased the most in the debt service (66%), corrections (58%), and hospitals (58%) categories. The increases in corrections and highway spending were each the seventh-highest in the nation in terms of percentage. The state's per-capita spending on corrections, health, natural resources and welfare each rank among the top 10 in the nation. The spending categories that saw the least growth were health (+23%), police (+19%), and parks and recreation (-49%). The reduction in parks and recreation spending was the fourth-highest in the nation. The state's overall general spending increase of 32% put it slightly below the state average, ranking 34th highest, yet the 38% increase in direct spending, the category over which the legislature has the most control, was slightly higher than the state average (24th).

California's total tax revenue growth of 51% ranked 14th for the period, and its total overall revenue growth of 33% ranked 40th. Corporate income taxes were the fastest growing tax revenue category, increasing 122% and ranking 23rd-highest. Relative to other states, California saw its greatest revenue growth in personal income taxes, increasing 69% and ranking sixth highest.

Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	5,596,427	12	8,829,940	5	+7	58%	7
Education	53,610,067	13	73,276,865	19	-6	37%	35
Government Administration	6,933,060	14	8,838,202	15	-1	27%	30
Health	9,714,786	8	11,992,534	9	-1	23%	33
Highways	7,898,554	48	12,173,649	34	+14	54%	7
Hospitals	4,356,641	21	6,888,770	22	-1	58%	18
Interest on Debt	3,404,946	30	5,650,752	24	+6	66%	14
Natural Resources	3,184,490	15	4,885,087	7	+8	53%	10
Parks and Recreation	949,480	17	483,692	39	-22	-49%	47
Police Protection	1,376,082	23	1,642,063	24	-1	19%	32
Public Welfare	42,965,482	7	60,191,685	10	-3	40%	26
Salaries and Wages	19,938,389	36	27,788,543	32	+4	39%	14
Direct Expenditures	83,548,067	40	115,138,857	38	+2	38%	24
General Expenditures	158,235,437	11	208,782,657	15	-4	32%	34
Total Expenditures	184,927,602	11	246,683,951	13	-2	33%	30

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	33,046,665	6	55,745,970	4	+2	69%	6
General Sales Tax[2]	23,816,406	17	31,972,874	18	-1	34%	22
Corporate Income Tax[3]	5,333,036	5	11,849,097	6	-1	122%	23
Total Taxes	77,755,376	8	117,361,976	12	-4	51%	14
Total Revenue	151,245,388	15	201,069,818	24	-9	33%	40

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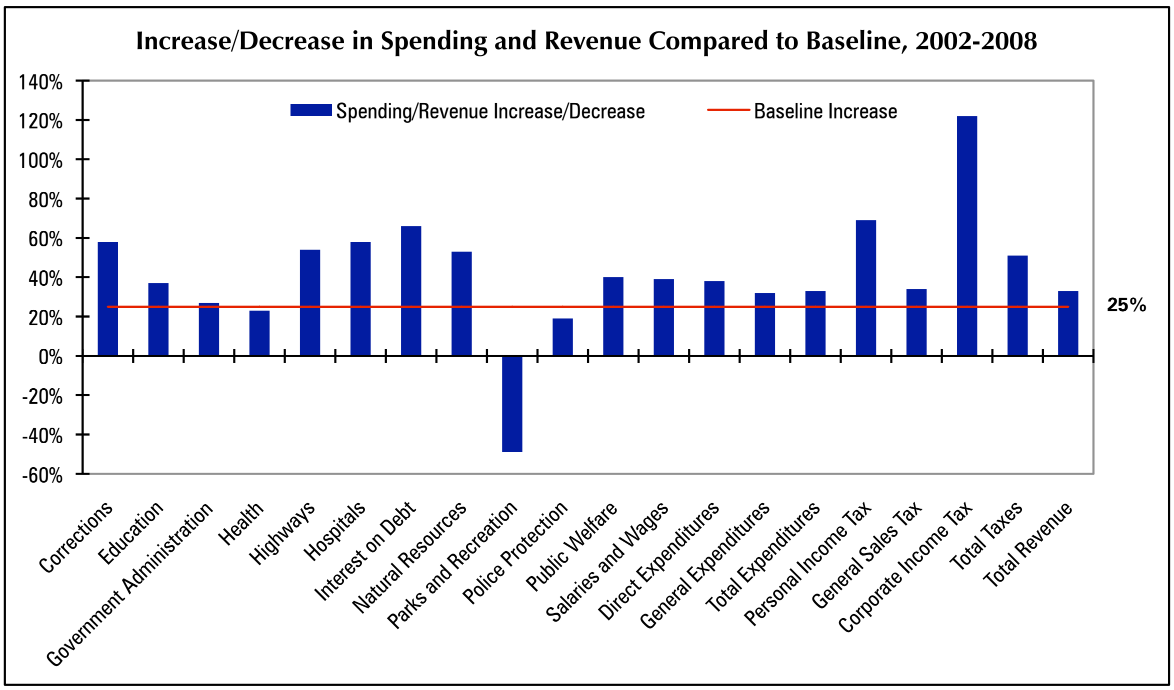
[3] Corporate income tax per capita rankings are out of 46 since four states do not collect corporate income taxes.

Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and California's population increased by 5%. This yields a "baseline" growth of 25% for the period. The figure below compares the difference in California's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.



Colorado

From 2002 to 2008, Colorado's spending increased the most in the debt service (135%), administration (106%), hospitals (73%), and natural resources (67%) categories. The increase in administration spending was the greatest in the nation in terms of percentage, and the increases in debt service and natural resources spending each ranked in the top five in the nation (fifth and fourth, respectively). The spending categories that saw the least growth were parks and recreation (+14%), health (+2%), and highways (-10%). The decline in highways spending was the fifth-highest in the nation. The state's overall general spending increase of 31% was a bit below the state average, ranking 36th highest. The increase in direct spending, over which the legislature has the most control, was even more restrained, growing 25%, compared to the state average of 38%, ranking 45th. On a per-capita basis, the state's spending remained among the lowest in the nation, ranking 46th in general spending in 2008.

Colorado's total revenue growth of 113% ranked third-highest for the period. Corporate income taxes were the fastest growing tax revenue category, increasing 148%, higher than most states (ranking 14th).

Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	734,457	11	996,266	8	+3	36%	21
Education	5,798,172	33	7,985,963	40	-7	38%	33
Government Administration	422,050	42	869,746	29	+13	106%	1
Health	792,620	17	809,170	27	-10	2%	41
Highways	1,421,381	26	1,281,596	44	-18	-10%	46
Hospitals	253,652	36	437,822	29	+7	73%	12
Interest on Debt	352,320	33	827,293	21	+12	135%	5
Natural Resources	193,235	41	323,226	33	+8	67%	4
Parks and Recreation	69,307	30	79,099	35	-5	14%	27
Police Protection	103,053	44	140,723	45	-1	37%	22
Public Welfare	3,131,520	46	4,557,057	47	-1	46%	24
Salaries and Wages	2,765,058	31	3,553,624	35	-4	29%	32
Direct Expenditures	10,500,583	44	13,108,348	48	-4	25%	45
General Expenditures	14,795,822	44	19,341,732	46	-2	31%	36
Total Expenditures	17,324,984	39	22,856,848	43	-4	32%	33

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	3,475,760	15	5,067,981	17	-2	46%	25
General Sales Tax[2]	1,901,972	42	2,312,731	45	-3	22%	34
Corporate Income Tax[3]	205,217	39	507,986	38	+1	148%	14
Total Taxes	6,923,171	41	9,624,636	41	0	39%	36
Total Revenue	12,478,045	50	26,521,512	25	+25	113%	3

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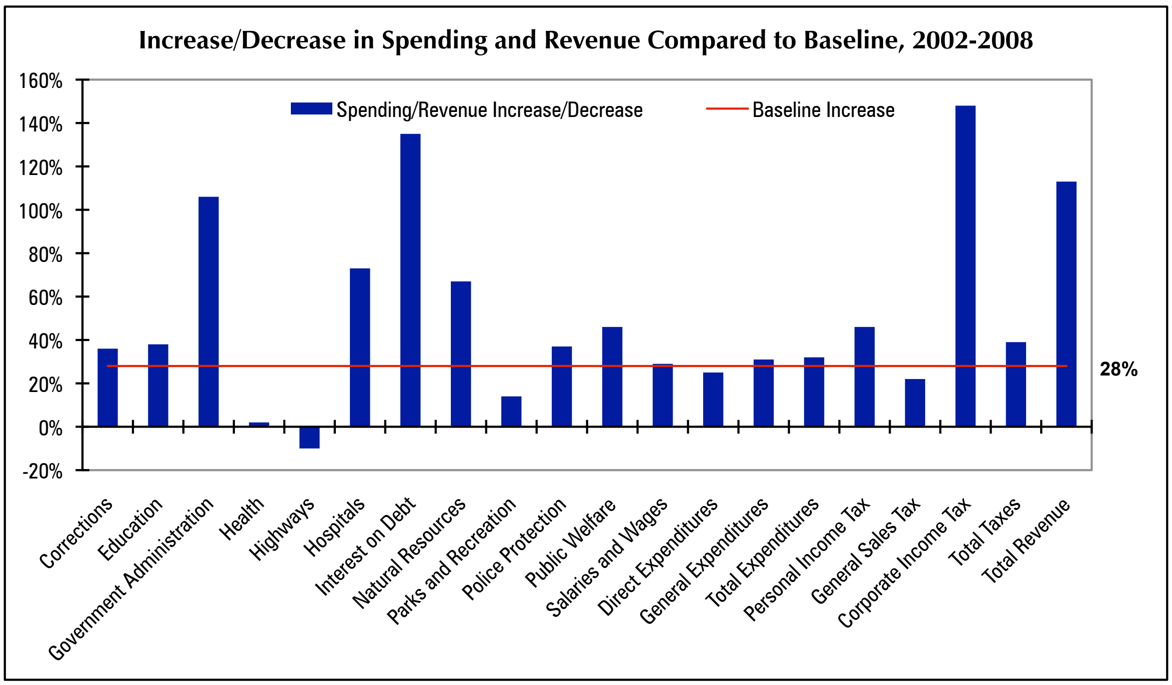
Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and Colorado's population increased by 8%. This yields a "baseline" growth of 28% for the period. The figure below compares the difference in Colorado's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.



Connecticut

From 2002 to 2008, Connecticut's spending increased the most in the welfare (56%), health (52%), salaries and wages (35%), and police (32%) categories. The increase in health spending was the 13th-highest in the nation in terms of percentage. Spending fell during the period in three categories: highways (-7%), natural resources (-36%), and parks and recreation (-59%). Relative to other states, the declines in parks and recreation and natural resources spending were the second-highest in the nation, and the state's 22% increase in education spending ranked 48th. The state's overall general spending increase of 14% was the second-lowest of all states, and its 15% increase in direct expenditures, the aggregate spending category over which the legislature has the most control, was the lowest in the nation. Despite modest increases in spending on corrections, government administration, hospitals, interest on debt, and salaries and wages, Connecticut's per capita spending in each of these categories remained among the top seven in the nation in 2008.

Connecticut's total overall revenue growth of 23% ranked 44th for the period, although its total tax revenue growth of 48% put it above the median (18th). Corporate income taxes were the fastest growing tax revenue category, increasing 257%, fifth-highest in the nation. General sales tax revenue was held flat, but personal income tax revenue increased 90%, second-highest in the nation, and was the highest per capita in the nation by 2008.

Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	637,897	4	723,346	6	-2	13%	43
Education	4,785,884	24	5,850,358	34	-10	22%	48
Government Administration	913,121	5	1,116,120	7	-2	22%	34
Health	592,071	19	901,164	11	+8	52%	13
Highways	851,493	42	795,191	48	-6	-7%	45
Hospitals	1,354,754	1	1,395,751	2	-1	3%	39
Interest on Debt	1,137,938	4	1,265,952	4	0	11%	41
Natural Resources	193,955	32	123,842	45	-13	-36%	49
Parks and Recreation	146,497	6	60,090	32	-26	-59%	49
Police Protection	164,226	14	216,795	11	+3	32%	24
Public Welfare	3,599,348	16	5,621,038	11	+5	56%	16
Salaries and Wages	3,182,095	6	4,287,819	5	+1	35%	20
Direct Expenditures	13,801,510	4	15,826,426	12	-8	15%	50
General Expenditures	17,536,472	6	20,057,458	13	-7	14%	49
Total Expenditures	20,117,270	5	23,528,530	12	-7	17%	48

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	3,685,244	4	7,000,225	1	+3	90%	2
General Sales Tax[2]	3,043,971	5	3,178,903	13	-8	4%	45
Corporate Income Tax[3]	149,454	41	534,201	20	+21	257%	5
Total Taxes	9,032,787	4	13,367,631	5	-1	48%	18
Total Revenue	16,993,167	7	20,929,756	15	-8	23%	44

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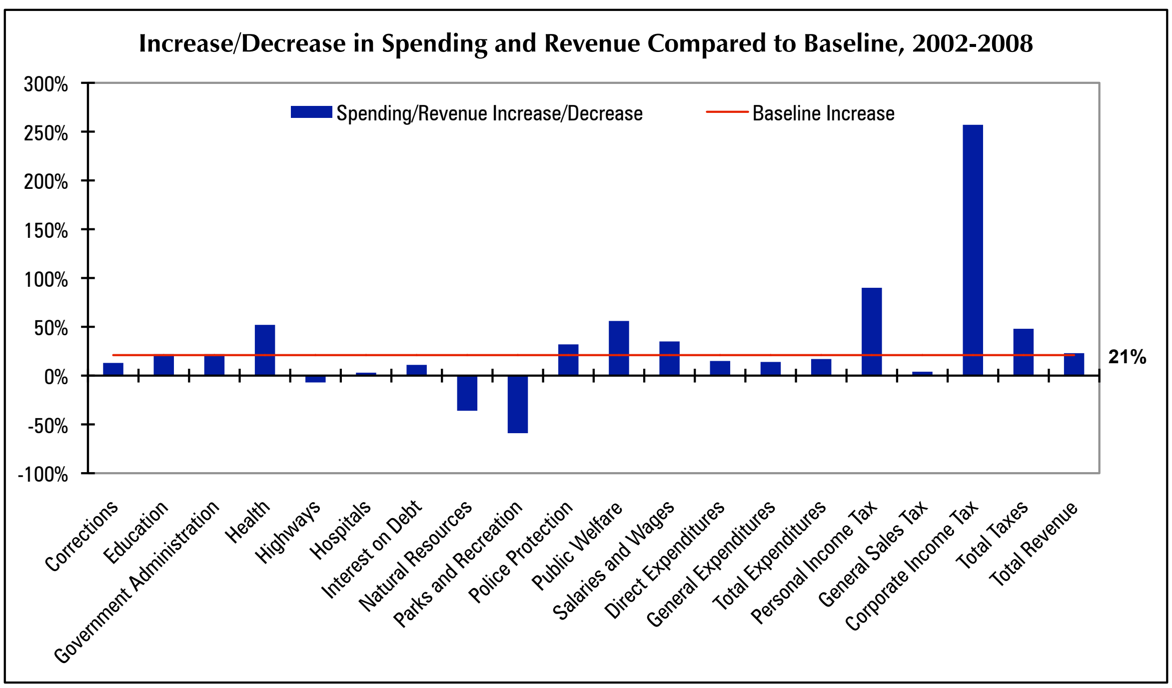
Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and Connecticut's population increased by 1%. This yields a "baseline" growth of 21% for the period. The figure below compares the difference in Connecticut's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.



Delaware

From 2002 to 2008, Delaware's spending increased the most in the salaries and wages (111%), welfare (106%), police (60%), and education (58%) categories. The increases in these categories were each among the top 10 in the nation in terms of percentage. The spending categories that saw the least growth were debt service (+6%), parks and recreation (+5%), and hospitals (-7%). The state's overall general spending increase of 55% ranked fifth-highest. The state's high per-capita spending in nearly all categories, with the exception of hospitals, is likely due, in part, to its small size.

Delaware's total revenue growth of 42% ranked 31st for the period. Despite lacking a general sales tax, personal income tax growth was a modest 40% (30th-highest) and corporate income tax

Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	202,270	2	280,710	2	0	39%	19
Education	1,433,753	7	2,263,320	5	+2	58%	6
Government Administration	349,326	2	483,562	2	0	38%	24
Health	260,745	2	393,259	3	-1	51%	14
Highways	369,702	10	496,382	5	+5	34%	15
Hospitals	68,578	27	63,435	35	-8	-7%	43
Interest on Debt	255,396	5	269,560	6	-1	6%	45
Natural Resources	69,728	18	94,329	15	+3	35%	16
Parks and Recreation	52,147	1	54,763	3	-2	5%	31
Police Protection	70,807	2	113,596	1	+1	60%	10
Public Welfare	702,892	31	1,451,463	9	+22	106%	2
Salaries and Wages	1,073,747	3	2,267,018	1	+2	111%	2
Direct Expenditures	3,408,548	3	5,389,391	3	0	58%	4
General Expenditures	4,231,092	4	6,561,474	4	0	55%	5
Total Expenditures	4,644,236	6	7,151,941	3	+3	54%	5

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	716,647	10	1,006,859	13	-3	40%	30
General Sales Tax[2]	0	N/A	0	N/A	N/A	N/A	N/A
Corporate Income Tax[3]	251,643	2	308,676	3	-1	23%	44
Total Taxes	2,173,600	2	2,930,955	10	-8	35%	42
Total Revenue	4,682,495	2	6,658,241	6	-4	42%	31

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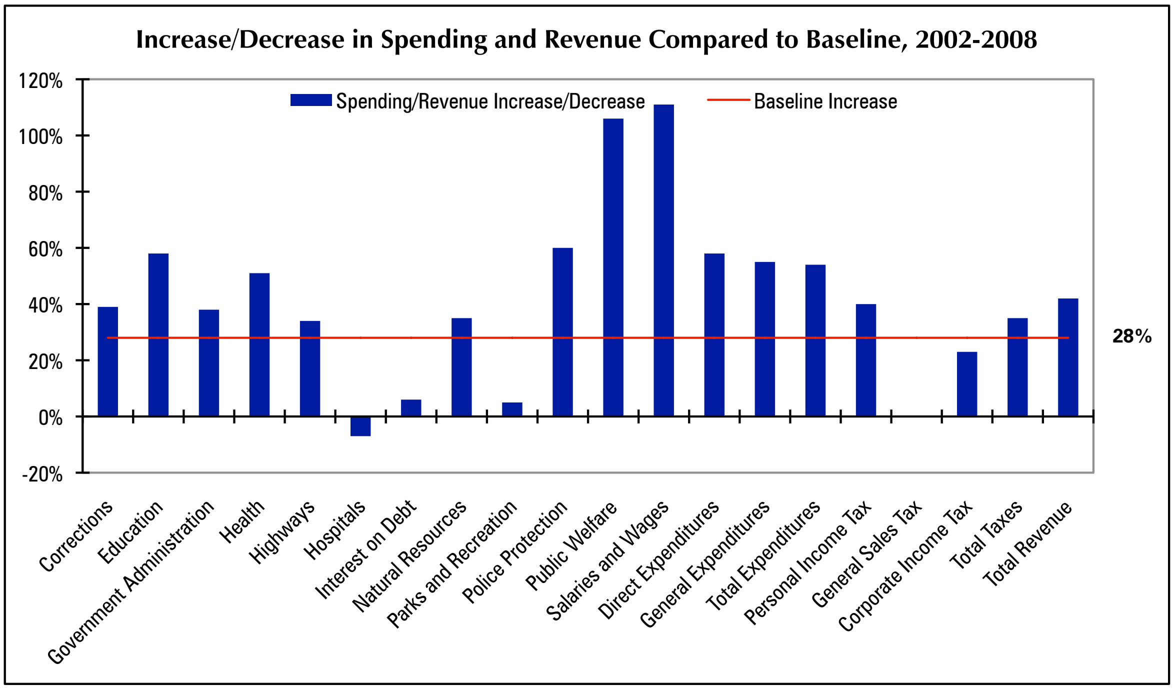
Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and Delaware's population increased by 8%. This yields a "baseline" growth of 28% for the period. The figure below compares the difference in Delaware's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.



Florida

From 2002 to 2008, Florida's spending increased the most in the hospitals (361%), administration (54%), debt service (53%), and welfare (52%) categories. The increase in hospitals spending was the second-greatest in the nation in terms of percentage. The spending categories that saw the least growth were corrections (26%), police (7%), and parks and recreation (6%). The state's overall general spending increase of 46% ranked 11th-highest, and its total spending growth of 48% was the sixth-largest.

Florida's total overall revenue growth of 43% ranked 29th for the period, and its total tax revenue growth of 41% ranked 30th. Corporate income taxes were the fastest growing tax revenue category, increasing 81%, although that still placed it in the bottom third of states (ranking 35th-highest). General sales tax revenue grew 49%, eighth-highest in the nation. Florida did not have a personal income tax.

Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	2,199,630	20	2,770,179	26	-6	26%	27
Education	15,643,056	50	23,192,406	50	0	48%	16
Government Administration	1,932,140	35	2,982,756	32	+3	54%	12
Health	2,667,466	25	3,600,529	22	+3	35%	23
Highways	4,825,770	35	7,163,763	23	+12	48%	9
Hospitals	180,226	50	831,028	43	+7	361%	2
Interest on Debt	1,051,981	42	1,604,312	40	+2	53%	18
Natural Resources	1,397,333	19	1,833,040	17	+2	31%	18
Parks and Recreation	184,632	38	195,516	44	-6	6%	30
Police Protection	425,266	41	453,620	47	-6	7%	40
Public Welfare	11,878,904	44	18,063,299	43	+1	52%	18
Salaries and Wages	6,490,375	48	8,637,026	50	-2	33%	22
Direct Expenditures	33,237,774	48	49,452,759	45	+3	49%	7
General Expenditures	47,291,632	49	69,155,854	47	+2	46%	11
Total Expenditures	51,838,351	50	76,972,938	48	+2	48%	6

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	0	N/A	0	N/A	N/A	N/A	N/A
General Sales Tax[2]	14,408,709	6	21,518,100	5	+1	49%	8
Corporate Income Tax[3]	1,218,864	20	2,208,600	34	-14	81%	35
Total Taxes	25,352,237	43	35,849,998	40	+3	41%	30
Total Revenue	48,489,136	48	69,229,431	49	-1	43%	29

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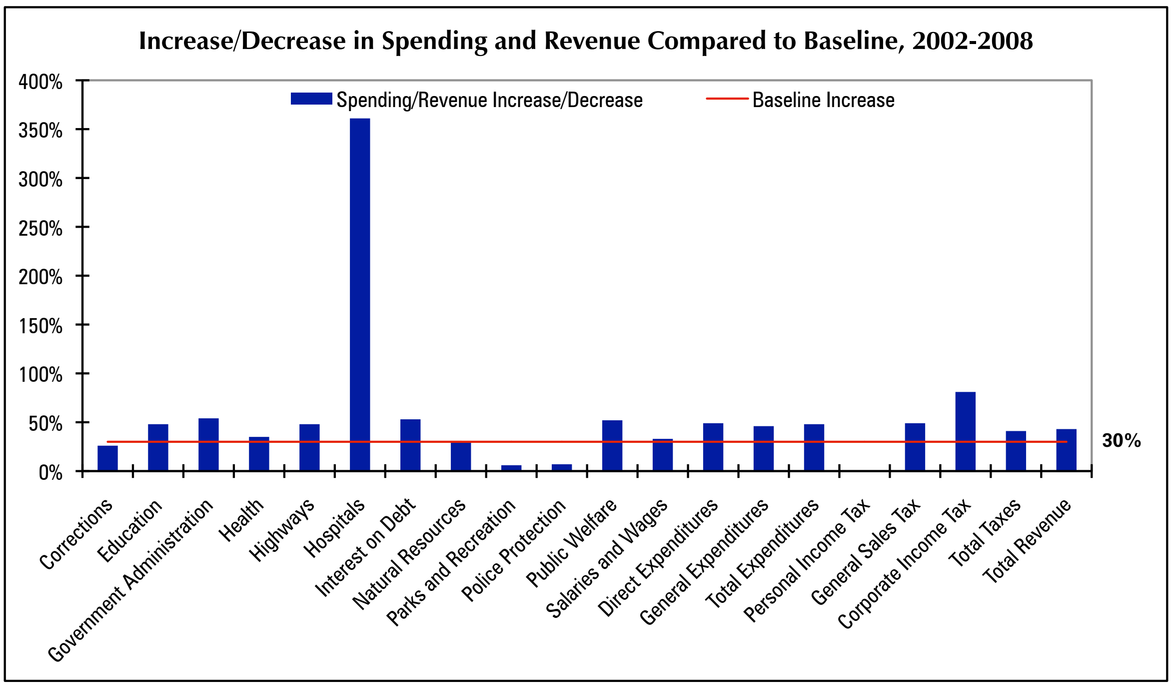
Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and Florida's population increased by 10%. This yields a "baseline" growth of 30% for the period. The figure below compares the difference in Florida's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.



Georgia

From 2002 to 2008, Georgia's spending increased the most in the health (56%), debt service (38%), and education (33%) categories. The increase in health spending was the 11th-greatest in the nation in terms of percentage. The spending categories that saw the least growth were police (+17%), highways (+14%) and natural resources (-4%). The state's overall general spending increase of 27% was the sixth-lowest in the nation for the period.

Georgia's total overall revenue growth of 66% ranked in the top third of states, at 10th-highest, for the period, although its total tax revenue growth ranked toward the bottom, at 32% (43rd). Corporate income taxes were the fastest growing tax revenue category, increasing 66%, although that was less than the growth of the vast majority of states (ranking 39th-highest).

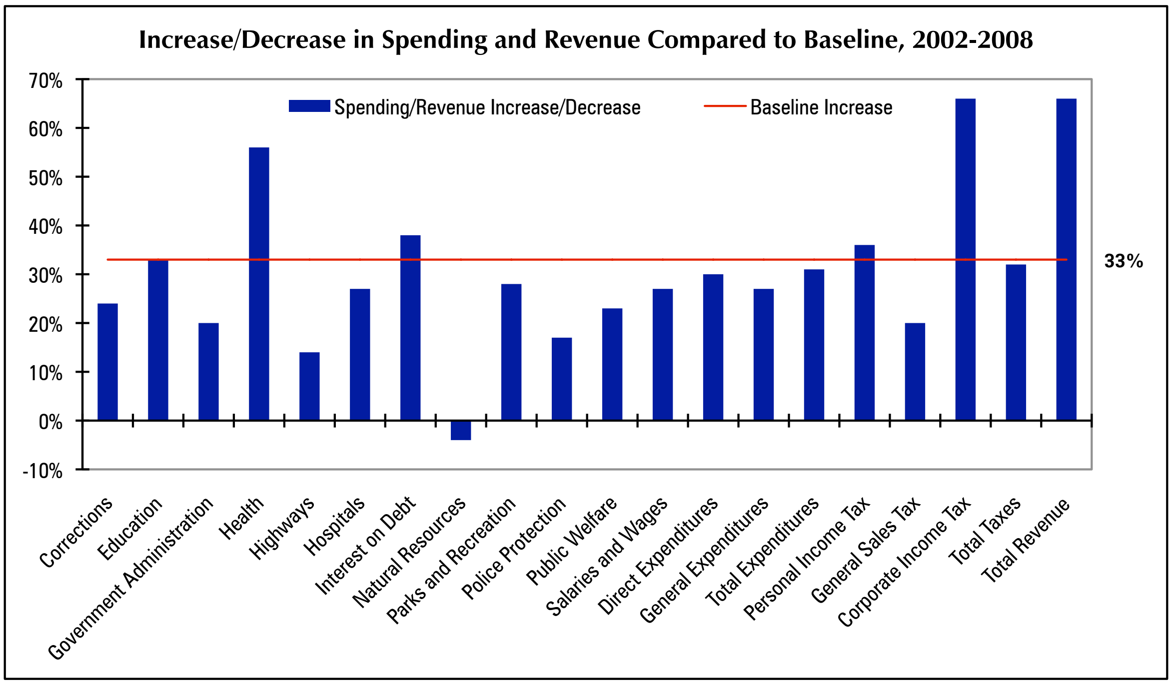
Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	1,271,639	14	1,571,961	22	-8	24%	34
Education	12,154,631	22	16,179,676	35	-13	33%	39
Government Administration	680,850	47	815,307	49	-2	20%	35
Health	808,960	42	1,258,721	35	+7	56%	11
Highways	2,004,684	45	2,287,471	46	-1	14%	29
Hospitals	634,079	30	805,443	31	-1	27%	30
Interest on Debt	433,247	45	598,122	47	-2	38%	25
Natural Resources	539,051	29	516,792	37	-8	-4%	44
Parks and Recreation	163,060	26	209,191	24	+2	28%	24
Police Protection	272,130	30	317,358	40	-10	17%	34
Public Welfare	7,825,282	28	9,644,769	42	-14	23%	45
Salaries and Wages	3,951,121	46	5,008,399	48	-2	27%	34
Direct Expenditures	19,821,110	45	25,749,530	47	-2	30%	40
General Expenditures	28,465,937	42	36,164,925	48	-6	27%	45
Total Expenditures	31,352,991	42	41,165,128	46	-4	31%	35

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	6,487,638	17	8,845,476	23	-6	36%	34
General Sales Tax[2]	4,833,521	30	5,796,653	37	-7	20%	37
Corporate Income Tax[3]	568,080	25	943,042	41	-16	66%	39
Total Taxes	13,772,147	38	18,183,117	45	-7	32%	43
Total Revenue	24,846,501	47	41,266,892	44	+3	66%	10

[1] Personal income tax per capita rankings are out of 43 since seven states do not collect personal income taxes.
[2] General sales tax per capita rankings are out of 45 since five states do not collect general sales taxes.
[3] Corporate income tax per capita rankings are out of 46 since four states do not collect corporate income taxes.

Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and Georgia's population increased by 13%. This yields a "baseline" growth of 33% for the period. The figure below compares the difference in Georgia's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.



Hawaii

From 2002 to 2008, Hawaii's spending increased the most in the hospitals (187%), highways (73%), and parks and recreation (59%) categories. The increase in hospitals spending was the third-highest in the nation in terms of percentage, and grew from 19th-highest in terms of per-capita spending in 2002 to third-highest in 2008. The increase in highways spending was the fourth-greatest in the nation. The state ranked in the top five in per capita spending in seven of the 12 spending categories, and last in police, largely due to its unique island geography and relatively small population. The spending categories that saw the least growth were administration (+29%), natural resources (+16%) and debt service (-5%). The state's overall general spending increase of 43% put it in the top half of states, ranking 13th-highest.

Hawaii's total overall revenue growth of 58% ranked 14th for the period, and its total tax revenue growth of 50% ranked 15th. Corporate income taxes were the fastest growing tax revenue category, increasing 100%, although that still placed it in the bottom half of states (ranking 28th-highest). By contrast, the 62% increase in general sales tax revenue ranked 3rd-highest in the nation. Hawaii's general sales tax per capita ranked the highest in the nation in both 2002 and 2008.

Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	157,286	25	219,070	20	+5	39%	18
Education	2,257,402	6	3,393,565	4	+2	50%	12
Government Administration	376,034	4	486,718	3	+1	29%	27
Health	453,500	1	677,693	2	-1	49%	15
Highways	235,699	49	407,711	37	+12	73%	4
Hospitals	184,789	19	531,055	1	+18	187%	3
Interest on Debt	462,296	3	441,026	5	-2	-5%	48
Natural Resources	98,076	20	113,560	23	-3	16%	30
Parks and Recreation	49,595	8	78,920	4	+4	59%	18
Police Protection	9,228	50	13,808	50	0	50%	15
Public Welfare	1,125,980	29	1,563,961	31	-2	39%	29
Salaries and Wages	1,733,613	2	2,563,142	3	-1	48%	10
Direct Expenditures	6,553,219	2	9,429,236	2	0	44%	12
General Expenditures	6,683,606	2	9,567,007	5	-3	43%	13
Total Expenditures	7,445,512	3	10,533,869	4	-1	41%	16

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	1,111,590	9	1,544,835	10	-1	39%	31
General Sales Tax[2]	1,612,333	1	2,619,595	1	0	62%	3
Corporate Income Tax[3]	52,640	42	105,294	43	-1	100%	28
Total Taxes	3,420,671	1	5,147,569	4	+3	50%	15
Total Revenue	5,868,714	9	9,298,617	8	+1	58%	14

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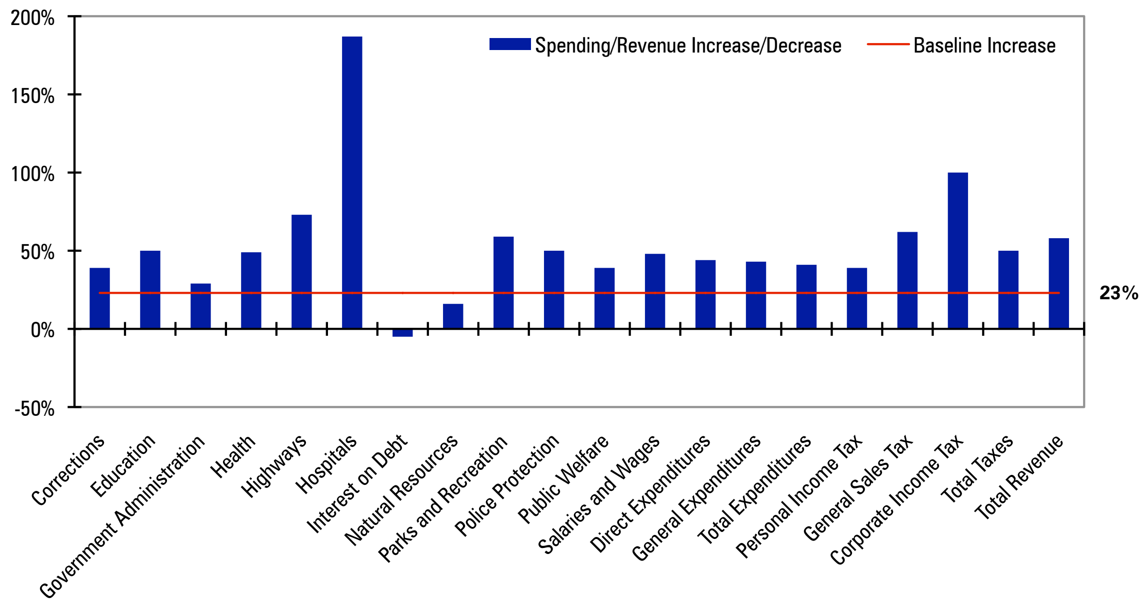
Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and Hawaii's population increased by 3%. This yields a "baseline" growth of 23% for the period. The figure below compares the difference in Hawaii's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.

Increase/Decrease in Spending and Revenue Compared to Baseline, 2002-2008



Idaho

From 2002 to 2008, Idaho's spending increased the most in the administration (62%), welfare (61%), and education (52%) categories. The spending categories that saw the least growth were debt service (15%), police (12%), hospitals (4%), and parks and recreation (1%). Idaho's spending growth ranked among the top 20 states in six of the 12 spending categories. The state's overall general spending increase of 47% placed among the greatest of the states, ranking eighth highest.

Idaho's total overall revenue growth of 58% ranked 15th-highest for the period, and its total tax revenue growth of 61% ranked eighth. Corporate income taxes were the fastest growing tax revenue category, increasing 148% and ranking 13th-highest, although its personal income tax and general sales tax revenues grew even faster relative to other states. The state's personal income tax revenue rose 71% (fifth), and its general sales tax revenue increased 69%, the highest rate in the nation.

Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	171,684	24	244,504	24	0	42%	13
Education	1,829,520	29	2,774,669	27	+2	52%	10
Government Administration	221,628	21	360,140	16	+5	62%	8
Health	112,840	47	150,626	45	+2	33%	25
Highways	499,916	16	696,062	13	+3	39%	13
Hospitals	45,326	47	47,310	47	0	4%	38
Interest on Debt	141,541	25	162,233	37	-12	15%	36
Natural Resources	164,520	6	213,597	6	0	30%	19
Parks and Recreation	40,872	14	41,137	18	-4	1%	33
Police Protection	45,973	26	51,314	39	-13	12%	37
Public Welfare	1,003,118	40	1,614,703	39	+1	61%	11
Salaries and Wages	850,004	29	1,040,874	37	-8	22%	36
Direct Expenditures	3,217,628	38	4,769,082	39	-1	48%	8
General Expenditures	4,624,686	38	6,806,589	38	0	47%	8
Total Expenditures	5,234,047	37	7,675,083	37	0	47%	7

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	842,375	26	1,438,518	22	+4	71%	5
General Sales Tax[2]	795,384	27	1,347,327	16	+11	69%	1
Corporate Income Tax[3]	76,769	33	190,194	32	+1	148%	13
Total Taxes	2,271,075	34	3,651,917	28	+6	61%	8
Total Revenue	4,487,672	38	7,107,284	37	+1	58%	15

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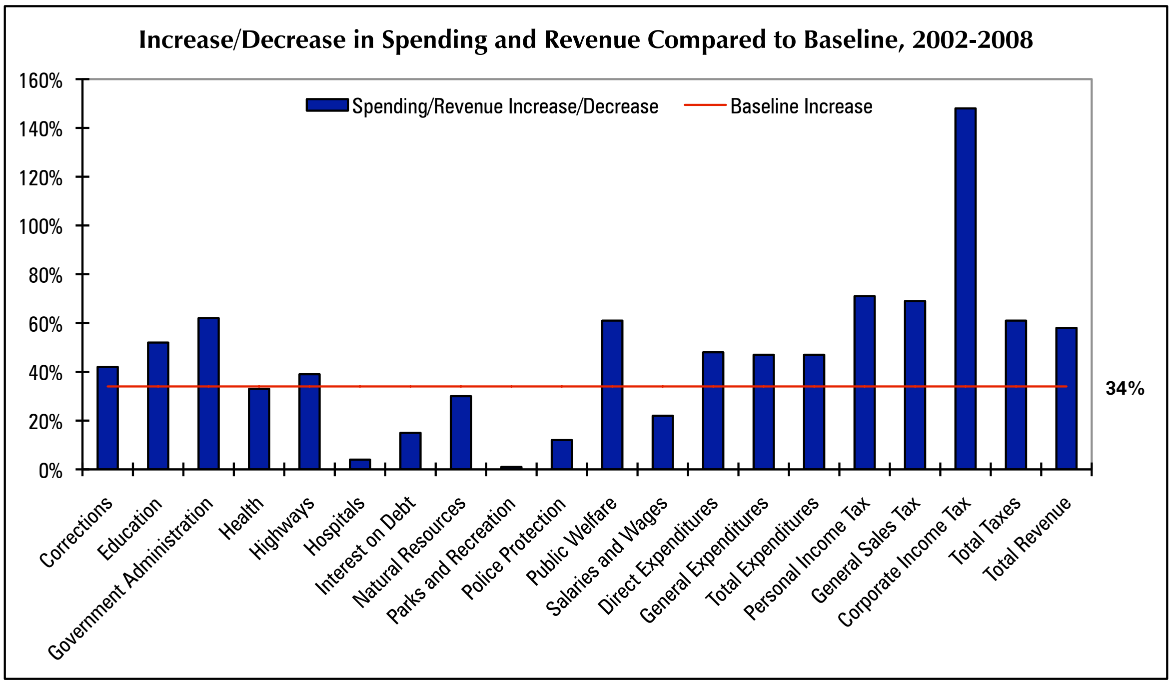
Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and Idaho's population increased by 14%. This yields a "baseline" growth of 34% for the period. The figure below compares the difference in Idaho's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.



Illinois

From 2002 to 2008, Illinois's spending increased the most in the salaries and wages (59%), welfare (57%) and debt service (55%) categories. Illinois saw spending decline during the period in five categories, including corrections (-8%), administration (-8%), health (-9%), parks and recreation (-38%), and natural resources (-40%). The decreases in corrections and natural resources spending were the largest in the nation, and the 16% increase in education spending was the second-lowest for the period. On a per-capita basis, Illinois's spending ranked at or near the bottom in the nation in four categories: administration (47th), corrections (48th), education (49th) and natural resources (50th). The state's overall general spending increase of 27% put it among the slowest-growing states, ranking 44th-highest, although its 34% increase in direct spending, over which the legislature has the most control, grew somewhat faster, ranking 31st-highest.

Illinois's total overall revenue growth of 42% ranked near the middle of states for the period (30th), and its total sales tax revenue growth of 42% ranked 29th. Corporate income taxes were the fastest growing tax revenue category, increasing 125%, placing Illinois slightly higher than the middle of the pack (ranking 21st-highest among the states).

Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	1,359,318	34	1,244,230	48	-14	-8%	50
Education	14,098,492	45	16,342,627	49	-4	16%	49
Government Administration	1,319,877	37	1,216,329	47	-10	-8%	46
Health	2,573,875	14	2,336,890	23	-9	-9%	46
Highways	3,655,570	34	4,510,194	29	+5	23%	23
Hospitals	922,299	32	1,004,573	32	0	9%	35
Interest on Debt	1,846,927	14	2,867,051	11	+3	55%	16
Natural Resources	454,399	45	272,110	50	-5	-40%	50
Parks and Recreation	443,212	12	276,560	25	-13	-38%	43
Police Protection	392,153	31	437,448	38	-7	12%	38
Public Welfare	10,940,019	32	17,167,067	20	+12	57%	14
Salaries and Wages	5,332,743	47	8,486,416	38	+9	59%	7
Direct Expenditures	29,587,191	42	39,560,213	41	+1	34%	31
General Expenditures	42,678,167	39	54,310,201	43	-4	27%	44
Total Expenditures	49,131,377	36	63,368,160	39	-3	29%	42

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	7,471,385	29	10,320,239	31	-2	38%	32
General Sales Tax[2]	6,591,337	35	7,935,417	34	+1	20%	36
Corporate Income Tax[3]	1,383,823	11	3,115,604	10	+1	125%	21
Total Taxes	22,474,774	24	31,891,497	26	-2	42%	29
Total Revenue	41,094,791	42	58,524,149	40	+2	42%	30

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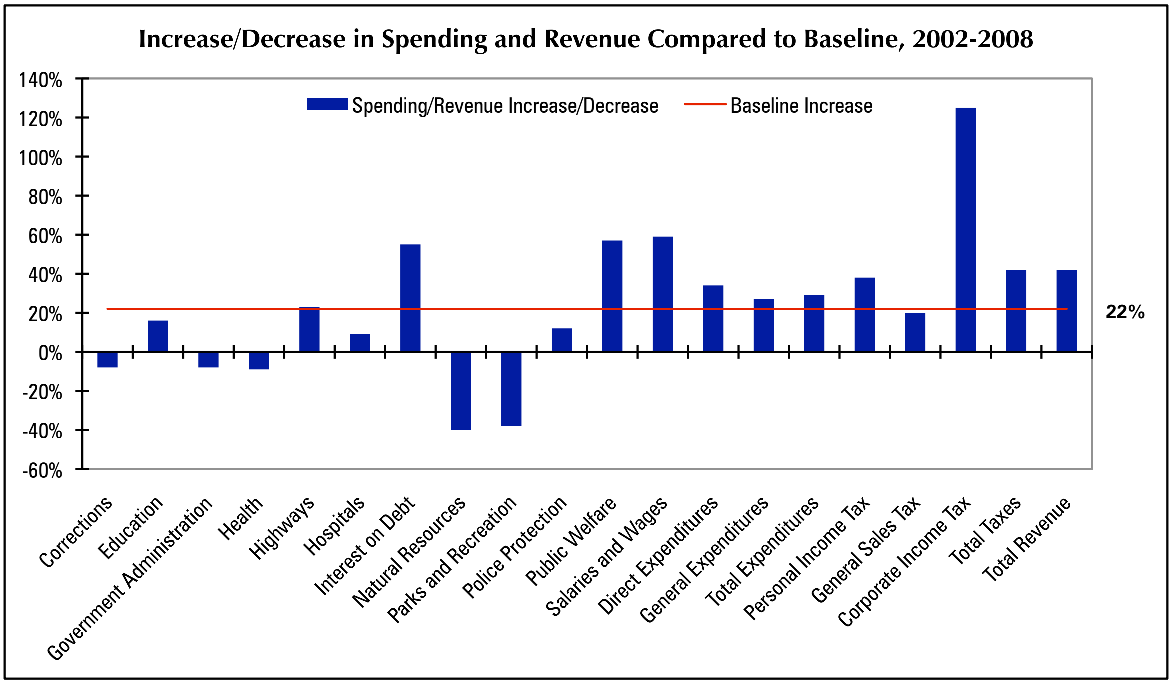
Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and Illinois's population increased by 2%. This yields a "baseline" growth of 22% for the period. The figure below compares the difference in Illinois's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.



Indiana

From 2002 to 2008, Indiana's spending increased the most in the debt service (143%), welfare (57%), and parks and recreation (51%) categories. The increase in debt service spending was the fourth-highest in the nation in terms of percentage. The spending categories that saw the least growth were corrections (+6%), natural resources (+3%), administration (-17%), and hospitals (-26%). The decline in administration spending was the second-greatest in the nation. The state's overall general spending increase of 38% put it slightly above the state average, ranking 21st-highest, and its 46% increase in direct spending, over which the legislature has the most control, was 10th-highest. One per-capita basis, Indiana ranked 25th or lower in all 12 spending categories in 2008.

Indiana's total overall revenue growth of 45% ranked 25th for the period, and its total tax revenue growth of 46% ranked 22nd. While most states saw the greatest increase in tax revenues in the corporate income tax category, Indiana's corporate income tax revenue grew only 28% (42nd-highest), while its general sales tax revenue increased 51% (sixth).

Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	640,711	38	676,633	45	-7	6%	48
Education	7,930,896	34	10,616,678	36	-2	34%	37
Government Administration	767,851	33	638,989	46	-13	-17%	49
Health	557,640	44	627,263	46	-2	12%	37
Highways	1,569,976	41	1,996,582	39	+2	27%	20
Hospitals	268,447	42	198,120	46	-4	-26%	47
Interest on Debt	397,443	40	967,653	25	+15	143%	4
Natural Resources	285,590	37	293,931	42	-5	3%	42
Parks and Recreation	47,645	45	71,753	42	+3	51%	20
Police Protection	200,006	29	254,012	30	-1	27%	26
Public Welfare	5,124,522	34	8,034,079	27	+7	57%	15
Salaries and Wages	3,125,020	43	3,742,390	45	-2	20%	37
Direct Expenditures	14,027,938	46	20,448,300	35	+11	46%	10
General Expenditures	20,584,712	41	28,417,734	39	+2	38%	21
Total Expenditures	22,205,168	45	30,783,257	40	+5	39%	21

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	3,540,819	30	4,837,524	33	-3	37%	33
General Sales Tax[2]	3,798,490	24	5,738,829	14	+10	51%	6
Corporate Income Tax[3]	709,412	10	909,494	22	-12	28%	42
Total Taxes	10,200,590	35	14,916,295	33	+2	46%	22
Total Revenue	20,116,042	41	29,114,836	38	+3	45%	25

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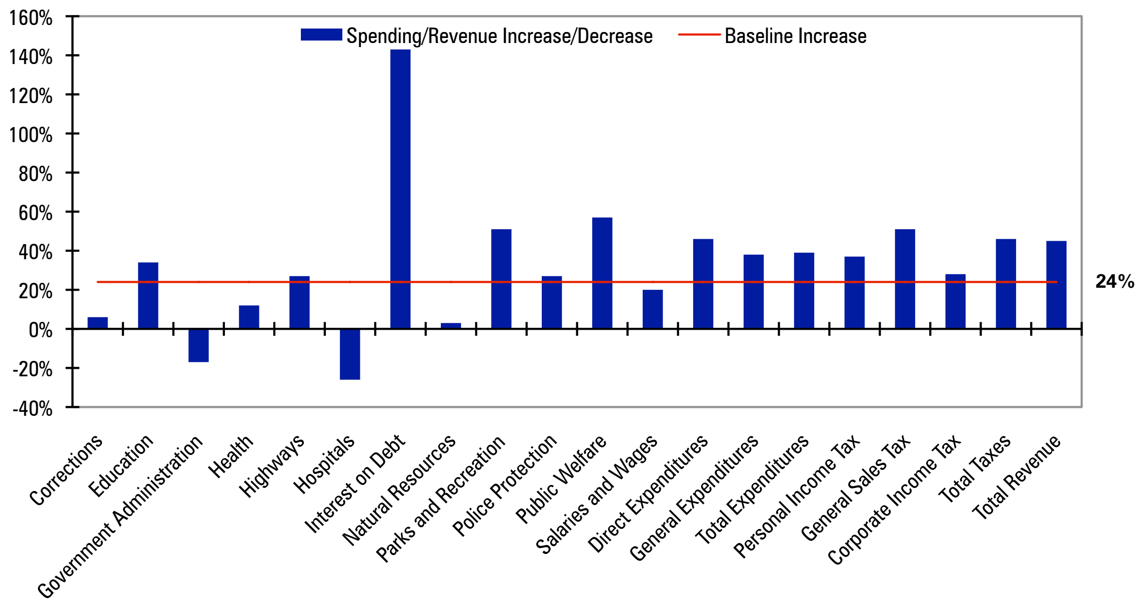
Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and Indiana's population increased by 4%. This yields a "baseline" growth of 24% for the period. The figure below compares the difference in Indiana's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.

Increase/Decrease in Spending and Revenue Compared to Baseline, 2002-2008



Iowa

From 2002 to 2008, Iowa's spending increased the most in the debt service (218%), parks and recreation (140%), hospitals (51%) and welfare (49%) categories. The increase in debt service spending was the highest in the nation in terms of percentage, and the increase in parks and recreation spending was the fourth-highest. The spending categories that saw the least growth were health (+3%), highways (+2), corrections (+1%), and salaries and wages (-4%). The slight increase in corrections spending ranked 49th in the nation, and the decrease in salaries and wages spending was the second-greatest in the nation. The state's overall general spending increase of 30% ranked 37th-highest.

Iowa's total overall revenue growth of 43% ranked 27th for the period, and its total tax revenue growth of 38% ranked 39th. Corporate income taxes were the fastest growing tax revenue category, increasing 293% and ranking third-highest. By contrast, general sales tax revenue increased only 5%, ranked 44th.

Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	288,666	42	291,406	47	-5	1%	49
Education	4,576,530	12	5,790,799	22	-10	27%	46
Government Administration	497,392	19	554,993	27	-8	12%	41
Health	233,740	49	240,951	50	-1	3%	40
Highways	1,360,300	9	1,381,730	12	-3	2%	42
Hospitals	724,555	5	1,092,682	7	-2	51%	20
Interest on Debt	123,134	47	391,988	29	+18	218%	1
Natural Resources	267,444	14	288,799	21	-7	8%	36
Parks and Recreation	25,468	43	61,112	29	+14	140%	4
Police Protection	86,461	34	96,991	41	-7	12%	36
Public Welfare	2,617,128	30	3,904,781	24	+6	49%	22
Salaries and Wages	2,402,008	12	2,301,969	30	-18	-4%	49
Direct Expenditures	8,109,027	25	10,687,341	24	+1	32%	36
General Expenditures	11,435,526	26	14,830,301	27	-1	30%	37
Total Expenditures	12,720,752	28	16,522,737	29	-1	30%	40

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	1,769,347	28	2,848,393	20	+8	61%	11
General Sales Tax[2]	1,747,016	25	1,840,862	35	-10	5%	44
Corporate Income Tax[3]	88,310	45	347,248	36	+9	293%	3
Total Taxes	5,006,251	31	6,892,026	37	-6	38%	39
Total Revenue	11,130,351	29	15,939,920	26	+3	43%	27

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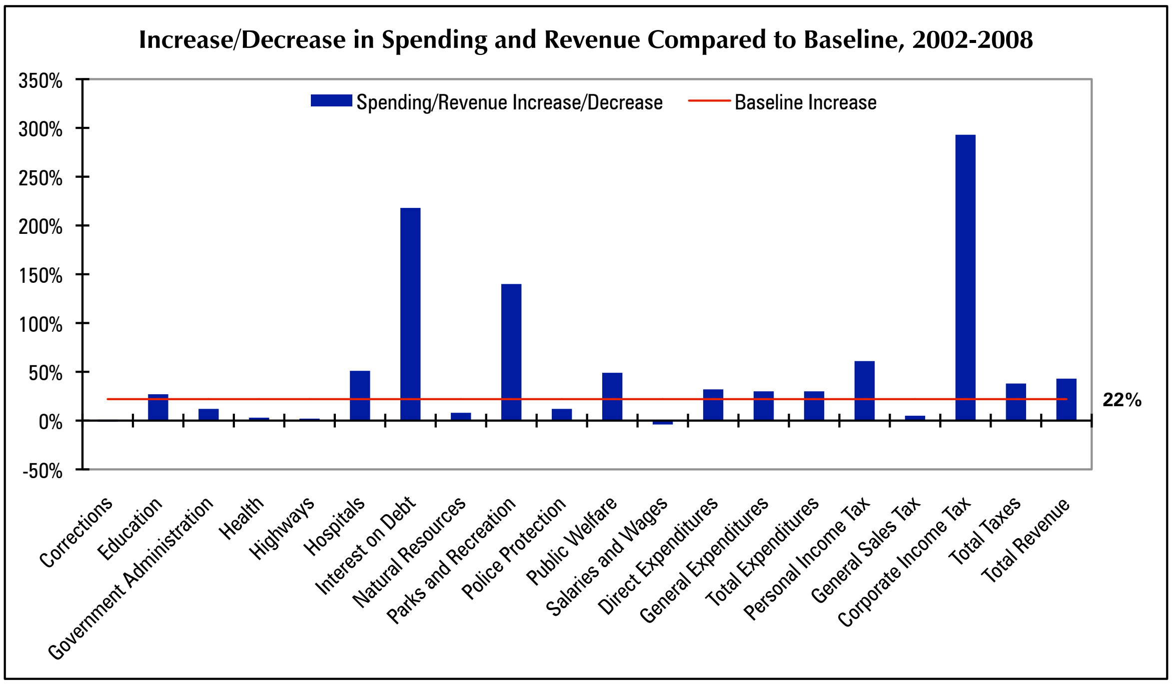
Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and Iowa's population increased by 2%. This yields a "baseline" growth of 22% for the period. The figure below compares the difference in Iowa's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.



Kansas

From 2002 to 2008, Kansas's spending increased the most in the hospitals (833%), parks and recreation (585%), debt service (164%), and salaries and wages (99%) categories. The increases in hospitals and parks and recreation spending were each the greatest in the nation in terms of percentage, and the increases in debt service and salaries and wages spending each ranked among the top three. The spending categories that saw the least growth were highways (+7%), administration (-9%) and health (-50%). The decrease in health spending was the second-greatest in the nation, and the decline in administration spending was the third-highest. On a per-capita basis, spending on hospitals rose from 44th in the nation in 2002 to eighth in 2008, while health spending fell from 15th to 48th during the period. The state's overall general spending increase of 42% put it slightly above the state average, ranking 19th-highest.

Kansas's total overall revenue growth of 40% ranked 34th for the period, while its total tax revenue growth of 49% was 17th. Corporate income taxes were the fastest growing tax revenue category, increasing 333% and ranking the second-highest growth rate in the nation.

Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	326,372	29	361,648	34	-5	11%	46
Education	3,987,803	19	5,750,358	15	+4	44%	20
Government Administration	502,328	17	459,166	31	-14	-9%	48
Health	503,625	15	252,179	48	-33	-50%	49
Highways	1,130,728	13	1,213,980	18	-5	7%	36
Hospitals	104,270	44	973,004	8	+36	833%	1
Interest on Debt	126,813	46	334,469	32	+14	164%	3
Natural Resources	179,368	28	205,394	28	0	15%	32
Parks and Recreation	5,416	50	37,074	38	+12	585%	1
Police Protection	63,403	43	110,231	32	+11	74%	4
Public Welfare	1,986,407	42	3,167,907	38	+4	59%	12
Salaries and Wages	1,598,382	34	3,174,710	11	+23	99%	3
Direct Expenditures	6,645,909	34	9,431,027	30	+4	42%	19
General Expenditures	9,617,322	35	13,645,502	29	+6	42%	19
Total Expenditures	10,591,633	35	14,968,811	32	+3	41%	18

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	1,854,848	20	2,944,851	15	+5	59%	13
General Sales Tax[2]	1,799,485	20	2,264,747	23	-3	26%	30
Corporate Income Tax[3]	121,931	40	528,011	12	+28	333%	2
Total Taxes	4,808,361	25	7,159,748	22	+3	49%	17
Total Revenue	9,694,312	35	13,541,510	32	+3	40%	34

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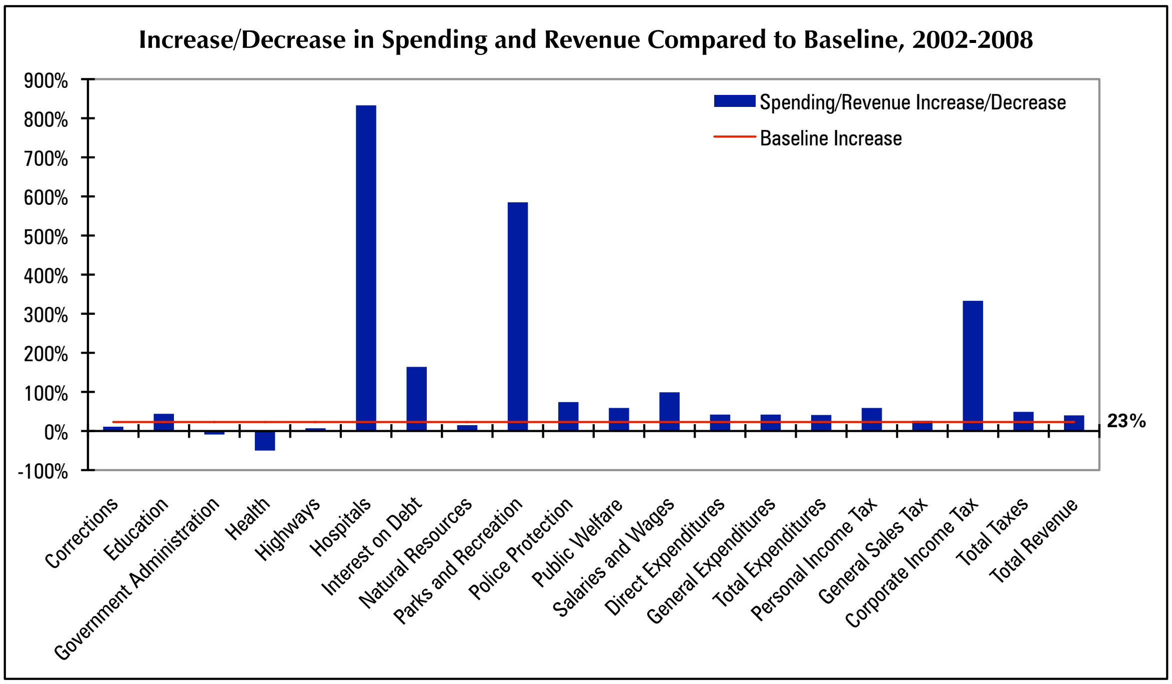
Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and Kansas's population increased by 3%. This yields a "baseline" growth of 23% for the period. The figure below compares the difference in Kansas's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.



Kentucky

From 2002 to 2008, Kentucky's spending increased the most in the hospitals (123%) and education (49%) categories. The increase in hospitals spending was the fourth-highest in the nation in terms of percentage. The spending categories that saw the least growth were health (+18%), debt service (+12%), police (+2%), and parks and recreation (-20%). The state's overall general spending increase of 36% was slightly below the state average, ranking 24th-highest.

Kentucky's total overall revenue growth of 28% ranked 43rd for the period, and its total tax revenue growth of 26% ranked 47th. Corporate income taxes were the fastest growing tax revenue category, increasing 77% and ranking 37th-highest in the nation. Personal income tax and general sales tax revenue each saw modest growth, increasing 30% (39th) and 24% (31st), respectively.

Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	435,206	35	527,311	39	-4	21%	38
Education	5,870,554	21	8,718,692	16	+5	49%	15
Government Administration	682,808	20	840,386	25	-5	23%	32
Health	530,081	28	626,189	32	-4	18%	34
Highways	1,730,952	12	2,241,275	9	+3	29%	18
Hospitals	493,083	23	1,100,758	14	+9	123%	4
Interest on Debt	449,740	23	503,054	34	-11	12%	40
Natural Resources	310,703	24	373,489	24	0	20%	24
Parks and Recreation	150,157	11	120,502	15	-4	-20%	41
Police Protection	189,524	16	193,185	23	-7	2%	45
Public Welfare	4,796,130	12	6,198,814	14	-2	29%	36
Salaries and Wages	2,933,671	20	3,737,072	22	-2	27%	33
Direct Expenditures	12,773,091	14	17,662,081	15	-1	38%	23
General Expenditures	16,394,058	22	22,363,052	21	+1	36%	24
Total Expenditures	18,424,584	24	25,421,531	22	+2	38%	23

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	2,678,330	24	3,483,138	30	-6	30%	39
General Sales Tax[2]	2,312,224	31	2,875,836	31	0	24%	31
Corporate Income Tax[3]	302,129	19	533,630	31	-12	77%	37
Total Taxes	7,974,690	19	10,056,293	31	-12	26%	47
Total Revenue	16,072,899	21	20,581,938	33	-12	28%	43

[1] Personal income tax per capita rankings are out of 43 since seven states do not collect personal income taxes.

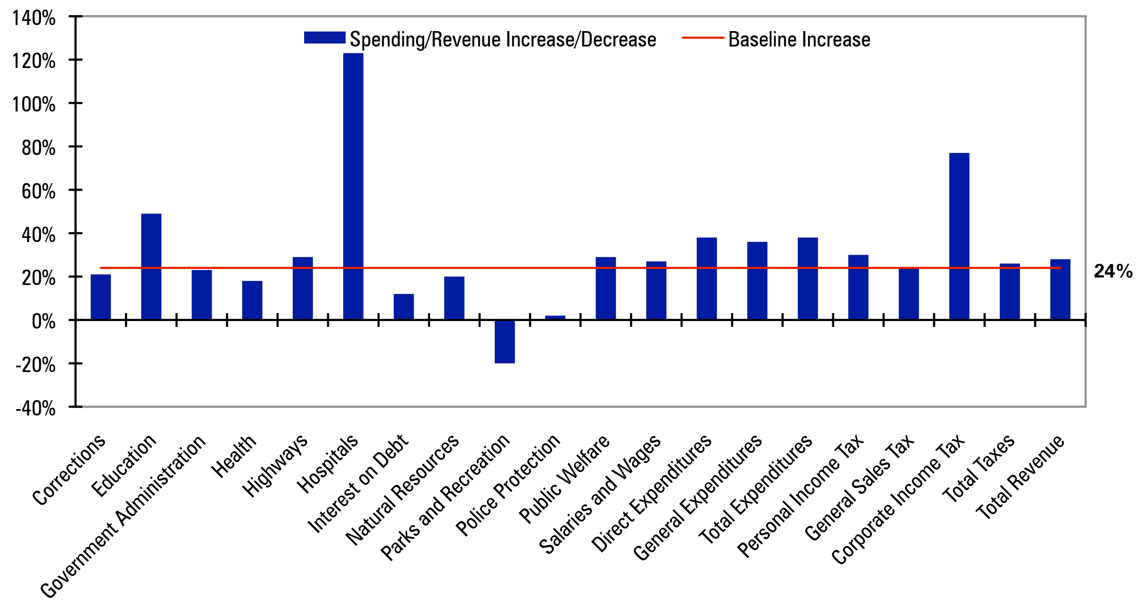
[2] General sales tax per capita rankings are out of 45 since five states do not collect general sales taxes.

[3] Corporate income tax per capita rankings are out of 46 since four states do not collect corporate income taxes.

Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and Kentucky's population increased by 4%. This yields a "baseline" growth of 24% for the period. The figure below compares the difference in Kentucky's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.

Increase/Decrease in Spending and Revenue Compared to Baseline, 2002-2008



Louisiana

From 2002 to 2008, Louisiana's spending increased the most in the highways (103%), welfare (89%), debt service (79%), parks and recreation (76%), and natural resources (74%) categories. The increase in highways spending was the highest in the nation in terms of percentage. The spending categories that saw the least growth were corrections (+23%), salaries and wages (+15%), and hospitals (-31%). The decrease in hospitals spending was the third-greatest in the nation, although, on a per-capita basis, the state's spending was still in the upper half of all states (17th) in 2008. The state's overall general spending increase of 89% and direct spending increase of 105% were each the highest in the nation.

Louisiana's total revenue growth of 68% ranked eighth for the period, and its total tax revenue growth of 50% ranked 16th. Corporate income taxes were the fastest growing tax revenue category, increasing 166% and ranking 10th-highest. The state's 77% increase in personal income tax revenue was the fourth-largest in the nation.

Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	627,743	17	773,076	17	0	23%	35
Education	6,047,120	31	9,083,468	14	+17	50%	13
Government Administration	577,908	32	929,882	21	+11	61%	9
Health	444,648	39	640,753	33	+6	44%	20
Highways	1,052,837	44	2,132,077	11	+33	103%	1
Hospitals	1,489,729	3	1,021,434	17	-14	-31%	48
Interest on Debt	505,717	21	903,661	13	+8	79%	11
Natural Resources	332,754	26	579,131	8	+18	74%	3
Parks and Recreation	211,102	4	371,160	1	+3	76%	15
Police Protection	250,114	8	349,563	6	+2	40%	20
Public Welfare	3,080,895	47	5,828,886	22	+25	89%	4
Salaries and Wages	3,709,689	11	4,262,552	15	-4	15%	41
Direct Expenditures	11,668,103	30	23,960,421	4	+26	105%	1
General Expenditures	15,836,393	36	29,983,212	7	+29	89%	1
Total Expenditures	17,993,401	32	33,003,929	8	+24	83%	1

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	1,788,733	38	3,169,686	35	+3	77%	4
General Sales Tax[2]	2,326,873	36	3,459,383	25	+11	49%	10
Corporate Income Tax[3]	264,419	32	703,196	18	+14	166%	10
Total Taxes	7,356,936	37	11,003,870	24	+13	50%	16
Total Revenue	18,093,632	20	30,307,726	9	+11	68%	8

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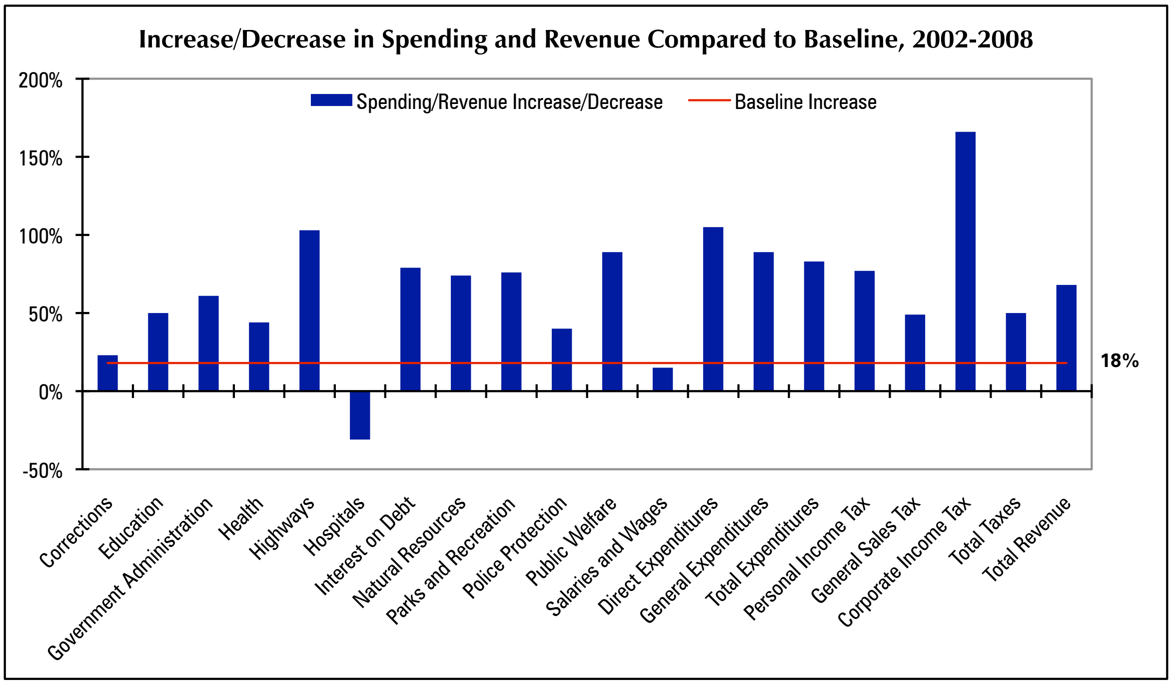
[3] Corporate income tax per capita rankings are out of 46 since four states do not collect corporate income taxes.

Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and Louisiana's population decreased by 2%. This yields a "baseline" growth of 18% for the period. The figure below compares the difference in Louisiana's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.



Maine

From 2002 to 2008, Maine's spending increased the most in the welfare (38%), corrections (34%), education (34%) and health (34%) categories. The spending categories that saw the least growth were debt service (+8%), highways (+4%), parks and recreation (-3%), and salaries and wages (-5%). The decrease in salaries and wages spending was the largest in the nation. The state's overall general spending increase of 31% put it in the bottom half of the states, ranking 35th-highest.

Maine's total overall revenue growth of 39% ranked 36th for the period, and its total tax revenue growth of 40% ranked 34th. Corporate income taxes were the fastest growing tax revenue category, increasing 138% and ranking 17th-highest.

Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	105,580	47	141,982	44	+3	34%	22
Education	1,505,432	44	2,018,539	44	0	34%	36
Government Administration	255,334	15	325,779	13	+2	28%	29
Health	366,293	6	491,007	5	+1	34%	24
Highways	462,147	20	479,580	25	-5	4%	37
Hospitals	46,493	45	56,286	44	+1	21%	32
Interest on Debt	238,184	10	257,910	15	-5	8%	42
Natural Resources	149,602	7	167,216	9	-2	12%	34
Parks and Recreation	11,540	42	11,159	46	-4	-3%	36
Police Protection	60,455	15	72,231	15	0	19%	31
Public Welfare	1,801,953	4	2,492,721	6	-2	38%	30
Salaries and Wages	798,047	30	760,447	47	-17	-5%	50
Direct Expenditures	4,660,562	7	6,113,709	11	-4	31%	38
General Expenditures	5,670,144	14	7,449,178	16	-2	31%	35
Total Expenditures	6,264,883	20	8,175,152	18	+2	30%	37

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	1,072,810	13	1,448,273	14	-1	35%	36
General Sales Tax[2]	836,134	22	1,071,653	22	0	28%	29
Corporate Income Tax[3]	77,366	31	184,515	23	+8	138%	17
Total Taxes	2,626,830	14	3,681,614	14	0	40%	34
Total Revenue	5,451,423	17	7,551,956	17	0	39%	36

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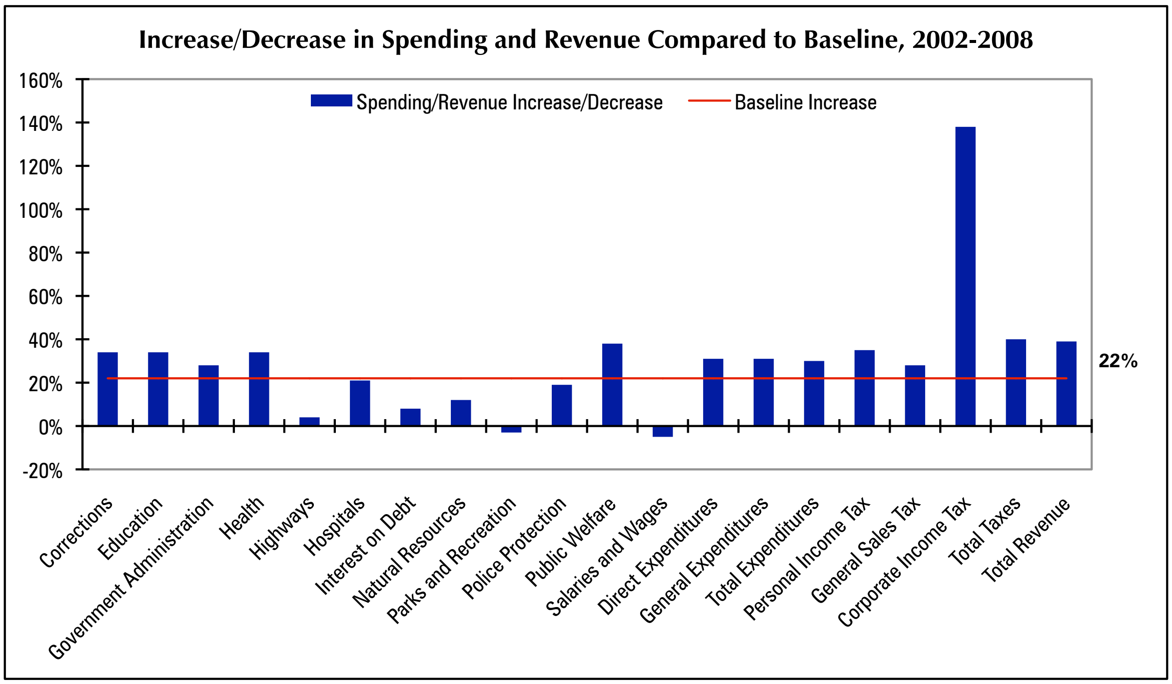
[3] Corporate income tax per capita rankings are out of 46 since four states do not collect corporate income taxes.

Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and Maine's population increased by 2%. This yields a "baseline" growth of 22% for the period. The figure below compares the difference in Maine's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.



Maryland

From 2002 to 2008, Maryland's spending increased the most in the education (59%), welfare (54%), and highways (53%) categories. The increase in education spending was the fourth-largest in terms of percentage. The spending categories that saw the least growth were salaries and wages (19%), natural resources (18%), police (5%), and parks and recreation (0%). The state's overall general spending increase of 46% ranked ninth-highest, although its 41% increase in direct spending, over which the legislature has the most control, was a bit more modest, ranking 20th.

Maryland's total overall revenue growth of 37% ranked 38th for the period, and its total tax revenue growth of 45% ranked 24th. Corporate income taxes were the fastest growing tax revenue category, increasing 105% and ranking 26th-highest. The state's personal income tax revenue growth of 48% and its general sales tax revenue growth of 39% also ranked near the median, at 23rd and 20th, respectively.

Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	1,059,972	3	1,366,211	4	-1	29%	23
Education	6,891,617	36	10,991,254	20	+16	59%	4
Government Administration	844,086	24	1,243,982	19	+5	47%	16
Health	1,341,846	10	1,958,191	7	+3	46%	16
Highways	1,642,654	30	2,510,419	16	+14	53%	8
Hospitals	400,821	31	541,820	27	+4	35%	27
Interest on Debt	710,689	20	1,046,312	18	+2	47%	19
Natural Resources	478,073	16	562,098	18	-2	18%	29
Parks and Recreation	268,944	3	269,711	7	-4	0%	34
Police Protection	387,251	6	405,655	7	-1	5%	42
Public Welfare	4,625,705	33	7,118,659	26	+7	54%	17
Salaries and Wages	3,974,484	19	4,724,830	24	-5	19%	38
Direct Expenditures	15,468,925	21	21,819,005	18	+3	41%	20
General Expenditures	20,704,431	29	30,328,008	19	+10	46%	9
Total Expenditures	23,317,261	29	34,029,818	21	+8	46%	10

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	4,704,368	12	6,940,134	9	+3	48%	23
General Sales Tax[2]	2,690,434	38	3,748,933	32	+6	39%	20
Corporate Income Tax[3]	359,420	26	735,324	29	-3	105%	26
Total Taxes	10,821,276	16	15,713,987	15	+1	45%	24
Total Revenue	20,787,889	26	28,422,851	30	-4	37%	38

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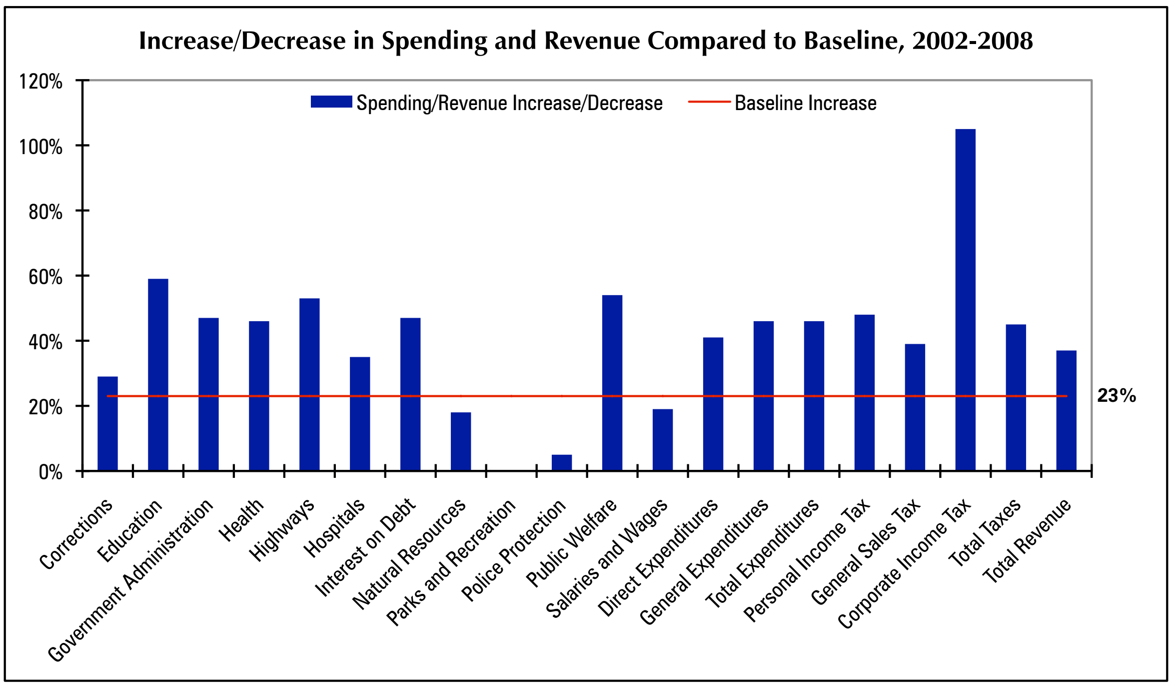
Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and Maryland's population increased by 3%. This yields a "baseline" growth of 23% for the period. The figure below compares the difference in Maryland's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.



Massachusetts

From 2002 to 2008, Massachusetts's spending increased the most in the welfare (112%), education (63%) and police (57%) categories. The increase in welfare spending was the largest in the nation in terms of percentage, and the increase in education spending was the second-largest. Massachusetts saw spending decline in four categories: hospitals (-9%), parks and recreation (-10%), highways (-18%) and health (-44%). The decreases in health and highways spending were each the third-greatest in the nation. The state's overall general spending increase of 42% ranked 18th- highest.

Massachusetts's total revenue growth of 93% ranked fifth for the period, and its total tax revenue growth of 48% ranked 20th. Corporate income taxes were the fastest growing tax revenue category, increasing 168% and ranking ninth highest. Personal income tax revenue also saw significant growth of 58% (14th), although general sales tax revenue increased only 11% (42nd).

Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	1,070,950	9	1,332,960	7	+2	24%	31
Education	6,553,103	49	10,714,000	37	+12	63%	2
Government Administration	1,277,967	13	1,666,967	11	+2	30%	26
Health	1,908,195	3	1,068,262	26	-23	-44%	48
Highways	2,743,702	11	2,245,666	30	-19	-18%	48
Hospitals	513,301	28	466,869	36	-8	-9%	44
Interest on Debt	2,687,146	2	3,627,100	1	+1	35%	29
Natural Resources	287,026	39	338,037	40	-1	18%	28
Parks and Recreation	263,913	7	238,203	11	-4	-10%	38
Police Protection	362,699	7	569,777	5	+2	57%	12
Public Welfare	5,987,846	25	12,682,783	5	+20	112%	1
Salaries and Wages	4,294,159	22	5,010,065	29	-7	17%	40
Direct Expenditures	22,186,862	10	31,146,311	9	+1	40%	22
General Expenditures	28,470,834	12	40,398,126	9	+3	42%	18
Total Expenditures	32,847,974	13	45,634,948	10	+3	39%	20

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	7,912,934	2	12,496,142	2	0	58%	14
General Sales Tax[2]	3,695,874	28	4,098,089	33	-5	11%	42
Corporate Income Tax[3]	812,257	7	2,179,956	4	+3	168%	9
Total Taxes	14,822,592	6	21,908,599	9	-3	48%	20
Total Revenue	26,885,248	18	51,759,773	4	+14	93%	5

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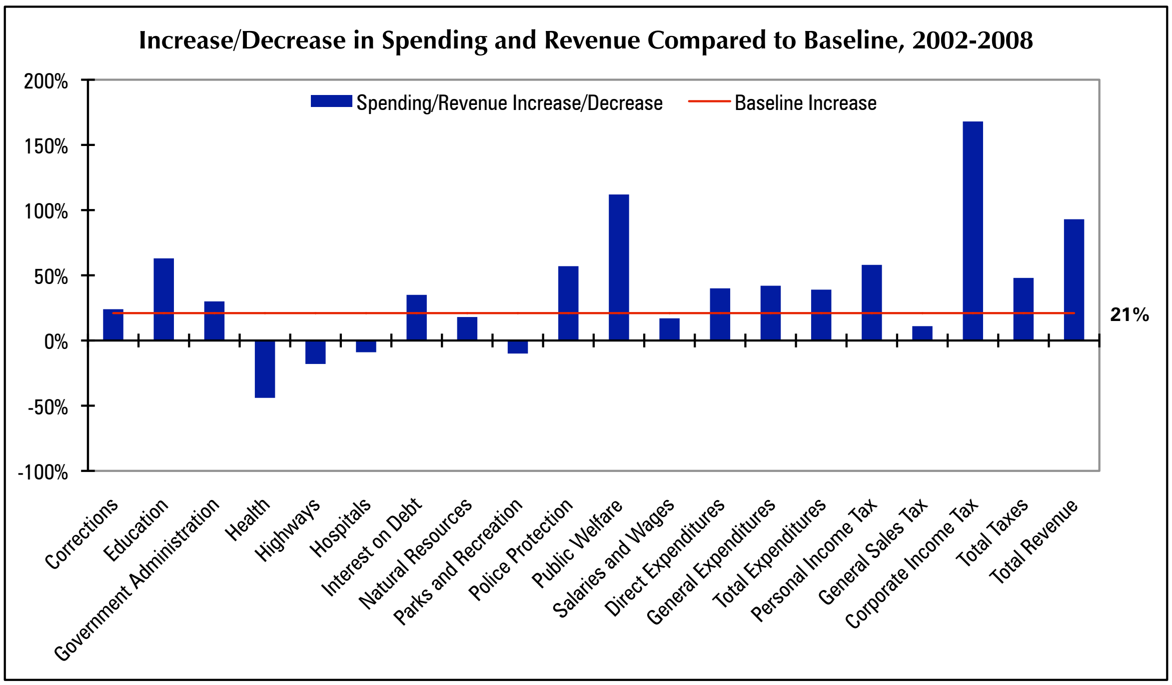
Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and Massachusetts's population increased by 1%. This yields a "baseline" growth of 21% for the period. The figure below compares the difference in Massachusetts's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.



Michigan

From 2002 to 2008, Michigan's spending increased the most in the hospitals (41%) and welfare (41%) categories. The state saw spending fall in four categories: salaries and wages (-1%), natural resources (-28%), parks and recreation (-55%), and health (-58%). All ranked among the bottom three states in terms of spending growth. In addition, the 15% increase in education spending during the period was the smallest in the nation. The most dramatic change, compared to other states, was in the health category, which went from the fourth-highest spending per capita in 2002 to 40th in 2008. The state's overall general spending increase of 14% was the lowest in the nation.

Michigan was the only state in the country to see its total revenue decline during the period (-4%), and its total tax revenue growth of 13% also ranked last in the nation. While corporate income taxes were the fastest growing tax revenue category in most states, they actually fell 14% in Michigan (ranking it last of the 46 states that collected a corporate income tax). Personal income tax revenue increased 17% (smallest of the 43 states that collected an individual income tax), and general sales tax revenue saw a slight gain of 6%, ranking 43rd of the 45 states that collected a general sales tax. Despite the declines, general sales tax and corporate income tax revenue per capita remained among the upper half of states (21st and 14th, respectively) in 2008.

Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	1,690,175	8	1,863,464	15	-7	10%	47
Education	19,132,555	3	21,962,651	11	-8	15%	50
Government Administration	932,106	43	1,073,964	45	-2	15%	37
Health	2,939,984	4	1,232,875	40	-36	-58%	50
Highways	2,716,985	38	2,763,775	42	-4	2%	41
Hospitals	1,630,410	14	2,299,233	18	-4	41%	24
Interest on Debt	1,063,637	24	1,309,650	28	-4	23%	32
Natural Resources	507,993	35	363,826	44	-9	-28%	48
Parks and Recreation	197,888	25	88,249	45	-20	-55%	48
Police Protection	336,613	27	346,258	37	-10	3%	44
Public Welfare	9,524,431	24	13,430,826	19	+5	41%	25
Salaries and Wages	6,038,060	32	5,974,110	43	-11	-1%	48
Direct Expenditures	24,760,355	33	30,312,437	43	-10	22%	48
General Expenditures	43,827,413	15	49,825,040	25	-10	14%	50
Total Expenditures	49,027,432	18	56,869,012	27	-9	16%	49

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	6,125,270	27	7,181,055	36	-9	17%	43
General Sales Tax[2]	7,784,308	10	8,225,599	21	-11	6%	43
Corporate Income Tax[3]	2,065,241	4	1,778,317	14	-10	-14%	46
Total Taxes	21,864,052	10	24,781,626	25	-15	13%	50
Total Revenue	43,935,634	14	42,259,206	45	-31	-4%	50

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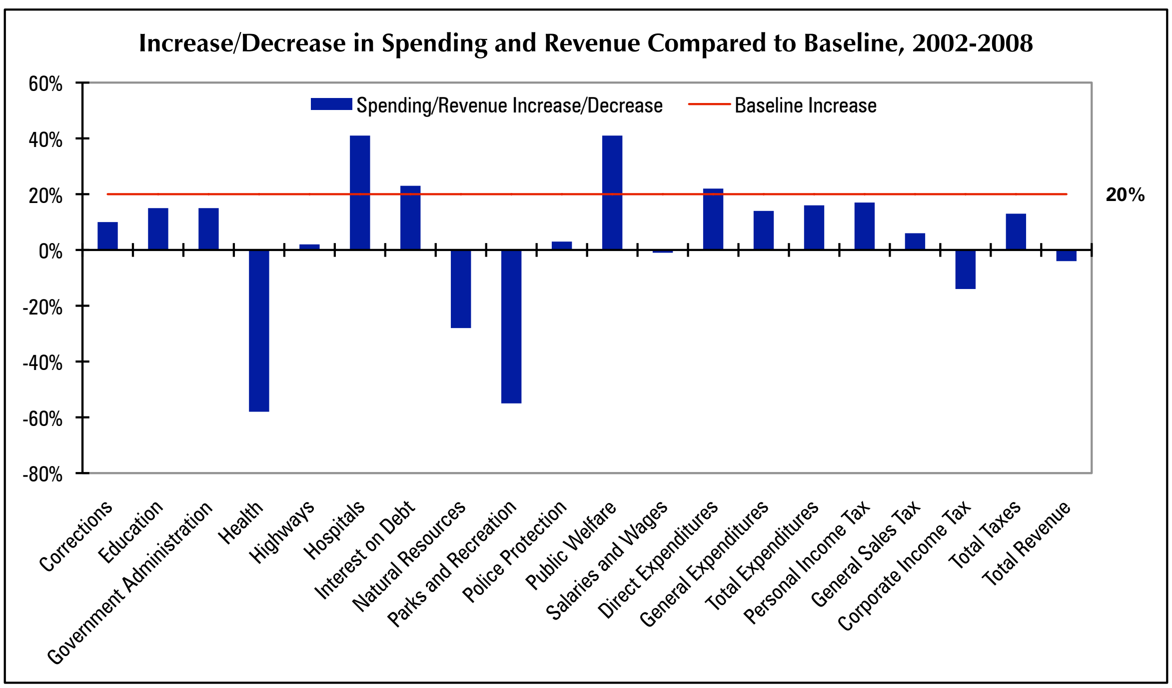
Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and Michigan's population remained virtually unchanged. This yields a "baseline" growth of 20% for the period. The figure below compares the difference in Michigan's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.



Minnesota

From 2002 to 2008, Minnesota's spending increased the most in the hospitals (96%), police (70%), education (41%), and debt service (40%) categories. The spending categories that saw the least growth were corrections (+29%), administration (+28%), highways (+28%) and natural resources (-6%). The decrease in natural resources spending was the sixth-largest in the nation. The state's overall general spending increase of 29% put it in the bottom one-third of states, ranking 40th highest.

Minnesota's total overall revenue growth of 32% ranked 41st for the period, and its total tax revenue growth of 39% ranked 38th. Corporate income taxes were the fastest growing tax revenue category, increasing 95%, although that still placed it in the bottom half of states (ranking 31st highest).

Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	417,273	46	536,760	46	0	29%	24
Education	8,819,706	8	12,424,773	7	+1	41%	25
Government Administration	672,031	31	857,460	30	+1	28%	28
Health	492,480	41	653,688	37	+4	33%	26
Highways	1,665,910	22	2,136,933	19	+3	28%	19
Hospitals	206,749	43	404,712	33	+10	96%	6
Interest on Debt	354,370	37	496,677	39	-2	40%	23
Natural Resources	542,161	9	511,888	19	-10	-6%	45
Parks and Recreation	140,020	16	192,704	10	+6	38%	23
Police Protection	202,552	21	343,342	9	+12	70%	6
Public Welfare	6,741,114	5	9,045,789	8	-3	34%	33
Salaries and Wages	3,775,469	17	4,924,638	17	0	30%	29
Direct Expenditures	15,206,462	17	19,066,463	22	-5	25%	44
General Expenditures	23,477,924	9	30,255,260	12	-3	29%	40
Total Expenditures	26,692,608	10	34,283,510	14	-4	28%	44

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	5,443,355	3	7,777,259	5	-2	43%	27
General Sales Tax[2]	3,741,390	11	4,550,838	17	-6	22%	33
Corporate Income Tax[3]	533,901	12	1,040,479	11	+1	95%	31
Total Taxes	13,224,036	3	18,320,891	8	-5	39%	38
Total Revenue	22,438,505	12	29,707,313	19	-7	32%	41

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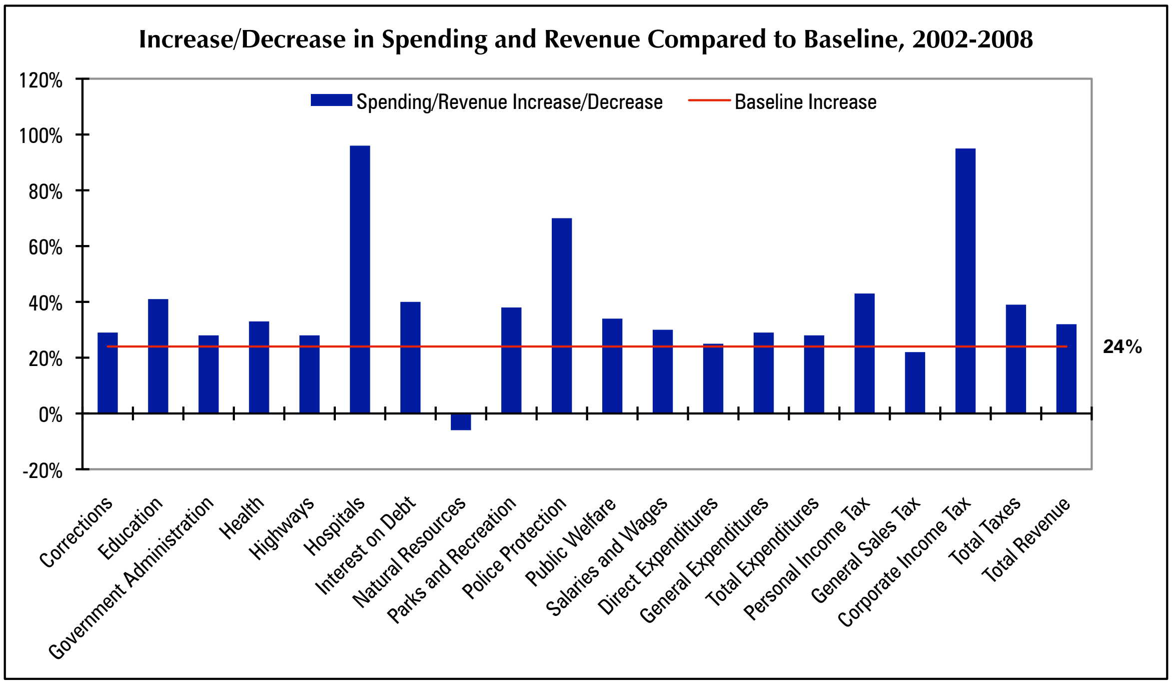
Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and Minnesota's population increased by 4%. This yields a "baseline" growth of 24% for the period. The figure below compares the difference in Minnesota's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.



Mississippi

From 2002 to 2008, Mississippi's spending increased the most in the police (73%), administration (61%), natural resources (44%), and hospitals (43%) categories. The increase in police spending was the fifth-highest in the nation in terms of percentage. The spending categories that saw the least growth were welfare (29%), debt service (13%), and parks and recreation (7%). The state's overall general spending increase of 46% was among the upper one-third of states, ranking 10th-highest.

Mississippi's total overall revenue growth of 47% ranked 24th for the period, and its total tax revenue growth of 43% ranked 27th. Corporate income taxes were the fastest growing tax revenue category, increasing 96%, although that still placed it in the bottom half of states (ranking 30th highest). By contrast, the 57% increase in personal income tax revenue and 34% increase in general sales tax revenue each ranked in the upper half (15th and 23rd, respectively).

Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	272,024	43	369,248	37	+6	36%	20
Education	3,922,172	28	5,471,275	25	+3	39%	27
Government Administration	203,766	49	327,410	44	+5	61%	10
Health	267,921	43	368,652	36	+7	38%	22
Highways	968,774	21	1,284,377	17	+4	33%	17
Hospitals	665,019	7	953,339	9	-2	43%	23
Interest on Debt	210,862	35	238,668	41	-6	13%	38
Natural Resources	198,375	27	285,285	20	+7	44%	14
Parks and Recreation	37,484	34	39,960	37	-3	7%	29
Police Protection	67,902	42	117,202	29	+13	73%	5
Public Welfare	3,412,798	10	4,405,435	13	-3	29%	37
Salaries and Wages	1,708,423	33	2,252,581	31	+2	32%	26
Direct Expenditures	8,005,175	23	11,665,118	17	+6	46%	11
General Expenditures	11,461,763	23	16,776,821	14	+9	46%	10
Total Expenditures	12,742,438	26	18,642,916	17	+9	46%	9

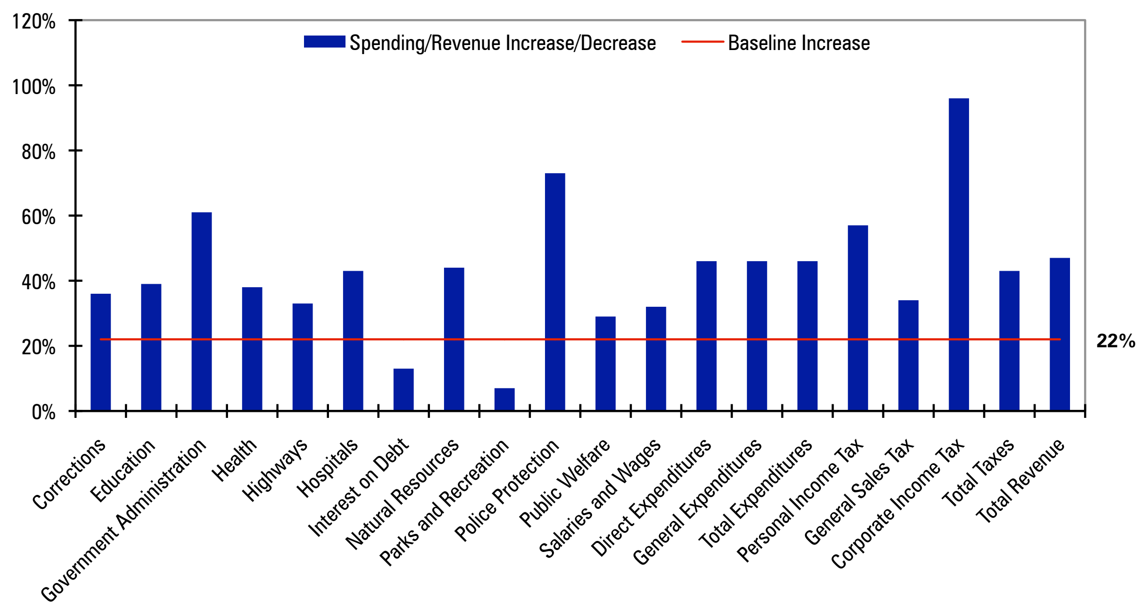
Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	985,117	40	1,551,079	39	+1	57%	15
General Sales Tax[2]	2,340,474	7	3,135,390	7	0	34%	23
Corporate Income Tax[3]	195,814	22	384,643	26	-4	96%	30
Total Taxes	4,728,905	36	6,770,880	35	+1	43%	27
Total Revenue	11,052,453	23	16,278,166	23	0	47%	24

[1] Personal income tax per capita rankings are out of 43 since seven states do not collect personal income taxes.
[2] General sales tax per capita rankings are out of 45 since five states do not collect general sales taxes.
[3] Corporate income tax per capita rankings are out of 46 since four states do not collect corporate income taxes.

Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and Mississippi's population increased by 2%. This yields a "baseline" growth of 22% for the period. The figure below compares the difference in Mississippi's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.

Increase/Decrease in Spending and Revenue Compared to Baseline, 2002-2008



Missouri

From 2002 to 2008, Missouri's spending increased the most in the health (139%), debt service (84%), and hospitals (49%) categories. The increase in health spending was the second-greatest in the nation in terms of percentage. In terms of per capita spending, Missouri went from 46th in the nation in health spending in 2002 to 20th in 2008. The spending categories that saw the least growth were police (+1%), administration (-1%), and parks and recreation (-27%). Missouri ranked in the bottom ten states in spending growth in six of 12 categories. The state's overall general spending increase of 26% ranked 46th-highest.

Missouri's total overall revenue growth of 32% ranked 42nd for the period, and its total tax revenue growth rate of 26% ranked 48th. Personal income taxes were the fastest growing tax revenue category, increasing 42% and ranking 29th-highest. Corporate income tax revenue, the fastest growing tax revenue category in most other states, rose 28%, ranking 43rd.

Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	619,674	33	754,740	35	-2	22%	36
Education	6,717,220	41	8,604,958	45	-4	28%	44
Government Administration	547,846	39	541,561	48	-9	-1%	43
Health	485,805	46	1,163,167	20	+26	139%	2
Highways	1,871,062	23	2,034,235	31	-8	9%	35
Hospitals	888,708	16	1,322,145	20	-4	49%	21
Interest on Debt	567,965	27	1,045,801	19	+8	84%	9
Natural Resources	293,627	33	347,965	35	-2	19%	26
Parks and Recreation	50,672	41	37,236	49	-8	-27%	42
Police Protection	211,894	25	214,579	35	-10	1%	47
Public Welfare	5,496,624	21	6,231,774	40	-19	13%	48
Salaries and Wages	3,216,297	37	3,661,593	41	-4	14%	42
Direct Expenditures	13,634,499	37	17,982,716	42	-5	32%	34
General Expenditures	18,707,684	43	23,621,358	44	-1	26%	46
Total Expenditures	20,840,783	43	26,788,804	45	-2	29%	43

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	3,615,391	25	5,118,849	25	0	42%	29
General Sales Tax[2]	2,854,718	37	3,228,274	41	-4	13%	41
Corporate Income Tax[3]	300,459	36	384,010	46	-10	28%	43
Total Taxes	8,728,932	42	10,965,171	47	-5	26%	48
Total Revenue	19,085,356	37	25,243,465	42	-5	32%	42

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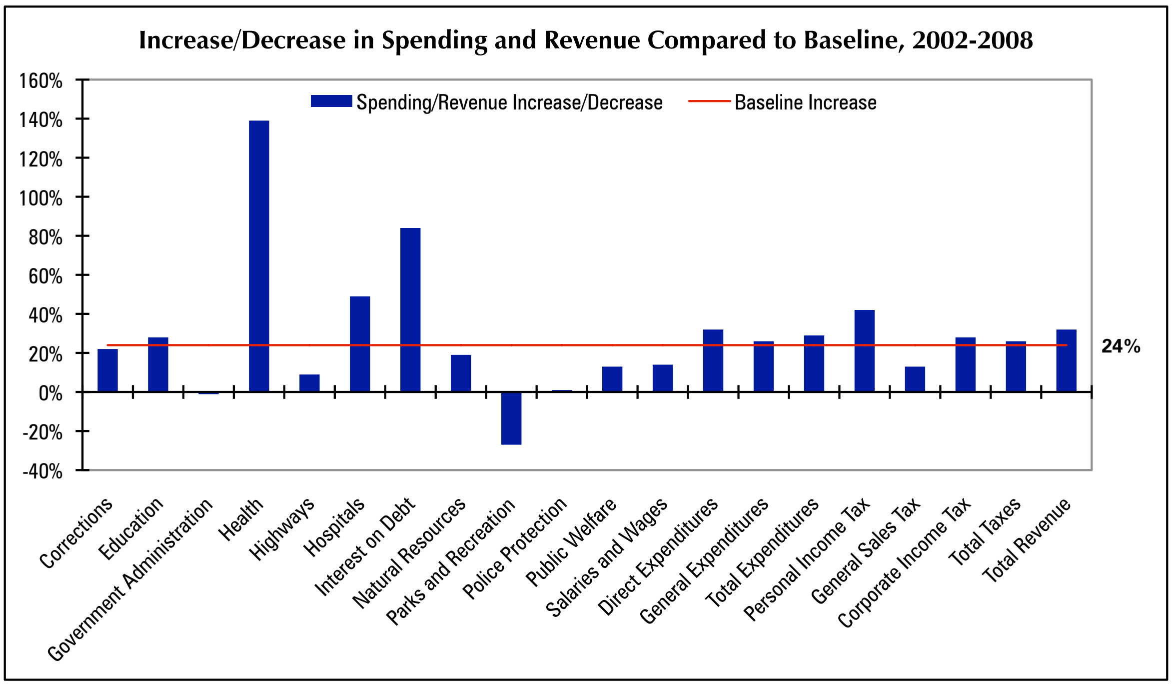
[3] Corporate income tax per capita rankings are out of 46 since four states do not collect corporate income taxes.

Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and Missouri's population increased by 4%. This yields a "baseline" growth of 24% for the period. The figure below compares the difference in Missouri's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.



Montana

From 2002 to 2008, Montana's spending increased the most in the parks and recreation (131%), administration (66%) and corrections (58%) categories. The increase in parks and recreation spending was the fifth-greatest in the nation in terms of percentage. The spending categories that saw the least growth were health (+30%), police (+9%) and hospitals (-10%). The state's overall general spending increase of 43% placed it in the top one-third of states, ranking 12th-highest.

Montana's total overall revenue growth of 59% ranked 13th for the period, and its total tax revenue growth of 70% ranked fourth. Corporate income taxes were the fastest growing tax revenue category, increasing 137% and ranking 18th-highest. The 68% increase in personal income tax revenue ranked seventh. These high tax growth rates were due, in part, to the lack of a general sales tax in Montana.

Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	106,311	30	168,127	18	+12	58%	6
Education	1,289,328	23	1,839,799	23	0	43%	24
Government Administration	218,190	8	362,540	5	+3	66%	6
Health	253,857	7	329,501	8	-1	30%	30
Highways	452,804	7	617,439	4	+3	36%	14
Hospitals	50,060	38	44,955	41	-3	-10%	45
Interest on Debt	142,663	13	209,308	12	+1	47%	21
Natural Resources	182,521	3	279,698	3	0	53%	11
Parks and Recreation	6,468	46	14,950	36	+10	131%	5
Police Protection	43,257	13	47,166	17	-4	9%	39
Public Welfare	659,976	43	888,748	48	-5	35%	32
Salaries and Wages	672,507	18	879,718	18	0	31%	28
Direct Expenditures	2,873,857	13	4,104,857	13	0	43%	16
General Expenditures	3,784,702	19	5,423,506	17	+2	43%	12
Total Expenditures	4,265,076	22	6,137,669	16	+6	44%	13

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	517,568	33	870,064	24	+9	68%	7
General Sales Tax[2]	0	N/A	0	N/A	N/A	N/A	N/A
Corporate Income Tax[3]	68,173	18	161,713	16	+2	137%	18
Total Taxes	1,442,731	39	2,457,929	23	+16	70%	4
Total Revenue	4,033,180	13	6,402,859	10	+3	59%	13

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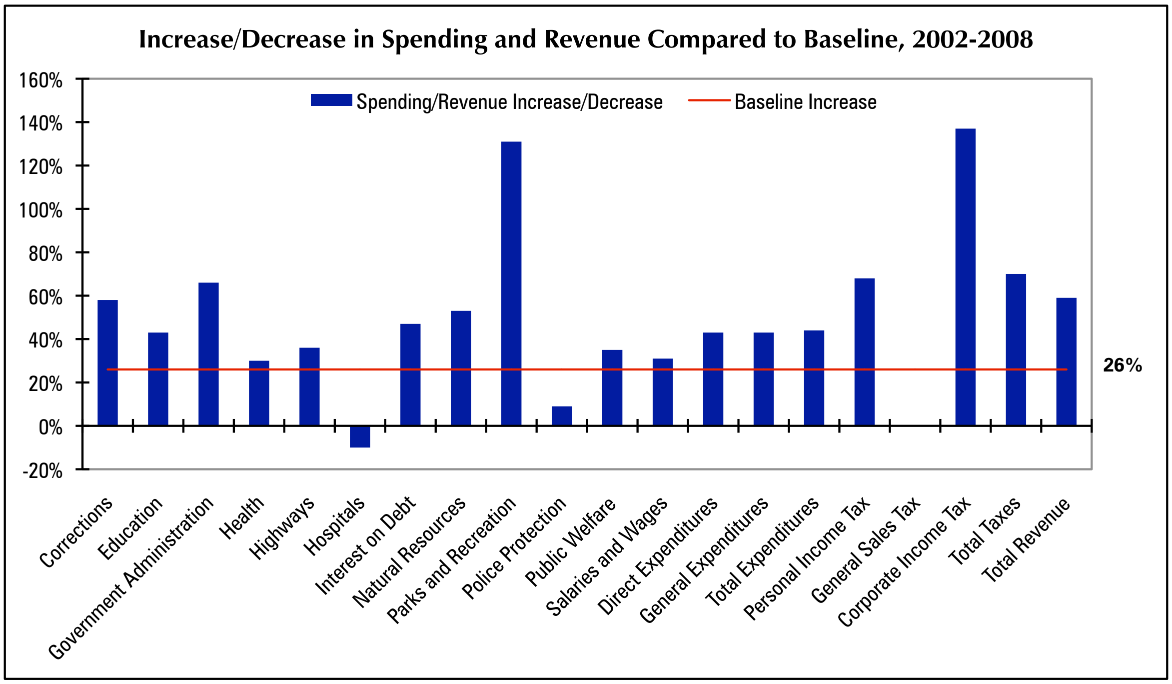
[3] Corporate income tax per capita rankings are out of 46 since four states do not collect corporate income taxes.

Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and Montana's population increased by 6%. This yields a "baseline" growth of 26% for the period. The figure below compares the difference in Montana's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.



Nebraska

From 2002 to 2008, Nebraska's spending increased the most in the hospitals (40%), education (33%), police (27%) and welfare (26%) categories. The spending categories that saw the least growth were natural resources (+9%), debt service (-2%), and parks and recreation (-10%). The decrease in debt service spending was the fourth-highest in the nation in terms of percentage. The state's overall general spending increase of 29% ranked 38th-highest, although its 37% increase in direct spending, over which the legislature has the most control, was significantly greater, ranking 25th.

Nebraska's total revenue growth of 40% ranked 33rd for the period, and its total tax revenue growth of 41% ranked 31st. Corporate income taxes were the fastest growing tax revenue category, increasing 116%, ranking in the middle of all states (24th highest). The 50% increase in personal income tax revenue and 43% increase in general sales tax revenue also ranked among the top half of states (22nd and 17th, respectively).

Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	176,533	40	219,278	40	0	24%	33
Education	2,191,323	35	2,909,668	38	-3	33%	40
Government Administration	164,848	41	204,921	43	-2	24%	31
Health	363,668	13	415,172	16	-3	14%	36
Highways	526,457	29	631,028	27	-1	20%	26
Hospitals	171,234	26	239,294	26	0	40%	25
Interest on Debt	109,795	41	107,999	48	-7	-2%	47
Natural Resources	165,308	12	180,968	16	-4	9%	35
Parks and Recreation	32,191	27	28,868	34	-7	-10%	39
Police Protection	66,750	24	84,698	19	+5	27%	27
Public Welfare	1,661,269	22	2,099,052	33	-11	26%	39
Salaries and Wages	1,835,657	4	2,076,389	8	-4	13%	43
Direct Expenditures	4,399,105	31	6,042,455	28	+3	37%	25
General Expenditures	6,219,242	33	8,024,395	37	-4	29%	38
Total Expenditures	6,536,970	40	8,443,129	41	-1	29%	41

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	1,153,444	21	1,726,145	19	+2	50%	22
General Sales Tax[2]	1,069,185	23	1,534,134	19	+4	43%	17
Corporate Income Tax[3]	107,628	29	232,852	28	+1	116%	24
Total Taxes	2,992,522	30	4,228,800	29	+1	41%	31
Total Revenue	6,001,930	36	8,387,599	35	+1	40%	33

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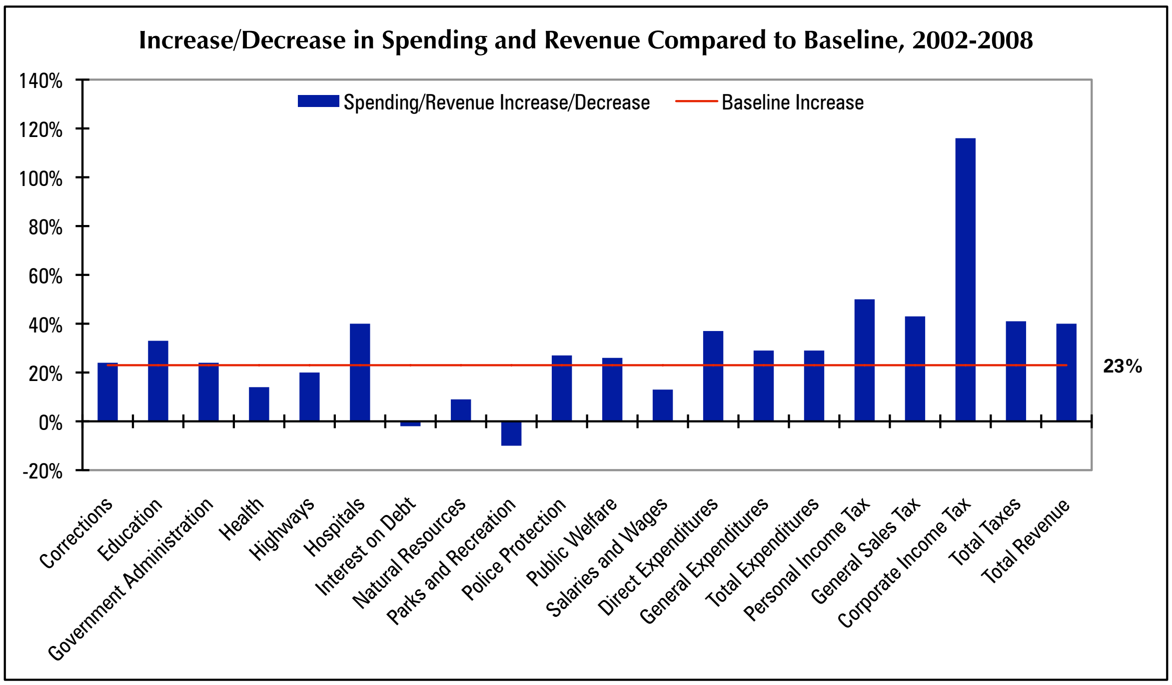
Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and Nebraska's population increased by 3%. This yields a "baseline" growth of 23% for the period. The figure below compares the difference in Nebraska's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.



Nevada

From 2002 to 2008, Nevada's spending increased the most in the parks and recreation (172%), hospitals (77%), and police (66%) categories. The increase in parks and recreation spending was the second-highest in the nation in terms of percentage, and the increases in corrections and education spending (62% and 61%, respectively) each ranked third-greatest. The spending categories that saw the least growth were salaries and wages (+39%), debt service (+36%) and highways (-3%). The state's overall general spending increase of 48% was among the largest in the nation, ranking sixth-highest.

Nevada's total overall revenue growth of 52% ranked 20th for the period, and its total tax revenue growth of 55% ranked 11th. General sales tax revenue increased 49% (12th), and the state did not have a personal income tax or a corporate income tax.

Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	226,554	37	367,241	30	+7	62%	3
Education	2,523,220	42	4,069,362	41	+1	61%	3
Government Administration	198,158	45	300,560	42	+3	52%	14
Health	185,956	45	261,957	44	+1	41%	21
Highways	630,771	33	609,250	47	-14	-3%	43
Hospitals	131,858	34	234,044	28	+6	77%	11
Interest on Debt	149,556	39	203,422	42	-3	36%	26
Natural Resources	92,729	42	137,372	38	+4	48%	13
Parks and Recreation	17,053	44	46,373	31	+13	172%	2
Police Protection	63,671	35	105,594	28	+7	66%	8
Public Welfare	1,040,294	50	1,580,454	50	0	52%	19
Salaries and Wages	1,139,044	42	1,579,819	42	0	39%	15
Direct Expenditures	3,809,322	50	5,459,729	50	0	43%	14
General Expenditures	6,304,874	48	9,319,965	50	-2	48%	6
Total Expenditures	7,410,738	48	10,845,375	49	-1	46%	8

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	0	N/A	0	N/A	N/A	N/A	N/A
General Sales Tax[2]	2,070,013	3	3,077,433	4	-1	49%	12
Corporate Income Tax[3]	0	N/A	0	N/A	N/A	N/A	N/A
Total Taxes	3,945,329	22	6,115,584	32	-10	55%	11
Total Revenue	6,888,159	45	10,438,720	47	-2	52%	20

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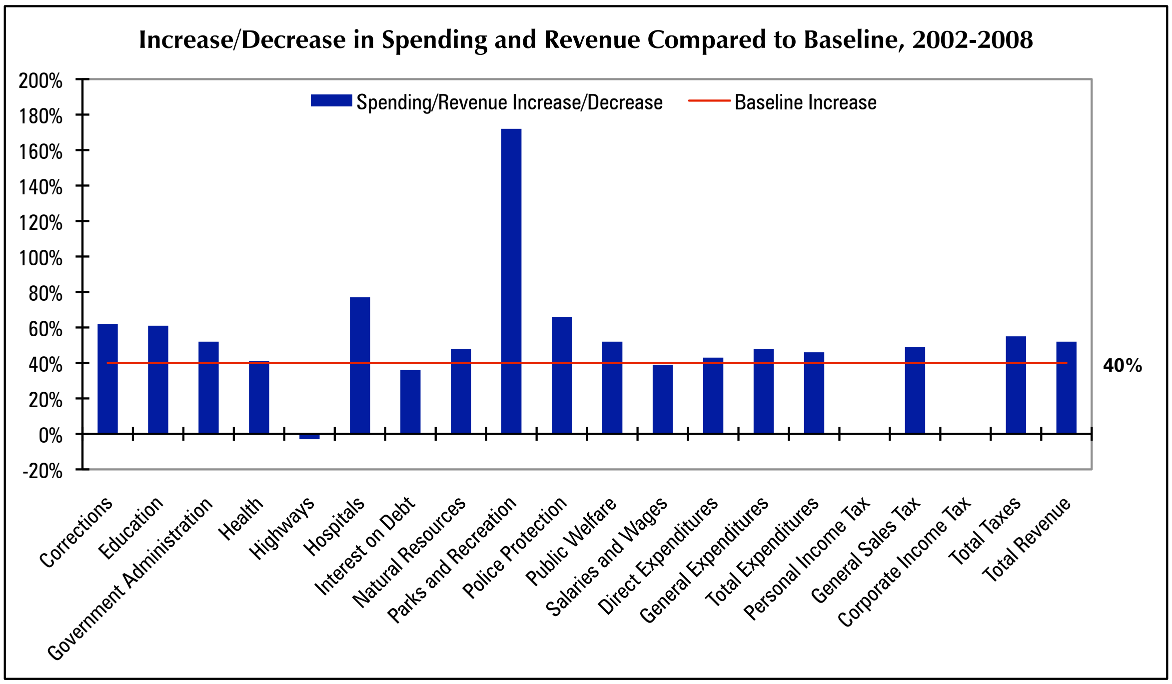
[3] Corporate income tax per capita rankings are out of 46 since four states do not collect corporate income taxes.

Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and Nevada's population increased by 20%. This yields a "baseline" growth of 40% for the period. The figure below compares the difference in Nevada's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.



New Hampshire

From 2002 to 2008, New Hampshire's spending increased the most in the parks and recreation (165%), natural resources (61%), and welfare (59%) categories. The increase in parks and recreation spending was the third-largest in the nation in terms of percentage. The spending categories that saw the least growth were debt service (18%), highways (17%) and health (7%). The state's overall general spending increase of 36% placed in the middle of states, ranking 25th-highest.

New Hampshire's total overall revenue growth of 36% ranked 39th for the period, and its total tax revenue growth of 19% ranked 49th. While corporate income taxes were the fastest growing tax revenue category in most states, in New Hampshire this was outpaced by personal income tax growth, which increased 65%, ranking eighth. Corporate income tax revenue grew 63% (40th). New Hampshire did not have a general sales tax.

Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	79,500	49	112,265	50	-1	41%	15
Education	1,530,290	38	2,019,883	43	-5	32%	41
Government Administration	194,141	25	237,721	28	-3	22%	33
Health	147,828	33	158,845	41	-8	7%	39
Highways	377,200	32	440,079	33	-1	17%	27
Hospitals	45,600	46	60,361	42	+4	32%	28
Interest on Debt	321,832	6	381,127	8	-2	18%	34
Natural Resources	42,571	47	68,642	39	+8	61%	5
Parks and Recreation	6,300	49	16,713	40	+9	165%	3
Police Protection	36,800	36	52,148	31	+5	42%	18
Public Welfare	974,600	38	1,544,997	34	+4	59%	13
Salaries and Wages	715,703	39	947,324	34	+5	32%	25
Direct Expenditures	2,998,045	43	4,220,470	34	+9	41%	21
General Expenditures	4,176,687	45	5,672,446	40	+5	36%	25
Total Expenditures	4,822,727	41	6,601,654	38	+3	37%	25

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	71,433	42	117,936	42	0	65%	8
General Sales Tax[2]	0	N/A	0	N/A	N/A	N/A	N/A
Corporate Income Tax[3]	377,313	3	614,794	2	+1	63%	40
Total Taxes	1,897,021	44	2,257,977	49	-5	19%	49
Total Revenue	4,636,375	34	6,291,580	34	0	36%	39

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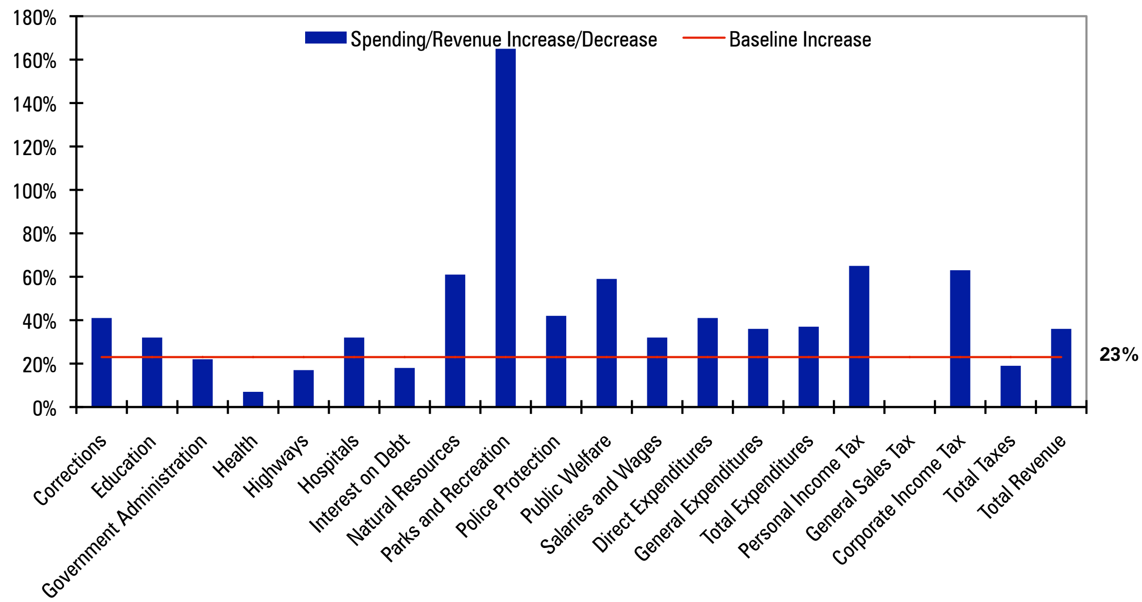
Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and New Hampshire's population increased by 3%. This yields a "baseline" growth of 23% for the period. The figure below compares the difference in New Hampshire's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.

Increase/Decrease in Spending and Revenue Compared to Baseline, 2002-2008



New Jersey

From 2002 to 2008, New Jersey's spending increased the most in the salaries and wages (389%), welfare (85%), and debt service (71%) categories. The increase in salaries and wages spending was the largest in the nation in terms of percentage, and the spending per capita increased from last in the nation in 2002 to ninth in 2008. New Jersey's spending growth ranked among the top 25 states in 10 of 12 categories. The spending categories that saw the least growth were corrections (+25%), highways (+21%), and parks and recreation (-3%). The state's overall general spending increase of 42% ranked 17th-highest, and the 52% increase in direct spending, over which the legislature has the most control, was among the highest in the nation (sixth).

New Jersey's total overall revenue growth of 68% ranked seventh for the period, and its total tax revenue growth of 67% ranked sixth. Corporate income taxes were the fastest growing tax revenue category, increasing 156% (11th), and were the fifth highest per capita in 2008. The 84% increase in personal income tax revenue was the third-highest in the nation.

Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	1,193,432	18	1,496,976	19	-1	25%	29
Education	10,243,518	39	15,432,044	31	+8	51%	11
Government Administration	1,359,144	23	1,861,067	20	+3	37%	25
Health	919,358	35	1,327,893	29	+6	44%	18
Highways	2,256,707	40	2,736,419	38	+2	21%	25
Hospitals	1,342,955	15	2,062,211	16	-1	54%	19
Interest on Debt	1,198,998	16	2,053,045	10	+6	71%	13
Natural Resources	431,832	36	613,651	29	+7	42%	15
Parks and Recreation	515,824	2	502,611	5	-3	-3%	35
Police Protection	347,190	19	510,798	13	+6	47%	16
Public Welfare	6,703,300	36	12,420,936	15	+21	85%	5
Salaries and Wages	2,024,907	50	9,891,720	9	+41	389%	1
Direct Expenditures	23,615,617	26	35,882,870	16	+10	52%	6
General Expenditures	32,935,974	27	46,810,441	18	+9	42%	17
Total Expenditures	41,987,647	17	58,539,173	11	+6	39%	19

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	6,836,992	14	12,605,545	6	+8	84%	3
General Sales Tax[2]	5,996,839	14	8,915,515	8	+6	49%	11
Corporate Income Tax[3]	1,101,296	6	2,819,906	5	+1	156%	11
Total Taxes	18,328,814	12	30,616,510	7	+5	67%	6
Total Revenue	32,709,241	27	55,046,270	13	+14	68%	7

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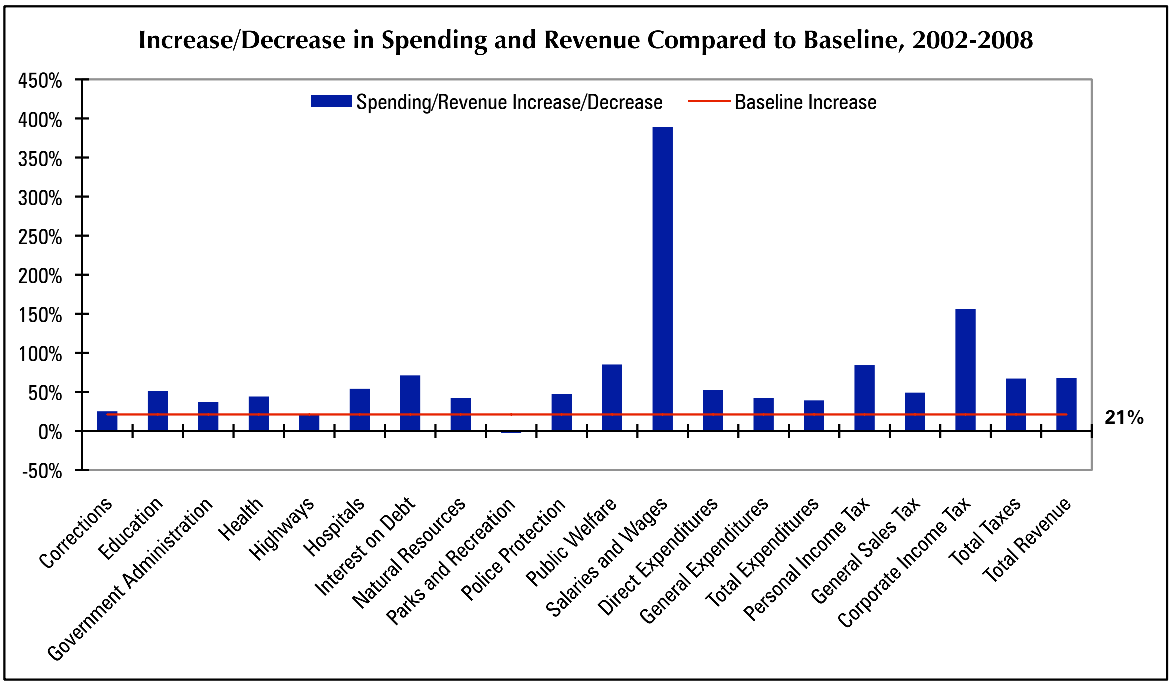
Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and New Jersey's population increased by 1%. This yields a "baseline" growth of 21% for the period. The figure below compares the difference in New Jersey's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.



New Mexico

From 2002 to 2008, New Mexico's spending increased the most in the debt service (104%), hospitals (88%), parks and recreation (84%), and welfare (75%) categories. Spending growth ranked in the top 20 states in 10 of 12 categories. The spending categories that saw the least growth were health (+44%), education (+43%), salaries and wages (+43%), and highways (-5%). The state's overall general spending increase of 56% was among the highest in the nation, ranking fourth.

New Mexico's total revenue growth of 47% ranked 23rd for the period, and its total tax revenue growth of 56% ranked 10th. Corporate income taxes were the fastest growing tax revenue category, increasing 185%, among the greatest in the nation (ranking eighth). By contrast, the 23% increase in personal income tax revenue ranked 40th.

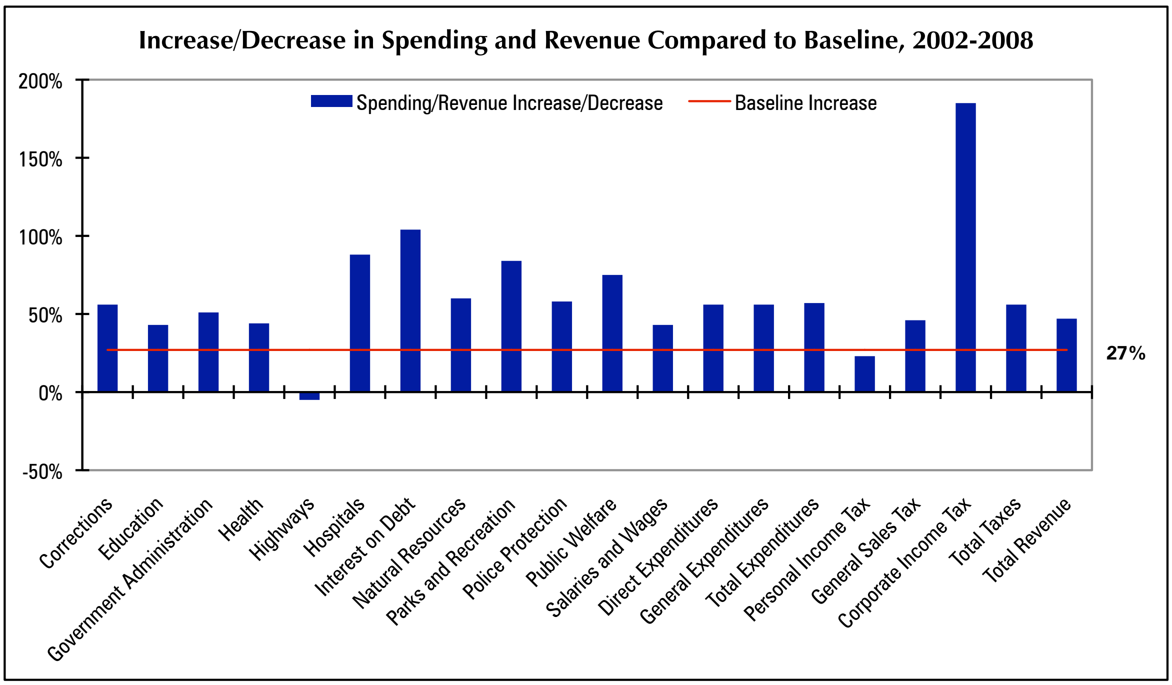
Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	241,454	21	376,627	13	+8	56%	8
Education	3,514,151	4	5,024,928	6	-2	43%	22
Government Administration	349,026	16	528,382	9	+7	51%	15
Health	340,031	16	490,852	13	+3	44%	19
Highways	938,380	6	895,994	14	-8	-5%	44
Hospitals	399,073	9	749,990	4	+5	88%	8
Interest on Debt	192,180	26	392,772	14	+12	104%	6
Natural Resources	138,367	25	221,810	14	+11	60%	6
Parks and Recreation	49,804	18	91,671	8	+10	84%	13
Police Protection	88,817	12	140,759	8	+4	58%	11
Public Welfare	2,028,295	14	3,558,863	7	+7	75%	6
Salaries and Wages	1,579,540	9	2,256,305	10	-1	43%	13
Direct Expenditures	6,445,177	9	10,064,457	7	+2	56%	5
General Expenditures	9,213,597	8	14,412,908	6	+2	56%	4
Total Expenditures	10,083,987	8	15,793,049	7	+1	57%	4

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	982,891	36	1,213,522	38	-2	23%	40
General Sales Tax[2]	1,337,321	12	1,949,768	11	+1	46%	14
Corporate Income Tax[3]	124,327	23	354,588	13	+10	185%	8
Total Taxes	3,628,055	18	5,645,649	13	+5	56%	10
Total Revenue	8,746,253	10	12,892,523	11	-1	47%	23

[1] Personal income tax per capita rankings are out of 43 since seven states do not collect personal income taxes.
[2] General sales tax per capita rankings are out of 45 since five states do not collect general sales taxes.
[3] Corporate income tax per capita rankings are out of 46 since four states do not collect corporate income taxes.

Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and New Mexico's population increased by 7%. This yields a "baseline" growth of 27% for the period. The figure below compares the difference in New Mexico's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.



New York

From 2002 to 2008, New York's spending increased the most in the education (56%), natural resources (56%) and police (54%) categories. The spending categories that saw the least growth were welfare (29%), salaries and wages (29%), corrections (26%) and debt service (4%). The state's overall general spending increase of 33% was a little lower than the state average, ranking 33rd-highest.

New York's total overall revenue growth of 41% ranked 32nd for the period, and its total tax revenue growth of 51% ranked 13th. Corporate income taxes were the fastest growing tax revenue category, increasing 123% and ranking 22nd-highest. Personal income taxes grew 43% (26th) and remained among the highest per capita (third) in the nation.

Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	2,492,277	22	3,135,187	23	-1	26%	28
Education	25,562,251	32	39,764,174	17	+15	56%	8
Government Administration	4,080,248	10	5,875,815	8	+2	44%	20
Health	5,444,260	5	7,088,181	6	-1	30%	29
Highways	3,295,118	50	4,380,808	49	+1	33%	16
Hospitals	3,393,257	12	4,896,242	15	-3	44%	22
Interest on Debt	3,647,059	9	3,789,714	16	-7	4%	46
Natural Resources	351,875	50	547,896	48	+2	56%	8
Parks and Recreation	460,646	21	583,040	14	+7	27%	25
Police Protection	623,391	28	958,637	16	+12	54%	13
Public Welfare	34,598,240	1	44,763,366	1	0	29%	35
Salaries and Wages	12,635,975	23	16,348,779	23	0	29%	30
Direct Expenditures	57,546,715	20	75,400,805	19	+1	31%	39
General Expenditures	96,528,968	7	128,221,439	8	-1	33%	33
Total Expenditures	119,198,996	2	157,397,509	6	-4	32%	32

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	25,573,667	1	36,563,948	3	-2	43%	26
General Sales Tax[2]	8,607,718	40	11,294,737	38	+2	31%	24
Corporate Income Tax[3]	2,257,935	9	5,037,830	8	+1	123%	22
Total Taxes	43,262,137	7	65,370,654	11	-4	51%	13
Total Revenue	104,533,614	4	147,340,334	7	-3	41%	32

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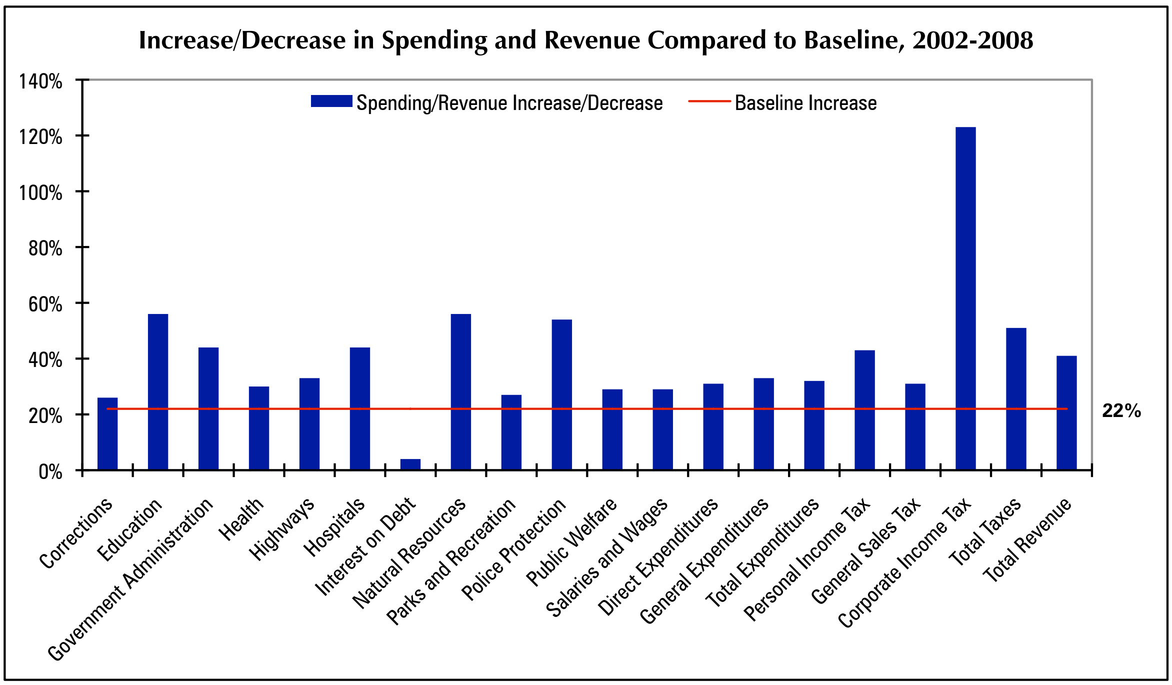
[3] Corporate income tax per capita rankings are out of 46 since four states do not collect corporate income taxes.

Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and New York's population increased by 2%. This yields a "baseline" growth of 22% for the period. The figure below compares the difference in New York's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.



North Carolina

From 2002 to 2008, North Carolina's spending increased the most in the parks and recreation (121%), health (78%), welfare (70%), police (69%), and salaries and wages (53%) categories. Each of these increases ranked among the top 10 of states in terms of percentage. The spending categories that saw the least growth were debt service (16%), hospitals (13%), and natural resources (4%). The state's overall general spending increase of 43% ranked 15th-highest.

North Carolina's total overall revenue growth of 63% ranked 11th for the period, and its total tax revenue growth of 47% ranked 21st. Corporate income taxes were the fastest growing tax revenue category, increasing 81% and ranking 36th-highest.

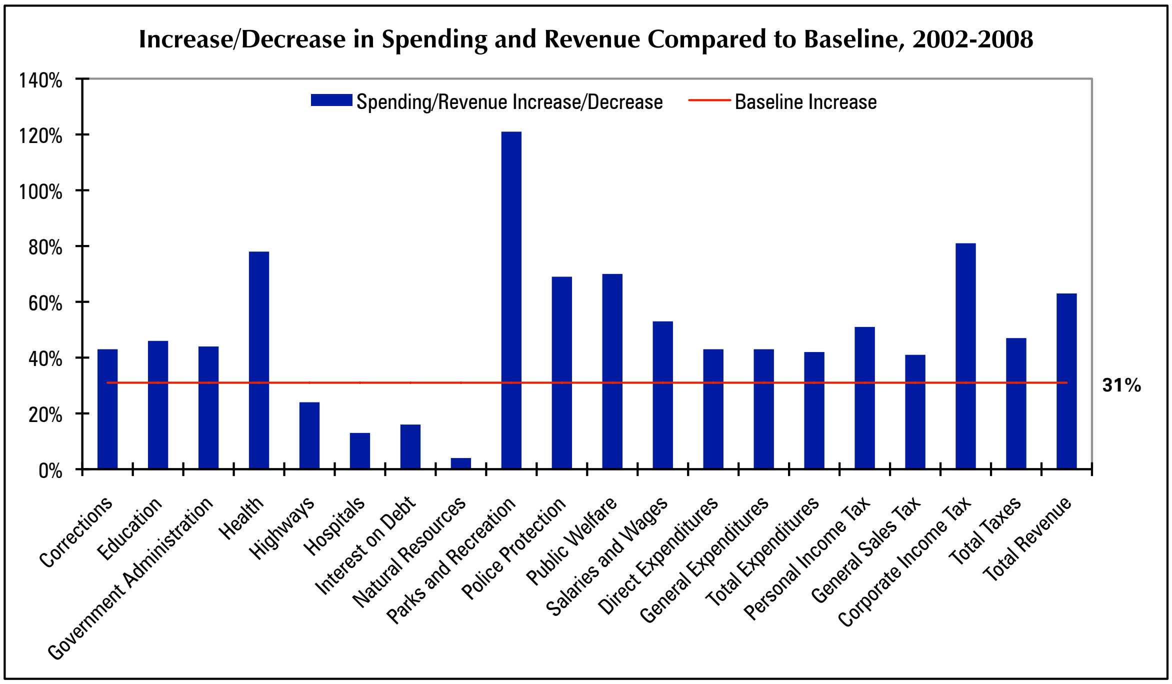
Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	923,487	32	1,324,484	29	+3	43%	12
Education	11,956,287	20	17,438,492	24	-4	46%	18
Government Administration	816,862	38	1,177,769	36	+2	44%	19
Health	930,114	34	1,653,975	24	+10	78%	4
Highways	2,629,038	25	3,253,678	28	-3	24%	22
Hospitals	1,289,041	17	1,460,906	24	-7	13%	33
Interest on Debt	582,690	38	676,360	44	-6	16%	35
Natural Resources	654,624	21	679,216	27	-6	4%	40
Parks and Recreation	126,277	31	278,930	13	+18	121%	6
Police Protection	336,111	20	567,801	12	+8	69%	7
Public Welfare	6,845,986	35	11,652,949	25	+10	70%	9
Salaries and Wages	5,292,930	28	8,084,597	21	+7	53%	9
Direct Expenditures	20,086,505	36	28,742,510	40	-4	43%	15
General Expenditures	29,537,271	34	42,107,428	36	-2	43%	15
Total Expenditures	33,123,528	34	46,994,653	36	-2	42%	15

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	7,265,242	11	10,993,927	11	0	51%	20
General Sales Tax[2]	3,740,715	39	5,269,929	40	-1	41%	18
Corporate Income Tax[3]	668,124	16	1,206,412	27	-11	81%	36
Total Taxes	15,537,366	21	22,781,202	27	-6	47%	21
Total Revenue	31,523,608	28	51,421,057	21	+7	63%	11

1 Personal income tax per capita rankings are out of 43 since seven states do not collect personal income taxes.
2 General sales tax per capita rankings are out of 45 since five states do not collect general sales taxes.
3 Corporate income tax per capita rankings are out of 46 since four states do not collect corporate income taxes.

Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and North Carolina's population increased by 11%. This yields a "baseline" growth of 31% for the period. The figure below compares the difference in North Carolina's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.



North Dakota

From 2002 to 2008, North Dakota's spending increased the most in the police (101%), debt service (90%), and parks and recreation (89%) categories. The increase in police spending was the largest in the nation in terms of percentage. The spending categories that saw the least growth were welfare (+23%), highways (+22%), administration (+18%) and hospitals (-63%). The decrease in hospitals spending was the second-greatest in the nation. The state's overall general spending increase of 35% was about the same as the state average, ranking 29th highest.

North Dakota's total overall revenue growth of 66% ranked ninth for the period, and its total tax revenue growth of 107% was the second-highest in the nation. Corporate income taxes were the fastest growing tax revenue category, increasing 224% and ranking seventh-highest. The 59% increase in personal income tax revenue and 58% growth in general sales tax revenue each ranked in the top quartile of states (12th and fourth, respectively).

Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	38,522	50	61,368	49	+1	59%	4
Education	942,956	17	1,325,310	13	+4	41%	26
Government Administration	104,385	22	122,952	26	-4	18%	36
Health	50,333	50	64,749	43	+7	29%	31
Highways	376,668	3	458,616	3	0	22%	24
Hospitals	44,311	33	16,426	48	-15	-63%	49
Interest on Debt	86,602	17	164,425	9	+8	90%	7
Natural Resources	111,226	4	166,129	4	0	49%	12
Parks and Recreation	13,638	23	25,730	9	+14	89%	11
Police Protection	13,903	47	27,949	26	+21	101%	1
Public Welfare	627,303	20	773,278	32	-12	23%	44
Salaries and Wages	518,629	13	816,227	4	+9	57%	8
Direct Expenditures	2,227,165	8	2,984,497	10	-2	34%	30
General Expenditures	2,812,686	13	3,789,848	11	+2	35%	29
Total Expenditures	3,020,393	21	4,125,920	15	+6	37%	27

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	199,590	41	317,249	41	0	59%	12
General Sales Tax[2]	335,613	34	530,078	20	+14	58%	4
Corporate Income Tax[3]	49,990	17	161,925	9	+8	224%	7
Total Taxes	1,117,299	27	2,312,056	6	+21	107%	2
Total Revenue	3,016,825	8	5,018,609	5	+3	66%	9

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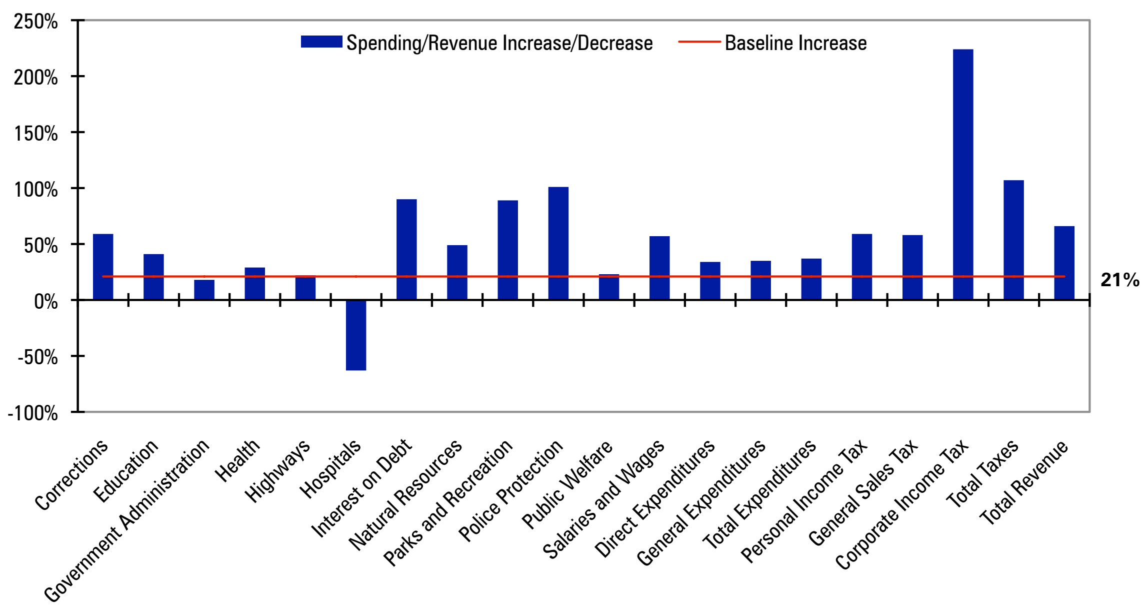
Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and North Dakota's population increased by 1%. This yields a "baseline" growth of 21% for the period. The figure below compares the difference in North Dakota's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.

Increase/Decrease in Spending and Revenue Compared to Baseline, 2002-2008



Ohio

From 2002 to 2008, Ohio's spending increased the most in the hospitals (65%), welfare (40%) and health (33%) categories. The spending categories that saw the least growth were police (+3%), highways (+2%), natural resources (-7%) and administration (-8%). Spending growth ranked in the bottom 10 states in five of 12 categories (corrections, education, administration, natural resources and police). The state's overall general spending increase of 29% also ranked in the bottom 10 (41st).

Ohio's total overall revenue growth of 50% ranked 21st for the period, and its total tax revenue growth of 31% ranked 44th. While corporate income taxes were the fastest growing tax revenue category in most states, revenue actually declined 1% in Ohio, ranking 45th of the 46 states that collected corporate income taxes. The 18% increase in personal income taxes ranked 42nd of the 43 states that collected personal income taxes. (In both cases, the state ranked above only Michigan.) General sales taxes were the fastest growing tax revenue category, increasing 23% and ranking 32nd highest.

Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	1,440,803	26	1,668,729	28	-2	16%	41
Education	15,625,913	27	20,120,162	32	-5	29%	43
Government Administration	1,961,432	18	1,797,276	34	-16	-8%	47
Health	1,862,440	23	2,470,691	17	+6	33%	27
Highways	3,138,661	37	3,215,512	41	-4	2%	39
Hospitals	1,265,901	24	2,089,571	23	+1	65%	16
Interest on Debt	1,134,954	28	1,440,693	31	-3	27%	31
Natural Resources	389,217	46	362,226	47	-1	-7%	46
Parks and Recreation	114,814	40	136,211	41	-1	19%	26
Police Protection	256,546	46	264,055	49	-3	3%	43
Public Welfare	11,504,467	19	16,113,757	17	+2	40%	27
Salaries and Wages	6,095,515	41	7,883,170	36	+5	29%	31
Direct Expenditures	27,309,907	39	36,475,341	37	+2	34%	32
General Expenditures	42,361,985	30	54,580,967	32	-2	29%	41
Total Expenditures	53,473,400	23	67,788,590	24	-1	27%	45

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	8,335,554	18	9,847,506	26	-8	18%	42
General Sales Tax[2]	6,391,475	32	7,865,674	29	+3	23%	32
Corporate Income Tax[3]	761,050	24	754,633	45	-21	-1%	45
Total Taxes	20,130,415	26	26,373,813	36	-10	31%	44
Total Revenue	43,787,987	24	65,860,064	18	+6	50%	21

[1] Personal income tax per capita rankings are out of 43 since seven states do not collect personal income taxes.

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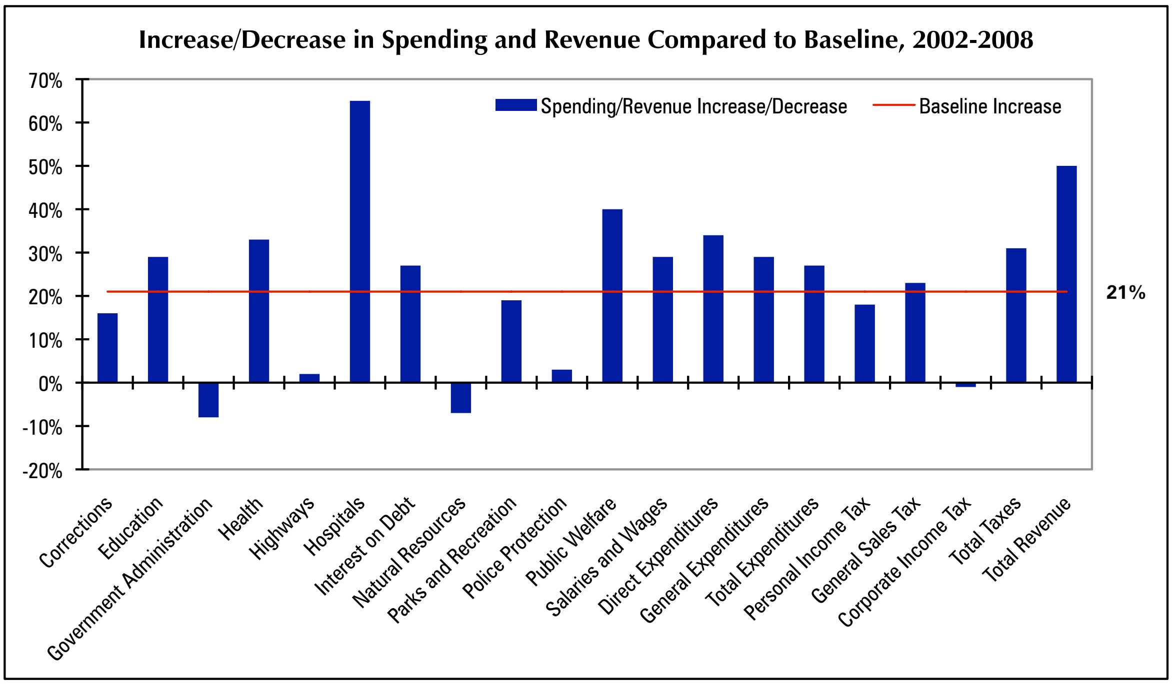
Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and Ohio's population increased by 1%. This yields a "baseline" growth of 21% for the period. The figure below compares the difference in Ohio's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.



Oklahoma

From 2002 to 2008, Oklahoma's spending increased the most in the debt service (79%), police (76%) and health (75%) categories. The increase in police spending was the third-highest in the nation in terms of percentage. The spending categories that saw the least growth were corrections (18%), administration (12%), natural resources (6%), and salaries and wages (1%). The state's overall general spending increase of 33% ranked slightly below the state average, ranking 30th-highest.

Oklahoma's total revenue growth of 43% ranked 26th for the period, and its total tax revenue growth of 40% ranked 33rd. Corporate income taxes were the fastest growing tax revenue category, increasing 107% and ranking 25th-highest.

Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	520,912	13	616,933	21	-8	18%	39
Education	5,268,719	16	7,046,621	21	-5	34%	38
Government Administration	480,895	28	539,815	35	-7	12%	39
Health	445,552	29	780,680	18	+11	75%	6
Highways	1,263,088	19	1,472,367	21	-2	17%	28
Hospitals	172,039	41	227,554	38	+3	32%	29
Interest on Debt	258,281	34	461,086	30	+4	79%	12
Natural Resources	202,183	30	215,089	34	-4	6%	39
Parks and Recreation	72,160	24	99,929	16	+8	38%	22
Police Protection	91,636	40	161,213	25	+15	76%	3
Public Welfare	3,202,402	26	4,821,034	21	+5	51%	21
Salaries and Wages	2,940,522	10	2,976,703	25	-15	1%	47
Direct Expenditures	9,527,099	27	12,817,199	25	+2	35%	29
General Expenditures	12,904,144	31	17,208,905	34	-3	33%	30
Total Expenditures	14,727,332	31	19,517,639	31	0	33%	31

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	2,286,110	23	2,787,445	32	-9	22%	41
General Sales Tax[2]	1,529,465	41	2,096,220	39	+2	37%	21
Corporate Income Tax[3]	173,701	37	360,065	40	-3	107%	25
Total Taxes	6,052,680	29	8,484,227	34	-5	40%	33
Total Revenue	13,133,991	31	18,810,187	29	+2	43%	26

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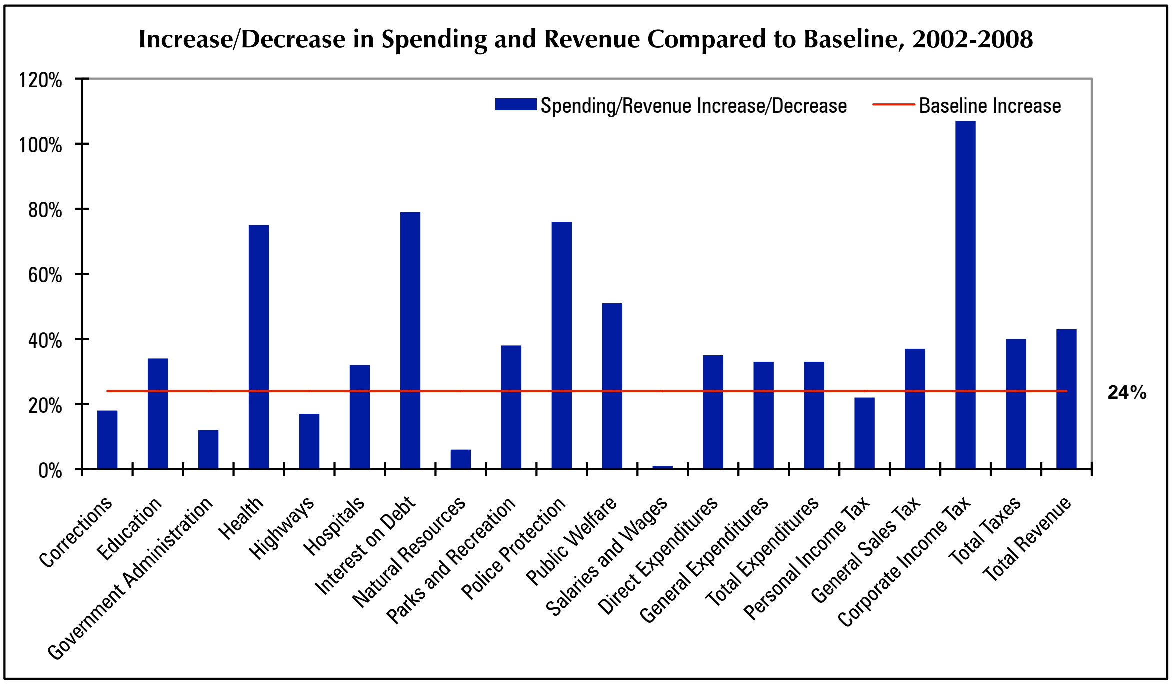
[3] Corporate income tax per capita rankings are out of 46 since four states do not collect corporate income taxes.

Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and Oklahoma's population increased by 4%. This yields a "baseline" growth of 24% for the period. The figure below compares the difference in Oklahoma's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.



Oregon

From 2002 to 2008, Oregon's spending increased the most in the parks and recreation (98%), highways (87%) and debt service (80%) categories. The increase in highways spending was the third-largest in the nation in terms of percentage. Oregon saw spending decline in three categories, including administration (-1%), hospitals (-3%) and health (-30%). The 12% growth rate for welfare spending was the second-lowest of all the states. The state's overall general spending increase of 21% was among the smallest in the nation, ranking 47th-highest.

Oregon's total overall revenue growth of 16% ranked 49th for the period, and its total tax revenue growth of 41% ranked 32nd. Corporate income taxes were the fastest growing tax revenue category, increasing 143% and ranking 16th highest. Personal income tax revenue grew a relatively modest 35% (35th) but remained among the highest per capita in the nation in 2008 (7th), down slightly from fifth in 2002. Oregon did not have a general sales tax.

Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	616,568	6	720,504	12	-6	17%	40
Education	5,207,933	18	6,768,386	30	-12	30%	42
Government Administration	901,671	6	888,704	17	-11	-1%	44
Health	580,917	22	407,430	42	-20	-30%	47
Highways	817,455	46	1,528,591	22	+24	87%	3
Hospitals	1,190,151	2	1,154,493	10	-8	-3%	41
Interest on Debt	250,533	36	450,490	33	+3	80%	10
Natural Resources	329,956	13	424,465	13	0	29%	21
Parks and Recreation	52,244	33	103,461	17	+16	98%	9
Police Protection	171,170	11	173,661	22	-11	1%	46
Public Welfare	3,856,484	13	4,311,257	37	-24	12%	49
Salaries and Wages	2,685,408	15	3,901,453	14	+1	45%	11
Direct Expenditures	10,671,448	16	12,435,083	32	-16	17%	49
General Expenditures	14,884,121	17	18,076,076	30	-13	21%	47
Total Expenditures	18,029,157	14	22,386,883	23	-9	24%	46

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	3,674,962	5	4,968,791	7	-2	35%	35
General Sales Tax[2]	0	N/A	0	N/A	N/A	N/A	N/A
Corporate Income Tax[3]	196,257	34	477,113	30	+4	143%	16
Total Taxes	5,163,687	46	7,278,717	43	+3	41%	32
Total Revenue	14,815,282	16	17,138,166	41	-25	16%	49

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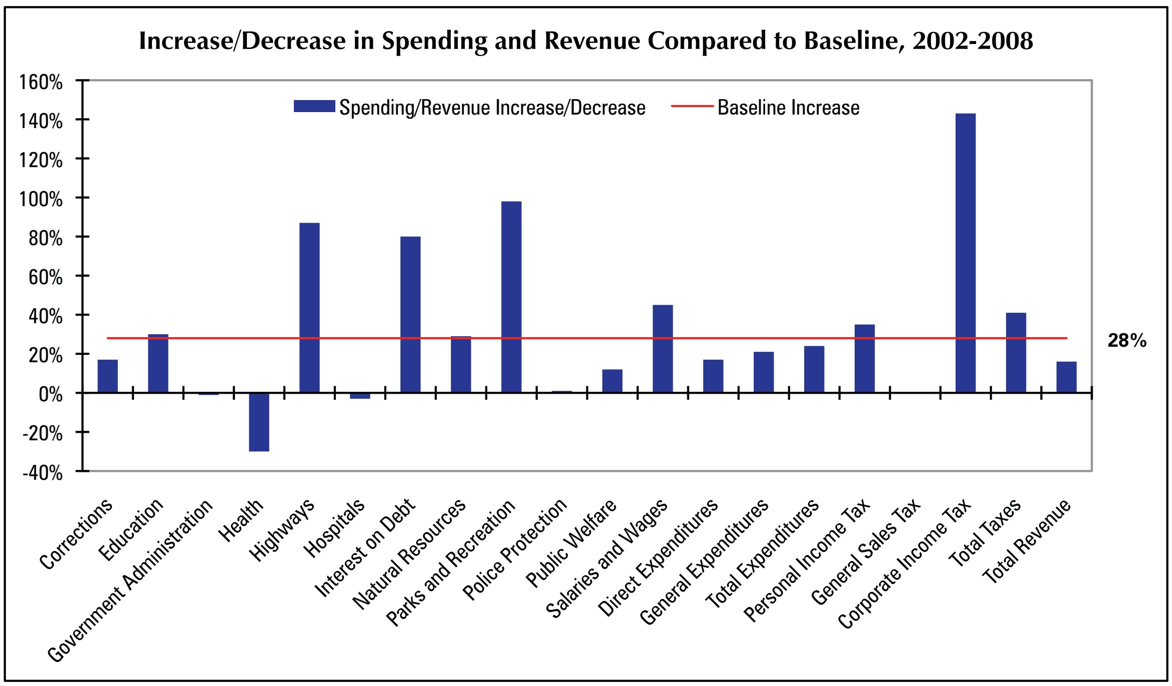
[3] Corporate income tax per capita rankings are out of 46 since four states do not collect corporate income taxes.

Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and Oregon's population increased by 8%. This yields a "baseline" growth of 28% for the period. The figure below compares the difference in Oregon's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.



Pennsylvania

From 2002 to 2008, Pennsylvania's spending increased the most in the debt service (85%), administration (78%), and parks and recreation (74%) categories. The increase in administration spending was the fourth-largest in the nation in terms of percentage. The spending categories that saw the least growth were salaries and wages (+17%), corrections (+15%), health (-2%) and police (-10%). The decrease in police spending was the second-biggest in the nation, although Pennsylvania's police expenditures were still the 10th-highest per capita in 2008. The state's overall general spending increase of 29% ranked 39th-highest, and the increase in direct spending, over which the legislature has the most control, was an even more modest 24% (46th).

Pennsylvania's total revenue growth of 55% ranked 17th for the period, and its total tax revenue growth of 45% ranked 25th. Corporate income taxes were the fastest growing tax revenue category, increasing 83%, although that was less than the growth of most states (ranking 34th-highest). By contrast, the 55% increase in personal income tax revenue ranked 17th-highest in the nation.

Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	1,521,611	27	1,744,264	31	-4	15%	42
Education	13,775,297	46	19,199,292	42	+4	39%	29
Government Administration	1,406,324	36	2,508,325	24	+12	78%	4
Health	1,917,062	26	1,871,255	30	-4	-2%	43
Highways	4,566,041	17	6,570,331	8	+9	44%	11
Hospitals	2,233,567	11	2,821,303	19	-8	26%	31
Interest on Debt	1,073,026	31	1,984,366	22	+9	85%	8
Natural Resources	554,723	38	666,752	36	+2	20%	25
Parks and Recreation	149,121	35	259,267	27	+8	74%	16
Police Protection	906,273	5	816,191	10	-5	-10%	49
Public Welfare	15,118,232	8	19,032,829	12	-4	26%	40
Salaries and Wages	6,651,302	40	7,802,801	40	0	17%	39
Direct Expenditures	34,359,680	24	42,725,796	27	-3	24%	46
General Expenditures	47,147,270	28	60,791,234	28	0	29%	39
Total Expenditures	55,170,768	25	71,940,224	26	-1	30%	38

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	6,734,729	35	10,408,439	28	+7	55%	17
General Sales Tax[2]	7,330,422	26	8,873,309	28	-2	21%	35
Corporate Income Tax[3]	1,198,438	13	2,191,420	15	-2	83%	34
Total Taxes	22,135,537	23	32,123,740	21	+2	45%	25
Total Revenue	46,164,524	32	71,492,127	16	+16	55%	17

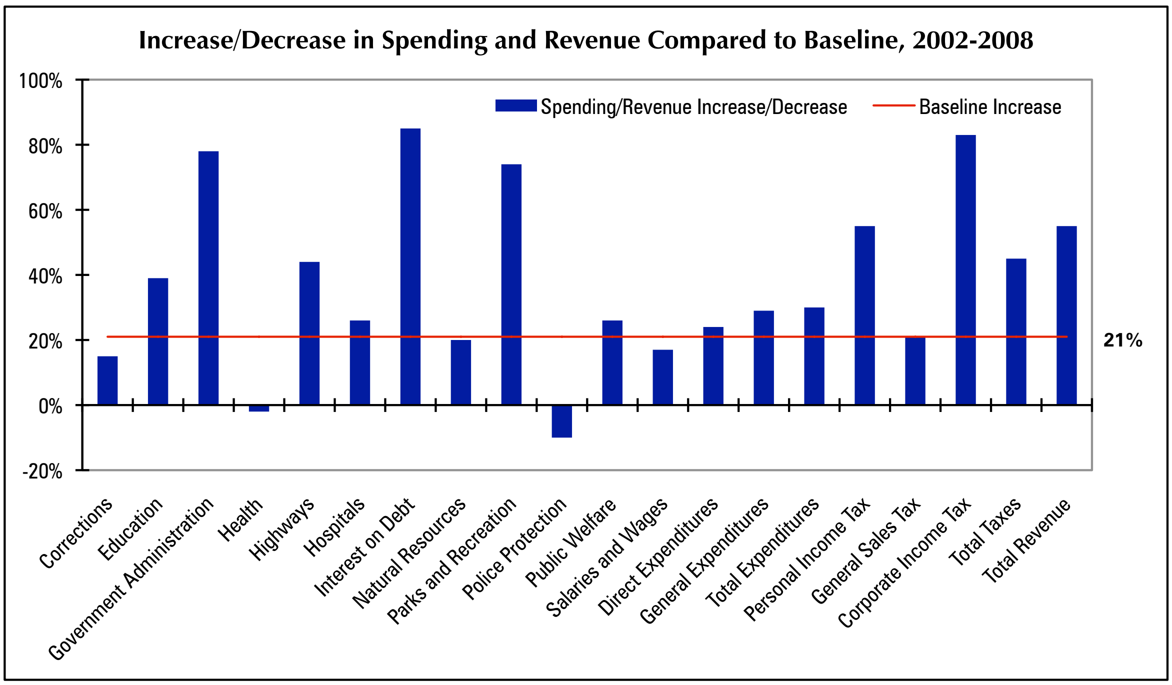
[1] Personal income tax per capita rankings are out of 43 since seven states do not collect personal income taxes.

[2] General sales tax per capita rankings are out of 45 since five states do not collect general sales taxes.

[3] Corporate income tax per capita rankings are out of 46 since four states do not collect corporate income taxes.

Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and Pennsylvania's population increased by 1%. This yields a "baseline" growth of 21% for the period. The figure below compares the difference in Pennsylvania's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.



Rhode Island

From 2002 to 2008, Rhode Island's spending increased the most in the debt service (64%), administration (40%) and welfare (32%) categories. Rhode Island reduced spending in five categories, including health (0%—rounded), natural resources (-11%), highways (-22%), hospitals (-23%), and parks and recreation (-70%). The decreases in parks and recreation and highways spending each ranked the largest in the nation in terms of percentage, and Rhode Island's spending growth was among the bottom 10 states in seven of 12 categories. The state's overall general spending increase of 29% ranked 42nd-highest.

Rhode Island's total revenue growth of 37% ranked 37th for the period, and its total tax revenue growth of 30% ranked 45th. Corporate income taxes were the fastest growing tax revenue category, increasing a staggering 416%, easily the biggest rise in the nation. On a per capita basis, Rhode Island's corporate income taxes skyrocketed from among the lowest in the country (46th) in 2002 to 24th in 2008. The 33% increase in personal income tax revenue and 16% increase in general sales tax revenue, by contrast, were much more modest, each ranking 38th highest.

Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	157,531	15	199,394	14	+1	27%	26
Education	1,343,682	37	1,792,825	39	-2	27%	45
Government Administration	259,607	7	362,174	6	+1	40%	22
Health	181,541	20	180,822	25	-5	0%	42
Highways	259,542	43	201,869	50	-7	-22%	50
Hospitals	113,599	25	87,528	30	-5	-23%	46
Interest on Debt	256,511	7	419,869	3	+4	64%	15
Natural Resources	46,840	40	41,480	43	-3	-11%	47
Parks and Recreation	25,362	22	7,664	47	-25	-70%	50
Police Protection	47,946	17	57,953	14	+3	21%	30
Public Welfare	1,690,087	3	2,230,969	3	0	32%	34
Salaries and Wages	1,022,339	5	1,093,981	13	-8	7%	44
Direct Expenditures	4,093,577	6	5,174,660	8	-2	26%	43
General Expenditures	4,842,611	10	6,228,442	10	0	29%	42
Total Expenditures	5,766,687	9	7,495,870	9	0	30%	39

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	823,521	16	1,091,705	16	0	33%	38
General Sales Tax[2]	731,597	16	846,870	24	-8	16%	38
Corporate Income Tax[3]	28,273	46	145,866	24	+22	416%	1
Total Taxes	2,127,609	15	2,761,356	20	-5	30%	45
Total Revenue	4,891,253	11	6,691,311	12	-1	37%	37

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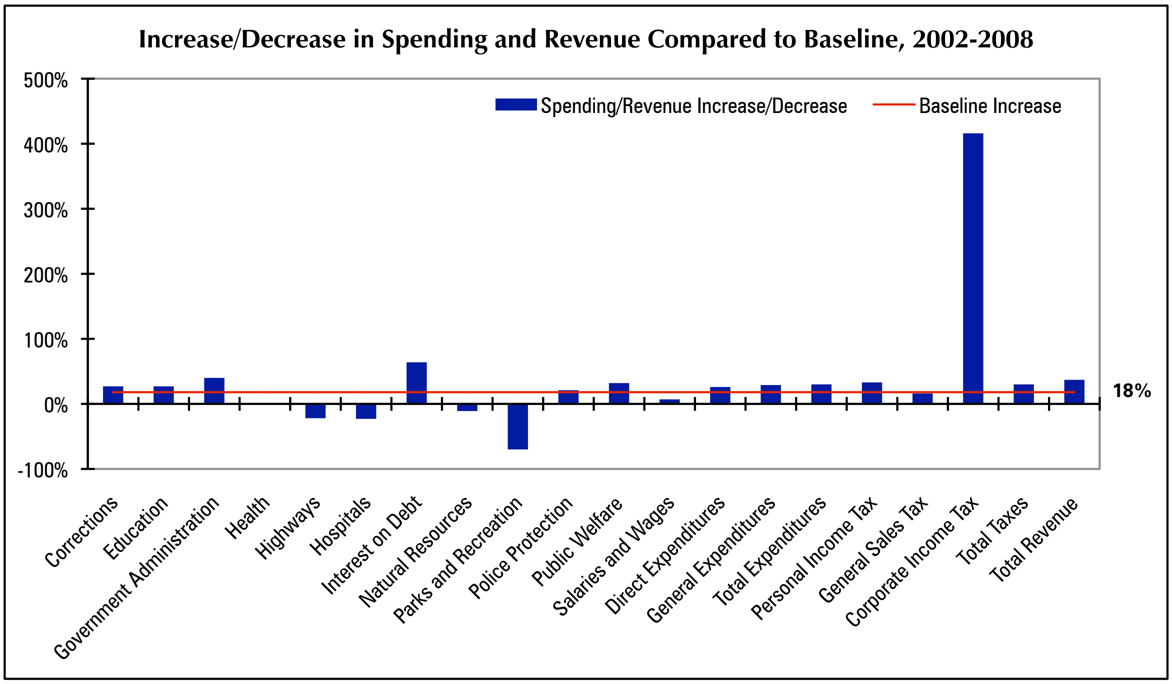
[3] Corporate income tax per capita rankings are out of 46 since four states do not collect corporate income taxes.

Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and Rhode Island's population decreased by 2%. This yields a "baseline" growth of 18% for the period. The figure below compares the difference in Rhode Island's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.



South Carolina

From 2002 to 2008, South Carolina's spending increased the most in the administration (95%), hospitals (86%), and parks and recreation (85%) categories. The increase in administration spending was the third-largest in the nation in terms of percentage. South Carolina reduced spending in three categories, including police (-6%), debt service (-9%) and highways (-21%). Each of these declines ranked among the bottom three in the country. The state's overall general spending increase of 35% was about the same as the state average, ranking 28th-highest.

South Carolina's total overall revenue growth of 39% ranked 35th for the period, and its total tax revenue growth of 39% ranked 37th. Corporate income taxes were the fastest growing tax revenue category, increasing 100% and ranking 27th-highest.

Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	424,031	39	514,479	42	-3	21%	37
Education	5,656,159	26	8,151,202	28	-2	44%	21
Government Administration	561,369	29	1,094,646	14	+15	95%	3
Health	721,138	18	1,051,239	15	+3	46%	17
Highways	1,348,549	24	1,064,541	45	-21	-21%	49
Hospitals	904,894	8	1,684,779	5	+3	86%	9
Interest on Debt	652,074	11	590,974	27	-16	-9%	49
Natural Resources	231,871	31	299,956	31	0	29%	20
Parks and Recreation	65,008	29	120,343	19	+10	85%	12
Police Protection	221,406	9	208,518	21	-12	-6%	48
Public Welfare	4,373,330	15	5,477,881	29	-14	25%	42
Salaries and Wages	2,643,426	26	3,639,952	26	0	38%	17
Direct Expenditures	12,807,304	15	17,269,097	20	-5	35%	28
General Expenditures	17,048,314	20	22,988,332	23	-3	35%	28
Total Expenditures	20,009,040	19	27,593,614	19	0	38%	24

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	2,349,195	32	3,339,935	34	-2	42%	28
General Sales Tax[2]	2,335,170	29	3,051,608	30	-1	31%	27
Corporate Income Tax[3]	159,837	44	320,378	44	0	100%	27
Total Taxes	6,087,792	45	8,455,463	44	+1	39%	37
Total Revenue	16,996,797	19	23,595,393	28	-9	39%	35

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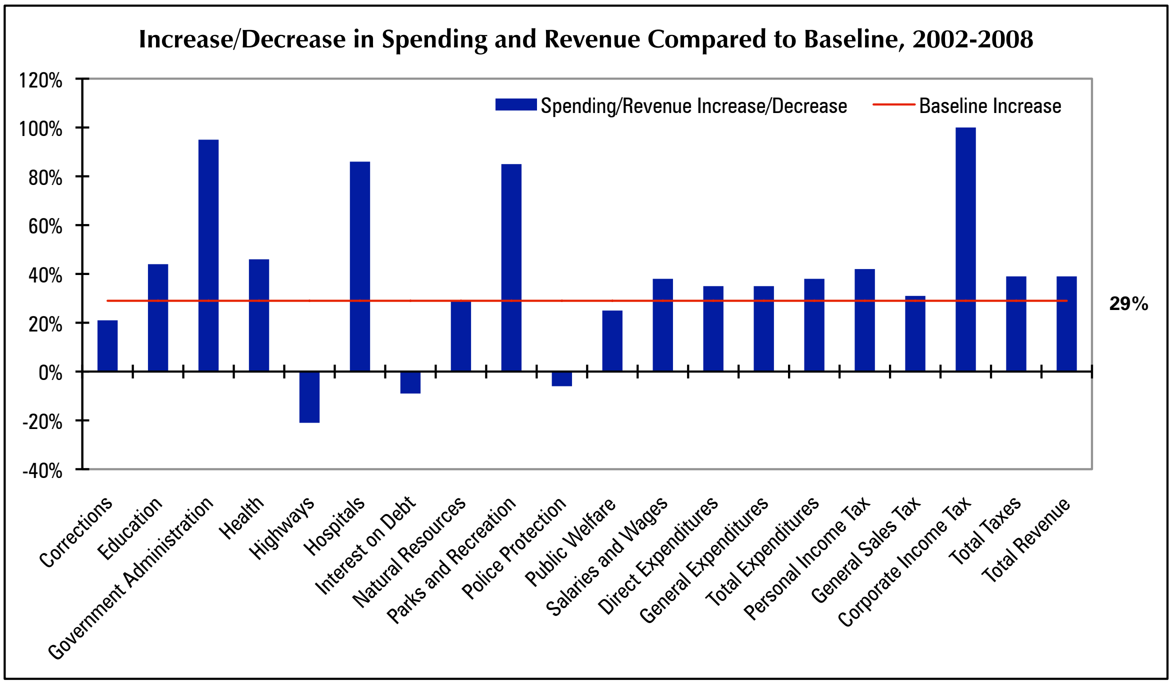
[3] Corporate income tax per capita rankings are out of 46 since four states do not collect corporate income taxes.

Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and South Carolina's population increased by 9%. This yields a "baseline" growth of 29% for the period. The figure below compares the difference in South Carolina's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.



South Dakota

From 2002 to 2008, South Dakota's spending increased the most in the salaries and wages (89%), administration (64%) and health (55%) categories. The increase in salaries and wages spending was the fourth-largest in the nation in terms of percentage. The spending categories that saw the least growth were natural resources (26%), debt service (13%) and highways (2%). The state's overall general spending increase of 33% was slightly below the state average, ranking 31st-highest.

South Dakota's total overall revenue growth of 16% ranked 48th for the period, and its total tax revenue growth of 35% ranked 41st. The state's total overall revenue and total tax revenue were the smallest per capita in the nation in 2008. Corporate income taxes were the fastest growing tax revenue category, increasing 72%, although that was less than the growth of the vast majority of states (ranking 38th-highest). By contrast, the 40% increase in general sales tax revenue ranked 19th-highest in the nation. South Dakota had no personal income tax.

Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	74,880	41	110,268	32	+9	47%	10
Education	798,769	48	1,103,636	47	+1	38%	32
Government Administration	103,417	30	169,363	22	+8	64%	7
Health	81,294	36	126,093	28	+8	55%	12
Highways	420,346	4	429,629	7	-3	2%	40
Hospitals	44,001	35	60,769	34	+1	38%	26
Interest on Debt	120,082	12	136,008	20	-8	13%	37
Natural Resources	98,029	5	123,365	5	0	26%	22
Parks and Recreation	26,193	13	42,124	6	+7	61%	17
Police Protection	22,400	33	31,514	34	-1	41%	19
Public Welfare	592,754	37	811,709	41	-4	37%	31
Salaries and Wages	445,460	35	843,292	12	+23	89%	4
Direct Expenditures	2,047,865	28	2,720,277	29	-1	33%	33
General Expenditures	2,554,212	40	3,400,145	42	-2	33%	31
Total Expenditures	2,771,705	44	3,698,335	44	0	33%	29

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	0	N/A	0	N/A	N/A	N/A	N/A
General Sales Tax[2]	523,001	15	732,438	12	+3	40%	19
Corporate Income Tax[3]	40,547	35	69,879	42	-7	72%	38
Total Taxes	976,596	50	1,321,368	50	0	35%	41
Total Revenue	2,500,028	40	2,910,381	50	-10	16%	48

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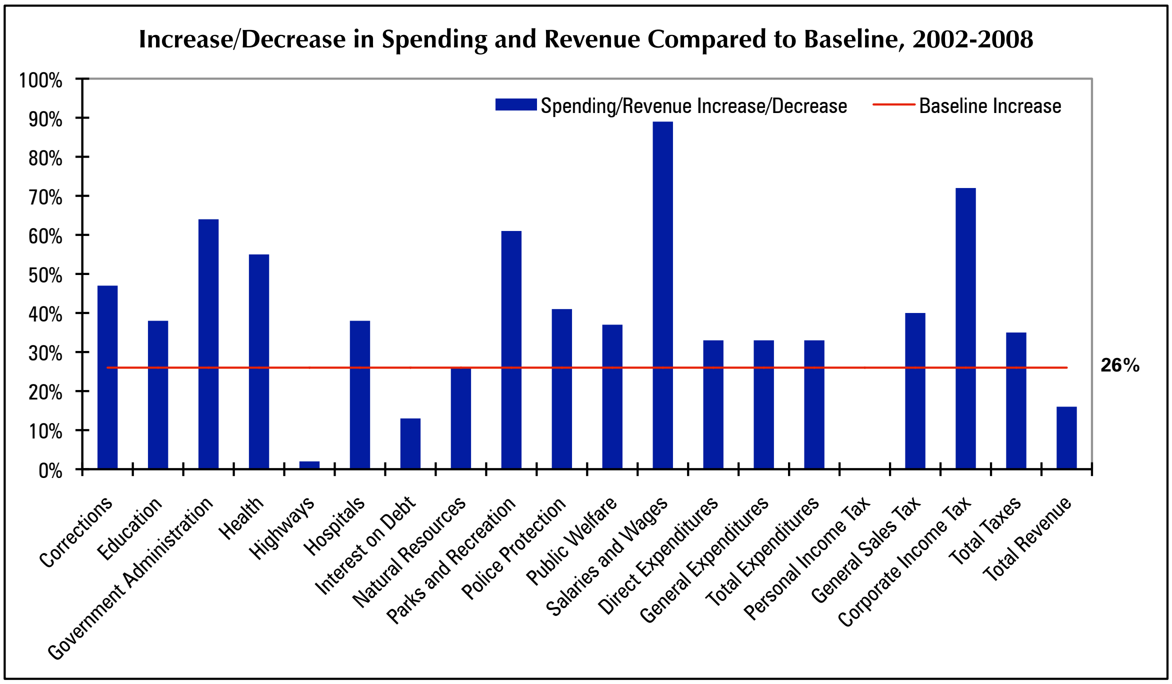
Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and South Dakota's population increased by 6%. This yields a "baseline" growth of 26% for the period. The figure below compares the difference in South Dakota's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.



Tennessee

From 2002 to 2008, Tennessee's spending increased the most in the natural resources (95%), administration (72%) and health (60%) categories. The increase in natural resources spending was the largest in the nation in terms of percentage. The spending categories that saw the least growth were highways (+9%), debt service (+8%) and hospitals (-7%). Tennessee's per capita debt service spending was the lowest in the nation in 2008. The state's overall general spending increase of 33% was slightly below the state average, ranking 32nd-highest.

Tennessee's total overall revenue growth of 43% ranked 28th for the period, and its total tax revenue growth of 48% ranked 19th. Corporate income taxes were the fastest growing tax revenue category, increasing 100% (29th), although Tennessee's personal income tax and general sales tax revenues grew more relative to other states. The 99% increase in personal sales tax revenue was the biggest in the nation, and the 46% rise in general sales tax revenue ranked 13th.

Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	529,747	45	768,711	38	+7	45%	11
Education	6,094,892	47	8,479,938	48	-1	39%	30
Government Administration	459,698	48	788,765	37	+11	72%	5
Health	800,515	27	1,282,165	19	+8	60%	9
Highways	1,533,906	39	1,668,715	43	-4	9%	34
Hospitals	436,774	29	407,688	37	-8	-7%	42
Interest on Debt	198,272	49	214,413	50	-1	8%	43
Natural Resources	234,901	43	458,161	26	+17	95%	1
Parks and Recreation	105,004	28	148,163	22	+6	41%	21
Police Protection	131,690	45	156,050	46	-1	18%	33
Public Welfare	6,896,284	9	8,664,226	18	-9	26%	41
Salaries and Wages	2,783,821	44	3,695,776	44	0	33%	23
Direct Expenditures	14,011,419	35	18,048,403	44	-9	29%	41
General Expenditures	18,489,355	46	24,565,001	45	+1	33%	32
Total Expenditures	20,029,048	46	26,403,221	47	-1	32%	34

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	146,293	43	290,986	43	0	99%	1
General Sales Tax[2]	4,674,896	8	6,832,948	6	+2	46%	13
Corporate Income Tax[3]	502,977	14	1,005,880	17	-3	100%	29
Total Taxes	7,797,681	48	11,538,430	46	+2	48%	19
Total Revenue	17,951,931	46	25,699,084	46	0	43%	28

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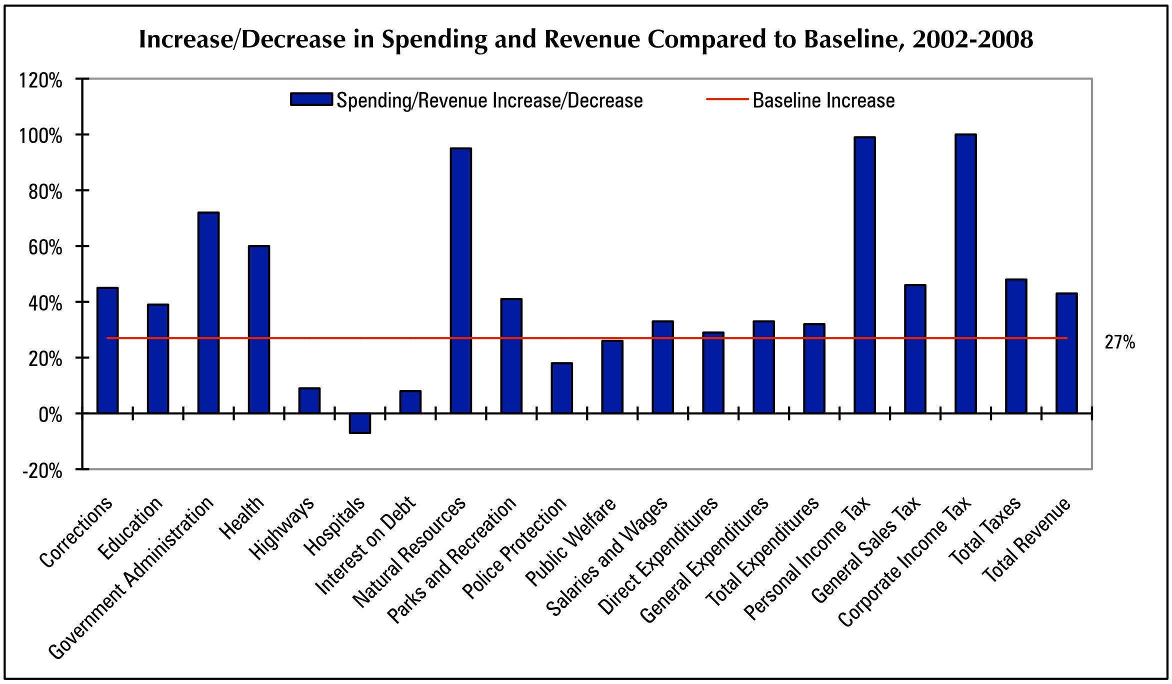
Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and Tennessee's population increased by 7%. This yields a "baseline" growth of 27% for the period. The figure below compares the difference in Tennessee's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.



Texas

From 2002 to 2008, Texas's spending increased the most in the police (82%), salaries and wages (72%), education (58%) and highways (57%) categories. The increase in police spending was the second-largest in the nation in terms of percentage, and the rise in education, highways, and salaries and wages each ranked among the top six states. The spending categories that saw the least growth were corrections (13%), hospitals (10%), and parks and recreation (4%). The state's overall general spending increase of 47% was among the biggest in the nation, ranking seventh-highest.

Texas's total overall revenue growth of 97% ranked fourth for the period, and its total tax revenue growth of 56% ranked ninth. On a per capita basis, total taxes remained among the lowest in the nation (48th) in 2008, but total revenue jumped from 49th in 2002 to 31st in 2008. General sales tax revenue increased 49%, ranking ninth. Texas did not have a personal income tax or a corporate income tax.

Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	3,157,124	16	3,565,217	27	-11	13%	44
Education	25,763,230	40	40,672,485	33	-7	58%	5
Government Administration	1,363,113	50	1,563,297	50	0	15%	38
Health	1,818,755	48	2,248,068	47	+1	24%	32
Highways	5,026,554	47	7,915,817	35	+12	57%	6
Hospitals	3,238,451	20	3,570,780	25	-5	10%	34
Interest on Debt	904,260	48	1,189,733	49	-1	32%	30
Natural Resources	687,014	48	839,527	46	+2	22%	23
Parks and Recreation	125,784	47	130,316	50	-3	4%	32
Police Protection	395,399	49	720,014	43	+6	82%	2
Public Welfare	15,270,585	45	23,048,973	45	0	51%	20
Salaries and Wages	8,212,409	49	14,102,858	46	+3	72%	5
Direct Expenditures	44,851,986	47	64,487,306	49	-2	44%	13
General Expenditures	61,532,766	50	90,576,780	49	+1	47%	7
Total Expenditures	70,036,258	49	100,938,886	50	-1	44%	12

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	0	N/A	0	N/A	N/A	N/A	N/A
General Sales Tax[2]	14,559,504	19	21,668,972	15	+4	49%	9
Corporate Income Tax[3]	0	N/A	0	N/A	N/A	N/A	N/A
Total Taxes	28,662,395	49	44,675,953	48	+1	56%	9
Total Revenue	60,386,905	49	119,140,582	31	+18	97%	4

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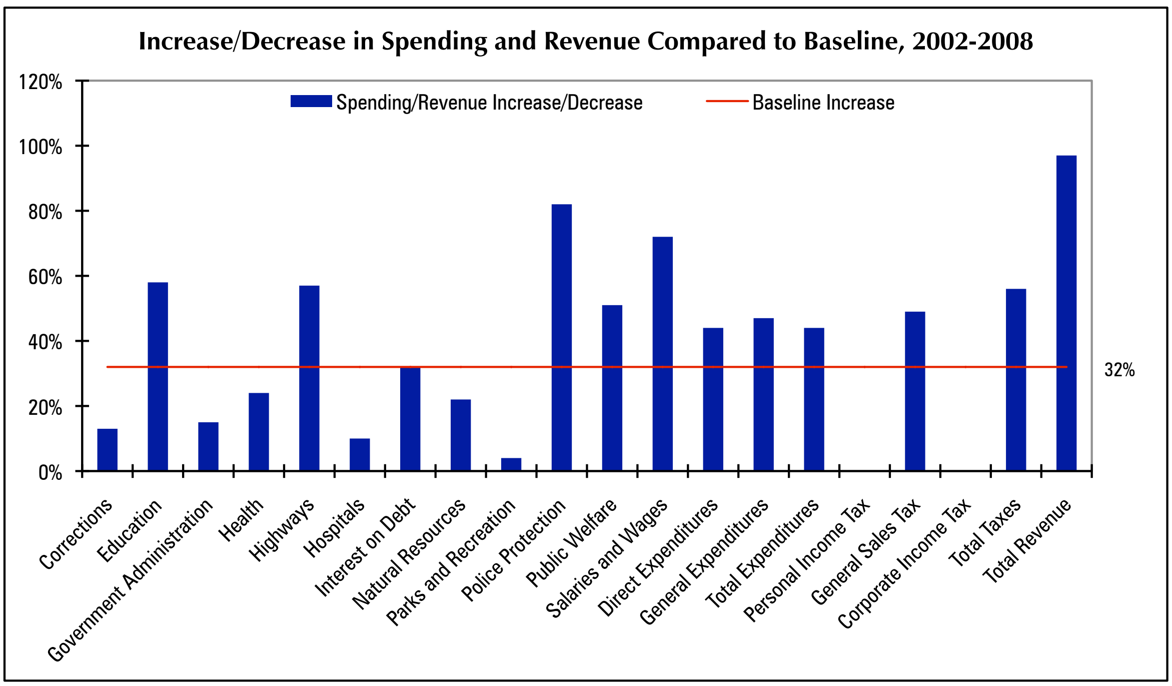
Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and Texas's population increased by 12%. This yields a "baseline" growth of 32% for the period. The figure below compares the difference in Texas's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.



Utah

From 2002 to 2008, Utah's spending increased the most in the hospitals (67%), salaries and wages (63%), and health (60%) categories. The spending categories that saw the least growth were parks and recreation (10%) and natural resources (4%). On a per capita basis, Utah's welfare spending remained among the lowest in the nation (49th) in 2008. The state's overall general spending increase of 42% was a bit above the state average, ranking 20th-highest.

Utah's total overall revenue growth of 80% ranked sixth for the period, and its total tax revenue growth of 51% ranked 12th. Corporate income taxes were the fastest growing tax revenue category, increasing 256%, one of the biggest rises in the nation (ranking sixth-highest). Personal income tax revenue also grew significantly at 62%, ranking 10th.

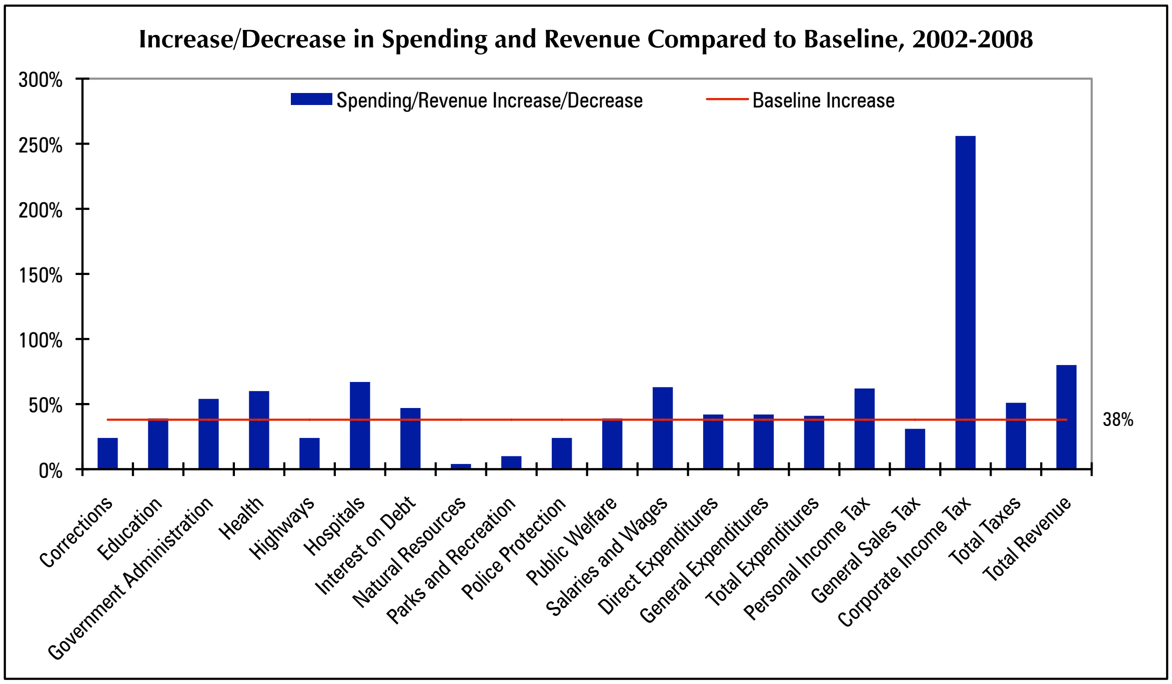
Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	267,607	31	332,828	41	-10	24%	32
Education	4,327,496	5	6,036,050	10	-5	39%	28
Government Administration	463,112	12	712,868	10	+2	54%	13
Health	239,515	37	383,324	34	+3	60%	10
Highways	856,014	18	1,061,364	24	-6	24%	21
Hospitals	493,631	10	823,297	11	-1	67%	14
Interest on Debt	187,591	32	275,837	38	-6	47%	20
Natural Resources	178,944	23	185,613	30	-7	4%	41
Parks and Recreation	59,692	19	65,910	21	-2	10%	28
Police Protection	103,937	18	129,182	20	-2	24%	29
Public Welfare	1,580,580	48	2,203,414	49	-1	39%	28
Salaries and Wages	1,500,634	25	2,449,264	20	+5	63%	6
Direct Expenditures	6,971,654	19	9,916,600	23	-4	42%	17
General Expenditures	9,142,538	24	12,966,773	33	-9	42%	20
Total Expenditures	10,107,055	27	14,293,669	34	-7	41%	17

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	1,605,310	19	2,593,129	21	-2	62%	10
General Sales Tax[2]	1,500,278	21	1,964,119	27	-6	31%	25
Corporate Income Tax[3]	110,989	38	394,638	21	+17	256%	6
Total Taxes	3,925,382	33	5,944,879	38	-5	51%	12
Total Revenue	8,467,827	33	15,243,424	22	+11	80%	6

[1] Personal income tax per capita rankings are out of 43 since seven states do not collect personal income taxes.
[2] General sales tax per capita rankings are out of 45 since five states do not collect general sales taxes.
[3] Corporate income tax per capita rankings are out of 46 since four states do not collect corporate income taxes.

Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and Utah's population increased by 18%. This yields a "baseline" growth of 38% for the period. The figure below compares the difference in Utah's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.



Vermont

From 2002 to 2008, Vermont's spending increased the most in the health (131%), hospitals (112%), and welfare (64%) categories. The increases in health and hospitals spending each ranked among the top five in the nation in terms of percentage. Vermont had the highest per capita spending on education and the second-highest per capita spending on police in the country in 2008. The spending categories that saw the least growth were highways (+10%), natural resources (+8%), parks and recreation (-4%), and administration (-19%). The decrease in administration spending was the biggest in the nation, although it still ranked 12th on a per capita basis in 2008 (down from third-highest in 2002). The state's overall general spending increase of 43% ranked 14th-highest.

Vermont's total overall revenue growth of 58% ranked 16th for the period, and its total tax revenue growth of 68% was the fifth-highest. Corporate income taxes were the fastest growing tax revenue category, increasing 127% and ranking 19th. The 58% increase in general sales tax revenue was the fifth-largest in the nation.

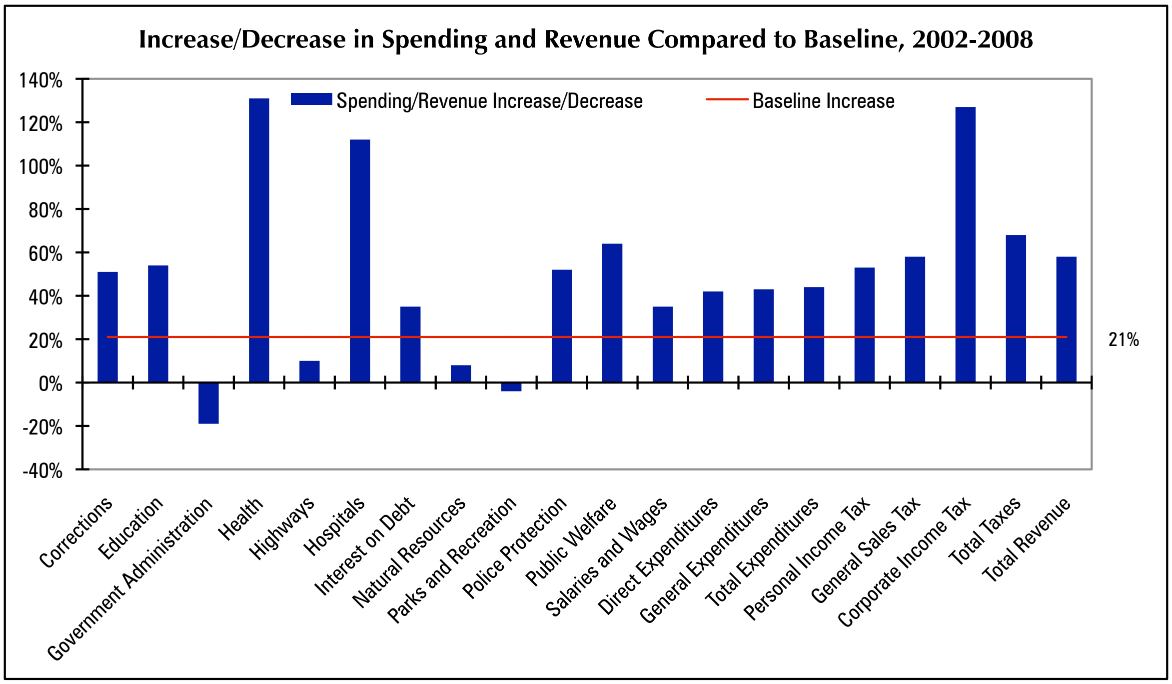
Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	79,771	23	120,328	10	+13	51%	9
Education	1,340,246	2	2,062,824	1	+1	54%	9
Government Administration	192,407	3	156,325	12	-9	-19%	50
Health	72,310	31	167,140	10	+21	131%	3
Highways	296,473	8	324,868	10	-2	10%	32
Hospitals	9,469	48	20,092	45	+3	112%	5
Interest on Debt	134,013	8	181,054	7	+1	35%	28
Natural Resources	68,102	8	73,300	10	-2	8%	37
Parks and Recreation	15,008	20	14,370	23	-3	-4%	37
Police Protection	50,868	3	77,177	2	+1	52%	14
Public Welfare	766,092	6	1,253,623	4	-2	64%	10
Salaries and Wages	544,324	7	733,895	7	0	35%	19
Direct Expenditures	2,372,150	5	3,366,430	5	0	42%	18
General Expenditures	3,291,008	3	4,707,185	3	0	43%	14
Total Expenditures	3,511,510	7	5,070,156	5	+2	44%	11

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	407,835	22	623,019	18	+4	53%	18
General Sales Tax[2]	214,746	45	338,941	42	+3	58%	5
Corporate Income Tax[3]	37,306	30	84,783	25	+5	127%	19
Total Taxes	1,518,479	5	2,544,163	2	+3	68%	5
Total Revenue	3,259,608	5	5,148,584	3	+2	58%	16

[1] Personal income tax per capita rankings are out of 43 since seven states do not collect personal income taxes.
[2] General sales tax per capita rankings are out of 45 since five states do not collect general sales taxes.
[3] Corporate income tax per capita rankings are out of 46 since four states do not collect corporate income taxes.

Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and Vermont's population increased by 1%. This yields a "baseline" growth of 21% for the period. The figure below compares the difference in Vermont's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.



Virginia

From 2002 to 2008, Virginia's spending increased the most in the parks and recreation (94%), welfare (75%) and hospitals (66%) categories. The spending categories that saw the least growth were natural resources (15%), administration (12%) and highways (11%). Virginia's per capita natural resources spending remained among the lowest in the nation (49th) in 2008. The state's overall general spending increase of 43% ranked 16th-highest, and its 48% increase in direct spending, over which the legislature has the most control, was even greater, ranking ninth.

Virginia's total overall revenue growth of 54% ranked 19th for the period, and its total tax revenue growth of 44% ranked 26th. Corporate income taxes were the fastest growing tax revenue category, increasing 155% and ranking 12th-highest. Personal income tax revenue increased 51% (21st), and was the eighth-highest per capita in 2008.

Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	1,243,090	7	1,547,571	9	-2	24%	30
Education	9,848,113	30	14,053,415	29	+1	43%	23
Government Administration	1,099,124	27	1,233,436	33	-6	12%	40
Health	726,489	38	958,002	39	-1	32%	28
Highways	2,822,839	15	3,146,902	20	-5	11%	30
Hospitals	1,718,084	6	2,849,911	6	0	66%	15
Interest on Debt	721,485	29	882,679	36	-7	22%	33
Natural Resources	185,871	49	214,336	49	0	15%	31
Parks and Recreation	76,498	39	148,721	30	+9	94%	10
Police Protection	547,206	4	689,989	4	0	26%	28
Public Welfare	4,199,553	49	7,354,674	46	+3	75%	8
Salaries and Wages	4,682,335	27	6,214,596	27	0	33%	24
Direct Expenditures	17,176,535	41	25,363,397	33	+8	48%	9
General Expenditures	25,545,848	37	36,415,455	35	+2	43%	16
Total Expenditures	28,044,327	38	39,879,609	35	+3	42%	14

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	6,710,771	7	10,114,833	8	-1	51%	21
General Sales Tax[2]	2,799,526	44	3,656,789	44	0	31%	28
Corporate Income Tax[3]	308,554	43	787,229	39	+4	155%	12
Total Taxes	12,781,149	28	18,408,276	30	-2	44%	26
Total Revenue	23,576,891	43	36,233,002	36	+7	54%	19

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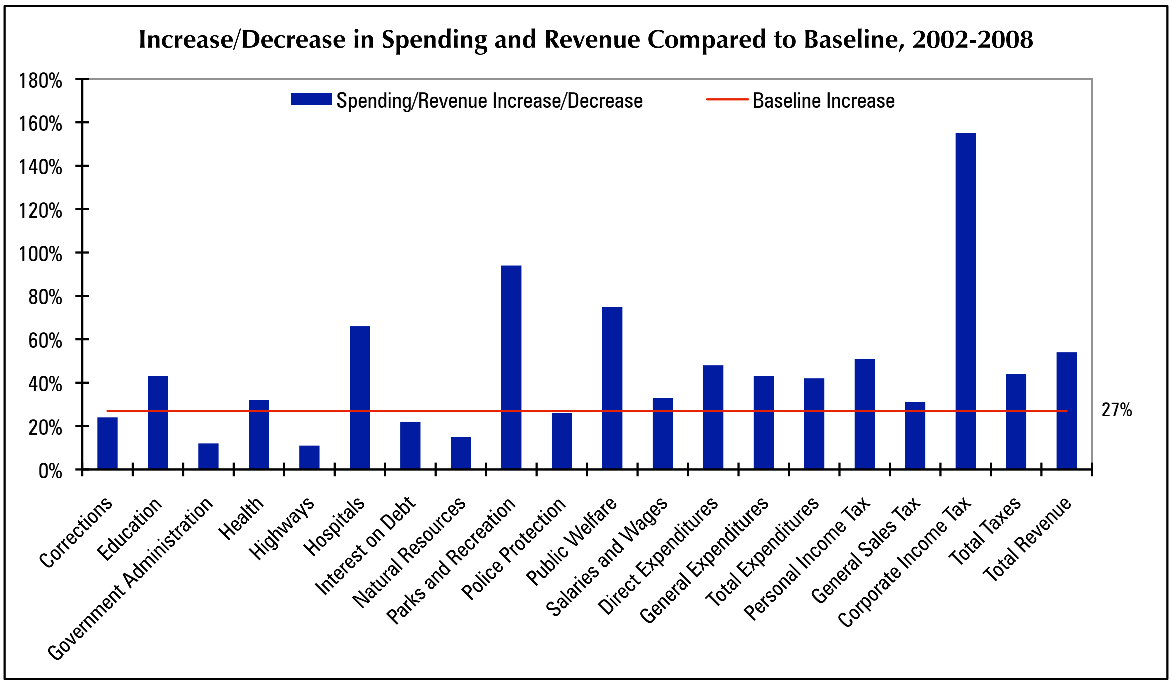
[3] Corporate income tax per capita rankings are out of 46 since four states do not collect corporate income taxes.

Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and Virginia's population increased by 7%. This yields a "baseline" growth of 27% for the period. The figure below compares the difference in Virginia's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.



Washington

From 2002 to 2008, Washington's spending increased the most in the hospitals (90%), corrections (64%) and highways (63%) categories. The increase in corrections spending was the second-largest in the nation in terms of percentage. The spending categories that saw the least growth were welfare (+23%), health (+15%), and parks and recreation (-41%). The decrease in parks and recreation spending was the sixth-biggest in the nation. The state's overall general spending increase of 35% was about the same as the state average, ranking 26th-highest.

Washington's total overall revenue growth of 54% ranked 18th for the period, and its total tax revenue growth of 42% ranked 28th. General sales tax revenue increased 44%, ranking 16th-highest. Washington did not have a personal income tax or a corporate income tax.

Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	735,214	28	1,205,895	16	+12	64%	2
Education	10,298,100	10	14,109,473	12	-2	37%	34
Government Administration	541,929	46	785,458	39	+7	45%	18
Health	1,396,500	11	1,605,753	14	-3	15%	35
Highways	1,795,486	31	2,924,464	15	+16	63%	5
Hospitals	916,540	18	1,743,784	13	+5	90%	7
Interest on Debt	673,936	22	1,039,159	23	-1	54%	17
Natural Resources	650,231	10	738,520	12	-2	14%	33
Parks and Recreation	235,314	9	139,378	26	-17	-41%	45
Police Protection	241,022	22	319,335	18	+4	32%	23
Public Welfare	6,174,456	17	7,612,755	35	-18	23%	43
Salaries and Wages	4,946,594	14	6,254,115	16	-2	26%	35
Direct Expenditures	18,353,961	18	24,948,203	21	-3	36%	26
General Expenditures	25,160,311	21	34,091,969	22	-1	35%	26
Total Expenditures	30,378,008	15	39,689,815	20	-5	31%	36

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	0	N/A	0	N/A	N/A	N/A	N/A
General Sales Tax[2]	7,904,003	2	11,344,622	2	0	44%	16
Corporate Income Tax[3]	0	N/A	0	N/A	N/A	N/A	N/A
Total Taxes	12,628,567	13	17,944,925	16	-3	42%	28
Total Revenue	23,813,123	22	36,644,997	20	+2	54%	18

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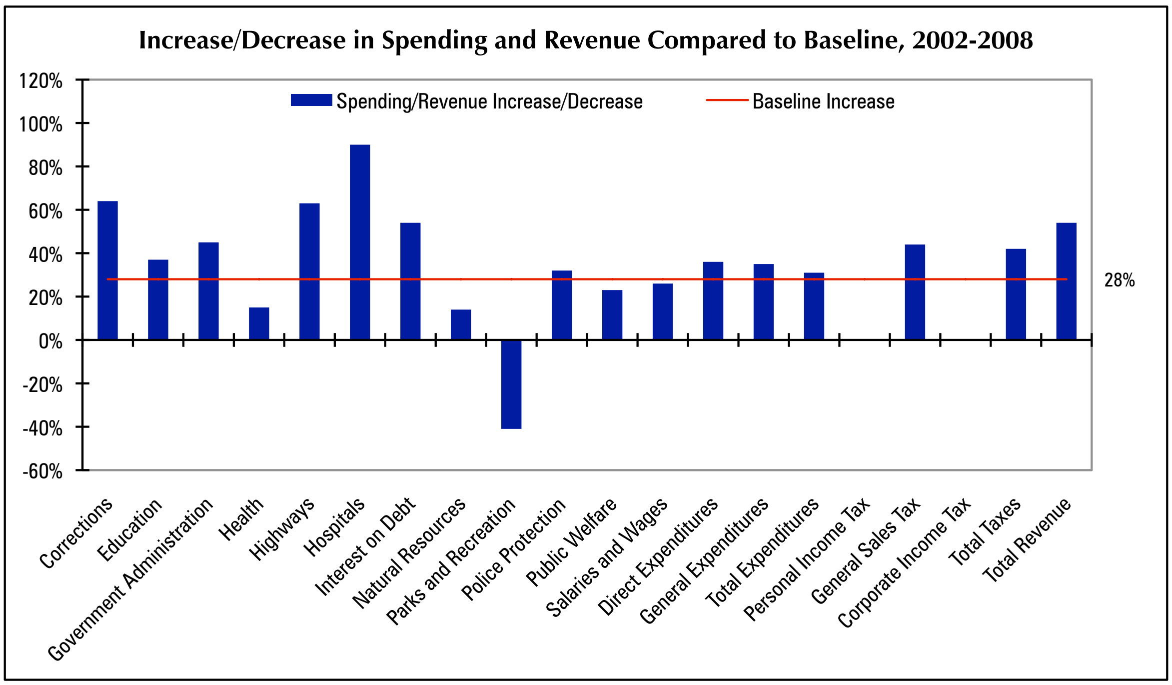
[3] Corporate income tax per capita rankings are out of 46 since four states do not collect corporate income taxes.

Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and Washington's population increased by 8%. This yields a "baseline" growth of 28% for the period. The figure below compares the difference in Washington's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.



West Virginia

From 2002 to 2008, West Virginia's spending increased the most in the health (70%), education (47%) and corrections (42%) categories. West Virginia reduced spending in three categories: natural resources (-3%), administration (-4%), and parks and recreation (-16%). Spending growth ranked in the bottom quartile of states in eight of 12 categories. The state's overall general spending increase of 28% was among the smallest in the nation, ranking 43rd-highest, and its total spending increase of only 8% was the lowest in the country.

West Virginia's overall total revenue growth of 19% ranked 47th for the period, and its total tax revenue growth of 37% ranked 40th. Corporate income taxes were the fastest growing tax revenue category, increasing 145% and ranking 15th. West Virginia's corporate tax revenue was the seventh-highest per capita in 2008.

Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	170,305	44	241,996	33	+11	42%	14
Education	2,495,321	25	3,676,900	18	+7	47%	17
Government Administration	429,462	9	412,403	18	-9	-4%	45
Health	209,521	32	356,647	21	+11	70%	8
Highways	986,477	5	1,015,587	6	-1	3%	38
Hospitals	101,720	37	106,482	39	-2	5%	37
Interest on Debt	237,521	19	255,121	26	-7	7%	44
Natural Resources	175,910	11	170,496	22	-11	-3%	43
Parks and Recreation	68,248	10	57,347	12	-2	-16%	40
Police Protection	47,790	39	65,468	36	+3	37%	21
Public Welfare	2,135,874	11	2,565,426	16	-5	20%	46
Salaries and Wages	1,368,243	16	1,441,006	28	-12	5%	46
Direct Expenditures	6,106,601	11	7,549,935	14	-3	24%	47
General Expenditures	7,560,308	18	9,681,035	20	-2	28%	43
Total Expenditures	9,409,434	12	10,139,699	28	-16	8%	50

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	1,034,665	31	1,518,746	27	+4	47%	24
General Sales Tax[2]	962,756	33	1,109,822	36	-3	15%	40
Corporate Income Tax[3]	220,158	8	538,839	7	+1	145%	15
Total Taxes	3,551,756	17	4,879,151	17	0	37%	40
Total Revenue	9,130,217	6	10,853,751	14	-8	19%	47

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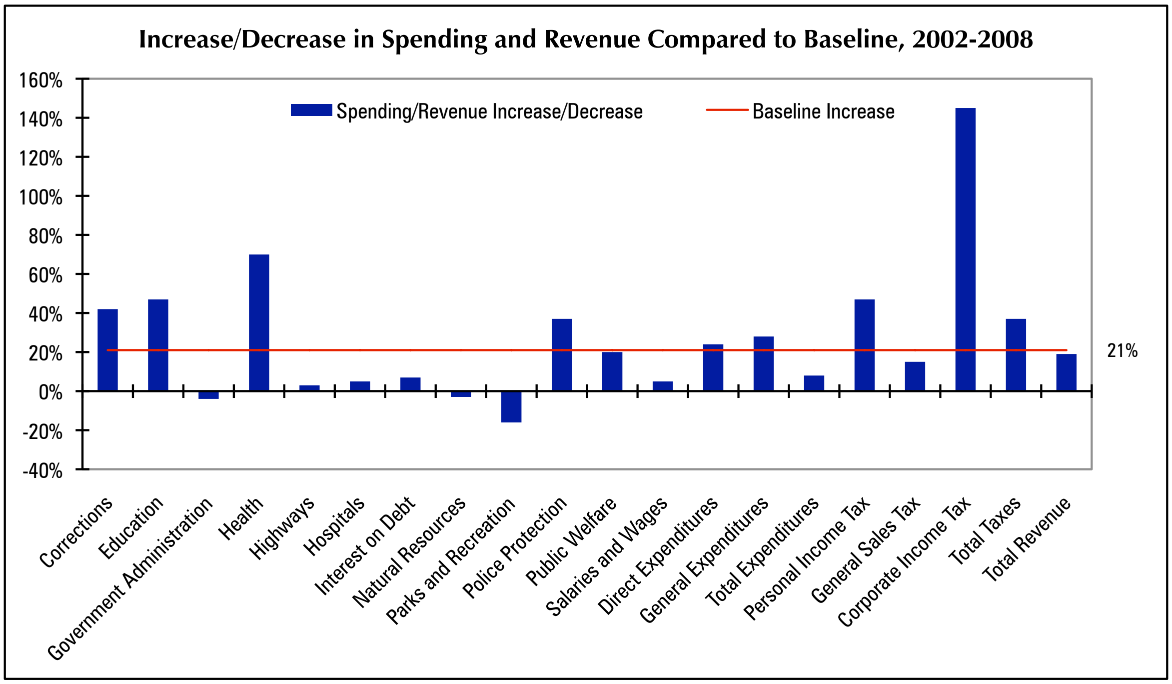
[3] Corporate income tax per capita rankings are out of 46 since four states do not collect corporate income taxes.

Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and West Virginia's population increased by 1%. This yields a "baseline" growth of 21% for the period. The figure below compares the difference in West Virginia's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.



Wisconsin

From 2002 to 2008, Wisconsin's spending increased the most in the hospitals (68%), natural resources (54%) and debt service (44%) categories. The spending categories that saw the least growth were corrections (+12%), highways (+11%), health (+10%), administration (+6%), and parks and recreation (-42%). The 24% increase in education spending and 18% increase in welfare spending each ranked the fourth-smallest in the country. Wisconsin's per capita parks and recreation spending fell from 37th in the nation in 2002 to 48th in 2008, and its per capita police spending remained 48th in 2008. By contrast, per capita natural resources spending jumped from 22nd in 2003 to 11th in 2008. The state's overall general spending increase of 21% was among the lowest in the country, ranking 48th-highest, although the 32% increase in direct spending, over which the legislature has the most control, was significantly higher, ranking 35th.

Wisconsin's total overall revenue growth of 23% ranked 45th for the period, and its total tax revenue growth of 28% ranked 46th. Corporate income taxes were the fastest growing tax revenue category, increasing 94%, although that was less than the growth of most states (ranking 32nd-highest).

Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	965,801	5	1,084,127	11	-6	12%	45
Education	8,299,045	14	10,329,906	26	-12	24%	47
Government Administration	633,302	34	673,364	40	-6	6%	42
Health	637,922	30	703,266	38	-8	10%	38
Highways	1,716,735	27	1,901,463	32	-5	11%	31
Hospitals	657,460	22	1,106,220	21	+1	68%	13
Interest on Debt	736,856	18	1,060,901	17	+1	44%	22
Natural Resources	420,295	22	646,438	11	+11	54%	9
Parks and Recreation	61,972	37	35,926	48	-11	-42%	46
Police Protection	102,421	48	132,283	48	0	29%	25
Public Welfare	5,514,657	18	6,524,417	36	-18	18%	47
Salaries and Wages	3,066,228	38	4,203,579	33	+5	37%	18
Direct Expenditures	13,595,800	32	17,926,796	36	-4	32%	35
General Expenditures	23,118,991	16	28,019,994	26	-10	21%	48
Total Expenditures	26,749,270	16	32,649,254	25	-9	22%	47

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	4,973,615	8	6,640,528	12	-4	34%	37
General Sales Tax[2]	3,695,796	18	4,268,068	26	-8	15%	39
Corporate Income Tax[3]	445,016	15	863,088	19	-4	94%	32
Total Taxes	11,813,831	11	15,088,662	18	-7	28%	46
Total Revenue	20,874,265	25	25,643,589	39	-14	23%	45

[1] Personal income tax per capita rankings are out of 43 since seven states do not collect personal income taxes.

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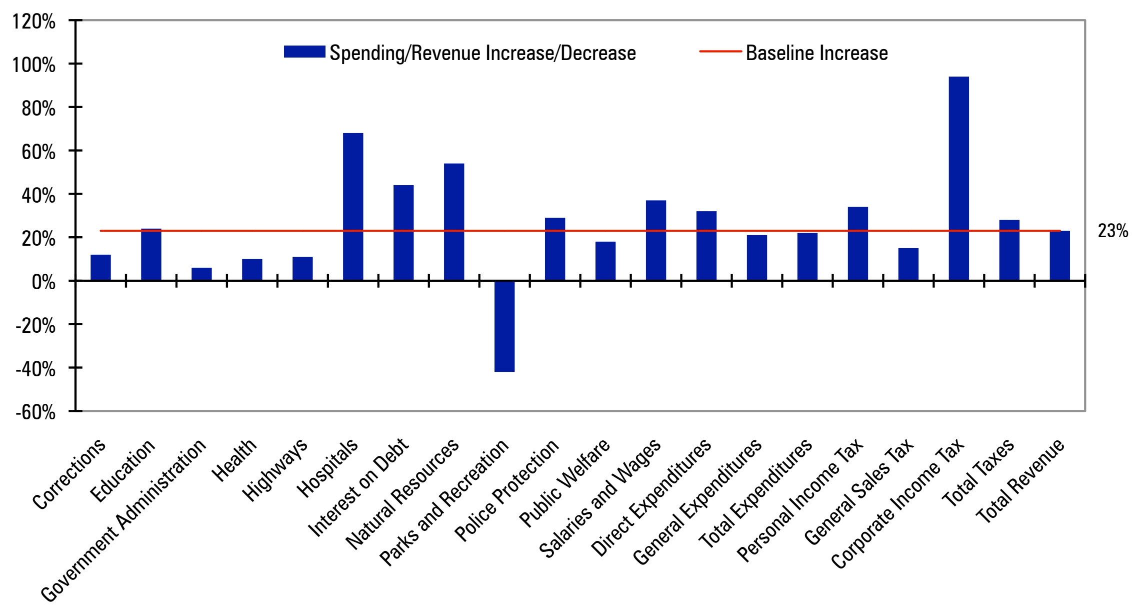
Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and Wisconsin's population increased by 3%. This yields a "baseline" growth of 23% for the period. The figure below compares the difference in Wisconsin's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.

Increase/Decrease in Spending and Revenue Compared to Baseline, 2002-2008



Wyoming

From 2002 to 2008, Wyoming's spending increased the most in the health (148%), administration (100%), corrections (98%) and natural resources (94%) categories. The increases in health, corrections and education (78%) spending were each the largest in the nation in terms of percentage, and the rise in administration and natural resources spending each ranked second-highest. Wyoming reduced spending in three categories, including debt service (-14%), police (-38%), and hospitals (-91%). These declines were the biggest in the country in their respective categories. The state's overall general spending increase of 75% was second-highest in the nation. Wyoming's per capita spending ranked in the top six states in eight of 12 categories, and last in hospitals.

Wyoming's total overall revenue growth of 134% ranked second for the period, and its total tax revenue growth of 98% ranked third. The 67% increase in general sales tax revenue was the second-highest in the nation. Per capita total overall revenue, total tax revenue, and general sales tax revenue each ranked in the top three in the country (second, third, and third, respectively). Wyoming did not have a personal income tax or a corporate income tax.

Spending (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Corrections	83,268	10	164,617	3	+7	98%	1
Education	865,530	9	1,537,792	3	+6	78%	1
Government Administration	100,346	11	200,990	4	+7	100%	2
Health	113,368	12	281,247	1	+11	148%	1
Highways	356,733	2	521,164	2	0	46%	10
Hospitals	25,465	40	2,384	50	-10	-91%	50
Interest on Debt	72,324	15	61,973	35	-20	-14%	50
Natural Resources	159,625	2	310,037	1	+1	94%	2
Parks and Recreation	21,640	5	34,369	2	+3	59%	19
Police Protection	25,386	10	15,862	42	-32	-38%	50
Public Welfare	374,206	39	656,176	28	+11	75%	7
Salaries and Wages	439,434	8	633,251	6	+2	44%	12
Direct Expenditures	1,634,332	12	2,795,276	6	+6	71%	3
General Expenditures	2,608,940	5	4,564,285	2	+3	75%	2
Total Expenditures	2,948,182	4	5,081,586	2	+2	72%	2

Taxes (Spending and revenue numbers are in thousands of dollars)	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002–2008 Increase/ Decrease	2002–2008 Increase/ Decrease Rank
Personal Income Tax[1]	0	N/A	0	N/A	N/A	N/A	N/A
General Sales Tax[2]	445,479	4	744,371	3	+1	67%	2
Corporate Income Tax[3]	0	N/A	0	N/A	N/A	N/A	N/A
Total Taxes	1,094,402	9	2,168,016	3	+6	98%	3
Total Revenue	2,769,606	3	6,481,408	2	+1	134%	2

[1] Personal income tax per capita rankings are out of 43 since seven states do not collect personal income taxes.
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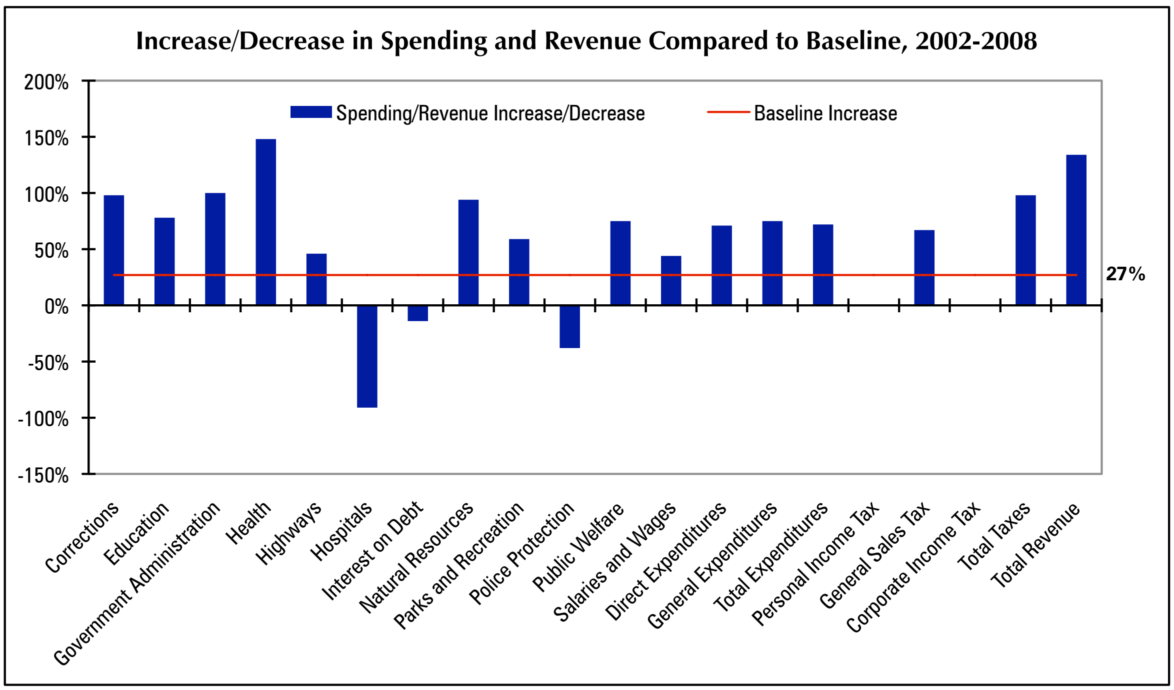
[3] Corporate income tax per capita rankings are out of 46 since four states do not collect corporate income taxes.

Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002–2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20% and Wyoming's population increased by 7%. This yields a "baseline" growth of 27% for the period. The figure below compares the difference in Wyoming's expenditures and revenue for the period to this baseline for 15 spending and five revenue categories.



Appendix 2: Population Change 2002–2008, State by State

State Population Change 2002 to 2008 (thousands)			
	2002	2008	Change
Rhode Island	1,069,725	1,050,788	-2%
Louisiana	4,482,646	4,410,796	-2%
Michigan	10,050,446	10,003,422	0%
Ohio	11,421,267	11,485,910	1%
West Virginia	1,801,873	1,814,468	1%
Vermont	616,592	621,270	1%
Pennsylvania	12,335,091	12,448,279	1%
New Jersey	8,590,300	8,682,661	1%
Massachusetts	6,427,801	6,497,967	1%
North Dakota	634,110	641,481	1%
Connecticut	3,460,503	3,501,252	1%
Maine	1,294,464	1,316,456	2%
New York	19,157,532	19,490,297	2%
Iowa	2,936,760	3,002,555	2%
Mississippi	2,871,782	2,938,618	2%
Illinois	12,600,620	12,901,563	2%
Nebraska	1,729,180	1,783,432	3%
Alabama	4,486,508	4,627,851	3%
Kansas	2,715,884	2,802,134	3%
New Hampshire	1,275,056	1,315,809	3%
Maryland	5,458,137	5,633,597	3%
Wisconsin	5,441,196	5,627,967	3%
Hawaii	1,244,898	1,288,198	3%
Indiana	6,159,068	6,376,792	4%
Minnesota	5,019,720	5,220,393	4%
Missouri	5,672,579	5,911,605	4%
Oklahoma	3,493,714	3,642,361	4%
Kentucky	4,092,891	4,269,245	4%
California	35,116,033	36,756,666	5%

State Population Change 2002 to 2008 (thousands)			
	2002	**2008**	**Change**
Arkansas	2,710,079	2,855,390	5%
South Dakota	761,063	804,194	6%
Montana	909,453	967,440	6%
Virginia	7,293,542	7,769,089	7%
Alaska	643,786	686,293	7%
Wyoming	498,703	532,668	7%
New Mexico	1,855,059	1,984,356	7%
Tennessee	5,797,289	6,214,888	7%
Oregon	3,521,515	3,790,060	8%
Colorado	4,506,542	4,861,515	8%
Washington	6,068,996	6,549,224	8%
Delaware	807,385	873,092	8%
South Carolina	4,107,183	4,479,800	9%
Florida	16,713,149	18,328,340	10%
North Carolina	8,320,146	9,222,414	11%
Texas	21,779,893	24,326,974	12%
Georgia	8,560,310	9,685,744	13%
Idaho	1,341,131	1,523,816	14%
Utah	2,316,256	2,736,424	18%
Arizona	5,456,453	6,500,180	19%
Nevada	2,173,491	2,600,167	20%

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