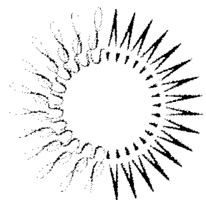

THE
PEW
CENTER ON THE STATES

Beyond California

States in Fiscal Peril

NOVEMBER 2009

The Pew Center on the States (www.pewcenteronthestates.org), a division of The Pew Charitable Trusts, identifies and advocates effective policy approaches to critical issues facing the states. The Pew Charitable Trusts is driven by the power of knowledge to solve today's most challenging problems. Pew applies a rigorous, analytical approach to improve public policy, inform the public and stimulate civic life.

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For additional information on Pew and the Center on the States, please visit *www.pewcenteronthestates.org.*

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November 2009

Dear Reader:

Many economists are optimistic that America's Great Recession may be turning the corner. States, however, are not celebrating. Plagued by record-setting revenue losses, the housing bust and credit crisis, high unemployment and a host of other challenges, states have struggled through nearly two years of budgetary pain—and are bracing for more.

California's fiscal problems are in a league of their own—but the Golden State is hardly alone. Some of the same factors driving California toward the brink of insolvency also are hurting an array of other states. This report, *Beyond California: States in Fiscal Peril*, takes a close look at nine states particularly affected: Arizona, Florida, Illinois, Michigan, Nevada, New Jersey, Oregon, Rhode Island and Wisconsin. While not a comprehensive diagnosis of states' fiscal health, this study begins to help us understand why some states are suffering more acutely from the nation's economic crisis than others—and which may have the toughest time regaining their footing.

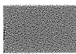
Beyond California is just one of the Pew Center on the States' efforts to track, assess and improve states' fiscal health.

Our *Stateline.org* team of seasoned reporters monitors budget and policy developments across the 50 states, producing a daily roundup of news from around the country, original weekly analysis and ongoing coverage of critical topics such as the federal stimulus. Meanwhile, Pew Center on the States researchers generate in-depth reports that compare and contrast how states are faring on particularly important issues. For example, our *Clean Energy Economy* study was a first-ever, state-by-state count of jobs, businesses and investments aimed at both spurring economic growth and sustaining the environment. *Promises with a Price* revealed the extraordinary bill facing states for pension and health care benefits for their retired employees. And *Grading the States* assessed how well states are managing their fiscal resources. All of our reports seek to highlight factors that have contributed to states' financial stress and identify effective strategies and innovative approaches to help them meet their challenges.

America's economic recovery and prosperity hinge in key ways on how quickly and to what degree states emerge from the Great Recession. We will be releasing several reports over the coming year that will take a closer look at states in trouble and policy options that might be most effective in helping them weather the crisis. For now, this report shows California is not the only state whose fiscal health hangs in the balance.

Sincerely,

Susan Urahn
Managing Director, Pew Center on the States



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Executive Summary

The nation is watching closely as California struggles to avoid going broke.

So far, the most-populous state—and eighth-biggest economy in the world—has unsuccessfully sought a $7 billion federal loan guarantee to pay its bills, temporarily issued IOUs to state employees and business contractors because it ran short of cash, and started shutting state offices several Fridays a month to close the largest state budget gap in the country. The same housing-market bust that triggered the national recession in December 2007 also set off the Golden State's fiscal crisis. But a challenging mix of economic, money-management and political factors has pushed California to the brink of insolvency.

California's problems are in a league of their own. But the same pressures that drove it toward fiscal disaster are wreaking havoc in a number of states, with potentially damaging consequences for the entire country.

This examination by the Pew Center on the States looks closely at nine states, in addition to California, that are particularly affected. All of California's neighbors—Arizona, Nevada and Oregon—and fellow Sun Belt member Florida were severely hit by the bursting of the housing bubble and landed on Pew's top 10 list of recession-stricken states facing a similar set of fiscal difficulties. A Midwestern cluster comprising Illinois, Michigan and Wisconsin emerged, too, as did the Northeastern states of New Jersey and Rhode Island.

These states' budget troubles can have dramatic consequences for their residents: higher taxes, layoffs or furloughs of state workers, longer waits for public services, more crowded classrooms, higher college tuition and less support for the poor or unemployed. But they also pose challenges for the country as a whole. The 10 states account for more than a third of America's population[1] and economic output.[2] And actions taken by state governments to balance their budgets—such as tax increases and drastic spending cuts—can slow down the nation's economic recovery.

The Pew Center on the States compiled its list by scoring all 50 states according to six factors that contributed substantially to California's ongoing fiscal woes: (1) high foreclosure rates; (2) increasing joblessness; (3) loss of state revenues; (4) the relative size of budget gaps; (5) legal obstacles to balanced budgets—specifically, a supermajority requirement for some or all tax increases or budget bills; and (6) poor money-management practices.

Pew's list is based on the best available data as of July 31, 2009. This snapshot captures an important juncture: the first and second quarters of 2009, the pressure point for governors and legislatures in the throes of crafting their budgets for fiscal year 2010 (which began on July 1, 2009, in all but four states).[3] This examination relies on economic and revenue numbers from that time period, rather than on the latest statistics, so that the Pew Center on the States could compare states at a similar stage in their budget process.

While California's fiscal problems are better known, our study identifies states that were impacted nearly as much or more by the recession in terms of some key factors, and

that at the same time exhibit some of the management challenges experienced by California policy makers. Our analysis is not a comprehensive diagnosis of states' fiscal health, which also is affected by issues such as demographics, debt burden and public pension liabilities. But each of the six factors we highlight is a warning sign, and collectively they allow one way of measuring how states are faring in comparison with California (Exhibit 1). (For details on how we chose the indicators and analyzed the data, please see the Methodology section.)

Close behind the 10 states on our list were states such as Colorado, Georgia, Kentucky, New York and Hawaii. (The full 50-state scorecard is included in the Appendix on page 65.) New York's revenue decline, for example, was steeper in the first quarter of 2009 than in all but four states, and its fiscal year 2010 budget gap was sixth-worst in the nation. In fact, all but two states, Montana and North Dakota, confronted budget shortfalls for fiscal year 2010, with some facing their largest deficits in modern history—an indication of the breadth of the recession.[4] States overall struggled to close an estimated $162 billion in gaps for fiscal year 2010; since July, that tally has grown by nearly $16 billion.[5] Tax collections in all 50 states for the first quarter of 2009 were down a record 11.7 percent from 2008.[6] Meanwhile, the unemployment rate was 9.2 percent nationally during the second quarter of 2009 (the latest figure available at the time of our examination), with 12 states suffering from double-digit jobless rates. That rate was up from 4.8 percent when the recession officially began in the fourth quarter of 2007.[7]

States' fiscal situations are widely expected to worsen even when the national economy starts to recover. In fact, unemployment jumped nationally in the third quarter to 9.6 percent. Federal stimulus money that helped states cover some expenses starts running out at the end of 2010. Plus, states historically have their worst years shortly after a national recession ends, as they cope with higher Medicaid and other safety-net expenses at the same time revenues lag because of stubborn unemployment.

Exhibit 1. **The California Scorecard: States in Fiscal Peril**

	Change in revenue[1]	Size of budget gap[2]	Change in unemployment rate[3]	Foreclosure rate[4]	Needs supermajority?	GPP "Money" grade	Score
United States	-11.7%	17.7%[5]	4.4	1.37%	17 yes, 33 no	B-[5]	17[5]
California	-16.2%	49.3%	4.6	2.02%	Yes	D+	30
Arizona	-16.5%	41.1%	3.0	2.42%	Yes	C+	28
Rhode Island	-12.5%	19.2%	4.5	1.50%	Yes	D+	28
Michigan	-16.5%	12.0%	6.0	1.47%	Yes	C+	27
Oregon	-19.0%	14.5%	6.4	.86%	Yes	C+	26
Nevada	1.5%	37.8%	5.2	3.12%	Yes	C+	26
Florida	-11.5%	22.8%	4.4	2.72%	Yes	B-	25
New Jersey	-15.8%	29.9%	3.7	1.18%	No	C-	23
Illinois	-10.9%	47.3%	3.5	1.44%	No	C-	22
Wisconsin	-11.2%	23.2%	4.4	.96%	No	C+	22

[1]From first quarter 2008 to first quarter 2009
[2]For fiscal year 2010, as of July 2009
[3]From second quarter 2008 to second quarter 2009
[4]New foreclosures in first quarter 2009
[5]Average of all 50 states

NOTE: Based on a highest possible score of 30
SOURCE: Pew Center on the States 2009, reflecting best available and most current data as of July 31, 2009.

The Pew Center on the States is pursuing a series of research studies that will take a closer look at states under fiscal stress and policy options that might be most effective in helping them find their footing. For now, this report shows California is not the only state whose fiscal health hangs in the balance.

The California Story

A quick look at California's troubles helps explain why the factors used in Pew's analysis are telling.

The state's history of budget deficits precedes the current recession. The Golden State had the largest budget shortfall during the last recession early this decade.[8] This time, the state's budget troubles are even bigger.

The problems stem in part from the housing market. Nationally, foreclosures on first mortgages hit a record high at the beginning of 2009.[9] During the first quarter, lenders began foreclosures on 1.37 percent of first mortgages. But California's rate was even higher, at 2 percent, the fourth-highest rate of any state. Unemployment surged as the housing market collapsed. The state's jobless rate increased 4.6 percentage points from 6.8 percent in midyear 2008 to 11.4 percent in midyear 2009, the eighth-biggest uptick in the country.

The weakening economy took its toll on state finances. Revenues fell sharply, by nearly a sixth between the first quarters of 2008 and 2009.[10] California topped all states for the magnitude of its budget shortfall in fiscal year 2010, both in total dollars and as a share—in this case, nearly half—of its general funds, which pay for most state operations. In July 2009, California lawmakers plugged a $45.5 billion hole in the fiscal 2010 budget,[11] but by October 2009 another $1.1 billion gap had emerged.[12]

The ability of lawmakers in Sacramento to fix budget problems is constrained by several voter-imposed restrictions, including requirements that all budgets and tax increases pass the legislature by a two-thirds majority.[13] Practically, the supermajority requirement means that Democrats, who firmly control the legislature, must win some Republican support for those proposals, creating a recipe for gridlock. In 2008, the constraints hampered efforts to pass a budget, which was finally signed a record 85 days late.[14] In 2009, the governor and legislators were unable to agree on how to fix the budget and turned to voters to try to pass $6 billion in tax increases the lawmakers could not enact themselves. When voters rejected those tax hikes, it fell back to lawmakers to erase the last $26 billion of red ink.

California's record of poor fiscal practices left its officials ill-equipped to handle the latest downturn in the economy. In 2008, the Government Performance Project (GPP), a Pew initiative, gave the state a D+ for its money-management practices, tied for the lowest grade among the 50 states. The GPP cited, in part, California's persistent structural deficit, which results when a state's expenses outstrip its revenues.[15]

Adding annually to the budget problems, California lawmakers since the late 1990s have increased spending by more than the rise in state population or inflation.[16] In the meantime, policy makers rarely set aside in the rainy day fund the 5 percent of general funds permitted by law, giving the state less of a cushion during lean times.[17]

At Least Nine Other States Worth Watching

While California takes the spotlight, at least nine other states face hardships nearly as daunting (Exhibit 2). They share important characteristics with California, but they may not be destined to follow in the Golden State's footsteps. Some states in this report already have responded aggressively to their budget crisis, although it is too soon to tell whether their actions will put them on solid fiscal footing. And again, these are hardly the only states at risk.

The state profiles in this report go beyond the data in the scorecard to give a fuller picture of the recession's deep and pervasive effects on states' financial and economic well-being. The report makes clear that the recession severely impacted states from different geographic regions with different types of economies, tax structures and political leanings.

Here are the major challenges facing each of the nine states profiled in this report:

Arizona

As the economic news grew bleaker and state revenues sank during the past two years, Arizona's lawmakers relied on one-time fixes to balance its budget instead of making long-term changes. In part, they were hamstrung by voter-imposed spending constraints, a tax structure highly reliant on a growing economy and a series of tax cuts, made in the 1990s, that has limited revenue. At this writing, policy makers still had not decided how to bridge a $1 billion gap in the current fiscal year's budget.

Rhode Island

The country's smallest state has big problems. It was one of the first states to fall into the recession because of the housing crisis and may be one of the last to emerge. Rhode Island consistently ranks near the top of states with the highest unemployment rates, and last year it had the highest home foreclosure rates in all of New England. State government has a poor record of managing its finances, and its economic recovery is hampered by high tax rates, persistent state budget deficits and a lack of high-tech jobs.

Michigan

Michigan never climbed out of the recession that started in 2001, and matters only became worse during the Great Recession. Two of the Big Three Detroit-based automakers went bankrupt in 2009, sending shockwaves through a state that is on track to lose a quarter of its jobs this decade. The recession accelerated drops in state revenues and has left Michigan's government trying to deal with today's problems on a 1960s-sized budget.

Nevada

Nevada's unique gaming-based economy is in jeopardy, as is its state budget that relies on gambling and sales taxes to provide 60 percent of its revenues. Year-over-year revenue has fallen for two consecutive years, a record. But changes to the tax system are difficult to make because, unlike most states, Nevada has written some of its tax laws into the state constitution. So increasing the sales tax or adding an income tax, for example, would be nearly impossible because it requires voters to amend the constitution.

Oregon

The downturn has severely affected some of Oregon's leading industries, such as timber and computer-chip manufacturing, and exposed the state's reliance on volatile corporate and personal income taxes—the result of voters

rejecting a statewide sales tax nine times. State revenues plummeted 19 percent between the first quarter of 2008 and the first quarter of 2009, a reflection of Oregon's heavy reliance on income taxes. Lawmakers this year approved more than $1 billion in new taxes to make sure the state can pay its bills. But voters in January 2010 will have the final say on $733 million in new income taxes that are part of that package, and the electorate historically rejects tax hikes at the polls.

Florida

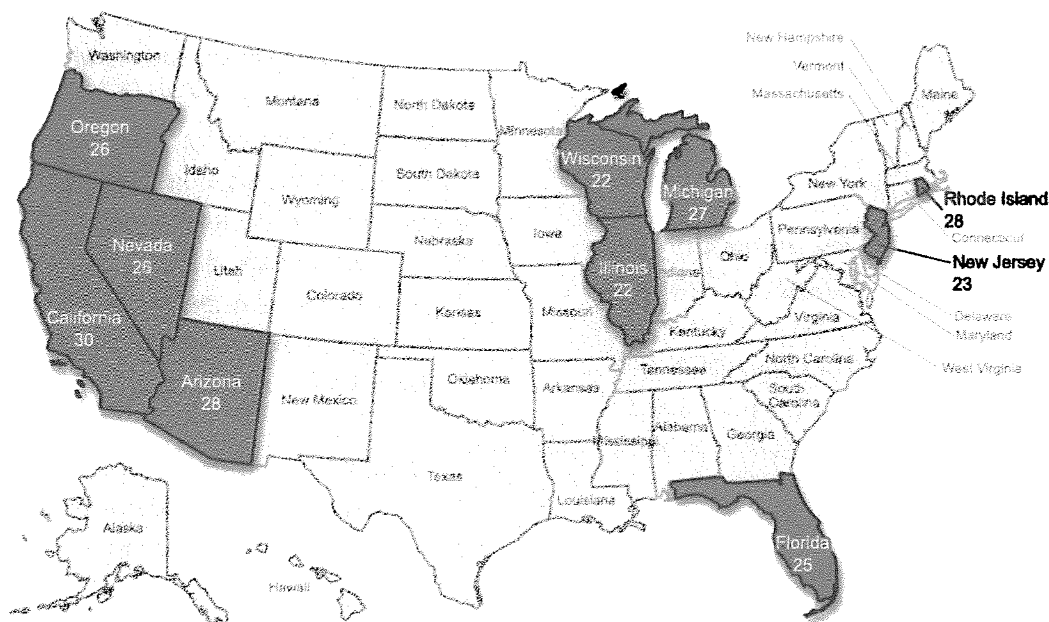
For the first time since World War II, Florida's population is shrinking. This is a disturbing revelation for a state that has built its economy—and structured its budget—on the assumption that throngs of new residents will move to its sunny shores each year. Lawmakers tried to head off trouble by agreeing in 2009 to raise $2 billion in new revenue, but it already appears that legislators will face a similar-sized budget shortfall next year.

New Jersey

New Jersey is playing catch-up after years of fiscal mismanagement and a daunting structural imbalance between what it collects and what it spends. The woes of nearby Wall Street—which supports approximately one-third of New Jersey's economy—only made matters worse. Growing debt payments and perennially underfunded pension systems will make the Garden State's road to recovery even rougher.

Exhibit 2. **At least nine states beyond California face fiscal peril**

The Pew Center on the States chose six factors that have contributed to California's fiscal crisis. All 50 states were scored based on those factors, with California receiving 30 out of a possible 30 points. This report focuses on the nine states with next-highest scores.



SOURCE: Pew Center on the States, based on analysis of data from the Nelson A. Rockefeller Institute of Government, the Center on Budget and Policy Priorities, the U.S. Department of Labor's Bureau of Labor Statistics, the Mortgage Bankers Association, the Public Policy Institute of California and the Pew Center on the States' Government Performance Project; best available data as of July 31, 2009.

Illinois

Illinois entered the nation's fiscal crisis in a precarious position. Since the last recession earlier this decade, the state piled up huge backlogs of Medicaid bills and borrowed money to pay its pension obligations. Its problems grew worse once the Great Recession hit. The state's current budget still relies heavily on borrowing and paying bills late. The budget shortfall lawmakers confronted for fiscal year 2010 topped $13.2 billion, among the worst budget gaps in the country.

Wisconsin

To most, Wisconsin does not seem to have the same problems managing its money as California, its dairy rival. But the recession has hit Wisconsin harder than most state governments, especially when it comes to lost tax revenues and the size of the hole in its budget. On top of that, unemployment is climbing as the state's largest sector—manufacturing—sputters. Wisconsin's history of budget shortfalls and pattern of borrowing frequently to cover operating expenses, among other measures, made it poorly positioned to weather the most recent severe economic downturn.

Key Takeaways

Each of these 10 states tells a unique story—but what lessons can be drawn from looking at them as a group? We observed four common threads that could point to vulnerabilities in others as they try to navigate their way out of the fiscal crisis:

- **Unbalanced economies.** A number of states in our top 10 list have struggled in part because their economies have depended on a particular industry hit heavily by this recession. Michigan's overreliance on the auto industry is a well-known tale, but other states have found themselves in a similar boat—for example, Nevada and gambling, Oregon and timber and silicon chips, and Florida and tourism and population growth. This emphasis on a sector may have paid off in times past, but it put these states at greater risk when the recession hit. (Two that to date have been relatively unscathed by the nation's fiscal crisis, Montana and North Dakota, rely more heavily on energy and agriculture than most, and those industries at the moment are doing better than many other sectors.) States cannot choose their natural resources, of course, but they can budget and manage for additional volatility that can result from dependence on a particular sector. Increasingly, states are seeking to diversify their economies.

- **Revenues and expenditures out of alignment.** The unusual severity of this recession has led to states across the country facing substantial gaps between what they collect in revenue and what they spend. But many of our top 10 states, including California, Illinois, Michigan, New Jersey, Rhode Island and Wisconsin, have a history of persistent shortfalls. Aligning revenues and expenditures is a key component of fiscal health; both Oregon and Florida took significant steps last spring to try to achieve that goal.

- **Limited ability to act.** In most of our top 10 states, lawmakers' latitude to respond to the fiscal crisis by raising taxes or cutting spending is especially limited. In Arizona, voters earlier this decade approved measures that, in essence, have pre-programmed spending on Medicaid

and education. In Florida, policy makers are struggling to find the funds needed to reduce class sizes to levels mandated by a 2002 constitutional amendment. Nevada lawmakers cannot raise the sales tax unless voters agree to amend the state constitution. Oregon has a revenue cap that forces the state to deliver rebates to taxpayers when times are good but that can strip it of much-needed revenue when times are bad. And in California, ballot measures approved by voters during the past several decades have bound policy makers on both the revenue and expenditure sides of the ledger, by directing funds to specific purposes and capping property taxes.

- **Putting off tough decisions.** Several states on the top 10 list were unable to muster the political resolve to make long-term fixes to their fiscal problems. Virtually every state had to make tough decisions this year about where to cut and how to raise additional revenues, including through taxes or fees.

But in some states, lawmakers punted the responsibility—either by asking their voters or governors to make the call, or by relying heavily on borrowing or accounting methods that put off harder decisions until later. As noted above, lawmakers in California asked voters to enact $6 billion in tax increases, all of which were rejected. In Illinois, the legislature passed a budget significantly out of balance, leaving it to the governor to make the cuts. The state also has a history of deferring its bills, including payments to cover its public-sector pension liabilities; this year, Illinois borrowed money to pay for its annual pension contribution. And New Jersey has perennially borrowed money to balance its budget, and its total debt has soared as a result. With 37 governors' seats up for election and 46 states choosing legislators in November 2010, political leadership will be a potent factor in shaping how states meet their fiscal challenges going forward.

Methodology

Pew's researchers started with two basic questions: How did California get into its current fiscal situation, and could other states find themselves facing similar difficulties?

To empirically gauge California's fiscal conditions and assess whether other states share similar characteristics, Pew's researchers sought to understand the factors that contributed to the Golden State's economic predicament. We reviewed the relevant literature related to public sector fiscal/financial management. In addition, we closely followed news accounts of negotiations between California Governor Arnold Schwarzenegger (R) and the state legislature.

A state's fiscal health is determined and affected by a wide range of complex factors, including economic variables, demographics and political developments. But after consulting existing research, Pew's researchers chose to focus on six indicators:

1. Change in revenue
2. Budget gap as a percentage of general funds
3. Change in unemployment
4. Foreclosure rate
5. A supermajority requirement to raise revenue or ratify budgets
6. The "Money" grade from the Pew Center on the States' Government Performance Project, which assesses how well states are managing their fiscal affairs

We selected these factors because, as described in the Executive Summary, each played a significant role in creating California's fiscal crisis or in making its problems more difficult to fix.

The Data

Pew used the best available and most current data as of July 31, 2009 to score California and other states based on these six indicators. We chose this particular time period to reflect the circumstances as of the first and second quarters of 2009, when state lawmakers were crafting their fiscal year 2010 budgets.

Change in Revenue

Pew's researchers included change in tax revenue as one of our six indicators because if tax revenues decline, then states must use rainy day funds, cut budgets, issue additional debt or, in the case of this recent recession, look to the federal government for an infusion of funds. To calculate change in revenue, we used data on tax collections from the Nelson A. Rockefeller Institute of Government, which collects information directly from the states and shares its information with the U.S. Census Bureau.[18] Because the recession officially began in December 2007, we looked at the amount of total revenue collected in the first quarter of 2008 and the amount collected in the first quarter of 2009—the most recent information available as of July 31, 2009—and measured the change between those figures.

Budget Gap

Researchers looked at states' total budget gaps as a percentage of general funds for fiscal year 2010. This indicator is important because if states have budget shortfalls as a result of increased expenditures or decreased revenue, they must balance their budgets, typically by slashing services or raising taxes, both of which can worsen the effects of a recession, according to the economic literature.[19] States also can issue debt.

We used data measuring budget shortfalls collected by the Center on Budget and Policy Priorities (CBPP).[20] CBPP's calculations of states' budget shortfalls were originally published on September 8, 2008. These data are regularly updated, and Pew's researchers used the most recent data as of July 31, 2009.[21] We also consulted the National Conference of State Legislatures' (NCSL) data on budget gaps, which are derived from legislative fiscal offices across the country. NCSL indicates smaller budget gaps than CBPP does, but the NCSL data are incomplete and do not cover all states. Nonetheless, we found that CBPP's and NCSL's data are highly correlated.[22]

Change in Unemployment

Next, we examined the percentage-point change in unemployment from the second quarter of 2008 to the second quarter of 2009, the most recent data available as of July 31, 2009. A rise in unemployment increases demand for state benefits, such as unemployment insurance and Medicaid coverage. In addition, the resulting decrease in consumption can cause a decline in both payroll and sales taxes, in turn impeding revenue growth. Pew obtained unemployment rates from the U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics dataset.[23]

Foreclosure Rate

We also looked at the total foreclosure rate by state in the first quarter of 2009—the most recent data as of July 31, 2009—from the Mortgage Bankers Association's National Delinquency Survey.[24] Foreclosures are an important indicator because they shrink the base of state and local property taxes. In addition, as foreclosures in a state increase, the possibilities of higher consumer debt burden and bankruptcy will lead to less consumption and a reduction in sales tax receipts. Finally, foreclosures decrease both the price and the demand for housing, which harms the construction industry—a major sector for many cities and states—and housing-related services.

Supermajority Requirements to Pass Tax Increases or Budget Bills

Seventeen states require a supermajority vote by their legislatures to pass some or all tax increases, budget bills or both.[25] We looked at supermajority requirements to enact tax increases because finance experts generally agree that this institutional arrangement significantly reduces taxes or constrains a state's ability to generate greater revenue by increasing taxes.[26] Pew's researchers also considered a supermajority requirement to pass a state's budget, which makes it imperative for state lawmakers to work together to cut budgets and pass budget bills.[27]

The Government Performance Project "Money" Grade

For more than a decade, the Pew Center on the States' Government Performance Project (GPP) has assessed how well states manage their money, people, information and infrastructure. For the "Money" component of the latest report card, issued in 2008, the project evaluated the degree to which a state takes a long-term

perspective on fiscal matters, the timeliness and transparency of the budget process, the balance between revenues and expenditures and the effectiveness of a state's contracting, purchasing, financial controls and reporting mechanisms. The GPP typically surveys state budget offices, reviews state documents and public data and conducts in-depth interviews with state officials to determine how well states are managing their finances.[28] The latest set of grades was based on data from states' fiscal years 2005 and 2006, so it helps provide a measure of how well states were managing their finances leading up to the recession.

The California Scorecard

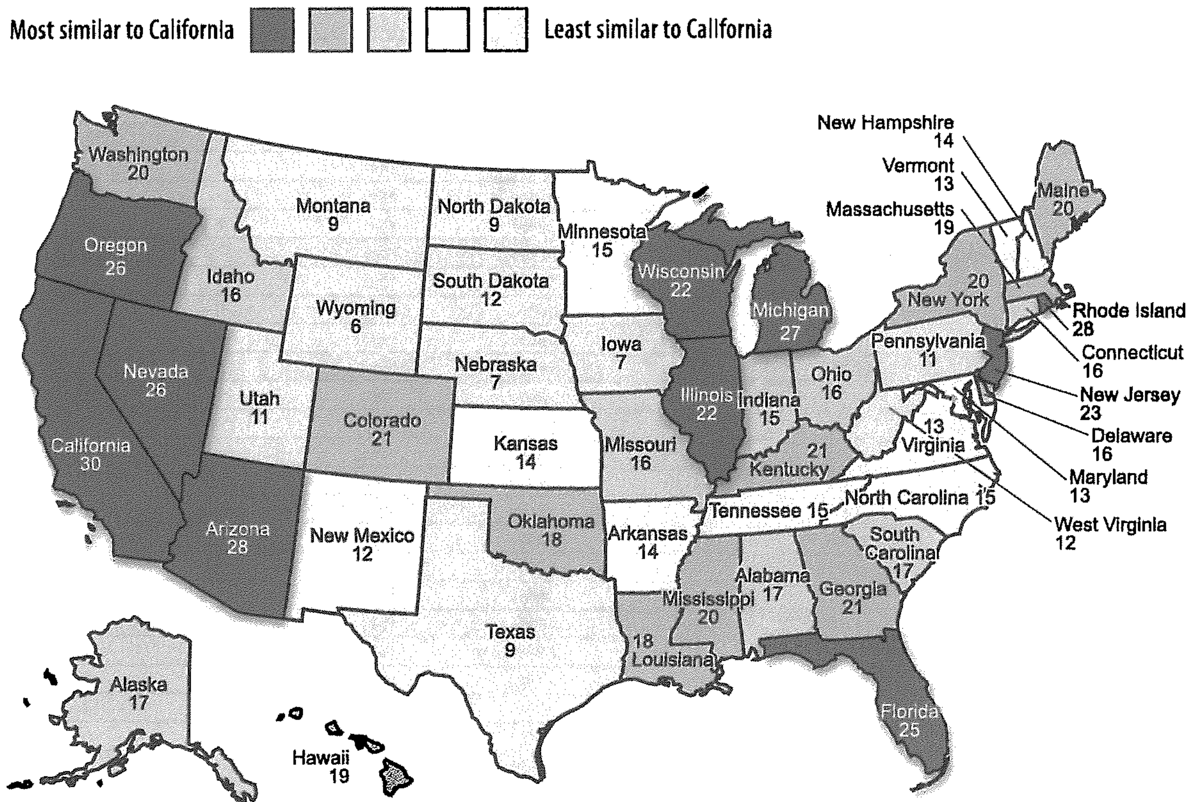
Pew collected data on all six indicators for all 50 states. We weighted each indicator equally and split the data into quintiles—assessing which states emerged as the worst in each category. Pew's researchers then "scored" the states. If a state was in the worst quintile for a given indicator, it was assigned five points; if a state was in the second-worst quintile for any given indicator, it was given four points, and so forth. There was one exception to the rule: the supermajority requirement to raise some or all revenues, pass budget bills or both. If a state had this requirement in place, it was assigned five points; if not, it was given no points. We then totaled the scores for each indicator to arrive at a final score. The highest and worst score a state could receive was a 30.

Researchers also consulted Moody's Rating Services to see how closely our list of states aligned with Moody's most recent municipal bond ratings for states. The ratings often are done on a schedule or triggered by an event, and as a result, the majority of states had not been re-rated as of the beginning of 2009. But we observed that five states with new negative outlook ratings were also among our scorecard's top 10: Arizona, California, Florida, Illinois and Rhode Island. The remaining five—Michigan, Nevada, New Jersey, Oregon and Wisconsin—were not reevaluated in 2009. Although this makes relying on any current evaluation a challenge, none of these states had a rating higher than AA+.

There certainly are other important variables to consider and other ways to slice the data to measure the relative fiscal stress of states. The scorecard used in this report is helpful because it provides a picture of the fiscal challenges that many states are facing through the lens of California's experience.

Exhibit A-1. **How does your state compare with California?**

Using indicators chosen to gauge California's fiscal conditions, Pew Center on the States collected data for all 50 states. Pew's researchers then "scored" the states based on the results, with California ranking highest at 30.



NOTE: For components of individual state scores, see Exhibit A-2, p. 65.

SOURCE: Pew Center on the States, based on analysis of data from the Nelson A. Rockefeller Institute of Government, the Center on Budget and Policy Priorities, the U.S. Department of Labor's Bureau of Labor Statistics, the Mortgage Bankers Association, the Public Policy Institute of California and the Pew Center on the States' Government Performance Project; best available data as of July 31, 2009.

Exhibit A-2. **The California Scorecard: States in Fiscal Peril**

	Change in revenue[1]	Size of budget gap[2]	Change in unemployment rate[3]	Foreclosure rate[4]	Needs supermajority?	GPP "Money" grade	Score
United States	-11.7%	17.7%[5]	4.4	1.37%	17 yes, 33 no	B-[5]	17[5]
California	-16.2%	49.3%	4.6	2.02%	Yes	D+	30
Alabama	3.0%	16.7%	4.9	.89%	No	C-	17
Alaska	-72.0%	30.0%	1.6	.40%	No	C-	17
Arizona	-16.5%	41.1%	3.0	2.42%	Yes	C+	28
Arkansas	-4.2%	3.2%	2.0	.72%	Yes	B-	14
California	-16.2%	49.3%	4.6	2.02%	Yes	D+	30
Colorado	-10.1%	18.6%	2.8	.86%	Yes	C+	21
Connecticut	-11.4%	23.2%	2.6	.94%	No	B-	16
Delaware	-3.0%	17.6%	3.6	.78%	Yes	A-	16
Florida	-11.5%	22.8%	4.4	2.72%	Yes	B-	25
Georgia	-19.1%	23.8%	3.7	1.34%	No	B+	21
Hawaii	-10.2%	19.1%	3.5	1.04%	No	C+	19
Idaho	-14.2%	16.4%	3.2	1.03%	No	B+	16
Illinois	-10.9%	47.3%	3.5	1.44%	No	C-	22
Indiana	-3.5%	7.5%	5.0	1.28%	No	B+	15
Iowa	3.6%	13.2%	1.7	.69%	No	B+	7
Kansas	-11.1%	22.6%	2.5	.70%	No	B-	14
Kentucky	-3.8%	11.3%	4.3	.91%	Yes	C+	21
Louisiana	-8.8%	21.6%	2.4	.86%	Yes	B	18
Maine	-11.0%	21.4%	3.1	1.04%	No	C	20
Maryland	-1.2%	18.7%	3.0	1.00%	No	B+	13
Massachusetts	-16.8%	17.9%	3.4	.90%	No	C+	19
Michigan	-16.5%	12.0%	6.0	1.47%	Yes	C+	27
Minnesota	-9.7%	21.0%	2.9	1.07%	No	B+	15
Mississippi	-7.6%	9.6%	2.6	1.11%	Yes	C+	20
Missouri	-1.3%	10.3%	3.1	.85%	Yes	B+	16
Montana	3.2%	0.0%	1.9	.50%	No	C+	9
Nebraska	-5.5%	4.3%	1.5	.72%	No	A-	7
Nevada	1.5%	37.8%	5.2	3.12%	Yes	C+	26
New Hampshire	-2.5%	16.2%	2.8	.95%	No	C-	14
New Jersey	-15.8%	29.9%	3.7	1.18%	No	C-	23
New Mexico	-12.8%	6.3%	2.4	.74%	No	B-	12
New York	-17.0%	32.3%	3.0	.76%	No	C+	20
North Carolina	-7.6%	21.9%	5.0	.65%	No	B-	15
North Dakota	-12.1%	0.0%	1.1	.35%	No	B	9
Ohio	-9.0%	12.3%	4.4	1.24%	No	B	16
Oklahoma	-12.6%	13.6%	2.7	.76%	Yes	B-	18
Oregon	-19.0%	14.5%	6.4	.86%	Yes	C+	26
Pennsylvania	-5.5%	18.0%	3.0	.70%	No	B	11
Rhode Island	-12.5%	19.2%	4.5	1.50%	Yes	D+	28
South Carolina	-11.0%	12.5%	5.5	.96%	No	B-	17
South Dakota	-6.2%	2.9%	2.1	.52%	Yes	B+	12
Tennessee	-10.2%	9.7%	4.3	.93%	No	B-	15
Texas	-8.8%	9.5%	2.4	.75%	No	B	9
Utah	-3.4%	19.8%	2.1	1.04%	No	A	11
Vermont	-7.2%	24.8%	2.8	.63%	No	B-	13
Virginia	-19.9%	10.9%	3.2	.83%	No	A-	13
Washington	-9.0%	23.3%	4.0	.71%	Yes	A-	20
West Virginia	-9.4%	4.9%	4.1	.77%	No	B	12
Wisconsin	-11.2%	23.2%	4.4	.96%	No	C+	22
Wyoming	19.7%	1.7%	2.1	.47%	No	B	6

[1] From first quarter 2008 to first quarter 2009
[2] For fiscal year 2010, as of July 2009
[3] From second quarter 2008 to second quarter 2009
[4] New foreclosures in first quarter 2009
[5] Average of all 50 states

NOTE: Based on a highest possible score of 30
SOURCE: Pew Center on the States 2009, reflecting best available and most current data as of July 31, 2009.