Fiscal Federalism: The Looming Federal Fiscal Crisis and Its Effect on Tennessee

Staff Report

March 2007

Tennessee Advisory Commission on Intergovernmental Relations
www.state.tn.us/tacir

TACIR Publication Policy

Staff Information Reports, Staff Briefs, Staff Technical Reports and Staff Working Papers and TACIR Fast Facts are issued to promote the mission and objectives of the Commission. These reports are intended to share information and research findings relevant to important public policy issues in an attempt to promote wider understanding.

Only reports clearly labeled as "Commission Reports" represent the official position of the Commission. Others are informational.

The Tennessee Advisory Commission on Intergovernmental Relations

226 Capitol Boulevard Building • Suite 508 • Nashville, Tennessee 37243
Phone: 615.741.3012 • Fax: 615.532.2443
E-mail: tacir@state.tn.us • Website: www.state.tn.us/tacir

Fiscal Federalism: The Looming Federal Fiscal Crisis and Its Effect on Tennessee

Prepared by:

Rose Naccarato, Ph.D.
Senior Research Associate
Lead Researcher and Author

❖

Cliff Lippard, M.P.A.
Director of Fiscal Affairs
Project Management

❖

Teresa Gibson
Publications Associate

❖

Harry A. Green, Ph.D.
Executive Director

Staff Report
March 2007

TABLE OF CONTENTS

EXECUTIVE SUMMARY

When Tennessee faced a budgetary shortfall in 2003-2004, Governor Phil Bredesen asked not only for across-the-board cuts of 9% in all state programs, but also for cuts of 9% in state-shared revenues. These revenues often make up a substantial part of local budgets and their reduction caused local budgetary pain across the state: cities were not prepared for the cuts. Tennessee could face similar woes in the near future if federal funds to the states are cut. The state and local governments need to begin to prepare for such an eventuality so it can cushion the blow.

WARNING FROM THE U.S. COMPTROLLER GENERAL

Annual federal budget deficits, and the resulting accumulating federal debt, are likely to lead to decreases in federal spending in the years to come, while the tendency toward federal unfunded mandates shows no sign of abating. The situation is sufficiently dire that the Comptroller General of the United States, David Walker, has taken to touring with the bipartisan Concord Coalition to spread the word. Comptroller Walker and other Concord Coalition members presented their warnings at the National Conference of State Legislatures' annual meeting in Nashville in August 2006 at a session co-sponsored by TACIR.

Message from the Comptroller General

As bad as the national budget numbers look, the reality is substantially worse.

The message of this presentation was that, as bad as the national budget numbers look, the reality is substantially worse. Official budget deficit amounts do not include obligations that the federal government has in the form of future entitlement payments. While Congress' habit of borrowing from Social Security surpluses over the years has left our future payments under that program inadequately funded, the truly frightening obligations will come from Medicare and Medicaid. The nation has discussed this coming financial burden for decades: the "baby boomers" start retiring in 2008 and the problem has not yet been addressed. People really don't want to hear bad news, and politicians certainly aren't interested in telling it, so the magnitude of the problem is often overlooked.

DEFICITS WILL CONTINUE TO GROW

Even under the exceptionally rosy assumptions currently made by the federal government, federal spending is projected to grow to 28% of Gross Domestic Product (GDP) by 2040, with a deficit of 8% of GDP. The Government Accountability Office reports that the federal budget deficit reported on a cash basis–$316 billion in 2005–is grossly inaccurate. The federal deficit including *accrued liabilities*, which include commitments such as future Social Security payments and Medicare coverage, for 2005 is actually $760 billion. With more realistic assumptions, projections show a federal budget that takes up over 40% of GDP, with a deficit of almost 25% of GDP by 2040.

In addition to concerns about federal borrowing and spending decisions, economists find declining household savings rates problematic. During an economic downturn, individual households use their savings to lessen the impact, often preventing widespread bankruptcies and foreclosures. But individual household saving is at its lowest point in several decades. The savings rate was a concern in the 1980's, when it was at roughly 10% of disposable income. Since that time, it has declined steadily, reaching 5% in the mid-90's and holding at 2% through the early years of the new century. The personal savings rate in 2005 was negative for the first time since the Great Depression, and remains so in early 2007.

Foreign ownership of U.S. marketable public debt exceeded 50% for the first time in 2004. Virtually all new public debt is being purchased by foreign investors.

WHO OWNS AMERICA?

Increasing foreign ownership of U. S. debt is also a cause for concern. Foreign ownership of U. S. marketable public debt exceeded 50% for the first time in 2004. Virtually all new public debt is being purchased by foreign investors. As we chart this new debt territory, there is disagreement on what it means and how it will affect us. Economists worry that such borrowing is unsustainable, that increasing interest payments made to foreign investors will take money out of the U. S. economy, and that our creditors may gain leverage over our foreign policy.

At the same time that the United States has been racking up this debt, the nation has little to show for it in terms of key national indicators. While ranking at the top for health care expenditures, the United States is far from the top on various measures of national good health indicators. Furthermore, debt has not been able to fuel the U. S. economy enough for it to lead in GDP growth or wage growth.

PROGRAM CUTS LIKELY

The federal budget crisis is likely to lead to cuts in funding for services that states are either obligated to provide, like health care for the poor, public education and corrections, or are wise to provide, like funding for economic and community development and increases in disaster preparedness. The federal government has also shown some interest in closing off some avenues for state and local revenues by moving to further deregulate interstate commerce.

- **The Effect on Medicaid**: Plans are already underway to reduce federal Medicaid payments during fiscal year 2007, partly as a continuing move to ensure the "fiscal integrity" of the program. One of the more significant new costs to the state is the "clawback" provision that is part of the new Medicare Part D prescription drug plan. The state is required to pay the federal government 90% of the federally estimated cost of program benefits that go to Medicaid-eligible seniors and disabled persons. The Kaiser Commission on Medicaid and the Uninsured reports that Tennessee will pay $337 per Medicaid-eligible recipient. Governor Bredesen reported in his 2006-2007 budget that Tennessee will suffer a net loss of $20 million in federal funds on this program.

Plans are already underway to reduce federal Medicaid payments during fiscal year 2007.

- **The Effect on Education/No Child Left Behind**: In general, Tennessee education officials are in favor of NCLB and believe that its requirements are good ones, as evidenced by the fact that Tennessee was already on the road to implementing similar requirements. Tennessee's existing annual assessments give the state an advantage in implementing NCLB. Though the federal program required some changes to the assessment procedure, it resulted in receiving federal funds for something that the state was already doing. Nonetheless, as the costs of increasing achievement among groups of students that require more individual attention and resources kick in, federal funding that proceeds as currently planned will not be adequate to the task. Before NCLB, Tennessee was receiving a total of $208,633,432 annually. In the current 2006-07 fiscal year, the total is $326,231,378. It is difficult to separate NCLB-required spending from other state spending to define exactly what the costs of NCLB are to Tennessee. The non-partisan National Priorities Project estimated that, for fiscal year 2006 Tennessee would require $533.8 million to fully implement the requirements of NCLB, an estimate that is fully $190.5 million above the federal aid proposed for Tennessee of $343.3 million. Even this lower amount, however, will not actually be provided to Tennessee. The National Conference of State Legislators estimated that the gap between authorized funds and appropriated funds for all states combined would be $10 billion, at a minimum, for fiscal year 2005. Tennessee actually received $326.2 million, and may face similar gaps between proposed and actual funding in the future.

- **The Effect on Community Development Block Grants**: These grants, begun in 1974, have been on the chopping block each year. Proposed cuts have been reduced or eliminated in years past, but the National Association of Counties reports that the FY 2007 federal budget proposal will slash CDBG funding by nearly $1 billion. According to the Tennessee Department of Economic and Community Development, Tennessee has received roughly $30 million per year in CDBGs over the last several years.

There have been increasing efforts in Congress to limit states' ability to tax and regulate business.

- **The Effect on Business Taxation and Regulation Limits**: There have been increasing efforts in Congress in recent years to limit states' ability to tax and regulate business. Making use of federal restrictions on state involvement in interstate commerce, legislation limiting state taxation and regulation of multi-state businesses has become a priority. The costs to Tennessee cannot yet be estimated, but, if the changes that have been suggested are made, revenue loss would be substantial. The non-partisan Multi-state Tax Commission made an estimate of $200 million lost to state and local governments as a whole.

- **The Effect on Homeland Security**: Homeland Security is a potential problem area. While the eventual shape of programs and funding mechanisms for homeland security are still in flux, there is potential for the need for large state and local expenditures. The commitment of the federal government to fund such expenditures is unclear. Both New York City and Washington, DC faced large federal homeland security funding cuts this year. Tennessee had a $13.7 million boost to its Homeland Security grant funds in 2006, but there are still concerns about how much federal funding will be made available going forward for necessary security projects.

Tennessee is likely to have to shoulder an increasing amount of the financial burden from these and other programs that are at least partially federally funded. Many of these programs have federally mandated components and/or service levels that are likely to remain, and perhaps increase, even as federal funds cover less and less of them. Tennessee must be prepared to meet its spending obligations if federal funds begin to decline.

Tennessee is likely to have to shoulder an increasing amount of the financial burden from programs that are at least partially federally funded.

ILLEGAL IMMIGRATION

The strength of federal efforts to curtail illegal immigration can affect the expenses of such immigration to states. Illegal immigration costs states money in a variety of areas, especially in uninsured medical services and education. An approximation based on the state population in 2004 and the cost of state services as estimated by the United States Census Bureau[1] fell between 1.7% and 3.4% of total spending in affected categories. Expenses are figured for three different estimates of the number of illegal immigrants in Tennessee. The Pew Hispanic Center put the number at between 100,000 and 150,000;[2] though, the Census Bureau's estimate was 154,000. With very little hard data to rely on, these estimates are quite rough and likely underestimate the true number of illegal immigrants in Tennessee.

The costs estimates are also quite rough, assuming that the cost per individual for each service is the same for undocumented residents as it is for citizens. Anecdotally, this is not the case, with such additional costs as interpreters incurred. For example, state education costs related to English language learning (ELL) are $32,189,794 in fiscal year 2007.[3] This amount does not include related local costs.

Table 1. Estimated Service Costs for Undocumented Immigrants in Tennessee

Expenditure Category	Total State Expenditure	Per Capita Cost	Cost for Undocumented Immigrants Based on 100,000 Undocumented Immigrant Estimate	Cost for Undocumented Immigrants Based on 150,000 Undocumented Immigrant Estimate	Cost for Undocumented Immigrants Based on 200,000 Undocumented Immigrant Estimate
Education	$6,477,758,000	$1,099	$109,923,000	$164,884,500	$219,846,000
Public welfare	$8,357,217,000	$1,418	$141,816,000	$212,724,000	$283,632,000
Hospitals	$342,944,000	$58	$5,820,000	$8,730,000	$11,640,000
Health	$962,310,000	$163	$16,330,000	$24,495,000	$32,660,000
Highways	$1,545,491,000	$262	$26,226,000	$39,339,000	$52,452,000
Police protection	$142,127,000	$24	$2,412,000	$3,618,000	$4,824,000
Correction	$596,095,000	$101	$10,115,000	$15,172,500	$20,230,000
Natural resources	$224,643,000	$38	$3,812,000	$5,718,000	$7,624,000
Parks and recreation	$119,821,000	$20	$2,033,000	$3,049,500	$4,066,000
Government administration	$495,428,000	$84	$8,407,000	$12,610,500	$16,814,000
TOTAL	**$19,263,834,000**	**$3,269**	**$326,894,000**	**$490,341,000**	**$653,788,000**
			These costs account for 1.70% of total expenditures	These costs account for 2.55% of total expenditures	These costs account for 3.39% of total expenditures

Sources:

U.S. Census Bureau, State Government Finances 2004 for service cost data

Pew Hispanic Center for estimated number of undocumented immigrants in Tennessee

Notes:

*The 2004 population of Tennessee reported by the U.S. Census Bureau was 5,893,000.

*This table includes the undocumented immigrant population in that number.

*The service cost estimates in this table may be conservative, as they assume equal per capita spending for immigrants and natives. In several service areas, education and hospitals for instance, undocumented immigrants may require higher per capita spending.

Illegal immigrants also pay many local taxes, including sales and property taxes. In a state like Tennessee that has no income tax, illegal immigrants pay a significant portion of state and local taxes. Our largest revenue producers, the sales tax and the property tax, are paid by all residents, legal or not.

STATE BUDGET PROBLEMS BRING CHANGE

Several states in recent years have addressed budget problems using a budgeting process known as "budgeting for outcomes." This process begins by asking constituents how much they are willing to spend and what services are their priorities. Budgets are created based on the most efficient way to serve those priorities. Including community input and streamlining service provision help governments regain trust and focus on needs rather than wants.

INTRODUCTION

In its Consolidated Federal Funds Report for fiscal year 2004, the United States Census Bureau reports that Tennessee received over $53 billion in various forms of federal funds, including assistance to individuals and businesses, salaries and wages paid to federal employees, block grants to state and local governments, procurement contracts, loans and loan guarantees, and insurance.[4] That amount is a bit more than twice the total recommended budget for the State of Tennessee for fiscal year 2006-2007. It is nearly one fourth of the state's total Gross Domestic Product (GDP) for 2005. Federal expenditures, both in aid to state and local governments and in direct payments to individuals and businesses, make up a big part of the state's economy.

As evidenced in the most recent Tennessee budget, federal spending and program cuts have led to a decrease in federal funding to both state and local governments in Tennessee. In the 2006-2007 budget presented to the legislature, Governor Bredesen estimated the decline in federal funding from the previous year at $663 million. In addition, he detailed the costs of federal mandates to Tennessee since 1987. Various funding changes to and new requirements for Medicaid make it by far the most affected. By 2005-2006, the annualized cost to the state of these changes was $390.9 million. At the same time, the annualized state cost of other federal mandates has reached $84.5 million.[5]

Federal spending and program cuts have led to a decrease in federal funding to both state and local governments in Tennessee.

At the National Conference of State Legislatures' (NCSL) annual meeting in Nashville (August 14-19, 2006), the Concord Coalition made a presentation entitled *The Federal Fiscal House is Falling*. The Coalition gives versions of this presentation at all types of gatherings across the country.[6] The presentation is meant to serve as a wake-up call to local and state officials, as well as to the citizenry at large, warning of the fiscal crisis to come if the federal government does not take steps to control debt. The Coalition's presentation to NCSL was co-sponsored by the TACIR.

By its own definition, the Concord Coalition is a nonpartisan grassroots organization dedicated to informing the public about the need for generationally responsible fiscal policy. Former U. S. Senators Warren B. Rudman (R-New Hampshire) and Bob Kerrey (D-Nebraska) serve as Co-Chairs of The Concord Coalition. Former

Secretary of Commerce Peter G. Peterson serves as President. The Concord Coalition was founded in 1992 by the late former Senator Paul Tsongas (D-Massachusetts), former Senator Warren Rudman, and former U. S. Secretary of Commerce Peter Peterson.

The Concord Coalition speakers at the NCSL meeting were

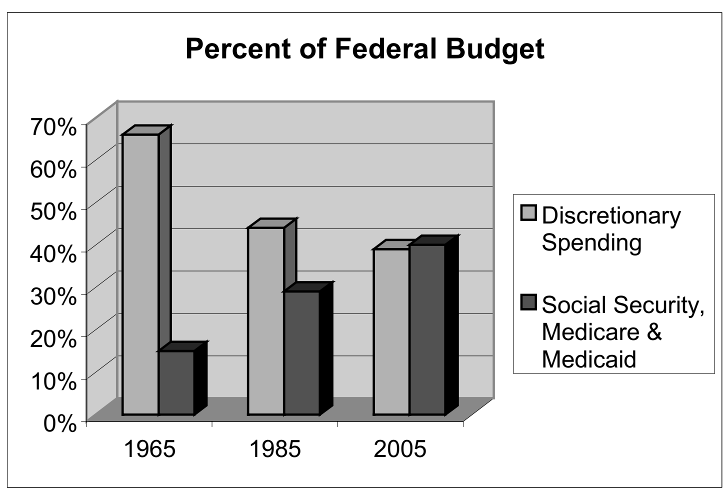
- David Walker, Comptroller General of the United States,
- Robert Bixby, Executive Director, Concord Coalition,
- Brian Riedl, Lead Budget Analyst, The Heritage Foundation, and
- Diane Lim Rogers, Research Director of the Budgeting for National Priorities project, The Brookings Institution.

The message of the presentation was simple and clear. The United States is on an unsustainable budget path, and there will have to be both tax increases and entitlement restructuring in order to change that fact. The combination of enormous federal entitlement obligations on the horizon, increasing deficit and debt levels, the lowest household savings rate since the Great Depression, and unprecedented foreign debt will soon force some very difficult decisions at the federal level. As already seen with the Tennessee budget, these federal decisions will undoubtedly have a major impact on Tennessee.

AN UNSUSTAINABLE PATH

INCREASING FEDERAL SPENDING OBLIGATIONS

The percent of the federal budget dedicated to discretionary spending has been steadily shrinking since the inception of the two medical entitlements, Medicare and Medicaid in 1965. Social Security's obligations have also continued to grow since that time. Discretionary spending was 66% of the federal budget in 1965, 44% in 1985, and 39% in 2005. Social Security represented 15% in 1965, 20% in 1985, and 21% in 2005. Medicare and Medicaid represented 0% in 1965 (neither program was yet in operation), 9% in 1985, and 19% in 2005.[7]



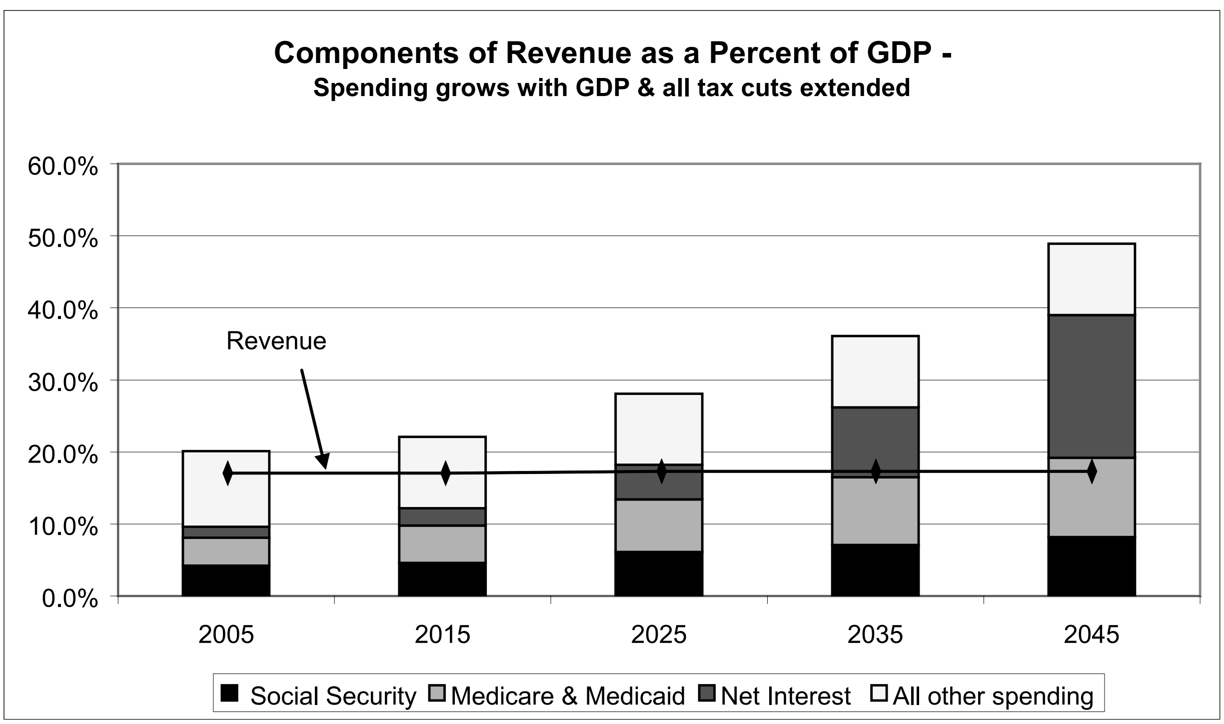
Source: U.S. Office of Management and Budget

PROJECTED SPENDING AND REVENUES

Even under the exceptionally rosy assumptions currently made by the federal government, federal spending is projected to grow to 28% of GDP by 2040, with a deficit of 8% of GDP. The Government Accountability Office reports that the federal budget deficit reported on a cash basis–$316 billion in 2005–is grossly inaccurate. The federal deficit including *accrued liabilities* (which include commitments such as future Social Security payments and Medicare coverage) for 2005 is actually $760 billion. With more realistic assumptions, projections show a federal budget that takes up over 40% of GDP, with a deficit of almost 25% of GDP by 2040.[8]

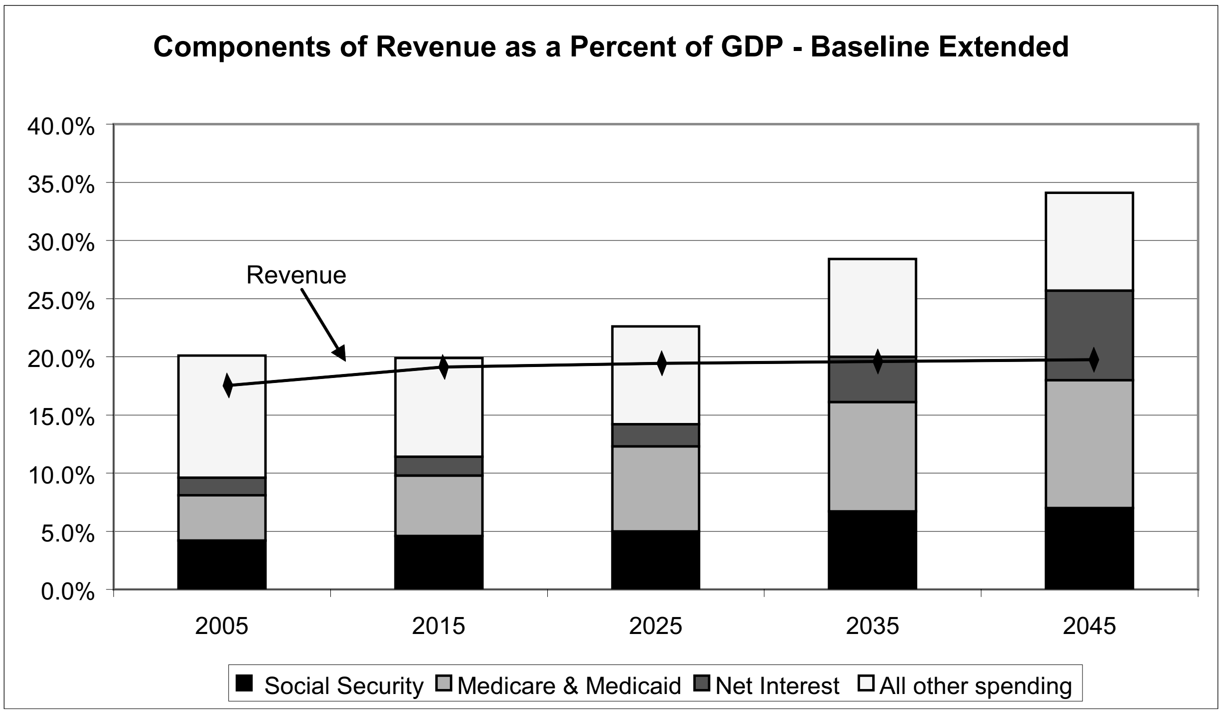
Supporting the "baby boom" generation, and paying for its health care, is a major concern. Health care costs are rising faster than both inflation and GDP, and the portion of the population using government funded health care will grow dramatically as the "baby boom" generation signs on to Medicare. The first "baby boomer" will be eligible to retire on January 1, 2008.

As the following figure shows, continuing on our current path will lead to a situation where Social Security, Medicare and Medicaid use all revenue by 2035. Meanwhile, the portion of GDP dedicated to paying interest in the debt will be growing exponentially. By 2045, government spending will amount to almost 50% of GDP, with interest in the debt making up 20%.[9]



Source: U. S. Government Accounting Office August 2006 Analysis

If the tax cuts are not extended, then the revenue line moves up a bit, but the situation is still dire, as is seen in figure below. If we remain on our current fiscal path, balancing the budget in 2045 could require such drastic actions as cutting federal spending by 60% and raising federal taxes to twice today's levels.[10] Faster economic growth alone cannot solve the problem. Making reasonable assumptions, closing the current long-term fiscal gap would require double-digit real average annual economic growth for the next 75 years. During the 1990's, the economy grew at an average rate of 2.3% per year.



Source: U. S. Government Accounting Office August 2006 Analysis

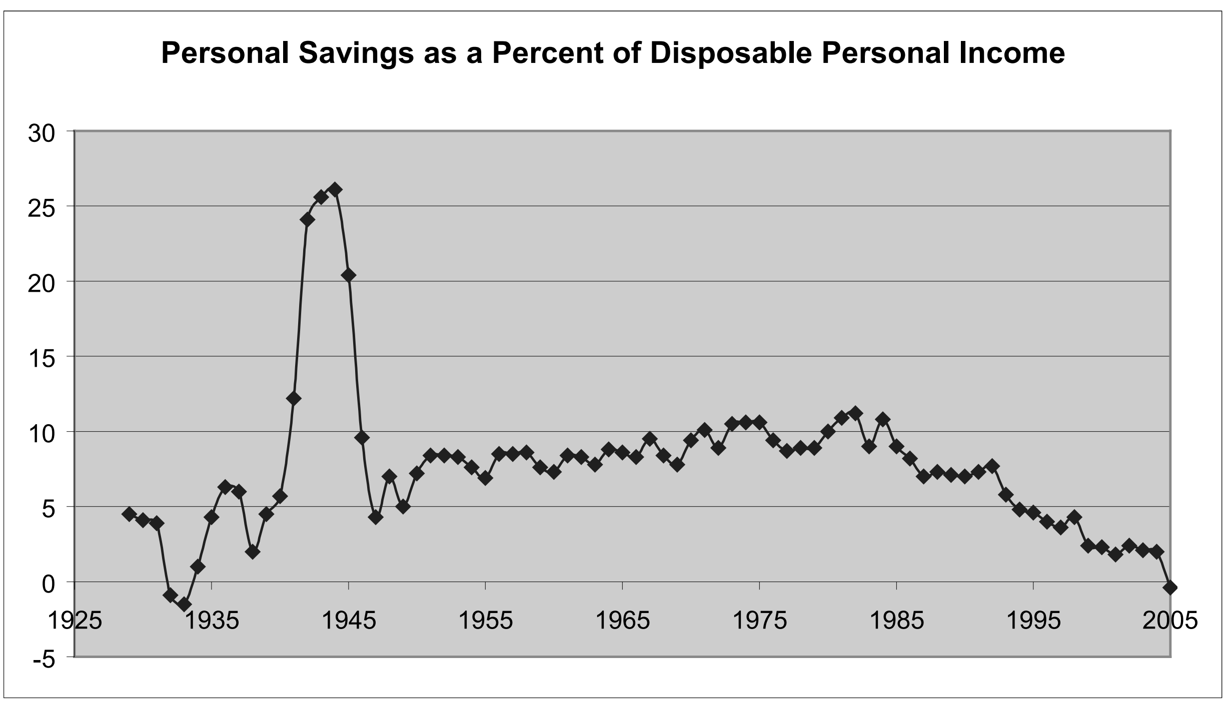
The present federal situation of growing deficits and debt is unsustainable. The major programs driving future deficits and debt are Social Security, Medicare and Medicaid – essentially retirement and health care. The fiscal experts also believe that failing to rein in spending for these domestic programs in an era of expansive military and national defense activity will negatively impact federal-state grant programs in almost every category including health, welfare and education and economic development. In June of this year, the non-partisan Congressional Research Service estimated the current cost of the war in Iraq alone at $8 billion per month, an amount that breaks down to over $11.1 million per hour and nearly $100 billion annually.[11]

According to the Congressional Budget Office (CBO), the deficit for fiscal year 2005 was $318 billion, while interest payments were $352 billion, *more than the deficit for the year.*[12] Some of these payments were made to Social Security and other government trust funds, so net interest was $184 billion, or 58% of the deficit. The CBO projects *net* interest will be nearly 100% of the national deficit by 2008. This is fiscal behavior that cannot be sustained.

Since it cannot be sustained, one can expect that the nation's budgetary behavior will change. By recognizing and addressing the problems, lawmakers can ensure that changes are as painless and smooth as possible and that revenue and spending changes are given proper consideration and are decided upon carefully. If the federal government fails to address budget problems before the nation can simply no longer afford the status quo, then changes will likely be more drastic and disruptive, and priorities may not be able to be preserved.

DECLINING HOUSEHOLD SAVINGS

In addition to concerns about federal borrowing and spending decisions, economists find declining household savings rates problematic. During an economic downturn, individual households use their savings to lessen the impact, often preventing widespread bankruptcies and foreclosures. But individual household saving is at its lowest point in several decades. The savings rate was a concern in the 1980's, when it was at roughly 10% of disposable income. Since that time, it has declined steadily, reaching 5% in the mid-90's and holding at 2% through the early years of the new century. The personal savings rate in 2005 was negative for the first time since the Great Depression.[13] Two factors have played a big role in this savings reduction: the stock bubble of the late 1990's and the slow growth of wages over the last twenty years.[14]



Source: Bureau of Economic Analysis

The exponential growth of stock values in the latter part of the 90's created an illusion of wealth that led millions of families to reduce their savings and/or to borrow. Subsequent losses forced many of them to remove their investments from the market before it could recover its full value, a feat only just accomplished. Inflation over the six years since the stock market was last at this level means stock values still need to increase to keep wealth at just the same level as in 2000 for those who have maintained their investments.

Between 1999 and 2005, real median household income in Tennessee fell by 8.7%.

At the same time, wage growth has been weak for two decades, especially at the lower end of the wage scale. United States Census Bureau data show that, over the period of 1999 to 2005, real median household income in Tennessee fell at the rate of 8.7%.[15] Over time, if wages fail to keep pace with inflation, family financial situations worsen. Many families are forced to take on debt just to pay for necessities.

In addition, over the past several years, interest rates have been held at low rates to boost economic growth. Since the vast majority of home buyers face a price that is a combination of the house price and the loan price, low interest rates have allowed housing prices to inflate. As rates go back up, home prices will level out. In some markets, where they have grown far too quickly, housing prices will actually fall. As families have used this wealth, which was also somewhat illusory, as a basis for home equity loans, they could find themselves in ever more dire financial straits.[16]

These household saving trends mean that, during the next recession or economic slump, many households will have little or no savings to fall back on, and consumption will drop as a result. This could extend what would have been a small recession into a much more serious economic downturn.

Virtually all new public debt is being purchased by foreign investors.

BALLOONING FOREIGN DEBT

Increasing foreign ownership of U. S. debt is mentioned as one of the problems facing the nation by the Concord Coalition in their "Fiscal Wake Up Tour" presentations. Foreign ownership of U. S. marketable public debt exceeded 50% for the first time in 2004. Virtually all new public debt is being purchased by foreign investors. As we charter this new debt territory, there is disagreement on what it means and how it will affect us.

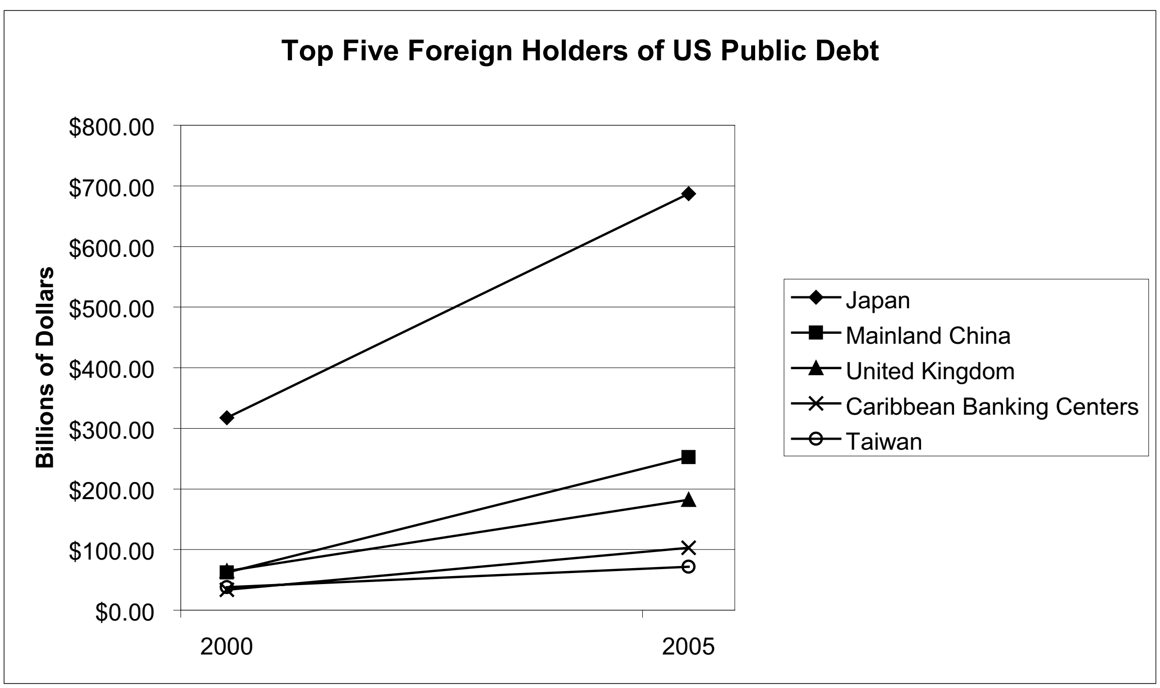
Table 2. Portion of Debt Held by Foreign Investors
Billions of Dollars

At End of Year	Total Public Debt Held by all Private Investors	Total Public Debt Held by Foreign Investors	Percentage of Public Debt Held by Foreign Investors
2004	$3,667.10	$1,890.70	51.60%
2003	$3,377.90	$1,537.60	45.50%
2002	$3,018.50	$1,200.80	39.80%
2001	$2,819.50	$1,051.20	37.30%
2000	$2,880.40	$1,034.20	35.90%

Source: Congressional Research Service

The United States has run a substantial and growing current account deficit for decades, fueled primarily by the growing trade deficit. As a nation, we import more than we export, and the difference is growing. We fund this deficit with the capital account. Foreign investors accumulate U. S. assets and U. S. financial instruments. Such assets are valued in dollars.

Economic theory says that such a large trade deficit combined with the negative net accumulation of foreign assets should lead to a drop in the dollar relative to other currencies, which will bring the system back into balance by making the price of American goods fall relative to foreign goods. By purchasing so many assets valued in dollars, foreign investors are propping up the dollar and preventing that from happening. There is great disagreement as to whether or not



Source: Congressional Research Service

such investment in the dollar is simply a wise investment, and thus a natural course, or an artificial overvaluation that is leaving the United States vulnerable to a sudden change in economic position.

If, as many economists worry, a reckoning does arrive, the results could be devastating. A sudden drop in the value of the dollar would mean rapid inflation at home. The dollar would stop buying what it used to buy. At the same time, wages would continue to stagnate, causing a drop in the standard of living for anyone without savings to carry them through the correction. And many Americans have little or no savings.

The rapid growth of foreign debt makes many economists nervous.

Whether or not such corrections are coming is a matter of contention. Some argue that the United States has shown itself to have a flexible and profitable economy that grows reliably. Investments in dollars are wise investments despite current debt levels. The rest of the world is willing to lend to us because they get steady returns. This would mean that we can go on borrowing until the market will bear no more, and then the dollar will adjust slowly, with no sudden crashes. The truth of the matter simply is not known. But the rapid growth of foreign debt makes many economists nervous. There are three general areas of concern.

- Interest Payments – As our debt grows, so do our interest payments. Interest rates are currently at historical lows, but, when they increase, the interest on our national debt will become a steadily increasing percentage of our national expenditures. When debt is held domestically, interest payments go to domestic investors. They are a redistribution of income from the middle class to the "investor class", but they remain within the U. S. economy. When debt is held by foreign investors, interest payments will leave the U. S. economy, decreasing the amount of money that can be spent on investment and consumption in the United States, and, thus, likely decreasing GDP.
- National Security – The threat of a crash in the value of the dollar may be enough to influence U. S. foreign policy. One of our creditors would only need to draw down their dollar investments a bit to cause noticeable financial consequences. Debt defenders argue that these nations would be hurt as much by such activity as we would be, and are therefore unlikely to engage in it. The potential political ramifications

in the United States, however, might make our politicians more open to foreign influence on policy decisions.

- Sustainability –A frequent argument against carrying the level of external debt that the United States is currently amassing is that it is not sustainable; the day that repayment must begin is inevitable. There is a point of view that argues that this simply is not so. The metaphor of family finances is often used to describe our economy, and our borrowing is likened to credit card debt. This analogy works to a point, but the dynamic is different. A household is made up of individuals who face aging and a decline in income. For most people, peak earnings growth years occur in their 50's, and then earnings growth drops off through their 60's, and earnings begin to decline after retirement. People borrow until they reach peak earnings growth, and then they begin debt repayment and savings as they prepare for retirement. A nation's economy, on the other hand, can remain in the earnings growth period forever, and so, the argument goes, a nation need never pay down its debt.

UNITED STATES FALLING BEHIND IN PERFORMANCE INDICATORS

On 11 key national indicators, among countries belonging to the Organization for Economic Cooperation and Development (OECD), the United States ranked 16th out of 28 nations. These indicators are published and compared annually by the OECD for its member countries.[17]

Also, the United States lags other developed nations on several key health indicators, despite far outpacing any other country in per capita health care expenditures:

- In 2004, the United States spent 15.5% of GDP on health care. The next nearest nation was Switzerland which spent 11.6% of GDP.

- In 2004, the United States spent $6,102 per capita on health care. The next nearest nation was Luxembourg at $5,089 per capita.

The United States lags other developed nations on several key health indicators, despite far outpacing any other country in per capita health care expenditures.

- In 2002, the United States ranked 48th in average longevity among 227 nations and territories.
- In 2000, the United States ranked 27th among industrialized nations, with an infant mortality rate of 6.9 per 1,000 live births. Singapore led with only 2.5.
- In 2004, the United States ranked 18th out of 24 reporting OECD nations in practicing physicians per capita.
- In 2001, the United States ranked 13th out of 28 reporting OECD nations in practicing nurses per capita.
- In 2001, the United States ranked 15th out of 18 reporting OECD nations in acute care beds per capita.

Additionally, over the last several years, the United States has ranked near the middle of OECD countries in GDP growth and wage growth.

HOW DOES THE FEDERAL FISCAL SITUATION AFFECT STATES?

As the federal budget gets tighter, states will undoubtedly feel the crunch.

The precise effect of the federal fiscal crisis on states is unclear and is an area of interest for future TACIR research. As the federal budget gets tighter, however, states will undoubtedly feel the crunch. Some programs already show early signs of increased federal requirements and/or reduced federal financial commitments.

MEDICAID

The possibility of reduced federal participation in the joint federal-state Medicaid program is especially worrisome for state governments, given the leveraged nature of the federal participation. The Medicaid program is administered by states with federal financial participation rates that vary from fifty to over seventy-five percent.[15] The lower a state's per capita income, the higher the federal matching rate. Tennessee's TennCare Program had 1,183,721 enrollees at the end of the second quarter of calendar year 2006. This represented almost 20% of Tennessee's estimated July 1, 2005 total state population.[16] The number of TennCare enrollees exceeds both the number of Old Age Survivor Disability Insurance (OASDI) and Medicare enrollees in Tennessee.[20] Therefore any cut in federal Medicaid payments to Tennessee will impact more Tennesseans than a cut in OASDI or Medicare benefits.

Any federal cuts in Medicaid payments to states will force some combination of program cuts or increased state contributions. This will be a difficult issue in all states but more so in those states in which the federal participation rate is relatively high. During the current fiscal year, the federal government's share of the cost of the medical assistance portion of the program in Tennessee is 63.65%. Its share of the enhanced portion of the program (SCHIP) is 74.56%. The federal standard participation rate in Tennessee in 2007 is the 16th highest in the nation. Any federal reductions to the Medicaid program will require a larger response in Tennessee than in states with lower federal participation rates.[21]

Plans are already underway to reduce federal Medicaid payments during fiscal year 2007, partly as a continuing move to ensure the "fiscal integrity" of the program.[22] The planned reductions, primarily through changes in Medicaid rules,[23] face strong opposition from the National Governors Association and a majority of members of Congress.

One of the more significant new costs to the state is the "clawback" provision that is part of the new Medicare Part D prescription drug plan. The state is required to pay the federal government 90% of the federally estimated cost of program benefits that go to Medicaid-eligible seniors and disabled persons. The Kaiser Commission on Medicaid and the Uninsured reports that Tennessee will pay $337 per Medicaid-eligible recipient. Governor Bredesen reported in his 2006-2007 budget that Tennessee will suffer a net loss of $20 million in federal funds on this program.

In addition to the President's proposals, Senate Bill 3521, approved by the Senate Budget Committee would establish new procedures that would require dramatic expenditure cuts to both the Medicaid and Medicare programs. If adopted and followed, the procedures would eventually result in estimated cuts in federal Medicaid expenditures of 15.6% by 2012. A 15.6% cut in federal Medicaid funds to Tennessee in fiscal 2007 would amount to $706 million.[24] By 2012, assuming an annual 7% increase, the reduction would amount to almost $1 billion per year. Given Tennessee's lopsided

One of the significant new costs to the state is the "clawback" provision that is part of the new Medicare Part D prescription drug plan. Governor Bredesen reported that Tennessee will suffer a net loss of $20 million in federal funds on this program.

state tax system which is overly dependent on its already high 7% state sales tax rate, there is no viable way for Tennessee to generate an additional $1 billion in revenue by 2012 with its existing tax system. The recent failure of both a state income tax and a state property tax in attempts to restructure the Tennessee tax system suggest that the result of federal cuts would likely be drastic reductions in the TennCare program.

EDUCATION/NO CHILD LEFT BEHIND

The No Child Left Behind Act (NCLB) is not actually a new program; it is, instead, a reauthorization of the Elementary and Secondary Education Act of 1965 (often referred to as "Title I," the section that provides most federal education funding). As was the case before the passage of NCLB, state participation in Title I is voluntary. Opting out of Title I means that a state receives no Title I federal funds.

NCLB is not officially an unfunded mandate from the federal government because states do not have to participate. Since 1965, however, states have grown dependent upon federal Title I funds, and few, if any, are really in a position to opt out of the program at this late date. NCLB has been called an unfunded mandate because it places ambitious new accountability requirements on states and, while increasing federal funds to states, does not increase funding enough to cover the cost of compliance with the new federal requirements. The combination of these two factors leaves states in the unenviable position of having to choose between losing sorely needed traditional Title 1 funds or taking on the responsibility of meeting new requirements that their current funding mechanisms cannot support.

States are in the unenviable position of having to choose between losing sorely needed traditional Title 1 funds or taking on the responsibility of meeting new requirements that their current funding mechanisms cannot support.

While NCLB has eight parts, it is the revised Title I and Title II that represent new territory for the federal government. Title I now requires states to create clear standards for performance and to test grades three through eight annually to determine whether or not those standards are met. If schools cannot demonstrate adequate yearly progress toward these goals, for all elementary and secondary students, sanctions may be applied. Progress must be shown for all subgroups of students, including all racial/ethnic groups, all income groups, students with disabilities, and students with limited English proficiency.

Schools that fail to meet the standards must allow students to transfer to other public schools within the district, offer supplemental services (like tutoring), and even submit to a school reorganization if all else fails. Whole school districts, and even whole states, can also be targeted for improvement based on aggregate scores.

Title II adds teacher training elements, setting out stringent requirements for teachers to be called "highly qualified" and requiring that all teachers be so qualified when the law has been fully implemented.

Tennessee has an advantage in implementing NCLB because the state was already doing annual assessments. Though the federal program required some changes to the assessment procedure, it resulted in receiving federal funds for something that the state was already doing. Nonetheless, as the costs of increasing achievement among groups of students that require more individual attention and resources kick in, federal funding that proceeds as currently planned will not be adequate to the task. Before NCLB, Tennessee was receiving a total of $208,633,432 annually. In the current 2006-07 fiscal year, the total is $326,231,378.[25]

Tennessee has an advantage in implementing No Child Left Behind because the state was already doing annual assessments. Nonetheless, as costs of increasing achievement among groups of students that require more individual attention and resources kick in, federal funding that proceeds as currently planned will not be adequate to the task.

In general, Tennessee education officials are in favor of NCLB and believe that its requirements are good ones, as evidenced by the fact that Tennessee was already on the road to implementing similar requirements. Left to its own devices, however, Tennessee would likely have moved a bit more slowly, mostly due to funding issues. Also, there are some portions of the law that states think will be impossible to achieve (primarily in the area of achievement requirements for mentally handicapped children) and some portions that states believe take an inadvisable approach that will require greater expenses for less return.

It is difficult to separate NCLB-required spending from other state spending to define exactly what the costs of NCLB are to Tennessee. The non-partisan National Priorities Project estimated that, for fiscal year 2006 Tennessee would require $533.8 million to fully implement the requirements of NCLB.[26] This estimate may overstate the cost, as it may not consider the assessment process Tennessee already had in place. Furthermore, states have asked for some adjustments to the law which may be implemented, like a separate set of goals and teaching requirements for mentally handicapped children and a change to a "growth" model of assessment. The latter would allow states to show that subgroups are making progress toward overall goals, and could reasonably be expected to reach the goals by the 8th grade, rather than requiring that they meet annual goals. This change would help reduce the number of times sanctions are applied and so reduce some of the largest expected costs, which come from applying sanctions and paying for the changes required for schools under sanctions.[27]

Nonetheless, the estimate is the best available and is figured on the law's current requirements. It is fully $190.5 million above the federal aid proposed for Tennessee of $343.3 million. Even this lower amount, however, will not actually be provided to Tennessee. The National Conference of State Legislators estimated that the gap between authorized funds and appropriated funds for all states combined would be $10 billion, at a minimum, for fiscal year 2005.[28] Tennessee actually received $326.2 million, and may face similar gaps between proposed and actual funding in the future.

COMMUNITY DEVELOPMENT BLOCK GRANTS

The National Association of Counties reported that the FY 2007 federal budget would slash Community Development Block Grants by nearly $1 billion.

Community Development Block Grants (CDBGs) are federally funded through the U. S. Department of Housing and Urban Development. They benefit local governments and non-profit organizations with projects that must meet one of three objectives: principally benefit persons of low and moderate income; eliminate or prevent slums and blight; or eliminate conditions detrimental to health, safety, and/or public welfare. These grants, begun in 1974, have been on the chopping block each year. Proposed cuts have been reduced or eliminated in years past, but the National Association of Counties reports that the FY 2007 federal budget proposal will slash CDBG funding by nearly $1 billion. According to the Tennessee Department of Economic and Community Development, Tennessee has received roughly $30 million per year in CDBGs over the last several years. These are funds that Tennessee cannot rely on continuing to receive.

BUSINESS TAXATION AND REGULATION LIMITS

There have been increasing efforts in Congress in recent years to limit states' ability to tax and regulate business. Making use of federal restrictions on state involvement in interstate commerce and legislation limiting state taxation and regulation of multi-state businesses has become a priority. Two bills from Congress' last session illustrate the direction the federal government could take.

H.R. 1956 would have prevented state and local governments from imposing nearly any tax on out-of-state business. The National Governors' Association estimated it could cost more than 11% of revenues, and Tennessee would be one of the states hardest hit with an estimated 16.1% reduction in business tax revenues.

H.R. 1369 would have required state and local governments to provide the same favorable property tax treatment to pipeline property as to airlines and railroads, in many cases slashing current revenues in half. The Congressional Budget Office estimated that fifteen states, including Tennessee, and their local governments would be affected, as well as several tribal governments, for a total loss to those state and local governments of about $250 million.

Congress has moved to limit the ability of states to tax and regulate business by making use of interstate commerce exceptions.

The Telecommunications Act is poised for a major overhaul. It has been proposed that a federal moratorium on taxation of internet access services be continued, as well as that state and local governments lose their cable franchise rights and face a moratorium on wireless telephone taxes. The specifics of these changes are not yet known, as the update of this law has not yet taken place. The costs to Tennessee cannot yet be estimated, but, if the changes that have been suggested are made, revenue loss would be substantial. The non-partisan Multi-state Tax Commission made an estimate of $200 million lost to state and local governments as a whole.

HOMELAND SECURITY

Homeland Security is a potential problem area. While the eventual shape of programs and funding mechanisms for homeland security are still in flux, there is potential for the need for large state and local expenditures. The commitment of the federal government to fund such expenditures is unclear. Both New York City and Washington, DC faced large federal homeland security funding cuts this year.

In its "Strategy for Tennessee" report, the Governor's Office of Homeland Security said the following on the subject of funding.

The terrorist attacks upon our nation, coupled with the threat of future terrorist attacks, have forced the state of Tennessee to allocate significant funding that was not previously forecasted.

The federal government has acknowledged the financial burden the Homeland Security mission imposes on the states and has attempted to offset some of the burden through federal funding.

The terrorist attacks conducted upon our nation, coupled with the threat of future terrorist attacks, have forced the State of Tennessee to allocate significant funding that was not previously forecasted. This allocation of resources is and continues to be, necessary to protect all Tennesseans and our critical infrastructure. The federal government has acknowledged the financial burden the Homeland Security mission imposes on the states and has attempted to offset some of the burden through federal funding. This federal funding comes to Tennessee in the form of grants. These grants are apportioned for specific purposes and distribution determined by federal requirements and the Tennessee Homeland Security Council. The Department of Military will normally administer the funds as directed by the Homeland Security Council and periodically provide progress reports. The intent of this distribution is to provide the maximum amount of funding to local jurisdictions through a district capabilities based program.

It is critical that all funding is used wisely. We must ensure that the State of Tennessee achieves the maximum return on initiatives that support our efforts to enhance prevention, detection, protection and response investments. It is imperative that the Governor's Homeland Security Council make a concerted effort to identify and aggressively acquire any federal grants that may have Homeland Security applications. The state must also ensure that local leaders are made aware of additional grants that may be applied for directly by local jurisdictions.[29]

ILLEGAL IMMIGRATION

The strength of federal efforts to curtail illegal immigration can affect the expenses of such immigration to states. Illegal immigration costs states money in a variety of areas, especially in uninsured medical services and education. An estimation was presented in the Executive Summary of this report, which shows that illegal immigration could account for up to 3.5% of total expenditures in these areas, or about $653,788,000 in 2004. Expenses are figured for three different estimates of the number of illegal immigrants in Tennessee. The Pew Hispanic Center put the number at between 100,000 and 150,000;[30] though, the Census Bureau's estimate was 154,000. With very little hard data to rely on, these estimates are quite rough and likely underestimate the true number of illegal immigrants in Tennessee and thus the true cost of state services to that population.

The costs estimates are also quite rough, assuming that the cost per individual for each service is the same for undocumented residents as it is for citizens. Anecdotally, this is not the case, with such additional costs as interpreters more likely to be incurred when providing services to illegal immigrants than when providing the same services to American citizens. For example, state education costs related to English language learning (ELL) are $32,189,794 in fiscal year 2007.[31] This amount does not include related local costs.

Illegal immigrants also pay many local taxes, including sales and property taxes. In a state like Tennessee that has no income tax, illegal immigrants pay a significant portion of state and local taxes. Our largest revenue producers, the sales tax and the property tax, are paid by all residents, legal or not.

Illegal immigration also increases federal expenditures, as the federal government has historically been responsible for most immigration enforcement activities, including identifying and detaining illegal immigrants and patrolling the nation's borders. As illegal immigration becomes a more potent political issue, pressure is increasing on states to devote state and local law enforcement resources to identifying and arresting illegal immigrants. In addition, states have been asked to supply National Guard troops to patrol the border.

SOLUTIONS

All of the Concord Coalition speakers at the NCSL conference presentation, discussed at the beginning of this report, made it clear that the changes necessary to prevent a fiscal disaster would require courageous leaders who will be straight with the American people about our fiscal situation and the changes it necessitates. Comptroller

Walker made further suggestions about some structural changes that could help move the process:

- Strengthen budget and legislative processes and controls
- Improve financial reporting and performance metrics
- Fundamental reexamination and transformation of federal spending and revenue generation for the 21st century

Comptroller Walker said we must take a hard look at our health care system and examine the difference between health care "wants" and health care "needs."

The last point included a hard look at our health care system, and an examination of health care "needs" as opposed to health care "wants". All of the speakers agreed that there were three parts to any successful strategy:

- Stabilization of health care expenditures;
- Increased revenues; and
- Some restructuring of retirement benefits

None of the presentations offered suggestions on mitigating the negative impact their suggested budgetary changes will have on state and local finances. Tennessee's own recent experience with revenue shortfalls is telling, however, in that some funds historically shared with local governments were held back to meet state fiscal obligations. It is reasonable to expect that the federal government's budget situation will cause a reduction in federal intergovernmental aid to state and local governments, while recent trends of mandating certain programs and/or program standards for states, and changing laws limiting state and local governments' ability to raise certain kinds of revenues will likely continue. States need to begin to prepare now.

David Osborne and Peter Hutchinson argue, in *The Price of Government*, that across-the-board cuts are one of the worst ways to approach budget shortages. If a government is unprepared for a shortfall, though, it may be the only course of action available in the short run. The authors argue that some preparation will help government officials make choices in budget cuts and tax increases that reflect what taxpayers want.[32]

This preparation might include a dialogue with the public to find out which services are priorities and how much the public is willing to spend on them. A disconnect has arisen for taxpayers between the cost of a government service and its value to them. Ask them which services they want, and they will choose them all. But if a price is attached to those services, they become a bit more discriminating. For far too long, politicians have promised both lower taxes and better services, and the result is the fiscal crisis described in this report.

Following the ideas of Osborne and Hutchinson, several states; including Washington, Michigan, Iowa and South Carolina; have taken their budget problems to the people to find out which services they want to pay for and which they would rather do without. In the process, state governments have regained some trust with constituents who had come to believe that their tax dollars were being wasted or stolen and that government programs did not serve them well.

A disconnect has arisen for taxpayers between the cost of a government service and its value to them.

This approach differs somewhat from performance based budgeting, which essentially asked every department to justify its budget. Instead, outcome based budgeting begins with the services that taxpayers want, and works toward finding the most effective and efficient way to provide that service at the levels required. There is a shift in perspective between the two, away from a focus on government and toward a focus on people and their needs.

While such a move is only one option, it does match up with one of the points that David Walker made in his Nashville presentation in discussing the spiraling costs of health care. “We’re going to have to have a frank discussion about the difference between health care wants and health care needs,” he suggested. As budgets get tighter, determining the differences between wants and needs is going to be key in all areas of government.

ENDNOTES

[1] United States Census Bureau, 2006.
[2] Passel and Suro, 2005.
[3] Tennessee Department of Education, 2007.
[4] United States Census Bureau, 2005, Tables 1, 7-9, pp. 1, 18-20.
[5] Bredesen, 2006, pp. A27-A29.
[6] Concord Coalition presentations are available online accessed January 12, 2007 at http://www.concordcoalition.org/events/fiscal-wake-up/presentations.html
[7] Office of Management and Budget, 2006, Table 8.5, pp. 137-142.
[8] Department of the Treasury, 2006, pp. 27-30.
[9] General Accounting Office, 2006.
[10] General Accounting Office, 2006.
[11] Belasco, 2006, p.4.
[12] Congressional Budget Office, 2006, Table 5.
[13] Bureau of Economic Analysis, 2006, Table 2.1.
[14] Baker, 2004, p. 2.
[15] United States Census Bureau, 2006, Table H-8.
[16] Baker, 2004, p. 4.
[17] OECD Factbook 2006.
[18] Federal Medical Assistance Percentages for fiscal year 2007 The minimum percentage is fifty.
[19] United States Census Bureau, 2005.
[20] United States Census Bureau, 2006. The latest data reflect numbers for 2004, which show 712,000 enrollees in the Medicare hospital insurance and/or supplementary medical insurance programs, and 1,069,600 persons receiving some form of OASDI benefit (retirement, survivors, or disability payment).
[21] In a state with a federal participation rate of 50%, a $2 Medicaid service would be currently funded $1 by the federal government, $1 by the state government. If federal funds are cut by 10%, the federal contribution would be reduced from $1 to $.90 and the state in the example would have to make up the $.10 cut itself to maintain the service (a 10% increase in its share). In states with higher federal participation rates, the same scenario will require more than a 10% increase in state expenditures to make up for the loss in federal funds. So a percentage reduction in federal funding harms poorer states more than richer states.
[22] Office of Management and Budget, 2007.
[23] Reductions in allowable costs and new limits on allowable health care provider taxes.
[24] Bredesen, 2006.
[25] Young, 2006 [2].
[26] National Priorities Project, 2005.
[27] Young, 2006 [1].
[28] National Conference of State Legislators, 2004.
[29] The Governor's Office of Homeland Security. Undated.
[30] Passel and Suro, 2005.
[31] Tennessee Department of Education, 2007.
[32] Osborne and Hutchinson, 2004.

REFERENCES

Anderson, Lee W. 2005. "The No Child Left Behind Act and the legacy of federal aid to education." *Education Policy Analysis Archives,* 13:24, 1-22. Accessed online January 18, 2007 at http://epaa.asu.edu/epaa/v13n24/

Baker, Dean. 2004. *Dangerous trends: The growth of debt in the U. S. economy.* Washington, DC: Center for Economic and Policy Research. Accessed online on January 12, 2007 at http://www.cepr.net/publications/debt_2004_09.htm

Belasco, Amy. 2006. *The cost of Iraq, Afghanistan, and other global war on terror operations since 9/11.* Washington, DC: Congressional Research Service. Accessed online January 12, 2007 at http://digital.library.unt.edu/govdocs/crs//data/2006/upl-meta-crs-9500/RL33110_2006Sep22.pdf?PHPSESSID=268df67d19765edb79de48fdf072d1c3

Bredesen, Phil. 2006. *The Budget for the State of Tennessee: Fiscal year 2006-2007*. Accessed online on January 12, 2007 at http://www.tnanytime.org/govfiles/0607%20Budget%20Volume%20I.pdf

Buhl, John. 2006. "NCSL wary of future deficits despite 2006 revenue gains." *State Tax Notes,* 41:8, 479-480.

Bureau of Economic Analysis. 2006*. Table B-78 - Federal receipts, outlays, surplus or deficit, and debt, fiscal years, 1940-2007.* Accessed online on January 18, 2007 at http://www.gpoaccess.gov/eop/2006/B78.xls

Bureau of Economic Analysis. 2006. *National Income and Products Accounts Table 2.1: Personal income and its disposition.* Accessed online on January 12, 2007 at http://bea.gov/bea/dn/nipaweb/SelectTable.asp?Selected=Y#S2

Bureau of Economic Analysis. 2006. *Services and goods sectors contribute to strong growth in gross domestic product (GDP) by state in 2005.* Accessed online January 12, 2007 at http://bea.gov/bea/newsrelarchive/2006/gsp1006.pdf

California Healthline. 2005. *States criticize 'clawback' provision payments under Medicare prescription drug benefit*. Accessed online January 18, 2007 at http://www.californiahealthline.org/index.cfm?Action=dspItem&itemID=115342

Clairmont, Frederic F. 2003. "United States: Unsecured dollars." *Le Monde dimplomatique.* April 2003. Accessed online January 18, 2007 at http://mondediplo.com/2003/04/05usfinance

Congressional Budget Office. 2006. *Historical budget data.* Accessed online January 12, 2007 at http://www.cbo.gov/budget/historical.pdf

Department of the Treasury. 2006. *Financial Report of the United States Government.* Accessed online January 12, 2007 at http://www.fms.treas.gov/fr/index.html

Eckl, Corina and Bert Waisanen. 2006. *State budget and tax actions 2006: Preliminary report.* Washington, DC: National Conference of State Legislatures.

Federal Medical Assistance Percentages for fiscal year 2007*. Federal Register*, 70:229, November 30, 2005.

Fingleton, Eamonn. 2004. "Trading down: It's not whether record trade deficits will become a full-blown currency crisis. It's when." *American Prospect,* March 1, 2004. Accessed online January 18, 2007 at http://www.prospect.org/print-friendly/print/V15/3/fingleton-e.html

Fusarelli, Lance. D. 2005. "Gubernatorial reactions to No Child Left Behind: Politics, pressure and education reform." *Peabody Journal of Education,* 80: 120-136.

General Accounting Office. 2005. *Understanding the primary components of the Annual Financial Report of the Unites States Government.* GAO-05-958SP. Accessed online on January 12, 2007 at http://www.gao.gov/new.items/d05958sp.pdf

General Accounting Office. 2006. *Our nation's fiscal outlook: The federal government's long-term budget imbalance.* Accessed online January 12, 2007 at http://www.gao.gov/special.pubs/longterm/longterm.html

Governor's Office of Homeland Security. Undated. A Strategy for Tennessee. Accessed online on January 8, 2007 at http://tennessee.gov/homelandsecurity/a_strategy_tenn.pdf

Gros, Daniel. 2006. "Foreign investment in the U. S. (II): Being taken to the cleaners?" *CEPS Working Document No. 243.* Brussels, Belgium: Centre for European Policy Studies.

Horney, James and Richard Kogan. 2006. *Don't pop the corks: CBO outlook for the federal budget is still bleak.* Washington, DC: Center on Budget Policy and Priorities. Accesses online on January 18, 2007 at http://www.cbpp.org/8-17-06bud.htm

Hurson, John. 2005. *Testimony of Delegate John Hurson; Maryland House of Delegates; National Conference of State Legislatures; on behalf of the National Conference of State Legislatures; Regarding unfunded mandates reform act of 1995; Before the Government Reform Committee; United States House of Representatives.* March 8, 2005. Accessed online on January 18, 2007 at http://www.ncsl.org/standcomm/scbudg/URMATestimony0305.htm

Ignatius, David. 2006. "Taste of the future." *Washington Post,* February 24, 2006, A15.

Jackson, James K. 2005. *Congressional Research Service report for Congress: Foreign direct investment in the United States: An economic analysis.* Accessed online January 18, 2007 at http://www.fas.org/sgp/crs/misc/RS21857.pdf

Johnson, Kay. 2006. *Short Take No. 1: The Deficit Reduction Act of 2005 - opportunities and challenges for ECCS initiatives.* New York, NY: National Center for Children in Poverty. Accessed online January 18, 2007 at http://www.nccp.org/media/tst06a.pdf

Kelderman, Eric. 2006. *Govs' anger with feds boils over*. Washington, DC: Stateline.org. Accessed online January 18, 2007 at http://www.stateline.org/live/printable/story?contentId=132632

Kouparitsas, Michael. 2004. "How worrisome is the U. S. net foreign debt position?" *Chicago Fed Letter.* May 2004.

Levey, David H. and Stuart S. Brown. 2005. "The overstretch myth." *Foreign Affairs.* March/April 2005. Accessed online on January 18, 32007 at http://www.foreignaffairs.org/20050301facomment84201/david-h-levey-stuart-s-brown/the-overstretch-myth.html

McLaughlin, Alysoun. 2006. *Congress poised to slash state, local revenue sources.* Washington, DC: National Association of Counties. Accessed online January 18, 2007 at http://www.naco.org/CountyNewsTemplate.cfm?template=/ContentManagement/ContentDisplay.cfm&ContentID=20951

Mishel, Lawrence. 2001. *Changes in federal aid to state and local governments, as proposed in the Bush administration FY 2002 budget*. Washington, DC: Economic Policy Institute. Accessed online on January 18, 2007 at http://www.epinet.org/briefingpapers/stateimpact-full.pdf

Moore, Nicole Casal. 2006. "Ominous outlook: America's fiscal future-with unprecedented liabilities and unfunded commitments-is grim indeed." *State Legislatures.* June 2006.

Murray, Justin and Marc Labonte. 2005 *Congressional Research Service report for Congress: Foreign holdings of federal debt*. Washington, DC: Congressional Research Service.

National Conference of State Legislators. 2004. *States get stuck with $29 billion bill.* Accessed online on January 18, 2007 at http://www.ncsl.org/programs/press/2004/pr040310.htm

National Governors Association. 2005. *Impact of H.R. 1956, Business Activity Tax Simplification Act of 2005, on states.* Accesses online on January 18, 2007 at http://www.nga.org/Files/pdf/0509BAT.PDF

National League of Cities. 2006. *Taxing problems: Municipalities and America's flawed system of public finance: A report from NLC's City Futures program.* Accessed online on January 18, 2007 at http://www.nlc.org/content/Files/CityFutures%20TaxingProblems.pdf

National Priorities Project. 2005. Accesses online January 18, 2007 at http://nationalpriorities.org/index.php?option=com_content&task=view&id=77&Itemid=61

Organization for Economic Co-operation and Development (OECD). 2006. "Economic, Environmental and Social Statistics." *OECD Factbook 2006.* Accessed online January 18, 2007 at http://lysander.sourceoecd.org/vl=814048/cl=18/nw=1/rpsv/factbook/

Osborne, David and Peter Hutchinson. 2004. *The price of government: Getting the results we need in an age of permanent fiscal crisis.* New York, NY: Basic Books,.

Passel, Jeffrey S. and Roberto Suro. 2005. *Rise, peak and decline: U. S. immigration trends 1992-2004.* Washington, DC: Pew Hispanic Center.

Paul, Ron, MD. 2004. "Government debt - The greatest threat to national security." *Ron Paul's Texas Straight Talk: A Weekly Column.* October 26, 2004. Accessed online January 18, 2007 at http://www.house.gov/paul/tst/tst2004/tst102504.htm

Peterson, Peter. 2004. "Riding for a fall." *Foreign Affairs.* September/October 2004.

Prah, Pamel. 2006. *Stateline.org legislative wrap-up 2006: States step in to fill feds' role.* Accessed online January 18, 2007 at http://www.stateline.org/live/printable/story?contentId=129313

Price, Lee and Max B. Sawicky. 2004. *EPI Briefing Paper #153*: *The budget arithmetic test: Repairing federal fiscal policy.* Washington, DC: Economic Policy Institute. Accessed online January 18, 2007 at http://www.epinet.org/content.cfm/bp153

Rubenstein, Edwin S. Undated. *Trade drag? Despite the worries of some economists, America's record foreign debt is no threat to the nation's economic well-being.* Indianapolis, IN: ESR Research. Accessed online January 18, 2007 at http://www.esrresearch.com/Foreigndebttrade.htm

Sawicky, Max B. 2002. *EPI Issue Brief #175*: *Budgeting beyond the beltway: How the federal budget imperils state and local finances.* Washington, DC: Economic Policy Institute. Accessed online January 18, 2007 at http://maxspeak.org/Research/federalbudget/beltway.pdf

Setser, Brad and Nouriel Roubini. 2005. "How scary is the deficit?" *Foreign Affairs*. July/August 2005. Accessed online on January 18, 2007 at http://www.foreignaffairs.org/20050701faresponse84415/brad-setser/how-scary-is-the-deficit.html

Tabb, William K. 2006. "Trouble, trouble, debt, and bubble." *Monthly Review*, 58:1. Accessed online January 12, 2007 at http://www.monthlyreview.org/0506tabb.htm

Office of Management and Budget. 2007. *The nation's fiscal outlook.* Accessed online on January 18, 2007 at http://www.whitehouse.gov/omb/budget/fy2007/outlook.html

Office of Management and Budget. 2006. *Budget of the United States Government: Fiscal Year 2007: Historical tables.* Accessed online January 12, 2007 at http://www.whitehouse.gov/omb/budget/fy2007/pdf/hist.pdf

United States Census Bureau, 2006. *2005 Annual Statistical Supplement*, February 2006.

United States Census Bureau. 2006. *U. S. Census estimated July 1 population as of July 1, 2005*. Release date December 22, 2005.

United States Census Bureau. 2005. *Consolidated federal funds report for Fiscal Year 2004: State and local areas.* Accessed online January 12, 2007 at http://www.census.gov/prod/2005pubs/cffr-04.pdf

United States Census Bureau. 2006. *Historical income tables: Table H-8: Median household income by state: 1984 to 2005.* Accessed online January 12, 2005 at http://www.census.gov/hhes/www/income/histinc/h08.html

Young, Ed. 2006 [1]. Interview with Dr. Julie McCargar, Executive Director, Federal Programs, Tennessee Department of Education, October 26, 2006.

Young, Ed. 2006 [2]. Interview with and Dr. Keith Brewer, Deputy Commissioner, Tennessee Department of Education, September 29, 2006.

TACIR Members

Representative Randy Rinks, Chairman
Mayor Tom Rowland, Vice Chairman
Harry A. Green, Executive Director

Legislative

Senator Ward Crutchfield
Senator Mark Norris
Vacant
Vacant
Representative Jason Mumpower
Representative Gary Odom
Representative Randy Rinks
Representative Larry Turner

Statutory

Representative Craig Fitzhugh, Chairman, Finance Ways & Means Committee
Senator Randy McNally, Chairman, Finance Ways & Means Committee
Comptroller John Morgan

Executive Branch

Paula Davis, Department of Economic & Community Development
Drew Kim, Governor's Office

Municipal

Tommy Bragg, Mayor of Murfreesboro
Sharon Goldsworthy, Mayor of Germantown
Bob Kirk, Alderman, City of Dyersburg
Tom Rowland, Mayor of Cleveland

County

Rogers Anderson, Mayor of Williamson County
Kim Blaylock, County Executive of Putnam County
Jeff Huffman, County Executive of Tipton County
R.J. (Hank) Thompson, County Executive of Sumner County

Private Citizens

John Johnson, Morristown
Vacant

Other Local Officials

Brent Greer, Tennessee Development District Association
Charles Cardwell, County Officials Association of Tennessee

Tennessee Advisory Commission on Intergovernmental Relations, Authorization No. 316371; 750 copies, March 2007. This document was promulgated at a cost of $2.00 per copy.