Mortgage Meltdown

The Financial Impact of the Housing Contraction in the Southern Legislative Conference States

A SPECIAL SERIES REPORT OF THE SOUTHERN LEGISLATIVE CONFERENCE

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Introduction

September 2008 proved to be the start of an extremely stressful period for the U.S. economy with a series of decisive events unrelentingly battering American consumers, corporations and every level of government. Early on in the month, the U.S. Treasury Department assumed conservatorship over Fannie Mae and Freddie Mac, the beleaguered for-profit, shareholder-owned companies that were required by government charters to provide low-cost capital to secondary mortgage markets. Notwithstanding the fact that this intervention was spurred to stabilize financial markets and restore the faltering housing market, American taxpayers were nonetheless saddled with trillions of dollars of risk. Soon after, Lehman Brothers, the 158-year old investment bank founded in Montgomery, Alabama, filed for bankruptcy. Then, Merrill Lynch, another storied American financial institution, was acquired by Bank of America; American International Group (AIG), the world's largest insurance company, was rescued in an $85 billion federal bailout; Washington Mutual Bank (Wa Mu) collapsed, the largest bank failure in American history, and was then acquired by JP Morgan Chase; and Wachovia Bank, the Charlotte, North Carolina-headquartered financial services company, with a rapidly deteriorating portfolio of mortgage loans floundered—and after a brief dalliance with Citigroup—was acquired by Wells Fargo Bank.

These disturbing events and the initial defeat of a financial bailout plan sponsored by the Bush Administration in the U.S. House of Representatives in late September caused the Dow Jones Industrial Average (DJIA or the Dow) to careen 778 points downward, the Dow's largest, single day drop in history. The stock market's continued wild gyrations—including a nearly 50 percent drop at one point in November 2008 from its high in October 2007—as a result of an endless array of bleak economic news in the ensuing period continued to sap consumer and business confidence levels. For the 2008 calendar year, the DJIA lost 34 percent of its value, the worst year for the index since 1931; the broader Standard & Poor's 500-stock index lost more than 38 percent and the technology-laden Nasdaq composite index posted its worst year ever, with a nearly 41 percent drop.[1] Not only did the 2008 losses extinguish $7 trillion in shareholder wealth, i.e., the gains of the last six years, a decline of stunning magnitude, the declines were even more pronounced since they extended into almost every industry with renowned blue-chip companies such as General Motors, Citigroup and Alcoa losing more than 70 percent of their value and all but two of the 30 DJIA industrials (Wal-Mart and McDonalds) falling by more than 11 percent. Consequently, when the National Bureau of Economic Research (NBER) declared in early December 2008 that the economy had sunk into a recession some 12 months before, in December 2007, it only confirmed what many Americans had already come to realize for themselves.

How do all these seemingly disparate trends impact state finances? This *Special Series Report* hones in on the extent to which the 16 SLC state revenue inflows were reliant on the housing and construction sectors between fiscal years 2002 and 2008, sometimes directly and, other times, indirectly. The comparison

of revenue data for this seven-year period will facilitate a review of not only the gradual ebb and flow of these categories but also the sharp fluctuations in revenues, including the steep drop-offs experienced in several states that were particularly reliant on the housing and construction sectors for their overall economic performance.

For purposes of organization, the report is divided into three chapters. Chapter one presents details on key economic indices related to the slowing economy, both nationally and in the SLC states. Included in this analysis is the critical background information on the origins of the crisis, how our economy lurched toward its current undesirable position and the role of federal regulators. The chapter expands on national economic trends across a range of statistical measures: SLC gross state product (GSP) and the contribution of the construction sector to GSP; SLC state unemployment trends with specific reference to unemployment trends in the housing and construction sectors; national housing data with details on how the declining housing sector has manifested itself in the SLC states (foreclosure rates, new home construction and home sales); and how SLC state pension funds have fared between 2002 and 2007 given their increasing exposure to real estate investments in the last decade or so. Chapter two demonstrates how the different SLC state revenue categories fared in the last six fiscal years, fiscal year 2002 through fiscal year 2008, including an analysis of how the specific revenue types associated with the housing and construction sectors fared relative to other SLC state revenue categories during this period. Finally, chapter three presents details on the remedial measures enacted in the SLC states in response to this growing crisis. As in numerous other instances, action at the state level preceded action at the federal level by a significant length of time, and this chapter explores some of the legislative measures either already introduced or being discussed in the SLC states to alleviate the adverse implications of the mortgage meltdown in the region.

Background

How did we end up in this unenviable position of extreme financial and economic tumult? In order to focus on the factors that precipitated this ongoing crisis it is important to step back several years. The 2001 economic recession and its lingering aftermath impacted state finances with ferocious intensity. Termed, at that time, the "worst fiscal stress afflicting states since World War II,"[2] the crisis forced state policymakers to make a series of difficult and unpleasant choices as they grappled with plunging revenues, rising unemployment rolls, faltering state gross domestic product (GDP), soaring Medicaid costs, drooping consumer confidence and a series of other gloomy economic indices. Between fiscal years 2001 and 2005, state lawmakers bridged an aggregate budget shortfall of more than $235 billion, with $36 billion of this amount closed in the enactment of their fiscal year 2005 budgets,[3] a clear reflection of the dire financial winds blowing across states at that time. Even though economic output and productivity growth at the national level began recovering by 2003—aided by the very accommodating monetary policies pursued by the Federal Reserve Bank along with the widely expansionary fiscal policies (primarily tax cuts and accelerated defense/military spending) enacted by the federal government—given that revenue recovery at the state level typically lags federal recoveries by upwards of 18 months, states continued to battle tough fiscal times.

By 2005 and into 2006, as the national economic recovery gathered steam, state revenue inflows improved from the depths to which they had plummeted in the early years of the decade. (Nevertheless, it should be noted that the percent change in real adjusted state tax revenue, on a year-over-year basis, never recovered to their pre-2001 levels.[4]) A major contributing factor to this state economic recovery was the impressive performance of the housing and construction sectors in practically every state in the country. While the nation's housing boom had been in progress from about the mid-1990s, its continuation after the 2001 recession was further propelled by historically low mortgage interest rates and an unprecedented surge in housing values in nearly all states. Not only did these low mortgage rates facilitate homeownership rates soaring to an all-time high of nearly 70 percent of all American households by 2004, this period also was characterized by record home equity borrowing and near-record cash-out refinances.[5] As the value of homes appreciated by dizzying proportions, Americans used the equity built up in their homes like ATM machines to cash out billions of dollars, spurring consumer spending and economic activity. It should be noted that a number of states (Arizona, California, Florida and Nevada, for instance) experienced staggeringly high property value appreciations, prompting some experts to caution that these stunning growth rates were the result of an artificial housing bubble developing in these selected locations.

In the second half of 2006, the national economy began running into some headwind given the contraction in housing activity and the related deterioration in mortgage markets. This development accelerated sharply in 2007 with a number of financial institutions declaring sizable losses—and even bankruptcy—alongside a sharp tightening of credit conditions. In addition, the difficulties associated with the housing contraction and the stiffening financial conditions, compounded by rapid increases in the prices of

energy and other commodities, acted as such a major drag on economic activity that by 2008, national economic output was extremely sluggish. Also roiling the nation's economic picture was inflation, rising to levels not seen in years.

For states, the enfeebled national economic scenario posed new challenges and the dawn of fiscal year 2008 (July 1, 2007) signaled "a turning point for state finances with a significant increase in states seeing fiscal difficulties, in stark contrast to the preceding several years."[6] In fact, for the beginning of fiscal years 2007 and 2008, state aggregate year-end balances (general fund ending balances and rainy day funds) fell from $52.3 billion to $45.4 billion, a 13 percent reduction and a marked departure from the increasing trends of the prior few years.[7] As most state legislative sessions began in January 2008, the ongoing national economic fissures percolated across state economies.

Even though a few states were insulated from facing budget difficulties in the first half of 2008 due to their ability to take advantage of high energy and agricultural commodity prices, and minimal exposure to declines in their housing stock, by the second half of the year the weakening national economy had impacted every state in the country. In fact, at least 29 states, including several of the nation's largest, faced an estimated $48 billion in combined shortfalls in their budgets for the current fiscal year that began on July 1, 2008.[8] By late December 2008, at least 44 states faced or will face shortfalls in their budgets for this and/or the next two fiscal years (fiscal years 2010 and 2011).[9] Combined budget shortfalls for the remaining six months of this year (fiscal year 2009) and the two upcoming fiscal years are estimated to total between $350 billion and $370 billion, a chasm of monumental proportions for states, far exceeding the cumulative shortfalls experienced during the last (2001) recession.

By 2008, fallout in the housing sector and the mortgage meltdown were intensely affecting homeowners, further sapping consumer confidence in an already stuttering economy. According to RealtyTrac, in 2007, foreclosure activity (default notices, auction sale notices and bank repossessions) was reported on nearly 1.3 million properties nationwide, a 75 percent increase compared to 2006.[10] Even mid-year in 2008, the number of foreclosure filings continued to be disturbingly high and, in July 2008, more than 272,000 homes received at least one foreclosure notice, an increase of 55 percent from July 2007 and up 8 percent from June 2008.[11] By November 2008, foreclosure filings were reported on 259,085 U.S. properties during the month, a 7 percent decrease from the previous month but still up 28 percent from November 2007.[12]

The Mortgage Bankers Association (MBA) reported that nearly one in 11 American homeowners with a mortgage faced foreclosure or fell behind in their payments in the first three months of 2008, an astounding proportion, marking the worst quarter for American homeowners in nearly three decades.[13] By the end of the second quarter of 2008, the MBA reported that a record 1.2 million homes nationwide were in foreclosure, 2.8 percent of all outstanding mortgage loans, up from 1.4 percent of all loans during the same period one year earlier.[14] The MBA also reported that the source of danger in the mortgage market had shifted from subprime loans made to borrowers with bad credit to homeowners who had solid credit but took out exotic loans with ballooning monthly payments; at the end of June 2008, 4 million American homeowners with a mortgage—a record 9 percent—were either behind on their payments or in foreclosure, further confirming that the economic collapse extended far beyond subprime mortgages.[15] The ominous news on the foreclosure front continued and by the end of the third quarter of 2008, the MBA reported that the percentage of loans in the foreclosure process was 2.97 percent, an increase of 22 basis points from the second quarter of 2008 and 128 basis points from one year ago.[16] According to the MBA, the percentage of loans in the process of foreclosure established a new record this quarter. In fact, nine states (Nevada, Florida, Arizona, California, Michigan, Rhode Island, Illinois, Indiana, and Ohio) had foreclosure rates that were above the national average, a further reflection of the gravity of the economic situation in these states.

The dismal position of the nation's housing sector was further affirmed when the Federal Reserve Board documented that in the third quarter of 2008, the equity Americans maintained in their homes – their most important asset – dropped to 44.7 percent; until earlier in 2008, this percentage had not fallen below 50 percent since 1945.[17] On a positive note, this federal report noted that the rapidly souring economic conditions resulted in the debt held by American consumers shrinking (by 0.8 percent) in the three months that ended September 30, 2008—the first time that has happened since the government began keeping records more than 50 years ago—and that Americans saved more: the savings rate, a meager 0.2 percent in the first quarter of 2008, rose to 1.1 percent by the third quarter of 2008.

Finally, as noted at the outset, the rapidly deteriorating national fiscal position also spurred the U.S. Treasury Department to assume conservatorship over Fannie Mae and Freddie Mac.[18] While the federal government's intervention was designed to stabilize financial markets and restore the faltering housing market, it still burdens American taxpayers with immense risk.

Given the enormous stress experienced in the housing market in the last two years in every region of the country, and the significant role played by this sector in individual state economies in recent years, there has been a great deal of interest in the factors that boosted the housing sector at the outset and how we ended up in the current morass. In this connection, the increasing number of borrowers unable to meet their mortgage obligations alongside the substantial increase in late payments and foreclosures highlighted the fact that the housing boom of the past few years was characterized by the following features:

» An increasing number of mortgages issued to subprime borrowers, i.e., "borrowers with significant indicators of heightened risk of default, such as blemished credit history or high debt-to-income ratio." [19] In 2000, there had been $130 billion in subprime mortgage lending with $55 billion of that repackaged as mortgage bonds. In 2005, there was $625 billion in subprime mortgage loans of which $507 billion found its way into mortgage bonds. In addition, the lack of standards in the issuance of mortgages during the boom years is clearly apparent from the following: historically, the ratio of median home price to income in a mortgage has been 3 to 1. By late 2004 when the housing bubble was reaching its apex, it had risen to 4 to 1 nationally and even more disturbingly, it was 10 to 1 in Los Angeles and 8.5 to 1 in Miami;

» A greater reliance on non-traditional mortgages, sometimes referred to as "exotic mortgages," such as interest-only (I/O) mortgages, adjustable rate mortgages (ARMs), No Down Payment Loans, Option ARMs (which allowed borrowers to decide how much they wanted to pay each month), Low Documentation Loans and even loans where the mortgage lenders eliminated an independent evaluation or assessment of the property; and

» A rising number of loans, especially subprime and jumbo loans,[20] financed outside of traditional banking channels in a process called securitization. Under this process, once a mortgage is signed, almost immediately, the lender sells the new mortgage to another entity that, in turn, "bundles" or "pools" similar loans in a trust or as mortgage-backed securities (MBS) and sells them to investors both nationally and internationally. Even though securitization may have helped increase the flow of funds available for mortgages and further pushed down mortgage rates, they may also have enabled non-bank lenders to operate without federal supervision of their underwriting standards.[21]

Methodology

In order to obtain information to publish this report, the SLC forwarded a survey questionnaire in mid-August 2008 to legislative or executive branch staff in the 16 SLC states. (See Appendix A for a copy of the survey questionnaire.) In response to this email survey questionnaire and subsequent follow-up by SLC staff, both verbal and/or written responses were received from all 16 SLC states. In addition, an assortment of state websites was reviewed for information to supplement the information received from the states. The information in this report also was based on an ongoing review of this issue in various media outlets and media documents in the SLC states, along with additional research that included a review of publications issued by a range of national trade associations, federal government reports, academic centers and private research institutes.

Chapter 1

Economic and Statistical Data Reflecting a Collapsing Housing Sector

This chapter of the report presents a series of economic and statistical data documenting the performance of the housing and real estate sectors during the 2002 to 2008 period, both at the national and SLC state levels. While describing the origins of the housing collapse, the chapter provides background information, including details on the soaring housing market, its subsequent collapse, the sharp increase in foreclosure activity and the contagion effects of this collapse on the United States and global economies. The chapter provides details on the national gross domestic product (GDP) and SLC state gross state product (GSP) levels, including information on the contribution of the construction sector to the overall numbers; unemployment rates, once again at both the national and SLC state levels, including details on the number employed in construction-related categories; how SLC state pension funds have fared during the 2002 to 2007 period, given their increasing exposure to real estate investments in the last decade or so; and national and SLC state breakdowns for trends related to new home construction, home sales, foreclosure rates and growing negative equity mortgages.

Background

Prior to the collapse in the nation's housing market and the contagion effects of this collapse on the rest of the economy, particularly those in fall 2008 that prompted some observers and analysts to draw apocalyptical parallels to the Great Depression, the first half of this decade was characterized by a surge in the nation's housing sector not seen for half a century. For instance, between 2001 and 2005, the peak period for housing starts or new residential construction in the last eight years, the numbers increased by 30 percent, a significant rate of growth. Housing values, another key indicator of the state of the housing sector, experienced a significant increase too; between 2002 and 2004, the value of new privately owned housing units increased by 33 percent nationally and by 39 percent in the SLC. A number of factors converged to energize this boom, such as nose-diving mortgage and interest rates; exotic new Wall Street securities that engulfed the mortgage industry with cash; and abundant mortgage loan packages, aimed at those with less-than-stellar credit and questionable financial qualifications.

What were the factors that precipitated the onset of the current crisis and what were the underlying instruments that resulted in the housing and mortgage industries soaring to the heights they did during the early years of this decade? In order to provide answers,

it is necessary to step back and review what has now been termed the "great bull market of the new millennium: real estate."[1] In order for Wall Street firms to benefit financially from the burgeoning property boom, Lew Ranieri, a trader with Salomon Brothers (the Wall Street investment bank founded in 1910 that eventually became part of Citigroup in 1998), helped create mortgage-backed securities (MBS), a type of interest-bearing bond.* In more technical terms, an MBS is an asset-backed security whose cash flows are backed by the principal and interest payments of a set of mortgage loans. Ranieri recognized the tremendous value of trading an MBS in the same manner that a government or corporation might issue bonds. In simple terms, the logic for issuing an MBS relies on the following: When a property buyer takes out a loan or mortgage on a home, the individual receives a lump sum in return for a legal promise to make a series of monthly payments over a period of many years. Before the advent of mortgage-backed securities, banks and other mortgage institutions maintained these home loans in their portfolios until they were either paid off or the borrower defaulted on the loan. Yet, Ranieri's financial invention involved pooling or packaging thousands of these home loans, making them the basis of a bond issue. These home loan packages were then sold like a bond, creating a steady stream of payments to the owner of the bond, or MBS.

In 1979, Ranieri's investment bank, Salomon Brothers, underwrote the first issue of mortgage-backed securities and, 20 years later, in 1999, the market for these securities even surpassed the market for U.S. Treasury bonds, a clear indication of their burgeoning popularity in financial and other circles. Banks and mortgage companies gravitated toward mortgage-backed securities because they quickly realized they could sell to Wall Street many of the home loans they issued and eliminate their exposure to these loans, thereby removing the risk from their balance sheets. Consequently, the banks and mortgage companies became less concerned about individual borrowers meeting their mortgage payments since, in the event of a default, it would be the investors who purchased the mortgage-backed securities that were responsible for absorbing the losses. As any individual that signed a mortgage in the last 10 years or so can attest, the financial entity that provided the lump sum for the property purchase at the closing was not the entity to which the property owner made monthly payments even a month or so after the closing; the mortgage was bundled along with thousands of others and sold as an MBS, which is why the property owner was more than likely required to send in the monthly mortgage check to a completely different entity.

In due course, "the securitization of mortgages transformed home finance from a lending business, in which maintaining high credit standards was the key success, into a retail business, in which the goal was to generate maximum volume."[2] In fact, the lowering of credit standards, including the issuance of so-called NINJA mortgage loans (No-Income, No-Job, No-Assets Loans), or mortgage loans to individuals that had been denied loans and even those with damaged credit, i.e., subprime mortgages, flourished as banks and mortgage companies realized the ability to generate additional profits simply by expanding the number of individuals, very often unqualified, that received mortgages.

As banks and mortgage companies drifted further and further away from issuing traditional mortgages based on an applicant's credit history, income verification and earning potential, the growth of nontraditional mortgages expanded exponentially. Consequently, the new wave of mortgages included such loan types as interest-only (I/O) mortgages (where the borrower pays no principal during an introductory period but makes higher payments when the I/O period expires along with having to pay off the remaining principal over a shorter period of time); adjustable rate mortgages (ARMs, where the borrower pays an initial low or "teaser" rate at the beginning of the loan and a significantly higher rate at the end of this introductory period); No Down Payment Loans; Option ARMs (which allowed borrowers to decide how much they wanted to pay each month); Low Documentation Loans; and even loans where the mortgage lenders eliminated an independent evaluation or assessment of the property.

While homeownership rates soared, the individuals receiving these subprime mortgages and nontraditional mortgages did not appear to be concerned about the significantly higher rates of interest they were charged, along with a number of other onerous conditions that these loans contained. In fact, as recently as 2001, just 8.6 percent of total mortgage debt issued in the United States involved subprime mortgages; by 2006, this amount had increased to more than 20 percent. As expected, a dominant portion of these mortgages was then securitized and sold as mortgage-backed securities to a range of investors, both individuals and institutional. Even though the investors that purchased these securities might or might not have realized their inherent risks, at least until 2006 (since property values continued to escalate during that time) investors were sanguine about the securities they held or the ability of borrowers to continue making monthly payments. Delinquent bor-

* A bond is simply a piece of paper that entitles the bearer to specified payments at regular intervals. By extension, a mortgage-backed security is an instrument that is supposed to provide the bearer with a steady stream of payments based on the mortgage payments of homeowners.

rowers often were allowed to refinance their loans, if necessary, given that the value of their homes often had appreciated.

Another trend associated with mortgage-backed securities that resonated loudly among Wall Street firms involved the issue of collateralized-debt obligations (CDOs), i.e., interest-bearing securities that contained various debt assets, including mortgage-backed securities. CDOs were particularly attractive to investors because they contained multiple debt obligations with a range of different risk categories. While some CDOs were rated as high as triple-A, there were others that had lower ratings even though they were touted as high yielding instruments. As a result of the huge profit margins, many of the Wall Street firms (such as the now defunct Merrill Lynch) associated with both MBOs and CDOs expanded their operations in the mortgage finance sector, "often without conducting a thorough analysis of the housing market or of new, increasingly dubious lending practices." [3]

Housing Bust and the Mortgage Meltdown

By the summer of 2006, despite an impressive rise in homeownership rates, often based on the glut of subprime and nontraditional mortgages described earlier, the lax credit standards and shoddy appraisal process that facilitated mortgages for this increase in homeownership rates began to roil the housing and financial industries. Banks and mortgage companies saw an increasing number of mortgage-delinquency rates in parts of the country, particularly in Arizona, California, Florida and Nevada, all states that had seen a particularly egregious rise in the issuance of subprime and nontraditional mortgages. The worsening foreclosure rates in many pockets of the nation coincided with a deflation of the housing bubble that had permitted the increase in subprime and nontraditional mortgages. In fact, a rising number of Americans began to view their homes primarily as an investment instead of a place to live, often leveraging the escalating value of their homes to acquire more debt and enter into riskier, nontraditional mortgages. The deflating speculative bubble in housing prices quickly becomes apparent when one considers that the national median existing single-family home price dropped to $200,500, which is 9 percent lower than the third quarter of 2007. A year ago, when there were significantly fewer distressed transactions, the median price was $220,300.[4] In addition, as of October 2008, nationally, more than 18 percent of homeowners with a mortgage (7.6 million of 41.8 million mortgages) owed more on their loans than their homes were worth, and more than 23 percent maintained near negative equity share mortgages (9.8 million of 41.8 million).[5]

Given that the housing and construction sectors had begun to play an increasingly dominant role in the economic resurgence after the 2001 recession, national, regional and several state economies began to grind to a halt by 2007. (It should be noted that several states, particularly energy-rich states like Louisiana, Texas, Oklahoma, Wyoming, Montana, North Dakota and New Mexico, were spared some of this contraction given the sharp rise in energy prices, along with the fact that most of these states did not experience the housing bubble that developed in other states.) In addition, by 2007, banks, mortgage companies and financial entities immersed in the booming housing sector began experiencing a financial fallout and increasingly intense setbacks on account of the housing bust and mortgage meltdown. While the extreme tumult on Wall Street in September and October 2008 unnerved and impacted investors, both individual and institutional, and governments in every corner of the globe, the gradual erosion in the financial standing of so many of these banks and financial entities that had participated wholeheartedly in the housing bubble in the United States only served to demonstrate the intertwined and tenuous nature of the 21st century global economy.

Several studies highlighted the role of these risky mortgage products in contributing to the ailing United States and global economies. For instance, in October 2008, the University of North Carolina at Chapel Hill's Center for Community Capital released a report that documented that risky mortgage products, not just borrowers with weak credit, share the blame for the nation's housing meltdown.[6] The report noted that borrowers with similar risk characteristics defaulted more often when they entered into subprime mortgage contracts. In contrast, the report concluded that they were less likely to default when they received loans made through programs that had terms associated with the prime market, such as 30-year fixed rates. The report also indicated that borrowers who may have qualified for a conventional or prime-rate mortgage were steered to subprime products by brokers, particularly those who received extra compensation for closing mortgages with higher interest rates, such as subprime mortgages.

The Federal Reserve Bank of St. Louis went as far as to conclude that the credit crunch of 2007-08 and the nation's ongoing economic woes were interlinked with the growth of the subprime market in the United States.[7] According to this perspective, as described earlier, asset-based securities comprising risky mortgages (subprime and other nontraditional mortgages) were packaged and sold to banks, investors and pension funds worldwide. At the time, these securities received high ratings, were considered safe and secured better returns than more conventional asset classes. In retrospect, they were not as safe as the ratings sug-

gested since they were closely linked to fluctuations in house prices. Specifically, when housing prices rose, often to stratospheric heights in certain states, the returns on the securities remained impressive. When house prices began to tumble precipitously along with the increasingly disturbing news about the dominant role played by these risky mortgages in the portfolios of financial institutions, obvious strains in the financial system developed. Along with plummeting housing prices, foreclosures and foreclosure activity began to rise, further heightening the financial pincer-effect confronting these financial institutions and, eventually, the economy at large. The fact that "investors had concentrated risks by leveraging their holdings of mortgages in securitized assets," effectively multiplying their losses, only made matters worse.

The mispricing of the risks associated with these products and the inability of investors and financial institutions to fully determine the degree of their exposure to potential losses caused further shock waves to ricochet through the financial markets by fall 2008. The globalized nature of the contemporary economy ensured that the fallout of this growing financial crisis and ensuing credit crunch rippled across the world from the United States to the United Kingdom to Australia to Asia.

Eventually, numerous financial institutions, mortgage banks and hedge funds, all with an unsettling level of exposure to subprime and other nontraditional mortgages, either filed for bankruptcy (New Century Financial, Lehman Brothers[8]), were absorbed by another entity (Bear Stearns by JP Morgan Chase with loan guarantees from the Federal Reserve Bank and Merrill Lynch by Bank of America, both at fire sale prices), experienced huge losses leading to absorption by another entity (Countrywide by Bank of America) or fired their chief executive officers (Citigroup, Merrill Lynch, Countrywide, Washington Mutual). The collapse of Lehman Brothers, the investment bank founded in Montgomery, Alabama, by three brothers in 1850, in September 2008 was the largest U.S. bankruptcy ever, since the storied institution had assets of $639 billion at the end of May 2008.[9]

Several of the larger and established investment banks wrote off tens of billions of dollars from their balance sheets (Citigroup, $46.4 billion; Merrill Lynch, $36.8 billion; UBS, $36.7 billion; AIG, $20.23 billion) in 2008 as they were forced to bring about a greater degree of accuracy and transparency to their financial reporting. In addition, by early September 2008, an alarming number of Federal Deposit Insurance Corporation (FDIC)-insured institutions/banks, 11 specifically, in different parts of the country went into federal receivership and were closed by the FDIC.[10] Included in this list of failed banks were IndyMac in California, Integrity Bank in Georgia, Silver State Bank in Nevada, Columbian Bank and Trust Company in Missouri, First Priority Bank in Florida, First National Bank in Nevada, First Heritage Bank in California and First Integrity Bank of Minnesota. Later in September 2008, several additional banks (including several in West Virginia and Ohio) went into FDIC receivership along with Washington Mutual[*] being forcibly acquired by JPMorgan Chase, in a transaction facilitated by the FDIC. Further demonstrating the frailty of the nation's banking sector, Wells Fargo (after briefly tussling for ownership with Citigroup) acquired the banking operations of Wachovia Bank, the banking behemoth of Charlotte, North Carolina.

Even when elements of the housing bubble began surfacing in certain parts of the country in 2005, influential policymakers, such as former Federal Reserve Board chairman Alan Greenspan, did not see the urgency to initiate remedial policies at that time.[11] Notwithstanding the growing evidence of the deflating housing bubble and emerging housing bust in 2005, "Mr. Greenspan dismissed those who warned that a new bubble was emerging" in the housing sector by attributing it to a case of a little "froth" in a few areas. [12] In fact, critics of Mr. Greenspan assert that in two instances during the 1990s he failed to stymie or initiate preventive measures to repress the era of cheap interest rates that prevailed during most of his tenure and created the ill-fated speculative bubble.[13] Specifically, these critics maintain that despite his 1996 speech with the reference to "irrational exuberance" and concession that there was an equity bubble, Mr. Greenspan did not initiate or advocate remedial action that could have included tightening margin requirements, i.e., tightening the liquid amounts investors would need to hold against equity positions. In 1998, when the head of the Commodity Futures Trading Commission expressed concern about the massive increase in over-the-counter derivatives and called for greater federal oversight, Mr. Greenspan strongly advocated against such a move and suggested that any new regulations over this completely unfettered area would seriously disrupt the capital markets.[14] Eventually, these derivatives came to play a dominant role in the packaging of mortgages, their securitization and subsequent sale to individual and institutional investors across the globe.

Other perspectives also make the point that the unusually low level of interest rates between 2001 and 2002 contributed partially to the elevated rate of expansion in the housing market, both in terms of housing investment and the tremendous escalation in house prices in parts of the country throughout mid-2005. In fact, "the impact of easy monetary conditions on the housing cycle presumably was magnified by the loosening of lending standards and excessive

[*] The collapse of Washington Mutual, or WaMu, remains the nation's largest bank failure to date.

risk-taking by lenders."[15] The lack of sufficient oversight and intervention by regulatory authorities, given the lax lending standards and unwarranted risk-taking by both lenders and borrowers, often is cited as a major contributing factor in the unbridled growth of the housing bubble that developed in the first half of this decade. In a stunning admission of the lack of adequate oversight over Wall Street's largest investment banks, the chairman of the federal Securities and Exchange Commission, a long advocate of deregulation, acknowledged that failures in a voluntary supervision program over these investment banks had contributed to the ongoing global financial crisis and abruptly shut down the voluntary aspect of this program.[16] The chairman went on to state that the program was "fundamentally flawed from the beginning" and that "the last six months have made it abundantly clear that voluntary regulation does not work."[17] In fact, both Federal Reserve chairman Ben S. Bernanke and Treasury Secretary Henry M. Paulson, Jr., in their statements and actions have more than acknowledged general regulatory failures in the financial arena and the need for government intervention to shore up the greatly enfeebled system. In particular, observers have noted that in the roster of regulators that missed signals or made decisions they came to regret on the road to the current financial imbroglio, the federal Office of Thrift Supervision's (OTS) role is particularly obvious.[18] OTS' deregulatory stance toward the mortgage lenders it was supposed to police, particularly in allowing the reserves these financial institutions held as a buffer to dwindle to historic lows, likely contributed to the demise of Indy Mac, Washington Mutual and Downey Savings and Loan Association, three of the largest institutions regulated by OTS.

In perhaps an admission of complicity in the ongoing turmoil in the economy precipitated by the collapse of the nation's housing sector, in testimony in late October 2008 before the U.S. House Government Oversight Committee, Mr. Greenspan called for imposing some of the same sorts of regulations on mortgage securities he resisted when he was at the helm of the Federal Reserve System for over 18 years (1987-2006).[19] He acknowledged that the current financial crisis had exposed "a flaw" in his view of how the world markets function; the discussion at the hearing revolved around how the absence of significant controls on how mortgages are repackaged into larger and more complex securities remained a central cause of the current financial crisis.

Moving into 2007 and 2008, the national housing market's unraveling had far-reaching implications on the credit and financial markets resulting in the extremely sluggish economic growth situation currently in progress. In fact, as demonstrated in the November 25, 2008, report from the S&P/Case-Shiller Home Price Index, house prices declined by a record 16.6 percent in the third quarter of 2008 versus the third quarter of 2007.[20] This represented another increase from the declines of 15.1 percent and 14 percent reported for the second and first quarters of 2008, respectively. The disturbing feature of this statistic is that house prices already have fallen more sharply over a 12-month period than in any year during the Great Depression. At the worst point of the Depression, in 1932, the fall in nominal prices was 10.2 percent; in fact, the S&P/Case-Shiller Home Price Index comparing the first quarter of 2008 with the first quarter of 2007 reflected a decline of 14.1 percent, once again a steeper drop than any period during the Great Depression.[21] The latest S&P/Case-Shiller U.S. National Home Price Index, which tracks the annual returns of the U.S. National, the 10-City Composite and the 20-City Composite Home Price Indices, revealed that Phoenix was the weakest market, reporting an annual decline of 31.9 percent, followed by Las Vegas, down 31.3 percent, and San Francisco at a 29.5 percent drop in home prices. Miami, Los Angeles, and San Diego did not fare much better, with annual declines of 28.4 percent, 27.6 percent and 26.3 percent, respectively. Two cities in the SLC, Dallas and Charlotte, faired the best at the end of the third quarter of 2008 in terms of relative year-over-year returns. Despite remaining in negative territory, their declines remained in single digits of -2.7 percent and -3.5 percent, respectively.[22]

Gross State Product (GSP)

While U.S. GDP refers to the output of goods and services produced by labor and property located in the United States, GDP by state, or GSP, is the sum of the GDP originating in all the industries in a state.[23] In sum, GDP by state (or GSP) is the state counterpart of the nation's GDP. The estimates of real GDP by state are prepared in chained (2000) dollars. Tracking the progress of a nation's, or in this instance a state's GSP provides valuable insight into the economic performance of the nation or the state. The national GDP for the past few years reflects the slowdown that has been in progress. Specifically, real GDP began its downward descent from 2.9 percent in 2005, to 2.8 percent in 2006, to 2 percent in 2007, including a -0.2 percent in the final quarter of 2007.[24] By early 2008, the impact of the slowing economy was felt in many parts of the country, even more so in the second half of the year. In fact, when the U.S. Department of Commerce preliminary estimates for the third quarter of 2008 indicated that real gross domestic product decreased at an annual rate of 0.5 percent, it was not a great surprise to many observers. Consequently, when the National Bureau of Economic Research (NBER) declared in early December 2008 that the U.S. economy had sunk into a recession some 12 months

Table 1 Contribution of Construction Sector to SLC State GSP 2002 to 2007 (millions of current dollars)

State	2002		2003		2004		2005		2006		2007	
	GSP	Cons. Sector	GSP	Cons. Sector	GSP	Cons. Sector	GSP	Cons. Sector	GSP	Cons. Sector	GSP	Cons. Sector
United States	10,398,402	482,277 (5%)	10,886,172	496,212 (5%)	11,607,041	539,216 (5%)	12,346,871	607,879 (5%)	13,119,938	630,031 (5%)	13,7430,21	562,625 (4%)
Alabama	123,805	6,101 (5%)	130,210	6,209 (5%)	141,527	6,713 (5%)	150,513	7,665 (5%)	158,566	7,906 (5%)	165,796	7,236 (4%)
Arkansas	72,203	3,308 (5%)	75,685	3,204 (4%)	82,137	3,483 (4%)	86,139	3,898 (5%)	90,864	4,001 (4%)	95,371	3,571 (4%)
Florida	522,719	32,166 (6%)	559,021	35,859 (6%)	607,284	41,931 (7%)	670,237	49,961 (7%)	716,505	53,549 (7%)	734,519	45,004 (6%)
Georgia	306,680	15,066 (5%)	317,922	15,423 (5%)	338,470	16,804 (5%)	359,694	19,065 (5%)	376,410	19,546 (5%)	396,504	17,572 (4%)
Kentucky	120,726	5,268 (4%)	124,892	5,358 (4%)	131,741	5,556 (4%)	138,542	6,163 (4%)	146,415	6,004 (4%)	154,184	5,522 (4%)
Louisiana	134,308	6,432 (5%)	146,726	6,584 (4%)	163,427	6,766 (4%)	184,042	7,598 (4%)	203,167	8,636 (4%)	216,146	8,147 (4%)
Maryland	204,120	11,644 (6%)	213,306	12,268 (6%)	228,223	13,699 (6%)	243,855	15,100 (6%)	257,577	15,464 (6%)	268,685	13,990 (5%)
Mississippi	68,144	3,159 (5%)	72,259	3,046 (4%)	76,499	3,105 (4%)	79,461	3,711 (5%)	84,586	4,054 (5%)	88,546	3,606 (4%)
Missouri	188,351	8,798 (5%)	195,547	8,950 (5%)	204,916	9,477 (5%)	213,012	10,431 (5%)	220,092	10,560 (5%)	229,470	9497 (4%)
North Carolina	296,435	13,821 (5%)	306,018	13,791 (5%)	324,383	14,903 (5%)	349,216	17,336 (5%)	380,932	18,144 (5%)	399,446	16,748 (4%)
Oklahoma	97,170	3,909 (4%)	103,452	4,051 (4%)	111,511	4,220 (4%)	120,753	4,715 (4%)	130,094	4,972 (4%)	139,323	4,450 (3%)
South Carolina	121,582	6,651 (5%)	127,885	6,916 (5%)	131,851	7,337 (6%)	138,619	8,371 (6%)	146,211	8,879 (6%)	152,830	7,884 (5%)
Tennessee	191,525	7,763 (4%)	200,279	8,073 (4%)	214,849	8,592 (4%)	224,169	9,823 (4%)	235,753	10,357 (4%)	243,869	9,214 (4%)
Texas	783,480	41,871 (5%)	828,797	43,474 (5%)	901,673	45,648 (5%)	979,311	50,576 (5%)	1,068,119	55,325 (5%)	1,141,965	52,203 (5%)
Virginia	285,759	13,818 (5%)	302,540	14,357 (5%)	324,870	16,461 (5%)	350,288	18,564 (5%)	368,604	18,806 (5%)	382,964	16,258 (4%)
West Virginia	45,032	1,777 (4%)	46,452	1,771 (4%)	49,706	1,965 (4%)	53,013	2,268 (4%)	56,016	2,477 (4%)	57,711	2,194 (4%)

Source: U.S. Department of Commerce, Bureau of Economic Analysis, *www.bea.gov*.

before, in December 2007, it only confirmed what many Americans had already come to realize.*[25]

As previously described, the housing market, and by extension the construction sector, played an integral part in the economic output of every state in the nation during the review period, with some states enjoying a greater degree of impact than others. This economic influence also extended to the SLC states. (At this time, it is appropriate to describe the individual categories that the construction sector comprised so that the role they played in the housing and real estate boom in the first half of this decade becomes more apparent.) Specifically, the sector includes contributions from contractor categories such as framing, masonry, glass and glazing, roofing, siding, electrical, plumbing and HVAC, drywall and insulation, painting and wall covering, flooring, tile and terrazzo and carpentry. As expected, the contributions from these construction categories are an integral component of

* According to the NBER, the official arbiter of recessions, "a recession is a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in production, employment, real income, and other indicators. A recession begins when the economy reaches a peak of activity and ends when the economy reaches its trough. Between trough and peak, the economy is in an expansion. Because a recession is a broad contraction of the economy, not confined to one sector, the NBER emphasizes economy-wide measures of economic activity. The NBER gauges domestic production and employment as the primary conceptual measures of economic activity."

Table 2	Percentage Change in Contribution of Construction Sector to SLC State GSP 2002 to 2007 (millions of dollars)											
State	**2002**	**2003**	**% Change**	**2004**	**% Change**	**2005**	**% Change**	**2006**	**% Change**	**2007**	**% Change**	**2002 to 2007**
United States	482,277	496,212	3%	539,216	9%	607,879	13%	630,031	4%	562,625	-11%	17%
Alabama	6,101	6,209	2%	6,713	8%	7,665	14%	7,906	3%	7,236	-8%	19%
Arkansas	3,308	3,204	-3%	3,483	9%	3,898	12%	4,001	3%	3,571	-11%	8%
Florida	32,166	35,859	11%	41,931	17%	49,961	19%	53,549	7%	45,004	-16%	40%
Georgia	15,066	15,423	2%	16,804	9%	19,065	13%	19,546	3%	17,572	-10%	17%
Kentucky	5,268	5,358	2%	5,556	4%	6,163	11%	6,004	-3%	5,522	-8%	5%
Louisiana	6,432	6,584	2%	6,766	3%	7,598	12%	8,636	14%	8,147	-6%	27%
Maryland	11,644	12,268	5%	13,699	12%	15,100	10%	15,464	2%	13,990	-10%	20%
Mississippi	3,159	3,046	-4%	3,105	2%	3,711	20%	4,054	9%	3,606	-11%	14%
Missouri	8,798	8,950	2%	9,477	6%	10,431	10%	10,560	1%	9,497	-10%	8%
North Carolina	13,821	13,791	0%	14,903	8%	17,336	16%	18,144	5%	16,748	-8%	21%
Oklahoma	3,909	4,051	4%	4,220	4%	4,715	12%	4,972	5%	4,450	-10%	14%
South Carolina	6,651	6,916	4%	7,337	6%	8,371	14%	8,879	6%	7,884	-11%	19%
Tennessee	7,763	8,073	4%	8,592	6%	9,823	14%	10,357	5%	9,214	-11%	19%
Texas	41,871	43,474	4%	45,648	5%	50,576	11%	55,325	9%	52,203	-6%	25%
Virginia	13,818	14,357	4%	16,461	15%	18,564	13%	18,806	1%	16,258	-14%	18%
West Virginia	1,777	1,771	0%	1,965	11%	2,268	15%	2,477	9%	2,194	-11%	23%
SLC Total/Avg.	181,552	189,334	3%	206,660	8%	235,245	14%	248,680	5%	223,096	-11%	19%

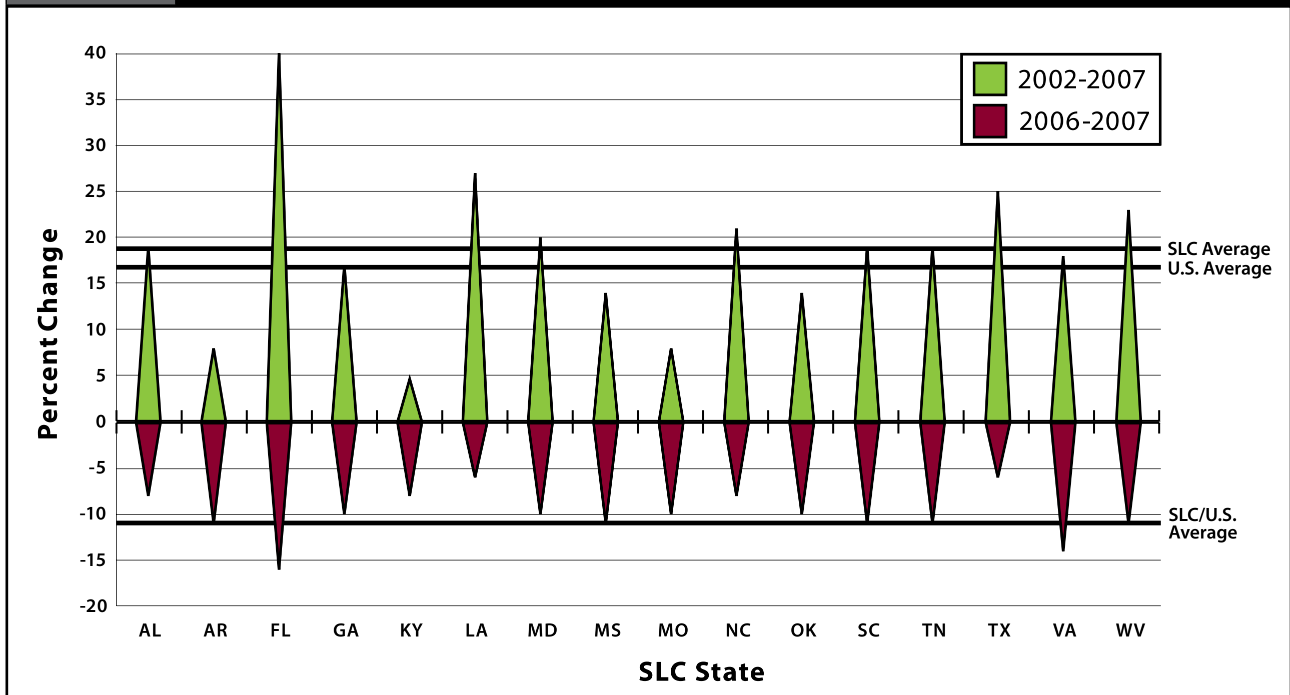
Source: U.S. Department of Commerce, Bureau of Economic Analysis, *www.bea.gov*.

a state's housing and real estate sectors and, eventually, its GSP.

Prior to delving into an analysis of the percentage changes related to the construction sector in the SLC states, it also is important to note that the contributions of the construction sector to overall GSP in the SLC states consistently averaged about 5 percent of total GSP for the SLC region as a whole during the entire review period (2002 to 2007). Even nationally, the contribution of the construction sector to GDP amounted to 5 percent in every year of the review period except 2007, when it declined to 4 percent, a reflection of the difficulties faced by the housing market and, by extension, the construction sector during 2007. Table 1 provides additional information.

Based on an analysis of the data in Table 1, four SLC states stood out from the rest in terms of the 5 percent average: Florida, where, except in 2002, 2003 and 2007, the construction sector's contribution to GSP was 6 percent and 7 percent in the remaining three years (2004, 2005 and 2006); Maryland, where except in 2007, when the contribution was the SLC state average of 5 percent, the construction sector's contribution to GSP was 6 percent in all the other years; South Carolina, where the contribution was 6 percent in 2004, 2005 and 2006; and Oklahoma, where the contribution of the construction sector to GSP was 4 percent between 2002 and 2006 and in 2007, when it dropped to 3 percent, the lowest percent attained among all SLC states in all six years. Additionally, several points may be deduced from these trends, including the fact that the construction sector played a larger role in Florida's GSP than in any other SLC state, as much as 6 percent and 7 percent in the review period. Given that Florida's GSP in 2007 amounted to $734.5 billion, the $45 billion contribution from the construction sector in that year remains substantial. Florida's greater reliance on the construction sector to fuel its overall GSP blends in well with the fact that during the boom years the housing sector in the state ranked among the highest in any state in the country. The flip side of this scenario is the fact that Florida remains one of the worst affected states in the nation as a result of the housing downturn.

Table 2 provides the details on the GDP for the United States and GSP for the 16 SLC states alongside the percentage changes in the contribution of the construction sector to the GDP/GSP for the period 2002 to 2007. Table 2 also documents instructive details on the growth and collapse of the construction sector in terms of its overall contribution to SLC state GSP during the review period, a period which captured both the boom (2004 and 2005, in particular) and bust years (2006 and 2007). The banner year was 2005 when the contribution of the region's construction sectors to their GSPs grew by an impressive 14 percent. This growth rate even exceeded the national average of 13 percent. Mississippi was the leader that year with a 20 percent growth over the prior year, closely followed by Florida (19 percent). Of note,



Source: U.S. Department of Commerce, Bureau of Economic Analysis, *www.bea.gov.*

every SLC state growth average in 2005 reached double-digit levels.

On the flip side, 2007 was the year that SLC states experienced the sharpest drop in the construction sector's contribution to their GSP levels. In this regard, the SLC state average (-11 percent) matched the national average (-11 percent). While five of the 16 SLC states experienced single-digit declines in this sector's growth rate during 2007, the remaining 11 states saw double-digit drops. The SLC state with the sharpest drop was Florida (-16 percent), which again corroborates why Florida remains among the top five worst affected states in the nation. Virginia was second (-14 percent), with five SLC states (West Virginia, South Carolina, Mississippi, Tennessee and Arkansas, all at -11 percent) following behind. At the other end of the spectrum was Louisiana and Texas, both at -6 percent; the limited impact of the housing downturn in these two states—along with the fact that they are both energy producing states—has enabled states both to remain relatively unscathed by the fiscal problems confronting a vast majority of the states.

Figure 1 demonstrates the percentage changes in the construction sector's contributions to the SLC state GSP between 2002 and 2007 and then between 2006 and 2007; Florida represented the peak and the valley of the housing market during the review period since it was the state that experienced both the highest growth and the steepest drop in 2007. Following Florida with solid growth rates during the review period from the housing sector were Louisiana (27 percent) and Texas (25 percent), both major energy-producing states, which also explains why these two states have not experienced the kind of revenue shortfalls that so many other states across the country currently do.

Employment in the Housing Market

Along with statistics on GSP trends, another useful measure of the economic health of the nation's housing market is a review of employment trends in the sector. The U.S. Department of Labor's Bureau of Labor Statistics collects data on occupational employment from employers of every size, every state, metropolitan and nonmetropolitan areas, and all industry sectors. For purposes of this report, the employment levels in the construction and extraction category remain relevant, and the following information tracks the changes associated with this employment category over the 2002 to 2007 period for the SLC states. Included in this category are a myriad professions driving the construction and extraction sectors. A sampling of these include brickmasons; stonemasons; carpenters; carpet installers; floor layers; floor sanders and finishers; tile and marble setters;

Table 3 Total Employment and Construction and Extraction Employees in the SLC States May 2002 to May 2007 (C/E Occupations = Construction and Extraction Occupations)

State		2002	2003	% Change	2004	% Change	2005	% Change	2006	% Change	2007	% Change	% Change: 2002-2007
Alabama	All Occupations	1,819,390	1,820,170	0.04%	1,830,360	0.56%	1,872,600	2.31%	1,912,220	2.12%	1,931,970	1.03%	6.19%
	C/E Occupations	92,670	92,710	0.04%	97,820	5.51%	99,250	1.46%	102,010	2.78%	101,740	-0.26%	9.79%
	C/E as % of Total	5.09%	5.09%		5.34%		5.30%		5.33%		5.27%		
Arkansas	All Occupations	1,120,460	1,118,430	-0.18%	1,125,830	0.66%	1,142,370	1.47%	1,166,840	2.14%	1,172,760	0.51%	4.67%
	C/E Occupations	49,180	48,410	-1.57%	45,660	-5.68%	47,020	2.98%	49,700	5.70%	(1)	N/A	N/A
	C/E as % of Total	4.39%	4.33%		4.06%		4.12%		4.26%		N/A		
Florida	All Occupations	7,121,770	7,191,660	0.98%	7,330,880	1.94%	7,614,840	3.87%	7,869,210	3.34%	7,963,010	1.19%	11.81%
	C/E Occupations	377,590	400,900	6.17%	429,160	7.05%	(1)	N/A	513,750	N/A	497,500	-3.16%	31.76%
	C/E as % of Total	5.30%	5.57%		5.85%		N/A		6.53%		6.25%		
Georgia	All Occupations	3,782,660	3,786,080	0.09%	3,806,550	0.54%	3,904,020	2.56%	4,001,580	2.50%	4,058,370	1.42%	7.29%
	C/E Occupations	163,550	162,270	-0.78%	166,270	2.47%	173,670	4.45%	175,830	1.24%	177,600	1.01%	8.59%
	C/E as % of Total	4.32%	4.29%		4.37%		4.45%		4.39%		4.38%		
Kentucky	All Occupations	1,718,680	1,721,470	0.16%	1,728,300	0.40%	1,754,590	1.52%	1,779,830	1.44%	1,801,800	1.23%	4.84%
	C/E Occupations	86,980	86,100	-1.01%	84,150	-2.26%	83,650	-0.59%	84,710	1.27%	85,420	0.84%	-1.79%
	C/E as % of Total	5.06%	5.00%		4.87%		4.77%		4.76%		4.74%		
Louisiana	All Occupations	1,834,110	1,848,200	0.77%	1,861,000	0.69%	1,877,160	0.87%	1,776,990	-5.34%	1,847,230	3.95%	0.72%
	C/E Occupations	119,960	118,790	-0.98%	115,010	-3.18%	111,830	-2.76%	118,900	6.32%	123,090	3.52%	2.61%
	C/E as % of Total	6.54%	6.43%		6.18%		5.96%		6.69%		6.66%		
Maryland	All Occupations	2,430,770	2,443,900	0.54%	2,458,140	0.58%	2,497,220	1.59%	2,531,180	1.36%	2,551,910	0.82%	4.98%
	C/E Occupations	131,710	133,500	1.36%	133,060	-0.33%	143,430	7.79%	148,130	3.28%	149,760	1.10%	13.70%
	C/E as % of Total	5.42%	5.46%		5.41%		5.74%		5.85%		5.87%		
Mississippi	All Occupations	1,086,740	1,085,700	-0.10%	1,095,450	0.90%	1,108,540	1.19%	1,113,000	0.40%	1,128,980	1.44%	3.89%
	C/E Occupations	52,540	53,300	1.45%	52,390	-1.71%	53,330	1.79%	57,230	7.31%	57,650	0.73%	9.73%
	C/E as % of Total	4.83%	4.91%		4.78%		4.81%		5.14%		5.11%		
Missouri	All Occupations	2,636,960	2,626,980	-0.38%	2,630,780	0.14%	2,663,880	1.26%	2,700,450	1.37%	2,732,920	1.20%	3.64%
	C/E Occupations	121,990	122,320	0.27%	126,540	3.45%	132,810	4.95%	133,820	0.76%	132,770	-0.78%	8.84%
	C/E as % of Total	4.63%	4.66%		4.81%		4.99%		4.96%		4.86%		
North Carolina	All Occupations	3,713,570	3,706,260	-0.20%	3,722,700	0.44%	3,809,690	2.34%	3,892,670	2.18%	4,013,460	3.10%	8.08%
	C/E Occupations	172,430	169,750	-1.55%	164,740	-2.95%	179,410	8.90%	192,160	7.11%	203,370	5.83%	17.94%
	C/E as % of Total	4.64%	4.58%		4.43%		4.71%		4.94%		5.07%		
Oklahoma	All Occupations	1,425,690	1,421,620	-0.29%	1,421,270	-0.02%	1,455,940	2.44%	1,503,430	3.26%	1,528,890	1.69%	7.24%
	C/E Occupations	72,400	72,700	0.41%	73,680	1.35%	73,410	-0.37%	82,550	12.45%	85,550	3.63%	18.16%
	C/E as % of Total	5.08%	5.11%		5.18%		5.04%		5.49%		5.60%		
South Carolina	All Occupations	1,757,510	1,764,050	0.37%	1,772,760	0.49%	1,802,740	1.69%	1,840,190	2.08%	1,877,950	2.05%	6.85%
	C/E Occupations	86,330	84,860	-1.70%	83,110	-2.06%	89,040	7.14%	97,300	9.28%	101,830	4.66%	17.95%
	C/E as % of Total	4.91%	4.81%		4.69%		4.94%		5.29%		5.42%		

Table 3 (continued) Total Employment and Construction and Extraction Employees in the SLC States May 2002 to May 2007 (C/E Occupations = Construction and Extraction Occupations)

State		2002	2003	% Change	2004	% Change	2005	% Change	2006	% Change	2007	% Change	% Change: 2002-2007
Tennessee	All Occupations	2,617,360	2,613,610	-0.14%	2,634,450	0.80%	2,686,580	1.98%	2,718,410	1.18%	2,739,230	0.77%	4.66%
	C/E Occupations	107,410	106,610	-0.74%	105,750	-0.81%	108,210	2.33%	114,000	5.35%	114,060	0.05%	6.19%
	C/E as % of Total	4.10%	4.08%		4.01%		4.03%		4.19%		4.16%		
Texas	All Occupations	9,187,750	9,196,620	0.10%	9,299,360	1.12%	9,424,510	1.35%	9,760,960	3.57%	10,061,750	3.08%	9.51%
	C/E Occupations	494,960	492,290	-0.54%	476,820	-3.14%	478,250	0.30%	513,910	7.46%	553,160	7.64%	11.76%
	C/E as % of Total	5.39%	5.35%		5.13%		5.07%		5.26%		5.50%		
Virginia	All Occupations	3,387,520	3,396,270	0.26%	3,451,890	1.64%	3,535,500	2.42%	3,608,430	2.06%	3,645,330	1.02%	7.61%
	C/E Occupations	186,060	186,600	0.29%	195,310	4.67%	205,370	5.15%	216,400	5.37%	211,380	-2.32%	13.61%
	C/E as % of Total	5.49%	5.49%		5.66%		5.81%		6.00%		5.80%		
West Virginia	All Occupations	681,950	681,370	-0.09%	685,110	0.55%	697,390	1.79%	710,560	1.89%	713,230	0.38%	4.59%
	C/E Occupations	41,070	41,770	1.70%	43,100	3.18%	47,250	9.63%	51,010	7.96%	51,720	1.39%	25.93%
	C/E as % of Total	6.02%	6.13%		6.29%		6.78%		7.18%		7.25%		
SLC Region Total (2)	All Occupations	45,202,430	45,303,960	0.22%	45,729,000	0.94%	46,705,200	2.13%	47,719,110	2.17%	48,596,030	1.84%	7.51%
	C/E Occupations	2,356,830	2,372,880	0.68%	2,392,570	0.83%	2,025,930	-15.32%	2,651,410	30.87%	2,646,600	-0.18%	12.29%
	C/E as % of Total	5.11%	5.13%		5.13%		4.34%		5.45%		5.45%		

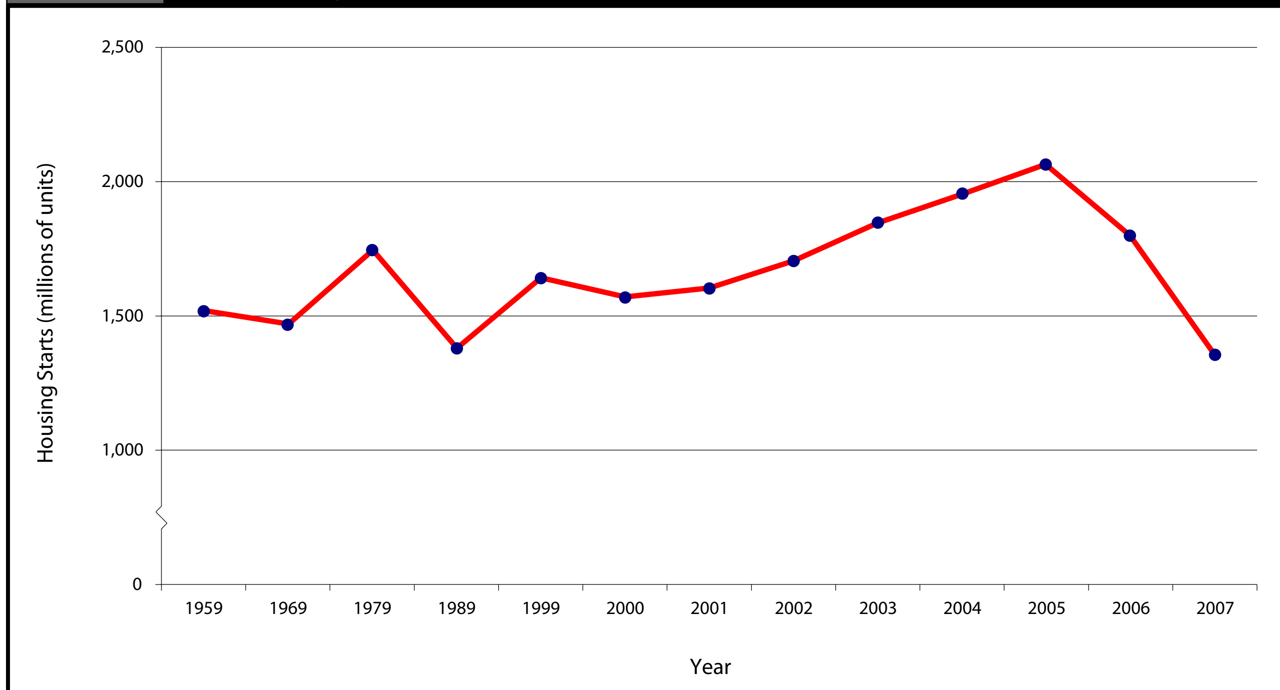
Notes:
C/E Occupations = Construction and Extraction Occupations.
(1) = Estimates not released at time of report analysis.
(2) = In order to account for unreleased estimates, Arkansas was not included in the calculations for the SLC Region Total.
Source: U.S. Department of Labor, Bureau of Labor Statistics, State Occupational Employment and Wage Estimates, 2002-2007.

cement masons and concrete finishers; pile-driver operators; drywall and ceiling tile installers; electricians; glaziers; insulation workers; painters; pipelayers; plumbers; pipefitters; steamfitters; plasterers and stucco masons. While the construction sector is not the only employment category that contributes to the employment rolls of the housing market, it is a valuable component of it. Table 3 documents the progression of the construction employment category alongside total employment in the SLC states.

In further analysis of the trends in Table 3, in 2005, data for Florida was unavailable and, in 2007, data for Arkansas was unavailable. Consequently, the number of employees in the construction and extraction sectors averaged above 5 percent of total employees in the SLC states during the review period, except in 2005, when it dropped to 4.3 percent. This was because Florida was missing from the SLC total and because Florida ranked among the highest in terms of construction and extraction employees. Similarly, in 2007, even though Arkansas' numbers were missing, since Arkansas' construction and extraction employees was relatively small compared to the other SLC states (along with West Virginia, Arkansas had the fewest number of employees in this category), there was minimal impact on the overall percentage change.

In terms of the year-to-year percentage changes between 2002 and 2007 (excluding Arkansas), Kentucky was the only SLC state which actually experienced a decline of nearly 2 percent (from 86,980 in 2002 to 85,420 in 2007) in this employment category. Of the remaining 14 SLC states, six states recorded an increase in the construction and extraction sectors in the single digits with the remaining eight states reaching double-digit growth rates. Once again, confirming the incredible importance the housing sector played in its economy, Florida was the state with the highest growth rate (nearly 32 percent). The number of employees under this category in Florida leapt from 377,590 in 2002 to 497,500 in 2007.

Given that by 2007 the economic effects of the housing slowdown had begun to trickle across the Southern region, a review of the percentage change in



Source: U.S. Department of Commerce, Bureau of the Census, *www.census.gov.*

this year is appropriate. Specifically, of the 15 SLC states (once again, excluding Arkansas), four states actually experienced a decline in the number of employees in the construction and extraction sectors between 2006 and 2007: Florida (-3.16 percent), Virginia (-2.32 percent), Missouri (-0.78 percent) and Alabama (-0.26 percent), while three states—Tennessee (0.05 percent), Mississippi (0.73 percent) and Kentucky (0.84 percent)—barely reached positive territory. The remaining eight states reached single-digit growth rates, though the highest was Texas with 7.64 percent. Texas' performance, when measured against this statistic, matches the state's record in the GSP category; given the strong performance of the energy sector in Texas, the state's economy continued to perform stronger than the other SLC states.

Housing Starts

One of the most scrutinized and anticipated economic statistics involves the number of privately owned new homes or housing units on which construction has been started during a given period. (A housing unit, as defined for purposes of this report, is a house, an apartment, a group of rooms or a single room intended for occupancy as separate living quarters.) Continued appreciation on this front indicates an economy that is humming along with all the associated benefits that flow from such a scenario. As evident from the analysis so far, the current status with regard to housing starts in practically every state in the country demonstrates a badly battered housing market, one of the biggest drawbacks to the already teetering national economy.

According to U.S. Department of Commerce data, a review of new, privately owned housing units started for the period 1959 to 2007 reveals that in nearly five decades, the number of total units exceeded 2 million in only five years: 1971 = 2.1 million units; 1972 = 2.4 million units; 1973 = 2 million units; 1978 = 2 million units; and 2005 = 2.1 million units.[26] Figure 2 presents this information graphically for the nearly five decades between 1959 and 2007.

As evident, the number of privately owned housing units that was started over the past 50 years or so demonstrates that there was a sharp increase in the number of units since the early years of this decade, a peak in 2005 of 2.1 million units, before the marked decline starting the very next year (2006). During the 1959 to 2007 period, there were 13 years in which the number of units started was less than the 2007 figure of 1.355 million. In addition, between 2006 and 2007, national housing starts fell by 25 percent and between 2005 and 2006, they dropped by 13 percent. However, between 2001 and 2005, the peak year for housing starts in the last eight years, the number increased by 30 percent, a significant rate of growth.

Alongside the number of privately owned housing units started (Figure 2), another statistic closely reviewed by policymakers and researchers on the potential direction of the national and regional economies involves the number of units authorized for construc-

Table 4	Housing Units Authorized by Building Permits 2002 to 2007 (thousands of units)											
State	2002	2003	% Change	2004	% Change	2005	% Change	2006	% Change	2007	% Change	% Change: 2002-2007
Alabama	18,403	22,256	20.9%	27,411	23.2%	30,612	11.7%	32,034	4.6%	25,845	-19.3%	40.4%
Arkansas	12,436	14,839	19.3%	15,855	6.8%	17,932	13.1%	13,885	-22.6%	11,031	-20.6%	-11.3%
Florida	185,431	213,567	15.2%	255,893	19.8%	287,250	12.3%	203,238	-29.2%	102,551	-49.5%	-44.7%
Georgia	97,523	96,704	-0.8%	108,356	12.0%	109,336	0.9%	104,200	-4.7%	73,165	-29.8%	-25.0%
Kentucky	19,459	20,404	4.9%	22,623	10.9%	21,159	-6.5%	16,628	-21.4%	14,938	-10.2%	-23.2%
Louisiana	18,425	22,220	20.6%	22,989	3.5%	22,811	-0.8%	28,671	25.7%	23,379	-18.5%	26.9%
Maryland	29,293	29,914	2.1%	27,382	-8.5%	30,180	10.2%	23,262	-22.9%	18,582	-20.1%	-36.6%
Mississippi	11,276	12,010	6.5%	14,532	21.0%	13,396	-7.8%	16,618	24.1%	16,832	1.3%	49.3%
Missouri	28,255	29,309	3.7%	32,791	11.9%	33,114	1.0%	29,172	-11.9%	32,791	12.4%	16.1%
North Carolina	79,824	79,226	-0.7%	93,077	17.5%	97,910	5.2%	99,979	2.1%	85,777	-14.2%	7.5%
Oklahoma	12,979	14,968	15.3%	17,068	14.0%	18,362	7.6%	15,840	-13.7%	14,730	-7.0%	13.5%
South Carolina	34,104	38,191	12.0%	43,230	13.2%	54,157	25.3%	50,776	-6.2%	40,631	-20.0%	19.1%
Tennessee	34,273	37,530	9.5%	44,791	19.3%	46,615	4.1%	46,003	-1.3%	37,359	-18.8%	9.0%
Texas	165,027	177,194	7.4%	188,842	6.6%	210,611	11.5%	216,642	2.9%	176,992	-18.3%	7.3%
Virginia	59,445	55,936	-5.9%	63,220	13.0%	61,518	-2.7%	47,704	-22.5%	38,362	-19.6%	-35.5%
West Virginia	4,890	5,133	5.0%	5,716	11.4%	6,140	7.4%	5,645	-8.1%	4,795	-15.1%	-1.9%
SLC Region	811,043	869,401	7.2%	983,776	13.2%	1,061,103	7.9%	950,297	-10.4%	717,760	-24.5%	-11.5%
United States	1,747,678	1,889,214	8.1%	2,070,077	9.6%	2,155,316	4.1%	1,838,903	-14.7%	1,398,415	-24.0%	-20.0%

Source: U.S. Department of Commerce, U.S. Census Bureau, *www.census.gov.*

tion. According to the U.S. Department of Commerce, units authorized for construction represent the number of new privately owned housing units authorized by building permits in the United States. Table 4 provides this information for the period 2002 to 2007.

As indicated in Table 4, between 2002 and 2007, the number of building permits authorized in the SLC states declined by an average of 11.5 percent, though this decline was not as steep as the national decline of 20 percent. There were seven SLC states that experienced declines during the 2002 to 2007 period, led by Florida (nearly 45 percent), the highest among the SLC states, and followed by Maryland (nearly 37 percent) and Virginia (nearly 36 percent). At the other end of the spectrum, Mississippi experienced a surge in authorized building permits of nearly 50 percent during the review period, followed by Alabama (just under 41 percent) and Louisiana (nearly 27 percent). Of the remaining six SLC states that saw an increase in the number of authorized building permits, three saw double-digit increases (between 13.5 percent and 19.1 percent) and three saw single-digit increases (between 7.3 percent and 9 percent).

In terms of specific years during the review period, 2004 saw the largest increase in the number of authorized building permits in the SLC states, an increase of 13.2 percent, greater than the national increase of 9.6 percent. Only a single SLC state (Maryland) actually experienced a decline in the authorized building permits, along with three SLC states (Louisiana, Texas and Arkansas) displaying single-digit increases (between 3.5 percent and 6.8 percent), and all the remaining SLC states demonstrated double-digit increases (between 10.9 percent and 23.2 percent). Alabama led the SLC states in the number of authorized building permits in this year, followed by Mississippi and Florida in second and third, respectively.

At the other end of the continuum, 2007, the SLC states (and the nation as a whole) saw the steepest drop in the number of authorized building permits, 24.5 percent for the SLC states on average and 24 percent nationally. Only two SLC states succeeded in climbing into positive territory (Mississippi at 1.3 percent and Missouri at 12.4 percent) while the remaining 14 states were in negative territory. Florida was the leader at nearly 50 percent (-49.5 percent) with Georgia (-29.8 percent) and Arkansas (-20.6 percent) occupying the two other top rankings in this category. Finally, these 14 states all suffered double-digit losses with only Oklahoma's decline being in single digit territory (-7 percent).

Further indication of the decline in the nation's (and the SLC region's) housing stock is evident in a comparison of the number of new, privately owned housing units authorized for the period January through October 2007, and January through October

Table 5 New Privately Owned Housing Units Authorized in the SLC States Jan to Oct 2007 and Jan to Oct 2008 (thousands of units)

State	Oct. 2007	Oct. 2008	% Change
Alabama	20,351	13,416	-34.1%
Arkansas	9,008	7,564	-16.0%
Florida	92,869	55,872	-39.8%
Georgia	64,006	30,593	-52.2%
Kentucky	12,731	9,200	-27.7%
Louisiana	19,578	14,575	-25.6%
Maryland	17,870	12,754	-28.6%
Mississippi	14,100	9,184	-34.9%
Missouri	17,665	10,948	-38.0%
North Carolina	72,376	50,056	-30.8%
Oklahoma	12,915	8,884	-31.2%
South Carolina	34,037	23,377	-31.3%
Tennessee	31,570	18,935	-40.0%
Texas	151,074	117,316	-22.3%
Virginia	31,743	24,164	-23.9%
West Virginia	3,323	2,770	-16.6%
SLC Region	605,216	409,608	-32.3%
United States	1,216,071	812,088	-33.2%

Source: U.S. Census Bureau, Valuation of Housing Units Authorized by Building Permits, 2007 and 2008.

2008. Table 5 provides this information. In Table 5, the SLC and national averages are roughly comparable (declines of 32.3 percent and 33.2 percent, respectively) with the important development that every SLC state experienced a decline in the number of authorized units during the review period (January to October 2007 and January to October 2008). As expected, certain SLC states faced greater difficulties on this issue with Georgia experiencing the steepest drop of all the SLC states (a decline of more than 52 percent) during the review period. Tennessee (-40 percent), Florida (-39.8 percent) and Missouri (38 percent) were the three SLC states that faced the most contraction along with Georgia. Arkansas faced the smallest decline (-16 percent) during this period.

Housing Values

Housing values are another closely watched economic barometer. The following section provides details on this statistic between 2002 and 2007, and also for the first 10 months of 2008. This period reflects the years of the housing boom and the years of the housing bust still in progress. The sharp surge in housing values proved to be a significant boost to the economy in the aftermath of the 2001 recessions as homeowners tapped into the appreciation in their homes to obtain home equity credits, substan-

Table 6 Valuation of New Privately Owned Housing Units 2002 to 2007 (thousands of dollars)

State	2002	2004	% Change	2006	% Change	2007	% Change	% Change: 2002-2007
Alabama	$1,965,388	$3,293,297	67.6%	$4,401,982	33.7%	$3,199,905	-27.3%	62.8%
Arkansas	$1,199,305	$1,764,482	47.1%	$1,793,835	1.7%	$1,436,659	-19.9%	19.8%
Florida	$22,467,802	$36,959,407	64.5%	$35,716,293	-3.4%	$17,998,784	-49.6%	-19.9%
Georgia	$10,045,543	$12,884,208	28.3%	$14,454,793	12.2%	$10,438,569	-27.8%	3.9%
Kentucky	$2,080,766	$2,679,105	28.8%	$2,260,804	-15.6%	$1,984,271	-12.2%	-4.6%
Louisiana	$1,942,194	$2,626,149	35.2%	$3,818,317	45.4%	$3,153,525	-17.4%	62.4%
Maryland	$3,517,919	$3,822,676	8.7%	$3,889,931	1.8%	$3,768,825	-3.1%	7.1%
Mississippi	$1,055,161	$1,516,996	43.8%	$2,011,163	32.6%	$1,885,170	-6.3%	78.7%
Missouri	$3,186,632	$4,286,161	34.5%	$4,086,728	-4.7%	$3,128,424	-23.4%	-1.8%
North Carolina	$9,881,598	$12,845,153	30.0%	$16,074,266	25.1%	$14,298,397	-11.0%	44.7%
Oklahoma	$1,587,943	$2,184,108	37.5%	$2,322,244	6.3%	$2,137,133	-8.0%	34.6%
South Carolina	$4,102,075	$5,641,358	37.5%	$7,592,107	34.6%	$6,318,566	-16.8%	54.0%
Tennessee	$3,961,209	$5,863,310	48.0%	$6,781,669	15.7%	$5,336,807	-21.3%	34.7%
Texas	$17,557,206	$22,486,958	28.1%	$29,206,068	29.9%	$24,777,877	-15.2%	41.1%
Virginia	$6,589,270	$8,094,230	22.8%	$7,706,821	-4.8%	$6,357,473	-17.5%	-3.5%
West Virginia	$560,236	$734,852	31.2%	$944,443	28.5%	$720,443	-23.7%	28.6%
SLC Region	$91,700,247	$127,682,450	39.2%	$143,061,464	12.0%	$106,940,828	-25.2%	16.6%
United States	$219,188,681	$292,413,691	33.4%	$291,314,492	-0.4%	$225,236,551	-22.7%	2.8%

Source: U.S. Census Bureau, Valuation of Housing Units Authorized by Building Permits, 2002-2007.

tially spurring consumer spending. The following two tables break down house prices for the SLC states on the basis of valuation.

According to Table 6, the value of privately owned housing units in the SLC grew by an average of 16.6 percent between 2002 and 2007. It should be noted that house prices in several of the SLC states ranked among the fastest growing states in the country during the housing boom years, though several SLC states (Florida and Georgia, for instance) also have experienced the sharpest declines during the bust years. These twin trends are reflected in the SLC state average for the period, which significantly exceeded the national average of 2.8 percent. In terms of the specific states, Florida experienced the sharpest drop in prices between 2002 and 2007 (19.9 percent), the only SLC state with a double-digit decline. Three additional SLC states also experienced declines: Kentucky (4.6 percent), Virginia (3.5 percent) and Missouri (1.8 percent). The remaining 12 SLC states all secured increases in their home prices with 10 of the 12 securing growth rates between 19.8 percent and 78.7 percent. Mississippi garnered the highest growth rate in housing prices (78.7 percent), with Alabama and Louisiana (62.8 percent and 62.4 percent, respectively) ranking second and third.

Table 7	Valuation of New Privately Owned Housing Units January to October 2007 and January to October 2008 (thousands of dollars)		
State	October 2007	October 2008	% Change
Alabama	$2,728,650	$1,819,339	-33.3%
Arkansas	$1,198,054	$860,651	-28.2%
Florida	$16,453,320	$9,899,813	-39.8%
Georgia	$9,158,252	$4,336,985	-52.6%
Kentucky	$1,656,019	$1,165,355	-29.6%
Louisiana	$2,631,771	$1,997,685	-24.1%
Maryland	$3,341,201	$2,041,862	-38.9%
Mississippi	$1,543,153	$1,025,547	-33.5%
Missouri	$2,615,187	$1,597,223	-38.9%
North Carolina	$12,080,918	$7,746,951	-35.9%
Oklahoma	$1,850,005	$1,373,720	-25.7%
South Carolina	$5,233,610	$3,780,816	-27.8%
Tennessee	$4,460,780	$2,618,723	-41.3%
Texas	$21,371,934	$15,720,361	-26.4%
Virginia	$5,485,489	$3,741,289	-31.8%
West Virginia	$574,593	$405,713	-29.4%
SLC Region	$92,382,936	$60,132,033	-34.9%
United States	$196,284,716	$126,866,233	-35.4%

Source: U.S. Census Bureau, Valuation of Housing Units Authorized by Building Permits, 2007 and 2008.

During the review period, while 2004 was the year during which SLC states saw the highest increase in house prices, 2007 was the year with the most precipitous drop. In 2004, house prices in the SLC states grew on average 21.6 percent over 2003, a rate faster than the national average of 17.1 percent. Every single SLC state saw an increase in their house prices in 2004, with Alabama (33.7 percent), Tennessee (30.9 percent) and Florida (30.4 percent) leading the way. In stark contrast, 2007 was the year in which home prices dropped sharply, also reflected in an analysis of the SLC states. Each SLC state experienced a decline in house prices with the average (-25.2 percent) surpassing the national average of -22.7 percent. In fact, except for three SLC states (Maryland, Mississippi and Oklahoma), all experienced double-digit declines. Florida remains severely affected by the housing downturn even on a national scale, and the decline of nearly 50 percent (-49.6 percent) remains staggering. Georgia (-27.8 percent) and Alabama (-27.3 percent) ranked second and third, respectively, in terms of states that saw the sharpest drop in house prices in 2007.

Even when this level of analysis is carried into 2008, by comparing house prices in the SLC states at the end of October 2008 with October 2007, the gravity of the situation quickly becomes apparent. Table 7 addresses this dire situation. Although though the SLC state and national averages were roughly comparable for this period (34.9 percent vs. 35.4 percent), a review of the individual SLC states indicates that every SLC state experienced a double-digit decline in this comparison of year-to-date valuations. Georgia, with a 52.6 percent decline in housing prices, was the SLC state with the most severe drop, while Tennessee (-41.3 percent) and Florida (-39.8 percent) followed thereafter. Even in an SLC state like Oklahoma, one relatively unscathed by both the surge and slump in house prices during this decade, house prices fell by over 25.7 percent.

Another matrix related to housing prices, the house price index (HPI), is generated by the U.S. Office of Federal Housing Enterprise Oversight (OFHEO). Conducted on a quarterly basis, the HPI is a seasonally-adjusted, purchase-only reflection of house prices based on home sales in every state. It is a broad indicator of the movement of single-family house prices that measures average price changes in repeat sales or re-financings on the same properties. The HPI serves as a timely, accurate indicator of house price trends at various geographic levels. Because of the breadth of the sample, it provides more information than other house price indexes. It also provides housing econo-

Table 8 House Price Index (HPI) 4th Quarter of 2002 to 2007

State	2002	2003	% Change	2004	% Change	2005	% Change	2006	% Change	2007	% Change	% Change: 2002-2007
Alabama	222.12	229.18	3.2%	240.93	5.1%	260.70	8.2%	282.34	8.3%	294.35	4.3%	32.5%
Arkansas	201.04	209.42	4.2%	223.14	6.6%	239.64	7.4%	254.03	6.0%	263.71	3.8%	31.2%
Florida	261.73	292.24	11.7%	350.03	19.8%	446.41	27.5%	486.28	8.9%	460.41	-5.3%	75.9%
Georgia	269.24	278.08	3.3%	292.41	5.2%	310.15	6.1%	325.87	5.1%	335.49	3.0%	24.6%
Kentucky	239.21	248.80	4.0%	262.41	5.5%	273.88	4.4%	284.11	3.7%	293.85	3.4%	22.8%
Louisiana	181.68	190.34	4.8%	201.52	5.9%	219.85	9.1%	242.83	10.5%	253.53	4.4%	39.5%
Maryland	300.00	339.01	13.0%	404.53	19.3%	491.57	21.5%	534.00	8.6%	536.46	0.5%	78.8%
Mississippi	200.72	206.25	2.8%	216.20	4.8%	232.06	7.3%	253.08	9.1%	264.81	4.6%	31.9%
Missouri	240.67	253.19	5.2%	269.75	6.5%	287.37	6.5%	299.00	4.0%	305.62	2.2%	27.0%
North Carolina	260.94	268.54	2.9%	281.64	4.9%	303.38	7.7%	326.60	7.7%	343.31	5.1%	31.6%
Oklahoma	165.41	171.64	3.8%	179.89	4.8%	189.93	5.6%	199.23	4.9%	209.71	5.3%	26.8%
South Carolina	245.31	252.97	3.1%	267.83	5.9%	290.78	8.6%	313.00	7.6%	326.28	4.2%	33.0%
Tennessee	238.55	246.37	3.3%	258.35	4.9%	277.67	7.5%	298.97	7.7%	312.06	4.4%	30.8%
Texas	183.12	186.96	2.1%	193.65	3.6%	203.39	5.0%	216.63	6.5%	228.94	5.7%	25.0%
Virginia	286.55	314.66	9.8%	368.49	17.1%	438.26	18.9%	470.18	7.3%	473.37	0.7%	65.2%
West Virginia	176.38	182.96	3.7%	196.15	7.2%	216.68	10.5%	227.60	5.0%	234.55	3.1%	33.0%
SLC Region	229.54	241.91	5.4%	262.93	8.7%	292.61	11.3%	313.36	7.1%	321.03	2.4%	39.9%
United States	275.72	295.15	7.0%	326.47	10.6%	364.10	11.5%	384.04	5.5%	387.28	0.8%	40.5%

Source: U.S. Department of Housing and Urban Development, Office of Federal Housing Enterprise Oversight (OFHEO), *www.ofheo.gov* (Date of access, September 16, 2008).

mists with an improved analytical tool that is useful for estimating changes in the rates of mortgage defaults, prepayments and housing affordability in specific geographic areas.[27]

Table 8 presents this information for the 2002 to 2007 period. For the purchase-only measure of the HPI, the U.S. index is set equal to 100 in the first quarter of 1991. Hence, changes in the HPI during the 2002 to 2007 period, and also the July 2007 versus July 2008 period, should be assessed against an index which equaled 100 in the first quarter of 1991. A decline in the HPI is a reflection of the large overhang of real estate inventory awaiting sales, a fact that has contributed to the continuing depreciation of housing prices in many areas of the country. Similarly, an increase in the HPI is a reflection of increasing demand and sales pushing house prices upwards.

In terms of the HPI, the SLC states, on average, saw increases in house prices between 2002 and 2007, in every year, and only a single state in a single year (Florida in 2007) experienced a decline. Since regional growth exceeded the national average in two years in the review period (2006 and 2007), the housing downturn had a slightly lesser impact on house prices in the SLC states compared to the national trends. As noted, all SLC states experienced an increase in the HPI in double-digit levels between 2002 and 2007, with Maryland (nearly 79 percent) and Florida (nearly 76 percent) leading the region.

Table 9 reflects a more demonstrative representation of the housing downturn, comparing HPI at the end of the third quarters of 2007 and 2008. In Table 9, five of the 16 SLC states experienced a decline in the HPI, with Florida displaying the most serious drop (-16 percent). The four remaining SLC states (Georgia, Maryland, Missouri and Virginia) saw smaller declines, with Maryland (-6.1 percent) and Virginia (-3.9 percent) experiencing the most serious drops. However, even for the remaining 11 SLC states that experienced an increase in the HPI, the rate of growth was extremely anemic: four states barely reached positive territory with a rate of growth less than 1 percent, while of the remaining seven states the highest growth rate was secured by Texas (3.2 percent).

Another measure of the gravity of the housing situation in the nation (and in the SLC) may be gleaned by reviewing statistics on the number of homeowners with negative equity in their homes, i.e., owe more on their mortgage than their home is now worth. Based on statistics released in October 2008, over 18 percent of the total mortgages in the United States were considered negative equity mortgages; over 23 percent of the total mortgages were rated as near nega-

Table 9	House Price Index 3rd Quarter of 2007 and 2008		
State	**2007**	**2008**	**% Change**
Alabama	291.61	299.81	2.8%
Arkansas	260.01	262.23	0.9%
Florida	466.78	391.91	-16.0%
Georgia	331.30	329.29	-0.6%
Kentucky	289.86	294.11	1.5%
Louisiana	251.04	252.14	0.4%
Maryland	535.04	502.61	-6.1%
Mississippi	264.62	264.87	0.1%
Missouri	301.86	299.89	-0.7%
North Carolina	339.08	345.83	2.0%
Oklahoma	206.54	212.21	2.7%
South Carolina	319.45	327.18	2.4%
Tennessee	309.53	313.8	1.4%
Texas	225.6	232.79	3.2%
Virginia	471.45	452.89	-3.9%
West Virginia	229.51	229.54	0.0%
SLC Region	318.33	313.19	-1.6%
United States	384.82	369.42	-4.0%

Source: U.S. Department of Housing and Urban Development, Office of Federal Housing Enterprise Oversight (OFHEO), *www.ofheo.gov* (Date of access, September, 16, 2008).

tive equity mortgages (within 5 percent of a negative equity mortgage). The presence of a high number of negative equity and near negative equity mortgages contributes to a rising number of foreclosures. Table 10 provides details on the status of negative and near negative equity mortgages in the SLC.

As documented in Table 10, 19 percent of the mortgages in the SLC were negative equity mortgages while 25 percent were near negative equity status. Two SLC states, Mississippi and West Virginia, had an insufficient amount of data available for analysis under this category. With both these ratios higher than the national average (18.3 percent and 23.3 percent, respectively), it reinforces the fact that a number of states from across the country most affected by the current housing crisis and mortgage meltdown are SLC states. Specifically, states like Florida, Georgia and Texas currently face a particularly high rate of foreclosures, a factor borne out by the number of negative and near negative equity houses within their borders. In fact, the top three SLC states with the largest number of foreclosures were Texas (highest in 2005 and 2006 with 137,071 and 156,876 households, respectively), Florida (highest in 2007 with 279,325 households) and Georgia (99,578 households in foreclosure in 2007).

In terms of the performance of the SLC states in this measurement criteria, Florida was the state with the highest number of negative equity mortgages (nearly 30 percent or 1.2 million of a total of 4.2 million mortgages) and an additional 34 percent near negative equity (1.4 million of the 4.2 million total). Similarly, Georgia (with 23 percent negative equity mortgages—well over 300,000 of a total of 1.5 million total mortgages—and an additional 32 percent—nearly 500,000 mortgages of the total 1.5 million—of near-negative equity mortgages) and Texas (with 16 percent negative equity mortgages—nearly 450,000 of a total 2.7 million total mortgages—and an additional 23 percent—over 600,000 of the total 2.7 million—of near negative equity mortgages) ranked in the top three. At the other end of the spectrum was Alabama with 7 percent negative equity mortgages and an additional 13 percent near-negative equity. An increasing number of homes financed by subprime mortgages and a steep drop in housing values create a situation where foreclosure becomes more and more a reality, a scenario that prevailed in several SLC states.

Home Sales

Another economic statistic that serves as a valuable barometer of the nation's housing market, and by extension, the national and regional economies, involves total home sales (single-family, apartment condominiums and co-operatives). As expected during the housing market's boom years, 2003 and 2004 for instance, home sales continued at a brisk pace, allowing a range of individuals, corporations and different levels of governments to reap the benefits of this economic activity. By 2005, the negative implications of the subprime mortgage acquisitions in various financial institutions became more apparent, and it became increasingly difficult for prospective homeowners to buy and sell their homes. In fact, as subprime loans and other risky mortgage products began to evaporate from the marketplace and bankers began issuing largely conventional loans and enforcing stricter loan standards, the accessibility and availability of mortgage credit to prospective homebuyers continued to tighten. Inevitably, this resulted in a serious halt to the number of approved mortgage applications that would have spurred home sales in 2006 and 2007. The souring of the national and regional economies, with the rise in unemployment levels to 6.1 percent in August 2008, its highest level in five years and the eighth consecutive month of job losses, also negatively impacted the ability of prospective home owners to buy and sell homes. Table 11 provides information on total home sales, as reported by the National Association of Realtors, for the 2004 to 2007 period.

Table 10 Negative Equity Mortgages by SLC State (as of October 2008) *

State	Mortgages	Negative Equity Mortgages	Near Negative Equity Mortgages	Negative Equity Share	Near Negative Equity Share **
Alabama	238,978	17,713	31,087	7.4%	13.0%
Arkansas	169,015	27,580	43,728	16.3%	25.9%
Florida	4,248,470	1,241,812	1,439,020	29.2%	33.9%
Georgia	1,456,327	338,495	471,280	23.2%	32.4%
Kentucky	200,140	25,293	41,803	12.6%	20.9%
Louisiana	120,848	13,733	18,714	11.4%	15.5%
Maryland	1,308,692	159,603	214,510	12.2%	16.4%
Mississippi	N/A	N/A	N/A	N/A	N/A
Missouri	668,059	87,781	120,373	13.1%	18.0%
North Carolina	1,190,448	112,584	193,104	9.5%	16.2%
Oklahoma	306,800	29,696	57,509	9.7%	18.7%
South Carolina	456,814	47,457	76,076	10.4%	16.7%
Tennessee	718,072	107,506	161,226	15.0%	22.5%
Texas	2,721,638	449,243	621,420	16.5%	22.8%
Virginia	1,110,253	177,005	238,414	15.9%	21.5%
West Virginia	N/A	N/A	N/A	N/A	N/A
SLC Totals	14,914,554	2,835,501	3,728,264	19.0%	25.0%
United States	41,788,563	7,628,234	9,753,818	18.3%	23.3%

Notes:
N/A = Insufficient Data.
* = Data only includes properties with a mortgage; non-mortgaged properties are not included.
** = Defined as properties within 5 percent of being in a negative equity position.

Source: First American CoreLogic, October 2008,
http://www.loanperformance.com/infocenter/library/FACL%20Neg%20Equity_final%20table_093008.xls.

Table 11 Total Sales of Single-Family, Apartment Condominiums and Co-operative Homes 2004 to 2007 (thousands of units)

State	2004	2005	% Change	2006	% Change	2007	% Change	% Change: 2004-2007
Alabama	112.0	128.0	14.3%	125.8	-1.7%	118.0	-6.2%	5.4%
Arkansas	60.9	75.3	23.6%	82.6	9.7%	78.6	-4.8%	29.1%
Florida	526.5	547.1	3.9%	395.3	-27.7%	286.4	-27.5%	-45.6%
Georgia	215.8	242.1	12.2%	248.8	2.8%	209.9	-15.6%	-2.7%
Kentucky	89.3	96.2	7.7%	96.9	0.7%	91.8	-5.3%	2.8%
Louisiana	79.6	87.7	10.2%	92.3	5.2%	75.9	-17.8%	-4.6%
Maryland	140.6	135.5	-3.6%	113.2	-16.5%	86.4	-23.7%	-38.5%
Mississippi	58.1	61.2	5.3%	63.8	4.2%	59.7	-6.4%	2.8%
Missouri	141.8	142.9	0.8%	135.3	-5.3%	123.7	-8.6%	-12.8%
North Carolina	192.6	215.7	12.0%	234.8	8.9%	214.0	-8.9%	11.1%
Oklahoma	93.6	104.6	11.8%	106.0	1.3%	102.0	-3.8%	9.0%
South Carolina	99.3	114.6	15.4%	115.2	0.5%	105.0	-8.9%	5.7%
Tennessee	156.1	170.9	9.5%	173.6	1.6%	145.7	-16.1%	-6.7%
Texas	485.5	532.5	9.7%	578.6	8.7%	557.8	-3.6%	14.9%
Virginia	186.0	182.5	-1.9%	140.1	-23.2%	116.5	-16.8%	-37.4%
West Virginia	36.0	38.6	7.2%	32.6	-15.5%	29.0	-11.0%	-19.4%
SLC Region	2,674	2,875	7.5%	2,735	-4.9%	2,400	-12.2%	-10.2%
United States	6,778	7,076	4.4%	6,478	-8.5%	5,652	-12.8%	-16.6%

Source: National Association of Realtors, *www.realtor.org*.

Table 12 Foreclosures in the SLC States 2005 to 2007

State	2005 Total Foreclosures	% of Households in Foreclosure in 2005	1 of every Household in 2005	2006 Total Foreclosures	% Change from 2005	% of Households in foreclosure in 2006	1 of every Household in 2006	2007 Total Foreclosures	% Change from 2006	% Change from 2005	% of Households in foreclosure in 2007	1 of every Household in 2007
Alabama	4,317	0.22%	455	4,348	1%	0.22%	452	7,903	82%	83%	0.38%	263
Arkansas	11,580	0.99%	101	11,318	-2%	0.96%	104	14,310	26%	24%	1.15%	87
Florida	121,843	1.67%	60	124,721	2%	1.71%	59	279,325	124%	129%	3.38%	30
Georgia	45,589	1.39%	72	75,975	67%	2.32%	43	99,578	31%	118%	2.64%	38
Kentucky	4,969	0.28%	352	7,123	43%	0.41%	246	8,793	23%	77%	0.47%	212
Louisiana	3,846	0.21%	480	2,914	-24%	0.16%	634	7,331	152%	91%	0.38%	265
Maryland	5,141	0.24%	417	4,522	-12%	0.21%	474	25,109	455%	388%	1.10%	91
Mississippi	1,910	0.16%	608	1,042	-45%	0.09%	1115	1,997	92%	5%	0.16%	619
Missouri	11,571	0.47%	211	17,699	53%	0.72%	138	32,022	81%	177%	1.24%	81
North Carolina	15,921	0.45%	221	22,476	41%	0.64%	157	37,426	67%	135%	0.95%	105
Oklahoma	13,498	0.89%	112	15,586	15%	1.03%	97	13,594	-13%	1%	0.86%	117
South Carolina	7,606	0.43%	231	6,955	-9%	0.40%	252	5,038	-28%	-34%	0.26%	383
Tennessee	27,668	1.13%	88	36,796	33%	1.51%	66	45,834	25%	66%	1.74%	58
Texas	137,071	1.68%	60	156,876	14%	1.92%	52	149,703	-5%	9%	1.66%	60
Virginia	2,920	0.10%	995	4,350	49%	0.15%	668	24,199	456%	729%	0.76%	131
West Virginia	1,023	0.12%	826	871	-15%	0.10%	970	1,135	30%	11%	0.13%	768
SLC Region	416,473	0.94%	106	493,572	19%	1.12%	90	753,297	53%	81%	1.56%	64
United States	885,468	0.76%	131	1,259,118	42%	1.09%	92	2,203,295	75%	149%	1.77%	57

Source: RealtyTrac, *www.realtytrac.com*.

As evident in Table 11, although though the average growth in sales in the region continued to be in positive territory in 2005 compared to the previous year (7.5 percent higher), and higher than the national average (4.4 percent), there were ominous signs of the sales slowdown in several SLC states. Both Maryland and Virginia had negative growth rates (3.6 percent and 1.9 percent, respectively), while Missouri barely reached positive territory (0.8 percent). Nevertheless, 14 of the 16 SLC states saw an expansion in home sales, with seven states recording single-digit growth rates and the remaining seven reaching double-digit levels. Arkansas (23.6 percent) and South Carolina (15.4 percent) were the two leaders on this front.

By 2006, the impact of the mortgage meltdown and the souring economy had manifested itself further, crimping home sales in practically every state in the country. Although the SLC average in 2006 was lower than the national average (-4.9 percent as opposed to -8.5 percent), six SLC states registered negative growth rates. Florida's nearly -27.7 percent and Virginia's -23.2 percent were the two states with the greatest decline in sales. Of the remaining 10 SLC states that reached positive growth rates, two states (South Carolina at 0.5 percent and Kentucky at 0.7 percent) were barely out of negative territory. Of the other eight SLC states, the highest growth in sales for the year was achieved by Arkansas (9.7 percent).

In 2007, the dire repercussions of the rapidly unraveling mortgage sector and the sluggish economic growth output were even more apparent in the average double-digit declines in home sales, both in the SLC states and the United States. In fact, the -12.2 percent SLC state average was very close to the national average of -12.8 percent, a striking difference from other years when the SLC states routinely outperformed the national average in terms of home sales. Every SLC state saw a decline in sales rates, with seven of the 16 states experiencing double-digit declines. Florida experienced the steepest drop in sales with a 27.5 percent decline while Maryland (23.7 percent) and Louisiana (17.8 percent) followed in the rankings. At the other end of the spectrum, Texas and Oklahoma experienced the least decline in sales with -3.6 percent and -3.8 percent respectively, once again reaffirming their solid base of energy-producing industries and the consequent financial fortitude.

Foreclosure Activity

The final stage for the homeowner struggling to make mortgage payments, as thousands of Americans have experienced for some years now, involves dealing with possible foreclosure. Tracking foreclosure activity, which includes default notices, auction sales and bank repossessions, is another important economic statistic reflecting both the nation's housing market and the national economy. RealtyTrac, which closely tracks foreclosure properties, notes that in 2007 there was a total of 2.2 million foreclosure filings reported on 1.3 million properties nationwide during the year, an increase of 75 percent from 2006.[28] In fact, in 2007, more than 1 percent of all U.S. households were in some stage of foreclosure during the year, up from 0.58 percent in 2006.

On a national level in 2007, Nevada posted the nation's highest state foreclosure rate with 3.4 percent of its households entering some stage of foreclosure during the year, a rate greater than three times the national average. Florida, with more than 3 percent of its households entering some stage of foreclosure during the year, recorded the second highest state foreclosure rate for 2007. While Michigan documented the nation's third highest state foreclosure rate for 2007, with 1.9 percent of its households reporting foreclosure filings, California, Colorado, Ohio, Georgia, Arizona, Illinois and Indiana all posted foreclosure rates among the nation's top 10 in 2007. Two of the top 10 foreclosure states in the country in 2007 were SLC states. Table 12 presents information on the number of foreclosures in the SLC states during the period 2005 to 2007.

The surge in foreclosure activity in recent years continues to be of major concern to the affected homeowners, citizens and policymakers alike at various levels: in terms of its human impact, its impact on consumer confidence about the economy and the inevitable negative effects on the economy at the local, state, regional and national jurisdictions. As a result, a great deal of scrutiny is applied to foreclosure statistics, and a review of Table 12 demonstrates some of these trends. In this regard, comparing the national and SLC state averages of foreclosure activity between 2005 and 2007 reveals the following:

- » Foreclosures were a more significant problem in the SLC states during the early years of the mortgage crisis, before it became a national problem. In 2005, 47 percent of total U.S. foreclosures occurred in the SLC states before declining to 39 percent of total foreclosures in 2006, and 34 percent in 2007.
- » Foreclosures in the SLC states soared from 416,473 in 2005 to 493,572 (an increase of 19 percent), to 753,297 in 2007 (an increase of 53 percent), a very significant expansion. In contrast, U.S. foreclosures leapt from 885,468 in 2005 to 1,259,118 in 2006 (a 42 percent increase), to 2,203,295 in 2007 (an alarming 75 percent increase). Between 2005 and 2007, foreclosures in the Southern region escalated by 81 percent and by 149 percent at the national level.
- » Another revealing statistic involves the number of households in the SLC states and in the United States that were in foreclosure during the review period. In 2005, while 0.94 percent of all SLC households were in foreclosure, the national figure was 0.76 percent. In 2006, there were 1.12 percent SLC households in foreclosure and 1.09 percent households in foreclosure across the country. In 2007, these figures expanded to 1.56 percent in SLC states and 1.77 percent nationally.
- » Further demonstrating the seriousness of the foreclosure crisis in states across the country is the fact that in 2005, in the SLC states, one out of every 106 households was in foreclosure, while nationally the figure was one out of every 131 households. In 2006, the situation became significantly dire as the figure dropped to one out of every 90 households in the SLC states and one out of every 92 households nationally. Finally, in 2007, the foreclosure to household ratio declined further to one in 64 and one in 57 for the SLC states and nation, respectively.
- » In terms of the specific SLC states, in the review period's three years, the top three SLC states with the largest number of foreclosures were Texas (highest in 2005 and 2006 with 137,071 and 156,876 households, respectively), Florida (highest in 2007 with 279,325 households) and Georgia.
- » In terms of foreclosure as a percentage of total households, Texas led the SLC states in 2005 with 1.68 percent of total households, while Georgia ranked first in 2006 with 2.32 percent of total households. In 2007, Florida ranked first with 3.38 percent of total households in foreclosure.
- » Further documenting the widespread nature of the foreclosure crisis in the SLC states is the fact that in 2005, one out of every 60 households in Texas faced foreclosure (much lower than both the SLC and national average), while in 2006, one out of every 43 households in Georgia faced foreclosure (more than twice the SLC and U.S. averages) and, finally in 2007, one out of every 30 households in Florida faced foreclosure (again, significantly worse than both the SLC and U.S. averages). Importantly, in 2007, while Florida was the SLC state with the highest foreclosure rate (second only to Nevada on a national basis), several other SLC

Table 13 Foreclosures in the SLC States January to November 2007 and January to November 2008

State	Total Foreclosures from January to November 2007	Total Foreclosures from January to November 2008	% Change
Alabama	7,210	7,699	6.8%
Arkansas	12,950	14,797	14.3%
Florida	248,106	450,588	81.6%
Georgia	91,881	106,194	15.6%
Kentucky	8,379	7,938	-5.3%
Louisiana	6,894	7,180	4.1%
Maryland	22,030	37,143	68.6%
Mississippi	1,844	2,232	21.0%
Missouri	28,835	38,779	34.5%
North Carolina	34,186	39,176	14.6%
Oklahoma	12,664	14,789	16.8%
South Carolina	4,523	14,323	216.7%
Tennessee	42,056	47,612	13.2%
Texas	137,450	119,706	-12.9%
Virginia	20,244	60,450	198.6%
West Virginia	1,103	629	-43.0%
SLC Region	680,355	969,235	42.5%
United States	1,987,546	2,854,396	43.6%

Source: RealtyTrac, *www.realtytrac.com*.

states, including Georgia (one out of every 38 households in foreclosure), Tennessee (one out of every 58 households in foreclosure) and Texas (one out of every 60 households in foreclosure), faced severe problems on this front.

» Another useful layer of analysis involves the percentage difference in the number of foreclosures between 2005 and 2007 in the SLC states. Except for South Carolina, where the number of foreclosures actually declined between these two years (by 34 percent) all the other SLC states saw an increase. While three SLC states only saw single-digit increases (Oklahoma, Mississippi and Texas), six SLC states experienced double-digit increases and six SLC states saw triple-digit increases. The SLC states that saw the largest spike in foreclosures were Virginia (729 percent), followed by Maryland (388 percent) and Missouri (177 percent).

Continuing surveillance of foreclosure rates in the SLC region and nationally in 2008, Table 13 compares statistics for the period from January through November 2007 and from January through November 2008.

Table 13 establishes how the foreclosure crisis in the SLC states accelerated between the first 11 months of 2007 and the first 11 months of 2008. Specifically, for the SLC region as a whole, the number of foreclosures bounded forward by more than 42 percent from 680,355 to 969,235, a remarkable growth trajectory. This acceleration approximated the national growth rate, which expanded by 43.6 percent during the same time period. The region's foreclosure portion amounted to nearly 34 percent of the number of total U.S. foreclosures during the 2008 period, a proportion similar to the one reached in 2007. More detailed scrutiny of the individual SLC states reveals that except for three states (Kentucky, Texas and West Virginia), which experienced declines in the number of foreclosures, the remaining 13 SLC states saw either double-digit (11 states) or triple-digit (two states) increases. At the top of the list was South Carolina with an increase of nearly 217 percent, followed by Virginia (nearly 199 percent) and Florida (nearly 82 percent).

An interesting trend that could be extracted from this analysis is the fact that even South Carolina, where the number of foreclosures actually declined (by 34 percent) between 2005 and 2007, experienced a huge jump in foreclosures in the first 11 months of 2008. This speeding up in South Carolina resulted in the state vaulting to the highest ranking among the SLC states in the number of 2008 foreclosures. Florida, in addition to ranking among the top three foreclosure rates in the SLC in 2008, had an increase in excess of 82 percent, a reflection on the state's significant difficulties with the housing sector. In terms of the actual numbers, Florida had more than 450,000 foreclosures in the first 11 months of the year, constituting 46 percent of the total SLC foreclosures.

State and Local Government Retirement Systems

In the past 15 years or so, state and local government pension plans increasingly have diversified their portfolios to include investments in non-governmental financial instruments. In stark contrast to the former period when public pension plans comprised mostly staid U.S. government bonds and other government instruments, the portfolio of public pension plans now includes a healthy portion of exposure to domestic and international equities, hedge funds and real estate investments. For instance, in 1993, state and local government retirement plan investments in non-governmental securities (corporate bonds,

Table 14 Proportion of Mortgages and Real Property in State and Local Government Retirement Portfolios 1993, 2002 and 2007 (thousands of dollars)

	Total Cash and Investments			Mortgages			Real Property	
State	1993	2002	2007	1993	2002	2007	2002	2007
Alabama	$11,823,629	$22,182,494	$34,616,018	$2,208,613	0	0	$1,335,253	$2,204,039
Arkansas	$5,412,022	$13,048,943	$21,868,273	$140,013	$243,777	$56,975	$203,923	$1,121,632
Florida	$34,442,622	$102,722,780	$155,871,309	$12	$39,306	$59,091	$3,275,793	$7,594,139
Georgia	$19,101,627	$55,092,020	$75,250,196	$13,399	$1,566	0	$7,833	$2,399
Kentucky	$9,499,690	$23,239,032	$33,070,488	$250,113	$695,233	$1,480,318	$359,830	$385,879
Louisiana	$11,265,735	$24,780,715	$39,758,166	$188	$11,594	$20,284	$11,622	$77,739
Maryland	$17,749,193	$36,656,993	$54,069,221	$5,620	$32,815	0	$455,834	$751,662
Mississippi	$117,497	$16,344,183	$28,137,475	0	0	0	0	$16,380
Missouri	$15,157,591	$38,494,713	$60,235,391	$29,411	$32,488	$21,953	$6,680	$288,733
North Carolina	$21,316,986	$56,383,546	$73,618,240	0	0	0	0	$54,868
Oklahoma	$6,137,798	$14,836,796	$25,383,696	$12,204	$26,613	$0	$2,450	$74,306
South Carolina	$14,126,901	$20,845,372	$33,515,496	0	0	0	0	$3,577
Tennessee	$11,454,862	$28,801,708	$40,664,695	$6,079	$97,935	$15,060	$622,204	$1,147,514
Texas	$45,964,742	$120,334,236	$219,899,193	$1,514,167	$439,497	0	$376,738	$876,024
Virginia	$17,509,170	$41,981,662	$63,512,047	$18,902	$28,847	$5,087	$23,158	0
West Virginia	$103,500	$4,358,681	$4,509,886	0	0	0	0	0
SLC Region	$241,183,565	$620,103,874	$963,979,790	$4,198,721	$1,649,671	$1,658,768	$6,681,318	$14,598,891
United States	$920,571,814	$2,157,990,956	$3,377,382,371	$19,458,912	$20,765,586	$13,080,308	$42,908,542	$99,158,659

Source: U.S. Department of Commerce, Bureau of the Census.

corporate stocks, mortgages, funds held in trust and other instruments) amounted to 62 percent as a percent of total cash and investment holdings; by 2007, the latest year available from the U.S. Department of Commerce, this percentage had escalated to 78 percent. Conversely, state and local government retirement holdings in government securities (U.S. Treasury instruments, other federal agency and state and local government bonds) as a percent of total cash and investment holdings dropped from 22 percent in 1993 to 8 percent in 2007, a confirmation of the increasingly aggressive move to diversify these portfolios and assume additional risk with the expectation of greater yield. As expected, the averages for the SLC region matched the national trends: non-governmental securities as a percent of total cash and investment holdings increased from 62 percent in 1993 to 78 percent in 2007; in contrast, governmental securities as a percent of total cash and investment holdings declined from 22 percent in 1993 to 8 percent in 2007.[29]

An important component of moving away from governmental securities in the last 15 years or so has been the increasing exposure of state and local government retirement plans to mortgages and real property. In terms of defining these two categories, while the former refers to mortgages held by (and owed to) the public employee retirement system, the latter refers to real property owned (and directly held) by the specific retirement system. Table 14 provides details on the status of the total cash and investment portfolio held by state and local government retirement systems in 1993, 2002 and 2007 along with the component of mortgages and real property during these years. It should be noted that the data is the most current and that the 2007 information was released by the U.S. Department of Commerce in late December 2008. (There is a lag of about 18 months between when the review period ends and the release of the data).

As demonstrated in Table 14, total cash and investments in these public retirement plans soared from $920.6 billion in 1993, to $2.2 trillion in 2002, to $3.4 trillion in 2007, the most recent year available. In the space of nearly 15 years, the portfolio size of these retirement plans had more than tripled, a growing indication of the cumulative financial strength of the plans. In terms of the role played by mortgages and real property investments in the asset mix of the different public portfolios, several facets may be gleaned. First, the role of mortgages, as reflected in mortgage-related financial instruments waned in importance between 1993 and 2007; secondly, the role of real property as a percent of total cash and investment holdings increased during this nearly 15 year period.

Table 15 depicts the decline in SLC state retirement fund exposure to mortgages. Specifically, the proportion of investments in mortgages dropped from 1.74 percent of total cash and investments in 1993 to 0.27 percent in 2002 to 0.17 percent in 2007. This investment category included mortgage-related instruments such as mortgage-backed securities and, given the overwhelming role played by these instruments in the ongoing financial collapse, the limited (and markedly declining) exposure of the SLC state pension plans to this financial category bodes well for the decision makers at the plans. Even on a national scale, the proportion was diminishing. In terms of real property investments, the reverse trend is apparent at both the SLC and national levels. For instance, SLC pension plans gradually increased their exposure to real property investments from 1.08 percent of total cash and investments in 2002 to 1.51 percent in 2007. (In 1993, there was no separate real property category listed.)

In terms of the specific SLC states, in 1993, six SLC states had zero exposure to mortgages while an additional six states had minimal exposure (less than 1 percent of total cash and investments). Three states (Arkansas, Kentucky and Texas) maintained between 2.6 percent and 3.3 percent in mortgages while Alabama, at nearly 19 percent, was the SLC state with the highest exposure to mortgages in this year. By 2002, overall SLC exposure to mortgages had declined significantly with six states at zero exposure, eight states at less than 1 percent exposure and two states (Louisiana and South Carolina), both at under 3 percent each. In 2007, the exposure level of mortgages in total SLC state retirement cash and investment holdings dropped even further with nine states having zero exposure, six states at less than 1 percent exposure and only South Carolina at nearly 4.5 percent. In hindsight, this declining SLC state retirement portfolio holdings of mortgages proved to be extremely beneficial given the extreme toxicity of a large proportion of the mortgage-backed financial securities and the role they played in the economy's current ills.

While the SLC states as a whole reduced their exposure to mortgages, they did increase their investments in real property. Specifically, there were four states with zero exposure in 2002, six states with very minor holdings (less than 1 percent of total cash and investment holdings) and the remaining six states holding between 1.2 percent and 6 percent of their total cash and investment portfolio in real property. Florida was the leader in 2002 with 6.02 percent of the state's total cash and investment holdings invested

Table 15 Role Played by Mortgages and Real Property in State and Local Government Retirement Portfolios 1993, 2002 and 2007

	Mortgages as a Percent of Total Cash and Investments			Real Property as a Percent of Total Cash and Investments	
State	1993	2002	2007	2002	2007
Alabama	18.68%	0	0	6.02%	6.37%
Arkansas	2.59%	1.87%	0.26%	1.56%	5.13%
Florida	0	0.04%	0.04%	3.19%	4.87%
Georgia	0.07%	0	0	0.01%	0
Kentucky	2.63%	2.99%	4.48%	1.55%	1.17%
Louisiana	0	0.05%	0.05%	0.05%	0.20%
Maryland	0.03%	0.09%	0	1.24%	1.39%
Mississippi	0	0	0	0	0.06%
Missouri	0.19%	0.08%	0.04%	0.02%	0.48%
North Carolina	0	0	0	0	0.07%
Oklahoma	0.20%	0.18%	0.00%	0.02%	0.29%
South Carolina	0	0	0	0	0.01%
Tennessee	0.05%	0.34%	0.04%	2.16%	2.82%
Texas	3.29%	0.37%	0	0.31%	0.40%
Virginia	0.11%	0.07%	0.01%	0.06%	0
West Virginia	0	0	0	0	0
SLC Region	1.74%	0.27%	0.17%	1.08%	1.51%
United States	2.11%	0.96%	0.39%	1.99%	2.94%

Source: U.S. Department of Commerce, Bureau of the Census.

in real property. In 2007, the number of SLC states with exposure to real property increased with only three states (Virginia, Texas and Kentucky) maintaining zero exposure. Seven states had exposure levels less than 1 percent and the remaining six SLC states invested between 1.17 percent and 6.37 percent of their total cash and investment holdings in real property. Tennessee (6.4 percent), Maryland (5 percent) and Georgia (4.9 percent) ranked in the top three in this year. The increasing exposure to the real property market in these state and local government retirement plans is in line with the growing movement away from the staid government securities to potentially higher-yielding but riskier investment choices.

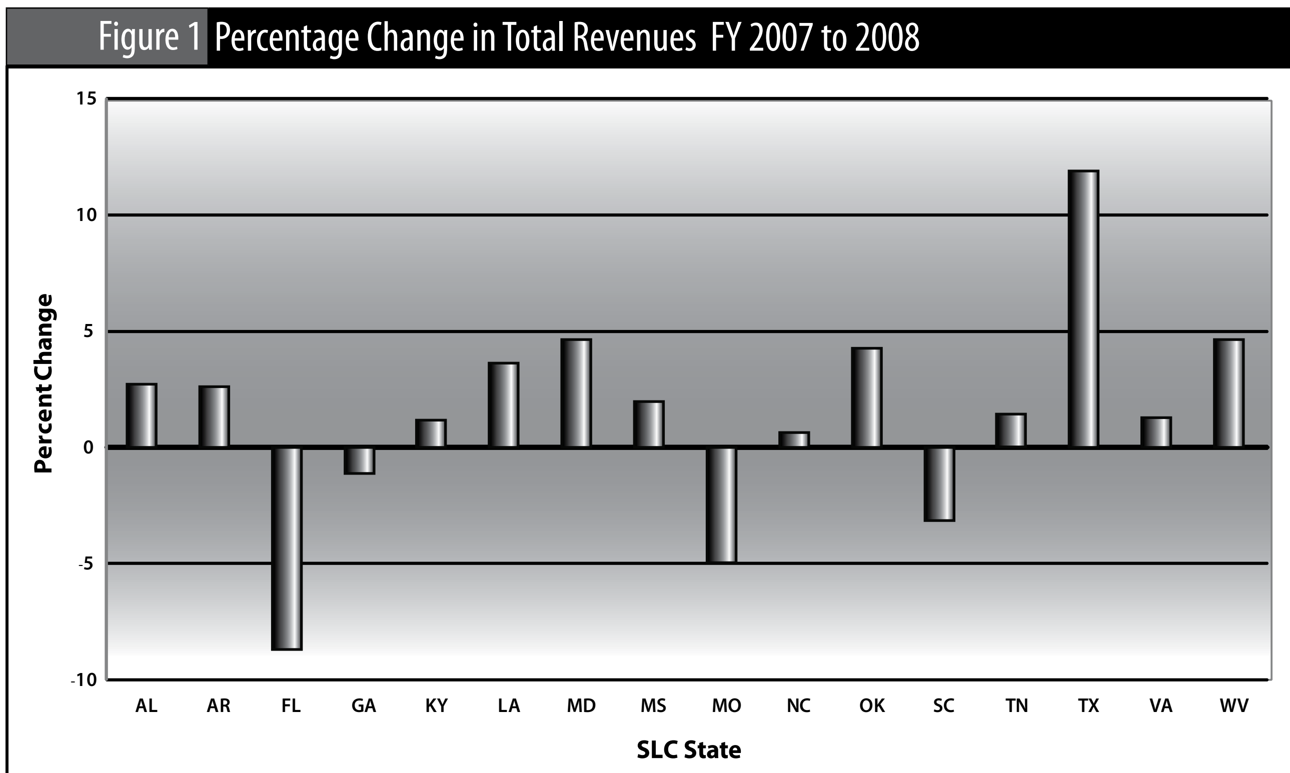
Chapter 2

SLC State Revenue Trends

This chapter of the report provides a detailed breakdown of several major revenue categories in the SLC states during the review period (fiscal years 2002 to 2008), along with information on the revenue categories that relate to the housing and real estate sectors in applicable SLC states. The overall revenue trends from the SLC demonstrate the course of the national economy and its impact on SLC state finances; as expected, some of the states faced tough fiscal conditions toward the latter portion of the review period.

In particular, in the final year of the review period (fiscal year 2008), four of the 16 SLC states (Florida, Georgia, Missouri and South Carolina) actually experienced a decline in their total revenues, with Florida being severely hit with a nearly 9 percent decline in overall revenues compared to the prior year. While four energy-rich SLC states (Louisiana, Oklahoma, Texas and West Virginia) enjoyed a relative boom in their revenue flows—Texas' revenues in fiscal year 2008 increased by nearly 12 percent—the remaining eight SLC states experienced much smaller levels of increase (0.64 percent in North Carolina and 1.17 percent in Kentucky). This information is contained in Figure 1.

Figure 1 Percentage Change in Total Revenues FY 2007 to 2008



Source: Based on state revenue data presented in Chapter 2.

In terms of the specific state revenues related to the housing, real estate and construction sectors in the SLC, the data gathered was more complicated. At the outset, there were four SLC states (Louisiana, Mississippi, Missouri and Texas) that did not assess a tax on real estate transfers, one of the major housing and real estate-related revenue sources, both nationally and in the SLC states. In addition, there were several SLC states where the local governments collected the real estate transfer taxes. These states were Georgia, Kentucky, Maryland and Virginia. As a result, based on the responses to the SLC survey and additional research, this aspect of the report provides real estate, housing and construction sector tax revenue information from the following states: Alabama (contractor's gross receipts tax, deeds and assignments tax); Arkansas (real estate transfer tax); Florida (sales tax on other durables, sales tax on building materials, documentary stamp tax, service charge for documentary stamp tax, intangibles C collections tax); Oklahoma (documentary stamp tax); South Carolina (documentary stamp tax, bank tax, savings and loan association tax); Tennessee (realty transfer tax, realty mortgage tax); Virginia (wills, suits and deeds tax); and West Virginia (property transfer tax). The information presented on housing, real estate and construction-related revenues is not all-inclusive and there might be additional revenues flowing to the state from other categories; nevertheless, it serves as a useful signpost about how revenues from this sector flowed to these states during the boom years of the housing market and how they have shrunk significantly in a number of the SLC states.

In addition, interviews with staff in the various SLC legislative fiscal offices confirmed that one of the major revenue sources related to the housing and construction sectors in the SLC states originates in the state sales and individual and corporate income taxes. For instance, construction-related expenditures such as lumber, brick or electrical wiring, purchased at the local hardware store would be liable for sales taxes which, in turn, would flow to the state coffers. Similarly, the purchase of appliances such as refrigerators, washers and dryers would be liable for sales taxes, which also would flow to the state. Hence, a contracting housing market results in fewer construction supplies and appliances being purchased, a development that negatively affects state sales tax accruals. Along those lines, reduced housing and real estate activity would entail reduced income both at the individual and corporate levels. Specifically, individual professions ranging from building contractors to heavy dirt removal operators to mortgage underwriters to loan officers all would face a diminution in their ranks, resulting in lower individual income taxes flowing to the state. At the corporate tax level, businesses ranging from a small kitchen countertop installer or a local plumbing outfit to behemoths like The Home Depot, Lowe's and ACE all will experience shrinking revenues which, in turn, also results in reduced tax revenues flowing to the state.

The information relating to Mississippi in this chapter clearly depicts the trends specified in the previous paragraph. According to information provided by the Mississippi State Tax Commission, among the taxes that Mississippi recoups from the real estate and construction sectors is a 7 percent sales tax that consumers pay on construction items such as lumber and other building materials; hardware; and plumbing, heating and air conditioning items. The state's sales tax law levies a 3.5 percent contractor's tax on all non-residential construction activities, where the total contract price or compensation received exceeds $10,000. Both these tax revenues are directly linked to the progress or decline of the construction sector.

In addition to the information extracted from the states based on the SLC survey, follow-up conversations with legislative fiscal officers and further research, the federal government maintains information on state government tax collections.[1] The U.S. Department of Commerce, Bureau of the Census data set, entitled Documentary and Stock Transfer Taxes (T 51) includes taxes on the recording, registration, and transfer of documents, such as mortgages, deeds, and securities. Even though this data set includes taxes on mortgages and deeds, two categories that are directly connected to the analysis carried out in this report, it also includes information on securities. Since it is not possible to separate the information from the securities transactions from the data set, Table 1 below provides information for all three categories. Despite this limitation, it is nevertheless possible to glean some important trends associated with the taxes that flowed from this segment of the economy to states during the review period.

As documented in Table 1, tax revenues accrued by state documentary and stock transfer taxes amounted to $10.3 billion at the end of fiscal year 2007 for the United States, of which $5.1 billion comprised revenues accrued by the SLC states. Significantly, there were four SLC states that did not secure any revenue from this source, a fact that makes the nearly 50 percent contributions from 12 SLC states all the more significant. Even when the revenues for the six fiscal years in the SLC states are totaled and assessed as a proportion of the total United States revenues from this source, the number is higher, 52 percent ($26.8 billion of $51.5 billion). Based on both these comparisons, it is possible to conclude that revenues from this source as reported by the federal government plays a more substantial role in the overall revenues of the SLC states than it does in other regions of The Council of State Governments.

Table 1 State Government Tax Collections from Documentary and Stock Transfers FY 2002 to 2007 (thousands of dollars)

State	2002	2003	% Change	2004	% Change	2005	% Change	2006	% Change	2007	% Change	% Change 2002-2007
Alabama	$34,625	$45,839	32.39%	$45,080	-1.66%	$48,644	7.91%	$54,779	12.61%	$56,592	3.31%	63.44%
Arkansas	$19,086	$21,500	12.65%	$25,972	20.80%	$38,834	49.52%	$46,228	19.04%	$42,433	-8.21%	122.33%
Florida	$1,900,752	$2,482,800	30.62%	$3,196,454	28.74%	$4,075,258	27.49%	$4,996,694	22.61%	$3,755,306	-24.84%	97.57%
Georgia	X	$342	X	$420	22.81%	$670	59.52%	$96	-85.67%	X	X	X
Kentucky	$3,311	$3,365	1.63%	$3,434	2.05%	$3,244	-5.53%	$3,212	-0.99%	$3,469	8.00%	4.77%
Louisiana	X	X	X	X	X	X	X	X	X	X	X	X
Maryland	$124,160	$141,773	14.19%	$183,189	29.21%	$239,071	30.51%	$270,328	13.07%	$214,347	-20.71%	72.64%
Mississippi	X	X	X	X	X	X	X	X	X	X	X	X
Missouri	X	$12,464	X	$7,940	-36.30%	$7,735	-2.58%	$7,408	-4.23%	$7,945	7.25%	X
North Carolina	$35,300	$37,979	7.59%	$54,939	44.66%	$59,657	8.59%	$75,118	25.92%	$74,444	-0.90%	110.89%
Oklahoma	$9,511	$10,305	8.35%	$12,048	16.91%	$14,001	16.21%	$16,769	19.77%	$17,218	2.68%	81.03%
South Carolina	$33,804	$38,760	14.66%	$50,493	30.27%	$65,453	29.63%	$90,377	38.08%	$78,252	-13.42%	131.49%
Tennessee	$134,932	$150,736	11.71%	$174,206	15.57%	$188,594	8.26%	$226,280	19.98%	$239,872	6.01%	77.77%
Texas	X	X	X	X	X	X	X	X	X	X	X	X
Virginia	$213,177	$282,338	32.44%	$340,591	20.63%	$595,406	74.82%	$694,065	16.57%	$582,309	-16.10%	173.16%
West Virginia	$7,315	$8,365	14.35%	$10,129	21.09%	$12,171	20.16%	$13,659	12.23%	$12,249	-10.32%	67.45%
SLC Total	$2,515,973	$3,236,566	28.64%	$4,104,895	26.83%	$5,348,738	30.30%	$6,495,013	21.43%	$5,084,436	-21.72%	102.09%
U.S. Total	$5,097,853	$6,280,050	23.19%	$7,889,382	25.63%	$10,049,250	27.38%	$11,897,400	18.39%	$10,256,669	-13.79%	101.20%

Note: X = Not Applicable.

Source: U.S. Department of Commerce, Bureau of the Census.

It should also be noted that the importance of this revenue source to Florida is perhaps the most significant, both from the regional, SLC perspective and the national perspective. In fiscal year 2007, Florida secured $3.8 billion from this revenue source while the state collected $20.4 billion cumulatively over the six years in the review period. Florida's collection rate is even more striking when one realizes that the state's collection in fiscal year 2007 amounted to 74 percent of the total SLC collections in the year and 37 percent of the total U.S. collections. Virginia was the SLC state with the second highest level of collection, accruing 10 percent of the total collected by SLC states during the 2002-2007 review period (alongside the 76 percent collected by Florida during the same period).

Notwithstanding the impressive numbers recorded by the SLC states in terms of revenues from this source, it should be stressed that this tax category includes taxes assessed on stock transfers, which are not separated from the overall numbers. Yet, the impact of the booming housing market in several of the SLC states (Florida and Virginia, for instance) is clearly apparent in a review of the revenues from these categories.

Alabama

The impact of national, regional and statewide economic trends is reflected in Alabama's general revenues. As indicated in Tables 2 and 3, Alabama's overall revenue position between fiscal years 2002 and 2008 was a perfect example of an economy coming out of a recession and picking up strength (rising revenues) and then running into some economic headwinds (declining but still growing revenues). Coming out of the 2001 recession, Alabama's revenues increased by nearly 5 percent in fiscal year 2003, over 8 percent in fiscal year 2004, and peaked at nearly 11 percent in fiscal year 2005. In fiscal year 2006, when the national economy started stalling, Alabama's revenues grew by the slightly smaller amount (nearly 10 percent) and then fell sharply to 4 percent in fiscal year 2007, and then further to nearly 3 percent in fiscal year 2008.

A review of the top six revenue categories demonstrates that corporate income taxes secured the highest growth rate between fiscal years 2002 and 2008 (though this category saw two years of negative growth), while individual income taxes grew by the second highest amount during the review period (50 percent). In fiscal years 2003 and 2008, individual income taxes grew by under 3 percent over the prior year, demonstrating the sluggish nature of the economy in Alabama during those years. Finally, sales taxes expanded by nearly 31 percent between the two book-end years in the review period; except for the three years in the middle—the expansion years of the last decade—sales tax growth was quite anemic. In fact, in fiscal year 2008, sales tax growth in Alabama dropped to a crawl (less than 1 percent growth) a clear indication of the sputtering national and state economies.

Since the focus of this section involves assessing the impact of the decline in the housing and construction sectors on Alabama state revenues, it is important to review some of the revenue categories most affected by this downturn. According to information provided by the Alabama Legislative Fiscal Office (LFO), the state has several revenue categories that are directly and indirectly linked to the housing and construction sectors. The deeds and assignments tax (on the sale of real property because of property tax delinquency) and contractor's gross receipts tax (on contracting engagements to construct, reconstruct or build any public highway, road, bridge, or street within the state) were identified as two revenue categories that are directly linked to the sectors under review. However, the LFO noted that there were several other state revenue categories that were impacted by the housing and construction sectors, such as the business privilege tax (a tax levied on all corporations, including the construction sector), property taxes (when a depreciation in property values occurs, revenues accruing to the state from this category decline) and sales taxes (when the reduced purchase of construction and housing items results in lower taxes flowing to the state). In fact, a portion of the decline or increase, depending on which year of the review period was being considered, in all these revenue categories correlates to the performance of the housing and construction sectors in the state.

Table 4 highlights two taxes—contractor's gross receipts tax and deeds and assignments tax—that are directly linked to the housing and construction sectors for fiscal years 2002 to 2008. Table 4 also documents the link between the fluctuations in the housing and construction sectors and revenue flowing from these two tax categories. For instance, when the housing and construction sectors were surging—as in fiscal year 2005—revenues accruing to both these tax categories bounded ahead, by 16 percent (contractors' gross receipts) and nearly 103 percent (deeds and assignments). In contrast, when these sectors started ebbing, as in fiscal years 2006 and 2007, deeds and assignments tax revenue plummeted by 27 percent and nearly 24 percent, respectively, while revenue from contractor's gross receipts grew by less than 2 percent and less than 5 percent. It should be noted that in fiscal year 2008, revenues from the deeds and assignments tax did increase by about 5 percent. Overall, revenues from these two tax types increased by 7 percent and an impressive 84 percent between fiscal years 2002 and 2008.

Table 2 Six Major Revenue Categories in **Alabama** FY 2002 to FY 2008

Tax Category	FY 2002	FY 2003	FY 2004	FY 2005**	FY 2006	FY 2007**	FY 2008
Gasoline	$393,369,093	$396,188,934	$405,895,173	$410,838,439	$407,818,668	$412,509,182	$404,264,195
Corporate Income Tax	$304,539,069	$240,091,331	$299,669,782	$427,935,249	$528,408,663	$509,862,080	$554,498,322
Individual Income Tax	$2,399,852,476	$2,456,330,108	$2,652,646,045	$2,954,518,375	$3,219,548,603	$3,511,759,431	$3,608,462,545
Property Tax *	0	$233,204,684	$255,293,388	$263,695,921	$286,196,394	$309,639,575	$340,429,939
Sales	$1,550,266,272	$1,576,670,338	$1,703,151,054	$1,806,806,554	$1,968,659,604	$2,017,663,521	$2,028,954,212
Utility Gross Receipts	$316,762,103	$341,850,162	$347,884,032	$355,281,503	$401,161,834	$409,774,592	$434,549,561
Total State Revenue	$6,063,097,451	$6,353,118,198	$6,872,624,255	$7,622,125,095	$8,371,414,233	$8,724,958,268	$8,962,346,086

Notes:

* = Property tax as reported to the comptroller; refunds made by local jurisdictions are not reflected. Alabama did not begin to include property taxes in their total revenue until FY 2003.

** = Different annual reports reflected different figures for some revenue categories in FY 2005 and FY 2007; the most current reported figures are presented in this table.

Source: Annual Reports, 2002-2007, Alabama Department of Revenue, *http://www.revenue.alabama.gov/anlrpt.html.*

Table 3 Revenue Percentage Changes in **Alabama** FY 2002 to FY 2008

Tax Category	% Change FY 2002 to FY 2003	% Change FY 2003 to FY 2004	% Change FY 2004 to FY 2005	% Change FY 2005 to FY 2006	% Change FY 2006 to FY 2007	% Change FY 2007 to FY 2008	% Change FY 2002 to FY 2008
Gasoline	0.72%	2.45%	1.22%	-0.74%	1.15%	-2.00%	2.77%
Corporate Income Tax	-21.16%	24.81%	42.80%	23.48%	-3.51%	8.75%	82.08%
Individual Income Tax	2.35%	7.99%	11.38%	8.97%	9.08%	2.75%	50.36%
Property Tax *	N/A	9.47%	3.29%	8.53%	8.19%	9.94%	N/A
Sales	1.70%	8.02%	6.09%	8.96%	2.49%	0.56%	30.88%
Utility Gross Receipts	7.92%	1.77%	2.13%	12.91%	2.15%	6.05%	37.18%
Total State Revenue	4.78%	8.18%	10.91%	9.83%	4.22%	2.72%	47.82%

Notes:

* = Property tax as reported to the comptroller; refunds made by local jurisdictions are not reflected. Alabama did not begin to include property taxes in their total revenue until FY 2003.

Source: Annual Reports, 2002-2007, Alabama Department of Revenue, *http://www.revenue.alabama.gov/anlrpt.html.*

Table 4 Major Housing and Construction Sector-Related Taxes in **Alabama** FY 2002 to FY 2008

Period	Contractors' Gross Receipts	% Change from Previous Fiscal Year	Deeds and Assignments	% Change from Previous Fiscal Year
FY 2002	$31,088,683		$967,393	
FY 2003	$28,095,738	-9.63%	$1,786,598	84.68%
FY 2004	$28,305,663	0.75%	$1,498,517	-16.12%
FY 2005	$32,840,496	16.02%	$3,036,739	102.65%
FY 2006	$33,372,492	1.62%	$2,213,352	-27.11%
FY 2007	$35,004,196	4.89%	$1,688,397	-23.72%
FY 2008	$33,287,484	-4.90%	$1,780,231	5.44%
		7.07% (FY 2002 to FY 2008)		84.02% (FY 2002 to FY 2008)

Source: Revenue Abstracts, Alabama Department of Revenue, *http://www.revenue.alabama.gov/stat.html.*

Arkansas

Arkansas' overall revenue situation between fiscal years 2002 and 2008 followed the trajectory of several other states, increasing from a depressed base (fiscal year 2002) and then declining growth when the economy started stalling (fiscal year 2006). Tables 5 and 6 further demonstrate this trend. Specifically, between fiscal years 2002 and 2003, the revenue increase was 2.2 percent before peaking at nearly 9 percent between fiscal years 2004 and 2005 and then beginning a descent in the next three fiscal years. In our final review year (fiscal year 2008), Arkansas' overall revenues expanded by a meager 2.6 percent. In terms of the individual revenue categories, corporate income taxes demonstrated the largest increase between fiscal years 2002 and 2008 (62 percent) though this category suffered a steep decline (over 9 percent) between fiscal years 2007 and 2008, the year when the economy began to falter with intensity. Another noteworthy feature of Arkansas' major revenue categories during the review period was the fact that sales taxes grew by 20 percent between fiscal years 2002 and 2008, but actually shrank by 2.5 percent in the review period's final year (fiscal year 2008), a clear indication that the state economy had started contracting.

Arkansas, like many other states, first saw a surge in its real estate transfer tax revenues and then a decline during the review period. Tables 7 and 8 provide details on these changes. The state imposes a transfer tax on the conveyance of most properties at the rate of $3.30 for each $1,000 in value; however, there are a number of transactions which are exempt from this transfer tax. An interesting feature in Arkansas is that a large portion of the funds collected from this tax is deployed to fund several grant programs for historic rehabilitation: the Arkansas Historic Preservation Program's Historic Preservation Restoration Grants, County Courthouse Restoration Grants, and Main Street Model Business Grants.

Table 8 documents that funds from this revenue source experienced some of the same trends demonstrated in other states: a spurt in revenue growth in the first four years of the review period followed by declining revenues in the final two years. Revenue from the real estate transfer tax, which amounted to as much as $42.7 million in fiscal year 2006, the highest amount secured during the review period, grew by over 43 percent in the same year. With the slowdown in the housing and real estate sectors, along with the national economic contraction, revenues flowing to Arkansas from this source shrank to under 1 percent in fiscal year 2007 and then by a more significant 17 percent in fiscal year 2008.

Florida

Most discussions about the dismal condition of the nation's housing market include reference to the fact that several states have been impacted more intensely than others. Florida, California, Arizona and Nevada are the states considered most affected by the collapse of the housing sector. These discussions also mention the fact that not only has the real estate and housing bubble that developed in Florida burst, it has done so with devastating consequences for the state's unemployment rate, gross state product, property values, business activity and, perhaps most importantly, state revenue inflows.

According to a report in The Miami Herald, the bursting of the real estate bubble in Florida had a price tag of $153 billion, a staggering number by any standard.[1] This immense cost includes the loss in market value of all Florida properties, from houses to businesses, between fiscal years 2007 and 2008. While this amounts to a reduction in the total value of the state's assorted properties of 6 percent—double the amount estimated in November 2007 and a decline of a magnitude not experienced in recent times—it would have been even steeper if not for the relatively modest increase in new construction ($55.6 billion) during the year. For the upcoming fiscal year, 2009, this new construction is expected to shrink even further—by almost 35 percent—to $36.4 billion. The erosion in market value of these properties, after years of double-digit, speculator-fueled growth, entails a serious drop in property tax revenues at the local government level. Further reinforcing the severity of the crisis that will plague Florida policymakers, economists from the state House, Senate, tax department and governor's office estimated that the state's total property values will decline another 4.92 percent in fiscal year 2009. However, the Legislature's chief economist stressed that the drop of Florida's real estate prices from the speculator-driven highs of recent years and the ability of buyers to purchase property at more "rock-bottom prices… [was] not a terrible thing. You want to see that."[2]

Tables 9 through 12 demonstrate trends related to Florida's revenues, including details on the state's top five revenue categories and revenues related to the housing and construction sectors.

A review of Tables 9 and 10 demonstrates Florida's overall revenue trends. Between the bookend years of the review period (fiscal years 2002 and 2008) the state's overall revenues expanded by nearly 25 percent. Further exploration of the most significant individual revenue categories indicates that four of the five expanded between fiscal years 2002

Table 5 Five Major Revenue Categories in **Arkansas** FY 2002 to FY 2008

Tax Category	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Corporate Income Tax	$218,479,409	$226,186,822	$238,135,172	$298,810,305	$378,239,666	$390,678,846	$354,044,306
Individual Income Tax	$1,791,494,008	$1,831,830,922	$1,972,772,088	$2,168,741,330	$2,357,301,515	$2,537,201,696	$2,764,163,560
Sales Tax	$1,484,221,827	$1,502,752,839	$1,578,508,156	$1,661,602,787	$1,766,844,288	$1,830,140,347	$1,783,939,420
Use Tax	$229,354,567	$228,797,503	$243,317,378	$297,600,227	$346,292,786	$377,305,875	$365,904,044
Motor Fuel Tax	$399,041,604	$402,444,997	$416,025,537	$404,104,597	$419,853,219	$414,427,975	$411,042,015
Total Gross Revenues	$3,983,931,016	$4,070,171,561	$4,365,407,505	$4,756,726,527	$5,180,059,838	$5,474,357,622	$5,618,456,330

Source: Annual Revenue Reports, 2003-2008, Bureau of Legislative Research, Arkansas General Assembly.

Table 6 Revenue Percentage Changes in **Arkansas** FY 2002 to FY 2008

Tax Category	% Change FY 2002 to FY 2003	% Change FY 2003 to FY 2004	% Change FY 2004 to FY 2005	% Change FY 2005 to FY 2006	% Change FY 2006 to FY 2007	% Change FY 2007 to FY 2008	% Change FY 2002 to FY 2008
Corporate Income Tax	3.53%	5.28%	25.48%	26.58%	3.29%	-9.38%	62.05%
Individual Income Tax	2.25%	7.69%	9.93%	8.69%	7.63%	8.95%	54.29%
Sales Tax	1.25%	5.04%	5.26%	6.33%	3.58%	-2.52%	20.19%
Use Tax	-0.24%	6.35%	22.31%	16.36%	8.96%	-3.02%	59.54%
Motor Fuel Tax	0.85%	3.37%	-2.87%	3.90%	-1.29%	-0.82%	3.01%
Total Gross Revenues	2.16%	7.25%	8.96%	8.90%	5.68%	2.63%	41.03%

Source: Annual Revenue Reports, 2003-2008, Bureau of Legislative Research, Arkansas General Assembly.

Table 7 Revenues from the Real Estate Transfer Tax in **Arkansas** FY 2002 to 2008

Real Estate Transfer Tax	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
General Revenues	$2,607,788	$2,607,788	$2,607,788	$2,607,788	$2,607,858	$2,608,745	$7,108,990
Special Revenues	$16,333,861	$18,892,307	$23,364,884	$27,186,757	$40,084,768	$39,787,650	$28,111,023
Total Revenues	$18,941,649	$21,500,096	$25,972,673	$29,794,545	$42,692,626	$42,396,396	$35,220,012

Source: Annual Revenue Reports, 2002-2008, Bureau of Legislative Research, Arkansas General Assembly.

Table 8 Real Estate Transfer Tax Revenue Percentage Changes in **Arkansas** FY 2002 to 2008

Real Estate Transfer Tax	% Change FY 2002 to FY 2003	% Change FY 2003 to FY 2004	% Change FY 2004 to FY 2005	% Change FY 2005 to FY 2006	% Change FY 2006 to FY 2007	% Change FY 2007 to FY 2008	% Change FY 2002 to FY 2008
General Revenues	0.00	0.00	0.00	0.00	0.03%	172.51%	172.61%
Special Revenues	15.66%	23.67%	16.36%	47.44%	-0.74%	-29.35%	72.10%
Total Revenues	13.51%	20.80%	14.71%	43.29%	-0.69%	-16.93%	85.94%

Source: Annual Revenue Reports, 2002-2008, Bureau of Legislative Research, Arkansas General Assembly.

and 2008, while one category (documentary stamp tax) plummeted by more than 66 percent. The latter decline demonstrates the disintegrating housing market in Florida after a period of impressive growth. Coming out of the 2001 recession, a year-over-year comparison indicates that overall revenues increased by over 3 percent in fiscal year 2003, over 9 percent in fiscal year 2004, and by a striking 15 percent in fiscal year 2005. Given that the housing market in a number of states across the country, particularly Florida, started contracting in fiscal year 2006, the growth of 8 percent in that year was to be expected. The downward trajectory of overall revenue growth became more apparent in fiscal years 2007 and 2008 when revenue plunged by 2 percent and then 9 percent, respectively. In fact, by fiscal year 2008, all five major revenue categories in Florida dwindled.

Given that Florida is one of three SLC states without an individual income tax, the state is particularly reliant on revenue from sales taxes, clearly the most critical revenue source for the state. While revenues from this tax category increased by more than 30 percent between fiscal years 2002 and 2008, the last two years were particularly difficult in terms of revenue flows. After expanding by over 2 percent in fiscal year 2003, the growth rate from sales tax revenues accelerated by nearly 9 percent in fiscal year 2004, and by an additional 12 percent in fiscal year 2005, a period when both the national and state economies were growing. As the economy slowed, growth in fiscal year 2006 dropped slightly to nearly 10 percent before barely registering a growth increase in fiscal year 2007 (under 1 percent), and then shrinking by over 5 percent in fiscal year 2008, a period when both the national and state economies had started seriously contracting.

According to staff of the Florida Senate Committee on Finance and Tax, the revenue sources listed in Tables 11 and 12 are related to the state's housing and real estate sectors. Specifically, these revenue sources include the following:

- Sales Tax (Other Consumer Durables) – This revenue source includes sales taxes assessed on consumer durables that are related to the housing sector;
- Sales Tax (Building) – This category includes revenues flowing from construction and business investment;
- Documentary Stamp Taxes – This revenue source includes taxes assessed at different tax rates on deeds and other documents related to real property and is divided between the general revenue fund and various trust funds used to acquire public lands or support public housing; and
- Intangibles Tax (C Collections) – The tax on intangible property is the only property tax that the state may collect under the Florida Constitution since all other taxes based on property are reserved for local governments. Part C of the Intangibles Tax, the non-recurring portion, comprises obligations secured by mortgage, deed of trust, or other lien upon real property in Florida, which are taxed at the time they are recorded. Just under two-thirds of Intangibles Tax revenues are distributed to the general revenue fund, with 38 percent distributed to the counties.

Based on the figures in Table 11, it is apparent that tax revenues that flowed to Florida from the real estate, housing and construction sectors matched the trajectory of the sectors' performance in the last seven years. During the boom years, fiscal years 2003 to 2006, when speculative fervor propelled the housing market in Florida to be rated as one of the fastest growing in the nation, revenues flowed in at extraordinary levels; similarly, when the bubble burst and the housing market collapsed in the state, revenues from these tax categories plunged. During the boom years, revenue from these sources increased at double digit levels (20 percent, 23 percent and 24 percent, respectively in the first three years) except in the final year, when the increase slowed to just above 11 percent. The fiscal year 2006 slower growth was a harbinger of what transpired in fiscal years 2007 and 2008, the years when the housing market in the state cratered, since total revenue from these sources declined first by 21 percent and then by nearly 30 percent.

In all, between fiscal years 2002 and 2008, total revenue from the state's housing, real estate and construction sectors waned by over 100 percent, an appreciable drop when one considers that in certain years during the review period, Florida accumulated as much as $8.8 billion (fiscal year 2005) and $9.8 billion (fiscal year 2006). Hence, the drop to $5.4 billion in fiscal year 2008 was a serious blow to the state's revenue position. Another indication of the dire nature of the state's revenue position is apparent in the following: at its height (fiscal year 2006), revenues from different elements of the housing, real estate and construction sectors in Florida amounted to 36 percent of Florida's total collections ($9.8 billion of $27.1 billion); in fiscal year 2008, when revenues had started declining rapidly, the contribution of the sectors total collections had slumped to 22 percent ($5.4 billion of $24.1 billion), a startling account of the gravity of the state's revenue challenges.

Table 9 Five Major Revenue Categories in **Florida** FY 2002 to FY 2008 (millions of dollars)

Tax Category	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Sales and Use Tax	$14,148	$14,488	$15,754	$17,629	$19,367	$19,435	$18,429
Beverage License Tax	$526	$539	$573	$576	$590	$638	$609
Corporate Income Tax	$1,219	$1,228	$1,345	$1,730	$2,405	$2,444	$2,217
Documentary Stamp Tax	$603	$841	$1,181	$1,601	$1,242	$626	$203
Insurance Premium Tax	$331	$411	$492	$546	$612	$697	$672
Net Gross Collections and Transfers	$19,341	$19,976	$21,809	$24,999	$27,065	$26,404	$24,112

Sources: Florida Revenue Estimating Conference, Revenue Analysis, FY 1970-71 through FY 2016-17, Volume 23, Fall 2007, and Detailed Revenue Report FY 2007-08, Florida Legislature, Office of Economic & Demographic Research.

Table 10 Revenue Percentage Changes in **Florida** FY 2002 to FY 2008

Tax Category	% Change FY 2002 to FY 2003	% Change FY 2003 to FY 2004	% Change FY 2004 to FY 2005	% Change FY 2005 to FY 2006	% Change FY 2006 to FY 2007	% Change FY 2007 to FY 2008	% Change FY 2002 to FY 2008
Sales and Use Tax	2.40%	8.74%	11.90%	9.86%	0.35%	-5.18%	30.26%
Beverage License Tax	2.47%	6.22%	0.56%	2.55%	7.98%	-4.44%	15.82%
Corporate Income Tax	0.79%	9.50%	28.62%	39.06%	1.59%	-9.29%	81.93%
Documentary Stamp Tax	39.48%	40.44%	35.58%	-22.45%	-49.63%	-67.48%	-66.26%
Insurance Premium Tax	24.20%	19.70%	10.89%	12.09%	14.01%	-3.63%	103.05%
Net Gross Collections and Transfers	3.28%	9.18%	14.62%	8.26%	-2.44%	-8.68%	24.67%

Sources: Florida Revenue Estimating Conference, Revenue Analysis, FY 1970-71 through FY 2016-17, Volume 23, Fall 2007, and Detailed Revenue Report FY 2007-08, Florida Legislature, Office of Economic & Demographic Research.

Table 11 Major Housing and Real Estate Related Revenue Categories in **Florida** FY 2002 to FY 2008 (millions of dollars)

Tax Category	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Sales Tax - Other Consumer Durables	$1,237	$1,231	$1,376	$1,539	$1,716	$1,664	$1,457
Sales Tax - Building	$952	$1,064	$1,104	$1,367	$1,586	$1,420	$1,215
Documentary Stamp Tax (1)	$1,573	$2,002	$2,632	$3,365	$4,058	$3,033	$1,955
Documentary Stamp Tax (2)	$603	$841	$1,181	$1,601	$1,242	$626	$203
Documentary Stamp Tax (3)	$109	$140	$184	$235	$284	$212	$137
Intangibles Tax - C Collections	$333	$460	$582	$678	$891	$727	$436
Total	$4,806	$5,738	$7,058	$8,786	$9,777	$7,681	$5,403

Sources: Florida Revenue Estimating Conference, Revenue Analysis, FY 1970-71 through FY 2016-17, Volume 23, Fall 2007, and Detailed Revenue Report FY 2007-08, Florida Legislature, Office of Economic & Demographic Research.

Table 12 Housing and Real Estate Related Revenue Percentage Changes in **Florida** FY 2002 to FY 2008

Tax Category	% Change FY 2002 to FY 2003	% Change FY 2003 to FY 2004	% Change FY 2004 to FY 2005	% Change FY 2005 to FY 2006	% Change FY 2006 to FY 2007	% Change FY 2007 to FY 2008	% Change FY 2002 to FY 2008
Sales Tax - Other Consumer Durables	-0.46%	11.74%	11.88%	11.53%	-3.04%	-12.46%	17.81%
Sales Tax - Building	11.74%	3.71%	23.91%	15.99%	-10.48%	-14.42%	27.60%
Documentary Stamp Tax (1)	27.28%	31.51%	27.85%	20.60%	-25.27%	-35.54%	24.32%
Documentary Stamp Tax (2)	39.48%	40.44%	35.58%	-22.45%	-49.63%	-67.48%	-66.26%
Documentary Stamp Tax (3)	28.18%	31.28%	27.88%	20.62%	-25.24%	-35.55%	25.07%
Intangibles Tax - C Collections	38.34%	26.41%	16.49%	31.34%	-18.39%	-39.96%	31.10%
Percent Change in Total	19.38%	23.01%	24.48%	11.28%	-21.44%	-29.66%	-100.01%

Sources: Florida Revenue Estimating Conference, Revenue Analysis, FY 1970-71 through FY 2016-17, Volume 23, Fall 2007, and Detailed Revenue Report FY 2007-08, Florida Legislature, Office of Economic & Demographic Research.

Georgia

Georgia's revenue inflows during the review period also reflect the trends undergone in several other SLC states. The effects of the 2001 recession were still reverberating in Georgia between fiscal years 2002 and 2003, with corporate and personal income tax revenues dropping a distressful 15.9 and 6.6 percent, respectively, and net revenue collections dropping approximately 3.2 percent. By fiscal years 2004 and 2005, Georgia was seeing an appreciable rise in revenues, with personal income tax collections surging nearly 9 percent in FY 2004 and corporate income tax collections shooting up almost 47 percent in FY 2005, bringing net collections up about 7.6 percent for both periods. In fiscal year 2006, net revenues ascended by 11 percent before beginning the decline to nearly 8 percent in fiscal year 2007. In fiscal year 2008, Georgia's revenues declined by over 1 percent, matching revenue trends in many states across the SLC and the country. In fact, in fiscal year 2008, three of the five major revenue categories in Georgia declined, including sales taxes, while personal income taxes barely registered in positive territory (less than 1 percent growth).

Kentucky

Tables 15 and 16 provide details on Kentucky's top six revenue categories, total general fund receipts and total road fund receipts. Cumulatively, between fiscal years 2002 and 2008, total general fund receipts increased by over 32 percent and road fund receipts increased by nearly 16 percent. On a year-to-year basis, Kentucky's general fund revenues expanded in all the review period years, albeit at a much slower pace in the final two years (fiscal years 2007 and 2008). In fiscal year 2003, these revenues increased by nearly 4 percent and then dropped to an increase of just over 2 percent in fiscal year 2004. The national economic uptick was reflected in Kentucky's revenue inflows in fiscal years 2005 and 2006, when general fund revenues ascended by nearly 10 percent in each of the years. The faltering U.S. economy's adverse implications were felt in Kentucky when revenues only increased by 2 percent and 1 percent, respectively, in fiscal years 2007 and 2008.

In terms of the specific revenue categories, only motor vehicle usage revenues (a separate tax levied for using a motor vehicle on Kentucky's public highways) experienced a decline over the fiscal year 2002 to 2008

Table 13 Five Major Revenue Categories in Georgia FY 2002 to FY 2008 (thousands of dollars)

Tax Category	FY 2002 (2)	FY 2003 (2)	FY 2004	FY 2005	FY 2006	FY 2007 (2)	FY 2008
Corporate Income Tax	$607,480	$511,150	$493,948	$724,051	$862,863	$1,019,117	$943,042
Individual Income Tax	$6,714,191	$6,271,693	$6,829,822	$7,210,446	$8,039,731	$8,820,797	$8,845,476
General Sales and Use Tax	$4,620,882	$4,991,882	$4,902,079	$5,315,000	$5,723,211	$5,915,519	$5,780,867
Motor Fuel Tax	$488,002	$491,966	$523,671	$518,831	$473,062	$493,449	$473,046
Prepaid Motor Fuel Sales Tax (1)	$0	$0	$234,853	$336,459	$371,160	$445,586	$538,156
Net Revenue Collections	$13,128,167	$12,709,319	$13,670,638	$14,709,913	$16,341,090	$17,639,834	$17,449,859

(1) Collection of Prepaid Motor Fuel Sales Tax began January 1, 2004.
(2) Different annual reports reflected different figures for some categories in FY 2002, FY 2003 and FY 2007; the most current reported figures are presented in this table.

Sources: Statistical Reports, 2002-2007, Georgia Department of Revenue, *http://www.etax.dor.ga.gov/gaforms/publica.aspx* and "Governor Perdue Announces June Revenue Figures," Media Release, Office of the Governor, Wednesday, July 16, 2008.

Table 14 Revenue Percentage Changes in Georgia FY 2002 to FY 2008

Tax Category	% Change FY 2002 to FY 2003	% Change FY 2003 to FY 2004	% Change FY 2004 to FY 2005	% Change FY 2005 to FY 2006	% Change FY 2006 to FY 2007	% Change FY 2007 to FY 2008	% Change FY 2002 to FY 2008
Corporate Income Tax	-15.86%	-3.37%	46.58%	19.17%	18.11%	-7.46%	55.24%
Individual Income Tax	-6.59%	8.90%	5.57%	11.50%	9.72%	0.28%	31.74%
General Sales and Use Tax	8.03%	-1.80%	8.42%	7.68%	3.36%	-2.28%	25.10%
Motor Fuel Tax	0.81%	6.44%	-0.92%	-8.82%	4.31%	-4.13%	-3.06%
Prepaid Motor Fuel Sales Tax	0.00	0.00	43.26%	10.31%	20.05%	20.77%	0.00
Net Revenue Collections	-3.19%	7.56%	7.60%	11.09%	7.95%	-1.08%	32.92%

Sources: Statistical Reports, 2002-2007, Georgia Department of Revenue, *http://www.etax.dor.ga.gov/gaforms/publica.aspx* and "Governor Perdue Announces June Revenue Figures," Media Release, Office of the Governor, Wednesday, July 16, 2008.

review period, while all the other major revenue categories saw increases. In fact, four of the five remaining major revenue categories all secured double digit growth rates over this period, with corporate income taxes increasing by triple digits (nearly 110 percent). When the economy began slowing down in the latter half of the review period, corporate income taxes began weakening and dropped by nearly 56 percent in fiscal year 2008. Of note, even in fiscal year 2008, individual income taxes expanded by over 14 percent.

Louisiana

According to Tables 17 and 18, Louisiana's revenue record in the review period differs from a number of other states in the country in the last two years (fiscal years 2007 and 2008). As evident in Arkansas, Florida and Georgia for instance, revenues began climbing during the early years of the review period before dropping off and declining in the last two years, a period when the national economy began running out of steam given the difficulties in the housing and construction sectors. In Louisiana, like in Oklahoma and Texas (energy rich states that saw increases in overall revenues of 5 percent and 12 percent, respectively, between fiscal years 2007 and 2008), this scenario did not play out given the state's formidable energy resources. As energy prices began accelerating, revenues accruing to the state from this sector began offsetting revenue shortfalls in other areas. Louisiana also was assisted by the ongoing and sizable construction activity related to the post-Hurricane Katrina building effort, a development that helped spur economic activity in various parts of the state.

After the 2001 recession, state revenues as a whole diminished by 4 percent in fiscal year 2003, before reaching positive territory the next year (4 percent), in fiscal year 2004. The state's revenue direction continued with double-digit growth levels in the next three fiscal years, 12 percent (fiscal year 2005), 10 percent (fiscal year 2006) and 16 percent (fiscal year 2007). In the final fiscal year of the review period, 2008,

Table 15 Six Major Revenue Categories in Kentucky FY 2002 to FY 2008

Tax Category	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Individual Income Tax	$2,702,510,022	$2,746,386,944	$2,796,331,049	$3,036,230,706	$2,918,610,982	$3,041,535,604	$3,483,137,317
Sales and Use Tax	$2,299,990,621	$2,364,182,478	$2,447,584,698	$2,594,966,373	$2,749,765,011	$2,817,652,253	$2,877,814,014
Property Tax	$433,029,587	$434,768,249	$448,765,511	$472,596,276	$502,510,631	$492,462,208	$500,646,790
Motor Fuels Tax	$429,812,296	$438,564,438	$441,382,996	$469,621,779	$501,927,927	$538,568,693	$571,316,086
Motor Vehicle Usage Tax	$429,303,220	$432,903,299	$429,242,527	$407,525,361	$395,582,626	$411,251,997	$405,797,215
Corporation Income Tax	$207,353,777	$278,035,794	$303,262,821	$478,504,505	$1,001,618,543	$988,064,957	$435,222,566
General Fund Total Tax Receipts	$6,292,004,457	$6,543,157,657	$6,686,290,589	$7,350,335,469	$8,065,347,817	$8,233,789,253	$8,329,734,971
Road Fund Total Tax Receipts	$1,052,848,911	$1,123,103,133	$1,082,189,464	$1,094,354,041	$1,133,247,862	$1,186,074,087	$1,219,349,262

Source: Monthly Tax Report, Office of State Budget Director, Commonwealth of Kentucky, *http://www.osbd.ky.gov/publications/taxreceipts.htm.*

Table 16 Revenue Percentage Changes in Kentucky FY 2002 to FY 2008

Tax Category	% Change FY 2002 to FY 2003	% Change FY 2003 to FY 2004	% Change FY 2004 to FY 2005	% Change FY 2005 to FY 2006	% Change FY 2006 to FY 2007	% Change FY 2007 to FY 2008	% Change FY 2002 to FY 2008
Individual Income Tax	1.62%	1.82%	8.58%	-3.87%	4.21%	14.52%	28.89%
Sales and Use Tax	2.79%	3.53%	6.02%	5.97%	2.47%	2.14%	25.12%
Property Tax	0.40%	3.22%	5.31%	6.33%	-2.00%	1.66%	15.61%
Motor Fuels Tax	2.04%	0.64%	6.40%	6.88%	7.30%	6.08%	32.92%
Motor Vehicle Usage Tax	0.84%	-0.85%	-5.06%	-2.93%	3.96%	-1.33%	-5.48%
Corporation Income Tax	34.09%	9.07%	57.79%	109.32%	-1.35%	-55.95%	109.89%
General Fund Total Tax Receipts	3.99%	2.19%	9.93%	9.73%	2.09%	1.17%	32.39%
Road Fund Total Tax Receipts	6.67%	-3.64%	1.12%	3.55%	4.66%	2.81%	15.81%

Source: Monthly Tax Report, Office of State Budget Director, Commonwealth of Kentucky, *http://www.osbd.ky.gov/publications/taxreceipts.htm.*

revenues swelled by 4 percent, at a time when most other states were dealing with revenue cutbacks. As mentioned, the state's energy prowess and massive rebuilding effort related to Hurricane Katrina were influential. While the state did not see the escalation in housing values like many other states did, the post-Katrina rebuilding effort certainly did help elevate housing prices in parts of the state.

In terms of the specific revenue categories, corporate income and natural resources severance taxes performed most impressively between fiscal years 2002 and 2008, expanding by 182 percent and 111 percent, respectively. Specifically, Louisiana's severance tax, levied on the production of natural resources taken from land or water bottoms within the territorial boundaries of the state, grew by 25 percent and 17 percent in fiscal years 2007 and 2008. The state's sales tax revenues also increased in fiscal year 2008, albeit at 3 percent, an anomaly because so many states were experiencing declines in their sales tax inflows.

Maryland

As documented in Tables 19 and 20, Maryland's revenue performance between fiscal years 2002 and 2008 indicates the strength of the state's economy at a time when many other states were experiencing revenue declines, particularly in fiscal years 2007 and 2008. While the state's revenues surged by nearly 45 percent between fiscal year 2002 and 2008, the drop-off in revenues in the final two review period years (fiscal years 2007 and 2008) was not as marked. Maryland's total revenues actually grew by nearly 5 percent in both these years, while at a slower pace compared to the prior three fiscal years when they expanded by nearly 10 percent (fiscal year 2004), over 11 percent (fiscal year 2005), and under 9 percent (fiscal year 2006). Six of the state's seven major revenue categories recorded positive growth rates in the final review year (fiscal year 2008), a year when so many states experienced revenue declines. Except for corporate income taxes,

Table 17 Six Major Revenue Categories in Louisiana FY 2002 to FY 2008

Tax Category	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Franchise Tax	$260,339,633	$187,447,317	$260,339,633	$289,941,899	$261,166,429	$284,390,805	247,694,096
Corporate Income Tax	$264,419,332	$198,715,818	$181,843,783	$374,580,259	$504,849,972	$721,271,386	746,705,214
Individual, Declaration and Withholding Tax	$1,779,506,089	$1,862,674,655	$2,187,001,965	$2,380,284,222	$2,453,612,365	$3,116,247,672	3,241,862,324
Natural Resources Severance Tax	$496,498,111	$430,927,944	$527,115,402	$680,302,266	$719,258,708	$898,347,095	1,046,649,450
Gasoline Tax	$442,408,356	$440,838,750	$438,758,493	$447,581,840	$459,700,612	$471,989,220	448,207,377
Special Fuels Tax	$116,483,538	$117,697,599	$122,010,473	$129,443,317	$142,740,534	$146,064,408	137,857,052
Sales Tax	$2,403,580,262	$2,276,134,967	$2,165,955,437	$2,337,997,706	$2,731,163,312	$2,801,969,579	2,883,313,851
TOTAL	$6,137,085,999	$5,910,330,967	$6,164,210,850	$6,906,568,335	$7,587,209,321	$8,811,283,787	9,134,494,912

Source: Annual Reports, Louisiana Department of Revenue, *http://revenue.louisiana.gov/sections/publications/ar.aspx* and E-mail communication with Christopher McFarlain, Revenue Tax Auditor Specialist, Louisiana Department of Revenue, November 11, 2008.

Table 18 Revenue Percentage Changes in Louisiana FY 2002 to FY 2008

Tax Category	% Change FY 2002 to FY 2003	% Change FY 2003 to FY 2004	% Change FY 2004 to FY 2005	% Change FY 2005 to FY 2006	% Change FY 2006 to FY 2007	% Change FY 2007 to FY 2008	% Change FY 2002 to FY 2008
Franchise Tax	-28%	38.89%	11.37%	-9.92%	8.89%	-12.90%	-4.86%
Corporate Income Tax	-24.85%	-8.49%	105.99%	34.78%	42.87%	3.53%	182.39%
Individual, Declaration and Withholding Tax	4.67%	17.41%	8.84%	3.08%	27.01%	4.03%	82.18%
Natural Resources Severance Tax	-13.21%	22.32%	29.06%	5.73%	24.90%	16.51%	110.81%
Gasoline Tax	-0.35%	-0.47%	2.01%	2.71%	2.67%	-5.04%	1.31%
Special Fuels Tax	1.04%	3.66%	6.09%	10.27%	2.33%	-5.62%	18.35%
Sales Tax	-5.30%	-4.84%	7.94%	16.82%	2.59%	2.90%	19.96%
Total	-3.69%	4.30%	12.04%	9.85%	16.13%	3.67%	48.84%

Source: Annual Reports, Louisiana Department of Revenue, *http://revenue.louisiana.gov/sections/publications/ar.aspx* and E-mail communication with Christopher McFarlain, Revenue Tax Auditor Specialist, Louisiana Department of Revenue, November 11, 2008.

which declined by more than 6 percent, all the revenue categories increased, including sales and use taxes, which sprang forward by over 7 percent.

Missouri

According to Table 21 and 22, Missouri's total tax revenues emerged strongly from the 2001 recession with an increase of nearly 7 percent in fiscal year 2003. The state's revenue growth continued for the next four fiscal years before running into the headwind that was sweeping over the nation by fiscal year 2008. After reaching a peak of over 9.5 percent growth in fiscal year 2006, Missouri's revenues started a downward trajectory before dwindling by just below 5 percent in fiscal year 2008. In terms of the specific revenue categories, two of the five main revenue types all declined in this fiscal year, with sales and use taxes contracting by 3.5 percent and corporate income taxes falling by nearly 6 percent. Individual income taxes performed strongly, unimpeded by the beginning of this slow economic period, growing by almost 7 percent.

Overall, between fiscal years 2002 and 2008, the state's total taxes expanded by more than 30 percent with the corporate franchise tax (a tax that corporations operating in Missouri pay in advance for doing business within the state) expanding by the significant amount of 346 percent. The remaining major revenue categories all secured double-digit growth rates during this period even though sales and use taxes only grew by 8 percent.

Table 19 Seven Major Revenue Categories in **Maryland** FY 2002 to FY 2008 (thousands of dollars)

Tax Category	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personal Income Tax	$4,771,649	$4,703,738	$5,077,581	$5,660,614	$6,200,194	$6,679,168	$6,940,134
Corporate Income Tax	$273,235	$288,274	$328,553	$512,237	$623,224	$589,782	$551,673
Sales and Use Tax	$2,642,477	$2,697,061	$2,921,794	$3,129,352	$3,355,168	$3,420,149	$3,675,263
State Lottery	$414,063	$422,945	$436,373	$455,863	$480,471	$473,119	$497,111
Business Franchise Tax	$145,180	$143,364	$190,637	$197,907	$196,235	$206,568	$207,968
Tax on Insurance Companies	$193,718	$228,476	$260,046	$268,912	$274,901	$283,342	$301,831
Tobacco Tax	$209,887	$199,201	$272,430	$276,044	$280,305 (1)	$278,189	$376,112
Total Revenues	$9,356,068	$9,317,020	$10,240,702	$11,394,669	$12,369,903	$12,940,228	$13,545,639

(1) = Different annual reports reflected different figures for tobacco tax revenues in FY 2006; the most current reported figure is presented in this table.

Sources: Closeout Reports, FY 2006-08, Comptroller of Maryland, *http://www.marylandtaxes.com/publications/fiscalrprts/fiscalrprts.asp*; Estimated Maryland Revenues, 2004-06, Board of Revenue Estimates, Bureau of Revenue Estimates, Comptroller of Maryland, *http://www.marylandtaxes.com/publications/fiscalrprts/listing.asp.*

Table 20 Revenue Percentage Changes in **Maryland** FY 2002 to FY 2008

Tax Category	% Change FY 2002 to FY 2003	% Change FY 2003 to FY 2004	% Change FY 2004 to FY 2005	% Change FY 2005 to FY 2006	% Change FY 2006 to FY 2007	% Change FY 2007 to FY 2008	% Change FY 2002 to FY 2008
Personal Income Tax	-1.42%	7.95%	11.48%	9.53%	7.73%	3.91%	45.45%
Corporate Income Tax	5.50%	13.97%	55.91%	21.67%	-5.37%	-6.46%	101.90%
Sales and Use Tax	2.07%	8.33%	7.10%	7.22%	1.94%	7.46%	39.08%
State Lottery	2.15%	3.17%	4.47%	5.40%	-1.53%	5.07%	20.06%
Business Franchise Tax	-1.25%	32.97%	3.81%	-0.84%	5.27%	0.68%	43.25%
Tax on Insurance Companies	17.94%	13.82%	3.41%	2.23%	3.07%	6.53%	55.81%
Tobacco Tax	-5.09%	36.76%	1.33%	1.54%	-0.75%	35.20%	79.20%
Total Revenues	-0.2%	9.91%	11.27%	8.56%	4.61%	4.68%	44.78%

Sources: Closeout Reports, FY 2006-08, Comptroller of Maryland, *http://www.marylandtaxes.com/publications/fiscalrprts/fiscalrprts.asp*; Estimated Maryland Revenues, 2004-06, Board of Revenue Estimates, Bureau of Revenue Estimates, Comptroller of Maryland, *http://www.marylandtaxes.com/publications/fiscalrprts/listing.asp.*

Table 21	Five Major Revenue Categories in **Missouri** FY 2002 to FY 2008 (thousands of dollars)						
Tax Category	**FY 2002**	**FY 2003**	**FY 2004**	**FY 2005**	**FY 2006**	**FY 2007**	**FY 2008**
Sales and Use Tax	$1,817,159	$1,799,486	$1,902,255	$1,957,694	$1,993,449	$2,042,377	$1,970,603
Individual Income Tax	$4,461,062	$4,369,513	$4,571,546	$4,859,939	$5,352,025	$5,726,545	$6,110,052
Corporate Income Tax	$448,805	$335,188	$329,596	$354,390	$528,841	$553,948	$520,969
County Foreign Insurance Tax	$160,662	$157,210	$162,130	$165,481	$189,702	$199,211	$209,633
Corporation Franchise Tax	$20,753	$68,363	$91,388	$119,446	$77,827	$77,788	$92,508
Total Taxes	$7,100,354	$7,594,906	$7,916,060	$8,405,760	$9,205,766	$9,743,894	$9,262,273

Sources: Comprehensive Annual Financial Reports, 2002-2007, Division of Accounting, Missouri Office of Administration, *http://oa.mo.gov/acct/cafr.htm* and Joe Roberts, Appropriations Committee Staff, Missouri House of Representatives, E-mail communication, October 16, 2008.

Table 22	Revenue Percentage Changes in **Missouri** FY 2002 to FY 2008						
Tax Category	**% Change FY 2002 to FY 2003**	**% Change FY 2003 to FY 2004**	**% Change FY 2004 to FY 2005**	**% Change FY 2005 to FY 2006**	**% Change FY 2006 to FY 2007**	**% Change FY 2007 to FY 2008**	**% Change FY 2002 to FY 2008**
Sales and Use Tax	-0.97%	5.71%	2.91%	1.83%	2.45%	-3.51%	8.44%
Individual Income Tax	-2.05%	4.62%	6.31%	10.13%	7.00%	6.70%	36.96%
Corporate Income Tax	-25.32%	-1.67%	7.52%	49.23%	4.75%	-5.95%	16.08%
County Foreign Insurance Tax	-2.15%	3.13%	2.07%	14.64%	5.01%	5.23%	30.48%
Corporation Franchise Tax	229.41%	33.68%	30.70%	-34.84%	-0.05%	18.92%	345.76%
Total Taxes	6.97%	4.23%	6.19%	9.52%	5.85%	-4.94%	30.45%

Sources: Comprehensive Annual Financial Reports, 2002-2007, Division of Accounting, Missouri Office of Administration, *http://oa.mo.gov/acct/cafr.htm* and Joe Roberts, Appropriations Committee Staff, Missouri House of Representatives, E-mail communication, October 16, 2008.

Mississippi

Tables 23 and 24 provide details on Mississippi's revenues between fiscal years 2002 and 2008. In terms of total collections, Mississippi experienced a 36 percent growth rate with the most striking contribution emerging from individual income and estimated taxes, a 67 percent improvement over the seven-year period. In addition to income tax revenues, sales, withholding, corporate and use taxes all spurted forward by double-digit growth rates. While surfacing from the 2001 recession, the state's total revenues improved by 4 percent in fiscal year 2003 before increasing by 2 percent in fiscal year 2004. Revenues peaked at 10 percent in fiscal year 2006, before beginning to decline in the next two fiscal years. Even though revenues grew, they expanded by a much smaller amount in both fiscal years; 8 percent in fiscal year 2007 and 2 percent in fiscal year 2008.

A review of the state's major individual revenue sources reveals that by fiscal year 2008 the adverse effects of the national slowdown also were apparent in Mississippi. Specifically, only three of the state's seven major revenue categories secured growth, albeit meager, in this year. While sale tax revenues barely grew when compared to the prior year, the remaining three revenue categories did increase compared to the prior year, though at a much slower pace (withholding taxes, 6 percent vs. 8 percent; corporate taxes, 3 percent vs. 18 percent; gaming fees and taxes, 4 percent vs. 21 percent).

Mississippi, like practically every other state, was impacted by the surging housing and real estate sectors, though at a much lesser degree compared to states like Florida. An immediate consequence of this impact was the fact that state revenues initially experienced a swelling during the boom years, followed by several years of diminished revenues during the bust years. According to the Mississippi State Tax Commission, the state's sales tax intake, specifically for taxes related to the construction sector, was one of the major ways in which the state's revenues were impacted by the collapsing housing and real estate sectors. An important factor that has to be stressed is the construction boom experienced in the aftermath of Hurricane Katrina, when large sections of Mississippi's Gulf Coast were destroyed and had to be re-constructed. The increase in revenues during fiscal years 2006 and 2007 were related to this Katrina-related construction boom. Tables 25 and 26 provide the details on some of the construction-related tax revenues flowing into the state's coffers between fiscal years 2002 and 2008.

According to information provided by the Mississippi State Tax Commission, among the taxes Mississippi recoups from real estate and construction-related enterprises are the 7 percent sales tax that con-

Table 23 Seven Major Revenue Categories in **Mississippi** FY 2002 to FY 2008

Tax Category	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Sales Tax	$2,150,496,249	$2,253,315,816	$2,272,606,003	$2,379,044,585	$2,756,185,028	$2,852,668,793	$2,858,506,175
Withholding Tax (1)	$1,175,927,209	$1,106,515,365	$1,094,832,210	$1,157,871,313	$1,248,288,595	$1,353,121,248	$1,429,651,206
Corporate Tax	$296,158,407	$333,729,193	$364,688,928	$402,287,428	$444,056,750	$524,839,921	$540,381,754
Individual Income and Estimated Tax (1)	$121,427,712	$203,457,976	$271,520,116	$316,990,081	$318,294,188	$472,088,805	$465,429,643
Petroleum Tax	$405,315,401	$413,728,870	$423,847,000	$422,960,153	$436,117,148	$438,810,593	$430,088,871
Gaming Fees and Taxes	$327,392,162	$329,433,968	$332,228,687	$334,625,802	$273,553,661	$332,285,489	$344,587,275
Use Tax	$204,673,545	$199,583,702	$202,943,476	$207,635,301	$280,211,275	$287,743,844	$270,660,901
Total Collections	$5,230,510,702	$5,442,548,714	$5,570,206,112	$5,851,714,927	$6,432,488,539	$6,967,979,800	$7,107,277,949

(1) = In FY 2004, the Mississippi State Tax Commission completed the installation of a new system for depositing withholding, income, and estimated income taxes. Consequently, the values for these two revenue categories for FY 2002 - 2004 were adjusted by the Commission in order to provide consistency for comparison purposes. The adjusted values are presented in this table.

Sources: State Tax Commission Cash Report, June 2002-2008, Mississippi State Tax Commission, *http://www.mstc.state.ms.us/info/stats/cashrpt.htm* and Jennifer Wentworth, Director of Accounting, Mississippi State Tax Commission, E-mail communication, January 5, 2009.

Table 24 Revenue Percentage Changes in **Mississippi** FY 2002 to FY 2008

Tax Category	% Change FY 2002 to FY 2003	% Change FY 2003 to FY 2004	% Change FY 2004 to FY 2005	% Change FY 2005 to FY 2006	% Change FY 2006 to FY 2007	% Change FY 2007 to FY 2008	% Change FY 2002 to FY 2008
Sales Tax	4.78%	0.86%	4.68%	15.85%	3.50%	0.20%	32.92%
Withholding Tax	8.60%	-1.06%	5.76%	7.81%	8.40%	5.66%	40.31%
Corporate Tax	12.69%	9.28%	10.31%	10.38%	18.19%	2.96%	82.46%
Individual Income and Estimated Tax (1)	-26.93%	33.45%	16.75%	0.41%	48.32%	-1.41%	67.16%
Petroleum Tax	2.08%	2.45%	-0.21%	3.11%	0.62%	-1.99%	6.11%
Gaming Fees and Taxes	0.62%	0.85%	0.72%	-18.25%	21.47%	3.70%	5.25%
Use Tax	-2.49%	1.68%	2.31%	34.95%	2.69%	-5.94%	32.24%
Total Collections	4.05%	2.35%	5.05%	9.92%	8.32%	2.00%	35.88%

Sources: State Tax Commission Cash Report, June 2002-2008, Mississippi State Tax Commission, *http://www.mstc.state.ms.us/info/stats/cashrpt.htm* and Jennifer Wentworth, Director of Accounting, Mississippi State Tax Commission, E-mail communication, January 5, 2009.

Table 25 Major Taxes Impacted by the Housing and Construction Sectors in **Mississippi** FY 2002 to FY 2008

7% Sales Tax Collections	2002	2003	2004	2005	2006	2007	2008
Lumber and Other Building Materials	$80,019,918	$87,567,791	$107,709,805	$121,863,085	$181,108,378	$174,950,519	$152,591,327
Plumbing, Heating and A/C	$12,712,828	$12,882,613	$13,670,382	$14,397,426	$17,843,042	$20,787,556	$18,581,884
Electrical Work	$4,225,107	$5,259,777	$4,883,097	$6,147,005	$7,418,489	$7,259,421	$6,378,869
Electrical Contractors	$5,382,277	$5,879,347	$5,896,531	$6,623,642	$9,333,602	$11,905,329	$10,882,167
Building Materials, Hardware	$14,270,034	$14,341,843	$16,992,715	$18,809,431	$27,297,708	$28,028,808	$23,759,358
Lumber and Construction Materials	$2,133,370	$2,046,281	$2,518,189	$2,320,309	$3,361,582	$3,593,468	$3,416,438
Total:	$118,743,534	$127,977,652	$151,670,719	$170,160,898	$246,362,801	$246,525,101	$215,610,043
3.5% Contractor's Tax Collections	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Building Construction Contractors	$52,013,527	$52,177,952	$48,187,090	$51,304,150	$80,946,489	$111,124,052	$116,739,752
Electrical Contractors	$3,933,466	$3,470,354	$2,842,838	$3,368,556	$7,026,041	$6,672,006	$6,743,832
Plumbing, Heating and A/C	$1,552,167	$1,343,271	$1,591,025	$1,521,350	$1,381,605	$1,674,415	$1,991,637
Total:	$57,499,160	$56,991,577	$52,620,953	$56,194,056	$89,354,135	$119,470,473	$125,475,221

Source: Randy Ladner, Director of Tax Policy and Economic Development Office, Mississippi State Tax Commission, E-mail communication, September 24, 2008.

sumers pay on such items as lumber and other building materials; hardware; and plumbing, heating and air conditioning items. The state's sales tax law levies a 3.5 percent contractor's tax on all non-residential construction activities, where the total contract price or compensation received exceeds $10,000. Both these tax revenues are directly linked to the progress or decline of the construction sector.

Table 26 documents that state sales taxes from construction-related items grew impressively in fiscal year 2006 (45 percent over the previous year) in the immediate aftermath of the rebuilding efforts after Hurricane Katrina. The 19 percent and 12 percent growth spurts recorded by this segment of the state's revenue base in fiscal years 2004 and 2005 was about the time that the national housing boom was in progress, and Mississippi arguably experienced some of the benefits of this boom. In fact, Mississippi secured a 21 percent increase in housing starts in fiscal year 2004 compared to the previous year, confirming that the housing sector was, in fact, expanding in the state. On the flip side of the boom years, by fiscal years 2007 and 2008, growth from this revenue sector had dropped to zero and -13 percent, respectively, a trend that demonstrates the shrinking real estate and construction sectors in the state.

The lower portion of Table 26, an analysis of the state's tax revenues from the 3.5 percent contractor's tax, reveals somewhat different trends from the 7 percent sales tax collections: while the expansion demonstrated in construction material-related sales taxes did not increase at the same rate in fiscal year 2005 (an increase of 7 percent as opposed to 12 percent), the increases in fiscal year 2006 and 2007 were much sharper (59 percent and 34 percent, respectively). Even in a comparison between fiscal years 2002 and 2008 for the two revenue types listed in Table 26, the difference was stark: 82 percent and 118 percent. What is apparent in a review of the Mississippi real estate and construction-related revenue information is that even a small state like Mississippi, which did not see the huge real estate sector surge experienced in so many other states across the country, was adversely impacted by the negative economic wave that surfaced with the national slowdown by fiscal years 2007 and 2008.

North Carolina

According to Tables 27 and 28, North Carolina's revenues between fiscal years 2002 and 2008 largely tracked the direction taken by her neighbors (Virginia and Kentucky). Coming out of the 2001 recession, the state saw an imposing rise in revenues of 5.4 percent in fiscal year 2003, followed by revenue levels that reached more than 5 percent growth in fiscal year 2004, nearly 12 percent in fiscal year 2005, and almost 10 percent in fiscal years 2006 and 2007. In fiscal year 2008, when the national and state economies began unraveling, North Carolina demonstrated a positive growth rate, albeit barely (0.64 percent). Overall, North Carolina's five major categories all expanded by at least double-digit rates, and one tax (corporate income) expanded by triple-digit levels between fiscal years 2002 and 2008. The exploding corporate income taxes in the state amounted to nearly 172 percent during the seven-year review period, even though this revenue source actually declined in fiscal year 2008. Similarly, sales and use taxes, after growing in all the years of the review period, shrank in fiscal year 2008, a reflection of the tightening economic conditions. North Carolina's franchise tax, a tax payable in advance for the privilege of doing business or for the privilege of existing as a corporation in the state, secured a positive growth rate in fiscal year 2008 and expanded by over 8 percent. The state's individual income taxes also escalated formidably in fiscal years 2005, 2006 and 2007 (nearly 12 percent in each of these years) before expanding by the reduced amount of under 4 percent in fiscal year 2008.

Oklahoma

Oklahoma's overall growth in revenues, as demonstrated in Tables 29 and 30, largely matched the trajectory of a number of other SLC states for the review period: a period of no growth coming out of the 2001 recession (fiscal year 2003) followed by a steady increase (7 percent and 8 percent respectively in fiscal years 2004 and 2005), then peaking in fiscal year 2006 (11 percent) before starting to decline in fiscal years 2007 and 2008. Perhaps what is important is that even during the most recent fiscal year (2008), when so many states had already begun to feel the adverse effects of the economic slowdown and revenue downturn, Oklahoma still managed to recoup a growth rate of 4 percent in it total taxes collected, an impressive performance indeed. While there are several possible explanations for this performance in fiscal year 2008, two scenarios loom large: the fact that the state's abundant energy resources continued with a steady output at a time when world energy prices began zooming upward and the fact that the state did not experience the major expansion in the real estate and housing sectors prevalent in many other states. Consequently, when this sector of the economy cratered, states that were overly reliant on this sector for sustenance were impacted severely; a state like Oklahoma that did not encounter this boom remained relatively unaffected by it in fiscal years 2007 and 2008.

Further elaboration on this point is possible by drilling down to the nine specific revenue categories that are the state's major income sources. While cumulatively they secured a growth rate of 38 percent between fiscal years 2002 and 2008, only revenue from

Table 26 Housing and Construction Sector Tax Percentage Changes in **Mississippi** FY 2002 to FY 2008

7% Sales Tax Collections	% Change FY 2002 to FY 2003	% Change FY 2003 to FY 2004	% Change FY 2004 to FY 2005	% Change FY 2005 to FY 2006	% Change FY 2006 to FY 2007	% Change FY 2007 to FY 2008	% Change FY 2002 to FY 2008
Lumber and Other Building Materials	9.43%	23.00%	13.14%	48.62%	-3.40%	-12.78%	90.69%
Plumbing, Heating and A/C	1.34%	6.11%	5.32%	23.93%	16.50%	-10.61%	46.17%
Electrical Work	24.49%	-7.16%	25.88%	20.68%	-2.14%	-12.13%	50.98%
Electrical Contractors	9.24%	0.29%	12.33%	40.91%	27.55%	-8.59%	102.19%
Building Materials, Hardware	0.50%	18.48%	10.69%	45.13%	2.68%	-15.23%	66.50%
Lumber and Construction Materials	-4.08%	23.06%	-7.86%	44.88%	6.90%	-4.93%	60.14%
Total:	7.78%	18.51%	12.19%	44.78%	0.07%	-12.54%	81.58%
3.5% Contractor's Tax Collections	**% Change FY 2002 to FY 2003**	**% Change FY 2003 to FY 2004**	**% Change FY 2004 to FY 2005**	**% Change FY 2005 to FY 2006**	**% Change FY 2006 to FY 2007**	**% Change FY 2007 to FY 2008**	**% Change FY 2002 to FY 2008**
Building Construction Contractors	0.32%	-7.65%	6.47%	57.78%	37.28%	5.05%	124.44%
Electrical Contractors	-11.77%	-18.08%	18.49%	108.58%	-5.04%	1.08%	71.45%
Plumbing, Heating and A/C	-13.46%	18.44%	-4.38%	-9.19%	21.19%	18.95%	28.31%
Total:	-0.88%	-7.67%	6.79%	59.01%	33.70%	5.03%	118.22%

Source: Randy Ladner, Director of Tax Policy and Economic Development Office, Mississippi State Tax Commission, E-mail communication, September 24, 2008.

Table 27 Five Major Revenue Categories in **North Carolina** FY 2002 to FY 2008

Tax Category	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Insurance Tax	$340,785,358	$408,873,355	$423,405,050	$431,664,202	$431,729,295	$475,545,413	$492,698,607
Franchise Tax	$446,270,680	$429,128,005	$445,294,486	$498,681,391	$477,055,108	$531,412,140	$574,460,805
Corporate Income Tax	$409,322,540	$840,499,824	$776,964,847	$1,193,529,164	$1,204,102,940	$1,451,399,198	$1,111,668,852
Sales and Use Tax	$3,705,769,832	$3,922,821,877	$4,222,201,842	$4,477,159,178	$4,893,911,220	$4,995,570,841	$4,981,673,149
Individual Income Tax	$7,134,629,832	$7,088,526,873	$7,509,898,086	$8,409,288,618	$9,400,167,970	$10,507,966,531	$10,902,299,190
Total	$12,444,661,014	$13,117,230,784	$13,830,726,874	$15,477,557,903	$17,020,515,803	$18,712,126,352	$18,832,237,918

Sources: Table 2, State General Fund: Tax Revenues by Source, 2008, North Carolina Department of Revenue; William Spencer, Director, Policy Analysis and Statistics Division, North Carolina Department of Revenue, Telephone interview, October 2008; and Amelia Bryan, Economist, Policy Analysis and Statistics Division, North Carolina Department of Revenue, Email communication, October 2008.

Table 28 Revenue Percentage Changes in **North Carolina** FY 2002 to FY 2008

Tax Category	% Change FY 2002 to FY 2003	% Change FY 2003 to FY 2004	% Change FY 2004 to FY 2005	% Change FY 2005 to FY 2006	% Change FY 2006 to FY 2007	% Change FY 2007 to FY 2008	% Change FY 2002 to FY 2008
Insurance Tax	19.98%	3.55%	1.95%	0.02%	10.15%	3.61%	44.58%
Franchise Tax	-3.84%	3.77%	11.99%	-4.34%	11.39%	8.10%	28.72%
Corporate Income Tax	105.34%	-7.56%	53.61%	0.89%	20.54%	-23.41%	171.59%
Sales and Use Tax	5.86%	7.63%	6.04%	9.31%	2.08%	-0.28%	34.43%
Individual Income Tax	-0.65%	5.94%	11.98%	11.78%	11.78%	3.75%	52.81%
Total	5.40%	5.44%	11.91%	9.97%	9.94%	0.64%	51.33%

Sources: Table 2, State General Fund: Tax Revenues by Source, 2008, North Carolina Department of Revenue; William Spencer, Director, Policy Analysis and Statistics Division, North Carolina Department of Revenue, Telephone interview, October 2008; and Amelia Bryan, Economist, Policy Analysis and Statistics Division, North Carolina Department of Revenue, Email communication, October 2008.

gasoline taxes slumped by 4 percent, a trend evident in many other states. In contrast, revenues from the state's gross production tax, the variable rate tax levied on both oil and gas produced in Oklahoma, soared by 204 percent during this time period. In fiscal year 2008, specifically, it rocketed ahead by 27 percent. While both corporate and estate tax revenues plummeted in fiscal year 2008, sales taxes actually expanded by 8 percent, a healthy rate of growth in an environment where the national economy was teetering on a recession.

Oklahoma's documentary stamp tax is the state's revenue category that involves real estate transactions. Specifically, the Oklahoma Tax Commission notes that when "the consideration for a real estate transaction exceeds $100, a tax is imposed at $.75 for each $500 of value or fraction thereof."[3] In this light, the revenue inflow for the period under review indicates trends that approximate those in a number of other states (see Table 31).

As noted, revenues from this source rose to as high as $17.2 million in fiscal year 2007, from the $9.5 million secured in fiscal year 2002, the beginning of the review period. The relatively small amount generated in revenues from documentary stamp taxes is a good indicator that Oklahoma's surge in the housing and real estate sectors was not as steep as that experienced by other states. Nevertheless, corresponding to the national housing and real estate boom years, Oklahoma's revenues from this source increased by nearly 17 percent (fiscal year 2004), 19 percent (fiscal year 2005) and 18 percent (fiscal year 2006) before descending sharply to an increase of just over 1 percent in fiscal year 2007 and plunging to over -6 percent in fiscal year 2008.

Table 29 Nine Major Revenue Categories in Oklahoma FY 2002 to FY 2008

Tax Category	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Gasoline Tax	$299,449,743	$295,443,382	$302,800,580	302,625,479	$313,105,946	$282,451,545	$287,351,081
Individual Income Tax	$253,999,741	$225,713,909	$247,093,026	267,951,713	$291,762,867	$326,301,373	$327,029,423
Corporate Income Tax	$45,589,587	$36,694,105	$35,231,577	39,930,745	$50,166,080	$82,334,067	$70,260,241
Individual Estate Income Tax	$364,269,054	$316,562,923	$350,186,670	416,330,007	$504,215,304	$537,553,270	$531,339,305
Corporate Estate Income Tax	$236,670,604	$158,991,647	$183,902,727	217,895,844	$356,019,153	$545,858,872	$417,970,816
Income Tax Withholding	$2,085,195,826	$2,136,404,664	$2,246,626,440	2,385,794,686	$2,582,988,141	$2,549,706,846	$2,543,955,216
Sales Tax	$2,567,957,956	$2,547,572,636	$2,726,668,634	2,884,960,455	$3,139,738,245	$3,325,450,262	$3,584,043,721
Gross Production	$417,080,368	$600,980,326	$701,155,928	875,652,508	$1,168,597,608	$1,001,328,028	$1,266,654,634
Motor Vehicle Tax	$524,096,479	$503,577,239	$528,745,819	534,246,209	$564,843,195	$586,395,211	$607,530,199
Total Taxes	$7,760,645,063	$7,760,119,911	$8,311,430,082	8,980,518,336	$9,947,993,718	$10,300,496,588	$10,739,868,453

Source: Daily Report of Taxes Collected, June 28, 2002 - June 30, 2008, Oklahoma Tax Commission, *http://www.tax.ok.gov/rpt1.html.*

Table 30 Revenue Percentage Changes in Oklahoma FY 2002 to FY 2008

Tax Category	% Change FY 2002 to FY 2003	% Change FY 2003 to FY 2004	% Change FY 2004 to FY 2005	% Change FY 2005 to FY 2006	% Change FY 2006 to FY 2007	% Change FY 2007 to FY 2008	% Change FY 2002 to FY 2008
Gasoline Tax	-1.34%	2.49%	-0.06%	3.46%	-9.79%	1.73%	-4.04%
Individual Income Tax	-11.14%	9.47%	8.44%	8.89%	11.84%	0.22%	28.75%
Corporate Income Tax	-19.51%	-3.99%	13.34%	25.63%	64.12%	-14.66%	54.11%
Individual Estate Income Tax	-13.10%	10.62%	18.89%	21.11%	6.61%	-1.16%	45.86%
Corporate Estate Income Tax	-32.82%	15.67%	18.48%	63.39%	53.32%	-23.43%	76.60%
Income Tax Withholding	2.46%	5.16%	6.19%	8.27%	-1.29%	-0.23%	22.00%
Sales Tax	-0.79%	7.03%	5.81%	8.83%	5.91%	7.78%	39.57%
Gross Production	44.09%	16.67%	24.89%	33.45%	-14.31%	26.50%	203.70%
Motor Vehicle Tax	-3.92%	5.00%	1.04%	5.73%	3.82%	3.60%	15.92%
Total Taxes	-0.01%	7.10%	8.05%	10.77%	3.54%	4.27%	38.39%

Source: Daily Report of Taxes Collected, June 28, 2002 - June 30, 2008, Oklahoma Tax Commission, *http://www.tax.ok.gov/rpt1.html.*

Table 31	Documentary Stamp Tax in **Oklahoma** FY 2002 to 2008	
Year	Amount	% Change
FY 2002	$9,516,972	-
FY 2003	$10,313,327	8.37%
FY 2004	$12,051,570	16.85%
FY 2005	14,375,723	19.29%
FY 2006	17,012,830	18.34%
FY 2007	17,238,184	1.32%
FY 2008	16,158,732	-6.26%

Source: Daily Report of Taxes Collected,June 28, 2002 - June 30, 2008, Oklahoma Tax Commission, *http://www.tax.ok.gov/rpt1.html.*

South Carolina

South Carolina's revenue trends for fiscal years 2002 through 2008, as presented in Tables 32 and 33, while roughly matching trends in Georgia and Maryland, saw the state's total revenues swelling by 30 percent between the book-end years of the review period. Corporate income taxes demonstrated the strongest growth rate among the state's five major revenue categories over this period, even expanding by nearly 4 percent in fiscal year 2008. In fact, three of the five major revenue categories (sales and use taxes; individual income taxes; and insurance taxes) all slumped in the final fiscal year of the review period. In addition to corporate income taxes, only South Carolina's beer and wine taxes—among the five major

Table 32 Five Major Revenue Categories in South Carolina FY 2002 to FY 2008

Tax Category	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Retail Sales and Use Tax	$2,010,384,317	$2,052,107,467	$2,181,357,756	$2,297,479,126	$2,483,596,992	$2,609,151,501	$2,444,198,397
Individual Income Tax	$2,349,195,265	$2,334,066,404	$2,438,989,825	$2,691,471,960	$2,995,477,875	$3,347,490,746	$3,327,774,540
Corporation Income Tax	$142,935,015	$149,139,556	$174,724,918	$215,331,461	$286,144,766	$300,608,201	$312,554,756
Beer and Wine Tax	$89,764,172	$91,085,659	$94,298,424	$94,750,699	$98,008,570	$99,568,753	$100,610,827
Insurance Tax	$113,144,159	$134,082,188	$129,163,274	$147,598,668	$139,035,763	$167,497,694	$159,613,827
Gross General Fund Revenue	$5,306,918,842	$5,305,054,270	$5,571,105,806	$6,005,944,333	$6,586,892,020	$7,124,792,158	$6,902,435,004

Source: South Carolina Board of Economic Advisors, *http://www.bcb.sc.gov/BCB/bea/BCB-bea-monthly.phtm.*

Table 33 Revenue Percentage Changes in South Carolina FY 2002 to FY 2008

Tax Category	% Change FY 2002 to FY 2003	% Change FY 2003 to FY 2004	% Change FY 2004 to FY 2005	% Change FY 2005 to FY 2006	% Change FY 2006 to FY 2007	% Change FY 2007 to FY 2008	% Change FY 2002 to FY 2008
Retail Sales and Use Tax	2.08%	6.30%	5.32%	8.10%	5.06%	-6.32%	21.58%
Individual Income Tax	-0.64%	4.50%	10.35%	11.30%	11.75%	-0.59%	41.66%
Corporation Income Tax	4.34%	17.16%	23.24%	32.89%	5.05%	3.97%	118.67%
Beer and Wine Tax	1.47%	3.53%	0.48%	3.44%	1.59%	1.05%	12.08%
Insurance Tax	18.51%	-3.67%	14.27%	-5.80%	20.47%	-4.71%	41.07%
Gross General Fund Revenue	-0.04%	5.02%	7.81%	9.67%	8.17%	-3.12%	30.06%

Source: South Carolina Board of Economic Advisors, *http://www.bcb.sc.gov/BCB/bea/BCB-bea-monthly.phtm.*

Table 34 Major Taxes Impacted by the Housing/Real Estate Sectors in South Carolina FY 2002 to FY 2008

Tax Category	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Documentary Stamp Tax	$36,452,318	$37,843,570	$49,983,048	$50,493,957	$64,015,133	$56,198,586	$43,184,911
Bank Tax	$12,635,378	$21,319,771	$18,163,748	$28,822,372	$28,214,333	$25,569,805	$19,313,042
Savings and Loan Association Tax	$4,267,758	$3,425,753	$3,621,194	$2,780,603	$3,419,616	$2,985,050	$3,356,902
Total	$53,355,454	$62,589,094	$71,767,990	$82,096,932	$95,649,082	$84,753,441	$65,854,855

Source: M. Greg Di Biase, South Carolina Board of Economic Advisors; E-mail communication, August 20, 2008.

taxes—grew in fiscal year 2008. (Purchases of wine and beer for use in South Carolina are subject to this state's use tax, when no South Carolina sales or use tax has been paid; South Carolina's basic use tax rate is 6 percent of the sales price.)

An analysis of the state's year-over-year progress in revenues during the review period indicates that South Carolina's gross general fund revenues shrank by under 1 percent in fiscal year 2003, in the aftermath of the 2001 recession. Revenues improved in every year of the next four fiscal years: by 5 percent in fiscal year 2004, nearly 8 percent in fiscal year 2005, almost 10 percent in fiscal year 2006, and by 8 percent in fiscal year 2007. These trends, along with the performance of the individual top five revenue categories, approximately matched the record of many other SLC states during this time period, particularly in fiscal years 2004, 2005 and 2006, when the economy was growing steadily.

South Carolina's fiscal position was impacted by both the highs and lows of the national housing and real estate boom, a development that resulted in fluctuations in the state's revenues during the review period. According to the South Carolina Board of Economic Advisors, there are several state revenues related both directly and indirectly to the housing, real estate and construction sectors.[4] Some of the indirect taxes include the state sales and use tax, which would be incurred when purchasing construction-related items and the savings and loan association tax, levied on all savings and loan associations conducting business in the state. Since these savings and loan associations provide mortgages and home equity loans, a component of the revenue that the state secures from this revenue source is related to the housing and real estate sectors.

There also are several direct taxes related to the housing and real estate sectors in South Carolina. One such tax is the documentary stamp tax, which is "a recording fee … imposed for the privilege of recording a deed in which land and improvements on the land, tenements, or other realty is transferred to another person."[5] Another such direct tax is the state's bank tax, "a tax imposed on every bank engaged in business in the state which shall be levied, collected, and paid annually with respect to the entire net income of the taxpayer doing a banking business within the state or from the sales or rentals of property within the state." Both these sources provide revenue to the state as a result of the buying, selling or renting of real estate property. Tables 34 and 35 enumerate trends associated with these revenue sources for the review period.

Table 35 demonstrates the manner in which the housing and real estate sectors affected South Carolina's overall revenue flows. For instance, the documentary stamp tax, the most important of the three revenue sources presented, generated as much as $64 million in a single fiscal year (2006), while bank taxes generated as much as $28.8 million at its highest level (fiscal year 2005). The savings and loan association tax was not a major contributor and generated about $4.3 million at its peak in fiscal year 2002. What is interesting is the mode in which revenues from documentary stamp taxes rose and fell with the direction of the national housing market, another indication of the role housing and real estate sectors played in the state's overall economy during the review period. At the end of fiscal year 2006, the height of the housing boom, revenues from documentary stamp taxes increased by as much as 27 percent before falling off steeply in the next two fiscal years, declining by 12 percent and 23 percent, respectively. Between fiscal years 2002 and 2008, revenues from this source increased by 18 percent. Bank taxes, the other major revenue source from the housing/real estate sector in the state, also increased sharply by fiscal year 2005 (59 percent) before beginning a descent in each of the next three fiscal years: -2 percent in fiscal year 2006, -9 percent in fiscal year 2007 and the marked drop of -24 percent in fiscal year 2008.

Tennessee

Tables 36 and 37 present Tennessee's revenue trends during the review period and confirm that the state faced revenue problems similar to many other states in the SLC, including Florida, Georgia and Missouri, for instance. Given that Tennessee is one of three SLC states that does not assess an individual income tax, it is particularly reliant on inflows from sales and use taxes to sustain its government operations. Tennessee emerged from the 2001 recession very forcefully with a 13 percent increase in overall revenues in fiscal year 2003. While this revenue expansion rate was not sustained, the state nevertheless secured growth rates of 8 percent and 5 percent in the next two fiscal years (2004 and 2005). The state's revenue expansion continued by picking up to 8 percent in fiscal year 2006, and increased by an additional 7 percent in fiscal year 2007. By fiscal year 2008, the headwinds thrusting against the national economy also had affected Tennessee; revenue levels expanded by a meager 1 percent, mirroring the performance of many other states. Nevertheless, cumulatively, over the entire review period, Tennessee's total revenues increased by 50 percent.

In terms of the performance of the individual five major revenue categories in Tennessee, with the exception of the gasoline tax, state inflows grew by formidable numbers. For instance, the state's franchise and excise taxes also surged ahead by impressive numbers between the book-end years of the review period by 53 percent and 99 percent, respectively. The state's privilege tax, an occupations tax imposed on

Table 35	Percentage Changes in the Major Taxes Impacted by the Housing/ Real Estate Sectors in **South Carolina** FY 2002 to FY 2008						
Tax Category	% Change FY 2002 to FY 2003	% Change FY 2003 to FY 2004	% Change FY 2004 to FY 2005	% Change FY 2005 to FY 2006	% Change FY 2006 to FY 2007	% Change FY 2007 to FY 2008	% Change FY 2002 to FY 2008
Documentary Stamp Tax	3.82%	32.08%	1.02%	26.78%	-12.21%	-23.16%	18.47%
Bank Tax	68.73%	-14.80%	58.68%	-2.11%	-9.37%	-24.47%	52.85%
Savings and Loan Association Tax	-19.73%	5.71%	-23.21%	22.98%	-12.71%	12.46%	-21.34%
Total	17.31%	14.67%	14.39%	16.51%	-11.39%	-22.30%	23.43%

Source: M. Greg Di Biase, South Carolina Board of Economic Advisors; E-mail communication, August 20, 2008.

Table 36	Five Major Revenue Categories in **Tennessee** FY 2002 to FY 2008						
Tax Category	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Franchise	$420,767,802	$489,578,705	$506,776,235	$516,956,216	$584,385,829	$635,001,978	$644,693,976
Excise	$502,976,685	$612,942,502	$694,797,581	$805,600,838	$928,348,704	$1,120,421,658	$1,005,879,972
Gasoline	$579,207,596	$598,714,054	$602,939,983	$607,502,924	$603,237,556	$610,059,597	$622,931,562
Privilege	$208,855,718	$244,407,529	$275,094,421	$291,763,508	$332,099,634	$349,504,366	$323,021,208
Sales and Use	$4,646,336,755	$5,379,251,567	$5,786,191,566	$6,050,048,445	$6,482,438,039	$6,793,006,568	$6,864,893,595
Total	$7,481,554,939	$8,440,960,075	$9,108,841,648	$9,578,893,937	$10,296,921,955	$11,041,721,998	$11,199,114,980

Source: Tennessee Department of Revenue, Comparative Statement of Collected Revenues.

Table 37	Revenue Percentage Changes in **Tennessee** FY 2002 to FY 2008						
Tax Category	% Change FY 2002 to FY 2003	% Change FY 2003 to FY 2004	% Change FY 2004 to FY 2005	% Change FY 2005 to FY 2006	% Change FY 2006 to FY 2007	% Change FY 2007 to FY 2008	% Change FY 2002 to FY 2008
Franchise	16.35%	3.51%	2.01%	13.04%	8.66%	1.53%	53.22%
Excise	21.86%	13.35%	15.95%	15.24%	20.69%	-10.22%	99.99%
Gasoline	3.37%	0.71%	0.76%	-0.70%	1.13%	2.11%	7.55%
Privilege	17.02%	12.56%	6.06%	13.82%	5.24%	-7.58%	54.66%
Sales and Use	15.77%	7.56%	4.56%	7.15%	4.79%	1.06%	47.75%
Total	12.82%	7.91%	5.16%	7.50%	7.23%	1.43%	49.69%

Source: Tennessee Department of Revenue, Comparative Statement of Collected Revenues.

Table 38	Major Taxes Impacted by the Housing/Real Estate Sectors in **Tennessee** FY 2002 to FY 2008						
Tax Category	2002	2003	2004	2005	2006	2007	2008
Realty Transfer	$79,189,487	$86,360,388	$103,150,154	$121,396,328	$149,501,263	$157,362,560	$130,591,490
Realty Mortgage	$49,962,199	$59,057,900	$64,953,370	$61,438,244	$70,094,599	$74,404,021	$62,022,910
Total	$129,151,686	$145,418,288	$168,103,523	$182,834,573	$219,595,862	$231,766,581	$192,614,400

Source: Collections Spreadsheets, Tennessee Department of Revenue, *http://state.tn.us/revenue/statistics/index.htm.*

Table 39	Percentage Changes in the Major Taxes Impacted by the Housing/ Real Estate Sectors in **Tennessee** FY 2002 to FY 2008						
Tax Category	% Change FY 2002 to FY 2003	% Change FY 2003 to FY 2004	% Change FY 2005 to FY 2005	% Change FY 2005 to FY 2006	% Change FY 2006 to FY 2007	% Change FY 2007 to FY 2008	% Change FY 2002 to FY 2008
Realty Transfer	9.06%	19.44%	17.69%	23.15%	5.26%	-17.01%	64.91%
Realty Mortgage	18.21%	9.98%	-5.41%	14.09%	6.15%	-16.64%	24.14%
Total	12.59%	15.60%	8.76%	20.11%	5.54%	-16.89%	49.14%

Source: Collections Spreadsheets, Tennessee Department of Revenue, *http://state.tn.us/revenue/statistics/index.htm.*

persons with an active Tennessee license or registration to practice within a selected number of professions, also flourished by 55 percent between fiscal years 2002 and 2008. Finally, the state's sales taxes also grew by 48 percent. In the final year under review, fiscal year 2008, overall revenue growth slowed to 1 percent and two of the five major revenue categories declined in this fiscal year with sales and use taxes, the state's primary source of revenue, only expanding by 1 percent.

As in several other SLC states, Tennessee relies on revenue from transactions related to the real estate sector. Specifically, there are two state taxes: realty transfer tax, which is a state tax imposed on the privilege of recording the transfer of realty, and a realty mortgage tax, a tax on any document evidencing indebtedness. Tables 38 and 39 provide additional details on these two Tennessee revenue sources for the review period.

The information in Tables 38 and 39 demonstrates the fluctuations in revenue flows emanating from these two real estate-related sources. The realty transfer tax provides the clearest indication of the impact of the national real estate market, with the state securing a sharp increase in revenues from this source in the first four fiscal years of the review period. Over these four years, Tennessee's revenues from the tax associated with recording real estate transfers increased by an average of 17 percent, an impressive number indeed. When the national real estate market began souring in fiscal year 2007, a similar development appears to have impacted Tennessee, because revenue from real estate transfers dropped to 5 percent before declining by a steep 17 percent in the following fiscal year 2008. On the real estate mortgage tax front, revenues accruing to Tennessee grew by more than 24 percent between fiscal years 2002 and 2008. After increasing by over 14 percent in fiscal year 2006, the rate of growth from this source dropped to 6 percent in fiscal year 2007, and finally shrank by over 16 percent in fiscal year 2008, a year when so many revenue categories slumped.

Texas

Upon review of Texas' revenue trends in the fiscal year 2002 to 2008 period (Tables 40 and 41), it is apparent that the state's revenue inflows have continued at a steady clip in stark contrast to many other states in the country. (As indicated earlier, Oklahoma and Louisiana remain two additional SLC states that, along with Texas, bucked the trend of sharply declining revenues). In the seven-year review period, Texas only experienced overall negative revenue inflows between fiscal years 2002 and 2003, when the state, along with the rest of the country, was recuperating from the 2001 national recession. Even the revenue decline in that year was marginal (slightly below 1 percent) and the state's revenue situation quickly turned around in the subsequent six years to grow rapidly through fiscal year 2008. Specifically, Texas' overall revenues expanded by nearly 7 percent in both fiscal years 2004 and 2005, 12 percent in fiscal year 2006, 10 percent in fiscal year 2007, and then an imposing nearly 12 percent growth spurt in fiscal year 2008, when so many other states were experiencing plunging revenue levels.

For fiscal years 2002 to 2008, all six major revenue categories ploughed ahead, securing triple-digit and double-digit expansion rates. Most dominant were revenues recouped from the state's natural gas production tax: between fiscal years 2002 and 2008, Texas' revenues from the natural gas production tax, a tax imposed on the market value of gas produced in the state, improved by an astounding 327 percent. In the most recent fiscal year 2008, revenues from this source expanded by nearly 42 percent. Another important source of revenue in Texas is its franchise tax, a privilege tax imposed on each taxable entity chartered/organized in Texas or doing business in Texas. In fact, revenues from this source escalated by almost 130 percent, including a 42 percent increase in fiscal year 2008. Sales taxes, a particularly important source of revenue for Texas, since the state is one of three SLC states devoid of an individual income tax, also swelled by 7 percent, an impressive performance given the steep drop-offs of sales tax revenues in so many states during this fiscal year. As noted at the outset, Texas' revenue picture was positively impacted by the surge in energy prices during fiscal year 2008, due to the state's abundant energy resources, a factor that helped assuage the negative outcomes of a souring national economy.

Virginia

Virginia's revenue record between fiscal years 2002 and 2008, as demonstrated in Tables 42 and 43, clearly reflects a state that matched the path of the national economy. After guardedly emerging from the 2001 recession with a cumulative revenue growth rate of nearly 2 percent, the state's revenue inflows gathered momentum and grew by almost 10 percent in fiscal year 2004 and nearly 15 percent in fiscal year 2005. It should be noted that this was a period when the housing and construction sectors were booming in many states across the country, including in Virginia. After revenues in Virginia peaked in fiscal year 2005, they began tailing off in the next three years by 8 percent (fiscal year 2006), almost 5 percent (fiscal year 2007) and by the small but still positive 1 percent (fiscal year 2008). Across-the-board, Virginia's revenues were augmented by almost 48 percent between fiscal years 2002 and 2008.

Table 40 Six Major Revenue Categories in **Texas** FY 2002 to FY 2008

Tax Category	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Sales Tax	$14,516,341,225	$14,277,286,162	$15,417,156,258	$16,312,811,054	$18,275,209,754	$20,270,476,222	$21,604,090,350
Motor Vehicle Sales and Rental Tax	$2,949,540,192	$2,693,443,348	$2,740,287,958	$2,847,653,057	$3,075,153,783	$3,325,596,670	$3,341,588,813
Motor Fuel Tax	$2,833,607,460	$2,838,776,695	$2,917,706,870	$2,934,580,537	$2,993,569,575	$3,053,812,019	$3,101,526,779
Franchise Tax	$1,935,709,140	$1,716,600,478	$1,835,013,952	$2,170,081,376	$2,605,447,409	$3,144,059,392	$4,451,325,736
Insurance Tax	$1,045,754,105	$1,169,061,994	$1,184,922,211	$1,208,866,496	$1,233,493,584	$1,346,576,684	$1,450,184,267
Natural Gas Production Tax	$628,496,630	$1,069,864,123	$1,392,436,142	$1,657,086,299	$2,339,147,491	$1,895,487,909	$2,684,647,510
Total Tax Collections	$26,279,146,493	$26,126,675,424	$27,913,001,645	$29,838,277,614	$33,544,497,547	$36,955,629,884	$41,357,928,953

Source: Texas Annual Cash Report, Texas Comptroller of Public Accounts, *https://fmx.cpa.state.tx.us/fm/pubs/cashrpt/index.php.*

Table 41 Revenue Percentage Changes in **Texas** FY 2002 to FY 2008

Tax Category	% Change FY 2002 to FY 2003	% Change FY 2003 to FY 2004	% Change FY 2004 to FY 2005	% Change FY 2005 to FY 2006	% Change FY 2006 to FY 2007	% Change FY 2007 to FY 2008	% Change FY 2002 to FY 2008
Sales Tax	-1.65%	7.98%	5.81%	12.03%	10.92%	6.58%	48.83%
Motor Vehicle Sales and Rental Tax	-8.68%	1.74%	3.92%	7.99%	8.14%	0.48%	13.29%
Motor Fuel Tax	0.18%	2.78%	0.58%	2.01%	2.01%	1.56%	9.46%
Franchise Tax	-11.32%	6.90%	18.26%	20.06%	20.67%	41.58%	129.96%
Insurance Tax	11.79%	1.36%	2.02%	2.04%	9.17%	7.69%	38.67%
Natural Gas Production Tax	70.23%	30.15%	19.01%	41.16%	-18.97%	41.63%	327.15%
Total Tax Collections	-0.58%	6.84%	6.90%	12.42%	10.17%	11.91%	57.38%

Source: Texas Annual Cash Report, Texas Comptroller of Public Accounts, *https://fmx.cpa.state.tx.us/fm/pubs/cashrpt/index.php.*

Table 42 Five Major Revenue Categories in **Virginia** FY 2002 to FY 2008 (thousands of dollars)

Tax Category	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Net Individual Income Tax	$6,710,772	$6,775,746	$7,384,888	$8,352,366	$9,308,570	$9,787,592 (1)	$10,114,833
Sales and Use Tax	$2,429,845	$2,335,958	$2,562,334	$2,946,096	$2,812,749	$3,049,133	$3,075,528
Corporations Income	$290,215	$343,319	$425,716	$616,690	$871,554	$879,575 (1)	$807,852
Insurance Premiums	$292,702	$333,004	$351,278	$373,571	$373,781	$384,894	$396,858
Wills, Suits, Deeds, Contracts	$214,422	$285,841	$340,578	$596,058	$694,713	$582,946	$456,348
Total General Fund Revenues	$10,678,954	$10,867,149	$11,917,867	$13,687,252	$14,834,298	$15,565,827	$15,766,951

(1) = Different annual reports reflected different figures for some categories in FY 2007; the most current reported figure is presented in this table.

Source: Presentations to the Joint Money Committees by the Virginia Secretary of Finance, 2003-2008, *http://www.finance.virginia.gov/KeyDocuments/RevenueReports/MasterReportsList.cfm.*

Table 43 Revenue Percentage Changes in **Virginia** FY 2002 to FY 2008

Tax Category	% Change FY 2002 to FY 2003	% Change FY 2003 to FY 2004	% Change FY 2004 to FY 2005	% Change FY 2005 to FY 2006	% Change FY 2006 to FY 2007	% Change FY 2007 to FY 2008	% Change FY 2002 to FY 2008
Net Individual Income Tax	0.97%	8.99%	13.10%	11.45%	5.15%	3.34%	50.73%
Sales and Use Tax	-3.86%	9.69%	14.98%	-4.53%	8.40%	0.87%	26.57%
Corporations Income	18.30%	24.00%	44.86%	41.33%	0.92%	-8.15%	178.36%
Insurance Premiums	13.77%	5.49%	6.35%	0.06%	2.97%	3.11%	35.58%
Wills, Suits, Deeds, Contracts	33.31%	19.15%	75.01%	16.55%	-16.09%	-21.72%	112.83%
Total General Fund Revenues	1.76%	9.67%	14.85%	8.38%	4.93%	1.29%	47.65%

Source: Presentations to the Joint Money Committees by theVirginia Secretary of Finance, 2003-2008, *http://www.finance.virginia.gov/KeyDocuments/RevenueReports/MasterReportsList.cfm.*

A review of the state's specific revenue categories indicate that the two most important ones, individual income taxes and sales and use taxes, maintained positive growth rates in the final year of the review period (fiscal year 2008), expanding by over 3 percent and just under 1 percent, respectively. Individual income taxes secured positive growth in every year of the review period and even secured double-digit expansion rates in fiscal years 2005 (13 percent) and 2006 (11 percent). Levies on wills, suits, deeds and contracts, the state's main recordation tax collections, despite being a relatively minor proportion of overall revenues, grew by nearly 113 percent between fiscal years 2002 and 2008. Included in this tax category was revenue related to the recording of house and property deeds, a factor that contributed to 33 percent, 19 percent, 75 percent and 16 percent expansion rates in fiscal years 2003 to 2006, a period when the nation and Virginia's housing and construction sectors were booming. Similarly, when these sectors started their downward spiral in fiscal years 2007 and 2008, the revenue accruing to Virginia from this tax category began diminishing (-16 percent in fiscal year 2007 and -22 percent in fiscal year 2008).

As in several other SLC states, Virginia experienced a huge boom in the housing and real estate sectors, a development that resulted in an increase in revenues related to this sector. According to sources in the Virginia Senate Finance Committee, approximately 89 percent of the wills, suits, deeds and contracts revenue category involves revenue inflows from the housing and real estate sectors. Table 44 provides this information.

As documented in Table 44, the portion of this revenue category related to the housing and real estate sectors in Virginia reached some notable heights, amounting to as much as $618.3 million in fiscal year 2006. In fact, between fiscal years 2004 and 2005, revenue from this specific source increased by a noteworthy 75 percent. After demonstrating a remarkable growth rate in the first four years of the review period (fiscal years 2002 through 2006), revenue from this source tapered off, actually shrinking by over 16 percent in fiscal year 2007 and by the even more precipitous decline of nearly -22 percent in fiscal year 2008, a year when the nation's (and Virginia's) housing and real estate market had cratered.

West Virginia

Another SLC state that did not experience a decline in total revenues in the review period's final fiscal year (2008) due to an abundance of energy resources and a minimal exposure to the tremendous escalation in housing prices and construction activity seen in many other states is documented in Tables 45 and 46. West Virginia secured an improvement in revenues during the entire review period, including an impressive increase in fiscal year 2003, a period when most states were still recovering from the 2001 economic recession. While revenues increased by over 3 percent in this year, it improved to nearly 6 percent in fiscal year 2004 before topping off at almost 14 percent in fiscal year 2005. The state's revenues still continued to increase in the next three years, although at a much slower pace: almost 5 percent in fiscal year 2006, 2.5 percent in fiscal year 2007, and then again by nearly 5 percent in fiscal year 2008.

For the review period as a whole, of the state's five major revenue categories, severance taxes increased the most, nearly 104 percent between fiscal years 2002 and 2008. In West Virginia, a severance tax is imposed on the activity of severing, extracting, reducing to possession and producing for sale, profit, or commercial use, any natural resource product, including coal, an abundant resource that accounts for approximately two-thirds of all business tax revenues in the state. Revenues from this source grew more than 8 percent in fiscal year 2008, for instance, a period when many other state revenue sources were dipping. The state's corporate income and business franchise tax also sprang forward by more than 8 percent during the year. It should be noted that while personal income taxes expanded by almost 12 percent, the state's sales tax collections slipped by a little over 1 percent during this year.

According to the West Virginia Department of Revenue, the property transfer tax involves real estate and housing transfers within the state. (In addition, the state also collects a very small portion of property taxes.) In terms of other impacts on the state's revenue streams brought on by fluctuations in the housing and real estate sectors, the department of revenue noted that in an indirect fashion, the state's sales and use taxes and personal income taxes saw increases or decreases as a result of the economic activity in these sectors. Table 47 provides the breakdown for the revenues directly related to the real estate and housing sectors: the property transfer tax.

As documented in Table 47, West Virginia's housing and real estate-related revenues experienced a trend largely similar to those seen in several other states, such as Virginia and Tennessee. A surge in real estate and housing transactions resulted in double-digit growth rates in the first four years of the review period, including a 21 percent expansion in fiscal year 2004 and a 20 percent spurt in fiscal year 2005. Given the sheer drop in the real estate and housing sectors on a national level by fiscal years 2007 and 2008, the number of transactions in West Virginia also tailed off considerably to decline by over 10 percent in fiscal year 2007, and then by nearly 4.5 percent in fiscal year 2008.

Table 44 Wills, Suits, Deeds and Contracts Revenue Category in **Virginia** FY 2002 to FY 2008 (thousands of dollars)

Year	Amount	Portion Connected to Housing and Real Estate	% Change
FY 2002	$214,422	$190,836	-
FY 2003	$285,841	$254,398	33.31%
FY 2004	$340,578	$303,114	19.15%
FY 2005	$596,058	$530,492	75.01%
FY 2006	$694,713	$618,295	16.55%
FY 2007	$582,946	$518,822	-16.09%
FY 2008	$456,348	$406,150	-21.72%

Sources: August Presentations to the Joint Money Committees by the Virginia secretary of finance, 2003-2008, *http://www.finance.virginia.gov/KeyDocuments/RevenueReports/MasterReportsList.cfm.*

Table 47 Major Revenue Category Related to the Housing and Real Estate Sectors (Property Transfer Tax) in **West Virginia** FY 2002 to 2008 (thousands of dollars)

Year	Amount	% Change
FY 2002	$7,315	-
FY 2003	$8,366	14.37%
FY 2004	$10,129	21.07%
FY 2005	$12,171	20.16%
FY 2006	$13,658	12.22%
FY 2007	$12,249	-10.32%
FY 2008	$11,699	-4.49%

Source: Revenue Collections Reports and Estimates, 2002-2008, West Virginia State Budget Office, *http://www.wvbudget.gov/RevRpts.htm.*

Table 45 Five Major Revenue Categories in **West Virginia** FY 2002 to FY 2008 (thousands of dollars)

Tax Category	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Business and Occupation Tax	$173,712	$178,415	$177,395	$182,461	$185,457	$180,748	$150,822
Consumer Sales Tax	$885,943	$894,511	$927,992	$960,172	$1,012,450	$1,002,596	$991,994
Personal Income Tax	$1,034,665	$1,055,523	$1,068,212	$1,170,087	$1,297,720	$1,360,511	$1,518,746
Corporate Income/ Business Franchise Tax	$220,158	$181,179	$181,515	$280,788	$347,570	$358,388	$388,017
Severance Tax	$166,513	$162,314	$184,354	$248,068	$314,727	$312,246	$338,177
Total	$2,824,117	$2,916,961	$3,082,941	$3,504,830	$3,661,402	$3,752,721	$3,928,288

Source: Revenue Collections Reports and Estimates, 2002-2008, West Virginia State Budget Office, *http://www.wvbudget.gov/RevRpts.htm.*

Table 46 Revenue Percentage Changes in **West Virginia** FY 2002 to FY 2008

Tax Category	% Change FY 2002 to FY 2003	% Change FY 2003 to FY 2004	% Change FY 2004 to FY 2005	% Change FY 2005 to FY 2006	% Change FY 2006 to FY 2007	% Change FY 2007 to FY 2008	% Change FY 2002 to FY 2008
Business and Occupation Tax	2.71%	-0.57%	2.86%	1.64%	-2.54%	-16.56%	-13.18%
Consumer Sales Tax	0.97%	3.74%	3.47%	5.44%	-0.97%	-1.06%	11.97%
Personal Income Tax	2.02%	1.20%	9.54%	10.91%	4.84%	11.63%	46.79%
Corporate Income/ Business Franchise Tax	-17.71%	0.19%	54.69%	23.78%	3.11%	8.27%	76.24%
Severance Tax	-2.52%	13.58%	34.56%	26.87%	-0.79%	8.30%	103.09%
Total	3.29%	5.69%	13.68%	4.47%	2.49%	4.68%	39.10%

Source: Revenue Collections Reports and Estimates, 2002-2008, West Virginia State Budget Office, *http://www.wvbudget.gov/RevRpts.htm.*

Chapter 3

SLC State Legislative Actions

As in many other instances in the history of our nation, states have led the way in devising policy solutions to mitigate the adverse implications of the mortgage meltdown and foreclosure crisis. Consequently, when the federal government announced in December 2007 the agreement it reached with major lenders to temporarily freeze subprime mortgage interest rates that were set to increase, California, for instance, already had enacted a similar measure.[1] California's plan covers those borrowers current on their monthly payments but who would have found it difficult to pay the higher rates that went into effect in the future.

Other states enacted measures before this December 2007 federal action, including Michigan, where the attorney general sent letters to 30,000 homeowners who met the criteria of being one to three months behind on their payments, inviting them to attend a forum to meet with their lenders and discuss ways to avoid foreclosure; Illinois, which established Homeowner Outreach Days during which residents can meet with lenders and attend workshops about foreclosure prevention and scams; Iowa, along with a number of other states, including Colorado, Connecticut, Indiana, Massachusetts and New Jersey, set up foreclosure hotlines enabling borrowers to reach counselors who can then negotiate with lenders about loan modifications.

Many states also enacted foreclosure prevention funds to help homeowners refinance their mortgages and help stave off the unfortunate scenario of their citizens losing their homes. In fact, information from *RealtyTrac*, the leading online marketplace for foreclosure properties, showed that foreclosure filings (default notices, auction sale notices and bank repossessions), during the month of November 2008 declined by 7 percent compared to the previous month.[2] The reason for this drop–the lowest level seen since June 2008–was attributed to recent state laws that have extended the foreclosure process in some states, along with more aggressive loan modification programs and self-imposed holiday foreclosure moratoriums introduced by some lenders. These state actions have stemmed the tide of foreclosure activity, even though it might be a temporary scenario. It is likely that a vast number of states will enact additional statutes during their 2009 legislative sessions in order to mitigate and prevent a reoccurrence of the collapse of the housing markets experienced in recent years.

SLC State Actions to Mitigate the Impact of the Housing Crisis

While the measures described above were among the initial wave of solutions forwarded and pursued by states in response to the housing crisis, a number of states, including several SLC states, enacted a range of strategies in 2008. A description of some of these legislative measures and executive actions–based directly on information from the states–that impact mortgage foreclosures follows. It should be noted that these brief descriptions span the gamut of actions that both directly and indirectly affected homeowners and lenders in these states. For instance, a number of states have housing trust funds (HTFs), distinct funds usually created by legislation or ordinance that dedicate sources of revenue to support affordable housing. These HTFs have risen in importance during the current housing and foreclosure crisis as they are deployed to assist homeowners in distress. In addition, a number of states across the country, including six SLC states (Alabama, Georgia, Kentucky, Mississippi, Missouri and Oklahoma), introduced resolutions calling the U.S. Congress to enact the Homeowners and Bank Protection Act for the protection of homeowners and banking institutions.

The descriptions in this chapter from the SLC states do not refer to measures that did not become actual laws or policies in 2008. Legislators pre-filed

and sponsored a range of measures that were not successful; the section that follows only features those that actually became law. The varying degree of action correlates to the dire needs of each state and certain SLC states were more active than others. Maryland and North Carolina, for instance, promulgated a series of measures to deal with the crisis. Florida, a state that ranks among the most severely affected by the crashing housing market, is an SLC state that has proposed a slew of reforms in 2009, particularly in the area of enforcement and licensing; these reforms are being touted as ranking among the most stringent in the nation.[3] Given the fact that an investigative report demonstrated that 564 mortgage brokers in Florida were convicted of crimes after receiving their licenses (including at least 20 convicted of mortgage fraud), a scenario that has resulted in one out of every four fraudulent loan applications originating in Florida, the highest fraud rate in the nation, there is widespread support in many state circles for these and other reforms.

Alabama

HJR 183 – In May 2008, Alabama enacted legislation to create a 20-member Housing Trust Fund Task Force. The Task Force is charged with studying existing housing trust funds across the country and developing recommendations for proposed legislation. The Task Force will report its findings and recommendations in the 2009 regular session.[4]

Florida

CS/HB 643 – Provides legislative findings and intent relating to the need to protect homeowners who enter into agreements designed to save homes from foreclosure; prohibits foreclosure consultants from engaging in specified acts or failing to perform contracted services; requires all agreements for foreclosure-related services and foreclosure-rescue services to be in writing; specifies required information in written agreements; requires statements in written agreements to be in uppercase letters of specified size; provides homeowners with the right to cancel agreement for a specified period and specifies right may not be waived; provides that homeowner has specified period during which to cure defaults; requires equity purchasers to verify homeowner's ability to make payments under repurchase agreement; provides for rebuttable presumption of specified transactions being unconscionable; provides that foreclosure-rescue transactions involving lease option or other repurchase agreement create rebuttable presumption that transaction is loan transaction and conveyance from homeowner to equity purchaser is mortgage; provides for limited application of presumptions and for exclusions; provides that persons who violate specified provisions commit unfair and deceptive trade practice; repeals provision relating to violations involving individual homeowners during course of residential foreclosure proceedings. This bill was signed into law by Governor Crist on May 28, 2008, and went into effect on October 1, 2008.[5]

Alongside the reforms already enacted in 2008, a number of high-level Florida officials, including Governor Charlie Crist, Chief Financial Officer Alex Sink and Terry Straub, finance director for the state's Office of Financial Regulation, have signaled a renewed effort to enact sweeping changes in 2009 that would make Florida one of the most tightly regulated mortgage markets in the country.[6] The reforms proposed for 2009 revolve around three broad areas: strict oversight over everyone selling mortgages in Florida; a ban on the most toxic types of loans; and reestablishing a state fund formerly used to compensate victims of mortgage fraud.

In terms of oversight over the selling of mortgages in Florida, the proposals call for annual criminal background checks on those selling mortgages in the state in line with CFO Alex Sink's observation "[W]e are looking for more of an enforcement mentality." While the Florida proposals are more stringent than the federal mortgage law passed in summer 2008, they also are markedly stricter than the prevalent state law. For instance, under current state law, brokers are screened only the first time they apply for a license; even though their licenses can be revoked if they are convicted of a crime after that, but the state relies on the brokers to report their own arrests. The new proposals call for nationwide criminal background checks every year, when licenses are renewed. Given that a Miami Herald investigation released in August 2008 revealed that more than 10,000 people with criminal records (including fraud, bank robbery, racketeering and extortion) worked in the mortgage profession in Florida between 2000 and 2007, and that more than half these individuals selling mortgages during the housing boom (5,306, specifically) were not subject to any background checks, the proposed 2009 reforms are very necessary. In fact, the Miami Herald reported that the state had repeatedly failed to license, monitor and assess the performance of those working in the mortgage profession.

The new proposals also call for establishing a Mortgage Brokerage Guaranty Fund—a requirement of the new federal law—that would pay victims if they successfully sue their mortgage broker but are unable to collect compensation on account of the broker's insolvency. Under the Florida proposals, each borrower would be eligible for up to $50,000 and, if there are multiple claims against the same broker, payouts would be capped at $250,000.

The proposed 2009 reforms seek to ban mortgage brokers and mortgage professionals from promoting some of the most toxic types of loans that became

common during the housing boom years. Specifically, they would be prohibited from selling adjustable-rate loans with penalties built in to prevent borrowers from refinancing, and loans where the borrower actually owes the lender more money with each passing month.

Georgia

SB 531 – Relates to foreclosure on mortgages, conveyances to secure debt, and liens, so as to require a foreclosure to be conducted by the current owner or holder of the mortgage, as reflected by public records; provides for the identity of the secured creditor to be included in the advertisement and in court records; changes the requirement for mailing or delivery of notice to debtor for sales made under the power of sale in a mortgage, security deed, or other lien contract; provides for the content of such notice. This bill was signed into law by Governor Perdue on May 13, 2008.[7]

Kentucky

HB 552 – On April 15, 2008, the General Assembly passed a bill that imposes several new and significant restrictions on mortgage lenders and brokers in Kentucky.[8] The bill was designated as an "emergency" measure, which meant that it became effective as soon as it was signed by Governor Beshear on April 24, 2008. Some of the key provisions of the bill include:

1) Prepayment Penalties: Prepayment penalties are limited to the first three years of the mortgage or 60 days prior to the date of the first interest rate reset, whichever is less. A prepayment penalty may not exceed 3 percent for the first year, 2 percent for the second year, and 1 percent for the third year of the outstanding balance of the loan. If a borrower refinances a loan with the same mortgage loan company that funded the loan, then a prepayment penalty may not be charged. For a high-cost home loan under KRS 360.100, a prepayment penalty is prohibited unless the lender offers the borrower a loan without a prepayment penalty in writing and the borrower initials the offer to indicate that the borrower wishes to decline it.
2) Fiduciary Duties: A Mortgage Loan Broker has a duty to the borrower to: (a) exercise good faith and fair dealing; (b) disclose all material facts which the mortgage loan broker has knowledge of that might reasonably affect the borrower's rights or interests; and (c) provide to the borrower a written accounting of all the borrower's money and property received by the broker.
3) Kentucky Residential Mortgage Fraud Act: The bill creates a new criminal offense of "residential mortgage fraud." This offense is a Class D felony for the first or second offense and a Class C felony for each subsequent offense. The bill includes a list of the various acts or omissions that would constitute an offense of residential mortgage fraud. Various civil penalties also are authorized by the bill.
4) Licensing: The bill narrows available exemptions for mortgage loan companies licensed to operate in Kentucky. In addition, mortgage loan processors now are required to register with the Office of Financial Institutions. Any person who engages in the business of residential mortgage lending as defined by the bill without first obtaining a license or registration is guilty of a Class A misdemeanor criminal offense. When applying for registration as a mortgage loan company, an applicant must post a corporate surety bond of not less than $250,000. When applying for registration as a mortgage loan broker, an applicant must post a corporate surety bond of not less than $50,000.
5) Limitation on Net Income: The bill prohibits any licensee or person holding a claim of exemption from originating any loan secured by a mortgage on residential real property in Kentucky if the total net income generated by the licensee or person exceeds $2,000 or 4 percent of the total loan amount, whichever is greater. "Total net income" is defined in relevant part as ". . .any and all fees, income, or compensation of any kind collected, received, or charged by the licensee or person holding a claim of exemption, or by an affiliate of the licensee or person holding a claim of exemption."
6) High-Cost Home Loan Points and Fees Threshold: The bill imposes a points and fees threshold for a high-cost home loan (as defined by KRS 360.100). A loan is a high-cost home loan if the total points and fees payable by the borrower at or before the loan closing exceed the greater of $3,000 or 6 percent of the total loan amount. The bill includes several new restrictions on high-cost home loans.

Louisiana

HB 134 – Relates to the removal of mortgage inscriptions affecting property subject to judicial sale; provides for the contents and filing of an affidavit by a title insurer; provides procedures for the removal of mortgage inscriptions; provides a cause of action for improper cancellation; provides for indemnification and exemption from liability under certain circumstances. This bill was signed into law by Governor Jindal on June 21, 2008.[9]

HB 768 – Provides that cancellation of a mortgage, whether legal, judicial, or conventional, shall allow any interested party to cancel the notice of seizure of property affected by the mortgage upon submitting a request to cancel evidencing that the mortgage has been canceled and upon submitting evidence that all costs due to the clerk of court and sheriff are paid in full. This bill was signed into law by Governor Jindal on July 8, 2008.[10]

SB 590 – Authorizes the Louisiana Housing Finance Agency (LHFA) to establish a program providing free mortgage foreclosure counseling and education to homeowners who have defaulted, or are in danger of defaulting, on their home mortgages and authorizes LHFA to work with the office of financial institutions (OFI). The bill also authorizes the LHFA to enter into agreements with other entities to carry out the program, establishes a central toll free telephone line, awards grants for training of counselors, and establishes standards for certification of such counselors. In addition, it authorizes the LHFA to solicit contributions and grants from the private sector, nonprofit entities, and the federal government to assist in carrying out purposes of the program. Finally, the legislation requires the LHFA to submit an annual report to the Senate and House committees on commerce on the operation of the program. This bill became law without Governor Jindal's signature on June 16, 2008.[11]

Maryland

In June 2007, in response to the mounting foreclosure crisis in the state, Governor O'Malley created the Homeowner Preservation Task Force to address the crisis and make recommendations on promoting and preserving sustainable homeownership.[12] The participants and stakeholders appointed to the Task Force included lenders (banks and non-banks), brokers, foreclosure attorneys, nonprofits, foundations, local governments, consumer advocates and real estate agents. The Task Force recommendations focused on three specific areas: financial resources; education and outreach; legislative and regulatory reform.

In terms of specific measures and providing financial resources, the following measures were enacted:

- Bridge to HOPE Loan Program (0 percent, deferred loan of up to $15,000 to help bring delinquent borrowers current);
- Maryland "Lifeline" Refinance Program (available for homeowners not yet delinquent, but facing ARM reset);
- Maryland "HomeSaver" Refinance Program (available for delinquent and credit-impaired borrowers); and
- Emerging partnerships and programs with Fannie Mae and the Maryland Bankers Association.

Under the education and outreach component, the following measures were enacted:

- Maryland's HOPE Hotline;
- www.MDHOPE.org website, launched in June 2007;
- Grants to housing counseling and legal assistance organizations;
- Funding for 31 nonprofit counseling agencies;
- Foreclosure prevention pro bono project, which resulted in the recruitment and training of over 700 pro bono lawyers to help homeowners with foreclosure-related cases;
- Statewide multi-media campaign advertising a 24/7 foreclosure prevention hotline (*Mortgage Late? Don't Wait!*); and
- Foreclosure solution forums involving government agencies, nonprofit counselors and servicers to assist homeowners in distress.

Finally, under the legislative and regulatory reform category, the Task Force recommended reforms in the areas of licensing; lending; fraud; foreclosure process; and servicers. Based on these recommendations, during the 2008 legislative session, Governor O'Malley introduced and later signed into law four bills, all of which received bipartisan support from the General Assembly. Overall, the new laws created greater protections for homeowners at the front end of the lending process by tightening lending standards and imposing stricter licensing requirements on the mortgage industry alongside providing additional tools to investigators, prosecutors and homeowners to combat mortgage fraud. Furthermore, the new foreclosure process law granted homeowners with additional time and notice to find alternative solutions. Specifically, these four laws covered the following areas:

- Credit Regulation/Mortgage Lending (effective June 1, 2008):
  1) Tightens lending standards by banning prepayment penalties for mortgage loans;
  2) Requires a lender or broker to assure a borrower's ability to repay a mortgage loan and to do so at the fully indexed rate for an adjustable rate loan;
  3) Requires the lender to verify the ability to repay through third party documentation of the borrower's income and assets;
  4) Prohibits the granting of a mortgage lender or originator license to applicants found to have a felony criminal conviction for any type of financial crime within the last 10 years; and
  5) Authorizes Maryland's entry into the Nationwide Mortgage Licensing System that will allow for better enforcement and information-sharing among states about licensed mortgage originators.

- » Mortgage Fraud Protection Act (signed into law by the governor as emergency legislation, effective April 4, 2008):
  1) Creates a comprehensive mortgage fraud statute that applies to all potential actors engaged in mortgage fraud;
  2) Allows for the imposition of significant criminal penalties, imprisonment, restitution and forfeiture; and
  3) Provides a private right of action.
- » Reform of the Protection of Homeowners in Foreclosure Act (signed into law by the governor as emergency legislation, effective April 4, 2008):
  1) Bans the re-conveyance of real property in a foreclosure context which is the basis of the foreclosure rescue scams; and
  2) Provides consumer protections and notice for homeowners whose properties are 60 days or more in default.
- » Foreclosure Process (signed into law by the governor as emergency legislation, effective April 4, 2008):
  1) Extends the foreclosure process from a minimum of 15 days from filing a foreclosure action to sale to approximately 150 days from default to sale;
  2) Requires lenders to wait 90 days from the time of a borrower's default before filing a foreclosure action;
  3) Requires lenders to send the homeowners a Notice of Intent to Foreclose at least 45 days before filing an action;
  4) Requires homeowners be personally served when the action is filed; and
  5) Gives homeowners an absolute right to cure the default up until one business day before the foreclosure sale.

Missouri

HB 2188 – Creates civil and criminal penalties for mortgage fraud and further enhances consumer knowledge about the mortgage process. In addition, the legislation authorizes the Real Estate Commission and Real Estate Appraisers Commission to suspend or revoke licenses for mortgage fraud; creates the crime of mortgage fraud, a class C felony, with up to 10 years in prison; enhances consumer protection laws to protect Missourians from fraudulent scams; and provides the commissioner of the Division of Finance power to prohibit offenders from engaging in real estate lending in the state. This bill was signed into law by Governor Blunt on June 11, 2008.[13]

North Carolina

The North Carolina General Assembly is recognized nationally as one of the most proactive legislatures in the country in providing consumer protection in the areas of predatory lending and foreclosure prevention.[14] In the interim before the 2008 Regular Session, the House Select Committee on Rising Home Foreclosures, chaired by Representatives Dan Blue and Walter Church, studied the issues of mortgage lending and foreclosure and considered what additional tools were needed to address the problem. After hearing from a wide range of participants in the process and other interested parties, the Committee recommended two bills and endorsed the concept of a third. The Committee's recommendations were for a bill to regulate mortgage servicers in a manner similar to the regulation currently provided for mortgage brokers and bankers, and for a bill clarifying parts of the Mortgage Debt Collection and Servicing Act. Although not a formal recommendation, the Committee also endorsed the concept of a proposal to establish a foreclosure reduction program. The Committee also recommended that the General Assembly provide additional funding for housing counseling and legal services.

During the 2008 session, all of the Committee's recommendations were enacted. The following is a summary of the new legislation:

HB 2463 – Amends the Mortgage Lending Act to require the licensure and regulation of mortgage servicers by the commissioner of banks in a manner similar to that currently applied to mortgage brokers and mortgage bankers. The bill also imposes specific duties on mortgage servicers and adds to the list of prohibited acts relating to mortgage servicers. The commissioner of banks is given authority to direct the clerk of Superior Court to suspend a foreclosure proceeding for 60 days, if the commissioner has evidence that there was a material violation of law in the origination or servicing of a loan. Mortgage servicers who fail to obtain a license would be guilty of a Class 3 misdemeanor.

HB 2188 – Amends the recently enacted Mortgage Debt Collection and Servicing Act to require that any fee incurred by a servicer be clearly explained to the borrower within 30 days after the fee is assessed, and to clarify that the servicer is not required to send a statement to the borrower under certain circumstances. The bill also clarifies that the servicer is not required to notify the borrower if a partial payment is accepted and credited in accordance with a written agreement. The bill adds a conforming amendment to the Anti-Predatory Lending Act relating to compensation paid to a mortgage broker in the determination of whether a loan meets the definition of a "high-cost home loan." Finally, the bill makes an addition to the Mortgage Lending Act to prohibit mortgage lenders or brokers from receiving compensation that changes based on the terms of a subprime loan.

HB 2623 – Creates an Emergency Foreclosure Reduction Program. The program establishes a system

by which mortgage servicers are required to identify certain subprime loans that are in jeopardy of foreclosure. The servicer must then submit information on those loans to a database designed by the commissioner of banks and maintained by the Administrative Office of the Courts. The commissioner of banks would use the information to attempt to assist the parties to avoid foreclosure. The commissioner also would be authorized to extend the foreclosure process for up to 30 days at once in an appropriate case. The bill also amends the 2008 Appropriations Act to ensure that $600,000 of the funds available to the State Banking Commission in fiscal year 2007-2008 is used to make grants to nonprofit counseling agencies which help homeowners avoid home loss and foreclosure. It also directs $400,000 in nonrecurring funds from the State Banking Commission to be used to implement the Emergency Home Foreclosure Reduction Program. The commissioner of banks is required to report to the General Assembly on the operation of the program by May 1. The bill became effective November 1, 2008 and expires October 31, 2010.

HB 2436 – 2008 Appropriations Act. Section 6.9A of House Bill 2436 summarizes several of the General Assembly's fiscal efforts to address the rising rate of foreclosures in the state and to assist consumers facing potential home loss. In addition to the $1,000,000 from the State Banking Commission, which was directed at providing additional housing counselors and implementing the Emergency Home Foreclosure Reduction Program, the Appropriations Act includes the following:

1) $2,000,000 in recurring funds for the Housing Trust Fund, located in the Housing Finance Agency, to provide affordable housing to low-income citizens;
2) $3,000,000 in recurring funds for the Home Protection Program, located in the Housing Finance Agency, to provide counseling services and mortgage assistance to citizens who are at risk of foreclosure due to job loss;
3) $200,000 in recurring funds to the North Carolina State Bar to provide legal assistance to low-income consumers in cases involving predatory mortgage lending, mortgage broker and loan services abuses, foreclosure defense, and other legal issues that relate to helping low-income consumers avoid foreclosure and home loss. The funds are to be divided equally between the Land Loss Prevention Project and the Financial Protection Law Center; and
4) Amending existing law to allow the use of a portion of the estimated $1,700,000 in increased revenue generated by the increase in court fees enacted last year to provide access to legal assistance to homeowners in cases involving predatory mortgage lending, mortgage broker and loan services abuses, foreclosure defense and other legal issues that relate to helping consumers avoid foreclosure and home loss.

Tennessee

HB 3748 – Allows notice of foreclosure to be sent to debtor at address designated by debtor in any loan document, correspondence, or information from the creditor and, if none, then last known address; allows notice of foreclosure to be sent to debtor at location of the property unless property is vacant, commercial or debtor has designated different address. This bill was signed into law by Governor Bredesden on April 10, 2008.[15]

Texas

In 2008, Texas increased its Housing Trust Fund allocation by $5 million, more than doubling the existing funding.[16]

Virginia

SB 797 – Requires high-risk mortgage lenders or servicers to provide written notice of the intention to send a notice to accelerate the loan balance 10 business days prior to sending the notice of acceleration. If the borrower indicates the desire to avoid foreclosure, the high-risk mortgage lender or servicer shall give the borrower 30 calendar days forbearance. The measure does not apply if the lender makes fewer than four mortgage loans in any 12-month period, if there is an active bankruptcy proceeding, or if a foreclosure sale is scheduled to occur within 30 days. This bill was signed into law by Governor Kaine on April 23, 2008.[17]

HB 408 – Makes persons participating in or servicing foreclosure rescues for profit with the intent to defraud a consumer a violation of the Virginia Consumer Protection Act. This bill was signed into law by Governor Kaine on March 3, 2008.[18]

HB 947 (Incorporated into HB 408 on February 8, 2008) – Provides protection for homeowners during the foreclosure process by requiring persons who advertise services that assist persons wishing to escape foreclosure to disclose fully the nature of their services and the homeowners' right to rescind a contract entered into with such persons. Also allows the attorney general to enforce any violation of this article and provides that a violation of the article is a Class 5 felony.[19]

West Virginia

During the 2008 session, lawmakers in West Virginia directed two new revenue sources to the state housing trust fund: a dedicated real property transfer fee and a new $20 fee on the sale of factory-built homes.[20]

Conclusion

While the coda to the economic turmoil precipitated by the collapse of the housing sector and the eventual damage wreaked on every aspect of the U.S. economy still remains a great unknown, there is no doubt that the adverse consequences stemming from this recession have not been experienced for at least a generation. When the National Bureau of Economic Research declared in December 2008 that the U.S. economy was and had been in recession since December 2007, the duration of the recession already had exceeded the average length of all the post World War II recessions. The nation's unemployment numbers soared to levels not seen in decades and the mass layoffs announced by the panoply of corporations toward the latter months of 2008 confirmed the gravity of the recession. The wild gyrations of the stock markets in fall 2008 both were the result of the ebbing consumer and investor confidence in the economy, the gloomy economic reports emerging from all sectors across the country, as well as the global economy at large. The demise and collapse of so many of the nation's most famed investment and financial entities resulted in intervention by the federal government at the cost of hundreds of billions of taxpayer dollars. Furthermore, the federal government now plays a completely unexpected and dominant role in the operations of these private corporations and banks. The worst global economic slowdown for a generation was certainly in play.

The doleful drumbeat of dismal housing news –housing starts, housing values, foreclosure activity– all reached rates in 2008 that both contributed to and directly caused the sharp contraction in economic growth and the ensuing recession. Housing starts, the number of privately owned new homes or housing units on which construction has been started during a given period, remains a key indicator of the health of the housing sector (and by extension the economy in recent years) and, between 2006 and 2007, national housing starts fell by 25 percent; for the SLC states, the drop between 2006 and 2007 was 24.5 percent. Between the first 10 months of 2007 and 2008, the SLC and national averages for housing starts were steeper but roughly comparable: declines of 32.3 percent and 33.2 percent, respectively. Housing values, another important arbiter of the nation's housing stock, took a shellacking and, between 2006 and 2007,

values in the SLC states declined by 25.2 percent, even exceeding the 22.7 decline demonstrated at the national level. In 2007, there was a total of 2.2 million foreclosure filings (default notices, auction sale notices and bank repossessions) reported on 1.3 million properties nationwide, an increase of 75 percent from 2006. More disturbing news for the SLC states is contained in the fact that, in 2007, 1.56 percent of all SLC households were in foreclosure (versus 1.77 percent nationally); expressed as a ratio, this percentage means that 1 out of every 64 households in SLC states was in foreclosure (versus 1 in 57 households, nationally). In addition, a comparison of foreclosures between the first 11 months of 2007 and 2008 documents that the SLC states experienced a 42.5 percent increase compared to the 43.6 percent increase nationally.

What were the factors that weakened the mighty U.S. economy and brought it to a standstill while creating contagion effects that now impact almost every individual in the United States and practically every corner of the world? There is increasing evidence the roots of the current global economic meltdown are planted in the U.S. housing sector built on the shaky foundation of inflated housing prices and mortgages to unqualified borrowers. Specifically, this housing boom was characterized by the following features:

» An increasing number of mortgages issued to subprime borrowers, i.e., "borrowers with significant indicators of heightened risk of default, such as blemished credit history or high debt-to-income ratio." [1] In 2000, there had been $130 billion in subprime mortgage lending; in 2005, when the housing boom was at its peak, there was $625 billion in subprime mortgage loans. In addition, the lack of standards in the issuance of mortgages during the boom years is clearly apparent from the following: historically, the ratio of median home price to income in a mortgage has been 3 to 1. By late 2004, when the housing boom was reaching its apex, it had risen to 4 to 1 nationally, and even more disturbingly, 10 to 1 in Los Angeles and 8.5 to 1 in Miami;

» A greater reliance on non-traditional mortgages, sometimes referred to as "exotic mortgages," such as interest-only (I/O) mortgages, adjustable rate mortgages (ARMs), no down payment loans, option ARMs (which allowed borrowers to decide how much they wanted to pay each month), low documentation loans and even loans where the mortgage lenders eliminated an independent evaluation or assessment of the property; and

» A rising number of loans, especially subprime and jumbo loans,[2] financed outside of traditional banking channels in a process called securitization. Under this process, once a mortgage is signed, almost immediately the lender sells the new mortgage to another entity, who, in turn "bundles" or "pools" similar loans in a trust or as mortgage-backed securities (MBS) and sells them to investors both nationally and internationally. Of the $625 billion in subprime mortgage loans issued in 2004, $507 billion found its way into mortgage bonds, a staggering 81 percent. Even though securitization may have helped increase the flow of funds available for mortgages and further pushed down mortgage rates, they may also have enabled non-bank lenders to operate without federal supervision of their underwriting standards.[3] In fact, former Federal Reserve Bank chairman Alan Greenspan acknowledged in the fall of 2008 that he had "overestimated the ability of a free market to self-correct and had missed the self-destructive power of deregulated mortgage lending." [4] The "whole intellectual edifice," he said, "collapsed in the summer of last year."

Based on the flawed premise that housing prices would never depreciate, an array of actors in the financial services industry, from mortgage underwriters to commercial banks to Wall Street investment banks to the rating agencies, unwittingly or wittingly, embarked on a process of securitizing and leveraging that reached incomprehensible heights. For instance, the growth of derivatives in this process of securitizing and leveraging was nothing short of phantasmagoric: between December 2005 and December 2007, the notional amounts outstanding for all derivatives increased from $298 trillion to $596 trillion and credit-default swaps quadrupled, from $14 trillion to $58 trillion.[5] Given that the entire annual gross domestic product of the United States currently amounts to about $15 trillion, it is increasingly apparent how the almost meaningless numbers built the very rickety pillars of the nation's economic foundation in the first half of this decade.

Alongside the legion of actors that contributed to the ongoing economic recession ranging from "lenders who peddled easy credit, consumers who took on mortgages they could not afford and Wall Street chieftains who loaded up on mortgage-backed securities without regard for the risk," there is now growing recognition that the federal government's "hands-off approach to regulation encouraged lax lending standards."[6] The unraveling national financial structure and the aggressive intervention of the federal government, led by the Federal Reserve Bank and the U.S. Treasury, has resulted in the U.S. government committing trillions of dollars in taxpayer funds to stave off the complete collapse of the U.S. economy. According to a Bloomberg report in late November 2008, the U.S. government is prepared to provide more than $7.76

trillion on behalf of American taxpayers (including the $306 billion guarantee of Citigroup's debt) in the aftermath of the steep collapse of the financial markets beginning in September 2008. Stunningly, these pledges intended to rescue the U.S. financial system amount to about half the value of everything produced in the nation (the GDP) in 2007.[7]

The impact of the rapidly deteriorating national economy on the revenue inflows of the SLC states was explored in chapter 2 of this report. As demonstrated in this chapter, while the course charted by the SLC states roughly matched the national growth trajectory, there were SLC states that fared worse than others on the fiscal front, particularly toward the latter portion of the review period—fiscal years 2002 through 2008. In particular, in the final year of the review period (fiscal year 2008), there were five SLC states (Florida, Georgia, Missouri, South Carolina and Tennessee) that experienced a decline in their total revenues, with Florida being hit severely hard with a nearly 9 percent decline in overall revenues compared to the prior year. While several energy-rich SLC states (Texas, Louisiana, West Virginia and Oklahoma) enjoyed a relative boom in their revenue flows—Texas' revenues in fiscal year 2008 increased by nearly 12 percent—the remaining six SLC states experienced much smaller levels of increase (0.64 percent in North Carolina and 1.17 percent in Kentucky, for instance). However, it is reasonable to expect that the adverse consequences of the recession will eventually be felt in all of the SLC states.

As in many other instances in the history of our nation, states led the way in devising policy solutions to mitigate the adverse implications of the current mortgage meltdown and foreclosure crisis. In fact, when the federal government finally initiated measures to soften the blow of the housing crisis by announcing the agreement it reached in December 2007 with major lenders to temporarily freeze subprime mortgage interest rates that were set to increase, California, for instance, had already enacted a similar measure. At least two SLC states, Maryland and North Carolina, are considered national leaders in devising policy responses, both legislative- and executive-branch driven, to react to the ongoing recession that is crushing the aspirations of its residents.

Maryland enacted concrete measures in the areas of financial resources, education and outreach, and legislative and regulatory reform, all changes that created a number of positive outcomes for its citizens.[8] It is important to note that in devising and enacting these reforms, Maryland officials involved the entire range of interested parties including lenders (banks and non-banks), brokers, foreclosure attorneys, nonprofit organizations, foundations, local governments, consumer advocates and real estate agents. It also is important to add that the legislative and regulatory reforms initiated in the areas of licensing, lending, fraud prevention, foreclosure process and loan servicers in Maryland were critical in creating a completely new structure for the mortgage process in the state. These measures will not only assist the housing sector in the state to transition out of its current difficulties but also minimize the possibility for a reoccurrence of the negative trends of recent years.

North Carolina was another SLC state recognized nationally as having one of the most proactive legislatures in providing consumer protection in the areas of predatory lending and foreclosure prevention.[9] In the interim before the 2008 regular session, the House Select Committee on Rising Home Foreclosures, chaired by Representatives Dan Blue and Walter Church, studied the issues of mortgage lending and foreclosure and considered what additional tools were needed to address the problem. After hearing from a wide range of participants in the process and other interested parties, the Committee recommended two bills and endorsed the concept of a third. The Committee's recommendations were for a bill to regulate mortgage servicers in a manner similar to the regulation currently provided for mortgage brokers and bankers, and for a bill clarifying parts of the Mortgage Debt Collection and Servicing Act. Although not a formal recommendation, the Committee also endorsed the concept of a foreclosure reduction program. The Committee also recommended that the General Assembly provide additional funding for housing counseling and legal services. During the 2008 legislative session, all of the Committee's recommendations were enacted into law.

Visualizing state finances in 2009 remains an extremely troubling prospect because the rigors of the national recession are expected to intensify. Some economists are projecting a potential 4 million job losses in 2009, double the total lost in 2008 and, a number that would push the nation's unemployment rate past 9 percent.[10] Furthermore, by the end of 2008, 44 states faced and/or are facing shortfalls in the current fiscal year (2009) and/or the next two fiscal years (2010 and 2011). Combined budget gaps for the remainder of this fiscal year and for the next two fiscal years are estimated to multiply and reach a mind-numbing $350 billion to $370 billion.[11] Consequently, there is a great deal of expectation that the $787 billion multifaceted economic plan signed into law by President Barack Obama in February 2009 will not only diminish some of the potential job losses in the states but also upgrade the nation's infrastructure system and most importantly, revitalize the economic prospects of so many moribund areas of the country.

Concurrently, there is a growing awareness that steps need to be initiated swiftly to stabilize the nation's housing sector in order that other essential economic priorities in the areas of healthcare, education, energy, infrastructure, emergency management, transporta-

tion and public pensions may be aggressively pursued. In this regard, the measures already enacted and being proposed at the state level will be a critical component of the housing sector's recovery. For instance, the efforts made by states such as North Carolina and Maryland to systematically stabilize financially drowning homeowners remain an important step here. Recent research also has documented that housing production—even more than home prices or tax levels—ranks among the most important factors in promoting long-term job growth and economic prosperity.[12] Specifically, the study noted the importance of a wide variety of housing options as a mechanism to attract and retain the diverse workforce necessary for a region to prosper.

In stabilizing the housing market in the United States, several instructive lessons may be adapted from the Japanese experience. In the mid-1990s, Japan's economy also was weakened by a collapsing real estate market, the bankruptcy of many financial companies and a frozen credit market, quite similar to the current U.S. experience. Despite the repeated efforts of the Japanese central bank to lower borrowing costs and stimulate a thawing of the credit markets to reboot the Japanese economy, Japan's commercial banks were extremely reluctant to lend to one another and businesses out of fear that the true financial position of the operational financial entities was still unknown. Credit only started flowing freely in the early years of this decade when Japanese regulators "adopted a tough new policy of auditing banks and forcing weaker ones to raise new capital or accept a government takeover. Economists said the audits finally removed paralysis in credit markets by convincing bankers and investors that sudden failures no longer were a risk, and that the true extent of problems at banks and other companies was finally being revealed."[13] In terms of parallel experiences, federal regulators in the U.S. might consider a similar approach to rebuild the confidence of the nation's financial sector and prompt the flow of credit.

Another area that would be useful for federal regulators to review would be the role of the three top credit-rating agencies—Moody's, Standard & Poor's and Fitch Ratings—in the debacle that constituted the securitizing of mortgages. Since the onset of the mortgage meltdown in 2007, the rating agencies have come under increasing scrutiny about whether their overly positive ratings of mortgage securities generated billions of dollars in losses to the investors who relied on them.[14] In fact, the federal Securities and Exchange Commission (SEC) opened an investigation into whether the credit rating agencies improperly inflated their ratings of mortgage-backed securities because of possible conflicts of interest; specifically, the SEC was interested in determining whether the credit agencies had "compromised their impartiality" when they simultaneously rated various mortgage-backed securities and provided advice to Wall Street investment firms about how to package them so as to gain higher credit ratings. The credit agencies also receive fees from the investment firms.[15] Based on this review of the complete role played by the rating agencies, including the potential conflict of interest scenarios, remedial measures should be considered by the federal government to thwart a reoccurrence of the events associated with the mortgage meltdown.

Yet another ingredient that will prove invaluable in assuring and building confidence in the markets is consistency and uniformity. Markets reach a greater level of stability when there is a greater degree of predictability; actions at every level of government, particularly at the federal level, have to strive toward this goal. An environment where decisions enacted by federal officials have a degree of consistency will infuse confidence into the economy and prove to be invaluable in creating an environment for recovery.

Finally, the need for a comprehensive system of checks and balances and a system of transparent, overarching but not overreaching regulations exercised by both federal and state regulators covering all aspects of the nation's financial system remains of critical importance if we are to prevent a reenactment of the tragic events of the past few years. There is growing awareness about the need to reform how our financial systems work by restoring trust, openness and confidence so that credit can start flowing again. Under the rubric of regulation and oversight, recent attempts by segments within the insurance industry and Congress to limit and prevent officials in the 50 states from regulating the activities and operations of insurance companies in the states by federalizing insurance regulation remains a cause for concern.[16] States have regulated insurance in their individual jurisdictions prudently and diligently for more than 135 years.

Despite this stellar record, there have been attempts to link the financial disintegration of one of the world's largest financial services companies, American International Group (AIG), to the lack of a centralized federal bureaucracy that could have, ostensibly, better regulated the industry. As a result of AIG's financial difficulties, which resulted in a federal bailout package that now exceeds $150 billion, proponents have renewed their call for the federal regulation of the insurance industry. However, the financial collapse of AIG had little to do with state insurance regulation and much more to do with lax federal oversight. In fact, the insurance subsidiaries of AIG, which are regulated at the state level, remain among its most attractive assets and are in sound fiscal shape as a result of the vigilance and oversight exercised by state-based insurance officials. In areas such as this where the record of state regulators has been

exemplary, the existing regulatory structure should be continued.

The far reaching problems associated with the subprime mortgage market metastasized to affect practically every nook and cranny of the vast and complex U.S. economy. The inordinate extent to which an array of financial institutions leveraged themselves in order to record artificial levels of profit was another feature of the last few years. There is a growing awareness that banks and other institutions that borrow from the Federal Reserve Bank need to maintain higher capital requirements; hedge funds and rating agencies need to be better monitored; and the trading of derivatives needs to be performed though a clearinghouse (such as the trading of wheat at the Chicago Board of Trade), which ensures that there is a counterparty to each trade and that traders operating with insufficient collateral are suspended.[17]

Given the global economic meltdown that currently is underway, where the actual endpoint still remains an unknown, the conclusion that so many officials at every level of government have reached is that the lack of government oversight, transparency and regulation was the spark that lit the slow fuse for the ongoing conflagration. Further, considering the direct intervention of the federal government in the operations of so many private corporations with the trillions of dollars that have been either invested or pledged to guarantee their financial solvency alongside the promise of increasing oversight and regulation across the entire financial system, clear, sensible, consistent and comprehensive oversight by different levels of government, particularly at the federal level is a requisite if the economy is to recover and begin growing again. (An example of a sound regulatory environment is the state supervision of many segments of the insurance industry.) Given the lack of confidence and trust in both the marketplace and government, these reforms will have great promise in restoring that confidence and trust. These reforms can contribute to restoring and redirecting the energies of our economy in a manner that will stimulate the flow of credit and generate broad-based, sustained economic growth in all sectors of the country.

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4. "The Remedist," The New York Times, December 14, 2008.
5. Ferguson, Niall. "Wall Street Lays Another Egg," Vanity Fair, December 2008, *www.vanityfair.com*.
6. "White House Philosophy Stoked Mortgage Bonfire," The New York Times, December 21, 2008.
7. "U.S. Pledges Top $7.7 Trillion to Ease Frozen Credit," Bloomberg.com, November 24, 2008, *http://www.bloomberg.com/apps/news?pid=20601109&sid=an3k2rZMNgDw&refer=home*.
8. There have been several attempts to calculate the full extent of the taxpayer dollars committed by the federal government since the unraveling of the financial system. One such presentation is available at the following website: *http://www.ritholtz.com/blog/2008/11/big-bailouts-bigger-bucks/*. It is interesting to note the costs and inflated adjusted costs of a number of the major U.S. government expenditures incurred over the history of the United States:
   Marshall Plan: Cost $12.7 billion, Inflation Adjusted Cost $115.3 billion
   Louisiana Purchase: Cost $15 million, Inflation Adjusted Cost $217 billion
   Race to the Moon: Cost $36.4 billion, Inflation Adjusted Cost $237 billion
   S&L Crisis: Cost $153 billion, Inflation Adjusted Cost $256 billion
   Korean War: Cost $54 billion, Inflation Adjusted Cost $454 billion
   The New Deal: Cost $32 billion (Est.), Inflation Adjusted Cost $500 billion (Est.)
   Invasion of Iraq: Cost $551 billion, Inflation Adjusted Cost $597 billion
   Vietnam War: Cost $111 billion, Inflation Adjusted Cost $698 billion

NASA: Cost $416.7 billion, Inflation Adjusted Cost $851.2 billion

Total for these expenditures: $3.92 trillion in Inflation Adjusted Cost

The only American event in the history of the country that comes close to matching the cost of the credit crisis is World War II. While the original cost of the war is estimated to be $288 billion, the inflation adjusted cost is estimated at $3.6 trillion.

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