

An Open Letter to Governors and State and Local Government Leaders

I know you are busy so I am going to keep this short.

Those that have overcome dependency of some kind have learned how to beat their dependency and, in many cases, avoid a relapse. For a drug addict this can mean staying away from drugs and drug dealers. Addicts know dealers care only about themselves and not about the buyer. The dealers will say what they need to make the sale -- not concerned about your tomorrow.

Stay with me.

To the extent you were dependent on Federal funds or the notion tax receipts would keep rising, many of you have kicked the habit. Since the Great Recession started, you and your colleagues at State and local governments across the country have been forced to address budget gaps that have resulted from the economic realities you have faced and continue to face. The Federal government did inject some funds through ARRA but that has come to an end. The combination of these factors has required creative thinking and making some incredibly tough decisions that required shared sacrifice – unions have given back, taxes have gone up and spending has been cut. The charts below highlight some of those tough decisions you all have made during fiscal year 2011 to close budget gaps.

FY 2011 Mid-Year Program Area Cuts, Number of States Implementing

K-12 Education	Higher Education	Public Assistance	Medicaid	Corrections	Transportation	Other
18	18	11	12	17	6	21

Source: National Association of State Budget Officers, The Fiscal Survey of the States, Spring 2011

FY 2011 Strategies Used to Reduce or Eliminate Budget Gaps, Number of States Implementing

Layoffs	Furloughs	Early Retirement	Salary Reductions	Cuts to Employee Benefits	Reduce Local Aid	Privatization	Across the Board % Cuts
20	19	6	9	13	16	5	20
User Fees	Higher Ed Related Fees	Court Related Fees	Transp./MV Related Fees	Business Related Fees			
14	7	9	8	6			

Source: National Association of State Budget Officers, The Fiscal Survey of the States, Spring 2011

Congratulations on taking steps necessary to respond to the economic realities and to continue to get your fiscal house in order. Unfortunately, there is an opportunity to spend more than your economy can support and to undo – at least for a while – those tough decisions.

The dealers are back and offering a little something to make you feel good – recall laid-off teachers, first responders and others, modernize schools and extend unemployment insurance. You can be the hero and it won't cost a dime. You get to deliver jobs and money to your constituents today and the promise of better education and schools for our children. Compelling arguments indeed. The cost, which we are told is paid for, is projected to be a mere \$447 billion (add it to the work of the Super Committee that now needs to cut the federal budget by almost \$1.8 trillion over 10 years). Sounds good so far and all in the name of getting our economy back to work.

Next, those “rich” couples in your home area making more than \$250,000 (\$200,000 if they are single) should have tax deductions limited or eliminated. Why not? In these trying economic times, shared sacrifice is what it is all about. Indeed, the charts above point out the tough decisions some of you have had to deploy to balance your budgets (operating that is).

At this point, the peddlers seem to make sense and you might be ready to buy. Just say no! You've kicked the habit and have been on the road to becoming responsible, productive members of our Union. You recognized ARRA would come to an end and that money from DC, for whatever you might be getting it for, is not going to increase annually and, if the Super Committee does its job, will go down (whether taxes are raised or not).

There are consequences to consider, some of which might be near and dear to your fiscal purse strings and re-election efforts once the well runs dry. Your cost of borrowing will likely go up. It is no secret that the majority of municipal bond buyers are individuals – some 70% of municipal bonds make their way to the retail market. That retail market is comprised of a large majority of people that will be considered “rich”. Now, if those “rich” people lose some or all of their tax-free interest from municipal bonds they have three choices: (i) demand higher interest to offset the lost income (ii) find an alternative investment or (iii) accept it. The first two points will lead to higher interest rates for any debt you issue, plain and simple. Thus, your constituents will pay.

Let's assume the Super Committee does its job. Where will those savings come from and who will need to find ways to finance their State and local obligations and programs? You guessed it. And, irrespective of what the Super Committee does, if these “fixes” to our economy don't work, you are right back where you started – making those tough choices yet again as opposed to continuing forward with the reforms you have already implemented.

Politics aside, this is about continuing the progress you have made. It is not easy to quash your demons but you need to avoid the temptation. One day at a time!

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