RELEASE IN FULL

From: Sullivan, Jacob J <SullivanJJ@state.gov>
Sent: Friday, November 5, 2010 4:58 PM
To: H
Subject: Fw: State Debt Problems Mount

Fyi

From: Hormats, Robert D
To: Sullivan, Jacob J
Sent: Fri Nov 05 11:48:25 2010
Subject: State Debt Problems Mount

Hi Jake,
This does not have a direct foreign policy bearing, but I think S would be interested – because it is an enormous and growing problem. These stats come from a NYT Op-Ed piece:

- Over 20% of California's debt issuance during 2009 and over 30% of its debt issuance in 2010 to date has been subsidized by the federal government in a program known as Build America Bonds. Under the program, the U.S. Treasury covers 35% of the interest paid by the bonds. Arguably, without this program the interest cost of bonds for some states would have reached prohibitive levels.
- "California is not alone: Over 30% of Illinois's debt and over 40% of Nevada's debt issued since 2009 has also been subsidized with these bonds. These states might have already reached some type of tipping point had the federal program not been in place."
- "Today, more than 28% of state funding comes from federal government transfers, the highest contribution on record. These transfers have made states dependent on federal assistance. New York, for example, spent in excess of 250% of its tax receipts over the last decade. The largest 15 states by GDP spent on average over 220% of their tax receipts. Clearly, states have been spending at unsustainable levels without facing immediate consequences due to federal transfer payments and other temporary factors."

Bob