



**THE NELSON A.  
ROCKEFELLER  
INSTITUTE  
OF GOVERNMENT**

# State Revenues And Budgets In An Era of Fundamental Change

*Presentation by*  
**Robert B. Ward**  
*wardr@rockinst.org*

**New Jersey GFOA**  
September 22, 2011

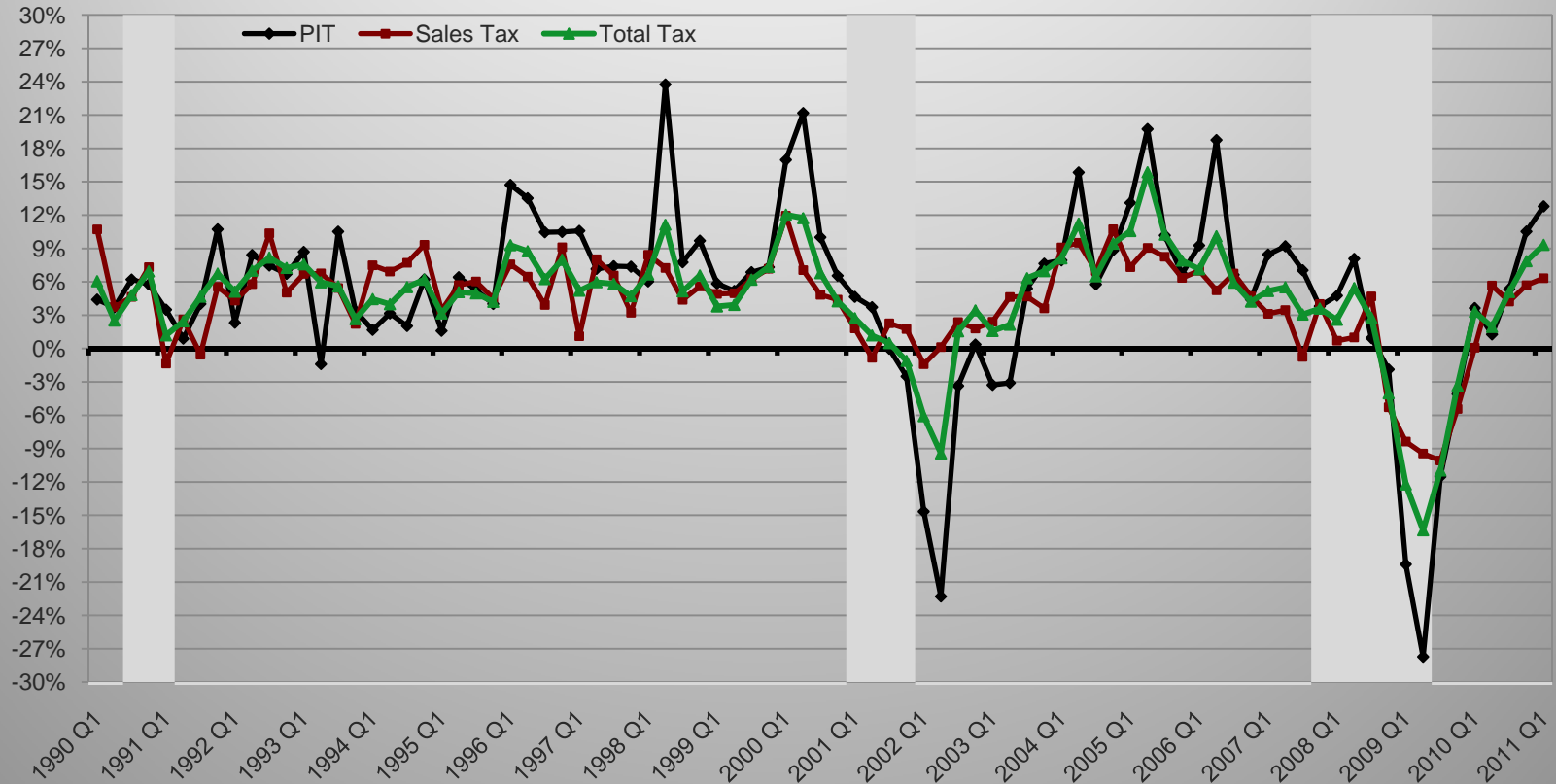
# Overview

---

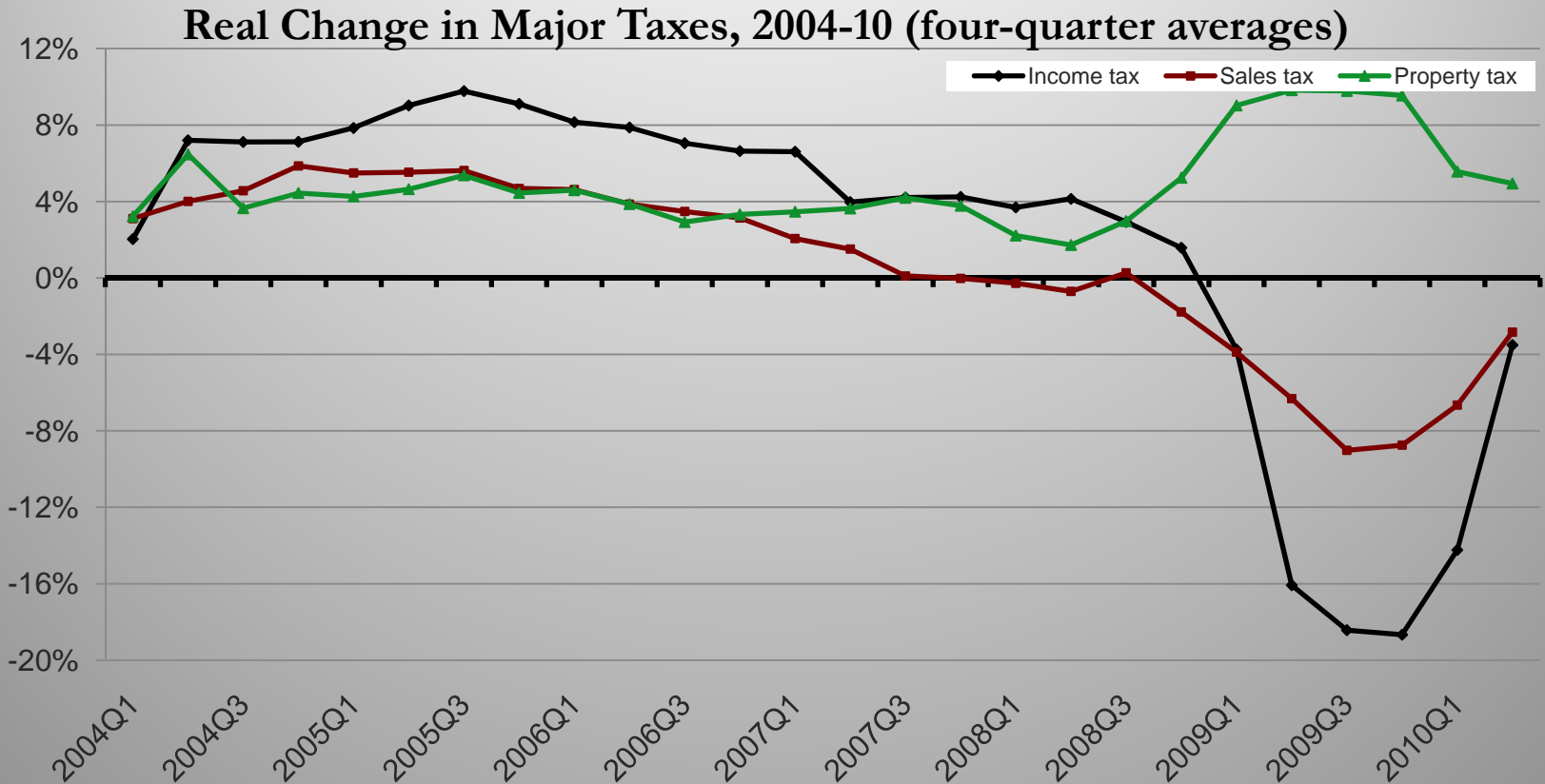
- ❖ **For all states: 5 straight quarters of year-over-year revenue decline ended in late 2009; now we've had 6 quarters of gains**
- ❖ **State PIT and sales tax were decimated, but now property taxes are declining**
- ❖ **Comparisons – NJ and other states**
- ❖ **Fiscal landscape is changing dramatically; how can states and localities respond?**

# Recovery from a deep revenue decline

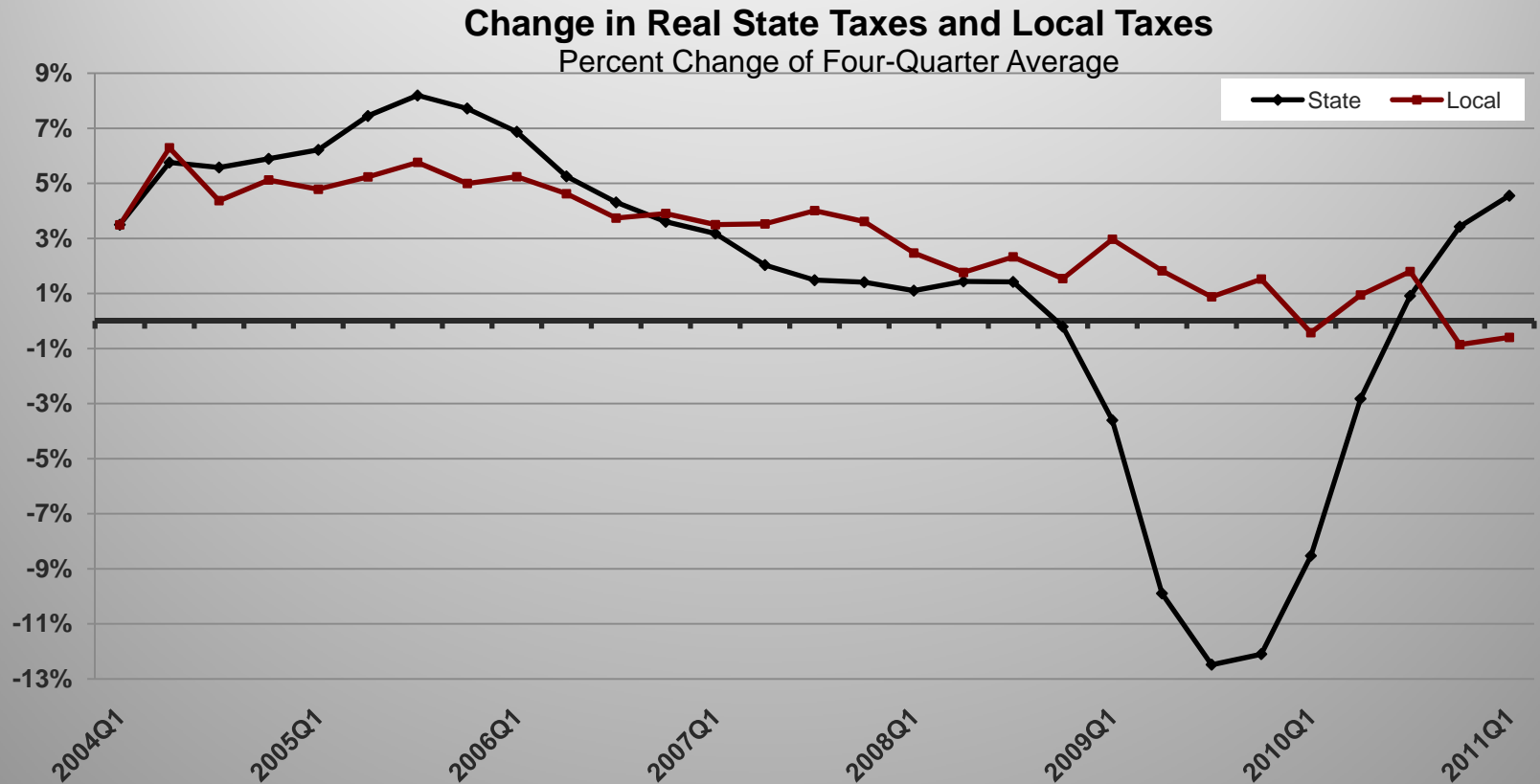
Year-over-year change in state tax collections, 1990-2011



# Great Recession devastated state taxes



# State taxes now up, but local taxes down



# NJ tax collections: Recent history

*Dollars in millions*

	2004	2006	2008	2010	Change, 2004-2010
<b>Total state tax receipts</b>	\$20,986	\$26,266	\$30,617	\$25,928	<b>24%</b>
<i>Personal income tax</i>	\$7,401	\$10,506	\$12,605	\$10,323	<b>39%</b>
<i>General sales tax</i>	\$6,262	\$6,853	\$8,916	\$7,898	<b>26%</b>
<b>Total local tax receipts</b>	\$18,572	\$21,041	\$23,174	NA	<b>25%</b> <i>(2004-08)</i>
<b><i>CPI change, 2004-2010</i></b>					<b>15.4%</b>

# State tax collections: Recent history

*Change in annual collections, total taxes*

	2007-08	2008-09	2009-10	2010-11 (prel.)
<b>U.S. total</b>	3.6%	-8.4%	-2%	7.3%
<b>All Mid-Atlantic states</b>	3.7%	4.5%	-1.8%	8.4%
<b>New Jersey</b>	3.8%	-11.2%	-4.6%	5.4%
<b>Connecticut</b>	10%	11.4%	-5%	8.6%
<b>Delaware</b>	0.9%	-4.3%	-1.3%	1.5%
<b>Maryland</b>	4.3%	-2.9%	-0.4%	1.5%
<b>New York</b>	3.3%	-0.8%	-1.9%	11.6%
<b>Pennsylvania</b>	4.2%	-6.4%	0.3%	8.3%

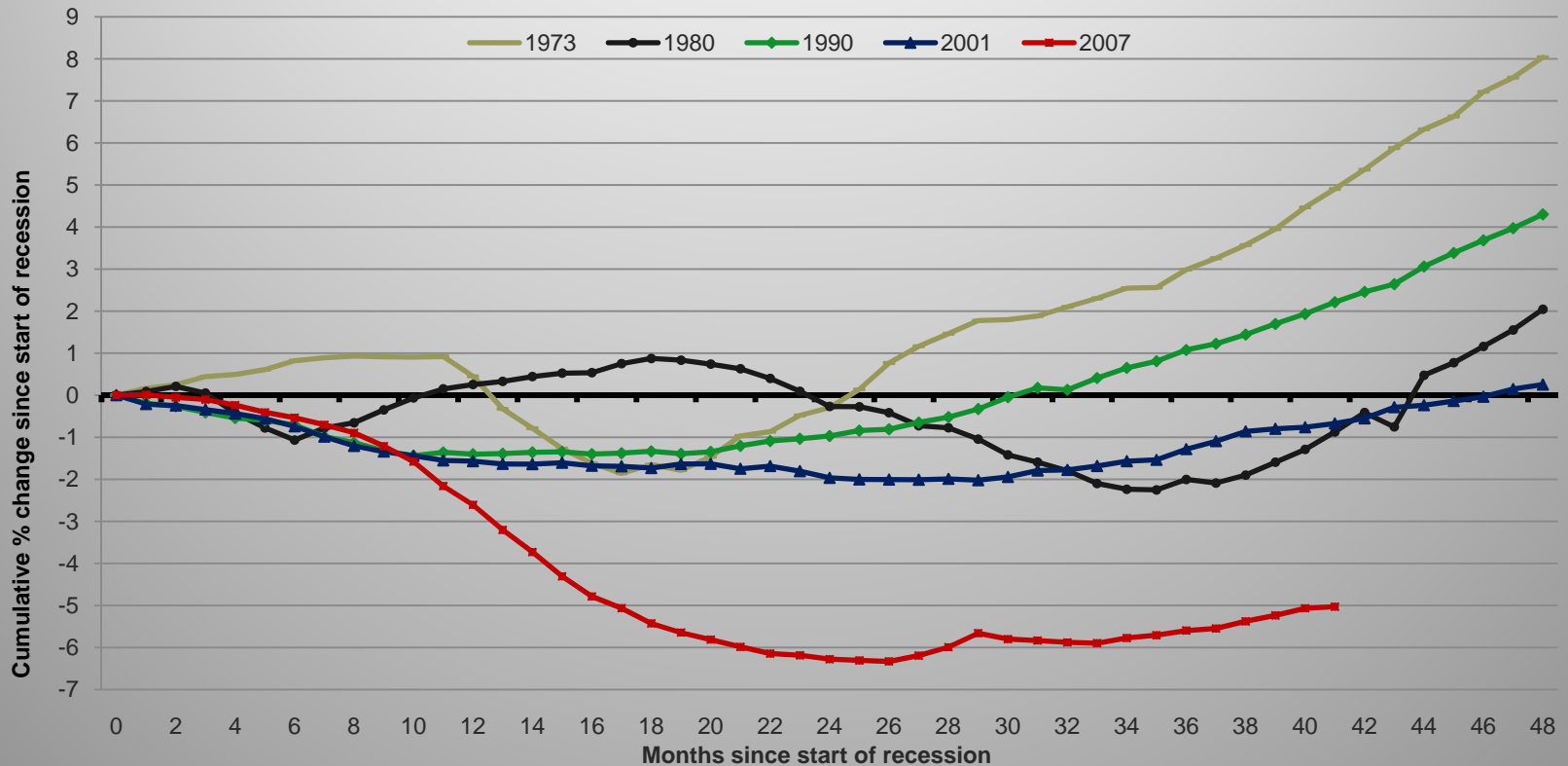
# Driving revenue trends: Jobs

*Annual change, June-June, private-sector employment*

	2007-08	2008-09	2009-10	2010-11	Jobs lost, 2007-11
<b>U.S. total</b>	-0.7%	-5.9%	-0.6%	1.7%	-6,539,000
<b>All Mid-Atlantic states</b>	0.0%	-4.3%	0.0%	1.3%	-554,000
<b>New Jersey</b>	-0.7%	-5.1%	-0.7%	0.8%	-195,000
<b>Connecticut</b>	0.0%	-5.4%	-0.9%	1.1%	-76,000
<b>Delaware</b>	-0.8%	-5.9%	-1.0%	0.0%	-29,000
<b>Maryland</b>	-0.8%	-3.9%	-0.7%	-0.1%	-115,000
<b>New York</b>	0.7%	-3.9%	0.4%	1.7%	-93,000
<b>Pennsylvania</b>	0.0%	-4.4%	0.4%	1.7%	-122,000

# U.S. employment still very weak

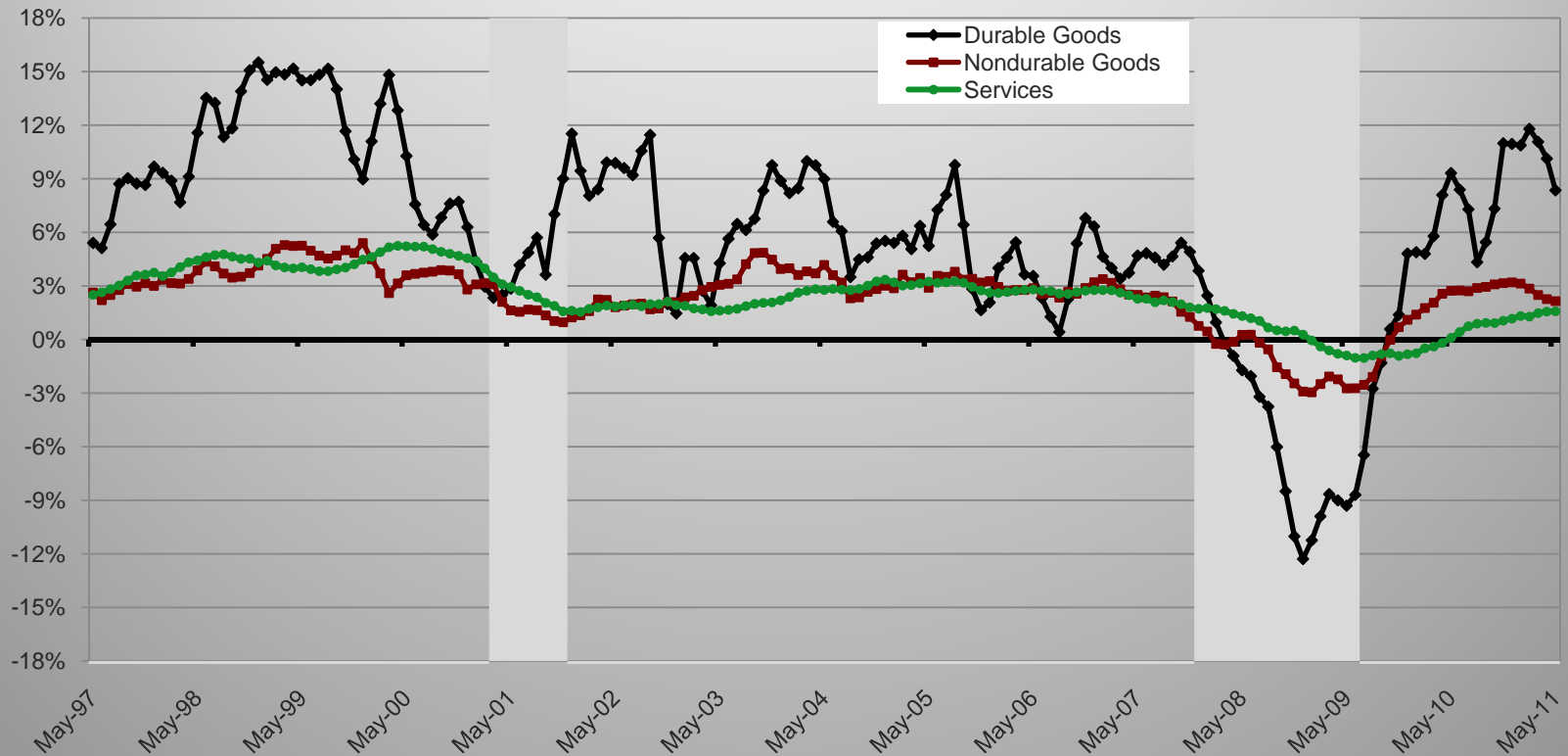
*Nonfarm employment in selected recessions*



Source: Bureau of Labor Statistics (CES).

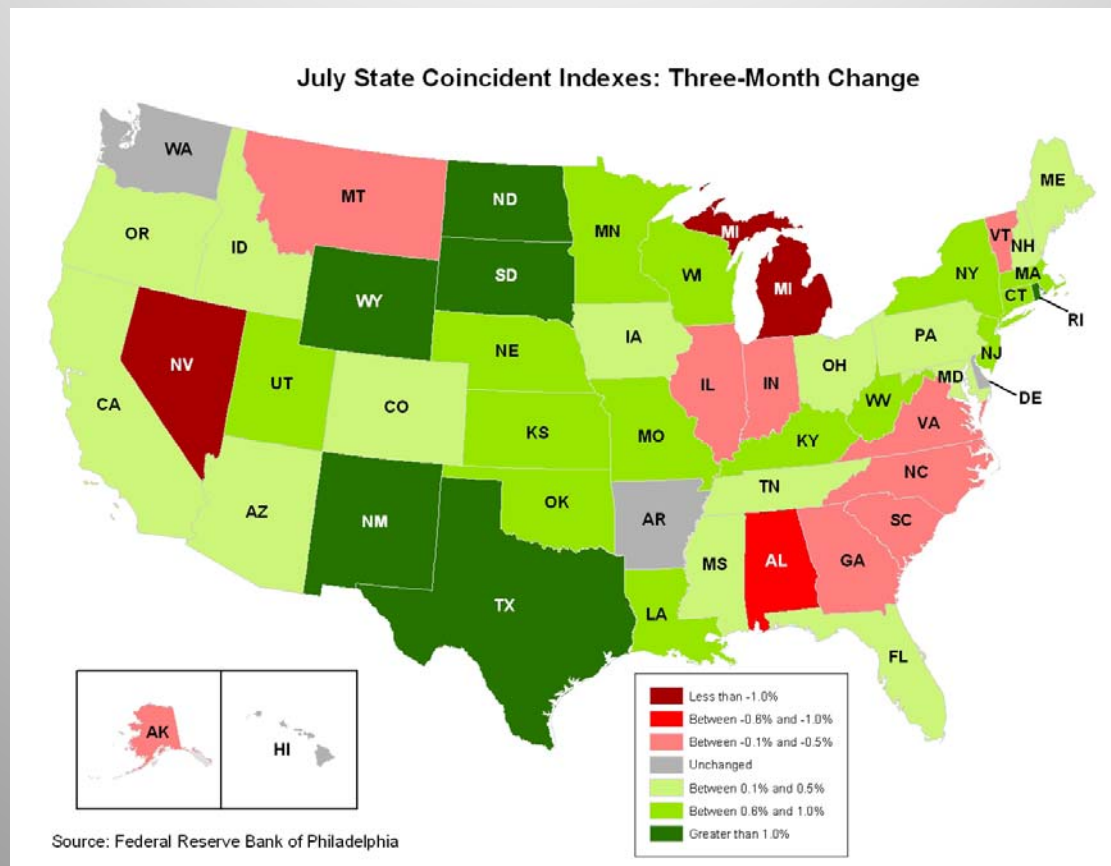
# Driving revenue trends: Consumption

*Real change in goods and services consumption vs. year ago*



Source: U. S. Bureau of Economic Analysis , National Income and Product Accounts, Table 2.8.6.

# Current economic conditions



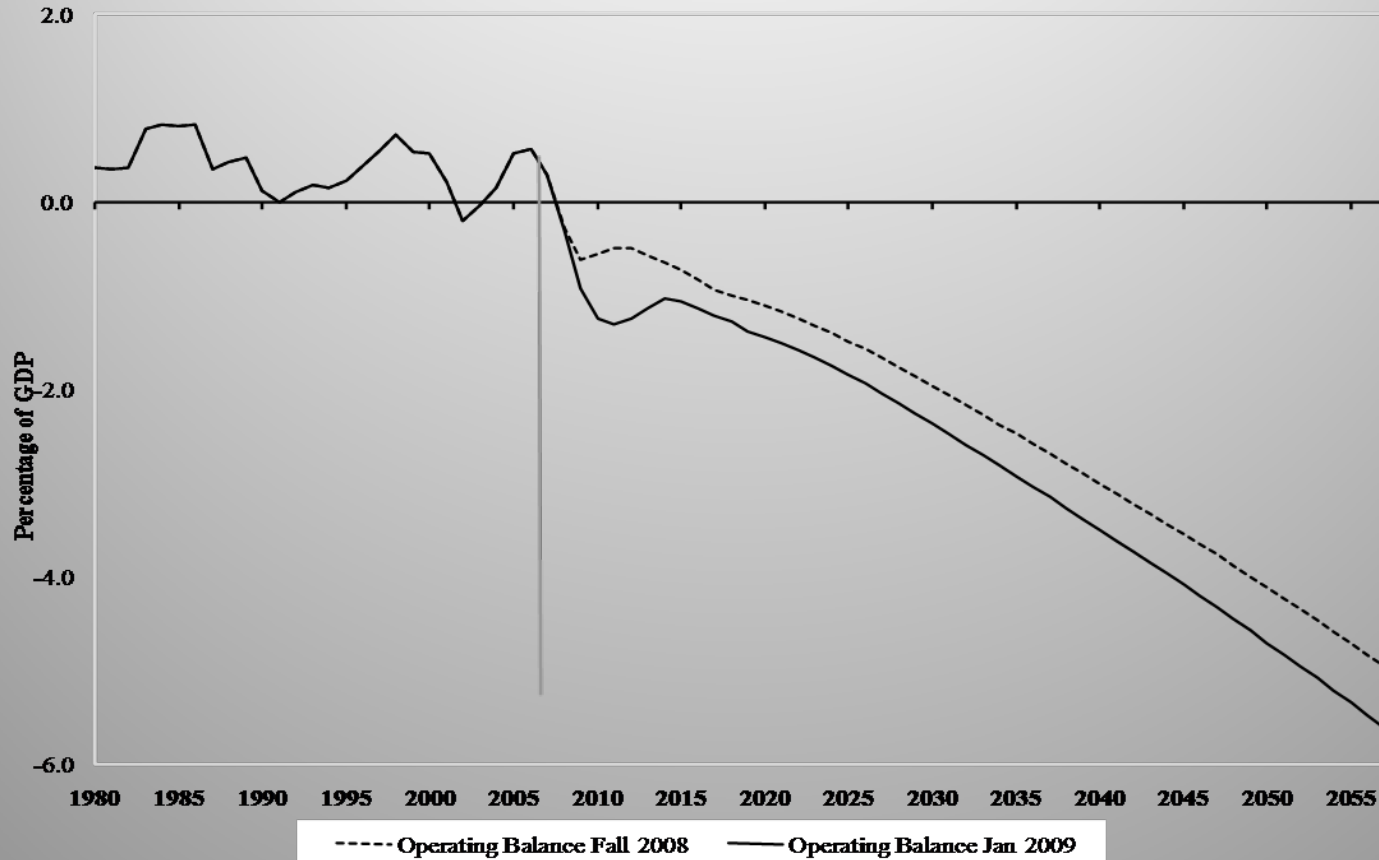
# New Jersey #1 in cutting public jobs

## Change in employment by sector, 2010 to 2011 April-June moving average

	Private	State government	Local government	State plus local	Rank, change in state-local govt.
New Jersey	0.6%	-5.2%	-3.5%	-3.9%	50
New York	1.5%	-2.8%	-1.7%	-1.9%	40
Maryland	-0.2%	-0.4%	-2.0%	-1.5%	34
Pennsylvania	1.7%	-2.2%	-0.8%	-1.1%	30
Connecticut	1.3%	2.3%	-1.2%	-0.2%	16
Delaware	0.2%	-0.2%	2.6%	1.0%	2

*But note: in 2009-10, New Jersey was one of 18 states that ADDED public jobs; NJ added 18,000 school jobs in 2009-10 and cut 10,000 in 2010-11.*

# GAO outlook: State-local operating balances as % of GDP, 1980-2055



# We've entered a new era

---

- ❖ **Revenues are growing, but still below peak**
  - **Federal Reserve predicts two more years of slow economic growth; state revenues follow the economy and can be expected to be soft**
  - **Current discussions in Washington indicate little likelihood of significant new federal aid**
  - **Strong voter opposition to tax increases**
  - **Still, some states' economies will do better than others – and that makes a big difference**

# Responding to this new era

---

## ❖ How can states and localities respond?

- **Despite opposition to ‘tax increases,’ there is some support for ‘tax reform’**
  - Expand the base while limiting the rate: Can we do this with the property tax by reducing exemptions?
  - What about reducing PIT, sales tax exemptions?
- **What have we learned about costly programs?**
  - Variations in health-care practices drive up costs
  - Which education expenditures matter? Which don't?
- **How to build the best public workforce?**
  - Inspiration, leadership, flexibility – at what cost?

# Contact information

---

**Robert Ward**

**wardr@rockinst.org**

**518-443-5831**