



**THE NELSON A.
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State Revenues In An Era of Fundamental Change

Presentation by
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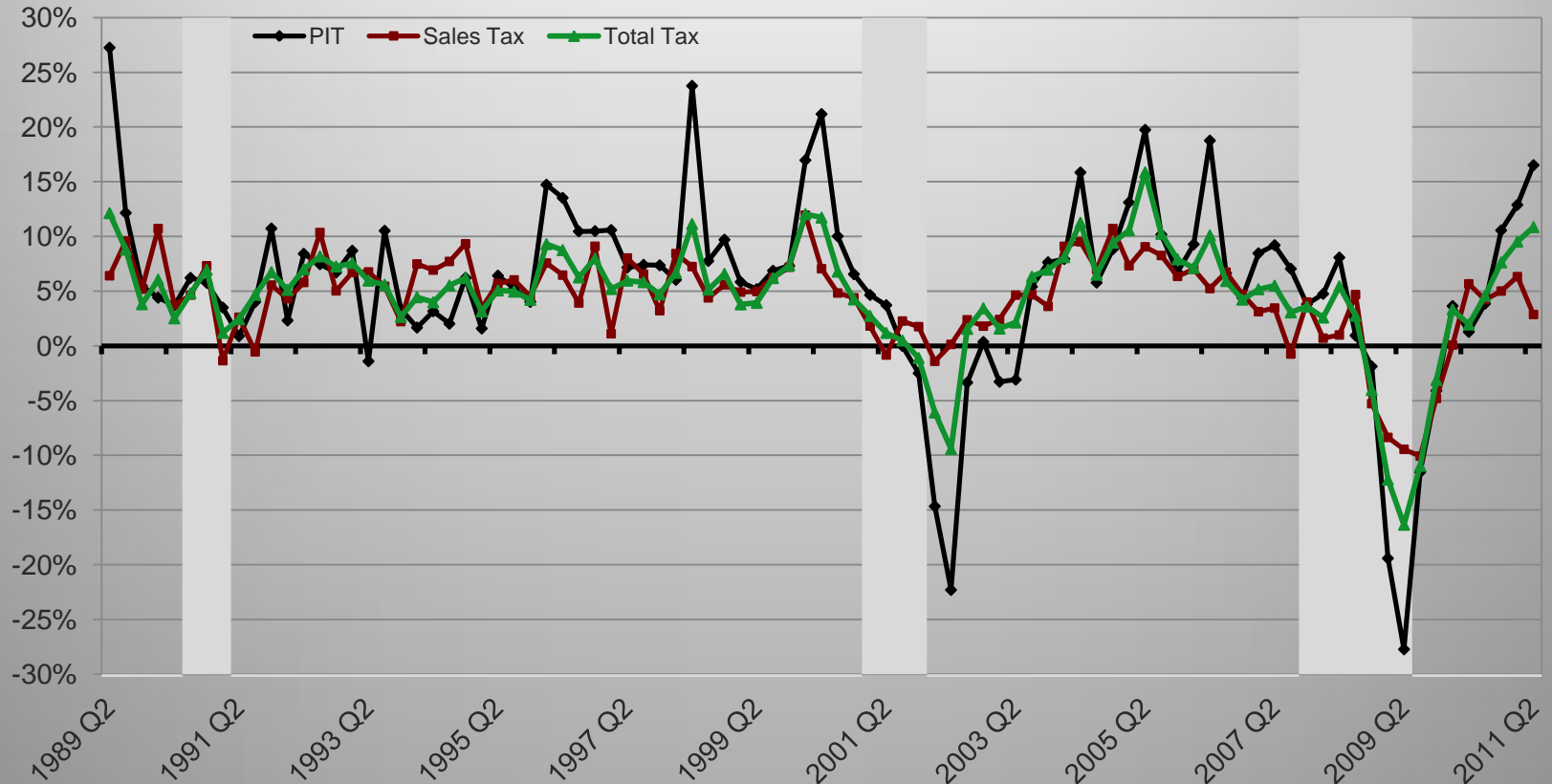
**Lincoln Institute of Land Policy/
New England Public Policy Center,
Federal Reserve Bank of Boston
December 2, 2011**

Overview

- ❖ **For all states: We've now had 7 straight quarters of gains after 5 quarters of sharp revenue decline ended in late 2009**
- ❖ **PIT and sales tax were decimated but are rebounding; property tax is now declining**
- ❖ **Some comparisons among states**
- ❖ **Fiscal landscape is changing dramatically; how can states and localities respond?**

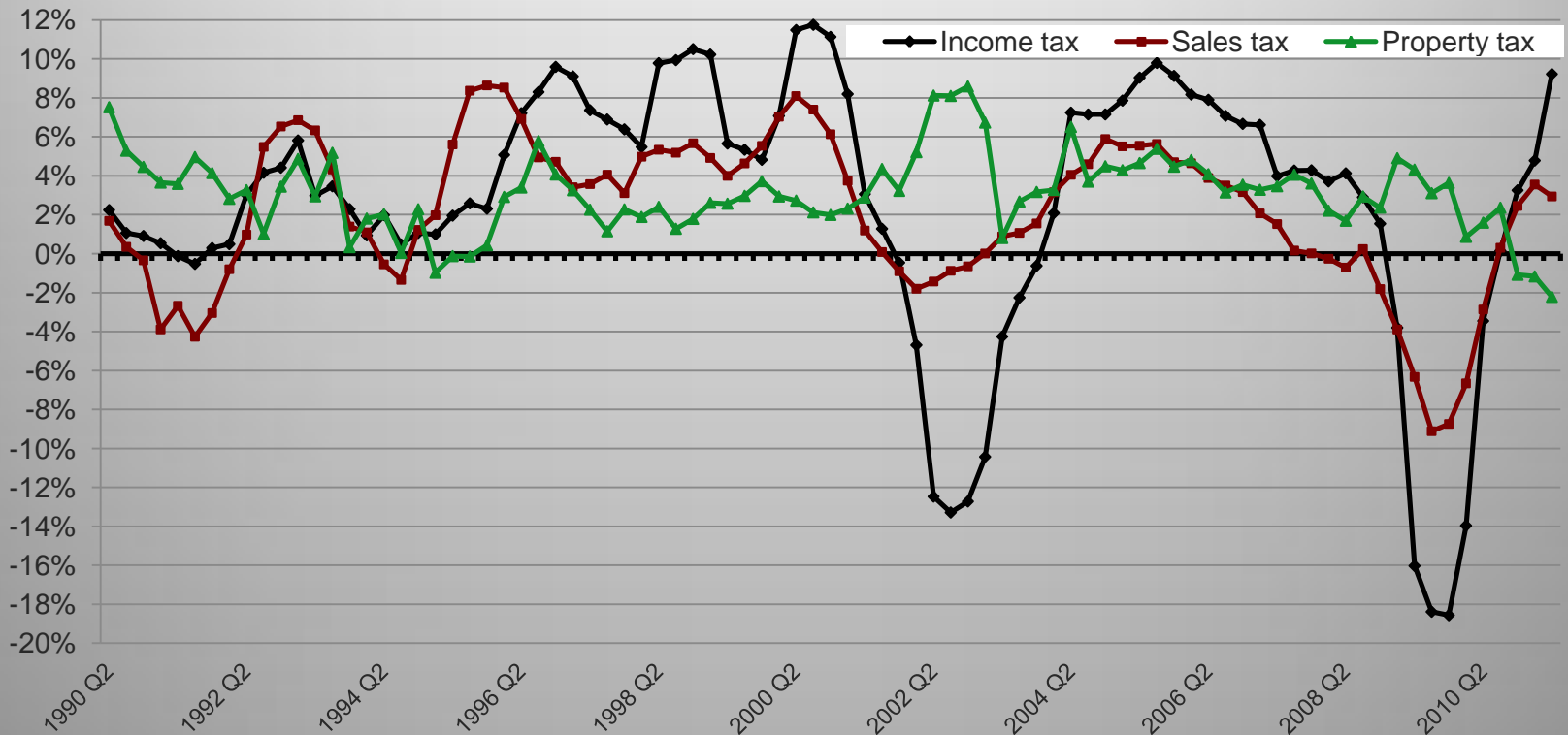
States recover from deep revenue decline

Quarterly YOY change (nominal) in state tax collections, 1989-2011



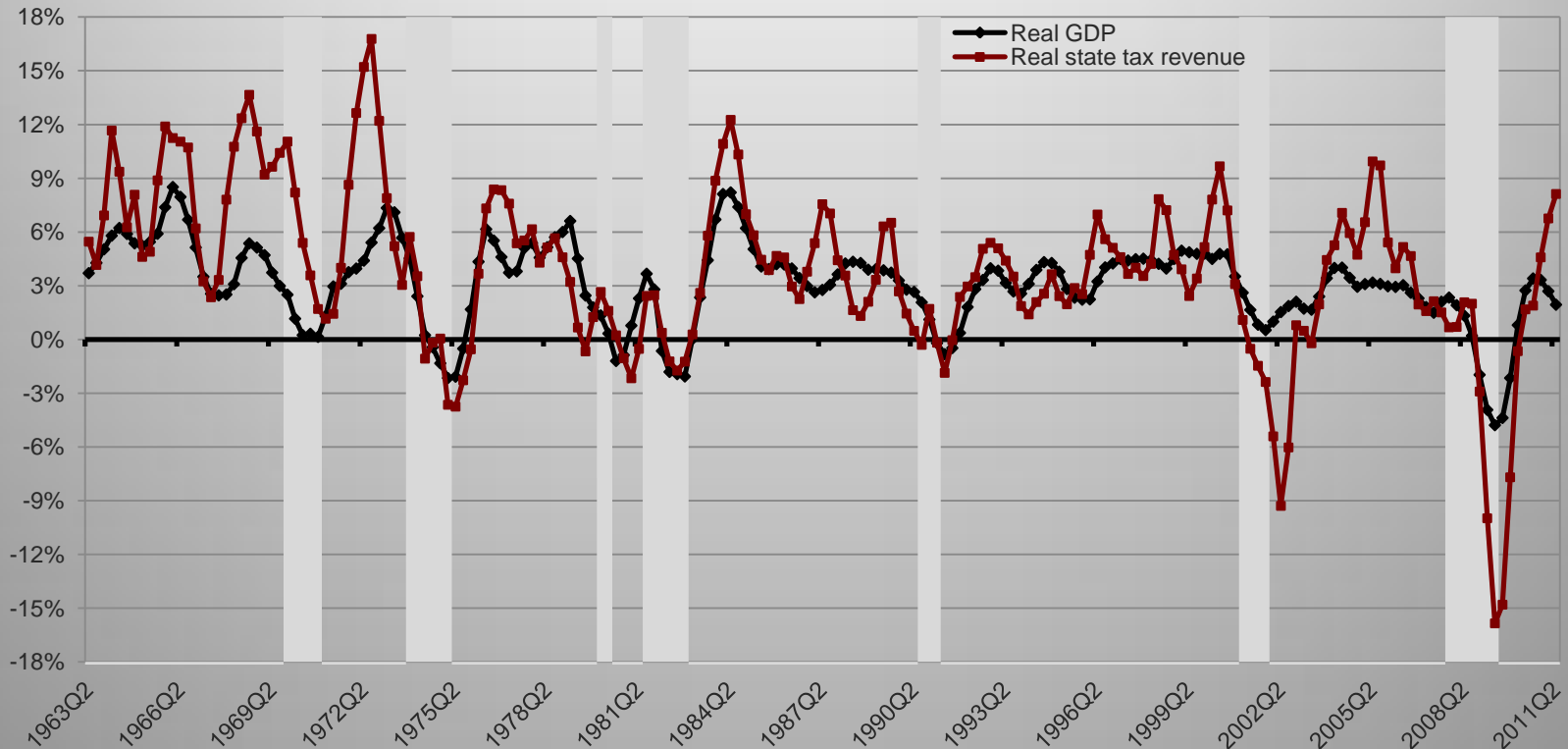
Property tax now heading down

Inflation-adjusted state & local taxes; 4-quarter rolling average



State tax revenues and the economy: Recent growth may be unsustainable

Change in real GDP and real revenues; 2-quarter avgs.



Disparities among states, 1999-2008

Change in total tax collections (nominal)

Lowest gains		Highest gains	
Michigan	13%	Alaska	854%
MO / WI	28%	Wyoming	196%
KY / SC	37%	New Hampshire	110%
Oregon	40%	North Dakota	109%
Iowa	42%	VT / MT	83%
Ohio	43%	New Jersey	81%
Delaware	44%	Nevada	79%
Average, all states: 56%			
<i>CPI change over period: 29%</i>			

Disparities in the Great Recession

Change in total tax collections, 2008-10

Largest declines		Gains/smallest declines	
Alaska	-41%	North Dakota	14%
Louisiana	-21%	Vermont	3%
NM/GA/ID	-19%	Oregon	1%
South Carolina	-18%	South Dakota	-1%
Utah	-17%	Iowa	-3%
OK/AZ	-16%	NV/WI/AR/WV	-4%
NJ/CT/OH	-15%	KY/PA/ME/NH	-5%
Average, all states: -10.3%			
<i>CPI change over period: 2%</i>			

A look at New England states

Change in total state tax collections (nominal)

	1999 to 2008	Q3 2010 to Q3 2011	Projected FY 2012	
			Sales tax	PIT
Connecticut	45%	10.5%	13.4%	17.1%
Maine	49%	4.0%	3.8%	2.2%
Massachusetts	50%	6.5%	3.9%	0.2%
New Hampshire	110%	3.0%	na	na
Rhode Island	46%	2.1%	4.1%	-1.1%
Vermont	83%	4.2%	3.2%	7.5%
<i>New England avg.</i>	<i>52%</i>	<i>6.6%</i>	<i>na</i>	<i>na</i>
Average, all states	56%	7.3%	na	na

2012 projections from NASBO; all others Rockefeller Institute calculations

Key trends before the Great Recession

CPI-adjusted change in major taxes from 1999-2008

- ❖ **State sales tax collections: +14%**
- ❖ **State PIT collections: +25%**
 - *States increased dependency on PIT, which is more volatile than sales tax*
- ❖ **Local property tax collections: +39%**
 - *Reflecting typical lag, these revenues have just begun to fall – in many jurisdictions, more decline is very likely*

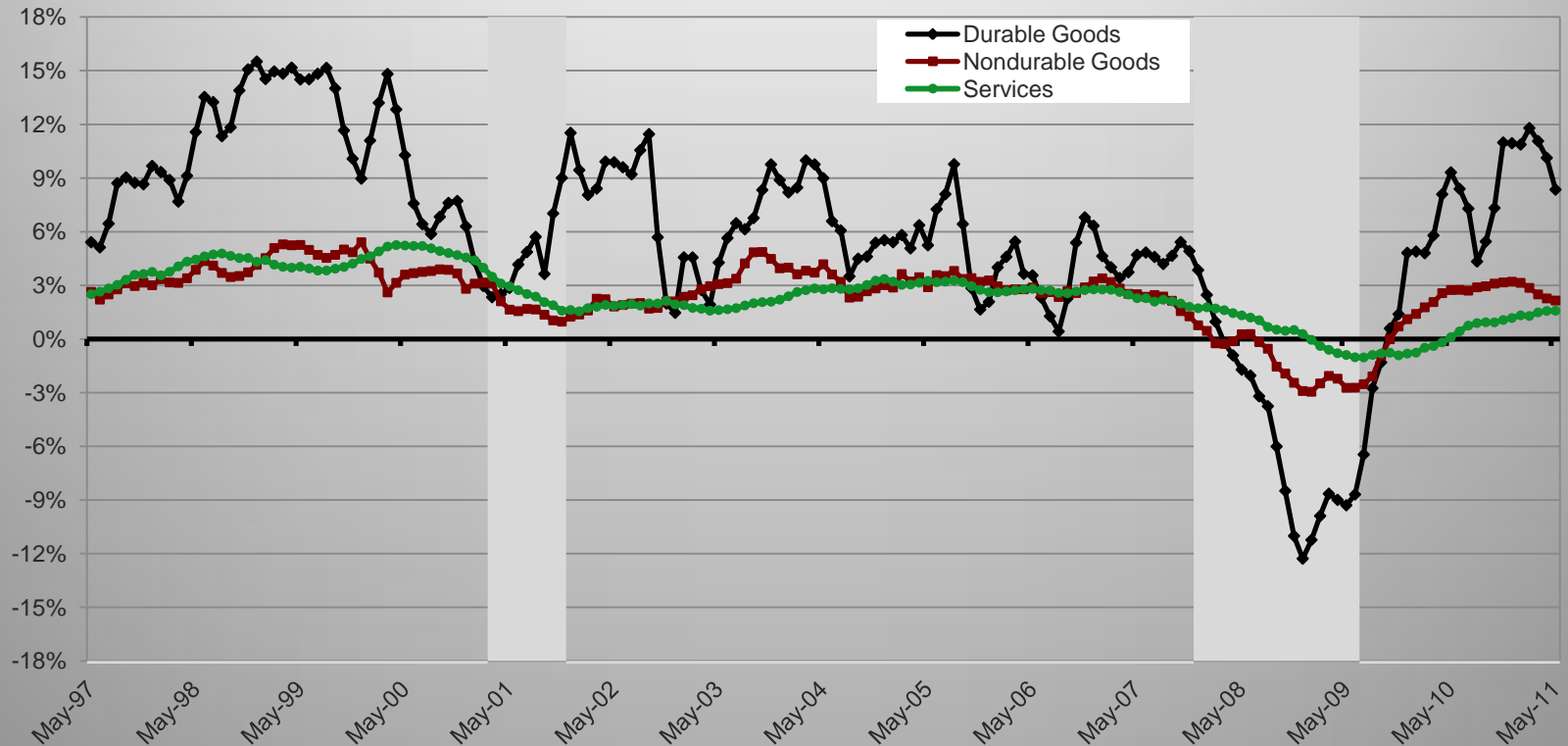
...and state taxes over the past year

Nominal changes in major state taxes, Q3 2010 to 2011

- ❖ **Personal income tax: +9.2%**
- ❖ **Sales tax: +3.9%**
- ❖ **Total state taxes: +7.3%**
 - ***After seven quarters of growth, overall state tax collections have finally surpassed pre-recession levels***
 - ***BUT states lost ~15% historical growth over 3 years and must reset budgets***

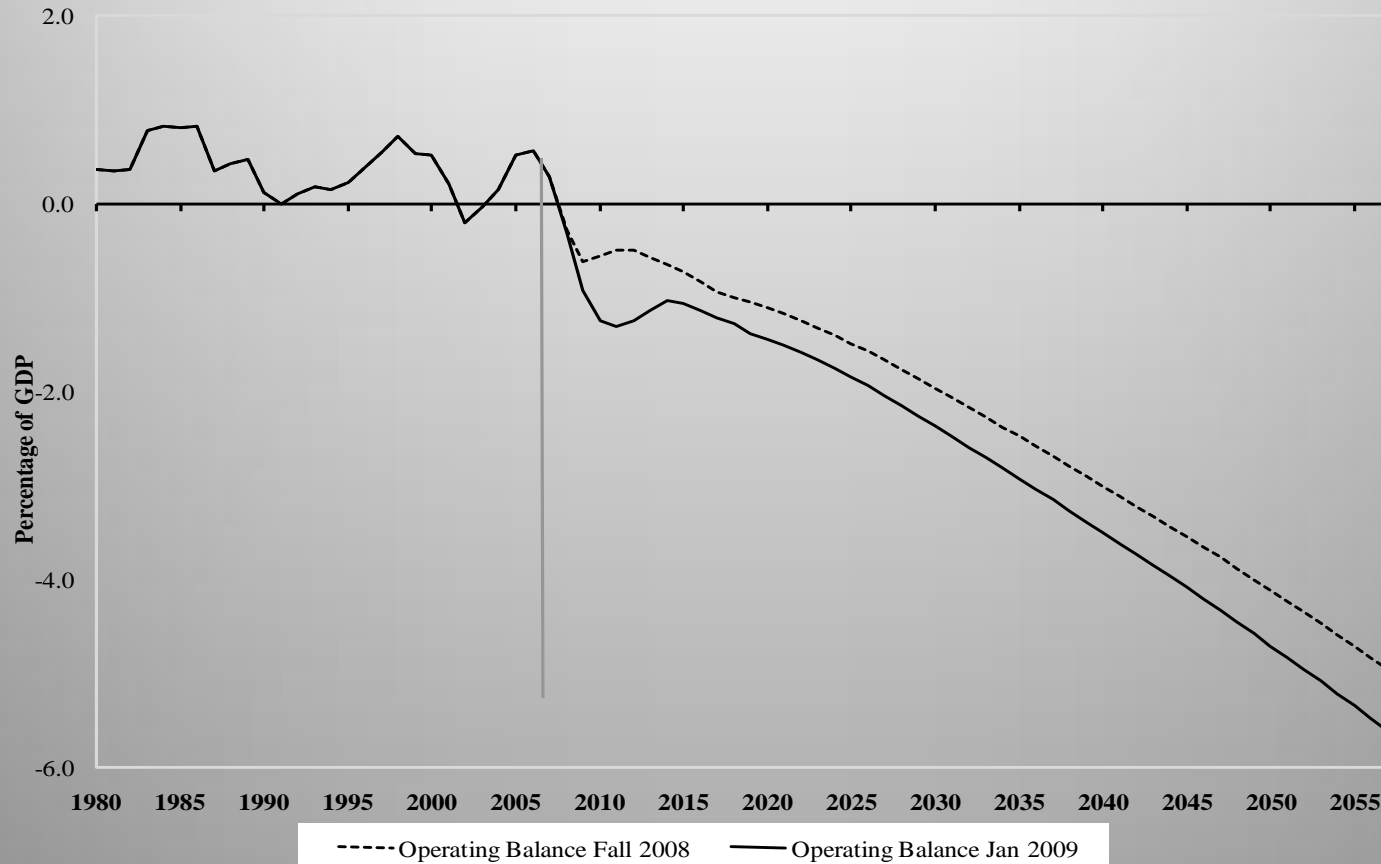
Driving revenue trends: Consumption

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.

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



How to balance budgets in a new era?

- ❖ Revenues now are growing but challenges remain
- ❖ With an outlook of slow economic growth, recent strong growth in revenues may not be sustainable
- ❖ Little likelihood of significant new federal aid; strong voter opposition to tax increases
- ❖ Savings on pensions, etc., may have a ‘managed care effect’ of resetting spending levels for now
- ❖ But little progress on reforming the big-ticket spending areas of education & health care

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