



**The  
Nelson A.  
Rockefeller  
Institute of  
Government**

## **More Trouble Ahead?**

### **The Fiscal Outlook For States**

**Federation of Tax Administrators  
2008 Revenue Estimation and Tax  
Research Conference**

**Robert B. Ward**  
September 15, 2008

## **Overview**

- ❖ State tax revenues rebounded a bit in the second quarter, but that may be an anomaly
- ❖ Sales taxes are especially weak: They declined in the second quarter of 2008 compared to a year earlier – the first year-over-year decline since early 2002
- ❖ Two-thirds of states had declining economies in July, based on the Philly Fed's state coincident indexes
- ❖ A new concern: purchasing power of the tax dollar

## The state revenue picture

- ❖ Rockefeller Institute's latest survey of states' reports shows tax revenue rose a relatively strong 5% from April-June 2007 to the same quarter in 2008
- ❖ That 5% growth represented a rebound from year-over-year growth of only 1.7% and 2.6% in the two preceding quarters
- ❖ PIT revenue was up by 7.7%, while sales tax was down 1.7% and corporate taxes down 7.0%

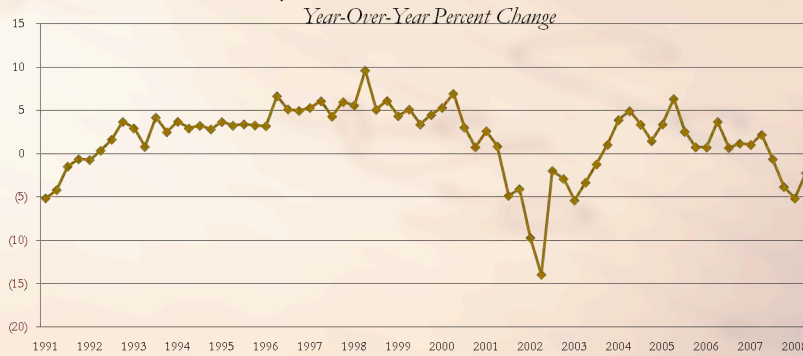
## Can the growth continue?

- ❖ How can tax revenues look relatively good, when the economy is so weak? 'Last year's economy is doing well,' as Don Boyd wrote in our last quarterly report
- ❖ Or, as one state revenue commissioner put it:

'FY2008 was a record year for revenue collections, but the driving elements of that record year – income tax paid on capital gains, dividends and interest, settlement of some large tax cases, and strong withholding tax collections – will likely not occur again in FY2009.' (*Commissioner Bal of Massachusetts, July 16 news release*)

## The long-term picture: Not like 2002!

### Real Adjusted Tax Revenue, 1991-2008

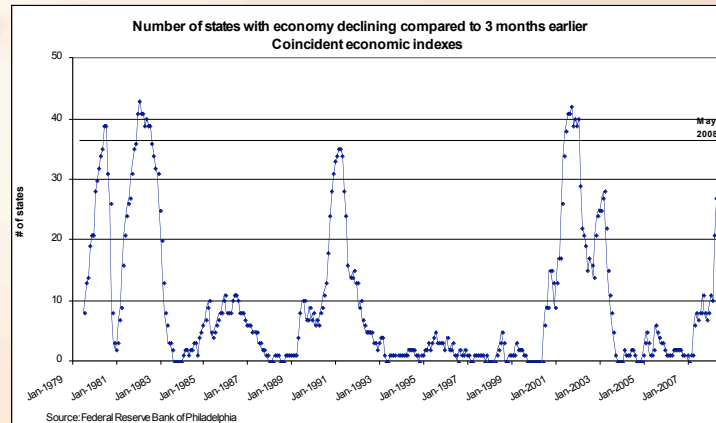


Data from Rockefeller Institute survey of states, adjusted for legislated tax changes (NCSL data) and inflation (BEA).

## More on the 1<sup>st</sup> and 2<sup>nd</sup> quarters of 2008

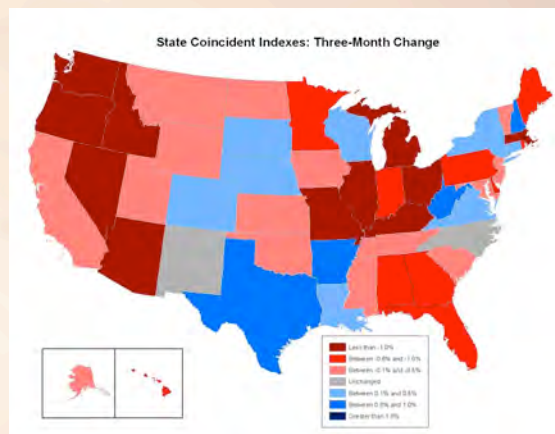
	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter
Overall change in tax revenue, from same quarter a	1.7%	5.0%
Change in PIT revenue	4.4%	7.7%
Change in sales tax revenue	0.0%	-1.7%
# of states with overall <u>decline</u> in tax revenue	15	15
# of states with <u>decline</u> in sales tax	23	23
# of states with <u>double-digit increase</u> in PIT revenue	9	9

## In March, 10 weak states. In May: 38



Philadelphia Fed index says 36 states were declining in July

Index is heavily influenced by employment and related factors such as wages and hours worked; may suggest continuing weak revenue



## Tax revenue gains (losses) by region

*April-June 2008 over 2007*

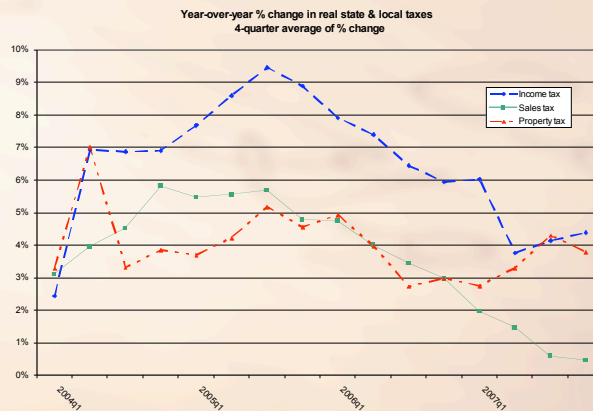
	PIT	Sales tax	Total
New England	9.6%	1.6%	4.7%
Mid-Atlantic	16.5	1.3	9.6
Great Lakes	5.8	1.9	3.9
Plains	6.7	(0.9)	3.7
Southeast	5.0	(4.5)	(1.5)
Southwest	(8.7)	1.1	10.9
Rocky Mountains	1.6	(5.4)	(1.6)
Far West	6.1	(4.8)	7.5
<b>U.S. average</b>	<b>7.7%</b>	<b>(1.7%)</b>	<b>5.0%</b>

Source: Rockefeller Institute of Government

## Some noteworthy numbers from the latest quarter (April-June, 2007 to 2008)

	PIT	Sales tax	Total tax revenue
Michigan	16.2%	4.7%	14.6%
Mississippi	64.6%	0.3%	18.5%
New York	24.6%	1.4%	14.5%
Texas	NA	2.3%	16.7%
Florida	NA	(6.6%)	(9.0%)
Georgia	(4.7%)	\$8.6%	(7.3%)
Ohio	2.1%	0.2%	(1.8%)
<b>U.S. average</b>	<b>7.7%</b>	<b>(1.7%)</b>	<b>5.0%</b>

## Property taxes: More stable than others



## Where will state taxes go next?

- ❖ A sobering observation from *The Wall Street Journal*:  

‘A serious consumer slowdown looks to be taking hold, and some economists in the latest Wall Street Journal economic forecasting survey say it could be a major retrenchment lasting for years.’
- ❖ Employment, stock prices, housing prices and other indicators are also not encouraging

## **Additional factors in the outlook**

- ❖ Capital gains were high, driving lots of tax revenue from 2007, and that's not likely to continue – bad news for personal income taxes
- ❖ Wage growth has slowed – also bad for income tax
- ❖ Retail sales declined in August – bad for sales tax
- ❖ Strong resistance to tax increases, and emerging opposition to expansion of gambling revenue

## **A bit on how we measure state taxes**

- ❖ We're changing our primary data set, moving from our own survey of states to the Census Bureau data
- ❖ Quarterly Census data on state tax revenues have become more timely, and are more comprehensive (including nationwide totals for local taxes)
- ❖ The Rockefeller Institute will continue to gather data from each state so we can analyze withholding and other factors – we welcome your suggestions!



## What's going on with spending?

- ❖ Rising cost inflation will put new pressure on budgets that are already hurt by weak revenues
- ❖ Inflation in 2007 was over 6% for state and local government services (as measured by BEA's price index), compared to 3.6% for the overall economy
- ❖ Petroleum-related products may be one reason; costs for employee and retiree health care may be another; we're hoping to learn more about this



**The Nelson A.  
Rockefeller  
Institute  
of Government**

*The Public Policy Institute of the  
State University of New York*

**411 State Street  
Albany, NY 12203-1003**

**Robert B. Ward**  
**Deputy Director/Director, Fiscal Studies**  
**(518) 443-5831**  
[wardr@rockinst.org](mailto:wardr@rockinst.org)

[www.rockinst.org](http://www.rockinst.org)