

Rosehill: A Hypothetical State/ Local Government

What if a Major Revenue Source is Eliminated?

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This is a presentation prepared solely to demonstrate the interaction between a dynamic input-output model with implications toward a local government's fisc.

This does not reflect a policy initiative.

Revenue Estimating Conference

The 2 largest revenue sources from the REC Official Forecast of 12/14/2011 are listed below(in Million \$):

	FY 12/13
Individual Income	2,887
Sales	2,764
General Fund	8,407

Step 1

The Individual Income Tax amounts were eliminated.

Executive Budget for FY 2012/13

- \$25.5 billion Total Expenditures
(excluding double counts)
- \$8.4 billion General Fund
expenditures
- \$2.4 billion of General Fund
discretionary expenditures

FY 2012/13 Discretionary General Fund Spending (in Million \$)

Total General Fund Discretionary	2,425
Business & Infrastructure	73
Education	1,089
Natural Resources	26
General Government	140
Human Resources	990
Public Safety	108

Budget Cuts

- Since GF discretionary spending is less than Individual Income tax collections,
- And because the Constitution requires a balanced budget;
- Discretionary expenditures were eliminated.

Sales Tax

- Step 2
- After eliminating all discretionary spending, the FY 2012/13 budget would still be in a deficit posture due to the income tax elimination.
- Therefore a revenue raising measure would be necessary to meet the Constitutional requirement of a balanced budget.
- It was assumed that the second leading revenue source, the Sales tax, would be used to balance the budget. Sales tax collections would have to be increased by 18% to generate enough revenue to balance the budget.
- One way of accomplishing this would be to increase the sales tax rate from 4% to 4.8%. The revised rate was rounded up to 5%.
- Additional Sales Tax collections would be \$723 million

Technical Procedure of Budget Cuts

Step 3

- After reducing income and increasing sales
- Run REMI to balance the budget
- Distribution of discretionary spending by functional area is built into REMI model

Loss of Federal Matching Funds

Step 4

- Specific types of state spending qualify to attract federal match funding.
- For purposes of this analysis, the Federal Medical Assistance Percentage (FMAP=1.58) for Medicaid was multiplied by the decreased state spending on Human Resources.
- Loss in Federal match funding/spending would be \$1,252 million

Federal Match Loss Calculation

Step 4 (continued)

- 58% of Federal Spending was in HR area
- Federal MOF change = \$-47M
- Federal MOF change in HR = \$-27M
- HR spending change = \$-820M
- State HR spending change = \$-792M
- Federal change = \$-1,252M = \$-792M x 1.58

Economic Summary (% Change from Base)

Category	2014	2020	2025	2030
Total Employment	(3.8)	(4.0)	(4.0)	(4.2)
Private Non-Farm Employment	(1.3)	(1.3)	(1.1)	(1.2)
Gross Domestic Product	(2.8)	(3.0)	(2.9)	(3.0)
Personal Income	(2.6)	(3.4)	(3.5)	(3.7)
Disposable Personal Income	(.7)	(1.5)	(1.6)	(1.7)
Population	(0.4)	(1.4)	(1.8)	(2.0)

Budget (% Change from Base)

Category	2014	2020	2025	2030
Total Revenues, Expenditures	(14.0)	(17.1)	(18.0)	(18.6)
Individual Income Tax	(100)	(100)	(100)	(100)
Sales Tax	24.0	23.0	22.8	22.6
Federal Funds	(11.4)	(14.6)	(15.4)	(15.8)

Spending (% Change from Base)

Category	2014	2020	2025	2030
Business and Infrastructure	(4.5)	(6.8)	(7.1)	(7.3)
Education	(14.4)	(18.3)	(19.1)	(19.9)
Environment and Nat Resources	(5.9)	(6.7)	(6.4)	(6.3)
General Government	(5.9)	(8.3)	(8.7)	(8.9)
Human Resources	(21.6)	(27.7)	(30.0)	(31.7)
Public Safety	(5.6)	(8.0)	(8.3)	(8.5)

Static vs. Dynamic FY 13/14

(in Million \$)

Source	Entered	End Result	Difference
Ind. Income	-2,999	-2,999	0
Sales	+723	+694	-29
Federal	-1,252	-1,347	-95
Other	0	-58	-58
Total	-3,528	-3,710	-182

Variation: Tax Half Cut

First Run

- \$-2,999M Individual Income
- \$+ 723M Sales
- \$-2,276M Net Tax Change

Variation

- \$-1,138M Individual Income

Economic Summary (% Change from Base)

Category	2014	2020	2025	2030
Total Employment	(2.0)	(2.2)	(2.1)	(2.2)
Private Non-Farm Employment	(.7)	(.7)	(.6)	(.6)
Gross Domestic Product	(1.4)	(1.6)	(1.6)	(1.6)
Personal Income	(1.3)	(1.8)	(1.9)	(2.0)
Disposable Personal Income	(.6)	(.9)	(1.1)	(1.2)
Population	(0.2)	(.7)	(.9)	(1.0)

Budget (% Change from Base)

Category	2014	2020	2025	2030
Total Revenues, Expenditures	(7.1)	(9.0)	(9.5)	(9.8)
Individual Income Tax	(39.7)	(42.0)	(42.2)	(42.5)
Sales Tax	(.4)	(.9)	(1.0)	(1.1)
Federal Funds	(5.8)	(7.5)	(8.0)	(8.2)

Spending (% Change from Base)

Category	2014	2020	2025	2030
Business and Infrastructure	(2.4)	(3.8)	(4.0)	(4.1)
Education	(7.4)	(9.6)	(10.0)	(10.4)
Environment and Nat Resources	(3.2)	(3.8)	(3.6)	(3.6)
General Government	(3.1)	(4.6)	(4.8)	(4.9)
Human Resources	(11.3)	(14.4)	(15.6)	(16.5)
Public Safety	(3.0)	(4.4)	(4.6)	(4.7)

Static vs. Dynamic FY 13/14

(in Million \$)

Source	Entered	End Result	Difference
Ind. Income	-1,138	-1,191	-53
Sales	0	-10	-10
Federal	-640	-688	-48
Other	0	-31	-31
Total	-1,778	-1,920	-142