April Revenue, Turbulence in the Blind Spot

FTA Revenue Estimation & Tax Research Conference

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Overview
State Revenue Overview

- General fund revenues sharply declined in fiscal 2009 and 2010 but consistently grew from fiscal 2011-2013

- Revenue growth spiked in fiscal 2013
  - Growth attributed to modest economic improvements, strong gains in stock market, and to impact of federal fiscal cliff
    - Taxpayers shifting capital gains and other income to calendar year 2012 to avoid scheduled higher tax rates

- States anticipated slower growth in fiscal 2014
  - Variation in how much they anticipated the drop off would be
    - Some states looked at taxpayer behavior after prior federal tax changes
    - States with large percentage of high-income earners faced more impact
Non-Inflation Adjusted GF Revenue Exceeded Peak Levels in FY 2013

General Fund Revenue: FY 2007-FY 2015

Source: NASBO Spring 2014 Fiscal Survey of States

*Aggregate fiscal 2014 revenue levels would need to be $753 billion to remain equivalent with real 2008 revenue levels.

Fiscal 2015 numbers are recommended
Quarterly Revenue Growth Declined in 2014 for the First Time Since 2010

Source: Fiscal Studies Program, Rockefeller Institute of Government; U.S. Census Bureau
Preliminary data from 48 states shows a 1.7% decline in revenue in the 2nd quarter of 2014
- 1st quarter revenues declined 0.3%

Personal income taxes decline 7.1% in 2nd quarter following 1.2% decline in 1st quarter

Other sources of revenue weren’t as impacted
- Sales taxes grew 1.7% in 1st quarter and 4.2% in 2nd quarter
- Corporate income taxes grew 1.4% in 1st quarter and declined 0.1% in 2nd quarter
For the year, fiscal 2014 revenues increased by 1.2%, according to NASBO’s Fiscal Survey of States

- Survey was conducted in the spring
- Personal income taxes grew by 1.0%
- Sales taxes grew by 4.6%
- Corporate income taxes grew by 1.5%

Through April, 11 states had revenues below projections, 13 were on target, and 26 were above
Revenue Impact on Budgets
States Continued to Make Midyear Budget Cuts

Budget Cuts Made After the Budget Passed
($ millions)

Source: NASBO Spring 2014 Fiscal Survey
Total Reserves Have Declined with Less Ending Balances

Balances as a Percent of Expenditures

<table>
<thead>
<tr>
<th>Year</th>
<th>Balance as % of Expenditures</th>
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<tbody>
<tr>
<td>FY 2006</td>
<td>11.5%</td>
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<tr>
<td>FY 2007</td>
<td>10.1%</td>
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<tr>
<td>FY 2008</td>
<td>8.6%</td>
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<tr>
<td>FY 2009</td>
<td>5.7%</td>
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<td>FY 2010</td>
<td>5.2%</td>
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<td>FY 2011</td>
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<tr>
<td>FY 2015</td>
<td>7.4%</td>
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</tbody>
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Slow Budget Growth in Fiscal 2015

*37-year historical average annual rate of growth is 5.5 percent
*Fiscal 2015 numbers are recommended

Source: NASBO Spring 2014 Fiscal Survey of States
Overall Tax Cuts Remain Modest

Enacted State Revenue Changes Fiscal 1979 to Fiscal 2014 & Proposed for Fiscal 2015
Outlook
State Fiscal Outlook

- Fiscal 2015 revenues projected to increase by 3.2%
  - PIT 5.1%, sales 4.5%, CIT 1.6%

- 42 states recommended general fund spending increases in FY 2015, but growth still below average
  - Weakened revenue collections led to reduced spending increases in some areas
  - Governors also made vetoes to ensure balanced budgets

- States continue to face tough competition for general funds, infrastructure demands, long-term liabilities such as pensions, and federal uncertainty