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Update on State Revenues

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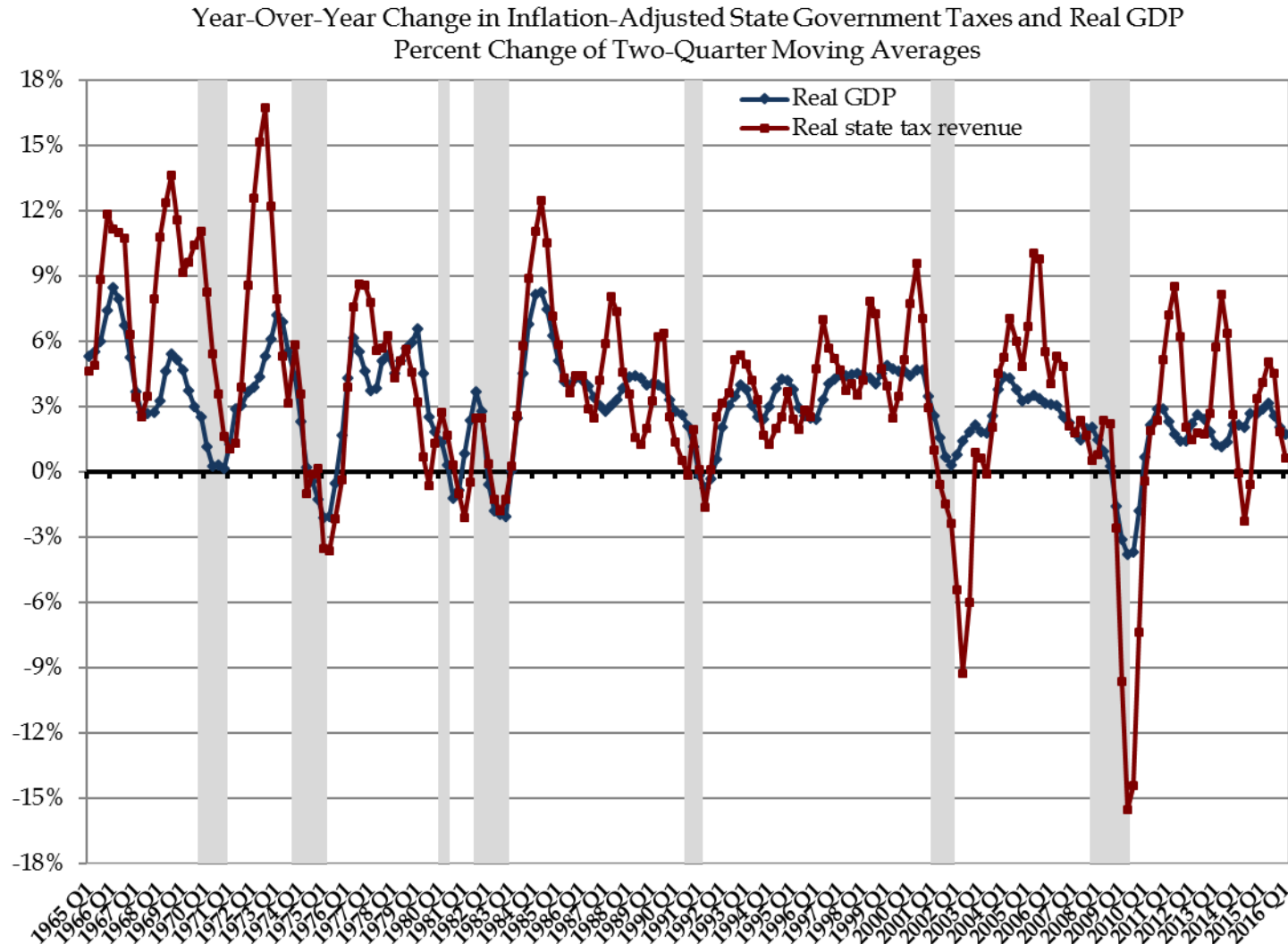
The State University
of New York

With thanks to Lucy Dadayan, Senior Policy Analyst

Update on state revenues

- Jan-Mar 2016 (full information, 50 states): Weakening sales and income taxes
- Apr-Jun 2016 (nearly full information, still evaluating): Declines in money with 2015 tax returns. Continued weakness in sales tax, reflecting slow growth in taxable consumption. Sales taxes appear to have been hammered by declines in nominal sales of energy-related goods and services.
- Jul-Aug 2016 (preliminary monthly data, major taxes, most states): continued weakness in withholding, sales taxes
- Comments on outlook:
 - Low inflation and slow real growth suggest continued slow growth in withholding and sales-taxable consumption
 - Stock market booms and busts often lead to surges and falls in income tax revenue that swamp growth driven by inflation and the real economy. Stock market so far this year is tepid (~5% +/-).

The long view: State taxes and the economy. Volatile, with recent slowing



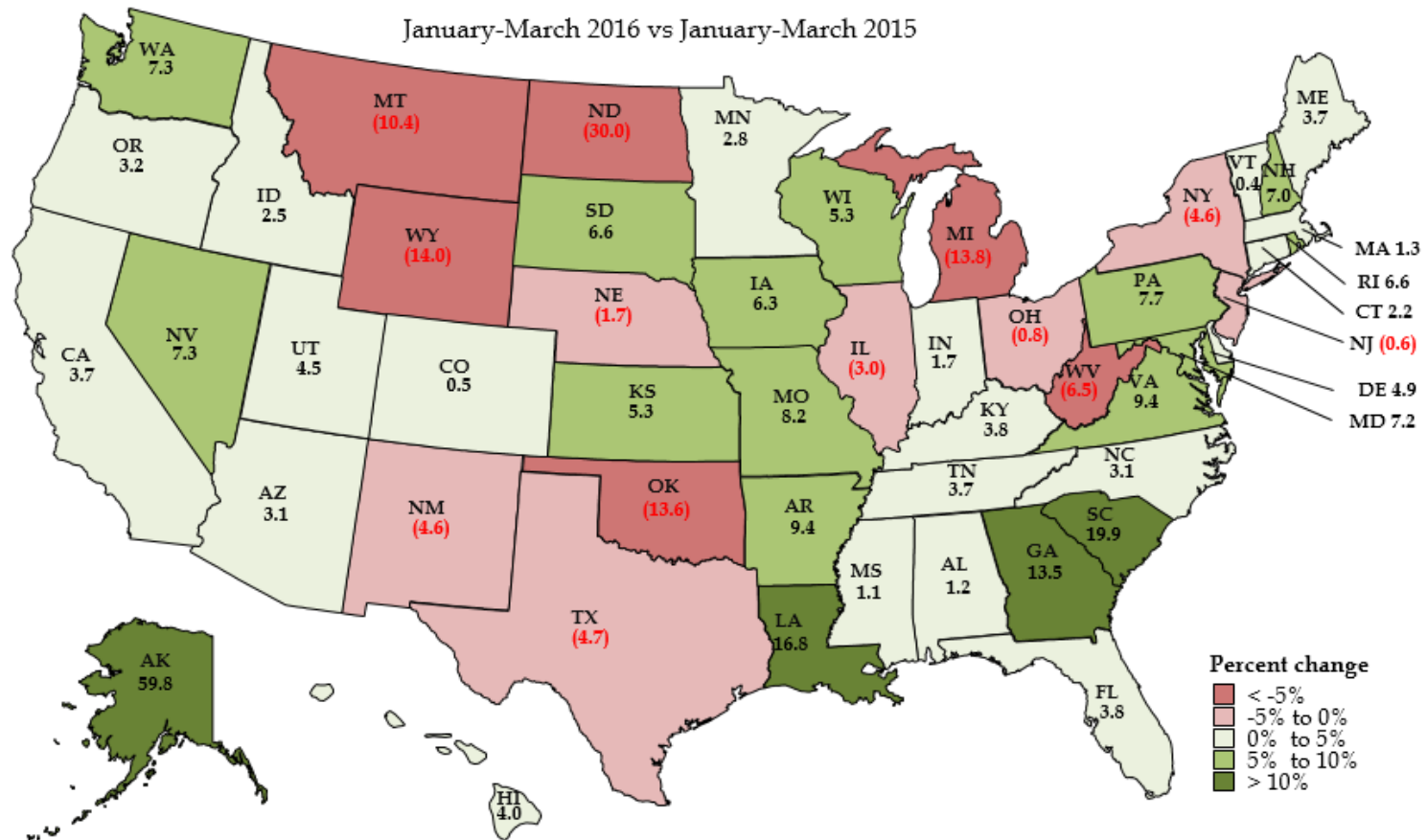
Sources: U.S. Census Bureau (tax revenue) and Bureau of Economic Analysis (GDP).

Notes: (1) Percentage change of two-quarter moving averages; (2) No legislative adjustments; (3) Recession periods are shaded.

Jan-Mar quarter showed significant slowing in sales tax and income tax

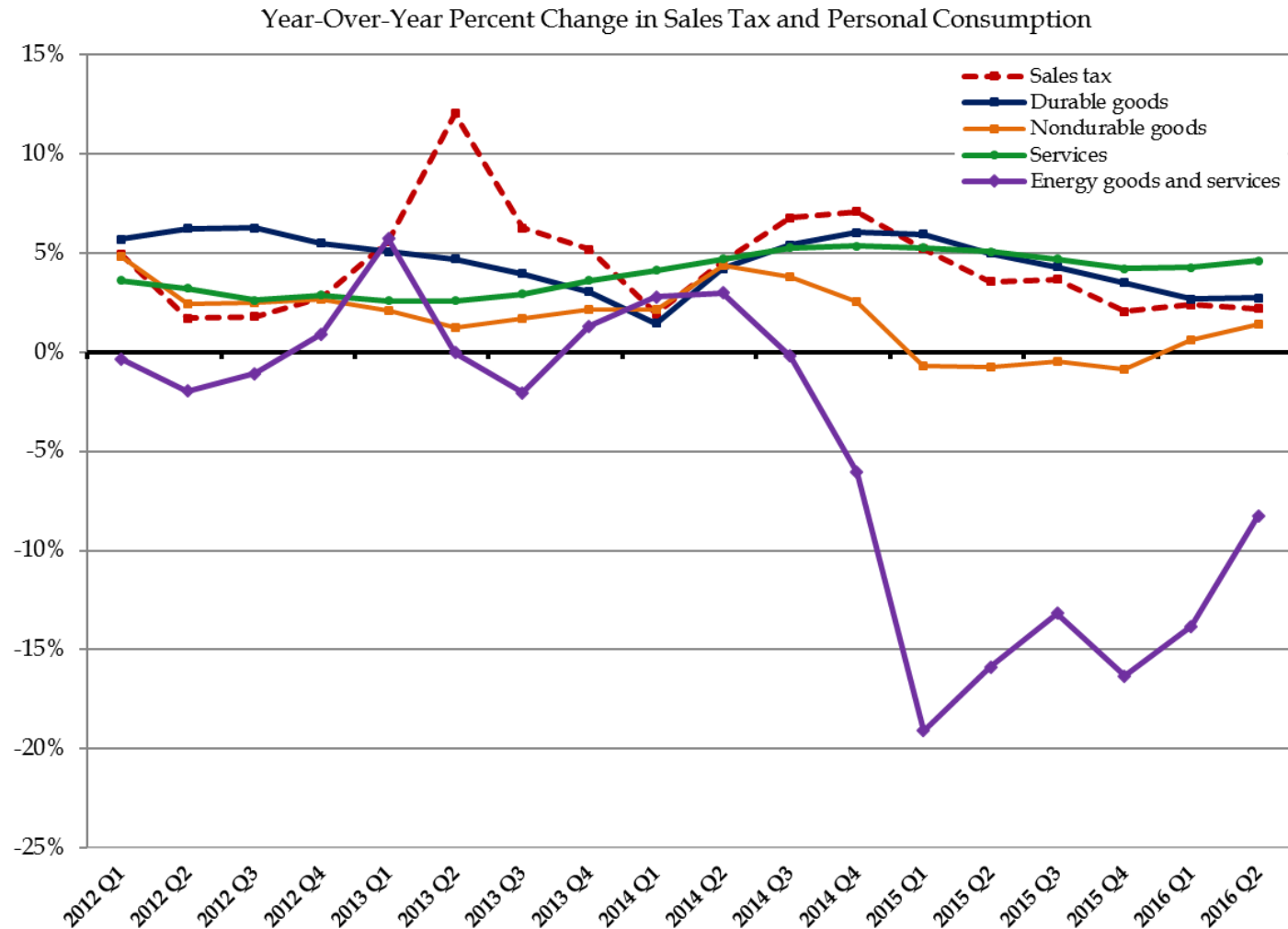
Table 1. State and Local Government Tax Revenue Growth Year-Over-Year Change					
(Dollar amounts in millions)					
	2015 Q1	2016 Q1	\$ change	% change	Prior 4 quarters /2
State and Local Government					
Total, major taxes /1	\$307,341	\$316,428	\$9,088	3.0%	5.4%
State Government					
Total state taxes	\$218,421	\$221,920	\$3,499	1.6%	4.5%
Total major taxes	\$161,237	\$163,834	\$2,598	1.6%	5.7%
Sales tax	68,645	70,291	1,647	2.4%	3.6%
Personal income tax	77,708	79,096	1,388	1.8%	8.1%
Corporate income tax	11,407	10,896	(512)	-4.5%	0.1%
Property tax	3,477	3,552	75	2.2%	9.6%
Total, other state taxes	\$57,185	\$58,086	\$901	1.6%	0.8%
Local Government					
Total major taxes	\$146,104	\$152,594	\$6,490	4.4%	4.8%
Sales tax	19,163	19,059	(104)	-0.5%	9.0%
Personal income tax	8,894	9,024	130	1.5%	15.9%
Corporate income tax	2,482	2,409	(73)	-2.9%	2.7%
Property tax	115,565	122,102	6,537	5.7%	3.2%
Source: U.S. Census Bureau (tax revenue).					
Notes: 1/ The Census Bureau only reports on major taxes of local government (sales, personal income, corporate income, and property tax). 2/ Average of four prior year-over-year percent changes.					

Major weakness in resource-dependent states and selected other states: 2016q1 vs. 2015q1



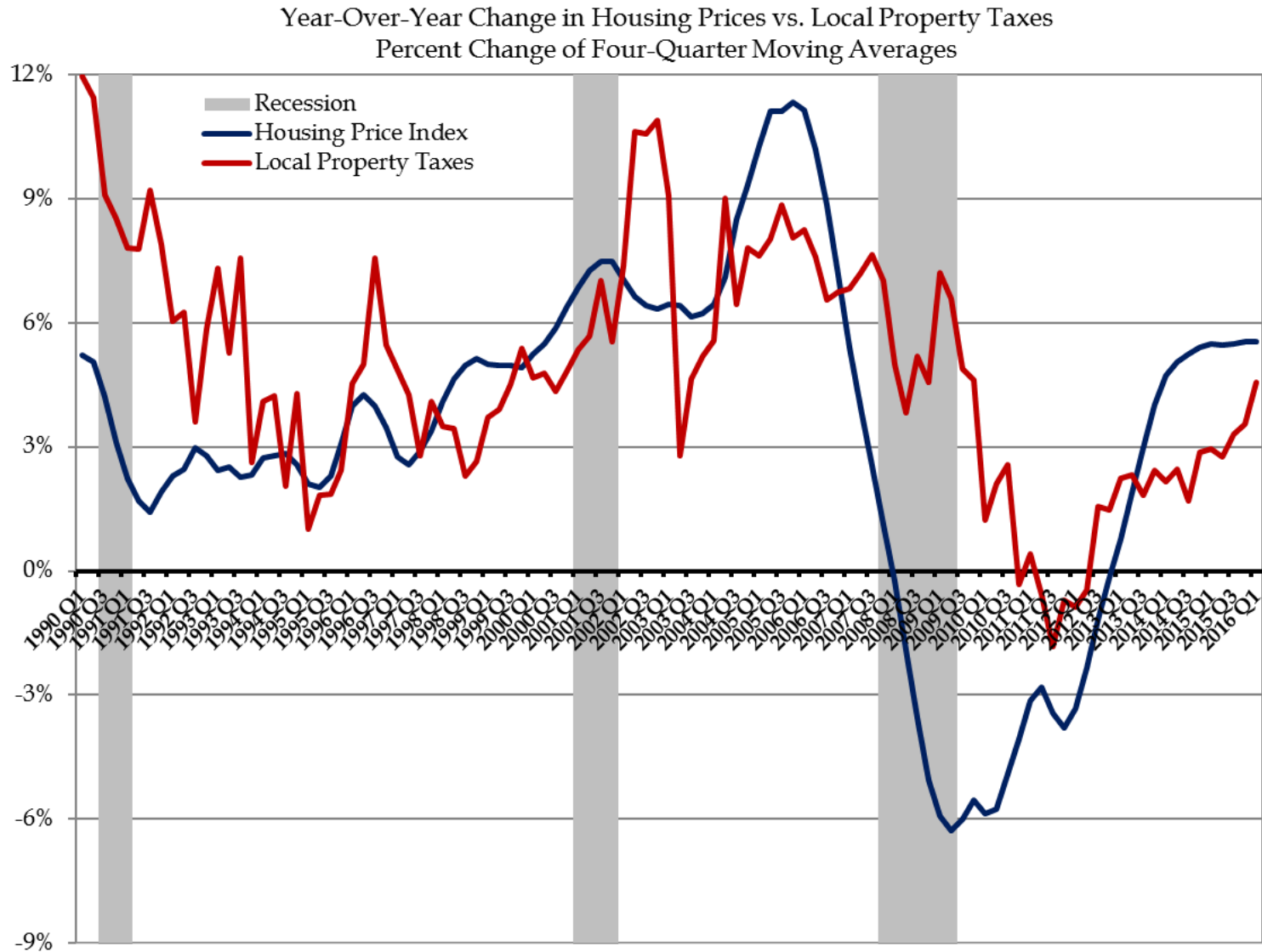
Source: U.S. Census Bureau (tax revenue).

Sales tax weakness in part reflects declines in nominal consumption of energy goods and services



Sources: U.S. Census Bureau (tax revenue) and Bureau of Economic Analysis, National Income and Product Accounts, Table 2.3.5.

Local property taxes continue their recovery



Sources: U.S. Census Bureau (tax revenue) and Federal Housing Finance Agency, House Price Indexes data (all transactions).

Declines in the April-June quarter were widespread

Table 12. Preliminary Quarterly State Tax Revenue				
April-June 2015 vs 2016, Percent Change				
	PIT	CIT	Sales	Total
United States	(3.3)	(9.2)	2.2	(2.1)
New England	(4.8)	10.0	(2.6)	(2.2)
Mid-Atlantic	(5.0)	(11.0)	2.3	(5.4)
Great Lakes	(7.6)	(18.2)	1.8	(3.7)
Plains	(2.7)	(19.0)	0.0	(1.0)
Southeast	(1.1)	(2.9)	5.2	1.3
Southwest	2.1	(15.3)	(0.7)	(2.6)
Rocky Mountain	1.9	(12.0)	3.0	1.2
Far West	(2.0)	(11.3)	2.3	(2.0)
Source: Individual state data, analysis by Rockefeller Institute.				
Notes: N/A - not applicable; ND - no data; * - estimated data.				

April-June income tax was weak, reflecting declines in payments with returns and slowing withholding growth

Table 2. Growth in Personal Income Tax Components
Year-Over-Year Percent Change

PIT Component	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	Comments
Withholding	2.1%	5.0%	4.9%	2.0%	4.6%	2.7%	Largest PIT component; generally reflects current economy.
Estimated payments	8.1%	18.2%	9.0%	14.3%	3.1%	-8.2%	Second quarter payments usually heavily influenced by the previous year stock market.
Final returns	12.4%	20.0%	9.7%	16.2%	4.2%	-9.2%	Second quarter is usually the largest collections quarter.
Refunds	-3.2%	-1.0%	4.0%	0.1%	9.0%	7.6%	A positive number means that refunds increased; negative means refunds decreased.
PIT total	6.2%	14.1%	5.8%	4.5%	2.6%	-4.5%	

Source: Individual state data, analysis by the Rockefeller Institute.

April income tax was down in 14 of 17 states for which we have data; well short of projections

Table 3. April Personal Income Tax Revenues						
State	April 2015 Actual	April 2016 Actual	Percent Change	April 2016 Forecast	April 2016 Actual	Percent Variance
Median			(7.7)			(6.4)
Arizona	543.3	629.7	15.9	616.1	629.7	2.2
Arkansas	510.1	505.3	(0.9)	500.5	505.3	1.0
California	13,789.6	13,401.0	(2.8)	13,371.3	13,401.0	0.2
Colorado	1,127.4	928.9	(17.6)	1,073.4	928.9	(13.5)
Idaho	330.1	358.1	8.5	367.7	358.1	(2.6)
Indiana	929.6	860.5	(7.4)	919.8	860.5	(6.4)
Kansas	230.0	282.9	23.0	282.1	282.9	0.3
Maine	256.9	235.3	(8.4)	231.6	235.3	1.6
Mississippi	281.2	199.8	(28.9)	262.3	199.8	(23.8)
Montana	227.3	209.9	(7.7)	226.5	209.9	(7.3)
Nebraska	320.6	286.6	(10.6)	343.3	286.6	(16.5)
North Dakota	189.5	111.0	(41.4)	123.9	111.0	(10.4)
Ohio	1,222.3	717.3	(41.3)	826.7	717.3	(13.2)
Pennsylvania	2,054.3	1,878.4	(8.6)	1,963.4	1,878.4	(4.3)
Rhode Island	194.8	185.0	(5.0)	181.0	185.0	2.2
Vermont	160.8	155.8	(3.1)	172.7	155.8	(9.7)
West Virginia	338.2	287.7	(14.9)	332.1	287.7	(13.4)
Source: Individual state data, analysis by the Rockefeller Institute.						
Note: Data for New Mexico excludes June final returns.						

Comments on the outlook

- States forecast slow growth in FY 2017. Median growth:
 - PIT +4.0%
 - Sales tax +3.8%
- July and August have shown further weakness in sales and income taxes
- Public forecasts do not fully reflect the Apr-Jun declines not the recent further weakening of sales tax. We expect forecasts to come down further.
- Low inflation and slow real growth suggest continued slow growth in withholding and sales-taxable consumption
- Stock market booms and busts often lead to surges and falls in income tax revenue that swamp growth driven by inflation and the real economy. Stock market so far this year is tepid (~5% +/-).

Pension funding focus group

- Rockefeller Institute is studying the potential consequences of public pension fund investment risk for pension funds, for governments, and for their stakeholders.
- We want to make our analysis as useful as possible to policy makers and their advisors.
- We plan to conduct a focus group of policy makers and advisors to present and get feedback on measures of risk, within the next several months.
- We expect to hold the meeting in Washington, DC. We can cover travel costs.
- If you or a key staff member would like to learn more, and consider participating, please email Kathleen Tempel (kathleen.tempel@rockinst.suny.edu) for more information.

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