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National Trends in State and Local Government Employment and Finances

Economic Advisory Board Meeting

New York State Division of the Budget

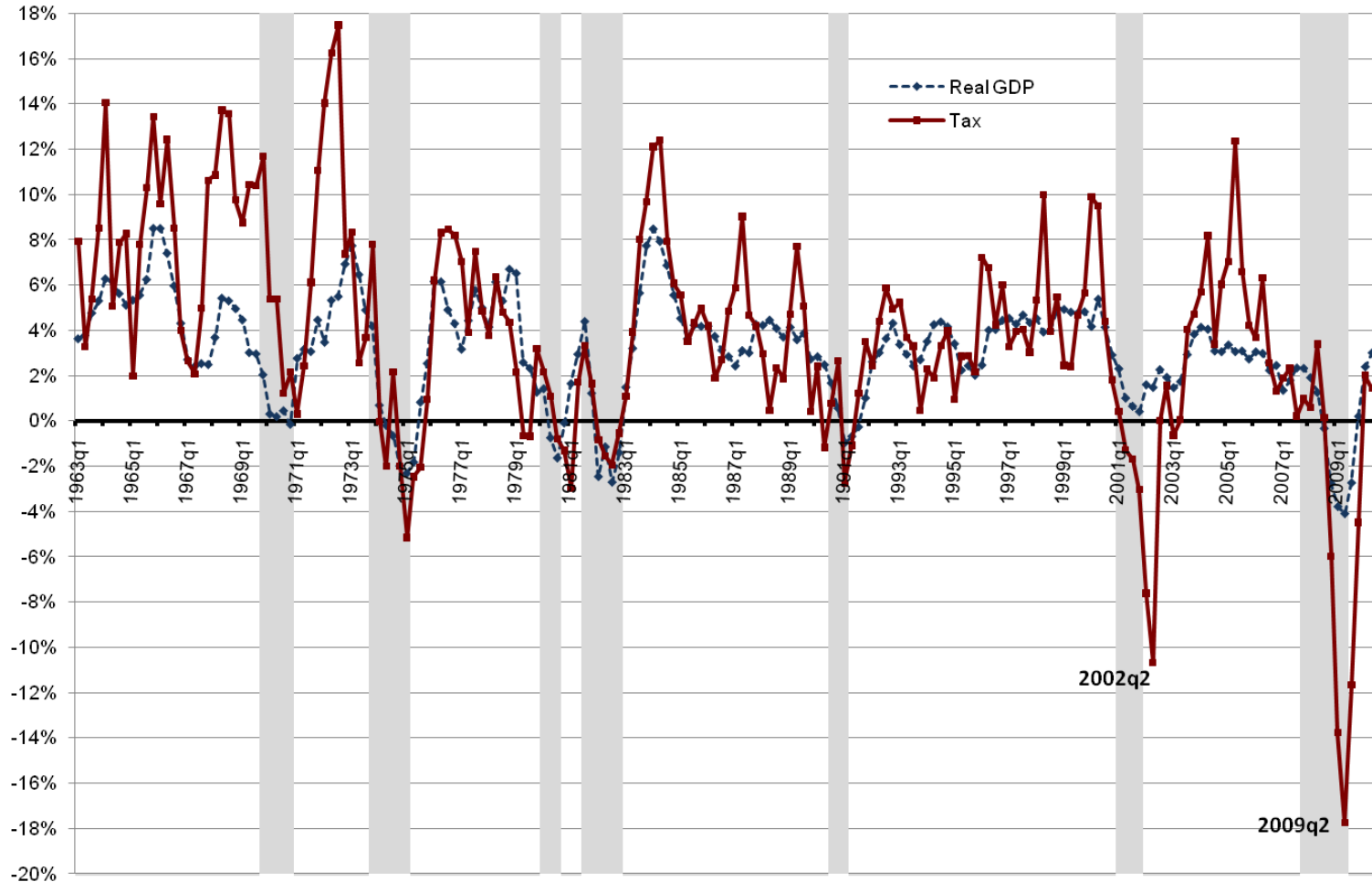
*State Capitol, Albany, NY
(By Telephone)
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Worst state government tax declines in 5+ decades

- worse than 2001 recession, worse than economy suggests -

Real state government taxes and real GDP
- % change vs. year ago -



Sources: Taxes: Census Bureau with Rockefeller Institute adjustment for 2010q2. Real GDP, and GDP price index: Bureau of Economic Analysis
Notes: (1) Tax revenue adjusted for inflation using GDP price index; (2) No legislative adjustments; (3) Recession periods are shaded.

Important drivers of major tax sources have fallen far more than in prior recessions, and far more than the broader economy

Variables with important influences on state and local government tax revenue

Selected recessions

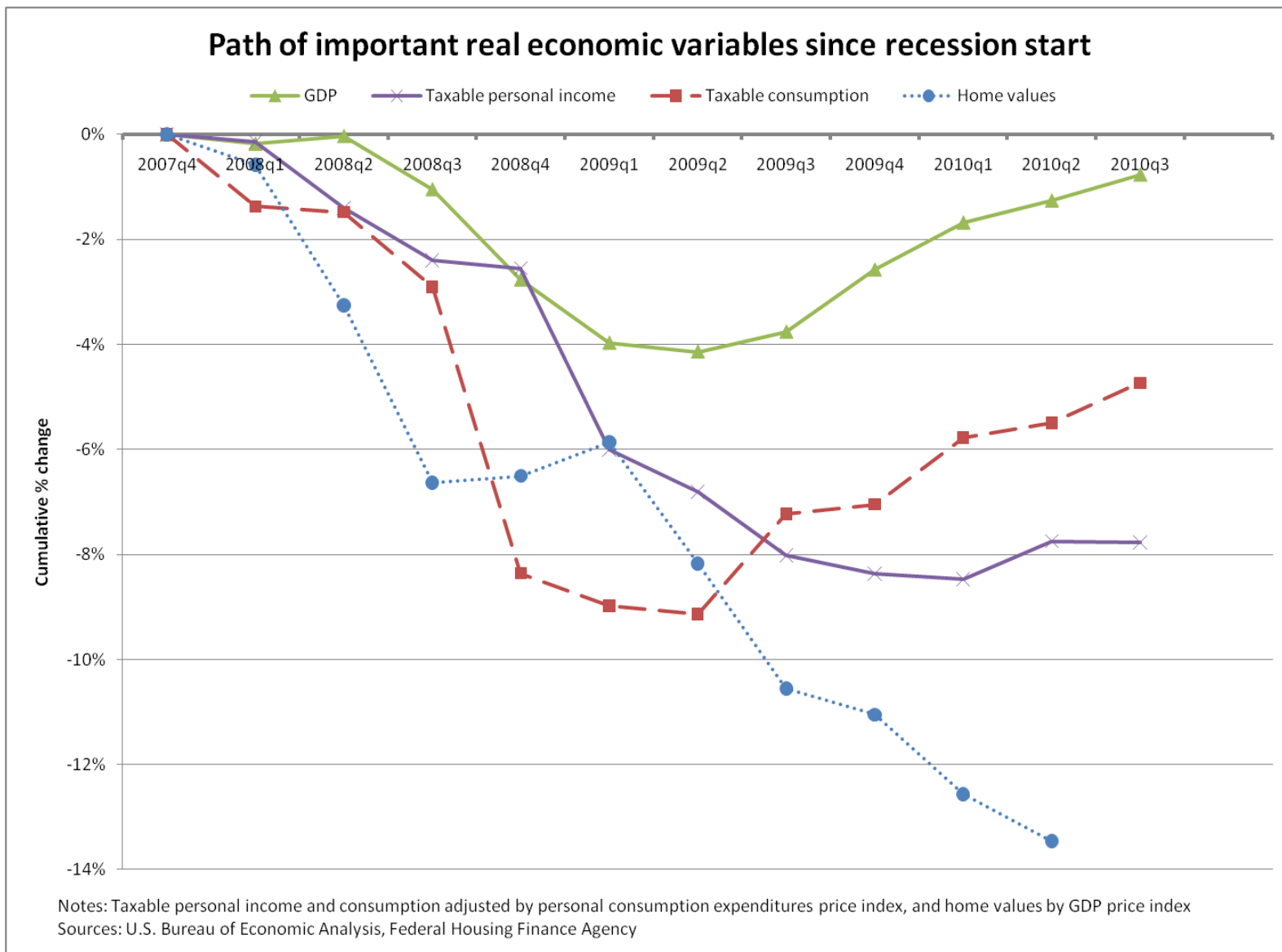
Recession starting	Duration (months)	% change cycle peak to own trough (quarters)						Real capital gains (annual)		
		Real GDP	Personal income (real)	Commonly taxable components of personal income (real)	Commonly taxable consumption items (real)	Real single family home prices (adjusted for general inflation)	Tax years	% change	\$ change as % of real GDP	
1969q4	11	-0.2%	0.0%	0.0%	-1.3%	na	1968 to 1970	-47.0%	-0.4%	
1973q4	16	-3.2%	-2.6%	-3.7%	-4.5%	na	1972 to 1975	-31.6%	-1.0%	
1980q1	6	-2.2%	-1.2%	-1.4%	-4.5%	-8.7%	1979 to 1981	-7.7%	-0.2%	
1981q3	16	-2.9%	-0.2%	-0.2%	0.8%	-4.8%	1981 to 1984	51.7%	1.5%	
1990q3	8	-1.4%	-1.0%	-1.9%	-1.8%	-2.2%	1988 to 1991	-38.5%	-1.3%	
2001q1	8	0.0%	-0.2%	-2.8%	-0.9%	real home prices rose	2000 to 2002	-59.9%	-4.3%	
2007q4	18	-4.1%	-2.3%	-8.5%	-9.1%	-13.5%	2007 to 2009 (est.)	-63.0%	-4.5%	

Notes: Taxable consumption defined as durables, nondurables other than food, plus food services, accommodations services, and recreation services; taxable personal income defined as sum of wages, nonfarm proprietors' income, interest income, and dividends. Consumption and income deflated by personal consumption expenditures price index. Capital gains deflated by GDP price index.

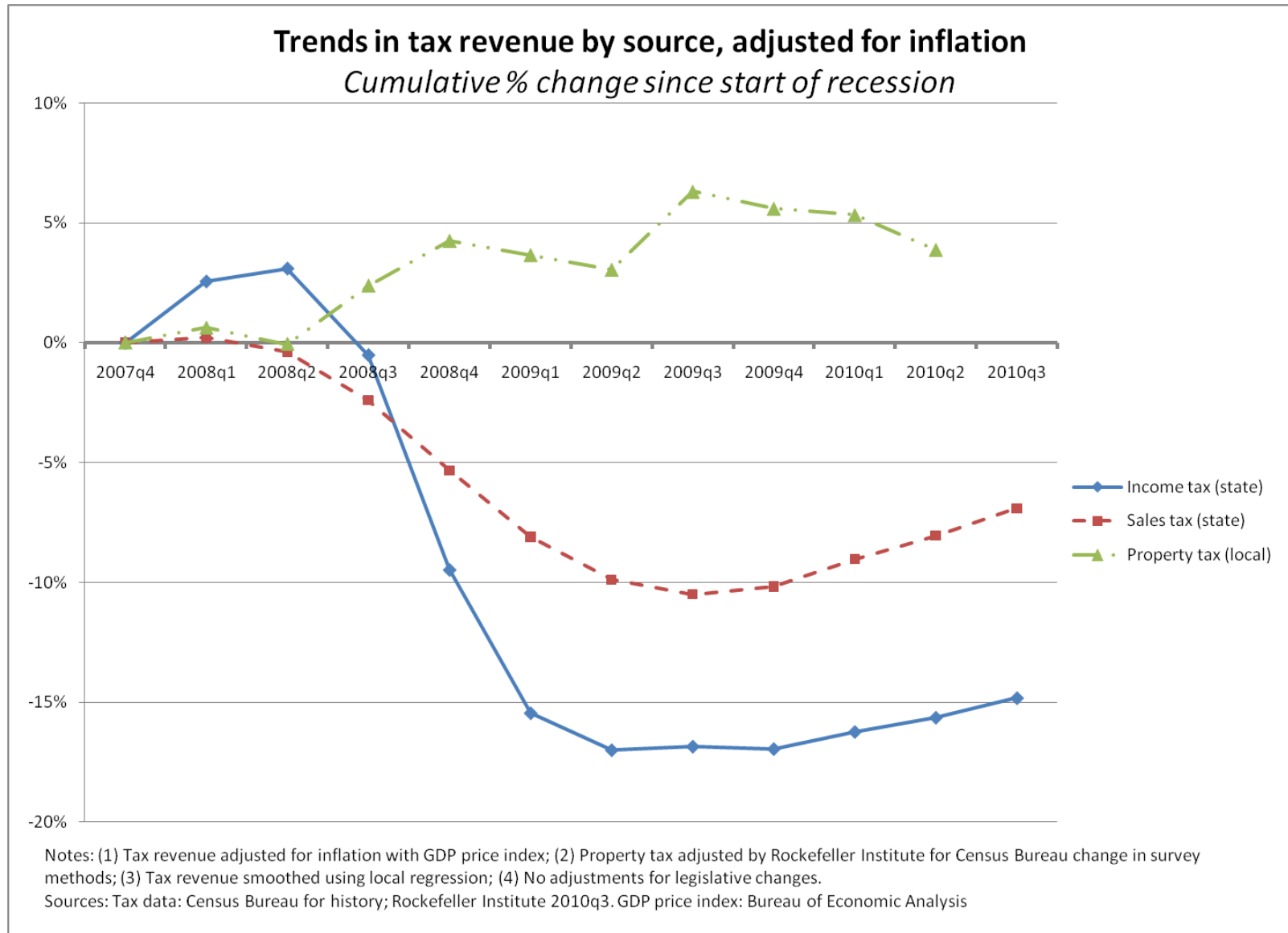
Sources: GDP, consumption, personal income, and price indexes from Bureau of Economic Analysis; capital gains from various IRS Statistics of Income documents; housing prices based on all-transactions index from Federal Housing Finance Agency

GDP is recovering but other key variables are far below peak

Real taxable income moving sideways



Sales tax fell early, PIT later but more sharply. Both recovering now. Property tax appears to be weakening. Sales & PIT declines worse than associated econ variables.



Recent data

- 2010q3 state tax revenue for nation (flash, 48 states):
 - PIT +4.7%
 - Corp income (2.5%)
 - Sales tax +4.1%
 - Sum +3.9%
- Last few months, anecdotal reports of a lot of states meeting their cash flow forecasts. New shortfalls in monthly collections are relatively rare.

Nominal state tax revenue in 48 states is lower than two years earlier– much lower, in most states

Percent change in state government tax revenue			
<i>Year ending June 2010 vs. two years earlier</i>			
	Sum of states	-10.8%	
Alaska	-41.4%	Maryland	-9.7%
Louisiana	-20.9%	Massachusetts	-9.7%
New Mexico	-19.4%	California	-9.4%
Georgia	-19.4%	Tennessee	-9.2%
Idaho	-19.2%	Indiana	-8.8%
Arizona	-18.8%	New York	-8.6%
South Carolina	-18.2%	Mississippi	-7.1%
Utah	-16.6%	Kansas	-7.1%
Ohio	-16.5%	Rhode Island	-6.9%
Oklahoma	-16.4%	Minnesota	-6.1%
Colorado	-16.0%	Kentucky	-5.9%
Connecticut	-15.7%	North Carolina	-5.7%
Illinois	-14.6%	Hawaii	-5.4%
New Jersey	-14.0%	New Hampshire	-5.2%
Texas	-13.8%	Maine	-5.2%
Wyoming	-13.8%	Pennsylvania	-5.0%
Montana	-12.8%	West Virginia	-4.6%
Nebraska	-11.3%	Arkansas	-3.8%
Virginia	-11.3%	Iowa	-2.8%
Missouri	-11.2%	Vermont	-2.3%
Alabama	-10.8%	Wisconsin	-2.2%
Michigan	-10.7%	Oregon	-1.2%
Florida	-10.6%	South Dakota	-0.7%
Washington	-10.6%	Nevada	0.7%
Delaware	-10.2%	North Dakota	14.4%
Source: U.S. Bureau of the Census and Rockefeller Institute of Government			

Note: Although Nevada's 2010 tax revenue was above 2008, it was below 2007 and barely above 2006.

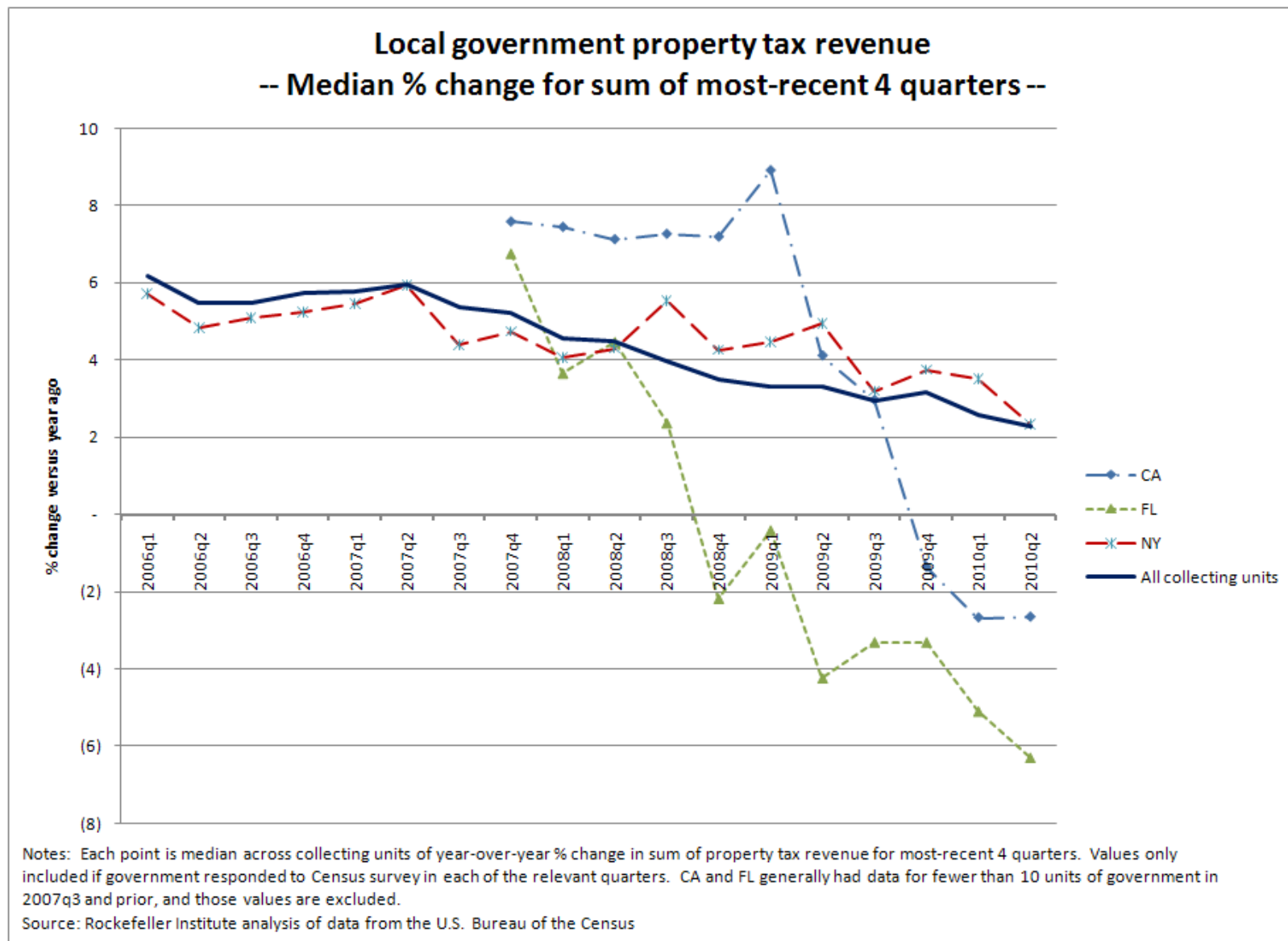
Newly available but noisy data are yielding insights into property tax trends around the country. Weakening apparent in some states.

Property tax revenue in selected large property-tax-collecting units of government												
Rank (1=largest)	State	Property tax collecting unit	Year-over-year percent change in taxes collected in the 4 quarters ending in:									
			2008q1	2008q2	2008q3	2008q4	2009q1	2009q2	2009q3	2009q4	2010q1	2010q2
		Median for all collecting units	4.6	4.5	4.0	3.5	3.3	3.3	2.9	3.2	2.6	2.3
4	California	Orange County	5.9	7.2	9.3	10.9	9.0	3.9	1.6	1.4	(5.7)	4.9
5	California	San Diego County	7.4	9.6	10.3	9.0	12.4	5.9	9.0	5.9	1.6	
20	California	Alameda County	7.6	5.9	5.7	5.2	6.3	4.6	4.1	1.6	(1.1)	(1.4)
22	California	San Bernardino County	15.5	12.1	12.5	10.4	13.0	6.4	5.0	(1.3)	(5.5)	(6.5)
24	California	Contra Costa County			26.1	21.3	(12.9)	(19.1)	(18.7)	(14.4)	(2.0)	3.3
26	California	San Francisco City	11.6	10.0	7.9	9.4	8.8	12.1	14.5	10.6	11.2	10.2
34	California	Sacramento County	11.4	7.3	6.7	6.1	16.7	2.9	2.3	(4.0)	(15.5)	(7.3)
43	California	Ventura County			7.8	7.7	10.3	4.2	3.9	(0.1)	(2.4)	(0.4)
8	Florida	Dade County	(5.2)	(6.6)	(4.8)	14.3	13.4	11.7	9.5	(4.3)	(6.0)	(9.1)
10	Florida	Palm Beach County			(3.2)	(2.6)	1.2	(1.4)	2.7	11.2	8.4	10.9
12	Florida	Broward County	3.7	2.0	2.1	1.0	1.6	(2.0)	(2.1)	(2.3)	(4.2)	(7.6)
33	Florida	Orange County	19.2	19.0	23.7	39.8	4.2	(4.5)	(12.1)	(33.8)	(24.5)	(13.8)
35	Florida	Pinellas County	2.0	7.2	(0.4)	(2.7)	(3.5)	(7.6)	(4.6)	8.0	7.4	3.5
37	Florida	Hillsborough County	6.9	6.6	(1.0)	(2.2)	(3.4)	(10.8)	(7.4)	(13.7)	(14.4)	(9.9)
46	Florida	Lee County	8.7	5.8	6.0	(3.9)	(6.0)	(9.1)	(9.4)	(13.4)	(12.8)	(14.6)
3	Illinois	Cook County			103.2	6.0	3.7	4.6	2.9	3.3	10.0	9.5
18	Illinois	Du Page County	4.3	4.3	4.7	5.0	5.0	5.2	5.0	4.9	4.9	4.1
25	Illinois	Lake County	8.7	7.2	6.1	5.5	5.4	5.0	5.1	5.5	5.5	4.3
36	Illinois	Will County		12.2	7.1	6.5	6.6	5.4	9.3	8.7	8.7	7.7
31	Maryland	Montgomery County	6.1	4.0	(1.9)	22.3	18.4	19.9	26.8	(1.5)	(0.4)	(1.3)
45	Maryland	Prince Georges County			22.0	18.6	13.3	12.6	12.1	9.4	10.0	10.6
38	Massachusetts	Boston City	6.7	6.3	3.3	5.2	4.7	4.6	6.2	4.7	3.9	4.5
15	Minnesota	Hennepin County	8.3	8.1	8.9	6.9	6.5	6.6	5.7	7.2	7.9	3.9
30	Missouri	St Louis County		21.4	20.9	12.5	(1.0)	(0.8)	(0.5)	(4.6)	(2.1)	(2.0)
19	Nevada	Clark County	5.1	6.0	4.9	11.2	16.1	15.2	14.4	9.8	(3.7)	(3.7)
1	New York	New York City	0.6	(0.3)	10.1	(10.2)	9.9	10.6	3.4	42.2	13.2	13.3
39	New York	Oyster Bay Town			(3.8)	(2.5)	(1.2)	17.1	24.6	9.1	7.9	(0.4)
44	New York	Brookhaven Town	7.3	14.3	14.3	11.9	13.3	4.0	4.0	5.5	5.3	(4.0)
40	Ohio	Cuyahoga County	(0.4)	(2.4)	(4.8)	(2.8)	(1.4)	0.9	1.2	0.8	(0.7)	(7.5)
48	Ohio	Hamilton County	(1.4)	(4.1)	(3.1)	(2.4)	0.3	(0.1)	2.7	1.9	0.8	4.8
6	Texas	Harris County	9.3	6.8	7.1	2.5	8.1	9.6	9.7	18.9	3.4	0.6
21	Texas	Bexar County	5.3	3.3	3.5	22.3	10.1	11.2	11.8	20.7	3.0	3.5
23	Texas	Travis County		(1.7)	(1.7)	0.6	15.2	15.6	15.8	11.4	5.8	5.7
11	Washington	King County		6.2	6.2	7.6	7.4	7.4	7.3	6.6	6.6	4.3

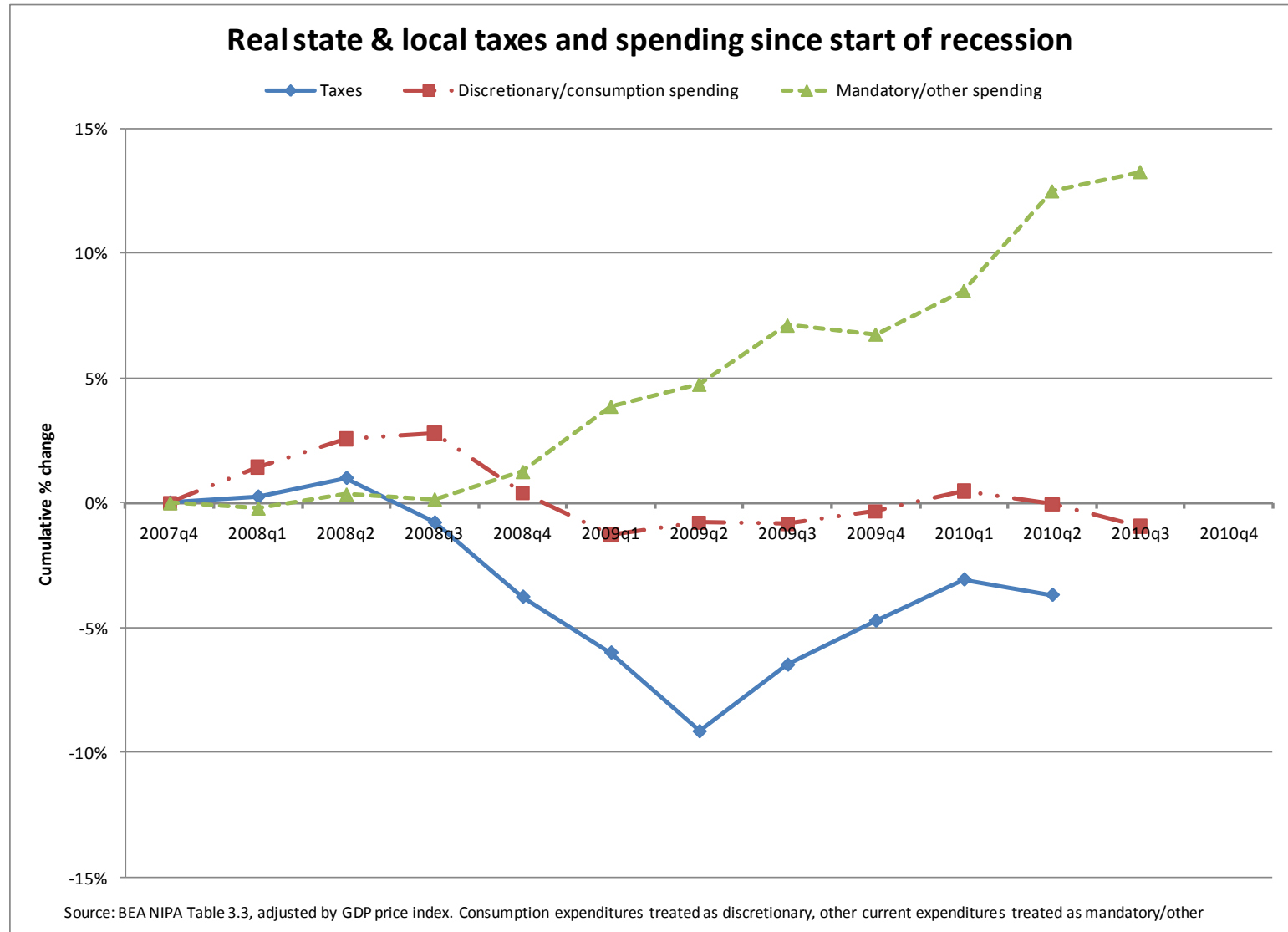
Notes: (1) Rank in nation (of about 5,500) based on property tax revenue in four quarters ending 2010q2; (2) Percent change reported only if local government responded to Census Bureau survey for all 8 quarters needed in the calculation (imputed values not used)

Source: Rockefeller Institute analysis of property tax survey data from Census Bureau.

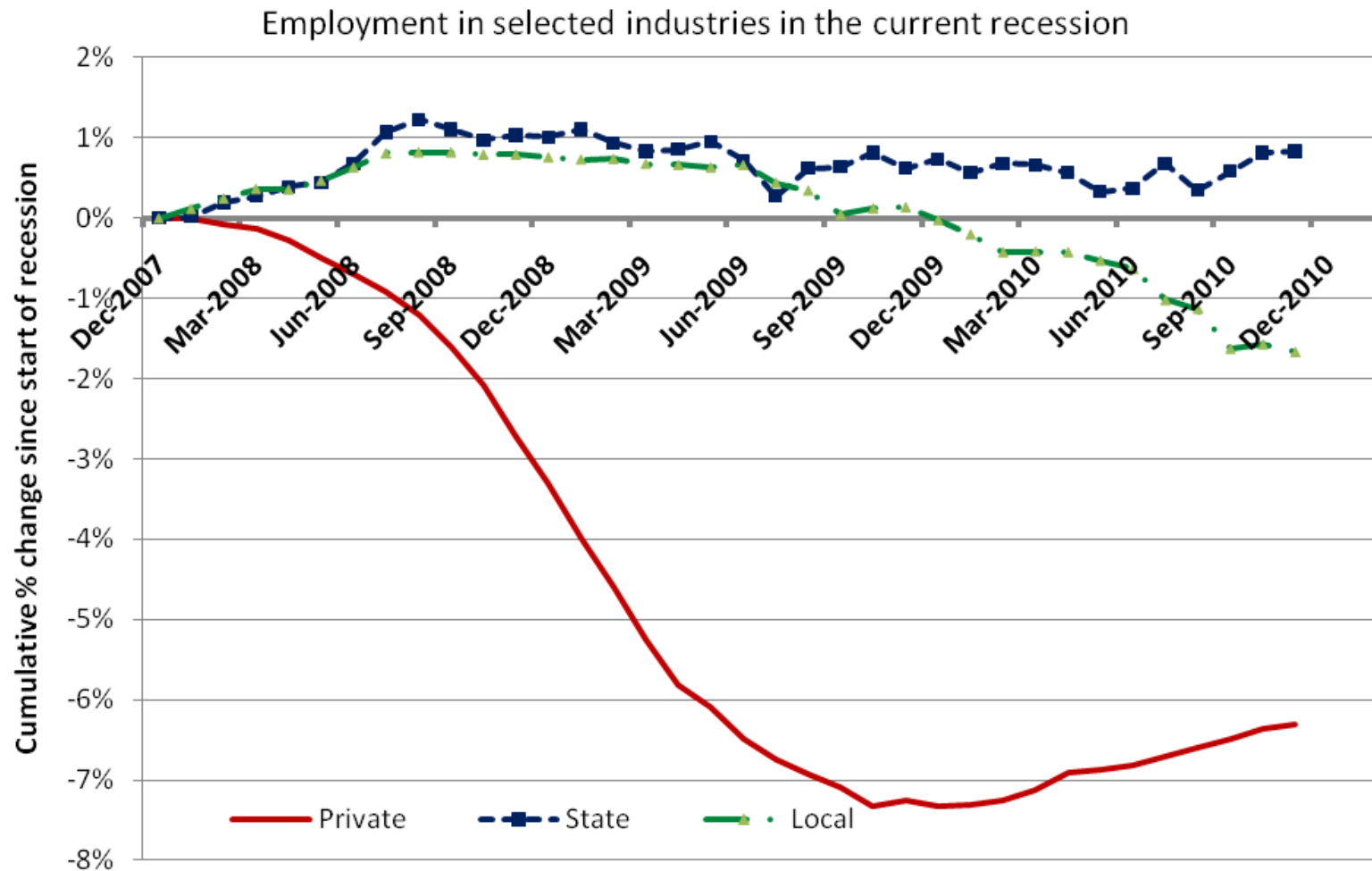
Property taxes: Stable nationally but great variation around country



SLGs have been cutting “discretionary” spending but tax revenue has fallen well below spending levels



As is usual, state & local government employment since start of recession has been more stable than private sector employment



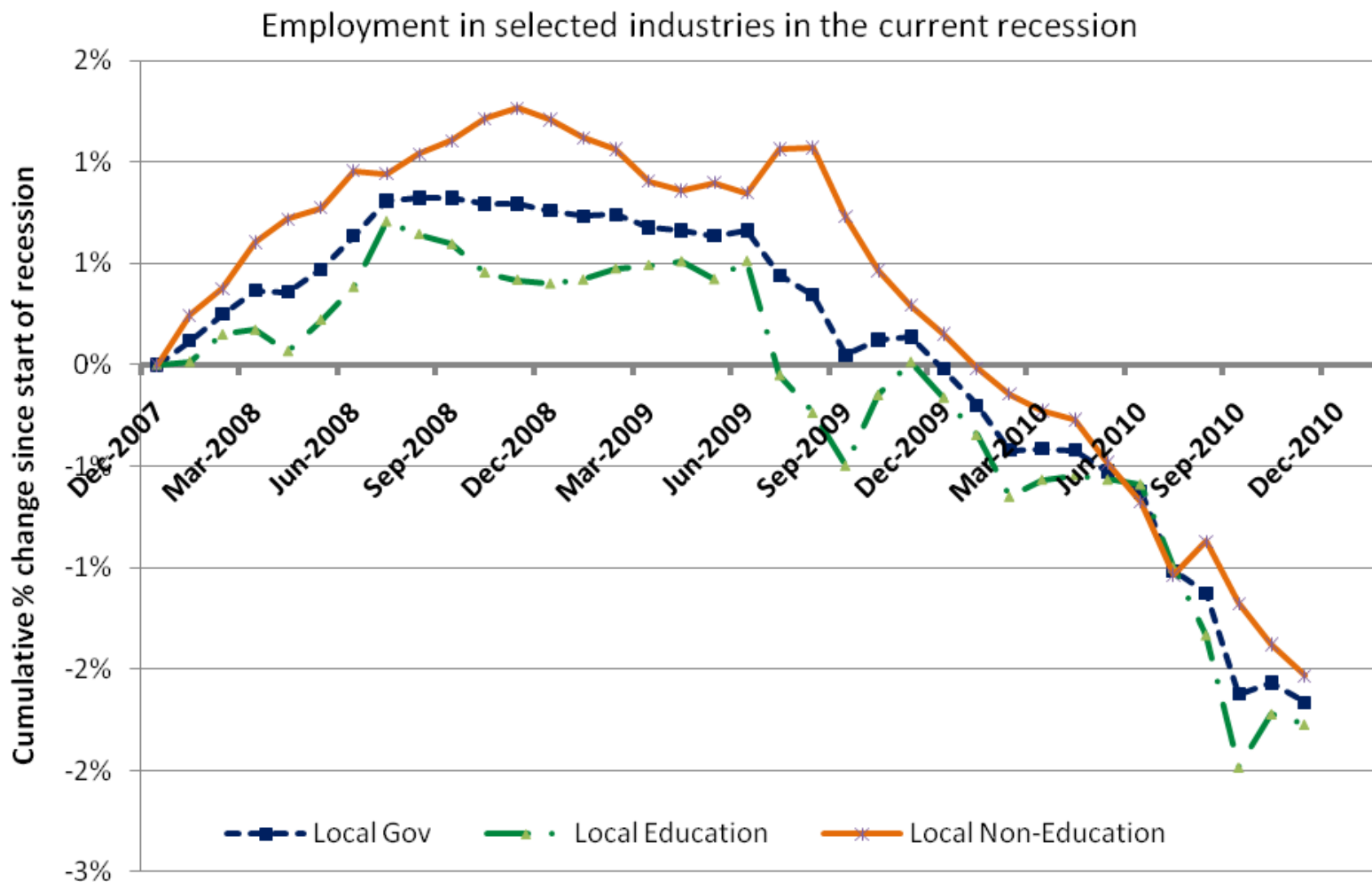
Source: U.S. Bureau of Labor Statistics (CES, seasonally adjusted).

State & local government employment faring worse than in past recessions

Percent change in employment from start of recession to 34 months after start (October 2010 for the 2007 recession)										
	<i>Recession that began in:</i>									
	1957	1960	1969	1973	1980	1982	1990	2001	2007	
Total nonfarm (00000000)	2.3	2.6	4.8	2.5	(2.2)	8.7	0.7	(1.6)	(5.4)	
Total private (05000000)	1.2	1.6	3.9	1.6	(2.4)	9.8	0.4	(2.4)	(6.4)	
Government (90000000)	8.7	8.2	9.0	6.7	(1.4)	3.7	2.1	2.8	(0.6)	
Federal (90910000)	1.3	(1.1)	(1.7)	1.9	0.3	4.6	(6.4)	(0.8)	3.2	
State government (90920000)	15.0	13.4	11.7	11.4	1.8	5.4	3.7	2.3	0.5	
State government education (90921611)	21.5	21.9	12.1	12.7	3.6	8.4	5.6	8.4	3.7	
State government, excluding education (90922000)	13.5	10.1	11.4	10.7	0.6	3.6	2.5	(2.1)	(2.2)	
Local government (90930000)	10.9	11.5	12.5	6.6	(3.0)	2.7	4.0	3.8	(1.7)	
Local government education (90931611)	13.7	14.3	12.4	5.6	(0.9)	4.1	4.6	3.8	(1.9)	
Local government, excluding education (90932000)	8.3	8.6	12.5	8.0	(5.4)	1.5	3.3	3.7	(1.4)	

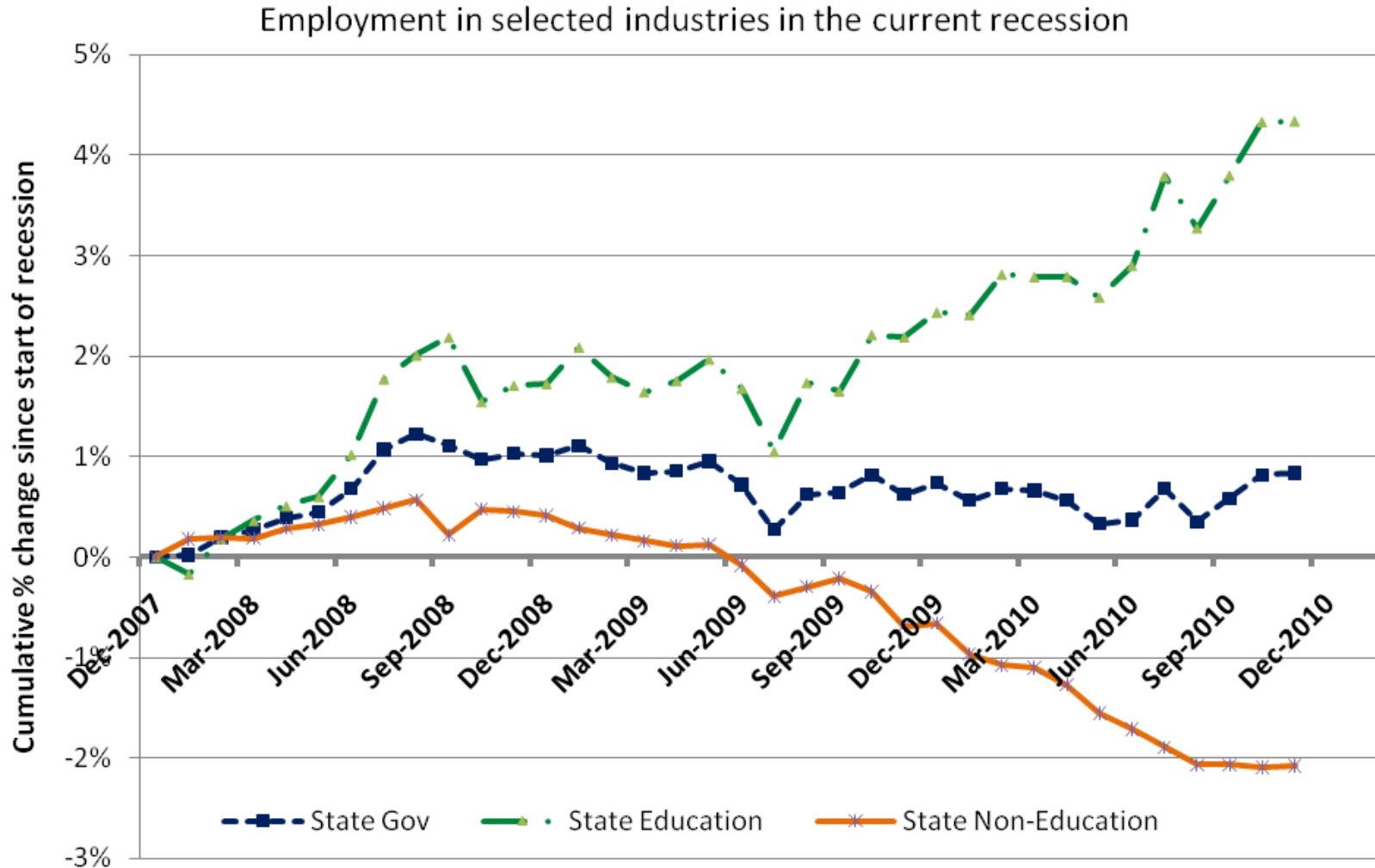
Source: U.S. Bureau of Labor Statistics, Current Employment Statistics

Local gov't employment has turned sharply. Education down 199k jobs from its peak to Nov., non-ed down 180k jobs



Source: U.S. Bureau of Labor Statistics (CES, seasonally adjusted).

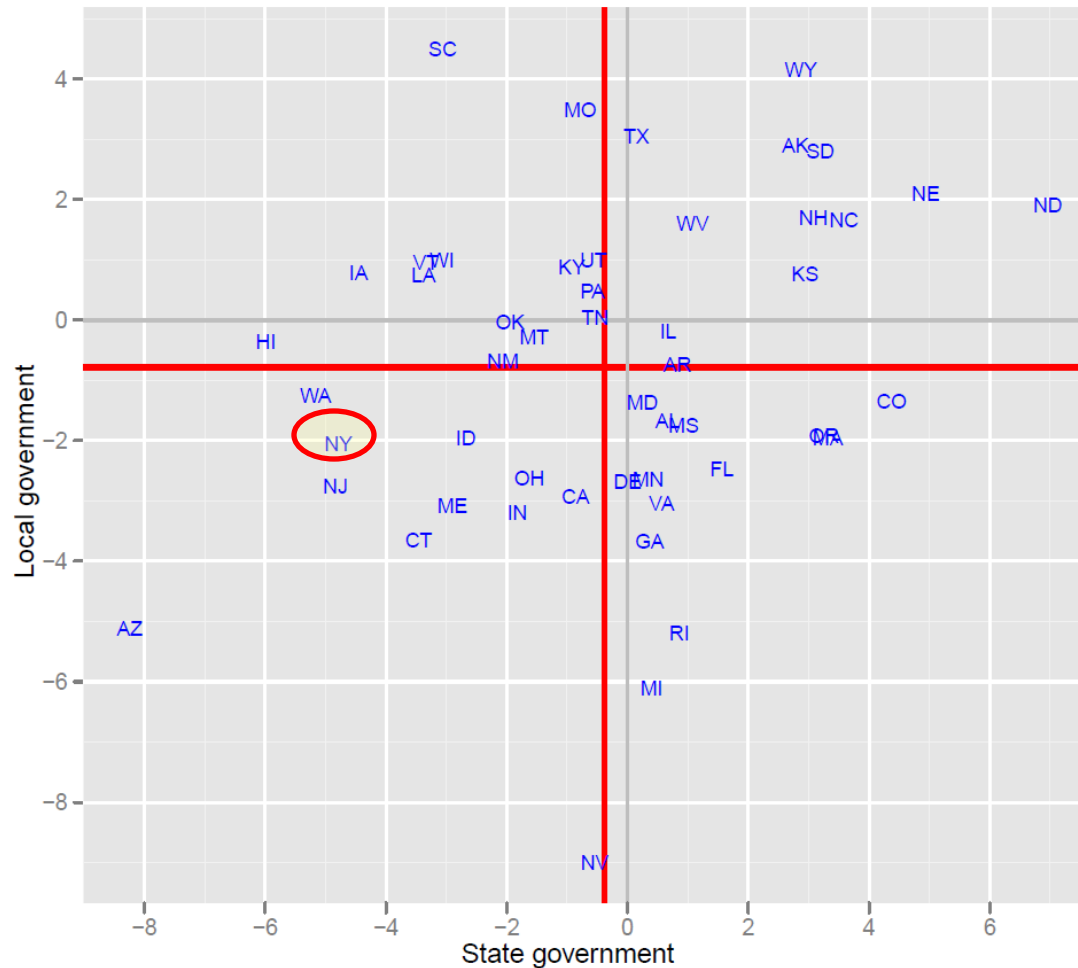
State gov't employment: Education up, all else down



Source: U.S. Bureau of Labor Statistics (CES, seasonally adjusted).

NY cuts in state gov't employment among deepest in nation

% change in employment, Aug–Oct 2010 vs. 2 years earlier
Red lines are means



More SLG employment cutting to come

- State tax revenue is stabilizing, but...
- ARRA funding and one shots are disappearing,
- Local property taxes are weakening,
- State govts' Medicaid costs are rising,
- SLGs face **HUGE** increases in pension contributions and health insurance payments. We are just at the beginning of this.
- At local level these increases can easily account for a quarter to half of all spending increases, despite constituting a much smaller share of spending,...
- Requiring cuts elsewhere in budget – STAFF, and/or property tax increases.



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Appendix

Quick review: SLG revenue structure

Caution: Huge variation around the nation

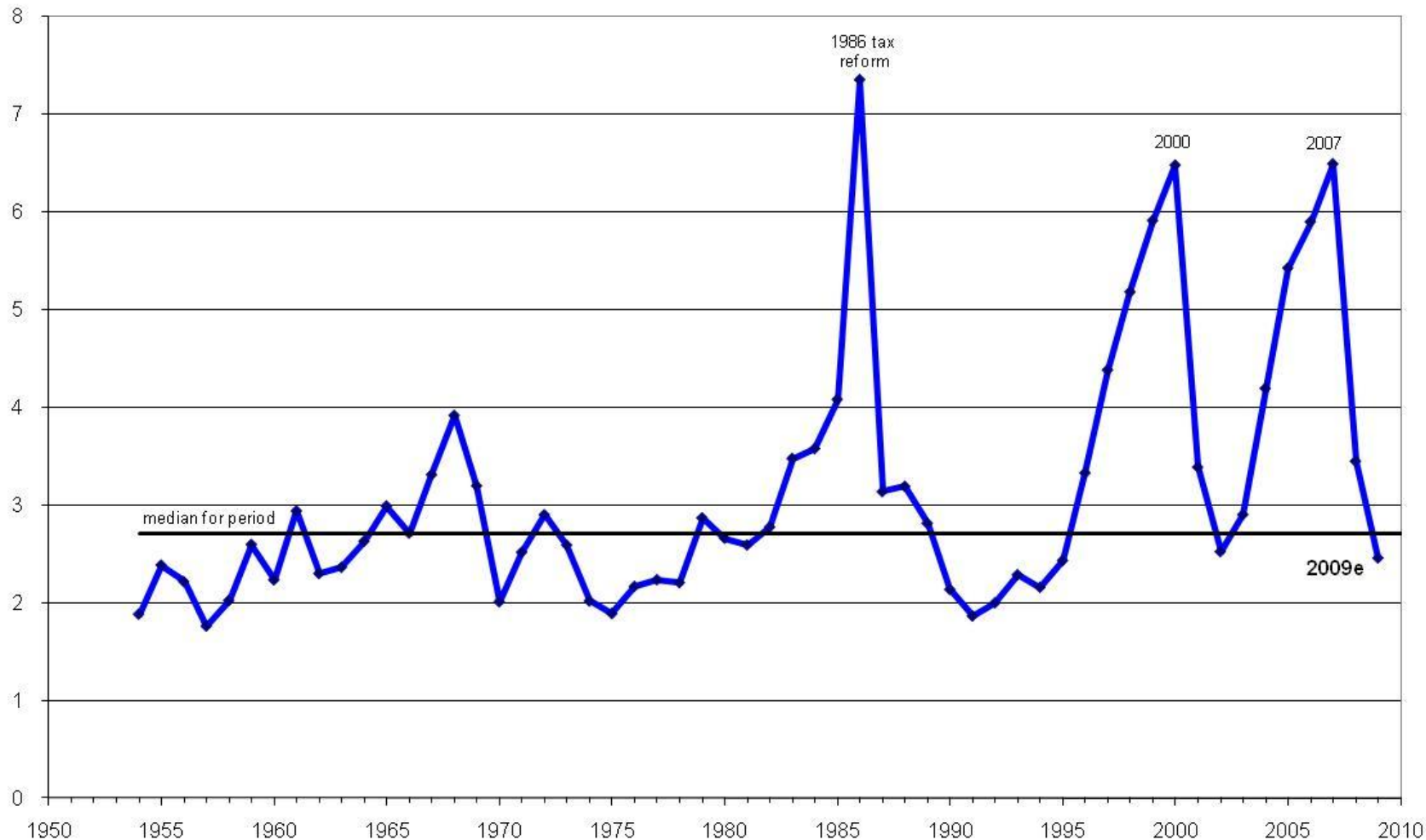
Composition of state and local government revenue in fiscal year 2008				
	State	Local	State	Local
	<i>(\$ billions)</i>		<i>(% share)</i>	
General revenue	1,514	1,401	100.0%	100.0%
Intergovernmental revenue from federal	423	58	28.0%	4.2%
Intergovernmental revenue from state	-	467	-	33.3%
Intergovernmental revenue from local	23	-	1.5%	-
Own-source revenue	1,068	877	70.5%	62.6%
Taxes	782	549	51.6%	39.2%
Property tax	13	397	0.8%	28.3%
Individual income tax	278	26	18.4%	1.9%
General sales tax	241	63	15.9%	4.5%
Selective sales taxes	118	27	7.8%	1.9%
Corporate income taxes	51	7	3.4%	0.5%
All other taxes	81	28	5.4%	2.0%
Charges	151	223	10.0%	15.9%
Miscellaneous	135	105	8.9%	7.5%

Note: State-local revenue cannot be obtained by simply summing state plus local because intergovernmental transactions must be eliminated

Source: Rockefeller Institute analysis of data from U.S. Bureau of the Census

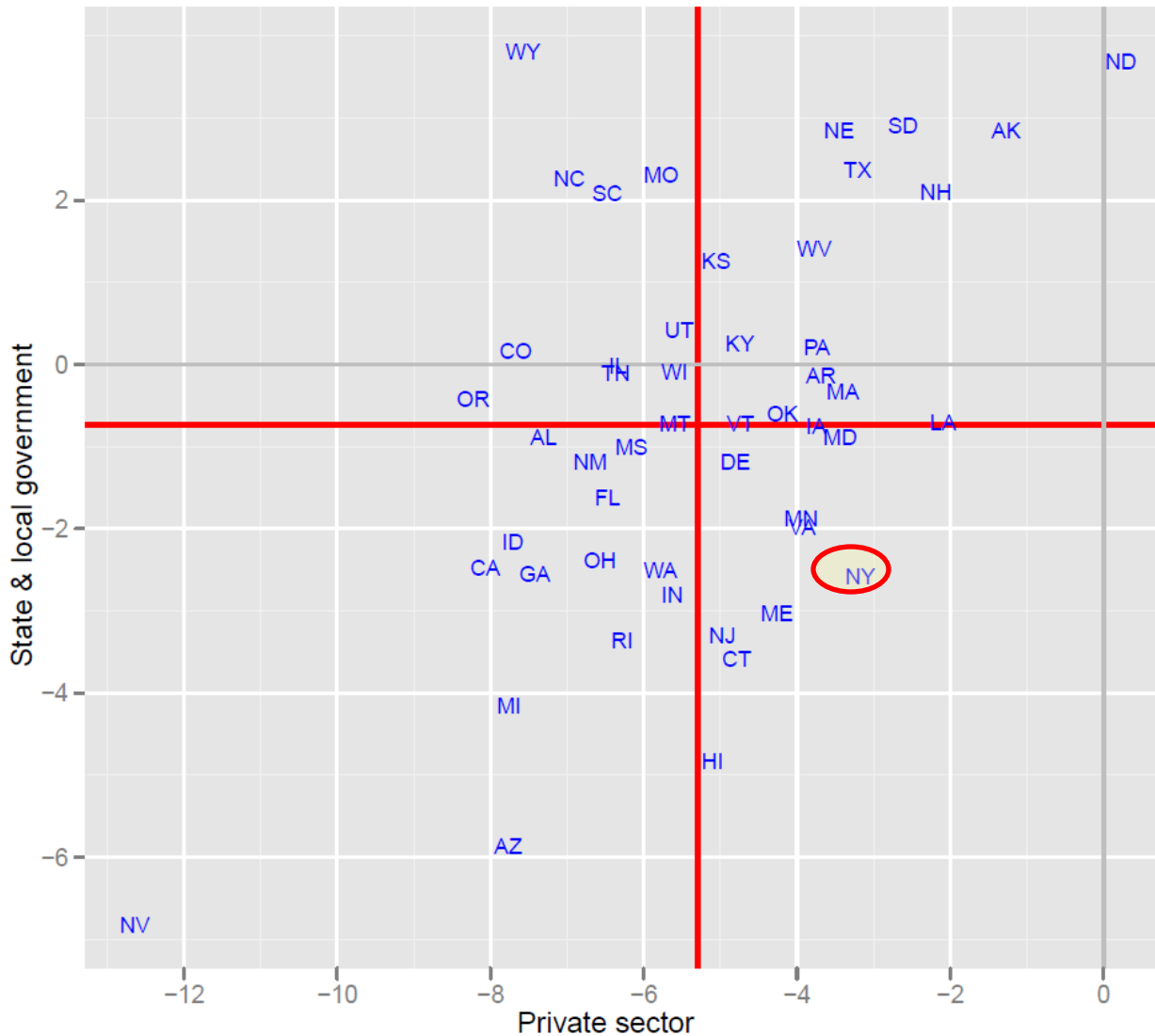
Capital gains fell sharply in 2008, and apparently fell again in 2009. Gains in 2010 extraordinarily uncertain

Capital gains as % of gross domestic product



Sources: (1) Capital gains: 1954-1998: Table capgain1-2001.pdf from IRS Statistics of Income web site (www.irs.gov/taxstats); 1999-2008: 08in14ar.xls and similar SOI files; (2) Gross domestic product from U.S. Bureau of Economic Analysis

% change in employment, Aug–Oct 2010 vs. 2 years earlier
Red lines are means



Great variation in home-price changes

Percent change in single-family home prices			
2007q1 to 2010q2			
Sum of states		-11.2%	
Nevada	-44.2%	Wisconsin	-5.5%
Florida	-35.6%	Missouri	-4.5%
Arizona	-35.0%	Pennsylvania	-4.3%
California	-31.1%	Colorado	-4.3%
Michigan	-20.4%	South Carolina	-3.7%
Rhode Island	-19.0%	Mississippi	-3.2%
Maryland	-18.7%	Indiana	-2.7%
Oregon	-14.8%	North Carolina	-2.6%
Hawaii	-14.6%	Montana	-2.3%
New Jersey	-14.3%	Vermont	-2.1%
Minnesota	-14.2%	Arkansas	-1.5%
Idaho	-14.2%	Tennessee	-1.4%
New Hampshire	-13.8%	Alabama	-1.2%
Washington	-13.2%	West Virginia	-0.5%
Illinois	-12.9%	Nebraska	-0.2%
Connecticut	-12.7%	Alaska	0.1%
Virginia	-11.7%	Kentucky	0.1%
Utah	-11.2%	Kansas	0.4%
Massachusetts	-11.1%	Louisiana	0.6%
Delaware	-10.2%	Wyoming	2.0%
Georgia	-10.0%	Iowa	2.0%
New York	-9.5%	South Dakota	4.1%
Maine	-8.2%	Texas	4.6%
Ohio	-6.5%	Oklahoma	4.8%
New Mexico	-5.9%	North Dakota	6.9%

Source: Federal Housing Finance Agency All-Transactions Index