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Update on State Revenues

**NASBO Fall Meeting
Alexandria, VA**

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October 14, 2016



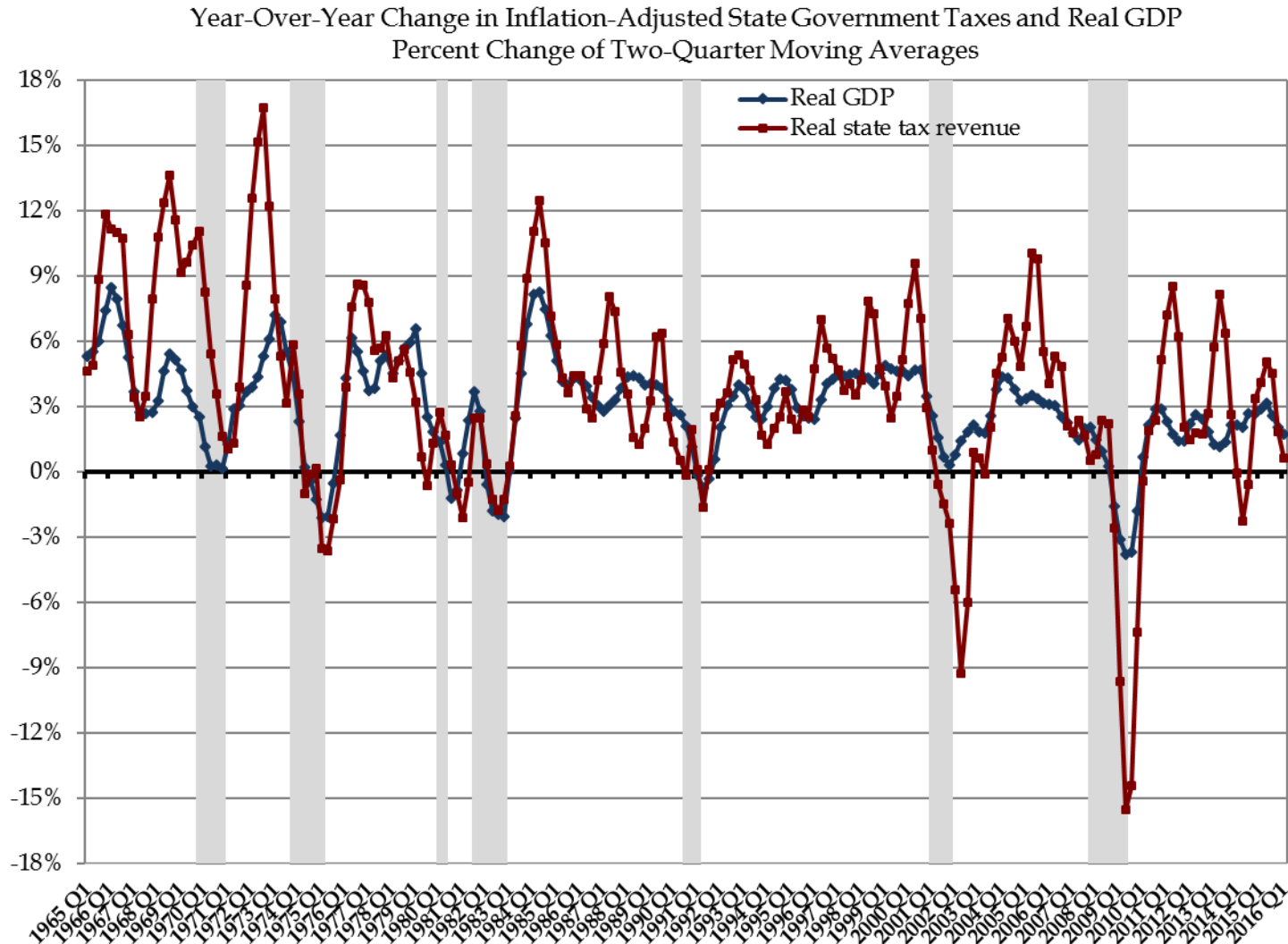
The State University
of New York

With thanks to Lucy Dadayan, Senior Researcher

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 payments with 2015 tax returns. Continued sales tax weakness, 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 income, 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



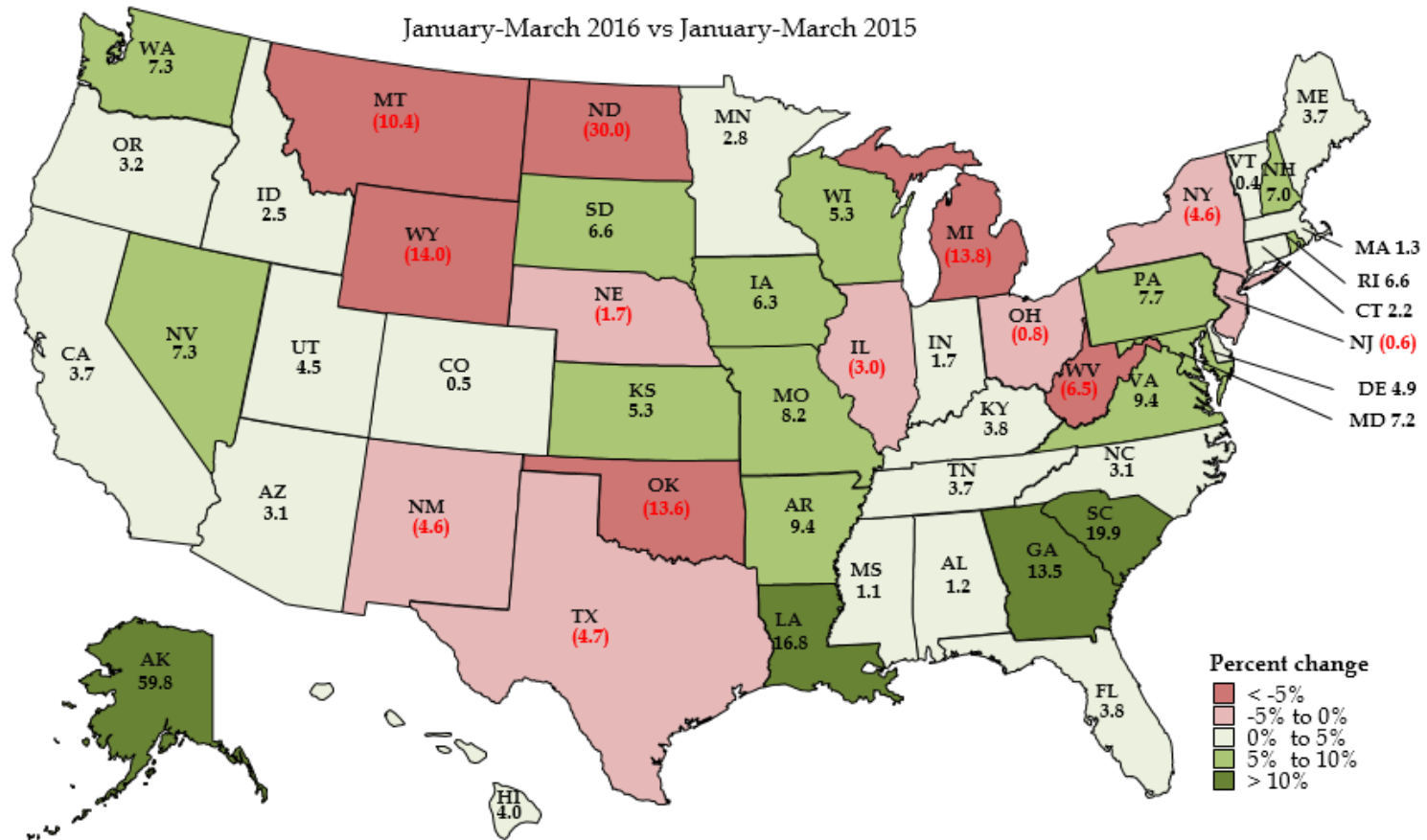
Sources: U.S. Census Bureau (tax revenue) and Bureau of Economic Analysis (GDP).

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.					

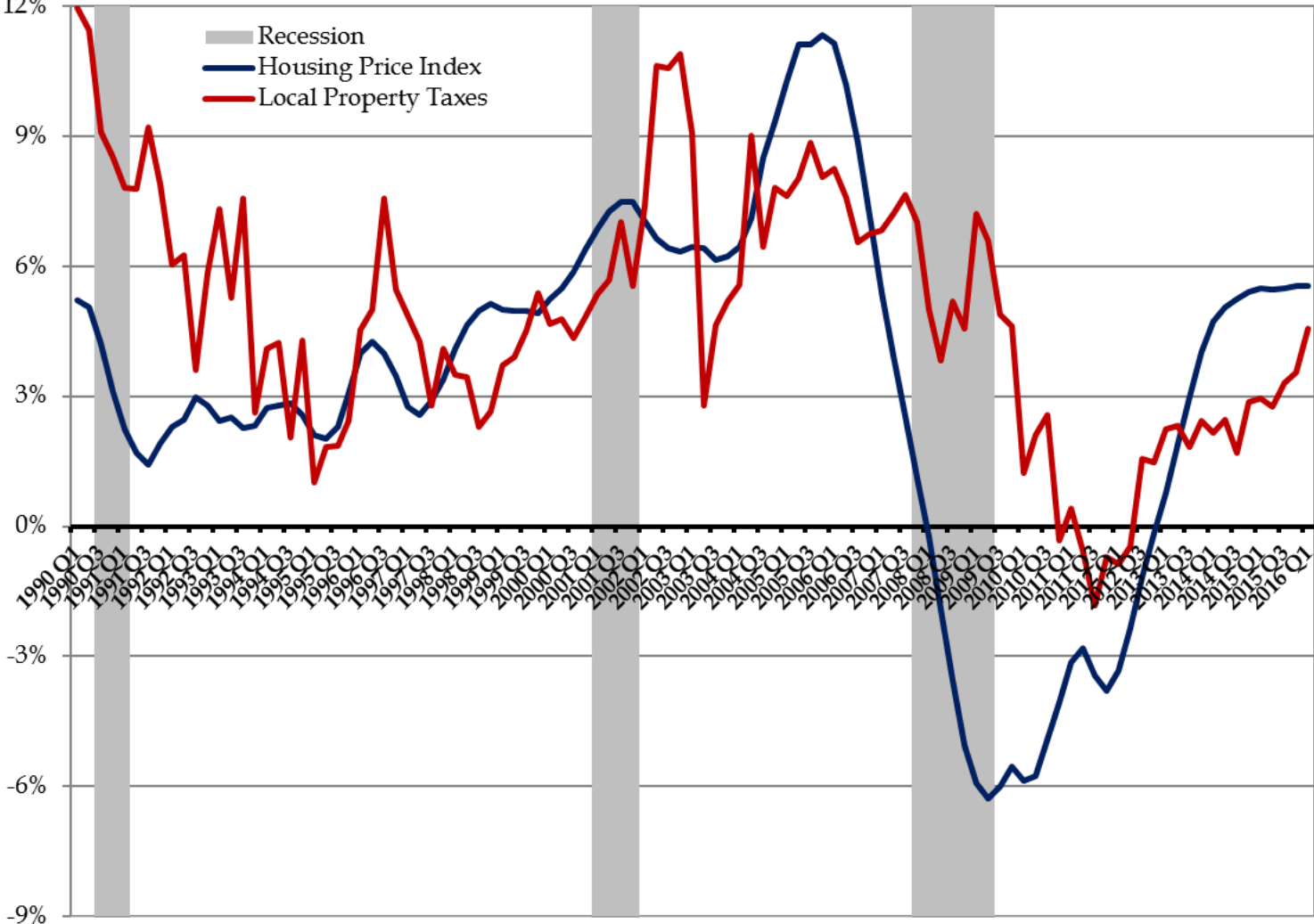
Major weakness in resource-dependent states and selected other states: 2016q1 vs. 2015q1



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

Local property taxes continue their recovery

Year-Over-Year Change in Housing Prices vs. Local Property Taxes
Percent Change of Four-Quarter Moving Averages



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%	

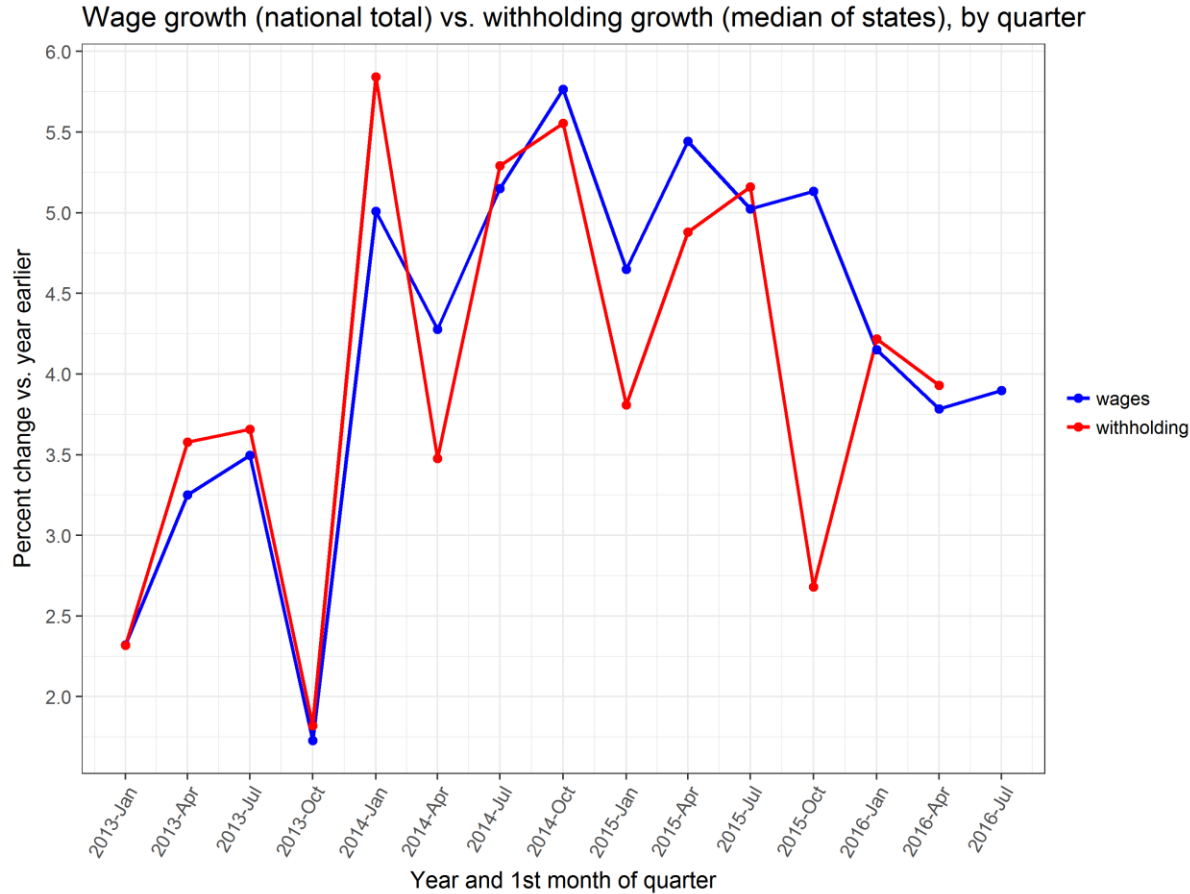
Source: Individual state data, analysis by the Rockefeller Institute.

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.						

Income tax withholding and wages: under 4%

- Wage growth has slowed from ~4.5 to 5.5%, to under 4%
- Withholding last Oct-Dec was low-outlier
- Will this Oct-Dec bounce back a little from low base? Detective work is called for.



Note: Jul-Aug average growth used for Jul-Sep 2016 wage growth

What happened last Oct-Dec?

- Median withholding growth for Oct-Dec 2015 qtr. was 2.7%
 - Oct (-1.1%) & Dec (+1.0%) weak; Nov. strong (6.2%)
 - Single months not especially meaningful.
- Regional pattern not obvious – not a clear common theme

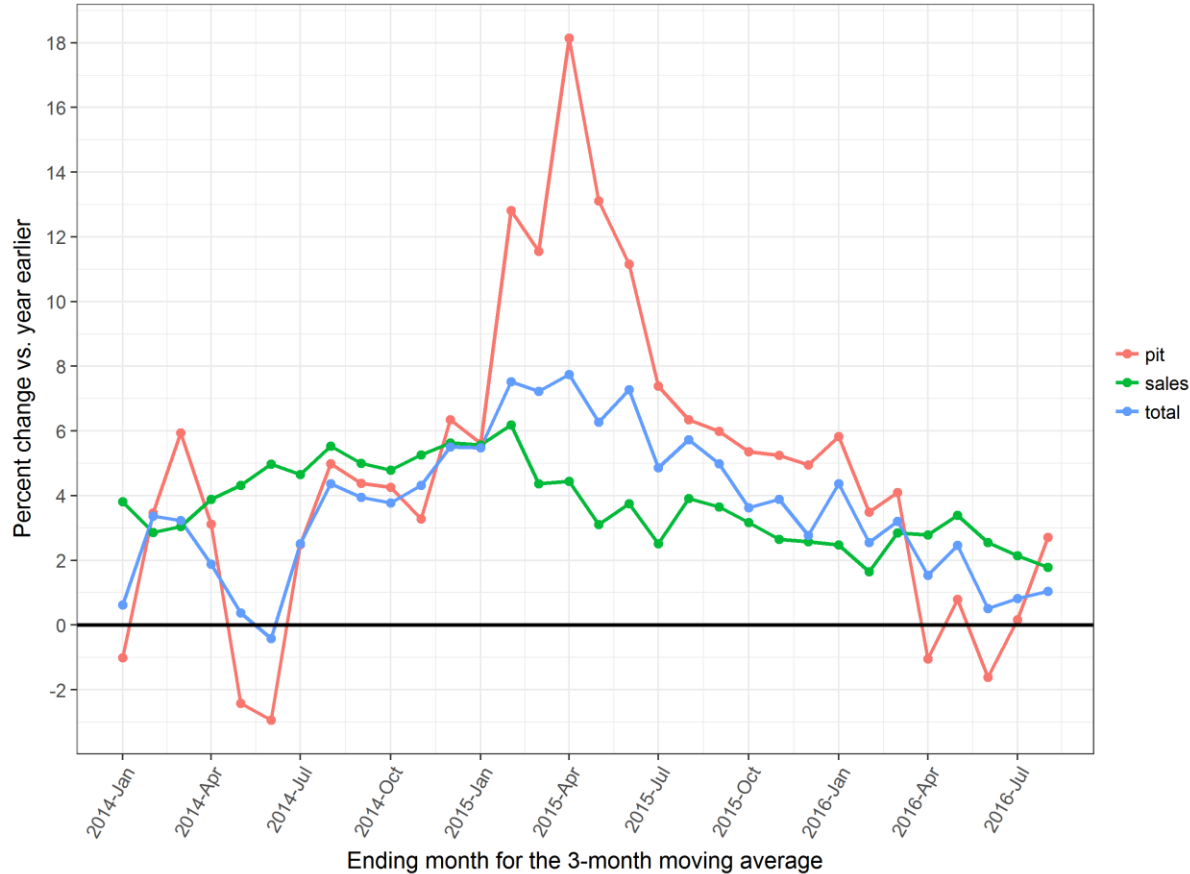
Oct-Dec 2015 withholding % growth - top and bottom 10 states			
U.S. median: +2.7%			
Illinois	(19.9)	Louisiana	5.8
Arkansas	(5.9)	Maryland	6.0
New Jersey	(5.3)	Michigan	6.2
Oklahoma	(2.9)	Minnesota	6.3
Pennsylvania	(1.6)	California	7.4
West Virginia	(0.7)	Oregon	8.1
Rhode Island	(0.6)	Utah	8.9
New Mexico	(0.5)	Maine	9.6
Kansas	(0.1)	Wisconsin	10.0
Virginia	0.4	North Dakota	68.8

- States know more about their idiosyncrasies than we do and can investigate (and may already know) whether last year was atypically low for reasons they understand.

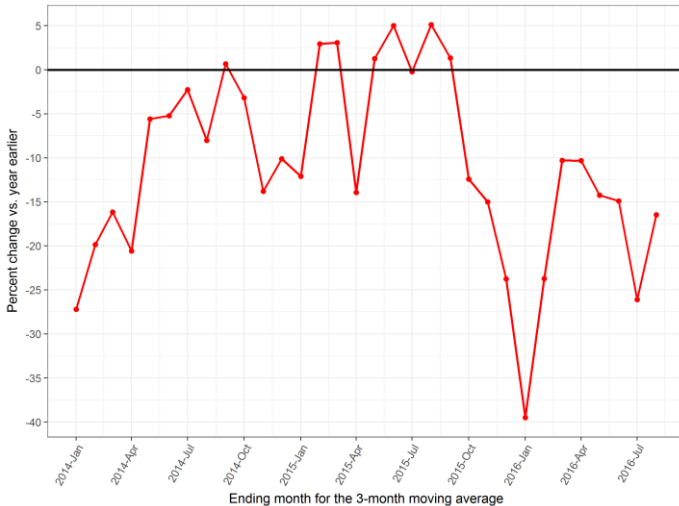
Tax revenue growth continues to slow

- “Total” is a convenience definition – based on avail monthly data
- Different time periods have different reasons
- Sales tax slowing since early 2015. Recent further weakness
- PIT slowing since 2015 spike, recent “improvement” to ~3%
- Corp tax abysmal (below)
- Total growth <2%, recent 3-month averages

Percent change in tax revenue for median state
(median across states of 3-month moving average of year-over-year percentage change)



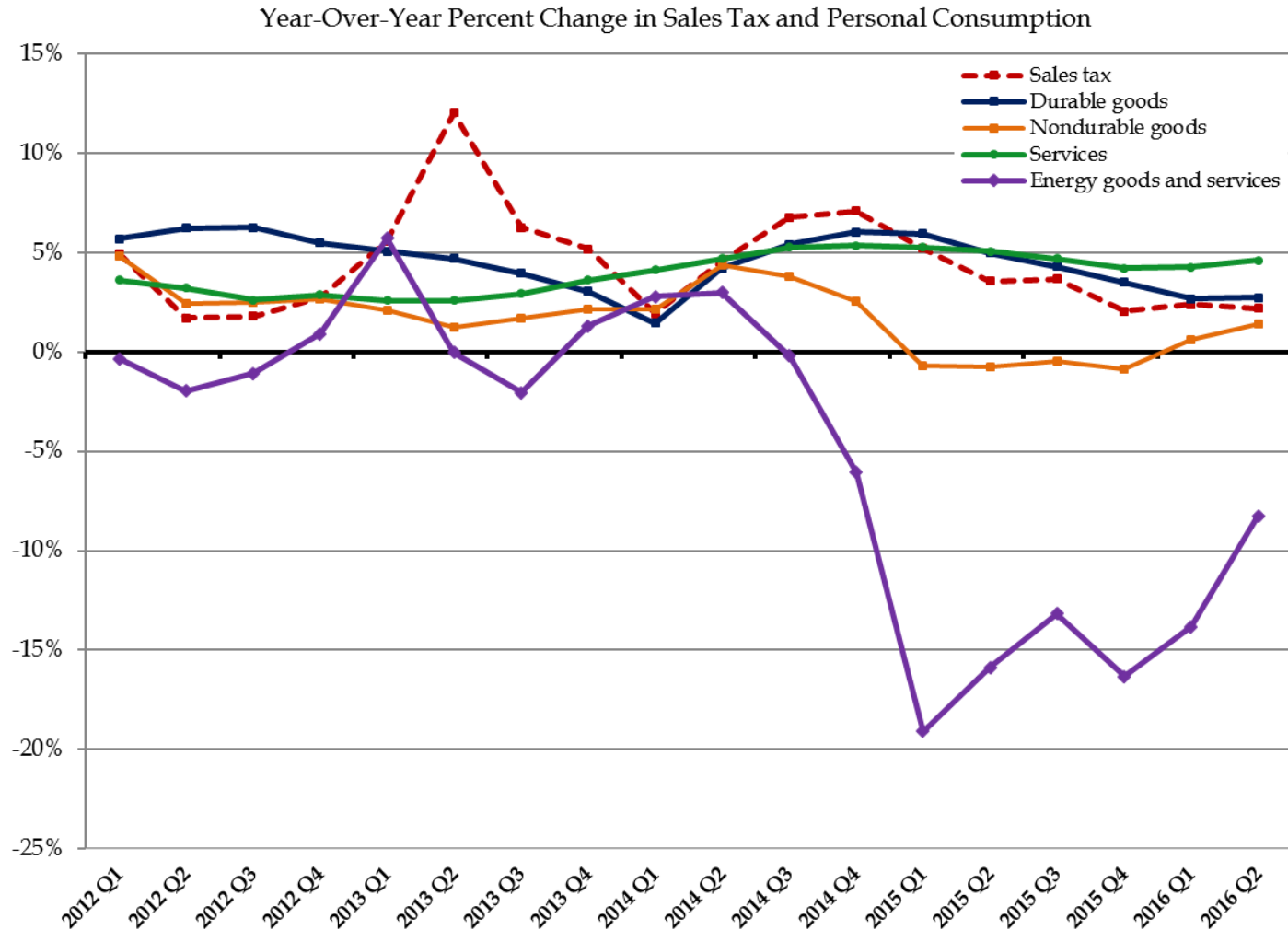
Percent change in corporate income tax revenue for median state
(median across states of 3-month moving average of year-over-year percentage change)



Sales tax weakness: widespread

- Of 37 states with full data, total sales tax collections for Jun-Aug 2016 combined were down year-on-year in 12 states. Reluctant to list them because of noisiness of monthly data.
- Only 7 states had growth of 5% or more
- “Momentum” was negative in 29 of 37 states with full data – that is, year-over-year growth for 3 months ending Aug 2016 was less than growth for 3 months ending Aug 2015.
- Momentum slowed by 2.6 percentage points in the typical (median) state. (Growth in Jun-Aug 2016 was 2.6 percentage points slower in the median state than in Jun-Aug 2015.)

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

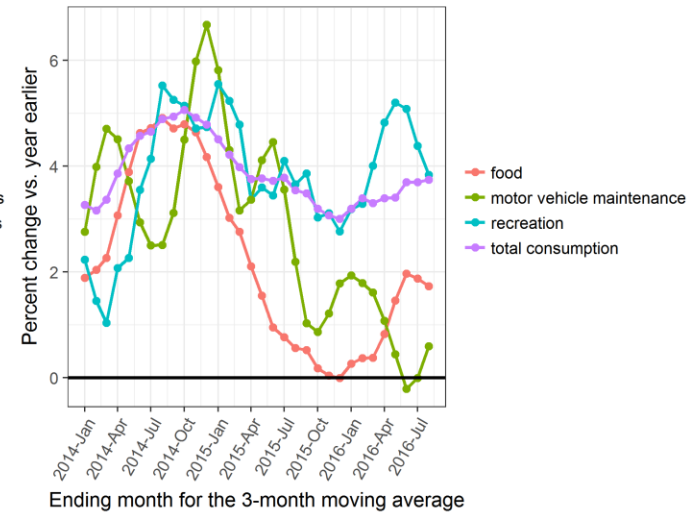
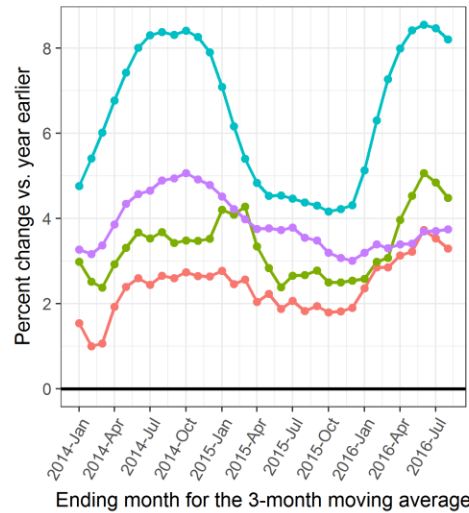
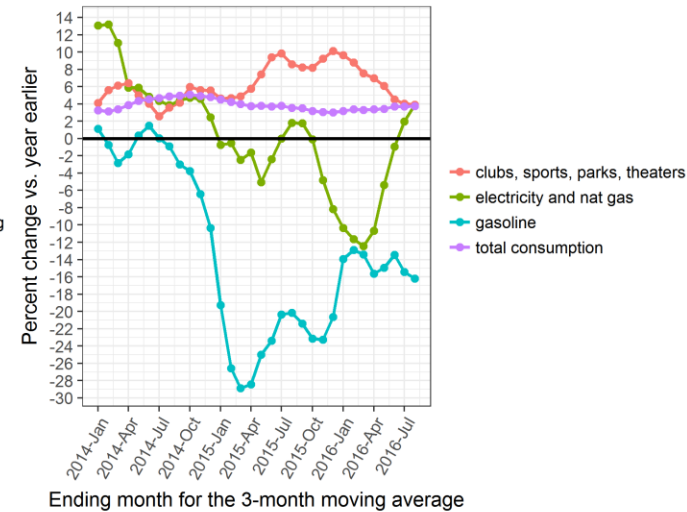
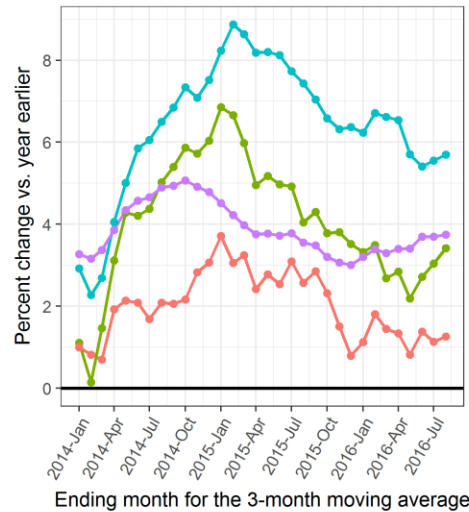


Sources: U.S. Census Bureau (tax revenue) and Bureau of Economic Analysis, National Income and Product Accounts, Table 2.3.5.

This is a little bit experimental, but...

- Purchased meals (e.g., restaurants, bars) have been a relative bright spot in consumption
- Energy has been a big drag – the downside for states of dramatic price declines
- Motor vehicle maintenance and MV sales (in durables) have been a drag
- While durables growth has been accelerating, it's still below 4%

Percent change in consumption of items that states often tax at least partially
(In descending order of guessed-at taxable size, clockwise from upper left)



Comments on the outlook

- States forecast slow growth in FY 2017. Median growth:
 - PIT +4.0%
 - Sales tax +3.8%
- Public revenue forecasts do not fully reflect the Apr-Jun declines and 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% +/-).
- Not an ebullient environment for revenue

And now, a brief
commercial...

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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