

# State Budgets and Revenues: Trends and Outlook

## 2017 Higher Education Government Relations Conference

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# State Revenue Trends and Budget Issues

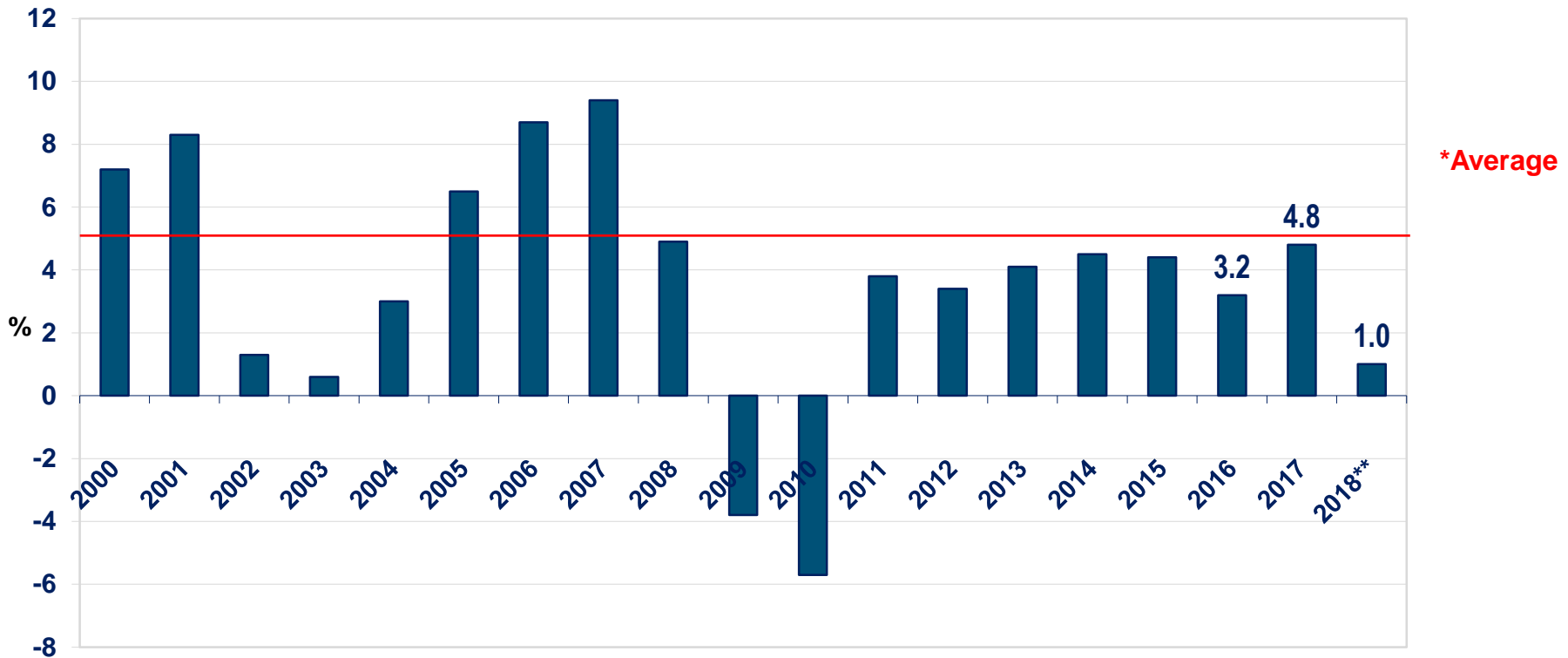


- Although the economy is recovering, states still face tax and budget uncertainty
- What are state budget and tax trends?
- What's causing recent shortfalls?
  - Changing economic conditions
  - State actions
  - Uncertainty about federal action
- What's next?
  - State actions
  - Federal tax reform

# State budget and revenue trends

# State General Fund Spending Growth Projected to Slow Considerably in 2018

## Annual General Fund Expenditure Growth (%)



\*39-year historical average annual rate of growth is 5.5 percent.

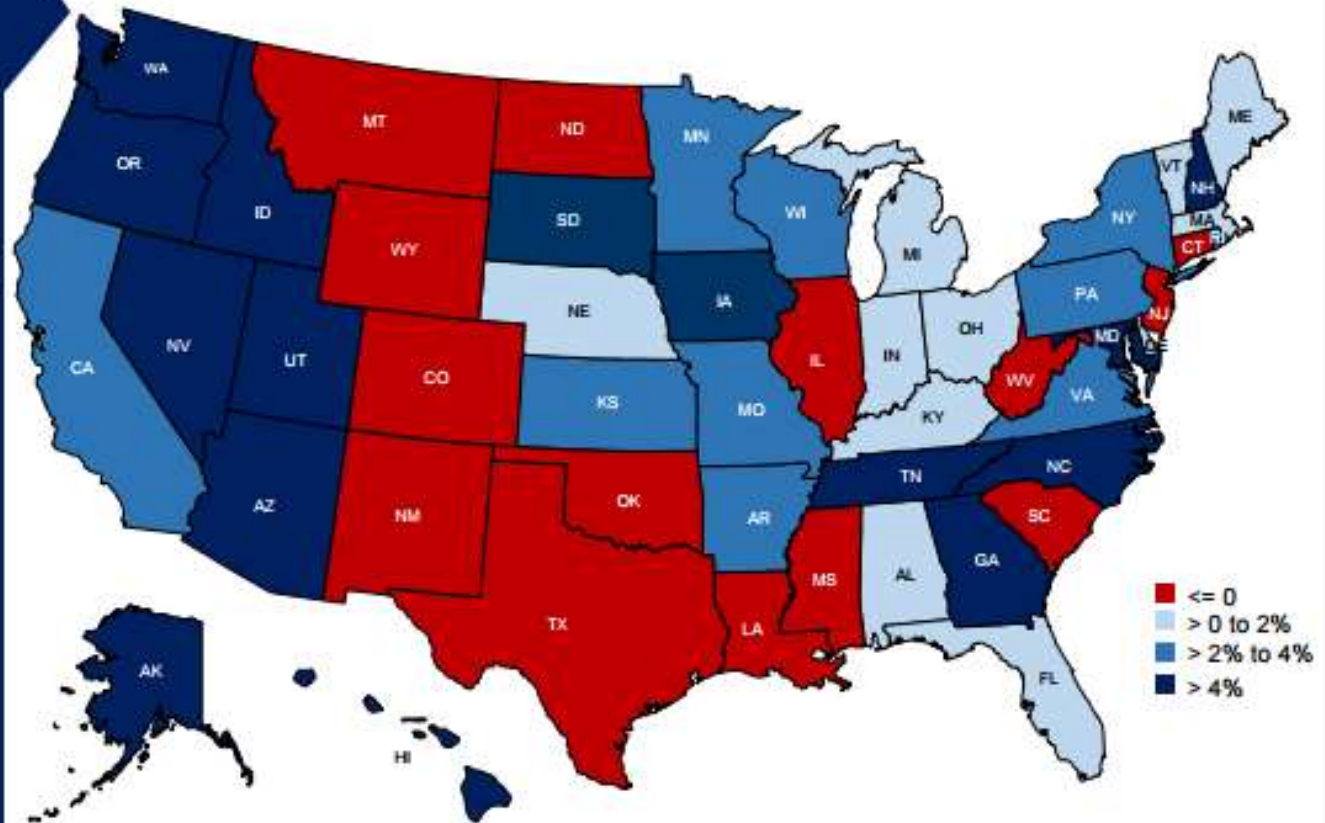
\*\*Fiscal 2018 percentage growth is based on recommended budgets.

Source: NASBO Fiscal Survey of States

# FY 2016 State Tax Revenue

Figure 1.  
State Tax Revenue  
Grew in  
Thirty-Six  
States and  
Declined in  
Fourteen, in  
FY 2016  
*(% change in  
government total  
taxes 2016 vs.  
2015)*

Source:  
Rockefeller  
Institute of  
Government

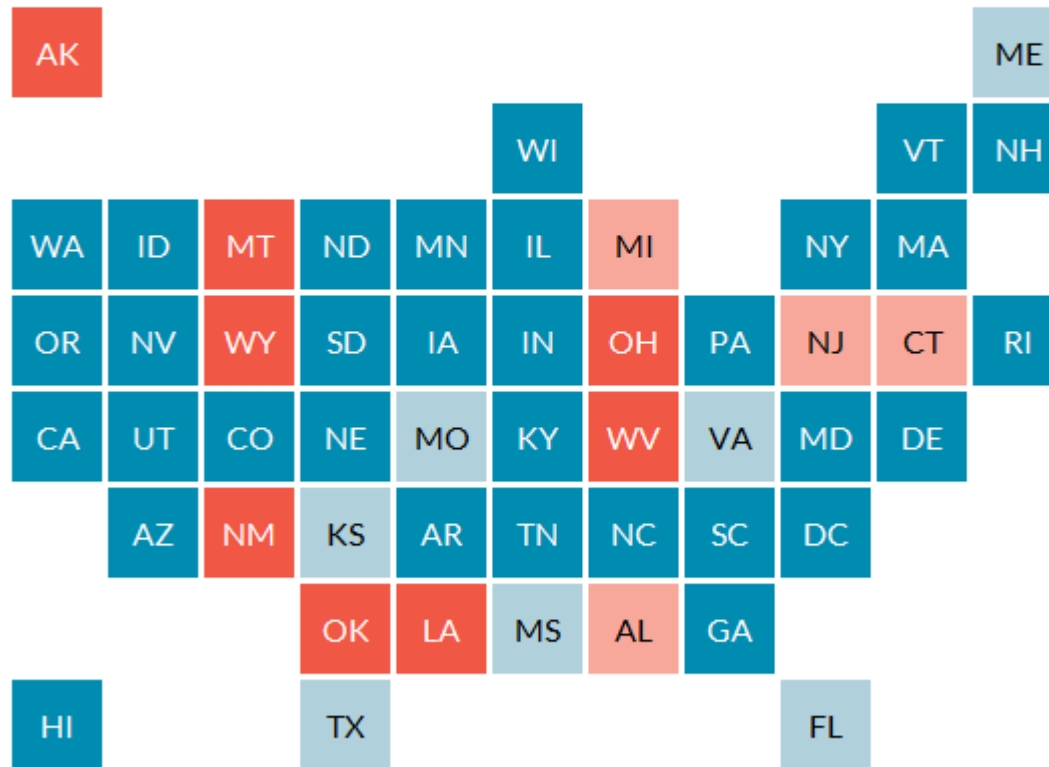
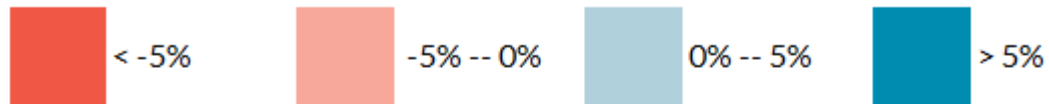


\*nominal dollars

# But Story Varies Across States Since 2008

Percentage Change in Total State Tax Revenue: 2008 vs. 2016

US: 8.3%

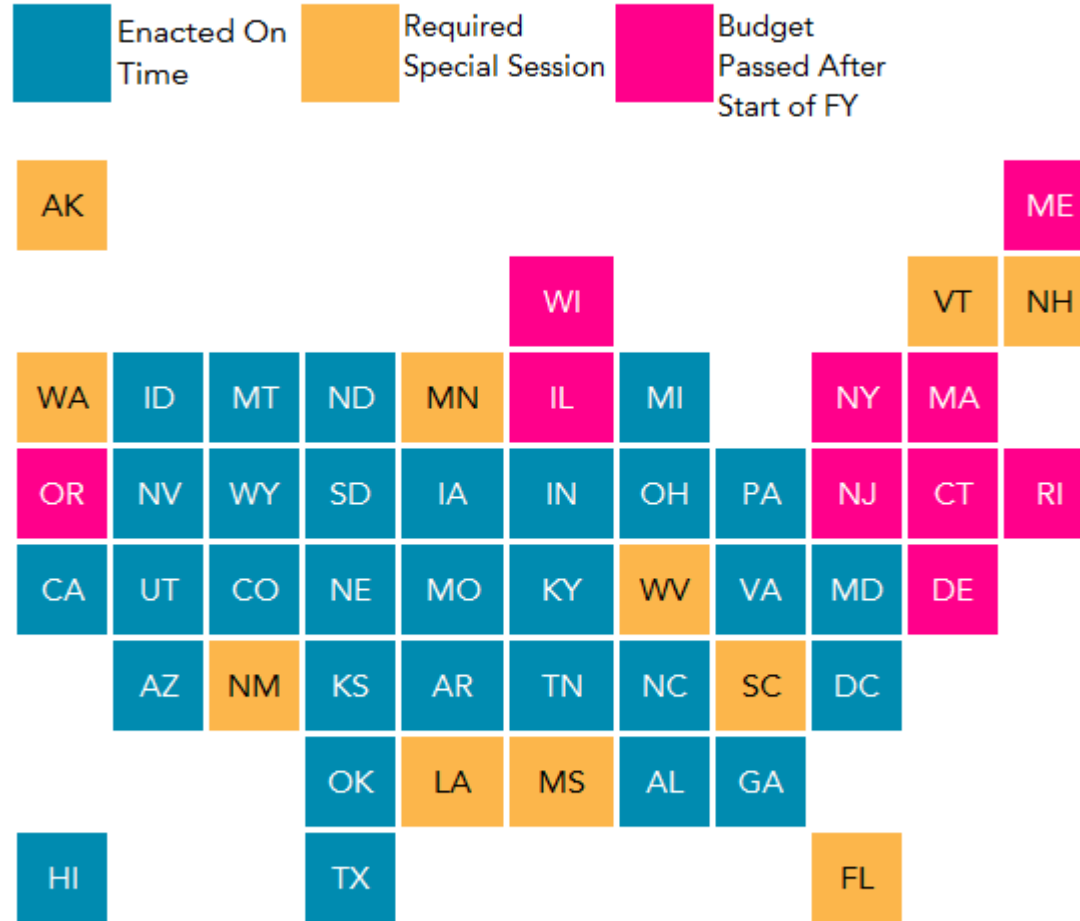


Source: Census, BLS.  
 Note: Inflation-adjusted dollars.

# And States Had a Tough Time Passing Budgets on Time



## FY 2018 Budgets

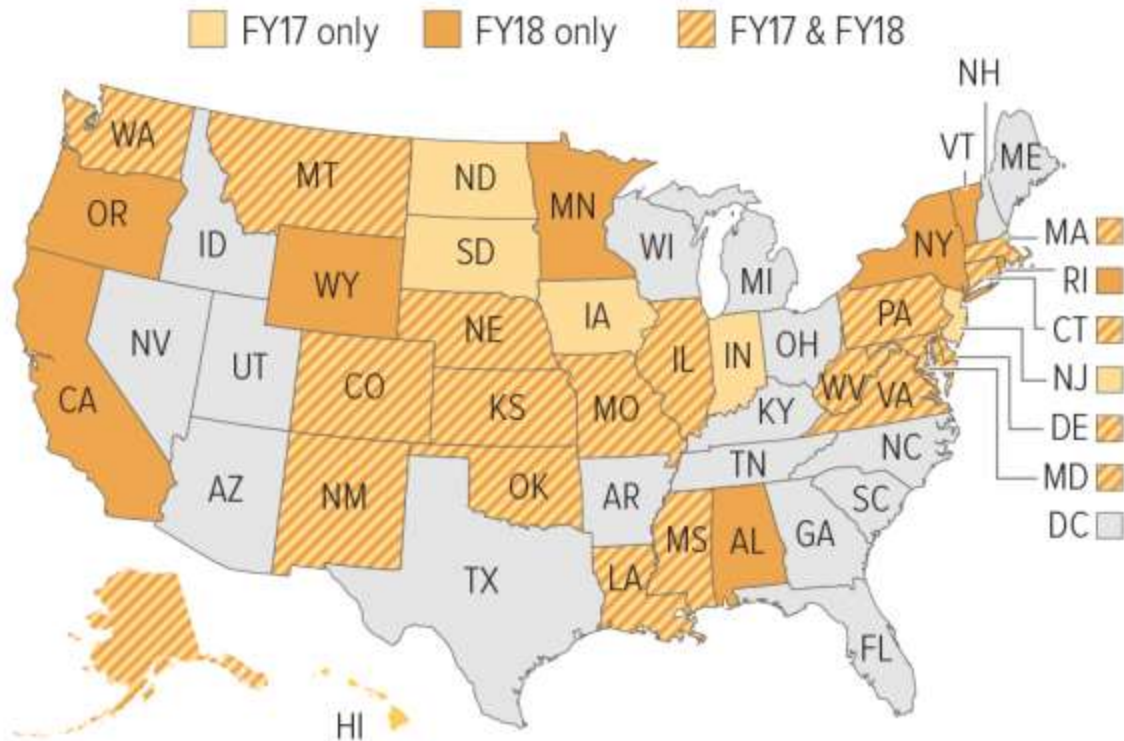


Source: National Conference of State Legislatures.

Notes: Kentucky, Virginia, and Wyoming passed biennial budgets last year. New York and Illinois passed late budgets and required special sessions.

# Revenue Shortfalls Occurred or Expected

## 33 States Face Revenue Shortfalls in Fiscal Years 2017 and 2018



CBPP analysis of state budget documents and news sources.

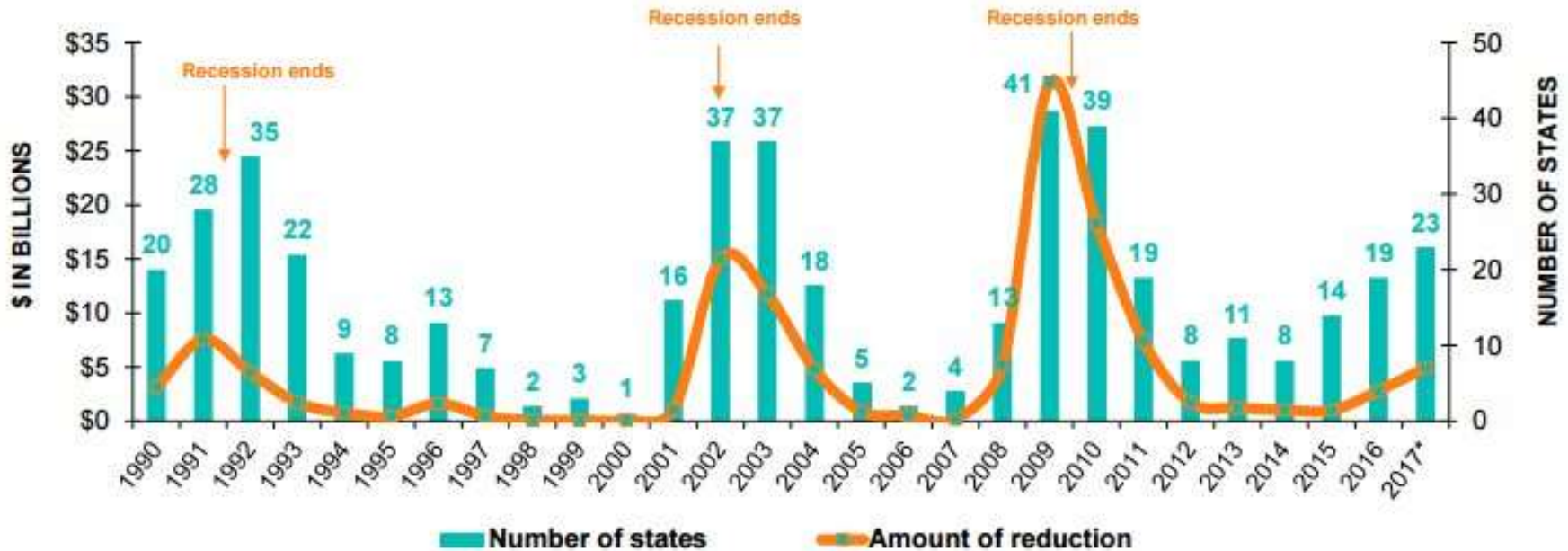
CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG



# And Led to States Making Mid-Year Budget Cuts

Figure 3.

BUDGET CUTS MADE AFTER THE BUDGET PASSED, FISCAL 1990 TO FISCAL 2017



Source: NASBO Fiscal Survey of States  
 \* Mid-year budget adjustments for fiscal 2017 are estimated and subject to change.

What's causing the revenue shortfalls?

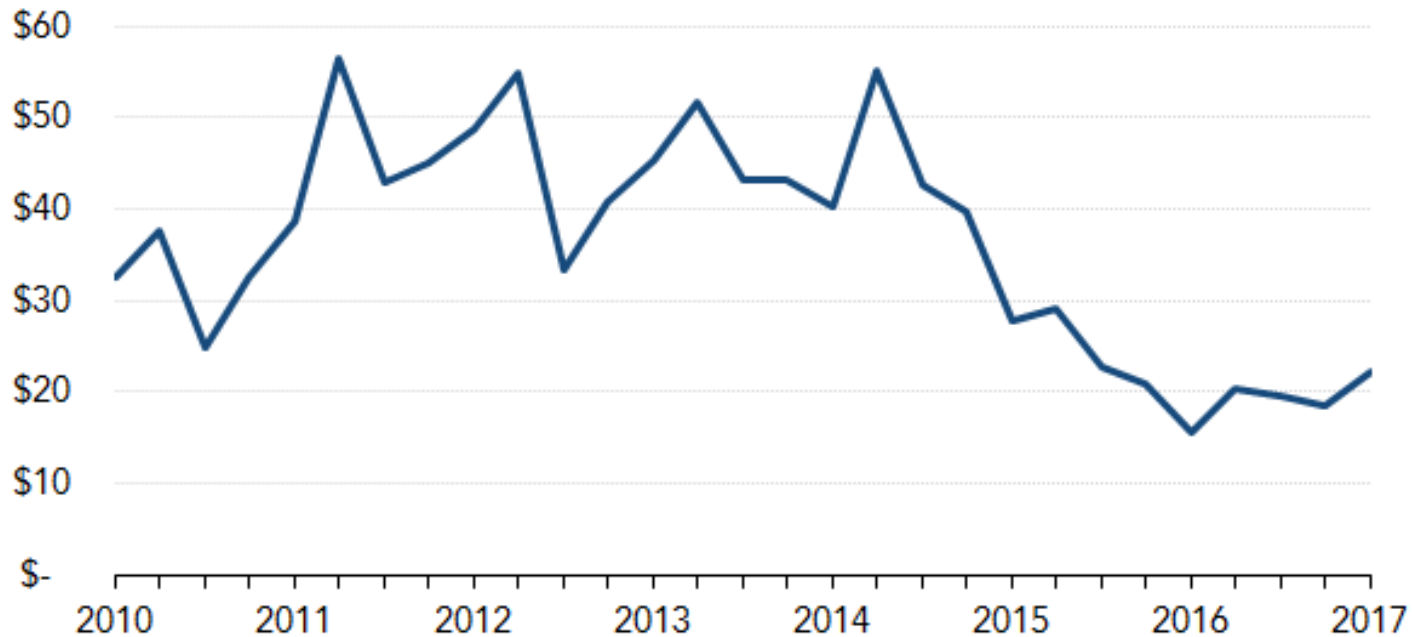
- **CBO:** National revenues are 3% lower than what CBO estimated in January.
- **Rockefeller:** Estimates taxpayers may defer as much as 10% to 20% of capital gains from 2016 to 2017 (or later).
- **California:** “may be occurring to a much greater extent than we have anticipated” (June 2017)
- **New York:** “appears that the extent of that shift likely exceeded estimates” (May 2017)

# Declining Severance Tax Revenue



## National State Severance Tax Revenue

*\$billions, real dollars*



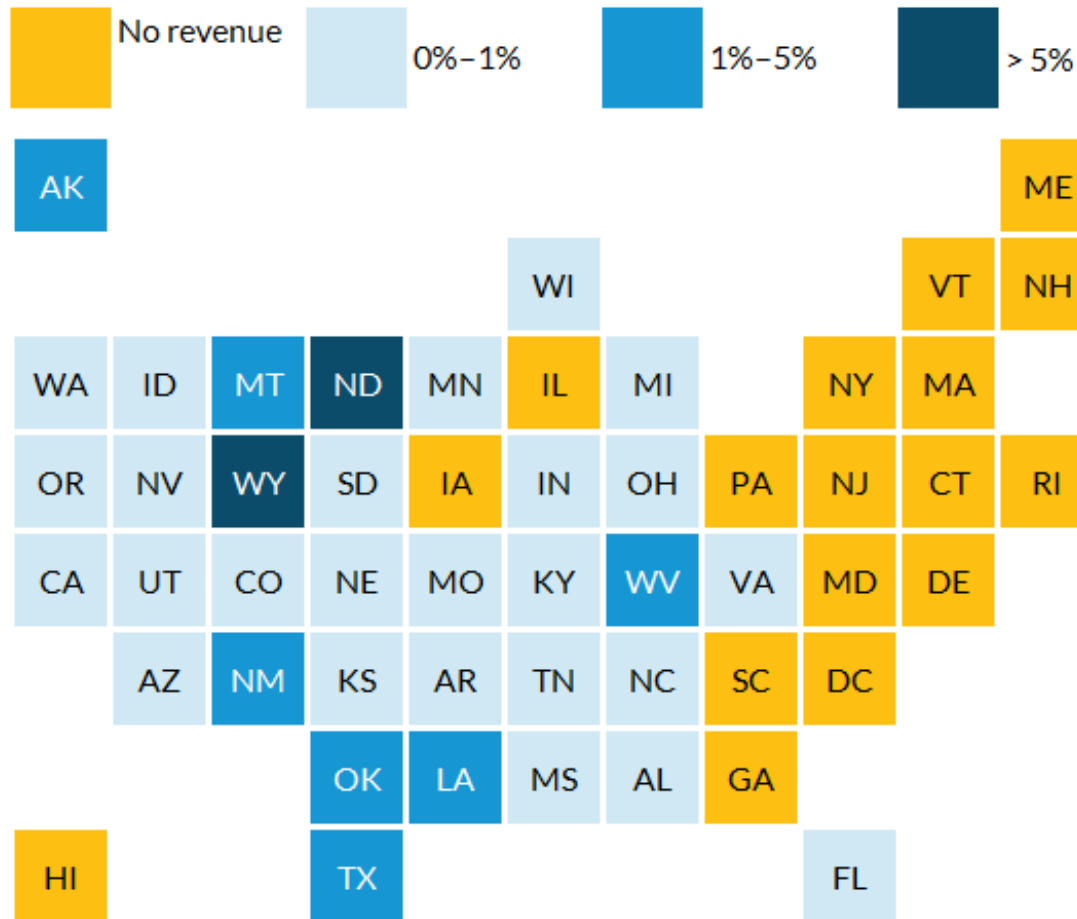
**Source:** Census, BLS.

# Severance Taxes Are Concentrated in a Few States

## Severance Tax Revenue, 2015

Percentage of state and local general revenue

US: < 1%



Source: US Census Bureau.

# Slowing General Sales Tax Revenue



- Inflation-adjusted revenue increased only 0.2% in calendar 2016 (Rockefeller)
- Sales tax collections are 2.5% below budget levels for FY 2017 (NASBO)

## Why?

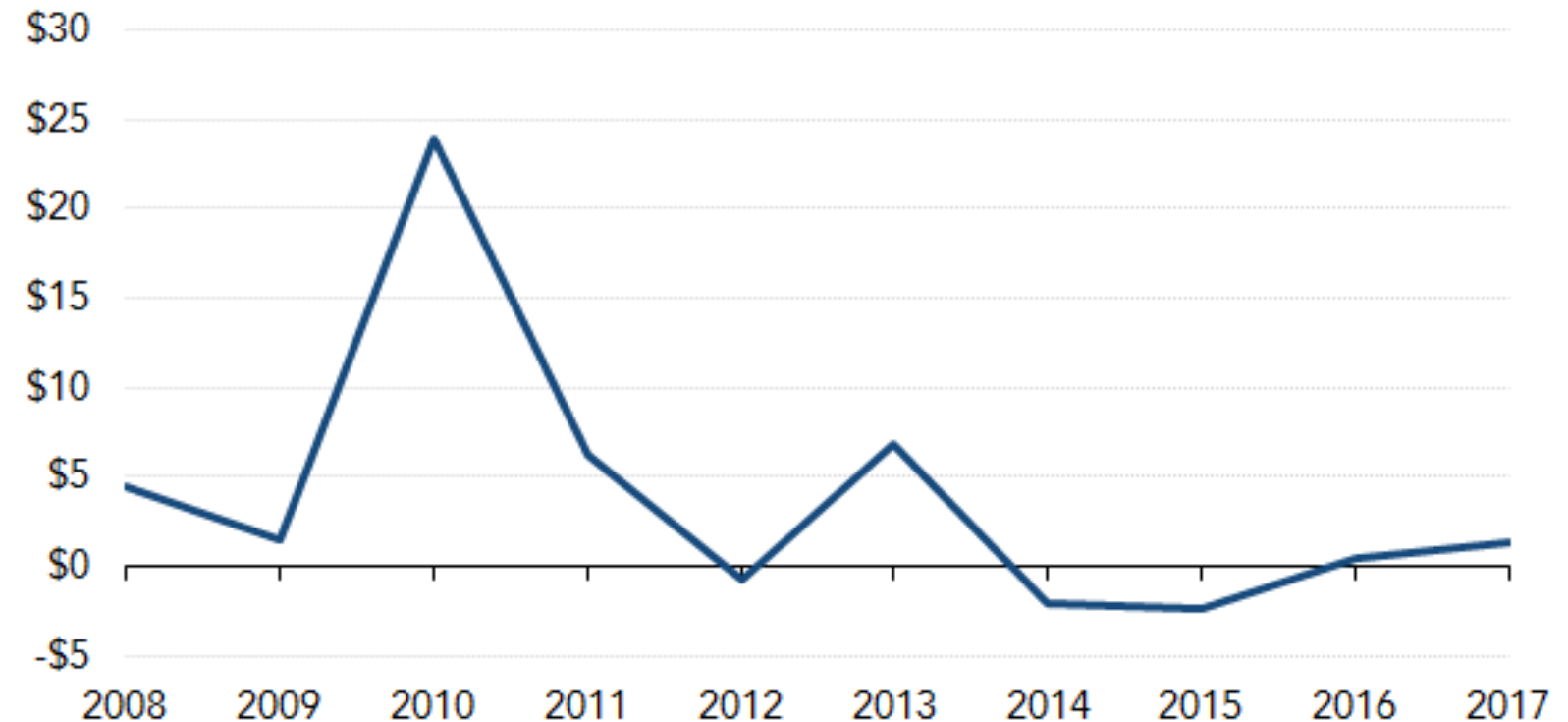
- Sales outside of tax base (e.g., services & online purchases)
  - Note: Amazon now collects tax in all states with general sales tax
- Policy?
  - Cuts: AZ (2013), CA (2017), DC (2013), NJ (2017)
  - Increases: AR (2013), LA (2016), OH (2013), SD (2016), VA (2013)

# Related to State Fiscal Actions



## Total State Revenue Changes: FY 2008-2017

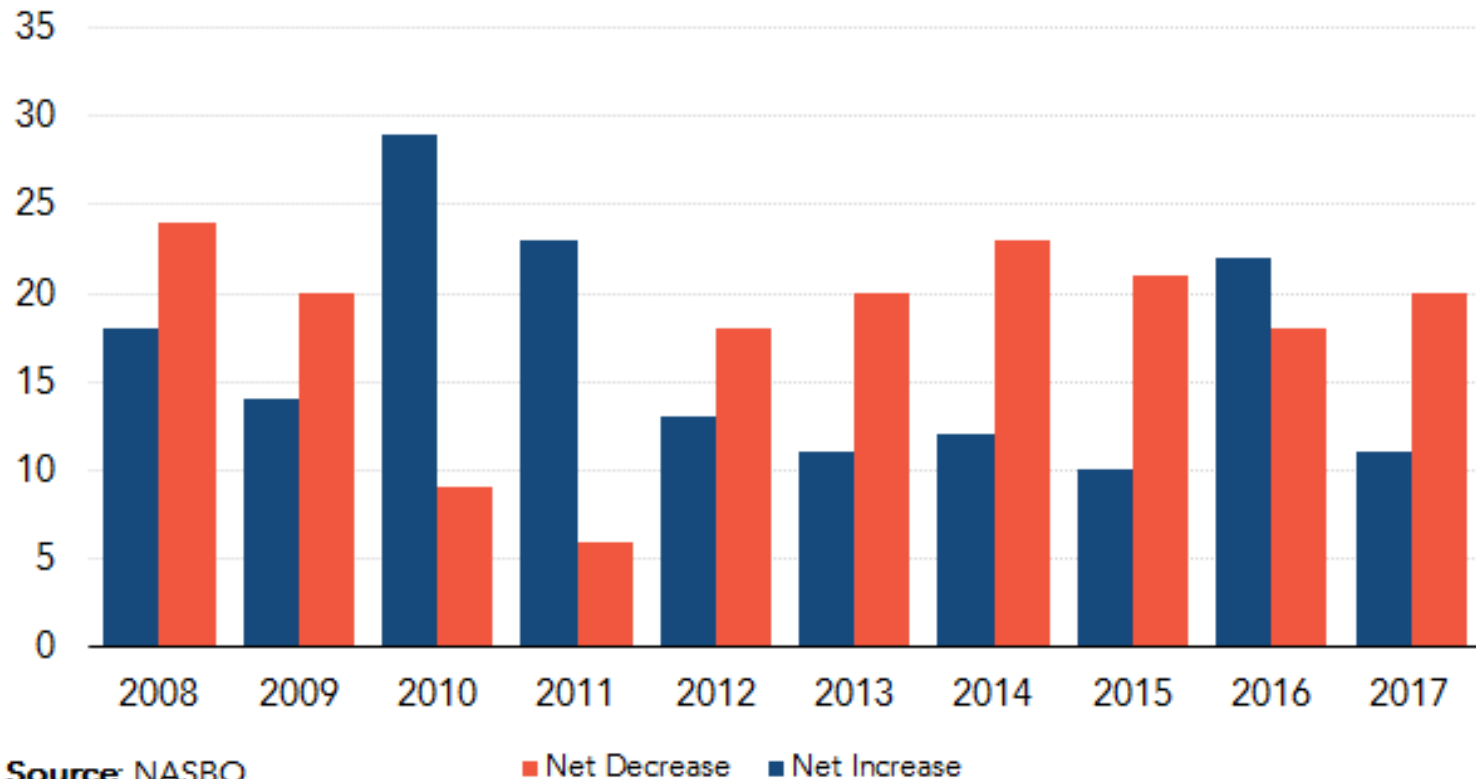
*Billions*



**Source:** NASBO.

# But Story Again Varies Across States

## States that Enacted Revenue Changes: FY 2008-2017





What's next?

- Reluctant but needed income tax hikes: KS, IL, OK
  - After years of tax cuts
- Attempts to collect online sales tax revenue
- Gas tax increases: 23 states since 2013
  - But still politically difficult (5 rejected in 2017)
- Marijuana taxes: AK, CA, CO, MA, ME, NV, OR, WA
  - Next? DE, MD, MI, NJ, PA, SD, VT
- Estate tax repeal (DE, NJ), higher exemption (MD, NY)

# Why states care about federal tax reform



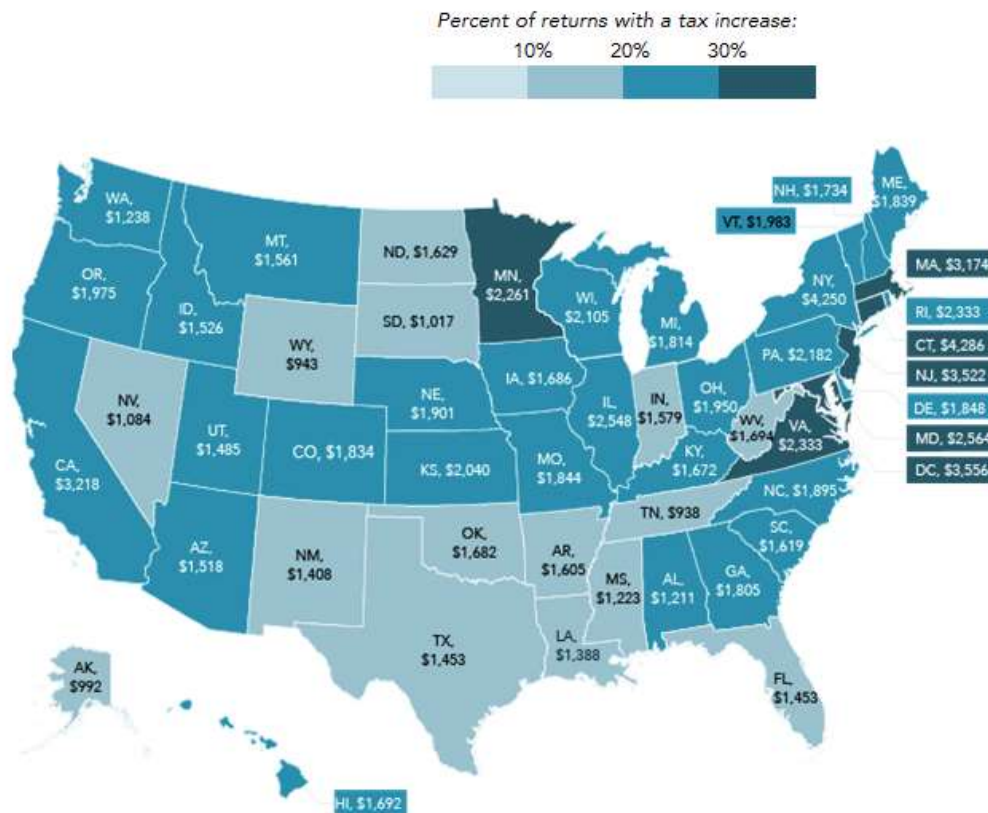
- States link much of their tax systems (individual and corporate) to federal rules and definitions
- State and local tax deduction is an indirect federal subsidy to governments
- Future federal spending cuts are state cuts
  - Federal transfers are 33% of state revenue
  - About 20% of federal domestic discretionary funds

- SALT deduction repeal(ish)
  - Bills allow deduction for up to \$10,000 in real estate taxes
  - Senate expires in 2025
  - All bills eliminate deductions for state and local income and sales taxes
  - Fewer people will itemize
- Higher education components (just House bill)
  - Consolidates AOTC LL credits
  - Treats tuition payments as income
  - Eliminates student loan interest deduction
- Both allow 529 plans for K-12 education

# State and Local Tax Deduction

**FIGURE 3**

**Effect of Repealing the SALT Deduction by State**  
 Average federal tax increase and percentage of returns with an increase, 2016



**Source:** Frank Sammartino and Kim Rueben. 2016. "Revisiting the State and Local Tax Deduction."

**Note:** Average tax increase is for returns with an increase.

# Conclusion



- State revenues are lagging but no one reason:
  - Timing uncertainty over federal tax reform
  - Declines in prices for natural resources
  - Recent declines in farm prices
  - Prior state actions
- Big federal changes coming
  - Unclear what federal tax reform will mean for states
  - Partial repeal of SALT deduction
  - Federal budget likely to cut transfers to states
  - More state responsibility for social safety net
    - Healthcare (Medicaid), food stamps, housing
  - Not promising for higher education

# THANK YOU

**For more information please contact:**

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