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Putting Nevada in Perspective: State and Local Government Budgets in Recession and Recovery

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Putting Nevada in Perspective: State and Local Budgets in Recession and Recovery

Tracy M. Gordon
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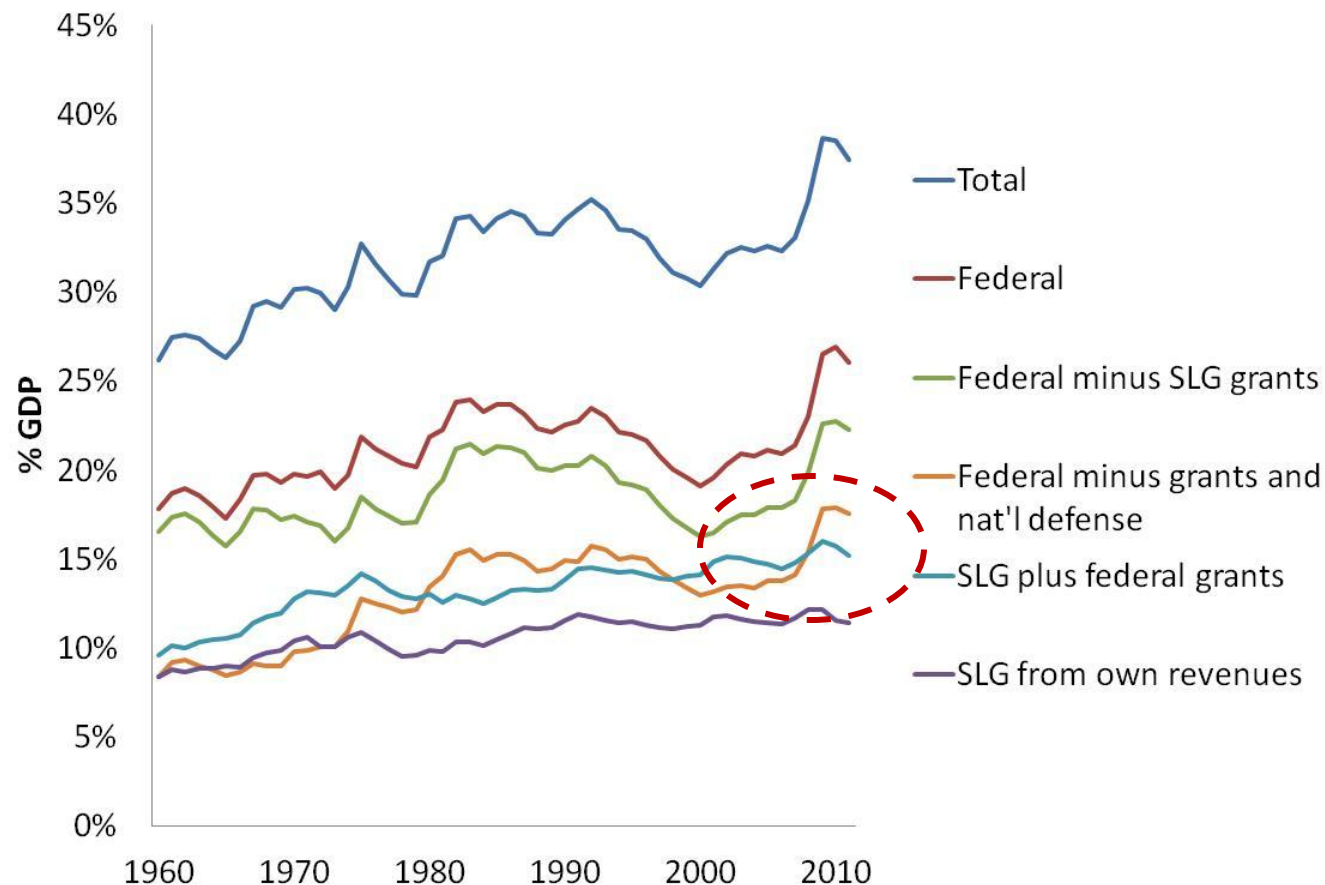
Prepared for Brookings Mountain West at UNLV
September 17-21, 2011

Outline of Talk

- Why states and localities matter
- How they fared in the recession
- Focus on Nevada
- What's next

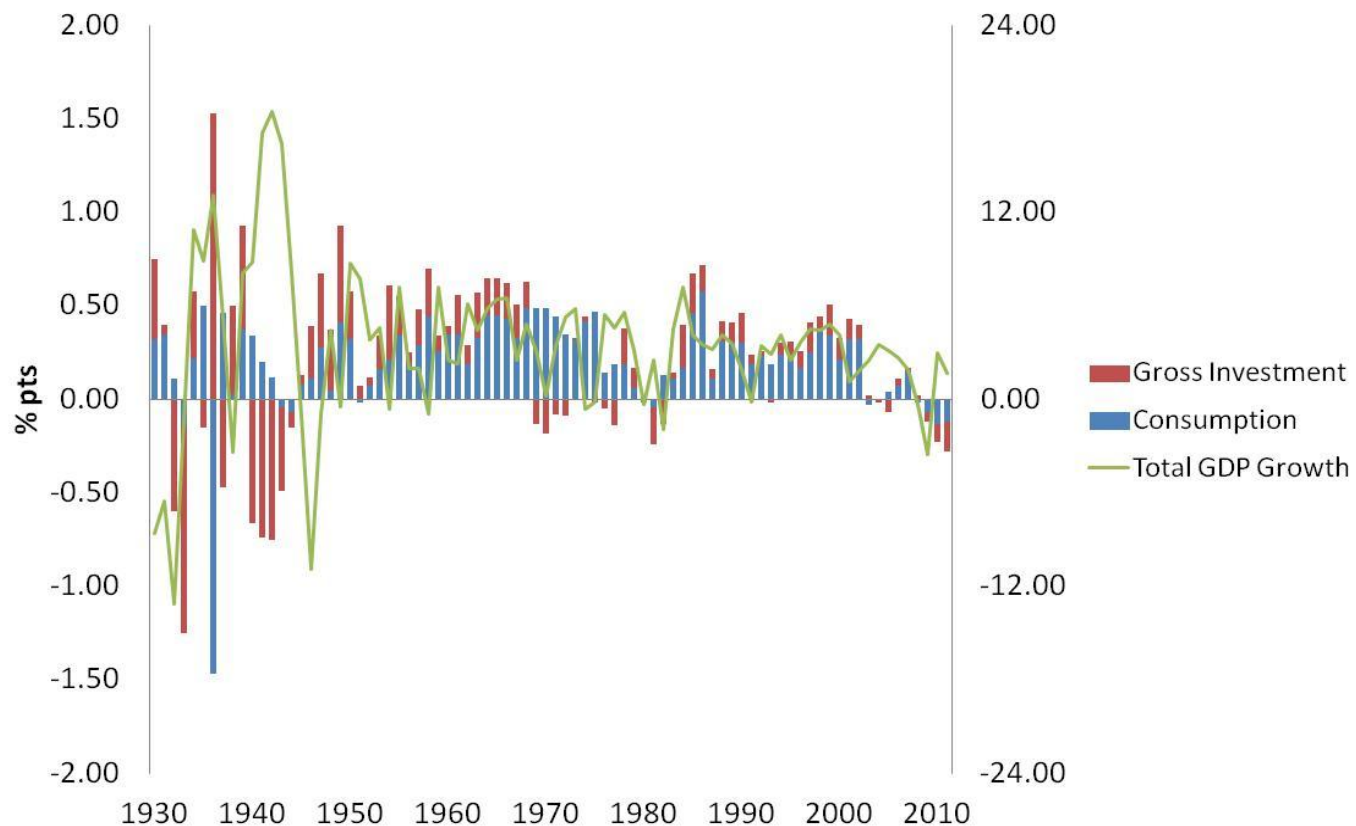
States and Localities Provide Most Public Goods & Services

Government Expenditures by Level



They Contribute Vitally to U.S. Economy

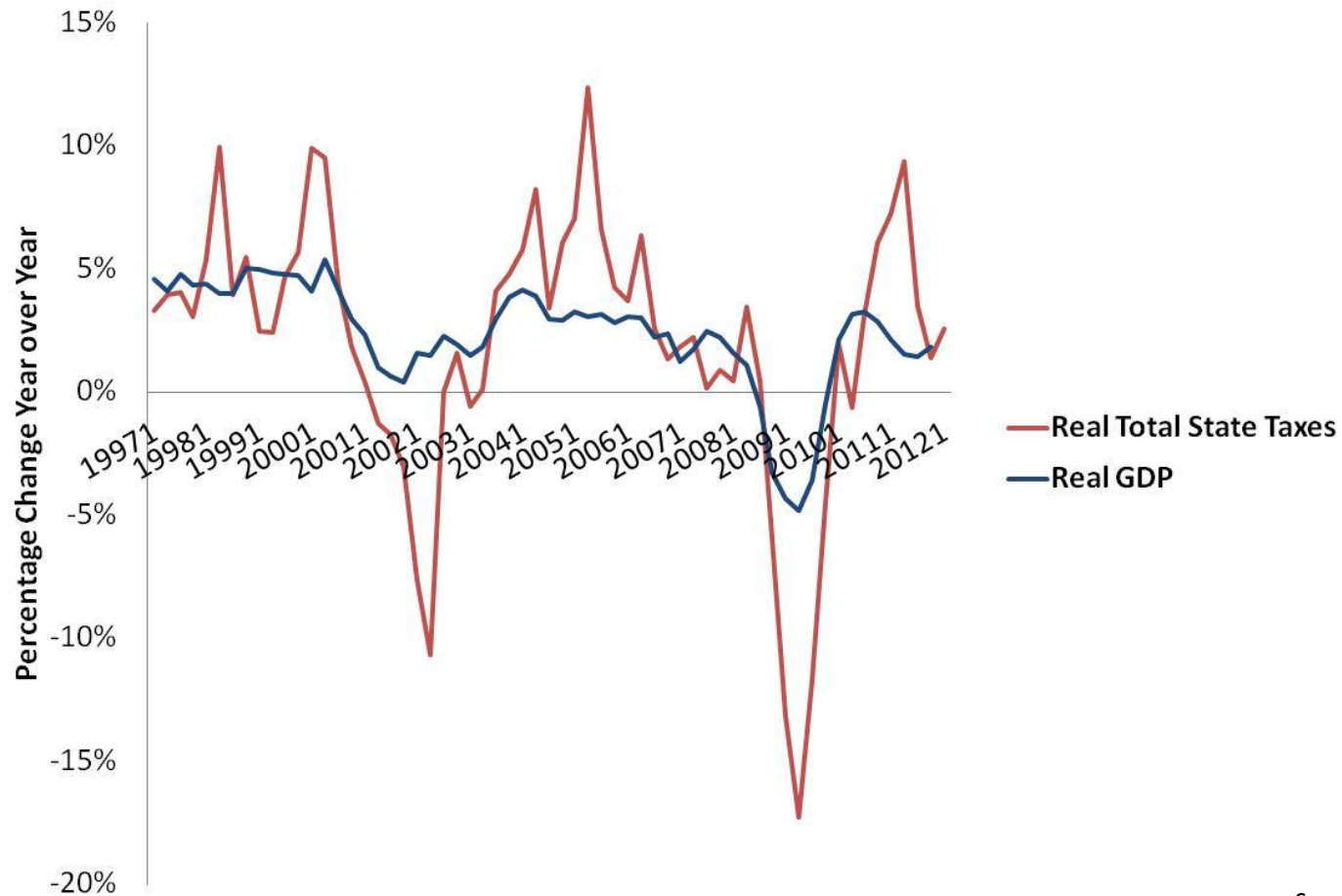
**State and Local Government
Annual Contributions to Real GDP Growth**



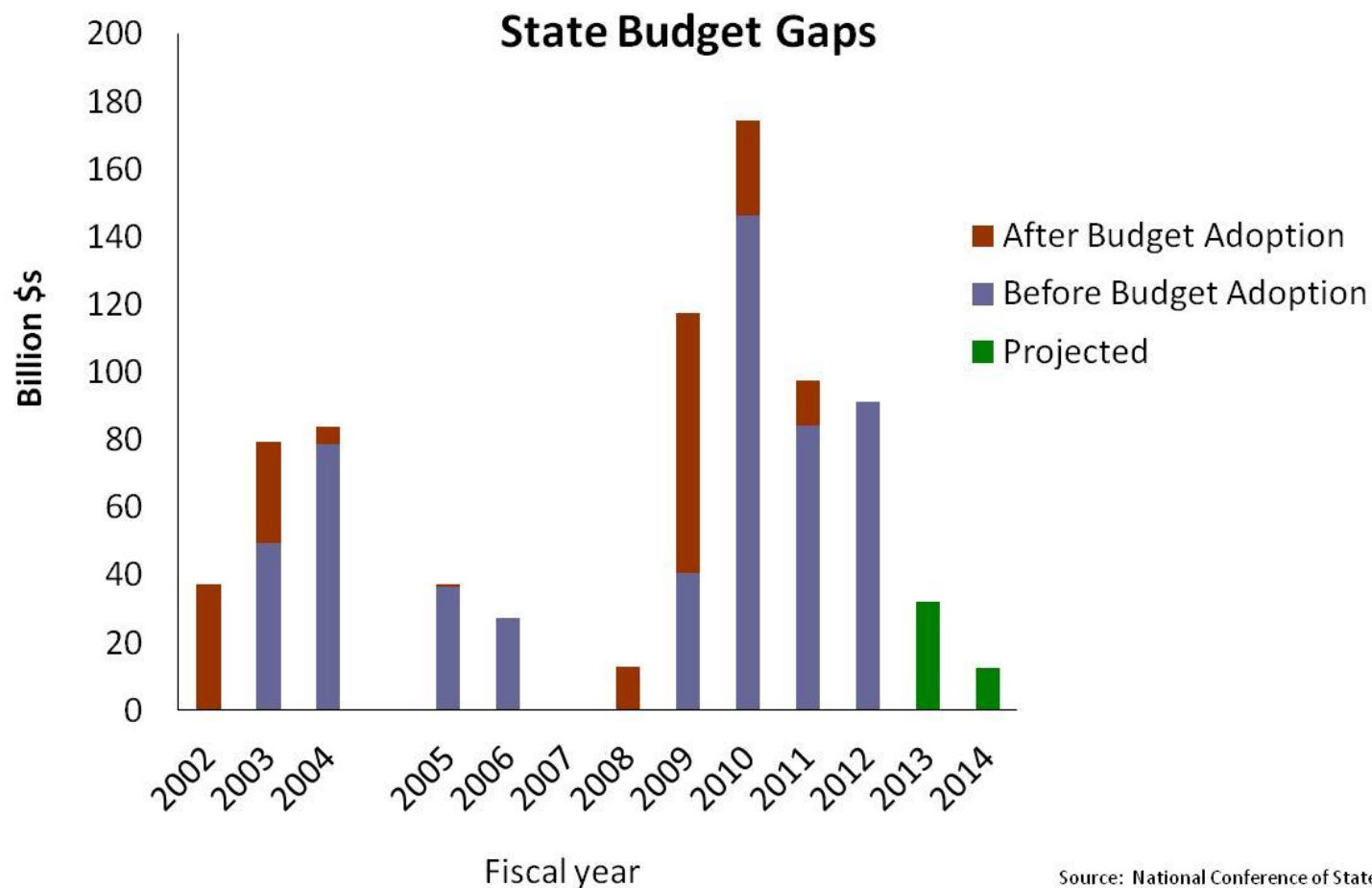
Source: *National Income and Product Accounts*

They Were Hard Hit in the Great Recession

State Taxes More Volatile than Economy



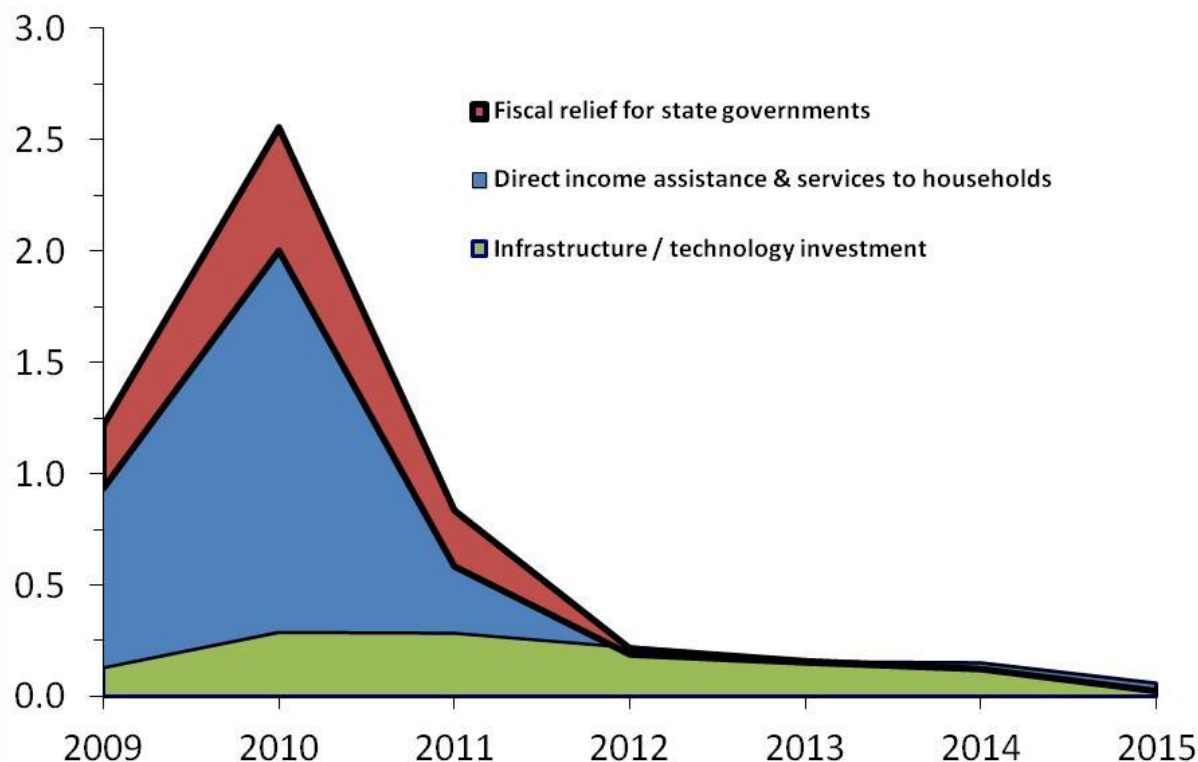
Massive Budget Gaps Opened



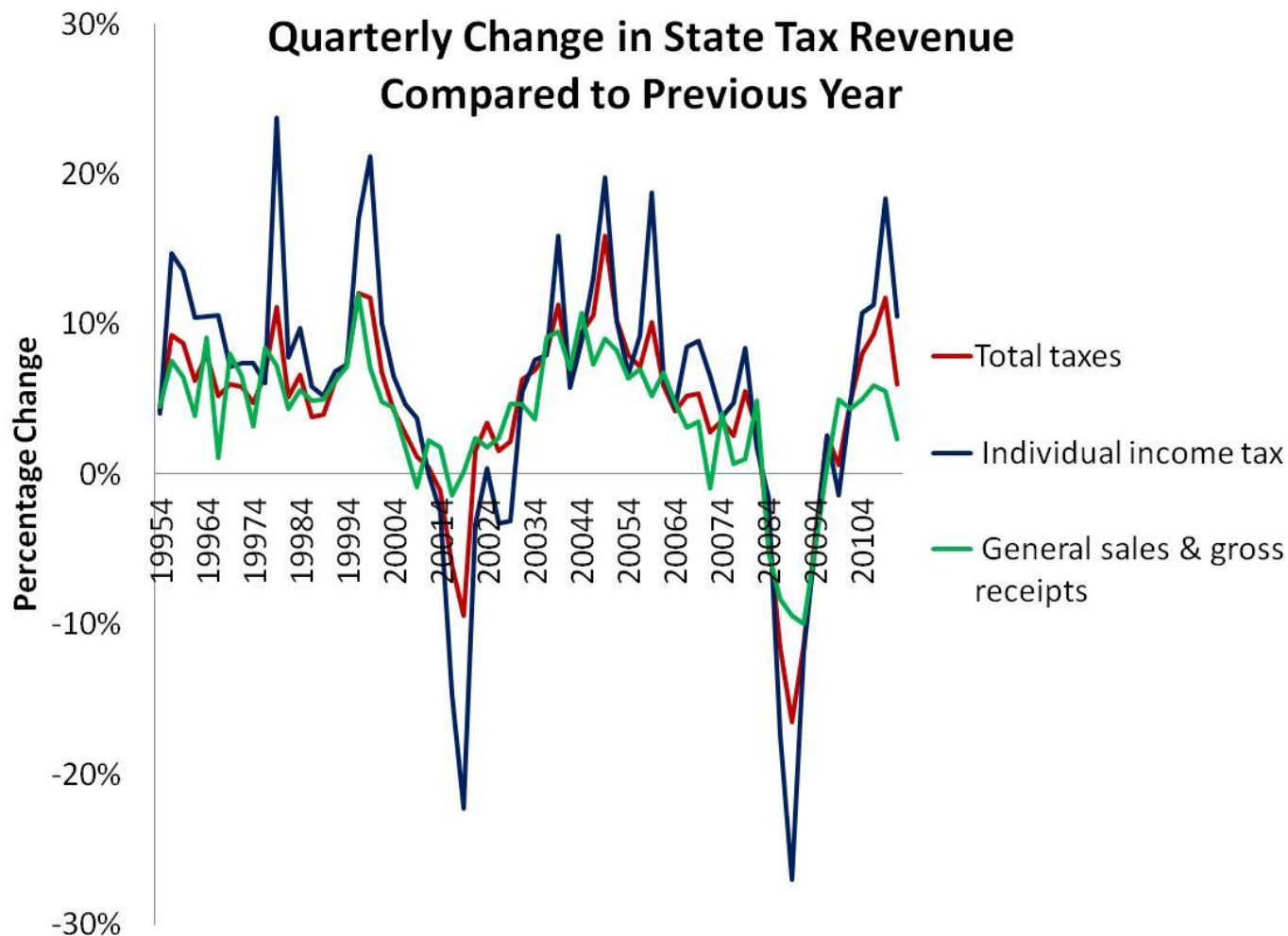
Source: National Conference of State Legislatures, *State Budget Update: Fall 2011*

Federal Government Helped

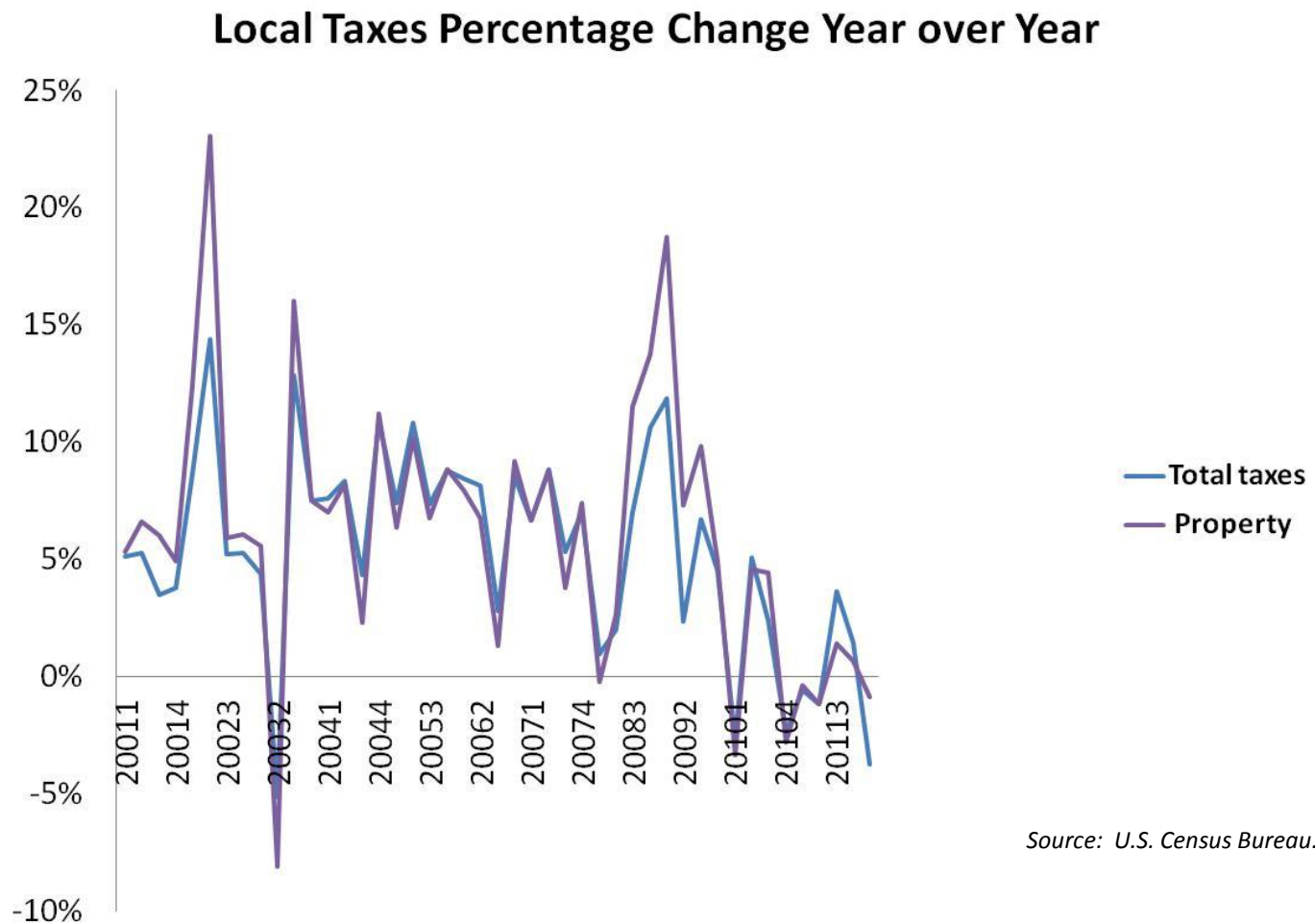
**American Recovery and Reinvestment Act Spending, FY
2009-2015**



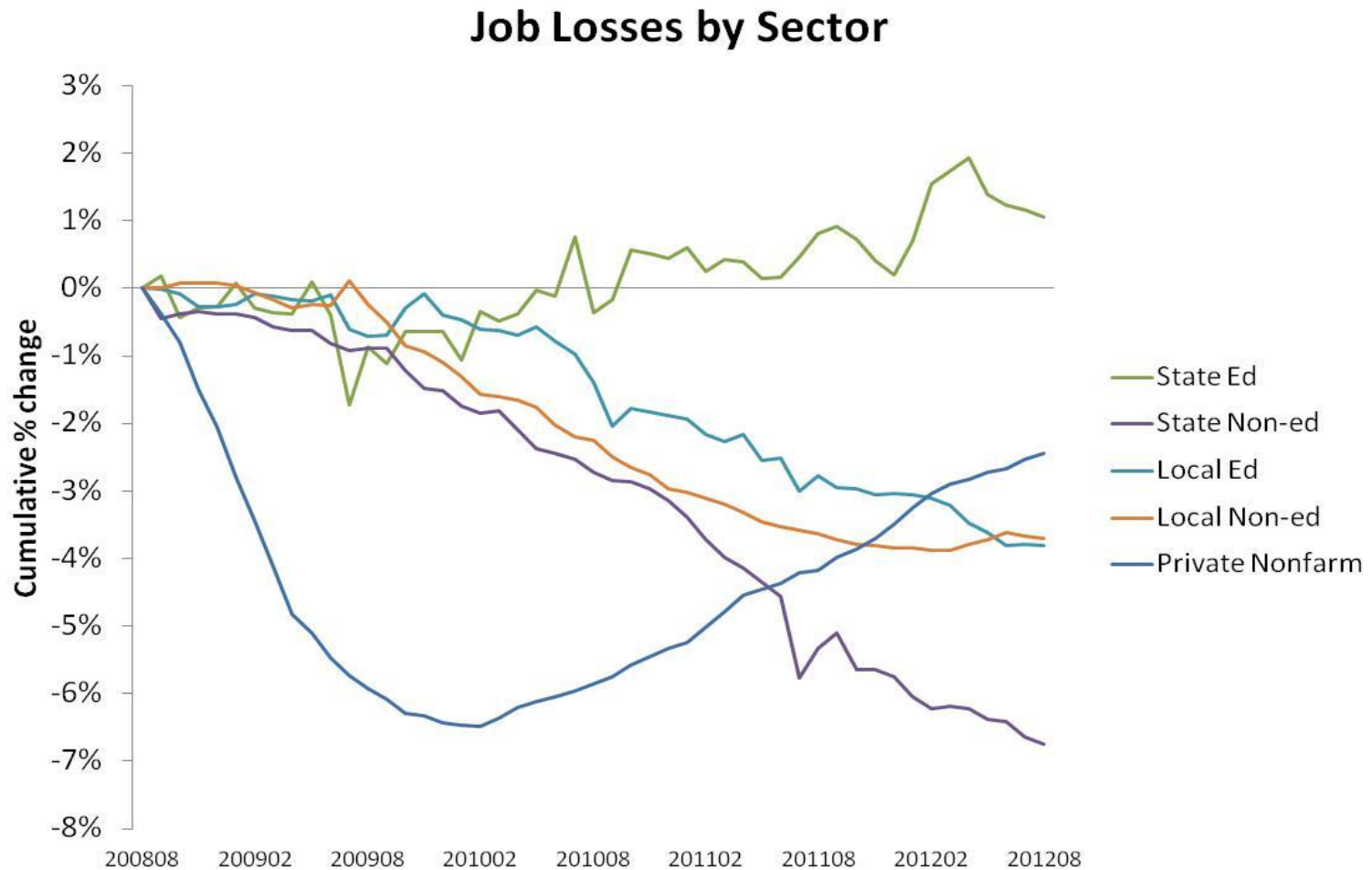
Now State Revenues Are Up



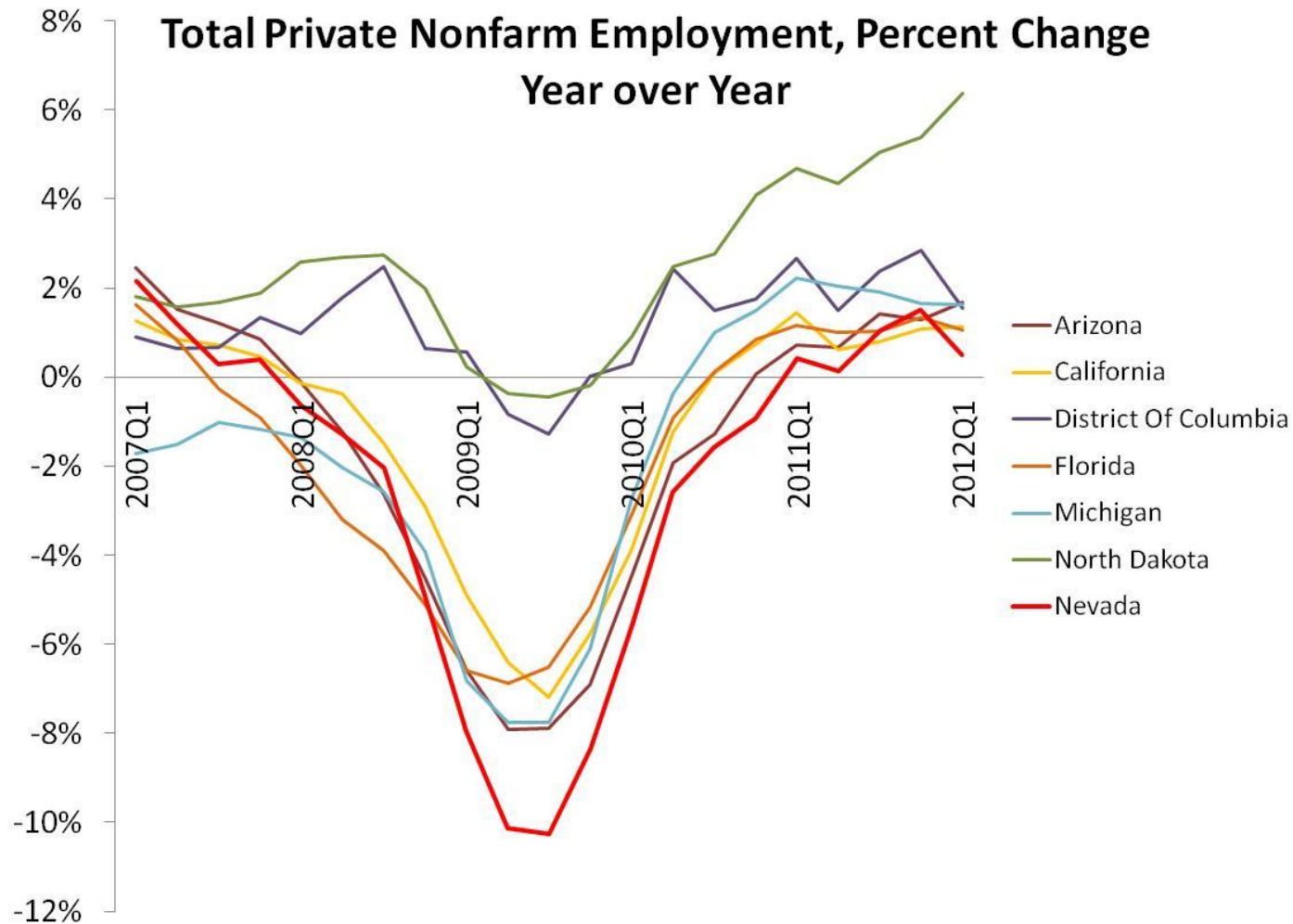
But Local Are Dropping



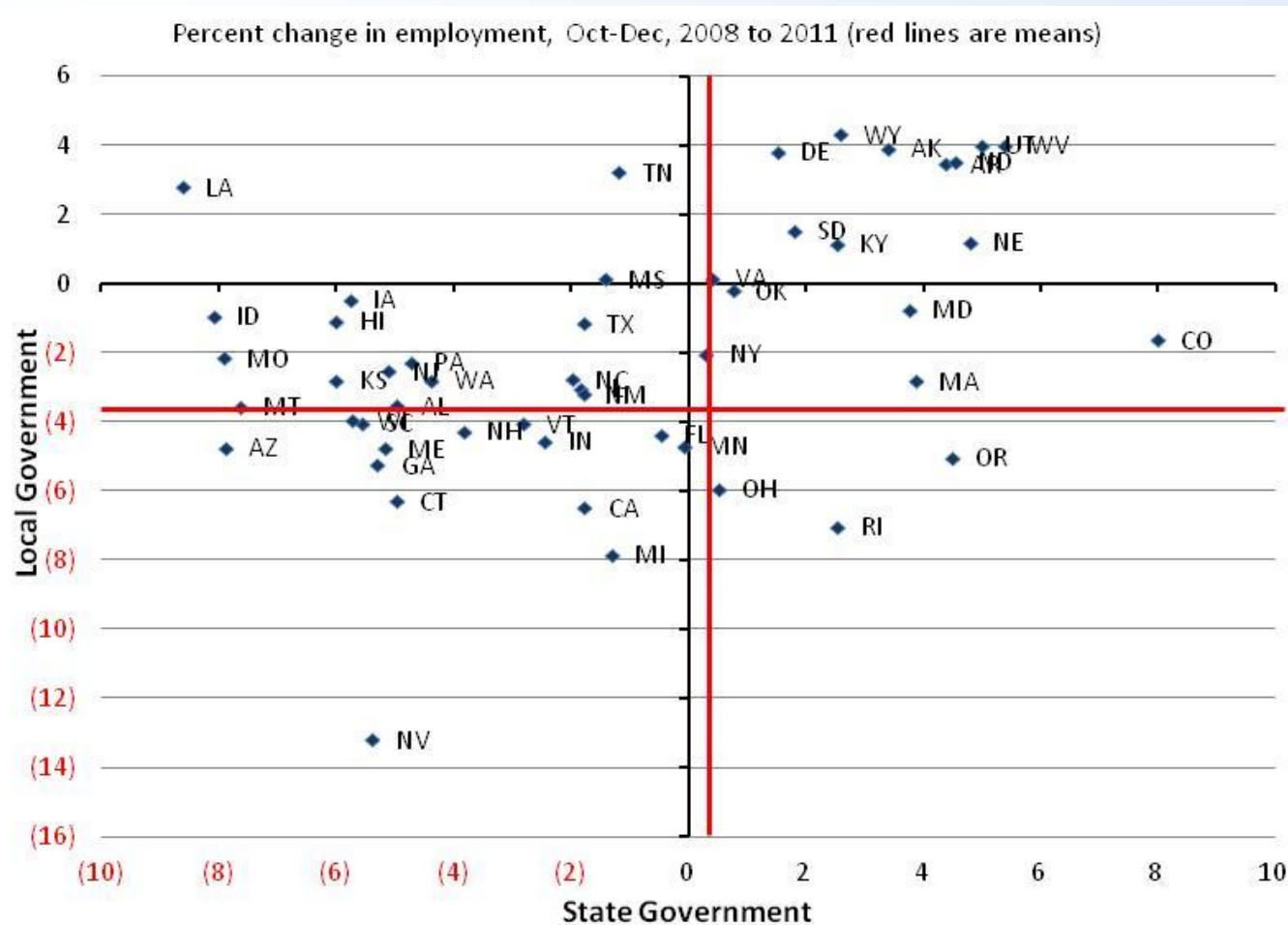
As Job Cuts Continue



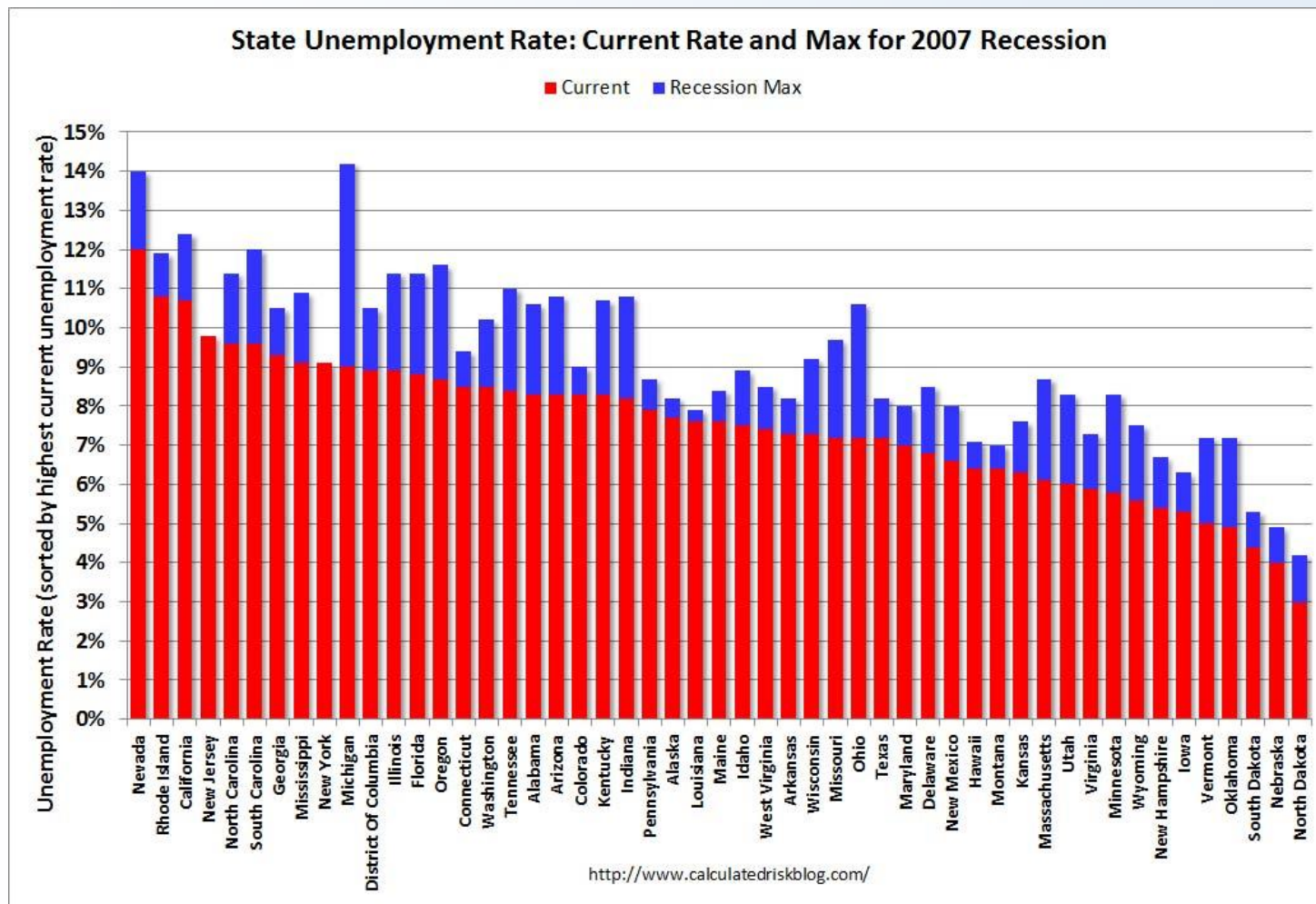
Nevada Hardest Hit in Private Sector Job Losses...



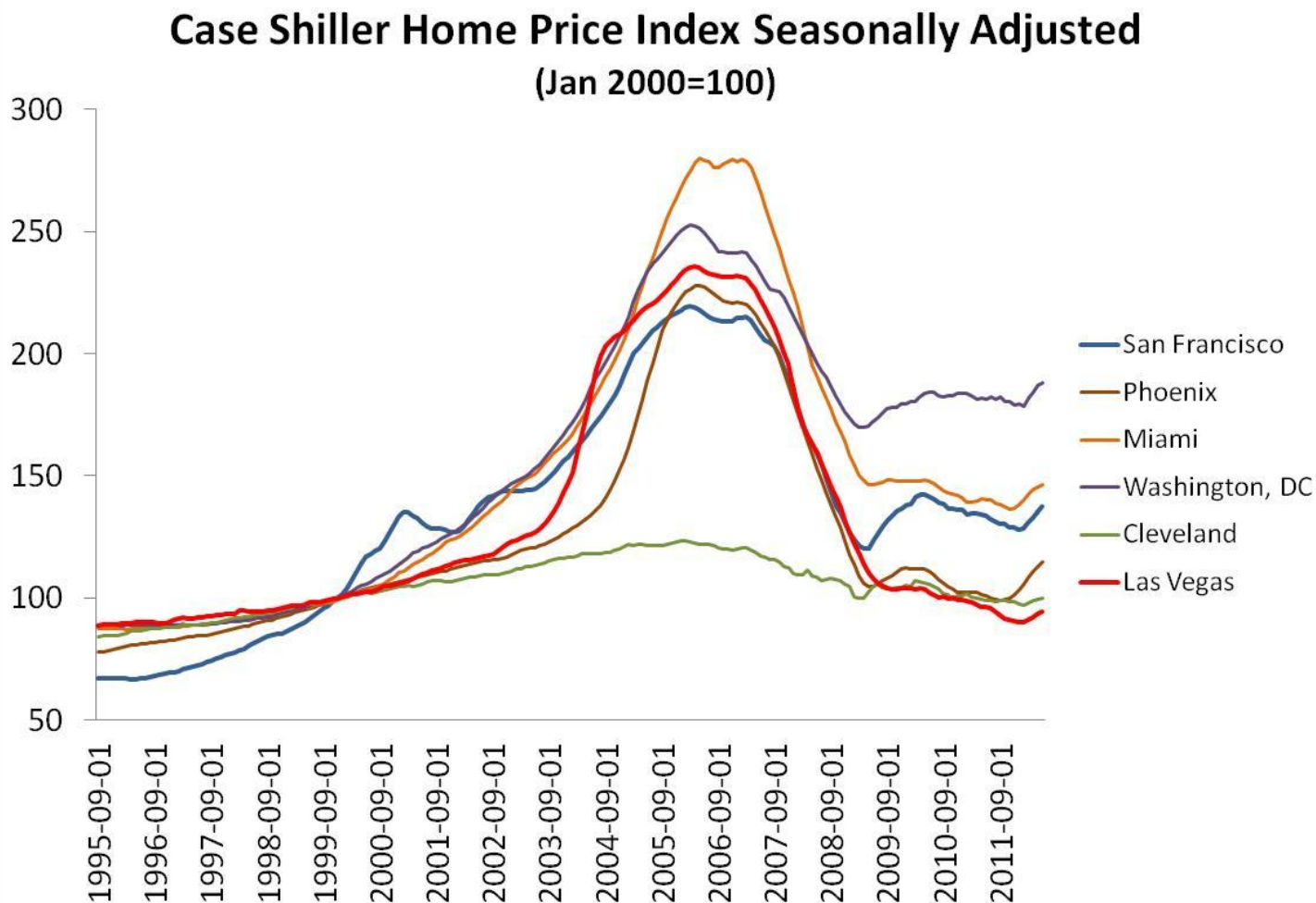
Public Sector Job Losses...



Persistent Unemployment...



Home Price Declines...



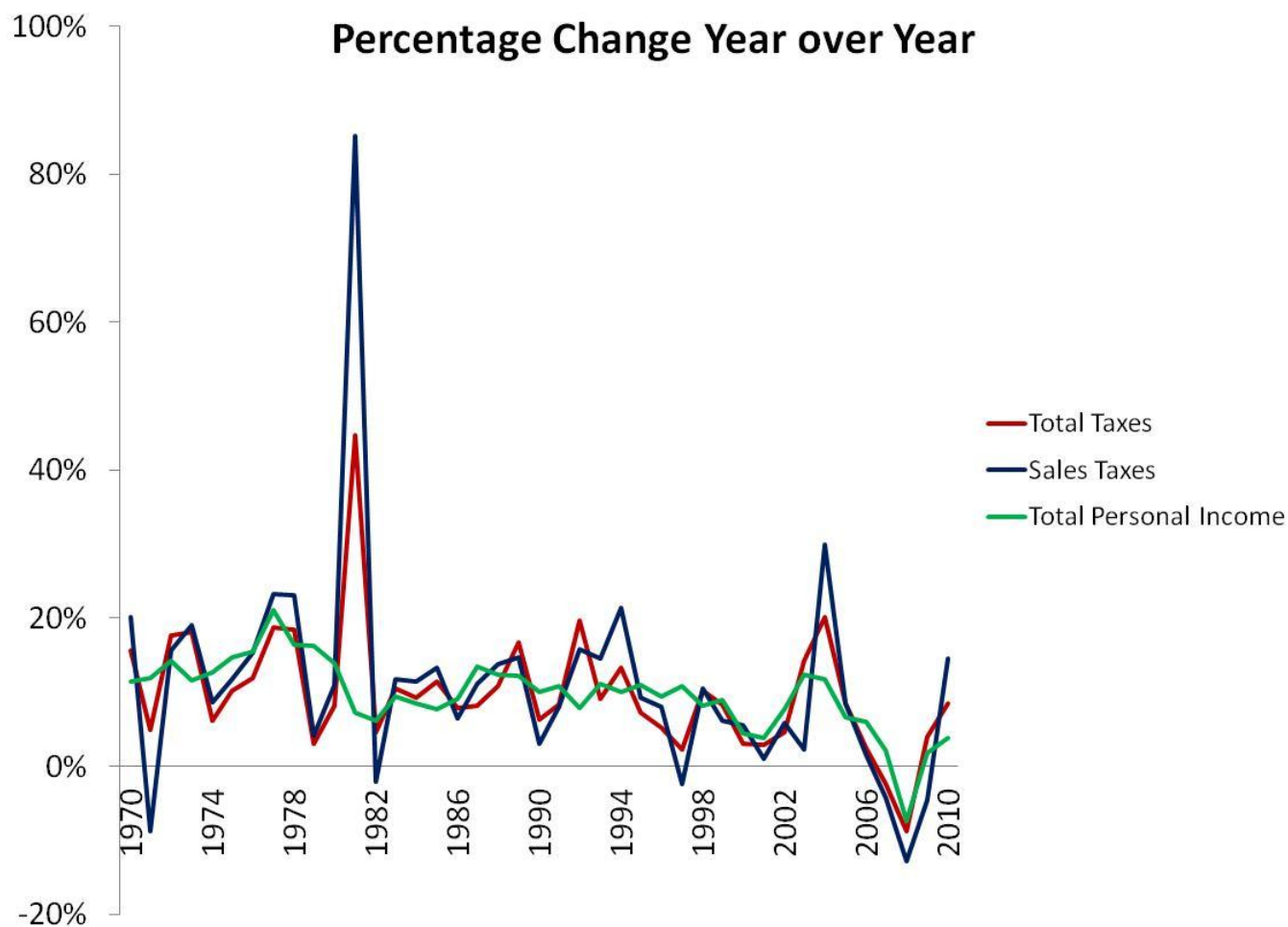
Source: Federal Reserve
Economic Data (FRED)

And Budget Gaps

Shortfall as Percentage of State General Fund

	Mid-Year FY2009	Projected FY2010	Estimated FY2011	Projected FY12
Nevada	7.3	30.0	54.5	45.2
New Jersey	11.1	21.6	38.2	37.4
Texas	N/A	7.6	10.8	31.5
California	13.6	25.6	20.7	29.3
Oregon	6.6	N/A	32.4	25.0
Min	6.6	7.6	10.8	25.0
Mean	9.7	21.2	31.3	33.7
Max	13.6	30.0	54.5	45.2

Sales Taxes Fell Hard



Source: U.S. Census Bureau.

Reflecting State Tax Mix

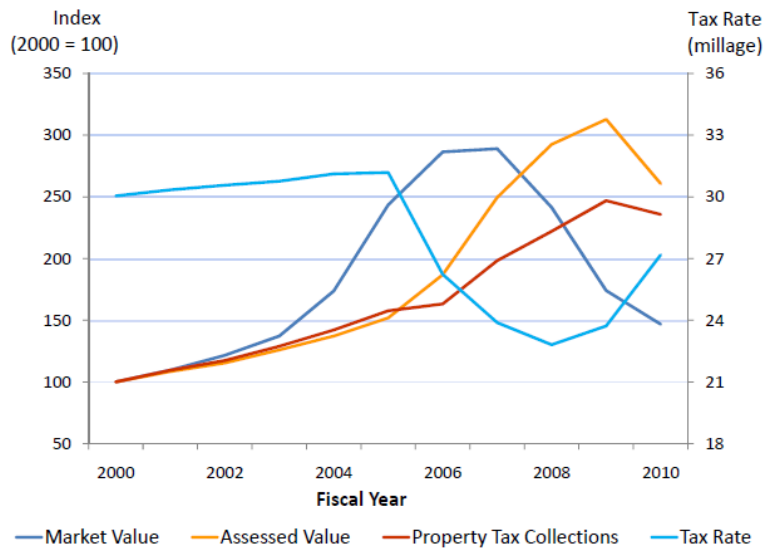
State and Local General Revenue, Percentage Distribution, FY 2009

Region and State	Total (millions)	Inter- governmental from Federal							Total Charges	Miscellaneous (incl lottery)
			Property Taxes	General Sales Taxes	Selective Sales Taxes	Individual Income Taxes	Corporate Income Taxes	Other Taxes		
United States	\$2,413,384	22	18	12	6	11	2	4	16	9
New England	126,603	23	24	7	6	15	2	3	12	9
Mideast	467,315	21	19	9	6	17	3	4	12	9
Great Lakes	346,524	22	19	11	7	11	1	3	16	9
Plains	154,636	22	16	12	6	13	1	4	17	9
Southeast	542,829	24	15	14	7	8	1	3	19	9
Southwest	251,680	25	19	16	7	2	0	6	16	10
Arizona.....	41,426	27	17	18	5	6	1	2	13	10
New Mexico.....	17,090	31	7	16	4	6	1	7	12	16
Oklahoma.....	26,064	26	8	14	4	10	1	9	18	9
Texas.....	167,101	23	22	16	8	-	-	6	16	9
Rocky Mountain	81,614	22	15	12	4	11	1	5	19	11
Colorado.....	36,896	18	17	14	4	12	1	3	20	11
Idaho.....	9,646	23	13	13	4	12	1	4	22	8
Montana.....	7,867	30	16	-	7	11	2	9	13	13
Utah.....	18,688	23	12	13	5	12	1	3	21	9
Wyoming.....	8,517	26	15	14	2	-	-	16	15	11
Far West	416,432	21	17	13	5	12	2	4	18	9
California.....	317,574	21	17	12	4	14	3	4	17	8
Nevada.....	18,219	17	19	16	12	-	-	7	17	10
Oregon.....	27,925	25	16	-	4	18	1	5	19	12
Washington.....	52,714	21	15	23	8	-	-	5	20	8

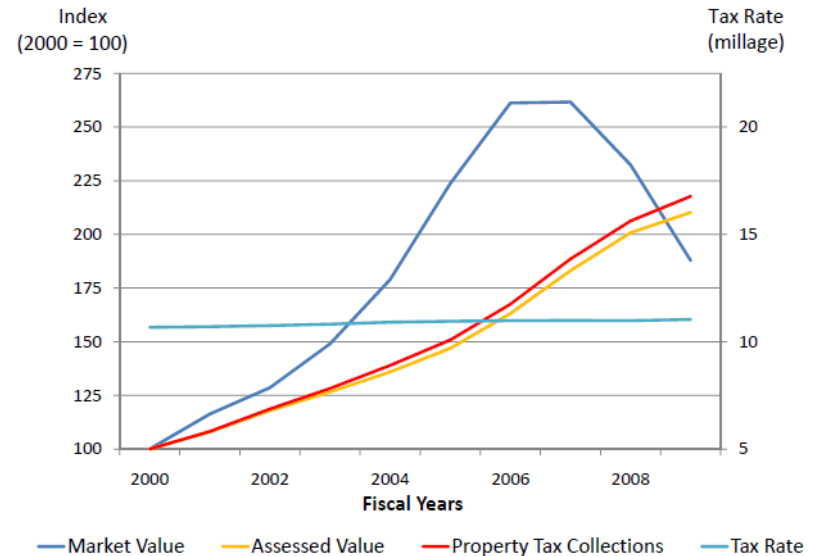
Sources: State & Local Government Finance Data Query System; Census Bureau

Property Was Next, But It Took Time

Case Study: Nevada



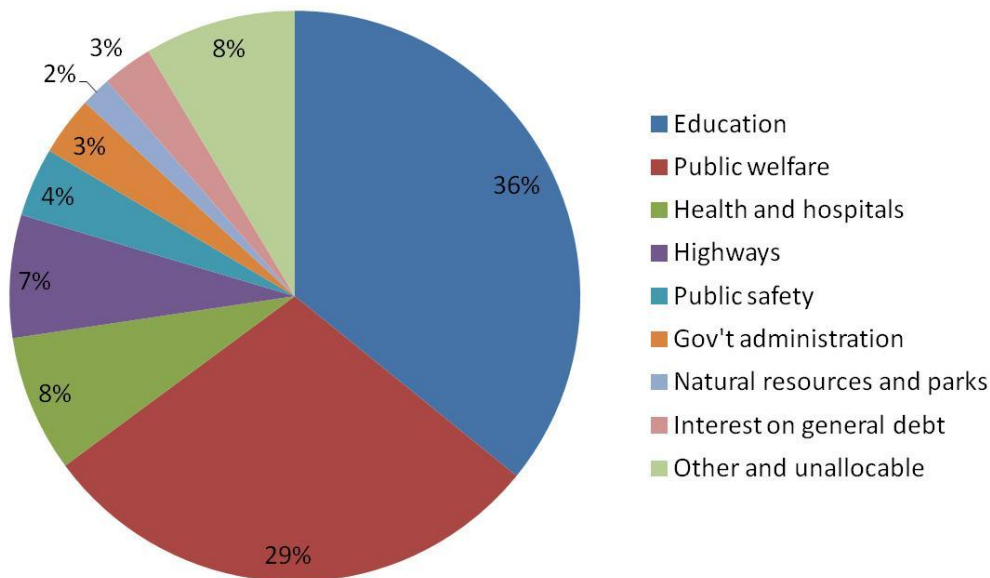
Case Study: California



Source: Byron Lutz, Raven Molloy, and Hui Shan, "The Housing Crisis and State and Local Government Tax Revenue: Five Channels," *Forthcoming in Regional Science and Urban Economics*

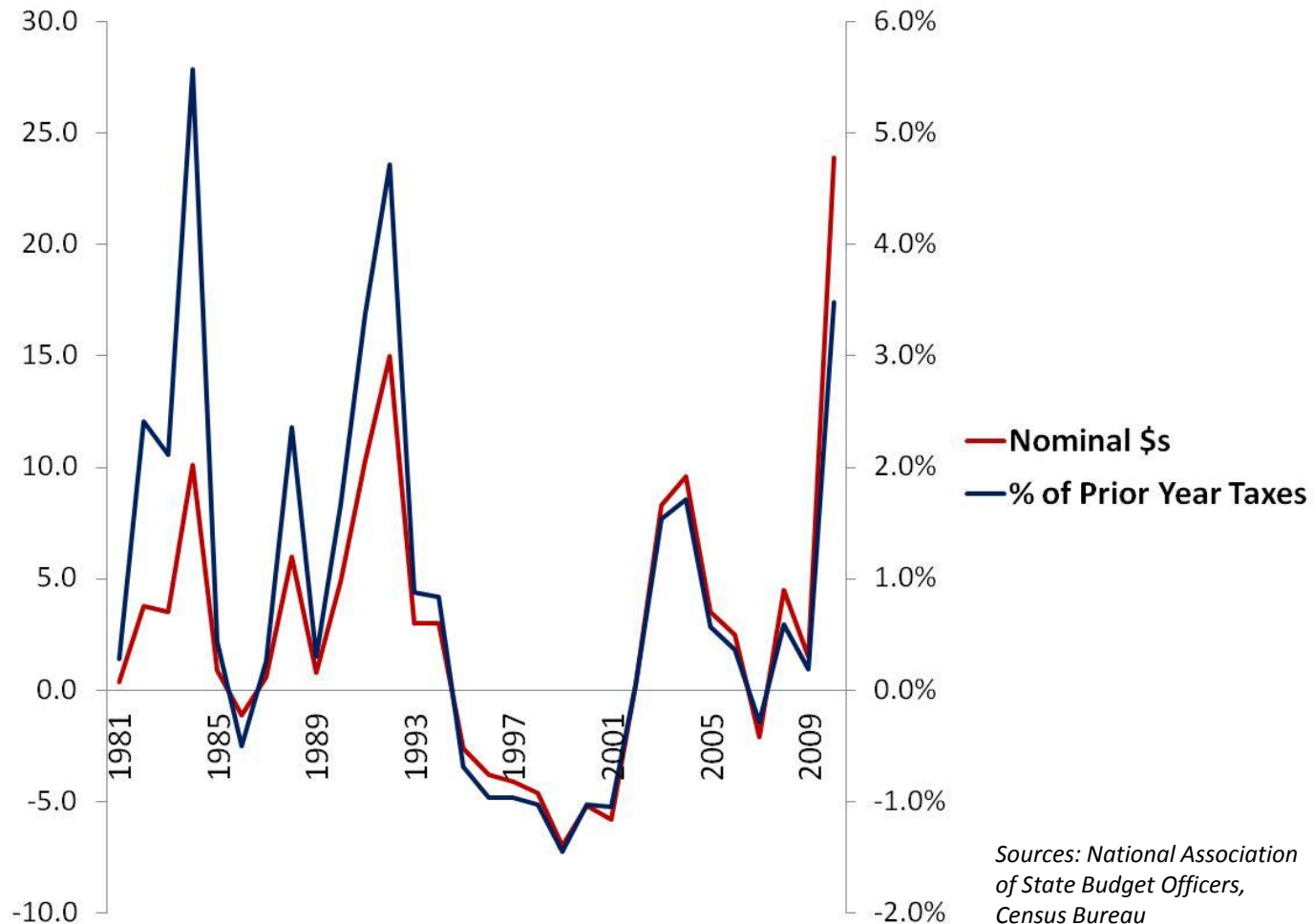
Overall, How Did States Respond? Most Cut Spending

State General Expenditures FY2010 = \$1.59 trillion



- » **34** states cut K-12 education
- » **43** colleges and universities
- » **31** health care
- » **29** elderly and disabled
- » **44** employee compensation

They Also Raised Taxes, But Less Than Previous Recessions



And There Were “Gimmicks”

- Asset sales and lease backs
- Postponed or unpaid payments to vendors, nonprofits, local governments
- Borrowing from special funds
- Increased income tax withholding
- Tax amnesties or accelerated collection
- Phantom federal funds

Nevada Was Among States that Raised Taxes and Fees

Table 1	
Revenue Changes in FYs 2009 to 2011	
as Percentage of Tax Revenue During the Period	
Magnitude of Tax Change	State
> 9%	CA, NY, WI, RI, IL, DE
7 to <9%	CO, AZ, OR, NH
5 to <7%	NV, CT, WA, KS
3 to <5%	TN, MA, NC, HI, NJ, ME
1 to <3%	FL, MN, GA, UT, VT, KY, MS
0 to <1%	NM, VA, IA, SD, AR, MD, TX, ID, MT, OK, SC, WY, PA, NE, AK
0 to <-1%	MO, AL, WV, LA, MI
>-1%	OH, IN, ND
<p>Note: States organized so that largest percentage change is on the left; figures adjusted for inflation.</p> <p>Source: Donald J. Boyd and Lucy Dadayan, "Will State Tax Reform (or Increases) Solve Structural Problems," presentation to the National Tax Association, Rockefeller Institute of Government, Albany, May 20, 2011.</p>	

It Also Cut Spending

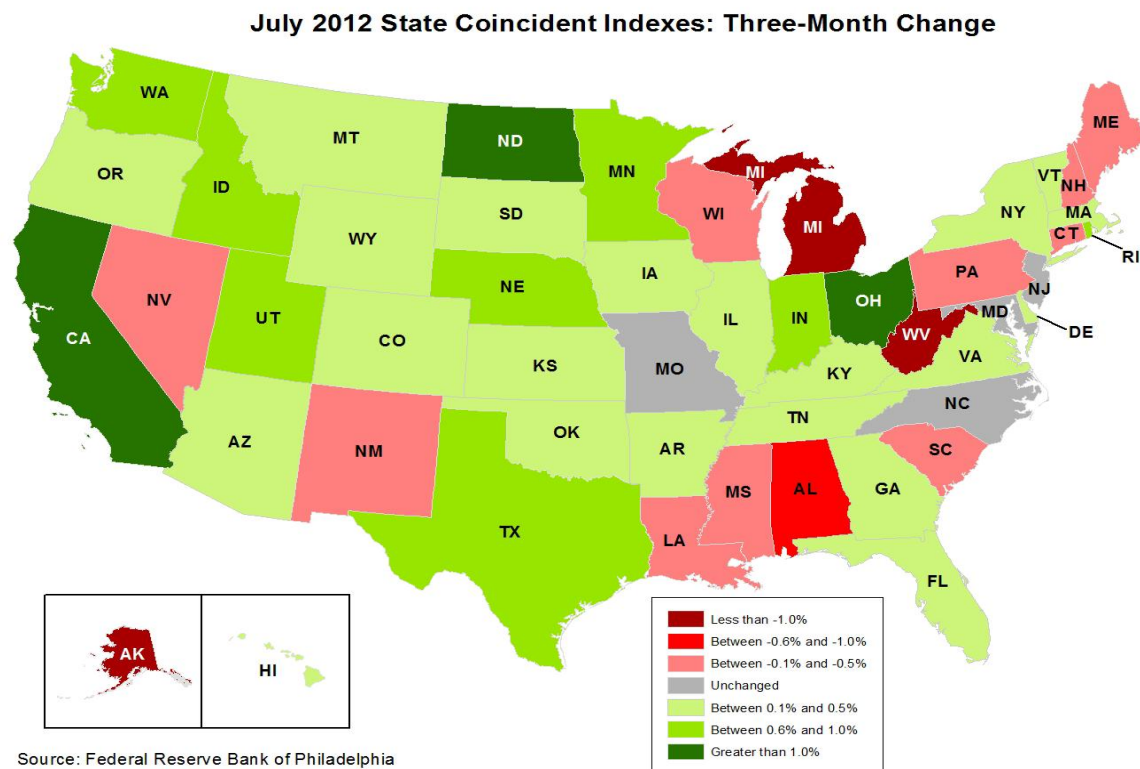
- Some examples:
 - » Eliminated Medicaid coverage for non-medical vision, cut hospital rates
 - » Furloughed state employees (12 days or ~5% pay cut)
 - » Cuts to K-12, higher education (Gov. proposed 36% at height of crisis)

Other Actions

- Withdrew \$267 m from rainy day fund
 - » While AB 165 tightened contribution and withdrawal requirements
- Court blocked some cuts to local aid
 - » Paved way for extensions to sales and business taxes set to expire 6/11

What's Next? Short Term

- Ongoing economic uncertainty

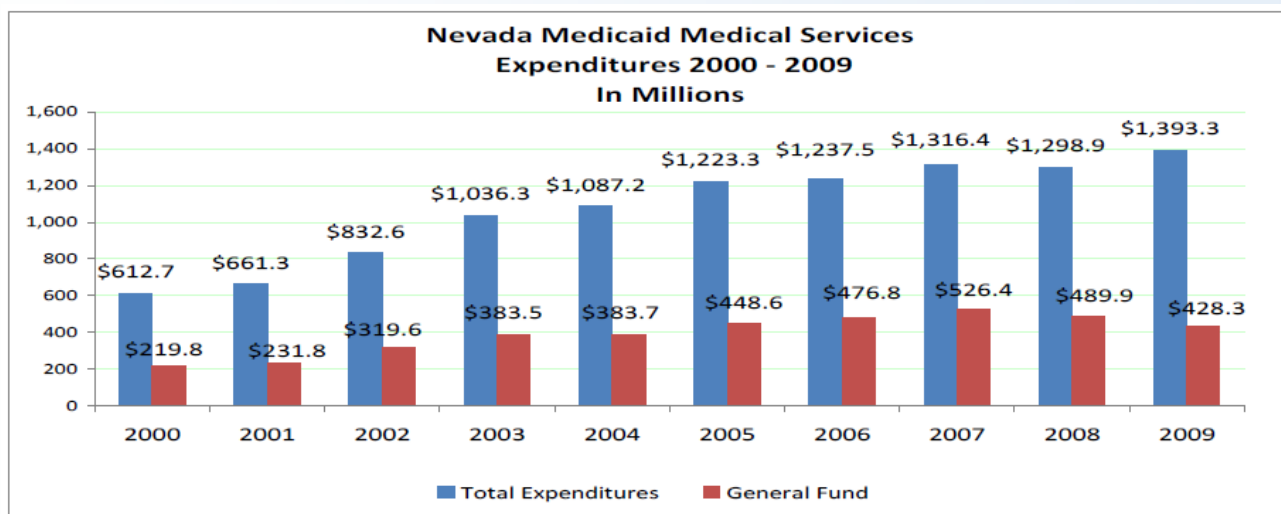


What's Next? Short Term

- Federal policy uncertainty
 - » Fiscal cliff and debt limit negotiations
 - » \$917b in discretionary spending cuts
 - » Potential changes to U.S. tax exemption for muni bonds, deductibility of state and local taxes

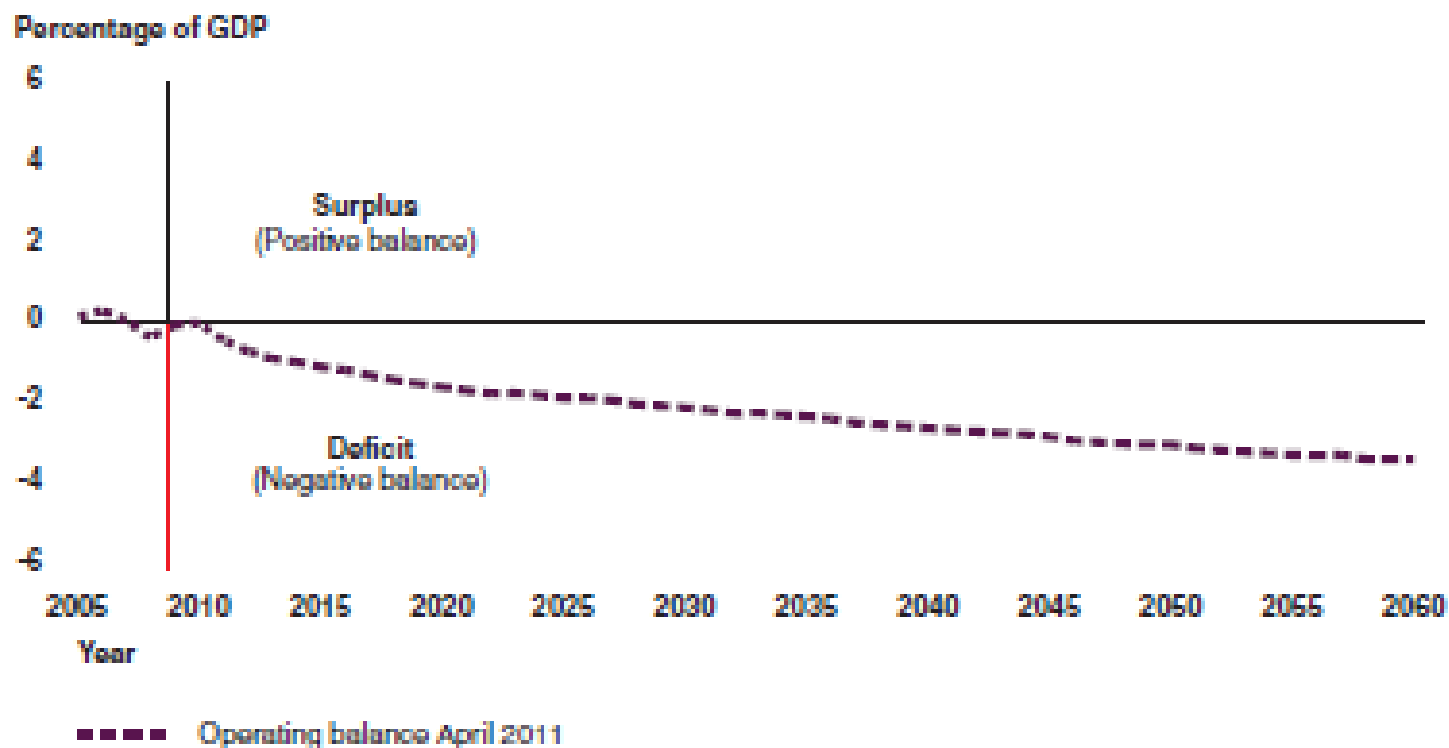
What's Next? Medium Term

- Rising Medicaid costs, expansion option, and other ACA implementation challenges



Long Term Challenge

Figure 1: State and Local Operating Balance Measure, as a Percentage of Gross Domestic Product



Source: GAO simulations, updated April 2011.

Conclusions

- State revenues are improving (above forecast in NV), although local flagging
- Decision of whether to restore cuts will be politically fraught (Gov. Sandoval on tax extensions for K-12 education)
- Economic challenges compounded by political uncertainties, especially federal