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

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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

- Total
- Federal
- Federal minus SLG grants
- Federal minus grants and nat'l defense
- SLG plus federal grants
- SLG from own revenues

Source: National Income and Product Accounts
They Contribute Vitally to U.S. Economy

Source: National Income and Product Accounts
They Were Hard Hit in the Great Recession

State Taxes More Volatile than Economy

Percentage Change Year over Year

Source: US Census Bureau
Massive Budget Gaps Opened

State Budget Gaps

- After Budget Adoption
- Before Budget Adoption
- Projected

Source: National Conference of State Legislatures, State Budget Update: Fall 2011
Federal Government Helped


Sources: Congressional Budget Office and Joint Committee on Taxation.
Now State Revenues Are Up

Quarterly Change in State Tax Revenue Compared to Previous Year

Source: U.S. Census Bureau.
But Local Are Dropping

Local Taxes Percentage Change Year over Year

Source: U.S. Census Bureau.
As Job Cuts Continue

Job Losses by Sector

Source: U.S. Bureau of Labor Statistics
Nevada Hardest Hit in Private Sector Job Losses...

Source: U.S. Bureau of Labor Statistics
Public Sector Job Losses...

Source: Boyd and Dadayan
Persistent Unemployment...
Home Price Declines...

Case Shiller Home Price Index Seasonally Adjusted
(Jan 2000=100)

Source: Federal Reserve Economic Data (FRED)
And Budget Gaps

### Shortfall as Percentage of State General Fund

<table>
<thead>
<tr>
<th>State</th>
<th>Mid-Year FY2009</th>
<th>Projected FY2010</th>
<th>Estimated FY2011</th>
<th>Projected FY12</th>
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<tbody>
<tr>
<td>Nevada</td>
<td>7.3</td>
<td>30.0</td>
<td>54.5</td>
<td>45.2</td>
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<td>New Jersey</td>
<td>11.1</td>
<td>21.6</td>
<td>38.2</td>
<td>37.4</td>
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<td>Texas</td>
<td>N/A</td>
<td>7.6</td>
<td>10.8</td>
<td>31.5</td>
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<td>13.6</td>
<td>25.6</td>
<td>20.7</td>
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<td>Oregon</td>
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<td>32.4</td>
<td>25.0</td>
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<tr>
<td>Min</td>
<td>6.6</td>
<td>7.6</td>
<td>10.8</td>
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<tr>
<td>Mean</td>
<td>9.7</td>
<td>21.2</td>
<td>31.3</td>
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<tr>
<td>Max</td>
<td>13.6</td>
<td>30.0</td>
<td>54.5</td>
<td>45.2</td>
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Sources: Wall Street Journal, The Nelson A. Rockefeller Institute of Government, the Center on Budget and Policy Priorities
Sales Taxes Fell Hard

Percentage Change Year over Year

Source: U.S. Census Bureau.
## Reflecting State Tax Mix

### State and Local General Revenue, Percentage Distribution, FY 2009

<table>
<thead>
<tr>
<th>Region and State</th>
<th>Total (millions)</th>
<th>Inter-governmental from Federal</th>
<th>Property Taxes</th>
<th>General Sales Taxes</th>
<th>Selective Sales Taxes</th>
<th>Individual Income Taxes</th>
<th>Corporate Income Taxes</th>
<th>Other Taxes</th>
<th>Total Charges</th>
<th>Miscellaneous (incl lottery)</th>
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<td>United States</td>
<td>$2,413,384</td>
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<td>Mideast</td>
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<td>Great Lakes</td>
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<td>Plains</td>
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<td>Southeast</td>
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<td><strong>Southwest</strong></td>
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<td>Oklahoma</td>
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<td><strong>Rocky Mountain</strong></td>
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<td>Idaho</td>
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<td>Montana</td>
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<td>Utah</td>
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<td><strong>Far West</strong></td>
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<td>California</td>
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</table>

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

- 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

Sources: National Association of State Budget Officers, Census Bureau
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

<table>
<thead>
<tr>
<th>Magnitude of Tax Change</th>
<th>State</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; 9%</td>
<td>CA, NY, WI, RI, IL, DE</td>
</tr>
<tr>
<td>7 to &lt;9%</td>
<td>CO, AZ, OR, NH</td>
</tr>
<tr>
<td>5 to &lt;7%</td>
<td>NV, CT, WA, KS</td>
</tr>
<tr>
<td>3 to &lt;5%</td>
<td>TN, MA, NC, HI, NJ, ME</td>
</tr>
<tr>
<td>1 to &lt;3%</td>
<td>FL, MN, GA, UT, VT, KY, MS</td>
</tr>
<tr>
<td>0 to &lt;1%</td>
<td>NM, VA, IA, SD, AR, MD, TX, ID, MT, OK, SC, WY, PA, NE, AK</td>
</tr>
<tr>
<td>0 to &lt;-1%</td>
<td>MO, AL, WV, LA, MI</td>
</tr>
<tr>
<td>&gt;-1%</td>
<td>OH, IN, ND</td>
</tr>
</tbody>
</table>

Note: States organized so that largest percentage change is on the left; figures adjusted for inflation.

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

Percentage of GDP

- Surplus (Positive balance)
- Deficit (Negative balance)

Year

2005 2010 2015 2020 2025 2030 2035 2040 2045 2050 2055 2060

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