

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

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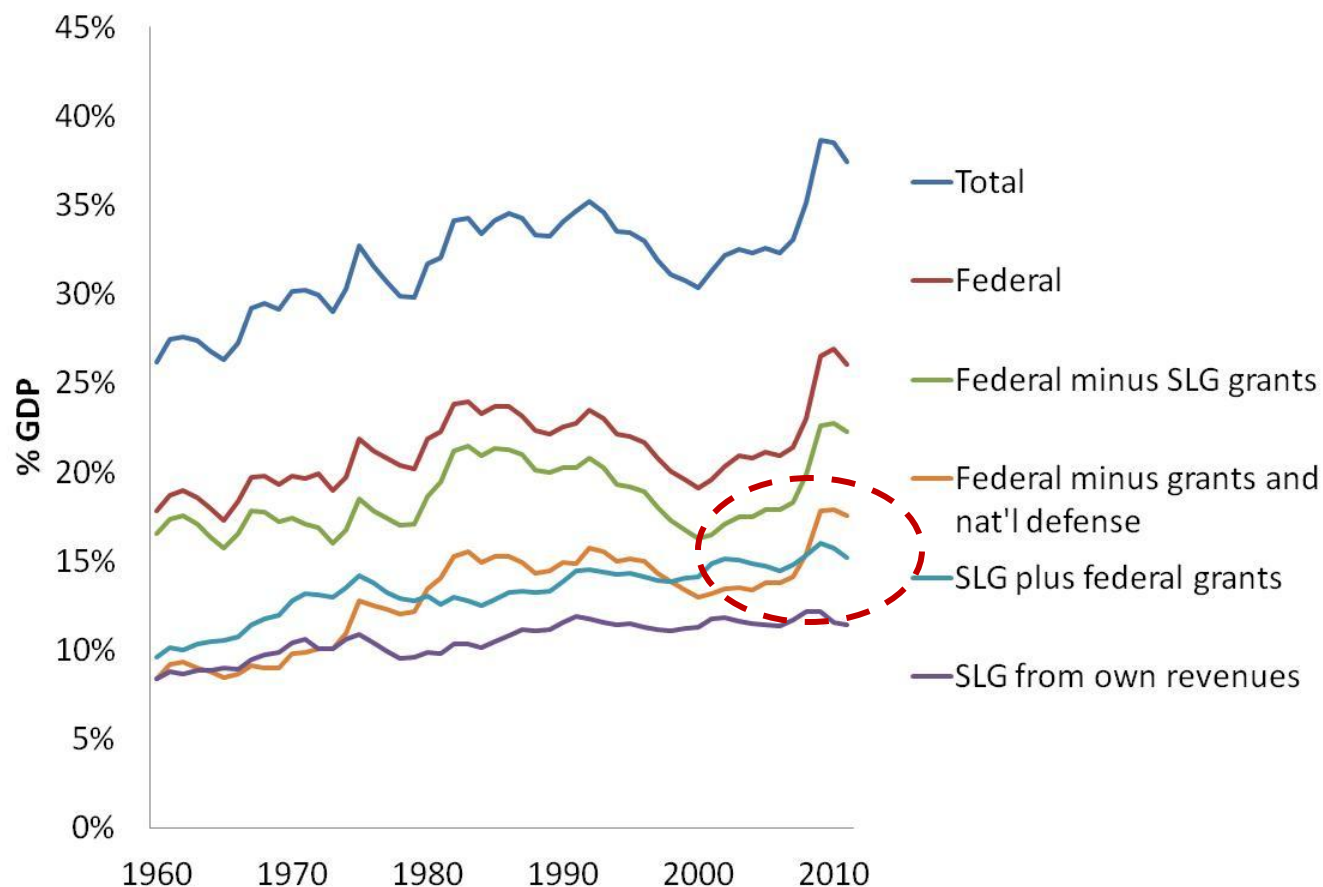
Prepared for Brookings Mountain West at UNLV  
September 17-21, 2011

# Outline of Talk

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

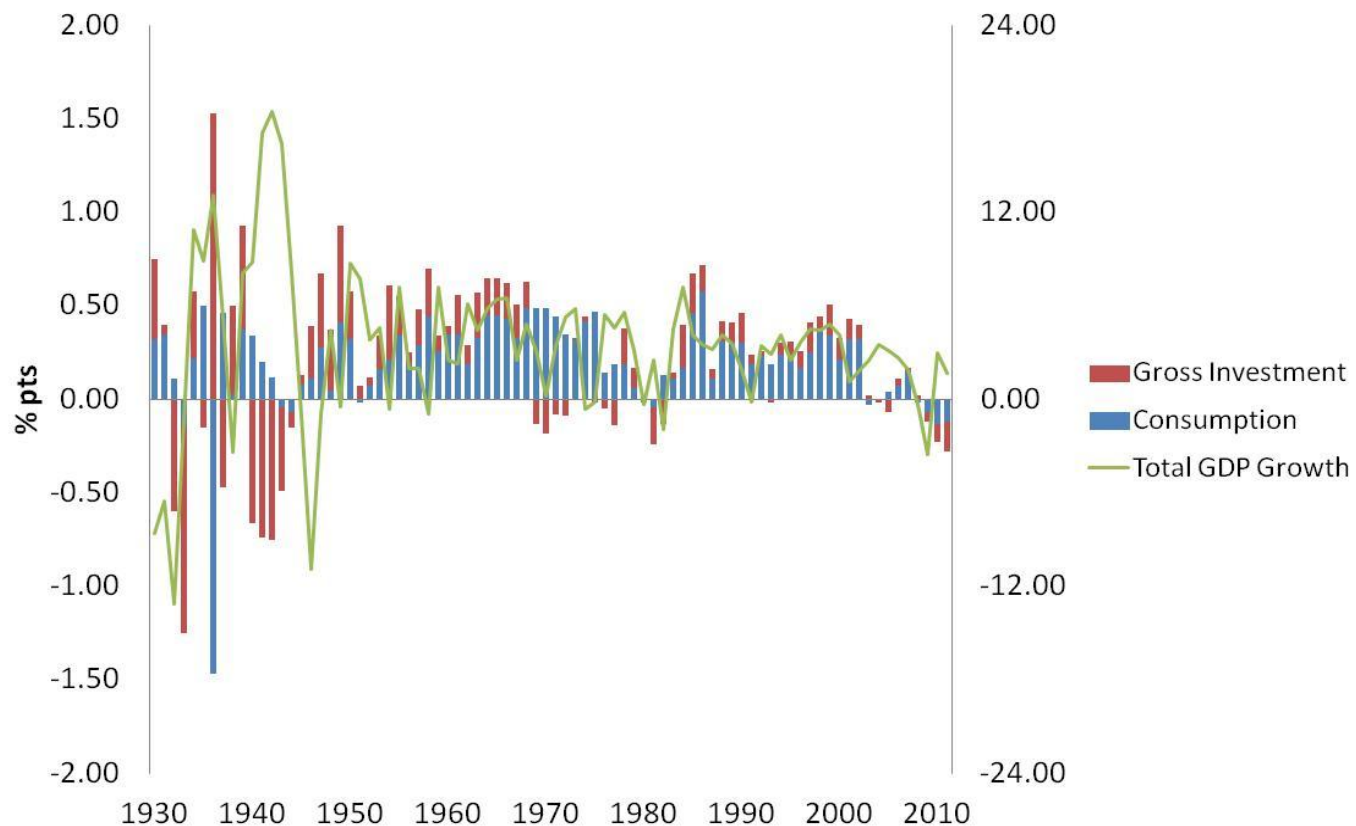
# States and Localities Provide Most Public Goods & Services

## Government Expenditures by Level



# They Contribute Vitally to U.S. Economy

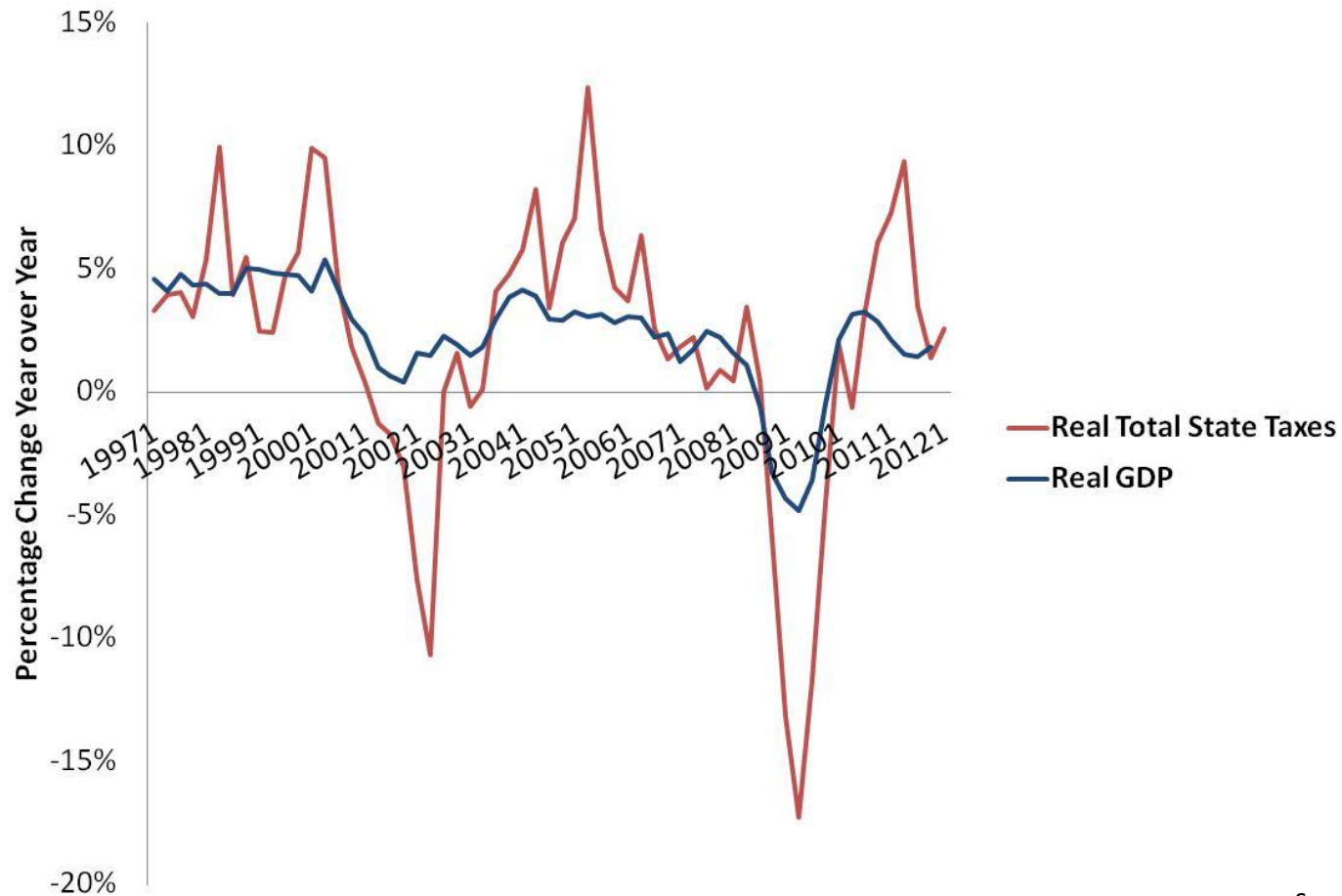
**State and Local Government  
Annual Contributions to Real GDP Growth**



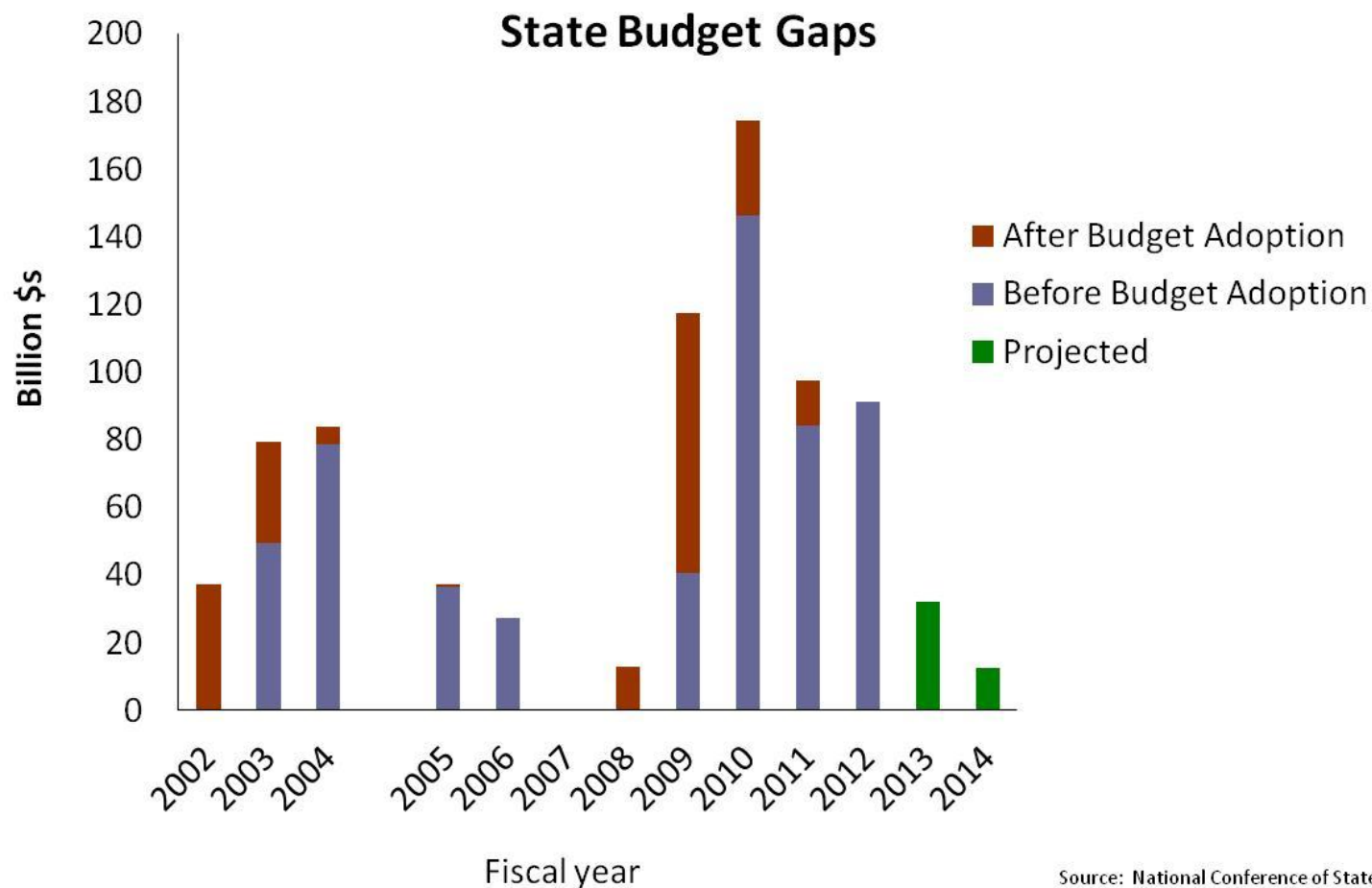
Source: *National Income and Product Accounts*

# They Were Hard Hit in the Great Recession

State Taxes More Volatile than Economy



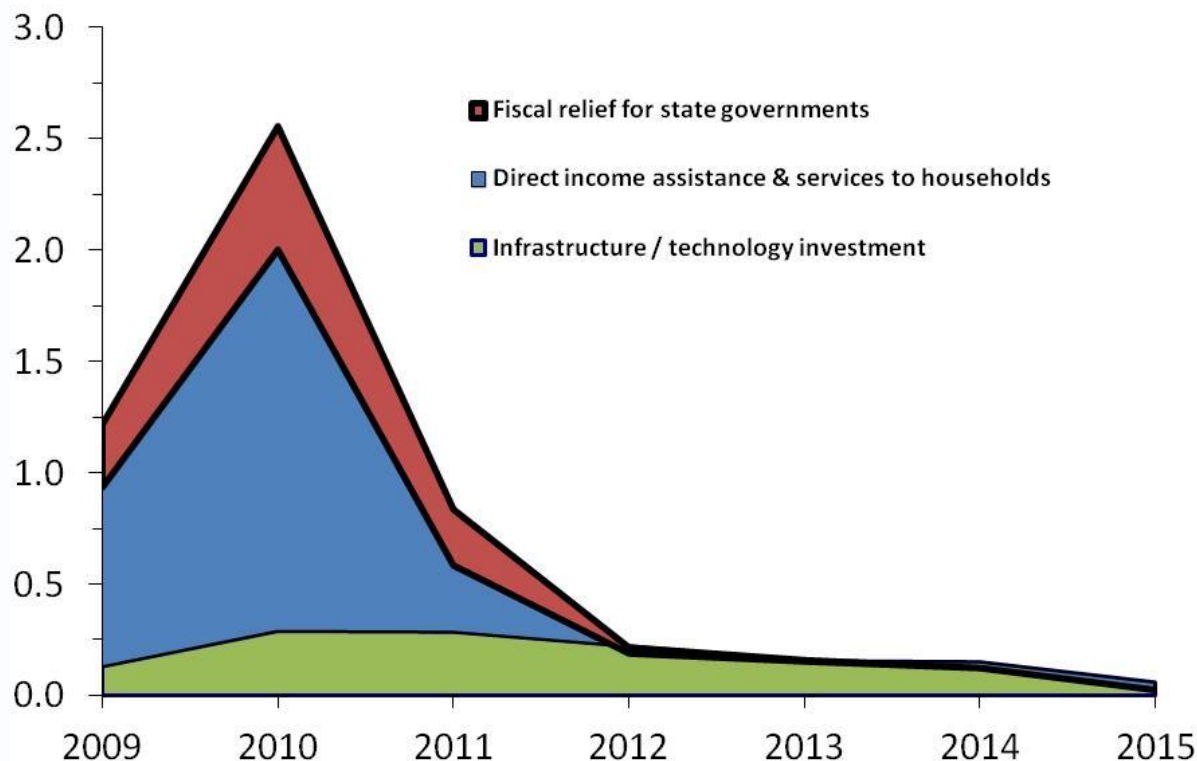
# Massive Budget Gaps Opened



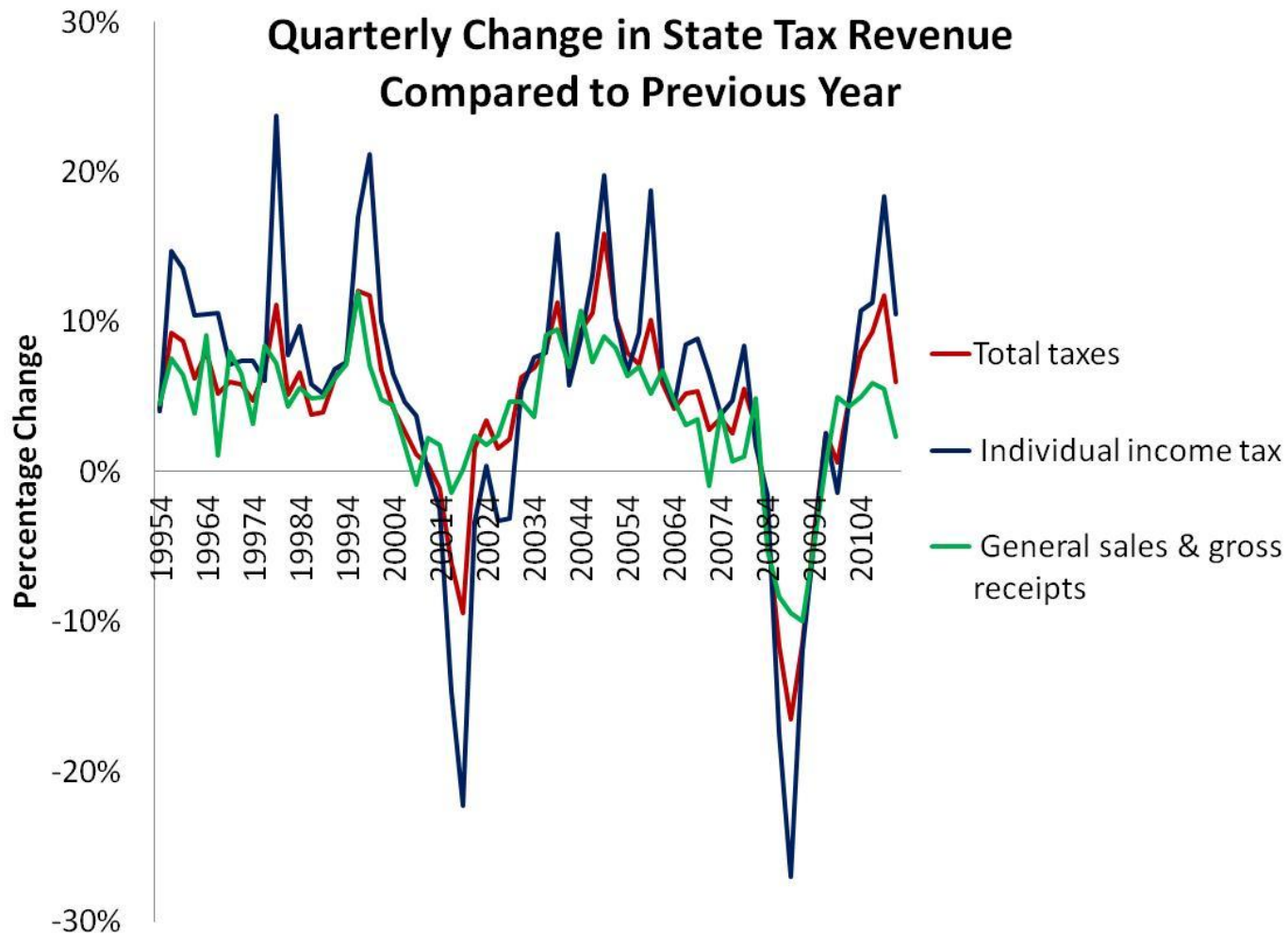
Source: National Conference of State Legislatures, *State Budget Update: Fall 2011*

# Federal Government Helped

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

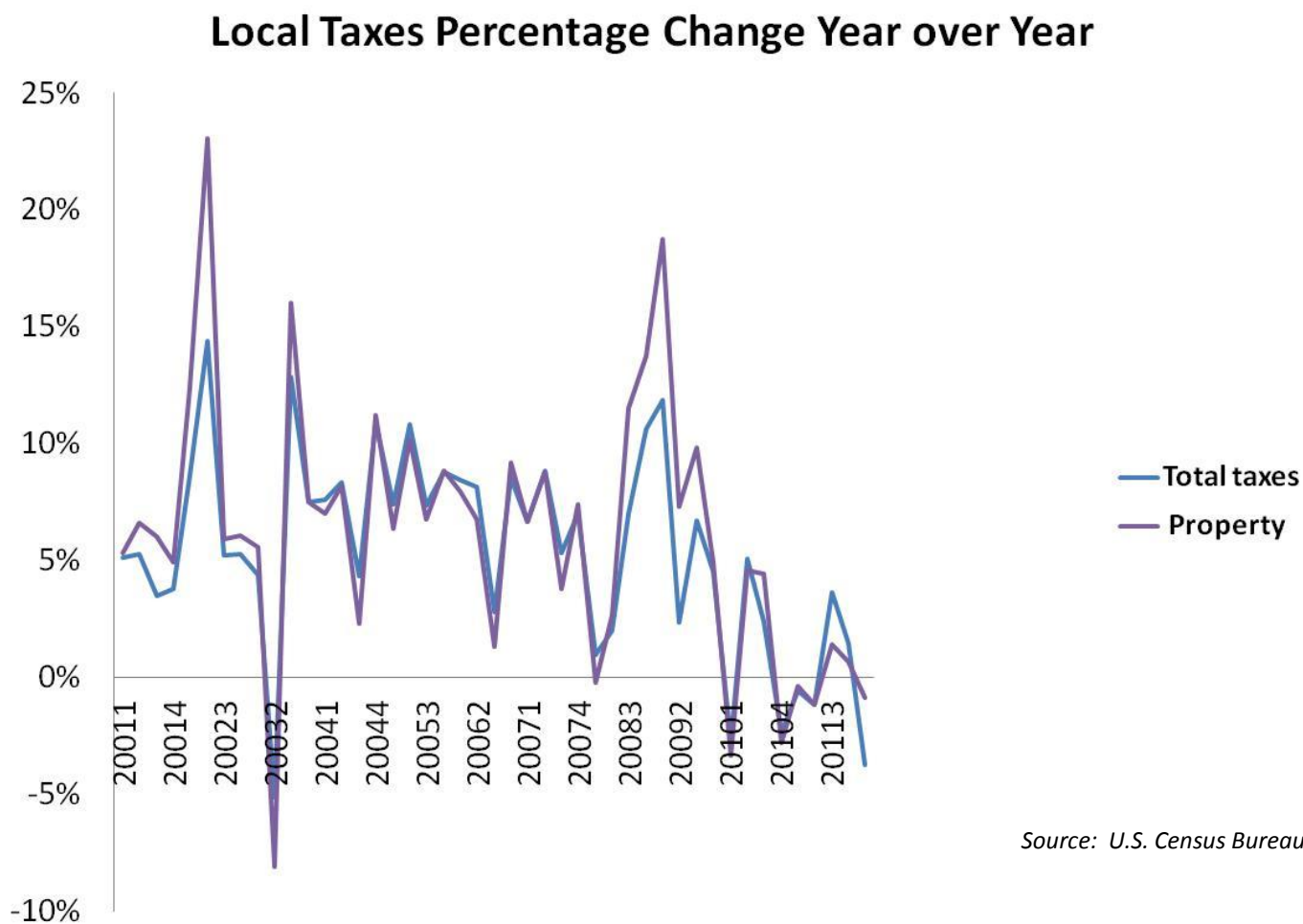


# Now State Revenues Are Up

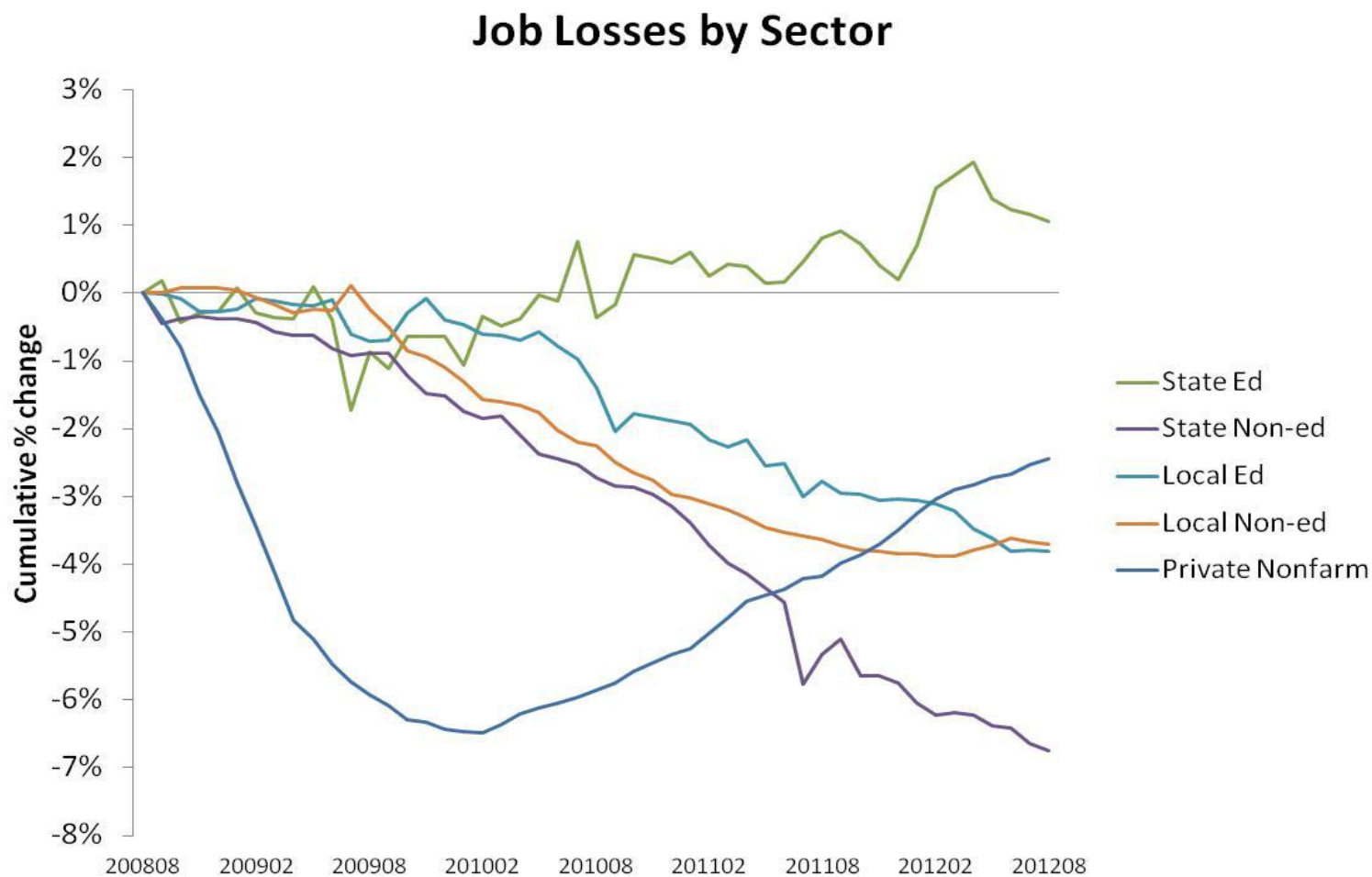




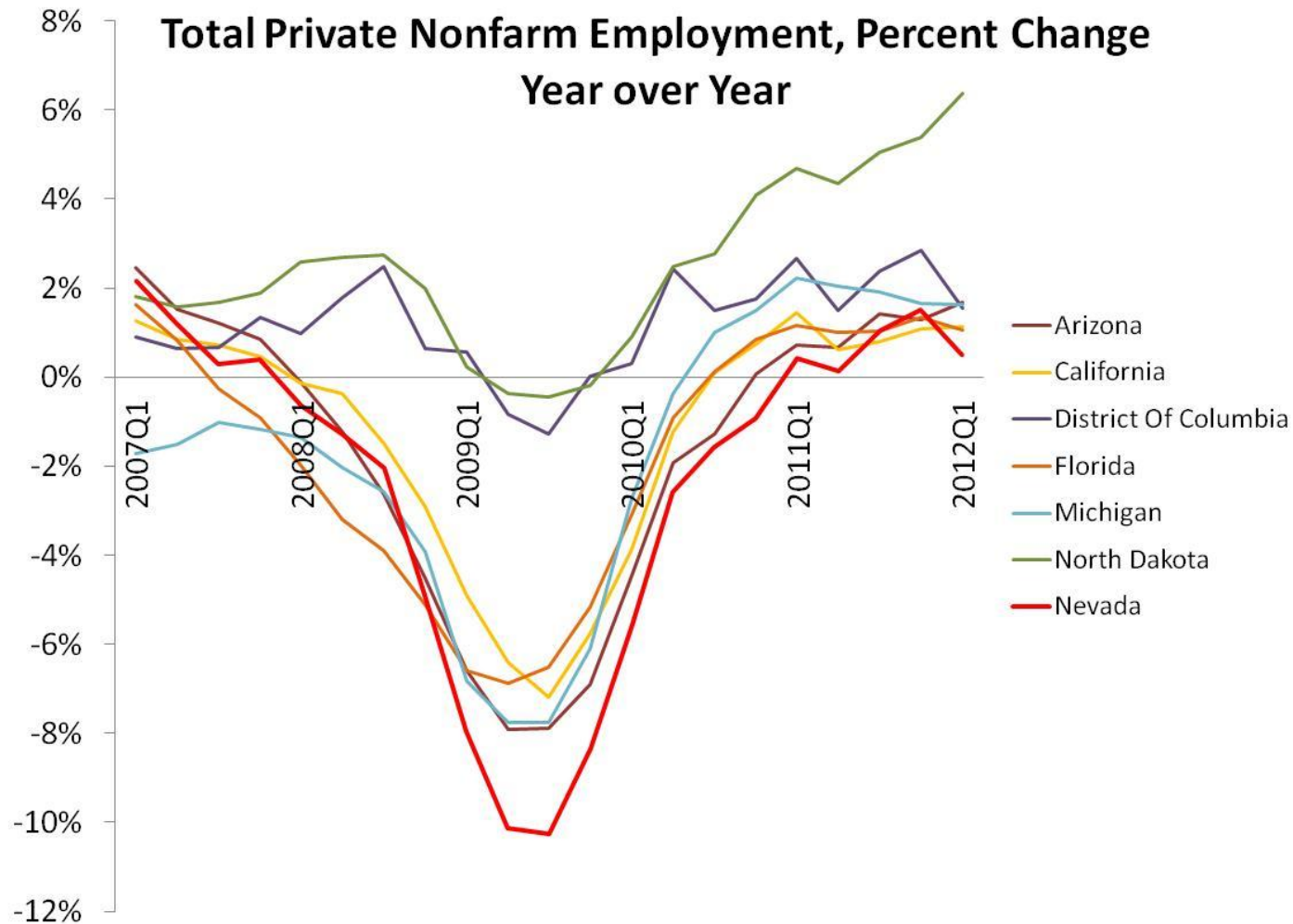
# But Local Are Dropping



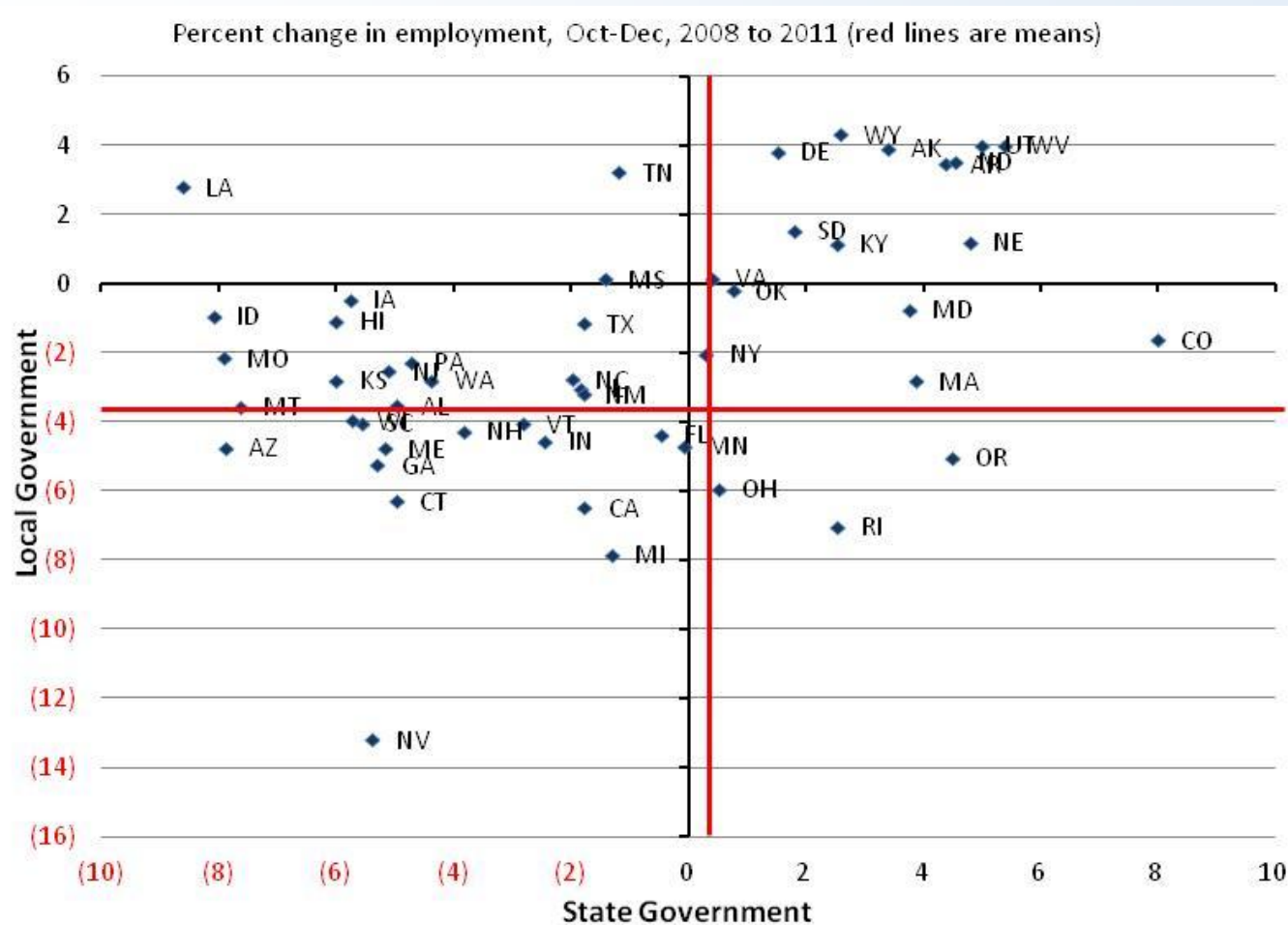
# As Job Cuts Continue



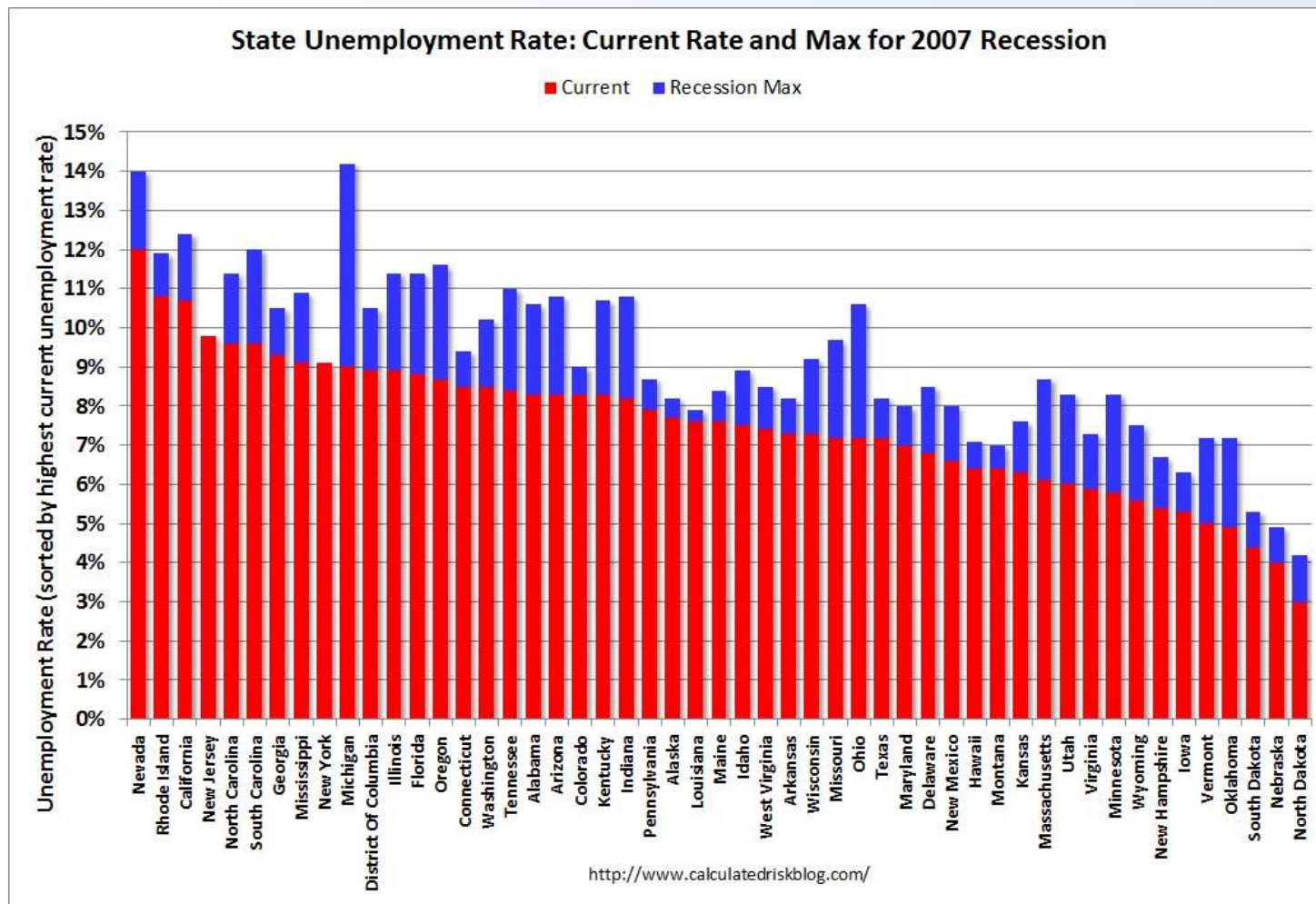
# Nevada Hardest Hit in Private Sector Job Losses...



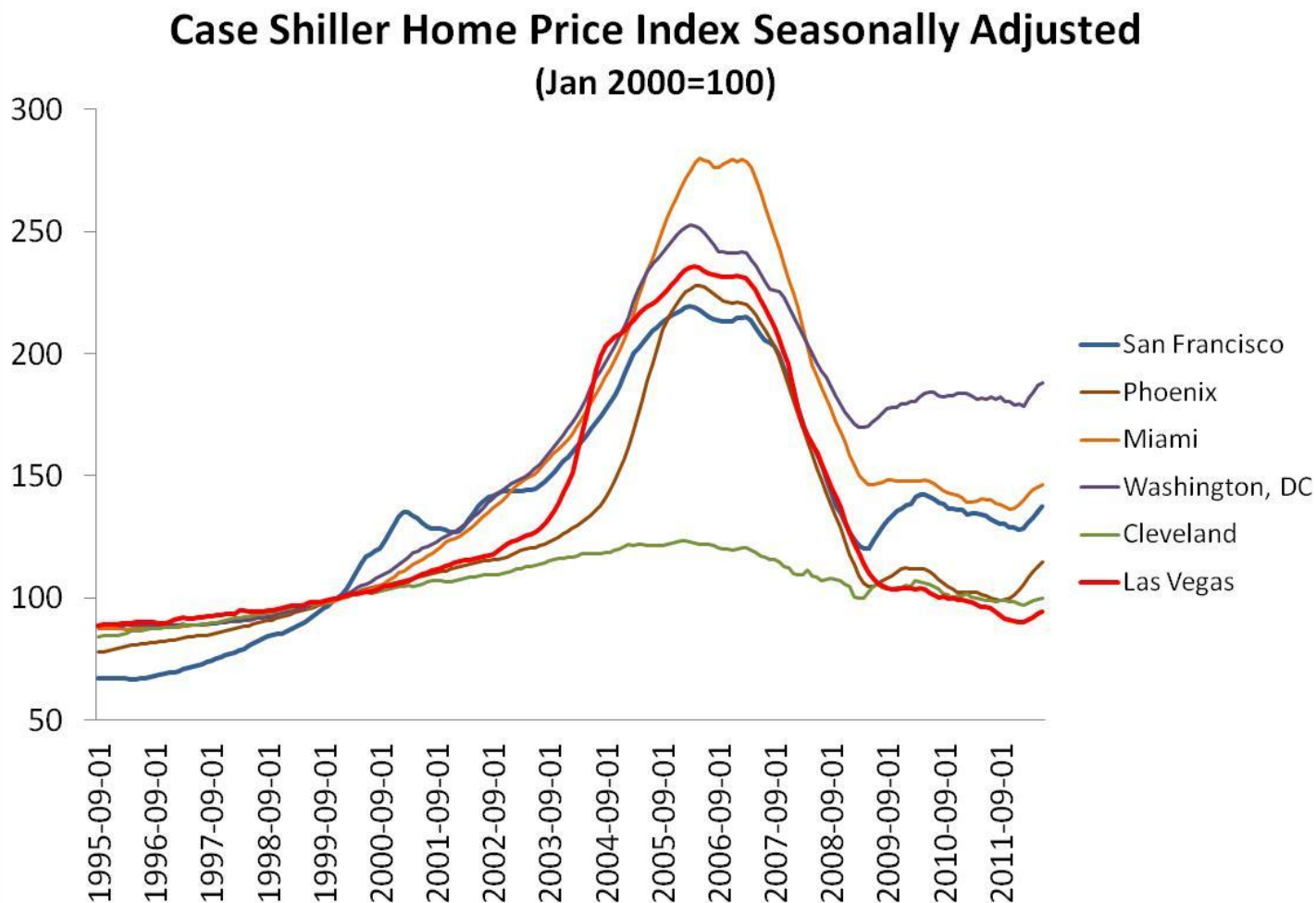
# Public Sector Job Losses...



# Persistent Unemployment...



# Home Price Declines...



Source: Federal Reserve  
Economic Data (FRED)

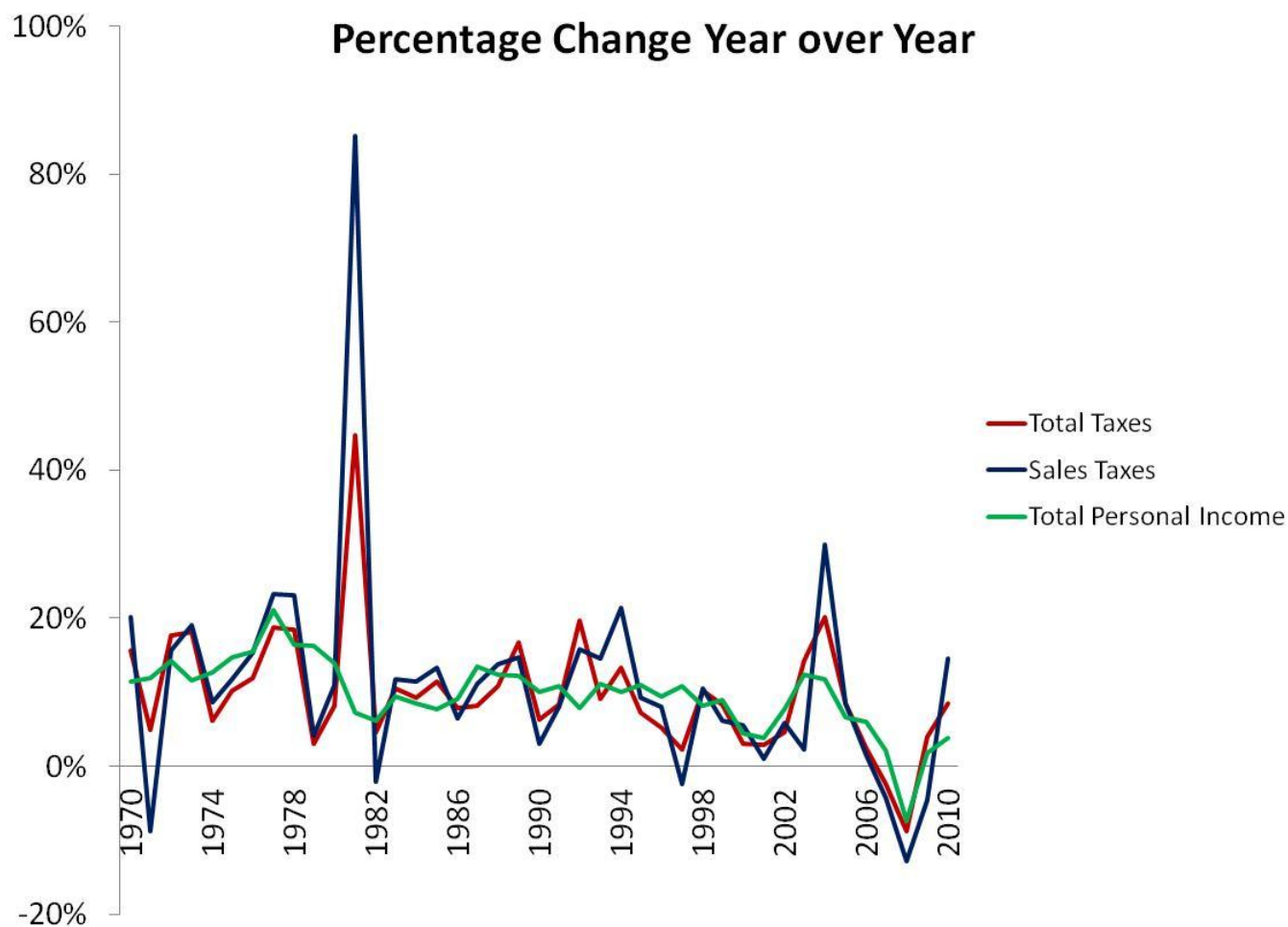
# And Budget Gaps

## 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

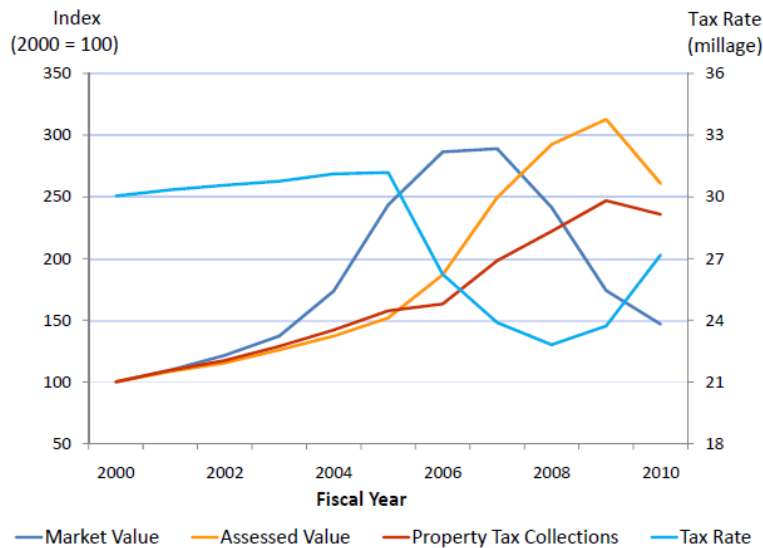
State and Local General Revenue, Percentage Distribution, FY 2009

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		
<b>United States</b>	<b>\$2,413,384</b>	<b>22</b>	<b>18</b>	<b>12</b>	<b>6</b>	<b>11</b>	<b>2</b>	<b>4</b>	<b>16</b>	<b>9</b>
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
<b>Southwest</b>	<b>251,680</b>	<b>25</b>	<b>19</b>	<b>16</b>	<b>7</b>	<b>2</b>	<b>0</b>	<b>6</b>	<b>16</b>	<b>10</b>
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
<b>Rocky Mountain</b>	<b>81,614</b>	<b>22</b>	<b>15</b>	<b>12</b>	<b>4</b>	<b>11</b>	<b>1</b>	<b>5</b>	<b>19</b>	<b>11</b>
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
<b>Far West</b>	<b>416,432</b>	<b>21</b>	<b>17</b>	<b>13</b>	<b>5</b>	<b>12</b>	<b>2</b>	<b>4</b>	<b>18</b>	<b>9</b>
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

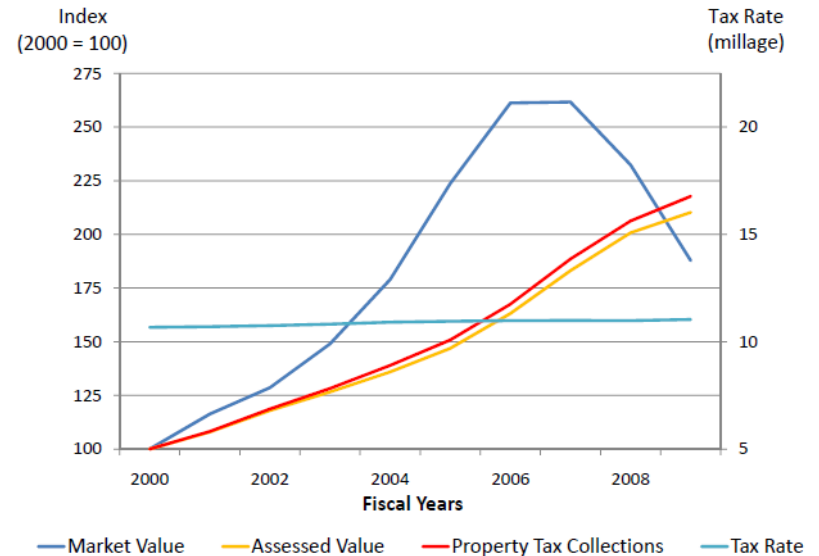
Sources: State & Local Government Finance Data Query System; Census Bureau

# Property Was Next, But It Took Time

## Case Study: Nevada



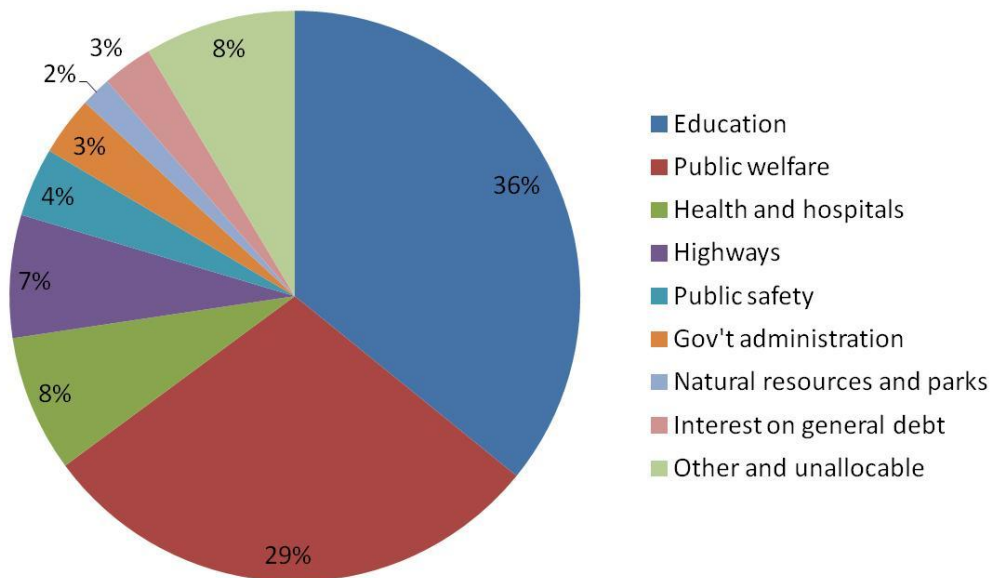
## Case Study: California



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*

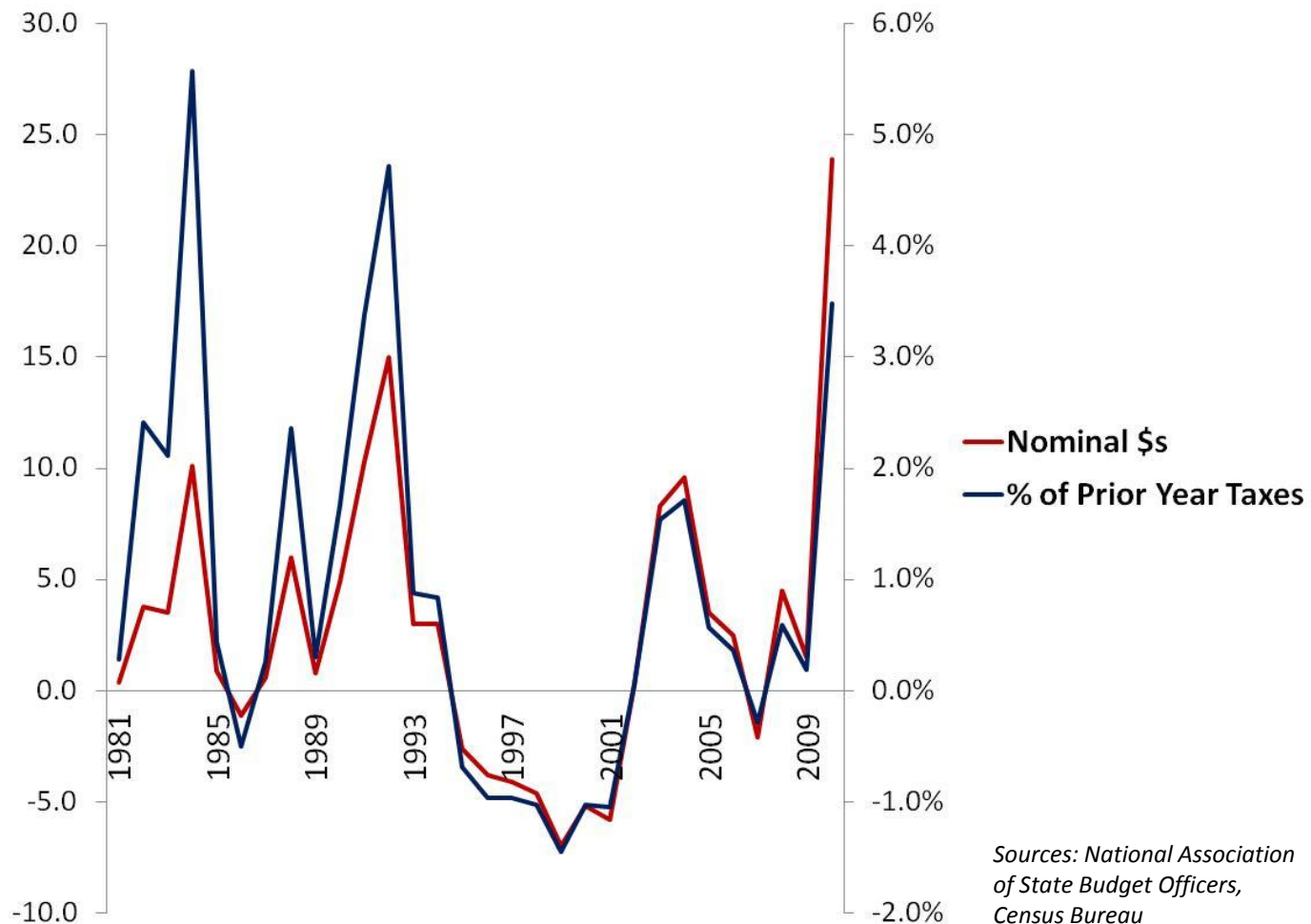
# Overall, How Did States Respond? Most Cut Spending

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

<b>Table 1</b>	
<b>Revenue Changes in FYs 2009 to 2011</b>	
<b>as Percentage of Tax Revenue During the Period</b>	
<b>Magnitude of Tax Change</b>	<b>State</b>
<b>&gt; 9%</b>	CA, NY, WI, RI, IL, DE
<b>7 to &lt;9%</b>	CO, AZ, OR, NH
<b>5 to &lt;7%</b>	NV, CT, WA, KS
<b>3 to &lt;5%</b>	TN, MA, NC, HI, NJ, ME
<b>1 to &lt;3%</b>	FL, MN, GA, UT, VT, KY, MS
<b>0 to &lt;1%</b>	NM, VA, IA, SD, AR, MD, TX, ID, MT, OK, SC, WY, PA, NE, AK
<b>0 to &lt;-1%</b>	MO, AL, WV, LA, MI
<b>&gt;-1%</b>	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)

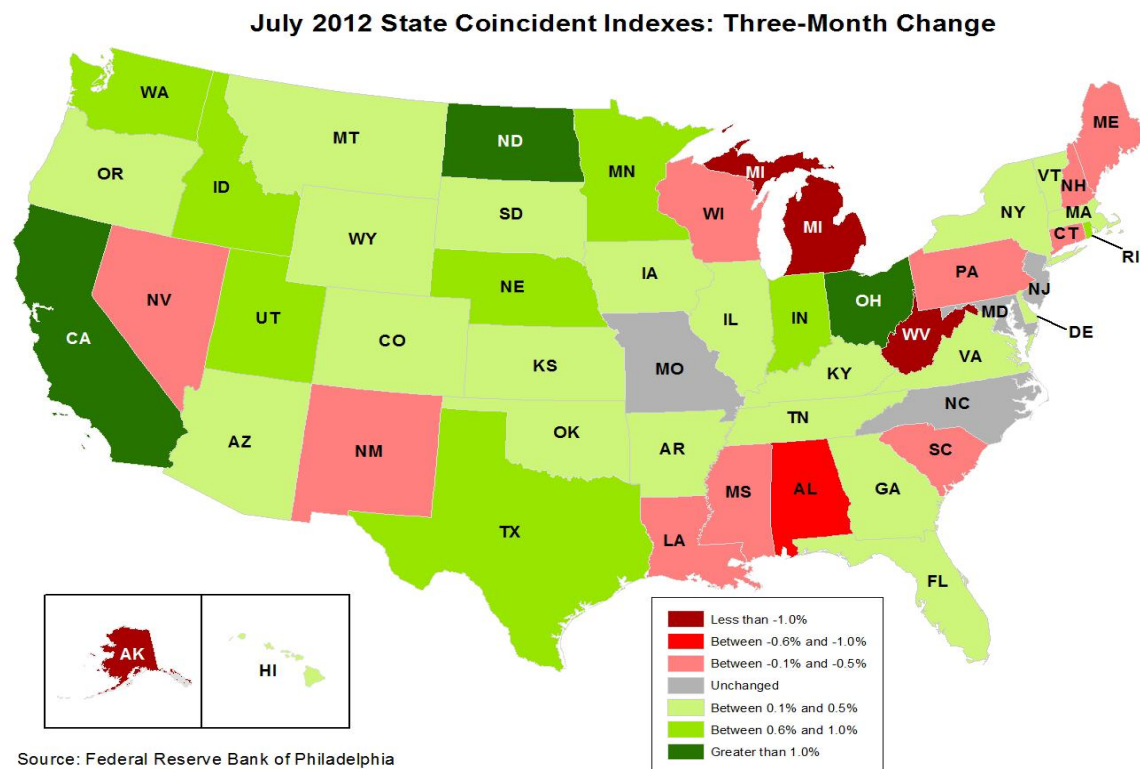
# Other Actions

- 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

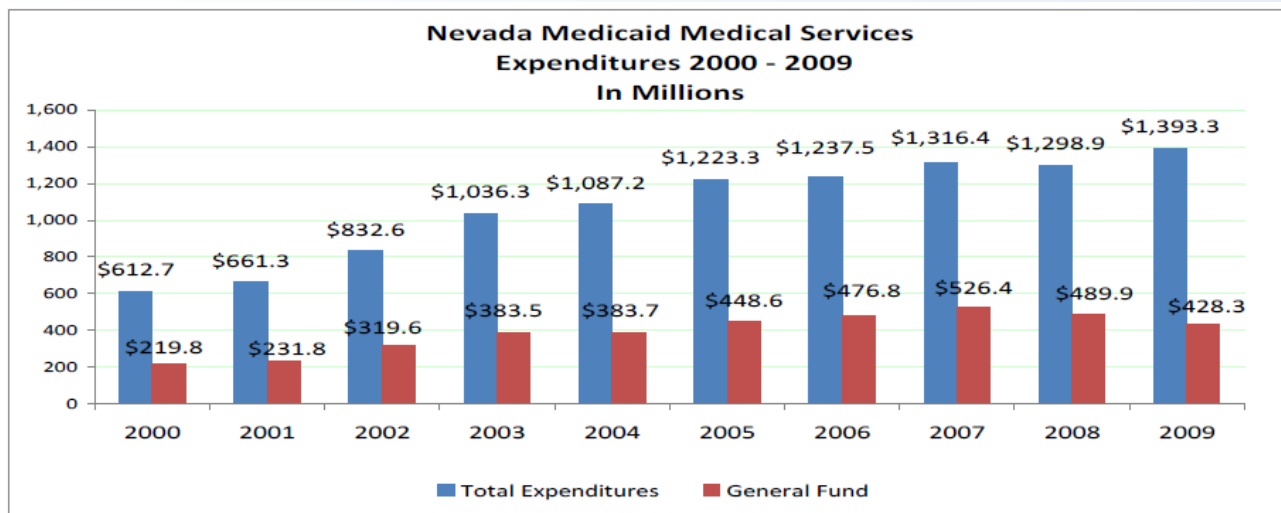


# What's Next? Short Term

- 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

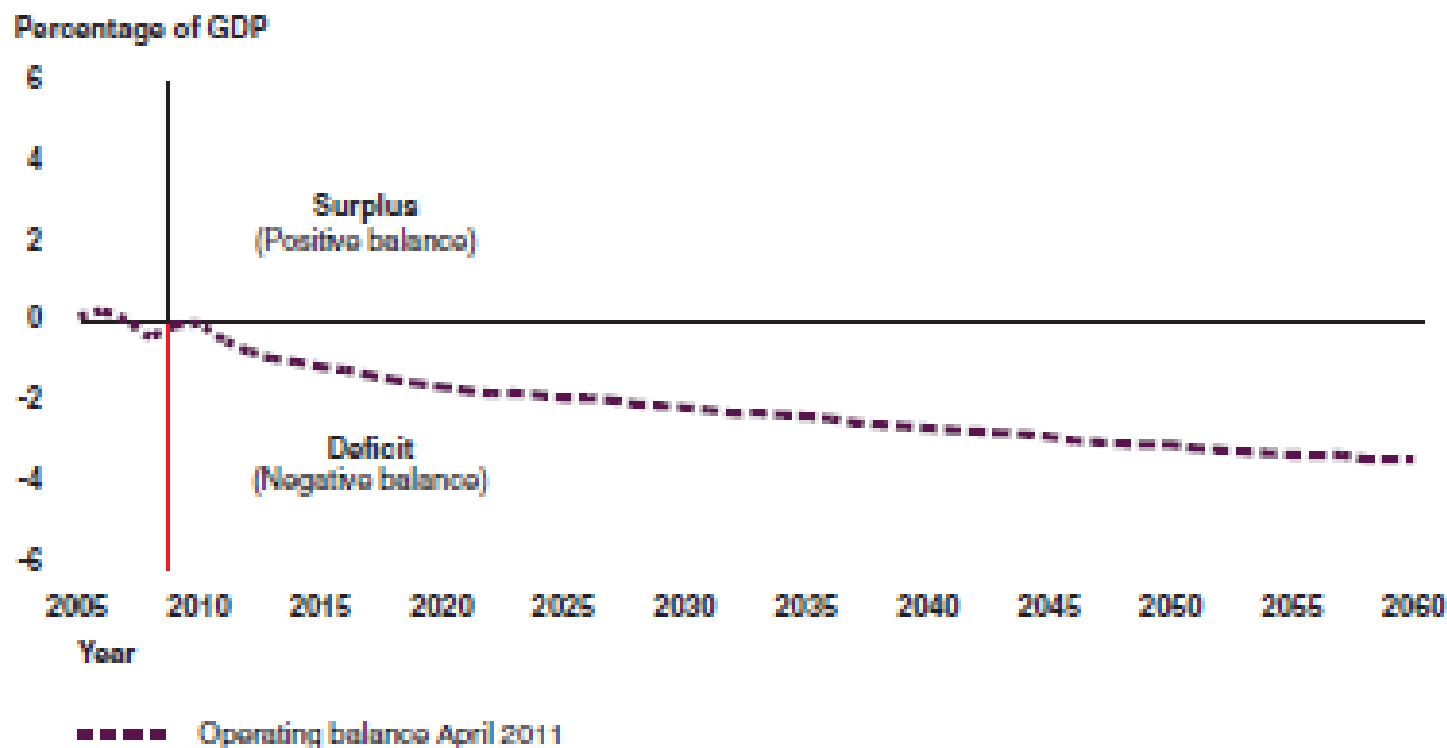
# What's Next? Medium Term

- 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