



April Revenue, Turbulence in the Blind Spot

FTA Revenue Estimation & Tax Research Conference

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***Brian Sigriz
Director of State Fiscal Studies
National Association of State Budget Officers***





Overview



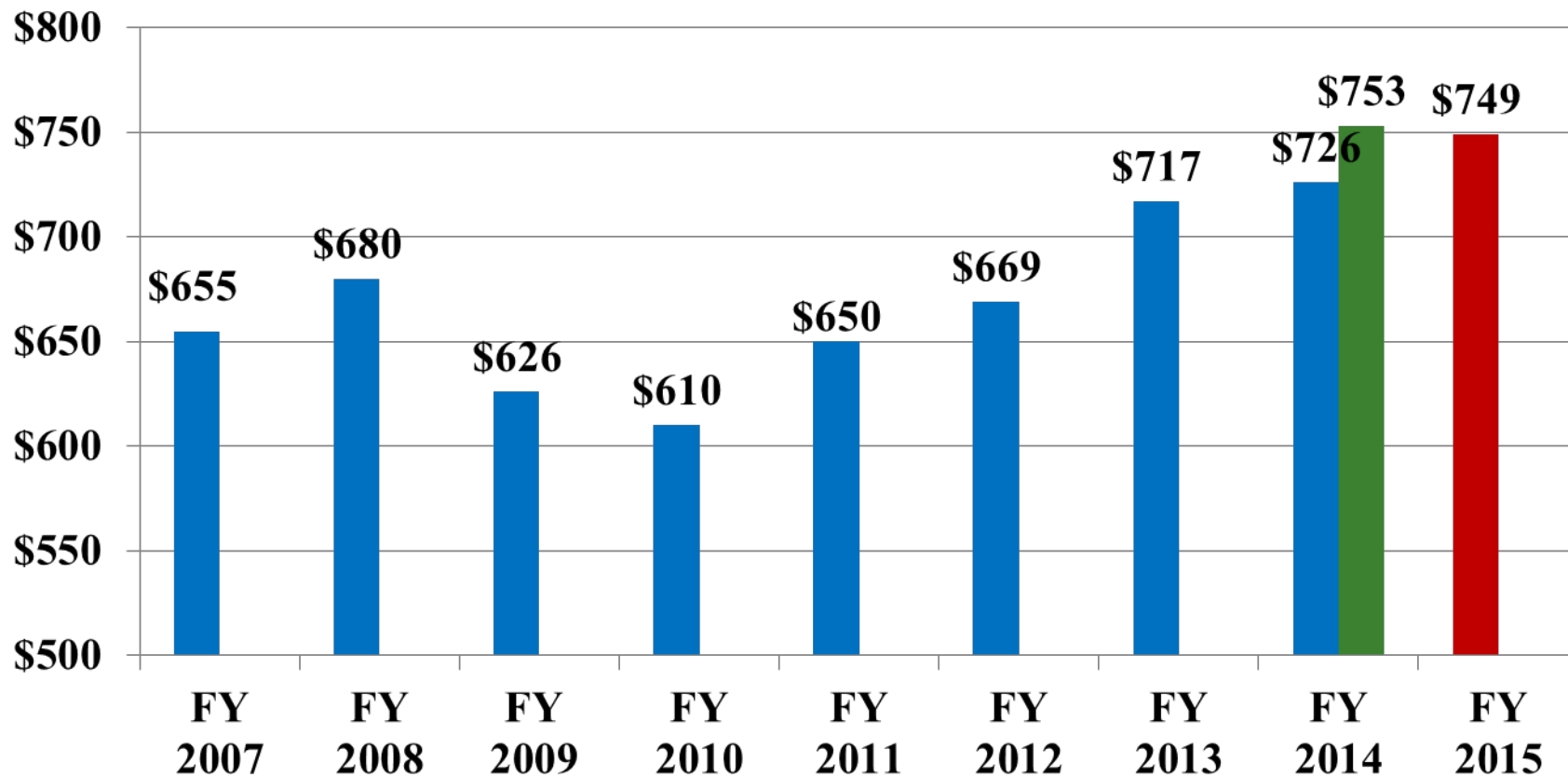
State Revenue Overview

- **General fund revenues sharply declined in fiscal 2009 and 2010 but consistently grew from fiscal 2011-2013**
- **Revenue growth spiked in fiscal 2013**
 - **Growth attributed to modest economic improvements, strong gains in stock market, and to impact of federal fiscal cliff**
 - **Taxpayers shifting capital gains and other income to calendar year 2012 to avoid scheduled higher tax rates**
- **States anticipated slower growth in fiscal 2014**
 - **Variation in how much they anticipated the drop off would be**
 - **Some states looked at taxpayer behavior after prior federal tax changes**
 - **States with large percentage of high-income earners faced more impact**



Non-Inflation Adjusted GF Revenue Exceeded Peak Levels in FY 2013

General Fund Revenue: FY 2007-FY 2015



Source: NASBO Spring 2014 Fiscal Survey of States

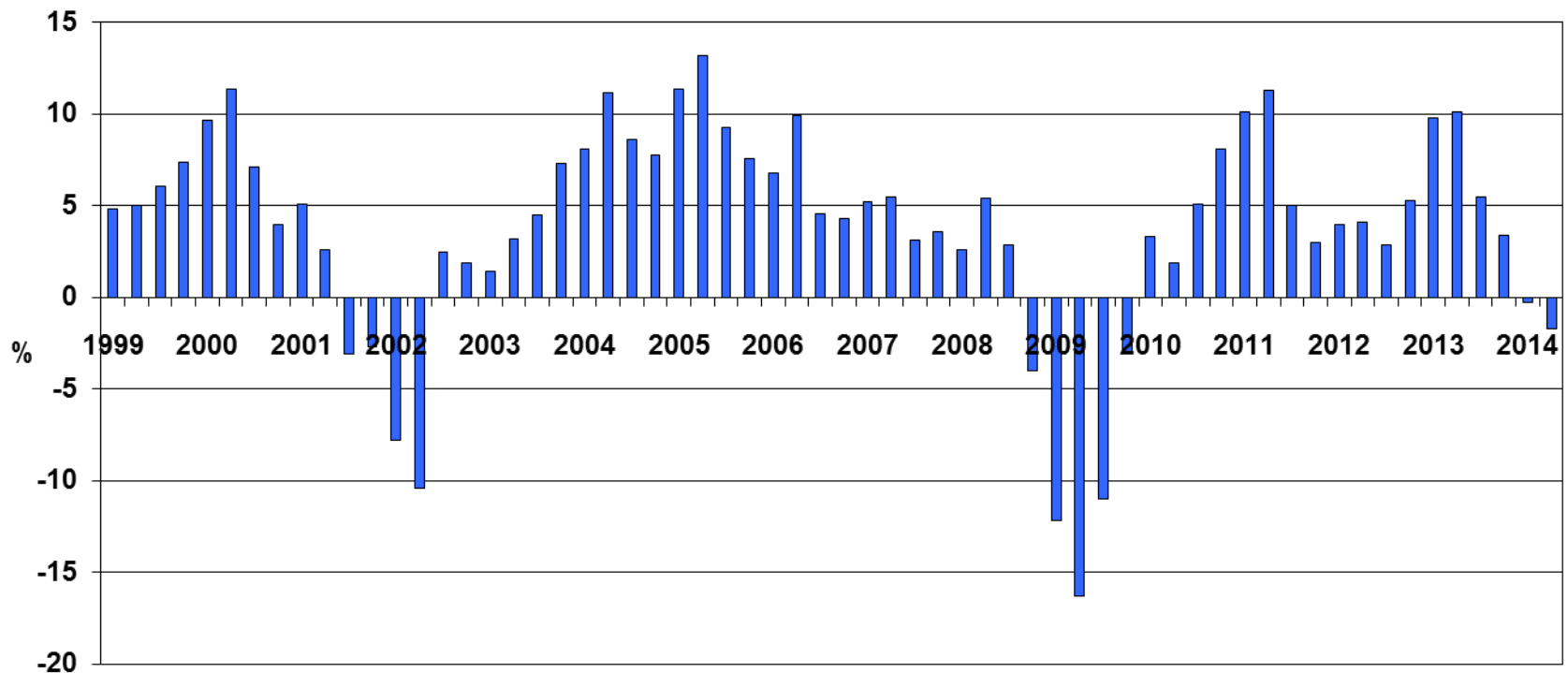
Fiscal 2015 numbers are recommended

*Aggregate fiscal 2014 revenue levels would need to be \$753 billion to remain equivalent with real 2008 revenue levels.



Quarterly Revenue Growth Declined in 2014 for the First Time Since 2010

Year-Over-Year Real Change in Quarterly State Tax Revenue



Source: Fiscal Studies Program, Rockefeller Institute of Government; U.S. Census Bureau



Latest on Revenue Trends Based on Rockefeller Institute Data

- **Preliminary data from 48 states shows a 1.7% decline in revenue in the 2nd quarter of 2014**
 - 1st quarter revenues declined 0.3%

- **Personal income taxes decline 7.1% in 2nd quarter following 1.2% decline in 1st quarter**

- **Other sources of revenue weren't as impacted**
 - Sales taxes grew 1.7% in 1st quarter and 4.2% in 2nd quarter
 - Corporate income taxes grew 1.4% in 1st quarter and declined 0.1% in 2nd quarter



Revenue Declines Concentrated in Last 2 Quarters of Fiscal 2014

- **For the year, fiscal 2014 revenues increased by 1.2%, according to NASBO's Fiscal Survey of States**
 - **Survey was conducted in the spring**
 - **Personal income taxes grew by 1.0%**
 - **Sales taxes grew by 4.6%**
 - **Corporate income taxes grew by 1.5%**

- **Through April, 11 states had revenues below projections, 13 were on target, and 26 were above**

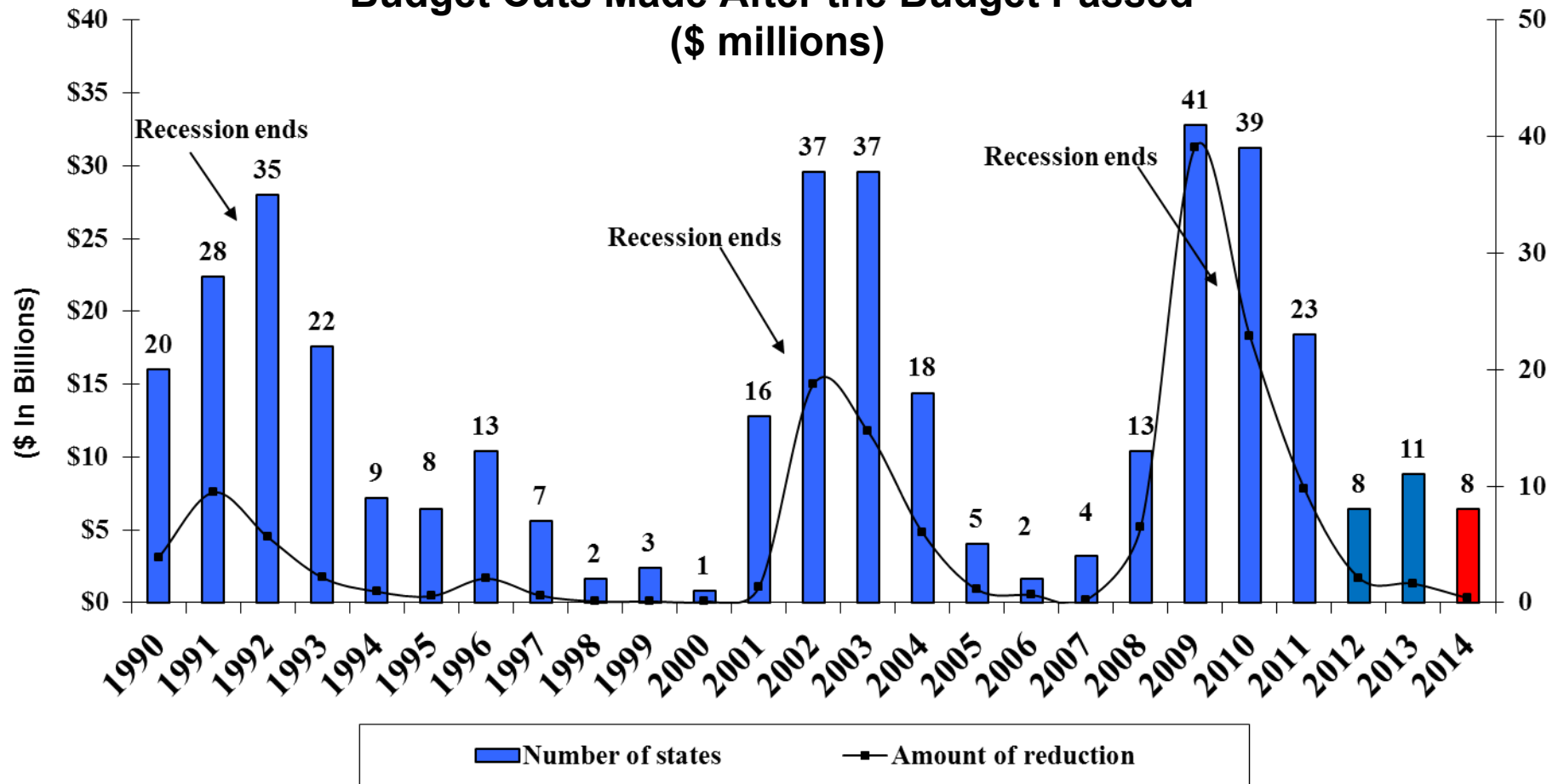


Revenue Impact on Budgets



States Continued to Make Midyear Budget Cuts

Budget Cuts Made After the Budget Passed (\$ millions)

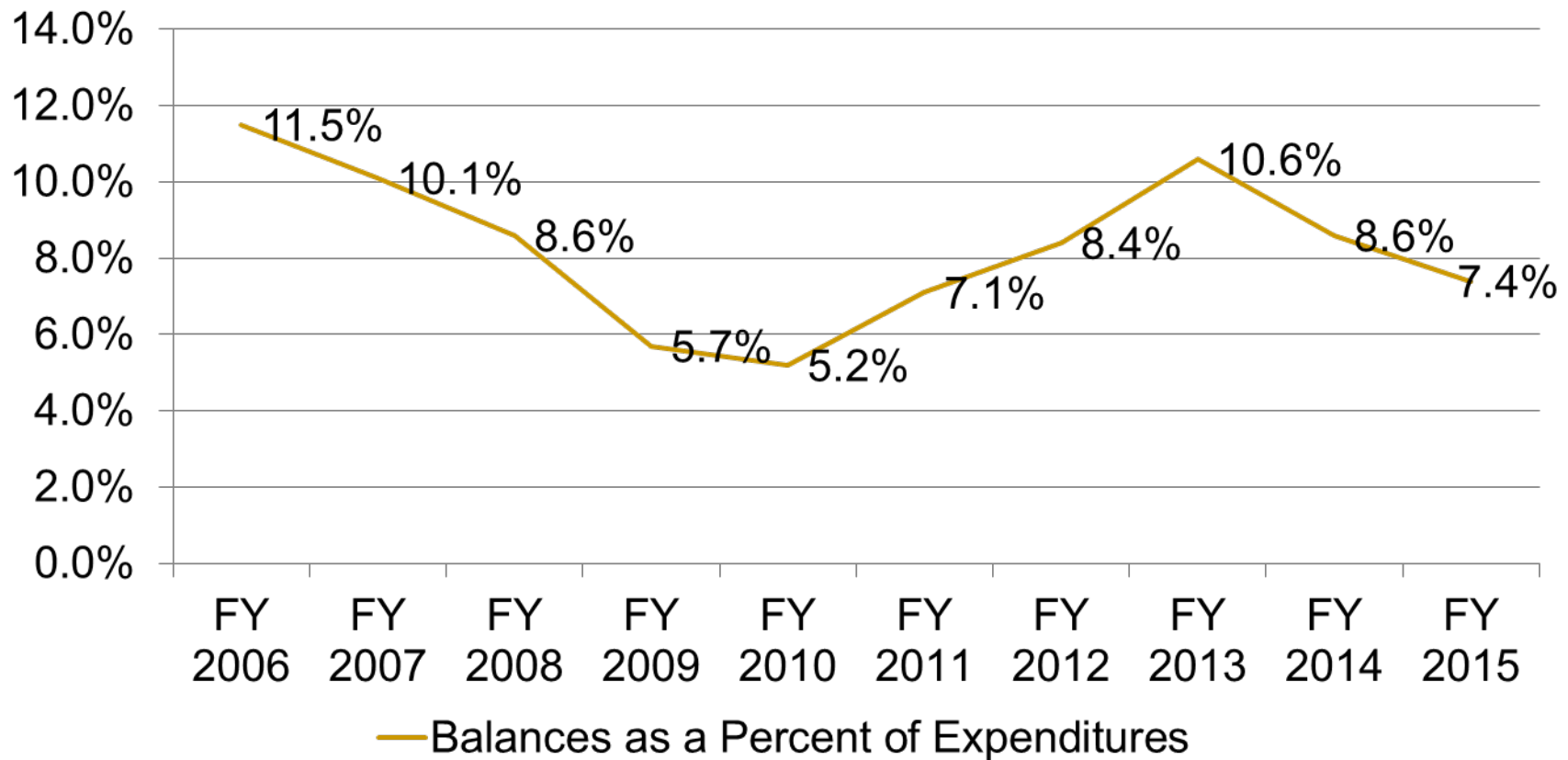


Source: NASBO Spring 2014 Fiscal Survey



Total Reserves Have Declined with Less Ending Balances

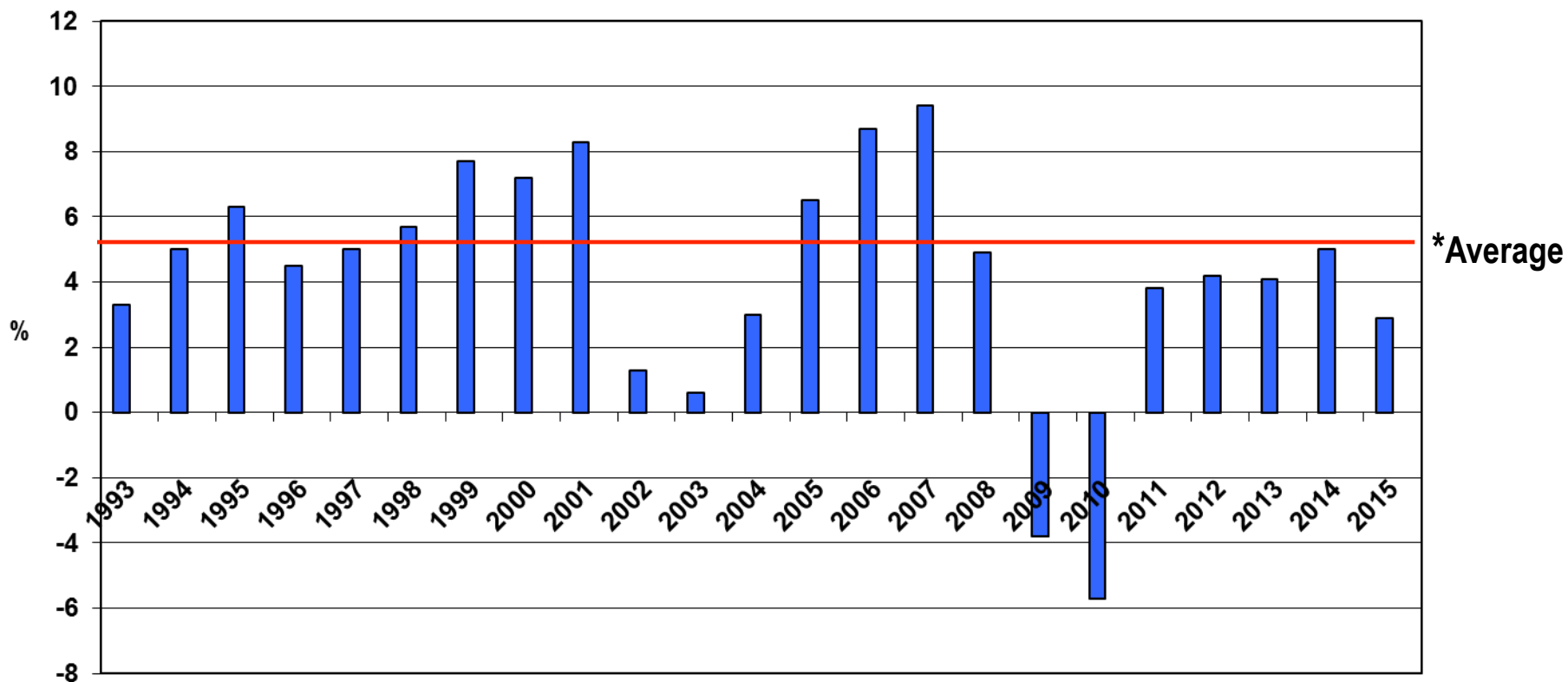
Balances as a Percent of Expenditures





Slow Budget Growth in Fiscal 2015

General Fund Expenditure Growth (%)

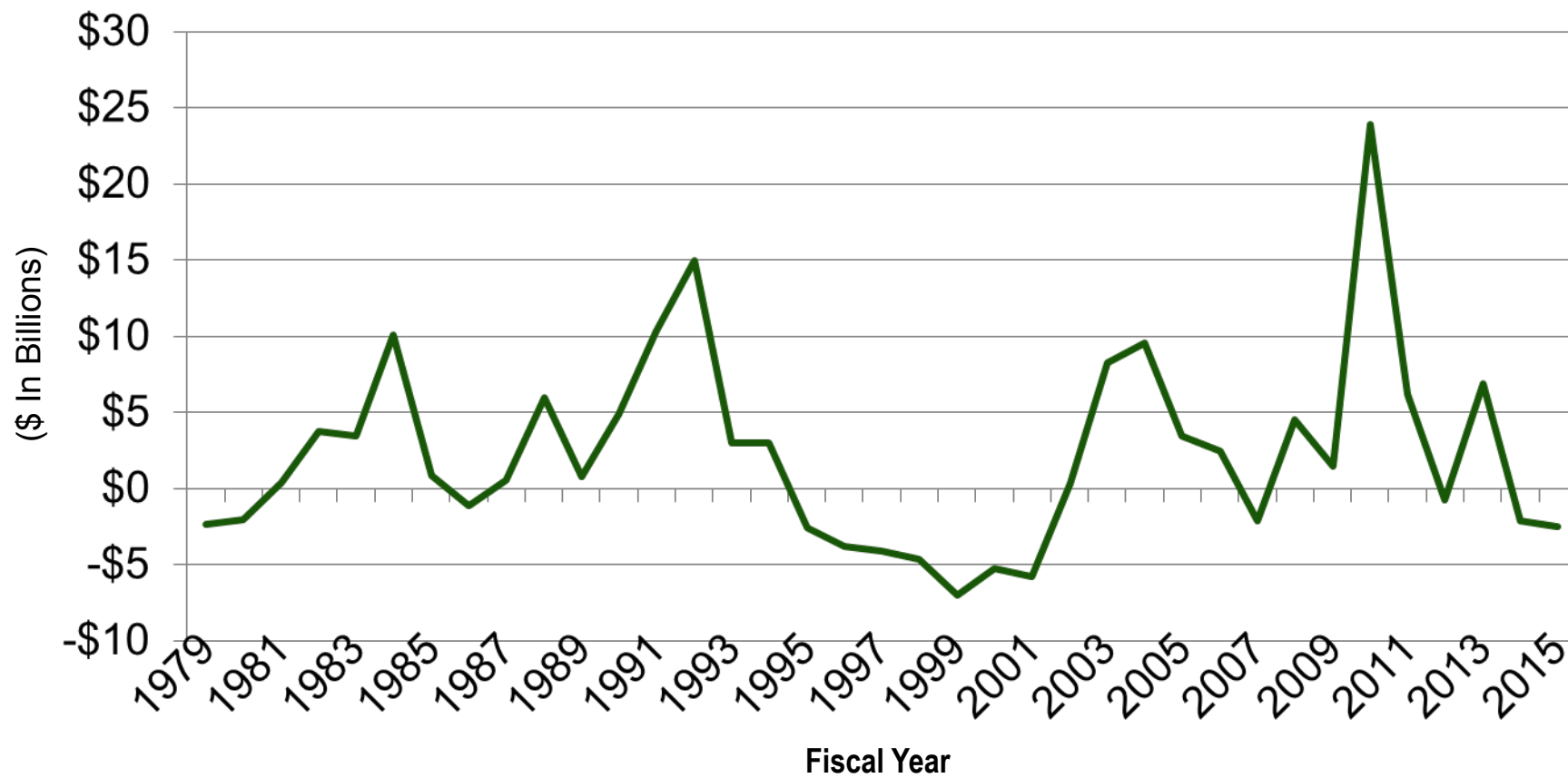


*37-year historical average annual rate of growth is 5.5 percent
Source: NASBO Spring 2014 Fiscal Survey of States

*Fiscal 2015 numbers are recommended

Overall Tax Cuts Remain Modest

Enacted State Revenue Changes Fiscal 1979 to Fiscal 2014
& Proposed for Fiscal 2015





Outlook



State Fiscal Outlook

- **Fiscal 2015 revenues projected to increase by 3.2%**
 - PIT 5.1%, sales 4.5%, CIT 1.6%

- **42 states recommended general fund spending increases in FY 2015, but growth still below average**
 - Weakened revenue collections led to reduced spending increases in some areas
 - Governors also made vetoes to ensure balanced budgets

- **States continue to face tough competition for general funds, infrastructure demands, long-term liabilities such as pensions, and federal uncertainty**



www.nasbo.org

Brian Sigriz
(202) 624-8439

bsigriz@nasbo.org



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