

Taxes and Budgets: Key Trends from the States



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**The Council of State Governments
Southern Legislative Conference**

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Five Main Parts

- I. Where are States on the Fiscal Front?
- II. Structural Issues Confronting State Finances
- III. Looming Expenditure Categories
- IV. Strategies Deployed/Proposed to Fund these Sizable Expenses
- v. Bright Sparks on the State Economic Front



I. Where Are States?

- In FY 2007, total year-end balances (ending balances and amounts in state rainy day funds) stood at \$50.4 billion or 8.2 percent of expenditures
- In FY 2006, total year-end balances stood at \$62.1 billion or 10.9 percent of expenditures



I. Where Are States?

- In FY 2007, total revenues
 - Exceeded original budget projections in 27 states
 - On target in 14 states
 - Below target in 9 states
- In FY 2006, all states either met or exceeded their revenue projections



I. Where Are States?

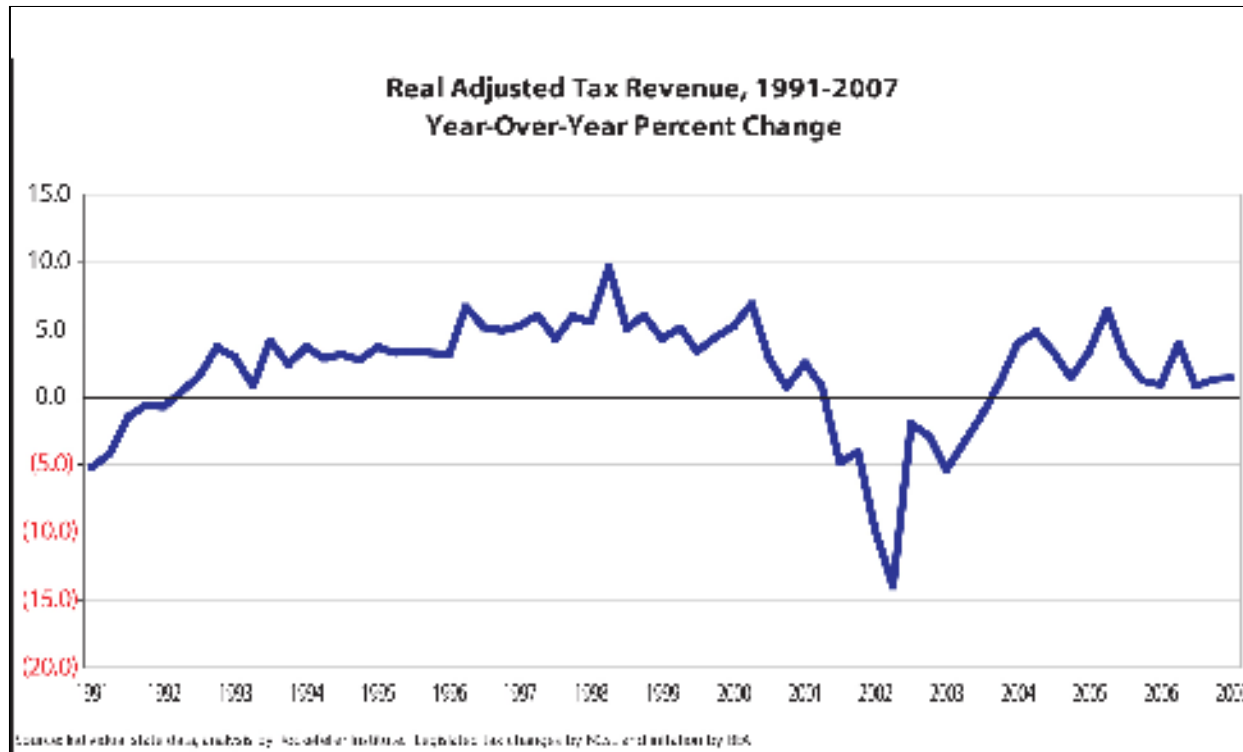
- In FY 2007, revenue collections from the three major taxes were 2.4 percent higher than original estimates. Specifically,
 - Corporate income taxes were 10.9 percent higher
 - Personal income taxes were 2.4 percent higher
 - Sales taxes were 0.6 percent higher
- In FY 2007, only 3 states (MI, RI, WI) were forced to reduce their enacted budgets by a total of \$170 million



I. Where Are States?

- In FY 2008, revenues in Governors' recommended budgets are projected to be 3.3 percent higher than the prior year
- In FY 2008, total year-end balances are projected to decline still further to \$38.7 billion or to 6 percent of expenditures

II. Structural Issues: Faltering Revenues



II. Structural Issues:

Faltering Revenues

- Virginia = \$200 million to \$300 million shortfall in current FY 07-08 biennium;
- Alaska = \$500 million gap in FY 09;
- Florida = \$1.5 billion combined shortfall in FY 07 & 08;
- Arizona = revenues short of projections for FY 08;
- Maryland = \$1.5 billion deficit in FY 08;
- California = \$764 million in FY 07 and \$1.4 billion in FY 08;
- Illinois = \$874 million shortfall in FY 08;
- Massachusetts = \$1 billion gap in FY 08;
- Michigan = at least \$1.6 billion in FY 08; and
- Rhode Island = nearly \$400 million in FY 07 and 08

II. Structural Issues:



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Service-Based Economy

- Economic activity in the U.S. has moved markedly to a service-based economy
- U.S. economy continues to be powered by service sector: In first six months of 2007, without the benefit of 815,000 service jobs, the economy would have had a net loss of 106,000 jobs
- However, state sales taxes, often the primary source of revenue for states, relies on a manufacturing-based economy

II. Structural Issues:



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Service-Based Economy

- Federation of Tax Administrators (FTA) tracks state sales taxes on services such as:
 - Business Services
 - Personal Services
 - Admissions/Amusements
 - Fabrication, Repair and Installation
 - Utilities
 - Computer Services
 - Professional Services
 - Other
- The latest FTA report lists a total of 168 taxes on services

II. Structural Issues:



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Service-Based Economy

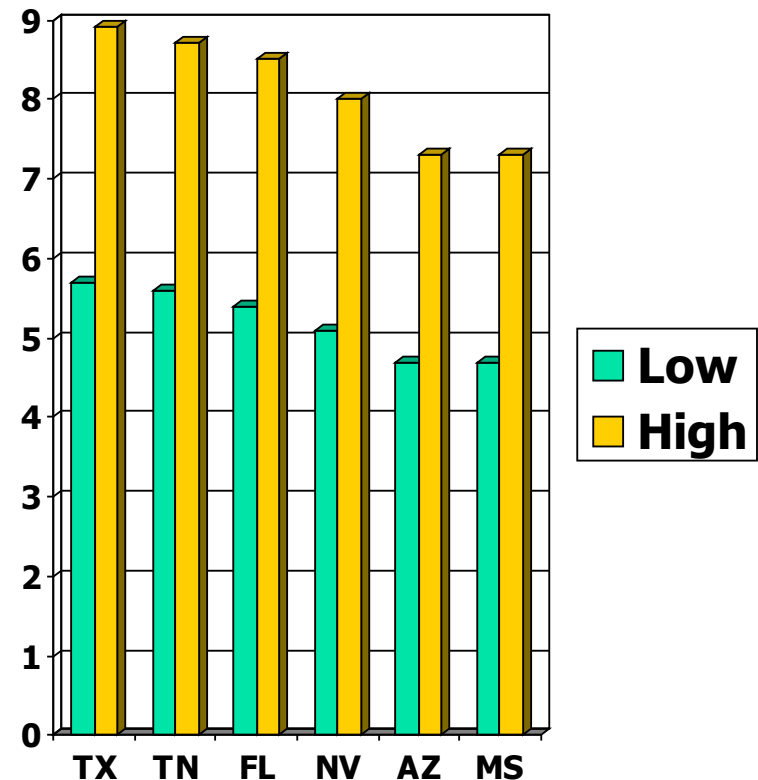
- Six states (DE, HI, NM, SD, WA, WV) tax more than 100 services
- One state (AK) taxes a single service and another (OR) does not tax a single service
- 23 states tax between 10 and 50 services
- 19 states tax between 51 and 100 services

II. Structural Issues: Revenue Erosion from e-Commerce



II. Structural Issues: Revenue Erosion from e-Commerce

- By 2008, state and local government revenue losses from taxable e-Commerce transactions are estimated to range between \$21.5 billion (low) and \$33.7 billion (high)



III. Looming

Expenditures: Healthcare

- In FY 2006, according to a July 2007 federal CMS report, total Medicaid spending amounted to \$304 billion
- Wyoming's \$421 million was the lowest and New York's \$44.7 billion was the highest
- Medicaid spending is approximately 22 percent of total state spending and provided care for more 62 million low-income individuals
- Medicaid spending is estimated to increase by 5.8 percent in Governors' recommended budgets for FY 2008 with state funds increasing by 7.0 percent and federal funds increasing by 4.9 percent

III. Looming Expenditures: Healthcare

- Elderly population in every state will grow faster than the total population (3.5 times faster)
- Seniors will outnumber school-age children in 10 states in the next 25 years
- 26 states will double their populations of people older than 65 by 2030
- FL, PA, VT, WY, ND, DE, NM, MT, ME and WV will all have fewer children than elderly

III. Looming

Expenditures: Public Pensions

- Every element in our nation's retirement architecture—Social Security/Medicare; Corporate and Public Pensions; Personal Savings—face serious challenges
- From 2005 to 2030, the 65-and-over population will nearly double, to 71 million; its share of the population will rise to 20 percent from 12 percent
- Declining worker to beneficiary ratio:
 - 1950 = 16.5 to 1
 - Today = 3.3 to 1
 - In next 40 years = 2 to 1

III. Looming

Expenditures: Public Pensions

- 2004 50-State SLC Report – 73 percent or 68 of the 93 plans unfunded
- 2007 (Feb) Standard & Poor's report – mean funded ratio declined from an average of over 100 percent in 2000 to 81.8 percent in 2005
- 2007 (March) Wilshire Report – actuarial funding ratio declined from 103 percent in 2000 to 88 percent in 2006
- 2007 (July) NASRA Report – average funding level at 85.8 percent with a cumulative unfunded liability of \$380.9 billion

III. Looming Expenditures:

Public Pensions

- GASB Statement 45 requires that state and local governments account for and report the annual cost of OPEB (*Other Post-Employment Benefits*) – mostly health care -and the outstanding obligations and commitments related to OPEB in the same manner as they do for pensions

III. Looming Expenditures: Public Pensions (OPEB Estimates)

<ul style="list-style-type: none"> □ AL = \$10B 	<ul style="list-style-type: none"> □ NJ = \$58B
<ul style="list-style-type: none"> □ AK = \$500M 	<ul style="list-style-type: none"> □ NY = \$47B - \$54B
<ul style="list-style-type: none"> □ CA = \$40B - \$70B 	<ul style="list-style-type: none"> □ NC = \$14B
<ul style="list-style-type: none"> □ CO = \$925M 	<ul style="list-style-type: none"> □ NV = \$1.75B - \$4.4B
<ul style="list-style-type: none"> □ DE = \$3B 	<ul style="list-style-type: none"> □ RI = \$550M
<ul style="list-style-type: none"> □ MD = \$20B 	<ul style="list-style-type: none"> □ UT = \$540M
<ul style="list-style-type: none"> □ MA = \$13B 	<ul style="list-style-type: none"> □ VA = \$5B
<ul style="list-style-type: none"> □ MI = \$30B 	<ul style="list-style-type: none"> □ VT = \$2.59B

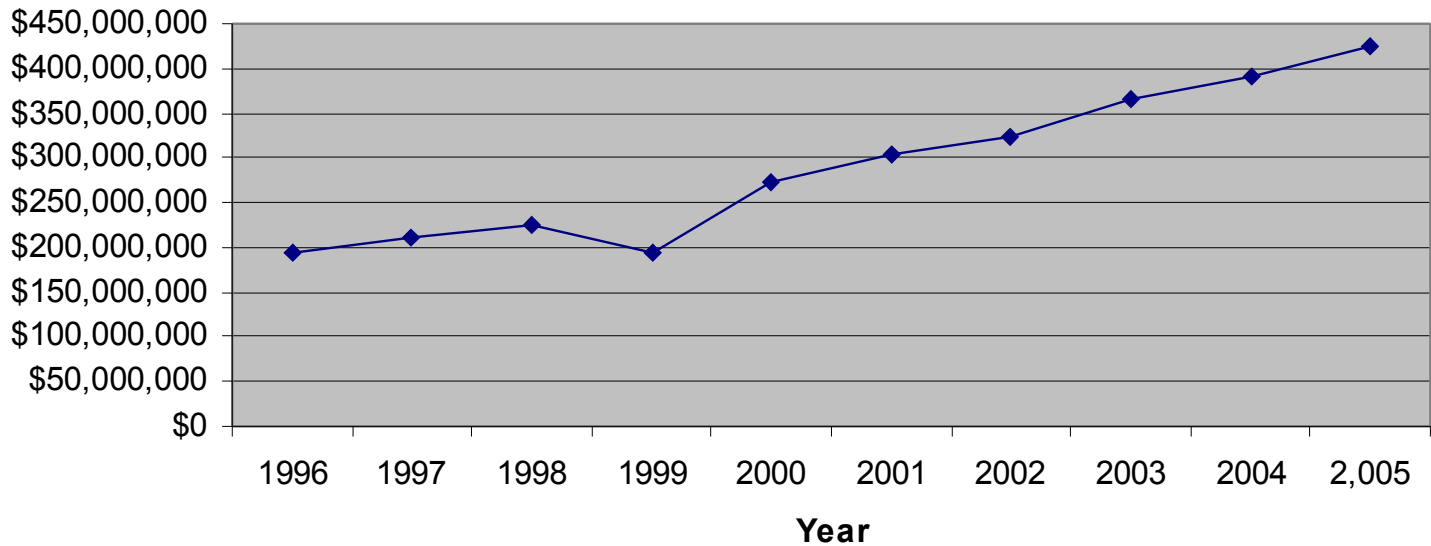
III. Looming

Expenditures: Prisons

- FY 2007 state corrections budgets amounted to nearly \$38 billion
- The country's prison and jail population has never been higher, having risen 2.8 percent from July 2005 to July 2006 to 2.2 million, according to recent federal statistics
- Estimates contend that the nation's prison population will grow by another 192,000 in the next five years
- Chronic prison overcrowding has corrections officials in a number of states (HI, AL, CA, AZ) looking increasingly across state lines for scarce prison beds, usually in prisons run by private companies

III. Looming Expenditures: Education

Educational Expenditures 1996-2005 (constant dollars)



III. Looming

Expenditures: Transportation

- In order to maintain U.S. global competitiveness, experts emphasize the need for an expanding and efficient transportation network
- Enhancing our nation's transportation network involves substantial enhancements to all transportation modes including surface (highways, bridges), rail, ports and airports
- U.S. infrastructure network is aging

III. Looming Expenditures: Transportation

Many states have already signaled huge transportation shortfalls, including

- Georgia (\$7.7 billion shortfall in coming years)
- New Hampshire (35 years and \$4.5 billion to complete a 10-year plan to construct and repair bridges and highways)
- Nevada (\$3.8 billion highway construction shortfall)
- Oregon stands to lose \$1.7 billion in income annually due to reduced transportation improvements
- The city of Chicago needs \$6 billion to bring its subways into a “state of good repair”
- Texas (state Department of Transportation reports a \$86 billion gap over next generation)
- Louisiana (road needs backlog totals \$14 billion)

IV. : Strategies Deployed/ Proposed: Leasing State Assets



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- Highways (NJ, IN, PA, VA, TX, Chicago)
- Lotteries (CA, IL, IN, IO, MD, NJ, TX)
- Student Loan Portfolios (MO, IL)
- Liquor Stores (PA)
- Naming Rights for Transit Stations (CT)
- Commuter Railroads (South Bend, IN/Chicago, IL)
- Airports (NY, IL)
- Advertising Space on Bus Shelters, Newsstands, Garbage Cans (NYC)
- Naming Rights to Stadiums (San Francisco, Boston)

IV. Strategies Deployed/

Proposed: Leasing State Assets

(Pocahontas Parkway, Virginia)



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- First new construction project under *Public Private Transportation Act of 1995*
- Original Financing:
 - \$353 million Toll Revenue Bonds
 - \$18 million SIB Loan
 - \$9 million Federal funding
- Transurban and DEPFA (Australian consortium) made a proposal to VA DOT to acquire the right to collect tolls, operate and manage the Pocahontas Parkway for profit
- Transurban & VA DOT negotiated a 99-year agreement for project



IV. Strategies Deployed

/Proposed: Pursuing Toll Roads

- The U.S. Department of Transportation encouraging states to consider toll roads as an option to generate funds for their transportation needs
- Practically every state in the country is considering either expanding their current toll roads, increasing toll rates or introducing new toll roads
- Texas is one such state and has an agreement with Spanish toll road builder Cintra for a possible toll project (Texas 121 turnpike in Collin County), where Cintra pledged to pay the state \$2.1 billion upfront and about \$700 million over 49 years for the right to build and operate the 26-mile toll road

IV. Strategies Deployed/ Proposed: Expanding Gaming

- State Lottery Sales and Profits
 - Sales = \$52.6 billion (FY 05); \$57.4 billion (FY 06)
 - Profits = \$16.4 billion (FY 05); \$17.1 billion (FY 06)

- Commercial Casino Gaming Revenue
 - \$30.29 billion (2005); \$32.42 billion (2006)

IV. Strategies Deployed/

Proposed: Expanding Gaming

(2006 Commercial Casino Tax Revenues to States)

State	Amount
Colorado	\$108.4 million
Illinois	\$830.2 million
Indiana	\$833.7 million
Iowa	\$289.4 million
Louisiana	\$527.8 million
Michigan	\$349.9 million
Mississippi	\$301.6 million
Missouri	\$424.6 million
Nevada	\$1.013 billion
New Jersey	\$508.8 million
South Dakota	\$13.3 million



IV. Strategies Deployed/ Proposed: Hiking Tobacco Taxes

- As of July 1, 2007:
 - Overall State Cigarette Tax Average = 107.3 cents per pack
 - Major Tobacco States' Average = 33.5 cents
 - Other States' Average = 117.1 cents per pack
- In 2007, 11 states hiked their cigarette tax rates

IV. Strategies Deployed/

Proposed:

Hiking Cigarette Taxes (in 2007)

- AK (by 20 cents; tax now \$2.00)
- AZ (by 80 cents; tax now \$2.00)
- CT (by 49 cents; tax now \$2.00)
- DE (by 60 cents; tax now \$1.15)
- HI (by 20 cents; tax now \$1.80)
- IO (by 100 cents; tax now 1.36)
- IN (by 44 cents; tax now 99.5 cents)
- NH (by 28 cents; tax now \$1.08)
- SD (by 100 cents; tax now \$1.53)
- TN (by 42 cents; tax now 62 cents)
- TX (by 100 cents; tax now \$1.41)

V. Bright Sparks: Auto Industry in the South

- U.S. auto industry is a study in stark contrasts:
 - On the one hand, the Big Three (General Motors, Chrysler and Ford) domestic automakers — domiciled mostly in the Midwest — hemorrhage vast amounts of cash and battle a range of structural problems
 - On the other hand, an increasing roster of foreign automakers — located mostly in the South — thriving financially and generating a panoply of positive economic benefits, locally and regionally

V. Bright Sparks: Auto Industry in the South

- Mercedes Vehicles Manufactured at Plant in Vance, Alabama



V. Bright Sparks: Auto Industry in the South

- Alabama (Mercedes; Honda; Toyota; Hyundai; Isuzu)
- Georgia (Kia)
- Kentucky (Toyota)
- Mississippi (Nissan; Toyota)
- South Carolina (BMW)
- Tennessee (Nissan)
- Texas (Toyota)
- Virginia (Volvo)
- West Virginia (Toyota)

V. Bright Sparks: Alabama's Record

- German steelmaker ThyssenKrupp announced a 3,500-acre, \$3.7 billion facility that will employ 2,700 workers in Mobile County
- EADS, the European parent company of Air Bus, will establish a \$600 million, 1,000 direct worker plant in Mobile to build the KC-330, the U.S. Air Force's latest aerial refueling aircraft
- National Rail Car, the leading Canadian rail-car company, announced a \$350 million manufacturing facility in Colbert County that would create 1,800 jobs
- Mercedes plant in Vance, Alabama has a \$6 billion annual economic impact along with generating nearly 42,000 jobs

V. Bright Sparks:

Technology (Bio and Info)

- California - \$3 billion over 10 years on stem cell research projects
- North Carolina - \$1.5 billion project to convert a 350-acre site in a former mill town to a cutting-edge bio tech center
- Florida - \$310 million in funds to lure Scripps to open a facility in Palm Beach County
- New York - \$600 million for stem cell research
- Connecticut - \$100 million over the next decade on stem cell research
- New Jersey and Illinois also promoting stem cell research
- Texas \$3 billion - over the next decade on cancer research
- Arizona - \$3 billion Intel plant with 1,000 new, high-paying jobs for computer engineers and technicians

V. Bright Sparks: Ports

Top 10 U.S. Ports by Cargo Volume, 2005

Rank	Port/State	Cargo (Tons)
1	South Louisiana, LA	212,245,241
2	Houston, TX	211,665,685
3	New York/New Jersey	152,131,674
4	Huntington, WV,OH,KY	83,888,903
5	Long Beach, CA	79,857,710
6	Beaumont, TX	78,886,680
7	Corpus Christi, TX	77,646,945
8	New Orleans, LA	65,875,811
9	Baton Rouge, LA	59,293,661
10	Texas City, TX	57,839,378

V. Bright Sparks: Ports

Top 10 N. American Ports by Container Traffic, 2006

Rank	Port/State	TEUs
1	Los Angeles, CA	8,469,980
2	Long Beach, CA	7,289,365
3	New York/New Jersey	5,092,806
4	Oakland, CA	2,391,598
5	Vancouver, BC	2,207,730
6	Savannah, GA	2,160,113
7	Tacoma, WA	2,067,186
8	Hampton Roads, VA	2,029,799
9	Seattle, WA	1,987,360
10	Charleston, SC	1,968,474

V. Bright Sparks: Ports and Automobiles

(BMW's await loading at the Port of Charleston, SC)





V. Bright Sparks: Film Industry

- Hollywood's new Backlot: The U.S.?
- States enacting various incentives to attract the motion picture industry
- Louisiana's 2002 landmark legislation
- Industry's sizable economic impacts:
 - Louisiana: output of \$1 billion (2005)
 - New Mexico: financial effect of \$428 million (FY 2006)
 - California: economic activity of \$42.2 billion (2005)
 - Georgia: economic impact of \$448.3 million (2006)
 - Florida: \$3.9 billion industry (2007)
 - North Carolina: \$300 million in spending (2006)

V. Bright Sparks: Regional Alliances

- States working in alliance on major economic development projects:
 - GA/SC = Jasper County Port Authority
 - MS/FL/GA = Pledge of support to AL in securing ThyssenKrupp steel plant
 - DE/PA/MD/NJ = Regional technology cooperative

Thank You

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