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

Source: National Income and Product Accounts
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

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

-30%
-20%
-10%
0%
10%
20%
30%

1995-2014

Total taxes
Individual income tax
General sales & gross receipts

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

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

[Graph showing Total Private Nonfarm Employment, Percent Change Year over Year for different states including Nevada, with the most significant decline seen in Nevada.]
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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</thead>
<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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<tr>
<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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<tr>
<td>California</td>
<td>13.6</td>
<td>25.6</td>
<td>20.7</td>
<td>29.3</td>
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<tr>
<td>Oregon</td>
<td>6.6</td>
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<td>32.4</td>
<td>25.0</td>
</tr>
<tr>
<td>Min</td>
<td>6.6</td>
<td>7.6</td>
<td>10.8</td>
<td>25.0</td>
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<tr>
<td>Mean</td>
<td>9.7</td>
<td>21.2</td>
<td>31.3</td>
<td>33.7</td>
</tr>
<tr>
<td>Max</td>
<td>13.6</td>
<td>30.0</td>
<td>54.5</td>
<td>45.2</td>
</tr>
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</table>

Sources: Wall Street Journal, The Nelson A. Rockefeller Institute of Government, the Center on Budget and Policy Priorities
Sales Taxes Fell Hard

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>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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</thead>
<tbody>
<tr>
<td>United States</td>
<td>$2,413,384</td>
<td>22</td>
<td>18</td>
<td>12</td>
<td>6</td>
<td>11</td>
<td>2</td>
<td>4</td>
<td>16</td>
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<tr>
<td>New England</td>
<td>126,603</td>
<td>23</td>
<td>24</td>
<td>7</td>
<td>6</td>
<td>15</td>
<td>2</td>
<td>3</td>
<td>12</td>
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<tr>
<td>Mideast</td>
<td>467,315</td>
<td>21</td>
<td>19</td>
<td>9</td>
<td>6</td>
<td>17</td>
<td>3</td>
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<td>12</td>
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<tr>
<td>Great Lakes</td>
<td>346,524</td>
<td>22</td>
<td>19</td>
<td>11</td>
<td>7</td>
<td>11</td>
<td>1</td>
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<tr>
<td>Plains</td>
<td>154,636</td>
<td>22</td>
<td>16</td>
<td>12</td>
<td>6</td>
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<tr>
<td>Southeast</td>
<td>542,829</td>
<td>24</td>
<td>15</td>
<td>14</td>
<td>7</td>
<td>8</td>
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<td>3</td>
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<td><strong>Southwest</strong></td>
<td><strong>251,680</strong></td>
<td><strong>25</strong></td>
<td><strong>19</strong></td>
<td><strong>16</strong></td>
<td><strong>7</strong></td>
<td><strong>2</strong></td>
<td><strong>0</strong></td>
<td><strong>6</strong></td>
<td><strong>16</strong></td>
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<td>Arizona</td>
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<td>6</td>
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<td>13</td>
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<tr>
<td>New Mexico</td>
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<td>Oklahoma</td>
<td>26,064</td>
<td>26</td>
<td>8</td>
<td>14</td>
<td>4</td>
<td>10</td>
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<tr>
<td>Texas</td>
<td>167,101</td>
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<td>22</td>
<td>16</td>
<td>8</td>
<td>-</td>
<td>-</td>
<td>6</td>
<td>16</td>
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<tr>
<td><strong>Rocky Mountain</strong></td>
<td><strong>81,614</strong></td>
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<td><strong>12</strong></td>
<td><strong>4</strong></td>
<td><strong>11</strong></td>
<td><strong>1</strong></td>
<td><strong>5</strong></td>
<td><strong>19</strong></td>
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<tr>
<td>Colorado</td>
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<td>18</td>
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<tr>
<td>Idaho</td>
<td>9,646</td>
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<td>13</td>
<td>13</td>
<td>4</td>
<td>12</td>
<td>1</td>
<td>4</td>
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<td>Montana</td>
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<td>-</td>
<td>7</td>
<td>11</td>
<td>2</td>
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<td>13</td>
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<tr>
<td>Utah</td>
<td>18,688</td>
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<td>5</td>
<td>12</td>
<td>1</td>
<td>3</td>
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<tr>
<td>Wyoming</td>
<td>8,517</td>
<td>26</td>
<td>15</td>
<td>14</td>
<td>2</td>
<td>-</td>
<td>-</td>
<td>16</td>
<td>15</td>
</tr>
<tr>
<td><strong>Far West</strong></td>
<td><strong>416,432</strong></td>
<td><strong>21</strong></td>
<td><strong>17</strong></td>
<td><strong>13</strong></td>
<td><strong>5</strong></td>
<td><strong>12</strong></td>
<td><strong>2</strong></td>
<td><strong>4</strong></td>
<td><strong>18</strong></td>
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<tr>
<td>California</td>
<td>317,574</td>
<td>21</td>
<td>17</td>
<td>12</td>
<td>4</td>
<td>14</td>
<td>3</td>
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<tr>
<td>Nevada</td>
<td>18,219</td>
<td>17</td>
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<td>16</td>
<td>12</td>
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<tr>
<td>Oregon</td>
<td>27,925</td>
<td>25</td>
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<td>23</td>
<td>8</td>
<td>-</td>
<td>-</td>
<td>5</td>
<td>20</td>
</tr>
</tbody>
</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

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