

# 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

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- 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?

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- 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?

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- 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

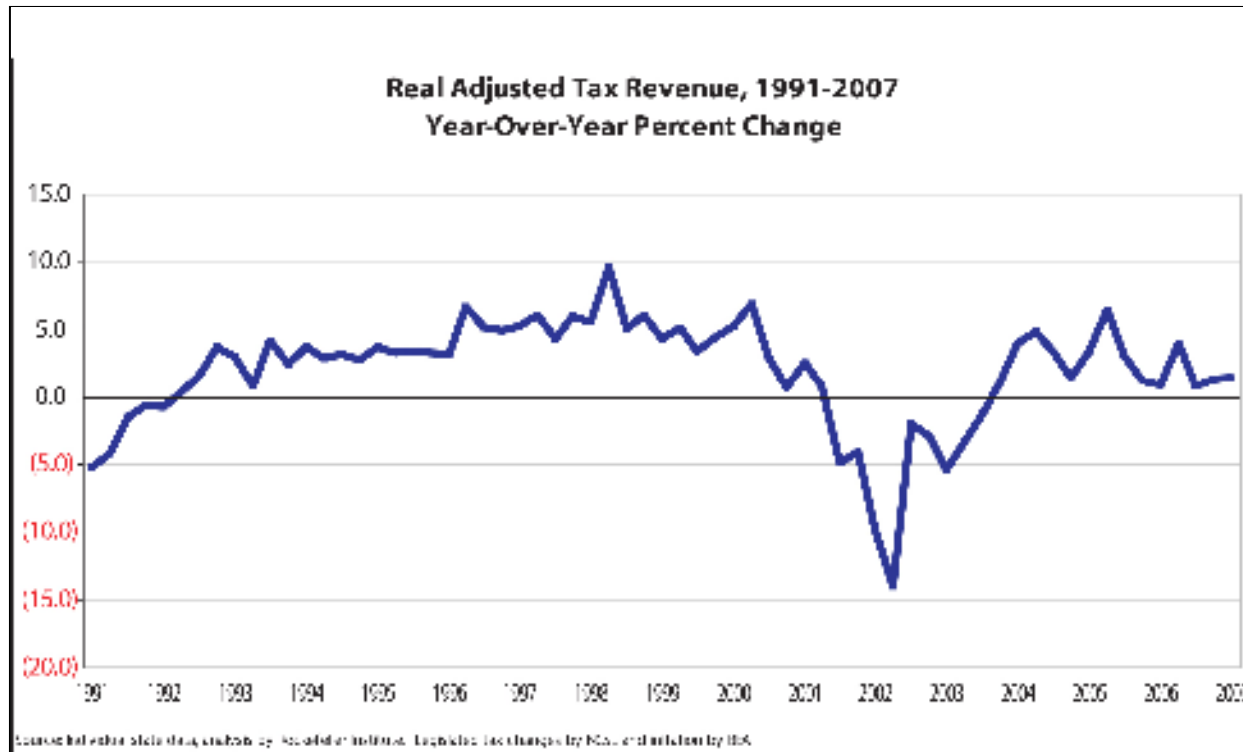


# I. Where Are States?

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- 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

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- 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

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- 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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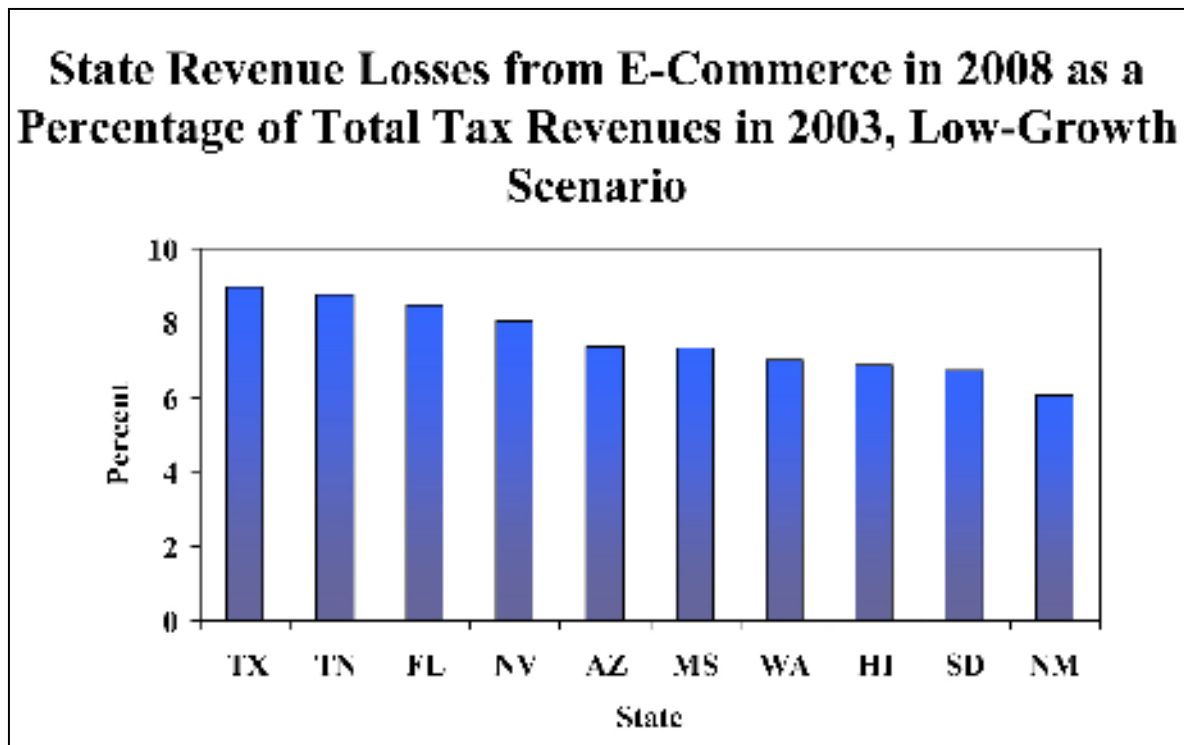
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# Service-Based Economy

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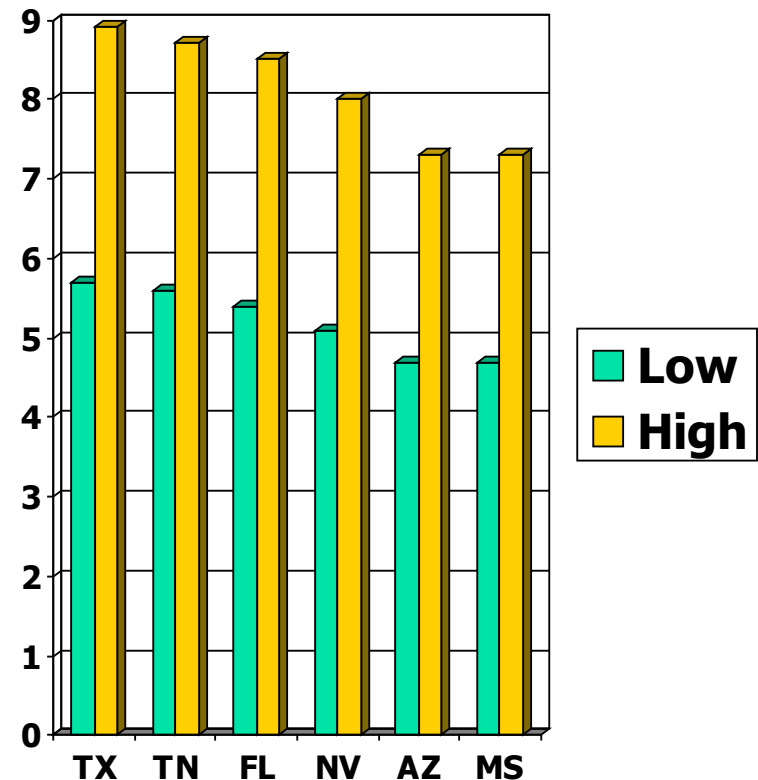
- Six states (DE, HI, NM, SD, WA, WV) tax more than 100 services
- One state (AK) taxes a single service and another (OR) does not tax a single service
- 23 states tax between 10 and 50 services
- 19 states tax between 51 and 100 services

# 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

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- 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

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- 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

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

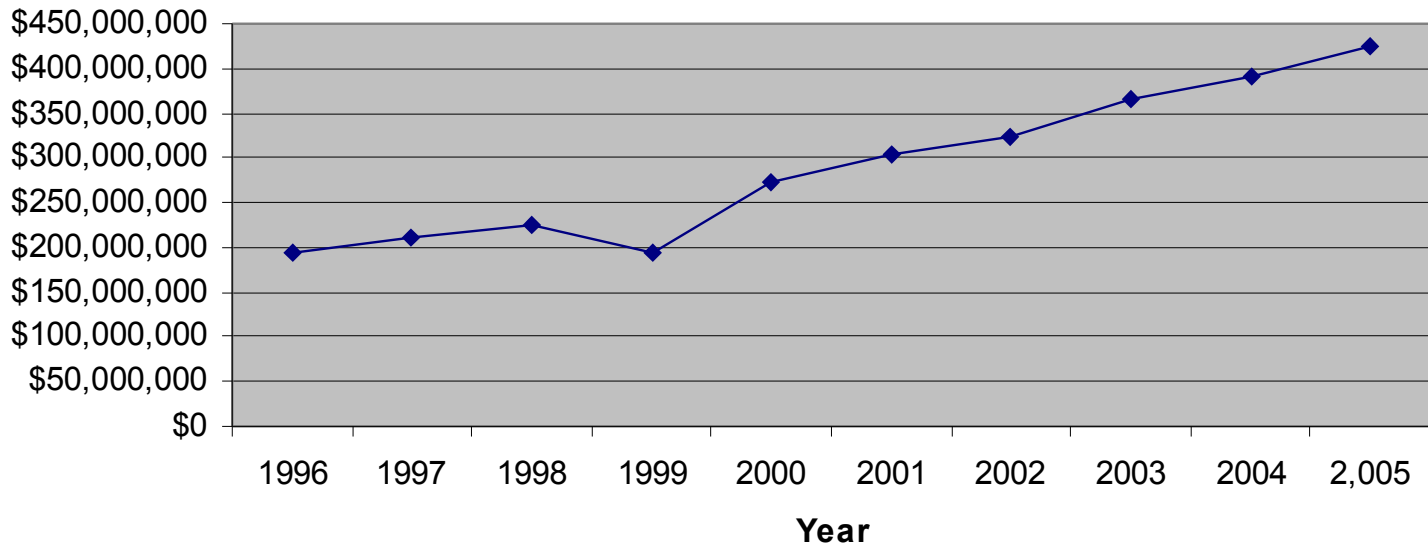
# III. Looming

## 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

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- 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

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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

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- 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

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- 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)

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- 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

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- 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

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- 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)

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- 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

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- 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

## Taxes and Budgets: Key Trends from the States



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