

August 6, 2020

# State Fiscal Outlook and New Revenue Streams

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CSG Southern Legislative Conference



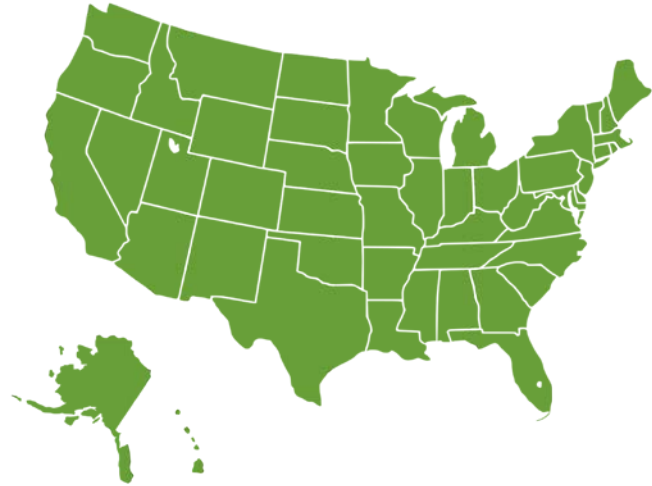
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# Current Economic and Fiscal Outlook

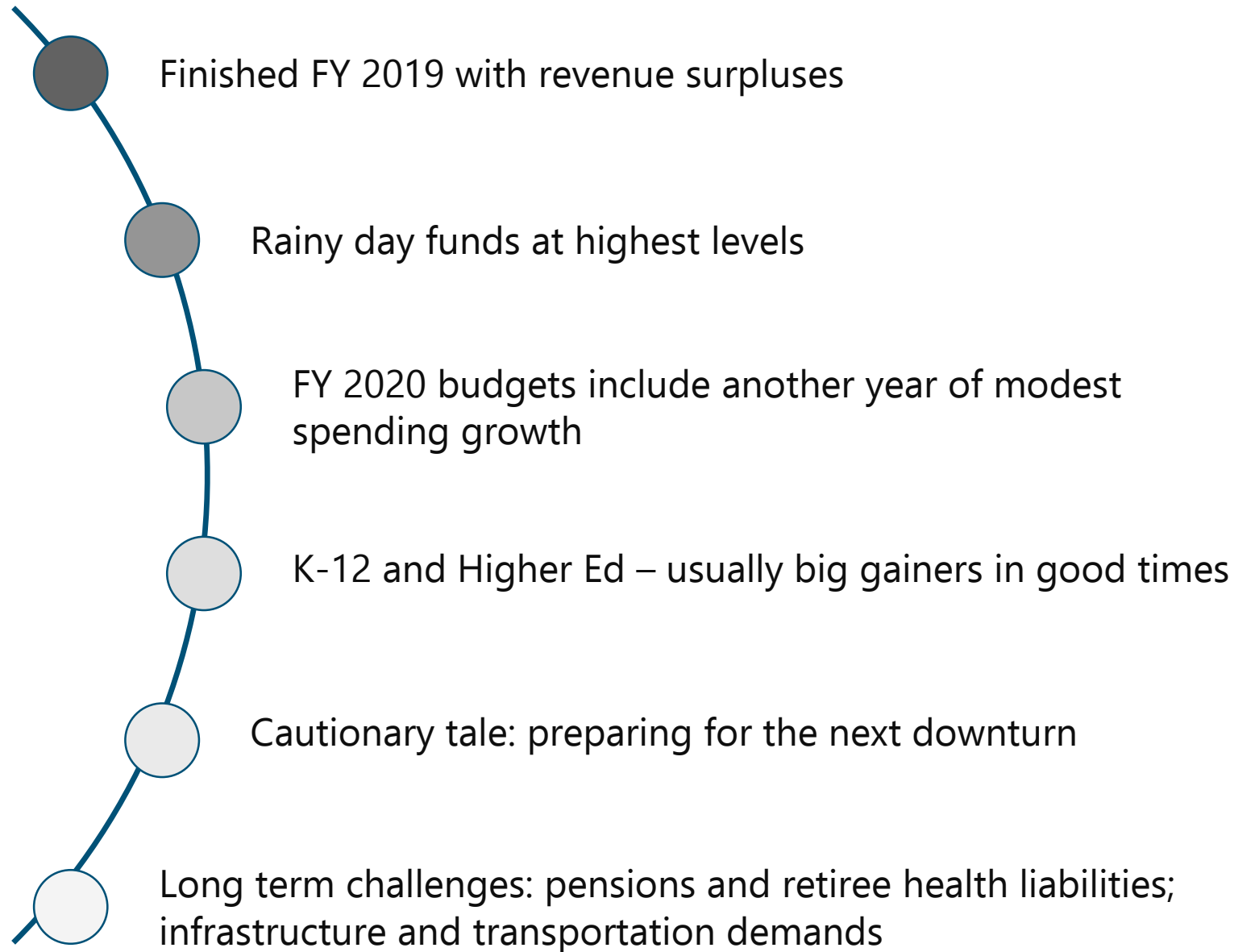


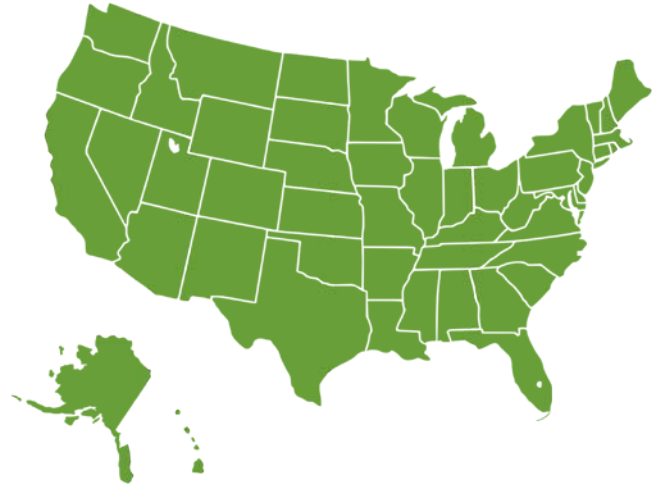




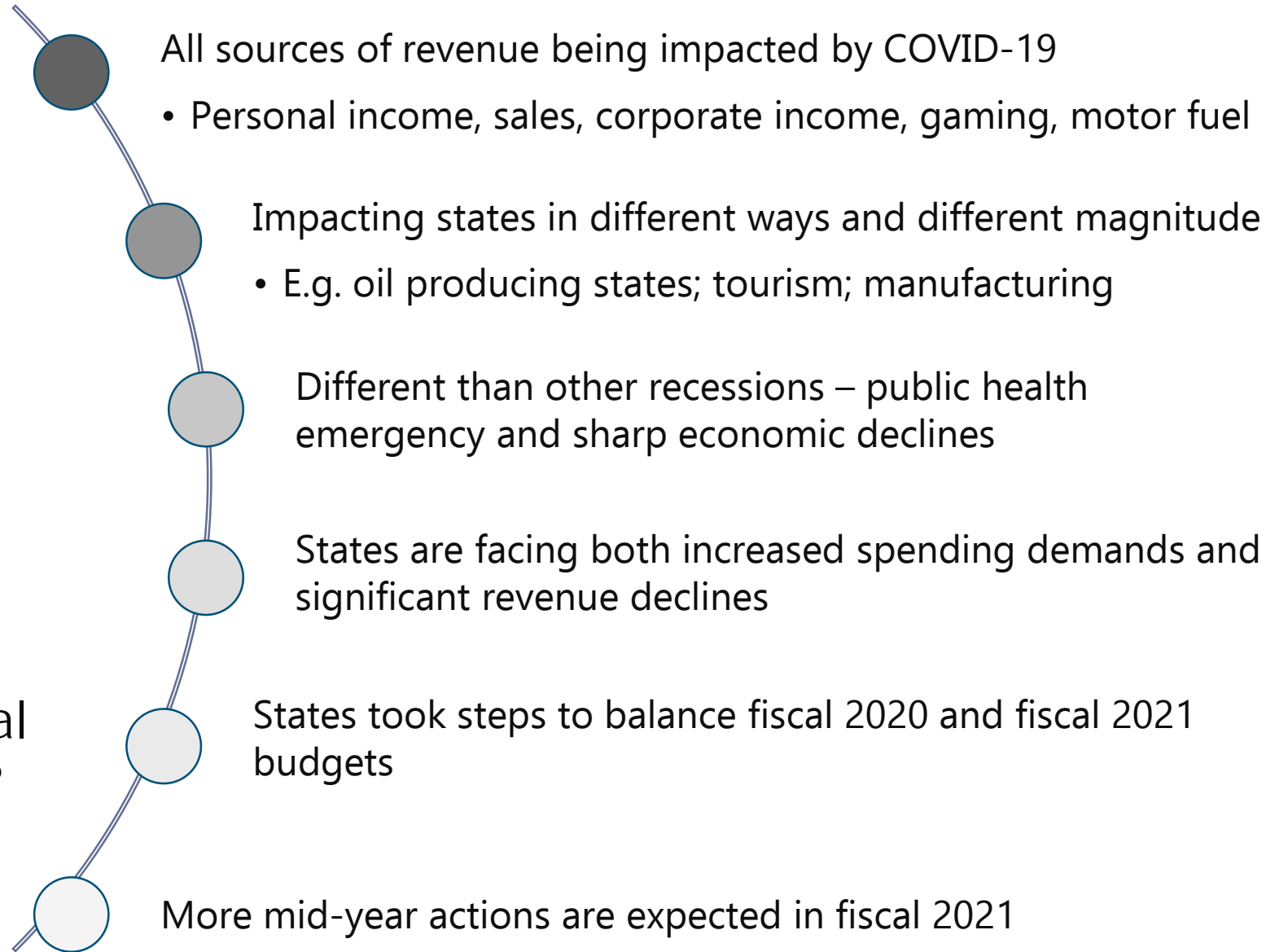
## What's the state fiscal environment for 2020 legislative sessions?

*(February 2020)*





What is the current fiscal environment for states?  
*(August 2020)*





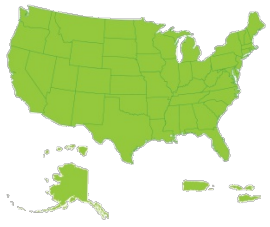
# Ways to address budget shortfalls

- Budget cuts
  - Can include targeted cuts, across the board, personnel, etc.
- Rainy day funds and reserves
  - Size of shortfalls greater than amount in rainy day funds
  - Try not to drain immediately
- Increased taxes
  - Typically not first option and amount less than budget cuts
- Federal aid
  - Was helpful during Great Recession
  - This time: question of how flexible and how much
  - States will still need to make cuts even with additional federal aid

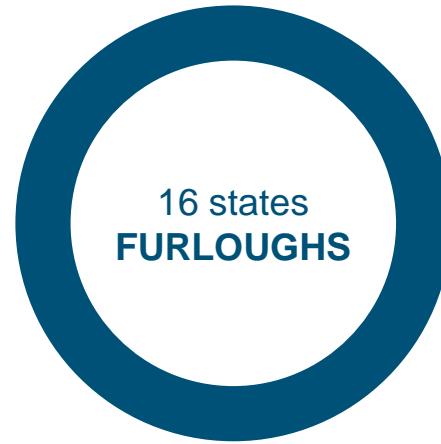


# How are states adjusting their budgets

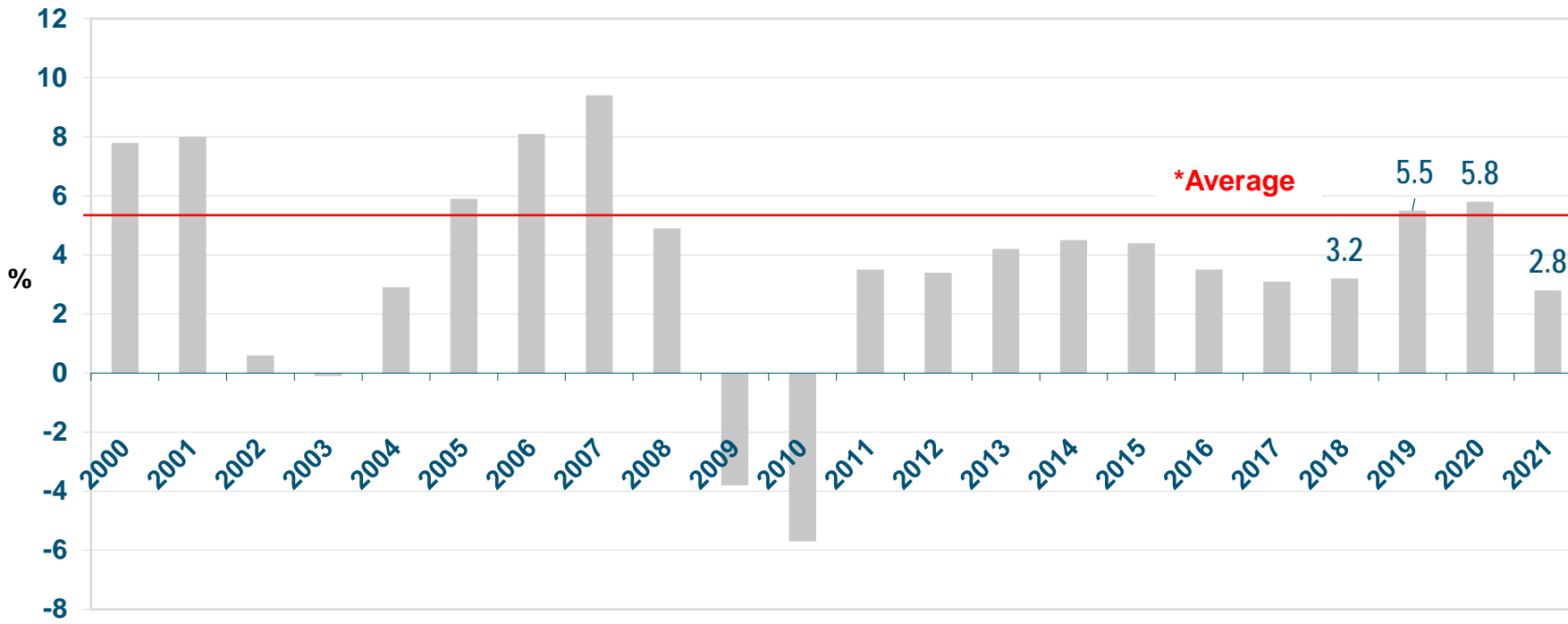
- Spending reductions
  - Includes across-the board cuts, targeted cuts, freezing discretionary spending, halting program expansions and other new spending initiatives, restricting contracts
- Personnel actions
  - Instituting hiring freezes, layoffs, and furloughs; cancelling planned pay increases
- Tapping rainy day funds
- One-time measures
  - Fund transfers, agency cash reserves, capital project delays, contract renegotiations, debt restricting, etc.
- Federal aid
  - CARES Act and other bills have helped to address COVID-19 related spending demands



# Strategies Used to Manage Budgets, Fiscal 2010



Annual General Fund Expenditure Growth, Nominal (%)

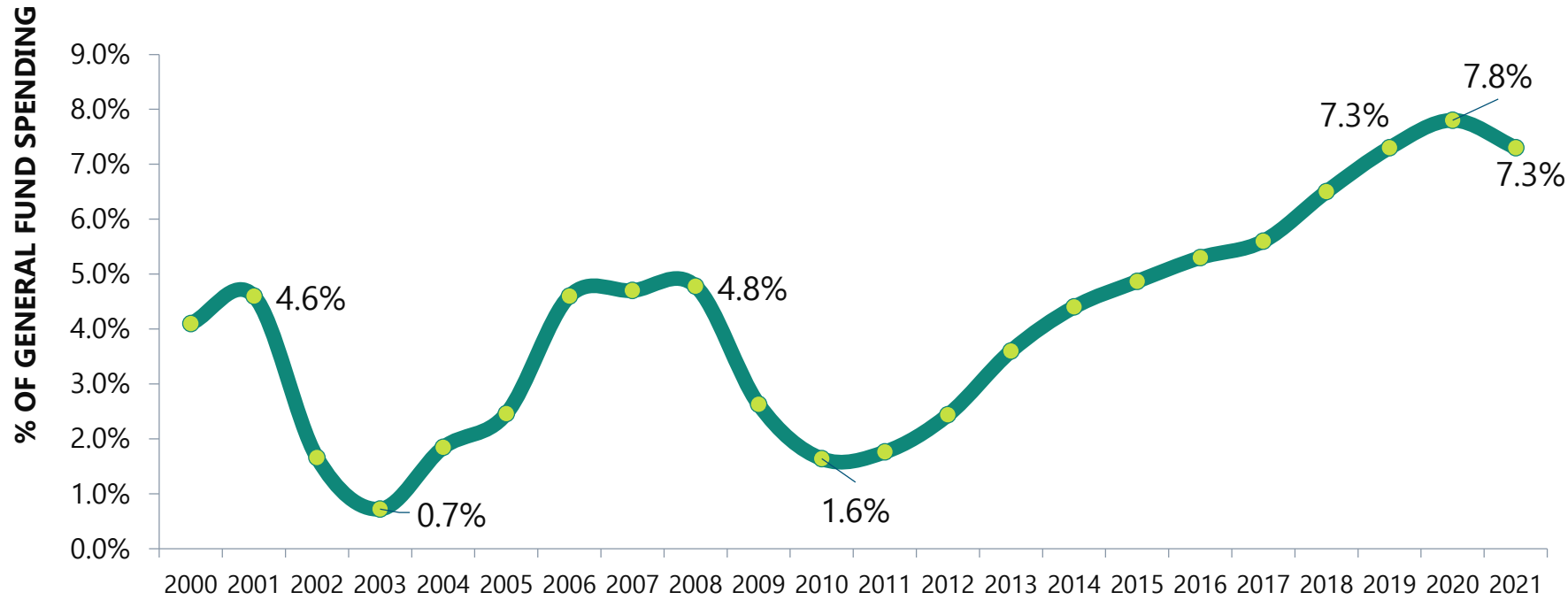


\* 42-year historical average annual nominal growth rate in state general fund spending is 5.4 percent.

State General Fund Spending Was Expected to See Modest Increase in Fiscal 2021 Before COVID-19 Crisis



Median Rainy Day Fund Balance Over Time



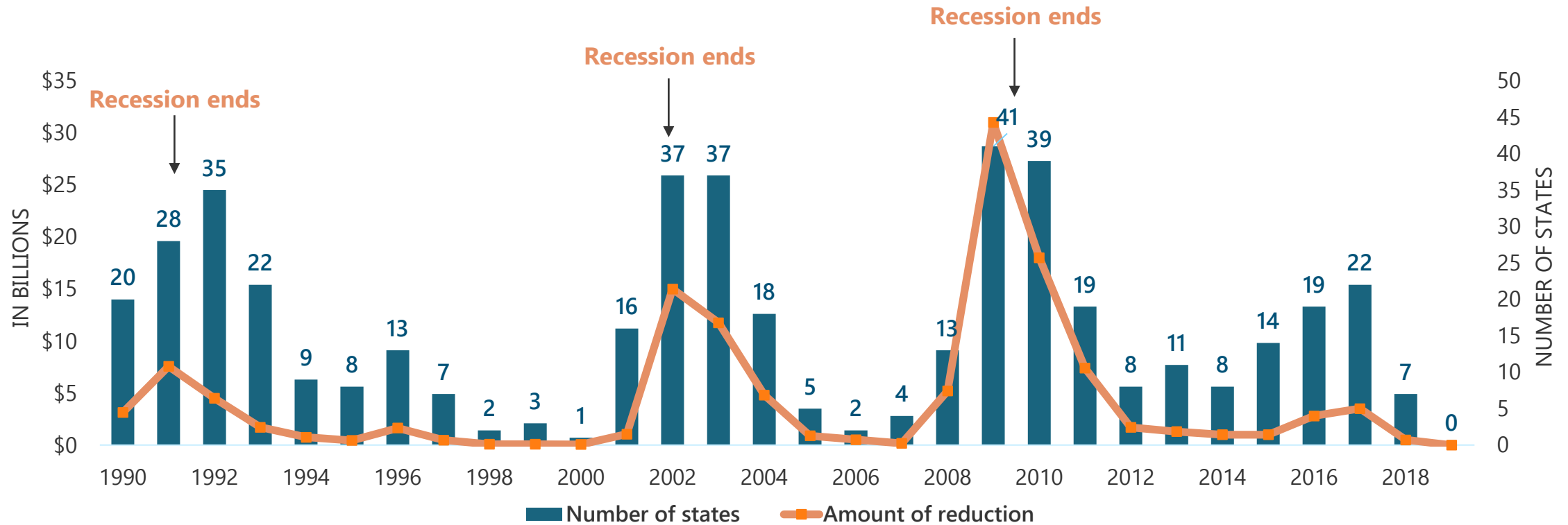
Most States Continued to Strengthen Rainy Day Funds Coming Into the COVID-19 Crisis

Median balance reached all-time high in Fiscal 2019 and was on track to beat that record in Fiscal 2020 before COVID-19 crisis

Source: Spring 2020 Fiscal Survey of States

# No States Made Mid-Year Budget Reductions in Fiscal 2019 Due to a Shortfall

Budget Cuts Made After The Budget Passed



Note: Beginning in Fiscal 2018, NASBO asked states reporting net mid-year budget reductions as to whether the reductions were made due, at least in part, to a revenue shortfall. Effective in FY2018 going forward, only states reporting mid-year budget cuts due to a shortfall are included in the totals reported in this figure. Prior to FY2018, particularly in non-recessionary periods, states that reported mid-year cuts that were due to other reasons, such as a reduction in caseload, would have been included in the counts above.

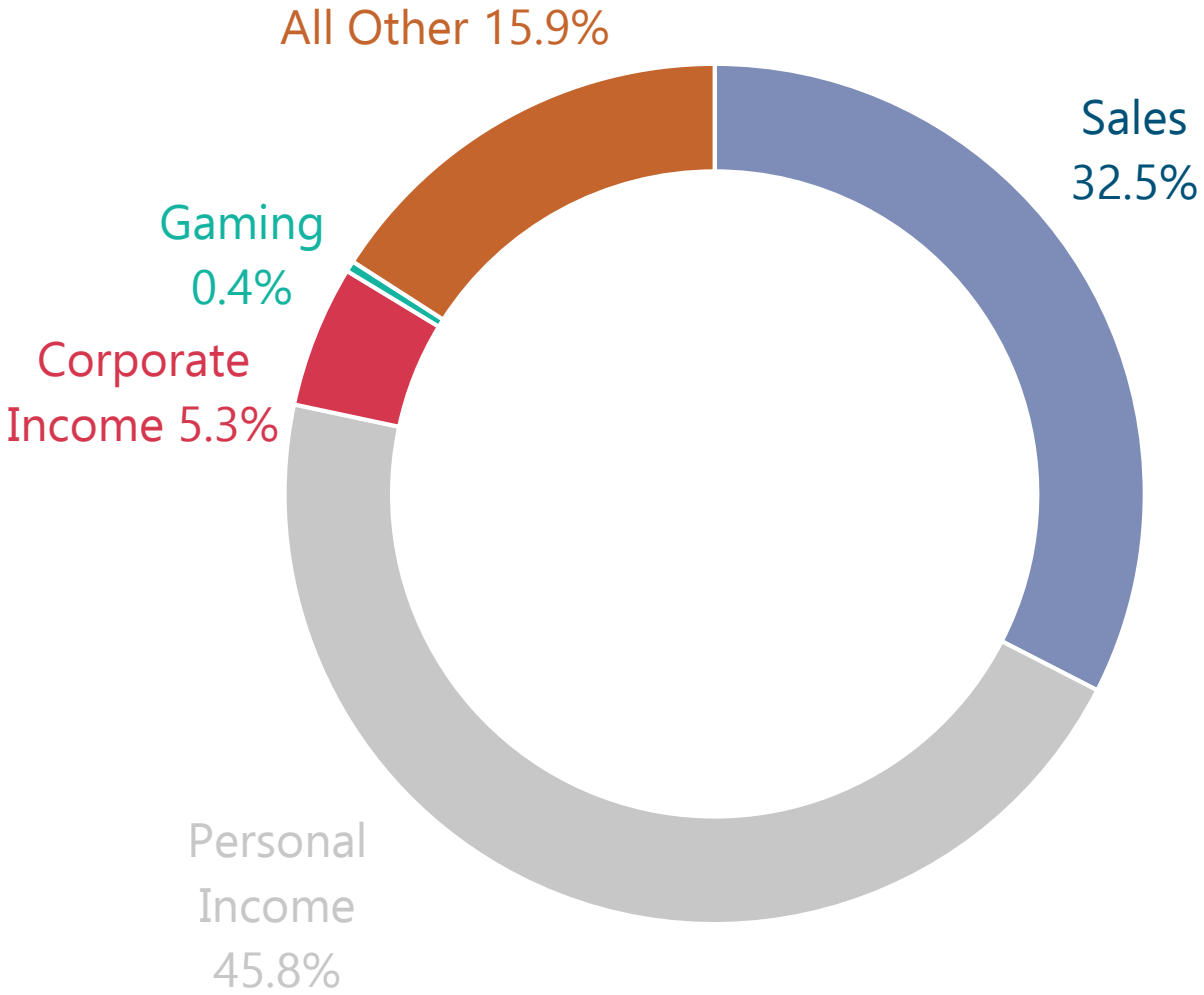
# Revenue Outlook for States



# All States - Revenue Sources in the General Fund

Percentage

Fiscal 2019

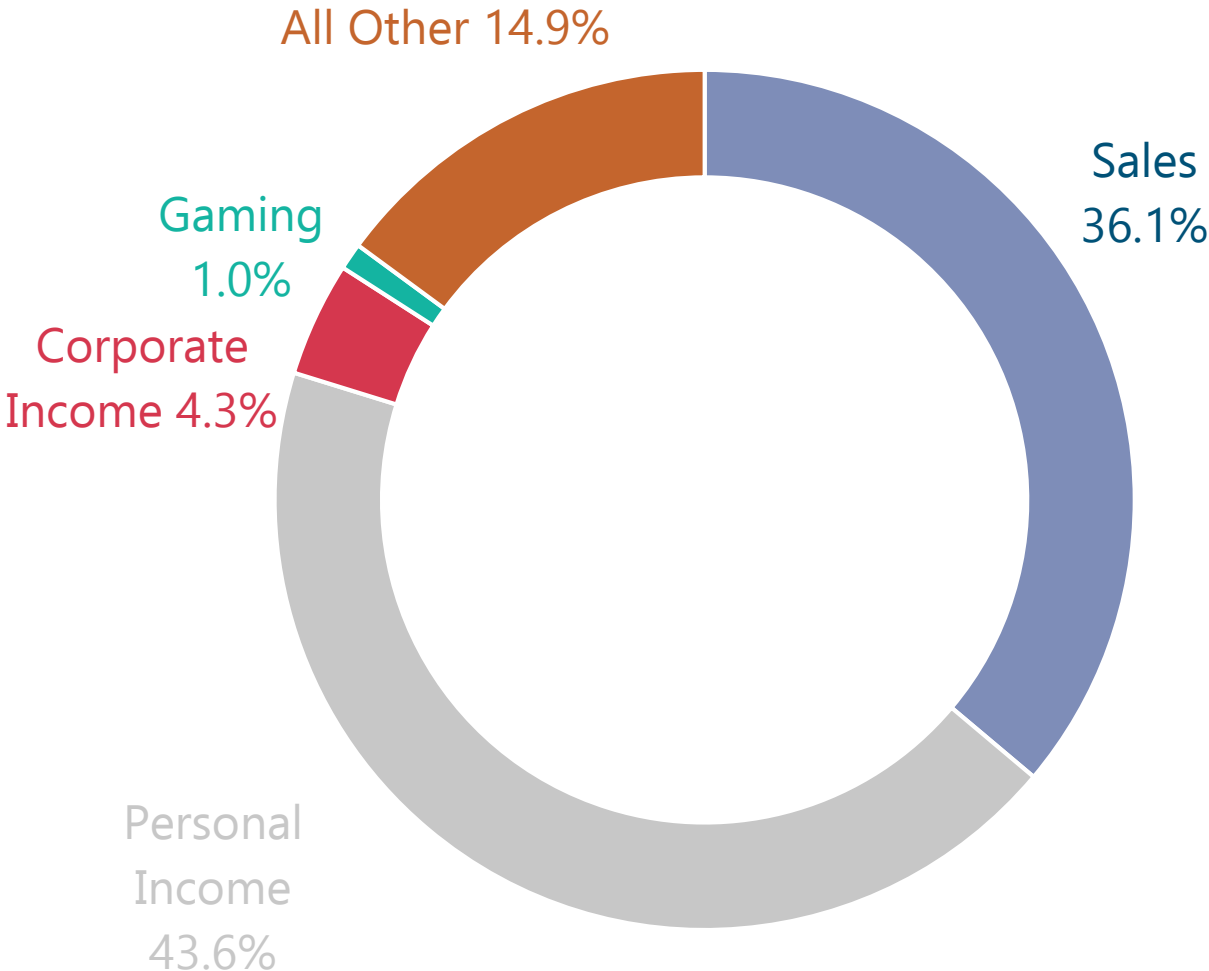


Source: NASBO Fiscal Survey of States

# Southern States - Revenue Sources in the General Fund

Percentage

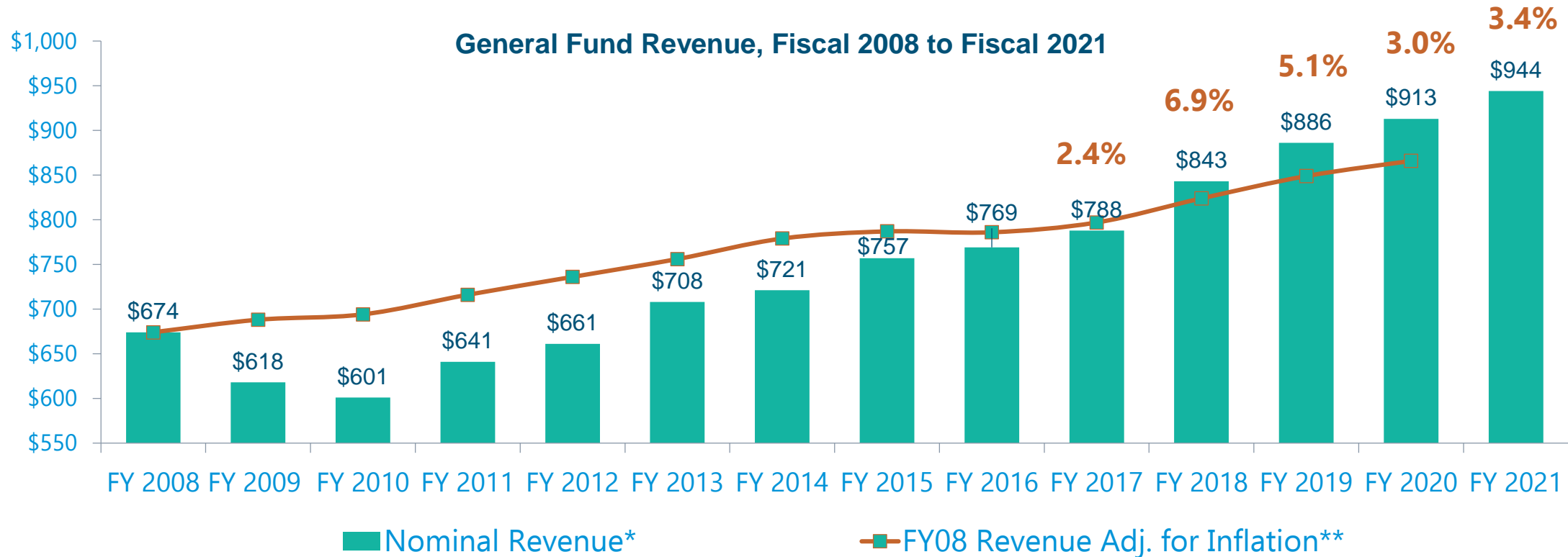
Fiscal 2019



Source: NASBO Fiscal Survey of States



# Steep Declines During the Great Recession and a Sluggish Recovery Led Revenues to Lag Behind Real Fiscal 2008 Levels for a Decade

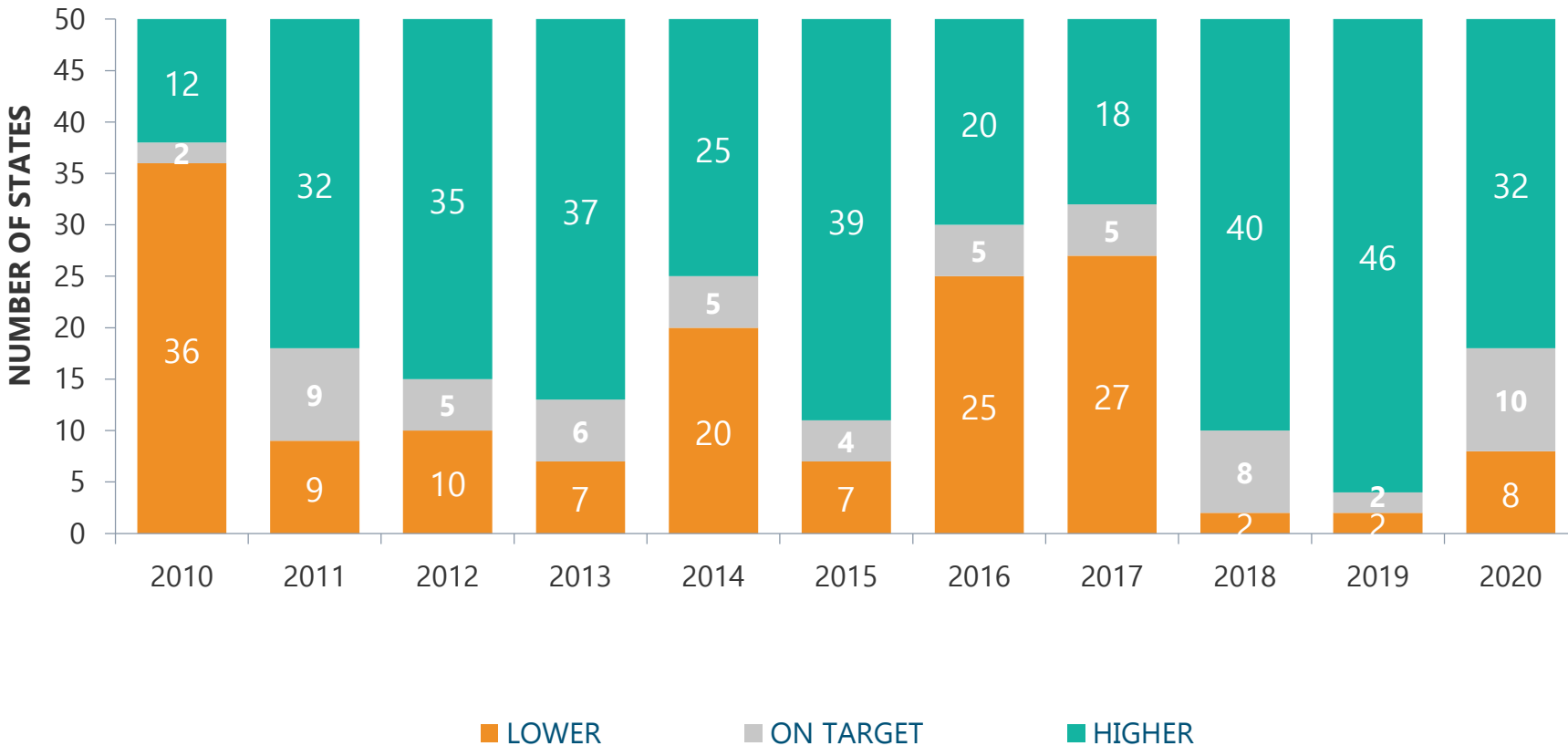


Fiscal 2020 figure is estimated (pre-COVID-19). Fiscal 2021 figure is based on governors' recommended budgets (pre-COVID-19).

Percentages shown represent total annual general fund spending growth.

\*Beginning with the Fall 2019 Fiscal Survey edition, Massachusetts now excludes federal reimbursements in its general fund spending and revenue totals. NASBO has adjusted prior 50-state totals from the Fiscal Survey to remove Massachusetts' federal reimbursement amounts (as reported in the state's Comprehensive Annual Financial Report, or CAFR) for comparison purposes.

## General Fund Revenue Collections Compared to Budget Projections by Fiscal Year\*













42 States Saw Revenue Collections Coming in Ahead of Budget Projections Prior to the COVID-19 Crisis

A few states reporting collections below projections incorporated early impacts of COVID-19 on their tax collections

\*Fiscal 2020 figures were estimated based predominantly on pre-COVID-19 data. A few states that reported collections coming in lower than projections incorporated some early COVID-19 impacts on their tax collections.



# Summary of Revenue Changes, Fiscal 2021 Recommended

Revenue Type	 Sales Tax	 Personal Income Tax	 Corporate Income Tax	 Cigarette/Tobacco Tax	 Motor Fuel Tax	 Alcohol Tax	 Gaming/Lottery Revenue	 Other Tax	 Fees	 All Revenue Changes
# of States Recommending Increases	7	3	4	6	2	0	6	7	7	<b>14</b>
# of States Recommending Decreases	2	14	6	2	0	1	0	6	0	<b>15</b>
Net Change (\$ In Millions)	+\$767	-\$1,079	+\$47	+\$195	+\$1,070	-\$5	+\$85	+\$843	+\$519	<b>+\$2,431</b>
Net Change – General Fund Only (\$ in Millions)	+\$714	-\$1,607	+\$39	+\$177	\$0	-\$5	+\$53	-\$86	+\$127	<b>-\$588</b>

Spring 2020 Fiscal Survey of States



# Impact of COVID-19 on State Revenues

- States rely on personal income taxes and sales taxes combined for roughly 75 percent of their general fund revenue
  - These revenue sources were hit hard by stay-at-home orders, business closures, and rising unemployment
  - Energy-producing states impacted by collapsing oil prices
  - Tourism heavy states are being especially hard hit as well
- Most states were seeing revenues come in ahead of projections for fiscal 2020 before the pandemic, which provided some immediate cushion
  - Strong growth for most states for  $\frac{3}{4}$  of fiscal 2020
- The worst is likely still to come for state tax revenues, as the full economic impacts of the pandemic are felt
  - Federal stimulus measures (checks to individuals, enhanced UI benefits, PPP, etc.) are propping up the economy and state revenues, but those are going to run out.
  - 2020 tax returns mostly based on 2019 economy, which was strong
- States have been releasing updated revenue forecasts – many projecting multi-billion-dollar revenue declines over the next few years
  - As revenues are slow to fully recover, it becomes more difficult to make spending cuts from a lower base



# Revenue declines during Great Recession (From fiscal 2008 to fiscal 2010)

**-11.6%**

Total general  
fund revenue



**-6.8%**

Sales Tax



**-14.7%**

Personal  
Income Tax



**-24.1%**

Corporate  
Income Tax



**-7.8%**

Gaming Tax



**-8.2%**

All Other  
Revenue





# New and Expanded Revenue Streams



# State Revenue Challenges and Issues



- South Dakota v. Wayfair response
- Murphy v. NCAA response
- E-cigarettes/vaping
- Marijuana legalization
- Gas taxes and fees
- April tax collections
- TCJA impact
- Income tax volatility
- Shrinking sales tax base

# Online Sales Tax

## Current Status of State Actions



- 43 of 45 sales tax states have statutes or regulations in place to require remote sellers to collect and remit – with small-seller thresholds
  - Not Yet: FL and MO
  - Many states updated FY 20 revenue estimates with the impact of online sales tax revenues. Averaged around 2% of sales tax totals.
- By July 2018: HI, OK, RI, PA, VT
  - Sept 2018: MS
  - Oct 2018: AL, IL, IN, KY, ME, MD, MA, MI, MN, NV, NJ, ND, WA, WI
  - Nov 2018: NC, SC, SD
  - Dec 2018: CO, CT
  - Jan 2019: GA, IA, NE, UT, WV
  - Feb 2019: WY
  - Later 2019: AR, AZ, CA, ID, LA, NM, NY, TN, TX, VA



# Sports Betting

- *Murphy/Christie v. NCAA*, US Supreme Court 6-3 decision, May 14, 2018
  - Held that the provisions of the Professional and Amateur Sports Protection Act that prohibits state authorization and licensing of sports gambling violates the Constitution's anticommandeering rule
- Grandfathered: Nevada, Delaware, Montana, Oregon – had legalized sports betting laws on the books of some type
- Eighteen states, plus Washington, D.C., have established laws that allow for legal, regulated sports-betting within their borders



# Sports Betting

## *Issues Considered:*

Illegal to Legal Activity/Expansion?

Tourism enhancement?

Existing Facilities?

On-Premise Only?

Licensing & Enforcement Body?

What type of Bets?

Tax Rates or Revenue Sharing?

Upfront License Fee?

General Fund or Dedicated Uses?

Remote online betting?

Underage enforcement?

Prohibition on in-state college teams?





## E-Cigarettes and Vaping Taxes

- Most states tax on percentage of price, flat rate per milliliter of e-liquid or per cartridge, or combination of both
- Before 2019, 11 states imposed vaping taxes
- At least 10 states passed vaping taxes in 2019 sessions:
  - **Connecticut** 10% open system, 40 cents/ml closed system
  - **Illinois** 15% wholesale
  - **New York** 20% retail (\$19 million)
  - **Nevada** 30% wholesale
  - **New Mexico** 12.5% open wholesale, 50 cents/ml closed
  - **Oregon** 65% wholesale – placed on ballot
  - **Utah** 86% wholesale (\$23.6 million)
  - **Vermont** 92% wholesale
  - **Washington** 9 cents/ml open, 27 cents/ml closed
  - **Wisconsin** 5 cents/ml



## Marijuana legalization

- 11 states and the District of Columbia have legalized marijuana for recreational use, although no states in the southern region
- At least 34 states and the District of Columbia have established medical marijuana programs, including some in the south
- 7 states may have legalization initiatives on their November ballot, with more expected in 2021 and 2022
  - Signature gathering has been impacted by coronavirus outbreak
- Issues to consider include:
  - Determining appropriate level of taxation
  - Forecasting marijuana revenue
  - Budgetary impact
  - Establishing a regulatory framework
  - Contending with banking issues and current federal laws

## Gas taxes raised in 33 states since 2013

-3 states in 2019(**AL, AR, OH**)

-1 state in 2018 (**OK**)

-8 states in 2017 (Rate increases: **CA, IN, MT, OR, SC, TN**. Formula change: **UT, WV**)

## Road Usage Charges

The next frontier of transportation resources



**32 states** have constitutional restrictions on how revenues in transportation fund can be spent

## 27 states now have electric vehicle fees

2016 – 9% of fleet were electric

2021 – 12% of fleet (est'd)

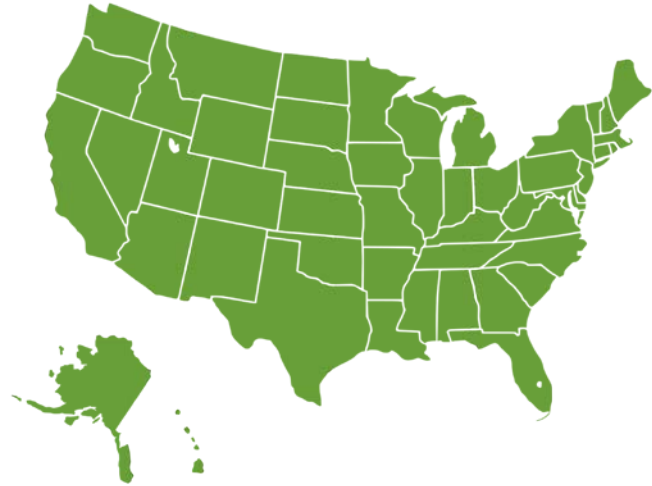


## Transportation Funding – Electric and Hybrid Vehicle Fees

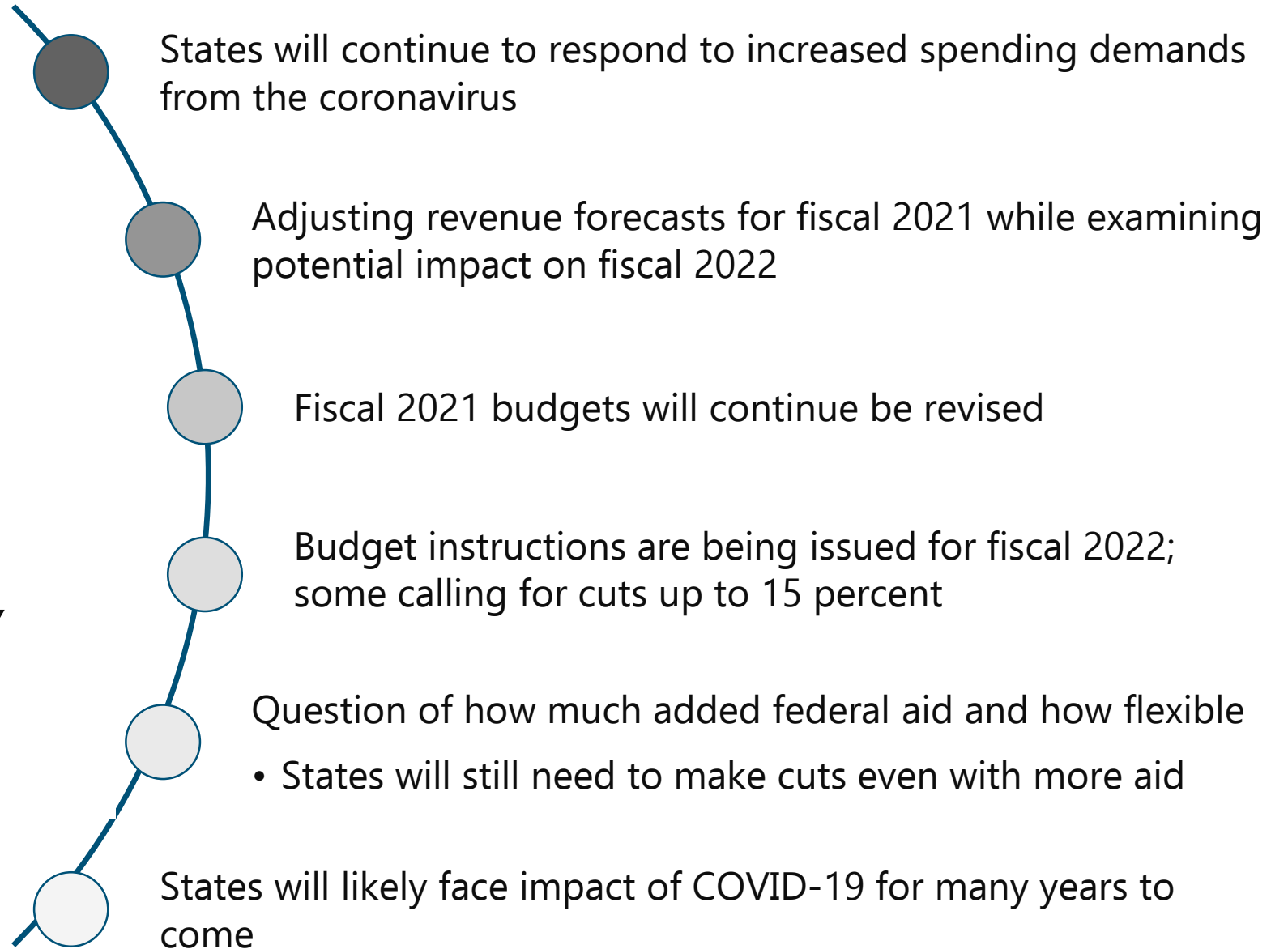
- **27 states have enacted electric and/or hybrid vehicle fees through 2019**
  - 5 states in their 2019 sessions
  - Low of \$50 to high of \$200 – median fee \$120
- **10 Southern States:**
  - 2019 - Alabama and Arkansas
  - 2018 - Mississippi
  - 2017 - South Carolina (biennial), Tennessee (indexed), West Virginia
  - 2015 - Georgia (indexed)
  - 2013 - North Carolina
  - 2012 - Virginia
  - 1998 – Missouri (alternative fuel special fee)

# Outlook for States





## Outlook for states FY 2021 and beyond







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