

Municipal Securities Research

Municipal Commentary

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State Revenue Drivers: Our Changing Employment Base

How different the employment base is since the recession! While we have collectively added more than 2.8 million net new jobs (based on Bureau of Labor Statistics-establishment data), and the numbers now show more employment than December 2007, the shift from goods-producing to service-providing is dramatic. These trends were well underway before then — loss of manufacturing in the U.S. and increase in service consumption as the population ages have been with us for decades, but the replacement of lost jobs following the recession has intensified these trends, in our view. (On the positive side, the shift toward “knowledge-based”, digital jobs has also scooped up large numbers of employees.) We look at state revenues through this lens, particularly as state budget development for FY 2016 is in high season.

In a recent commentary, (*State Revenues and Public Pensions*, March 23, 2015,) we reviewed another key driver of state revenues: The effect of financial markets’ performance in states that tax capital gains and investment income. We also paired that discussion with public pension investment performance, which is similarly influenced by financial markets (both rising and falling in unison). We contrasted the volatility of such financial markets’ income since 2000 with the slower and lower performance of income tax on wages and salaries. We focus here on this second key component — where people are working and how they are spending their money.

Eat, Drink and be Merry?

The single largest growth category between 2007 and 2015 has been in eating and drinking establishments, where more than 1.3 million jobs were added. (see Table 1 on the next page.) More than 11 million people are now employed by eating and drinking establishments — over

9% of total private-sector employment. We believe this is a reflection of the disposable income available to those who have done well in financial markets, but also of changing preferences for today’s largest employment group, Millennials, who prefer urban living for now and enjoy socializing over food and drink. We see the growth in transit and surface transportation employment as a further reflection of the Millennials’ preference for urban living.

Total employment in retail trade was 15.6 million or 13% of private-sector employment. This category showed modest growth of 20,000 establishment jobs over the period, but a shift into food and beverage stores (+163,000) and away from department stores (-256,000). (Retail trade employment is separate from food and drinking establishments, which are categorized in the leisure and hospitality section.) We mention this area of activity to differentiate the sales tax on purchase of food for “off-premises” consumption, which would fall into general sales tax versus eating out, which falls into service consumption.

In Table 2, we present a selection of key states’ revenues in the various taxing categories (using Census Bureau data). We adjusted for inflation (while it’s low, and lower than Federal Reserve targets, it is still present and worth the adjustment to account for changes in purchasing power). We compare 2007 as a proxy for pre-recession peak to the latest Census Bureau results for 2014. For all states combined, real growth in spending on alcoholic beverages over this time was just shy of 6%, compared with a more meager 1.3% growth in general sales and gross receipts taxes, which reflect purchase of goods. Taxes on the issuance of alcoholic beverage licenses showed real growth of just over 20% during the period.

Please see the disclosure appendix of this publication for certification and disclosure information. Also note that all estimates and forecasts are current as of May 8, 2015 unless otherwise stated.

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Together we’ll go far



Table 1

Employment in Selected Industries, 2007 and 2015				
(Establishment Data, seasonally adjusted, in thousands, March 2015 is preliminary)				
Industry	Mar-15	Dec-07	%	#
Total nonfarm	141,183	138,350	2.05%	2,833
Total private	119,285	115,974	2.85%	3,311
Goods-producing	19,547	21,976	-11.05%	-2,429
Service providing	99,738	93,998	6.11%	5,740
Total Government	21,898	22,376	-2.14%	-478
Total retail trade, selected sectors below	15,591	15,571	0.13%	20
Food and beverage stores	3,027	2,864	5.71%	163
General merchandise stores	3,161	3,062	3.24%	99
Department stores	1,344	1,600	-15.99%	-256
Total transportation and warehousing, selected sectors below	4,745	4,548	4.33%	197
Air transportation	446	500	-10.88%	-54
Truck transportation	1,439	1,418	1.47%	21
Transit and ground passenger transportation	473	417	13.41%	56
Support activities for transportation	644	588	9.46%	56
Total financial activities, selected sectors below	8,083	8,282	-2.40%	-199
Securities, commodity contracts, investments, and funds and trusts	893	910	-1.85%	-17
Finance and insurance	6,006	6,128	-1.99%	-122
Total professional and business services, selected sectors below	19,541	18,051	8.25%	1,490
Professional and technical	8,562	7,804	9.71%	758
Legal Services	1,119	1,171	-4.44%	-52
Architectural and engineering	1,415	1,448	-2.28%	-33
Computer systems design and related services	1,833	1,419	29.20%	414
Management of companies and enterprises	2,203	1,904	15.69%	299
Administrative and waste services	8,776	8,343	5.19%	433
Administrative and support services	8,385	7,984	5.02%	401
Employment services	3,533	3,417	3.39%	116
Temporary help services	2,859	2,552	12.05%	307
Total education and health services, selected sectors below	21,855	18,861	15.87%	2,994
Educational services	3,463	2,976	16.37%	487
Total Health care(4)	14,952	13,103	14.11%	1,849
Ambulatory health care services	6,825	5,555	22.87%	1,270
Hospitals	4,846	4,563	6.21%	283
Nursing and residential care facilities	3,281	2,984	9.95%	297
Offices of physicians	2,530	2,228	13.55%	302
Outpatient care centers	732	524	39.75%	208
Home health care services	1,302	932	39.74%	370
Social assistance	3,439	2,781	23.67%	658
Child day care services	865	860	0.60%	5
Leisure and hospitality	15,055	13,550	11.11%	1,505
Arts, entertainment, and recreation	2,136	1,993	7.19%	143
Amusements, gambling, and recreation	1,531	1,439	6.35%	91
Accommodation	1,901	1,884	0.91%	17
Food services and drinking places	11,017	9,673	13.90%	1,344
Other services		5,516		
Repair and maintenance	1,267	1,247	1.60%	20
Personal and laundry services	1,381	1,317	4.83%	64
Membership associations and organizations	2,978	2,952	0.86%	26
Government				
Federal				
Federal, except U.S. Postal Service	2,132	1,974	8.02%	158
U.S. Postal Service(5)	595	782	-23.95%	-187
State government				
State government education	2,432	2,327	4.53%	105
State government, excluding education	2,643	2,812	-6.02%	-169
Local government				
Local government education	7,797	8,055	-3.21%	-258
Local government, excluding education	6,299	6,426	-1.98%	-127
Source: Bureau of Labor Statistics, Establishment Data, seasonally adjusted and Wells Fargo Securities, LLC				
(1) Seasonally Adjusted Independently. See http://www.bls.gov/ces/cestn.htm#SA_ind for details.				
(2) Includes motor vehicles, motor vehicle bodies and trailers, and motor vehicle parts.				
(3) Excludes nonoffice commissioned real estate sales agents.				
(4) Includes ambulatory health care services, hospitals, and nursing and residential care facilities.				
(5) Includes rural mail carriers.				
March, 2015 is preliminary data				

Table 2

Types of State Taxes	Selected States and Tax Revenues, 2007 and 2014 compared (figures in \$000's, real dollars, 2007 base)											
	Total: All States			California			Connecticut			Florida		
	2014 adj.	2007	%chg.	2014 adj.	2007	%chg.	2014 adj.	2007	%chg.	2014 adj.	2007	%chg.
Total Taxes	\$770,105,043	\$757,467,232	1.67%	\$122,816,109	\$114,736,981	7.04%	\$14,176,963	\$13,271,789	6.82%	\$31,475,138	\$38,818,707	-18.92%
Total Sales and Gross Receipts Taxes	365,961,728	352,705,511	3.76%	44,477,898	40,503,828	9.81%	6,033,094	5,316,797	13.47%	25,837,867	30,615,783	-15.61%
General Sales and Gross Receipts Taxes	241,315,467	238,303,540	1.26%	33,111,614	32,669,175	1.35%	3,541,507	3,030,353	16.87%	19,107,730	22,848,990	-16.37%
Selective Sales and Gross Receipts Taxes	124,646,261	114,401,971	8.95%	11,366,284	7,834,653	45.08%	2,491,587	2,286,444	8.97%	6,730,137	7,766,793	-13.35%
Alcoholic Beverages Sales Tax	5,474,803	5,166,491	5.97%	315,155	333,789	-5.58%	53,981	40,411	33.58%	402,393	653,721	-38.45%
Amusements Sales Tax	6,435,795	6,055,176	6.29%	-	X	NA	309,867	465,737	-33.47%	166,909	X	
Insurance Premiums Sales Tax	16,095,805	15,413,124	4.43%	2,101,706	2,178,336	-3.52%	182,966	233,942	-21.79%	624,746	785,875	-20.50%
Motor Fuels Sales Tax	36,914,871	36,543,382	1.02%	5,393,485	3,432,527	57.13%	447,653	439,673	1.82%	2,155,060	2,305,859	-6.54%
Pari-mutuels Sales Tax	110,458	232,123	-52.41%	12,363	37,527	-67.05%	5,413	8,650	-37.42%	9,262	28,098	-67.04%
Public Utilities Sales Tax	12,590,085	14,332,765	-12.16%	590,151	687,164	-14.12%	280,455	233,555	20.08%	2,418,920	3,023,849	-20.01%
Tobacco Products Sales Tax	15,044,062	15,299,135	-1.67%	741,083	1,078,536	-31.29%	334,895	253,774	31.97%	330,006	454,017	-27.31%
Miscellaneous	31,980,381	21,359,775	49.72%	2,212,339	86,774	2449.54%	876,357	610,702	43.50%	622,841	515,374	20.85%
License Taxes	45,472,357	46,696,709	-2.62%	7,936,785	7,415,002	7.04%	385,184	363,973	5.83%	1,897,563	1,875,317	1.19%
Alcoholic Beverages License	538,643	447,986	20.24%	49,413	48,881	1.09%	8,241	6,385	29.07%	7,706	36,846	-79.09%
Amusements License	420,149	650,482	-35.41%	13,749	12,241	12.32%	206	40	415.92%	12,453	5,048	146.70%
Corporations in General License	5,510,938	8,570,097	-35.70%	53,173	64,014	-16.94%	24,754	17,800	39.07%	265,615	196,157	35.41%
Hunting and Fishing License	1,367,201	1,431,611	-4.50%	90,052	90,360	-0.34%	4,687	5,581	-16.02%	14,477	14,750	-1.85%
Motor Vehicle License	21,180,578	19,469,613	8.79%	3,331,593	2,621,956	27.07%	187,770	203,399	-7.68%	1,228,349	1,176,282	4.43%
Motor Vehicle Operators License	2,229,424	2,143,561	4.01%	249,100	227,996	9.26%	38,887	38,026	2.26%	166,502	172,643	-3.56%
Public Utilities License	843,022	1,345,619	-37.35%	345,528	876,698	-60.59%	601	X		21,855	33,519	-34.80%
Occupation and Business License, NEC	12,284,775	11,848,896	3.68%	3,797,396	3,468,911	9.47%	118,042	87,471	34.95%	176,555	239,006	-26.13%
Other License Taxes	1,097,629	788,844	39.14%	6,780	3,945	71.86%	1,995	5,271	-62.15%	4,051	1,066	280.01%
Income Taxes	317,652,362	318,778,597	-0.35%	68,363,420	64,476,185	6.03%	7,471,944	7,229,395	3.36%	1,817,959	2,442,516	-25.57%
Individual Income Taxes	276,488,894	265,863,142	4.00%	60,483,596	53,318,287	13.44%	6,913,896	6,335,078	9.14%	-	X	
Corporation Net Income Taxes	41,163,467	52,915,455	-22.21%	7,879,824	11,157,898	-29.38%	558,048	894,317	-37.60%	1,817,959	2,442,516	-25.57%
Other Taxes	28,358,184	26,668,418	6.34%	102,197	37,874	169.83%	286,741	361,624	-20.71%	1,921,526	3,844,573	-50.02%
Death and Gift Taxes	4,223,262	4,923,712	-14.23%	-	6,348	-100.00%	131,415	178,380	-26.33%	1,521	43,397	-96.49%
Documentary and Stock Transfer Taxes	6,069,722	10,223,937	-40.63%	-	X	NA	154,634	183,244	-15.61%	1,876,330	3,755,306	-50.04%
Severance Taxes	15,816,410	11,063,600	42.96%	34,412	31,526	9.15%	-	X		43,676	45,870	-4.78%
Miscellaneous	2,248,790	457,169	391.89%	67,785	X	NA	692	X		-	X	

Source: U.S. Census Bureau, Governments Division and Wells Fargo Securities, LLC

(To be sure, the real dollar growth between alcoholic beverage taxes and retail sales differ by a factor of 10, with general sales taxes producing far greater revenue than sales taxes on alcoholic beverages.) General sales tax growth is slowing, too, on account of states' restrictions on taxing Internet sales. (One of the Wells Fargo Securities' economists reflected an increase in jobs in the electronic shopping category of 68,880 between 2002 and 2014 — so taxes from this shift would come from wage income, rather than sales. See "The Changing Face of Retail Sales" Eugenio Aleman, Wells Fargo Economics, Aug. 12, 2014.)

What might happen to these activities if there were a major financial markets correction? To try to answer this question we turn to Texas as a proxy — given the dramatic drop in the price of oil, consequent production declines with job losses as well as revenues. While natural gas taxes and oil production taxes in the state grew 27% and 29.5%, respectively, in FY 2014, compared with FY 2013, more recent data show the decline. (These figures come from the Texas Comptroller of Public Accounts and are not inflation adjusted; see texasparency.org. Also note that the Texas fiscal year begins Sept. 1, whereas the decline in oil prices began in the fall of 2014 or Texas' FY 2015.) YoY data by month from the state

show a drop of 57% and 70% for March and April 2015 in natural gas tax collections and 46% in both March and April 2015 for oil production tax collections compared with last year.

Taxes on the sale of alcoholic beverages grew a lackluster 5.5% (by Texas standards) in March 2015 and were down 0.5% in April compared with the same months last year. General sales tax collections grew a paltry 1.5% and 1.2% in these same months. While two months' data do not a trend make, we believe these figures are nevertheless notable. (We also note that Texas does not have an income tax and relies on a variety of sales taxes as well as taxes on its prized products, oil and gas.)

We speculate here, but it seems common sense that individuals might cut out some of their discretionary eating out and drinking following a major market correction. Or at least if drinking holds its own, individuals might move down-market from artisanal to brand names thereby paying less in sales taxes.

...And then See the Doctor

The second-highest growth category of employment was ambulatory health care services, which added 1.27 million jobs over the 2007-2014 period. Total health care

Table 2 continued

Types of State Taxes	Selected States and Tax Revenues, 2007 and 2014 compared (figures in \$000's, real dollars, 2007 base)											
	Hawaii			Illinois			Kansas			Maryland		
	2014 adj.	2007	%chg.	2014 adj.	2007	%chg.	2014 adj.	2007	%chg.	2014 adj.	2007	%chg.
Total Taxes	\$5,366,777	\$5,090,499	5.43%	\$30,065,517	\$34,854,024	-13.74%	\$6,524,178	\$6,893,359	-5.36%	\$16,837,813	\$15,094,183	11.55%
Total Sales and Gross Receipts Taxes	3,422,578	3,227,965	6.03%	14,914,827	14,017,532	6.40%	3,461,039	3,057,029	13.22%	7,136,219	5,811,886	22.79%
General Sales and Gross Receipts Taxes	2,512,935	2,557,644	-1.75%	7,817,291	7,574,640	3.20%	2,654,033	2,242,025	18.38%	3,732,428	3,447,828	8.25%
Selective Sales and Gross Receipts Taxes	909,643	670,321	35.70%	7,097,536	6,442,892	10.16%	807,006	815,004	-0.98%	3,403,790	2,364,058	43.98%
Alcoholic Beverages Sales Tax	42,968	46,034	-6.66%	155,680	248,699	-37.40%	112,846	101,260	11.44%	27,404	28,682	-4.45%
Amusements Sales Tax	-	X		832,094	589,390	41.18%	305	535	-42.97%	384,141	7,540	4994.70%
Insurance Premiums Sales Tax	126,357	99,079	27.53%	328,949	319,552	2.94%	176,441	129,841	35.89%	422,784	385,026	9.81%
Motor Fuels Sales Tax	83,257	89,729	-7.21%	1,453,706	1,151,011	26.30%	393,029	431,394	-8.89%	722,949	753,988	-4.12%
Pari-mutuels Sales Tax	-	X		8,515	5,812	46.50%	-	2,760	-100.00%	2,732	2,019	35.30%
Public Utilities Sales Tax	147,820	124,017	19.19%	1,878,521	1,468,788	27.90%	314	892	-64.80%	123,951	132,789	-6.66%
Tobacco Products Sales Tax	95,788	85,779	11.67%	638,796	764,868	-16.48%	87,007	120,587	-27.85%	357,946	277,755	28.87%
Miscellaneous	413,452	225,683	83.20%	1,801,275	1,894,772	-4.93%	37,065	27,735	33.64%	1,361,883	776,259	75.44%
License Taxes	198,846	152,895	30.05%	2,381,112	2,380,309	0.03%	351,765	302,685	16.21%	759,519	722,214	5.17%
Alcoholic Beverages License	-	X		11,387	11,231	1.39%	3,180	2,603	22.17%	1,208	1,089	10.92%
Amusements License	-	X		1,229	13,318	-90.77%	13	215	-93.79%	1,030	26	3861.79%
Corporations in General License	1,504	1,478	1.77%	201,366	307,676	-34.55%	56,558	56,152	0.72%	94,875	73,779	28.59%
Hunting and Fishing License	477	440	8.36%	35,516	38,192	-7.01%	20,923	20,877	0.22%	16,144	13,708	17.77%
Motor Vehicle License	150,311	108,314	38.77%	1,354,997	1,444,201	-6.18%	188,635	169,653	11.19%	422,056	459,907	-8.23%
Motor Vehicle Operators License	320	446	-28.20%	70,721	103,368	-31.58%	17,454	19,718	-11.48%	32,787	25,559	28.28%
Public Utilities License	18,843	14,580	29.24%	X	14,425		4,750	5,237	-9.30%	-	X	
Occupation and Business License, NEC	26,223	26,176	0.18%	700,237	417,593	67.68%	58,278	25,309	130.27%	189,756	146,027	29.95%
Other License Taxes	1,168	1,461	-20.06%	5,659	30,304	-81.33%	1,973	2,921	-32.46%	1,663	2,119	-21.50%
Income Taxes	1,664,745	1,661,153	0.22%	12,344,797	18,095,572	-31.78%	2,527,878	3,272,361	-22.75%	7,789,145	7,461,198	4.40%
Individual Income Taxes	1,552,625	1,560,306	-0.49%	9,408,437	14,284,287	-34.13%	2,234,175	2,744,934	-18.61%	6,914,938	6,679,168	3.53%
Corporation Net Income Taxes	112,120	100,847	11.18%	2,936,360	3,811,284	-22.96%	293,703	527,427	-44.31%	874,207	782,030	11.79%
Other Taxes	80,608	48,486	66.25%	364,384	311,946	16.81%	111,207	187,901	-40.82%	507,410	503,512	0.77%
Death and Gift Taxes	13,155	162	8020.45%	264,395	261,642	1.05%	121	55,620	-99.78%	190,162	224,322	-15.23%
Documentary and Stock Transfer Taxes	67,453	48,324	39.59%	99,635	50,304	98.06%	-	X		141,295	214,347	-34.08%
Severance Taxes	-	X		354	-		111,086	132,281	-16.02%	-	X	
Miscellaneous	-	X		X	-		-	X		175,953	64,843	171.35%

Source: U.S. Census Bureau, Governments Division and Wells Fargo Securities, LLC

employment added over 1.8 million jobs. Combining what Census calls health care with physician offices, outpatient care and home health employment added 2.6 million jobs between 2007-2014 or 46% of the private-sector jobs added during the period. These categories employed 19.5 million or over 16% of total private-sector employment, reflecting, in our view, an aging population that is consuming more health care services. Some of this growth too is attributable to the Affordable Care Act which expanded insurance coverage for many (including Medicaid insurance in the Medicaid expansion states).

Tracking the state revenue from these activities is a bit trickier. The Census Bureau has a “miscellaneous” category for “selective sales and gross receipts tax” where these activities are located (code T19 for our inquisitive readers). Census gives the example of “special taxes on car rentals such as Florida’s Motor Vehicle Car Rental Surcharge” but relevant to this discussion, “State medical provider taxes, such as New Hampshire’s Medicaid Assessment Program and West Virginia’s Health Care Provider Tax.” For help on this, we turned to the National

Conference of State Legislatures (NCSL), which tracks state tax changes. As a key revenue source where others are softening, and to help meet the federally required Medicaid match, many states have implemented health care provider taxes over the years.

In 2003, only 21 states had such a tax according to NCSL, growing to 44 by 2010. By 2014, 49 states were charging some type of Medicaid provider tax or fee (Alaska does not). Hawaii, Delaware and the District of Columbia were last to add such a tax. As shown in Table 2, real dollar growth over the 2007-2014 period in this revenue category was 49.7% across all states. In Hawaii, for example, which started the period without levying provider taxes, this category grew 83%. In California, which imposed health care provider taxes in 2009, revenues in the T19 category grew to over \$2.2 billion from \$86 million in 2014. (There may be other miscellaneous revenues in that large jump, but we know that the state imposed the provider tax in 2009.) Tennessee more than tripled its revenue in this category, likely due to imposition of a hospital assessment. Other

Table 2 continued

Types of State Taxes	Selected States and Tax Revenues, 2007 and 2014 compared (figures in \$000's, real dollars, 2007 base)											
	Massachusetts			Minnesota			New Jersey			New York		
	2014 adj.	2007	% chg.	2014 adj.	2007	% chg.	2014 adj.	2007	% chg.	2014 adj.	2007	% chg.
Total Taxes	\$22,447,719	\$20,691,368	8.49%	\$20,573,653	\$17,768,434	15.79%	\$26,400,308	\$29,487,862	-10.47%	\$68,474,455	\$63,161,582	8.41%
Total Sales and Gross Receipts Taxes	7,056,600	6,005,944	17.49%	8,681,147	7,302,090	18.89%	11,343,045	12,180,803	-6.88%	20,943,595	19,505,685	7.37%
General Sales and Gross Receipts Taxes	4,908,895	4,075,549	20.45%	4,840,717	4,470,596	8.28%	7,904,151	8,609,639	-8.19%	11,268,980	10,879,888	3.58%
Selective Sales and Gross Receipts Taxes	2,147,705	1,930,395	11.26%	3,840,431	2,831,494	35.63%	3,438,893	3,571,164	-3.70%	9,674,615	8,625,797	12.16%
Alcoholic Beverages Sales Tax	70,109	71,728	-2.26%	72,343	72,315	0.04%	124,033	103,293	20.08%	223,204	194,222	14.92%
Amusements Sales Tax	3,343	3,805	-12.15%	39,766	49,137	-19.07%	194,805	450,115	-56.72%	886	671	32.04%
Insurance Premiums Sales Tax	308,511	397,280	-22.34%	358,726	318,179	12.74%	532,974	478,699	11.34%	1,196,757	1,172,298	2.09%
Motor Fuels Sales Tax	651,314	676,119	-3.67%	794,655	644,172	23.36%	479,590	561,519	-14.59%	1,450,238	516,224	180.93%
Pari-mutuels Sales Tax	300	3,859	-92.23%	438	1,520	-71.21%	-	X	-	19,054	28,087	-32.16%
Public Utilities Sales Tax	21,114	24,000	-12.03%	45	50	-9.27%	900,221	926,730	-2.86%	827,192	773,876	6.89%
Tobacco Products Sales Tax	587,110	438,074	34.02%	517,588	448,380	15.44%	658,784	784,329	-16.01%	1,286,412	981,861	31.02%
Miscellaneous	505,905	315,530	60.33%	2,056,870	1,297,741	58.50%	548,487	266,479	105.83%	4,670,873	4,958,558	-5.80%
License Taxes	900,691	693,525	29.87%	1,169,243	973,363	20.12%	1,349,135	1,497,110	-9.88%	1,676,606	1,327,930	26.26%
Alcoholic Beverages License	2,718	3,118	-12.82%	1,967	1,602	22.77%	3,527	6,909	-48.95%	57,442	58,173	-1.26%
Amusements License	678	447	51.64%	1,077	1,052	2.40%	44,136	78,045	-43.45%	44	67	-33.62%
Corporations in General License	23,103	25,418	-9.11%	6,566	6,763	-2.91%	245,246	320,793	-23.55%	56,474	71,518	-21.04%
Hunting and Fishing License	4,853	5,437	-10.74%	52,621	59,512	-11.58%	11,747	12,398	-5.25%	46,055	40,763	12.98%
Motor Vehicle License	347,695	300,426	15.73%	618,925	512,656	20.73%	549,215	449,060	22.30%	1,207,572	817,299	47.75%
Motor Vehicle Operators License	93,686	82,302	13.83%	38,733	48,450	-20.06%	47,159	39,049	20.77%	129,425	157,241	-17.69%
Public Utilities License	-	17,600	-100.00%	253	X	-	6,018	1,498	301.71%	21,495	19,016	13.04%
Occupation and Business License, NEC	282,201	162,032	74.16%	391,720	297,385	31.72%	440,846	587,255	-24.93%	156,800	149,476	4.90%
Other License Taxes	145,757	96,745	50.66%	57,380	45,943	24.89%	1,242	2,103	-40.95%	1,298	14,377	-90.97%
Income Taxes	13,734,959	13,506,547	1.69%	9,646,163	8,414,670	14.64%	12,757,286	14,614,329	-12.71%	42,542,662	39,996,097	6.37%
Individual Income Taxes	11,782,798	11,399,649	3.36%	8,475,764	7,230,854	17.22%	10,650,839	11,727,192	-9.18%	38,218,088	34,579,992	10.52%
Corporation Net Income Taxes	1,952,162	2,106,898	-7.34%	1,170,399	1,183,816	-1.13%	2,106,447	2,887,137	-27.04%	4,324,575	5,416,105	-20.15%
Other Taxes	752,415	485,278	55.05%	332,799	403,752	-17.57%	944,877	1,191,824	-20.72%	3,311,591	2,331,870	42.01%
Death and Gift Taxes	357,154	249,597	43.09%	146,912	107,599	36.54%	609,730	604,700	0.83%	1,101,512	1,053,384	4.57%
Documentary and Stock Transfer Taxes	219,578	235,681	-6.83%	148,472	261,562	-43.24%	335,147	587,124	-42.92%	922,737	1,278,486	-27.83%
Severance Taxes	-	X	-	37,415	34,591	8.16%	-	X	-	-	X	-
Miscellaneous	175,683	X	-	-	X	-	-	X	-	1,287,342	X	-

Source: U.S. Census Bureau, Governments Division and Wells Fargo Securities, LLC

states with notable increases in hospital taxes include Maryland, Ohio, Pennsylvania, Washington, and Wisconsin.

Tax Policies

The states have been a laboratory of tax policy changes in the past few years. States that pushed through major reductions in personal income taxes include Kansas, Ohio and North Carolina. Others, such as Illinois, have let income tax increases expire. In 2014, 18 states reduced personal income taxes, while six raised them, according to NCSL. The net reduction was expected to be almost \$2 billion in revenues. Eleven states raised general sales taxes and 16 states lowered them in 2014. Kansas, suffering significant budget deficits and pressure to pay into underfunded pension plans, eliminated certain tax deductions in order to raise revenue. Counter to this trend, Minnesota increased the income tax on high earners in 2013. In general, states have focused on raising sales taxes and, as we discussed, imposing taxes on health care providers has been common.

Massachusetts expanded its sales and use tax to cover computer services in 2013. The state raised its tobacco tax in 2014 and has had Medicaid provider taxes for some years. You can see the real dollar growth in these areas on

the table. We highlight Kansas given the significant policy decline in individual income tax that was put into place in 2011. The income tax decline is visible in the table as are declines in a number of other areas; however, the general sales tax has performed nicely, increasing in real dollars more than 18%. Kansas residents are paying more to drink alcoholic beverages, and these taxes increased over 11%. Kansas residents and providers are also paying more in taxes for insurance. But the promise that the income tax reduction would spur revenues from increased economic activity does not show up in the numbers; total real dollars declined 5% over the 2007-2014 period.

Ohio, too, implemented a major personal income tax reduction in 2013 that was expected to cost the state \$1.2 billion in FY 2014. Sales tax rates were increased and like Kansas, show a net real dollar increase of 17%. However, this was not sufficient to offset income tax declines, and net real dollars declined about 6.5% between 2007 and 2014. The state raised assessments on hospitals, and the miscellaneous category nearly doubled (although, again, we do not have data to parse the contribution that other tax increases might have made). Interestingly, the state raised taxes on tobacco, expecting to gain \$5 million in revenue. Instead, these revenues fell more than 26% in real terms over the period.

Table 2 continued

Types of State Taxes	Selected States and Tax Revenues, 2007 and 2014 compared (figures in \$000's, real dollars, 2007 base)											
	North Carolina			Ohio			Oregon			Pennsylvania		
	2014 adj.	2007	% chg.	2014 adj.	2007	% chg.	2014 adj.	2007	% chg.	2014 adj.	2007	% chg.
Total Taxes	\$20,811,912	\$22,612,798	-7.96%	\$24,035,425	\$25,697,905	-6.47%	\$8,613,805	\$7,742,862	11.25%	\$30,415,290	\$30,837,657	-1.37%
Total Sales and Gross Receipts Taxes	8,876,075	8,866,005	0.11%	13,892,475	12,447,998	11.60%	1,284,951	782,874	64.13%	15,494,956	14,482,543	6.99%
General Sales and Gross Receipts Taxes	5,196,746	5,202,423	-0.11%	9,088,975	7,750,543	17.27%	-	X		8,448,591	8,661,711	-2.46%
Selective Sales and Gross Receipts Taxes	3,679,329	3,663,582	0.43%	4,803,499	4,697,455	2.26%	1,284,951	782,874	64.13%	7,046,365	5,820,832	21.05%
Alcoholic Beverages Sales Tax	305,412	246,163	24.07%	87,526	91,521	-4.36%	15,680	13,889	12.89%	307,782	264,665	16.29%
Amusements Sales Tax	12,593	15,882	-20.71%	243,189	X		-	90	-100.00%	1,245,536	255,074	388.30%
Insurance Premiums Sales Tax	423,747	487,119	-13.01%	453,963	447,603	1.42%	75,784	56,167	34.93%	688,011	693,984	-0.86%
Motor Fuels Sales Tax	1,704,030	1,608,984	5.91%	1,636,358	1,719,809	-4.85%	455,739	416,964	9.30%	1,984,832	2,142,989	-7.38%
Pari-mutuels Sales Tax	-	X		4,469	12,116	-63.12%	2,004	2,592	-22.68%	10,459	24,737	-57.72%
Public Utilities Sales Tax	358,650	372,028	-3.60%	1,001,122	1,106,302	-9.51%	75,966	22,071	244.19%	1,142,939	1,299,169	-12.03%
Tobacco Products Sales Tax	250,643	241,314	3.87%	725,433	986,252	-26.45%	229,126	271,101	-15.48%	914,433	1,018,438	-10.21%
Miscellaneous	624,255	692,092	-9.80%	651,439	333,852	95.13%	430,653	X		752,372	121,776	517.83%
License Taxes	1,423,286	1,338,413	6.34%	2,604,764	2,322,424	12.16%	854,632	832,937	2.60%	2,048,509	2,847,005	-28.05%
Alcoholic Beverages License	14,158	14,371	-1.48%	36,761	38,706	-5.02%	4,100	2,836	44.56%	15,079	16,183	-6.82%
Amusements License	-	X		14,418	19,910	-27.58%	722	2,768	-73.91%	10,814	313,973	-96.56%
Corporations in General License	549,198	399,207	37.57%	912,757	648,584	40.73%	26,215	11,355	130.87%	204,311	776,886	-73.70%
Hunting and Fishing License	15,556	17,419	-10.70%	34,183	49,494	-30.94%	48,123	39,890	20.64%	66,429	67,636	-1.79%
Motor Vehicle License	526,114	614,000	-14.31%	645,137	812,487	-20.60%	457,217	460,186	-0.65%	745,262	818,588	-8.96%
Motor Vehicle Operators License	98,854	126,775	-22.02%	73,286	82,478	-11.14%	36,901	32,002	15.31%	48,788	58,400	-16.46%
Public Utilities License	-	X		26,261	41,465	-36.67%	12,508	1,991	528.20%	66,953	56,405	18.70%
Occupation and Business License, NEC	207,670	162,303	27.95%	836,725	608,242	37.56%	262,746	275,423	-4.60%	873,479	723,015	20.81%
Other License Taxes	11,736	4,338	170.55%	25,237	21,058	19.84%	6,100	6,486	-5.95%	17,395	15,919	9.27%
Income Taxes	10,452,898	12,154,495	-14.00%	7,494,078	10,848,582	-30.92%	6,355,232	6,001,688	5.89%	11,662,805	12,099,253	-3.61%
Individual Income Taxes	9,242,590	10,588,951	-12.71%	7,494,078	9,722,928	-22.92%	5,914,800	5,595,831	5.70%	9,615,492	9,812,726	-2.01%
Corporation Net Income Taxes	1,210,308	1,565,544	-22.69%	-	1,125,654	-100.00%	440,432	405,857	8.52%	2,047,313	2,286,527	-10.46%
Other Taxes	59,652	253,885	-76.50%	44,108	78,901	-44.10%	99,652	103,572	-3.78%	1,168,977	1,344,389	-13.05%
Death and Gift Taxes	17,730	177,543	-90.01%	35,040	71,886	-51.26%	76,046	79,649	-4.52%	755,376	736,610	2.55%
Documentary and Stock Transfer Taxes	40,342	74,444	-45.81%	-	X		2,770	11,410	-75.72%	390,486	583,427	-33.07%
Severance Taxes	1,580	1,898	-16.77%	9,068	7,015	29.26%	20,836	12,513	66.52%	-	X	
Miscellaneous	-	X		-	X		-	X		23,115	24,352	-5.08%

Source: U.S. Census Bureau, Governments Division and Wells Fargo Securities, LLC

Personal income tax states: California, New York, Connecticut, Minnesota, and Oregon have shown real dollar gains since the recession, largely attributed to recently strong financial markets performance. Some sales tax states, and those that significantly reduced income taxes, are showing real dollar losses.

We have focused here on the revenue side of the income statement. By looking at adjusted real growth going back to the strongest year before the Great Recession, our figures differ from what you typically see in year-to-year unadjusted reports and also differ from those that do not look back a full seven years. While many reports reflect on whether jobs have returned to pre-recession levels, the numbers do not fully account for the quality of jobs that have returned. Those newly employed or re-employed in service industries are likely at lower wage levels than those that once worked on the assembly line or in other goods-producing jobs. In our view, lower wages are less likely to inspire vibrant spending activity on goods from this population. In addition, the Millennials and others joining the workforce have grown up with online spending, which, as most readers know is mostly not taxed by the states (where there is no physical store

present in the state). Those retirees whose savings had limited or volatile returns over the past decade will also likely be minding their wallets.

On the brighter side, the Great Recession taught many states to save for a rainy day. Recognizing the volatility of capital gains and earnings income, California and Massachusetts put in place mechanisms to save for leaner times. Florida, too, a sales tax state, is building back its reserve levels. As the states begin to close their FY 2016 budgets over the next month, investors should pay heed to tax reform proposals and be critical of grand promises of heightened economic activity. In a recent report from Standard & Poors, (*U.S. State Budgets Face Lean Margins Despite Mature Economic Expansion*, April 27, 2015,) authors Petek, Prunty and Sugden observed: "After all, if a state is grappling with a budget deficit now, with the economic expansion approaching its sixth anniversary, what will be its condition when the next slowdown strikes?"

Table 2 continued

Types of State Taxes	Selected States and Tax Revenues, 2007 and 2014 compared (figures in \$000's, real dollars, 2007 base)											
	Tennessee			Texas			Washington			Wisconsin		
	2014 adj.	2007	% chg.	2014 adj.	2007	% chg.	2014 adj.	2007	% chg.	2014 adj.	2007	% chg.
Total Taxes	\$10,501,983	\$11,390,037	-7.80%	\$49,155,711	\$40,314,714	21.93%	\$17,299,323	\$17,705,980	-2.30%	\$14,597,870	\$14,482,624	0.80%
Total Sales and Gross Receipts Taxes	7,790,504	8,363,985	-6.86%	40,692,580	31,811,384	27.92%	13,529,856	13,851,911	-2.32%	6,546,468	6,037,081	8.44%
General Sales and Gross Receipts Taxes	5,508,167	6,772,468	-18.67%	28,763,594	20,434,675	40.76%	10,467,433	10,861,327	-3.63%	4,117,006	4,158,611	-1.00%
Selective Sales and Gross Receipts Taxes	2,282,338	1,591,517	43.41%	11,928,986	11,376,709	4.85%	3,062,423	2,990,584	2.40%	2,429,462	1,878,470	29.33%
Alcoholic Beverages Sales Tax	131,482	112,035	17.36%	948,685	735,650	28.96%	285,903	253,225	12.90%	51,555	52,205	-1.25%
Amusements Sales Tax	-	X		26,382	26,390	-0.03%	-	76	-100.00%	197	360	-45.15%
Insurance Premiums Sales Tax	666,670	374,502	78.01%	1,677,895	1,292,460	29.82%	415,719	391,949	6.06%	165,008	156,765	5.26%
Motor Fuels Sales Tax	751,997	859,743	-12.53%	2,958,474	3,075,308	-3.80%	1,028,502	1,128,798	-8.89%	890,051	996,200	-10.66%
Pari-mutuels Sales Tax	-	X		6,543	10,919	-40.07%	1,343	1,994	-32.64%	-	1,018	-100.00%
Public Utilities Sales Tax	6,084	7,813	-22.13%	683,152	995,056	-31.35%	442,975	444,134	-0.26%	337,617	350,583	-3.70%
Tobacco Products Sales Tax	232,255	135,802	71.02%	1,286,376	1,330,589	-3.32%	394,223	444,688	-11.35%	569,941	313,645	81.72%
Miscellaneous	493,850	101,622	385.97%	4,341,478	3,910,337	11.03%	493,758	325,720	51.59%	415,093	7,694	5295.02%
License Taxes	1,187,860	1,270,137	-6.48%	3,113,238	5,735,796	-45.72%	1,258,637	895,327	40.58%	925,653	860,536	7.57%
Alcoholic Beverages License	1,171	11,524	-89.83%	63,744	51,375	24.08%	136,331	11,099	1128.32%	1,588	1,641	-3.24%
Amusements License	334	309	8.24%	18,381	7,945	131.35%	5,069	13,574	-62.65%	592	612	-3.20%
Corporations in General License	601,742	635,002	-5.24%	111,187	3,215,219	-96.54%	28,763	24,022	19.73%	18,349	16,957	8.21%
Hunting and Fishing License	29,318	34,108	-14.04%	92,857	91,384	1.61%	39,945	32,214	24.00%	59,564	71,017	-16.13%
Motor Vehicle License	239,563	271,080	-11.63%	1,936,996	1,433,781	35.10%	476,460	459,158	3.77%	415,853	365,968	13.63%
Motor Vehicle Operators License	41,980	44,811	-6.32%	123,943	116,929	6.00%	91,553	61,148	49.72%	35,306	31,269	12.91%
Public Utilities License	5,195	6,799	-23.59%	24,978	17,481	42.89%	16,624	16,869	-1.45%	64,223	65,255	-1.58%
Occupation and Business License, NEC	260,738	259,037	0.66%	594,918	763,108	-22.04%	261,918	233,237	12.30%	326,033	302,866	7.65%
Other License Taxes	7,818	7,467	4.70%	146,234	38,574	279.10%	201,975	44,006	358.97%	4,145	4,951	-16.28%
Income Taxes	1,259,731	1,369,567	-8.02%	-	X		-	X		6,920,239	7,256,992	-4.64%
Individual Income Taxes	212,790	249,145	-14.59%	-	X		-	X		6,042,758	6,333,633	-4.59%
Corporation Net Income Taxes	1,046,941	1,120,422	-6.56%	-	X		-	X		877,481	923,359	-4.97%
Other Taxes	263,887	386,348	-31.70%	5,349,893	2,767,534	93.31%	754,600	1,270,212	-40.59%	64,014	207,912	-69.21%
Death and Gift Taxes	95,482	111,191	-14.13%	-	4,594	-100.00%	139,909	182,853	-23.49%	-	121,113	-100.00%
Documentary and Stock Transfer Taxes	148,599	239,872	-38.05%	-	X		577,375	1,038,632	-44.41%	45,525	71,730	-36.53%
Severance Taxes	2,212	1,604	37.92%	5,349,893	2,762,940	93.63%	37,315	48,727	-23.42%	7,991	4,960	61.12%
Miscellaneous	17,594	33,681	-47.76%	-	X		-	X		10,498	10,109	3.85%

Source: U.S. Census Bureau, Governments Division and Wells Fargo Securities, LLC

Additional information is available on request.

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