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NCSL FISCAL BRIEF: "WEAKCOVERY": STATE GENERAL FUND REVENUES, ECONOMIC DOWNTURNS & RECOVERIES

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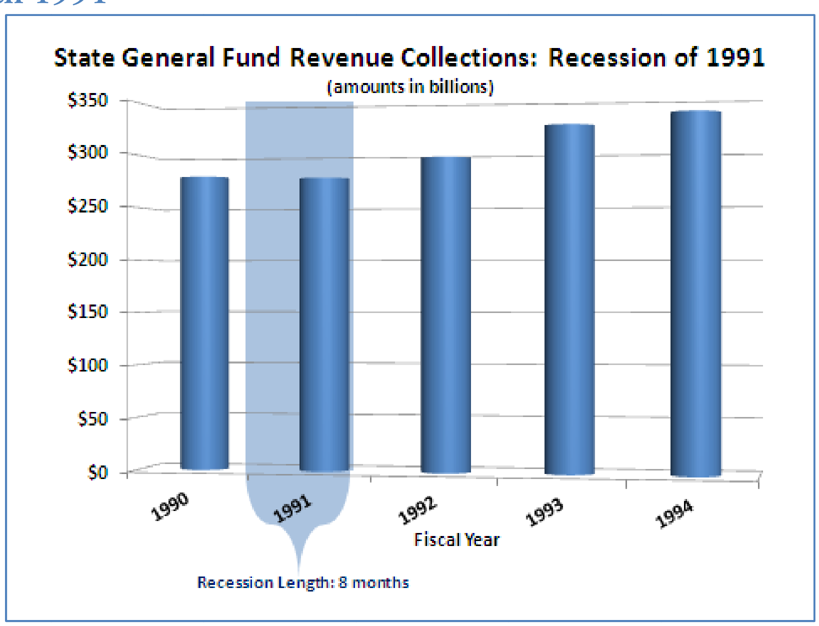
By Todd Haggerty

We have heard it time and time again: The Great Recession was the longest and worst economic downturn since the Great Depression. But what about the recovery? Unlike previous recoveries—where it was common to see a robust upturn—the post-Great Recession period feels more like a recuperation than a recovery. One way to demonstrate how different the current recovery has been from the past is to look at state general fund revenue collections.

This brief examines the performance of cumulative state general fund revenues (both in dollars and year-over-year growth) in response to national recessions and recoveries from 1990 to the present. Although state practices vary, general fund revenues include own-source revenues (e.g., personal income, sales and corporate income taxes) and usually exclude federal grants-in-aid and revenues designated by law for some particular purpose. This report is based on data that state legislative fiscal officers have provided to NCSL for more than 25 years. The data include annual reports on general fund revenues, the estimated impact of changes in tax law, and return to peak collections. Data used for this report are those published in *State Budget Actions*, *State Budget Update*, *State Tax Actions* and *State Budget and Tax Actions*.[1]

The recession of July 1990 to March 1991

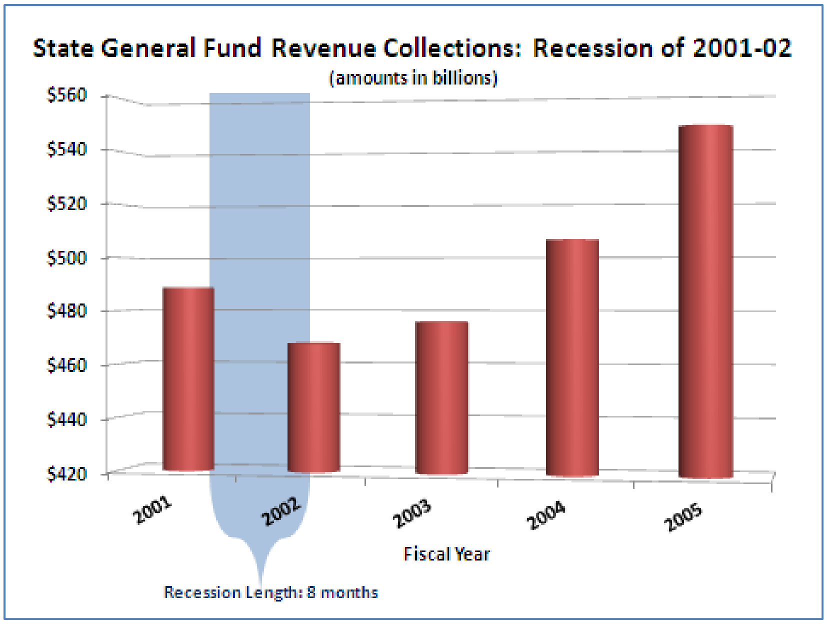
State general fund revenue collections peaked at the end of fiscal year (FY) 1990 (June 30, 1990, for 46 states) at $279 billion. As the country entered the recession in FY 1991, general fund revenues slightly fell to $277 billion (0.7 percent decline). Collections rebounded swiftly in FY 1992 to $296 billion (6.8 percent growth) — albeit with the support of a 5.4 percent tax increase ($15.4 billion), the largest collective state tax increase on record. The state revenue recovery continued in FY 1993, this time without the aid of tax changes, as collections grew by a robust 10 percent before eventually moderating in FY's 1994 and 1995.



[1] For more information please see: www.ncsl.org/fiscal

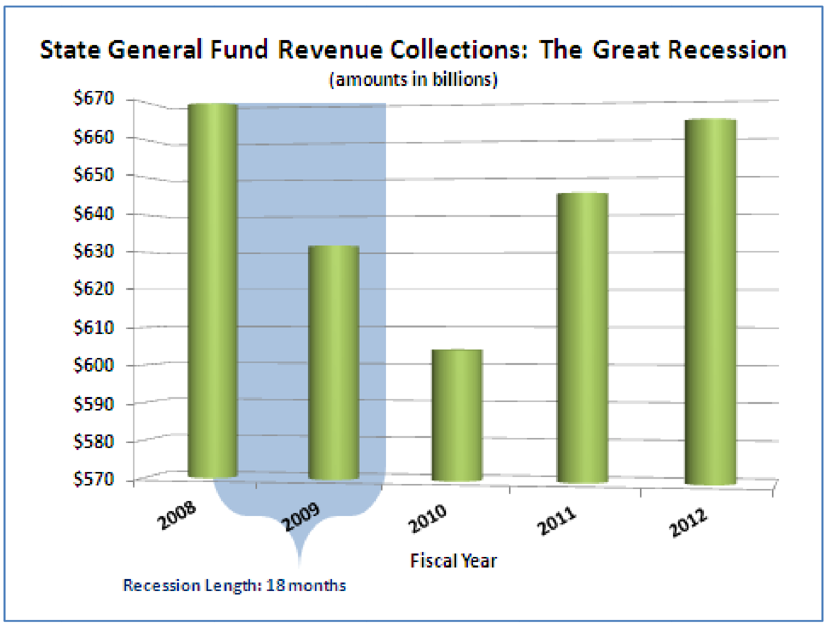
The recession of March to November 2001

The downturn that began in March 2001 was short but sharp. General fund revenue collections reached their then peak in FY 2001 of $488 billion and then fell abruptly in FY 2002 to $468 billion (a decline of 4.2 percent). In contrast to actions taken in 1991, legislators enacted tax increases that were modest in comparison—an increase of 1.6 percent in FY 2002 and FY 2003, respectively. Collections were reasonably better in FY 2003, $476 billion (1.8 percent growth) and then rapidly improved over the next three years with growth rates of 6.3 percent in FY 2004, 8.1 percent in 2005 and 10.2 percent in FY 2006.



The recession of December 2007 to June 2009

The latest recession lasted longer than its two predecessors combined, and longer than any 20th century downturn except the Great Depression. Just as the Great Recession was kicking off, FY 2008 marked the peak year of nominal revenue collections, totaling $670 billion. By the time the dust had settled, the Great Recession's devastating impact on state revenues was clear: FY 2009 collections declined to $632 million (5.7 percent decline) and, in stark contrast to previous two downturns, revenues deteriorated for a second year in a row with FY 2010 collections totaling to $604 billion (4.3 percent decline). What is even more startling is that the drop in FY 2010 coincided with a net tax increase of $28.6 billion (3.7 percent of prior year collections)—the largest tax increase since 1991. The plummet of general fund revenues in FY 2009 and FY 2010 raised questions of when revenues would return to their peak levels. While collections in FY 2011 grew 6.8 percent—from a significantly reduced base—to total $645 billion, this was still $25 billion below the peak in FY 2008. Estimated FY 2012 collections total $663 billion (2.8 percent growth), inching closer to their pre-recession peak, but still playing catch up.



Looking ahead

Cumulative FY 2013 general fund revenue collections are projected at $688 billion—exceeding the FY 2008 peak. Despite this positive development, the projections for individual states are uneven as expectations for return to peak collections vary widely. One-half of the states expect a return to peak by the close of FY 2013, while many others do not expect a return for at least three years or longer. Additionally, the return to peak is in nominal terms and does not account for numerous outside factors (inflation, expenditure growth, population growth, tax changes, etc.). Perhaps one official from Georgia said it best: "If the current estimated rate of growth of 5 percent for FY 2013 is sustained, revenues would return to peak by FY 2016. Of course, this does not factor the inordinate growth in population the state is experiencing. Therefore, on a per capita basis, it will take much longer."[2]

The experience of the Great Recession and its aftermath is not one that will remain fond in memories of state lawmakers; and unfortunately, it is not one that will be easy to erase.

[2] *State Budget Update: Spring 2012.* NCSL, http://www.ncsl.org/issues-research/budget/state-budget-update-spring-2012.aspx