NATIONAL CONFERENCE of STATE LEGISLATURES

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STATE BUDGET UPDATE: FALL 2014

NCSL

The National Conference of State Legislatures is the bipartisan organization that serves the legislators and staffs of the states, commonwealths and territories.

NCSL provides research, technical assistance and opportunities for policymakers to exchange ideas on the most pressing state issues and is an effective and respected advocate for the interests of the states in the American federal system.

NCSL has three objectives:

- To improve the quality and effectiveness of state legislatures.
- To promote policy innovation and communication among state legislatures.
- To ensure state legislatures a strong, cohesive voice in the federal system.

The Conference operates from offices in Denver, Colorado, and Washington, D.C.

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State Budget Update: Fall 2014

States continue their modest, slow recovery from the Great Recession. State tax collections are largely on target, and most states describe their budget situation for the remainder of fiscal year (FY) 2015 as stable. In brief, states are expecting to meet revenue forecasts for the current budget year.

While state finances overall are stable, spending in at least one program area is slightly over budget in about half of the states, and at least 12 states expect a budget shortfall in FY 2015. Most state officials, however, expect their budgets will stay in balance through the remainder of the fiscal year.

This report highlights results from NCSL's most recent survey of legislative fiscal officers about state tax collections and other indicators of state fiscal health.

FY 2015 Revenue Performance

Revenue collections are meeting expectation in a majority of states, with 35 states and the District of Columbia expecting to meet their revenue forecast by the end of FY 2015. Six states expect to miss their revenue projections: Alaska, Arizona, Kentucky, Massachusetts, Michigan and Vermont. Five states, Georgia, Maryland, Oklahoma, Texas and Utah, are likely to exceed their revenue forecast.

Personal income tax, general sales and use tax, and corporate income tax collections are all performing relatively well to date in FY 2015. Twenty-eight states are meeting or exceeding personal income tax projections, 31 states are meeting or exceeding their forecast for general sales tax collections and 29 states are meeting or exceeding their forecast for corporate income tax collections.

This report is based on data collected in the fall of 2014 from legislative fiscal officers in all 50 states and the District of Columbia. It includes information on:

- State revenue performance;
- Areas of spending over budget; and
- A summary of state fiscal situations.

Thirty-seven states and the District of Columbia levy all of the "Big 3" taxes (personal income, general sales and corporate income). Of these, three states – Hawaii, New Mexico and Oklahoma – reported higher than expected collections in all three categories. Also, two jurisdictions reported collections below estimate in all three categories – Arizona and the District of Columbia. In Arizona, year-to-date collections are 3.5 percent above FY 2014 collections, but still $71 million short of the forecast.

The remainder of this section provides a snapshot of recent performance for state personal income, sales and corporate income taxes. Information on the performance of other taxes is included for those states that provided it.[1]

Personal Income Taxes

On average, personal income tax collections make up the largest share of total state tax collections, about 37 percent. Nine states do not levy a broad-based personal income tax, though two of these states – New Hampshire and Tennessee – do tax interest income and dividends.

- Twelve states reported that personal income tax collections exceeded the latest estimate. Three of those states (Hawaii, Maryland and Oregon) had revised their estimates downward.

- Personal income tax collections were on target in 16 states. California, Mississippi, North Dakota, Rhode Island and South Carolina had revised their estimates upward. Kansas and Virginia are meeting estimates that were revised downward. In Kansas, the estimate was revised down 9.5 percent based on lower estimated payments.

- Arkansas, Indiana, Iowa, Kansas, Maine, Michigan, North Carolina, Pennsylvania, Vermont and the District of Columbia are below their forecasted personal income tax revenues. In Iowa, the forecast had been revised downward.

Figure 1. Personal Income Tax Collections: FY 2015

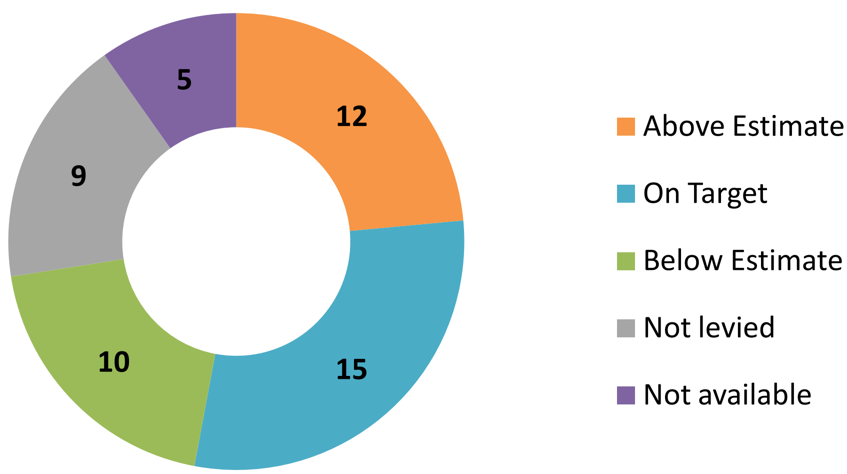

Table 1 contains more information on personal income tax performance.

[1] Performance information is not available for Louisiana, Minnesota, Missouri, Nebraska and Wisconsin.

General Sales Taxes

General sales and use taxes make up the second largest share of total state tax revenue – 30 percent, on average. Five states –Alaska, Delaware, Montana, New Hampshire and Oregon – do not levy a state sales tax. Eighteen states report sales tax collections above forecast.

- Sales tax collections are meeting estimates in 14 states. California, North Dakota and Virginia are meeting targets after revising estimates downward. In Kansas, Mississippi, Nevada, Rhode Island and South Carolina, estimates were revised upward and are currently on target.

- In eight states and the District of Columbia, sales tax collections were below the original forecast.

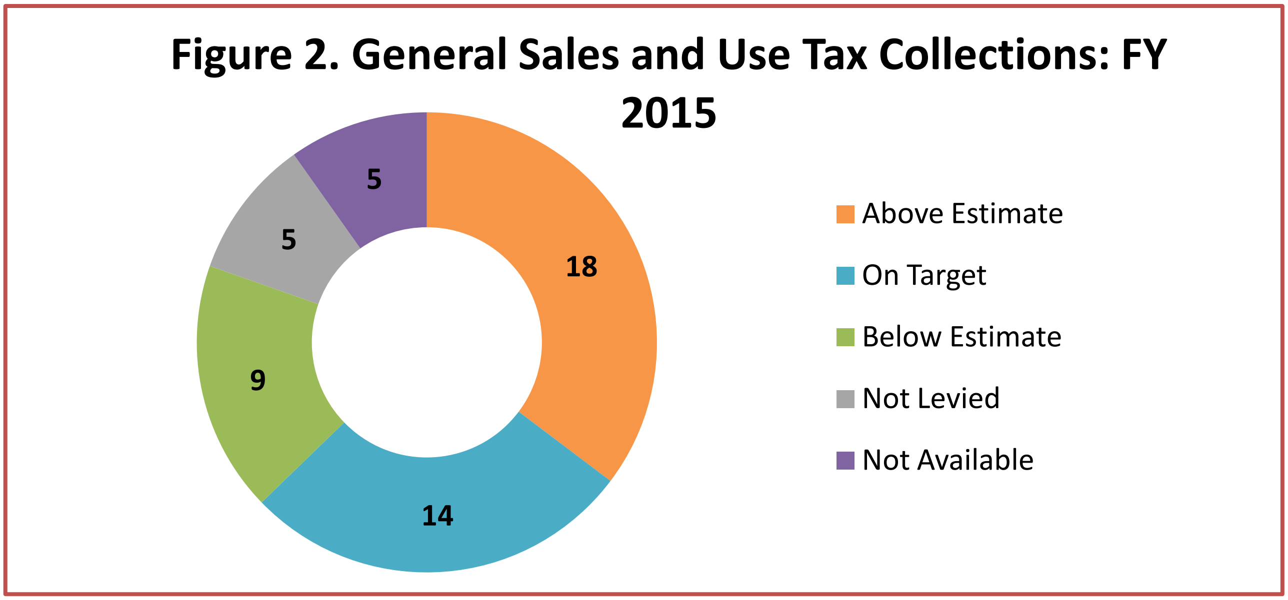

Table 2 contains more information on general sales tax performance.

Corporate Income Taxes

On average, corporate income taxes account for about 5 percent of state tax collections. Alaska, Delaware and New Hampshire, however, depend on them for more than 10 percent of collections. Six states – Nevada, Ohio, South Dakota, Texas, Washington and Wyoming – do not levy a traditional corporate income tax. Through October, corporate income taxes are performing on target, or producing greater than expected revenues in most states.

- Corporate income tax collections are above estimate in 14 states. In Hawaii, corporate income tax collections are above a reduced forecast, and in Oregon, collections are exceeding a forecast that had been revised upward. Collections in Pennsylvania were 11.5 percent above estimate.

- Fifteen states reported collections coming in on target. Of these, five states – California, Delaware, Kansas, Montana and North Dakota – had revised their estimates upward. In Mississippi, Rhode Island, South Carolina and Virginia, collections are on target, but the forecasts were previously revised downward. In Vermont, officials noted that while corporate income tax collections are currently on target, the sale of a major company in the state could adversely affect performance.

- In nine states and the District of Columbia, corporate income tax collections were not meeting targets. The estimate was revised downward in Iowa and upward in Maryland. In New Hampshire, corporate income tax collections were 7.1 percent below forecast through October.

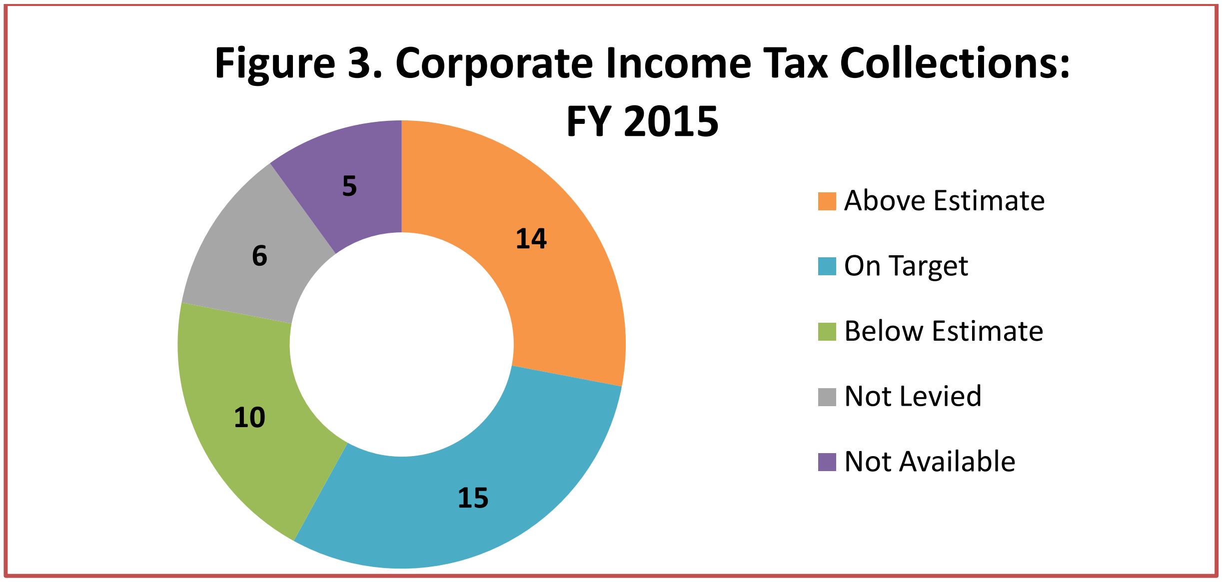

Table 3 contains more information on corporate income tax performance.

Other Taxes

In addition to the "Big 3" taxes, states also rely on a variety of other taxes. These taxes often include taxes on oil and gas production, other severance taxes, real estate transfer taxes, lodging, gambling and others. In some cases, these other taxes comprise a significant portion of state tax revenue, and in others they might be a small slice of total revenue collections. Nineteen states and the District of Columbia provided information on "other" tax categories.

- At the time of our survey in November, severance taxes were above estimate in three states and below estimate in seven states. Severance tax collections are on target in another eight states that levy the tax. Estimates were revised downward in Kansas, Louisiana, Montana and Wyoming. Only North Dakota revised its collections target upward.

- Collections of real estate transfer taxes are on target in 13 states. Real estate transfer tax collections were exceeding expectations in three states and the District of Columbia, and below the latest estimates in three states – Maine, New Jersey and Pennsylvania.

- Other notable taxes: gaming taxes are above estimate in Arkansas, on target in Mississippi and Nevada, and below estimate in Indiana. Nevada's gaming tax revenue estimate, however, was revised downward by 5.4 percent in early December. Miscellaneous taxes on tobacco products and alcohol are above estimate in Hawaii, Maine and Utah, and are meeting revenue expectations in Iowa. Overall, other tax categories are on target in six states, above estimate in eight states and the District of Columbia, and below estimate in three states for the states that reported collections.

Tables 4, 5 and 6 contain more information on these other taxes.

Areas of Spending Over Budget

Twenty-three states and the District of Columbia reported that at least one category of spending is over budget in FY 2015. Ten states reported two or more categories over budget. Some examples of areas over budget include:

- Medicaid programs are over budget in 14 states. Some states anticipate a shortfall that will require supplemental appropriations during the next legislative session. The program is projected to be over budget by $170 million in Louisiana, $61 million in Iowa, and $99.5 million in Mississippi.

- Nine states reported that corrections budgets are overspent so far in FY 2015. Inmate medical costs are driving overages in many of these states.

- In eight states, K-12 education spending is over budget. Enrollment is higher than expected in some of these states. Spending on higher education is over budget in two states – Hawaii and Ohio.

- Social service programs are overspent in four states – Kansas, New York, Vermont and Washington – and the District of Columbia. Some of those programs include homeless shelters, adoption services and home health workers.

- Some other programs are also over budget in FY 2015. In Oregon and Washington, fire suppression and natural disaster costs are exceeding original appropriations. Retiree health care costs are over budget in Connecticut and property tax reimbursements to local governments are overspent in Ohio.

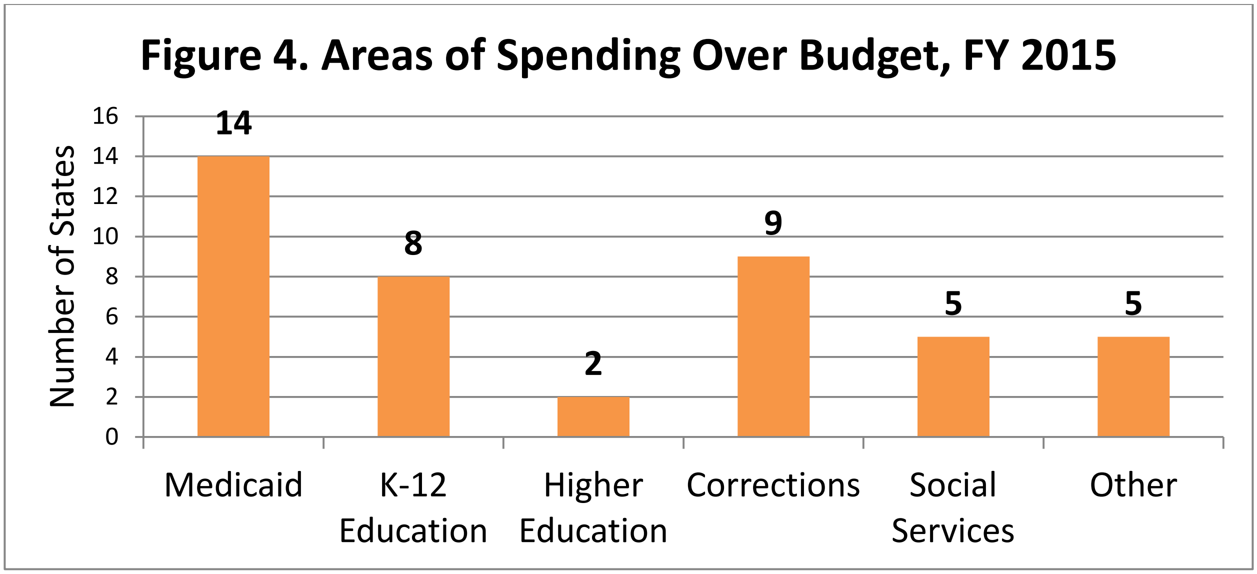

Table 7 contains more information on areas of spending over budget.

Summary of the State Fiscal Situation

At least 12 states expect a budget shortfall that will need to be addressed by the close of FY 2015. The overall fiscal situation in most states, however, is described as stable. Some examples of comments about the state fiscal situation follow:

- Although Connecticut, reports the state is fiscally stable, its officials remain cautious in this assessment. Officials are currently projecting a small decline in revenue, and are also concerned about the potential for weak income tax returns in April.
- Idaho currently has a structurally balanced budget with revenue projections meeting targets.
- Kentucky describes its situation as stable, but faces ongoing pressures on both revenues and expenditures.
- In Louisiana, lower oil prices are reducing severance tax and royalty receipts, which are exacerbating weak personal income tax and sales tax growth.
- New Mexico's current fiscal situation is strong. Although declining oil prices will likely result in a reduction in FY 2015 and FY 2016 estimated revenues, strong FY 2014 revenue collections and a general fund reserve balance over 10 percent means the state will not have to reduce current year appropriations.
- In Utah, officials remain optimistic that revenues will continue to grow modestly over the next 12 to 18 months.

Table 8 contains more summaries of state fiscal situations.

NCSL

National Conference of State Legislatures

William T. Pound, Executive Director

Denver Office
7700 East First Place
Denver, CO 80230
(303) 364-7700
(303) 364-7800

Washington Office
444 North Capitol Street, N.W., Suite 515
Washington, DC 20001
(202) 624-5400
(202) 737-1069

www.ncsl.org