US state and local tax revenues plummet

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31 December 2009

New US census data show that state and local government tax revenue continued their year-long plunge in the third quarter, falling by 7 percent from the same period last year. In response, governments are cutting spending on social programs, infrastructure and education, and are laying off or cutting the wages of government workers.

It was the fourth straight quarter in which tax receipts fell on a year-over-year basis, the Census Bureau's *Quarterly Summary of State and Local Tax Revenue* shows. Collections for 2009 through the third quarter were down $76 billion, or 8 percent, from a year ago, while federal tax revenue fell even more sharply in the same period, by 19 percent.

Every major form of state and local tax revenue declined. Totals for sales and personal income taxes fell by 9 percent and 12 percent, respectively. The erosion of these two taxes, on which state governments rely, is owed largely to unemployment and wage cuts.

Taxes on business profits fell precipitously, by 18 percent in the third quarter, year-over-year.

Property tax collections actually increased by 3.6 percent in the third quarter of 2009 from 2008. However, analysts explain that government property assessments have simply not yet caught up with market-determined home and commercial real estate values. This gap is expected to begin to be bridged in 2010, imperiling municipal and county governments heavily reliant on property taxes.

"At minimum, cities will be working through the catastrophic drops in revenue for the next 18 months to two years," said Mark Muro of the Brookings Institution's Metropolitan Policy Program.

Like unemployment, the fiscal health of state and local governments is considered a "lagging indicator." Even when, and if, the economy begins to improve, tax collections follow slowly. The burden is compounded by the extra costs economic downturns place on state budgets in the form of unemployment benefits, Medicaid and other social programs, and accounting tricks states have used to defer red ink from this fiscal year to the next.

"We expect continued weakness well into 2010 if not further," concluded Lucy Dadayan of the Rockefeller Institute of Government at the State University of New York.

According to a study by the National Conference of State Legislators (NCSL), states cut nearly $150 billion in spending to balance budgets in the current fiscal year. But already, 36 states have seen gaps reopen to a combined deficit of $28.2 billion. These deficits will worsen. In 2011, 35 states making estimates predict a combined deficit of $55.5 billion. In 2012, just 23 states offering data already estimate red ink totaling $68.8 billion.

No state has been spared from falling revenues. Energy-rich states that averted budget crises last year were hit particularly hard by third-quarter revenue declines, among them Texas, Oklahoma, Wyoming, North Dakota and Alaska. The latter, with a 65 percent decline, experienced the biggest year-over-year dropoff. In all, 22 states, including Illinois, saw a third-quarter revenue decline greater than 10 percent.

These shortfalls will inevitably lead to more cuts in social spending and further layoffs, wage cuts and furloughs for state workers. Layoffs of government workers could produce the next wave of unemployment in the US, where fully 15 percent of the non-agricultural workforce is employed by state or local governments.

By all indications, the budget cuts being put in place will not be restored. "The economic fallout has hammered state budgets with an intensity we haven't seen since the Great Depression," said Sujit M. CanagaRetna, an analyst with the Council of State Governments. "The way that we have cut and slashed governments indicates that we're only going to be able to provide the most basic services."

"Anything and everything's on the table," Todd Haggerty, a policy associate with the National Conference of State Legislators, was quoted by *Stateline.org* as saying. States have "cut the fat, cut the muscle and are now cutting bone," Haggerty said. "The easy decisions have already been made."

Among the hardest-hit states is New York. This week, state Comptroller Tom DiNapoli issued a statement saying that the nation's third most populous state was "down to petty cash" in its treasury. "New York State is barely scraping by in December," DiNapoli said. "While measures were taken by the legislature and Governor to get the state through December, the state is literally down to petty cash. New York's fiscal troubles are far from over." After the first week of January, New York may have no more than $300 million cash on-hand.

The total deficit of the states from 2009 to 2012 is now estimated at $460 billion. While an enormous amount of money, it will prove far less than US military spending and the cost of the wars in Afghanistan and Iraq over the same period, and is dwarfed by the multi-trillion-dollar bailout of Wall Street.

There is little chance of help from the federal government, which is itself experiencing its worst budget shortfalls since World War II. On the contrary, the Obama administration will likely inflame the states' fiscal crisis.Governors and legislators of both parties warn that health care "reform" will likely add significantly to their fiscal crises through new, unfunded mandates. And with the $300 billion in aid allotted the states through last February's American Recovery and Reinvestment Act set to run out after the next fiscal year, the Obama administration has all but ruled out further relief.