

Fiscal Condition of the States

**Southeastern Association of
Tax Administrators**

Birmingham, Alabama

July 22, 2002

Purpose

- **High-level overview of fiscal situation and its causes**
- **Overview of trends in major revenue sources**
- **General approach states have taken to resolve issues**

Summary Condition

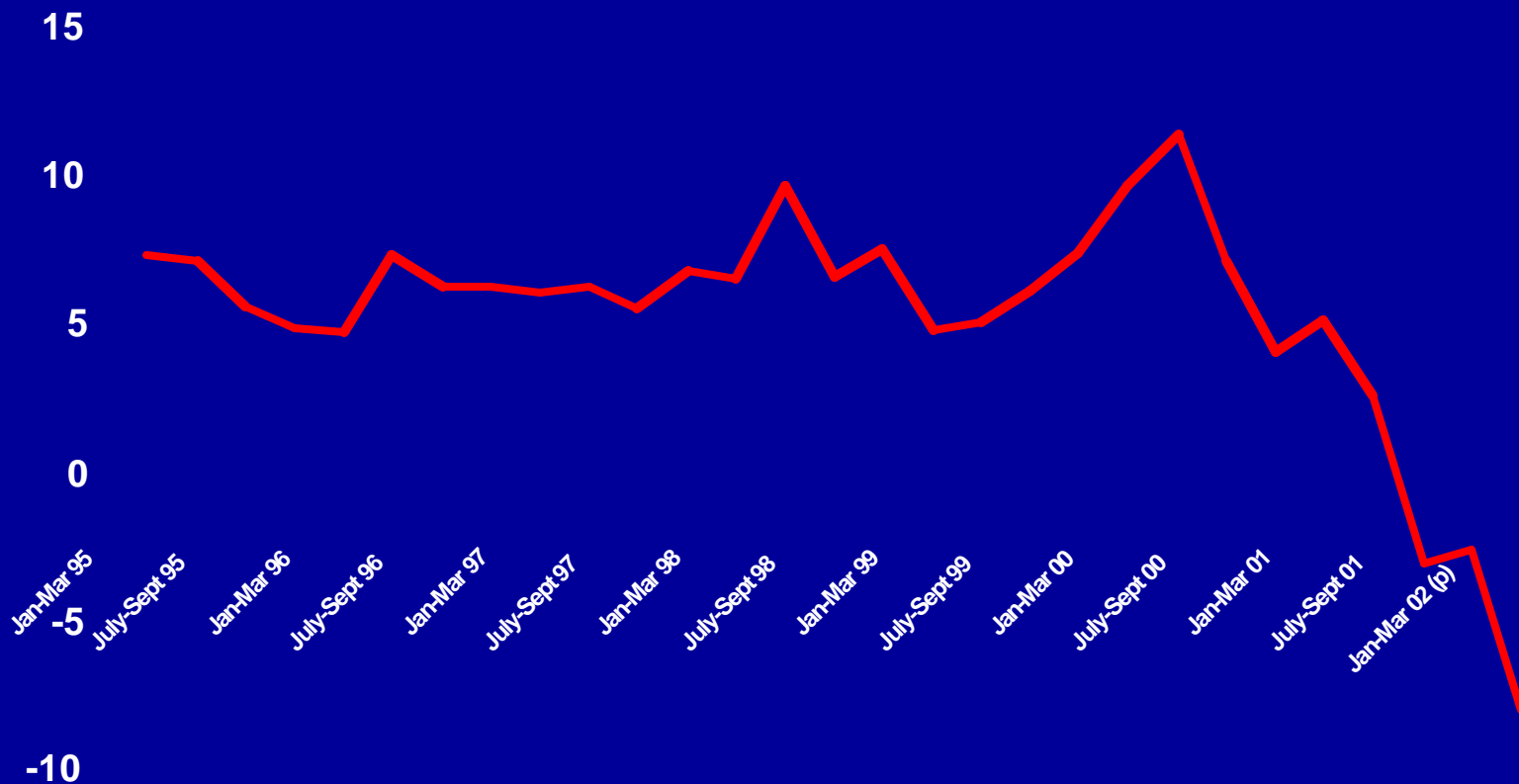
- **45 States (min.) suffering fiscal stress (resources short of requirements)**
 - Evidence of difficulty in special sessions and extended sessions
- **Aggregate shortfall of \$40-50 billion or 8 -10 percent of total taxes**

Causes

- **Recession and Sept. 11 have taken toll on revenues**
- **Stock market and related drag is substantial**
- **Health care costs rising rapidly**
- **Self-inflicted wounds of:**
 - **Spending one-time money**
 - **Phased in cuts and spending**

Rise and Fall of State Taxes

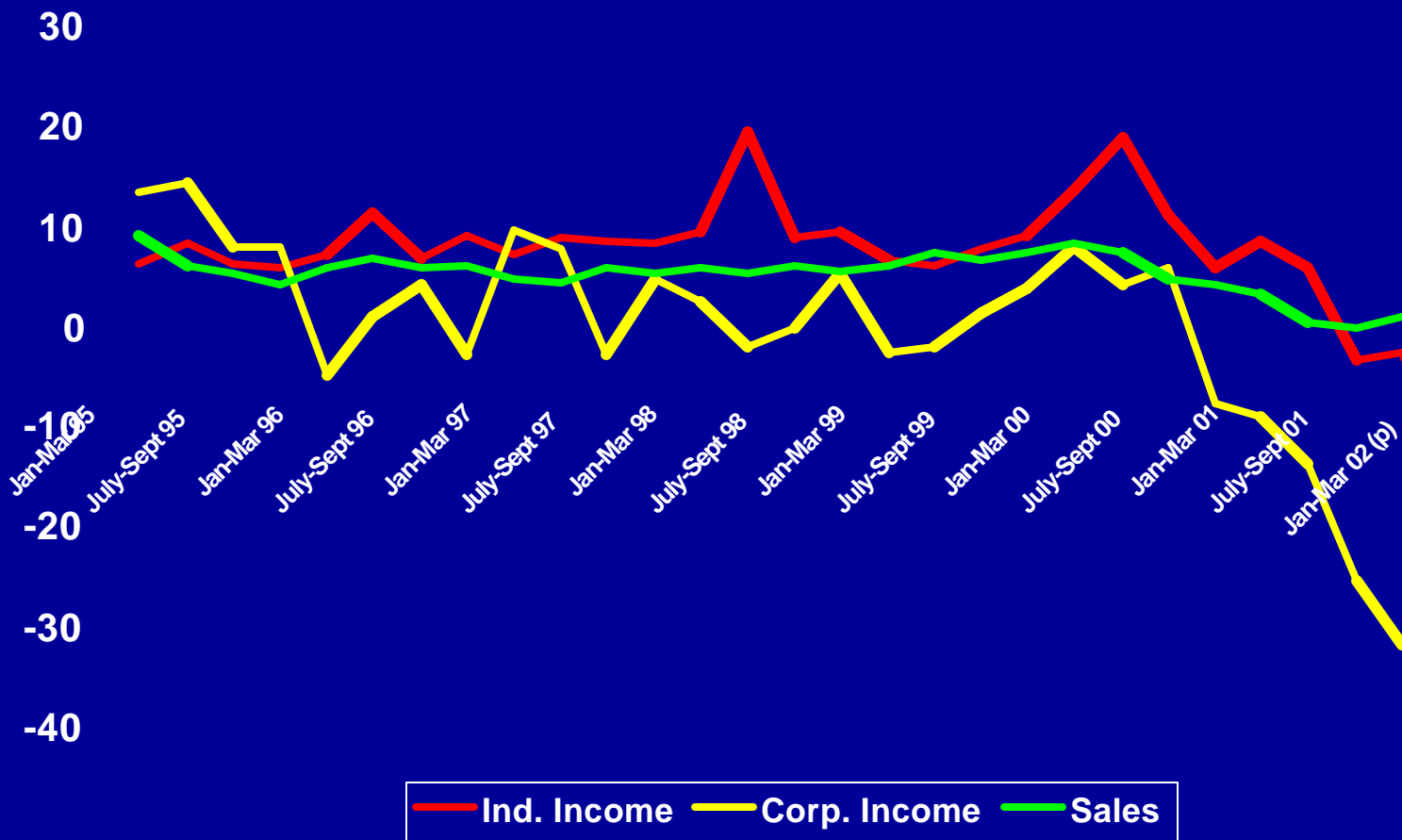
[Percent Change from Year Earlier -- Total Taxes]



Source: Rockefeller Institute

Rise and Fall by Tax Type

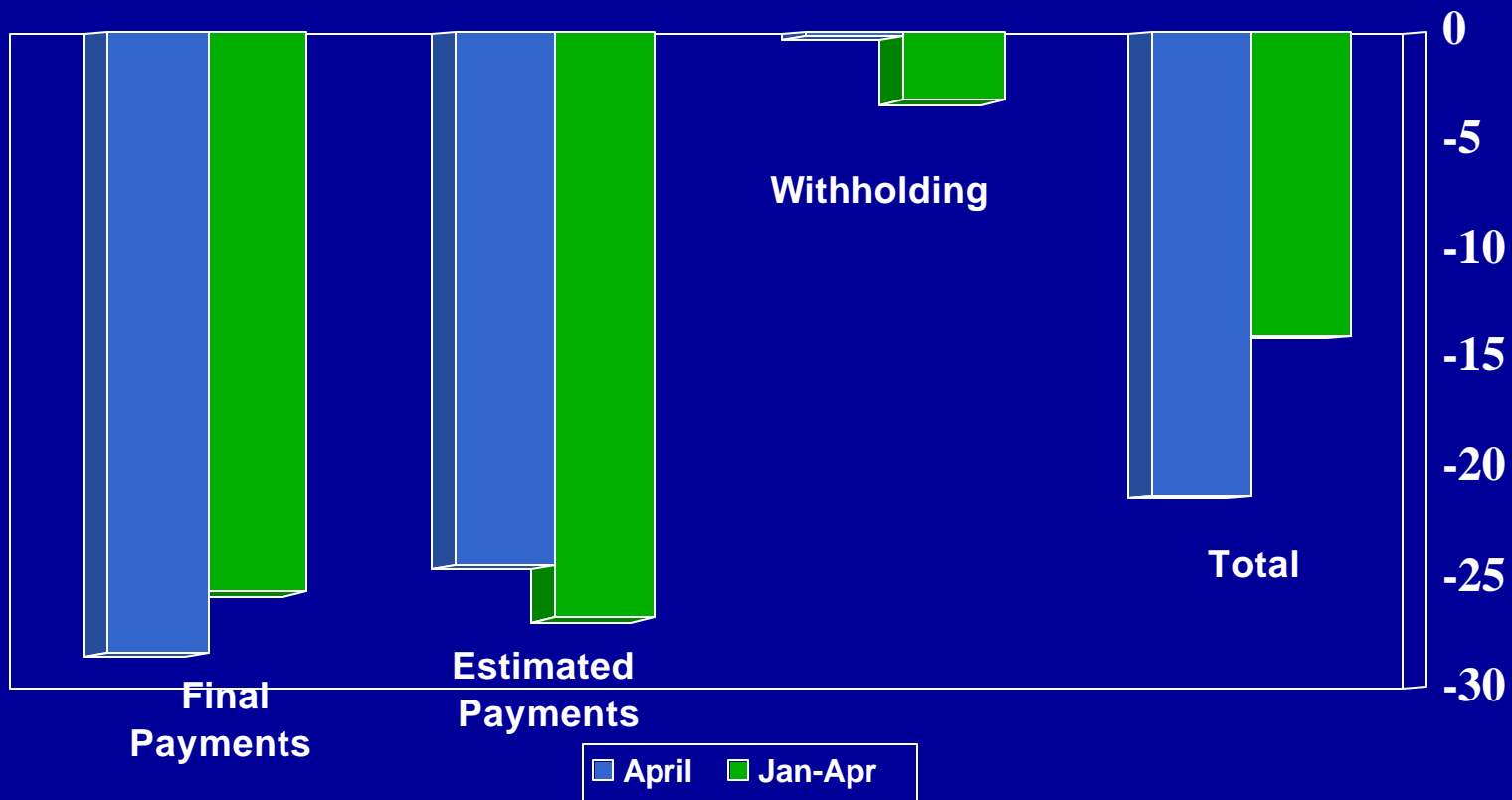
(Percent Change from Year Earlier by Tax Type)



Source: Rockefeller Institute

Income Taxes Fall Off the Table

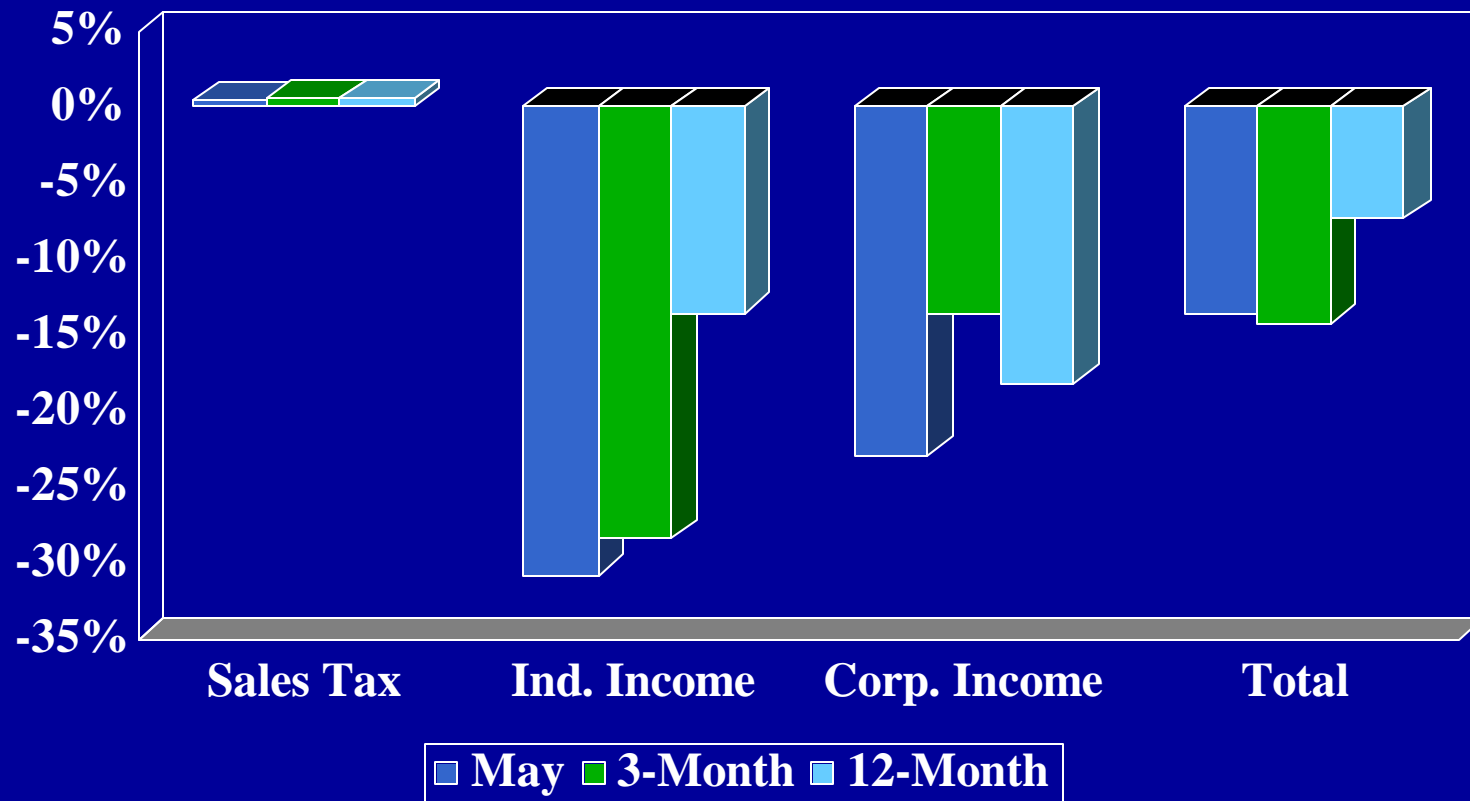
[Percent Change from 2001]



Source: FTA/NCSL et al. Survey, May 2002

The Slide Continues

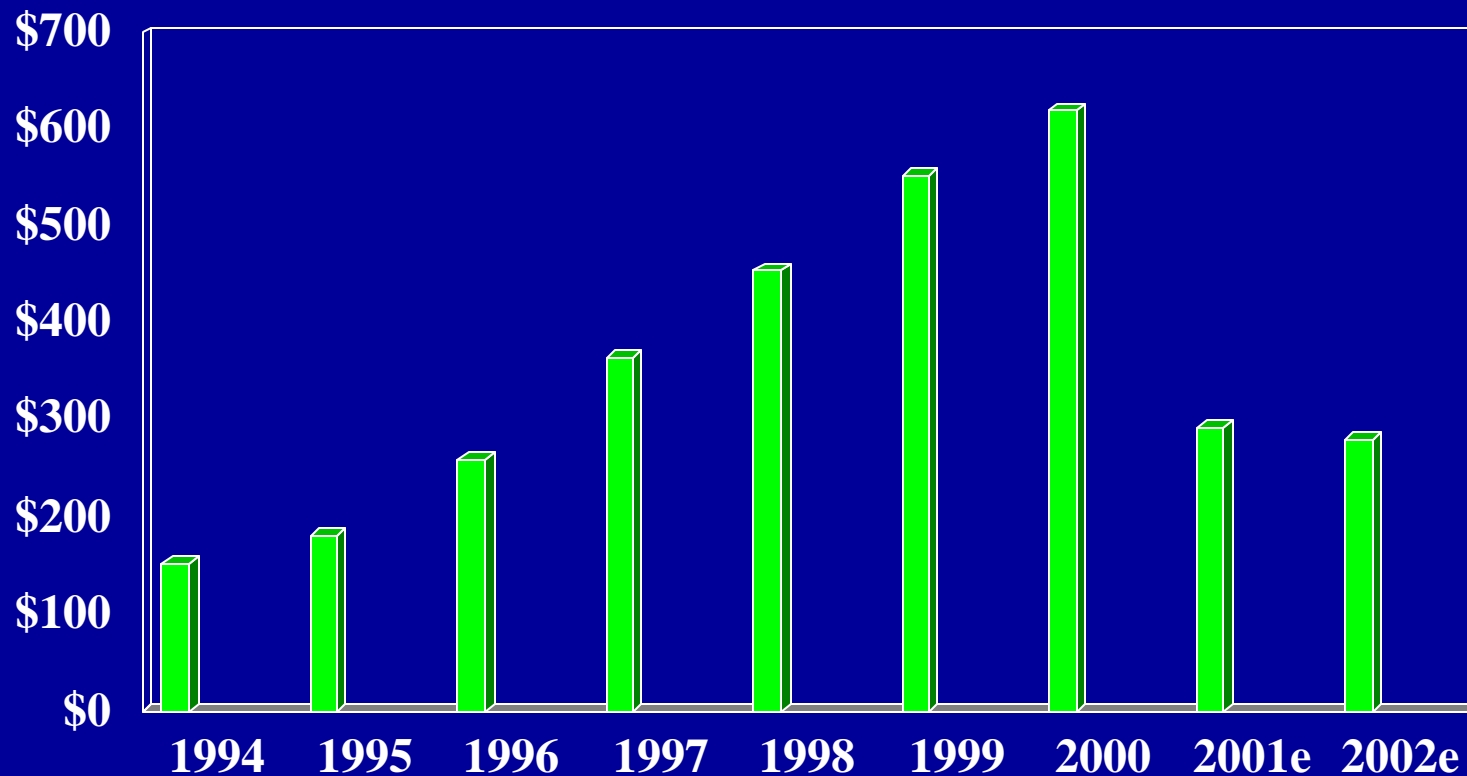
[Percent Change in May 2002]



Source: Federation of Tax Administrators

The Stock Market Piece

[Capital Gains Realizations - \$ Billions]



Source: CBO and Economy.com

What Are States Doing?

- **Serious expenditure reductions**
- **Using Rainy Day funds**
- **One-time shifts**
- **Tobacco money**
- **Revenue measures**

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Tax Measures [Cont.]

- **Broad-based tax increases**
 - Kansas, Tennessee
- **Broad-based reform**
 - Indiana
- **Corporate reform/Loophole closing**
 - New Jersey, Alabama, Ohio, North Carolina

2003 Outlook

- **Positives**
 - Revenues should be poised for stability or modest (3-5 percent) rebound
- **Negatives**
 - Still a shortfall to cover
 - One-time maneuvers must be offset
 - Expenditure pressures increase
- **Hang in there until 2004**

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