Sin Taxes: Sobering Reality

Scott Pattison
Executive Director
NASBO

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Overall

- Modest Growth (Mirror Economy)
- Most States: Good/Decent
- Tough Decisions
- Some States Very Difficult (Oil prices, etc.)
Long Term Spending Pressures:

- Medicaid and Health Care
- K-12 and Higher Education
- Demographic Changes
- Corrections
- Infrastructure
- Pensions
- Retiree Health Care
Slow Budget Growth Continues

General Fund Expenditure Growth (%)

*37-year historical average annual rate of growth is 5.5 percent
*Fiscal 2015 numbers are enacted

Source: NASBO Fall 2014 Fiscal Survey of States
GF Spending Expected to Grow for 5th Straight Year, Although Below Average

Annual Percent Change in General Fund Expenditures

37-year historical average rate of growth is 5.5 percent

*Fiscal 2015 numbers are enacted

Source: NASBO Fall 2014 Fiscal Survey of States
States Reserves Haven’t Reached Peak Levels

Balances as a Percent of Expenditures

FY 06 FY 07 FY 08 FY 09 FY 10 FY 11 FY 12 FY 13 FY 14 FY 15

11.5% 10.1% 8.6% 5.7% 5.2% 7.1% 8.4% 10.5% 8.9% 7.3%

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GF Spending Exceeding Pre-Recession Level

General Fund Spending: FY 2008-FY 2015

Source: NASBO Fall 2014 Fiscal Survey of States

*Fiscal 2015 numbers are enacted
GF Spending Still Below Pre-Recession Peak Adjusted for Inflation

General Fund Spending: FY 2007-FY 2015

Source: NASBO Fall 2014 Fiscal Survey of States; Fiscal 2015 numbers are enacted

*Aggregate spending levels would need to be at $771 billion to remain equivalent with real 2008 spending levels.
GF Revenue Also Below Pre-Recession Peak Adjusted for Inflation

General Fund Revenue: FY 2007-FY 2015

Source: NASBO Fall 2014 Fiscal Survey of States; Fiscal 2015 numbers are enacted
*Aggregate revenue levels would need to be $763 billion to remain equivalent with real 2008 revenue levels.
Revenue Sources in the General Fund (Percentage)

Estimated Fiscal 2014

- **Personal Income**: 42%
- **Sales**: 31%
- **Corporate Income**: 6%
- **Gaming**: 1%
- **Other Taxes & Fees**: 20%

Source: NASBO State Expenditure Report
Revenue Sources in GF Relatively Consistent

1998
Estimated Fiscal 2014
- Personal Income: 39%
- Corporate Income: 8%
- Gaming: 1%
- Sales: 34%
- Other Taxes & Fees: 18%

2014
Estimated Fiscal 2014
- Personal Income: 42%
- Corporate Income: 6%
- Gaming: 1%
- Sales: 31%
- Other Taxes & Fees: 20%

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Percent Change in FY 2014 and 2015 Collections by Major Tax

- Fiscal 2014 revenues increased by 1.3%, slow growth partly due to federal tax changes
  - PIT grew by 0.9%, sales 4.9%, and CIT 0.7%

- Fiscal 2015 revenues projected to increase by 3.1%
  - PIT projected to increase by 4.7%, sales 4.0%, and CIT 1.7%

Source: Fall 2104 Fiscal Survey of States
General Fund Collections Compared to Projections

- **Fiscal 2014**
  - Revenue collections outpaced projections in 25 states
  - Were on target in 5 states
  - And came in below estimates in 20 states

- **Fiscal 2015**
  - Revenue collections have outpaced projections in 7 states
  - Are on target in 26 states
  - Are coming in below estimates in 10 states

*Only 43 states reported collections compared to projections for fiscal 2015.*
Fiscal 2015 Enacted Revenue Changes by Major Tax

- **Sales Taxes** ($-248M):
  - 5 states enacted increases,
  - 13 enacted decreases

- **Personal Income** ($-747M):
  - 1 increase, 14 decreases

- **Corporate Income** ($207M):
  - 2 increases, 9 decreases

- **Cigarettes/Tobacco** ($8M):
  - 2 increases

- **Motor Fuels** ($33M):
  - 1 increase

- **Alcohol** ($-0.2M):
  - 1 increase, 1 decrease

- **Other Taxes** ($-698M):
  - 4 increases, 9 decreases

Source: NASBO Fall 2014 Fiscal Survey of States
Number of States Increasing Tobacco & Alcohol Taxes from 2000-2015

Source: NASBO Fiscal Survey of States

Source: NASBO Fiscal Survey of States
Tobacco and Alcohol Revenue

- According to Census, state and local tobacco tax revenue was $17.6B in fiscal 2012
- State and local alcohol revenue was $6.5B
- Total state general fund revenue alone was $672.8B in fiscal 2012, according to State Expenditure Report
State Gambling Revenue

- Gambling revenue totaled $27.3 billion in fiscal 2014, according to Rockefeller Institute of Government
  - Lottery $18.1B, Casino $5.3B, Racino $3.2B, Video Gaming $582M, Pari-mutel $140.5M

- By comparison, total general fund revenue was $729.7 billion, according to State Expenditure Report

- Gambling revenue increased 0.6% in fiscal 2014, but declined 0.8 percent after adjusting for inflation
  - Lotteries grew 0.6%, casinos declined 1.4%
Colorado Marijuana revenue

- Colorado is projected to receive $47.7M in medical and retail marijuana revenue in fiscal 2015
  - Original projection was $134M

- By comparison, Colorado’s total projected general fund revenue for fiscal 2015 is $9.6B
  - Marijuana revenue would then represent 0.5%

- January marijuana sales yielded $2.3M for schools
  - Colorado spent $7.9B on K-12 from all fund sources in fiscal 2014
Washington State Marijuana revenue

- Washington State Economic and Revenue Forecast Council is projecting $222M in marijuana revenue over the next two-year budget for fiscal 2016-2017

- By comparison, Washington’s general fund revenues are projected to be $16.8B in fiscal 2015 alone
Budget View

- Sin Taxes Not a Solution for Major Budget Problems
- Good for:
  - Some Extra Funds
  - Pay for Regulatory Environment
  - Discourage Use
- Reasons and Justification Should be Discussed
- Distraction from Major Fiscal Challenges
- Marijuana Issue: Colorado Gov. John Hickenlooper stated that he thinks legalization was a bad idea
  (1/23/15 CNBC interview)
Scott D. Pattison
Executive Director
NASBO
202-624-8804
spattison@nasbo.org