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State Tax Revenue Data Comes In Below Recession Levels.

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State Tax Revenue Data Comes In; Paints a Positive Picture, Though Still Below Recession Levels

A review of the latest state tax revenue data from the U.S. Census Bureau and comparative data from the end of 2017 is revealing. Fourth quarter 2017 tax revenues for the four largest state and local government tax categories increased 9.5% to $438.8 billion, from $400.8 billion in the same quarter of 2016. The estimated total for fourth quarter 2017 state and local property tax revenue increased 9.1% to $226.8 billion (±7.0 billion), from $207.9 billion (±6.6 billion) collected in the same quarter of 2016. Local governments collected $222.2 billion of total property tax revenue in the fourth quarter of 2017. Individual income tax collections in the fourth quarter of 2017 shows an increase of 13.7% to $101.6 billion (±0.4 billion), from $89.4 billion (±0.3 billion) in the same quarter of 2016.

Total state tax revenue increased 9.5% to $242.8 billion in the fourth quarter of 2017, from $221.7 billion reported in the same quarter of the prior year. Individual income tax, at $92.5 billion, is up 14.4% from $80.9 billion in the same quarter of 2016.

The second largest category of state tax revenue is general sales and gross receipts taxes, which accounted for $77.4 billion, an increase of 6.4% from $72.7 billion the same quarter in 2016. At $9.5 billion, corporation net income tax collections are up from $8.7 billion the same quarter in 2016, an increase of 8.8%. The majority of the nation's state tax revenue came from individual income (38.1%) and general sales and gross receipts (31.9%).

So what is the point of all of that data?

For analysts in and out of government, revenue still remains significantly below pre- and mid-recession levels in spite of 91 consecutive months of positive economic growth.

Fourth quarter 2009 tax revenue for state and local governments totaled $360.1 billion compared with $357.4 billion reported for fourth quarter 2008. Total property tax revenue increased 5.8% in the fourth quarter of 2009 to $169.8 billion. Sales tax revenues were down 7.4% to $283.6 billion in the 2009 calendar year. Corporate income tax 2009:4 revenue was $9.1 billion. Those revenues are essentially flat in 2017 versus 2009. Sales tax revenues are only now catching up to 2009 levels.

In a nutshell, this represents the pressure that state and local tax bases find themselves under as demands for spending in the areas of education, infrastructure, healthcare, and pensions — especially the latter — continue to rise. The data shows the basis for the perceived increase in difficulty for states to balance their budgets in recent fiscal years. It also highlights how vulnerable each state budget is to any sign of economic downturn. Hence our attention to the accumulation of reserves as well as the issue of pension funding and investment assumptions in our ongoing analyses.

It is also important to factor in the enactment of federal tax reform in fourth quarter 2017 that may have inflated the the quarter's results. Two recent studies give an indication that taxpayers paid up early to take advantage of two deductions capped under Congress's tax-reform measure. The two deductions capped the amount of state and local tax deductions taxpayers could claim on their federal return at $10,000, and it capped a deduction on mortgage interest for high-priced homes. Taxpayers who filed before the end of the year — when the caps came into effect — were able to take advantage of the unlimited deductions. The same thing happened in 2012, when Congress and the Obama administration debated whether to extend tax cuts put in place under the Bush administration. Taxpayers who feared those tax cuts would expire raced to pay early, giving states what amounted to a fiscal sugar rush in 2013. But that meant those taxes paid in 2013 would not be paid in 2014, and many states experienced a decrease in tax receipts next year.

Harris County, Texas, to Vote on Resilience Bonds

Harris County, Texas, Commissioners Court voted unanimously recently in favor of seeking a special election on Aug. 25 for what likely will be a multi-billion dollar bond referendum to pay for property buyouts, bayou widening and other flood control projects in the aftermath of Hurricane Harvey. The Aug. 25 date is the one-year anniversary of Harvey. County leaders hope that attention paid to the anniversary will translate into votes for the bond issue.

Requirements to provide matching funds for federal grants being disbursed in Hurricane Harvey's wake threaten to deplete local resources. The referendum would seek approval of the issuance of flood control district debt and authorize increase in local property tax levies to pay for them. One example an application for a $165 million Federal Emergency Management Agency grant to buy out 1,000 flood-prone homes. That grant, however, would require the flood control district to put up $66 million in matching funds. FEMA and the U.S. Army Corps of Engineers still are determining how they plan to spend billions of dollars appropriated by Congress in February.

Houston has suffered a 500-year or greater flood, as defined, each of the last three years. The district's budget includes about $60 million to spend on flood control projects every year, in addition to ongoing maintenance work. Harris County's Budget Officer estimated that if, for example, the bond election was for $1 billion and the debt was issued over 10 years, that would result in a $5 increase in property tax bills for the average $200,000 home in the first year. That number likely would rise to about $20 in the 10th year. If voters reject a bond referendum, the county cannot put the same issue on the ballot again for two years.

The County has also been authorized to commission a feasibility study of a proposal to build massive tunnels to channel storm water out of several county watersheds and into the Houston Ship Channel. The County Court (the local legislative body) also approved two major flood control projects on White Oak and Hunting Bayou. Completion of the two projects is expected to remove more than 6,000 homes and buildings from the bayous' 100-year floodplain.

Housing and Transit — Something Has to Give

Senate Bill 827 was introduced in the California Legislature by a San Francisco state senator in an effort to address the pressing California issues of housing and transportation. The exponentially growing cost of housing is often cited by those leaving the State as the number one factor driving the decision to move. The growing lack of affordable housing near to urban job centers follows close on the heels of housing. SB 827 would have allowed for the construction of buildings four to five stories tall within half a mile of rail stops in areas, such as parcels zoned for single-family homes, where they are currently not allowed. Additionally, the bill would have eliminated parking minimums in those locations as well as around bus stops with frequent service throughout the day.

Much in the bill makes sense from the perspective of increased housing supply, decreased reliance on cars, and increased demand for capital intensive transportation like BART. It was presented as one element in the state’s efforts to reduce carbon emissions to 40% below 1990 levels by 2030. Nearly 2 million households in the state spend more than half their income on rent, and California has the nation’s highest poverty rate once housing costs are factored in. The state’s median home value of $535,100 is more than 2½ times the national figure.

So what could go wrong? It turns out to be plenty. The bill received vociferous opposition from current residents in the areas where housing would be developed. They did not see the economic factors of increased supply as a dampener on housing costs. Instead, they viewed the bill as a trojan horse for gentrification. Opponents cited fears of being driven from their homes and neighborhood characters being negative altered. Issues of economics and race were introduced into the debate.

In response, the legislation was revised to reduce allowable height increases to five stories from eight. The sponsor also took away the height increases planned near frequently traveled bus routes. And he added measures, such as mandating that developers set aside a portion of their projects for low-income residents, in an effort to allow people of varying incomes to benefit from the new housing.

None of this answered the opposition’s concerns and the legislation lost support. The Senate Transportation and Housing Committee was in the end unable to marshal sufficient votes to move the bill out of committee.

So now the issue of affordable housing remains unanswered, climate issues go unaddressed, demand and usage of mass transit is not stimulated, and access to jobs remains difficult. According to the Census Bureau’s American Community Survey, nearly 4 million Americans now qualify as super commuters — a share of the population that has risen almost 16% since 2005. And where are two of the five biggest mega commuting areas in the U.S.? San Francisco and Los Angeles.

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