A Picture of State Governments in 2009

By Christopher Pece

State governments play an important role in national and regional economic conditions and are subject to prevailing economic conditions. The Census Bureau's official statistics provide a full picture of the early impact of the most recent recession from tax revenues to expenditures to employment.

Introduction

State governments play an important role in national and regional economic conditions and are subject to prevailing economic conditions. The most recent economic recession that began in the fourth quarter of 2007 and lasted through the second quarter of 2009 created great fiscal stress for the states. As many state governments are dependent on either a sales tax or income tax, or both, revenues declined in every state. Even those that are dependent on revenues from oil and gas and other forms of natural resource extraction were impacted. As "own source" revenues declined, state revenues from the federal government rose.

At the same time, expenditures associated with basic services also increased despite modest changes in state government employment. The combination of these factors paint an informative picture of where state governments have been and how they were individually and collectively impacted. This chapter examines state tax revenues and intergovernmental revenues, expenditures by characteristic, object and function, as well as the nature of state employment—both the functional distribution of workers and corresponding payroll. It further describes the environment in 2009[1] in terms of the debt and assets of state governments.

The Census Bureau's statistics on government are divided into four sectors (general, utility, liquor store and insurance trust). This chapter focuses on the general sector of state government, as most traditional governmental services, such as education, police, highways and welfare, are accounted for there. Although some states may have substantial utility or insurance trust sector activities, these activities may distort the picture of what is traditionally considered to be the core state government activities. Additionally, due to the changing economic and demographic climate in the country, this chapter will discuss some aspects of the insurance trust sector. This sector is particularly important to understand due to the public pension systems and their impact on the fiscal welfare of state governments.

The General Picture—Revenues[2]

State government general revenue totaled $1.495 trillion at the end of fiscal year 2009, a decrease of 1.2 percent from fiscal year 2008. Recent year-to-year percent changes in general revenue have shown slower increases in growth since 2006. General revenue increased 7.7 percent from 2005 to 2006; 4.8 percent from 2006 to 2007; and 3.9 percent from 2007 to 2008. The major revenue sources and share of general revenue in 2009 were taxes (47.8 percent), federal grants (32.0 percent)—compared to 28.0 percent in 2008 and 27.1 percent in 2007—current, charges (10.6 percent) and miscellaneous revenues (9.6 percent).[3] Consequently, for the first time in several years, states' ability to fund their own reserves has weakened while their dependence on federal revenues has increased.

State governments acquire the majority of their revenues through taxes and intergovernmental exchanges of funds; therefore, in order to best understand the "state" of the states, these categories are the most critical to understand. The Census Bureau defines taxes as compulsory contributions exacted by governments for public purposes, including general revenue and/or regulation.[4] 2009 data from the Census Bureau demonstrate that taxes are the single largest source of general revenues for state governments. In 2009, taxes comprised 47.8 percent of general revenues, compared with the previous year when they accounted for 51.6 percent of general revenues. Tax revenues in 2009 for the 50 state governments amounted to $715 billion, a decline of 8.5 percent from 2008.[5]

The type of tax a state imposes helps to identify the ability of state governments to raise revenues. Some types of taxes are more responsive to economic conditions than others. To illustrate, in 2008 corporation net income and documentary and stock transfer taxes declined by 7.3 percent from 2007 levels. These declines continued in 2009, showing a 22.4 percentage point decline to a new level of 36.4 percent in these tax categories.[6] These declines demonstrate that these two tax categories are responsive to changes in the economy. This finding is consistent with trends seen in previous time periods.[7] Understanding the responsiveness of certain tax categories to trends in the economy illustrates differences in state fiscal policy and provides a sense of how states may weather the economic climate.

Historically, sales and gross receipt taxes are among the predominant tax sources for state governments,[8] totaling $342 billion and representing 47.9 percent of total taxes in 2009. These same taxes totaled $359 billion in 2008, $353 billion in 2007, $338 billion in 2006 and $314 billion in 2005. 2009 marked the first decline in these taxes in the last five years. Declines were also seen in taxes on specific commodities, a 2.5 percent decline from 2008, and motor vehicle fuel sales taxes, a 3.0 percent decline from 2008. Tobacco product sales taxes increased 3.8 percent from 2008 in 2009.

Forty-six state governments depend on an income tax—either personal and corporate income taxes, or both—as a method of generating revenue.[9] Income tax revenues for states that collect such taxes totaled $286 billion in fiscal year 2009, a decrease of 13 percent from 2008. This was the first decline in the past five years. State government receipts from income taxes totaled $329 billion in 2008, $319 billion in 2007, $293 billion in 2006, and $262 billion in 2005.[10]

The responsiveness of certain tax categories to the economy illustrates states' abilities to generate revenues from different sources. For example, while documentary and stock transfer taxes constitute only 0.7 percent of total state government tax revenues, their importance among the states varies widely. In 2009, documentary and stock transfer taxes were prevalent in Florida, where such a tax constituted 4.2 percent of the state's total revenue, but for Kentucky, it represented only 0.03 percent of total revenues.

Just as some states have used the documentary and stock transfer tax to supplement their reliance on sales and/or income taxes, other states—including Alaska, Texas, Oklahoma and Wyoming—have relied on severance taxes from their supply of natural resources. Wyoming and North Dakota benefited from severance tax receipts in 2009, with increases in receipts of 36.2 percent and 4.5 percent respectively. Alaska and Texas saw declines in severance taxes revenues by 44.8 percent and 43.4 percent respectively in 2009. Overall, with the drop in energy prices and other commodities, severance taxes for all states declined 26.5 percent to $13 billion.

Although state tax revenues declined—some more severe than others—federal funding increased over previous years because of the American Recovery and Reinvestment Act of 2009. Although Congress passed the Recovery Act in February 2009, states began receiving the funds in the second quarter of 2009. Total federal grants to states were up 13 percent from 2008, and, combined with the declines in tax revenues, the overall share of intergovernmental revenues increased in 2009 as well. The sum of all federal grants accounted for 32.0 percent of all state government general revenues in 2009, compared with 28 percent of state government general revenues in 2008.

The primary source of direct revenue from the federal government to the states in 2009 was in the public welfare category, which increased 16.3 percent compared with its 2008 levels. The total revenues from the federal government for all states in 2009 was $283 billion, up from $244 billion in 2008, $233 billion in 2007, $224 billion in 2006 and $223 billion in 2005. Although the Census Bureau does not identify specific funds or programmatic data, this category does include the two most prominent public assistance programs, Temporary Assistance to Needy Families, known as TANF, and Medicaid, among other programs. Without the federal money associated with public welfare programs, federal grants rose only 8.5 percent from 2008.

Separating the welfare-related programs from total federal grants to states in 2008, the next largest category of intergovernmental transfers is in education. Federal grants to state governments for education increased 11 percent from the previous year to a total of $82 billion, compared with $74 billion in 2008, $73 billion in 2007, $72 billion in 2006 and $69 billion in 2005. Federal education grants amounted to 17.2 percent of total federal grants to state governments in 2009.

State Government Expenditures—A Rich Canvas of Activities

Census Bureau data paint a picture of state government expenditures by three criteria: characteristic, object and function. Expenditure character defines the nature of the expenditure payment and refers to the broad group of related expenditure types, such as direct expenditures and intergovernmental expenditures. Expenditure object, on the other hand, refers to the specific type of financial transaction, such as current operation, capital outlay, interest on debt, grants and subsidies, or payments to other governments. The functional classification is the arrangement of expenditure data according to purpose or type of service rendered, such as health, hospitals, education, airports, parks, police protection, etc.

State government general expenditures in 2009 totaled $1.554 trillion. The 3.3 percent increase in general expenditures from 2008 to 2009 was in contrast to the 1.2 percent decline in general revenues. Compare this with 2007 and 2008, when general revenues rose 3.9 percent and general expenditures rose 5.6 percent. In 2009, state government general expenditures in the form of grants and aid to local governments were 31.3 percent of total general expenditures (including public schools). State expenditures on capital outlay accounted for 7.5 percent of general expenditures, a much smaller amount than the dependency on grants and aid. Expenditures for education and public welfare, together, comprised 64.6 percent of all state government general expenditures, accounting for 36.5 percent and 28.2 percent, respectively in 2009. Expenditures on health and hospitals amounted to 7.7 percent of general expenditures.

Expenditures associated with current operations, including salaries and wages, increased 3.5 percent in 2009 from 2008 to $895 billion. This compares with a 7.7 percent increase in 2008 and a 3.7 percent increase in 2007. Spending on capital outlay, including construction, as well as land and equipment purchases, increased 3.1 percent from 2008 to $117 billion. This increase was fairly consistent with the previous year.

Expenditures for assistance and subsidies for 2009 totaled $36 billion, an increase of 9.6 percent over 2008. At the same time total intergovernmental expenditures—payments and grants to local governments—totaled $487 billion in 2009, up 2.8 percent from 2008 spending of $473 billion.[11] Spending for education is the single largest functional activity of state governments, totaling $567 billion in 2009. The largest characteristic of education spending is found in transfers to local governments and school districts, which totaled $324 billion in 2009, compared with $315 billion in 2008, an increase of 3.1 percent; while assistance and subsidies to individuals for education totaled $23 billion in 2009, a 6.5 percent increase over 2008 levels.

Other functions with substantial contributions to general expenditures for state governments are public welfare, health, hospitals, highways and interest on debt. Combined, these activities account for an additional 45.6 percent—expenditures for public welfare (28.2 percent), health and hospitals (7.7 percent), highways (6.9 percent), and interest on general debt (2.9 percent).

Total public welfare expenditures rose 6.1 percent in 2009 to $437 billion, from $412 billion in 2008. From that amount, approximately $365 billion was for current operations, including payments to vendors, and $13 billion was for assistance and subsidies to individuals. Health and hospital-related spending rose 7.7 percent in 2009 to $119 billion, up from $115 billion in 2008. Although spending on education, health and welfare activities increased from the previous year, expenditures on highways remained relatively unchanged from the previous year at $107 billion. Highways accounted for 53 percent of total state government spending on all capital outlay—$162 billion in 2009. Interest payments on long-term debt also increased just 1.5 percent from the previous year to $47 billion.

Not surprisingly, state government unemployment compensation expenditures increased 86 percent from $35 billion in 2008 to $66 billion in 2009.

A Snapshot of State Government Employment

When it comes to state governments, employment is a reflection of their overall finances. The challenges states are facing as a result of decreasing revenues with increasing cost to provide services can also be seen in the employment statistics. Nationally, state governments added 17,967 full-time employees from 2008 to 2009. State governments employed 3.8 million full-time workers as of March 2009,[12] with total full-time equivalent[13] of 4.4 million people.[14] While this was a marginal increase from 2008, the functions state workers are involved in changed. For example, while the number of full-time employees in higher education was relatively constant at about 1.2 million and public hospitals increased slightly from 377,749 to 380,993, full-time employment declined in natural resources operations (129,698 in 2009 compared with 131,051 in 2008), government financial administration (162,839 in 2009 compared with 165,576 in 2008), and highways (229,873 in 2009 compared with 231,896 in 2008). At the same time, mixed growth occurred in the police protection services function, an increase in full-time police officers from 67,219 in 2008 to 67,389 in 2009, but a decline in non-police officer employees from 39,587 in 2008 to 37,507 in 2009. Part-time employment for non-police officer employees also declined from 2,522 to 1,987 during this period. The data suggest that states are maintaining the workforce in some categories, while making cuts in others to account for declines in revenues across all functions.

Among state-level employees, 1.3 million, or 47.9 percent, worked in education, and the majority of those, some 1.2 million, worked in the higher education systems. The majority of those in higher education (837,135) worked as non-instructional personnel. State-administered colleges and universities employed 401,040 instructional personnel; an increase from 389,610 in 2008 employment levels. But in cases where elementary and secondary education is directly provided by state governments, the number of instructional personnel declined from 36,460 in 2008 to 34,730 in 2009.[15] An additional 13,314 state employees worked as non-instructional personnel in elementary and secondary education as of 2009. After education, corrections and hospitals were the most common activities for state employees, constituting 479,024 (9.2 percent) and 380,993 (8.4 percent) of all state employees respectively. State governments employed 72 percent of their workers on a full-time basis in 2009.

The dynamics of state government employees and their activities show a combination of slight declines and increases across categories. The same movement occurred in total payroll, which totaled $19.4 billion in 2009, compared to $18.7 billion in 2008.

Public-Employee Retirement Systems— A Complex Picture

Membership in the 222 state-administered pension systems remained fairly constant from 2008 to 2009 at 17,215,183 and 17,428,583 respectively.[16] However, revenues for these systems faced substantial changes that may be directly related to overall market conditions. Revenues for these public pension systems come from three main sources: contributions from employees, contributions from the employer—generally the state government in this case, and earnings on investment.

Although contributions from employees and employer amount to $33.3 billion and $64.1 billion respectively, an increase of 5.4 percent and 0.4 percent from the previous fiscal year, the largest piece of the puzzle that illustrates the challenges facing state pension systems, based on the Census Bureau's data, are the trends in the earnings on investment. In 2009, the earning on investment declined approximately $487 billion. This decline was offset somewhat by the contributions from employees and employers to bring total revenues up to a negative $426.4 billion. The impact of these losses on investments captured through the market valuation of these revenues shows how closely the finances of these pension systems are related to the overall market conditions, and how the recent economic recession has hit financial earnings hard.

Assets

State government cash and investments amounted to $3.1 trillion in 2009, including $1.9 trillion in employee retirement trust funds; $488 billion in funds held as offsets to long-term debt; and $674 billion in miscellaneous insurance trust funds, bond funds, other cash and securities.

Of the total cash and investments, 16.5 percent of these funds remained available for financing general government activities. The remaining funds were reserved for public employee retirement systems, unemployment compensation, workers' compensation and payments on existing debt. States dedicated 62.4 percent of their assets for public employee retirement systems; 15.8 percent for the redemption of long-term debt; and 3.7 percent for insurance trust purposes, such as unemployment or workers' compensation; while 1.7 percent was unspent proceeds of bond issues. Total cash and investment decreased by 19.2 percent between 2008 and 2009.

Indebtedness

State government long-term debt at the end of fiscal year 2009 totaled $1.038 trillion, up 4.8 percent over 2008. When examining the state and local government sectors together, total long-term debt was $2.5 trillion in fiscal year 2008; 39.5 percent belonged to state governments and 60.5 percent to local governments.

The Census Bureau identifies two main types of long-term debt for state and local governments: general government debt and public debt for private purposes, also known as conduit debt. The distinction between these two types of indebtedness shows the distribution of debt issuance for government-related activities compared with those used for economic development-related activities in partnership with private sector initiatives. During 2009, state governments' public debt for private purposes was $393 billion, an increase of 3.8 percent from 2008. Debt for general purpose was $645 billion in the same year, an increase of 5.5 percent. Debt issues in 2009 totaled $152 billion, with $58 billion in issues of public debt for private purposes and $94 billion in issues for general-purpose debt. Although the total debt issues in 2009 were virtually unchanged from 2008, the distribution of the issues changed. In 2008, $66 billion in new issues was for public debt for private purposes and $86 billion was for general-purpose debt.

The 2009 fiscal year also posted a 16.7 percent increase in the amount of debt retired. Total debt retirements in 2009 were $109 billion, with $46 billion in retirements of public debt for private purposes, and $62 billion in retirements of general-purpose debt. This compared with 2008 total debt retirements of $93 billion, with $41 billion in the retirement of public debt for private purposes and $53 billion in the retirement of general-purpose debt.

A Look Ahead

The Census Bureau is in the process of collecting statistics for the fiscal year 2010 period, but early indications on tax revenues help to identify the direction and trend of revenues and assets. For example, data from the FY '10 Survey of State Government Tax Collections[17] show a 1.9 percent decrease in general sales tax revenues for all states. Individual income taxes decreased 4.5 percent for the same period for all states. But these declines are not as steep as we saw in FY 2009. In addition, FY '10 shows 11 states with positive growth from the previous year compared to 2009 when only five states had positive year-over-year growth in total taxes. This suggests that the recovery has begun, but it will take some time before receipts for state and local governments return to levels prior to the recession.

Author's Note

This paper is released to inform interested parties of research and to encourage discussion of works in progress. The views expressed in this paper are those of the author and not necessarily those of the U.S. Census Bureau.

Notes

[1] Throughout this chapter, 2009 and fiscal year 2009 will be used interchangeably. Both terms, for the purpose of this chapter, refer to a fiscal year.

[2] In 2009, most state governments ended their fiscal years on June 30. However, four states had alternate fiscal year end dates. Those states (and their fiscal year end dates) are: New York (March 31), Texas (Aug. 31), and Alabama and Michigan (both Sept. 30).

[3] U.S. Census Bureau, 2009 Annual Survey of State Government Finances, *http://www.census.gov/govs/state/*.

[4] U.S. Census Bureau, *Government Finance and Employment Classification Manual*, 2006, Section 4.3.1, page 4-4.

[5] U.S. Census Bureau, 2009 Annual Survey of State Tax Collections, *http://www.census.gov/govs/statetax/*.

[6] U.S. Census Bureau, 2009 Annual Survey of State Tax Collections, *http://www.census.gov/govs/statetax/*.

[7] For historical data on these and other tax categories see *http://www.census.gov/govs/statetax/historical_data.html*.

[8] All states except Alaska, Delaware, Montana, New Hampshire and Oregon had some form of general sales and gross receipts tax. The Census Bureau defines sales taxes as, "Taxes applicable with only specified exceptions (e.g., food and prescribed medicines) to sales of all types of goods and services or to all gross receipts, whether at a single rate or at classified rates; and sales use taxes." U.S. Census Bureau, *Government Finance and Employment Classification Manual*, 2006, Section 4.9, page 4-10.

[9] The following states do not have an individual income tax: Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming; while the following states do not have a corporation net income tax: Nevada, Texas, Washington and Wyoming.

[10] Although some of these intergovernmental expenditures may include both state-originated grants as well as federal pass-throughs, the Census Bureau statistics do not provide additional detail to determine the proportion of federal pass-throughs to state-originated grants.

[11] U.S. Census Bureau, 2009 Annual Survey of State Government Finances, *http://www.census.gov/govs/state/*.

[12] Data for state government employment is not measured by fiscal year, but rather statistics are collected from each government for its pay period that includes March 12, regardless of the length of the pay period.

[13] Full-time equivalent is a computed statistic representing the number of full-time employees that could have been employed if the reported number of hours worked by part-time employees had been worked by full-time employees. This statistic is calculated separately for each function of a government by dividing the "part-time hours paid" by the standard number of hours for full-time employees in the particular government and then adding the resulting quotient to the number of full-time employees.

[14] U.S. Census Bureau, 2009 Annual Survey of Public Employment and Payroll, *http://www.census.gov/govs/apes/*.

[15] Although most elementary and secondary education is performed by local governments, state governments in some instances manage elementary and secondary education. For

example, in Hawaii, state government, not local governments, operates all elementary and secondary schools.

[16] U.S. Census Bureau, 2009 Annual Survey of State and Local Public-Employee Retirement Systems, *http://www.census.gov/govs/retire/*.

[17] U.S. Census Bureau, 2010 Annual Survey of State Government Tax Collections, *http://www.census.gov/govs/statetax/*.

About the Author

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