

U.S. State Government Finances Update

Soft Revenue Growth Over The Past Year Means Limited State Government Spending Over The Next One

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Highlights

- Despite consistent economic growth, state finances remain challenged, with tax collection having gone through a soft patch over the last fiscal biennium.
- Tax collection is expected to improve this year. But the outlook is still fraught with risks.
- Given elevated uncertainty and limited fiscal flexibility as a result of the recent weakness in revenue collection, governors are being extra cautious and have recommended only a modest cumulative spending increase in fiscal 2018. A tighter grip on purse strings is likely to weigh on economic growth over the next year.
- To gauge the current fiscal health of states, we have updated our TD State Fiscal Vulnerability Index. The latter remains largely unchanged relative to the last update, but this masks a divergence between a deterioration in the near-term component and a moderate improvement in the long-term component.
- Looking ahead, we expect the short-term vulnerability measure to improve as revenue collection recovers, but progress in the long-term vulnerability measure is likely to continue to be limited, given outstanding challenges with long-term pension liabilities.

Despite consistent economic growth and declining unemployment, state finances remain challenged. After a weak FY2016, tax collection hit another soft patch last year, as revenues came in below projections. The paradox of healthy economic growth and weak state revenue growth is explained by the lagged impact of the drop in commodity prices, soft inflation, income tax shifting among wealthy individuals in anticipation of tax cuts, as well as a moderation in sales tax revenue as per a shift to online sales. The latest revenue shortfalls were primarily addressed through spending cuts. In fact, nearly half of all states implemented mid-year cuts – an unusually high number outside of a recessionary period.

As these headwinds fade, tax collection is expected to improve this year. But the outlook is still fraught with risks. Possible changes at the federal level – such as the elimination or reduction of state and local tax deductions – have the biggest potential to alter the fiscal health of states.

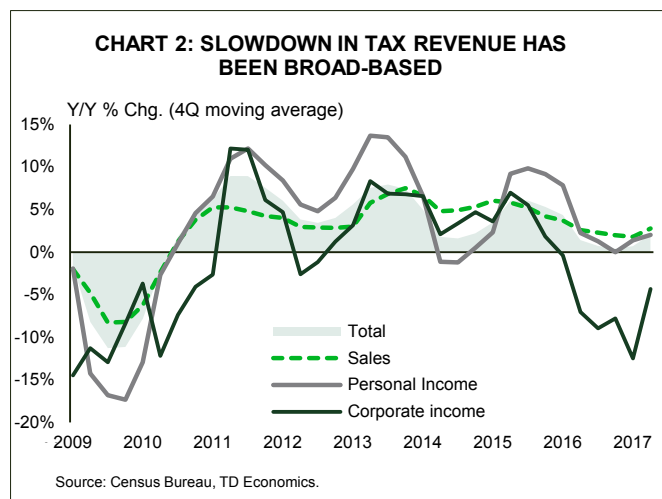
Given elevated uncertainty and limited fiscal flexibility as a result of the recent weakness in revenue collection, governors are being extra cautious and have recommended a cumulative general fund spending increase of only around 1% this year, which would mark the slowest pace since 2010.¹ State governments share significant responsibility with the federal and local governments in funding public services. State expenditures support economic activity indirectly by maintaining public infrastructure, but also directly through the consumption of goods and services and the employment of a significant portion of the state's workforce. In this vein, a tighter grip on purse strings is likely to weigh on economic

growth over the next year. Fortunately, states in the TD footprint are likely to fare somewhat better, with spending in the region projected to rise by roughly double the national rate.

To gauge the fiscal health of states, we have dusted off and updated our TD State Fiscal Vulnerability Index (see Appendix 1). The overall index remains largely unchanged when compared to prior results that utilized data up to 2014, with only a small downtick in average vulnerability. However, this masks a divergence between a deterioration in the near-term index and a moderate improvement in the long-term index. Part of the underperformance of the short-term index is due to the decline in commodity prices that started in mid-2014, but it also incorporates the recent softness in revenue collection in many other states. Looking ahead, we expect this to reverse, with the short-term index likely to improve as revenue collection recovers, while progress in the long-term index continues to improve at a snail's pace as per challenges with long-term pension liabilities.

Revenue growth has hit a soft patch

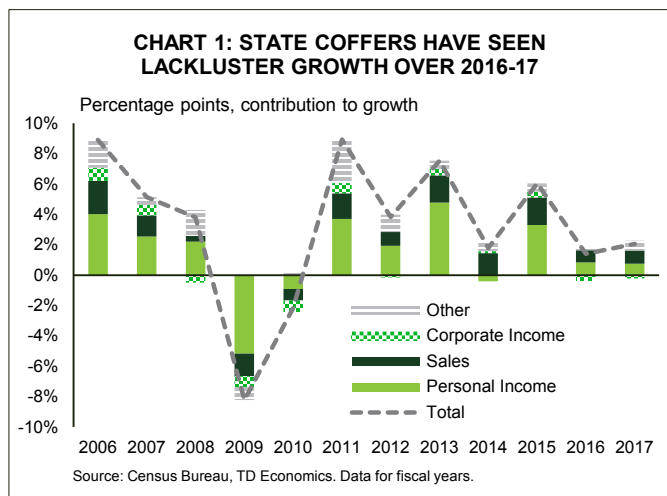
Fiscal year 2017 was a disappointing one when it came to tax collection, with revenue growth seeing little improvement from the year prior (Chart 1; see Table 1 for more detail). Some 33 states saw revenues from all sources – such as sales, personal and corporate income taxes – come in below projections. This is just shy of the 36 states that reported revenues below projections during 2010, when tax revenue took a hit following the Great



Recession. The recent shortfalls, along with elevated uncertainty at the federal level, made it harder for state legislators and Governors to reach agreement on budget plans. Several states entered the fiscal year without a budget, New Jersey and Maine went through brief shut-downs, while Connecticut and Pennsylvania only recently finalized their budgets.

There are multiple reasons for the recent softness in revenue collection. Although each state has a different tax structure (see Appendix 2), revenue at the state level tends to come in predominantly through personal income and sales taxes, and both have slowed on a trend basis in recent quarters (Chart 2). The slowdown in personal income tax component may seem a bit perplexing given that employment gains have continued at a robust pace and wage growth is improving. Digging deeper reveals that while taxes on wages and salaries (known as withholding taxes) have been increasing at a fairly steady pace, capital gains revenues have been highly volatile. The overall softness of this category can be explained in part by high-income individuals shifting income into the next year, with the hopes of benefitting from lower tax rates. On the sales tax side, relatively low inflation and the shift toward un-taxed online sales and away from traditional retail sales has acted as a headwind to revenue growth.

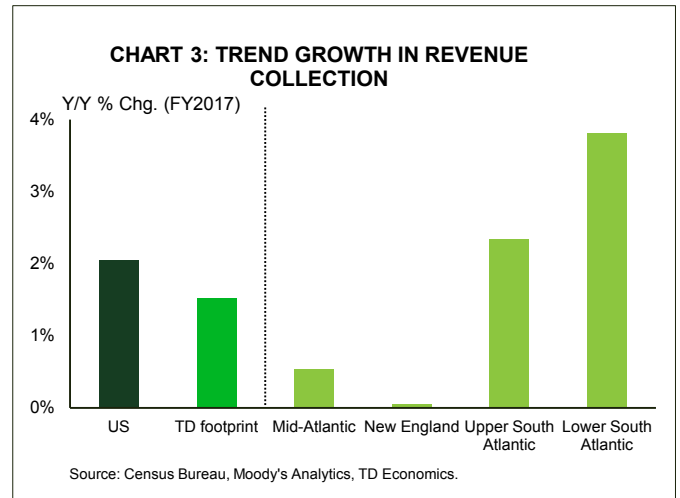
Other smaller revenue sources have offered little comfort. Corporate taxes have been unexpectedly weak and contracted for a second consecutive year. Taxes on non-renewable resources (known as severance taxes), which



Revenue Growth in TD Footprint

Tax revenue growth in TD's East Coast footprint, which stretches from Florida to Maine, exhibits a similar trend to the national average. That said, with revenues typically moving in line with economic growth, there are large variations within the footprint. As such, revenue growth in the faster-growing economies of Lower and Upper South has outperformed recently, while trailing behind in New England and the Mid-Atlantic regions (Chart 3).

Zooming in on the regions reveals that the recent weakness in New England is largely the work of weak revenues in New Hampshire and Connecticut, while a plateauing trend in much larger Massachusetts – which accounts for about half of regional revenues – has offered a small offset. At the same time, the Mid-Atlantic region has been held back by New York. The Empire State receives roughly 57% of revenues from personal income, compared to only 37% nationally, with some of the recent softness chalked up to individuals shifting income into the New Year. On the other hand, tax collections are pacing well across the board in the Lower South Atlantic, while in the Upper South, soft revenue collection in West Virginia and Delaware has been overshadowed by better performances in much larger North Carolina, Maryland and Virginia.



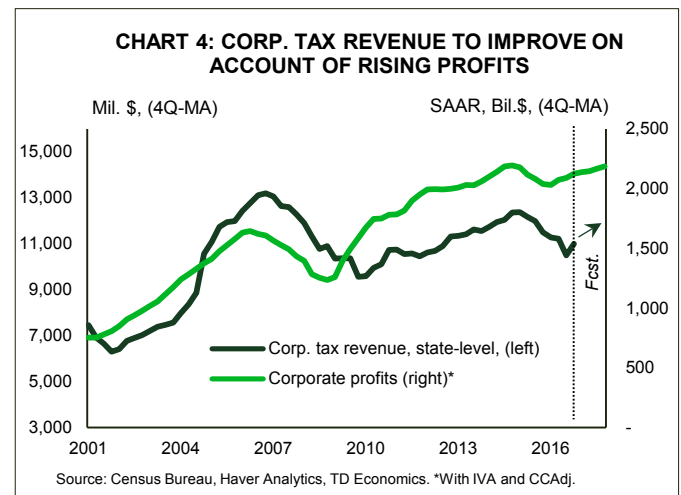
are an important stream of revenue for nine states, have stabilized somewhat but are still down some 50% from the cyclical peak reached in early 2014. On the bright side, property taxes have continued to pace well given robust home price growth. But state coffers have failed to capitalize on this trend in a major way since this is a very small source of revenue for most states.

While revenue growth has clearly disappointed, the silver lining in the recent wave of fiscal pressures is the fact that most states have been disciplined in bolstering their rainy day funds, with 27 states increasing balances last year. Rainy day fund balances, while easing off slightly from the year prior, remained elevated at an estimated \$49.6 billion (or \$36.2 billion when excluding Alaska and Texas – two states that keep large balances to help smooth the volatility that comes with relying heavily on severance taxes). Adequate cash at hand helps provide a safety net in the case of an economic downturn, and features favorably with credit rating agencies, allowing states to lower their debt service costs. While conditions vary widely by state, median fund balances as a share of general fund spending – pegged at 5.5% last year – are

projected to increase further as revenue growth accelerates, marking a continued improvement from a low of 2% reached in 2010.

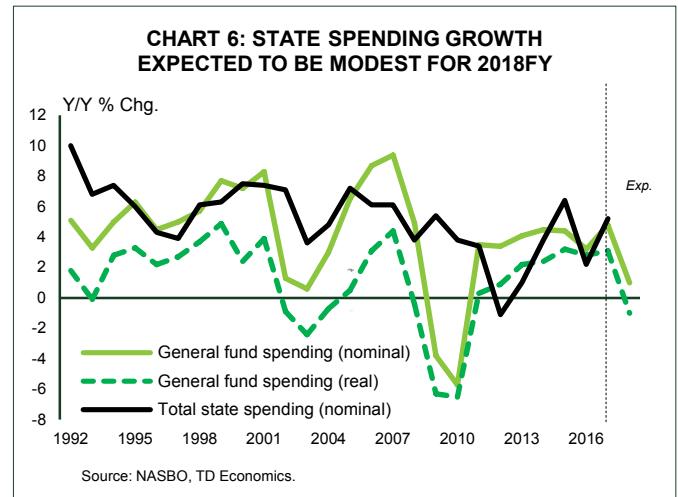
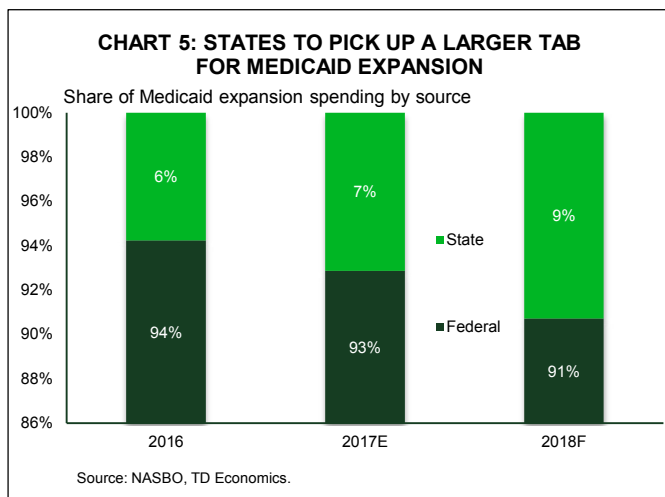
Tax collection to improve in fiscal 2018...

As headwinds diminish, we expect tax revenue growth to accelerate to 3% in FY2018, after averaging 1.7% in the last two fiscal years. Indeed, the vast majority of states



have already penciled in increases in their general revenue funds this fiscal year (see Table 1). One reason to expect greater revenues is faster inflation. Consumer price inflation has been running at a sub-2% rate over the past year, but more stable energy prices and an economy that is expected to continue to run ahead of its long-run cruising speed are likely to push over inflation and therefore nominal income growth higher. This should support both personal income tax and retail sales tax revenues. States that rely heavily on energy production should also see some improvement in severance taxes as energy prices continue to rise gradually, with the potential to receive an added fillip through the business investment channel. At the same time, continued employment gains, to the tune of 165k per month over the next year, will also buoy nominal income growth. The capital gains portion should also lend a helping hand, as some of the income pushed forward with the hope of a lower tax bill is claimed this year. Lastly, a solid economic background that bodes well for corporate profits suggests that corporate tax collection should see better days ahead (Chart 4).

Looking beyond the advance in revenue collection stipulated via an improvement in macro fundamentals and gradual increase in energy prices, tax collection should also receive a boost through planned tax hikes and/or base broadening. This fiscal year, governors have been more likely to recommend hikes in vice (alcohol, tobacco etc.) and other taxes, while being more comfortable to recommend personal and corporate tax cuts. All in all, 15 states have proposed tax increases totalling nearly



\$5B, while 12 states have proposed tax decreases totalling over \$1B in FY2018, for a net tax increase of around \$3.7B.

...But spending pressures will remain

Despite the weakness in revenue growth, spending growth was actually fairly robust in FY2017. Aggregate general fund spending – the predominant fund to finance state operations, with revenues generated by broad-based state taxes – increased by an estimated 4.9% last year. This is the highest rate of growth since the recession. What is more, when adjusted for inflation, general fund spending finally surpassed its prior 2008-peak.² Meanwhile, total state spending, which also features spending from other state funds, bonds and federal funds, rose 5.2%.

However, this is unlikely to last. Given soft revenue collection over the last two years and multiple risks on the policy front, governors are being extra cautious and holding a tighter grip on purse strings this year. Recommended general fund spending increases in FY2018 (\$8.7 billion combined) are roughly a third of those in the year prior (\$23.9 billion), with the vast majority of the increases concentrated in K-12 education and Medicaid. With respect to the latter, states are expected to pick up a larger portion of the tab going forward (Chart 5). Under the ACA, the federal government agreed to pay 100% of the costs as per 'newly eligible adults' until the end of 2016. But as of 2017, states began to pay 5% of the costs with the share set to increase gradually to 10%

Upside/Downside Risks to Government Coffers

Main upside risks

- Online retailers to collect more state sales taxes: Many e-commerce retailers do not collect state sales taxes. The basis for this is a 1992 Supreme Court ruling, which stipulated that remote retailers cannot be required to collect taxes if they do not have a physical presence in the state. Over the years, there has been a push to alter legislation so that more sales taxes could trickle down to government coffers, but with little success.³ However, some states have led their own individual and more successful initiatives, which should enable them to collect more sales tax revenue over the medium term.⁴ At the same time, as of April this year, Amazon, which accounts for 40% of e-commerce sales, began collecting taxes for all states that levy sales taxes.⁵
- Deferred tax bills of offshore hedge-fund managers: During the crunch of the Great Recession, legislative changes gave offshore hedge funds managers 10 years to pay taxes on funds accumulated up to the point the law was changed (prior to this they were allowed to delay compensation). The end of the year deadline is fast-approaching with payments expected to boost tax revenue, which will be shared among federal, state and local governments. It is unclear how much revenue this will bring in, but the figure seems to be in the several billions, with a \$25 billion estimate from the Joint Committee on Taxation deemed conservative. States that have typically had a large hedge fund presence, such as Connecticut with its state finances in deep disarray, are expected to see the biggest windfall.
- Tax reform expands tax base: Many states use federal definitions for portions of their tax systems. As such, changes at the federal level that repeal deductions, exemptions and credits, could expand state tax bases and lead to an increase in state tax revenue. This was the case with the Tax Reform Act of 1986, where base-broadening measures “increased state income tax revenue an estimated 20% for 19 states”.⁶ Still, the current plans appear to suggest much less broadening than in 1986.

Main downside risks

- Reducing or repealing the SALT deduction: The SALT deduction – which is one of the biggest federal tax expenditures, with an estimated cost of \$1.3 trillion over the next decade – indirectly subsidizes state and local governments, as it allows them to levy higher taxes than they otherwise would.⁷ Recent proposals aim to repeal or heavily restrict the SALT deduction, which would increase costs of state and local taxes for those that itemize. In turn, this has the potential to put pressure on state and local governments to either lower taxes or to change the tax mix, with both measures likely to weigh on government coffers and lead to more volatile collections, at least in the near-term. The impact would vary by state, with states that have a higher share of high income individuals and/or higher income tax rates being affected the most. For instance, the average tax increase for affected taxpayers in the case of a full repeal, would vary from roughly \$1000 dollars in Alaska, Tennessee and Wyoming to over \$4000 dollars in Connecticut and New York, as per the Tax Policy Center.
- Possibility of reduced aid from the federal government: Apart from internally-generated funds, state governments receive a significant share of revenue from federal transfers, with the funds typically provided for transportation, education, Medicaid and other entitlement programs administered by the states. With federal finances facing their own challenges, the quest for a tighter budget has the potential to result in a more restricted flow of federal aid, which ought to exert additional pressure on state budgets. States that are most exposed to this flow of revenue include Mississippi, Louisiana and Tennessee, while the TD footprint features Georgia, West Virginia, Rhode Island and Maine.

by 2020. This trend is likely to exert increased pressure in the funding of other programs, despite some recent initiatives by states to reduce Medicaid spending growth.

As a result, nominal general fund spending – which typically makes up slightly less than half of total state spending – is projected to increase by roughly 1% this year, marking the slowest pace since 2010 when it slowed as a result of the Great Recession. At this rate, after accounting for inflationary pressures, real general fund spending is likely to contract (Chart 6). This suggests that instead of providing a lift, as it has done over the last few years, the curtailed flow of funds is likely to weigh on economic growth. The effects however will vary widely by state. For instance, nominal spending is expected to decline in a third of states, while rising between one and seven percent among other states (Table 1). North Dakota is an outlier in this group, given that its spending is expected to decline much more abruptly. This not only reflects the tough budgetary conditions that the state faces as a result of a significant decline in severance tax revenue, but also an altered approach to its biennial budget as per

new leadership. Zooming in on the TD footprint, spending is projected to rise by about double the national rate this fiscal year, with the majority of states likely to see broad-based gains, while remaining flat in all other states combined.

Bottom line

In spite of several years of decent economic growth in the United States, state finances have been put under pressure by the combination of weak overall inflation (worsened in states heavily dependent on commodity prices), volatile capital gains income revenue and a loss of sales tax revenue due to growth in online (non-taxed) sales. While state governments have increased spending over the past few years, a confluence of factors are likely to weigh on expenditure trends, and consequently on state economies over the next year. Of course, the extent of the constraint will vary across the country, with spending restraint likely to widen the disparity in growth rates between states with strong economic potential and those with weaker fundamentals.

TABLE 1: STATE GENERAL FUND						
Y/Y % Chg.	Revenue			Expenditure		
	2016FY	2017FY	2018FY*	2016FY	2017FY	2018FY*
Alabama	2.1	4.0	2.5	0.5	5.9	0.6
Alaska	-31.8	-6.0	12.3	-9.5	-18.4	-2.4
Arizona	6.2	-0.1	2.2	2.6	1.4	1.5
Arkansas	6.1	-0.6	2.8	6.1	-0.6	2.8
California	3.3	2.8	4.4	0.5	7.7	-0.2
Colorado	1.7	4.8	5.9	6.6	1.9	6.2
Connecticut	2.9	0.7	0.6	3.1	-0.4	0.7
Delaware	-0.3	0.1	4.6	2.1	4.5	0.3
Florida	2.0	5.9	2.0	4.2	4.7	1.0
Georgia	8.8	3.0	3.5	9.3	4.6	3.5
Hawaii	7.7	1.6	1.9	7.3	12.0	-3.6
Idaho	4.4	5.9	3.7	3.5	7.7	5.9
Illinois	-9.7	1.0	3.4	-11.6	22.9	-2.6
Indiana	-0.7	1.5	2.8	0.4	1.8	2.3
Iowa	1.5	2.7	3.6	2.7	1.4	-0.9
Kansas	-1.6	-0.2	-0.2	-2.0	2.3	0.1
Kentucky	4.0	2.6	2.5	2.1	7.9	2.4
Louisiana	-6.1	21.6	0.3	1.4	10.6	0.3
Maine	0.8	2.2	-1.8	5.2	2.2	0.2
Maryland	1.7	2.4	3.6	0.8	6.3	0.5
Massachusetts	5.6	3.5	4.0	6.1	3.6	3.5
Michigan	3.0	3.0	3.1	5.2	4.4	0.2
Minnesota	3.1	0.7	4.5	-0.7	7.5	4.4
Mississippi	2.9	1.6	1.0	3.7	1.1	-1.2
Missouri	0.9	3.0	3.8	3.3	2.0	3.8
Montana	-3.6	4.9	7.4	6.8	1.7	-0.3
Nebraska	0.1	2.8	4.3	4.1	3.4	1.5
Nevada	15.3	2.0	2.5	6.2	7.0	7.3
New Hampshire	9.4	-1.8	2.5	8.3	5.3	2.5
New Jersey	0.4	3.4	3.6	1.9	2.7	2.6
New Mexico	-9.1	1.7	2.1	-0.3	-4.4	-2.9
New York	2.6	-2.4	4.5	8.3	2.4	3.9
North Carolina	3.3	-0.4	5.0	2.6	4.6	5.9
North Dakota	-20.4	-9.6	38.2	-8.0	0.2	-23.4
Ohio	7.8	2.8	-5.1	9.5	2.7	-4.9
Oklahoma	-8.2	-6.1	3.9	-4.5	-7.0	-2.7
Oregon	5.2	3.4	3.8	10.5	1.0	5.9
Pennsylvania	1.0	4.9	5.0	3.3	5.4	1.8
Rhode Island	0.6	1.5	3.0	2.7	4.3	2.5
South Carolina	4.5	4.2	2.9	5.4	9.5	-2.0
South Dakota	4.1	9.3	2.9	5.4	8.4	2.2
Tennessee	6.2	2.3	0.9	2.6	8.5	6.1
Texas	-3.5	1.7	1.2	7.1	0.1	-2.3
Utah	2.7	4.1	4.5	9.2	2.0	2.0
Vermont	2.2	5.1	1.6	3.5	3.6	0.7
Virginia	3.4	7.9	0.1	4.7	6.5	-0.6
Washington	7.5	4.5	4.2	9.0	7.3	5.0
West Virginia	-2.2	2.0	6.2	-1.4	5.4	1.0
Wisconsin	3.8	2.7	3.0	2.2	7.0	-0.4
Wyoming	-33.6	1.1	1.5	-21.4	-12.9	1.1
U.S. average	1.8	2.4	3.1	3.2	4.8	1.0

Source: NASBO Fiscal Survey of States, TD Economics.
*Projections based on Spring 2017 report; figures likely to change in upcoming Fall 2018 publication.

Appendix 1: TD's Fiscal Vulnerability Index

Given the recent budgetary pressures and significant risks lurking in the horizon, we take the opportunity to reassess the fiscal health of states through the TD Fiscal Vulnerability Index. The latter takes into account multiple indicators and synthesizes them into a short-term and long-term component, thus providing a quick snapshot of vulnerabilities from both a cyclical and structural perspective. The overall index remains largely unchanged from our prior 2014 update, but the sub-indices have moved in opposite directions.

Near-term vulnerability has increased

Many of the concepts discussed in this report, such as tax revenue trends and budget balances, feature into the short-term arm of the index. Other indicators, such as the gap in unemployment rates from trend rates and home price growth, are also included in the calculation (for a comprehensive overview of the methodology, see original [report](#)). The recent weakness in tax collection – which is assigned a 40% weight – is one of the main culprits behind the deterioration in the near-term index, with the latter moving up 2.1 points compared to our last update (note that a higher value in the index implies an increase in fiscal vulnerability and a deterioration in conditions; see Table 2).

While some of the usual suspects, such as Connecticut and Delaware, remain among the top 10 most vulnerable states, the commodity slump has brought new players to the list. In fact, all of the nine most energy-dependent states (see Appendix 2) have moved up significantly in the vulnerability scale, with half of the top 10 list now being made up of these states. For instance, New Mexico and Alaska moved up 24 and 25 spots respectively, with the availability of a large reserve fund likely mitigating some of the effects for the latter. Meanwhile, a decline in the coal industry has significantly weakened conditions for Wyoming which jumped up 37 spots and now ranks as the most vulnerable among all fifty states.

Worsening conditions among the above states are responsible for the majority of the deterioration in the near-term index. Not accounting for their drag, the move up in the vulnerability scale would have been much more subdued at only around 0.6 points, with the experience among other states being more nuanced. In fact, fiscal affairs improved in 22 of the remaining 41 states. This is reflective of a cyclical upturn in some economies, featuring a mix of factors that bode well for state coffers, such as declining unemployment rates, strengthening household finances and growing consumer spending, along with rising property prices.

Long-term vulnerability has improved slightly

In order to assess structural challenges, the long-term sub-index features unfunded pension liabilities, outstanding debt and bond ratings – the latter serving as a gauge for borrowing costs. Given that it is formulated in such a way to largely steer clear of cyclical volatility, changes to the index and shifts in state ranking are much more subdued. When compared to the prior results, the sub-index has pulled back a modest 2.2 points, marking a reduction in vulnerability, with over three quarters of states recording an improvement. Nonetheless, this hides a divergence between the debt and pension indicators. The debt binge of the 2000s has come to a halt, with debt levels declining outright among half of the states, while increasing only moderately in other states – Arkansas and Minnesota being the only outliers with their debt growing in the double-digits. As overall debt levels have plateaued around the \$1.1 trillion mark and debt ratings remain favorable among most states, a continued increase in economic output has improved the states' ability to meet these obligations.

On the other hand, after some improvement during 2012-14, unfunded pension liabilities have continued to deteriorate, with the total shortfall increasing from roughly \$930 billion in 2015 to \$1.14 trillion in 2016. State governments are not the only ones grappling with these issues. In fact, many large U.S. companies that feature in the S&P 500 don't have fully funded pensions. The main culprits behind this trend are relatively low returns and rising plan costs. At the same time, strained public finances have resulted in states being less disciplined in terms of making the appropriate plan contributions. Wisconsin is in fact the only state with fully funded pensions, while Illinois, Kentucky, New Jersey and Connecticut are the worst performers with over half of their liabilities unfunded.

Many states have taken initiatives to limit costs by reducing pension benefits. Pennsylvania, which recently passed legislation along these lines – putting more emphasis on hybrid pension plans which utilize a 401(a) component as opposed to a defined benefit component, and changing the age at which maximum benefits can be attained from 65 to 67 – provides a useful example. Still, these measures are aimed at new employees. The same is true for initiatives among other states, since reputational and legal challenges limit their ability to alter existing benefit formulas. Until new hires make up the majority of the work force, these changes will likely have little effect. What is more, with states not expected to go on major hiring sprees over the next few years, given existing budgetary challenges, the road to pension reform will continue to be quite slow.

Higher returns would help alleviate some of the pressures over the forecast horizon. But interest rates are expected to rise only gradually, while markets are prone to correction and retaining the recent pace of gains – which have been boosted by expectations for tax reform and increased infrastructure spending and deregulation – may prove a challenge over the medium term. Rising rates will also accentuate pressures on the debt front. Meanwhile, the possible elimination of tax exemptions for certain bonds issued by state and local governments to refinance old debt (with such measures being included in both the House and Senate tax plans), may further increase financing costs. All in all, these trends reinforce the view that long-term liability challenges will remain in place.

TABLE 2: STATE FISCAL VULNERABILITY INDEX

***Higher index value and move up in the rank = deterioration in conditions = increase in vulnerability.

State	Overall				State	Near-term				State	Long-term			
	Index	Chg.	Rank	Chg.		Index	Chg.	Rank	Chg.		Index	Chg.	Rank	Chg.
Connecticut	74.9	-0.3	1	+1	Wyoming	76.0	34.1	1	+37	Illinois	88.6	3.2	1	+1
Illinois	74.5	0.1	2	+1	Alaska	60.1	12.5	2	+25	New Jersey	86.9	5.5	2	+3
Rhode Island	73.3	-6.3	3	-2	Connecticut	59.6	-4.0	3	+1	Rhode Island	86.9	0.1	3	-2
New Jersey	73.1	-0.9	4	0	New Mexico	58.5	11.4	4	+24	Connecticut	85.1	2.2	4	0
Mississippi	70.6	2.3	5	+2	West Virginia	57.2	13.8	5	+31	Kentucky	84.7	1.0	5	-2
Kentucky	70.6	-2.0	6	-1	Iowa	56.7	19.2	6	+38	Hawaii	82.2	3.2	6	+4
Alaska	70.4	2.7	7	+1	Oklahoma	55.6	13.5	7	+30	Mississippi	81.4	0.4	7	+2
Hawaii	68.6	4.9	8	+7	Delaware	54.6	-3.9	8	0	Massachusetts	78.5	-2.7	8	-2
Massachusetts	67.0	-2.6	9	-3	Mississippi	54.4	5.0	9	+15	Alaska	77.3	-3.8	9	-1
New Mexico	66.5	-1.0	10	-1	New Hampshire	54.1	10.2	10	+24	South Carolina	73.8	-2.0	10	+3
West Virginia	66.1	3.2	11	+8	Kansas	53.6	15.9	11	+32	New Hampshire	73.2	-5.0	11	0
New Hampshire	65.6	1.1	12	+2	Pennsylvania	53.4	-2.2	12	+1	Pennsylvania	72.5	0.1	12	+3
Pennsylvania	64.9	-0.8	13	0	Illinois	53.2	-4.6	13	-4	West Virginia	72.0	-4.0	13	-1
Vermont	63.8	5.4	14	+12	Virginia	53.0	2.5	14	+9	Vermont	71.9	1.0	14	+4
South Carolina	63.2	-0.2	15	+3	Rhode Island	52.9	-15.7	15	-13	New Mexico	71.8	-9.3	15	-8
Wyoming	62.2	15.2	16	+30	Alabama	52.3	0.4	16	+4	Louisiana	70.9	2.1	16	+4
Louisiana	62.0	3.3	17	+8	New Jersey	52.3	-10.4	17	-12	Montana	68.4	-1.7	17	+2
Montana	60.8	1.1	18	+6	North Dakota	52.2	26.2	18	+32	Maine	67.9	-3.2	18	-1
Maine	60.7	-2.7	19	-2	Maryland	52.1	-2.2	19	-3	Michigan	67.3	-6.5	19	-5
Arizona	59.8	-6.2	20	-8	Arizona	51.9	-15.0	20	-17	Arizona	65.0	-0.4	20	+5
Alabama	59.3	-1.9	21	0	Vermont	51.6	11.8	21	+21	Colorado	64.9	-1.3	21	+2
Michigan	59.1	-7.7	22	-12	Nebraska	50.5	14.7	22	+25	Alabama	64.0	-3.5	22	0
Oklahoma	58.2	2.0	23	+8	Florida	50.4	-5.7	23	-13	Indiana	62.5	-2.2	23	+3
Kansas	58.0	4.3	24	+13	Ohio	50.0	-0.8	24	-2	California	62.3	-5.6	24	-3
Ohio	57.3	-6.3	25	-9	Maine	50.0	-2.0	25	-6	Ohio	62.1	-10.1	25	-9
Maryland	57.0	-3.6	26	-3	Massachusetts	49.8	-2.3	26	-8	Kansas	60.9	-3.4	26	+2
Indiana	56.7	-4.2	27	-5	New York	49.6	0.2	27	-2	Arkansas	60.3	-0.1	27	+4
Colorado	56.4	-1.8	28	-1	Missouri	49.5	3.4	28	+2	Maryland	60.2	-4.4	28	-1
California	56.3	-6.3	29	-9	Montana	49.5	5.2	29	+4	Oklahoma	59.9	-5.6	29	-5
Arkansas	55.5	1.4	30	+5	Kentucky	49.4	-6.6	30	-18	Nevada	59.8	-2.9	30	0
Nevada	55.0	-11.3	31	-20	Louisiana	48.6	4.9	31	+4	Idaho	57.3	-1.6	31	+2
Virginia	54.8	-1.6	32	-4	Georgia	48.5	-13.6	32	-26	Minnesota	57.1	0.7	32	+4
Delaware	54.0	-1.5	33	0	Arkansas	48.3	3.7	33	-1	Missouri	56.4	-6.7	33	-4
Missouri	53.6	-2.6	34	-4	Minnesota	48.2	11.7	34	+12	Virginia	55.9	-4.4	34	-2
Minnesota	53.6	5.1	35	+7	North Carolina	48.2	-4.0	35	-18	North Dakota	53.8	-1.8	35	+2
Iowa	53.3	5.4	36	+8	Hawaii	48.1	7.5	36	+4	Delaware	53.6	-0.1	36	+5
North Dakota	53.1	9.3	37	+12	Wisconsin	48.1	0.4	37	-11	Oregon	53.3	-1.6	37	+2
Idaho	52.3	-3.8	38	-6	Indiana	48.1	-7.3	38	-24	Wyoming	53.1	2.5	38	+8
New York	51.6	-2.3	39	-3	South Dakota	48.0	12.6	39	+9	New York	53.0	-4.0	39	-4
Florida	50.6	-4.7	40	-6	Nevada	47.9	-24.0	40	-39	Washington	51.8	-1.6	40	+2
Georgia	50.0	-6.3	41	-12	Texas	47.9	10.7	41	+4	Utah	51.1	-6.1	41	-7
Oregon	49.8	0.8	42	-2	South Carolina	47.4	2.7	42	-11	Iowa	51.1	-3.9	42	-4
Wisconsin	49.2	-0.5	43	-4	California	47.2	-7.5	43	-28	Georgia	51.0	-1.4	43	+1
Texas	49.1	4.0	44	+4	Michigan	46.7	-9.3	44	-33	Florida	50.8	-4.0	44	-4
South Dakota	48.4	2.3	45	+2	Tennessee	46.1	-13.4	45	-38	Wisconsin	50.0	-1.2	45	0
Washington	48.2	-0.4	46	-5	Idaho	44.6	-7.0	46	-25	Texas	49.9	-0.6	46	+1
North Carolina	48.0	-0.3	47	-4	Oregon	44.5	4.4	47	-6	South Dakota	48.7	-4.5	47	-4
Utah	47.8	0.2	48	-3	Colorado	43.7	-2.5	48	-19	North Carolina	47.9	2.1	48	+2
Nebraska	45.5	1.8	49	+1	Utah	42.9	9.6	49	0	Tennessee	42.1	-4.8	49	0
Tennessee	43.7	-8.2	50	-12	Washington	42.7	1.6	50	-11	Nebraska	42.1	-6.8	50	-2
Avg.	58.5	-0.4			Avg.	51.0	2.1			Avg.	63.5	-2.2		

Source: TD Economics. As at November 2017. Results compared with prior publication, which utilized data up to 2014.

Appendix 2: Sources of Tax Revenue Vary Widely by State

While the main streams of revenue for state government coffers are personal income and sales taxes, tax structures vary widely by state. Forty one states levy broad-based individual income taxes, with states like Oregon, Virginia, New York and Massachusetts relying heavily on this source of revenue. Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming, on the other hand, do not levy any personal income taxes. New Hampshire and Tennessee, meanwhile, only tax individual income from dividends and interest, and tend to rely more heavily on corporate income taxes which are a much smaller stream of revenue for most other states.

Some of the aforementioned states that do not rely heavily on either personal or corporate income taxes, such as Texas, Florida and Nevada, tend to put more emphasis on consumption-based taxes, thereby obtaining a large part of their revenue through general sales and gross receipts taxes. On the other end of the spectrum, Alaska, Delaware, Montana, New Hampshire and Oregon have no sales taxes. Instead, Alaska receives a significant share of revenue through severance taxes. A number of other states where energy production is a significant part of the state economy, such as North Dakota and Wyoming, also receive significant share of revenue from the taxation of non-renewable resources, though their importance has faded considerably with the decline in energy prices.

Lastly, while local governments depend heavily on property taxes, this is not a major source of revenue for most states. Fourteen states in fact do not levy state-level property taxes. Only a handful of states, including Vermont, Wyoming, New Hampshire and Arkansas receive more than 10% of state tax revenue through property taxes. Vermont is the outlier, receiving about a third of state-level revenue from this source.

States	Personal income	General sales & gross receipts	Corporate income	Property	Severance
AK			7%	7%	52%
AL	36%	26%	4%	4%	1%
AR	29%	36%	4%	12%	1%
AZ	28%	44%	3%	7%	0%
CA	52%	24%	6%	2%	0%
CO	51%	22%	4%		0%
CT	49%	25%	6%		0%
DC	25%	19%	8%	33%	
DE	39%		6%		
FL		58%	6%	0%	0%
GA	50%	26%	4%	4%	
HI	30%	46%	3%		
IA	37%	32%	4%	0%	
ID	37%	37%	5%		0%
IL	35%	30%	8%	0%	0%
IN	38%	37%	5%	0%	0%
KS	28%	39%	5%	8%	1%
KY	37%	29%	5%	5%	1%
LA	26%	38%	2%	0%	3%
MA	54%	23%	8%	0%	
MD	41%	22%	4%	5%	
ME	36%	34%	4%	1%	
MI	33%	32%	4%	7%	0%
MN	43%	23%	5%	3%	0%
MO	50%	29%	2%	0%	0%
MS	23%	44%	5%	1%	1%
MT	43%		5%	10%	6%
NC	45%	29%	3%		0%
ND	9%	30%	2%	0%	41%
NE	44%	36%	5%	0%	0%
NH	3%		23%	17%	
NJ	42%	29%	7%	0%	
NM	24%	40%	1%	1%	11%
NV		57%		3%	1%
NY	57%	17%	5%		
OH	28%	44%	0%		0%
OK	36%	30%	2%		5%
OR	73%		5%	0%	0%
PA	32%	28%	6%	0%	
RI	38%	31%	4%	0%	
SC	45%	31%	4%	0%	
SD	0%	58%	2%		0%
TN	2%	56%	11%		0%
TX		60%			6%
US	37%	32%	5%	2%	1%
UT	47%	33%	4%		0%
VA	58%	19%	3%	0%	0%
VT	24%	12%	3%	34%	
WA		60%		9%	0%
WI	43%	29%	5%	1%	0%
WV	36%	25%	2%	0%	8%
WY		34%		16%	30%

Source: Census Bureau, TD Economics. *FY2017, excludes other sources.

End Notes

1. Report utilizes data from the National Association of State Budget Officers (NASBO): Fiscal Survey of States (Spring 2017) and State Expenditure Report, Fiscal 2015-2017 (November 2017).
2. Part of the strength last year came as a result of an anomaly in Illinois, given that this state enacted a full-year budget. Nominal general fund spending rose by an estimated 4.1% when excluding Illinois.
3. For Example, the Marketplace Fairness Act (MFA) and the Remote Transactions Parity Act (RTPA).
4. Colorado's 2010 law pressuring online retailers to collect sales tax was finally allowed to go into effect this year, which is likely to motivate other states to do the same. Cash-strapped Pennsylvania recently reached an agreement with 'Wayfair' to start collecting sales taxes and is in negotiations with several other online retailers to do the same. Meanwhile, states such as Alabama, Indiana, South Dakota, Tennessee, and Wyoming are also challenging aspects of the 1992 ruling.
5. [eMarketer report](#), Amazon sales make up roughly 40% of e-commerce sales. States where Amazon didn't previously collect sales taxes could see a meaningful bump in sales tax revenue.
6. [How Federal Tax Changes Would Affect the States, Tax Policy Center, October 2017.](#)
7. [Repeal of the State and Local Tax Deduction, March 2017.](#)

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