Is Tax Revenue Decoupling from the Underlying Economy?

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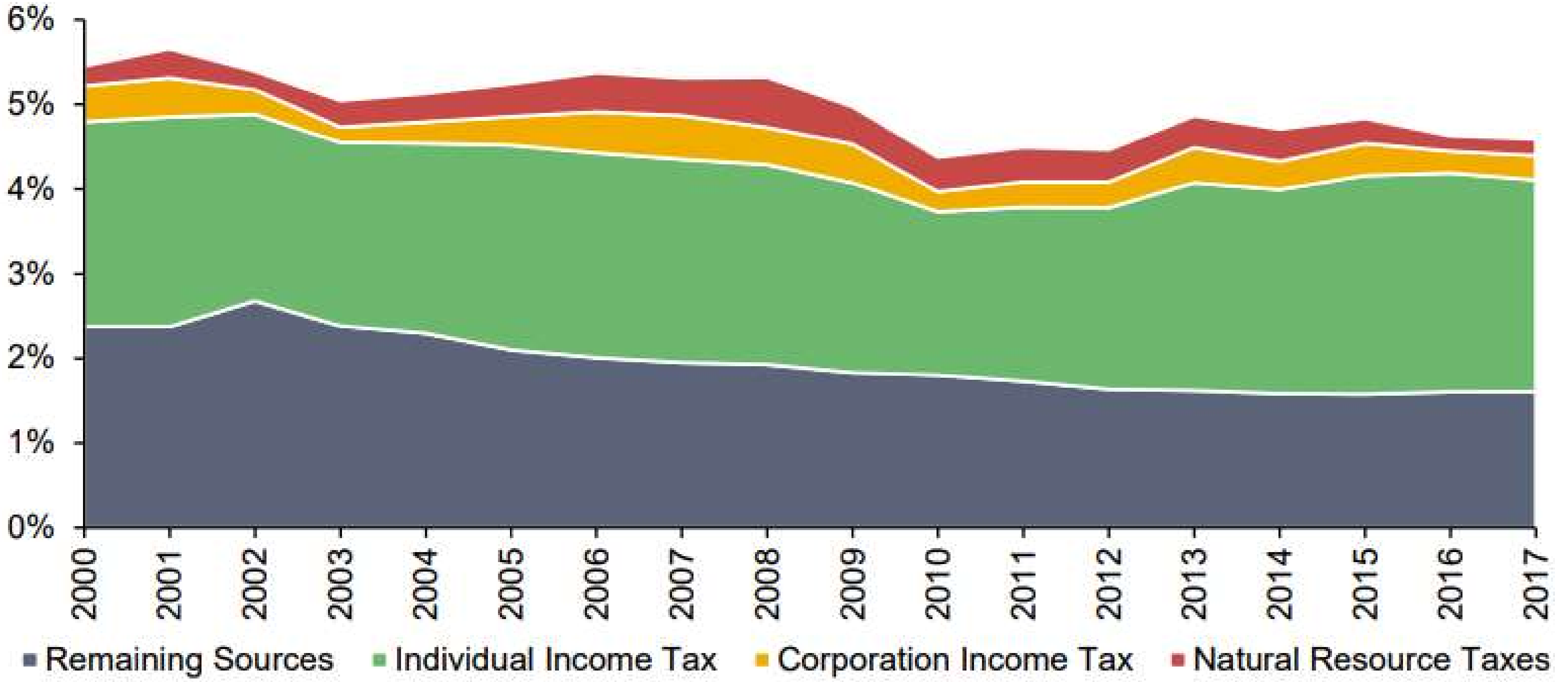
Problem: Revenue Erosion

MT General Fund Revenue Declining as a Share of Gross State Product



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Montana Legislative Fiscal Division, Stephanie Morrison and Sam Schafer. http://leg.mt.gov/css/Committees/interim/2017-2018/Revenue-and-Transportation/Taxes-Changing-Economy/Meetings/Mar-2018/mar-2018.asp

Question:

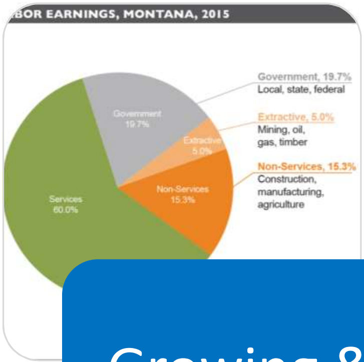
Are state and local government tax policies capable, over time, of generating revenue consistent with growth in the underlying economy?

Question:

Or another way:

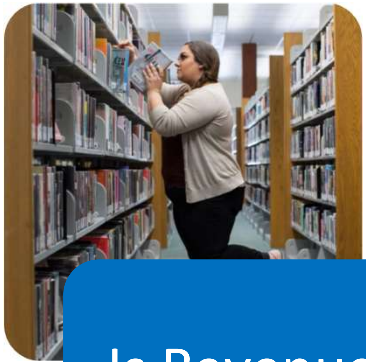
Are state tax structures coupled adequately to the economy?

Road Map



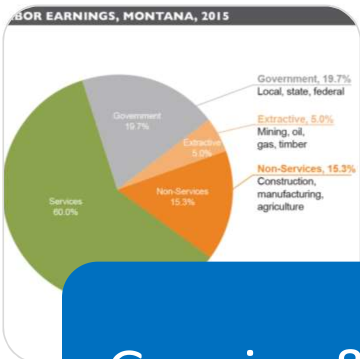
Growing & Changing Economy

Lessons from Economic Transition



Is Revenue Erosion a Thing?

Road Map



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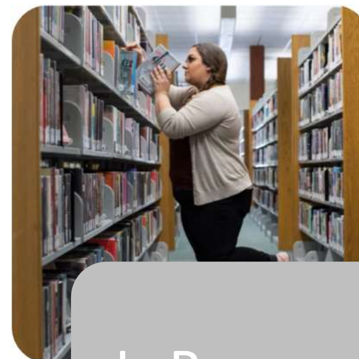
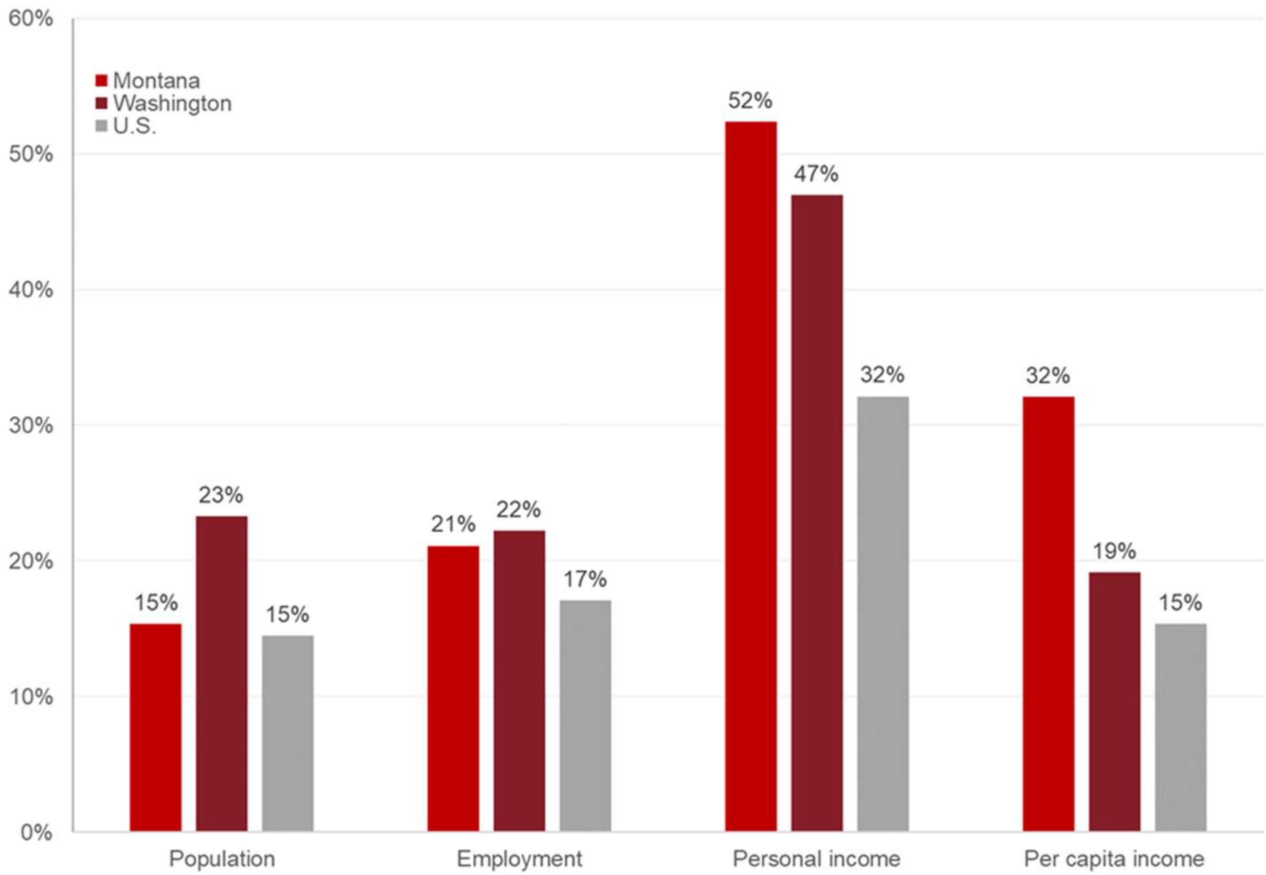


Is Revenue Erosion a Thing?

Montana & Washington Growing Faster than the U.S.

Figure 1: Washington and Montana vs. U.S., Percent Change, 2000-2016



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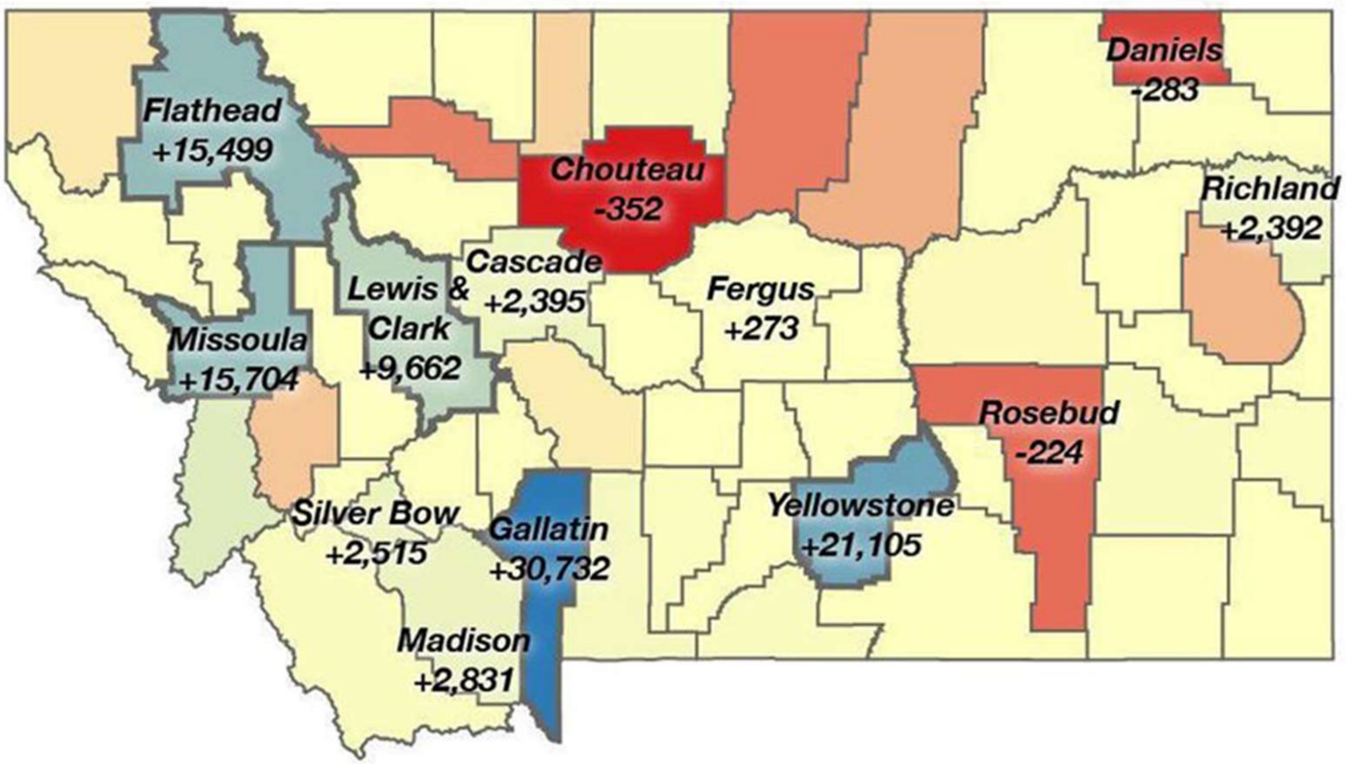
U.S. Department of Commerce. 2016. Bureau of Economic Analysis, Regional Economic Accounts, Washington, D.C. Tables CA30, CA05, CA05N, CA35.

Growth is Uneven and Unequal

Change in jobs by county, Montana, 2000-2016



5 Montana counties captured 75% of all new jobs since 2000

Eric Dietrich / Solutions Journalism Network; U.S. Bureau of Economic Analysis

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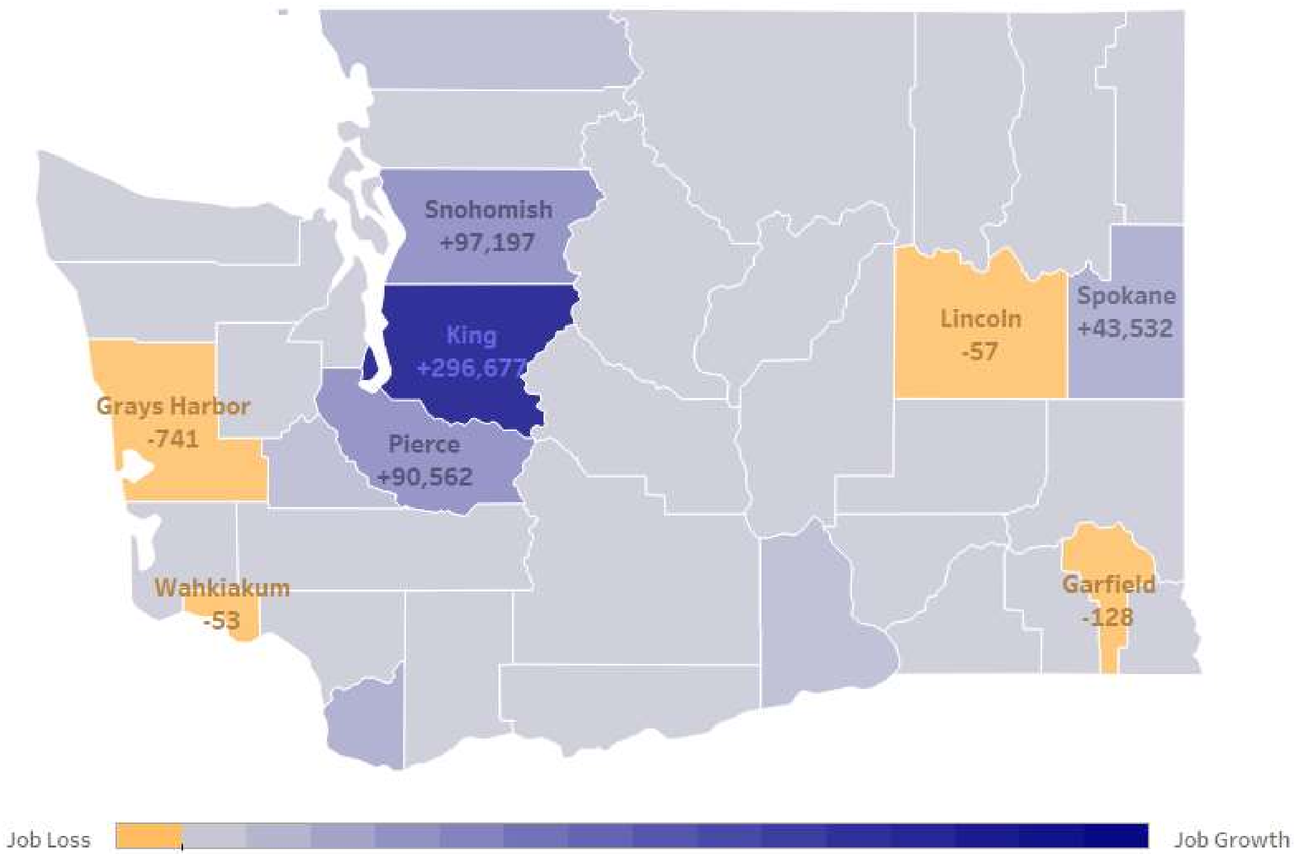
Growth is Uneven and Unequal

Change in jobs by county, Washington, 2000-2016



5 Washington counties captured

74%

of all new jobs since 2001

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Cities Are Capturing Most New Growth

Economic Innovation Group Distressed Communities Index Series, May 2018

20 cities hosting

17% of the

U.S. population are responsible for

50%

of all new business formations since the Great Recession

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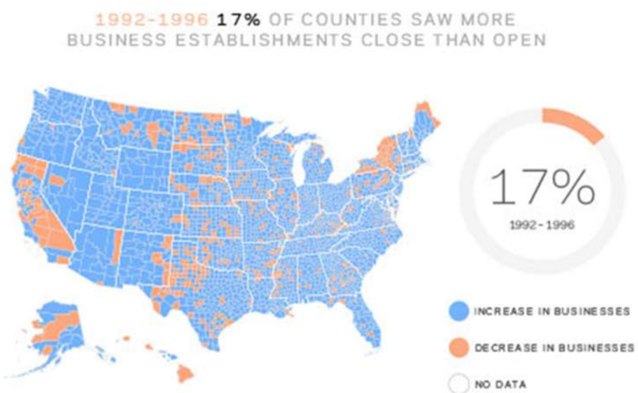
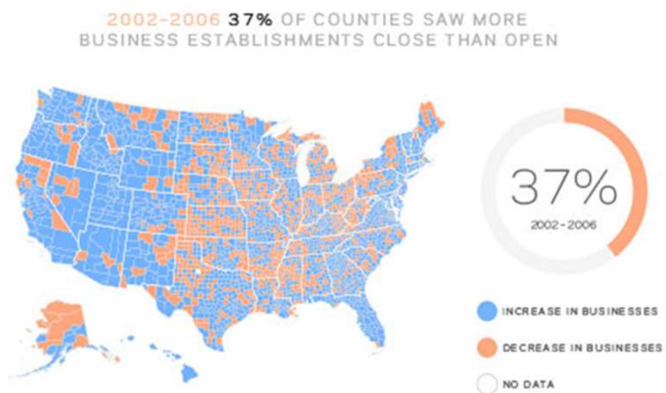
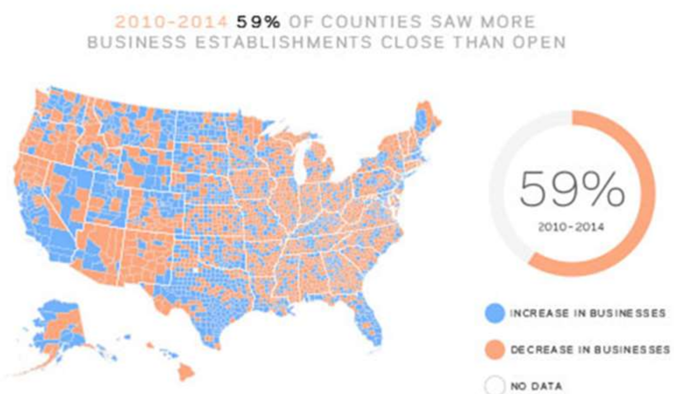
Majority of U.S. Counties Losing Businesses







A larger share of U.S. counties are failing to recover following successive major recessions

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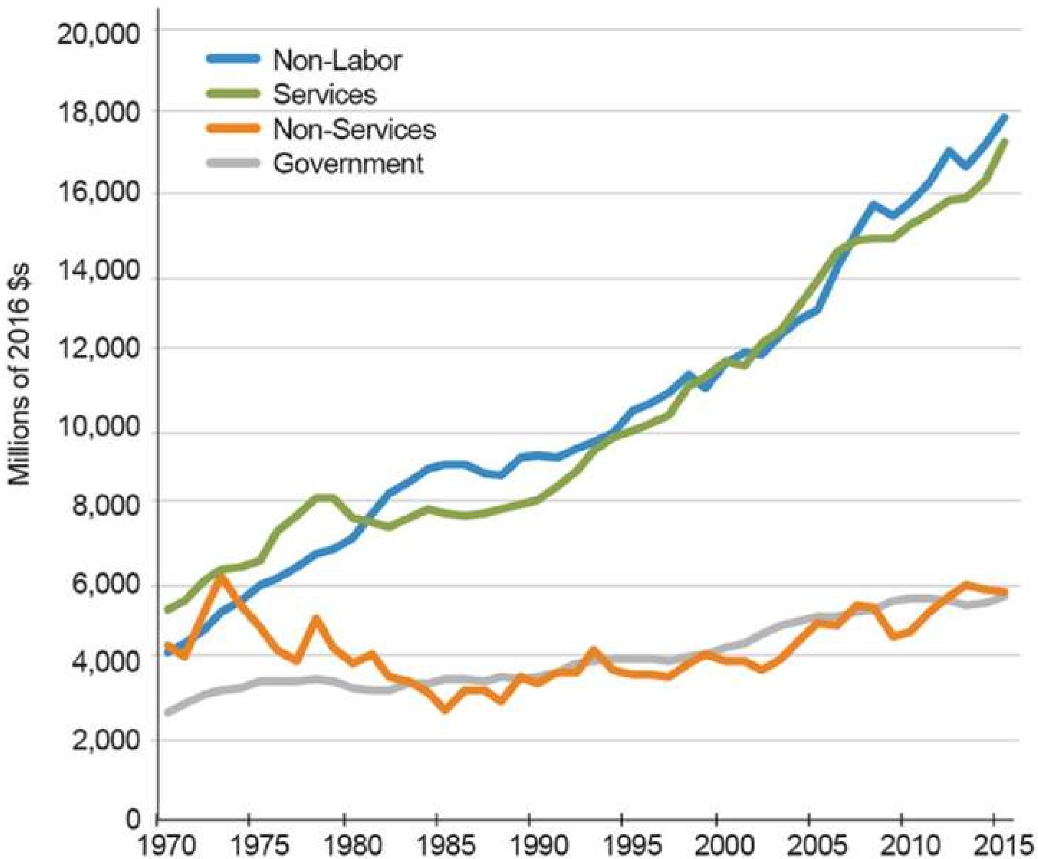
Economic Innovation Group Distressed Communities Index Series, May 2018

New Jobs & Income in Services and Non-Labor

Change in Personal Income by Source, Montana, 1970-2015



Non-Labor — Retirement, investments, Social Security, Medicare, Medicaid, etc.

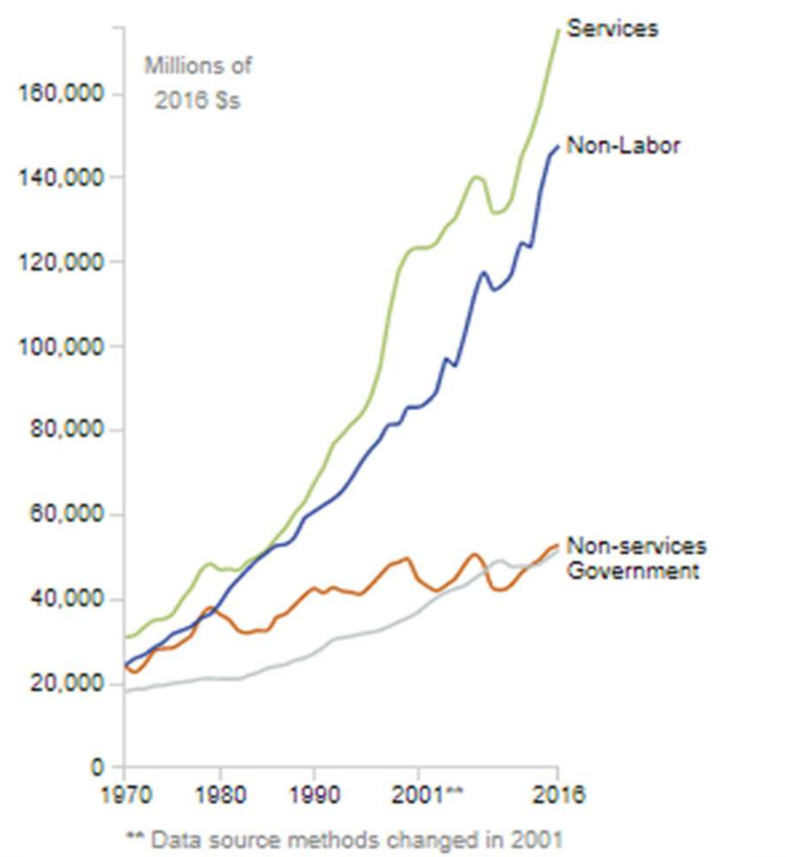
Services — Doctors, engineers, lawyers, accountants, waiters, barbers, etc.

Non-Services — Construction, manufacturing, mining, oil & gas, agriculture, etc.

Government — Local, state, federal

New Jobs & Income in Services and Non-Labor

Change in Personal Income by Source, Washington, 1970-2015



Services — Doctors, engineers, lawyers, accountants, waiters, barbers, etc.

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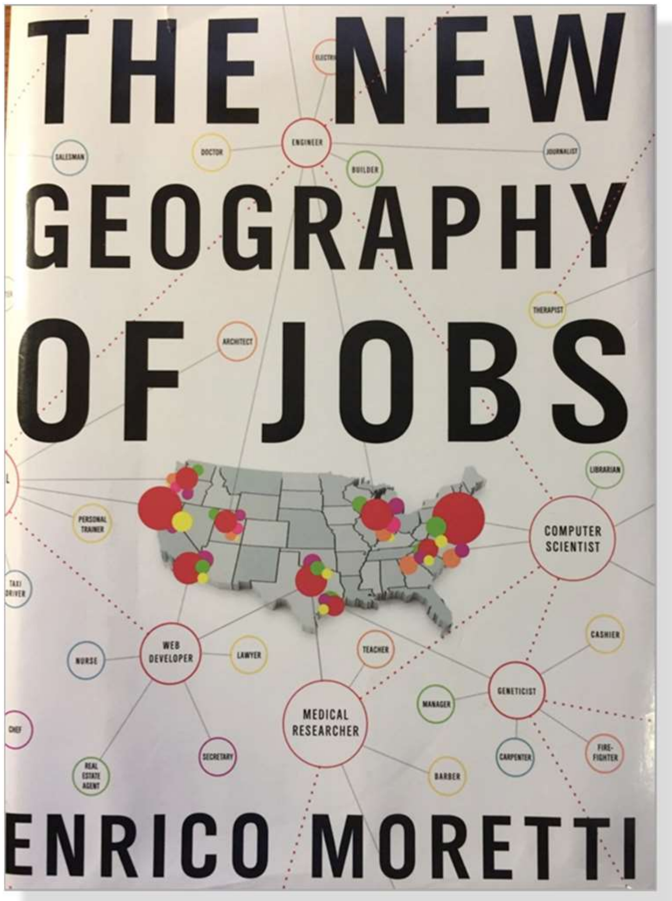
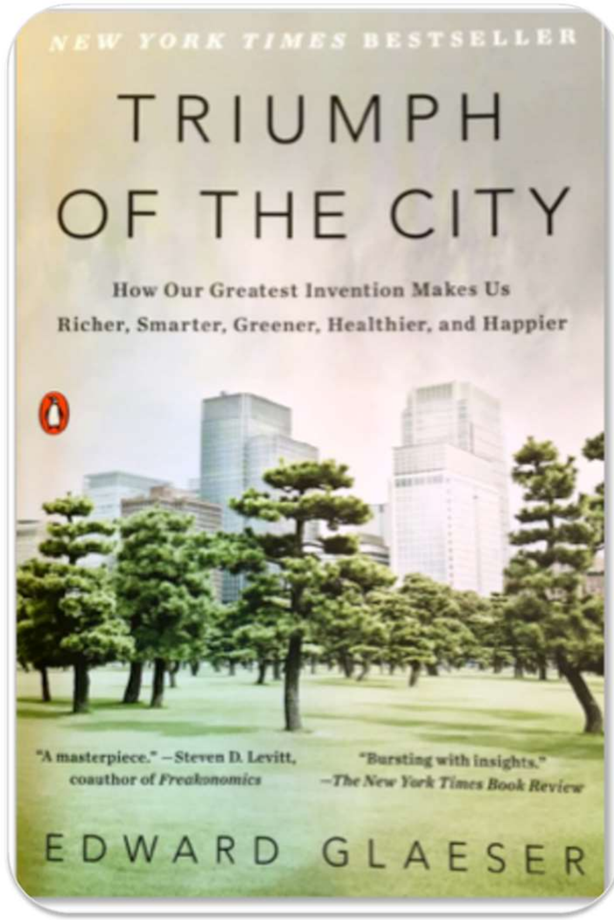
“Innovation” Services Agglomerate Into Cities





“In the twentieth century, competition was about accumulating physical capital.

Today it is about attracting the best human capital.”

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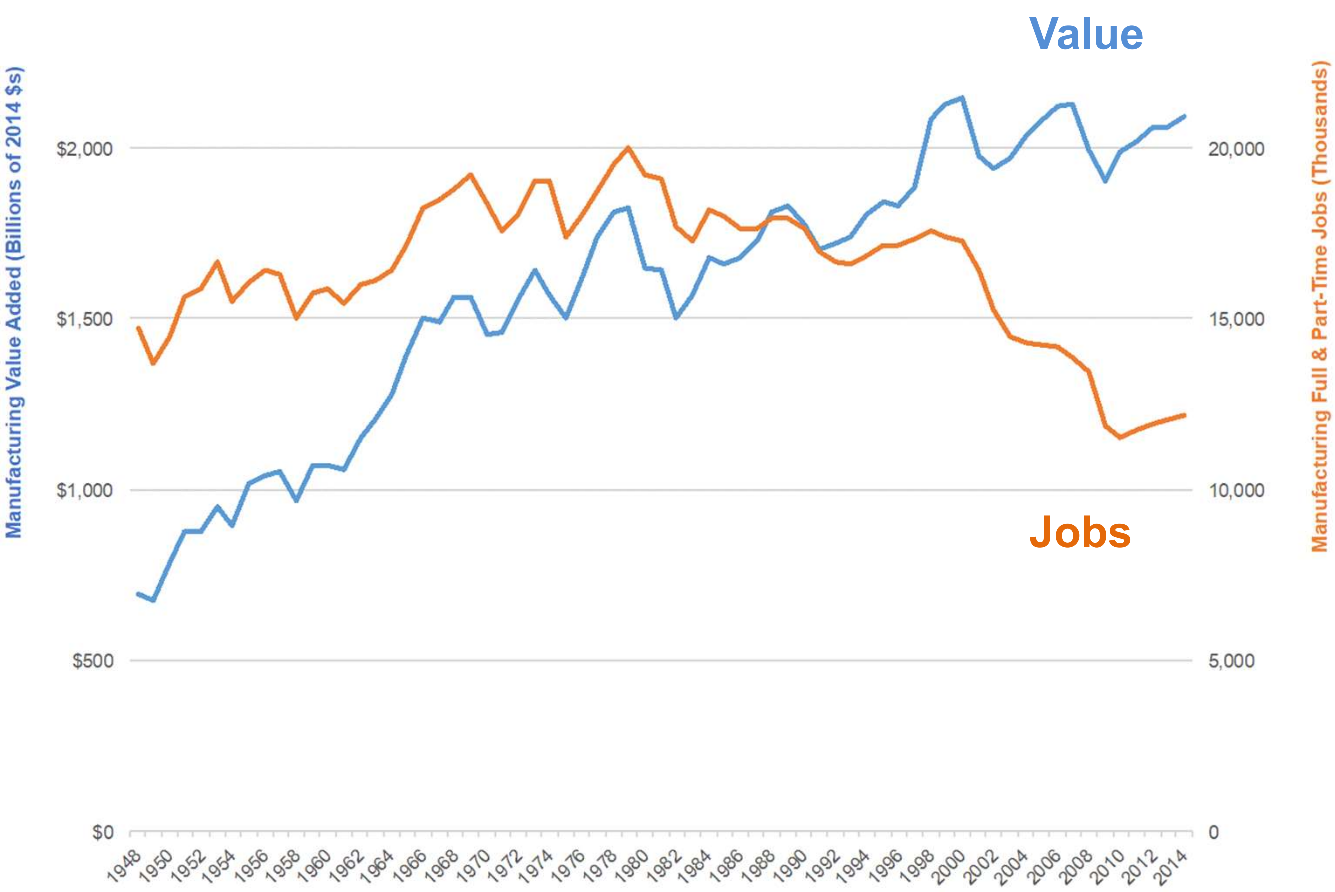
Productivity Gains Shed Jobs in Traditional Sectors

U.S. Manufacturing Value vs. Employment, 1948-2015



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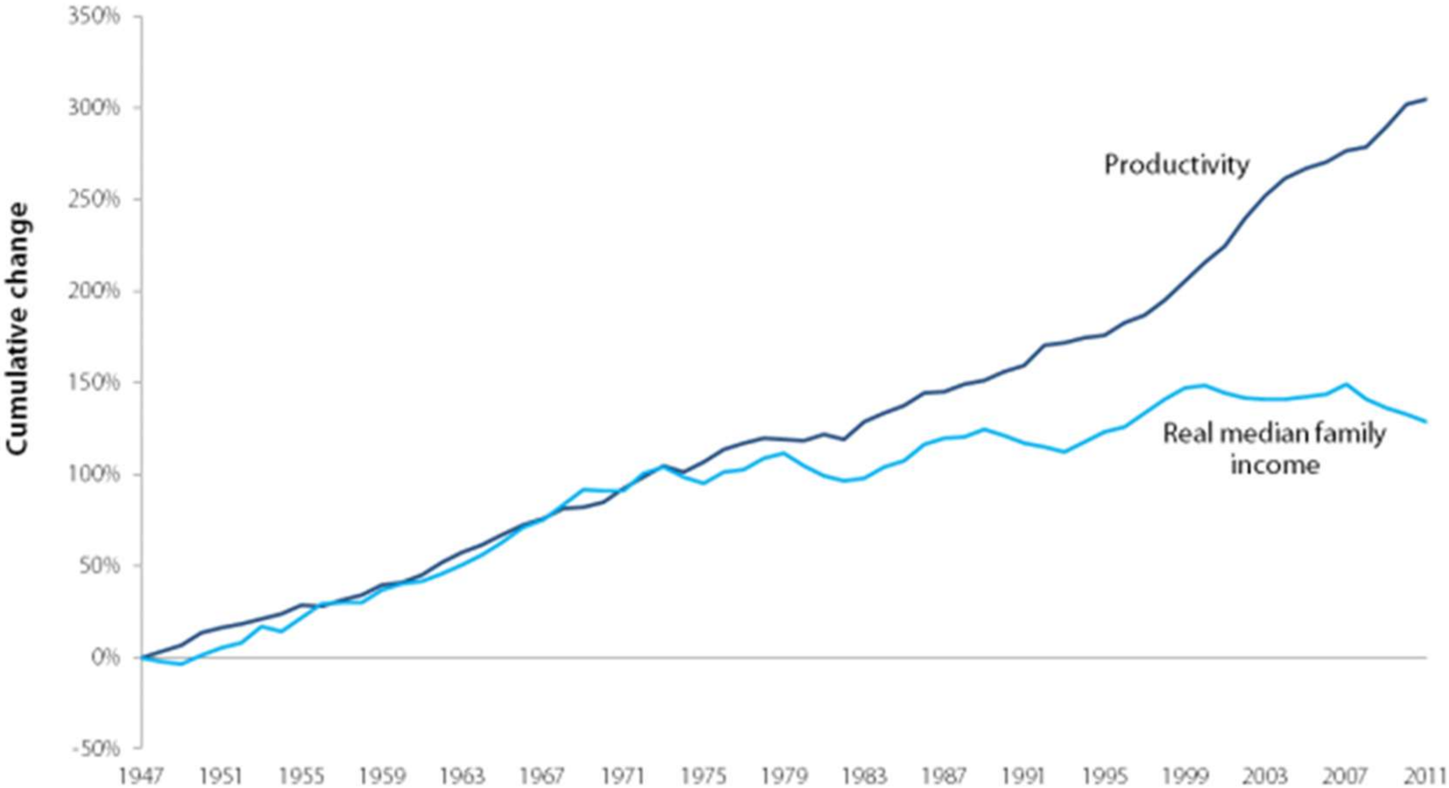
The Great Decoupling



Source: Authors' analysis of Current Population Survey Annual Social and Economic Supplement *Historical Income Tables*, (Table F-5) and Bureau of Labor Statistics, *Productivity – Major Sector Productivity and Costs* Database (2012)

Beginning around 1970, productivity gains no longer translate to higher wages & income

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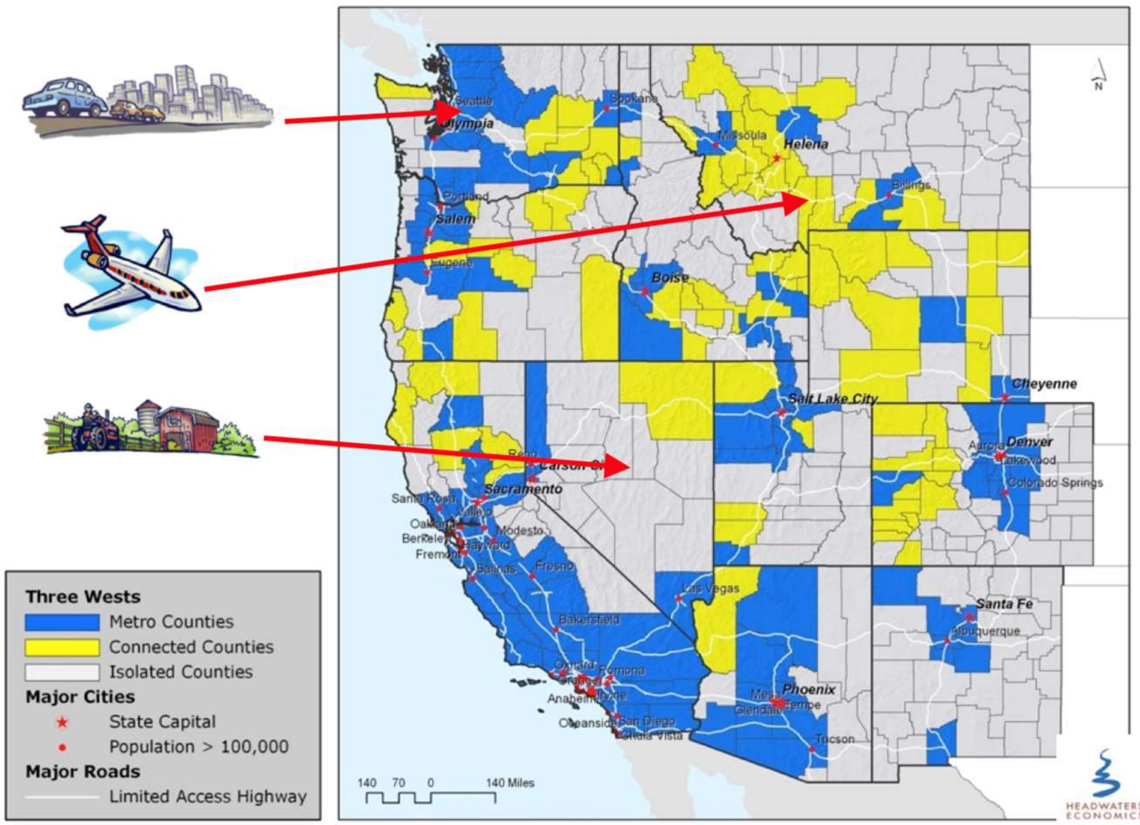
Different Paths to Economic Development

“Three Wests” County Typology



Access to Markets

Universities

National Parks

Resource Endowments

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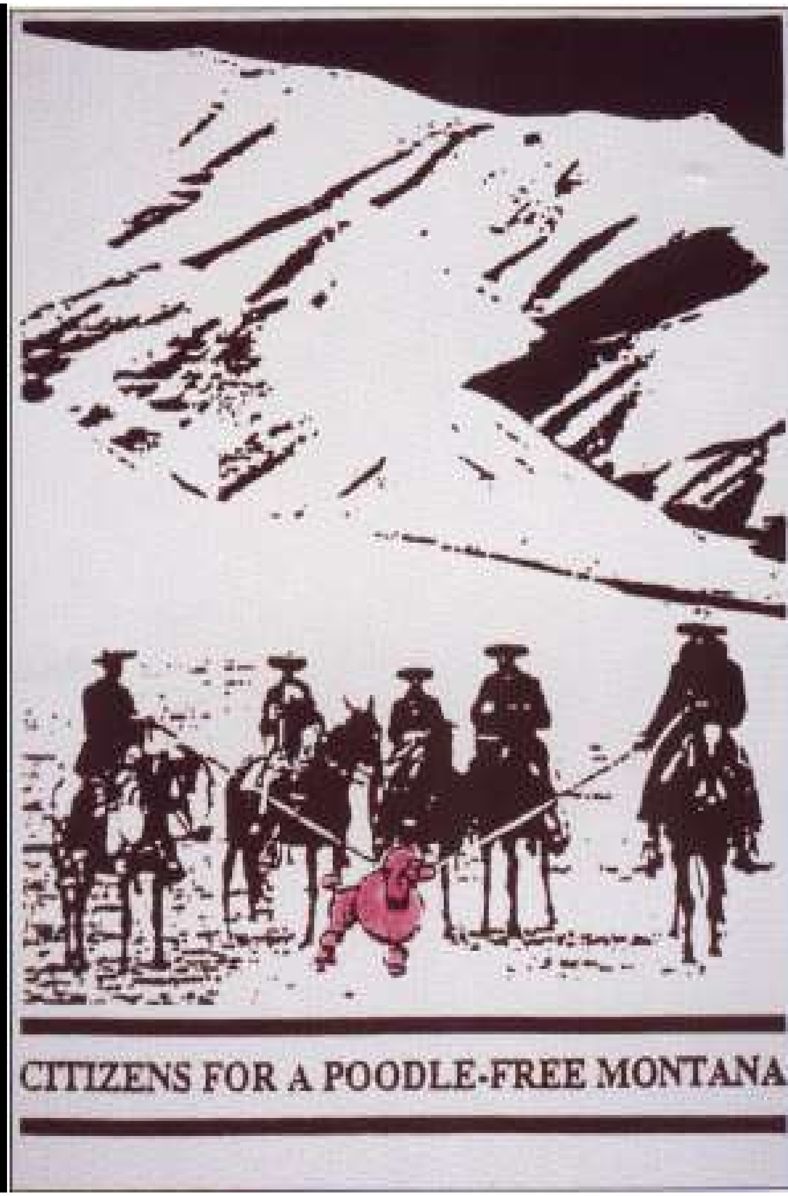
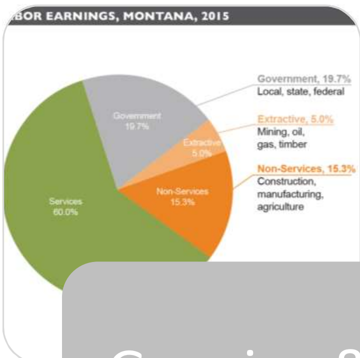
SAVE
BOZEMAN
fb.me/SaveBozeman

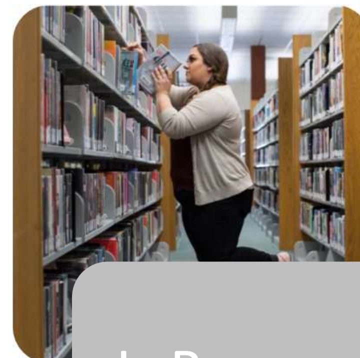

CITIZENS FOR A POODLE-FREE MONTANA

Road Map



Growing & Changing Economy

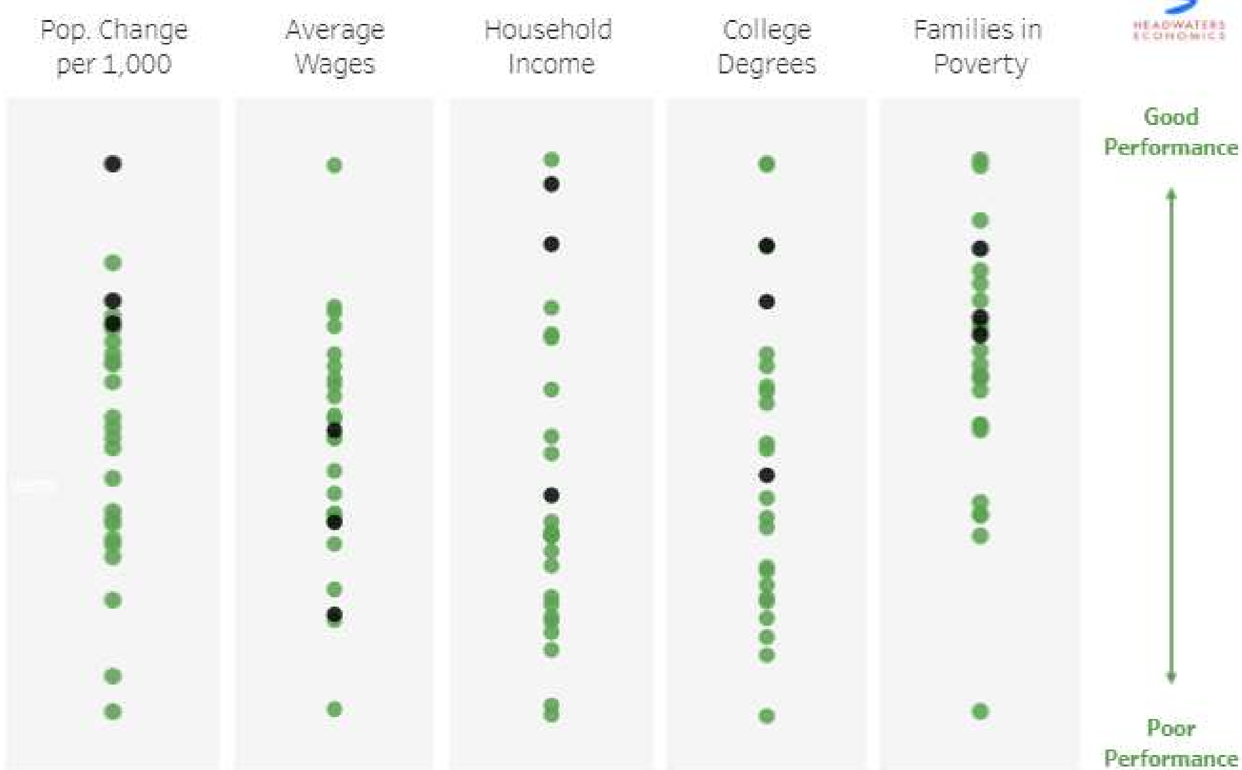
Lessons from Economic Transition



Is Revenue Erosion a Thing?

Timber Dependence ≠ Future Performance

County Performance on Various Measures of Growth and Prosperity Predicted by Trajectory in 1990



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Timber Dependence ≠ Future Performance

County Performance on Various Measures of Growth and Prosperity Predicted by County Trajectory in 1990

Proximity to Metro / Industry Diversity

Education Attainment

Amenities

Community Vision & Adaptability

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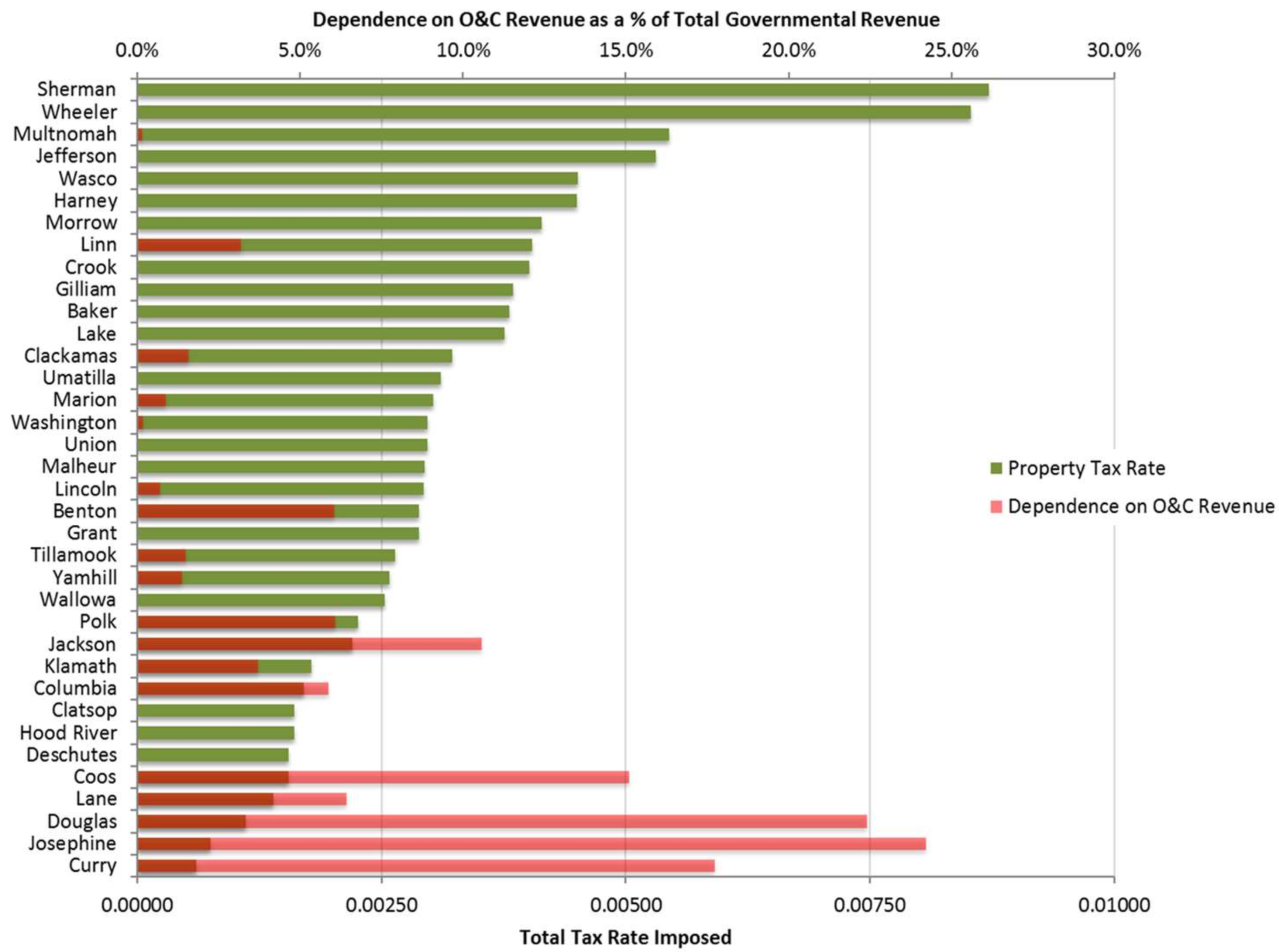
Oregon Counties Use Timber Revenue for Tax Cuts



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The Tax Revolt Ossifies Dependence

In Oregon:

1. Measure 5 (1990) Constitutional Amendment freezes property tax rates.

2. Measure 47 (1996) limits growth in assessed valuation; institutes double majority voter requirement.

Dependence on Timber Discourages Growth

"Most of these counties can't build themselves or develop themselves into solvency. Every new resident is a negative on the budget."

-- CW Smith, Jackson County, OR Commissioner

Foundations of a Long-Term Crisis?

Where Anti-Tax Fervor Means 'All Services Will Cease'

Sorting books at the library in Roseburg, Ore. A sign inside spells out its future in four words: Come June 1, "All services will cease." Ruth Fremson/The New York Times

Dependence undermines fiscal capacity

Dependence weakens adaptability and slows growth

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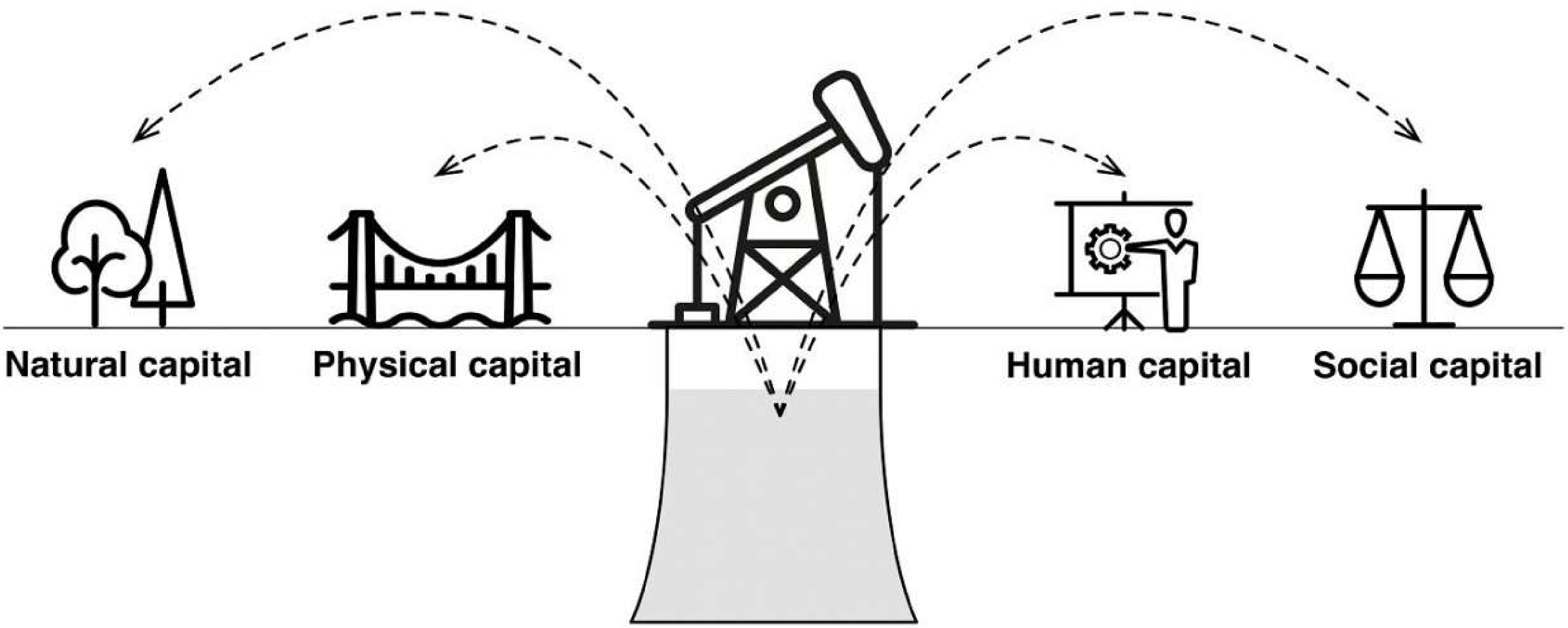
Theory of Resource Economies

Virtuous cycle of growth vs resource curse



RESOURCE IMPACT DASHBOARD. http://www.resource-impact.org/Research-Strategy/

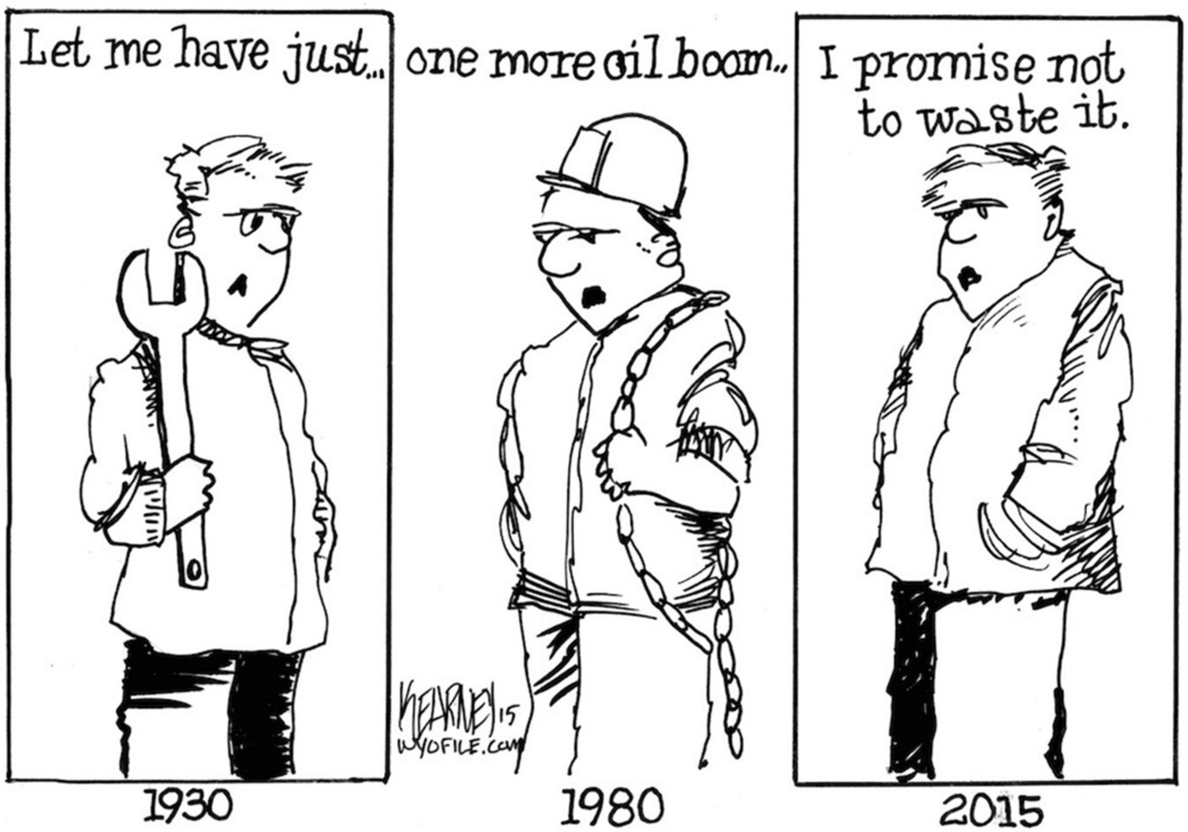
Without Tax Reform, Economic Diversification Hurts WY

100 new jobs in sectors other than energy generates budget deficits

https://headwaterseconomics.org

Wyoming Joint Revenue Interim Committee. WyoFile, June 5, 2018. https://www.wyofile.com/study-without-tax-reform-economic-diversification-hurts-state/

Foundations of a Long-Term Crisis?

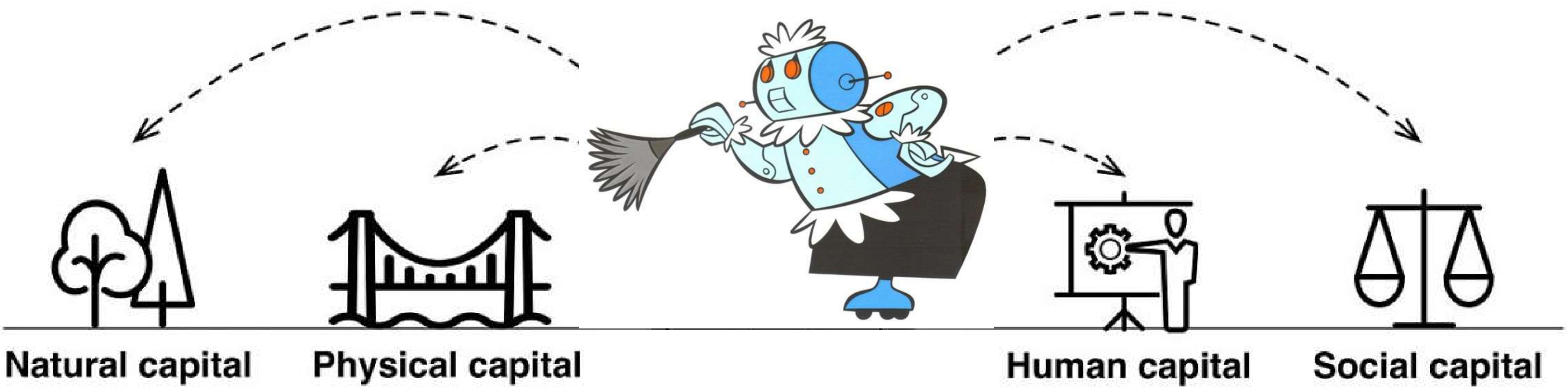


Greg Kearney, Wyofile, 2016
https://www.wyofile.com/please-just-one-oil-boom/

https://headwaterseconomics.org

Theory of ~~Resource~~ Innovation Economies

Virtuous cycle of growth vs resource curse



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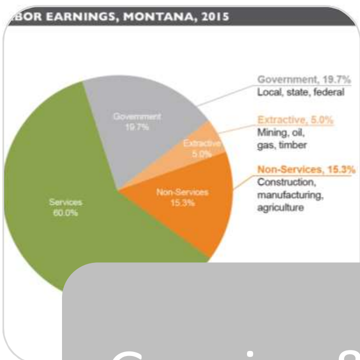
Road Map



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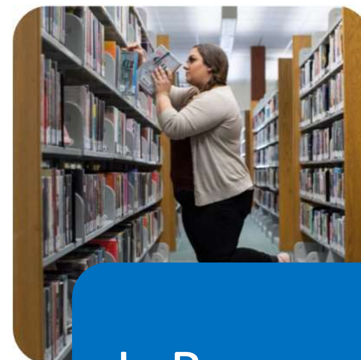
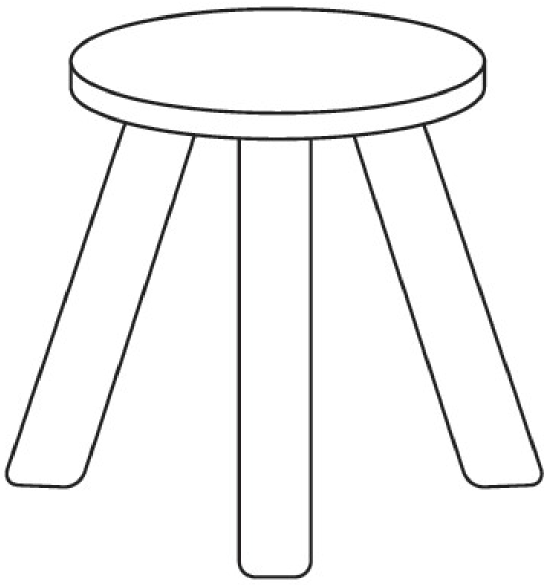


Is Revenue Erosion a Thing?

MT Tax Structure Unprepared for Change?

“A 20th Century Tax Structure for a 21st Century Economy”



Other Sources

Income Tax

Property Tax

Natural
Resources

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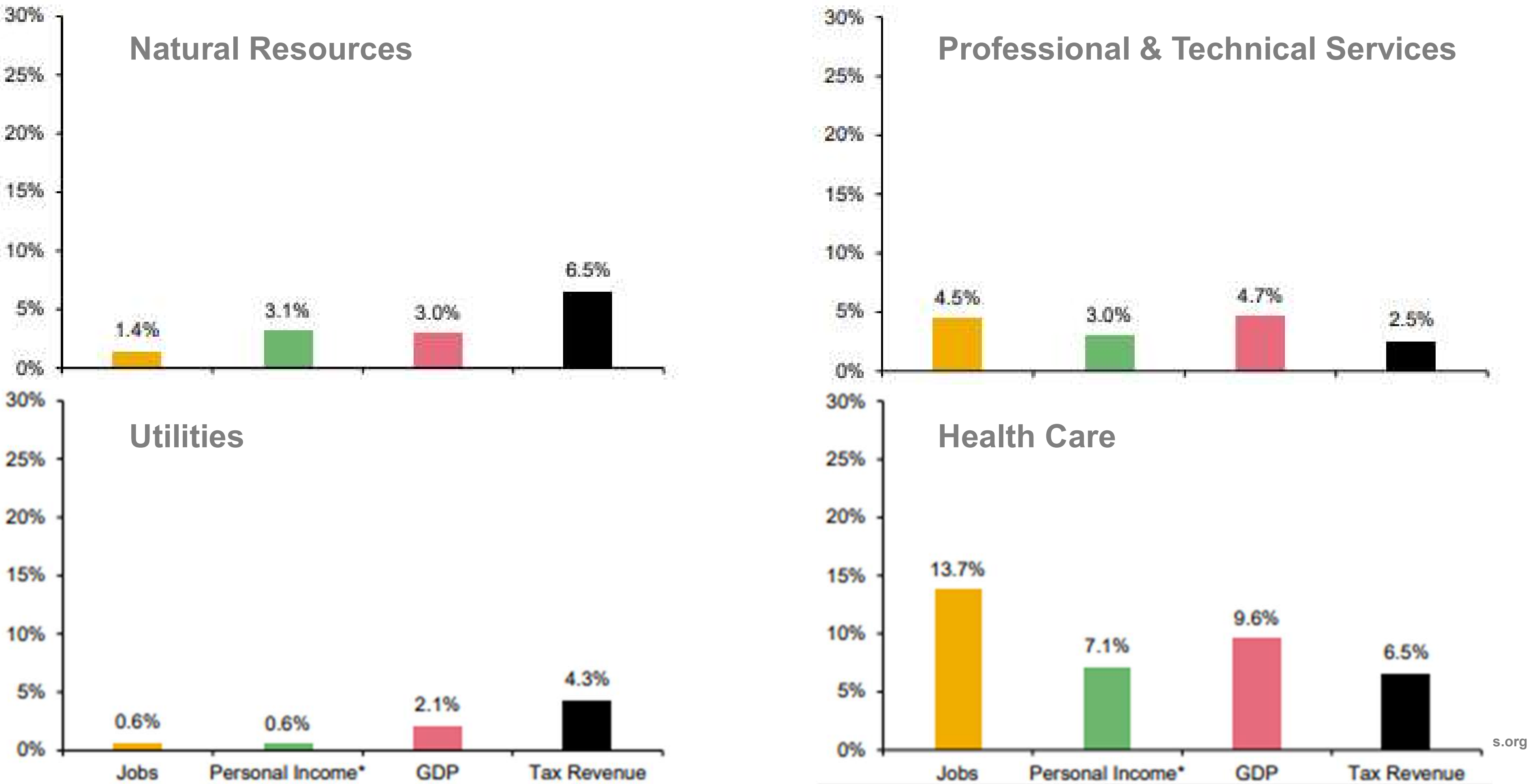
Traditional Sectors are Revenue Intensive



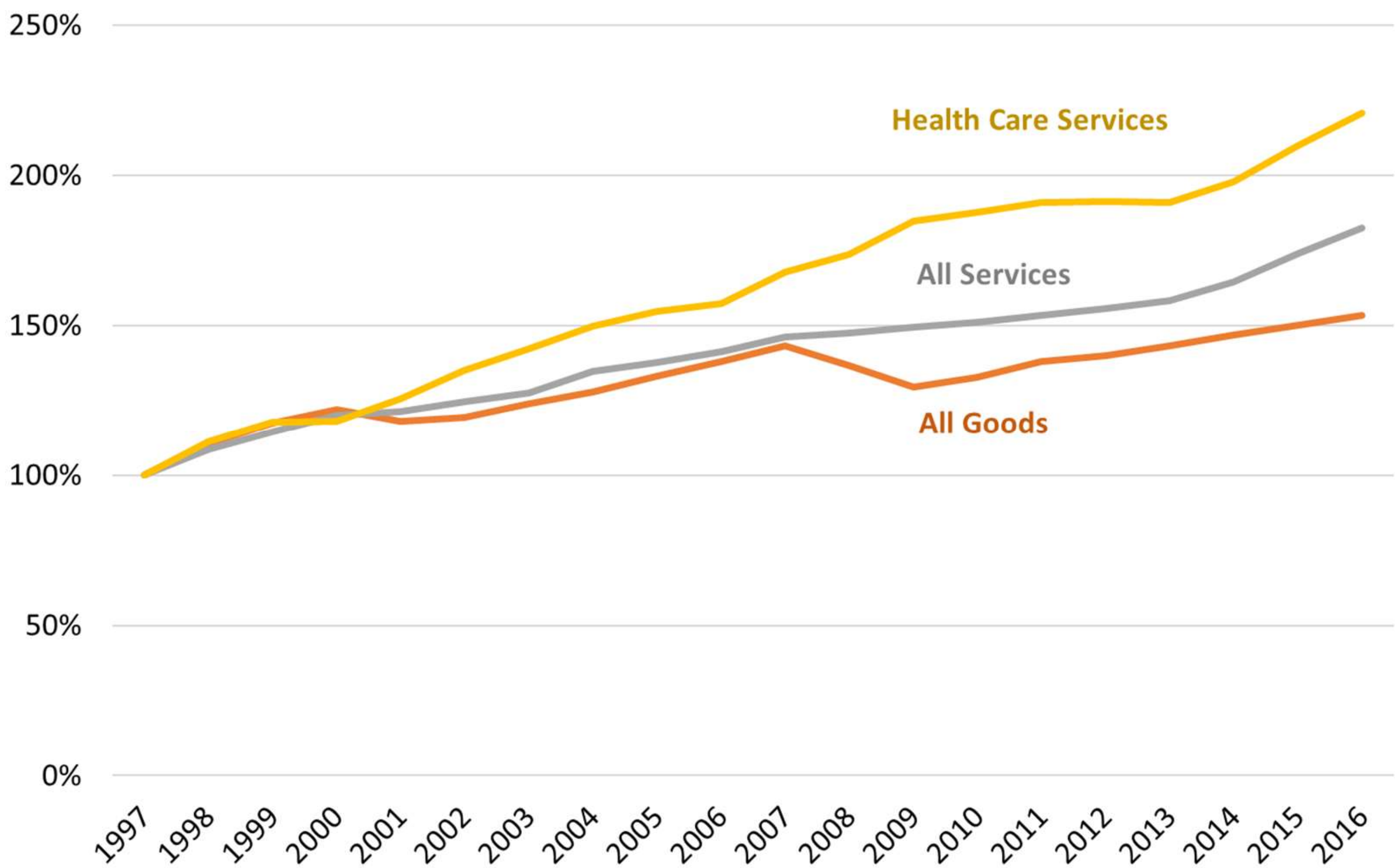
Traditional Sectors are Revenue Intensive

Montana's Tax Structure Levies Different Taxes on Goods Producing Industries

	Natural Resources	Utilities	Professional and Technical Services	Health Care
Income Tax	Yes	Yes	Yes	Yes
Corporate Income Tax	Yes	Yes	Yes	With Exemptions
Property Tax	Capital Intensive	Capital Intensive	Labor Intensive	Labor Intensitve With Exemptions
Sales Tax	Severance/Royalties	Electricity Generation Tax	No	No

Personal Consumption Expenditures Shift to Services

Change in Consumer Spending, Washington, 1997-2016



Services are excluded from the sales tax base in most states

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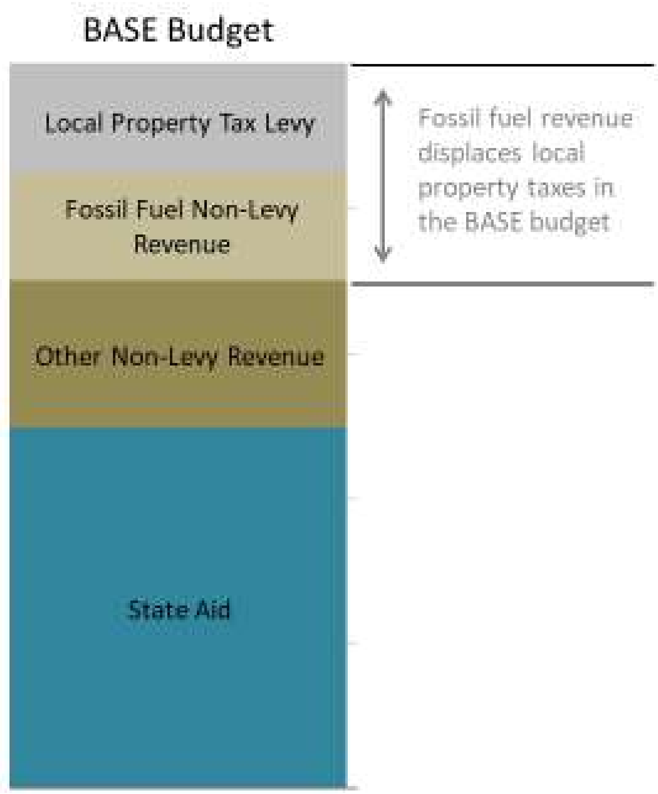
Changing Nature of Income

Rise of non-labor income (retirement, investment income)

Changing nature of compensation (pass through entities, financial benefits)

Tax Expenditures and Flat Fee Structures

Montana school equalization law forces property tax relief when fossil fuel revenues rise



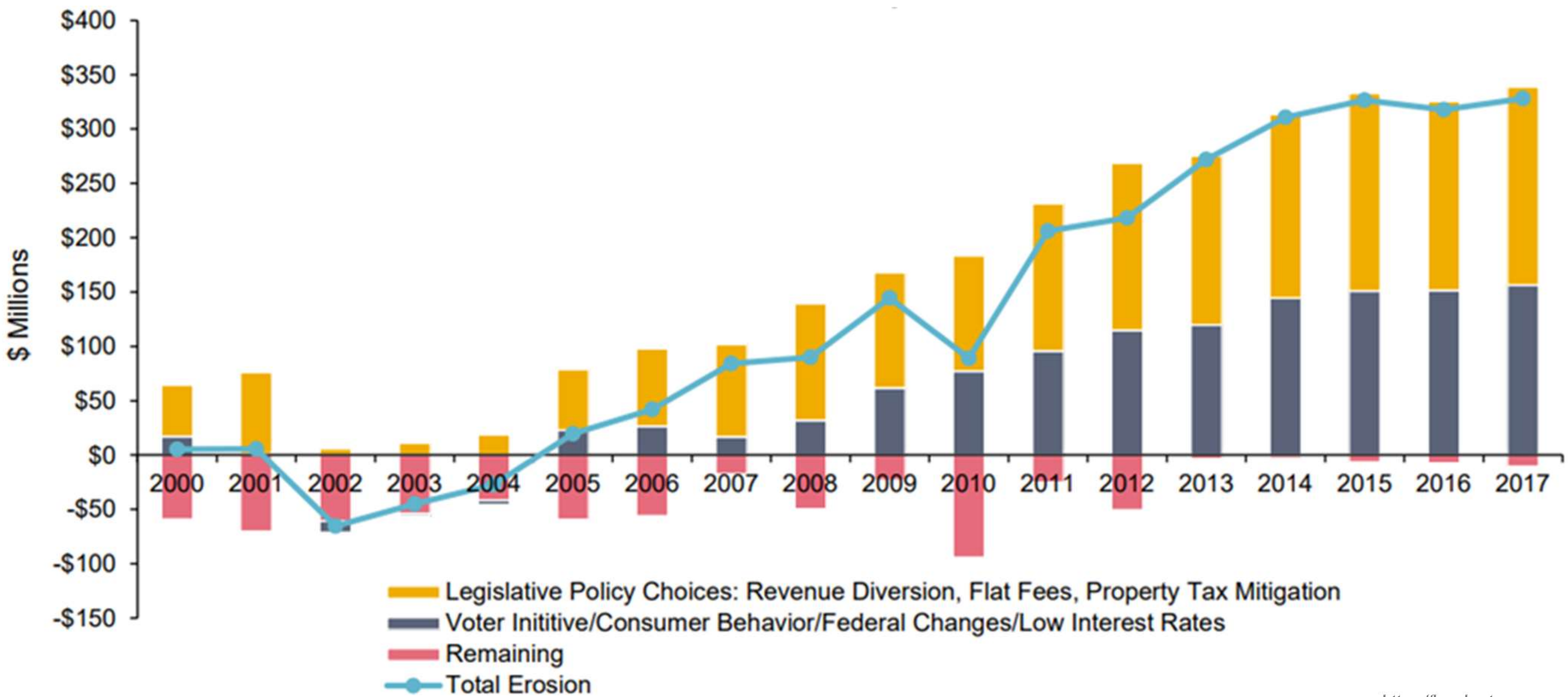
Fossil Fuel Revenue displaces local property taxes in the BASE budget. Fossil fuel revenue is primarily coal gross proceeds taxes and oil and gas production taxes.

Non-Levy Revenue is Guaranteed Tax Base Aid for qualified districts, and revenue from tuition, investments, and rentals.

State Aid is state entitlement payments and other state payments including Quality Educator, Data for Achievement and American Indian Payments.

Tax Expenditures and Flat Fee Structures

Contribution to General Fund Revenue Erosion by Policy Choice, 2000-2017



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Revenue is a policy choice made through decisions about the base and rate.


Thank You
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