Federal Reserve Bank of Atlanta

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Moderator: *Welcome to* Southeastern Economic Perspectives*, an occasional podcast from the Federal Reserve Bank of Atlanta. The following comments discuss state revenue in the district and provide some insight into how states are responding. Michael Chriszt, an assistant vice president responsible for the Regional Economic Information Network, and Shalini Patel, a senior analyst who specializes in the Sixth District economic activity, will provide insight into how the recession has affected state revenue. Thank you for joining me, Mike and Shalini.*

Shalini Patel: Thank you.

Mike Chriszt: It's our pleasure.

Moderator: *We've heard that the recession has cut deeply into state revenues. What's been the experience of the states in the Sixth District?*

Patel: Well, that's a good question, Jean. If you look at recent data, August total tax revenue for the district, year over year, was down as a whole. All the states, except Mississippi, declined at a slower pace. The declines were mostly driven by decreasing sales tax revenue; for the district, sales tax revenue was down 14 percent year over year. Of all the states, Mississippi saw the largest drop, and that can be mostly attributed to declining casino revenue.

However, the recent retail sales report gives us some hope. There's some good news. The retail sales estimate for September was unexpectedly upbeat. Total sales fell 1.5 percent, but that decline was entirely due to a plunge in auto sales following the expiration of Cash for Clunkers. Excluding autos, retailers posted a broadly based 0.5 percent rise in spending last month. Of course, one month's data does not make a trend. But if sustained, a pick-up in sales bodes well for state sales tax revenues going forward.

Moderator: *So, what are states doing to address the shortfall in revenue?*

Chriszt: Well, Jean, federal stimulus money has certainly helped. For the most part, states have used the funds to plug holes in their budgets, mainly through education and Medicaid. Some states are also using the funds to replenish some "rainy day" funds that had been depleted. There has been some spending on infrastructure, and that is slowly increasing.

A number of states have also cut employment and services. For example, looking at employment, state of Georgia government employment is down close to 3 percent year over year when you look at the summer months of 2009 compared to 2008. Alabama is down 2.7 percent; Tennessee just under 1 percent. So we're seeing not only cuts in employment, but also some cuts in services.

Jean, there's one more thing that I'd like to add. The money that was allocated for this year has pretty much been spent. Into next year, the funds that are flowing from Washington down to the states are not expected to be at the same level as they were this year. So, going forward, states are going to have to really buckle down, look for more cuts in their budget, and maybe even cut employment further.

Moderator: *Has the experience at the county level been any different?*

Chriszt: That's a great question, Jean. The experience has been very similar. I went to meeting last week of the Association County Commissioners of Georgia, and learned some of the things that they're doing at the county level. They are reducing payrolls, mainly in construction-related employment and also some administrative positions. Some counties have instituted hiring freezes. A lot of them have cut raises, eliminated unfilled positions, done some things to benefits—for example, requiring higher deductibles for health insurance—and hours of operation for specific services have been cut. There's been some furloughs in education. Schools are in for, I think, some pretty tough times as far their employment levels and the funds that are flowing from the counties into the schools go.

Moderator: *Since we seem to be coming out of the recession, what is the outlook for state revenues going forward?*

Chriszt: Well, Jean, there's been a number of papers that were written about this issue and typically it takes states three to five years following a recession to get back to the same level of revenue that they had before the recession. The recession began in late 2007, it's late 2009. The recession, I think the consensus is, is coming to an end, so we're looking a few years down the road until states get back to the same level of revenue that they had in 2007.

So the issues that the states are facing now are unlikely to go away anytime soon. So shortfalls are expected to continue, we're likely to see more cuts in services, more ideas on how to raise revenues going forward.

Moderator: *Thanks for taking time to talk with me, Mike and Shalini.*

Patel: Thank you, Jean.

Chriszt: Thank you.

Moderator: *Again, we've been speaking listening to Federal Reserve research team members Michael Chriszt and Shalini Patel provide some insight into state revenue in the Southeast. This concludes our* Southeastern Economic Perspectives *podcast. Thanks for listening, and please* *return for more podcasts. If you have comments, please send us e-mail at podcast@frbatlanta.org.*