THE CENTER FOR STATE AND LOCAL FINANCE

POLICY BRIEF

CSLF BRIEF #3 • SEPTEMBER 2014

Georgia's Post Great Recession Revenue Recovery

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The "Great Recession" wreaked havoc on the revenues of state and local governments, including Georgia's. While the U.S. economy has improved since the end of the Great Recession, state government revenues have in most cases still not completely recovered. In this brief we explore the extent to which state government revenues have recovered from the effects of the Great Recession.

We use data from the U.S. Census Bureau on state government own source revenue[1] (OSR) for the years 2007 through 2012 for state governments (these are most recent year for which these data are available). To measure "revenue recovery," we form the ratio of real per capita own source revenue (OSR) in 2012 to that in 2007 (the last year before the recession hit). We denote this as the *Recovery Ratio.* Table 1 shows the value of the *Recovery Ratio* for all states.

Figure 1 shows the ratio of state government real per capita own source revenue (OSR) in 2012 to that in 2007 by state sorted from lowest to highest ratio. (We have exclude North Dakota from the table because its state fiscal performance is an extreme positive outlier.) By this measure, only six states have fully recovered from the Great Recession. What is troubling is that Georgia, which is noted by the red diamond in Figure 1, had the third lowest revenue recovery. By 2012, Georgia's state government revenue was only 82 percent of its 2007 real per capita own source revenue.

Table 2 contains the recovery ratio for Georgia for specific own source revenue sources. The only revenue source for which 2012 real per capita revenue exceeds that for 2007 is current charges, reflecting the across the board increase in charges enacted in 2010. Real per capita

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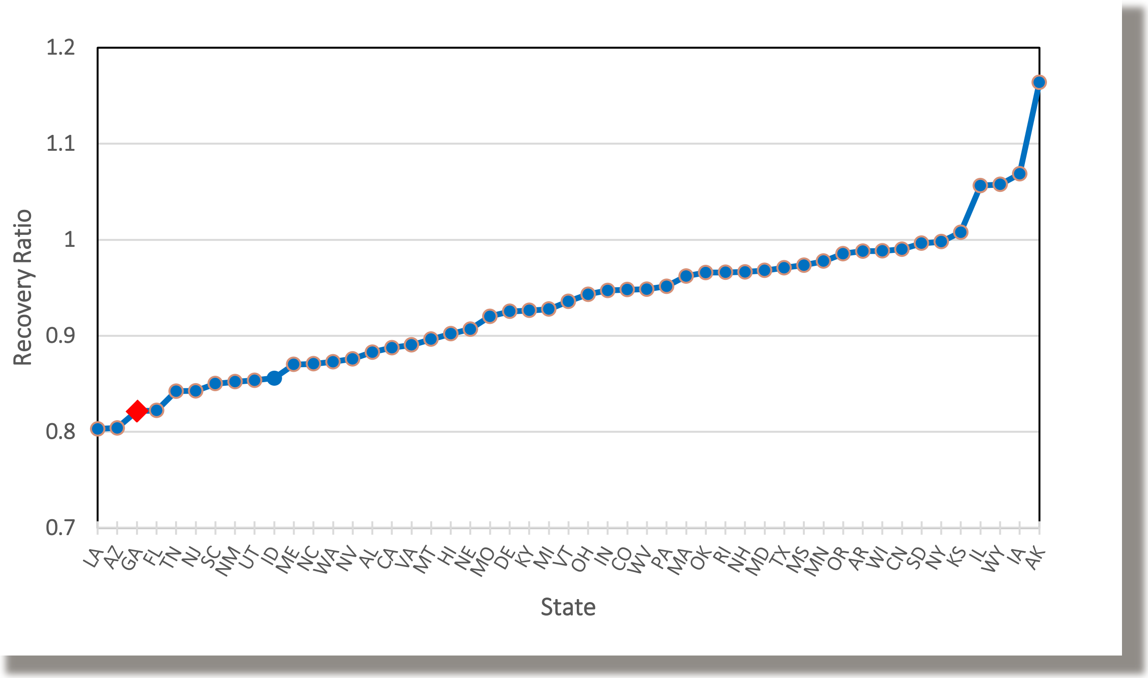
[1] Own source revenue consists of taxes and fees and charges. In particular own source revenue excludes grants from the federal government.

Table 1. Recovery Ratios by State

STATE	RECOVERY RATIO	GSP GROWTH
Alabama	0.883	0.973
Alaska	1.164	1.025
Arizona	0.804	0.918
Arkansas	0.988	0.991
California	0.888	0.946
Colorado	0.948	0.982
Connecticut	0.990	0.917
Delaware	0.925	0.935
Florida	0.822	0.890
Georgia	0.822	0.952
Hawaii	0.902	0.953
Idaho	0.856	0.931
Illinois	1.056	1.002
Indiana	0.947	1.000
Iowa	1.069	0.992
Kansas	1.008	1.007
Kentucky	0.926	1.010
Louisiana	0.803	1.012
Maine	0.870	0.987
Maryland	0.968	1.031
Massachusetts	0.962	1.038
Michigan	0.928	0.965
Minnesota	0.978	1.024
Mississippi	0.973	0.984
Missouri	0.920	0.992

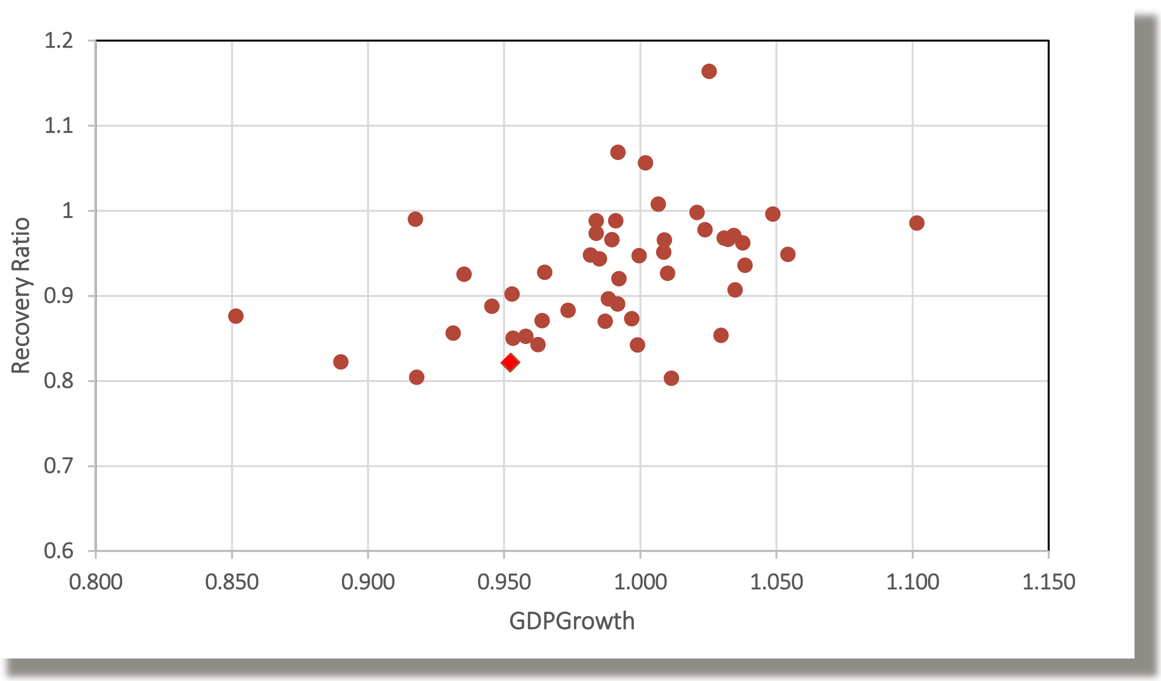
STATE	RECOVERY RATIO	GSP GROWTH
Montana	0.896	0.988
Nebraska	0.907	1.035
Nevada	0.876	0.852
New Hampshire	0.967	1.032
New Jersey	0.843	0.962
New Mexico	0.852	0.958
New York	0.998	1.021
North Carolina	0.871	0.964
North Dakota	2.047	0.985
Ohio	0.943	1.009
Oklahoma	0.966	1.102
Oregon	0.985	1.009
Pennsylvania	0.951	0.990
Rhode Island	0.966	0.953
South Carolina	0.850	1.049
South Dakota	0.996	0.999
Tennessee	0.842	1.034
Texas	0.971	1.030
Utah	0.854	1.039
Vermont	0.936	0.992
Virginia	0.890	0.997
Washington	0.873	1.054
West Virginia	0.949	0.984
Wisconsin	0.988	0.953
Wyoming	1.057	0.973

Figure 1. State Revenue Recovery Ratios



Georgia is noted in the red diamond.

Figure 2. State Economic Growth and Recovery Ratios



Georgia is noted in the red diamond.

corporate income tax revenue in 2012 was only 50 percent of that for 2007. The revenue recovery ratio for the other revenue sources did not differ much from that for total own source revenue, ranging from 78 percent to 88 percent.

The most obvious explanation for why revenues have not recovered is that a state's economy may not have recovered. In Figure 2 we plot the *Recovery Ratio* against the ratio of 2012 state real per capita gross state product to that for 2007, which we denote as *GSP Growth.* Georgia is noted by the red diamond. What is clear is that in general, greater growth in the economy is associated with greater revenue recovery. The correlation coefficient between the *Recovery Ratio* and *GSP Growth* is 0.41.[2]

Georgia's economic recovery ratio is 0.95, meaning that in 2012 real per capita gross state product had only reached 95 percent of its 2007 economic output. Georgia's economic recovery is the 8th lowest. Thus, one of the reasons that Georgia's own source revenue has not recovered is that its economy has not fully recovered. But its economy has recovered more than other states that have seen higher rates of revenue recovery. Thus, there are other factors that have caused Georgia to have such a low Revenue Recovery.

Beyond economic recovery, another factor that might affect revenue recovery is the composition of state taxes, since taxes differ in their responsiveness to changes in economic activity.

We calculated the share of own source revenue from various revenue sources for 2007, and found that states that rely more heavily on sales taxes have experienced smaller revenue recoveries. The correlation between *Recovery Ratio* and the share of own source revenue from sales taxes is -0.38, that is, states that have a greater reliance on sales taxes had slower recovery. Georgia has the 37th highest relative reliance on sales taxes, suggesting that sales tax reliance is an important factor in explaining Georgia's lack of revenue recovery.

Table 2. Recovery Ratios for Individual Revenue Sources

REVENUE SOURCE	RECOVERY RATIO
General Sales Tax	77.8 Percent
Excise Taxes	87.3 Percent
Individual Income Tax	80.3 Percent
Corporate Income Tax	50.4 Percent
Other Taxes	88.1 Percent
Current Charges	103.6 Percent
Miscellaneous Revenue	81.1 Percent
Total Own Source Revenue	82.3 Percent

[2] Note that the correlation is 0.79 if North Dakota is included.

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ACKNOWLEDGMENTS

We thank Sohani Fatehin and Bibek Adhikari for their research assistance and Lakshmi Pandey for his technical help.

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