



Sin Taxes: *Sobering Reality*

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Overall

- **Modest Growth (Mirror Economy)**
- **Most States: Good/Decent**
- **Tough Decisions**
- **Some States Very Difficult (Oil prices, etc.)**

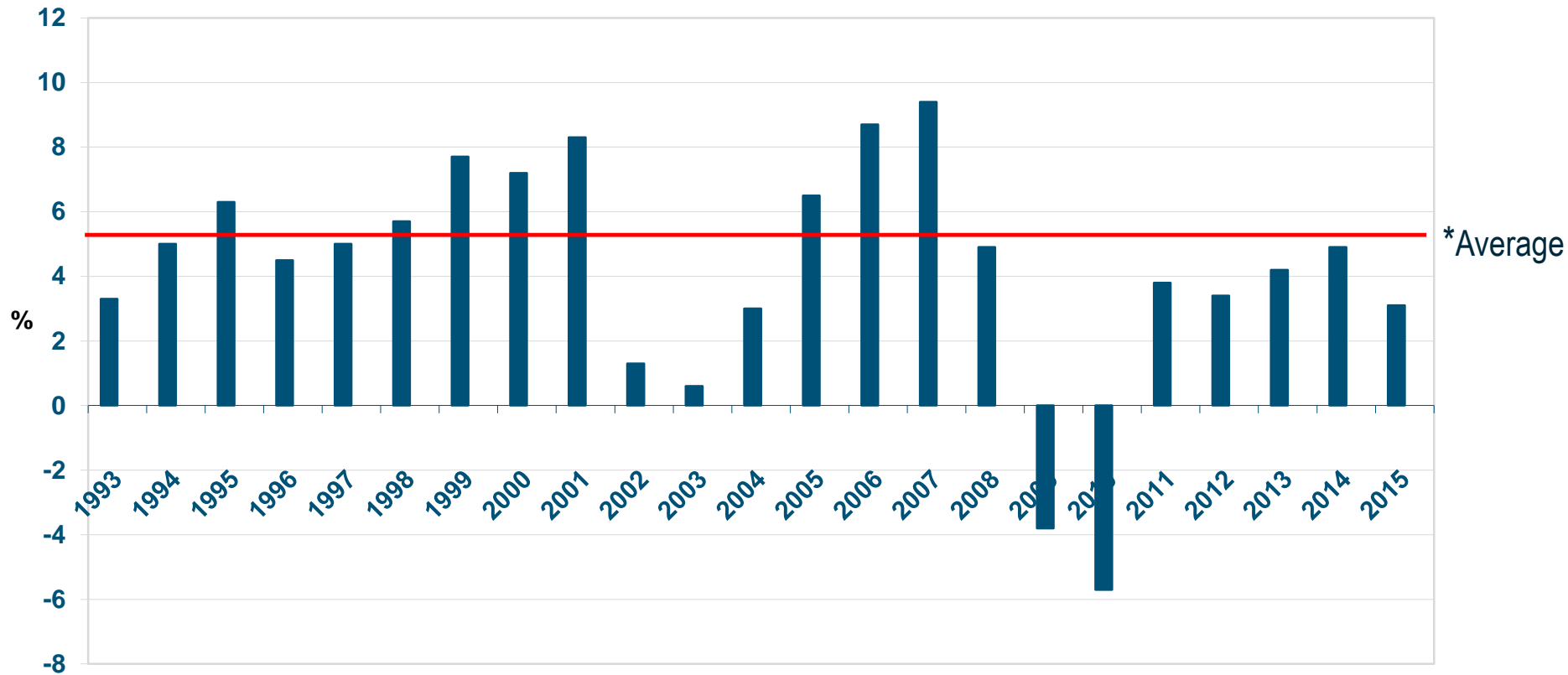
Long Term Spending Pressures:

- Medicaid and Health Care
- K-12 and Higher Education
- Demographic Changes
- Corrections
- Infrastructure
- Pensions
- Retiree Health Care



Slow Budget Growth Continues

General Fund Expenditure Growth (%)

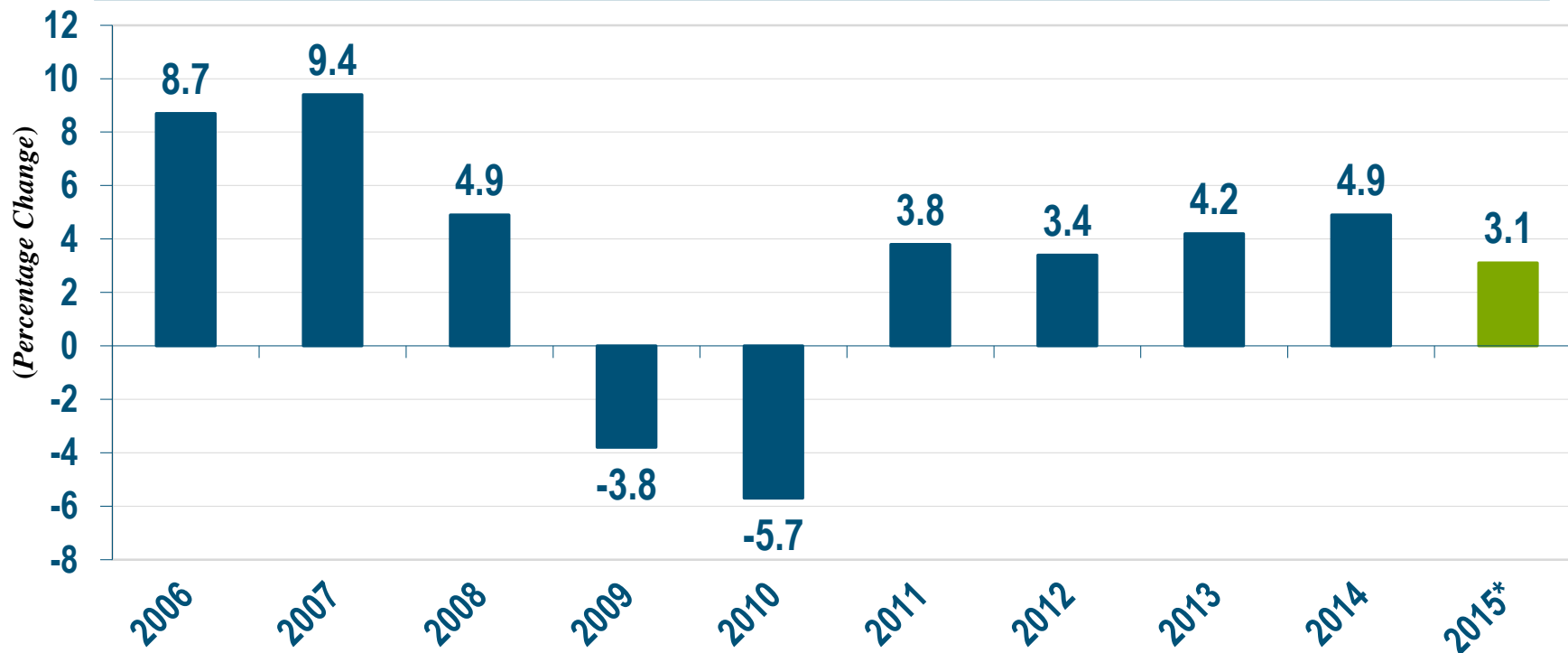


**37-year historical average annual rate of growth is 5.5 percent
Source: NASBO Fall 2014 Fiscal Survey of States*

**Fiscal 2015 numbers are enacted*

GF Spending Expected to Grow for 5th Straight Year, Although Below Average

Annual Percent Change in General Fund Expenditures

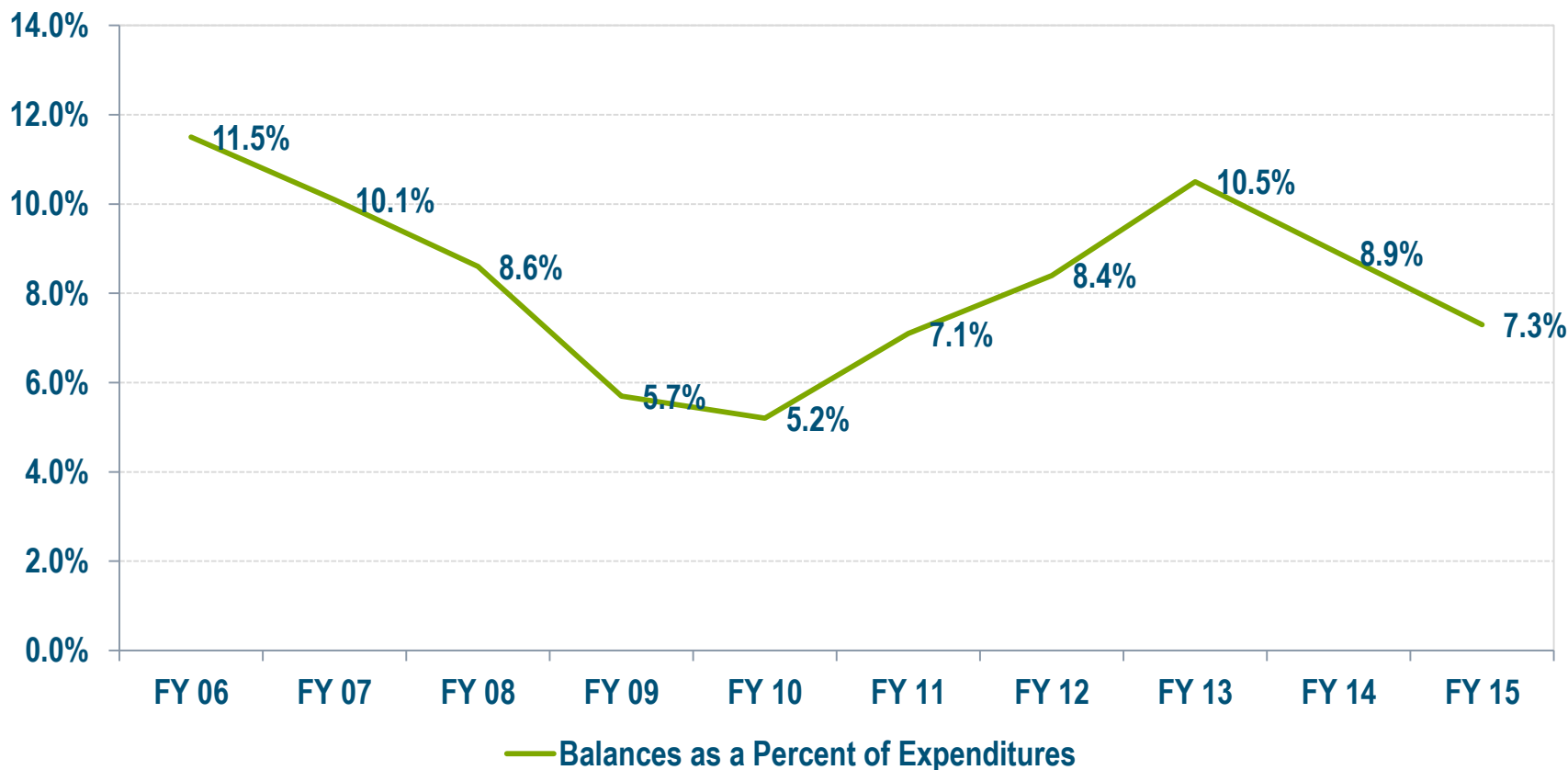


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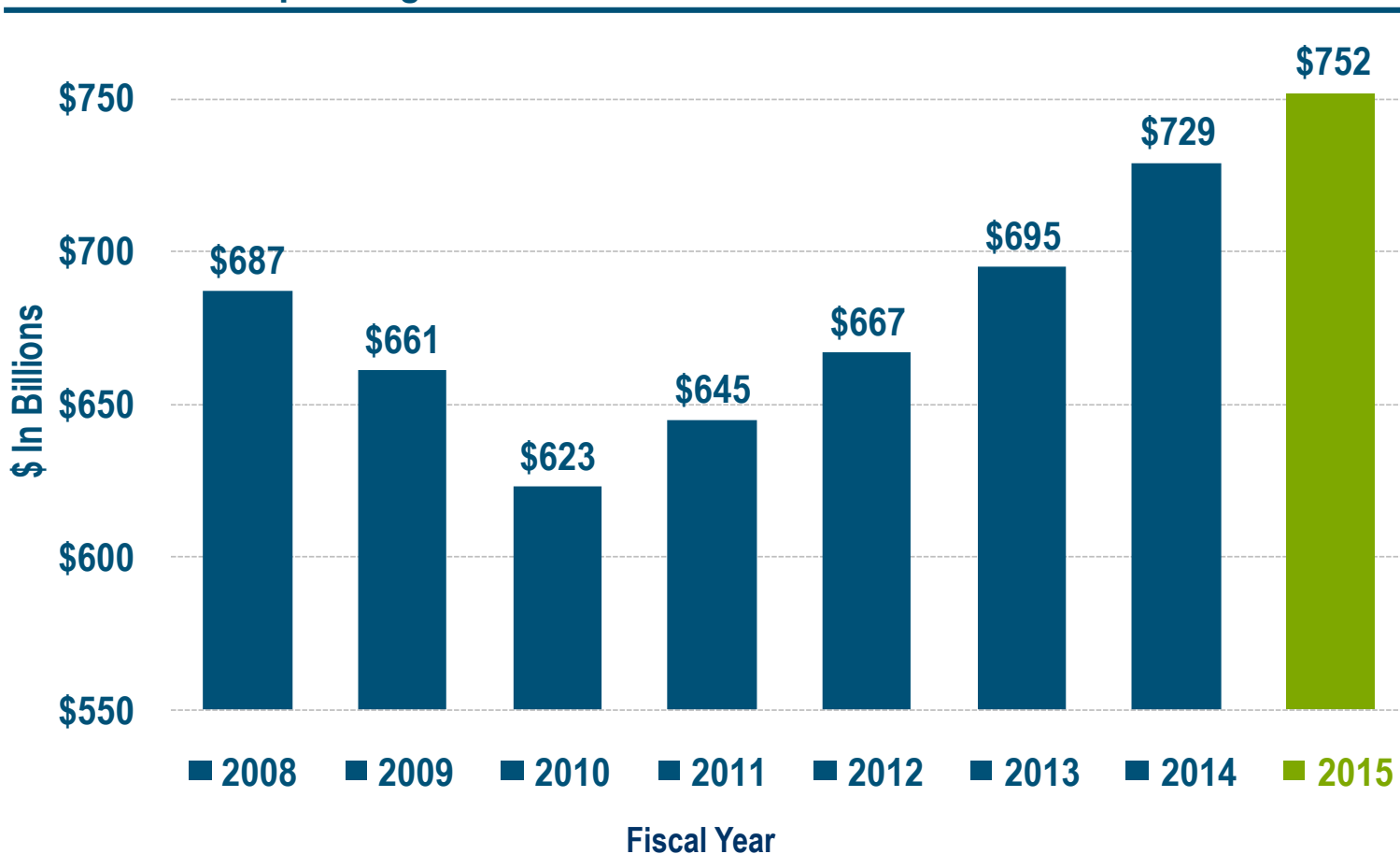
States Reserves Haven't Reached Peak Levels

Balances as a Percent of Expenditures



GF Spending Exceeding Pre-Recession Level

General Fund Spending: FY 2008-FY 2015

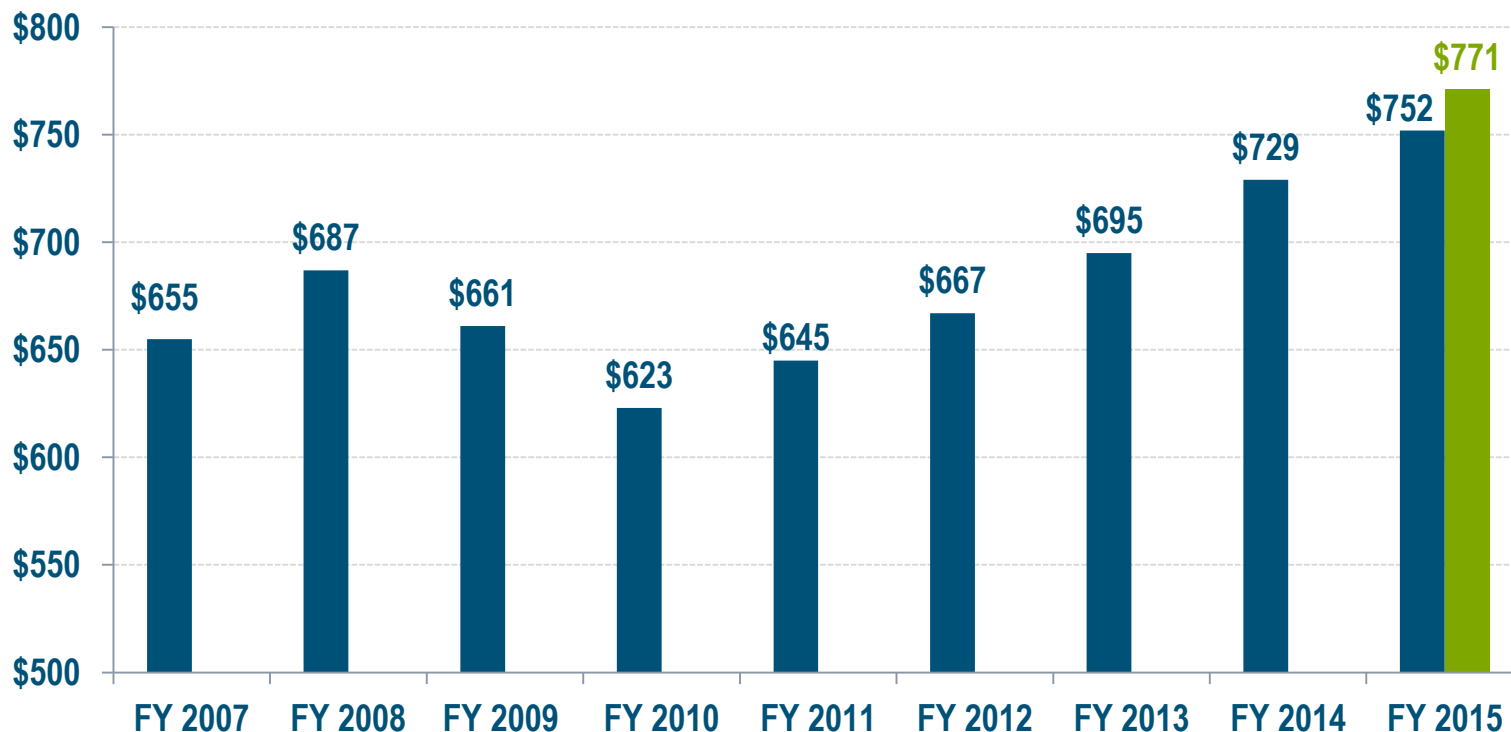


Source: NASBO Fall 2014 Fiscal Survey of States

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GF Spending Still Below Pre-Recession Peak Adjusted for Inflation

General Fund Spending: FY 2007-FY 2015

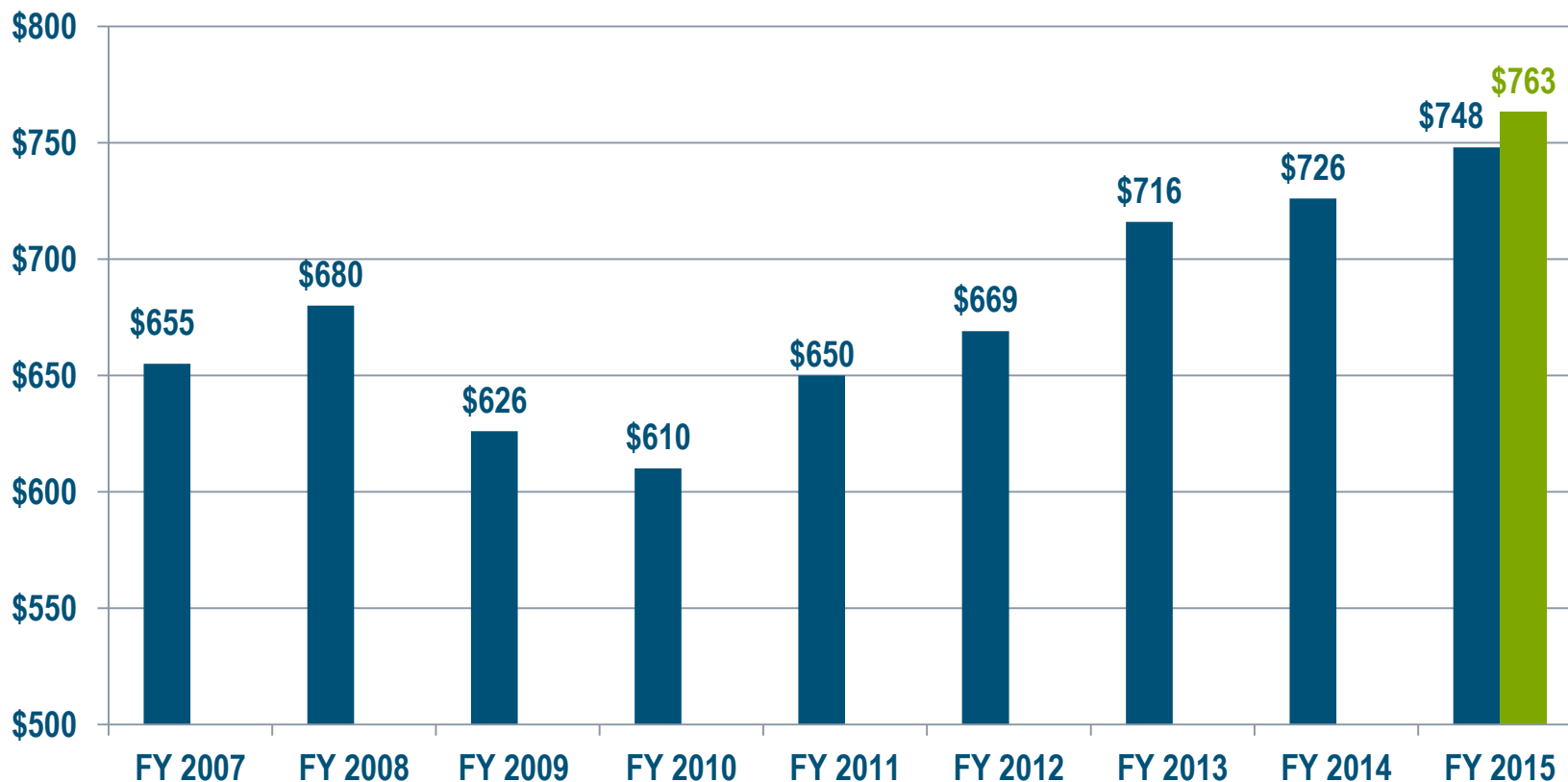


Source: NASBO Fall 2014 Fiscal Survey of States; Fiscal 2015 numbers are enacted

*Aggregate spending levels would need to be at \$771 billion to remain equivalent with real 2008 spending levels.

GF Revenue Also Below Pre-Recession Peak Adjusted for Inflation

General Fund Revenue: FY 2007-FY 2015

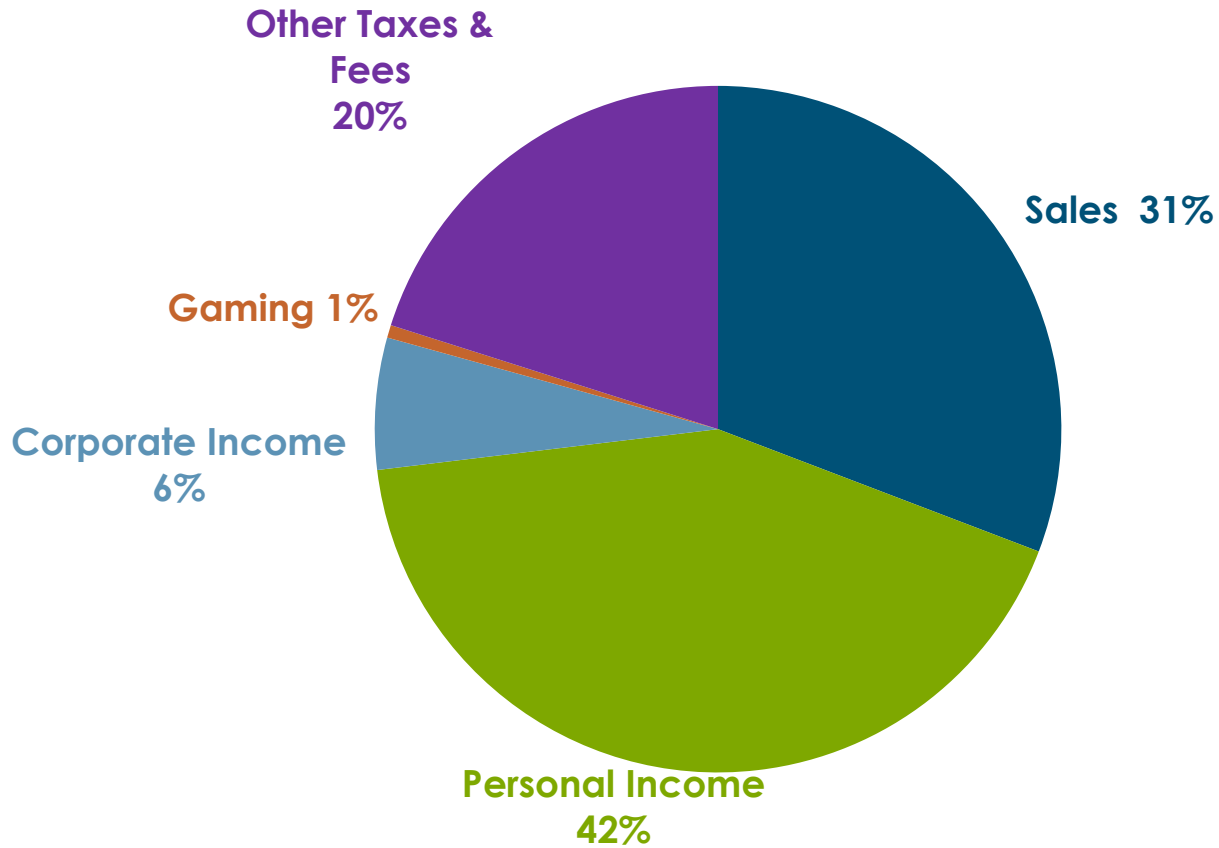


Source: NASBO Fall 2014 Fiscal Survey of States; Fiscal 2015 numbers are enacted

*Aggregate revenue levels would need to be \$763 billion to remain equivalent with real 2008 revenue levels.

Revenue Sources in the General Fund (Percentage)

Estimated Fiscal 2014

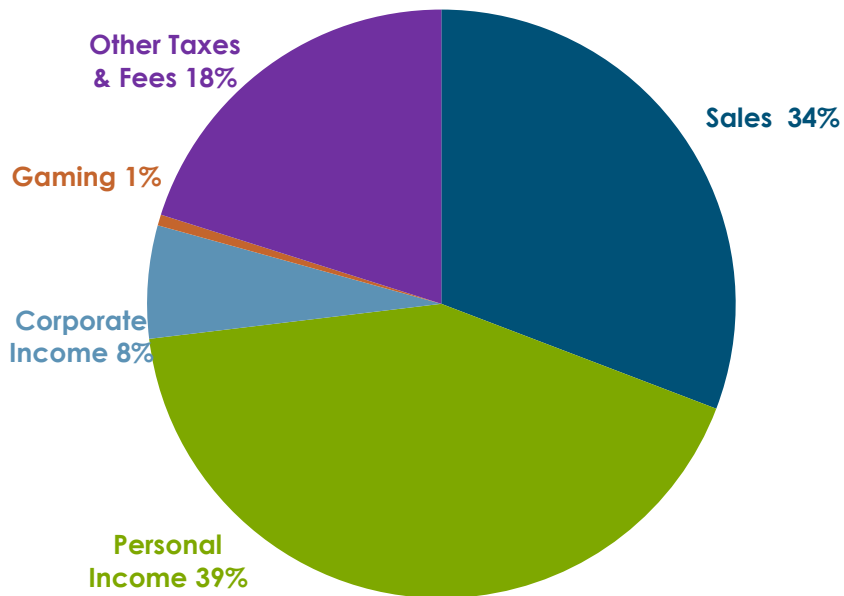


Source: NASBO State Expenditure Report

Revenue Sources in GF Relatively Consistent

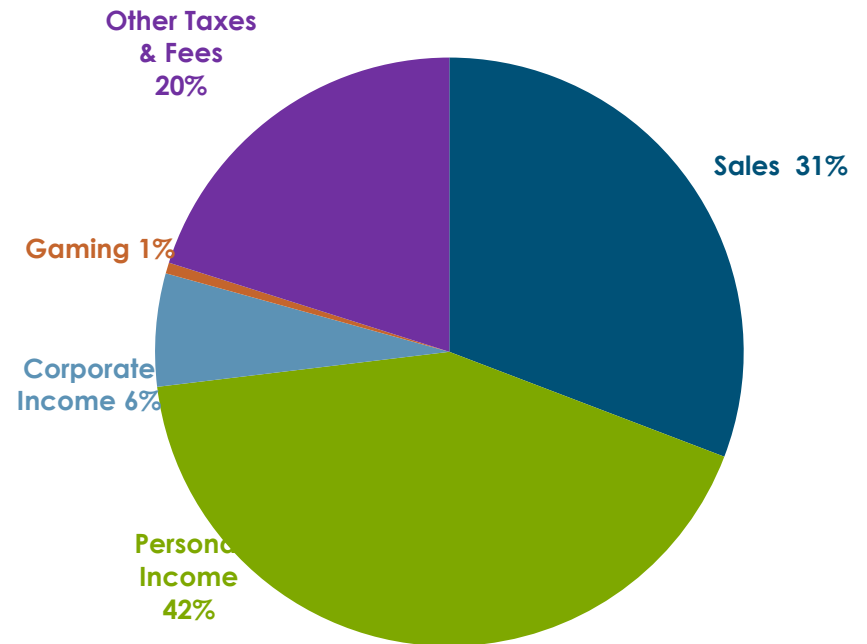
1998

Estimated Fiscal 2014



2014

Estimated Fiscal 2014



Percent Change in FY 2014 and 2015 Collections by Major Tax

- **Fiscal 2014 revenues increased by 1.3%, slow growth partly due to federal tax changes**
 - PIT grew by 0.9%, sales 4.9%, and CIT 0.7%

- **Fiscal 2015 revenues projected to increase by 3.1%**
 - PIT projected to increase by 4.7%, sales 4.0%, and CIT 1.7%

General Fund Collections Compared to Projections

■ Fiscal 2014

- Revenue collections outpaced projections in 25 states
- Were on target in 5 states
- And came in below estimates in 20 states

■ Fiscal 2015

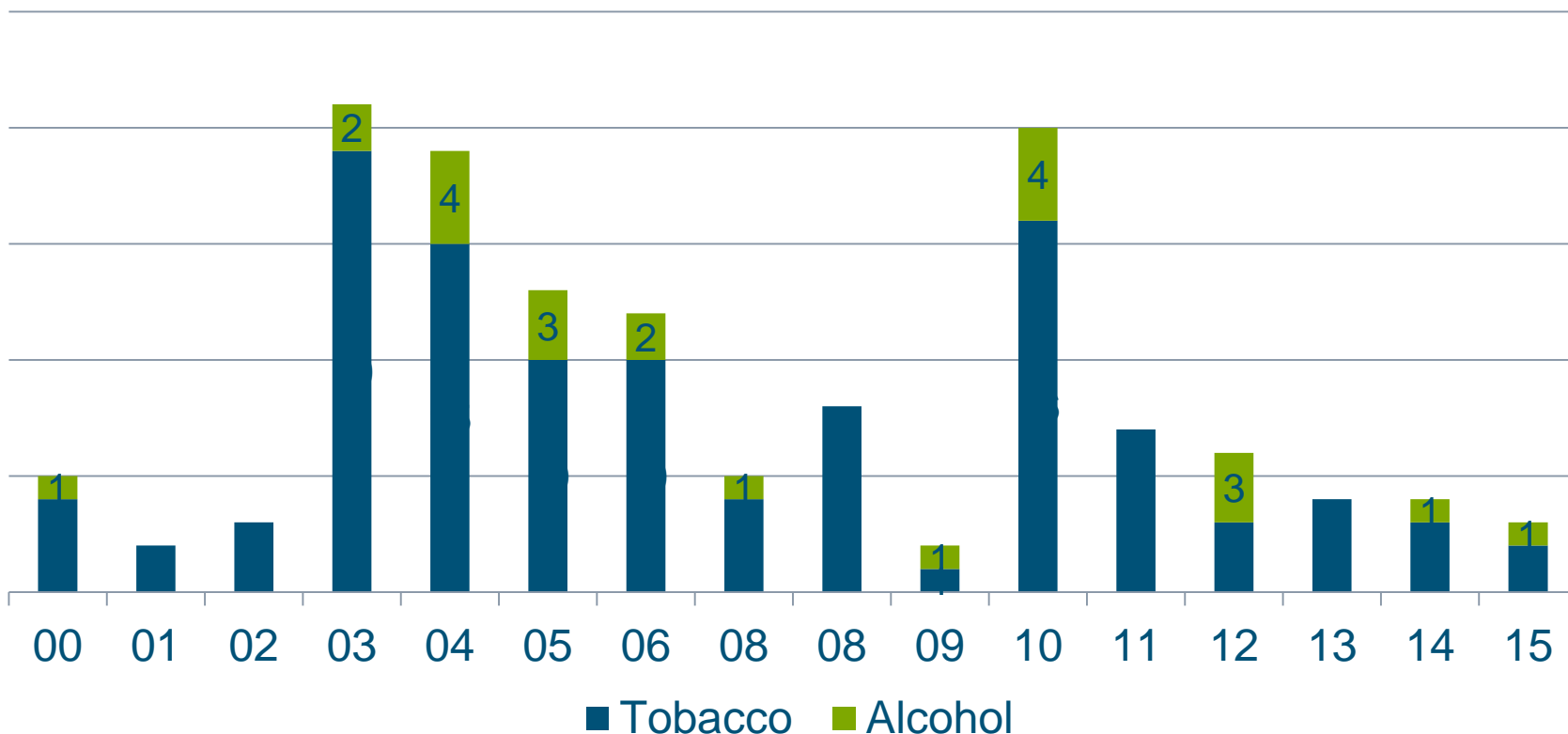
- Revenue collections have outpaced projections in 7 states
- Are on target in 26 states
- Are coming in below estimates in 10 states

*Only 43 states reported collections compared to projections for fiscal 2015.

Fiscal 2015 Enacted Revenue Changes by Major Tax

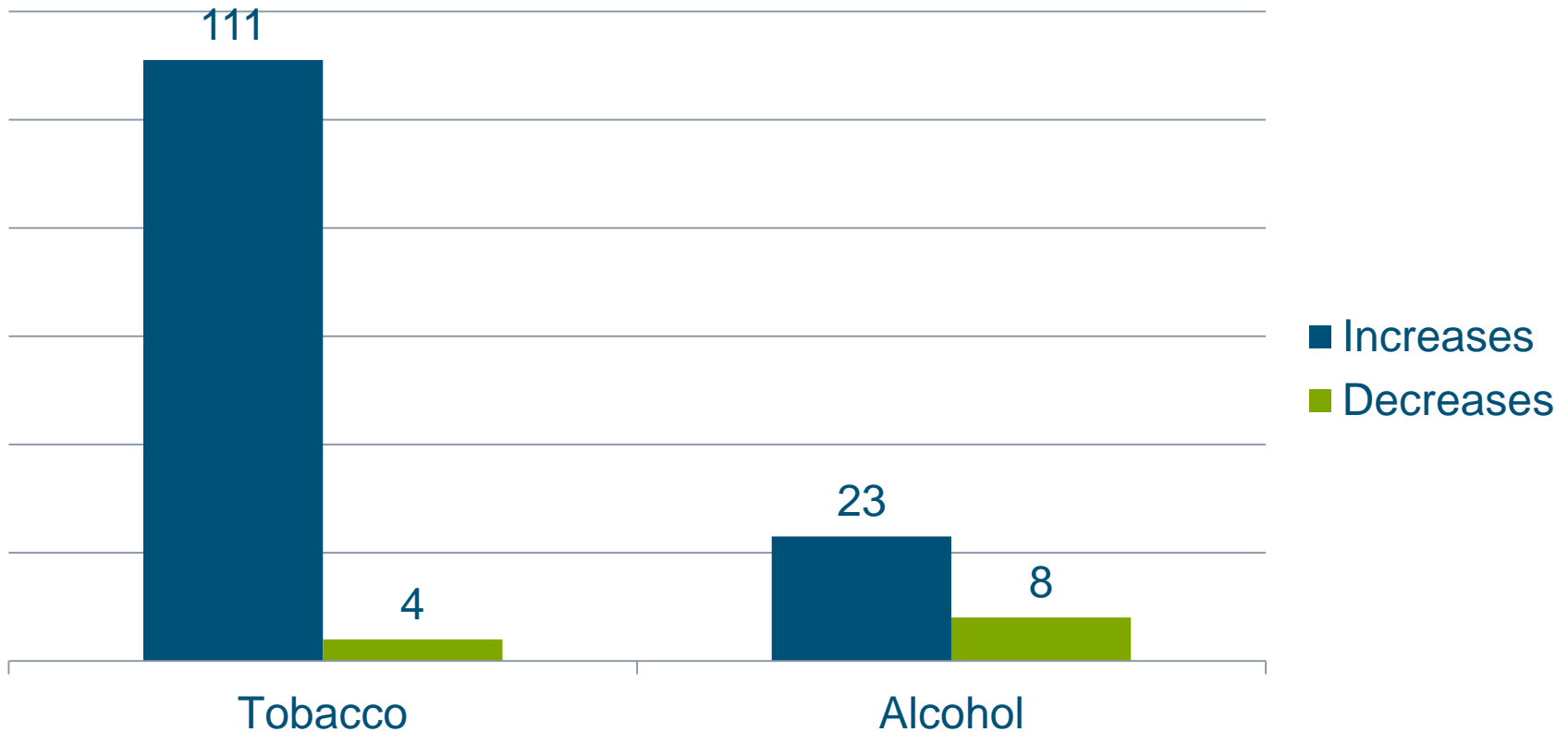
- **Sales Taxes (-\$248M):**
5 states enacted increases,
13 enacted decreases
- **Personal Income (-\$747M):**
1 increase, 14 decreases
- **Corporate Income (\$207M):**
2 increases, 9 decreases
- **Cigarettes/Tobacco (\$8M):**
2 increases
- **Motor Fuels (\$33M):**
1 increase
- **Alcohol (-\$0.2M):**
1 increase, 1 decrease
- **Other Taxes (-\$698M):**
4 increases, 9 decreases

Number of States Increasing Tobacco & Alcohol Taxes from 2000-2015



Source: NASBO Fiscal Survey of States

Changes in Tobacco & Alcohol Taxes (2000-2015)



Source: NASBO Fiscal Survey of States

Tobacco and Alcohol Revenue

- According to Census, state and local tobacco tax revenue was \$17.6B in fiscal 2012
- State and local alcohol revenue was \$6.5B
- Total state general fund revenue alone was \$672.8B in fiscal 2012, according to State Expenditure Report

State Gambling Revenue

- Gambling revenue totaled \$27.3 billion in fiscal 2014, according to Rockefeller Institute of Government
 - Lottery \$18.1B, Casino \$5.3B, Racino \$3.2B, Video Gaming \$582M, Pari-mutuel \$140.5M
- By comparison, total general fund revenue was \$729.7 billion, according to State Expenditure Report
- Gambling revenue increased 0.6% in fiscal 2014, but declined 0.8 percent after adjusting for inflation
 - Lotteries grew 0.6%, casinos declined 1.4%

Colorado Marijuana revenue

- Colorado is projected to receive \$47.7M in medical and retail marijuana revenue in fiscal 2015
 - Original projection was \$134M

- By comparison, Colorado's total projected general fund revenue for fiscal 2015 is \$9.6B
 - Marijuana revenue would then represent 0.5%

- January marijuana sales yielded \$2.3M for schools
 - Colorado spent \$7.9B on K-12 from all fund sources in fiscal 2014

Washington State Marijuana revenue

- Washington State Economic and Revenue Forecast Council is projecting \$222M in marijuana revenue over the next two-year budget for fiscal 2016-2017
- By comparison, Washington's general fund revenues are projected to be \$16.8B in fiscal 2015 alone

Budget View

- Sin Taxes Not a Solution for Major Budget Problems
- Good for:
 - Some Extra Funds
 - Pay for Regulatory Environment
 - Discourage Use
- Reasons and Justification Should be Discussed
- Distraction from Major Fiscal Challenges
- Marijuana Issue: Colorado Gov. John Hickenlooper stated that he thinks legalization was a bad idea (1/23/15 CNBC interview)

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