

**BUDGET FORECAST AND
POLICY FORUM
September 15, 2010
Nashville Public Library**

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*Additional
Stimulus
Spending?*

Double Dip?

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UNCERTAINTY

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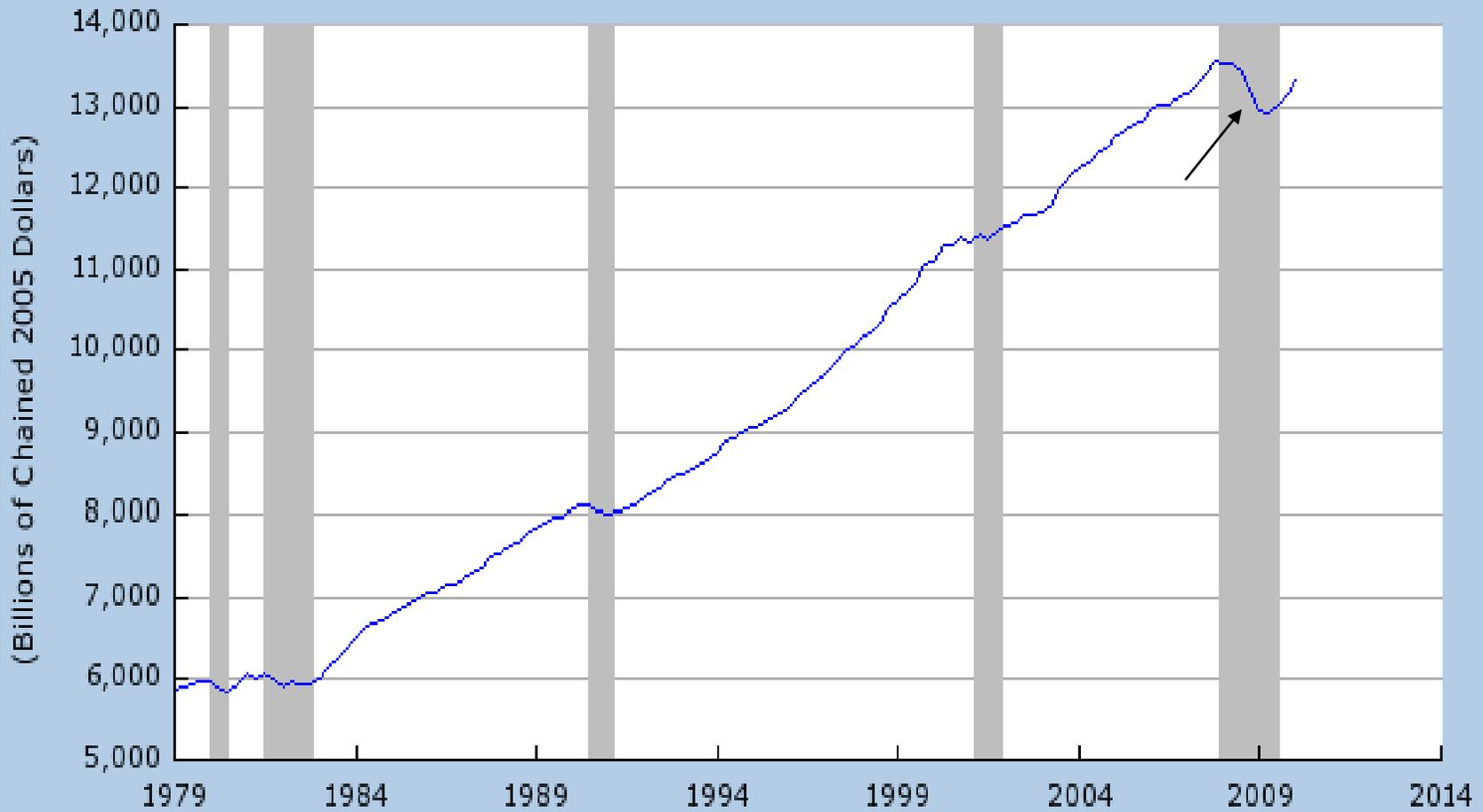
*Bush Tax
Cuts?*

Hurricane Andrew approaching the Bahamas and Florida as a Category 5 hurricane in 1992





Real Gross National Product (GNPC96)
Source: U.S. Department of Commerce: Bureau of Economic Analysis



Shaded areas indicate US recessions.
2010 research.stlouisfed.org

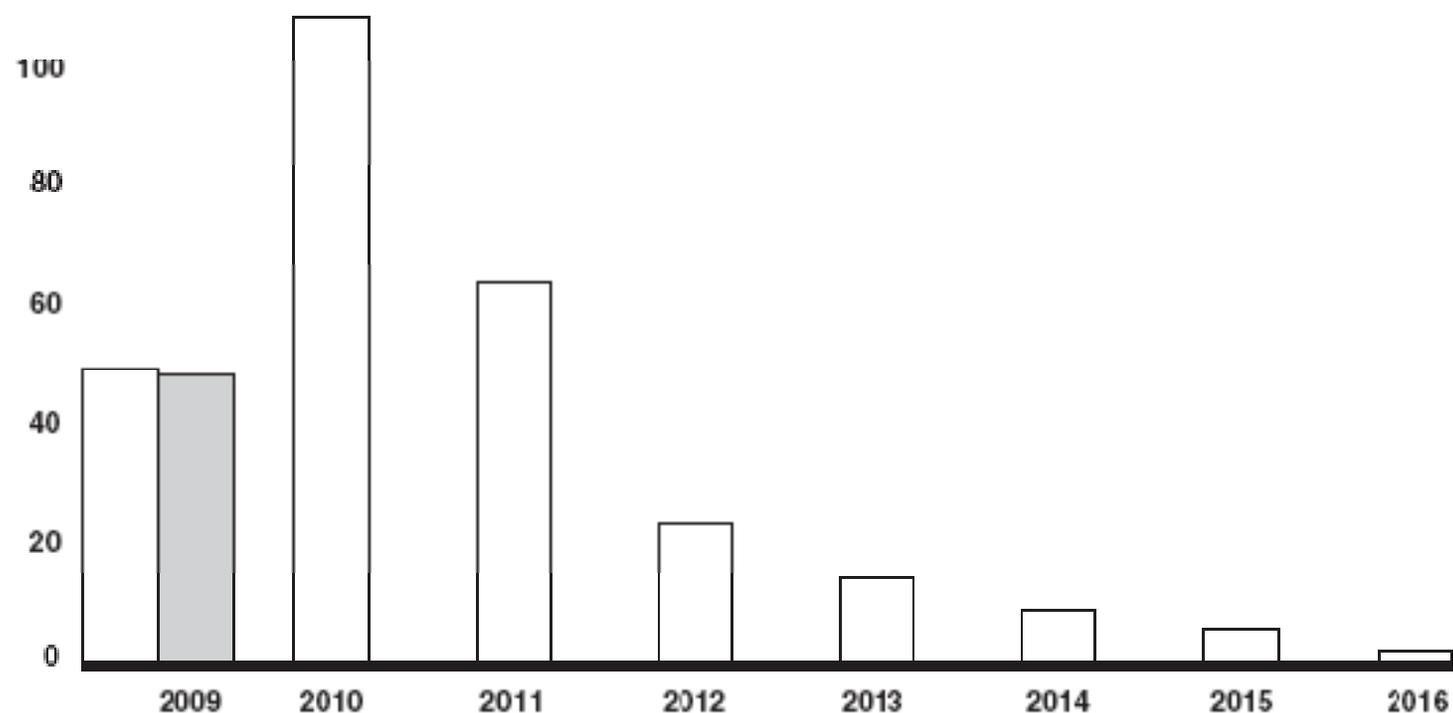
Economic Activity Rises or Falls Depending on Spending By Three Major Players

- Household spending (Consumption): dramatically dropped for several reasons and is recovering slowly.
- Business spending (Investment): increases await clearer signals on direction of economy.
- Government (state, local, & federal) spending (G): federal Stimulus (ARRA) spending increased overall government spending but repeat level of such aid not likely.

Figure 1: Estimated versus Actual Federal Outlays to States and Localities under the Recovery Act

Dollars (in billions)

120

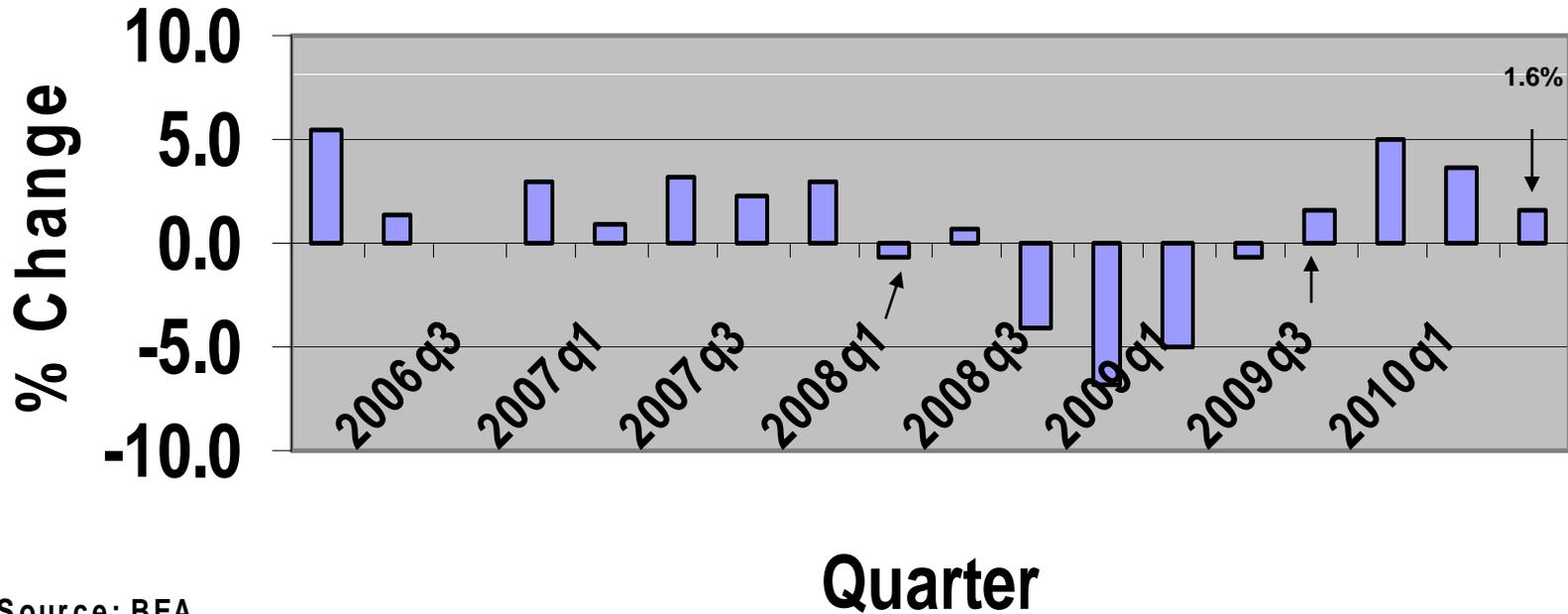


Federal fiscal year (Oct. 1–Sept. 30)

- Original estimate
- Actual as of September 11, 2009

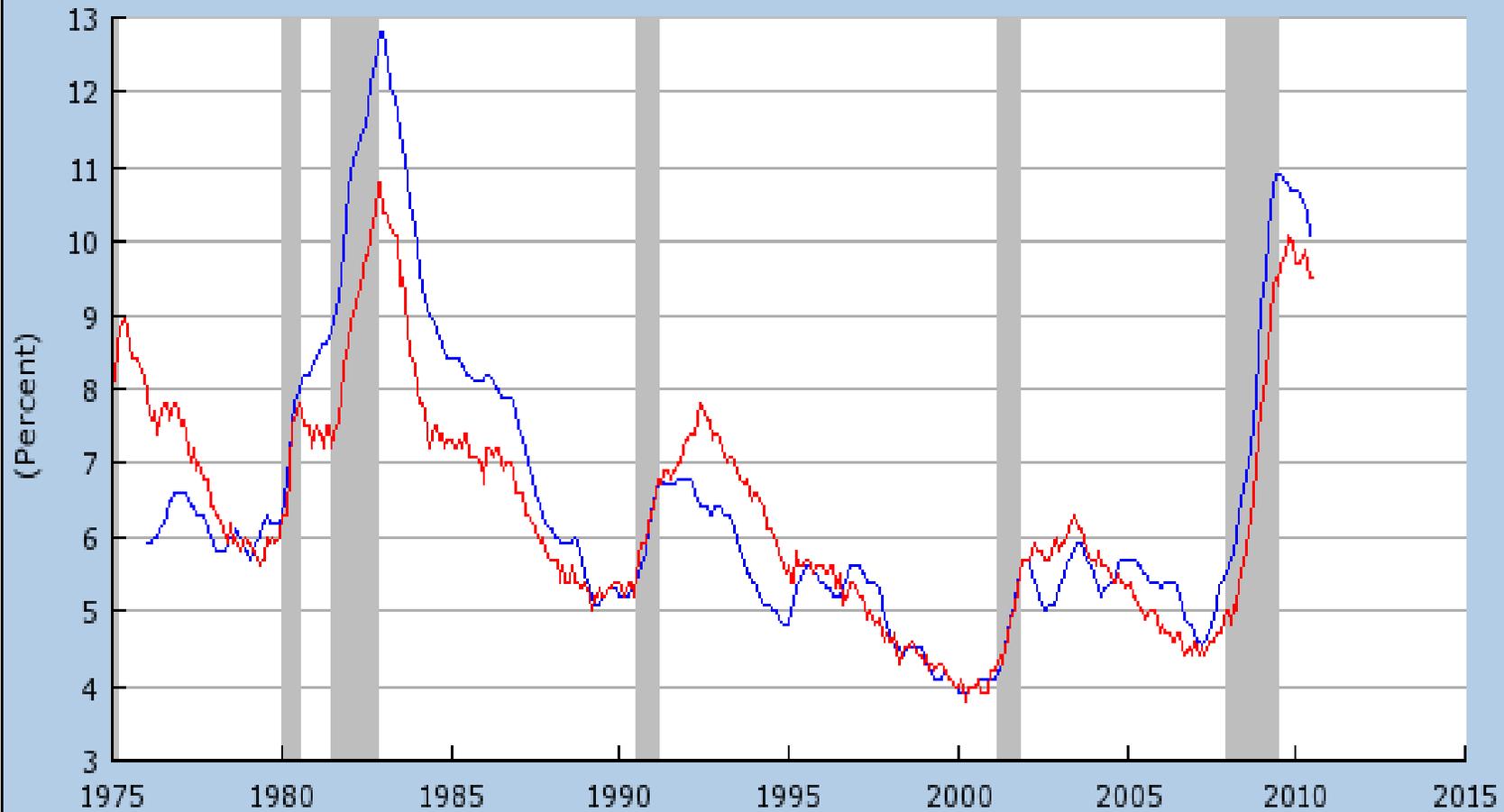
Source: GAO analysis of CBO, Federal Funds Information for States, and Recovery.gov data.

Change in Real Quarterly GDP (Compound Annual Rate of Change)



Source: BEA

Unemployment Rate in Tennessee (TNUR)
Civilian Unemployment Rate (UNRATE)



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— TNUR
— UNRATE

S&P 500 Index (SP500)
Source: Standard and Poor's

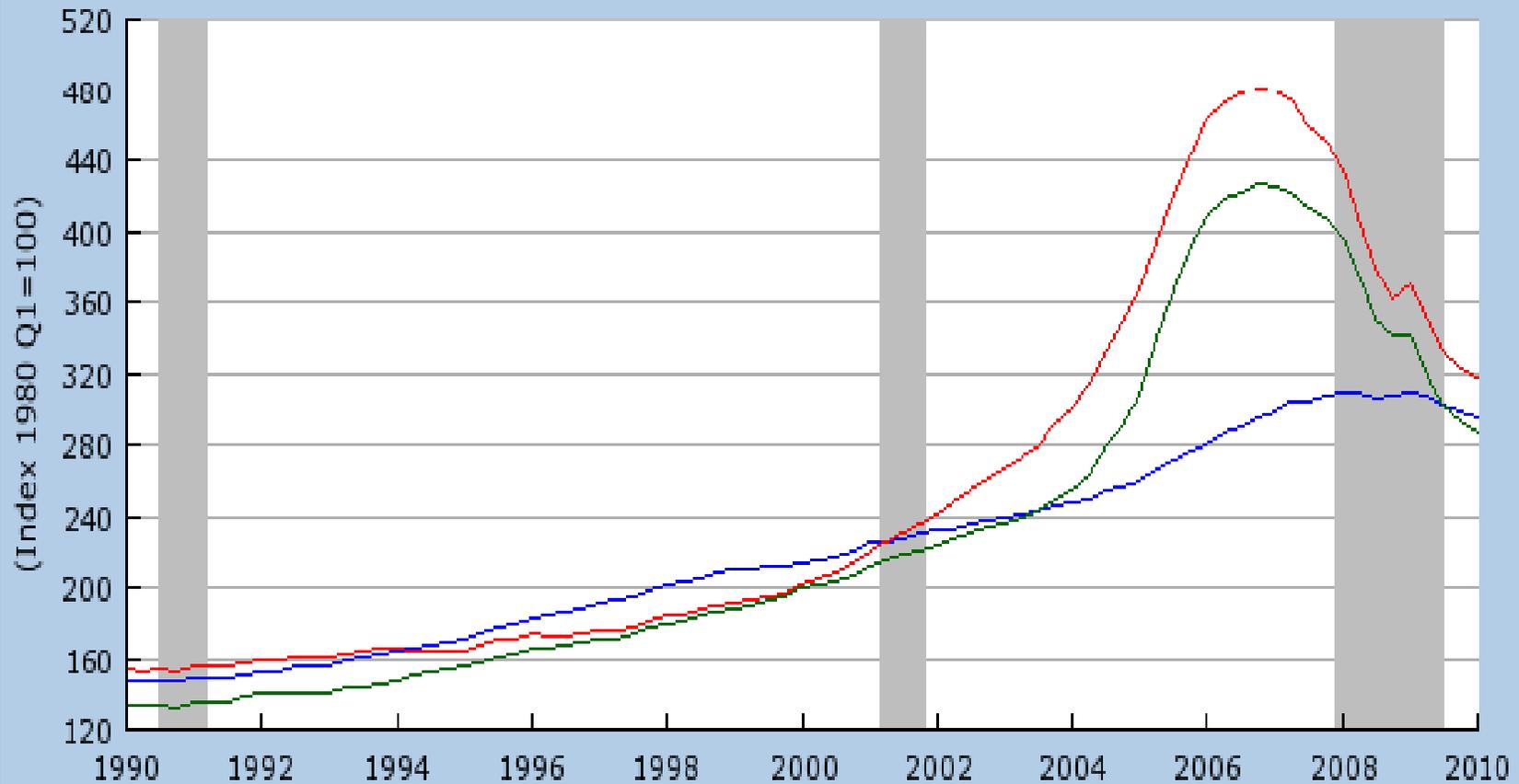


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Through 9/1/2010

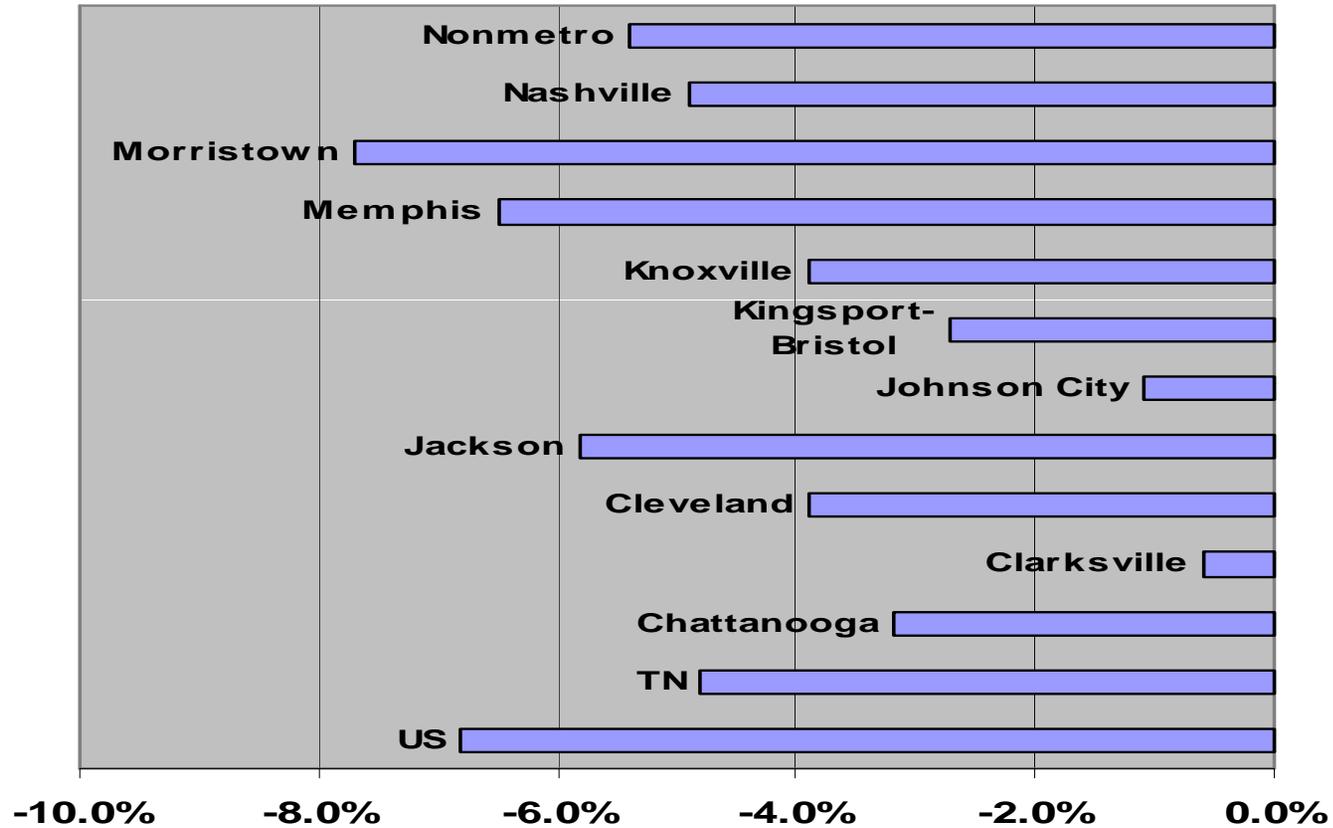
House Price Index for Tennessee (TNSTHPI)
House Price Index for Florida (FLSTHPI)
House Price Index for Arizona (AZSTHPI)



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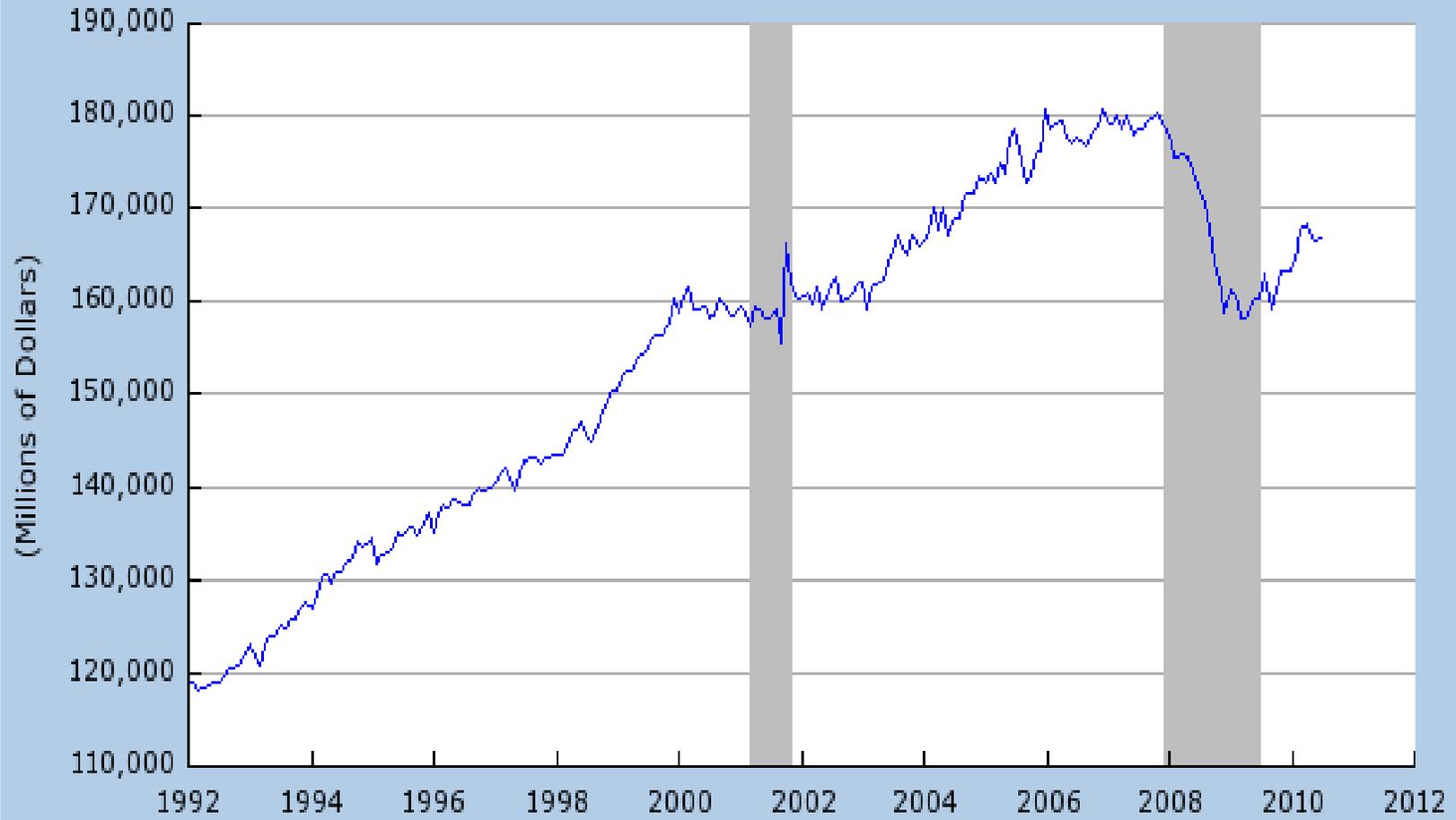


Change in Housing Prices: 2009.Q1 to 2010.Q1, for US, TN, and TN MSAs



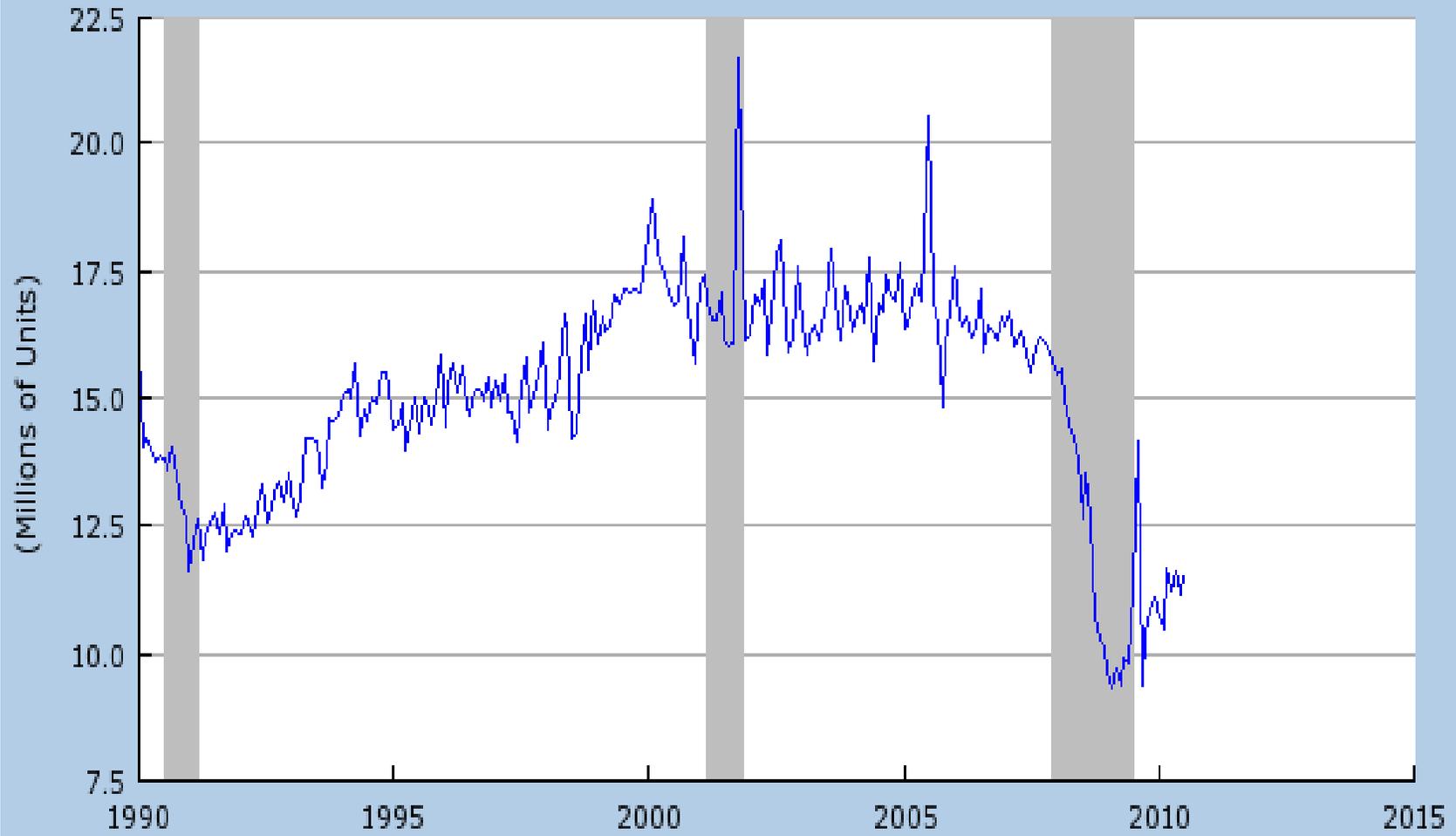
Source: MTSU BERC; FHFA

Real Retail and Food Services Sales (RRSFS)
Source: Federal Reserve Bank of St. Louis



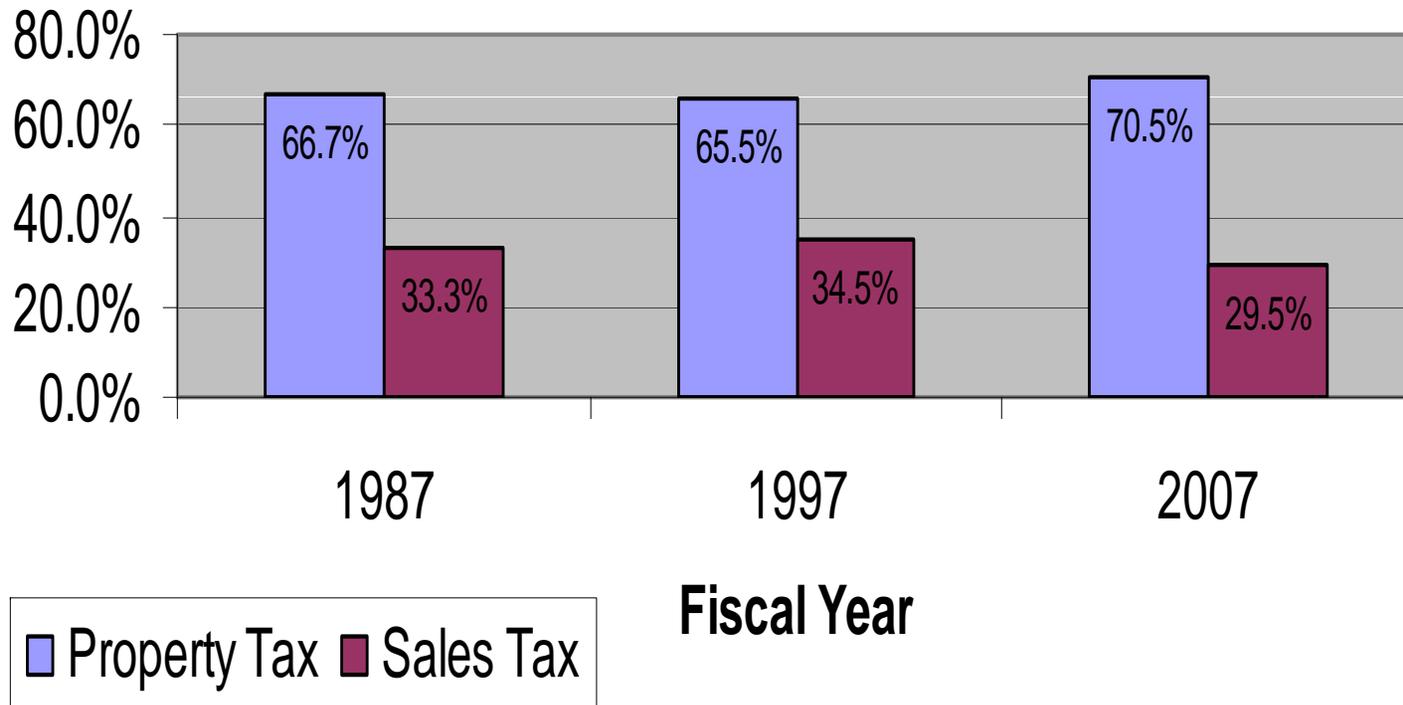
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Light Weight Vehicle Sales: Autos & Light Trucks (ALTSALES)
Source: U.S. Department of Commerce: Bureau of Economic Analysis

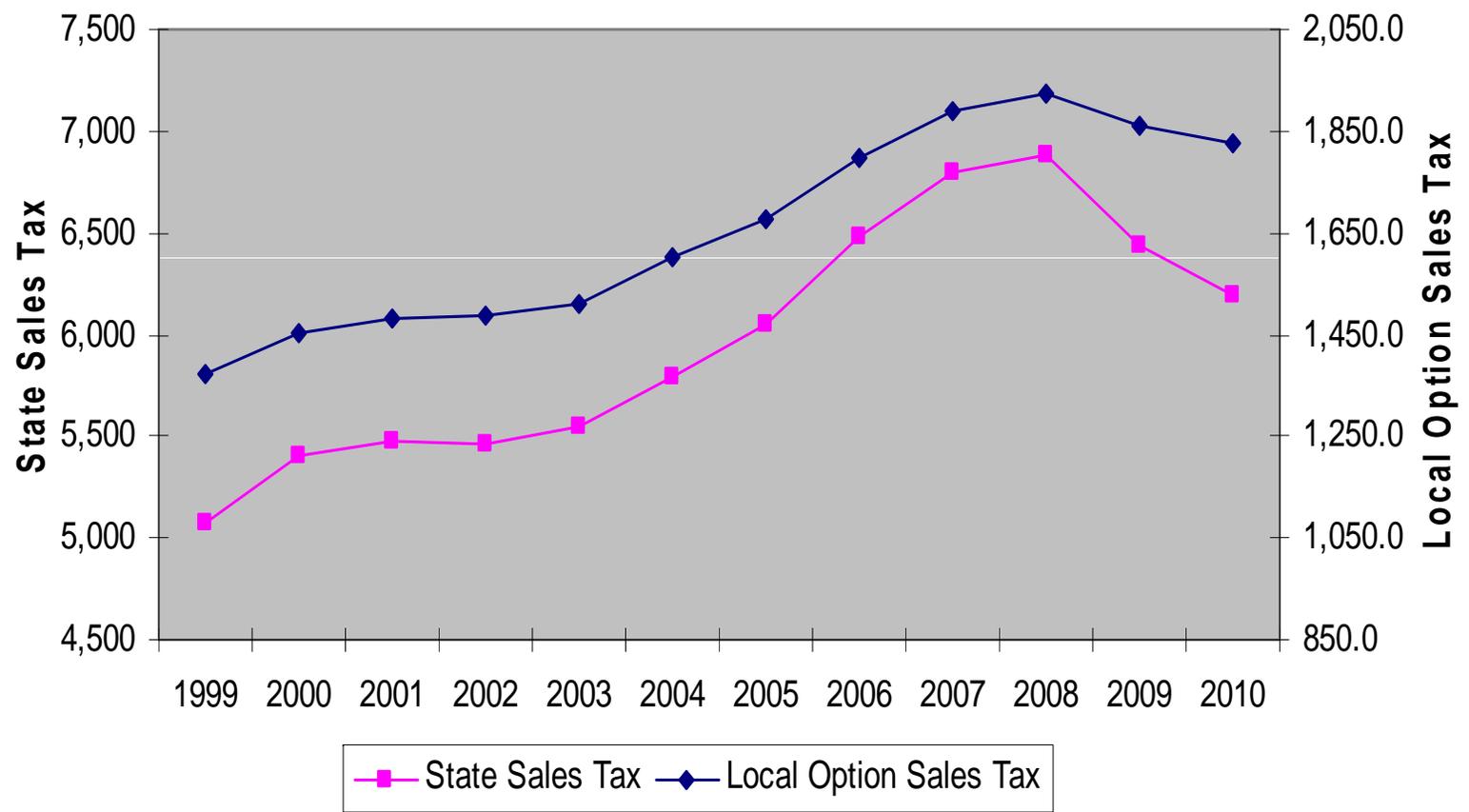


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Relative Importance of Property Taxes Versus Local Sales Taxes



July-June Fiscal Year Collections (in \$millions) by Fiscal Year



State Collections adjusted for rate and base changes.



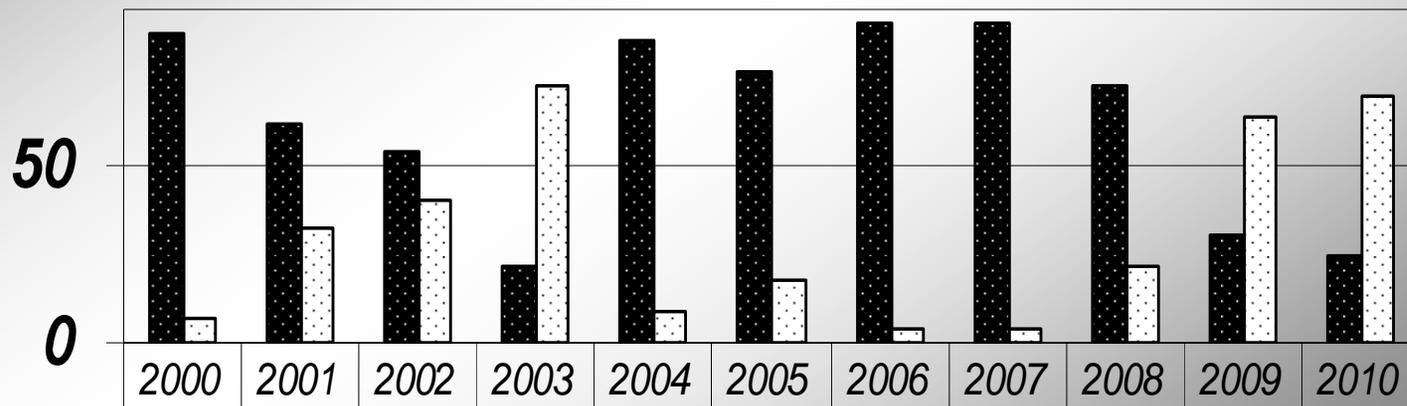
2010 Vespa LX 50 Base
Price \$3,299

Local Option
Sales Tax=\$36



Bugatti Veyron
\$1,700,000

Number of Counties with Positive or Negative Local Option Sales Tax Growth By Fiscal Year



■ Positive	88	62	54	22	86	77	91	91	73	31	25
□ Negative	7	33	41	73	9	18	4	4	22	64	70

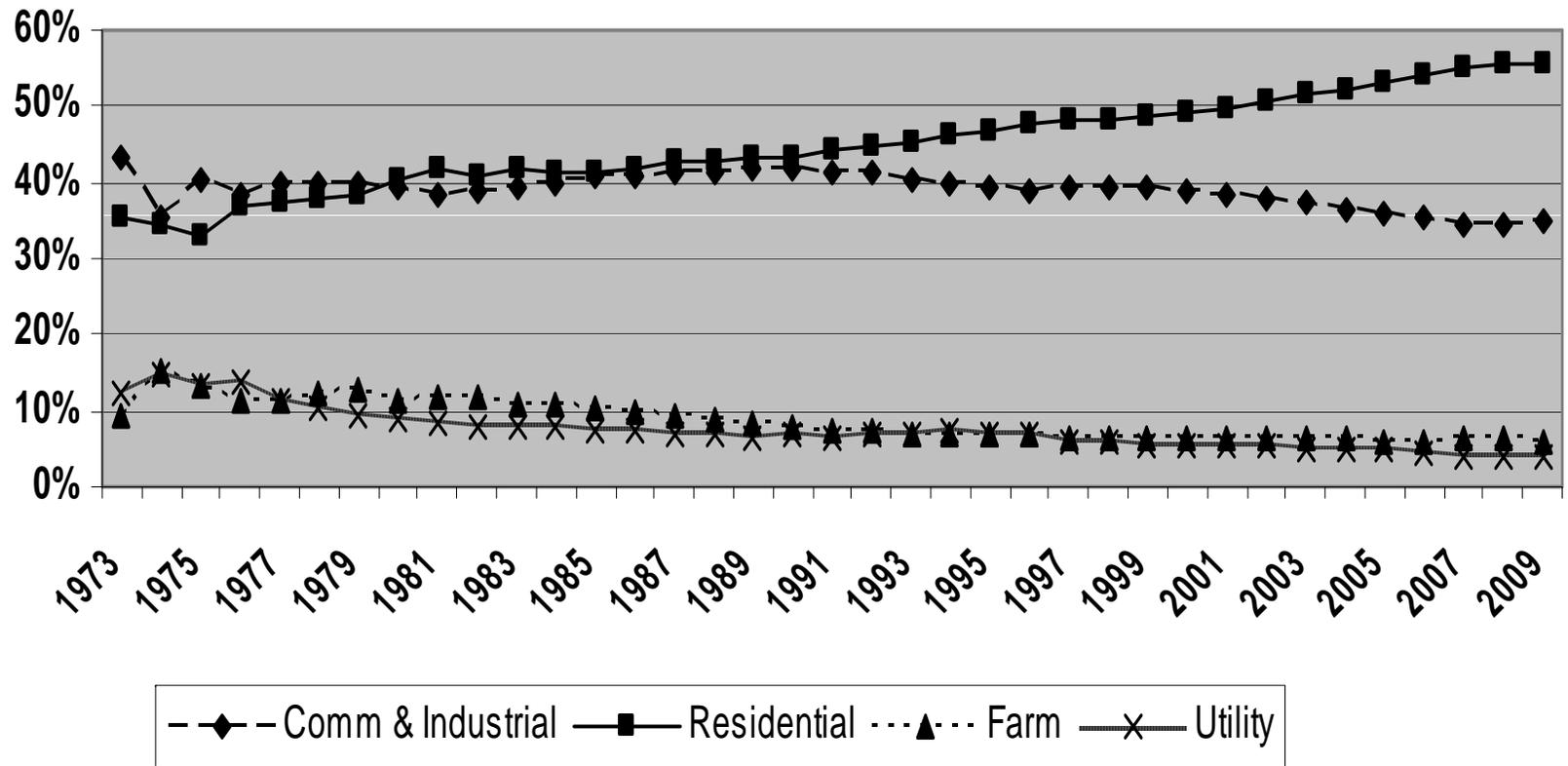
Source: TN Dept of Revenue

Local Option Sales Tax Rates for Counties (effective August 2010)

Rate	#	Cumulative #	Cumulative %
2.75%	49	49	51.6%
2.50%	11	60	63.2%
2.25%	29	89	93.7%
2.00%	4	93	97.9%
1.75%	1	94	98.9%
1.50%	1	95	100.0%

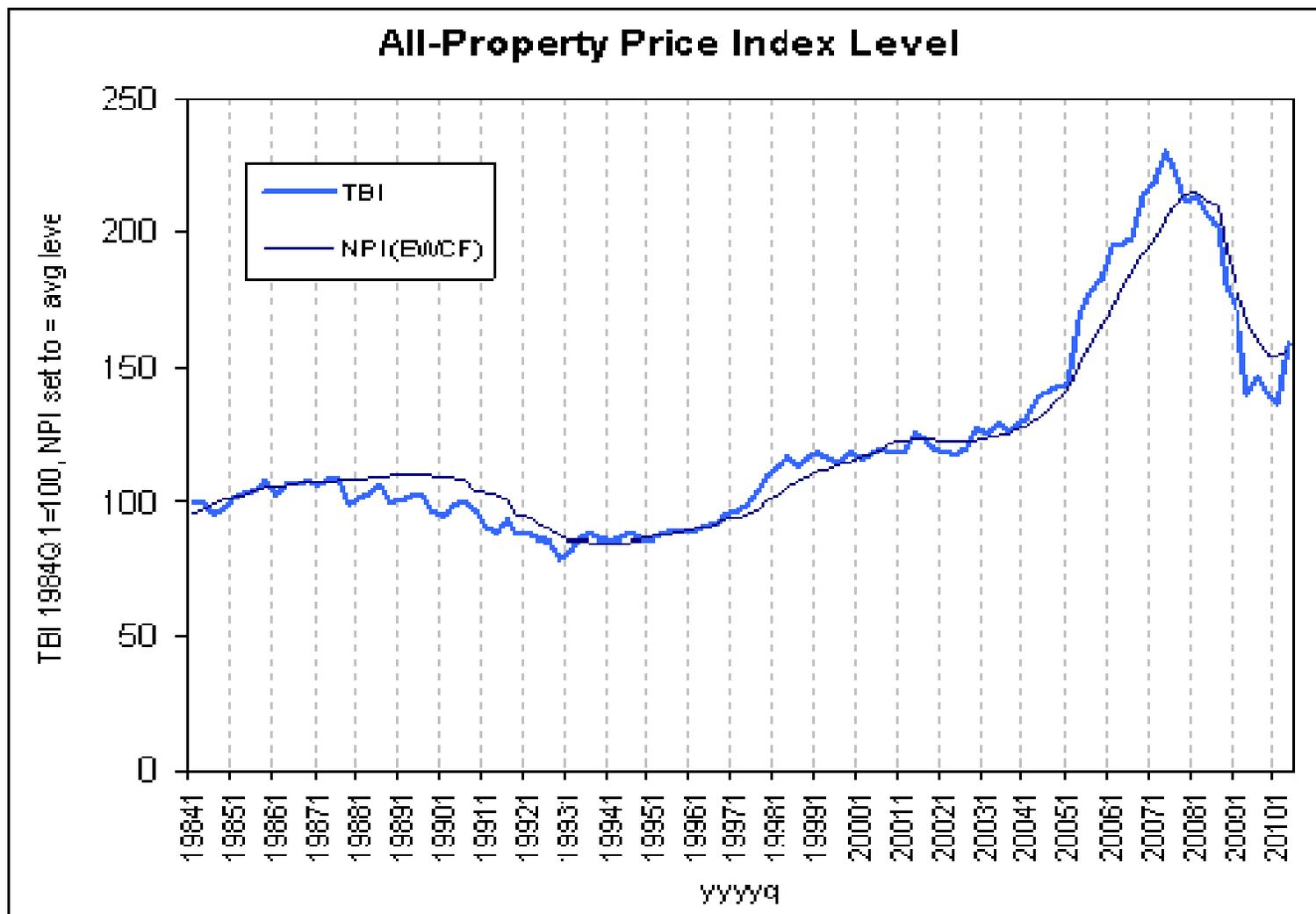
Note: Cheatham, Gibson, Humphreys, Morgan, and Giles are effectively at maximum rate since most of taxable activity occurs in cities that impose 2.75% rate.

Distribution of Total Assessments



Property Tax Impacts

- Because of inherent delays in the property tax system, changes in market values take some time to have effects on property taxes.
- Declines in values in 2008, 2009, and 2010 could take up to four-six years to impact appraisals, at which time local officials will be faced with some difficult decisions.
- Good news; assessments are up in all counties going through reappraisals this year (24 counties).



Source: MIT
Center for Real
Estate

Concerns and Uncertainty Remain

- Federal Stimulus Funds (ARRA) impact winding down through next year.
- Additional weeks of extended unemployment compensation not as likely next year.
- The new \$26 billion state aid package (signed on August 10) includes \$10 billion for schools (\$196 million for Tennessee), but is not likely to be renewed.
- Bush tax cuts extended? Or not?
- Federal Reserve can't lower interest much more.
- Consumer and business spending needed to keep the recovery going. More confidence needed.