

Wyoming State and Local Government Spending: Historical Comparisons, Projections and Options



A Study Produced By:



November 2010

Wyoming State and Local Government Spending: Historical Comparisons, Projections and Options

Preface

This study was commissioned by the Wyoming Business Alliance/Wyoming Heritage Foundation and its Heritage Policy Center Initiative to provide users with basic factual data on state and local government spending in Wyoming. Additionally, the study lists steps, or best practices, that other states are taking to lower tax burdens. This study compares state and local spending in Wyoming to that of its neighbors¹ and to other states in the U.S. It builds on the author's previous work in this area.² A major conclusion from an earlier study was that taxation growth needs to be constrained by state and local governments to ensure a competitive business environment that enhances citizen welfare.³ Additionally, this earlier research study concluded that a high tax burden will likely contribute to stagnant population growth. Building on earlier research, this study evaluates how Wyoming governmental units, both state and local, spend the revenue received from taxes.

Additionally, this study analyzes the significant variations in Wyoming's tax collections. It was concluded that the value of the U.S. dollar is a major factor generating volatility in Wyoming tax collections and related spending. It was found that a one percent increase in the value of the dollar reduced severance tax collections by as much as 3.4 percent. In the last chapter of this study, policy options are provided that other state and local governments are undertaking to enhance the cost effectiveness of their programs and deal with economic volatility.

Findings remain the sole property of the Wyoming Business Alliance and may not be used without prior approval. Any errors or mistatements contained in this study are solely the responsibility of the author. A copy of the principal investigator's biography is provided in Appendix G. Please address all correspondence to:

Ernest Goss, Ph.D.
Principal Investigator
Professor of Economics and MacAllister Chair, Creighton University
&
The Goss Institute for Economic Research
600 17th Street, Suite 2800 South
Denver, Colorado 80202-5428
(303) 226-5882
Email: ernieg@creighton.edu

www.ernestgoss.com
www.outlook-economic.com

¹ In this study, Wyoming's neighbors are defined as Colorado, Idaho, Montana, Nebraska, South Dakota and Utah, or those states that share a border with Wyoming.

² Ernie Goss, and Joseph Phillips, "The Effects of State and Local Taxes on Economic Development: A Meta Analysis." *Southern Economic Journal*, Vol. 62(2), October 1995, pp. 320-333.

³ http://www.platteinstitute.org/docLib/20090324_Spending_Habits_Full.pdf and
http://www.platteinstitute.org/docLib/20080505_Should_I_Live_in_Nebraska5.5.pdf

Executive Summary

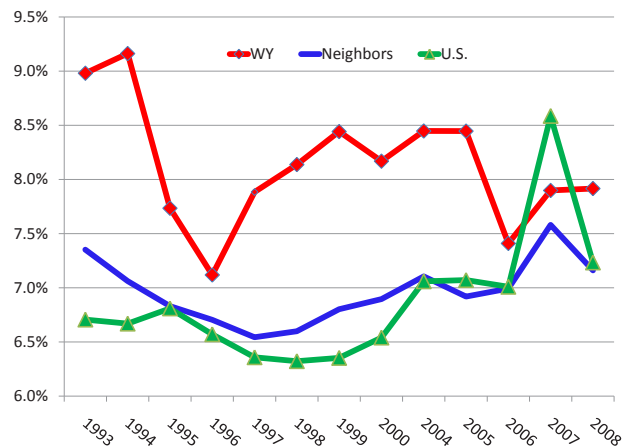
Relative to other states, Wyoming's tax collections and government spending have been much more volatile

- Over the past five decades, Wyoming's economy has exhibited much more volatility than each of its geographic neighbors and the U.S. average.
- Wyoming's dependence on net energy exports has been a major factor producing this volatility:
 - ◇ From 1990 to 2008, *support activities for mining* was Wyoming's top job producer in terms of competitive effect, producing 5,545 more jobs than expected.
 - ◇ Wyoming's Consensus Revenue Estimating Group's (CREG) average percent error between actual tax collections and projected tax collections was 5.1 percent between 1985 and 2009. During this period of time, the average percent change in producer prices for oil and gas products was 17.2 percent.
 - ◇ During the 1980s, there was a strong negative association between CREG's forecast error and the change in oil and gas prices at the producer level.
 - However, this association was reversed after 1999.
 - After 1999, a large percentage change in oil and gas prices is associated with a larger CREG forecast error.

Wyoming's job and population growth have reflected this volatility

- Wyoming's job growth has varied significantly over the past two decades:
 - ◇ Between 1990 and 1999, Wyoming underperformed its neighbors and the U.S. in terms of job growth.
 - ◇ Between 2000 and the beginning of the 2007 recession, Wyoming outperformed both its neighbors and the U.S. Furthermore, between the beginning of the recession and 2009, Wyoming has continued to experience higher job growth than its neighbors and the U.S.
 - ◇ Since 2000, Wyoming has achieved superior job growth by expanding the state's labor

State government spending as percent of GDP, 1993-2008



participation rate⁴ at a much faster pace than its neighbors or the U.S.

- During the 1990s, U.S. population growth exceeded that of Wyoming.
 - ◇ However from 2000 to 2009, Wyoming's population advanced at a stronger pace than the nation as a whole.
 - ◇ After losing population to migration between 1990 and 1999, Wyoming experienced a 3.6 percent population gain via migration from 2000 to 2008.

Wyoming, with severance taxes⁵ representing 43.3 percent of total tax collections in 2009, was second only to Alaska in the share of other states

- The value of the U.S. dollar⁶, by influencing energy products prices, is a key factor generating swings in the Wyoming economy and revenue forecasting errors.
 - ◇ Between 1993 and 2000, the value of the dollar rose by 5.2 percent each year while severance tax collections declined by 0.7 percent per year.
 - ◇ Between 2000 and 2008, the value of the dollar declined at an annual rate of 2.2 percent. During this period of time, severance tax collections climbed by 17.4 percent annually.

⁴ The labor force participation rate is the percentage of working-age persons in an economy who are employed or unemployed but looking for a job.

⁵ Wyoming severance taxes refer to those taxes charged by Wyoming on the extractor of crude oil, stripper oil, natural gas, surface coal, underground coal, trona, and uranium intended for consumption in other states.

⁶ The value of the U.S. dollar is an expression of how much a U.S. dollar is worth in relation to other nations' currency. In this context, a weakened U.S. dollar makes Wyoming energy products more competitive.



- ◇ Statistically, a decline in the value of the dollar by one percent generates a 3.4 percent increase in severance tax collections.

Wyoming's government spending has exceeded that of comparison groups⁷

- For each year between 1993 and 2007, Wyoming spent a larger share of its GDP⁸ on state and local government than its neighbors and the U.S.
 - ◇ If Wyoming spending on state and local government equaled that of its neighbors, state and local spending in the state would have been reduced by \$738 million in 2008, or \$1,357 per capita.
 - ◇ In 2008, as a share of GDP, Wyoming spent more than the average state and its neighbors on K-12 education, highways, and natural resources.
 - ◇ In 2008, as a share of GDP, Wyoming spent less than the average state and its neighbors on pub-

⁷ In many cases, Wyoming's higher spending can be explained by the state's low population density and volatile economic growth.

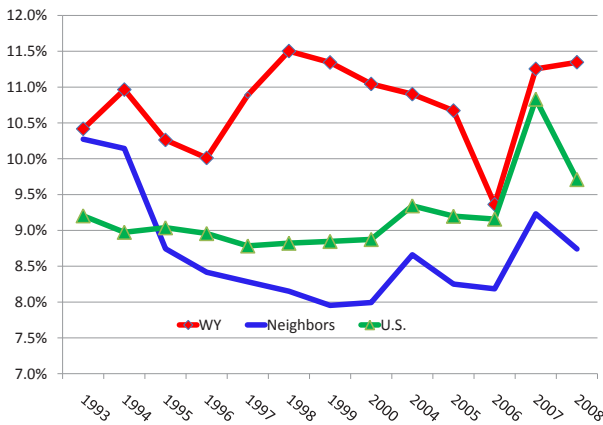
⁸ GDP, or "gross domestic product," refers to the total value of the goods and services produced by a country during a specific period of time.

lic welfare. Wyoming spent more heavily on higher education than the U.S. average but less than its border states in 2008 as a percent of GDP.

- Since 2000, Wyoming has expanded the relative size of its state and local government workforce faster than its neighbors.
 - ◊ Data indicate that rapid growth in the Wyoming economy produced even faster growth in the size of government.
 - ◊ During periods of rapid growth, Wyoming tends to increase its government employment faster than its private employment.

However, considering Wyoming's ability to shift its tax burden to non-Wyoming residents via severance tax collections, Wyoming's spending burden on residents is reduced significantly

Local government spending as percent of GDP, 1993-2008



- Wyoming, with severance taxes of almost \$1.2 billion, representing 43.3 percent of total tax collections in 2009, was second only to Alaska in the share of state tax collections paid by residents of other states.
- Of Wyoming's neighbors, only Montana was able to export more than ten percent of its tax burden to other states via severance tax collections.
- Likewise, after consideration of federal highway support dollars, Wyoming's highway spending is "in line" with its neighbors and significantly less than the average for all states.
- Wyoming is ranked as the third highest tax state among the 50 states. However, considering taxes paid by state residents provides an entirely different picture for Wyoming. After subtracting severance taxes from total taxes, Wyoming is ranked 38.

Across the next decade, changes in U.S. energy policy and in the value of the dollar will likely have the largest impact on the Wyoming economy and tax collections

- Between 1993 and 2008, a ten percent increase in the trade weighted value of the dollar reduced Wyoming's GDP by 7.6 percent. Among Wyoming's neighbors, Idaho was the only state for which the value of the dollar had a larger negative impact on GDP.
- Between 1993 and 2008, among Wyoming's neighbors, Idaho was the only state for which an increasing value of the dollar had a larger negative impact on GDP.
- Over the next five years, reduced global financial risks, increasing U.S. trade deficits, and reduced Chinese debt purchases will reduce the value of the dollar and positively influence the Wyoming economy, especially its tax collections.
- Few states in the U.S. are more influenced by the

value of the dollar relative to the currency of America's trading partners. The weaker U.S. dollar, which is projected for the long term, will continue to bolster energy commodity prices, Wyoming's severance tax collections, and the overall Wyoming economy.

- China's policy of allowing its currency to float within a range against the U.S. dollar will be supportive of the Wyoming economy since it will likewise weaken the dollar.

In order to improve their economic competitiveness, state and local governments are:

- *Hiring private firms to handle some government functions.* According to a Reason Foundation study, cost savings have ranged between 5 percent and 50 percent.
- *Legislatively limiting government growth.* Currently 45 states make use of a limit on state and/or local government spending.
- *Implementing a 65 cent solution.* States are attempting to ensure that 65 cents of every K-12 education dollar goes to instruction.
- *Increasing government transparency.* States are allowing citizens to go on-line to "see where the money goes."
- *Spending at the lowest level of government possible.* The farther spending takes place from the payer and beneficiary, the less effective it is in terms of limiting growth. Thus other factors constant, national programs are less effective than state programs which are less effective than local programs.

Review Team

Dr. Ernie Goss, the author of this report and the Wyoming Heritage Foundation gratefully acknowledge the comments from a Review Team representing diverse Wyoming economic interests and perspectives. These forty-seven members received several advance editions of the report. Three conference calls were held between them and the author to discuss progress and issues as to content and direction.

- * Jim Anderson, *Wyoming State Senate*
- * Sandy Barton, *Freemont County BOCES*
- * Eli Bebout, *Wyoming State Senate*
- * Dave Bell, *McNeil and Company*
- * Nathan Bekke, *Casper Star Tribune*
- * Rosie Berger, *Wyoming State House*
- * Dave Bostrom, *Wyoming Business Alliance/Wyoming Heritage Foundation*
- * Ashley Bright, *Boys and Girls Club of Central Wyoming*
- * Liz Brimmer, *Brimmer Communications*
- * Fred Bronnenberg, *Growthhouse Construction*
- * Randy Bruns, *Cheyenne LEADS*
- * Ruby Calvert, *Wyoming Public TV*
- * Mike Ceballos, *Qwest Wyoming*
- * Hank Coe, *Wyoming State Senate*
- * Roy Cohee, *CY Transportation*
- * Barry Cook, *City of Green River*
- * Cindy DeLancey, *Wyoming County Commissioner's Association*
- * Priscilla Dowse, *Wyoming Special Olympics*
- * Mike Easley, *Powder River Energy*
- * Tom Forslund, *City of Casper*
- * Deanna Frey, *Wyoming Children's Action Alliance*
- * Harriet Hageman, *Hageman & Brighton*
- * Darrell Hammon, *Laramie County Community College*
- * Brent Hathaway, *University of Wyoming*
- * Bruce Hinchey, *Petroleum Association of Wyoming*
- * Tom Jones, *Lobbyist*
- * Karla Leach, *Western Wyoming Community College*
- * Linda Lindsey, *National Outdoor Leadership School*
- * Marion Lummis, *Wyoming Mining Association*
- * Jim Magagna, *Wyoming Stock Growers Association*
- * Marty Martin, *Wyoming State Senate*
- * Mike Matthews, *Wells Fargo*
- * Dell Mcomie, *Wyoming State House*
- * Buck McVeigh, *Division of Economic Analysis*
- * Samin Padelahi, *Wyoming Community College*
- * George Parks, *Wyoming Municipalities Association*
- * Paul Radakovich, *Rocky Mountain Power*
- * Don Richards, *University of Wyoming*
- * Rick Robitaille, *Anadarko*
- * Greg Schaefer, *Arch Coal*
- * Bill Schilling, *Wyoming Business Alliance/Wyoming Heritage Foundation*
- * Shane Schulz, *QEP Resources*
- * Brent Sherad, *Wyoming Department of Health*
- * John Starnes, *Child Development Center of Natrona County*
- * Erin Taylor, *Wyoming Taxpayers Association*
- * Chuck Townsend, *Wyoming State Senate*
- * Earlene Vandeventer, *Children's Development Services of Campbell County*