



STATE AND LOCAL GOVERNMENT AS A PROPORTION OF THE STATE ECONOMY

by Greg Sobetski

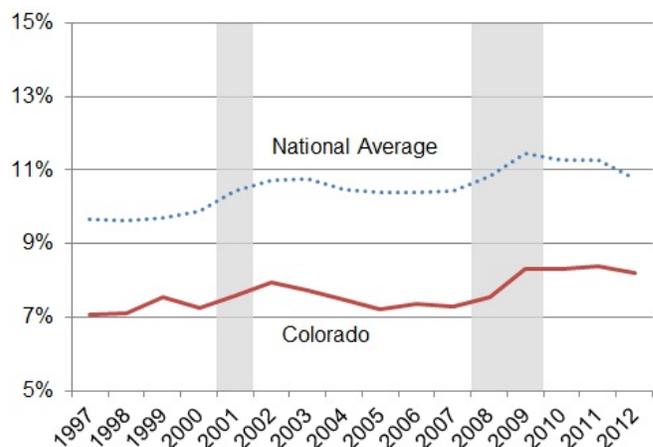
This issue brief provides information on the relative size of state and local governments, compared with the total state economy. Government expenditures are represented as a percentage of the state's gross domestic product (GDP). In Colorado, state government expenditures are below the national average, while local expenditures exceed the national average.

Data in this issue brief come from the U.S. Census Bureau, which tracks state and local government expenditures for all states and the District of Columbia. The Census Bureau defines "expenditure" as *all amounts of money paid out by a government, net of recoveries and other correcting transactions, other than for retirement of debt, investment in securities, extension of credit, or as agency transactions*. For the purposes of this issue brief, retirement and insurance trusts are also excluded because they vary widely in response to economic conditions. However, some expenditures unique to individual states, like broad-based tax rebates, are included. This issue brief is intended as a broad summary of the relative size of state governments.

State government expenditures. Figure 1 shows Colorado state government expenditures as a proportion of the state economy between FY 1996-97 and FY 2011-12, the most recent year for which data are available. A proportion of 10.0 percent would signify that the state government spent a dime for each dollar produced in the state economy. During this period, the proportion has risen slightly, from a minimum of 7.1 percent in FY 1996-97 to a maximum of 8.4 percent in FY 2010-11. Figure 1 also shows the average proportional size of state governments throughout the country. The national average ranged

from a minimum of 9.6 percent in FY 1997-98 to a maximum of 11.5 percent in FY 2008-09. The national average exceeded Colorado's proportion in every year during the sample period by 2.9 percentage points on average.

Figure 1
**State Government Expenditures as a
Proportion of State GDP**
(Shading indicates years of recession)



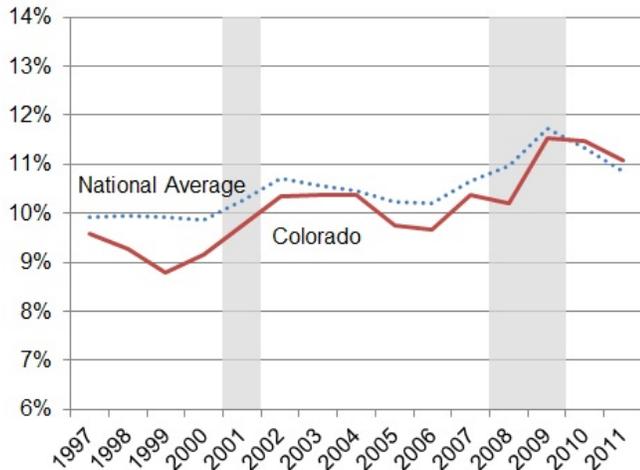
Source: U.S. Census Bureau. Data through FY 2011-12.

Local government expenditures. Figure 2 shows Colorado local government expenditures as a proportion of the state's total economy through FY 2010-11, the most recent year for which data are available. The rise in this proportion has been more pronounced, from a minimum of 8.8 percent in FY 1998-99 to a maximum of 11.5 percent in FY 2008-09. Figure 2 also shows the average proportional size of local governments throughout the country. In FY 2009-10, the proportional size of

Colorado's local governments overtook the national average for the first time in the sample period.

Figure 2
Local Government Expenditures as a Proportion of State GDP

(Shading indicates years of recession)



Source: U.S. Census Bureau. Data through FY 2010-11.

Measured as a portion of the economy, government expenditures tend to increase during recessions. During a recession, GDP tends to fall faster than government expenditures, causing the ratio of expenditures to GDP to rise. Demand for social services increases during recessions, and policy responses to economic conditions take time to navigate the political system.

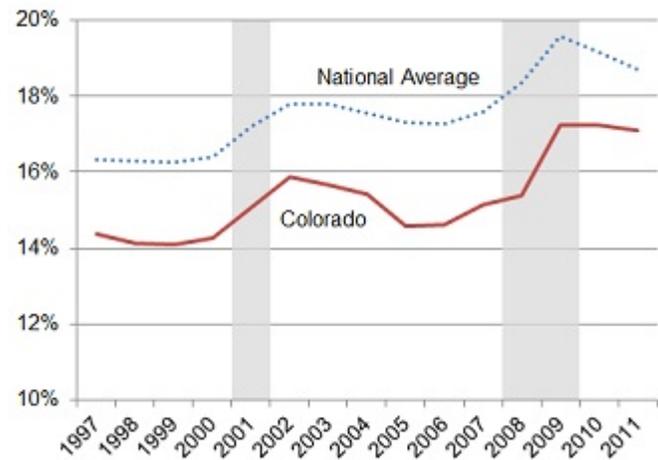
The effect of the Great Recession is more evident in the relative size of local government than in the size of state government. State government revenue is driven by income and sales taxes, both of which decline with GDP during years of recession. In contrast, local government revenue is largely driven by property taxes, which are less volatile. The increase in the relative size of local government in Figure 2 is attributable to a decrease in GDP that outpaced decreases in local government expenditures.

State and local government expenditures combined. Figure 3 shows combined state and local government expenditures as a proportion of the state economy. Colorado's proportion has risen during the sample period, from a minimum of 14.1 percent in FY 1998-99 to a maximum of 17.2 percent in FY 2008-09. Figure 3 also shows the average

proportional size of combined state and local governments throughout the country. The national average of state and local government expenditures ranged from a minimum of 16.3 percent in FY 1998-99 to a maximum of 19.6 percent in FY 2008-09. The combined national average of state and local expenditures exceeded Colorado's proportion in every year during the sample period by an average of 2.2 percentage points.

Figure 3
Combined State and Local Expenditures as a Proportion of State GDP

(Shading indicates years of recession)



Source: U.S. Census Bureau. Data through FY 2010-11.

Table 1 ranks the proportional size of Colorado's state and local governments against those of other states in FY 2010-11. State government expenditures ranked 48th in the country, while local government expenditures ranked 13th.

Table 1
Government Expenditures as a Proportion of State GDP

	National Average	Colorado	Rank
State Government*	10.9%	8.3%	48
Local Government	10.9%	11.1%	13
Combined State and Local Gov't	18.7%	17.1%	37

*In FY 2011-12, the national average for state expenditures was 10.8%; Colorado spent 8.2% and ranked 48th.