THE NELSON A. ROCKEFELLER INSTITUTE OF GOVERNMENT

UNIVERSITY AT ALBANY
State University of New York

# STATE REVENUE FLASH REPORT

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## Final Quarter of 2009 Brought Still More Declines in State Tax Revenue

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### HIGHLIGHTS

- Overall state tax revenues fell by 4.1 percent in the fourth quarter of 2009, compared to the same quarter a year earlier, based on preliminary data. Thirty-nine of 46 early reporting states saw declines in collections.
- Personal income tax revenue continued to decline, with a 4.5 percent year-over-year decrease.
- Sales tax collections fell once again, by 4.2 percent during the quarter, while corporate tax collections dropped 5.8 percent.
- This is a record fifth consecutive quarter that total tax revenues and collections from two major sources — personal income tax and sales tax — declined on a year-over-year basis.
- States will likely face further revenue weakness at least through the first quarter of 2010.

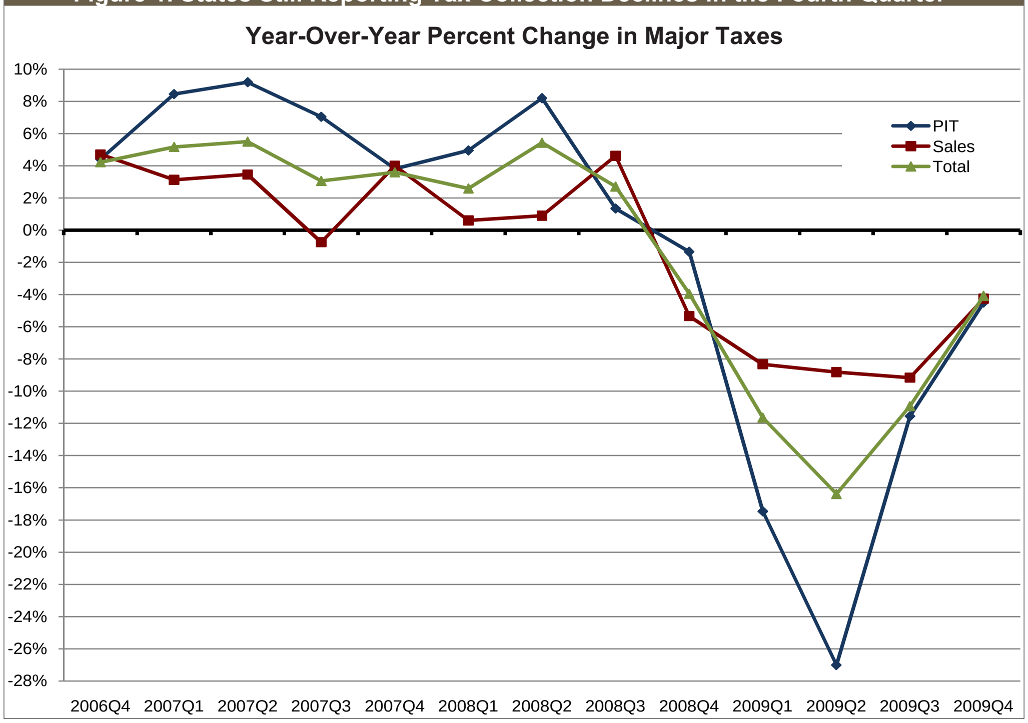
Preliminary tax collection data for the October-December quarter of 2009 show continued declines in most states for all three major sources of tax revenue, as well as for overall tax collections. We expect more states to begin seeing year-over-year growth in some revenue sources over the next few months, particularly the sales tax as a result of stabilizing retail sales and consumption. However, even with growth, tax revenue is likely to remain below its prerecession peak for quite some time. We will provide a full report on the October-December quarter, and further analysis of the 2010 outlook for the states, after Census Bureau data for the quarter are available.

The Rockefeller Institute's compilation of data from individual states shows collections from major tax sources were $134.5 billion in the fourth quarter of 2009, compared to $140.2 billion for the same states during the comparable quarter of 2008. Overall, tax revenue declined by 4.1 percent in nominal terms. After adjusting for inflation, tax revenues declined by 4.8 percent in the fourth quarter compared to the same quarter of 2008. Personal income tax declines represented a $2.6 billion loss and the sales tax a $2.2 billion loss for the period. Corporate income tax saw the sharpest rate of decline at 5.8 percent, followed by the personal income tax and sales tax at 4.5 and 4.2 percent, respectively.

Total tax revenue declined in 39 of 46 early reporting states for which comparable, early data are available. Oklahoma reported the largest decline for the quarter at 26.9 percent followed by Arizona at 17.1 percent. The seven states reporting growth for the fourth quarter were: Arkansas, California, Massachusetts, New Hampshire, North Carolina, South Dakota, and Wisconsin. North Carolina reported the largest growth in overall tax revenue collections for the fourth quarter at 11.4 percent, mostly attributable to a large gain in corporate income tax collections. The increase in corporate income tax collections was the result of North Carolina's Department of Revenue initiative to focus on outstanding cases for the proper calculation of taxes due to the state.

Personal income tax revenue made up nearly 40 percent of total tax revenue reported in the fourth quarter. With 38 of 41 personal income tax states reporting so far, all 33 saw declines compared to the same quarter of last year, with seven of them reporting double digit decreases. Among individual states, Oklahoma and Montana had the largest declines at 24 and 15.9 percent, respectively (see Figure 1 and Table 1).

Figure 1. States Still Reporting Tax Collection Declines in the Fourth Quarter




Alabama, Connecticut, Iowa, New York, and Wisconsin all reported some growth in personal income tax collections. Wisconsin reported the largest increase in personal income tax collections at 7.7 percent, mostly attributable to timing issues and distortion of quarterly collections due to two late postings of withholding collections. For the first six months of state fiscal year 2010, the personal income tax collections in Wisconsin were nearly equal to the collections reported in the same period of the state fiscal 2009. New York had the largest increase in personal income tax collections in terms of dollar value, mostly due to legislated changes in personal income tax.

With 41 of 45 sales-tax states reporting so far, fully 37 had sales tax declines compared with the same quarter last year, and eight states reported double digit declines. Wyoming had the largest sales tax decline at 19.8 percent, followed by Georgia at 17.7 percent. California, Massachusetts, North Carolina, and South Dakota all reported growth in sales tax collections. Massachusetts reported the largest growth at 20.8 percent for the quarter, mostly attributable to a sales tax rate increase from 5.0 percent to 6.25

Table 1. All Major Taxes Continued to Decline In the Fourth Quarter

Percent Change in State Tax Collections vs. Same Quarter Year Ago

| Quarter | PIT | CIT | Sales | Total |
|---|---|---|---|---|
| 2007 Q1 | 8.5 | 14.8 | 3.1 | 5.2 |
| 2007 Q2 | 9.2 | 1.7 | 3.5 | 5.5 |
| 2007 Q3 | 7.0 | (4.3) | (0.7) | 3.1 |
| 2007 Q4 | 3.8 | (14.5) | 4.0 | 3.6 |
| 2008 Q1 | 5.0 | (1.3) | 0.6 | 2.6 |
| 2008 Q2 | 8.2 | (7.0) | 0.9 | 5.4 |
| 2008 Q3 | 2.0 | (13.1) | 5.7 | 2.8 |
| 2008 Q4 | (1.3) | (21.9) | (5.3) | (3.9) |
| 2009 Q1 | (17.5) | (20.1) | (8.3) | (11.6) |
| 2009 Q2 | (27.0) | 0.7 | (8.8) | (16.4) |
| 2009 Q3 | (11.8) | (22.6) | (8.9) | (10.9) |
| 2009 Q4 (preliminary) | (4.5) | (5.8) | (4.2) | (4.1) |

**Notes:** See the "Data Notes" Box.

**Table 2. Quarterly Tax Revenue by Region**

October-December 2008 to 2009, Nominal Percent Change

| | PIT | CIT | Sales | Total |
|---|---|---|---|---|
| **United States** | **(4.5)** | **(5.8)** | **(4.2)** | **(4.1)** |
| New England | (4.3) | 36.3 | 5.4 | 0.5 |
| Mid-Atlantic | (0.4) | (29.1) | (3.4) | (3.6) |
| Great Lakes | (5.1) | (15.1) | (4.7) | (5.1) |
| Plains | (7.0) | (3.9) | (4.5) | (5.3) |
| Southeast | (5.0) | 27.7 | (4.0) | (1.3) |
| Southwest | (16.3) | (74.3) | (13.0) | (18.1) |
| Rocky Mountain | (9.3) | (20.9) | (6.3) | (7.8) |
| Far West | (5.0) | 7.6 | 0.6 | (0.3) |

**Source:** Individual state data, analysis by Rockefeller Institute.

percent. California reported an increase of 5.2 percent in sales tax collections for the quarter, mostly due to timing issues.

Among the corporate income tax states, 22 of 42 early reporting states reported declines for the fourth quarter compared to the same quarter of previous year, 18 of them seeing double digit declines. Sixteen states reported double digit growth and four states reported single digit growth. The large variation among states corporate income tax revenues is due to volatility in corporate profits and in the timing of tax payments. In addition, many states collect relatively little revenue from corporate taxes, resulting in large fluctuations in percentage terms. Thus, the large variation in corporate income tax collections among states and from quarter to quarter is not unexpected. In addition to the North Carolina gains discussed above, California, Virginia, and Connecticut reported large increases in terms of dollar value in corporate income tax collections, all due to some legislated changes.

As Table 2 shows, all regions had declines in personal income tax collections (for state-by-state patterns see Figure 2). The Southwest region was the weakest by far in terms of both personal income and sales tax revenue collections followed by the Rocky Mountain region. New England states reported growth in corporate income and sales tax collections as well as in total tax collections.

**Figure 2. State Taxes Declined in at Least 39 States in the Fourth Quarter of 2009**

**October-December 2008 to 2009**

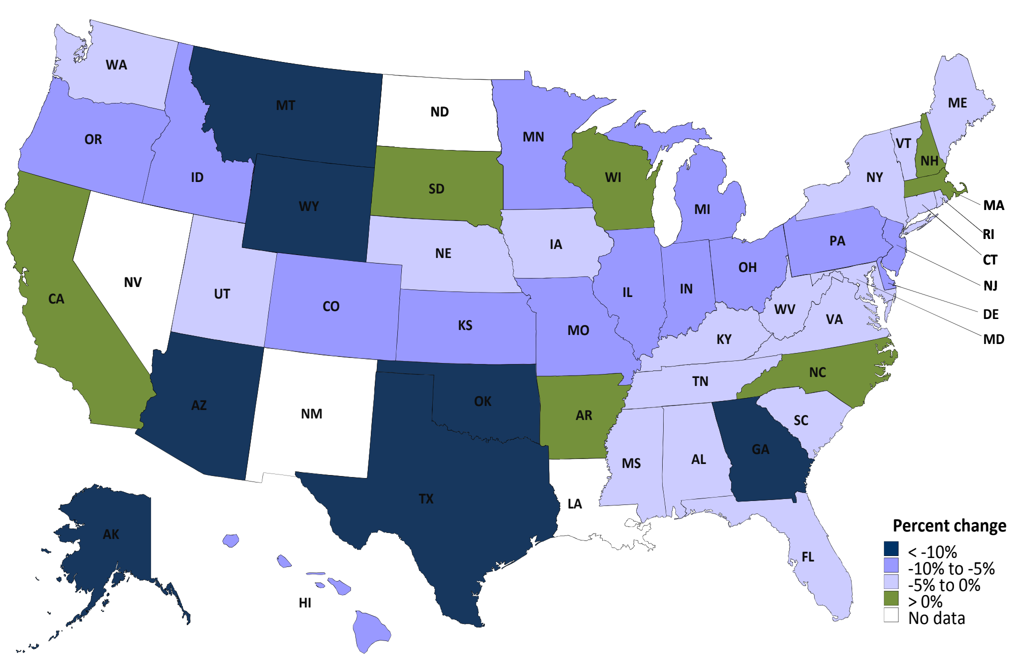
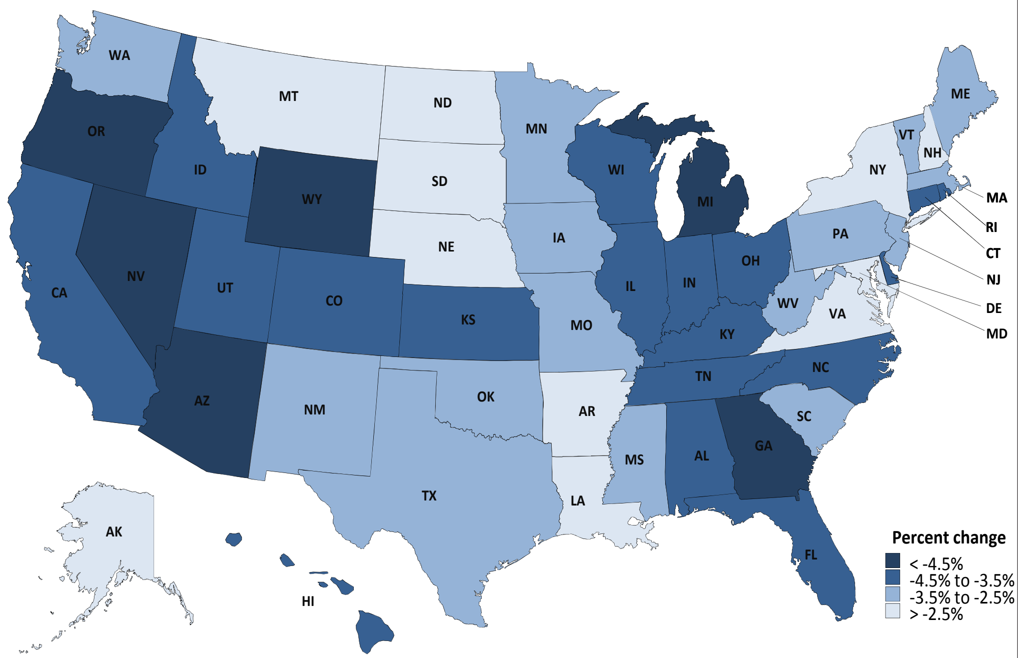


Figure 3. Employment Declined in All 50 States in the Fourth Quarter of 2009

October-December 2008 to 2009




However, most of the growth is attributable to a single state, Massachusetts, where revenue growth is attributable to legislated changes. If we exclude Massachusetts from the region, sales tax collections in New England show a 5.3 percent decline while overall revenue collections show a 1.5 percent drop.

## Employment Conditions

Employment data for the fourth quarter of 2009 continue to illustrate the underlying economic weakness behind declining tax revenues. Overall, year-over-year employment growth for the nation declined almost continuously from the first quarter of 2006 through the period examined in this report. Employment fell by 3.5 percent in the fourth quarter of 2009 compared to the same period a year earlier, according to preliminary data from the Bureau of Labor Statistics. Employment declined in all 50 states compared to the same quarter of 2008 (see Figure 3).

## The Outlook

Despite indications that the national recession may be over, the revenue situation remained gloomy in most states in the fourth quarter of 2009. Many states have been reporting shortfalls in revenue compared to projections used for this year's enacted budgets. While stock indices are well above their lows and some other indicators point to strengthening in the economy, overall conditions remain weak. Nonetheless, retail sales and consumption have stabilized and we expect more states to begin seeing year-over-year growth in some revenue sources over the next few months, particularly the sales tax. However, even with growth, tax revenue is likely to remain below its prerecession peak for quite some time. State tax revenue will continue to be insufficient to support current spending commitments, and more spending cuts and tax increases are most likely on the way for many states — particularly those that did not take significant actions to balance revenues and expenditures in their FY 2010 budgets.

**Table 3. Percent Change in State Tax Revenue**

Quarterly Tax Revenue by Major Tax, Early Reporting States
October-December 2008 to 2009, % change

| | PIT | CIT | Sales | Total |
|---|---|---|---|---|
| **United States** | **(4.5)** | **(5.8)** | **(4.2)** | **(4.1)** |
| **New England** | **(4.3)** | **36.3** | **5.4** | **0.5** |
| Connecticut | 0.6 | 299.1 | (6.6) | (2.1) |
| Maine | (4.7) | 16.6 | (2.6) | (1.6) |
| Massachusetts | (6.5) | 30.1 | 20.8 | 2.8 |
| New Hampshire | NA | (3.5) | NA | 3.6 |
| Rhode Island | (5.0) | 1.6 | (3.3) | (1.8) |
| Vermont | (8.3) | 79.5 | (4.9) | (2.1) |
| **Mid-Atlantic** | **(0.4)** | **(29.1)** | **(3.4)** | **(3.6)** |
| Delaware | (10.0) | (40.4) | NA | (6.6) |
| Maryland | (5.0) | 33.7 | (4.3) | (3.1) |
| New Jersey | (2.3) | (24.1) | (6.3) | (5.8) |
| New York | 2.8 | (40.4) | (0.3) | (1.6) |
| Pennsylvania | (4.8) | (27.0) | (4.3) | (5.5) |
| **Great Lakes** | **(5.1)** | **(15.1)** | **(4.7)** | **(5.1)** |
| Illinois | (3.3) | (1.8) | (12.0) | (6.9) |
| Indiana | (9.4) | (31.2) | (5.7) | (7.9) |
| Michigan | (9.4) | (17.1) | (0.4) | (6.5) |
| Ohio | (10.9) | 64.6 | (0.2) | (6.0) |
| Wisconsin | 7.7 | 8.7 | (6.6) | 3.4 |
| **Plains** | **(7.0)** | **(3.9)** | **(4.5)** | **(5.3)** |
| Iowa | 1.0 | 135.7 | (4.7) | (0.6) |
| Kansas | (7.7) | 18.1 | (0.4) | (5.1) |
| Minnesota | (6.2) | (7.6) | (6.7) | (5.2) |
| Missouri | (12.6) | (11.7) | (7.3) | (9.3) |
| Nebraska | (4.5) | (51.8) | (1.5) | (3.8) |
| North Dakota | ND | ND | ND | ND |
| South Dakota | NA | NA | 7.4 | 6.6 |
| **Southeast** | **(5.0)** | **27.7** | **(4.0)** | **(1.3)** |
| Alabama | 4.4 | 24.0 | (2.5) | (0.4) |
| Arkansas | (4.6) | 50.0 | (10.9) | 0.5 |
| Florida | NA | (15.8) | (5.1) | (0.9) |
| Georgia | (8.5) | (40.1) | (17.7) | (12.8) |
| Kentucky | (8.3) | (32.7) | (3.5) | (3.5) |
| Louisiana | ND | ND | ND | ND |
| Mississippi | (2.7) | (4.6) | (7.8) | (4.5) |
| North Carolina | (5.2) | 458.5 | 19.7 | 11.4 |
| South Carolina | (1.1) | (201.3) | (4.0) | (4.6) |
| Tennessee | NA | 22.1 | (5.1) | (2.6) |
| Virginia | (4.9) | 144.4 | (0.2) | (0.4) |
| West Virginia | (3.8) | 11.1 | (5.8) | (3.9) |
| **Southwest** | **(16.3)** | **(74.3)** | **(13.0)** | **(18.1)** |
| Arizona | (10.3) | (96.6) | (13.7) | (17.1) |
| New Mexico | ND | ND | ND | ND |
| Oklahoma | (24.0) | (29.2) | (15.4) | (26.9) |
| Texas | NA | NA | (12.7) | (16.8) |
| **Rocky Mountain** | **(9.3)** | **(20.9)** | **(6.3)** | **(7.8)** |
| Colorado | (8.2) | (52.2) | (5.7) | (9.1) |
| Idaho | (9.9) | (29.4) | (8.4) | (8.8) |
| Montana | (15.9) | (67.2) | NA | (11.5) |
| Utah | (9.3) | 79.5 | (0.6) | (2.9) |
| Wyoming | NA | NA | (19.8) | (14.5) |
| **Far West** | **(5.0)** | **7.6** | **0.6** | **(0.3)** |
| Alaska | NA | 196.5 | NA | (14.5) |
| California | (4.6) | 6.5 | 5.2 | 1.5 |
| Hawaii | (11.8) | (413.3) | (7.4) | (6.9) |
| Nevada | NA | NA | ND | ND |
| Oregon | (5.9) | 7.3 | NA | (5.1) |
| Washington | NA | NA | (12.0) | (1.4) |

**Source:** Individual state data, analysis by Rockefeller Institute.
**Notes:** NA - not applicable; ND - no data.

Calendar 2009 will be remembered as bringing historically sharp declines in tax revenue to states. The revenue picture in the final two quarters of the calendar year — the first half of fiscal 2010 for most states — represented some improvement from the collapse of the preceding two quarters. Still, the overall trend remained very much in the negative. As mentioned several times in this report, revenue gains toward the end of calendar 2009 were often driven by legislated tax increases rather than growth in the economy and tax base.

Nonfarm payroll employment was essentially unchanged in January, according to the Bureau of Labor Statistics — an improvement from most monthly employment reports over the past two years. Many economists believe conditions generally continue to strengthen. Still, these gains are not dramatic, and follow extraordinarily deep declines. Even if tax revenue increases in selected states in the current quarter, another negative quarter for the nation as a whole would not be unexpected. The troubling fiscal picture for states remains clearly in place.

## Data Notes

Data for the most recent quarter were collected by the Rockefeller Institute of Government. Such data are preliminary and generally will not be available for all 50 states. The four states for which we do not have data for the quarter analyzed in this report are Louisiana, Nevada, New Mexico, and North Dakota. Data for earlier quarters are from the U.S. Bureau of the Census.

The two data sets use different data sources and will always have some differences. The Rockefeller Institute collects data directly from individual states to get the earliest possible read on what is happening to state government finances. We use the Census Bureau data to get a picture that is slightly less timely but more comprehensive and more comparable across states and over time.

The "Total Tax" data collected by the Rockefeller Institute are for a set of taxes that is somewhat smaller, and often somewhat more volatile, than the full set of taxes reported on by the Census Bureau. As a result, this number can be more "bouncy" in our data than in the Census data, and can be subject to considerable change when Census data are available.

## About The Nelson A. Rockefeller Institute of Government's Fiscal Studies Program

The Nelson A. Rockefeller Institute of Government, at the University at Albany, is the public policy research arm of the State University of New York. The Institute was established in 1982 to bring the resources of the 64-campus SUNY system to bear on public policy issues. The Institute is active nationally in research and special projects on the role of state governments in American federalism and the management and finances of both state and local governments in major areas of domestic public affairs.

The Institute's Fiscal Studies Program, originally called the Center for the Study of the States, was established in May 1990 in response to the growing importance of state governments in the American federal system. Despite the ever-growing role of the states, there is a dearth of high-quality, practical, independent research about state and local programs and finances.

The mission of the Fiscal Studies Program is to help fill this important gap. The Program conducts research on trends affecting all 50 states and serves as a national resource for public officials, the media, public affairs experts, researchers, and others.

This report was researched and written by Senior Policy Analyst Lucy Dadayan, with research assistance by Shuang Han. Senior Fellow Donald J. Boyd provided economic and fiscal analysis. Michael Cooper, the Rockefeller Institute's director of publications, did the layout and design of this report, with assistance from Michele Charbonneau. Robert B. Ward, deputy director of the Institute, directs the Fiscal Studies Program.

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