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After Disastrous 2009, States Report Modest Revenue Growth in Early 2010

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HIGHLIGHTS

- State tax revenues grew by 2.5 percent in the first quarter of 2010, marking the first time that states reported growth in collections on a year-over-year basis since the third quarter of 2008. Thirty-three states reported total tax revenue declines during the first quarter, with five states reporting double-digit declines.
- The growth in state tax revenues is not an indication of broad state fiscal recovery, but is mostly driven by legislated changes in two states — California and New York.
- State tax revenues are still below the prerecession levels, showing a decline of 9.3 percent in the first quarter of 2010 compared to the same period two years earlier.
- Personal income tax revenue increased by 2.5 percent and sales tax increased by 0.4 percent for the nation.
- Preliminary figures for April and May for 42 early reporting states indicate that the second quarter of 2010 will be weaker than the first quarter, with collections so far showing an uptick of less than 1 percent.
- Local tax revenue declined 1.1 percent, mostly driven by declines in property tax and corporate income tax collections.

Overall State Taxes and Local Taxes

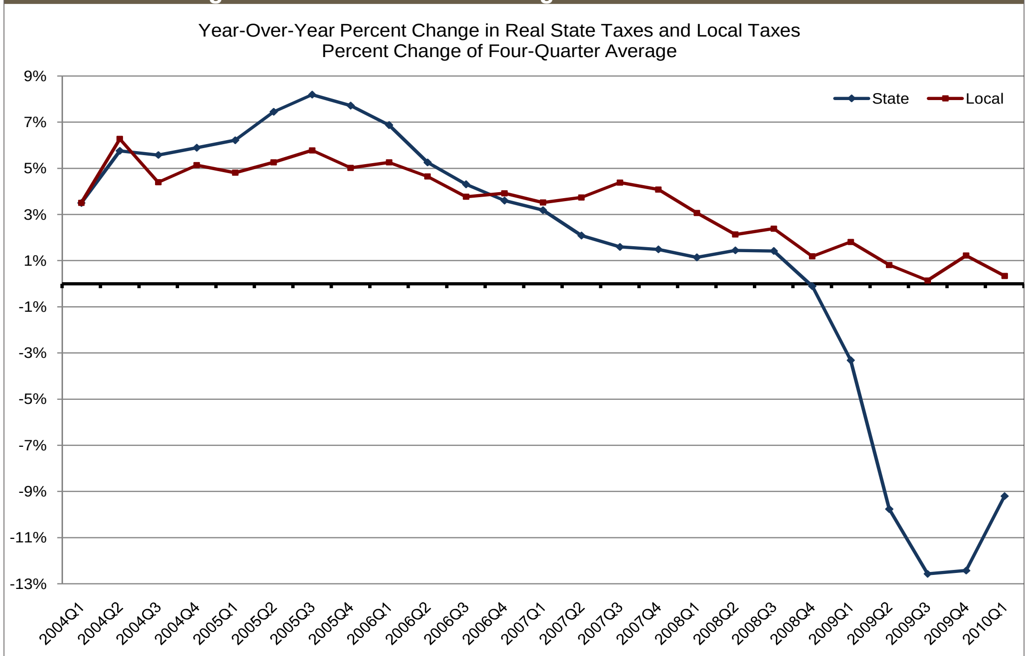
Total state tax collections as well as collections from two major sources — taxes on sales and personal income — showed growth for the first time since the third quarter of 2008. Overall state tax revenues in the January-March quarter of 2010 increased by 2.5 percent from the same quarter of the previous year.[1] Despite that increase, collections were still below prerecession levels, down by 9.3 percent from the same quarter two years earlier.

Figure 1 shows the four-quarter moving average of year-over-year growth in state tax collections and local tax collections, after adjusting for inflation. The year-over-year change in state taxes, adjusted for inflation, has averaged negative 9.2 percent over the last four quarters, down from the 3.3 percent average decline of a year ago and 1.1 percent average growth of two years ago. Real, year-over-year growth in local taxes was an average of 0.3 percent over the last four quarters, much lower compared to 1.8 percent for the preceding year and 3.1 percent average growth of two years ago. Inflation for the period, as measured by the gross domestic product deflator, was 0.5 percent.

The local tax slowdown is less severe than the state tax slowdown. In the first quarter of 2010, local tax collections showed a decline of 1.1 percent. Most local governments rely heavily on property taxes, which tend to be relatively stable. However, collections from local property tax declined by 1.7 percent during the quarter, marking the first time that local governments report decline in property taxes since the start of the recession. Collections from local sales tax continued to decline in the first quarter of 2010 at 0.5 percent, while collections from local individual income taxes showed a growth of 5.1 percent after five consecutive quarter declines.

Figure 2 shows the four-quarter average of year-over-year growth in state and local income, sales, and property taxes, adjusted for inflation. Both the income tax and the sales tax have shown slower growth, and then outright decline, over most of the last four years. While the sales tax underperformed the income tax for most of that period, the dropoff in income-tax collections bypassed the sales tax decline in the second, third, and fourth quarters of 2009, relative to the same periods a year earlier. Both income tax and sales tax showed some signs of improvement in the first

Figure 1. State Taxes Are Faring Worse Than Local Taxes



Sources: U.S. Census Bureau (tax revenue) and Bureau of Economic Analysis (GDP price index).
Notes: (1) 4-quarter average of percent change in real tax revenue; (2) No adjustments for legislative changes.

quarter of 2010, while property tax declined, reflecting the weak economy.

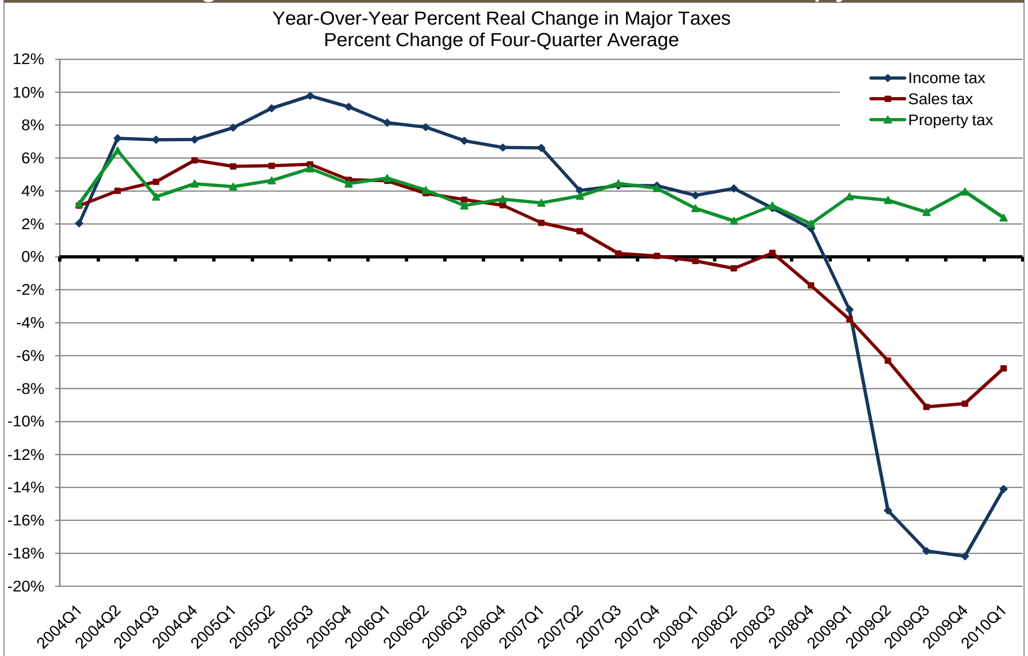
State Tax Revenue

Total state tax revenue in the first quarter of 2010 increased by 2.5 percent relative to a year ago, before inflation and adjustments for legislated changes. The income tax and sales tax both showed modest growth at 2.5 and 0.4 percent, respectively, while the corporate income tax declined by 0.6 percent. Tables 1 and 2 portray growth in tax revenue with and without adjustment for inflation, and growth by major tax, respectively. Table 1 does not include adjustment for legislative changes. Total tax revenue declined in 33 states in the first quarter of 2010, down from 40 states during the fourth quarter of 2009. Double-digit declines were reported in five states in the first quarter of 2010, compared to eight states in the fourth quarter of 2009. Wyoming and Louisiana reported the largest declines at 30.2 and 24.6 percent, respectively, in the first quarter of 2010 — not surprising as their revenue collections were unusually high in the past few quarters due to high oil prices and strong growth in severance taxes. The Rocky Mountain region showed the largest decline at 8.1 percent. The New England states reported total growth of 2.5 percent, Mid-Atlantic states reported growth of 6.0 percent, and Far West states reported a strong 14.7 percent growth in the first quarter of 2010. Revenue gains were reported in 17 states. While most of these increases were modest, collections were particularly strong in California and New York where tax revenues increased by $3.5 and $2.3 billion, respectively. If we exclude tax collections from California and New York, total tax revenue shows a decline of 1.5 percent for the rest of the nation.

Personal Income Tax

In the first quarter of 2010, personal income tax revenue made up at least a third of total tax revenue in 17 states, and was larger than the sales tax in 21 states. Personal income tax revenue increased 2.5 percent in the January-March 2010 quarter compared to the same quarter in 2009. All regions but the

Figure 2. Both Income Tax and Sales Tax Declined Sharply



Sources: U.S. Census Bureau (tax revenue) and Bureau of Economic Analysis (GDP price index).
Notes: (1) 4-quarter average of percent change in real tax revenue; (2) No adjustments for legislative changes.

Mid-Atlantic and Far West reported declines in personal income tax collections. The largest declines were in the Great Lakes and Plains regions, where collections dropped by 16.5 and 12.5 percent, respectively. The Mid-Atlantic and Far West regions reported growth in personal income tax collections at 12.3 and 21.3 percent, respectively. However, New York was the only state in the Mid-Atlantic region reporting growth in personal income tax collections, and its increased revenues are attributable to legislated changes.

Only eight states reported growth in personal income tax collections. Thirty-five states showed declines in the first quarter of 2010, with 15 states reporting double-digit declines. Michigan and Louisiana reported large declines in personal income tax collections at 61.5 and 54.2 percent, respectively. The largest increases in terms of dollar value were reported in California and New York where personal income tax collections grew by $2.0 billion and $2.1 billion, respectively. Again, if we exclude California and New York, the national picture changes significantly — personal income tax collections for the first quarter show an 8.4 percent decline in the first quarter of 2010 compared to the same quarter a year earlier.

Preliminary figures for 34 of 42 early reporting states with broad-based personal income taxes indicate that personal income tax collections declined by 0.4 percent for the nation in the months of April and May of 2010 despite the continued growth in income tax collections in California and New York.

We can get a clearer picture of collections from the personal income tax by breaking this source down into major component parts for which we have data: withholding and quarterly estimated payments. The Census Bureau does not currently collect data on withholding taxes and estimated payments. The data presented here were collected by the Rockefeller Institute.

Table 1. Quarterly State Tax Revenue

Adjusted for Inflation
Year-Over-Year Percent Change

Quarter	Total	Inflation	Adjusted
2010 Q1	2.5	0.5	2.0
2009 Q4	(4.0)	0.7	(4.6)
2009 Q3	(11.4)	0.6	(11.9)
2009 Q2	(16.5)	1.5	(17.7)
2009 Q1	(11.5)	1.9	(13.2)
2008 Q4	(3.9)	1.9	(5.7)
2008 Q3	2.9	2.5	0.3
2008 Q2	5.4	1.9	3.5
2008 Q1	2.6	2.1	0.4
2007 Q4	3.6	2.7	0.8
2007 Q3	3.1	2.6	0.4
2007 Q2	5.5	3.0	2.5
2007 Q1	5.2	3.2	1.9
2006 Q4	4.2	2.9	1.3
2006 Q3	5.9	3.3	2.6
2006 Q2	10.1	3.6	6.3
2006 Q1	7.1	3.3	3.7
2005 Q4	7.9	3.5	4.2
2005 Q3	10.2	3.4	6.6
2005 Q2	15.9	3.1	12.4
2005 Q1	10.6	3.3	7.0
2004 Q4	9.4	3.2	6.0
2004 Q3	6.5	3.0	3.4
2004 Q2	11.2	2.8	8.2
2004 Q1	8.1	2.3	5.7
2003 Q4	7.0	2.1	4.7
2003 Q3	6.3	2.2	4.0
2003 Q2	2.1	2.1	0.1
2003 Q1	1.6	2.2	(0.6)
2002 Q4	3.4	1.8	1.6
2002 Q3	1.6	1.5	0.0
2002 Q2	(9.4)	1.4	(10.7)
2002 Q1	(6.1)	1.7	(7.6)
2001 Q4	(1.1)	2.0	(3.0)
2001 Q3	0.5	2.2	(1.7)
2001 Q2	1.2	2.5	(1.3)
2001 Q1	2.7	2.3	0.4
2000 Q4	4.2	2.4	1.8
2000 Q3	6.8	2.3	4.4
2000 Q2	11.7	2.0	9.5
2000 Q1	12.0	2.0	9.9
1999 Q4	7.3	1.6	5.6
1999 Q3	6.2	1.5	4.7
1999 Q2	3.9	1.5	2.4
1999 Q1	3.8	1.3	2.4

Sources: U.S. Census Bureau (tax revenue) and Bureau of Economic Analysis (GDP price index).

Table 2. Quarterly State Tax Revenue By Major Tax

Year-Over-Year Percent Change

Quarter	PIT	CIT	General Sales	Total
2010 Q1	2.5	(0.6)	0.4	2.5
2009 Q4	(4.3)	(0.5)	(5.4)	(4.0)
2009 Q3	(11.8)	(22.1)	(10.0)	(11.4)
2009 Q2	(27.2)	1.6	(9.3)	(16.5)
2009 Q1	(17.4)	(20.1)	(8.3)	(11.5)
2008 Q4	(1.5)	(22.0)	(5.3)	(3.9)
2008 Q3	1.2	(12.9)	4.7	2.9
2008 Q2	8.1	(7.0)	1.0	5.4
2008 Q1	4.8	(1.4)	0.7	2.6
2007 Q4	3.8	(14.5)	4.0	3.6
2007 Q3	7.0	(4.3)	(0.7)	3.1
2007 Q2	9.2	1.7	3.5	5.5
2007 Q1	8.5	14.8	3.1	5.2
2006 Q4	4.4	12.6	4.7	4.2
2006 Q3	6.6	17.5	6.7	5.9
2006 Q2	18.8	1.2	5.2	10.1
2006 Q1	9.3	9.6	7.0	7.1
2005 Q4	6.7	33.4	6.4	7.9
2005 Q3	10.2	24.4	8.3	10.2
2005 Q2	19.7	64.1	9.1	15.9
2005 Q1	13.1	29.8	7.3	10.6
2004 Q4	8.8	23.9	10.7	9.4
2004 Q3	5.8	25.2	7.0	6.5
2004 Q2	15.8	3.9	9.5	11.2
2004 Q1	7.9	5.4	9.1	8.1
2003 Q4	7.6	12.5	3.6	7.0
2003 Q3	5.4	12.6	4.7	6.3
2003 Q2	(3.1)	5.1	4.6	2.1
2003 Q1	(3.3)	8.3	2.4	1.6
2002 Q4	0.4	34.7	1.8	3.4
2002 Q3	(3.4)	7.4	2.4	1.6
2002 Q2	(22.3)	(12.3)	0.1	(9.4)
2002 Q1	(14.7)	(15.7)	(1.4)	(6.1)
2001 Q4	(2.5)	(34.0)	1.8	(1.1)
2001 Q3	(0.0)	(27.2)	2.3	0.5
2001 Q2	3.7	(11.0)	(0.8)	1.2
2001 Q1	4.6	(8.4)	1.8	2.7
2000 Q4	6.5	(0.4)	4.4	4.2
2000 Q3	10.0	8.2	4.8	6.8
2000 Q2	21.2	4.2	7.0	11.7
2000 Q1	17.0	11.0	11.9	12.0
1999 Q4	7.3	4.7	7.2	7.3
1999 Q3	6.9	4.3	6.2	6.2
1999 Q2	5.2	5.4	5.0	3.9
1999 Q1	5.8	(5.4)	4.9	3.8

Source: U.S. Census Bureau (tax revenue).

Withholding

Withholding is a good indicator of the current strength of personal income tax revenue because it comes largely from current wages and is much less volatile than estimated payments or final settlements. Table 3 shows that withholding for the January-March 2010 quarter showed some improvement and increased by 4.8 percent in the first quarter of 2010 for 40 early reporting states that have broad-based income taxes. However, withholding for the same states was down by $2.2 billion, or 3.6 percent compared to the January-April months of 2008.

Nineteen of 40 early reporting states had declines in withholding, with Oklahoma and Louisiana reporting the largest decline at 51.2 percent. Among the states reporting growth in withholding for the first quarter, New York had the strongest growth at 19.6 percent. The Mid-Atlantic and Far West regions reported the largest growth in withholding at 11.3 and 12.7 percent, respectively, while the Great Lakes and Plains were the only two regions reporting decline at 6.0 and 1.0 percent, respectively.

Estimated Payments

The highest-income taxpayers generally make estimated tax payments (also known as declarations) on their income not subject to withholding tax. This income often comes from investments, such as capital gains realized in the stock market. A strong stock market should eventually translate into capital gains and higher estimated tax payments. Strong business profits also tend to boost these payments. And when the market declines or profits fall, these payments often decline.

The first payment for each tax year is due in April in most states and the second, third, and fourth are generally due in June, September, and January. The early payments often are made on the basis of the previous year's tax liability and may offer little insight into income in the current year. It is not safe to extrapolate trends from the first payment, or often even from the first several payments. In the 38 states for which we have complete data for all four payments, the median payment was down by 27.4 percent, and by 22.1 percent for the fourth payment (see Table 4). Declines were recorded in 37 of 38 states for all four payments. The only state reporting growth for all four payments was West Virginia. The widespread year-over-year declines in December-January payments were followed by further declines in first payments in April. Preliminary numbers for the first payment indicate that the median payment was down by 6.1 percent in April of 2010. Twenty-nine of 38 reporting states reported declines in estimated payments in April 2010, with Colorado and Louisiana reporting the largest declines at 87.3 and 52.7 percent, respectively.

General Sales Tax

State sales tax collections in the January-March 2010 quarter showed a modest growth at 0.4 percent from the same quarter in 2009, but a decline of 7.9 percent from the same period two years earlier. This is the first time since mid-2008 that sales tax collections report a growth in nominal terms for the nation.Most of the growth is attributable to sales tax growth in California, where collections grew by $1.1 billion, or 15.4 percent due to tax increases. If we exclude California, sales tax collections show a decline of 1.9 percent for the nation in the first quarter of 2010.

Table 3. Personal Income Tax Withholding, By State

Last Four Quarters, Percent Change

	2009			2010
	April-June	July-Sep	Oct-Dec	Jan-March
United States	**(6.3)**	**(3.7)**	**(1.9)**	**4.8**
New England	**(3.6)**	**(4.3)**	**(1.7)**	**2.0**
Connecticut	(4.5)	(5.0)	1.6	4.1
Maine	(2.0)	(0.5)	0.4	(2.3)
Massachusetts	(3.5)	(4.5)	(3.4)	1.8
Rhode Island	(4.5)	(3.6)	(2.4)	1.6
Vermont	(0.3)	(5.8)	(1.2)	(3.5)
Mid-Atlantic	**(8.7)**	**0.5**	**1.4**	**11.3**
Delaware	(2.5)	(3.5)	(5.6)	0.7
Maryland	(2.1)	(0.3)	(0.3)	1.8
New Jersey	(37.6)	12.8	(0.9)	4.4
New York	(1.1)	(1.3)	4.4	19.6
Pennsylvania	(2.8)	(4.7)	(3.3)	(0.7)
Great Lakes	**(11.2)**	**(7.4)**	**(3.9)**	**(6.0)**
Illinois	(4.3)	(5.2)	(3.4)	(3.9)
Indiana	ND	ND	ND	ND
Michigan	(8.3)	(8.2)	(7.8)	(2.5)
Ohio	(9.9)	(10.1)	(9.1)	(4.5)
Wisconsin	(21.9)	(5.6)	7.1	(13.3)
Plains	**(3.5)**	**(4.8)**	**(5.0)**	**(1.0)**
Iowa	1.2	(0.1)	(0.5)	1.4
Kansas	(1.9)	(3.6)	(3.1)	(0.2)
Minnesota	(6.4)	(7.6)	(3.6)	(1.7)
Missouri	(5.2)	(4.8)	(11.7)	(2.0)
Nebraska	1.5	(3.6)	0.1	1.8
North Dakota	10.0	0.3	(6.0)	(14.9)
Southeast	**(2.7)**	**(2.6)**	**(4.1)**	**0.2**
Alabama	(2.5)	(2.9)	(0.1)	0.8
Arkansas	(0.1)	(2.1)	(2.6)	(3.2)
Georgia	(4.2)	(2.3)	(4.7)	0.7
Kentucky	(2.6)	(4.7)	(4.6)	(0.1)
Louisiana	(15.3)	(3.7)	(12.4)	(51.2)
Mississippi	(2.3)	(5.6)	(4.7)	(1.9)
North Carolina	(3.7)	(1.5)	(5.8)	5.2
South Carolina	(5.8)	(2.7)	0.7	2.6
Virginia	2.6	(2.3)	(2.5)	5.0
West Virginia	0.3	(3.8)	(3.5)	(4.2)
Southwest	**(12.5)**	**(4.6)**	**(9.1)**	**2.8**
Arizona	(11.5)	(6.1)	(6.5)	0.9
New Mexico	(21.0)	10.4	(8.1)	15.6
Oklahoma	(10.0)	(8.1)	(12.8)	0.1
Rocky Mountain	**(3.7)**	**(4.7)**	**(4.1)**	**1.0**
Colorado	(4.6)	(4.5)	(4.8)	(1.0)
Idaho	(10.2)	(6.0)	(8.1)	(1.5)
Montana	(0.2)	(3.5)	(2.5)	1.4
Utah	0.2	(4.7)	(0.7)	6.2
Far West	**(4.7)**	**(6.8)**	**0.4**	**12.7**
California	(5.5)	(7.1)	1.3	14.7
Hawaii	5.4	(3.4)	(10.7)	4.0
Oregon	(2.0)	(6.0)	(2.6)	(0.6)

Source: Individual state data, analysis by Rockefeller Institute.

Note: Nine states — Alaska, Florida, New Hampshire, Nevada, South Dakota, Tennessee, Texas, Washington, and Wyoming — have no broad-based personal income tax and are therefore not shown in this table.
ND - No Data.

Table 4. Estimated Payments/Declarations, By State

Year-Over-Year Percent Change

	April-January (all four payments)	December-January (fourth payment)	April 2010 (first payment)
Average (Mean)	**(26.8)**	**(21.7)**	**(10.1)**
Median	**(27.4)**	**(22.1)**	**(6.1)**
Alabama	(33.1)	(26.6)	(22.4)
Arizona	(36.4)	(23.3)	(1.4)
Arkansas	(25.6)	(13.5)	(20.1)
California	(24.9)	(14.7)	8.4
Colorado	(41.9)	(35.0)	(87.3)
Connecticut	(25.7)	(9.6)	9.5
Delaware	(29.6)	(25.5)	30.3
Georgia	(38.5)	(31.7)	(24.1)
Hawaii	(36.9)	(16.4)	(18.1)
Illinois	(36.7)	(36.9)	(4.9)
Indiana	ND	ND	ND
Iowa	(22.7)	(22.1)	20.8
Kansas	(26.7)	(22.5)	(12.9)
Kentucky	(27.1)	(24.6)	(20.5)
Louisiana	(33.6)	(52.4)	(52.7)
Maine	(27.3)	(19.1)	(3.7)
Maryland	(24.1)	(13.2)	(1.3)
Massachusetts	(27.8)	(14.7)	(13.8)
Michigan	(31.7)	(22.0)	(2.9)
Minnesota	(27.4)	(19.3)	(16.3)
Mississippi	(21.4)	(36.7)	(3.6)
Missouri	(31.0)	(32.7)	(12.6)
Montana	(32.2)	(47.9)	(12.3)
Nebraska	(22.2)	(15.7)	(6.1)
New Jersey	(21.1)	(1.0)	(0.2)
New York	(29.2)	4.8	9.6
North Carolina	(31.8)	(25.3)	(2.0)
North Dakota	(10.0)	(24.8)	(26.0)
Ohio	(31.3)	(24.2)	1.0
Oklahoma	(29.1)	(34.1)	(15.6)
Oregon	(26.1)	(15.2)	(3.5)
Pennsylvania	(27.6)	(22.6)	(4.3)
Rhode Island	(25.2)	(12.4)	(19.9)
South Carolina	(31.1)	(20.0)	(9.2)
Vermont	(26.1)	(17.1)	(16.4)
Virginia	(20.3)	(29.4)	2.4
West Virginia	28.2	(1.7)	(38.6)
Wisconsin	(24.7)	(5.5)	15.5

Source: Individual state data, analysis by Rockefeller Institute.
Note: ND - No Data

Increases in sales tax collections were reported in New England, the Great Lakes, and the Far West regions. The Rocky Mountain region had the largest decline at 10.5 percent, followed by the Southwest at 9.4 percent. Thirty-three of 45 states with broad-based sales taxes had declines, and four states had double-digit declines. Wyoming led the states with the largest decline at 44.5 percent, followed by Louisiana at 19.2 percent.

Preliminary figures for the 37 of 45 early reporting states with broad-based sales tax indicate that sales tax collections saw some positive growth at 6.0 percent in April-May 2010 compared to the same period of 2009. While June data could change the picture, sales tax growth in the April-June quarter is not unexpected, as a result of stabilizing retail sales and consumption as well as legislated changes in several states.

Corporate Income Tax

Corporate income tax revenue is highly variable because of volatility in corporate profits and in the timing of tax payments. Many states, such as Delaware, Hawaii, Montana, Rhode Island, and Vermont, collect relatively little revenue from corporate taxes, resulting in large fluctuations in percentage terms. As a result, corporate income tax is an unstable revenue source and many states report sizeable changes from quarter to quarter.

Nominal corporate tax revenue declined 0.6 percent in the January-March quarter compared to a year earlier, and 20.5 percent from the same period two years earlier. The Southwest region reported the largest decline at 31.2 percent, followed by the Plains region at 15 percent. Among 46 states that have a corporate income tax, 28 reported declines for the first quarter of 2010 compared to the same quarter of the previous year; 15 states saw double-digit declines. Fourteen states reported double digit growth and four states reported single digit growth.

Other Taxes

Census Bureau quarterly data on state tax collections provide detailed information for some of the smaller taxes not broken out separately in the data collected by the Rockefeller Institute. In Table 5, we show real growth rates for the nation as a whole.

Motor fuel tax revenue continued to decline for the thirteenth consecutive quarter with a drop of 3.2 percent. Revenues from tobacco product sales tax and alcoholic beverage sales tax also declined at 1.5 and 0.2 percent, respectively. State property taxes increased by 9.5 percent. After 11 consecutive quarter declines, revenue from motor vehicle and operators' licenses increased by 1.0 percent.

Underlying Reasons for Trends

State revenue changes result from three kinds of underlying forces: differences in the national and state economies, the ways in which these differences affect each state's tax system, and legislated tax changes. The next two sections discuss the economy and recent legislated changes.

National and State Economies

Most state tax revenue sources are heavily influenced by the economy — the income tax rises when income rises, the sales tax increases when consumers increase their purchases of taxable items, and so on. When the economy booms, tax revenue tends to rise rapidly and when it declines, tax revenue tends to decline. Figure 3 shows year-over-year growth for two-quarter moving averages in inflation-adjusted state tax revenue and in real gross domestic product. Tax revenue is highly related to economic growth, but there also is significant volatility in tax revenue that is not explained solely by one broad measure of the economy. As shown in Figure 3, the first quarter declines in real state tax revenue are less

Table 5. Percent Change in Real State Taxes Other Than PIT, CIT, & General Sales Taxes

Year-Over-Year Real Percent Change; Four-Quarter Moving Averages

	Property tax	Motor fuel sales tax	Tobacco product sales tax	Alcoholic beverage sales tax	Motor vehicle & operators license taxes	Other taxes
Collections (mlns), latest 12 months	$13,922	$35,486	$16,619	$5,390	$22,554	$99,030
2010Q1	9.5	(3.2)	(1.5)	(0.2)	1.0	(11.4)
2009Q4	5.4	(3.9)	(1.9)	(0.1)	(0.2)	(15.3)
2009Q3	(1.0)	(4.3)	0.1	(0.3)	(1.4)	(14.4)
2009Q2	(2.3)	(6.1)	1.0	(0.4)	(1.1)	(7.5)
2009Q1	(3.9)	(6.1)	2.4	0.2	(0.6)	3.7
2008Q4	(3.0)	(5.1)	2.9	0.3	(1.3)	7.3
2008Q3	1.6	(3.6)	3.3	(0.3)	(0.8)	9.7
2008Q2	3.2	(1.9)	5.7	0.4	(0.5)	7.6
2008Q1	3.9	(1.4)	6.0	0.4	(1.2)	3.1
2007Q4	3.4	(1.8)	6.0	0.4	(0.6)	2.2
2007Q3	1.4	(0.8)	3.8	1.5	(0.9)	(0.4)
2007Q2	(0.3)	(1.3)	0.4	1.3	(1.0)	(1.4)
2007Q1	1.7	(0.1)	1.5	0.5	0.4	(1.1)
2006Q4	0.1	0.7	2.6	1.0	0.9	(0.4)
2006Q3	(0.3)	(1.1)	5.3	1.1	0.8	1.9
2006Q2	(0.2)	1.4	8.9	1.1	0.7	4.2
2006Q1	0.8	1.5	6.9	2.4	0.1	5.2
2005Q4	1.9	2.1	5.4	1.6	0.3	7.1
2005Q3	3.4	3.6	4.2	(0.2)	1.9	6.3
2005Q2	3.5	0.9	2.1	(0.6)	2.6	4.9
2005Q1	1.7	1.4	2.9	(2.4)	3.5	5.7
2004Q4	(4.9)	1.6	3.5	(1.5)	5.5	6.0
2004Q3	(2.4)	1.5	3.5	(0.0)	6.0	7.5
2004Q2	3.5	2.1	4.8	0.4	6.6	8.9
2004Q1	1.0	0.3	10.5	4.3	5.5	7.5
2003Q4	8.6	(1.0)	17.0	3.9	3.8	5.5
2003Q3	5.5	(1.3)	26.1	2.2	2.8	3.7
2003Q2	(1.1)	(0.4)	35.7	3.1	2.6	2.6
2003Q1	(5.0)	0.7	27.1	0.6	3.6	2.2
2002Q4	(4.8)	1.0	17.2	(0.1)	2.9	2.1
2002Q3	(6.7)	0.7	5.6	2.7	2.5	2.6
2002Q2	(4.4)	1.1	(5.9)	(0.2)	0.6	3.4
2002Q1	5.1	1.7	(5.0)	(0.2)	(1.2)	2.1
2001Q4	2.7	2.5	(1.5)	0.5	(2.9)	2.5
2001Q3	(0.3)	3.5	2.6	(1.4)	(3.3)	1.5
2001Q2	(5.0)	2.5	7.6	1.7	(0.7)	0.9
2001Q1	(12.6)	1.2	8.4	1.4	2.4	3.6
2000Q4	(11.1)	1.2	5.9	1.8	5.9	4.2
2000Q3	(4.1)	1.3	1.7	3.2	6.9	6.5
2000Q2	(2.6)	1.2	(1.3)	2.2	5.9	7.9
2000Q1	2.5	2.3	(4.5)	3.2	3.0	4.7
1999Q4	1.2	2.4	(5.3)	2.7	1.7	3.6
1999Q3	(1.5)	1.6	(2.9)	1.7	1.2	2.9
1999Q2	0.8	2.1	(1.0)	1.4	0.9	1.3
1999Q1	3.9	2.5	1.3	1.5	1.0	2.8

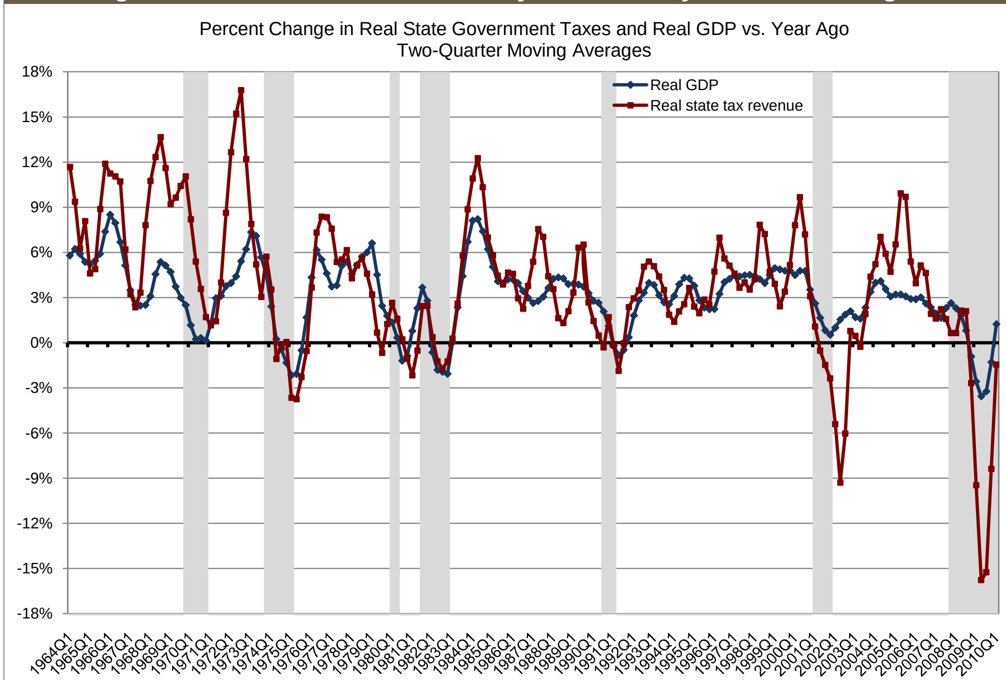
Source: U.S. Census Bureau.

severe, while real Gross Domestic Product showed some growth — both economic activity and tax revenue are slowly rebounding.

The National Bureau of Economic Research (NBER) has declared that a recession began in December 2007. While many economists argue that the recession is officially over, the NBER has not yet announced an official end date for the 2007 recession. Real gross domestic product increased at an annual rate of 2.7 percent in January-March 2010, a significant slowdown compared to the 5.6 percent increase in the October-December quarter. In general, real gross domestic product improved noticeably since mid-2009 after a record four consecutive quarter declines in the second half of 2008 and first half of 2009. The last time we saw large declines in real GDP was during the double-dip recession of the early 1980s, when economic activity fell by 7.9 percent for the second quarter of 1980 and 6.4 percent for the first quarter of 1982.

Among individual sectors during the most recent quarter, investments in structures declined for the seventh quarter at 15.5 percent. After fourteen straight quarterly declines since 2006, residential investments increased in the third and fourth quarters of

Figure 3. State Tax Revenue Is Heavily Influenced By Economic Changes



Sources: U. S. Census Bureau (Quarterly tax collections); Bureau of Economic Analysis (real GDP).
Notes: (1) Percentage changes averaged over 2 quarters; (2) No legislative adjustments; (3) Recession periods are shaded.

calendar 2009 by 18.9 and 3.8 percent, respectively, but declined once again in the first quarter of 2010 at 10.3 percent. Durable goods consumption, an important element of state sales tax bases, showed an increase of 12.0 percent in the first quarter of 2010 after significant declines throughout 2008 and fluctuations throughout 2009.

It is helpful to examine economic measures that are closely related to state tax bases. Most states rely heavily on income taxes and sales taxes, and growth in income and consumption are extremely important to these revenue sources. Most newspaper accounts of economic data show growth from one quarter or month to the next, rather than year over year. That is because most economic time series have been adjusted to remove seasonality so that comparisons from one period to the next are meaningful. Government tax data, by contrast, rarely are adjusted to remove seasonal variations. As a result, analysts usually examine these time series on a year-over-year basis, comparing data for this year to the same season or period last year and implicitly removing some of the seasonal effects. To make our analysis of economic data comparable to our analysis of tax data, for most purposes in this report we examine economic data on a year-over-year basis.

Unfortunately, state-by-state data on income and consumption are not available on a timely basis, and so we cannot easily see variation across the country in these trends. Traditionally, the Rockefeller Institute has relied on employment data from the Bureau of Labor Statistics to examine state-by-state economic conditions. These data are relatively timely and are of high quality. Table 6 shows year-over-year employment growth for the last four quarters. For the nation as a whole, employment declined by 2.7 percent in the January-March quarter of 2010. On a year-over-year basis, employment declined in 48 states. Alaska and North Dakota are the only states reporting growth in employment at 1.3 and 0.3 percent respectively.

The regional patterns are quite varied: The Far West region has suffered a malaise for well over a year and saw the largest

Table 6. Nonfarm Employment, By State

Last Four Quarters, Year-Over-Year Percent Change

	2009			2010
	April-June	*July-Sep*	*Oct-Dec*	*Jan-March*
United States	**(4.8)**	**(5.2)**	**(4.5)**	**(2.7)**
New England	**(4.0)**	**(4.4)**	**(3.9)**	**(2.2)**
Connecticut	(4.7)	(4.8)	(4.1)	(2.6)
Maine	(3.7)	(3.9)	(3.7)	(2.0)
Massachusetts	(3.7)	(4.1)	(3.8)	(2.3)
New Hampshire	(3.4)	(4.4)	(3.2)	(0.7)
Rhode Island	(5.0)	(5.1)	(4.6)	(2.9)
Vermont	(3.7)	(3.9)	(3.2)	(1.2)
Mid-Atlantic	**(3.4)**	**(3.5)**	**(3.2)**	**(2.0)**
Delaware	(4.8)	(5.1)	(4.6)	(2.8)
Maryland	(3.1)	(3.4)	(3.0)	(2.1)
New Jersey	(4.3)	(4.1)	(3.2)	(2.1)
New York	(2.9)	(3.0)	(3.1)	(1.8)
Pennsylvania	(3.5)	(3.9)	(3.5)	(2.1)
Great Lakes	**(5.8)**	**(6.2)**	**(5.2)**	**(3.1)**
Illinois	(5.1)	(5.7)	(5.1)	(3.3)
Indiana	(6.4)	(6.5)	(5.1)	(2.1)
Michigan	(7.5)	(7.5)	(5.6)	(2.8)
Ohio	(5.8)	(6.1)	(5.2)	(3.4)
Wisconsin	(4.5)	(5.4)	(5.1)	(3.4)
Plains	**(3.4)**	**(3.9)**	**(3.6)**	**(2.2)**
Iowa	(3.1)	(3.7)	(3.3)	(1.8)
Kansas	(3.3)	(4.1)	(4.3)	(3.4)
Minnesota	(4.0)	(4.9)	(4.5)	(2.2)
Missouri	(4.0)	(4.1)	(3.5)	(2.5)
Nebraska	(2.1)	(2.3)	(2.8)	(1.8)
North Dakota	(0.4)	(0.3)	(0.5)	0.3
South Dakota	(1.9)	(2.2)	(2.3)	(1.8)
Southeast	**(5.2)**	**(5.4)**	**(4.5)**	**(2.5)**
Alabama	(5.6)	(6.1)	(5.1)	(2.9)
Arkansas	(3.3)	(3.6)	(3.0)	(2.1)
Florida	(6.6)	(6.3)	(5.2)	(2.9)
Georgia	(5.7)	(6.1)	(5.3)	(3.5)
Kentucky	(5.0)	(4.8)	(3.5)	(1.5)
Louisiana	(1.7)	(2.4)	(3.2)	(1.7)
Mississippi	(4.9)	(4.7)	(4.1)	(2.2)
North Carolina	(5.7)	(6.2)	(4.7)	(2.2)
South Carolina	(6.2)	(5.7)	(4.5)	(1.6)
Tennessee	(6.3)	(6.2)	(5.1)	(2.8)
Virginia	(3.4)	(3.9)	(3.6)	(2.0)
West Virginia	(1.7)	(3.0)	(3.4)	(2.6)
Southwest	**(3.8)**	**(4.6)**	**(4.1)**	**(2.5)**
Arizona	(7.9)	(8.1)	(6.6)	(3.9)
New Mexico	(4.3)	(4.7)	(4.3)	(2.6)
Oklahoma	(3.2)	(4.6)	(4.3)	(3.2)
Texas	(2.8)	(3.7)	(3.5)	(2.0)
Rocky Mountain	**(5.0)**	**(5.6)**	**(4.8)**	**(3.1)**
Colorado	(4.7)	(5.5)	(5.0)	(3.7)
Idaho	(6.7)	(7.1)	(4.9)	(2.7)
Montana	(3.8)	(3.8)	(3.6)	(1.5)
Utah	(5.4)	(5.6)	(4.4)	(2.3)
Wyoming	(3.3)	(5.4)	(6.2)	(4.2)
Far West	**(6.2)**	**(6.8)**	**(5.9)**	**(3.6)**
Alaska	(0.7)	(0.8)	(0.1)	1.3
California	(6.3)	(6.9)	(6.1)	(3.8)
Hawaii	(4.7)	(5.1)	(3.9)	(2.3)
Nevada	(10.0)	(10.4)	(8.1)	(5.0)
Oregon	(6.6)	(7.0)	(5.7)	(2.9)
Washington	(4.5)	(5.6)	(4.9)	(3.2)

Source: Bureau of Labor Statistics, analysis by Rockefeller Institute.

employment declines in the first quarter at 3.6 percent. Nevada and Wyoming reported the largest declines in employment in the first quarter of 2010 compared to the same quarter of 2009 at 5.0 and 4.2 percent, respectively.

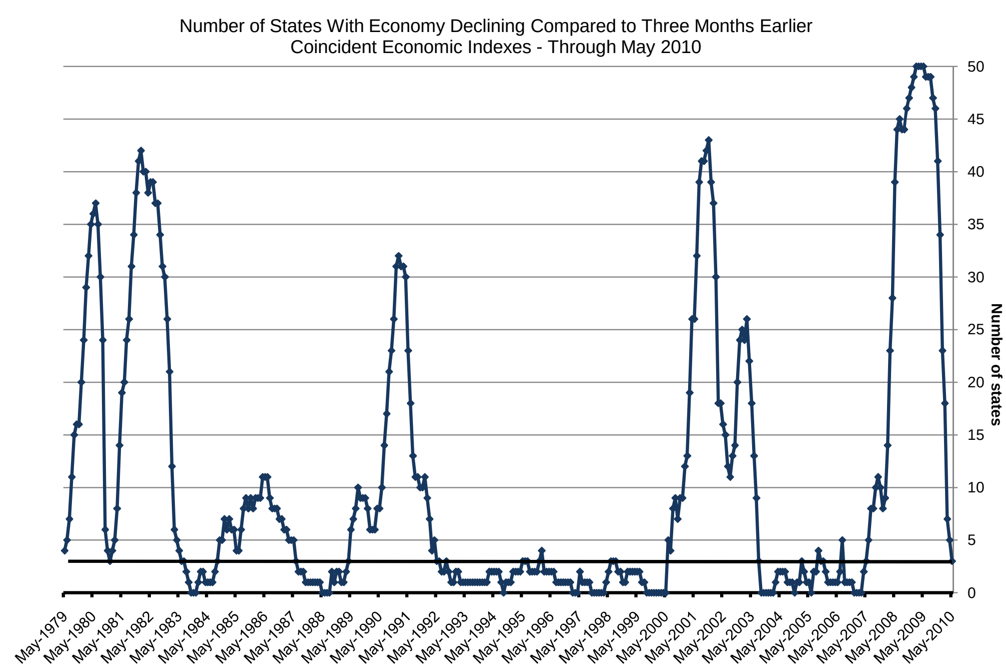
The employment data are compared to the same period a year ago rather than to preceding months. If employment begins to decline relative to earlier months, it can still be higher than its value a year ago. What we are likely to see in the employment data in such a case is a slowing rate of year-over-year growth when the economy begins to decline relative to recent months. The coincident indexes presented below can be compared more easily to recent months and thus can provide a more-intuitive picture of a declining economy. Both sets of data are useful.

Economists at the Philadelphia Federal Reserve Bank developed broader and highly timely measures known as “coincident economic indexes” intended to provide information about current economic activity in individual states. Unlike leading indexes, these measures are not designed to predict where the economy is headed; rather, they are intended to tell us where we are now.[2] They are modeled on a similar measure for the nation as a whole, but due to limited availability of state-level data they are focused on labor market conditions, incorporating information from nonfarm payroll employment, average hours worked in manufacturing, the unemployment rate, and real wage and salary disbursements. These indexes can be used to measure the scope of economic decline.

Figure 4 shows, by month over the last three decades, the number of states that had declining economic activity relative to three months earlier. As recently as in January of 2008, only seven states suffered declines, but since then economic weakening has spread rapidly throughout the country. By February of 2009, all 50 states had declines in economic activity (as measured by the coincident index) compared with three months earlier. That was the first time that all 50 states had declines in economic activity (as measured by this index) since 1979; such widespread weakness continued for four months. By December of 2009, 34 states had declines in economic activity, while by May of 2010 only three states showed decreases. The data underlying these indexes are subject to revision, and so tentative conclusions drawn now could change at a later date.

Moreover, this analysis is based on economic activity compared to three months earlier. If we look at state economic activity compared to a year earlier, then declines are reported in 30 states.

Figure 4. Economy Is Declining in Three States



Source: Federal Reserve Bank of Philadelphia.

Figure 5 shows state-by-state variation in relative economic activity as of May 2010. The three states reporting declines were Alaska at 0.8 percent, Montana at 0.5 percent, and Nevada at 0.9 percent. Many of the states reported weak economic activity throughout 2009 due to large declines in the price of housing and in the financial markets. In general, the majority of states showing stronger growth in economic activity are the in the east of the country. North Dakota reported the largest increase at 2.9 percent.

Figures 6 and 7 show the breadth of economic decline but provide little information on the depth of decline. Figure 6 shows the median percentage change compared to three months earlier — in a sense, how the typical state has been faring. The median state change generally will not be the same as the national change because it gives every state equal importance — in this measure, California is no more important than Wyoming.

Here we can see that the reported declines for the current recession in the typical state was worse than those of the 1980-82, 1990-91 and 2001 recessions. However, there is continuous upward spike in the last few months. The declines as of May 2010 are no longer deep and widespread compared to the previous recessions, and majority of states have seen some positive growth in the last three months.

Figure 7 shows consumption of durable goods, nondurable goods, and services. The recent decline in

Figure 5. In May: Only Three States Had Declining Economies

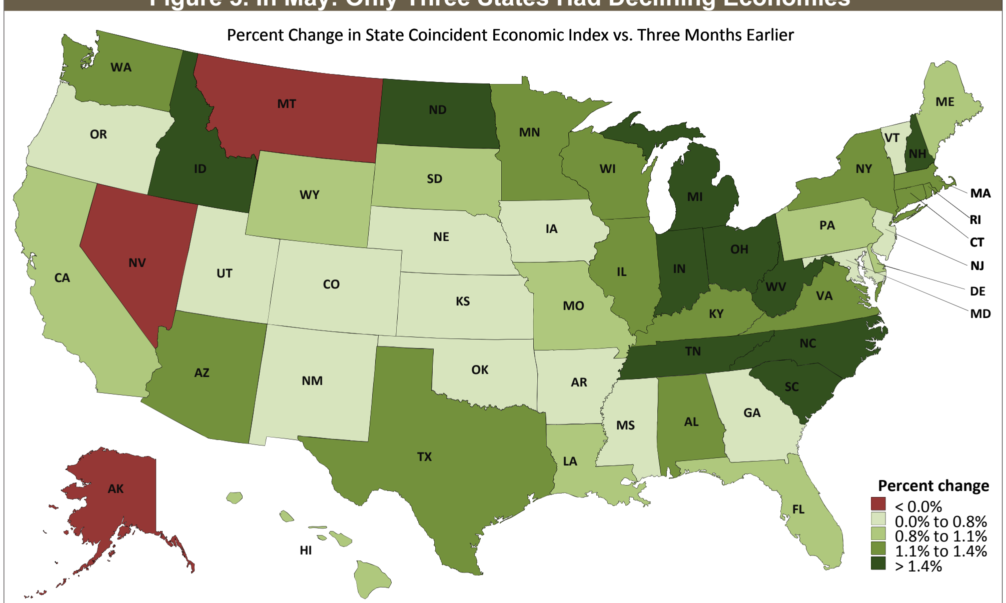


Table 7. State Economic Activity: Declining in Three States Only

State Indexes of Economic Activity
States are Sorted by Percent Change vs. 3 Months Ago

State	Coincident index May 2010 (July 1992=100)	Percent change vs. 1 year ago (May 2009)	Percent change vs. 3 months ago (February 2010)
North Dakota	173.5	5.5	2.9
West Virginia	150.1	(3.3)	2.5
Michigan	117.5	1.8	2.4
South Carolina	151.7	1.6	2.3
Ohio	135.1	1.3	2.3
New Hampshire	195.1	2.4	2.1
North Carolina	161.4	1.4	1.8
Indiana	139.2	2.9	1.7
Tennessee	155.3	1.4	1.6
Idaho	205.1	(1.9)	1.5
Connecticut	155.0	0.8	1.4
Wisconsin	141.2	(0.0)	1.3
Illinois	140.6	(0.9)	1.3
United States	***158.6***	***0.5***	***1.3***
New York	155.9	1.5	1.3
Minnesota	158.5	1.5	1.3
Kentucky	141.7	1.3	1.2
Arizona	200.2	(0.4)	1.2
Massachusetts	172.5	1.5	1.2
Rhode Island	150.9	(2.4)	1.2
Washington	153.2	(0.6)	1.1
Texas	177.4	(0.2)	1.1
Virginia	158.3	0.3	1.1
Alabama	135.1	(1.2)	1.1
South Dakota	168.1	1.0	1.1
Delaware	147.3	(1.5)	1.1
Missouri	132.1	(1.3)	1.0
Wyoming	161.8	(2.1)	1.0
Hawaii	113.1	(0.3)	1.0
California	160.2	0.1	0.9
Florida	161.7	(0.8)	0.9
Louisiana	131.0	(0.9)	0.9
Pennsylvania	140.0	(0.8)	0.9
Maine	138.4	(1.6)	0.9
Georgia	167.4	(1.2)	0.7
Iowa	151.2	(0.6)	0.7
Utah	191.0	0.0	0.7
Arkansas	146.3	(0.8)	0.7
Maryland	151.1	(2.1)	0.7
Mississippi	140.7	(0.4)	0.6
Oklahoma	145.7	(2.7)	0.6
New Mexico	167.1	(2.4)	0.6
Kansas	140.6	(1.0)	0.6
New Jersey	153.7	0.2	0.5
Oregon	187.9	1.2	0.5
Nebraska	156.5	(1.2)	0.3
Vermont	154.9	0.4	0.2
Colorado	172.2	(2.6)	0.1
Montana	165.0	(3.1)	(0.5)
Alaska	113.4	(1.2)	(0.8)
Nevada	204.7	(5.7)	(0.9)

Source: Federal Reserve Bank of Philadelphia.

consumption of durable and nondurable goods was much sharper than in the last recession. While consumption of durable goods and services has been slowly recovering, growth levels are still below those of the prerecession period. The consumption of durable goods was surprisingly strong and saw steady growth in the last few months.

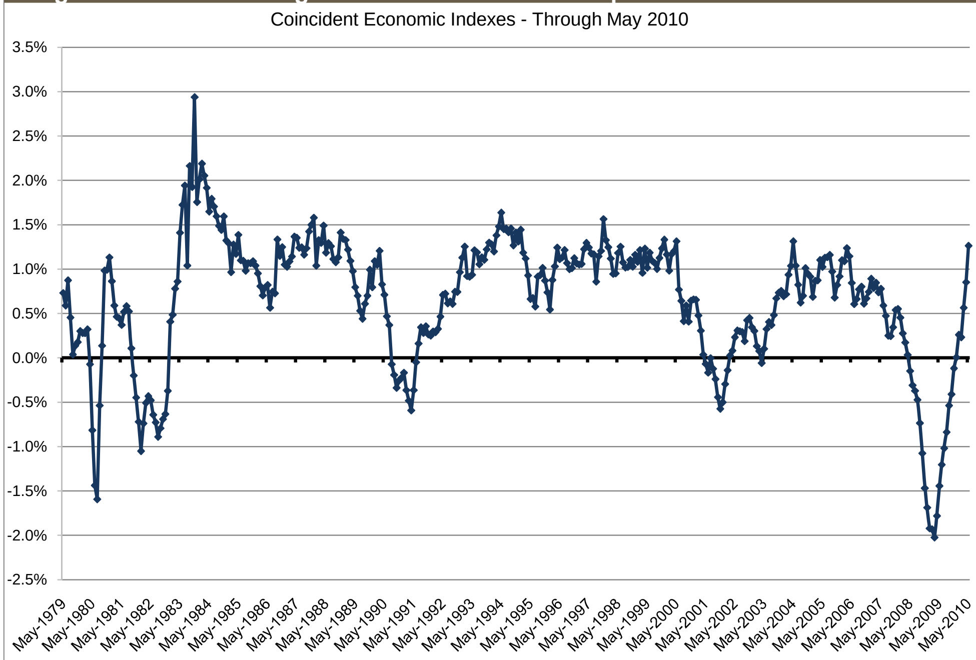
Figure 8 shows year-over-year percent change in seasonally adjusted, purchase-only house price index from 1992 through the first quarter of 2010. As Figure 8 shows, the trend in the house price index has been downward since mid-2005, with steeply negative movement from the last quarter of 2004 through the end of 2008. While the house price index started to bounce back in 2009, the rate of change is still negative and it declined once again in the first quarter of 2010. The states in the West are still seeing the largest declines in the housing price index.

Tax Law Changes Affecting This Quarter

Another important element affecting trends in tax revenue growth is changes in states' tax laws. When states boost or depress their revenue growth with tax increases or cuts, it can be difficult to draw any conclusions about their current fiscal condition from nominal collections data. That is why this report attempts to note where such changes have significantly affected each state's revenue growth. We also occasionally note when tax-processing changes have had a major impact on revenue growth, even though these are not due to enacted legislation, as it helps the reader to understand that the apparent growth or decline is not necessarily indicative of underlying trends.

During the January-March 2010 quarter, enacted tax changes increased state revenue by an estimated net of $4.9 billion compared to the same period in 2009.[3] Personal income tax increases accounted for approximately $2.7 billion and sales tax

Figure 6. Percent Change in State Economies Compared to Three Months Earlier



Source: Federal Reserve Bank of Philadelphia.
Note: Percent change is for the median state.

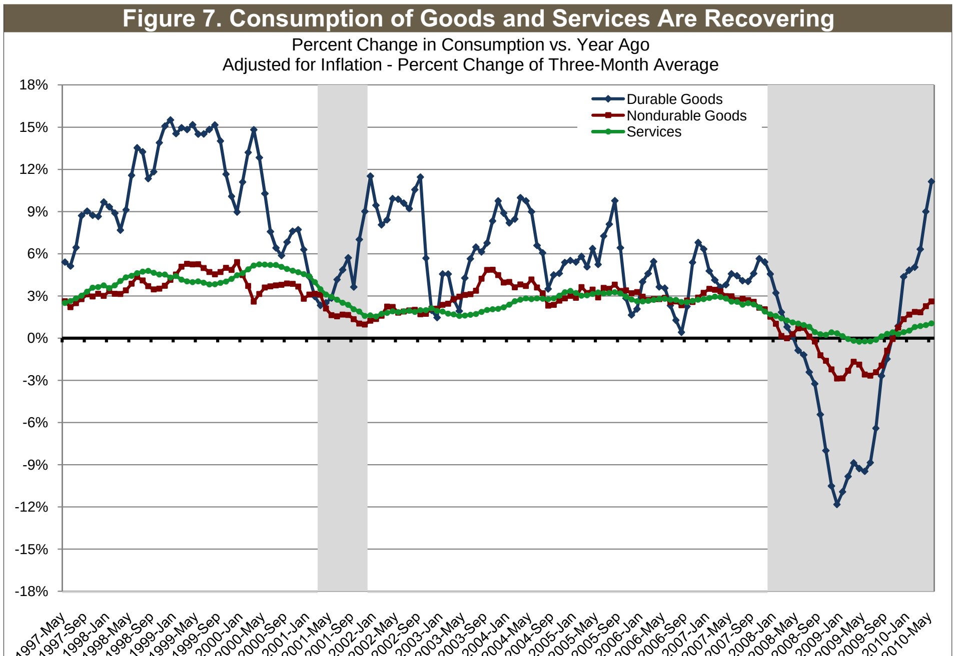
for approximately $1.7 billion of the change. In a single state, California, legislated changes increased personal income tax and sales tax collections each by an estimated $1.1 billion. Legislated changes in New York were also significant for the personal income tax. Most of the increase in sales tax was due to legislated changes in California, Massachusetts, and North Carolina.

The net impact is that the decline in nominal tax revenue would have been even larger, if not for the legislated tax changes.

States Fiscal Crisis Is Far From Being Over

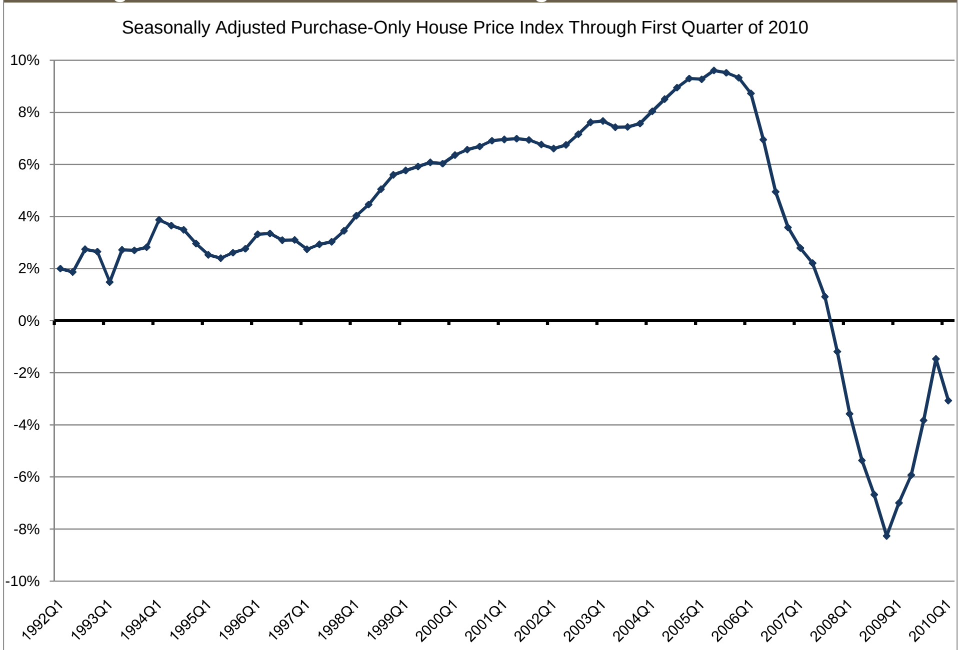
Recent data show an unmistakable improvement in the economy and a slight firming in state tax revenue collections. Employment has stabilized and is bouncing along the bottom, while retail sales are now increasing on a month-to-month basis; these are among the most important determinants of trends in state tax revenue. Several states recently have reported monthly tax revenue coming in above projections, albeit often below year-ago levels. In addition, many states are forecasting modest tax revenue growth in 2010-11.[4] And, combined state and local government tax revenue rose by 0.8 percent in the January-March quarter, the second consecutive quarter that state and local governments report some increases in combined total tax collections. However, state and local government taxes declines by 4.3 percent in the January-March quarter of 2010 compared to the same quarter of two years ago.

Figure 7. Consumption of Goods and Services Are Recovering



Source: U. S. Bureau of Economic Analysis , National Income and Product Accounts, Table 2.8.6.

Figure 8. Year-Over-Year Percent Change in State House Price Index



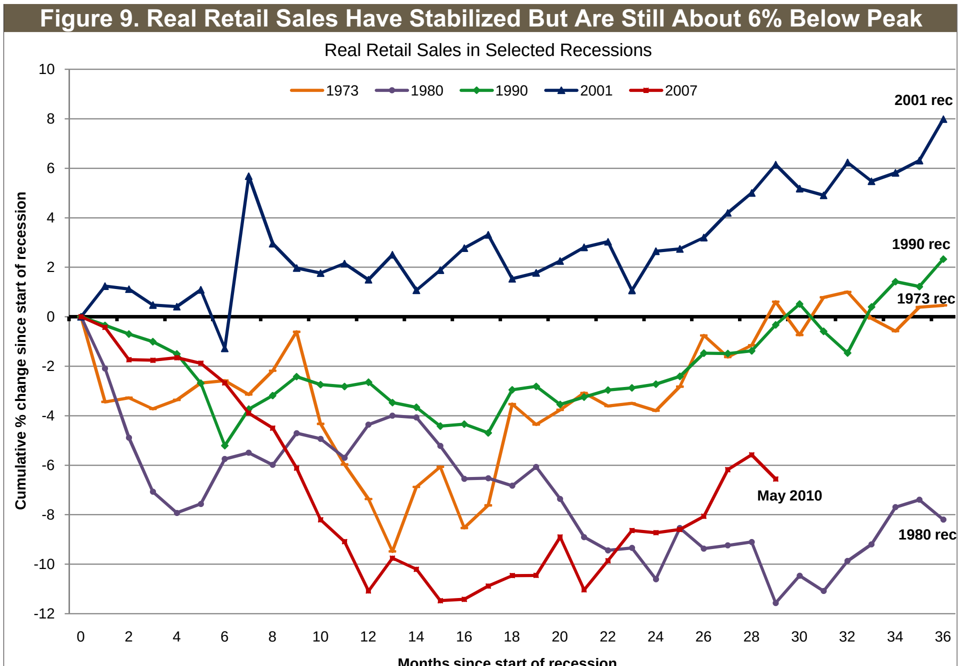
Source: U.S. Federal Housing Finance Agency.

While we are beginning to see some positive figures in various economic indicators, the national economic picture remains mixed. Analyses of some of the numbers in terms of longer-term perspective indicate that states will face a long and bumpy road to fiscal recovery.

States rely on the sales tax for about 31 percent of their tax revenue, and it has been hit far harder in this recession than in previous recessions. Retail sales and consumption are major drivers of sales taxes. Figure 9 shows the cumulative percentage change in inflation-adjusted retail sales in the 36 months following the start of each recession from 1973 forward.[5] Several points are noteworthy. First, real retail sales in the current recession (the solid red line) plummeted after December 2007, falling sharply and almost continuously until December 2008, by which point they were more than 10 percent below the pre-recession peak. This was deeper than in most recessions, although the declines in the 1973 and 1980 recessions also were quite bad. Any state that based its expectations for this recession on what happened in the 2001 recession (the orange line) would have been sadly disappointed: in stark contrast to this recession, in the 2001 recession consumers kept right on spending and the impact on retail sales and state sales taxes was barely noticeable.

Second, while real retail sales have been rising from their lows for about the last year, they are still about six percent below their pre-recession peak. So even if sales taxes mirrored retail sales, they would be well below their recession peak.

Figure 9. Real Retail Sales Have Stabilized But Are Still About 6% Below Peak



Sources: Cleveland Federal Reserve Bank (pre-1990 retail sales), Census Bureau (1990+), and Bureau of Labor Statistics (CPI).

Table 8. State Tax Revenue, January-March, 2009 and 2010 ($ in millions)

	2009				2010			
	PIT	CIT	Sales	Total	PIT	CIT	Sales	Total
United States	**51,904**	**8,640**	**54,259**	**160,520**	**53,219**	**8,591**	**54,488**	**164,471**
New England	**4,472**	**961**	**2,229**	**10,286**	**4,389**	**979**	**2,412**	**10,542**
Connecticut	1,727	115	815	3,305	1,689	147	767	3,348
Maine	197	24	220	644	214	45	224	691
Massachusetts	2,291	641	915	4,617	2,224	607	1,150	4,775
New Hampshire	19	108	NA	818	18	102	NA	811
Rhode Island	155	45	193	565	174	56	189	594
Vermont	83	28	86	337	70	22	83	324
Mid-Atlantic	**15,206**	**1,977**	**7,225**	**33,067**	**17,074**	**2,098**	**7,135**	**35,043**
Delaware	249	25	NA	700	206	20	NA	697
Maryland	1,099	175	932	3,113	946	175	893	2,810
New Jersey	2,290	129	1,660	5,520	2,270	310	1,629	5,594
New York	9,273	1,292	2,590	15,200	11,416	1,247	2,593	17,537
Pennsylvania	2,295	357	2,042	8,534	2,236	346	2,021	8,404
Great Lakes	**7,588**	**1,222**	**7,362**	**22,656**	**6,334**	**1,100**	**7,673**	**21,904**
Illinois	2,448	643	1,691	6,728	2,265	599	1,635	6,450
Indiana	876	14	1,513	3,194	830	-15	1,485	3,122
Michigan	625	55	1,490	3,234	240	86	1,887	3,264
Ohio	2,405	395	1,707	6,430	2,238	190	1,743	6,224
Wisconsin	1,235	115	961	3,070	761	239	923	2,843
Plains	**3,933**	**458**	**3,561**	**10,916**	**3,443**	**390**	**3,440**	**10,790**
Iowa	615	72	533	1,678	566	68	502	1,588
Kansas	547	53	563	1,469	502	58	532	1,453
Minnesota	1,361	217	1,014	3,688	1,229	217	1,052	3,871
Missouri	1,028	35	743	2,399	808	-40	711	2,091
Nebraska	293	42	380	870	266	53	323	827
North Dakota	89	26	146	495	72	26	145	657
South Dakota	NA	13	182	317	NA	7	174	303
Southeast	**8,286**	**1,482**	**13,816**	**33,771**	**7,630**	**1,350**	**13,536**	**33,093**
Alabama	702	112	516	2,202	640	82	506	2,092
Arkansas	420	58	683	1,495	375	78	657	1,537
Florida	NA	318	4,580	7,894	NA	317	4,455	7,880
Georgia	1,382	123	1,285	3,302	1,207	161	1,193	3,120
Kentucky	615	53	691	2,211	627	52	682	2,219
Louisiana	717	68	760	2,215	328	-13	614	1,670
Mississippi	226	118	743	1,508	179	129	703	1,420
North Carolina	2,034	177	1,212	4,691	2,079	194	1,501	5,037
South Carolina	197	106	679	1,398	147	56	659	1,332
Tennessee	21	203	1,583	2,469	18	191	1,536	2,478
Virginia	1,663	68	810	3,255	1,732	53	754	3,223
West Virginia	309	81	274	1,134	299	51	277	1,087
Southwest	**782**	**209**	**7,597**	**14,388**	**722**	**144**	**6,883**	**13,535**
Arizona	180	76	1,334	2,335	164	98	1,219	2,212
New Mexico	170	39	442	1,181	130	10	447	1,042
Oklahoma	431	95	526	1,638	427	37	477	1,588
Texas	NA	NA	5,295	9,235	NA	NA	4,739	8,693
Rocky Mountain	**1,634**	**44**	**1,469**	**4,711**	**1,500**	**100**	**1,315**	**4,329**
Colorado	859	-3	513	1,828	809	46	501	1,746
Idaho	191	17	276	635	178	10	268	608
Montana	170	12	NA	523	121	11	NA	454
Utah	415	18	432	1,127	392	32	408	1,105
Wyoming	NA	NA	248	598	NA	NA	138	418
Far West	**10,002**	**2,287**	**11,000**	**30,724**	**12,128**	**2,431**	**12,093**	**35,233**
Alaska	NA	18	NA	282	NA	103	NA	1,017
California	8,733	2,240	7,360	22,247	10,745	2,239	8,495	25,719
Hawaii	266	10	598	1,104	429	24	611	1,340
Nevada	NA	NA	646	1,550	NA	NA	646	1,515
Oregon	1,003	19	NA	1,398	955	65	NA	1,505
Washington	NA	NA	2,396	4,144	NA	NA	2,341	4,137

Source: U.S. Census Bureau.

Table 9. Quarterly Tax Revenue By Major Tax

January-March, 2009 to 2010, Percent Change

	PIT	CIT	Sales	Total
United States	**2.5**	**(0.6)**	**0.4**	**2.5**
New England	**(1.9)**	**1.9**	**8.2**	**2.5**
Connecticut	(2.2)	27.2	(6.0)	1.3
Maine	8.9	90.3	1.7	7.2
Massachusetts	(2.9)	(5.2)	25.7	3.4
New Hampshire	(5.4)	(5.2)	NA	(0.8)
Rhode Island	12.5	23.6	(2.0)	5.1
Vermont	(15.7)	(22.8)	(3.6)	(4.0)
Mid-Atlantic	**12.3**	**6.1**	**(1.2)**	**6.0**
Delaware	(17.5)	(19.1)	NA	(0.4)
Maryland	(14.0)	(0.3)	(4.2)	(9.7)
New Jersey	(0.9)	141.0	(1.9)	1.3
New York	23.1	(3.5)	0.1	15.4
Pennsylvania	(2.6)	(3.1)	(1.0)	(1.5)
Great Lakes	**(16.5)**	**(10.0)**	**4.2**	**(3.3)**
Illinois	(7.5)	(6.8)	(3.3)	(4.1)
Indiana	(5.2)	(202.5)	(1.9)	(2.2)
Michigan	(61.5)	57.5	26.6	0.9
Ohio	(6.9)	(52.0)	2.1	(3.2)
Wisconsin	(38.4)	108.9	(3.9)	(7.4)
Plains	**(12.5)**	**(15.0)**	**(3.4)**	**(1.2)**
Iowa	(7.9)	(5.9)	(5.8)	(5.3)
Kansas	(8.2)	9.9	(5.5)	(1.1)
Minnesota	(9.7)	0.2	3.8	5.0
Missouri	(21.5)	(213.3)	(4.3)	(12.9)
Nebraska	(9.4)	24.2	(15.0)	(4.9)
North Dakota	(18.7)	(1.0)	(0.3)	32.7
South Dakota	NA	(43.8)	(4.4)	(4.2)
Southeast	**(7.9)**	**(8.9)**	**(2.0)**	**(2.0)**
Alabama	(8.8)	(26.8)	(2.1)	(5.0)
Arkansas	(10.7)	34.3	(3.9)	2.8
Florida	NA	(0.2)	(2.7)	(0.2)
Georgia	(12.7)	31.2	(7.1)	(5.5)
Kentucky	1.8	(2.1)	(1.4)	0.4
Louisiana	(54.2)	(119.9)	(19.2)	(24.6)
Mississippi	(20.9)	9.8	(5.3)	(5.9)
North Carolina	2.2	9.6	23.8	7.4
South Carolina	(25.2)	(47.1)	(3.0)	(4.7)
Tennessee	(14.0)	(5.5)	(3.0)	0.4
Virginia	4.2	(21.8)	(7.0)	(1.0)
West Virginia	(3.3)	(37.1)	1.2	(4.1)
Southwest	**(7.7)**	**(31.2)**	**(9.4)**	**(5.9)**
Arizona	(8.7)	29.3	(8.6)	(5.2)
New Mexico	(23.6)	(75.1)	1.3	(11.8)
Oklahoma	(1.0)	(61.6)	(9.2)	(3.0)
Texas	NA	NA	(10.5)	(5.9)
Rocky Mountain	**(8.2)**	**129.5**	**(10.5)**	**(8.1)**
Colorado	(5.8)	(1846.8)	(2.5)	(4.5)
Idaho	(6.9)	(39.3)	(2.8)	(4.2)
Montana	(28.5)	(4.9)	NA	(13.3)
Utah	(5.5)	84.1	(5.4)	(1.9)
Wyoming	NA	NA	(44.5)	(30.2)
Far West	**21.3**	**6.3**	**9.9**	**14.7**
Alaska	NA	485.7	NA	261.2
California	23.0	(0.0)	15.4	15.6
Hawaii	61.4	132.2	2.2	21.4
Nevada	NA	NA	0.1	(2.3)
Oregon	(4.7)	247.5	NA	7.7
Washington	NA	NA	(2.3)	(0.2)

Source: U.S. Census Bureau.

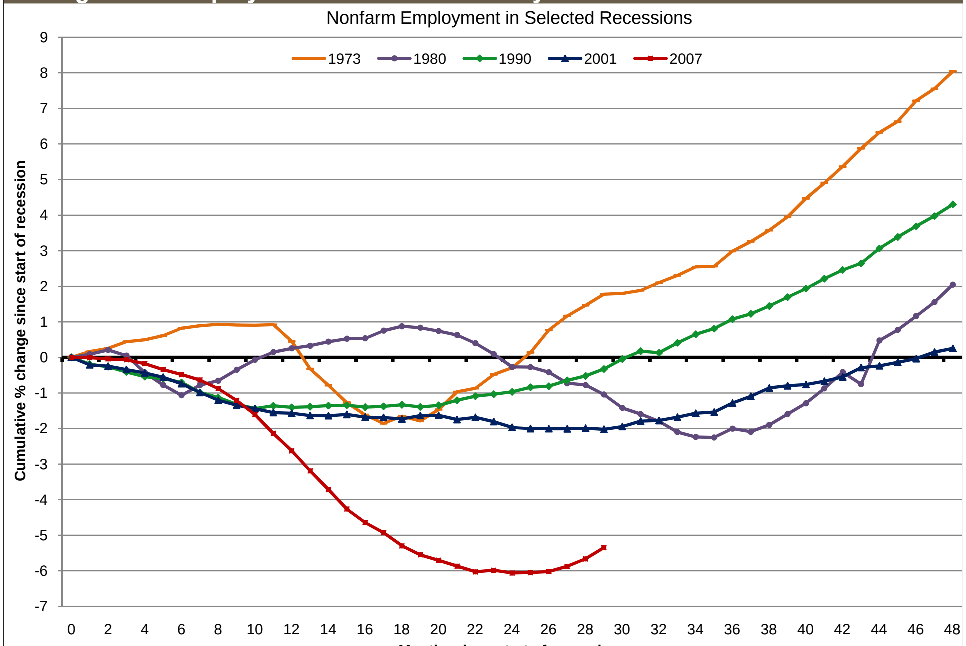
In fact, though, many state sales taxes exempt food and other necessities, and exempt or exclude many services, relying more heavily on non-necessities. Many of these taxable goods and services — such as cars, other durable goods, and restaurant meals — are far easier to do without or postpone than are necessities and they tend to be more volatile and suffer greater declines in business downturns.

States on average count on the income tax for about 36 percent of their tax revenue. Employment and associated wage payments are major drivers of income taxes. Figure 10 shows the cumulative percentage change in nonfarm employment for the nation as a whole in the 36 months following the start of each recession from 1973 forward.[6] The last point for the 2007 recession is May 2010, month 29. As the graph shows, the 5.4 percent employment drop in this recession is nearly three times as bad as the declines in the previous recessions, which averaged about 2 percent. Economists generally expect the current recovery in employment to be slower than those in prior recessions, reflecting efforts by consumers to rebuild balance sheets after declines in housing and financial asset values, and caution aftershocks to the financial system and to consumer and business confidence. It is likely to be several years before employment reattains its prerecession peak, as Figure 10 suggests.

Looking Ahead

Although state tax revenues show some growth in the first quarter of 2010, the growth is very negligible and is mostly attributable to enacted tax increases and tax processing changes. After record tax declines in calendar 2009, the fiscal conditions of the states remain quite fragile. Even if overall economic conditions continue to improve throughout 2010, fiscal recovery for the states historically lags behind a national economic turnaround and can be expected to do so in the aftermath of the recent recession. Forty-six states closed their 2010 fiscal years just a few days ago. While the revenue strength of the final quarter of fiscal 2010 for the 46 states is still being determined, the outlook is certainly not promising, particularly for income tax collections. While most states were able to pass the budget on time, many had to take undesirable actions for balancing 2011 budgets such tax increases, spending cuts, or public services reduction. According to NASBO, state general fund spending already saw negative growth both in fiscal 2009 and 2010. "This two year decline is unprecedented and is only the second time that state general fund spending has declined in the history of the Fiscal Survey,"[7] which dates back to 1979. Moreover,

Figure 10. Employment Decline Was Nearly 3x That of Previous Recessions



Source: Bureau of Labor Statistics (CES).

for fiscal 2011, 39 states recommended lower spending than in fiscal 2008. Of more particular interest for the near-term fiscal outlook, many states also pushed some of their budgetary problems into subsequent fiscal years with borrowing, fiscal gimmicks, and other approaches.

Preliminary data for the April-June quarter of 2010 suggest that fiscal conditions continue to be weak, though there is evidence of some strengthening. With preliminary data for April and May now available for 42 states, tax revenue for the two months combined increased by 0.9 percent versus the same period last year, mostly due to increases in sales tax collections. About 60 percent of states reporting personal income tax data had a year-over-year decline, with a median decline of 0.4 percent, while about 84 percent of states reporting sales-tax data had a year-over-year increase of 6.0 percent.

While June data could change this troubling picture, there is little reason to expect reported revenues for that month to be strong. Continued weakness in revenues, along with continued if more moderate growth in expenditures, will force the states to take further unwelcome actions to close budget gaps. Most states have already taken a variety of measures to balance their budgets, including across-the-board budget cuts, tax increases, tapping rainy day funds, employee furloughs and/or reductions, and agency consolidations. Most states are uncertain as to when expect a return to prerecession revenue levels. Even if the economic recovery is as rapid as those from prior recessions, it would likely take state tax revenue several years to recover to its previous peak. With the expected slow recovery from this recession, state fiscal recovery is likely to take longer.

Endnotes

1 In some previous reports, we have made adjustments to Census Bureau data for selected states because of significant differences between figures reported by the Census Bureau and those the Institute obtained directly from individual states. For this report, we did not make adjustments to Census Bureau data because, for almost all the states, there were only small differences between Census and Rockefeller Institute revenue data. However, there were large differences between the two datasets for at least one state, Michigan. We are still working to understand the reasons for such large variation in revenue data from the two sources. We do not expect any revision of revenues reported for Michigan to result in any significant change to the national picture.

2 For a technical discussion of these indexes and their national counterpart, see Theodore M. Crone and Alan Clayton-Matthews. "Consistent Economic Indexes for the 50 States," *Review of Economics and Statistics* 87 (2005): 593-603; Theodore M. Crone, "What a New Set of Indexes Tells Us About State and National Business Cycles," *Business Review*, Federal Reserve Bank of Philadelphia (First Quarter 2006); and James H. Stock and Mark W. Watson, "New Indexes of Coincident and Leading Economic Indicators," *NBER Macroeconomics Annual* (1989): 351-94. The data and several papers are available at www.philadelphiafed.org/econ/indexes/coincident.

3 Rockefeller Institute analysis of data from the National Association of State Budget Officers and from reports in several individual states.

4 See Dunstan McNichol, "Tax Receipts Rebound as 15 Biggest States See Gain," *Business Week*, March 30, 2010 (http://www.businessweek.com/news/2010-03-30/california-revenue-shows-state-cash-collapse-ending-update1-.html).

5 This also treats the 1980-82 "double-dip" recession as a single long recession.

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7 See "The Fiscal Survey of States" National Governors Association and National Association of State Budget Officers, June 2009.

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

The Nelson A. Rockefeller Institute of Government, the public policy research arm of the University at Albany, State University of New York, 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.

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