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Revenue Now Growing in Most States; Sales Tax Gains 5.7 Percent in 2nd Quarter

But Totals Are Still Below 2008 Level

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HIGHLIGHTS

- State tax revenues rose 2.3 percent in the second quarter of 2010, according to Rockefeller Institute research and Census Bureau data. This is the second consecutive quarter that states reported growth in collections on a year-over-year basis. Thirty-four states reported revenue growth during the quarter, with 12 showing double-digit growth.
- Despite two consecutive quarters of growth, revenues were still 14.9 percent lower in the second quarter of 2010 than in the same period two years earlier.
- For the year ending in June 2010, the period corresponding to most states' fiscal years, total state tax collections declined by $19 billion or 2.7 percent from the previous year, and were down $84 billion or 10.8 percent compared to fiscal 2008.
- Preliminary figures for July and August for 42 early reporting states indicate that the states are on the road to gradual fiscal recovery, with overall tax collections so far showing above-inflation growth of 2.8 percent.
- Local tax revenue increased by 3.0 percent in the second quarter, mostly driven by increases in property tax and sales tax collections.

Overall State Taxes and Local Taxes

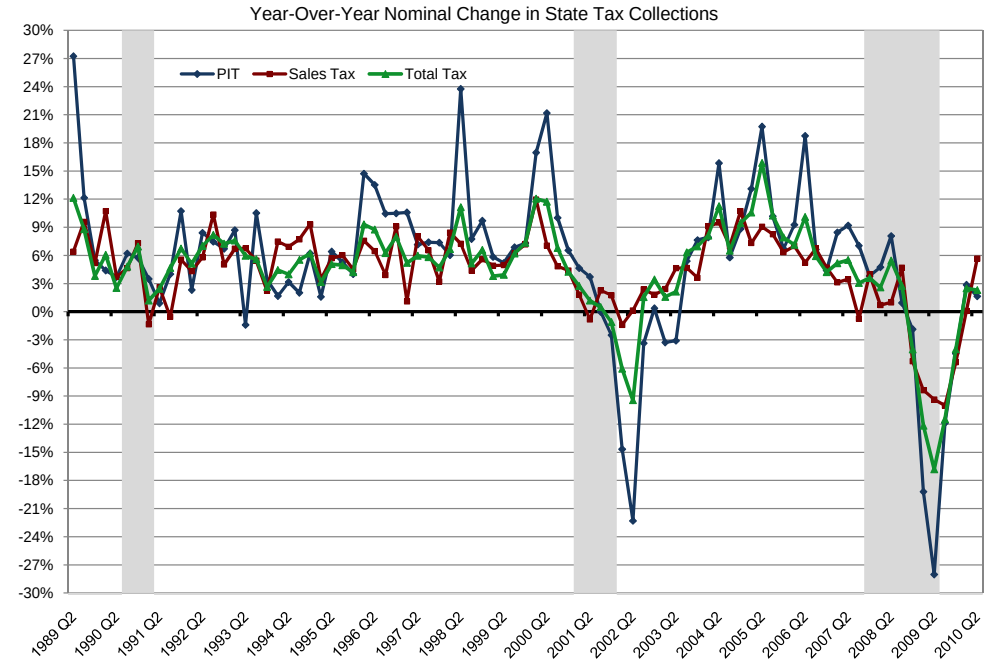
Total state tax collections as well as collections from two major sources — taxes on sales and personal income — showed growth for the second consecutive quarter, following five straight quarters of decline. Overall state tax revenues in the April-June quarter of 2010, after reflecting certain adjustments made by the Rockefeller Institute, increased by 2.3 percent from the same quarter of the previous year. The Institute's findings indicate noticeably stronger fiscal conditions for states than the preliminary data released in late September by the Census Bureau, which reported an overall increase of 0.9 percent. We have updated those figures to reflect data we have since obtained and to reflect differences in how we wish to measure revenue for purposes of the State Revenue Report. (See "Adjustments to Census Bureau Tax Collection Data" on page 21.[1])

Figure 1 shows the nominal percent change over time in state tax collections for personal income tax, sales tax, and total taxes. As shown there, declines in personal income tax and sales tax collections, as well as in overall state tax collections, were steeper in and after the 2007 recession than around the previous recessions. Revenues are slowly rebounding. Despite gains in the last couple of quarters, however, collections are still below prerecession levels, down by 14.9 percent from the same quarter two years earlier.

Quarterly revenue data may fluctuate for reasons unrelated to the economy or states' underlying fiscal conditions. To reduce such statistical "noise," Figure 2 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 3.2 percent over the last four quarters. This represents substantial improvement from the 10.0 percent average decline of a year ago, but is still significantly below the 1.4 percent average growth of two years ago. Real, year-over-year growth in local taxes was an average of 3.4 percent over the last four quarters, compared to 5.8 percent for the preceding year. Inflation for the period, as measured by the gross domestic product deflator, was 0.8 percent.

The local tax slowdown has been less severe than the state tax slowdown. In the second quarter of 2010, local tax collections showed

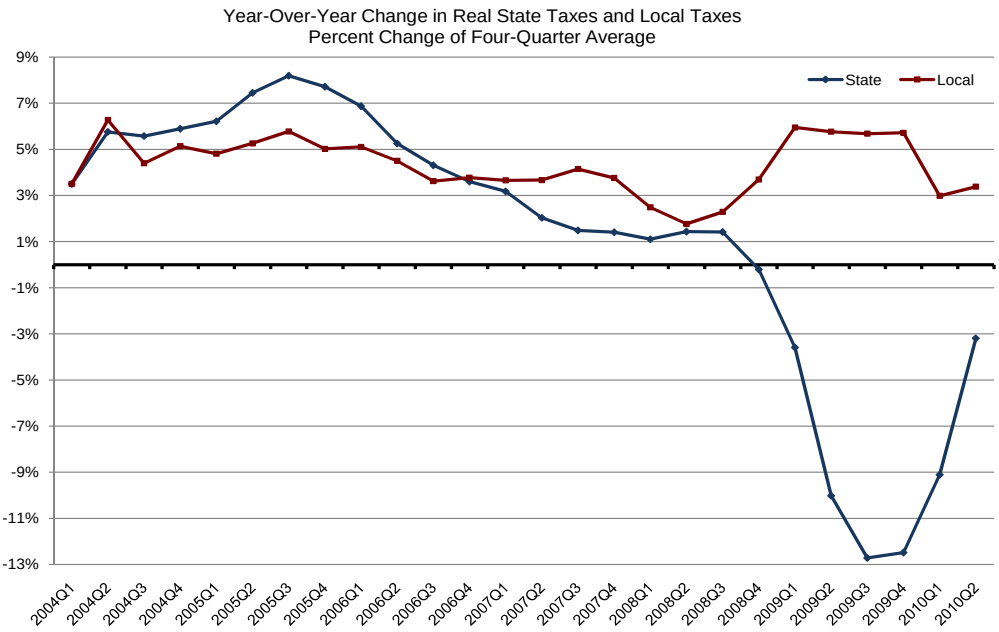
Figure 1. State Tax Collections Rebounding From Record Decline



Sources: U.S. Census Bureau. 2010 second quarter data reflect certain adjustments made by the Rockefeller Institute.

growth of 3.0 percent, substantially above the rate of inflation, yet still somewhat weak compared to historical averages. Most local governments rely heavily on property taxes, which tend to be relatively stable and respond to property value declines more slowly than income, sales, and corporate taxes respond to declines in the overall economy. In the last two decades, property taxes made up at least two-thirds of total local tax collections. Collections from local property tax increased by 3.0 percent during the second quarter of 2010. Local collections from two other major sources — local sales tax and local personal income tax — also showed signs of improvement. Local sales tax collections represented about 13.7 percent of total local tax collections and for the first time since the third quarter of 2008 showed growth, with an increase of 5.3 percent in the second quarter of 2010 after six consecutive quarter declines. Collections from local individual income taxes showed growth of 3.8 percent, the second consecutive quarter of growth.

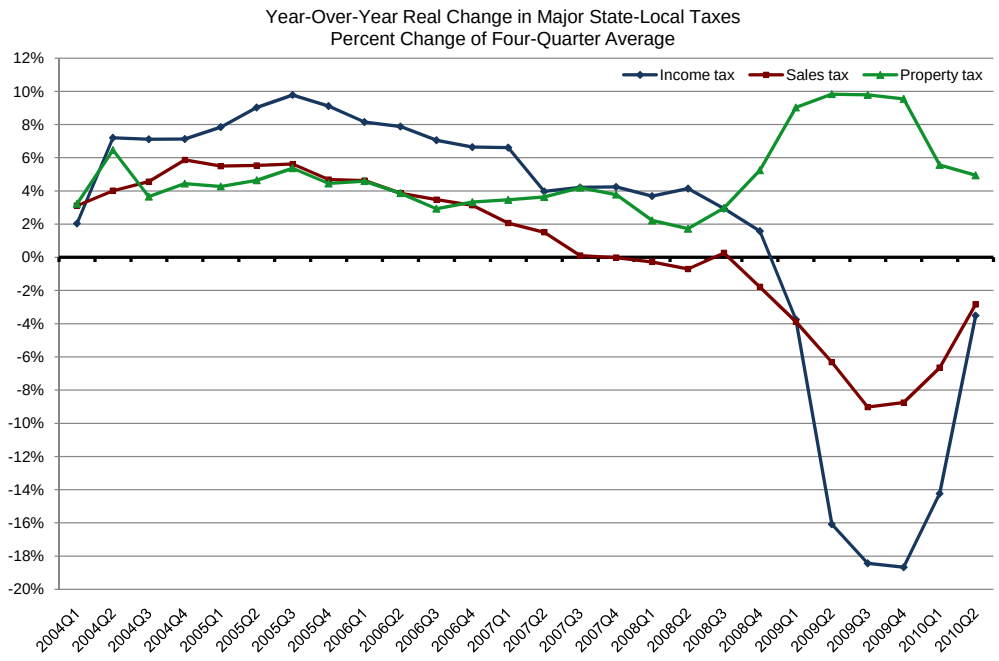
Figure 2. State Taxes Are Faring Worse Than Local Taxes



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.

Figure 3 also smooths out some quarterly fluctuations, showing 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 five years. Revenue from the sales

Figure 3. 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.

tax was particularly weak for most of that period, but has outpaced income-tax collections since the second quarter of 2009. Both income tax and sales tax continued showing some signs of improvement in the second quarter of 2010, while property taxes declined, reflecting the weak economy and lagged response to declines in property values.

State Tax Revenue

Total state tax revenue in the second quarter of 2010 increased by 2.3 percent relative to a year ago, before adjustments for inflation and legislated changes. The income tax and sales tax both showed growth at 1.6 and 5.7 percent, respectively, while the corporate income tax declined by 18.3 percent. Tables 1 and 2 portray growth in tax revenue with and without adjustment for inflation, and growth by major tax, respectively. Total tax revenue increased in 34 states in the second quarter of 2010, up from 17 states during the first quarter of 2010. Double-digit increases were reported in 12 states in the second quarter of 2010, compared to five states in the first quarter of 2010. Two states — Louisiana and Arkansas — reported double-digit declines at 19.7 and 12.2 percent, respectively. The Rocky Mountain region showed the largest decline at 2.3 percent, followed by the Great Lakes at 2.1 percent. The New England states reported the largest growth of 7.9 percent, followed by the Plains states at 6.4 percent. Revenue gains were particularly strong in Pennsylvania and Alaska, where tax revenues increased by $1.1 billion and $700 million, respectively.

Personal Income Tax

In the second quarter of 2010, personal income tax revenue made up at least a third of total tax revenue in 27 states, and was larger than the sales tax in 28 states. Personal income tax revenue increased 1.6 percent in the April-June 2010 quarter compared to the same quarter in 2009. All regions but the Great Lakes, Southeast, and Rocky Mountain reported increases in personal income tax collections. The largest growth was in the Southwest and Far West regions, where collections increased by 15.1 and 9.5 percent,

Table 1. Quarterly State Tax Revenue

Adjusted for Inflation
Year-Over-Year Percent Change

Quarter	Total Nominal	Inflation Rate	Adjusted Real Change
2010 Q2	2.3	0.8	1.4
2010 Q1	2.5	0.5	2.0
2009 Q4	(4.0)	0.5	(4.5)
2009 Q3	(11.5)	0.2	(11.7)
2009 Q2	(16.8)	1.2	(17.8)
2009 Q1	(12.2)	1.9	(13.8)
2008 Q4	(4.0)	2.1	(6.0)
2008 Q3	2.8	2.6	0.1
2008 Q2	5.4	2.0	3.4
2008 Q1	2.6	2.0	0.6
2007 Q4	3.6	2.6	1.0
2007 Q3	3.1	2.8	0.2
2007 Q2	5.5	3.1	2.3
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 Q2	1.6	(18.3)	5.7	2.3
2010 Q1	2.9	(1.1)	0.1	2.5
2009 Q4	(4.5)	(0.5)	(5.4)	(4.0)
2009 Q3	(11.9)	(22.1)	(10.0)	(11.5)
2009 Q2	(28.0)	1.4	(9.4)	(16.8)
2009 Q1	(19.2)	(20.3)	(8.4)	(12.2)
2008 Q4	(1.9)	(23.0)	(5.3)	(4.0)
2008 Q3	0.9	(13.2)	4.7	2.8
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).

respectively. The Southeast and Rocky Mountain regions reported the largest declines in personal income tax collections at 9.6 and 6.3 percent, respectively. In fact, each single state in both regions reported declines in personal income tax collections.

In total, 16 states reported growth in personal income tax collections for the quarter. Twenty-seven states showed declines in the second quarter of 2010, with nine reporting double-digit declines. Louisiana and North Dakota reported the largest declines

in personal income tax collections at 34.7 and 26.4 percent, respectively. The largest increases in terms of dollar value were reported in California and New Jersey where personal income tax collections grew by $1.4 billion and $349 million, respectively. If we exclude California, the national picture changes significantly — personal income tax collections for the second quarter show a 0.3 percent decline compared to the same period a year earlier.

Preliminary figures for 36 of 42 early reporting states with broad-based personal income taxes indicate that personal income tax collections increased by 7.4 percent for the nation in the months of July and August of 2010 compared to the same months of 2009, and were up by 2.0 percent compared to the same months of 2008. Among early reporting states, 31 states reported growth in personal income tax collections in the months of July and August of 2010 and only five states reported decline.

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.

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 April-June 2010 quarter continued to improve for the second quarter in a row and increased by 5.0 percent in the second quarter of 2010 for 38 of 41 early reporting states that have broad-based income taxes. However, withholding for the same states was up by a negligible 0.2 percent compared to the April-June months of 2008.

Seven of 38 early reporting states had declines in withholding, with Mississippi and Louisiana reporting the largest decline at 67.4 and 23 percent, respectively. Among the states reporting growth in withholding for the second quarter, Montana and California had the strongest growth at 16.8 and 15.2 percent, respectively. The Far West and Mid-Atlantic regions reported the largest growth in withholding at 13.4 and 6.6 percent, respectively, while the Southeast was the only region reporting decline at 1.4 percent.

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.

Table 3. Personal Income Tax Withholding, By State

Last Four Quarters, Percent Change

	2009		2010	
	July-Sep	Oct-Dec	Jan-March	April-June
United States	**(3.7)**	**(1.9)**	**4.8**	**5.0**
New England	**(4.3)**	**(1.7)**	**2.0**	**4.8**
Connecticut	(5.0)	1.6	4.1	6.0
Maine	(0.5)	0.4	(2.3)	5.7
Massachusetts	(4.5)	(3.4)	1.8	4.2
Rhode Island	(3.6)	(2.4)	1.6	4.1
Vermont	(5.8)	(1.2)	(3.5)	4.2
Mid-Atlantic	**0.5**	**1.4**	**11.3**	**6.6**
Delaware	(3.5)	(5.6)	0.7	7.6
Maryland	(0.3)	(0.3)	1.8	(8.9)
New Jersey	12.8	(0.9)	4.4	ND
New York	(1.3)	4.4	19.6	11.9
Pennsylvania	(4.7)	(3.3)	(0.7)	12.0
Great Lakes	**(7.4)**	**(3.9)**	**(6.0)**	**2.6**
Illinois	(5.2)	(3.4)	(3.9)	1.6
Indiana	ND	ND	ND	ND
Michigan	(8.2)	(7.8)	(2.5)	0.8
Ohio	(10.1)	(9.1)	(4.5)	3.5
Wisconsin	(5.6)	7.1	(13.3)	4.8
Plains	**(4.8)**	**(5.0)**	**(1.0)**	**4.5**
Iowa	(0.1)	(0.5)	1.4	3.7
Kansas	(3.6)	(3.1)	(0.2)	4.9
Minnesota	(7.6)	(3.6)	(1.7)	8.4
Missouri	(4.8)	(11.7)	(2.0)	2.3
Nebraska	(3.6)	0.1	1.8	0.5
North Dakota	0.3	(6.0)	(14.9)	(13.8)
Southeast	**(2.6)**	**(4.1)**	**0.2**	**(1.4)**
Alabama	(2.9)	(0.1)	0.8	1.8
Arkansas	(2.1)	(2.6)	(3.2)	4.7
Georgia	(2.3)	(4.7)	0.7	0.8
Kentucky	(4.7)	(4.6)	(0.1)	0.8
Louisiana	(3.7)	(12.4)	(51.2)	(23.0)
Mississippi	(5.6)	(4.7)	(1.9)	(67.4)
North Carolina	(1.5)	(5.8)	5.2	3.8
South Carolina	(2.7)	0.7	2.6	3.1
Virginia	(2.3)	(2.5)	5.0	1.5
West Virginia	(3.8)	(3.5)	(4.2)	2.1
Southwest	**(4.6)**	**(9.1)**	**2.8**	**0.9**
Arizona	(6.1)	(6.5)	0.9	2.6
New Mexico	10.4	(8.1)	15.6	ND
Oklahoma	(8.1)	(12.8)	0.1	(1.1)
Rocky Mountain	**(4.7)**	**(4.1)**	**1.0**	**1.9**
Colorado	(4.5)	(4.8)	(1.0)	2.9
Idaho	(6.0)	(8.1)	(1.5)	5.5
Montana	(3.5)	(2.5)	1.4	16.8
Utah	(4.7)	(0.7)	6.2	(6.2)
Far West	**(6.8)**	**0.4**	**12.7**	**13.4**
California	(7.1)	1.3	14.7	15.2
Hawaii	(3.4)	(10.7)	4.0	(1.8)
Oregon	(6.0)	(2.6)	(0.6)	5.8

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 2010 (first payment)	April-June (first two payments)
Average (Mean)	**(10.1)**	**(5.7)**
Median	**(6.1)**	**(5.0)**
Alabama	(22.4)	(16.9)
Arizona	(1.4)	(5.0)
Arkansas	(20.1)	(16.0)
California	8.4	27.7
Colorado	(87.3)	(26.3)
Connecticut	9.5	20.7
Delaware	30.3	9.3
Georgia	(24.1)	(21.6)
Hawaii	(18.1)	20.6
Illinois	(4.9)	(5.5)
Iowa	20.8	3.1
Kansas	(12.9)	(11.9)
Kentucky	(20.5)	(13.4)
Louisiana	(52.7)	(22.3)
Maine	(3.7)	(5.7)
Maryland	(1.3)	2.4
Massachusetts	(13.6)	3.4
Michigan	(2.9)	(1.4)
Minnesota	(16.3)	(11.8)
Mississippi	(3.6)	(53.4)
Missouri	(12.6)	(8.9)
Montana	(12.3)	(6.4)
Nebraska	(6.1)	(4.1)
New Jersey	(0.2)	ND
New York	9.6	12.4
North Carolina	(2.0)	(3.2)
North Dakota	(26.0)	(29.7)
Ohio	1.0	3.7
Oklahoma	(15.6)	(25.5)
Oregon	(3.5)	1.8
Pennsylvania	(4.3)	(5.1)
Rhode Island	(19.9)	1.0
South Carolina	(9.2)	(8.3)
Vermont	(16.4)	(2.1)
Virginia	2.4	(0.6)
West Virginia	(38.6)	(14.1)
Wisconsin	15.5	9.3

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

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 37 states for which we have complete data for the first payment, the median payment was down by 6.1 percent, and in the 36 states for which we have complete data for the first two payments, the median

payment was down by 5.0 percent (see Table 4). Declines were recorded in 24 of 36 states for the first two payments. Mississippi reported the largest decline for the first two payments at 53.4 percent, while California reported the largest increase at 27.7 percent.

General Sales Tax

State sales tax collections in the April-June 2010 quarter showed growth of 5.7 percent from the same quarter in 2009, but were still down by 4.2 percent from the same period two years earlier. This is the second quarter in a row that sales tax collections rose, and the strongest growth in such revenues since the third quarter of 2006. However, sales tax collections were down by 10.8 percent for the full fiscal year ending in June of 2010, compared to the same period of two years ago.

Increases in sales tax collections were reported during the second quarter in all regions but Rocky Mountain and Great Lakes, where revenues declined by 1.5 and 0.3 percent, respectively. The New England states had the largest increase at 12.1 percent, followed by the Far West at 7.3 percent. Thirty-eight of 45 states with broad-based sales taxes reported growth in sales tax collections, with five reporting double-digit growth. Among the seven states reporting declines in sales tax collections in the second quarter, Wyoming showed the largest decline at 29.9 percent, followed by Michigan at 8.7 percent.

Preliminary figures for the 38 of 45 early reporting states with broad-based sales tax indicate that sales tax collections continued reporting positive growth at 3.2 percent in July-August 2010 compared to the same period of 2009. Among early reporting states, 32 reported growth in sales tax collections in July and August of 2010 and only six reported declines. While September data could change the picture, sales tax growth in the July-September 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.

Corporate tax revenue declined by 18.3 percent in the April-June quarter compared to a year earlier, and 17.1 percent from the same period two years earlier. Most of the decline in the April-June quarter is attributable to California, where collections fell by 41.6 percent compared to the same period in 2009. Corporate income tax collections were high in the second quarter of 2009 in California due to legislated changes and the budget trailer bill

Table 5. Percent Change in Real State Taxes Other Than PIT, CIT, and 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
Nominal collections (mlns), latest 12 months	$14,245	$35,468	$16,815	$5,435	$22,880	$100,836
2010Q2	11.1	(2.1)	0.1	1.0	2.9	(3.5)
2010Q1	9.7	(3.0)	(1.2)	0.1	1.2	(11.1)
2009Q4	5.6	(3.7)	(1.6)	0.2	0.1	(15.1)
2009Q3	(0.9)	(4.2)	0.2	(0.1)	(1.2)	(14.3)
2009Q2	(2.3)	(6.0)	1.0	(0.4)	(1.1)	(7.5)
2009Q1	(3.9)	(6.2)	2.4	0.1	(0.7)	3.6
2008Q4	(3.0)	(5.1)	2.9	0.3	(1.3)	7.2
2008Q3	1.6	(3.5)	3.3	(0.3)	(0.7)	9.7
2008Q2	3.2	(1.9)	5.7	0.3	(0.5)	7.6
2008Q1	3.8	(1.4)	6.0	0.4	(1.2)	3.1
2007Q4	3.3	(1.9)	5.9	0.3	(0.7)	2.1
2007Q3	1.3	(0.9)	3.7	1.4	(1.1)	(0.5)
2007Q2	(0.4)	(1.3)	0.3	1.3	(1.0)	(1.4)
2007Q1	1.6	(0.1)	1.5	0.4	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.

requiring taxpayers to pay 30 percent of estimated payments in the first two prepayments as opposed to previous requirement of 25 percent. If we exclude California, corporate income tax collections show a decline of 4.6 percent for the nation in the second quarter of 2010.

The Far West region reported the largest decline at 35.5 percent, followed by the Great Lakes region at 21.5 percent. Among 46 states that have a corporate income tax, 22 reported declines for the second quarter of 2010 compared to the same quarter of the previous year; 16 states saw double-digit declines. Sixteen states reported double-digit growth and eight 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 fourteenth consecutive quarter with a drop of 2.1 percent. Revenues from all

other tax sources showed growth. State property taxes increased by 11.1 percent. Revenues from motor vehicle and operators' licenses increased by 2.9 percent, from alcoholic beverage sales tax increased by 1.0 percent, and from tobacco product sales tax by 0.1 percent.

Underlying Reasons for Trends

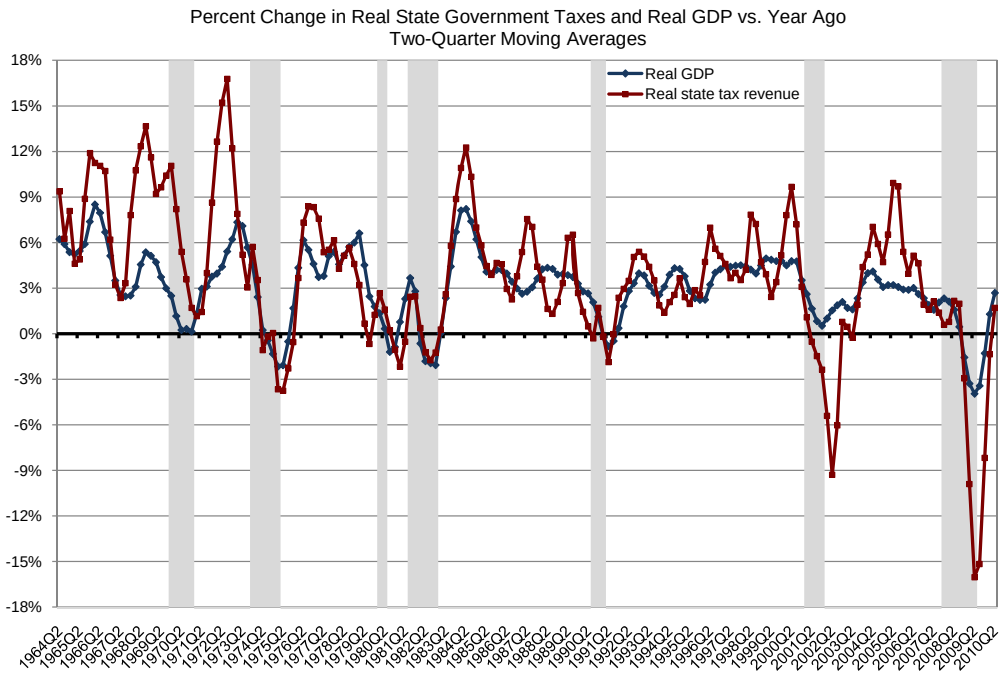
State revenue changes result from three kinds of underlying forces: differences in the national and state economies, the ways in which these differences affect each state's tax system, and legislated tax changes. The next two sections discuss the economy and recent legislated changes.

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 4 shows year-over-year growth for two-quarter moving averages in inflation-adjusted state tax revenue and in real gross domestic product, to smooth short-term fluctuations and illustrate the interplay between the economy and state revenues. 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 4, in the second quarter real state tax revenue showed some 1.7 percent growth for the first time since the third quarter of 2008, while real Gross Domestic Product showed growth for the second consecutive quarter at 2.7 percent. Both economic activity and state tax revenue are slowly rebounding.

The National Bureau of Economic Research (NBER) has declared that a recession began in December 2007 and ended in June of 2009, spanning 18 months, which is the longest duration since the Great Depression. While the recent recession may be

Figure 4. 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.

officially over, some economists are concerned that the economy is headed to a double-dip recession. Real gross domestic product increased at an annual rate of 1.7 percent in April-June 2010, a significant slowdown compared to the 3.7 percent increase in the January-March quarter and 5.0 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.

Durable goods consumption, an important element of state sales tax bases, showed an increase of 6.8 percent in the second quarter of 2010 after significant declines throughout 2008 and fluctuations throughout 2009. A 1.6 percent growth was reported in consumption of services, which is another important sector and comprises nearly 50 percent of total real GDP.

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 over the last four quarters. For the nation as a whole, employment declined by 0.7 percent in the April-June quarter of 2010. On a year-over-year basis, employment declined in 41 states. North Dakota and Alaska reported the largest growth in employment at 1.3 and 1.0 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 employment declines in the second quarter at 1.6 percent. Nevada and Rhode Island reported the largest declines in employment in the second quarter of 2010 compared to the same quarter of 2009 at 2.9 and 2.3 percent, respectively.

Table 6. Nonfarm Employment, By State

Last Four Quarters, Year-Over-Year Percent Change

	2009		2010	
	July-Sep	Oct-Dec	Jan-March	April-June
United States	**(5.2)**	**(4.5)**	**(2.7)**	**(0.7)**
New England	**(4.4)**	**(3.9)**	**(2.2)**	**(0.4)**
Connecticut	(4.8)	(4.1)	(2.6)	(0.5)
Maine	(3.9)	(3.7)	(2.0)	(1.5)
Massachusetts	(4.1)	(3.8)	(2.3)	(0.1)
New Hampshire	(4.4)	(3.2)	(0.7)	0.6
Rhode Island	(5.1)	(4.6)	(2.9)	(2.3)
Vermont	(3.9)	(3.2)	(1.2)	(1.2)
Mid-Atlantic	**(3.5)**	**(3.2)**	**(2.0)**	**(0.4)**
Delaware	(5.1)	(4.6)	(2.8)	(0.5)
Maryland	(3.4)	(3.0)	(2.1)	(0.2)
New Jersey	(4.1)	(3.2)	(2.1)	(0.9)
New York	(3.0)	(3.1)	(1.8)	(0.4)
Pennsylvania	(3.9)	(3.5)	(2.1)	(0.0)
Great Lakes	**(6.2)**	**(5.2)**	**(3.1)**	**(0.7)**
Illinois	(5.7)	(5.1)	(3.3)	(1.0)
Indiana	(6.5)	(5.1)	(2.1)	0.6
Michigan	(7.5)	(5.6)	(2.8)	(0.5)
Ohio	(6.1)	(5.2)	(3.4)	(0.8)
Wisconsin	(5.4)	(5.1)	(3.4)	(1.1)
Plains	**(3.9)**	**(3.6)**	**(2.2)**	**(0.4)**
Iowa	(3.7)	(3.3)	(1.8)	(0.3)
Kansas	(4.1)	(4.3)	(3.4)	(1.3)
Minnesota	(4.9)	(4.5)	(2.2)	(0.1)
Missouri	(4.1)	(3.5)	(2.5)	(0.8)
Nebraska	(2.3)	(2.8)	(1.8)	(0.2)
North Dakota	(0.3)	(0.5)	0.3	1.3
South Dakota	(2.2)	(2.3)	(1.8)	(0.1)
Southeast	**(5.4)**	**(4.5)**	**(2.5)**	**(0.6)**
Alabama	(6.1)	(5.1)	(2.9)	(1.1)
Arkansas	(3.6)	(3.0)	(2.1)	(0.5)
Florida	(6.3)	(5.2)	(2.9)	(0.9)
Georgia	(6.1)	(5.3)	(3.5)	(1.9)
Kentucky	(4.8)	(3.5)	(1.5)	0.5
Louisiana	(2.4)	(3.2)	(1.7)	(0.4)
Mississippi	(4.7)	(4.1)	(2.2)	(1.1)
North Carolina	(6.2)	(4.7)	(2.2)	0.2
South Carolina	(5.7)	(4.5)	(1.6)	0.3
Tennessee	(6.2)	(5.1)	(2.8)	(0.3)
Virginia	(3.9)	(3.6)	(2.0)	(0.3)
West Virginia	(3.0)	(3.4)	(2.6)	(0.9)
Southwest	**(4.6)**	**(4.1)**	**(2.5)**	**(0.1)**
Arizona	(8.1)	(6.6)	(3.9)	(0.9)
New Mexico	(4.7)	(4.3)	(2.6)	(1.3)
Oklahoma	(4.6)	(4.3)	(3.2)	(0.9)
Texas	(3.7)	(3.5)	(2.0)	0.3
Rocky Mountain	**(5.6)**	**(4.8)**	**(3.1)**	**(1.1)**
Colorado	(5.5)	(5.0)	(3.7)	(2.0)
Idaho	(7.1)	(4.9)	(2.7)	(0.5)
Montana	(3.8)	(3.6)	(1.5)	(1.0)
Utah	(5.6)	(4.4)	(2.3)	0.4
Wyoming	(5.4)	(6.2)	(4.2)	(1.5)
Far West	**(6.8)**	**(5.9)**	**(3.6)**	**(1.6)**
Alaska	(0.8)	(0.1)	1.3	1.0
California	(6.9)	(6.1)	(3.8)	(1.8)
Hawaii	(5.1)	(3.9)	(2.3)	(0.2)
Nevada	(10.4)	(8.1)	(5.0)	(2.9)
Oregon	(7.0)	(5.7)	(2.9)	(1.1)
Washington	(5.6)	(4.9)	(3.2)	(1.1)

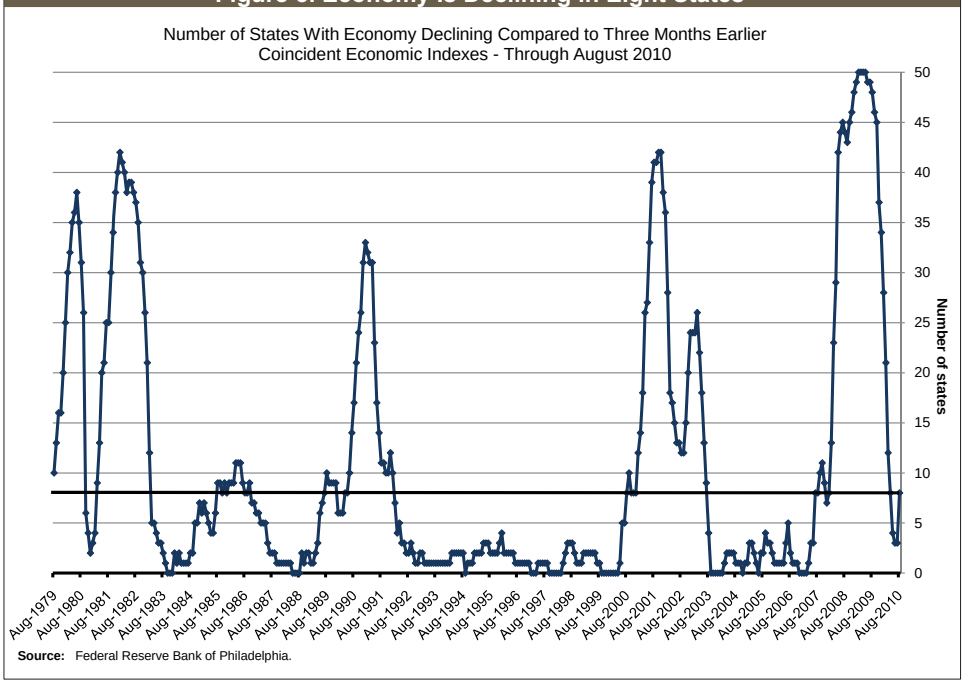
Source: Bureau of Labor Statistics, analysis by Rockefeller Institute.

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 5 shows, by month over the last three decades, the number of states that had declining economic activity relative to three months earlier. At the start of the most recent recession, in December of 2007, only seven states suffered declines, but over the following year economic weakening 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 four states showed decreases. In the months of June and July only three states reported declines in economic activity, but the number of states reporting declines in economic activity increased to eight in the month of August. 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 nine states.

Figure 5. Economy Is Declining in Eight States



Source: Federal Reserve Bank of Philadelphia.

Figure 6 shows state-by-state variation in relative economic activity as of August 2010. Among the eight states with declining economic activity, Alaska and Nevada reported the largest declines at 1.1 and 0.9 percent, respectively. Many 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 in the east. Alabama reported the largest increase at 2.0 percent followed by New Hampshire at 1.9 percent.

Figures 7 and 8 show the breadth of economic decline but provide little information on the depth of decline. Figure 7 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 most recent recession in the typical state were worse than those of the 1980-82, 1990-91, and 2001 recessions. While there was a continuous upward spike from December 2009 to May 2010, the trend once again shifted to downwards for the last three months. While the declines as of August 2010 are no longer deep and widespread compared to the previous recessions, and a majority of states have seen some positive

Figure 6. In August: Eight States Had Declining Economies

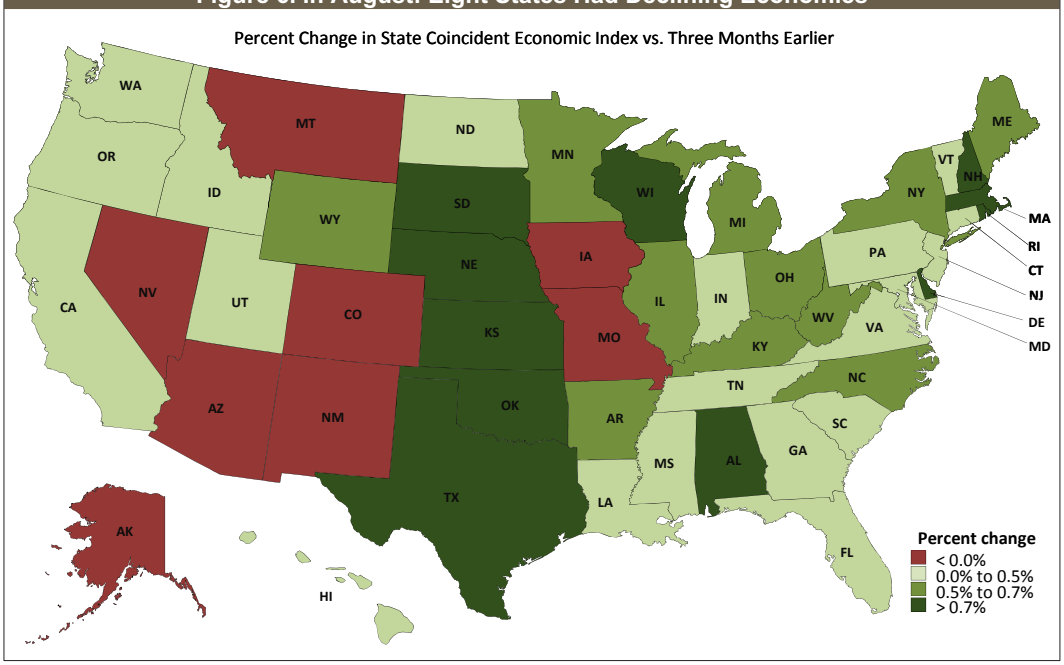


Table 7. State Economic Activity: Declining in Eight States

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

State	Coincident index August 2010 (July 1992=100)	Percent change vs. 1 year ago (August 2009)	Percent change vs. 3 months ago (May 2010)
Alabama	136.8	1.5	2.0
New Hampshire	197.9	4.7	1.9
Massachusetts	175.5	3.9	1.5
Delaware	149.7	1.6	1.5
Rhode Island	152.2	0.6	1.4
Wisconsin	142.2	1.9	1.0
Texas	179.0	2.1	0.9
Nebraska	158.3	1.0	0.8
Oklahoma	147.7	0.5	0.8
Kansas	141.2	0.9	0.8
South Dakota	170.3	1.9	0.7
Michigan	117.0	3.2	0.7
Minnesota	163.8	3.0	0.7
Maine	139.6	1.0	0.6
Kentucky	142.7	2.5	0.6
Arkansas	147.1	0.8	0.6
New York	156.2	2.0	0.6
North Carolina	161.0	2.2	0.6
West Virginia	150.8	(0.7)	0.6
Illinois	139.4	(0.1)	0.6
Wyoming	161.8	0.9	0.5
Ohio	136.8	3.3	0.5
Hawaii	112.6	0.7	0.5
Pennsylvania	140.7	1.0	0.5
Florida	161.6	0.7	0.5
Virginia	158.0	0.9	0.5
Washington	154.0	0.7	0.4
Tennessee	154.8	2.0	0.4
South Carolina	150.3	1.9	0.4
Maryland	150.9	(1.0)	0.4
Utah	192.6	1.2	0.4
Georgia	167.7	0.2	0.4
Connecticut	154.6	1.5	0.4
Vermont	153.8	0.1	0.3
New Jersey	154.1	1.0	0.3
Louisiana	131.0	0.9	0.3
North Dakota	175.7	4.7	0.2
Mississippi	140.6	0.2	0.2
Idaho	205.6	0.1	0.1
Oregon	191.3	1.5	0.1
California	159.8	0.8	0.0
Indiana	139.3	3.3	0.0
Missouri	131.3	(0.7)	(0.0)
United States	***159.0***	***1.5***	***(0.0)***
Iowa	150.0	0.8	(0.0)
New Mexico	166.7	(1.3)	(0.1)
Colorado	172.0	(1.3)	(0.2)
Arizona	198.5	0.3	(0.2)
Montana	165.3	(2.0)	(0.6)
Nevada	200.9	(4.6)	(0.9)
Alaska	112.9	(2.0)	(1.1)

Source: Federal Reserve Bank of Philadelphia.

growth in the last three months, the overall downward direction of state economic activity for the last three months may raise some concern, especially if it continues further.

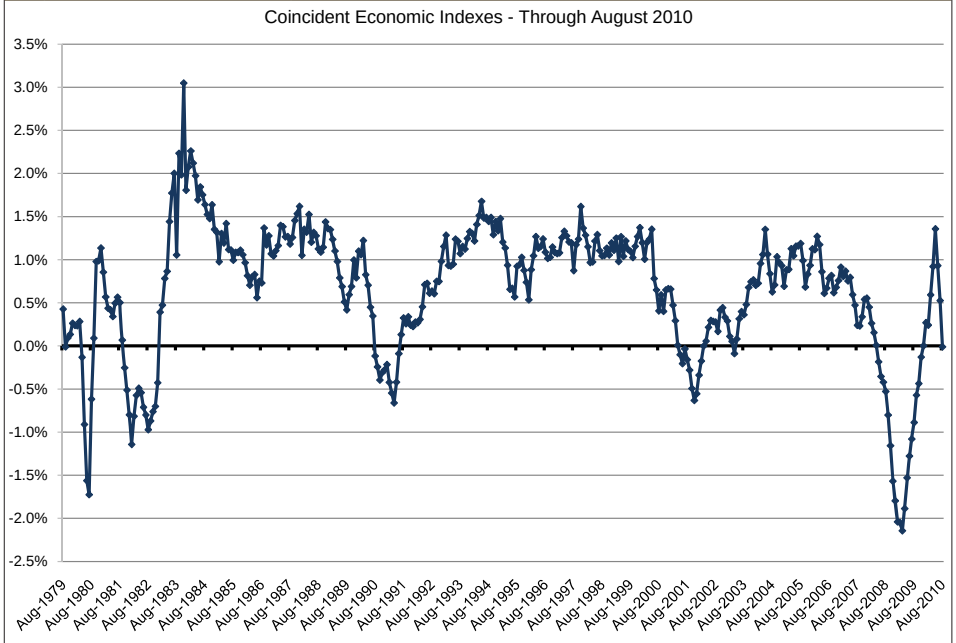
Figure 8 shows consumption of durable goods, nondurable goods, and services. The decline in consumption of durable and nondurable goods during the recent downturn was much sharper than in the last recession. Consumption of nondurable goods and services has been slowly recovering in recent months. The consumption of durable goods was surprisingly strong for the first few months of 2010, but after steady growth from October 2009 to May 2010, the trend is once again downwards.

Figure 9 shows year-over-year percent change in the federal government's seasonally adjusted, purchase-only house price index from 1992 through the second quarter of 2010. As Figure 9 shows, the trend in housing prices has been downward since mid-2005, with steeply negative movement from the last quarter of 2004 through the end of 2008. While housing prices started to strengthen in 2009, the direction of change is still negative and it declined once again in the first quarter of 2010 before showing some upward movement in the second quarter of 2010. The states in the West continue to see 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

Figure 7. Percent Change in State Economies Compared to Three Months Earlier



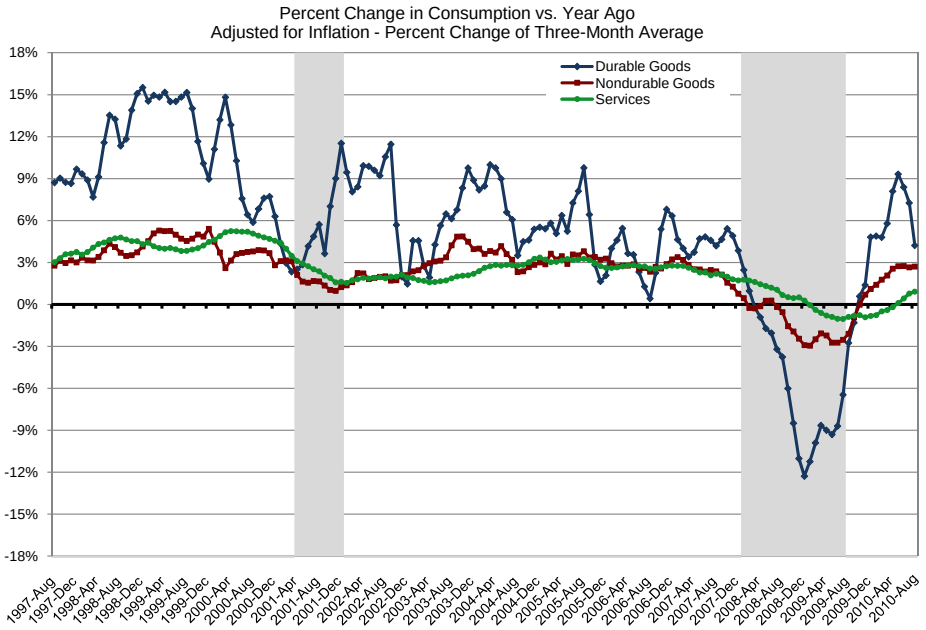
Source: Federal Reserve Bank of Philadelphia.
Note: Percent change is for the median state.

legislation, as it helps the reader to understand that the apparent growth or decline is not necessarily indicative of underlying trends.

During the April-June 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 for approximately $1.6 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 increase in nominal tax revenue would instead have been a small decline, if not for the legislated tax changes.

Figure 8. Consumption of Goods and Services Is Recovering



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

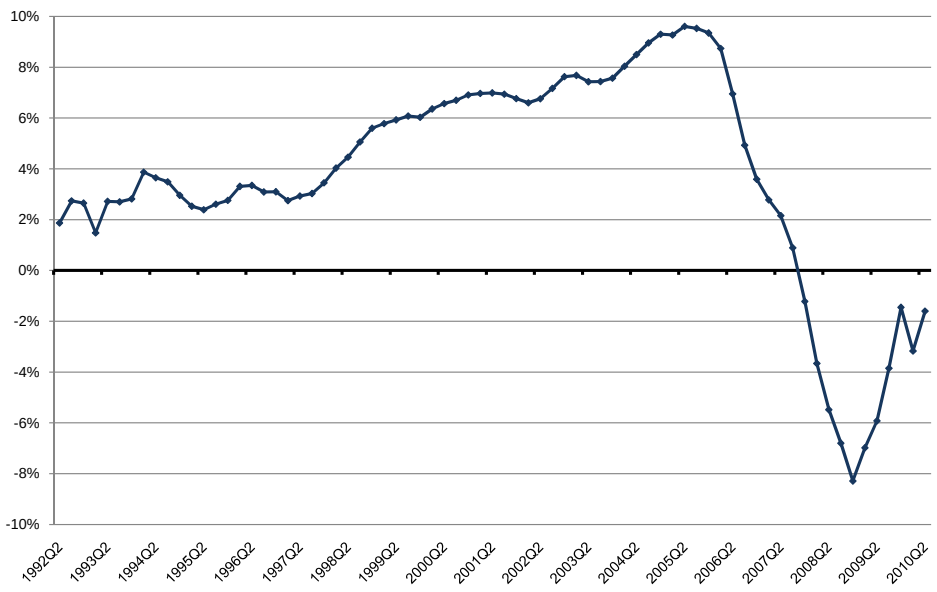
The Full Picture for Fiscal 2010

With April-June collections now on the books, the totality of the states' fiscal 2010 has come into clear focus. It is not a pretty picture.

As Tables 10 and 11 indicate, total tax revenues as well as tax revenues from all three major sources showed decline in fiscal 2010. More than two-thirds of states, 34, reported declines in personal income tax collections with the national average of 3.0 percent. Forty states saw sales-tax collections fall,

Figure 9. Year-Over-Year Percent Change in State House Price Index

Seasonally Adjusted Purchase-Only House Price Index Through Second Quarter of 2010



Source: U.S. Federal Housing Finance Agency.

with the national average at 2.5 percent, and 36 states in total tax collections with the national average of 2.7 percent.

These declines are even more pronounced compared to revenues of two years ago. Relative to fiscal 2008, personal-income tax collections were down 16.9 percent; sales tax, 7.2 percent; and total tax revenues, 10.8 percent. If recent historical norms had held constant, states would have seen revenue gains of some 10 percent over the past two years. Thus, the Great Recession brought a two-year revenue loss in the range of 20 percent, compared to what states had come to expect and have used in constructing the expenditure sides of their budgets.

In response to such losses, many states took unpopular but necessary actions for balancing 2011 budgets — steps such as tax increases, cuts in public services, and reductions in employee compensation. Many have also drawn heavily from rainy day funds and used steps such as agency consolidations and employee furloughs to achieve some relatively modest savings. However, with governors and legislatures up for election in most states this year, other popular approaches have included borrowing and fiscal gimmicks to push some budgetary problems into subsequent fiscal years. Such steps will make it more difficult for states to return to structural balance even as revenues strengthen further.

States' Fiscal Recovery Will Be Slow

Recent data show a stabilizing but still extremely weak economy, with continued and more widespread firming in state tax revenue collections driven substantially by legislated increases. 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 2.6 percent in the April-June quarter, the third consecutive quarter that state and local governments report some increases in combined total tax collections.

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

	2009				2010			
	PIT	CIT	Sales	Total	PIT	CIT	Sales	Total
United States	**71,324**	**16,848**	**57,897**	**200,327**	**72,496**	**13,769**	**61,171**	**204,934**
New England	**6,177**	**881**	**2,623**	**13,184**	**6,575**	**974**	**2,941**	**14,232**
Connecticut	2,167	207	1,088	4,383	2,465	210	1,098	4,795
Maine	461	51	316	1,152	469	55	328	1,194
Massachusetts	3,022	397	955	5,183	3,144	448	1,238	5,727
New Hampshire	47	166	NA	485	41	183	NA	532
Rhode Island	317	36	192	772	293	48	202	741
Vermont	162	25	71	1,210	163	29	74	1,244
Mid-Atlantic	**17,130**	**3,150**	**8,365**	**36,808**	**17,645**	**2,735**	**8,962**	**38,262**
Delaware	194	50	NA	773	228	67	NA	896
Maryland	2,124	237	1,264	4,801	1,889	261	1,318	4,604
New Jersey	3,542	1,298	2,469	9,210	3,890	1,002	2,635	9,418
New York	8,486	937	2,587	14,119	8,685	770	2,782	14,304
Pennsylvania	2,784	629	2,045	7,904	2,953	635	2,228	9,039
Great Lakes	**10,026**	**2,172**	**8,967**	**28,785**	**9,676**	**1,705**	**8,938**	**28,173**
Illinois	2,616	1,151	1,775	7,697	2,437	795	1,798	7,038
Indiana	1,399	400	1,467	4,107	1,293	344	1,526	4,050
Michigan	1,637	255	2,597	5,769	1,584	224	2,370	5,484
Ohio	2,395	152	1,791	6,324	2,210	70	1,876	6,353
Wisconsin	1,978	214	1,338	4,888	2,152	273	1,368	5,248
Plains	**5,602**	**672**	**3,648**	**13,479**	**5,852**	**653**	**3,821**	**14,345**
Iowa	727	116	513	1,827	725	96	547	1,846
Kansas	902	117	533	1,912	1,171	120	525	2,189
Minnesota	2,034	207	1,233	5,009	2,000	210	1,354	5,234
Missouri	1,301	131	727	2,752	1,385	142	744	2,872
Nebraska	498	55	352	1,086	468	44	325	1,060
North Dakota	140	36	130	613	103	35	154	835
South Dakota	NA	11	161	280	NA	7	171	310
Southeast	**12,334**	**2,811**	**13,789**	**40,311**	**11,152**	**2,846**	**14,782**	**40,293**
Alabama	751	189	521	2,130	609	129	543	1,937
Arkansas	677	109	646	2,103	640	103	655	1,847
Florida	NA	566	4,449	8,228	NA	648	4,594	8,568
Georgia	2,119	213	1,281	4,148	2,009	252	1,258	4,062
Kentucky	964	130	699	2,550	925	161	728	2,575
Louisiana	912	231	700	2,620	596	60	713	2,104
Mississippi	527	76	831	1,887	495	73	839	2,033
North Carolina	2,358	413	1,170	5,380	2,175	408	1,584	5,670
South Carolina	719	81	896	2,145	703	70	908	2,184
Tennessee	187	359	1,537	3,099	145	425	1,588	3,180
Virginia	2,573	310	801	4,748	2,369	393	1,101	4,826
West Virginia	548	136	258	1,272	485	123	271	1,304
Southwest	**1,251**	**321**	**7,068**	**17,826**	**1,440**	**308**	**7,424**	**18,357**
Arizona	370	212	1,113	2,559	485	204	1,417	2,841
New Mexico	144	30	443	1,081	285	20	406	1,284
Oklahoma	738	79	492	1,902	670	85	522	1,980
Texas	NA	NA	5,020	12,284	NA	NA	5,080	12,252
Rocky Mountain	**2,755**	**349**	**1,361**	**6,411**	**2,581**	**361**	**1,340**	**6,261**
Colorado	1,268	145	481	2,333	1,263	154	511	2,316
Idaho	407	55	276	922	357	42	278	866
Montana	243	60	NA	730	241	49	NA	755
Utah	837	89	396	1,566	720	115	405	1,527
Wyoming	NA	NA	208	860	NA	NA	146	797
Far West	**16,049**	**6,493**	**12,076**	**43,524**	**17,576**	**4,186**	**12,962**	**45,012**
Alaska	NA	152	NA	598	NA	340	NA	1,256
California	14,267	6,233	8,282	33,713	15,622	3,638	9,105	33,594
Hawaii	304	26	588	1,145	401	40	581	1,267
Nevada	NA	NA	1,052	2,367	NA	NA	1,109	2,654
Oregon	1,478	82	NA	2,026	1,553	167	NA	2,244
Washington	NA	NA	2,154	3,675	NA	NA	2,168	3,997

Source: U.S. Census Bureau.

Table 9. Quarterly Tax Revenue By Major Tax

April-June, 2009 to 2010, Percent Change

	PIT	CIT	Sales	Total
United States	**1.6**	**(18.3)**	**5.7**	**2.3**
New England	**6.4**	**10.6**	**12.1**	**7.9**
Connecticut	13.7	1.7	0.8	9.4
Maine	1.8	9.5	4.0	3.7
Massachusetts	4.0	13.0	29.7	10.5
New Hampshire	(12.7)	10.5	NA	9.6
Rhode Island	(7.7)	34.9	5.0	(4.1)
Vermont	0.7	15.4	4.4	2.8
Mid-Atlantic	**3.0**	**(13.2)**	**7.1**	**3.9**
Delaware	17.7	34.9	NA	15.9
Maryland	(11.1)	10.4	4.2	(4.1)
New Jersey	9.8	(22.8)	6.7	2.3
New York	2.3	(17.8)	7.5	1.3
Pennsylvania	6.1	1.0	9.0	14.4
Great Lakes	**(3.5)**	**(21.5)**	**(0.3)**	**(2.1)**
Illinois	(6.8)	(31.0)	1.3	(8.6)
Indiana	(7.6)	(13.9)	4.0	(1.4)
Michigan	(3.3)	(12.4)	(8.7)	(4.9)
Ohio	(7.7)	(54.0)	4.8	0.5
Wisconsin	8.8	27.6	2.3	7.4
Plains	**4.5**	**(2.8)**	**4.7**	**6.4**
Iowa	(0.3)	(17.6)	6.8	1.0
Kansas	29.8	3.1	(1.4)	14.5
Minnesota	(1.7)	1.8	9.9	4.5
Missouri	6.5	8.4	2.4	4.4
Nebraska	(6.1)	(20.5)	(7.6)	(2.4)
North Dakota	(26.4)	(2.7)	17.9	36.2
South Dakota	NA	(39.7)	6.4	10.6
Southeast	**(9.6)**	**1.3**	**7.2**	**(0.0)**
Alabama	(18.8)	(31.8)	4.2	(9.0)
Arkansas	(5.5)	(5.2)	1.5	(12.2)
Florida	NA	14.6	3.3	4.1
Georgia	(5.2)	18.5	(1.8)	(2.1)
Kentucky	(4.0)	23.8	4.2	1.0
Louisiana	(34.7)	(73.9)	1.8	(19.7)
Mississippi	(6.0)	(3.8)	1.0	7.8
North Carolina	(7.8)	(1.1)	35.4	5.4
South Carolina	(2.2)	(13.0)	1.3	1.8
Tennessee	(22.3)	18.5	3.3	2.6
Virginia	(8.0)	26.9	37.5	1.6
West Virginia	(11.5)	(9.7)	4.7	2.5
Southwest	**15.1**	**(3.9)**	**5.0**	**3.0**
Arizona	31.2	(3.9)	27.3	11.0
New Mexico	98.8	(33.1)	(8.4)	18.8
Oklahoma	(9.3)	7.0	6.1	4.1
Texas	NA	NA	1.2	(0.3)
Rocky Mountain	**(6.3)**	**3.4**	**(1.5)**	**(2.3)**
Colorado	(0.4)	6.3	6.3	(0.7)
Idaho	(12.3)	(23.3)	0.8	(6.1)
Montana	(0.7)	(17.9)	NA	3.5
Utah	(14.0)	29.4	2.2	(2.5)
Wyoming	NA	NA	(29.9)	(7.3)
Far West	**9.5**	**(35.5)**	**7.3**	**3.4**
Alaska	NA	124.2	NA	110.1
California	9.5	(41.6)	9.9	(0.4)
Hawaii	32.0	53.6	(1.2)	10.7
Nevada	NA	NA	5.4	12.1
Oregon	5.0	104.0	NA	10.8
Washington	NA	NA	0.7	8.7

Source: U.S. Census Bureau.

However, state and local government taxes were still down by 8.8 percent in the April-June quarter of 2010 compared to the same quarter of two years ago.

While we are beginning to see some positive figures in various economic indicators, the national economic picture remains mixed. The numbers 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 10 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 prerecession 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 7 percent below their prerecession peak. So even if sales taxes precisely mirrored retail sales, they would be weak compared to two or three years ago. 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. 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 11 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 September 2010, month 33. As the graph shows, the 5.6 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

Table 10. State Tax Revenue, July-June, 2009 and 2010 ($ in millions)

	2009				2010			
	PIT	CIT	Sales	Total	PIT	CIT	Sales	Total
United States	**241,997**	**43,332**	**230,034**	**712,378**	**234,727**	**37,877**	**224,224**	**693,304**
New England	**19,048**	**3,058**	**9,318**	**42,011**	**18,696**	**3,222**	**9,872**	**42,729**
Connecticut	5,609	436	3,290	12,131	5,767	509	3,146	12,296
Maine	1,248	143	1,012	3,364	1,303	175	990	3,478
Massachusetts	10,599	1,790	3,880	19,483	10,127	1,826	4,626	19,869
New Hampshire	98	493	NA	2,092	82	500	NA	2,160
Rhode Island	961	108	815	2,574	927	127	800	2,570
Vermont	533	87	321	2,367	489	85	311	2,355
Mid-Atlantic	**60,815**	**9,816**	**31,426**	**132,914**	**61,926**	**8,583**	**31,032**	**132,760**
Delaware	911	209	NA	2,799	853	142	NA	2,763
Maryland	6,864	749	3,851	15,789	6,200	891	3,754	14,970
New Jersey	10,476	2,529	8,264	27,074	10,570	2,172	8,118	26,326
New York	33,014	4,592	10,814	57,251	34,950	3,729	10,763	58,186
Pennsylvania	9,550	1,737	8,496	30,001	9,352	1,649	8,397	30,516
Great Lakes	**34,342**	**5,446**	**34,885**	**105,126**	**31,235**	**4,452**	**33,064**	**98,980**
Illinois	9,183	2,752	7,471	27,741	8,505	2,196	6,971	25,531
Indiana	4,314	839	6,206	14,698	3,868	597	5,941	13,609
Michigan	6,299	703	9,793	24,216	5,366	693	9,140	22,196
Ohio	8,323	521	7,328	23,981	7,571	127	7,069	23,053
Wisconsin	6,223	630	4,087	14,491	5,925	839	3,943	14,590
Plains	**18,964**	**2,047**	**14,523**	**48,378**	**17,895**	**1,741**	**14,115**	**47,590**
Iowa	2,540	242	2,022	6,520	2,470	186	1,964	6,326
Kansas	2,732	371	2,227	6,658	2,842	352	2,153	6,664
Minnesota	6,948	779	4,375	17,162	6,458	722	4,427	17,209
Missouri	4,772	279	3,030	10,345	4,327	207	2,919	9,736
Nebraska	1,602	198	1,504	3,954	1,495	154	1,307	3,705
North Dakota	370	130	607	2,414	304	88	604	2,645
South Dakota	NA	49	757	1,325	NA	31	742	1,304
Southeast	**43,597**	**7,667**	**55,977**	**149,759**	**39,949**	**7,907**	**54,717**	**145,186**
Alabama	2,864	498	2,146	8,654	2,488	427	2,067	8,018
Arkansas	2,239	346	2,766	7,473	2,091	385	2,615	7,256
Florida	NA	1,837	18,166	31,973	NA	1,793	17,535	31,530
Georgia	7,801	695	5,343	16,017	7,022	685	4,779	14,666
Kentucky	3,315	390	2,858	9,742	3,154	384	2,794	9,429
Louisiana	3,031	586	3,058	9,937	2,250	435	2,679	8,426
Mississippi	1,486	324	3,026	6,519	1,352	316	2,849	6,292
North Carolina	9,560	902	4,963	20,497	9,134	1,294	5,857	21,481
South Carolina	2,327	219	2,751	7,000	2,179	129	2,725	6,717
Tennessee	222	816	6,418	10,550	172	902	6,177	10,457
Virginia	9,194	633	3,373	16,608	8,659	790	3,543	16,261
West Virginia	1,557	421	1,110	4,789	1,447	366	1,096	4,655
Southwest	**5,195**	**1,189**	**30,861**	**65,868**	**5,155**	**686**	**28,277**	**59,718**
Arizona	1,840	592	5,282	10,839	2,101	413	4,965	10,415
New Mexico	754	251	1,882	4,713	787	53	1,719	4,172
Oklahoma	2,600	345	2,176	8,048	2,267	219	1,982	7,024
Texas	NA	NA	21,521	42,267	NA	NA	19,611	38,107
Rocky Mountain	**8,727**	**878**	**6,064**	**22,421**	**7,978**	**768**	**5,413**	**20,195**
Colorado	4,404	325	2,124	8,662	4,089	330	2,042	8,035
Idaho	1,176	142	1,206	3,172	1,069	98	1,127	2,952
Montana	827	164	NA	2,407	715	93	NA	2,143
Utah	2,320	246	1,744	5,415	2,105	246	1,639	5,092
Wyoming	NA	NA	990	2,764	NA	NA	605	1,974
Far West	**51,310**	**13,232**	**46,981**	**145,903**	**51,895**	**10,518**	**47,734**	**146,145**
Alaska	NA	634	NA	4,987	NA	643	NA	4,512
California	44,537	12,261	31,800	106,482	45,422	9,446	33,433	107,434
Hawaii	1,339	79	2,462	4,713	1,527	76	2,325	4,867
Nevada	NA	NA	2,684	5,907	NA	NA	2,590	6,188
Oregon	5,435	259	NA	7,404	4,946	354	NA	7,129
Washington	NA	NA	10,035	16,409	NA	NA	9,387	16,014

Source: U.S. Census Bureau.

Table 11. Tax Revenue By Major Tax

July-June, 2009 to 2010, Percent Change

	PIT	CIT	Sales	Total
United States	**(3.0)**	**(12.6)**	**(2.5)**	**(2.7)**
New England	**(1.8)**	**5.4**	**5.9**	**1.7**
Connecticut	2.8	16.6	(4.4)	1.4
Maine	4.5	22.5	(2.2)	3.4
Massachusetts	(4.5)	2.0	19.2	2.0
New Hampshire	(16.1)	1.3	NA	3.3
Rhode Island	(3.5)	17.5	(1.8)	(0.1)
Vermont	(8.2)	(1.8)	(3.1)	(0.5)
Mid-Atlantic	**1.8**	**(12.6)**	**(1.3)**	**(0.1)**
Delaware	(6.3)	(31.8)	NA	(1.3)
Maryland	(9.7)	19.0	(2.5)	(5.2)
New Jersey	0.9	(14.1)	(1.8)	(2.8)
New York	5.9	(18.8)	(0.5)	1.6
Pennsylvania	(2.1)	(5.1)	(1.2)	1.7
Great Lakes	**(9.0)**	**(18.2)**	**(5.2)**	**(5.8)**
Illinois	(7.4)	(20.2)	(6.7)	(8.0)
Indiana	(10.3)	(28.8)	(4.3)	(7.4)
Michigan	(14.8)	(1.5)	(6.7)	(8.3)
Ohio	(9.0)	(75.7)	(3.5)	(3.9)
Wisconsin	(4.8)	33.3	(3.5)	0.7
Plains	**(5.6)**	**(15.0)**	**(2.8)**	**(1.6)**
Iowa	(2.8)	(23.1)	(2.9)	(3.0)
Kansas	4.0	(5.0)	(3.3)	0.1
Minnesota	(7.1)	(7.4)	1.2	0.3
Missouri	(9.3)	(25.7)	(3.7)	(5.9)
Nebraska	(6.7)	(22.2)	(13.1)	(6.3)
North Dakota	(17.9)	(31.8)	(0.6)	9.6
South Dakota	NA	(36.1)	(1.9)	(1.6)
Southeast	**(8.4)**	**3.1**	**(2.3)**	**(3.1)**
Alabama	(13.1)	(14.2)	(3.6)	(7.3)
Arkansas	(6.6)	11.3	(5.4)	(2.9)
Florida	NA	(2.4)	(3.5)	(1.4)
Georgia	(10.0)	(1.4)	(10.6)	(8.4)
Kentucky	(4.9)	(1.5)	(2.2)	(3.2)
Louisiana	(25.8)	(25.7)	(12.4)	(15.2)
Mississippi	(9.0)	(2.5)	(5.9)	(3.5)
North Carolina	(4.5)	43.6	18.0	4.8
South Carolina	(6.4)	(41.4)	(1.0)	(4.0)
Tennessee	(22.2)	10.5	(3.7)	(0.9)
Virginia	(5.8)	24.7	5.0	(2.1)
West Virginia	(7.1)	(12.9)	(1.3)	(2.8)
Southwest	**(0.8)**	**(42.3)**	**(8.4)**	**(9.3)**
Arizona	14.2	(30.2)	(6.0)	(3.9)
New Mexico	4.3	(78.8)	(8.7)	(11.5)
Oklahoma	(12.8)	(36.5)	(8.9)	(12.7)
Texas	NA	NA	(8.9)	(9.8)
Rocky Mountain	**(8.6)**	**(12.5)**	**(10.7)**	**(9.9)**
Colorado	(7.2)	1.5	(3.8)	(7.2)
Idaho	(9.1)	(30.9)	(6.6)	(6.9)
Montana	(13.6)	(43.2)	NA	(11.0)
Utah	(9.3)	0.0	(6.0)	(6.0)
Wyoming	NA	NA	(38.9)	(28.6)
Far West	**1.1**	**(20.5)**	**1.6**	**0.2**
Alaska	NA	1.4	NA	(9.5)
California	2.0	(23.0)	5.1	0.9
Hawaii	14.1	(3.7)	(5.6)	3.3
Nevada	NA	NA	(3.5)	4.8
Oregon	(9.0)	36.6	NA	(3.7)
Washington	NA	NA	(6.5)	(2.4)

Source: U.S. Census Bureau.

slower than those in prior recessions. Such forecasts reflect efforts by consumers to rebuild balance sheets after declines in housing and financial asset values, aftershocks to the financial system and to consumer and business confidence, and other factors. It is likely to be several years before employment reattains its prerecession peak, as Figure 11 suggests.

Looking Ahead

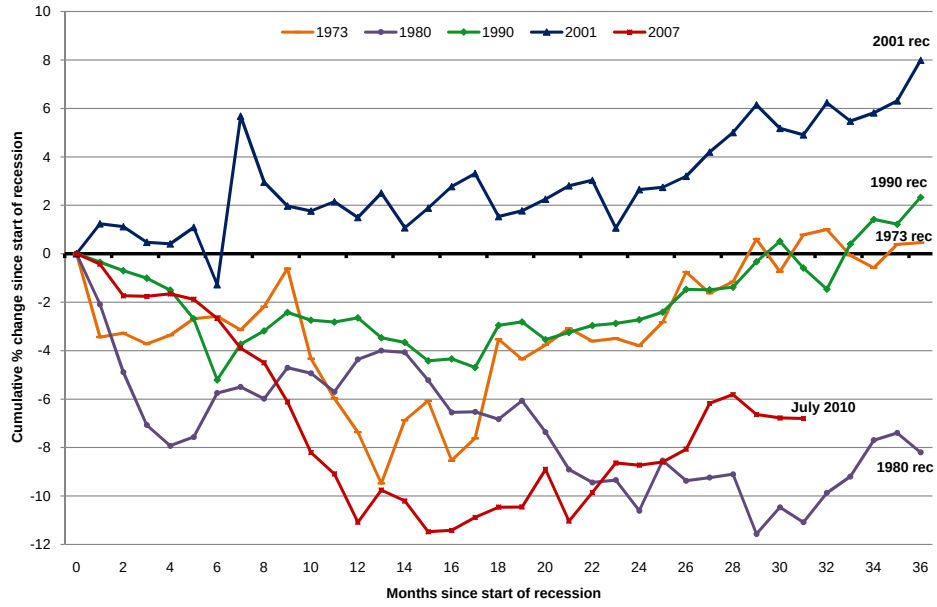
Although state tax revenues show widespread gains in the second quarter of 2010, such growth remains significantly below the average of recent decades, which has been around 5 percent. In addition, recent revenue growth is mostly attributable to legislated increases and tax processing changes, and thus may not indicate the likelihood of further revenue gains without further tax increases.

After record revenue declines in calendar 2009, and with spending trendlines still pointing upward, the fiscal conditions of the states remain quite fragile. While some economic indicators signal some improvement in overall economic conditions, fiscal recovery for the states typically lags a national economic turnaround and is likely to take several years.

Preliminary data for the July-September quarter of 2010 suggest that fiscal conditions continue to improve slowly. With early data for July and August now available for 42 states, tax revenue for the two months combined increased by 2.8 percent versus the same period last year, mostly due to increases in personal income tax collections. However, these preliminary figures show overall collections for the period still 3.1 percent below the level of two years ago.

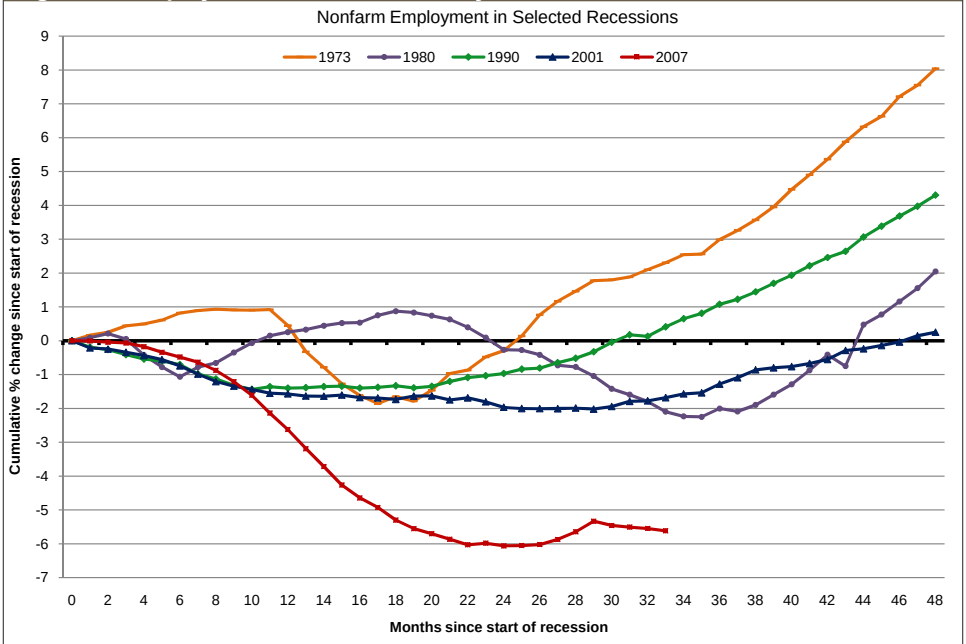
Overall weakness in state tax revenues, along with continued if more moderate growth in expenditures, will force the states to take further unwelcome actions to close budget gaps. Even though the national economy is beginning to somewhat brighten, indicating a recovery from the 2007 recession, several factors such as continued weakness in employment and retail sales indicate that state fiscal recovery will be exceptionally slow and much longer compared to the prior recessions. Many states will be forced to make more budget cuts — and to consider further increases in taxes and charges — in the coming year.

Figure 10. Real Retail Sales Have Stabilized But Are Still About 7 Percent Below Peak



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

Figure 11. Employment Decline Was Nearly Three Times That of Previous Recessions



Source: Bureau of Labor Statistics (CES).

Adjustments to Census Bureau Tax Collection Data

The numbers in this report differ somewhat from those released by the Bureau of the Census at the end of September. For reasons we describe below, we have adjusted Census tax collections in selected states to arrive at numbers that we believe are best-suited for our purpose of examining underlying economic and fiscal conditions. As a result of these adjustments, we report a year-over-year increase in tax collections of 2.3 percent, compared with the 0.9 percent increase that can be computed from data on the Census Bureau's Web site (www.census.gov/govs/www/qtax.html). In this section we explain how and why we have adjusted Census Bureau data, and the consequences of these adjustments.

The Census Bureau and the Rockefeller Institute engage in two related efforts to gather data on state tax collections, and we communicate frequently in the course of this work. The Census Bureau has a highly rigorous and detailed data collection process that entails a survey of state tax collection officials, coupled with Web and telephone follow-up. It is designed to produce, after the close of each quarter, comprehensive tax collection data that, in their final form after revisions, are highly comparable from state to state. These data abstract from the fund structures of individual states (e.g., taxes will be counted regardless of whether they are deposited to the general fund or to a fund dedicated for other purposes such as education, transportation, or the environment).

The Census Bureau's data collection procedure is of high quality but is labor-intensive and time-consuming. States that do not report in time, or do not report fully, or that have unresolved questions may be included in the Census Bureau data on an estimated basis, in some cases with data imputed by the Census Bureau. These imputations can involve methods such as assuming that collections for a missing state in the current quarter are the same as those for the same state in a previous quarter, or assuming that collections for a tax not yet reported in a given state will have followed the national pattern for that tax. In addition, state accounting and reporting for taxes can change from one quarter to another, complicating the task of reporting taxes on a consistent basis. For these reasons, some of the initial Census Bureau data for a quarter may reflect estimated amounts or amounts with unresolved questions, and will be revised in subsequent quarters when more data are available. As a result, the historical data from the Census Bureau are comprehensive and quite comparable across states, but on occasion amounts reported for the most recent quarter may not reflect all important data for that quarter.

The Rockefeller Institute also collects data on tax revenue but in a different way and for different reasons. Because historical Census Bureau data are comprehensive and quite comparable, we rely almost exclusively on Census data for our historical analysis. Furthermore, in recent years Census Bureau data have become far more timely and where practical we use them for the most recent quarter as well, although we supplement Census data for certain purposes. We collect our own data on a monthly basis so that we can get a more-current read on the economy and state finances. For example, as this report goes to print we have data on tax collections in July and August in 42 states — not enough to use as the basis for a comprehensive report, but useful in understanding what is happening to state finances. Although some states have seen significant year-over-year increases in one or more taxes, these increases are few and far between.

In addition, we collect information on withholding tax collections and payments of estimated income tax, both of which are important to understanding income tax collections but are not available in the Census data.

Our main uses for the data we collect are to report more frequently and currently on state fiscal conditions, and to report on the income tax in more detail.

Ordinarily there are not major differences between our data for a quarter and the Census data, so when we do a full quarterly report we use the Census data without adjustment. But in the April-June quarter there were enough large differences that we decided to adjust the Census data. Table 12 shows the year-over-year percent change in national tax collections for the following

sources: (1) preliminary figures collected by the Rockefeller Institute that appeared in our "Flash" Revenue Report dated August 30, 2010; (2) current figures collected by the Rockefeller Institute directly from states; (3) preliminary figures as reported by the Census Bureau; and (4) the Census Bureau's preliminary figures with selected adjustments by the Rockefeller Institute.

The last set of numbers with our adjustments is what we describe in this report. The states with differences are Arizona, Connecticut, Hawaii, Massachusetts, Nevada, New Jersey, Rhode Island, Washington, and Wisconsin. For seven of these nine states the Census Bureau had not received a response in time for its publication and so used imputed data that will be revised in later reports. However, the Institute obtained data from all the seven; these data may not be as comprehensive as what would be used by the Census Bureau, but they provide a better picture of fiscal conditions than imputed data. In addition, the Census Bureau reported preliminary figures for Connecticut for the April-June 2010 quarter that did not include accruals for the quarter, resulting in large quarter-over-quarter declines in tax collections for the state. For Connecticut, more-recent information was the obtained by the Rockefeller Institute. In addition, we revised personal income tax collections for April-June quarter of 2009 for Arizona based on the information obtained from state officials in Arizona.

Table 12. RIG Versus Census Bureau Quarterly Tax Revenue By Major Tax

April-June, 2009 to 2010, Percent Change

	PIT	CIT	Sales	Total
RIG Flash Revenue Report	1.6	(18.8)	5.9	2.2
RIG Current Estimates	1.7	(19.0)	5.8	2.3
Census Bureau Preliminary	(0.2)	(19.8)	4.9	0.9
Census Bureau Preliminary with RIG Adjustments	1.6	(18.3)	5.7	2.3

We expect that in most quarterly Institute reports on state tax revenues we will not adjust the officially reported data, but when we do we will note the differences. The large differences for the April-June 2010 quarter are mostly attributable to the fact that it is the final quarter of the fiscal year for most states, and many don't have final figures until several months after the close of the fiscal year.

Endnotes

1 We made adjustments to Census Bureau data for nine states — Arizona, Connecticut, Hawaii, Massachusetts, Nevada, New Jersey, Rhode Island, Washington, and Wisconsin — based upon data and information provided to us directly by these states. These revisions together account for some noticeable differences between the Census Bureau figures and the Rockefeller Institute estimates.

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 (www.businessweek.com/news/2010-03-30/california-revenue-shows-state-cash-collapse-ending-update1-.html).

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

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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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