STATE FISCAL BRIEF

Fiscal Studies Program
The Nelson A. Rockefeller Institute of Government

February 2001
No. 61

Fiscal 2000 Tax Revenue Growth: Strongest of the Last Decade

NICHOLAS W. JENNY AND ELIZABETH I. DAVIS

Highlights

- State tax revenue grew by 8.7 percent in fiscal year 2000, and would have grown 9.4 percent if there had been no legislated tax changes.
- This was the fastest rate of growth in the last decade. Adjusted for inflation it was the second fastest.
- State tax revenue growth in fiscal 2000 was stronger than forecasted by most states.
- The effect of tax cuts on revenue growth in fiscal 2000 was less than in the previous four years.
- New York had the largest tax cut this year, when measured by its effect on revenue.

TABLE OF CONTENTS

Introduction 2

Tax Revenue Growth. 2

About These Estimates . 3

Tax Changes 4

Largest Changes 5

Conclusions 5

Endnotes 5

About the Rockefeller Institute and the Fiscal Studies Program. 7

Introduction

The Nelson A. Rockefeller Institute of Government estimates that state tax revenue grew 8.7 percent from fiscal year 1999 to fiscal year 2000. (Although most states have fiscal years that end in June, some end in September, thus this report's timing.) If adjusted for the affects of legislated tax changes, state revenue growth would have been an even stronger 9.4 percent. This is by far the highest adjusted or unadjusted annual growth ever recorded by this publication. (See Table 1.) When we consider inflation the increase is 6.0 percent, making real revenue growth in fiscal 2000 slightly less than the real revenue growth of 6.7 percent in fiscal 1998, but still quite strong by historical standards (see Figure 1).

Fiscal year 2000 was the seventh year in a row of net state tax cuts. While legislated changes did not reduce state revenue growth as much in fiscal 2000 as they did in fiscal 1999, they still reduced revenue growth considerably in several states. One reason for the relatively small aggregate effect of tax cuts is that some states that had large rebates in fiscal 1999 had smaller or no rebates in fiscal 2000.

This report presents year-over-year growth in revenue for each state, before and after adjusting for the effects of legislated tax changes. For more details on the methodology employed, please see the box titled "About These Estimates."

Tax Revenue Growth

Table 2 shows the year-over-year percent change from fiscal year 1999 to fiscal year 2000 for each state. The strong revenue increase this year was once again led by extremely rapid growth in the personal income tax,

Table 1
Net Effect of Legislated Tax Changes

Fiscal Year	*Actual*	*Adjusted*	*Difference*
1992	7.2%	1.7%	5.5%
1993	5.7	5.2	0.5
1994	6.0	5.5	0.5
1995	7.0	6.1	0.9
1996	5.4	6.3	-0.9
1997	6.2	7.6	-1.4
1998	6.9	8.3	-1.4
1999	5.7	7.4	-1.7
2000	8.7	9.4	-0.7

Table 2. Percent Change in Tax Revenue, Fiscal Year 1999 to Fiscal Year 2000

	PIT	*CIT*	*Sales*	*Total*
United States	**12.4%**	**4.0%**	**7.3%**	**8.7%**
New England	**11.4**	**4.4**	**7.8**	**8.8**
Connecticut	10.7	-10.1	5.9	6.7
Maine	7.0	3.5	7.0	6.1
Massachusetts	12.5	12.2	9.0	9.7
New Hampshire	NA	2.3	NA	23.2
Rhode Island	7.2	2.1	11.7	8.2
Vermont	12.6	-11.4	5.2	6.4
Mid-Atlantic	**11.1**	**0.6**	**7.5**	**7.5**
Delaware	-4.9	13.6	NA	1.1
Maryland	10.6	4.5	7.9	9.9
New Jersey	13.9	3.5	9.0	9.4
New York	12.7	-4.8	7.4	7.8
Pennsylvania	5.7	7.8	6.2	5.2
Great Lakes	**7.8**	**-1.3**	**6.6**	**5.9**
Illinois	6.4	10.3	7.4	7.3
Indiana	1.5	-5.6	8.0	3.6
Michigan	4.2	-2.9	5.0	3.2
Ohio	12.7	-10.6	6.6	7.3
Wisconsin	13.7	1.5	6.9	9.4
Plains	**5.7**	**2.3**	**6.6**	**8.1**
Iowa	6.4	1.3	2.7	4.8
Kansas	9.5	10.0	3.1	6.0
Minnesota	4.4	2.9	9.6	13.2
Missouri	4.5	0.9	1.9	3.2
Nebraska	9.4	3.7	20.9	13.2
North Dakota	7.6	-14.7	-0.8	3.8
South Dakota	NA	NA	6.0	5.7
Southeast	**8.5**	**-0.6**	**5.8**	**5.9**
Alabama	7.8	2.3	3.2	6.6
Arkansas	2.8	-0.4	6.4	4.2
Florida	NA	-4.5	8.3	5.3
Georgia	11.7	-9.7	7.3	8.3
Kentucky	6.7	-1.8	4.8	5.0
Louisiana	4.5	-22.3	2.7	3.4
Mississippi	5.9	-0.9	3.9	4.3
North Carolina	7.0	6.1	-0.6	3.6
South Carolina	6.4	-13.7	4.8	2.8
Tennessee	NA	7.4	6.3	8.0
Virginia	12.2	34.6	6.6	11.2
West Virginia	5.7	-30.2	2.4	1.2
Southwest	**5.0**	**-4.5**	**7.2**	**6.5**
Arizona	9.1	-4.1	9.8	8.0
New Mexico	8.4	0.2	1.8	6.8
Oklahoma	-0.6	-8.9	1.1	4.1
Texas	NA	NA	7.8	6.6
Rocky Mountain	**10.7**	**8.5**	**7.0**	**8.2**
Colorado	9.9	-0.5	8.7	8.6
Idaho	14.0	31.0	6.5	9.5
Montana	7.2	24.4	NA	3.0
Utah	13.1	-2.6	4.0	7.9
Wyoming	NA	NA	13.7	23.0
Far West	**25.4**	**19.7**	**10.3**	**17.1**
Alaska	NA	12.4	NA	45.7
California	27.9	19.7	11.4	20.5
Hawaii	-0.4	60.2	6.2	4.1
Nevada	NA	NA	6.1	6.1
Oregon	12.3	17.8	NA	12.3
Washington	NA	NA	9.3	3.3

Note: Total includes PIT, CIT, Sales Tax and other taxes (not shown).

About These Estimates

The estimates of “legislated changes” include the effects of changes in tax rates and tax bases and acceleration of tax payments. They may also include a very few major non-legislated changes, such as adjustments for changes to the accounting system or for particularly large delays in processing of receipts.

The estimated effects of legislated changes were developed in several ways. The starting point is a survey of legislated tax changes published by the National Conference of State Legislatures. The estimates reported by NCSL must be modified to take account of differences in the timing of the receipt of revenue. For example, when the sales tax rate is changed, revenue is not usually affected until a month after the effective date of the legislation because businesses are allowed to retain revenue for a few weeks before remitting it to the state. Likewise, if a tax cut took effect in May 1999 and continued throughout fiscal year 2000, part of its effect occurred in fiscal year 1999 and part in fiscal year 2000.

The estimates reported by NCSL are the ones used at the time legislation was enacted. In some cases, states rely on estimates that are too optimistic or pessimistic. For example, a state might anticipate that a sales tax increase would generate an extra $300 million based on the assumption of strong retail sales. If sales are lower than assumed, the tax increase will produce less than that. The Nelson A. Rockefeller Institute of Government modifies the NCSL-reported estimates with the assistance of revenue estimators after revenue is collected.

Reports on state tax revenue published by the Rockefeller Institute of Government do not cover 100 percent of the taxes collected by states. They use the broadest measure of revenue reported on a timely basis in a single report, but often do not include earmarked taxes like those on motor fuels or taxes collected by agencies other than the revenue department, such as insurance taxes in many states. Various other adjustments are made to revenue to make it as comparable as possible. For more information please contact the Institute.

Figure 1
Annual Nominal and Real Increases, Adjusted for Legislation

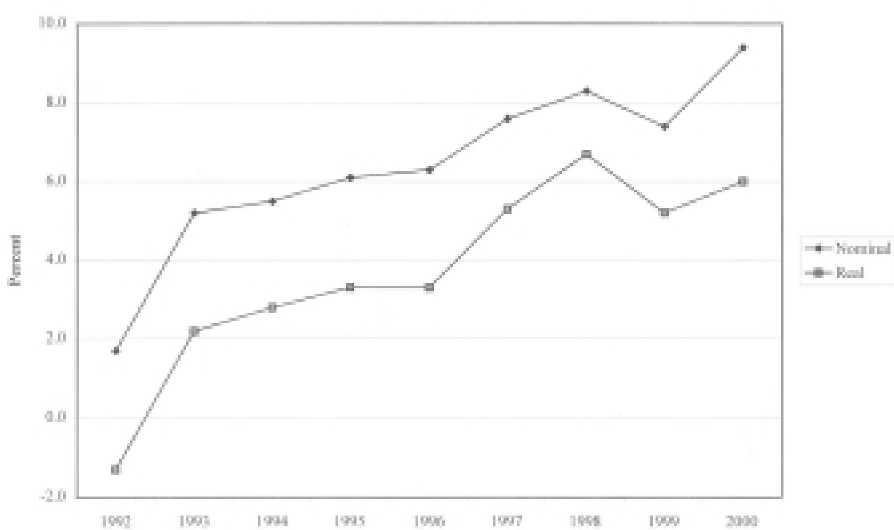

Table 3. Effect of Legislated Tax Changes on FY 2000 Revenue Growth

		Year-Over-Year Revenue Change		
	Amount (millions)	*Actual*	*Underlying*	*Difference*
United States	**-$2,891**	**8.7%**	**9.4%**	**-0.7%**
New England	**-168**	**8.8**	**9.4**	**-0.6**
Connecticut	-188	6.7	9.0	-2.3
Maine	-60	6.1	8.7	-2.6
Massachusetts	-56	9.7	10.1	-0.4
New Hampshire	166	23.2	4.3	18.9
Rhode Island	-16	8.2	9.2	-1.0
Vermont	-13	6.4	8.0	-1.6
Mid-Atlantic	**-1,661**	**7.5**	**9.6**	**-2.1**
Delaware	-107	1.1	7.5	-6.3
Maryland	-63	9.9	10.8	-0.9
New Jersey	-64	9.4	9.8	-0.4
New York	-1,036	7.8	10.6	-2.8
Pennsylvania	-391	5.2	7.3	-2.1
Great Lakes	**-115**	**5.9**	**6.0**	**-0.2**
Illinois	-82	7.3	7.8	-0.5
Indiana	-219	3.6	5.7	-2.1
Michigan	-508	3.2	5.7	-2.5
Ohio	427	7.3	4.4	2.9
Wisconsin	267	9.4	6.5	2.9
Plains	**163**	**8.1**	**7.5**	**0.6**
Iowa	-12	4.8	5.1	-0.3
Kansas	-2	6.0	6.0	0.0
Minnesota	340	13.2	9.7	3.5
Missouri	-251	3.2	6.9	-3.7
Nebraska	88	13.2	9.0	4.1
North Dakota	0	3.8	3.8	0.0
South Dakota	0	5.7	5.7	0.0
Southeast	**-505**	**5.9**	**6.4**	**-0.5**
Alabama	0	6.6	6.6	0.0
Arkansas	-23	4.2	4.8	-0.6
Florida	-462	5.3	7.8	-2.6
Georgia	0	8.3	8.3	0.0
Kentucky	-12	5.0	5.2	-0.2
Louisiana	-20	3.4	3.8	-0.4
Mississippi	-23	4.3	4.8	-0.5
North Carolina	-169	3.6	4.9	-1.4
South Carolina	-14	2.8	3.1	-0.3
Tennessee	258	8.0	4.4	3.7
Virginia	-42	11.2	11.6	-0.4
West Virginia	0	1.2	1.2	0.0
Southwest	**5**	**6.5**	**6.5**	**0.0**
Arizona	-22	8.0	8.4	-0.4
New Mexico	17	6.8	6.2	0.7
Oklahoma	136	4.1	0.9	3.2
Texas	-125	6.6	7.1	-0.5
Rocky Mountain	**-232**	**8.2**	**10.0**	**-1.7**
Colorado	-223	8.6	12.7	-4.0
Idaho	0	9.5	9.5	0.0
Montana	6	3.0	2.7	0.3
Utah	-13	7.9	8.3	-0.4
Wyoming	-2	23.0	23.5	-0.4
Far West	**-380**	**17.1**	**17.6**	**-0.5**
Alaska	0	45.7	45.7	0.0
California	-88	20.5	20.6	-0.2
Hawaii	-150	4.1	9.4	-5.3
Nevada	0	6.1	6.1	0.0
Oregon	88	12.3	10.2	2.1
Washington	-229	3.3	5.7	-2.4

Note: Total includes other taxes in addition to PIT, CIT, and Sales

which has been the main engine of state revenue growth since 1996.

State tax revenue growth was much stronger than the states had anticipated when they adopted their fiscal 2000 budgets. According to a survey by the National Governors' Association and the National Association of State Budget Officers, states collected $14.8 billion more in personal income, corporate income, and sales tax revenue than originally budgeted. Of this, $9.7 billion was from higher-than-expected personal income tax revenues. This allowed ample revenue for tax cuts in many states and spending increases in almost every state.[1]

The personal income tax had the strongest growth with an average of 12.4 percent. Fourteen states – California, Connecticut, Georgia, Idaho, Maryland, Massachusetts, New Jersey, New York, Ohio, Oregon, Utah, Vermont, Virginia, and Wisconsin – had double-digit growth. This is up from nine states with double-digit growth rates last year. Strongest of all was the astonishing 27.9 percent growth in personal income tax revenues in California. Only three states – Delaware, Hawaii, and Oklahoma – had personal income tax declines in fiscal 2000, and in each case, a tax cut caused the decline.

The sales tax grew a strong 7.3 percent in fiscal 2000, despite weakening in early fiscal 2001. Four states – Rhode Island, Nebraska, Wyoming, and California – had double-digit growth. (Nebraska's 20.9% increase was due to the sunsetting of a temporary sales tax cut.) Only North Carolina and North Dakota had declines, and North Carolina's was the result of a tax cut.

Tax Changes

Table 3 illustrates the effects of legislated tax changes on state revenue collections. The first column, "amount," shows the total effect of legislated tax changes on tax revenue growth. "Actual" growth is then adjusted for the effects of legislated changes, showing "underlying" growth. The "difference" column shows how much of an impact legislated tax changes had on revenue growth. In Ohio, Minnesota, and Wisconsin the apparent tax increases are really the effect of large rebates in fiscal 1999 followed by smaller or no rebates in fiscal 2000.

Overall, net tax cuts reduced revenue growth by nearly $2.9 billion for fiscal year

2000. This translates to a difference of 0.7 percentage points between fiscal 2000's 8.7 percent actual tax revenue growth and its underlying growth (had there been no legislated tax changes) of 9.4 percent. This overall net cut is well down from last year's $7.2 billion in net cuts, which reduced 1999 tax revenue growth by 1.7 percentage points. States enacted more in cuts than this in 2000 $5.8 billion according to a previous *Fiscal Brief* but for the most part these will affect revenues in fiscal 2001 and beyond.[2] In addition, some states are financing cuts in local taxes – predominantly property taxes. To the extent that these affect states' budgets, however, it is generally as expenditures, not revenue losses.

Largest Changes

The region that was most affected by tax cuts, both in dollar and percentage terms, was the Mid-Atlantic with a 2.1 percent reduction in year-over-year growth, led by a one billion dollar reduction in New York's taxes the largest state tax cut in dollars in the nation. The Rocky Mountain states were the only other region with an average cut of over one percentage point of growth. The Plains states, which led in tax cuts last year, actually had a tax liability increase because last year's rebate in Wisconsin was not followed up this year, while Minnesota had a much reduced rebate this year.

Delaware had the largest single state tax cut in percentage terms. Its 6.3 percentage point growth cut was mostly from the personal income tax. Other states that had tax cuts that affected growth by more than three percentage points were Hawaii, Colorado, and Missouri.

Several of the apparent large tax increases were the result of temporary tax cuts or rebates in fiscal 1999, that did not recur – or were smaller – in fiscal 2000. Ohio, Minnesota, and Wisconsin had increased revenue growth due to rebates. Nebraska restored its sales tax rate to 5 percent after a 0.5 percentage point cut for one year. Oregon had a court-imposed retroactive federal pension exclusion in fiscal 1999, which did not occur again in fiscal 2000. Oklahoma was a different case the state increased the apportionment of the gas production tax to the general fund as of fiscal year 2000. This was not a tax increase, or even a liability change for taxpayers, but it affected the revenue we track.

The legislated tax increase in New Hampshire resulted from the assumption by the state of a much greater share of education funding. It consisted of a variety of new and increased taxes, including a new statewide property tax and increased business taxes. Tennessee broadened its business taxes to include limited liability companies.

Conclusions

Fiscal 2000 had the highest revenue growth in the last nine years – in both adjusted and unadjusted terms. Revenue growth was much stronger than the states' projections at the beginning of the budget cycle. Meanwhile, tax cuts reduced revenue growth by less in fiscal 2000 than in the previous two years. There are some signs that revenue growth is slowing in fiscal year 2001, which may put more of a pinch on state budgets than policymakers have been accustomed to.[3]

Endnotes

1 National Governors' Association and National Association of State Budget Officers, *Fiscal Survey of the States, December 2000.*

2 *State Fiscal Brief No. 60*, "2000 Tax and Budget Summary."

3 See *Revenue Report No. 42*, "Third Quarter Revenues Still Strong But Signs of Weakness Appear," December 2000.

Table 4. Tax Revenue, Fiscal Years 1999 and 2000 (in Millions of Dollars)

	Fiscal Year 1999				*Fiscal Year 2000*			
	PIT	*CIT*	*Sales*	*Total*	*PIT*	*CIT*	*Sales*	*Total*
United States	**$174,111**	**$31,565**	**$155,907**	**$429,780**	**$195,670**	**$32,823**	**$167,322**	**$467,092**
New England	**13,579**	**1,883**	**7,752**	**28,097**	**15,122**	**1,965**	**8,354**	**30,559**
Connecticut	3,392	451	2,920	8,223	3,756	406	3,093	8,773
Maine	1,004	145	792	2,299	1,075	150	847	2,440
Massachusetts	8,037	1,009	3,270	14,235	9,042	1,132	3,565	15,615
New Hampshire	NA	165	NA	874	NA	169	NA	1,077
Rhode Island	762	67	565	1,657	817	69	631	1,793
Vermont	384	46	206	810	432	41	216	862
Mid-Atlantic	**38,349**	**7,218**	**21,384**	**79,606**	**42,619**	**7,262**	**22,981**	**85,589**
Delaware	771	93	NA	1,697	733	106	NA	1,717
Maryland	3,994	401	2,077	7,013	4,420	420	2,240	7,708
New Jersey	6,324	1,403	5,054	14,992	7,205	1,452	5,508	16,396
New York	20,576	3,596	7,647	37,069	23,195	3,424	8,215	39,958
Pennsylvania	6,684	1,725	6,606	18,834	7,066	1,860	7,018	19,811
Great Lakes	**29,685**	**6,491**	**24,754**	**72,186**	**32,008**	**6,404**	**26,376**	**76,431**
Illinois	7,778	1,384	5,647	17,512	8,273	1,527	6,065	18,792
Indiana	3,699	1,007	3,415	10,599	3,753	950	3,687	10,981
Michigan	6,912	2,373	7,209	20,339	7,201	2,305	7,569	20,990
Ohio	6,417	1,084	5,545	14,553	7,232	969	5,914	15,618
Wisconsin	4,879	643	2,938	9,183	5,548	652	3,142	10,051
Plains	**14,620**	**1,986**	**10,366**	**28,309**	**15,458**	**2,032**	**11,045**	**30,599**
Iowa	2,234	322	1,620	4,527	2,376	326	1,663	4,745
Kansas	1,695	227	1,599	3,790	1,856	250	1,649	4,017
Minnesota	5,321	778	3,919	9,738	5,556	800	4,295	11,025
Missouri	4,083	439	1,745	6,754	4,266	443	1,778	6,970
Nebraska	1,079	135	745	2,124	1,180	140	900	2,404
North Dakota	208	85	333	797	224	73	330	827
South Dakota	NA	NA	405	579	NA	NA	430	612
Southeast	**30,781**	**6,257**	**39,515**	**92,253**	**33,387**	**6,217**	**41,814**	**97,681**
Alabama	2,236	252	1,664	5,649	2,409	258	1,717	6,021
Arkansas	1,666	256	1,567	3,725	1,713	255	1,668	3,882
Florida	NA	1,472	12,707	17,958	NA	1,407	13,767	18,906
Georgia	5,697	817	4,486	12,029	6,365	738	4,814	13,026
Kentucky	2,532	312	2,462	6,293	2,702	306	2,581	6,610
Louisiana	1,423	289	1,861	4,824	1,487	224	1,911	4,987
Mississippi	1,187	330	2,201	4,900	1,256	327	2,287	5,113
North Carolina	6,736	1,129	3,376	12,374	7,209	1,197	3,355	12,814
South Carolina	2,298	241	1,890	5,112	2,446	208	1,981	5,257
Tennessee	NA	571	4,317	7,011	NA	614	4,590	7,574
Virginia	6,088	420	2,065	9,703	6,829	566	2,202	10,789
West Virginia	920	168	920	2,675	972	117	942	2,705
Southwest	**4,912**	**925**	**20,630**	**38,022**	**5,159**	**884**	**22,123**	**40,511**
Arizona	2,098	545	2,578	5,264	2,289	523	2,830	5,684
New Mexico	803	161	1,153	2,487	870	161	1,174	2,657
Oklahoma	2,011	219	1,376	4,242	1,999	200	1,391	4,414
Texas	NA	NA	15,524	26,029	NA	NA	16,728	27,756
Rocky Mountain	**6,647**	**743**	**3,929**	**13,602**	**7,359**	**806**	**4,203**	**14,724**
Colorado	3,344	301	1,701	5,511	3,676	300	1,848	5,986
Idaho	847	96	702	2,099	966	126	747	2,298
Montana	991	162	NA	2,085	1,062	202	NA	2,147
Utah	1,464	184	1,316	3,408	1,655	179	1,370	3,677
Wyoming	NA	NA	210	500	NA	NA	239	616
Far West	**35,539**	**6,061**	**27,576**	**77,705**	**44,558**	**7,253**	**30,425**	**90,996**
Alaska	NA	199	NA	758	NA	224	NA	1,104
California	30,761	5,495	19,010	57,862	39,328	6,579	21,169	69,710
Hawaii	1,069	43	1,447	2,854	1,065	68	1,536	2,972
Nevada	NA	NA	1,830	2,342	NA	NA	1,942	2,486
Oregon	3,710	324	NA	4,172	4,166	382	NA	4,686
Washington	NA	NA	5,289	9,717	NA	NA	5,778	10,038

Note: Total includes other taxes in addition to PIT, CIT, and Sales

The Nelson A. Rockefeller Institute of Government

The Nelson A. Rockefeller Institute of Government, the public policy research arm of the 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 Fiscal Studies Program

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. The Program is directed by Donald J. Boyd, who has spent two decades analyzing state and local fiscal issues.

This Report

This report was written by Nicholas W. Jenny, Research Associate, and Elizabeth I. Davis, Senior Policy Analyst. Michael Cooper, the Rockefeller Institute's Director of Publications, did the layout and design, with assistance from Michele Charbonneau.

Contact Information

Fiscal Studies Program

The Nelson A Rockefeller Institute of Government

411 State Street

Albany, NY 12203-1003

(518) 443-5285 (phone)

(518) 443-5274 (fax)

fiscal@rockinst.org (e-mail)

www.rockinst.org (website)

The Fiscal Studies Program
The Nelson A. Rockefeller
Institute of Government
State University of New York
411 State Street
Albany, New York 12203-1003