

# STATE REVENUE REPORT

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## *Sluggish State Revenue Performance Continues*

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### HIGHLIGHTS

- ❖ State tax revenue in the October-December 2002 quarter increased by 1.9 percent compared to the same period in 2001. After adjusting for tax law changes and inflation, real underlying state tax revenue declined by 1.9 percent, continuing the adjusted decline for a fifth straight quarter.
- ❖ State tax revenue continues to perform worse than the general economic situation would suggest.
- ❖ There was a net legislated tax increase for the fourth quarter in a row. This quarter's increase added over \$1.7 billion to state tax revenue. Tobacco taxes accounted for almost \$750 million of the total increase.
- ❖ Personal income tax revenue declined by 0.7 percent, marking a sixth straight quarter of decline.
- ❖ The corporate income tax posted its second straight increase after nearly two years of decline; however, the 22.4 percent rise was due largely to legislated tax increases.
- ❖ Sales tax revenue increased by only 0.7 percent.

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**Figure 1. Year-Over-Year Change in Total Tax Collections, 1991-2002**



**Figure 2. Year-Over-Year Change in Real Adjusted Tax Revenue, 1991-2002**



**Table 1. Year-Over-Year Change in Quarterly State Tax Revenue, Adjusting for Legislated Tax Changes and Inflation**

	<i>Total Nominal Increase</i>	<i>Adjusted Nominal Increase</i>	<i>Inflation Rate</i>	<i>Real Increase</i>
<b>1996</b>				
Jan.-Mar.	4.7%	5.7%	2.7%	2.9%
April-June	7.3	8.6	2.8	5.6
July-Sept.	6.2	7.4	2.9	4.4
Oct.-Dec.	6.2	7.5	3.2	4.2
<b>1997</b>				
Jan.-Mar.	6.0	7.4	2.9	4.4
April-June	6.2	8.3	2.3	5.9
July-Sept.	5.5	6.1	2.2	3.8
Oct.-Dec.	6.8	7.9	1.9	5.9
<b>1998</b>				
Jan.-Mar.	6.5	7.0	1.5	5.4
April-June	9.7	11.4	1.6	9.6
July-Sept.	6.6	7.1	1.6	5.4
Oct.-Dec.	7.5	8.0	1.5	6.4
<b>1999</b>				
Jan.-Mar.	4.8	6.5	1.7	4.7
April-June	5.0	8.0	2.1	5.8
July-Sept.	6.1	6.5	2.3	4.1
Oct.-Dec.	7.4	8.4	2.6	5.7
<b>2000</b>				
Jan.-Mar.	9.7	10.4	3.2	7.0
April-June	11.4	11.8	3.3	8.2
July-Sept.	7.1	7.7	3.5	4.1
Oct.-Dec.	4.0	5.0	3.4	1.5
<b>2001</b>				
Jan-Mar	5.1	6.3	3.4	2.8
April-June	2.6	4.2	3.4	0.8
July-Sept.	(3.1)	(2.4)	2.7	(5.0)
Oct.-Dec.	(2.7)	(2.3)	1.9	(4.1)
<b>2002</b>				
Jan.-Mar.	(7.8)	(8.2)	1.2	(9.3)
April-June	(10.4)	(11.9)	1.3	(13.0)
July-Sept.	2.5	0.7	1.6	(0.9)
Oct.-Dec.	1.9	0.3	2.2	(1.9)

*Note:* Inflation is measured by the Consumer Price Index. Please call the Fiscal Studies Program for pre-1996 data.

**Table 2. Year-Over-Year Change in Quarterly State Tax Revenue by Major Tax**

	<i>PIT</i>	<i>CIT</i>	<i>Sales</i>	<i>Total</i>
<b>1996</b>				
Jan.-Mar.	7.1%	(4.8)%	5.6%	4.7%
April-June	11.3	0.9	6.8	7.3
July-Sept.	6.9	4.0	5.8	6.2
Oct.-Dec.	9.1	(3.0)	6.1	6.2
<b>1997</b>				
Jan.-Mar.	7.1	9.6	4.7	6.0
April-June	8.8	7.6	4.3	6.2
July-Sept.	8.4	(2.8)	5.8	5.5
Oct.-Dec.	8.3	4.5	5.3	6.8
<b>1998</b>				
Jan.-Mar.	9.3	2.3	5.6	6.5
April-June	19.5	(2.1)	5.3	9.7
July-Sept.	8.9	(0.2)	5.9	6.6
Oct.-Dec.	9.5	5.2	5.5	7.5
<b>1999</b>				
Jan.-Mar.	6.6	(2.6)	6.1	4.8
April-June	6.0	(2.1)	7.3	5.0
July-Sept.	7.6	1.4	6.7	6.1
Oct.-Dec.	9.1	3.8	7.3	7.4
<b>2000</b>				
Jan.-Mar.	13.6	8.0	8.2	9.7
April-June	18.8	4.2	7.3	11.4
July-Sept.	11.0	5.7	4.7	7.1
Oct.-Dec.	5.7	(7.7)	4.1	4.0
<b>2001</b>				
Jan-Mar	8.6	(9.1)	3.3	5.1
April-June	5.6	(13.7)	0.5	2.6
July-Sept.	(3.4)	(25.5)	0.0	(3.1)
Oct.-Dec.	(2.7)	(31.8)	1.0	(2.7)
<b>2002</b>				
Jan.-Mar.	(14.3)	(16.1)	(1.0)	(7.8)
April-June	(22.3)	(11.7)	1.5	(10.4)
July-Sept.	(1.6)	4.8	3.8	2.5
Oct.-Dec.	(0.7)	22.4	0.7	1.9

*Note:* Please call the Fiscal Studies Program for pre-1996 data.

## **Introduction**

State tax revenue grew by 1.9 percent in the October-December quarter of 2002. This was the second quarter of slight growth, most of which resulted from legislated tax increases. Without them, the growth would have amounted to only 0.3 percent. (See Table 1.) If we also take the effects of inflation into account, real adjusted state tax revenue actually declined by 1.9 percent — and this is in comparison with a weak quarter last year.

Personal income tax revenue was down by 0.7 percent this quarter, the sixth straight quarter of decline. Sales tax revenue increased by 0.7 percent. Corporate income taxes surged 22.4 percent, aided by significant legislated increases. Significant increases in tobacco taxes also boosted total tax collections.

In comparing the October-December 2002 quarter to the same quarter in 2001, we should keep in mind that the terrorist attacks on New York and Washington caused many states to delay some 2001 tax collections. Because of those delays, revenue figures from the October-December 2001 quarter were artificially inflated. This makes the current quarter's growth appear somewhat weaker in comparison.

## **Tax Revenue Change**

Table 1 shows tax revenue changes for the last 28 quarters before and after adjusting for legislated tax changes and inflation. The nominal 1.9 percent year-over-year increase in the October-December quarter is a slight drop from the previous quarter's 2.5 percent increase. Once again, legislated tax changes resulted in a significant net increase in taxes. Without these changes, revenue would have risen by only 0.3 percent. Adjusting for inflation turns this into a 1.9 percent decline. This is the sixth straight quarter with a decrease in revenue after adjusting for legislation and inflation. This means that states are steadily losing ground on the revenue side of their budgets, even before we consider factors such as population growth and its attendant increases in demand for state services.

Table 2 shows the last 28 quarters of changes in state collections for the major taxes. Personal in-

come taxes declined for the sixth straight quarter, though the rate of the decline is decreasing. Corporate income taxes rallied from a very poor performance in the same quarter a year ago. Growth in the sales tax was weaker than last quarter, continuing a pattern of very sluggish growth.

The Rocky Mountain states turned in the worst revenue performance this quarter, with a 1.2 percent decline. (See Table 3.) The Mid-Atlantic and Great Lakes states also had declining revenue. The strongest increase was 6.6 percent in the Plains states. Revenue in the Far West and New England also increased at a faster rate than the national average. When we adjust for tax changes, however, the picture changes somewhat. If we adjust for legislated tax increases and processing variations, the revenue increase in the Southeast disappears, and adjusted revenue in every region decreases. (See Figures 3 and 4.)

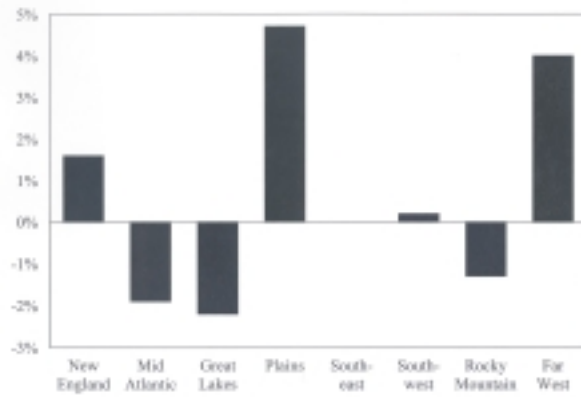
Table 4 shows the overall effect of legislated tax changes and processing variations. In all, states increased taxes by a net amount of \$1.7 billion in the October-December 2002 quarter.

## **Personal Income Tax**

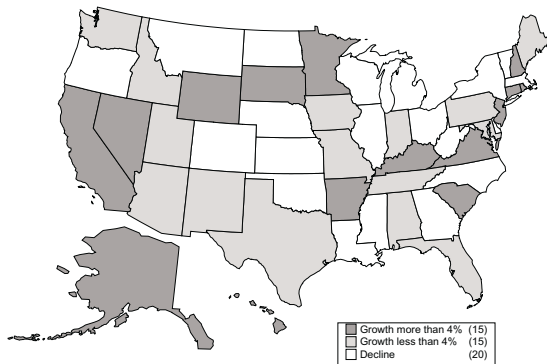
Personal income tax revenue declined in the October-December quarter by 0.7 percent. Although this is the sixth straight quarter of decline, the national rate of decline has slowed. The steepest drop was in New England with a 5.9 percent drop, followed closely by the Mid-Atlantic region with a 5.5 percent decline. The Plains states had a 2.9 percent increase, the strongest in the nation. Eighteen of the 41 states with a broad-based income tax had declines; the remaining 23 had increases. New York was the state with the sharpest decline — 10.4 percent. Oregon's steep increase of 27 percent was the result of a rebate paid last year but not repeated this year. The largest increase not caused by such an adjustment was Alabama's 8.6 percent increase.

We can get a better idea of what is really happening with the personal income tax by breaking it down into its component parts: withholding, quarterly estimated payments, and final settlements. The states will not know total collections for tax year 2002 until taxpayers finish filing their returns

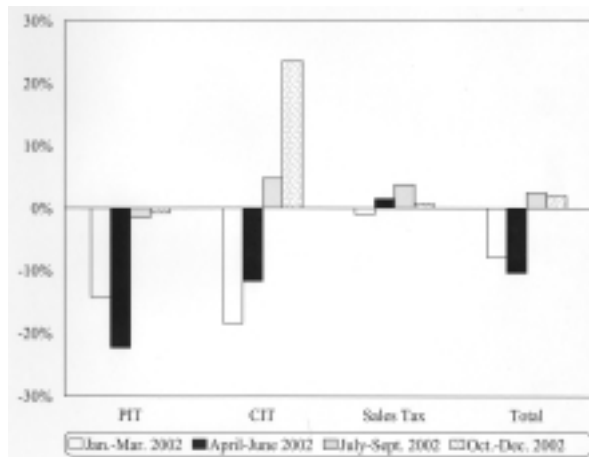
**Figure 3**  
Percent Change in Tax Revenue by Region, Adjusted for Legislated Changes October-December 2001 to 2002



**Figure 4**  
Change in Quarterly Tax Revenue by State, Adjusted for Legislated Changes, October-December 2001 to 2002



**Figure 5**  
Change in Quarterly Tax Revenue by Tax, Last Four Quarters



**Table 3. Percent Change in Quarterly Tax Revenue by State, October-December 2001 to 2002**

	PIT	CIT	Sales	Total
<b>United States</b>	<b>(0.7)%</b>	<b>22.4%</b>	<b>0.7%</b>	<b>1.9%</b>
<b>New England</b>	<b>(5.9)</b>	<b>NM</b>	<b>2.3</b>	<b>3.3</b>
Connecticut	(8.3)	NM	4.8	6.7*
Maine	4.6	(6.9)	0.0	3.4*
Massachusetts	(7.9)	1,611.1	0.6	0.0*
New Hampshire	NA	8.1	NA	7.1
Rhode Island	5.2	NM	4.4	11.9*
Vermont	6.5	(64.0)	(1.6)	1.7*
<b>Mid-Atlantic</b>	<b>(5.5)</b>	<b>27.8</b>	<b>(0.4)</b>	<b>(0.2)</b>
Delaware	(4.1)	(87.3)	NA	(5.8)
Maryland	(0.7)	230.6	1.3	3.2*
New Jersey	5.5	133.6*	1.7	15.3*
New York	(10.4)	(6.8)¶	(4.0)¶	(8.4)¶
Pennsylvania	(0.8)	3.1	1.5	4.4*
<b>Great Lakes</b>	<b>(0.8)</b>	<b>(3.2)</b>	<b>(4.3)</b>	<b>(0.6)</b>
Illinois	1.1	(24.8)	(1.6)	(2.7)*
Indiana	3.7	(14.6)	0.4	10.7*
Michigan	(2.1)¶	4.0¶	(7.5)	(1.3)
Ohio	2.7*	NM	(6.4)¶	0.5*
Wisconsin	(8.5)	(13.8)	(3.2)	(5.6)
<b>Plains</b>	<b>2.9</b>	<b>(9.5)</b>	<b>0.7</b>	<b>6.6</b>
Iowa	6.2	12.4	(1.0)	3.2
Kansas	3.4	NM	4.1*	7.7*
Minnesota	3.2	(16.4)	(2.1)	9.1
Missouri	1.0	(18.6)	2.7	ND
Nebraska	1.6	(56.1)	9.1*	0.8*
North Dakota	1.2	5.8	(8.4)	(1.4)
South Dakota	NA	NA	1.2	9.3
<b>Southeast</b>	<b>3.0</b>	<b>(10.5)</b>	<b>3.3</b>	<b>1.9</b>
Alabama	8.6	28.8*	(0.6)	4.8*
Arkansas	7.3	37.7	1.1	5.5
Florida	NA	4.1	3.8	0.8
Georgia	(0.8)	(29.8)	(1.1)	(1.7)
Kentucky	3.4	75.3	0.9	5.4
Louisiana	(2.4)	(44.3)	(9.8)	(14.0)
Mississippi	5.9	NM	(1.3)	(1.7)
North Carolina	2.9*	(19.9)*	9.7*	2.6*
South Carolina	7.0*	138.1*	4.4*	8.4*
Tennessee	NA	(63.1)	17.3*	13.5*
Virginia	3.5	47.5	(0.4)	4.2
West Virginia	(0.8)	(38.9)	(3.1)	(3.1)
<b>Southwest</b>	<b>(0.1)</b>	<b>(2.5)</b>	<b>(2.4)</b>	<b>0.3</b>
Arizona	(1.6)	83.2	1.6	1.2
New Mexico	(1.2)	(64.8)	9.6	2.3
Oklahoma	2.3	NM	(4.3)	(0.7)*
Texas	NA	NA	(3.8)	0.0
<b>Rocky Mountain</b>	<b>(1.5)</b>	<b>(7.7)</b>	<b>(1.3)</b>	<b>(1.2)</b>
Colorado	(1.6)	(52.5)	(4.2)	(3.4)
Idaho	(0.6)	54.6	3.8	1.1
Montana	(1.6)	(9.9)	NA	(6.0)
Utah	(1.6)	230.8	0.1	0.6
Wyoming	NA	NA	(3.1)	6.4
<b>Far West</b>	<b>1.9</b>	<b>88.4</b>	<b>5.2</b>	<b>6.0</b>
Alaska	NA	9.2	NA	4.1
California	(0.8)*	87.9	6.1	5.5
Hawaii	4.3¶	NM	0.2¶	4.9¶
Nevada	NA	NA	5.7	5.2
Oregon	27.0*	34.8	NA	26.1*
Washington	NA	NA	3.0	3.0*

See p. 5 for notes.

**Table 4. Change in Quarterly Tax Revenue, Adjusting for Legislated Tax Changes**

	<i>PIT</i>	<i>Sales</i>	<i>Total</i>
<b>1996</b>			
Jan.-Mar.	8.8%	5.7%	5.7%
April-June	14.1	6.5	8.6
July-Sept.	9.1	5.9	7.4
Oct.-Dec.	11.2	6.4	7.5
<b>1997</b>			
Jan.-Mar.	10.0	5.0	7.4
April-June	12.8	5.0	8.3
July-Sept.	9.5	6.2	6.1
Oct.-Dec.	10.7	5.9	7.9
<b>1998</b>			
Jan.-Mar.	10.0	6.5	7.0
April-June	23.3	5.9	11.4
July-Sept.	9.3	6.4	7.1
Oct.-Dec.	10.2	5.9	6.9
<b>1999</b>			
Jan.-Mar.	9.9	6.2	6.5
April-June	12.4	7.3	8.0
July-Sept.	8.3	6.9	6.5
Oct.-Dec.	11.0	7.5	8.4
<b>2000</b>			
Jan.-Mar.	13.8	8.8	10.4
April-June	18.6	7.8	11.8
July-Sept.	11.6	5.6	7.7
Oct.-Dec.	6.5	5.0	5.0
<b>2001</b>			
Jan.-Mar.	10.1	3.7	6.3
April-June	7.9	0.6	4.2
July-Sept.	(2.8)	0.4	(2.4)
Oct.-Dec.	(2.1)	1.2	(2.3)
<b>2002</b>			
Jan.-Mar.	(14.5)	(2.4)	(8.4)
April-June	(22.5)	0.1	(11.9)
July-Sept.	(2.1)	2.7	0.7
Oct.-Dec.	(1.6)	0.7	0.3

Note: The corporate income tax is not included in this table. The quarterly effect of legislation on this tax's revenue is especially uncertain. (See Technical Notes, page 15.)  
For pre-1996 data, call the Fiscal Studies Program.

in April. However, we now have withholding through the end of 2002, as well as fourth quarter estimated tax payment data for most of the 39 states that collect them.

### Withholding

Withholding is a good indicator of the current strength of personal income tax revenue because it comes largely from current wages and because it is much less volatile than estimated/declared payments or final settlements. In Table 5, we see that withholding for the October-December 2002 quarter was virtually unchanged from the same quarter

the year before. Looking back over the year, withholding declined for two of the four quarters. Without legislated tax changes withholding would have declined by about 0.3 percent this quarter. The underlying decline suggests continued weakness in wages.

### Estimated Payments

The highest-income taxpayers generally pay most estimated tax payments (also known as declarations) on their non-wage income. This income often comes from investments, especially capital gains realized in the stock market. The decline in the stock market since early 2000 has dried up capital gains, which in turn has reduced the stream of estimated payments.

The fourth quarterly payment for 2002, usually paid in December or January, was down by 12.1 percent compared to the year before in the 31 states for which we have full data. (See Table 6.) Since much of the nationwide decline is due to sharp declines in a few large states, the median — 7.9 percent — might provide a better measure of the “typical” state’s decline. In making year-over-year comparisons, however, it is important to remember that last year several states granted extensions for this third payment because of the terrorist attacks. This tended to inflate the fourth payment last year, making this year’s fourth payment seem lower by comparison.

Overall, however, estimated payments have declined significantly for the second year in a row.

### Key to Interpreting Tables

All percent change tables are based on year-over-year changes.

\* indicates legislation or processing/accounting changes significantly increased tax receipts (by one percentage point or more).

¶ indicates legislation or processing/accounting changes significantly decreased tax receipts.

1 Data through November only.

NA means not applicable.

NM means not meaningful.

ND means no data.

Historical Tables (Tables 1, 2 and 4) have been shortened to provide data only back to 1996. For data through 1991 call the Fiscal Studies Program.

**Table 5. Change in Personal Income Tax Withholding by State, Last Four Quarters**

	2002			
	Jan.-Mar.	Apr.-June	July-Sept.	Oct.-Dec.
<b>United States</b>	<b>(4.9)%</b>	<b>(0.6)%</b>	<b>0.9%</b>	<b>0.0%</b>
<b>New England</b>	<b>(9.8)</b>	<b>(4.8)</b>	<b>(0.5)</b>	<b>(3.4)</b>
Connecticut	(5.7)	(3.0)	1.8	(1.9)
Maine	(6.5)	(0.4)	9.7	4.1
Massachusetts	(12.7)¶	(6.7)¶	(3.2)	(5.8)
Rhode Island	(5.1)¶	1.9¶	4.9	3.7
Vermont	1.1	(0.9)	5.3	2.8
<b>Mid-Atlantic</b>	<b>(6.4)</b>	<b>(0.3)</b>	<b>1.9</b>	<b>(0.6)</b>
Delaware	2.1	5.4	(1.0)	(4.6)
Maryland	(0.3)¶	0.4¶	4.5	(1.1)
New Jersey	(1.2)	2.9	1.0	1.9
New York	(10.8)	(1.4)	1.0	(1.2)
Pennsylvania	0.1	(1.2)	3.2	0.1
<b>Great Lakes</b>	<b>(3.9)</b>	<b>0.1</b>	<b>2.5</b>	<b>(1.4)</b>
Illinois	(1.7)	(2.6)	0.8	(0.7)
Indiana	(2.7)	4.0	1.2	2.1
Michigan	(8.7)¶	(3.3)¶	(0.3)¶	(2.4)¶
Ohio	(1.5)	2.8	4.3*	2.8*
Wisconsin	(4.5)	1.4	10.5	(9.2)
<b>Plains</b>	<b>1.2</b>	<b>2.4</b>	<b>2.6</b>	<b>1.8</b>
Iowa	4.8	3.5	5.0	6.7
Kansas	2.8	2.2	0.9	2.7
Minnesota	(2.6)	2.3	1.8	0.6
Missouri	4.2	1.0	2.9	0.7
Nebraska	0.3	5.6	3.2	1.7
North Dakota	3.7	(1.2)	1.2	0.6
<b>Southeast</b>	<b>1.8</b>	<b>2.2</b>	<b>1.1</b>	<b>3.3</b>
Alabama	3.8	4.0	(2.9)	8.9
Arkansas	2.4	2.8	1.8	6.3
Georgia	2.5	1.5	(1.9)	ND
Kentucky	1.0	0.8	0.0	4.0
Louisiana <sup>1</sup>	(1.2)	(0.6)	4.9	(6.7)
Mississippi	(0.2)	1.1	(0.8)	1.8
North Carolina	3.4*	2.0	2.1	3.0*
South Carolina	(1.7)	3.7	1.1	3.8
Virginia	2.0	2.6	2.8	3.0
West Virginia	(2.0)	(1.4)	13.4	(0.6)
<b>Southwest</b>	<b>(7.1)</b>	<b>2.1</b>	<b>0.5</b>	<b>1.1</b>
Arizona	(5.9)	(5.4)	(3.3)	(2.8)
New Mexico	(2.2)	12.9	1.3	7.5
Oklahoma	(10.5)	6.9¶	4.3	3.4
<b>Rocky Mountain</b>	<b>(4.7)</b>	<b>(0.7)</b>	<b>(0.6)</b>	<b>(0.9)</b>
Colorado	(7.5)	(1.0)	0.2	(0.8)
Idaho	(0.1)¶	(7.5)¶	(1.2)	1.0
Montana	2.6	(1.0)	7.1	1.0
Utah	(3.4)	3.4	(3.9)	(2.5)
<b>Far West</b>	<b>(9.6)</b>	<b>(4.6)</b>	<b>(2.1)</b>	<b>0.2</b>
California	(10.4)	(5.3)	(2.5)	0.2*
Hawaii	(2.3)¶	3.1¶	(2.9)¶	2.1¶
Oregon	(5.4)	(2.2)	0.6	(0.6)

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

See page 5 for Notes.

The sum of all four payments is down by 15.9 percent, with a median decline of 11.8 percent in the 32 states for which we have data. Unlike last year, the decline moderated slightly as the year progressed. This would seem to indicate that high-income taxpayers expect to have less income than last year, but not as much less as they expected earlier in the year.

If, as is likely, final payments go the same way as withholding and estimated payments, April 2003 will not bring as severe a decline as April 2002 — small comfort for states looking to ease their budget woes.

### General Sales Tax

Sales tax revenue in the October-December 2002 quarter increased by 0.7 percent. This is much slower growth than last quarter's figure of 3.8 percent. Sales tax revenue has grown sluggishly for about two years now. Legislated changes and processing variations in this quarter had no net effect on sales tax growth.

Sales tax revenue grew the fastest in the Far West states, increasing by 5.2 percent compared to the year before. At the other extreme, sales tax revenue declined by 4.3 percent in the Great Lakes states. Only one state — Tennessee — had a double-digit increase in sales tax revenue. This was largely the result of a sales tax rate increase. No state had a double-digit decline, Louisiana's was the steepest at 9.8 percent.

New York received sales tax revenue deferred from September 2001 in the October-December 2001 quarter. The inflated collections in that quarter make this quarter look worse by comparison. Ohio had a similar situation.

### Corporate Income Tax

Corporate income tax revenue grew at a strong 22.4 percent rate in the October-December quarter, the second straight quarter of increase. This was after seven quarters of declines, and in comparison to very weak collections in the same quarter a year before. Much of the increase resulted from legislated tax changes. The largest of these was in New Jersey, where a number of

Table 6. Estimated Payments/Declarations (change year-over-year)		
	<i>April-January (All Four Payments)</i>	<i>December-January (Fourth Payment Only)</i>
<b>Average (Mean)</b>	<b>(15.9)%</b>	<b>(12.1)%</b>
<b>Median</b>	<b>(11.8)</b>	<b>(7.9)</b>
Alabama	(6.5)	(4.1)
Arizona	(30.6)	ND
Arkansas	(13.0)	(5.1)
California	(18.2)	(14.7)
Colorado	(17.2)	(11.5)
Connecticut	(17.1)	(17.6)
Delaware	(9.7)	(5.5)
Hawaii	(16.3)	(14.2)
Illinois	(14.6)	(4.7)
Indiana	(10.6)	(16.5)
Iowa	(13.7)	(5.4)
Kansas	(16.5)	(11.7)
Kentucky	6.5	52.5
Maine	(9.8)	(4.0)
Maryland	(15.9)	(8.2)
Michigan	(15.4)	(8.3)
Mississippi	(9.8)	(15.1)
Missouri	(15.3)	(15.3)
Montana	(5.0)	(5.0)
Nebraska	(11.7)	(14.6)
New Jersey	(11.1)	(7.4)
New York	(23.6)	(22.6)
North Carolina	(11.4)	(3.6)
North Dakota	(11.8)	(7.9)
Ohio	(2.8)	2.8
Oklahoma	(16.5)	(15.0)
Oregon	(16.2)	(14.8)
Rhode Island	(6.4)	(3.1)
Vermont	(1.0)	45.7
Virginia	(4.0)	(1.5)
West Virginia	(8.9)	(10.9)
Wisconsin	(6.3)	(2.8)

changes in the corporate income tax increased collections for the quarter by over \$300 million. North Carolina also had a significant legislated corporate tax increase.<sup>1</sup>

## Underlying Reasons for Trends

These revenue changes result from three kinds of underlying forces: differences in state economies, how these differences affect each state's tax system, and recently legislated tax changes.

## State Economies

The Bureau of Economic Affairs' (BEA's) preliminary estimate for the Gross Domestic Product (GDP) showed growth of 1.4 percent in the fourth quarter of 2002.<sup>2</sup> The BEA is currently putting GDP growth for all of 2002 at 2.4 percent, which suggests that the national economy is recovering. On the other hand, the unemployment rate, which was 5.8 percent in February 2003, has been within two-tenths of a percentage point of that figure since November 2001. This indicates that the economy is getting neither much better nor much worse.<sup>3</sup> The National Bureau of Economic Research, which is responsible for dating business cycles, has declined to state when — or even whether — the recession that started after March 2001 ended.

One problem with assessing state economies in a report such as this is a general lack of timely state indicators. Data on non-farm employment, tracked by the Bureau of Labor Statistics (BLS), is the only broad-based, timely, high-quality state-level economic indicator available. Yet these data are a far from ideal indicator of revenue growth. For one thing, most taxes are based upon nominal measures such as income, wages, and profits, rather than employment. Unfortunately, state-level data on these nominal measures — when they are available at all — usually are reported too late to be of much use in analyzing recent revenue collections. In addition, employment data can be subject to large retroactive revisions. In times of growth, these revisions are usually upwards, but recently significant downward revisions have occurred as the indicators have lagged the recent economic downturn.

The employment numbers are much less encouraging indicators of national and state economic activity than the GDP data or even the unemployment rate. Table 7 shows year-over-year employment growth for the nation and for each state during the last four quarters using BLS data. Figure 6 maps the change in fourth quarter 2002 employment compared to the same period in 2001. Overall, employment in the October-December 2002 quarter declined by 0.2 percent compared to the year before. This is the fifth straight quarter of

**Table 7. Year-Over-Year Percentage Change in Non-Farm Employment by State, Last Four Quarters**

State	2002			
	Jan.-Mar.	Apr.-June	July-Sept.	Oct.-Dec.
<b>United States</b>	<b>(1.2)%</b>	<b>(1.1)%</b>	<b>(0.8)%</b>	<b>(0.2)%</b>
<b>Sum of States</b>	<b>(0.9)</b>	<b>(0.8)</b>	<b>(0.7)</b>	<b>(0.3)</b>
<b>New England</b>	<b>(1.0)</b>	<b>(0.8)</b>	<b>(0.7)</b>	<b>(0.6)</b>
Connecticut	(0.9)	(0.6)	(0.4)	(0.4)
Maine	0.0	0.2	0.2	0.3
Massachusetts	(1.6)	(1.4)	(1.5)	(1.3)
New Hampshire	(0.4)	(0.4)	0.1	(0.2)
Rhode Island	0.4	0.6	0.6	0.8
Vermont	(1.5)	(1.0)	(0.2)	0.3
<b>Mid Atlantic</b>	<b>(1.0)</b>	<b>(1.0)</b>	<b>(0.9)</b>	<b>(0.4)</b>
Delaware	(0.8)	(1.0)	(0.6)	(1.8)
Maryland	(0.2)	(0.8)	(1.1)	0.1
New Jersey	(0.2)	(0.6)	(0.4)	(0.3)
New York	(1.6)	(1.1)	(0.9)	(0.5)
Pennsylvania	(1.1)	(1.1)	(1.0)	(0.6)
<b>Great Lakes</b>	<b>(1.2)</b>	<b>(1.0)</b>	<b>(0.9)</b>	<b>(0.6)</b>
Illinois	(1.4)	(1.5)	(1.3)	(1.1)
Indiana	(1.3)	(1.6)	(1.2)	(0.5)
Michigan	(1.3)	(0.8)	(0.8)	(0.7)
Ohio	(1.1)	(0.9)	(0.9)	(0.7)
Wisconsin	(0.6)	(0.0)	0.4	0.8
<b>Plains</b>	<b>(0.8)</b>	<b>(0.8)</b>	<b>(0.8)</b>	<b>(0.5)</b>
Iowa	(0.7)	(0.7)	(0.3)	(0.1)
Kansas	0.7	0.7	0.3	0.2
Minnesota	(1.3)	(0.8)	(0.8)	(0.4)
Missouri	(1.8)	(2.1)	(1.8)	(1.5)
Nebraska	0.6	0.1	(0.6)	0.3
North Dakota	1.0	(0.2)	(0.1)	(0.2)
South Dakota	(0.3)	0.1	(0.4)	(0.6)
<b>Southeast</b>	<b>(0.7)</b>	<b>(0.6)</b>	<b>(0.4)</b>	<b>(0.1)</b>
Alabama	(0.8)	(1.0)	(1.0)	(0.8)
Arkansas	(0.5)	(0.6)	(0.4)	0.0
Florida	(0.1)	(0.1)	0.3	0.7
Georgia	(2.6)	(2.3)	(2.2)	(1.5)
Kentucky	0.1	0.6	1.0	1.2
Louisiana	0.7	(0.3)	(0.4)	(0.3)
Mississippi	(0.5)	(0.3)	(0.3)	0.2
North Carolina	(1.2)	(0.5)	(0.2)	0.0
South Carolina	(0.5)	(0.4)	(0.3)	(0.1)
Tennessee	(0.3)	(0.2)	(0.2)	(0.3)
Virginia	(1.3)	(1.0)	(0.8)	(0.3)
West Virginia	(0.1)	(0.8)	(1.1)	(0.9)
<b>Southwest</b>	<b>(0.7)</b>	<b>(0.8)</b>	<b>(0.6)</b>	<b>(0.2)</b>
Arizona	(1.2)	(1.1)	(1.0)	0.0
New Mexico	0.9	0.6	0.5	0.8
Oklahoma	0.8	0.7	0.6	0.5
Texas	(1.0)	(1.0)	(0.8)	(0.4)
<b>Rocky Mountain</b>	<b>(0.9)</b>	<b>(1.3)</b>	<b>(1.5)</b>	<b>(1.0)</b>
Colorado	(1.8)	(2.0)	(2.2)	(1.6)
Idaho	0.4	(0.4)	(1.2)	(1.1)
Montana	0.7	0.6	1.0	2.0
Utah	(0.7)	(1.4)	(1.7)	(1.2)
Wyoming	1.9	1.2	0.3	0.4
<b>Far West</b>	<b>(0.6)</b>	<b>(0.6)</b>	<b>(0.5)</b>	<b>0.0</b>
Alaska	1.6	0.8	0.8	1.5
California	(0.2)	(0.3)	(0.4)	(0.1)
Hawaii	(1.2)	(1.0)	(1.2)	1.1
Nevada	0.7	1.1	1.3	2.7
Oregon	(1.9)	(1.4)	(0.6)	0.1
Washington	(2.4)	(2.2)	(1.9)	(1.0)

decline in the national employment numbers, but the rate of decline is slowing.

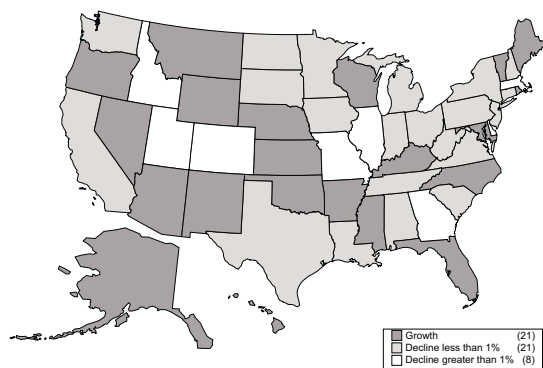
Employment, measured on a year-over-year basis, declined during the October-December quarter in every region of the country except the Far West, where it was unchanged. The largest decline, 1.0 percent, was in the Rocky Mountain states, which have had the largest declines for three quarters. Whereas in the previous two quarters 37 states had declines, this quarter employment declined in 29 states and was essentially unchanged in three others. Nine states had declines of one percent or more this quarter. Delaware had the sharpest decline: 1.8 percent. Five states had employment increases of over one percent; two of them — Montana and Nevada — had employment growth of two percent or more. Thus, state employment growth varies considerably. A few states are gaining significant numbers of jobs, while a majority continues to lose jobs.

### ***Nature of the Tax System***

Even if the recession and recovery affected all regions and states to exactly the same degree and at exactly the same time, the impact on state revenue would still vary because states' tax systems react differently to similar economic situations. States that rely heavily on the personal income tax have taken a harder hit from this economic downturn, since it has reduced income generated at the high end of the income scale, the income that is taxed most heavily. This is even more evident in the case of states with more progressive income tax structures. The sales tax is also very responsive to economic conditions, but is historically less elastic than the personal income tax — dropping more slowly in bad times and increasing more slowly in good times. The states that rely heavily on corporate income taxes or severance taxes often see wild swings in revenue that are not necessarily related to general economic conditions. (Severance taxes are taxes on the removal of natural resources, such as oil and lumber.)



**Figure 6**  
**Change in Non-Farm Employment**  
**October-December 2001 to 2002**



The upside of these patterns played out particularly strongly in the late 1990s and into 2000. Most states with personal income taxes had extremely strong revenue growth, partly because the incomes of upper-income (and thus upper-bracket) taxpayers grew at a much more rapid pace than those of middle-income taxpayers. Because these high-end incomes were based more heavily upon volatile sources such as stock options and capital gains, growth in personal income tax revenue was far more subject to dramatic fluctuations than it would have been if it were based entirely on wages and salaries. In the current weak economy, we see the downside of this volatility. While initially the market downturn affected relatively few wage earners, it turned gains into losses for investors, thus sharply contracting a hitherto rich source of revenue almost overnight. Meanwhile stock options became both less common and less lucrative. As the downturn drags on the loss of investment capital is beginning to manifest itself in weak employment numbers, which in turn depress withholding.

States are also learning about how sales tax revenue responds to an economic slowdown. States that have removed more stable elements of consumption, such as groceries and clothing, from their bases, as well as those that do not capture spending on services well, are more subject to plunges in sales tax revenue as state residents be-

come nervous about spending on optional and big-ticket items. Thus far, however, the sales tax is reacting to the latest economic downturn more moderately than the personal income or corporate income taxes — even increasing slightly this quarter.

Oil has been the wild card in state tax revenue in recent years. When — as is now the case — the price of oil increases, oil-producing states such as Alaska, Oklahoma and Wyoming benefit. Conversely, when the price falls, these states' revenue tends to follow suit. This dynamic can operate largely independently of the general economy.

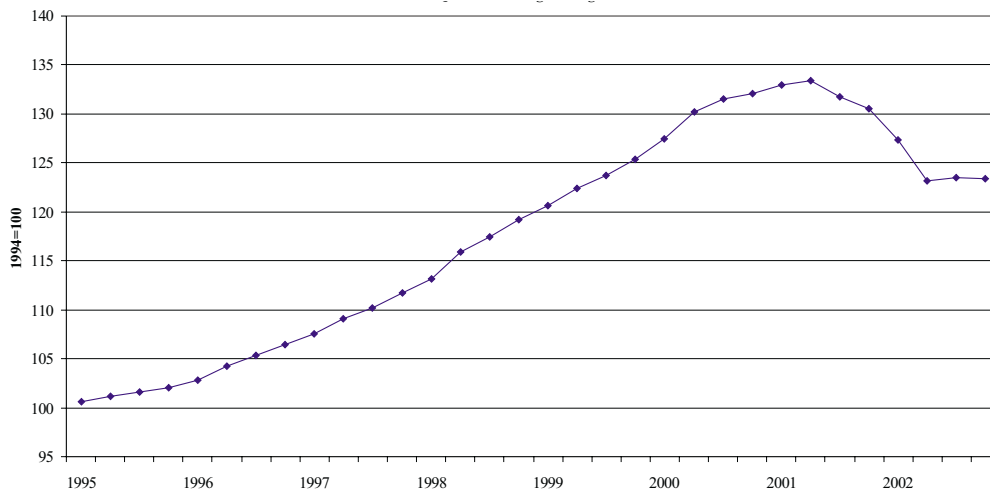
### **Tax Law Changes Affecting This Quarter**

The final element affecting trends in tax revenue growth is legislated tax changes. 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. That is why this report attempts to note where such changes have significantly affected each state's revenue growth. We also occasionally note when changes in the manner of processing receipts have had a major impact on revenue growth, even though these are not due to legislation, as it helps the reader to know that the number is not necessarily indicative of underlying trends.

During the October-December 2002 quarter, legislated tax changes and processing variations increased state revenue by over \$1.7 billion compared to the same period in 2001. This was the fourth quarter in a row of net tax increases, after nearly seven years of tax cuts.

Net tax changes increased personal income tax collections by almost \$400 million and corporate income taxes by about the same amount. New Jersey made several changes to its corporate income tax, which increased revenue by about \$340 million in this quarter. Oregon paid out a rebate last year and did not repeat it this year, resulting in a net increase of over \$230 million. California made changes to the personal income tax, which brought in about \$110 million more in this quarter. Changes in the sales tax netted out to zero because processing-related issues in a few states offset legislated

**Figure 7**  
**Per Capita State Tax Revenue Adjusted for Inflation**  
**Four-Quarter Moving Average**



tax increases in other states.<sup>4</sup> The largest sales tax increase was almost \$170 million in Tennessee. Kansas, Nebraska, and North Carolina also had sizable sales tax increases.

Tobacco taxes are turning out to be an attractive revenue source for many states. During the October-December 2002 quarter tobacco tax increases boosted state revenue by over \$750 million. Pennsylvania had the largest increase, bringing in almost \$150 million more in tobacco revenue than during the same quarter a year before. Fourteen other states enacted significant increases in tobacco taxes.<sup>5</sup>

### Conclusions

While total state tax collections showed an increase for the second straight quarter, this increase

is barely sufficient to keep pace with inflation and population growth, let alone make up for the large drop in revenues in fiscal year 2001. Figure 7 shows this, using a four-quarter moving average to smooth out choppiness in quarterly growth rates. Given that newly enacted tax increases have been supporting tax collections for the last four quarters, the underlying revenue situation is even bleaker than the figure suggests.

The persistent declines in personal income tax collections — especially in estimated payments — is a warning sign for April. Payments with final returns dropped disastrously last year, and while they may not decline as much again, any further decline will place additional strain on states' generally poor fiscal health.

**Table 8. Percent Change in Quarterly Tax Revenue by State, July-December 2002 to 2003**

	<i>PIT</i>	<i>CIT</i>	<i>Sales</i>	<i>Total</i>
<b>United States</b>	<b>(1.1)%</b>	<b>12.4%</b>	<b>2.2%</b>	<b>2.2%</b>
<b>New England</b>	<b>(5.1)</b>	<b>93.4</b>	<b>2.7</b>	<b>2.5</b>
Connecticut	(6.7)	(625.1)	3.4	6.3
Maine	3.7	4.8	2.3	4.2
Massachusetts	(6.6)	45.5	1.6	(0.4)
New Hampshire	NA	7.4	NA	6.0
Rhode Island	2.7	(133.6)	6.2	8.3
Vermont	1.9	(48.1)	2.2	1.0
<b>Mid-Atlantic</b>	<b>(3.1)</b>	<b>16.6</b>	<b>3.9</b>	<b>2.0</b>
Delaware	(2.8)	(66.9)	NA	(6.8)
Maryland	(0.4)	79.5	1.7	2.2
New Jersey	2.3	92.4	2.0	10.4
New York	(5.7)	(4.6)	5.9	(1.8)
Pennsylvania	0.0	0.4	3.5	4.8
<b>Great Lakes</b>	<b>0.4</b>	<b>(5.5)</b>	<b>0.2</b>	<b>1.8</b>
Illinois	(0.2)	(11.5)	0.1	(1.3)
Indiana	3.3	(23.0)	1.5	8.1
Michigan	(1.6)	1.5	(1.9)	0.9
Ohio	4.0	(47.1)	1.3	4.6
Wisconsin	(2.8)	(9.7)	2.0	(0.7)
<b>Plains</b>	<b>1.5</b>	<b>(4.2)</b>	<b>2.1</b>	<b>5.4</b>
Iowa	4.6	10.4	1.0	3.0
Kansas	(0.5)	(24.7)	4.4	3.4
Minnesota	1.8	0.1	(0.5)	7.1
Missouri	0.4	(10.9)	2.2	0.0
Nebraska	0.8	(31.9)	8.6	4.4
North Dakota	(0.9)	25.2	7.2	7.3
South Dakota	NA	NA	2.4	5.3
<b>Southeast</b>	<b>1.5</b>	<b>6.0</b>	<b>3.1</b>	<b>2.7</b>
Alabama	2.0	121.9	1.1	8.4
Arkansas	3.8	31.6	1.7	3.9
Florida	NA	(0.3)	3.2	2.6
Georgia	(2.2)	(16.9)	(5.2)	(3.8)
Kentucky	0.8	38.5	5.7	5.6
Louisiana	(0.1)	(48.3)	(8.1)	(8.7)
Mississippi	1.8	(7.5)	1.5	1.9
North Carolina	1.1	6.2	15.4	5.1
South Carolina	2.6	(5.7)	5.2	4.5
Tennessee	NA	27.6	14.0	11.9
Virginia	4.6	26.3	(10.4)	2.7
West Virginia	3.5	(18.2)	2.4	0.9
<b>Southwest</b>	<b>(2.9)</b>	<b>(22.2)</b>	<b>(2.0)</b>	<b>(0.5)</b>
Arizona	(3.3)	(9.8)	1.6	(1.0)
New Mexico	(1.9)	(38.1)	5.0	(1.8)
Oklahoma	(2.8)	(41.9)	(5.4)	(4.4)
Texas	NA	NA	(2.9)	0.4
<b>Rocky Mountain</b>	<b>(1.8)</b>	<b>5.5</b>	<b>(0.5)</b>	<b>(1.5)</b>
Colorado	(2.1)	(19.9)	(3.7)	(3.7)
Idaho	(0.5)	73.3	5.5	1.8
Montana	1.3	(17.5)	NA	(0.7)
Utah	(2.8)	40.0	0.5	(0.2)
Wyoming	NA	NA	(1.4)	(3.1)
<b>Far West</b>	<b>(2.0)</b>	<b>31.7</b>	<b>5.5</b>	<b>3.2</b>
Alaska	NA	17.1	NA	(2.7)
California	(4.1)	32.4	6.5	2.3
Hawaii	(2.1)	890.9	8.3	4.4
Nevada	NA	NA	5.0	5.4
Oregon	18.0	7.9	NA	17.2
Washington	NA	NA	1.7	2.5

See p. 5 for notes.

## Endnotes

- 1 Corporate income tax collections can be extremely volatile. Sometimes a state even has negative net CIT revenue in a quarter, as refunds exceed payments. This makes some comparisons meaningless, and sometimes results in huge percentage changes, as seen in Tables 3 and 8.
- 2 United States Department of Commerce, Bureau of Economic Analysis News Release, February 28, 2003.
- 3 United States Department of Labor, Bureau of Labor Statistics, *Labor Force Statistics From the Current Population Survey*, www.bls.gov.
- 4 In some cases these processing issues were related to the September 11th attacks. In New York over \$270 million in sales tax collections were delayed from September 2001 into the October-December 2001 quarter. This made New York's collections decline in October-December 2002 seem sharper than it would have appeared otherwise.
- 5 Connecticut, Illinois, Indiana, Kansas, Maryland, Massachusetts, Michigan, Nebraska, New Jersey, Ohio, Oregon, Rhode Island, Vermont, and Washington. Significant is defined as increases amounting to more than one percent of total general fund revenue.

**Table 9**  
**State Tax Revenue, October to December 2001 and 2002 (In Millions of Dollars)**

	2001				2002			
	PIT	CIT	Sales	Total	PIT	CIT	Sales	Total
<b>United States</b>	<b>\$44,218</b>	<b>\$4,218</b>	<b>\$43,632</b>	<b>\$107,097</b>	<b>\$43,893</b>	<b>\$5,162</b>	<b>\$43,952</b>	<b>\$109,163</b>
<b>New England</b>	<b>3,525</b>	<b>(3)</b>	<b>2,124</b>	<b>6,735</b>	<b>3,317</b>	<b>192</b>	<b>2,173</b>	<b>6,956</b>
Connecticut	938	(45)	760	1,956	860	63	796	2,087
Maine	270	20	212	585	283	19	212	605
Massachusetts	2,016	5	915	3,327	1,856	77	920	3,328
New Hampshire	NA	31	NA	261	NA	33	NA	279
Rhode Island	204	(23)	181	401	215	(4)	189	449
Vermont	97	9	57	205	103	3	56	208
<b>Mid Atlantic</b>	<b>9,946</b>	<b>1,150</b>	<b>6,090</b>	<b>20,040</b>	<b>9,402</b>	<b>1,469</b>	<b>6,063</b>	<b>19,998</b>
Delaware	186	11	NA	383	179	1	NA	360
Maryland	1,003	23	657	1,866	996	76	665	1,925
New Jersey	1,476	231	1,407	3,671	1,556	539	1,431	4,231
New York	5,758	601	2,198	9,877	5,160	560	2,111	9,050
Pennsylvania	1,523	285	1,828	4,244	1,511	294	1,856	4,431
<b>Great Lakes</b>	<b>7,264</b>	<b>920</b>	<b>7,149</b>	<b>17,998</b>	<b>7,208</b>	<b>890</b>	<b>6,840</b>	<b>17,891</b>
Illinois	1,786	238	1,589	4,355	1,806	179	1,564	4,236
Indiana	771	165	942	2,012	800	141	946	2,227
Michigan	1,692	491	2,111	5,415	1,656	511	1,954	5,344
Ohio	1,668	(67)	1,552	3,572	1,714	(20)	1,452	3,589
Wisconsin	1,347	93	954	2,644	1,232	80	924	2,496
<b>Plains</b>	<b>3,481</b>	<b>306</b>	<b>2,981</b>	<b>5,699</b>	<b>3,583</b>	<b>277</b>	<b>3,002</b>	<b>6,074</b>
Iowa	528	56	433	1,076	560	63	429	1,110
Kansas	409	(17)	431	864	423	(2)	449	931
Minnesota	1,275	107	1,075	2,836	1,316	89	1,052	3,094
Missouri	949	130	610	ND	959	106	626	ND
Nebraska	278	18	222	553	283	8	243	557
North Dakota	42	12	97	208	43	13	89	205
South Dakota	NA	NA	114	162	NA	NA	115	177
<b>Southeast</b>	<b>8,204</b>	<b>1,047</b>	<b>10,600</b>	<b>23,876</b>	<b>8,448</b>	<b>937</b>	<b>10,950</b>	<b>24,333</b>
Alabama	491	31	436	1,314	534	40	433	1,378
Arkansas	368	27	427	871	395	37	431	920
Florida	NA	281	3,379	4,552	NA	292	3,508	4,586
Georgia	1,612	120	1,160	3,172	1,600	84	1,147	3,118
Kentucky	660	48	692	1,745	683	85	698	1,839
Louisiana	394	125	603	1,539	384	70	544	1,323
Mississippi	258	28	579	1,179	273	(5)	572	1,159
North Carolina	1,802	285	876	3,253	1,854	229	960	3,338
South Carolina	702	10	471	1,326	751	23	492	1,438
Tennessee	NA	24	1,141	1,658	NA	9	1,339	1,882
Virginia	1,685	38	579	2,570	1,744	56	577	2,677
West Virginia	233	29	257	699	231	18	249	677
<b>Southwest</b>	<b>1,366</b>	<b>59</b>	<b>5,969</b>	<b>9,868</b>	<b>1,365</b>	<b>58</b>	<b>5,826</b>	<b>9,898</b>
Arizona	625	29	826	1,548	615	53	839	1,567
New Mexico	233	23	321	695	230	8	352	711
Oklahoma	508	7	370	1,057	520	(4)	355	1,049
Texas	NA	NA	4,451	6,568	NA	NA	4,281	6,571
<b>Rocky Mountain</b>	<b>1,630</b>	<b>56</b>	<b>1,096</b>	<b>3,250</b>	<b>1,606</b>	<b>51</b>	<b>1,082</b>	<b>3,210</b>
Colorado	832	34	464	1,372	819	16	445	1,326
Idaho	217	10	197	526	216	15	204	532
Montana	108	8	NA	256	107	7	NA	241
Utah	472	4	351	947	465	13	351	952
Wyoming	NA	NA	85	150	NA	NA	82	159
<b>Far West</b>	<b>8,802</b>	<b>683</b>	<b>7,623</b>	<b>19,632</b>	<b>8,966</b>	<b>1,287</b>	<b>8,016</b>	<b>20,801</b>
Alaska	NA	15	NA	151	NA	17	NA	157
California	7,743	658	5,233	14,402	7,680	1,236	5,552	15,187
Hawaii	261	(10)	410	740	272	7	410	776
Nevada	NA	NA	532	624	NA	NA	562	656
Oregon	798	20	NA	855	1,014	27	NA	1,077
Washington	NA	NA	1,449	2,861	NA	NA	1,492	2,948

**Sluggish State Revenue Performance Continues**

**Table 10  
State Tax Revenue, July-December, FY 2002 and 2003 (In Millions of Dollars)**

	<i>FY 2002</i>				<i>FY 2003</i>			
	<i>PIT</i>	<i>CIT</i>	<i>Sales</i>	<i>Total</i>	<i>PIT</i>	<i>CIT</i>	<i>Sales</i>	<i>Total</i>
<b>United States</b>	<b>\$87,369</b>	<b>\$9,699</b>	<b>\$85,178</b>	<b>\$210,765</b>	<b>\$86,366</b>	<b>\$10,903</b>	<b>\$87,087</b>	<b>\$215,397</b>
<b>New England</b>	<b>6,678</b>	<b>243</b>	<b>3,937</b>	<b>13,065</b>	<b>6,340</b>	<b>469</b>	<b>4,043</b>	<b>13,393</b>
Connecticut	1,551	(22)	1,238	3,276	1,447	117	1,280	3,482
Maine	478	38	371	1,025	495	39	380	1,069
Massachusetts	4,048	161	1,846	6,971	3,783	234	1,876	6,944
New Hampshire	NA	62	NA	539	NA	67	NA	571
Rhode Island	397	(12)	374	844	408	4	397	914
Vermont	203	16	108	410	207	8	111	414
<b>Mid-Atlantic</b>	<b>18,831</b>	<b>2,406</b>	<b>11,298</b>	<b>38,091</b>	<b>18,247</b>	<b>2,805</b>	<b>11,735</b>	<b>38,849</b>
Delaware	362	53	NA	799	352	18	NA	745
Maryland	1,781	98	1,089	3,310	1,774	176	1,107	3,381
New Jersey	2,588	443	2,403	6,483	2,649	853	2,452	7,155
New York	10,984	1,201	4,131	18,865	10,356	1,145	4,373	18,521
Pennsylvania	3,116	611	3,675	8,633	3,116	614	3,803	9,047
<b>Great Lakes</b>	<b>14,258</b>	<b>1,913</b>	<b>13,732</b>	<b>34,676</b>	<b>14,319</b>	<b>1,808</b>	<b>13,754</b>	<b>35,287</b>
Illinois	3,604	444	3,132	8,597	3,597	393	3,134	8,482
Indiana	1,631	354	1,895	4,190	1,684	273	1,924	4,528
Michigan	3,408	966	4,118	10,548	3,353	981	4,039	10,647
Ohio	3,328	(75)	3,036	6,941	3,462	(40)	3,075	7,261
Wisconsin	2,287	223	1,551	4,400	2,223	201	1,582	4,370
<b>Plains</b>	<b>7,165</b>	<b>677</b>	<b>5,839</b>	<b>11,443</b>	<b>7,271</b>	<b>649</b>	<b>5,959</b>	<b>12,059</b>
Iowa	1,066	105	864	2,159	1,114	116	872	2,224
Kansas	868	32	864	1,874	863	24	901	1,937
Minnesota	2,638	258	2,013	5,532	2,686	258	2,002	5,922
Missouri	1,924	212	1,231	ND	1,932	189	1,257	ND
Nebraska	580	46	455	1,155	585	31	494	1,206
North Dakota	90	25	175	394	89	31	188	423
South Dakota	NA	NA	238	329	NA	NA	243	347
<b>Southeast</b>	<b>16,578</b>	<b>1,949</b>	<b>21,079</b>	<b>47,037</b>	<b>16,820</b>	<b>2,065</b>	<b>21,725</b>	<b>48,302</b>
Alabama	1,075	70	867	2,685	1,096	156	876	2,911
Arkansas	780	71	862	1,824	810	93	877	1,894
Florida	NA	479	6,788	8,796	NA	478	7,006	9,025
Georgia	3,233	197	2,315	6,280	3,162	163	2,195	6,042
Kentucky	1,343	121	1,372	3,348	1,353	167	1,449	3,536
Louisiana	808	156	1,211	2,936	807	81	1,113	2,681
Mississippi	537	81	1,164	2,411	546	75	1,181	2,456
North Carolina	3,657	435	1,749	6,336	3,696	462	2,019	6,660
South Carolina	1,427	51	798	2,541	1,464	48	839	2,656
Tennessee	NA	120	2,311	3,479	NA	153	2,635	3,892
Virginia	3,247	115	1,154	5,055	3,397	146	1,034	5,190
West Virginia	473	54	488	1,348	489	44	500	1,360
<b>Southwest</b>	<b>2,744</b>	<b>287</b>	<b>12,023</b>	<b>20,668</b>	<b>2,666</b>	<b>223</b>	<b>11,781</b>	<b>20,571</b>
Arizona	1,234	169	1,674	3,236	1,194	152	1,701	3,203
New Mexico	463	60	658	1,448	454	37	691	1,423
Oklahoma	1,047	58	753	2,225	1,018	33	712	2,127
Texas	NA	NA	8,938	13,759	NA	NA	8,677	13,818
<b>Rocky Mountain</b>	<b>3,155</b>	<b>176</b>	<b>2,207</b>	<b>6,403</b>	<b>3,097</b>	<b>185</b>	<b>2,196</b>	<b>6,304</b>
Colorado	1,650	91	964	2,805	1,615	73	928	2,701
Idaho	410	24	406	1,044	408	42	428	1,064
Montana	234	25	NA	464	237	21	NA	460
Utah	862	36	721	1,871	838	50	724	1,867
Wyoming	NA	NA	117	219	NA	NA	116	212
<b>Far West</b>	<b>17,959</b>	<b>2,050</b>	<b>15,064</b>	<b>39,381</b>	<b>17,606</b>	<b>2,700</b>	<b>15,895</b>	<b>40,631</b>
Alaska	NA	26	NA	412	NA	31	NA	401
California	15,699	1,944	10,217	29,295	15,050	2,573	10,876	29,977
Hawaii	550	1	816	1,529	538	11	884	1,596
Nevada	NA	NA	1,043	1,228	NA	NA	1,096	1,294
Oregon	1,710	79	NA	1,858	2,018	85	NA	2,177
Washington	NA	NA	2,987	5,059	NA	NA	3,040	5,186

## Technical Notes

This report is based on information collected from state officials, most often in state revenue departments, but in some cases from state budget offices and legislative staff. This is the latest in a series of such reports published by the Rockefeller Institute's Fiscal Studies Program (formerly the Center for the Study of the States).

In most states, revenue reported is for the general fund only, but in several states a broader measure of revenue is used. The most important category of excluded revenues in most states is motor fuel taxes. Taxes on health-care providers to fund Medicaid programs are excluded as well.

*California:* Non-general fund revenue from a sales tax increase dedicated to local governments is included.

*Michigan:* The Single Business Tax, a type of value-added tax, is treated here as a corporation income tax.

Several caveats are important. First, tax collections during a period as brief as three months are subject to influences that may make their interpretation difficult. For example, a single payment from a large corporation can have a significant effect on corporate tax revenues.

Second, estimates of tax adjustments are imprecise. Typically the adjustments reflect tax legislation, however they occasionally reflect other atypical changes in revenue. Unfortunately, we cannot speak with every state in every quarter. We discuss tax legislation carefully with the states that have the largest changes, but for states with smaller changes we rely upon our analysis of published sources and upon our earlier conversations with estimators.

Third, revenue estimators cannot predict the quarter-by-quarter impact of certain legislated changes with any confidence. This is true of almost all corporate tax changes, which generally are reflected in highly volatile quarterly estimated tax payments; to a lesser extent it is true of personal income tax changes that are not implemented through withholding.

Finally, many other non-economic factors affect year-over-year tax revenue growth: changes in payment patterns, large refunds or audits, and administrative changes frequently have significant impacts on tax revenue. It is not possible for us to adjust for all of these factors.

This report contains fourth calendar quarter revenue data for 50 states, although Missouri only had data for its three major taxes, so no totals are included.

## **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 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. Donald J. Boyd, who has spent two decades analyzing state and local fiscal issues, is director of Fiscal Studies.

This report was written by Nicholas W. Jenny, a senior policy analyst with the Program. Michael Cooper, the Rockefeller Institute's Director of Publications, did the layout and design of this report, with assistance from Michele Charbonneau.

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