

STATE REVENUE REPORT

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Tax Increases Shore Up State Revenue

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HIGHLIGHTS

- ❖ Recent modest state tax revenue growth is largely the result of enacted tax increases.
- ❖ State tax revenue in the April-June 2003 quarter increased by 3.1 percent compared to the same period in 2002. After adjusting for tax law changes and inflation, however, real underlying state tax revenue declined by 1.8 percent, continuing the adjusted decline for an eighth straight quarter.
- ❖ States enacted net tax increases for the sixth quarter in a row. This quarter's net increases added an estimated \$3.5 billion to state tax revenue.
- ❖ Personal income tax revenue declined by 0.9 percent, marking an eighth straight quarter of decline.
- ❖ Corporate income tax revenue increased by 17.9 percent, due mostly to enacted tax increases.
- ❖ Sales tax revenue increased by only 2.9 percent.
- ❖ Preliminary fiscal year 2003 state tax revenue is up by 2.3 percent nominally, but down by 2.2 percent after adjusting for enacted tax changes and inflation.

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Figure 1. Year-Over-Year Change in Total Tax Collections, 1991-2003



Figure 2. Year-Over-Year Change in Real Adjusted Tax Revenue, 1991-2003



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

	Total Nominal Increase	Adjusted Nominal Increase	Inflation Rate	Real Increase
1996				
Jan.-Mar.	4.7%	5.7%	2.7%	2.9%
April-June	7.3	8.6	1.9	6.6
July-Sept.	6.2	7.4	2.2	5.1
Oct.-Dec.	6.2	7.5	2.4	5.0
1997				
Jan.-Mar.	6.0	7.4	2.3	5.0
April-June	6.2	8.3	2.8	5.4
July-Sept.	5.5	6.1	2.5	3.5
Oct.-Dec.	6.8	7.9	2.7	5.1
1998				
Jan.-Mar.	6.5	7.0	1.8	5.1
April-June	9.7	11.4	1.8	9.4
July-Sept.	6.6	7.1	1.8	5.2
Oct.-Dec.	7.5	8.0	1.5	6.4
1999				
Jan.-Mar.	4.8	6.5	1.9	4.5
April-June	5.0	8.0	2.7	5.2
July-Sept.	6.1	6.7	3.2	3.4
Oct.-Dec.	7.4	8.4	3.7	4.5
2000				
Jan.-Mar.	9.7	10.4	4.4	5.7
April-June	11.4	11.8	4.3	7.2
July-Sept.	7.1	7.7	4.3	3.3
Oct.-Dec.	4.0	5.0	4.3	0.7
2001				
Jan.-Mar.	5.1	6.3	4.0	2.2
April-June	2.5	4.2	3.4	0.8
July-Sept.	(3.1)	(2.4)	2.3	(4.6)
Oct.-Dec.	(2.7)	(2.2)	1.2	(3.4)
2002				
Jan.-Mar.	(7.8)	(8.2)	0.5	(8.7)
April-June	(10.6)	(12.1)	0.8	(12.8)
July-Sept.	2.5	0.7	1.3	(0.6)
Oct.-Dec.	1.9	0.3	2.0	(1.7)
2003				
Jan.-Mar.	1.4	(1.0)	3.4	(4.3)
April-June	3.1	0.4	2.2	(1.8)

Note: Inflation is measured by the BEA State and Local Government Implicit Price Deflator. Please call the Fiscal Studies Program for pre-1996 data.

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

	PIT	CIT	Sales	Total
1996				
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
1997				
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
1998				
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
1999				
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
2000				
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
2001				
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)
2002				
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
2003				
Jan.-Mar.	(3.1)	9.6	1.9	1.4
April-June	(0.9)	17.9	2.9	3.1

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

Introduction

State tax revenue grew by 3.1 percent in the April-June quarter of 2003. This was the strongest quarter of growth since January-March 2001; however almost all of the growth in the quarter resulted from net enacted tax increases. Without them, state tax revenue would have risen by only 0.4 percent. (See Table 1.)¹ If we also take the effects of inflation into account, real adjusted state tax revenue actually declined by 1.8 percent. This is the eighth straight quarter of real adjusted state revenue decline. This quarter, which marks the end of fiscal year 2003 for most states, has been a year of sluggish revenue growth following a terrible fiscal year 2002.² For more on the long-term trends that are affecting state finances, see: “The Current State Fiscal Crisis and Its Aftermath” by Donald J. Boyd, available at <http://stateandlocalgateway.rockinst.org/>.

Personal income tax revenue was down by 0.9 percent this quarter, the eighth straight quarter of decline. Sales tax revenue increased by a modest 2.9 percent. Corporate income taxes increased by 17.9 percent — mostly a result of tax increases. Significant increases in tobacco taxes also boosted total tax collections.

Tax Revenue Change

Table 1 shows tax revenue changes for the last 30 quarters before and after adjusting for legislated tax changes and inflation. Figure 1 shows the pattern of growth or decline in state tax collections from 1991 to the present. Net enacted tax increases largely fueled the April-June quarter’s growth. Over the last three quarters, tax increases have been just enough to generate slow nominal revenue growth. Without these tax increases, state tax revenue would have been flat or even in slow decline. If we adjust for the effects of tax increases affecting the April-June quarter, the increase falls from 3.1 percent to only 0.4 percent. If we further take into account inflation, there would have been a decline of 1.8 percent. Figure 2 shows the pattern of growth in state tax revenue adjusted for inflation and enacted tax increases from 1991 to the present. This is the eighth straight quarter with a decline in revenue after adjusting for inflation and enacted

Table 3. Percent Change in Quarterly Tax Revenue by State, April to June 2002 to 2003

	<i>PIT</i>	<i>CIT</i>	<i>Sales</i>	<i>Total</i>
United States	(0.9)%	17.9%	2.9%	3.1%
New England	13.9	31.5	0.6	11.3
Connecticut	7.1	6.3	(0.7)	6.3
Maine	(3.5)	25.3*	2.9	1.8
Massachusetts	23.3*	56.4	0.5	18.5*
New Hampshire	NA	11.9	NA	7.5
Rhode Island	0.2¶	22.3	2.7	5.2
Vermont	7.9*	11.2	1.8	5.6*
Mid-Atlantic	(5.7)	32.0	4.0	1.2
Delaware	2.8	(66.1)	NA	(6.7)
Maryland	(4.6)	(19.0)	2.8	(0.7)
New Jersey ¹	(5.9)¶	273.2*	0.9*	19.9*
New York	(8.1)¶	(22.1)	6.8	(5.0)¶
Pennsylvania	(0.7)	(9.3)*	2.9	2.4*
Great Lakes	(3.1)	0.3	8.7	3.3
Illinois	(0.8)	2.3	2.9	(0.2)*
Indiana	1.0	30.6¶	21.8*	19.7*
Michigan	(12.7)¶	(5.7)¶	1.4	(3.6)
Ohio	(4.3)	(21.2)	18.8*	5.3*
Wisconsin	3.1	11.3	2.9	3.1
Plains	(4.0)	1.1	0.7	(0.5)
Iowa	1.8	3.7	1.0¶	1.7
Kansas	(6.7)¶	4.5*	8.1*	2.7*
Minnesota	(4.9)*	37.9	(2.4)	(2.1)
Missouri	(3.6)	(21.9)	(3.2)	ND
Nebraska	(10.7)	6.6	11.7*	(3.0)*
North Dakota	2.0	(10.9)	7.3	2.7
South Dakota	ND	ND	ND	ND
Southeast	(1.8)	14.0	2.3	2.8
Alabama	(4.5)	(10.1)*	0.4	(3.0)*
Arkansas	0.8	(25.4)	2.0	(0.2)
Florida	NA	(0.7)¶	0.9	3.1
Georgia	(0.3)	(19.0)	(1.3)	(1.5)
Kentucky	(2.9)	14.1	0.7	(0.2)
Louisiana	3.0*	23.2¶	(7.5)¶	(1.0)
Mississippi	3.6	19.1	13.8	11.1*
North Carolina	(7.8)	289.6*	(2.3)*	2.4*
South Carolina	2.6	43.0	(2.4)	1.3
Tennessee	NA	26.5	18.5*	15.5*
Virginia	(0.1)	22.4	1.8	3.2
West Virginia	1.9	(25.8)	4.5	5.2
Southwest	(3.2)	14.2	(0.7)	0.1
Arizona	11.3	23.1*	(0.9)	4.9*
New Mexico	(6.2)	(4.2)¶	(0.9)	1.4
Oklahoma	(12.1)*	4.9	1.8	(1.5)*
Texas	NA	NA	(0.8)	(0.6)
Rocky Mountain	(4.3)	20.1	(0.5)	(0.3)
Colorado	(8.5)	21.7	(4.8)	(5.8)
Idaho	1.3	38.8	9.6	3.8
Montana	8.6	(42.7)	NA	11.7
Utah	(2.6)	35.4	0.0	1.0
Wyoming	NA	NA	(2.7)	(2.4)
Far West	3.4	27.1	2.4	5.4
Alaska	NA	4.8	NA	21.1
California	3.1*	27.8*	2.2	5.7*
Hawaii	(3.6)	(12.2)	13.4	7.3
Nevada	NA	NA	7.2	7.8
Oregon	8.7	25.6	NA	9.7*
Washington	NA	NA	(1.7)	(0.5)

See p. 5 for notes

Figure 3
Percent Change in Tax Revenue by Region,
Adjusted for Legislated Changes
April-June 2002 to 2003

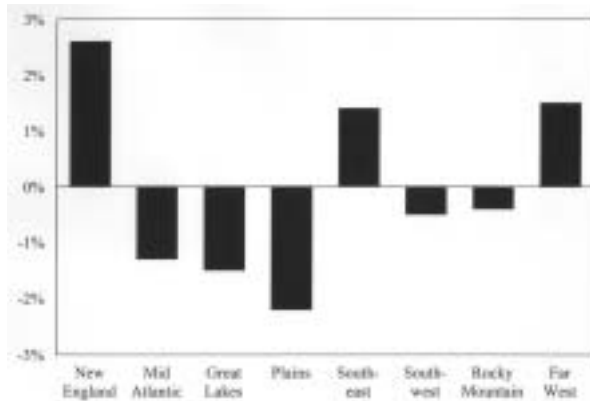


Figure 4
Change in Quarterly Tax Revenue by State, Adjusted for
Legislated Changes, April-June 2002 to 2003

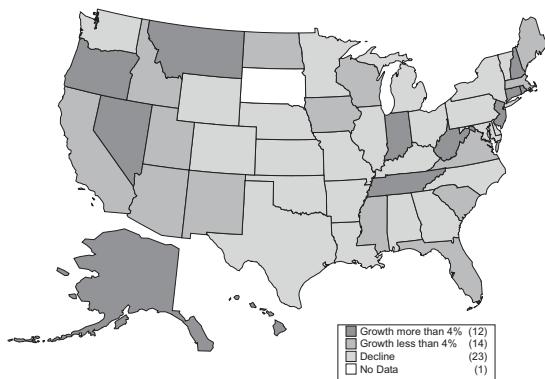
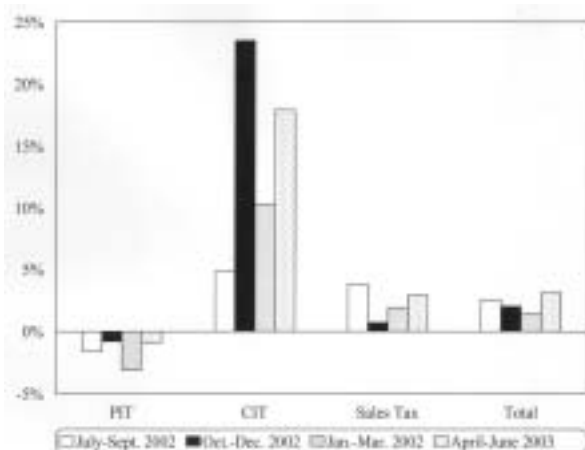


Figure 5
Change in Quarterly Tax Revenue by Tax,
Last Four Quarters



tax changes. 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 30 quarters of change in state collections for the major taxes. Personal income tax collections have declined for eight straight quarters. Corporate income tax collections, in contrast, had another solid gain. Sales tax revenue continues to grow, but only weakly.

Only two regions had declines in their revenue in the April-June quarter: the Plains states (0.5 percent) and the Rocky Mountain states (0.3 percent). (See Table 3.) The strongest growth was in New England: 11.3 percent. The Far West and Great Lakes states also had more rapid growth than the national average.

After adjusting for enacted tax changes and — in some cases — processing variations, the Great Lakes states actually had a decline in underlying revenue. The Mid-Atlantic, Southwest, Plains, and Rocky Mountain states also had declines after adjustments were made. (See Figures 3 and 4.) Figure 5 shows the change in the major taxes over the last four quarters.

Table 4 shows the overall effect of enacted tax changes and processing variations. In all, states enacted net tax hikes of \$3.5 billion in the April-May 2003 quarter.

Personal Income Tax

The April-June quarter is of great importance to all states with personal income taxes because April (May in some states) is the month when taxpayers file their final returns and either collect refunds or pay the remainder of what they owe for the preceding tax year. In the late 1990s, the surging stock market helped bring states final payment windfalls, which often allowed them to finish their fiscal years with surpluses. Last year the opposite happened: the collapse of the stock market and other investment-related income combined with other effects of the recession drove final payments down and refunds up. This year the situation was

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

	<i>PIT</i>	<i>Sales</i>	<i>Total</i>
1996			
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
1997			
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
1998			
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
1999			
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
2000			
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
2001			
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)
2002			
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
2003			
Jan.-Mar.	(4.4)	1.0	(1.0)
April-June	(2.0)	1.3	0.4

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.

not nearly as dramatic, though personal income tax collections remain weak.

Personal income tax revenue declined 0.9 percent in the April-June quarter. This is the eighth straight quarter of decline. Regionally, the largest decline was in the Mid-Atlantic states, which experienced a 5.7 percent decline. New England, however, had a strong increase of 13.9 percent. Of the 41 states with a broad-based income tax, 22 had declines. Michigan had the steepest decline (12.7 per-

cent), while Massachusetts had the largest increase (23.3 percent).

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.

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 April-June 2003 quarter increased by 1.6 percent over the same quarter the year before. Enacted changes in withholding boosted collections by about four-tenths of a percentage point in this quarter. This is the fourth straight quarter of year-over-year withholding increases; the increases, however, remain very slight.

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. Although lately the stock market has staged a turnaround, this has not yet

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 June data not available.

2 Data through March only

NA means not applicable.

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		2003	
	July-Sept.	Oct.-Dec.	Jan.-Mar.	Apr.-June
United States	0.9%	0.2%	2.0%	1.6%
New England	(0.5)	(3.4)	1.5	(2.9)
Connecticut	1.8	(1.9)	1.2	(7.6)
Maine	9.7	4.1	5.5	2.5
Massachusetts	(3.2)	(5.8)	0.5	(2.9)
Rhode Island	4.9	3.7	8.4¶	4.5
Vermont	5.3	2.8	1.7	5.1*
Mid-Atlantic	1.9	(0.6)	(0.1)	1.7
Delaware	(1.0)	(4.6)	3.1	(0.6)
Maryland ¹	4.5	(1.1)	6.1	0.8
New Jersey ¹	1.0	1.9	3.3	4.8
New York	1.0	(1.2)	(3.5)	1.5
Pennsylvania	3.2	0.1	3.0	1.5
Great Lakes	2.5	(1.4)	4.0	(0.4)
Illinois	0.8	(0.7)	(0.7)	(0.9)
Indiana	1.2	2.1	(7.9)	(9.1)*
Michigan	(0.3)¶	(2.4)¶	2.1¶	(1.8)¶
Ohio	4.3*	2.8*	2.4	1.6
Wisconsin	10.5	(9.2)	18.0	1.0
Plains	2.6	2.2	2.2	1.5
Iowa	5.0	6.7	2.6	1.9
Kansas	0.9	2.7	5.1	(0.9)
Minnesota	1.8	1.6	0.8	2.0
Missouri	2.9	0.7	1.4	1.5
Nebraska	3.2	1.7	6.3	0.9
North Dakota	1.2	0.6	2.1	10.8
Southeast	1.1	3.3	2.0	1.5
Alabama	(2.9)	8.9	8.7	(2.1)
Arkansas	1.8	6.3	4.2	1.3
Georgia	(1.9)	2.3	1.5	(2.0)
Kentucky	0.0	4.0	3.2	(0.7)
Louisiana	4.9	0.6	23.2*	22.7
Mississippi	(0.8)	1.8	4.8	10.8
North Carolina	2.1	3.0*	(3.5)	0.0
South Carolina	1.1	3.8	2.4	2.1
Virginia	2.8	3.0	0.8	2.6
West Virginia	13.4	(0.6)	6.3	9.1
Southwest	0.5	1.1	8.6	1.1
Arizona	(3.3)	(2.8)	2.6	3.6
New Mexico	1.3	7.5	11.5	(3.7)
Oklahoma	4.3	3.4	14.6*	0.6*
Rocky Mountain	(0.6)	(0.9)	1.3	(1.0)
Colorado	0.2	(0.8)	0.0	(1.4)
Idaho	(1.2)	1.0	1.9	(0.1)
Montana	7.1	1.0	7.6	9.9
Utah	(3.9)	(2.5)	2.0	(3.6)
Far West	(2.1)	0.2	2.5	5.9
California	(2.5)	0.2*	2.6*	6.5*
Hawaii	(2.9)¶	2.1¶	6.5	1.8
Oregon	0.6	(0.6)	0.7	3.1

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.

translated into tax revenue from stronger capital gains.

In the 37 states for which we have complete data, the decline in estimated tax payments in the April-June 2003 quarter was 6.6 percent compared to the year before. (See Table 6.) For most states, the first two estimated payments for the 2003 tax year were due in this quarter (in April and June). A likely explanation for the continued depression in estimated tax payments is the fact that most states require taxpayers to pay only as much as they owed the year before to avoid penalties. Since non-wage income remained low in 2002 after having declined sharply in 2001, the required payments for the 2003 tax year are likely to be relatively low. Even if the stock market and other sources of non-wage income continue to rebound this year, state income tax revenue may not benefit much from it until next April when states collect final payments on this income.

Final Settlements

Final settlements are the payments taxpayers make, or the refunds they receive, when they file their annual tax returns. In most states the filing deadline is April 15th, but some states with later deadlines do not finish final settlements until May. An informal survey of several states suggests that final payments for 2002 (due April 2003) were weak. Thirteen of 21 states reported that April final payments were down from the year before. This is quite startling considering that April 2002 collections were dramatically lower than those from the previous year. In many states, collections are running behind estimates used to prepare their budgets.

Through the late 1990s and into 2000 and 2001, many states experienced a welcome “April Surprise” as they collected substantially more from final settlements than they had expected. In 2002, however, the “April Surprise” was largely negative as states collected much less than they had projected. This year it appears that states are in for a much smaller surprise, but still a negative one. While this is not having as severe an impact on budgets as states felt in 2002, it is doing little to smooth the adoption of fiscal year 2004 budgets.

General Sales Tax

Sales tax revenue in the April-June 2003 quarter increased by 2.9 percent. Although this is an improvement compared to the previous quarter's growth of 1.9 percent, it continues a trend of sluggish growth: Sales tax growth has not exceeded four percent for two and a half years.

Sales tax revenue grew the fastest in the Great Lakes states, increasing by 8.7 percent compared to the year before. Sales tax revenue declined in the Southwest states by 0.7 percent, and in the Rocky Mountain states by 0.5 percent. Six states had double-digit increases in sales tax revenue.³ In four of these states, the increase was largely the result of significant enacted tax increases.⁴ Thirteen of the 44 states with a general sales tax had declines.

Corporate Income Tax

Corporate income tax revenue grew by 17.9 percent in the April-June quarter, the fourth straight quarter of increases after seven quarters of decline. Much of this quarter's increase resulted from enacted tax changes.

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 national economy continues to show mixed signals. While some broad measures are headed up, others remain weak. The Bureau of Economic Analysis' (BEA's) preliminary estimate for the Gross Domestic Product (GDP) showed growth of 3.1 percent for the second quarter of 2003.⁵ Meanwhile, the unemployment rate moved up to 6.4 percent in June 2003.⁶

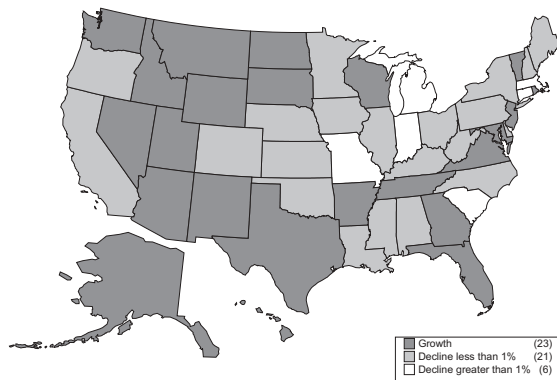
One problem with assessing state economies in a report such as this is a general lack of timely state indicators. Data on non-farm employment,

Table 6. Estimated Payments/Declarations (change year-over-year)	
<i>State</i>	<i>April-June 2003</i>
Average	(6.6)%
Alabama	(7.6)
Arkansas	3.6
California	(6.6)
Colorado	0.5
Connecticut	(1.3)
Delaware	0.3
Georgia	2.5
Hawaii	(14.8)
Illinois	(7.4)
Indiana	(4.5)
Iowa	5.4
Kansas	(14.6)
Kentucky	8.0
Louisiana	(5.9)
Maine	(7.0)
Maryland	(36.2)
Massachusetts	13.8
Michigan	(7.0)
Minnesota	(7.6)
Mississippi	(16.0)
Missouri	(7.1)
Montana	5.7
Nebraska	(12.1)
New Mexico	(10.9)
New York	(10.2)
North Carolina	(7.5)
North Dakota	0.5
Ohio	(9.3)
Oklahoma	(11.3)
Oregon	3.0
Pennsylvania	(3.1)
Rhode Island	(2.6)
South Carolina	(7.2)
Vermont	(11.9)
Virginia	(3.7)
West Virginia	(7.2)
Wisconsin	2.6

See p. 5 for notes.

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

Figure 6
Change in Non-Farm Employment
April-June 2002 to 2003



times of growth, these revisions are usually upwards, but lately significant downward revisions have occurred as the indicators have lagged the recent economic downturn.

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 second quarter 2003 employment compared to the same period in 2002. Overall, employment in the April-June 2003 quarter declined by 0.3 percent compared to the year before. This is the seventh straight quarter of decline in the national employment numbers, though the rate of decline is now rather modest.⁷

Employment declined on a year-over-year basis in all but two regions of the country. In the two regions where employment increased in the April-June 2003 quarter — the Southeast and the Southwest — the increase was only 0.1 percent. The largest decline was 1.0 percent in the New England states. Employment declined in 27 states, up from 18 in the previous quarter. Seven states had declines of one percent or more. The largest declines — 1.4 percent — were in Massachusetts and Missouri. In contrast, six states had increases of over one percent. The strongest increase — 2.3 percent — was in Hawaii. After lagging the nation through the late 1990s, Hawaii has now had three quarters of strong employment growth.

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 most evident in 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.)

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 dragged on, the loss of investment capital manifested itself in weak employment numbers, which in turn depressed withholding.

States are also learning about how sales tax revenue responds to an economic slowdown.

Tax Increases Shore Up State Revenue

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

	2002		2003	
	July- Sept.	Oct.- Dec.	Jan.- Mar.	April- June
United States	(1.1)%	(0.4)%	(0.2)%	(0.3)%
Sum of States	(0.9)	(0.2)	0.0	(0.3)
New England	(1.5)	(1.0)	(0.7)	(1.0)
Connecticut	(0.9)	(0.9)	(0.9)	(1.1)
Maine	(0.2)	0.0	0.1	(0.5)
Massachusetts	(2.3)	(1.5)	(1.1)	(1.4)
New Hampshire	(1.0)	(0.6)	0.0	(0.3)
Rhode Island	0.2	0.7	0.5	0.1
Vermont	(1.1)	(0.1)	0.9	1.0
Mid Atlantic	(0.8)	(0.3)	(0.3)	(0.3)
Delaware	(1.3)	(0.6)	(0.8)	(0.3)
Maryland	0.1	0.1	0.2	0.3
New Jersey	(0.2)	0.1	(0.1)	0.4
New York	(1.6)	(0.8)	(0.6)	(0.7)
Pennsylvania	(0.4)	0.1	(0.2)	(0.4)
Great Lakes	(1.4)	(0.6)	(0.3)	(0.9)
Illinois	(1.5)	(0.4)	(0.1)	(0.9)
Indiana	(1.0)	(0.4)	(0.2)	(1.0)
Michigan	(1.5)	(0.7)	(0.6)	(1.2)
Ohio	(1.4)	(1.0)	(0.7)	(1.0)
Wisconsin	(1.2)	(0.4)	0.2	0.1
Plains	(1.2)	(0.8)	(0.6)	(0.6)
Iowa	(1.4)	(0.5)	(0.2)	(0.4)
Kansas	(0.8)	(0.4)	0.2	(0.6)
Minnesota	(0.9)	(0.7)	(0.3)	(0.4)
Missouri	(1.9)	(1.6)	(2.2)	(1.4)
Nebraska	(1.1)	(0.6)	0.0	(0.3)
North Dakota	0.0	0.5	0.7	0.1
South Dakota	0.1	0.9	1.1	0.3
Southeast	(0.4)	0.3	0.4	0.1
Alabama	(0.9)	(0.5)	0.0	(0.8)
Arkansas	(0.4)	0.4	0.5	0.1
Florida	0.6	1.3	1.4	1.2
Georgia	(0.8)	(0.2)	(0.2)	0.4
Kentucky	(0.8)	(0.2)	0.0	(0.9)
Louisiana	(0.8)	(0.2)	0.3	(0.5)
Mississippi	0.2	0.6	0.4	(0.2)
North Carolina	(1.1)	(0.3)	(0.4)	(0.4)
South Carolina	(0.6)	0.7	0.4	(1.1)
Tennessee	(0.2)	0.2	0.4	0.0
Virginia	(0.7)	0.2	0.0	0.1
West Virginia	(0.3)	(0.7)	0.1	(0.7)
Southwest	(0.9)	(0.1)	0.2	0.1
Arizona	0.1	0.9	1.0	0.6
New Mexico	1.2	1.7	1.7	1.7
Oklahoma	(2.0)	(1.3)	(0.9)	(0.7)
Texas	(1.1)	(0.3)	0.1	0.1
Rocky Mountain	(1.0)	(0.2)	0.0	(0.4)
Colorado	(1.8)	(0.8)	(0.2)	(0.9)
Idaho	0.1	0.8	0.8	0.0
Montana	1.2	1.6	0.6	0.4
Utah	(0.9)	(0.4)	(0.4)	0.0
Wyoming	0.5	0.1	0.4	0.3
Far West	(0.7)	0.2	0.5	(0.2)
Alaska	1.7	3.3	1.7	1.0
California	(0.7)	0.0	0.3	(0.5)
Hawaii	(0.2)	2.3	2.9	2.3
Nevada	(0.2)	1.6	2.2	1.5
Oregon	(0.6)	(0.2)	0.3	(0.8)
Washington	(1.3)	(0.1)	0.5	0.2

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 become 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 in six of the last eight quarters.

Oil has been the wild card in state tax revenue in recent years. When 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 changes that have been enacted into state tax law. 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 enacted legislation, as it helps the reader to know that the number is not necessarily indicative of underlying trends.

During the April-June 2003 quarter, enacted tax changes and processing variations increased state revenue by a net estimated \$3.5 billion compared to the same period in 2002. This was the sixth quarter in a row of net enacted tax hikes, after nearly seven years of tax cuts.

Nationwide, net enacted tax changes increased personal income tax collections by nearly \$600 million. Increases in Massachu-

setts accounted for almost all of the net increase. Net enacted corporate income tax increases amounted to over \$1.1 billion. California and New Jersey both enacted large corporate tax increases (\$800 million and \$300 million, respectively) that accounted for nearly all of the net increase this quarter.

Rate and base changes in several states contributed to a net \$700 million enacted increase in sales tax revenue. The states with the largest increases were Indiana (\$200 million), Ohio (\$180 million), and Tennessee (\$170 million).

Enacted tobacco tax increases pushed state tax revenue up by about \$700 in the April-June quarter. The largest enacted increase in tobacco taxes this quarter was a \$150 million increase in Pennsylvania.

Preliminary Fiscal Year 2003 State Tax Revenue

This quarter ends the fiscal year for 46 states.⁸ Table 8 shows the percentage change for these states from fiscal year 2002 to fiscal year 2003. The data for the other four states is standardized to a July-June fiscal year. In a few months, we will issue a report with more final data for all states' fiscal year 2003 revenues. The data we now have indicates that state tax revenue grew by about 2.3 percent in the standardized fiscal year 2003. However, enacted tax increases and processing changes (including accelerations of collections) account for almost all of this growth. If we also consider inflation, real underlying revenue declined by 2.2 percent in fiscal year 2003. This was much less than the decline in fiscal year 2002, but is still bad news as far as the states are concerned.

Personal income tax collections declined by 1.5 percent from fiscal year 2002 to fiscal year 2003, continuing the decline in this major tax for a second year. Corporate income tax revenue — always volatile — increased by 13.6 percent, largely due to enacted tax increases. Sales tax revenue increased by 2.3 percent, the second year of only modest growth in this tax source. From 1991 through 2000, in contrast, nominal sales tax revenue growth averaged a robust 5.9 percent annually.

Conclusions

Both the small growth in state revenue collections in the April-June quarter and the decline in revenue after adjusting for enacted tax changes and inflation follow a pattern that has been in place for four quarters now. Although state tax revenues are growing, the growth is very slight and results from newly enacted tax increases. After last year's severe revenue decline, the fiscal condition of the states is still very fragile. If economic conditions continue to improve, so will the condition of state budgets. On the other hand, any economic setbacks will quickly open up new gaps in state budgets.

Endnotes

- 1 Note that we have changed our measure of inflation from the Consumer Price Index to the Bureau of Economic Analysis' State and Local Government Implicit Price Deflator; this has been applied to the entire table.
- 2 Forty-six states have a July 1st to June 30th fiscal year. The exceptions are New York, where the fiscal year runs from April 1st to March 31st, Texas, where it runs from September 1st to August 31st, and Alabama and Michigan, where it runs from October 1st to September 30th.
- 3 Hawaii, Indiana, Ohio, Mississippi, Nebraska, and Tennessee.
- 4 Indiana, Ohio, Nebraska, and Tennessee.
- 5 United States Department of Commerce, Bureau of Economic Analysis News Release, August 28, 2003.
- 6 United States Department of Labor, Bureau of Labor Statistics, *Labor Force Statistics From the Current Population Survey*, www.bls.gov.
- 7 Note that the employment numbers have been revised as BLS has moved from the 1987 Standard Industrial Classification System (SIC) to the 2002 North American Industry Classification System (NAICS) and made other revisions to its sampling methodology.
- 8 See note 2.

Tax Increases Shore Up State Revenue

Table 8
Percent Change in Tax Revenue by State, July-June, FY 2002 to FY 2003

	<i>PIT</i>	<i>CIT</i>	<i>Sales</i>	<i>Total</i>
United States	(1.5)%	13.6%	2.3%	2.3%
New England	0.1	45.0	1.2	4.6
Connecticut	(2.9)	121.5	0.9	4.9
Maine	0.2	17.8	2.6	2.7
Massachusetts	1.4	36.3	0.3	4.7
New Hampshire	NA	10.3	NA	4.3
Rhode Island	(0.1)	111.4	4.6	6.0
Vermont	0.8	10.5	1.8	3.0
Mid Atlantic	(3.7)	19.8	3.0	1.4
Delaware	(0.5)	(50.2)	NA	(3.8)
Maryland	(2.4)	4.9	1.5	0.1
New Jersey ¹	(2.3)	140.6	0.2	9.7
New York	(5.5)	(2.2)	4.9	(2.5)
Pennsylvania	(0.5)	(1.5)	3.1	4.7
Great Lakes	(0.2)	(0.9)	3.1	2.8
Illinois	(1.3)	(3.1)	0.1	(1.5)
Indiana	2.9	2.8	10.9	13.4
Michigan	(4.6)	(4.5)	0.3	0.1
Ohio	1.6	4.9	6.0	5.5
Wisconsin	2.7	4.5	1.4	2.4
Plains	(1.3)	1.2	2.3	3.2
Iowa	1.9	7.1	0.7	1.6
Kansas	(4.3)	11.7	5.3	3.1
Minnesota	(1.0)	12.2	0.5	3.4
Missouri	(1.7)	(18.2)	0.0	ND
Nebraska	(2.6)	3.7	12.0	3.8
North Dakota	(0.4)	5.9	7.5	6.1
South Dakota ²	NA	NA	3.1	5.1
Southeast	(0.2)	8.0	2.9	2.6
Alabama	1.0	27.5	1.9	4.5
Arkansas	2.2	3.5	1.3	2.2
Florida	NA	0.8	2.4	3.3
Georgia	(3.3)	(12.8)	(1.3)	(2.6)
Kentucky	1.6	34.0	2.5	3.8
Louisiana	4.9	(29.3)	(5.5)	(3.9)
Mississippi	4.8	13.6	4.1	5.0
North Carolina	(2.4)	34.3	5.9	2.6
South Carolina	(0.6)	4.3	2.2	1.0
Tennessee	NA	21.8	15.8	12.8
Virginia	1.0	18.3	(3.9)	1.8
West Virginia	2.1	(17.7)	1.8	2.8
Southwest	(4.8)	(9.4)	(1.8)	(0.5)
Arizona	0.5	12.4	1.2	2.2
New Mexico	(10.0)	(28.4)	4.4	(1.7)
Oklahoma	(7.5)	(38.7)	(3.3)	(4.0)
Texas	NA	NA	(2.6)	(0.3)
Rocky Mountain	(3.4)	5.4	(0.7)	(1.4)
Colorado	(6.0)	(0.1)	(3.6)	(5.1)
Idaho	0.2	21.7	6.2	3.1
Montana	3.5	(35.3)	NA	4.1
Utah	(2.0)	27.7	0.2	0.4
Wyoming	NA	NA	(5.0)	(4.6)
Far West	(1.3)	26.8	4.2	3.2
Alaska	NA	(10.6)	NA	7.9
California	(2.4)	28.6	4.2	2.8
Hawaii	(3.1)	(82.0)	11.2	4.4
Nevada	NA	NA	5.9	6.0
Oregon	9.5	15.3	NA	9.0
Washington	NA	NA	1.2	1.7

See p. 5 for notes.

Table 9
State Tax Revenue, April to June 2002 and 2003 (In Millions of Dollars)

	2002				2003			
	<i>Personal Income</i>	<i>Corporate Income</i>	<i>Sales</i>	<i>Total</i>	<i>Personal Income</i>	<i>Corporate Income</i>	<i>Sales</i>	<i>Total</i>
United States	\$52,452	\$8,567	\$44,300	\$125,590	\$51,987	\$10,097	\$45,581	\$128,505
New England	3,710	397	2,193	7,842	4,225	522	2,207	8,730
Connecticut	1,030	96	746	2,278	1,103	102	741	2,421
Maine	400	30	278	858	386	38	286	874
Massachusetts	1,914	171	931	3,581	2,360	267	936	4,243
New Hampshire	NA	58	NA	343	NA	65	NA	369
Rhode Island	244	31	190	564	244	38	195	594
Vermont	123	10	48	218	132	11	49	230
Mid Atlantic	11,085	1,444	5,503	21,324	10,450	1,906	5,723	21,574
Delaware	188	90	NA	576	193	30	NA	538
Maryland	1,449	146	654	2,471	1,383	118	673	2,455
New Jersey ¹	1,502	254	972	3,302	1,413	948	981	3,960
New York	5,766	439	2,024	9,627	5,297	342	2,162	9,146
Pennsylvania	2,180	517	1,853	5,348	2,165	468	1,908	5,477
Great Lakes	8,689	1,753	6,803	19,769	8,421	1,759	7,398	20,417
Illinois	2,376	353	1,505	5,052	2,357	361	1,548	5,044
Indiana	1,116	311	933	2,541	1,127	406	1,136	3,041
Michigan	1,552	603	1,896	4,904	1,356	569	1,923	4,729
Ohio	2,397	363	1,571	4,759	2,295	286	1,866	5,012
Wisconsin	1,248	123	899	2,513	1,286	137	924	2,591
Plains	4,319	468	2,980	6,624	4,146	473	3,002	6,593
Iowa	679	75	419	1,310	691	78	424	1,332
Kansas	583	61	418	1,131	544	63	452	1,161
Minnesota	1,227	99	1,211	3,268	1,167	136	1,182	3,198
Missouri	1,410	171	619	ND	1,358	134	599	ND
Nebraska	341	36	231	677	304	39	258	657
North Dakota	80	26	82	239	81	23	88	245
South Dakota	ND	ND	ND	ND	ND	ND	ND	ND
Southeast	9,630	1,855	11,708	28,290	9,459	2,115	11,981	29,077
Alabama	750	83	449	1,707	717	75	450	1,655
Arkansas	553	112	436	1,161	557	84	445	1,160
Florida	NA	515	3,716	5,611	NA	511	3,751	5,785
Georgia	1,720	264	1,335	3,588	1,716	214	1,319	3,536
Kentucky	804	101	692	1,849	781	115	696	1,845
Louisiana	596	103	585	1,749	614	127	541	1,732
Mississippi	305	91	602	1,331	316	109	685	1,479
North Carolina	2,073	69	1,003	3,476	1,911	267	980	3,559
South Carolina	597	42	744	1,581	613	60	723	1,602
Tennessee	NA	247	1,171	2,199	NA	312	1,389	2,540
Virginia	1,905	148	724	3,176	1,903	181	737	3,277
West Virginia	327	80	250	863	334	59	261	908
Southwest	1,482	241	5,788	11,683	1,435	275	5,750	11,700
Arizona	487	147	791	1,564	542	180	783	1,640
New Mexico	306	45	327	823	287	43	324	835
Oklahoma	690	49	364	1,305	606	52	371	1,284
Texas	NA	NA	4,306	7,992	NA	NA	4,272	7,941
Rocky Mountain	1,949	206	1,091	3,933	1,865	247	1,085	3,921
Colorado	1,043	88	468	1,633	955	107	446	1,538
Idaho	252	34	196	649	256	47	214	674
Montana	165	26	NA	444	179	15	NA	496
Utah	488	58	354	1,023	476	78	354	1,033
Wyoming	NA	NA	73	184	NA	NA	71	180
Far West	11,587	2,204	8,235	25,124	11,985	2,800	8,435	26,492
Alaska	NA	16	NA	371	NA	17	NA	449
California	10,258	2,073	5,878	19,212	10,572	2,649	6,010	20,299
Hawaii	255	26	400	758	246	23	454	814
Nevada	NA	NA	532	583	NA	NA	570	628
Oregon	1,074	89	NA	1,202	1,167	112	NA	1,318
Washington	NA	NA	1,424	2,999	NA	NA	1,401	2,984

Tax Increases Shore Up State Revenue

Table 10
State Tax Revenue, July to June, 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>
United States	\$183,801	\$24,211	\$172,372	\$445,064	\$180,967	\$27,515	\$176,396	\$455,096
New England	13,649	1,035	8,232	28,073	13,665	1,500	8,328	29,367
Connecticut	3,446	150	2,743	7,610	3,345	332	2,768	7,983
Maine	1,070	77	836	2,368	1,072	91	857	2,432
Massachusetts	7,913	587	3,696	14,206	8,026	799	3,708	14,874
New Hampshire	NA	161	NA	1,197	NA	178	NA	1,249
Rhode Island	813	33	742	1,872	812	71	776	1,984
Vermont	408	26	215	821	411	29	219	845
Mid Atlantic	41,665	5,436	23,065	83,416	40,106	6,512	23,751	84,614
Delaware	713	133	NA	1,779	710	66	NA	1,712
Maryland	4,448	362	2,400	7,869	4,341	379	2,435	7,874
New Jersey ¹	5,906	857	4,854	14,032	5,770	2,063	4,862	15,386
New York	23,459	2,665	8,519	40,163	22,179	2,606	8,934	39,145
Pennsylvania	7,139	1,419	7,293	19,574	7,106	1,397	7,520	20,497
Great Lakes	29,649	4,962	26,939	71,493	29,598	4,917	27,784	73,471
Illinois	8,086	1,043	6,089	18,218	7,979	1,011	6,093	17,942
Indiana	3,541	709	3,761	8,709	3,644	729	4,172	9,880
Michigan	6,201	1,988	7,722	20,042	5,916	1,898	7,745	20,068
Ohio	7,304	712	6,038	15,474	7,420	747	6,398	16,318
Wisconsin	4,517	509	3,329	9,051	4,639	532	3,375	9,263
Plains	15,509	1,473	11,662	24,134	15,313	1,491	11,934	24,899
Iowa	2,372	221	1,692	4,662	2,418	237	1,704	4,735
Kansas	1,830	94	1,704	3,891	1,750	105	1,794	4,012
Minnesota	5,443	530	4,198	11,880	5,390	594	4,221	12,284
Missouri	4,471	449	2,464	ND	4,393	367	2,464	ND
Nebraska	1,160	108	919	2,366	1,129	112	1,029	2,456
North Dakota	234	72	338	848	233	76	364	900
South Dakota ²	NA	NA	348	487	NA	NA	358	512
Southeast	33,543	4,813	43,734	98,575	33,464	5,197	45,015	101,098
Alabama	2,421	228	1,736	5,864	2,445	291	1,769	6,131
Arkansas	1,792	220	1,729	3,985	1,831	227	1,751	4,072
Florida	NA	1,219	14,148	19,120	NA	1,228	14,485	19,743
Georgia	6,488	589	4,834	12,978	6,271	513	4,771	12,640
Kentucky	2,703	207	2,729	6,721	2,746	278	2,797	6,976
Louisiana	1,784	280	2,404	6,024	1,870	198	2,271	5,789
Mississippi	994	254	2,355	4,886	1,042	289	2,453	5,130
North Carolina	7,264	660	3,706	12,825	7,089	886	3,923	13,163
South Carolina	2,349	143	2,027	5,177	2,334	149	2,071	5,231
Tennessee	NA	503	4,646	7,482	NA	613	5,379	8,441
Virginia	6,711	290	2,430	10,619	6,776	343	2,336	10,807
West Virginia	1,038	220	991	2,895	1,061	181	1,008	2,976
Southwest	5,290	654	23,287	42,398	5,035	593	22,872	42,199
Arizona	2,087	346	3,000	5,813	2,098	389	3,036	5,943
New Mexico	1,026	142	1,310	3,012	923	102	1,368	2,961
Oklahoma	2,178	166	1,475	4,561	2,014	102	1,427	4,379
Texas	NA	NA	17,501	29,012	NA	NA	17,041	28,917
Rocky Mountain	6,411	466	4,398	13,343	6,193	491	4,367	13,153
Colorado	3,440	202	1,900	5,716	3,235	202	1,831	5,421
Idaho	842	77	788	2,206	844	94	836	2,275
Montana	518	68	NA	1,179	536	44	NA	1,228
Utah	1,611	119	1,441	3,661	1,578	152	1,444	3,676
Wyoming	NA	NA	270	581	NA	NA	257	554
Far West	38,085	5,373	31,056	83,632	37,592	6,815	32,346	86,294
Alaska	NA	52	NA	948	NA	47	NA	1,023
California	33,338	5,080	21,538	62,957	32,531	6,535	22,453	64,730
Hawaii	1,072	45	1,612	3,049	1,038	8	1,793	3,182
Nevada	NA	NA	2,070	2,395	NA	NA	2,192	2,539
Oregon	3,675	195	NA	4,035	4,023	225	NA	4,397
Washington	NA	NA	5,835	10,248	NA	NA	5,908	10,424

See p. 5 for notes.

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 second 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. Cecilia Ferradino assisted with the collection of data for this report.

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Fiscal Studies Program

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