State Tax Revenue Shows Slight Improvement

Preliminary July-September Quarterly Data

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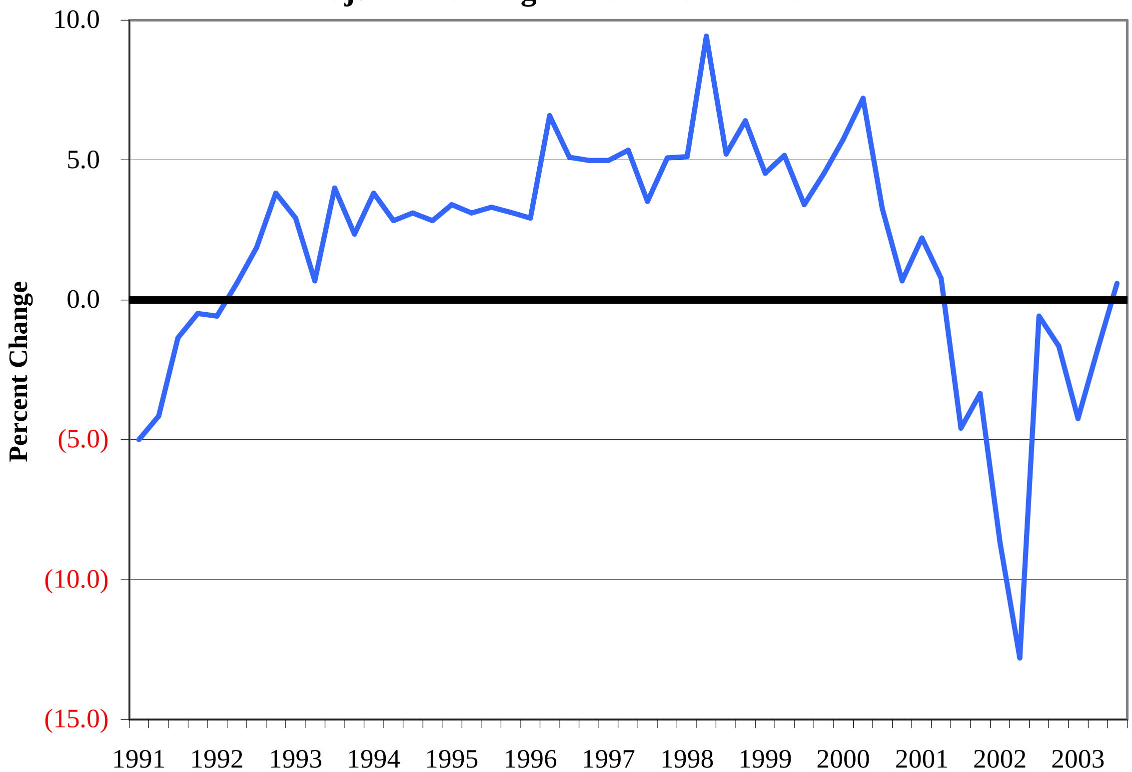
State tax revenue grew by 4.5 percent in the July-September 2003 quarter compared to the year before, according to preliminary data collected by the Rockefeller Institute of Government. When adjusted for the effects of legislation and inflation, this increase was only 0.6 percent. While weak, this was the first real, adjusted state tax revenue growth in over two years. (See Figure 1.) This slight improvement took place while the real gross domestic product grew by 7.2 percent.[1] Therefore, while the stronger economy may be helping state tax revenues, they are clearly not keeping pace with economic growth. States will probably have to cut spending and/or raise taxes in order to balance the fiscal year 2005 budgets that they will begin to consider in a few months.

Figure 1.
Year-Over-Year Change in Total Tax Collections, Adjusted for Legislation and Inflation



Source: The Nelson A. Rockefeller Institute of Government.

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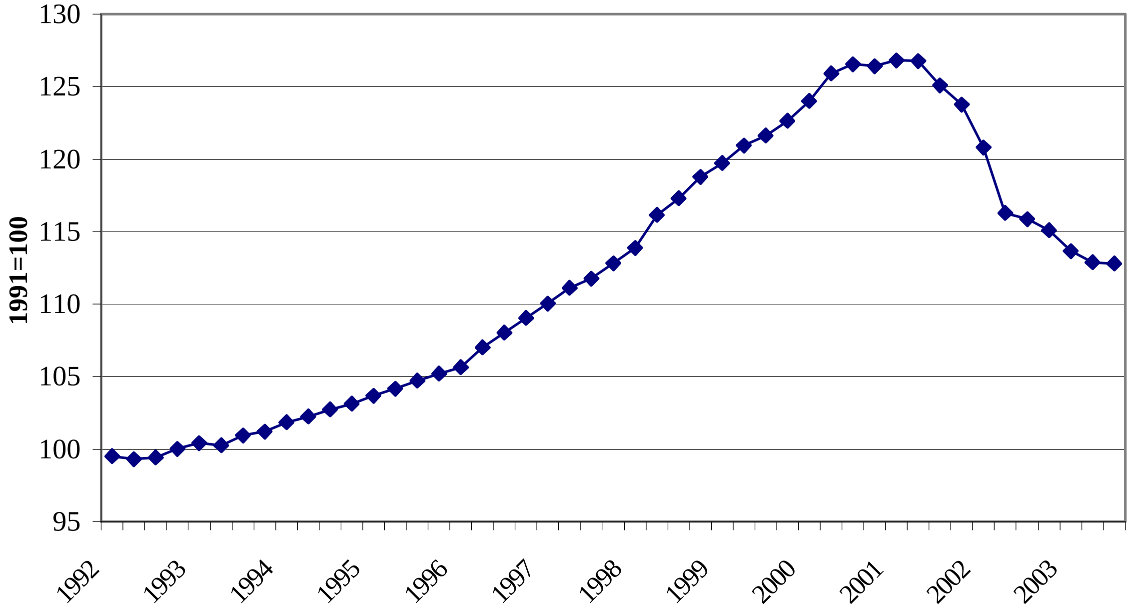
[1] United States Department of Commerce, Bureau of Economic Analysis, "News Release," October 30, 2003.

Figure 2.
Per-Capita State Tax Revenue, Indexed to 1991
Adjusted for Legislation and Inflation,
Four-Quarter Moving Average



Source: The Nelson A. Rockefeller Institute of Government.

In Figure 2 we take the legislation and inflation adjusted data from Figure 1, index for population growth, and then use a four-quarter moving average to smooth out the quarter-to-quarter variations. It gives a picture of what has happened to underlying state tax revenue growth just after the recession that ended in 1991. Assuming that we have reached the bottom of the recent revenue decline and that revenue grows as strongly and for as long as it did in the 1990s (an optimistic assumption), without tax increases it would take state tax revenue almost six years to again reach the real per-capita levels that it reached in 2000.

Table 1.

Percent Change in Quarterly Total Tax Revenue by Region, adjusted for legislation and inflation, July to September 2002 to 2003 (preliminary)

Far West	5.5
United States	**0.6**
Southeast	0.6
Rocky Mountain	0.5
New England	0.3
Plains	0.0
Mid Atlantic	(1.0)
Southwest	(1.0)
Great Lakes	(1.6)

Source: The Nelson A. Rockefeller Institute of Government.

As can be seen in Table 1, state tax revenue growth in the July-September quarter, adjusted for legislation and inflation, was the strongest in the Far West states – which had been hammered by declining revenue over the previous two years. The remaining regions of the nation saw only slight adjusted real revenue growth, if any. The Great Lakes states actually experienced an adjusted real decline in revenue of 1.6 percent.

Updated and expanded state tax revenue numbers, including state-by-state data, will be available in *State Revenue Report* #54, covering the July-September quarter.

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