

# State Tax Revenue Continues Slow Improvement

## Preliminary October-December Quarterly Data

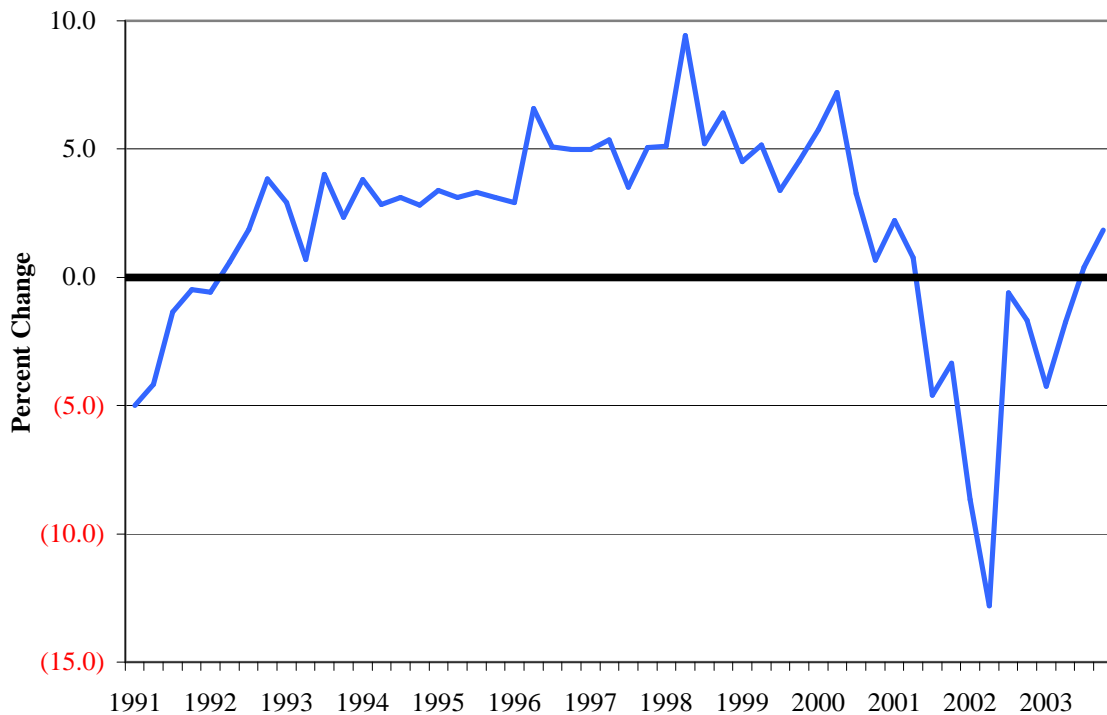
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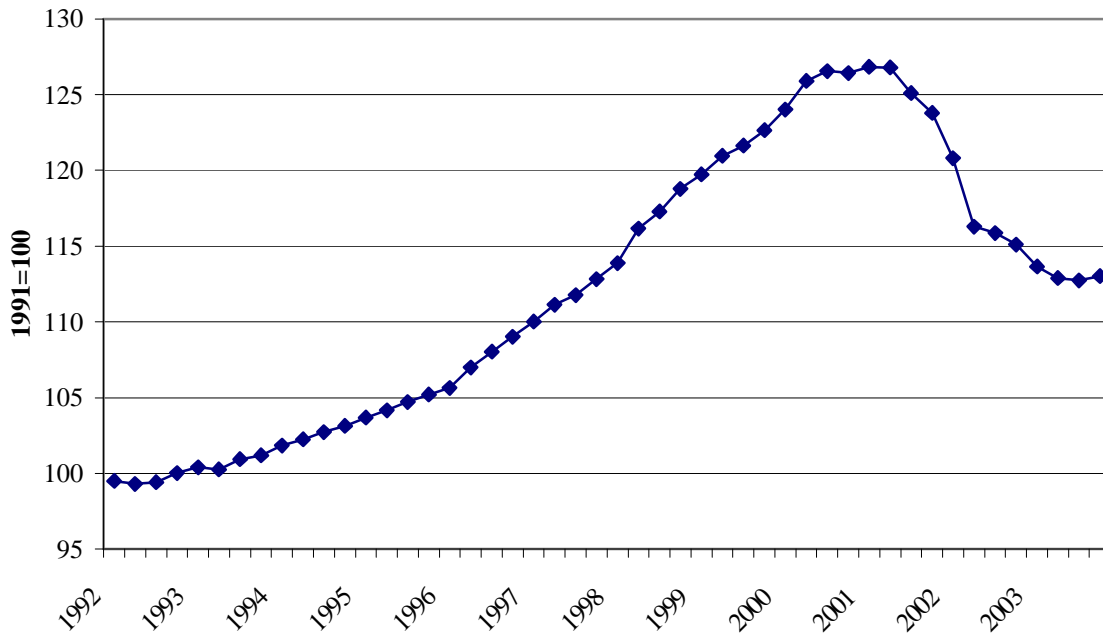
State tax revenue grew by 7.4 percent in the October-December 2003 quarter compared to the year before, according to preliminary data collected by the Rockefeller Institute of Government. When adjusted for the effects of legislation and inflation, this increase was only 1.8 percent. This is the second straight quarter of real, adjusted state tax revenue growth, and continues a trend of strengthening growth throughout 2003. However, state tax revenue growth is still much weaker than before the recent recession. (See Figure 1.)

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



Source: The Nelson A. Rockefeller Institute of Government. Inflation measured by the Bureau of Economic Analysis' State and Local Government Price Index.

**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. Inflation measured by the Bureau of Economic Analysis' State and Local Government Price Index; population increases are from Bureau of the Census estimates.

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 from just after the recession that ended in 1991 to the most recent quarter. It is apparent that underlying state tax revenue is beginning to recover in real per-capita terms. However, it is also apparent that there is a long way to go to get back to levels that states reached before the 2001 recession. It is no wonder that as states move into another budget cycle, the order of the day is still spending retrenchment and even further legislated state tax increases to close persistent budget gaps.

**Table 1.**

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

Southwest	3.3
Southeast	3.1
New England	2.8
Rocky Mountain	2.5
<b>United States</b>	<b>1.8</b>
Far West	1.7
Plains	1.1
Great Lakes	1.0
Mid Atlantic	0.5

Source: The Nelson A. Rockefeller Institute of Government.  
Inflation measured by the Bureau of Economic Analysis'  
State and Local Government Price Index.

As can be seen in Table 1, state tax revenue growth in the October-December quarter, adjusted for legislation and inflation, was the strongest in the Southwest region – which moved through the recent recession later than most of the rest of the nation. For the first quarter since before the 2001 recession, all regions had real, adjusted tax revenue growth. The Mid-Atlantic region had the smallest growth – only 0.5 percent.

Updated and expanded state tax revenue numbers, including state-by-state data, will be available in *State Revenue Report #55*, covering the October-December quarter.

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