

State Tax Revenue Growth Gains Momentum

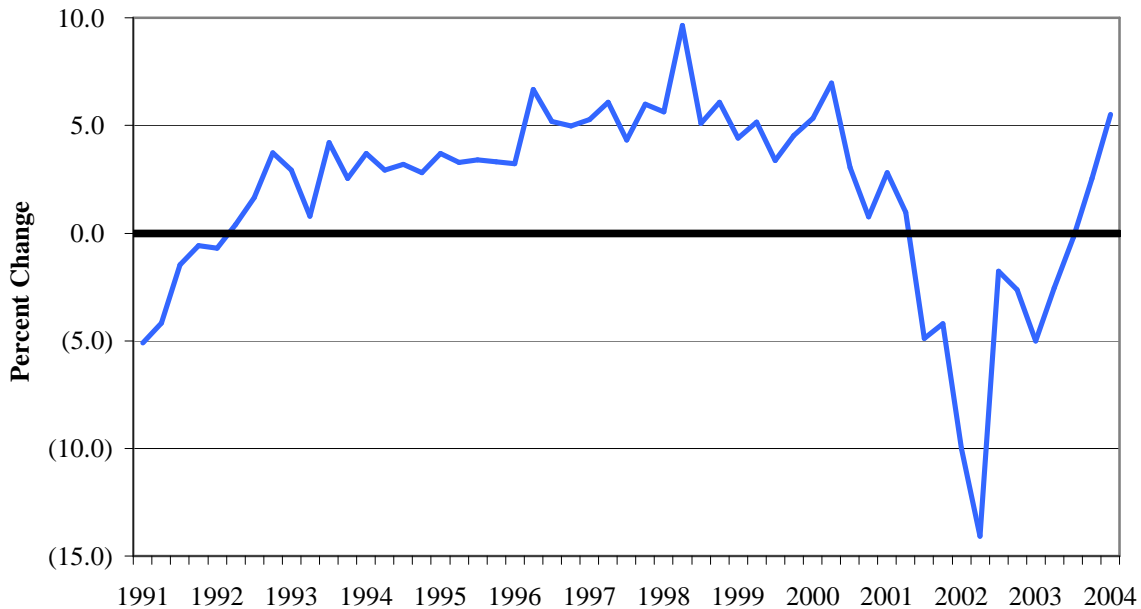
Preliminary January-March Quarterly Data

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State tax revenue grew by 8.4 percent in the January-March 2004 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 5.5 percent. This is the third straight quarter of real, adjusted state tax revenue growth, and the growth is now moving into the range seen before the recent recession. So far, fiscal year 2004 looks to be a good year for state government revenues. (See Figure 1.)

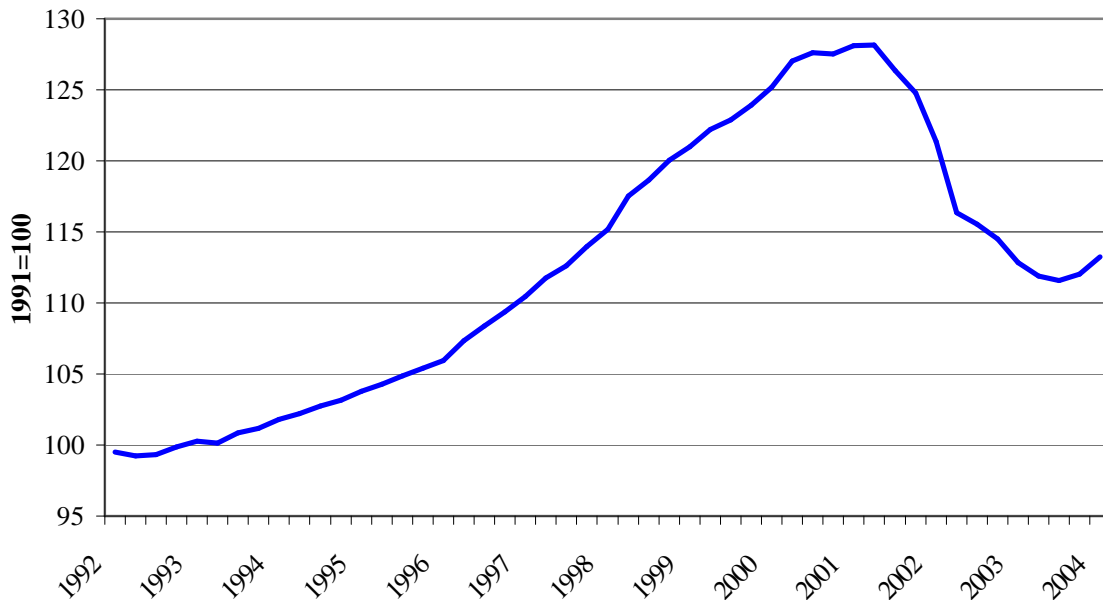
Figure 1.
Year-Over-Year Change in Total Tax Collections,
Adjusted for Legislation and Inflation



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

While state tax revenue growth is healthy again, real state revenue levels still have a way to go before they have fully recovered from the recession, even though it ended over two years ago. Figure 2 shows the legislation and inflation adjusted data from Figure 1, indexed for population growth, and using a four-quarter moving average to smooth out the quarter-to-quarter variations. It provides a clearer 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. While the curve is now clearly headed upward, it may still be years before the states have as much real revenue as they had before the recession. This drop in state revenues has been reflected in the fiscal outlook of many states, as the budget debate still features spending reductions and tax increases.

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.

Table 1.

**Percent Change in Quarterly Total Tax Revenue
by Region, adjusted for legislation and inflation,
January-March 2003 to 2004 (preliminary)**

Far West	9.4
Mid-Atlantic	7.3
New England	5.8
United States	5.5
Southeast	4.8
Southwest	4.3
Rocky Mountain	3.7
Great Lakes	2.6
Plains	2.3

Source: The Nelson A. Rockefeller Institute of Government.
Inflation measured by the Bureau of Economic Analysis' State and Local Government Price Index, it is assumed that inflation affects all regions equally.

As can be seen in Table 1, state tax revenue growth in the January-March quarter, adjusted for legislation and inflation, was the strongest in the Far West region – which was very badly affected in the recent recession. This is the second straight quarter that all regions had real adjusted tax revenue growth. The Plains region had the smallest growth at 2.3 percent.

Updated and expanded state tax revenue numbers, including state-by-state data, will be available in the forthcoming *State Revenue Report #56*, covering the January-March quarter.

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