

STATE REVENUE REPORT

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2005 Opens with Strong State Tax Revenue Growth

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HIGHLIGHTS

- ❖ State tax revenue in the January-March 2005 quarter grew 11.7 percent compared to the same period in 2004. This was the strongest first-quarter growth since at least 1991.
- ❖ This growth was boosted considerably by relatively strong inflation of 5.1 percent at an annual rate, and by enacted changes in state tax laws — including an amnesty in California — that contributed 2.5 percentage points to the growth.
- ❖ After adjusting for these tax law changes and inflation, real underlying state tax revenue growth was a more modest 3.9 percent.
- ❖ All three major tax sources showed strong growth, with the sharpest gains recorded in the corporate income tax.
- ❖ Revenue growth was strongest in the Far West region (24.2 percent) and weakest in the Great Lakes states (5.0 percent).
- ❖ National employment growth was 1.7 percent in the quarter, with the strongest growth in the western and southern regions.

Tax Revenue Change

State tax revenue increased 11.7 percent in the January-March quarter of 2005 compared to the same quarter the year before. This is the strongest first-quarter nominal revenue growth since at least

1991. Personal income tax revenue growth was particularly strong, in part reflecting lagging collections from stronger economic growth in 2004. Tax revenue changes for the last 29 quarters are shown in Table 1.

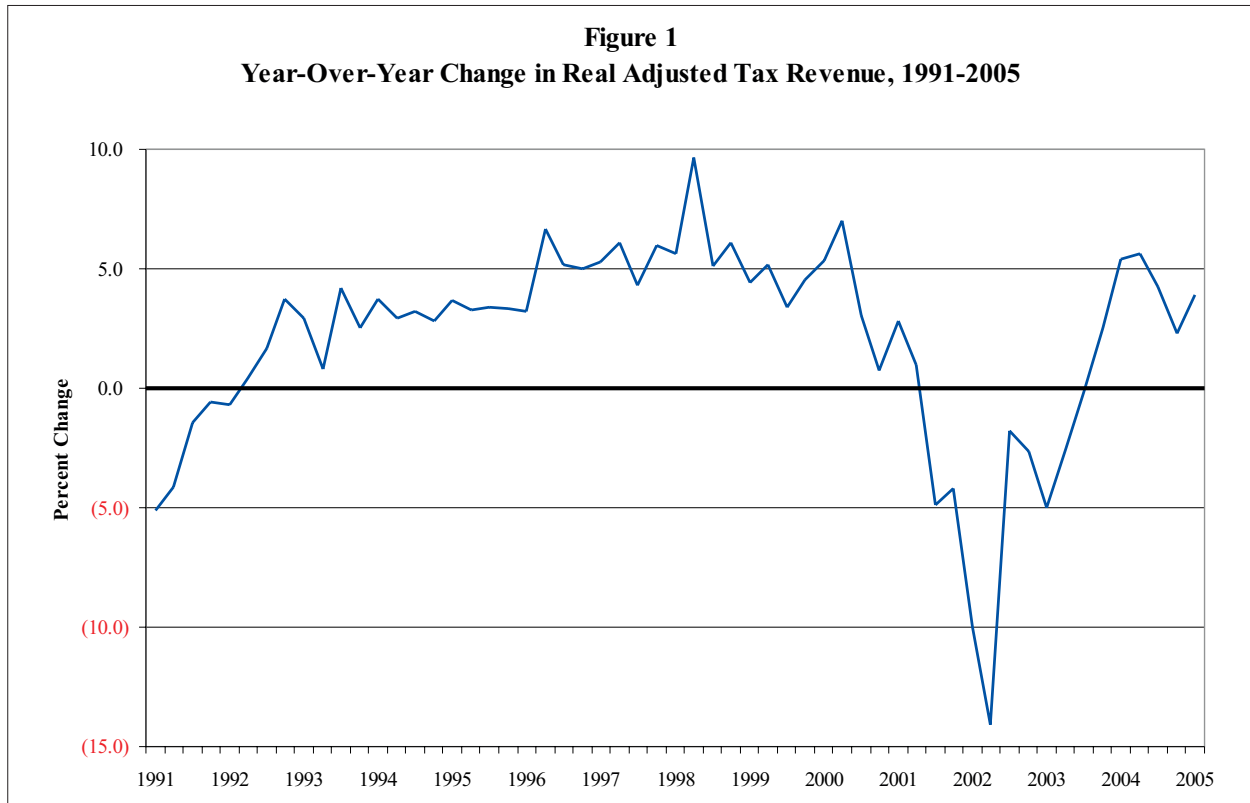
Table 1 Year-Over-Year Percent Change in Quarterly State Tax Revenue <i>Adjusted for Legislated Tax Changes and Inflation</i>				
	Total	Adjusted		
	Nominal	Nominal	Inflation	Adjusted
	Change	Change	Rate	Real Change
2005				
Jan.-Mar.	11.7 %	9.2 %	5.1 %	3.9 %
2004				
Oct.-Dec.	7.8	7.3	4.9	2.3
July-Sept.	8.6	8.1	3.7	4.2
April-June	11.2	9.0	3.2	5.6
Jan.-Mar.	8.1	7.1	1.5	5.5
2003				
Oct.-Dec.	7.3	4.9	2.3	2.5
July-Sept.	4.5	2.6	2.8	(0.2)
April-June	3.2	0.4	3.0	(2.5)
Jan.-Mar.	1.4	(1.0)	4.2	(5.0)
2002				
Oct.-Dec.	1.9	0.3	3.0	(2.6)
July-Sept.	2.5	0.7	2.5	(1.8)
April-June	(10.6)	(12.1)	2.3	(14.1)
Jan.-Mar.	(7.8)	(8.2)	2.0	(10.0)
2001				
Oct.-Dec.	(2.7)	(2.2)	2.1	(4.2)
July-Sept.	(3.1)	(2.4)	2.6	(4.9)
April-June	2.5	4.2	3.2	1.0
Jan.-Mar.	5.1	6.3	3.4	2.8
2000				
Oct.-Dec.	4.0	5.0	4.2	0.8
July-Sept.	7.1	7.7	4.5	3.1
April-June	11.4	11.8	4.5	7.0
Jan.-Mar.	9.7	10.4	4.8	5.3
1999				
Oct.-Dec.	7.4	8.4	3.7	4.5
July-Sept.	6.1	6.7	3.2	3.4
April-June	5.0	8.0	2.7	5.2
Jan.-Mar.	4.8	6.5	2.0	4.4
1998				
Oct.-Dec.	7.5	8.0	1.8	6.1
July-Sept.	6.6	7.1	1.9	5.1
April-June	9.7	11.4	1.6	9.6
Jan.-Mar.	6.5	7.0	1.3	5.6

Inflation is measured by BEA State and Local Government Consumption Expenditures and Gross Investment Price Index.

For the most part, tax increases and other processing changes made a relatively minor contribution to state tax collections, and were concentrated in a few states. There was a major event in California, where a tax amnesty resulted in a huge surge in corporate income tax collections this quarter. Without the boost from this amnesty and other net

Table 2 Year-Over-Year Percent Change in Quarterly State Tax Revenue <i>By Major Tax</i>				
	PIT	CIT	Sales	Total
2005				
Jan.-Mar.	11.2 %	61.1 %	5.8 %	11.7 %
2004				
Oct.-Dec.	8.8	27.0	6.0	7.8
July-Sept.	8.3	23.2	5.8	8.6
April-June	15.6	13.6	7.1	11.2
Jan.-Mar.	8.7	15.2	8.3	8.1
2003				
Oct.-Dec.	6.6	11.1	6.6	7.3
July-Sept.	5.1	9.0	3.7	4.5
April-June	(0.9)	17.9	2.9	3.1
Jan.-Mar.	(3.1)	10.3	1.9	1.4
2002				
Oct.-Dec.	(0.7)	22.4	0.7	1.9
July-Sept.	(1.6)	4.8	3.8	2.5
April-June	(22.3)	(11.7)	1.5	(10.4)
Jan.-Mar.	(14.3)	(16.1)	(1.0)	(7.8)
2001				
Oct.-Dec.	(2.7)	(31.8)	1.0	(2.7)
July-Sept.	(3.7)	(24.0)	0.0	(3.1)
April-June	5.4	(13.1)	0.5	2.5
Jan.-Mar.	8.7	(9.1)	3.4	5.1
2000				
Oct.-Dec.	5.8	(7.7)	4.2	4.0
July-Sept.	11.0	5.7	4.6	7.1
April-June	18.8	4.2	7.3	11.4
Jan.-Mar.	13.6	8.0	8.2	9.7
1999				
Oct.-Dec.	9.1	3.8	7.3	7.4
July-Sept.	7.6	1.4	6.7	6.1
April-June	6.0	(2.1)	7.3	5.0
Jan.-Mar.	6.6	(2.6)	6.1	4.8
1998				
Oct.-Dec.	9.5	5.2	5.5	7.5
July-Sept.	8.9	(0.2)	5.9	6.6
April-June	19.5	(2.1)	5.3	9.7
Jan.-Mar.	9.3	2.3	5.6	6.5

enacted tax increases, state tax revenue growth would have been 9.2 percent. Inflation, however, remained relatively high this quarter at 5.1 percent.¹ If the effects of the enacted tax increases and inflation are considered, real adjusted state tax revenue grew 3.9 percent, as shown also in Table 1. The states now have had six straight quarters of real adjusted growth, after experiencing nine straight quarters of decline. (See Table 1.) The pattern of growth in state tax revenue, adjusted for in-



flation and enacted tax increases from 1991 to the present is illustrated in Figure 1.

All three major state taxes showed growth this quarter. The strongest growth, by far, was the 61.1 percent increase recorded by the corporate income tax — the sixth quarter of double-digit growth — but this spectacular increase was largely the result of the California tax amnesty. Personal income tax revenue growth accelerated from the previous quarter, but this was aided by enacted tax increases. Sales tax growth was slower than in the previous five quarters, but has not slowed by much. Table 2 shows the last 29 quarters of change in state collections of the major tax sources.

Every region experienced revenue growth in the January-March quarter. (See Table 3.) The Far West region had the strongest growth at 24.2 percent. The slowest growth was in the Great Lakes states at 5.0 percent. Eighteen states recorded growth of more than ten percent.

The effects of the California tax amnesty accounted for most of the nearly \$3 billion in enacted tax increases in the January-March quarter. Most of the rest of the net legislated tax increases this

quarter were concentrated in the Mid-Atlantic states, with some tax increases in the Southeast, as well. (See Figure 2.) The other regions had relatively small tax increases or cuts that had little effect on tax revenue growth. Table 4 shows the overall effect of legislated tax changes and processing variations. Table 5 shows the percentage change in each state’s total tax revenue, adjusted for legislated tax changes and inflation.

State specific data, including state rankings and percent change in tax revenue for the previous quarter are available at:

www.rockinst.org/rfs/state_specific_data_janmar05.htm.

Personal Income Tax

Personal income tax revenue grew 11.2 percent in the January-March quarter compared to the same quarter the year before. This was an improvement from the previous quarter’s 8.8 percent growth. This was the seventh straight quarter of growth after two years of decline. The strongest growth was the Far West region’s 15.8 percent. The Great Lakes states had the slowest growth at 6.4 per-

cent. Growth was widespread, affecting 38 of the 41 states with broad-based personal income tax. Arizona had the strongest growth at 33 percent. Twenty-seven other states also had double-digit increases. The exceptions to the growth pattern were Maryland, Michigan, and New Mexico. New Mexico declined a remarkable 63.7 percent; however, we have only two months of data for that state, and it has recently changed its processing system so the comparison may not be accurate.

We can get a better idea of what is really happening with the personal income tax by breaking it down into its major component parts: withholding, quarterly estimated payments, and final settlements. While this report generally covers the January-March quarter, we have collected some estimated payments and final settlements data for April 2005, which should offer an early look at how state collections fared in this key month for personal income tax collections.

Withholding

Withholding is a good indicator of the current strength of personal income tax revenue because it comes largely from current wages and is much less volatile than estimated payments or final settle-

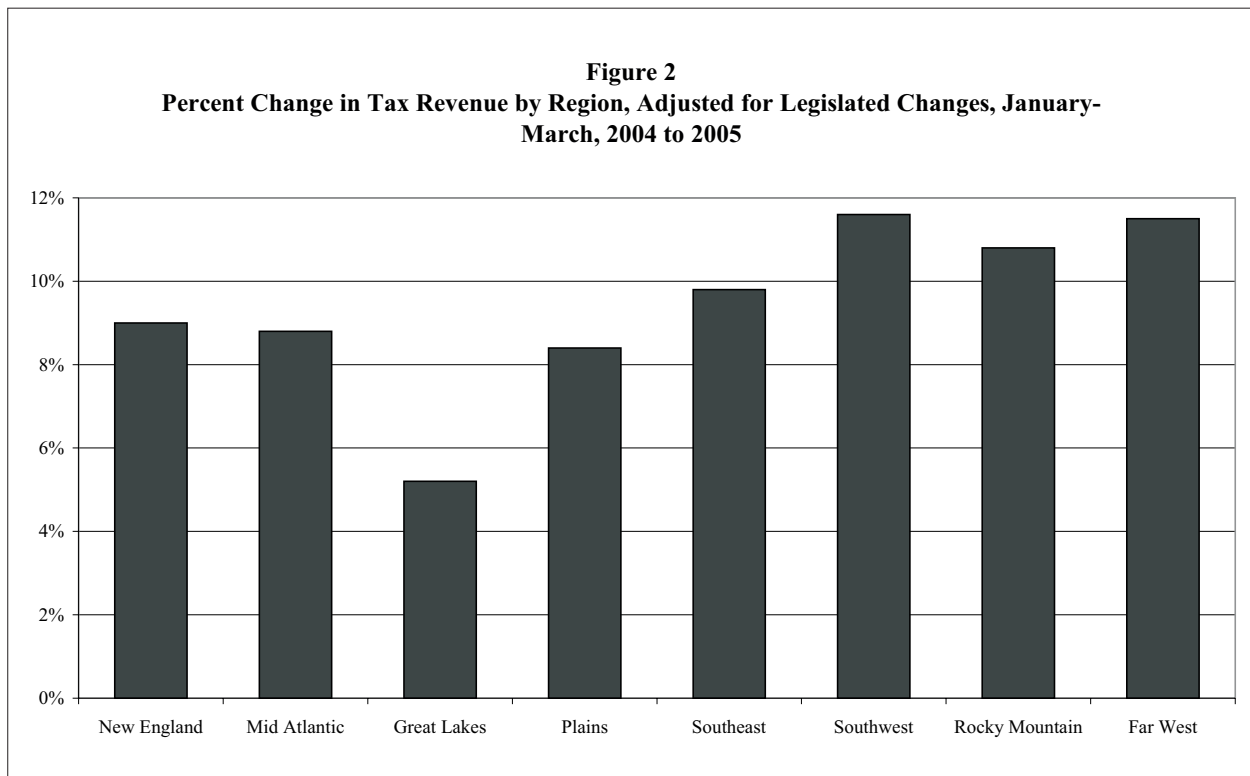
ments. Table 6 shows that withholding for the January-March 2005 quarter increased 5.9 percent over the same quarter of 2004. Enacted changes in withholding boosted collections by about two-tenths of a percent this quarter. This was down from 6.3 percent growth in the previous quarter.

Estimated Payments

The highest-income taxpayers generally pay most estimated tax payments (also known as declarations) on their income not subject to withholding tax. This income often comes from investments, especially capital gains realized in the stock market. A strong stock market should eventually translate into capital gains and higher estimated tax payments.

As seen in Table 7, for the 2004 tax year, estimated tax payments grew 21.5 percent compared to the year before, and the median state growth was 17.2 percent. The fourth quarterly payment — usually paid in December or January — grew even more strongly at 24.9 percent, median state growth of 21.3 percent. Estimated taxpayers typically try to align their payments with their actual income in this last payment. Therefore, the upward trend reflects the strengthening economy in 2004.

Figure 2
Percent Change in Tax Revenue by Region, Adjusted for Legislated Changes, January-March, 2004 to 2005



2005 Opens with Strong State Tax Revenue Growth

	PIT	CIT	Sales	Total
	11.2 %	61.1 %	5.8 %	11.7 %
United States				
New England	9.2	19.9	4.0	8.7
Connecticut	11.1	10.0 ¶	3.6	11.6
Maine	13.5 ¶	9.8	(5.2)	4.1
Massachusetts	7.6	16.6	6.0	8.2
New Hampshire	NA	54.4 *	NA	0.4 ¶
Rhode Island	5.8 *	67.5 *	2.6	8.3 *
Vermont	15.6	45.6	12.9	8.8
Mid-Atlantic	11.7	6.9	4.2	9.8
Delaware	9.4	86.1	NA	2.5
Maryland	(4.4)	18.7 *	8.0	0.1
New Jersey	26.7 *	(9.1)	1.8	12.4 *
New York	12.0	6.6	5.1	12.4
Pennsylvania	9.2 *	11.6	3.6	7.3
Great Lakes	6.4	9.0	4.1	5.0
Illinois	9.8	9.5 *	5.3	7.2
Indiana	11.0	NM	4.9	1.9
Michigan	(18.8)¶	(3.2)	4.9	(3.7)¶
Ohio	15.9	33.5 ¶	1.0	9.5
Wisconsin	10.2	16.3 ¶	5.3	9.2
Plains	9.6	26.7	5.4	8.1
Iowa	10.1	(1.4)	4.3 ¶	4.9 ¶
Kansas	14.9	17.5 *	4.7	8.9
Minnesota	11.4	47.1	5.5	10.9
Missouri	4.3	10.3 *	3.9	4.3
Nebraska	14.4	20.6	6.5	9.0
North Dakota	11.9	(14.0)	15.3	13.9
South Dakota	NA	NA	9.5	7.5
Southeast	10.9	20.5	9.6	10.2
Alabama	11.4	7.7	8.9	9.7
Arkansas	13.3	13.0 *	7.0 *	9.7 *
Florida	NA	25.9 ¶	14.0	16.2
Georgia	4.4	(10.7)	10.7	4.8
Kentucky	16.6	23.2 ¶	6.5	10.0
Louisiana	9.1	NM	10.4	7.9
Mississippi	4.3	7.7	7.0	5.1
North Carolina	11.3	25.1	(1.9)	6.3
South Carolina	12.7 ¶	19.9	5.7	8.3 ¶
Tennessee	NA	20.2	6.0	6.9
Virginia	14.6	103.0 *	18.1 *	17.8 *
West Virginia	10.8	132.5	5.5	8.0
Southwest	11.0	100.2	5.4	11.4
Arizona	33.0	115.9	11.4	21.4
New Mexico ¹	(63.7) ¶	13966.7	(3.1)*	(4.9)¶
Oklahoma	12.5	(29.9)	4.3	(0.8)
Texas	NA	NA	4.9	12.4
Rocky Mountain	13.8	48.0	8.6	10.8
Colorado	11.3	121.1	5.7	8.4
Idaho	15.8	81.4	11.6	11.6
Montana	23.7	(5.1)	NA	15.4
Utah	14.5	29.5	8.9	11.5
Wyoming	NA	NA	15.3	16.0
Far West	15.8	229.1	3.8	24.2
Alaska	NA	135.1	NA	45.2 *
California	16.3	235.2 *	1.4	28.6 *
Hawaii	29.4	4.2	14.5 ¶	20.7
Nevada	NA	NA	11.3	11.1
Oregon	7.9	42.3	NA	7.3
Washington	NA	NA	7.3 ¶	5.8

See page 8 for notes

	PIT	Sales	Total
2005			
Jan.-Mar.	10.8 %	5.7 %	9.2 %
2004			
Oct.-Dec.	8.3	5.7	7.3
July-Sept.	7.3	5.6	8.1
April-June	12.6	6.4	9.0
Jan.-Mar.	7.7	6.8	7.0
2003			
Oct.-Dec.	5.3	4.2	4.9
July-Sept.	3.9	1.9	2.6
April-June	(2.0)	1.3	0.4
Jan.-Mar.	(4.4)	1.0	(1.0)
2002			
Oct.-Dec.	(1.6)	0.7	0.3
July-Sept.	(2.1)	2.7	0.7
April-June	(22.5)	0.1	(11.9)
Jan.-Mar.	(14.5)	(2.4)	(8.4)
2001			
Oct.-Dec.	(2.1)	1.2	(2.3)
July-Sept.	(2.8)	0.4	(2.4)
April-June	7.9	0.6	4.2
Jan.-Mar.	10.1	3.7	6.3
2000			
Oct.-Dec.	6.5	5.0	5.0
July-Sept.	11.6	5.6	7.7
April-June	18.6	7.8	11.8
Jan.-Mar.	13.8	8.8	10.4
1999			
Oct.-Dec.	11.0	7.5	8.4
July-Sept.	8.3	6.9	6.7
April-June	12.4	7.3	8.0
Jan.-Mar.	9.9	6.2	6.5
1998			
Oct.-Dec.	10.2	5.9	8.0
July-Sept.	9.3	6.4	7.1
April-June	23.3	5.9	11.4
Jan.-Mar.	10.0	6.5	7.0

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.)

The first quarterly payment for 2005 was due in April and shows even stronger growth. For the 33 states for which we now have data, payments increased by 30.3 percent. However, this growth was particularly strong in a few large states, so median growth was only 18 percent.

United States	3.9 %
New England	3.7
Connecticut	6.4
Maine	(0.4)
Massachusetts	2.9
New Hampshire	2.8
Rhode Island	0.4
Vermont	3.4
Mid Atlantic	3.5
Delaware	(2.5)
Maryland	(5.4)
New Jersey	3.4
New York	6.9
Pennsylvania	1.2
Great Lakes	0.1
Illinois	1.4
Indiana	(3.0)
Michigan	(7.1)
Ohio	4.9
Wisconsin	4.0
Plains	3.1
Iowa	1.5
Kansas	3.5
Minnesota	5.5
Missouri	(0.8)
Nebraska	3.8
North Dakota	8.4
South Dakota	2.8
Southeast	4.5
Alabama	2.9
Arkansas	1.6
Florida	11.3
Georgia	(0.3)
Kentucky	4.8
Louisiana	2.9
Mississippi	0.0
North Carolina	1.2
South Carolina	5.1
Tennessee	1.7
Virginia	7.5
West Virginia	2.8
Southwest	6.2
Arizona	15.5
New Mexico ¹	(4.9)
Oklahoma	(5.6)
Texas	6.9
Rocky Mountain	5.4
Colorado	3.1
Idaho	6.2
Montana	9.8
Utah	6.0
Wyoming	10.5
Far West	6.1
Alaska	36.3
California	6.1
Hawaii	15.4
Nevada	5.7
Oregon	2.1
Washington	1.4

Inflation is measured by BEA State and Local Government Consumption Expenditures and Gross Investment Price Index.

	2004			2005
	Apr.-June	July-Sept	Oct.-Dec.	Jan-Mar.
United States	4.9 %	5.5 %	6.3 %	5.9 %
New England	5.1	4.9	6.4	4.4
Connecticut	2.7	3.9	12.1	ND
Maine	9.8	3.7	6.0	7.8 ¶
Massachusetts	5.4	4.7	4.3	4.1
Rhode Island	5.7	11.5 *	3.2 *	3.7 *
Vermont	5.3	7.4	5.0	3.8
Mid-Atlantic	0.9	6.6	4.4	5.5
Delaware	8.7	4.3	9.9	8.2
Maryland	(25.2) ¶	6.8 *	(5.1)	(7.4)
New Jersey	4.8 *	6.4 *	7.0 *	10.6 *
New York	7.4 *	4.4	4.9	8.0
Pennsylvania	13.6 *	14.4 *	13.9 *	8.1 *
Great Lakes	3.9	4.1	4.6	4.1
Illinois	3.3	2.8 *	4.6 *	5.0 *
Indiana	5.9	5.3	4.5	5.5
Michigan	1.0 ¶	1.1	1.9 ¶	(2.0) ¶
Ohio	5.2	5.2	4.8	7.4
Wisconsin	5.0	8.1	7.8	4.8
Plains	5.8	2.6	5.0	6.2
Iowa	8.0	5.5	5.8	7.3
Kansas	6.8	4.2	5.6	7.7
Minnesota	6.6	0.5	4.7	8.1
Missouri	2.6	1.8	4.5	1.5
Nebraska	6.5 *	5.5	6.4	7.0
North Dakota	5.7	9.3	3.5	19.0
Southeast	8.2	6.4	7.5	6.3
Alabama	8.6	4.6	6.5	9.2
Arkansas	8.5	5.7	6.4	9.5
Georgia	16.7	7.6	12.6	2.6
Kentucky	5.6	4.1	5.2	7.0
Louisiana	9.1 *	5.6	11.2	5.3
Mississippi	5.2	5.5	17.1	6.5
North Carolina	4.6	4.6	4.3	7.5
South Carolina	3.6	4.4	7.8	5.6 ¶
Virginia	6.7	10.1	5.8	7.0
West Virginia	5.8	5.7 *	4.3	6.7
Southwest	2.5	4.8	7.0	9.2
Arizona	(0.9)	9.2	7.9	19.1
New Mexico	3.2 ¶	(3.9)	8.7	(12.2)
Oklahoma	4.0	4.1	5.5	8.1
Rocky Mountain	5.5	5.5	6.2	6.4
Colorado	5.1	5.3	6.7	6.5
Idaho	8.0	5.9	7.7	3.3
Montana	6.1	7.5	2.1	10.6
Utah	5.1	5.1	5.2	ND
Far West	7.1	6.0	10.1	7.4
California	7.2	6.1	11.0	7.0
Hawaii	6.3 ¶	6.4	9.4	19.8
Oregon	6.2	5.2	4.0	6.9

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 8 for notes.

Table 7
Estimated Payments/Declarations
(Percentage Change Year-Over-Year)

	Apr. 2004-Jan. 2005 (All Four Payments for 2004)	Dec. 2004 and Jan. 2005 (Fourth Payment for 2004)	April 2005 (First Payment for 2005)
Average (Mean)	21.5 %	24.9 %	30.3 %
Median	17.2	21.3	18.0
Alabama	24.3	23.3	38.1
Arizona	31.9	35.9	ND
Arkansas	30.9	40.6	24.8
California	21.8	27.7	23.0
Colorado	21.0	29.5	14.8
Delaware	20.9	30.9	22.9
Georgia	3.0	(2.7)	ND
Hawaii	36.5	25.8	25.5
Illinois	17.3	23.6	13.3
Indiana	7.3	14.1	28.4
Iowa	16.8	26.8	(1.0)
Kansas	10.2	7.9	17.6
Kentucky	3.2	15.7	13.9
Louisiana	35.6	33.3	ND
Maine	10.4	10.1	11.5
Maryland	20.7	21.8	15.2
Massachusetts	17.1	20.2	7.6
Michigan	2.5	4.6	3.9
Minnesota	41.4	20.8	43.2
Mississippi	(81.1)	(50.6)	(31.4)
Missouri	7.8	9.0	8.6
Montana	30.8	45.4	25.4
Nebraska	19.5	28.8	14.9
New Jersey	38.3	52.8	43.4
New Mexico	37.5	8.6	ND
New York	36.8	31.5	47.5
North Carolina	14.5	23.3	19.3
North Dakota	12.7	16.9	16.0
Ohio	13.8	24.2	15.6
Oklahoma	15.5	16.3	29.0
Oregon	(5.7)	20.4	19.6
Pennsylvania	17.7	13.0	18.0
Rhode Island	23.4	31.2	(12.9)
South Carolina	10.7	2.4	25.0
Vermont	(15.2)	(54.1)	23.8
Virginia	18.7	23.5	9.6
West Virginia	9.0	12.8	19.6
Wisconsin	14.1	17.9	ND

Final Settlements

Final settlements are payments that taxpayers make or refunds they receive when filing their annual tax returns. In most states, the filing deadline is on or before April 15th, but some states have

later deadlines or do not finish processing final settlements until May or even June. A preliminary survey indicates that final settlements this year have grown significantly from the year before. Of 34 states in the survey, 28 reported growth in final payments compared to the year before, with median growth at 24 percent. Final payments' growth for all 34 states was 29.3 percent. Meanwhile, refunds grew only slightly compared to the year before.

This growth in overall collections from final settlements is generally stronger than states had anticipated, and is getting back into the range of the growth in final settlements that states experienced regularly from the mid 1990s though 2001 — often called “April surprises.” This should lead to many states ending the 2005 fiscal year with surpluses and help considerably as they adopt their fiscal year 2006 budgets.

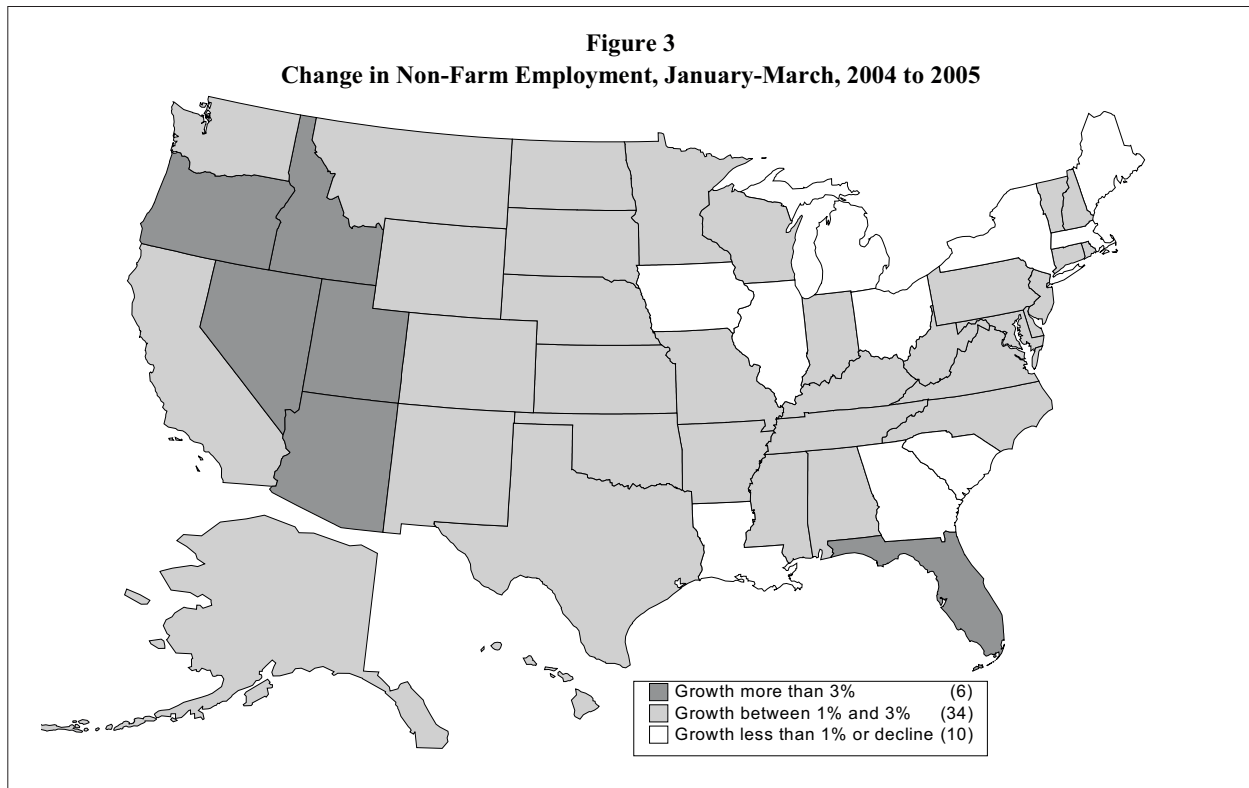
General Sales Tax

Sales tax revenue in the January-March quarter increased 5.8 percent over the same quarter the year before. This is slightly lower than the 6.0 percent growth the previous quarter.

Sales tax revenue grew fastest in the Southeast region at 9.6 percent. The weakest growth was in the Far West region, where revenue increased 3.8 percent. Eleven states had double-digit growth, with Virginia having the strongest growth at 18.1 percent. Three states — Maine, New Mexico and North Carolina — had sales tax revenue declines, with Maine's 5.2 percent decline being the steepest.

Corporate Income Tax

Corporate income tax revenue grew 61.1 percent in the January-March quarter, up from the previous quarter's 27 percent. This was by far the strongest growth since at least 1991, with the California tax amnesty adding considerably to this increase. However, even if we factor out the effects of that amnesty, this quarter still represented a continuation of the strong growth in the corporate income tax that the states enjoyed for the previous ten quarters.



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 is now experiencing sustained growth, though still with some areas of continued weakness. The Bureau of Economic Analysis’ (BEA’s) preliminary estimate for the real Gross Domestic Product (GDP) showed growth of 3.5 percent for the first quarter of 2005.² The national unemployment rate was 5.3 percent for the first quarter, down slightly from 5.4 percent the previous quarter.³

The difficulty 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), are the only broad-based, timely, high-quality state-level economic indicators available. Yet, these data are far from ideal indicators of revenue growth. Most taxes are based on 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.

Table 8 shows year-over-year employment growth for the nation and for each state for the last

Key to Interpreting Tables

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

- 1 indicates data through February only.
- * 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.

NA indicates not applicable.
 ND indicates no data.
 NM indicates not meaningful.
 Historical Tables (Tables 1, 2 and 4) have been shortened to provide data only back to 1998. For data through 1991 call the Fiscal Studies Program.

2005 Opens with Strong State Tax Revenue Growth

Table 8				
Year-Over-Year Percentage Change In Non-Farm Employment by State, Last Four Quarters				
	<i>2004</i>			<i>2005</i>
	<i>Apr.-June</i>	<i>July-Sept.</i>	<i>Oct.-Dec.</i>	<i>Jan.-Mar.</i>
United States	1.1	1.4	1.6	1.7
Sum of States	1.1	1.4	1.5	1.6
New England	0.4	0.6	0.8	1.2
Connecticut	0.3	0.7	1.1	1.4
Maine	1.5	1.1	1.1	1.0
Massachusetts	(0.2)	0.1	0.5	1.0
New Hampshire	1.8	1.4	1.4	2.1
Rhode Island	0.9	0.9	0.7	1.4
Vermont	1.6	1.4	1.5	1.8
Mid Atlantic	0.6	0.8	0.9	1.3
Delaware	2.1	2.3	2.1	2.3
Maryland	0.8	1.0	1.8	2.0
New Jersey	0.6	0.6	0.9	1.6
New York	0.5	0.7	0.7	1.0
Pennsylvania	0.5	0.7	0.8	1.1
Great Lakes	0.2	0.5	0.4	0.8
Illinois	(0.1)	0.1	0.3	0.6
Indiana	1.3	1.7	1.4	2.2
Michigan	(0.3)	(0.2)	(0.4)	(0.1)
Ohio	0.1	0.4	0.4	0.7
Wisconsin	0.9	1.6	1.1	1.2
Plains	0.9	1.0	1.1	1.5
Iowa	1.3	1.3	1.1	1.0
Kansas	1.0	1.3	1.5	1.9
Minnesota	0.8	0.7	1.2	1.8
Missouri	0.6	0.6	0.9	1.1
Nebraska	1.0	1.4	1.1	1.8
North Dakota	1.6	1.7	1.3	2.0
South Dakota	1.4	1.3	1.6	1.8
Southeast	1.9	2.1	2.0	1.8
Alabama	1.3	1.9	1.9	2.1
Arkansas	1.3	1.5	1.2	1.3
Florida	3.5	3.7	3.8	3.4
Georgia	1.4	1.3	1.2	0.8
Kentucky	0.9	0.8	0.8	1.1
Louisiana	0.9	0.7	0.4	0.7
Mississippi	1.2	1.0	0.9	1.2
North Carolina	0.7	2.0	1.5	1.6
South Carolina	1.3	0.9	0.7	0.2
Tennessee	1.5	1.6	1.5	1.2
Virginia	2.6	2.8	2.8	2.5
West Virginia	1.3	1.4	1.3	1.3
Southwest	1.5	1.8	1.9	1.9
Arizona	3.3	3.6	3.9	4.1
New Mexico	2.1	2.0	2.0	1.9
Oklahoma	0.9	1.2	1.4	1.8
Texas	1.2	1.5	1.5	1.4
Rocky Mountain	2.2	2.3	2.5	2.9
Colorado	1.4	1.7	2.1	2.6
Idaho	3.0	3.1	3.0	3.0
Montana	3.0	2.9	3.6	2.5
Utah	2.9	3.2	2.9	3.8
Wyoming	2.5	1.6	2.0	2.4
Far West	1.3	1.9	2.1	2.3
Alaska	1.3	1.7	1.8	1.6
California	0.7	1.5	1.7	1.7
Hawaii	2.5	2.8	3.2	2.9
Nevada	6.2	6.4	6.5	6.7
Oregon	2.2	2.7	3.0	4.1
Washington	1.7	1.8	1.8	2.3

Source: Bureau of Labor Statistics

four quarters using BLS data. Figure 6 maps the change in first quarter 2005 employment compared to the same period in 2004. By this measure, employment in the January-March 2005 quarter grew 1.7 percent compared to the year before. Employment growth is now solid and has extended to every region of the nation. Employment growth was strongest in the Rocky Mountain region at 2.9 percent; the weakest growth — 0.8 percent — was in the Great Lakes region. Employment grew in every state except Michigan. Forty-four states had employment growth of one percent or more, up from 37 the previous quarter. Nevada continues to lead the country with very strong 6.7 percent growth. Five other states — Arizona, Florida, Idaho, Oregon, and Utah — also had strong growth of over three percent.

Overall, the employment picture moved into solid growth in 2004, and has remained in the first quarter of 2005. The states with the strongest growth are concentrated in the southern and western sections of the country, the pattern seen before the recent recession, and consistent with the overall pattern of population growth. Only three states have recorded employment declines in any of the last three quarters.

Nature of the Tax System

Even if economic growth 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 the tax systems used by the states react differently to similar economic situations. States that rely heavily on the personal income tax will tend to see stronger growth in good times, since they benefit from growth in income earned by the highest income individuals, 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. 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 levied on the removal of natural resources, such as oil and natural gas.)

Because high-end incomes are based more heavily upon volatile sources such as stock options and capital gains, growth in personal income tax revenue is far more subject to dramatic fluctuations than it would be if it were based entirely on wages and salaries. In the recent recession, we saw 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 almost overnight a hitherto rich source of tax revenue. Meanwhile, stock options became both less common and less lucrative. The recession lasted only eight months, but it had significant aftereffects as the loss of investment capital manifested itself in weak employment numbers, which, in turn, depressed withholding. While the stock market has not recovered its pre-recession value, it has stabilized and there has also been strong growth in other business-related income. This is once again leading to the personal income tax growing faster than the general economy.

States also have learned more about how sales tax revenue responds to an economic slowdown. There has been some fear that as states have removed more stable elements of consumption such as groceries and clothing from their bases, their sales taxes were more subject to plunges as consumers became nervous about spending on optional and big-ticket items. Most state sales taxes also do not capture spending on services well. In the latest economic downturn, however, the sales tax generally maintained slow growth. It is now growing more rapidly as general economic conditions improve, though less rapidly than the personal income or corporate income taxes.

Oil has been a 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 often operates largely independently of the general economy.

Tax Law Changes Affecting This Quarter

The final element affecting trends in tax revenue growth is changes in states' tax laws. 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 from nominal collections data. That is why this report attempts to note where such changes have significantly affected each state's revenue growth. We also occasionally note when tax processing changes have had a major impact on revenue growth, even though these are not due to enacted legislation, as it helps the reader to understand that the apparent growth or decline is not necessarily indicative of underlying trends.

During the January-March 2005 quarter, enacted tax changes and processing variations increased state revenue by an estimated net of nearly \$3 billion compared to the same period in 2004. There now have been net enacted state tax increases for every quarter since the beginning of 2002.

A tax amnesty in California added at least \$2.6 billion to that state's corporate income tax collections in the January-March quarter. Much of this is money that would have been collected in later quarters, and some may ultimately be refunded to the payers.

Enacted tax changes increased personal income tax collections by a net of nearly \$200 million. New Jersey raised its top personal income tax rate; the state will not see most of the effects of this increase until the full final estimated tax payment and final settlements, but it probably boosted revenue by about \$140 million this quarter.

Virginia raised the sales tax on non-food items, increased the tobacco tax, and made several other tax changes for a net increase of over \$100 million in this quarter. There were also many other smaller tax increases and cuts in other states.

Conclusions

States had a good quarter of state tax revenue growth in January-March 2005. While the growth in collections was somewhat exaggerated by a tax amnesty in California, much of it was the result of improving tax bases and not from legislated tax increases. Inflation is still affecting states in a significant way, but tax revenues are easily outpacing inflation effects.

In addition, it would seem that states have experienced very strong growth in tax collections

2005 Opens with Strong State Tax Revenue Growth

Table 9
Change in Tax Revenue by State, July-March, FY 2004 to FY 2005

	PIT	CIT	Sales	Total
	9.5 %	38.2 %	5.9 %	9.5 %
United States	8.7	23.2	4.0	8.0
New England				
Connecticut	10.2	42.5	3.9	9.9
Maine	6.4	24.3	(2.2)	7.9
Massachusetts	8.1	11.2	4.1	6.8
New Hampshire	NA	28.1	NA	5.5
Rhode Island	9.5	64.9	4.2	9.7
Vermont	10.4	43.7	23.3	9.7
Mid Atlantic	11.6	13.0	4.9	9.2
Delaware	9.5	39.8	NA	8.5
Maryland	7.5	131.2	7.3	11.7
New Jersey	19.9	(7.4)	3.9	9.3
New York	10.1	6.5	5.9	9.5
Pennsylvania	12.5	16.3	3.6	7.7
Great Lakes	5.4	8.2	4.2	4.7
Illinois	5.5	(1.8)	3.8	4.1
Indiana	8.9	25.2	5.2	6.1
Michigan	(4.6)	0.2	3.4	1.2
Ohio	10.0	26.3	5.3	7.0
Wisconsin	8.4	18.0	3.5	7.3
Plains	6.2	27.8	4.6	5.9
Iowa	8.4	18.5	4.7	6.8
Kansas	5.8	29.1	3.0	5.2
Minnesota	6.3	43.5	3.8	5.8
Missouri	3.8	0.8	3.0	3.4
Nebraska	9.7	28.8	10.3	11.1
North Dakota	9.5	6.7	10.7	12.7
South Dakota	NA	NA	7.6	6.2
Southeast	8.6	32.3	7.7	9.4
Alabama	7.9	16.5	7.0	8.7
Arkansas	10.2	30.8	6.9	9.0
Florida	NA	20.6	10.7	12.8
Georgia	9.7	33.4	9.7	9.9
Kentucky	8.7	39.0	4.3	7.6
Louisiana	10.0	74.8	7.2	10.6
Mississippi	2.8	14.0	4.5	4.0
North Carolina	6.0	40.6	3.2	6.9
South Carolina	7.9	22.0	4.5	6.6
Tennessee	NA	26.3	4.3	4.9
Virginia	11.1	72.5	14.8	14.9
West Virginia	5.6	64.5	3.5	8.2
Southwest	11.3	81.5	6.3	9.5
Arizona	18.3	62.4	10.2	16.8
New Mexico ¹	1.5	273.1	7.5	13.4
Oklahoma	7.7	33.5	4.9	3.9
Texas	NA	NA	5.6	8.5
Rocky Mountain	10.1	37.7	7.5	9.1
Colorado	8.7	40.4	5.0	7.4
Idaho	9.9	59.9	10.1	10.1
Montana	15.6	21.3	NA	9.4
Utah	11.4	28.5	8.5	10.0
Wyoming	NA	NA	10.2	16.5
Far West	12.4	93.5	6.2	15.7
Alaska	NA	58.4	NA	39.7
California	12.9	98.2	4.9	17.2
Hawaii	17.2	95.0	11.6	15.5
Nevada	NA	NA	15.5	18.3
Oregon	7.0	(12.0)	NA	4.6
Washington	NA	NA	6.2	8.5

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with April final personal income tax returns. This revenue growth will put states in better shape to continue to deal with the effects of temporary measures to balance their budgets in the years during and immediately after the most recent recession. It will also allow states to deal with spending pressures from Medicaid and other programs, and the possible effects of federal domestic spending cuts.

Endnotes

- 1 We use the Bureau of Economic Analysis' State and Local Government Consumption Expenditures and Gross Investment Price Index as an inflation measure, since it reflects the pressures of inflation on state governments better than the Consumer Price Index.
- 2 United States Department of Commerce, Bureau of Economic Analysis News Release, May 26, 2005.
- 3 United States Department of Labor, Bureau of Labor Statistics, *Labor Force Statistics From the Current Population Survey*, www.bls.gov.

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.

Missouri: The total taxes are the sum of the three major taxes.

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.

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. Michael Ogborn assisted with the collection of data for this report. Barbara Stubblebine edited the report.

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	2004				2005			
	Personal Income	Corporate Income	Sales	Total	Personal Income	Corporate Income	Sales	Total
United States	\$46,582	\$7,062	\$47,058	\$121,548	\$51,812	\$11,376	\$49,796	\$135,755
New England	3,659	625	2,141	8,148	3,996	749	2,226	8,861
Connecticut	1,300	144	787	2,676	1,444	158	815	2,986
Maine	204	19	207	534	232	21	196	556
Massachusetts	1,897	384	882	3,780	2,040	448	935	4,091
New Hampshire	NA	39	NA	356	NA	60	NA	357
Rhode Island	187	27	194	523	198	45	199	566
Vermont	71	11	72	280	82	17	81	304
Mid-Atlantic	13,241	1,605	6,557	26,592	14,793	1,715	6,835	29,196
Delaware	190	21	NA	528	208	39	NA	541
Maryland	1,453	147	720	2,456	1,388	174	778	2,458
New Jersey	1,782	299	1,537	4,655	2,259	271	1,565	5,235
New York	7,787	804	2,438	12,281	8,722	857	2,564	13,801
Pennsylvania	2,029	335	1,862	6,672	2,217	374	1,929	7,162
Great Lakes	6,955	1,561	7,212	17,857	7,399	1,702	7,505	18,743
Illinois	2,155	347	1,516	4,858	2,367	380	1,597	5,207
Indiana	845	74	1,193	2,498	938	-14	1,251	2,545
Michigan	1,230	416	1,792	3,800	999	403	1,879	3,660
Ohio	1,609	533	1,808	4,384	1,865	711	1,827	4,801
Wisconsin	1,115	192	902	2,317	1,229	223	950	2,530
Plains	4,129	385	3,099	8,338	4,526	488	3,266	9,016
Iowa	679	58	429	1,277	748	57	448	1,340
Kansas	351	18	449	901	403	21	470	981
Minnesota	1,580	190	1,065	3,202	1,760	279	1,123	3,550
Missouri	1,190	54	652	1,896	1,241	59	677	1,977
Nebraska	262	43	291	649	300	52	310	708
North Dakota	67	23	94	244	75	20	108	278
South Dakota	NA	NA	119	170	NA	NA	130	183
Southeast	7,458	1,221	12,072	25,503	8,270	1,471	13,227	28,096
Alabama	654	67	464	1,746	729	72	505	1,915
Arkansas	494	57	464	1,094	559	64	496	1,199
Florida	NA	278	4,116	5,403	NA	350	4,694	6,277
Georgia	1,478	167	1,264	3,246	1,542	149	1,399	3,402
Kentucky	566	33	702	1,824	660	40	748	2,007
Louisiana	490	3	542	1,370	535	-9	598	1,479
Mississippi	180	115	612	1,251	188	123	654	1,315
North Carolina	1,507	230	1,046	3,178	1,678	288	1,026	3,379
South Carolina	263	42	533	1,027	297	51	564	1,112
Tennessee	NA	159	1,447	2,138	NA	191	1,533	2,285
Virginia	1,587	44	623	2,471	1,819	90	736	2,912
West Virginia	238	27	260	754	263	62	274	814
Southwest	994	80	5,873	10,602	1,104	161	6,192	11,809
Arizona	422	43	836	1,408	562	93	932	1,710
New Mexico ¹	133	0	242	483	48	42	235	459
Oklahoma	439	37	380	1,158	494	26	396	1,149
Texas	NA	NA	4,414	7,553	NA	NA	4,629	8,491
Rocky Mountain	1,300	71	1,175	3,095	1,480	105	1,276	3,430
Colorado	708	12	474	1,235	788	27	501	1,338
Idaho	178	14	242	604	206	25	270	673
Montana	121	16	NA	283	149	15	NA	327
Utah	294	29	381	833	337	37	415	929
Wyoming	NA	NA	79	140	NA	NA	91	163
Far West	8,847	1,515	8,930	21,415	10,244	4,985	9,271	26,604
Alaska	NA	4	NA	248	NA	9	NA	360
California	7,656	1,467	6,293	16,054	8,903	4,918	6,379	20,646
Hawaii	262	12	506	874	339	12	580	1,055
Nevada	NA	NA	621	813	NA	NA	691	903
Oregon	929	32	NA	1,046	1,002	45	NA	1,122
Washington	NA	NA	1,510	2,380	NA	NA	1,620	2,519

See page 8 for notes

2005 Opens with Strong State Tax Revenue Growth

**Table 11
State Tax Revenue, July to March, Fiscal Year 2004 and Fiscal Year 2005 (\$ in millions)**

	FY 2004				FY 2005			
	Personal		Sales	Total	Personal		Sales	Total
	Income	Corporate Income			Income	Corporate Income		
United States	\$138,105	\$19,217	\$138,383	\$353,882	\$151,236	\$26,561	\$146,610	\$387,412
New England	10,587	1,259	6,237	22,670	11,509	1,552	6,486	24,485
Connecticut	2,991	291	2,054	6,468	3,295	415	2,133	7,106
Maine	729	66	615	1,688	776	82	601	1,821
Massachusetts	5,966	724	2,768	11,154	6,450	805	2,882	11,913
New Hampshire	NA	105	NA	996	NA	134	NA	1,051
Rhode Island	611	47	608	1,481	669	77	633	1,624
Vermont	290	27	193	884	320	39	237	970
Mid-Atlantic	33,129	4,556	19,229	69,070	36,965	5,150	20,176	75,428
Delaware	559	42	NA	1,331	612	59	NA	1,443
Maryland	3,338	288	1,900	5,998	3,589	666	2,038	6,700
New Jersey	4,629	1,275	4,091	12,303	5,552	1,180	4,250	13,449
New York	19,350	1,911	7,491	32,772	21,303	2,035	7,936	35,888
Pennsylvania	5,253	1,040	5,747	16,667	5,910	1,210	5,953	17,948
Great Lakes	21,378	3,627	22,127	54,741	22,524	3,925	23,066	57,305
Illinois	5,765	954	4,768	13,862	6,082	937	4,947	14,437
Indiana	2,591	314	3,518	7,462	2,823	393	3,701	7,917
Michigan	4,460	1,321	5,750	14,126	4,255	1,325	5,944	14,290
Ohio	5,152	549	5,547	12,384	5,666	694	5,841	13,252
Wisconsin	3,411	489	2,544	6,908	3,698	577	2,633	7,410
Plains	11,642	1,087	9,198	24,333	12,360	1,389	9,619	25,779
Iowa	1,831	148	1,293	3,504	1,984	176	1,354	3,742
Kansas	1,259	87	1,374	2,989	1,332	112	1,415	3,144
Minnesota	4,365	494	3,101	9,417	4,638	708	3,218	9,960
Missouri	3,160	206	1,936	5,301	3,279	207	1,995	5,481
Nebraska	867	105	833	1,933	952	135	918	2,147
North Dakota	161	48	282	663	176	51	312	748
South Dakota	NA	NA	379	526	NA	NA	408	559
Southeast	25,080	3,353	34,793	76,370	27,232	4,436	37,488	83,579
Alabama	1,800	204	1,379	4,843	1,942	238	1,476	5,266
Arkansas	1,330	153	1,378	3,086	1,465	201	1,472	3,362
Florida	NA	869	11,593	15,300	NA	1,047	12,833	17,255
Georgia	4,741	304	3,551	9,515	5,198	406	3,893	10,455
Kentucky	1,970	183	2,145	5,653	2,141	255	2,237	6,083
Louisiana	1,434	83	1,582	4,126	1,577	144	1,697	4,564
Mississippi	722	230	1,750	3,690	742	262	1,829	3,837
North Carolina	5,370	568	3,184	10,020	5,690	799	3,287	10,709
South Carolina	1,755	114	1,412	3,746	1,894	139	1,475	3,993
Tennessee	NA	343	4,309	6,331	NA	433	4,496	6,643
Virginia	5,237	195	1,732	7,861	5,820	337	1,987	9,030
West Virginia	722	107	778	2,200	762	176	805	2,381
Southwest	3,778	383	17,738	31,845	4,204	694	18,853	34,881
Arizona	1,629	268	2,431	4,585	1,927	435	2,679	5,356
New Mexico ¹	621	44	952	2,045	630	165	1,024	2,319
Oklahoma	1,529	70	1,145	3,528	1,647	94	1,202	3,665
Texas	NA	NA	13,210	21,687	NA	NA	13,948	23,540
Rocky Mountain	4,505	301	3,506	9,716	4,962	414	3,770	10,600
Colorado	2,351	122	1,426	4,019	2,555	171	1,497	4,316
Idaho	606	51	764	1,792	665	82	842	1,972
Montana	376	40	NA	797	435	48	NA	872
Utah	1,173	88	1,114	2,772	1,306	113	1,209	3,048
Wyoming	NA	NA	202	336	NA	NA	223	391
Far West	28,005	4,652	25,555	65,137	31,480	9,002	27,151	75,355
Alaska	NA	26	NA	741	NA	41	NA	1,035
California	24,132	4,419	17,663	48,254	27,252	8,757	18,524	56,543
Hawaii	833	20	1,418	2,500	977	39	1,582	2,887
Nevada	NA	NA	1,831	2,329	NA	NA	2,115	2,755
Oregon	3,040	188	NA	3,506	3,251	165	NA	3,667
Washington	NA	NA	4,644	7,806	NA	NA	4,930	8,468

See page 8 for notes

Fiscal Studies Program

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