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State Revenue Report

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HIGHLIGHTS

- State tax revenue totaled $147 billion in the July-September 2007 quarter, up 4.4 percent from the same period in 2006.
- After adjusting for inflation and legislated tax changes, state tax revenue declined in the most recent quarter by -0.6 percent. Total adjusted revenue last declined in the July-September quarter of 2003.
- Personal income tax revenue rose at a weaker pace than the previous two quarters, while growth in sales tax revenues was again relatively weak, one of the lowest in the last four years.
- Among the regions, nominal revenue growth showed strongest collections by the Southwestern states at 12.9 percent, as well as the Rocky Mountain states with 7.9 percent.
- National employment was 1.5 percent higher this quarter than a year earlier, with the strongest growth continuing in the western regions.
- State tax revenue growth was reduced by almost $190 million in net enacted tax cuts for the quarter.

State Tax Revenue Falters Again

Alison J. Grinnell

Tax Revenue Change

As the national economy showed further deterioration in the third quarter of 2007, state tax revenues felt the impact. State tax revenue increased 4.4 percent in the July-September quarter of 2007 compared to the same quarter the year before. This nominal growth rate slowed after rising for the past two quarters. Changes in nominal tax revenues for the last 35 quarters (1999-2007) are shown in Table 2.

Inflation for the year ending in the third quarter of 2007 was 5.2 percent, measured by the state and local government consumption expenditure index. When the effects of enacted tax cuts and inflation are considered, real adjusted state tax revenue decreased by 0.6 percent (Table 1). The pattern of growth in state tax revenue, adjusted for inflation and enacted tax increases from 1991 to the present, is illustrated in Figure 1.

Two of three major state taxes showed weaker growth than the previous quarter in nominal terms, and the third remained the same. Overall tax revenue showed weaker growth as well:

- ✔ Personal income tax revenue increased 6.3 percent in July-September 2007 compared to a year earlier, down from the second quarter rate of 8.7 percent, and close to the year-ago third quarter rate of 6.6 percent.
- ✔ The corporate income tax slowed to a decline of 2.4 percent, its second worst performance in the last five years.
- ✔ Sales tax collections grew 3.1 percent, the same as the second quarter of 2007, and the second lowest in four years.

Table 2 shows the last 35 quarters of change in collections of the major state tax sources.

Total growth in state tax revenue in the third quarter of 2007 was lower than the historical average over the past eight years, 5.1 percent. All but one region showed single-digit growth for the quarter. The western regions showed the strongest growth, with the Southwest states increasing by 12.9 percent. The Rocky Mountain states had solid growth of 7.9 percent. Growth of 10 percent or more was recorded in seven states, while six states had revenue declines this quarter. Table 3 shows the growth by state and region for the three major state taxes and total state taxes.

Among individual states, total collections in the first quarter were up strongly in Alaska, Idaho, Montana, New Jersey, Texas, West Virginia, and Wyoming compared to a year earlier. The change in total revenues dropped significantly in New

Table 1
Quarterly State Tax Revenue
Adjusted for Legislated Tax Changes and Inflation
Year-Over-Year Percent Change

	Total Nominal Change	Adjusted Nominal Change	Inflation Rate	Adjusted Real Change
2007				
July-Sept.	4.4 %	4.6 %	5.2 %	(0.6) %
April-June	6.1	7.2	5.2	1.9
Jan.-Mar.	4.8	5.8	4.3	1.4
2006				
Oct.-Dec.	4.3	5.0	3.6	1.4
July-Sept.	4.6	5.5	4.7	0.8
April-June	9.9	9.9	5.7	4.0
Jan.-Mar.	6.8	6.8	5.8	0.9
2005				
Oct.-Dec.	7.6	7.7	6.3	1.3
July-Sept.	9.3	9.7	6.4	3.1
April-June	13.2	12.9	6.0	6.5
Jan.-Mar.	11.4	9.5	5.9	3.4
2004				
Oct.-Dec.	7.8	7.3	5.7	1.5
July-Sept.	8.6	8.1	4.6	3.3
April-June	11.2	9.0	3.9	4.9
Jan.-Mar.	8.1	7.0	2.9	4.0
2003				
Oct.-Dec.	7.3	4.9	3.8	1.0
July-Sept.	4.5	2.6	3.9	(1.2)
April-June	3.2	0.4	3.9	(3.4)
Jan.-Mar.	1.4	(1.0)	4.7	(5.4)
2002				
Oct.-Dec.	1.9	0.3	3.3	(2.9)
July-Sept.	2.5	0.7	2.7	(2.0)
April-June	(10.6)	(12.1)	2.2	(14.0)
Jan.-Mar.	(7.8)	(8.2)	1.7	(9.7)
2001				
Oct.-Dec.	(2.7)	(2.2)	2.0	(4.1)
July-Sept.	(3.1)	(2.4)	2.6	(4.9)
April-June	2.5	4.2	3.3	0.8
Jan.-Mar.	5.1	6.3	3.6	2.6
2000				
Oct.-Dec.	4.0	5.0	4.2	0.7
July-Sept.	7.1	7.7	4.5	3.0
April-June	11.4	11.8	4.5	6.9
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	5.1
Jan.-Mar.	4.8	6.5	2.0	4.4

Source: Individual state data, analysis by Rockefeller Institute. Legislated tax changes by National Conference of State Legislatures (NCSL). Inflation is measured by BEA State and Local Government Consumption Expenditures and Gross Investment Price Index.

Table 2
Quarterly State Tax Revenue
By Major Tax, Year-Over-Year Percent Change

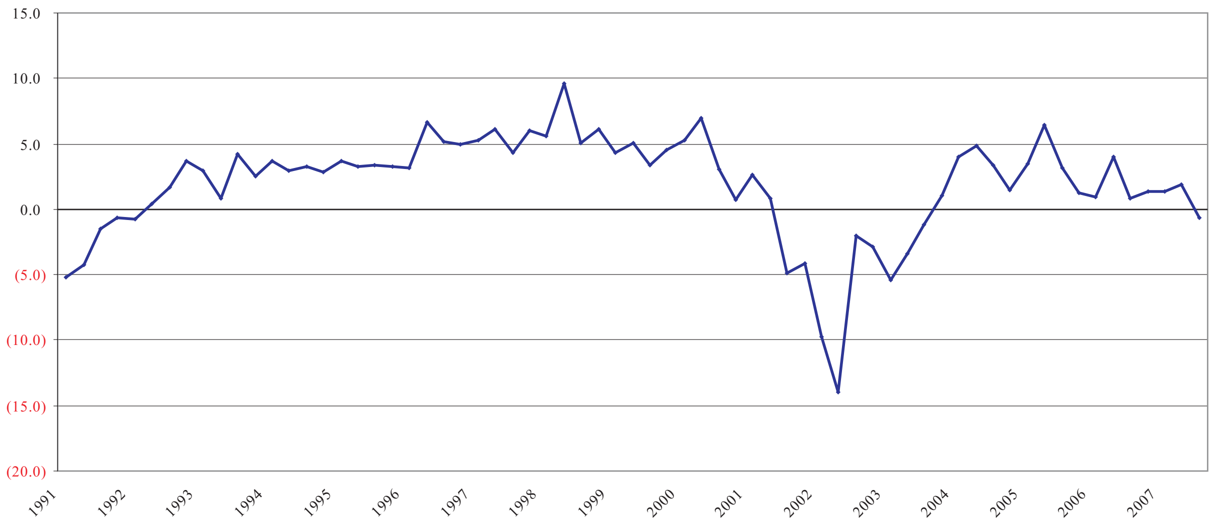
	PIT	CIT	Sales	Total
2007				
July-Sept.	6.3 %	(2.4) %	3.1 %	4.4 %
April-June	8.7	2.5	3.1	6.1
Jan.-Mar.	6.8	14.3	2.8	4.8
2006				
Oct.-Dec.	4.0	16.8	5.0	4.3
July-Sept.	6.6	11.1	4.1	4.6
April-June	15.1	14.7	5.7	9.9
Jan.-Mar.	10.6	(13.8)	6.6	6.8
2005				
Oct.-Dec.	5.7	24.8	5.5	7.6
July-Sept.	9.0	25.4	7.8	9.3
April-June	18.2	21.9	7.9	13.2
Jan.-Mar.	11.6	61.6	6.1	11.4
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

Source: Individual state data, analysis by Rockefeller Institute.

Hampshire, Rhode Island, Florida, Ohio, North Carolina,[1] and Nevada.

This was the seventh consecutive quarter with a net tax cut taking effect, a total of approximately $190 million in net enacted reductions, according to the National Conference of State Legislatures. Ohio registered the largest net tax cuts for a single state of $236 million. Many states have not yet completely reported legislated tax changes so the numbers may change in the future. (Figure 2 shows tax revenue adjusted for legislated changes, by region.) 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.

Figure 1
Real Adjusted Tax Revenue, 1991-2007
Year-Over-Year Percent Change



Source: Individual state data, analysis by Rockefeller Institute. Legislated tax changes by NCSL and inflation by BEA.

States without complete data for this report include New Mexico, North Dakota, and South Dakota.

Personal Income Tax

Personal income taxes are the largest single source of state tax revenue for the 41 states that collect personal income taxes.

Personal income tax revenue grew 6.3 percent in the July-September 2007 quarter compared to the same quarter in 2006. By way of comparison, federal personal income tax collections grew 8.8 percent during the third quarter.[2] The strongest growth in state personal income tax revenue was in the Rocky Mountain region, where collections grew 9.7 percent, followed by the Southeast states, at 8.5 percent. Collections in the Southwest region decreased by 2.1 percent. Of the 39 states with a broad-based personal income tax and for which third quarter information is available, 36 reported growth, while nine states had double-digit increases. West Virginia led the states with growth of 37.0 percent. Only three states showed a decline in personal income tax collections, the largest being 8.8 percent for Oklahoma. Oklahoma had $2 million in legislated tax cuts for the third quarter.

We can get a clearer picture of collections from the personal income tax by breaking this source down into major component parts for which we have data: withholding and quarterly estimated payments.

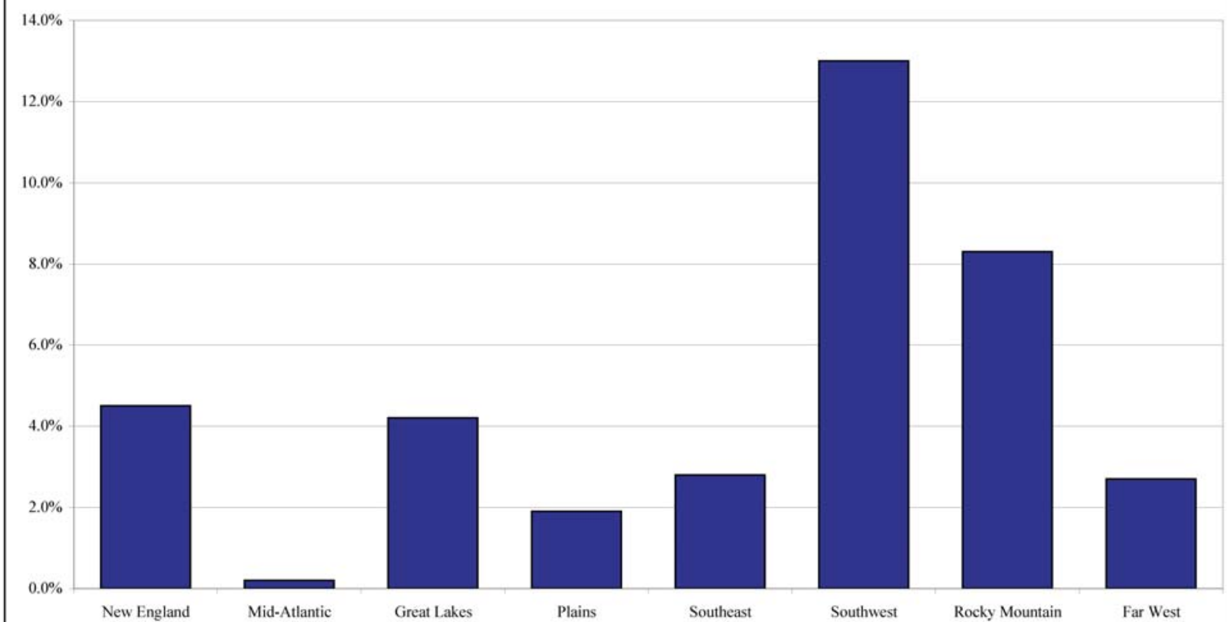
Withholding

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 settlements. Table 6 shows that withholding for the July-September 2007 quarter grew 5.8 percent over the same quarter of 2006. Idaho, Louisiana, Montana, Nebraska, and West Virginia reported strong growth of more than 10 percent.

Estimated Payments

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

Figure 2
Tax Revenue, Adjusted for Legislated Changes,
July-September, 2006 to 2007
Percent Change



Source: Individual state data, analysis by Rockefeller Institute.

In the 33 states for which we have complete data, estimated tax payments for the third payment period rose by an average 20.0 percent compared to a year earlier (see Table 7). Increases were recorded in all 33 states, with 22 reporting double-digit growth over the year. Seven states had increases of more than 20 percent. The increases indicate that most taxpayers who receive nonwage income are expecting it to be higher this year than last.

General Sales Tax

Collections in the July-September 2007 quarter were 3.1 percent above the same quarter in 2006. This is weak compared to the recent historical average (over the past 35 quarters) of 4.6 percent and the second weakest growth (next to the first quarter of 2007) since early 2003.

Sales tax revenue grew fastest in the Rocky Mountain and Southwest regions at 8.4 and 6.9 percent, respectively. Idaho had the highest increase at 20.9 percent, while Wyoming showed an increase of 20.0 percent. Among nine states reporting a decline in sales tax revenue, Kansas showed the highest decline at 6.6 percent.

Corporate Income Tax

Nominal tax revenue decreased 2.4 percent in the July-September quarter, the second weakest in the last five years. The Far West region reported the largest increase with 1.3 percent, due largely to Hawaii's 19.7 percent increase. However, 25 states showed decreases in corporate tax revenue, with Ohio leading with a decline of 116.6 percent. Ohio had a deficit of $9.4 million in corporate income tax revenue for the third quarter of 2007, compared with the $56.4 million collected in the third quarter of 2006. Corporate income tax is an unstable revenue source; many states report sizeable changes from quarter to quarter. Nationally, corporate income tax revenue decreased as well. The IRS collected $95 billion in the third quarter of 2007, versus $108 billion in the third quarter of 2006, a decline of 11.8 percent.[3]

Table 3
Quarterly Tax Revenue by Major Tax, by State
July-September, 2006 to 2007, Percent Change

	PIT	CIT	Sales	Total
United States	**6.3 %**	**(2.4) %**	**3.1 %**	**4.4 %**
New England	**8.1**	**(3.8)**	**1.9**	**5.1**
Connecticut	11.0	(31.9)	1.2	5.6
Maine	6.3	(11.6)	1.5	1.0
Massachusetts	8.2	8.7	2.7	7.2
New Hampshire	NA	(7.9)	NA	(1.3)
Rhode Island	0.8	(53.1)	(0.6)	(4.2)
Vermont	6.6	73.4	3.7	6.6 *
Mid-Atlantic	**8.0**	**1.0**	**4.6**	**5.9**
Delaware	(0.3)	36.4	NA	6.5
Maryland	4.7	(36.3) *	5.1 *	0.1 *
New Jersey	12.1	7.7	12.7	10.2
New York	9.2	7.0	4.2	8.3
Pennsylvania	3.9	(3.7)	0.4	0.3
Great Lakes	**3.8**	**(7.4)**	**2.5**	**2.4**
Illinois	5.5	(4.3) ¶	(2.9) ¶	1.3
Indiana	7.2	6.2	3.7	5.6
Michigan	4.5	3.6	4.5	3.9
Ohio	(1.4) ¶	(116.6)	3.5	(0.8) ¶
Wisconsin	5.7	(20.5) ¶	6.8	3.7
Plains	**7.9**	**(4.6)**	**1.0**	**3.4**
Iowa	9.0	19.9	1.9	8.6
Kansas	10.6	(5.2) ¶	(6.6)	1.8
Minnesota	6.4	(12.2)	3.6	0.1
Missouri	7.3	(2.3) ¶	4.8	5.8
Nebraska	10.9	(3.6)	(4.4)	3.7
North Dakota	ND	ND	ND	ND
South Dakota	ND	ND	ND	ND
Southeast	**8.5**	**(4.4)**	**0.8**	**1.3**
Alabama	8.2	(17.6) ¶	1.3	2.9
Arkansas	7.3	9.3 ¶	(2.5) ¶	3.2 ¶
Florida	NA	(15.4)	(3.5)	(6.7)
Georgia	4.8	38.8	4.9	6.5
Kentucky	11.5	(41.4)	3.2	2.4
Louisiana	20.1	(7.8)	3.6	9.7
Mississippi	9.5	14.4	(3.1)	2.7 ¶
North Carolina	7.8	10.2	5.2	(6.1) ¶
South Carolina	3.7 ¶	(23.5)	2.9 ¶	1.4 *
Tennessee	NA	13.3	3.0	5.9
Virginia	7.1	(13.5)	2.0	3.2
West Virginia	37.0	45.1 ¶	16.3 ¶	22.3
Southwest	**(2.1)**	**(8.8)**	**6.9**	**12.9**
Arizona	3.0	(8.3)	0.2	0.8
New Mexico	ND	ND	ND	ND
Oklahoma	(8.8)	(10.1)	11.2	2.7
Texas	NA	NA	7.8	17.7
Rocky Mountain	**9.7**	**(5.1)**	**8.4**	**7.9**
Colorado	8.6	9.3	7.5	8.1
Idaho	12.2	(17.2)	20.9	12.6
Montana	17.7	(4.4)	NA	14.9
Utah	7.9 ¶	(15.2)	(0.3) ¶	2.9 ¶
Wyoming	NA	NA	20.0	12.9
Far West	**3.5**	**1.3**	**3.2**	**3.8**
Alaska	NA	2.7	NA	50.9
California	3.6	1.5	2.2	2.8
Hawaii	4.9	19.7	6.7 ¶	6.5 ¶
Nevada	NA	NA	(3.6)	(4.1)
Oregon	2.7	(7.5)	NA	1.6
Washington	NA	NA	8.1	3.8

Source: Individual state data, analysis by Rockefeller Institute.
See page 9 for notes.

Underlying Reasons for Trends

State revenue changes result from three kinds of underlying forces: differences in the national and state economies, the ways in which these differences affect each state's tax system, and recently legislated tax changes.

National and State Economies

National economic growth continued to show signs of a quicker pace after the first quarter slowdown. Bureau of Economic Analysis (BEA) estimates indicate that real Gross Domestic Product (GDP) grew at an annual rate of 4.9 percent from the preceding period in the third quarter of 2007, compared to the 4.0 percent growth in the second quarter of 2007 and .6 percent in the first quarter of 2007.[4] Year-over-year growth for the third quarter equaled 2.8 percent, the highest since the second quarter of 2006. The growth was attributed to increases in exports, personal consumption expenditures, nonresidential structures, and equipment and software, and was partly offset by continuing decline in residential fixed investment, which decreased by 16.5 percent from the same quarter one year ago. Over the past four years, residential fixed investment has ranged from a high of 13.2 percent to a low of -16.5 percent, with an average of .7 percent, and a median of 6.3 percent.[5]

The subprime mortgage market continues to be a drag on the economy through residential fixed investment and purchasing of durable goods by consumers. The BEA reported the year-over-year change for durable goods in the July-September 2007 quarter at 4.7 percent, while the average for the past 16 quarters is 5.2 percent. Consumption of nondurable goods was weaker as well. The year-over-year change in purchases of nondurable goods was 2.3 percent for the third quarter of 2007, while the past 16 quarters averaged 3.4 percent.[6]

Personal income increased by 6.5 percent in the third quarter of 2007 over the third quarter of 2006. This was the highest increase in year-over-year percent change for the last four quarters. Personal saving shows the

Table 4
Quarterly State Tax Revenue
Adjusted for Legislated Tax Changes
Year-Over-Year Percent Change

	PIT	Sales	Total
2007			
July-Sept.	7.3 %	3.3 %	4.6 %
April-June	10.7	2.6	7.2
Jan.-Mar.	8.2	2.6	5.8
2006			
Oct.-Dec.	5.3	4.7	5.0
July-Sept.	8.1	4.2	5.5
April-June	15.4	6.5	9.9
Jan.-Mar.	10.9	7.4	6.8
2005			
Oct.-Dec.	6.0	6.4	7.7
July-Sept.	9.2	8.6	9.7
April-June	17.7	7.8	12.9
Jan.-Mar.	11.2	6.0	9.5
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

Source: Individual state data, NCSL, analysis by Rockefeller Institute.
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).

amount of disposable personal income after personal outlays. The average year-over-year change over the past four years is $89.2 billion, while the third quarter of 2007 showed an increase of $56.7 billion over the third quarter of 2006. The BEA reported that personal saving as a percentage of disposable personal income for the July-September 2007 quarter showed a 0.6 percent increase over the same quarter in 2006, while the average of the

Table 5
Quarterly Total Tax Revenue, by State
Adjusted for Legislation and Inflation
July-September, 2006 to 2007, Percent Change

United States	**(0.6) %**
New England	**(0.7)**
Connecticut	(1.0)
Maine	(5.0)
Massachusetts	1.9
New Hampshire	(9.3)
Rhode Island	(9.9)
Vermont	ND
Mid-Atlantic	**(4.8)**
Delaware	ND
Maryland	(4.8)
New Jersey	ND
New York	ND
Pennsylvania	(4.7)
Great Lakes	**(1.0)**
Illinois	ND
Indiana	(1.0)
Michigan	(1.2)
Ohio	(0.6)
Wisconsin	ND
Plains	**(3.1)**
Iowa	1.1
Kansas	(3.1)
Minnesota	(5.0)
Missouri	ND
Nebraska	(1.0)
North Dakota	ND
South Dakota	ND
Southeast	**(2.3)**
Alabama	ND
Arkansas	(0.4)
Florida	(11.1)
Georgia	1.4
Kentucky	(2.4)
Louisiana	4.5
Mississippi	(2.4)
North Carolina	ND
South Carolina	(0.8)
Tennessee	(1.4)
Virginia	(1.7)
West Virginia	17.0
Southwest	**7.4**
Arizona	(4.2)
New Mexico	ND
Oklahoma	(2.2)
Texas	11.9
Rocky Mountain	**2.9**
Colorado	2.7
Idaho	7.1
Montana	9.0
Utah	(1.0)
Wyoming	7.3
Far West	**(2.4)**
Alaska	ND
California	ND
Hawaii	2.4
Nevada	(8.3)
Oregon	(4.1)
Washington	(1.3)

Source: Individual state data, NCSL, analysis by Rockefeller Institute.
Inflation is measured by BEA State and Local Government Consumption Expenditures and Gross Investment Price Index.
See page 9 for notes.

Table 6
Personal Income Tax Withholding, by State
Last Four Quarters, Percent Change

	2006	2007		
	Oct.-Dec.	*Jan.-Mar.*	*Apr.-Jun.*	*July-Sept.*
United States	**6.1 %**	**7.1 %**	**6.2 %**	**5.8 %**
New England	**6.0**	**6.5**	**6.4**	**5.6**
Connecticut	6.1	7.8	6.3	8.8
Maine	4.6	2.6	3.7	2.4
Massachusetts	6.2	6.3	6.7	5.2
Rhode Island	5.6	9.9	ND	(1.4)
Vermont	4.7	1.3	7.1	6.3 *
Mid-Atlantic	**5.5**	**11.6**	**8.4**	**7.1**
Delaware	3.3	(6.4)	0.7	0.0
Maryland	5.4	5.9 *	7.0 *	6.6 *
New Jersey	10.8	11.4	17.0	ND
New York	4.3	15.6	8.5	9.2
Pennsylvania	4.6	4.1	8.1	2.1
Great Lakes	**1.9**	**1.6**	**3.3**	**3.2**
Illinois	6.4	5.4 ¶	7.0 ¶	2.3
Indiana	2.1	4.6	5.6	7.2
Michigan	0.4	3.6	3.2	3.5
Ohio	(4.1) ¶	(3.6)	(4.4)	(1.0) ¶
Wisconsin	6.1	(0.6) ¶	7.3	8.0
Plains	**14.3**	**4.5**	**6.4**	**5.8**
Iowa	6.8	3.6	6.9	ND
Kansas	9.7	6.7 ¶	14.4	6.9
Minnesota	4.9	4.3	4.9	4.8
Missouri	36.2	4.1 ¶	5.9	5.2
Nebraska	9.3	4.8	1.2	10.4
North Dakota	3.7	9.9	11.5	3.9
Southeast	**6.5**	**7.2**	**8.3**	**7.0**
Alabama	6.1	4.3 ¶	5.0	5.6
Arkansas	7.5	3.8 ¶	7.9 ¶	7.9 ¶
Georgia	5.2	17.6	9.4	ND
Kentucky	5.5	2.2	6.3	6.1
Louisiana	15.9	(5.4)	20.0	16.9
Mississippi	4.2	9.9	7.9	8.6 ¶
North Carolina	6.4	9.1	9.1	ND ¶
South Carolina	6.2 ¶	8.8	8.0 ¶	3.1 *
Virginia	5.7	7.6	8.1	4.7
West Virginia	14.2	3.5 ¶	6.7 ¶	23.3
Southwest	**5.6**	**4.0**	**(0.2)**	**2.2**
Arizona	11.4	18.6	8.9	8.0
New Mexico	3.1	3.0	ND	ND
Oklahoma	(0.1)	(1.9)	(7.4)	(4.5)
Rocky Mountain	**6.4**	**8.3**	**10.0**	**8.5**
Colorado	5.5	7.5	6.9	7.1
Idaho	9.7	17.7	6.6	10.9
Montana	6.4	9.3	7.5	14.6
Utah	6.3 ¶	4.9	17.2 ¶	8.0 ¶
Far West	**6.7**	**6.5**	**4.2**	**6.0**
California	6.6	7.7	4.4	7.1
Hawaii	5.6	(4.2)	9.5 ¶	3.5 ¶
Oregon	7.8	0.4	1.5	(0.3)

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.

Source: Individual state data, analysis by Rockefeller Institute.

See page 9 for notes.

past four years was 1.0 percent.[7] Despite the weakening of both durable and nondurable good sales, consumers are collecting more income and spending more, while saving at a slower rate.

Corporate profits, with inventory valuation and capital consumption adjustments, rose only slightly in the third quarter of 2007, by 1.8 percent compared to a year earlier. That growth rate was sharply down from the average of the last four years, 13.6 percent. The financial sector, an important contributor to state tax revenues, saw profits increase modestly over the year ending in September 2007, despite a decline of nearly one-third from the second quarter to third quarter of 2007. Nonfinancial firms overall showed a profit decline of 8.6 percent over the year.[8]

Productivity, another gauge of economic strength, is measured by the increase in output per labor hour. Thus, it can increase with improved output or reduction in hours worked. Nonfarm business productivity rose 2.7 percent in the third quarter of 2007 compared to the second quarter of 2006. That represented stronger year-over-year growth than seen in the first two quarters of 2007 (0.4 and 0.7 percent).[9]

Data on nonfarm employment (not seasonally adjusted), tracked by the Bureau of Labor Statistics (BLS), offer a broad-based, timely, high-quality state-level economic indicator. Still, these data are far from ideal indicators of revenue growth, as most taxes are based on measures such as income, wages, and profits, rather than employment.

On a national basis, nonfarm employment continued to exhibit growth. Employment in the July-September 2007 quarter showed a 1.5 percent growth rate compared to a year earlier. That increase was up slightly from the second quarter of 2007 growth rate of 1.3 percent and the first quarter growth of 1.4 percent.[10]

The disparity in employment growth among the regions remains pronounced. Table 8 shows year-over-year employment growth for the nation and for each state for the first, second, and third quarters of 2007 and fourth quarter of 2006. Figure 3 maps the change in third quarter 2007 employment compared to the same period in 2006.

Table 7
Estimated Payments/Declarations, by State
Year-Over-Year (2006-07) Percent Change

	April-September (first three payments)	July-September (third payment)
Average (Mean)	**14.5**	**20.0** %
Median	**12.4**	**13.0**
Alabama	21.6	41.3
Arizona	31.2	58.8
Arkansas	14.6	7.2
California	8.1	7.6
Colorado	22.4	11.1
Connecticut	14.4	26.9
Delaware	4.5	5.3
Hawaii	1.6	5.8
Illinois	17.6	16.6
Indiana	12.0	15.1
Kansas	21.4	24.1
Kentucky	40.9	47.4
Louisiana	35.6	46.3
Maine	12.4	12.5
Maryland	12.3	0.6
Massachusetts	7.8	16.7
Michigan	12.5	13.0
Minnesota	10.6	13.1
Missouri	16.7	18.9
Montana	9.5	11.5
Nebraska	14.2	19.9
New York	10.0	12.2
North Dakota	9.8	6.5
Ohio	4.9	1.0
Oklahoma	2.1	2.2
Oregon	17.1	7.7
Pennsylvania	13.1	14.2
Rhode Island	6.5	3.4
South Carolina	11.8	11.1
Vermont	14.4	16.9
Virginia	2.7	5.1
West Virginia	31.5	147.8
Wisconsin	11.5	13.7

Source: Individual state data, analysis by Rockefeller Institute.

Job growth continues to be concentrated in the western states. The Rocky Mountain and Southwest states showed the highest growth rate at 3.3 percent, and the Far West showed a 2.2 percent growth rate. Arizona led the nation with strong 5.1 percent growth. Arizona, Idaho, Nevada, New Mexico, Oregon, Texas, Utah, and Wyoming recorded growth of more than double the national rate. In contrast, job growth remains sluggish in the Great Lakes region, where employment was again stagnant. This sluggish job growth record was broad-based, with all five of the region's states posting a growth rate of less than the national average. Michigan showed a decline in growth of 1.3 percent. None of the states in the New England or Mid-Atlantic regions matched or exceeded the national growth rate. The national unemployment rate increased to 4.7 percent, up from a rate of 4.5 percent for the previous two quarters.[11]

Nature of the Tax System

Even if growth affected all regions and states to exactly the same degree and at exactly the same time, the impact on state revenue would 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. This is most evident in states with more progressive income tax structures, since higher incomes are taxed at the highest rates. 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 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. Over the last couple of years, we have seen growth in the stock market and strong growth in corporate profits and other business-related income. In the last recession, we saw the downside of this volatility. Declines in the stock market and other investments pushed personal and corporate income tax collections down much faster than the economy and created large holes in almost every state's budget. Corporate profits and corporate income tax revenue both showed weaker numbers this quarter.

Sales tax revenue generally fluctuates less rapidly than the personal income or corporate income taxes and does not capture spending on services well. States have also 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 plunge as consumers became nervous about spending on optional and big-ticket items. The sales tax generally maintained slow growth in the latest economic downturn, but grew rapidly and remained steady as general economic conditions improved. It has seen relatively low growth in the last two quarters.

The housing market continues to slow and gasoline prices continue to rise. According to a Standard & Poor's report published in September 2007, the subprime mortgage crisis is not the only reason for the housing market slump. Usually, borrowers refinance 70 percent of subprime mortgages, but after peaking in 2005, home prices have declined, making them worth less than their purchase price. Additionally, after the crisis became widely apparent, it became more difficult for borrowers to qualify for mortgages, therefore increasing the rate of foreclosure. Although the housing market started the current economic decline, investor confidence continues to extend the slowdown. The increase in the unemployment rate in July (which has been steadily increasing since then) and the decrease in the value of the dollar further exacerbate the conditions.[12]

In the *Beige Book* summary covering information before October 4, 2007, districts reported that

Key to Interpreting Tables

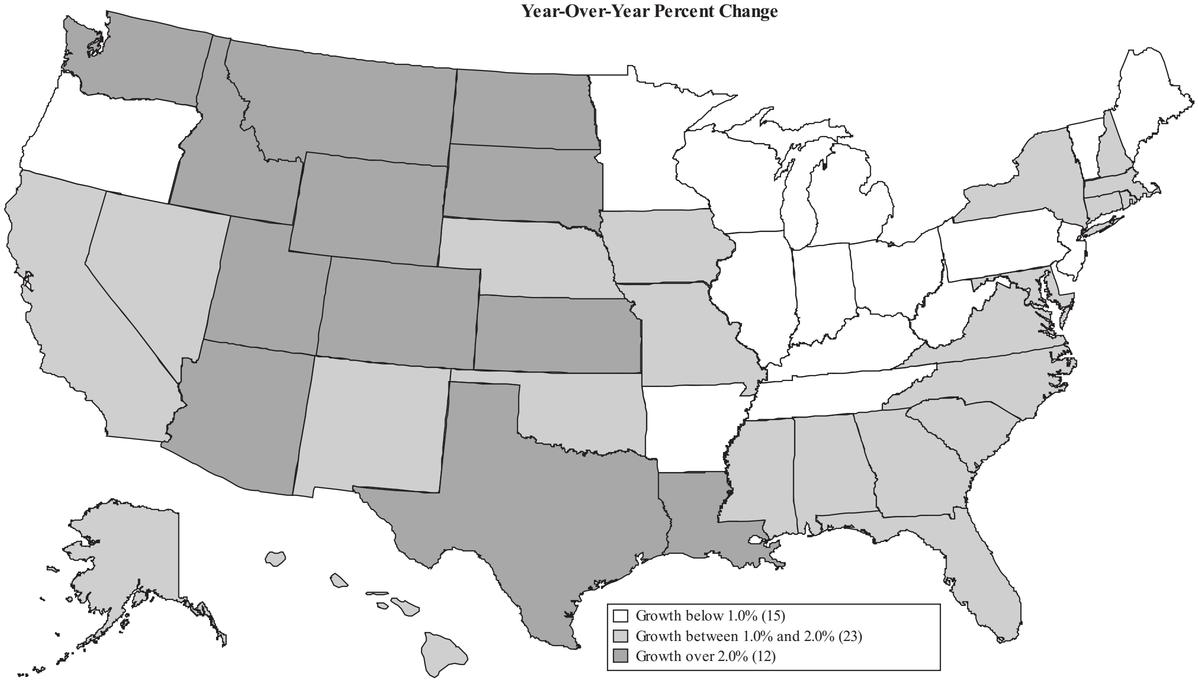
All percent change tables are based on year-over-year changes.
* indicates legislation or processing/accounting changes significantly increased tax receipts (by one percentage point or more).
¶ indicates legislation or processing/accounting changes significantly decreased tax receipts.
NA indicates not 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 1999. Data through 1991 are available at:
www.rockinst.org/research/sl_finance/2column.aspx?id=828.

Table 8
Nonfarm Employment, by State
Last Four Quarters, Year-Over-Year Percent Change

	2006	*2007*		
	Oct.-Dec.	*Jan.-Mar.*	*Apr.-Jun.*	*Jul.-Sep.*
United States	**1.6%**	**1.4%**	**1.3%**	**1.5%**
New England	**0.9%**	**1.1%**	**1.0%**	**0.8%**
Connecticut	1.1%	1.1%	1.1%	1.2%
Maine	0.4%	0.5%	0.4%	0.4%
Massachusetts	1.0%	1.2%	1.1%	0.9%
New Hampshire	0.3%	0.7%	1.3%	0.3%
Rhode Island	1.0%	1.4%	0.9%	0.3%
Vermont	0.5%	0.4%	0.5%	0.3%
Mid-Atlantic	**0.9%**	**1.0%**	**0.8%**	**0.8%**
Delaware	0.7%	0.8%	0.8%	0.6%
Maryland	1.0%	0.9%	1.1%	0.8%
New Jersey	0.9%	0.7%	0.4%	0.7%
New York	1.0%	1.2%	1.0%	0.9%
Pennsylvania	0.9%	1.0%	0.8%	0.7%
Great Lakes	**0.2%**	**0.1%**	**0.0%**	**0.1%**
Illinois	1.2%	1.0%	0.9%	1.1%
Indiana	0.4%	0.2%	0.1%	0.4%
Michigan	-1.3%	-1.1%	-1.3%	-1.3%
Ohio	0.1%	-0.1%	-0.2%	0.1%
Wisconsin	0.4%	0.3%	0.2%	0.3%
Plains	**1.4%**	**1.3%**	**1.5%**	**1.3%**
Iowa	1.3%	1.3%	1.1%	1.2%
Kansas	2.3%	2.3%	2.4%	1.8%
Minnesota	0.7%	0.7%	1.4%	1.1%
Missouri	1.3%	1.1%	1.0%	1.0%
Nebraska	1.4%	2.0%	1.8%	1.1%
North Dakota	2.9%	2.4%	1.8%	2.1%
South Dakota	2.6%	2.4%	2.6%	2.2%
Southeast	**1.9%**	**1.7%**	**1.5%**	**1.5%**
Alabama	1.5%	1.7%	1.4%	1.8%
Arkansas	1.4%	0.8%	0.7%	1.7%
Florida	2.0%	1.7%	1.6%	2.2%
Georgia	1.5%	1.4%	1.4%	1.7%
Kentucky	0.8%	0.8%	0.5%	0.8%
Louisiana	5.3%	4.4%	3.1%	-2.0%
Mississippi	2.4%	2.1%	1.6%	1.3%
North Carolina	2.6%	2.4%	2.0%	2.7%
South Carolina	1.7%	1.5%	1.4%	1.3%
Tennessee	1.1%	1.0%	0.8%	1.4%
Virginia	1.3%	1.3%	1.3%	1.3%
West Virginia	1.3%	0.5%	0.5%	0.8%
Southwest	**3.2%**	**2.6%**	**2.4%**	**3.3%**
Arizona	4.9%	4.1%	3.3%	5.1%
New Mexico	2.8%	2.0%	1.7%	3.1%
Oklahoma	1.9%	1.4%	1.5%	2.5%
Texas	2.9%	2.5%	2.3%	3.0%
Rocky Mountain	**3.2%**	**3.0%**	**2.8%**	**3.3%**
Colorado	2.1%	2.1%	1.9%	2.2%
Idaho	4.5%	3.6%	2.6%	4.4%
Montana	2.3%	2.3%	2.5%	2.8%
Utah	4.5%	4.5%	4.5%	4.8%
Wyoming	4.4%	4.1%	3.4%	4.5%
Far West	**2.0%**	**1.9%**	**1.6%**	**2.2%**
Alaska	1.7%	1.6%	0.7%	1.3%
California	1.7%	1.7%	1.5%	1.8%
Hawaii	2.5%	2.3%	2.1%	2.1%
Nevada	3.8%	3.4%	2.2%	4.1%
Oregon	2.2%	1.8%	1.4%	3.0%
Washington	2.6%	2.1%	2.0%	2.9%

Source: Bureau of Labor Statistics, analysis by Rockefeller Institute.

Figure 3
Nonfarm Employment, July-September 2007,
Year-Over-Year Percent Change



economic activity continued to expand, but the rate of growth in September was slower than July and August. Manufacturing of products and services related to home construction weakened, but with a lower valued dollar, some manufacturing firms reported growth in global sales. Many districts reported slowing retail sales at department and furniture stores, while electronics and luxury item sales stayed firm. Most districts cited the persistent decline of home sales, as well as new home construction. Lenders in many districts tightened lending standards.[13]

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 July-September 2007 quarter, enacted tax changes and processing variations decreased state revenue by an estimated net of $190 million compared to the same period in 2006.[14]

Personal income tax reductions totaled $335 million, with Ohio accounting for $272 million. Among all states reporting, legislated changes decreased sales tax revenue in the third quarter of 2007 by a net $89 million. Corporate income tax increased by $18 million. Taxes collected from motor fuel, cigarette/tobacco, and alcohol increased by $216 million. The data for tax law changes are not yet complete, and some states (including California and New York) have yet to report their data.[15]

Conclusions

Total revenue growth continued to increase in the July-September quarter of 2007, in only nominal, but not real terms. Despite strong personal

Table 9

State Tax Revenue, July-September, 2006 and 2007 ($ in millions)

	2006				2007			
	Personal Income	Corporate Income	Sales	Total	Personal Income	Corporate Income	Sales	Total
United States	**55,950**	**10,775**	**52,276**	**140,774**	**59,454**	**10,521**	**53,894**	**146,985**
New England	**3,946**	**613**	**1,994**	**8,059**	**4,266**	**589**	**2,032**	**8,474**
Connecticut	824	105	434	1,623	914	72	440	1,714
Maine	250	50	198	615	265	44	201	621
Massachusetts	2,484	343	1,042	4,504	2,687	373	1,070	4,829
New Hampshire	NA	74	NA	405	NA	68	NA	399
Rhode Island	254	30	236	582	256	14	234	558
Vermont	135	11	83	331	144	19	86	353
Mid-Atlantic	**12,354**	**2,079**	**6,578**	**24,947**	**13,344**	**2,099**	**6,884**	**26,421**
Delaware	233	29	NA	504	232	40	NA	537
Maryland	1,182	199	540	2,123	1,238	127	567	2,124
New Jersey	1,518	500	1,270	3,803	1,702	538	1,432	4,190
New York	7,209	866	2,586	12,391	7,873	927	2,695	13,425
Pennsylvania	2,212	485	2,181	6,126	2,298	467	2,190	6,145
Great Lakes	**8,213**	**1,364**	**7,785**	**20,052**	**8,526**	**1,262**	**7,983**	**20,538**
Illinois	2,176	417	1,869	5,269	2,296	399	1,814	5,339
Indiana	1,047	240	1,352	2,948	1,122	255	1,403	3,113
Michigan	1,706	420	1,979	5,024	1,783	435	2,068	5,219
Ohio	2,058	56	1,842	4,327	2,030	(9)	1,906	4,291
Wisconsin	1,226	230	742	2,484	1,296	183	793	2,576
Plains	**4,452**	**699**	**3,109**	**9,324**	**4,806**	**667**	**3,141**	**9,641**
Iowa	640	85	498	1,338	698	102	508	1,454
Kansas	580	109	529	1,324	641	103	494	1,347
Minnesota	1,648	309	1,041	3,328	1,753	271	1,078	3,331
Missouri	1,194	131	709	2,487	1,281	128	743	2,631
Nebraska	391	65	332	847	433	62	317	878
North Dakota	ND	ND	ND	ND	ND	ND	ND	ND
South Dakota	ND	ND	ND	ND	ND	ND	ND	ND
Southeast	**10,786**	**2,431**	**14,187**	**32,745**	**11,704**	**2,323**	**14,303**	**33,175**
Alabama	727	128	561	1,950	787	105	568	2,006
Arkansas	544	94	566	1,281	583	103	552	1,322
Florida	NA	545	4,753	6,109	NA	461	4,586	5,701
Georgia	2,038	148	1,376	3,954	2,135	205	1,443	4,211
Kentucky	738	280	813	2,261	823	164	838	2,314
Louisiana	641	182	702	1,983	770	168	727	2,176
Mississippi	347	100	700	1,487	380	114	678	1,527
North Carolina	2,335	313	1,237	4,748	2,518	345	1,301	4,458
South Carolina	917	75	451	1,530	951	57	464	1,550
Tennessee	NA	223	1,703	2,580	NA	252	1,754	2,733
Virginia	2,230	259	1,057	4,024	2,388	224	1,078	4,153
West Virginia	269	86	269	837	369	125	313	1,024
Southwest	**1,538**	**359**	**7,210**	**13,115**	**1,505**	**327**	**7,705**	**14,812**
Arizona	872	262	1,124	2,380	898	240	1,126	2,398
New Mexico	ND	ND	ND	ND	ND	ND	ND	ND
Oklahoma	666	97	463	1,511	607	87	515	1,552
Texas	NA	NA	5,624	9,225	NA	NA	6,064	10,862
Rocky Mountain	**1,987**	**311**	**1,391**	**4,098**	**2,180**	**295**	**1,508**	**4,423**
Colorado	1,030	113	572	1,741	1,118	124	615	1,882
Idaho	260	48	307	716	291	40	371	807
Montana	178	43	NA	315	210	41	NA	361
Utah	520	108	455	1,240	561	91	454	1,276
Wyoming	NA	NA	58	86	NA	NA	69	97
Far West	**12,674**	**2,919**	**10,022**	**28,434**	**13,122**	**2,957**	**10,339**	**29,502**
Alaska	NA	36	NA	616	NA	37	NA	930
California	10,996	2,733	6,595	20,993	11,391	2,775	6,737	21,577
Hawaii	362	23	606	1,077	379	27	646	1,147
Nevada	NA	NA	805	1,046	NA	NA	775	1,003
Oregon	1,317	127	NA	1,545	1,352	117	NA	1,570
Washington	NA	NA	2,017	3,157	NA	NA	2,180	3,276

Source: Individual state data, analysis by Rockefeller Institute. See page 9 for notes.

income tax revenue growth, sales tax continued to lag and corporate income tax again showed one of its weakest performances in five years. Although personal income tax performance was stronger than that of both corporate income tax and sales tax, it is the slowest third quarter rate since 2003 and the third slowest of all quarters since 2003. Corporate income tax has historically expanded and diminished, depending on timely receipts and compliance, but rarely shows a declining rate. In fact, a decrease in corporate income tax has only happened once in the past five years, in the first quarter of 2006. Growth in sales tax was historically low for the third consecutive quarter, and matched rates most recently seen as the nation was emerging from the last recession.

In the "State Budget Update: November 2007," the National Conference of State Legislatures stated that new budget data in the third quarter of 2007 indicated that state finances are weakening. Although many states report revenue meeting or surpassing revenue projections, other states report that collections are not meeting previous expectations, and nearly half of the states are modifying their forecasts. Out of the 22 states revising their forecasts, 11 are raising projections, while 11 are lowering them. California, Florida, and New York are all lowering forecasts, with Florida reducing its estimates by $1.1 billion, or 4.0 percent. The report also stated that personal income tax revenue collections were the strongest category through the third quarter of 2007, with sales tax showing the greatest weakness, and corporate income tax too mixed from state to state to make an accurate assumption about corporate income tax revenues overall.[16]

Year-over-year change in state tax revenue collection weakened in all categories from the second to the third quarter of 2007, except for sales tax revenue, which remained slow, but steady. The national economy showed strengthening in the GDP and productivity; however, personal consumption expenditures showed weaker growth rates, as did personal saving. The Federal Reserve Board has lowered interest rates three times since September, and states have revised their revenue forecasts up as well as down. The economy has shown declining investor confidence, and the subprime mortgage effects should be seen through the year 2008. While economists differ on whether the nation is entering a recession, there is certainly a slowdown occurring, and state tax revenue may not recover to strong growth rates for the next few quarters.

Endnotes

1 North Carolina data do not include motor fuel tax or highway tax fund revenue because the data are not yet available.

2 Internal Revenue Service data.

3 Ibid.

4 Revised GDP percent change based on chained 2000 dollars, seasonally adjusted annual rates.

5 Bureau of Economic Analysis data.

6 Ibid.

7 Ibid.

8 Ibid.

9 Bureau of Labor Statistics data.

10 Ibid.

11 Ibid.

12 Wyss, David. "U.S. Economic Forecast: Another Panic of '07?" Standard & Poors, September 13, 2007.

13 Federal Reserve Board, *The Beige Book*, October 17, 2007.

14 National Conference of State Legislatures data.

15 Ibid.

16 "State Budget Update: November 2007," National Conference of State Legislatures, November 2007.

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 many states is motor fuel taxes. Taxes on health-care providers to fund Medicaid programs are excluded as well.

California: Nongeneral 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 corporate 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 noneconomic 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.

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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.

This report was researched and written by Alison J. Grinnell, Fiscal Research Analyst, with Robert B. Ward, Deputy Director and Director of Fiscal Studies. Michael Cooper, the Rockefeller Institute's Director of Publications, did the layout and design of this report, with assistance from Michele Charbonneau. Barbara Stubblebine edited the report.

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