STATE REVENUE REPORT

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Weakest State Tax Revenue Growth in Over Seven Years

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HIGHLIGHTS

- October-December tax revenue grew only 4 percent over the same period in 1999, the weakest quarter since April-June of 1993.
- After adjusting for the effects of legislated changes and inflation, real underlying tax revenue growth was only 1.6 percent, also slowest since April-June 1993.
- Personal income tax revenue grew a moderate 5.7 percent, after almost six years of stronger growth.
- Sales tax continued to weaken, growing only 4.1 percent, the slowest growth since the recession of the early 1990s. However, this was partly due to legislated tax cuts. Without these, growth would have been five percent, matching rates seen as recently as April-June 1997.
- The regional revenue picture was very uneven, with the Midwest and Southeast showing considerable weakness, while the West was still strong.
- Tax cuts are still being discussed in several states, but will probably be fewer and smaller than in recent years. Many states will instead be spending their 2001 legislative sessions considering spending cuts to balance budgets already under the strain of slowing revenue growth.

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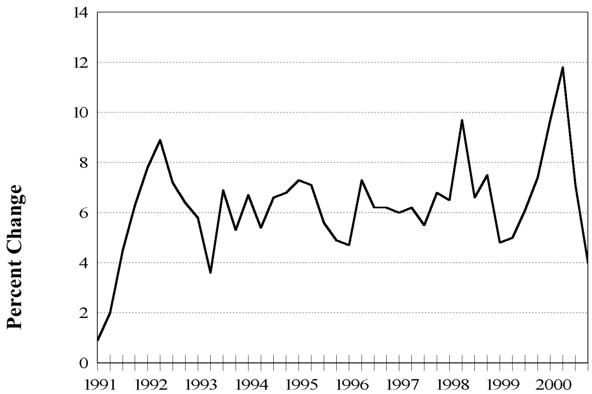


Figure 2. Real Quarterly Increase, 1991-2000

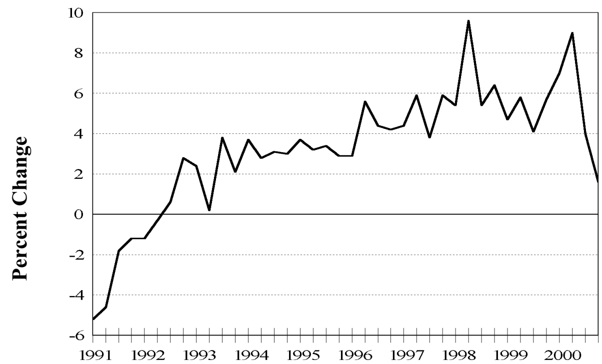


Table 1. Aggregate Change in Quarterly Tax Revenue, Adjusting for Legislated Tax Changes and Inflation

	Total Nominal Increase	*Adjusted Nominal Increase*	*Inflation Rate*	*Real Increase*
1994				
Jan.-Mar.	6.7%	6.3%	2.5%	3.7%
April-June	5.4	5.3	2.4	2.8
July-Sept.	6.6	6.1	2.9	3.1
Oct.-Dec.	6.8	5.8	2.7	3.0
1995				
Jan.-Mar.	7.3	6.6	2.8	3.7
April-June	7.1	6.4	3.1	3.2
July-Sept.	5.6	6.1	2.6	3.4
Oct.-Dec.	4.9	5.7	2.7	2.9
1996				
Jan.-Mar.	4.7	5.7	2.7	2.9
April-June	7.3	8.6	2.8	5.6
July-Sept.	6.2	7.4	2.9	4.4
Oct.-Dec.	6.2	7.5	3.2	4.2
1997				
Jan.-Mar.	6.0	7.4	2.9	4.4
April-June	6.2	8.3	2.3	5.9
July-Sept.	5.5	6.1	2.2	3.8
Oct.-Dec.	6.8	7.9	1.9	5.9
1998				
Jan.-Mar.	6.5	7.0	1.5	5.4
April-June	9.7	11.4	1.6	9.6
July-Sept.	6.6	7.1	1.6	5.4
Oct.-Dec.	7.5	8.0	1.5	6.4
1999				
Jan.-Mar.	4.8	6.5	1.7	4.7
April-June	5.0	8.0	2.1	5.8
July-Sept.	6.1	6.5	2.3	4.1
Oct.-Dec.	7.4	8.4	2.6	5.7
2000				
Jan.-Mar.	9.7	10.4	3.2	7.0
April-June	11.4	11.8	3.2	8.3
July-Sept.	7.1	7.7	3.5	4.1
Oct.-Dec.	4.0	5.0	3.4	1.6

Note: Inflation is measured by the Consumer Price Index.
Please call Fiscal Studies Program for pre-1994 data.

Table 2. Change in Quarterly Tax Revenue by Major Tax

	PIT	*CIT*	*Sales*	*Total*
1994				
Jan.-Mar.	7.6%	6.2%	6.9%	6.7%
April-June	1.3	9.1	9.0	5.4
July-Sept.	4.2	18.9	7.8	6.6
Oct.-Dec.	4.2	12.5	9.1	6.8
1995				
Jan.-Mar.	6.4	13.2	9.0	7.3
April-June	8.3	14.3	6.1	7.1
July-Sept.	6.3	8.0	5.2	5.6
Oct.-Dec.	5.6	7.9	4.2	4.9
1996				
Jan.-Mar.	7.1	(4.8)	5.6	4.7
April-June	11.3	0.9	6.8	7.3
July-Sept.	6.9	4.0	5.8	6.2
Oct.-Dec.	9.1	(3.0)	6.1	6.2
1997				
Jan.-Mar.	7.1	9.6	4.7	6.0
April-June	8.8	7.6	4.3	6.2
July-Sept.	8.4	(2.8)	5.8	5.5
Oct.-Dec.	8.3	4.5	5.3	6.8
1998				
Jan.-Mar.	9.3	2.3	5.6	6.5
April-June	19.5	(2.1)	5.3	9.7
July-Sept.	8.9	(0.2)	5.9	6.6
Oct.-Dec.	9.5	5.2	5.5	7.5
1999				
Jan-Mar.	6.6	(2.6)	6.1	4.8
April-June	6.0	(2.1)	7.3	5.0
July-Sept.	7.6	1.4	6.7	6.1
Oct.-Dec.	9.1	3.8	7.3	7.4
2000				
Jan.-Mar.	13.6	8.0	8.2	9.7
April-June	18.8	4.2	7.3	11.4
July-Sept.	11.0	5.7	4.7	7.1
Oct.-Dec.	5.7	(7.7)	4.1	4.0

Note: Please call Fiscal Studies Program for pre-1994 data.

Introduction

Growth in tax revenue weakened significantly in October-December of 2000 compared with the same period in 1999. The total tax revenue growth of four percent was the slowest quarterly growth since April-June 1993. The growth in personal income tax was the slowest in five years, while the corporate income tax was down sharply, and the sales tax grew at the slowest rate in over nine years. When adjusted for legislated tax changes (mostly tax cuts), growth was five percent, still the weakest underlying growth in seven years.

Tax Revenue Growth

Table 1 shows tax revenue growth before and after adjusting for legislated tax changes and inflation. The table illustrates that October-December's four percent growth represents a considerable slowdown from the very high growth rates earlier in the year. Growth dropped from 11.4 percent in April-June, to 7.1 in July-September, with October-December's weakness an extension of that trend. The effects of legislated tax changes have been relatively minor over this period, but when we factor in the effects of inflation as well, the trend of the last year is particularly apparent – real growth of 8.3 percent in April-June had declined to 1.6 percent by October-December. This is the lowest rate of real revenue growth since April-June 1993.

As Table 3 shows, growth was much weaker in some regions than in others. The Great Lakes states had revenue growth of only 0.6 percent, and the Plains and Southeast states had growth of only two percent and 2.2 percent respectively. Meanwhile the Far West had a growth rate of nine percent, the Southwest eight percent, and the Rocky Mountain states 7.4 percent. Although the Great Lakes states' growth would have been closer to 3.1 percent if there had not been several major tax cuts in that region, the regional distribution of strong and weak growth otherwise is about the same after adjusting for the effects of legislated tax changes. (See Figure 3.)

The personal income tax continues to be the strongest source of growth in state tax revenues, but even it has slowed quite a bit since its peak in

Table 3. Change in Quarterly Tax Revenue by State, October to December, 1999 to 2000

	PIT	*CIT*	*Sales*	*Total*
United States	**5.7%**	**(7.7)%**	**4.1%**	**4.0%**
New England	**3.0**	**(0.7)**	**4.1**	**2.7**
Connecticut	1.2	404.0	6.0¶	2.6¶
Maine	7.7	(46.5)	(3.4)¶	(2.6)¶
Massachusetts	2.1	(19.2)	1.7	1.8
New Hampshire	NA	69.4	NA	19.5
Rhode Island	11.8	17.6	23.6	11.8
Vermont	7.0	38.2	(7.3)	(0.3)
Mid-Atlantic	**7.7**	**(11.6)**	**3.0**	**2.7**
Delaware	(1.9)¶	(36.2)	NA	(7.1)¶
Maryland	8.3¶	104.1	8.1	9.2¶
New Jersey	14.3	(23.4)	5.9	4.2
New York	6.8	(6.3)¶	(0.5)¶	2.9¶
Pennsylvania	5.3	(22.9)	3.2	(0.8)
Great Lakes	**0.5**	**(1.5)**	**0.7**	**0.6**
Illinois	2.1¶	4.9¶	(4.1)¶	0.0¶
Indiana	2.2	(6.0)	2.1	2.6
Michigan	(5.2)¶	(4.5)¶	2.8	0.2¶
Ohio	3.1	(62.0)	3.8	2.2
Wisconsin	2.4¶	9.6	(1.3)¶	(1.5)¶
Plains	**4.8**	**(16.0)**	**0.6**	**2.0**
Iowa	(1.7)	(24.4)	0.6	(4.5)
Kansas	9.9	(28.8)	(2.8)	1.2
Minnesota	8.9¶	(17.1)	4.2	4.7¶
Missouri	0.5	(13.0)	(2.4)	ND
Nebraska	5.6	44.4	(3.7)	1.8
North Dakota	4.7	2.7	(0.5)	0.8
South Dakota	NA	NA	6.4	8.6
Southeast	**4.2**	**(21.3)**	**3.0**	**2.2**
Alabama	2.7	(42.2)	0.1	0.1
Arkansas	2.6	(0.8)	1.0	1.9
Florida	NA	(4.1)	3.7	3.1
Georgia	10.2	(3.7)	3.1	5.1
Kentucky	0.4	(27.4)	4.0	1.5
Louisiana	4.8	920.9	8.6*	7.2*
Mississippi	2.8¶	(2.5)	0.0	1.3
North Carolina	10.7	(61.7)¶	3.7	4.0
South Carolina	(3.1)	(2.2)	1.7	(2.2)
Tennessee	NA	(32.9)	1.6	1.0
Virginia	(1.1)	(66.4)	1.5¶	(2.7)
West Virginia	(3.5)	(12.3)	5.4	3.1
Southwest	**6.2**	**3.8**	**6.1**	**8.0**
Arizona	4.7	14.2	5.5	5.6
New Mexico	7.2	75.0	4.5	13.2
Oklahoma	7.7	(80.8)	5.4*	5.9
Texas	NA	NA	6.3	8.3
Rocky Mountain	**8.1**	**10.3**	**3.8**	**7.4**
Colorado	7.5	(28.2)	3.7	5.3
Idaho	14.0	126.5	3.6	19.8
Montana	10.1	6.9	NA	(1.1)
Utah	5.7	6.6	3.0	4.4
Wyoming	NA	NA	NA	NA
Far West	**9.9**	**3.4**	**9.8**	**9.0**
Alaska	NA	1,074.0	NA	109.9
California	8.6	(1.0)¶	11.5	8.0
Hawaii	3.0	8,680.5	13.5¶	8.3¶
Nevada	NA	NA	4.1	5.9
Oregon	24.9	(17.9)	NA	20.0
Washington	NA	NA	4.9	5.1

Table 4. Change in Quarterly Tax Revenue, Adjusting for Legislated Tax Changes

	PIT	*Sales*	*Total*
1994			
Jan.-Mar.	7.4%	6.3%	6.3%
April-June	1.8	8.0	5.3
July-Sept.	4.4	6.8	6.1
Oct.-Dec.	4.4	7.5	5.8
1995			
Jan.-Mar.	6.1	7.5	6.6
April-June	7.5	5.1	6.4
July-Sept.	7.2	5.4	6.1
Oct.-Dec.	7.1	4.2	5.7
1996			
Jan.-Mar.	8.8	5.7	5.7
April-June	14.1	6.5	8.6
July-Sept.	9.1	5.9	7.4
Oct.-Dec.	11.2	6.4	7.5
1997			
Jan.-Mar.	10.0	5.0	7.4
April-June	12.8	5.0	8.3
July-Sept.	9.5	6.2	6.1
Oct.-Dec.	10.7	5.9	7.9
1998			
Jan.-Mar.	10.0	6.5	7.0
April-June	23.3	5.9	11.4
July-Sept.	9.3	6.4	7.1
Oct.-Dec.	10.2	5.9	6.9
1999			
Jan.-Mar.	9.9	6.2	6.5
April-June	12.4	7.3	8.0
July-Sept.	8.3	6.9	6.5
Oct.-Dec.	11.0	7.5	8.4
2000			
Jan.-Mar.	13.8	8.8	10.4
April-June	18.6	7.8	11.8
July-Sept.	11.6	5.6	7.7
Oct.-Dec.	6.5	5.0	5.0

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, page 13.)
For pre-1994 data, call the Fiscal Studies Program.

Key to Interpreting Tables

All percent change tables are based on year-over-year changes.
[1] December data not available.
* 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 means not applicable.
ND means no data.
Historical Tables (Tables 1, 2 and 4) have been shortened to provide data only back to 1994. For data through 1990, call the Fiscal Studies Program.

April-June. Tables 2 and 4 show year-over-year growth in the major tax sources and total tax revenue, before and after adjusting for the effects of legislated tax changes. After these adjustments, the 6.5 percent growth of the personal income tax was the slowest since January-March of 1995. While it was still stronger than the growth in the other major tax sources, it is much less than the double digit underlying growth we have seen in the previous four quarters and 13 of the last 19 quarters. The five percent underlying growth in the sales tax was closer to the 5.6 percent underlying growth in the July-September quarter, which already showed a drop from previous quarters. The corporate income tax weakened again also, declining after six quarters of slow to moderate growth.

Personal Income Tax

As discussed above, the personal income tax, while still stronger than either of the other major tax revenue sources, has cooled down quite a bit over the past couple of quarters – to the point of decreases in several states. Although seven states had double-digit personal income tax revenue growth,[1] six states had declines: Delaware, Iowa, Michigan, South Carolina, Virginia, and West Virginia. And while several of these declines were due in part to legislated tax cuts or processing issues, both these states and others with very slow growth were concerned about a genuine slowing, especially in withholding.[2]

This relative weakness in the personal income tax is troubling to many revenue estimators, although 6.5 percent underlying growth is not, historically, a cause for concern in and of itself. After all, revenue growth in the past few years has been unsustainably high, due in good part to very steep capital gains and stock option growth, and revenue estimators are aware of this. Nonetheless, states have two major issues in the face of a personal income tax slowdown. First, many of them have come to depend on very high revenue growth rates, having exceeded their own expectations for years running. Second, and more importantly in the long run for all states, is the larger question of whether this slowdown is: (a) a statistical blip in a general continuing upward trend (unlikely); (b) the start of

Figure 3
Percent Change in Tax Revenue by Region, Adjusted for Legislated Changes October-December, 1999 to 2000

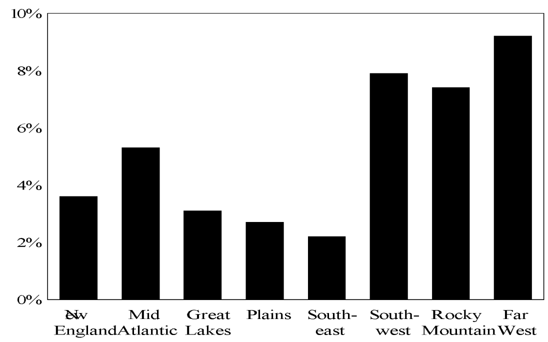


Figure 4
Change in Quarterly Tax Revenue by State, Adjusting for Legislated Changes, October-December, 1999 to 2000

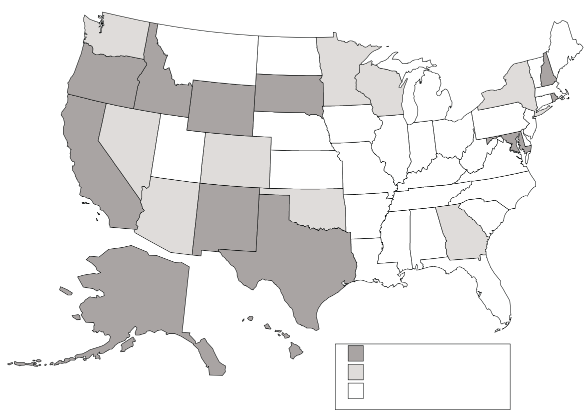
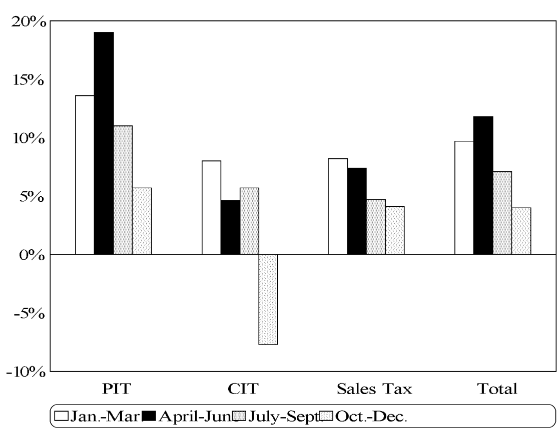


Figure 5
Change in Quarterly Tax Revenue by Tax, Last Four Quarters



a cooler but not recessionary growth phase for state tax revenue; or (c) the start of a long slide culminating this April or next in "surprises" of a decidedly less pleasant nature than in recent years. Finally, some states are already deep into a period of disappointing growth, while others are still riding the crest of the wave of revenue growth that started in April without knowing how likely they are to join the first group or when that might happen.

Revenue estimators can get a better idea of how things are going by looking at a breakdown of the personal income tax into its component parts: withholding from paychecks, quarterly estimated tax payments and final settlements (payments / refunds). We will not know about tax year 2000 final settlements until April-June, of course, but we do have October-December withholding and fourth quarterly estimated tax payment data for most states.

Withholding

Table 5 shows that year-over-year withholding growth for the fourth quarter of calendar 2000 dropped significantly from the first three quarters. Even though October-December's 6.7 percent growth would have been closer to 7.5 percent without several large tax cuts,[3] this represents a fairly steep drop from the growth in even the July-September quarter.

Withholding is, in several ways, a better measure of current income strength than is personal income tax revenue. For one thing, it is based on current wages. It is also much less volatile than either of the other two components of the personal income tax, quarterly estimated/declared payments and final settlements, so it is easier to see trends as they occur. However, withholding is affected by both bonuses and stock options for high-income individuals, and these are far more volatile than paychecks based on regular wages and salaries. The first and fourth calendar quarters usually include more bonus activity than mid-year quarters, since most bonuses are given out at the end of December or beginning of January. Stock options, on the other hand, are generally exercised based on market conditions and other factors, and have no annual pattern. Finally, in states with progressive tax codes, the effect of this volatility is increased by the fact that these high-income wage earners are being taxed at the highest bracket.

Many revenue estimators believed their withholding to have been inflated by these factors during the recent period of extremely strong withholding growth: the national average for each of the first three quarters of calendar 2000 was around 10 percent – over 11 percent for the bonus-heavy January-March quarter. The 6.7 percent withholding growth states are seeing now is much closer to what might be expected compared to simple wage growth. If this deceleration is indeed due to reductions in bonus and stock option activity among the richest taxpayers, states would do well to be alert: these high-income taxpayers are the ones that have been filling state coffers for a while, and both sources could fall still further.

Estimated Payments

Although the tail end of tax year 2000's withholding looked to be slowing, total liability for the year is harder to predict than merely looking at withholding. The major reason for that is the taxes — generally paid by the richest taxpayers — on non-wage income, in the form of quarterly estimated tax payments (also known as declarations). This income is often from investments, and in recent years, specifically from capital gains realized in a market that has been growing – if sometimes unsteadily – by leaps and bounds. Tax year 1999 was the strongest year yet for state tax revenue, and most estimators do not doubt that stock options and capital gains had a strong hand in that growth. The most recent year or so, however, has seen fall-offs in many stock market prices, especially high-tech stocks, "dot coms," and so on.

Despite this less-than-stellar performance by the stock market, quarterly estimated payments in most states have continued to grow by double-digits over the 1999 amounts – on the order of 18 percent for the first three payments combined. Of course, this could have been due to either of two major factors: (1) taxpayers continued to make a killing in capital gains (from selling higher than they bought, even as the market tumbled off its peak); or, (2) they simply paid a

Table 5. Change in Personal Income Tax Withholding by State, Last Four Quarters

	2000			
	Jan-Mar	*Apr-Jun*	*July-Sept*	*Oct.-Dec.*
United States	**11.1%**	**10.1%**	**9.7%**	**6.7%**
New England	**12.3**	**12.4**	**13.2**	**4.4**
Connecticut	8.9	11.8	10.6	1.2
Maine	11.2	14.3	9.9	8.7
Massachusetts	14.5	12.8	15.1	4.9
Rhode Island	4.1	7.6	8.7	8.4
Vermont	11.1¶	12.1	7.5	3.1
Mid-Atlantic	**14.3**	**11.2**	**9.7**	**8.8**
Delaware	(7.0)¶	(5.7)¶	(7.0)¶	(1.7)¶
Maryland[1]	10.4	7.9	3.9	3.9¶
New Jersey	11.2	20.9	9.9	13.4
New York	18.6	12.4	11.7	9.9
Pennsylvania	8.4	8.5	10.1	6.4
Great Lakes	**8.3**	**4.5**	**3.2**	**2.2**
Illinois	7.6	5.5	6.7¶	4.6¶
Indiana	5.2	4.8	7.4	4.3
Michigan	8.1¶	(0.1)¶	(1.1)¶	(2.4)¶
Ohio	7.5	5.2	7.5	4.1
Wisconsin	13.0	8.1	(7.6)¶	1.6¶
Plains	**1.5**	**7.0**	**6.9**	**5.7**
Iowa	(1.2)	13.9	2.8	(0.1)
Kansas	9.6	10.7	12.7	7.8
Minnesota	(0.3)¶	0.6¶	5.5¶	8.6¶
Missouri	(2.0)	10.8	8.8	3.9
Nebraska	11.0	9.4	7.8	6.3
North Dakota	7.9	10.2	5.7	3.8
Southeast	**7.1**	**9.0**	**8.0**	**6.5**
Alabama	3.3	9.3	9.0	6.1
Arkansas	5.1¶	6.4	8.4	5.2
Georgia	11.5	14.5	12.7	13.9
Kentucky	2.6	ND	ND	ND
Louisiana	11.1	8.8	(4.6)	5.5
Mississippi	5.9	5.7	6.0¶	3.8¶
North Carolina	7.6	8.1	8.4	7.3
South Carolina	6.7	5.8	5.7	0.7
Virginia	5.7	7.8	6.8	3.5
West Virginia	3.9	5.6	5.2	(0.9)
Southwest	**8.5**	**9.1**	**9.8**	**4.3**
Arizona	14.2	9.3	9.5	4.9
New Mexico	ND	10.5	15.4	5.3
Oklahoma	2.2	8.4	8.2	3.2
Rocky Mountain	**9.6**	**8.6**	**10.9**	**10.6**
Colorado	8.4¶	7.3¶	13.2	10.1
Idaho	10.5	17.4	15.5	14.7
Montana	4.2	6.3	7.3	10.3
Utah	13.0	7.4	5.0	9.4
Far West	**17.9**	**17.3**	**17.4**	**9.9**
California	19.7	19.0	19.3	10.7
Hawaii	(0.4)¶	6.6	4.2	4.1
Oregon	10.8	10.1	9.6	5.7

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.

Table 6. Estimated Payments/Declarations

State	*April-Jan. (All four payments)*	*Dec.-Jan. (Fourth payment only)*
Average of Comparable States	**18.1%**	**18.6%**
Average of All 31 States		**18.5%**
Alabama	4.5	3.5
Arkansas	3.3	8.3
California	30.9	25.2
Colorado	7.9	(9.7)
Connecticut	18.4	27.2
Delaware	1.8	0.0
Hawaii	(1.0)	(6.3)
Illinois	9.9	10.2
Indiana	(0.6)	(2.3)
Iowa	2.3	(13.0)
Kansas	7.0	0.5
Maine	12.6	18.8
Massachusetts	14.0	18.2
Michigan	5.7	(8.0)
Minnesota	2.1	(4.3)
Mississippi	4.6	(4.3)
Missouri	9.6	15.1
Montana	ND	13.9
Nebraska	9.2	3.6
New Jersey	30.6	44.0
New York	16.9	24.2
North Dakota	8.3	15.7
Ohio	18.0*	13.6*
Oregon	5.4	0.3
Pennsylvania	9.9	15.9
Rhode Island	23.8	35.1
South Carolina	(0.9)	(9.3)
Vermont	5.3	(10.4)
Virginia	11.4	12.7
West Virginia	3.9	(0.8)
Wisconsin	17.9	14.5

quarter of their total (and very high) liability from the year before, to avoid penalties in April. The latter is a pretty safe assumption for the first two and even three quarterly payments, as most of these taxpayers don't know much about their final current year liability until closer to the end of that year.

However, the fourth quarterly payment (due in January in most states) often gives a clearer idea of whether state coffers will do well in the final payment season starting in April, since taxpayers will often pull back if they have been overpaying drastically, or conversely, may put more money into the fourth quarterly payment if they feel themselves to be in danger of drastically underpaying and incurring penalties. Thus, most states report that, at least in recent years, there has been a fairly direct correlation between this payment and April revenue.

Table 6 shows estimated tax payments for all four quarters (April-January) and for the fourth quarter alone (December and January only). The fact that the fourth quarter growth is as strong – and in some cases stronger – as for the whole year would seem to indicate that most states haven't much to worry about for this April. (Ohio's increase is due to a processing delay last year, and would otherwise have been much weaker.) And this is still likely true in some states. Revenue estimators in many high-income states tell us that they are not concerned about this April, as they assume many investors sold out of their stocks in time to realize gains rather than losses, beefing up tax year 2000 revenue.

There are, however, at least two potentially dark clouds on the horizon: First, many revenue estimators are far less sanguine about tax year 2001, figuring that the capital gains that have been contributing so much to state coffers must be just about tapped out. That is, investors who were going to sell out at a gain have already done so. Others may sell out if the market continues to drop, but more likely at a loss. Even though the money from those gains, as one estimator pointed out, has to go somewhere (if it isn't lost in an increasingly bearish market), it may be returning only relatively modest interest income.

Second, and more immediately important, however, is a factor that could be lulling states into thinking this coming April will be better than it might: The election of George W. Bush to the presidency of the United States on the platform of a major personal income tax rate cut for top bracket taxpayers. His promise to cut the top rate from 39 percent to 33 percent could be all the incentive many high-income taxpayers need to move some of their anticipated state final settlement payment from April 2001 to the fourth quarter estimated payment by December 2000. That way, they would be sure to deduct the amount of that state personal income tax against their federal income tax at the higher rate.

General Sales Tax

The sales tax continued a slowdown in the October-December quarter that had been going on all year. Growth was 4.1 percent over the same quarter last year, or five percent if adjusted for the effect of legislated tax cuts. This is as compared with 8.2 percent in January-March, 7.3 percent in April-June, and 4.7 percent in July-September. Despite this slowdown, underlying growth is currently only moderately low by historical standards. The sales tax growth rates of earlier quarters had been extremely high, and most estimators had expected at least some slowing.

The current downward trend is probably the result of several factors. First of all, there has been the general slowdown in the economy. Consumer confidence has dropped significantly as layoffs have increased, and higher fuel prices have depressed the sales of less fuel-efficient and more expensive vehicles. Monetary policy aimed at dampening inflationary pressures may also have had a role: interest rates were up in the latter part of 2000, and may have contributed to consumers deferring large purchases. But even without the economic slowdown, consumption had been unsustainably high for some time, with savings rates at all-time lows and debt skyrocketing.[4]

As with the personal income tax, the issue for states is three-fold: (1) how does current growth compare with their forecasts, regardless of the fact that five percent underlying growth is not necessarily bad historically; (2) how much lower will sales tax revenue growth go; and (3) which state are you in. Five percent is an average, of course. Several states have been seeing much weaker growth, and nine even had declines, only four of which could be explained even partly by legislated tax cuts.[5] By the same token, even with the slowdown, four states posted double-digit sales tax growth.[6]

Corporate Income Tax

The corporate income tax suffered a major slump in the fourth quarter of 2000, falling 7.7 percent, the second sharpest drop since the beginning of the *State Revenue Report* series 10 years ago. States are not, in general, too concerned with this since the corporate income tax represents a small share of most states' revenues. It is also by far the most volatile of the major state-level taxes, since payments or refunds of a small number of companies often cause large fluctuation and often have little to do with the current situation of the company or with newly legislated tax provisions. And although this was the first drop after five quarters of growth, this tax source has been generally quite weak since 1995, during which the economy and state coffers generally did quite well.

Underlying Reasons for Trends

These revenue changes reflect three kinds of considerations: differences in state economic growth rates, how this growth affects each state's tax system, and tax changes legislated recently.

State Economies

In July – the start of fiscal year 2001 for in most states – the fiscal picture in almost every state was rosy. There was enough money to amply fund all state programs, and significantly expand favored programs – such as education and transportation. Meanwhile, many states had passed tax cuts in the 2000 legislative session, making for the seventh straight year of net tax cuts. By December 2000, the picture in some states had begun to change. The slowing of revenues, particularly the sales tax, described above was accompanied by reports of declines in consumer confidence and other indicators of economic weakness. Recent statistics have confirmed this national weakening trend: GDP growth, which was 5 percent for 2000 as a whole, only hit 1.1 percent in the fourth quarter.[7]

As may be guessed from differences in revenue growth, some state economies are clearly slowing much more rapidly than others. At least one state economist in the Midwest has admitted to assuming his state is in recession already, while others states are still enjoying strong economic and revenue gains, particularly in the Far West. The re-

Table 7. Year-Over Change In Non-Farm Employment by State, Last Four Quarters

	2000			
	Jan.-Mar.	*Apr.-Jun.*	*July-Sept.*	*Oct.-Dec*
United States	**2.2%**	**2.4%**	**2.0%**	**1.6%**
Sum of States	**2.5**	**2.6**	**2.4**	**2.2**
New England	**2.4**	**2.4**	**2.2**	**2.2**
Connecticut	1.4	1.6	1.4	1.4
Maine	3.5	3.4	2.8	2.5
Massachusetts	2.5	2.6	2.4	2.7
New Hampshire	2.8	2.8	2.2	2.1
Rhode Island	2.9	2.4	2.1	1.4
Vermont	3.1	2.5	2.1	1.7
Mid Atlantic	**2.3**	**2.4**	**2.1**	**2.0**
Delaware	2.7	1.8	1.6	1.8
Maryland	2.7	2.9	2.7	2.2
New Jersey	2.7	2.6	2.2	2.2
New York	2.1	2.3	2.1	1.9
Pennsylvania	2.1	2.1	1.9	2.0
Great Lakes	**2.1**	**1.8**	**1.4**	**0.9**
Illinois	1.6	1.5	1.3	0.4
Indiana	2.2	1.4	1.3	0.6
Michigan	2.5	2.3	1.9	1.8
Ohio	2.0	1.7	1.2	0.9
Wisconsin	2.3	2.1	1.6	1.3
Plains	**1.9**	**1.6**	**1.3**	**1.0**
Iowa	1.3	0.3	0.5	0.6
Kansas	1.1	2.2	1.2	1.2
Minnesota	2.7	2.4	2.0	1.5
Missouri	1.7	1.2	1.0	0.7
Nebraska	2.3	2.2	1.7	1.3
North Dakota	1.9	1.2	0.9	0.3
South Dakota	2.5	2.0	1.1	0.7
Southeast	**2.5**	**2.5**	**2.4**	**2.2**
Alabama	0.9	0.9	0.5	0.6
Arkansas	2.1	1.9	1.5	1.4
Florida	3.3	3.7	3.9	3.7
Georgia	3.4	2.6	2.8	2.4
Kentucky	2.8	1.4	1.3	1.1
Louisiana	1.3	2.2	2.0	2.0
Mississippi	1.2	0.5	(0.1)	(0.2)
North Carolina	1.7	2.3	2.0	2.0
South Carolina	2.4	2.6	2.9	2.2
Tennessee	2.3	2.0	1.8	1.6
Virginia	2.8	3.0	2.9	2.4
West Virginia	1.4	1.7	1.0	1.2
Southwest	**2.8**	**3.2**	**3.1**	**3.0**
Arizona	4.4	4.0	3.9	3.4
New Mexico	1.9	2.0	2.0	1.9
Oklahoma	1.1	1.9	1.9	1.4
Texas	2.7	3.3	3.2	3.2
Rocky Mountain	**3.2**	**3.4**	**3.4**	**3.6**
Colorado	3.4	3.8	4.1	4.3
Idaho	3.8	4.3	3.7	3.8
Montana	2.5	2.2	2.2	2.4
Utah	2.7	2.6	2.8	2.8
Wyoming	3.4	2.8	2.2	2.4
Far West	**3.3**	**3.6**	**3.6**	**3.4**
Alaska	1.6	2.4	2.5	2.4
California	3.5	3.9	3.9	3.8
Hawaii	2.7	3.3	3.3	3.0
Nevada	4.9	4.4	4.7	4.6
Oregon	2.0	2.3	1.7	1.3
Washington	2.5	3.0	2.5	2.3

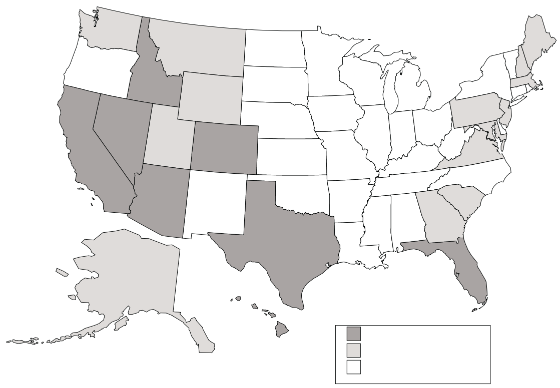
gional pattern of economic and revenue slowdown is due to the fact that the economy neither grows nor slows evenly across all sectors. For instance, expenditures on durable goods were down in the fourth quarter, while expenditures on services continued to grow rapidly.[8] Since the economies of some states and regions rely more strongly on manufacturing, while others rely more on services, the effect of this differential has shown up geographically. Meanwhile, the recovery of oil prices over the last year has been an economic boon for oil producing states, but another economic burden for oil consuming states.

The problem with assessing state economies in a report such as this one is that there are very few timely state-by-state indicators available. Non-farm employment, tracked by the Bureau of Labor Statistics, is about the only broad-based, timely, high-quality state economic data available. There are some problems inherent in using these data as an indicator of revenue growth. For one thing, most taxes are based upon nominal measures such as income, wages, and profits, rather than employment, but these data are either not available at the state level, or not available on a timely basis. For another, employment data can be subject to large, retroactive revisions. In the past several years, these revisions have generally been upward, but they could go the other way during an economic slowdown.

Table 7 shows year-over-year employment growth for each state and for the nation in each quarter of 2000. Figure 6 maps the fourth quarter growth in the states over the same period last year. According to the BLS's national data, the October-December quarter grew 1.6 percent over last year. This represents slowing from the 2.0 to 2.4 percent growth seen in the first three quarters of 2000. (The December national employment figures are preliminary.) However, this does seem to point to an underlying economic cause for some of the revenue weakness in the quarter.

The western states continue to grow faster than any other regions of the country. Growth in the Rocky Mountain states was 3.6 percent,

Figure 6
Change in Non-Farm Employment
October-December, 1999 to 2000



in the Far West states it was 3.4 percent, and in the Southwest it was 3.0 percent. Meanwhile, employment growth in the Great Lakes states was only 0.9 percent, a much different picture. Every region except the western regions saw a noticeable drop in employment growth over the course of the year.

Eight states saw growth of three percent or more.[9] This is as compared to ten states with such growth in the first quarter of the year. One state – Mississippi – saw an employment decline, while eight states had growth of less than one percent.[10] Only one state – Alabama – had employment growth of less than one percent in the first quarter of 2000.

Nature of the Tax System

Even if the economy were growing at an even pace across all regions and sectors, states' tax systems do not all react to similar economic situations in the same way. States that rely heavily on the personal income tax tend to have larger increases during periods of economic growth. The more progressive the tax structure is, the faster tax revenue grows relative to income, especially if the state's tax brackets are not indexed to offset the effects of inflation. States that rely mostly on sales taxes do not see this same elastic revenue growth, and those few that rely almost exclusively on corporate income or severance taxes often see wild swings in revenue. (Severance taxes are taxes on the removal of natural resources, such as oil and lumber.)

This pattern has played out particularly strongly over the course of the past few years. Most states with personal income taxes have had extremely strong growth, partly because the incomes of upper-income (and thus upper-bracket) taxpayers have been growing at a much more rapid pace than those of middle-income taxpayers. Because their incomes are based upon volatile sources, such as stock options and capital gains, growth in the personal income tax has also been far more subject to wild swings than it would ordinarily be. A market downturn that affects relatively few wage earners could turn gains into losses for investors, sharply contracting a hitherto rich source of revenue almost overnight, which is why many revenue estimators are looking to this coming April with some trepidation.

The strong responsiveness of the sales tax to economic slowing is also being tested. States that have removed more stable elements of consumption from their base, such as groceries and clothing, as well as those that do not capture spending on services well in their base, are more subject to plunges in this tax when state residents become nervous about spending on optional and big-ticket items.

Finally, the recent high oil prices have been a revenue boon for many oil-producing states, such as Alaska, Texas and New Mexico, although others, like Louisiana, have been less able to capitalize on this change.

Tax Law Changes Affecting This Quarter

The final element that affects trends in tax revenue growth is the effect on growth of legislated tax changes. When states artificially boost or depress their revenue growth with tax increases or cuts, respectively, it is difficult to draw any conclusions about their current fiscal condition. That is why this report attempts to note where such changes have significantly affected each state's revenue growth. We also occasionally note when some large change in the manner of processing receipts has had a major impact on revenue growth, even though these are not due to legislation, as it helps the reader to know that the number is not necessarily indicative of underlying growth trends.

There were over $1 billion in net cuts that affected revenue in the October-December quarter, bringing tax revenue growth down from about five percent to the four percent actual growth rate.

About one-third of these cuts – almost $340 million –were to the personal income tax. Six states – Delaware, Illinois, Maryland, Michigan, Minnesota, and Wisconsin had cuts of more than $10 million. There were no personal income tax increases that affected this quarter.

Cuts in the sales tax made-up another third of the net cuts in the fourth quarter, or just under $340 million. New York accounted for nearly half of these cuts itself, the bulk of this being from permanently exempting clothing items under $110 from the sales tax. Illinois had a temporary suspension of its sales tax on motor fuel, which accounted for another one-quarter of the net sales tax cuts. Louisiana was the only state with a significant legislated increase in its sales tax – a re-imposition of the fourth cent of its sales tax on food and utilities.

The remaining tax cuts were spread over many states and kinds of taxes. It is worth notice that New York accounted for over a third of net tax cuts in this quarter, with significant cuts in corporate and other taxes in addition to the large sales tax cut mentioned above.

Early 2001 Fiscal Proposals and Actions

Given the uneven economic and revenue growth picture described above, it stands to reason that while some states are considering tax cuts and spending increases, others have had to make budget cuts just to get to the end of fiscal year 2001 without deficits and are facing more retrenchment in the fiscal year 2002 budget now under consideration.

Table 8 shows some states that are having problems with revenues falling below projections, spending running above projections, or both. In

Table 8
States With Revenue or Budget Problems

Alabama	Governor Siegelman (D) ordered $266 million in spending cuts to balance FY 2001 budget.
Arkansas	Revenues $23 million below forecast for July-December 2000.
Colorado	Revenues $69 million below forecast for July 2000-Janaury 2001.
Delaware	$35 million deficit projected for FY 2001 budget.
Florida	Governor Bush (R) ordered 5 percent spending cuts.
Indiana	Revenues projected at $250 million below original estimates for FY 2001.
Iowa	Revenues $170 million below forecast for July 2000-January 2001. $2 million decline from year before.
Kansas	Revenue $58 million below November forecast for July 2000-January 2001.
Kentucky	Revenues projected at $309 million below original estimates for FY 2001.
Louisiana	Cut $30 million in spending to clear FY 2000 deficit.
Maine	Revenue projected at $12 million below original estimates for FY 2001.
Michigan	Governor Engler (R) ordered 0.5 percent spending cuts for FY 2001.
Mississippi	Revenue $90 million below forecast for July-December 2000, Governor Musgrove (D) has ordered cuts to balance budget.
Missouri	Revenue projected at $307 million below spending for FY 2001.
North Carolina	Revenue projected at $800 million below spending for FY 2001. Governor Easley (D) ordered cuts to balance budget.
North Dakota	Revenue projected at $13 million below original estimates for FY 2001.
South Carolina	Revenue projected at $514 million below spending for FY 2001, Governor Hodges (D) asked for 15 percent cuts in most agencies.
Tennessee	Revenue projected at $200 million below spending for FY 2001
Texas	Spending projected at $700 million above original bienniel projections for FY 2001.
West Virginia	Revenues $14 million below forecast for July-December 2000.

some states, governors are already ordering or proposing budget cuts to keep the fiscal year 2001 budgets in balance. In addition to these states, there are different kinds of problems or issues in other states. California, although flush with revenue, has spent upwards of $600 million already to try to deal with the energy crisis there, and the impact of the crisis on revenue has been estimated at $2.5 billion by the state's Legislative Analyst. Connecticut is likewise pulling in plenty of revenue, but a spending cap may force budget cuts anyway.

Virginia has been facing three-fold revenue problems: (1) original, inflated expectations for revenue growth did not come to pass; (2) actual growth has become even weaker in recent months; (3) Governor Gilmore's commitment to phasing out the car tax, despite this weakness, cutting spending to free up money for it.

Governors in some other states, such as Illinois, Michigan, and Ohio (which has had six years of back-to-back "one time" rebates) have announced that tight budgets will not allow tax cuts this year. In Wisconsin, Governor McCallum (R) has proposed selling the state's future tobacco settlement payments for present cash, some of which he proposed using to balance the fiscal 2002 budget.

Table 9 lists governors who have proposed tax cuts in 2001. In some cases, these cuts would be phased in over several years to achieve the annual effect shown. In addition, in Iowa, Gov. Vilsack (D) has already signed into law an elimination of the sales tax on residential utility sales, phased in over five year when it will cost $130 million annually, and a two month suspension of the sales tax on heating oil and gas costing $10 million.

Although many of the states with proposed or passed tax cuts are fairly flush with cash, at least at the moment, several are already seeing revenue problems. If these cuts are passed, the states involved may be presented with some particularly tough choices.

Proposals for tax increases, listed in Table 10, were still much less widespread than those for tax cuts, and have generally been limited to "sin" taxes and earmarked for special purposes such as education. There were only two broad-based tax increases in the bunch, and both were in states having no such tax already. The first was a proposal by

Table 9
Governors' Tax Cut Proposals

States	*Governor*	*Annual Amount*	*Type of Tax*
Arizona	Hull (R)	$40 million	Various
California	Davis (D)	$108 million	Sales, etc.
Connecticut	Rowland (R)	$156 million	Sales, Hospital
Florida	Bush (R)	$313 million	Sales, Intangibles, etc.
Georgia	Barnes (D)	$166 million	Homestead exemption
Hawaii	Cayetano (D)	$145 million	PIT
Idaho	Kempthorne (R)	$140 million	PIT, etc.
Minnesota	Ventura (I)	$900 million $1 billion	Sales tax rebate Sales, PIT, Property, etc.
New Jersey	DiFrancesco (R)	$240 million	Property tax rebate
New Mexico	Johnson (R)	$75 million	PIT
New York	Pataki (R)	$580 million	Business, Property, etc.
Oklahoma	Keating (R)	(Not specified)	PIT, Sales, Estate
Pennsylvania	Ridge (R)	$220 million	Various
Rhode Island	Almond (R)	$92 million	Capital Gains
South Carolina	Hodges (D)	$481 million	Sales, etc.
Wyoming	Geringer (R)	$80 million	Sales

Table 10
Tax Increase Proposals

State	*Governor*	*Type of Tax*	*Purpose*
Alaska	Knowles (D)	"Broad based"	Budget balancing/stabilizing
Louisiana	Foster (R)	Gambling	Teacher Pay
Maine	King (I)	Cigarette	Not specified
Montana	Martz (R)	Cigarette referendum	Not specified
Oregon	Kitzhaber (D)	Fees	Not specified
New Hampshire	Shaheen (D)	Sales	Education
Vermont	Dean (D)	Cigarette	Not specified
West Virginia	Wise (D)	Gambling	Not specified

Governor Shaheen (D) of New Hampshire to enact a new sales tax to raise $365 million to help fund a court-mandated education plan. The second was a more general proposal by Governor Knowles (D) of Alaska to enact some (unspecified) stand-by broad based tax, in case the state's oil based revenues drop off again.

In all, 2001 will probably see more tax cutting, but limited to areas of the country that are not (yet) having revenue problems. We may very well see some spending cuts as well. But only if revenue problems get significantly worse should we see large or widespread tax increases.

Conclusions

In the October-December 2000 quarter, there was a definite slowdown in state tax revenues. The personal income tax, which had been buoying state revenues with its strong growth, slowed considerably, with uncertain but not yet bleak prospects for the filing season in April. Withholding growth in particular has moderated, but estimated payments are still very strong, possibly inflated by expectations of a major federal income tax cut in 2001. The sales tax was also slower, and certain regions had nearly no growth. The extent to which this slowdown affects legislated tax changes depends on what happens in the next few months: if revenues slow further, or the slowdown spreads to more regions of the country, there will be a need for serious retrenchment in many more states' budgets. If growth continues at the same level or even increases, states may not have much money for large tax cuts and spending increases, but may have to choose between increased spending and tax cuts, or do less of each.

Endnotes

1 Georgia, Idaho, Montana, New Jersey, North Carolina, Oregon, and Rhode Island.

2 Declines in Delaware and Michigan were the result of tax cuts. Virginia and West Virginia report some processing issues that may have shifted some withholding from December to January.

3 The following states had large personal income tax cuts affecting withholding: Delaware, Illinois, Michigan, Minnesota, Mississippi, and Wisconsin

4 See Donald J. Boyd, "Fiscal Issues and Risks at the Start of a New Century", Nelson A. Rockefeller Institute of Government: www.rockinst.org.

5 Nine states recorded declines in their sales tax revenue in October-December: Illinois, Kansas, Maine, Missouri, Nebraska, North Dakota, New York, Vermont, and Wisconsin. In four of these states, legislated tax cuts caused the decline – Illinois, Maine, New York, and Wisconsin.

6 States with double-digit sales tax growth: California, Hawaii, Rhode Island and Wyoming.

7 United State Department of Commerce, Bureau of Economic Analysis News Release, February 28, 2001.

8 Ibid.

9 Arizona, California, Colorado, Hawaii, Idaho, Florida, Nevada, and Texas.

10 Alabama, Illinois, Indiana, Iowa, Missouri, North Dakota, Ohio, South Dakota.

Table 11
Change in Tax Revenue, July-December, FY 1999 to FY 2000

	PIT	*CIT*	*Sales*	*Total*
United States	**8.3%**	**(0.7)%**	**4.4%**	**5.5%**
New England	**9.3**	**(1.3)**	**5.3**	**6.0**
Connecticut	7.9	49.6	5.6	4.2
Maine	6.5	(43.3)	(2.3)	(1.7)
Massachusetts	10.1	(10.4)	5.5	7.1
New Hampshire	NA	52.9	NA	12.8
Rhode Island	10.3	260.0	15.3	12.0
Vermont	7.2	22.6	(1.6)	1.8
Mid Atlantic	**9.6**	**(4.7)**	**4.1**	**5.2**
Delaware	(3.5)	(21.3)	NA	(3.9)
Maryland	8.9	37.4	8.3	8.1
New Jersey	14.2	(9.0)	5.6	6.5
New York	9.8	(3.0)	3.0	5.9
Pennsylvania	7.2	(11.6)	3.3	2.3
Great Lakes	**2.4**	**(0.9)**	**0.7**	**1.3**
Illinois	5.2	14.8	(0.9)	3.0
Indiana	1.7	(6.4)	(0.2)	1.3
Michigan	(2.6)	(2.0)	2.3	(0.1)
Ohio	6.3	(110.2)	1.6	3.2
Wisconsin	0.8	(4.5)	(0.5)	(1.7)
Plains	**7.1**	**(2.8)**	**1.4**	**4.9**
Iowa	3.7	(12.3)	0.7	0.1
Kansas	10.6	(16.2)	(0.1)	3.2
Minnesota	8.0	2.7	3.5	7.4
Missouri	5.8	(5.5)	(0.6)	ND
Nebraska	8.2	18.8	(0.9)	4.1
North Dakota	4.6	5.7	2.8	5.3
South Dakota	NA	NA	6.3	7.4
Southeast	**4.7**	**(13.6)**	**3.4**	**2.9**
Alabama	(1.6)	(23.8)	0.2	(0.3)
Arkansas	5.0	1.2	1.5	3.1
Florida	NA	(0.4)	3.1	3.2
Georgia	9.6	(6.7)	6.7	6.4
Kentucky	4.2	(3.5)	2.2	3.0
Louisiana	0.6	154.8	11.0	8.2
Mississippi	4.4	(2.7)	0.7	2.4
North Carolina	7.8	(43.0)	3.0	2.0
South Carolina	2.4	3.9	3.1	1.0
Tennessee	NA	(20.5)	2.1	2.7
Virginia	1.4	(30.9)	2.9	(0.5)
West Virginia	0.6	(0.4)	3.3	2.1
Southwest	**8.1**	**20.8**	**6.5**	**7.8**
Arizona	7.5	27.8	7.4	9.1
New Mexico	10.9	62.6	8.1	16.2
Oklahoma	7.7	(30.4)	5.9	7.6
Texas	NA	NA	6.3	6.7
Rocky Mountain	**9.7**	**10.5**	**5.3**	**8.4**
Colorado	10.4	3.4	6.0	9.2
Idaho	14.9	57.7	4.7	12.9
Montana	8.6	(27.2)	NA	5.3
Utah	5.7	14.4	5.6	5.7
Wyoming	NA	NA	(1.0)	5.8
Far West	**14.7**	**12.1**	**8.5**	**11.3**
Alaska	NA	227.0	NA	67.1
California	15.0	7.8	10.4	12.0
Hawaii	2.9	(4.0)	10.4	6.7
Nevada	NA	NA	5.3	4.1
Oregon	15.6	6.1	NA	14.2
Washington	NA	NA	2.6	4.2

Table 12
State Tax Revenue, October to December 1999-2000 (In Millions of Dollars)

	1999				*2000*			
	Personal Income	*Corporate Income*	*Sales*	*Total*	*Personal Income*	*Corporate Income*	*Sales*	*Total*
United States	**$42,979**	**$6,523**	**$41,425**	**$106,264**	**$45,441**	**$6,024**	**$43,144**	**$110,529**
New England	**3,434**	**246**	**2,053**	**6,874**	**3,536**	**244**	**2,138**	**7,060**
Connecticut	869	7	750	1,985	880	37	795	2,036
Maine	236	44	210	570	254	24	203	555
Massachusetts	2,034	166	883	3,515	2,077	134	898	3,579
New Hampshire	NA	28	NA	216	NA	47	NA	258
Rhode Island	197	(7)	151	382	221	(8)	187	428
Vermont	97	7	59	205	103	10	55	204
Mid Atlantic	**9,301**	**1,687**	**5,808**	**19,697**	**10,020**	**1,491**	**5,982**	**20,230**
Delaware	187	16	NA	389	183	10	NA	362
Maryland	925	44	601	1,740	1,002	90	650	1,900
New Jersey	1,501	375	1,337	3,821	1,715	287	1,416	3,979
New York	5,286	838	2,143	9,531	5,643	785	2,134	9,805
Pennsylvania	1,402	414	1,726	4,216	1,477	320	1,782	4,184
Great Lakes	**7,039**	**1,146**	**6,647**	**17,850**	**7,075**	**1,129**	**6,697**	**17,960**
Illinois	1,689	247	1,574	4,190	1,724	259	1,509	4,190
Indiana	745	200	886	2,452	762	188	905	2,516
Michigan	1,814	566	1,915	5,246	1,721	540	1,969	5,256
Ohio	1,542	7	1,416	3,442	1,590	3	1,470	3,517
Wisconsin	1,249	126	856	2,519	1,278	139	845	2,481
Plains	**3,292**	**469**	**2,903**	**5,659**	**3,450**	**394**	**2,921**	**5,773**
Iowa	521	85	428	1,118	512	64	431	1,068
Kansas	373	48	412	907	411	34	400	918
Minnesota	1,237	196	1,047	2,767	1,347	163	1,091	2,897
Missouri	870	112	606	ND	875	97	592	ND
Nebraska	253	16	219	526	267	24	211	536
North Dakota	38	12	86	190	40	12	86	192
South Dakota	NA	NA	104	151	NA	NA	111	164
Southeast	**7,811**	**1,297**	**10,305**	**23,268**	**8,137**	**1,021**	**10,617**	**23,769**
Alabama	491	65	430	1,342	505	37	431	1,343
Arkansas	349	25	413	842	358	25	417	858
Florida	NA	344	3,292	4,506	NA	330	3,413	4,644
Georgia	1,488	163	1,220	3,161	1,640	158	1,258	3,323
Kentucky	640	80	635	1,675	643	58	660	1,700
Louisiana	340	6	534	1,247	356	58	580	1,337
Mississippi	266	69	560	1,196	274	67	560	1,212
North Carolina	1,637	250	834	3,007	1,812	96	865	3,126
South Carolina	728	54	475	1,410	706	53	483	1,379
Tennessee	NA	135	1,123	1,687	NA	91	1,141	1,704
Virginia	1,664	82	556	2,577	1,646	28	564	2,507
West Virginia	207	23	233	618	199	20	246	637
Southwest	**1,266**	**170**	**5,392**	**9,341**	**1,344**	**177**	**5,719**	**10,084**
Arizona	612	114	689	1,437	641	130	726	1,518
New Mexico	184	23	300	609	197	40	314	690
Oklahoma	470	33	336	1,037	506	6	354	1,098
Texas	NA	NA	4,067	6,257	NA	NA	4,324	6,778
Rocky Mountain	**1,581**	**135**	**1,038**	**3,202**	**1,709**	**149**	**1,078**	**3,440**
Colorado	840	72	463	1,414	902	52	480	1,489
Idaho	211	25	185	516	240	56	192	618
Montana	103	15	NA	233	113	16	NA	230
Utah	429	24	333	908	453	25	343	947
Wyoming	NA	NA	57	131	NA	NA	63	155
Far West	**9,256**	**1,373**	**7,279**	**20,375**	**10,170**	**1,419**	**7,993**	**22,214**
Alaska	NA	7	NA	181	NA	78	NA	379
California	8,185	1,283	5,015	15,202	8,890	1,270	5,592	16,422
Hawaii	261	NA	348	683	269	4	395	740
Nevada	NA	NA	498	642	NA	NA	518	680
Oregon	810	83	NA	926	1,012	68	NA	1,112
Washington	NA	NA	1,418	2,741	NA	NA	1,488	2,881

Table 13
State Tax Revenue, July-December, FY 2000 and FY 2001 (in Millions of Dollars)

	2000				2001			
	Personal Income	Corporate Income	Sales	Total	Personal Income	Corporate Income	Sales	Total
United States	**$83,350**	**$13,549**	**$81,065**	**$206,894**	**$90,265**	**$13,458**	**$84,622**	**$218,346**
New England	**6,360**	**620**	**3,771**	**12,979**	**6,950**	**613**	**3,972**	**13,758**
Connecticut	1,409	56	1,213	3,292	1,521	84	1,281	3,429
Maine	438	78	384	1,041	466	44	375	1,023
Massachusetts	3,942	411	1,750	7,010	4,339	369	1,846	7,510
New Hampshire	NA	56	NA	459	NA	86	NA	518
Rhode Island	381	3	314	776	421	11	362	870
Vermont	190	16	111	401	204	19	109	408
Mid Atlantic	**17,644**	**3,276**	**10,916**	**37,453**	**19,345**	**3,121**	**11,366**	**39,386**
Delaware	369	36	NA	764	356	28	NA	735
Maryland	1,659	139	994	3,126	1,806	192	1,077	3,379
New Jersey	2,528	646	2,250	6,469	2,887	587	2,376	6,892
New York	10,197	1,673	4,169	18,640	11,197	1,622	4,294	19,732
Pennsylvania	2,891	782	3,503	8,453	3,099	692	3,619	8,649
Great Lakes	**13,907**	**2,294**	**13,086**	**34,894**	**14,236**	**2,273**	**13,182**	**35,344**
Illinois	3,415	458	3,066	8,320	3,594	526	3,037	8,569
Indiana	1,647	420	1,815	5,153	1,675	393	1,811	5,219
Michigan	3,502	1,104	3,838	10,434	3,411	1,081	3,928	10,428
Ohio	3,106	24	2,931	6,649	3,300	(3)	2,978	6,863
Wisconsin	2,237	288	1,437	4,338	2,256	275	1,429	4,265
Plains	**6,631**	**922**	**5,704**	**11,141**	**7,101**	**896**	**5,786**	**11,687**
Iowa	1,008	140	854	2,148	1,045	123	860	2,151
Kansas	771	118	826	1,855	853	99	825	1,915
Minnesota	2,524	379	1,992	5,368	2,727	389	2,062	5,764
Missouri	1,733	205	1,202	ND	1,834	194	1,195	ND
Nebraska	514	53	442	1,086	557	63	438	1,131
North Dakota	82	27	168	374	86	29	173	394
South Dakota	NA	NA	219	309	NA	NA	233	332
Southeast	**15,604**	**2,678**	**20,397**	**45,933**	**16,332**	**2,314**	**21,097**	**47,253**
Alabama	1,081	125	854	2,783	1,064	95	855	2,775
Arkansas	721	94	836	1,759	757	95	849	1,813
Florida	NA	547	6,526	8,631	NA	544	6,729	8,909
Georgia	3,006	366	2,387	6,295	3,295	342	2,548	6,698
Kentucky	1,270	150	1,293	3,187	1,324	145	1,322	3,282
Louisiana	693	42	1,029	2,443	697	108	1,142	2,642
Mississippi	541	129	1,140	2,423	565	126	1,148	2,482
North Carolina	3,293	564	1,689	6,056	3,551	321	1,740	6,176
South Carolina	1,389	103	795	2,565	1,422	107	820	2,592
Tennessee	NA	282	2,282	3,463	NA	224	2,330	3,557
Virginia	3,181	221	1,106	5,080	3,227	153	1,138	5,053
West Virginia	428	54	461	1,247	430	54	476	1,273
Southwest	**2,501**	**368**	**10,735**	**18,941**	**2,703**	**444**	**11,432**	**20,413**
Arizona	1,169	241	1,364	2,796	1,256	309	1,465	3,051
New Mexico	386	51	584	1,220	428	84	631	1,417
Oklahoma	946	75	683	2,109	1,018	52	723	2,270
Texas	NA	NA	8,104	12,816	NA	NA	8,612	13,675
Rocky Mountain	**3,015**	**294**	**2,070**	**6,157**	**3,306**	**325**	**2,180**	**6,676**
Colorado	1,626	131	924	2,761	1,796	135	980	3,015
Idaho	394	51	382	1,012	453	81	400	1,144
Montana	216	46	NA	402	234	34	NA	423
Utah	779	66	676	1,770	824	76	714	1,870
Wyoming	NA	NA	88	212	NA	NA	87	225
Far West	**17,688**	**3,097**	**14,386**	**39,396**	**20,292**	**3,471**	**15,608**	**43,829**
Alaska	NA	63	NA	392	NA	206	NA	656
California	15,343	2,852	9,778	29,314	17,650	3,074	10,797	32,840
Hawaii	539	14	720	1,419	555	14	795	1,514
Nevada	NA	NA	972	1,273	NA	NA	1,023	1,325
Oregon	1,806	167	NA	2,041	2,087	178	NA	2,330
Washington	NA	NA	2,916	4,957	NA	NA	2,993	5,165

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 forty-third 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.

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.

This report contains fourth calendar quarter revenue data for 50 states, although Missouri only had data for its three major taxes, so no totals are included.

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 Elizabeth I. Davis and Nicholas W. Jenny. Ms. Davis is the Program's Senior Policy Analyst and Mr. Jenny is a policy analyst. Michael Cooper, the Rockefeller Institute's Director of Publications, did the layout and design of this report, with assistance from Michele Charbonneau.

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Donald J. Boyd Named Deputy Director of the Rockefeller Institute of Government

Donald J. Boyd, director of the Rockefeller Institute's Fiscal Studies Program since 1996, has been named Deputy Director of the Rockefeller Institute of Government.

Don will remain in charge of the Fiscal Studies Program, which is responsible for this publication, the *State Fiscal Briefs* series, and various papers on state tax and spending issues. As Deputy Director, he will also assist in managing and shaping the program of the Institute.

Over the past five years, Donald Boyd has written and co-authored many reports, including a recent study on the effects of welfare reform on state social services spending. Boyd is the lead researcher for studies on student and teacher preparation for the State University. He has two decades of experience analyzing state and local fiscal issues. His previous positions include director of the economic and revenue staff for the New York State Division of the Budget and director of the tax staff for the New York State Assembly Ways and Means Committee. Boyd is completing work on his Ph.D. in managerial economics at Rensselaer Polytechnic Institute.

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