

STATE FISCAL BRIEF

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Fiscal 2001 Tax Revenue Growth: Weakness Appears

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Highlights

- ❖ State tax revenue grew by 4.7 percent in fiscal year 2001.
- ❖ This was the slowest rate of growth in the last decade.
- ❖ Adjusted for legislated tax changes and inflation, revenue growth was only 2.5 percent, the slowest since 1993.
- ❖ There were \$6 billion in net tax cuts affecting fiscal 2001. The largest cuts were in the Great Lakes states, with Wisconsin having the largest percentage cut.
- ❖ The slower growth in fiscal 2001 led to actual declines in state tax revenue collections in the first half of fiscal 2002.

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Introduction

The Nelson A. Rockefeller Institute of Government estimates that state tax revenue grew 4.7 percent from fiscal year 2000 to fiscal year 2001. This was the slowest nominal annual growth in state tax revenues since the Rockefeller Institute of Government began to track state revenues in 1991. (See Table 1.) If adjusted for the effects of legislated tax changes, state revenue growth would have been six percent, which was slower than the adjusted increases for the previous six years. When we additionally consider the effect of inflation, the increase is 2.5 percent. As can be seen in Table 2, the growth in every major tax was slower in fiscal year 2001 than in any of the previous five fiscal years, which is as far back as we have comparable data.

This report uses the final revenue figures for all states.¹ It also uses the states' own fiscal years, for most states these end June 30, but for some they go as late as the end of September. We present year-over-year growth in revenue for each state, before and after adjusting for the effects of legislated tax changes. For more details on the methodology employed, please see the box titled About These Estimates.

Tax Revenue Growth

Table 3 shows the year-over-year percentage change in state tax revenue by major tax from fiscal year 2000 to fiscal year 2001 for each state. Unlike previous years, tax growth in fiscal 2001 was not higher than projected by the states when they adopted their budgets. According to a survey by the National Governors' Association and the National Association of State Budget Officers, states

collected \$286 million less in personal income, corporate income, and sales tax revenue than originally budgeted. The shortfall was the result of collecting \$1.8 billion less in corporate income tax revenue than states projected, partially offset by stronger than projected increases in other revenues.² While this allowed most states to pay for all existing programs and maintain budget reserves, it did not leave much surplus revenue for further spending increases or tax cuts.

The minor revenue shortfall in fiscal 2001 is in some part the result of the recession that officially started in March of 2001, a few months before the end of the fiscal year for most states. In addition, the manufacturing sector of the economy had begun to decline several months before that. This decline affected certain areas of the country first and more severely — especially in the Great Lakes, Plains, and Southwest regions. These states began to notice a significant slowdown in revenue growth, and some declines in revenue, before fiscal year 2001 was over.³

The personal income tax (PIT) grew more rapidly than the other major taxes, at 7.5 percent for the fiscal year. This was down from the very strong 12.4 percent growth in fiscal 2000. Six states — California, Connecticut, New Jersey, New York, Rhode Island, and Vermont — had double-digit percentage growth. This was down from fourteen states with double-digit growth last year. There were three states — Delaware, Michigan, and Wisconsin — with declines in personal income tax revenue in fiscal 2001. In each case the decline was due at least in part to tax cuts.

The sales tax grew by 3.2 percent in fiscal 2001, well down from the 7.3 percent growth the year before.

Table 1
Percentage Change in Fiscal Year Tax Revenue,
Adjusting for Legislated Tax Changes and Inflation

<i>Fiscal Year</i>	<i>Total Nominal Increase</i>	<i>Adjusted Nominal Increase</i>	<i>Inflation Rate</i>	<i>Adjusted Real Increase</i>
1992	7.2%	1.7%	3.2%	(1.5)%
1993	5.7	5.2	3.1	2.0
1994	6.0	5.5	2.6	2.8
1995	7.0	6.1	2.8	3.2
1996	5.4	6.3	2.7	3.5
1997	6.2	7.6	2.8	4.6
1998	6.9	8.3	1.8	6.4
1999	5.7	7.4	1.7	5.6
2000	8.7	9.4	2.9	6.3
2001	4.7	6.0	3.4	2.5

Note: Inflation is measured by the Consumer Price Index.

Table 2
Year-Over-Year Percentage Change in State Tax Revenue by Major Tax

<i>Fiscal Year</i>	<i>PIT</i>	<i>CIT</i>	<i>Sales Tax</i>	<i>Total</i>
1996	7.7%	1.4%	5.5%	5.4%
1997	8.1	5.4	5.2	6.2
1998	11.2	1.0	5.6	6.9
1999	8.1	0.7	6.2	5.7
2000	12.4	4.0	7.3	8.7
2001	7.5	(6.9)	3.2	4.7

Three states — Louisiana, Rhode Island, and Wyoming — had double-digit growth; in Louisiana, a legislated sales tax increase added to this growth. Four states — Alabama, Illinois, Maine, and Vermont — had sales tax revenue declines. In Illinois and Maine, the declines were the result of a tax cut.

The corporate income tax (CIT) declined by seven percent, after having grown by four percent in fiscal 2000. This decline was widespread, with 33 of 45 states with a corporate income tax having declines.

Tax Changes

Table 4 illustrates the effects of legislated tax changes on state revenue collections. The adjusted revenue growth numbers give an estimate of each state’s underlying tax revenue growth. States reduced their

revenue growth in fiscal 2001 with over \$6 billion in net tax cuts. This is up from the \$2.9 billion net tax cut in fiscal 2000. The fiscal 2001 cuts had the effect of reducing revenue growth by 1.3 percent below what it would have been. Real underlying growth, accounting for the legislated changes, was six percent.

Largest Changes

The Great Lakes states had the largest tax cuts, in both dollar and percentage terms, with almost \$1.8 billion in cuts reducing year-over-year growth by 2.3 percent. Tax cuts actually caused a decline in revenue collections in the Great Lakes region in fiscal 2001. Only the Southeast and Southwest states had tax cuts of less than one percentage point of growth.

Figure 1
Annual Nominal and Real Increases, Adjusted for Legislation

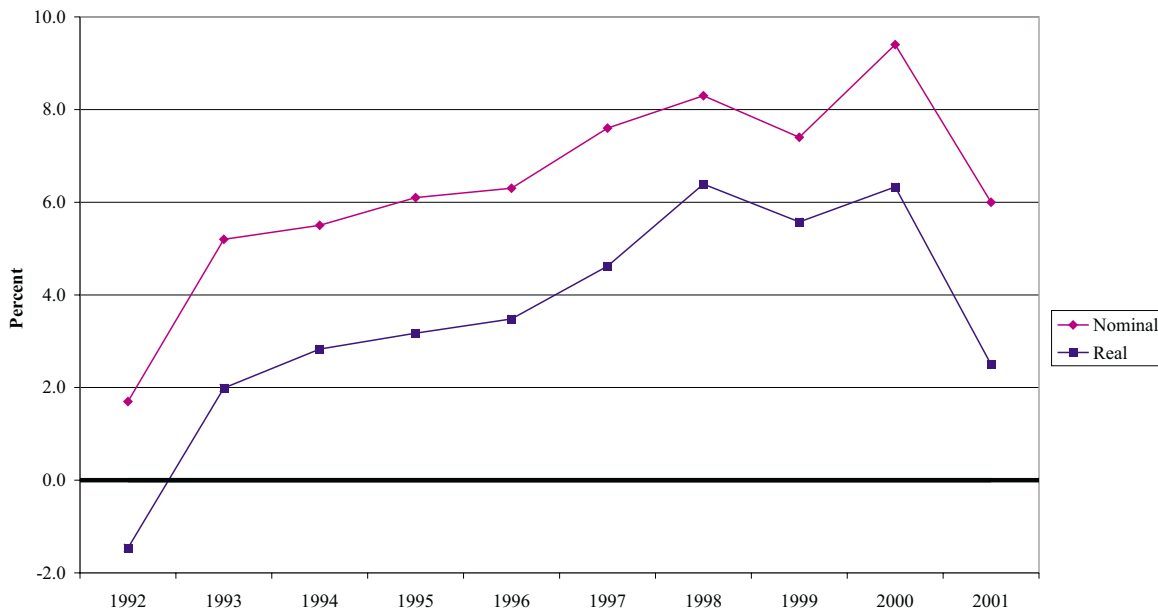


Table 3. Percentage Change in Tax Revenue, Fiscal Years 2000 and 2001

	<i>PIT</i>	<i>CIT</i>	<i>Sales</i>	<i>Total</i>
United States	7.5%	(6.9)%	3.2%	4.7%
New England	10.4	(12.3)	3.6	5.9
Connecticut	12.6	(5.3)	2.1	5.4
Maine	8.7	(35.9)	(3.5)	(0.1)
Massachusetts	9.5	(16.4)	5.3	6.6
New Hampshire	NA	15.8	NA	4.9
Rhode Island	12.4	(10.7)	12.6	10.8
Vermont	12.0	(0.2)	(0.6)	5.1
Mid-Atlantic	11.2	(6.9)	3.4	6.0
Delaware	(2.0)	(41.7)	NA	0.0
Maryland	7.6	17.4	6.6	7.1
New Jersey	10.9	(4.3)	4.4	6.5
New York	14.0	(6.0)	2.4	8.1
Pennsylvania	6.0	(13.8)	2.6	1.4
Great Lakes	(2.7)	(11.5)	0.8	(1.5)
Illinois	4.0	(16.2)	(1.2)	0.6
Indiana	0.7	(11.3)	1.0	0.6
Michigan	(5.9)	(9.2)	1.8	(2.2)
Ohio	0.4	(5.6)	0.4	0.2
Wisconsin	(15.0)	(17.2)	2.9	(9.3)
Plains	5.9	(10.8)	1.4	3.2
Iowa	2.1	(12.6)	1.7	0.7
Kansas	6.6	(15.3)	0.5	3.2
Minnesota	6.5	(8.9)	1.2	3.6
Missouri	7.4	(17.8)	1.7	4.0
Nebraska	4.5	(1.4)	0.5	2.2
North Dakota	7.2	15.5	4.1	7.3
South Dakota	NA	NA	5.0	4.1
Southeast	5.2	(12.4)	2.9	3.5
Alabama	1.2	(30.2)	(0.2)	(0.7)
Arkansas	5.4	(7.4)	2.7	3.3
Florida	NA	(4.4)	1.4	2.2
Georgia	8.8	(1.8)	6.5	6.4
Kentucky	2.8	(5.4)	2.5	2.5
Louisiana	8.9	28.0	15.4	19.3
Mississippi	2.9	(8.9)	1.2	1.6
North Carolina	4.3	(39.6)	2.4	1.2
South Carolina	2.2	2.4	1.0	1.8
Tennessee	NA	9.7	1.4	1.3
Virginia	5.8	(35.7)	3.2	3.1
West Virginia	5.0	(3.5)	1.4	3.1
Southwest	4.3	4.1	5.3	7.5
Arizona	0.5	3.4	5.5	2.9
New Mexico	4.1	36.4	9.9	14.8
Oklahoma	8.6	(20.3)	6.5	8.8
Texas	NA	NA	4.8	7.6
Rocky Mountain	5.7	6.8	5.9	5.8
Colorado	6.1	7.6	5.4	6.2
Idaho	6.7	12.8	3.7	6.9
Montana	7.7	14.3	NA	8.9
Utah	3.5	(2.5)	4.5	3.5
Wyoming	NA	NA	24.2	5.9
Far West	13.2	1.5	4.0	8.7
Alaska	NA	78.0	NA	10.8
California	13.8	(0.7)	4.3	9.6
Hawaii	3.8	(11.0)	6.7	6.2
Nevada	NA	NA	5.3	4.6
Oregon	9.2	(2.3)	NA	8.0
Washington	NA	NA	1.7	3.7

About These Estimates

The estimates of “legislated changes” include the effects of changes in tax rates and tax bases and acceleration of tax payments. They also include a very few major non-legislated changes, such as adjustments for changes to the accounting system or for particularly egregious delays in processing of receipts.

We developed the estimated effects of legislated changes in several ways. The starting point is a survey of legislated tax changes published by the National Conference of State Legislatures. We modify the estimates reported by NCSL to take account of differences in the timing of the receipt of revenue. For example, when the sales tax rate is changed, revenue is not usually affected until a month after the effective date of the legislation because businesses are allowed to retain revenue for a few weeks before remitting it to the state. Likewise, if a tax cut took effect in May 2000 and continued throughout fiscal year 2001, part of its effect occurred in fiscal year 2000 and part in fiscal year 2001.

The estimates reported by NCSL are the ones used at the time legislation was enacted. In some cases, states rely on estimates that are too optimistic or pessimistic. For example, a state might anticipate that a sales tax increase would generate an extra \$300 million based on the assumption of strong retail sales. If sales are lower than assumed, the tax increase will produce less than that. The Nelson A. Rockefeller Institute of Government modifies the NCSL-reported estimates with the assistance of revenue estimators after revenue is collected.

Reports on state tax revenue published by the Rockefeller Institute of Government do not cover 100 percent of the taxes collected by states. They use the broadest measure of revenue reported on a timely basis in a single report, but often do not include earmarked taxes like those on motor fuels or taxes collected by agencies other than the revenue department, such as insurance taxes in many states. Various other adjustments are made to revenue to make it as comparable as possible. For more information, please contact the Institute’s Fiscal Studies Program.

In 46 states, Fiscal 2001 was from July 1, 2000 to June 30, 2001. Four states have different fiscal years: Alabama (October 1, 2000 to September 30, 2001), Michigan (same), New York (April 1, 2000 to March 30, 2001) and Texas (September 1, 2000 to August 30, 2001).

Fiscal 2001 Tax Revenue Growth: Weakness Appears

Table 4. Effect of Legislated Tax Changes on FY 2001 Revenue Growth

	<i>Year-Over-Year Revenue Growth or Decline</i>			
	<i>Amount of Tax Change (millions of dollars)</i>	<i>Actual Collections</i>	<i>Adjusted for Tax Changes</i>	<i>Effect of Tax Changes</i>
United States	(6,015)	4.7%	6.0%	(1.3)%
New England	(430)	5.9	7.3	(1.4)
Connecticut	(244)	5.4	8.2	(2.8)
Maine	(97)	(0.1)	3.9	(4.0)
Massachusetts	(86)	6.6	7.2	(0.6)
New Hampshire	0	4.9	4.9	0.0
Rhode Island	0	10.8	10.8	0.0
Vermont	(4)	5.1	5.5	(0.4)
Mid-Atlantic	(1,692)	6.0	8.0	(2.0)
Delaware	(58)	0.0	3.4	(3.4)
Maryland	(174)	7.1	9.4	(2.3)
New Jersey	(86)	6.5	7.1	(0.5)
New York	(953)	8.1	10.5	(2.4)
Pennsylvania	(422)	1.4	3.5	(2.1)
Great Lakes	(1,779)	(1.5)	0.8	(2.3)
Illinois	(430)	0.6	2.9	(2.3)
Indiana	(18)	0.6	0.7	(0.2)
Michigan	(486)	(2.2)	0.1	(2.3)
Ohio	(334)	0.2	2.3	(2.1)
Wisconsin	(511)	(9.3)	(4.2)	(5.1)
Plains	(380)	3.2	4.4	(1.2)
Iowa	(5)	0.7	0.8	(0.1)
Kansas	17	3.2	2.7	0.4
Minnesota	(392)	3.6	7.1	(3.6)
Missouri	0	4.0	4.0	0.0
Nebraska	0	2.2	2.2	0.0
North Dakota	0	7.3	7.3	0.0
South Dakota	0	4.1	4.1	0.0
Southeast	(182)	3.5	3.6	(0.2)
Alabama	25	(0.7)	(1.2)	0.4
Arkansas	0	3.3	3.3	0.0
Florida	(298)	2.2	3.8	(1.6)
Georgia	(4)	6.4	6.5	0.0
Kentucky	25	2.5	2.1	0.4
Louisiana	198	19.3	15.6	3.7
Mississippi	(6)	1.6	1.8	(0.1)
North Carolina	0	1.2	1.2	0.0
South Carolina	(25)	1.8	2.2	(0.5)
Tennessee	0	1.3	1.3	0.0
Virginia	(104)	3.1	4.1	(1.0)
West Virginia	6	3.1	2.9	0.2
Southwest	(253)	7.5	8.1	(0.6)
Arizona	(62)	2.9	4.0	(1.0)
New Mexico	(60)	14.8	17.0	(2.3)
Oklahoma	16	8.8	8.5	0.4
Texas	(147)	7.6	8.1	(0.5)
Rocky Mountain	(193)	5.8	7.2	(1.4)
Colorado	(170)	6.2	9.0	(2.8)
Idaho	(23)	6.9	7.9	(1.0)
Montana	0	8.9	8.9	0.0
Utah	0	3.5	3.5	0.0
Wyoming	0	5.9	5.9	0.0
Far West	(1,107)	8.7	9.9	(1.2)
Alaska	0	10.8	10.8	0.0
California	(1,036)	9.6	11.1	(1.5)
Hawaii	(71)	6.2	8.6	(2.4)
Nevada	0	4.6	4.6	0.0
Oregon	0	8.0	8.0	0.0
Washington	0	3.7	3.7	0.0

The largest cut in percentage took place in Wisconsin, where revenue growth was reduced by 5.1 percentage points, the result of a large personal income tax cut. Three other states — Delaware, Maine, and Minnesota — had tax cuts that reduced growth by more than three percentage points. Large tax cuts in dollar terms occurred in California with cuts of a little over \$1 billion, and New York with cuts of a little under \$1 billion.

There were net tax increases in only six states. The only really significant tax increase in fiscal 2001 took place in Louisiana, where one cent of the food sales tax was reimposed after having been repealed in previous years, and a temporary personal income tax deduction limit was enacted.

Conclusions

Fiscal 2001 saw a broad weakening in revenue growth from the very high levels of the previous years. Nominal state tax revenue growth was at its lowest level since we began tracking state revenues a decade ago. Even after adjusting for some large tax cuts and inflation, real state tax revenue growth was the slowest in eight years. The first half of fiscal year 2002 has seen this slowing revenue growth turn into decline in most states, and this has resulted in widespread pressure on state budgets.⁴

Endnotes

- 1 These are the final figures as available, and may not include all accruals for all states.
- 2 National Governors' Association and National Association of State Budget Officers, *Fiscal Survey of the States*, December 2001.
- 3 See Elizabeth I. Davis and Nicholas W. Jenny, "Weakest State Tax Revenue Growth in Over Seven Years," *State Revenue Report No. 43*, March 2001; Nicholas W. Jenny and Donald J. Boyd, "A Second Quarter of Slow State Tax Revenue Growth," *State Revenue Report No. 44*, June 2001; and "State Tax Revenue Growth Weakens Significantly," *State Revenue Report No. 45*, September 2001 (Albany NY, The Nelson A. Rockefeller Institute of Government).
- 4 See Nicholas W. Jenny, "Severe Decline in State Tax Revenues," *State Revenue Report No. 46*, December 2001 and "A Second Quarter of Decline in State Tax Revenue," *State Revenue Report No. 47*, March 2002, (Albany NY, The Nelson A. Rockefeller Institute of Government).

About The Nelson A. Rockefeller Institute of Government's Fiscal Studies Program

The Nelson A. Rockefeller Institute of Government, the public policy research arm of the State University of New York, was established in 1982 to bring the resources of the 64-campus SUNY system to bear on public policy issues. The Institute is active nationally in research and special projects on the role of state governments in American federalism and the management and finances of both state and local governments in major areas of domestic public affairs.

The Institute's Fiscal Studies Program, originally called the Center for the Study of the States, was established in May 1990 in response to the growing importance of state governments in the American federal system. Despite the ever-growing role of the states, there is a dearth of high-quality, practical, independent research about state and local programs and finances.

The mission of the Fiscal Studies Program is to help fill this important gap. The Program conducts research on trends affecting all 50 states and serves as a national resource for public officials, the media, public affairs experts, researchers, and others. Donald J. Boyd, who has spent two decades analyzing state and local fiscal issues, is director of Fiscal Studies.

This report was written by Nicholas W. Jenny, a senior policy analyst with the Program. Michael Cooper, the Rockefeller Institute's Director of Publications, did the layout and design of this report, with assistance from Michele Charbonneau. Kabutey Ocansey and Allison White assisted with the collection of data for this report.

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Fiscal 2001 Tax Revenue Growth: Weakness Appears

Table 5. Tax Revenue, Fiscal Years 2000 and 2001 (in Millions of Dollars)

	<i>Fiscal Year 2000</i>				<i>Fiscal Year 2001</i>			
	<i>PIT</i>	<i>CIT</i>	<i>Sales</i>	<i>Total</i>	<i>PIT</i>	<i>CIT</i>	<i>Sales</i>	<i>Total</i>
United States	\$194,995	\$32,680	\$167,494	\$466,764	\$209,621	\$30,415	\$172,786	\$488,659
New England	15,117	1,964	8,350	30,535	16,696	1,723	8,654	32,326
Connecticut	3,757	406	3,093	8,764	4,230	384	3,159	9,235
Maine	1,075	150	847	2,440	1,168	96	818	2,437
Massachusetts	9,042	1,131	3,565	15,614	9,903	945	3,756	16,646
New Hampshire	NA	169	NA	1,075	NA	195	NA	1,128
Rhode Island	812	68	627	1,782	912	61	706	1,975
Vermont	432	41	217	862	484	41	215	905
Mid-Atlantic	42,617	7,262	22,981	85,926	47,397	6,765	23,754	91,095
Delaware	733	106	NA	1,717	718	62	NA	1,717
Maryland	4,419	420	2,240	7,708	4,755	493	2,389	8,255
New Jersey	7,205	1,452	5,508	16,734	7,989	1,390	5,753	17,829
New York	23,194	3,424	8,215	39,957	26,443	3,217	8,409	43,204
Pennsylvania	7,066	1,860	7,018	19,811	7,492	1,603	7,204	20,091
Great Lakes	32,008	6,404	26,376	76,432	31,145	5,670	26,590	75,256
Illinois	8,273	1,527	6,065	18,792	8,607	1,279	5,992	18,912
Indiana	3,753	950	3,687	10,981	3,780	843	3,723	11,043
Michigan	7,021	2,305	7,569	20,990	6,778	2,093	7,707	20,534
Ohio	7,232	969	5,914	15,618	7,263	915	5,936	15,650
Wisconsin	5,548	652	3,142	10,052	4,717	541	3,232	9,117
Plains	15,458	2,032	11,047	30,605	16,376	1,812	11,207	31,575
Iowa	2,376	326	1,663	4,745	2,427	285	1,691	4,776
Kansas	1,855	250	1,650	4,018	1,977	212	1,659	4,145
Minnesota	5,556	800	4,295	11,027	5,916	729	4,348	11,423
Missouri	4,266	443	1,778	6,970	4,583	364	1,809	7,249
Nebraska	1,180	140	900	2,404	1,233	138	905	2,457
North Dakota	224	73	330	827	241	84	344	887
South Dakota	NA	NA	430	614	NA	NA	451	639
Southeast	33,246	6,186	41,989	97,719	34,986	5,419	43,194	101,100
Alabama	2,409	258	1,717	6,013	2,438	180	1,713	5,969
Arkansas	1,713	255	1,668	3,882	1,806	236	1,713	4,010
Florida	NA	1,407	13,767	18,906	NA	1,345	13,957	19,320
Georgia	6,365	738	4,814	13,026	6,926	725	5,126	13,862
Kentucky	2,702	306	2,581	6,610	2,779	290	2,645	6,775
Louisiana	1,597	223	2,086	5,379	1,738	285	2,407	6,417
Mississippi	1,005	298	2,287	4,833	1,034	271	2,314	4,912
North Carolina	7,209	1,197	3,355	12,814	7,520	724	3,436	12,965
South Carolina	2,446	208	1,981	5,257	2,499	213	2,000	5,350
Tennessee	NA	614	4,590	7,574	NA	674	4,653	7,675
Virginia	6,829	566	2,202	10,722	7,226	364	2,273	11,054
West Virginia	972	117	942	2,705	1,021	113	956	2,790
Southwest	5,159	884	22,122	40,844	5,379	920	23,293	43,916
Arizona	2,289	523	2,829	6,016	2,301	541	2,985	6,194
New Mexico	870	161	1,174	2,657	906	220	1,290	3,050
Oklahoma	1,999	200	1,391	4,414	2,172	159	1,481	4,804
Texas	NA	NA	16,728	27,756	NA	NA	17,538	29,868
Rocky Mountain	6,813	696	4,203	13,706	7,200	743	4,452	14,501
Colorado	3,676	300	1,848	5,986	3,901	322	1,949	6,358
Idaho	966	126	747	2,298	1,031	142	775	2,457
Montana	516	91	NA	1,129	556	104	NA	1,229
Utah	1,655	179	1,370	3,677	1,713	175	1,431	3,805
Wyoming	NA	NA	239	616	NA	NA	296	652
Far West	44,578	7,253	30,425	90,996	50,443	7,364	31,643	98,891
Alaska	NA	224	NA	1,104	NA	398	NA	1,224
California	39,348	6,579	21,169	69,710	44,790	6,532	22,079	76,436
Hawaii	1,065	68	1,536	2,972	1,105	61	1,640	3,158
Nevada	NA	NA	1,942	2,486	NA	NA	2,044	2,601
Oregon	4,166	382	NA	4,686	4,548	373	NA	5,063
Washington	NA	NA	5,778	10,038	NA	NA	5,879	10,410

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