

# Revenue Collections Still Weak in October-December Quarter

## Preliminary State Tax Revenues

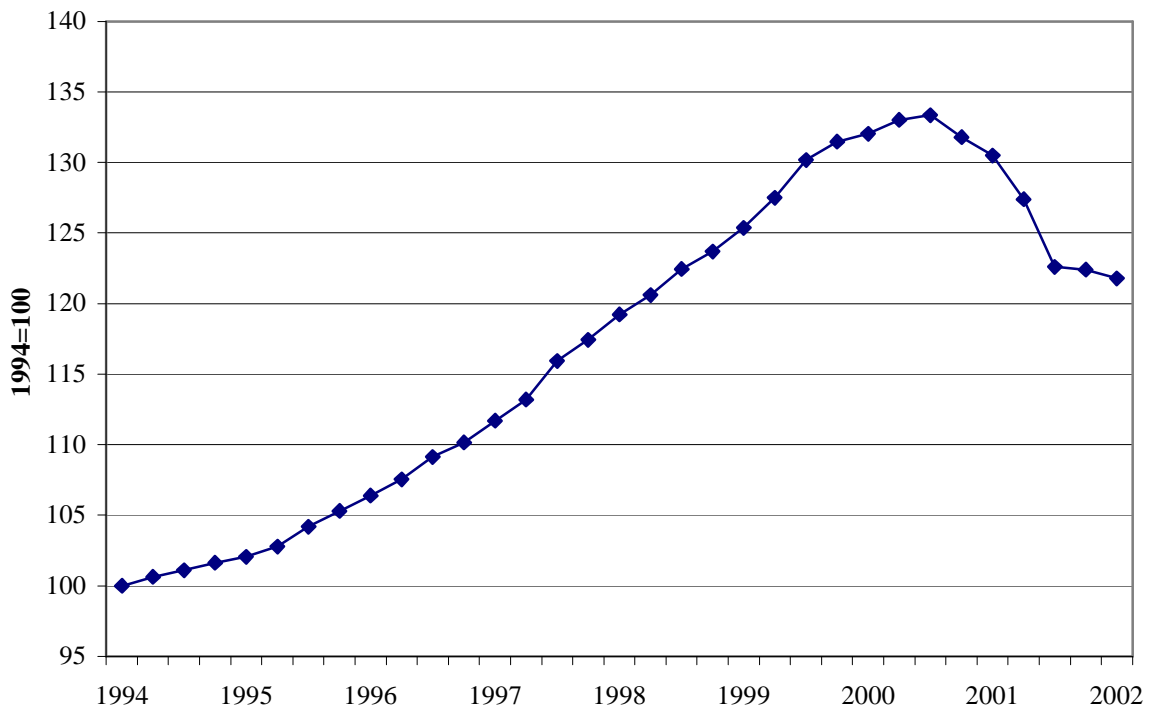
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After growing strongly and steadily through most of the 1990s, state tax revenues declined sharply from mid-2001 to mid-2002 (fiscal 2002 for most states). Since then, they have entered a period of stagnation, no longer declining rapidly – but not growing either. Figure 1 shows the growth and decline of per capita state revenues since 1994, adjusting for the effects of inflation and legislated tax changes. The rolling four-quarter average smooths out the quarter-to-quarter bumps that typify this data. Tax revenue in the most recent four-quarter period—calendar year 2002—was approximately nine percent below the peak, in the four-quarter period ending in April-June 2001.

**Figure 1.**  
**Per Capita State Tax Revenue**  
**Adjusted for Inflation and Legislated Changes**  
**Rolling Four-Quarter Index**



Source: The Nelson A. Rockefeller Institute of Government.

Preliminary revenue numbers for the October-December 2002 quarter show that total state tax revenues increased by about 1.9 percent. This is the second quarter of collections increase. However, most of this increase is the result of sizable net legislated tax increases in several states. When we factor in the effects of inflation, the underlying trend of state tax revenue collections is actually down by about two percent.

Comparing October-December 2002 to the same quarter the year before—as we usually do—is a bit misleading, since revenues were already sharply off by the end of 2001. If we look back two years, we see that states are actually collecting less now than they were at that time. (See Figure 2.) Corporate income taxes had the sharpest decline over these two years, but account for a relatively small proportion of state general fund tax collections, less than five percent by October-December 2002 according to Rockefeller Institute of Government data. What has really been driving state tax revenues down has been the decline in personal income tax collections, which account for over 40 percent of state tax revenue. The sales tax, also accounting for another 40 percent of state tax revenues, has maintained weak growth.

**Figure 2.**  
**Change in State Tax Collections Oct-Dec 2002**  
**compared to Oct-Dec 2000**



Table 1 shows the percentage change in total quarterly tax revenue, ordered from the states with the largest increases to the states with the largest declines. It only includes states for which we have data for the whole October-December quarter. We have not adjusted these numbers for inflation, legislated tax changes, or for any processing changes or glitches that may have affected the quarter's collections. We have complete quarterly numbers for 42 states.

The seemingly large increase for Oregon is the result of a personal income tax rebate that the state issued last year and did not repeat this year. The increases in New Jersey, Rhode Island and Indiana are at least partially due to legislated tax increases. The large decline in New York is partially due to processing slowdowns last year that pushed some revenue from the July-September quarter into this one.

**Table 1. Percentage Year-Over-Year Change in Total Quarterly Tax Revenue by State**

<b>October-December, 2001 to 2002 (preliminary)</b>			
Oregon	26.1	<b>United States</b>	<b>1.9</b>
New Jersey	15.3		
Rhode Island	11.9	Vermont	1.7
Indiana	10.7	Arizona	1.2
Minnesota	9.1	Idaho	1.1
South Carolina	8.4	Nebraska	0.8
Kansas	7.7	Florida	0.8
New Hampshire	7.1	Utah	0.6
Connecticut	6.7	Ohio	0.5
Arkansas	5.5	Texas	0.0
California	5.5	Oklahoma	(0.7)
Kentucky	5.4	Michigan	(1.3)
Hawaii	4.9	North Dakota	(1.4)
Alabama	4.8	Georgia	(1.7)
Pennsylvania	4.4	Mississippi	(1.7)
Virginia	4.2	Illinois	(2.7)
Alaska	4.1	West Virginia	(3.1)
Tennessee	3.5	Colorado	(3.4)
Maine	3.4	Wisconsin	(5.6)
Maryland	3.2	Montana	(6.0)
Iowa	3.2	New York	(8.4)
New Mexico	2.3		

Note: Numbers in parentheses indicate revenue declines.

Data from Nelson A. Rockefeller Institute of Government Revenue Report Database.

Updated and expanded state tax revenues numbers, as well as adjustments for tax law changes and processing will be available in the forthcoming *State Revenue Report #51*, covering the October-December quarter.

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