Underlying State Revenue Picture Remains Bleak
Preliminary State Tax Revenues

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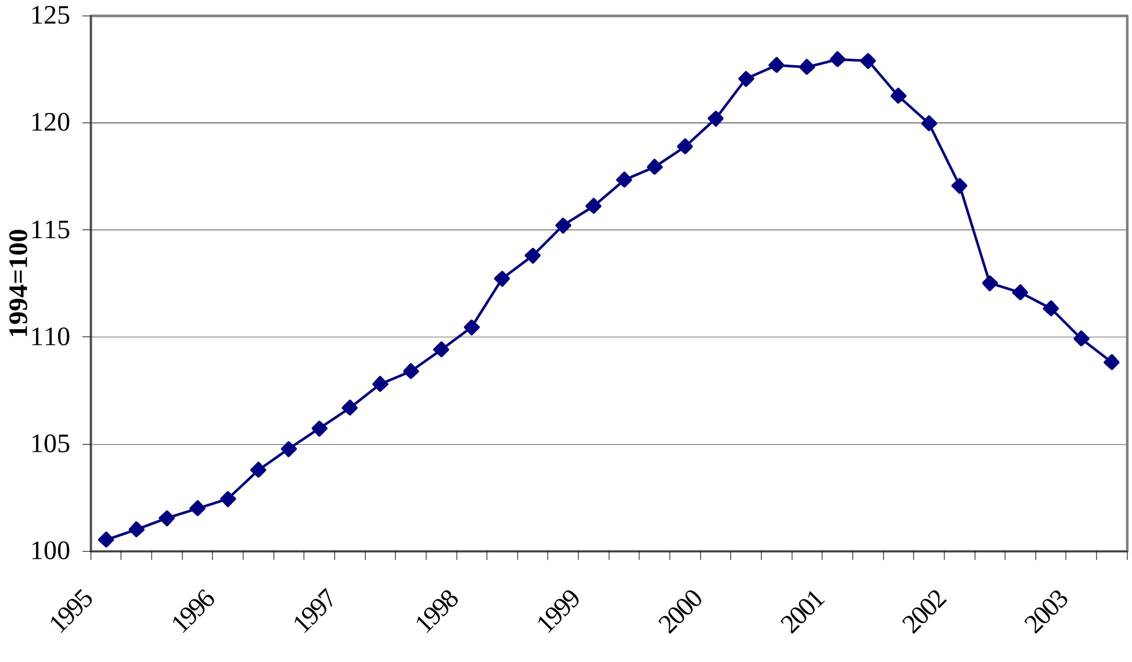
State tax revenue grew strongly in the late 1990s and then crashed in fiscal year 2002.[1] This is true no matter how you look at it. Since then, however, the picture has become more complicated. States have collected more tax revenue in fiscal year 2003 than in 2002, but this increase can be traced to increases in population, inflation, and tax increases. If we factor these out, underlying state revenue trends in fiscal year 2003 were still down, though not as sharply as in fiscal year 2002. Figure 1 shows the growth and decline of per capita state revenue since 1994, adjusting for the effects of inflation and legislated tax changes.[2] The four-quarter moving average smoothes out the quarter-to-quarter bumps that typify this data.

Figure 1.
Per-Capita State Tax Revenue, Indexed to 1994
Adjusted for Legislation and Inflation, Four-Quarter Moving Average



Source: The Nelson A. Rockefeller Institute of Government (see footnote 2).

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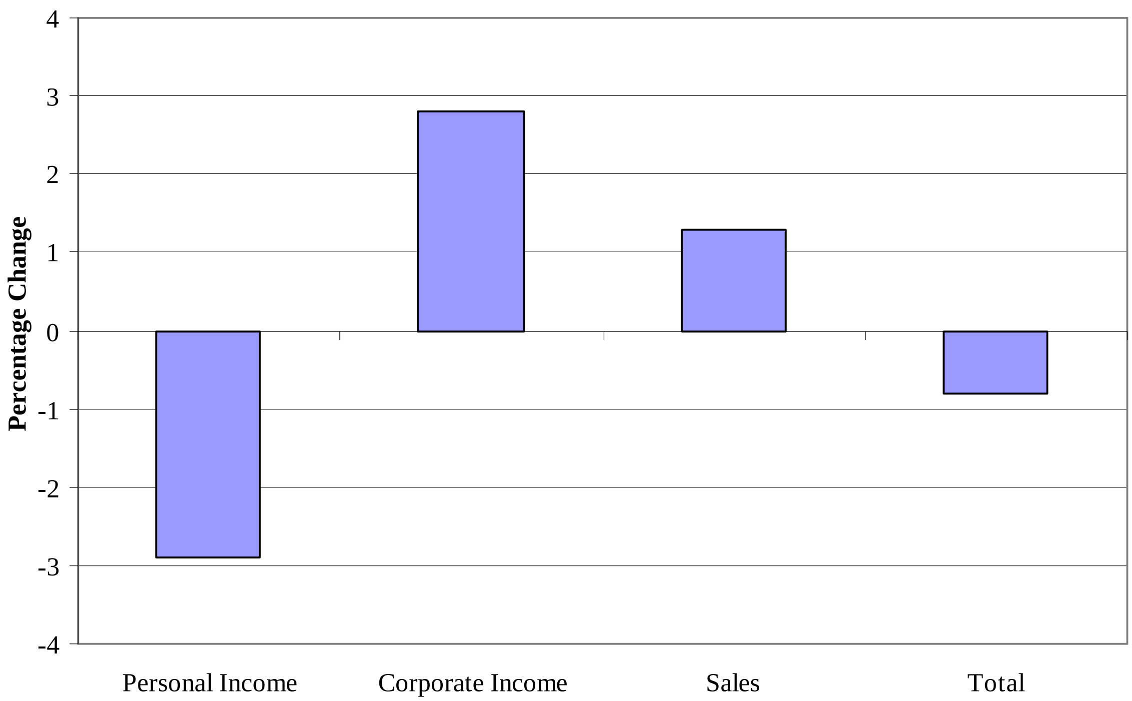
[1] In this report we use a standardized fiscal year of July 1 to June 30, used by 46 states. New York uses April 1 to March 31; Texas uses September 1 to August 31; Alabama and Michigan use October 1 to September 30.
[2] Inflation is measured by the Bureau of Economic Analysis' State and Local Government Implicit Price Deflator; Population growth is from U. S. Census Bureau data; the effect of legislated tax changes is estimated by the Rockefeller Institute of Government from state sources.

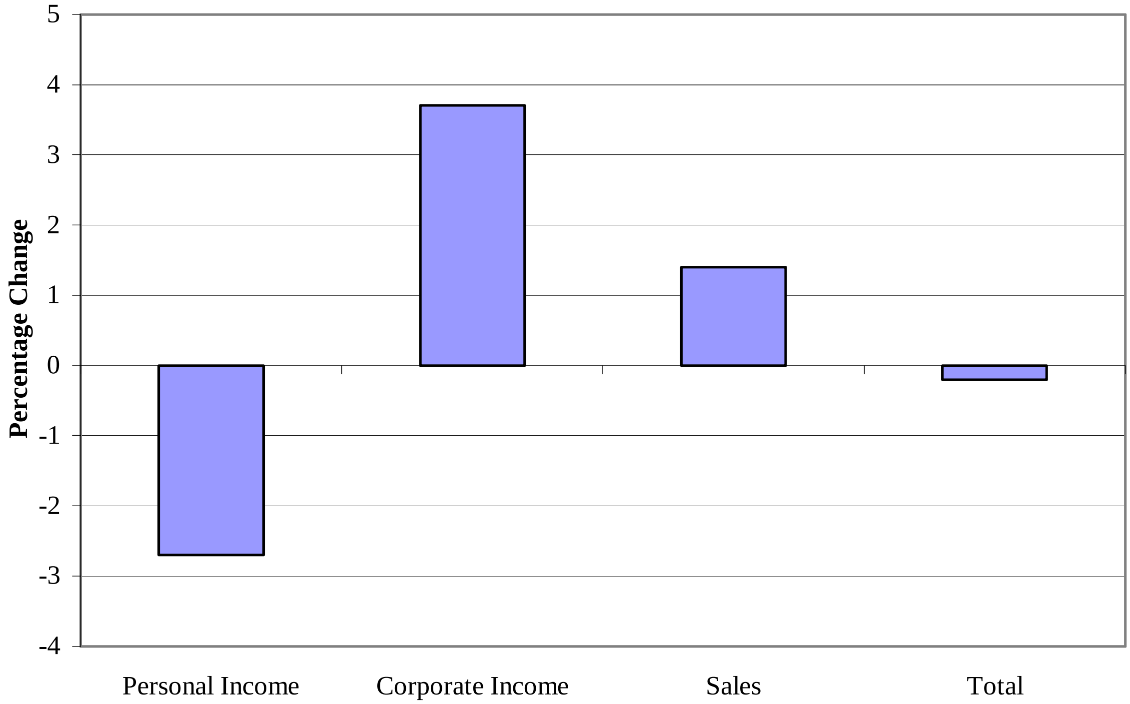
Preliminary revenue numbers for the April-June 2003 quarter show that total state tax revenue collections increased by about 2.3 percent, capping a fiscal year in which state tax revenue collections increased by about two percent altogether. However, this increase is the result of significant net legislated tax increases in many states. When we factor in the effects of legislation, the underlying trend of state tax revenue collections is actually down by about 0.8 percent for the April-June quarter, and by about 0.2 percent for the fiscal year. Figure 2 has state tax change from April-June 2002 to 2003, year-over-year, adjusted for legislation, and broken down by major taxes. Figure 3 has data for fiscal year 2003 compared to fiscal year 2002.

Figure 2.
Year-Over-Year Change in State Tax Revenue, Adjusted for Legislation,
April-June 2002 to 2003



Source: The Nelson A. Rockefeller Institute of Government.

Figure 3.
Change in State Tax Revenues, Adjusted for Legislation, FY 2002 to FY 2003



Source: The Nelson A. Rockefeller Institute of Government.

As can be seen in both Figure 2 and 3, the personal income tax is the weakest part of the state tax revenue picture right now.[3] However, even the growth in sales tax revenue does not outpace inflation and population growth. Corporate income tax growth is stronger, but accounts for only about six percent of state tax revenue.

Updated and expanded state tax revenue numbers, including state-by-state data, will be available in *State Revenue Report* #52, covering the April-June quarter.

[3] See "What Happened to the State Personal Income Tax?" *State Fiscal News Vol. 3, No. 5.*

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