

STATE TAX REVENUE CONTINUES STRONG GROWTH

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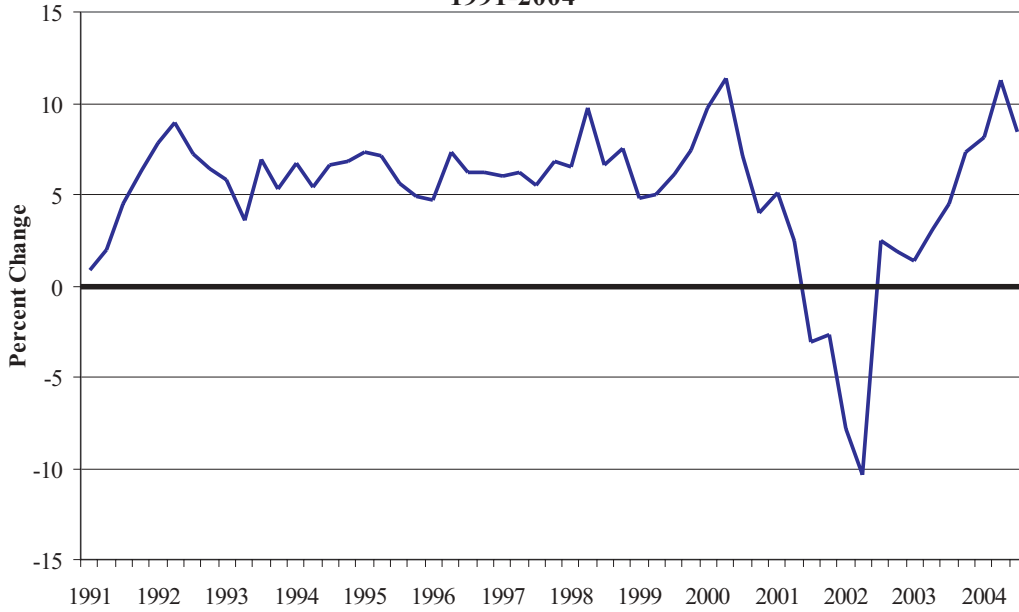
November 2004

State tax revenue grew by 8.4 percent in the July-September 2004 quarter compared to the year before, according to preliminary data collected by the Rockefeller Institute of Government. Growth this quarter was slightly off from the April-June quarter, when many states had very strong growth spurred by payments with final personal income tax returns. State tax revenue has now been growing for nine straight quarters. This is the first quarter of the fiscal year for 46 states, and the year seems to have gotten off to a strong start.¹ (See Figure 1.)

While state tax revenue growth remains healthy, this has not solved all of the states' budget problems. In part, this is because state tax resources are still well below what they were before the 2001 recession. Figure 2 shows inflation-adjusted data from Figure 1, indexed for population growth, and using a four-quarter moving average to smooth out the quarter-to-quarter variations. It provides a clearer picture of what has happened to state tax resources from just after the recession that ended in 1991 to the most recent quarter. Real per-capita state tax revenue is growing, but has a long way to go to reclaim the levels that it reached before the 2001 recession.

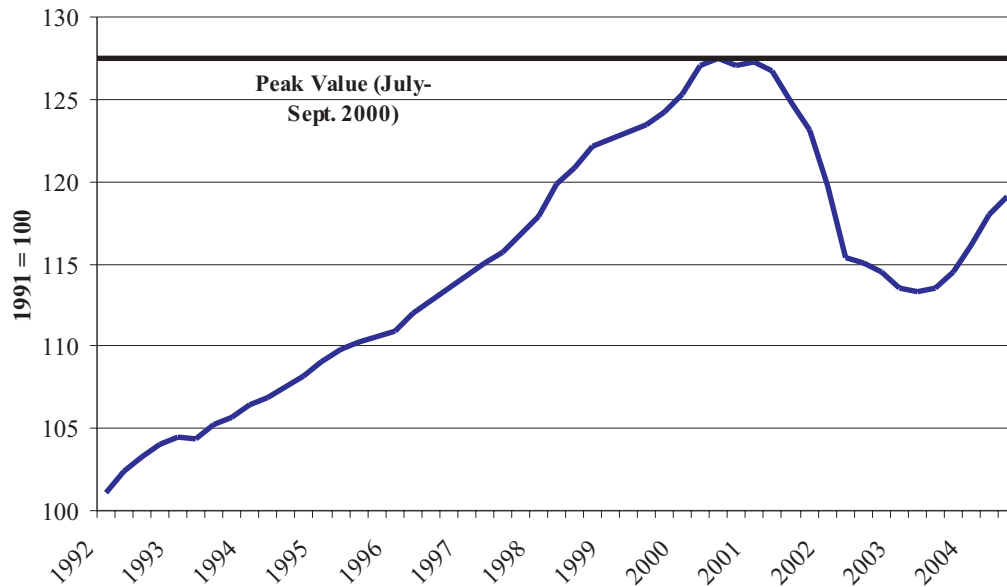
¹ The states that do not use a July 1 to June 30 fiscal year are: New York - April 1 to March 31, Texas - September 1 to August 31, Alabama and Michigan - October 1 to September 30.

Figure 1.
Year-Over-Year Quarterly Change in Total State Tax Collections,
1991-2004



Source: The Nelson A. Rockefeller Institute of Government.

Figure 2.
Real Per-Capita State Tax Revenue, Indexed to 1991
Four-Quarter Moving Average



Source: The Nelson A. Rockefeller Institute of Government. Inflation measured by the Bureau of Economic Analysis' State and Local Government Price Index; population increases are from Bureau of the Census estimates.

As can be seen in Table 1, state tax revenue growth in the July-September quarter, adjusted for inflation, grew by 4.5 percent. Growth was the strongest in the Southwest region at 7.6 percent, and was nearly as strong in the Far West. This is the fourth straight quarter that all regions had real tax revenue growth. The Rocky Mountain region had the smallest growth at 0.5 percent, just behind the 0.8 percent growth in the Plains states.

Table 1.
Percent Change in Quarterly Total Tax Revenue by Region, adjusted for inflation,
July-September 2003 to 2004 (preliminary)

Southwest	7.6
Far West	7.1
Mid Atlantic	4.9
United States	4.5
Southeast	4.4
New England	3.6
Great Lakes	2.5
Plains	0.8
Rocky Mountain	0.5

Source: The Nelson A. Rockefeller Institute of Government. Inflation measured by the Bureau of Economic Analysis' State and Local Government Price Index. It is assumed that inflation affects all regions equally.

Updated and expanded state tax revenue numbers, including state-by-state data and adjustments for the effects of tax changes, will be available in the forthcoming *State Revenue Report #58*, covering the July-September quarter.

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