

## HIGHLIGHTS

- State tax collections fell to their weakest level in nearly five years, a gain of 2.3 percent, during the October-December 2007 period.
- After adjusting for inflation and legislated tax changes, state tax revenue declined in the most recent quarter by 4.3 percent. This is the second quarter in a row that total adjusted revenue growth showed a decline.
- Inflation in state and local government costs spiked to 6.2 percent for the year ending in the last quarter of 2007, continuing a recent trend of significantly higher increases than those in the broader economy.
- Growth in both personal income and sales tax revenues was quite weak, among the lowest in the last five years. Corporate tax collections fell nearly 16 percent during the quarter.
- Among the regions, nominal revenue growth showed strongest collections by the Rocky Mountain states at 8.4 percent, as well as the Plains states with 5.7 percent.
- National employment was 1.0 percent higher this quarter than a year earlier, with the strongest growth continuing in the western regions.

## State Tax Revenue Weakens Still Further, While Costs Rise Sharply

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### Tax Revenue Change

State tax revenue increased 2.3 percent in the October-December quarter of 2007 compared to the same quarter the year before. This nominal growth rate slowed for the second quarter in a row, reaching the lowest level since the first quarter of 2003. Changes in nominal tax revenues for the last 36 quarters (1999-2007) are shown in Table 2.

Inflation increased in the fourth quarter, measured by the state and local government consumption expenditure index, reaching 6.2 percent compared to 4.1 percent for the same quarter of the previous year. State tax revenues increased by almost \$1.2 billion in net enacted tax changes for the quarter, according to the National Conference of State Legislatures (NCSL). When the effects of enacted tax cuts and inflation are considered, real adjusted state tax revenue decreased by 4.3 percent (see Table 1). That, too, was the weakest performance since January-March 2003. The pattern of growth in state tax revenue, adjusted for inflation and enacted tax increases from 1991 to the present, is illustrated in Figure 1.

As with overall tax revenue, all three major state taxes showed weaker year-over-year growth than the previous quarter in nominal terms.

- ✓ Personal income tax revenue increased 3.8 percent in October-December 2007, down from the third quarter rate of 6.3 percent, and close to the year-ago fourth quarter rate of 4.0 percent.
- ✓ The corporate income tax fell 15.7 percent, its worst performance since the first quarter of 2002.
- ✓ Sales tax collections grew 1.9 percent, the lowest rate of increase since the first quarter of 2003.

Table 2 shows the last 36 quarters of change in collections of the major state tax sources.

States collected more than \$150 billion in the fourth quarter of calendar 2007, as shown in Table 10. Some \$58 billion, or just under 39 percent, was from personal income taxes. Another \$56 billion, or 38 percent, represented sales taxes, while corporate income taxes contributed \$9.1 billion. Collections from all other taxes totaled \$26.5 billion for the quarter. For calendar 2007, state tax revenues rose to \$639 billion, up 4.5 percent from calendar 2006.

Total growth in state tax revenue in the fourth quarter of 2007 was less than half the historical average over the past nine years, 5.0 percent. All regions showed single-digit growth for the quarter. The Rocky Mountain states showed the strongest

	Total Nominal Change	Adjusted Nominal Change	Inflation Rate	Adjusted Real Change
<b>2007</b>				
Oct.-Dec.	2.3 %	1.6 %	6.2 %	(4.3) %
July-Sept.	4.7	4.3	5.2	(0.8)
April-June	6.1	7.2	5.1	2.0
Jan.-March	4.8	5.8	5.2	0.6
<b>2006</b>				
Oct.-Dec.	4.3	5.0	4.1	0.8
July-Sept.	4.6	5.5	5.2	0.2
April-June	9.9	9.9	6.3	3.4
Jan.-March	6.8	6.8	6.1	0.6
<b>2005</b>				
Oct.-Dec.	7.6	7.7	6.7	0.9
July-Sept.	9.3	9.7	6.7	2.8
April-June	13.2	12.9	6.2	6.3
Jan.-March	11.4	9.5	5.9	3.4
<b>2004</b>				
Oct.-Dec.	7.8	7.3	5.7	1.5
July-Sept.	8.6	8.1	4.6	3.4
April-June	11.2	9.0	3.9	4.9
Jan.-March	8.1	7.0	3.0	3.9
<b>2003</b>				
Oct.-Dec.	7.3	4.9	3.8	1.0
July-Sept.	4.5	2.6	3.9	(1.2)
April-June	3.2	0.4	3.9	(3.4)
Jan.-March	1.4	(1.0)	4.7	(5.4)
<b>2002</b>				
Oct.-Dec.	1.9	0.3	3.3	(2.9)
July-Sept.	2.5	0.7	2.7	(2.0)
April-June	(10.6)	(12.1)	2.2	(14.0)
Jan.-March	(7.8)	(8.2)	1.7	(9.7)
<b>2001</b>				
Oct.-Dec.	(2.7)	(2.2)	2.0	(4.1)
July-Sept.	(3.1)	(2.4)	2.6	(4.9)
April-June	2.5	4.2	3.3	0.8
Jan.-March	5.1	6.3	3.6	2.6
<b>2000</b>				
Oct.-Dec.	4.0	5.0	4.2	0.7
July-Sept.	7.1	7.7	4.5	3.0
April-June	11.4	11.8	4.5	6.9
Jan.-March	9.7	10.4	4.8	5.3
<b>1999</b>				
Oct.-Dec.	7.4	8.4	3.7	4.5
July-Sept.	6.1	6.7	3.2	3.4
April-June	5.0	8.0	2.7	5.1
Jan.-March	4.8	6.5	2.0	4.4

Source: Individual state data, analysis by Rockefeller Institute. Legislated tax changes by National Conference of State Legislatures (NCSL). Inflation is measured by BEA State and Local Government Consumption Expenditures and Gross Investment Price Index.

overall revenue growth of 8.4 percent, while the Southeast states saw revenue decline by 1.4 percent. Growth of 10 percent or more was recorded in seven states, while 13 states had revenue declines for the quarter. Table 3 shows the growth by state and region for the states' three major taxes and total taxes.

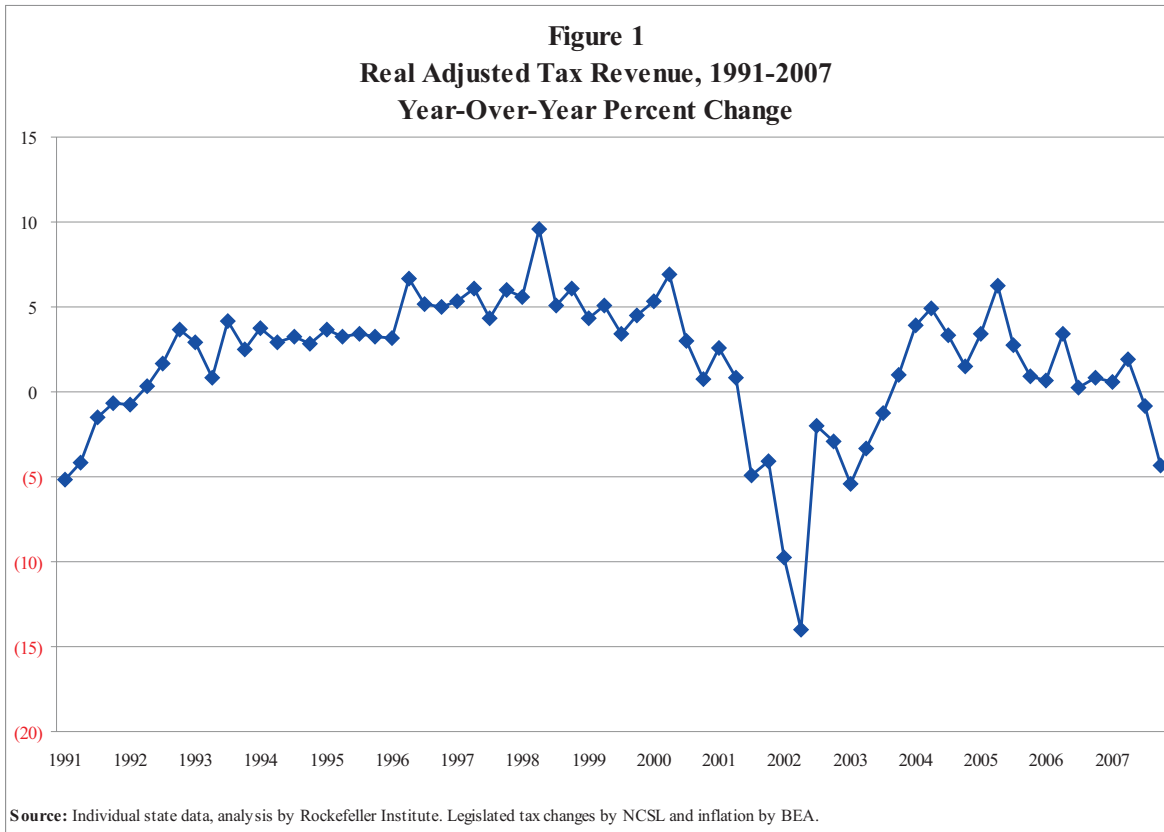
Among individual states, total collections in the fourth quarter were up strongly in Alaska, Colorado, Iowa, Montana, North Dakota, South Dakota, and Texas compared to a year earlier. Total

	PIT	CIT	Sales	Total
<b>2007</b>				
Oct.-Dec.	3.8 %	(15.7) %	1.9 %	2.3 %
July-Sept.	6.3	(2.8)	3.1	4.7
April-June	8.7	2.5	3.1	6.1
Jan.-March	6.8	14.3	2.8	4.8
<b>2006</b>				
Oct.-Dec.	4.0	16.8	5.0	4.3
July-Sept.	6.6	11.1	4.1	4.6
April-June	15.1	14.7	5.7	9.9
Jan.-March	10.6	(13.8)	6.6	6.8
<b>2005</b>				
Oct.-Dec.	5.7	24.8	5.5	7.6
July-Sept.	9.0	25.4	7.8	9.3
April-June	18.2	21.9	7.9	13.2
Jan.-March	11.6	61.6	6.1	11.4
<b>2004</b>				
Oct.-Dec.	8.8	27.0	6.0	7.8
July-Sept.	8.3	23.2	5.8	8.6
April-June	15.6	13.6	7.1	11.2
Jan.-March	8.7	15.2	8.3	8.1
<b>2003</b>				
Oct.-Dec.	6.6	11.1	6.6	7.3
July-Sept.	5.1	9.0	3.7	4.5
April-June	(0.9)	17.9	2.9	3.1
Jan.-March	(3.1)	10.3	1.9	1.4
<b>2002</b>				
Oct.-Dec.	(0.7)	22.4	0.7	1.9
July-Sept.	(1.6)	4.8	3.8	2.5
April-June	(22.3)	(11.7)	1.5	(10.4)
Jan.-March	(14.3)	(16.1)	(1.0)	(7.8)
<b>2001</b>				
Oct.-Dec.	(2.7)	(31.8)	1.0	(2.7)
July-Sept.	(3.7)	(24.0)	0.0	(3.1)
April-June	5.4	(13.1)	0.5	2.5
Jan.-March	8.7	(9.1)	3.4	5.1
<b>2000</b>				
Oct.-Dec.	5.8	(7.7)	4.2	4.0
July-Sept.	11.0	5.7	4.6	7.1
April-June	18.8	4.2	7.3	11.4
Jan.-March	13.6	8.0	8.2	9.7
<b>1999</b>				
Oct.-Dec.	9.1	3.8	7.3	7.4
July-Sept.	7.6	1.4	6.7	6.1
April-June	6.0	(2.1)	7.3	5.0
Jan.-March	6.6	(2.6)	6.1	4.8

Source: Individual state data, analysis by Rockefeller Institute.

revenues dropped significantly in Oregon, Florida, West Virginia, Mississippi, Arizona, and Nevada; while Kentucky, Oklahoma, Tennessee, North Carolina, Wyoming, Delaware, and Wisconsin showed smaller declines.

According to NCSL data, legislated changes decreased total tax revenue in the Plains, Southeast, Southwest, and Rocky Mountain states. Ohio registered the largest net tax cuts for a single state of over \$250 million. Figure 2 shows tax revenue adjusted for legislated changes, by region. Table 4 shows the overall effect of legislated tax changes and processing variations. Table 5 shows the



percentage change in each state’s total tax revenue, adjusted for legislated tax changes and inflation.

Due to delays in data availability, this report does not include complete figures for Montana.

### **Personal Income Tax**

In the fourth quarter of 2007, personal income tax revenue made up at least 50 percent of total tax revenue in 12 states, and over 40 percent in 15 more states.

Personal income tax revenue grew 3.8 percent in the October-December 2007 quarter compared to the same quarter in 2006. That was the lowest increase since mid-2003. The strongest growth in state personal income tax revenue was in the Rocky Mountain region, where collections grew 10.3 percent, followed by the New England states, at 8.2 percent. Collections decreased by 12.4 percent in the Southwest region and by 2.9 percent in Far West states.

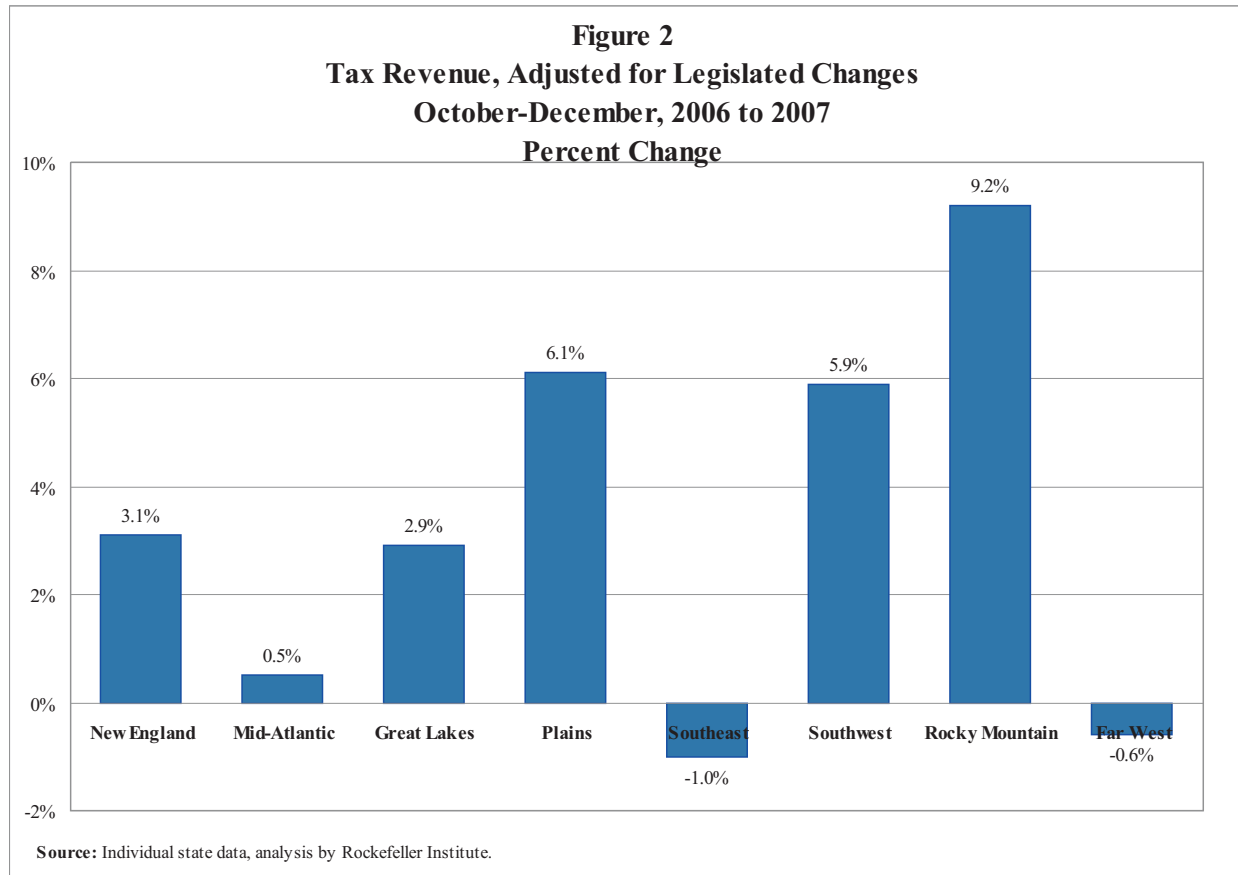
Of the 40 states with a broad-based personal income tax and for which fourth quarter information is available, 31 reported growth, while eight states

had double-digit increases. Montana led the states with growth of 16.0 percent. Nine states showed a decline in personal income tax collections, the largest being 76.6 percent for Oregon. The large decline in Oregon’s personal income tax can be attributed to a \$1 billion tax rebate that Oregon issued in December of 2007.

We can get a clearer picture of collections from the personal income tax by breaking this source down into major component parts for which we have data: withholding and quarterly estimated payments.

### **Withholding**

Withholding is a good indicator of the current strength of personal income tax revenue because it comes largely from current wages and is much less volatile than estimated payments or final settlements. Table 6 shows that withholding for the October-December 2007 quarter was 6.6 percent higher than the same quarter of 2006. Arkansas, Louisiana, and Michigan reported strong growth of more than 10 percent.



### *Estimated Payments*

The highest-income taxpayers generally pay estimated tax payments (also known as declarations) on their income not subject to withholding tax. This income often comes from investments, such as capital gains realized in the stock market. A strong stock market should eventually translate into capital gains and higher estimated tax payments. Strong business profits also tend to boost these payments.

In the 34 states for which we have relatively complete data, estimated tax payments for the fourth payment period averaged 7.7 percent higher than the year earlier (see Table 7). If we exclude three states (i.e., Minnesota, New Jersey, and North Carolina) for which we do not have estimated tax payment data for the month of January 2008, increases were recorded in 22 of 31 states. Ten states reported double-digit growth over the year, with five states having increases of more than 20 percent. The increases indicate that most taxpayers who receive nonwage income are expecting

it to be higher this year than last. Nine states — Alabama, Colorado, Delaware, Maine, Nebraska, North Dakota, South Carolina, West Virginia, and Wisconsin — showed year-over-year declines in such payments.

### **General Sales Tax**

Collections in the October-December 2007 quarter were only 1.9 percent above the same quarter in 2006. This is weak compared to the recent historical average (over the past 36 quarters) of 4.5 percent, and the weakest growth since early 2003.

Sales tax revenue grew fastest in the New England and Rocky Mountain regions at 5.1 and 4.9 percent, respectively. North Dakota had the highest increase nationally, at 23.7 percent. No other state reported an increase over 20 percent, and South Dakota had the second highest increase at 13.6 percent. The Southeast region recorded an overall decline of 0.9 percent. Among 12 states reporting a decline in sales tax revenue, West Virginia showed the highest decline at 13 percent.

**Table 3**  
**Quarterly Tax Revenue by Major Tax, by State**  
**October-December, 2006 to 2007, Percent Change**

	PIT	CIT	Sales	Total
<b>United States</b>	<b>3.8</b>	<b>(15.7)</b>	<b>1.9</b>	<b>2.3</b>
<b>New England</b>	<b>8.2</b>	<b>(14.0)</b>	<b>5.1</b>	<b>3.9</b>
Connecticut	13.2	(39.0)	13.3	7.0
Maine	4.0	48.4 *	1.4	1.6
Massachusetts	6.8	(21.8) ¶	1.1	2.6
New Hampshire	NA	43.1	NA	6.1 *
Rhode Island	1.6 *	485.1 *	(3.4)	1.0 *
Vermont	10.6	(8.3) *	0.0	3.8 *
<b>Mid Atlantic</b>	<b>7.5</b>	<b>(14.8) *</b>	<b>2.3 *</b>	<b>3.0 *</b>
Delaware	(0.2)	(89.5)	NA	(0.9) *
Maryland	8.6	(21.5) *	3.1	6.4
New Jersey	9.7	24.2 *	3.3 *	8.4 *
New York	7.0	(31.2) *	2.7	0.3 *
Pennsylvania	7.0	(14.4) ¶	0.6	2.6
<b>Great Lakes</b>	<b>5.8</b>	<b>(7.4) *</b>	<b>4.5</b>	<b>3.8</b>
Illinois	10.8	(6.7)	4.7	6.2
Indiana	(0.3) ¶	(14.8) ¶	4.1	1.8 *
Michigan	12.6 *	(2.4) *	5.2	5.5 *
Ohio	5.3 ¶	(3,825.2) *	6.0	3.5 ¶
Wisconsin	(2.8)	9.6	0.2	(0.4)
<b>Plains</b>	<b>7.4 ¶</b>	<b>(4.6)</b>	<b>2.9</b>	<b>5.7</b>
Iowa	9.6	1.9	9.0	11.5 *
Kansas	8.1	(13.2) ¶	(2.0)	2.8
Minnesota	5.1	(18.6)	(0.5)	3.0
Missouri	8.8	8.3	0.7	3.7
Nebraska	6.6 ¶	50.8 ¶	7.5	7.3 ¶
North Dakota	15.8 ¶	46.3 ¶	23.7	34.6 ¶
South Dakota	NA	NA	13.6	14.7 *
<b>Southeast</b>	<b>3.6</b>	<b>(20.5)</b>	<b>(0.9)</b>	<b>(1.4)</b>
Alabama	1.9 *	12.2	1.5	4.3
Arkansas	10.4	11.6 ¶	(2.0) ¶	5.0 ¶
Florida	NA	(2.3)	(4.5)	(8.8)
Georgia	7.0	1.0	(1.3)	2.1
Kentucky	4.9	(54.9)	2.1	(1.7)
Louisiana	(2.5) ¶	16.4 ¶	2.7	1.5 ¶
Mississippi	(30.4) ¶	(59.9) ¶	0.6	(7.5) ¶
North Carolina	5.4	(47.8) ¶	1.1 *	(0.4)
South Carolina	7.4 ¶	43.2 ¶	(4.8) ¶	1.4 ¶
Tennessee	NA	(49.1) *	3.6	(0.7) *
Virginia	4.2	(40.8)	5.5	2.0
West Virginia	(3.5)	(30.4) ¶	(13.0) ¶	(8.6) ¶
<b>Southwest</b>	<b>(12.4) ¶</b>	<b>(32.4) ¶</b>	<b>3.6</b>	<b>5.5</b>
Arizona	(4.4)	(24.1)	(0.2)	(4.7)
New Mexico	ND	ND	ND	ND
Oklahoma	(2.7)	(37.1)	4.2	(1.1)
Texas	NA	NA	7.6	15.2
<b>Rocky Mountain</b>	<b>10.3</b>	<b>10.6 ¶</b>	<b>4.9 ¶</b>	<b>8.4</b>
Colorado	11.4	23.9	12.0	12.2
Idaho	9.8	15.7	7.8	8.7
Montana	16.0	(28.2)	NA	18.5 ¶
Utah	7.6 ¶	14.7	(4.1) ¶	2.8 ¶
Wyoming	NA	NA	2.4	(0.7)
<b>Far West</b>	<b>(2.9)</b>	<b>(19.4)</b>	<b>0.9</b>	<b>1.0 *</b>
Alaska	NA	(31.7)	NA	203.6 *
California	6.6	(21.0)	(0.5)	0.7
Hawaii	0.4	(84.2)	4.3 ¶	2.5
Nevada	NA	NA	(2.6)	(3.3)
Oregon	(76.6)	70.4 ¶	NA	(65.9) *
Washington	NA	NA	6.4	4.5

Source: Individual state data, analysis by Rockefeller Institute. See page 9 for notes.

### Corporate Income Tax

Nominal tax revenue decreased 15.7 percent in the October-December quarter, the weakest since early 2002. All regions except the Rocky Mountain reported declines, and the Southwest region reported the largest decline with 32.4 percent. Among 44 states that have a corporate income tax and for which we have complete data, 26 showed decreases in corporate tax revenue, with Ohio having the largest decline. Ohio had a deficit of \$54.1 million in corporate income tax revenue at the end of the second quarter of fiscal year 2008, compared with the \$57.6 million collected in the first and second quarters of fiscal year 2007. Corporate income tax is an unstable revenue source; many states report sizeable changes from quarter to quarter. Nationally, corporate income tax revenue decreased as well.

### Underlying Reasons for Trends

State revenue changes result from three kinds of underlying forces: differences in the national and state economies, the ways in which these differences affect each state's tax system, and recently legislated tax changes.

### National and State Economies

National economic growth slowed during the final quarter of 2007. Bureau of Economic Analysis (BEA) estimates indicate that real Gross Domestic Product (GDP) grew at an annual rate of 0.6 percent from the preceding period in the fourth quarter of 2007, compared to the 4.9 percent growth in the third quarter, 3.8 percent in the second quarter, and 0.6 percent in the first quarter of 2007.<sup>1</sup> Year-over-year growth for the fourth quarter equaled 2.5 percent, a drop of 0.3 percent compared to year-over-year growth for the third quarter. The slowdown in GDP growth was mostly attributed to continuing decline in residential fixed investment, which decreased by 18.6 percent from the same quarter one year ago. Residential fixed investment has been continuously declining for eight consecutive quarters, since the first quarter of 2006.<sup>2</sup>

<b>Table 4</b>			
<b>Quarterly State Tax Revenue</b>			
<b>Adjusted for Legislated Tax Changes</b>			
<b>Year-Over-Year Percent Change</b>			
	PIT	Sales	Total
<b>2007</b>			
Oct.-Dec.	4.1 %	1.3 %	1.6 %
July-Sept.	7.0	2.3	4.3
April-June	10.7	2.6	7.2
Jan.-March	8.2	2.6	5.8
<b>2006</b>			
Oct.-Dec.	5.3	4.7	5.0
July-Sept.	8.1	4.2	5.5
April-June	15.4	6.5	9.9
Jan.-March	10.9	7.4	6.8
<b>2005</b>			
Oct.-Dec.	6.0	6.4	7.7
July-Sept.	9.2	8.6	9.7
April-June	17.7	7.8	12.9
Jan.-March	11.2	6.0	9.5
<b>2004</b>			
Oct.-Dec.	8.3	5.7	7.3
July-Sept.	7.3	5.6	8.1
April-June	12.6	6.4	9.0
Jan.-March	7.7	6.8	7.0
<b>2003</b>			
Oct.-Dec.	5.3	4.2	4.9
July-Sept.	3.9	1.9	2.6
April-June	(2.0)	1.3	0.4
Jan.-March	(4.4)	1.0	(1.0)
<b>2002</b>			
Oct.-Dec.	(1.6)	0.7	0.3
July-Sept.	(2.1)	2.7	0.7
April-June	(22.5)	0.1	(11.9)
Jan.-March	(14.5)	(2.4)	(8.4)
<b>2001</b>			
Oct.-Dec.	(2.1)	1.2	(2.3)
July-Sept.	(2.8)	0.4	(2.4)
April-June	7.9	0.6	4.2
Jan.-March	10.1	3.7	6.3
<b>2000</b>			
Oct.-Dec.	6.5	5.0	5.0
July-Sept.	11.6	5.6	7.7
April-June	18.6	7.8	11.8
Jan.-March	13.8	8.8	10.4
<b>1999</b>			
Oct.-Dec.	11.0	7.5	8.4
July-Sept.	8.3	6.9	6.7
April-June	12.4	7.3	8.0
Jan.-March	9.9	6.2	6.5

Source: Individual state data, NCSL, analysis by Rockefeller Institute.

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).

The BEA reported year-over-year change for personal consumption expenditures in the October-December 2007 quarter at 2.5 percent, while year-over-year growth for the calendar year 2007 equaled 2.9 percent.<sup>3</sup>

Personal income increased by 5.8 percent in the fourth quarter of 2007 over the fourth quarter of 2006. On a year-to-year basis, this was the lowest

<b>Table 5</b>	
<b>Quarterly Total Tax Revenue, by State</b>	
<b>Adjusted for Legislation and Inflation</b>	
<b>October-December, 2006 to 2007, Percent Change</b>	
<b>United States</b>	<b>(4.3) %</b>
<b>New England</b>	
Connecticut	(0.1)
Maine	(5.2)
Massachusetts	(3.3)
New Hampshire	(3.5)
Rhode Island	(11.0)
Vermont	(3.8)
<b>Mid-Atlantic</b>	
Delaware	(8.9)
Maryland	0.1
New Jersey	(6.8)
New York	(6.8)
Pennsylvania	(3.2)
<b>Great Lakes</b>	
Illinois	0.0
Indiana	(7.0)
Michigan	(7.1)
Ohio	3.3
Wisconsin	(6.2)
<b>Plains</b>	
Iowa	2.6
Kansas	(2.5)
Minnesota	(3.0)
Missouri	(2.3)
Nebraska	7.6
North Dakota	31.5
South Dakota	3.4
<b>Southeast</b>	
Alabama	(2.5)
Arkansas	1.4
Florida	(13.7)
Georgia	(3.6)
Kentucky	(7.1)
Louisiana	(2.4)
Mississippi	(11.9)
North Carolina	(6.7)
South Carolina	(1.2)
Tennessee	(8.9)
Virginia	(3.7)
West Virginia	(13.0)
<b>Southwest</b>	
Arizona	(0.3)
New Mexico	(40.6)
Oklahoma	(6.8)
Texas	8.8
<b>Rocky Mountain</b>	
Colorado	5.2
Idaho	2.4
Montana	18.5
Utah	(1.9)
Wyoming	(6.4)
<b>Far West</b>	
Alaska	102.8
California	(5.3)
Hawaii	(2.7)
Nevada	(8.3)
Oregon	(69.9)
Washington	(1.6)

Source: Individual state data, NCSL, analysis by Rockefeller Institute. See page 9 for notes.

Note: Inflation is measured by BEA State and Local Government Consumption Expenditures and Gross Investment Price Index.

	2007			
	Jan.-Mar.	Apr.-Jun.	July-Sept.	Oct.-Dec.
<b>United States</b>	<b>7.0 %</b>	<b>6.5 %</b>	<b>6.0 %</b>	<b>6.6 %</b>
<b>New England</b>	<b>6.5</b>	<b>6.2</b>	<b>5.6</b>	<b>6.7</b>
Connecticut	7.8	6.3	8.8	7.9
Maine	2.6	3.7	2.4	4.4
Massachusetts	6.3	6.7	5.2	6.5
Rhode Island	9.9	4.1	(1.4)	6.1 *
Vermont	1.3	7.1	6.3 *	7.3
<b>Mid-Atlantic</b>	<b>11.6</b>	<b>8.8</b>	<b>7.2</b>	<b>5.7</b>
Delaware	(6.4)	0.7	0.0	5.6
Maryland	5.9 *	7.0 *	6.6 *	7.8
New Jersey	11.4	14.3	8.6	2.6
New York	15.6	8.5	9.2	6.0
Pennsylvania	4.1	8.1	2.1	5.5
<b>Great Lakes</b>	<b>1.4</b>	<b>3.3</b>	<b>3.3</b>	<b>5.7</b>
Illinois	5.4 ¶	7.0 ¶	2.3	8.1
Indiana	4.6	5.6	7.2	6.0 ¶
Michigan	3.6	3.2	3.5	11.0 *
Ohio	(3.6)	(4.4)	(1.0) ¶	2.5 ¶
Wisconsin	(1.9) ¶	7.3	8.3	0.9
<b>Plains</b>	<b>4.5</b>	<b>6.4</b>	<b>5.8</b>	<b>7.2 ¶</b>
Iowa	3.6	6.9	5.4	8.3
Kansas	6.7 ¶	14.4	6.9	8.9
Minnesota	4.3	4.9	4.8	5.2
Missouri	4.1 ¶	5.9	5.2	8.3
Nebraska	4.8	1.2	10.4	8.2 ¶
North Dakota	9.9	11.5	3.9	9.2 ¶
<b>Southeast</b>	<b>6.9</b>	<b>8.9</b>	<b>7.1</b>	<b>7.3</b>
Alabama	4.3 ¶	5.0	5.6	4.3 *
Arkansas	3.8 ¶	7.9 ¶	7.9 ¶	11.5
Georgia	9.6	9.4	ND	ND
Kentucky	2.2	6.3	6.1	3.8
Louisiana	(5.4)	29.5	16.9	15.2 ¶
Mississippi	9.9	7.9	8.6 ¶	8.6 ¶
North Carolina	9.1	9.1	7.4 ¶	7.4
South Carolina	8.8	8.0 ¶	3.1 *	8.8 ¶
Virginia	7.5	8.1	4.7	6.4
West Virginia	3.5 ¶	6.7 ¶	23.3	1.2
<b>Southwest</b>	<b>5.6</b>	<b>0.8</b>	<b>3.0</b>	<b>1.3 ¶</b>
Arizona	12.5	5.2	8.0	1.8
New Mexico	3.0	9.5	8.1	ND
Oklahoma	(1.9)	(7.4)	(4.5)	0.7
<b>Rocky Mountain</b>	<b>8.3</b>	<b>10.2</b>	<b>8.5</b>	<b>8.6</b>
Colorado	7.5	6.9	7.1	8.1
Idaho	17.7	6.6	10.9	9.1
Montana	9.3	12.0	14.6	ND
Utah	4.9	17.2 ¶	8.0 ¶	9.2 ¶
<b>Far West</b>	<b>6.5</b>	<b>4.2</b>	<b>6.0</b>	<b>8.1</b>
California	7.7	4.4	7.1	8.9
Hawaii	(4.2)	9.5 ¶	3.5 ¶	6.6
Oregon	0.4	1.5	(0.3)	2.4

Source: Individual state data, analysis by Rockefeller Institute. See page 9 for notes.

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.

increase for the last four quarters. Personal saving shows the amount of disposable personal income after personal outlays. Personal savings saw a steady and significant decline for the last three years. In the fourth quarter of 2007, personal savings showed a \$0.9 billion deficit, which is a \$41.1 billion decline compared to the same quarter of 2006.<sup>26</sup>

The national unemployment rate increased from 4.4 percent in the fourth quarter of 2006 to 4.8 percent in the fourth quarter of 2007, reaching the highest rate in the last eight quarters. However, the average annual unemployment rate for 2007 was 4.6 percent, the same as for 2006.<sup>24</sup>

Productivity, another gauge of economic strength, is measured by the increase in output per labor hour. Thus, it can increase with improved output or reduction in hours worked. Output increased by 2.6 percent in the fourth quarter of 2007 compared to the same quarter of 2006, while hours declined by 0.3 percent for nonfarm business.<sup>25</sup>

The general lack of timely state-level indicators presents a challenge to an assessment of state economies. Data on nonfarm employment (not seasonally adjusted), tracked by the Bureau of Labor Statistics (BLS), offer a broad-based, timely, high-quality state-level economic indicator. Still, these data are far from ideal indicators of revenue growth, as most taxes are based on measures such as income, wages, and profits, rather than employment.

On a national basis, nonfarm employment continued to show signs of slower growth during the quarter. Employment showed a 0.8 percent growth rate compared to the October-December quarter of 2006.<sup>26</sup>

The disparity in employment growth among the regions remains pronounced. Table 8 shows year-over-year employment growth for the nation and for each state for all four quarters of 2007. Figure 3 maps the change in fourth quarter 2007 employment compared to the same period in 2006.

Job growth continues to be concentrated mostly in the western states. The Rocky Mountain and Southwest states showed the highest employment growth rates at 2.4 and 2.0 percent, respectively, for the fourth quarter of 2007, compared to the same quarter in 2006. Wyoming led the nation with 3.4 percent growth.

In contrast, job growth remains sluggish in the Great Lakes region, where employment was once again stagnant. The Great Lakes states saw year-over-year employment decline by 0.1 percent in the fourth quarter of 2007. This sluggish job growth record was broad-based, with all five of the region's states posting a growth rate of less than the

	<b>April-January</b> <b>(All four payments)</b>	<b>December-January</b> <b>(Fourth payment)</b>
<b>Average (Mean)</b>	<b>14.4 %</b>	<b>7.7 %</b>
<b>Median</b>	<b>11.2</b>	<b>5.8</b>
Alabama	5.9	(3.3)
Arizona /1	(3.4)	ND
Arkansas	17.4	23.5
California	8.9	9.7
Colorado	15.6	(1.0)
Connecticut	16.3	18.7
Delaware	(2.0)	(12.2)
Georgia /3	17.4	ND
Hawaii	3.6	7.0
Illinois	17.3	16.8
Indiana	9.7	4.7
Iowa	13.9	6.9
Kansas	18.3	12.1
Kentucky	49.9	71.4
Louisiana	12.8	5.9
Maine	5.3	(4.9)
Maryland	10.7	5.5
Massachusetts	19.9	27.0
Michigan	10.2	5.7
Minnesota /2	10.8	12.1
Missouri	17.1	17.6
Montana /1	25.2	ND
Nebraska	2.9	(12.6)
New Jersey /2	19.0	11.5
New Mexico /1	114.3	ND
New York	12.5	17.6
North Carolina /2	11.5	(23.0)
North Dakota	3.9	(8.7)
Ohio	4.7	4.1
Oklahoma	2.6	3.2
Oregon	14.8	9.1
Pennsylvania	17.1	25.0
Rhode Island	4.1	1.5
South Carolina	4.5	(6.5)
Vermont	18.2	26.1
Virginia	2.7	1.9
West Virginia	5.0	(9.1)
Wisconsin	6.9	(2.4)

Source: Individual state data, analysis by Rockefeller Institute. See page 9 for notes.

national average. Michigan and Ohio showed employment decline by 1.5 and 0.2 percent, respectively. Other states experiencing employment declines in the fourth quarter of 2007 included Rhode Island, Vermont, Florida, Ohio, and West Virginia. In the Mid-Atlantic region, New York and Maryland saw employment grow during the fourth quarter by 1.1 and 0.9 percent, respectively, more than the national growth rate of 0.8 percent.<sup>27</sup>

## ***Nature of the Tax System***

Even if economic growth affected all regions and states to exactly the same degree and at exactly the same time, the impact on state revenue would vary because the tax systems used by the states react differently to similar economic situations. States that rely heavily on the personal income tax will tend to see stronger growth in good times, since they benefit from growth in income earned by the highest income individuals. This is most evident in states with more progressive income tax structures, since higher incomes are taxed at the highest rates. The sales tax is also very responsive to economic conditions, but is historically less elastic than the personal income tax, dropping more slowly in bad times and increasing more slowly in good times. States that rely heavily on corporate income or severance taxes often see wild swings in revenue that are not necessarily related to general economic conditions. (Severance taxes are levied on the removal of natural resources, such as oil and natural gas.)

Because high-end incomes are based more heavily upon volatile sources such as stock options and capital gains, growth in personal income tax revenue is far more subject to dramatic fluctuations than it would be if it were based entirely on wages and salaries. Over the last few years, we have seen growth in the stock market and relatively strong growth in corporate profits and other business-related income. In the last recession, we saw the downside of this volatility. Declines in the stock market and other investments pushed personal and corporate income tax collections down much faster than the economy and created large holes in almost every state's budget. As was the case before the 2001 recession, capital gains now constitute a large share of adjusted gross income, and thus contribute a large share of state tax revenues.<sup>28</sup> Such an environment creates relatively high levels of risk for states that depend heavily on personal income tax revenues. Corporate profits and corporate income tax revenue both showed weaker numbers in the last two quarters of 2007.

Sales tax revenue generally fluctuates less rapidly than the personal income or corporate income taxes and does not capture spending on services well. Over the past decade or so, some state tax



analysts have expressed concern that as states have removed more stable elements of consumption such as groceries and clothing from their bases, their sales taxes were more subject to sharp declines as consumers became nervous about spending on optional and big-ticket items. The sales tax generally maintained slow growth in the latest economic downturn, but grew rapidly and remained steady as general economic conditions improved. Sales tax revenue growth has been weak in each of the last four quarters.

The Federal Reserve Board lowered interest rates six times in the past six months, three of them occurring in the last two months. The federal funds rate dropped from 3.0 percent to 2.25 percent on March 18th, 2008 — the second three-fourths of a percentage point cut in two months. The three recent rate cuts are recorded as the most aggressive since mid-1982, when the Federal Reserve Board was cutting rates to ease the recession.

In the *Beige Book* summary covering information before January 7, 2008, districts reported that economic activity increased modestly but with a slower growth rate in the November-December period. Most districts reported restrained retail activity, particularly in terms of holiday spending and auto sales. All districts reported low residential real estate activity, as a result of which many districts also reported weakening demand for transportation services. Manufacturing of products and services

### Key to Interpreting Tables

All percent change tables are based on year-over-year changes.

1/ Indicates data through November 2007 only.

2/ Indicates data through December 2007 only.

3/ Indicates data through June 2007 only.

\* 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 indicates not applicable.

ND indicates no data.

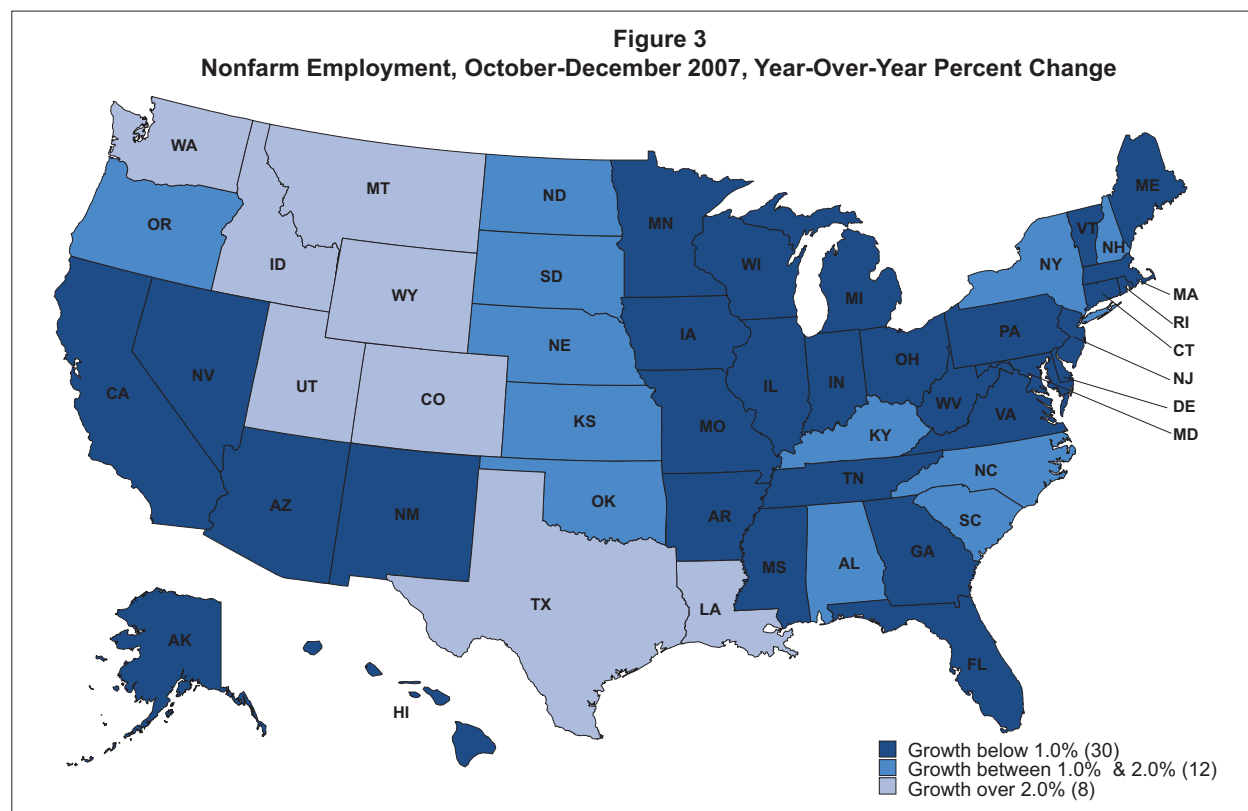
NM indicates not meaningful.

Historical Tables (Tables 1, 2, and 4) have been shortened to provide data only back to 1999. Data through 1991 are available at:

[www.rockinst.org/research/sl\\_finance/2column.aspx?id=828](http://www.rockinst.org/research/sl_finance/2column.aspx?id=828).

	<i>Jan.-March</i>	<i>Apr.-June</i>	<i>July-Sep.</i>	<i>Oct.-Dec.</i>
<b>United States</b>	<b>1.4</b>	<b>1.2</b>	<b>1.1</b>	<b>0.8</b>
<b>New England</b>	1.0	0.8	0.8	0.6
Connecticut	1.0	1.0	1.1	0.9
Maine	0.6	0.1	0.6	0.5
Massachusetts	1.1	1.1	0.9	0.7
New Hampshire	1.0	0.6	1.3	1.4
Rhode Island	1.0	0.1	(0.3)	(1.1)
Vermont	0.1	0.1	(0.0)	(0.2)
<b>Mid-Atlantic</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>	<b>0.7</b>
Delaware	(0.1)	0.3	0.4	0.2
Maryland	0.8	0.6	0.9	0.9
New Jersey	(0.0)	0.2	0.1	0.0
New York	1.5	1.4	1.5	1.1
Pennsylvania	0.8	0.8	0.8	0.4
<b>Great Lakes</b>	<b>(0.0)</b>	<b>0.0</b>	<b>0.1</b>	<b>(0.1)</b>
Illinois	1.0	0.9	0.7	0.6
Indiana	0.2	0.5	0.8	0.5
Michigan	(1.7)	(1.6)	(1.2)	(1.5)
Ohio	(0.3)	(0.2)	(0.2)	(0.2)
Wisconsin	0.7	0.7	0.4	0.3
<b>Plains</b>	<b>1.0</b>	<b>1.0</b>	<b>1.2</b>	<b>0.8</b>
Iowa	1.0	0.8	0.9	0.6
Kansas	1.7	2.0	2.3	1.4
Minnesota	0.3	0.4	0.6	0.5
Missouri	0.9	0.8	0.9	0.5
Nebraska	1.3	1.6	2.0	1.8
North Dakota	1.8	1.5	1.6	1.5
South Dakota	2.1	2.1	2.1	1.6
<b>Southeast</b>	<b>1.8</b>	<b>1.4</b>	<b>1.1</b>	<b>0.9</b>
Alabama	1.6	1.3	1.2	1.4
Arkansas	0.6	0.4	0.3	0.5
Florida	1.5	0.7	(0.1)	(0.2)
Georgia	1.9	1.4	1.4	0.9
Kentucky	0.9	1.3	1.2	1.3
Louisiana	4.5	3.7	3.6	2.8
Mississippi	1.5	1.0	0.8	0.6
North Carolina	3.5	2.8	2.3	1.8
South Carolina	2.2	2.1	3.2	1.6
Tennessee	0.7	0.4	0.5	0.4
Virginia	1.1	0.9	0.9	0.7
West Virginia	0.2	0.3	0.1	(0.1)
<b>Southwest</b>	<b>2.8</b>	<b>2.5</b>	<b>2.3</b>	<b>2.0</b>
Arizona	2.4	1.4	0.9	0.1
New Mexico	1.8	1.3	1.2	1.0
Oklahoma	1.8	1.7	1.7	1.6
Texas	3.1	3.0	2.9	2.6
<b>Rocky Mountain</b>	<b>3.1</b>	<b>3.0</b>	<b>2.8</b>	<b>2.4</b>
Colorado	2.1	2.3	2.5	2.1
Idaho	3.3	3.0	2.4	2.1
Montana	2.9	2.1	2.3	2.2
Utah	4.8	4.4	3.7	3.0
Wyoming	4.8	3.8	3.7	3.4
<b>Far West</b>	<b>1.5</b>	<b>1.1</b>	<b>0.9</b>	<b>0.6</b>
Alaska	1.5	0.5	0.6	0.8
California	1.2	0.8	0.6	0.2
Hawaii	2.1	1.3	0.5	0.4
Nevada	2.1	1.2	0.3	0.3
Oregon	2.4	1.7	1.5	1.1
Washington	2.6	2.6	2.6	2.4

Source: Bureau of Labor Statistics, analysis by Rockefeller Institute.



related to construction and home-related goods weakened in most districts, while other manufacturing activities varied widely from district-to-district. Robust demand was recorded in nonfinancial service industries such as health care, hospitality, legal, and insurance. Most districts also reported positive tourism spending.<sup>29</sup>

### **Tax Law Changes Affecting This Quarter**

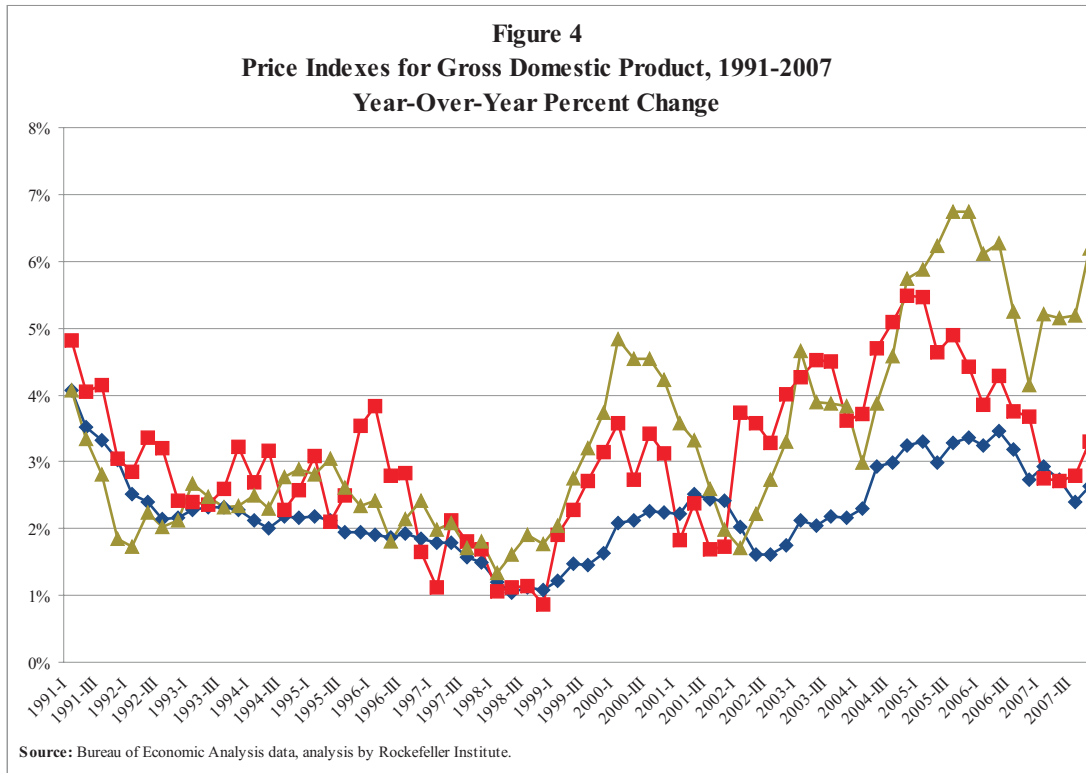
The final element affecting trends in tax revenue growth is changes in states' tax laws. When states boost or depress their revenue growth with tax increases or cuts, it can be difficult to draw any conclusions about their current fiscal condition from nominal collections data. That is why this report attempts to note where such changes have significantly affected each state's revenue growth. We also occasionally note when tax-processing changes have had a major impact on revenue growth, even though these are not due to enacted legislation, as it helps the reader to understand that the apparent growth or decline is not necessarily indicative of underlying trends.

During the October-December 2007 quarter, enacted tax changes and processing variations increased state revenue by an estimated net of \$1.2 billion compared to the same period in 2006. Personal income tax reductions totaled \$187 million. Among all states reporting, legislated changes increased sales tax revenue in the fourth quarter of 2007 by a net \$377 million. Corporate income tax increased by \$331 million. Taxes collected from other sources, including motor fuel, cigarette/tobacco, and alcohol increased by \$640 million.<sup>30</sup>

### **Rising Cost Pressures on States and Localities**

Historically, costs for state and local governments have moved roughly in tandem with costs in the overall economy and those facing the federal government. Over the past three years, however, inflation for state and local expenditures — as measured by the Bureau of Economic Analysis' price index for government expenditures — has diverged sharply from other measures.

As part of its National Income and Product Accounts (NIPA), BEA produces price indexes that are analogous to, but differ from, the more widely



known Consumer Price Index maintained by the Bureau of Labor Statistics. At the broadest level, BEA uses NIPA price indexes to show the impact of inflationary cost increases (as opposed to actual growth in economic activity) on the nation’s overall Gross Domestic Product. The bureau also calculates price indexes for sectors of the nation’s economic activity, including one index for expenditures of the federal government, and one for expenditures by state and local governments.

BEA’s price index for state and local government expenditures rose at annual rates of 1.5 to 4 percent for most of the 1990s, as did the price indexes for federal government expenditures and for the overall economy. Inflation for both federal expenditures, and for those at the state and local level, rose to more than 5 percent in late 2004 and early 2005, while BEA’s broad measure of inflation throughout the economy remained below 3.5 percent. Quarterly measures of cost inflation for states and localities rose at an even faster rate, above 6 percent, through 2006 — far outpacing cost increases for federal expenditures and for the economy as a whole. Figure 4 shows year-over-year changes since 1990 (for the first and third quarters

of each year) in the price indexes for overall GDP, federal expenditures, and state/local expenditures.

In the fourth quarter of 2007, inflation for state/local expenditures was 6.2 percent, or 3.6 percentage points above the analogous measure for the national economy. That disparity was the largest recorded at least since 1990.

Other things being equal, high rates of inflation for state and local expenditures imply a reduced level of services for a given level of taxpayer resources. As mentioned earlier in this report, state tax revenues in the October-December quarter of 2007 were 2.3 percent higher than the year-ago quarter in nominal terms. Bringing cost inflation into the equation, however, produces a very different picture: The purchasing power that states obtained from their taxes fell by more than 4 percent. (This report deals only with state tax revenues. BEA does not produce a separate price index for state governments. It reports data on state and local governments together because states vary in the ways that they apportion services and costs between state and local governments.)

Further research is required to determine the causes of such price inflation for states and

localities. BEA's price index for state and local expenditures includes special weighting for the cost of petroleum products used to fuel school buses, police cars, and institutional buildings, while the investment component is affected by prices for asphalt and general construction. States and localities are also experiencing major increases in costs for health and pension benefits for both current and retired employees. From 2000 to 2006, BEA price indexes show above-average inflation for state and local expenditures in transportation, housing and community services, recreation and culture, and elementary/secondary education.

## Conclusions

States are experiencing a classic nutcracker effect: Costs are rising sharply just as revenues falter. The result may be a squeeze on states' ability to fund services.

National economic trends are holding state revenue growth to the lowest levels in nearly five years. All three major state tax sources showed slow growth in the fourth quarter of 2007, compared to the previous three quarters of 2007. Both personal income tax and sales tax continued to lag, with the slowest growth rates since the second quarter of 2003. Meanwhile, states' corporate income taxes showed their weakest performance since the first quarter of 2002.

In the *Fiscal Survey of the States: December 2007*, the National Association of State Budget Officers (NASBO) reported that "fiscal 2008 enacted budgets reflect more modest growth, and some states have already reported budget shortfalls." According to NASBO, so far in fiscal 2008 total revenue collections from all sources are below projections in 12 states, while in fiscal 2007 only eight states had lower revenue projections. NASBO indicates that in fiscal 2008, states will face not only slowing revenue growth, but also enduring issues such as underfunded employee pensions, accounting changes related to retiree benefits, an aging population, and deteriorating infrastructure. Finally, states' total budget reserves declined from \$62.7 billion in fiscal 2007 to \$45.8 billion in fiscal 2008 (based on enacted budgets), leaving smaller cushions in case of unexpected challenges.<sup>31</sup>

**Table 9**  
Quarterly Tax Revenue by Major Tax, by State  
July-December 2006 to 2007, Percent Change

	PIT	CIT	Sales	Total
	5.0 %	(9.2) %	2.5 %	3.5 %
<b>United States</b>	<b>8.1</b>	<b>(8.9)</b>	<b>3.6</b>	<b>4.1</b>
<b>New England</b>	<b>8.1</b>	<b>(8.9)</b>	<b>3.6</b>	<b>4.1</b>
Connecticut	12.3	(36.4)	9.3	6.5
Maine	5.0	7.3	1.5	1.4
Massachusetts	7.5	(5.8)	1.8	4.2
New Hampshire	NA	17.9	NA	2.3
Rhode Island	1.2	(16.3)	(2.0)	(1.7)
Vermont	8.5	25.1	1.9	5.1
<b>Mid-Atlantic</b>	<b>7.8</b>	<b>(8.1)</b>	<b>3.4</b>	<b>4.4</b>
Delaware	(0.3)	(16.7)	NA	2.8
Maryland	6.7	(30.6)	3.9	3.5
New Jersey	10.7	17.1	7.0	9.1
New York	8.1	(16.8)	3.5	4.3
Pennsylvania	5.4	(9.5)	0.5	1.4
<b>Great Lakes</b>	<b>4.8</b>	<b>(7.4)</b>	<b>3.5</b>	<b>3.1</b>
Illinois	8.0	(5.5)	0.9	3.7
Indiana	3.6	(3.0)	3.9	3.7
Michigan	8.5	0.5	4.9	4.7
Ohio	1.9	(193.9)	4.8	1.3
Wisconsin	0.8	(6.3)	3.0	1.3
<b>Plains</b>	<b>7.6</b>	<b>(4.5)</b>	<b>2.1</b>	<b>4.7</b>
Iowa	9.3	9.9	5.3	10.0
Kansas	9.4	(9.1)	(4.3)	2.3
Minnesota	5.7	(15.5)	1.4	1.7
Missouri	8.0	2.1	2.7	4.7
Nebraska	8.8	12.9	1.3	5.4
North Dakota	10.2	24.3	13.6	20.9
South Dakota	NA	NA	8.3	11.2
<b>Southeast</b>	<b>6.0</b>	<b>(13.0)</b>	<b>(0.1)</b>	<b>0.7</b>
Alabama	5.0	(1.9)	1.4	3.6
Arkansas	8.8	10.4	(2.3)	4.0
Florida	NA	(8.5)	(4.0)	(7.7)
Georgia	5.9	15.6	1.8	4.2
Kentucky	8.2	(47.6)	2.7	0.3
Louisiana	8.0	3.0	3.2	5.5
Mississippi	(10.9)	(18.4)	(1.2)	(2.5)
North Carolina	6.6	(26.2)	3.1	2.2
South Carolina	5.6	3.0	(1.5)	1.4
Tennessee	NA	(13.8)	3.3	2.7
Virginia	5.6	(24.9)	3.7	2.6
West Virginia	14.7	3.8	0.7	5.4
<b>Southwest</b>	<b>(6.1)</b>	<b>(21.9)</b>	<b>5.0</b>	<b>8.9</b>
Arizona	(0.8)	(15.7)	0.0	(1.9)
New Mexico /1	(22.1)	(35.1)	(18.1)	(19.7)
Oklahoma	(5.8)	(23.4)	7.7	0.8
Texas	NA	NA	7.7	16.5
<b>Rocky Mountain</b>	<b>10.0</b>	<b>1.9</b>	<b>6.7</b>	<b>8.2</b>
Colorado	10.0	15.9	9.6	10.1
Idaho	10.9	(3.9)	14.3	10.6
Montana	16.9	(16.6)	NA	16.7
Utah	7.7	(2.4)	(2.2)	2.9
Wyoming	NA	NA	7.9	3.1
<b>Far West</b>	<b>0.4</b>	<b>(8.0)</b>	<b>2.0</b>	<b>2.4</b>
Alaska	NA	(18.3)	NA	115.5
California	5.0	(8.7)	0.8	1.8
Hawaii	2.6	(6.2)	5.5	4.5
Nevada	NA	NA	(3.1)	(3.7)
Oregon	(36.9)	15.8	NA	(31.2)
Washington	NA	NA	7.2	4.1

Source: Individual state data, analysis by Rockefeller Institute. See page 9 for notes.

The national economic slowdown — or recession — is likely to depress state revenues, at least during the first quarter of 2008. Actions by the Federal Reserve, the fiscal stimulus plan enacted by President Bush and Congress, and other

**State Tax Revenue Weakens Still Further, While Costs Rise Sharply**

	2006				2007			
	Personal Income	Corporate Income	Sales	Total	Personal Income	Corporate Income	Sales	Total
<b>United States</b>	<b>56,210</b>	<b>10,832</b>	<b>55,362</b>	<b>147,119</b>	<b>58,342</b>	<b>9,136</b>	<b>56,438</b>	<b>150,573</b>
<b>New England</b>	<b>4,263</b>	<b>607</b>	<b>2,430</b>	<b>9,059</b>	<b>4,612</b>	<b>522</b>	<b>2,553</b>	<b>9,417</b>
Connecticut	1,191	179	870	2,757	1,348	109	986	2,949
Maine	303	23	256	743	315	34	259	755
Massachusetts	2,395	312	1,005	4,259	2,557	244	1,015	4,369
New Hampshire	NA	75	NA	380	NA	108	NA	403
Rhode Island	250	2	217	522	254	13	210	528
Vermont	124	16	83	398	138	14	82	413
<b>Mid-Atlantic</b>	<b>12,378</b>	<b>2,813</b>	<b>7,539</b>	<b>26,701</b>	<b>13,306</b>	<b>2,398</b>	<b>7,714</b>	<b>27,495</b>
Delaware	233	21	NA	501	232	2	NA	496
Maryland	1,271	125	840	2,447	1,380	98	867	2,603
New Jersey	2,207	660	1,996	5,481	2,421	820	2,062	5,941
New York	6,636	1,428	2,615	12,448	7,100	982	2,687	12,482
Pennsylvania	2,031	579	2,087	5,824	2,173	495	2,099	5,973
<b>Great Lakes</b>	<b>8,263</b>	<b>1,226</b>	<b>8,050</b>	<b>21,436</b>	<b>8,746</b>	<b>1,135</b>	<b>8,411</b>	<b>22,252</b>
Illinois	2,018	403	1,843	5,043	2,235	376	1,930	5,354
Indiana	954	186	1,295	2,824	951	159	1,349	2,875
Michigan	1,673	431	2,011	5,770	1,884	421	2,116	6,086
Ohio	1,961	1	1,871	4,369	2,065	(45)	1,984	4,522
Wisconsin	1,658	205	1,029	3,430	1,611	224	1,031	3,415
<b>Plains</b>	<b>4,390</b>	<b>685</b>	<b>3,420</b>	<b>10,122</b>	<b>4,713</b>	<b>653</b>	<b>3,520</b>	<b>10,701</b>
Iowa	667	106	455	1,281	731	108	496	1,429
Kansas	556	102	504	1,278	601	88	494	1,314
Minnesota	1,595	319	1,190	3,862	1,675	259	1,184	3,978
Missouri	1,137	93	700	2,434	1,237	100	705	2,523
Nebraska	378	28	304	756	403	43	327	811
North Dakota	57	38	119	304	66	55	147	409
South Dakota	NA	NA	148	208	NA	NA	168	238
<b>Southeast</b>	<b>11,163</b>	<b>2,444</b>	<b>14,334</b>	<b>34,170</b>	<b>11,569</b>	<b>1,943</b>	<b>14,201</b>	<b>33,707</b>
Alabama	737	143	573	2,015	750	160	581	2,101
Arkansas	518	79	547	1,216	571	89	536	1,276
Florida	NA	614	4,731	6,361	NA	600	4,519	5,804
Georgia	2,147	233	1,376	4,336	2,297	235	1,358	4,427
Kentucky	760	239	795	2,417	798	108	812	2,377
Louisiana	735	147	694	2,066	716	172	712	2,097
Mississippi	364	79	755	1,535	253	32	759	1,420
North Carolina	2,395	402	1,301	5,067	2,524	210	1,315	5,048
South Carolina	926	49	603	1,758	994	70	574	1,783
Tennessee	NA	171	1,637	2,425	NA	87	1,696	2,409
Virginia	2,252	185	1,018	3,967	2,346	109	1,073	4,045
West Virginia	330	104	305	1,007	319	72	265	920
<b>Southwest</b>	<b>1,883</b>	<b>424</b>	<b>7,822</b>	<b>13,549</b>	<b>1,650</b>	<b>287</b>	<b>8,106</b>	<b>14,291</b>
Arizona	915	229	1,105	2,321	875	174	1,102	2,211
New Mexico / I	342	102	480	1,129	166	54	310	687
Oklahoma	626	93	468	1,459	609	59	487	1,442
Texas	NA	NA	5,770	8,641	NA	NA	6,207	9,952
<b>Rocky Mountain</b>	<b>2,113</b>	<b>250</b>	<b>1,392</b>	<b>4,270</b>	<b>2,331</b>	<b>276</b>	<b>1,461</b>	<b>4,630</b>
Colorado	998	93	501	1,615	1,112	115	562	1,813
Idaho	298	32	310	761	327	37	334	827
Montana	151	45	NA	319	175	32	NA	379
Utah	666	80	454	1,355	716	92	435	1,394
Wyoming	NA	NA	127	219	NA	NA	130	218
<b>Far West</b>	<b>11,758</b>	<b>2,383</b>	<b>10,376</b>	<b>27,812</b>	<b>11,416</b>	<b>1,922</b>	<b>10,473</b>	<b>28,080</b>
Alaska	NA	56	NA	453	NA	39	NA	1,377
California	10,076	2,265	6,973	19,980	10,738	1,790	6,939	20,128
Hawaii	369	8	626	1,097	370	1	653	1,124
Nevada	NA	NA	823	1,054	NA	NA	802	1,019
Oregon	1,312	54	NA	1,461	308	92	NA	498
Washington	NA	NA	1,954	3,766	NA	NA	2,079	3,934

Source: Individual state data, analysis by Rockefeller Institute. See page 9 for notes.

economic forces will all produce results that are difficult to project. One apparently safe prediction: A very difficult year for state budgetmakers.

## Endnotes

- 1 Revised GDP percent change based on chained 2000 dollars, seasonally adjusted annual rates.
- 2 Ibid.
- 3 Ibid.
- 26 Ibid.
- 24 Bureau of Labor Statistics data.
- 25 Ibid.

- 26 Ibid.
- 27 Ibid.
- 28 Donald J. Boyd, *What Will Happen to State Government Finances in a Recession?*, Nelson A. Rockefeller Institute of Government, January 30, 2008.
- 29 Federal Reserve Board, *The Beige Book*, January 16, 2008.
- 30 National Conference of State Legislatures data.
- 31 *The Fiscal Survey of States: December 2007*, National Governors Association and National Association of State Budget Officers. December 2007.

## 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 latest in a series of such reports published by the Rockefeller Institute's Fiscal Studies Program (formerly the Center for the Study of the States). The Institute developed this State Revenue Report series as a service for users who sought more current data than those available from the Census Bureau. The Bureau has improved the timeliness of its statistics on state and local tax revenues; readers may wish to consult [www.census.gov](http://www.census.gov) for data that complement the information in this report.

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 many states is motor fuel taxes. Taxes on health-care providers to fund Medicaid programs are excluded as well.

*California:* Nongeneral 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 corporate 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 noneconomic 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.

**State Tax Revenue Weakens Still Further, While Costs Rise Sharply**

	FY 2007				FY 2008			
	Personal Income	Corporate Income	Sales	Total	Personal Income	Corporate Income	Sales	Total
<b>United States</b>	<b>112,504</b>	<b>21,743</b>	<b>108,368</b>	<b>289,451</b>	<b>118,183</b>	<b>19,741</b>	<b>111,069</b>	<b>299,628</b>
<b>New England</b>	<b>8,209</b>	<b>1,219</b>	<b>4,424</b>	<b>17,119</b>	<b>8,878</b>	<b>1,111</b>	<b>4,582</b>	<b>17,824</b>
Connecticut	2,015	284	1,305	4,380	2,262	181	1,426	4,663
Maine	552	73	454	1,358	580	78	461	1,376
Massachusetts	4,879	655	2,046	8,763	5,244	617	2,082	9,131
New Hampshire	NA	149	NA	785	NA	175	NA	803
Rhode Island	505	32	453	1,104	510	27	444	1,085
Vermont	259	27	166	729	281	33	169	765
<b>Mid-Atlantic</b>	<b>24,732</b>	<b>4,892</b>	<b>14,116</b>	<b>51,647</b>	<b>26,649</b>	<b>4,497</b>	<b>14,597</b>	<b>53,916</b>
Delaware	466	51	NA	1,005	464	42	NA	1,033
Maryland	2,454	324	1,380	4,570	2,618	225	1,434	4,728
New Jersey	3,724	1,160	3,267	9,284	4,123	1,358	3,494	10,131
New York	13,845	2,294	5,201	24,839	14,973	1,909	5,381	25,906
Pennsylvania	4,243	1,064	4,269	11,950	4,471	962	4,288	12,118
<b>Great Lakes</b>	<b>16,475</b>	<b>2,590</b>	<b>15,835</b>	<b>41,488</b>	<b>17,272</b>	<b>2,397</b>	<b>16,394</b>	<b>42,790</b>
Illinois	4,194	820	3,712	10,312	4,531	775	3,744	10,693
Indiana	2,001	426	2,648	5,772	2,073	414	2,751	5,988
Michigan	3,379	852	3,990	10,795	3,667	856	4,184	11,305
Ohio	4,018	58	3,714	8,696	4,095	(54)	3,890	8,813
Wisconsin	2,883	434	1,772	5,913	2,907	407	1,824	5,992
<b>Plains</b>	<b>8,907</b>	<b>1,415</b>	<b>6,802</b>	<b>19,964</b>	<b>9,588</b>	<b>1,351</b>	<b>6,944</b>	<b>20,901</b>
Iowa	1,307	192	953	2,620	1,428	211	1,004	2,883
Kansas	1,136	210	1,033	2,602	1,242	191	988	2,663
Minnesota	3,243	628	2,231	7,190	3,428	530	2,262	7,309
Missouri	2,331	224	1,409	4,920	2,518	228	1,448	5,153
Nebraska	769	93	636	1,603	837	105	644	1,689
North Dakota	123	68	238	616	135	85	271	745
South Dakota	NA	NA	302	414	NA	NA	327	460
<b>Southeast</b>	<b>21,949</b>	<b>4,875</b>	<b>28,521</b>	<b>66,914</b>	<b>23,273</b>	<b>4,240</b>	<b>28,503</b>	<b>67,405</b>
Alabama	1,464	271	1,134	3,965	1,537	265	1,149	4,108
Arkansas	1,061	174	1,113	2,497	1,154	192	1,087	2,598
Florida	NA	1,158	9,483	12,470	NA	1,061	9,105	11,505
Georgia	4,185	381	2,753	8,290	4,432	440	2,801	8,638
Kentucky	1,498	519	1,608	4,678	1,621	272	1,651	4,692
Louisiana	1,376	329	1,395	4,049	1,486	339	1,439	4,273
Mississippi	710	178	1,454	3,023	633	146	1,437	2,947
North Carolina	4,730	716	2,538	9,815	5,043	528	2,617	10,029
South Carolina	1,843	124	1,054	3,288	1,945	127	1,038	3,334
Tennessee	NA	393	3,340	5,005	NA	339	3,450	5,141
Virginia	4,482	443	2,075	7,991	4,734	333	2,151	8,198
West Virginia	600	190	574	1,844	687	197	578	1,944
<b>Southwest</b>	<b>3,700</b>	<b>889</b>	<b>15,489</b>	<b>27,710</b>	<b>3,473</b>	<b>695</b>	<b>16,269</b>	<b>30,163</b>
Arizona	1,787	491	2,228	4,700	1,773	414	2,228	4,609
New Mexico / 1	621	208	937	2,174	484	135	767	1,746
Oklahoma	1,292	190	931	2,970	1,217	146	1,002	2,994
Texas	NA	NA	11,393	17,866	NA	NA	12,271	20,814
<b>Rocky Mountain</b>	<b>4,100</b>	<b>561</b>	<b>2,783</b>	<b>8,368</b>	<b>4,511</b>	<b>572</b>	<b>2,969</b>	<b>9,053</b>
Colorado	2,028	206	1,073	3,357	2,230	239	1,176	3,695
Idaho	558	80	617	1,477	619	77	705	1,634
Montana	330	88	NA	634	385	73	NA	740
Utah	1,185	188	909	2,595	1,277	183	889	2,670
Wyoming	NA	NA	185	305	NA	NA	199	315
<b>Far West</b>	<b>24,432</b>	<b>5,302</b>	<b>20,398</b>	<b>56,241</b>	<b>24,538</b>	<b>4,879</b>	<b>20,811</b>	<b>57,576</b>
Alaska	NA	92	NA	1,070	NA	76	NA	2,305
California	21,072	4,998	13,568	40,973	22,129	4,565	13,676	41,705
Hawaii	731	30	1,231	2,174	749	29	1,299	2,271
Nevada	NA	NA	1,628	2,095	NA	NA	1,578	2,017
Oregon	2,629	181	NA	3,006	1,660	210	NA	2,068
Washington	NA	NA	3,971	6,923	NA	NA	4,258	7,210

Source: Individual state data, analysis by Rockefeller Institute. See page 9 for notes.

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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.

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