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Recession or No Recession, State Tax Revenues Remain Negative

Another Double-Digit Decline in Third Quarter 2009; Weakness Extends to End of Year

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HIGHLIGHTS

- State tax collections for the third quarter of 2009 showed a drop of 10.9 percent from the same period a year earlier — the third consecutive quarter of double-digit revenue decline, but a modest improvement from the preceding two quarters.
- Negative revenue numbers remained widespread, with 48 states seeing total tax collections fall during the quarter on a year-over-year basis. Twenty-two states reported double-digit drops in collections, compared to 36 the previous quarter. Revenue declines were particularly sharp in the Southwest, Rocky Mountain, and Far West regions, and more moderate in most Eastern states.
- Preliminary figures for October and November for 38 early-reporting states show continued but less dramatic revenue declines: personal income tax collections falling 6.5 percent, and sales tax collections 5.5 percent.
- Economic conditions for many states have improved in recent months. Still, state tax collections are likely to remain weak enough that significant budget problems will linger at least through 2010.
- Local tax revenue continued to weaken, with modest growth of 0.7 percent for the third quarter.

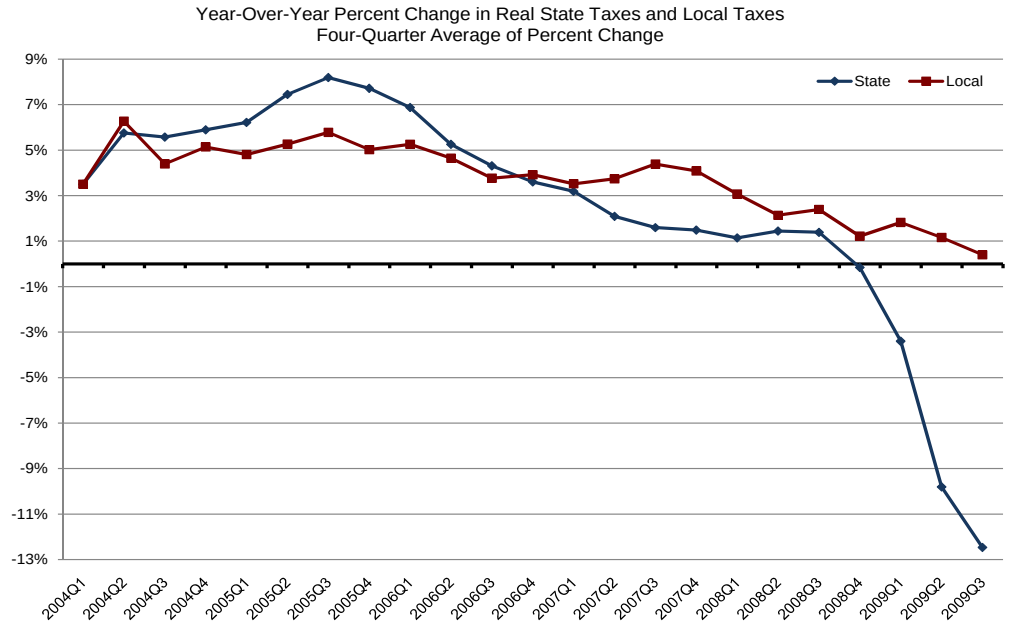
Overall State Taxes and Local Taxes

During the third quarter of 2009, total state tax collections as well as collections from two major sources — sales tax and personal income — all declined for the fourth consecutive quarter. Overall tax collections in the July-September quarter fell by 10.9 percent from the same quarter of the previous year.[1] We have compiled historical data from the Census Bureau Web site going back to 1962. Both nominal and inflation adjusted figures indicate that the first three quarters of 2009 marked the largest decline in state tax collections at least since 1963.

The trend in state and local tax collections has been clearly downward from 2005 growth that was unusually high, and 2006 growth rates that were more in line with historical averages. Figure 1 shows the four-quarter moving average of year-over-year growth in state tax collections and local tax collections, after adjusting for inflation. While the decline in state tax collections during the most recent quarter was not as sharp as the two preceding quarters, the continued downward trend in the four-quarter moving average illustrates the severity of the budget problems facing most states. The year-over-year change in state taxes, adjusted for inflation, has averaged negative 12.5 percent over the last four quarters, down from the 1.4 percent average growth of a year ago and 1.6 percent two years ago. Real, year-over-year growth in local taxes has slowed to an average of 0.4 percent over the last four quarters, from 2.4 percent for the preceding year. Inflation for the period, as measured by the gross domestic product deflator, was 0.6 percent.

The local tax slowdown is less severe than the state tax slowdown. In the third quarter of 2009, local tax collections showed modest growth of 0.7 percent. Most local governments rely heavily on property taxes, which tend to be relatively stable and rose by 3.3 percent during the quarter. Local sales tax represented about 15 percent of total local tax collections and showed a decline of 8.4 percent in the third quarter of 2009.

Figure 1. State Taxes Are Faring Worse Than Local Taxes



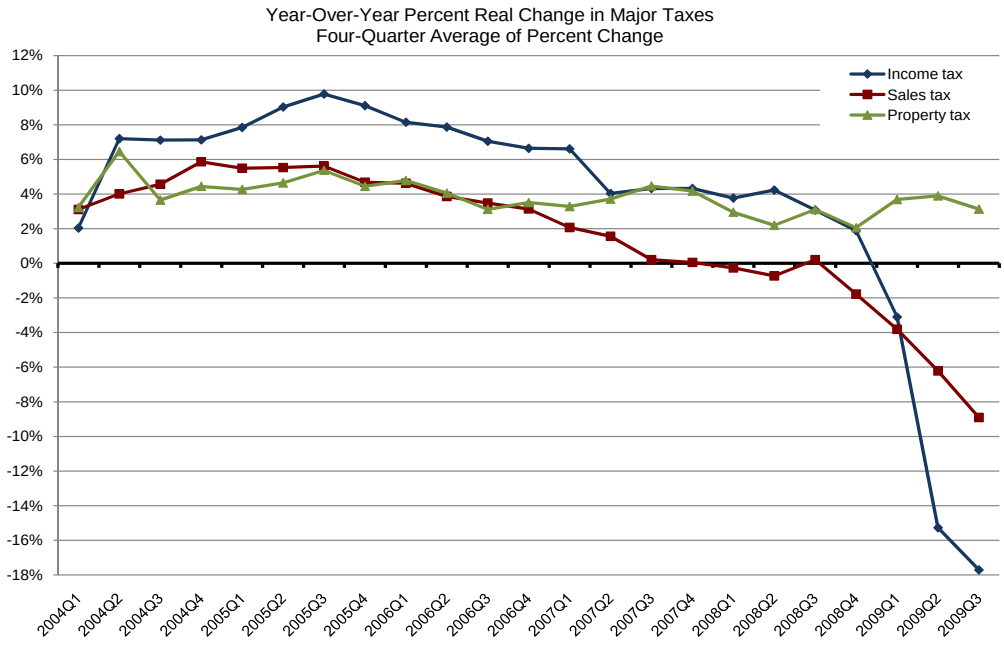
Sources: U.S. Census Bureau (tax revenue) and Bureau of Economic Analysis (GDP price index).
Notes: (1) 4-quarter average of percent change in real tax revenue; (2) No adjustments for legislative changes.

Figure 2 shows the four-quarter average of year-over-year growth in state and local income, sales, and property taxes, adjusted for inflation. Both the income tax and the sales tax have shown slower growth, and then outright decline, over most of the last four years. While the sales tax underperformed the income tax for most of that period, the income tax declined sharply and bypassed the sales tax decline in the second and third quarters of 2009, relative to the same periods a year earlier.

State Tax Revenue

Total state tax revenue in the third quarter of 2009 fell by 10.9 percent relative to a year ago, before adjustments. The income tax was down by 11.8 percent, the sales tax by 8.9 percent, and the

Figure 2. Both Income Tax and Sales Tax Declined Sharply



Sources: U.S. Census Bureau (tax revenue) and Bureau of Economic Analysis (GDP price index).
Notes: (1) 4-quarter average of percent change in real tax revenue; (2) No adjustments for legislative changes.

Table 1. Quarterly State Tax Revenue

Adjusted for Inflation
Year-Over-Year Percent Change

Quarter	Total Nominal	Inflation Rate	Adjusted Real Change
2009 Q3	(10.9)	0.6	(11.4)
2009 Q2	(16.4)	1.5	(17.6)
2009 Q1	(11.6)	1.9	(13.3)
2008 Q4	(3.9)	1.9	(5.8)
2008 Q3	2.7	2.5	0.2
2008 Q2	5.4	1.9	3.5
2008 Q1	2.6	2.1	0.4
2007 Q4	3.6	2.7	0.8
2007 Q3	3.1	2.6	0.4
2007 Q2	5.5	3.0	2.5
2007 Q1	5.2	3.2	1.9
2006 Q4	4.2	2.9	1.3
2006 Q3	5.9	3.3	2.6
2006 Q2	10.1	3.6	6.3
2006 Q1	7.1	3.3	3.7
2005 Q4	7.9	3.5	4.2
2005 Q3	10.2	3.4	6.6
2005 Q2	15.9	3.1	12.4
2005 Q1	10.6	3.3	7.0
2004 Q4	9.4	3.2	6.0
2004 Q3	6.5	3.0	3.4
2004 Q2	11.2	2.8	8.2
2004 Q1	8.1	2.3	5.7
2003 Q4	7.0	2.1	4.7
2003 Q3	6.3	2.2	4.0
2003 Q2	2.1	2.1	0.1
2003 Q1	1.6	2.2	(0.6)
2002 Q4	3.4	1.8	1.6
2002 Q3	1.6	1.5	0.0
2002 Q2	(9.4)	1.4	(10.7)
2002 Q1	(6.1)	1.7	(7.6)
2001 Q4	(1.1)	2.0	(3.0)
2001 Q3	0.5	2.2	(1.7)
2001 Q2	1.2	2.5	(1.3)
2001 Q1	2.7	2.3	0.4
2000 Q4	4.2	2.4	1.8
2000 Q3	6.8	2.3	4.4
2000 Q2	11.7	2.0	9.5
2000 Q1	12.0	2.0	9.9
1999 Q4	7.3	1.6	5.6
1999 Q3	6.2	1.5	4.7
1999 Q2	3.9	1.5	2.4
1999 Q1	3.8	1.3	2.4

Sources: U.S. Census Bureau (tax revenue) and Bureau of Economic Analysis (GDP price index).

Table 2. Quarterly State Tax Revenue By Major Tax

Year-Over-Year Percent Change

Quarter	PIT	CIT	General Sales	Total
2009 Q3	(11.8)	(22.6)	(8.9)	(10.9)
2009 Q2	(27.0)	0.7	(8.8)	(16.4)
2009 Q1	(17.5)	(20.1)	(8.3)	(11.6)
2008 Q4	(1.3)	(21.9)	(5.3)	(3.9)
2008 Q3	2.0	(13.1)	5.7	2.8
2008 Q2	8.2	(7.0)	0.9	5.4
2008 Q1	5.0	(1.3)	0.6	2.6
2007 Q4	3.8	(14.5)	4.0	3.6
2007 Q3	7.0	(4.3)	(0.7)	3.1
2007 Q2	9.2	1.7	3.5	5.5
2007 Q1	8.5	14.8	3.1	5.2
2006 Q4	4.4	12.6	4.7	4.2
2006 Q3	6.6	17.5	6.7	5.9
2006 Q2	18.8	1.2	5.2	10.1
2006 Q1	9.3	9.6	7.0	7.1
2005 Q4	6.7	33.4	6.4	7.9
2005 Q3	10.2	24.4	8.3	10.2
2005 Q2	19.7	64.1	9.1	15.9
2005 Q1	13.1	29.8	7.3	10.6
2004 Q4	8.8	23.9	10.7	9.4
2004 Q3	5.8	25.2	7.0	6.5
2004 Q2	15.8	3.9	9.5	11.2
2004 Q1	7.9	5.4	9.1	8.1
2003 Q4	7.6	12.5	3.6	7.0
2003 Q3	5.4	12.6	4.7	6.3
2003 Q2	(3.1)	5.1	4.6	2.1
2003 Q1	(3.3)	8.3	2.4	1.6
2002 Q4	0.4	34.7	1.8	3.4
2002 Q3	(3.4)	7.4	2.4	1.6
2002 Q2	(22.3)	(12.3)	0.1	(9.4)
2002 Q1	(14.7)	(15.7)	(1.4)	(6.1)
2001 Q4	(2.5)	(34.0)	1.8	(1.1)
2001 Q3	(0.0)	(27.2)	2.3	0.5
2001 Q2	3.7	(11.0)	(0.8)	1.2
2001 Q1	4.6	(8.4)	1.8	2.7
2000 Q4	6.5	(0.4)	4.4	4.2
2000 Q3	10.0	8.2	4.8	6.8
2000 Q2	21.2	4.2	7.0	11.7
2000 Q1	17.0	11.0	11.9	12.0
1999 Q4	7.3	4.7	7.2	7.3
1999 Q3	6.9	4.3	6.2	6.2
1999 Q2	5.2	5.4	5.0	3.9
1999 Q1	5.8	(5.4)	4.9	3.8

Source: U.S. Census Bureau (tax revenue).

corporate income tax declined by 22.6 percent. Tables 1 and 2 portray growth in tax revenue with and without adjustment for inflation, and growth by major tax, respectively.

Total tax revenue declined in 48 states in the third quarter, compared to 49 states during the second quarter of 2009. Double-digit declines were reported in 22 states in the third quarter of 2009, an improvement from 36 states in the second quarter of 2009. Alaska experienced the largest decline of 65 percent in the third quarter of 2009, which is not surprising as revenue collections were unusually high in the past few quarters due to high oil prices. All regions saw declines in total state tax

collections, with the Southwest seeing the largest decline at 19.4 percent.

Personal Income Tax

In the third quarter, personal income tax revenue made up at least a third of total tax revenue in 28 states, and was larger than the sales tax in 25 states. Personal income tax revenue declined 11.8 percent in the July-September 2009 quarter compared to the same quarter in 2008. Preliminary figures for the 37 early reporting states indicate that personal income tax collections declined 6.4 percent in October-November 2009 compared to the same period of 2008. Among the regions, the largest decline in state personal income tax revenue was in the Southwest, where collections dropped by 18.5 percent. Personal income tax collections declined by at least 8 percent in the rest of the regions, with the Mid-Atlantic region reporting the lowest decline at 8.3 percent.

All states that have broad-based personal income taxes reported declines in the third quarter of 2009. New Mexico reported the largest decline at 46.1 percent while Louisiana reported the lowest decline at 0.7 percent.

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. The Census Bureau does not collect data on withholding taxes and estimated payments. The data presented here were collected by the Rockefeller Institute.

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 3 shows that withholding for the July-September 2009 quarter was $46.3 billion, a decline of 4.4 percent, for 38 early reporting states that have broad-based income taxes. Thirty-seven of the 38 states had declines in withholding, with Ohio and Michigan reporting the largest drops at 9.9 and 8.2 percent, respectively. North Dakota was the only state reporting growth in withholding for the third quarter at 0.3 percent. The Great Lakes region reported the largest decline in withholding at 7.4 percent.

Estimated Payments

The highest-income taxpayers generally make 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. And when the market declines or profits fall, these payments often decline. Estimated payments represent a smaller proportion of overall income-tax revenues — some $8.2

billion in the third quarter of 2009 — but can have a disproportionate impact on the direction of overall collections.

The first payment for each tax year is due in April in most states and the second, third, and fourth are generally due in June, September, and January. The early payments often are made on the basis of the previous year's tax liability and may offer little insight into income in the year during which payments are made. In the 36 states for which we have complete data, the median payment was down by 31.2 percent for the first three payments and by 28.5 percent for the third payment (see Table 4). Declines were recorded in 35 of 36 states for the first three payments. The only state reporting growth for the first three payments was West Virginia.

General Sales Tax

State sales tax collections in the July-September 2009 quarter were down 8.9 percent from the same quarter in 2008. This decline is significantly worse than the sharpest sales tax revenue decline in the previous recession, a year-over-year drop of 1.4 percent in the first quarter of 2002. The decline in state and local sales taxes was also the greatest in the 45 years for which quarterly data are available. After adjusting for inflation using the gross domestic product price index, state and local sales tax declined by 9.5 percent in the July-September quarter of 2009.

Sales tax declines were reported in all regions. The Rocky Mountain had the largest decline at 15.9 percent, followed by the Southwest region at 12.6 percent. The New England region saw the lowest decline in sales tax revenue collections in the third quarter at 2.9 percent.

Forty-two of 45 states with broad-based sales taxes had declines, and 16 states had double-digit declines. Massachusetts had the largest increase at 2.5 percent, mostly attributable to a sales tax rate increase from 5.0 percent to 6.25 percent. Wyoming led the states with the largest decline at 23.1 percent, followed by Utah at 20.0 percent.

Corporate Income Tax

Corporate income tax revenue is highly variable because of volatility in corporate profits, and volatility in the timing of tax payments. Many states, such as Delaware, Hawaii, Montana, Rhode Island, and Vermont, collect relatively little revenue from corporate taxes, resulting in large fluctuations in percentage terms. As a result, corporate income tax is an unstable revenue source and many states report sizeable changes from quarter to quarter.

Nominal corporate tax revenue declined 22.6 percent in the July-September quarter compared to a year earlier. All regions reported sharp declines, with the Southwest region reporting the largest decline at 58.3 percent and Southeast region reporting the least decline at 7.0 percent. Among 46 states that have

Table 3. Personal Income Tax Withholding, By State

Last Four Quarters, Percent Change

	2008	2009		
	Oct-Dec	Jan-March	April-June	July-Sep
United States	**0.5**	**(8.0)**	**(4.0)**	**(4.4)**
New England	**0.4**	**(5.5)**	**(3.6)**	**(4.3)**
Connecticut	1.0	(7.7)	(4.5)	(5.0)
Maine	2.5	(3.3)	(2.0)	(0.5)
Massachusetts	(0.3)	(4.7)	(3.5)	(4.5)
Rhode Island	0.2	(5.3)	(4.5)	(3.6)
Vermont	3.9	(2.1)	(0.3)	(5.8)
Mid-Atlantic	**2.3**	**(11.4)**	**(1.7)**	**(1.7)**
Delaware	(1.1)	(3.5)	(2.5)	(3.5)
Maryland	1.1	(2.6)	(2.1)	(0.3)
New Jersey	3.9	(10.3)	ND	ND
New York	2.4	(16.5)	(1.1)	(1.3)
Pennsylvania	2.0	(1.7)	(2.8)	(4.7)
Great Lakes	**(1.0)**	**(5.4)**	**(6.3)**	**(7.4)**
Illinois	0.0	(6.1)	(4.3)	(5.4)
Indiana	1.9	(5.1)	ND	ND
Michigan	1.4	(6.6)	(8.3)	(8.2)
Ohio	(3.6)	(8.2)	(9.8)	(9.9)
Wisconsin	(4.3)	(0.8)	(3.1)	(5.6)
Plains	**3.7**	**(2.2)**	**(3.5)**	**(4.8)**
Iowa	2.4	1.3	1.2	(0.1)
Kansas	2.9	(0.5)	(1.9)	(3.6)
Minnesota	2.0	(5.0)	(6.4)	(7.6)
Missouri	9.0	(2.6)	(5.2)	(4.8)
Nebraska	(3.2)	(1.9)	1.5	(3.6)
North Dakota	11.3	20.4	10.0	0.3
Southeast	**2.2**	**(6.0)**	**(2.6)**	**(2.6)**
Alabama	(1.4)	(4.8)	(2.5)	(2.9)
Arkansas	0.2	1.8	(0.1)	(2.1)
Georgia	(0.5)	(7.9)	(4.2)	(2.3)
Kentucky	2.3	(2.6)	(2.6)	(4.7)
Louisiana	3.3	(14.7)	(15.3)	(3.7)
Mississippi	3.1	(2.2)	(2.3)	(5.6)
North Carolina	3.3	(9.7)	(3.7)	(1.5)
South Carolina	(2.7)	(4.7)	(5.7)	(2.7)
Virginia	6.2	(4.4)	2.6	(2.3)
West Virginia	7.7	2.3	0.3	(3.8)
Southwest	**(1.0)**	**(8.0)**	**(12.4)**	**(7.0)**
Arizona	(3.0)	(13.4)	(11.5)	(6.1)
New Mexico	(2.7)	4.0	(20.0)	ND
Oklahoma	2.5	(4.7)	(10.0)	(8.1)
Rocky Mountain	**(1.5)**	**(5.4)**	**(7.3)**	**(4.7)**
Colorado	2.2	(3.4)	(4.6)	(4.5)
Idaho	(2.0)	(8.6)	(10.2)	(6.0)
Montana	1.7	(1.4)	(32.9)	(3.5)
Utah	(9.0)	(8.9)	(1.5)	(4.7)
Far West	**(3.0)**	**(10.4)**	**(4.7)**	**(6.8)**
California	(3.5)	(11.1)	(5.5)	(7.1)
Hawaii	4.6	(5.0)	5.2	(3.4)
Oregon	(1.5)	(5.6)	(2.0)	(6.0)

Source: Individual state data, analysis by Rockefeller Institute.

Note: Nine states — Alaska, Florida, New Hampshire, Nevada, South Dakota, Tennessee, Texas, Washington, and Wyoming — have no broad-based personal income tax and are therefore not shown in this table.
ND - No Data.

Table 4. Estimated Payments/Declarations, By State

Year-Over-Year Percent Change

	April-Sep 2009 (first three payments of 2009)	July-Sep 2009 (third payment of 2009)
Average (Mean)	**(28.5)**	**(27.6)**
Median	**(31.2)**	**(28.5)**
Alabama	(33.2)	(26.3)
Arizona	(43.8)	(42.2)
Arkansas	(29.3)	(28.6)
California	(30.1)	(34.9)
Colorado	(45.2)	(49.2)
Connecticut	(36.0)	(29.0)
Delaware	(31.8)	(26.5)
Georgia	(31.5)	(31.4)
Hawaii	(42.1)	(26.9)
Illinois	(40.4)	(37.3)
Indiana	ND	ND
Iowa	(24.6)	(27.9)
Kansas	(28.8)	(27.8)
Kentucky	(27.8)	(23.4)
Louisiana	(18.4)	3.1
Maine	(31.9)	(33.1)
Maryland	(30.6)	(28.3)
Massachusetts	(33.8)	(29.9)
Michigan	(36.3)	(32.2)
Minnesota	(31.2)	(29.6)
Mississippi	(19.7)	(14.0)
Missouri	(29.7)	(26.0)
Montana	(27.4)	(29.5)
Nebraska	(26.0)	(22.2)
New Jersey	ND	ND
New Mexico	ND	ND
New York	(41.1)	(18.1)
North Carolina	(35.3)	(31.4)
North Dakota	(3.0)	(14.2)
Ohio	(35.0)	(32.6)
Oklahoma	(27.5)	(34.8)
Oregon	(33.8)	(32.8)
Pennsylvania	(30.2)	(26.9)
Rhode Island	(32.7)	(22.7)
South Carolina	(36.2)	(33.1)
Vermont	(30.4)	(29.8)
Virginia	(17.6)	(23.4)
West Virginia	56.3	(17.8)
Wisconsin	(31.2)	(24.0)

Source: Individual state data, analysis by Rockefeller Institute.
Note: ND - No Data

Table 5. Percent Change in Real State Taxes Other Than PIT, CIT, & General Sales Taxes

Year-Over-Year Real Percent Change; Four-Quarter Moving Averages

	Property tax	Motor fuel sales tax	Tobacco product sales tax	Alcoholic beverage sales tax	Motor vehicle & operators license taxes	Other taxes
Collections (millions), latest 12 months	$13,102	$36,751	$16,644	$5,359	$21,681	$97,553
2009Q3	0.5	(3.0)	0.3	(0.2)	(2.7)	(15.0)
2009Q2	(2.1)	(4.5)	1.2	(0.5)	(2.8)	(8.6)
2009Q1	(3.4)	(4.9)	2.4	0.2	(1.8)	2.7
2008Q4	(2.6)	(4.2)	2.9	0.3	(2.1)	6.4
2008Q3	1.8	(3.2)	3.3	(0.3)	(1.2)	9.1
2008Q2	3.4	(1.9)	5.7	0.4	(0.6)	7.4
2008Q1	3.9	(1.4)	6.0	0.4	(1.2)	3.1
2007Q4	3.4	(1.8)	6.0	0.4	(0.6)	2.2
2007Q3	1.4	(0.8)	3.8	1.5	(0.9)	(0.4)
2007Q2	(0.3)	(1.3)	0.4	1.3	(1.0)	(1.4)
2007Q1	1.7	(0.1)	1.5	0.5	0.4	(1.1)
2006Q4	0.1	0.7	2.6	1.0	0.9	(0.4)
2006Q3	(0.3)	(1.1)	5.3	1.1	0.8	1.9
2006Q2	(0.2)	1.4	8.9	1.1	0.7	4.2
2006Q1	0.8	1.5	6.9	2.4	0.1	5.2
2005Q4	1.9	2.1	5.4	1.6	0.3	7.1
2005Q3	3.4	3.6	4.2	(0.2)	1.9	6.3
2005Q2	3.5	0.9	2.1	(0.6)	2.6	4.9
2005Q1	1.7	1.4	2.9	(2.4)	3.5	5.7
2004Q4	(4.9)	1.6	3.5	(1.5)	5.5	6.0
2004Q3	(2.4)	1.5	3.5	(0.0)	6.0	7.5
2004Q2	3.5	2.1	4.8	0.4	6.6	8.9
2004Q1	1.0	0.3	10.5	4.3	5.5	7.5
2003Q4	8.6	(1.0)	17.0	3.9	3.8	5.5
2003Q3	5.5	(1.3)	26.1	2.2	2.8	3.7
2003Q2	(1.1)	(0.4)	35.7	3.1	2.6	2.6
2003Q1	(5.0)	0.7	27.1	0.6	3.6	2.2
2002Q4	(4.8)	1.0	17.2	(0.1)	2.9	2.1
2002Q3	(6.7)	0.7	5.6	2.7	2.5	2.6
2002Q2	(4.4)	1.1	(5.9)	(0.2)	0.6	3.4
2002Q1	5.1	1.7	(5.0)	(0.2)	(1.2)	2.1
2001Q4	2.7	2.5	(1.5)	0.5	(2.9)	2.5
2001Q3	(0.3)	3.5	2.6	(1.4)	(3.3)	1.5
2001Q2	(5.0)	2.5	7.6	1.7	(0.7)	0.9
2001Q1	(12.6)	1.2	8.4	1.4	2.4	3.6
2000Q4	(11.1)	1.2	5.9	1.8	5.9	4.2
2000Q3	(4.1)	1.3	1.7	3.2	6.9	6.5
2000Q2	(2.6)	1.2	(1.3)	2.2	5.9	7.9
2000Q1	2.5	2.3	(4.5)	3.2	3.0	4.7
1999Q4	1.2	2.4	(5.3)	2.7	1.7	3.6
1999Q3	(1.5)	1.6	(2.9)	1.7	1.2	2.9
1999Q2	0.8	2.1	(1.0)	1.4	0.9	1.3
1999Q1	3.9	2.5	1.3	1.5	1.0	2.8

Source: U.S. Census Bureau.

corporate income tax, 41 showed decreases in revenue for the quarter.

Other Taxes

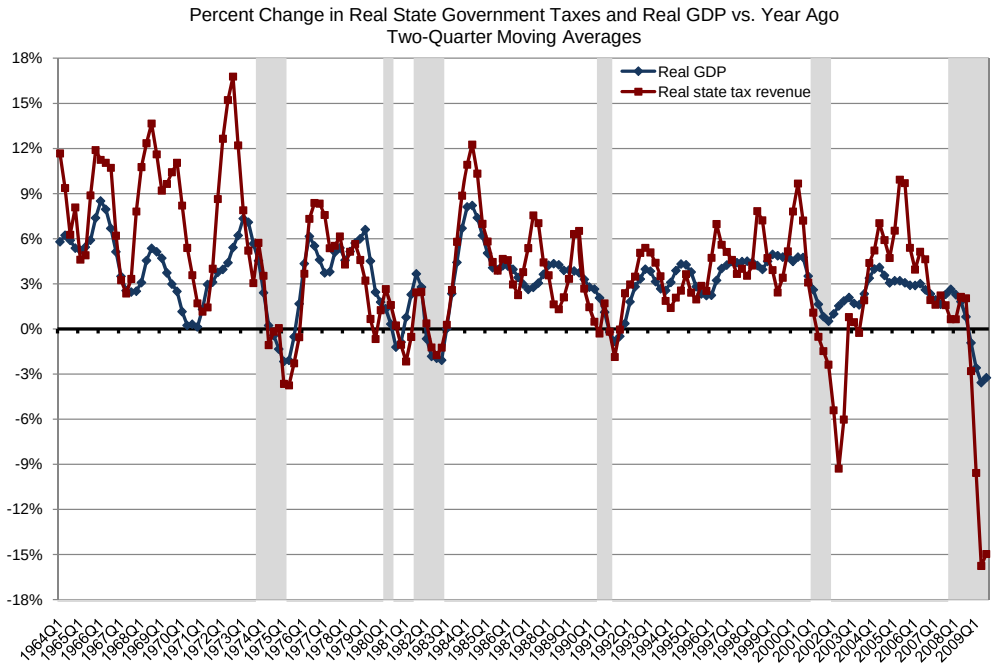
Census Bureau quarterly data on state tax collections provide detailed information for some of the smaller taxes not broken out separately in the advance data collected by the Rockefeller Institute. In Table 5, we show real growth rates, on a four-quarter moving average basis, for the nation as a whole.

Although revenue from motor fuel taxes showed a slight uptick in the third quarter, the four-quarter moving average declined for the eleventh consecutive quarter with a drop of 3.0 percent. Revenue from motor vehicle and operators' licenses also fell, for the tenth consecutive quarter using this measure, by 2.7 percent. State property taxes increased by a modest 0.5 percent. Collections in the "all other" category — largely selective sales taxes, and death and gift taxes — declined by 19.2 percent in the third quarter, compared to the same period a year earlier.

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 legislated tax changes. The next two sections discuss the economy and recent legislated changes.

Figure 3. State Tax Revenue Is Heavily Influenced By Economic Changes



Sources: U. S. Census Bureau (Quarterly tax collections); Bureau of Economic Analysis (real GDP).
Notes: (1) Percentage changes averaged over 2 quarters; (2) No legislative adjustments; (3) Recession periods are shaded.

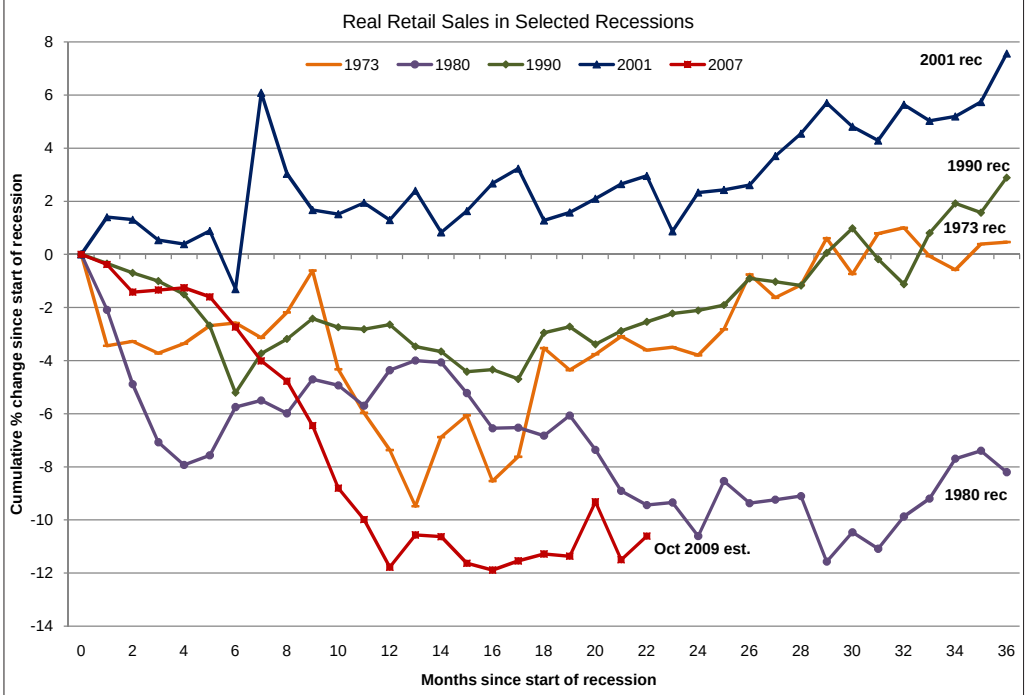
National and State Economies

Most state tax revenue sources are heavily influenced by the economy — the income tax rises when income rises, the sales tax increases when consumers increase their purchases of taxable items, and so on. When the economy booms, tax revenue tends to rise rapidly and when it declines, tax revenue tends to decline. Figure 3 shows year-over-year growth for two-quarter moving averages in inflation-adjusted state tax revenue and in real gross domestic product. Tax revenue is highly related to economic growth, but there also is significant volatility in tax revenue that is not explained solely by one broad measure of the economy. As shown in Figure 3, the third quarter declines both in real state tax revenue and real Gross Domestic Product were slightly less severe than those in the second quarter, but still far sharper than the declines in the 1980-82, 1991, and 2001 recessions.

The National Bureau of Economic Research (NBER) has declared that a recession began in December 2007. Many economists believe the U.S. economy is now in recovery, although NBER has not made such a declaration (NBER's determinations of changes in the business cycle typically emerge many months after the subject period). Real gross domestic product increased at an annual rate of 2.2 percent in July-September 2009, a significant improvement from the 6.4 percent decline in the January-March quarter and 0.7 percent decline in the April-June quarter. The last time we saw large declines in real GDP was during the double-dip recession of the early 1980s, when economic activity fell by 7.9 percent for the second quarter of 1980 and 6.4 percent for the first quarter of 1982.

Among individual sectors during the most recent quarter, investments in structures declined for the fifth quarter, by 18.4 percent. After 14 straight quarters of decline since 2006, residential investments increased by 18.8 percent in the third quarter of 2009. Durable goods consumption, an important element of state sales tax bases, showed a surprising turnaround from the decline in the

Figure 4. Real Retail Sales — A Sales Tax Driver — Were Hit Hard



Sources: Cleveland Federal Reserve Bank (pre-1990 retail sales), Census Bureau (1990+), and Bureau of Labor Statistics (CPI).

previous quarter, increasing by 20.4 percent in the third quarter of 2009.

It is helpful to examine economic measures that are closely related to state tax bases. Most states rely heavily on income taxes and sales taxes, and growth in income and consumption are extremely important to these revenue sources. Most newspaper accounts of economic data show growth from one quarter or month to the next, rather than year over year. That is because most economic time series have been adjusted to remove seasonality so that comparisons from one period to the next are meaningful. Government tax data, by contrast, rarely are adjusted to remove seasonal variations. As a result, analysts usually examine these time series on a year-over-year basis, comparing data for this year to the same season or period last year and implicitly removing some of the seasonal effects. To make our analysis of economic data comparable to our analysis of tax data, for most purposes in this report we examine economic data on a year-over-year basis.

Figure 4 shows the cumulative percent change in real retail sales since the start of the five most recent recessions. As shown in Figure 4, real retail sales fell more sharply in 2008 than during previous downturns. While retail-sales figures stopped their sharp decline and started bouncing along the bottom for the past several months, the levels are still far below the level at the start of the recession. The upward spike in August (the 20th month of the recession that began in December 2007) was partially related to the federal "Cash for Clunkers" incentive, and was followed by lower sales figures in September and October.

Unfortunately, state-by-state data on income and consumption are not available on a timely basis, and so we cannot easily see variation across the country in these trends. Traditionally, the Rockefeller Institute has relied on employment data from the Bureau of Labor Statistics to examine state-by-state economic conditions. These data are relatively timely and are of high quality. Table 6 shows year-over-year employment growth for the last four quarters. For the nation as a whole, employment declined by

Table 6. Nonfarm Employment, By State

Last Four Quarters, Year-Over-Year Percent Change

	2008	2009		
	Oct-Dec	Jan-Mar	Apr-June	July-Sep
United States	**(1.6)**	**(3.0)**	**(3.9)**	**(4.0)**
New England	**(1.4)**	**(2.8)**	**(3.5)**	**(3.5)**
Connecticut	(1.3)	(3.0)	(3.9)	(4.1)
Maine	(1.9)	(2.7)	(3.4)	(3.4)
Massachusetts	(1.2)	(2.6)	(3.4)	(3.2)
New Hampshire	(0.8)	(1.5)	(2.2)	(2.7)
Rhode Island	(3.0)	(4.0)	(4.4)	(4.1)
Vermont	(2.2)	(4.1)	(4.1)	(3.9)
Mid-Atlantic	**(0.9)**	**(2.0)**	**(2.8)**	**(2.7)**
Delaware	(2.7)	(4.2)	(4.8)	(4.9)
Maryland	(1.4)	(2.0)	(2.5)	(2.2)
New Jersey	(1.6)	(2.9)	(3.5)	(3.0)
New York	(0.4)	(1.6)	(2.3)	(2.2)
Pennsylvania	(0.7)	(1.8)	(3.1)	(3.2)
Great Lakes	**(2.3)**	**(4.3)**	**(5.2)**	**(5.2)**
Illinois	(1.7)	(3.5)	(4.6)	(4.9)
Indiana	(2.1)	(3.8)	(5.1)	(5.0)
Michigan	(3.9)	(6.4)	(7.3)	(7.3)
Ohio	(2.2)	(4.2)	(4.9)	(4.7)
Wisconsin	(1.3)	(3.3)	(4.3)	(4.0)
Plains	**(0.6)**	**(1.8)**	**(2.8)**	**(3.1)**
Iowa	(0.6)	(1.6)	(2.7)	(3.0)
Kansas	0.2	(1.0)	(3.1)	(3.8)
Minnesota	(1.5)	(3.0)	(3.6)	(4.1)
Missouri	(0.7)	(1.9)	(2.7)	(2.8)
Nebraska	(0.0)	(1.0)	(2.0)	(1.8)
North Dakota	2.0	0.5	0.9	0.5
South Dakota	0.7	(0.7)	(1.5)	(1.8)
Southeast	**(2.4)**	**(3.7)**	**(4.2)**	**(4.2)**
Alabama	(2.0)	(3.7)	(4.7)	(4.6)
Arkansas	(0.6)	(2.1)	(2.3)	(2.3)
Florida	(4.3)	(5.1)	(5.1)	(4.8)
Georgia	(2.7)	(4.2)	(5.1)	(5.5)
Kentucky	(1.9)	(3.3)	(4.3)	(4.6)
Louisiana	0.6	0.6	(0.6)	(1.1)
Mississippi	(2.1)	(3.2)	(3.1)	(2.7)
North Carolina	(2.2)	(4.4)	(4.8)	(5.1)
South Carolina	(2.9)	(4.4)	(4.6)	(4.0)
Tennessee	(2.3)	(3.9)	(4.6)	(4.2)
Virginia	(1.2)	(2.2)	(2.6)	(3.0)
West Virginia	(0.3)	(1.7)	(2.9)	(3.3)
Southwest	**0.1**	**(1.6)**	**(2.9)**	**(3.4)**
Arizona	(4.7)	(6.4)	(7.1)	(7.6)
New Mexico	(0.6)	(1.6)	(2.6)	(3.5)
Oklahoma	1.2	(0.3)	(2.0)	(2.7)
Texas	1.2	(0.6)	(2.0)	(2.6)
Rocky Mountain	**(0.9)**	**(2.4)**	**(3.7)**	**(4.3)**
Colorado	(0.9)	(2.6)	(4.1)	(4.6)
Idaho	(2.7)	(4.4)	(5.0)	(5.3)
Montana	(0.5)	(1.4)	(1.9)	(1.6)
Utah	(1.2)	(2.1)	(3.4)	(4.3)
Wyoming	3.0	0.8	(1.9)	(3.6)
Far West	**(2.4)**	**(3.6)**	**(4.7)**	**(4.9)**
Alaska	1.6	1.1	(0.3)	(0.6)
California	(2.6)	(3.8)	(4.8)	(5.0)
Hawaii	(2.3)	(3.0)	(3.0)	(3.4)
Nevada	(3.9)	(4.9)	(6.3)	(6.6)
Oregon	(2.4)	(4.3)	(5.4)	(5.8)
Washington	(0.9)	(2.6)	(3.5)	(3.8)

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

4.0 percent in the July-September quarter. On a year-over-year basis, employment once again declined in all states except for North Dakota.

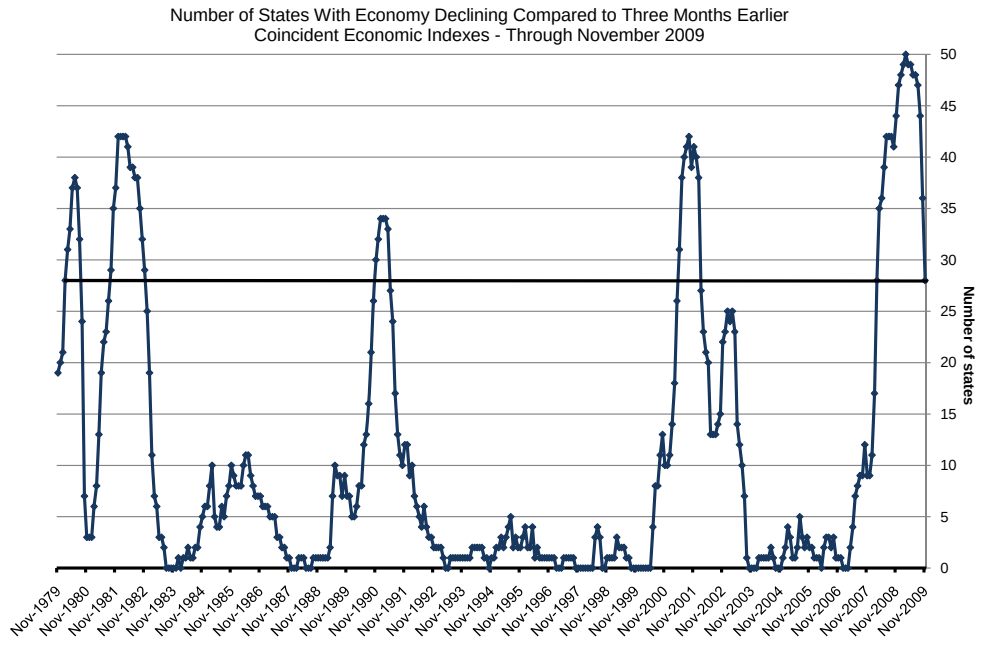
The regional patterns are quite varied: The Great Lakes and Far West regions have suffered a malaise for more than a year and saw large employment declines in the third quarter at 5.2 and 4.9 percent, respectively. Arizona, Michigan, and Nevada reported the largest declines in employment in the third quarter of 2009 compared to the same quarter of 2008 at 7.6, 7.3, and 6.6 percent, respectively.

The employment data are compared to the same period a year ago rather than to preceding months. If employment begins to decline relative to earlier months it can still be higher than its value a year ago. What we are likely to see in the employment data in such a case is a slowing rate of year-over-year growth when the economy begins to decline relative to recent months. The coincident indexes presented below can be compared more easily to recent months and thus can provide a more-intuitive picture of a declining economy. Both sets of data are useful.

Economists at the Philadelphia Federal Reserve Bank developed broader and highly timely measures known as "coincident economic indexes" intended to provide information about current economic activity in individual states. Unlike leading indexes, these measures are not designed to predict where the economy is headed; rather, they are intended to tell us where we are now.[2] They are modeled on a similar measure for the nation as a whole, but due to limited availability of state-level data they are focused on labor market conditions, incorporating information from nonfarm payroll employment, average hours worked in manufacturing, the unemployment rate, and real wage and salary disbursements. These indexes can be used to measure the scope of economic decline.

Figure 5 shows, by month over the last three decades, the number of states that had declining economic activity relative to three months earlier. As recently as in January of 2008, only 11 states suffered declines, but during the remainder of 2008 and 2009 economic weakening spread rapidly throughout the country. By March of 2009, all 50 states had declines in economic activity (as measured by the coincident index) compared with three months earlier. That was the first time that all 50 states had declines in economic activity (as measured by this index) since 1979. By September of 2009, 44 states had declines in economic activity, while by November of 2009 only 28 states showed declines in economic activity. These figures appear

Figure 5. Economy Is Declining in 28 States



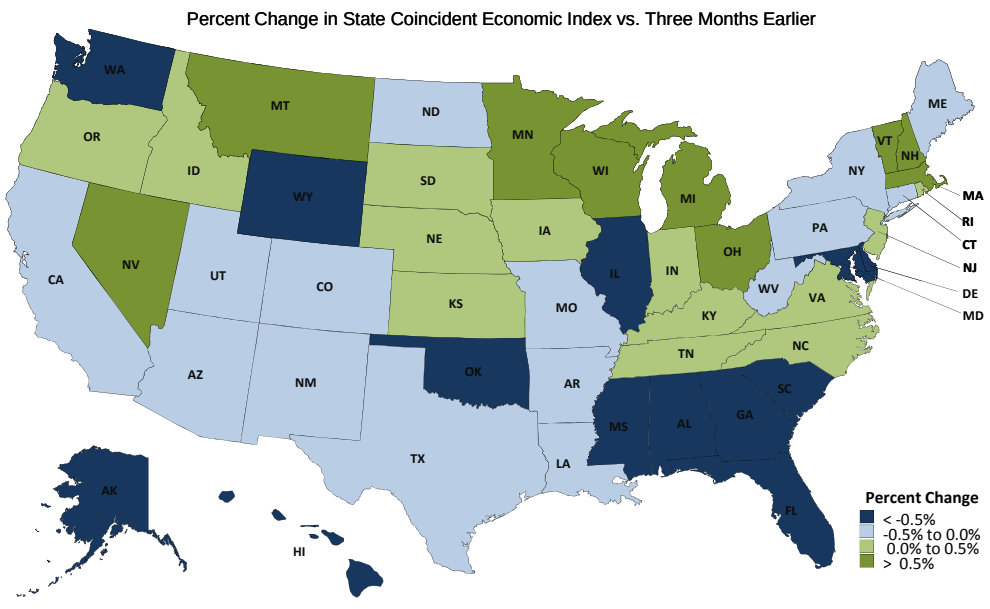
Source: Federal Reserve Bank of Philadelphia.

to indicate strengthening of economic conditions in many states. The data underlying these indexes are subject to revision, and so tentative conclusions drawn now could change at a later date.

Figure 6 shows state-by-state variation in economic activity relative to three months earlier, as of November 2009. Five states reported declines of more than one percent, with Wyoming reporting the largest decline at 2.0 percent. Many of the states with the declines have suffered heavily from large declines in the price of housing and in the financial markets. Wisconsin reported the largest increase at 1.7 percent.

Figures 5 and 6 show the breadth of economic decline or growth but provide little information on the scope of change. Figure 7 shows the median percentage change compared to three months earlier — in a sense, how the typical state has been faring. The median state change generally will not be the same as the national change because it gives every state equal importance — in this measure, California is no more important than Wyoming.

Figure 6. In November: 28 States Had Declining Economies



Source: Federal Reserve Bank of Philadelphia.

Here we can see that the reported declines for the current recession in the typical state was worse than those of the 1980-82, 1990-91, and 2001 recessions. However, the last few months have brought noticeable improvement in the typical state's economic strength, and the declines as of November 2009 are no longer as deep compared to the previous recessions.[3]

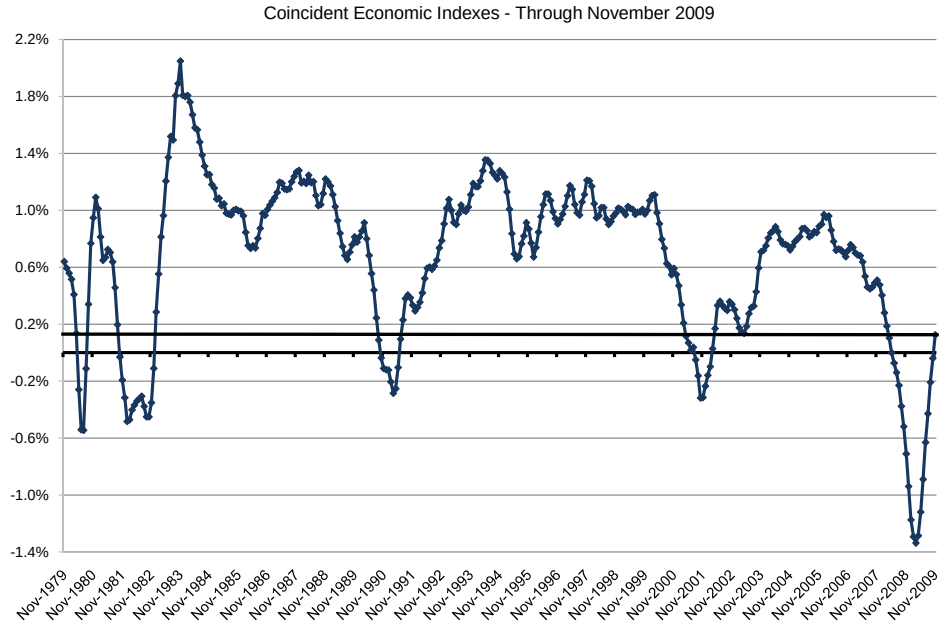
Table 7. State Economic Activity: Declining in 28 States

State Indexes of Economic Activity
States are Sorted by Percent Change vs. 3 Months Ago

State	Coincident index November 2009 (Jul 1992=100)	Percent change vs. 1 year ago (November 2008)	Percent change vs. 3 months ago (August 2009)
Wisconsin	148.7	(13.8)	1.7
Nevada	213.0	(13.1)	1.4
Michigan	115.2	(12.6)	1.4
Montana	174.7	(2.7)	1.4
Massachusetts	168.8	(4.0)	1.2
Minnesota	160.3	(3.6)	1.0
Ohio	133.2	(6.1)	0.7
Vermont	157.0	(2.8)	0.6
New Hampshire	193.2	(2.5)	0.6
Idaho	208.2	(6.2)	0.3
Kansas	139.7	(5.9)	0.3
Oregon	168.7	(12.1)	0.3
South Dakota	166.8	(1.5)	0.3
Virginia	160.4	(1.3)	0.3
Tennessee	155.2	(3.3)	0.2
North Carolina	161.6	(4.1)	0.2
United States	**154.6**	**(2.7)**	**0.1**
Kentucky	137.8	(7.2)	0.1
Nebraska	154.8	(2.7)	0.1
Indiana	137.4	(4.7)	0.1
New Jersey	155.3	(3.3)	0.1
Rhode Island	151.0	(4.4)	0.0
Iowa	150.2	(3.4)	0.0
California	157.8	(4.1)	(0.0)
Pennsylvania	137.1	(9.6)	(0.0)
New Mexico	169.5	(4.3)	(0.0)
Colorado	175.2	(3.8)	(0.1)
Utah	190.5	(3.6)	(0.2)
New York	154.1	(6.1)	(0.2)
Texas	177.1	(3.0)	(0.2)
Arkansas	149.2	(2.5)	(0.2)
Louisiana	127.7	(2.8)	(0.3)
Connecticut	154.1	(3.9)	(0.3)
Missouri	135.3	(5.0)	(0.3)
North Dakota	155.7	0.1	(0.3)
Arizona	198.9	(6.4)	(0.3)
Maine	139.7	(4.5)	(0.4)
West Virginia	141.2	(4.1)	(0.5)
South Carolina	151.4	(5.5)	(0.5)
Maryland	153.1	(4.8)	(0.5)
Alabama	133.9	(7.9)	(0.5)
Florida	162.9	(4.6)	(0.6)
Oklahoma	146.0	(5.7)	(0.6)
Georgia	166.6	(5.6)	(0.6)
Mississippi	141.3	(2.8)	(0.9)
Alaska	113.4	(2.3)	(0.9)
Hawaii	112.2	(6.0)	(1.3)
Washington	149.8	(11.1)	(1.3)
Delaware	141.0	(7.8)	(1.4)
Illinois	138.1	(8.0)	(1.5)
Wyoming	159.0	(8.1)	(2.0)

Source: Federal Reserve Bank of Philadelphia.

Figure 7. Percent Change in State Economies Compared to Three Months Earlier

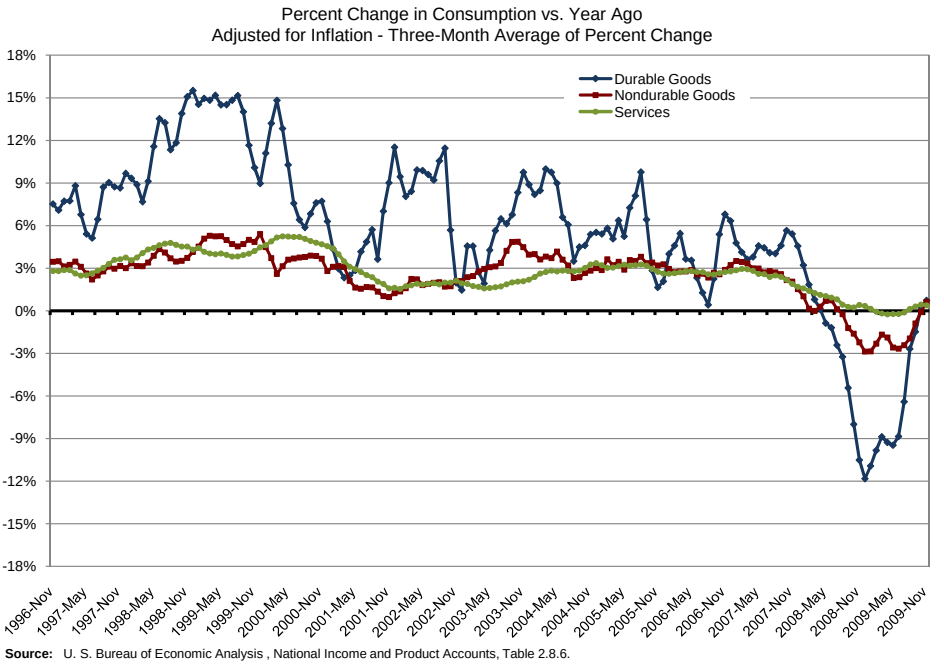


Source: Federal Reserve Bank of Philadelphia.
Note: Percent change is for the median state.

Figure 8 shows consumption of durable goods, nondurable goods, and services. The decline in consumption of durable and nondurable goods was much sharper than in the last recession. While consumption of durable and nondurable goods has been slowly recovering, the growth levels are still below the levels of the last recession. This indicates that consumers may have feared greater economic uncertainty during this recession and responded by eliminating, postponing, and scaling back purchases of items that are not needed immediately, such as new cars, washing machines, and so on.

Figure 9 shows year-over-year percent change in the seasonally adjusted, purchase-only house price index from 1992 through the third quarter of 2009. The trend in the index has been downward since mid-2005, with steeper and negative growth since the last quarter of 2007. While the house price index started to bounce back in 2009, the quarterly change is still negative. The states in the West are still seeing the largest declines in the housing price index.

Figure 8. Consumption of Goods and Services Still Weaker Than Last Recession

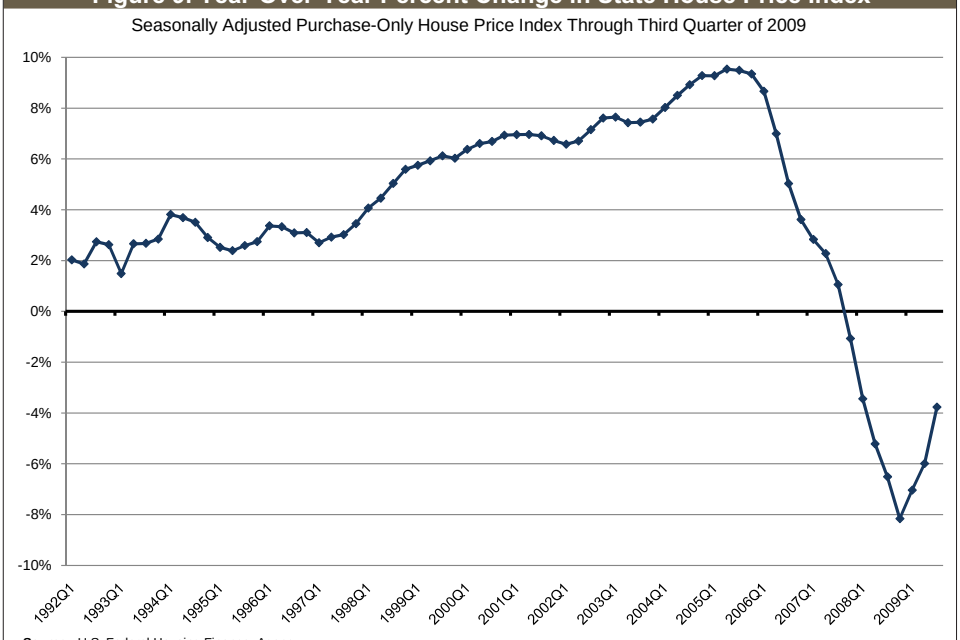


Source: U. S. Bureau of Economic Analysis , National Income and Product Accounts, Table 2.8.6.

Tax Law Changes Affecting This Quarter

Another important 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

Figure 9. Year-Over-Year Percent Change in State House Price Index



Source: U.S. Federal Housing Finance Agency.

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 July-September 2009 quarter, enacted tax changes increased state revenue by an estimated net of $4.1 billion compared to the same period in 2008.[4] Personal income tax increases accounted for approximately $2.7 billion and sales tax for approximately $1.2 billion of the change. In a single state, California, legislated changes increased personal income tax and sales tax collections each by an estimated $1.1 billion. Legislated changes in New York were also significant and increased personal income tax collection by an estimated $1.0 billion.

The net impact is that the decline in nominal tax revenue would have been even larger, if not for the legislated tax changes.

Looking Ahead

The first three quarters of 2009 were the worst on record for states in terms of the decline in overall state tax collections, as well as the change in personal income and sales tax collections. The Great Recession hit virtually every single source of tax revenue and pushed a number of states to revise revenue forecasts numerous times throughout fiscal 2009 and 2010, with significant impacts on services.

Preliminary data for the October-December quarter suggest that fiscal conditions remain weak. With data for October and November now available for 38 states, tax revenue for the two months combined declined by 5.4 percent versus the same period last year. The majority of early-reporting states showed declines in both personal income taxes (with a median drop of 6.5 percent) and sales taxes (a median decline of 5.5 percent).

While December data could change this troubling picture, there is little reason to expect reported revenues for that month to be strong. Continued weakness in revenues, along with continued if more moderate growth in expenditures, make further mid-year budget revisions and spending cuts highly likely. According to

Table 8. State Tax Revenue, July-September, 2008 and 2009 ($ in millions)

	2008				2009			
	PIT	CIT	Sales	Total	PIT	CIT	Sales	Total
United States	**62,102**	**10,117**	**60,533**	**181,284**	**54,746**	**7,829**	**55,161**	**161,555**
New England	**4,400**	**679**	**2,105**	**9,020**	**3,846**	**531**	**2,044**	**8,289**
Connecticut	890	86	532	1,974	783	51	483	1,741
Maine	319	39	217	734	281	40	196	732
Massachusetts	2,772	405	1,046	4,846	2,409	305	1,072	4,361
New Hampshire	22	111	NA	410	14	109	NA	416
Rhode Island	245	16	229	670	229	8	216	681
Vermont	151	23	82	386	130	17	76	359
Mid-Atlantic	**14,641**	**2,377**	**8,045**	**32,592**	**13,421**	**1,837**	**7,479**	**29,774**
Delaware	236	92	NA	724	211	30	NA	597
Maryland	1,758	225	684	3,973	1,567	138	624	3,659
New Jersey	2,175	516	2,117	6,087	1,982	410	2,018	5,501
New York	8,181	1,155	2,949	14,723	7,574	912	2,708	13,373
Pennsylvania	2,290	390	2,295	7,085	2,087	347	2,130	6,644
Great Lakes	**9,348**	**1,208**	**9,952**	**28,319**	**8,172**	**884**	**8,970**	**25,410**
Illinois	2,150	520	2,023	6,956	1,899	376	1,789	6,085
Indiana	1,101	228	1,695	3,878	882	131	1,501	3,239
Michigan	2,364	233	3,503	8,664	2,090	179	3,182	8,005
Ohio	2,274	74	1,986	6,137	1,960	30	1,818	5,599
Wisconsin	1,460	154	745	2,683	1,342	168	680	2,482
Plains	**4,927**	**573**	**3,784**	**11,945**	**4,436**	**409**	**3,514**	**10,902**
Iowa	697	51	576	1,413	657	17	577	1,285
Kansas	660	88	582	1,646	592	68	548	1,474
Minnesota	1,854	237	1,032	4,173	1,634	184	936	3,882
Missouri	1,215	89	811	2,639	1,086	75	762	2,450
Nebraska	426	57	398	1,036	396	39	332	912
North Dakota	76	37	167	677	71	16	151	548
South Dakota	NA	13	217	361	NA	10	209	352
Southeast	**11,360**	**1,867**	**14,408**	**37,899**	**10,185**	**1,735**	**13,127**	**35,048**
Alabama	755	103	586	2,236	554	99	510	1,888
Arkansas	595	90	743	1,842	554	71	671	1,763
Florida	NA	474	4,686	8,022	NA	422	4,300	7,533
Georgia	2,083	191	1,398	4,258	1,779	171	1,193	3,668
Kentucky	877	94	751	2,449	814	80	694	2,333
Louisiana	677	108	825	2,594	672	102	689	2,280
Mississippi	364	73	697	1,536	319	59	610	1,349
North Carolina	2,572	229	1,299	5,190	2,409	228	1,264	5,017
South Carolina	583	18	505	1,529	508	25	513	1,440
Tennessee	5	189	1,724	2,682	4	204	1,560	2,529
Virginia	2,470	187	904	4,276	2,218	172	846	4,051
West Virginia	379	111	291	1,284	353	103	278	1,195
Southwest	**1,779**	**378**	**8,114**	**17,774**	**1,450**	**158**	**7,095**	**14,333**
Arizona	852	175	1,473	3,084	733	107	1,265	2,847
New Mexico	221	102	483	1,185	119	2	436	711
Oklahoma	706	102	577	2,362	598	49	492	1,757
Texas	NA	NA	5,582	11,144	NA	NA	4,902	9,018
Rocky Mountain	**2,155**	**305**	**1,653**	**5,439**	**1,902**	**154**	**1,390**	**4,608**
Colorado	1,176	116	597	2,342	1,006	88	528	2,022
Idaho	277	39	355	830	263	24	307	756
Montana	217	46	NA	558	185	18	NA	431
Utah	486	103	488	1,387	448	25	391	1,137
Wyoming	NA	NA	213	322	NA	NA	164	262
Far West	**13,491**	**2,730**	**12,471**	**38,297**	**11,335**	**2,121**	**11,542**	**33,192**
Alaska	NA	358	NA	2,891	NA	93	NA	1,027
California	11,611	2,239	8,209	26,469	9,742	1,941	7,733	24,034
Hawaii	383	37	669	1,289	357	16	583	1,159
Nevada	NA	NA	740	963	NA	NA	634	877
Oregon	1,497	96	NA	2,014	1,236	71	NA	1,709
Washington	NA	NA	2,853	4,670	NA	NA	2,592	4,385

Table 9. Quarterly Tax Revenue By Major Tax

July-September, 2008 to 2009, Percent Change

	PIT	CIT	Sales	Total
United States	**(11.8)**	**(22.6)**	**(8.9)**	**(10.9)**
New England	**(12.6)**	**(21.9)**	**(2.9)**	**(8.1)**
Connecticut	(12.0)	(39.9)	(9.2)	(11.8)
Maine	(11.8)	2.4	(9.9)	(0.3)
Massachusetts	(13.1)	(24.6)	2.5	(10.0)
New Hampshire	(39.0)	(2.0)	NA	1.4
Rhode Island	(6.7)	(47.2)	(5.4)	1.7
Vermont	(13.7)	(25.0)	(6.5)	(6.9)
Mid-Atlantic	**(8.3)**	**(22.7)**	**(7.0)**	**(8.6)**
Delaware	(10.6)	(67.2)	NA	(17.5)
Maryland	(10.9)	(38.4)	(8.8)	(7.9)
New Jersey	(8.9)	(20.5)	(4.7)	(9.6)
New York	(7.4)	(21.0)	(8.2)	(9.2)
Pennsylvania	(8.9)	(11.1)	(7.2)	(6.2)
Great Lakes	**(12.6)**	**(26.8)**	**(9.9)**	**(10.3)**
Illinois	(11.7)	(27.6)	(11.6)	(12.5)
Indiana	(19.9)	(42.4)	(11.4)	(16.5)
Michigan	(11.6)	(23.3)	(9.2)	(7.6)
Ohio	(13.8)	(59.2)	(8.5)	(8.8)
Wisconsin	(8.1)	9.2	(8.7)	(7.5)
Plains	**(10.0)**	**(28.6)**	**(7.1)**	**(8.7)**
Iowa	(5.7)	(67.3)	0.0	(9.1)
Kansas	(10.2)	(22.7)	(5.8)	(10.4)
Minnesota	(11.8)	(22.4)	(9.3)	(7.0)
Missouri	(10.7)	(15.5)	(6.0)	(7.2)
Nebraska	(7.1)	(31.9)	(16.6)	(12.0)
North Dakota	(6.3)	(58.2)	(9.8)	(19.1)
South Dakota	NA	(21.5)	(3.8)	(2.5)
Southeast	**(10.3)**	**(7.0)**	**(8.9)**	**(7.5)**
Alabama	(26.7)	(3.9)	(13.0)	(15.6)
Arkansas	(6.9)	(21.5)	(9.7)	(4.3)
Florida	NA	(11.1)	(8.2)	(6.1)
Georgia	(14.6)	(10.5)	(14.7)	(13.9)
Kentucky	(7.1)	(15.6)	(7.7)	(4.7)
Louisiana	(0.7)	(5.6)	(16.5)	(12.1)
Mississippi	(12.2)	(19.1)	(12.5)	(12.1)
North Carolina	(6.3)	(0.5)	(2.7)	(3.3)
South Carolina	(13.0)	41.4	1.7	(5.8)
Tennessee	(29.5)	8.2	(9.5)	(5.7)
Virginia	(10.2)	(7.7)	(6.4)	(5.3)
West Virginia	(6.7)	(7.2)	(4.6)	(6.9)
Southwest	**(18.5)**	**(58.3)**	**(12.6)**	**(19.4)**
Arizona	(14.0)	(38.4)	(14.1)	(7.7)
New Mexico	(46.1)	(98.4)	(9.6)	(40.0)
Oklahoma	(15.3)	(52.1)	(14.8)	(25.6)
Texas	NA	NA	(12.2)	(19.1)
Rocky Mountain	**(11.7)**	**(49.5)**	**(15.9)**	**(15.3)**
Colorado	(14.5)	(24.6)	(11.5)	(13.6)
Idaho	(4.9)	(39.1)	(13.4)	(8.9)
Montana	(14.4)	(61.5)	NA	(22.8)
Utah	(7.9)	(76.0)	(20.0)	(18.0)
Wyoming	NA	NA	(23.1)	(18.8)
Far West	**(16.0)**	**(22.3)**	**(7.5)**	**(13.3)**
Alaska	NA	(74.1)	NA	(64.5)
California	(16.1)	(13.3)	(5.8)	(9.2)
Hawaii	(6.8)	(56.2)	(12.8)	(10.1)
Nevada	NA	NA	(14.4)	(8.9)
Oregon	(17.4)	(26.1)	NA	(15.1)
Washington	NA	NA	(9.2)	(6.1)

the National Conference of State Legislatures (NCSL), new budget gaps have opened in at least 31 states since FY 2010 began.[5] Most states have taken a variety of measures to balance their budgets, including across-the-board budget cuts, tax increases, tapping rainy day funds, furloughs, and agency consolidations. The continued weakening of state tax revenues in fiscal 2010 will force states to take further drastic measures.

About 40 forecasters surveyed by the Federal Reserve Bank of Philadelphia predicted modest economic growth but delayed and gradual labor market recovery for the next two years.[6] While the recession may be over for the national economy, it is far from over for the finances of state governments, and many states are still uncertain as to when to expect a return to positive revenue growth. Such improved news may begin in the early part of calendar year 2010. However, even if tax collections in the coming year move up from 2009 levels, the depth of the decline over the past two years will almost certainly leave state revenues significantly lower than those of any of the past several years. As calendar year 2010 begins, states may have reached the end of the beginning of a multi-year fiscal crisis. The best to be hoped for in 2010 may be the beginning of the end.

Endnotes

1 This report relies primarily on state tax data collected by the Census Bureau. We have used some estimates for four states — Iowa, Massachusetts, Nevada, and Wisconsin — based upon data and information provided to us directly by these states. In addition, we also used estimates for Arizona and Maine for personal income tax collections. These revisions together account for the small difference between the Census Bureau figures and Rockefeller Institute estimates.

2 For a technical discussion of these indexes and their national counterpart, see Theodore M. Crone and Alan Clayton-Matthews. "Consistent Economic Indexes for the 50 States," *Review of Economics and Statistics*, 87 (2005), pp. 593-603; Theodore M. Crone, "What a New Set of Indexes Tells Us About State and National Business Cycles," *Business Review*, Federal Reserve Bank of Philadelphia (First Quarter 2006); and James H. Stock and Mark W. Watson. "New Indexes of Coincident and Leading Economic Indicators," *NBER Macroeconomics Annual* (1989), pp. 351-94. The data and several papers are available at www.philadelphiafed.org/econ/indexes/coincident.

3 See Donald J. Boyd, "What Will Happen to State Government Finances in a Recession?" The Nelson A. Rockefeller Institute of Government, January 30, 2008.

4 Rockefeller Institute analysis of data from the National Association of State Budget Officers and from reports in several individual states.

5 See "FY 2010 Post-Enactment Budget Gaps & Budget Cuts." National Conference of State Legislatures at http://www.ncsl.org/?tabid=18690 .

6 For detailed information see Philadelphia Federal Reserve Bank's Livingston Survey available at http://www.philadelphiafed.org/research-and-data/real-time-center/livingston-survey/ .

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 University at Albany, 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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