



**THE NELSON A.
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HIGHLIGHTS

- State tax revenues grew by 7.8 percent in the fourth quarter of 2010, according to Rockefeller Institute research and Census Bureau data. This is the fourth consecutive quarter that states reported growth in collections on a year-over-year basis. Forty-two states reported total tax revenue growth during the fourth quarter, with nine states showing double-digit growth.
- Despite four consecutive quarters of growth, state tax revenues were still slightly lower in the fourth quarter of 2010 than in the same quarter three years earlier. Only 18 states reported higher collections in the fourth quarter of 2010 than in the same quarter of 2007.
- Both personal income tax and sales tax revenue increased for the fourth quarter in a row, at 10.6 and 5.6 percent, respectively.
- Preliminary figures for January and February 2011 indicate continued strength in state tax revenues. Overall collections in 45 early-reporting states showed growth of 9.5 percent compared to the same months of 2010, and 7.5 percent compared to the same months of 2009.
- Local tax revenues declined by 2.3 percent in the fourth quarter of 2010, mostly driven by declines in property tax collections.

STATE REVENUE REPORT

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Tax Revenues Finished 2010 Strong; Growth Continues in Early 2011

*But Local Governments Now Feel
Lagging Fiscal Effects of the Recession*

Lucy Dadayan and Donald J. Boyd

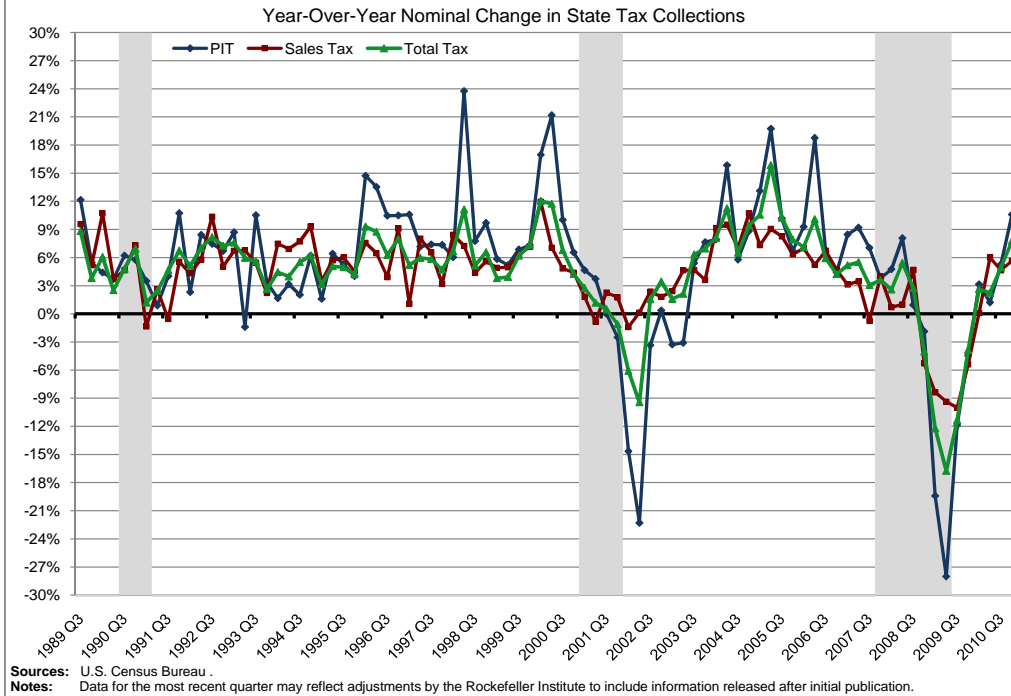
Overall State Taxes and Local Taxes

Total state tax collections as well as collections from two major sources — taxes on sales and personal income — showed growth for the fourth consecutive quarter, following five straight quarters of decline. Overall state tax revenues in the October-December quarter of 2010, after reflecting certain adjustments made by the Rockefeller Institute, increased by 7.8 percent from the same quarter of the previous year.¹

Figure 1 shows the nominal percent change over time in state tax collections for personal income tax, sales tax, and total taxes. As shown there, declines in personal income tax and sales tax collections as well as in overall state tax collections were steeper in and after the 2007 recession than around the previous recessions. Revenues rebounded throughout 2010. Despite gains in the last four quarters, however, collections are still comparatively weak by recent historical standards, 0.6 percent lower in the fourth quarter of 2010 than in the same quarter of 2007. The decline is even deeper if we adjust the numbers for inflation — 4.3 percent lower than three years ago in real terms.

Figure 2 shows the four-quarter moving average of year-over-year growth in state tax collections and local tax collections, after adjusting for inflation. In addition, we have adjusted the Census Bureau's local tax revenues to reflect the differences between the Bureau's prior survey methodology and a revised survey methodology now used for collecting property tax revenues.² As shown in Figure 2, the year-over-year change in state taxes, adjusted for inflation, has averaged 3.3 percent over the last four quarters. This represents substantial improvement from the 12.4 percent average decline of a year ago, and 0.2 percent decline of two years ago. While state tax collections are steadily improving, the fiscal picture for local governments is quite different. The real, year-over-year decline in local taxes was an average of 0.8 percent over the last four quarters, compared to 1.3 percent growth for the preceding year. Inflation for the period, as measured by the gross domestic product deflator, was 1.3 percent.

Figure 1. State Tax Collections Continue to Rebound



For most of the period during and after the last recession, local tax collections remained relatively strong. However, the trends are now shifting due in part to the lagged impact of falling housing prices on property tax collections. In the fourth quarter of 2010, local tax collections showed a decline of 0.8 percent (using the four-quarter moving average), significantly below the rate of inflation and very weak compared to historical averages.

Most local governments rely heavily on property taxes, which tend to be relatively stable and respond to property value declines more slowly than income, sales, and corporate taxes respond to declines in the overall economy. In the last two decades, property taxes made up at least two-thirds of total local tax collections. Collections from local property taxes made up 85

percent of such collections during the fourth quarter of 2010. Property tax revenues fell by 3 percent in nominal terms, likely driven primarily by falling housing prices.

Local sales tax collections increased by 3.7 percent in the fourth quarter of 2010 in nominal terms. This is the third consecutive quarter that local sales tax revenues showed growth, after six consecutive quarters of decline. Collections from local individual income

Figure 2. State Taxes Are Improving While Local Taxes Are Declining

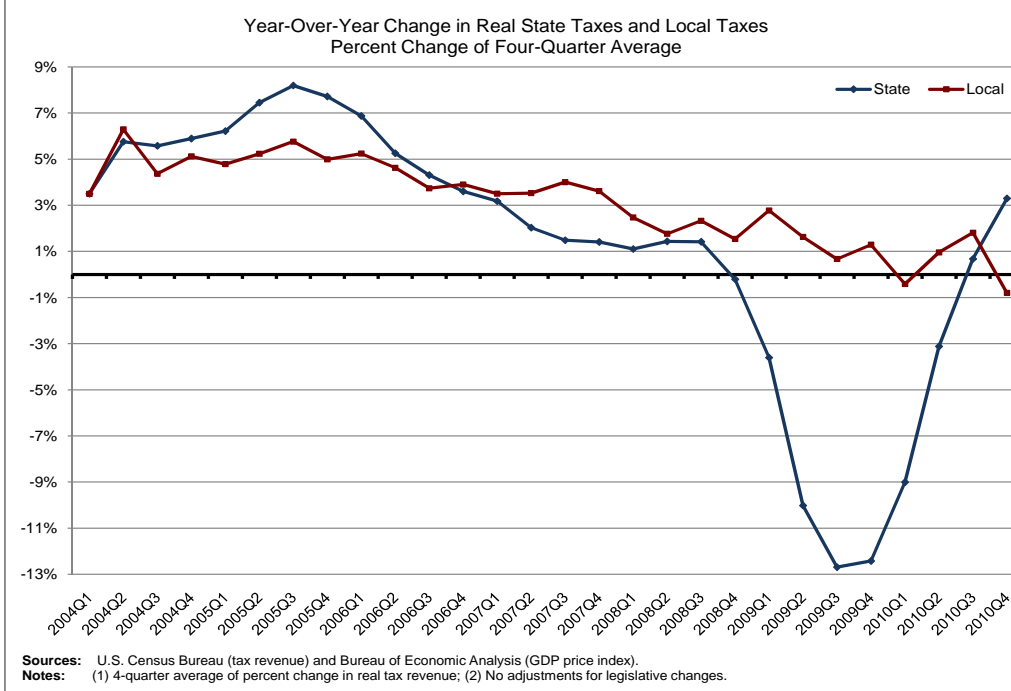
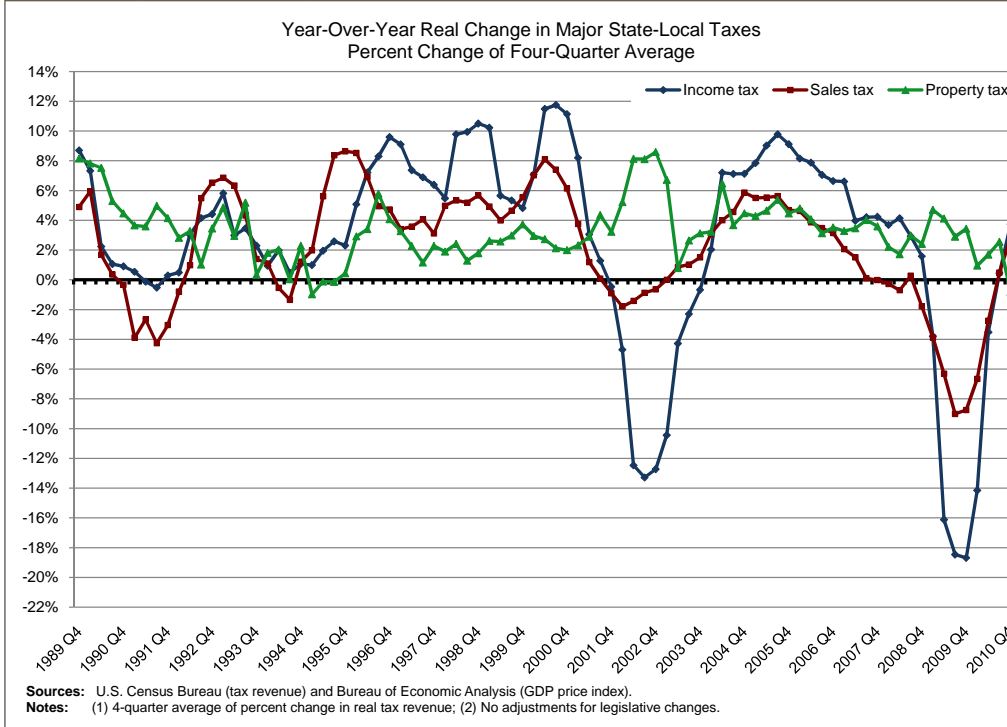


Figure 3. Property Tax Declined for the First Time Since the Mid-1990s



taxes showed a decline of 0.3 percent, after three consecutive quarters of growth.

Figure 3 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 showed slower growth, and then outright decline, over most of the last five years. Revenue from the sales tax was particularly weak for most of that period, but has outpaced income-tax collections from the

second quarter of 2009 to the third quarter of 2010. By this measure, both income tax and sales tax continued to show some improvement and showed some growth for the second consecutive quarter. On the other hand, the four-quarter average of year-over-year comparisons showed declines in the state-local property real taxes for the first time since the mid-1990s.

State Tax Revenue

Total state tax revenue in the fourth quarter of 2010 increased by 7.8 percent relative to a year ago, before adjustments for inflation and legislated changes. The income tax and sales tax both showed growth at 10.6 and 5.6 percent, respectively, and the corporate income tax increased by 17.2 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 increased in 42 states in the fourth quarter of 2010. Double-digit increases were reported in nine states. Two states — Alaska and Louisiana — reported double-digit declines at 14.3 and 12.0 percent, respectively. All regions reported growth in total collections. The Far West region showed the largest growth at 13.4 percent, followed by the Mid-Atlantic states at 11.5 percent. The large increases in tax revenue collections in the Far West region are mostly due to strong revenue growth in California, while the large increases in the Mid-Atlantic region are due to strong revenue growth in New York. Without California and New York, the Far West and Mid-Atlantic regions report total tax revenue growth of 4.6 and 5.7 percent, respectively. The Southeast states reported the

Table 1. Quarterly State Tax Revenue

Quarter	Adjusted for Inflation Year-Over-Year Percent Change		
	Total	Inflation	Adjusted
	Nominal	Rate	Real Change
2010 Q4	7.8	1.3	6.4
2010 Q3	4.9	1.2	3.7
2010 Q2	2.2	0.8	1.4
2010 Q1	2.6	0.5	2.2
2009 Q4	(3.9)	0.5	(4.3)
2009 Q3	(11.3)	0.2	(11.6)
2009 Q2	(16.8)	1.2	(17.7)
2009 Q1	(12.2)	1.9	(13.8)
2008 Q4	(4.0)	2.1	(6.0)
2008 Q3	2.8	2.6	0.1
2008 Q2	5.4	2.0	3.4
2008 Q1	2.6	2.0	0.6
2007 Q4	3.6	2.6	1.0
2007 Q3	3.1	2.8	0.2
2007 Q2	5.5	3.1	2.3
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

Quarter	Year-Over-Year Percent Change			
	PIT	CIT	General Sales	Total
2010 Q4	10.6	17.2	5.6	7.8
2010 Q3	5.3	1.2	4.6	4.9
2010 Q2	1.2	(16.0)	6.0	2.2
2010 Q1	3.1	(1.2)	0.1	2.6
2009 Q4	(4.5)	(0.6)	(5.4)	(3.9)
2009 Q3	(11.9)	(22.1)	(10.0)	(11.3)
2009 Q2	(28.0)	1.5	(9.4)	(16.8)
2009 Q1	(19.4)	(20.2)	(8.4)	(12.2)
2008 Q4	(1.9)	(23.0)	(5.3)	(4.0)
2008 Q3	0.9	(13.2)	4.7	2.8
2008 Q2	8.1	(7.0)	1.0	5.4
2008 Q1	4.8	(1.4)	0.7	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).

weakest growth of 2.7 percent. Revenue gains were particularly strong in North Dakota and Wyoming, where increases were at 41.7 and 34.4 percent, respectively.

Preliminary figures collected by the Rockefeller Institute for the January-February months of 2011 indicate that most states continue seeing strong growth in overall tax collections.³ Overall collections in 45 early reporting states showed growth of 9.5

percent in the January-February months of 2011 compared to the same months of 2010 and growth of 7.5 percent compared to the same months of 2009. With these figures, however, collections were still 6.7 percent below the January-February months of 2008. While state tax collections are gradually stabilizing, they have yet to fully make up for the deep losses brought by the Great Recession.

Personal Income Tax

In the fourth quarter of 2010, personal income tax revenue made up at least a third of total tax revenue in 26 states, and was larger than the sales tax in 27 states. Personal income tax revenue increased 10.6 percent in the October-December 2010 quarter compared to the same period in 2009. All regions reported increases in personal income tax collections. The largest growth was in the Far West and New England regions, where collections increased by 27.7 and 12.6 percent, respectively. The Southeast region reported the weakest growth in personal income tax collections at 4.2 percent.

In total, 39 states reported growth in personal income tax collections for the quarter, up from 36 states during the third quarter of 2010. Only four states showed declines in the fourth quarter of 2010, with New Hampshire and Louisiana reporting the largest declines at 31.9 and 4.8 percent, respectively. The income tax in New Hampshire represented an almost negligible two percent of total tax collections. Therefore, the large declines in personal income tax collections in New Hampshire have an insignificant impact on overall state tax collections. That is not the case in Louisiana, where personal income tax collections represent about 30 percent of overall state taxes. The large decline in personal income tax collections in Louisiana was mostly due to larger individual refunds processed in the fourth quarter of 2010. The largest increases in terms of dollar value were reported in California and New York, where personal income tax collections grew by \$2.9 billion and \$582 million, respectively. In fact, if we exclude California from the nation, the personal income tax collections show only a 6.5 percent increase for the nation.

Preliminary figures for 37 of 41 early reporting states with broad-based personal income taxes indicate that personal income tax collections increased by 14.2 percent for the nation in the January-February months of 2011 compared to the same months of 2010.

We can get a clearer picture of collections from the personal income tax by breaking this source down into major components for which we have data: withholding, quarterly estimated payments, final payments, and refunds. The Census Bureau, the source of much of the data in this report, does not collect data on individual components of personal income tax collections. 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 October-December 2010 quarter continued to improve for the fourth quarter in a row and increased by 6.9 percent for the 40 states for which we have withholding data. Withholding for the same states was up by 4.8 percent compared to the October-December quarter of 2008.

Three of 40 early reporting states had declines in withholding, with New Jersey reporting the largest decline at 1.4 percent. Among the states reporting growth in withholding for the fourth quarter, California had the strongest growth at 18.8 percent. The Far West and Southwest regions reported the largest growth in withholding at 16.8 and 6.8 percent, respectively, while the Mid-Atlantic had the weakest growth at 3.2 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 \$6.1 billion in the fourth quarter of 2010 – 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. In the 37 states for which we have complete data for all four payments, the median payment was up by 8 percent and was unchanged for the fourth payment compared to the previous year (see Table 4). Declines were recorded in 18 of 37 states for all four payments, and in 7 states for the fourth payment. Louisiana and Mississippi reported the largest declines for all four payments at 14.7 and 11.6 percent, respectively. Among the states reporting growth in estimated payments for all four payments, California reported the largest growth at 22.3 percent followed by Connecticut at 19 percent.

Final Payments

Final payments with personal income tax returns in the 38 early reporting states were down by 5.8 percent in the fourth quarter of 2010 compared to the same quarter of 2009 and by 19.5 percent compared to the same quarter of 2008. Payments with returns in the October-December quarter of 2010 exceeded 2009

Table 3. Personal Income Tax Withholding, By State

	Last Four Quarters, Percent Change			
	2010			
	Jan-Mar	Apr-June	July-Sep	Oct-Dec
United States	4.8	6.2	4.7	6.9
New England	2.0	4.8	5.6	4.8
Connecticut	4.1	6.0	7.1	1.0
Maine	(2.3)	5.7	6.2	(0.9)
Massachusetts	1.8	4.2	5.0	7.4
Rhode Island	1.6	4.1	6.3	6.9
Vermont	(3.5)	4.2	0.9	2.4
Mid-Atlantic	11.3	9.7	0.5	3.2
Delaware	0.7	7.6	5.7	12.0
Maryland	1.8	3.7	4.7	3.4
New Jersey	4.4	9.4	(10.1)	(1.4)
New York	19.6	11.9	1.5	3.4
Pennsylvania	(0.7)	12.0	4.3	6.4
Great Lakes	(6.0)	2.4	3.9	3.8
Illinois	(3.9)	1.6	3.3	2.7
Indiana	ND	ND	ND	ND
Michigan	(2.5)	0.8	4.5	5.7
Ohio	(4.5)	3.5	5.0	5.9
Wisconsin	(13.3)	3.7	2.3	1.0
Plains	(1.0)	4.0	4.7	5.8
Iowa	1.4	3.7	4.5	5.7
Kansas	(0.2)	2.1	3.9	5.3
Minnesota	(1.7)	8.0	7.7	7.1
Missouri	(2.0)	2.3	1.6	4.9
Nebraska	1.8	0.5	4.3	4.2
North Dakota	(14.9)	(13.8)	(1.4)	7.2
Southeast	0.2	1.1	2.3	5.3
Alabama	0.8	1.8	2.4	3.1
Arkansas	(3.2)	4.7	5.1	6.5
Georgia	0.7	0.6	0.4	7.0
Kentucky	(0.1)	0.8	4.2	4.7
Louisiana	(51.2)	(23.0)	1.5	(0.0)
Mississippi	(1.9)	1.3	2.4	3.6
North Carolina	5.2	3.8	(0.4)	5.7
South Carolina	2.6	3.1	4.0	3.5
Virginia	5.0	1.5	4.5	5.9
West Virginia	(4.2)	2.1	6.0	6.9
Southwest	2.8	2.5	1.4	6.8
Arizona	0.9	2.6	3.1	7.6
New Mexico	15.6	11.4	4.8	12.0
Oklahoma	0.1	(1.1)	(2.3)	3.5
Rocky Mountain	1.4	1.0	3.3	6.7
Colorado	(1.0)	2.9	3.0	8.0
Idaho	(1.5)	5.5	3.7	6.0
Montana	1.4	2.9	5.5	6.1
Utah	7.9	(5.1)	2.9	4.5
Far West	12.7	13.4	14.3	16.8
California	14.7	15.2	16.2	18.8
Hawaii	4.0	(1.8)	3.3	7.3
Oregon	(0.6)	5.8	4.9	3.9

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-Jan	December-January
	(all four payments of 2010)	(fourth payment of 2010)
Average (Mean)	0.6	11.1
Median	0.0	8.0
Alabama	(8.9)	2.5
Arizona	(2.3)	1.5
Arkansas	(11.6)	(7.4)
California	22.3	53.7
Colorado	(7.3)	27.7
Connecticut	19.0	25.7
Delaware	5.2	1.1
Georgia	(8.1)	17.1
Hawaii	8.4	(10.8)
Illinois	(3.5)	10.7
Iowa	6.1	12.6
Kansas	(3.8)	6.6
Kentucky	(1.5)	16.1
Louisiana	(20.9)	(11.2)
Maine	3.2	12.6
Maryland	0.0	(0.5)
Massachusetts	11.8	30.3
Michigan	2.6	8.3
Minnesota	(0.2)	17.7
Mississippi	(14.7)	1.8
Missouri	(3.0)	1.1
Montana	(5.3)	1.3
Nebraska	0.9	7.1
New Jersey	3.6	(4.7)
New York	8.0	2.7
North Carolina	0.6	8.0
North Dakota	(3.2)	40.9
Ohio	11.6	25.5
Oklahoma	(9.6)	24.0
Oregon	2.3	13.1
Pennsylvania	12.2	42.3
Rhode Island	8.3	20.3
South Carolina	(0.9)	7.6
Vermont	(0.1)	(0.6)
Virginia	3.2	13.2
West Virginia	(8.1)	(10.4)
Wisconsin	5.7	4.5

Source: Individual state data, analysis by Rockefeller Institute.

levels in only 13 of 38 reporting states. Virginia and Pennsylvania had the largest declines in final payments in terms of dollar amount, with over \$35 million declines each in the fourth quarter of 2010.

Refunds

Personal income tax refunds paid by 38 states declined by 17.9 percent in the fourth quarter of 2010 compared to the same quarter of 2009, and by 5.5 percent compared to the same quarter of

2008. In total, these 38 early reporting states paid out about \$1.1 billion less in refunds in the October-December quarter of 2010 than in 2009.

General Sales Tax

State sales tax collections in the October-December 2010 quarter showed growth of 5.6 percent from the same quarter in 2009, but were still down by 0.1 percent from the same period two years earlier. This is the fourth quarter in a row that sales tax collections rose. Increases in collections were reported during the fourth quarter in all regions with the Southwest and Mid-Atlantic reporting the largest increases at 11.3 and 8.8 percent, respectively. The strong sales tax growth in the Southwest and Mid-Atlantic regions is mostly driven by legislated tax changes. For example, in Arizona, the sales tax rate was increased statewide from 5.6 percent to 6.6 percent. In the Mid-Atlantic region, sales tax collections were particularly strong in New York, where officials made various changes to sales tax exemptions.

Forty-two of 45 states with broad-based sales taxes reported growth in sales tax collections for the quarter, with six states reporting double-digit growth. Among individual states, Arizona and North Dakota reported the largest growth in sales tax collections at 26.2 and 24.3 percent, respectively.

Preliminary figures for the 40 of 45 early reporting states with broad-based sales tax indicate that sales tax collections continued reporting positive growth at 5.2 percent in January-February of 2011 compared to the same months of 2010 and growth of 4.2 percent compared to the same period of 2009. Thirty-six of 40 early reporting states reported growth in sales tax collections in January-February months of 2011. While collections from the remaining seven states could change the national picture, sales tax growth is not unexpected, as a result of stabilizing retail sales and consumption as well as legislated changes in several states.

Corporate Income Tax

Corporate income tax revenue is highly variable because of volatility in corporate profits and in the timing of tax payments. Many states, such as Delaware, Hawaii, Montana, Rhode Island, and Vermont, collect relatively little revenue from corporate taxes, and can have large fluctuations in percentage terms.

Corporate tax revenue increased by 17.2 percent in the October-December quarter compared to a year earlier. The numbers for the October-December quarter are somewhat skewed by a single state, California, where collections grew by \$537 million or 33 percent compared to the same period in 2009. If we exclude California, corporate income tax collections show a growth of 13 percent for the nation in the fourth quarter of 2010. The corporate tax increases in California are mostly attributable to Corporation Tax Law, which reduced the numbers of required estimated payments from four to three as of fiscal 2010. The third estimated payment,

which was due in September, is no longer required. Hence, it is not surprising that corporate income tax collections declined by 23.1 percent in the July-September quarter of 2010 but increased by 33 percent in the October-December quarter of 2010.

All regions reported growth in corporate income tax collections except the Southeast and Rocky Mountain regions, where collections declined by 15.8 and 12.6 percent, respectively, in the fourth quarter. The Southwest region reported the largest growth at 181 percent, which is mostly attributable to large collections in Arizona. Most of the growth is due to lower refunds processed in the fourth quarter of 2010 compared to a substantial amount of refunds processed in the fourth quarter of 2009.

Among 46 states that have a corporate income tax, 20 reported declines for the fourth quarter of 2010 compared to the same quarter of the previous year; 16 states saw double-digit declines. Twenty-one states reported double-digit growth and five states reported single-digit growth.

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 data collected by the Rockefeller Institute. In Table 5, we show four-quarter moving average real growth rates for the nation as a whole.

Revenues from all smaller tax sources showed growth, if mostly modest. After nearly 4 years of continuous decline, motor fuel tax revenue finally reported growth at 2.9 percent. State property taxes increased by 7.5 percent. Revenues from tobacco product sales taxes rose by 3.7 percent, alcoholic beverage sales tax by 2.2 percent, and revenue from motor vehicle and operators' licenses by 1 percent.

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.

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 4 shows year-over-year growth for two-quarter moving averages in inflation-adjusted state tax revenue and in real gross domestic product, to smooth short-term fluctuations and illustrate the interplay between the economy and state revenues. Tax revenue is highly related to economic growth, but there also is

Table 5. Percent Change in Real State Taxes Other Than PIT, CIT, and 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
Nominal collections (mlns), latest 12 months	\$14,560	\$37,232	\$17,296	\$5,558	\$22,822	\$104,217
2010Q4	7.5	2.9	3.7	2.2	1.0	5.6
2010Q3	12.2	0.4	2.6	1.7	3.6	2.6
2010Q2	11.0	(1.3)	0.5	1.1	3.5	(3.2)
2010Q1	9.7	(2.6)	(1.2)	0.1	1.7	(10.6)
2009Q4	5.7	(3.3)	(1.6)	0.2	0.4	(14.7)
2009Q3	(0.8)	(4.2)	0.2	(0.1)	(1.0)	(13.9)
2009Q2	(2.3)	(6.0)	1.0	(0.4)	(1.0)	(7.3)
2009Q1	(3.9)	(6.2)	2.4	0.1	(0.7)	3.6
2008Q4	(3.0)	(5.1)	2.9	0.3	(1.3)	7.2
2008Q3	1.6	(3.5)	3.3	(0.3)	(0.7)	9.7
2008Q2	3.2	(1.9)	5.7	0.3	(0.5)	7.6
2008Q1	3.8	(1.4)	6.0	0.4	(1.2)	3.1
2007Q4	3.3	(1.9)	5.9	0.3	(0.7)	2.1
2007Q3	1.3	(0.9)	3.7	1.4	(1.1)	(0.5)
2007Q2	(0.4)	(1.3)	0.3	1.3	(1.0)	(1.4)
2007Q1	1.6	(0.1)	1.5	0.4	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

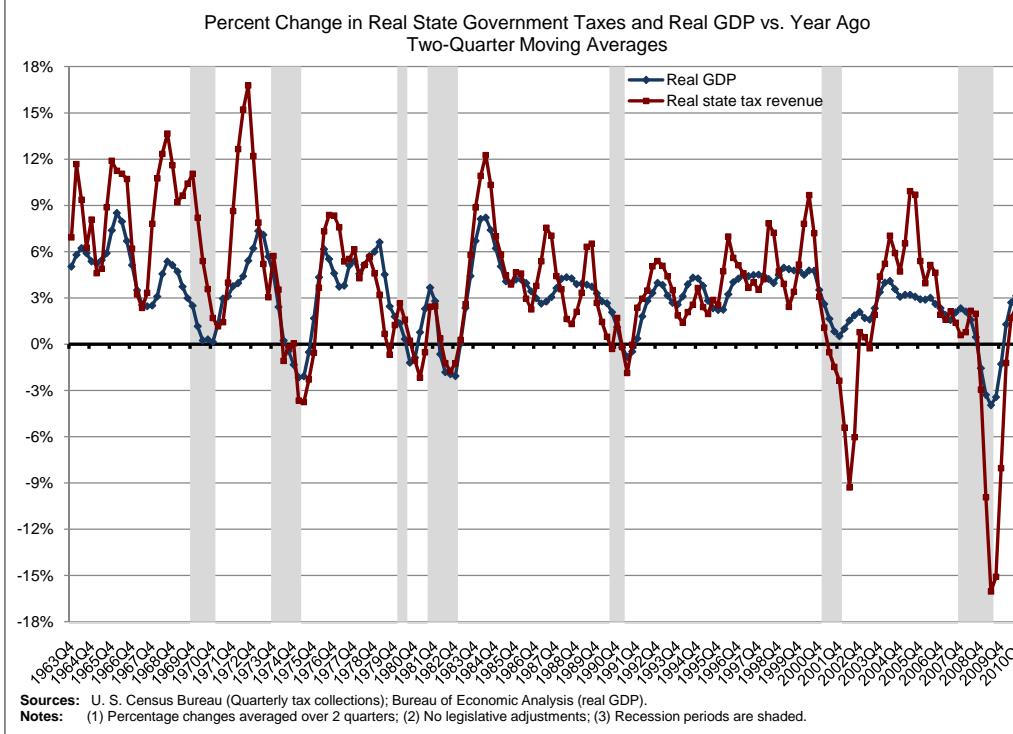
Source: U.S. Census Bureau.

significant volatility in tax revenue that is not explained solely by one broad measure of the economy. As shown in Figure 4, in the fourth quarter real state tax revenue showed some 5.0 percent growth, which is the third consecutive quarter growth since the third quarter of 2008, while real Gross Domestic Product showed growth for the fourth consecutive quarter at 3.1 percent. Both economic activity and state tax revenue are rebounding.

The National Bureau of Economic Research (NBER) has declared that the Great Recession began in December 2007 and ended in June of 2009, spanning 18 months, which is the longest duration since the Great Depression. While the Great Recession is officially over, the economic recovery has been slow.

Real gross domestic product increased at an annual rate of 3.1 percent in the October-December quarter of 2010, a considerable improvement compared to the 2.6 percent increase in the July-September quarter. In general, real gross domestic product improved noticeably since mid-2009 after a record four consecutive

Figure 4. State Tax Revenue Is Heavily Influenced By Economic Changes



quarters of declines in the second half of 2008 and first half of 2009. 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.

Durable goods consumption, an important element of state sales tax bases, showed an increase of 10.9 percent in the fourth quarter of 2010 relative to the same quarter of a year ago

after significant declines throughout 2008 and most of 2009. A 1.2 percent growth was reported in consumption of services, which is another important sector and comprises nearly 50 percent of total real GDP.⁴

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.

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 over the last four quarters. For the nation as a whole, after eight consecutive

Table 6. Nonfarm Employment, By State

Last Four Quarters, Year-Over-Year Percent Change				
	Jan-March	April-June	July-Sep	Oct-Dec
United States	(2.8)	(0.6)	0.1	0.5
New England	(2.0)	(0.3)	0.4	0.6
Connecticut	(3.8)	(1.2)	(0.0)	0.5
Maine	(1.5)	(0.8)	(0.4)	0.2
Massachusetts	(1.1)	0.2	0.8	0.7
New Hampshire	(2.2)	(0.6)	0.1	0.3
Rhode Island	(1.9)	(0.5)	0.6	0.2
Vermont	(1.4)	0.0	0.8	1.0
Mid-Atlantic	(1.9)	0.0	0.2	0.5
Delaware	(3.5)	(1.1)	0.6	0.2
Maryland	(2.1)	(0.2)	0.3	0.4
New Jersey	(2.4)	(0.8)	(0.6)	(0.4)
New York	(1.5)	0.4	0.2	0.8
Pennsylvania	(1.9)	0.2	0.8	0.9
Great Lakes	(2.9)	(0.5)	0.5	0.7
Illinois	(3.1)	(0.8)	0.1	0.6
Indiana	(2.1)	0.6	1.5	0.9
Michigan	(2.6)	(0.3)	0.9	0.9
Ohio	(3.3)	(0.9)	0.2	0.6
Wisconsin	(2.8)	(0.5)	0.4	0.5
Plains	(2.5)	(0.9)	(0.1)	0.2
Iowa	(2.2)	(0.5)	(0.4)	0.4
Kansas	(3.7)	(1.4)	(0.4)	(0.4)
Minnesota	(2.6)	(0.7)	0.2	0.4
Missouri	(2.8)	(1.6)	(0.6)	(0.4)
Nebraska	(2.0)	(0.5)	(0.2)	0.6
North Dakota	0.9	2.4	2.6	3.6
South Dakota	(1.9)	(0.1)	0.3	0.8
Southeast	(2.8)	(0.7)	0.0	0.3
Alabama	(2.8)	(0.8)	(0.1)	0.1
Arkansas	(2.4)	0.1	0.5	1.3
Florida	(3.1)	(1.0)	(0.1)	(0.1)
Georgia	(3.5)	(1.4)	(0.4)	(0.0)
Kentucky	(1.8)	0.2	0.6	1.0
Louisiana	(2.5)	(0.6)	(0.5)	0.0
Mississippi	(2.6)	(0.3)	(0.2)	0.6
North Carolina	(3.3)	(1.0)	(0.5)	(0.0)
South Carolina	(2.9)	(0.5)	0.3	0.9
Tennessee	(2.7)	(0.1)	0.8	0.9
Virginia	(2.1)	(0.2)	0.3	0.2
West Virginia	(1.8)	(0.1)	1.0	1.0
Southwest	(2.6)	(0.3)	0.5	1.3
Arizona	(4.4)	(1.9)	(1.5)	(0.6)
New Mexico	(2.7)	(0.9)	(1.0)	(0.7)
Oklahoma	(3.3)	(0.8)	(0.4)	0.5
Texas	(2.0)	0.2	1.2	2.0
Rocky Mountain	(3.1)	(1.0)	(0.1)	0.3
Colorado	(3.3)	(1.2)	(0.2)	0.2
Idaho	(3.1)	(1.0)	(0.5)	(0.0)
Montana	(1.1)	(0.5)	(0.0)	(0.0)
Utah	(3.0)	(0.7)	0.4	0.7
Wyoming	(4.6)	(1.6)	(0.0)	0.9
Far West	(3.8)	(1.5)	(0.3)	0.1
Alaska	0.0	0.8	1.3	2.2
California	(3.8)	(1.5)	(0.1)	0.1
Hawaii	(2.5)	(1.2)	(0.4)	0.9
Nevada	(5.6)	(2.6)	(1.6)	(1.4)
Oregon	(3.0)	(0.7)	(0.1)	0.6
Washington	(3.8)	(1.6)	(0.8)	(0.0)

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

quarters of decline, employment grew for the second quarter in a row by a modest 0.5 percent in the October-December quarter of 2010. On a year-over-year basis, employment declined in 12 states. North Dakota and Alaska reported the largest growth in employment at 3.6 and 2.2 percent, respectively, while Nevada and New Mexico reported the largest decline in employment at 1.4 and 0.7 percent, respectively.

The regional patterns are quite varied: The Far West states suffered from large declines in employment and for the first time since the first quarter of 2008 reported growth at a negligible 0.1 percent. The Southwest region reported the largest increase in employment at 1.3 percent followed by the Great Lake states at 0.7 percent.

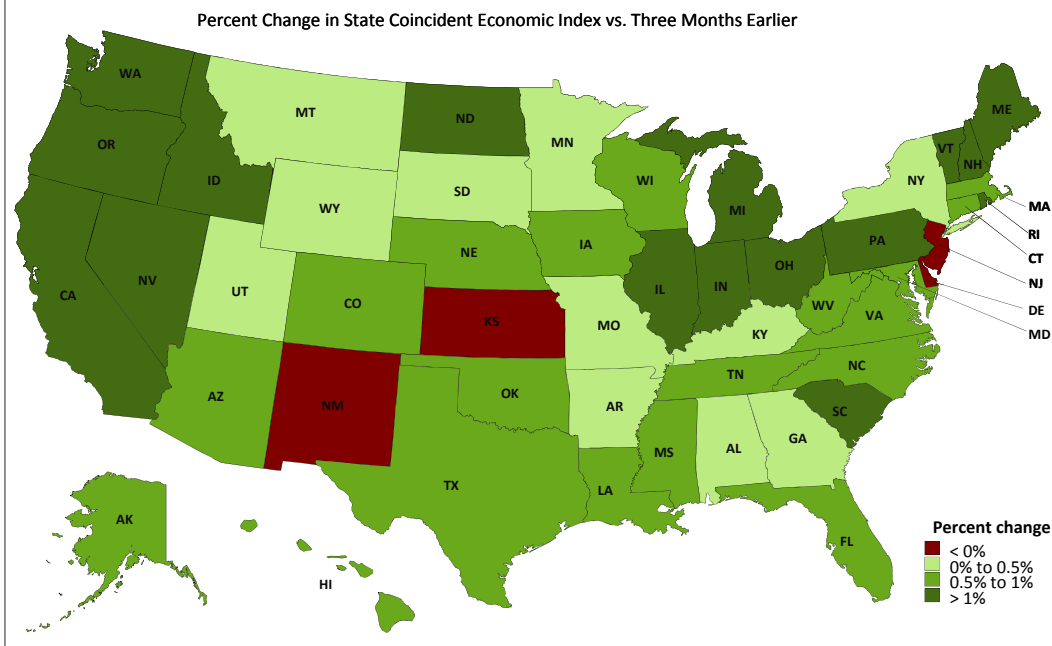
The employment data are compared to the same period a year ago rather than to preceding months. If employment begins to decline relative to earlier months, it can still be higher than its value a year ago. What we are likely to see in the employment data in such a case is a slowing rate of year-over-year 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 very 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.⁵ 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 or growth.

Figure 5 shows state-by-state variation in relative economic activity as of February 2011. None of the four states with declining economic activity showed dramatic declines; Kansas and New Mexico reported the largest declines at 0.4 and 0.2 percent, respectively.

Many states reported weak economic activity throughout 2010 due to large declines in the price of housing and in the financial markets. In general, the majority of states showing

Figure 5. In February: Four States Had Declining Economies



stronger growth in economic activity are in the New England, Great Lakes, and Far West regions. Michigan reported the largest increase at 2.7 percent followed by Oregon at 2.2 percent.

Figure 6 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.

Here we can see that the reported declines for the most recent recession in the typical state were worse than those of the 1980-82, 1990-91, and 2001 recessions. While there was a continuous upward spike from January to May 2010, the trend again shifted to downwards from June to August but is back to upwards since then.

Figure 6. Percent Change in State Economies Compared to Three Months Earlier

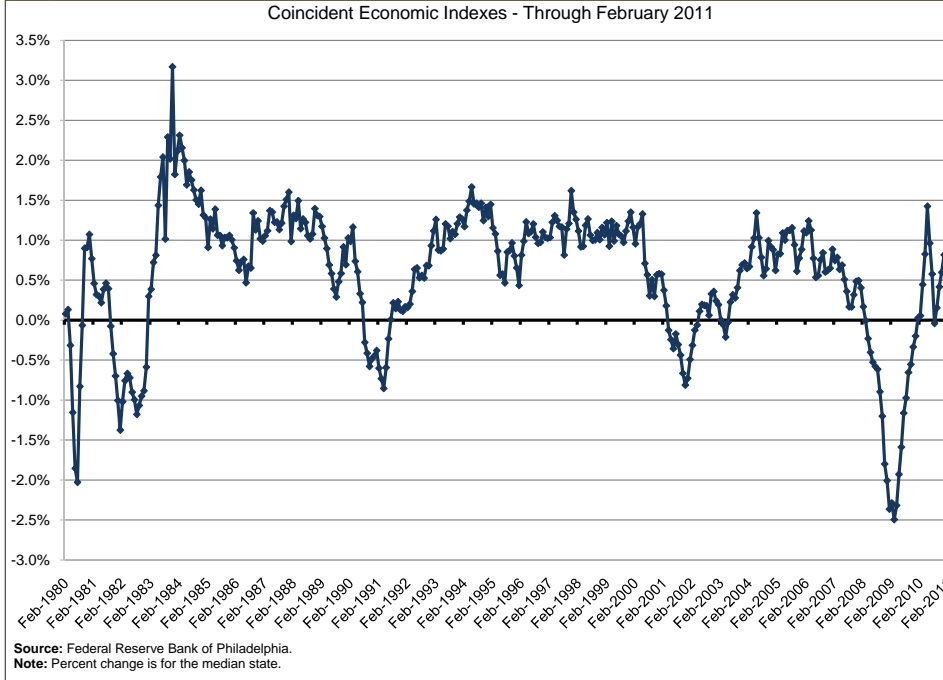


Figure 7 shows consumption of durable goods, nondurable goods, and services. The decline in consumption of durable and nondurable goods during the recent downturn was much sharper than in the last recession. Consumption of nondurable goods and services has been slowly recovering in recent months. The consumption of durable goods was surprisingly strong for the first few months of 2010, but after steady growth from October 2009 to May 2010, the trend was downwards in the month of June through

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

Table 7. State Economic Activity: Declining in Four States

State Indexes of Economic Activity			
States are Sorted by Percent Change vs. 3 Months Ago			
State	Coincident index November 2010 (July 1992=100)	Percent change vs. 1 year ago (February 2010)	Percent change vs. 3 months ago (November 2010)
Michigan	128.6	8.0	2.7
Oregon	188.4	4.9	2.2
North Dakota	175.1	8.2	2.1
Vermont	149.1	5.0	1.8
Ohio	141.4	5.5	1.8
New Hampshire	186.8	4.3	1.5
South Carolina	149.6	3.8	1.5
Nevada	178.0	(0.1)	1.4
Indiana	140.6	4.0	1.3
California	152.1	2.7	1.3
Rhode Island	149.7	3.8	1.2
Idaho	189.7	2.0	1.2
Pennsylvania	142.0	4.3	1.2
Illinois	140.7	3.6	1.1
Washington	152.3	2.2	1.0
Maine	139.2	3.7	1.0
Massachusetts	169.3	3.5	1.0
Oklahoma	155.0	3.0	0.9
Mississippi	143.4	2.6	0.9
Nebraska	156.7	2.6	0.9
Wisconsin	140.1	3.1	0.9
Connecticut	155.4	3.7	0.8
Alaska	118.6	3.0	0.8
United States	152.5	2.8	0.8
Texas	169.2	3.4	0.8
Hawaii	105.2	1.7	0.7
West Virginia	157.2	2.9	0.7
Arizona	178.7	0.6	0.7
Florida	142.1	0.8	0.7
Maryland	143.1	1.4	0.7
Iowa	147.3	1.9	0.7
Louisiana	121.5	1.7	0.6
North Carolina	150.3	1.8	0.6
Virginia	145.1	1.6	0.6
Tennessee	144.0	2.4	0.5
Colorado	170.1	1.3	0.5
Utah	183.0	1.8	0.5
Minnesota	152.3	2.1	0.5
Kentucky	137.7	2.5	0.4
Arkansas	143.3	2.5	0.4
Missouri	131.6	0.8	0.3
New York	141.6	1.9	0.3
Montana	154.5	(0.5)	0.2
Georgia	160.0	0.9	0.2
Alabama	129.4	1.7	0.1
South Dakota	158.6	2.6	0.1
Wyoming	168.2	2.3	0.1
New Jersey	147.3	0.9	(0.1)
Delaware	138.0	1.2	(0.1)
New Mexico	153.7	(1.0)	(0.2)
Kansas	136.6	(0.3)	(0.4)

Source: Federal Reserve Bank of Philadelphia.

August, but is back to upwards since September 2010.

Figure 8 shows year-over-year percent change in the federal government's seasonally adjusted, purchase-only house price index from 1992 through the fourth quarter of 2010. As Figure 8 shows, the trend in housing prices has been downward since mid-2005, with steeply negative movement from the last quarter of 2004 through the end of 2008. While housing prices started to strengthen in 2009, the direction of change is still negative and it declined once again in the third and fourth quarters of 2010 after showing some upward movement in the second quarter of 2010. The states in the West continue to see the largest declines in the housing price index.

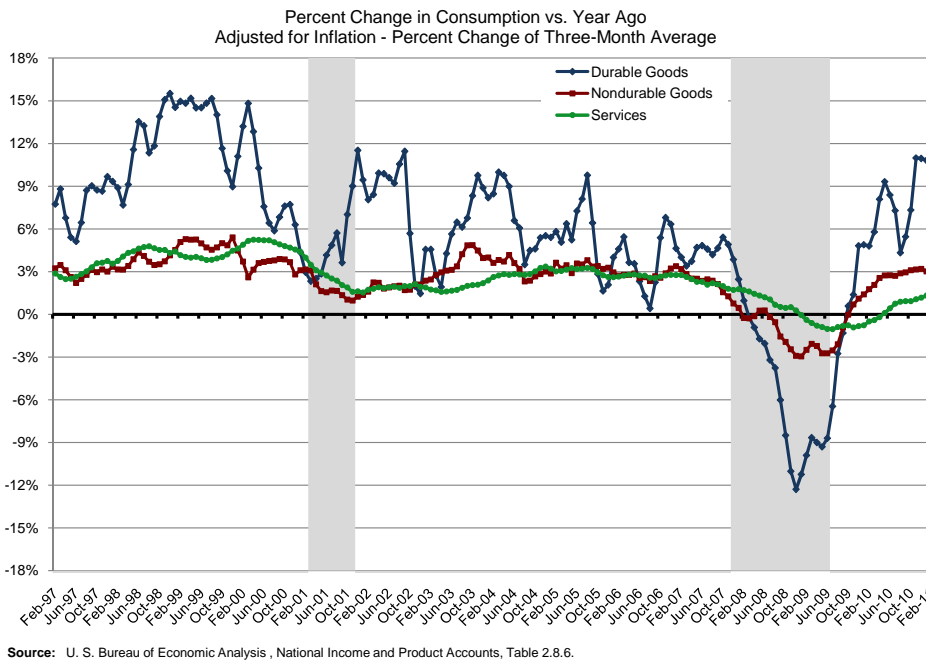
Tax Law Changes Affecting This Quarter

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 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 2010 quarter, enacted tax changes increased state revenue by an estimated net of \$1.2 billion compared to the same period in 2009.⁶ Personal income tax increases accounted for approximately

\$104 million. In a single state, California, legislated changes increased the motor fuel tax by an estimated \$629 million and corporate income tax by an estimated \$237 million, but decreased the sales tax by an estimated \$688 million due to exemptions for gasoline. Legislated changes in Arizona were also significant for the sales tax due to the one percent increase in the statewide sales tax. The net impact is that the increase in nominal tax revenue would have been somewhat smaller, if not for the legislated tax changes.

Figure 7. Consumption of Goods and Services Is Recovering



The Impact of Two Major Taxes

States rely on the sales tax for about 30 percent of their tax revenue, and it has been hit far harder in this recession than in previous recessions. Retail sales and consumption are major drivers of sales taxes. Figure 9 shows the cumulative percentage change in inflation-adjusted retail sales in the 40 months following the start of each recession from 1973 forward.⁷ Several points are noteworthy. First, real retail sales in the Great Recession (the solid red line) plummeted after December 2007, falling sharply

and almost continuously until December 2008, by which point they were more than 10 percent below the prerecession peak. This was deeper than in most recessions, although the declines in the 1973 and 1980 recessions also were quite sharp.

Second, while real retail sales have been rising from their lows for about a year and a half, they are still about 3 percent below their prerecession peak. So even if sales taxes precisely mirrored retail sales, they would be weak compared to two or three years

ago. In fact, though, many state sales taxes exempt food and other necessities, and exempt or exclude many services, relying more heavily on non-necessities. Many of these taxable goods and services — such as cars, other durable goods, and restaurant meals — are far easier to do without or postpone than are necessities. They tend to be more volatile and suffer greater declines in business downturns.

States on average count on the income tax for about 36 percent of their tax revenue. Employment and associated wage payments

Figure 8. Year-Over-Year Percent Change in State House Price Index

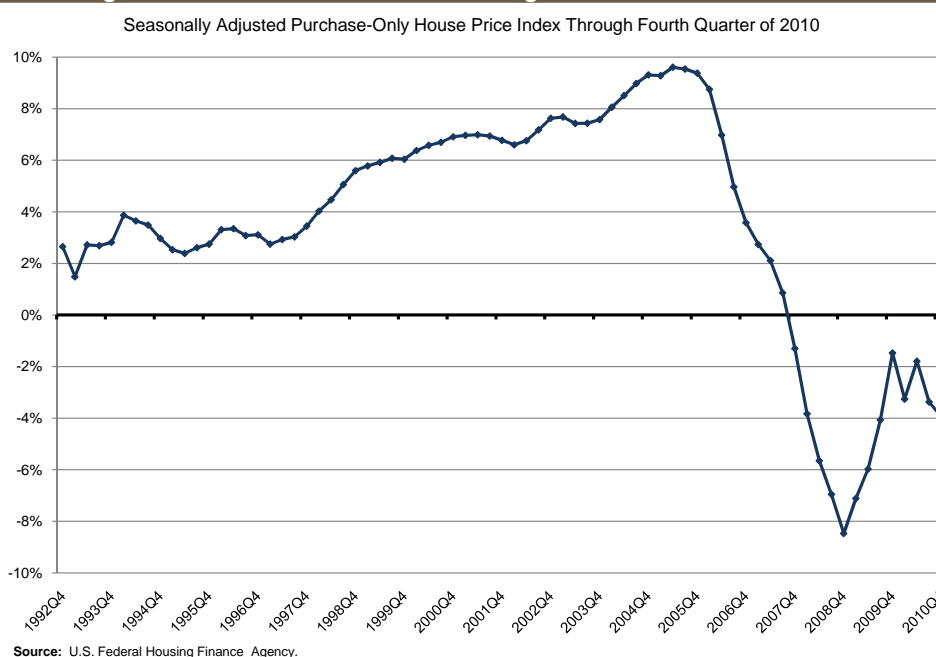


Table 8. State Tax Revenue, October-December, 2009 and 2010 (\$ in millions)

	October-December 2009				October-December 2010			
	PIT	CIT	Sales	Total	PIT	CIT	Sales	Total
United States	55,829	7,723	54,824	164,822	61,742	9,052	57,921	177,647
New England	4,303	693	2,476	9,875	4,844	711	2,490	10,539
Connecticut	1,247	100	798	2,830	1,373	75	762	2,940
Maine	339	35	242	862	348	55	250	906
Massachusetts	2,351	420	1,165	4,767	2,723	429	1,202	5,219
New Hampshire	10	105	NA	401	6	118	NA	406
Rhode Island	231	15	193	555	260	10	196	574
Vermont	126	17	77	460	134	24	81	493
Mid-Atlantic	13,786	1,913	7,455	29,528	14,585	2,260	8,110	32,929
Delaware	209	26	NA	572	224	68	NA	615
Maryland	1,799	317	920	3,897	1,898	126	958	3,888
New Jersey	2,428	449	1,836	5,812	2,444	541	2,002	6,285
New York	7,275	800	2,681	12,932	7,857	1,112	3,017	15,391
Pennsylvania	2,076	321	2,018	6,315	2,163	412	2,134	6,751
Great Lakes	7,921	818	8,186	25,154	8,404	1,187	8,641	25,904
Illinois	1,904	426	1,750	5,958	1,982	782	2,034	6,582
Indiana	864	136	1,429	3,198	997	147	1,504	3,397
Michigan	1,620	150	2,174	6,243	1,730	102	2,100	6,151
Ohio	1,861	(55)	1,862	5,933	1,992	(4)	1,976	5,843
Wisconsin	1,672	161	971	3,822	1,703	159	1,026	3,931
Plains	4,325	314	3,533	11,595	4,641	397	3,682	12,471
Iowa	684	29	531	1,665	715	26	563	1,735
Kansas	577	106	548	1,544	621	77	547	1,583
Minnesota	1,594	110	1,084	4,223	1,723	221	1,117	4,594
Missouri	1,048	30	701	2,323	1,126	8	730	2,452
Nebraska	364	21	326	895	388	22	333	905
North Dakota	58	12	154	606	68	43	192	859
South Dakota	NA	7	188	339	NA	1	200	342
Southeast	11,099	1,975	13,271	37,089	11,561	1,664	13,878	38,095
Alabama	685	118	509	2,101	682	85	539	2,138
Arkansas	521	133	632	2,109	553	66	682	2,128
Florida	NA	406	4,186	7,542	NA	428	4,437	7,827
Georgia	2,028	101	1,135	3,846	2,156	152	1,192	4,177
Kentucky	788	92	691	2,470	829	110	733	2,632
Louisiana	653	287	663	2,366	622	48	704	2,081
Mississippi	359	55	697	1,490	352	51	705	1,590
North Carolina	2,471	464	1,509	5,756	2,588	246	1,509	5,576
South Carolina	937	(23)	645	1,906	962	18	662	2,076
Tennessee	5	81	1,493	2,267	8	190	1,560	2,410
Virginia	2,341	171	843	4,161	2,482	156	866	4,339
West Virginia	310	89	270	1,076	328	115	290	1,120
Southwest	1,544	76	6,888	13,518	1,709	213	7,668	14,799
Arizona	719	4	1,067	2,529	813	81	1,347	2,976
New Mexico	252	22	429	1,136	288	83	469	1,337
Oklahoma	572	49	491	1,699	609	49	546	1,807
Texas	NA	NA	4,900	8,153	NA	NA	5,306	8,679
Rocky Mountain	1,994	153	1,368	5,050	2,140	134	1,451	5,468
Colorado	1,012	42	502	2,003	1,089	66	544	2,179
Idaho	271	22	274	722	289	27	289	774
Montana	167	15	NA	503	190	16	NA	540
Utah	545	74	435	1,324	572	24	441	1,307
Wyoming	NA	NA	158	498	NA	NA	178	669
Far West	10,856	1,780	11,647	33,013	13,858	2,487	12,002	37,440
Alaska	NA	107	NA	1,210	NA	204	NA	1,037
California	9,314	1,628	8,101	23,918	12,204	2,165	8,164	27,925
Hawaii	341	(5)	549	1,100	378	11	579	1,214
Nevada	NA	NA	625	1,487	NA	NA	657	1,453
Oregon	1,202	51	NA	1,670	1,275	107	NA	1,904
Washington	NA	NA	2,371	3,627	NA	NA	2,602	3,908

Source: U.S. Census Bureau.

Table 9. Quarterly Tax Revenue By Major Tax

	October-December, 2009 to 2010, Percent Change			
	PIT	CIT	Sales	Total
United States	10.6	17.2	5.6	7.8
New England	12.6	2.6	0.6	6.7
Connecticut	10.0	(25.0)	(4.6)	3.9
Maine	2.8	58.0	3.5	5.1
Massachusetts	15.8	1.9	3.2	9.5
New Hampshire	(31.9)	12.2	NA	1.3
Rhode Island	12.1	(34.1)	1.2	3.6
Vermont	6.7	38.5	4.2	7.2
Mid-Atlantic	5.8	18.1	8.8	11.5
Delaware	7.5	165.1	NA	7.4
Maryland	5.5	(60.1)	4.1	(0.2)
New Jersey	0.7	20.4	9.0	8.1
New York	8.0	39.0	12.5	19.0
Pennsylvania	4.2	28.2	5.7	6.9
Great Lakes	6.1	45.1	5.6	3.0
Illinois	4.1	83.5	16.3	10.5
Indiana	15.4	8.1	5.3	6.2
Michigan	6.8	(31.6)	(3.4)	(1.5)
Ohio	7.0	(92.3)	6.1	(1.5)
Wisconsin	1.9	(1.0)	5.7	2.8
Plains	7.3	26.3	4.2	7.6
Iowa	4.5	(10.8)	6.0	4.2
Kansas	7.8	(27.7)	(0.1)	2.6
Minnesota	8.1	101.2	3.0	8.8
Missouri	7.5	(73.3)	4.1	5.5
Nebraska	6.5	3.3	2.1	1.1
North Dakota	17.2	247.3	24.3	41.7
South Dakota	NA	(82.7)	6.3	0.9
Southeast	4.2	(15.8)	4.6	2.7
Alabama	(0.5)	(28.4)	5.9	1.8
Arkansas	6.1	(50.9)	7.9	0.9
Florida	NA	5.4	6.0	3.8
Georgia	6.3	51.4	5.0	8.6
Kentucky	5.1	19.7	6.1	6.6
Louisiana	(4.8)	(83.4)	6.2	(12.0)
Mississippi	(2.1)	(7.5)	1.2	6.7
North Carolina	4.7	(47.0)	0.0	(3.1)
South Carolina	2.7	(176.7)	2.6	9.0
Tennessee	61.5	136.0	4.5	6.3
Virginia	6.0	(8.9)	2.7	4.3
West Virginia	5.8	28.8	7.2	4.1
Southwest	10.7	181.0	11.3	9.5
Arizona	13.0	1755.1	26.2	17.7
New Mexico	14.0	274.1	9.1	17.7
Oklahoma	6.4	(1.4)	11.1	6.3
Texas	NA	NA	8.3	6.5
Rocky Mountain	7.3	(12.6)	6.1	8.3
Colorado	7.6	58.2	8.4	8.8
Idaho	6.5	24.5	5.5	7.1
Montana	14.2	4.0	NA	7.4
Utah	4.9	(67.2)	1.4	(1.3)
Wyoming	NA	NA	12.7	34.4
Far West	27.7	39.7	3.1	13.4
Alaska	NA	91.2	NA	(14.3)
California	31.0	33.0	0.8	16.8
Hawaii	11.1	(328.5)	5.4	10.3
Nevada	NA	NA	5.1	(2.3)
Oregon	6.1	111.1	NA	14.0
Washington	NA	NA	9.7	7.8

Source: U.S. Census Bureau.

are major drivers of income taxes. Figure 10 shows the cumulative percentage change in nonfarm employment for the nation as a whole in the 48 months following the start of each recession from 1973 forward.⁸ The last point for the 2007 recession is March 2011, month 39. As the graph shows, the 5.3 percent employment drop as of March 2011 is still far worse compared to previous recessions. Moreover, employment remained stagnant for the last 12 months, showing a decline between 5.3 and 6 percent. The trends depicted in Figure 10 suggest that it will take several years before employment reattains its prerecession peak.

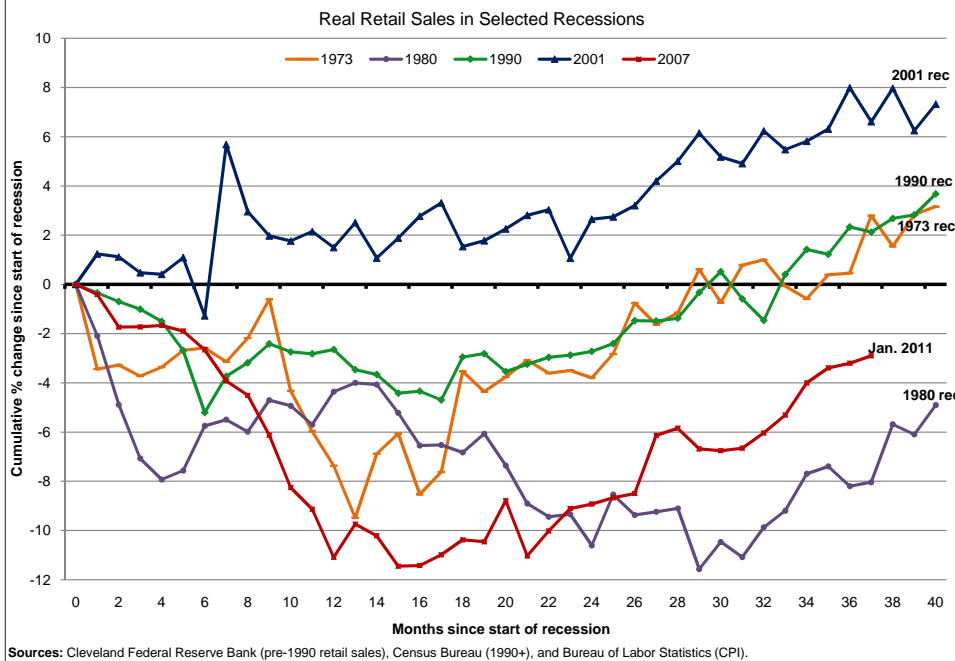
Looking Ahead

After the deepest recession since the Great Depression, states are now on the gradual road of economic and tax revenue recovery. Calendar 2010 brought a strong rebound from the previous year, when tax collections plummeted by a historic 12 percent. In calendar 2010, states collected \$715 billion in total tax revenues, a gain of 4.3 percent from \$685 billion in calendar 2009. However, that 2010 figure was still about \$60 billion or 7.8 percent below the levels reported in calendar 2008. While tax collections in calendar 2010 were promising in most states, still 10 states reported declines.

Early in calendar year 2010, most of the revenue growth was attributable to tax increases imposed during and after the Great Recession. (According to the National Association of State Budget Officers, legislated tax and fee changes generated an additional \$23.9 billion in state fiscal year 2010, a record amount in nominal terms, \$18.6 billion of which was attributable to taxes).⁹ While those tax increases were significant, they were disproportionately concentrated in California, Massachusetts, New Jersey, North Carolina, and New York, and were much smaller in most other states. As the year progressed, the economy played a far greater role, and we estimate that the vast majority of revenue growth in the third and fourth calendar quarters was attributable to economic growth.

Preliminary data for the January-February months of 2011 suggest that tax conditions continue to improve. While in a few states this growth is driven by tax increases — Illinois being one clear example — in most states it appears that improvement in the underlying economy is the basis for revenue growth. With early data for January-February 2011 now available for 45 states, tax revenue increased by 9.5 percent compared to the same months of the previous year. Preliminary data for March suggests that growth for the full quarter is likely to be somewhat less, but still strong.

Figure 9. Real Retail Sales Have Stabilized But Are Still About 3 Percent Below Peak



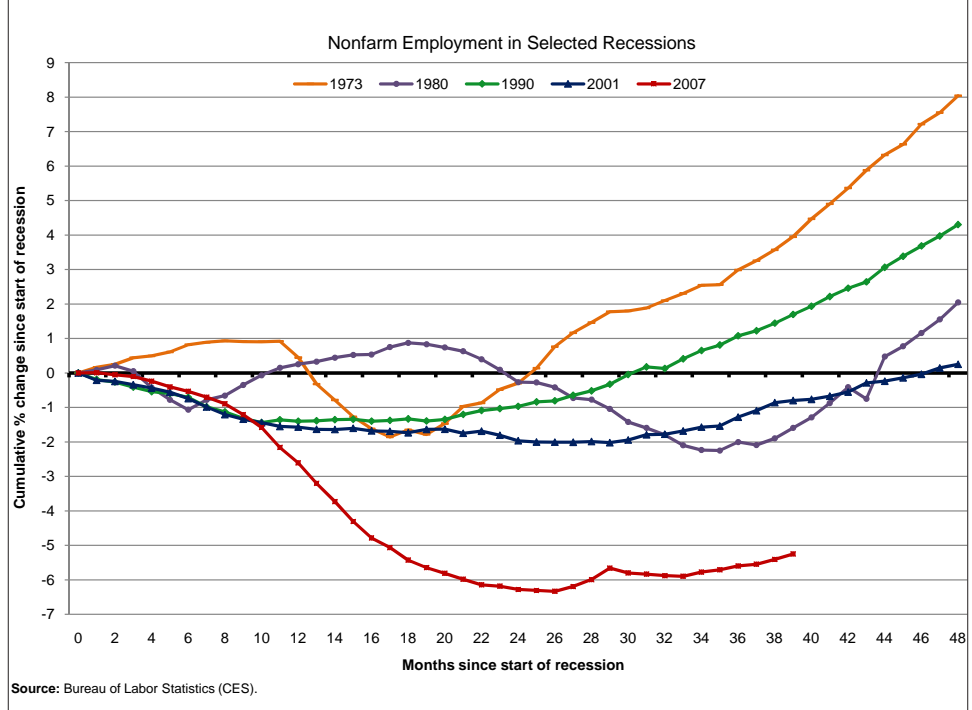
Sources: Cleveland Federal Reserve Bank (pre-1990 retail sales), Census Bureau (1990+), and Bureau of Labor Statistics (CPI).

Nearly two years after the official end of the Great Recession, employment and other economic factors that drive state tax revenues remain somewhat weak. With a few exceptions, states are emphasizing spending restraint rather than tax increases as they prepare fiscal 2012 budgets. There appears little chance that significant new federal assistance will be considered in the coming year and over the longer term the outlook is likely for reduced federal aid. Meanwhile, most states will see significant increases in pension costs

and some other expenditures that are difficult to adjust in the short term.

The bottom line: State budgets will likely face continuing pressure at least until the national economy enters a new period of continuing, robust growth.

Figure 10. Employment Decline Was Nearly Three Times That of Previous Recessions



Source: Bureau of Labor Statistics (CES).

Endnotes

- 1 We made adjustments to Census Bureau data for one state — Wisconsin — based upon data and information provided to us directly by officials in Wisconsin. These revisions together account for the slight difference between the Census Bureau figures and the Rockefeller Institute estimates. As a result of these adjustments, we report a year-over-year increase in tax collections of 7.8 percent, compared with the 7.9 percent increase that can be computed from data on the Census Bureau's Web site.
- 2 We have adjusted the historical data for local property tax revenue as reported by the Census Bureau, revising the data for the third quarter of 2008 and earlier periods upward by 7.7 percent, consistent with the higher level of property tax revenue in the new sample compared with the previous sample, as reported in the Census Bureau's "bridge study." For more information on methodological changes to the local property tax and the results of the bridge study, please see: <http://www2.census.gov/govs/qtax/bridgestudy.pdf>.
- 3 Preliminary figures for the January-February 2011 months are not available for the following five states: Hawaii, Minnesota, Nevada, New Mexico, and North Dakota. Total tax collections for these five states combined represent about 4-5 percent of nationwide tax collections. Therefore, it is less likely that the nationwide picture for the state tax collections may change once we have complete data for all 50 states and for all three months of the first quarter of 2011.
- 4 See Bureau of Economic Analysis, National Income and Products Accounts Table (Table 1.1.11).
- 5 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): 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): 11-24; and James H. Stock and Mark W. Watson. "New Indexes of Coincident and Leading Economic Indicators," *NBER Macroeconomics Annual* 4 (1989): 351-94. The data and several papers are available at www.philadelphiafed.org/econ/indexes/coincident.
- 6 Rockefeller Institute analysis of data from the National Association of State Budget Officers and from reports in several individual states.
- 7 This treats the 1980-82 "double-dip" recession as a single long recession.
- 8 This also treats the 1980-82 "double-dip" recession as a single long recession.

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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