THE NELSON A.
ROCKEFELLER
INSTITUTE
OF GOVERNMENT
UNIVERSITY AT ALBANY
State University of New York

STATE REVENUE REPORT

WWW.ROCKINST.ORG APRIL 2012, No. 87

Tax Revenues Surpass Previous Peak But Growth Softens Once Again

Local Property Tax Collections Resume Modest Gains

By Lucy Dadayan

HIGHLIGHTS

- State tax revenues grew by 3.6 percent in the fourth quarter of 2011, according to Rockefeller Institute research and Census Bureau data. This is the eighth consecutive quarter that states reported growth in collections on a year-over-year basis.
- Overall state tax revenues are now above peak levels that came several months into the Great Recession. In the fourth quarter of 2011, total state revenues were 3.0 and 7.4 percent higher than during the same quarters of 2007 and 2008, respectively.
- Collections in most states are now above previous peak levels, but in 17 states revenues were still lower in the final quarter of 2011 than four years earlier.
- Preliminary figures for January and February 2012 indicate further growth in revenues. Overall collections in 45 early-reporting states showed growth of 4.0 percent compared to the same months of 2011.
- Local property tax revenues grew by a modest 0.6 percent in the fourth quarter but declined in inflation-adjusted terms.

Overall State Taxes and Local Taxes

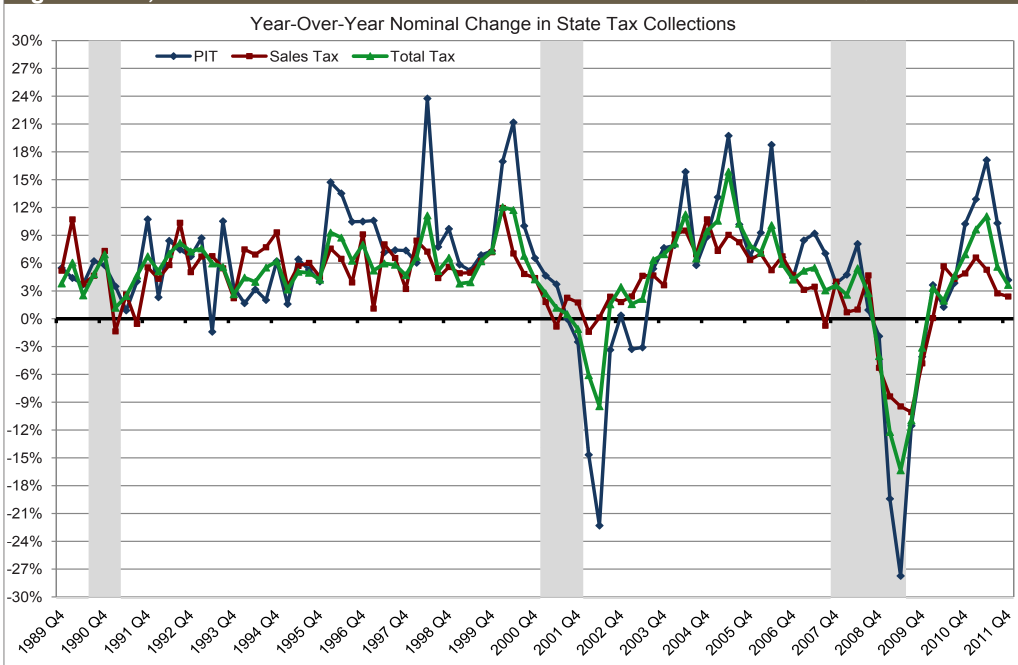
Total state tax collections as well as collections from two major sources — taxes on sales and personal income — showed growth for the eighth consecutive quarter in October-December 2011. Overall state tax revenues increased by 3.6 percent from the same quarter of the previous year, according to data collected by the Rockefeller Institute and the Census Bureau. The Institute's findings regarding gains in total collections are almost identical to the preliminary data released in late March 2012 by the Census Bureau, which reported an overall increase of 3.5 percent. We have updated those figures in light of data we have since obtained and to reflect differences in how we measure revenue for purposes of the *State Revenue Report*. (See "Adjustments to Census Bureau Tax Collection Data" on page 16.[1])

Figure 1 shows the nominal percent change over time in state tax collections for personal income tax, sales tax, and total taxes. Declines in personal income tax and sales tax collections, as well as in overall state tax collections, were steeper in and after the Great Recession (which began in December 2007) than around previous recessions. Overall tax collections as well as personal income and sales tax revenues showed slower growth in the fourth quarter of 2011. Personal income tax collections grew by 4.2 percent and sales tax collections rose by 2.4 percent.

After eight straight quarter increases, overall tax collections in the fourth quarter of 2011 are above the peak levels in most states. Total revenues were 3.0 percent higher in the fourth quarter of 2011 than in the same quarter of 2007. In the fourth quarter of 2011, 33 states reported higher tax revenue collections than in the same quarter of 2007. However, if we adjust the numbers for inflation, nationwide tax receipts show 3.4 percent decline in the fourth quarter of 2011 compared to the same quarter of 2007.

Figure 2 shows the four-quarter moving average of year-over-year change in state tax collections and local tax collections, after adjusting for inflation. As shown in Figure 2, the year-over-year change in state taxes, adjusted for inflation, has averaged 5.4 percent over the last four quarters. This represents substantial improvement from the 2.9 percent average growth of a year ago, and 12.2 percent average decline of two years ago.

Figure 1. PIT, Sales and Overall Tax Growth Moderated Further in the Fourth Quarter of 2011



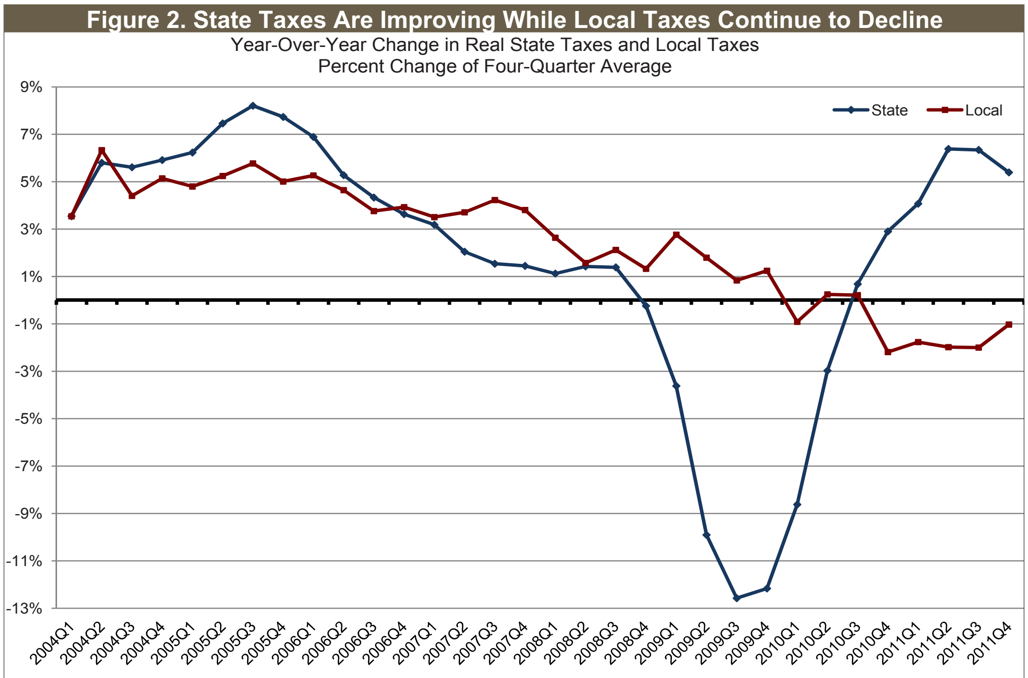
Sources: U.S. Census Bureau .
Notes: Data for the most recent quarter may reflect adjustments by the Rockefeller Institute to include information released after initial publication.

While state tax collections have been rising steadily, the picture for local governments is quite different.[2] The real, year-over-year decline in local taxes was an average of 1.0 percent over the last four quarters, which was a slight improvement compared to the 2.2 percent decline for the preceding year. Inflation over the year, as measured by the gross domestic product deflator, was 2.1 percent.

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. For the quarter ending in December, the 1.0 percent decline in the four-quarter moving average of local tax collections is weak compared to historical averages. The largest year-over-year growth in local tax collections in recent history was recorded in the third quarter of 2005, at 5.8 percent.

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

Figure 2. State Taxes Are Improving While Local Taxes Continue to Decline



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.

Collections from local property taxes made up 85.1 percent of such receipts during the fourth quarter of 2011. Local property tax revenues showed a modest growth of 0.6 percent in nominal terms in the fourth quarter of 2011 compared to the same quarter of 2010.

Local sales tax collections rose by 5.2 percent in the fourth quarter of 2011 in nominal terms. Sales taxes represented roughly 8 percent of local tax revenues in the fourth quarter of 2011. This is the seventh consecutive quarter that local sales tax revenues showed growth, after six consecutive quarters of decline. Collections from local individual income taxes, a much smaller contributor to overall local revenues, showed an increase of 4.5 percent.

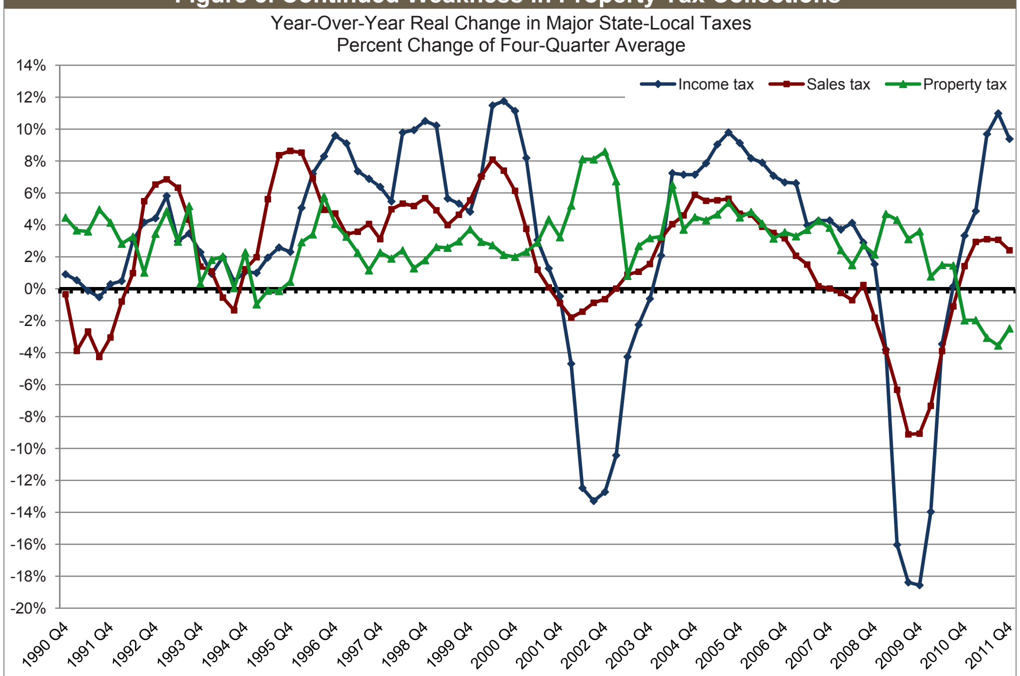
Figure 3 shows the four-quarter average of year-over-year growth in state and local income, sales, and property taxes, adjusted for inflation. Both the income tax and the sales tax showed slower growth, and then outright decline, from 2006 through most of 2009. Income tax revenues showed growth for six consecutive quarters after six consecutive quarter declines. By contrast, state-local property taxes fell for the last five quarters, since the fourth quarter of 2010. State-local sales tax collections have grown in the past five quarters.

State Tax Revenue

Total state tax revenue rose in the fourth quarter of 2011 by 3.6 percent compared to a year ago, before adjustments for inflation and legislated changes. The income tax and sales tax revenues increased by 4.2 and 2.4 percent, respectively, while the corporate income tax declined by 9.0 percent. Table 1 shows quarterly changes (expressed as percent change compared to the same quarter of previous year) in tax revenues with and without adjustment for inflation; Table 2 describes quarterly percent changes by major type of tax.

Seven states — Arizona, California, Louisiana, Massachusetts, New Hampshire, North Carolina, and Vermont — reported declines in total tax revenue during the fourth quarter of 2011. Twelve states reported double-digit increases in the fourth quarter.

Figure 3. Continued Weakness in Property Tax Collections



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.

All regions but the Far West reported growth in total collections. The Plains region showed the largest gain at 12.5 percent, followed by the Great Lakes states at 8.9 percent. The Far West region showed a decline of 3.9 percent, which is mostly attributable to a single state, California, where tax collections fell by 8.3 percent. Revenue gains were strong in North Dakota and Alaska, at 49.2 and 36.8 percent, respectively. In both states the strong growth is mostly attributable to the booming oil and natural gas industries.

Preliminary figures collected by the Rockefeller Institute for the January-February months of 2012 indicate that most states saw continued growth in revenues. Overall collections in 45 early reporting states showed growth of 4.0 percent in the January-February months of 2012 compared to the same months of 2011. This rate of growth is, however, considerably slower than what states experienced between the fall of 2010 and the fall of 2011.[3]

Personal Income Tax

In the fourth quarter of 2011, 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 revenues rose for the eighth consecutive quarter, with 4.2 percent growth in the October-December 2011 quarter compared to the same period in 2010. In addition, personal income tax collections surpassed the recessionary peak for the quarter in nominal terms, ending 8.1 percent higher than in the fourth quarter of 2007.

All regions except for the Far West reported increases in personal income tax collections. The greatest growth was in the Great Lakes and Southwest regions, where collections increased by 20.3 and 10.5 percent, respectively. The Far West region reported a 5.9 percent decline in personal income tax collections. The strong growth in the Great Lakes region is largely attributable to Illinois, where personal income tax collections grew by 70.2 percent. The decline in personal income tax revenues in the Far West region is mostly attributable to California, where such collections dropped by 7.6 percent, driven by the expiration of a temporary 0.25 percent personal income tax increase and the expiration of the dependent care credit.

Gains in the personal-income tax were widespread, as 38 states reported growth for the quarter and 6 enjoyed double-digit increases. Five states — California, Hawaii, Louisiana, Tennessee, and Wisconsin — reported declines in personal income tax collections. Illinois and Connecticut reported the largest increases at 70.2 percent and 22.9 percent, respectively. The large gain in Illinois is mostly attributable to the legislated tax increases that were passed in January of 2011 and increased the personal income tax rate from 3 percent to 5 percent for four years. Connecticut's increase in personal income taxes was also mostly attributable to legislated tax changes; lawmakers in Connecticut increased marginal personal income tax rates. If we exclude both Illinois and

Table 1. Quarterly State Tax Revenue

Year-Over-Year Percent Change

Quarter	Total Nominal	Inflation Rate	Adjusted Real Change
2011 Q4	3.6	2.1	1.5
2011 Q3	5.6	2.4	3.1
2011 Q2	11.1	2.1	8.8
2011 Q1	9.6	1.8	7.7
2010 Q4	6.9	1.6	5.3
2010 Q3	4.6	1.4	3.2
2010 Q2	1.9	1.1	0.9
2010 Q1	3.3	0.6	2.7
2009 Q4	(3.1)	0.7	(3.8)
2009 Q3	(11.0)	0.5	(11.4)
2009 Q2	(16.3)	1.2	(17.3)
2009 Q1	(12.2)	1.9	(13.9)
2008 Q4	(4.0)	2.1	(6.0)
2008 Q3	2.8	2.5	0.3
2008 Q2	5.4	2.0	3.3
2008 Q1	2.6	2.1	0.5
2007 Q4	3.6	2.6	0.9
2007 Q3	3.1	2.6	0.4
2007 Q2	5.5	3.1	2.4
2007 Q1	5.2	3.3	1.8
2006 Q4	4.2	2.9	1.3
2006 Q3	5.9	3.2	2.6
2006 Q2	10.1	3.5	6.3
2006 Q1	7.1	3.3	3.7
2005 Q4	7.9	3.5	4.3
2005 Q3	10.2	3.4	6.6
2005 Q2	15.9	3.1	12.4
2005 Q1	10.6	3.3	7.1
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	2.2	5.7
2003 Q4	7.0	2.1	4.8
2003 Q3	6.3	2.1	4.1
2003 Q2	2.1	2.0	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
2011 Q4	4.2	(9.0)	2.4	3.6
2011 Q3	10.3	2.3	2.7	5.6
2011 Q2	17.1	19.1	5.3	11.1
2011 Q1	12.9	9.0	6.6	9.6
2010 Q4	10.2	18.1	4.9	6.9
2010 Q3	3.9	0.5	4.3	4.6
2010 Q2	1.3	(19.0)	5.7	1.9
2010 Q1	3.6	0.3	0.1	3.3
2009 Q4	(4.1)	0.7	(4.8)	(3.1)
2009 Q3	(11.5)	(21.3)	(10.1)	(11.0)
2009 Q2	(27.7)	3.0	(9.5)	(16.3)
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).

Table 3. Personal Income Tax Withholding, By State

Last Four Quarters, Percent Change

	2011			
	Jan-Mar	*Apr-June*	*July-Sep*	*Oct-Dec*
United States	**8.2**	**6.1**	**6.7**	**3.6**
New England	**7.4**	**7.3**	**6.7**	**9.1**
Connecticut	9.8	10.5	10.6	28.1
Maine	6.5	6.8	5.7	2.1
Massachusetts	10.2	2.2	1.3	5.7
Rhode Island	1.1	5.8	2.9	0.1
Vermont	5.1	3.6	11.3	1.9
Mid-Atlantic	**6.5**	**1.2**	**3.4**	**2.3**
Delaware	13.7	5.9	5.1	2.9
Maryland	6.2	3.0	1.1	3.6
New Jersey	5.6	5.7	0.7	2.1
New York	7.4	1.0	4.9	1.7
Pennsylvania	3.2	(5.0)	3.6	2.8
Great Lakes	**19.3**	**18.5**	**19.6**	**17.0**
Illinois	50.1	71.7	67.0	64.5
Indiana	7.1	5.9	4.0	4.9
Michigan	8.1	3.3	3.2	1.6
Ohio	10.2	3.3	4.0	4.1
Wisconsin	12.3	2.5	5.9	(2.9)
Plains	**8.2**	**4.9**	**4.8**	**3.7**
Iowa	7.3	3.5	3.1	3.5
Kansas	4.9	5.3	5.4	4.2
Minnesota	12.9	5.6	6.4	4.1
Missouri	4.0	1.4	2.4	2.5
Nebraska	17.4	47.9	19.9	13.0
North Dakota	6.6	6.4	5.0	3.8
Southeast	**4.9**	**4.4**	**4.4**	**1.9**
Alabama	3.4	1.1	1.1	1.1
Arkansas	6.6	4.5	3.8	4.3
Georgia	4.7	4.3	4.0	(0.9)
Kentucky	5.8	4.5	5.1	4.1
Louisiana	7.7	7.9	4.4	ND
Mississippi	1.0	2.9	3.0	3.5
North Carolina	4.5	4.3	5.3	2.4
South Carolina	4.1	4.1	4.8	2.0
Virginia	5.1	4.8	4.0	2.1
West Virginia	5.4	4.4	8.5	7.4
Southwest	**0.1**	**8.9**	**6.4**	**4.4**
Arizona	6.6	11.8	5.2	1.9
New Mexico	(13.4)	7.0	5.2	(0.3)
Oklahoma	(1.9)	5.9	8.5	10.1
Rocky Mountain	**6.7**	**3.7**	**5.2**	**(0.6)**
Colorado	6.5	4.0	4.0	(0.9)
Idaho	10.2	3.7	3.5	3.6
Montana	7.5	5.7	4.3	6.1
Utah	5.2	2.5	8.9	(4.3)
Far West	**7.5**	**4.3**	**4.6**	**(4.3)**
California	7.2	4.0	4.2	(5.9)
Hawaii	0.7	7.7	5.2	3.7
Oregon	12.5	5.8	7.8	7.6

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.

Connecticut from the calculations, personal income tax collections for the nation only grew by 1.3 percent.

We can get a clearer picture of collections from the personal income tax by breaking this source down into two major components for which we have data: withholding and quarterly estimated payments. 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 2011 quarter improved for the eighth quarter in a row, increasing by 3.6 percent for the 40 states with broad-based personal income taxes and for which we have data.

Thirty-four states reported growth in withholding in the fourth quarter of 2011, with four states showing double-digit growth. Illinois and Connecticut reported the strongest growth in the fourth quarter of 2011, at 64.5 and 28.1 percent, respectively. The Great Lakes and New England regions reported the largest growth in withholding at 17.0 and 9.1 percent, while the Far West and Rocky Mountain regions reported declines at 4.3 and 0.6 percent. Again, the strong growth in the Great Lakes region is primarily attributable to Illinois, while the decline in the Far West is mostly attributable to California.

Estimated Payments

High-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. Estimated payments represent a small proportion of overall income-tax revenues — some $6.2 billion, or roughly 9.6 percent of all income-tax revenues, in the fourth quarter of 2011— but they can have a disproportionate impact on the direction of overall collections.

The first estimated 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, the median estimated payment was up by 11.4 percent for all four payments (April 2011-January 2012) and by 4.9 percent for the fourth payment (December 2011-January 2012) compared to the same period of the previous year. Ten states reported declines for the fourth payment. Arkansas was the only state reporting declines in estimated payments for all four payments.

General Sales Tax

State sales tax collections in the October-December 2011 quarter showed growth of 2.4 percent from the same period in 2010. This is the eighth quarter in a row that sales tax collections rose. However, the fourth quarter's rate of growth is below the 2.7 percent and 5.3 percent gains reported in the third and second quarters; and sales tax collections were still down by 3.2 percent from the same period of 2007.

Increases in sales tax collections were reported during the fourth quarter in all regions but the Far West, where receipts dropped by 4.7 percent. The Plains and New England regions reported the largest increases in sales tax collections at 10.6 and 8.4 percent, respectively. The decline in the Far West region is attributable to California, where collections fell by 8.0 percent as a temporary 1 percent addition to the statewide sales and use tax expired. If we exclude California, sales tax collections show a growth of 4.1 percent for the nation in the fourth quarter of 2011.

Thirty-eight of 45 states with broad-based sales taxes reported growth in collections for the fourth quarter of 2011, with four states reporting double-digit gains. North Dakota and Kansas reported the largest increases at 47.6 and 28.0 percent, respectively. In addition to California, six other states reported declines in sales tax collections in the fourth quarter. Arizona reported the largest decline at 16.1 percent followed by North Carolina at 12.8 percent. In North Carolina the decline is largely due to expiration of a 1 percent temporary sales increase as of July 1, 2011. The decline in Arizona is also attributable to the exemption of temporary tax measures.

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 little revenue from corporate taxes and experience large fluctuations in percentage terms.

Corporate tax revenue declined by 9.0 percent in the October-December quarter compared to a year earlier. Three regions — Rocky Mountain, Southwest, and Plains — reported large increases at 54.4, 36.1, and 21.7 percent, respectively. However, most states in these regions collect relatively little from corporate income tax. The other regions reported declines in corporate income tax collections. The Far West region reported the largest decline at 20.7 percent, followed by the Great Lakes at 18.9 percent.

Among 46 states that have a corporate income tax, 24 reported growth, with 20 enjoying double-digit gains. Twenty-two states reported declines for the fourth quarter of 2011 compared to the same quarter of the previous year; 16 states reported double-digit declines. The largest declines in terms of dollar value were reported in Illinois and California, where corporate income tax collections declined by 43.2 and 18.1 percent, respectively. The decline in Illinois is directly related to the timing of the tax amnesty; in November of 2010, approximately $244 million gross, or $178 million net, of the tax amnesty was classified as corporate income tax. The decline in California is partially due to changes in Corporation Tax Law, which reduced the number of required estimated payments from four to three and eliminated the third estimated payment due in September.

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 4, we show four-quarter moving average real growth rates for the nation as a whole.

Revenues from all smaller tax sources, except for property taxes and tobacco product sales taxes, showed at least modest growth. The motor fuel tax, the most significant of the smaller taxes, increased by 3.4 percent in the nation as a whole. State property taxes, a small revenue source for states, fell by 11.5 percent and revenues from tobacco product sales taxes declined by 1.4 percent. Gains of 0.1 and 0.8 percent were reported for alcoholic beverage sales tax and revenue from motor vehicle and operators’ licenses, respectively.

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 generates more revenue 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 falls. Figure 4 illustrates the interplay between the economy and state revenues by showing year-over-year growth for two-quarter moving averages in inflation-adjusted state tax revenue and in real

Table 4. Real Percent Change in 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	Other taxes
Nominal collections (mlns), latest 12 months	$13,055	$40,001	$17,350	$5,772	$24,182	$115,734
2011Q4	(11.5)	3.4	(1.4)	0.1	0.8	6.9
2011Q3	(7.1)	5.2	(0.5)	1.1	0.6	6.8
2011Q2	(2.9)	7.0	0.6	2.3	2.0	6.9
2011Q1	0.9	5.3	2.8	3.3	3.3	6.8
2010Q4	6.2	3.2	3.2	3.3	4.2	6.1
2010Q3	11.2	0.9	2.2	3.0	5.3	3.8
2010Q2	11.0	(0.2)	0.4	2.0	3.7	(2.2)
2010Q1	9.7	(1.0)	(1.3)	0.5	1.3	(9.3)
2009Q4	5.8	(2.1)	(1.8)	0.3	(0.1)	(13.9)
2009Q3	(0.8)	(3.4)	0.1	(0.2)	(1.4)	(13.5)
2009Q2	(2.3)	(5.6)	1.0	(0.4)	(1.2)	(7.0)
2009Q1	(3.9)	(6.2)	2.3	0.1	(0.7)	3.6
2008Q4	(3.1)	(5.1)	2.9	0.2	(1.3)	7.2
2008Q3	1.6	(3.6)	3.3	(0.3)	(0.8)	9.6
2008Q2	3.2	(1.9)	5.7	0.3	(0.5)	7.5
2008Q1	3.9	(1.4)	6.0	0.4	(1.2)	3.1
2007Q4	3.3	(1.9)	5.9	0.4	(0.6)	2.1
2007Q3	1.3	(0.9)	3.8	1.5	(1.0)	(0.5)
2007Q2	(0.3)	(1.3)	0.3	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	2.0
2006Q2	(0.1)	1.4	8.9	1.1	0.7	4.2
2006Q1	0.8	1.5	6.9	2.5	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)	2.7	4.9
2005Q1	1.7	1.4	2.9	(2.4)	3.6	5.7
2004Q4	(4.9)	1.6	3.6	(1.4)	5.6	6.0
2004Q3	(2.3)	1.5	3.6	0.0	6.0	7.6
2004Q2	3.6	2.1	4.8	0.5	6.6	9.0
2004Q1	1.0	0.4	10.5	4.3	5.5	7.5
2003Q4	8.6	(1.0)	17.0	3.9	3.9	5.6
2003Q3	5.6	(1.2)	26.2	2.2	2.8	3.8
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.

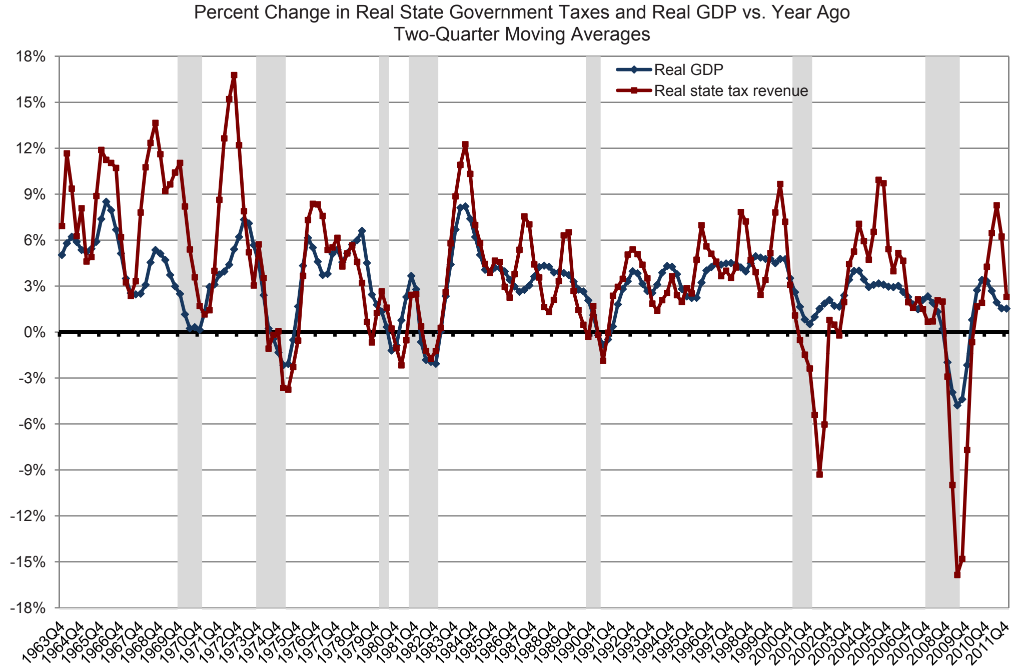
gross domestic product. Two-quarter moving averages were used to smooth short-term fluctuations.

Figure 4 shows that tax revenue is highly related to economic growth. Real Gross Domestic Product showed growth for the eighth consecutive quarter at 1.5 percent. In the fourth quarter of 2011, real state tax revenue showed 2.3 percent growth on this moving-average basis for the seventh consecutive quarter. But there is also significant volatility in tax revenue that is not explained solely by broad trends of the economy. In recent months, state tax revenue has risen rapidly while the overall economy has been growing at a relatively slow pace in the wake of the Great Recession. Such a disparity is not sustainable over time.

Durable goods consumption, an important element of state sales tax bases, showed an increase of 6.8 percent in the fourth quarter of 2011 relative to the same quarter a year ago. 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, at the state level as well as nationally, 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.

Figure 4. 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.

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. Like other researchers, the Rockefeller Institute relies partly 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 5 shows year-over-year employment growth over the last four quarters; the employment data compare the number of people employed in a quarter compared to the same quarter a year ago.

For the nation as a whole, employment grew for the sixth quarter in a row — by 0.9 percent relative to the previous year — in the October-December quarter of 2011. On a year-over-year basis, employment declined in eight states: Alabama, Arkansas, Maine, Mississippi, Missouri, Montana, Rhode Island, and Wisconsin. North Dakota and Utah reported the largest growth in employment at 5.2 and 2.5 percent, respectively. Eight states reported growth of over 1.5 percent.

All regions reported growth in employment in the fourth quarter of 2011, but the job gains were not evenly distributed among regions. New England reported the weakest growth in employment at 0.2 percent. The Southwest reported the largest increase in employment at 1.7 percent, followed by the Rocky Mountain region, which reported 1.5 percent growth.

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.[5] These indexes can be used to measure the scope of economic decline or growth. The analysis of coincident indexes indicates that as of February 2012, all states reported growth in economic activity. This is the second consecutive month in which all states reported economic

Table 5. Nonfarm Employment, By State

Last Four Quarters, Year-Over-Year Percent Change, 2011

	Jan-March	April-June	July-Sep	Oct-Dec
United States	**1.3**	**1.0**	**1.1**	**0.9**
New England	**0.9**	**0.7**	**0.6**	**0.2**
Connecticut	1.6	1.1	0.7	0.5
Maine	0.1	(0.1)	0.3	(0.1)
Massachusetts	0.9	0.8	0.7	0.1
New Hampshire	0.6	0.3	0.6	0.1
Rhode Island	0.4	0.6	0.4	(0.4)
Vermont	1.0	0.4	0.4	0.8
Mid-Atlantic	**1.2**	**0.8**	**1.2**	**1.0**
Delaware	2.1	1.1	0.2	0.0
Maryland	1.7	0.6	1.1	1.5
New Jersey	(0.3)	(0.4)	0.5	0.8
New York	1.4	1.1	1.7	1.2
Pennsylvania	1.7	1.1	1.0	0.7
Great Lakes	**1.5**	**1.2**	**1.0**	**0.6**
Illinois	1.2	1.0	0.8	0.5
Indiana	1.8	1.1	0.9	1.2
Michigan	2.2	2.0	1.8	1.5
Ohio	1.3	1.0	1.0	0.6
Wisconsin	1.3	0.9	0.4	(0.8)
Plains	**1.0**	**0.9**	**0.8**	**0.5**
Iowa	0.8	0.4	0.7	0.4
Kansas	0.9	0.5	0.6	0.9
Minnesota	1.6	1.6	1.4	0.7
Missouri	0.2	0.2	(0.0)	(0.4)
Nebraska	0.7	0.5	0.2	0.3
North Dakota	4.7	4.4	5.0	5.2
South Dakota	1.3	1.0	0.6	0.2
Southeast	**1.2**	**0.9**	**0.9**	**0.9**
Alabama	0.2	(0.4)	(0.4)	(0.3)
Arkansas	0.8	0.0	(0.8)	(0.4)
Florida	1.1	1.0	1.1	1.1
Georgia	1.0	1.2	0.9	0.8
Kentucky	1.7	1.0	1.0	0.9
Louisiana	1.5	0.7	1.3	1.8
Mississippi	0.6	(0.5)	(0.4)	(0.2)
North Carolina	1.4	1.2	1.1	0.7
South Carolina	1.4	1.0	1.0	1.1
Tennessee	1.6	1.2	1.7	1.7
Virginia	1.7	0.9	1.0	1.0
West Virginia	1.0	0.6	0.8	1.4
Southwest	**1.7**	**1.6**	**2.0**	**1.7**
Arizona	0.7	0.6	1.4	1.3
New Mexico	(0.1)	(0.1)	0.4	0.3
Oklahoma	1.2	1.1	1.3	1.7
Texas	2.1	2.0	2.3	1.9
Rocky Mountain	**1.2**	**1.2**	**1.5**	**1.5**
Colorado	1.2	1.4	1.7	1.6
Idaho	0.7	0.3	0.4	0.6
Montana	(0.2)	(0.3)	(0.5)	(0.3)
Utah	1.8	1.8	2.6	2.5
Wyoming	1.2	1.0	1.3	0.5
Far West	**1.3**	**0.7**	**0.9**	**0.9**
Alaska	2.2	1.5	0.8	0.1
California	1.4	0.6	0.7	0.9
Hawaii	1.2	0.7	0.9	0.7
Nevada	0.3	0.2	0.9	1.4
Oregon	1.5	1.0	1.0	0.5
Washington	1.1	1.1	1.5	1.3

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

growth. As of February 2012, economic activities increased by 1.5 percent nationwide compared to three months earlier and by 4.6 percent compared to a year earlier. North Dakota and West Virginia reported the largest increases among all states.

This recent economic growth comes after significant declines in many states. The number of states reporting declines in economic activity was particularly high in the months of June-July 2011. In the month of July 2011, 13 states reported declines in economic activity. The number of states reporting declines in economic activity decreased to 9 in the month of August and dropped to 3 in September. The data underlying these indexes are subject to revision, and so tentative conclusions drawn now could change at a later date. Moreover, it should be noted that this analysis is based on economic activity compared to three months earlier.

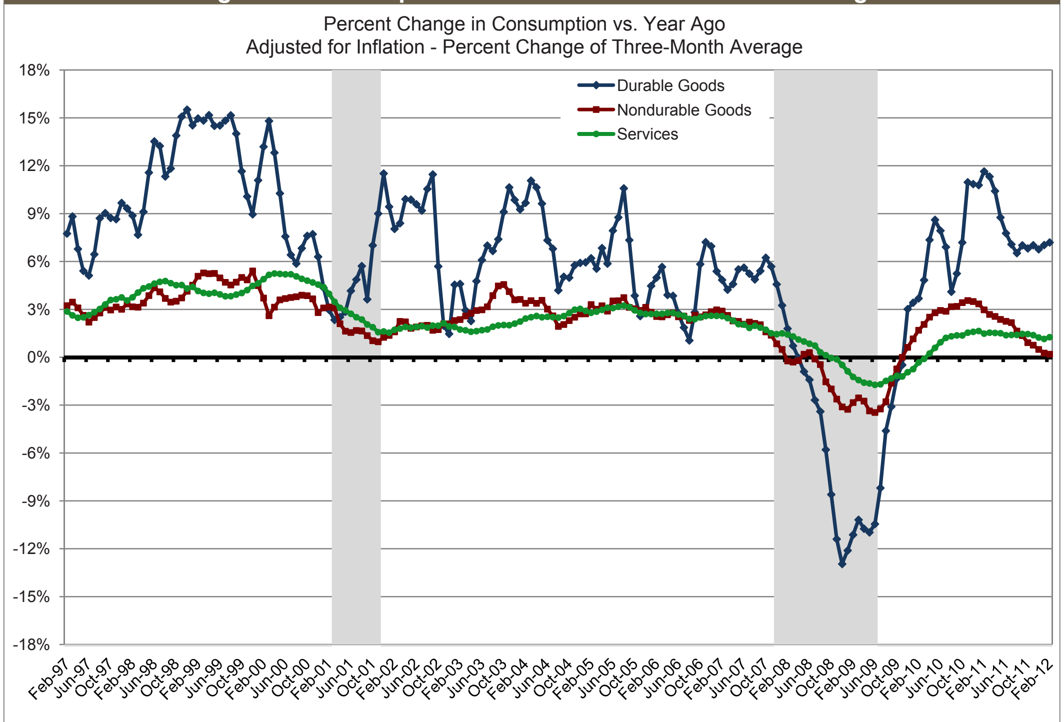
Figure 5 shows national consumption of durable goods, nondurable goods, and services. The decline in consumption of durable and nondurable goods during the recent downturn was much sharper than in the last recession. Consumption of nondurable goods has been weakening in recent months, while consumption of services remained relatively stagnant. Consumption of durable goods showed some growth in the last three months.

Figure 6 shows the year-over-year percent change in the federal government's seasonally adjusted, purchase-only house price index from 1992 through the fourth quarter of 2011. As Figure 6 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 strengthened in 2009 and the first half of 2010, the direction of change has been downward since the second half of the 2010 — with the third and fourth quarters of 2011 showing some improvement from preceding quarters. 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. During the October-December 2011 quarter, enacted tax increases and decreases came close to balancing, producing an estimated net gain of $19.2 million compared to the same period in 2010.[6] Enacted tax changes increased personal income tax for approximately $10 million,

Figure 5. Consumption of Goods and Services Is Softening

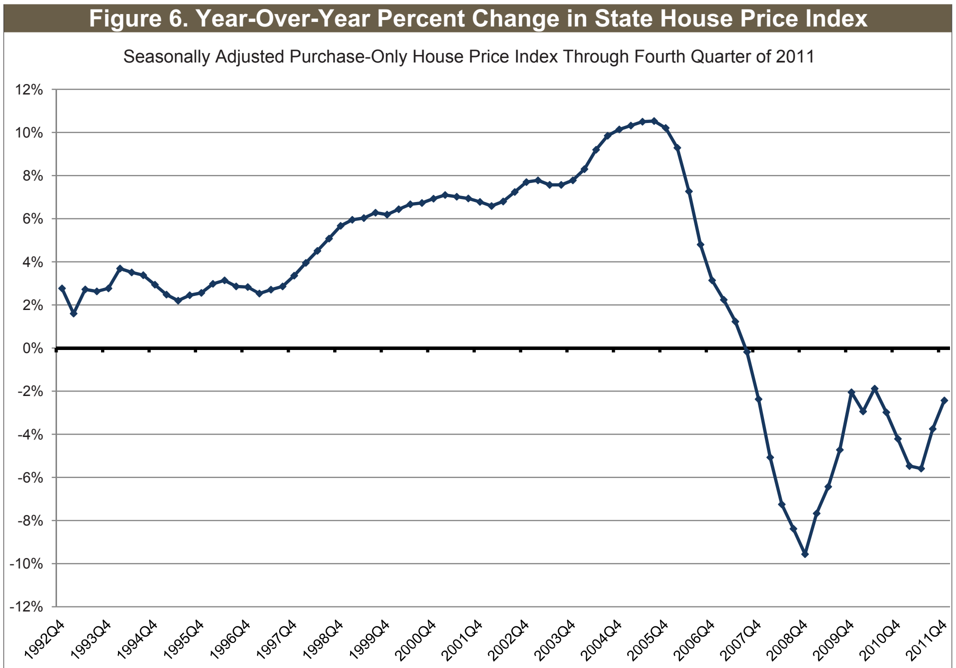


Source: U. S. Bureau of Economic Analysis , National Income and Product Accounts, Table 2.8.6.

decreased sales tax by $170 million, and increased some other taxes by $148 million.

In total, 5 states enacted sales tax reductions in their fiscal 2012 budgets, 14 states in personal income taxes, 13 states in corporate income taxes, and 9 states in other taxes. In addition, 8 states enacted sales tax increases, 3 states in personal income taxes, 4 states in corporate income taxes, and 9 states in other taxes. Among the enacted tax changes, the most noticeable ones are expiration of the temporary sales tax in North Carolina, increase of sales tax in Connecticut, and personal and corporate income tax changes in Connecticut and Michigan.[7]

Figure 6. Year-Over-Year Percent Change in State House Price Index

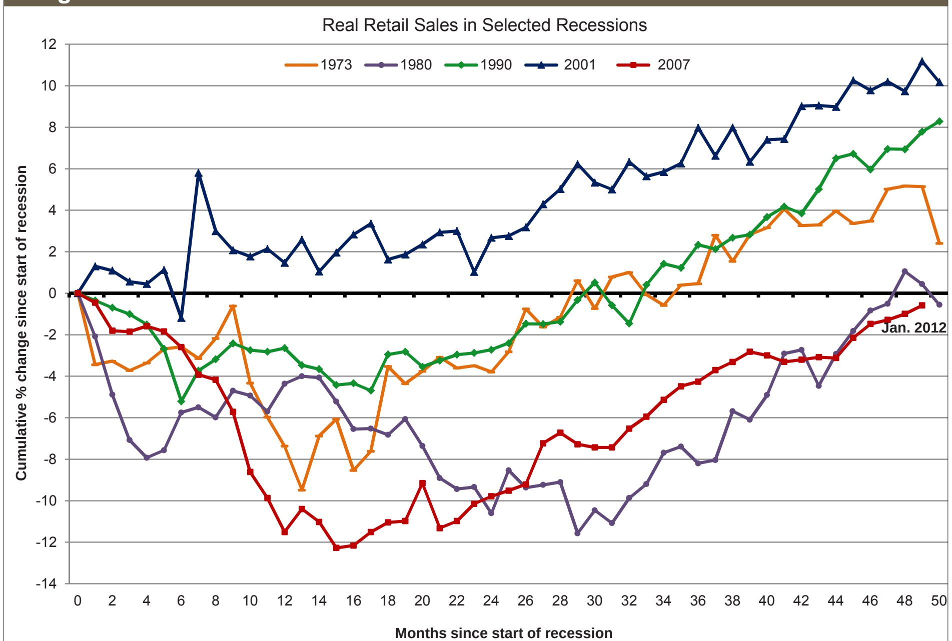


Source: U.S. Federal Housing Finance Agency.

The Impact of Two Major Taxes

States rely on the sales tax for about 30 percent of their tax revenue, and it was hit far harder during and after the last recession than in previous recessions. Retail sales and consumption are major drivers of sales taxes. Figure 7 shows the cumulative percentage change in inflation-adjusted retail sales in the 50 months following the start of each recession from 1973 forward.[8] Real retail sales in the Great Recession (the solid red line) plummeted after December 2007, falling sharply and almost

Figure 7. Real Retail Sales Have Stabilized But Are Still About 1% Below Peak



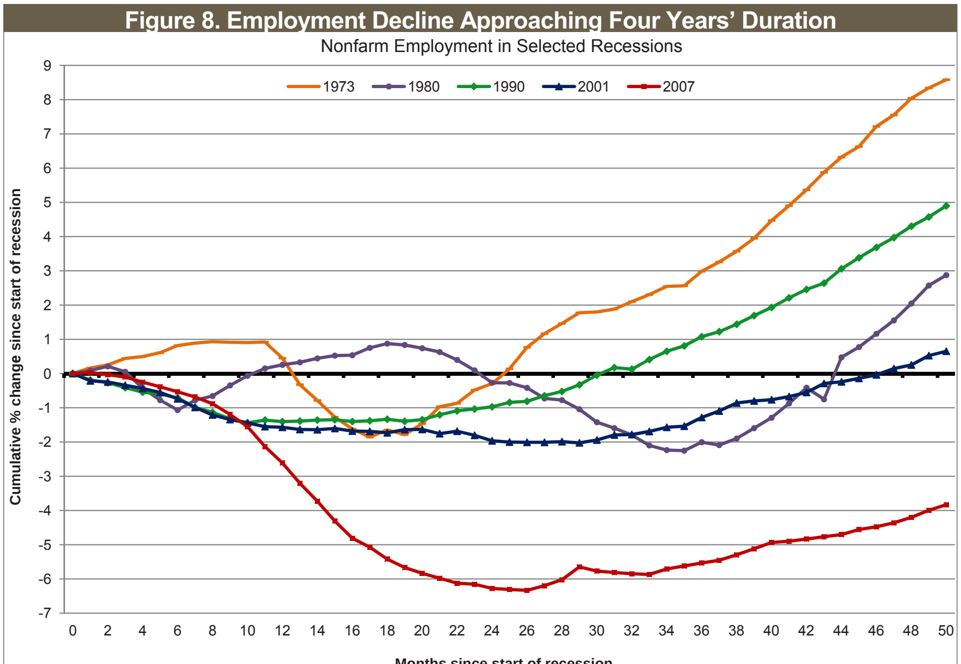
Sources: Cleveland Federal Reserve Bank (pre-1990 retail sales), Census Bureau (1990+), and Bureau of Labor Statistics (CPI).

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.

While real retail sales have been rising from their lows for more than two years now, they are still about 1 percent below their prerecession peak.

States on average count on the income tax for about 36 percent of their tax revenue. Employment and associated wage payments are major drivers of income taxes. Figure 8 shows the cumulative percentage change in nonfarm employment for the nation as a whole in the 50 months following the start of each recession from 1973 forward.[9] The last point for the 2007 recession is February 2012, month 50. As the graph shows, the 3.8 percent employment drop as of February 2012 is still far worse than declines seen in and around previous recessions. The trends depicted in Figure 8 suggest that, unless the pace of growth accelerates, it may take several years before employment reattains its prerecession peak.

Figure 8. Employment Decline Approaching Four Years' Duration



Source: Bureau of Labor Statistics (CES).

Looking Ahead

Preliminary data for the January-February months of 2012 suggest that tax conditions continued to improve in the first quarter of 2012, although the pace of revenue growth remains below long-term averages. With early data for January-February 2012 now available for 45 states, collections increased by 4.0 percent compared to the same months of the previous year. According to the preliminary data, personal income tax collections grew by 2.7 percent and sales tax collections by 3.6 percent.

Starting at the end of the calendar year 2008 and extending through 2009, states suffered five straight quarters of decline in tax revenues. They now have enjoyed eight consecutive periods of growth, and the first quarter of 2012 is likely to extent the string to nine. Such gains appear to be softening, however. Forecasts of only moderate economic growth in 2012 indicate little likelihood of major improvement in revenue performance for states over the short term.

One important development has been a growing divide between state and local revenue trends. State revenues have been recovering for several quarters even in real terms. By contrast, local revenues—largely coming from property taxes—have been declining in real value. As a result, services and functions that are largely funded by local governments, such as education and public safety, are likely to be under severe fiscal pressures for some time if current trends continue.

Table 6. State Tax Revenue, October-December, 2010 and 2011 ($ in millions)

	October-December 2010				October-December 2011			
	PIT	CIT	Sales	Total	PIT	CIT	Sales	Total
United States	**61,773**	**9,239**	**57,868**	**177,626**	**64,356**	**8,405**	**59,257**	**184,100**
New England	**4,844**	**711**	**2,505**	**10,556**	**5,188**	**629**	**2,714**	**10,967**
Connecticut	1,373	75	776	2,959	1,686	106	893	3,408
Maine	348	55	250	906	364	56	262	933
Massachusetts	2,723	429	1,202	5,219	2,727	320	1,262	5,133
New Hampshire	6	118	NA	406	7	117	NA	388
Rhode Island	260	10	196	574	265	11	211	614
Vermont	134	24	81	492	139	19	86	491
Mid-Atlantic	**14,423**	**2,260**	**7,997**	**31,822**	**14,766**	**2,124**	**8,291**	**32,856**
Delaware	240	68	NA	630	262	44	NA	662
Maryland	1,898	126	958	4,040	1,995	166	1,001	4,257
New Jersey	2,267	541	1,889	6,285	2,384	494	1,976	6,524
New York	7,857	1,112	3,017	14,116	7,888	1,132	3,035	14,556
Pennsylvania	2,163	412	2,134	6,751	2,237	289	2,279	6,856
Great Lakes	**8,597**	**1,384**	**8,628**	**26,604**	**10,338**	**1,123**	**8,891**	**28,960**
Illinois	2,176	978	2,022	7,250	3,704	556	2,040	8,617
Indiana	997	147	1,504	3,397	1,070	221	1,594	3,661
Michigan	1,730	102	2,100	6,177	1,763	177	2,121	6,379
Ohio	1,992	(4)	1,976	5,843	2,099	10	2,073	6,311
Wisconsin	1,702	161	1,026	3,936	1,701	160	1,062	3,993
Plains	**4,641**	**397**	**3,682**	**12,471**	**4,950**	**483**	**4,074**	**14,033**
Iowa	715	26	563	1,735	767	81	580	1,879
Kansas	621	77	547	1,583	667	59	700	1,762
Minnesota	1,723	221	1,117	4,594	1,861	228	1,196	5,242
Missouri	1,126	8	730	2,452	1,164	29	736	2,486
Nebraska	388	22	333	905	412	41	360	1,004
North Dakota	68	43	192	859	80	41	283	1,282
South Dakota	NA	1	200	342	NA	4	219	377
Southeast	**11,561**	**1,652**	**13,878**	**38,086**	**11,972**	**1,577**	**14,109**	**39,018**
Alabama	682	73	539	2,127	701	99	560	2,182
Arkansas	553	66	682	2,128	588	70	689	2,241
Florida	NA	428	4,437	7,827	NA	397	4,595	8,022
Georgia	2,156	152	1,192	4,177	2,225	126	1,287	4,323
Kentucky	829	110	733	2,633	843	133	743	2,676
Louisiana	622	48	704	2,081	596	8	696	1,986
Mississippi	352	51	705	1,590	366	58	727	1,667
North Carolina	2,588	246	1,509	5,577	2,687	226	1,316	5,552
South Carolina	962	18	662	2,076	976	43	686	2,110
Tennessee	8	190	1,560	2,410	5	220	1,654	2,616
Virginia	2,482	156	866	4,339	2,625	137	840	4,412
West Virginia	328	115	290	1,120	359	60	317	1,230
Southwest	**1,709**	**213**	**7,678**	**15,405**	**1,889**	**290**	**8,203**	**16,732**
Arizona	813	81	1,347	2,975	874	149	1,131	2,887
New Mexico	288	83	469	1,337	314	53	504	1,343
Oklahoma	609	49	546	1,807	702	87	592	2,047
Texas	NA	NA	5,317	9,285	NA	NA	5,977	10,456
Rocky Mountain	**2,140**	**134**	**1,499**	**5,518**	**2,217**	**207**	**1,533**	**5,812**
Colorado	1,089	66	544	2,179	1,122	109	555	2,295
Idaho	289	27	289	774	306	38	296	802
Montana	190	16	NA	540	215	33	NA	610
Utah	572	24	441	1,309	574	27	441	1,349
Wyoming	NA	NA	225	717	NA	NA	241	756
Far West	**13,858**	**2,487**	**12,002**	**37,164**	**13,037**	**1,972**	**11,442**	**35,722**
Alaska	NA	204	NA	1,037	NA	137	NA	1,419
California	12,204	2,165	8,164	27,863	11,272	1,773	7,513	25,556
Hawaii	378	11	579	1,214	362	(28)	628	1,241
Nevada	NA	NA	657	1,453	NA	NA	701	1,521
Oregon	1,275	107	NA	1,690	1,403	90	NA	2,015
Washington	NA	NA	2,602	3,908	NA	NA	2,600	3,969

Source: U.S. Census Bureau.

Table 7. Quarterly Tax Revenue By Major Tax
October-December, 2010 to 2011, Percent Change

	PIT	CIT	Sales	Total
United States	**4.2**	**(9.0)**	**2.4**	**3.6**
New England	**7.1**	**(11.6)**	**8.4**	**3.9**
Connecticut	22.9	40.7	15.1	15.2
Maine	4.6	1.4	4.7	3.0
Massachusetts	0.2	(25.3)	5.0	(1.7)
New Hampshire	4.0	(1.0)	NA	(4.5)
Rhode Island	2.2	11.3	7.8	7.0
Vermont	3.1	(23.2)	6.5	(0.1)
Mid-Atlantic	**2.4**	**(6.0)**	**3.7**	**3.2**
Delaware	9.4	(35.8)	NA	5.2
Maryland	5.1	31.3	4.5	5.4
New Jersey	5.2	(8.8)	4.6	3.8
New York	0.4	1.8	0.6	3.1
Pennsylvania	3.5	(29.8)	6.8	1.6
Great Lakes	**20.3**	**(18.9)**	**3.0**	**8.9**
Illinois	70.2	(43.2)	0.9	18.8
Indiana	7.3	49.9	6.0	7.8
Michigan	1.9	73.1	1.0	3.3
Ohio	5.4	(342.3)	4.9	8.0
Wisconsin	(0.0)	(1.1)	3.6	1.4
Plains	**6.7**	**21.7**	**10.6**	**12.5**
Iowa	7.3	217.4	3.0	8.3
Kansas	7.4	(23.0)	28.0	11.3
Minnesota	8.0	2.9	7.1	14.1
Missouri	3.3	267.5	0.7	1.4
Nebraska	6.2	89.4	8.1	11.0
North Dakota	18.0	(5.2)	47.6	49.2
South Dakota	NA	281.4	9.4	10.1
Southeast	**3.6**	**(4.6)**	**1.7**	**2.4**
Alabama	2.7	34.9	4.0	2.6
Arkansas	6.3	6.2	1.1	5.3
Florida	NA	(7.2)	3.6	2.5
Georgia	3.2	(17.3)	8.0	3.5
Kentucky	1.7	21.2	1.3	1.6
Louisiana	(4.1)	(82.9)	(1.1)	(4.5)
Mississippi	4.1	13.9	3.1	4.9
North Carolina	3.9	(7.9)	(12.8)	(0.4)
South Carolina	1.4	146.8	3.7	1.6
Tennessee	(37.6)	15.5	6.0	8.5
Virginia	5.8	(12.3)	(3.1)	1.7
West Virginia	9.7	(48.0)	9.3	9.8
Southwest	**10.5**	**36.1**	**6.8**	**8.6**
Arizona	7.5	83.3	(16.1)	(3.0)
New Mexico	9.0	(35.7)	7.5	0.4
Oklahoma	15.2	79.8	8.5	13.3
Texas	NA	NA	12.4	12.6
Rocky Mountain	**3.6**	**54.4**	**2.3**	**5.3**
Colorado	3.0	64.0	2.0	5.3
Idaho	6.0	38.5	2.5	3.7
Montana	13.1	104.8	NA	13.0
Utah	0.5	12.6	(0.0)	3.0
Wyoming	NA	NA	7.1	5.6
Far West	**(5.9)**	**(20.7)**	**(4.7)**	**(3.9)**
Alaska	NA	(33.0)	NA	36.8
California	(7.6)	(18.1)	(8.0)	(8.3)
Hawaii	(4.4)	(351.8)	8.5	2.3
Nevada	NA	NA	6.7	4.7
Oregon	10.1	(15.9)	NA	19.2
Washington	NA	NA	(0.1)	1.6

Source: U.S. Census Bureau.

Adjustments to Census Bureau Tax Collection Data

The numbers in this report differ somewhat from those released by the Bureau of the Census at the end of March of 2012. For reasons we describe below, we have adjusted Census data for selected states to arrive at figures that we believe are best-suited for our purpose of examining underlying economic and fiscal conditions. As a result of these adjustments, we report a year-over-year increase in tax collections of 3.6 percent in the fourth quarter, compared with the 3.5 percent increase that can be computed from data on the Census Bureau's Web site (www.census.gov/govs/qtax.html). In this section we explain how and why we have adjusted Census Bureau data, and the consequences of these adjustments.

The Census Bureau and the Rockefeller Institute engage in two related efforts to gather data on state tax collections, and we communicate frequently in the course of this work. The Census Bureau has a highly rigorous and detailed data collection process that entails a survey of state tax collection officials, coupled with Web and telephone follow-up. It is designed to produce, after the close of each quarter, comprehensive tax collection data that, in their final form after revisions, are highly comparable from state to state. These data abstract from the fund structures of individual states (e.g., taxes will be counted regardless of whether they are deposited to the general fund or to a fund dedicated for other purposes such as education, transportation, or the environment).

The Census Bureau's data collection procedure is of high quality but is labor-intensive and time-consuming. States that do not report in time, or do not report fully, or that have unresolved questions, may be included in the Census Bureau data on an estimated basis, in some cases with data imputed by the Census Bureau. These imputations can involve methods such as assuming that collections for a missing state in the current quarter are the same as those for the same state in a previous quarter, or assuming that collections for a tax not yet reported in a given state will have followed the national pattern for that tax. In addition, state accounting and reporting for taxes can change from one quarter to another, complicating the task of reporting taxes on a consistent basis. For these reasons, some of the initial Census Bureau data for a quarter may reflect estimated amounts or amounts with unresolved questions, and will be revised in subsequent quarters when more data are available. As a result, the historical data from the Census Bureau are comprehensive and quite comparable across states, but on occasion amounts reported for the most recent quarter may not reflect all important data for that quarter.

The Rockefeller Institute also collects data on tax revenue but in a different way and for different reasons. Because historical Census Bureau data are comprehensive and quite comparable, we rely almost exclusively on Census data for our historical analysis. Furthermore, in recent years Census Bureau data have become far more timely and where practical we use them for the most recent quarter as well, although we supplement Census data for certain purposes. We collect our own data on a monthly basis so that we can get a more current read on the economy and state finances. For example, as this report goes to print we have data on tax collections in January and February in 45 states — not enough to use as the basis for a comprehensive report, but useful in understanding what is happening to state finances.

In addition, we collect certain information that is not available in the Census Data — figures on withholding tax collections and payments of estimated income tax, both of which are important to understanding income tax collections more fully.

Our main uses for the data we collect are to report more frequently and currently on state fiscal conditions, and to report on the income tax in more detail.

Ordinarily there are not major differences between our data for a quarter and the Census data, so when we do a full quarterly report we use the Census data without adjustment. But in the October-December quarter there were enough large differences for some states that we decided to adjust the Census data. Table 8 shows the year-over-year percent change in national tax collections for the following sources: (1) preliminary figures collected by the Rockefeller Institute that appeared in our "Data Alert" dated March 19, 2012; (2) preliminary figures as reported by the Census Bureau; and (3) the Census Bureau's preliminary figures with selected adjustments by the Rockefeller Institute.

Table 8. RIG vs. Census Bureau Quarterly Tax Revenue By Major Tax
October-December, 2010 to 2011, Percent Change

	PIT	CIT	Sales	Total
RIG Data Alert	3.5	(3.8)	1.8	2.7
Census Bureau Preliminary	4.0	(9.5)	2.7	3.5
Census Bureau Preliminary with RIG Adjustments	4.2	(9.0)	2.4	3.6

The last set of numbers with our adjustments is what we use as the basis for this report. We made such adjustments for the seven states: Georgia, Hawaii, Michigan, Nevada, New Hampshire, New Jersey, and Wyoming. For 4 of these 7 states the Census Bureau had not received a response in time for its publication and so used imputed data that will be revised in later reports. However, the Institute obtained data from all four; these data may not be as comprehensive as what would be used by the Census Bureau, but we believe they provide a better picture of fiscal conditions than imputed data. In addition, we revised preliminary data reported by the Census Bureau for New Jersey, Nevada, and Wyoming based on information obtained from the states.

Endnotes

1 We made adjustments to Census Bureau data for seven states — Georgia, Hawaii, Michigan, Nevada, New Hampshire, New Jersey, and Wyoming — based upon data and information provided to us directly by these states. These revisions together account for some noticeable differences between the Census Bureau figures and the Rockefeller Institute estimates.

2 We have adjusted the Census Bureau's local tax revenues to reflect differences between the Bureau's prior survey methodology and a revised survey methodology now used for collecting property tax revenues. In particular, 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 January-February 2012 are not available for the following five states: Alaska, Hawaii, Minnesota, Nevada, and New Mexico. Total tax collections for these five states combined represent about 6-7 percent of nationwide tax collections. Therefore, it is unlikely that the nationwide picture for collections during these two months will change once we have complete data for all 50 states for the months of January and February of 2012.

4 See Bureau of Economic Analysis, National Income and Products Accounts Table (Table 1.1.11) at http://www.bea.gov/national/nipaweb/SelectTable.asp.

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); and James H. Stock and Mark W. Watson, "New Indexes of Coincident and Leading Economic Indicators," *NBER Macroeconomics Annual* (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.

7 See "The Fiscal Survey of the States," National Governors Association and National Association of State Budget Officers, Fall 2011.

8 This treats the 1980-82 "double-dip" recession as a single long recession.

9 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.

This report was researched and written by Lucy Dadayan, senior policy analyst. Thomas Gais, director of the Institute and Robert B. Ward, former deputy director of the Institute, provided valuable feedback on the report. Rachel Jones, graduate research assistant, assisted with data collection. Michael Cooper, the Rockefeller Institute's director of publications, did the layout and design of this report, with assistance from Michele Charbonneau.

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