



**THE NELSON A.
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HIGHLIGHTS

- State tax collections for the second quarter of 2009 showed a record drop of 16.6 percent, the second consecutive quarter in which revenues fell more sharply than during any previous time on record.
- Forty-nine states saw total tax revenue fall during the quarter, with 36 states reporting double-digit declines. Both those numbers were up from the first quarter of this year.
- For the year ending in June 2009, the period corresponding to most states' fiscal years, total state tax collections declined by \$63 billion or 8.2 percent from the previous year. That loss is also a record, and is roughly twice the amount states gained during the year in fiscal relief from the federal stimulus package.
- Preliminary figures for July and August for 36 early-reporting states show continued deterioration, with overall tax collections dropping 8 percent. Early indications of September income tax payments provide further evidence of more troubling news for states during the third quarter of 2009.
- Local tax revenue declined by 2.8 percent in nominal terms and 4.2 percent in real terms, marking the first such decline since 2003.

STATE REVENUE REPORT

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State Tax Revenues Show Record Drop, For Second Consecutive Quarter

Fiscal 2009 Also Brought Record Overall Decline of 8.2 Percent, or \$63 Billion

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Overall State Taxes and Local Taxes

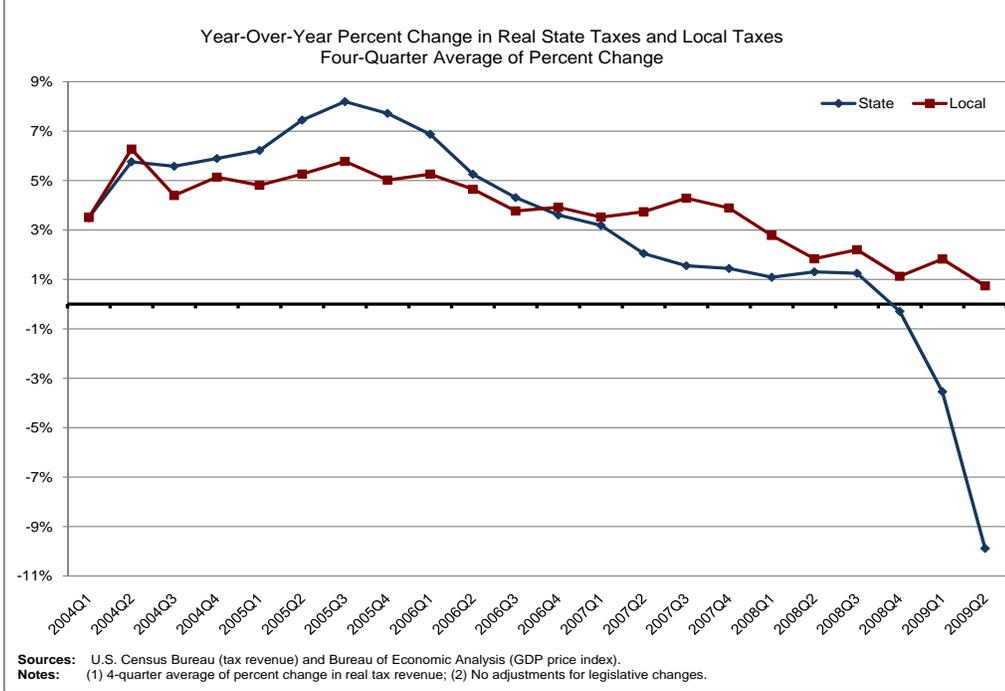
Total state tax collections as well as collections from two major sources — sales tax and personal income — all declined for the third consecutive quarter. Overall state tax collections in the April-June quarter of 2009, as reported by the Census Bureau, declined by 16.6 percent from the same quarter of the previous year. We have compiled historical data from the Census Bureau Web site going back to 1962. Both nominal and inflation adjusted figures indicate that the second quarter of 2009 marked the largest decline in state tax collections at least since 1963. The same is true for combined state and local tax collections, which declined by 12.2 percent in nominal terms.

The trend in state and local tax collections has been clearly downward from 2005 growth that was unusually high, and 2006 growth rates that were more in line with historical averages. Figure 1 shows the four-quarter moving average of year-over-year growth in state tax collections and local tax collections, after adjusting for inflation. The year-over-year change in state taxes, adjusted for inflation, has averaged negative 9.2 percent over the last four quarters, down from the 1.2 percent average growth of a year ago and 2.0 percent of two years ago. Real, year-over-year growth in local taxes has slowed to an average of 0.7 percent over the last four quarters, from 1.6 percent for the preceding year. Inflation for the period, as measured by the gross domestic product deflator, was 1.5 percent.

The local tax slowdown is less severe than the state tax slowdown. In the second quarter of 2009, local tax collections declined by 2.8 percent, mostly due to declines in local income tax and sales tax collections. Most local governments rely heavily on property taxes, which tend to be relatively stable and rose a surprising 3.1 percent during the quarter.

Figure 2 shows the four-quarter average of year-over-year growth in state and local income, sales, and property taxes, adjusted for inflation. Both the income tax and the sales tax have shown slower growth, and then outright decline, over most of the last four years. While the sales tax underperformed the income tax for most

Figure 1. State Taxes Are Faring Worse Than Local Taxes



of that period, the income tax declined sharply and bypassed the sales tax decline in the first and second quarters of 2009, relative to the same periods a year earlier.

State Tax Revenue

Second quarter revenues fell by amounts unseen in at least five decades. Total state tax revenue in the second quarter of 2009 declined by 16.6 percent relative to a year ago, before adjustments. The income tax was down by 27.5 percent, the sales tax

was down by 9.5 percent, and the corporate income tax increased by 2.9 percent. Tables 1 and 2 portray growth in tax revenue with and without adjustment for inflation, and growth by major tax, respectively. Table 1 does not include adjustment for legislative changes. Total tax revenue declined in 49 states in the second quarter of 2009, up from 45 states during the first quarter of 2009. (The

Figure 2. Both Income Tax and Sales Tax Declined Sharply

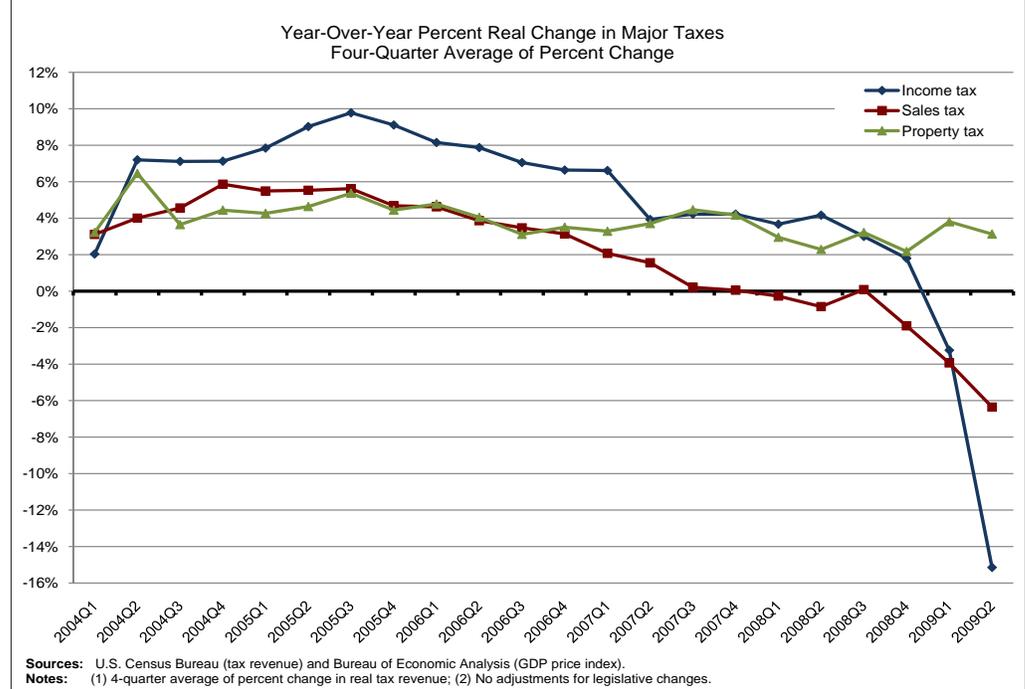


Table 1. Quarterly State Tax Revenue

Quarter	Adjusted for Inflation Year-Over-Year Percent Change		
	Total	Inflation	Adjusted
	Nominal	Rate	Real Change
2009 Q2	(16.6)	1.5	(17.8)
2009 Q1	(11.7)	1.9	(13.4)
2008 Q4	(4.0)	1.9	(5.8)
2008 Q3	2.7	2.5	0.2
2008 Q2	5.0	1.9	3.0
2008 Q1	2.6	2.1	0.4
2007 Q4	3.6	2.7	0.8
2007 Q3	3.0	2.6	0.4
2007 Q2	5.4	3.0	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
Year-Over-Year Percent Change

Quarter	PIT	CIT	General Sales	Total
2009 Q2	(27.5)	2.9	(9.5)	(16.6)
2009 Q1	(17.7)	(20.1)	(8.3)	(11.7)
2008 Q4	(1.4)	(21.9)	(5.3)	(4.0)
2008 Q3	1.4	(12.8)	4.6	2.7
2008 Q2	8.0	(7.3)	0.3	5.0
2008 Q1	5.0	(1.3)	0.6	2.6
2007 Q4	3.8	(14.5)	4.0	3.6
2007 Q3	7.0	(4.3)	(0.7)	3.0
2007 Q2	8.9	1.7	3.5	5.4
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).

exception was Vermont, where the growth in revenues was mostly attributable to a one-time estate tax settlement of nearly \$14 million.) Double-digit declines were reported in 36 states in the second quarter of 2009, compared to 25 states in the first quarter of 2009. Alaska experienced the largest decline of 87 percent in the second quarter of 2009, which is not surprising as the revenue collections were unusually high in the past few quarters due to high oil prices. All regions saw declines in total state tax collections, with the Far West seeing the largest decline at 19.8 percent.

Personal Income Tax

In the second quarter, personal income tax revenue made up at least a third of total tax revenue in 32 states, and was larger than the sales tax in 31 states. The decline in state and local personal income taxes was the greatest both in nominal and real terms in the 45 years for which quarterly data are available.

Personal income tax revenue declined 27.5 percent in the April-June 2009 quarter compared to the same quarter in 2008. That drop is more severe than those seen during the last recession, when the largest decline was reported at 22.3 percent for the second quarter of 2002. Preliminary figures for the 36 early-reporting states indicate that personal income tax collections declined 8.6 percent in July-August 2009 compared to the same period of 2008. Among the regions, the largest decline in state personal income tax revenue was in the Southwest, where collections dropped by 35.5 percent. Personal income tax collections declined by at least 20 percent in the rest of the regions, with the Plains region reporting the lowest decline at 20.9 percent.

Only two states — North Dakota and West Virginia — reported growth at 12.4 and 2.1 percent, respectively. New Mexico and Arizona reported the largest declines in personal income tax collections at 59.0 and 44.5 percent, respectively.

We can get a clearer picture of collections from the personal income tax by breaking this source down into major component parts for which we have data: withholding and quarterly estimated payments. The Census Bureau does not currently collect data on withholding taxes and estimated payments. The data presented here were collected by the Rockefeller Institute.

Withholding

Withholding is a good indicator of the current strength of personal income tax revenue because it comes largely from current wages and is much less volatile than estimated payments or final settlements. Table 3 shows that withholding for the April-June 2009 quarter declined by 4.0 percent for 37 early-reporting states that have broad-based income taxes. Thirty-two of 38 early-reporting states had declines in withholding, with Montana and Louisiana reporting the largest declines at 32.9 and 15.3 percent, respectively. The six states that reported growth in withholding for the second quarter were Hawaii, Iowa, Nebraska, North Dakota, Virginia, and West Virginia.

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

Table 3. Personal Income Tax Withholding, By State

	Last Four Quarters, Percent Change			
	2008		2009	
	July-Sep	Oct-Dec	Jan.-March	April-June
United States	3.2	0.5	(8.0)	(4.0)
New England	2.6	0.4	(5.5)	(4.1)
Connecticut	2.5	1.0	(7.7)	(5.5)
Maine	3.9	2.5	(3.3)	(2.0)
Massachusetts	2.4	(0.3)	(4.7)	(3.5)
Rhode Island	1.6	0.2	(5.3)	(4.5)
Vermont	7.2	3.9	(2.1)	(0.3)
Mid-Atlantic	4.8	2.3	(11.4)	(1.7)
Delaware	0.6	(1.1)	(3.5)	(2.5)
Maryland	2.8	1.1	(2.6)	(2.1)
New Jersey	(1.1)	3.9	(10.3)	ND
New York	7.6	2.4	(16.5)	(1.1)
Pennsylvania	2.0	2.0	(1.7)	(2.8)
Great Lakes	4.1	(1.0)	(5.4)	(6.3)
Illinois	3.6	0.0	(6.1)	(4.3)
Indiana	2.0	1.9	(5.1)	ND
Michigan	8.1	1.4	(6.6)	(8.3)
Ohio	(3.0)	(3.6)	(8.2)	(9.8)
Wisconsin	13.7	(4.3)	(0.8)	(3.1)
Plains	4.5	3.7	(2.3)	(3.6)
Iowa	4.4	2.4	1.3	1.2
Kansas	6.0	2.9	(0.5)	(1.9)
Minnesota	6.0	2.0	(5.0)	(6.4)
Missouri	3.1	9.0	(2.8)	(5.5)
Nebraska	(1.5)	(3.2)	(1.9)	1.5
North Dakota	19.3	11.3	20.4	10.0
Southeast	2.5	2.2	(6.0)	(2.6)
Alabama	(0.4)	(1.4)	(4.8)	(2.5)
Arkansas	3.1	0.2	1.8	(0.1)
Georgia	0.1	(0.5)	(7.9)	(4.2)
Kentucky	3.4	2.3	(2.6)	(2.6)
Louisiana	(2.1)	3.3	(14.7)	(15.3)
Mississippi	2.3	3.1	(2.2)	(2.3)
North Carolina	2.8	3.3	(9.7)	(3.7)
South Carolina	3.3	(2.7)	(4.7)	(5.7)
Virginia	5.5	6.2	(4.4)	2.6
West Virginia	5.2	7.7	2.3	0.3
Southwest	(2.1)	(1.0)	(8.0)	(10.9)
Arizona	(1.7)	(3.0)	(13.4)	(11.5)
New Mexico	(12.2)	(2.7)	4.0	ND
Oklahoma	1.4	2.5	(4.7)	(10.0)
Rocky Mountain	(1.0)	(0.9)	(5.4)	(7.3)
Colorado	4.5	2.2	(3.4)	(4.6)
Idaho	(4.0)	(2.0)	(8.6)	(10.2)
Montana	9.6	18.1	(1.4)	(32.9)
Utah	(12.0)	(11.0)	(8.9)	(1.5)
Far West	2.8	(3.0)	(10.4)	(4.7)
California	2.5	(3.5)	(11.1)	(5.5)
Hawaii	3.8	4.6	(5.0)	5.2
Oregon	4.2	(1.5)	(5.6)	(2.0)

Source: Individual state data, analysis by Rockefeller Institute.

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

Table 4. Estimated Payments/Declarations, By State

	Year-Over-Year Percent Change	
	April 2009	April-June 2009
	(first payment)	(first two payments)
Average (Mean)	(22.3)	(23.9)
Median	(31.1)	(32.3)
Alabama	(44.8)	(37.5)
Arizona	(46.7)	(44.9)
Arkansas	(26.7)	(29.7)
California	(27.2)	(26.8)
Colorado	(46.5)	(44.0)
Connecticut	(37.5)	(35.3)
Delaware	(40.0)	(35.1)
Georgia	(16.4)	(31.5)
Hawaii	2.8	(47.0)
Illinois	(43.6)	(42.5)
Indiana	(64.5)	ND
Iowa	(22.6)	(22.2)
Kansas	(28.5)	(29.5)
Kentucky	(31.1)	(29.5)
Louisiana	(20.2)	(31.1)
Maine	(36.2)	(31.0)
Maryland	(30.7)	(32.3)
Massachusetts	(28.9)	(36.4)
Michigan	(42.8)	(39.2)
Minnesota	(32.0)	(32.0)
Missouri	(25.6)	(32.1)
Montana	(14.5)	(26.0)
Nebraska	(29.8)	(28.4)
New Jersey	(36.2)	ND
New York	(52.1)	(47.0)
North Carolina	(40.7)	(37.9)
North Dakota	(11.8)	2.1
Ohio	(34.7)	(36.7)
Oklahoma	(31.9)	(24.2)
Oregon	(27.7)	(34.4)
Pennsylvania	(33.2)	(32.3)
Rhode Island	(40.0)	(38.6)
South Carolina	(27.6)	(38.3)
Vermont	(25.5)	(30.9)
Virginia	10.2	(13.1)
West Virginia	301.6	271.9
Wisconsin	(39.7)	(34.6)

Source: Individual state data, analysis by Rockefeller Institute.

Note: ND - No Data

these payments. And when the market declines or profits fall, these payments often decline.

The first payment for each tax year is due in April in most states and the second, third, and fourth are generally due in June, September, and January. The early payments often are made on the basis of the previous year's tax liability and may offer little insight into income in the current year. It is not safe to extrapolate trends from the first payment, or often even from the first several payments. In the 35 states for which we have complete data for the first and second payments,

the median payment was down by 32.3 percent (see Table 4). Declines were recorded in 33 of 35 states for the first two payments. The two states reporting growth for the first and second payments were North Dakota and West Virginia.

General Sales Tax

Reported sales tax collections in the April-June 2009 quarter were down 9.5 percent from the same quarter in 2008. This decline is far worse than the worst sales tax revenue decline in the previous recession. The decline in state and local sales taxes was also the greatest in the 45 years for which quarterly data are available. After adjusting for inflation using the gross domestic product price index, Census Bureau data show that state and local sales tax declined by 10.6 percent in the April-June quarter of 2009 — far more than in any quarter since 1963.

Sales tax declines were reported in all regions. The Rocky Mountain had the largest decline at 12.3 percent, followed by the Southwest region at 10.9 percent. The Plains region saw the lowest decline in sales tax revenue collections in the second quarter at 3.5 percent.

Forty-two of 45 states with broad-based sales taxes had declines, and 14 states had double-digit declines. South Dakota had the largest increase at 15.0 percent. Wisconsin led the states with the largest decline at 34.4 percent followed by Arizona at 27.3 percent.

Corporate Income Tax

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

Nominal corporate tax revenue increased 2.9 percent in the April-June quarter compared to a year earlier, mostly due to legislated tax increases in California. If we exclude California, corporate income tax collections show decline of 16.4 percent. All regions but the Far West reported sharp declines, with the Southwest region reporting the largest decline at 35.8 percent. Among 46 states for which the Census Bureau reported corporate tax data, 37 showed decreases in corporate tax revenue.

Other Taxes

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

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

Year-Over-Year Real Percent Change; Four-Quarter Moving Averages						
	Property tax	Motor fuel sales tax	Tobacco product sales tax	Alcoholic beverage sales tax	Motor vehicle & operators license taxes	Other taxes
Collections (millions), latest 12 months	\$12,825	\$36,524	\$16,653	\$5,340	\$21,711	\$102,396
2009Q2	(1.9)	(4.7)	0.8	(0.5)	(2.9)	(8.5)
2009Q1	(3.4)	(5.0)	2.3	0.1	(1.8)	2.4
2008Q4	(2.6)	(4.3)	2.8	0.2	(2.1)	6.1
2008Q3	1.8	(3.3)	3.2	(0.4)	(1.2)	8.8
2008Q2	3.4	(2.0)	5.6	0.3	(0.6)	7.1
2008Q1	3.9	(1.4)	6.0	0.4	(1.2)	3.0
2007Q4	3.4	(1.8)	6.0	0.4	(0.6)	2.1
2007Q3	1.4	(0.8)	3.8	1.5	(0.9)	(0.5)
2007Q2	(0.3)	(1.3)	0.4	1.3	(1.0)	(1.4)
2007Q1	1.7	(0.1)	1.5	0.5	0.4	(1.1)
2006Q4	0.1	0.7	2.6	1.0	0.9	(0.4)
2006Q3	(0.3)	(1.1)	5.3	1.1	0.8	1.9
2006Q2	(0.2)	1.4	8.9	1.1	0.7	4.2
2006Q1	0.8	1.5	6.9	2.4	0.1	5.2
2005Q4	1.9	2.1	5.4	1.6	0.3	7.1
2005Q3	3.4	3.6	4.2	(0.2)	1.9	6.3
2005Q2	3.5	0.9	2.1	(0.6)	2.6	4.9
2005Q1	1.7	1.4	2.9	(2.4)	3.5	5.7
2004Q4	(4.9)	1.6	3.5	(1.5)	5.5	6.0
2004Q3	(2.4)	1.5	3.5	(0.0)	6.0	7.5
2004Q2	3.5	2.1	4.8	0.4	6.6	8.9
2004Q1	1.0	0.3	10.5	4.3	5.5	7.5
2003Q4	8.6	(1.0)	17.0	3.9	3.8	5.5
2003Q3	5.5	(1.3)	26.1	2.2	2.8	3.7
2003Q2	(1.1)	(0.4)	35.7	3.1	2.6	2.6
2003Q1	(5.0)	0.7	27.1	0.6	3.6	2.2
2002Q4	(4.8)	1.0	17.2	(0.1)	2.9	2.1
2002Q3	(6.7)	0.7	5.6	2.7	2.5	2.6
2002Q2	(4.4)	1.1	(5.9)	(0.2)	0.6	3.4
2002Q1	5.1	1.7	(5.0)	(0.2)	(1.2)	2.1
2001Q4	2.7	2.5	(1.5)	0.5	(2.9)	2.5
2001Q3	(0.3)	3.5	2.6	(1.4)	(3.3)	1.5
2001Q2	(5.0)	2.5	7.6	1.7	(0.7)	0.9
2001Q1	(12.6)	1.2	8.4	1.4	2.4	3.6
2000Q4	(11.1)	1.2	5.9	1.8	5.9	4.2
2000Q3	(4.1)	1.3	1.7	3.2	6.9	6.5
2000Q2	(2.6)	1.2	(1.3)	2.2	5.9	7.9
2000Q1	2.5	2.3	(4.5)	3.2	3.0	4.7
1999Q4	1.2	2.4	(5.3)	2.7	1.7	3.6
1999Q3	(1.5)	1.6	(2.9)	1.7	1.2	2.9
1999Q2	0.8	2.1	(1.0)	1.4	0.9	1.3
1999Q1	3.9	2.5	1.3	1.5	1.0	2.8

Source: U.S. Census Bureau.

Motor fuel tax revenue continued to decline for the tenth consecutive quarter with a drop of 4.7 percent. Revenue from motor vehicle and operators' licenses also fell, for the ninth consecutive quarter, by 2.9 percent. State property taxes declined by 1.9 percent.

Underlying Reasons for Trends

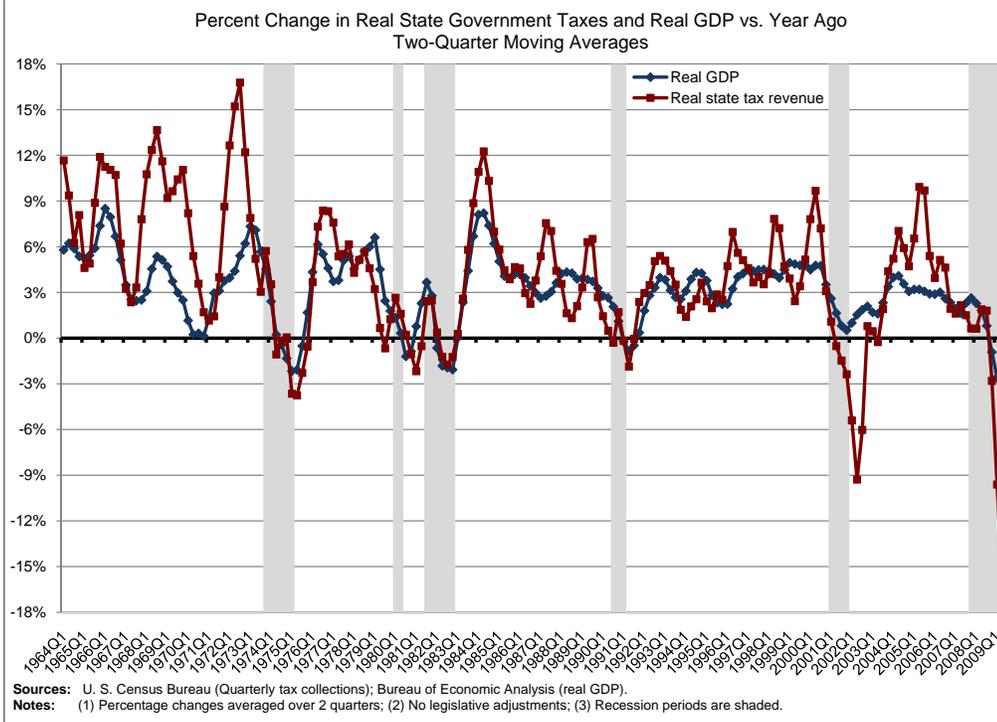
State revenue changes result from three kinds of underlying forces: differences in the national and state economies, the ways in which these differences affect each state's tax system, and legislated tax changes. The next two sections discuss the economy and recent legislated changes.

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 in-

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

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



in real state tax revenue collections is mostly due to huge falloff in income tax in the April-June quarter of 2009, when 2008 income tax returns were due.¹

The National Bureau of Economic Research has declared that a recession began in December 2007. Real gross domestic product declined at an annual rate of 0.7 percent in April-June 2009, a significant improvement from the 6.4 percent decline in the January-March quarter. The last time we saw large declines in

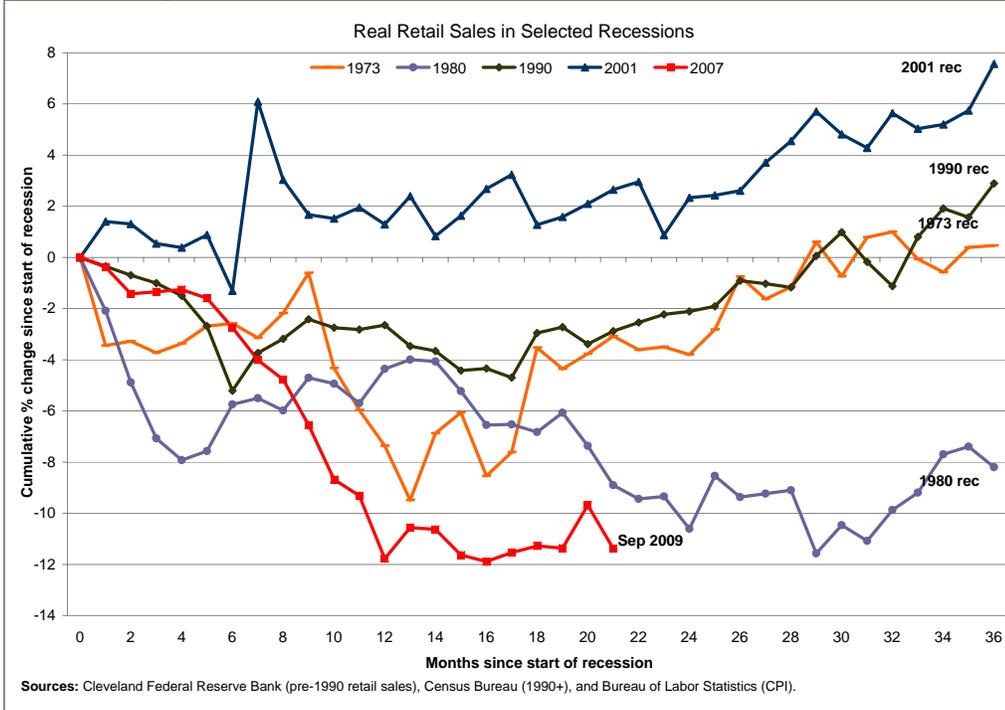
real GDP was during the double-dip recession of the early 1980s, when economic activity fell by 7.8 percent for the second quarter of 1980 and 6.4 percent for the first quarter of 1982.

Among individual sectors during the most recent quarter, investments in structures declined 17.3 percent. Residential investment declined by 23.3 percent – its 14th straight decline. Durable goods consumption, an important element of state sales tax bases, after some increase in the previous quarter declined by 5.6 percent in the second quarter of 2009.

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

Figure 4 shows cumulative percent change in real retail sales since the start of the most five recessions. As shown on Figure 4, real retail sales have fallen faster and more sharply compared to

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



previous downturns. While retail-sales figures stopped their sharp decline and started bouncing along the bottom for the past several months, the levels are still significantly lower compared to the start of the recession. The upward spike in August is partially related to the federal “Cash for Clunkers” incentive, which may diminish sales and tax revenue somewhat in September or October.

Unfortunately, state-by-state data on income and consumption are not available

on a timely basis, and so we cannot easily see variation across the country in these trends. Traditionally, the Rockefeller Institute has relied on employment data from the Bureau of Labor Statistics to examine state-by-state economic conditions. These data are relatively timely and are of high quality. Table 6 shows year-over-year employment growth for the last four quarters. For the nation as a whole, employment declined by 3.9 percent in the April-June quarter. On a year-over-year basis, employment declined in all states except for North Dakota.

The regional patterns are quite varied: The Great Lakes, Far West, and Southeast regions have suffered a malaise for more than a year and saw large employment declines in the second quarter at 5.2, 4.7, and 4.1 percent, respectively. Michigan, Arizona, and Nevada reported the largest declines in employment in the second quarter of 2009 compared to the same quarter of 2008 at 7.4, 7.3, and 6.1 percent, respectively.

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

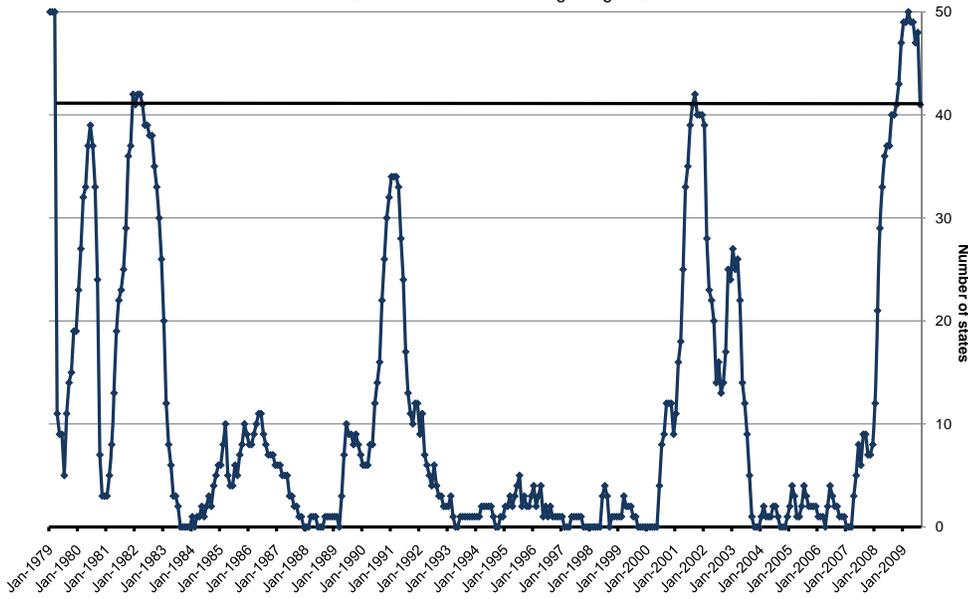
Economists at the Philadelphia Federal Reserve Bank developed broader and highly timely measures known as “coincident

Table 6. Nonfarm Employment, By State				
Last Four Quarters, Year-Over-Year Percent Change				
	2008		2009	
	July-Sep	Oct-Dec	Jan-Mar	Apr-June
United States	(0.5)	(1.6)	(3.0)	(3.9)
New England	(0.2)	(1.4)	(2.7)	(3.5)
Connecticut	(0.1)	(1.2)	(2.8)	(3.9)
Maine	(0.3)	(2.0)	(2.5)	(3.3)
Massachusetts	0.2	(1.1)	(2.7)	(3.4)
New Hampshire	(0.1)	(0.8)	(1.4)	(2.2)
Rhode Island	(2.3)	(3.0)	(4.2)	(4.2)
Vermont	(0.7)	(2.2)	(3.9)	(4.2)
Mid-Atlantic	0.2	(0.8)	(2.0)	(2.8)
Delaware	(0.8)	(2.5)	(4.2)	(4.8)
Maryland	(0.5)	(1.3)	(2.0)	(2.5)
New Jersey	(0.7)	(1.7)	(2.8)	(3.4)
New York	1.0	(0.2)	(1.5)	(2.3)
Pennsylvania	0.0	(0.7)	(1.9)	(3.0)
Great Lakes	(1.2)	(2.3)	(4.2)	(5.2)
Illinois	(0.5)	(1.8)	(3.4)	(4.5)
Indiana	(1.0)	(2.0)	(3.8)	(5.0)
Michigan	(2.8)	(3.9)	(6.4)	(7.4)
Ohio	(1.1)	(2.2)	(4.2)	(4.9)
Wisconsin	(0.8)	(1.4)	(3.3)	(4.3)
Plains	0.1	(0.5)	(1.8)	(2.8)
Iowa	0.3	(0.6)	(1.5)	(2.7)
Kansas	0.3	0.1	(1.1)	(3.0)
Minnesota	(0.4)	(1.3)	(3.0)	(3.8)
Missouri	(0.2)	(0.7)	(1.9)	(2.6)
Nebraska	0.4	0.1	(1.3)	(2.0)
North Dakota	2.6	1.8	0.6	1.2
South Dakota	0.9	0.7	(0.8)	(1.7)
Southeast	(1.2)	(2.4)	(3.6)	(4.1)
Alabama	(0.6)	(1.9)	(3.9)	(4.6)
Arkansas	0.1	(0.6)	(1.9)	(2.3)
Florida	(3.5)	(4.3)	(5.0)	(5.0)
Georgia	(1.3)	(2.7)	(4.1)	(5.1)
Kentucky	(0.7)	(1.9)	(3.4)	(4.2)
Louisiana	1.2	0.8	0.4	(0.6)
Mississippi	(1.0)	(2.1)	(3.2)	(3.0)
North Carolina	(0.6)	(2.1)	(4.3)	(4.9)
South Carolina	(1.2)	(2.7)	(4.3)	(4.6)
Tennessee	(1.2)	(2.3)	(3.9)	(4.7)
Virginia	0.1	(1.3)	(2.1)	(2.5)
West Virginia	0.6	(0.2)	(1.6)	(3.0)
Southwest	1.0	0.2	(1.6)	(3.0)
Arizona	(2.3)	(4.4)	(6.6)	(7.3)
New Mexico	0.5	(0.4)	(1.4)	(2.7)
Oklahoma	1.6	1.2	(0.4)	(2.0)
Texas	1.9	1.2	(0.5)	(2.1)
Rocky Mountain	0.4	(0.9)	(2.3)	(3.7)
Colorado	0.7	(0.8)	(2.5)	(4.1)
Idaho	(1.0)	(3.0)	(4.3)	(4.9)
Montana	0.2	(0.6)	(1.3)	(1.8)
Utah	(0.2)	(1.0)	(2.1)	(3.5)
Wyoming	3.4	3.0	1.0	(1.9)
Far West	(1.1)	(2.3)	(3.7)	(4.7)
Alaska	1.7	1.6	0.9	(0.1)
California	(1.5)	(2.5)	(3.8)	(4.9)
Hawaii	(1.5)	(2.3)	(3.0)	(3.1)
Nevada	(2.0)	(3.9)	(5.2)	(6.1)
Oregon	(0.4)	(2.3)	(4.5)	(5.5)
Washington	0.9	(1.0)	(2.4)	(3.5)

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

Figure 5. Economy Is Declining in 41 States

Number of States With Economy Declining Compared to Three Months Earlier
Coincident Economic Indexes - Through August 2009



Source: Federal Reserve Bank of Philadelphia.

economic indexes” intended to provide information about current economic activity in individual states. Unlike leading indexes, these measures are not designed to predict where the economy is headed; rather, they are intended to tell us where we are now.² They are modeled on a similar measure for the nation as a whole, but due to limited availability of state-level data they are focused on labor market conditions, incorporating information from nonfarm payroll employment, average

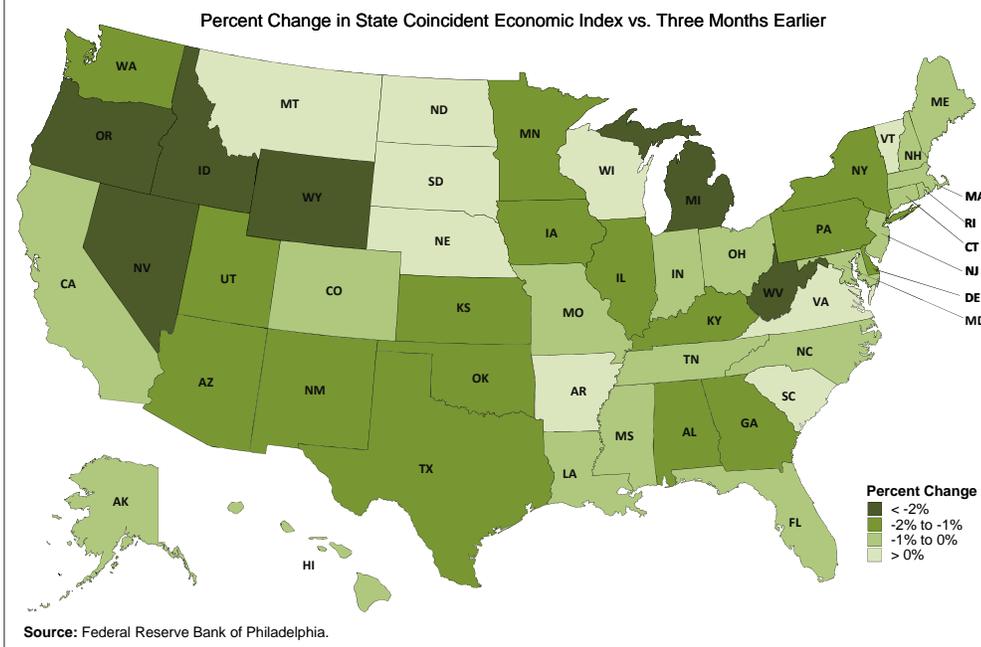
hours worked in manufacturing, the unemployment rate, and real wage and salary disbursements. These indexes can be used to measure the scope of economic decline.

Figure 5 shows, by month over the last three decades, the number of states that had declining economic activity relative to three months earlier. As recently as in January of 2008, only 12 states suffered declines, but since then economic weakening has spread rapidly throughout the country. By March of 2009, all 50 states had declines in economic activity (as measured by the coincident index) compared with three months earlier. That was the first time that all 50 states had declines in economic activity (as measured by this index) since 1979. By August of 2009, 41 states had declines in economic activity. The horizontal line drawn to the left of the August 2009 point on the graph shows that declines now are more widespread than in the previous recessions. The data underlying these indexes are subject to revision, and so tentative conclusions drawn now could change at a later date.

Figure 6 shows state-by-state variation in economic activity relative as of August 2009. Six states reported declines of more than two percent, with Michigan reporting the largest decline at 5.1 percent. Many of the states with the largest declines, toward the bottom of the list, have suffered heavily from large declines in the price of housing and in the financial markets.

Figures 5 and 6 show the breadth of economic decline but provide little information on the depth of decline. Figure 7 shows the median percentage change compared to three months earlier — in a sense, how the typical state has been faring. The median state change generally will not be the same as the national change

Figure 6. In August: 41 States Had Declining Economies



because it gives every state equal importance – in this measure, California is no more important than Wyoming.

Here we can see that the most-recently reported decline in the typical state is worse than those of the 1980-82, 1991, and 2001 recessions. Even though there was something of an upward spike in the last few months, the declines are still far deeper compared to the previous two recessions.³

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 April-June 2009 quarter, enacted tax changes increased state revenue by an estimated net of \$2.8 billion compared to the same period in 2008. Sales tax increases accounted for approximately \$1.5 billion of the change, and corporate income tax accounted for a \$1.0 billion increase. In a single state, California, legislated changes increased corporate income tax collection by an estimated \$1.2 billion and sales tax collection by an estimated \$1.2 billion; reductions in other states' corporate and sales taxes partially offset that increase.⁴

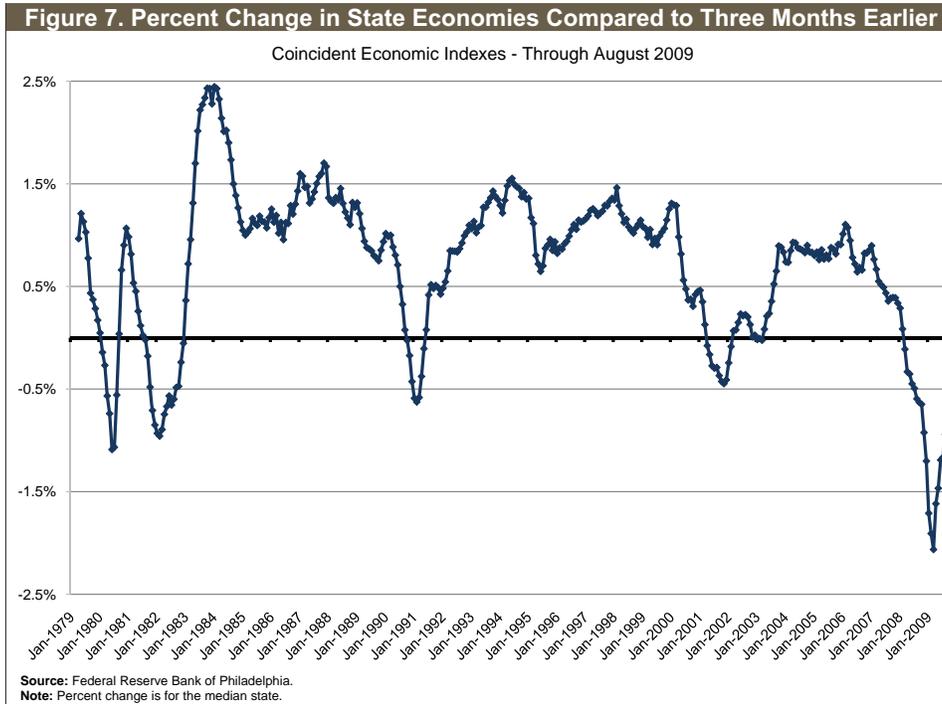
The net impact is that the decline in nominal tax revenue would have been even larger, if not for the legislated tax changes.

Table 7. State Economic Activity: Declining in 41 States

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

State	Coincident index August 2009 (Jan 2007=100)	Percent change vs. 1 year ago (August 2008)	Percent change vs. 3 months ago (May 2009)
North Dakota	103.4	1.4	0.9
Vermont	94.5	(4.6)	0.5
Arkansas	96.8	(2.4)	0.4
South Carolina	92.0	(5.9)	0.3
South Dakota	99.4	(1.6)	0.2
Wisconsin	95.8	(3.8)	0.2
Nebraska	97.7	(2.5)	0.0
Virginia	97.6	(2.3)	0.0
Montana	97.5	(2.4)	0.0
Mississippi	97.0	(2.0)	(0.0)
Rhode Island	94.0	(3.8)	(0.2)
Tennessee	95.0	(4.0)	(0.3)
New Hampshire	97.1	(3.1)	(0.3)
Indiana	92.9	(6.0)	(0.3)
United States	96.6	(3.4)	(0.4)
North Carolina	93.0	(5.9)	(0.4)
Louisiana	99.1	(1.3)	(0.5)
Colorado	96.0	(4.3)	(0.5)
New Jersey	95.1	(4.2)	(0.5)
Alaska	101.2	(0.3)	(0.5)
Ohio	90.2	(8.6)	(0.6)
Maine	93.9	(4.9)	(0.7)
Florida	91.5	(5.5)	(0.8)
Hawaii	92.5	(5.0)	(0.9)
California	94.0	(5.1)	(0.9)
Connecticut	94.8	(4.7)	(0.9)
Missouri	94.4	(5.1)	(1.0)
Massachusetts	95.3	(5.2)	(1.0)
Maryland	93.2	(5.5)	(1.0)
New Mexico	96.6	(3.7)	(1.1)
Minnesota	92.3	(7.2)	(1.2)
Oklahoma	97.6	(4.0)	(1.2)
Texas	98.5	(3.0)	(1.2)
Iowa	95.8	(4.4)	(1.4)
Delaware	89.1	(8.0)	(1.4)
New York	88.6	(9.5)	(1.4)
Utah	95.3	(4.4)	(1.4)
Alabama	88.7	(9.4)	(1.4)
Kentucky	89.6	(8.7)	(1.4)
Kansas	93.5	(6.5)	(1.5)
Georgia	92.1	(6.3)	(1.5)
Washington	84.1	(13.6)	(1.5)
Arizona	89.3	(7.9)	(1.6)
Pennsylvania	87.5	(10.8)	(1.7)
Illinois	91.1	(7.1)	(1.8)
Idaho	90.2	(7.3)	(2.0)
Wyoming	97.6	(4.5)	(2.2)
Oregon	76.1	(19.4)	(2.4)
West Virginia	84.9	(16.3)	(2.9)
Nevada	79.6	(16.0)	(5.0)
Michigan	77.3	(19.1)	(5.1)

Source: Federal Reserve Bank of Philadelphia.



The median level of states' economic strength improved in the most recent month, but typical declines are still far deeper than in other recent recessions.

Table 8. State Tax Revenue, April-June, 2008 and 2009 (\$ in millions)

	2008				2009			
	PIT	CIT	Sales	Total	PIT	CIT	Sales	Total
United States	98,715	16,558	63,456	239,520	71,578	17,046	57,437	199,725
New England	8,435	1,059	2,495	15,171	6,194	986	2,284	12,657
Connecticut	2,695	204	860	4,514	1,958	189	785	3,619
Maine	628	70	338	1,361	461	51	316	1,152
Massachusetts	4,430	506	1,017	6,728	3,248	520	920	5,420
New Hampshire	68	207	NA	538	47	166	NA	485
Rhode Island	384	46	205	847	317	36	192	772
Vermont	230	26	76	1,183	162	25	71	1,210
Mid-Atlantic	24,096	3,162	9,060	45,125	17,316	3,102	8,247	37,012
Delaware	303	174	NA	1,032	194	50	NA	773
Maryland	2,873	287	1,369	5,872	2,106	295	1,239	4,896
New Jersey	5,109	1,161	2,625	11,039	3,746	1,192	2,376	9,360
New York	12,312	772	2,846	18,057	8,486	937	2,587	14,079
Pennsylvania	3,499	768	2,220	9,125	2,784	629	2,045	7,904
Great Lakes	13,236	2,628	9,302	32,673	9,981	2,205	8,621	28,300
Illinois	3,427	1,225	1,975	8,757	2,616	1,151	1,775	7,697
Indiana	1,708	458	1,549	4,538	1,399	400	1,467	4,107
Michigan	2,139	413	2,316	6,204	1,637	255	2,597	5,769
Ohio	3,734	293	1,996	8,016	2,815	176	1,820	6,822
Wisconsin	2,228	239	1,466	5,158	1,514	223	962	3,905
Plains	7,085	950	3,780	15,559	5,602	672	3,648	13,457
Iowa	865	159	482	2,019	727	116	513	1,827
Kansas	1,091	203	541	2,237	902	117	533	1,912
Minnesota	2,677	256	1,293	5,748	2,034	207	1,233	5,009
Missouri	1,742	186	799	3,318	1,301	131	727	2,752
Nebraska	586	65	388	1,224	498	55	352	1,063
North Dakota	124	60	136	731	140	36	130	613
South Dakota	NA	21	140	282	NA	11	161	280
Southeast	16,075	3,429	15,434	47,142	12,451	2,811	13,789	40,402
Alabama	991	171	578	2,461	751	189	521	2,130
Arkansas	783	99	698	2,207	677	109	646	2,103
Florida	NA	701	5,143	9,354	NA	566	4,449	8,228
Georgia	2,617	300	1,445	5,041	2,119	213	1,281	4,178
Kentucky	1,161	173	720	2,768	964	130	699	2,556
Louisiana	1,085	377	785	3,187	912	231	700	2,613
Mississippi	588	102	903	2,010	527	76	831	1,832
North Carolina	3,665	474	1,270	6,886	2,358	413	1,170	5,380
South Carolina	1,182	132	1,036	2,855	835	81	896	2,262
Tennessee	253	439	1,709	3,494	187	359	1,537	3,097
Virginia	3,212	330	886	5,558	2,573	310	801	4,748
West Virginia	537	132	262	1,321	548	136	258	1,274
Southwest	2,120	509	7,945	21,500	1,367	327	7,078	17,835
Arizona	884	302	1,530	3,495	491	212	1,113	2,562
New Mexico	336	81	522	1,558	138	36	443	1,078
Oklahoma	900	125	516	2,431	738	79	492	1,902
Texas	NA	NA	5,378	14,016	NA	NA	5,030	12,293
Rocky Mountain	3,664	562	1,505	7,871	2,619	451	1,320	6,387
Colorado	1,822	210	556	3,056	1,268	145	481	2,333
Idaho	576	90	319	1,173	407	55	276	922
Montana	311	77	NA	887	243	60	NA	730
Utah	955	186	457	1,909	700	191	413	1,600
Wyoming	NA	NA	173	846	NA	NA	150	802
Far West	24,004	4,259	13,934	54,478	16,049	6,493	12,450	43,675
Alaska	NA	418	NA	4,429	NA	152	NA	597
California	21,429	3,626	9,221	39,026	14,267	6,233	8,282	33,544
Hawaii	459	47	642	1,367	304	26	588	1,145
Nevada	NA	NA	1,279	2,525	NA	NA	1,052	2,367
Oregon	2,116	168	NA	2,787	1,478	82	NA	2,026
Washington	NA	NA	2,792	4,345	NA	NA	2,527	3,996

Source: U.S. Census Bureau.

Table 9. Quarterly Tax Revenue By Major Tax				
April-June, 2008 to 2009, Percent Change				
	PIT	CIT	Sales	Total
United States	(27.5)	2.9	(9.5)	(16.6)
New England	(26.6)	(6.9)	(8.4)	(16.6)
Connecticut	(27.3)	(7.2)	(8.7)	(19.8)
Maine	(26.6)	(27.4)	(6.5)	(15.4)
Massachusetts	(26.7)	2.7	(9.5)	(19.4)
New Hampshire	(31.3)	(19.7)	NA	(9.9)
Rhode Island	(17.4)	(22.8)	(6.0)	(8.9)
Vermont	(29.4)	(5.4)	(6.2)	2.2
Mid-Atlantic	(28.1)	(1.9)	(9.0)	(18.0)
Delaware	(36.1)	(71.4)	NA	(25.1)
Maryland	(26.7)	2.7	(9.5)	(16.6)
New Jersey	(26.7)	2.7	(9.5)	(15.2)
New York	(31.1)	21.3	(9.1)	(22.0)
Pennsylvania	(20.4)	(18.1)	(7.9)	(13.4)
Great Lakes	(24.6)	(16.1)	(7.3)	(13.4)
Illinois	(23.7)	(6.1)	(10.1)	(12.1)
Indiana	(18.1)	(12.6)	(5.3)	(9.5)
Michigan	(23.5)	(38.2)	12.1	(7.0)
Ohio	(24.6)	(40.1)	(8.8)	(14.9)
Wisconsin	(32.1)	(6.6)	(34.4)	(24.3)
Plains	(20.9)	(29.3)	(3.5)	(13.5)
Iowa	(15.9)	(26.9)	6.3	(9.5)
Kansas	(17.3)	(42.7)	(1.6)	(14.5)
Minnesota	(24.0)	(19.1)	(4.6)	(12.8)
Missouri	(25.3)	(29.9)	(9.1)	(17.1)
Nebraska	(15.0)	(15.5)	(9.3)	(13.2)
North Dakota	12.4	(40.4)	(4.5)	(16.2)
South Dakota	NA	(48.3)	15.0	(0.8)
Southeast	(22.5)	(18.0)	(10.7)	(14.3)
Alabama	(24.2)	10.4	(9.8)	(13.5)
Arkansas	(13.5)	9.9	(7.5)	(4.7)
Florida	NA	(19.3)	(13.5)	(12.0)
Georgia	(19.1)	(29.0)	(11.4)	(17.1)
Kentucky	(17.0)	(24.7)	(3.0)	(7.7)
Louisiana	(16.0)	(38.9)	(10.8)	(18.0)
Mississippi	(10.4)	(26.0)	(8.0)	(8.8)
North Carolina	(35.7)	(12.9)	(7.9)	(21.9)
South Carolina	(29.3)	(38.7)	(13.5)	(20.8)
Tennessee	(26.0)	(18.3)	(10.1)	(11.4)
Virginia	(19.9)	(6.1)	(9.6)	(14.6)
West Virginia	2.1	3.1	(1.5)	(3.6)
Southwest	(35.5)	(35.8)	(10.9)	(17.0)
Arizona	(44.5)	(29.9)	(27.3)	(26.7)
New Mexico	(59.0)	(56.4)	(15.1)	(30.8)
Oklahoma	(18.0)	(36.5)	(4.5)	(21.8)
Texas	NA	NA	(6.5)	(12.3)
Rocky Mountain	(28.5)	(19.9)	(12.3)	(18.9)
Colorado	(30.4)	(30.8)	(13.5)	(23.6)
Idaho	(29.3)	(38.4)	(13.6)	(21.4)
Montana	(21.9)	(22.7)	NA	(17.7)
Utah	(26.7)	2.7	(9.5)	(16.2)
Wyoming	NA	NA	(13.5)	(5.2)
Far West	(33.1)	52.4	(10.6)	(19.8)
Alaska	NA	(63.7)	NA	(86.5)
California	(33.4)	71.9	(10.2)	(14.0)
Hawaii	(33.8)	(44.8)	(8.5)	(16.2)
Nevada	NA	NA	(17.7)	(6.2)
Oregon	(30.1)	(51.2)	NA	(27.3)
Washington	NA	NA	(9.5)	(8.0)

Source: U.S. Census Bureau.

Table 10. State Tax Revenue, July-June (\$ in millions)								
	July 2007-June 2008				July 2008-June 2009			
	PIT	CIT	Sales	Total	PIT	CIT	Sales	Total
United States	282,116	49,106	241,036	775,869	243,871	43,731	229,478	712,527
New England	22,977	3,743	9,523	46,367	19,577	3,163	8,980	41,772
Connecticut	7,000	534	3,179	13,377	5,912	419	2,986	11,878
Maine	1,448	185	1,061	3,668	1,248	143	1,012	3,364
Massachusetts	12,696	2,180	4,098	21,871	10,825	1,913	3,846	19,497
New Hampshire	118	613	NA	2,279	98	493	NA	2,092
Rhode Island	1,092	146	847	2,761	961	108	815	2,574
Vermont	623	85	338	2,410	533	87	321	2,367
Mid-Atlantic	70,847	10,791	32,875	146,048	61,001	9,767	31,308	132,999
Delaware	1,007	309	NA	3,076	911	209	NA	2,799
Maryland	7,832	735	3,749	16,576	6,846	807	3,826	15,885
New Jersey	12,606	2,820	8,916	30,617	10,680	2,423	8,172	27,224
New York	38,994	4,735	11,337	63,655	33,014	4,592	10,814	57,091
Pennsylvania	10,408	2,191	8,873	32,124	9,550	1,737	8,496	30,001
Great Lakes	39,770	7,481	34,413	112,211	35,099	5,659	34,585	105,694
Illinois	10,320	3,116	7,935	29,886	9,183	2,752	7,471	27,741
Indiana	4,838	909	5,739	14,916	4,314	839	6,206	14,698
Michigan	7,056	1,630	8,536	24,869	6,299	703	9,793	24,216
Ohio	11,089	963	7,935	27,625	9,678	711	7,405	25,653
Wisconsin	6,467	863	4,268	14,915	5,625	654	3,711	13,386
Plains	20,557	2,755	14,576	50,768	18,964	2,047	14,523	48,354
Iowa	2,673	338	1,735	6,509	2,540	242	2,022	6,520
Kansas	2,945	528	2,265	7,171	2,732	371	2,227	6,658
Minnesota	7,777	1,040	4,551	18,321	6,948	779	4,375	17,162
Missouri	5,119	384	3,228	10,964	4,772	279	3,030	10,345
Nebraska	1,726	233	1,534	4,178	1,602	198	1,504	3,930
North Dakota	317	162	530	2,312	370	130	607	2,414
South Dakota	NA	70	732	1,313	NA	49	757	1,325
Southeast	48,849	9,578	59,739	163,240	44,062	7,687	55,977	150,075
Alabama	3,048	534	2,264	8,993	2,864	498	2,146	8,654
Arkansas	2,345	343	2,808	7,542	2,239	346	2,766	7,473
Florida	NA	2,212	19,807	35,257	NA	1,837	18,166	31,973
Georgia	8,889	943	5,746	18,195	7,801	695	5,343	16,140
Kentucky	3,483	534	2,878	10,018	3,315	390	2,858	9,813
Louisiana	3,274	770	3,208	10,650	3,031	586	3,058	9,911
Mississippi	1,551	385	3,135	6,621	1,486	324	3,026	6,330
North Carolina	10,994	1,206	5,270	22,782	9,560	902	4,963	20,497
South Carolina	3,340	320	3,054	8,463	2,792	239	2,751	7,476
Tennessee	291	1,006	6,887	11,520	222	816	6,418	10,548
Virginia	10,115	787	3,571	18,323	9,194	633	3,373	16,475
West Virginia	1,519	539	1,110	4,878	1,557	421	1,110	4,785
Southwest	6,797	1,502	31,619	70,608	5,268	1,195	30,901	65,868
Arizona	2,724	785	6,243	12,831	1,962	592	5,282	10,854
New Mexico	1,214	355	1,923	5,164	706	258	1,882	4,661
Oklahoma	2,859	363	2,105	8,398	2,600	345	2,176	8,048
Texas	NA	NA	21,348	44,216	NA	NA	21,561	42,305
Rocky Mountain	9,968	1,250	6,368	23,954	8,591	980	5,849	22,223
Colorado	5,067	504	2,312	9,567	4,404	325	2,124	8,662
Idaho	1,439	190	1,347	3,652	1,176	142	1,206	3,172
Montana	870	162	NA	2,458	827	164	NA	2,407
Utah	2,593	395	1,964	6,106	2,183	348	1,761	5,450
Wyoming	NA	NA	744	2,171	NA	NA	758	2,532
Far West	62,351	12,005	51,923	162,674	51,310	13,232	47,354	145,542
Alaska	NA	1,298	NA	7,705	NA	634	NA	4,981
California	55,838	10,125	34,880	118,557	44,537	12,261	31,800	105,807
Hawaii	1,545	105	2,620	5,148	1,339	79	2,462	4,713
Nevada	NA	NA	3,077	6,144	NA	NA	2,684	5,907
Oregon	4,969	477	NA	7,215	5,435	259	NA	7,404
Washington	NA	NA	11,346	17,906	NA	NA	10,409	16,730

Source: U.S. Census Bureau.

Table 11. Tax Revenue By Major Tax				
July-June, Percent Change				
	PIT	CIT	Sales	Total
United States	(13.6)	(10.9)	(4.8)	(8.2)
New England	(14.8)	(15.5)	(5.7)	(9.9)
Connecticut	(15.6)	(21.6)	(6.1)	(11.2)
Maine	(13.8)	(22.5)	(4.5)	(8.3)
Massachusetts	(14.7)	(12.3)	(6.2)	(10.9)
New Hampshire	(16.5)	(19.6)	NA	(8.2)
Rhode Island	(12.0)	(25.6)	(3.8)	(6.8)
Vermont	(14.5)	2.3	(5.1)	(1.8)
Mid-Atlantic	(13.9)	(9.5)	(4.8)	(8.9)
Delaware	(9.6)	(32.4)	NA	(9.0)
Maryland	(12.6)	9.7	2.1	(4.2)
New Jersey	(15.3)	(14.1)	(8.3)	(11.1)
New York	(15.3)	(3.0)	(4.6)	(10.3)
Pennsylvania	(8.2)	(20.7)	(4.3)	(6.6)
Great Lakes	(11.7)	(24.4)	0.5	(5.8)
Illinois	(11.0)	(11.7)	(5.9)	(7.2)
Indiana	(10.8)	(7.8)	8.1	(1.5)
Michigan	(10.7)	(56.8)	14.7	(2.6)
Ohio	(12.7)	(26.2)	(6.7)	(7.1)
Wisconsin	(13.0)	(24.3)	(13.0)	(10.3)
Plains	(7.8)	(25.7)	(0.4)	(4.8)
Iowa	(4.9)	(28.5)	16.5	0.2
Kansas	(7.2)	(29.8)	(1.7)	(7.1)
Minnesota	(10.7)	(25.1)	(3.9)	(6.3)
Missouri	(6.8)	(27.4)	(6.1)	(5.7)
Nebraska	(7.2)	(14.8)	(2.0)	(5.9)
North Dakota	16.7	(19.9)	14.5	4.4
South Dakota	NA	(30.2)	3.3	0.9
Southeast	(9.8)	(19.8)	(6.3)	(8.1)
Alabama	(6.0)	(6.8)	(5.2)	(3.8)
Arkansas	(4.5)	1.1	(1.5)	(0.9)
Florida	NA	(17.0)	(8.3)	(9.3)
Georgia	(12.2)	(26.3)	(7.0)	(11.3)
Kentucky	(4.8)	(27.0)	(0.7)	(2.0)
Louisiana	(7.4)	(23.9)	(4.7)	(6.9)
Mississippi	(4.2)	(15.7)	(3.5)	(4.4)
North Carolina	(13.0)	(25.3)	(5.8)	(10.0)
South Carolina	(16.4)	(25.4)	(9.9)	(11.7)
Tennessee	(23.8)	(18.9)	(6.8)	(8.4)
Virginia	(9.1)	(19.5)	(5.6)	(10.1)
West Virginia	2.5	(22.0)	0.0	(1.9)
Southwest	(22.5)	(20.4)	(2.3)	(6.7)
Arizona	(28.0)	(24.5)	(15.4)	(15.4)
New Mexico	(41.8)	(27.2)	(2.1)	(9.7)
Oklahoma	(9.0)	(4.9)	3.3	(4.2)
Texas	NA	NA	1.0	(4.3)
Rocky Mountain	(13.8)	(21.7)	(8.1)	(7.2)
Colorado	(13.1)	(35.4)	(8.1)	(9.5)
Idaho	(18.3)	(25.2)	(10.5)	(13.1)
Montana	(4.9)	1.6	NA	(2.1)
Utah	(15.8)	(11.9)	(10.3)	(10.8)
Wyoming	NA	NA	1.9	16.6
Far West	(17.7)	10.2	(8.8)	(10.5)
Alaska	NA	(51.1)	NA	(35.4)
California	(20.2)	21.1	(8.8)	(10.8)
Hawaii	(13.3)	(25.4)	(6.0)	(8.4)
Nevada	NA	NA	(12.8)	(3.9)
Oregon	9.4	(45.8)	NA	2.6
Washington	NA	NA	(8.3)	(6.6)

Source: U.S. Census Bureau.

Which States Have Been Hit Hardest? A Preliminary Look

State tax revenue has fallen so far and for so long that it can be difficult to compare states because they are at different points of the down-cycle. For example, in the latest quarter tax revenue in Nevada was down by 6.2 percent, far better than the national average. But because Nevada suffered early from a very significant decline in housing prices, its tax revenue weakened sooner and more sharply than tax revenue in many other states. Thus, even though Nevada's decline appears to have slowed lately, it is down from its prerecession peak by more than most states.

One way to gain insight into which states have been hurt most by this crisis is to compare current tax revenue to its recent peak — a period that is different in different states. For this analysis, we determine a peak tax revenue year for each state, defined as the year ending between June 2006 and June 2009 period that has the greatest tax revenue, after adjusting for inflation and population growth. States hit hardest by the housing bust, such as Arizona, California, Florida, and Nevada, generally attained peak tax revenue in 2006 and have been heading downhill since then. By contrast, states that were relatively less affected by the housing crisis but rely heavily on income from the financial services sector and on investment income, such as Massachusetts and New York, did not see large early declines in tax revenue but are suffering much more now — in the case of Massachusetts and New York, peak tax revenue was reached in the year ending in June 2008. And North Dakota and Wyoming have yet to see real per-capita revenue decline — the year ending in June 2009 is the peak.

This section is described as a preliminary look because the data described within are subject to several important caveats, described in an accompanying note.⁵

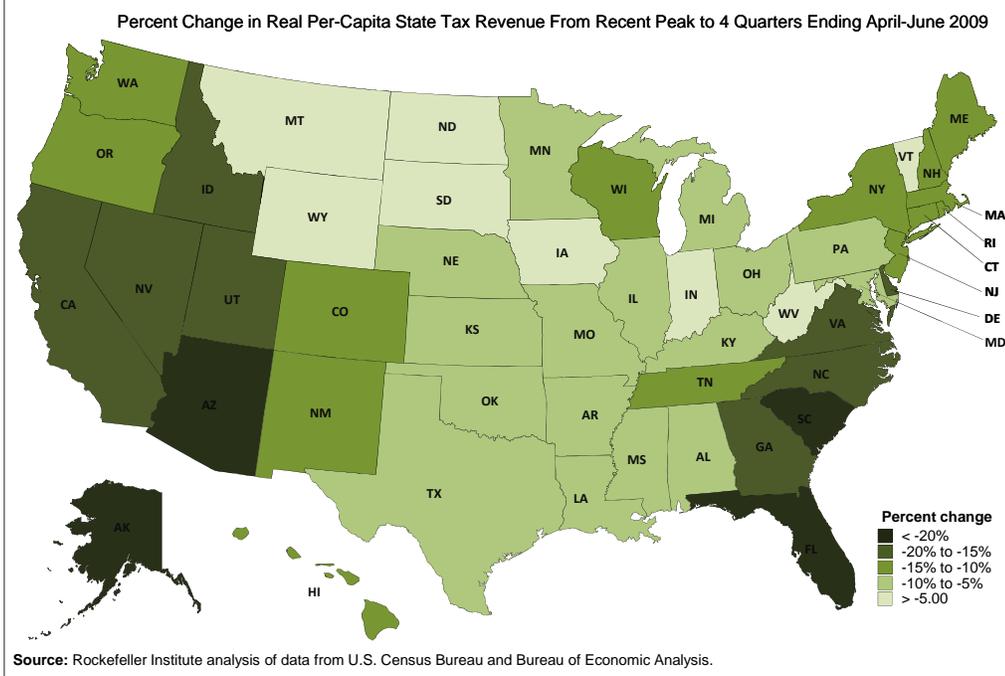
Table 12 lists states, sorted by the percent change in real per-capita tax revenue from the recent peak to the year ending in June 2009. Alaska, with its volatile petroleum-based tax structure, has had the largest decline, followed by several states that suffered early and significantly in the housing bust and also for idiosyncratic reasons. States with large declines, even if they have been slowing of late, still will struggle to finance budgets because they are unlikely to have raised cut services or raised nontax revenue by enough to fill the gap, and are likely relying on federal stimulus and other forms of nonrecurring revenue to finance a large share of their budget.

Figure 8 shows the regional variation in tax revenue change since the recent peak. Southwestern and southeastern states have the largest cumulative declines, but recent income tax collection data suggest that northeastern states and several others are beginning to catch up with their declines.

State	Recent peak		Period ending April-June 2009	
	Period ending April-June of:	Sum for 4 quarters	Sum for 4 quarters	% change from recent peak
Alaska	2008	11,483	7,254	(36.8)
Florida	2006	2,406	1,744	(27.5)
Arizona	2006	2,082	1,658	(20.4)
South Carolina	2007	2,084	1,659	(20.4)
Georgia	2007	2,074	1,659	(20.0)
Virginia	2007	2,588	2,116	(18.2)
Utah	2007	2,414	1,976	(18.2)
Idaho	2007	2,498	2,071	(17.1)
North Carolina	2007	2,642	2,207	(16.5)
Nevada	2006	2,705	2,263	(16.3)
Delaware	2006	3,813	3,193	(16.3)
California	2006	3,399	2,867	(15.7)
New Mexico	2007	2,711	2,345	(13.5)
Oregon	2006	2,245	1,944	(13.4)
Connecticut	2008	3,907	3,391	(13.2)
Colorado	2007	2,003	1,740	(13.1)
New Jersey	2008	3,607	3,135	(13.1)
Massachusetts	2008	3,446	3,000	(12.9)
Tennessee	2007	1,943	1,693	(12.9)
Hawaii	2007	4,172	3,645	(12.6)
Wisconsin	2008	2,713	2,378	(12.3)
New York	2008	3,341	2,932	(12.3)
Washington	2007	2,890	2,540	(12.1)
Rhode Island	2006	2,784	2,455	(11.8)
Maine	2006	2,856	2,561	(10.4)
New Hampshire	2008	1,772	1,590	(10.2)
Louisiana	2007	2,507	2,258	(9.9)
Minnesota	2006	3,644	3,283	(9.9)
Kansas	2008	2,626	2,371	(9.7)
Nebraska	2006	2,432	2,199	(9.6)
Illinois	2008	2,374	2,149	(9.5)
Ohio	2008	2,457	2,238	(8.9)
Pennsylvania	2008	2,639	2,412	(8.6)
Missouri	2007	1,910	1,750	(8.4)
Texas	2008	1,876	1,725	(8.0)
Mississippi	2007	2,332	2,155	(7.6)
Alabama	2007	2,006	1,854	(7.6)
Oklahoma	2006	2,386	2,206	(7.6)
Kentucky	2006	2,480	2,296	(7.4)
Michigan	2006	2,618	2,434	(7.0)
Maryland	2008	3,009	2,823	(6.2)
Arkansas	2007	2,753	2,612	(5.1)
Montana	2008	2,608	2,481	(4.9)
Vermont	2007	3,994	3,814	(4.5)
West Virginia	2008	2,751	2,639	(4.1)
Indiana	2008	2,398	2,303	(3.9)
Iowa	2008	2,221	2,169	(2.4)
South Dakota	2008	1,678	1,643	(2.1)
North Dakota	2009	3,759	3,759	0.0
Wyoming	2009	4,728	4,728	0.0

Sources: Census Bureau (tax revenue and population) and Bureau of Economic Analysis (GDP price index).
Note: Recent peak defined as July-June period from 2006 to 2009 with the highest real per-capita tax revenue.

Figure 8. State Tax Revenue Growth Adjusted For Legislative Changes



Looking Ahead

The April-June quarter was the worst on record for states in terms of the decline in overall state tax collections, as well as the change in personal income and sales tax collections. The worst decline in both personal income tax and sales tax in half a century represents historic weakness in the two major tax sources for states.

Preliminary data for the July-September quarter suggest that fiscal conditions continue to be extremely weak.

With data for July and August now available for 36 states, tax revenue for the two months combined has declined by 8 percent versus the same period last year. Nearly 97 percent of states reporting personal income tax data had a year-over-year decline, with a median decline of 8.6 percent, while 94 percent of states reporting sales-tax data had a year-over-year decline, with a median decline of 8.3 percent. In addition, estimated payments of income tax were due on September 15 in 39 states. While we do not have data on these payments yet, the news for similar federal tax payments is quite bad — federal nonwithheld taxes were down 28 percent in October — and anecdotal information from individual states suggests that estimated payments were down significantly in many states.

All of these factors are contributing to a new round of budget shortfalls in the states, and are likely to lead to midyear budget cuts plus further spending cuts and tax increases in governors’ proposed budgets this January.

While September data could change this troubling picture, there is little reason to expect reported revenues for that month to be strong. Continued weakness in revenues, along with continued if more moderate growth in expenditures, make midyear budget revisions and cuts highly likely. According to the National Conference of State Legislatures (NCSL), new budget gaps have opened in at least 18 states since FY 2010 began.⁶ Most states have taken a variety of measures to balance their budgets, including across-the-board budget cuts, tax increases, tapping rainy day funds, and agency consolidations. The continued weakening of state tax revenues in the second half of 2009 will force states to take more drastic measures. As NCSL

puts it, “The fiscal challenges are enormous, widespread and, unfortunately, far from over.”⁷

Many economists believe that the national recession has ended and that a tepid recovery is now underway. In fact, the state coincident economic indexes we include in this report show that 41 states had declining economies in August (compared with three months earlier) – an improvement from the 48 states that were declining in July. Unfortunately for states, an emerging economic recovery does not spell instant budget relief. As we have noted previously, some elements of the economy that are very important to state finances – particularly employment and wages – are likely to recover more slowly than gross domestic product. In addition, state tax revenue, when it does begin to recover, will be below its earlier peak for at least several years and will not be sufficient to support spending commitments that are now in place. Despite the recovery, most states will face budget gaps this fiscal year and next, and probably for at least one to two additional years.

Endnotes

- 1 See Lucy Dadayan and Donald J. Boyd, [“April Is The Cruellest Month,”](#) The Nelson A. Rockefeller Institute of Government, June 18, 2009.
- 2 For a technical discussion of these indexes and their national counterpart, see Theodore M. Crone and Alan Clayton-Matthews, “Consistent Economic Indexes for the 50 States,” *Review of Economics and Statistics* 87 (2005): 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.
- 3 See Donald J. Boyd, [“What Will Happen to State Government Finances in a Recession?”](#) The Nelson A. Rockefeller Institute of Government, January 30, 2008.
- 4 Rockefeller Institute analysis of data from the National Association of State Budget Officers and from reports in several individual states.
- 5 Caveats: (1) The data are based on actual tax revenue, not adjusted for any legislative changes. Thus, if a state raised taxes significantly in this period, as did Iowa, Maryland, and several others, they may have been hurt worse by the recession than the table suggests; (2) The data reflect Census Bureau estimates rather than reported data for five states in the April-June 2009 quarter (Maryland, Massachusetts, New Jersey, Utah, and Washington). Because these data are cumulative, this is unlikely to have a significant impact on the numbers or state rankings; and (3) The data are adjusted using an economy-wide price index (the gross domestic product price index) and so reflect the real “contribution” of taxpayers to state finances. The numbers do not reflect the ability of taxes to finance the goods and services governments buy. It is not easy – and often not appropriate – to adjust taxes for changes in prices of the goods and services state governments purchase, despite the existence of indexes that reflect, in some ways the prices of state and local government purchases.
- 6 See [“FY 2010 Post-Enactment Budget Gaps & Budget Cuts,”](#) National Conference of State Legislatures.
- 7 See [“State Budget Update: July 2009,”](#) National Conference of State Legislatures.

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 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, and Donald Boyd, senior fellow. Robert B. Ward, deputy director of the Institute, directs the Fiscal Studies Program. Shuqin Pan, 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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