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ROCKEFELLER  
INSTITUTE  
OF GOVERNMENT**

**UNIVERSITY AT ALBANY**  
State University of New York

**HIGHLIGHTS**

- State tax revenues grew by 4.5 percent in the third quarter of 2010. This is the third consecutive quarter that states reported growth in collections on a year-over-year basis.
- Despite three consecutive quarters of growth, state tax revenues were still 7.5 percent lower in the third quarter of 2010 than in the same quarter two years earlier. Only 10 states reported higher collections in the third quarter of 2010 than in the same quarter of 2008.
- Both personal income tax and sales tax revenue increased for the third quarter in a row at 4.3 percent each.
- Preliminary figures for the fourth quarter of 2010 indicate new strength in state tax revenues. Overall collections in 41 early reporting states showed growth of 6.9 percent compared to the same quarter of 2009, and 3.0 percent compared to the same quarter of 2008.
- Early figures for the fourth quarter of 2010 also indicate further growth in personal income tax collections at 10.7 percent and in sales tax collections at 6.0 percent.
- Local tax revenue increased by 5.9 percent in the third quarter, mostly driven by increases in property tax and sales tax collections.

# STATE REVENUE REPORT

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## State Tax Revenues Gained New Strength in Fourth Quarter

*Every Quarter of 2010 Showed Growth, But  
Recession's Harsh Impact Will Linger*

*Lucy Dadayan and Donald J. Boyd*

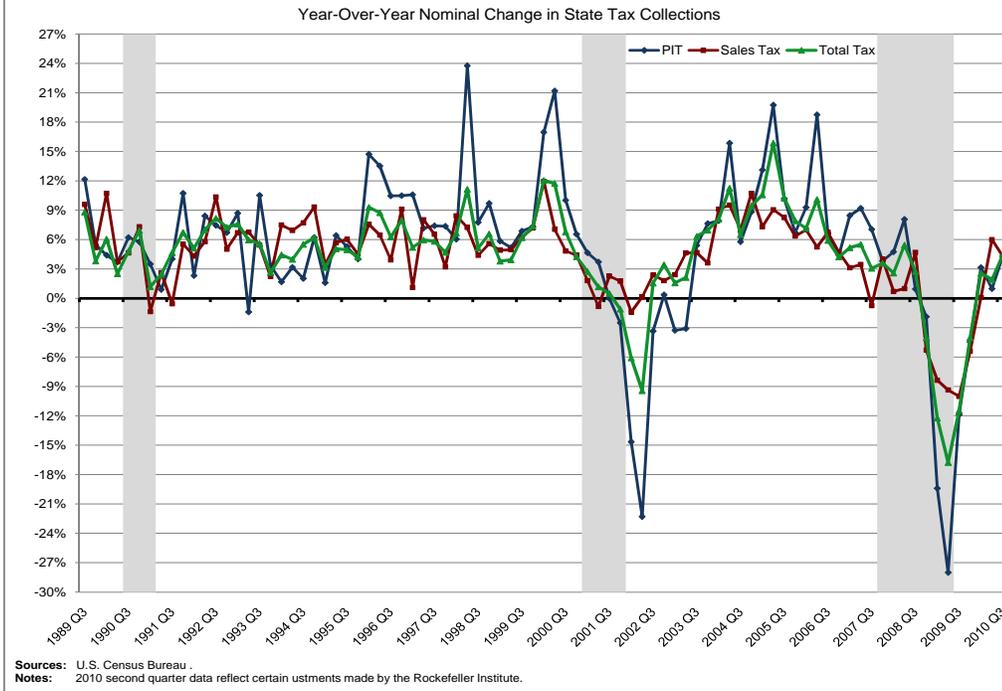
### Overall State Taxes and Local Taxes

This *State Revenue Report* provides a broad discussion of state tax collections during the third quarter, and a first look at revenues in most states during the fourth quarter, of calendar 2010. Examination of collections during the July-September period — the bulk of this report — is based on previously released data from the U.S. Census Bureau, and additional data and analysis by the Rockefeller Institute. Figures for the fourth quarter, discussed in the “Looking Ahead” section of this report, are from the Rockefeller Institute’s ongoing collection of data directly from states.

During the third quarter of 2010, total state tax collections as well as collections from two major sources — taxes on sales and personal income — showed growth for the third consecutive quarter, following five straight quarters of decline. Overall state tax revenues in the July-September quarter of 2010, after reflecting certain adjustments made by the Rockefeller Institute, increased by 4.5 percent from the same quarter of the previous year. The Institute’s findings indicate slightly weaker fiscal conditions for states than the preliminary data released in late December by the Census Bureau, which reported an overall increase of 4.8 percent. We have updated those figures to reflect data we have since obtained and to reflect differences in how we wish to measure revenue for purposes of the *State Revenue Report* (see “Adjustments to Census Bureau Tax Collection Data” on page 21).<sup>1</sup> The total tax collection growth of 4.5 percent in the October-December 2010 quarter after the Rockefeller Institute’s adjustment is slightly higher than the preliminary growth rate of 3.9 percent provided in our *Flash Revenue Report* released on November 30, 2010, for 48 early reporting states.<sup>2</sup>

Figure 1 shows the nominal percent change over time in state tax collections for personal income tax, sales tax, and total taxes. As shown there, declines in personal income tax and sales tax collections, as well as in overall state tax collections, were steeper in and after the 2007 recession than around the previous recessions. Revenues are now rebounding. Despite gains in the last three quarters, however, collections are still weak by recent historical

Figure 1. State Tax Collections Rebounding From Record Decline



standards – 7.5 percent lower in the third quarter of 2010 than in the same quarter of 2008, and 5.0 percent below the same quarter of 2007. These declines are even deeper if we adjust the numbers to inflation.

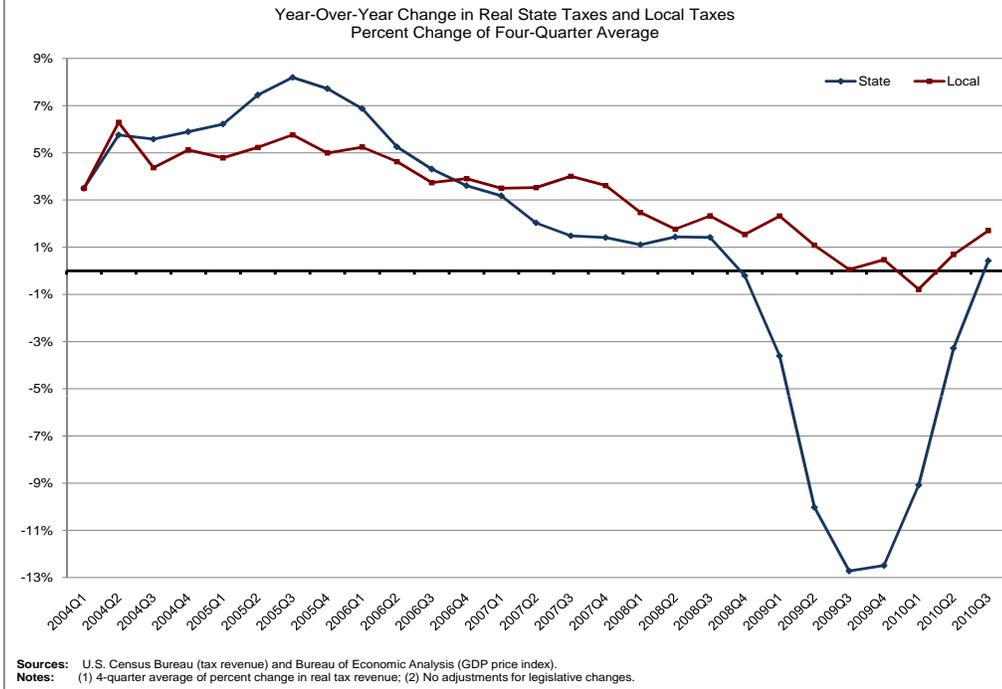
Figure 2 shows the four-quarter moving average of year-over-year growth in state tax collections and local tax collections, after adjusting for inflation. In addition, we have adjusted the Census Bureau’s local tax revenues to reflect the differences be-

tween the Bureau’s prior survey methodology and a revised survey methodology now used for collecting property tax revenues.<sup>3</sup> As shown in Figure 2, the year-over-year change in state taxes, adjusted for inflation, has averaged 0.4 percent over the last four quarters. This represents substantial improvement from the 12.7 percent average decline of a year ago, but is still significantly below the 1.4 percent average growth of two

years ago. Real, year-over-year growth in local taxes was an average of 1.7 percent over the last four quarters, compared to 0.1 percent for the preceding year. Inflation for the period, as measured by the gross domestic product deflator, was 1.2 percent.

For most of the period during and after the last recession, the local tax slowdown was much less severe than the state tax slowdown. In the

Figure 2. State Taxes Are Faring Worse Than Local Taxes



third quarter of 2010, local tax collections showed growth of 1.7 percent for the four-quarter moving average, fairly above the rate of inflation yet still somewhat weak compared to historical averages. Most local governments rely heavily on property taxes, which tend to be relatively stable and respond to property value declines more slowly than income, sales, and corporate taxes respond to declines in the overall economy.<sup>4</sup> In the last two decades, property taxes made up at least two-thirds of total local tax collections. Collections from local property taxes increased by 7.7 percent during the third quarter of 2010 in nominal terms. Local collections from sales tax and personal income tax also showed signs of improvement. Local sales tax collections represented about 13.6 percent of total local tax collections and increased by 2.7 percent in third quarter of 2010 in nominal terms. This is the second consecutive quarter that local sales tax revenues showed growth after six consecutive quarters of decline. Collections from local individual income taxes made up 3.2 percent of total local tax collections and showed growth of 2.9 percent, which is the third consecutive quarter of growth.

Figure 3 shows the four-quarter average of year-over-year growth in state and local income, sales, and property taxes, adjusted for inflation. Both the income tax and the sales tax have shown slower growth, and then outright decline, over most of the last five years. Revenue from the sales tax was particularly weak for most of that period, but has outpaced income-tax collections since the second quarter of 2009. By this measure, both income tax and sales tax continued to show slow improvement and for the first time showed some growth in the third quarter of 2010.

State-local property taxes also showed some improvement for the second consecutive quarter.

### State Tax Revenue

Total state tax revenue in the third quarter of 2010 increased by 4.5 percent relative to a year ago, before adjustments for inflation and legislated changes. The income tax and sales tax both showed growth at 4.3 percent each, and the corporate income tax increased by 1.6 percent. Tables 1 and 2 portray growth in tax

**Figure 3. Both Income Tax and Sales Tax Declined Sharply During the Great Recession**

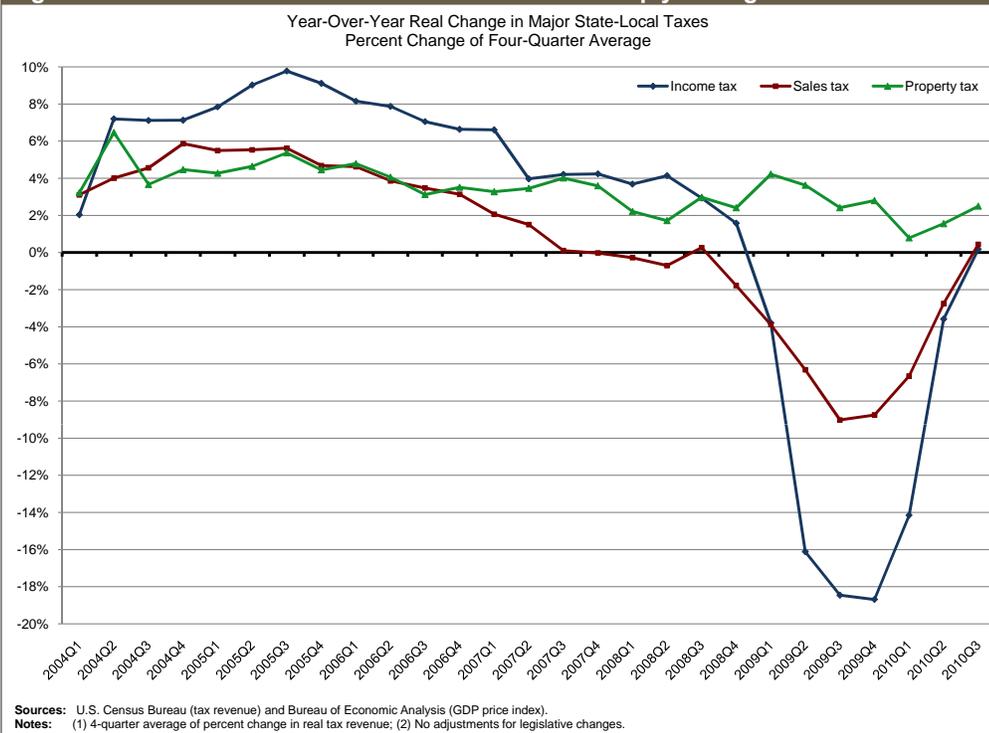


Table 1. Quarterly State Tax Revenue

Quarter	Adjusted for Inflation		
	Year-Over-Year Percent Change		
	Total Nominal	Inflation Rate	Adjusted Real Change
2010 Q3	4.5	1.2	3.2
2010 Q2	1.9	0.8	1.1
2010 Q1	2.6	0.5	2.1
2009 Q4	(4.0)	0.5	(4.5)
2009 Q3	(11.5)	0.2	(11.7)
2009 Q2	(16.8)	1.2	(17.7)
2009 Q1	(12.2)	1.9	(13.8)
2008 Q4	(4.0)	2.1	(6.0)
2008 Q3	2.8	2.6	0.1
2008 Q2	5.4	2.0	3.4
2008 Q1	2.6	2.0	0.6
2007 Q4	3.6	2.6	1.0
2007 Q3	3.1	2.8	0.2
2007 Q2	5.5	3.1	2.3
2007 Q1	5.2	3.2	1.9
2006 Q4	4.2	2.9	1.3
2006 Q3	5.9	3.3	2.6
2006 Q2	10.1	3.6	6.3
2006 Q1	7.1	3.3	3.7
2005 Q4	7.9	3.5	4.2
2005 Q3	10.2	3.4	6.6
2005 Q2	15.9	3.1	12.4
2005 Q1	10.6	3.3	7.0
2004 Q4	9.4	3.2	6.0
2004 Q3	6.5	3.0	3.4
2004 Q2	11.2	2.8	8.2
2004 Q1	8.1	2.3	5.7
2003 Q4	7.0	2.1	4.7
2003 Q3	6.3	2.2	4.0
2003 Q2	2.1	2.1	0.1
2003 Q1	1.6	2.2	(0.6)
2002 Q4	3.4	1.8	1.6
2002 Q3	1.6	1.5	0.0
2002 Q2	(9.4)	1.4	(10.7)
2002 Q1	(6.1)	1.7	(7.6)
2001 Q4	(1.1)	2.0	(3.0)
2001 Q3	0.5	2.2	(1.7)
2001 Q2	1.2	2.5	(1.3)
2001 Q1	2.7	2.3	0.4
2000 Q4	4.2	2.4	1.8
2000 Q3	6.8	2.3	4.4
2000 Q2	11.7	2.0	9.5
2000 Q1	12.0	2.0	9.9
1999 Q4	7.3	1.6	5.6
1999 Q3	6.2	1.5	4.7
1999 Q2	3.9	1.5	2.4
1999 Q1	3.8	1.3	2.4

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

Table 2. Quarterly State Tax Revenue By Major Tax

Quarter	Year-Over-Year Percent Change			
	PIT	CIT	General Sales	Total
2010 Q3	4.3	1.6	4.3	4.5
2010 Q2	1.0	(17.8)	6.0	1.9
2010 Q1	3.1	(1.2)	0.1	2.6
2009 Q4	(4.5)	(0.6)	(5.4)	(4.0)
2009 Q3	(11.9)	(22.1)	(10.0)	(11.5)
2009 Q2	(28.0)	1.5	(9.4)	(16.8)
2009 Q1	(19.4)	(20.2)	(8.4)	(12.2)
2008 Q4	(1.9)	(23.0)	(5.3)	(4.0)
2008 Q3	0.9	(13.2)	4.7	2.8
2008 Q2	8.1	(7.0)	1.0	5.4
2008 Q1	4.8	(1.4)	0.7	2.6
2007 Q4	3.8	(14.5)	4.0	3.6
2007 Q3	7.0	(4.3)	(0.7)	3.1
2007 Q2	9.2	1.7	3.5	5.5
2007 Q1	8.5	14.8	3.1	5.2
2006 Q4	4.4	12.6	4.7	4.2
2006 Q3	6.6	17.5	6.7	5.9
2006 Q2	18.8	1.2	5.2	10.1
2006 Q1	9.3	9.6	7.0	7.1
2005 Q4	6.7	33.4	6.4	7.9
2005 Q3	10.2	24.4	8.3	10.2
2005 Q2	19.7	64.1	9.1	15.9
2005 Q1	13.1	29.8	7.3	10.6
2004 Q4	8.8	23.9	10.7	9.4
2004 Q3	5.8	25.2	7.0	6.5
2004 Q2	15.8	3.9	9.5	11.2
2004 Q1	7.9	5.4	9.1	8.1
2003 Q4	7.6	12.5	3.6	7.0
2003 Q3	5.4	12.6	4.7	6.3
2003 Q2	(3.1)	5.1	4.6	2.1
2003 Q1	(3.3)	8.3	2.4	1.6
2002 Q4	0.4	34.7	1.8	3.4
2002 Q3	(3.4)	7.4	2.4	1.6
2002 Q2	(22.3)	(12.3)	0.1	(9.4)
2002 Q1	(14.7)	(15.7)	(1.4)	(6.1)
2001 Q4	(2.5)	(34.0)	1.8	(1.1)
2001 Q3	(0.0)	(27.2)	2.3	0.5
2001 Q2	3.7	(11.0)	(0.8)	1.2
2001 Q1	4.6	(8.4)	1.8	2.7
2000 Q4	6.5	(0.4)	4.4	4.2
2000 Q3	10.0	8.2	4.8	6.8
2000 Q2	21.2	4.2	7.0	11.7
2000 Q1	17.0	11.0	11.9	12.0
1999 Q4	7.3	4.7	7.2	7.3
1999 Q3	6.9	4.3	6.2	6.2
1999 Q2	5.2	5.4	5.0	3.9
1999 Q1	5.8	(5.4)	4.9	3.8

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

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 increased in 43 states in the third quarter of 2010, up from 33 states during the second quarter of 2010. Double-digit increases were reported in 10 states in the third quarter of 2010, compared to eleven states in the second quarter of 2010. Two states – Alaska and Hawaii – reported double-digit declines at 37.8 and 12.0 percent, respectively. All

regions reported growth in total tax collections. The New England region showed the largest growth at 10.8 percent, followed by the Plains states at 9.5 percent. The Far West states reported the weakest growth of 2.2 percent. Revenue gains were particularly strong in New Hampshire and North Dakota, where increases were both about 29 percent.

Preliminary figures collected by the Rockefeller Institute for the October-December quarter of 2010 indicate that most states continue seeing further growth in overall tax collections.<sup>5</sup> Overall tax collections in 41 early reporting states showed growth of 6.9 percent in the fourth quarter compared to the same period of 2009 and growth of 3.0 percent compared to the same quarter of 2008. With these figures, however, collections were still 0.8 percent below the October-December quarter of 2007. While state tax collections are gradually stabilizing, they have yet to make up for the deep losses brought by the Great Recession.

### Personal Income Tax

In the third quarter of 2010, personal income tax revenue made up at least a third of total tax revenue in 26 states, and was larger than the sales tax in 28 states. Personal income tax revenue increased 4.3 percent in the July-September 2010 quarter compared to the same quarter in 2009. All regions reported increases in personal income tax collections. The largest growth was in the New England and Rocky Mountain regions, where collections increased by 8.1 and 6.3 percent, respectively. The Southwest region reported the weakest growth in personal income tax collections at 2.7 percent.

In total, 37 states reported growth in personal income tax collections for the quarter, up from 15 states during the second quarter of 2010. Only six states showed declines in the third quarter of 2010, with Hawaii and New Mexico reporting the largest declines in personal income tax collections at 53.7 and 25.7 percent, respectively. The large decline in such collections in Hawaii is mostly due to accrued individual refunds processed in the month of July. The largest increases in terms of dollar value were reported in California and New York, where personal income tax collections grew by \$530 million and \$316 million, respectively.

Preliminary figures for 34 of 41 early reporting states with broad-based personal income taxes indicate that personal income tax collections increased by 10.7 percent for the nation in the October-December 2010 quarter compared to the same quarter of 2009, and were up by 5.1 percent compared to the same quarter of 2008. Among early reporting states, 30 states reported growth in personal income tax collections in the October-December quarter of 2010 and only four states reported decline.

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, quarterly estimated payments, final payments, and refunds. The Census Bureau does

not currently 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 July-September 2010 quarter continued to improve for the third quarter in a row and increased by 4.7 percent in the third quarter of 2010 for 40 of 41 early reporting states that have broad-based income taxes. However, withholding for the same states was up by a negligible 0.8 percent compared to the July-September months of 2008.

Four of 40 early reporting states had declines in withholding, with New Jersey and Oklahoma reporting the largest declines at 10.1 and 2.3 percent, respectively. Among the states reporting growth in withholding for the third quarter, California and Minnesota had the strongest growth at 16.2 and 7.7 percent, respectively. The Far West and New England regions reported the largest growth in withholding at 14.3 and 5.6 percent, respectively, while the Mid-Atlantic had the weakest growth at 0.5 percent.

### ***Estimated Payments***

The highest-income taxpayers generally make estimated tax payments (also known as declarations) on their income not subject to withholding tax. This income often comes from investments, such as capital gains realized in the stock market. A strong stock market should eventually translate into capital gains and higher estimated tax payments. Strong business profits also tend to boost these payments. And when the market declines or profits fall, these payments often decline. Estimated payments represent a smaller proportion of overall income-tax revenues — some \$7.9 billion in the third quarter of 2010 — but can have a disproportionate impact on the direction of overall collections.

The first payment for each tax year is due in April in most states and the second, third and fourth are generally due in June, September, and January. 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 37 states for which we have complete data, the median payment was down by 3.9 percent for the first three payments and by 0.4 percent for the third payment (see Table 4). Declines were recorded in 25 of 37 states for the first three payments. Louisiana reported the largest decline for the first three payments at 32.3 percent, while Connecticut reported the largest increase at 13.8 percent.

Table 3. Personal Income Tax Withholding, By State

	Last Four Quarters, Percent Change			
	2009	2010		
	Oct-Dec	Jan-Mar	Apr-June	July-Sep
<b>United States</b>	<b>(1.9)</b>	<b>4.8</b>	<b>6.3</b>	<b>4.7</b>
<b>New England</b>	<b>(1.7)</b>	<b>2.0</b>	<b>4.8</b>	<b>5.6</b>
Connecticut	1.6	4.1	6.0	7.1
Maine	0.4	(2.3)	5.7	6.2
Massachusetts	(3.4)	1.8	4.2	5.0
Rhode Island	(2.4)	1.6	4.1	6.3
Vermont	(1.2)	(3.5)	4.2	0.9
<b>Mid-Atlantic</b>	<b>1.4</b>	<b>11.3</b>	<b>9.7</b>	<b>0.5</b>
Delaware	(5.6)	0.7	7.6	5.7
Maryland	(0.3)	1.8	3.7	4.7
New Jersey	(0.9)	4.4	9.4	(10.1)
New York	4.4	19.6	11.9	1.5
Pennsylvania	(3.3)	(0.7)	12.0	4.3
<b>Great Lakes</b>	<b>(3.9)</b>	<b>(6.0)</b>	<b>2.4</b>	<b>3.9</b>
Illinois	(3.4)	(3.9)	1.6	3.3
Indiana	ND	ND	ND	ND
Michigan	(7.8)	(2.5)	0.8	4.5
Ohio	(9.1)	(4.5)	3.5	5.0
Wisconsin	7.1	(13.3)	3.7	2.3
<b>Plains</b>	<b>(5.0)</b>	<b>(1.0)</b>	<b>4.4</b>	<b>4.7</b>
Iowa	(0.5)	1.4	3.7	4.5
Kansas	(3.1)	(0.2)	4.9	3.9
Minnesota	(3.6)	(1.7)	8.0	7.7
Missouri	(11.7)	(2.0)	2.3	1.6
Nebraska	0.1	1.8	0.5	4.3
North Dakota	(6.0)	(14.9)	(13.8)	(1.4)
<b>Southeast</b>	<b>(4.1)</b>	<b>0.2</b>	<b>1.2</b>	<b>2.2</b>
Alabama	(0.1)	0.8	1.8	2.4
Arkansas	(2.6)	(3.2)	4.7	5.1
Georgia	(4.7)	0.7	0.8	0.0
Kentucky	(4.6)	(0.1)	0.8	4.2
Louisiana	(12.4)	(51.2)	(23.0)	1.5
Mississippi	(4.7)	(1.9)	1.3	2.4
North Carolina	(5.8)	5.2	3.8	(0.4)
South Carolina	0.7	2.6	3.1	4.0
Virginia	(2.5)	5.0	1.5	4.5
West Virginia	(3.5)	(4.2)	2.1	6.0
<b>Southwest</b>	<b>(9.1)</b>	<b>2.8</b>	<b>2.5</b>	<b>1.4</b>
Arizona	(6.5)	0.9	2.6	3.1
New Mexico	(8.1)	15.6	11.4	4.8
Oklahoma	(12.8)	0.1	(1.1)	(2.3)
<b>Rocky Mountain</b>	<b>(4.1)</b>	<b>1.0</b>	<b>0.9</b>	<b>3.3</b>
Colorado	(4.8)	(1.0)	2.9	3.0
Idaho	(8.1)	(1.5)	5.5	3.7
Montana	(2.5)	1.4	2.9	5.5
Utah	(0.9)	6.2	(5.6)	2.9
<b>Far West</b>	<b>0.4</b>	<b>12.7</b>	<b>13.4</b>	<b>14.3</b>
California	1.3	14.7	15.2	16.2
Hawaii	(10.7)	4.0	(1.8)	3.3
Oregon	(2.6)	(0.6)	5.8	4.9

Source: Individual state data, analysis by Rockefeller Institute.

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

Table 4. Estimated Payments/Declarations, By State

	Year-Over-Year Percent Change	
	April-Sep 2010	July-Sep
	(first three payments of 2010)	(third payment of 2010)
<b>Average (Mean)</b>	<b>(4.5)</b>	<b>(3.7)</b>
<b>Median</b>	<b>(3.9)</b>	<b>(0.4)</b>
Alabama	(15.5)	(13.5)
Arizona	(3.9)	(2.5)
Arkansas	(13.8)	(8.6)
California	3.0	(37.2)
Colorado	(15.6)	23.1
Connecticut	13.8	5.7
Delaware	7.3	4.3
Georgia	(18.0)	(8.7)
Hawaii	0.6	(45.4)
Illinois	(5.3)	(5.2)
Iowa	4.9	7.5
Kansas	(9.5)	(6.0)
Kentucky	(9.1)	1.0
Louisiana	(32.3)	(43.5)
Maine	(2.2)	2.6
Maryland	(1.9)	(7.3)
Massachusetts	5.4	8.1
Michigan	(0.8)	(0.0)
Minnesota	(10.6)	(8.0)
Mississippi	(18.2)	(7.5)
Missouri	(5.5)	(0.4)
Montana	(4.1)	(0.4)
Nebraska	(2.7)	(0.5)
New Jersey	9.4	0.1
New York	10.6	6.1
North Carolina	(4.1)	(5.5)
North Dakota	(20.9)	2.4
Ohio	4.0	4.5
Oklahoma	(20.8)	(8.5)
Oregon	1.6	1.3
Pennsylvania	(3.0)	(0.1)
Rhode Island	3.4	6.8
South Carolina	(5.8)	(2.5)
Vermont	(0.6)	1.6
Virginia	(4.1)	(9.5)
West Virginia	(7.5)	2.8
Wisconsin	6.5	4.6

Source: Individual state data, analysis by Rockefeller Institute.

Note: ND - No Data

The year-over-year decline in the estimated payments through most of 2010 suggests that the sharp increases in capital gains some states projected for 2010 is probably not occurring. As we noted in our April 2010 *Revenue Report*, reduced tax rates on capital gains were scheduled to expire at the end of 2010, creating an opportunity for taxpayers to minimize longer-term tax liability by accelerating capital gains into 2010. The Congressional Budget Office, California, and New York all forecasted substantial increases in 2010, as we reported then, and

other states likely had similar expectations. However, that increase would only be likely to occur if the temporarily low federal tax rates on capital gains expired. In December 2010 these rates were extended for two more years, making the anticipated “spin up” in capital gains unlikely to occur — to the detriment of states that budgeted for this. The result could be lower-than-expected revenue from payments of estimated income tax and from final returns.<sup>6</sup> The revenue consequences of this can be substantial. For example, in the November update to its financial plan for the current fiscal year, New York noted, “Payments for tax year 2010 estimated tax of \$8.6 billion are expected to be \$1.0 billion (13.2 percent) above the prior year. This increase primarily reflects an acceleration in capital gains realizations as taxpayers anticipate the scheduled expiration of lower Federal capital gains tax rates at the end of 2010.”

### **Final Payments**

Final payments with personal income tax returns were down by 3.0 percent in the third quarter of 2010 compared to the same quarter of 2009 and by 8.4 percent compared to the same quarter of 2008. Payments with returns in the July-September quarter of 2010 exceeded 2009 levels in only 18 of 38 reporting states. New Mexico and South Carolina had the largest declines in final payments in terms of dollar amount, with over \$20 million declines each in the third quarter of 2010.

### **Refunds**

Personal income tax refunds paid by 38 states declined by 14.5 percent in the third quarter of 2010 compared to the same quarter of 2009, but were up by 10.3 percent compared to the second quarter of 2008. In total, these 38 early reporting states have paid out about \$0.6 billion less in refunds in July-September quarter of 2010 than in 2009. So far 29 of 38 reporting states returned less income tax refunds to taxpayers in the July-September quarter of 2010 compared to the same period of 2009, with 23 states returning over 10 percent less in personal income tax refunds for the period.

### **General Sales Tax**

State sales tax collections in the July-September 2010 quarter showed growth of 4.3 percent from the same quarter in 2009, but were still down by 6.1 percent from the same period two years earlier. This is the third quarter in a row that sales tax collections rose, but the growth in sales tax collections slowed from the 6.0 percent of the previous quarter.

Increases in sales tax collections were reported during the third quarter in all regions with New England and Plains reporting the largest increases at 11.7 and 11.5 percent, respectively. The strong sales tax growth in New England and Plains region is mostly driven by legislated tax changes. In the New England region most of the sales tax growth is due to large sales tax

collections in Massachusetts where sales tax increased from 5 percent to 6.25 percent and in the Plains region is due to large sales tax collections in Minnesota where sales tax increased from 6.5 percent to 6.875 percent.

Thirty-eight of 45 states with broad-based sales taxes reported growth in sales tax collections, with seven states reporting double-digit growth. Among the seven states reporting declines in sales tax collections in the third quarter, Virginia showed the largest decline at 19.7 percent, followed by South Carolina at 7.1 percent.

Preliminary figures for the 38 of 45 early reporting states with broad-based sales tax indicate that sales tax collections continued reporting positive growth at 6.0 percent in October-December 2010 quarter compared to the same quarter of 2009 and growth of 1.6 percent compared to the same quarter of 2008. All 38 early reporting states reported growth in sales tax collections in the October-December 2010 quarter. While collections from the remaining seven states could change the national picture, sales tax growth in the October-December quarter is not unexpected, as a result of stabilizing retail sales and consumption, legislated changes in several states, and holiday shopping.

### Corporate Income Tax

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

Corporate tax revenue increased by 1.6 percent in the July-September quarter compared to a year earlier but was down by 20.8 percent from the same period two years earlier. The corporate income tax revenues for the July-September quarter are skewed by a single state, California, where collections fell by \$448 million or 23.1 percent compared to the same period in 2009. If we exclude California, corporate income tax collections show a growth of 9.7 percent for the nation in the third quarter of 2010.

The Far West region reported the largest decline at 18.6 percent, followed by the Mid-Atlantic region at 4.1 percent. In the Mid-Atlantic region most of the decline is attributable to New York, where collections declined by \$99 million or 10.9 percent. All the other regions reported growth in corporate income tax collections for the third quarter of 2010.

Among 46 states that have a corporate income tax, 15 reported declines for the third quarter of 2010 compared to the same quarter of the previous year; 9 states saw double-digit declines. Twenty-six states reported double-digit growth and five states reported single-digit growth.

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

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

	Property tax	Motor fuel sales tax	Tobacco product sales tax	Alcoholic beverage sales tax	Motor vehicle & operators license taxes	Other taxes
<b>Nominal collections (mlns), latest 12 months</b>	\$14,542	\$36,341	\$17,244	\$5,468	\$22,878	\$102,134
2010Q3	12.1	(0.1)	3.1	1.3	2.8	2.6
2010Q2	11.0	(1.8)	0.5	1.1	2.8	(3.5)
2010Q1	9.7	(3.0)	(1.2)	0.1	1.3	(10.9)
2009Q4	5.7	(3.7)	(1.6)	0.2	0.1	(14.9)
2009Q3	(0.8)	(4.2)	0.2	(0.1)	(1.2)	(14.1)
2009Q2	(2.3)	(6.0)	1.0	(0.4)	(1.0)	(7.3)
2009Q1	(3.9)	(6.2)	2.4	0.1	(0.7)	3.6
2008Q4	(3.0)	(5.1)	2.9	0.3	(1.3)	7.2
2008Q3	1.6	(3.5)	3.3	(0.3)	(0.7)	9.7
2008Q2	3.2	(1.9)	5.7	0.3	(0.5)	7.6
2008Q1	3.8	(1.4)	6.0	0.4	(1.2)	3.1
2007Q4	3.3	(1.9)	5.9	0.3	(0.7)	2.1
2007Q3	1.3	(0.9)	3.7	1.4	(1.1)	(0.5)
2007Q2	(0.4)	(1.3)	0.3	1.3	(1.0)	(1.4)
2007Q1	1.6	(0.1)	1.5	0.4	0.4	(1.1)
2006Q4	0.1	0.7	2.6	1.0	0.9	(0.4)
2006Q3	(0.3)	(1.1)	5.3	1.1	0.8	1.9
2006Q2	(0.2)	1.4	8.9	1.1	0.7	4.2
2006Q1	0.8	1.5	6.9	2.4	0.1	5.2
2005Q4	1.9	2.1	5.4	1.6	0.3	7.1
2005Q3	3.4	3.6	4.2	(0.2)	1.9	6.3
2005Q2	3.5	0.9	2.1	(0.6)	2.6	4.9
2005Q1	1.7	1.4	2.9	(2.4)	3.5	5.7
2004Q4	(4.9)	1.6	3.5	(1.5)	5.5	6.0
2004Q3	(2.4)	1.5	3.5	(0.0)	6.0	7.5
2004Q2	3.5	2.1	4.8	0.4	6.6	8.9
2004Q1	1.0	0.3	10.5	4.3	5.5	7.5
2003Q4	8.6	(1.0)	17.0	3.9	3.8	5.5
2003Q3	5.5	(1.3)	26.1	2.2	2.8	3.7
2003Q2	(1.1)	(0.4)	35.7	3.1	2.6	2.6
2003Q1	(5.0)	0.7	27.1	0.6	3.6	2.2
2002Q4	(4.8)	1.0	17.2	(0.1)	2.9	2.1
2002Q3	(6.7)	0.7	5.6	2.7	2.5	2.6
2002Q2	(4.4)	1.1	(5.9)	(0.2)	0.6	3.4
2002Q1	5.1	1.7	(5.0)	(0.2)	(1.2)	2.1
2001Q4	2.7	2.5	(1.5)	0.5	(2.9)	2.5
2001Q3	(0.3)	3.5	2.6	(1.4)	(3.3)	1.5
2001Q2	(5.0)	2.5	7.6	1.7	(0.7)	0.9
2001Q1	(12.6)	1.2	8.4	1.4	2.4	3.6
2000Q4	(11.1)	1.2	5.9	1.8	5.9	4.2
2000Q3	(4.1)	1.3	1.7	3.2	6.9	6.5
2000Q2	(2.6)	1.2	(1.3)	2.2	5.9	7.9
2000Q1	2.5	2.3	(4.5)	3.2	3.0	4.7
1999Q4	1.2	2.4	(5.3)	2.7	1.7	3.6
1999Q3	(1.5)	1.6	(2.9)	1.7	1.2	2.9
1999Q2	0.8	2.1	(1.0)	1.4	0.9	1.3
1999Q1	3.9	2.5	1.3	1.5	1.0	2.8

Source: U.S. Census Bureau.

## Other Taxes

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

Motor fuel tax revenue continued to decline for the fifteenth consecutive quarter with a drop of 0.1 percent. Revenues from all other tax sources showed growth. State property taxes increased by 12.1 percent. Revenues from tobacco product sales tax by 3.1 percent, from motor vehicle and operators' licenses increased by 2.8 percent, and from alcoholic beverage sales tax increased by 1.3 percent.

## Underlying Reasons for Trends

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

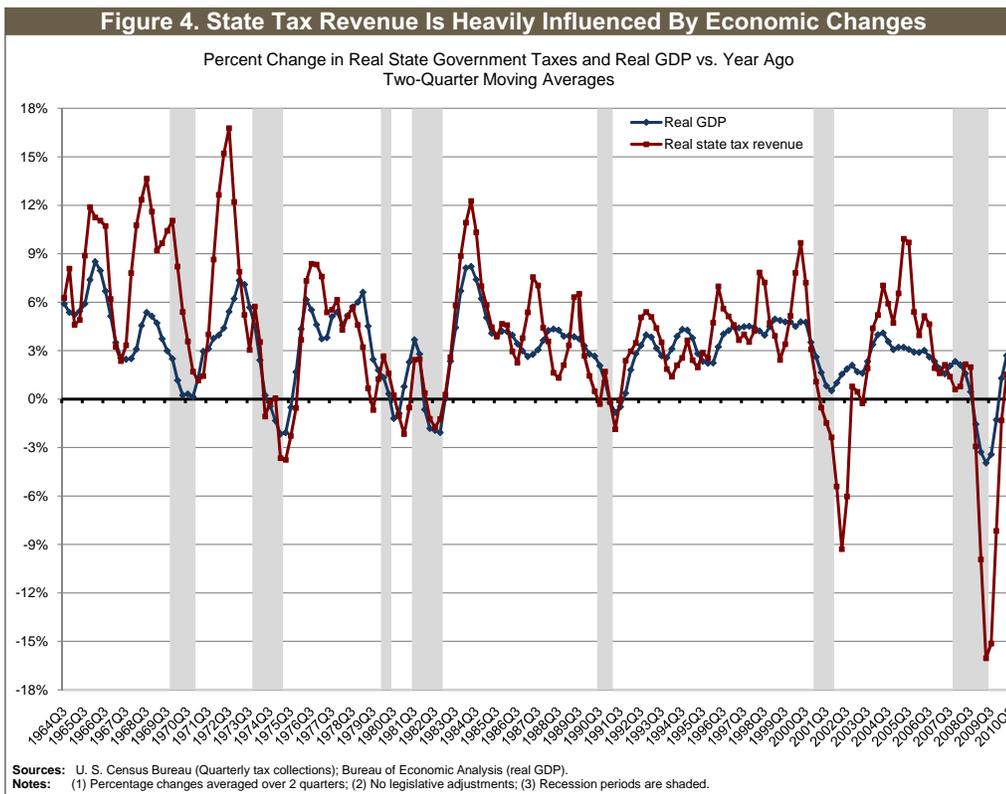
legislated tax changes. The next two sections discuss the economy and recent legislated changes.

### National and State Economies

Most state tax revenue sources are heavily influenced by the economy — the income tax rises when income rises, the sales tax increases when consumers increase their purchases of taxable items, and so on. When the economy booms, tax revenue tends to rise rapidly, and when it declines, tax revenue tends to decline. Figure 4 shows year-over-year growth for two-quarter moving averages in inflation-adjusted state tax revenue and in real gross domestic product, to smooth short-term fluctuations and illustrate the interplay between the economy and state revenues. Tax revenue is highly related to economic growth, but there is also significant volatility in tax revenue that is not explained solely by one broad measure of the economy. As shown in Figure 4, in the third quarter real state tax revenue showed some 2.0 percent growth, which is the second consecutive quarter growth since the third quarter of 2008, while real Gross Domestic Product showed growth for the third consecutive quarter at 3.1 percent. Both economic activity and state tax revenue are slowly rebounding.

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

Real gross domestic product increased at an annual rate of 2.6 percent in July-September 2010, a considerable improvement compared to the 1.7 percent increase in the April-June quarter. In general, real gross domestic product improved noticeably since mid-2009 after a record four consecutive quarter declines in the second half of 2008 and first half of 2009. The last time we saw large declines in real GDP was during the double-dip recession of the early 1980s, when economic activity fell by 7.9 percent



**Table 6. Nonfarm Employment, By State**

Last Four Quarters, Year-Over-Year Percent Change

	2009		2010	
	Oct-Dec	Jan-March	April-June	July-Sep
<b>United States</b>	<b>(4.5)</b>	<b>(2.7)</b>	<b>(0.7)</b>	<b>0.2</b>
<b>New England</b>	<b>(3.9)</b>	<b>(2.2)</b>	<b>(0.4)</b>	<b>0.7</b>
Connecticut	(4.1)	(2.6)	(0.5)	0.1
Maine	(3.7)	(2.0)	(1.5)	(0.1)
Massachusetts	(3.8)	(2.3)	(0.1)	1.2
New Hampshire	(3.2)	(0.7)	0.6	2.3
Rhode Island	(4.6)	(2.9)	(2.3)	(0.9)
Vermont	(3.2)	(1.2)	(1.2)	(0.3)
<b>Mid-Atlantic</b>	<b>(3.2)</b>	<b>(2.0)</b>	<b>(0.4)</b>	<b>(0.0)</b>
Delaware	(4.6)	(2.8)	(0.5)	0.9
Maryland	(3.0)	(2.1)	(0.2)	0.7
New Jersey	(3.2)	(2.1)	(0.9)	(0.8)
New York	(3.1)	(1.8)	(0.4)	(0.2)
Pennsylvania	(3.5)	(2.1)	(0.0)	0.5
<b>Great Lakes</b>	<b>(5.2)</b>	<b>(3.1)</b>	<b>(0.7)</b>	<b>0.3</b>
Illinois	(5.1)	(3.3)	(1.0)	(0.1)
Indiana	(5.1)	(2.1)	0.6	1.2
Michigan	(5.6)	(2.8)	(0.5)	0.2
Ohio	(5.2)	(3.4)	(0.8)	0.0
Wisconsin	(5.1)	(3.4)	(1.1)	0.4
<b>Plains</b>	<b>(3.6)</b>	<b>(2.2)</b>	<b>(0.4)</b>	<b>0.4</b>
Iowa	(3.3)	(1.8)	(0.3)	0.2
Kansas	(4.3)	(3.4)	(1.3)	0.3
Minnesota	(4.5)	(2.2)	(0.1)	1.2
Missouri	(3.5)	(2.5)	(0.8)	(0.4)
Nebraska	(2.8)	(1.8)	(0.2)	0.3
North Dakota	(0.5)	0.3	1.3	1.3
South Dakota	(2.3)	(1.8)	(0.1)	0.7
<b>Southeast</b>	<b>(4.5)</b>	<b>(2.5)</b>	<b>(0.6)</b>	<b>0.3</b>
Alabama	(5.1)	(2.9)	(1.1)	(0.0)
Arkansas	(3.0)	(2.1)	(0.5)	0.4
Florida	(5.2)	(2.9)	(0.9)	0.2
Georgia	(5.3)	(3.5)	(1.9)	(0.7)
Kentucky	(3.5)	(1.5)	0.5	0.6
Louisiana	(3.2)	(1.7)	(0.4)	0.9
Mississippi	(4.1)	(2.2)	(1.1)	(0.5)
North Carolina	(4.7)	(2.2)	0.2	0.6
South Carolina	(4.5)	(1.6)	0.3	0.6
Tennessee	(5.1)	(2.8)	(0.3)	0.4
Virginia	(3.6)	(2.0)	(0.3)	0.6
West Virginia	(3.4)	(2.6)	(0.9)	0.3
<b>Southwest</b>	<b>(4.1)</b>	<b>(2.5)</b>	<b>(0.1)</b>	<b>1.1</b>
Arizona	(6.6)	(3.9)	(0.9)	0.2
New Mexico	(4.3)	(2.6)	(1.3)	(0.7)
Oklahoma	(4.3)	(3.2)	(0.9)	1.3
Texas	(3.5)	(2.0)	0.3	1.4
<b>Rocky Mountain</b>	<b>(4.8)</b>	<b>(3.1)</b>	<b>(1.1)</b>	<b>(0.3)</b>
Colorado	(5.0)	(3.7)	(2.0)	(1.1)
Idaho	(4.9)	(2.7)	(0.5)	(0.0)
Montana	(3.6)	(1.5)	(1.0)	(0.7)
Utah	(4.4)	(2.3)	0.4	1.0
Wyoming	(6.2)	(4.2)	(1.5)	0.4
<b>Far West</b>	<b>(5.9)</b>	<b>(3.6)</b>	<b>(1.6)</b>	<b>(0.5)</b>
Alaska	(0.1)	1.3	1.0	1.0
California	(6.1)	(3.8)	(1.8)	(0.6)
Hawaii	(3.9)	(2.3)	(0.2)	0.5
Nevada	(8.1)	(5.0)	(2.9)	(2.0)
Oregon	(5.7)	(2.9)	(1.1)	(0.3)
Washington	(4.9)	(3.2)	(1.1)	0.1

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

for the second quarter of 1980 and 6.4 percent for the first quarter of 1982.

Durable goods consumption, an important element of state sales tax bases, showed an increase of 5.5 percent in the third quarter of 2010 relative to the same quarter of a year ago after significant declines throughout 2008 and most of 2009. A 0.9 percent growth was reported in consumption of services, which is another important sector and comprises nearly 50 percent of total real GDP.<sup>7</sup>

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

Unfortunately, state-by-state data on income and consumption are not available on a timely basis, and so we cannot easily see variation across the country in these trends. Traditionally, the Rockefeller Institute has relied on employment data from the Bureau of Labor Statistics to examine state-by-state economic conditions. These data are relatively timely and are of high quality. Table 6 shows year-over-year employment growth over the last four quarters. For the nation as a whole, after eight consecutive quarter declines, employment grew by a negligible 0.2 percent in the July-September quarter of 2010. On a year-over-year basis, employment declined in 17 states. New Hampshire and Texas reported the largest growth in employment at 2.3 and 1.4 percent, respectively, while Nevada and Colorado reported the largest decline in employment at 2.0 and 1.1 percent, respectively.

The regional patterns are quite varied: The Far West states continued suffering from large declines in employment and once again reported the largest employment declines in the third quarter at 0.5 percent. The Southwest region reported the largest

increase in employment at 1.1 percent followed by the New England states at 0.7 percent.

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

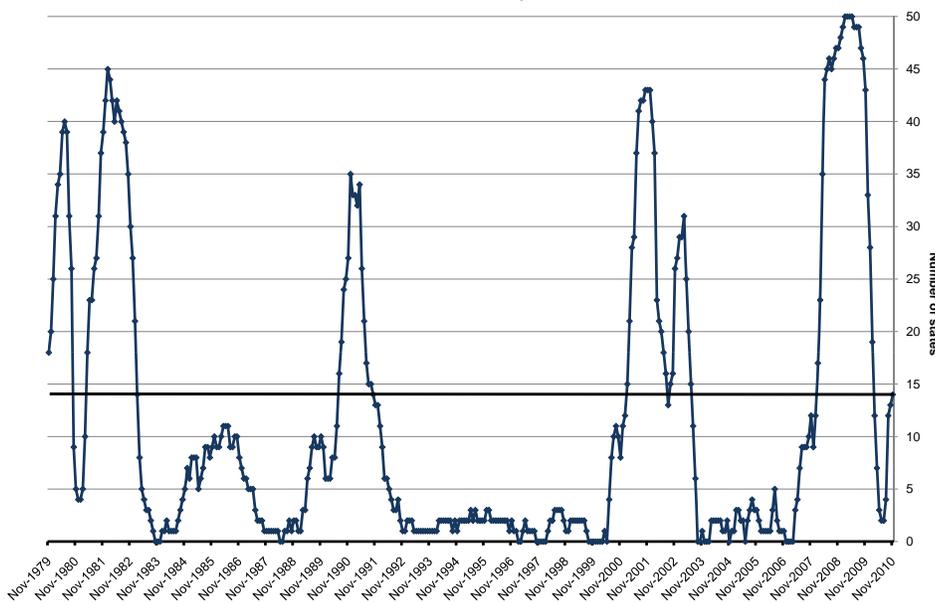
Economists at the Philadelphia Federal Reserve Bank developed broader and highly timely measures known as “coincident economic indexes” intended to provide information about current economic activity in individual states. Unlike leading indexes, these measures are not designed to predict where the economy is headed; rather, they are intended to tell us where we are now.<sup>8</sup> They are modeled on a similar measure for the nation as a whole, but due to limited availability of state-level data they are focused on labor market conditions, incorporating information from nonfarm payroll employment, average hours worked in manufacturing, the unemployment rate, and real wage and salary disbursements. These indexes can be used to measure the scope of economic decline or growth.

Figure 5 shows, by month over the last three decades, the number of states that had declining economic activity relative to three months earlier. At the start of the most recent recession, in December of 2007, only nine states suffered declines, but over the following year economic weakening spread rapidly throughout

the country. By February 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; such widespread weakness continued for four months. By December of 2009, 33 states had declines in economic activity. The declines in economic activity slowed down significantly in the months of May 2010 through August 2010. During that period only two to four states

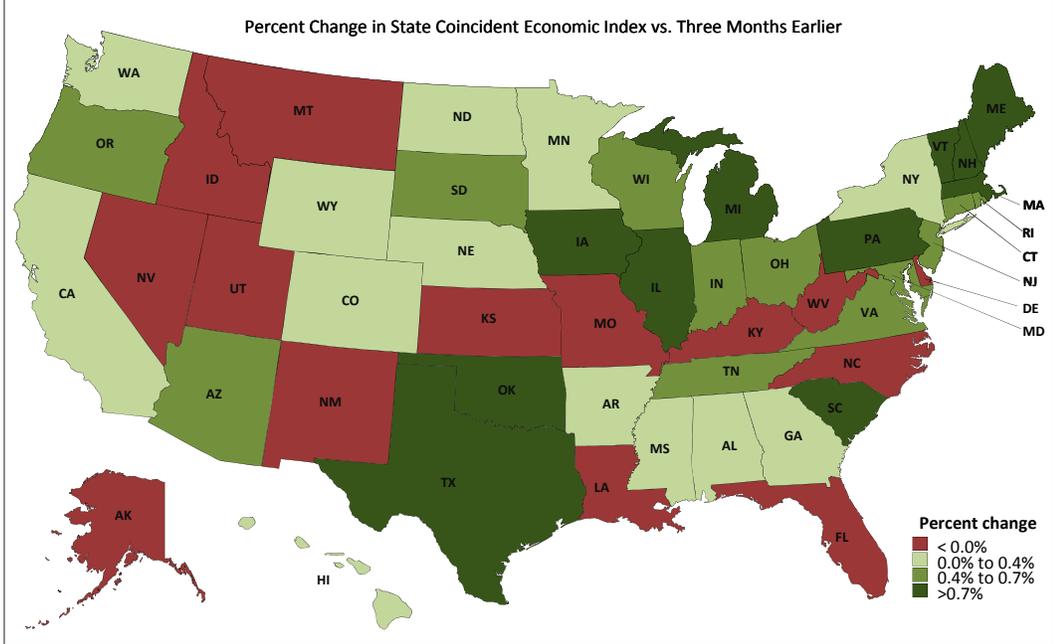
**Figure 5. Economy Is Declining in Fourteen States**

Number of States With Economy Declining Compared to Three Months Earlier  
Coincident Economic Indexes - Through November 2010



Source: Federal Reserve Bank of Philadelphia.

Figure 6. In November: Fourteen States Had Declining Economies



were reporting declines. However, the number of states reporting declines in economic activity grew to 12 in the month of September 2010, and to 14 in the month of November 2010 compared to three months earlier. The data underlying these indexes are subject to revision, and so tentative conclusions drawn now could change at a later date. Moreover, this analysis

is based on economic activity compared to three months earlier. If we look at state economic activity compared to a year earlier, then declines are reported in five states.

Figure 6 shows state-by-state variation in relative economic activity as of November 2010 and Table 7 shows the states sorted by the change in the coincident economic index versus three months ago. Among the 14 states with declining economic activity, Nevada and Idaho reported the largest declines at 0.9 and 0.8 percent, respectively. Many states reported weak economic activity throughout 2010 due to large declines in the price of housing and in the financial markets. In general, the majority of states showing stronger growth in economic activity are in the east. Michigan reported the largest increase at 1.5 percent followed by New Hampshire at 1.3 percent.

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

Here we can see that the reported declines for the most recent recession in the typical state were worse than those of the 1980-82, 1990-91, and 2001 recessions. While there was a continuous upward spike from December 2009 to May 2010, the trend again shifted to downwards from June to August but is back to upwards for the last three months.

Figure 8 shows consumption of durable goods, nondurable goods, and services. The decline in consumption of durable and

**Table 7. State Economic Activity: Declining in Fourteen States**

State Indexes of Economic Activity			
States are Sorted by Percent Change vs. 3 Months Ago			
State	Coincident index November 2010 (July 1992=100)	Percent change vs. 1 year ago (November 2009)	Percent change vs. 3 months ago (August 2010)
Michigan	122.1	5.0	1.5
New Hampshire	189.3	6.1	1.3
Pennsylvania	139.3	2.7	1.2
Maine	137.5	2.6	1.1
Texas	168.0	3.1	0.9
Illinois	137.5	1.9	0.8
South Carolina	148.0	3.2	0.8
Vermont	144.0	1.7	0.7
Iowa	144.5	2.0	0.7
Massachusetts	168.7	4.2	0.7
Oklahoma	154.6	2.6	0.7
Oregon	181.9	2.2	0.7
Connecticut	153.9	2.4	0.6
Arizona	180.3	1.4	0.6
Tennessee	143.3	2.4	0.6
Wisconsin	139.0	2.7	0.6
Virginia	145.0	1.5	0.5
Maryland	142.7	0.3	0.5
New Jersey	147.5	1.0	0.5
South Dakota	158.5	2.4	0.5
Ohio	138.1	4.1	0.4
<b>United States</b>	<b>150.4</b>	<b>1.9</b>	<b>0.4</b>
Indiana	138.3	3.3	0.4
Rhode Island	145.4	2.1	0.4
California	149.8	1.4	0.4
Nebraska	153.3	1.4	0.4
Minnesota	151.9	3.1	0.3
Arkansas	141.0	1.6	0.3
Mississippi	140.9	1.2	0.3
New York	140.4	1.9	0.3
North Dakota	164.2	4.8	0.3
Hawaii	104.6	0.9	0.2
Washington	151.7	1.1	0.2
Wyoming	169.2	2.1	0.2
Colorado	167.8	(0.2)	0.1
Georgia	159.8	0.8	0.1
Alabama	129.2	1.8	0.0
Alaska	115.5	(0.1)	(0.0)
Kentucky	136.1	1.8	(0.1)
Delaware	138.9	1.2	(0.1)
Kansas	138.4	0.8	(0.1)
New Mexico	154.8	(0.4)	(0.1)
Florida	141.8	0.5	(0.1)
Louisiana	124.3	1.8	(0.1)
Montana	152.3	(1.5)	(0.1)
Missouri	131.0	0.1	(0.2)
Utah	179.3	0.2	(0.3)
West Virginia	157.0	1.4	(0.3)
North Carolina	149.7	1.2	(0.5)
Idaho	186.6	0.3	(0.8)
Nevada	172.7	(4.1)	(0.9)

Source: Federal Reserve Bank of Philadelphia.

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

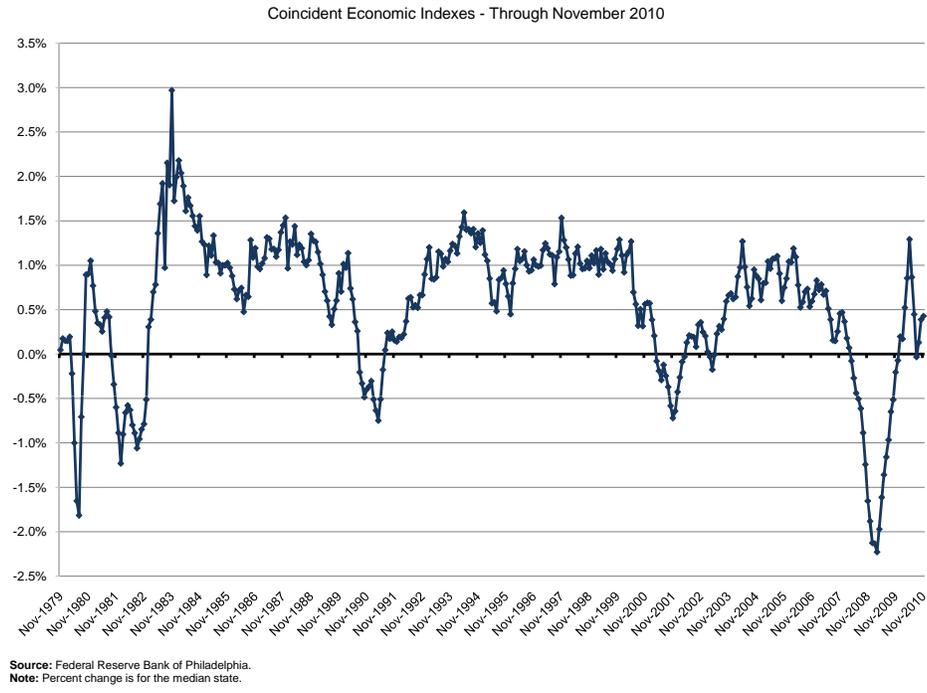
Figure 9 shows year-over-year percent change in the federal government's seasonally adjusted, purchase-only house price index from 1992 through the third quarter of 2010. As Figure 9 shows, the trend in housing prices has been downward since mid-2005, with steeply negative movement from the last quarter of 2004 through the end of 2008. While housing prices started to strengthen in 2009, the direction of change is still negative and it declined once again in the third quarter of 2010 after showing some upward movement in the second quarter of 2010. The states in the West continue to see the largest declines in the housing price index.

### Tax Law Changes Affecting This Quarter

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

During the July-September 2010 quarter, enacted tax changes increased state revenue by an estimated net of \$1.3 billion compared to the same period in 2009.<sup>9</sup> Personal income tax increases accounted for approximately \$107 million. In a single state, California, legislated changes increased motor fuel tax by an estimated \$629 million and corporate income tax by an estimated

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



\$237 million, but decreased the sales tax by an estimated \$460 million due to exemptions for gasoline. Legislated changes in Arizona were also significant for the sales tax due to the one percent increase in statewide sales tax. The net impact is that the increase in nominal tax revenue would have been somewhat smaller, if not for the legislated tax changes.

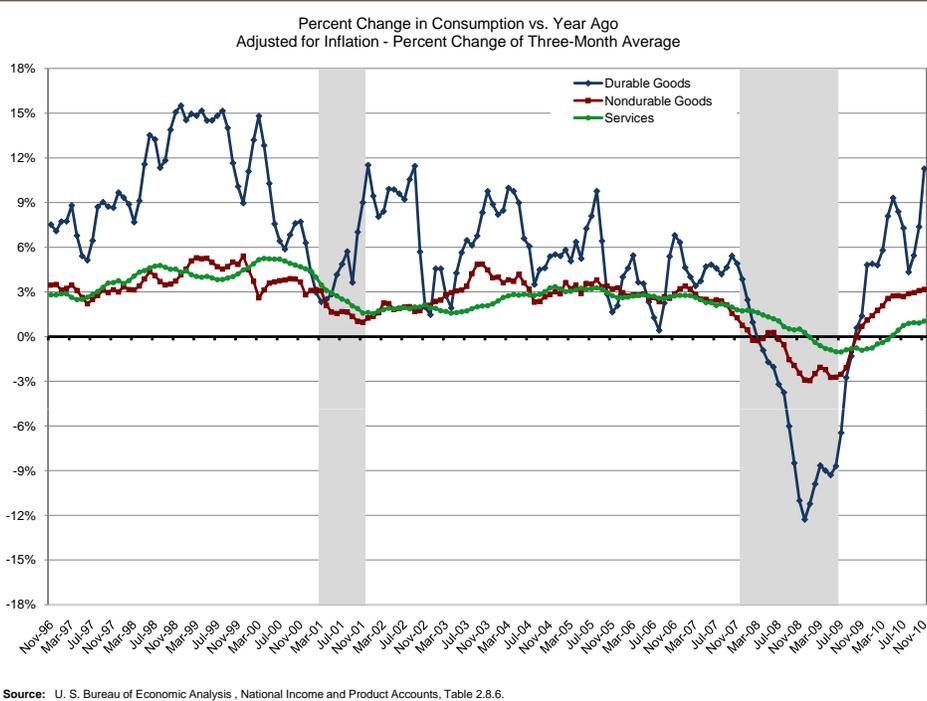
### The Impact of Two Major Taxes

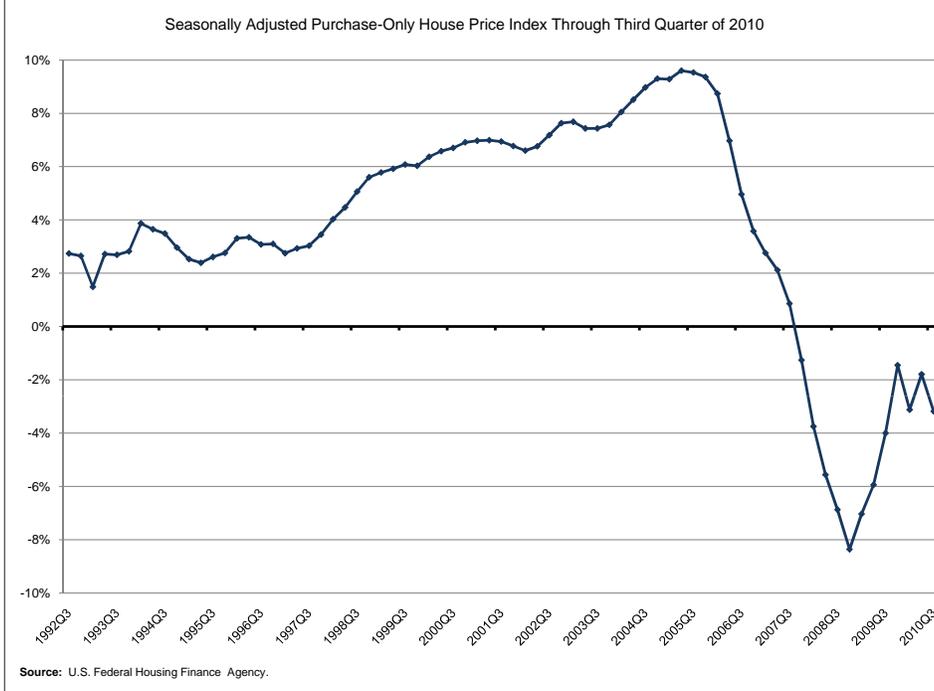
States rely on the sales tax for about 31 percent of their tax revenue, and it was hit far harder in the last recession than in previous

downturns. Retail sales and consumption are major drivers of sales taxes. Figure 10 shows the cumulative percentage change in inflation-adjusted retail sales in the 36 months following the start of each recession from 1973 forward.<sup>10</sup> Several points are noteworthy. First, real retail sales in the Great Recession (the solid red line) plummeted after December 2007, falling sharply and almost continuously until December 2008, by which point they were more than 10 percent below the prerecession peak. This was deeper than in most recessions, although the declines in the 1973 and 1980 recessions also were quite bad.

Second, while real retail sales have been rising from their lows for about the last year, they are still about 3 percent below their prerecession peak. So even if sales taxes precisely mirrored retail sales, they would be weak compared to two or three years ago. In fact, though, many state sales taxes exempt food and other necessities, and

**Figure 8. Consumption of Goods and Services Is Recovering**



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

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

States on average count on the income tax for about 36 percent of their tax revenue. Employment and associated wage payments are major drivers of income taxes. Figure 11 shows the cumulative percentage change in nonfarm employ-

ment for the nation as a whole in the 48 months following the start of each recession from 1973 forward.<sup>11</sup> The last point for the 2007 recession is December 2010, month 36. As the graph shows, the 5.2 percent employment drop in this recession is far worse compared to previous recessions. It is likely to be several years before employment reattains its prerecession peak, as Figure 11 suggests.

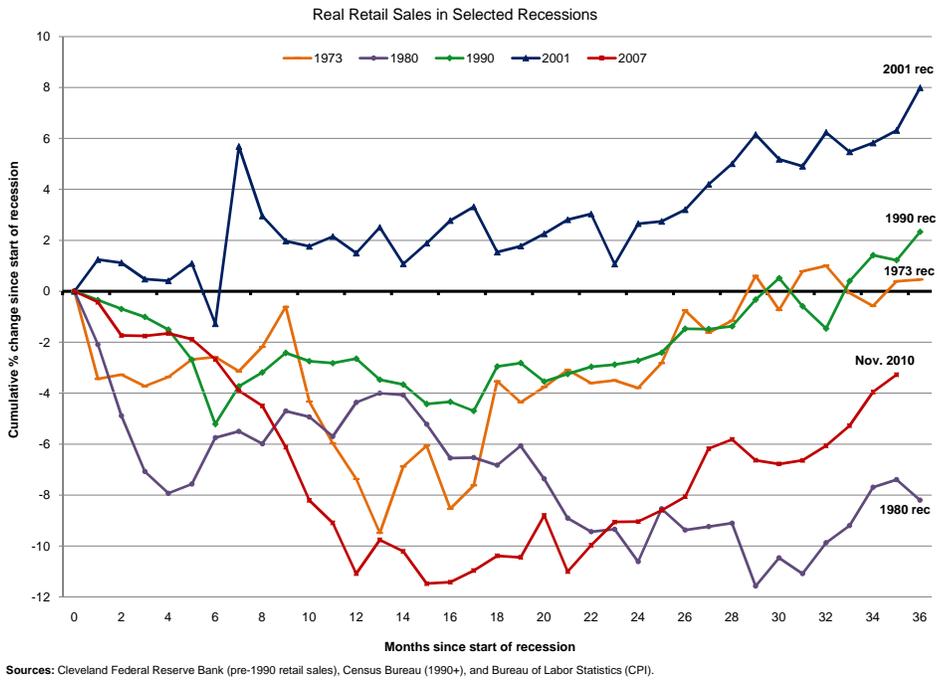
### Looking Ahead

After the deepest recession since the Great Depression, most states are now on the gradual road to tax revenue recovery. During calendar 2010 states reported growth in overall tax collections as well as collections from personal income and sales tax for four consecutive quarters, including the fourth quarter.

Broad state fiscal conditions remain fragile. The longer-term outlook is still ominous due to record revenue declines during the Great Recession, spending trendlines still pointing upward, and unemployment rates remaining nearly double their prerecession levels, to name a few. While some economic indicators signal improvement in overall conditions, fiscal recovery for the states typically lags a national turnaround and is likely to take several years.

Preliminary data for the October-December quarter of 2010 suggest that tax conditions continue to improve. With early data for the October-December 2010 quarter now available for 41 states, tax revenue increased by 6.9 percent compared to the same quarter of last year. Such a gain, if maintained in the full fourth-quarter data that will be available in several weeks, would represent the strongest growth since the second quarter of 2006.

**Figure 10. Real Retail Sales Have Stabilized But Are Still About 3 Percent Below Peak**



**Figure 11. Employment Decline Was Nearly Three Times That of Previous Recessions**

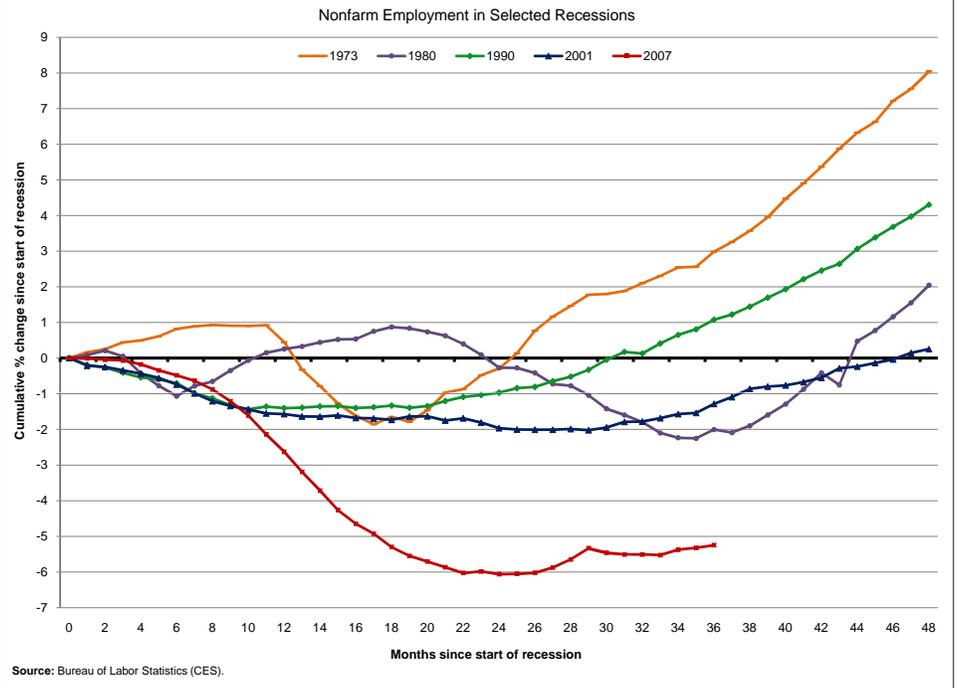


Table 8. State Tax Revenue, July-September, 2009 and 2010 (\$ in millions)

	July-September 2009				July-September 2010			
	PIT	CIT	Sales	Total	PIT	CIT	Sales	Total
<b>United States</b>	<b>54,158</b>	<b>7,869</b>	<b>53,941</b>	<b>160,491</b>	<b>56,493</b>	<b>7,999</b>	<b>56,263</b>	<b>167,645</b>
<b>New England</b>	<b>3,790</b>	<b>575</b>	<b>2,044</b>	<b>8,475</b>	<b>4,097</b>	<b>786</b>	<b>2,283</b>	<b>9,389</b>
Connecticut	727	51	483	1,685	822	77	501	1,885
Maine	281	40	196	732	309	44	200	773
Massachusetts	2,409	350	1,072	4,603	2,571	463	1,277	5,073
New Hampshire	14	109	NA	416	14	144	NA	540
Rhode Island	229	8	216	681	247	26	224	735
Vermont	130	17	76	359	134	31	80	383
<b>Mid-Atlantic</b>	<b>13,421</b>	<b>1,837</b>	<b>7,479</b>	<b>29,814</b>	<b>13,862</b>	<b>1,762</b>	<b>7,691</b>	<b>30,812</b>
Delaware	211	30	NA	597	224	42	NA	630
Maryland	1,567	138	624	3,659	1,661	160	644	3,871
New Jersey	1,982	410	2,018	5,501	1,930	382	1,968	5,481
New York	7,574	912	2,708	13,413	7,890	813	2,865	13,824
Pennsylvania	2,087	347	2,130	6,644	2,156	366	2,214	7,006
<b>Great Lakes</b>	<b>7,917</b>	<b>905</b>	<b>8,466</b>	<b>24,656</b>	<b>8,299</b>	<b>990</b>	<b>8,831</b>	<b>25,757</b>
Illinois	1,899	376	1,789	6,085	1,946	410	1,778	6,233
Indiana	882	131	1,501	3,239	1,007	162	1,563	3,429
Michigan	1,922	233	2,709	7,206	1,993	214	2,837	7,305
Ohio	1,875	-3	1,787	5,449	1,970	1	1,943	5,809
Wisconsin	1,341	168	680	2,677	1,384	204	710	2,981
<b>Plains</b>	<b>4,275</b>	<b>384</b>	<b>3,321</b>	<b>10,856</b>	<b>4,453</b>	<b>487</b>	<b>3,702</b>	<b>11,888</b>
Iowa	495	-6	383	1,227	531	27	408	1,338
Kansas	592	68	548	1,474	628	64	636	1,611
Minnesota	1,634	184	936	3,882	1,715	257	1,162	4,396
Missouri	1,086	75	762	2,450	1,102	86	752	2,507
Nebraska	397	37	332	923	405	22	347	968
North Dakota	71	16	151	548	73	27	183	711
South Dakota	NA	10	209	352	NA	4	214	356
<b>Southeast</b>	<b>10,068</b>	<b>1,735</b>	<b>13,127</b>	<b>34,889</b>	<b>10,540</b>	<b>1,796</b>	<b>13,618</b>	<b>36,108</b>
Alabama	554	99	510	1,888	655	157	540	2,113
Arkansas	554	71	671	1,763	571	98	724	1,931
Florida	NA	422	4,300	7,533	NA	411	4,354	7,550
Georgia	1,779	171	1,193	3,638	1,965	118	1,294	3,886
Kentucky	814	80	694	2,304	846	114	717	2,429
Louisiana	672	102	689	2,286	621	45	704	2,162
Mississippi	319	59	610	1,349	340	66	619	1,397
North Carolina	2,409	228	1,264	5,017	2,382	241	1,599	5,373
South Carolina	392	25	513	1,332	421	24	477	1,390
Tennessee	4	204	1,560	2,531	3	249	1,619	2,666
Virginia	2,218	172	846	4,051	2,345	173	679	3,930
West Virginia	353	103	278	1,196	390	99	292	1,281
<b>Southwest</b>	<b>1,450</b>	<b>158</b>	<b>7,081</b>	<b>14,309</b>	<b>1,489</b>	<b>227</b>	<b>7,315</b>	<b>15,141</b>
Arizona	733	107	1,262	2,833	782	160	1,226	2,955
New Mexico	119	2	436	711	88	2	506	852
Oklahoma	598	49	492	1,757	618	65	540	1,900
Texas	NA	NA	4,892	9,009	NA	NA	5,044	9,434
<b>Rocky Mountain</b>	<b>1,902</b>	<b>154</b>	<b>1,390</b>	<b>4,608</b>	<b>2,022</b>	<b>224</b>	<b>1,485</b>	<b>4,940</b>
Colorado	1,006	88	528	2,022	1,077	92	537	2,119
Idaho	263	24	307	756	264	33	308	784
Montana	185	18	NA	431	194	28	NA	473
Utah	448	25	391	1,137	486	71	473	1,307
Wyoming	NA	NA	164	262	NA	NA	167	258
<b>Far West</b>	<b>11,335</b>	<b>2,121</b>	<b>11,033</b>	<b>32,885</b>	<b>11,732</b>	<b>1,728</b>	<b>11,339</b>	<b>33,610</b>
Alaska	NA	93	NA	1,028	NA	113	NA	640
California	9,742	1,941	7,733	24,203	10,271	1,494	8,016	25,168
Hawaii	357	16	583	1,159	165	7	612	1,021
Nevada	NA	NA	210	532	NA	NA	219	497
Oregon	1,236	71	NA	1,709	1,296	114	NA	1,898
Washington	NA	NA	2,507	4,254	NA	NA	2,493	4,386

Source: U.S. Census Bureau.

**Table 9. Quarterly Tax Revenue By Major Tax**

	July-September, 2009 to 2010, Percent Change			
	PIT	CIT	Sales	Total
<b>United States</b>	<b>4.3</b>	<b>1.6</b>	<b>4.3</b>	<b>4.5</b>
<b>New England</b>	<b>8.1</b>	<b>36.5</b>	<b>11.7</b>	<b>10.8</b>
Connecticut	13.0	50.3	3.9	11.9
Maine	9.6	10.9	2.1	5.6
Massachusetts	6.7	32.3	19.1	10.2
New Hampshire	1.9	32.3	NA	29.9
Rhode Island	8.1	216.0	3.7	7.9
Vermont	2.8	78.8	5.0	6.6
<b>Mid-Atlantic</b>	<b>3.3</b>	<b>(4.1)</b>	<b>2.8</b>	<b>3.3</b>
Delaware	6.4	38.7	NA	5.6
Maryland	6.0	15.3	3.3	5.8
New Jersey	(2.6)	(6.9)	(2.5)	(0.4)
New York	4.2	(10.9)	5.8	3.1
Pennsylvania	3.3	5.5	3.9	5.4
<b>Great Lakes</b>	<b>4.8</b>	<b>9.4</b>	<b>4.3</b>	<b>4.5</b>
Illinois	2.5	9.1	(0.6)	2.4
Indiana	14.3	23.1	4.1	5.8
Michigan	3.7	(8.1)	4.7	1.4
Ohio	5.1	(115.5)	8.7	6.6
Wisconsin	3.2	21.3	4.4	11.4
<b>Plains</b>	<b>4.2</b>	<b>27.0</b>	<b>11.5</b>	<b>9.5</b>
Iowa	7.3	NM	6.7	9.1
Kansas	6.0	(6.4)	16.0	9.3
Minnesota	4.9	39.8	24.2	13.2
Missouri	1.5	15.2	(1.4)	2.4
Nebraska	1.9	(39.2)	4.4	4.9
North Dakota	2.2	72.1	21.3	29.8
South Dakota	NA	(60.7)	2.5	1.1
<b>Southeast</b>	<b>4.7</b>	<b>3.5</b>	<b>3.7</b>	<b>3.5</b>
Alabama	18.3	59.0	5.9	11.9
Arkansas	3.2	38.8	7.8	9.5
Florida	NA	(2.5)	1.3	0.2
Georgia	10.5	(31.0)	8.5	6.8
Kentucky	3.8	43.5	3.4	5.4
Louisiana	(7.6)	(55.6)	2.2	(5.4)
Mississippi	6.6	11.7	1.4	3.6
North Carolina	(1.1)	6.0	26.6	7.1
South Carolina	7.5	(4.7)	(7.1)	4.4
Tennessee	(10.8)	22.1	3.8	5.3
Virginia	5.7	0.1	(19.7)	(3.0)
West Virginia	10.5	(4.5)	5.0	7.1
<b>Southwest</b>	<b>2.7</b>	<b>43.9</b>	<b>3.3</b>	<b>5.8</b>
Arizona	6.7	48.5	(2.8)	4.3
New Mexico	(25.7)	52.6	16.0	19.9
Oklahoma	3.4	33.4	9.8	8.2
Texas	NA	NA	3.1	4.7
<b>Rocky Mountain</b>	<b>6.3</b>	<b>45.4</b>	<b>6.8</b>	<b>7.2</b>
Colorado	7.1	5.3	1.7	4.8
Idaho	0.3	37.8	0.4	3.7
Montana	4.8	58.2	NA	9.7
Utah	8.6	185.0	20.9	14.9
Wyoming	NA	NA	1.9	(1.5)
<b>Far West</b>	<b>3.5</b>	<b>(18.6)</b>	<b>2.8</b>	<b>2.2</b>
Alaska	NA	21.4	NA	(37.8)
California	5.4	(23.1)	3.7	4.0
Hawaii	(53.7)	(54.6)	4.8	(12.0)
Nevada	NA	NA	4.3	(6.6)
Oregon	4.9	60.7	NA	11.1
Washington	NA	NA	(0.6)	3.1

Source: U.S. Census Bureau.

NM - Not meaningful.

However, these preliminary figures show overall collections for the fourth quarter of 2010 still only about 3.0 percent above the level of two years ago and 0.8 percent below the level of three years ago.

Even though the national economy is beginning to somewhat brighten, indicating a recovery from the 2007 recession, several factors, such as sharp declines in employment and retail sales, indicate that state fiscal recovery will be exceptionally slow and much longer compared to the prior recessions. As states begin work on fiscal 2012 budgets, many will be forced to take further unwelcome actions, such as budget cuts and further increases in taxes and charges. Elements driving this still cloudy outlook include expiration of federal stimulus money and expenditure trendlines that would produce increases beyond the level of available revenues. States will continue to search for ways to climb out of a very deep hole.

## 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 December. For reasons we describe below, we have adjusted Census tax collections in selected states to arrive at numbers 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 4.5 percent, compared with the 4.8 percent increase that can be computed from data on the Census Bureau's Web site ([www.census.gov/govs/www/ntax.html](http://www.census.gov/govs/www/ntax.html)).

In this report, we use Census Bureau's data for 44 states and Rockefeller Institute's adjustments to Census Bureau's preliminary figures for six states. The total tax collection growth of 4.5 percent in the October-December 2010 quarter after Rockefeller Institute's adjustment is slightly higher compared to the preliminary growth rate of 3.9 percent provided in Rockefeller Institute's *Flash Revenue Report* released on November 30, 2010, for 48 early reporting states.

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 for the October-December 2010 quarter in 41 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 information on withholding tax collections and payments of estimated income tax, both of which are important to understanding income tax collections but are not available in the Census data.

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 July-September quarter there were enough large differences that we decided to adjust the Census data. Table 10 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 *Flash Revenue Report* dated August 30, 2010; (2) preliminary figures as reported by the Census Bureau; and (3) the Census Bureau's preliminary figures with selected adjustments by the Rockefeller Institute.

The last set of numbers with our adjustments is what we describe in this report. The states with differences are Alabama, Arizona, Maryland, Massachusetts, Michigan, and Washington. For four of these six 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 they provide a better picture of fiscal conditions than imputed data. In addition, we revised personal income tax collections for the July-September quarter for Alabama and Maryland based on the information obtained from state officials in those two states.

July-September, 2009 to 2010, Percent Change				
	PIT	CIT	Sales	Total
RIG Flash Revenue Report	4.7	(2.5)	4.1	3.9
Census Bureau Preliminary	4.9	(0.2)	4.4	4.8
Census Bureau Preliminary with RIG Adjustments	4.3	1.6	4.3	4.5

**Note:** The RIG adjustments apply to the following six states only: Alabama, Arizona, Maryland, Massachusetts, Michigan, and Washington.

We expect that in most quarterly Institute reports on state tax revenues we will not adjust the officially reported data by the Census Bureau, but when we do we will note the differences.

## Endnotes

- 1 We made adjustments to Census Bureau data for six states — Alabama, Arizona, Maryland, Massachusetts, Michigan, and Washington — 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 See Lucy Dadayan and Donald J. Boyd, "State Tax Revenues Rebound Further, Growing For Third Straight Quarter" (Albany, NY: The Nelson A. Rockefeller Institute of Government, November 2010).
- 3 We have adjusted the historical data for local property tax revenue as reported by the Census Bureau. The adjustment reflects 7.7 percent higher growth rates to local property tax collections throughout the third quarter of 2008. This adjustment is based on best estimates and accounts for the differences between prior survey methodology and revised survey methodology utilized by the Census Bureau. For more information on methodological changes to the local property tax, please see <http://www2.census.gov/govs/ntax/bridgestudy.pdf>.
- 4 For a good discussion of these issues, please see Byron F. Lutz, "The Connection Between House Price Appreciation and Property Tax Revenues" (Washington, D.C.: Federal Reserve Board, September 12, 2008) and Byron Lutz, Raven Molloy, and Hui Shan, "The Housing Crisis and State and Local Government Tax Revenue: Five Channels" (Washington, D.C.: Federal Reserve Board, August 2010).
- 5 Preliminary figures for the October-December 2010 quarter are not available for the following nine states: Alaska, Arizona, Delaware, Hawaii, Maine, Nevada, New Mexico, North Dakota, and South Carolina. Total tax collections for these nine states combined represent about 6-7 percent of nationwide tax collections. Therefore, it is highly unlikely that the nationwide picture for the tax collections would change significantly once we have complete data for all 50 states for the fourth quarter of 2010.

- 6 For more information on the potential impact of federal tax rates on capital gains on state budgets see Donald J. Boyd and Lucy Dadayan, "Revenue Declines Less Severe, But States' Fiscal Crisis Is Far From Over" (Albany, NY, The Nelson A. Rockefeller Institute of Government, April 2010).
- 7 See Bureau of Economic Analysis, National Income and Products Accounts Table (Table 1.1.11).
- 8 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](http://www.philadelphiafed.org/econ/indexes/coincident).
- 9 Rockefeller Institute analysis of data from the National Association of State Budget Officers and from reports in several individual states.
- 10 This treats the 1980-82 "double-dip" recession as a single long recession.
- 11 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, 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.

You can contact Lucy Dadayan at [dadayanl@rockinst.org](mailto:dadayanl@rockinst.org). Donald Boyd may be contacted at [boydd@rockinst.org](mailto:boydd@rockinst.org).