



Reuters News Service, July 1, 2008

Many U.S. states may have to cut budgets-report
By Joan Gralla

NEW YORK (Reuters) — Many states might have to cut recently enacted budgets because they were based on overly optimistic tax revenue forecasts, a report said Tuesday.

State tax revenues weakened further in the first quarter of 2008, with an increase of only 1.7 percent compared with the same period a year earlier — the slowest growth rate since 2003, according to the Rockefeller Institute of Government’s quarterly report.

After adjusting for inflation in the cost of [government purchases](#) as well as legislated tax changes, state tax revenues fell 5.3 percent, the report said.

“After June, tax revenue is likely to be extremely weak as most states begin their fiscal years — and such weakness may linger as the year progresses,” said economist Don Boyd, who co-wrote the study for the Albany-based Rockefeller Institute.

Given that many states finalized their budgets in the second quarter and projections were rosier, “Governors in some states may, then, face difficulty implementing their new budgets — raising the prospect of potential midyear cuts and other actions to eliminate emerging gaps.”

Two out of three of the states with the worst-performing tax collections, Arizona and Florida, also were among the biggest victims of the housing market slide. The third, Montana, is actually “doing just fine,” Boyd said, noting the first quarter is a small one for its tax revenues.

Tax collections also fell in another dozen states, partly reflecting the grip of the housing decline, which has been particularly severe in some Eastern seaboard states, including [New Jersey](#) and [Rhode Island](#), Boyd said.

Total growth in state tax revenue in the first quarter was “barely one-third the historical average” of 4.9 percent seen in the last nine years, the report said.

For the first time in six years, sales tax revenues were flat. The failure of this tax to grow broke the pattern that prevailed for the past 37 quarters, when it rose 4.4 percent on a year-over-year basis, the report said.

Four U.S. states’ tax revenues leaped over 10 percent in the first quarter of this year, but three other states saw declines of more than 10 percent, partly due to the housing slide.

Two big energy producers — Alaska and West Virginia — made the list of the top four states whose tax revenues grew most quickly compared with a year ago.

Soaring food prices aided two farm states that also ranked among the top four. They were Iowa, whose economy is “kind of chugging along nicely,” and North Dakota, whose corporate tax revenues leaped over 20 percent, Boyd told Reuters.

During the first quarter, many states still benefited from last year’s stronger economy, as personal income tax collections rose 4.4 percent. Income taxes provided 41 percent of the entire amount that all 50 states collected, which added up to \$155.3 billion. (Editing by Dan Grebler)