

THE WALL STREET JOURNAL.

States See Pickup in Tax Revenue

By Conor Dougherty
August 30, 2010

State tax revenue rose in the second quarter, as higher taxes and the slowly improving economy led to an increase in collections.

Overall tax revenue increased 2.2% in 47 states that have reported their receipts for the three months ended June 30, compared with the same period a year ago, according to a report to be released Monday by the Nelson A. Rockefeller Institute of Government at the State University of New York.

This marks the second quarter in a row of recovering tax collections—and follows five quarters of declines in revenue that hammered local-government budgets. The latest figures are still a mixed bag: Some states continue to see declining revenue, but those were offset by states that saw increases.

States continue to face financial pressure, in part because tax collections remain below the levels of two years ago. In addition, aid to state income pro-

vided by federal stimulus funds is starting to fall away. Signs that the economy is flagging add to the gloomy outlook for state coffers.

“Most states still show a mismatch between revenue and spending trend lines,” said Robert B. Ward, deputy director of the Rockefeller Institute. “It’s not time to put away the red ink yet.”

Declining expenditures by state and local governments shaved 0.1 percentage point from second-quarter gross domestic product, according to a Commerce Department report on Friday. The nation’s 89,000 local governments, everything from states to cities and school boards, have seen persistent layoffs over the last two years.

State and local governments shed 48,000 jobs in July, the biggest number in a year, according to the Labor Department. The sector, which now employs about 19.5 million people, has cut 169,000 jobs this year, including 102,000 in the past three months.

President Barack Obama recently signed legislation that will provide some \$26 billion in budget assistance for states. Still, many economists think crimped local-government budgets will continue to drag on growth this year and next. Most state and local governments require a balanced budget, so weak revenue forces spending cuts or tax increases.

“Federal help will buy them more time, but doesn’t change the fact that they’ve got to cut expenses,” said Nigel Gault, chief U.S. economist at forecasting firm IHS Global Insight.

The second-quarter gains were driven by growth in sales and income taxes, both of which



have been raised in many states. **Second-quarter sales-tax revenue increased 5.9% in the 47 states surveyed by the Rockefeller Institute, while the take from personal income taxes grew 1.6%. Collections from corporate income taxes, which tend to be volatile and are just a small slice of most states' collections, fell nearly 19% over the period.**

Some 30 states saw tax revenue in the second quarter rise from a year earlier. Many of the strongest performers were places where collections were hard-hit by the recession. Florida

saw a nearly 14% increase. Arizona—which, like Florida, has been among the states most affected by falling real-estate prices and lackluster construction activity—saw a 3.9% increase.

Still, revenue declined in several big states. In California, tax revenue declined 0.9%, despite a nearly 12% increase in income-tax collections largely driven by higher taxes, according to the Rockefeller Institute. Illinois saw revenue decline 7%, while Michigan's collections fell 3.8%.