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Tax Revenue Keeps Rising, But Growth Again Ticks Downward

Thirty-Six States Were Still Below Peak Collection Levels in FY 2011

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HIGHLIGHTS

- State tax revenues grew by 6.1 percent in the third quarter of 2011, according to Rockefeller Institute research and Census Bureau data. This is the seventh consecutive quarter that states reported growth in collections on a year-over-year basis.
- Overall state tax revenues are now above prerecession levels, but still below peak levels that came several months into the Great Recession. In the third quarter of 2011, total state revenues were 1.5 percent higher than during the same quarter of 2007, but still 1.2 percent lower than the third quarter of 2008.
- In 36 states, total tax collections in FY 2011 were still below peak levels; in 10 of those states, the peak-to-2011 decline remained in double-digit percentages.
- Preliminary figures for October and November 2011 indicate further but softening growth in state tax revenues. Overall collections in 44 early-reporting states showed growth of 5.2 percent compared to the same months of 2010.
- Local property tax revenues grew modestly in the third quarter, after three consecutive quarters of decline.

As always with our *State Revenue Reports,* this report examines state tax collections in the most recent quarter. Because growth in the economy has not yet offset all the losses states experienced during and after the Great Recession, we also provide a look at each state's revenue position in FY 2011 compared to its peak levels a few years earlier. We begin with a review of the third quarter in calendar 2011, the beginning of a new fiscal year for most states.

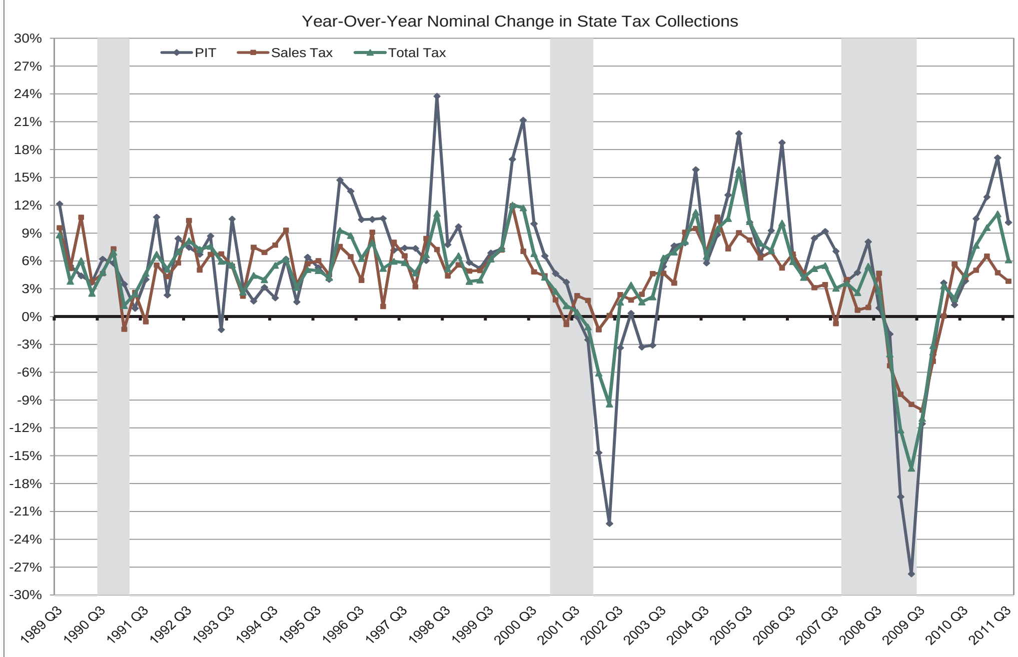
Overall State Taxes and Local Taxes

Total state tax collections as well as collections from two major sources — taxes on sales and personal income — showed growth for the seventh consecutive quarter in July-September 2011. Overall state tax revenues increased by 6.1 percent from the same quarter of the previous year, according to data collected by the Rockefeller Institute and the Census Bureau. The Institute's findings indicate slightly stronger fiscal conditions for states than the preliminary data released in late December 2011 by the Census Bureau, which reported an overall increase of 5.6 percent. We have updated those figures to reflect data we have since obtained and to reflect differences in how we measure revenue for purposes of the *State Revenue Report*. (See "Adjustments to Census Bureau Tax Collection Data" on page 18.[1])

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 Great Recession that began in December 2007 than around previous recessions. Overall tax collections as well as personal income and sales tax revenues showed softening growth in the third quarter of 2011. Personal income tax collections showed growth of 10.1 percent and sales tax collections rose by 3.8 percent.

Despite increases over seven straight quarters — nearly two years of continual gains — overall tax collections are still comparatively weak by recent historical standards. Total revenues were 1.2 percent lower in the third quarter of 2011 than in the same

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

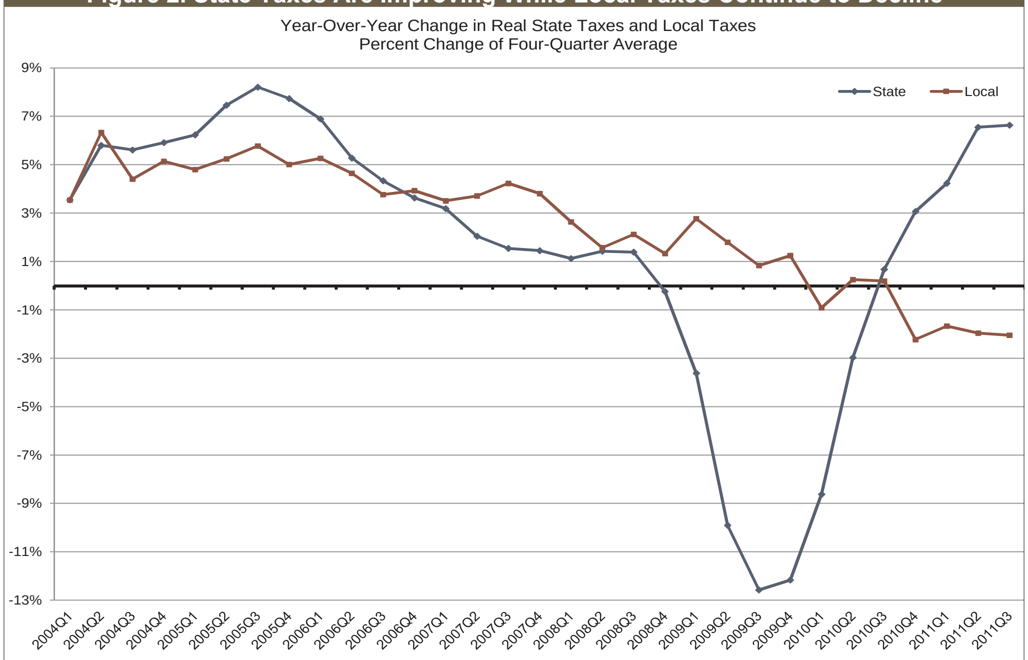


Sources: U.S. Census Bureau .
Notes: Data for the most recent quarter may reflect adjustments by the Rockefeller Institute to include information released after initial publication.

quarter of 2008. In the third quarter of 2011, fully 26 states reported lower tax revenue collections than in the same quarter of 2008. The decline is deeper if we adjust the numbers for inflation — nationwide receipts 5.3 percent lower than three years ago in real terms.

Figure 2 shows the four-quarter moving average of year-over-year change in state tax collections and local tax collections, after adjusting for inflation. In addition, we have adjusted the Census Bureau's local tax revenues to reflect differences between the Bureau's prior survey methodology and a revised survey methodology now used for collecting property tax revenues.[2] As shown in Figure 2, the year-over-year change in state taxes, adjusted for inflation, has averaged 6.6 percent over the last four quarters. This represents substantial improvement from the 0.7 percent average growth of a year ago, and 12.6 percent average decline of two years ago.

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



Sources: U.S. Census Bureau (tax revenue) and Bureau of Economic Analysis (GDP price index).
Notes: (1) 4-quarter average of percent change in real tax revenue; (2) No adjustments for legislative changes.

While state tax collections have been rising steadily, the picture for local governments is quite different. The real, year-over-year decline in local taxes was an average of 2.0 percent over the last four quarters, compared to 0.2 percent growth for the preceding year and 0.8 percent growth of two years ago. Inflation over the year, as measured by the gross domestic product deflator, was 2.4 percent.

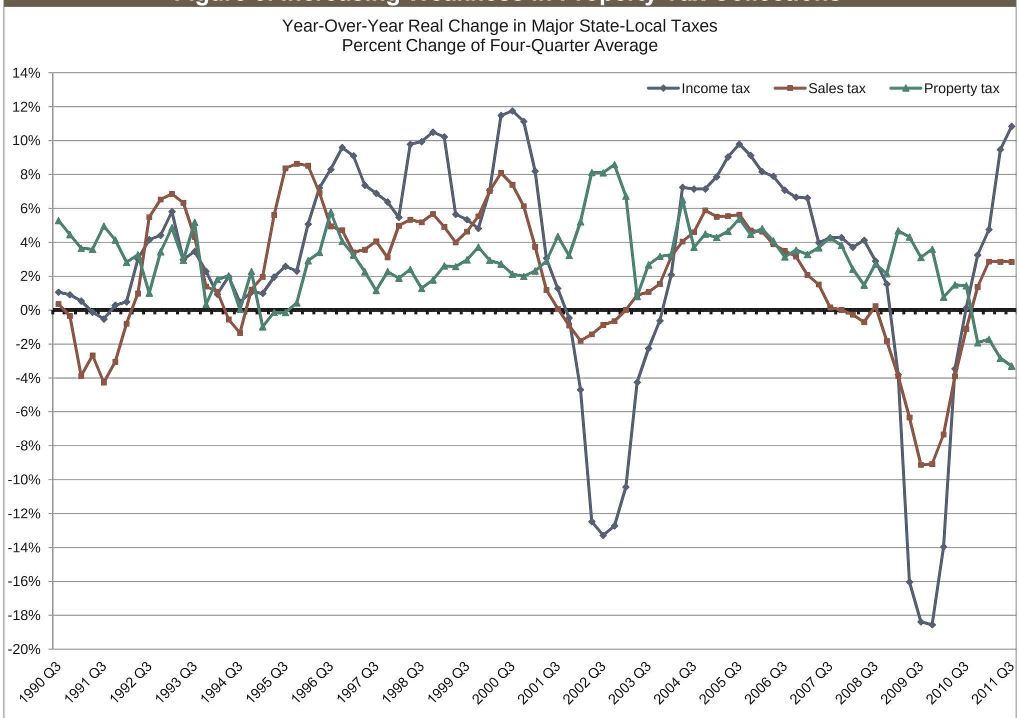
For most of the period during and after the last recession, local tax collections remained relatively strong. However, the trends are now shifting due in part to the lagged impact of falling housing prices on property tax collections. For the quarter ending in September, the 2 percent decline in the four-quarter moving average of local tax collections is very weak compared to historical averages. The largest year-over-year growth in local tax collections in recent history was recorded in the third quarter of 2005, at 5.8 percent.

Most local governments rely heavily on property taxes, which 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. Over the last two decades, property taxes have consistently made up at least two-thirds of total local tax collections. Collections from local property taxes made up 74.4 percent of such receipts during the third quarter of 2011. After three consecutive quarter declines, property tax revenues showed a modest growth of 1.5 percent in nominal terms in the third quarter of 2011 compared to the same quarter of 2010.

Local sales tax collections rose by 1.1 percent in the third quarter of 2011 in nominal terms. Sales taxes represent roughly 13 percent of local tax revenues. This is the sixth consecutive quarter that local sales tax revenues showed growth, after six consecutive quarters of decline. Collections from local individual income taxes, a much smaller contributor to overall local revenues, showed an increase of 22 percent.

Figure 3 shows the four-quarter average of year-over-year growth in state and local income, sales, and property taxes, adjusted for inflation. Both the income tax and the sales tax showed slower growth, and then outright decline, from 2006 through most of 2009. By this measure, income tax showed some growth for the fifth consecutive quarter. On the other hand, the four-quarter average of year-over-year comparisons showed

Figure 3. Increasing Weakness in Property Tax Collections



Sources: U.S. Census Bureau (tax revenue) and Bureau of Economic Analysis (GDP price index).
Notes: (1) 4-quarter average of percent change in real tax revenue; (2) No adjustments for legislative changes.

declines in state-local property taxes (adjusted for inflation) for the fourth consecutive quarter. In addition, the growth in state-local sales tax collections showed some growth for the fourth consecutive quarter.

State Tax Revenue

Total state tax revenue rose in the third quarter of 2011 by 6.1 percent relative to a year ago, before adjustments for inflation and legislated changes. The income tax and sales tax both showed growth at 10.1 and 3.8 percent, respectively, and the corporate income tax increased by 2.3 percent. Tables 1 and 2 portray growth in tax revenue with and without adjustment for inflation, and growth by major tax, respectively. Every state but Alabama, California, and Delaware reported increases in total tax revenue during the third quarter of 2011. Double-digit increases were reported in 12 states. All regions reported growth in total collections. The Southwest region showed the largest gain at 12.9 percent, followed by the Great Lakes states at 10.4 percent. The Southeast states reported the weakest growth, at 3.2 percent. Revenue gains were particularly strong in Alaska and North Dakota, at 143.8 and 48.3 percent, respectively. In both states the strong growth is mostly attributable to the booming oil and natural gas industries.

Preliminary figures collected by the Rockefeller Institute for the October-November months of 2011 indicate that most states saw continued growth in revenues, although such growth continues to moderate.[3] Overall collections in 44 early reporting states showed growth of 5.2 percent in the October-November months of 2011 compared to the same months of 2010.

Personal Income Tax

In the third quarter of 2011, personal income tax revenue made up at least a third of total tax revenue in 27 states, and was larger than the sales tax in 28 states. Personal income tax revenues rose for the seventh consecutive quarter, with 10.1 percent growth in the July-September 2011 quarter compared to the same period in 2010. In addition, personal income tax collections surpassed the recessionary peak for the quarter in nominal terms, ending 1.2 percent higher than in the third quarter of 2008. All regions reported increases in personal income tax collections. The largest growth was in the Great Lakes and Southwest regions, where collections increased by 25.9 and 10.4 percent, respectively. The Mid-Atlantic region reported the weakest growth in personal income tax collections at 5 percent. The strong growth in the Great Lakes is largely attributable to a single state, Illinois, where personal income tax collections grew by 81.8 percent, mostly driven by the legislated tax changes.

Strong gains in the personal-income tax were widespread, as 41 states reported growth for the quarter and 13 enjoyed double-digit increases. Delaware and Tennessee were the only two states reporting declines in personal income tax collections. The

Table 1. Quarterly State Tax Revenue

Adjusted for Inflation
Year-Over-Year Percent Change

Quarter	Total Nominal	Inflation Rate	Adjusted Real Change
2011 Q3	6.1	2.4	3.6
2011 Q2	11.1	2.1	8.8
2011 Q1	9.6	1.8	7.6
2010 Q4	7.7	1.6	6.0
2010 Q3	4.6	1.4	3.2
2010 Q2	1.9	1.1	0.9
2010 Q1	3.3	0.6	2.7
2009 Q4	(3.1)	0.7	(3.8)
2009 Q3	(11.0)	0.5	(11.4)
2009 Q2	(16.3)	1.2	(17.3)
2009 Q1	(12.2)	1.9	(13.9)
2008 Q4	(4.0)	2.1	(6.0)
2008 Q3	2.8	2.5	0.3
2008 Q2	5.4	2.0	3.3
2008 Q1	2.6	2.1	0.5
2007 Q4	3.6	2.6	0.9
2007 Q3	3.1	2.6	0.4
2007 Q2	5.5	3.1	2.4
2007 Q1	5.2	3.3	1.8
2006 Q4	4.2	2.9	1.3
2006 Q3	5.9	3.2	2.6
2006 Q2	10.1	3.5	6.3
2006 Q1	7.1	3.3	3.7
2005 Q4	7.9	3.5	4.3
2005 Q3	10.2	3.4	6.6
2005 Q2	15.9	3.1	12.4
2005 Q1	10.6	3.3	7.1
2004 Q4	9.4	3.2	6.0
2004 Q3	6.5	3.0	3.4
2004 Q2	11.2	2.8	8.2
2004 Q1	8.1	2.2	5.7
2003 Q4	7.0	2.1	4.8
2003 Q3	6.3	2.1	4.1
2003 Q2	2.1	2.0	0.1
2003 Q1	1.6	2.2	(0.6)
2002 Q4	3.4	1.8	1.6
2002 Q3	1.6	1.5	0.0
2002 Q2	(9.4)	1.4	(10.7)
2002 Q1	(6.1)	1.7	(7.6)
2001 Q4	(1.1)	2.0	(3.0)
2001 Q3	0.5	2.2	(1.7)
2001 Q2	1.2	2.5	(1.3)
2001 Q1	2.7	2.3	0.4
2000 Q4	4.2	2.4	1.8
2000 Q3	6.8	2.3	4.4
2000 Q2	11.7	2.0	9.5
2000 Q1	12.0	2.0	9.9
1999 Q4	7.3	1.6	5.6
1999 Q3	6.2	1.5	4.7
1999 Q2	3.9	1.5	2.4
1999 Q1	3.8	1.3	2.4

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

Table 2. Quarterly State Tax Revenue By Major Tax

Year-Over-Year Percent Change

Quarter	PIT	CIT	General Sales	Total
2011 Q3	10.1	2.3	3.8	6.1
2011 Q2	17.1	19.1	4.7	11.1
2011 Q1	12.9	9.0	6.5	9.6
2010 Q4	10.6	18.1	5.0	7.7
2010 Q3	3.9	0.5	4.2	4.6
2010 Q2	1.3	(19.0)	5.7	1.9
2010 Q1	3.6	0.3	0.1	3.3
2009 Q4	(4.1)	0.7	(4.8)	(3.1)
2009 Q3	(11.5)	(21.3)	(10.1)	(11.0)
2009 Q2	(27.7)	3.0	(9.5)	(16.3)
2009 Q1	(19.4)	(20.2)	(8.4)	(12.2)
2008 Q4	(1.9)	(23.0)	(5.3)	(4.0)
2008 Q3	0.9	(13.2)	4.7	2.8
2008 Q2	8.1	(7.0)	1.0	5.4
2008 Q1	4.8	(1.4)	0.7	2.6
2007 Q4	3.8	(14.5)	4.0	3.6
2007 Q3	7.0	(4.3)	(0.7)	3.1
2007 Q2	9.2	1.7	3.5	5.5
2007 Q1	8.5	14.8	3.1	5.2
2006 Q4	4.4	12.6	4.7	4.2
2006 Q3	6.6	17.5	6.7	5.9
2006 Q2	18.8	1.2	5.2	10.1
2006 Q1	9.3	9.6	7.0	7.1
2005 Q4	6.7	33.4	6.4	7.9
2005 Q3	10.2	24.4	8.3	10.2
2005 Q2	19.7	64.1	9.1	15.9
2005 Q1	13.1	29.8	7.3	10.6
2004 Q4	8.8	23.9	10.7	9.4
2004 Q3	5.8	25.2	7.0	6.5
2004 Q2	15.8	3.9	9.5	11.2
2004 Q1	7.9	5.4	9.1	8.1
2003 Q4	7.6	12.5	3.6	7.0
2003 Q3	5.4	12.6	4.7	6.3
2003 Q2	(3.1)	5.1	4.6	2.1
2003 Q1	(3.3)	8.3	2.4	1.6
2002 Q4	0.4	34.7	1.8	3.4
2002 Q3	(3.4)	7.4	2.4	1.6
2002 Q2	(22.3)	(12.3)	0.1	(9.4)
2002 Q1	(14.7)	(15.7)	(1.4)	(6.1)
2001 Q4	(2.5)	(34.0)	1.8	(1.1)
2001 Q3	(0.0)	(27.2)	2.3	0.5
2001 Q2	3.7	(11.0)	(0.8)	1.2
2001 Q1	4.6	(8.4)	1.8	2.7
2000 Q4	6.5	(0.4)	4.4	4.2
2000 Q3	10.0	8.2	4.8	6.8
2000 Q2	21.2	4.2	7.0	11.7
2000 Q1	17.0	11.0	11.9	12.0
1999 Q4	7.3	4.7	7.2	7.3
1999 Q3	6.9	4.3	6.2	6.2
1999 Q2	5.2	5.4	5.0	3.9
1999 Q1	5.8	(5.4)	4.9	3.8

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

Table 3. Personal Income Tax Withholding, By State

Last Four Quarters, Percent Change

	2010	2011		
	Oct-Dec	Jan-Mar	Apr-June	July-Sep
United States	**6.9**	**8.2**	**6.1**	**6.8**
New England	**4.8**	**7.4**	**7.3**	**6.7**
Connecticut	1.0	9.8	10.5	10.6
Maine	(0.9)	10.2	2.2	1.3
Massachusetts	7.4	6.5	6.8	5.7
Rhode Island	6.9	1.1	5.8	2.9
Vermont	2.4	5.1	3.6	11.3
Mid-Atlantic	**3.2**	**6.5**	**1.0**	**3.4**
Delaware	12.0	13.7	5.9	5.1
Maryland	3.4	6.2	3.0	1.1
New Jersey	(1.4)	5.6	4.6	0.7
New York	3.4	7.4	1.0	4.9
Pennsylvania	6.4	3.2	(5.0)	3.6
Great Lakes	**4.1**	**19.3**	**18.5**	**19.6**
Illinois	2.7	50.1	71.7	67.0
Indiana	6.0	7.1	5.9	4.0
Michigan	5.7	8.1	3.3	3.2
Ohio	5.8	10.2	3.3	4.0
Wisconsin	1.0	12.3	2.5	5.9
Plains	**5.9**	**8.2**	**4.9**	**4.8**
Iowa	5.7	7.3	3.5	3.1
Kansas	5.7	4.9	5.3	5.4
Minnesota	7.1	12.9	5.6	6.4
Missouri	4.9	4.0	1.4	2.4
Nebraska	4.2	6.6	6.4	5.0
North Dakota	7.2	17.4	47.9	19.9
Southeast	**5.4**	**4.9**	**4.4**	**4.4**
Alabama	3.1	3.4	1.1	1.1
Arkansas	6.5	6.6	4.5	3.8
Georgia	7.0	4.7	4.3	ND
Kentucky	4.7	5.8	4.5	5.1
Louisiana	2.7	7.7	7.9	4.4
Mississippi	3.6	1.0	2.9	3.0
North Carolina	5.7	4.5	4.3	5.3
South Carolina	3.5	4.1	4.1	4.8
Virginia	5.9	5.1	4.8	4.0
West Virginia	6.9	5.4	4.4	8.5
Southwest	**6.8**	**0.1**	**8.9**	**6.4**
Arizona	7.6	6.6	11.8	5.2
New Mexico	12.0	(13.4)	7.0	5.2
Oklahoma	3.5	(1.9)	5.9	8.5
Rocky Mountain	**6.7**	**7.4**	**3.7**	**5.2**
Colorado	8.0	6.5	4.0	4.0
Idaho	6.0	10.2	3.7	3.5
Montana	6.1	7.5	5.7	4.3
Utah	4.5	8.0	2.5	8.9
Far West	**16.8**	**7.5**	**4.3**	**4.6**
California	18.8	7.2	4.0	4.2
Hawaii	7.3	0.7	7.7	5.2
Oregon	3.9	12.5	5.8	7.8

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.

personal income tax declines in Delaware are mostly due to the stagnant employment situation in the state. The large decline in Tennessee is not meaningful since the state collects a relatively small amount from personal income taxes. Hawaii and Illinois reported the largest increases at 139.6 percent and 81.8 percent, respectively. In Hawaii, the strong growth is due to timing issues involving payment of refunds in the previous year. The significant gain in Illinois is mostly attributable to the legislated tax increases that were passed in January of 2011 and increased the personal income tax rate from 3 percent to 5 percent for four years. If we exclude Illinois, personal income tax collections show a growth of 7.3 percent for the nation in the third quarter of 2011.

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

Withholding

Withholding is a good indicator of the current strength of personal income tax revenue because it comes largely from current wages and is much less volatile than estimated payments or final settlements. Table 3 shows that withholding for the July-September 2011 quarter continued to improve for the seventh quarter in a row, increasing by 6.8 percent for the 40 states with broad-based personal income taxes and for which we have data. Withholding was up by 7.7 percent compared to the April-June quarter of 2009.

All states reported growth in withholding for the third quarter of 2011, with four states showing double-digit growth. Among individual states, Illinois and North Dakota reported the strongest growth in the third quarter of 2011, at 67 and 19.9 percent, respectively. The Great Lakes and New England regions reported the largest growth in withholding at 19.6 and 6.7 percent, respectively, while the Mid-Atlantic had the weakest growth at 3.4 percent. Once again the strong growth in the Great Lakes region is primarily attributable to a single state, Illinois.

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. Estimated payments represent a relatively small proportion of overall income-tax revenues — some $8.8 billion, or roughly 14 percent of all income-tax revenues, in the third quarter of 2011—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. In the 37 states for which we have complete data, the median payment was up by 16.1 percent for the first three payments and by 12.1 percent for the third payment compared to the previous year. Five states — Colorado, Kentucky, Missouri, New Jersey, and Vermont — reported declines for the third payment. However, Arkansas and New Jersey were the only two states reporting declines in estimated payments for the first three payments.

General Sales Tax

State sales tax collections in the July-September 2011 quarter showed growth of 3.8 percent from the same period in 2010, a further slowdown compared to the 4.7 percent and 6.5 percent gains reported in the second and first quarters, respectively. Moreover, sales tax collections were still down by 2.7 percent from the same period of 2008. This is the seventh quarter in a row that sales tax collections rose. Increases in collections were reported during the third quarter in all regions but the Far West, where receipts declined by 3.8 percent. The Southwest and Great Lakes regions reported the largest increases in sales tax collections at 10.6 and 7.7 percent, respectively. The decline in the Far West region is exclusively attributable to California, where collections fell by 6.4 percent as a temporary 1 percent addition to the statewide sales and use tax expired. If we exclude California, sales tax collections show a growth of 5.5 percent for the nation in the third quarter of 2011.

Forty-one of 45 states with broad-based sales taxes reported growth in collections for the quarter, with six states reporting double-digit gains. Among individual states, North Dakota and Wyoming reported the largest growth at 40.8 and 20.5 percent, respectively. In addition to California, three states — Arkansas, North Carolina, and Utah —reported declines in sales tax collections at 0.6, 6.0, and 3.2 percent, respectively. In Arkansas the decline in sales tax collections is mostly attributable to reduction of food and manufacturing utility tax that went into effect as of July

1, 2011. In North Carolina as in California, the decline is largely due to expiration of a 1 percent temporary sales increase, in this case as of July 1, 2011.

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 experience large fluctuations in percentage terms. For all these reasons, there is often significant variation in states' gains or losses for this tax.

Corporate tax revenue increased by 2.3 percent in the July-September quarter compared to a year earlier. Three regions — Southeast, Far West, and Mid-Atlantic — reported declines at 3.7, 3.4, and 2.8 percent, respectively. The Great Lakes region reported the largest growth at 17.1 percent, followed by the Plains at 13.6 percent.

Among 46 states that have a corporate income tax, 30 reported growth, with 20 enjoying double-digit gains. Sixteen states reported declines for the third quarter of 2011 compared to the same quarter of the previous year; ten states saw double-digit declines. The largest declines in terms of dollar value were reported in California, where corporate income tax collections declined by $140 million or 9.3 percent. The large decline in California is partially due to changes in Corporation Tax Law, which reduced the number of required estimated payments from four to three and eliminated the third estimated payment due in September.

Other Taxes

Census Bureau quarterly data on state tax collections provide detailed information for some of the smaller taxes not broken out separately in the data collected by the Rockefeller Institute. In Table 4, we show four-quarter moving average real growth rates for the nation as a whole.

Revenues from all smaller tax sources, except for property taxes and tobacco product sales taxes, showed at least modest growth. The motor fuel tax, the most significant of the smaller taxes, showed nationwide growth of 5.2 percent. State property taxes, a relatively small revenue source for states, declined by 7.1 percent and revenues from tobacco product sales taxes declined by 0.5 percent. Gains of 1.1 and 0.6 percent were reported for alcoholic beverage sales tax and revenue from motor vehicle and operators' licenses, respectively.

Underlying Reasons for Trends

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

Table 4. Real Percent Change in State Taxes Other Than PIT, CIT, and General Sales Taxes

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

	Property tax	Motor fuel sales tax	Tobacco product sales tax	Alcoholic beverage sales tax	Motor vehicle & operators license taxes	Other taxes
Nominal collections (mlns), latest 12	$14,080	$39,631	$17,287	$5,724	$23,948	$112,036
2011Q3	(7.1)	5.2	(0.5)	1.1	0.6	6.8
2011Q2	(2.9)	7.0	0.6	2.3	2.0	6.9
2011Q1	0.9	5.3	2.8	3.3	3.3	6.8
2010Q4	6.2	3.2	3.2	3.3	4.2	6.1
2010Q3	11.2	0.9	2.2	3.0	5.3	3.8
2010Q2	11.0	(0.2)	0.4	2.0	3.7	(2.2)
2010Q1	9.7	(1.0)	(1.3)	0.5	1.3	(9.3)
2009Q4	5.8	(2.1)	(1.8)	0.3	(0.1)	(13.9)
2009Q3	(0.8)	(3.4)	0.1	(0.2)	(1.4)	(13.5)
2009Q2	(2.3)	(5.6)	1.0	(0.4)	(1.2)	(7.0)
2009Q1	(3.9)	(6.2)	2.3	0.1	(0.7)	3.6
2008Q4	(3.1)	(5.1)	2.9	0.2	(1.3)	7.2
2008Q3	1.6	(3.6)	3.3	(0.3)	(0.8)	9.6
2008Q2	3.2	(1.9)	5.7	0.3	(0.5)	7.5
2008Q1	3.9	(1.4)	6.0	0.4	(1.2)	3.1
2007Q4	3.3	(1.9)	5.9	0.4	(0.6)	2.1
2007Q3	1.3	(0.9)	3.8	1.5	(1.0)	(0.5)
2007Q2	(0.3)	(1.3)	0.3	1.3	(1.0)	(1.4)
2007Q1	1.7	(0.1)	1.5	0.5	0.4	(1.1)
2006Q4	0.1	0.7	2.6	1.0	0.9	(0.4)
2006Q3	(0.3)	(1.1)	5.3	1.1	0.8	2.0
2006Q2	(0.1)	1.4	8.9	1.1	0.7	4.2
2006Q1	0.8	1.5	6.9	2.5	0.1	5.2
2005Q4	1.9	2.1	5.4	1.6	0.3	7.1
2005Q3	3.4	3.6	4.2	(0.2)	1.9	6.3
2005Q2	3.5	0.9	2.1	(0.6)	2.7	4.9
2005Q1	1.7	1.4	2.9	(2.4)	3.6	5.7
2004Q4	(4.9)	1.6	3.6	(1.4)	5.6	6.0
2004Q3	(2.3)	1.5	3.6	0.0	6.0	7.6
2004Q2	3.6	2.1	4.8	0.5	6.6	9.0
2004Q1	1.0	0.4	10.5	4.3	5.5	7.5
2003Q4	8.6	(1.0)	17.0	3.9	3.9	5.6
2003Q3	5.6	(1.2)	26.2	2.2	2.8	3.8
2003Q2	(1.1)	(0.4)	35.7	3.1	2.6	2.6
2003Q1	(5.0)	0.7	27.1	0.6	3.6	2.2
2002Q4	(4.8)	1.0	17.2	(0.1)	2.9	2.1
2002Q3	(6.7)	0.7	5.6	2.7	2.5	2.6
2002Q2	(4.4)	1.1	(5.9)	(0.2)	0.6	3.4
2002Q1	5.1	1.7	(5.0)	(0.2)	(1.2)	2.1
2001Q4	2.7	2.5	(1.5)	0.5	(2.9)	2.5
2001Q3	(0.3)	3.5	2.6	(1.4)	(3.3)	1.5
2001Q2	(5.0)	2.5	7.6	1.7	(0.7)	0.9
2001Q1	(12.6)	1.2	8.4	1.4	2.4	3.6
2000Q4	(11.1)	1.2	5.9	1.8	5.9	4.2
2000Q3	(4.1)	1.3	1.7	3.2	6.9	6.5
2000Q2	(2.6)	1.2	(1.3)	2.2	5.9	7.9
2000Q1	2.5	2.3	(4.5)	3.2	3.0	4.7
1999Q4	1.2	2.4	(5.3)	2.7	1.7	3.6
1999Q3	(1.5)	1.6	(2.9)	1.7	1.2	2.9
1999Q2	0.8	2.1	(1.0)	1.4	0.9	1.3
1999Q1	3.9	2.5	1.3	1.5	1.0	2.8

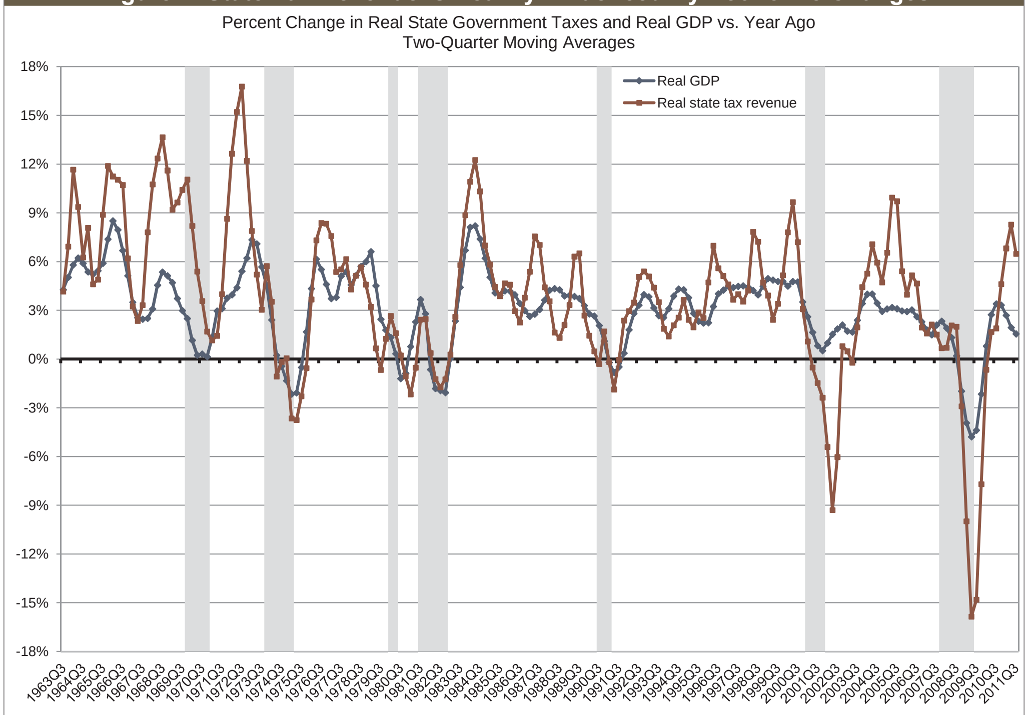
Source: U.S. Census Bureau.

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

National and State Economies

Most state tax revenue sources are heavily influenced by the economy — the income tax rises when income rises, the sales tax generates more revenue when consumers increase their purchases of taxable items, and so on. When the economy booms, tax revenue tends to rise rapidly and when it declines, tax revenue 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 also is 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 a 6.5 percent growth on this moving-average basis. This was the sixth consecutive quarter of growth. Real Gross

Figure 4. State Tax Revenue Is Heavily Influenced By Economic Changes



Sources: U. S. Census Bureau (Quarterly tax collections); Bureau of Economic Analysis (real GDP).
Notes: (1) Percentage changes averaged over 2 quarters; (2) No legislative adjustments; (3) Recession periods are shaded.

Domestic Product showed growth for the seventh consecutive quarter at 1.5 percent. However, growth in real Gross Domestic Product has now softened considerably compared to the 3.4 percent growth reported in the third quarter of 2010.

In recent months, state tax revenue has risen significantly while the overall economy has been growing at a relatively slow pace in the wake of the Great Recession. Such a disparity is not sustainable over time.

Durable goods consumption, an important element of state sales tax bases, showed an increase of 7.0 percent in the third quarter of 2011 relative to the same quarter a year ago. However, the growth in durable goods has softened compared to the 7.8 growth reported in the April-June quarter and 11.3 percent growth reported in the January-March quarter. A 1.5 percent growth was reported in consumption of services, which is another important sector and comprises nearly 50 percent of total real GDP.[4]

It is helpful to examine, at the state level as well as nationally, economic measures that are closely related to state tax bases. Most states rely heavily on income taxes and sales taxes, and growth in income and consumption are extremely important to these revenue sources.

State-by-state data on income and consumption are not available on a timely basis, and so we cannot easily see variation across the country in these trends. Like other researchers, the Rockefeller Institute relies partly on employment data from the Bureau of Labor Statistics to examine state-by-state economic conditions. These data are relatively timely and are of high quality. Table 5 shows year-over-year employment growth over the last four quarters. For the nation as a whole, employment grew for the fifth quarter in a row — by 1.1 percent relative to the previous year — in the July-September quarter of 2011. On a year-over-year basis, employment declined in five states: Alabama, Delaware, Georgia, Indiana, and Missouri. North Dakota and Wyoming reported the

Table 5. Nonfarm Employment, By State

Last Four Quarters, Year-Over-Year Percent Change

	2010	2011		
	Oct-Dec	Jan-March	April-June	July-Sep
United States	**0.5**	**1.1**	**0.8**	**1.1**
New England	**0.6**	**1.0**	**1.1**	**1.3**
Connecticut	0.5	1.6	1.0	0.5
Maine	0.2	1.0	0.5	0.9
Massachusetts	0.7	0.6	1.2	1.8
New Hampshire	0.3	1.1	1.0	1.7
Rhode Island	0.2	0.3	1.0	0.7
Vermont	1.0	2.7	1.3	1.6
Mid-Atlantic	**0.5**	**0.8**	**0.4**	**0.9**
Delaware	0.2	1.1	0.0	(0.8)
Maryland	0.4	0.7	(0.4)	0.2
New Jersey	(0.4)	(0.1)	(0.3)	0.5
New York	0.8	0.7	0.6	1.2
Pennsylvania	0.9	1.6	1.1	1.0
Great Lakes	**0.7**	**1.3**	**1.0**	**1.0**
Illinois	0.6	1.3	1.1	0.9
Indiana	0.9	1.0	(0.2)	(0.4)
Michigan	0.9	1.7	1.5	1.6
Ohio	0.6	1.5	1.2	1.5
Wisconsin	0.5	0.9	0.9	1.1
Plains	**0.2**	**0.6**	**0.7**	**0.9**
Iowa	0.4	0.9	0.6	1.3
Kansas	(0.4)	(0.5)	(0.4)	0.1
Minnesota	0.4	0.8	0.7	1.2
Missouri	(0.4)	0.1	0.4	(0.0)
Nebraska	0.6	1.4	1.8	1.9
North Dakota	3.6	4.4	4.1	5.1
South Dakota	0.8	1.0	0.4	0.8
Southeast	**0.3**	**0.8**	**0.3**	**0.5**
Alabama	0.1	0.4	(0.2)	(0.1)
Arkansas	1.3	1.7	0.7	0.6
Florida	(0.1)	0.5	0.4	0.8
Georgia	(0.0)	0.2	(0.4)	(0.7)
Kentucky	1.0	1.8	1.2	1.2
Louisiana	0.0	0.9	0.8	1.9
Mississippi	0.6	1.2	0.1	0.5
North Carolina	(0.0)	0.6	0.3	0.3
South Carolina	0.9	1.2	0.7	1.0
Tennessee	0.9	1.1	0.5	0.8
Virginia	0.2	1.2	0.3	0.3
West Virginia	1.0	1.0	0.6	0.5
Southwest	**1.3**	**1.7**	**1.7**	**2.3**
Arizona	(0.6)	0.2	0.3	1.6
New Mexico	(0.7)	(0.2)	(0.3)	0.6
Oklahoma	0.5	1.1	1.6	2.5
Texas	2.0	2.2	2.2	2.5
Rocky Mountain	**0.3**	**1.0**	**0.9**	**1.5**
Colorado	0.2	0.7	0.4	1.0
Idaho	(0.0)	1.2	0.5	1.0
Montana	(0.0)	0.4	1.1	1.3
Utah	0.7	1.6	1.7	2.7
Wyoming	0.9	1.2	1.7	2.8
Far West	**0.2**	**1.3**	**0.9**	**1.5**
Alaska	2.2	2.6	1.7	1.7
California	0.2	1.4	0.9	1.6
Hawaii	0.9	1.4	1.1	1.4
Nevada	(1.4)	(0.0)	(0.3)	0.1
Oregon	0.6	1.8	1.3	1.6
Washington	(0.0)	1.1	0.9	1.6

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

largest growth in employment at 5.1 and 2.8 percent, respectively. Sixteen states reported growth of over 1.5 percent.

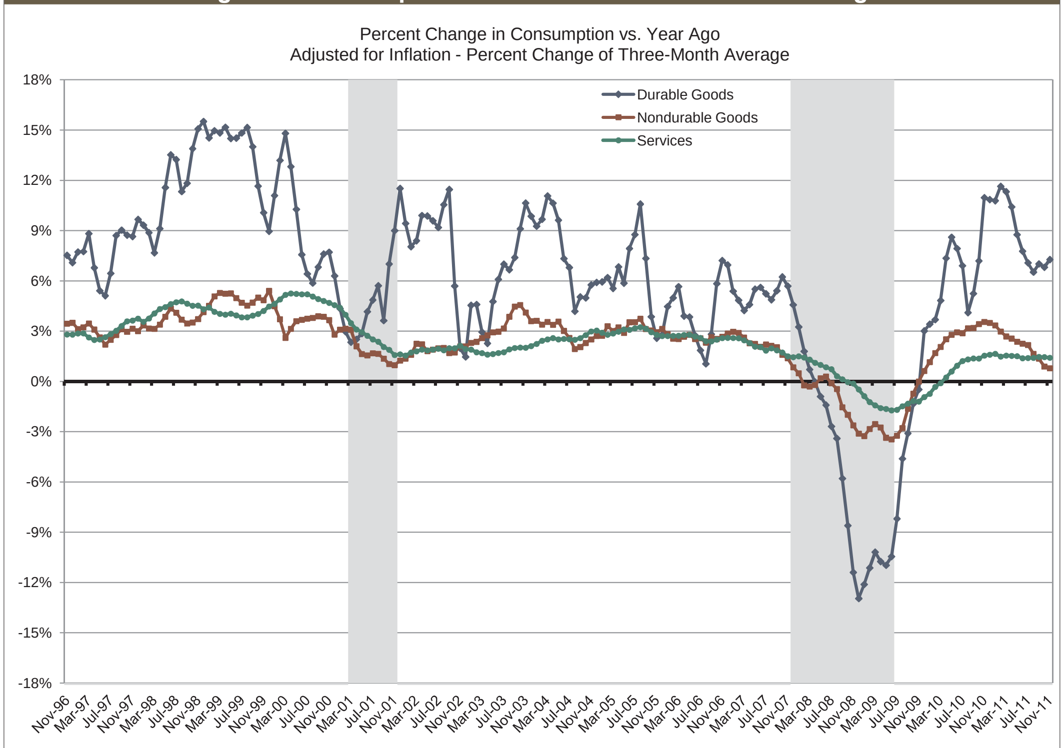
All regions reported growth in employment, but the job gains are not evenly distributed among the regions. The Southeast region reported the weakest growth in employment at 0.5 percent. The Southwest region reported the largest increase in employment at 2.3 percent followed by the Rocky Mountain region reporting 1.5 percent growth.

To provide information about current economic activity in individual states, economists at the Philadelphia Federal Reserve Bank developed broader and highly timely measures known as "coincident economic indexes." Unlike leading indexes, these measures are not designed to predict where the economy is headed; rather, they are intended to tell us where we are now.[5] The analysis of coincident indexes indicates that as of November 2011, six states showed declines in economic activity. Alaska reported the largest decline at 0.6 percent while Michigan reported the largest increase at 4.0 percent. The number of states reporting declines in economic activity was particularly high in the months of July-September 2011. In the month of June 2011, eight states reported declines in economic activity. The number of states reporting declines in economic activity increased to 15 in the month of July, to 17 in August, and dropped to 13 in September. 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 all states but Alaska reported growth.

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

Figure 6 shows the year-over-year percent change in the federal government's seasonally adjusted, purchase- only house price index from 1992 through the fourth quarter of 2010. As Figure 6 shows, the trend in housing prices has been downward since mid-2005, with steeply negative movement from the last quarter of 2004 through the end of 2008. While housing prices strengthened in

Figure 5. Consumption of Goods and Services Is Softening



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

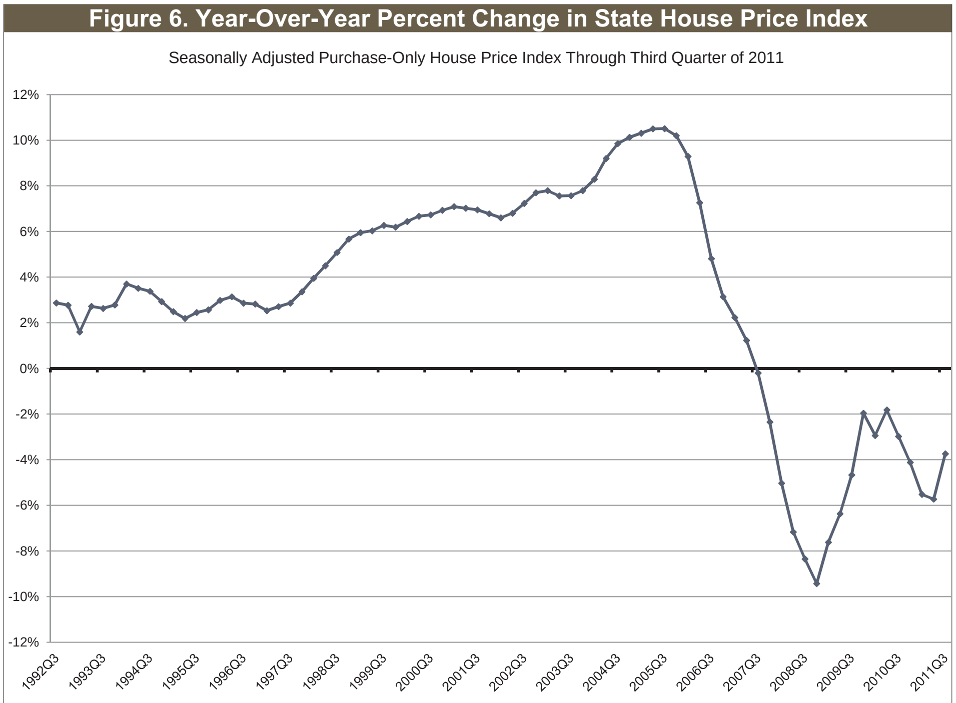
2009 and 2010, the direction of change has again been negative for the past year — with the third quarter of 2011 showing some improvement from preceding months. The states in the West continue to see the largest declines in the housing price index.

Tax Law Changes Affecting This Quarter

Another important element affecting trends in tax revenue growth is changes in states' tax laws. During the July-September 2011 quarter, enacted tax increases and decreases came close to balancing, producing an estimated net gain of $15.5 million compared to the same period in 2010.[6] Enacted tax changes increased personal income tax for approximately $10 million, decreased sales tax by $174 million, and increased some other taxes by $148 million.

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

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



Source: U.S. Federal Housing Finance Agency.

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

	July-September 2010				July-September 2011			
	PIT	CIT	Sales	Total	PIT	CIT	Sales	Total
United States	**56,457**	**7,994**	**56,179**	**168,779**	**62,187**	**8,179**	**58,327**	**179,079**
New England	**4,097**	**726**	**2,269**	**9,345**	**4,455**	**813**	**2,341**	**9,953**
Connecticut	822	77	501	1,901	924	83	554	2,079
Maine	309	44	200	773	320	53	211	803
Massachusetts	2,571	404	1,263	5,052	2,781	469	1,266	5,382
New Hampshire	14	144	NA	463	15	166	NA	476
Rhode Island	247	26	224	735	270	18	225	765
Vermont	134	31	80	422	146	25	84	447
Mid-Atlantic	**13,516**	**1,762**	**7,691**	**30,770**	**14,192**	**1,713**	**8,007**	**32,010**
Delaware	224	42	NA	630	158	35	NA	550
Maryland	1,315	160	644	3,620	1,366	150	697	3,733
New Jersey	1,930	382	1,968	5,481	1,971	422	2,007	5,625
New York	7,890	813	2,865	14,033	8,460	721	2,989	14,889
Pennsylvania	2,156	366	2,214	7,006	2,236	385	2,315	7,213
Great Lakes	**8,583**	**1,045**	**8,550**	**26,523**	**10,804**	**1,224**	**9,209**	**29,275**
Illinois	2,135	507	1,753	7,128	3,882	576	2,036	8,998
Indiana	1,007	162	1,563	3,429	1,128	220	1,669	3,702
Michigan	2,087	172	2,582	7,172	2,221	213	2,724	7,567
Ohio	1,970	1	1,943	5,812	2,105	(4)	2,043	5,889
Wisconsin	1,384	204	710	2,981	1,468	219	737	3,120
Plains	**4,453**	**487**	**3,702**	**11,888**	**4,766**	**554**	**3,948**	**12,709**
Iowa	531	27	408	1,338	550	31	417	1,375
Kansas	628	64	636	1,611	673	60	705	1,713
Minnesota	1,715	257	1,162	4,396	1,881	292	1,209	4,613
Missouri	1,102	86	752	2,507	1,153	65	781	2,537
Nebraska	405	22	347	968	417	50	350	1,013
North Dakota	73	27	183	711	92	27	257	1,054
South Dakota	NA	4	214	356	NA	29	229	404
Southeast	**10,567**	**1,796**	**13,618**	**36,193**	**11,385**	**1,729**	**14,036**	**37,351**
Alabama	682	157	540	2,140	715	47	551	2,059
Arkansas	571	98	724	1,931	603	103	720	1,957
Florida	NA	411	4,354	7,550	NA	422	4,561	7,759
Georgia	1,965	118	1,294	3,886	2,191	98	1,333	4,165
Kentucky	846	114	717	2,428	886	141	768	2,451
Louisiana	621	45	704	2,162	681	22	730	2,230
Mississippi	340	66	619	1,397	358	68	630	1,442
North Carolina	2,382	241	1,599	5,374	2,568	279	1,502	5,528
South Carolina	421	24	477	1,390	490	35	495	1,450
Tennessee	3	249	1,619	2,666	2	229	1,717	2,829
Virginia	2,345	173	679	3,930	2,472	186	725	4,112
West Virginia	390	99	292	1,340	419	100	304	1,370
Southwest	**1,489**	**227**	**7,426**	**15,486**	**1,643**	**249**	**8,214**	**17,486**
Arizona	782	160	1,326	2,995	858	177	1,438	3,562
New Mexico	88	2	506	852	100	3	551	940
Oklahoma	618	65	540	1,900	684	69	585	2,135
Texas	NA	NA	5,054	9,737	NA	NA	5,641	10,848
Rocky Mountain	**2,022**	**224**	**1,485**	**5,000**	**2,165**	**229**	**1,567**	**5,307**
Colorado	1,077	92	537	2,180	1,131	92	580	2,316
Idaho	264	33	308	784	276	41	328	808
Montana	194	28	NA	473	220	38	NA	532
Utah	486	71	473	1,305	538	58	457	1,357
Wyoming	NA	NA	167	258	NA	NA	201	293
Far West	**11,732**	**1,728**	**11,438**	**33,575**	**12,776**	**1,668**	**11,004**	**34,988**
Alaska	NA	113	NA	640	NA	192	NA	1,560
California	10,271	1,494	8,016	25,106	10,929	1,354	7,501	25,019
Hawaii	165	7	612	1,021	396	17	655	1,288
Nevada	NA	NA	219	497	NA	NA	233	522
Oregon	1,296	114	NA	1,904	1,451	105	NA	2,127
Washington	NA	NA	2,592	4,408	NA	NA	2,615	4,474

Source: U.S. Census Bureau.

Table 7. Quarterly Tax Revenue by Major Tax
July-September, 2010 to 2011, Percent Change

	PIT	CIT	Sales	Total
United States	**10.1**	**2.3**	**3.8**	**6.1**
New England	**8.8**	**12.0**	**3.1**	**6.5**
Connecticut	12.4	6.8	10.6	9.4
Maine	3.6	21.6	5.7	4.0
Massachusetts	8.2	16.1	0.2	6.5
New Hampshire	11.2	14.7	NA	3.0
Rhode Island	8.9	(30.9)	0.2	4.1
Vermont	9.2	(19.1)	5.0	6.1
Mid-Atlantic	**5.0**	**(2.8)**	**4.1**	**4.0**
Delaware	(29.4)	(17.3)	NA	(12.7)
Maryland	3.9	(5.9)	8.2	3.1
New Jersey	2.1	10.6	2.0	2.6
New York	7.2	(11.2)	4.3	6.1
Pennsylvania	3.7	5.0	4.6	2.9
Great Lakes	**25.9**	**17.1**	**7.7**	**10.4**
Illinois	81.8	13.5	16.2	26.2
Indiana	12.0	36.4	6.8	8.0
Michigan	6.4	24.1	5.5	5.5
Ohio	6.9	(923.1)	5.2	1.3
Wisconsin	6.1	7.4	3.8	4.7
Plains	**7.0**	**13.6**	**6.7**	**6.9**
Iowa	3.7	16.4	2.0	2.8
Kansas	7.2	(6.5)	10.8	6.3
Minnesota	9.7	13.4	4.1	4.9
Missouri	4.6	(24.6)	3.9	1.2
Nebraska	3.1	123.8	0.9	4.6
North Dakota	26.1	(0.1)	40.8	48.3
South Dakota	NA	614.7	7.0	13.4
Southeast	**7.7**	**(3.7)**	**3.1**	**3.2**
Alabama	4.9	(70.1)	2.0	(3.8)
Arkansas	5.6	4.4	(0.6)	1.3
Florida	NA	2.5	4.8	2.8
Georgia	11.5	(16.5)	3.0	7.2
Kentucky	4.8	23.3	7.1	0.9
Louisiana	9.7	(52.5)	3.7	3.1
Mississippi	5.3	3.6	1.8	3.2
North Carolina	7.8	15.4	(6.0)	2.9
South Carolina	16.5	44.3	3.9	4.3
Tennessee	(42.2)	(8.3)	6.0	6.1
Virginia	5.4	8.0	6.8	4.6
West Virginia	7.3	1.3	4.3	2.2
Southwest	**10.4**	**9.8**	**10.6**	**12.9**
Arizona	9.8	10.9	8.4	18.9
New Mexico	13.4	29.8	8.9	10.4
Oklahoma	10.7	6.3	8.3	12.3
Texas	NA	NA	11.6	11.4
Rocky Mountain	**7.1**	**2.4**	**5.5**	**6.1**
Colorado	5.0	0.1	8.0	6.2
Idaho	4.7	24.7	6.5	3.2
Montana	13.1	36.9	NA	12.4
Utah	10.6	(18.4)	(3.2)	4.0
Wyoming	NA	NA	20.5	13.8
Far West	**8.9**	**(3.4)**	**(3.8)**	**4.2**
Alaska	NA	70.3	NA	143.8
California	6.4	(9.3)	(6.4)	(0.3)
Hawaii	139.6	134.8	7.1	26.2
Nevada	NA	NA	6.3	4.9
Oregon	12.0	(7.9)	NA	11.7
Washington	NA	NA	0.9	1.5

Source: U.S. Census Bureau.

North Carolina, increase of sales tax in Connecticut, and personal and corporate income tax changes in Connecticut and Michigan.[7]

The Impact of Two Major Taxes

States rely on the sales tax for about 30 percent of their tax revenue, and it was hit far harder during and after the last recession than in previous recessions. Retail sales and consumption are major drivers of sales taxes. Figure 7 shows the cumulative percentage change in inflation-adjusted retail sales in the 48 months following the start of each recession from 1973 forward.[8] Real retail sales in the Great Recession (the solid red line) plummeted after December 2007, falling sharply and almost continuously until December 2008, by which point they were more than 10 percent below the prerecession peak. This was deeper than in most recessions, although the declines in the 1973 and 1980 recessions also were quite sharp.

While real retail sales have been rising from their lows for more than two years now, they are still about 2 percent below their prerecession peak.

States on average count on the income tax for about 36 percent of their tax revenue. Employment and associated wage payments are major drivers of income taxes. Figure 8 shows the cumulative percentage change in nonfarm employment for the nation as a whole in the 48 months following the start of each recession from 1973 forward.[9] The last point for the 2007 recession is December 2011, month 48. As the graph shows, the 4.4 percent employment drop as of December 2011 is still far worse than declines seen in and around previous recessions. The trends depicted in Figure 8 suggest that, unless the pace of growth accelerates, it may take several years before employment reattains its prerecession peak.

State Tax Revenues Compared to Their Peak Levels

As mentioned earlier, we augment analysis of recent trends in state tax revenues with some analysis of revenues for fiscal 2011 compared to their recessionary peak levels. Table 8 shows the percent change for each state's total tax collections from its peak level to fiscal year 2011. Table 8 shows similar data for sales and personal income taxes. In addition, Table 8 shows sales and personal income taxes as shares of total taxes for each state. Table 9 provides the peak year for total taxes as well as sales and personal income taxes for each individual state.

The numbers in table 8 indicate that overall state tax revenues still have a long way to go before they fully recover from the deep declines caused by the Great

Table 8. Change From Peak to FY 2011 in State Tax Collections

State	Percent change from peak year to FY 2011			Share of total tax, 2011	
	Total tax	Sales tax	PIT	Sales	PIT
United States	**(3.5)**	**(2.4)**	**(6.3)**	**31%**	**35%**
Alabama	(7.7)	(4.9)	(9.2)	26%	33%
Alaska	(40.4)	N/A	N/A	N/A	N/A
Arizona	(15.0)	(9.8)	(27.6)	47%	22%
Arkansas	1.8	(5.8)	(3.2)	36%	30%
California	(1.1)	2.9	(8.0)	29%	44%
Colorado	(6.6)	(6.0)	(10.4)	24%	51%
Connecticut	(3.5)	(8.3)	(5.5)	24%	48%
Delaware	2.1	N/A	(6.2)	N/A	32%
Florida	(19.0)	(19.6)	N/A	57%	N/A
Georgia	(13.6)	(13.7)	(13.3)	32%	49%
Hawaii	(7.7)	(4.7)	(20.3)	53%	26%
Idaho	(10.7)	(11.9)	(18.7)	36%	36%
Illinois	1.0	(25.8)	19.2	23%	38%
Indiana	(2.7)	1.0	(5.2)	43%	31%
Iowa	(2.8)	NM	(6.5)	31%	39%
Kansas	(4.4)	9.8	(7.7)	36%	40%
Kentucky	1.6	0.7	(1.9)	28%	34%
Louisiana	(22.7)	(17.2)	(25.7)	34%	28%
Maine	(2.9)	(4.7)	(9.1)	27%	39%
Maryland	1.6	1.2	(4.3)	24%	42%
Massachusetts	(0.6)	19.0	(7.1)	22%	53%
Michigan	(5.0)	17.3	(11.0)	40%	27%
Minnesota	3.5	2.3	(3.8)	25%	39%
Mississippi	(1.9)	(7.7)	(9.9)	44%	21%
Missouri	(7.1)	(9.2)	(11.4)	29%	45%
Montana	(6.3)	N/A	(6.6)	N/A	35%
Nebraska	(5.1)	(9.8)	(0.3)	34%	43%
Nevada	0.5	(8.8)	N/A	46%	N/A
New Hampshire	(3.5)	N/A	(29.5)	N/A	4%
New Jersey	(6.3)	(15.6)	(10.9)	26%	39%
New Mexico	(11.3)	(2.1)	(23.7)	39%	19%
New York	(3.0)	2.5	(1.7)	18%	57%
North Carolina	(1.9)	17.4	(10.2)	28%	44%
North Dakota	NM	27.9	17.0	20%	11%
Ohio	(2.9)	(1.2)	(10.4)	31%	35%
Oklahoma	(7.1)	1.4	(11.1)	28%	32%
Oregon	4.1	N/A	(1.8)	N/A	68%
Pennsylvania	0.7	0.9	(5.5)	28%	30%
Rhode Island	(2.2)	(7.3)	(6.1)	30%	38%
South Carolina	(17.4)	(13.6)	(27.6)	39%	34%
South Dakota	2.2	6.8	N/A	59%	N/A
Tennessee	(4.5)	(5.3)	(34.9)	59%	2%
Texas	(4.0)	0.8	N/A	50%	N/A
Utah	(10.4)	(6.1)	(11.4)	34%	42%
Vermont	4.1	(3.9)	(10.8)	12%	21%
Virginia	(7.4)	(4.8)	(6.9)	20%	55%
Washington	(3.3)	(8.9)	N/A	60%	N/A
West Virginia	5.1	1.7	2.3	22%	31%
Wisconsin	2.9	(3.7)	1.5	27%	42%
Wyoming	(17.8)	(32.0)	N/A	30%	N/A

Source: Rockefeller Institute analysis of Census Bureau data.
N/A = not applicable.
NM = Not meaningful; tax revenues showed continuous growth.

Table 9. Peak Years for State Tax Collections

State	Total Taxes	Sales	PIT
Alabama	2008	2008	2008
Alaska	2008	N/A	N/A
Arizona	2007	2006	2007
Arkansas	2008	2007	2008
California	2008	2007	2008
Colorado	2008	2008	2008
Connecticut	2008	2008	2008
Delaware	2008	N/A	2007
Florida	2006	2007	N/A
Georgia	2007	2007	2008
Hawaii	2008	2008	2008
Idaho	2008	2008	2008
Illinois	2008	2008	2008
Indiana	2008	2009	2008
Iowa	2009	2011	2008
Kansas	2008	2008	2008
Kentucky	2008	2008	2008
Louisiana	2008	2007	2007
Maine	2008	2008	2008
Maryland	2008	2009	2008
Massachusetts	2008	2008	2008
Michigan	2008	2006	2008
Minnesota	2008	2008	2008
Mississippi	2008	2007	2008
Missouri	2008	2007	2008
Montana	2008	N/A	2008
Nebraska	2008	2008	2008
Nevada	2007	2007	N/A
New Hampshire	2008	N/A	2008
New Jersey	2008	2008	2008
New Mexico	2007	2007	2008
New York	2008	2008	2009
North Carolina	2008	2008	2008
North Dakota	2011	2009	2009
Ohio	2008	2008	2008
Oklahoma	2008	2009	2008
Oregon	2007	N/A	2007
Pennsylvania	2008	2008	2008
Rhode Island	2007	2007	2008
South Carolina	2007	2007	2008
South Dakota	2009	2009	N/A
Tennessee	2008	2008	2008
Texas	2008	2008	N/A
Utah	2008	2008	2008
Vermont	2007	2008	2008
Virginia	2007	2007	2007
Washington	2008	2008	N/A
West Virginia	2008	2007	2009
Wisconsin	2008	2008	2008
Wyoming	2009	2009	N/A

Source: Rockefeller Institute analysis of Census Bureau data.

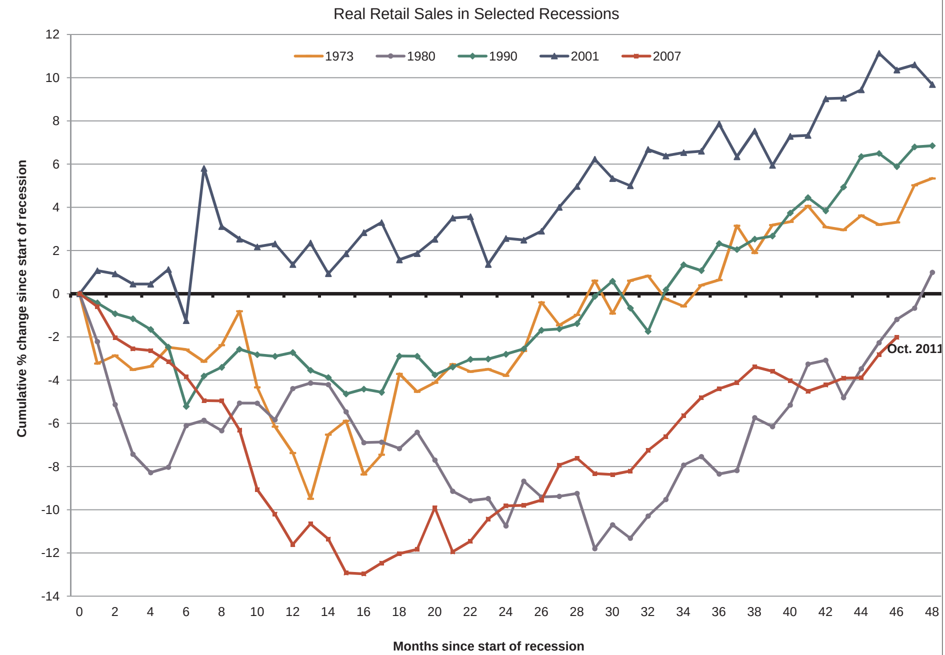
Recession. At the end of fiscal 2011, overall tax collections were still 3.5 percent below the peak tax collections levels, sales tax collections were 2.4 percent below, and personal income tax collections were 6.3 percent below. The extent of revenue recovery varies dramatically among the states. Thirteen states reported fiscal 2011 collections that were higher than previous peak levels. Sixteen states reported sales-tax collections in fiscal 2011 that surpassed earlier peak revenues, and four did so with regard to the personal income tax. Overall, 36 states reported fiscal 2011 total tax collections that were still below peak levels; 10 of those by double-digit percentages. In terms of sales tax collections, revenue collections were below the peak levels in 28 states, of which 8 states saw double-digit declines. The largest declines were in Wyoming and Illinois, where sales tax collections were down by 32 and 25.8 percent, respectively, in fiscal 2011 compared to their peak levels. The picture is even more dire for personal income tax collections despite strong growth in the last year or so. Among 43 states with personal income taxes, 39 states reported declines in personal income tax collections in fiscal 2011 compared to their peak levels, with 18 states reporting double-digit declines.

Looking Ahead

Preliminary data for the October-November months of 2011 suggest that tax conditions continued to improve in the fourth quarter, although the pace of revenue growth has moderated from unusually strong to around long-term averages. With early data for October-November 2011 now available for 44 states, tax revenue increased by 5.2 percent compared to the same months of the previous year. According to the preliminary data, personal income tax collections grew by 8.4 percent and sales tax collections by 2.5 percent.

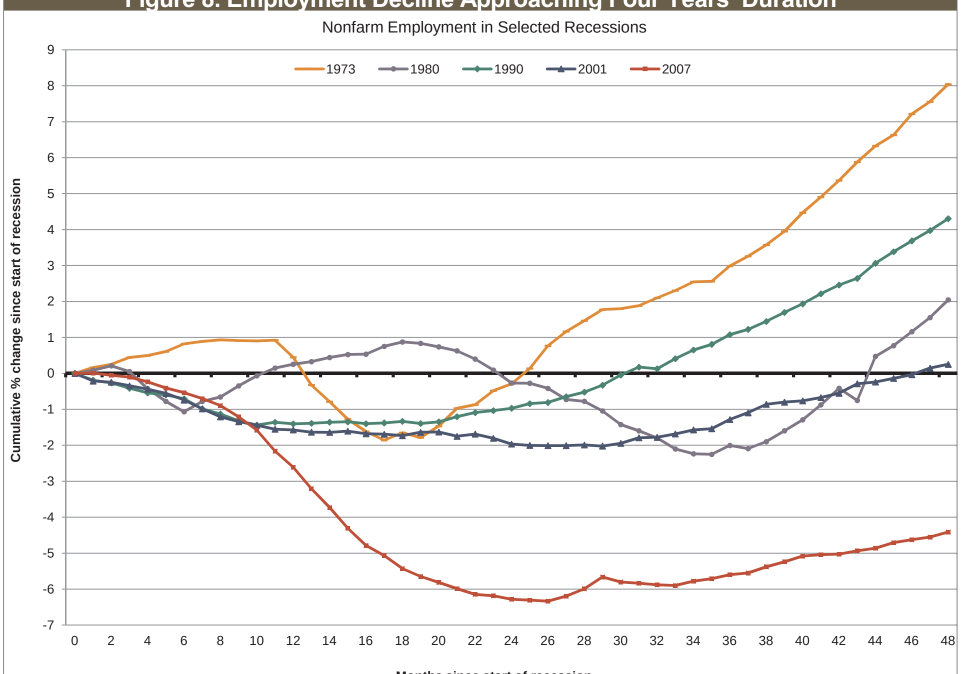
Starting at the end of the calendar year 2008 and extending through 2009, states suffered five straight quarters of decline in tax revenues. They now have enjoyed seven consecutive periods of growth, and the final quarter of 2011 is likely to extend the string to eight. Such gains appear to be softening, however, and forecasts of only moderate economic growth in 2012 indicate little likelihood of significant improvement in revenue performance over at least the next two to three quarters.

Figure 7. Real Retail Sales Have Stabilized But Are Still About 2% Below Peak



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

Figure 8. Employment Decline Approaching Four Years' Duration



Source: Bureau of Labor Statistics (CES).

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 2011. For reasons we describe below, we have adjusted Census data for selected states to arrive at figures that we believe are best-suited for our purpose of examining underlying economic and fiscal conditions. As a result of these adjustments, we report a year-over-year increase in tax collections of 6.1 percent in the third quarter, compared with the 5.6 percent increase that can be computed from data on the Census Bureau's Web site (www.census.gov/govs/www/qtax.html). In this section we explain how and why we have adjusted Census Bureau data, and the consequences of these adjustments.

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

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

The Rockefeller Institute also collects data on tax revenue but in a different way and for different reasons. Because historical Census Bureau data are comprehensive and quite comparable, we rely almost exclusively on Census data for our historical analysis. Furthermore, in recent years Census Bureau data have become far more timely and where practical we use them for the most recent quarter as well, although we supplement Census data for certain purposes. We collect our own data on a monthly basis so that we can get a more current read on the economy and state finances. For example, as this report goes to print we have data on tax collections in October and November in 44 states — not enough to use as the basis for a comprehensive report, but useful in understanding what is happening to state finances.

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

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

Ordinarily there are not major differences between our data for a quarter and the Census data, so when we do a full quarterly report we use the Census data without adjustment. But in the July-September quarter there were enough large differences for some states 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 "Data Alert" dated December 8, 2011; (2) preliminary figures as reported by the Census Bureau; and (3) the Census Bureau's preliminary figures with selected adjustments by the Rockefeller Institute.

Table 10. RIG vs. Census Bureau Quarterly Tax Revenue by Major Tax

July-September, 2010 to 2011, Percent Change

	PIT	CIT	Sales	Total
RIG Data Alert	9.2	5.2	3.9	7.3
Census Bureau Preliminary	11.2	(0.2)	2.6	5.6
Census Bureau Preliminary with RIG Adjustments	10.1	2.3	3.8	6.1

The last set of numbers with our adjustments is what we use as the basis for this report. We make such adjustments for the following 13 states: Arizona, Delaware, Georgia, Maryland, Massachusetts, Michigan, Minnesota, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, and Washington. For 9 of these 13 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 nine; these data may not be as comprehensive as what would be used by the Census Bureau, but we believe they provide a better picture of fiscal conditions than imputed data. In addition, we revised preliminary data reported by the Census Bureau for Arizona, Delaware, Nevada, and New Mexico based on information obtained from the states.

Endnotes

1 We made adjustments to Census Bureau data for thirteen states — Arizona, Delaware, Georgia, Massachusetts, Maryland, Michigan, Minnesota, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, 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 We have adjusted the historical data for local property tax revenue as reported by the Census Bureau, revising the data for the third quarter of 2008 and earlier periods upward by 7.7 percent, consistent with the higher level of property tax revenue in the new sample compared with the previous sample, as reported in the Census Bureau's "bridge study". For more information on methodological changes to the local property tax and the results of the bridge study, please see: http://www2.census.gov/govs/qtax/bridgestudy.pdf .

3 Preliminary figures for October-December 2011 are not available for the following six states: Alaska, Hawaii, Minnesota, Nevada, New Mexico, and Tennessee. Total tax collections for these six states combined represent about 6-7 percent of nationwide tax collections. Therefore, it is unlikely that the nationwide picture for collections during these two months will change once we have complete data for all 50 states for the months of October and November of 2011.

4 See Bureau of Economic Analysis, National Income and Products Accounts Table (Table 1.1.11).

5 For a technical discussion of these indexes and their national counterpart, see Theodore M. Crone and Alan Clayton-Matthews. "Consistent Economic Indexes for the 50 States," *Review of Economics and Statistics*, 87 (2005), pp. 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), pp. 351-94. The data and several papers are available at www.philadelphiafed.org/econ/indexes/coincident.

6 Rockefeller Institute analysis of data from the National Association of State Budget Officers and from reports in several individual states.

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

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

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

About The Nelson A. Rockefeller Institute of Government's Fiscal Studies Program

The Nelson A. Rockefeller Institute of Government, the public policy research arm of the University at Albany, State University of New York, was established in 1982 to bring the resources of the 64-campus SUNY system to bear on public policy issues. The Institute is active nationally in research and special projects on the role of state governments in American federalism and the management and finances of both state and local governments in major areas of domestic public affairs.

The Institute's Fiscal Studies Program, originally called the Center for the Study of the States, was established in May 1990 in response to the growing importance of state governments in the American federal system. Despite the ever-growing role of the states, there is a dearth of high-quality, practical, independent research about state and local programs and finances.

The mission of the Fiscal Studies Program is to help fill this important gap. The Program conducts research on trends affecting all 50 states and serves as a national resource for public officials, the media, public affairs experts, researchers, and others.

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