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STATE REVENUES PLUMMET
July-September Revenue Numbers Are Worst in Years

By Nicholas Johnson and Andrew Nicholas

Newly available data compiled by the Rockefeller Institute of Government show conclusively that state revenue dropped sharply in the July-September 2008 quarter, creating large, additional state budget shortfalls.[1] All indications are that revenue collections will worsen further in coming months.

- Of the 42 states for which data now are available, total tax revenue in July-September 2008 overall was basically flat, in nominal terms, compared to the same period in 2007. (See Table 1.) After adjustment for inflation, total revenue collections are below 2007 levels in 36 of the 42 states. (See Table 2.)

- Although state revenue collections have been slowing for at least a year, the new figures are the first to show steep declines in revenue across a variety of types of taxes across a range of states from all regions of the country. Nationwide, total state revenue collections declined by 5 percent after adjustment for inflation.

- Sales tax revenue has been particularly hard hit. After adjustment for inflation, revenues are down in 35 of the 39 states that levy sales taxes. In aggregate, inflation-adjusted sales tax revenues declined by 5.7 percent. Although many states have been experiencing declining or flat sales tax revenues for some time, these figures are worse than in previous quarters.

- Personal income tax revenues are also down sharply from previous quarters. Until recently, the personal income tax was growing in most states. However, revenues from state income taxes have now declined 3.7 percent in the July-September period after adjustment for inflation. Revenues are down in 33 of the 37 states that levy taxes on personal income.

The declining revenues result from the weak economy.

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[1] All collections data were provided by the Rockefeller Institute of Government, which in turn collected them from state revenue departments. These data are also the basis for the Institute's own report entitled, *State Revenue Flash Report, November 6, 2008* (online at www.rockinst.org). Inflation adjustments are recalculated in this analysis using the Consumer Price Index (the Rockefeller Institute's analysis uses a slightly different measure of inflation).

- Sales tax receipts are falling because consumer spending has fallen. Durable and non-durable goods consumption in the July-September quarter was 2.3 percent below 2007 levels, according to the Bureau of Economic Analysis. Housing construction has also declined, reducing sales taxes on construction materials.
- Income tax revenues are falling because of declining hourly wages and the loss of over 1.2 million jobs since the beginning of 2008. The income tax figures in this analysis do *not* reflect the impact of the severe U.S. stock market decline that began in mid-September, which will reduce revenue from capital gains; this will likely show up in the months to come.
- Six states saw revenue increases for state-specific reasons. Three states (Maryland, Michigan, and Iowa) benefited from enacted increases in sales taxes and/or personal income taxes. Total revenues were buoyed by rising energy prices in Oklahoma and Wyoming — both rich in natural resources. Much of Vermont's growth in total tax revenues can be attributed to a one-time, $6.03 million infusion of funds from a legal settlement.

Implications for Education, Health Care and Other State Services

Virtually every state is required to balance its budget, meaning that spending cannot exceed available revenues. As more and more states report declining revenues, they are also projecting that their budgets are out of balance. This means that they must draw down reserves, raise new revenues, or cut spending in order to maintain budgetary balance. Many of these states are in the process of depleting their reserves to fill earlier shortfalls. Some 41 states have already reported or projected budget problems for the current fiscal year (which began July 1 in most states) or the upcoming fiscal year; this number is likely to rise.

Many of the actions states take to balance their budgets will be harmful to families and to the economy. State taxes pay for state aid to K-12 schools, support for public colleges and universities, health coverage for children, families, seniors and people with disabilities, public safety, and transportation. States are enacting cuts in all these areas already. They are also increasing taxes and fees. Both spending cuts and revenue increases take money out of state economies, deepening the nation's economic problems.

The last time state revenues fell as sharply as they seem to be now was in early 2002, in the wake of the last recession. That revenue decline led to deep cuts in services; for example, more than 1 million people lost health insurance coverage and some two-thirds of states cut K-12 education spending.

An alternative possibility is for the federal government to provide direct assistance to state governments to partially make up for the loss of revenue and thus to help them balance their budgets. This would reduce the extent of spending cuts and revenue increases states must enact.

TABLE 1. PERCENT CHANGE IN JULY-SEPTEMBER REVENUE COLLECTIONS FROM 2007 TO 2008			
State	**Sales Tax**	**Personal Income Tax**	**Total Taxes****
Alabama	3.3%	-0.4%	2.3%
Arizona	-7.3%	-4.9%	-7.8%
Arkansas	3.7%	5.7%	4.8%
California	-6.3%	0.0%	-4.5%
Colorado	-2.9%	5.0%	1.7%
Connecticut+	21.0%	-7.4%	1.6%
Delaware	NA	1.4%	4.8%
Florida	-6.9%	NA	-8.2%
Georgia	-3.1%	-2.4%	-2.6%
Hawaii	1.8%	1.0%	1.5%
Idaho	-5.2%	-5.1%	-4.3%
Illinois	2.5%	3.7%	2.7%
Indiana*	2.7%	-1.9%	-0.6%
Iowa*	15.9%	5.1%	7.7%
Kansas	1.8%	2.3%	0.8%
Kentucky	1.6%	6.6%	0.4%
Louisiana*	2.4%	-12.0%	-1.0%
Maine	3.2%	4.5%	1.3%
Maryland*	13.8%	3.3%	9.0%
Massachusetts*	-2.3%	3.2%	1.6%
Michigan*	3.0%	7.9%	5.5%
Minnesota	-4.8%	5.7%	0.0%
Mississippi	2.9%	-1.9%	1.2%
Missouri*	-2.5%	2.4%	0.4%
Nebraska	7.9%	-1.7%	1.0%
New Hampshire	NA	NA	-2.5%
New Jersey	-4.8%	-0.8%	-1.2%
New York*	2.6%	3.9%	4.1%
Ohio*	0.7%	-1.1%	-0.6%
Oklahoma	4.8%	-1.8%	8.4%
Oregon	NA	3.9%	2.4%
Pennsylvania	0.2%	2.4%	-2.1%
Rhode Island	-2.0%	-4.2%	-2.1%
South Carolina	-12.5%	0.2%	-1.2%
Tennessee	-2.0%	NA	-4.8%
Texas	5.2%	NA	4.0%
Utah*	-3.4%	-12.6%	-3.8%
Vermont+	-5.2%	4.8%	32.8%
Virginia	-3.9%	2.8%	-1.2%
West Virginia	-4.5%	2.7%	-1.5%
Wisconsin*	-6.0%	4.5%	0.2%
Wyoming	-5.5%	NA	18.2%
United States	**-0.7%**	**1.5%**	**0.1%**

Source: The Rockefeller Institute of Government, *State Revenue Flash Report, November 6, 2008.*
NA = State does not levy tax this type of tax.
* Revenues in these states are influenced by enacted tax changes.
+ Connecticut's revenues are affected by changes in the collections reporting period. Because of this change, collections in the 3rd Quarter 2008 period included more days than in the same period in 2007.
2008 total tax revenues in Vermont include funds from a one-time legal settlement worth $6.03 million.
** "Total taxes" include sales tax, personal income tax, corporate income taxes, excise and other taxes.

TABLE 2. PERCENT CHANGE IN JULY-SEPTEMBER REVENUE COLLECTIONS FROM 2007 TO 2008, AFTER ADJUSTING FOR INFLATION			
State	**Sales Tax**	**Personal Income Tax**	**Total Taxes**
Alabama	-1.9%	-5.4%	-2.9%
Arizona	-12.0%	-9.7%	-12.4%
Arkansas	-1.6%	0.3%	-0.5%
California	-11.0%	-5.0%	-9.3%
Colorado	-7.8%	-0.2%	-3.5%
Connecticut	14.8%	-12.0%	-3.5%
Delaware	NA	-3.7%	-0.6%
Florida	-11.6%	NA	-12.8%
Georgia	-8.0%	-7.3%	-7.5%
Hawaii	-3.3%	-4.0%	-3.6%
Idaho	-10.0%	-9.8%	-9.2%
Illinois	-2.7%	-1.5%	-2.5%
Indiana	-2.5%	-6.8%	-5.6%
Iowa	10.1%	-0.3%	2.3%
Kansas	-3.3%	-3.0%	-4.3%
Kentucky	-3.6%	1.2%	-4.6%
Louisiana	-2.7%	-16.5%	-6.0%
Maine	-1.7%	-0.7%	-3.8%
Maryland	8.2%	-1.9%	3.5%
Massachusetts	-7.2%	-2.0%	-3.5%
Michigan	-2.2%	2.4%	0.2%
Minnesota	-9.6%	0.4%	-5.0%
Mississippi	-2.2%	-6.8%	-3.9%
Missouri	-7.3%	-2.7%	-4.7%
Nebraska	2.5%	-6.6%	-4.1%
New Hampshire	NA	NA	-7.2%
New Jersey	-9.6%	-5.8%	-6.1%
New York	-2.6%	-1.3%	-1.1%
Ohio	-4.4%	-6.1%	-5.6%
Oklahoma	-0.6%	-6.8%	2.9%
Oregon	NA	-1.3%	-2.8%
Pennsylvania	-4.9%	-2.7%	-7.0%
Rhode Island	-6.7%	-9.1%	-7.1%
South Carolina	-16.9%	-4.8%	-6.2%
Tennessee	-7.0%	NA	-9.6%
Texas	-0.1%	NA	-1.2%
Utah	-8.2%	-17.1%	-8.6%
Vermont	-10.0%	-0.5%	26.2%
Virginia	-8.7%	-2.4%	-6.2%
West Virginia	-9.3%	-2.5%	-6.5%
Wisconsin	-10.8%	-0.8%	-4.9%
Wyoming	-10.5%	NA	12.6%
United States	**-5.7%**	**-3.7%**	**-5.0%**

Source: Revenue collections data from The Rockefeller Institute of Government's *State Revenue Flash Report, November 6, 2008.* Revenues are adjusted by the Consumer Price Index (CPI-U). See notes for Table 1.

Revenues Fell in Most States in 2008

Adjusted for inflation