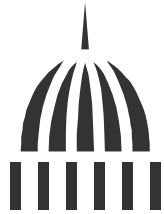


Projected Revenue Growth in FY 2010



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www.ncsl.org
October 2009



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PROJECTED REVENUE GROWTH IN FY 2010

Throughout the recession state revenue collections have consistently underperformed expectations. The decline has been steep and unrelenting. Even pessimistic forecasts have not been met, producing cavernous holes in state budgets. Despite the painful decline, states are anxious to hit bottom so that a revenue rebound can begin.

Unfortunately, the steep revenue falloff in FY 2009 will not be the bottom for many states. More than half expect a further decline in FY 2010. On top of that, a growing number of states already have missed their revenue targets in the early months of the new fiscal year, producing another round of budget gaps.

The revenue slide would have been more severe without state tax increases. At least 20 states have raised taxes so far in 2009, for a net increase of \$26.5 billion. These increases bolstered the revenue growth projections in many states. More information on tax changes is available at: <http://www.ncsl.org/?tabid=17255> Detailed information by state and by type of tax will be available in “State Tax Actions 2009.” (forthcoming)

States vary in their tax mix, but all depend on various major and numerous minor taxes to fund government operations. Personal income and general sales taxes serve as the principal revenue sources for many states, although some may levy only one of these taxes or, in a few instances, neither of them. A few states rely heavily on business taxes, either through a corporate income tax or some other business levy. States with extensive natural resources tend to rely on severance taxes for a sizeable proportion of total revenues. Miscellaneous taxes also play a role in overall tax performance and are included in this discussion. More information on the state tax mix and each state's relative reliance on each can be found at this link: <http://www.ncsl.org/documents/fiscal/StateTaxReliance2008.pdf>

Table 1 of this report shows state revenue forecasts for FY 2010 compared to FY 2009 collections. It includes information on total tax growth projections, and breaks out information for personal income, sales and corporate income taxes. It also covers several other taxes that states chose to include in their responses. Some states provided information for a broader range of revenues, including tax and non-tax revenue. See the notes on the attached table for more detailed information and explanations.

Total Tax Growth Forecasts for FY 2010

Of the 45 jurisdictions providing information for this report, 26 forecasted that total tax collections in FY 2010 would be lower than last year's. These forecasts were made during the budget deliberation process, in some instances several months ago.

- Eight states expected total tax collections to fall at least 5 percent below FY 2009 levels. The biggest drop was expected in Alaska (-45 percent) as the price of oil declines from previously high levels and oil company profits fall. Double-digit declines also were forecast in Louisiana (-13.9 percent) and Wyoming (-10 percent).
- Hawaii officials originally expected revenue growth to be flat, which is what is indicated in this report. But since the revenue forecast was released on May 28, 2009, revenues have continued to slip. The Hawaii Council on Revenues more recently forecasted that revenues would fall below last year's levels.
- Eighteen states projected total tax collections to rise in FY 2010 compared to last year, although five of these states expected growth below 1 percent.
- The largest year-over-year increases were forecasted in California (6.5 percent), Virginia (4.4 percent) and New Hampshire (3.2 percent). Each of these states, among others, raised taxes or other revenues, which helps explain the growth. Officials in Virginia note that subsequent to the forecast, collections fell short of estimate by some \$300 million suggesting that the original forecast was too optimistic.

Hawaii and Virginia are far from alone in seeing lower-than-expected revenue performance. Across the nation, officials are expressing concern that they are missing their revenue targets. Many are lowering their forecasts based on new information or expect to reduce them in coming months if revenues do not rebound.

Iowa is among the states most recently reporting a revenue shortfall. Although officials had expected a 1 percent drop in total tax growth, the actual decline has been much steeper. Based on the new forecast in early October, revenues are expected to be 7.1 percent lower than projected last spring and 8.4 percent lower than last year's actual collections.

Just a few months into FY 2010, revenue shortfalls are growing. At least 20 states already report that new budget gaps have opened since the fiscal year began. More information about these states can be found at: <http://www.ncsl.org/?tabid=18690>

Personal Income Tax Forecasts for FY 2010

Nationally, personal income taxes represent about 36 percent of total state tax collections, with several states collecting more than 50 percent of their revenues from this tax source. Seven states do not levy a broad-based personal income tax and two others—New Hampshire and Tennessee—levy only a limited tax. Here are the original expectations regarding FY 2010 personal income tax collections for the 36 states providing this information.

- Twenty-one states forecasted that personal income tax collections would drop compared to last year's levels. The biggest declines were forecasted by Louisiana (-12.6 percent), New Jersey (-9.0 percent) and Ohio (-7.5 percent). Tennessee, which taxes only dividends and capital gains, projected collections to fall 14.9 percent.
- Fourteen states projected that personal income tax collections in FY 2010 would grow. The largest expected increase, by far, was reported by California where a tax increase is expected to boost collections by 11.5 percent above FY 2009 amounts. New York's 5.2 percent forecasted increase also is explained by a tax hike.
- Puerto Rico was the only jurisdiction forecasting that personal income tax collections would be flat.

Sales Tax Forecasts for FY 2010

Sales and use taxes account for about 31 percent of state revenue collections. Forty-five states and Puerto Rico levy this tax, and 39 provided information on its expected performance for FY 2010.

- Twenty jurisdictions expect sales tax collections to fall below FY 2009 levels. In four states the projected declines were less than 1 percent. The biggest declines are expected in Puerto Rico (-32.3 percent), Wyoming (-9.0 percent) and Louisiana (-7.7 percent). In Puerto Rico, the decline is largely explained by an allocation shift to create a stabilization fund.
- Nineteen states forecasted that sales tax collections would exceed last year's levels. In five states the expected increase was less than 1 percent. The biggest year-over-year rise was projected by Iowa, at 17.7 percent, although recent tax performance information undermines that expectation. California's tax increase helps explain that state's forecasted growth of 13.7 percent.

Corporation Income Tax Forecasts for FY 2010

For most states, corporate income tax collections represent a much smaller share of state tax revenues than other sources, on average representing almost 7 percent of the total. But in an

environment where revenues are scarce, every source is important to the bottom line. More than half of the responding states expected these collections to decline.

- Twenty-three states anticipated that corporate income tax collection would drop below last year's levels, with 13 of these forecasting double-digit declines. The biggest drops were forecasted by Ohio (-80.8 percent), Delaware (-65 percent), Illinois (-33.8 percent) and Minnesota (-31.7 percent). Two other states expected declines greater than 20 percent: Louisiana (-29.5 percent) and Montana (-26.5 percent).
- Thirteen states and Puerto Rico estimated that corporate income tax collections would rise compared to last year. The biggest expected increases were reported by Wisconsin (16.6 percent), Oregon (13.4 percent), Puerto Rico (13 percent) and Idaho (12.8 percent). Wisconsin and Oregon were among the states that increased corporate taxes.

Miscellaneous Tax Forecasts for FY 2010

Many states provided additional information on the expected performance of miscellaneous taxes. Expected collection declines far outweighed expected growth.

- Nineteen states reported that miscellaneous taxes are forecasted to fall compared to last year's collections.
- Eight states noted that severance or other energy-related tax collections were forecasted to fall and in all cases by large margins: Colorado (-81.9 percent), Alaska (-45 percent), Oklahoma (-43.5 percent), Montana (-29.4 percent), West Virginia (-26 percent), Louisiana (-21.1 percent), Texas (-22 percent for oil production taxes and -14.7 percent for natural gas production taxes) and Wyoming (-16 percent). Alaska's figure includes the corporate tax because most of the revenue comes from oil producers. Colorado's decline is not reflected in the total numbers because severance taxes are not credited to the state's general fund.
- Delaware reported a big projected drop in franchise and bank taxes (-58.4 percent) while Vermont forecasted a sizeable decline in property tax transfer collections (-19.8 percent).
- Ohio expects collections from the tax on cigarettes and other tobacco products to fall by 11 percent compared to FY 2009.
- Nine states and Puerto Rico reported that some miscellaneous tax collections were forecasted to rise in FY 2010.

- Arkansas reported the largest anticipated year-over-year growth in the miscellaneous category: Tobacco taxes are estimated to rise 32.9 percent above last year as a result of a rate increase. Indiana projected that gaming revenue would rise 6.1 percent.
- Insurance premium tax revenues were forecasted to grow in Virginia (9.9 percent), Idaho (9.4 percent for this tax and some others), Utah (2.4 percent) and Florida (2.1 percent). In California, however, these tax collections were projected to decline 6.3 percent.

Instability has plagued state revenues, and recent state evidence indicates that this trend is continuing. NCSL will continue to track state budget and revenue information and will provide updates in future reports.

Table 1. FY 2010 Revenue Forecast (Compared to FY 2009 Collections)

State/ Jurisdiction	Total Tax Growth	Personal Income Tax Growth	Corporate Income Tax Growth	General Sales Tax Growth	Other (Type)	Other Growth
Alabama*	2.6%	1.0%	2.0%	1.8%		
Alaska*	-45.0%	N/A	See note	N/A	Petroleum	-45.0%
Arizona	-0.9%	0.4%	-4.1%	-1.6%		
Arkansas	1.0%	-0.6%	6.1%	0.7%	Tobacco	32.9%
California*	6.5%	11.5%	-9.1%	13.7%	Insurance	-6.3%
Colorado*	1.3%	1.0%	-13.9%	5.3%	Severance	-81.9%
Connecticut	-5.8%	-6.0%	-3.9%	-1.2%		
Delaware*	1.4%	2.4%	-65.0%	N/A	Bank Franchise	-58.4%
Florida*	-4.5%	N/A	-13.8%	-4.1%	Insurance Premium	2.1%
Georgia* (N/R)						
Hawaii*	0.0%					
Idaho*	2.7%	2.8%	12.8%	0.4%	Miscellaneous (largest is the insurance premium tax)	9.4%
Illinois	0.5%	-0.2%	-33.8%	-5.6%	Public utility, inheritance	-2.0%
Indiana	1.6%	-1.2%	-4.7%	-0.1%	Gaming	6.1%
Iowa	-1.0%	-1.6%	-15.8%	17.7%	Cigarette, tobacco, beer, franchise, insurance premium, misc.	-4.4%
Kansas	-1.8%	-0.7%	5.2%	-0.3%		
Kentucky	-1.7%	-4.2%	2.4%	-1.5%	Property	0.2%
Louisiana*	-13.9%	-12.6%	-29.5%	-7.7%	Mineral revenue	-21.1%
Maine*	0.3%	0.3%	-3.0%	5.6%	Cigarette and tobacco Estate	-3.7% -12.3%

Table 1. FY 2010 Revenue Forecast (Compared to FY 2009 Collections)

State/ Jurisdiction	Total Tax Growth	Personal Income Tax Growth	Corporate Income Tax Growth	General Sales Tax Growth	Other (Type)	Other Growth
Maryland	-1.8%	-2.6%	-4.7%	-0.2%		
Massachusetts						
Michigan (N/R)						
Minnesota	-4.4%	-2.5%	-31.7%	-5.0%		
Mississippi*	0.4%	3.7%	-10.3%	0.4%	Gaming	-5.9%
Missouri*						
Montana	-3.9%	-1.5%	-26.5%	N/A	Oil and gas production tax	-29.4%
Nebraska*	0.5%	1.5%	-12.4%	1.1%	Miscellaneous taxes and fees	0.0%
Nevada*	-5.0%	N/A	N/A	-6.7%	Gaming percentage fees	3.4%
New Hampshire*	3.2%	N/A	2.8%	N/A		
New Jersey*	-3.5%	-9.0%	-3.3%	2.5%		
New Mexico (N/R)						
New York*	2.9%	5.2%	-1.1%	1.1%	Estate, pari- mutuel	-17.3%
North Carolina*	-0.6%	-1.5%	0.6%	0.5%		
North Dakota	-1.0%	4.4%	4.5%	-6.1%		
Ohio*	-6.8%	-7.5%	-80.8%	-1.6%	Cigarette and other tobacco products	-11.0%
Oklahoma*	-4.5%	-5.6%	6.2%	3.1%	Gross production (severance)	-43.5%
Oregon*	1.9%	2.1%	13.4%	N/A		
Pennsylvania (N/R)						

Table 1. FY 2010 Revenue Forecast (Compared to FY 2009 Collections)

State/ Jurisdiction	Total Tax Growth	Personal Income Tax Growth	Corporate Income Tax Growth	General Sales Tax Growth	Other (Type)	Other Growth
Puerto Rico*	-1.2%	0.0%	13.0%	-32.3%	Special excise taxes, property taxes, license fees, non-tax revenues and non-resident withholding tax	0.8%
Rhode Island*	-0.4%	-0.7%	0.9%	-2.1%	Lottery	-3.1%
South Carolina*	-3.1%	-3.0%	0.0%	-3.9%	Admissions, alcohol, insurance documentary stamps, tobacco, and other miscellaneous taxes	-1.6%
South Dakota*	-1.0%	N/A	N/A	2.2%		
Tennessee	0.2%	-14.9%	-0.4%	1.0%		
Texas*	-1.3%	N/A	N/A	0.5%	Motor vehicle sales Franchise Natural gas production Oil production	4.4% 0.6% -14.7% -22.0%
Utah	-3.6%	-2.7%	-2.6%	-4.6%	Insurance premiums	2.4%
Vermont*	-7.1%	-6.9%	-17.0%	-2.6%	Property transfer	-19.8%
Virginia*	4.4%	3.5%	7.4%	6.6%	Insurance premium	9.9%
Washington*	1.8%	N/A	N/A	1.0%	Business and occupation Property	4.2% 1.4%
West Virginia	-5.0%	-4.0%	-15.0%	2.0%	Severance	-26.0%
Wisconsin*	1.9%	0.7%	16.6%	-0.1%		
Wyoming	-10.0%	N/A	N/A	-9.0%	Severance	-16.0%

Key: (N/A) = Not applicable - state does not levy that tax.

(N/R) = No response

Table 1. FY 2010 Revenue Forecast (Compared to FY 2009 Collections)

Notes:

Alabama: The information provided is FY 2010 projections relative to the latest revised FY 2009 projections. Figures reflect gross (before refunds) receipts for income tax and gross (before debt service and other reductions) for sales tax. For total FY 2010 tax collections the figures reflect the projected net receipts for income, sales taxes combined general fund receipts, and receipts earmarked for The Education Trust fund (since that is where the state's income and sales taxes are dedicated).

Alaska: The corporate tax is rolled into oil taxes, since most of the revenue comes from oil producers.

California: Positive growth largely reflects expected revenues due to tax increases enacted as part of the February 2009 budget package. Estimated 6.5% growth in "tax collection" as listed includes all general fund revenue and transfers, including both tax and non-tax sources. Figures for individual tax sources listed do not incorporate \$3 billion downward adjustment in FY 2010 revenues, which the administration incorporated into its forecasts following its initial release of the May Revision in mid-May 2009. This is because the administration did not update its estimates for individual tax sources to reflect this adjustment. Essentially the \$3 billion downward adjustment is a "below the line" revision that is reflected in the 6.5% increase listed, but no other figures. Accordingly, if the \$3 billion downward adjustment in total general fund revenues in FY 2010 proves correct, receipts from some or all individual tax sources will grow less or decline more than listed in this table.

Colorado: The growth rate for total tax collections reflects only those collected in the general fund and excludes taxes, such as severance, gaming, and unemployment insurance taxes, credited to cash.

Delaware: The total estimate includes a \$243.9 million tax and fee increase package. The personal income tax rate increase turned what would have been a decline of 0.5% to an increase of 2.4%.

Florida: The figures provided refer only to general revenue taxes.

Georgia: Final FY 2009 collections are not yet available to compare to FY 2010 estimates.

Hawaii: The Council on Revenues makes an aggregate projection. The revenue projection made on May 28 for FY 2010 is 0.0% (no growth).

Idaho: The 2.7% is the executive forecast. The Legislature set a budget with the expectation of a 1.4% increase in FY 2010, which now also appears optimistic.

Louisiana: Final FY 2009 collections are not yet known. Latest forecasts for FY 2009 and FY 2010 are used in the figures provided.

Maine: The comparisons are based on FY 2009 and FY 2010 budgeted revenue including legislative changes during the 2009 session. Total tax collections reflect total general fund revenue from all sources. These percentages will change based on negative variances in general fund revenue.

Mississippi: The percentages are compared to FY 2009 actual collections as of June 30, 2009.

Missouri: The revenue estimate will not be revised until December.

Nebraska: Percentages are calculated on nominal amounts of the most current revenue forecast for FY 2009 (estimated) and FY 2010 (estimated). Amounts and percentages are not rate/base adjusted.

Nevada: The negative 5.0% revenue growth figure for FY 2010 represents only existing revenue sources. The 2009 Legislature approved tax increases and the re-direction of existing tax sources to the state general fund in FY 2010.

New Hampshire: Corporate income tax figures include business profits taxes and business enterprise taxes. General education and trust funds combined. Total tax collections figures include all general and education trust fund unrestricted revenues.

New Jersey: Excludes \$1 billion in a one-year tax increase enacted for FY 2010.

New York: Figures reflect general fund collections. The FY 2010 estimates include \$4.3 billion in tax increases raising estimates in personal income tax, user taxes and business taxes. The "Corporate Income Tax" category includes franchise, utility, bank and insurance taxes.

North Carolina: State sales tax collections are forecast to be negative, but the state picks up ¼ percentage point from local governments, without this increase the forecast is negative 4.0%.

Ohio: The forecast decreases for both the personal income tax and the corporate income tax are due in part to reductions in tax rates.

Oklahoma: Gross productions collections totaled nearly \$1.0 billion in FY 2009, or 13.3% of total tax collections. FY 2010 estimates reflect a decrease in gross production revenue of \$372.0 million from FY 2009, reducing the percentage of gross productions to total collections to approximately 8.8%.

Table 1. FY 2010 Revenue Forecast (Compared to FY 2009 Collections)

Oregon: These estimates are prior to actions taken by the 2009 legislative session.

Puerto Rico: For FY 2010 the sales and use tax was significantly reduced due to the allocation of an additional 1.75% to COFINA (the Sales Tax Financing Corporation) to create a state fiscal stabilization fund.

Rhode Island: The lottery is part of general revenues but not part of tax collections. It is the state's third largest revenue source.

South Carolina: Percentages do not include the Board of Economic Advisors' June 11, 2009, revisions decreasing the FY 2009 estimate by \$92 million and the FY 2010 estimate by \$120 million because the FY 2010 budget had already been adopted. After the June 11, 2009 estimate, total tax revenue growth is a negative 3.6%.

South Dakota: Information reflects continuing receipts only.

Texas: A substantial portion of franchise tax collections are dedicated for property tax relief and are deposited outside of the general fund. However, figures provided include total all fund franchise tax collections.

Vermont: Figures reflect the July 16, 2009, forecast for FY 2009 and FY 2010. The state had one large estate tax settlement in May that kept FY 2009 slightly ahead of target.

Virginia: The FY 2010 estimate includes non-economic growth related revenues (\$38 million from a tax amnesty program, \$97.8 million from an early remittance of sales tax from large dealers and \$50 million from capping the land preservation credit). If these revenues were extracted, the expected rate of growth would be 3 percent. However, subsequent to the official forecast, FY 2009 collections fell short of forecast by some \$300 million. With the reduction in revenues for FY 2009, combined with a more pessimistic outlook, the state may now be looking at flat to slightly positive revenue growth for FY 2010 instead of the growth rate reported in this table.

Washington: Washington does not impose personal or corporate income taxes, although it does impose a business and occupation tax (a flat rate gross receipts tax on business). Total tax collections include some non-tax sources. Compared to FY 2008 collections, FY 2009 growth was negative 10.4% (a figure comparable to the positive 1.8% shown). Revenues for FY 2009, FY 2010 and FY 2011 each are projected to be lower than actual collections in either FY 2007 or FY 2008. All figures shown are as of the June 2009 forecast and are adjusted for the consolidation of several dedicated accounts into the general fund.

Wisconsin: Growth is due to tax increases.

Source: NCSL survey of legislative fiscal offices, Summer/Autumn 2009.



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