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Recession Tightens Grip on State Tax Revenues

By MICHAEL COOPER

The [recession](#) can now claim another troublesome record: state tax collections shrank at the end of 2009 for a fifth consecutive quarter, the longest period of continuing state revenue declines since at least [the Great Depression](#), according to a new report.

Over all, state tax collections fell to \$134.5 billion in the last quarter of 2009, a 4.1 percent drop from the \$140.2 billion collected during the same period a year earlier, according to the report, which will be released Tuesday by the Nelson A. [Rockefeller Institute](#) of Government.

While the drop in tax collections was less severe than earlier in the year — the record for the steepest drop was set last spring when tax collections fell by 16.6 percent compared with the same period in 2008 — the continuing declines are putting even more stress on states.

The revenue decline comes despite the tax increases imposed by many states since the recession began. With less tax money coming into state treasuries and expenses for programs like [Medicaid](#) continuing to mount, many states will probably be forced to consider further tax increases, spending cuts and layoffs — actions that some economists warn could put a drag on the nation's fragile economic recovery.

The Rockefeller Institute report, which was written by Lucy Dadayan, a senior policy analyst,

warns, “State tax revenue will continue to be insufficient to support current spending commitments, and more spending cuts and tax increases are most likely on the way for many states.”

Oklahoma reported the largest revenue drop in the quarter, a 26.9 percent decline compared with the same period the previous year, followed by Arizona, which reported a 17.1 percent drop. Seven states reported growth in revenues, but the report notes that the gains “were often driven by legislated tax increases rather than growth in the economy and tax base.”

The report predicts that more states will begin seeing revenue growth soon, particularly in sales tax collections as retail sales rebound, but warns that state tax revenue will likely remain below its pre-recession peak “for quite some time.”

Many states are hoping that the federal government will provide them with more aid this year, now that much of the state aid included in the stimulus package has been spent. The [National Governors Association](#), which continued its meeting in Washington on Monday, [has warned](#) that the fiscal year beginning in July will be “the most difficult to date.”

Some states have already tapped so-called rainy day funds, and others have turned to a variety of one-time gimmicks to balance their budgets. Now, many states find themselves in the budgetary equivalent of looking for loose change under the sofa cushions. Some governors are even counting on more federal aid in their proposed budgets for next year, even though it is far from certain that the money will be approved.

Others warn that doing so would be imprudent. “It would be irresponsible,” Gov. [Haley Barbour](#) of Mississippi, a Republican, said in a recent interview. “It’s irresponsible to count money that hasn’t even passed Congress.”

