



October 15, 2009

States Lag in Recovery, Report Finds

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The recent signs of possible improvement in the economy have not trickled down to the states, which continued to be pummeled this spring by the steepest drop-offs in tax collections since comparable data was first compiled nearly half a century ago.

Total state tax collections from April through June dropped by a record 16.6 percent compared with the same period a year earlier, according to a [report](#) released today by the [Nelson A. Rockefeller Institute of Government](#), the public policy research arm of the [State University of New York](#). The report found that total state tax collections were down by \$63 billion for the year ended in June, which is roughly twice the amount of money that the states had received in fiscal relief through the stimulus program up to that point.

The stark numbers in the report tell the story of the recession. People were out of work or earning less, and income tax collections were down 27.5 percent in the quarter. They spent less, and sales tax collections were off by 9.5 percent.

The dismal data highlighted a hard truth: there can be a long delay between the time the economy begins to improve, as some economists believe is happening now, and the time that the change is reflected in state finances.

“An end to the recession doesn’t mean an end to state budget problems,” said Robert B. Ward, the director of fiscal studies at the institute, who predicted “a long, hard slog over two, three years or more.”

Some state officials fear that by the time tax collections rebound, the stimulus money will have run out, continuing a cycle of budget gaps that will have to be filled with cuts or tax increases or expensive borrowing.

Even though most states began their new fiscal years only in July, budget gaps for the current year have already opened in at least 18 states, according to the National Conference of State Legislatures. And those fiscal woes are likely to persist, if history is any guide. Corina L. Eckl, the director of the fiscal affairs program at the conference, said that while the last recession officially ended at the close of 2001, states faced their worst budget crises in the two years that followed.

The Rockefeller institute said that preliminary figures for the 36 states that had reported their July and August revenues suggested that overall tax collections had dropped by 8 percent during the period. Ms. Eckl noted that the current year's revenue slide would be even steeper if many states had not raised their taxes: she said that at least 20 states had raised taxes so far by some \$26.5 billion.

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