

News Release

THE FEDERAL RESERVE BANK of KANSAS CITY

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THE GROWTH AND VOLATILITY OF STATE TAX REVENUE SOURCES IN THE TENTH DISTRICT

Many state governments are projecting budget shortfalls for fiscal 2009 due to sluggishness in the national economy. This is a concern for state policymakers as they try to support economic growth and fund public services such as education, physical infrastructure and the protection of people and property.

A key factor in determining the growth and volatility of each state's tax revenue is the makeup of its tax portfolio. Alison Felix, an economist at the Federal Reserve Bank of Kansas City, analyzes the tax portfolios of states in the Tenth Federal Reserve District in the article "The Growth and Volatility of State Tax Revenue Sources in the Tenth District." The article appears in the third quarter edition of the Bank's *Economic Review*.

Governments aim for a portfolio of tax instruments that allows revenues to grow with the economy without a change in tax rates. At the same time, Felix states, stable revenues are important so that governments aren't faced with financing constraints in downturns.

In the article, Felix analyzes the composition of state tax portfolios in the Tenth District, discusses the importance of growth and stability for state tax revenues, estimates short- and long-run elasticities to analyze the growth and stability of tax instruments, and discusses the implications for states in the Tenth District.

The article is available on the Bank's website at www.KansasCityFed.org.

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