

Legislative Solutions

★ Report from the Capitols ★

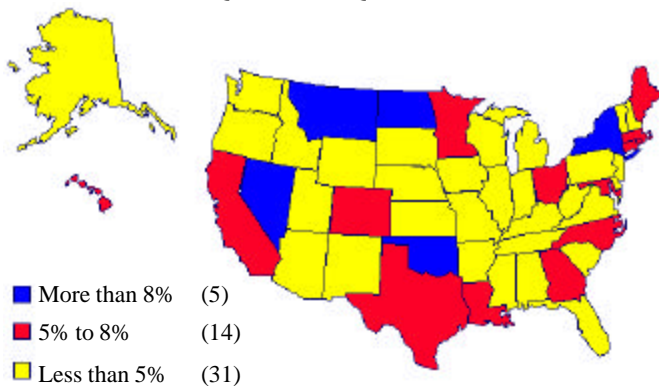
S tate Tax Revenues Weaken Further -

After approximately five years of unprecedented growth in state tax revenues, the slowing economy and recently enacted tax cuts have taken their toll. For the first two quarters of 2001, state tax revenues failed to meet earlier projections. The Great Lakes region has been the hardest hit with the Plains and Southeast not far behind. On the other hand, the West and the Northeast regions have weathered the storm. However, economists fear that due to continued economic weakness, tax revenue growth may turn negative in the near future, putting greater pressure on state budgets.

During the 2001 legislative session, **Alabama**, **Tennessee** and **North Carolina** all experienced tough negotiations to try and balance a tight budget. In Alabama, the legislature postponed challenging decisions on increasing education funding until next year. This is expected to make the 2002 budget battle a bitter one.

After months of battling over proposals to either increase the sales tax or institute an income tax in **Tennessee**, the legislature voted to do nothing. Consequently, they cobbled together a budget that used the tobacco settlement funds to plug a hole in this year's budget. ➔ (Cont.)

Change in Quarterly Tax Revenue Q2 2000 vs. Q2 2001ⁱ



ⁱ "State Revenue Report", Fiscal Studies Program, *The Nelson A. Rockefeller Institute of Government*, September 2001.

G ubernatorial Races Heat Up -

As November approaches, candidates for Governor are stepping up efforts to rise above their opponent.

New Jersey voters are choosing who will lead their state after the departure of Christine Todd Whitman. Acting Gov. Donald DiFrancesco (R) and Republican candidate for Governor, Bret Schundler remain at odds following the state's Republican primary. Party officials are afraid that the rift threatens to dismantle the gains Republicans made a decade ago when they took control of the Legislature.ⁱⁱ Even though both houses are firmly under Republican control, an overwhelming victory by Democratic nominee Jim McGreevey could cause a shift in power in either chamber. McGreevey, the popular mayor of Woodbridge, currently leads in the polls by a substantial margin; even a recent poll commissioned by the Republican party shows Bret Schundler trailing McGreevey by ten points. November's election could result in a power shift in a state which in recent history has been solidly in the Republican camp.

Virginia's race for governor is also looking challenging for Republicans. Early in the race, Democratic candidate Mark Warner held a fifteen-point lead in a poll conducted by the *Washington Post*, but according to the *Richmond Times-Dispatch*, by late September Attorney General Mark Earley (R) had pulled within six points of Warner. Despite this gain, it is widely recognized that Earley still has significant ground to cover to keep the Governor's mansion in Republican hands.

The Virginia governor's race is also expected to spill over into the race for control of the state legislature. In 1999 the Republicans won control of the House of Delegates for the first time since reconstruction. ➔ (Cont.)

ⁱⁱ "DiFrancesco, Schundler sharpen olive branches", *The Star-Ledger*, by Susan K. Livio & Ron Marsico, 10/5/01.

Tax Revenues Weaken Further (Cont.) - Gov. Sundquist (R) vetoed the final budget, but the legislature overrode his veto, postponing a difficult budget debate for the 2002 session.

In September, **North Carolina** finally settled its three-month-long budget impasse. Gov. Easley (D) signed a budget which included a revised plan to increase the state income tax on wealthy citizens and impose new taxes on liquor sales and HMO services. The compromise will raise \$435.3 million in fiscal year 2001-02.



While some states were struggling to balance their budgets in 2001, **Arizona, Connecticut, Florida, Georgia, Idaho, Minnesota, Oklahoma** and **Pennsylvania** collectively enacted more than \$1 billion in tax cuts. At the same time these cuts took effect, the economy slowed and consequently several of these states are now short on revenue. Arizona, for example, now faces a \$200 million shortfall in the fiscal year 2002 budget. This caused Gov. Hull (R) to ask agencies to cut their budgets by four percent.



On the other hand, **Indiana, Louisiana, New Hampshire, New Jersey** and **West Virginia** increased taxes in 2001 by almost \$900 million.

The 2002 legislative session will likely end with higher taxes or user fees in several states. Economists fear that the already unstable economy will be jolted by the incidents of September 11, 2001. Rising unemployment and sagging consumer confidence is expected to negatively impact revenue collections. States which rely on tourists' dollars such as **Florida** and **Hawaii** were immediately impacted by the tragedy. According to Hawaii's Governor Cayetano (D), flights are arriving half empty creating a challenge for an already soft tourist economy. **Alabama** and **Tennessee**, which simply postponed their budget crises, will surely face difficult decisions to keep their budgets balanced.



Few states will escape the budget crunch, leaving difficult decisions - to cut spending or raise taxes - for state legislators when they return in 2002. Many industries will be directly affected in states where the need to balance the budget will result in painful decisions by state legislators. **LS**

Gubernatorial Races (Cont.) - Republican's hold a slim five-seat majority in the House of Delegates, and it is feared that a strong race in favor of Warner could give Democrats the three seats they need to regain control of the lower chamber. To combat this pressure, Republicans Earley, Lt. Gov. Hager, fifteen candidates for the General Assembly and seven state senators will tour Southern and Southwest Virginia to help shore up their base. The tour will take GOP candidates and elected officials through several closely contested districts in an attempt to increase their hold in the House. ⁱⁱⁱ **LS**



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ⁱⁱⁱ "GOP starts House tour", *Richmond Times-Dispatch*, by Jamie Ruff, 10/9/01.