

# Legislative Solutions

## ★ Report from the Capitols ★

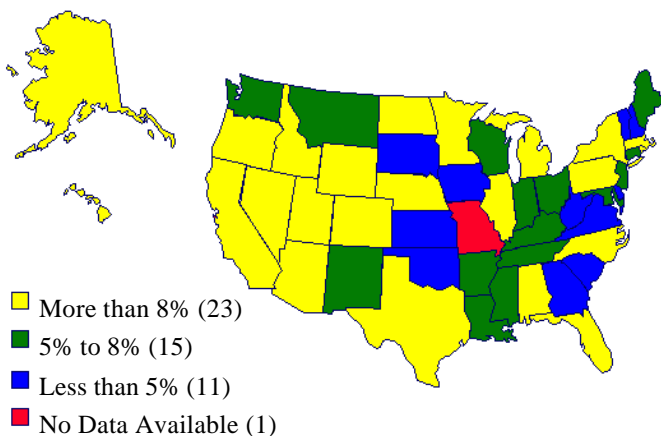
**R**evenues Still Up, Despite State Tax Cuts - State coffers remain full overall as continued economic expansion benefits state tax rolls. The Nelson A. Rockefeller Institute of Government released its annual, "State Revenue Report" in June, which analyzes each state's revenue position.

According to the study, legislative changes to the tax code caused only a moderate reduction in tax growth. Adjusted tax growth for the first quarter of 2000 increased 10.4% over the same quarter last year. The increase in tax revenue was driven primarily by an increase in quarterly tax revenues of 20% for the Far West (AK, CA, HI, NV, OR and WA). That number was offset by more modest growth in the Southeast (AL, AR, FL, GA, KY, LA, MS, NC, SC, TN, VA and WV) - 5%.

Increasing tax revenues as well as the economic prosperity seen over the past decade, have led to tax cuts or rebates in many states. Eight states cut personal income taxes or implemented some kind of credit (CO, MN, WI, IL, NY, VA, ID, and MD). Other states have left personal income taxes alone but cut other areas such as property taxes and gas taxes. ➔ (Cont.)

### Increase in Quarterly Tax Revenue

First Quarter 1999 vs. First Quarter 2000<sup>i</sup>



<sup>i</sup> "State Revenue Report", Fiscal Studies Program, *The Nelson A. Rockefeller Institute of Government*, June 2000.

**T**he National Governors' Association... recently held its 92<sup>nd</sup> annual meeting at Pennsylvania State University where the nation's governors discussed policy directions for their states in the coming years. A major theme was the need to streamline state government to better deal with the new economy.

A hot topic was more uniform tax systems in the fifty states. However, as one observer noted, the drive for uniform regulations and tax laws runs counter to the notion of federalism that many governors cherish.<sup>ii</sup> Utah Gov. Michael O. Leavitt (R), the NGA's outgoing chairman wrote, "Some would respond to the global economy with top-down, one-size-fits-all federal fixes. These efforts are defended in economic terms, but they erode the sovereignty of the states and compromise innovation, local control and accountability."



The Governors also discussed ways to speed up the regulatory process. "We need a fresh approach to regulating new technologies, one that doesn't try to fit the new wine of the Internet into old regulatory bottles from the 1930s," said Ivan G. Seidenberg, President and Chief Executive of Verizon Communications.<sup>iii</sup> The Governors recognize this reality. An NGA position paper titled *Governance in the New Economy* notes that states must, "Reengineer government to become more flexible, adaptable, customer-oriented, and performance-driven."

The meeting was not without controversy. The *Washington Post* noted that the four-day annual meeting of the NGA was closed to the general public but was wide open to generous corporations, which underwrote most of the event's \$1.5 million budget. ➔ (Cont.)

<sup>ii</sup> "States struggle as Internet economy threatens their standing," *Pittsburgh Post-Gazette*, by Frank Reeves, July 11, 2000.

<sup>iii</sup> "States struggle as Internet economy threatens their standing".

**State Coffers are Overflowing (Cont.)** - Only a small number of states increased taxes this year. Wyoming has guaranteed \$90 million in revenue annually by permanently accepting a fourth cent of sales tax beyond its original 2002 expiration date. Louisiana increased taxes by approving a two-year extension of the state's 3% sales tax on food. This extension will provide the state with \$327 million per year.

Several issues pose a challenge for states in the coming years as the United States' economy slows from its extraordinary pace. A reliance on capital gains income has made personal income tax more volatile in some states (CO, OR, NY, CT, and CA). A slowing economy and a shift towards the consumption of services pose a threat to those states that rely heavily on sales tax. Also, the increase of e-commerce further threatens the sales tax base in many states (NV, FL, TN, TX, and WA).<sup>i</sup> State officials will be watching the national economy closely as they address these issues.

**Tax Changes Expected** - Despite Legislators' best efforts to decrease or hold the line on taxes, many feel that they have not gone far enough.

Massachusetts for example has three ballot initiatives including a cut in the personal income tax from 5.85% to 5% backed by Gov. Paul Cellucci (R-MA).



Other initiatives would create a personal income tax deduction for charitable contributions and a 100% rebate for money spent on Massachusetts Turnpike tolls. If all three passed, it would siphon an estimated \$2 billion in revenues from the state.<sup>ii</sup>

Meanwhile in Arizona, former Secretary of State Richard Mahoney, head of the Taxpayer



Protection Alliance, has submitted enough signatures to qualify an initiative on November's ballot to eliminate the state income tax. Opponents argue that the initiative

would erase \$2.6 billion from the state budget; devastating public services such as libraries, roads and jails.<sup>iii</sup> Stay tuned in November.

**NGA Annual Meeting (Cont.)** - 108 companies donated a total of \$1.2 million to the Pennsylvania host committee to pay for elaborate nightly entertainment and other meeting expenses.<sup>iv</sup> The *Post* article quotes Nell Abom, Gov. Ridge's (R-PA) deputy communications director who said the contributions meant that taxpayers had to pay only for security and staff time. NGA's spokeswoman said the closed meetings have been controversial for years but defended them as necessary if governors are to get work done at what she called "a private business meeting."

**Gas Tax Repeal Popular with Politicians** - Cries of foul play have rung from all corners of the country as fuel prices have risen this year. No region was hit as hard as the Midwest, specifically Chicago where prices for unleaded gas topped \$2.25. Diesel fuel prices also caused several convoys of independent truckers to descend on Washington to decry the price of fuel.

As a result, on June 29<sup>th</sup>, a special session of the Illinois Legislature approved a six-month suspension of the state's 5% tax on gasoline. Gov. Ryan (R) did his part by signing the legislation the same day to make the bill effective on July 1<sup>st</sup>. New Jersey Gov. Christine Todd Whitman (R) signed into law a minor gas tax reduction by pegging a special tax at 4 cents rather than 2.75% of the wholesale price of fuel.<sup>v</sup>

Finally, Majority Leader Trent Lott (R-MS) is once again considering a temporary repeal of the federal tax on gasoline. Opponents claim the repeal could cost the Highway Trust Fund some \$18.4 billion if the repeal runs from July 2000 to March 31 of next year.<sup>vi</sup>

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<sup>i</sup> "Report Outlines Potential Risks To State Revenues Over Next Several Years," *Daily Report For Executives*, June 28, 2000.

<sup>ii</sup> "Ballot initiatives to cover taxes, health care, and dog racing," *Boston Globe*, by Daniel Barbarisi, July 6, 2000.

<sup>iii</sup> "Tax plan interest high," *Arizona Republic*, By Robbie Sherwood, 7/6/00.

<sup>iv</sup> "Public Barred as Corporations 'Host' Governors' Meeting," *Washington Post*, by Mike Allen, July 10, 2000.

<sup>v</sup> "Whitman Repeals Hidden Gas Tax Hike," *The Record*, No. NJ, 7/2/00.

<sup>vi</sup> "Senate, House Leaders Weigh Plan To Temporarily Suspend Federal Gas Tax," *Daily Report For Executives*, July 12, 2000.