



AMERICANS FOR TAX REFORM

STATE TAX NEWS UPDATE

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State Tax News Update is a weekly summary of taxpayer-relevant information at the state level. ATR ranks Governors based upon whether their overall actions are good, bad, or terrible for taxpayers. Please send comments and suggestions regarding content to the attention of Paul Proski at pprososki@atr.org or (202) 785-0266.

Governors who have signed the Taxpayer Protection Pledge promising to “oppose and veto any and all efforts to increase taxes” are denoted with an asterisk.

KEY: A ranking of “1” indicates a Governor who has opposed any and all efforts to increase taxes. A ranking of “2” indicates a Governor who has supported some tax increases. A ranking of “3” indicates a Governor who has actively worked to impose tax increases.

We are also starting to rank Legislatures according to their performance with regard to fiscal policy.

Since the 2004 legislative sessions have begun, we are in the process of condensing the information on the developments of the 2003 legislative sessions.

April 2, 2004

Alabama

Gov. Bob Riley (R)

Rank: 3

Legislature Composition: Both chambers controlled by Democrats

- House: 63 Democrats, 42 Republicans
- Senate: 25 Democrats, 10 Republicans

Legislature Rank:

IN SESSION, session started 02/03/04

03/18/04 – A special panel of 18 state legislators this week released a report which proposes tax and fee increases that, if passed by lawmakers, would amount to \$326 million a year. The plan seeks to hike the sales and use tax on cars, trucks and other

vehicles from 2 percent to 2.75 percent, increase the business privilege tax on a company's net worth partly by raising the maximum tax from \$15,000 to \$50,000 per company per year. It would also double fees on deeds and mortgages and raise the state tax on vehicle leases and rentals from 1.5 percent to 2.75 percent. While Gov. Riley claims he would veto some of tax proposals, the recommendations partly echo tax and fee hikes the governor himself proposed. While the people last year decisively rejected the governor's tax hike, this week makes clear that the tax hike mood is alive and well in Alabama.

02/06/04 – Trying to redeem himself after last year's failed attempt to raise taxes by \$1.2 billion, Gov. Riley is proposing some real reforms this year, including reforms of the public employee and teacher health benefits. Currently, public employees and teachers pay as little as \$2 per month for benefits, leaving the taxpayer to shoulder the burden of rapid increases in healthcare costs. Riley is attempting to force teachers and public employees to pay a greater percentage of their healthcare costs.

Developments in 2003:

9/16/03 - Commonly understood in AL: a governor who raises taxes is likely to be a one-term governor; line-item veto power for the governor; a two-thirds supermajority vote in the Legislature to override the governor's veto; require three-fifths supermajority vote in the Legislature to pass any tax increase. Before enactment, constitutional amendments require three-fifths supermajority approval by the Legislature and a popular majority vote in a state-wide election. Despite this, Gov. Riley tried to push a \$1.2 billion tax increase. The plan lost big by a vote of the people – 68% to 32%.

Gov. Riley's plan would have been a feast for the tax collector, boosting taxes on everything imaginable – income, sales, services, property, corporate profits, insurance premiums, mortgages and deeds, cigarettes, and others. The tax plan would have cost up to \$293.21 per person per year, or \$1172.84 for a family of four. A study commissioned by the Alabama Policy Center found that the tax plan, if passed, would have devastate Alabama's already weak economy by destroying 28,267 jobs, \$1.219 billion in personal income, and \$403 million in investment. Farmers and timberland owners could have been forced to sell their land, and small businesses would have been further burdened.

Alaska

Gov. Frank Murkowski (R)

Rank: 2

Legislature Composition: Both chambers controlled by Republicans

- **House: 13 Democrats, 27 Republicans**
- **Senate: 8 Democrats, 11 Republicans, 1 Independent/Other**

Legislature Rank:

IN SESSION, session started 01/12/04

03/19/04 – In an effort to reduce the annual budget deficit, Sen. Ben Stevens (R-Anchorage) has proposed implementing for the first time a statewide sales tax of four percent, and Sen. Gary Wilken (R-Fairbanks), co-chair of the Senate Finance Committee, has scheduled a hearing on the bill. The gap between revenues and expenditures is covered by the Constitutional Budget Reserve, but that fund is projected to run out in the coming years. Stevens estimates the sales tax could pull as much as \$300 million out of Alaska's private economy. Rather than raising the cost on all purchases, Gov. Frank Murkowski's proposal that the people be allowed to vote to tap into the \$28 billion Permanent Fund should be explored.

1/16/04 – Once again, Alaska's leaders are pushing for new taxes on the people of Alaska. Facing a claimed budget gap of \$574 million for next year, Gov. Murkowski is proposing an array of new taxes. He claims to support cuts of about \$500 million, including the elimination of 402 state jobs. But the other roughly \$75 million he hopes to make up for with taxes.

The governor would boost the cigarette tax by one dollar, and would institute tourism-related taxes on cruise ship passengers, hotels, tours, and cruise ship gambling. Many in the Alaska business community seem open to tax hikes as long as some of that money goes into a fund to promote Alaskan tourism throughout the country. Some lawmakers are floating the idea of creating a sales tax for the first time.

Developments in 2003:

The House approved \$2.3B budget 4/10/03 including most of Murkowski's proposed cuts and \$120M in tax increases, as well as \$393M from the Constitutional Budget Reserve.

Murkowski announced 5/8/03 his support for a sales tax of 2% during the winter months and 4% from April 1 through September 30 of every year, but the sales tax died in the House 5/18/03.

In response, Murkowski vowed to line-item veto \$160M in spending from the final budget. Democrats in the Legislature largely opposed all talk of tax increases, after supporting an income tax in 2002 and faring badly in the November elections.

The Legislature approved a budget at midnight 5/21/03, including a heavy reliance on Permanent Fund revenues that Murkowski reportedly opposes. Murkowski promised to veto spending to reduce reliance upon the Fund. Murkowski vetoed \$138M in spending 6/12/03, saying "This is the first major step in guiding Alaska to basically live within her means."

While the Alaska Municipal League and the Alaska Conference of Mayors were pushing for the institution of a state income tax throughout the summer, (previous income tax was repealed in 1980), they did not succeed, at the end of 2003 Alaska still had no state income tax or a sales tax.

Arizona

Gov. Janet Napolitano (D)

Rank: 1

Legislature Composition: Both chambers controlled by Republicans

- **House: 21 Democrats, 39 Republicans**
- **Senate: 13 Democrats, 17 Republicans**

Legislative Rank:

IN SESSION, session started 01/12/04

02/26/04 – The Arizona House of Representatives voted to cut taxes for some of Arizona's largest multistate corporations. Under the legislation passed by the House, any company that does business in more than one state, could choose an alternative method of computing its corporate income tax, saving the companies up to \$50 million per year. While the measure now goes to the Senate, an identical bill has already been approved by the Senate Finance Committee and will be submitted to the floor.

02/25/04 – Governor Napolitano unveiled her budget plan for fiscal year 2005 in January. Her plan forecasts a \$310 million deficit and increases state spending by \$821 million, including pay raises for state workers, and funds for early education programs. While she stressed that she does not support any taxes for the fiscal year 2005, her budget relies on financing schemes, debt and fund transfers to balance the books. Republicans and other fiscal conservatives have questioned the spending boosts included in Napolitano's budget.

While claiming that tax reform is not her priority for legislative agenda this year, she handpicked a tax panel, which gave the following recommendations: Arizona should lower property taxes for businesses to be more competitive relative to other states, even though this could lead to higher taxes for homeowners; the state should tax personal services like haircuts or dry cleaning while at the same time lowering the overall sales tax by 10 percent. Commissioners have said that they would like to see their recommendations enacted over the next few years. If enacted in full, however, the recommendations could raise or expand income taxes, sales taxes and property taxes by as much as \$500 million. While the property taxes could be cut for businesses by \$350 million, this lost revenue would most likely be offset with an increase to homeowners.

Thus, one can only hope that Napolitano makes good of her promise and holds the line with regard to not raising taxes.

01/16/04 – ATR welcomes state Sen. Dean Martin (R-Phoenix) as the new chair of the Taxpayer Protection Caucus in the Arizona Senate. In this position, he will lead the 9 Taxpayer Protection Pledge signers (30% of the senators) in opposing all tax increases, and will try to recruit new Pledge signers. We look forward to working with him.

Developments in 2003:

The budget proposed by Napolitano for 2003 relied upon bonding, but not tax increases, to balance the budget. The legislature adjourned with a state budget without tax increases, and Napolitano lived up to her promise not to raise taxes in the course of the year.

Arkansas

Gov. Mike Huckabee (R)

Rank: 3

Legislature Composition: Both chambers controlled by Democrats

- House: 70 Democrats, 30 Republicans
- Senate: 27 Democrats, 8 Republicans

Legislature Rank:

NO REGULAR SESSION IN 2004, SPECIAL SESSION ENDED 02/06/04

02/23/04 - Gov. Mike Huckabee allowed HB 1030, the massive tax hike passed by the legislature earlier in February, to become law without his signature. Amounting to the biggest tax increase in Arkansas' history, Act 107 hikes the sales tax by 7/8-cent from 5.125 percent to 6 percent, and broadens its base by extending it to some business services that were not taxed before. Along with a new \$2.7 billion school funding formula, the legislature approved the tax increase package in their special session in response to a state Supreme Court's order calling for an overhaul of the state's school funding system.

02/06/04 – The state Senate has passed a 1 cent sales tax increase, and the state House has passed a 7/8 cent increase. There is little doubt that the two bodies will reach a compromise, and Gov. Huckabee is expected to sign the bill. In addition, the sales tax may be extended to some services, and a variety of business taxes are being considered.

01/16/04 – The House and Senate agreed yesterday to a new formula for state aid to public schools. The agreement will provide \$440 million more money, in order to comply with a November 2002 ruling from the state Supreme Court that found the state's school funding inadequate. The court imposed a Jan. 1, 2004 deadline to address the situation, but the legislature failed to meet that deadline. The court has scheduled a hearing concerning that failure for next Thursday January 22.

Of the \$440 million in new money, \$385 million of it will come from tax increases. And “coincidentally,” that \$385 million figure is exactly what a one cent sales tax hike is expected to raise. Legislators seem to be leaning toward a sales tax increase, and Gov. Huckabee has said he would support it.

Developments in 2003

On April 16, 2003 the Arkansas legislative session ended with the Governor having signed a 25 cent per-pack wholesale cigarette tax increase, a 7% tobacco product tax increase, and a 3% income tax surcharge into law. Since Huckabee's inauguration, spending had increased 65.3%, or \$4.61 billion; spending had outpaced revenue growth by \$1.4 billion. Senate Bill 483 also passed; the bill “enables Arkansas to enter into the streamlined sales and use tax agreement by amending the Arkansas sales and use tax laws.” Huckabee's \$474 million sales tax increase did not pass at that time.

After the budget had been approved in the summer, officials turned their attention to the court-ordered reform of the state's public schools. A state supreme court decision last year

found the public schools to be “unfair” and “inadequately funded,” and ordered reforms be made by Jan. 1, 2004 or the courts would take over the schools.

In response, various groups, commissions, and the governor were proposing changes, and a Dec. 8th special session was called in. The plans involved large tax hikes. Since the constitution requires a ¾ majority to raise most taxes, an increase or broadening of the sales tax seemed most likely at the end of the year.

California

Gov. Arnold Schwarzenegger (R)

Rank: 1

Legislature Composition: Both chambers controlled by Democrats

- **House: 48 Democrats, 32 Republicans**
- **Senate: 25 Democrats, 15 Republicans**

Legislature Rank:

IN SESSION, session started 01/05/04

02/23/04 – Gov. Schwarzenegger is stepping up his campaign to gain support to pass propositions 57 and 58, which will be voted upon at the ballot on March 2. While proposition 57 provides for a one-time \$15 billion Economic Recovery Bond to refinance past budget deficits, proposition 58 requires politicians to balance the budget every and prohibits bond financing of any future deficits. It also creates a “rainy day savings account”. The two measures must both pass to take effect.

While the Governor is seeking to get Proposition 57 and 58 passed, Democrats are seeking to get Proposition 56 passed, which would drop the two-thirds-threshold to raise taxes to a simple majority threshold. That way, the Democratic majority in the legislature could raise taxes just by themselves, and would be given a blank check. However, awareness to this fact is rising, and the likelihood for Proposition to pass is relatively low.

In his effort to bring California back on track, the Governor will begin his top-to-bottom review of California, the “California Performance Review”, in early March.

01/16/04 – Gov. Schwarzenegger continued to push for spending cuts, and to hold the line against taxes. In his recent State of the State address, he warned the legislature that failure to approve the nearly \$2 billion dollars in cuts he has proposed could lead the state to bankruptcy.

In the same speech, Schwarzenegger announced his support for a constitutional amendment to bring competition to government through outsourcing. If passed, such a reform could save the state billions of dollars. He also addressed the issue of Government reform, making clear that he did not ‘want to move boxes around, but blow them up’.

Developments in 2003

After winning re-election in November 2002, Gov. Davis' (D) popularity dropped significantly over high unemployment, a huge budget deficit, and an enactment of an unpopular car tax hike to pay for what would have been an even higher shortfall. In October 2003, voters recalled Davis for his fiscal irresponsibilities and elected actor-turned-politician Arnold Schwarzenegger (R) Governor. His first action as Governor was repealing the car-tax hike signed into law by his predecessor. While he did not sign Americans for Tax Reform's Taxpayer Protection Pledge, he rejected the idea of raising taxes to restore fiscal sanity to California's ailing budget.

Gov. Schwarzenegger proposed a \$1.9 billion dollars of spending cuts to begin the process of bringing fiscal responsibility back to Sacramento. In addition, he put forth a dual package to solve the state's problems in the long term – a \$15 billion bond issue to close next year's budget gap, plus a spending limitation constitutional amendment to slow the growth of government.

The danger was that, in an effort to get the spending limit on the March ballot, legislators might water down the limit, thus undermining its effectiveness. The better alternative might be to use the initiative process to get put a pure, strict limit on the November ballot. This, however, did not materialize.

Colorado

Gov. Bill Owens (R)*

Rank: 1

Legislature Composition: both chambers controlled by Republicans

- **House: 28 Democrats, 37 Republicans**
- **Senate: 17 Democrats, 18 Republicans**

Legislature Rank:

IN SESSION, session started 01/05/04

02/23/04 – Gov. Owens and lawmakers are debating how to address Colorado's budget shortfall of \$484.4 million. Owens seeks to undo the constitutional restraints of Amendment 23, which mandates annual increases in K-through- 12 funding. K-12 education saw an 11 percent increase in its budget while overall spending went down 4 percent. In order to find a solution to this problem, Owens has indicated that he is willing to discuss changes to TABOR, the Taxpayer's Bill of Rights, noting however, that TABOR cannot be blamed for the state's budget woes.

Developments in 2003:

\$1B spending shortfall out of \$13.8B budget.

Senate approved budget 4/9/03: eliminating 600 state government jobs, freezing state employee salaries, and making a total of \$1 billion in total spending cuts. A plan to leverage tobacco settlement moneys to create a \$260M emergency rainy day fund would require more spending cuts, because tobacco settlement revenue dollars are dedicated to spending programs in the Senate's budget plan.

Various successes in 2003: vouchers for public school K-12 students, reduced state-sponsored health care program, trimmed Medicaid rolls, require Pledge of Allegiance in public school classrooms, reduced restrictions on gun ownership, redistricting that strengthens Congressional districts in favor of Republicans.

Connecticut

Gov. John Rowland (R)*

Rank: 3

Legislature Composition: Both chambers controlled by Democrats

- **House: 94 Democrats, 57 Republicans**
- **Senate: 21 Democrats, 15 Republicans**

Legislature Rank:

IN SESSION, session started 02/04/04

02/06/04 – Gov. Rowland is proposing MORE tax increases. This time the targets are spirits, beer, tobacco (including smokeless), and newspapers.

Developments in 2003

In early August 2003, the Connecticut state Senate finally passed the budget, after a long and drawn-out session. Gov. John Rowland signed the \$27.5 million budget on August 16. The budget was, by all accounts, an ugly compromise that resulted in tax increases and spending cuts. The agreement was finally reached after three Republican senators, William H. Nickerson, Judith G. Freedman, and Thomas J. Herlihy, were persuaded by their Democratic colleagues to lend their support to the budget, which is supposed to end a \$1 billion economic crisis.

The state had been without a budget since July 1 and Rowland was running government agencies via executive orders. Under the new budget, cities' and towns' state aid will be cut by an average of 4%. Health benefit money for low income Connecticut residents was also reduced. This does not help the already financially strained cities, many of which have raised taxes by as much as ten percent in the last year.

Delaware

Gov. Ruth Ann Minner (D)

Rank: 3

Legislature Composition: House controlled by Republicans, Senate controlled by Democrats

- **House: 12 Democrats, 29 Republicans**
- **Senate: 13 Democrats, 8 Republicans**

Legislature Rank:

IN SESSION, session started 01/13/04

02/23/04 – In order to make up for projected revenue losses if slot parlors open in the next few years in Maryland and Pennsylvania, Gov. Ruth Ann Minner wants to set up a special fund. She has proposed a cap on the use of revenue from abandoned financial assets. Anything received above the \$ 246.5 million budgeted for this year would be put into the special fund.

Opposing the idea of creating more special funds which make it more difficult to say no when someone comes looking for the legislature to set aside funds, Republicans have proposed cutting state income taxes and the gross-receipts income tax paid by businesses by a total of about \$100 million. The cuts, which are yet to be considered by the General Assembly, would take effect with the 2005 budget on July 1. These tax cuts, which would stimulate economic growth, would be a better way to offset the loss of revenue.

Developments in 2003

Gov. Minner's budget included 26c/pack cig tax increases and 17% increase in corporation franchise taxes, costing taxpayers \$144.5M/year, and won the favor in Leg 1/30/03. Minner also considered expanding slot operations and possibility of decoupling state income tax from federal, causing the state tax burden to increase. Minner advocated corporate tax and fee increases of 17%.

Despite rosier revenue forecasts for this fiscal year and this next, Minner has no intention of reversing her position on the tax increases she proposed in her budget.

Minner had recommended that Delaware decouple its death tax from the federal model, in response to federal action to eliminate the death tax by 2010, but Republicans in the Legislature rejected her proposal.

At the end of the legislative session of 2003, lawmakers had approved a \$300 million package of budget cuts and tax increases, including a corporate franchise tax increase, which resulted in an extra \$24 million in state coffers.

Florida

Gov. Jeb Bush (R)

Rank: 1

Legislature Composition: Both chambers controlled by Republicans

- **House: 39 Democrats, 81 Republicans**
- **Senate: 14 Democrats, 26 Republicans**

Legislature Rank:

IN SESSION, session started 03/02/04

Negotiations over medical malpractice insurance broke down on 7/17/03 between the Florida House, Senate and Governor Jeb Bush. For all intents and purposes, this breakdown ended the Florida legislature's third special session although the session technically ends on 7/21/03. The session broke down after Bush rejected the Senate's latest plan, offering a \$250,000 cap for health care providers who provide emergency care. Emergency health care providers make up about 16% of the state's health care providers. The Senate's plan would place a \$500,000 cap for most other health care providers. Florida Republicans are split on the issue--

Bush wants a plan with a general cap of \$250,000. It is likely that Bush will call another special session in the fall, to further address the issue. If another special session is called, it will be Florida's fourth for the year, the third addressing medical malpractice insurance.

Georgia

Gov. Sonny Perdue (R)

Rank: 3

Legislature Composition: House controlled by Democrats, Senate controlled by Republicans

- **House: 106 Democrats, 73 Republicans, 1 Independents/Other**
- **Senate: 26 Democrats, 30 Republicans**

Legislature Rank:

IN SESSION, session started 01/12/04

02/26/04 – While for the past two summers, Georgia consumers have enjoyed a four-day sales tax holiday, giving them a short break from state sales taxes on clothing and footwear, computers and accessories and general school supplies, lawmakers are considering not to grant the holiday this year. Skeptics say the state could not afford the \$10 million in lost revenue, which a four day break from the tax would cost.

02/06/04 – It is feared that Gov. Perdue will pursue some sort of prescription drug price control/supplemental rebate for the state's healthcare pools such as Medicaid. There is also concern that the governor has the power to impose such controls by executive order, without any debate in the legislature.

01/16/04 – Despite Gov. Perdue's conversion to a no-tax-increase stance last year, rumors are swirling in Atlanta that a gas tax increase may be in the works. Transportation lobbyists are planning a big push to raise Georgia's 12 cent per gallon tax, the second-lowest in the nation. Will Gov. Perdue stand strong?

Developments in 2003

Thanks to levels of spending double that of inflation plus population growth, Governor Sonny Perdue (R) inherited a \$600 million shortfall his first year in office. In response, Perdue proposed three tax hikes affecting the state's homestead exemption and alcohol and cigarette taxes. A public outcry ended any conversation about cutting the homestead exemption, but smokers were not so fortunate. Perdue signed the \$16 billion budget into law on April 28, 2003 including a 25-cent per-pack cigarette tax increase that will cost taxpayers \$173 million in fiscal year 2004.

If revenue projections failed to live up to Perdue's rosy expectations, he threatened to call the Legislature back into special session to raise taxes again. Perdue hardly exercised his line-item veto, slashing just \$10 million in spending, and yet somehow \$20 million in last-minute port slipped into the budget despite session-long cries about the state's dire fiscal state of affairs. On the brighter side, Perdue nominated business leaders to the new "Commission for a New Georgia" who will examine each agency and determine what funded services reflect the

proper role of government and which should be privatized or outsourced. The Commission will also identify agencies with potential for consolidation and applying a cost effectiveness review to the remaining agency structure. Perdue reaffirmed his dedication to reforming state government in a June 4, 2003 press release: "In the budget's current form, it is difficult to determine the actual cost of certain programs and whether or not the state is receiving a good return on its investment. Historically, we have funded departments, not programs. This approach must change." Bravo for good intentions, but there remains an aftertaste of tax increases that Perdue must do more to scrub clean.

Hawaii

Gov. Linda Lingle (R)*

Rank: 1

Legislature Composition: both chambers controlled by Democrats

- **House: 36 Democrats, 15 Republicans**
- **Senate: 20 Democrats, 5 Republicans**

Legislature Rank:

IN SESSION, session started 01/21/04

02/23/04 – In her 2004 State of the State Address, Gov. Linda Lingle called for a constitutional amendment that would require the legislature to enact a balanced budget, because in the past, this has not always happened.

At a news conference 3/18/03 at the capitol, Lingle recommended that Hawaii balance its budget by tapping funds, refinancing construction projects, and restricting some tax credits. Lingle did not propose raiding the Hurricane Relief Fund or the rainy day fund, but called for Act 221 reform (despite campaign promises). Lingle also proposed a tax cut that would increase the standard deduction for taxpayers. Senator Brian Taniguchi, who heads the Ways and Means Committee, is encouraging other lawmakers to support hiking Hawaii's 4% general excise tax.

House Democrats killed new county option sales tax and excise tax increase of .5% 4/15/03; Senate dropped consideration of same 4/16/03.

Lingle vetoed 50 bills 6/20/03, including a long-term-care tax, a record number of vetoes for any previous Hawaiian governor. Lingle rejected the long-term-care tax but supported a tax credit for Hawaiians who purchase long-term-care insurance. Anticipating a \$152M shortfall in FY04, Lingle recommended tighter spending restrictions for Hawaii's various agencies, 6/26/03. Legislature expected to convene 7/8/03 to attempt to override some of Lingle's vetoes; the Legislature must meet a 2/3 supermajority requirement to override her veto, overrides must occur in special session. Budget does not include any tax increases.

Idaho

Gov. Dirk Kempthorne (R)

Rank: 3

Legislature Composition: Both chambers controlled by Republicans

- **House: 16 Democrats, 54 Republicans**
- **Senate: 7 Democrats, 28 Republicans**

Legislature Rank:

IN SESSION, session started 01/12/04

02/23/04 - A constitutional amendment to raise the threshold required to increase taxes has been introduced by Republican Rep. Ken Roberts. The amendment replaces one introduced in January that would have required a two-thirds majority in both House and Senate to approve any state sales, income or corporate tax hike. The new amendment additionally requires supermajority approval for lifting any of the current sales tax exemptions or exclusions. If the amendment passes the legislature with a 2/3rds majority, voters will have to give their final approval in November.

10/24/03 – Officials say the newly expanded Children's Health Insurance Program needs an additional 27 new employees along with \$415,500 from the general fund to run. Lawmakers claim to have been unaware when they agreed to expand the program that money would be needed from the general fund. Thus, the camel has gotten his nose under the tent in Idaho.

5/1/03: House killed a bill that would have imposed Idaho's cigarette excise tax on Indian reservations, and the Senate passed a bill to allow a half cent local option sales tax, in an effort to prevent massive property tax increases. Kempthorne signed the local option on 5/8/03.

Kempthorne finished signing budget bills 5/15/03, including a 1 penny sales tax increase and a 29c cigarette tax increase, but cigarette tax increase will not apply to sales on reservations.

5/23/03: an initiative to repeal Idaho's Right to Work law is winning signatures in the qualifying stages of the ballot process, a perennial event but still something to consider.

Lawmakers learned 5/28/03 that the FY03 spending shortfall has increased to \$45M; to be resolved by pushing payments into FY04.

Good news: busted education budget into five categories, instead of sending K-12 a lump sum, appropriations now divided into teachers' salaries, children, benefits, etc – a small step towards spending accountability. Idahoans for Tax Reform worked to lay the groundwork www.idtaxreform.com for more information.

Illinois

Gov. Rod Blagojevich (D)

Rank: 2

Legislature Composition: Both chambers controlled by Democrats

- **House: 66 Democrats, 52 Republicans**
- **Senate: 32 Democrats, 27 Republicans**

Legislature Rank:

IN SESSION, session started 01/14/04

02/26/04 – The Illinois House of Representatives voted 90-7 to repeal a tax hike blamed for driving trucking companies out of Illinois. In an effort to raise almost \$100 million in revenue, the tax hike had eliminated a trucking sales-tax exemption and raised truckers' registration fees by more than \$1,000 per truck per year. The bill now

moves to the Senate. If passed, Blagojevich would either have to accept it as a major blow to the state budget, or use his veto powers to attempt to keep the unpopular tax in place.

Developments in 2003

FY03-FY04 shortfall \$4.8B.

Blagojevich's budget plan included more than 100 tax and fee hikes (affecting personalized license plates, disposal of tires, bounced checks made out to the Secretary of State, late income tax payments total: \$337M/yr), the sale of bonds to refinance the state's \$10B pension fund at a \$2B windfall; \$550M from the sale of casino licenses, and increased taxes and fees on gambling boats.

The General Assembly passed Blagojevich budget plan largely intact; Blagojevich said he would veto parts of it; budget included minimum wage hike and casino license and expansion of O'Hare, despite resistance from airport's surrounding neighborhoods. The \$53B budget included hundreds of fee increases, business tax increases, and one-time sources of revenue.

After the Governor had vetoed about \$15 million of the fiscal 2004 state budget, the General Assembly overrode Blagojevich's veto in November. Earlier in the veto session, Blagojevich referred to these attempts as "spending sprees" and charged lawmakers were acting like "drunken sailors".

Indiana

Gov. Frank O'Bannon (D)

Rank: 1

Legislature Composition: House controlled by Democrats, Senate controlled by Republicans

- **House: 51 Democrats, 49 Republicans**
- **Senate: 18 Democrats, 32 Republicans**

Legislature Rank:

IN SESSION, session started 01/08/04

Developments in 2003

O'Bannon approved a 2-yr budget plan 1/9/03 including no spending or tax increases. State revenue collections surpassed projections. O'Bannon proposed budget including no tax increases (tax increases last year); Legislature proposal to tie gas tax increases to inflation, but automatic increase structure would eliminate future public debate. Shortfall \$800M; two-year budget that was passed will cost \$22.7B, no tax increases. Property tax rates were capped at a maximum increase of 5% and maximum cut of 5%; the state is facing a property tax train wreck within the next couple of years.

In November, state legislators held an extended organization day session to address the unexpected increase in property taxes, following the court-ordered reassessment of property

tax conducted earlier this year. As a result of the reassessment, lawmakers had shifted \$280 million to increased funding for schools, angering many homeowners, who saw their property taxes going up to 16% in some counties. They had been promised a 13% tax cut a year earlier. Lawmakers voted to limit future tax increases, extend the sign-up deadline for homeowner deductions and credits, and restrict the extra money counties collect in case they lose property tax appeals.

Iowa

Gov. Thomas Vilsack (D)

Rank: 3

Legislature Composition: Both chambers controlled by Republicans

- **House: 46 Democrats, 54 Republicans**
- **Senate: 21 Democrats, 29 Republicans**

Legislature Rank:

IN SESSION, session started 01/12/04

11/17/03 – Contrary to predictions by Governor Vilsack that the state would be able to pay its bills on time, Iowa will borrow \$500 million to ensure timely payments. Against this background, house Republicans renewed their call for tighter controls on spending, such as limiting state spending to 98 percent of anticipated revenues. The current spending cap lies at 99 percent of these anticipated revenues. Vilsack resisted imposing a tighter spending limit, arguing the money is needed to finance the state's priorities, such as education and public safety.

Vilsack openly supports eliminating federal income tax deduction from state taxable income, also supports Streamlined Sales Tax Project. Shortfall \$216M.

"This is not a tax increase," Vilsack commented 4/18/03 about a proposal to double the per-pack cigarette tax, coupled with a reduction in the pension tax. Vilsack made the same comment regarding another proposal to levy sales taxes on Internet purchases.

The Senate plan, finalized in caucus on May 12, 2003, would create a \$700 million corporate welfare slush fund called the Iowa Values Fund by doubling the cigarette tax to 72 cents/pack and increasing distilled spirits taxes by an unspecified amount.

The Senate also agreed to reduce Iowa's nine-bracket state income tax system with three brackets, saving taxpayers \$307 million. But the plan would also eliminate federal income tax deductibility and impose tax code streamlining recommendations authored by a multi-state tax cartel which considers Internet taxation its mission.

The House plan would sell bonds to generate a \$810 million slush fund. The Fund is the brainchild of Governor Tom Vilsack. The House plan is contingent upon a constitutional amendment making it harder to increase taxes on Iowan families, and also reduces the number of income tax brackets from nine to three.

Vilsack agreed to pay-as-you-go Iowa Values Fund, 5/29/03, debate will revolve around cigarette tax increases or enforcing tax on Internet sales during the special session which began 5/29/03.

Senate Republicans pushing \$503M Iowa Values Fund and income tax cut of \$300M, property tax reform, and regulatory changes 6/2/03; it's now or never.

Kansas

Gov. Kathleen Sebelius (D)

Rank: 2

Legislature Composition: Both chambers controlled by Republicans

- **House: 45 Democrats, 80 Republicans**
- **Senate: 10 Democrats, 30 Republicans**

Legislature Rank:

IN SESSION, session started 01/12/04

03/29/04 – Several plans to increase taxes are currently under consideration. The Senate Education Committee passed two school finance bills that would generate about \$190 million in new revenue. One proposal seeks to hike taxes on alcohol by up to 200% and change the way by which taxes are collected. The other proposal is a smaller version of Gov. Sebelius' tax plan and would rely on increases in sales and income taxes.

Joining the tax-and-spend-spree, a bipartisan coalition of Democrats and Republicans tentatively approved a \$ 155 million school tax plan relying on sales and income tax increases.

Developments in 2003

4/4/03 was the last day of regular session in the Kansas Legislature. The Legislature adjourned until 4/30/03. Sebelius signed three tax and fee increases: on 2/28/03, she signed H 2026 to impose a new gas tax ratio. On 4/4/03, Sebelius signed H 2193 to increase car title fees, and on 4/14/03, she signed H 2192 to increase drivers license fees. The only major tax increase to surface this session would have hiked sales and income taxes by \$226.5M, and was defeated in the House 5/1/03. The plan was designed and promoted by 16 freshmen House members.

Legislature and Sebelius agreed on budget 5/6/03 including no tax increases; Senate rejected House efforts to expand gambling revenues. In the wee hours of 5/8/03, lawmakers passed legislation that raised the sales tax back to 5.3% for a couple of more years. The Kansas state sales tax rate was 4.9% until 6/30/02, when it was raised to 5.3% by then-governor Bill Graves. It was scheduled to drop 0.1% beginning 7/1/04 and phased back down to 5.0%, not 4.9%, over several years. The fiscal impact in fiscal 2004 of this year's action is zero, but in coming years the impact is between \$20 - \$50 million. A new use tax for local units was created so that Kansas would more completely comply with the Simplified Sales Tax Project inter-state effort to standardize state tax codes. The fiscal note for the Kansas action is that it could cost between \$35 - \$50 million per year. Kansas conformed to the interstate agreement by creating a tax that didn't previously exist. Session adjourned shortly thereafter.

Later in the year, Gov. Sebelius tried to claim credit for spending cuts. But the facts suggest she may have had little to do with the savings. Unemployment decreased to 4.5% in

September, while Gov. Kathleen Sebelius was "touting the work performed by her Budget Savings and Efficiencies Team." However, Republicans identified some additional wasteful spending not included in the report as well as the fact that more than 50% of the money identified in "savings and efficiencies" come from collection of overdue taxes, not through spending cuts. An additional \$14 million came from higher fees. After all of the questionable items were subtracted from the final tally of \$76.3 million, only \$11 million was left over.

Kentucky

Gov. Ernie Fletcher (R)*

Rank: Newly elected, too early to tell

Legislature Composition: House controlled by Democrats, Senate controlled by Republicans

- **House: 65 Democrats, 35 Republicans**
- **Senate: 16 Democrats, 22 Republicans**

Legislature Rank:

IN SESSION, session started 01/06/04

03/29/04 – Gov. Ernie Fletcher submitted a budget proposal, which, while it contains several tax increases, such as higher taxes on cigarettes and alcohol and implements a state tax to hotel and motel rooms, telephone calls, cable and satellite television, would nonetheless be revenue neutral for two years, because these increases are offset by tax cuts in other areas.

At the end of their session, the legislature has not been able to send the Governor their budget proposal for review, after the Senate postponed a vote on the spending plan on March 25.

House budget plan does not include tax increases, passed H Approps and Rev Comte 2/12/03. Patton reduced shortfall estimate 1/21/03, less \$115M; new shortfall estimate approx. \$400M; still rumors of cigarette and business tax increases, after significant budget cuts in early December. In open letter to '03 gubernatorial candidates, Patton took responsibility for the budget: "These problems arose on my watch and they should be solved on my watch." So he could raise taxes without Democrat gubernatorial candidates getting blamed. Patton announced first tax increase 1/15/03: replacing corporate income tax with new "business activity tax" on sales and payroll costing \$400M/yr.

- Patton backed off a proposal to extend KY's 6% sales tax to off-premise sale of beverage alcohol
- HB 205: impose new smokeless tobacco tax: 32%
- Patton proposes new smokeless tobacco tax of 13%

Legislature has overridden three of Patton's vetoes already including his veto of a Legislature-approved 250 member cut to Patton's political appointee staff.

Louisiana

Gov. Kathleen Blanco (D)

Rank: Newly elected, too early to tell

Legislature Composition: Both chambers controlled by Democrats

- **House:** 68 Democrats, 36 Republicans, 1 Independent/Other
- **Senate:** 26 Democrats, 13 Republicans

Legislature Rank:

IN SESSION, session started 02/29/04

03/10/04 – Gov. Kathleen Blanco called for permanent business tax renewals and a slow roll-off for two corporate taxes in her opening speech for her first legislative session as Governor on February 29. Her proposal relies on a renewal of \$160 million in sales taxes on business utilities, making permanent “temporary taxes” that were enacted 18 years ago. These taxes should not be made permanent, but gotten rid of. Her plan also calls for slowly phasing out the corporate franchise tax on debt and the sales tax on machinery and equipment over a seven-year period, starting on July 1, 2005. Business leaders and some state legislators advocate a sooner sunset of the taxes and seek their total elimination by Jan. 1, 2005, in order to improve Louisiana’s business climate.

Shortfall for FY04: \$500M.

The Legislature can only create or increase taxes during fiscal session; during general sessions such as the one conducted in the spring of 2003, the Legislature must balance the budget by other means. The state House Appropriations Committee revised Governor Mike Foster’s \$16 billion spending plan to account for \$289 million in federal bailout dollars, while Commissioner of Administration Mark Drennen revised revenue estimates to include an additional \$400 million more revenue than projected. Before Commissioner Drennen’s announcement, Gov. Foster’s budget reduced spending 2% from the 2003 fiscal year’s budget. Proposals to allow school vouchers and state takeover of failing public schools; House rejected 3 voucher bills 4/30/03.

Legislature considering local option sales taxes, 4/4/03, although it is general session.

Overall state budget has increased 40% under Foster’s two-term leadership; most spending is locked into formulas, making \$500M in cuts difficult; Foster reiterates his priorities 4/1/03 but does not recommend areas to cut spending.

SB 904 would allow parishes to hike occupational license tax by up to 50%, could cost \$15M in New Orleans alone, and the bill will double the budgets of regional Chambers of Commerce.

Senate unanimously approved “simplification” of sales tax 4/29/03, parishes can keep the rates they have, and “simplification” only affects definitions. Fiscal impact still unknown; some new definitions could have tax implications.

House approved \$16.9B budget for FY04 on 6/1/03, relying on one-time revenues courtesy of the federal bailout and state reserve funds.

Maine

Gov. John Baldacci (D)

Rank: 1

Legislature Composition: Both chambers controlled by Democrats

- **House: 80 Democrats, 36 Republicans, 4 Independents/Other**
- **Senate: 18 Democrats, 17 Republicans**

Legislature Rank:

IN SESSION, session started 01/07/04

11/17/03 – Petitions calling for a referendum to cap property taxes submitted to the Secretary of State’s office in June are awaiting a ruling from Secretary of State Dan Gwadowski, who has yet to validate the signatures gathered. Governor Baldacci remains strongly opposed to the tax cap. However, if the tax will go to the voters, he will have a stronger incentive to come up with an alternative plan that is acceptable to all parties involved. Should Gwadowski find there are too few valid signatures, the political establishment would feel the pressure is off and thus refrain from further action on tax relief.

Baldacci budget does not include any tax increases, resolves \$1B shortfall. “At the end of the day, we’re going to do it with the existing resources that we have. We’re not going to be raising taxes.” --Baldacci told House Dems 2/4/03. Baldacci revised his budget 3/16/03 in response to feedback provided by various legislative committees; Baldacci seems to be trying to work with the legislature to resolve Maine’s remaining \$48M spending shortfall. Various Baldacci fee increases would cost \$2.5M annually and would affect the state fish and game and marine resources agencies.

3/27/03: budget bill passes second vote and heads over to the Governor’s office for his signature. Five Republican senators voted no: Nass, Weston, Blais, Lemont, Shorey and 36 members of the House also voted no. They should have; the budget includes fee increases and includes a spending increase.

Baldacci plan to create tax-free business zones would provide tax incentives to businesses relocating to Maine; attacked as favoritism by critics who point to Baldacci’s proposed control of regions that get the zones, 4/1/03.

Baldacci administration opposed efforts to repeal legislation that indexes gas tax increases to inflation, a plan that could save taxpayers \$183M/yr, 4/3/03.

U.S. Supreme Court referred Maine Rx back to lower courts, 5/20/03. Maine Rx would force pharmaceutical companies to offer discounted drugs to uninsured residents.

Various tax reform packages: Maine Municipal Association, Baldacci administration, various lawmakers all have plans. MMA won enough support to place a referendum on the November ballot requiring the state to contribute 55% of education costs, and increase of 10%; MMA isn’t really “reform” in any meaningful sense; doesn’t guarantee property tax reform at the local level.

5/28/03: Senate agreed with the House to force prescription drug manufacturers to disclose how much they spend to market their products in Maine; not clear if Baldacci will sign. As of 5/26/03, no one in Augusta had an estimate for when the supplemental budget session will conclude, although Baldacci is signing bills left and right.

Maryland

Gov. Bob Ehrlich (R)

Rank: 2

Legislature Composition: Both chambers controlled by Democrats

- **House: 98 Democrats, 43 Republicans**
- **Senate: 33 Democrats, 14 Republicans**

Legislature Rank:

IN SESSION, session started 01/14/04

03/29/04 – The Maryland House on March 24 passed a billion dollar tax increase package. The proposal would raise the state sales tax by 20% and the top marginal income tax rate on individuals and small businesses by 26%. 22 Democrats – including the Democratic Whip, George Orwings III (D-Calvert) – abandoned their leader, and all Republicans opposed the measure. The Senate is said to be opposed to this large tax increase, and Gov. Bob Ehrlich (R) has promised to veto it if the measure reaches his desk.

02/06/04 – Gov. Ehrlich will propose a variety of “fee” increases, most or all of which seem to be better described as tax increases. We are withholding final judgment until we see all the details.

On another note, there are other forces inside Maryland pushing for a variety of tax increases besides Ehrlich’s “fees,” including raising the corporate tax rate, business franchise tax, and tax on out-of-state corporate income. So far, Ehrlich seems apposed.

01/16/04 – Maryland is considering a variety of tax and fee increases to replenish the state’s transportation fund. Many are pushing a 5 to 10 cent increase in the gas tax – even the Maryland Chamber of Commerce and the Greater Baltimore Committee have endorsed a 5 cent increase, plus up to \$60 per year increase in the vehicle registration fee. Gov. Ehrlich continues to resist a gas tax increase, though he hasn’t ruled it out – he only rules out sales or income taxes. But the governor does support several fee increases, including tags, titles, and a surcharge on ticket fines, totaling as much as \$300 million.

09/16/03 – Update – Ehrlich did sign a 5 cent per \$100 value property tax hike, estimated to cost \$165 million. He did veto the corporate income tax surcharge bill that passed the legislature. There continue to be rumblings of a gas tax increase, but Ehrlich calls that idea a “non-starter.”

Ehrlich has made some strides at reigning in spending, by eliminating state employee positions that are currently vacant, and cutting some agencies’ budgets.

Ehrlich warns that if the Legislature doesn’t approve the expansion of slot machine revenues, he will work to impose “painful” budget cuts, his spokesman said 1/29/03. Ehrlich confirmed 1/21/03 his opposition to any new tax increases, including various proposals to hike distilled spirits, beer, and wine, a 5c/gal gas tax increase, an 8% corporate income tax increase, 4c property tax rate increase, 36c/pack cigarette tax increase, and various tax increases on financial, business, professional, and repair services. Ehrlich reconfirmed campaign promise 12/16/02 that he will not raise sales or income taxes. Ehrlich disputes reports of his support for 5c/gal gas tax increase (1/10).

Shortfall is \$1.7B.

The senate Budget and Taxation Comte rejected portions of the House budget plan 3/25/03, including various business taxes and fees, and a dip into the rainy day fund, triple non-cigarette tobacco tax rates, and additional corporate income taxes. Additionally, the committee will try to pass a slot machine revenue provision and a 5-cent property tax hike onto the full senate. House leaders are committed to opposing slots. Senate President Mike Miller (D) commented, "We have 11 senators who pledged not to support taxes... I have to get 24 votes out of 29. That's not going to be easy." Session ended 4/7/03 amidst Ehrlich threats to veto \$135M tax increase proposal; Senate President Mike Miller: "The votes would be here to override his veto."

Suggestion that Ehrlich will raise corporate income taxes; the state's annual filing fee is \$100, the GOP proposal would create a scale, ranging from \$250/year for companies with fewer than five employees and rising as high as \$10,000 for companies that employ more than 2,500 employees. In addition, the GOP plan would levy a \$150 across-the-board fee on all corporations. The total cost of the plan (Ehrlich's and the House's amendments, combined) would burden taxpayers with \$225M in additional taxes.

Ehrlich is "exploring" a 5-cent property tax rate increase costing \$165M (greater than the rate increase he opposed 1/21/03), as of 3/14/03. 3/20/03, Ehrlich's chief of staff, Steven Kreseski: "[The governor] just stated what he couldn't accept, but there are 50 types of taxes he could accept."

Senator E.J. Pipkin proposed an amendment to the budget bill (HB 40) that would avert a property tax hike by the Board of Public Works, but Republican leadership in the senate was not supportive.

Ehlich said 4/11/03 that he will not oppose a \$165M property tax increase as he had indicated that he would last week. Residents will pay an additional 5 cents per \$100 of their poperty's assessed value.

Ehrlich vowed to veto HB 753, saying that he will take pleasure in doing so; HB 753 would impose a 10% corporate income tax surcharge for 3 years, institute throwback, and deny deductions for related party expenses.

Maryland state-sponsored health care advocates are gearing up to push a prescription drug discount plan similar to Maine's, in the wake of the Supreme Court decision handed down 5/20/03 regarding Maine Rx.

Massachusetts

Gov. Mitt Romney (R)

Rank: 1

Legislature Composition: Both chambers controlled by Democrats

- **House: 136 Democrats, 23 Republicans, 1 Independent/Other**
- **Senate: 34 Democrats, 6 Republicans**

Legislature Rank:

IN SESSION, session started 01/07/04

10/17/03_— State House rejects a bill to allow Sunday sales of liquor products if local governments approve in their communities. The vote was fairly decisive, 87-64. Probably because current law allows certain communities, such as those within 10 miles of New

Hampshire and Vermont (which allow Sunday sales), to allow Sunday sales to remain competitive. Representatives from those communities voted to keep their local competitive advantage. It has been estimated that the state would receive an extra \$1.5 to \$2.1 million if Sunday sales were allowed, thus reducing the need for new taxes.

10/10/03 – The Massachusetts legislature succeeded on Wed. October 8 in overriding Gov. Mitt Romney’s veto of a plan to raise property taxes in Cambridge in order to cut taxes on smaller homes. In addition, Nantucket officials are eyeing a "McMansion" tax with funds raised to be used to support affordable housing.

The Massachusetts House has been quickly overturning the Governor Mitt Romney’s \$125 M in spending cuts. On July 16, the House voted to restore \$40 million to health, legal and special education aid. On July 17, the house restored spending in many other areas, including \$2.2 M in budget development grants, \$1 M in home care for the elderly, \$150,000 for mentally-retarded adults turning 22, and \$150,000 for AIDS. In all, the House has overturned \$125 M of the cuts and it expected to continue doing so.

Additionally, House Speaker Thomas M. Finneran seems to be backing off on his push to give his lieutenants pay raises. He said he would stop trying to override Romney’s veto.

Michigan

Gov. Jennifer Granholm (D)

Rank: 3

Legislature Composition: Both chambers controlled by Republicans

- **House: 47 Democrats, 63 Republicans**
- **Senate: 16 Democrats, 22 Republicans**

Legislature Rank:

IN SESSION, session started 01/14/04

03/19/04 – In February, the Democratic Gov. Granholm proposed a budget which contained \$391 million in tax increases, including a 75 cent-per-pack-hike of the cigarette tax. While her proposal would make Michigan’s cigarette tax the nation’s second highest, State House Speaker Rick Johnson proposed an even higher increase of 81 cents.

Also under consideration is the proposal to raise the mark-up on distilled spirits from 65 to 75% to fund fire protection initiatives. The ultimate burden will have to be borne by Michigan’s taxpayers. Studies suggest that if the measure passes, the sales volume of distilled spirits will decline by one million gallons and around 1,800 people in the hospitality industry will lose their jobs. By the same token, a cigarette tax hike will deal a major blow to both businesses and consumers throughout Michigan.

02/23/04 – After she got the legislature to delay the income tax roll-back scheduled for January this year, Gov. Granholm has submitted a budget proposal which contains \$391 million in tax increases, including “sin tax” hikes on cigarettes and liquor. Abandoning the road of fiscal sanity, which she traveled on last year, the Governor is seeking new revenue by raising the tobacco tax from \$1.25 to \$2.00 per pack, making Michigan’s tobacco tax the

second highest in the nation. Additionally, her budget includes a spirits tax hike that would amount to \$32 million in new revenue.

12/05/03 – Gov. Granholm has suggested that planned income tax cuts might be delayed – clearly a tax increase. This issue will be big in the new year.

A budget deal was reached on 7/15/03 between Gov. Jennifer Granholm and the Michigan Legislature. The deal worked to close a \$1.5B budget gap in the \$37.9B budget. The deal includes imposes new fees including fees on small business owners, professional licenses and park admission fees. The deal will also increase penalties for illegal driving and state auditors will pursue \$35M in unpaid property taxes. Additionally, the budget relies on the state workers to yield \$30M in scheduled pay raises and benefits. The state workers union said they would accept layoffs before conceding on their benefits and pay raises.

Minnesota

Gov. Tim Pawlenty (R)*

Rank: 1

Legislature Composition: House controlled by Republicans, Senate controlled by Democrats

- **House: 52 Democrats, 82 Republicans**
- **Senate: 35 Democrats, 31 Republicans, 1 Independent/Other**

Legislature Rank:

IN SESSION, session started 02/02/04

03/19/04 – Gov. Tim Pawlenty’s budget proposal would close this year’s budget shortfall without raising taxes. His proposal seeks to rein in spending in virtually every area of state government, freezing wages for public sector employees for two years, and shifting some spending to future dates. At a time when thousands of Minnesotans are losing their jobs, he says, he does not think it is unreasonable to ask state government to live within a nearly 7-percent growth in revenues.

10/24/03 – Gov. Tim Pawlenty, an otherwise flawless, pro-taxpayer governor, has decided to pursue prescription drug re-importation to help solve his Medicaid problems.

Many nations, including Canada, impose virtual price controls on drugs they import from US pharmaceutical companies. These price controls force the drug companies to sell their products much below the market (U.S.) price, and reduce the return to investment seen by the companies after billions invested in creating new drugs. Gov. Pawlenty wants to re-import the price-controlled drugs from Canada to use in the state’s Medicaid program. He would also be importing the price controls from Canada, in the hopes of saving the state money. But by importing these price controls, Gov. Pawlenty would be attacking the patent property rights of the pharmaceutical companies, and lowering the incentive to create new, life-saving drugs. While a short-term benefit may result, taxpayers will foot the bill in the long run.

Regular session officially ended 5/15/03. Pawlenty agreed to consider the DFL plan to fund union construction projects in exchange for Senate DFL leaders dropping their proposals to increase taxes. But DFL leaders are still negotiating for an income tax surcharge or clothing sales tax to pay for additional spending. Pawlenty has repeatedly promised that he will not increase taxes, and he also opposes House Republicans' plan to expand gambling revenues. Pawlenty said that he would rather shut down state government than hike taxes. Pawlenty backed the Republican House budget, which hiked spending 5% but without increasing taxes; the Democratic Senate wanted an 8% increase in spending financed with cigarette and income tax increases.

Mississippi

Gov. Haley Barbour (R)*

Rank: Newly elected, too early to tell

Legislature Composition: Both chambers controlled by Democrats

- **House:** 74 Democrats, 45 Republicans
- **Senate:** 29 Democrats, 22 Republicans

Legislature Rank:

IN SESSION, session started 01/06/04

Legislative leaders warn that there will likely be a business-related tax increase next year; approximately one-third of legislators will be new after the November elections, and they will have to contend with the smoke-and-mirrors budgeting that eased the current Legislature through elections.

Missouri

Gov. Bob Holden (D)

Rank: 3

Legislature Composition: both chambers controlled by Republicans

- **House:** 73 Democrats, 90 Republicans
- **Senate:** 14 Democrats, 20 Republicans

Legislature Rank:

IN SESSION, session started 01/07/04

Tax increases greater than \$74M/yr must go to voters (supermajority requirement); Holden plans to ask voters to approve a 55c/pack cigarette tax increase 7/1/03, costing \$279M/yr; also riverboat casino tax & fee increases. Holden also considered cutting corporate income tax rate from 6.25% to 5.25% and a 3-day sales tax holiday for August, and imposing 5% surcharge on individual incomes > \$200K/yr, also tax incr's on yacht owners; \$703M in new taxes altogether (not revenue neutral). Shortfall \$372M; House Republican Tax Policy Committee chairman Shannon Cooper recommended clamping down on taxpayers who have not paid their taxes in full as well as levying taxes against out-of-state Missouri lottery winners and the state's casinos, raising \$31M. Holden is pushing a package that would hike taxes on

out-of-state businesses with offices in Missouri and improving tax collection methods, altogether raising \$185M in revenue.

But the Legislature adjourned 5/9/03 and again after specials session on 6/17/03 without raising any taxes, including a 1-cent sales tax increase. The Legislature boosted public education and social services spending, in response to Holden's vetoes, utilizing federal bailout funds that some characterized as "empty promises" because the state likely won't have such a timely windfall next year.

Montana

Gov. Judy Martz (R)*

Rank: 2

Legislature Composition: Both chambers controlled by Republicans

- **House: 47 Democrats, 53 Republicans**
- **Senate: 21 Democrats, 29 Republicans**

Legislature Rank:

NO REGULAR SESSION IN 2004

Martz plan to cut income taxes by 10%, across-the-board, including capital gains, but also to increase the sales tax to 4% on targeted products & services like ski tickets (still revenue neutral or better, so she hasn't broken her pledge) but rejected by joint House/Senate fiscal committee. Republicans in R-controlled Legislature propose cutting spending to 2000 levels, senate resistant; 37 House members sign letter in mid-January promising to sustain Martz veto of tax increases.

"A state with an uncompetitive tax struction [like Montana's] sticks out like a sore thumb. We can't expect major improvement [in Montana's economy] without private investment... and Montana punishes that investment," commented Republican Sen. Bob DePratu, in response to the perception of Montana as a high tax state.

And yet "No More Tax Havens" HB 721 passed both houses and was signed into law this session.

Nebraska

Gov. Mike Johanns (R)

Rank: 2

Legislature Composition: only one chamber, non-partisan

Legislature Rank:

IN SESSION, session started 01/07/04

\$673M shortfall; Johanns admitted that "we [have] spent our way to the edge of a cliff." Last year, Legislature overrode Johanns' veto of "temporary" cigarette, income and sales tax increases; Johanns now not opposed to making those increases permanent.

Legislature passed its version of the budget 5/20/03, costing \$5.4B and including \$343M in tax increases. The budget resolves the state's \$756M shortfall for next year. The main budget bill (LB407) passed 37-11; tax increase bill (LB 759) passed 36-13; bill to allow K-12 schools

to increase property taxes without a public vote passed 42-6. Johanns threatens to call a special session and vetoes the entire budget 5/26/03; Legislature overrode Johanns veto 5/27/03 by the same margin that it was originally passed, 37-11. LB 759 includes tax increases on income, cigarettes, and alcohol, decreases the state sales tax from 5.5% to 2.8% and expands the scope of the sales tax to include all services except health care.

Nevada

Gov. Kenny Guinn (R)

Rank: 3

Legislature Composition: House controlled by Democrats, Senate controlled by Republicans

- **House: 23 Democrats, 19 Republicans**
- **Senate: 8 Democrats, 13 Republicans**

Legislature Rank

NO REGULAR SESSION IN 2004

10/10/03 – Two petition drives are underway to place two referenda on the ballot to repeal some of Gov. Bobby Guinn’s \$836 million tax increase.

The reason there are two efforts is confusion over the constitutional process to repeal statutes passed by the legislature. One provision would repeal \$362 million in payroll taxes of the \$836 million. Proponents of this measure believe the constitution does not allow them to repeal the other tax increases, and feel an attempt that over-reaches could be thrown out altogether. They will settle for what is doable. The other effort would repeal all but \$136 million. But some constitutional scholars think this will be invalidated by the courts.

The Nevada Assembly passed an \$835 million dollar tax increase plan on 7/13/03 with the support of only a simple majority of the legislature because of a Nevada Supreme Court decision allowing the assembly to circumvent the constitutional requirement that 2/3 of the legislature vote for any tax increases. The Supreme Court ruled that the constitutional requirement that the state provide public education takes precedence to the 2/3 majority for tax increases requirement. Nevada citizens passed the Gibbons Tax Restraint initiative in both 1994 and 1996; the initiative put in place the constitutional amendment requiring a supermajority in order to increase taxes.

Despite Nevada’s reputation as a business-friendly the state, the tax increase passed by the assembly mainly targets businesses, liquor, cigarettes, casinos and live entertainment. Usually, after a bill has passed in the assembly it is referred to the Senate. However, a petition effort led by Assembly Minority Leader Lynn Hettrick, and supported by 15 Assembly Republicans, 9 Republican state senators and several representatives from business groups that cites the unconstitutionality of passing this tax hike without a supermajority, caused the federal court to order a temporary halt on the bill. A hearing held by all eight of Nevada’s federal district court judges began on July 16th regarding the matter.

New Hampshire

Gov. Craig Benson (R)*

Rank: 1

Legislature Composition: Both chambers controlled by Republicans

- **House: 119 Democrats, 281 Republicans**
- **Senate: 6 Democrats, 18 Republicans**

Legislature Rank:

IN SESSION, session started 01/07/04

03/22/04 – Gov. Craig Benson continues his taxpayer-friendly policies, and has made clear that he will oppose any attempt to increase the state’s revenue on the back of the taxpayers. He also ruled out his support for a tobacco tax increase.

10/17/03 – Gov. Benson is pushing for a Colorado-like Taxpayer Bill of Rights (TABOR) in New Hampshire. Such a constitutional amendment would limit the growth of spending and require super-majorities to raise taxes. They are difficult to pass, but they are the Holy Grail, and would catapult New Hampshire to the forefront of conservative reform.

10/03/03 – Legislature passed, and Gov. Benson signed, a budget that is slightly bigger than the one Benson vetoed earlier this summer, but the budget includes a \$50 million payment to the state’s Rainy Day Fund, and cuts or reforms to several programs. Local activists call it a victory for smaller government.

Governor Craig Benson (R) vetoed the Legislature’s \$8.8 billion budget proposal on June 26, 2003 because the budget contains sufficient additional spending to enable broad-based tax increase proposals in the future. Efforts to override Benson’s veto failed in the House, just four votes shy of the 2/3 supermajority requirement. Benson commented on the success of his veto: “We sent a shock wave through the status quo that said we are not going... to live beyond our means. The taxpayers really did win today.” Senate President Thomas Eaton (R-Keane) complained that Benson “has been non-existent in the [budget] process.” Benson responded, “I would love to sit down with the Senate and House. The last time I wasn’t invited.” While budget writers reconvene to work out another budget proposal, the House and Senate have passed a continuing resolution to fund a 3-month temporary budget identical to last year’s budget except including a 2% spending increase. The House argued for more than 90 minutes about whether to override Benson’s veto, after arguing for a half-hour about how long to argue about the override, failed to override the veto by a 245-128 vote, and then passed the continuing resolution 256-80. The Senate’s version of the continuing resolution would have funded the vetoed budget for the three-month period, because Senators wanted to maximize federal contributions to the state Medicaid program. Benson said that he intends to pass executive orders during this interim period to reduce spending and to pave the way for a responsible budget.

New Jersey

Gov. Jim McGreevey (D)

Rank: 3

Legislature Composition: Both chambers controlled by Democrats

- **House: 47 Democrats, 33 Republicans**
- **Senate: 22 Democrats, 18 Republicans**

Legislature Rank:

IN SESSION, session started 01/13/04

After five straight days of nothing but the budget, Governor Jim McGreevey (D) signed a \$24 billion spending plan into law at 5 p.m. on July 1, 2003, 17 hours after the beginning of the 2004 fiscal year. The \$24 billion budget includes over \$600 million in new and increased taxes and fees, and increases spending by \$1.1 billion more than the budget passed two years ago and \$600 million more than last year's budget. McGreevey had lamented New Jersey's fiscal outlook and predicted massive spending cuts in February and promised spending cuts and freezes. And yet, as Assembly Minority Leader Paul DiGaetano (R-Passaic) commented, "This is the second consecutive year where the governor attempted to frighten residents with rhetoric about a budget deficit, only to go ahead and increase spending." McGreevey's scare tactics include overestimating New Jersey's spending shortfall, which he repeatedly said approached \$5 billion, while the Office of Legislative Services pegged the shortfall at \$4.2 billion and Republicans in the Legislature independently calculated a shortfall of even less. But enough Republicans in the Senate crossed party lines and committed to a \$550 million tax increase plan on June 29 to pass McGreevey's budget. The budget includes a 55 cent per-pack cigarette tax increase that makes New Jersey's the highest cigarette tax in the nation, a 7% room tax increase on hotels and motels, a tax on nursing homes costing them \$37 million, new utility taxes, and a slash in property tax rebates that increases the average New Jersey family's property tax bill by \$250. In addition to these tax increases, other spending will continue apace: the budget mortgages New Jersey's entire \$1.5 billion tobacco settlement for one-time revenues, spends the state's entire \$577 million federal bailout, and diverts \$325 million from the state's unemployment trust fund.

New Mexico

Gov. Bill Richardson (D)

Rank: 2

Legislature Composition: Both chambers controlled by Democrats

- **House: 43 Democrats, 27 Republicans**
- **Senate: 24 Democrats, 18 Republicans**

Legislature Rank:

IN SESSION, session started 01/20/04

Announced in first state-of-the-state address 1/21/03 his plans to cut taxes considerably: cut top personal income tax rate from 8.2% to 7.7%; cut state capital gains by \$7M (first year estimate); pledged to reduce top personal income tax rate down to 5% within 4 years, to competitive level with neighboring states: "After all, Texas and Nevada have no personal income tax at all. Arizona and Colorado already top out in the 5% range," Richardson noted. New Mexico is also the only state among its neighbors to treat its gross receipts tax like a sales tax, except also to extend it to include services. Consequently, the 6% tax rate raises

approximately 53% of annual revenues for the state. Richardson also proposed \$3M in tax incentives for rural-based businesses.

Richardson signed into law 4/8/03 a 70c/pack cigarette tax increase and legislation to stop the gasoline tax from decreasing a scheduled penny/gallon in July.

Tax bills likely to come up in special session later this year: SB 72 to increase taxes on wine, spirits, beer; HB 627 to increase taxes on wine, spirits, beer.

A 23-member Tax Reform Commission will convene to suggest specific recommendations by 9/30/03 for the Legislature to consider in special session (probably October).

New York

Gov. George Pataki (R)

Rank: 2

Legislature Composition: House controlled by Democrats, Senate controlled by Republicans

- **House: 103 Democrats, 47 Republicans**
- **Senate: 25 Democrats, 37 Republicans**

Legislature Rank:

IN SESSION, session started 01/07/04

Pataki budget (\$90.8B) includes \$1.3B in new fees and fines for things like DMV photo IDs, boat registrations, vehicle/traffic convictions, vehicle license plates, lawyer and lobbyist registrations, and drunk driving fines. Pataki reconfirmed vow to avoid “job-killing” tax hikes 1/22/03.

\$12B shortfall: \$2B current fiscal year, \$10B next year.

4/9/03, Pataki administration officials said that the governor is considering tolls on East River bridges, selling taxi cab medallions and imposing a 50% property tax surcharge on absentee-owner apartment buildings; 4/6/03, Pataki administration proposed \$1.25% sales tax hike, costing \$400M/yr if the Legislature insists on restoring \$1.9B in additional spending to his budget.

In his budget, Pataki proposes tax changes affecting insurance companies (costing an additional \$300M/yr.) and increasing auto insurance policy fees from \$1 to \$10, and Pataki’s budget calls for reinstating the sales tax on clothing purchases of less than \$110.

Senate Majority leader Joseph Bruno joins Democratic lawmakers to recommend a 31% sales tax increase. *The Wall Street Journal* commented, “The [New York] state GOP is famously left of center on everything from gun control to abortion. If the party now rolls over for a tax increase, voters will have lost their only remaining reason to vote Republican.” Amen.

Several Pataki vetoes were overridden 5/16/03, even by the Republican-controlled Senate led by Silver, who has repeatedly capitulated to House Democratic leaders’ spending wishes.

Silver opposes tort reform that would cap court awards in medical malpractice liability cases; Silver is an attorney with a high-profile Manhattan personal injury firm.

Metropolitan Transportation Authority transferred over \$200M in surplus funds to create the appearance of a deficit that warranted this year’s largest fare increase ever, an audit conducted by the state Comptroller’s office concluded 4/23/03. Pataki acknowledged that he knew, 4/24/03. Nonetheless, subway and bus fares increased to \$2.

Less than one hour after Pataki’s vetoes of tax increases were overridden, Pataki vetoed the Legislature’s \$1.8B NYC spending proposal because it includes tax increases and extended

state debt obligations further into the future. The Legislature's plan would have imposed an income tax surcharge on upper income brackets and increase the city sales tax by 1/8%. Pataki's NYC aid package would expand gambling, sell some city assets and privatize some city property, hike taxes on absentee landlords and sell more taxi medallions. The Pataki proposal would cost \$1.7B.

The Legislature overrode Pataki's budget vetoes 5/15/03, re-enacting \$2.5B in tax increases on income, sales, and other taxes that Pataki had vetoed on 5/14/03.

North Carolina

Gov. Mike Easley (D)

Rank: 2

Legislature Composition: House controlled by Republicans, Senate controlled by Democrats

- **House: 59 Democrats, 61 Republicans**
- **Senate: 28 Democrats, 22 Republicans**

Legislature Rank:

NOT YET IN SESSION, session will start 05/10/04

As most of North Carolina's Legislature is trying feverishly to wrap up the legislative session, Senate President Pro Tem Marc Basnight is hoping to keep the House in session long enough to vote on a "jobs creation package." The package originally included tax increases on alcohol and cigarettes, cuts to personal and corporate income taxes, a new cancer treatment center, a new heart and stroke center and a new biotech facility. However, the focus has now shifted to biotech. Governor Mike Easley is pushing to improve the state's biotech industry while other states are recovering from budget woes. The plan would include research and development tax credits of 1% to 15% to companies engaged in research and development.

Additionally, businesses may see unemployment taxes increase by another 20% next year because the State Employment Security Commission has announced that the unemployment insurance trust fund is nearly broke for the second time in four months.

North Dakota

Gov. John Hoeven (R)

Rank: 2

Legislature Composition: Both chambers controlled by Republicans

- **House: 28 Democrats, 66 Republicans**
- **Senate: 16 Democrats, 31 Republicans**

Legislature Rank:

NO REGULAR SESSION IN 2004

A tax increase of 1% on hotel lodging passed narrowly 3/18/03 and again 4/1/03. SB 2337 is scheduled to sunset in 2007 after the Lewis and Clark bicentennial, and will cost \$1.45M/yr. Session scheduled to end 4/25/03, while lawmakers argue about final details such as gas tax increases, human services spending, and other issues.

House and Senate approved \$3M in additional car registration fees, but a 1c/gal fuel tax increase was defeated.

House and Senate still can't agree on Dept. of Human Services or Office of Management and Budget spending proposals. 4/28/03, Hoeven vetoed the Dept. of Education budget and the Corrections Dept. and Information Technology Department budgets.

5/2/03, Legislators will know if special session will continue another one or three days.

Ohio

Gov. Bob Taft (R)

Rank: 3

Legislature Composition: Both chambers controlled by Republicans

- **House: 37 Democrats, 62 Republicans**
- **Senate: 11 Democrats, 22 Republicans**

Legislature Rank:

IN SESSION, session started 01/06/04

12/05/03 - State Senator Kevin Coughlin (R-Cuyahoga Falls) introduced on 12/04 SB 159, which would repeal the one cent sales tax hike passed by Bob Taft and the legislature earlier this year. This adds momentum to the effort to repeal the tax hike – OH Secretary of State Ken Blackwell (R) has launched a petition drive to force a repeal of the sales tax increase.

10/10/03 – Some stats on spending growth in Ohio: General Fund budget in 1999 – \$17.99 billion. General Fund in FY 2004 - \$24 billion, a 33.4% increase.

5.8% increase over FY 2003, and an average annual increase of 5.93% in the five years 1999-2004.

FY 2005 budget (already approved as part of the biennial budget – \$24.8 billion, a 3.5% increase over FY 2004.

Holding increase from FY 2003-FY2004 to 4%, instead of 5.8%, would have saved \$401 million. Holding increase from FY1999-FY2004 to 4% would have saved \$2.11 billion in FY 2004 alone. The budget would only be \$21.89 billion. If spending growth had been held to the rate of inflation, \$3.73 billion would have been saved. The General Fund budget would have been only \$20.27 billion. **Spending restraint would have left Ohio with a huge SURPLUS today, rather than budget shortfalls.**

Compare the 5.93% spending increases to inflation and population growth. From 1990-2000, Ohio's population grew by only 4.7%, or .46% per year and only about one-third the national rate. Inflation rate from 1999-2003 (so for 2000-2004) was 2.46% on average

Taft budget proposes cig tax increase of 45c/pack, after 31c/pack increase last year; considering sales tax increase acceleration.

\$3B – 4B shortfall FY04.

House Speaker Larry Householder said 4/8/03 that House Republicans cannot pass a budget without the 1% sales tax increase.

House approved budget (HB95) to include the following tax increases: corporate franchise taxes, the public utility tax, the cigarette tax, alcohol taxes, real property taxes, the motor fuel tax, sales and use taxes, and the income tax. Referred to Senate 5/28/03.

The bill includes a 1-penny sales tax increase with the option for a ballot vote in September to extend the tax or replace it with video slot revenues. The Senate plans to finish up a budget of its own during the first week of June, and then to work through conference. Senate President White (R) said that he may include “some” of Taft’s tax proposals.

Taft HB 95, now substitute HB58 would:

- Increase the Net Worth Tax cap from \$150K to \$500K
- Decrease from 8.5% to 7% the Franchise Tax rate
- Adopt modified UDITPA business-business definition
- Adopt throwback
- Tax services where the benefit is received (currently: tax services where work is done)
- Implement Consolidated Filing Election
- Institute new anti-PIC language
- Require an addback of any deductions taken of income taxes paid to other states/localities
- Limit the M&E Investment Credit to “manufacturers”
- Decrease vendor’s compensation
- Expand affiliate nexus
- Expand the sales tax to real estate services, PR & lobbying, cable, satellite and pay-per-view televisions, among other services
- Expand the application of the doctrines of economic reality, sham transaction, step transaction, and substance over form to all taxes and fees administered by the Tax Commissioner (previously on franchise tax)

Basically, a bunch of business tax revenue and some new services taxes that could cost as much as \$2.1B/yr.

Taft has promised to veto slot machine legislation, making a popular referendum all the more necessary.

Taft signed the largest budget ever in Ohio’s history on 6/26/03, \$48.8B over two years. The budget includes a penny sales tax increase, and extends the sales tax to include a wide variety of services including satellite TV, manicures, and drycleaning. The Taft tax increase package will cost taxpayers \$2.9B over two years.

Oklahoma

Gov. Brad Henry (D)

Rank: 3

Legislature Composition: Both chambers controlled by Democrats

- **House: 53 Democrats, 48 Republicans**
- **Senate: 28 Democrats, 20 Republicans**

Legislature Rank:

IN SESSION, session started 02/02/04

02/23/04 – Gov. Henry has submitted proposals to increase tobacco taxes and to expand and tax casino gambling. He is hoping to generate \$71 million through the gambling bill and estimates that the tobacco tax increase would bring \$130 million in additional revenue per year.

Internet tax bill to joint interstate pilot program survived a House floor vote 3/13/03. The senate passed a bill 4/2/03 asking voters to approve a gasoline and diesel fuel tax increase; 22c/gal.

Henry and top lawmakers reached an agreement on the budget, 4/8/03, including increasing wholesale taxes on cigarette sales, but eliminating the cigarette retail tax. The budget includes various fee increases but no tax increases; Democrats in the legislature are talking about increasing the per-pack cigarette tax by a dollar and increasing the sales tax by 1%.

Henry perhaps considering tax increases, after taking a strong stance against across-the-board tax increases, 4/23/03.

House Democrats met 5/1/03 to discuss the possibility of tax increases; House Speaker Larry Adair said afterward that the votes to approve a legislative referendum to increase taxes aren't likely to materialize. Two proposals considered by Democrats: eliminate some sales tax exemptions, and increase the state-wide sales tax by 1 cent for 2 years.

Oregon

Gov. Ted Kulongoski (D)

Rank: 3

Legislature Composition: House controlled by Republicans, Senate tied

- **House: 25 Democrats, 35 Republicans**
- **Senate: 15 Democrats, 15 Republicans**

Legislature Rank:

NO REGULAR SESSION IN 2004

02/06/04 – Taxpayers win big in the referendum to repeal the billion tax hike – 60% to 40%.

01/16/04 – Ballots were mailed to Oregon voters today, as Oregon's vote-by-mail system got underway. Voting must be completed by February 3rd. The campaign has heated up in the state, with nearly every newspaper throwing its support behind the tax increase. Charges of public school employees using state websites and state property to advance the tax hike have drawn unwelcome attention, and forced schools to take down website, etc. Yet all polling shows the voters rejecting the tax hike by a double digit margin.

12/05/03 – Jason Williams and his allies delivered 147,000 signatures to the Secretary of State, almost three times as many as required to qualify the repeal measure for the ballot. This is a great indication of the strength of the tax hike opponents, and a major psychological blow to the pro-tax forces.

10/06/03 – Jason Williams of the Oregon Taxpayers Alliance is running the signature campaign to get the tax repeal on the ballot, and has set up the group which will carry out the media campaign once the ballot is certified. He is facing constant harassment from groups – mostly labor-funded – that are trying to stop the measure from making it to the ballot at all. Just last week, a judge ruled in favor of a labor-backed suit to throw out the petition forms. Since there is a 90 day window in which to collect signatures, such tactics could succeed if there are repeated successes. But so far, it looks like the signatures will be gathered in time.

8/20/03 - The Oregon legislature snuck a massive tax increase – figures vary from \$55 million per year to \$800 million – past all political observers. After seven months of stalemate, five Republican senators and eleven Republican House members teamed up with Democrats to overcome the supermajority tax hike requirement, revived a dead bill, loaded it with tax increases, and passed it without debate.

Tax hikes include the following:

- A “temporary” income tax surcharge
- An increase in the corporate minimum tax from \$10 to a range of \$250 to \$5,000, based on a company's sales in **Oregon** -- \$73.4 million.
- A reduction in the discount rate for paying property taxes promptly, from 3 percent to 1.5 percent -- \$43 million
- A reduction in the amount companies can subtract from **Oregon** taxable income for dividends paid by subsidiaries -- \$38.4 million
- A provision to permanently add a company's income from export-based subsidiaries to **Oregon** taxable income -- \$18 million
- A 20 percent, across-the-board reduction in corporate tax credits for three years, although companies can carry forward the unused credits for use in future years -- \$16 million
- Increases in the Medicaid reimbursement rate for long-term care providers, making a one-time transfer to the general fund -- \$12.5 million

Oregon businesses seem to have given up the fight against tax increases, easing the passage of this bill. Seeing tax increases as inevitable, lobbyists began to focus on minimizing the damage done to their particular industry.

Oregon’s constitution allows citizens to collect signatures to force a referendum to repeal the tax increases. Oregon Taxpayers Association has filed the papers with the state, and are waiting for the Secretary of State to certify the petition drive. The law allows only 90 days from the end of the legislative session to collect signatures, so the clock is ticking.

Heroes the 7 month fight to stop tax increases: **House Speaker Karen Minnis and Majority Leader Tim Knopp.**

The most recent polling numbers are encouraging: according to a Moore Information poll, 55% of Voters oppose the tax increases, while only 35% support them. Even among Democrats, 50% oppose, and 41% support.

Additionally, a \$2.5B road repair plan passed in the Senate on 7/17/03. The bill will now move onto the house, and if it passes there, on to the Governor. If passed, the bill will be funded through increased transportation fees. Vehicle registration and vehicle title fees will go from \$30 to \$54, motorcycle registration fees will increase from \$4.50 to \$15, motor home registration will increase from \$168 to \$252, and the additional fee for motor homes longer than 10 feet will go from \$5/ft to \$7.50/ft, truck registration fees will also increase according to weight, and truck weight-mile taxes will go up 10%, additionally written driver tests, previously free will be \$5 and driving skills tests, previously free will now be \$9.

Also on 7/17/03, 2 bills passed simultaneously in the House and Senate that are supposed to save the state up to \$1.4B. However, a group of Republicans were not easily convinced. Rep. Tootie Smith, R-Mollala said "I think we're all addicted to debt...there's one thing my dad taught me...you can't borrow your way out of debt." However, the bills did pass unanimously in the House and are on their way to Governor Kulongoski.

Pennsylvania

Gov. Ed Rendell (D)

Rank: 3

Legislature Composition: Both chambers controlled by Republicans

- **House: 94 Democrats, 109 Republicans**
- **Senate: 21 Democrats, 29 Republicans**

Legislature Rank:

IN SESSION, session started 01/06/04

03/19/04 – Gov. Ed Rendell has proposed a “quality of life”-program that he says will create new jobs in Pennsylvania. Critics, however, charge the plan will do more harm than good. His proposals hope to attract jobs by cleaning up old mines, building parks, promoting nature tourism and the like. In order to achieve this, he seeks to raise taxes dramatically on employers in the state. He proposes taxes of 15 cents per pound of emissions from smokestacks, and increases in the tax on solid waste and other industrial output. This plan is very likely to backfire, because higher taxes are a disincentive for investors.

11/17/03 – After a two-week recess for state legislators, Governor Ed Rendell is stepping up public pressure on Senate Republican leaders to approve the 1.1 billion tax hike package that passed the House last month. The Senate remains reluctant to approve the package passed by the House, but senators are considering such measures as an increase in sales tax, cell-phone tax, corporate tax, and beer-tax remain on the table, citizens in Pennsylvania are very critical of these proposals: A poll taken by the Pennsylvania Economy League and the Pew Charitable Trusts, shows that 57 percent of Republicans and 59 percent of Democrats responding find that state taxes already were too high.

10/24/03 – The House passed the income tax, cellular phone tax, and capital stock tax increase in the early hours of 10/21/03. It is the same deal that was approved the previous Friday. The Senate remains (for now) opposed, mainly because of political differences over

which tax to raise, not principled opposition to new taxes. The Senate is expected to use the House-passed bill as a negotiating point, and work to lower the magnitude of the tax increases and redirect the tax and spending priorities. ATR is remaining active to encourage the Senate to avoid tax increases altogether.

10/17/03— In the ongoing budget and tax saga in Harrisburg, word is circulating that the governor and the House Republican and Democrat leadership have agreed on a plan to raise income taxes and impose a gross receipts tax on certain industries (specifically wireless carriers), and vote on it as soon as Monday October 20th. If successful, this might put enough pressure on the Senate, which has so far resisted tax increases, because the governor had vetoed school funding, and the Senate could be portrayed as indifferent to education funding.

10/10/03 – Progress on the budget is still stalled in the legislature. The governor still wants to go ahead with a massive increase in state obligations to education, and with his “economic development” slush fund. The governor and the Republican House leadership (Senate is standing firm so far) are floating the idea of a sales tax increase, as well as a few smaller taxes/fees.

09/08/03 - The legislature returns to Harrisburg on September 9 to debate school spending, economic development, and tax reform. Democratic Governor Ed Rendell and Republican party leaders are especially in disagreement regarding spending.

Math and reading scores are low in some districts and Gov. Rendell wants to remedy this with tutors as well as all-day kindergarten and early childhood education. Rendell wants the state to subsidize 50% (up 16%) of a school district’s budget. However, GOP leaders don’t believe that throwing money at the problem is the answer.

Rendell is also seeking an increase in the state income tax from 2.8 percent to between 3.1 and 3.3 percent. However, state revenue for July and August is higher than earlier predicted. Although it is clear that such tax increases are not necessary, Gov. Rendell and Democrats continue to push for them. Rendell also wants to institute a \$2 billion economic stimulus program – essentially a payoff to unions, road contractors, and other supporters – that would be funded by the sale of bonds. Republicans fear that the more than \$50 million in debt accumulated by this method of finance will result in an future increases in taxes.

In March, Governor Ed Rendell proposed increasing legalized gambling in the state and increasing the state income tax in order to cut school property taxes and put money into new education programs. Republicans came back with a proposal to allow school districts to decide whether to put in place a .1% local wage tax in order to receive state money from a \$1B fund from new slot machine revenue. Discussion of such a bill began in the house on 7/17/03. The proposal would require each district to raise their earned income tax by .1% then lower property taxes by an equal amount in order to get a share of the new gambling money. The state’s share of the tax relief package would be larger in poorer districts and smaller in wealthier districts. Some Democrats in the legislature, and some officials from Rendell’s administration say that despite this two-tiered approach, wealthy districts would still receive too much money.

However, in order for any of this “tax-shifting” to occur, the House needs to pass a bill to expand legalized gambling to raise the money for school property tax relief. The Pennsylvania

Senate passed such a gambling expansion bill on June 26th. Now, a similar bill is in front of the House. The proposed expansion would allow up to 5,000 new slot machines at up to 9 horse racetracks and possibly at two other venues, one in Philadelphia and one in Pittsburgh. The vote on this bill has been delayed, mostly because 24 members of the Black Caucus threatened to withhold votes unless about \$600B for mass transit and drug and alcohol programs is restored to the budget.

The Senate will not return until at least July 28th to consider any bills passed by the house.

Rhode Island

Gov. Don Carcieri (R)

Rank: 1

Legislature Composition: both chambers controlled by Democrats

- **House: 63 Democrats, 11 Republicans, 1 Independent/Other**
- **Senate: 32 Democrats, 6 Republicans**

Legislature Rank:

IN SESSION, session started 01/06/04

Rhode Island's state legislature adjourned on 7/15/03 after recently overriding Gov. Carcieri's budget veto, and passing a budget that increases spending by 6.3% and relies on \$39.4M in added taxes and fees including a \$.39 cigarette tax increase.

Speaking of cigarettes, it looks like the state government and Narragansett Indian Tribe may sign a compact to establish some type of tax on tobacco, that is not supposed to infringe upon the tribe's sovereignty. Carcieri says the state has the right to tax the sales, which cut into state revenue. The news of a possible compact comes after the tribe's leader, and other members were arrested at a tax-free tobacco shop on 7/15/03; the tribe opened the shop on 7/12/03. The Governor insists that the store is illegal, while leaders of the tribe say it will close the tax-free store only if the Governor quits opposing a casino.

Additionally, Rhode Island recently created a 1% tax on meals in restaurants; this tax is in addition to the 7% sales tax already in place, making the total tax on a restaurant meal 8%.

South Carolina

Gov. Mark Sanford (R)*

Rank: 2

Legislature Composition: Both chambers controlled by Republicans

- **House: 51 Democrats, 73 Republicans**
- **21 Democrats, 25 Republicans**

Legislature Rank:

IN SESSION, session started 01/13/04

03/29/04 – Gov. Sanford's income tax cut proposal has cleared the house, but is stalled in the Senate, where legislators are dealing with a potential logjam of legislation.

03/22/04 – While the House Ways and Means Committee must be praised for passing Gov. Mark Sanford’s income tax proposal, the same committee is in danger of diminishing the positive effects of the tax cut by raising the death tax. The state tax code is coupled with the federal code, and will automatically incur a reduction of the estate tax as a result of the Bush tax cuts. But Provisio 73.4 of the FY 2004-2005 Appropriations Act as reported by the House Ways and Means Committee would delay this scheduled reduction – a de facto tax increase!

02/23/04 – Against the current trend of governors hiking taxes to balance their state budgets, Gov. Mark Sanford has submitted a proposal that would cut the state income tax by nearly one third over a decade. Provided that general fund revenue growth of at least 2% is projected for each year by the Board of Economic Advisors, the state’s income tax rate would drop from 7% to 4.75% over the next ten years, reducing the rate by .225 percent annually. Chances of getting the proposal through the House are good, and there is also optimism with regard to getting it through the Senate.

Budget passed the House the week of 3/17/03, scheduled to start week of 3/31/03 in the senate. House budget includes no tax increases and Medicare reform.

Sanford maintains that his plan will eventually result in a tax cut, but the short-term revenue effects are less clear; the plan is to hike tobacco taxes by 53 cents/pack, up from 7 cent/pack beginning in fiscal 2004 and reduce income taxes from 7% to 5% over 15 years

Senate Finance Committee voted 4/17/03 to increase taxes on car sales by \$142M; eliminate the 1% sales tax exemption for residents 85 years old and older; levy a tax on machinery used by businesses, costing \$43M/yr.

House Speaker David Wilkins said that he would oppose any tax increase, 4/17/03; after the House had deliberated their budget, Sanford released his plan to increase cigarette taxes and reduce income taxes.

Senate voted to table the Sanford income tax cut and cigarette tax increase plan by a 27-18 vote, 5/15/03. The tabling leaves the Senate with a \$381M smaller budget plan.

Sanford agreed with the House that South Carolina should spend the state’s federal bailout and still increase cigarette taxes from 7 cents/pack to 60 cents/pack, and decrease income taxes, but the Senate held the key to negotiations and the entire General Assembly adjourned 6/5/03 with a \$5B budget that did not raise taxes. Any Sanford vetoes will stand until the Legislature reconvenes in January.

South Dakota

Gov. Mike Rounds (R)

Rank: 3

Legislature Composition: Both chambers controlled by Republicans

- **House: 21 Democrats, 49 Republicans**
- **Senate: 9 Democrats, 26 Republicans**

Legislature Rank:

IN SESSION, session started 01/13/04

Rounds proposed over \$23M in tax increases 1/14/03, also trimmed spending by \$12.6M. Raising taxes in SD requires 2/3 supermajority vote of Legislature; as of 3/24/03 Rounds was

considering using his line-item veto powers to make generally minor changes. The Legislature passed its \$2.7B budget for the 2004 fiscal year during the week of 3/10/03, including a tobacco product tax increase. SB 62, 186, 1270 and HB 1204 were defeated; would have increased taxes on distilled spirits, beer, and wine by various amounts.

Rounds didn't make any friends by asking the state Supreme Court if when the Legislature extended session beyond midnight of adjournment day, the Legislature had violated the state constitution.

Tennessee

Gov. Phil Bredesen (D)

Rank: 1

Legislature Composition: Both chambers controlled by Democrats

- **House: 54 Democrats, 45 Republicans**
- **Senate: 18 Democrats, 15 Republicans**

Legislature Rank:

IN SESSION, session started 01/13/04

Bredesen tells his cabinet that this fiscal year's budget shortfall is \$322M; donates his \$85K/yr salary to help ease budget woes; promises budget cuts before tax increases; bad fallout after Sundquist hiked sales taxes 1% last yr; Bredesen said 1/6/03 "It's not a tax increase budget like the last one."

Bredesen addressed the joint session of house and senate members 3/10/03 and proposed a \$21.5B budget that does not increase taxes and cuts spending for the first time in 10 years. Bredesen fulfilled expectations that he would cut most agencies by 9%.

Bredesen lists among the accomplishments of his first 100 days in office: "Submitting a balanced budget with no new taxes that reduces the size of government," 4/28/03.

Texas

Gov. Rick Perry (R)

Rank: 1

Legislature Composition: both chambers controlled by Republicans

- **House: 62 Democrats, 88 Republicans**
- **Senate: 12 Democrats, 19 Republicans**

Legislature Rank:

NO REGULAR SESSION IN 2004

03/29/04 – Gov. Rick Perry is expected to call the legislature into special session this spring to write a new school finance law. Under the current system, often referred to as "Robin Hood-system" instituted under Gov. Ann Richards, wealthy districts must send a share of their property tax revenue to Austin for redistribution to poorer districts. In Texas, 60% of state portion (more than 1 billion) of the \$33 billion budget for K-12 education in 2004-2005 comes from property taxes.

In order to reduce property tax rates by 50 cents to 75 cents per \$100 property valuation, Gov. Perry has proposed a split roll tax. Business property would be taxed at the state level and residential property at the school district level. Local school boards currently set a single rate for both types of businesses. As other ways to fund for education, ideas as expanding the sales tax to certain services, raising the tobacco tax and taxing gambling are being floated. Lt. Gov. Dewhurst opposes the Governor's proposal and supports a Senate plan, which failed to pass the legislature last year.

10/24/03 - "Republican leaders Friday reaffirmed hopes of designing a new method of funding public schools by next spring, but they stopped short of embracing specific ways they would make up for more than \$7 billion in desired school property tax reductions." Some of the tax options include a state personal income tax, expansion of sales tax, and an additional \$1/pack cigarette tax. In May, the Senate unanimously approved a plan to cut school property tax rates in half for increased and expanded sales taxes and a statewide property tax. There is expected to be a session called in April to deal with this issue.

Governor Perry called a special session in order to address redistricting. Perry called the session at the urging of US House Minority Leader, Tom DeLay. DeLay argues that Republicans should hold more seats to reflect voting trends that gave them control. Democrats now hold a 17-15 majority. Democrats, on the other hand, think the current map should remain in place until the next redistricting cycle. Currently, there is a Senate rule requiring a 2/3 vote in order to take up any measure. However, Lt. Governor David Dewhurst may change the rule if the districts aren't decided by the end of the month, and another session is called.

On 7/14/03, Bill Ratliff, a Republican, joined Democrats in saying he'd block any congressional redistricting bill from coming up for Senate debate.

On 7/17/03, Republican Senator Todd Staples filed a new redistricting map. This map could allow Republicans to get up to 21 out of 32 congressional seats.

Utah

Gov. Olene Walker (R)

Rank: 3

Legislature Composition: both chambers controlled by Republicans

- **House: 19 Democrats, 56 Republicans**
- **Senate: 7 Democrats, 22 Republicans**

Legislature Rank:

IN SESSION, session started 01/19/04

Shortfall was \$100M. Gov. Mike Leavitt signed Senate Bill 213 on 3/24/03 to increase taxes on satellite and cable subscriber television services by \$14M/yr. A local-option sales tax that piggybacks on the state levy could cost taxpayers \$6M more/yr.

Legislature passed SB147 to institute Streamlined Sales Tax Project; SB2: \$64.6M general obligation bond bill signed by Leavitt 3/24/03; SB 153 would increase taxes on spirits signed by Leavitt 3/24/03.

Vermont

Gov. James Douglas (R)

Rank: 1

Legislature Composition: House controlled by Republicans, Senate controlled by Democrats

- **House: 69 Democrats, 74 Republicans, 7 Independents/Other**
- **Senate: 19 Democrats, 11 Republicans**

Legislature Rank:

IN SESSION, session started 01/06/04

Douglas on record during campaign as saying: "I will submit a balanced budget that does not raise taxes and does not increase spending beyond the rate of inflation and population growth."

House Appropriations unanimously voted 3/27/03 to pass \$3.3B budget including funds to maintain existing program spending and no tax increases.

Act 60 property tax reform is causing conflict as the Legislature attempts to negotiate both the budget and the mid-year spending bill. House plan reduces property taxes to fund school spending while increasing the state sales tax from 5% to 6%, increasing the state excise tax on beer from 2 ½ c/bottle to 4 ½ c/bottle, and increasing the tax on beer sold in bars and restaurants from 10% to 11%. Douglas's press secretary Jason Gibbs said, "The Governor is very concerned about jobs in Vermont clearly, and he's not enthusiastic about any new taxes," 4/15/03, although Gibbs also said that Douglas would consider beer tax increases to reform Act 60. Senate President Pro Tem Peter Welch (D) compromise plan includes property tax rate of \$1.35 per \$100 valuation.

HB 101 would increase taxes on wine, and beer bottle deposits; HB 266 would increase taxes on wine, beer bottle deposits, and spirits bottle deposits.

Virginia

Gov. Mark Warner (D)

Rank: 3

Legislature Composition: Both chambers controlled by Republicans

- **House: 37 Democrats, 61 Republicans, 2 Independents/Other**
- **Senate: 16 Democrats, 24 Republicans**

Legislature Rank:

IN SPECIAL SESSION, regular session started 01/14/04 and ended 03/13/04. Special Session started 03/17/04

03/22/04 – Lawmakers could not agree on a state budget during the regular 60-day session, and are currently trying to solve this dilemma in a special session. Both House

of Delegates and Senate, as well as Gov. Mark Warner resubmitted their proposals earlier last week. The Senate proposal raises about \$60 billion in new revenue by increasing the state cigarette, sales and income taxes. The House has rejected this proposal.

The House of Delegates' plan removes tax exemptions for industries including airlines, public utilities, telecommunications companies, overseas shippers, railroads and the media. Approved Saturday, the House budget now calls for a referendum held on Nov. 2. It would ask voters to decide whether they want to hike the sales tax from 4.5% to 5.5% and whether they want to add two new income-tax brackets. The Senate has rejected this proposal. It remains to be seen, whether the conference committee, which is composed of the same lawmakers, who could not agree on the budget in the regular session, will compromise.

02/23/04 – In December 2003, Gov. Mark Warner (D) broke his campaign promise not to raise taxes and proposed his infamous \$1 billion dollar tax hike proposal. However, his tax plan suddenly looked moderate, when Senator John Chichester (R), Virginia Senate president pro tempore and Chairman of the Senate Finance Committee submitted his plan to raise taxes by \$2.5 billion.

While there seemed to be firm opposition against any tax hikes in the House – the Speaker of the House John Howell had been very outspoken in the fall of 2003, and the House Finance Committee killed not only Gov. Warner's tax plan, but more than 30 separate bills to raise a variety of individual taxes in early February – the House then passed a measure repealing various commercial and industrial exemptions from the state's retail sales and use tax, amounting to a \$500 million tax increase, if not offset by other tax cuts.

The Senate topped all tax proposals floating so far by giving preliminary approval on February 19 to a two-year, \$3.6 billion tax increase. While Senator Ken Cuccinelli and other anti-tax forces in Virginia, such as John Taylor, President of the Virginia Institute for Public Policy, actively work to kill any form of tax hike, the House of Delegate has undermined their efforts by abandoning its no new taxes stance in the first place and giving in to those forces demanding new revenue.

Americans for Tax Reform has started a successful phone banking campaign urging Virginians to voice their opposition.

12/05/03 – Gov. Mark Warner (D) finally released his tax “reform” plan. It is largely a rehash of a sales tax hike – rejected by the voters last fall – plus an increase in the income tax and the cigarette tax. The reform comes in several targeted tax cuts to politically popular groups. Overall, the plan would be a net INCREASE in taxes of \$500 million.

Legislature approved ending 16% assessment on estates > \$1M, saving taxpayers \$130M/yr; election year in VA General Assembly; many legislators supported death tax elimination because they supported regional sales tax referendum, need to win back support of their base. Warner veto of death tax repeal 3/24/03.

State senators and delegates announced 4/23/03 that they will cut \$10M from their \$105M administrative budget to help resolve the state spending shortfall.

HB 1400 to amend FY03-04 budget signed by Warner 4/2/03, includes wholesale cigarette tax increases and wine and distilled spirits tax increases.

Washington

Gov. Gary Locke (D)

Rank: 2

Legislature Composition: House controlled by Democrats, Senate controlled by Republicans

- **House: 52 Democrats, 46 Republicans**
- **Senate: 24 Democrats, 25 Republicans**

Legislature Rank:

IN SESSION, session started 01/12/04

The Legislature passed a budget including the smallest spending increase in memory – 2.1%. The budget includes one *de facto* tax increase, on distilled spirits. The budget isn't perfect, and sets up the state for a \$2B shortfall next general session. But a \$650M tax increase proposed by Democratic leadership in the House failed to win any support, a win for taxpayers. Thank you, Bob.

West Virginia

Gov. Bob Wise (D)

Rank: 2

Legislature Composition: both chambers controlled by Democrats

- **House: 68 Democrats, 32 Republicans**
- **Senate: 24 Democrats, 10 Republicans**

Legislature Rank:

IN SESSION, session started 01/14/04

Legislature passes \$3.03B budget 3/16/03 for FY04; session will continue in May to deal with hemorrhaging Workers Comp Fund; Fund is \$252.6M in the red.

SB 105 was signed by Wise on 4/2/03 to increase taxes on cigarettes by 38 cents/pack, beginning 5/1/03.

HB 3159 to increase taxes on beer in House Committee on Finance since 2/21/03.

Wisconsin

Gov. Jim Doyle (D)

Rank: 2

Legislature Composition: both chambers controlled by Republicans

- **House: 41 Democrats, 58 Republicans**
- **Senate: 15 Democrats, 18 Republicans**

Legislature Rank:

IN SESSION, session started 01/20/04

Shortfall \$3.2B FY04.

Doyle proposes special panel to examine what state buildings and properties could be sold to save the state money. Doyle recommended \$10 vehicle registration fee increase, increase the state trails pass from \$5 to \$10/yr, and plans to divert \$200M from state malpractice fund, possibly triggering a 57% increase in assessments paid by health care professionals.

Doyle budget \$48.8B.

The gas tax rose from 28.1c/gal to 28.5c/gal 4/1/03 in response to an automatic yearly assessment of inflationary changes to the tax levied on gas.

Committee votes on budget bills scheduled to begin 4/21/03.

Senator Bob Welch sponsored a budget amendment to freeze property taxes statewide for two years, 4/16/03, in response to proposed Doyle budget municipal spending cuts; Doyle said that the freeze is unnecessary.

Doyle proposed requiring state sponsored BadgerCare health insurance beneficiaries to contribute more to participate in the program; a family of four with annual income greater than \$27.6K pays 3% now; Doyle's budget increases that amount to 5%.

Wyoming

Gov. Dave Freudenthal (D)

Rank: 1

Legislature Composition: both chambers controlled by Republicans

- **House: 14 Democrats, 46 Republicans**
- **Senate: 10 Democrats, 20 Republicans**

Legislature Rank:

IN SESSION, session started 02/09/04

Freudenthal vetoed three bills 3/17/03: SF 61 permitting the University of Wyoming to issue bonds without legislative approval; HB 134 raising the state's ability to issue revenue bonds for building projects, also to create a commission to coordinate state bonding authorities; the third would have increased commissions for retailers that sell hunting and fishing licenses.

Freudenthal signed four bills 3/17/03: SF 141 holding some school districts harmless while school funding reform is completed; SF 120, a tax break for airplane maintenance firms; HB 78, school finance amendments; HB 291, to provide federal funding for drivers education schools.

The Legislature has passed sales tax exemptions for aircraft parts, farm implements, items used by people with disabilities, and equipment used for renewable energy sources, possibly saving taxpayers tens of millions of dollars annually.