



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 Prosofski at pprosofski@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.

I’ve added information about the \$20 billion federal bailout that was included in the May 2003 tax cut. Some of these funds were dedicated to Medicaid, while proportionally more can enter a state’s general spending fund, but for each state I have noted the total funds received. If you’d like to know how much a particular state received in Medicaid vs. flexible funds, give me a call.

December 5, 2003

Alabama

Gov. Bob Riley (R)

Rank: 3

SESSION ENDED 6/7/03. Special Session ended 7/8/03.

Federal Bailout: \$271.84M

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 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 would 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 be forced to sell their land, and small businesses will be further burdened, destroying the engine of economic growth. And every Alabama resident will be nickel-and-dimed to the poorhouse.

Alabama's budget problems are a result of excessive spending during the boom years of the late 1990's, not a lack of revenue. Since 1997, state spending has been growing at a rate of nearly 6%, well above the rate of inflation or revenue growth. Economic recovery will close much of the budget gap, but spending and excessive earmarking of funds must be addressed for long-term fiscal stability to be assured.

Gov. Riley is using a \$675 million budget shortfall this year to justify a \$1.2 billion raid annually on his constituents. But that shortfall includes up to \$777 million in NEW spending over last year's levels.

The \$272 million of federal aid to states passed as part of President Bush's tax cuts, combined with a more modest level of spending increase, would take the pressure off Alabama's budget.

Since the budget problem is temporary, and long-term fiscal stability can be achieved with spending restraint and structural reform, short-term measures are justified to close this year's budget gap. Among measures to consider are tapping into Alabama's roughly \$2.5 billion in rainy day funds, refinancing the state debt, asset sales, early retirements and buy-outs, and reductions in payroll through attrition. These measures, combined with \$272 million in federal aid and modest spending restraint, can get Alabama through its crisis.

Alaska

Gov. Frank Murkowski (R)

Rank: 2

SESSION ENDED 5/21/03; Murkowski spending vetoes not likely to be overridden.

Federal Bailout: \$84.11M

Shortfall \$500M for FY03, \$600M for FY04.

7/25/03 –Alaska Municipal League and the Alaska Conference of Mayors are both pushing for the institution of a state income tax (previous income tax was repealed in 1980). Also, support seems to be building for a \$100/head cruise ship tax, also for next legislative session. Juneau Empire, 7/25/03, http://www.juneauempire.com/stories/072503/sta_citiespush.shtml

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 that he supports a proposal to impose 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. The plan also includes a 12c/gal gas tax increase that Murkowski had previously attempted to pass separately; total cost to taxpayers will be more than \$400M/yr. Alaska already allows a local option sales tax levy. Murkowski also supports various consumer tax increases, or "user fees," as he calls them.

Democrats in the Legislature have largely opposed all talk of tax increases, after supporting an income tax last year 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 has promised to veto spending to reduce reliance upon the Fund. Murkowski vetoes \$138M in spending 6/12/03, saying “This is the first major step in guiding Alaska to basically live within her means.” Longevity bonus checks will end in September, with the revenue diverted to state spending.

Arizona

Gov. Janet Napolitano (D)

Rank: 1

SESSION ENDED 6/19/03

Federal Bailout: \$300.88M

Shortfall of \$1B.

The budget relies upon bonding, but not tax increases, to balance the budget. Napolitano is likely to veto Legislature’s plan; her budget includes more bonding and a rosier fiscal picture for the next year. Napolitano has also said that she won’t increase taxes this year. Two Republican Senators have held up budget negotiations with the House and garnered the support of various special interests, in an effort to pad the budget with more spending. The senate was stalled on the \$6.4B budget as of 6/12/03 because a couple of Senate Republicans have joined the Democratic minority’s opposition to corporate tax incentives and municipal aid changes included in the budget trailer bill sent up from the House. The opposition could prove fatal to the trailer, because Republicans in the Senate control only a two-seat majority.

Arkansas

Gov. Mike Huckabee (R)

Rank: 3

SESSION ENDED 4/16/03; special session convened 5/5/03 and ended 5/9/03.

Federal Bailout: \$178.70M

09/04/03 – Now that the budget has been approved, officials have 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 are proposing changes, and a Dec. 8th special session is possible. The plans all seem to involve large tax hikes, probably in the \$600 million to 850 million range. Since the constitution requires a ¾ majority to raise most taxes, an increase or broadening of the sales tax is most likely. Other ideas including corporate income tax and natural gas severance tax hikes are contemplated.

The same day that President Bush was in Little Rock promoting his Economic and Jobs Growth Plan, Governor Mike Huckabee (R) pleaded with the Legislature to approve an

income tax surcharge and a cigarette tax increase. Huckabee earned good press last year with his “Tax Me More Fund,” but on April 16, 2003 the Arkansas legislative session ended with the Governor having signed the 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 has increased 65.3%, or \$4.61 billion; spending has 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.” At least Huckabee’s \$474 million sales tax increase didn’t pass.

California

Gov. Gray Davis (D)

Rank: 3

Federal Bailout: \$2.391B

12/05/03 – Gov. Schwarzenegger has proposed a \$1.9 billion dollars of spending cuts to begin the process of bringing fiscal responsibility back to Sacramento. In addition, he has 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 is 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.

10/17/03 – Governor-elect Schwarzenegger has re-iterated his pledge to repeal Gov. Gray Davis’ tripling of the car tax, and to shun any talk of a tax increase to balance the state’s budget. Instead, he has promised a complete audit of the state budget, to be followed by proposals for cuts and reforms. Also floated in recent days is an issue of \$10.7 billion in bonds to pay off the deficit over a period of years, and seeking to get more money from Washington (Schwarzenegger claims California is a “donor state,” receiving only 77 cents for each dollar the state sends to Washington).

Perhaps most exciting is the governor-elect’s commitment to place a constitutional amendment limiting spending growth, a la Colorado’s TABOR, before the voters. A successful spending limitation would set California on sound financial footing for the future, and pave the way for significant tax cuts in the coming years.

Seeking to close its \$38 billion deficit, California’s State Education Superintendent, Jack O’Connell is taking a cue from Nevada’s recent circumvention of the state constitution and asking the California Supreme Court to intervene on the budget deadlock. The education chief is asking the Supreme Court to allow the tax hike and budget to pass with only a simple majority of the legislature’s approval rather than the 2/3 majority legally required. Governor Gray Davis released portions of a letter he sent to O’Connell that said,

“Let me be clear: if a responsible budget is not on my desk in the near future, I will join you in that lawsuit.”

If the 2/3 majority requirement were suspended, a budget including a half-cent increase in sales tax and a hike in the state income tax could pass. If the Supreme Court decides to ignore the constitution, Democrats in the state legislature would be able to pass the budget without any Republican support. However, many believe the legislature will reach a compromise that does not raise taxes or cut spending, but instead relies on borrowing through a revenue shift between state and local governments.

Already some Democrats, including State Controller Steve Westly are preparing to push new tax hikes in the fall. They plan to collect sales tax on goods bought over the internet, abolish the tax credit for manufacturers, and get rid of corporate tax shelters.

Additionally, tobacco companies are suing California for using cigarette taxes to denigrate tobacco companies through anti-smoking commercials. Governor Gray Davis responded by releasing new ads.

Colorado

Gov. Bill Owens (R)*

Rank: 1

SESSION ENDED 5/7/03.

Federal Bailout: \$240.47M

\$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 \$1B 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 this year: 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

Federal Bailout: \$256.56M

In early August, 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.

This budget accounted for this year's \$750 million; however, the debt from previous years still needs to be addressed. The conflict over the budget also damaged Connecticut's rating by Moody's Investors Services, who lowered its ranking from Aa2 to Aa3. In January, an increase in motor vehicle fees is expected to raise \$300 million in state revenue.

With Connecticut's budget in a deadlock, Governor John G. Rowland vetoed the 30-day temporary budget passed by Democrats after the legislature did not meet it's June 30 budget deadline. With a gap of \$100-\$110 million, Rowland has been compelled to issue 3 executive orders funding the state government on a weekly basis. Rowland has been discerning between "essential" and "non-essential" government services in his orders. Attorney General Richard Blumenthal assured frustrated Democrats that the governor's actions are legally acceptable until a budget is adopted.

There are some indications that the Democrats are ready to offer a new budget proposal that will include new taxes and spending cuts. Republicans won't support any tax increases over \$250 M.

Adding to the mess, House Speaker Moira Lyons, D-Stamford, is advocating spending \$1B over 10 years on rail and bus improvements. Such additional expenses would cause increased corporate taxes and a gas tax increase of 3-5 cents per gallon.

Delaware

Gov. Ruth Ann Minner (D)

Rank: 3

SESSION ENDED 6/30/03.

Federal Bailout: \$78.21M

Shortfall of \$120M FY04.

Minner budget includes 26c/pack cig tax increases and 17% increase in corporation franchise taxes, costing taxpayers \$144.5M/year, wins favor in Leg 1/30/03. Minner also considering expanding slot operations and possibility of decoupling state income tax from federal, causing state tax burden to increase. Minner 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 proposes in her budget. The Delaware Economic and Financial Advisory Council announced 5/19/03 that the state can expect \$75M more in revenues through the rest of this fiscal year and FY04. The Council is responsible for estimating revenues for budgetary use. The 5/19/03 estimate is the most recent that lawmakers will have before they must conclude session with a budget for FY04. The Joint Finance Committee began work on Minner's proposed \$2.4B budget for FY04 on 5/20/03; they have two weeks to complete work before the General Assembly begins debate.

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.

The Delaware Economic and Financial Advisory Council revised revenue projections to \$2.35B for the fiscal 2004 year after taking into account lost revenue resulting from President Bush's latest tax cut and an overall slow state economy. But the Council

neglected to include the additional \$78.21M in revenue Delaware will receive as part of the federal bailout.

The General Assembly is likely to pass the 16c/pack cigarette tax increase this week (6/17).

Florida

Gov. Jeb Bush (R)

Rank: 1

SESSION ENDED 5/2/03; special session ended 5/27/03; special session B began 6/16/03 and ended 6/27/03; special session C began 7/9/03 plan to end 7/21/03.

Federal Bailout: \$941.97M

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

SESSION ENDED 4/28/03, special session possible.

Federal Bailout: \$500.10M

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 fail to live up to Perdue's rosy expectations, he has 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

SESSION ENDED 5/1/03, Special session to convene 7/8/03.

Federal Bailout: \$80.86M

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

SESSION ENDED 5/15/03; perhaps a special session in the fall.

Federal Bailout: \$83.91M

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

SESSION ENDED 6/1/03; one-day special session ended 6/2/03.

Federal Bailout: \$780.14M

11/17/03 – Legislator's attempts to override Governor Blagojevich's vetoes on spending amounting to more than \$130 have cleared one chamber and are awaiting approval in the other chamber. Earlier in the veto session, Blagojevich referred to these attempts as "spending sprees" and charged lawmakers were acting like "drunken sailors".

10/10/03 – The new Senate Minority Leader Frank Watson (R-Greenville) announced that he is "open to" income tax increases for education in return for property tax relief. This is a departure from the position of former Senate Republican Leader James "Pate" Philip (R-Wood Dale), who always opposed the idea because it would take money away from suburban schools. It must be remembered, in addition, that such measures are never revenue neutral, and merely mask a further raid on taxpayer funds.

FY03-FY04 shortfall \$4.8B.

Blagojevich stumps for his budget plan 4/27/03, which includes 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.

Doctors rally in Chicago, 5/13/03, in protest of malpractice suit awards that work to increase their insurance costs.

Budget negotiations began 5/7/03 as Comptroller Daniel Hayes announced that Illinois has more year-on-year debt than any other state.

Blagojevich promises to sign a bill creating a prescription drug discount purchasing club for 450,000 seniors, Legislature approved 5/16/03.

Blagojevich said he will not allow lawmakers to take spring break recess during the week of 5/26/03 if they fail to produce a minimum wage increase bill; House Speaker Michael Madigan opposes hike of \$1.15/hr supported by Blagojevich.

6/1/03, General Assembly passes Blagojevich budget plan largely intact; Blagojevich says he'll veto parts of it; budget includes minimum wage hike and casino license and expansion of O'Hare, despite resistance from airport's surrounding neighborhoods. The \$53B budget includes hundreds of fee increases, business tax increases, and one-time sources of revenue.

Almost every Republican walked out of the Senate's special legislative session 6/2/03 in protest of a \$10B capital budget that was the subject of almost no discussion.

Indiana

Gov. Frank O'Bannon (D)

Rank: 1

SESSION ENDED 4/29/03, O'Bannon signed 5/8/03.

Federal Bailout: \$370.18M

11/17/03 – State legislators will hold 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 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. Some citizens are planning a statehouse rally Tuesday urging the complete abolishment of property taxes.

Lawmakers are going to consider options to slash the property tax burden.

10/24/03 – Residents of four counties will not get their tax bills for this year until 2004. A new court-ordered reassessment is responsible for how the state assess property for taxation. The assessment must closely reflect the market value of the property. This will cause a sharp increase in the taxes of older homes previously undervalued in the old system. In some counties, the increase has been as high at 16%. The increases are also a result of increased local government spending because of levies. There are some proposals to create deductions or exemptions for Indiana taxpayers.

O'Bannon approved a 2-yr budget plan 1/9/03 including no spending or tax increases. State revenue collections surpass 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.

Iowa

Gov. Thomas Vilsack (D)

Rank: 3

Session adjourned 5/2/03; special session began 5/29/03 and ended 6/4/03

Federal Bailout: \$179.78M

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 have 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. So far, Vilsack has 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

SESSION ENDED 5/8/03.

Federal Bailout: \$170.82M

10/24/03 – Gov. Sebelius is trying 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 is "touting the work performed by her Budget Savings and Efficiencies Team." However, Republicans have 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 come from higher fees. After all of the questionable items are subtracted from the final tally of \$76.3 million, only \$11 million is left over.

4/4/03 was the last day of regular session in the Kansas Legislature. The Legislature adjourned until 4/30/03. Sebelius has so far 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 freshman 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. Sebelius called it a "responsible choice" and denied that keeping the rate in place could be considered a tax increase. 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. Thank you Karl.

Kentucky

Gov. Paul Patton (D)

Rank: 3

SESSION ENDED 3/25/03; Patton refused to sign budget. Legislature overrode 3 Patton vetoes.

Federal Bailout: \$291.21M

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. Mike Foster (R)*

Rank: 1

Session began 3/31/0; SESSION ENDED 6/23/03.

Federal Bailout: \$314.27M

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

SESSION ENDED 6/14/03

Federal Bailout: \$114.30M

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

SESSION ENDED in April, but Ehrlich threatening to veto tax increase language sent to him by Legislature, potentially calling Legislature into special session.

Federal Bailout: \$342.36M

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

Year-round legislature

Federal Bailout: \$514.51M

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: 1

Federal Bailout: \$705.51M

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

SESSION ENDED 5/19/03. Special Session began 5/20/03 and ended 5/29/03.

Federal Bailout: \$349.85M

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. Ronnie Musgrove (D)

Rank: 1

SESSION ENDED, budget passed 4/6/03.

Federal Bailout: \$205.88M

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

SESSION ENDED 5/9/03, special session ended 6/17/03.

Federal Bailout: \$398.48M

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

SESSION ENDED 4/26/03.

Federal Bailout: \$73.40M

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 structure [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

SESSION ENDED 5/30/03

Federal Bailout: \$116.15M

\$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

Session adjourned at 1:00 a.m. 6/3/03; Guinn ended a 10-day special session 6/12/03 and called a third session to begin 6/25/03. Third special session began 6/25/03.

Federal Bailout: \$96.73M

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)*

Technically still in session, Senate recess.

Rank: 1

Federal Bailout: \$84.36M

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

Session scheduled to adjourn 6/30/03. Technically still in session, physically not in session.

Federal Bailout: \$576.71M

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

SESSION ENDED 3/26/03; special session to convene in the fall

Federal Bailout: \$133.26M

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

SESSION ENDED 6/19/03

Federal Bailout: \$2.043B

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

Session could conclude earlier than August; August is the average month it has taken until to pass a budget in past years.

Federal Bailout: \$547.91M

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

Session adjourned 4/25/03; special session ended 5/7/03.

Federal Bailout: \$73.48M

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

SESSION ADJOURNED 6/26/03.

Federal Bailout: \$769.20M

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: 1

SESSION ADJOURNED 5/30/03, may call a special session.

Federal Bailout: \$216.37M

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

Federal Bailout: \$241.93M

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

Still in session; ordinarily session would adjourn 6/30/03 at fiscal year end.

Federal Bailout: \$907.96M

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

SESSION ADJOURNED 7/15/03.

Federal Bailout: \$104.11M

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

SESSION ENDED 6/5/03.

Federal Bailout: \$265.59M

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

SESSION ENDED 3/24/03

Federal Bailout: \$75.15M

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

SESSION ENDED 5/29/03.

Federal Bailout: \$458.31M

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

SESSION ENDED 6/2/03. Special Session began 6/30/03.

Federal Bailout: \$1.219B

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. Mike Leavitt (R)

Rank: 3

SESSION ENDED 3/5/03; LEAVITT SIGNED BUDGET 3/24/03

Federal Bailout: \$115.86M

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

SESSION ENDED May 30, 2003

Federal Bailout: \$79.83M

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

SESSION ENDED 2/22/03; Reconvened 4/2/03 for Warner amendments/vetoes to revise FY03-04 budget, next biennial budget FY05-06

Federal Bailout: \$388.01M

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

SESSION ENDED 6/5/03.

Federal Bailout: \$401.28M

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

SESSION ENDED 3/16/03; Wise line item vetoes 3/21/03. 1st special session 3/10/03-3/16/03, 2nd special session 6/10/03-7/1/03 (recess from 6/14-6/30)

Federal Bailout: \$133.66M

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

Session scheduled through 5/8/03; budget passage negotiations scheduled to wrap up 5/28/03 – 6/27/03 or as long as it takes; budget signed by Doyle 8/14/03. Currently not in scheduled floor session, can call one at any time.

Federal Bailout: \$379.13M

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

SESSION ENDED 3/6/03.

Federal Bailout: \$62.75M

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.