

2003 Mid-Year Review of State Budget Policy



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The American Legislative Exchange Council's Tax and Fiscal Policy Task Force develops policy to reduce excessive government spending and lower the overall tax burden. Its legislative members have been at the forefront of developing sound, free-market tax and fiscal policy. The Task Force has developed budget reform policies, tax and expenditure limitations; supermajority requirements for tax increases, and dynamic revenue forecasting. Recent task force publications include 2002 Mid-Year Review of State Budget Policy, Crisis in State Spending: A Guide for State Legislators, Show Me the Money: Budget Cutting Strategies for Cash Strapped States, and Should the Feds Bail Out the States?.

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Executive Summary

In spite of a mild economic recovery state budget deficits increased by 50 percent in 2003, reaching a staggering \$100 billion in total. State lawmakers raised taxes, borrowed money, and cut spending to balance budgets in the 2003 legislative sessions. Spending still increased in many states, however, and total tax increases and borrowing increased over 2002.

The current state budget climate reveals four trends: first, the magnitude of tax increases is going up, even though roughly the same number of states increased taxes in 2003 as 2002. Total tax increases in 2003 were \$13.1 billion, an increase of 48 percent from 2002.

Second, states are increasingly relying on borrowing. Total state bond issues in 2002 were \$30.2 billion. Total state bond issues in 2003 were \$68 billion—an increase of 125 percent.

Third, state spending continues to rise despite persistent budget deficits. While 20 states cut FY 2003 spending by a total of \$8.6 billion, the remaining 30 states actually increased spending by \$11.9 billion.

Fourth, fewer states relied on cigarette tax increases in 2003, as 12 states passed cigarette tax increases, down from 20 in 2002.

Highlights

States that have already raised taxes include:

- ❖ *Alabama*: passed a \$1.2 billion increase in income and corporate taxes for public education; the increase must be approved by voters in the fall to become law
- ❖ *New Jersey*: passed a \$600 million tax increase, largely targeting hotels and casinos
- ❖ *New York*: approved a \$3.2 billion increase in sales and income taxes
- ❖ *North Carolina*: extended a temporary increase in sales and income taxes, taking \$2 billion out of the taxpayer's pockets
- ❖ *Ohio*: enacted \$3.5 billion in gasoline and sales tax hikes

States that may raise taxes include:

- ❖ *California*: considering a tax increase of \$8 billion
- ❖ *Nevada*: close to approving an \$860 million tax increase, after the Nevada Supreme Court ordered the state legislature to pass a budget

Rather than raise taxes, states should follow the advice of Thomas Jefferson:

“the multiplication of public offices, increase of expense beyond income, growth and entailment of a public debt, are indications soliciting the employment of the pruning knife.”

Introduction

This report highlights the action taken in the past year to increase taxes to balance state budget deficits and briefly details the type of tax increase and the total amount of money raised. ALEC hopes that the dissemination of this report will call state lawmakers back to Jeffersonian solutions to budget deficits, instead of solutions that demand more from an already overburdened taxpayer.

The fiscal bombs dropped on the states in early 2003 caused enough “shock and awe” to make state capitols look like downtown Baghdad. State lawmakers—for the second straight year—tackled massive budget deficits. As the 2003 state legislative sessions began, fiscal analysts projected total state deficits at a staggering \$100 billion—a 50 percent increase over 2002.¹

Most of the shock came from the fact that the states still had deficits. In the 2002 sessions, many lawmakers passed short term solutions—like tobacco settlement securitization, general borrowing, and accounting tricks—designed only to erase budget deficits in the short term. The states were essentially betting that an economic recovery would yield higher tax revenues in the near future, allowing the states to maintain current levels of spending. The economy betrayed state lawmakers, however, and the short-term solutions adopted in 2002 proved even more disastrous to state budgets in 2003.

Unfortunately, lawmakers took the same wager in 2003, voting for even more taxes and borrowing. Four trends were revealed:

First, tax increases are themselves increasing. In 2002, 21 states raised taxes by a total of \$8.8 billion.² In 2003, 20 states have thus far raised taxes by \$13.1 billion—an increase of 48 percent.³ Half the states that raised taxes in 2003 also raised taxes in 2002: Connecticut, Illinois, Maryland, Nebraska, New Jersey, New York, North Carolina, Ohio and Utah.

The second disturbing trend is the reliance on borrowing to balance state budgets. Total state borrowing in FY 2002, including general obligation, special revenue, and tobacco settlement bonding, was \$30.2 billion. In FY 2003, this number jumped to almost \$68 billion, an increase of 125 percent.

Third, despite tax hikes and borrowing, spending is still increasing. While states cut over \$8 billion from the FY 2003 budgets this year, total spending will increase by over \$11 billion. This means a net spending increase of \$3 billion in the 2003 fiscal year, and puts the \$12 billion tax increases in better context.

Fourth, cigarette taxes were utilized less frequently in 2003. Twenty states raised cigarette taxes in 2002, but only 12 did so in 2003. States continued to use tobacco settlement funds, however, to shore up budget deficits. Many state attorneys general even intervened—on the tobacco industry’s behalf—in an Illinois case that threatened to make several tobacco companies insolvent. Could it be any clearer that the states are hooked on tobacco money?

Getting through the next year without tax increases or cutting into the bone of state services will require a more sophisticated approach. These four strategies can help:

Cut the Fat Out of Education. In most states, education budgets, constituting up to half of many states budgets, have so far escaped the chopping block. This is unlikely to continue. Fortunately, by aggressively going after non-instructional spending it’s possible to realize significant cost reductions in education without impacting learning.

In Texas and Florida, teams of auditors are sent out to individual school districts to look for administrative cost savings. The results have been impressive. Texas school districts have netted more than \$110 million in ongoing education savings through better business practices, like Dallas’ slashing the number of school central

administrators. Another promising reform is to require small school districts to consolidate their administrative functions – information technology (IT), transportation, food, finance, security. Bowie County, Texas, is able to bus kids to school at a far lower cost than the state average by sharing transportation services among 13 school districts.

Outsource services. Private companies have cut costs in the wake of the economic downturn by outsourcing, saving millions of dollars by turning over certain business processes and non-core

functions to specialist firms. Most governments have been slower to fully embrace this proven cost savings strategy. One exception is the State of Florida. Under the leadership of Governor Jeb Bush, the Sunshine state has, among others, outsourced human resources, payroll, benefit administration and IT. Total cost savings: more than \$30 million annually.

Reduce Duplication and Overlap. Almost any state’s major business processes - delivering health care, managing assets, incarcerating criminals, offering job training – involve multiple agencies that deliver them. Such duplication not only costs taxpayers billions of dollars a year, but causes citizens to have to navigate an obstacle course of multiple bureaucracies, none with any significant ability or inclination to cooperate in order to ease their passage through the government maze.

Several governors are trying to change this by consolidating agencies and operations so that responsibility for a given service is no longer scattered amongst a multitude of agencies. Texas Governor Rick Perry, for example, pushed through a radical plan this year that collapses 12 agencies into four and eliminates more than 2000 state jobs. Perry’s plan is expected to net a whopping \$1

billion in savings over the next two years.

Meanwhile, Virginia Governor Mark Warner is merging nearly all the state’s 94 IT departments into a single IT agency. As part of this massive effort, Virginia is consolidating data centers, Web servers, call centers – you name it. Not exactly sexy, but the \$100 million in savings sure beats laying off teachers.

Rethink government.

Ultimately, getting back to budget balance will require state governments to fundamentally rethink which services they provide and how they provide them. This is the

approach Governor Mitt Romney is taking in Massachusetts. As part of his “Big Bang” budget-balancing plan, Romney proposed doing away with archaic civil service rules, consolidating half a dozen state college campuses into three institutions, eliminating the patronage-laden office of University of Massachusetts President Billy Bulger, shutting down 36 underutilized human services offices, and merging 16 health and human services agencies into four groups. Romney didn’t get all this done in his first legislative session, but as he says, “We’ve launched the state on the road to reform.”

What does the future hold for the fiscal health of the states? Given the “shock and awe” experienced in 2003, and the fact most states responded with higher taxes and more borrowing, 2004 could be even worse. Until lawmakers get serious about restraining the short and long term growth of government spending, deficits will continue to plague the states, despite economic recovery.

The fiscal bombs dropped on the states in early 2003 caused enough “shock and awe” to make state capitols look like downtown Baghdad.

STATE BY STATE ANALYSIS

(\$ Amounts in Millions)

State	Tax Hikes	Details	Raised Taxes in 2002?*	Borrowing (FY 2002)**	Borrowing (FY 2003)**	Borrowing Increase	FY 2003 Spending Cuts***	General Fund Spending Increase (2002-2003)***
Alabama	\$1,200.00	income, sales, cigarettes, corporate (must be approved by voters)	n	\$85.00	\$195.73	\$110.73		\$165.00
Alaska	\$2.30	Car Rental Tax	n	\$16.00	\$461.94	\$445.94		\$79.00
Arizona	\$-		y	\$196.50	\$75.30	\$(121.20)	\$(516.00)	
Arkansas	\$100.00	Cigarette	n	\$230.16	\$251.16	\$21.00		\$73.00
California	\$-		n	\$4,016.36	\$15,636.79	\$11,620.43	\$(1,291.00)	
Colorado	\$-		n	\$56.41	\$7.93	\$(48.48)	\$(168.00)	
Connecticut	\$300.00	income; sales; corporate; cigarette; real estate; conveyance	y	\$2,847.51	\$2,702.92	\$(144.59)		\$487.00
Delaware	\$145.00	Cigarette	n	\$155.72	\$358.26	\$202.54		\$49.00
Florida	\$-		n	\$1,793.40	\$2,065.56	\$272.16		\$1,801.00
Georgia	\$180.00	Cigarette	n	\$1,237.15	\$709.21	\$(527.94)		\$664.00
Hawaii	\$-		y	\$1,121.46	\$345.00	\$(776.46)		\$189.00
Idaho	\$185.00	Sales (one cent), cigarette	n	\$-	\$375.00	\$375.00	\$(28.00)	
Illinois	\$200.00	gaming, rolling stock on trucking	y	\$2,265.81	\$14,089.34	\$11,823.53	\$(700.00)	
Indiana	\$-		y	\$80.10	\$14.40	\$(65.70)		\$612.00
Iowa	\$-		n	\$247.22	\$-	\$(247.22)	\$(134.00)	
Kansas	\$-		y	\$82.26	\$601.07	\$518.81	\$(108.00)	
Kentucky	\$-		n			\$-		\$121.00
Louisiana	\$-		y	\$269.80	\$584.70	\$314.90		\$143.00
Maine	\$594.00	gas tax	n	\$67.60	\$1,017.05	\$949.45	\$(28.00)	
Maryland	\$45.00	property tax increase	y	\$548.83	\$1,364.61	\$815.78	\$(278.00)	
Massachusetts	\$-		y			\$-	\$(338.00)	
Michigan	\$-		n	\$1,528.34	\$330.43	\$(1,197.91)	\$(338.00)	
Minnesota	\$-		n	\$666.40	\$726.55	\$60.15		\$1,243.00
Mississippi	\$-		n	\$812.72	\$1,330.79	\$518.07	\$(29.00)	
Missouri	\$-		n	\$83.47	\$604.30	\$520.83	\$25.00	
Montana	\$20.00	cigarette	n	\$35.24	\$168.71	\$133.47	\$(65.00)	
Nebraska	\$344.00	alcohol, made sales, income, and cigarette taxes permanent	y	\$17.79	\$5.36	\$(12.43)		\$41.00
Nevada	\$-		n	\$264.09	\$176.44	\$(87.65)		\$38.00
New Hampshire	\$-		n	\$100.00	\$109.47	\$9.47		\$74.00
New Jersey	\$600.00	casino, cigarette, hotel/motel, nursing home (bed tax), and billboard	y	\$400.00	\$3,860.09	\$3,460.09		\$917.00
New Mexico	\$-		n	\$278.34	\$718.55	\$440.21		\$2.00
New York	\$3,200.00	income, sales, cigarettes, alcohol, corporate	y	\$2,774.01	\$3,781.09	\$1,007.08	\$(1,455.00)	
North Carolina	\$2,000.00	sales and income (half cent)	y	\$605.00	\$1,279.21	\$674.21		\$352.00
North Dakota	\$-		n	\$13.17	\$28.23	\$15.06		\$123.00
Ohio	\$3,479.00	gasoline, sales	y	\$1,200.67	\$1,818.75	\$618.08		\$1,297.00
Oklahoma	\$-		n	\$43.07	\$398.88	\$355.81	\$(430.00)	
Oregon	\$-		n	\$1,262.29	\$978.85	\$(283.44)	\$(2,018.00)	
Pennsylvania	\$-		y			\$-		\$285.00
Rhode Island	\$-		y	\$175.21	\$266.83	\$91.62		\$51.00
South Carolina	\$-		n	\$320.25	\$401.89	\$81.64	\$(140.00)	
South Dakota	\$23.00	alcohol and cigarette	n	\$-	\$-	\$-		\$36.00
Tennessee	\$-		y	\$164.08	\$-	\$(164.08)		\$684.00
Texas	\$-		n	\$1,349.35	\$7,006.28	\$5,656.93		\$1,853.00
Utah	\$14.00	beer and cable taxes	y	\$390.63	\$729.88	\$339.25	\$(198.00)	
Vermont	\$-		y	\$51.00	\$69.58	\$18.58		\$25.00
Virginia	\$-		n			\$-		\$75.00
Washington	\$420.00	gas tax	y	\$1,064.54	\$1,626.27	\$561.73		\$167.00
West Virginia	\$60.00	cigarette	n	\$-	\$55.15	\$55.15		\$288.00
Wisconsin	\$-		n	\$1,352.06	\$669.92	\$(682.14)	\$(365.00)	
Wyoming	\$25.00	cigarette	n			\$-		\$23.00
Totals (millions)	\$13,136.30			\$30,269.01	\$67,997.47		\$(8,602.00)	\$11,957.00

*ALEC 2002 Mid Year Review

** Moody's Investment Services

*** NASBO Fiscal Survey of the States: June 2003

Source: American Legislative Exchange Council

State Tax Increases in 2003

The following states enacted major tax increases in the 2003 legislative sessions. Total tax increases are for FY 2003, FY 2004 (annual and biennial budgeting states) or FY 2005 (biennial budgeting states). “Borrowing” indicates bond sales by a state, such as general obligation, special revenue or tobacco settlement bonds.

Alabama

The Alabama Legislature in special session enacted a \$1.2 billion tax increase plan offered by Governor Bob Riley (R). The plan would raise income, sales, cigarette and corporate taxes, and must be approved by the voters this fall. The money generated would largely be used for the state’s education system.

Mid-Year Review

- Tax Increase (2003): \$1.2 billion
- ❖ Tax Increase (2002): none
- ❖ Total Tax Increases: \$1.2 billion
- ❖ Borrowing Increase: \$110 million
- ❖ General Fund Spending Increase (2002-2003): \$165 million

Alaska

The Alaska Legislature enacted a car rental tax in the 2003 legislative session.

Mid-Year Review

- ❖ Tax Increase (2003): \$2.3 million
- ❖ Tax Increase (2002): \$20 million
- ❖ Total Tax Increases: \$22.3 million
- ❖ Borrowing Increase: \$445 million
- ❖ General Fund Spending Increase (2002-2003): \$79 million

Arkansas

The Arkansas Legislature approved a cigarette tax increase after rejecting Governor Mike Huckabee’s call for a higher state sales tax. The higher cigarette tax is expected to produce an additional \$100 million per year for the state.

Mid-Year Review

- ❖ Tax Increase (2003): \$100 million
- ❖ Tax Increase (2002): none
- ❖ Total Tax Increases: \$100 million
- ❖ Borrowing Increase: \$21 million
- ❖ General Fund Spending Increase (2002-2003): \$73 million

Connecticut

Connecticut lawmakers raised nearly every tax imaginable: incomes, sales, corporate, cigarette, and real estate taxes. The increases were expected to raise \$300 million for the FY 2003 budget.

Mid-Year Review

- ❖ Tax Increase (2003): \$300 million
- ❖ Tax Increase (2002): \$130 million
- ❖ Total Tax Increases: \$430 million
- ❖ Borrowing Increase: -\$144 million
- ❖ General Fund Spending Increase (2002-2003): \$487 million

Delaware

The Delaware Legislature enacted a cigarette tax increase, expected to provide the state with an additional \$145 million per year in tax revenues.

Mid-Year Review

- ❖ Tax Increase (2003): \$145 million
- ❖ Tax Increase (2002): none
- ❖ Total Tax Increases: \$145 million
- ❖ Borrowing Increase: \$202 million
- ❖ General Fund Spending Increase (2002-2003): \$49 million

State Tax Increases in 2003

<p style="text-align: center;">Georgia</p> <p>Newly elected Governor Sonny Perdue (R), the first Republican elected governor in Georgia since the 19th century, proposed increases in the states' alcohol and cigarette taxes and a reduction in a state property tax credit to balance the state's FY 2003 and FY 2004 budgets. After a protracted battle, the legislature rejected the alcohol tax increase and the reduction in the property tax credit, but approved the cigarette tax increase.</p> <p style="text-align: center;">Mid-Year Review</p> <ul style="list-style-type: none"> ❖ Tax Increase (2003): \$180 million ❖ Tax Increase (2002): none ❖ Total Tax Increases: \$185 million ❖ Borrowing Increase: -\$527 million ❖ General Fund Spending Increase (2002-2003): \$664 million 	<p style="text-align: center;">Illinois</p> <p>Illinois raised taxes again in 2003, although much less than in 2002. The state once again asked the gaming industry to pay more in taxes, and also increased taxes on trucking rolling stock. The legislature also approved Governor Rod Blagojevich's (D) plan to borrow money for the state pension fund.</p> <p style="text-align: center;">Mid-Year Review</p> <ul style="list-style-type: none"> ❖ Tax Increase (2003): \$200 million ❖ Tax Increase (2002): \$605 million ❖ Total Tax Increases: \$805 million ❖ Borrowing Increase: \$11.8 billion ❖ General Fund Spending Increase (2002-2003): -\$700 million
<p style="text-align: center;">Idaho</p> <p>Idaho Governor Dirk Kempthorne (R) shocked his Republican colleagues by asking the legislature to pass increases in the states' sales and tobacco taxes to avoid "harmful" cuts to government services. The legislature finally agreed to his demands in a special session, and raised the sales tax by one cent and the cigarette tax.</p> <p style="text-align: center;">Mid-Year Review</p> <ul style="list-style-type: none"> ❖ Tax Increase (2003): \$185 million ❖ Tax Increase (2002): none ❖ Total Tax Increases: \$185 million ❖ Borrowing Increase: \$375 million ❖ General Fund Spending Increase (2002-2003): -\$28 million 	<p style="text-align: center;">Maine</p> <p>Lawmakers approved a plan to index the state's gasoline tax to inflation, which will lead to periodic increases in the state gasoline tax.</p> <p style="text-align: center;">Mid-Year Review</p> <ul style="list-style-type: none"> ❖ Tax Increase (2003): \$594 million ❖ Tax Increase (2002): none ❖ Total Tax Increases: \$594 million ❖ Borrowing Increase: \$949 million ❖ General Fund Spending Increase (2002-2003): -\$28 million
	<p style="text-align: center;">Maryland</p> <p>The state approved an increase in property taxes. Governor Bob Ehrlich vetoed a plan passed by the legislature that would have raised corporate taxes substantially.</p> <p style="text-align: center;">Mid-Year Review</p> <ul style="list-style-type: none"> ❖ Tax Increase (2003): \$45 million ❖ Tax Increase (2002): \$100 million ❖ Total Tax Increases: \$145 million ❖ Borrowing Increase: \$815 million ❖ General Fund Spending Increase (2002-2003): -\$278 million

State Tax Increases in 2003

Montana

State lawmakers agreed to raise the state's cigarette tax to avoid making more cuts to state services.

Mid-Year Review

- ❖ Tax Increase (2003): \$20 million
- ❖ Tax Increase (2002): none
- ❖ Total Tax Increases: \$20 million
- ❖ Borrowing Increase: \$133 million
- ❖ General Fund Spending Increase (2002-2003): -\$65 million

Nebraska

In 2002, the Nebraska legislature passed, over the veto of the Governor, a bill that raised cigarette taxes and "temporarily" raised sales and income taxes. In 2003, the legislature voted to extend the "temporary" increases.

Mid-Year Review

- ❖ Tax Increase (2003): \$334 million
- ❖ Tax Increase (2002): \$118 million
- ❖ Total Tax Increases: \$452 million
- ❖ Borrowing Increase: -\$12 million
- ❖ General Fund Spending Increase (2002-2003): \$41 million

New Jersey

Late in the legislative session, New Jersey agreed to raise taxes on casinos, cigarettes, nursing homes and billboards. The increases are expected to raise \$600 million for the state's general fund.

Mid Year Review:

- ❖ Tax Increase (2003): \$600 million
- ❖ Tax Increase (2002): \$1.28 billion
- ❖ Total Tax Increases: \$1.88 billion
- ❖ Borrowing Increase: \$3.4 billion
- ❖ General Fund Spending Increase (2002-2003): \$917 million

New York

After a protracted legislative battle, the legislature passed—over Governor Pataki's (R) veto—a \$3.2 billion increase in income, sales, corporate, cigarette and alcohol taxes.

Mid-Year Review

- ❖ Tax Increase (2003): \$3.2 billion
- ❖ Tax Increase (2002): \$250 million
- ❖ Total Tax Increases: \$3.45 billion
- ❖ Borrowing Increase: \$1 billion
- ❖ General Fund Spending Increase (2002-2003): -\$1.45 billion

North Carolina

The Tar-Heel State was one of the first to adopt broad based "temporary" tax increases to patch the state's budget deficit, in late 2001. In 2003, the state made extended the tax increases, which were scheduled to expire.

Mid-Year Review

- ❖ Tax Increase (2003): \$2 billion
- ❖ Tax Increase (2002): \$1 billion
- ❖ Total Tax Increases: \$3 billion
- ❖ Borrowing Increase: \$674 million
- ❖ General Fund Spending Increase (2002-2003): \$352 million

State Tax Increases in 2003

<p style="text-align: center;">Ohio</p> <p>Ohio has raised taxes on at least four separate occasions since late 2001, taking over \$4 billion from the taxpayers to fund state activities. In 2003, the state raised the gasoline tax and also expanded the state sales tax to many previously exempt services. The total tax increases are expected to raise almost \$3.5 billion for the state's general fund, despite spending growth of \$1.3 billion from 2002 to 2003.</p> <p style="text-align: center;">Mid-Year Review</p> <ul style="list-style-type: none"> ❖ Tax Increase (2003): \$3.479 billion ❖ Tax Increase (2002): \$709 million ❖ Total Tax Increases: \$4.188 billion ❖ Borrowing Increase: \$618 million ❖ General Fund Spending Increase (2002-2003): \$1.3 billion 	<p style="text-align: center;">Washington</p> <p>Washington state lawmakers voted to raise the state's gasoline tax to pay for transportation projects. The tax increases were not intended to alleviate the state's budget deficit.</p> <p style="text-align: center;">Mid-Year Review</p> <ul style="list-style-type: none"> ❖ Tax Increase (2003): \$420 million ❖ Tax Increase (2002): \$100 million ❖ Total Tax Increases: \$520 million ❖ Borrowing Increase: \$133 million ❖ General Fund Spending Increase (2002-2003): -\$65 million
<p style="text-align: center;">South Dakota</p> <p>Governor Mike Rounds (R) proposed alcohol and cigarette tax increases to "shore up" the state's budget. The legislature agreed, and the taxes are estimated to raise about \$23 million per year.</p> <p style="text-align: center;">Mid-Year Review</p> <ul style="list-style-type: none"> ❖ Tax Increase (2003): \$20 million ❖ Tax Increase (2002): none ❖ Total Tax Increases: \$20 million ❖ Borrowing Increase: \$133 million ❖ General Fund Spending Increase (2002-2003): -\$65 million 	<p style="text-align: center;">West Virginia</p> <p>West Virginia lawmakers voted to increase the state cigarette tax to provide an additional \$60 million for the state budget.</p> <p style="text-align: center;">Mid-Year Review</p> <ul style="list-style-type: none"> ❖ Tax Increase (2003): \$60 million ❖ Tax Increase (2002): none ❖ Total Tax Increases: \$60 million ❖ Borrowing Increase: \$55 million ❖ General Fund Spending Increase (2002-2003): \$288 million
<p style="text-align: center;">Utah</p> <p>Utah raised beer and cable television taxes to raise \$14 million for the state's budget, and also cut \$198 million from the FY 2003 budget.</p> <p style="text-align: center;">Mid-Year Review</p> <ul style="list-style-type: none"> ❖ Tax Increase (2003): \$14 million ❖ Tax Increase (2002): \$14 million ❖ Total Tax Increases: \$28 million ❖ Borrowing Increase: \$339 million ❖ General Fund Spending Increase (2002-2003): -\$198 million 	<p style="text-align: center;">Wyoming</p> <p>Wyoming lawmakers voted to increase cigarette taxes by \$25 million, despite the fact that the state had a budget surplus at the time.</p> <p style="text-align: center;">Mid-Year Review</p> <ul style="list-style-type: none"> ❖ Tax Increase (2003): \$25 million ❖ Tax Increase (2002): none ❖ Total Tax Increases: \$25 million ❖ Borrowing Increase: none ❖ General Fund Spending Increase (2002-2003): \$23 million

States Currently in Danger of Higher Taxes

California

Governor Gray Davis, during the spring legislative session, proposed an \$8 billion increase in the state sales and income taxes. The increases, if passed by the constitutional required 2/3 vote of each house of the legislature, will be spread over the next several years.

Mid-Year Review

- ❖ Proposed Tax Increase: \$8 billion
- ❖ Borrowing Increase: \$11.6 billion
- ❖ General Fund Spending Increase (2002-2003): -\$1.2 billion

Nevada

In a decision with stunning implications for constitutionalism and the rule of law, the Nevada Supreme Court ordered the state legislature to pass a state budget that fully funded public schools. The court order also called on the legislators to ignore the state's 2/3 supermajority requirement for tax increases, saying that it was a "procedural right" that must yield to the more "substantive right" of education.

Mid-Year Review

- ❖ Proposed Tax Increase: \$860 million
- ❖ Borrowing Increase: -\$87 million
- ❖ General Fund Spending Increase (2002-2003): \$38 million

States Not Raising Taxes in 2003

<p style="text-align: center;">Arizona</p> <ul style="list-style-type: none"> ❖ Raised taxes in 2002: <u>Yes</u> ❖ FY 2002 spending: \$6.3 billion ❖ FY 2003 spending: \$5.8 billion ❖ Spending cut: -\$500 million ❖ FY 2002 borrowing: \$196 million ❖ FY 2003 borrowing: \$75 million ❖ Borrowing difference: -\$121 million 	<p style="text-align: center;">Iowa</p> <ul style="list-style-type: none"> ❖ Raised taxes in 2002: <u>No</u> ❖ FY 2002 spending: \$4.6 billion ❖ FY 2003 spending: \$4.5 billion ❖ Spending cut: -\$134 million ❖ FY 2002 borrowing: \$247 million ❖ FY 2003 borrowing: \$0 ❖ Borrowing difference: -\$247 million
<p style="text-align: center;">Colorado</p> <ul style="list-style-type: none"> ❖ Raised taxes in 2002: <u>No</u> ❖ FY 2002 spending: \$6.7 billion ❖ FY 2003 spending: \$6.5 billion ❖ Spending cut: -\$170 million ❖ FY 2002 borrowing: \$56 million ❖ FY 2003 borrowing: \$8 million ❖ Borrowing difference: -\$48 million 	<p style="text-align: center;">Kansas</p> <ul style="list-style-type: none"> ❖ Raised taxes in 2002: <u>Yes</u> ❖ FY 2002 spending: \$4.5 billion ❖ FY 2003 spending: \$4.4 billion ❖ Spending cut: -\$108 million ❖ FY 2002 borrowing: \$82 million ❖ FY 2003 borrowing: \$601 million ❖ Borrowing difference: \$519 million
<p style="text-align: center;">Florida</p> <ul style="list-style-type: none"> ❖ Raised taxes in 2002: <u>No</u> ❖ FY 2002 spending: \$19.2 billion ❖ FY 2003 spending: \$21 billion ❖ Spending increase: \$1.8 billion ❖ FY 2002 borrowing: \$1.8 billion ❖ FY 2003 borrowing: \$2 billion ❖ Borrowing difference: \$200 million 	<p style="text-align: center;">Kentucky</p> <ul style="list-style-type: none"> ❖ Raised taxes in 2002: <u>No</u> ❖ FY 2002 spending: \$7.1 billion ❖ FY 2003 spending: \$7.2 billion ❖ Spending increase: \$121 million ❖ FY 2002 borrowing: N/A ❖ FY 2003 borrowing: N/A ❖ Borrowing difference: N/A
<p style="text-align: center;">Hawaii</p> <ul style="list-style-type: none"> ❖ Raised taxes in 2002: <u>Yes</u> ❖ FY 2002 spending: \$3.7 billion ❖ FY 2003 spending: \$3.8 billion ❖ Spending increase: \$189 ❖ FY 2002 borrowing: \$1.1 billion ❖ FY 2003 borrowing: \$345 million ❖ Borrowing difference: -\$776 million 	<p style="text-align: center;">Louisiana</p> <ul style="list-style-type: none"> ❖ Raised taxes in 2002: <u>Yes</u> ❖ FY 2002 spending: \$6.5 billion ❖ FY 2003 spending: \$6.6 billion ❖ Spending increase: \$143 million ❖ FY 2002 borrowing: \$270 million ❖ FY 2003 borrowing: \$585 million ❖ Borrowing difference: \$315 million
<p style="text-align: center;">Indiana</p> <ul style="list-style-type: none"> ❖ Raised taxes in 2002: <u>Yes</u> ❖ FY 2002 spending: \$9.7 billion ❖ FY 2003 spending: \$10.3 billion ❖ Spending increase: \$612 million ❖ FY 2002 borrowing: \$80 million ❖ FY 2003 borrowing: \$14.5 million ❖ Borrowing difference: -\$65.5 million 	<p style="text-align: center;">Massachusetts</p> <ul style="list-style-type: none"> ❖ Raised taxes in 2002: <u>Yes</u> ❖ FY 2002 spending: \$22.8 billion ❖ FY 2003 spending: \$22.5 billion ❖ Spending cut: -\$338 million ❖ FY 2002 borrowing: N/A ❖ FY 2003 borrowing: N/A ❖ Borrowing difference: N/A

States Not Raising Taxes in 2003

<p style="text-align: center;">Michigan</p> <ul style="list-style-type: none"> ❖ Raised taxes in 2002: <u>No</u> ❖ FY 2002 spending: \$9.1 billion ❖ FY 2003 spending: \$8.8 billion ❖ Spending cut: -\$338 million ❖ FY 2002 borrowing: \$1.5 billion ❖ FY 2003 borrowing: \$330 million ❖ Borrowing difference: -\$1.2 billion 	<p style="text-align: center;">New Mexico</p> <ul style="list-style-type: none"> ❖ Raised taxes in 2002: <u>No</u> ❖ FY 2002 spending: \$4 billion ❖ FY 2003 spending: \$4 billion ❖ Spending increase: \$2 million ❖ FY 2002 borrowing: \$278 million ❖ FY 2003 borrowing: \$719 million ❖ Borrowing difference: \$440 million
<p style="text-align: center;">Minnesota</p> <ul style="list-style-type: none"> ❖ Raised taxes in 2002: <u>No</u> ❖ FY 2002 spending: \$12.8 billion ❖ FY 2003 spending: \$14 billion ❖ Spending increase: \$1.2 billion ❖ FY 2002 borrowing: \$666 million ❖ FY 2003 borrowing: \$727 million ❖ Borrowing difference: \$61 million 	<p style="text-align: center;">North Dakota</p> <ul style="list-style-type: none"> ❖ Raised taxes in 2002: <u>No</u> ❖ FY 2002 spending: \$812 million ❖ FY 2003 spending: \$935 million ❖ Spending increase: \$123 million ❖ FY 2002 borrowing: \$13 million ❖ FY 2003 borrowing: \$28 million ❖ Borrowing difference: \$15 million
<p style="text-align: center;">Mississippi</p> <ul style="list-style-type: none"> ❖ Raised taxes in 2002: <u>No</u> ❖ FY 2002 spending: \$3.5 billion ❖ FY 2003 spending: \$3.5 billion ❖ Spending cut: -\$29 million ❖ FY 2002 borrowing: \$813 million ❖ FY 2003 borrowing: \$1.3 billion ❖ Borrowing difference: \$517 million 	<p style="text-align: center;">Oklahoma</p> <ul style="list-style-type: none"> ❖ Raised taxes in 2002: <u>No</u> ❖ FY 2002 spending: \$5 billion ❖ FY 2003 spending: \$4.6 billion ❖ Spending cut: -\$430 million ❖ FY 2002 borrowing: \$43 million ❖ FY 2003 borrowing: \$399 million ❖ Borrowing difference: \$356 million
<p style="text-align: center;">Missouri</p> <ul style="list-style-type: none"> ❖ Raised taxes in 2002: <u>No</u> ❖ FY 2002 spending: \$7.6 billion ❖ FY 2003 spending: \$7.7 billion ❖ Spending increase: -\$25 million ❖ FY 2002 borrowing: \$83 million ❖ FY 2003 borrowing: \$604 million ❖ Borrowing difference: \$521 million 	<p style="text-align: center;">Pennsylvania</p> <ul style="list-style-type: none"> ❖ Raised taxes in 2002: <u>Yes</u> ❖ FY 2002 spending: \$20.5 billion ❖ FY 2003 spending: \$20.7 billion ❖ Spending increase: \$285 million ❖ FY 2002 borrowing: N/A ❖ FY 2003 borrowing: N/A ❖ Borrowing difference: N/A
<p style="text-align: center;">New Hampshire</p> <ul style="list-style-type: none"> ❖ Raised taxes in 2002: <u>No</u> ❖ FY 2002 spending: \$1.2 billion ❖ FY 2003 spending: \$1.2 billion ❖ Spending increase: -\$74 million ❖ FY 2002 borrowing: \$100 million ❖ FY 2003 borrowing: \$109.5 million ❖ Borrowing difference: \$9.5 million 	<p style="text-align: center;">Rhode Island</p> <ul style="list-style-type: none"> ❖ Raised taxes in 2002: <u>Yes</u> ❖ FY 2002 spending: \$2.7 billion ❖ FY 2003 spending: \$2.7 billion ❖ Spending increase: \$51 million ❖ FY 2002 borrowing: \$175 million ❖ FY 2003 borrowing: \$267 million ❖ Borrowing difference: \$92 million

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<p style="text-align: center;">South Carolina</p> <ul style="list-style-type: none"> ❖ Raised taxes in 2002: <u>No</u> ❖ FY 2002 spending: \$5.2 billion ❖ FY 2003 spending: \$5.0 billion ❖ Spending cut: -\$140 million ❖ FY 2002 borrowing: \$320 million ❖ FY 2003 borrowing: \$402 million ❖ Borrowing difference: \$82 million 	<p style="text-align: center;">Vermont</p> <ul style="list-style-type: none"> ❖ Raised taxes in 2002: <u>Yes</u> ❖ FY 2002 spending: \$860 million ❖ FY 2003 spending: \$885 million ❖ Spending increase: \$25 million ❖ FY 2002 borrowing: \$51 million ❖ FY 2003 borrowing: \$70 million ❖ Borrowing difference: -\$19 million
<p style="text-align: center;">Tennessee</p> <ul style="list-style-type: none"> ❖ Raised taxes in 2002: <u>Yes</u> ❖ FY 2002 spending: \$7.5 billion ❖ FY 2003 spending: \$8.2 billion ❖ Spending increase: \$684 million ❖ FY 2002 borrowing: \$164 million ❖ FY 2003 borrowing: \$0 ❖ Borrowing difference: -\$164 million 	<p style="text-align: center;">Virginia</p> <ul style="list-style-type: none"> ❖ Raised taxes in 2002: <u>No</u> ❖ FY 2002 spending: \$12 billion ❖ FY 2003 spending: \$12 billion ❖ Spending increase: \$75 million ❖ FY 2002 borrowing: N/A ❖ FY 2003 borrowing: N/A ❖ Borrowing difference: N/A
<p style="text-align: center;">Texas</p> <ul style="list-style-type: none"> ❖ Raised taxes in 2002: <u>No</u> ❖ FY 2002 spending: \$30 billion ❖ FY 2003 spending: \$31.9 billion ❖ Spending increase: \$1.9 billion ❖ FY 2002 borrowing: \$1.3 billion ❖ FY 2003 borrowing: \$7 billion ❖ Borrowing difference: \$5.7 billion 	<p style="text-align: center;">Wisconsin</p> <ul style="list-style-type: none"> ❖ Raised taxes in 2002: <u>No</u> ❖ FY 2002 spending: \$11.2 billion ❖ FY 2003 spending: \$10.9 billion ❖ Spending cut: -\$365 million ❖ FY 2002 borrowing: \$1.4 billion ❖ FY 2003 borrowing: \$670 million ❖ Borrowing difference: -\$682 million

Conclusion

Despite a mild economic recovery, states continue to raise taxes, borrow more funds, and appropriate more money. Many lawmakers seem unwilling to look at more creative solutions to fund state services, like consolidation, privatization, and asset sales. Until lawmakers seriously address the long term growth in state spending, however, true budget balance will prove elusive.

Thomas Jefferson put it best: “the multiplication of public offices, increase of expense beyond income, growth and entailment of a public debt, are indications soliciting the employment of the pruning knife.” States should take up Mr. Jefferson’s “pruning knife” instead of the taxing “sword.”

References

- 1 See Chris Atkins, *Mid Year Review of State Budget Policy*, American Legislative Exchange Council (2002). Last year’s report estimated total state deficits in 2002 at \$40-50 billion.
- 2 See *id.* at 13. This number was calculated by added the number in the tax hikes enacted column to the individual states in the tax hikes proposed column that raised taxes after the report was published.
- 3 The total for 2003 is almost certain to increase by nearly \$1 billion following the Nevada Supreme Court’s ruling that basically requires the state to raise taxes.

About the Authors

Chris Atkins is Director of the Tax and Fiscal Policy Task Force at the American Legislative Exchange Council. Mr. Atkins works with state legislators nationwide to develop and implement fiscal policies that are consistent with the Jeffersonian principles of free markets and limited government. Atkins is the editor of *Crisis in State Spending*, a handbook for state legislators, and the author of ALEC's 2002 *Mid Year Review of State Budget Policy* as well as ALEC's *FY 2004 Budget Outlook*. Atkins graduated from Wabash College in Crawfordsville, IN, with a B.A. in economics and political science. Mr. Atkins also holds a law degree and a masters in public affairs from Indiana University-Bloomington, and is a member of the state bar in Indiana.

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