

States have options in fiscal crisis

BY MELISSA TAYLOR

The states are in dire fiscal straits. They are addressing budget shortfalls by cutting spending and trying to increase revenues. There are, however, other measures states can take immediately and in the longer term to deal with their financial situation.

States have addressed the recent decline in revenues with short-term, stopgap measures. Half the states increased either taxes or fees in 2002. In addition, most states have borrowed from their budget stabilization funds, tapped into the rainy day funds or transferred monies from other reserve sources to plug budget gaps.

Many states have reduced spending, often by cutting the rate of increase rather than making true spending cuts. Most states have proposed or enacted across-the-board cuts and targeted cuts that eliminate or reduce funding for certain programs, such as optional Medicaid services, state employee benefits and promotions, and higher education.

As states are trying to cut spending, they face a variety of spending pressures, including federal mandates, court rulings and demographic changes.

Because of the relative inflexibility of mandates and court rulings, states have to reorganize their priorities. This re-prioritization adds uncertainty to budget forecasting, making it more difficult to predict future expenditures.

There are demographic pressures as well. Over the last decade, there has been a rise in the school-age population. This affects several policy areas, most notably education. At the other end of the age spectrum, the aging of the baby boom population will exert fiscal pressure on state governments.

On the revenue side, states need to address issues with their tax structures and tobacco-related revenue issues to assure long-term financial health.

The sales tax base has eroded. The U.S. economy has shifted from manufacturing to services while services go relatively untaxed. Internet and catalog sales are a major source of revenue that states can't currently tap because of a federal moratorium. And states have enacted many exemptions to their sales tax codes, narrowing their tax base.

Much of the increase in personal income tax collections during the 1990s came from higher-income earners. When the stock market took a turn for the worse in 2001, this source of revenue plummeted from its highs in the 1990s. Additionally, states that tie their tax codes to the federal tax

code have lost revenue as a result of President Bush's 2001 federal tax cut.

Corporate income taxes comprise a smaller percentage of state tax revenue than in the past because of special considerations in the tax codes, increased tax planning by corporations and tax incentives offered to relocating companies.

As the current budget crisis deepens, a number of states are looking to income from the Tobacco Master Settlement Agreement to help fill some of the gaps. These payments, however, may be less than states expected for two major reasons. First, cigarette consumption is down. Second, Participating Manufacturers have raised prices to cover the costs of complying with the MSA. As a result, more smokers are turning to lower-cost brands to save money. Many of these discount cigarettes are produced by Non-Participating Manufacturers that do not pay into the MSA fund.

The MSA payouts are not the only source of dwindling tobacco revenue. Cigarette smuggling and Internet cigarette sales deprive states of both excise and sales taxes.

Between 2003 and 2010, The Council of State Governments estimates that lost excise taxes from Internet cigarette sales and lower-than-expected MSA payments will translate into a \$24.8 billion projected revenue loss for the states. This figure does not include sales taxes, which would make these revenue loss estimates even larger.

In addition to the stopgap measures that have been implemented, states can take other action to combat this crisis. In the short-term, they can streamline operations to focus on core state responsibilities. States should aggressively resist unfunded federal mandates. They should examine ways to simplify sales taxes and urge Congress to allow the federal moratorium on Internet sales and use tax collection to expire this November. States should also act to enforce the MSA and protect tobacco excise taxes.

There are also actions states can take to avert another fiscal crisis. Longer term, states can reorganize government operations through integration and privatization, where appropriate, in order to provide more efficient, constituent-focused services. In order to build a strong revenue base for the future, states should enact comprehensive tax reform to better align state revenue with growth sectors of the 21st cen-



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lem, not just headline information,” said Rep. DeKrey.

The current interstate compact was developed nearly 50 years ago, when juvenile offenders rarely moved between states. The compact now exists as an outdated and antiquated system, lacking the resources to effectively manage a larger and more vulnerable population.

Since 2000, The Council of State Governments and the federal Office of Juvenile Justice and Delinquency Pre-

vention have led the effort to draft the new Interstate Compact for Juveniles. The revised compact facilitates state autonomy and national cooperation in the supervision transfer process of juveniles. At the national level, the compact coordinates the means to identify, track and account for juveniles.

Since its founding in 1933, CSG has played a key role in helping states develop, implement and administer dozens of interstate compacts. CSG has worked with the National Institute of

Corrections to develop and enact the Interstate Compact for Adult Offender Supervision in the states. CSG’s decades of experience with interstate compacts has produced a wealth of institutional knowledge about the elements that help ensure prompt development, enactment and effective operation of interstate compacts.

For more information on The Interstate Compact for Juveniles, visit our Web site at <http://www.csg.org> or contact Chad Foster at cfoster@csg.org.

MLC Annual Meeting

The Midwestern Legislative Conference Annual Meeting will once again offer an impressive group of engaging speakers, whose presentations will supplement the knowledge participants will gain from various public policy sessions and networking opportunities with colleagues.

Two highly renowned individuals

have already been tapped to speak at the meeting, which will be held Aug. 24-27 in Milwaukee.

Michael Beschloss, called “the nation’s leading presidential historian” by *Newsweek* magazine, will offer his insights to Midwestern legislators and other attendees. Jim Miklaszewski, the chief Pentagon correspondent for

NBC News, also will speak at the meeting. A Milwaukee native, Miklaszewski has led the network’s coverage of the war in Afghanistan. On Sept. 11, 2001, he was the first on the scene to report that the Pentagon had been attacked. He also has covered two presidents for NBC as its White House correspondent.

Federal task force addresses agricultural air quality

Indiana Sen. Robert Jackman, D.V.M. has been appointed to the national USDA Task Force on Agricultural Air Quality. Air quality is quickly becoming an important environmental issue for agricultural producers.

In 1996, Congress mandated that federal policy relating to air pollution must be based on sound scientific findings that are subject to adequate peer review and take into account economic feasibility. It directed the chief of the U.S. Department of Agriculture’s Natural

Resources Conservation Service to establish a task force to address air quality issues.

The task force is comprised of USDA employees, industry representatives and other experts in the fields of agriculture and air quality. It will advise Agriculture Secretary Ann Veneman regarding her role in providing oversight and coordination related to agricultural air quality and regarding the scientific basis of agriculture’s impact on air quality.

Jackman is a ranking member of the

Indiana Senate’s Agriculture and Small Business Committee and Finance Committee. As a hog and cattle producer in one of the nation’s largest hog producing states, he is well acquainted with the issues relating to air quality and agriculture.

Jackman has been an active member of both the Midwestern and the National Agriculture and Rural Policy Task Forces of The Council of State Governments, and he represented Indiana at the recent Agricultural Legislative Chairs Summit.

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tury economy. States should work together to develop and implement a national education campaign to combat unfunded mandates. And states should work with the federal government to implement compre-

hensive Medicaid reform.

A copy of CSG’s latest TrendsAlert on the State Fiscal Crisis, including a state-by-state breakdown of projected tobacco settlement revenue shortfalls,

can be downloaded at <http://www.csg.org> (Keyword: fiscal trendsalert).



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