STATE FISCAL BRIEF

Fiscal Studies Program
The Nelson A. Rockefeller Institute of Government

September 2000
No. 60

2000 Tax and Budget Summary

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HIGHLIGHTS

- ❖ Fourteen states enacted significant tax cuts in 2000, reducing fiscal year 2001 revenues by $5.8 billion.
- ❖ Seven states will have rebates or temporary tax cuts. These will amount to $3.4 billion of the fiscal year 2001 tax cuts.
- ❖ Seven states cut personal income taxes significantly, with an impact of $1.3 billion.
- ❖ Significant tax increases were few, mostly in states with abnormally slow revenue growth.
- ❖ Some states have been cutting gas taxes.
- ❖ The economy and revenue outlooks continue to be good and point to more tax cuts in 2001.

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Introduction

In the 2000 state legislative sessions, states cut taxes significantly for the seventh year in a row, having once again benefited from the strong national economy and attendant strong revenue growth. Fourteen states enacted significant tax cuts in 2000, which will decrease fiscal year 2001 revenues by $5.8 billion, nearly two billion dollars less than the $7.6 million cut in 1999.[1] This difference may be in part because many 1999 and earlier cuts were multi-year, and are still being phased in. There were few significant tax increases this year. Many of the cuts that states have enacted have been one-time rebates or other types of temporary cuts, thus hedging against possible economic slowdown. Although most of the cuts have been motivated by outstanding revenue growth, some states have cut their gas taxes in order to mitigate the effects of rising gasoline prices. Even while these cuts have been taking place, states have retained sufficient revenue to sustain and even expand expenditures in all major program areas. If the economy continues to be strong into the beginning of the next budget cycle, 2001 will doubtless be another year of tax cutting.[2]

Tax Changes Enacted in 2000

Major Tax Cuts

Of the 14 states with significant tax cuts in 2000, the state with the largest cut as a percent of its total revenue was Colorado. Lawmakers there enacted cuts that will reduce state revenue by $781 million in FY 2001, about 13 percent of the FY 2000 revenues. However, the biggest part of this cut is a one-time rebate, due to the TABOR constitutional revenue cap.[3] Since Colorado has been issuing these rebates for several years, the incremental effect of this year's rebate on the state's FY 2001 revenue will be only $291 million compared with the prior year. Minnesota is another state where a good proportion of its apparently large 2000 tax cut total is from a rebate: $635 million of its one billion dollar tax cut package is a sales tax rebate. In fact, since this rebate is less than half as large as FY 2000's, Minnesota's tax cut works out to be a small increase in liability for that state's taxpayers. In dollar terms, California's $1.6 billion tax cut is the largest enacted this year, though it is less than three percent of this state's large budget.

There have been widespread significant tax cuts over the last few years, as shown in Table 1, and this year's cuts are quite a bit lower than those in either of the past two years. This may be partly due to the fact that several states have enacted cuts that do not take full effect until future years. In 2000, New York enacted cuts that will eventually reduce the state's revenues by $1.2 billion annually, but will have only a minor effect on FY 2001. In addition, about $2.2 billion in tax cuts enacted in previous years will have an incremental effect in FY 2001 but are not included in our total, which accounts only for cuts passed in 2000. Such previously enacted cuts will reduce FY 2001 revenues significantly in Hawaii, Maryland, Michigan, New Jersey, Rhode Island, Virginia, and Wisconsin. This may have suppressed new tax cuts this year, since these states needed to fund these prior tax cuts, leaving less revenue for significant new tax cuts. Another possible reason for cuts being lower than last year is that some states did not have legislative sessions this year, including Texas, where there was a large tax cut last year. However, if we include all of the phased in tax cuts with the new tax cuts, FY 2001 may be the biggest year yet for tax reduction in the states.[4]

Personal Income Tax Cuts

Of all of the major state taxes, the personal income tax has experienced the most rapid growth in recent years. Since this is the most progressive state tax, it has reacted very strongly to the rise of the stock market and other increases in the income of high-income groups. Every state with an income tax has benefited from this, the states with more progressive income taxes benefiting the most. Over the last several years, several states have made large cuts in their income taxes. These trends continued into 2000 and seven states will cut the income tax by $1.3 billion in FY 2001, including rebates. (See Table 2) In addition, five states will phase in significant

Table 1
Significant Tax Cuts Enacted Since 1998

	Number of States with Tax Cut of One Percent or More of GF Revenues	*Amount (millions)*	*Percent of All-States GF Revenues*
1998	22	$7,599	1.79%
1999	19	$7,550	1.68%
2000	13	$5,829	1.27%

cuts enacted in prior years, costing about one billion dollars in FY 2001.

The largest permanent personal income tax cut this year was the restoration of the property tax and renters' credit in Wisconsin. This was repealed last year to provide money for a one-time rebate. The repeal proved unpopular and as the state was running a surplus this year, Governor Thomson (R) called a special session to restore the credit. This will cost $319 million in FY 2001. In addition to this, Wisconsin is phasing in $331 million in permanent cuts that it made last year.

Several states enacted cuts in their personal income tax rates. Colorado cut its single personal income tax rate from 4.75 percent to 4.63 percent, which will cost $50 million in FY 2000 and $113 million in FY 2001. Minnesota cut all three of the state's personal income tax brackets, which will cost $224 million annually. Ohio enacted a one-year tax rate cut discussed in the section on rebates below. Hawaii enacted a cut in 1998 that will cut the top rate from ten percent to 8.75 percent in 2000 and to 8.5 percent in 2001; this will cost $192 million in FY 2001. Maryland is cutting its top personal income tax rate, and increasing the personal exemption for a combined reduction of $112 million in FY 2001. Michigan's personal income tax rate cut enacted last year was to have had an effect of $320 million in FY 2001; it was accelerated this year, which cost $168 million more in FY 2000 and will cost $95 million more in FY 2001. Rhode Island is phasing in a reduction in its personal income tax rate, which will cost $18 million in FY 2001.

A number of states either established or increased their Earned Income Tax Credit (EITC) this year. Colorado increased its from 8.5 percent to 10 percent of the federal credit, costing about $5 million a year. Maryland accelerated a previously enacted increase in the EITC to 15 percent of the federal credit for 2000, which will cost it $13 million in FY 2001. Minnesota expanded the state EITC at a cost of $12 million a year. New Jersey established an EITC that will phase in over four years, starting at ten percent of the federal EITC in 2000 and ending up at 20 percent. It will cost the state $45 million in FY 2001 and eventually $99 million a year. New York will increase its EITC from 25 percent to 30 percent of the federal credit, costing $125 million annually when fully phased in. Like the federal credit all of these credits are refundable, so if the credit exceeds the amount the taxpayer owes the surplus is refunded. Illinois created a nonrefundable EITC of five percent of the federal credit, amounting to $35 million annually. Virginia enacted a nonrefundable low income tax credit not tied to the federal EITC, costing $20 million a year. Fourteen states now have an EITC based on the federal credit; in nine of these states the credit is refundable.[5]

There also were other personal income tax cuts: Idaho enacted personal income tax cuts of $27 million for FY 2001, $15 million of which are limited to the 2000 tax year. Massachusetts enacted a deduction for charitable giving, which will cost $164 million in FY 2002.[6] Maine enacted an exemption for pensions, which will cost $23 million in FY 2001.

Sales Tax Cuts

In last couple of years, states have increasingly used the sales tax as a vehicle for tax rebates. The theory is that since taxpayers cannot take an itemized deduction for sales taxes on their federal income tax, a sales tax rebate will not change federal tax liability, unlike personal income tax or property tax based rebates. Use of a sales tax rebate allows the taxpayers to get the entire rebate. In addition, a broader cross section of the population pays the sales tax and so a sales tax rebate should reach more people. Colorado and Minnesota had sales tax rebates this year. We will discuss these in the section on rebates. Overall, the effect of significant permanent and temporary sales tax cuts enacted in 2000 will amount to $1.5 billion for FY 2001.

Illinois enacted another kind of temporary sales tax cut — the state suspended the sales tax on gasoline for the second half of 2000. This will cost the state $175 million in FY 2001. We will discuss this and other gasoline-related tax cuts in a special section below.

In addition to its sales tax rebate, Colorado passed a sales tax rate cut. This will cost the state $34 million in FY 2001 and $71 million annually thereafter.

South Carolina has reduced its sales tax on food by one cent, and will continue to cut this tax by one cent a year if economic conditions remain favorable. The effect of the first full year of the cut in FY 2002 is $54 million.

Several states have enacted sales tax "holidays" or temporary suspensions of the state sales tax on certain items, often including clothes and shoes. Florida enacted a one-week holiday including clothes, shoes, wallets and bags costing $41 million. Iowa enacted a two-day holiday for clothes and shoes, costing $3.0 million. Maryland enacted a one-week clothing and shoes sales tax holiday for FY 2002, costing $6.7 million.

Some previously enacted sales tax cuts will have an effect in FY 2001. Virginia is continuing a phased-in cut in its sales tax on food. This will cost $62 million in FY 2001. In, 1999, New York enacted a permanent exemption from the state's sales tax for clothing and shoes under $110 in value; this will cost $440 million in FY 2001.

Table 2
Significant Tax Cuts Enacted in 2000
(effect in million of dollars for fiscal year 2001)

State	*Personal Income Tax*	*Sales Tax*	*Business Tax*	*Property Tax*	*Other Taxes*	*Total Significant Tax Cuts*	*Cuts as % of FY00 GF*	*Notes*
California*					$1,552.0	$1,552.0	2.23%	“Car tax” rebate and “smog tax” refund
Colorado*	$112.7	$668.0				$780.7	13.04%	PIT rate cut and sales tax rebate
Connecticut						$180.0	2.23%	Gas tax cut and hospital tax repeal
Florida					$210.0	$210.0	1.11%	“Intangibles tax” cut
Idaho	$26.9					$26.9	1.17%	PIT cut package
Illinois*		$175.0		$280.0		$455.0	2.42%	Gas sales tax suspension and property tax rebate
Maine	$25.0					$25.0	1.02%	PIT cut package
Minnesota*	$224.4	$635.0			$150.0	$1,009.4	8.66%	PIT rate cut, sales tax rebate and car tax cut
Missouri*	$98.3					$98.3	1.46%	Rebate
Nebraska				$30.0		$30.0	1.25%	Community college funding shift
Ohio*	$518.8					$518.8	3.32%	One-year PIT rate cut
Pennsylvania*			$270.5	$330.0		$600.5	3.03%	Capital stock and franchise cut and property tax rebate
South Dakota				$23.0		$23.0	3.76%	School property tax limit lowered
Wisconsin	$319.0					$319.0	3.17%	Property tax/ renters credit reinstated
Total	$1,325.1	$1,478.0	$270.5	$663.0	$1,912.0	$5,828.6		
# of States with Significant Cuts	7	3	1	4	3	14		

* Cuts include rebate or temporary tax cut.

Business Tax Cuts

The only significant cut in business taxes this year was Pennsylvania's phase out of the capital stock and franchise tax. The first cut will cost the state $270 million in FY 2001. The state will eliminate this tax in 2009; it brought in $1.1 billion in FY 2000.

Alabama's supreme court found that the state's franchise tax unconstitutional last year. This year a referendum increased the corporate income tax rate. Along with some other tax adjustments, this change was revenue neutral.

Property Tax Cuts

The property tax is the main tax source for most local governments. However, because often infrequent reassessments do not adequately capture property value growth, revenue growth from this tax does not automatically reflect economic growth. In many places, local governments have raised property tax rates. Some states have legislated local cuts or freezes, or have reimbursed taxpayers out of state coffers in some way. In all, significant property tax cuts in four states will reduce the property tax burden in those states by $663 million in FY 2001.

One way states can reduce property tax burden is to issue a rebate tied to the property tax. Illinois and Pennsylvania enacted property tax rebates this year, discussed in the section on rebates below.

South Dakota will cut its school property tax by $23 million by lowering the cap on school property tax levies. This was the last five percent of a 30 percent cut in school property taxes that Governor Janklow (R) promised when he first ran for office in 1994.

Nebraska passed a $35 million property tax credit on the personal income tax last year that would have taken effect in FY 2001; this year the state reduced that credit to $25 million. The state also gave $30 million more to community colleges to allow local governments that support these colleges to cut their property tax rates.

Other Tax Cuts

Some significant tax cuts do not fit into one of the above categories. California has enacted a bill that will accelerate its vehicle license fee cut to 67.5 percent in 2001. It was to have been 35 percent in 2001 and 46.5 percent in 2002. Instead of further reducing the fees that car owners pay by the additional amount, the state will rebate the difference to taxpayers. This will cost the state $887 million in FY 2001 and $1.4 billion in FY 2002. California will also be refunding $665 million to those who paid an unconstitutional "smog fee" on out-of-state cars.

Florida has enacted a cut in its tax on intangible personal property, which will cost $210 million in FY 2001. Minnesota will cut its motor vehicle registration tax by $150 million in FY 2001.

Rebates and Temporary Tax Cuts

Many states that have ranked high on our list of tax cutting states in recent years have been using temporary tax cuts or rebates. Rebates are popular for two reasons: state lawmakers get the credit for passing a tax cut each year they send out rebate checks, even when the rebates are lower than the prior year – essentially a tax increase, and if there is an economic downturn, they can stop the temporary cuts. Seven states enacted some kind of temporary tax cut or rebate for FY 2001, accounting for $3.4 billion of the year's tax reduction. (See Table 3)

Table 3
Significant Rebates and Temporary Tax Cuts Affecting Fiscal Year 2001

State	*Tax*	*Amount (millions)*
California	Vehicle	$887
Colorado	Sales	$668
Illinois	Property	$280
Minnesota	Sales	$635
Missouri	PIT	$98
Ohio	PIT	$519
Pennsylvania	Property	$330
Total		$3,417

Minnesota will pay $644 million later this year, about half the rebate it sent to taxpayers last year. In Colorado, where the state's Taxpayer's Bill of Rights (TABOR) amendment compels it to rebate all surpluses exceeding a revenue growth limit, the state will send out a $668 million in sales tax rebates, and $303 million through other rebate mechanisms. Missouri has been rebating revenue that exceeds its constitutional revenue cap for several years, and this year the rebate will be $98.3 million. Ohio has made a tradition of cutting its personal income tax rate by an amount connected to its budget surplus each year. This year the cut was 6.9 percent or $610 million, of which $518 million will come out of the FY 2001 budget; the remainder will affect FY 2002. California will spend $887 million in FY 2001 on a rebate tied to the vehicle license tax. Illinois enacted a property tax rebate of $280 million in 2000. It will be equal to the residential property tax credit on the personal income tax, up to a $300 cap. Pennsylvania is also sending out a property tax rebate in FY 2001. This one will be about $330 million and will consist of $100 rebates of school property taxes for owner-occupied dwellings.

Tax Increases

Since the revenue picture was strong in most states in 2000, significant tax increases were rare. The few cases where they did occur were in states where revenue growth was slower than the national average.

In Louisiana, the tax system is such that revenues do not expand as quickly as the economy. It is very dependent on the slower growing sales tax, and its personal income tax has exemptions for federal income tax and other features that slow its growth. The state also has significant oil and natural gas-based revenues, which are very erratic. Taken all together, this meant that the state was facing a large shortfall when it tried to develop the FY 2001 budget. Spending cuts covered some of this. In addition, the state renewed the three percent sales tax on food and utilities for two more years, raising $327 million annually; the state has temporarily extended this tax for many years now. Later in the session, the state increased this tax to four percent, the same as the general sales tax, raising another $110 million. The state increased personal income taxes by $85 million a year. Lawmakers also added several tax change referenda to the ballot, discussed in the section on Ballot Measures, below.

Kentucky placed a sales tax on phone calls, raising about $65 million by FY 2002. Wyoming took the step of making the fourth cent of its general sales tax permanent. Although this was not an increase from a taxpayer liability standpoint, lawmakers had planned to eliminate that fourth cent, which would have cost $90 million a year.

Ballot Measures Affecting Taxes

In some states, voters have the ability to directly affect tax issues by putting initiatives on the ballot. Many states allow the legislature to send such issues to the voters through referenda. A number of this year's initiatives and referenda could significantly affect revenues.

In Alaska an initiative, obviously based on California's Proposition 13, would limit property tax rates to one percent of assessed value, and limit increases in assessments to two percent a year. This would cost localities in the state $125 million annually, $63 million in Anchorage alone.

Two interconnected referenda in Louisiana would change the state's tax structure considerably. One would change the personal income tax rates and eliminate the deduction for federal taxes paid, which would increase revenues by $730 million annually. The other would eliminate the state sales taxes on food and utilities, which would decrease revenues by $440 million annually, but would only take effect if voters approved the first referendum. The state has already earmarked the net increase in revenues for education spending.

Governor Cellucci (R) of Massachusetts is supporting an initiative that will cut the personal income tax rate from 5.85 percent to five percent by 2003 and cost the state $1.2 billion when fully phased in. He had been trying to get the legislature to do this for several years, but so far, it has only agreed to cut the rate to 5.75 percent. Other initiatives would create a turnpike tolls and automobile excise tax deduction costing up to $700 million annually, and require the state to provide universal health care.

Oregon voters will be able to vote for a few different major tax cuts. Measure 91 would permit full deduction of federal income taxes from personal and corporate income taxes. Currently the deduction is limited to $3,000 on personal income taxes only. This would cost the state about one billion dollars a year, and could cost $632 million in the last six months of the current biennium, ending June 2001. The legislature put the more limited Measure 88 on the ballot, which would raise the deduction limit to $5,000. Measure 93 would require referenda for all tax and fee increases above the rate of inflation and be retroactive to December 1998, requiring referenda to approve all increases enacted since then. Another initiative would limit total state spending from all sources to 15 percent of state personal income. This would require a cut of $5.7 billion from the budget for the next biennium.

An initiative in South Dakota would eliminate the state's inheritance tax, costing $22 million a year. Meanwhile, state lawmakers limited the property tax cut enacted this year to one year, stating that they would only extend it if voters did not abolish the inheritance tax. This will force voters to decide between lower property taxes or no inheritance taxes.

Washington has been coping with the after-effects of Initiative 695 that voters adopted last year. It repealed the motor vehicle excise tax, which will cost the state $392 million, and localities another $452 million in FY 2001. The state managed to balance its budget and make up some of the losses for local government and transportation projects. Then a judge declared I-695 unconstitutional, because it had both the tax repeal provisions and provisions that required referenda on all new and increased taxes and fees, violating the single-subject rule. However, Washington state lawmakers quickly re-enacted the popular motor vehicle tax repeal a portion of I-695.

The Gas Tax

The worldwide increase in oil prices caused an increase in gasoline prices in 2000 throughout the United States. In the Midwest, these prices "spiked" to over $2.00 a gallon. This created pressure on state governments to cut gasoline taxes in order to reduce the pump price. The most dramatic instance of this was the six-month suspension of the sales tax on gasoline in Illinois, costing the state $175 million. Indiana's Governor O'Bannon (D) suspended that state's sales tax on gasoline for two months (July and August), costing the state up to $26 million. There have been calls for suspensions in other states, all resisted so far. (Some have even proposed eliminating the sales tax on gasoline in these and other states.) However, states would need to find alternate sources of money for transportation funds that they have tied to gas taxes. There were proposals in other states, including California and Kansas, to pass similar suspensions.

Many states have a cent per gallon gas tax, which is not so sensitive to increases in price. In fact, as the price goes up, the tax is a smaller proportion of it. However, some states have laws that would increase this tax if the price goes above a certain point. New Jersey and Massachusetts are among the states that changed their laws to prevent this from happening. Connecticut enacted a permanent cut in its gas tax of seven cents per gallon.

All of this is a reversal from the situation in the previous years, when many states increased gas taxes to pay for transportation programs. If the underlying price of gasoline, remains high/or increases, there will probably be more cuts, but if it drops, states may again increase taxes to fund transportation.

Proposals Not Adopted

One of the more interesting tax cut proposals in the last year was Governor Davis' (D-CA) idea to exempt teachers' salaries from California's personal income tax, costing about $545 million in FY 2001. This was part of Davis' ongoing interest in improving education in the state, and attracting new teachers in a tight labor market. Many in the legislature thought this proposal had problems, and ultimately the state adopted a more limited personal income tax credit for teachers, costing $128 million in FY 2001. The legislature also considered rebates based on the personal income tax or sales tax before settling on the vehicle excise tax rebates discussed above.

Republicans in the Indiana legislature proposed the idea of cutting property taxes in the state by 25 percent. Governor O'Bannon (D) countered with proposals that the state take over the counties' share of funding welfare services, allowing counties to use those resources for tax cuts. In the end, the state adopted no property tax cut this year. Governor O'Bannon's Republican opponent in this fall's gubernatorial election has taken up the call for a 25 percent property tax cut.

Governor Patton (D-KY) proposed sweeping changes in Kentucky's tax structure, including increasing the gas tax, broadening the sales tax and reforming the personal income tax to make it more progressive. He said that this was to make the tax structure fairer, and provide money for his budget emphasizing education, infrastructure and higher salaries for state workers. In all this would have increased taxes by $312 million by FY 2002. The legislature rejected this proposal in favor of the much more modest increase in telecommunication taxes.

Tax cut proposals were plentiful in Louisiana. In addition to the tax changes that were enacted this year, Governor Foster's administration "floated" two other ideas: a single business tax that would raise one billion dollars for each percentage point of the tax and/or an oil and gas processing tax that could raise between one and two billion dollars. There were proposals from the Legislative Black Caucus for increases in sin taxes and the elimination of an inventory tax credit, as well a VAT to replace business taxes. There were also proposals to reform the personal income tax and eliminate the sales tax on food and utilities that eventually found their way into the ballot referenda discussed above.

In New Hampshire, the legislature passed bills to cut the interest and dividends tax by $10 million a year and eliminate the inheritance tax, costing up to $38 million a year. Governor Shaheen (D) vetoed both bills, citing an education funding shortfall of about $40 million.

Governor Johnson (R) of New Mexico proposed a personal income tax cut that would phase up to $65 million in FY 2003. As was the case last year, the legislature did not pass his tax cut.

Oklahoma's Governor Keating (R) proposed a 0.25 percentage point cut in the personal income tax this year and further 0.25 percentage point cuts in each of the next five years. The legislature did not pass this proposal.

In Rhode Island, Governor Almond called for a halt in the phase-out of the "car tax," which would have saved the state $24 million in FY 2001. Meanwhile, Senate leaders proposed a phase-out of the capital gains tax on assets held more than five years, eventually costing $70 million a year, and a phase-in of an earned income tax credit, eventually costing $8 million annually. The state adopted none of these proposals.

Governor Sundquist (R) of Tennessee proposed the adoption of a personal income tax for the second year, accompanied by a cut in the sales tax. This was in response to chronic budget gaps. The legislature again rejected this proposal and covered this year's gap with one-time fund shifts, spending cuts and small tax increases.

In connection with his interest in the national issue of e-commerce taxation, Governor Leavitt (R-UT) proposed that the state phase out the sales tax on food as a part of a sales tax simplification that would allow taxation of remote sales. The reform was to be revenue neutral, but the legislature did not act on it this year.

Budget Issues in 2000

Economic Picture

The national economy continued to be very strong in FY 2000. Real gross domestic product growth for calendar year 1999 was 4.2 percent. For the first quarter of 2000, it was 4.8 percent, and the preliminary estimate for the second quarter was 5.3 percent.[7] Unemployment was very close to four percent for all of 2000. While there have been some signs that the economy may be slowing down, none are decisive as of now. The increase in oil and gas prices over the last year had a disparate effect on state revenues. The oil and gas producing states experienced a windfall, especially in comparison with the much lower revenues in 1999. States that had sales taxes on gasoline, as opposed to cent a gallon excise taxes, also gained revenues from that source, but in some cases discussed above, they suspended these taxes in an attempt to mitigate the effect of the high prices on taxpayers, leading to a loss in revenues. The higher fuel prices will have an effect on the costs of certain state programs, and therefore, could create an upward pressure on expenditures. This will be even more likely if the increase in fuel prices causes higher general inflation.

The revenue picture in the states is strong enough that there continues to be money to fund all programs at current levels, with most states having enough to expand selected programs. A sign of the strength of the states' fiscal position is an aggregate $38.5 billion in budget balances that the states had at the end of FY 2000, compared with $33.4 billion at the end of FY1999.[8]

Major Budget Items

The picture on the expenditure side of the budget equation in 2000 was much less eventful than on the taxation side. Most states had plenty of money to fully fund all of their existing programs, and make moderate expansions in favored areas such as education. However, there were no dramatic policy departures in any state.

Arizona's Governor Hull (R) convinced the legislature to place a referendum on the ballot that would raise $447 million a year more for education (see discussion above). California and Colorado also have ballot measures that would increase education funding. Nevertheless, the general picture is of most states steadily increasing their general commitment to education funding as allowed by the growth in state revenues.

One big-ticket item that surfaced this year in Massachusetts was the "Big Dig," a major highway reconstruction project in Boston that was running up to $1.7 billion over estimates. The state enacted a bailout that involves new bonding and dedicating revenues from tolls on bridges and turnpikes. This plan will also provide money for other transportation projects around the state.

What to Expect in 2001

The states are reporting record balances, the economy is continuing to grow and most importantly, states' revenues are continuing to boom.[9] This would seem to suggest that 2001 will follow in the tradition of the previous seven years and see the states enact significant tax cuts. There are a few signs that the economy is slowing. The Federal Reserve increased interest rates over the last year in response to fears of inflation and an "over-heating" economy, but is now apparently satisfied that it is successfully engineering a soft landing for the economy, and is likely to hold interest rates at their present level until after the November elections. Since most states will be preparing their executive budgets before the end of 2000, these signs will have to lead to noticeable economic difficulties quickly to affect them. Most state legislatures will conclude their budget sessions before next July 1. Therefore, it is likely that the large balances and ample revenues we see now presage tax cutting in 2001, absent a sudden and widespread economic reversal.

However, there is some evidence in this year's tax cuts that states are beginning to feel the effects of the large tax cuts of previous years. This will likely continue to be the case next year, and many states may need to forgo large new tax cuts while they pay for the old ones. Even with its remarkable revenue growth, California had to choose this year between continuing its car tax cuts and making cuts in other taxes.

State governments across the nation are interested in maintaining and even expanding state spending on most existing programs. This is unlikely to change as long as the economic and revenue picture remains the same. Instead of a zero-sum game of either tax cuts or increased spending, most states have chosen to do both. There are only a few states where local economic conditions or the nature of the state revenue system have forced harder choices, and again these states have tried to strike a balance between maintaining spending and controlling taxation levels. Such policies have become the pattern in the states of late, and the pattern is likely to continue.

Endnotes

1 We define a significant tax cut as one that reduces state revenues by more than 1 percent of total general fund revenues. Many states also enacted smaller tax cuts, which are not included in the total.

2 This *Fiscal Brief* uses information gathered from new reports and releases, states documents and direct contacts with state officials, and other sources. The author would like to particularly thank Mandy Rafool of the National Conference of State Legislatures for assistance with the tax cuts section.

3 This is being done as a "sales tax" rebate, to relieve taxpayers of federal tax liability.

4 In fact, a National Conference of State Legislatures survey says just that. See National Conference of State Legislatures, *State Budget & Tax Actions 2000*, Preliminary Report: Executive Summary.

5 Colorado, Kansas, Maryland, Massachusetts, Minnesota, New Jersey, New York, Vermont and Wisconsin have refundable credits. Illinois, Iowa, Maine, Oregon and Rhode Island have nonrefundable credits. See Nicholas Johnson, *A Hand Up: How State Earned Income Tax Credits Help Working Families Escape Poverty* (Center on Budget and Policy Priorities, July 20, 2000).

6 Massachusetts enacted a phased cut to its personal income tax flat rate in 1999. The cut for FY 2001 will be $166 million.

7 Bureau of Economic Analysis, News Release, 8/25/00.

8 National Conference of State Legislatures, *State Budget & Tax Actions 2000*, Preliminary Report: Executive Summary; *State Budget & Tax Actions 1999,* Preliminary Report.

9 See: "Can We Call It a 'Surprise' the Sixth Time It Happens?" *State Revenue Report #41* (Albany, NY: The Nelson A. Rockefeller Institute of Government, September 2000).

The Nelson A. Rockefeller Institute of Government

The Nelson A. Rockefeller Institute of Government, the public policy research arm of the State University of New York, was established in 1982 to bring the resources of the 64-campus SUNY system to bear on public policy issues. The Institute is active nationally in research and special projects on the role of state governments in American federalism and the management and finances of both state and local governments in major areas of domestic public affairs.

The Fiscal Studies Program

The Institute's Fiscal Studies Program, originally called the Center for the Study of the States, was established in May 1990 in response to the growing importance of state governments in the American federal system. Despite the ever-growing role of the states, there is a dearth of high-quality, practical, independent research about state and local programs and finances.

The mission of the Fiscal Studies Program is to help fill this important gap. The Center conducts research on trends affecting all 50 states and serves as a national resource for public officials, the media, public affairs experts, researchers, and others. The Program is directed by Donald J. Boyd, who has spent two decades analyzing state and local fiscal issues.

This Report

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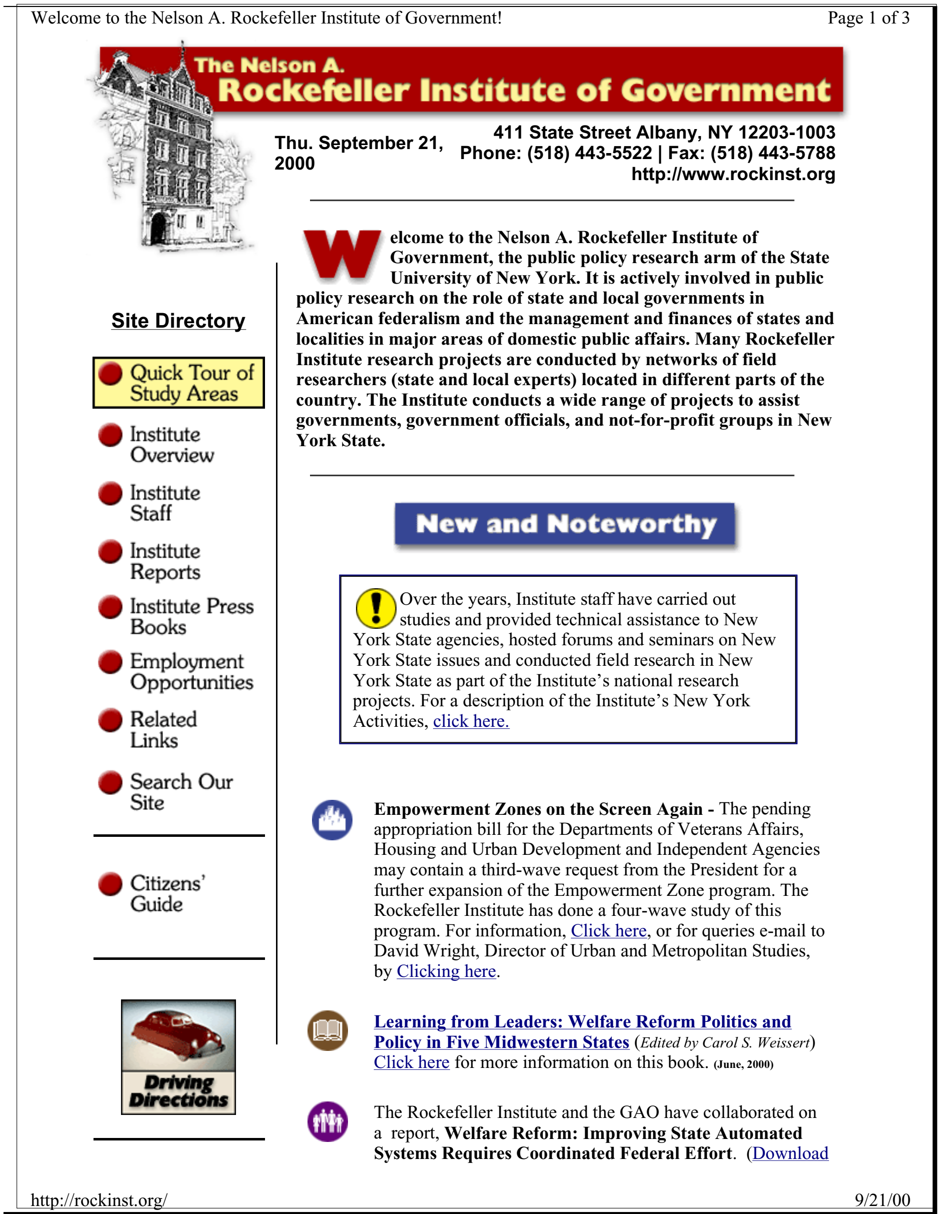

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The Nelson A. Rockefeller Institute of Government

Thu. September 21, 2000

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Welcome to the Nelson A. Rockefeller Institute of Government, the public policy research arm of the State University of New York. It is actively involved in public policy research on the role of state and local governments in American federalism and the management and finances of states and localities in major areas of domestic public affairs. Many Rockefeller Institute research projects are conducted by networks of field researchers (state and local experts) located in different parts of the country. The Institute conducts a wide range of projects to assist governments, government officials, and not-for-profit groups in New York State.

Site Directory

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New and Noteworthy

Over the years, Institute staff have carried out studies and provided technical assistance to New York State agencies, hosted forums and seminars on New York State issues and conducted field research in New York State as part of the Institute's national research projects. For a description of the Institute's New York Activities, click here.

Empowerment Zones on the Screen Again - The pending appropriation bill for the Departments of Veterans Affairs, Housing and Urban Development and Independent Agencies may contain a third-wave request from the President for a further expansion of the Empowerment Zone program. The Rockefeller Institute has done a four-wave study of this program. For information, Click here, or for queries e-mail to David Wright, Director of Urban and Metropolitan Studies, by Clicking here.

Learning from Leaders: Welfare Reform Politics and Policy in Five Midwestern States (*Edited by Carol S. Weissert*) Click here for more information on this book. **(June, 2000)**

The Rockefeller Institute and the GAO have collaborated on a report, **Welfare Reform: Improving State Automated Systems Requires Coordinated Federal Effort**. (Download

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Look for the Fiscal Studies Program's new reports at this symbol.

You can sign up for e-mail notifications whenever new reports come out in the Fiscal Studies section of the Institute's website at:

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