
What's Ahead for the States?

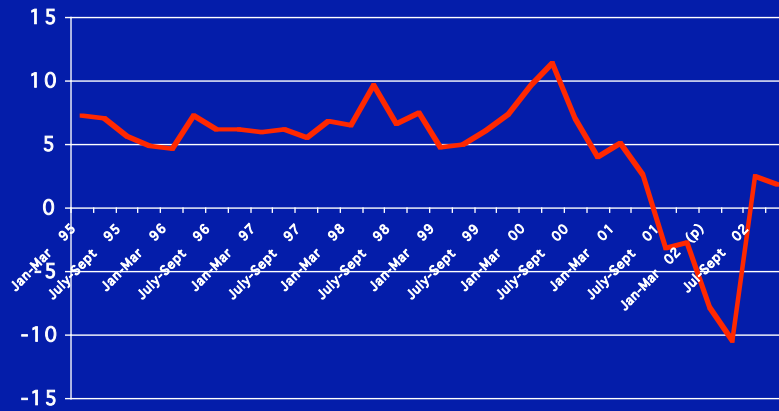
**Federation of Tax
Administrators
Oklahoma City, Oklahoma
June 18, 2003**

Purpose

- **High-level overview of state fiscal situation**
- **Overview of legislative activity in 2003**
- **Outline of what to expect going forward**

Rise and Fall of State Taxes

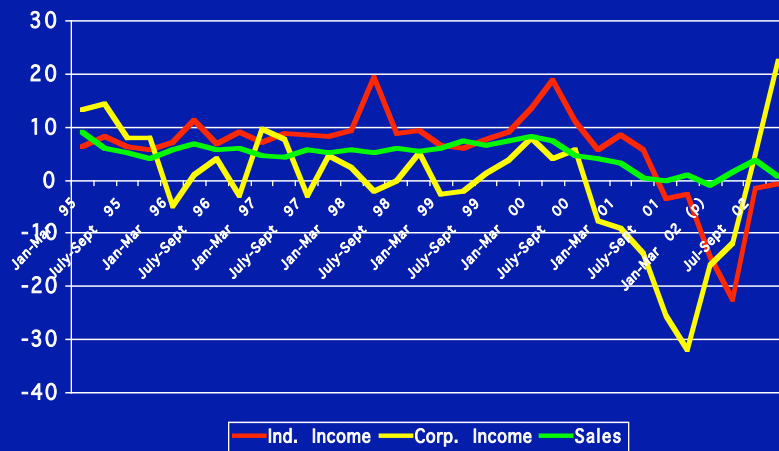
[Year over Year Change -- Total Taxes]



Source: Rockefeller Institute and FTA

Rise and Fall by Tax Type

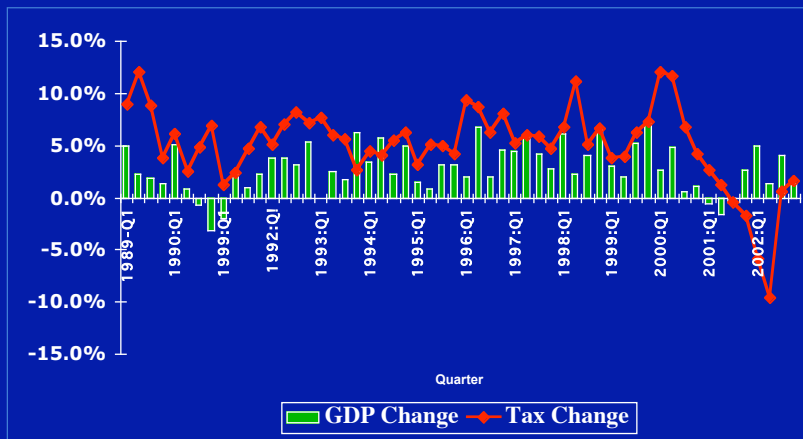
(Year over Year Change by Tax Type)



Source: Rockefeller Institute and FTA

Change in GDP and Revenues

[Percent Change on Annual Basis]



Summary Condition

- Nearly every state affected
- Aggregate shortfall of \$30 billion in FY 2003 and over \$80 billion in FY 2004
- Drop in revenue exceeded economic conditions -- capital gains and related income
- Some “shoring up” has occurred but “turn around” is not evident

What States Did in 2002?

- **Serious expenditure reductions**
- **One-time maneuvers**
 - Rainy day funds
 - Shifts/accelerations/delays
 - Tobacco money
- **Revenue measures**
 - Cigarettes
 - Bonus Depreciation
 - Amnesties
 - Corporate reform

2003 Legislatures

- **Considerable muddling through**
 - Borrowing
 - One-time revenues
 - Short-term fixes
- **Several reasons**
 - Elections
 - Tax aversion
- **Means repeat performance in 2004**

Revenue Measures -- 2003

- **Sales Tax**
 - Idaho (T)
 - Montana (New)
 - California (T)
 - New York (T)
 - Alaska (New)
 - Vermont
- **Individual Income Tax**
 - Pennsylvania (Reform)
 - Connecticut (Upper)
 - California (Upper)
 - Alabama (Reform)
 - New York (T)

Revenue - 2003 [Cont.]

- **Corporate Reform**
 - Ohio
 - Pennsylvania
 - Massachusetts
 - Maryland
 - Texas
 - Mississippi
- **Combined Report**
 - Missouri
 - Iowa
 - Alabama
 - Pennsylvania

Revenue - 2003 [Cont.]

- **Comprehensive Reform**
 - Alabama
 - Nevada
 - Ohio
 - Kentucky
 - California
- **Services/Other Exemptions**
 - Ohio
 - Alabama
 - Nevada
 - Florida
 - Texas
 - Nebraska
 - Missouri
 - Connecticut

Revenue - 2003 [Cont.]

- **Other Measures**
 - Cigarette Taxes (8)
 - Amnesties (3)
 - Continued decoupling
 - Accelerations
- **Non-Tax Measures**
 - Gambling
 - Tobacco securitization
 - Borrowing for pension and other
 - Sale/Leaseback
 - Accelerate/Delay
 - Expenditure cuts

Conclusion

- Likely to be some “repeat performances” in 2004
- No turn around in revenues
- Considerable patching through this session
- Not addressing structural issues

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Cigarette Sales

[Millions of Packs]

