

HOUSE FINANCE COMMITTEE  
February 18, 2003  
2:18 PM

TAPE HFC 03 - 21, Side A  
TAPE HFC 03 - 21, Side B

CALL TO ORDER

Co-Chair Harris called the House Finance Committee meeting to order at 2:18 PM.

MEMBERS PRESENT

Representative John Harris, Co-Chair  
Representative Bill Williams, Co-Chair  
Representative Kevin Meyer, Vice-Chair  
Representative Richard Foster  
Representative Mike Hawker  
Representative Reggie Joule  
Representative Carl Moses  
Representative Bill Stoltze  
Representative Jim Whitaker

MEMBERS ABSENT

Representative Eric Croft  
Representative Gary Stevens

ALSO PRESENT

Senator Bettye Davis; Corina Eckl, Fiscal Program Director, National Conference of State Legislators

PRESENT VIA TELECONFERENCE

None

GENERAL SUBJECT(S):

**PRESENTATION BY NATIONAL CONFERENCE OF STATE LEGISLATORS**

The following overview was taken in log note format. Tapes and handouts will be on file with the House Finance Committee through the 23rd Legislative Session, contact 465-2156. After the 23rd Legislative Session they will be available through the Legislative Library at 465-3808.

LOG	SPEAKER	DISCUSSION
	TAPE HFC 03 - 21 SIDE A	

0130	<b>CORINA ECKL, FISCAL PROGRAM DIRECTOR, NATIONAL CONFERENCE OF STATE LEGISLATORS</b>	Presented information from the National Conference of State Legislatures (NCSL). She explained that this report was previously given at a national press event in Washington, D.C. and received considerable attention, and used as a talking point in Congress. She noted that the NCSLS was a bipartisan organization, founded in 1975, serving all states and territories, and located in Denver and Washington DC. While the Denver office focuses on state services and problem solutions, the Washington office focuses on state-federal relations and lobbies Congress on behalf of the states.
327	Ms. Eckl	Outlined the resources available through NCSL (handout on file). She referred to Bob Boerner as the liaison to the State of Alaska. Ms. Eckl is assigned to state of Hawaii.
414	Ms. Eckl	Summarized the FY 2003 Budget Gaps, originally projected at \$49.1. She explained that the budget gaps were defined as a combination of revenue falling below projections and spending overruns. State budget gaps have grown 50% in just two months, growing to a current \$25.7 billion, over 5% of state general fund spending. 36 states report budget gaps. She referred to a map indicating the level of budget gaps in states around the country. She noted that, of the 15 states not facing budget gaps, several had solved previous budget problems.
557	Co-Chair Harris	Asked whether any other states had a permanent fund similar to Alaska, or that paid any dividends.
614	Ms. Eckl	Noted that some state have funds but do not pay dividends. For example, she pointed out that Wyoming uses earnings from a trust fund to apply to their General Fund, and clarified that the funds were not marked for any specific purpose.
713	Ms. Eckl	Noted that most states fiscal years began July 1, so figures represent the first six months of the year. She explained that most state budget problems had built up over several years and were largely due to a lack of revenue growth. She also noted that, since this is an ongoing

		<p>problem, a number of states have reviewed and adjusted their revenue projections. Still, some states failed to meet projected revenues. She also noted that entering FY 2003, states projected revenue growth of 2% above prior year tax collections, but it was unlikely that this projection would be met. 40 states collected less revenue in FY 2002 than in FY 2001. Responding to a question by Co-Chair Harris, she explained that states collected less revenue from personal income taxes. For example, in California, personal income tax income was largely driven by capital gains taxes and thus experienced significant reductions. She also noted that income from corporate business taxes has reduced.</p>
1007	Co-Chair Harris	<p>Asked if other states balanced their budget based on a reserve.</p>
1023	Ms. Eckl	<p>Responded that many states periodically tap into their reserves to bring their budgets into balance. She also pointed out that it was unusual for a state to tap into its reserve on a regular basis.</p>
1048	Co-Chair Harris	<p>Asked if other states with a mechanism to maintain a level budget received more commercial investment from corporations.</p>
1058	Ms. Eckl	<p>Responded that states have achieved balanced budgets by various methods, such as cutting spending and raising fees. Arkansas uses ABC budgeting, prioritizing categories of spending. If revenues do not meet projections, the lower categories are cut. This results in predictability in agency spending levels.</p>
1238	Co-Chair Harris	<p>Suggested that in Alaska, perhaps more is not invested by corporations into the State due to fiscal uncertainty. He maintained that a process that generated more certainty would encourage corporations to invest more heavily in Alaska.</p>
1324	Ms. Eckl	<p>Mentioned that in 1982 a report had been developed, called the Principals of a High Quality State Revenue System, outlining the ideal tax structure. Exceptions were made for unique circumstances, such as for Alaska in its mineral endowments. Among the principals were sufficient revenue generating ability, as well as stability and</p>

		predictability.
1432	Ms. Eckl	Referred to a chart illustrating State Own-Source Revenue, such as income and sales taxes. She noted the questions about the long-term viability of corporate taxation. She noted that corporations went through legal routes to avoid corporate taxation, making it difficult for policy makers to prevent such avoidance.
1642	Representative Hawker	Questioned if avoiding corporate taxation created a revenue problem.
1656	Ms. Eckl	Elaborated that, in addition to that problem, internet sales and catalogue sale are prohibited from taxation due to interstate commerce laws. There are efforts to streamline state sales taxes through a special project. Discussion in Washington DC proposes that giving states ability to tax from internet vendors, might be more productive than focusing on corporate income taxes.
1816	Representative Hawker	Referred to the 14.1% of selected sales taxes.
1845	Ms. Eckl	Explained that these refer to alcohol, tobacco and motor fuel taxes.
1902	Ms. Eckl	Referred to the outline of revenue outlook for FY 2003. 30 states expressed concern, including Alaska. She also discussed expenditure updates. 37 states reported overrun spending. She also noted that 32 states reported Medicaid or other health care programs were over budget. A FFIS study examined state spending and discerned that if Medicaid spending was extracted, that state spending remained fairly level. She noted that she could make this report available.
2120	Ms. Eckl	Referred to a map indicating states with Medicaid overrun. A few states were able to contain costs in Medicaid and to better project of expenses. She noted that more details were available through another report. She stated that, in general, many states had cut back on optional programs, such as cervical and breast cancer screening, raising concern that recent program advances were now being reversed. Massachusetts had cut over 50,000 people from its Medicaid rolls by changing eligibility, but was still experiencing spending overruns.

2250	Co-Chair Harris	Requested to see a copy of the report regarding Medicaid cost containment. He also referred to the Federal medical assistance match, and noted that Alaska was previously higher in its match than its current reduced rate.
2337	Ms. Eckl	Noted that one proposal made by NCSL to Congress was to allow former F map members stay in place during this time of economic difficulty. She confirmed that changes in F mapping was causing problems for many states.
2411	Representative Hawker	Noted states that did not have overruns seemed to have other factors that differed. He wondered if they had commonalities.
2444	Ms. Eckl	Explained that these states had tightened requirements to contain Medicaid issues.
2519	Representative Hawker	Asked if these states had simply funded the demand for projected Medicaid needs.
2545	Ms. Eckl	Discussed that Wisconsin experienced many budgetary challenges. She noted that they implemented significant tax increases, partially to tobacco settlement money.
2642	Ms. Eckl	Outlined actions taken by states to deal with shortfalls. One of the first actions taken was to cut spending, for up to 36 states. She also explained that some states went into special legislative sessions to cut spending levels. She pointed out that using tobacco settlement funds to stop budget gaps had met with some controversy among health advocates, who proposed that these funds should be used for related health care programs. She also mentioned that there had been some expectation that one-time revenues could be used for economic recovery, but that this had not proved to be effective, leading to other more permanent actions. She stated that nearly half of the states had tapped their rainy day funds.
3012	Ms. Eckl	Noted that at the end of FY 2001, nearly half of state balances were comprised of rainy day funds. These funds were depleted by FY 2002 by over half. FY 2003 projections for rainy day funds were \$11.4 billion, but indications are that this number will be lower.
3118	Ms. Eckl	Referred to a map illustrating states with rainy day funds. Concern exists among investors regarding state bond

		ratings, which are determined partially by the kind of financial cushion states have in place. She noted that a representative from the Standard and Poor explained that it was expected for states to use their reserve funds, but that they discouraged using one-time monies for long term expenditures.
3235	Ms. Eckl	Spoke to a chart illustrating state year-end balances, tracked from 1978 till 2003. She noted that balances had decreased in the early 90's, as well as the early 80's. Currently, balances were at 3.8%
3339	Ms. Eckl	Most states were making cuts in school funding. For example, Oregon was cutting its K - 12 spending. She also noted that higher education was also experiencing cuts, with the perception among policy makers that higher education had alternative sources of income. She pointed out that nearly half of the states were also cutting their corrections budgets; some states were also cutting Medicaid by tightening eligibility. She also noted that state employees received cutbacks, as well as a delay in capital projects.
3633	Ms. Eckl	Noted that 18 states raised taxes last year by more than 1%. Many states focused on sales and use taxes. She noted that these actions were taken even in an election year. Most states continue to have sizable budget gaps. Hawaii was the only state to cut taxes by more than 1%.
3749	Ms. Eckl	Referred to the chart tracking tax changes since 1989. She noted that during 1991, taxes increased by \$15.4 billion. She maintained that this kind of increase seemed unlikely given campaign promises made in the past election. She observed that the largest increase was in cigarette and tobacco taxes.
3922	Ms. Eckl	She pointed out that the total projected budget gap was \$68.5 billion, which she noted was likely too low, since 12 states had not yet provided information. She also referred to a map indicating states with budget gaps, and pointed out 18 states with gaps 10% and higher.
4026	Ms. Eckl	Noted that 25 states have tax proposals

		under consideration. Early proposals focus on cigarette and alcohol taxes, although some states, like California, are looking to increase personal income tax.
4119	Ms. Eckl	Also pointed out some examples of budget balancing techniques in other states. She maintained that there was no magic formula, and that each state was looking for a method that worked for them. She explained that a few states had communicated their methods to NCSL.
4212	Ms. Eckl	Discussed the methods used in various states to balance budgets. She cited a number of examples: in Arizona, they delayed K-12 costs; Connecticut used tax amnesty programs; Iowa shifted \$304.3 million in expenditures from General Fund to non General Fund sources; Louisiana uses tax amnesty, as well as circumventing surplus revenue limitations; Michigan shifted the collection date of state education tax; New Jersey created an alternative minimum assessment provision, shoring up corporate income tax, as well as raising fees, flat funding a formula school programs, and offering early retirement programs. She asserted that early retirement programs might produce short-term savings, but long term costs. Rhode Island gave each department a single line item in budget and gave them flexibility to operate within those levels. Utah changed disbursement to higher education to a six month period, and sold some state assets
		<b>TAPE HFC 03 - 21, Side B</b>
4537	Ms. Eckl	Referred to the February 2003 issue of Governing Magazine, highlighting a report that described state tax sources, including a report on Alaska. She recommended that legislators utilize this publication.
4555	Representative Hawker	Asked whether NCSL had a report comparing budget gaps to another measure of a state's economic level. He followed up that this might indicate how a state stood up to its capacity for increased revenues.
4523	Ms. Eckl	Stated that such a report did not exist. The NCSL bases their budget gaps based on the ratio of revenues to spending.

4439	Ms. Eckl	Referred to a report created some years ago by the Advisory Commission on Intergovernmental Relations (ACIR). The ACIR spent time compiling information on state tax capacities and efforts. They were interested in asking what kind of effort was made by a state compared to its potential. She noted that this study was discontinued.
4351	Co-Chair Harris	Asked if any statistics were available reflecting Alaska's per capita General Fund spending as compared to other states.
4328	Ms. Eckl	Stated that she would research this data.
4249	Representative Foster	Commented that the method of giving agencies a line item budget would require a great deal of trust in the agencies.
4212	Ms. Eckl	Conceded that danger existed that legislative intent would be overstepped with such flexibility. However, she stated that in Rhode Island, with oversight, the method seemed to be working.
4133	Co-Chair Harris	Asked if other states experienced challenges with extended rural areas such as in Alaska.
4111	Ms. Eckl	Noted that the geographic challenge of Alaska was unique. She also mentioned that some other states, such as North and South Dakota, experienced somewhat similar concerns, although not as extreme. She mentioned the Rural Legislators' Caucus in Congress. This Caucus discussed rural development and actions taken to address common rural concerns, such a lack of quality health care. She committed to sending a copy of the results of the caucus to the Committee.
3943	Senator Davis	Asked if Alaska was represented in this group and if the group was ongoing.
3922	Ms. Eckl	Stated that the group was open to all states, but that Alaska was not represented. She noted that the group was not ongoing at this time.
	<b>ADJOURNMENT</b>	The meeting was adjourned at 3:14 PM