

ALASKA LEGISLATURE COMMITTEE FILES 2001-2002 0072

10433 HOUSE STATE AFFAIRS

223

is sufficiently compelling that the granting of an exemption to people in the position of the defendants would unduly hinder that goal"); *French*, 460 N.W.2d at 9 ("French must be granted an exemption . . . unless the state can demonstrate compelling and overriding state interest, not only in the state's general statutory purpose, but in refusing to grant an exemption to French."). However, the majority of courts have considered simply whether the government had a compelling interest in enforcing the law at issue.

When a state or municipality chooses to target and prohibit a specific form of discrimination, presumably it does so because it believes that there is a serious problem. See *EEOC v. Pacific Press Publishing Ass'n*, 676 F.2d 1272, 1280 (9th Cir. 1982) ("By enacting Title VII, Congress clearly targeted the elimination of all forms of discrimination as a 'highest priority.'"). Courts have sometimes found that legislative determination alone, however, is not always dispositive of whether the state's interest is compelling. See *Gay Rights Coalition*, 536 A.2d at 33 ("While not lightly to be disregarded, the Council's strong feelings do not resolve the issue whether its ban on sexual orientation discrimination represents a compelling governmental interest."); *Desilets*, 636 N.E.2d at 240 ("we are unwilling to conclude that simple enactment of the prohibition against discrimination based on marital status establishes that the state has [a compelling interest in ending marital status discrimination in housing]").

To the extent that other state or municipal laws or policies discriminate against the class, courts are sometimes less likely to find that the governmental interest in ending discrimination against that class is compelling. Thus, in some states, anti-fornication or sodomy statutes have provided additional support for concluding that there is no compelling governmental interest in protecting against discrimination based on marital status or sexual orientation. See, e.g., *Thomas*, 165 F.3d at 716-17 (citing state statutes providing less favorable benefits to unmarried couples than to married couples); *French*, 460 N.W.2d at 10 (plurality op.) ("How can there be a compelling state interest in promoting fornication when there is a state statute on the books prohibiting it?"); *Desilets*, 636 N.E.2d at 240 (the existence of a criminal statute against fornication "'suggests some diminution' in the state's interest). On the other hand, the Alaska Supreme Court in *Swanner* noted that differential treatment of married and unmarried people in areas other than housing does not prove that the state views marital status discrimination in housing as insignificant.

Courts have taken different positions on defining the scope of the governmental interest at stake in prohibiting discrimination. Defining the governmental interest broadly, the *Swanner* court had no difficulty in concluding that the state's "interest in preventing discrimination based on irrelevant characteristics" is compelling. *Swanner*, 874 P.2d at 282-83. "The government views acts of discrimination as independent social evils even if the prospective tenants ultimately find housing. Allowing housing discrimination that degrades individuals, affronts human dignity, and limits one's opportunities results in harming the government's transactional interest in preventing such discrimination." *Id.*; accord *Gay Rights Coalition*, 536 A.2d at 37 ("The compelling interests . . . that any state has in eradicating discrimination against the homosexually or bisexually oriented include the fostering of individual dignity, the creation of a climate and environment in which each individual can utilize his or her potential to contribute to and benefit from society, and equal protection of the life, liberty, and property that the Founding Fathers guaranteed to us all.").

In contrast, the Massachusetts Supreme Court in *Desilets* insisted on a much more narrow reading of the governmental interest, noting that "[t]he general objective of eliminating discrimination of all kinds. . . cannot alone provide a compelling State interest that justifies the . .

. disregard of the defendants' right to free exercise of their religion. The analysis must be more focused." *Desilets*, 636 N.E.2d at 238. This narrow reading led the court to insist that Massachusetts "demonstrate that it has a compelling interest in the elimination of discrimination in housing against an unmarried man and an unmarried woman who have a sexual relationship and wish to rent accommodations to which [the civil rights statute] applies." *Id.*

D. Are Uniformly Applied Anti-Discrimination Laws the Least Restrictive Means Available?

The fourth part of the ARFPA test is whether the challenged state or local law uses the least restrictive means to achieve the government's compelling interest. Several courts have held that uniform application of anti-discrimination laws is the least restrictive means available. *See, e.g., Swanner*, 874 P.2d at 280, n.9 ("The most effective tool the state has for combating discrimination is to prohibit discrimination; these laws do exactly that. Consequently the means are narrowly tailored and there is no less restrictive alternative."); *Gay Rights Coalition*, 536 A.2d at 39 ("The District of Columbia's overriding interest in eradicating sexual orientation discrimination, if it is ever to be converted from aspiration to reality, requires that Georgetown equally distribute tangible benefits to the student groups."); *McClure*, 370 N.W.2d at 853 ("the state's overriding compelling interest of eradicating discrimination based upon sex, race, marital status, or religion could be substantially frustrated if employers, professing as deep and sincere religious beliefs as those held by appellants, could discriminate against the protected class"). However, the Massachusetts Supreme Court remanded that question when it held that the government may be required to prove that "uniformity of enforcement of the statute . . . [is] the least restrictive means for the practical and efficient operation of the anti-discrimination law." *Desilets*, 636 N.E.2d at 241.

Persons using a religious liberty defense to a civil rights claim have argued that uniform application of civil rights laws cannot be the least restrictive means if the civil rights statute in question contains exemptions for religious organizations and small landlords or employers. Those defendants have argued that a less restrictive means is available, namely, granting an exemption to persons who hold sincere religious beliefs. For example, one court found that "the compulsion of the state's interest appears somewhat weakened because the statute permits discrimination by a religious organization in certain respects . . . if to do so promotes the principles for which the organization was established." *Desilets*, 636 N.E.2d at 240. However, another court recognized that while the government permits exemptions for "religious corporations when religious beliefs shall be a bona fide occupational qualification," "the state's overriding interest permits of no exemption to appellants in this case. . . . [W]hen appellants entered into the economic arena and began trafficking in the market place, they have subjected themselves to the standards the legislature has prescribed not only for the benefit of prospective and existing employees, but also for the benefit of citizens of the state as a whole in an effort to eliminate pernicious discrimination." *McClure*, 370 N.W.2d at 853; The split on how to apply the least restrictive means part of the strict scrutiny test is particularly important when most state and local civil rights laws have numerous exemptions.

Finally, as we pointed out in our introduction to this position paper, we concur with the analysis by the NAACP. We share their concerns, and those of many other civil rights and religious groups, that even where a "firm national policy" in eradicating certain types of discrimination could be shown, such as classifications based on race or sex, courts may conclude that such a compelling governmental interest could be achieved without prohibiting the

discriminatory conduct of the particular defendant claiming a religious exemption to a civil rights law.

E. Has the Government Met Its Strict Scrutiny Burden With Clear and Convincing Evidence?

The standard of "clear and convincing evidence" is not commonly applied in the kind of civil constitutional cases that would arise out of ARFPA. Strict scrutiny is already the highest level of scrutiny that can be applied to any statute ("essential to further a compelling governmental interest"). Courts would have a very difficult time resolving cases at the summary judgment stage if they also have to weigh factual evidence. This evidentiary requirement could make the litigation more costly for the person claiming a religious exemption because the government would have to demand an evidentiary trial, even where the government would otherwise have stipulated to the facts as stated in the pleadings. The AkCLU respectfully suggests that the "clear and convincing evidence" standard be stricken from ARFPA.

IV. CONCLUSION AND SUGGESTED AMENDMENTS

The AkCLU urges the Committee, as it addresses the problem of increasing protection for religious exercise against neutral state and local laws, to avoid unintentional harm to the enforcement of state and local civil rights laws. Without careful drafting, a state religious liberty statute could provide a new defense against state and local civil rights claims made by persons who already receive the least protection from the courts and the federal government. This Committee should not pass any religious liberty legislation without ensuring that it will not deprive persons of their civil rights under state and local laws.

The AkCLU therefore proposes the following four amendments to clarify the intent of the bill and to protect religious freedom at the same time as it protects civil rights.

- (1.) Delete "individual rights of a third party" on Page 2, line 27, and insert "rights of others by a person claiming a religious exemption to a law. This section does not establish or eliminate a defense to a civil action or criminal prosecution under a federal, state or local anti-discrimination law."

The sponsor has stated that his intent is to prevent one person's free exercise of religion from infringing on the rights of another person. In other words, everyone has the right to practice his/her religion freely, exempt from laws that burden his/her religious exercise, as long as no one else is injured in the process. The AkCLU agrees with this assertion, and we feel that our amendment clarifies this balancing.

To cite for you a specific example where we support ARFPA, two years ago the AkCLU looked into a case in which a Muslim couple objected on religious grounds to the State of Alaska performing an autopsy on their deceased infant. Alaska law requires an autopsy to be performed in all SIDS (Sudden Infant Death Syndrome) cases, but the parents in this case sincerely believed, in accordance with their faith, that their baby would not go to Heaven if the baby's body was not presented whole unto God. (FYI, other faiths, such as Orthodox Judaism, also profess this religious tenet.) Since the cause of death can often be determined by "less restrictive" means that do not involve cutting into the corpse - i.e. magnetic resonance imaging, or MRI - HB 195 would protect the rights of relatives to be exempt from the state's generally applicable autopsy laws. Similarly, if the cause of death for suspected SIDS cases can be

determined by means that do not infringe on religion, then the state should respect the religious practices of the parents of that infant.

Our suggested amendment fairly balances the religious freedom of the individual with the rights of the rest of society by preventing harm to any third parties from the exercise of an individual's religious rights.

(2.) As we have already pointed out, HB 195 states that a government entity "may not place a burden on a person's free exercise of religion..." (Emphasis added.) Our concern is that "burden" may be read very broadly to include any level of restriction, no matter how minor its impact on the free exercise of religion. The proposed federal RLPA used a different standard. The proposed federal RLPA provided in relevant part that "a [state or local] government shall not substantially burden a person's religious exercise..." (emphasis added). Courts have defined standards for substantial burdens, as discussed above. We propose that the modifier "substantial" be inserted before the word "burden" on Page 2, line 19, and in the bill title, Page 1, line 1.

(3.) We have some great qualms about the wording of Section (4) in the legislative findings. We think that the intent of (4) is to protect against discrimination, but Section (4) leaves open a lot of gray area where courts have not yet granted compelling interest status to the state's interest in remedying certain types of discrimination. We suggest the following wording for Section (4): "while it is improper for the legislature to tell the judiciary how to interpret the Constitution of the State of Alaska, it is proper for the legislature to codify protection for the free exercise of religion, so long as that legislative action does not authorize the infringement of the rights of others by the person claiming a religious exemption to a facially neutral law of general applicability."

(4.) For reasons discussed above, we respectfully urge the deletion of "with clear and convincing evidence" on Page 2, line 21. This evidentiary standard may actually drive up the costs of this type of litigation by forcing an evidentiary hearing.

Thank you very much for your consideration of this important matter. I can be reached at our office in Anchorage at 258-0044 if you have any further questions.

ENDNOTES

1In addition, the supreme courts of Michigan and Illinois recently vacated decisions that had held that their respective state fair housing laws protecting persons based on marital status served a compelling governmental interest and were narrowly tailored. *McCready v. Hoffius*, 1999 Mich. Lexis 694 (Mich. April 16, 1999), *vacating and remanding*, 586 N.W.2d 723 (Mich. 1998); *Jasniewski v. Rushing*, 685 N.E.2d 622 (Ill. 1997), *vacating for lack of case or controversy*, 678 N.E.2d 743 (Ill. App. 1997). The Michigan Supreme Court reversed its own earlier decision after newly elected justices joined the court. The Illinois Supreme Court vacated an intermediate appellate decision for the procedural reason of a lack of a case or controversy.

2In *Loving*, the Supreme Court reversed a decision of the Virginia Supreme Court which had affirmed, in part, a Virginia state trial court decision that stated:

Almighty God created the races white, black, yellow, malay and red, and he placed them on separate continents. And but for the interference with this arrangement there would be no cause for such marriages. The fact that he separated the races shows that he did not intend for the races to mix.

Decision of Circuit Court for Caroline County (Jan. 6, 1959), (*quoted in Loving*, 388 U.S. at 3).

HB

1988



Official Business

Alaska State Legislature

House of Representatives

Office of the Chief Clerk

State Capitol, Room 216
Juneau, AK 99801-1182
Phone: (907) 465-3725
Fax: (907) 465-5334

Committee Report

Date: March 15, 2001

The Honorable Brian Porter
Speaker of the House
State Capitol
Juneau, AK 99801

Dear Speaker Porter:

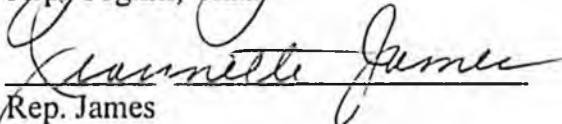
The State Affairs Committee has reviewed the qualifications of the following individual and recommends that his name be forwarded to the House for consideration:

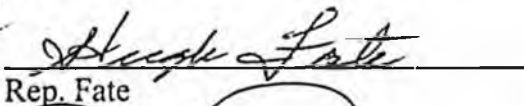
Alaska Public Offices Commission

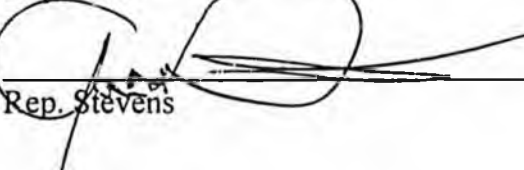
Mr. Mark T. Handley of Juneau

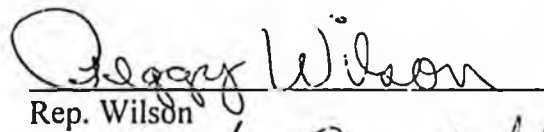
Appointed: 05/24/2000 Term Expires: 02/01/2005

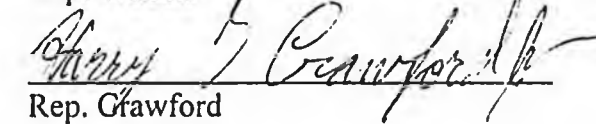

Rep. Coghill, Chair


Rep. James


Rep. Fate


Rep. Stevens


Rep. Wilson


Rep. Crawford

Rep. Hayes

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CS FOR HOUSE BILL NO. 198()
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-SECOND LEGISLATURE - FIRST SESSION

BY

Offered:
Referred:

Sponsor(s): REPRESENTATIVE HUDSON

A BILL
FOR AN ACT ENTITLED

1 "An Act relating to a post-retirement pension adjustment for certain persons receiving
2 benefits under the Elected Public Officers Retirement System."

3 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

4 * Section 1. The uncodified law of the State of Alaska is amended by adding a new section
5 to read:

6 RETIREMENT BENEFITS UNDER ELECTED PUBLIC OFFICERS
7 RETIREMENT SYSTEM FOR CERTAIN BENEFIT RECIPIENTS. (a) For a member of
8 the elected public officers retirement system receiving benefits under former
9 AS 39.37.050(a)(1), if the monthly salary and, if appropriate, the additional allowances
10 established under AS 24.10.110, authorized for the office from which the member retired was
11 not increased in at least 15 years, the monthly benefit payable to the member or the member's
12 survivor under former AS 39.37 (elected public officers retirement system) shall be increased
13 as set out in this section. The amount of the increase is an amount equal to the monthly
14 benefit to which the member or survivor is entitled multiplied by 75 percent of the percentage

1 increase in the cost of living since the benefit was last adjusted under this section or former
2 AS 39.37.050(a)(1) or since the member retired under former AS 39.37, whichever is later.

3 (b) Notwithstanding former AS 39.37.050(a)(1), if a benefit is increased under (a) of
4 this section and if the monthly salary and, if appropriate, the additional allowances established
5 under AS 24.10.110, authorized for the office from which a member retired is subsequently
6 increased, the member's or survivor's benefit under former AS 39.37 may not be increased
7 until the increase in benefits based on former AS 39.37.050(a)(1) equals or exceeds the
8 increase based on (a) of this section. If benefits based on former AS 39.37.050(a)(1) increase
9 to more than the increased benefit computed under (a) of this section, the member or survivor
10 is entitled to receive an additional increase based on the difference between the two amounts.

11 (c) The administrator of the public employees' retirement system shall implement this
12 section.

13 (d) When computing a survivor's benefit under former AS 39.37.060, adjustments
14 granted to the deceased member or survivor under this section shall be included.

15 (e) An increase in benefit payments under this section is effective July 1 of each
16 calendar year and is based on the percentage increase in the consumer price index for urban
17 wage earners and clerical workers for Anchorage, Alaska, during the previous calendar year,
18 as determined by the United States Department of Labor, Bureau of Labor Statistics.

19 (f) In this section, "system" means the elected public officers retirement system under
20 former AS 39.37.

FISCAL NOTE

STATE OF ALASKA
2001 LEGISLATIVE SESSION

Fiscal Note Number: WORK DRAFT
 Bill Version: CS HB 198 ()
 () Publish Date: _____

Revision Date/Time (Note if correction): 04/24/2001 Dept. Affected: Office of the Governor
 Title: "An Act relating to a post-retirement pension... and increasing the compensation of the governor". BRU: Executive Operations
 Sponsor: Representative Hudson Component: ExecutiveOffice
 Requester: House State Affairs Component Number: 6

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2001) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2002 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

CS HB198 deletes the previously proposed pay raise for the governor, resulting in no fiscal impact for the Office of the Governor.

Prepared by: _____ Phone 465-3876
 Division: Administrative Services Date/Time: _____
 Approved by: _____ Date: _____
 Agency: Office of the Governor

For distribution information, call the Governor's Legislative Office



REPRESENTATIVE BILL HUDSON Alaska State Legislature

Room 502 • State Capitol, Juneau, Alaska 99801 (907)465-3744 Fax: 465-2273

Sponsor Statement
HB 198

DRAFT

Relating to a post-retirement pension adjustment and cost of living allowance for persons receiving benefits under the Elected Public Officers Retirement System (EPORS)

This bill corrects a longstanding inequity occurring in the retirement benefit calculations for EPORS members. Certain retirees who served in key positions such as Governor, and as members of the state legislature, have not had any cost of living adjustments to their EPORS retirement benefits as have their peers who retired under the PERS retirement system.

The contrast in benefits grows sharper when you consider that PERS retirees also have benefited by any salary adjustments which may have been bargained for the position from which they retired. ~~This leads to the second aspect of this bill, which is to increase the pay for the job of Governor of the State of Alaska for the first time since 1983 when it was increased to \$81,648.~~

~~There is some confusion evident that the salary was intended to be set at Range 30, Step F, however the inclusion of a dollar amount (\$81,648 from 1983 to present, and \$80,000 from 1978 through 1983) in statute, took precedence over the salary schedule.~~

Two former governors have retired under the provisions of EPORS.

DRAFT

House Bill 198 Fiscal Note Analysis (continued)

This legislation would add the following for Elected Public Officers Retirement System beneficiaries:

1. 10% Alaska Cost of Living Allowance

FY 02 cost: \$76.5

This provision would provide EPORS retirees the same cost of living allowance afforded Tier I Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) retirees who reside in the State of Alaska.

2. Post Retirement Pension Adjustment

FY 02 Cost: \$27.0

EPORS retirement benefits are based on the salary of the position last held by the retiree. Therefore, as incumbent salaries rise (or fall), so do the benefits of the retirees. The PERS and TRS systems have post retirement pension adjustment provisions, which provide an automatic adjustment based on the rate of inflation. This bill would add a similar provision to EPORS. In effect, this means that a retirement benefit could rise on two bases: (1) an increase in the incumbent salary; and (2) an increase in the cost of living.

3. Increase in Benefits of Retired Governors

FY 02 Cost: \$46.5

Two former governors have retired under the provisions of EPORS. The increase in the governor's salary to \$110.0 will increase the annual base benefits of these two former governors by \$46.5

Component Detail - FY 02 Operating Budget - Governor Structure

Numbers AND Language Sections

Component: Governor's House Agency: Office of the Governor
 BRU: Executive Operations

	FY00 Act	FY01 CC	FY01 Auth	01MgtPln	Adj Base	Gov	01MgtPln to Gov		
Total	320.4	318.0	324.7	341.7	343.2	343.2	1.5	0.4 %	
<u>Objects of Expenditure:</u>									
Personal Services	192.7	198.3	205.0	222.0	223.5	223.5	1.5	0.7 %	
Travel	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0 %	
Contractual	57.8	61.7	61.7	61.7	61.7	61.7	0.0	0.0 %	
Commodities	47.0	58.0	58.0	58.0	58.0	58.0	0.0	0.0 %	
Equipment	21.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0 %	
Lands/Buildings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0 %	
Grants, Claims	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0 %	
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0 %	
<u>Funding Sources:</u>									
1004 Gen Fund	320.4	318.0	324.7	341.7	343.2	343.2	1.5	0.4 %	
<u>Positions:</u>									
Perm Full Time	4.0	4.0	4.0	4.0	4.0	4.0	0.0	0.0 %	
Perm Part Time	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0 %	
Temporary	1.0	1.0	1.0	1.0	1.0	1.0	0.0	0.0 %	



HOUSE STATE AFFAIRS COMMITTEE

STATE CAPITOL, ROOM 102
465-4963

MEMORANDUM

COMMITTEE MEMBERS

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Chairman
Room 102
465-3719

Rep. Hugh Fate
Vice-Chair
Room 416
465-4976

Rep. Jeannette James
Room 214
465-3743

Rep. Gary Stevens
Room 428
465-4925

Rep. Peggy Wilson
Room 409
465-3824

Rep. Harry Crawford
Room 426
465-3438

Rep. Joe Hayes
Room 422
465-3466

Date: April 12, 2001

To: Patricia Young, Leg Research

From: Representative John Coghill, Chairman
House State Affairs Committee

Re: Governor's Benefits

A handwritten signature in dark ink, appearing to be "J.C.", written over the "From:" line of the memorandum.

I am requesting some information on what the fiscal note is on benefits provided to the governor such as housing, lodging, transportation, entertainment, per diem, and expense accounts.

Thank you for your assistance.

FISCAL NOTE

STATE OF ALASKA
2001 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HB 198
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Administration
 Title: An Act relating to a post-retirement pension BRU: Special Systems
adjustment and cost-of living allowance.... Component: EPORS
 Sponsor: Representative Hudson
 Requester: (H)State Affairs Component Number: 964

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims	150.0	172.0	195.0	218.6	242.6	267.3
Miscellaneous						
TOTAL OPERATING	150.0	172.0	195.0	218.6	242.6	267.3

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	150.0	172.0	195.0	218.6	242.6	267.3
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	150.0	172.0	195.0	218.6	242.6	267.3

Estimate of any current year (FY2001) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2002 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

See page 2 for analysis.

Prepared by: Guy Bell, Director Phone 465-4471
 Division: Retirement and Benefits Date/Time 04/02/01
 Approved by: Alison Elgee, Deputy Commissioner Date April 2, 2001
 Agency: Department of Administration

For distribution information, call the Governor's Legislative Office

House Bill 198 Fiscal Note Analysis (continued)

This legislation would add the following for Elected Public Officers Retirement System beneficiaries:

1. 10% Alaska Cost of Living Allowance

FY 02 cost: \$76.5

This provision would provide EPORS retirees the same cost of living allowance afforded Tier I Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) retirees who reside in the State of Alaska.

2. Post Retirement Pension Adjustment

FY 02 Cost: \$27.0

EPORS retirement benefits are based on the salary of the position last held by the retiree. Therefore, as incumbent salaries rise (or fall), so do the benefits of the retirees. The PERS and TRS systems have post retirement pension adjustment provisions, which provide an automatic adjustment based on the rate of inflation. This bill would add a similar provision to EPORS. In effect, this means that a retirement benefit could rise on two bases: (1) an increase in the incumbent salary; and (2) an increase in the cost of living.

3. Increase in Benefits of Retired Governors

FY 02 Cost: \$46.5

Two former governors have retired under the provisions of EPORS. The increase in the governor's salary to \$110.0 will increase the annual base benefits of these two former governors by \$46.5

FISCAL NOTE

STATE OF ALASKA
2001 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: HB 198
() Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Office of the Governor
Title: "An Act relating to a post-retirement pension... and increasing the compensation of the governor". BRU: Executive Operations
Sponsor: Representative Hudson Component: ExecutiveOffice
Requester: House State Affairs Component Number: 6

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personal Services	31.2	32.1	32.1	32.1	32.1	32.1
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	31.2	32.1	32.1	32.1	32.1	32.1

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	31.2	32.1	32.1	32.1	32.1	32.1
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	31.2	32.1	32.1	32.1	32.1	32.1

Estimate of any current year (FY2001) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2002 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

HB198 increases the governor's compensation from \$81,648 to 110,000 on 7/1/01 and provides for an additional 3% increase on 7/1/2002. The personal services costs on this fiscal note are the additional salary and benefits costs after the increases provided for in Sec. 1, Ch. 2, TSSLA 00.

Prepared by: Michael A. Nizich, Administrative Director Phone 465-3876
Division: Administrative Services Date/Time 4/2/01 12:00 AM
Approved by: David Ramseur Date 04/02/2001
Agency: Office of the Governor

For distribution information, call the Governor's Legislative Office

FISCAL NOTE

STATE OF ALASKA
2001 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: CSHB 198(STA)
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Administration
 Title: An Act relating to a post-retirement pension BRU: Special Systems
adjustment and cost-of living allowance.... Component: EPORS
 Sponsor: Representative Hudson
 Requester: (H)State Affairs Component Number: 964

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personal Services:						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims	47.6	56.9	66.4	67.6	67.8	68.0
Miscellaneous						
TOTAL OPERATING	47.6	56.9	66.4	67.6	67.8	68.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	47.6	56.9	66.4	67.6	67.8	68.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	47.6	56.9	66.4	67.6	67.8	68.0

Estimate of any current year (FY2001) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2002 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

See page 2 for analysis.

Prepared by: Guy Bell, Director Phone 465-4471
 Division: Retirement and Benefits Date/Time 04/25/01
 Approved by: Jim Duncan, Commissioner Date April 25, 2001
 Agency: Department of Administration

For distribution information, call the Governor's Legislative Office

CS House Bill 198(STA) Fiscal Note Analysis (continued)

This legislation would add a Post Retirement Pension Adjustment for Elected Public Officers Retirement System beneficiaries:

FY 02 Cost \$47.6

EPORS retirement benefits are based on the salary of the position last held by the retiree. Therefore, as incumbent salaries rise (or fall), so do the benefits of the retirees. The PERS and TRS systems have post retirement pension adjustment provisions, which provide an automatic adjustment based on the rate of inflation. This bill would add a similar provision for those participants who have received benefits for 15 years and not received any increase during that time. Eligible participants would receive an increase of 75% of the increase in the cost of living since the retirement benefit was last adjusted, or since the member retired, whichever is later.

If the salary of the position last held by the retiree increases subsequent to the addition of the Post Retirement Pension Adjustment, the member's retirement benefit is not increased until the adjustment based on the salary increase is more than the 75% cost of living increase afforded by this bill.



REPRESENTATIVE BILL HUDSON Alaska State Legislature

Room 502 • State Capitol, Juneau, Alaska 99801 (907)465-3744 Fax: 465-2273

Sponsor Statement
HB 198

DRAFT

Relating to a post-retirement pension adjustment and cost of living allowance for persons receiving benefits under the Elected Public Officers Retirement System (EPORS)

This bill corrects a longstanding inequity occurring in the retirement benefit calculations for EPORS members. Certain retirees who served in key positions such as Governor, and as members of the state legislature, have not had any cost of living adjustments to their EPORS retirement benefits as have their peers who retired under the PERS retirement system.

The contrast in benefits grows sharper when you consider that PERS retirees also have benefited by any salary adjustments which may have been bargained for the position from which they retired. ~~This leads to the second aspect of this bill, which is to increase the pay for the job of Governor of the State of Alaska for the first time since 1983 when it was increased to \$81,648.~~

~~There is some confusion evident that the salary was intended to be set at Range 30, Step F, however the inclusion of a dollar amount (\$81,648 from 1983 to present, and \$80,000 from 1978 through 1983) in statute, took precedence over the salary schedule.~~

Two former governors have retired under the provisions of EPORS.

DRAFT

House Bill 198 Fiscal Note Analysis (continued)

This legislation would add the following for Elected Public Officers Retirement System beneficiaries:

1. 10% Alaska Cost of Living Allowance

FY 02 cost: \$76.5

This provision would provide EPORS retirees the same cost of living allowance afforded Tier I Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) retirees who reside in the State of Alaska.

2. Post Retirement Pension Adjustment

FY 02 Cost: \$27.0

EPORS retirement benefits are based on the salary of the position last held by the retiree. Therefore, as incumbent salaries rise (or fall), so do the benefits of the retirees. The PERS and TRS systems have post retirement pension adjustment provisions, which provide an automatic adjustment based on the rate of inflation. This bill would add a similar provision to EPORS. In effect, this means that a retirement benefit could rise on two bases: (1) an increase in the incumbent salary; and (2) an increase in the cost of living.

3. Increase in Benefits of Retired Governors

FY 02 Cost: \$46.5

Two former governors have retired under the provisions of EPORS. The increase in the governor's salary to \$110.0 will increase the annual base benefits of these two former governors by \$46.5

Component Detail - FY 02 Operating Budget - Governor Structure

Numbers AND Language Sections!

Component: Governor's House
 BRU: Executive Operations

Agency: Office of the Governor

	FY00 Act	FY01 CC	FY01. Auth	01MgtPln	Adj Base	Gov	01MgtPln to Gov	
Total	320.4	318.0	324.7	341.7	343.2	343.2	1.5	0.4 %
<u>Objects of Expenditure:</u>								
Personal Services	192.7	198.3	205.0	222.0	223.5	223.5	1.5	0.7 %
Travel	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0 %
Contractual	57.8	81.7	61.7	61.7	61.7	61.7	0.0	0.0 %
Commodities	47.0	58.0	58.0	58.0	58.0	58.0	0.0	0.0 %
Equipment	21.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0 %
Lands/Buildings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0 %
Grants, Claims	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0 %
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0 %
<u>Funding Sources:</u>								
1004 Gen Fund	320.4	318.0	324.7	341.7	343.2	343.2	1.5	0.4 %
<u>Positions:</u>								
Perm Full Time	4.0	4.0	4.0	4.0	4.0	1.0	0.0	0.0 %
Perm Part Time	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0 %
Temporary	1.0	1.0	1.0	1.0	1.0	1.0	0.0	0.0 %



HOUSE STATE AFFAIRS COMMITTEE

STATE CAPITOL, ROOM 102
465-4963

MEMORANDUM

COMMITTEE MEMBERS

Rep. John Coghill
Chairman
Room 102
465-3719

Rep. Hugh Fate
Vice-Chair
Room 416
465-4976

Rep. Jeannette James
Room 214
465-3743

Rep. Gary Stevens
Room 428
465-4925

Rep. Peggy Wilson
Room 409
465-3824

Rep. Harry Crawford
Room 426
465-3438

Rep. Joe Hayes
Room 422
465-3466

Date: April 12, 2001

To: Patricia Young, Leg Research

From: Representative John Coghill, Chairman
House State Affairs Committee

Re: Governor's Benefits

A handwritten signature in black ink, appearing to be "JC", written over the "From:" line.

I am requesting some information on what the fiscal note is on benefits provided to the governor such as housing, lodging, transportation, entertainment, per diem, and expense accounts.

Thank you for your assistance.

FISCAL NOTE

STATE OF ALASKA
2001 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HB 198
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Administration
 Title: An Act relating to a post-retirement pension BRU: Special Systems
adjustment and cost-of living allowance.... Component: EPORS
 Sponsor: Representative Hudson
 Requester: (H)State Affairs Component Number: 964

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation, unless otherwise noted below.

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims	150.0	172.0	195.0	218.6	242.6	267.3
Miscellaneous						
TOTAL OPERATING	150.0	172.0	195.0	218.6	242.6	267.3

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
-------------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	150.0	172.0	195.0	218.6	242.6	267.3
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	150.0	172.0	195.0	218.6	242.6	267.3

Estimate of any current year (FY2001) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2002 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

See page 2 for analysis.

Prepared by: Guy Bell, Director Phone 465-4471
 Division: Retirement and Benefits Date/Time 04/02/01
 Approved by: Alison Elgee, Deputy Commissioner Date April 2, 2001
 Agency: Department of Administration

For distribution information, call the Governor's Legislative Office

House Bill 198 Fiscal Note Analysis (continued)

This legislation would add the following for Elected Public Officers Retirement System beneficiaries:

1. 10% Alaska Cost of Living Allowance

FY 02 cost: \$76.5

This provision would provide EPORS retirees the same cost of living allowance afforded Tier I Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) retirees who reside in the State of Alaska.

2. Post Retirement Pension Adjustment

FY 02 Cost: \$27.0

EPORS retirement benefits are based on the salary of the position last held by the retiree. Therefore, as incumbent salaries rise (or fall), so do the benefits of the retirees. The PERS and TRS systems have post retirement pension adjustment provisions, which provide an automatic adjustment based on the rate of inflation. This bill would add a similar provision to EPORS. In effect, this means that a retirement benefit could rise on two bases: (1) an increase in the incumbent salary; and (2) an increase in the cost of living.

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FY 02 Cost: \$46.5

Two former governors have retired under the provisions of EPORS. The increase in the governor's salary to \$110.0 will increase the annual base benefits of these two former governors by \$46.5

FISCAL NOTE

STATE OF ALASKA
2001 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HB 198
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Office of the Governor
 Title: "An Act relating to a post-retirement pension... and increasing the compensation of the governor". BRU: Executive Operations
 Sponsor: Representative Hudson Component: ExecutiveOffice
 Requester: House State Affairs Component Number: 6

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personal Services	31.2	32.1	32.1	32.1	32.1	32.1
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	31.2	32.1	32.1	32.1	32.1	32.1

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
-------------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	31.2	32.1	32.1	32.1	32.1	32.1
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	31.2	32.1	32.1	32.1	32.1	32.1

Estimate of any current year (FY2001) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2002 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

HB198 increases the governor's compensation from \$81,648 to 110,000 on 7/1/01 and provides for an additional 3% increase on 7/1/2002. The personal services costs on this fiscal note are the additional salary and benefits costs after the increases provided for in Sec. 1, Ch. 2, TSSLA 00.

Prepared by: Michael A. Nizich, Administrative Director Phone 465-3876
 Division: Administrative Services Date/Time 4/2/01 12:00 AM
 Approved by: David Ramseur Date 04/02/2001
 Agency: Office of the Governor

For distribution information, call the Governor's Legislative Office

HB

199

Alaska State Legislature



REPRESENTATIVE BILL HUDSON
House Finance Committee

State Capitol
Juneau, Alaska
99801-1182
(907) 465-3744
Fax (907) 465-2273

MEMORANDUM

TO: Representative John Coghill, Chairman
House State Affairs Committee

FROM: Representative Bill Hudson, *Bill*
Alaska State Legislature

SUBJECT: SSHB 199 Hearing Request

DATE: January 22, 2002

I respectfully request that you schedule SS HB199 before your committee at your earliest convenience.

I have enclosed a sponsor statement along with the two versions of the bill, background information, and a small sample of letters of support and opposition to the bill. A sectional analysis has been requested, and I would be happy to assist in obtaining the fiscal notes regarding this legislation.

If you have any questions regarding this request please contact my staff member handling this legislation, Melanie Lesh at 465-4230.

Thanks for your consideration.



Alaska State Legislature



State Capitol
Juneau, AK
99801-1182

Official Business

Sponsor Statement for Sponsor Substitute HB 199 Reinstating a state personal income tax Representative Bill Hudson

SSHB 199 (22-SL0753\J) changes the method for calculating taxes from a percent of the household's federal tax liability (from the federal tax tables) to a percent of federal adjusted gross income (AGI). Essentially this changes the base from a percentage of your federal taxes payable to a percentage of your income and earnings.

The bill starts with a flat tax of 1% of AGI for the first year and ratchets up to 2.25% of AGI in the following year. The estimated new revenues for the first year after implementation of SSHB 199, at 1% would be approximately \$118.0 million. The second and subsequent years at 2.25% would yield approximately \$285.0 million per year to help close the estimated \$1 billion per year fiscal gap. Federal adjusted gross income is defined as:

In addition to wages, salaries and tips, adjusted gross income includes other kinds of income, such as pensions and annuities, dividends, alimony and capital gains. It also includes several of the so-called above the line deductions that taxpayers are not required to itemize on their federal tax return, such as interest on student loans, contributions to medical savings accounts and moving expenses.

Since this bill only partially closes the gap, other new revenue generating measures must be applied. I believe this phased in approach of new taxes should help provide essential services, affect the average Alaskan worker only minimally, and coupled with some use of the excess earnings of the Permanent Fund help stabilize the Alaskan economy and retain the maximum amount of PFD's.

The taxes generated at full implementation will be less than half of the tax paid by Alaskan workers prior to repeal of the state income tax in 1980. It would be modest in comparison to other states' personal income tax in both the percentage applied and income derived.

It should be noted that the average cost per Alaskan household would amount to less than \$900.00 per year at 2.25% of AGI. If we are able to continue PFD's, even at \$1,250.00, the average Alaskan household's new tax liability would likely be fully covered by less than the value of one PFD. But we don't get out of the hole by this step alone. Other elements presented by the Fiscal Policy Caucus will have to be considered.

Finally, this very modest new tax would be deductible from your federal income tax and would allow over \$50.0 million that would otherwise flow to Washington D.C. to remain in the Alaskan economy. We would also begin to capture revenues from non-residents employees that annually take over \$900.0 million out of our state without contributing a dime for services they receive.

I believe it is imperative that we act on this and other new revenue generating measures before adjournment of this 2nd Session of the 22nd Alaska Legislature.

22-LS0753\L
Kurtz
2/27/02

CS FOR SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 199(STA)

**IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-SECOND LEGISLATURE - SECOND SESSION**

BY THE HOUSE STATE AFFAIRS COMMITTEE

**Offered:
Referred:**

Sponsor(s): REPRESENTATIVES HUDSON, Scalzi

A BILL

FOR AN ACT ENTITLED

1 **"An Act relating to taxation, including taxation of income of individuals, estates, and**
2 **trusts; and providing for an effective date."**

3 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

4 *** Section 1.** AS 43.20 is amended by adding a new section to read:

5 **Sec. 43.20.009. Tax on individuals, estates, and trusts.** (a) There is
6 imposed for each taxable year an income tax, computed as provided in this section, on
7 every

8 (1) resident individual; and

9 (2) nonresident and part-year resident individual, estate, and trust, with
10 income from sources in the state.

11 (b) As soon as practicable after September 30 of each year, the department
12 shall publish the tax rate for the following calendar year. The rate is two and one-
13 fourth percent, except that, if, as of September 30 of that year, all appropriations from
14 the budget reserve fund created by art. IX, sec. 17, Constitution of the State of Alaska,

1 have been completely repaid, the rate is one percent for the following calendar year.

2 (c) The tax for a resident individual shall be computed by applying the rate
3 described in (b) of this section to the individual's taxable income.

4 (d) The tax for a nonresident or part-year resident individual or for an estate or
5 trust shall be computed by applying the rate described in (b) of this section to the
6 individual's, estate's, or trust's taxable income, and multiplying the result by a fraction,
7 the numerator of which is taxable income from all sources in the state and the
8 denominator of which is taxable income from all sources.

9 (e) An individual whose income includes a cost-of-living allowance that is
10 exempt from the federal income tax shall determine and include that amount as part of
11 the individual's taxable income as if the cost-of-living allowance were not exempt.

12 (f) In this section, "taxable income" means adjusted gross income, as defined
13 in 26 U.S.C. 62 (Internal Revenue Code), and includes the income described in (e) of
14 this section.

15 * Sec. 2. AS 43.20.030(a) is amended to read:

16 (a) Every individual, trust, estate, partnership, and [IF A] corporation
17 subject to tax under this chapter [, OR A PARTNERSHIP THAT HAS A
18 CORPORATION AS A PARTNER, IS] required to make a return of income under
19 the provisions of the Internal Revenue Code [, IT] shall file with the department,
20 within 30 days after the federal return is required to be filed, a return setting out

21 (1) the amount of tax due under this chapter, less allowable credits
22 and payments claimed against the tax; and

23 (2) other information that the department requires for the purpose of
24 carrying out the provisions of this chapter [THAT THE DEPARTMENT
25 REQUIRES].

26 * Sec. 3. AS 43.20.031(c) is amended to read:

27 (c) In computing the tax under this chapter, a corporation [THE
28 TAXPAYER] is not entitled to deduct any taxes based on or measured by net income.

29 * Sec. 4. AS 43.20.040 is repealed and reenacted to read:

30 **Sec. 43.20.040. Income from sources in the state.** (a) In this chapter,
31 income from sources in the state includes

- 1 (1) compensation for personal services rendered in the state;
- 2 (2) working in the state for salary or wages;
- 3 (3) income from real or tangible personal property located in the state;
- 4 (4) income from stocks, bonds, notes, bank deposits, and other
- 5 intangible personal property having a taxable or business situs in the state; however,
- 6 the receipt of interest income from intangible property in the state does not alone
- 7 establish a taxable or business situs in the state;
- 8 (5) rentals and royalties for the use of or for the privilege of using, in
- 9 the state, patents, copyrights, secret processes and formulas, good will, marks, trade
- 10 brands, franchises, and other property having a taxable or business situs in the state;
- 11 (6) income distributed from a trust established under or governed by
- 12 the laws of the state;
- 13 (7) income of a trust established under or governed by the laws of the
- 14 state and income of the estate of a decedent who on the date of death was domiciled in
- 15 the state;
- 16 (8) income, from a source with a taxable or business situs in the state,
- 17 of
- 18 (A) a trust not established under or governed by the laws of the
- 19 state; or
- 20 (B) the estate of a decedent who on the date of death was not
- 21 domiciled in the state;
- 22 (9) income of whatever nature from a source with a taxable or business
- 23 situs in the state.
- 24 (b) Except as provided in (a)(4) of this section, in this section, income is from
- 25 a source with a taxable or business situs in the state if it is attributed to or derived from
- 26 (1) business facilities or property in the state;
- 27 (2) business, farming, or fishing activities in the state;
- 28 (3) conducting in the state the management or investment function for
- 29 intangible property;
- 30 (4) a partnership, limited liability company, estate, or trust conducting
- 31 business activities in the state;

1 (5) a corporation transacting business activities in the state that has
2 elected to file federal returns under subchapter S of the Internal Revenue Code;

3 (6) any other activity from which income is received, realized, or
4 derived in the state.

5 (c) If a business, trade, or profession is carried on partly inside and partly
6 outside the state, other than the rendering of purely personal services by an individual,
7 the income from sources in the state shall be determined as provided in AS 43.19.

8 * **Sec. 5.** AS 43.20 is amended by adding a new section to article 1 to read:

9 **Sec. 43.20.046. Individual, trust, and estate tax credits.** (a) For a resident,
10 a trust established under or governed by the laws of this state, or the estate of a
11 decedent who on the date of death was domiciled in this state, the income tax imposed
12 on that resident, trust, or estate by another state or territory of the United States for the
13 taxable year, on income derived from sources in that state or territory, is allowed as a
14 credit against the tax under this chapter.

15 (b) The credit under (a) of this section is determined by multiplying the tax
16 computed under this chapter by a fraction, the numerator of which is the income
17 derived from sources in the other state or territory and the denominator of which is
18 income derived from all sources. The credit under (a) of this section may not exceed
19 the actual tax paid to the other state or territory.

20 (c) An individual, estate, or trust is allowed only the state credits provided in
21 this section. The total state credit allowed under this section may not exceed the tax
22 liability for the taxable year for the individual, estate, or trust. A credit may not be
23 carried, in whole or in part, to a different taxable year.

24 * **Sec. 6.** AS 43.20 is amended by adding a new section to read:

25 **Sec. 43.20.171. Tax withholding on wages of individuals.** (a) Every
26 employer making payment of wages, salaries, or crew shares after December 31, 2002,

27 (1) shall deduct and withhold an amount of tax computed in a manner
28 to approximate the amount of tax due on those wages, salaries, or crew shares under
29 this chapter for that taxable year;

30 (2) shall remit the tax withheld to the department accompanied by a
31 return on a form prescribed by the department at the times required by the department

1 by regulation;

2 (3) is liable for the payment of the tax required to be deducted and
3 withheld under this section but is not liable to any individual for the amount of the
4 payment; and

5 (4) shall furnish to the employee on or before January 31 of the
6 succeeding year, or within 30 days after a request by the employee after the
7 employee's termination if the 30-day period ends before January 31, a written
8 statement on a form prescribed by the department showing

9 (A) the name and taxpayer identification number of the
10 employer;

11 (B) the name and social security number of the employee;

12 (C) the total amount of wages, salary, or crew shares for the
13 taxable year; and

14 (D) the total amount deducted and withheld as tax for the
15 taxable year.

16 (b) The department shall publish the rate of withholding required by this
17 section.

18 (c) In this section,

19 (1) "employee" includes an individual who receives compensation on a
20 crew share basis in connection with a commercial fishing activity;

21 (2) "employer" includes a person who pays compensation to an
22 individual on a crew share basis in connection with a commercial fishing activity.

23 * Sec. 7. AS 43.20.340 is amended by adding new paragraphs to read:

24 (12) "individual" means a natural person, married or unmarried, adult
25 or minor, subject to payment of income tax under 26 U.S.C. (Internal Revenue Code);

26 (13) "nonresident" means an individual who is not a resident or part-
27 year resident;

28 (14) "resident" means an individual who, for the entire taxable year,
29 was domiciled in the state or resided in the state.

30 * Sec. 8. AS 43.05.085; AS 43.20.012, and 43.20.013 are repealed.

31 * Sec. 9. The uncodified law of the State of Alaska is amended by adding a new section to

1 read:

2 TAX RATE FOR 2003. The tax rate for 2003 under AS 43.20.009, added by sec. 1 of
3 this Act, is two and one-fourth percent.

4 * Sec. 10. The uncodified law of the State of Alaska is amended by adding a new section to
5 read:

6 SEVERABILITY. Under AS 01.10.030, if any provision of this Act, or the
7 application of a provision of this Act to any person or circumstance is held invalid, the
8 remainder of this Act and the application to other persons is not affected.

9 * Sec. 11. This Act takes effect January 1, 2003.

**CS FOR SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 199(STA)
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-SECOND LEGISLATURE - SECOND SESSION**

BY THE HOUSE STATE AFFAIRS COMMITTEE

**Offered:
Referred:**

Sponsor(s): REPRESENTATIVES HUDSON, Scalzi

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to taxation, including taxation of income of individuals, estates, and
2 trusts; and providing for an effective date."

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4 * Section 1. AS 43.20 is amended by adding a new section to read:

5 Sec. 43.20.009. Tax on individuals, estates, and trusts. (a) There is
6 imposed for each taxable year an income tax, computed as provided in this section, on
7 every

8 (1) resident individual; and

9 (2) nonresident and part-year resident individual, estate, and trust, with
10 income from sources in the state.

11 (b) As soon as practicable after September 30 of each year, the department
12 shall publish the tax rate for the following calendar year. The rate is two and one-
13 fourth percent, except that, if, as of September 30 of that year, all appropriations from
14 the budget reserve fund created by art. IX, sec. 17, Constitution of the State of Alaska,

1 have been completely repaid, the rate is one percent for the following calendar year.

2 (c) The tax for a resident individual shall be computed by applying the rate
3 described in (b) of this section to the individual's taxable income.

4 (d) The tax for a nonresident or part-year resident individual or for an estate or
5 trust shall be computed by applying the rate described in (b) of this section to the
6 individual's, estate's, or trust's taxable income, and multiplying the result by a fraction,
7 the numerator of which is taxable income from all sources in the state and the
8 denominator of which is taxable income from all sources.

9 (e) An individual whose income includes a cost-of-living allowance that is
10 exempt from the federal income tax shall determine and include that amount as part of
11 the individual's taxable income as if the cost-of-living allowance were not exempt.

12 (f) In this section, "taxable income" means adjusted gross income, as defined
13 in 26 U.S.C. 62 (Internal Revenue Code), and includes the income described in (e) of
14 this section.

15 * Sec. 2. AS 43.20.030(a) is amended to read:

16 (a) Every individual, trust, estate, partnership, and [IF A] corporation
17 subject to tax under this chapter [, OR A PARTNERSHIP THAT HAS A
18 CORPORATION AS A PARTNER, IS] required to make a return of income under
19 the provisions of the Internal Revenue Code [, IT] shall file with the department,
20 within 30 days after the federal return is required to be filed, a return setting out

21 (1) the amount of tax due under this chapter, less allowable credits
22 and payments claimed against the tax; and

23 (2) other information that the department requires for the purpose of
24 carrying out the provisions of this chapter [THAT THE DEPARTMENT
25 REQUIRES].

26 * Sec. 3. AS 43.20.031(c) is amended to read:

27 (c) In computing the tax under this chapter, a corporation [THE
28 TAXPAYER] is not entitled to deduct any taxes based on or measured by net income.

29 * Sec. 4. AS 43.20.040 is repealed and reenacted to read:

30 **Sec. 43.20.040. Income from sources in the state.** (a) In this chapter,
31 income from sources in the state includes

- 1 (1) compensation for personal services rendered in the state;
- 2 (2) working in the state for salary or wages;
- 3 (3) income from real or tangible personal property located in the state;
- 4 (4) income from stocks, bonds, notes, bank deposits, and other
- 5 intangible personal property having a taxable or business situs in the state; however,
- 6 the receipt of interest income from intangible property in the state does not alone
- 7 establish a taxable or business situs in the state;
- 8 (5) rentals and royalties for the use of or for the privilege of using, in
- 9 the state, patents, copyrights, secret processes and formulas, good will, marks, trade
- 10 brands, franchises, and other property having a taxable or business situs in the state;
- 11 (6) income distributed from a trust established under or governed by
- 12 the laws of the state;
- 13 (7) income of a trust established under or governed by the laws of the
- 14 state and income of the estate of a decedent who on the date of death was domiciled in
- 15 the state;
- 16 (8) income, from a source with a taxable or business situs in the state,
- 17 of
- 18 (A) a trust not established under or governed by the laws of the
- 19 state; or
- 20 (B) the estate of a decedent who on the date of death was not
- 21 domiciled in the state;
- 22 (9) income of whatever nature from a source with a taxable or business
- 23 situs in the state.
- 24 (b) Except as provided in (a)(4) of this section, in this section, income is from
- 25 a source with a taxable or business situs in the state if it is attributed to or derived from
- 26 (1) business facilities or property in the state;
- 27 (2) business, farming, or fishing activities in the state;
- 28 (3) conducting in the state the management or investment function for
- 29 intangible property;
- 30 (4) a partnership, limited liability company, estate, or trust conducting
- 31 business activities in the state;

1 (5) a corporation transacting business activities in the state that has
2 elected to file federal returns under subchapter S of the Internal Revenue Code;

3 (6) any other activity from which income is received, realized, or
4 derived in the state.

5 (c) If a business, trade, or profession is carried on partly inside and partly
6 outside the state, other than the rendering of purely personal services by an individual,
7 the income from sources in the state shall be determined as provided in AS 43.19.

8 * **Sec. 5.** AS 43.20 is amended by adding a new section to article 1 to read:

9 **Sec. 43.20.046. Individual, trust, and estate tax credits.** (a) For a resident,
10 a trust established under or governed by the laws of this state, or the estate of a
11 decedent who on the date of death was domiciled in this state, the income tax imposed
12 on that resident, trust, or estate by another state or territory of the United States for the
13 taxable year, on income derived from sources in that state or territory, is allowed as a
14 credit against the tax under this chapter.

15 (b) The credit under (a) of this section is determined by multiplying the tax
16 computed under this chapter by a fraction, the numerator of which is the income
17 derived from sources in the other state or territory and the denominator of which is
18 income derived from all sources. The credit under (a) of this section may not exceed
19 the actual tax paid to the other state or territory.

20 (c) An individual, estate, or trust is allowed only the state credits provided in
21 this section. The total state credit allowed under this section may not exceed the tax
22 liability for the taxable year for the individual, estate, or trust. A credit may not be
23 carried, in whole or in part, to a different taxable year.

24 * **Sec. 6.** AS 43.20 is amended by adding a new section to read:

25 **Sec. 43.20.171. Tax withholding on wages of individuals.** (a) Every
26 employer making payment of wages, salaries, or crew shares after December 31, 2002,

27 (1) shall deduct and withhold an amount of tax computed in a manner
28 to approximate the amount of tax due on those wages, salaries, or crew shares under
29 this chapter for that taxable year;

30 (2) shall remit the tax withheld to the department accompanied by a
31 return on a form prescribed by the department at the times required by the department

1 by regulation;

2 (3) is liable for the payment of the tax required to be deducted and
3 withheld under this section but is not liable to any individual for the amount of the
4 payment; and

5 (4) shall furnish to the employee on or before January 31 of the
6 succeeding year, or within 30 days after a request by the employee after the
7 employee's termination if the 30-day period ends before January 31, a written
8 statement on a form prescribed by the department showing

9 (A) the name and taxpayer identification number of the
10 employer;

11 (B) the name and social security number of the employee;

12 (C) the total amount of wages, salary, or crew shares for the
13 taxable year; and

14 (D) the total amount deducted and withheld as tax for the
15 taxable year.

16 (b) The department shall publish the rate of withholding required by this
17 section.

18 (c) In this section,

19 (1) "employee" includes an individual who receives compensation on a
20 crew share basis in connection with a commercial fishing activity;

21 (2) "employer" includes a person who pays compensation to an
22 individual on a crew share basis in connection with a commercial fishing activity.

23 * Sec. 7. AS 43.20.340 is amended by adding new paragraphs to read:

24 (12) "individual" means a natural person, married or unmarried, adult
25 or minor, subject to payment of income tax under 26 U.S.C. (Internal Revenue Code);

26 (13) "nonresident" means an individual who is not a resident or part-
27 year resident;

28 (14) "resident" means an individual who, for the entire taxable year,
29 was domiciled in the state or resided in the state.

30 * Sec. 8. AS 43.05.085; AS 43.20.012, and 43.20.013 are repealed.

31 * Sec. 9. The uncodified law of the State of Alaska is amended by adding a new section to

1 read:

2 TAX RATE FOR 2003. The tax rate for 2003 under AS 43.20.009, added by sec. 1 of
3 this Act, is two and one-fourth percent.

4 * Sec. 10. The uncodified law of the State of Alaska is amended by adding a new section to
5 read:

6 SEVERABILITY. Under AS 01.10.030, if any provision of this Act, or the
7 application of a provision of this Act to any person or circumstance is held invalid, the
8 remainder of this Act and the application to other persons is not affected.

9 * Sec. 11. This Act takes effect January 1, 2003.

1999 SOI Data (1999 Tax Yr)

% of Adjusted Gross Income

DRAFT

Target Revenue	\$ 285,000,000	
Nonresident Business Inc. Tax Est.	\$ -	<<<Enter the revenue you expect from Non-resident business income
Model Target Revenue	\$ 285,000,000	
Rate on AGI below bracket amount	none	<<< none = flat
Bracket amount	\$ -	
AK Credit (Y or N)	n	>>>> If 'Y' enter >>>>>> Individual AK credit \$ -
Credit on Rts or T/P.	t	>>>> T for T/P Based Credit

AGI range (000)	< \$20	\$20 < \$30	\$30 < 50	\$50 < 75	\$75 < 100	>= \$100	Total
Federal Tax Returns	142,308	38,368	54,758	43,651	24,213	24,212	327,510
Joint Returns Above	10,461	10,187	22,618	29,707	20,465	21,251	114,689
Taxpayers	152,769	48,555	77,376	73,358	44,678	45,463	442,199
# of Credits	152,769	48,555	77,376	73,358	44,678	45,463	442,199
Federal Adjusted Gross Income	1,077,973,000	951,163,000	2,155,626,000	2,679,870,000	2,081,458,000	4,264,637,000	13,210,727,000
Recon to AKDOL gross wages	25,694,650	4,520,537	8,995,181	19,464,131			58,674,498
Alaska Tax Base	1,103,667,650	955,683,537	2,164,621,181	2,699,334,131	2,081,458,000	4,264,637,000	13,269,401,498
Amount over Bracket		0	0	0	0	0	
Tax Generated (Base x Rate)	24,968,134	21,620,338	48,969,953	61,066,696	47,088,562	96,478,346	300,192,000
Credits	0	0	0	0	0	0	0
Credit: taxes pd to other states	(309,000)	(315,000)	(1,359,000)	(2,263,000)	(2,021,000)	(8,925,000)	(15,192,000)
Revenue (Tax - Credits)	24,659,134	21,305,338	47,610,953	58,803,696	45,067,562	87,553,346	285,000,000
Flat Rate	2.26%	2.26%	2.26%	2.26%	2.26%	2.26%	
Flat Rate		2.26%	2.26%	2.26%	2.26%	2.26%	
Average Effective AK Tax Rate	2.23%	2.23%	2.20%	2.18%	2.17%	2.05%	
% of revenue from group	8.65%	7.48%	16.71%	20.63%	15.81%	30.72%	

1999 SOI Data (1999 Tax Yr)

% of Adjusted Gross Income

DRAFT

Target Revenue	\$ 270,000,000	
Nonresident Business Inc. Tax Est.	\$ -	<<<Enter the revenue you expect from Non-resident business income
Model Target Revenue	\$ 270,000,000	
Rate on AGI below bracket amount	none	<<< none = flat
Bracket amount	\$ -	
AK Credit (Y or N)	n	>>>> If 'Y' enter >>>> Individual AK credit \$ -
Credit on Rts or T/P.	t	>>>> T for T/P Based Credit

AGI range (000)	< \$20	\$20 < \$30	\$30 < 50	\$50 < 75	\$75 < 100	>= \$100	Total
Federal Tax Returns	142,308	38,368	54,758	43,651	24,213	24,212	327,510
Joint Returns Above	10,461	10,187	22,618	29,707	20,465	21,251	114,689
taxpayers	152,769	48,555	77,376	73,358	44,678	45,463	442,199
# of Credits	152,769	48,555	77,376	73,358	44,678	45,463	442,199
Federal Adjusted Gross Income	1,077,973,000	951,163,000	2,155,626,000	2,679,870,000	2,081,458,000	4,264,637,000	13,210,727,000
Recon to AKDOL gross wages	25,694,650	4,520,537	8,995,181	19,464,131			58,674,498
Alaska Tax Base	1,103,667,650	955,683,537	2,164,621,181	2,699,334,131	2,081,458,000	4,264,637,000	13,269,401,498
Amount over Bracket		0	0	0	0	0	
Tax Generated (Base x Rate)	23,720,526	20,539,984	46,523,021	58,015,314	44,735,640	91,657,514	285,192,000
Credits	0	0	0	0	0	0	0
Credit: taxes pd to other states	(309,000)	(315,000)	(1,359,000)	(2,263,000)	(2,021,000)	(8,925,000)	(15,192,000)
Revenue (Tax - Credits)	23,411,526	20,224,984	45,164,021	55,752,314	42,714,640	82,732,514	270,000,000
Flat Rate	2.15%	2.15%	2.15%	2.15%	2.15%	2.15%	
Flat Rate		2.15%	2.15%	2.15%	2.15%	2.15%	
Average Effective AK Tax Rate	2.12%	2.12%	2.09%	2.07%	2.05%	1.94%	
% of revenue from group	8.67%	7.49%	16.73%	20.65%	15.82%	30.64%	

99 DOL

DOL wages	9,201,169,498				
IRS wages	<u>9,142,495,000</u>				
	58,674,498		Assign diff.	avg wage	est # rts
Eateries	31,608,065	0.05445646	3,195,206	4,736	675
Hotels	23,166,278	0.03991239	2,341,840	6,703	349
Seafood	136,721,368	0.2355526	13,820,930	8,161	1694
Const Contr	31,469,910	0.05421844	3,181,240	13,851	230
Health Svc	31,214,635	0.05377863	3,155,434	15,316	206
Eng/Acctg	44,718,695	0.07704432	4,520,537	21,094	214
Air transport	88,983,401	0.15330648	8,995,181	35,494	253
Oil & gas	<u>192,545,838</u>	<u>0.33173068</u>	<u>19,464,131</u>	59,281	328
	580,428,190		58,674,498		

STATE PERSONAL INCOME TAXES: FEDERAL STARTING POINTS

STATE	Relation to Internal Revenue Code	Tax Base
ALABAMA	---	---
ALASKA	no state income tax	
ARIZONA	1/1/00	federal adjusted gross income
ARKANSAS	---	---
CALIFORNIA	1/1/98	federal adjusted gross income
COLORADO	Current	federal taxable income
CONNECTICUT	Current	federal adjusted gross income
DELAWARE	Current	federal adjusted gross income
FLORIDA	no state income tax	
GEORGIA	1/1/00	federal adjusted gross income
HAWAII	12/31/99	federal taxable income
IDAHO	1/1/99	federal taxable income
ILLINOIS	Current	federal adjusted gross income
INDIANA	1/1/98	federal adjusted gross income
IOWA	1/1/99	federal adjusted gross income
KANSAS	Current	federal adjusted gross income
KENTUCKY	12/31/99	federal adjusted gross income
LOUISIANA	Current	federal adjusted gross income
MAINE	12/31/99	federal adjusted gross income
MARYLAND	Current	federal adjusted gross income
MASSACHUSETTS	Current	federal adjusted gross income
MICHIGAN	Current (a)	federal adjusted gross income
MINNESOTA	Current	federal taxable income
MISSISSIPPI	---	---
MISSOURI	Current	federal adjusted gross income
MONTANA	Current	federal adjusted gross income
NEBRASKA	Current	federal adjusted gross income
NEVADA	no state income tax	
NEW HAMPSHIRE	on interest & dividends only	
NEW JERSEY	---	---
NEW MEXICO	Current	federal adjusted gross income
NEW YORK	Current	federal adjusted gross income
NORTH CAROLINA	6/1/99	federal taxable income
NORTH DAKOTA	Current	federal liability (b)
OHIO	Current	federal adjusted gross income
OKLAHOMA	Current	federal adjusted gross income
OREGON	Current	federal taxable income
PENNSYLVANIA	---	---
RHODE ISLAND	Current	federal liability
SOUTH CAROLINA	12/31/99	federal taxable income
SOUTH DAKOTA	no state income tax	
TENNESSEE	on interest & dividends only	
TEXAS	no state income tax	
UTAH	Current	federal taxable income
VERMONT	Current (c)	federal liability
VIRGINIA	Current	federal adjusted gross income
WASHINGTON	no state income tax	
WEST VIRGINIA	1/1/00	federal adjusted gross income
WISCONSIN	12/31/99	federal adjusted gross income
WYOMING	no state income tax	
DIST. OF COLUMBIA	Current	federal adjusted gross income

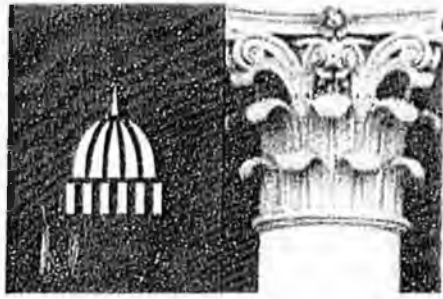
Source: Compiled by the Federation of Tax Administrators from various sources.

--- state does not employ a federal starting point. Current indicates state has adopted IRC as currently in effect. Dates indicate state has adopted IRC as amended to that date.

(a) or 1/1/96, taxpayer's option.

(b) or federal taxable income based on current IRC.

(c) not to exceed tax computed using IRC as of 12/31/99.



State Income Taxes: Conforming to the Federal Code

By Alysoun McLaughlin

Most states calculate state income taxes based on a federal starting point.

Since the establishment of a federal income tax in 1913 and codification of the Internal Revenue Code in 1939, state and local governments have largely designed their income taxes around the rules and definitions in the federal code. Conforming to the federal tax code promotes compliance and simplifies tax administration.

The Federal "Starting Point." Of the 41 states and the District of Columbia that collect an income tax, all but five—Alabama, Arkansas, Mississippi, New Jersey and Pennsylvania—calculate state income taxes based on a federal starting point. From that point (which may be adjusted gross income, total taxable income or federal tax liability), states apply their own personal exemptions, credits, deductions and tax rates. States may also work backward from the starting point, disallowing federal credits or deductions not permitted under their laws. The three federal starting points are described below.

1. Federal Adjusted Gross Income. In addition to wages, salaries and tips, adjusted gross income includes other kinds of income, such as pensions and annuities, alimony and capital gains. It also includes several of the so-called above-the-line deductions that taxpayers are not required to itemize on their federal tax return, such as interest on student loans, contributions to medical savings accounts and moving expenses.

2. Federal Taxable Income. This is derived by applying itemized deductions to adjusted gross income. Itemized deductions include mortgage interest, state income and property taxes, medical, educational and business expenses, legal fees, and wagering losses.

3. Federal Tax Liability. Federal marginal income tax rates, as well as income calculations, are reflected in this starting point. Federal tax liability also incorporates a number of elements not included in an income-based starting point, such as the alternative minimum tax and credits for the elderly and disabled, child and dependent care, adoption, and the Hope and Lifetime Learning education tax credits.

Every state will feel the effects of federal income tax reduction.

The recent federal tax cut has raised questions about how, and to what extent, state revenues are tied to the decisions of federal lawmakers. Passage of the federal tax cut prompted several states to pass laws to lessen its impact on state tax receipts. Although every state will feel the effects of the federal tax reduction, the effects will not be uniform. All states will lose revenue from the elimination of the state death tax credit. Most will lose revenue from the expansion of several education-related deductions. North Dakota, Rhode Island and Vermont have recently changed their tax laws to avoid losing revenue due to the reductions in marginal tax rates. Iowa, Missouri, Oregon and Utah have passed legislation to make the federal tax rebate exempt from state taxation. Al-

though more states are expected to follow suit, those that allow a state deduction for federal tax payments will still experience some revenue gain from the federal tax cut.

The effect of the recent federal tax legislation varies depending on the state's starting point. For example:

✓ *Any Starting Point.* Among other provisions, the federal tax cut increases the income limit for the student loan interest deduction and repeals the limit on the number of months for which it can be claimed. Many states define their federal starting point under the Internal Revenue Code as it is currently in effect. Since this change is incorporated in the current federal definition of adjusted gross income, these states will experience a reduction in state revenues without further legislative action. Other states periodically revise their date of conformity to the federal code. While a state may elect to retain its existing date or select a date prior to the effective date of the new federal tax law, such a decision would complicate tax administration and compliance.

✓ *Federal Taxable Income.* The federal legislation also phases out the overall limit on itemized deductions. Full use of itemized deductions in some of these states will require no legislative action. Conformity will need to be updated before the phase-out takes effect in other states. In addition, a change in itemized deductions could affect states that do not have a federal starting point or that conform based on adjusted gross income if they allow specific deductions through reference to the federal code.

✓ *Federal Tax Liability.* Until recently, North Dakota, Rhode Island and Vermont used federal tax liability as the starting point for calculating state taxes owed. Each would have faced a substantial loss in revenue due to the marginal rate reductions and tax credit changes, such as the child tax credit. Each has changed its tax laws for 2001 and will conform based on either adjusted gross income or taxable income.

Corporate Income Taxes. To an even greater extent than personal taxes, states tend to conform their corporate taxes to the federal code. With a few exceptions, these states begin computation of the state tax on the basis of federal taxable income. As a result, changes in federal corporate income tax policy often have broad effects on tax revenue at the state level.

Use of IRS Definitions and Data. In addition to those states that use a federal starting point, every state that collects an income tax relies, to some extent, on the federal tax code. State income taxation, both personal and corporate, depends upon definitions established in the federal code and on data generated by the Internal Revenue Service. If the federal government were to replace the federal income tax with a national sales tax or other means of raising revenue, states would have to recreate this administrative structure and establish their own definitions of terms such as wage income, interest, dividends and capital gains. States might also face constitutional, as well as practical, difficulties in seeking to require out-of-state taxpayers to report the required information.

Selected References

- Federation of Tax Administrators. *Impact of Federal Tax Changes on State Tax Systems.* Washington, D.C., February 1992.
- H.R. 1836, the Economic Growth and Tax Relief Reconciliation Act of 2001. Available online at [http://thomas.loc.gov/cgi-bin/cpquery/R?cp107:FLD010:@1\(hr084\)](http://thomas.loc.gov/cgi-bin/cpquery/R?cp107:FLD010:@1(hr084))
- Joint Committee on Taxation. *Summary of Provisions Contained in the Conference Report for H.R. 1836, the Economic Growth and Tax Relief Reconciliation Act of 2001.* May 2001, JCX-50-01. Available online at <http://www.house.gov/jct/x-50-01.pdf>

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The effect of the recent federal tax legislation varies depending on the state's starting point.

To an even greater extent than personal taxes, states tend to conform their corporate taxes to the federal code.

STATE INDIVIDUAL INCOME TAXES
(Tax rates for tax year 2001 -- as of January 1, 2001)

	TAX RATE RANGE (in percents)		Number of Bracket	INCOME BRACKETS		PERSONAL EXEMPTIONS			FEDERAL INCOME TAX DEDUCTIBLE
	Low	High		Lowest	Highest	Single	Married	Dependents	
ALABAMA	2.0	- 5.0	3	500 (b)	- 3,000 (b)	1,500	3,000	300	*
ALASKA	No State Income Tax								
ARIZONA	2.87	- 5.04	5	10,000 (b)	- 150,000 (b)	2,100	4,200	2,300	
ARKANSAS	1.0	- 7.0 (e)	6	2,999	- 25,000	20 (c)	40 (c)	20 (c)	
CALIFORNIA (a)	1.0	- 9.3	6	5,454 (b)	- 35,792 (b)	72 (c)	142 (c)	227 (c)	
COLORADO	4.63		1	----Flat rate----		-----None-----			
CONNECTICUT	3.0	- 4.5	2	10,000 (b)	- 10,000 (b)	12,000 (f)	24,000 (f)	0	
DELAWARE	2.2	- 5.95	7	5,000	- 60,000	110 (c)	220 (c)	110 (c)	
FLORIDA	No State Income Tax								
GEORGIA	1.0	- 6.0	6	750 (g)	- 7,000 (g)	2,700	5,400	2,700	
HAWAII (h)	1.5	- 8.5	8	2,000 (b)	- 40,000 (b)	1,040	2,080	1,040	
IDAHO	2.0	- 8.2	8	1,000 (i)	- 20,000 (i)	2,900 (d)	5,800 (d)	2,900 (d)	
ILLINOIS	3.0		1	----Flat rate----		2,000	4,000	2,000	
INDIANA	3.4		1	----Flat rate----		1,000	2,000	1,000	
IOWA (a)	0.36	- 8.98	9	1,162	- 52,290	40 (c)	80 (c)	40 (c)	*
KANSAS	3.5	- 6.45	3	15,000 (b)	- 30,000 (b)	2,250	4,500	2,250	
KENTUCKY	2.0	- 6.0	5	3,000	- 8,000	20 (c)	40 (c)	20 (c)	*
LOUISIANA	2.0	- 6.0	3	10,000 (b)	- 50,000 (b)	4,500 (j)	9,000 (j)	1,000 (j)	
MAINE (a) (k)	2.0	- 8.5	4	4,150 (b)	- 16,500 (b)	2,850	5,700	2,850	
MARYLAND (a)	2.0	- 4.8	4	1,000	- 3,000	2,100	4,200	2,100	
MASSACHUSETTS	5.6		1	----Flat rate----		4,400	8,800	1,000	
MICHIGAN (a)	4.2 (l)		1	----Flat rate----		2,800	5,600	2,800	
MINNESOTA (a)	5.35	- 7.85	3	17,570 (m)	- 57,710 (m)	2,900 (d)	5,800 (d)	2,900 (d)	
MISSISSIPPI	3.0	- 5.0	3	5,000	- 10,000	6,000	12,000	1,500	
MISSOURI	1.5	- 6.0	10	1,000	- 9,000	2,100	4,200	2,100	* (u)
MONTANA (a)	2.0	- 11.0	10	2,100	- 73,000	1,610	3,220	1,610	*
NEBRASKA (a)	2.51	- 6.68	4	2,400 (n)	- 26,500 (n)	91 (c)	182 (c)	91 (c)	
NEVADA	No State Income Tax								
NEW HAMPSHIRE	State Income Tax is Limited to Dividends and Interest Income Only.								
NEW JERSEY	1.4	- 6.37	6	20,000 (o)	- 75,000 (o)	1,000	2,000	1,500	
NEW MEXICO	1.7	- 8.2	7	5,500 (p)	- 65,000 (p)	2,900 (d)	5,800 (d)	2,900 (d)	
NEW YORK	4.0	- 6.85	5	8,000 (b)	- 20,000 (b)	0	0	1,000	
NORTH CAROLINA	6.0	- 7.75	3	12,750 (q)	- 60,000 (q)	2,500 (q)	5,000 (q)	2,500 (q)	
NORTH DAKOTA	2.67	- 12.0 (r)	8	3,000	- 50,000	2,900 (d)	5,800 (d)	2,900 (d)	* (r)
OHIO (a)	0.691	- 6.980 (s)	9	5,000	- 200,000	1,050 (s)	2,100 (s)	1,050 (s)	
OKLAHOMA	0.5	- 6.75 (t)	8	1,000	- 10,000	1,000	2,000	1,000	* (t)
OREGON (a)	5.0	- 9.0	3	2,350 (b)	- 5,850 (b)	132 (c)	264 (c)	132 (c)	* (u)
PENNSYLVANIA	2.8		1	----Flat rate----		-----None-----			
RHODE ISLAND	25.5% Federal tax liability (v)								
SOUTH CAROLINA (a)	2.5	- 7.0	6	2,310	- 11,550	2,900 (d)	5,800 (d)	2,900 (d)	
SOUTH DAKOTA	No State Income Tax								
TENNESSEE	State Income Tax is Limited to Dividends and Interest Income Only.								
TEXAS	No State Income Tax								
UTAH	2.30	- 7.0	6	750 (b)	- 3,750 (b)	2,175 (d)	4,350 (d)	2,175 (d)	* (w)
VERMONT	24.0% Federal tax liability (x)								
VIRGINIA	2.0	- 5.75	4	3,000	- 17,000	800	1,600	800	
WASHINGTON	No State Income Tax								
WEST VIRGINIA	3.0	- 6.5	5	10,000	- 60,000	2,000	4,000	2,000	
WISCONSIN	4.6	- 6.75 (y)	4	1,500	- 112,500	700	1,400	400	
WYOMING	No State Income Tax								
DIST. OF COLUMBIA	5.0	- 9.0 (z)	3	10,000	- 30,000	1,370	2,740	1,370	

STATE INDIVIDUAL INCOME TAXES (footnotes)

Source: The Federation of Tax Administrators from various sources.

- (a) Seven states have statutory provision for automatic adjustment of tax brackets, personal exemption or standard deductions to the rate of inflation. Michigan, Nebraska and Ohio indexes the personal exemption amounts only.
- (b) For joint returns, the taxes are twice the tax imposed on half the income.
- (c) tax credits.
- (d) These states allow personal exemption or standard deductions as provided in the IRC. Utah allows a personal exemption equal to three-fourths the federal exemptions.
- (e) A special tax table is available for low income taxpayers reducing their tax payments.
- (f) Combined personal exemptions and standard deduction. An additional tax credit is allowed ranging from 75% to 0% based on state adjusted gross income. Exemption amounts are phased out for higher income taxpayers until they are eliminated for households earning over \$52,500.
- (g) The tax brackets reported are for single individuals. For married households filing separately, the same rates apply to income brackets ranging from \$500 to \$5,000; and the income brackets range from \$1,000 to \$10,000 for joint filers.
- (h) For tax years beginning after 2001, the tax rates range from 1.4% to 8.25% for the same tax brackets.
- (i) For joint returns, the tax is twice the tax imposed on half the income. A \$10 filing tax is charge for each return and a \$15 credit is allowed for each exemption.
- (j) Combined personal exemption and standard deduction.
- (k) Income levels in each tax bracket will income for tax years 2002 and beyond.
- (l) Tax rate scheduled to decrease to 4.1% for tax year 2002.
- (m) The tax brackets reported are for single individual. For married couples filing jointly, the same rates apply for income under \$25,680 to over \$102,030.
- (n) The tax brackets reported are for single individual. For married couples filing jointly, the same rates apply for income under \$4,000 to over \$46,750.
- (o) The tax brackets reported are for single individuals. For married couples filing jointly, the same rates apply for income under \$20,000 to over \$150,000.
- (p) The tax brackets reported are for single individuals. For married couples filing jointly, the same rates apply for income under \$8,000 to over \$100,000. Married households filing separately pay the tax imposed on half the income.
- (q) The tax brackets reported are for single individuals. For married taxpayers, the same rates apply to income brackets ranging from \$21,250 to \$100,000. Lower exemption amounts allowed for high income taxpayers.
- (r) Taxpayers have the option of paying 14% of the adjusted federal income tax liability, without a deduction of federal taxes. And additional \$300 personal exemption is allowed for joint returns or unmarried head of households.
- (s) Plus an additional \$20 per exemption tax credit. Rate reported are for tax year 2000, the 2001 rates will not be determined until July, 2001.
- (t) The rate range reported is for single persons not deducting federal income tax. For married persons filing jointly, the same rates apply to income brackets ranging from \$2,000 to \$21,000. Separate schedules, with rates ranging from 0.5% to 10%, apply to taxpayers deducting federal income taxes.
- (u) Deduction is limited to \$10,000 for joint returns and \$5,000 for individuals in Missouri and to \$3,000 in Oregon.
- (v) Tax rate scheduled to decrease to 25% of Federal tax liability for tax years 2002.
- (w) One half of the federal income taxes are deductible.
- (x) If Vermont tax liability for any taxable year exceeds the tax liability determinable under federal tax law in effect on December 31, 1999, the taxpayer will be entitled to a credit of 106% of the excess tax.
- (y) The tax brackets reported are for single individuals. For married taxpayers, the same rates apply to income brackets ranging from \$10,000 to \$150,000.
- (z) Tax rate decreases are scheduled for tax years 2002 and 2003.
- (aa) Top tax rate is scheduled to decrease to 4.75% for tax years beginning after 2001.

Table 1
Alaska Resident and Nonresident Workers and Wages -1998 and 1999

	1998 Resident Workers	1999 Resident Workers	Percent Change '98-'99	1998 Nonresident Workers	1999 Nonresident Workers	Percent Change '98-'99	1998 Resident Wages	1999 Resident Wages	Percent Change '98-'99	1998 Nonresident Wages	1999 Nonresident Wages	Percent Change '98-'99
Ag., For., and Fishing	1,861	2,015	8.3%	722	665	-7.9%	\$29,192,897	\$32,199,736	10.3%	\$7,372,698	\$7,618,956	3.3%
Mining	10,399	10,130	-2.6%	3,686	3,100	-15.9%	623,695,715	591,807,698	-5.1%	210,083,261	167,632,905	-20.2%
Construction	19,179	20,034	4.5%	4,584	4,168	-9.1%	526,527,856	572,823,098	8.8%	74,024,660	68,617,020	-7.3%
Manufacturing	12,783	12,772	-0.1%	18,161	17,648	-2.8%	311,635,925	300,332,258	-3.6%	161,610,137	168,104,836	4.0%
Trans., Comm., Util.	26,769	28,010	4.6%	5,631	5,130	-8.9%	903,812,193	967,282,863	7.0%	142,738,445	136,864,531	-4.1%
Wholesale Trade	9,822	9,982	1.6%	1,811	1,542	-14.9%	284,792,138	282,816,835	-0.7%	27,120,903	19,352,045	-28.6%
Retail Trade	57,557	59,637	3.6%	13,501	12,343	-8.6%	827,182,314	884,392,078	6.9%	75,986,683	71,401,729	-6.0%
Finance, Ins. and R.E.	13,370	13,515	1.1%	1,417	1,198	-15.5%	370,008,036	386,252,480	4.4%	16,106,225	15,517,621	-3.7%
Services	72,893	75,195	3.2%	16,215	15,117	-6.8%	1,556,383,238	1,646,315,840	5.8%	167,253,271	144,175,907	-13.8%
Nonclassifiable	384	837	118.0%	177	494	179.1%	4,360,683	17,425,645	299.6%	1,792,582	4,962,026	176.8%
Total Private Sector	225,017	232,127	3.2%	65,910	61,405	-6.8%	5,437,590,994	5,629,895,198	3.5%	884,088,865	804,247,577	-9.0%
Local Govt	39,653	39,688	0.1%	2,462	2,362	-4.1%	1,120,388,301	1,098,283,964	-2.0%	27,703,333	27,672,849	-0.1%
State Govt	21,979	22,086	0.5%	1,179	1,061	-10.0%	747,096,995	746,863,669	0.0%	17,872,145	16,936,877	-5.2%
Total	286,707	293,901	2.9%	69,551	64,828	-6.8%	\$7,305,205,870	\$7,475,042,831	2.3%	\$929,668,123	\$848,857,303	-8.7%

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section.

Statewide Employment and Earnings by Industry, 1998

INDUSTRIAL CLASSIFICATION	Employment												Earnings		
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	ANN AV MO EMP	YEARLY EARNINGS (\$)	ANN AV MO EARN (\$)
TOTAL INDUSTRIES	253,466	260,531	263,777	267,238	278,662	281,687	281,948	282,106	286,640	274,777	267,216	264,837	271,807	9,108,277,123	2,791
PRIVATE OWNERSHIP	180,730	186,270	189,286	192,329	202,540	214,442	222,786	221,860	212,889	199,844	192,811	190,218	200,500	6,385,282,809	2,654
TOTAL GOVERNMENT	72,736	74,261	74,491	74,909	76,122	67,245	59,162	60,246	73,751	74,933	74,405	74,619	71,407	2,722,994,314	3,178
AGRICULTURE, FORESTRY & FISHING	998	1,033	1,129	1,312	1,744	1,858	1,809	1,816	1,579	1,385	1,239	1,167	1,422	37,199,561	2,179
MINING	9,826	10,052	9,817	10,118	10,269	10,541	10,837	11,042	10,918	10,881	10,421	10,634	10,446	831,901,081	6,636
CONSTRUCTION	10,322	10,540	10,968	11,721	13,478	15,247	16,324	16,654	16,013	15,055	13,147	11,715	13,432	814,690,982	3,814
MANUFACTURING	11,255	14,976	15,258	13,983	13,603	15,856	20,784	19,047	16,272	12,429	10,506	8,657	14,386	449,304,912	2,603
DURABLE GOODS	1,695	1,927	2,336	2,728	2,858	3,136	3,151	3,131	3,146	3,115	2,918	2,392	2,711	105,878,331	3,254
NONDURABLE GOODS	9,560	13,049	12,922	11,255	10,745	12,720	17,633	15,916	13,126	9,314	7,588	6,265	11,674	343,426,581	2,451
TRANS., COMM. & UTILITES	23,061	23,527	23,947	24,397	26,277	27,105	27,569	28,216	27,339	25,600	24,587	24,178	25,484	1,051,890,071	3,440
TOTAL TRADE	52,298	52,156	52,975	54,346	57,589	60,576	61,415	60,799	58,947	55,870	55,902	56,244	56,593	1,236,845,730	1,821
WHOLESALE TRADE	8,587	8,656	8,747	8,836	9,165	9,436	9,930	9,870	9,560	9,127	9,080	9,012	9,167	333,751,896	3,034
RETAIL TRADE	43,711	43,500	44,228	45,510	48,424	51,140	51,485	50,929	49,387	46,743	46,822	47,232	47,426	903,094,034	1,587
FINANCE, INS. & REAL ESTATE	10,793	10,731	10,881	10,975	11,243	11,600	11,768	11,847	11,502	11,712	11,405	11,514	11,331	385,730,234	2,837
SERVICES	61,911	62,925	63,954	65,112	67,932	71,188	71,943	72,061	69,890	66,570	65,261	65,702	67,037	1,706,846,401	2,196
NONCLASSIFIABLE ESTAB.	266	330	357	365	405	471	337	378	429	342	343	407	369	10,873,837	2,455
TOTAL GOVERNMENT	72,736	74,261	74,491	74,909	76,122	67,245	59,162	60,246	73,751	74,933	74,405	74,619	71,407	2,722,994,314	3,178
FEDERAL GOVERNMENT	16,816	16,793	16,832	16,867	17,595	17,922	17,941	17,893	17,600	16,674	16,598	16,570	17,175	786,153,743	3,614
STATE GOVERNMENT	20,650	21,580	21,660	22,041	22,249	20,885	21,214	20,447	21,834	22,012	21,920	21,960	21,538	795,439,664	3,078
LOCAL GOVERNMENT	35,270	35,888	35,999	36,001	36,278	28,438	20,007	21,906	34,317	36,247	35,887	36,089	32,694	1,141,400,907	2,909

Employment and Earnings Summary Report, 1998

Email: Sara_Verrelli@labor.state.ak.us

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

Subject: State Income Tax

Date: Sun, 20 Jan 2002 13:26:10 -0800

From: "Robert Warner" <akrdw@ktn.net>

To: <Representative_Bill_Hudson@legis.state.ak.us>

CC: <Representative.Bill.Williams@legis.state.ak.us>

Honorable Representative Bill Hudson
Alaska State Legislature
Juneau, Ak 99801

Dear Representative Hudson:

The recent discussion and pressure for a state income tax has me confused. Years ago I thought that the primary purpose of the Alaska Permanent Fund was to provide funds for state government when oil production and revenues declined. Why would we consider a income tax when we are still issuing Dividend checks to our citizens? This seems crazy to me!

As a retired person I would not be able to pressure an employer for more money to pay such a tax. Under the Governor's plan, the income tax would (1) wipe out any income I receive from Permanent Fund dividends, (2) wipe out all of my retirement cost of living adjustments for Alaska, and (3) require that I pay several hundred additional dollars. I have heard several retirees here in Ketchikan say that they would likely have to move out of Alaska if such a tax was established. I feel certain that I would be forced to move. I have a few extra dollars that I save for travel and books that I enjoy now that I am retired. It is clear to me that a income tax would wipe out this unless I move south where travel costs are not so high.

All this is happening when we have a Permanent fund of over \$25 billion that we can't spend for essential government needs. This is nuts in my opinion.

I firmly believe that major cuts are needed in Alaska State Government. In Washington State, the Governor has recommended the elimination of several state agencies including the State Library to reduce costs. Have we considered eliminating the Alaska State Library? The Washington State Governor also suggested placing a freeze on any increased spending for universities. He wants the universities to become less dependent on general fund money. The University of Alaska is long overdue for a major cut in its top heavy administration! Look how many new administrators they have hired at UAS. Why does UAS now need a provost when they have a chancellor? How much money does that new provost position cost taxpayers?

After....and only after significant cuts are made in state spending, it makes good sense to use earnings from the Permanent Fund to support government needs. I am certainly willing to give up my dividend, but when I loose my Alaska cost of living, I would likely be forced to move.

Sincerely,

Robert D. Warner
888 Monroe Street
Ketchikan, Ak 99901-5738

cc: Honorable Representative Williams

MAR 29 2001

Subject: Re: State Fiscal Plan

Date: Thu, 29 Mar 2001 08:54:24 -0900

From: "DeeAnn H. Grummett" <dgrummett@gci.net>

To: "Representative Bill Hudson" <Representative_Bill_Hudson@legis.state.ak.us>

Representative Hudson:

Thank you for your reply. We are encouraged that you are forming a bi-partisan group and trying to involve the Senate. We especially agree with your comments that the Legislature must take the lead and not wait for some indication from the public that constituents are ready to take this on. It seems the legislature is in the best position to articulate the issues and possible solutions and to coordinate a statewide response from voters. Even folks who are well informed have difficulty with budget matters.

From our perspective a Ross Perot approach would be helpful when it comes time to involve the public.

Thank you again for your efforts on this important issue.

DeeAnn and Mike Grummett

-----Original Message-----

From: Representative Bill Hudson <Representative_Bill_Hudson@legis.state.ak.us>

To: DeeAnn H. Grummett <dgrummett@gci.net>

Date: Wednesday, March 28, 2001 2:24 PM

Subject: Re: State Fiscal Plan

Thank you.

If you have any other comments that you would like to address to the newly formed bilateral Long Term Fiscal Plan Caucus, please send them to me.

I appreciate hearing your comments.

Bill Hudson

"DeeAnn H. Grummett" wrote:

Representative Hudson: Even though we are not in your district we wanted to express our strong support of your efforts to develop a state fiscal plan and to begin a discussion of the difficult issues this will entail such as reintroduction of a state income tax. It might be useful if the Representatives could devise a uniform questionnaire available online to poll the opinion of their constituents regarding various combinations of revenues sources

that the public might support and to do a major media campaign to get folks to participate in the survey - something similar to the questionnaire that Representative Murkowski made available last session. It seems the advisory vote on use of the permanent fund did not provide clear direction about what Alaskans would accept. Personally we voted against the concept, not because we are opposed to use of a portion of the fund, but because we believe other sources of revenue should be looked to as well, such as a state income, sales tax or combinations of various sources. Thanks again for taking on this important issue. Mike and DeeAnn Grummett316 Coleman St..Juneau

THE
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To: Rep. Bill Hudson for Fiscal Policy Committee¹

Re: Actions to reduce budget gap

From: James E. Fisher, 171 Farnsworth Blvd, 99669
Fax: 262-9641(a dedicated line) ph: 262-9601



The Fiscal Policy Committee deserves much credit for its initiative and effort to remind we Alaskans of our responsibility to fund the benefits and services we are, and have been, receiving.

For a solution of any "budget gap", Alaskans need to accept responsibility for needed funding for the services we get (but are not always ready to admit receiving, or pay for) from our various levels of government. We do receive and need essential services, such as education, public safety, health, highways.

Doesn't an analysis of cries to "cut the budget" or "live within available revenues" really amount to a demand to reduce a service for somebody other than the demander?

For the most equitable spread of the costs, a state income tax based on ability to pay is fairest, and would reach even those outside of organized boroughs and non-residents. It is also the most economical to administer requiring probably not more than 2% of receipts. A sales tax could cost up to 10%, or more to administer, and could badly affect financial stability of boroughs and cities, so should be avoided.

Considering the above, the most reasonable solutions to reduce, or eliminate, a budget gap should include:

- 1) reinstating an income tax, based on ability to pay;
- 2) increase in gasoline tax (1st since 1961?);
- 3) and possible partial use of Permanent Fund earnings in an amount that will enable continued PFD's.

Until we have a comprehensive solution to our State" fiscal gap" situation, there will be drastic threats to state services if Alaska experiences other events, like the recent cut-off of the Trans-Alaska Pipeline, after its rupture by a single rifle bullet.

(Hudson10901 budgetGap-fiscal policy)

¹ An almost identical letter to Rep. Ken Lancaster, on 10/9/01, in connection with his hearings at Soldotna, on this date.

Alcohol Tax

Alaska Legislatures's Policy Forums: Do you think a 10 cent per drink increase over the current alcohol tax is warranted?: Alcohol Tax

    By [Larry J. Hackenmiller](#) on Saturday, August 11, 2001 - 10:00 pm:





Any increase in a single product tax is not warranted. It is argued that consumers of alcohol should pay for alcohol-related problems. I thought abusers would/should be paying for their costs to society. This proposed tax increase says those who drink alcohol responsibly have to pay for those that don't drink responsibly. This tax has been officially described as a "user" tax. If we don't have enough money to support government then we should cut the costs of government.... not spend worthless hours trying to rip another \$20 out of our pockets. "User" fees would be charging all parents who sent their children to public schools an amount based on the number of children in school. Don't be an abuser of the term "user"!

    By [Tim Schrage](#) on Tuesday, August 7, 2001 - 02:40 am:

This is just another "smoke & mirrors" attempt to penalize one group of Alaskans. The fiscal gap is not going to be solved by increasing taxes on industries that are easy to attack. Any increase in taxes, whether it be oil, gas, tourism, alcohol, etc... should be a part of a long term fiscal plan. Everyone should feel the pain of taxation equally!

    By [stan waite](#) on Monday, August 6, 2001 - 09:57 pm:

I believe a .10 tax is an unrealistic amount based on percentage increase it would be on an industry that is one of the highest taxed currently. A tax of this magnitude would likely decrease the amount of tax revenue overall at the expense of the responsible consumer, while the problem drinker would be unaffected.

    By [Carrie McLaughlin](#) on Friday, August 3, 2001 - 07:35 pm:

I think .10 cents drink tax is a fair increase to the hospitality industry as it includes a large variety of bussines and would greatly increase the states revenue potencial.This indusrty supports many people of all walks of life that that diserve job security as well, since Alaska has certainly become a "tourist spot" and most of the regular job oppertunities have vanished. I myself am a single woman in the hospitality industry who employs 18-22 people.It would be sad to see any of them lose their jobs because of over taxization in just that one sector. These people have families and are the heart of the Alaskan people. The people who live here year round. .10 cents is fair!

    By [The Responsible Citizen](#) on Thursday, August 2, 2001 - 06:25 pm:

Regardless of the tax certain people will always have problems with addiction whether it's alcohol or food. Why punish the majority who drink responsibly when it's the irresponsible and/or people prone to addictions who create the problems. If we stay with the tough sentencing and strict policing of the problem then we will most likely punish those who are the problem and those who operate in a responsible manner will not be sent to the poor house if they choose to drink.

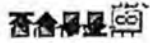
    By [lou theiss](#) on Friday, May 4, 2001 - 01:41 pm:

Northern cultures are more easily apt to develop alcohol problems. Russia has lower longevity for white males. Alcohol problems were endemic in Scandinavian countries until laws were passed to make alcohol harder to get. What would seem draconian to us passes for normal everyday life for them: A liter of hard liquor is about 40\$US. A drink of whiskey in a bar is 10\$US. The state owns the liquor stores, they are few and far between and keep old fashion bankers hours. You have to plan

your parties! The money goes to taxes of course and contributes to fighting the ills of alcoholism.

In the local food stores one can purchase class I beer [1% alc.] or class II [3.5%]. Class III, export beer must be purchased in a state store at a premium price. Wine costs about the same as it does here. You won't find many people that will have even one drink and drive right away because the legal limit is so low and the penalties so stiff.

All this is plainly unpalatable to Alaskan sensibilities but we have to move somewhat in this direction. The hidden social costs are very demanding and averaged in to my insurance, muni-tax and healthcare bills



By **Robert Fox** on Thursday, April 12, 2001 - 11:05 am:

I feel that it is more than warranted...I would move it to \$0.25 per drink. My only concern is that the resulting funds are used wisely and focused on finding solutions, adding police, and getting rid of the "downtown watering holes". Their time has come and gone.

I feel that the ABC Board needs to look at places on a case by case basis and start weeding out the establishments whose primary function is getting people drunk.

Robert Fox

Add a Message



Username:

Password:

This is a private posting area. A valid username and password combination is required to post messages to this discussion.

Preview/Post Message

September 10, 2001

Rep. Bill Hudson
House of Representatives, AK
Juneau, AK 99801

Dear Rep. Hudson:

I apologize for not attending the meeting you held recently, regarding Alaska's fiscal problems. I support your efforts in trying to find a way out of the binds in which we find ourselves.

May I add my input? You never know when the germ of an idea will be useful.

I have been surprised that no one to date has challenged the pay-out of the permanent fund, since the basic premise of paying out government income to select groups seems contrary to the function of government in principle. The larger grows the permanent fund, the greater the danger of some creative challenge, don't you think?

I think it correct² that until there is a special interest voting bloc large enough to pass anything by general election, nothing will pass the voters. It would seem that the legislature is obligated before some special interest finds an appeal, don't you agree?

Unfortunately, I am not long on ideas, either, but in case it hasn't been examined, there is this concept:

That each community be given a lump sum, pro rated by population eligible for dividends - as in a block grant - to let them form their own permanent fund or buy utilities, or whatever that population determines.

Of course, ~~there~~^{there} are great flows here, as in unorganized areas and absent recipients. Perhaps some creativity can be brought to bear, if the problem is worth solving.

I just feel that the permanent fund is in danger, human nature being what it is. If what I am suggesting could work, then the

permanent fund will get back to the
business of paying for government
like government monies are intended
to do, and the special interest will be Alaska.

I wish you every success in
your search for solutions & unity
of purpose -

Sincerely,
Susan W. Pagenkopf

Susan W. Pagenkopf
P.O. Box 33711
Juneau, AK 99803

FYI



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Fiscal Affairs Program

State Budget & Tax Actions 2001

Preliminary Report: Executive Summary

Released Wednesday, August 1, 2001.

Press Release
This report in PDF

Authors: Corina Eckl, 303-830-2200 x 229
Arturo Pérez, 303-830-2200 x 147

DENVER--These are the highlights of NCSL's annual survey on recent state budget and tax actions. Information is provided for 46 states, including Wisconsin where the budget is awaiting action by the governor. Three states--Massachusetts, New York and North Carolina--had not passed budgets by the time of this report. Tennessee's budget was vetoed by the governor and remains unresolved.

General Fiscal Condition of the States:
Weakening

State Budget and Tax Actions 2001-Preliminary
Report

Dealing with Budget Shortfalls and Surpluses in
FY 2001

Changes in Revenues and Spending in FY 2001

Enacting Balanced Budgets for FY 2002

Dealing with Budget Surpluses and Shortfalls

Revenue and Spending Projections for FY 2002

Enacting Balanced Budgets for FY 2002

Tax Highlights: Seventh Consecutive Year for a
Net Tax Reduction

Spending Priorities in FY 2002

Tax Highlights in 2001

Appendix A: Seven States Miss Budget
Deadlines

General Fiscal Condition of the States: Weakening

- The strong fiscal conditions of a year ago have been replaced by anemic revenue growth and expanding budget gaps. Seventeen states grappled with budget shortfalls arising in fiscal year

(FY) 2001. The slowing economy also forced 20 states to take extraordinary actions to enact balanced budgets for FY 2002.

- Aggregate state balances fell 22 percent from FY 2000 to FY 2001, declining from \$43.7 billion to \$34.1 billion for the 46 reporting states. The aggregate balance combines general fund ending balances with rainy day fund balances.
- Balances as a percent of spending are waning. The \$34.1 billion represents 8.2 percent of FY 2001 general fund spending. While this percentage is positive for states, it is 3.3 percentage points lower than the FY 2000 balance of 11.5 percent. This is the first time since FY 1992 that the ending balance did not meet or exceed the previous year's balance. It also marks the biggest percentage drop since FY 1980, when balances fell from 9 percent to 4.4 percent.
- Thirty-three states saw their balances decline from FY 2001 to FY 2002, 11 saw their balances increase and in two there was no change.
- The number of states with balances above 5 percent is slipping. Of the reporting states, 36 ended FY 2001 with a balance exceeding 5 percent, the level Wall Street analysts recommend. Of these 36 states, 12 ended with balances exceeding 10 percent. The comparable numbers at the end of FY 2000 were 40 and 22, respectively.
- The economic slowdown has had uneven effects on the states, with some being hit much harder than others. As a group, however, the states are managing the current economic situation rather well so far, cushioned by healthy but diminishing reserves.
- State lawmakers took advantage of robust revenue growth in recent years to bolster rainy day funds, and those funds are proving to be important as general fund ending balances disappear. Increasingly, rainy day funds account for the bulk of total state balances. At the end of FY 2000, they accounted for about half of the total. That proportion grew to two-thirds at the end of FY 2001 and is projected to reach almost three-fourths by the end of FY 2002.
- For the 46 reporting states, revenues in FY 2001 grew 4.5 percent above FY 2000 levels. Five states collected less revenue in FY 2001 than they did in the prior year. By contrast, spending grew 9.1 percent, driven in part by rapidly rising Medicaid costs.

Dealing with Budget Shortfalls and Surpluses in FY 2001

The challenge of the past few years was how to deal with budget surpluses, and many states confronted that issue again in FY 2001. But for the first time in nearly a decade, a large number of states (17) also had to deal with mid-year budget shortfalls. The list of actions to eliminate the shortfalls included:

- Implementing targeted or across-the-board budget cuts (nine states)
- Tapping rainy day funds or other reserve funds (six states)
- Canceling or delaying capital projects (four states)
- Increasing state debt obligations (three states)
- Tapping tobacco settlement funds (two states)

Twenty-two states also reported that they took action to address budget surpluses. Actions included:

- Making deposits to the rainy day fund or other reserves (12 states)
- Funding capital projects (eight states)
- Reducing taxes (six states)
- Targeting funding for specific programs (six states)

Enacting Balanced Budgets for FY 2002

Just as ending FY 2001 with a balanced budget was a challenge for a third of the states, enacting one for FY 2002 also proved difficult for many. Twenty states indicated that extraordinary actions were needed to keep revenues and spending in line. Among the actions taken were:

- Tapping rainy day funds or other reserves (10 states)
- Cutting spending (10 states)
- Increasing taxes or other revenues (five states)
- Delaying expenditures (three states)
- Tapping tobacco settlement funds (three states)

Revenue and Spending Projections for FY 2002

- State revenues in FY 2002 are projected to grow 2.4 percent over FY 2001 levels. Appropriations are scheduled to grow 2.3 percent. The aggregate year-end balance is expected to decline to 6.3 percent by the end of FY 2002.
- Medicaid will capture the largest percentage of new spending in FY 2002. With 40 states reporting, Medicaid is budgeted to grow 8.7 percent. This is two to three times higher than the other major categories of state spending: K-12 education (3.7 percent), higher education (3.6 percent) and corrections (3 percent).

Tax Highlights: Seventh Consecutive Year for a Net Tax Reduction

Despite slower revenue growth due to the economic downturn, states will enact net tax cuts for the seventh consecutive year. The 2001 net tax reduction--\$1.8 billion with 46 states reporting--is substantially lower than last year's record \$9.9 billion cut. So far, this year's cut represents 0.3 percent of prior year tax collections.

- \$9.9 billion in 2000 (2.0 percent)
- \$7.3 billion in 1999 (1.7 percent)
- \$7.1 billion in 1998 (1.6 percent)
- \$2.6 billion in 1997 (0.6 percent)
- \$4.0 billion in 1996 (1.0 percent)
- \$3.3 billion in 1995 (0.9 percent)

Nine states cut taxes by 1 percent or more of 2000 collections, with three of these reducing taxes by 3 percent or more. Four states had tax increases of 1 percent or more, with two increasing taxes by at

least 5 percent. Thirty-three states took no significant tax actions, with four states not reporting.

State Budget and Tax Actions 2001--Preliminary Report

Introduction

Each summer NCSL's Fiscal Affairs Program surveys members of the National Association of Legislative Fiscal Offices (NALFO) for information on state budget and tax actions that occurred in their most recently completed legislative sessions. This year's survey covers fiscal years (FY) 2001 and 2002. In most states, the budget data provided for FY 2001 are based on estimates; the budget and tax data for FY 2002 are based on projections. The tax data also include voter-approved measures affecting state revenues.

General fund budget and tax information is provided for 46 states, including Wisconsin where the budget is awaiting action by the governor. At the time of this report, budgets had not been adopted in Massachusetts, New York and North Carolina. Tennessee's budget was vetoed by the governor and remained unresolved at press time. The five states noted here were among seven that missed their FY 2002 budget deadlines. Appendix A discusses the factors contributing to these late budgets.

General Fiscal Condition of the States

The strong fiscal conditions of a year ago have been replaced by anemic revenue growth and expanding budget gaps. The first signs of an economic slowdown appeared in the fall of 2000. December revenue collections were of particular concern because they included sales tax revenues from holiday purchases. By February, state revenue collections were in a slide--the higher-than-expected revenue growth that had become almost routine turned painfully to lower-than-expected growth. Initially, state officials paused to consider if the lackluster revenue performance was an aberration or a trend. Although the answer varied among states, most officials conceded that the robust economy of recent years had ended.

Changes in Revenues and Spending in FY 2001

State revenue growth slowed in FY 2001 compared with recent years, growing only 4.5 percent above FY 2000 levels for the 46 reporting states (see footnote 1). This compares with 8.7 percent growth in FY 2000 for the same states. Eighteen states reported revenue growth above 5 percent, with five above 10 percent. Three of these states--Alaska, New Mexico and Oklahoma--attributed their revenue growth to robust energy prices. Half of the reporting states saw revenue growth lower than 5 percent, with four at 1 percent growth or less: Indiana (0.6 percent), Iowa (1 percent), Ohio (0.9 percent) and Pennsylvania (0.1 percent). Five states reported that FY 2001 revenues were below FY 2000 revenues: Georgia (-2.3 percent), Maine (-0.5 percent), Michigan (-2.7 percent), Wisconsin (-8.5 percent) and Wyoming (-4.3 percent).

On the spending side, FY 2001 general fund appropriations grew 9.1 percent, with 12 states reporting

spending growth above 10 percent. Twenty-one states reported spending growth between 5 percent and 9.9 percent. Two states spent less in FY 2001 than they did in FY 2000: Alaska (-0.4 percent) and Wisconsin (-2.6 percent).

At the same time that revenues sputtered, many states were facing spending overruns. Medicaid was the biggest culprit in FY 2001. Mid-way through the fiscal year nearly half the states reported that Medicaid spending was exceeding budget levels. In fact, Medicaid spending in FY 2001 grew by 14 percent over FY 2000, even though it originally had been budgeted to grow by 6.4 percent (see footnote 2).

Medicaid wasn't the only budget problem. Overages in corrections spending cropped up in several states. And funding for education, the single largest category of state spending, was insufficient to meet needs in a number of states.

Lower-than-expected revenues, spending overruns or both took a toll on state finances. The overall result is deterioration in state fiscal conditions compared with recent years.

The evidence of the economic slowdown and its effects on state finances varies, as indicated below.

- Seventeen states grappled with budget shortfalls arising in FY 2001. The slowing economy also forced 20 states to take extraordinary actions to enact balanced budgets for FY 2002.
- Aggregate state balances fell 22 percent from FY 2000 to FY 2001, declining from \$43.7 billion to \$34.1 billion for the 46 reporting states. The aggregate balance combines general fund ending balances with rainy day fund balances.
- Balances as a percent of spending are waning. The \$34.1 billion represents 8.2 percent of FY 2001 general fund spending. While this percentage is positive for states, it is 3.3 percentage points lower than the FY 2000 balance of 11.5 percent. This is the first time since FY 1992 that the ending balance did not meet or exceed the previous year's balance. It also marks the biggest percentage drop since FY 1980, when balances fell from 9 percent to 4.4 percent.
- Thirty-three states saw their balances decline from FY 2001 to FY 2002, 11 saw their balances increase and in two there was no change.
- The number of states with balances above 5 percent is slipping. Of the reporting states, 36 ended FY 2001 with a balance exceeding 5 percent, the level Wall Street analysts recommend. Of these 36 states, 12 ended with balances exceeding 10 percent. The comparable numbers at the end of FY 2000 were 40 and 22, respectively.

The economic slowdown has had uneven effects on the states, with some being hit much harder than others. But as a group, the states are managing the current economic situation rather well so far. States could have been in a much more precarious situation had it not been for the prudent action of state lawmakers during the economic expansion.

Determined to avoid fiscal pain reminiscent of the early 1990s--the last time the national economy faltered--state policymakers took advantage of the strong economy to channel excess revenues into capital construction projects, provide extra or one-time funding increases for certain programs and shore up rainy day funds. These well-endowed rainy day funds in particular are providing an important cushion for states as the economy slows.

As their name implies, rainy day funds are used to buttress state budgets when economic problems arise. These funds were not tapped in recent years because the strong economy generated extra

revenues, and it was these revenues that states used to fund additional or unexpected spending needs. Some of the excess also was used to bolster rainy day funds. As the economy slows, however, this situation is changing. The extra revenues that states became accustomed to collecting are disappearing. These unspent revenues helped boost overall state ending balances for several years, but now they are shrinking as a share of state reserves. As the table below indicates, they represented almost half of state reserves at the end of FY 2000. But as the economy has slowed, these revenues are falling, both in actual dollars and as a percentage of total reserves. Had it not been for the prudent actions of state lawmakers to bolster rainy day funds, states would have significantly lower reserves to combat the effects of the slowing economy.

Fiscal Year	Year-end Balance (millions)	Percent of Total Balance	Rainy Day Fund Balance (millions)	Percent of Total Balance	Total Balance (millions)
FY 2000	\$20,160	46%	\$23,513	54%	\$43,673
FY 2001	\$11,445	34%	\$22,646	66%	\$34,091
FY 2002 (est.)	\$ 7,539	28%	\$19,205	72%	\$26,744

Dealing with Budget Surpluses and Shortfalls

The challenge of the past few years was how to deal with budget surpluses, and many states confronted that issue again in FY 2001. But for the first time in nearly a decade, a large number of states (17) also had to deal with mid-year budget shortfalls. The actions varied, with most states cutting spending or tapping other funds to augment the general fund.

- Nine states enacted targeted or across-the-board budget cuts. For example, Alabama implemented a 6.2 percent cut in the Education Trust Fund. Kentucky cut \$121.3 million from its budget, but exempted K-12 education, higher education and Medicaid. Mississippi cut general fund agency appropriations by \$106.8 million. In South Carolina, agencies were hit with a 1 percent across-the-board cut in May to save \$48.1 million. Ohio implemented two rounds of cuts. In December, most agencies experienced a 1 percent to 2 percent cut (the judicial branch, Department of Education and veteran organizations were exempt). In March, agencies were required to cut spending by another 1 percent. The courts and education were not exempt from this round of cuts. Because it appeared doubtful that West Virginia would make its revenue target, the state's new governor cut spending by 3 percent on his first day in office.
- Six states tapped rainy day funds or other reserve funds. Rainy day fund withdrawals were \$46.3 million in Indiana, \$38.8 million in Kentucky, \$77 million in Michigan and \$85 million in Mississippi. Three of these states also tapped other reserves. Indiana transferred \$103.4 million from its Medicaid Reserve, Kentucky took \$29.3 million from excess restricted funds and Mississippi transferred \$12.3 million from special fund agencies. Colorado (\$243.9 million) and South Carolina (\$98.6 million) also tapped other state reserve funds in FY 2001.
- Four states cancelled or delayed capital projects. Colorado delayed new projects until March 1, 2002. Indiana canceled or delayed \$88.3 million in various capital projects. Missouri canceled higher education projects. Through executive order, Virginia's governor froze capital projects.
- Three states increased debt obligations. Michigan boosted debt obligations by \$210 million and

switched from cash to debt financing on three state construction projects. Oregon issued more debt as well. In Pennsylvania, officials issued debt for state museums instead of appropriating \$100 million in cash.

- Two states tapped their tobacco settlement funds. Missouri transferred \$126.9 million and Oregon transferred \$348.2 million from these funds into their general funds.

A few states reported shortfalls in selected agencies or other developments that required mid-year adjustments. In Delaware, the administration required certain agencies to reduce spending by 2.5 percent with the funds being redirected to problem areas--primarily Medicaid, public education and ongoing statewide technology projects. In Maryland, the General Assembly enacted a tax amnesty program, with a portion of the proceeds earmarked to address funding deficiencies for mental health services. In Pennsylvania, the revenue surplus fell short of the winter estimate by almost \$119 million, so lawmakers suspended a \$49 million transfer to the rainy day fund and issued debt for some projects. The state still was able to enact a targeted tax cut. Texas did not have a situation where spending exceeded revenues, but there were a few programs, chiefly Medicaid and prisons, in which costs exceeded appropriations. The overages were addressed primarily by taking unneeded funds from other state agencies.

Twenty-two states also reported that they took action to address budget surpluses.

- Twelve states made deposits to their rainy day funds or other reserves. Two states made sizeable transfers to their funds, such as Georgia's \$170.4 million deposit and New Mexico's \$144.9 million deposit. The other transfers were more modest and included Alabama (\$5 million), Connecticut (\$30.7 million), New Hampshire (\$20 million), New Jersey (\$21.9 million), Ohio (\$13.1 million), West Virginia (\$12 million) and Wyoming (\$17.7 million). In both Ohio and West Virginia, mid-year budget cuts left very small surpluses that made the rainy day fund deposits possible. A few states also made deposits to other state reserves. Maryland transferred \$14.6 million to such reserve funds. Vermont transferred \$10 million to a health care fund. Wyoming made a biennial allotment of \$30 million to higher education for an endowment fund.
- Eight states used extra revenues to fund capital projects. For example, Connecticut funded school construction, transportation and open space acquisition. Georgia provided \$558.9 million, including \$90.9 million in bonds, for public school construction as well as higher education projects and road improvements. Maryland provided funding for higher education, public school construction, transportation and local projects. The state also sold an additional \$30 million in general obligation bonds to support programs that would otherwise have been paid for by the general fund. Utah funded higher education facilities construction and capital improvements for state parks.
- Six states reduced taxes to help offset excess revenues. Georgia provided \$166 million for property tax relief. Hawaii provided a high-tech business tax credit and exempted aircraft leases from the general excise tax. Idaho cut a variety of taxes. Maryland boosted the Earned Income Tax Credit. Minnesota provided a sales tax rebate of \$791 million. Pennsylvania enacted a new education tax credit for business, expanded the poverty exemption and took various other actions for a total cut of \$64.4 million.
- Six states targeted funding to specific programs. Connecticut funded energy programs and municipal revenue sharing. Idaho provided funds for rural economic development grants and state parks. Texas targeted a variety of programs including Medicaid, teacher health insurance and state employee and teacher retirement. Utah funded public education technology and training and provided support for the Industrial Assistance Fund. Vermont funded public safety and several small programs. Wyoming targeted water development.

Enacting Balanced Budgets for FY 2002

Just as ending FY 2001 with a balanced budget was a challenge for a third of the states, enacting one for FY 2002 also proved difficult for many. State analysts project that FY 2002 revenues will grow 2.4 percent, almost half as much as FY 2001 revenue growth. Appropriations are scheduled to grow 2.3 percent.

Twenty states indicated that extraordinary actions were needed to balance revenues and spending. Among the actions taken were:

- Ten states tapped rainy day funds or other reserves. For example, Kentucky will use half its rainy day fund, or \$120 million, to help balance its budget. Indiana expects to use \$200 million from the Lottery and Gaming Surplus Account, \$26.3 million from the rainy day fund and \$51.7 million from the Tuition Reserve Fund. Michigan will transfer \$155 million from its rainy day fund. Ohio will use \$100 million from the Family Services Stabilization Fund, among other funds. South Carolina will tap agency revenue accounts. Other states tapping reserves are Maine, Mississippi, Rhode Island and Washington.
- Ten states reduced appropriation levels, although education and health care often were exempt from the cuts. For instance, funding for most state agencies in Arkansas was reduced below FY 2001 levels, except for K-12 and higher education, human services and corrections. Iowa reduced the FY 2002 budget by \$43 million below FY 2001 spending. Kentucky enacted a 3 percent across-the-board cut, but excluded K-12 education, higher education and Medicaid. Michigan reduced appropriations by \$200 million. South Carolina implemented agency base reductions totaling \$176.5 million, although public education and colleges and universities were exempted. Ohio cut appropriations by 1.5 percent, but excluded the Department of Education, Board of Regents, Department of Corrections and the Department of Mental Health.
- Five states increased taxes or other revenues. Indiana repealed a personal property tax credit and delayed implementation of another credit to garner \$18.9 million. Kansas increased motor vehicle traffic fines to raise about \$16 million annually. Both Maine and Rhode Island increased their cigarette taxes. New Jersey closed a corporate income tax loophole to raise \$420 million and started a new lottery game to raise \$50 million. Additional tax changes are discussed later in this report.
- Three states delayed expenditures. Indiana delayed a higher education payment of \$65.3 million and a tuition support distribution of \$202.5 million. Maine deferred expenditures by changing the timing of reimbursements for property taxes on business equipment. Washington suspended general fund deposits to the Tort Liability Reserve Fund, the state ferry system and the transportation fund.
- Three states tapped tobacco settlement funds. Maine used \$29.4 million from tobacco settlement monies and Michigan used \$72 million. Wisconsin sold the revenue stream from its tobacco settlement allocation and made a \$450 million transfer from the permanent endowment fund created by tobacco settlement monies to the general fund.

Other actions states took to enact balanced FY 2002 budgets included enhanced tax compliance efforts (Kansas, Maine and Ohio), tapping disproportionate share funds from the federal government (Kansas and Washington), shifting from cash to bond finance (Kansas), eliminating selected state agencies (Ohio), and deauthorizing bond projects (Delaware).

Spending Priorities in FY 2002

This report tracks growth for four major categories of spending: elementary-secondary (K-12) education, higher education, corrections and Medicaid. For several consecutive years, appropriations for education outpaced other major categories of state spending. But Medicaid began challenging education for the top spot last year and is expected to be the fastest growing category of state spending again in FY 2002. With 40 states reporting, Medicaid is budgeted to grow 8.7 percent over FY 2001 spending. This growth rate is two to three times higher than the other major categories of state spending: K-12 education (3.7 percent), higher education (3.6 percent) and corrections (3 percent).

Tax Highlights in 2001

Despite slower revenue growth due to the economic downturn, states will enact net tax cuts for the seventh consecutive year. The 2001 net tax reduction--\$1.8 billion with 46 states reporting--is substantially lower than last year's record \$9.9 billion cut, however. So far, this year's cut represents 0.3 percent of previous year's tax collections, compared with 2.0 percent in 2000.

With 46 states reporting (missing Massachusetts, New York, North Carolina and Tennessee), nine states cut taxes by 1 percent or more of 2000 collections. Of these, only Idaho, Minnesota and Oregon reduced taxes by 3 percent or more. Four states had tax increases of 1 percent or more. Both Arizona and New Hampshire increased taxes by at least 5 percent. Thirty-three states took no significant tax actions.

Personal income tax cuts of \$1.2 billion accounted for most of the total net reduction. Cuts in sales taxes amounted to \$325 million. Reductions in estate taxes, property taxes and other miscellaneous taxes will save taxpayers \$462 million. All other tax categories show a net increase.

The category accounting for the largest increase is fees at \$328 million. Nearly twice as many states raised fees as last year. Most increases were related to motor vehicles, either for drivers' licenses or for emissions tests.

Personal Income Tax. Personal income taxes were reduced in 20 states. Michigan and Oregon led the way with cuts of \$393 million and \$309 million, respectively. Michigan continued a five-year phase down in rates while Oregon rebated nearly \$250 million as stipulated by their surplus revenue kicker provision. Voters in Oregon gave themselves an additional tax cut when they approved an initiative last November that increased the federal income tax deduction from state income taxes. Maryland, Rhode Island and Hawaii also continued to phase in personal income tax rate reductions that had been approved in prior years. This year, Idaho lawmakers approved a number of income tax relief measures including a reduction in rates. Most states cut taxes by way of expanded exemptions and credits. In addition, federal tax changes resulted in adjustments in Rhode Island and Vermont--the two states that calculate personal income tax as a percent of federal tax liability. Both states modified their tax laws to base their taxes on federal taxable income instead. *Net reduction: \$1.2 billion.*

Corporation and Business Taxes. Twelve states cut corporate and business taxes while six states increased them. Michigan registered the largest cut at \$239 million as they continue the 23-year

phase-out of the single business tax. Connecticut, Idaho and Pennsylvania also reported significant business tax cuts. New Jersey reported the biggest increase when a major loophole for certain limited liability corporations was closed, resulting in a net increase of \$384 million. New Hampshire also reported a large increase in this category. *Net increase: \$46 million.*

Sales and Use Tax. Fourteen states reduced sales and use taxes while five raised them. For the fourth consecutive year Minnesota will be returning some of its surplus revenues in the form of sales tax rebates. Connecticut suspended the sales tax on hospital patient care for two years and Hawaii continued with a three-year reduction of the sales tax on business to business transactions. South Carolina increased the sales tax on food by 1 cent after reducing it last year. Virginia delayed a 0.5 percent reduction of the sales tax on food when revenue growth fell short of the threshold required to continue the phased in tax cut. Arizona expects that a voter-approved 0.6 percent sales tax rate increase will generate \$486 million for education. The sales tax rate also was increased in Arkansas by one-half cent in exchange for a property tax reduction of approximately \$300 per homestead. A sales tax controversy dominated California budget talks as lawmakers debated whether to make permanent an automatic quarter cent sales tax reduction (with a \$1.2 billion annual revenue impact) that kicked in on Jan. 1, 2001. In the end, no legislative action was taken and the rate will go back up to 5 percent on Jan. 1, 2002. *Net reduction: \$325 million.*

Health Care Provider Taxes. West Virginia began a nine-year phase out of certain health care provider taxes and Utah repealed the assessment on nursing facilities. Minor changes in Arkansas, Florida, Rhode Island, Texas and Vermont resulted in an overall increase in this category. *Net increase: \$56 million.*

Cigarette and Tobacco Taxes. Maine, Rhode Island, West Virginia and Wisconsin all increased taxes on cigarettes or tobacco products. Wisconsin's increase--which is expected to generate about \$61 million--will fund a prescription drug program for seniors. Maine raised the cigarette tax with two separate bills; the first from 74 cents per pack to 94 cents per pack, and in the second bill, up to \$1 per pack. Rhode Island also increased taxes to \$1 per pack, up from 71 cents. *Net increase: \$102 million.*

Alcoholic Beverages Taxes. Only Arkansas took any action on alcoholic beverage taxes. Lawmakers there adopted a special excise tax on beer and dedicated the revenue to childcare. *Net increase: \$2.9 million.*

Motor Fuel and Vehicle Taxes. Kansas and Minnesota both increased motor fuel taxes. Kansas expects to raise an additional \$16 million annually after increasing its motor fuel excise taxes one-cent per gallon. Lawmakers in Minnesota increased motor fuel taxes by \$2.5 million. *Net increase: \$19 million.*

Other Taxes. New Jersey entered into the third year of a five-year property tax rebate program. Connecticut and Louisiana continue to phase out the inheritance tax. Voters in South Dakota authorized a measure to eliminate the state inheritance tax, while lawmakers in New Hampshire repealed the state legacy tax in 2003. Estate taxes also were reduced in Ohio. Florida took further action to reduce the state property tax on intangibles. Tax rates for riverboat casinos were raised in Louisiana while the minimum tax on land based casinos was renegotiated for an increase of \$106 million. *Net reduction: \$462 million.*

Fees. Seventeen states raised fees in 2001 compared to nine states last year. Increased motor vehicle and drivers' license renewal fee accounted for the majority of activity in this category. Minnesota and Texas raised court fees and Louisiana and Texas raised college tuition. *Net increase: \$328 million.*

Other Revenues. In addition to tax and fee changes, states approved a number of non-tax revenue actions. For example, Maryland and Ohio approved tax amnesty programs expected to increase tax collections by \$30 million and \$17 million, respectively. New Mexico waived penalty and interest charges for taxes in 21 counties considered a disaster area as a result of forest fires last summer. Kansas enhanced efforts to aggressively enforce tax collections and Wisconsin hopes to improve tax collection efficiency with a new computer system. *Net increase: \$91 million.*

Appendix A: Seven States Miss Budget Deadlines

Seven states--**California, Massachusetts, New York, North Carolina, Oregon, Tennessee and Wisconsin**--did not have budgets in place at the start of FY 2002. Although policymakers had less discretionary revenue to allocate than last year, it would be unfair to blame entirely the economic slowdown since most of the seven have a tradition of late budgets. Disagreements between political parties, legislative chambers and the executive and legislative branches remained the major cause of budget delays.

California legislators approved a \$101 billion budget on July 24. With a slowing economy and energy crisis dampening revenue growth, general fund spending is set to decline in FY 2002--after increasing more than 20 percent in FY 2001. The budget impasse largely came down to a party-line dispute over two issues. The first was an automatic sales tax increase set to take effect Jan. 1, 2002, if the state's ending balance fell below 4 percent of general fund expenditures. The second was the use of \$1.3 billion in transportation funds to balance the state budget. Although Senate and Assembly Republicans were unable to prevent either action from occurring, they won concessions that could have both measures overturned within a year. Voters will consider a ballot measure in March 2002 that would prohibit lawmakers from directing transportation funds toward general fund appropriations. In addition, the minimum balance that triggered the sales tax hike--a general fund surplus of less than 4 percent--was lowered to 3 percent.

In **Massachusetts**, House and Senate leaders are negotiating to resolve differences in budgets approved by each chamber. But the agreement that emerges from conference committee has an additional hurdle to clear. Gov. Jane Swift (R) already has announced her intention to trim approximately \$200 million from what is expected to be a \$23 billion budget.

New York legislators reached a general agreement on an approximately \$81 billion budget, although no legislative action has been taken yet. With the budget stalemate approaching a record length--New York's fiscal year began on April 1--lawmakers decided to pass a scaled-back version of Gov. George Pataki's (R) budget proposal. This version maintains spending levels from the previous budget for most programs while stripping tax cuts and new initiatives from the governor's proposal. Legislators hope to consider a supplemental budget later in the year.

North Carolina policymakers continue to work out the details of an approximately \$14 billion budget. The House leadership released a \$440 million tax increase proposal on July 23 that would fill a \$167 million budget gap and fund state mandated local tax cuts. The proposal would increase the local option sales tax by a half-cent, levy a 6 percent sales tax on liquor and create a new income tax bracket--8.75 percent on incomes in excess of \$200,000. Prospects for the tax proposal are uncertain with Gov. Mike Easley (D) expected to release his own tax package soon.

Oregon legislators passed a two-year \$12.1 billion budget on July 7, a week after the start of the fiscal year. Unlike previous sessions--when arguments about education spending delayed budget approval--policymakers reached agreement on a two-year \$5.2 billion education package early in the negotiations. Instead, the budget was delayed over Gov. John Kitzhaber's (D) prescription drug cost control proposal. In the end, an agreement was reached when Kitzhaber agreed not to veto a number of bills supported by Republican lawmakers--including business tax cuts--and they supported a slightly modified version of the governor's proposal.

Tennessee legislators approved a \$19.6 billion budget on July 12. Policymakers faced a FY 2002 general fund deficit of between \$550 million and \$880 million. They considered major tax reform--including adoption of an income tax and an increase in the sales tax rate--during the session, but were unable to agree on substantive changes amidst vociferous protests by anti-tax advocates. The budget was balanced by cutting \$100 million in spending and directing \$560 million in tobacco settlement payments to the general fund. Gov. Don Sundquist (R) vetoed the budget on July 26. Legislators are expected to address the veto when they reconvene in August.

Wisconsin legislators approved a two-year \$47 billion budget on July 26--almost a month late, but still earlier than its two previous budgets. Policymakers were challenged with writing a biennial budget that bridged a \$760 million gap. They used budget reserves, a cigarette tax increase and proceeds from the sale of the state's tobacco settlement payment stream to balance the books, while providing prescription drug coverage for low-income seniors and exempting military pensions from the income tax.

Figure 1: State Year-End Balances: FY 2001
As a Percentage of General Fund Expenditures



Figure 2: State Year-End Balances
As a Percentage of General Fund Expenditures, FY 1978-2002



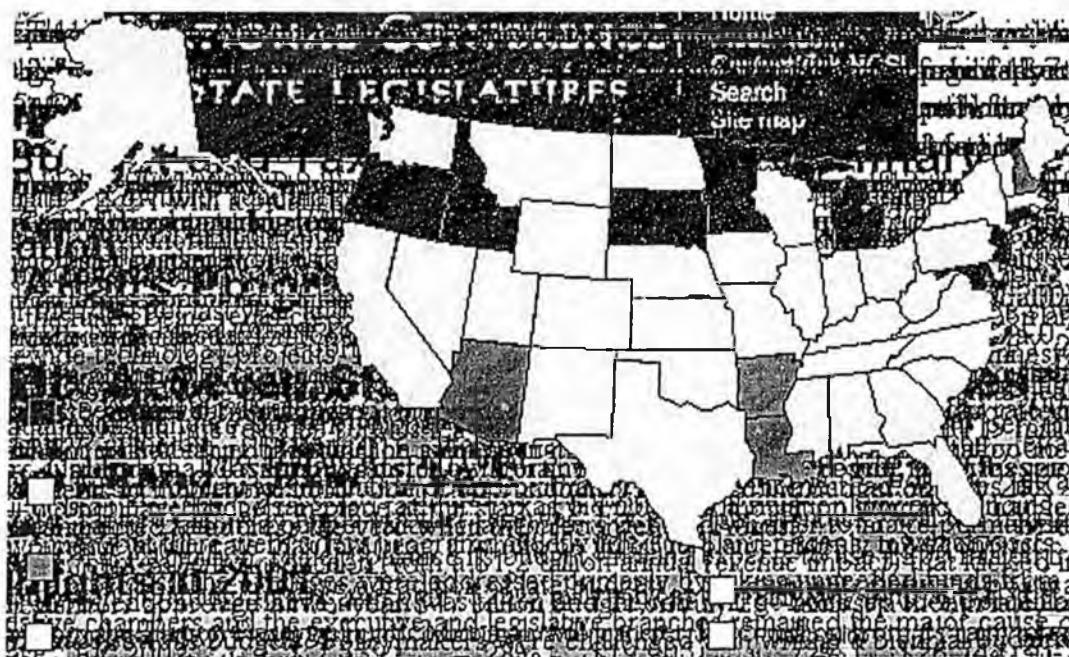
Figure 3: Projected Percentage Changes in General Fund Revenues and Appropriations
FY 2001 to FY 2002



Figure 4: Summary of Changes in General Fund Appropriations for FY 2002
Compared to FY 2001 Spending



Figure 5: Net State Tax Changes
As a Percentage of 2000 Tax Collections



**Figure 6: 2001 Net State Tax Changes
By Type of Tax, in millions**

Personal income	\$-1,214.5
Corporation income	45.5
Sales and use	-324.5
Health care	56.1
Motor fuel	18.9
Cigarette and tobacco	102.0
Alcoholic beverage	2.9
Miscellaneous	-462.2
Net Change	\$-1,775.8

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1. Fiscal Studies Program, Nelson E. Rockefeller Institute of Government, State Revenue Report #41, September 2000 (return to text).
2. This information is based on the 40 states reporting Medicaid data (return to text).

The National Conference of State Legislatures (NCSL) is a bipartisan organization representing legislators and legislative staff from the nation's 50 states, its commonwealths and territories. NCSL's mission is to improve the quality and effectiveness of state legislatures, foster interstate communication and cooperation, and provide state legislatures a strong, cohesive voice in the federal system. NCSL

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