Are Western States' Tax Structures Adequate?

Donald Boyd

October 2003

WICHE

Supported by a grant from the Ford Foundation

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Western Interstate Commission for Higher Education

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- Strengthen educational opportunities for students through expanded access to programs.
- Assist policymakers in dealing with higher education and human resource issues through research and analysis.
- Foster cooperative planning, especially that which targets the sharing of resources.

This publication was prepared by the Policy Analysis and Research Unit, which is involved in the research, analysis, and reporting of information on public policy issues of concern in the WICHE states.

This report is available free of charge online at http://wiche.edu/Policy/Ford.htm.

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Contents

Figures

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Cambridge, New York
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Executive Summary

Policymakers designing state tax systems are faced with the difficult task of raising adequate revenue to fund services, in a fair and administrable manner, without unduly burdening the economy. Adequacy, fairness, administrability, and minimal economic burden are goals that virtually everyone can agree on in the abstract. In practice, these concepts are difficult to define and measure, and often conflict with each other.

This report examines tax structures in the Western states – a special concern of the Western Interstate Commission for Higher Education – and focuses on revenue adequacy and its relationship to other tax policy goals. Revenue adequacy can be thought of as the ability of a tax system and an economy to fund current needs and spending levels, the ability to fund growth in spending under current policies, and the ability of a tax system to fund services throughout the business cycle and other cycles.

Tax policy goals often conflict with one another, and characteristics that promote adequacy sometimes conflict with other goals. Broad-based sales taxes that tax food and services can be stable, but conflict with some notions of fairness. Fast-growing income taxes may serve long-run needs well, but they are volatile during business cycles. Severance taxes – taxes generally levied on products "severed" from the land, such as oil, natural gas, minerals, and timber – may be particularly able to raise tax revenue in some Western states without unduly burdening state residents, but they may be unstable and may provide very uncertain longer-term growth. Because tax policy goals conflict, and because state economies upon which tax revenue is based vary greatly, there is no "one size fits all" revenue system that best meets all goals.

Western states have resolved conflicting goals in very different ways from most other states. Three of the five U.S. states without broad-based sales taxes are in the West (Alaska, Montana, and Oregon). Five of the nine states without a broad-based income tax are in the West (Alaska, Nevada, South Dakota, Washington, and Wyoming). Alaska is one of only two states with no sales tax or income tax. Washington relies disproportionately on the sales tax, and several other Western states rely very heavily on this tax. Alaska and Wyoming rely extremely heavily on taxes on natural resources, and New Mexico and North Dakota rely considerably on similar taxes. For these and other reasons, one recent analysis labeled Western states' tax structures as "wobbly."

Western states practice direct democracy far more readily than other states. Combined with strong anti-tax sentiment, this has led to considerable constraints on Western states' revenue-raising ability, in the form of initiatives and referenda (as well as occasional legislatively enacted statutes) that limit taxes and spending, and that require legislative supermajority votes to raise taxes. These constraints are particularly strong in Colorado, Oregon, and California but are widespread in some form throughout the region.

The combination of these factors will cause most Western states to face projected budget gaps in the next five to10 years – with the gaps likely being largest in the states that do not have income taxes, or that rely on them least. Western states will face considerable pressure to bring revenue structures and spending policies into line.

Introduction: Revenue Adequacy and Other Tax Policy Goals

Policymakers designing state tax systems are faced with the difficult task of raising adequate revenue to fund services, in a fair and administrable manner, without unduly burdening the economy.[1] Adequacy, fairness, administrability, and minimal economic burden are goals that virtually everyone can agree on in the abstract. In practice, these concepts are difficult to define and measure, and often conflict with each other.

This report examines tax structures in the Western states – a special concern of the Western Interstate Commission for Higher Education – and focuses on revenue adequacy and its relationship to other tax policy goals. Because state government tax systems are part of larger state-local systems, and states vary greatly in which levels of government fund services, this report focuses on state-local revenue systems combined except where noted otherwise.

What Is Revenue Adequacy?

When analysts speak of "revenue adequacy," they generally mean one or more of the following:

- Ability of a tax system and economy to fund current needs and spending levels.
- Ability of a tax system and economy to fund growth in spending under current policies.
- Stability of tax revenue through the business cycle and other cycles.

These characteristics of a state's tax revenue are influenced by its tax structure, and by its economy and fiscal institutions.

Ability to fund current needs and spending levels

Virtually without exception, state and local governments are required to balance their budgets. In a trivial sense, then, state revenue systems generally can support current spending. However, in some cases state revenue structures are propped up with one-time revenue sources that will disappear in future years – a common occurrence now, resulting from state efforts to close recent budget gaps with minimal tax increases – making it difficult for the recurring tax structure to finance current spending after the one-time revenue sources disappear.

Even if a state revenue system can fund *current* spending, the state's economy and tax systems may have greater or lesser ability to fund spending "*need*," somehow defined. One way to examine the capacity of states to raise revenue and support services is via the "Representative Tax System" (RTS) and "Representative Expenditure System" (RES), an approach developed by the Advisory Commission on Intergovernmental Relations and extended by Robert Tannenwald, an economist at the Federal Reserve Bank of Boston. A later section of this report describes this approach and presents its estimates of fiscal capacity, fiscal need, and "fiscal comfort" (the extent to which a state's economy can support its spending needs) for Western states.

Growth over time

Even if a tax system can finance current spending, will revenue keep up with the demand for services? Will revenue growth outstrip spending demand, or fall behind?

Demand for many public services often follows reasonably predictable paths: spending on elementary and secondary education is driven in part by growth or decline in the number of pupils; Medicaid spending is driven in large part by growth in the eligible population, particularly the elderly; and spending on higher education depends on the demand for an educated workforce. These demographic drivers often are reasonably predictable. To be sure, there are large uncertainties as well, but the macro forces that shape state and local government spending often can be understood several years in advance.

Other forces are reasonably predictable, too: real K-12 education spending per pupil has risen dramatically in each of the last five decades and will

rise further in most states as voters continue to demand higher standards; and health care inflation seems likely to exceed general inflation, driving up Medicaid costs. Over the long term, U.S. voters have consistently supported dramatic increases in state and local government – in each of the last five decades, real per-capita state and local government spending grew at rates ranging from 13 percent to 39 percent, for a near-quadrupling in the real size of government in 50 years.

For all these reasons, many people desire revenue structures that will support spending growth over the longer term without requiring continual legislated tax increases. For exactly the same reasons, many people in favor of limited government prefer revenue structures that will not keep up with spending demands automatically, but instead require votes by legislators or the electorate to raise revenue.

What factors affect the long-run revenue-raising ability of tax systems? For the largest revenue sources:

- Personal income taxes generally grow faster than the economy over the longer term, due mostly to their "progressive" nature (tax liability is a higher percentage of income for high-income people than low-income people). As incomes rise due to productivity gains and inflation, taxpayers are pushed into higher tax brackets and pay at higher marginal rates, boosting year-to-year revenue growth. While state income taxes generally are not as progressive as the federal income tax, they all have progressive elements even when the tax rate is flat. If an income tax is fully indexed for inflation, then it will not benefit from inflation-driven increases in income, but state income taxes generally have little or no indexing, and even so, productivity-driven income gains still lead to rapid revenue growth.
- Sales taxes have the potential to grow as fast as the economy, on the assumption that over the longer term people's consumption will grow in line with their incomes. Despite this potential, sales taxes face important downward pressure from two sources. First, the economy continues to shift from manufacturing to services, but services are far harder to tax – and far less frequently and comprehensively taxed – than goods. Second, under current federal law, it is difficult for states to collect sales taxes on goods and services sold over the Internet or by mail order. Professors Donald Bruce and William Fox of the University of Tennessee have estimated that these two forces are likely to erode state and local government sales taxes by enough to reduce overall tax revenue by 3 percentage points over a five-year period – with the loss due to the Internet being approximately twice as large as the loss due to the shift to services.[2]
- Property taxes also have the potential to grow as fast as the economy, although property values can grow faster or slower than the overall economy for very long periods of time.
- Selective sales taxes – taxes on commodities such as cigarettes, alcohol, and motor fuel – usually grow more slowly than the economy if they are based on the quantity of the good sold (e.g., cents per pack), rather than the value of goods sold (e.g., 5 percent of value) because in our economy prices tend to rise over time and these taxes do not benefit from inflationary increases.
- It is very hard to have a priori conclusions about how other revenue sources may grow (or decline) over time. Severance taxes have exhibited wild cycles, and are highly dependent on prices and production of oil, gas, and other resources being taxed. Unless we can predict prices and production of these goods with confidence, it is hard to say what will happen to associated tax revenue.

Revenue stability

Tax systems exist to fund government services. Demand for these services generally does not fall in recessions, and in fact often rises. For example:

- Elementary and secondary education is the single-largest spending area in the typical state budget, and recessions do not have a significant impact on the number of children in school. As a result, the demand for K-12 spending remains fairly stable in recessions.

- Medicaid, the health care program for the poor and medically needy, is the second-largest spending area in the typical budget, and care for the elderly and disabled are the largest components of Medicaid. Recessions do not lead to fewer nursing home residents or fewer disabled individuals, and so demand for this component is relatively stable in recessions. Meanwhile, during recessions unemployment rises and more people become eligible for Medicaid. As a result, states face spending pressures in the portion of Medicaid directed toward low-income families.[3] (States may also face pressure to cut Medicaid spending in response to rising costs.[4])
- Higher education, the third-largest spending area in the typical state budget, also is relatively stable in recessions. In fact, as jobs become scarcer, students tend to remain in higher education longer and more students enter, particularly in community colleges. This actually puts upward pressure on higher education spending.
- Similarly, states feel pressure to increase spending on public assistance and other forms of aid to the needy when the economy turns down.

By contrast, many tax sources are very volatile. Income taxes are subject to wild revenue swings for two reasons. First, the underlying income subject to tax can be more volatile than standard measures of the economy. For example, most states conform to federal tax treatment of realized capital gains, which are not included in the nation's economic accounts but which amount to about 5 percent of adjusted gross income. This income is very volatile: between 1994 and 2000 capital gains quadrupled, and then fell by approximately 50 percent in 2001. Second, because of their progressive nature, income taxes raise disproportionate amounts of revenue from relatively few taxpayers with very high incomes taxed at the highest rates. In 2001, the 4.3 percent of federal income-tax payers with taxable income of $150,000 or more accounted for 34 percent of all federal taxable income, and for a larger share still of income tax revenue.

Sales taxes also can swing significantly. When the economy slows, people who lose jobs or income cut back on purchases to reflect their lowered income. In addition, even people who don't lose jobs or income may cut purchases back if they feel that their livelihoods are at risk. When acquaintances and others lose jobs and consumers fear losing theirs as well, they tend to postpone nonessential purchases to build a cushion for uncertain times. This is especially true for durable items such as cars, washing machines, and furniture, and for luxuries such as restaurant meals and vacations. Sales taxes exempt many necessities while taxing non-necessities, amplifying their volatility.

In addition to business-cycle volatility, some taxes have their own cycles: taxes on natural resources such as oil or coal often vary with the prices of these commodities, which can swing widely. States that rely heavily on these sources can experience fiscal boom and bust cycles at very different times from national economic booms and busts.

Stable revenue systems are attractive because they can help governments avoid lurching cuts to services in an economic downturn, at the very time that demand may be increasing. In addition, businesses, citizens, and governments need to plan. It is expensive to undo plans with each downward movement of the business cycle, only to reinstate them when the economy improves. Both the private and public sector can operate more efficiently when they believe that tax and spending policies will not be whipsawed by each change in the economy.

No politically acceptable tax system is likely to avoid booms and busts completely.

Other Factors Affecting Revenue Adequacy

It is not just a state's tax structure that matters for revenue adequacy but also the state's economy. New York has tax system that, by design or otherwise, booms when the financial services sector booms and busts when that sector busts. If we transported the same tax system to Wyoming, it would not perform the

same. Similarly, Wyoming's tax system, dominated by natural resource taxation, would perform very differently in New York.

In addition to tax laws and the makeup of a state economy, institutional factors can play a very strong role in revenue adequacy. Some states, particularly Western states, have a long history of anti-tax sentiment that is reflected in tax and spending limitations, rebate requirements, supermajority voting rules and other institutions that tend to tamp down revenue growth. These institutional factors, when incorporated in the state constitution, constrain policy choices in the short term. For example, Nevada's constitutional prohibition against a personal income tax rules this tax out as a short-term policy option.

Other Tax Policy Goals

Equity

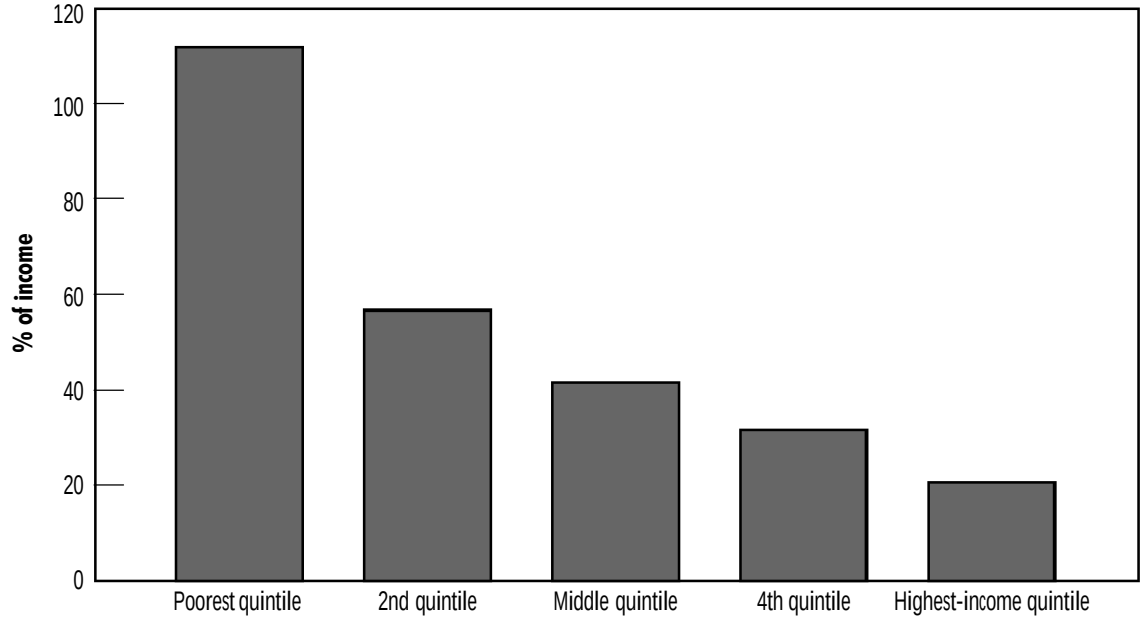
Economists usually think of two kinds of equity: horizontal equity and vertical equity. Horizontal equity means treating similarly situated taxpayers similarly. Vertical equity means making specific choices about how different groups of taxpayers should be treated vis-à-vis each other – should families earning $500,000 per year pay taxes at the same rate as families earning $50,000, or should they pay at a higher rate, or a lower rate?

People generally accept the notion of horizontal equity in the abstract, although in practice many economic development policies – tax incentives for specific kinds of businesses, for example – are explicitly designed to prevent horizontal equity. Vertical equity – deciding who should bear how much burden – is fraught with analytic and political complications.

Income taxes can be designed, within limits, to put tax liability where policymakers want it: sharply rising rates or generous low-income credits can make the tax progressive, while flat rates and income exclusions can make the tax less progressive.

Sales taxes tend to be "regressive" relative to income – the tax is higher, as a percentage of income, for low-income taxpayers than for high-income taxpayers. As Figure 1 shows, the poorest households spend a very large share of their income on taxable goods.

Figure 1. Consumption Taxable Under Typical Sales Taxes as Percent of Income, by Income Group



Source: Author's calculations from Consumer Expenditure Survey, 2001, U.S. Department of Labor (www.bis.gov/cex).

According to the 2001 Survey of Consumer Expenditures, the poorest one-fifth of families spent 112 percent of their income – more than all of it – on items typically included in sales taxes.[5] Taxable purchases drop off sharply relative to income as income rises: the second-poorest quintile spent 57 percent of their income on taxable purchases, while the richest quintile spent only 21 percent of their income on taxable purchases.

Many states exempt food and other necessities from their sales taxes in an effort to reduce the regressivity of the tax. Figure 2 shows that the poorest quintile spends 6.8 times as much on food at home, as a share of income, relative to the highest-income quintile. But exempting food from the sales tax removes a large and stable component from the base. It is not included in the "typical" base of Figure 1, and adding it would increase the tax base by nearly 20 percent. Because food is such a large category, some states include it in the sales tax base and provide a low-income tax credit under the income tax to offset its regressive effect.

Selective sales taxes tend to be even more regressive than general sales taxes because many taxed commodities consume an especially large share of income for lower-income families relative to upper income families. For example, as Figure 2 shows, families in the lowest-income quintile spend 12 times as much on tobacco products, as a share of income, as families in the highest quintile.

Property taxes also have the potential to be regressive relative to income, although the economic research on this point is mixed.

There are many other important issues relating to tax equity, aside from how taxes are distributed across families with different incomes. Many of these other issues are specific to individual taxes and states, and depend upon the ways in which states tax different industries, different forms of income, and even people of different ages.

Administrability

Taxes that cannot be administered at reasonable cost to taxpayers and the government are of little use. Some important points about administration are:

- Income taxes usually work best when administered in reasonably large geographic areas. Income taxes generally are applied to commuters into an area as well as to residents, and it can be difficult

Figure 2. Consumer Spending by Poor and Rich Families, as Percent of Income

Expenditure category	% of income: Poorest quintile	% of income: Highest-income quintile	Ratio: Low to high
Comprehensive spending	201.4	38.6	5.2
Spending on selected goods and services included in above:			
Furniture	1.7	0.8	2.2
Food prepared away from home (e.g., restaurant meals)	12.8	3.5	3.7
Medical services	3.4	0.8	4.2
Food consumed at home	23.4	3.5	6.8
Electricity	8.6	1.1	7.7
Cigarettes and tobacco products	3.2	0.3	12.3
Medical drugs	5.0	0.4	12.7
Rental housing	26.0	1.4	18.8

Source: Consumer Expenditure Survey 2001, U.S. Department of Labor.

to administer cross-border commuter taxes when imposed in relatively small areas, such as counties or school districts (if the tax jurisdictions become small enough, most people are commuters). In addition, income taxes usually include nonwage income, such as interest, dividends, and capital gains in the base, and it is easiest to administer these rules as part of a larger state system tied to federal income definitions and administrative mechanisms.

- A myriad of sales tax rates and sales tax bases in many different jurisdictions also can be difficult to administer and runs counter to current efforts to make sales taxes more uniform and to simplify administration of taxes imposed on Internet and mail-order transactions.
- Corporate income taxes are extremely difficult to administer in small areas and are even difficult to administer at the state level. Many corporations earn their income globally, and there is no simple way to determine how much profit a corporation earns in any particular jurisdiction. As a result, states generally rely on "apportionment formulas" to apportion corporate income to individual states, based on factors such as property, payroll, and sales located in a given state.
- One of the reasons local governments rely so heavily on property taxes is because it is so hard to have locally administered income, or sales, or corporate taxes. Property taxes, by contrast, are generally very administrable in small areas (although locally administered property taxes have the potential to be administered very inequitably). Property generally can be found, assessed, and taxed, and those taxes enforced, in small local areas. Income and sales are much easier to hide. Given the enormous pressure for local control of education, property taxes seem destined to play a major role in education finance for many years to come.
- To be effective, taxes must be relatively easy to comply with. State and local taxes rely heavily on voluntary compliance, and this is facilitated by a system that is easy to understand, reasonably certain, and fair.

Economic impact

All real-world taxes distort economic behavior. A tax on consumption is an incentive to save. A tax on improved land is an incentive to keep land vacant. Large taxes on small segments of the economy create significant incentives to change behavior: a $5 tax per pack on cigarettes might lead some smokers to cross the border to neighboring states. In general, broad bases and low rates reduce distortion: broad bases reduce opportunities to change behavior in ways that avoid or evade taxes, while low rates reduce incentives for doing so.

Sometimes tax laws explicitly attempt to distort behavior: that is precisely the purpose of child care tax credits and investment tax credits, two policies intended to lead people to buy more of what the government has decided is important.

The Federal Government's Role in State Tax Policy

States adopt their tax policies within the context of federal laws and policies. The federal environment can influence state tax policy in several important ways.

First, the United States constitution prohibits states from denying taxpayers equal protection under the law, and from depriving taxpayers of property without due process of law. These two protections have invalidated many state taxing schemes over the years.

Second, the commerce clause of the constitution reserves to Congress the power "to regulate commerce…among the several states." The Supreme Court has interpreted this as prohibiting states from burdening interstate commerce absent specific approval from Congress. This is the crux of the Internet sales tax issue: under current interpretations, a state cannot force an out-of-state business to collect sales and use taxes due on Internet or mail-order transactions unless the business has a sufficient physical presence in the state, due to the burden that the current complex web of different state and local stales taxes could create. Many states hope that if they simplify and conform sales taxes sufficiently, Congress

will allow them to require collection of sales and use tax on these transactions.

Third, states gain many administrative and compliance efficiencies as a result of the federal tax system. States with income taxes generally conform to most federal definitions of income, allowing taxpayers, auditors, and others to apply already-settled federal laws and regulations, and to use books and records they use for federal purposes. For example, when taxpayers prepare their income tax returns, most items of income and deduction will be the same for state and federal purposes, or will require only minimal adjustment, saving taxpayers enormous work and frustration. When the federal government adjusts a taxpayer's income on audit, that change generally will flow through to state income taxes with relatively little state effort or expense. These efficiencies can be so large that states conclude they must conform to federal policy even if they would prefer different policies. For example, when President Bush proposed eliminating income taxes on dividend income, states were concerned that once the federally imposed systems for reporting and taxing dividends were eliminated, states would no longer be able to tax dividends, either. Similarly, many states conform to federal estate tax rules, and with impending elimination of that tax, states generally have concluded it would not be administratively or politically practical to impose their own estate taxes in absence of a federal tax.

States and their taxpayers gain the greatest efficiencies from conformity to federal personal income taxes, corporate income taxes, and the estate tax. They do not gain many efficiencies in state taxes that have no federal counterparts, such as property taxes and sales taxes, although even here states can borrow federal definitions and rules for some elements of the taxes.

Tax Policy Goals Often Conflict with Each Other

Many people find income taxes attractive from an equity perspective because they can be made progressive. People interested in a revenue structure's ability to support longer-term spending growth find income taxes attractive from an adequacy perspective because they usually grow faster than the economy. But income taxes are extremely volatile in the short term, especially during recessions, and can lead to sharp fiscal swings, especially if they are progressive.

Broad-based sales taxes that include food in the base may be relatively stable but impose relatively high burdens on people with lower incomes, so the goal of stability can conflict with fairness. It is possible, however, to design income tax credits that offset the regressive impact of broad-based sales taxes. Unfortunately, the goal of fairness can conflict with administrability: many eligible low-income families do not apply for and claim credits, and participation may be especially low among families with income that falls below tax-return-filing thresholds.

Gross receipts taxes on businesses can be exceedingly stable because business receipts tend to be far more stable from year to year than business income – in fact, businesses even have to pay gross receipts taxes in years in which they lose money, conflicting with many people's notions of fairness.

Taxes on "export industries" in a state, such as natural resources and tourism, may minimize burden on a states' citizens, but at the potential expense of limited growth and extreme volatility.

These are just a few examples of the ways in which different tax policy goals can conflict with each other, forcing policymakers to make tradeoffs among competing goals. Figure 3 summarizes some of these tradeoffs.

While it is useful to examine how individual taxes relate to tax policy goals, it is crucial to view taxes as a system. A progressive but volatile income tax may counterbalance a regressive but stable gross receipts tax; fast-growing state taxes may counterbalance slow-growing local taxes; and so on. Partly for these reasons, many economists and analysts recommend that states have reasonably balanced portfolios of taxes with broad bases and low rates. Just as a

diversified investment portfolio can be more stable and attractive than one concentrated in just one or two securities, a diversified revenue structure can be **more stable and attractive.**[6]

Because tax policy goals often conflict and involve tradeoffs, there is no "one size fits all" revenue structure. State policymakers have to make choices about tradeoffs in ways consistent with the values of voters in their state, with their economic structure, and with their own history.

Many Western states have resolved these and other tradeoffs in ways that differ markedly from the rest of the nation, in part because their economies differ markedly from much of the rest of the nation.

Figure 3. Key Tax Principles and Three Major Taxes

	Adequacy	Equity	Administrability	Economic distortion
Income Tax	• Often grows faster than economy • Volatile, especially in recessions	• Can target distribution of burden across income ranges • Tax as share of income usually rises as income rises (progressive)	• Administrable at state level (federal conformity) • Hard to administer in small geographic areas (e.g., school districts)	• Can be structured with broad base (allowing lower rates) • Sometimes used to reward or punish various activities
Sales Tax	• Grows with economy, but has "leakages" (Internet and mail order sales hard to tax, economy is shifting to hard-to-tax services) • Volatile, especially in recessions	• Tax as share of income rises as income falls (regressive) • Efforts to avoid regressivity create administrative complexity and horizontal equity issues	• Easier to administer in small areas than an income tax, but still problematic (especially in relation to Internet and mail order sales)	• Can be structured with broad base, low rates • In practice, a hodgepodge of special rules and exceptions
Property Tax	• Stable: does not respond automatically to economic changes • Tax rate and assessment decisions play major role in revenue growth	• Tax is regressive with respect to income; but some offsetting mechanisms are available. Not necessarily related to ability to pay from income • Taxes don't fall when income and wealth fall	• Quite feasible to administer in small geographic areas • Fraught with inconsistencies and inequities • Highly collectible	• In practice, often highly distorting

How Do Western States' Revenue Structures Stack Up?

Overview of Western States' Revenue Structures

Western states are enormously varied, and there are very few generalizations we can make. Western states' economies differ markedly from the national economy, and their tax structures reflect this. Resource-rich states such as Alaska and Wyoming raise a substantial share of their revenue from severance taxes or other sources linked to minerals – sources that make it easier to export the tax burden. Nevada, as the nation's gaming capital, relies heavily on gambling and tourism-related revenue. Hawaii relies heavily on sales tax revenue from nonresident tourists.

State and local governments in the West rely heavily on non-tax revenue: in 10 of 15 states, non-tax revenue is a larger share of total revenue than it is for the U.S. as a whole, in many cases by a very substantial margin (especially in Alaska and Wyoming). These states finance a smaller share of spending with taxes than is typical elsewhere and finance more with federal revenue and with non-tax own-revenue.

Three of the five U.S. states without broad-based sales taxes are in the West (Alaska, Montana, and Oregon – although Alaska does have some local sales taxes). Five of the nine states without a broad-based income tax are in the West (Alaska, Nevada, South Dakota, Washington, and Wyoming). Alaska is one of only two states with no sales tax or income tax (New Hampshire is the other). For these reasons, one recent analysis labeled the Western states' tax structures as "wobbly."

Per-capita income is below the national average in many Western states, and state and local taxes per capita – a measure of ability to finance spending – also are lower, in large part reflecting this difference. (Other factors, such as political conservatism, also may play a role in the West's lower taxes.) There are some significant exceptions – for example, Hawaii has

Figure 4. State-Local Taxes as Percent of Personal Income Indexed to U.S. Average

	Tax foundation index (2003)	Personal income index (2000)
Hawaii	110.3	112.3
California	109.3	107.6
Utah	109.3	107.1
Idaho	105.2	101.5
Arizona	102.1	98.9
North Dakota	101.0	106.2
Washington	101.0	95.8
New Mexico	100.0	113.3
United States	**100.0**	**100.0**
Colorado	95.9	91.9
Montana	93.8	98.1
Oregon	92.8	94.2
Nevada	91.8	93.9
South Dakota	87.6	84.3
Wyoming	87.6	104.4
Alaska	56.7	117.3

Sources: Tax Foundation, U.S. Bureau of the Census, and U.S. Bureau of Economic Analysis.

higher tax revenue than its personal income might suggest, and South Dakota has lower tax revenue than income might suggest.

It is difficult to measure tax levels or burdens in the Western states because they rely so heavily on severance and other taxes that are more easily exported to residents of other states than the typical tax. The Tax Foundation attempts to adjust for this tax exporting effect, and as Figure 4 shows, if we trust this adjustment we would conclude that in all but four Western states (Hawaii, California, Utah, and Idaho) taxes on residents are very near, or below, the national average. The adjustments are quite significant in some states, compared with a simple calculation of taxes as a percentage of personal income (the second column), particularly the resource-based states of Alaska, New Mexico, and Wyoming. Unfortunately, the exporting adjustment methodology is proprietary and it is not possible to judge how valid the adjustments are.

Western states tend to raise a greater share of revenue at the state, rather than local, level, compared with other states: in 10 of 15 Western states, the state government share of state-local own-source revenue is above the U.S. average, as shown in the first column of Figure 5. In some cases the state role is significantly greater than for the typical state (e.g., Alaska, Hawaii, and New Mexico). This often is related to choices about how to finance elementary and secondary education, the single largest spending item in most state budgets. In eight of the 10 states that rely heavily on state government, the state contributes more to local education than does the typical state (as shown in the second column of Figure 5). Hawaii, for example, has one statewide school district and finances elementary and secondary education almost entirely with state revenue. Relying heavily on the state government for school finance, in turn, has implications for which taxes the state relies on: the states that are most heavily involved in school finance – particularly Hawaii and New Mexico – rely less on property taxes than the typical state (third column of Figure 5).

Figure 5. State Role in Local Government Finances

	State share of state-local own-source revenue	State aid as % of school revenue	Property tax as % of state-local own-source revenue
Alaska	80.3	58.9	10.0
Hawaii	79.4	88.8	10.4
New Mexico	74.4	71.5	8.1
Montana	64.5	44.7	25.6
North Dakota	64.4	40.2	18.9
Utah	64.3	59.2	14.4
Idaho	63.5	61.1	17.6
Oregon	59.8	57.1	17.7
California	58.7	60.3	15.4
Washington	58.2	63.5	19.9
United States	**56.9**	**49.5**	**19.9**
South Dakota	56.8	34.5	24.1
Wyoming	56.4	51.9	19.3
Arizona	55.1	43.6	21.2
Nevada	52.8	29.1	17.2
Colorado	48.8	41.3	18.7

Sources: U.S. Bureau of the Census, National Center on Education Statistics.

Citizen lawmaking by initiative and referendum is more common in the West than elsewhere, as is discussed in a later section. These laws often reflect strong anti-tax sentiment.

Figures 6 and 7 show the percentage composition of own-source revenue by major category, for state-local revenue systems and state government revenue systems, respectively. The appendices provide top income and sales tax rates by state, a revenue profile for each Western state that includes many of the measures discussed in this report, and selected other measures. The appendices also have a graph for each state showing the growth over the last two decades in real per-capita own-source state-local revenue, relative to the nation. These graphs provide some insights into the longer term growth in each state's revenue system (reflecting policy changes as well as economic changes) and into revenue stability.

Revenue Adequacy

What do the Western states' enormously varied tax structures, economies, and fiscal institutions imply for revenue adequacy?

Ability to fund current needs and spending levels

The West is host to states with the biggest budget gaps and the smallest budget gaps in the current fiscal crisis, as Figure 8 shows. Many factors influence state budget gaps, but certain patterns are apparent. Nationally, many of the states hit hardest were heavily reliant on income taxes to finance their budgets, and their income taxes in turn were heavily reliant on capital gains. This contributed to the large gaps in California, Oregon, and Colorado. At the other extreme, New Mexico, North Dakota, and Wyoming all had negligible or nonexistent budget gaps in part because they rely heavily on natural-resource-based taxes and have been largely spared the pain of the recent downturn.

Figure 6. Major Revenue Sources as Percentage of State-Local Own-Source Revenue - Fiscal Year 2000

	Personal income taxes	General sales tax	Selective sales taxes	Property taxes	Severance taxes	Other own-source revenue	Own-source total
United States	**16.9**	**17.2**	**7.5**	**19.9**	**0.3**	**38.0**	**100.0**
Alaska	-	1.4	2.3	10.0	9.3	77.0	100.0
Arizona	12.5	26.4	6.6	21.2	-	33.3	100.0
California	23.3	17.9	5.4	15.4	0.0	37.9	100.0
Colorado	18.4	19.1	5.4	18.7	0.2	38.2	100.0
Hawaii	18.4	26.5	10.4	10.4	-	34.3	100.0
Idaho	19.6	15.2	6.6	17.6	0.1	41.0	100.0
Montana	14.5	-	9.7	25.6	2.4	47.7	100.0
Nevada	-	24.7	18.2	17.2	0.3	39.6	100.0
New Mexico	11.5	24.4	7.4	8.1	5.7	42.9	100.0
North Dakota	7.1	13.7	11.9	18.9	5.2	43.2	100.0
Oregon	26.0	-	5.8	17.7	0.2	50.2	100.0
South Dakota	-	23.9	9.4	24.1	0.1	42.4	100.0
Utah	18.3	20.4	6.5	14.4	0.3	40.1	100.0
Washington	-	32.3	9.3	19.9	0.2	38.3	100.0
Wyoming	-	17.4	4.5	19.3	9.2	49.6	100.0.

Source: U.S. Bureau of the Census.

Figure 7. Major Revenue Sources as Percentage of State Government Own-Source Revenue - Fiscal Year 2000

	Personal income taxes	General sales tax	Selective sales taxes	Property taxes	Severance taxes	Other own-source revenue	Own-source total
United States	**27.4**	**24.6**	**10.9**	**1.5**	**0.6**	**35.0**	**100.0**
Alaska	-	-	2.2	0.7	11.6	85.5	100.0
Arizona	22.6	35.8	10.0	2.9	-	28.7	100.0
California	39.7	23.5	6.2	3.3	0.0	27.2	100.0
Colorado	37.8	19.2	8.9	-	0.3	33.7	100.0
Hawaii	23.1	33.4	11.2	-	-	32.3	100.0
Idaho	30.9	23.9	9.8	-	0.1	35.3	100.0
Montana	22.5	-	15.0	9.6	3.7	49.2	100.0
Nevada	-	44.0	27.5	2.1	0.7	25.8	100.0
New Mexico	15.5	26.4	8.9	0.6	7.7	41.0	100.0
North Dakota	11.1	18.4	18.1	0.1	8.1	44.3	100.0
Oregon	43.5	-	7.7	0.0	0.4	48.3	100.0
South Dakota	-	32.8	16.4	-	0.2	50.6	100.0
Utah	28.4	24.5	8.6	-	0.5	38.0	100.0
Washington	-	48.2	12.1	10.6	0.4	28.8	100.0
Wyoming	-	24.6	7.2	6.8	16.4	45.1	100.0

Source: U.S. Bureau of the Census.

Figure 8. State Government Budget Gaps, FY 2004, as Percent of Budget - Prior to Gap - Closing Actions

California	30.0
Alaska	25.0
Arizona	25.0
Nevada	19.0
Oregon	17.0
Colorado	15.0
50-state median	**9.9**
Washington	8.9
Idaho	8.8
Montana	8.3
South Dakota	5.9
Hawaii	2.9
Utah	2.3
New Mexico	-
North Dakota	-
Wyoming	-

Sources: State Budget Update: April 2003, National Conference of State Legislatures; Center on Budget and Policy Priorities.

Many states, especially those with large budget gaps, are using substantial nonrecurring revenue to close their budget gaps. This tends to stretch problems out for several years, suggesting difficulty in financing spending in the near and middle term.

Figure 9 uses the Representative Tax and Expenditure System, mentioned briefly earlier, to compare each Western state's revenue-raising capacity to its spending "need," defined as a national-average package of spending. These estimates help us understand how hard, or easy, it is for a state to finance a typical bundle of services – how much "fiscal comfort" it has.

The first column, "Tax Capacity," compares revenue a state could raise from its economy at national-average state-local tax rates to what the average state economy could raise, in per-capita terms.[7] The value of 130 for Hawaii means that Hawaii's economy would raise about 30 percent more revenue per-capita at national-average tax rates than the typical state economy. New Mexico's index of 90 means its economy would raise about 10 percent less at national-average rates than the typical state.

The "Tax Effort" column compares revenue a state-local revenue system actually raises to what it could raise at national-average tax rates. Hawaii only raises 93 percent of what it could raise with average rates, so its tax effort is below average. The RTS estimates suggest that most Western states have relatively low tax effort, which is broadly consistent with conclusions from other approaches to the same question.

The "Spending Need" column compares what state and local governments in a state would have to spend per capita to provide a national-average bundle of services, taking into account price differences across states and the state's own mix of needy populations and other factors affecting workload. Most Western states have "need" relatively close to the national

Figure 9. Representative Tax System Indexes for Western States - Indexes for 1997 (latest available)

	Tax capacity	Tax effort	Spending need	"Fiscal comfort"
Hawaii	130	93	92	141
Nevada	129	73	94	137
Colorado	115	83	90	127
Alaska	133	110	106	126
Wyoming	125	77	102	122
Oregon	103	85	92	113
Washington	101	105	93	109
California	116	88	109	106
United States	**100**	**100**	**100**	**100**
North Dakota	96	96	98	99
South Dakota	94	79	98	96
Utah	92	90	96	96
Arizona	100	84	106	95
Montana	92	87	100	93
Idaho	87	97	100	87
New Mexico	90	97	112	80

Source: Tannenwald, Robert, "Interstate Fiscal Disparity in 1997", New England Economic Review, Federal Reserve Bank of Boston, Third Quarter, 2002.

Figure 10. Projected Erosion of State and Local Sales Taxes between 2001 and 2006, as Percent of Tax Revenue

	Shift to services consumption	New losses from Internet commerce	Total erosion
Nevada	2.20	3.34	5.54
South Dakota	1.69	3.01	4.71
Washington	1.54	2.59	4.12
New Mexico	1.46	2.50	3.95
Hawaii	1.40	2.35	3.74
Utah	1.28	2.12	3.40
Arizona	1.30	2.08	3.38
Wyoming	0.96	2.18	3.15
United States	**1.09**	**1.90**	**2.98**
North Dakota	0.96	1.95	2.91
Idaho	1.07	1.81	2.88
California	0.91	1.59	2.50
Colorado	0.84	1.42	2.24
Alaska	na	na	na
Montana	na	na	na
Oregon	na	na	na

Source: Derived from Tables 6 and 7 of Donald Bruce and William F. Fox, *State and Local Sales Tax Revenue Losses From E-Commerce: Updated Estimates*, Center for Business and Economic Research (The University of Tennessee: September, 2001).

average – New Mexico, with its relatively low per-capita income and high poverty rate is the highest-need state under the RES estimates.

"Fiscal Comfort" combines the Tax Capacity and Spending Need indexes to estimate how easy, or hard, it would be for each state to provide an average level of services given its own tax-raising capacity.[8] States with "comfort" indexes above 100 could provide average services with lower than average tax rates, or above-average services at average tax rates. The estimates suggest that New Mexico and Idaho cannot raise enough revenue to support a typical package of services unless they impose above-average tax rates. By contrast, Hawaii, Nevada, Colorado, Alaska, Wyoming, and Oregon all can support average services with tax effort that is well below average or can provide above-average services at average tax rates. The other Western states can finance a national-average bundle of services with taxes that are reasonably close to national-average rates.

All methods of comparing fiscal capacity and fiscal need have shortcomings, and the Representative Tax and Expenditure System is no exception. Still, it provides useful insights into the tax capacity and needs of Western states.

Growth over time

As discussed earlier, the income tax is likely to provide the fastest revenue growth over the long run. States without income taxes, such as Alaska, Nevada, South Dakota, Washington, and Wyoming – will not benefit from this growth. In addition, states highly reliant on the sales tax, such as Washington, will see their revenue growth eroded due to the continuing shift to a service economy and difficulties in collecting tax on Internet and mail-order sales.

Figure 11. Potential Eight-Year State-Local Fiscal Gaps - Assuming Current Crisis Solved with Recurring Actions

	Percent of revenue	Rank
Nevada	(9.2)	49
Wyoming	(7.8)	45
Idaho	(5.0)	39
Washington	(4.9)	38
New Mexico	(3.6)	33
Hawaii	(3.6)	32
United States	**(3.4)**	
California	(2.5)	24
Alaska	(2.4)	23
Colorado	(2.3)	22
South Dakota	(1.7)	18
Oregon	(1.3)	15
Utah	(0.8)	13
Arizona	(0.7)	11
Montana	(0.4)	8
North Dakota	2.2	2

Source: Donald J. Boyd, Rockefeller Institute of Government, October 2002.
Sources: State Budget Update: April 2003, National Conference of State Legislatures, Center on Budget and Policy Priorities.

Figure 10 shows estimates of the sales tax erosion in Western states due to these two forces, prepared by Professors Donald Bruce and William Fox of the University of Tennessee. The revenue loss after five years is expected to approximate or exceed 4 percent of total taxes in Nevada, South Dakota, Washington, and New Mexico.

A 2002 analysis of finances in the 50 states projected state and local government revenue and spending for eight years. The analysis used consensus-like economic and demographic assumptions and took into account sales tax erosion, changing income tax elasticities and other forces affecting state and local government revenue. It also took into account projections of elementary and secondary pupils, higher education students, Medicaid recipients, and other factors affecting expenditures. The analysis concluded that most states would face structural gaps after eight years *even if they were able to restore balance in the current crisis using recurring revenue and spending solutions*. Figure 11 shows the projected budget gaps for the Western states under this assumption.[9]

Most of the non-income-tax states have projected gaps that are larger than the national average. North Dakota is the only Western state without a projected gap, mostly because of large projected declines in K-12 and higher education enrollment.

In reality, fiscal gaps are likely to be larger than those shown above – the assumption that states can start from a budget where recurring revenue equals recurring revenue is convenient analytically but doesn't reflect how states really behave. Many states have been solving current budget gaps with actions that postpone problems to later years. In other words, the outyear gaps will be built on top of near-term gaps. As a result states are likely to face considerably more fiscal difficulty in the next several years than Figure 11 in isolation would suggest. States with the largest near-term gaps (Figure 8 provides a good indication of this) and a growing mismatch between revenue and spending demands (Figure 11) will face the most difficulty.

Revenue stability

Many factors affect revenue stability. During a business cycle accompanied with a financial market crash, such as the current one, states that rely heavily on capital gains will be hard hit. Figure 12 shows the relative importance of capital gains to each Western state's adjusted gross income, followed by the relative importance of the income tax to revenue, and the combined effect of these factors.[10] States with indexes above 100 have above-average exposure to capital gains fluctuations, while states with indexes below 100 have below-average exposure.

California and Colorado have capital gains risk that is far above the national average due to high levels of gains and heavy income tax reliance. Oregon is at risk primarily because of its heavy reliance on the income tax, as is Idaho to a lesser extent. Most other

Figure 12. Western States Ranked by Importance of Capital Gains in 2000

State indexed to the nation (US=100)

	Capital gains as % of adjusted gross income	Income tax as % of general revenue	Combined effect
California	138	148	205
Colorado	121	143	173
Oregon	99	145	144
Idaho	101	116	117
United States	**100**	**100**	**100**
Utah	79	109	86
Montana	100	75	75
Hawaii	78	94	73
Arizona	91	79	72
New Mexico	50	57	28
North Dakota	66	36	24
Alaska	61	-	-
Nevada	147	-	-
South Dakota	95	-	-
Washington	116	-	-
Wyoming	190	-	

Sources: Income tax as percent of general revenue obtained from U.S. Bureau of the Census. Capital gains as percent of adjusted gross income obtained from Internal Revenue Service, Statistics of Income Branch.
Note: Combined effect is first column multiplied by second column, divided by 100.

Western states are well below average – which, from the perspective of stability, is good.

Another important factor affecting stability is revenue diversification. As Figures 6 and 7 show, most Western states have highly *undiversified* revenue structures: seven of the 15 states do without either an income tax or a general sales tax. As one analysis put it, they are missing at least one leg of a three-legged stool (the third leg being the property tax).[11] Just as a diversified portfolio helps smooth investment fluctuations, diversified revenue systems smooth revenue fluctuations.

Several Western states rely heavily on resource based taxes, particularly Alaska, New Mexico, and Wyoming. While these taxes have had enormous benefits for state finances, this comes at the cost of stability – these taxes can vary significantly with oil and gas prices and production, whipsawing state finances. Figures 13 and 14 graph real per-capita own-source revenue of Alaska and Wyoming, respectively, compared with the national average. The large fluctuations – far larger than in other states – are quite apparent.

Institutional factors affecting revenue adequacy

Perhaps the most important way in which Western states' revenue structures differ from those of other states is that most restrain elected officials with tax limitations, expenditure limitations, minimum spending requirements, supermajority voting rules for tax increases, or other fiscal institutions.

California began the tax revolt movement with the adoption of Proposition 13 in 1978, which severely limited property tax revenue and growth; the state has since added Proposition 98, establishing minimum spending requirements for K-14 education relative to the general fund, and other rules as well.

Figure 13. Own-source State-Local Revenue - Adjusted for Inflation and Population Changes (Alaska)

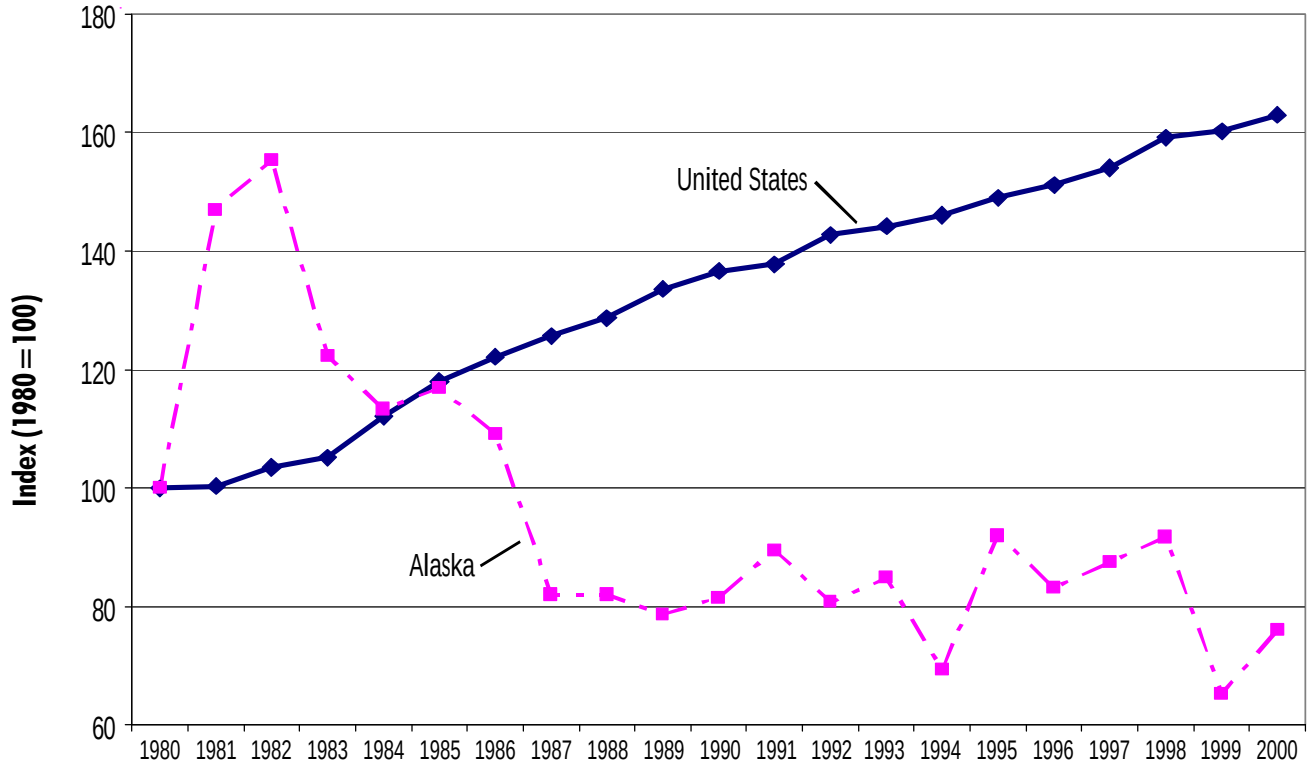
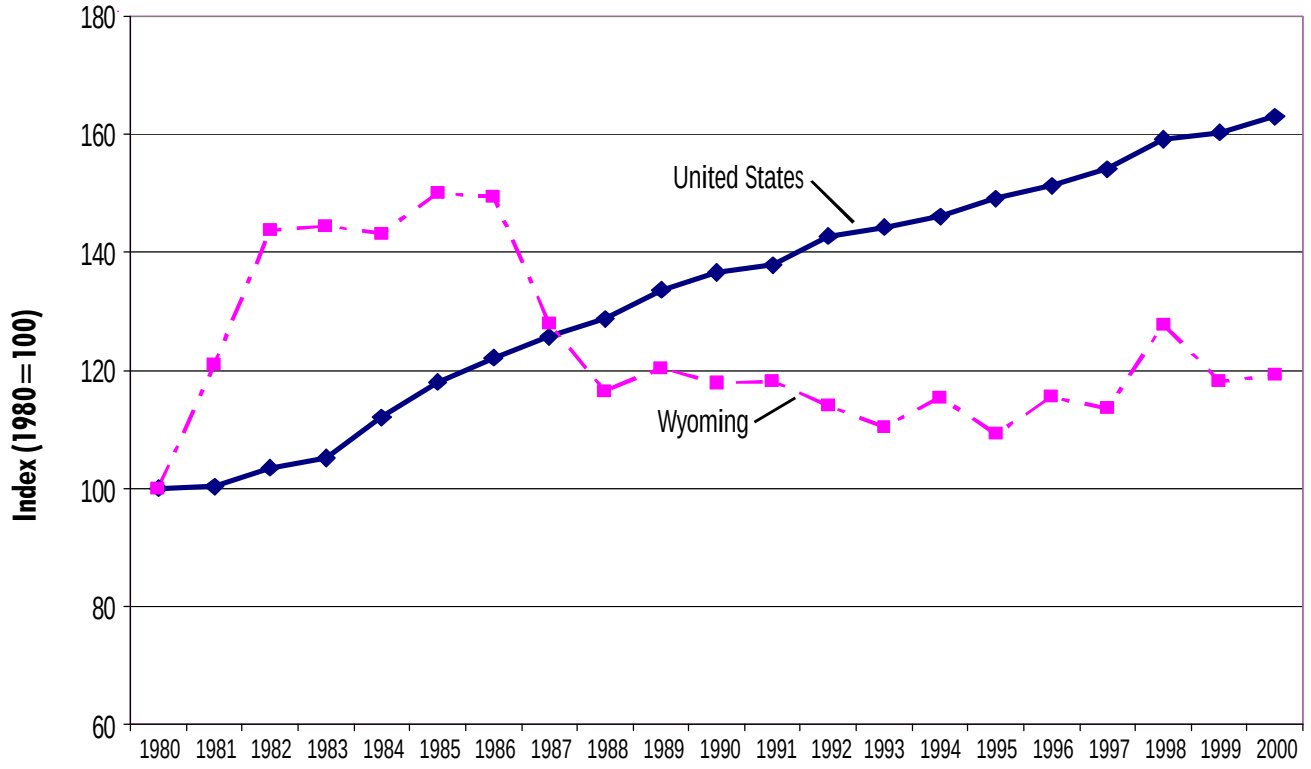


Figure 14. Own-source State-Local Revenue - Adjusted for Inflation and Population Changes (Wyoming)



In 1992, Colorado adopted the Taxpayer Bill of Rights (TABOR), a citizen initiative widely acknowledged as the most stringent tax and spending limitation in the nation. It limits the state's revenue growth to the sum of inflation plus population growth in the previous calendar year.

TABOR is more restrictive than many other limits, for several reasons:

- It applies to state and local governments, not just to the state.
- It applies broadly, to all funds, not just the general fund.
- The "population growth plus inflation" limit generally will be lower than limits based on personal income.
- It has a ratcheting-down effect, so that if revenue falls for any reason (such as it might in a recession), TABOR limits growth from the new, lower, level.
- "Excess" revenue above the TABOR limit must be refunded, unless voters approve otherwise.
- There is no "escape hatch" by which the governor or legislature can declare a fiscal emergency and spend above the limit, and voter approval is required for any tax or debt increases.
- TABOR is in the constitution, and is not just a statutory provision.

Nevada's state constitution prohibits a personal income tax. In addition, taxes may only be raised by a two-thirds majority of the state legislature.

Oregon citizens imposed severe limits on local tax revenue with Measures 5, 47, and 50, passed in 1990, 1996, and later, and effectively shifted much of K-12 education funding from local governments to the state. When state revenue exceeds the forecast, the Oregon constitution generally requires the state to return "excess" revenue to taxpayers at the end of each biennium in the form of "kicker" rebates.

Other Western states have tax and expenditure limitations as well, most notably Washington's Initiative 601, adopted in 1993, which limits state expenditure growth to the rate of population growth plus inflation. According to published sources, all but three Western states – New Mexico, North Dakota, and South Dakota – have some form of tax or expenditure limitation, but in the case of New Mexico, a legislative supermajority is required to pass tax or fee increases.[12]

These provisions, particularly in Colorado, Oregon, and California, limit severely the ability of the state and local revenue system to support spending growth – apparently consistent with the wishes of voters.

Constitutional provisions governing state revenue often constrain potential state policy choices, at least in the short term (as is their intent). For example, Nevada's constitutional prohibition against a personal income tax means that for all practical purposes an income tax is not an option in policymaking responding to short-term issues such as cyclical budget gaps, although constitutions can be amended over the longer term. Similarly, under TABOR, Colorado would need voter approval to join the Streamlined Sales Tax Project (SSTP), a multistate effort to streamline sales taxes and make it easier to collect taxes on Internet and mail-order transactions.[13]

Other Tax Policy Goals

The research and advocacy organization Institute on Taxation and Economic Policy has constructed a 50-state microsimulation model that estimates the impact of each state's tax laws on hundreds (or thousands, in some states) of its families, to examine the distribution of state and local tax burdens, by income range. Figure 15 shows key results for Western states.

In all of the Western states, the bottom quintile of families pays more in state and local taxes, as a percentage of income, than does the top 1 percent. The rightmost columns show the ratio of bottom to top, which in all states exceeds one. According to these estimates, Washington, South Dakota, Wyoming, and Nevada, none of which has an income tax, all have state-local tax systems that are far more

Figure 15. State and Local Taxes on Low- and High-Income Families

	Net state-local taxes as % of income		
	Bottom quintile	Top 1%	Ratio of bottom to top
Washington	17.6%	3.1%	5.7
South Dakota	10.0%	2.1%	4.8
Wyoming	7.6%	1.6%	4.8
Nevada	8.3%	1.8%	4.6
Arizona	12.5%	4.9%	2.6
Colorado	9.9%	4.4%	2.3
United States Average	**11.4%**	**5.2%**	**2.2**
Hawaii	12.6%	5.8%	2.2
Utah	11.4%	5.5%	2.1
North Dakota	10.2%	5.1%	2.0
New Mexico	12.1%	6.3%	1.9
Idaho	9.7%	6.1%	1.6
California	11.3%	7.2%	1.6
Oregon	9.4%	6.1%	1.5
Alaska	3.8%	2.5%	1.5
Montana	6.1%	5.2%	1.2

Source: *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*, Institute on Taxation and Economic Policy (January 2003).

regressive than the national average. In fact, ITEP ranks Washington as the most regressive tax system in the nation, and it ranks South Dakota and Nevada at positions four and nine, respectively.[14]

Although many Western states appear to have highly regressive tax systems, they earn praise from other quarters. The Tax Foundation recently released an analysis of business tax climate in the 50 states, and seven Western states were in the top nine spots – with Washington, South Dakota, Wyoming, and Nevada among them. California, which has one of the least regressive tax systems, also has, according to the Tax Foundation, the second most unattractive business tax climate (a ranking of 49).[15] The Tax Foundation ranked different Western states highly for different reasons, but the most prevalent reasons for high ranking were low or nonexistent personal and corporate income taxes.

Figure 16 summarizes noteworthy features of Western states' revenue systems.

Figure 16. Noteworthy Features of Western States' Tax Systems

State	Income tax	Sales tax	Resource-based taxes	Other taxes	Limits	Other issues or comments
Alaska	none	none	heavy reliance	low property tax reliance	appropriation limit	drawing down budget reserve to maintain spending
Arizona		heavy reliance; Proposition 301 of 2000 dedicates a 0.6% increase to education			% of personal income	
California	heavy reliance				substantial (Prop 13, 98)	
Colorado					severe (TABOR)	
Hawaii				tourism; low property tax reliance	voters must approve tax increases	high state share of education funding
Idaho					2/3rds supermajority to exceed expenditure ceiling	
Montana		none		heavy property tax reliance		
Nevada	none; prohibited by state constitution	heavy reliance		gambling	2/3rds majority for tax increases (a subject of judicial controversy in 2003)	
New Mexico		heavy reliance	heavy reliance	low property tax reliance	supermajority for tax and fee increases	high state share of education funding
North Dakota	high top rate		some reliance			
Oregon	heavy reliance	none			severe (Measures 5, 47); supermajority	
South Dakota	none	heavy reliance		heavy property tax reliance		very low tax levels
Utah					appropriation limit	
Washington	none	heavy reliance			substantial (Initiative 601)	
Wyoming	none		heavy reliance			

Sources: U.S. Census Bureau, *Governing* magazine, National Conference of State Legislatures, Western Rural Development Center.

Fiscal Observers' Comments on Western States' Fiscal Systems

In recent years, many fiscal observers, including rating agencies, university economists, tax study commissions, advocacy organizations, and fiscal journalists have commented on tax and fiscal systems of individual Western states, usually arguing that the revenue structure was inadequate in some important way. Some of the more significant comments are given below. It is important to remember, of course, that few if any of the organizations are disinterested, and some have a fiscal agenda for their state.

Alaska: According to Fitch Ratings (August 12, 2003), the Constitutional Budget Reserve Fund reserve is likely to be depleted between 2006 and 2011. As a result, in the next three to eight years, Alaska will need to increase taxes substantially, or cut spending, or both.

Arizona: The Arizona Citizens Finance Review Commission concluded in its May 2003 preliminary report that "Arizona's fiscal system compares poorly against the characteristics of a well-functioning fiscal system, contributing to the cyclical and structural deficits that have received considerable attention in recent months." The commission argued that Arizona should consider many significant changes, including broadening the sales tax base to tax most services, reducing business property tax rates, and increasing reliance on the income tax.[16]

California: The Legislative Analyst's Office recently concluded that if savings planned for in the 2003-04 budget are achieved, then California will still face a budget gap of approximately $8 billion in 2004-05 (and presumably the situation will be worse if savings are not achieved).[17]

Colorado: The Colorado Fiscal Policy Institute, a research and advocacy organization, recently argued that "the interaction of a series of approved ballot measures have led to a shrinking revenue base, inflexible laws governing state fiscal management, and a low probability of resolution anytime soon. TABOR in particular results in a built-in ratcheting down of the allowable base of revenues to fund state services regardless of economic fortunes; prohibition against the General Assembly and the Governor establishing a fiscal base independent of congressional actions; automatic shrinking of the size of government relative to the private economy over time; the illogical treatment of non-tax revenue (tuition fees, etc.) within mandated revenue limits; and the crowding out of vital state safety-net services in recessionary times…. Actions by the federal government, together with the inflexible state rules mentioned above, leave Colorado uniquely at the mercy of forces outside its control as it attempts to deal with its budget."[18]

Hawaii: In August 2002, the Hawaii Tax Review Commission, which reports every five years, concluded, "The present tax structure will not provide adequate revenues to meet current State spending needs over the next five years.… The last 20 years have been a roller coaster ride for State tax revenues and, consequently, for State expenditures. The State has had a boom and then a bust…. The revenue and expenditure experience of this State over the past 20 years, which has now encompassed a boom-and-bust cycle, presents compelling testimony for the need to establish a fund to truly stabilize State expenditures." A consultant report to the commission, however, was considerably more optimistic than the commission itself was, suggesting that the commission's concerns may be overstated.[19]

Idaho: In late 2002, Republican Governor Dirk Kempthorne appointed a blue ribbon commission to study state government. The governor accepted his commission's short-term recommendations to increase sales and cigarette taxes, and these were enacted in 2003 in modified form. The commission's notable longer-term recommendations include reviewing periodically the state's many sales tax exemptions in light of Idaho's continuing rapid shift from a production economy to a service economy and maintaining the state's relatively balanced tax system (as opposed to eliminating any of the major taxes).

Montana: The 2003 Montana legislature established a tax reform study committee to conduct a comprehensive examination of taxation and report by December 1, 2004. According to the Montana Department of Revenue, the committee will "develop an inventory of taxes imposed at the state and local level, provide analysis that evaluates existing taxes, examine tax expenditures to assess the ongoing merit of each expenditure, and examine alternative methods of taxation from existing sources as well as from new sources of revenue." (Unlike most tax study commissions, the Montana commission will consist of 24 "average citizens," rather than economists, lawyers, and government officials.)

Nevada: The Governor's Task Force on Tax Policy in Nevada was established by a 2001 legislative resolution that stated, "Nevada is falling behind in the revenue collections needed for funding K-12 education, for meeting the long-term care needs of its growing senior population, and for keeping pace with soaring energy demands and the costs of those demands." Among other things, it was charged with considering "ways to reduce budgetary reliance on volatile or cyclical revenue streams." In its final November 2002 report, the task force concluded that "if the State is to continue to afford the levels of services that it provides today, the current revenue mix of the State will not be sufficient to support that level of services." It recommended a property tax increase, a new gross receipts on businesses (above a minimum threshold), and increases in taxes on cigarette and alcohol. It also suggested future review of sales–tax-base broadening and a state lottery.

New Mexico: A Blue Ribbon Tax Reform Commission, created by 2003 legislation, currently is at work and is required to report this fall. Meanwhile, the legislative finance committee forecasts annual budget gaps, under the policies adopted this year that will exceed 9 percent of revenue within four years.[20]

North Dakota: A citizens' Tax Study Committee appointed by then-Governor Ed Schafer in 1999 issued its final report in February 2001, in which it concluded, among other things, "The state's major tax source, sales and use taxes, has an eroding base. Such erosion is caused by many factors including years of additions to the list of items that are tax exempt. Many of these exemptions have sound social, practical, or financial reasons for being exempt. Each exemption granted forces ever-higher rates onto the remaining items being taxed. We believe that changes in the economy have also eroded the sales tax base in our state… our economy has moved from being a 'goods based' to a 'service economy' and more recently to an 'information economy.' In spite of these changes, our tax structure has remained fairly constant and sales taxation has not moved into the 'service' or 'information' age." The commission made no recommendations for dealing with these issues but did discuss options.

Oregon: The Revenue Options, School Funding and Accountability Task Force, created by legislation in 2002 and consisting of legislative members from both houses, issued its final report in January 2003. In his transmittal letter the task force chair stated, "Oregon has one of the most vulnerable revenue systems in the country, with its unparalleled reliance on the income tax. The result of this dependence is a state economy that suffers more than other states when an economic downturn occurs. This loss of revenue severely impacts state funded programs; our task force focused on the impact on K-12 education."

The task force concluded, "Measures 5 and 50 significantly reduced Oregon's property tax burden thereby reducing Oregon's overall tax burden relative to other states…. State and local governments used non-tax revenue (charges, fees, federal funds and lottery) to partially substitute for the reduced property tax revenue…. State government also used income tax collections generated by a strong economy and unprecedented run-up in stock prices to offset reduced school property taxes…. Income tax revenue from the 1990s' economic boom is now gone. Although revenue growth will pick up with economic recovery, revenue from capital gains and corporate profits associated with the late 1990s' financial bubble is unlikely to return. This means that the legislatively approved 1999-2001 program level is not sustainable. The Legislature must either scale back this program level or increase revenue."

Among other things, the task force recommended, "Major changes in the revenue system should maintain roughly the current distribution of the tax burden…. Broad-based public services, including K-12 education as well as public health and safety, should be funded with broad-based taxes such as income, property and/or consumption taxes…. The personal income tax base should be broadened by reductions in the use of state credits and subtractions. However, the risk of increased dependence on the personal income tax should be evaluated if significant amounts of additional revenue are generated through elimination of these tax expenditures." [21]

South Dakota: No recent studies of the state's tax system were found.

Utah: Governing magazine argues that Utah will face a structural gap in years ahead due in large part to rapidly growing education costs, and that it "seems almost inevitable that Utah will have to consider raising the income tax" in years ahead.

Washington: The Washington State Tax Structure Study Committee, created by statute, with gubernatorial and legislative appointees and academic members, released its final report in November 2002. The committee concluded that "our current system is fundamentally inequitable to low- and middle-income people, unfair to many businesses, and subject to sharp fluctuations in revenue. The Committee also finds that while our tax structure, which was put in place in 1935, might have worked well for a mid-twentieth century manufacturing economy, it doesn't work well in today's economy with its greater dependence on the service sector."

The committee did not offer specific recommendations, but offered alternatives, including a flat rate income tax to reduce the state sales tax rate and eliminate the state property tax; and a value-added tax to replace the current business and occupation tax, to eliminate "pyramiding" of taxes as goods move through the production chain. Seven prior commissions have recommended a state income tax, so the weight of a committee recommendation does not necessarily mean an income tax is likely.

Wyoming: When Wyoming's "Tax Reform 2000" committee, appointed by the governor and legislative leaders, issued its final report in June 1999, it concluded among other things that Wyoming's tax structure is not equitable; tax collections in Wyoming are less stable than in other states; the tax structure is not balanced; and future revenue streams may not be adequate to fund the services provided by the state and local governments. The committee recommended the adoption of a corporate income tax; adoption of an individual income tax with a credit for sales and property taxes paid; expansion of the sales tax to more services; and the enaction of a real estate transfer tax.

Conclusion

Western states are extraordinarily diverse, as are their tax structures. They have been described as "wobbly," an apt term given that the typical Western-state revenue system is far less balanced than the typical U.S. tax structure, with seven of the 15 states foregoing an income tax, a general sales tax, or both. The West includes states that have the most regressive tax systems, as well as states with the most business-friendly tax systems. One of their most noteworthy features is that most Western state tax systems are restrained or constrained in a significant way by tax limits, expenditure limits, supermajority rules, or some combination of these constraints. In addition, most Western states' revenue structures are unlikely to fully support anticipated spending growth under current spending policies. This fiscal pressure will be exacerbated in those states with particularly large gaps in the current fiscal crisis – Alaska, Arizona, California, Nevada, and Oregon – as they are least likely to close their current gaps with recurring solutions.

As a result, most Western states will face considerable pressure in coming years to increase revenue, or cut spending, or both, to bring their revenue structures and spending policies into line.

Donald Boyd has more than 20 years experience analyzing state and local government fiscal issues. He completed this project for WICHE on a consulting basis, and is also employed at the Rockefeller Institute of Government, the public policy research arm of the State University of New York, where he has been the director of the institute's Fiscal Studies Program since late 1995. The Fiscal Studies Program provides practical independent research about state and local government finances in the 50 states. Boyd's past positions include director of the economic and revenue staff for New York State's budget office and director of the tax staff for the New York State Assembly Ways and Means Committee. He holds a Ph.D. in managerial economics from Rensselaer Polytechnic Institute in Troy, New York.

Endnotes

[1] There are many good sources of information on desirable features of state and local government tax systems. Two particularly good documents, listed in the "Useful Documents and Web Sites" section of this report, are: *Tax Policy Handbook for State Legislators* and *Principles of a High-Quality State Revenue System*, both prepared by the National Conference of State Legislatures.

[2] Derived from Tables 6 and 7 of Donald Bruce and William F. Fox, *State and Local Sales Tax Revenue Losses From E-Commerce: Updated Estimates*, Center for Business and Economic Research, The University of Tennessee (September 2001).

[3] See John Holahan and Bowen Garrett, "Rising Unemployment and Medicaid," Health Policy Online 1, (Urban Institute: October 16, 2001) for analysis of how rising unemployment affects Medicaid caseloads.

[4] For examples of state policy responses related to the recent recession, see James W. Fossett and Courtney E. Burke, *Is Medicaid Retrenching? State Budgets and Medicaid Enrollment in 2002* (Rockefeller Institute of Government: February 2003); Vernon Smith, Rekha Ramesh, Kathy Gifford, Eileen Ellis, and Victoria Wachino, *States Respond to Fiscal Pressure: State Medicaid Spending Growth and Cost Containment in Fiscal Years 2003 and 2004 – Results from a 50-State Survey*, prepared for Kaiser Commission on Medicaid and the Uninsured (September 2003); and Iris J. Lav, *Federal Policies Contribute to the Severity of the State Fiscal Crisis* (Center on Budget and Policy Priorities: October 17, 2003).

[5] Transfer programs and voucher programs help to finance the purchases of the poorest families, enabling them to spend more than their money income.

[6] See principle number 3 in National Conference of State Legislatures, *Principles of a High-Quality State Revenue System* (June 2001).

[7] Fiscal capacity estimates are calculated assuming each state uses a uniform and fairly broad base for each of 21 taxes. For methodological details, see Robert Tannenwald, "Interstate Fiscal Disparity in 1997," New England Economic Review (Federal Reserve Bank of Boston: Third Quarter 2002).

[8] Fiscal Comfort is Tax Capacity divided by Spending Need, multiplied by 100.

[9] Donald J. Boyd, "State Fiscal Outlook – Update to the Projections in State Spending for Higher Education in the Next Decade, July 1999," analysis prepared for the National Center for Higher Education Management Systems (October 2002).

[10] The combined effect can be computed by multiplying the first column by the second, and dividing by 100.

[11] See *Fiscal Crisis in State Budgets: Are Taxes in Western States "Wobbly,"* WRDC Public Information Brief No. 2 (Western Rural Development Center: July 2003).

[12] See *Fiscal Crisis in State Budgets: A Focus on 13 States*, WRDC Public Information Brief No. 1, Appendix 1 (AntecedentConditions.pdf) (Western Rural Development Center: July 2003); Michael J. New, *Tax and Expenditure Limitations: A Comparative Political Analysis*, unpublished paper, American Politics Colloquium, Harvard University (February 22, 2003); *Tabor Watch* 2 (Denver, CO: The Bell Policy Center, July 2003); and Michael J. New, "Tax and Expenditure Limitations: What Arizona Can Learn from Other States," *POLICYreport* 180 (Goldwater Institute: April 21, 2003).

[13] Colorado Governor Bill Owens already has expressed strong reservations about joining the SSTP. See *Nine Problems with Taxing the Internet: Questions Governors and Legislators Must Consider*, Governor Bill Owens, Center for the New American Century, undated but apparently published in 2003 <www.cnaconline.org >.

[14] The ITEP regressivity index is more complicated than the simple measure of what the bottom quintile pays to what the top 1 percent pays.

[15] See Scott A. Hodge, J. Scott Moody, and Wendy P. Warcholik, "State Business Tax Climate Index," *Background Paper* 41 (Tax Foundation: May 2003).

[16] *Preliminary Examination of Arizona's Governmental Revenue System*, Citizens Finance Review Commission, May 2003, pp. 1-3.

[17] Elizabeth G. Hill, *Major Features of the 2003 California Budget* (Legislative Analyst's Office: August 1, 2003).

[18] "Colorado's Budget: Challenge, Crisis, or Train Wreck?" *Issue Brief* (Colorado Fiscal Policy Institute: June 2003).

[19] *Report of the 2001-2003 Tax Review Commission* (State of Hawaii: August 2003), 18-19. The consultant report was Appendix C to the report.

[20] *2003 Post-Session Fiscal Review* (New Mexico Legislative Finance Committee: May 13, 2003), 31, (PostSessionReview2003.pdf).

[21] Final Report (Research Report #2-03), *Revenue Options, School Funding and Accountability Task Force* (January 22, 2003).

Useful Documents and Web Sites

Bruce, Donald, and William F. Fox, *State and Local Sales Tax Revenue Losses From E-Commerce: Updated Estimates*, Center for Business and Economic Research (The University of Tennessee: September 2001).

Federation of Tax Administrators (www.taxadmin.org).

Institute on Taxation and Economic Policy (www.ctj.org/itep).

National Conference of State Legislatures (Scott Mackey), *Tax Policy Handbook for State Legislators* (1997).

National Conference of State Legislatures (Mandy Rafool), *Which States Require a Supermajority Vote to Raise Taxes?* (March 1998) (www.ncsl.org/programs/fiscal/suprmajr.htm).

National Conference of State Legislatures, *Principles of a High-Quality State Revenue System* (June 2001) (www.ncsl.org/programs/fiscal/fpphqsrs.htm).

National Tax Association State and Local Tax Resources (www.ntanet.org).

Rockefeller Institute of Government Gateway to State and Local Government Information (StateAndLocalGateway.rockinst.org).

Tannenwald, Robert, "Interstate Fiscal Disparity in 1997," *New England Economic Review* (Federal Reserve Bank of Boston: Third Quarter 2002).

Tax Foundation (www.taxfoundation.org/home.html).

University of North Texas, documents from the Advisory Council on Intergovernmental Relations (www.library.unt.edu/gpo/acir/BrowseTitles.html).

Urban-Brookings Tax Policy Center (www.taxpolicycenter.org).

U.S. Bureau of the Census, data on state and local government finances (www.census.gov/govs/www/index.html).

Western Political Science Association Annual Meeting 2001, Proceedings of the Roundtable on State Budgeting in the 13 Western States (www.cppa.utah.edu/Westernstatesbudget/WPSA01).

Western Rural Development Center (www.extension.usu.edu/WRDC).

Are Western States' Tax Structures Adequate?

Appendices

Appendix I

State Income and Sales Tax Rates

State Income and Sales Tax Rates

	Top State PIT Rate (Tax Year 2003)	Top State-Local Rate (January 2003)
Alaska	-	7.00
Arizona	5.04	8.60
California	9.30	8.50
Colorado	-	7.90
Hawaii	8.25	4.00
Idaho	7.80	8.00
Montana	11.00	-
Nevada	-	7.25
New Mexico	8.20	7.25
North Dakota	5.54	7.50
Oregon	9.00	-
South Dakota	-	6.00
Utah	7.00	7.00
Washington	-	8.90
Wyoming	-	6.00
Western median	5.54	7.25
Rest of nation median	6.00	7.00
Alabama	5.00	11.00
Arkansas	6.50	9.88
Connecticut	4.50	6.00
Delaware	5.95	-
Florida	-	7.50
Georgia	6.00	7.00
Illinois	-	9.25
Indiana	-	6.00
Iowa	8.98	7.00
Kansas	6.45	8.30
Kentucky	6.00	6.00
Louisiana	6.00	9.50
Maine	8.50	5.00
Maryland	4.75	5.00
Massachusetts	-	5.00
Michigan	-	6.00
Minnesota	7.85	7.50
Mississippi	5.00	7.25
Missouri	6.00	8.35
Nebraska	6.84	7.00
New Hampshire	-	-
New Jersey	6.37	6.00
New York	6.85	8.50
North Carolina	8.25	7.50
Ohio	7.50	7.00
Oklahoma	7.00	9.85
Pennsylvania	-	7.00
Rhode Island	-	7.00
South Carolina	7.00	7.00
Tennessee	-	9.75
Texas	-	8.25
Vermont	9.50	6.00
Virginia	5.75	4.50
West Virginia	6.50	6.00
Wisconsin	6.75	5.60

Source: Federation of Tax Administrators (www.taxadmin.org)

Appendix II

Fiscal Profiles of Western States

Alaska Revenue Structure Compared With United States FY 2000

	Alaska	*United States*	*State Indexed To U.S.*	*State Minus U.S.*
State per-capita income	28,122	27,880	100.9	243
Reliance on state vs. local government				
State gov't own-source revenue as % of state and local	80.3%	56.9%	na	23.5%
State gov't tax revenue as % of state and local	61.6%	61.9%	na	-0.3%
Tax revenue levels				
Tax Foundation state-local "burden" per $100 personal income	5.5	9.7	56.7	na
State-local tax revenue per $100 personal income	13.2	11.2	117.3	na
State-local tax revenue per capita	3,700	3,126	118.4	na
State tax revenue per $100 personal income	2,278	1,934	117.8	na
State tax revenue per capita	8.1	6.9	116.8	na
Revenue growth in the 1990s				
% change in real per capita state/local taxes, 1990 to 2000	-30.4%	18.4%	na	-48.7%
% change in real per capita state taxes, 1990 to 2000	-38.0%	22.2%	na	-60.2%
State-local own-source revenue per $100 of personal income				
Non-tax own-source revenue	30.3	4.8	624.7	na
Taxes	13.2	11.2	117.3	na
Income tax	0.0	2.7	0.0	na
General sales tax	0.6	2.8	22.0	na
Selective sales taxes	1.0	1.2	83.1	na
Property taxes	4.3	3.2	135.3	na
Severance taxes	4.0	0.1	7,180.6	na
Other taxes	3.2	1.3	252.7	na
State-local government revenue sources as % of own-source revenue				
Non-tax own-source revenue	69.7%	30.2%	na	39.5%
Taxes	30.3%	69.8%	na	-39.5%
Income tax	0.0%	16.9%	na	-16.9%
General sales tax	1.4%	17.2%	na	-15.8%
Selective sales taxes	2.3%	7.5%	na	-5.2%

Alaska Revenue Structure Compared With United States FY 2000

	Alaska	*United States*	*State Indexed To U.S.*	*State Minus U.S.*
Income tax	0.0%	16.9%	na	-16.9%
General sales tax	1.4%	17.2%	na	-15.8%
Selective sales taxes	2.3%	7.5%	na	-5.2%
Property taxes	10.0%	19.9%	na	-10.0%
Severance taxes	9.3%	0.3%	na	8.9%
Other taxes	7.3%	7.8%	na	-0.5%

Other measures and ratings

Tax Foundation business climate ranking (1=best)	5	na		
Citizens for Tax Justice S+L taxes as % of income for poorest quintile	3.8%	11.4%	33.3	-7.6%
Citizens for Tax Justice ratio of taxes for poorest quintile to richest 1%	1.5	2.7	na	-1.2
Governing magazine's # of stars for revenue adequacy (4=best)	1	2.1	na	-1.1
Governing magazine's # of stars for revenue fairness (4=best)	3	2.1	na	0.9

Comments

Alaska relies heavily on its enormous oil wealth to finance government: approximately 80-85 percent of the state government's general fund revenue is from petroleum-related sources, including severance, corporate income, and property taxes, and very substantial non-tax revenue. Remaining revenue is collected from tobacco, alcohol, motor fuel, fishery and other taxes. Revenue from the oil industry allows Alaska to support high spending while imposing low taxes on its residents: it is one of only two states with neither an income tax nor a sales tax (New Hampshire is the other), and the Tax Foundation estimates that state and local taxes imposed on residents, as a share of personal income, are only 57 percent as large as taxes imposed on residents of the average state.

Alaska has deposited much of its mineral revenue in the last 25 years to its "Permanent Fund," earnings on which are used to pay annual dividends to qualifying residents. In addition, the state established a Constitutional Budget Reserve Fund.

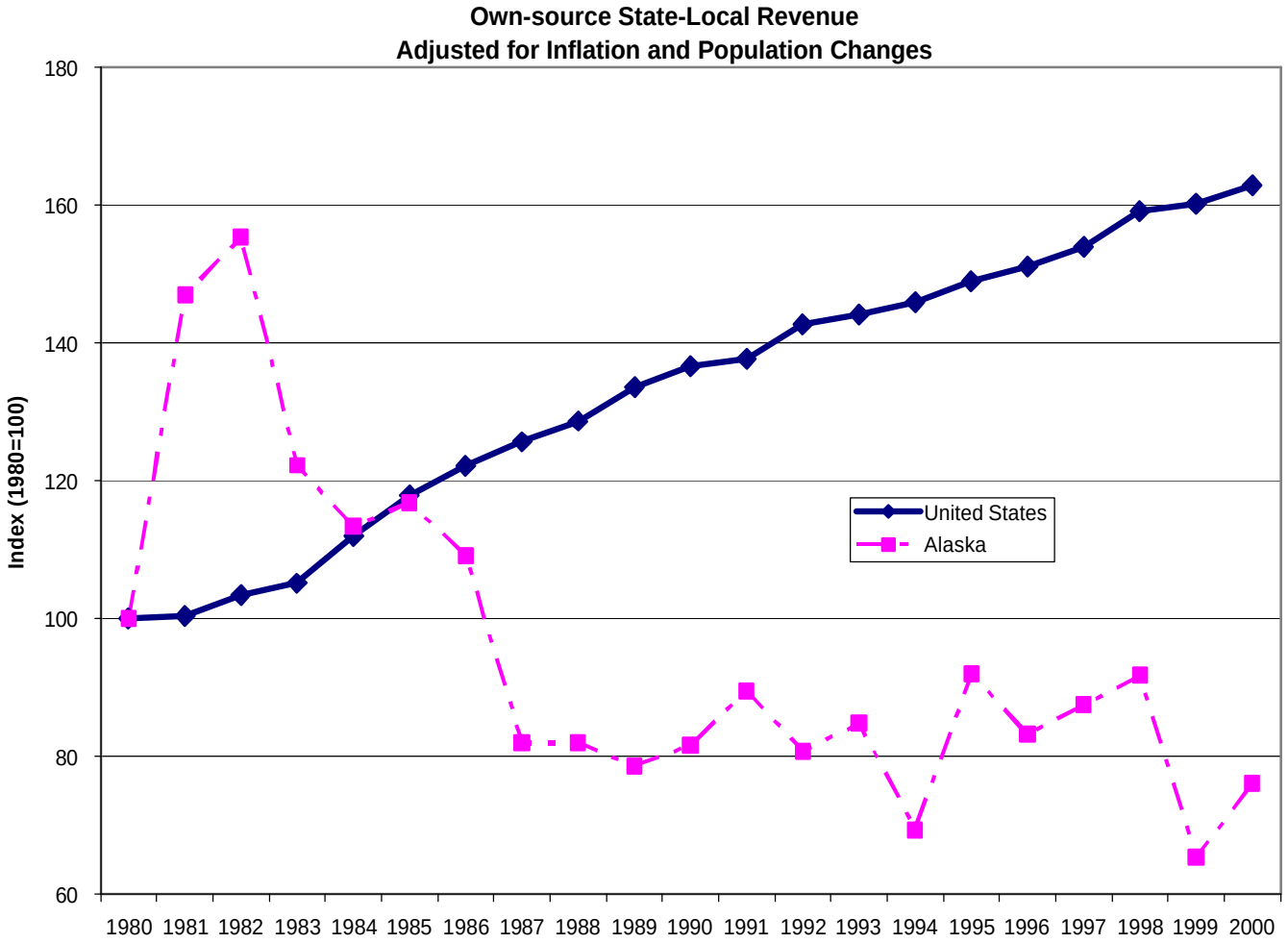
Alaska's oil-related revenue has been on a long-term downward trend for more than a decade. While this has led to spending cuts after adjusting for inflation and population growth, these cuts have been cushioned by massive withdrawals from the Constitutional Budget Reserve, approaching $5 billion in the last decade. According to Fitch Ratings (August 12, 2003), this reserve is likely to be depleted between 2006 and 2011. As a result, in the next three to eight years Alaska will need to increase taxes substantially, or cut spending, or both.

Comments (continued)

In addition to the long-term decline in revenue, Alaska's single-industry focus contributes to extreme revenue volatility. Tax revenue varies with changes in oil prices and oil production, both of which are subject to large swings: between 1980 and 2000, the state government's real per-capita own-source revenue increased or decreased by about 19 percent in the typical year, compared with only 2.3 percent in the average state.

Citizens for Tax Justice estimates that the current Alaska state and local government tax structure imposes a relatively low tax burden on the poorest one-fifth of households, claiming 3.8 percent of income in 2002, compared with 11.4 percent in the average state.

Since 1981 Alaska's constitution has limited appropriations using a formula based on population growth plus inflation (Article IX, section 16), but it is a cumulative formula and due to revenue and spending declines, the limit far exceeds current spending.



Arizona Revenue Structure Compared With United States FY 2000

	Arizona	*United States*	*State Indexed To U.S.*	*State Minus U.S.*
State per-capita income	*23,937*	*27,880*	*85.9*	*-3,942*
Reliance on state vs. local government				
State gov't own-source revenue as % of state and local	55.1%	56.9%	na	-1.7%
State gov't tax revenue as % of state and local	60.8%	61.9%	na	-1.1%
Tax revenue levels				
Tax Foundation state-local "burden" per $100 personal income	9.9	9.7	102.1	na
State-local tax revenue per $100 personal income	11.1	11.2	98.9	na
State-local tax revenue per capita	2,654	3,126	84.9	na
State tax revenue per $100 personal income	1,612	1,934	83.4	na
State tax revenue per capita	6.7	6.9	97.1	na
Revenue growth in the 1990s				
% change in real per capita state/local taxes, 1990 to 2000	5.1%	18.4%	na	-13.3%
% change in real per capita state taxes, 1990 to 2000	2.7%	22.2%	na	-19.5%
State-local own-source revenue per $100 of personal income				
Non-tax own-source revenue	4.2	4.8	86.7	na
Taxes	11.1	11.2	98.9	na
Income tax	1.9	2.7	70.0	na
General sales tax	4.0	2.8	146.0	na
Selective sales taxes	1.0	1.2	83.6	na
Property taxes	3.2	3.2	101.4	na
Severance taxes	0.0	0.1	0.0	na
Other taxes	0.9	1.3	70.5	na
State-local government revenue sources as % of own-source revenue				
Non-tax own-source revenue	27.5%	30.2%	na	-2.7%
Taxes	72.5%	69.8%	na	2.7%
Income tax	12.5%	16.9%	na	-4.5%
General sales tax	26.4%	17.2%	na	9.2%
Selective sales taxes	6.6%	7.5%	na	-0.9%

Arizona Revenue Structure Compared With United States FY 2000

	Arizona	*United States*	*State Indexed To U.S.*	*State Minus U.S.*
Property taxes	21.2%	19.9%	na	1.3%
Severance taxes	0.0%	0.3%	na	-0.3%
Other taxes	5.8%	7.8%	na	-2.0%
Other measures and ratings				
Tax Foundation business climate ranking (1=best)	17	na		
Citizens for Tax Justice S+L taxes as % of income for poorest quintile	12.5%	11.4%	109.6	1.1%
Citizens for Tax Justice ratio of taxes for poorest quintile to richest 1%	2.6	2.7	na	-0.2
Governing magazine's # of stars for revenue adequacy (4=best)	2	2.1	na	-0.1
Governing magazine's # of stars for revenue fairness (4=best)	2	2.1	na	-0.1

Comments

Arizona relies more heavily on its sales tax, known as the "Transaction Privilege, Use and Severance Tax," than the typical state. As of 2001, the state imposed a 5 to 5.6 percent transaction privilege (sales) tax. In addition to the state-imposed tax, some counties and most cities impose an additional transaction privilege tax. Over the past 20 years, the transaction privilege tax has alternated between first and second place as a percentage of tax collections. While the transaction privilege tax is usually passed on to the consumer explicitly, it actually is a tax on the vendor for the privilege of doing business in Arizona. The combined state and local sales tax, as a percentage of personal income, is 46 percent above the national average. Although not recorded separately in Census Bureau data, Arizona does impose a severance tax in lieu of a transaction privilege tax on the businesses of mining metalliferous minerals and severing timber.

Arizona relies less heavily on the income tax than the average state – the income tax as a percentage of personal income is only about 70 percent of the United States average – and less heavily on selective sales taxes. The net result of higher-than-average sales taxes and lower-than-average other taxes is an overall tax burden that is at about the national average. Several analysts argue, however, that Arizona's taxes on businesses are considerably higher than average (see Kent Hill, Arizona State University, February 2000, and Robert Cline, Ernst & Young, June 2003).

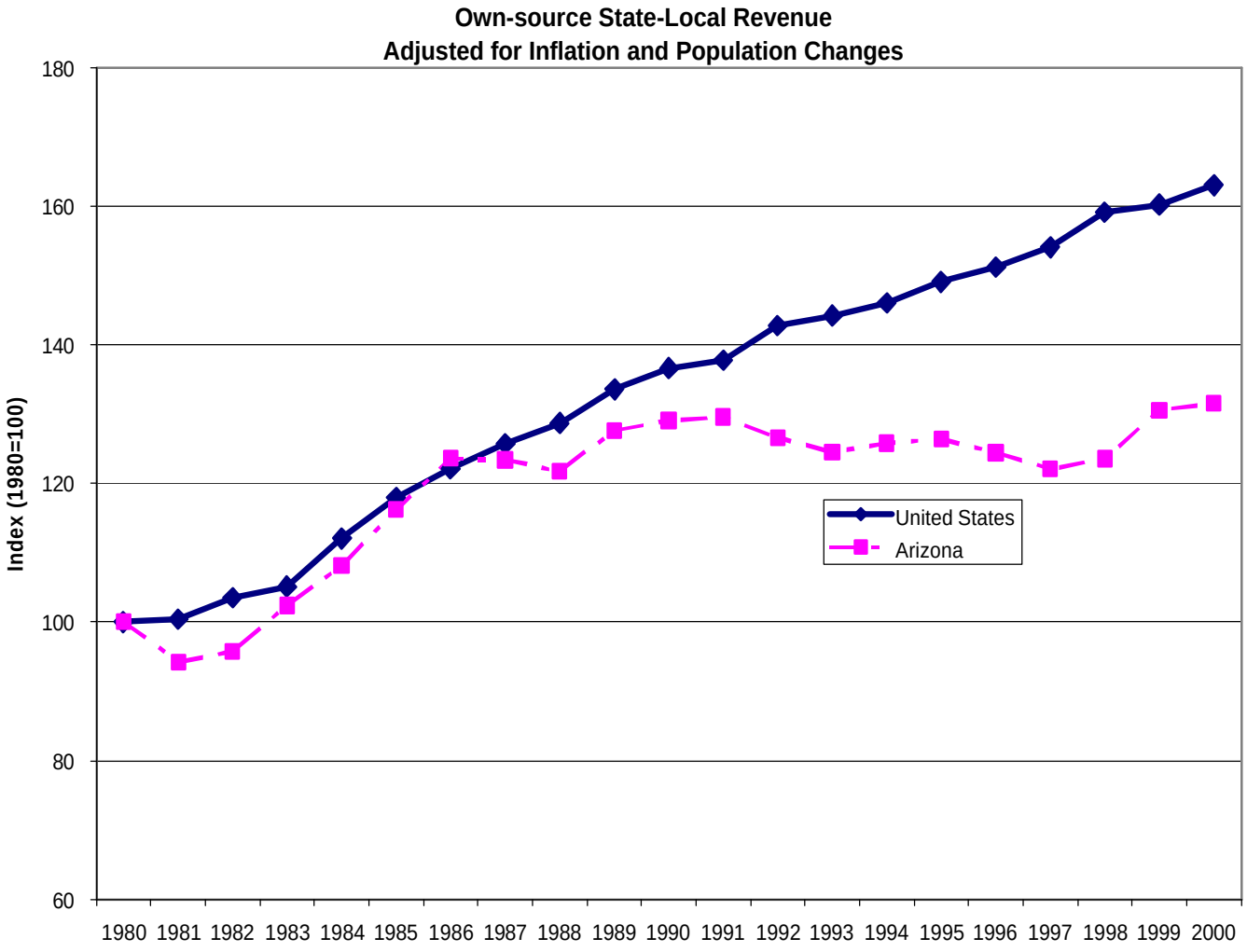
Arizona cut state taxes heavily in the 1990s (including a rebate for alternative fuel vehicles that turned out to be much larger than expected). Between 1990 and 2000, Arizona real per-capita state tax revenue lagged the nation by nearly 20 percent, growing by only 2.7 percent while state taxes nationally grew by 22 percent. The Tax Foundation estimates that Arizona state and local taxes fell substantially in the 1990s – the 4th largest drop in the nation – and Arizona fell from the 5th highest burden in 1990 to 14th highest by 2003. Arizona State University economist Tom Rex argued that tax cuts were largely

Comments (continued)

responsible for the state's deficit (Public Finance in Arizona, January 2003), a point disputed by the Arizona Tax Research Association.

Arizona has a constitutional spending limit that caps the state budget at 7.41 percent of personal income. Current state spending is about 5 percent of personal income and the cap is not binding. Arizona also has two property tax limits. Perhaps the most important rule affecting taxes, however, is an initiative enacted in 1992 that requires a two-thirds vote of the legislature to enact any tax increase.

In November 2000, Arizona voters approved Proposition 301, which authorized a 0.6 percent increase in the transaction privilege, and dedicated the revenue for education purposes.



California Revenue Structure Compared With United States FY 2000

	California	*United States*	*State Indexed To U.S.*	*State Minus U.S.*
State per-capita income	29,698	27,880	106.5	1,819
Reliance on state vs. local government				
State gov't own-source revenue as % of state and local	58.7%	56.9%	na	1.8%
State gov't tax revenue as % of state and local	69.8%	61.9%	na	7.9%
Tax revenue levels				
Tax Foundation state-local "burden" per $100 personal income	10.6	9.7	109.3	na
State-local tax revenue per $100 personal income	12.1	11.2	107.6	na
State-local tax revenue per capita	3,584	3,126	114.6	na
State tax revenue per $100 personal income	2,502	1,934	129.4	na
State tax revenue per capita	8.4	6.9	121.4	na
Revenue growth in the 1990s				
% change in real per capita state/local taxes, 1990 to 2000	21.6%	18.4%	na	3.3%
% change in real per capita state taxes, 1990 to 2000	29.5%	22.2%	na	7.3%
State-local own-source revenue per $100 of personal income				
Non-tax own-source revenue	5.0	4.8	103.4	na
Taxes	12.1	11.2	107.6	na
Income tax	4.0	2.7	146.2	na
General sales tax	3.1	2.8	110.7	na
Selective sales taxes	0.9	1.2	76.8	na
Property taxes	2.6	3.2	82.3	na
Severance taxes	0.0	0.1	4.4	na
Other taxes	1.5	1.3	116.2	na
State-local government revenue sources as % of own-source revenue				
Non-tax own-source revenue	29.3%	30.2%	na	-0.8%
Taxes	70.7%	69.8%	na	0.8%
Income tax	23.3%	16.9%	na	6.4%
General sales tax	17.9%	17.2%	na	0.7%
Selective sales taxes	5.4%	7.5%	na	-2.1%

California Revenue Structure Compared With United States FY 2000

	California	*United States*	*State Indexed To U.S.*	*State Minus U.S.*
Property taxes	15.4%	19.9%	na	-4.5%
Severance taxes	0.0%	0.3%	na	-0.3%
Other taxes	8.6%	7.8%	na	0.7%
Other measures and ratings				
Tax Foundation business climate ranking (1=best)	49	na		
Citizens for Tax Justice S+L taxes as % of income for poorest quintile	11.3%	11.4%	99.1	-0.1%
Citizens for Tax Justice ratio of taxes for poorest quintile to richest 1%	1.6	2.7	na	-1.2
Governing magazine's # of stars for revenue adequacy (4=best)	1	2.1	na	-1.1
Governing magazine's # of stars for revenue fairness (4=best)	2	2.1	na	-0.1

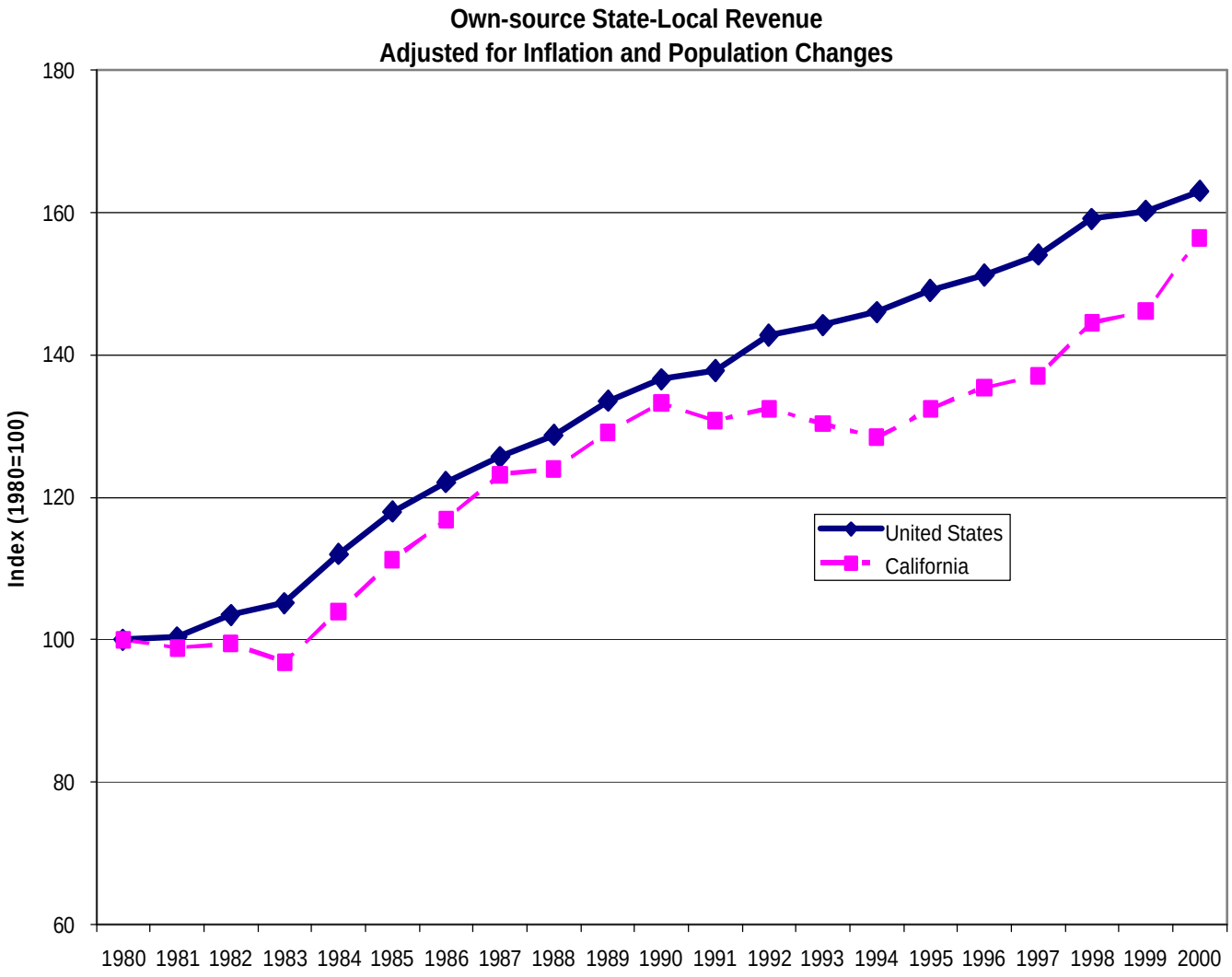
Comments

California's tax system is notable for at least three reasons. First, voters have used ballot measures to enact major legislation affecting state and local finances. Two of the most important measures that directly affect tax revenue and spending are Propositions 13 and 98. Passed in 1978, Proposition 13 limits the amount of property taxes local governments can collect. Proposition 98, passed a decade later, mandates a minimum funding level for public schools and community colleges.

Second, California's tax structure is far more progressive than most states. The overall tax level is only about 8 to 10 percent above the United States average, depending on the measure chosen, but California's income tax is 46 percent higher than average, as a percentage of personal income. In addition, the income tax is very progressive and California has a disproportionate number of very high-income taxpayers. The general sales tax is only about 11 percent above average, and selective sales and property taxes are substantially below the national average (reflecting the impact of Proposition 13). The net result is a state-local tax structure that relies more heavily on the income of the rich than the typical state: according to the Citizens for Tax Justice, state-local taxes on the poorest quintile, as a share of income, were 1.6 times as high than those on the richest one percent, compared with 2.7 times for the nation as a whole.

Third, progressive tax systems tend also to be highly elastic, responding sharply to changes in the economy. This tax structure, combined with sharp falloffs in income from capital gains and stock options, both of which are important in California, contributed to extremely rapid revenue growth in the late 1990s and also to the state's current fiscal crisis – California had the largest tax revenue decline of any state in fiscal year 2002 and its subsequent budget problems, which were the largest in the nation, are well known.

The Tax Foundation ranks California's business tax climate 49th in the nation.


Own-source State-Local Revenue
Adjusted for Inflation and Population Changes
Index (1980=100)
180
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United States
California

Colorado Revenue Structure Compared With United States FY 2000

	Colorado	United States	State Indexed To U.S.	State Minus U.S.
State per-capita income	30,334	27,880	108.8	2,454
Reliance on state vs. local government				
State gov't own-source revenue as % of state and local	48.8%	56.9%	na	-8.1%
State gov't tax revenue as % of state and local	53.5%	61.9%	na	-8.3%
Tax revenue levels				
Tax Foundation state-local "burden" per $100 personal income	9.3	9.7	95.9	na
State-local tax revenue per $100 personal income	10.3	11.2	91.9	na
State-local tax revenue per capita	3,127	3,126	100.0	na
State tax revenue per $100 personal income	1,674	1,934	86.6	na
State tax revenue per capita	5.5	6.9	79.6	na
Revenue growth in the 1990s				
% change in real per capita state/local taxes, 1990 to 2000	24.3%	18.4%	na	5.9%
% change in real per capita state taxes, 1990 to 2000	37.5%	22.2%	na	15.2%
State-local own-source revenue per $100 of personal income				
Non-tax own-source revenue	5.1	4.8	104.8	na
Taxes	10.3	11.2	91.9	na
Income tax	2.8	2.7	104.3	na
General sales tax	2.9	2.8	106.5	na
Selective sales taxes	0.8	1.2	69.1	na
Property taxes	2.9	3.2	89.6	na
Severance taxes	0.0	0.1	44.4	na
Other taxes	0.8	1.3	63.2	na
State-local government revenue sources as % of own-source revenue				
Non-tax own-source revenue	33.0%	30.2%	na	2.8%
Taxes	67.0%	69.8%	na	-2.8%
Income tax	18.4%	16.9%	na	1.5%
General sales tax	19.1%	17.2%	na	1.9%
Selective sales taxes	5.4%	7.5%	na	-2.1%

Colorado Revenue Structure Compared With United States FY 2000

	Colorado	United States	State Indexed To U.S.	State Minus U.S.
Property taxes	18.7%	19.9%	na	-1.3%
Severance taxes	0.2%	0.3%	na	-0.2%
Other taxes	5.2%	7.8%	na	-2.7%

Other measures and ratings

Tax Foundation business climate ranking (1=best)	4	na		
Citizens for Tax Justice S+L taxes as % of income for poorest quintile	9.9%	11.4%	86.8	-1.5%
Citizens for Tax Justice ratio of taxes for poorest quintile to richest 1%	2.3	2.7	na	-0.5
Governing magazine's # of stars for revenue adequacy (4=best)	1	2.1	na	-1.1
Governing magazine's # of stars for revenue fairness (4=best)	2	2.1	na	-0.1

Comments

Colorado's overall level of state and local taxes is about 5-10 percent lower than the national average, depending on the measure chosen. Nonetheless, income and general sales taxes are somewhat higher than the United States average as a percentage of personal income, while property, selective sales, and other taxes are below average. Colorado relies more heavily on local governments to finance government than the average state; local governments, in turn, rely heavily on local-option sales taxes.

Colorado state government's income is particularly volatile, due to its relatively high reliance on the income tax and to the fact that capital gains are about 26 percent greater as a share of income in Colorado than in the average state.

Colorado's Taxpayer Bill of Rights, or TABOR, a citizen initiative passed in 1992, is probably the most restrictive tax and expenditure limit in the United States. It limits the state's revenue growth to the sum of inflation plus population growth in the previous calendar year. Revenues collected in excess of the limitation must be returned to the citizens unless a vote during the general elections in November allows the state to keep the surplus for that year. Voter approval is required for the state to retain and spend revenue in excess of the limit. TABOR also limits the General Assembly's ability to raise taxes and borrow money. If Colorado wishes to join the current multistate effort to streamline state sales taxes (intended to allow states to collect taxes on Internet and mail-order transactions), voter approval would be required.

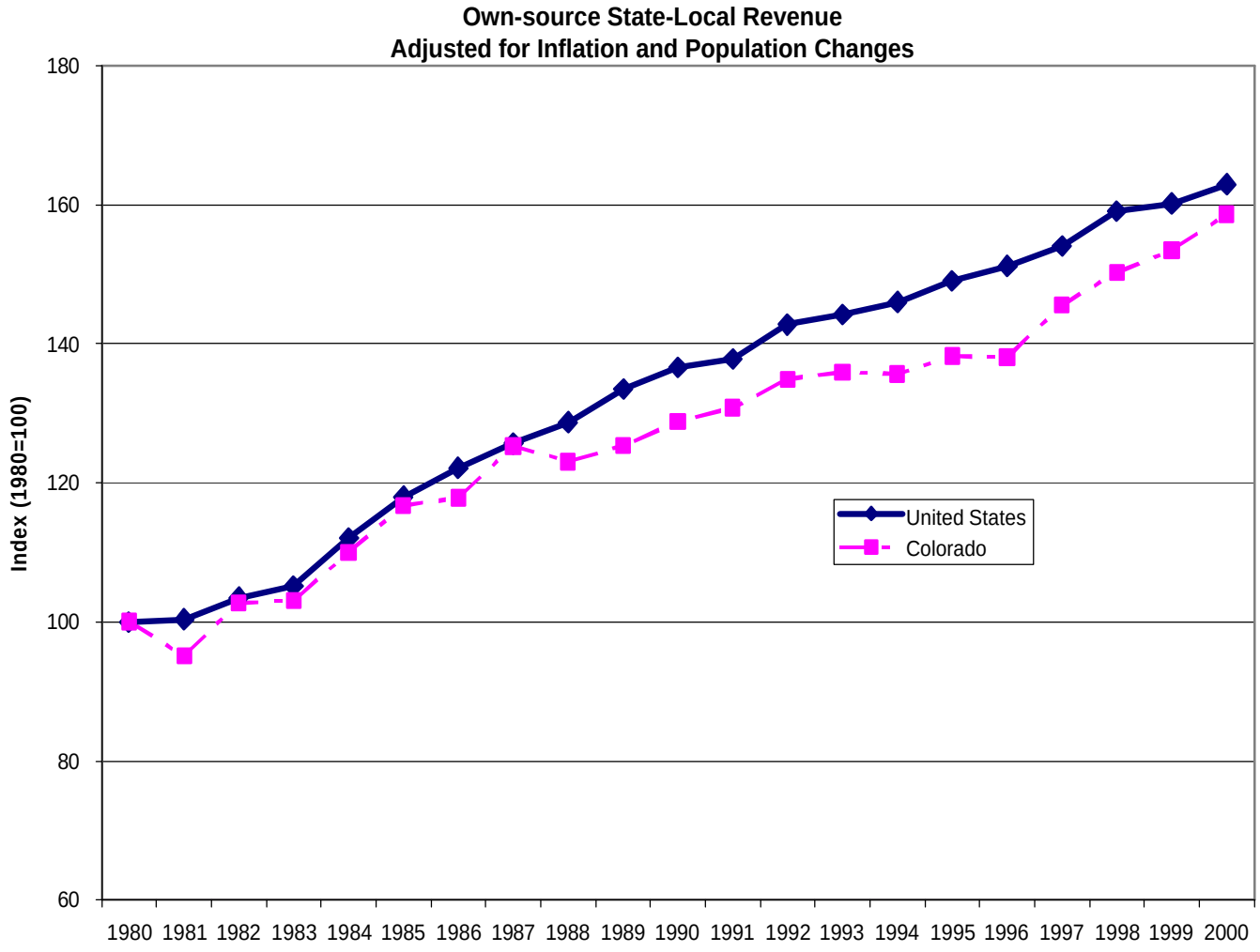
TABOR is more restrictive than many other limits, for several reasons: (1) it applies to state and local governments, not just to the state; (2) it applies broadly, to all funds, not just the general fund; (3) the "population growth plus inflation" limit generally will be lower than limits based on personal income; (4) it has a ratcheting-down effect, so that if revenue falls for any reason (such as it might in a recession), TABOR limits growth from the new, lower level; (5) "excess" revenue above the TABOR limit must be

Comments (continued)

refunded, unless voters approve otherwise; (6) there is no "escape hatch" by which the governor or legislature can declare a fiscal emergency and spend above the limit, and voter approval is required for any tax or debt increases; and (7) TABOR is in the constitution, and is not just a statutory provision.

In addition to TABOR, Colorado has the Gallagher Amendment, which requires that 55 percent of property taxes be derived from commercial property, and 45 percent from residential property. The commercial property tax rate is fixed, so as residential property has risen in value relative to commercial property, residential rates have been driven downward.

From 1990 to 2000, real per-capita state and local income taxes have grown far more rapidly in Colorado than in the United States as a whole, while property taxes have lagged the nation, and actually declined in Colorado. State taxes as a whole grew more rapidly than in the U.S., while local taxes lagged.



Hawaii Revenue Structure Compared With United States FY 2000

	Hawaii	*United States*	*State Indexed To U.S.*	*State Minus U.S.*
State per-capita income	26,913	27,880	96.5	-966
Reliance on state vs. local government				
State gov't own-source revenue as % of state and local	79.4%	56.9%	na	22.5%
State gov't tax revenue as % of state and local	81.3%	61.9%	na	19.4%
Tax revenue levels				
Tax Foundation state-local "burden" per $100 personal income	10.7	9.7	110.3	na
State-local tax revenue per $100 personal income	12.6	11.2	112.3	na
State-local tax revenue per capita	3,389	3,126	108.4	na
State tax revenue per $100 personal income	2,755	1,934	142.5	na
State tax revenue per capita	10.2	6.9	147.6	na
Revenue growth in the 1990s				
% change in real per capita state/local taxes, 1990 to 2000	-0.8%	18.4%	na	-19.1%
% change in real per capita state taxes, 1990 to 2000	-0.6%	22.2%	na	-22.8%
State-local own-source revenue per $100 of personal income				
Non-tax own-source revenue	5.2	4.8	107.4	na
Taxes	12.6	11.2	112.3	na
Income tax	3.3	2.7	120.1	na
General sales tax	4.7	2.8	170.6	na
Selective sales taxes	1.9	1.2	153.4	na
Property taxes	1.9	3.2	57.8	na
Severance taxes	0.0	0.1	0.0	na
Other taxes	0.9	1.3	71.6	na
State-local government revenue sources as % of own-source revenue				
Non-tax own-source revenue	29.3%	30.2%	na	-0.9%
Taxes	70.7%	69.8%	na	0.9%
Income tax	18.4%	16.9%	na	1.4%
General sales tax	26.5%	17.2%	na	9.3%
Selective sales taxes	10.4%	7.5%	na	2.9%
Property taxes	10.4%	19.9%	na	-9.5%

Hawaii Revenue Structure Compared With United States FY 2000

	Hawaii	*United States*	*State Indexed To U.S.*	*State Minus U.S.*
Severance taxes	0.0%	0.3%	na	-0.3%
Other taxes	5.1%	7.8%	na	-2.8%
Other measures and ratings				
Tax Foundation business climate ranking (1=best)	45	na		
Citizens for Tax Justice S+L taxes as % of income for poorest quintile	12.6%	11.4%	110.5	1.2%
Citizens for Tax Justice ratio of taxes for poorest quintile to richest 1%	2.2	2.7	na	-0.6
Governing magazine's # of stars for revenue adequacy (4=best)	3	2.1	na	0.9
Governing magazine's # of stars for revenue fairness (4=best)	4	2.1	na	1.9

Comments

Hawaii's economy relies heavily on the tourism industry and on trade with Asian nations. Despite the economic slowdown since September 11, travel and tourism continues to be Hawaii's largest industry. Its unique economy, coupled with the difficulty its citizens have traveling to other locations to avoid taxes, give it tax options that other states do not have.

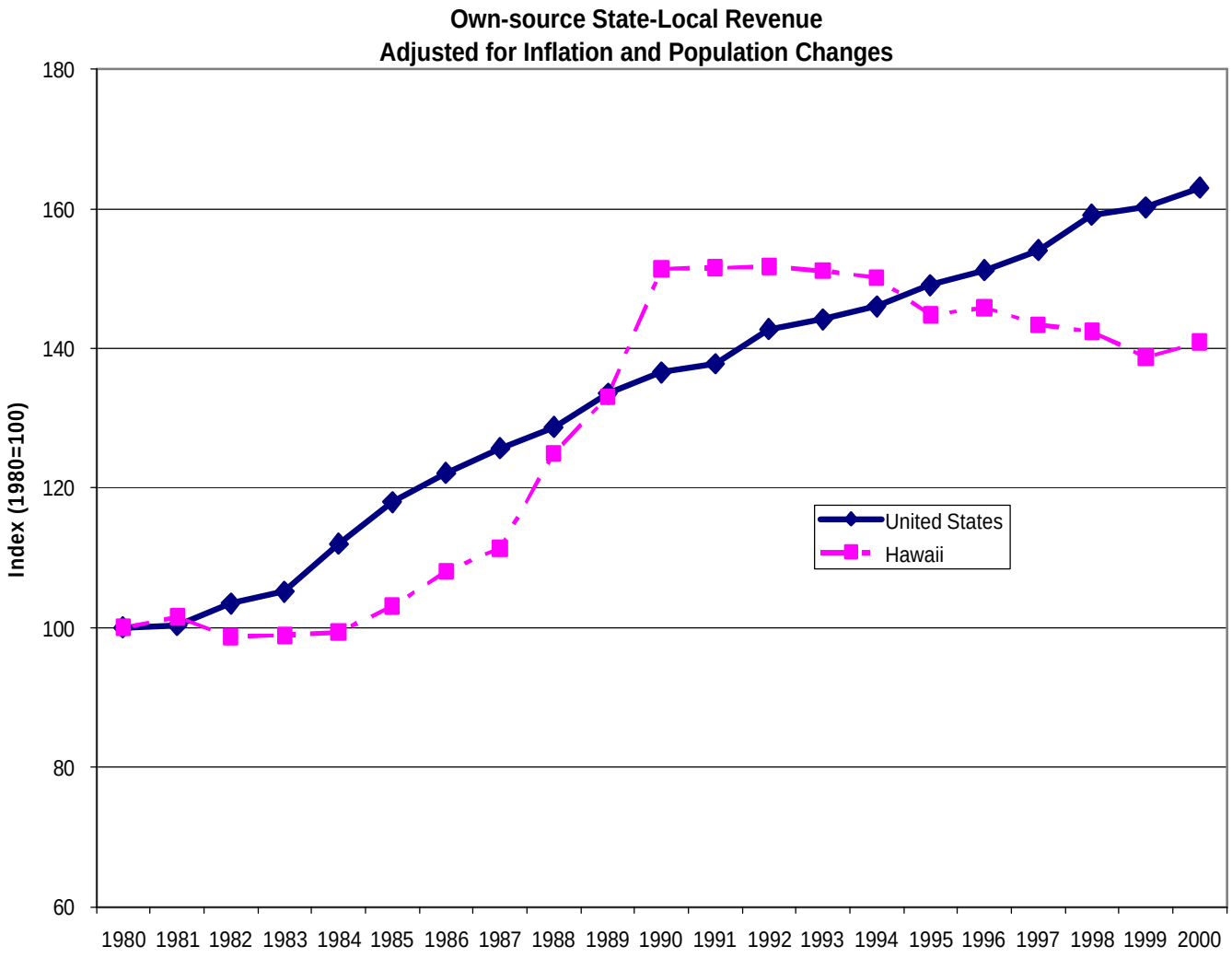
Hawaii is notable for financing almost all elementary and education spending at the state level. As a result, Hawaii relies far more heavily on state revenue (as opposed to local revenue) than the typical state.

Much of Hawaii's revenue related to tourism is embedded in its general excise tax, which unlike a standard sales tax is imposed on businesses rather than consumers. It is an extremely broad-based tax, and includes most food, utilities, and even medical care. The impact of this tax on Hawaii's low-income residents is offset in part by a very progressive income tax with a generous low-income credit.

The last decade has been stressful for Hawaii's finances due to economic weakness in Asia and, more recently, the fallout of the September 11 attacks on the tourism industry. Between 1990 and 2000, Hawaii's real per-capita tax revenue actually declined, while U.S. revenue grew by 18 percent.

In 2003, Hawaii continued phasing in a previously enacted income tax reduction and closed its budget gap by other means.

Despite the recent stress in Hawaii, the Representative Tax System ranks Hawaii's "fiscal comfort" as highest in the nation, meaning it has great capacity to raise revenue relative to its need for spending on services that state and local governments typically provide.


Own-source State-Local Revenue
Adjusted for Inflation and Population Changes
Index (1980=100)
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1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000
United States
Hawaii

Idaho Revenue Structure Compared With United States FY 2000

	Idaho	*United States*	*State Indexed To U.S.*	*State Minus U.S.*
State per-capita income	22,679	27,880	81.3	-5,201
Reliance on state vs. local government				
State gov't own-source revenue as % of state and local	63.5%	56.9%	na	6.6%
State gov't tax revenue as % of state and local	72.2%	61.9%	na	10.3%
Tax revenue levels				
Tax Foundation state-local "burden" per $100 personal income	10.2	9.7	105.2	na
State-local tax revenue per $100 personal income	11.4	11.2	101.5	na
State-local tax revenue per capita		2,582	3,126	82.6 na
State tax revenue per $100 personal income	1,864	1,934	96.4	na
State tax revenue per capita	8.2	6.9	118.5	na
Revenue growth in the 1990s				
% change in real per capita state/local taxes, 1990 to 2000	25.8%	18.4%	na	7.4%
% change in real per capita state taxes, 1990 to 2000	25.2%	22.2%	na	3.0%
State-local own-source revenue per $100 of personal income				
Non-tax own-source revenue	5.6	4.8	116.4	na
Taxes	11.4	11.2	101.5	na
Income tax	3.3	2.7	122.7	na
General sales tax	2.6	2.8	93.4	na
Selective sales taxes	1.1	1.2	92.2	na
Property taxes	3.0	3.2	93.6	na
Severance taxes	0.0	0.1	20.7	na
Other taxes	1.3	1.3	106.8	na
State-local government revenue sources as % of own-source revenue				
Non-tax own-source revenue	33.1%	30.2%	na	3.0%
Taxes	66.9%	69.8%	na	-3.0%
Income tax	19.6%	16.9%	na	2.7%
General sales tax	15.2%	17.2%	na	-2.1%
Selective sales taxes	6.6%	7.5%	na	-1.0%

Idaho Revenue Structure Compared With United States FY 2000

	Idaho	*United States*	*State Indexed To U.S.*	*State Minus U.S.*
Property taxes	17.6%	19.9%	na	-2.3%
Severance taxes	0.1%	0.3%	na	-0.3%
Other taxes	7.9%	7.8%	na	0.1%
Other measures and ratings				
Tax Foundation business climate ranking (1=best)	33	na		
Citizens for Tax Justice S+L taxes as % of income for poorest quintile	9.7%	11.4%	85.1	-1.7%
Citizens for Tax Justice ratio of taxes for poorest quintile to richest 1%	1.6	2.7	na	-1.1
Governing magazine's # of stars for revenue adequacy (4=best)	3	2.1	na	0.9
Governing magazine's # of stars for revenue fairness (4=best)	2	2.1	na	-0.1

Comments

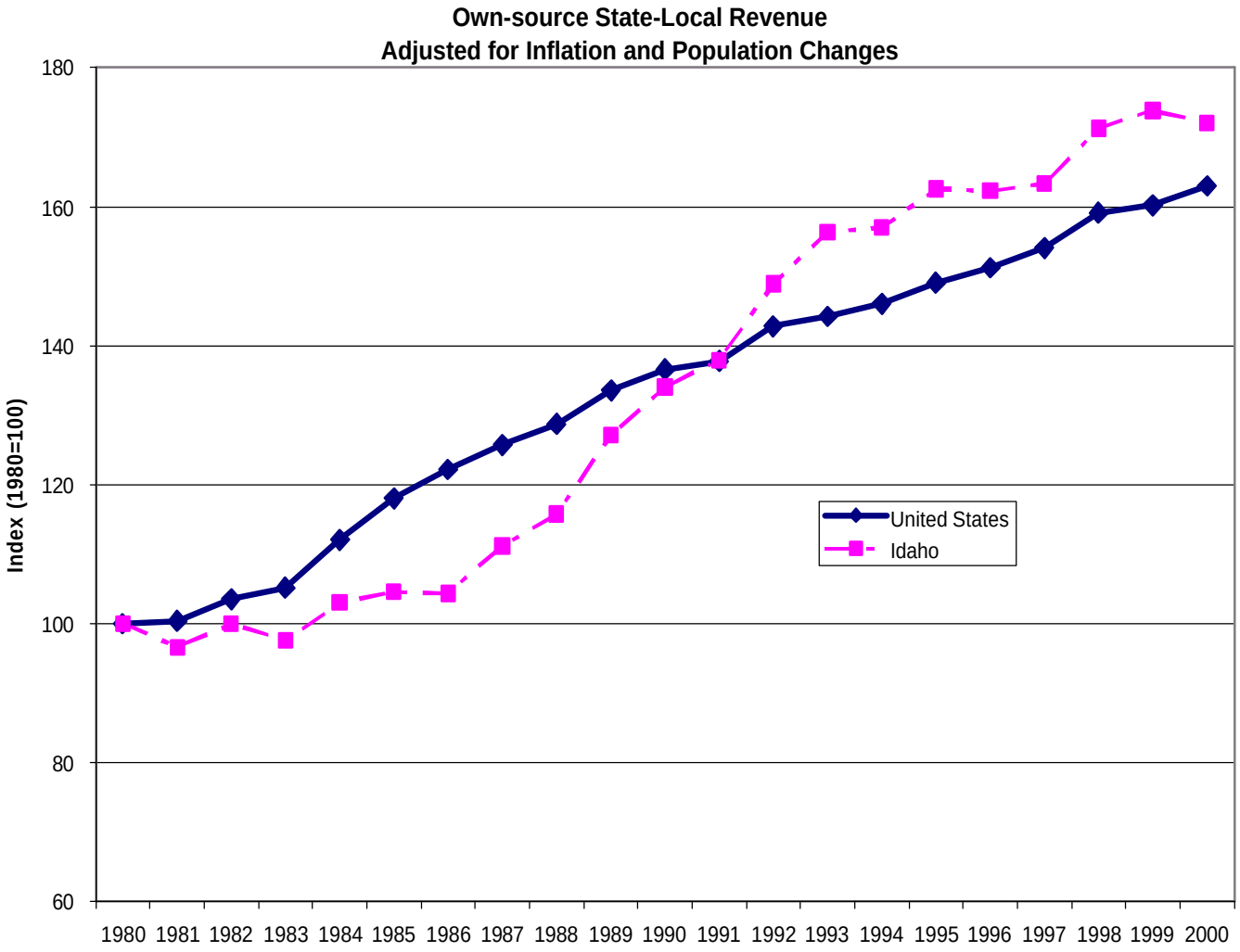
Idaho's per-capita income is 19 percent below the United States average, and under the "Representative Tax System" it ranks 44th in tax capacity. As a result, even though Idaho's tax effort (measured by taxes as a percentage of personal income, or by the Tax Foundation's index) is slightly above the U.S. average, the revenue raised is relatively low – taxes per capita are 17 percent below the U.S. average.

Idaho relies relatively heavily on the state government for revenue raising, and finances 61 percent of K-12 education at the state level, compared with 50 percent for the average state.

Idaho's state-local tax system relies more heavily on income taxes than the average state, and less heavily on property and sales taxes. (Note that the three border states of Montana, Nevada, and Oregon have no general sales tax.) This makes the Idaho tax system somewhat less regressive than the typical state's system.

Between 1990 and 2000, Idaho's real per-capita state and local taxes grew about 7 percentage points faster than the U.S. average. In 2001, Idaho embarked on relatively large tax cuts just as the fiscal crisis was about to get underway, cutting personal income tax rates by 0.4 percentage points each, which amounted to approximately 3 percent of Idaho's general fund revenue.

In late 2002, Republican Governor Dirk Kempthorne appointed a blue ribbon commission to study state government. The governor accepted his commission's short-term recommendations to increase sales and cigarette taxes, and a two-year sales tax increase and a cigarette tax increase were enacted in 2003. The commission's notable longer-term recommendations include reviewing periodically the state's many sales tax exemptions in light of Idaho's continuing rapid shift from a production economy to a service economy, and maintaining the state's relatively balanced tax system (as opposed to eliminating any of the major taxes).


Own-source State-Local Revenue
Adjusted for Inflation and Population Changes
Index (1980=100)
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1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000
United States
Idaho

Montana Revenue Structure Compared With United States FY 2000

	Montana	*United States*	*State Indexed To U.S.*	*State Minus U.S.*
State per-capita income	21,593	27,880	77.5	-6,287
Reliance on state vs. local government				
State gov't own-source revenue as % of state and local	64.5%	56.9%	na	7.6%
State gov't tax revenue as % of state and local	66.2%	61.9%	na	4.3%
Tax revenue levels				
Tax Foundation state-local "burden" per $100 personal income	9.1	9.7	93.8	na
State-local tax revenue per $100 personal income	11.0	11.2	98.1	na
State-local tax revenue per capita	2,375	3,126	76.0	na
State tax revenue per $100 personal income	1,572	1,934	81.3	na
State tax revenue per capita	7.3	6.9	104.9	na
Revenue growth in the 1990s				
% change in real per capita state/local taxes, 1990 to 2000	1.9%	18.4%	na	-16.5%
% change in real per capita state taxes, 1990 to 2000	12.8%	22.2%	na	-9.5%
State-local own-source revenue per $100 of personal income				
Non-tax own-source revenue	7.3	4.8	151.1	na
Taxes	11.0	11.2	98.1	na
Income tax	2.7	2.7	97.9	na
General sales tax	0.0	2.8	0.0	na
Selective sales taxes	1.8	1.2	147.4	na
Property taxes	4.7	3.2	146.3	na
Severance taxes	0.4	0.1	783.2	na
Other taxes	1.4	1.3	113.5	na
State-local government revenue sources as % of own-source revenue				
Non-tax own-source revenue	40.0%	30.2%	na	9.8%
Taxes	60.0%	69.8%	na	-9.8%
Income tax	14.5%	16.9%	na	-2.4%
General sales tax	0.0%	17.2%	na	-17.2%
Selective sales taxes	9.7%	7.5%	na	2.2%

Montana Revenue Structure Compared With United States FY 2000

	Montana	*United States*	*State Indexed To U.S.*	*State Minus U.S.*
Property taxes	25.6%	19.9%	na	5.6%
Severance taxes	2.4%	0.3%	na	2.1%
Other taxes	7.8%	7.8%	na	0.0%
Other measures and ratings				
Tax Foundation business climate ranking (1=best)	22	na		
Citizens for Tax Justice S+L taxes as % of income for poorest quintile	6.1%	11.4%	53.5	-5.3%
Citizens for Tax Justice ratio of taxes for poorest quintile to richest 1%	1.2	2.7	na	-1.6
Governing magazine's # of stars for revenue adequacy (4=best)	1	2.1	na	-1.1
Governing magazine's # of stars for revenue fairness (4=best)	3	2.1	na	0.9

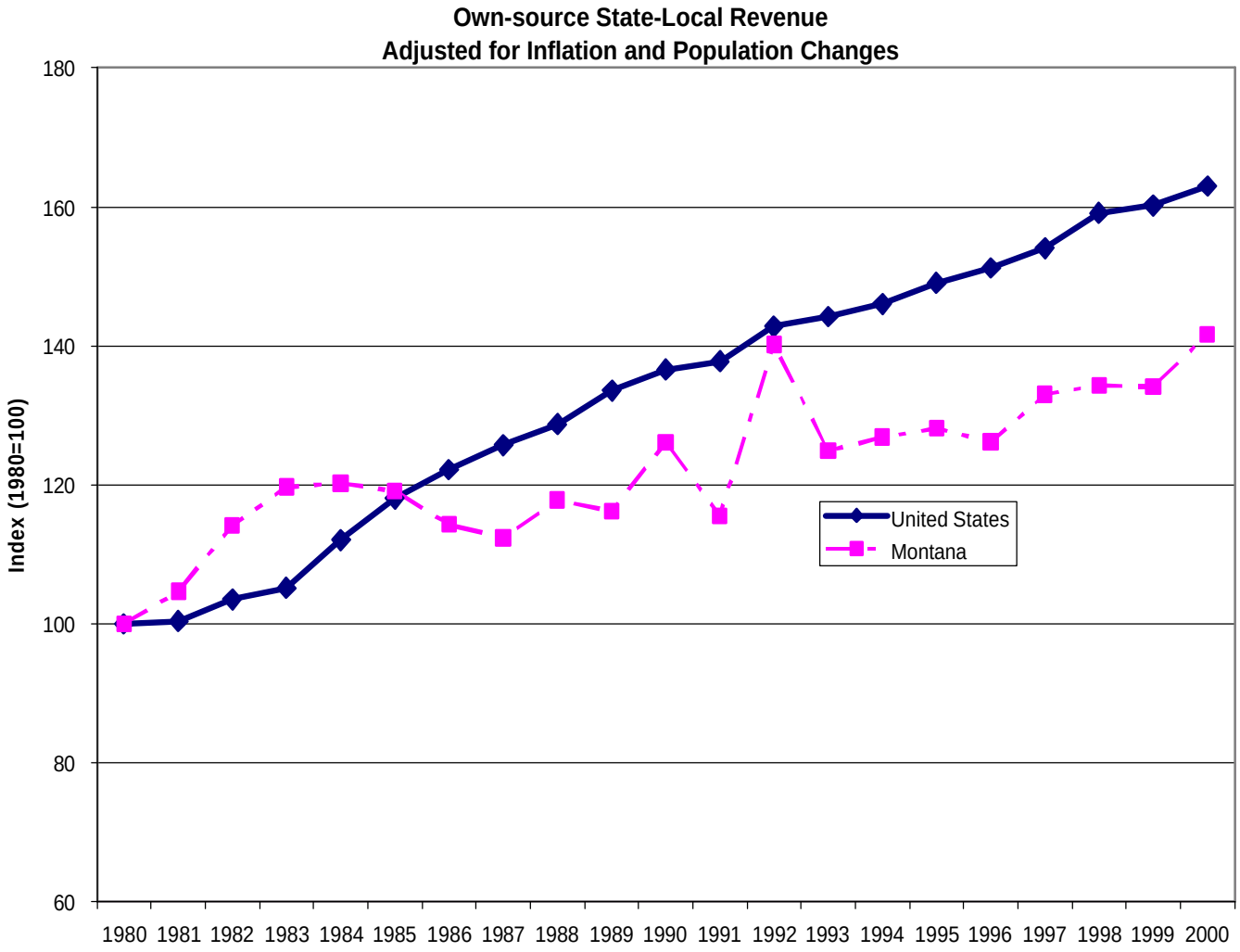
Comments

Montana relies less heavily on tax revenue than the typical state, relying to a greater extent on non-tax revenue. In 2000, charges and miscellaneous revenue accounted for 38 percent of the Montana state government's own-source revenue, compared with only 24 percent in the average state. Montana's per-capita income is 22 percent below the national average. Under the Representative Tax System it ranks 36th in its capacity to raise tax revenue, and 42nd in its "effort" at doing so. Its overall level of taxation is below the national average.

Montana has no sales tax, but it has a substantial property tax and raises considerable revenue from taxes on natural resources. Its property taxes, selective sales taxes, and other taxes all are well above the U.S. average as a percentage of personal income. Montana's per-capita gas tax is the highest in the nation (reflecting both high rates and the amount of driving necessitated by spread-out distances). The top income tax rate is high, at 11 percent, but unlike most states Montana allows full deductibility of federal income taxes, and total income tax as a percentage of personal income is slightly lower than the U.S. average. According to *Governing* magazine, Montana's 9 percent effective tax rate on capital gains is the highest in the nation.

Between 1990 and 2000, Montana's real per-capita state and local taxes grew by only 1.9 percent, compared with 18 percent for the nation as a whole.

The 2003 Montana legislature established a tax reform study committee to conduct a comprehensive examination of taxation and report by December 1, 2004. According to the Montana Department of Revenue the committee will "develop an inventory of taxes imposed at the state and local level, provide analysis that evaluates existing taxes, examine tax expenditures to assess the ongoing merit of each expenditure, and examine alternative methods of taxation from existing sources as well as from new sources of revenue."


Own-source State-Local Revenue
Adjusted for Inflation and Population Changes
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United States
Montana

Nevada Revenue Structure Compared With United States FY 2000

	Nevada	United States	State Indexed To U.S.	State Minus U.S.
State per-capita income	28,598	27,880	102.6	719
Reliance on state vs. local government				
State gov't own-source revenue as % of state and local	52.8%	56.9%	na	-4.0%
State gov't tax revenue as % of state and local	63.8%	61.9%	na	2.0%
Tax revenue levels				
Tax Foundation state-local "burden" per $100 personal income	8.9	9.7	91.8	na
State-local tax revenue per $100 personal income	10.5	11.2	93.9	na
State-local tax revenue per capita	3,011	3,126	96.3	na
State tax revenue per $100 personal income	1,921	1,934	99.3	na
State tax revenue per capita	6.7	6.9	96.8	na
Revenue growth in the 1990s				
% change in real per capita state/local taxes, 1990 to 2000	13.8%	18.4%	na	-4.5%
% change in real per capita state taxes, 1990 to 2000	6.2%	22.2%	na	-16.0%
State-local own-source revenue per $100 of personal income				
Non-tax own-source revenue	4.6	4.8	94.5	na
Taxes	10.5	11.2	93.9	na
Income tax	0.0	2.7	0.0	na
General sales tax	3.7	2.8	134.7	na
Selective sales taxes	2.8	1.2	227.5	na
Property taxes	2.6	3.2	81.1	na
Severance taxes	0.1	0.1	92.8	na
Other taxes	1.4	1.3	111.1	na
State-local government revenue sources as % of own-source revenue				
Non-tax own-source revenue	30.3%	30.2%	na	0.1%
Taxes	69.7%	69.8%	na	-0.1%
Income tax	0.0%	16.9%	na	-16.9%
General sales tax	24.7%	17.2%	na	7.4%
Selective sales taxes	18.2%	7.5%	na	10.7%

Nevada Revenue Structure Compared With United States FY 2000

	Nevada	*United States*	*State Indexed To U.S.*	*State Minus U.S.*
Property taxes	17.2%	19.9%	na	-2.8%
Severance taxes	0.3%	0.3%	na	0.0%
Other taxes	9.2%	7.8%	na	1.4%
Other measures and ratings				
Tax Foundation business climate ranking (1=best)	3	na		
Citizens for Tax Justice S+L taxes as % of income for poorest quintile	8.3%	11.4%	72.8	-3.1%
Citizens for Tax Justice ratio of taxes for poorest quintile to richest 1%	4.6	2.7	na	1.9
Governing magazine's # of stars for revenue adequacy (4=best)	1	2.1	na	-1.1
Governing magazine's # of stars for revenue fairness (4=best)	1	2.1	na	-1.1

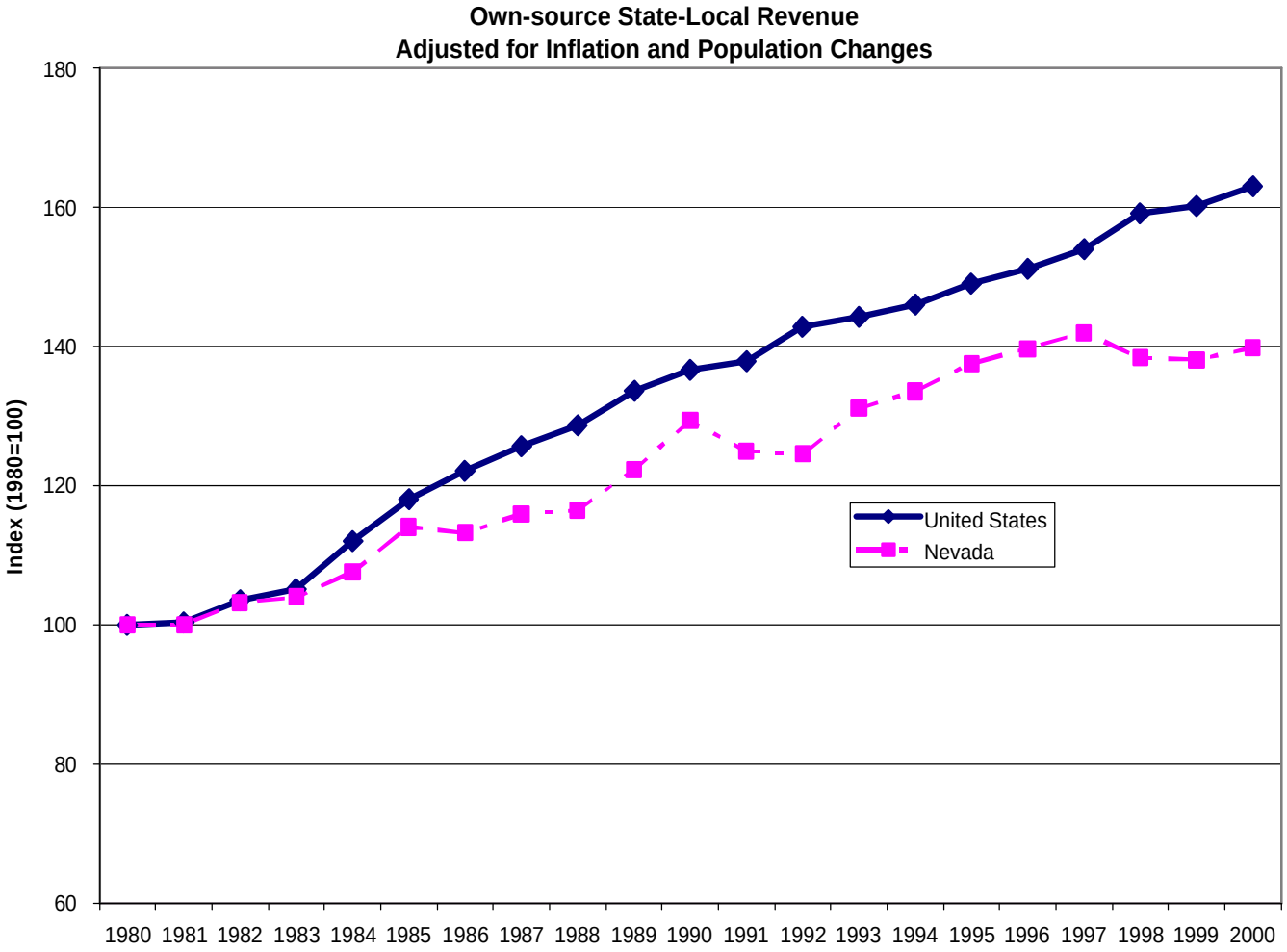
Comments

Nevada's tourism and gaming industries have contributed to growth over the years, particularly since the 1990s. Gaming taxes constitute approximately 36 percent of general fund revenue, second to sales and use taxes. These two sources are the state's major revenue components, accounting for almost three-quarters of the general fund. Nevada voters tend to have strong anti-tax sympathy, and this is reflected in the state constitution, which prohibits a state income tax and requires a two-thirds vote of the legislature to approve new or increased taxes.

According to estimates by Citizens for Tax Justice, Nevada's state and local tax system is the 9th-most regressive in the nation.

Between 1990 and 2000, Nevada's growth in real per-capita state-local taxes lagged the nation by about 5 percent, and state government taxes lagged by 16 percent.

The Governor's Task Force on Tax Policy in Nevada was established by a 2001 legislative resolution that stated, "Nevada is falling behind in the revenue collections needed for funding K-12 education, for meeting the long-term care needs of its growing senior population, and for keeping pace with soaring energy demands and the costs of those demands." Among other things, it was charged with considering "ways to reduce budgetary reliance on volatile or cyclical revenue streams." In its final November 2002 report, the task force concluded that "if the State is to continue to afford the levels of services that it provides today, the current revenue mix of the State will not be sufficient to support that level of services." It recommended a property tax increase, a new gross receipts on businesses (above a minimum threshold), and increases in taxes on cigarette and alcohol. It also suggested future review of sales tax base broadening and a state lottery.


Own-source State-Local Revenue
Adjusted for Inflation and Population Changes
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United States
Nevada

New Mexico Revenue Structure Compared With United States FY 2000

	New Mexico	United States	State Indexed To U.S.	State Minus U.S.
State per-capita income	20,891	27,880	74.9	-6,989
Reliance on state vs. local government				
State gov't own-source revenue as % of state and local	74.4%	56.9%	na	17.5%
State gov't tax revenue as % of state and local	78.0%	61.9%	na	16.1%
Tax revenue levels				
Tax Foundation state-local "burden" per $100 personal income	9.7	9.7	100.0	na
State-local tax revenue per $100 personal income	12.7	11.2	113.3	na
State-local tax revenue per capita	2,655	3,126	84.9	na
State tax revenue per $100 personal income	2,070	1,934	107.0	na
State tax revenue per capita	9.9	6.9	142.9	na
Revenue growth in the 1990s				
% change in real per capita state/local taxes, 1990 to 2000	20.0%	18.4%	na	1.6%
% change in real per capita state taxes, 1990 to 2000	18.9%	22.2%	na	-3.3%
State-local own-source revenue per $100 of personal income				
Non-tax own-source revenue	7.6	4.8	156.4	na
Taxes	12.7	11.2	113.3	na
Income tax	2.3	2.7	85.7	na
General sales tax	4.9	2.8	178.8	na
Selective sales taxes	1.5	1.2	123.7	na
Property taxes	1.6	3.2	51.3	na
Severance taxes	1.2	0.1	2,071.5	na
Other taxes	1.1	1.3	89.7	na
State-local government revenue sources as % of own-source revenue				
Non-tax own-source revenue	37.4%	30.2%	na	7.2%
Taxes	62.6%	69.8%	na	-7.2%
Income tax	11.5%	16.9%	na	-5.4%
General sales tax	24.4%	17.2%	na	7.2%
Selective sales taxes	7.4%	7.5%	na	-0.2%

New Mexico Revenue Structure Compared With United States FY 2000

	New Mexico	United States	State Indexed To U.S.	State Minus U.S
Property taxes	8.1%	19.9%	na	-11.8%
Severance taxes	5.7%	0.3%	na	5.4%
Other taxes	5.6%	7.8%	na	-2.3%
Other measures and ratings				
Tax Foundation business climate ranking (1=best)	29	na		
Citizens for Tax Justice S+L taxes as % of income for poorest quintile	12.1%	11.4%	106.1	0.7%
Citizens for Tax Justice ratio of taxes for poorest quintile to richest 1%	1.9	2.7	na	-0.8
Governing magazine's # of stars for revenue adequacy (4=best)	4	2.1	na	1.9
Governing magazine's # of stars for revenue fairness (4=best)	3	2.1	na	0.9

Comments

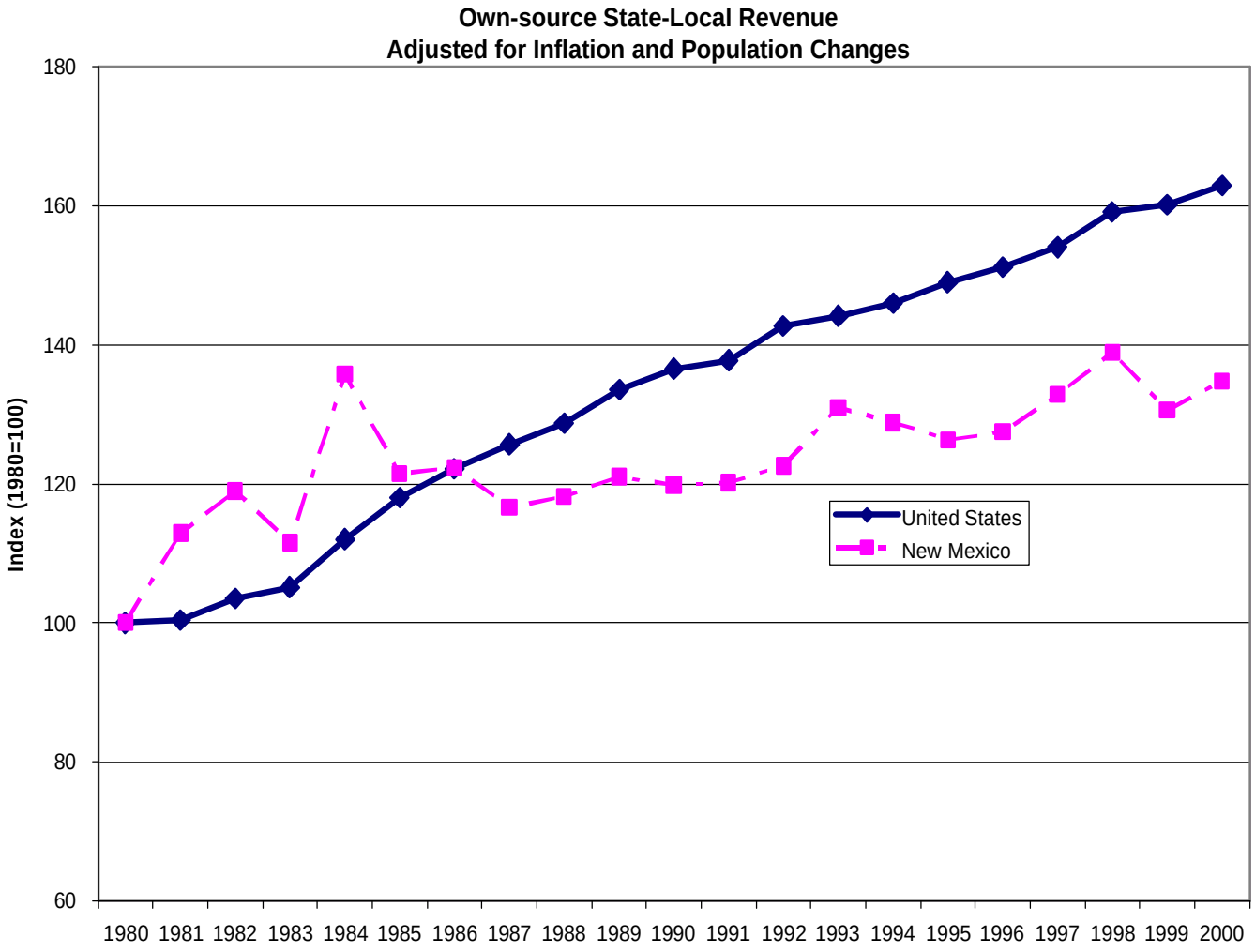
New Mexico's per-capita income is 25 percent below the U.S. average. State and local taxes as a percentage of personal income are about 13 percent higher than the U.S. average, but it ranks at the national average on the Tax Foundation's burden index, in part because of its heavy reliance on severance taxes. New Mexico's income tax is low relative to personal income (only 86 percent of the U.S. average), and is highly progressive.

The state government finances approximately 72 percent of K-12 education (compared with 50 percent for the average state), and as a result, New Mexico relies far more heavily on state revenue (as opposed to local revenue) than the typical state.

One very important feature of the New Mexico tax system is that it does not have a sales tax, but instead imposes a gross receipts tax on businesses (which may be passed on to the consumer). The total gross receipts tax rate is a combination of rates imposed by the state, counties, and municipalities. The tax base is extremely broad: sales and leases of goods and other property, both tangible and intangible, are taxable, and groceries, magazines, and over-the-counter drugs are taxable (prescription drugs are not). Unlike many other states, sales from performances of services are taxable in New Mexico. Taxable services include: business services, personal services, professional services, computer services, utilities, admissions and amusements, repairs and installation, and assorted others. New Mexico's lottery is used to finance "Lottery Success Scholarships," available to qualified high-school graduates attending public college in New Mexico.

Moody's Investors Service describes New Mexico as having "well-managed though volatile financial operations" (October 2001).

A "Blue Ribbon Tax Reform Commission" created in 2003 legislation currently is at work and is scheduled to report in the fall of 2003.


Own-source State-Local Revenue
Adjusted for Inflation and Population Changes
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United States
New Mexico

North Dakota Revenue Structure Compared With United States FY 2000

	North Dakota	United States	State Indexed To U.S.	State Minus U.S.
State per-capita income	23,043	27,880	82.7	-4,837
Reliance on state vs. local government				
State gov't own-source revenue as % of state and local	64.4%	56.9%	na	7.5%
State gov't tax revenue as % of state and local	66.3%	61.9%	na	4.4%
Tax revenue levels				
Tax Foundation state-local "burden" per $100 personal income	9.8	9.7	101.0	na
State-local tax revenue per $100 personal income	11.9	11.2	106.2	na
State-local tax revenue per capita	2,744	3,126	87.8	na
State tax revenue per $100 personal income	1,820	1,934	94.1	na
State tax revenue per capita	7.9	6.9	113.8	na
Revenue growth in the 1990s				
% change in real per capita state/local taxes, 1990 to 2000	36.2%	18.4%	na	17.8%
% change in real per capita state taxes, 1990 to 2000	33.7%	22.2%	na	11.4%
State-local own-source revenue per $100 of personal income				
Non-tax own-source revenue	6.9	4.8	141.8	na
Taxes	11.9	11.2	106.2	na
Income tax	1.3	2.7	49.2	na
General sales tax	2.6	2.8	92.9	na
Selective sales taxes	2.2	1.2	185.2	na
Property taxes	3.6	3.2	110.8	na
Severance taxes	1.0	0.1	1,736.4	na
Other taxes	1.2	1.3	98.3	na
State-local government revenue sources as % of own-source revenue				
Non-tax own-source revenue	36.6%	30.2%	na	6.4%
Taxes	63.4%	69.8%	na	-6.4%
Income tax	7.1%	16.9%	na	-9.8%
General sales tax	13.7%	17.2%	na	-3.5%
Selective sales taxes	11.9%	7.5%	na	4.4%

North Dakota Revenue Structure Compared With United States FY 2000

	North Dakota	*United States*	*State Indexed To U.S.*	*State Minus U.S.*
Property taxes	18.9%	19.9%	na	-1.0%
Severance taxes	5.2%	0.3%	na	4.8%
Other taxes	6.6%	7.8%	na	-1.3%

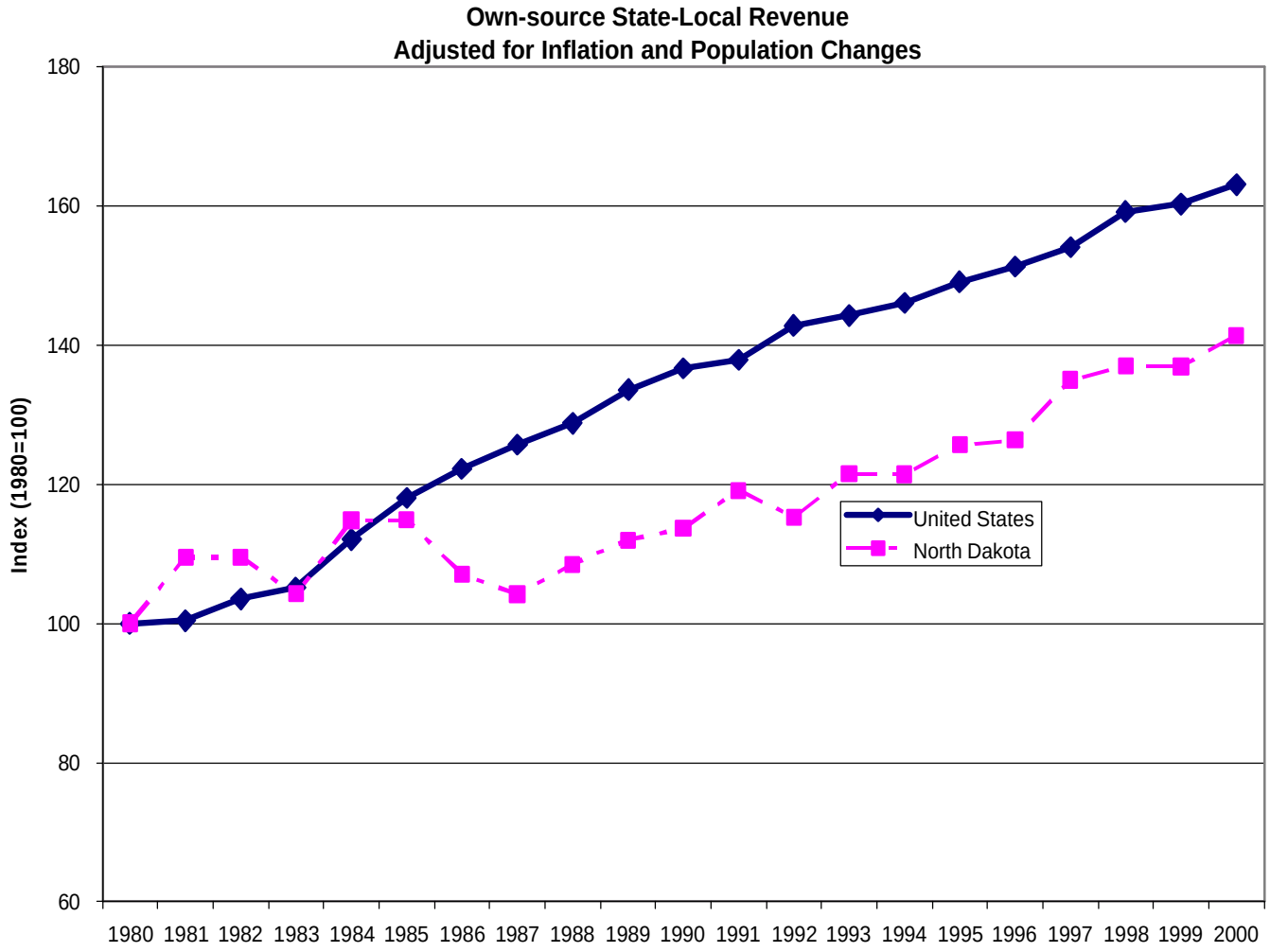
Other measures and ratings

Tax Foundation business climate ranking (1=best)	32	na		
Citizens for Tax Justice S+L taxes as % of income for poorest quintile	10.2%	11.4%	89.5	-1.2%
Citizens for Tax Justice ratio of taxes for poorest quintile to richest 1%	2.0	2.7	na	-0.7
Governing magazine's # of stars for revenue adequacy (4=best)	4	2.1	na	1.9
Governing magazine's # of stars for revenue fairness (4=best)	3	2.1	na	0.9

Comments

North Dakota's per-capita income is 17 percent below the U.S. average, but its taxes are about average relative to personal income. North Dakota relies less heavily on taxes than the typical state government, and relies more heavily on non-tax charges and fees. It relies far less heavily on the income tax than the typical state, and, like many Western states, relies relatively heavily on severance and extraction taxes for coal and oil. It also relies very heavily on selective sales taxes.

Between 1990 and 2000, North Dakota's real per-capita state-local taxes grew by 36 percent, compared with only 18 percent for the U.S. as a whole.


Own-source State-Local Revenue
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United States
North Dakota

Oregon Revenue Structure Compared With United States FY 2000

	Oregon	*United States*	*State Indexed To U.S.*	*State Minus U.S.*
State per-capita income	26,248	27,880	94.1	-1,632
Reliance on state vs. local government				
State gov't own-source revenue as % of state and local	59.8%	56.9%	na	3.0%
State gov't tax revenue as % of state and local	63.2%	61.9%	na	1.3%
Tax revenue levels				
Tax Foundation state-local "burden" per $100 personal income	9.0	9.7	92.8	na
State-local tax revenue per $100 personal income	10.6	11.2	94.2	na
State-local tax revenue per capita	2,773	3,126	88.7	na
State tax revenue per $100 personal income	1,752	1,934	90.6	na
State tax revenue per capita	6.7	6.9	96.2	na
Revenue growth in the 1990s				
% change in real per capita state/local taxes, 1990 to 2000	8.3%	18.4%	na	-10.0%
% change in real per capita state taxes, 1990 to 2000	35.0%	22.2%	na	12.8%
State-local own-source revenue per $100 of personal income				
Non-tax own-source revenue	7.1	4.8	146.5	na
Taxes	10.6	11.2	94.2	na
Income tax	4.6	2.7	169.1	na
General sales tax	0.0	2.8	0.0	na
Selective sales taxes	1.0	1.2	84.6	na
Property taxes	3.1	3.2	97.7	na
Severance taxes	0.0	0.1	77.8	na
Other taxes	1.8	1.3	140.5	na
State-local government revenue sources as % of own-source revenue				
Non-tax own-source revenue	40.2%	30.2%	na	10.0%
Taxes	59.8%	69.8%	na	-10.0%
Income tax	26.0%	16.9%	na	9.1%
General sales tax	0.0%	17.2%	na	-17.2%
Selective sales taxes	5.8%	7.5%	na	-1.7%

Oregon Revenue Structure Compared With United States FY 2000

	Oregon	*United States*	*State Indexed To U.S.*	*State Minus U.S.*
Property taxes	17.7%	19.9%	na	-2.2%
Severance taxes	0.2%	0.3%	na	-0.1%
Other taxes	10.0%	7.8%	na	2.2%

Other measures and ratings

Tax Foundation business climate ranking (1=best)	9	na		
Citizens for Tax Justice S+L taxes as % of income for poorest quintile	9.4%	11.4%	82.5	-2.0%
Citizens for Tax Justice ratio of taxes for poorest quintile to richest 1%	1.5	2.7	na	-1.2
Governing magazine's # of stars for revenue adequacy (4=best)	1	2.1	na	-1.1
Governing magazine's # of stars for revenue fairness (4=best)	3	2.1	na	0.9

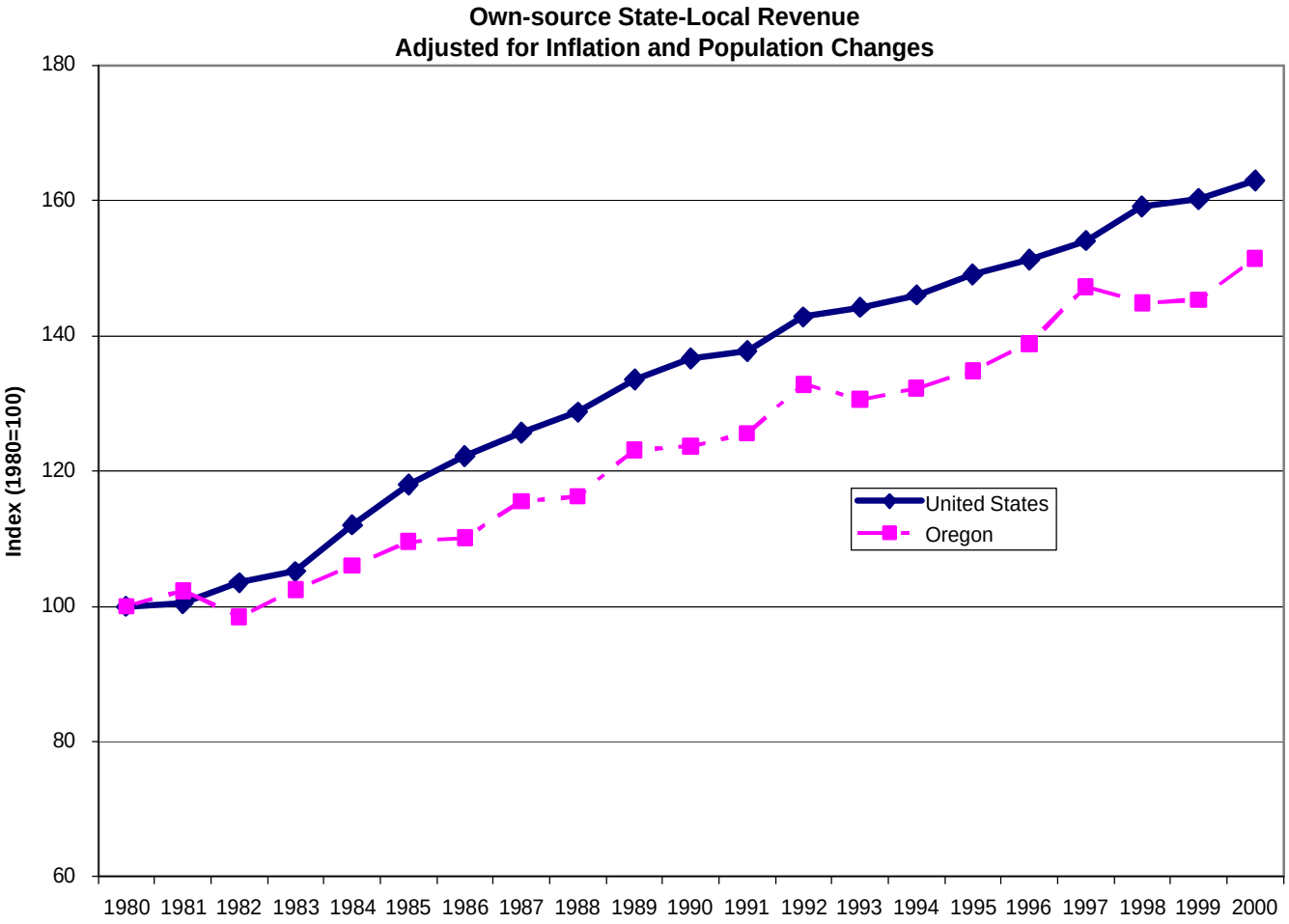
Comments

Oregon citizens imposed severe limits on local tax revenue with Measures 5 and 47, passed in 1990 and 1996 respectively, and effectively shifted much of K-12 education funding from local governments to the state. When state revenue exceeds forecast, the Oregon constitution generally requires the state to return "excess" revenue to taxpayers at the end of each biennium in the form of "kicker" rebates.

At the state level, Oregon relies heavily on non-tax revenue, has no sales tax, and relies more heavily on the income tax than any other state government, subjecting it to the volatility inherent in this revenue source. (In fiscal year 2002, Oregon's tax revenue fell 20 percent, one of the largest drops in the nation.) Oregon voters have consistently rejected a sales tax, defeating nine out of nine ballot proposals.

Between 1990 and 2000, Oregon's growth in real per-capita state-local taxes lagged the U.S. average by 10 percentage points. Sales and income taxes grew faster than the national average, but property and other taxes grew much more slowly.

Governing magazine gave Oregon one star (worst) for revenue adequacy, apparently reflecting its highly volatile income tax and constitutional restrictions on revenue growth.


Own-source State-Local Revenue
Adjusted for Inflation and Population Changes
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United States
Oregon

South Dakota Revenue Structure Compared With United States FY 2000

	South Dakota	United States	State Indexed To U.S.	State Minus U.S.
State per-capita income	24,477	27,880	87.8	-3,403
Reliance on state vs. local government				
State gov't own-source revenue as % of state and local	56.8%	56.9%	na	-0.1%
State gov't tax revenue as % of state and local	53.4%	61.9%	na	-8.4%
Tax revenue levels				
Tax Foundation state-local "burden" per $100 personal income	8.5	9.7	87.6	na
State-local tax revenue per $100 personal income	9.4	11.2	84.3	na
State-local tax revenue per capita	2,313	3,126	74.0	na
State tax revenue per $100 personal income	1,236	1,934	63.9	na
State tax revenue per capita	5.0	6.9	72.8	na
Revenue growth in the 1990s				
% change in real per capita state/local taxes, 1990 to 2000	23.1%	18.4%	na	4.8%
% change in real per capita state taxes, 1990 to 2000	32.5%	22.2%	na	10.2%
State-local own-source revenue per $100 of personal income				
Non-tax own-source revenue	4.8	4.8	99.5	na
Taxes	9.4	11.2	84.3	na
Income tax	0.0	2.7	0.0	na
General sales tax	3.4	2.8	123.5	na
Selective sales taxes	1.3	1.2	110.9	na
Property taxes	3.4	3.2	107.5	na
Severance taxes	0.0	0.1	26.3	na
Other taxes	1.2	1.3	98.1	na
State-local government revenue sources as % of own-source revenue				
Non-tax own-source revenue	33.8%	30.2%	na	3.6%
Taxes	66.2%	69.8%	na	-3.6%
Income tax	0.0%	16.9%	na	-16.9%
General sales tax	23.9%	17.2%	na	6.7%
Selective sales taxes	9.4%	7.5%	na	1.9%

South Dakota Revenue Structure Compared With United States FY 2000

	South Dakota	*United States*	*State Indexed To U.S.*	*State Minus U.S.*
Property taxes	24.1%	19.9%	na	4.2%
Severance taxes	0.1%	0.3%	na	-0.2%
Other taxes	8.7%	7.8%	na	0.8%

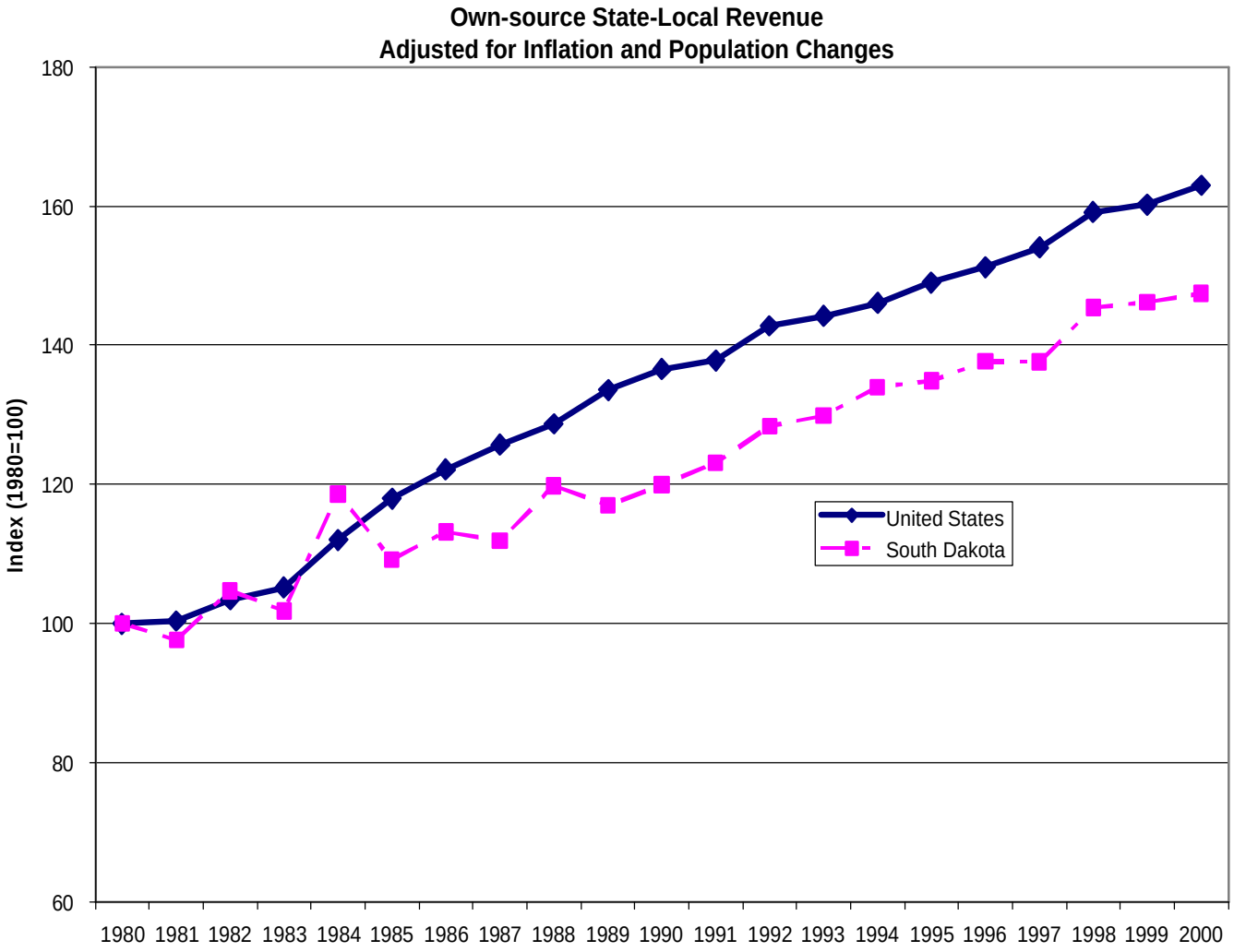
Other measures and ratings

Tax Foundation business climate ranking (1=best)	6	na		
Citizens for Tax Justice S+L taxes as % of income for poorest quintile	10.0%	11.4%	87.7	-1.4%
Citizens for Tax Justice ratio of taxes for poorest quintile to richest 1%	4.8	2.7	na	2.0
Governing magazine's # of stars for revenue adequacy (4=best)	3	2.1	na	0.9
Governing magazine's # of stars for revenue fairness (4=best)	3	2.1	na	0.9

Comments

South Dakota is a low-tax state by any measure. It relies more heavily on non-tax revenue than the average state, and is one of only nine states with no broad-based income tax. South Dakota's general and selective sales taxes are high relative to the average state. The sales tax is unusual in that it taxes certain professional services, such as those provided by accountants, attorneys, engineers, and land surveyors.

According to estimates by Citizens for Tax Justice, South Dakota's state and local tax system is the 4th-most regressive in the nation, reflecting its heavy reliance on the sales tax – taxes as a percentage of income for the poorest quintile are nearly five times as high as they are for the richest 1 percent.


Own-source State-Local Revenue
Adjusted for Inflation and Population Changes
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United States
South Dakota

Utah Revenue Structure Compared With United States FY 2000

	Utah	*United States*	*State Indexed To U.S.*	*State Minus U.S.*
State per-capita income	22,202	27,880	79.6	-5,677
Reliance on state vs. local government				
State gov't own-source revenue as % of state and local	64.3%	56.9%	na	7.4%
State gov't tax revenue as % of state and local	67.7%	61.9%	na	5.9%
Tax revenue levels				
Tax Foundation state-local "burden" per $100 personal income	10.6	9.7	109.3	na
State-local tax revenue per $100 personal income	12.0	11.2	107.1	na
State-local tax revenue per capita	2,665	3,126	85.3	na
State tax revenue per $100 personal income	1,806	1,934	93.4	na
State tax revenue per capita	8.1	6.9	117.2	na
Revenue growth in the 1990s				
% change in real per capita state/local taxes, 1990 to 2000	28.3%	18.4%	na	10.0%
% change in real per capita state taxes, 1990 to 2000	34.0%	22.2%	na	11.8%
State-local own-source revenue per $100 of personal income				
Non-tax own-source revenue	6.5	4.8	133.4	na
Taxes	12.0	11.2	107.1	na
Income tax	3.4	2.7	124.1	na
General sales tax	3.8	2.8	136.1	na
Selective sales taxes	1.2	1.2	99.4	na
Property taxes	2.7	3.2	83.2	na
Severance taxes	0.1	0.1	97.2	na
Other taxes	0.9	1.3	75.0	na
State-local government revenue sources as % of own-source revenue				
Non-tax own-source revenue	35.0%	30.2%	na	4.8%
Taxes	65.0%	69.8%	na	-4.8%
Income tax	18.3%	16.9%	na	1.3%
General sales tax	20.4%	17.2%	na	3.2%
Selective sales taxes	6.5%	7.5%	na	-1.0%

Utah Revenue Structure Compared With United States FY 2000

	Utah	*United States*	*State Indexed To U.S.*	*State Minus U.S.*
Property taxes	14.4%	19.9%	na	-5.5%
Severance taxes	0.3%	0.3%	na	-0.1%
Other taxes	5.1%	7.8%	na	-2.7%

Other measures and ratings

Tax Foundation business climate ranking (1=best)	34	na		
Citizens for Tax Justice S+L taxes as % of income for poorest quintile	11.4%	11.4%	100.0	0.0%
Citizens for Tax Justice ratio of taxes for poorest quintile to richest 1%	2.1	2.7	na	-0.7
Governing magazine's # of stars for revenue adequacy (4=best)	3	2.1	na	0.9
Governing magazine's # of stars for revenue fairness (4=best)	2	2.1	na	-0.1

Comments

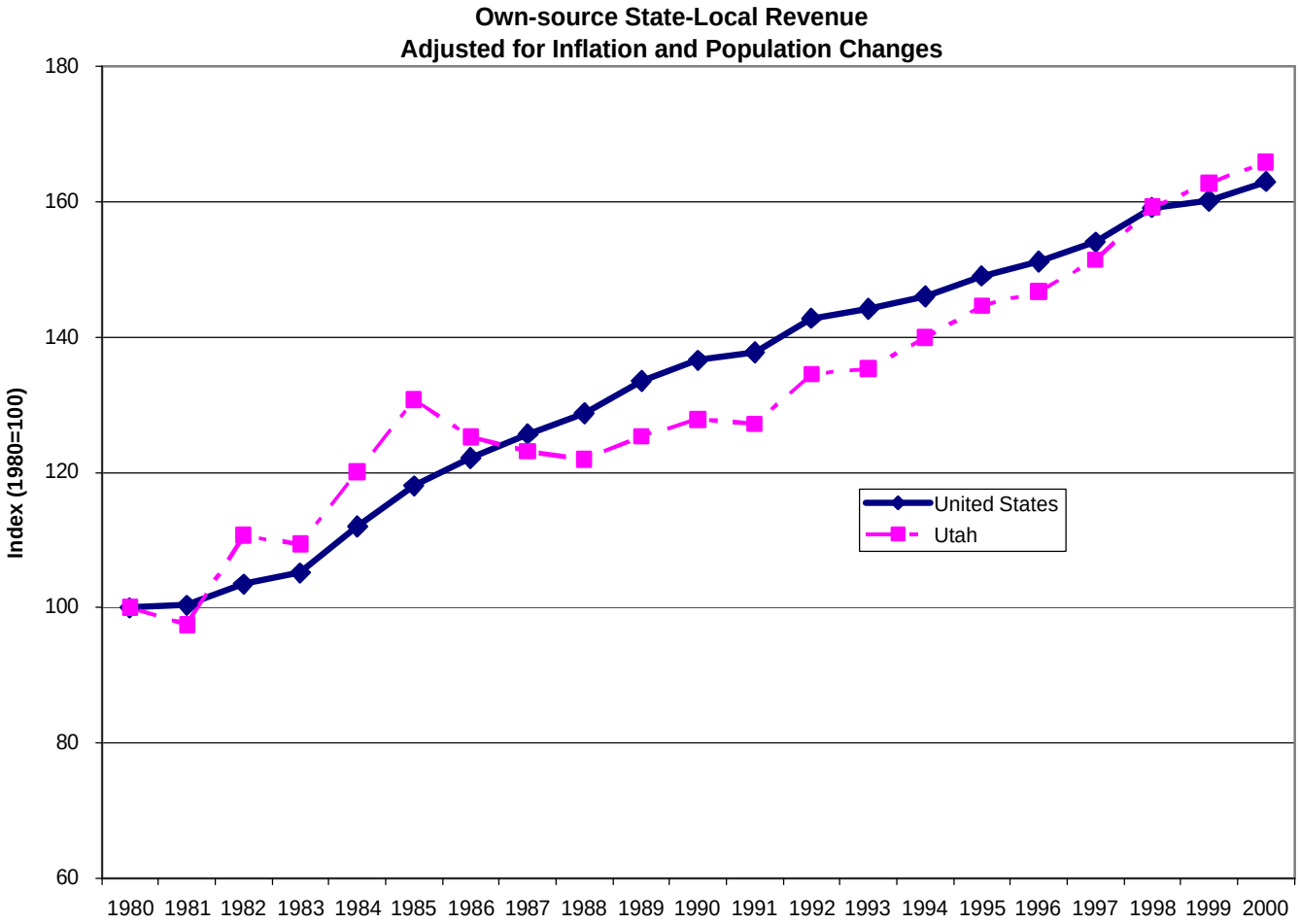
Utah's state and local taxes, relative to personal income, are moderately higher than the national average. The income tax and general sales tax are 24 percent and 36 percent higher than the United States average, respectively; selective sales and severances taxes are near the national average; and property taxes and other taxes are below the average.

The income tax is dedicated to K-12 education funding, as is a majority of property tax revenue. Utah has a "Truth-in-Taxation" property tax law that limits growth in property taxes.

Between 1990 and 2000, Utah's state-local real per-capita taxes grew by 28 percent, compared with 18 percent for the U.S. as a whole. Perhaps as a result of the property tax limit, Utah property taxes grew by only 4 percent (versus 9 percent for the U.S.), but Utah's income and sales taxes grew much faster than the nation: state-local real per-capita income tax grew by 52 percent, compared with 36 percent for the nation, and the general sales tax grew by 29 percent, compared with 21 percent for the nation.

Utah's personal income tax is deposited, by statute, to the Uniform School Fund, a constitutionally established fund dedicated to education.

Governing magazine argues that Utah will face a structural gap in years ahead due in large part to rapidly growing education costs, and that it "seems almost inevitable that Utah will have to consider raising the income tax" in years ahead.


Own-source State-Local Revenue
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United States
Utah

Washington Revenue Structure Compared With United States FY 2000

	Washington	United States	State Indexed To U.S.	State Minus U.S.
State per-capita income	29,836	27,880	107.0	1,957
Reliance on state vs. local government				
State gov't own-source revenue as % of state and local	58.2%	56.9%	na	1.3%
State gov't tax revenue as % of state and local	67.1%	61.9%	na	5.2%
Tax revenue levels				
Tax Foundation state-local "burden" per $100 personal income	9.8	9.7	101.0	na
State-local tax revenue per $100 personal income	10.7	11.2	95.8	na
State-local tax revenue per capita	3,206	3,126	102.6	na
State tax revenue per $100 personal income	2,151	1,934	111.2	na
State tax revenue per capita	7.2	6.9	103.9	na
Revenue growth in the 1990s				
% change in real per capita state/local taxes, 1990 to 2000	13.3%	18.4%	na	-5.0%
% change in real per capita state taxes, 1990 to 2000	5.8%	22.2%	na	-16.4%
Non-tax own-source revenue	**5.1**	**4.8**	**104.9**	**na**
Taxes	**10.7**	**11.2**	**95.8**	**na**
Income tax	**0.0**	**2.7**	**0.0**	**na**
General sales tax	**5.1**	**2.8**	**185.0**	**na**
Selective sales taxes	**1.5**	**1.2**	**121.4**	**na**
Property taxes	**3.2**	**3.2**	**98.4**	**na**
Severance taxes	**0.0**	**0.1**	**62.4**	**na**
Other taxes	**1.0**	**1.3**	**77.5**	**na**
State-local government revenue sources as % of own-source revenue				
Non-tax own-source revenue	32.1%	30.2%	na	1.9%
Taxes	67.9%	69.8%	na	-1.9%
Income tax	0.0%	16.9%	na	-16.9%
General sales tax	32.3%	17.2%	na	15.1%
Selective sales taxes	9.3%	7.5%	na	1.7%
Property taxes	19.9%	19.9%	na	0.0%

Washington Revenue Structure Compared With United States FY 2000

	Washington	*United States*	*State Indexed To U.S.*	*State Minus U.S.*
Severance taxes	0.2%	0.3%	na	-0.1%
Other taxes	6.2%	7.8%	na	-1.7%
Other measures and ratings				
Tax Foundation business climate ranking (1=best)	8	na		
Citizens for Tax Justice S+L taxes as % of income for poorest quintile	17.6%	11.4%	154.4	6.2%
Citizens for Tax Justice ratio of taxes for poorest quintile to richest 1%	5.7	2.7	na	3.0
Governing magazine's # of stars for revenue adequacy (4=best)	1	2.1	na	-1.1
Governing magazine's # of stars for revenue fairness (4=best)	2	2.1	na	-0.1

Comments

Washington has no state income tax. It also has no corporate income tax, relying instead on a "business and occupation tax" that is essentially a broad-based low-rate tax on the gross receipts of businesses. In addition, Washington relies more heavily on the sales tax than any other state. According to the Washington State Tax Structure Study Committee, Washington relies more heavily on the sales tax than any state relies on any tax, other than New Hampshire, which relies even more heavily on the property tax.

Washington did not participate fully in the income-tax-driven fiscal boom of the late 1990s: real per-capita state tax revenue grew far more slowly than the national average. Nonetheless, Washington was hit relatively hard in the current crisis, in part because the aerospace industry has been hit hard as well.

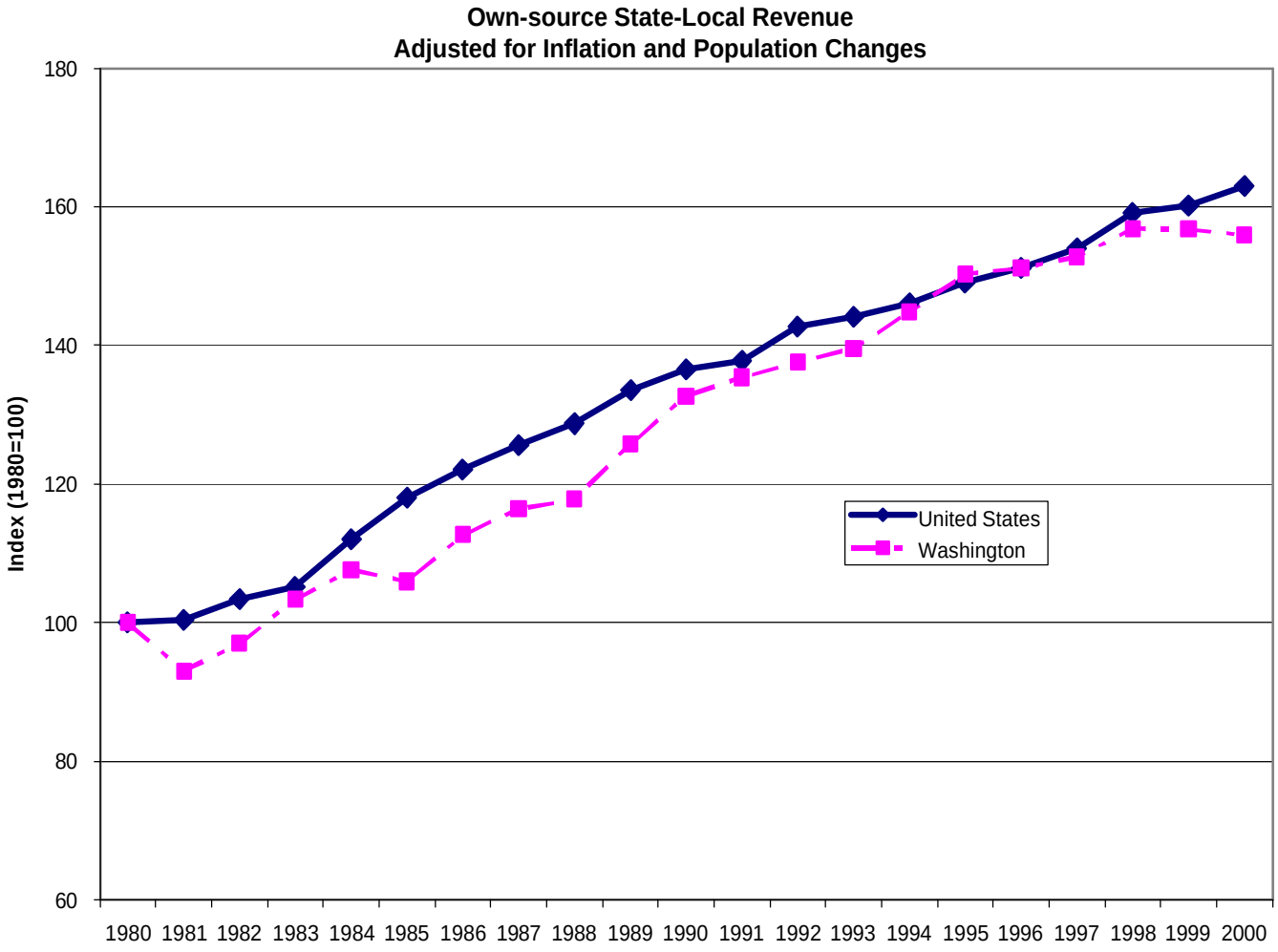
Washington also is notable for a spending limitation, Initiative 601, effective July 1995, which prohibits expenditure of state general funds above a formula-determined level. If revenues from the existing tax structure exceed the limit, the excess is deposited into an emergency reserve fund, up to 5 percent of the general fund. Excess funds are transferred to an education construction fund for K-12 and higher education. Initiative 601 also limits the way in which state revenue may be increased. Two-thirds of both houses of the legislature must approve any measure that increases state revenues or a measure that will result in a revenue-neutral tax shift. The increased revenues must not result in expenditures above the spending limit. Washington also limits revenue in other ways, even while voters mandated increases in teacher salaries under Initiative 732 and funding for class-size reduction under Initiative 728.

Washington's heavy reliance on sales tax (85 percent higher than the U.S. average, per $100 of personal income) and lack of an income tax help explain why Citizens for Tax Justice estimates that the Washington tax system is the most regressive in the nation.

Comments (continued)

The Washington State Tax Structure Study Committee, created by statute, with gubernatorial and legislative appointees and academic members, released its final report in November 2002. The

committee concluded, "Our current system is fundamentally inequitable to low- and middle-income people, unfair to many businesses, and subject to sharp fluctuations in revenue. The Committee also finds that while our tax structure, which was put in place in 1935, might have worked well for a mid-twentieth century manufacturing economy, it doesn't work well in today's economy with its greater dependence on the service sector." It did not offer specific recommendations, but offered alternatives, including a flat rate income tax to reduce the state sales tax rate and eliminate the state property tax; and a value-added tax to replace the current business and occupation tax, to eliminate "pyramiding" of taxes as goods move through the production chain. Seven prior commissions have recommended a state income tax.


Own-source State-Local Revenue
Adjusted for Inflation and Population Changes
Index (1980=100)
180
160
140
120
100
80
60
1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000
United States
Washington

Wyoming Revenue Structure Compared With United States FY 2000

	Wyoming	*United States*	*State Indexed To U.S.*	*State Minus U.S.*
State per-capita income	26,139	27,880	93.8	-1,741
Reliance on state vs. local government				
State gov't own-source revenue as % of state and local	56.4%	56.9%	na	-0.5%
State gov't tax revenue as % of state and local	64.0%	61.9%	na	2.2%
Tax revenue levels				
Tax Foundation state-local "burden" per $100 personal income	8.5	9.7	87.6	na
State-local tax revenue per $100 personal income	11.7	11.2	104.4	na
State-local tax revenue per capita	3,060	3,126	97.9	na
State tax revenue per $100 personal income	1,960	1,934	101.3	na
State tax revenue per capita	7.5	6.9	108.1	na
Revenue growth in the 1990s				
% change in real per capita state/local taxes, 1990 to 2000	7.9%	18.4%	na	-10.5%
% change in real per capita state taxes, 1990 to 2000	13.0%	22.2%	na	-9.2%
State-local own-source revenue per $100 of personal income				
Non-tax own-source revenue	9.0	4.8	186.0	na
Taxes	11.7	11.2	104.4	na
Income tax	0.0	2.7	0.0	na
General sales tax	3.6	2.8	130.5	na
Selective sales taxes	0.9	1.2	76.8	na
Property taxes	4.0	3.2	124.5	na
Severance taxes	1.9	0.1	3,404.1	na
Other taxes	1.3	1.3	100.6	na
State-local government revenue sources as % of own-source revenue				
Non-tax own-source revenue	43.5%	30.2%	na	13.3%
Taxes	56.5%	69.8%	na	-13.3%
Income tax	0.0%	16.9%	na	-16.9%
General sales tax	17.4%	17.2%	na	0.2%
Selective sales taxes	4.5%	7.5%	na	-3.1%

Wyoming Revenue Structure Compared With United States FY 2000

	Wyoming	*United States*	*State Indexed To U.S.*	*State Minus U.S.*
Property taxes	19.3%	19.9%	na	-0.7%
Severance taxes	9.2%	0.3%	na	8.9%
Other taxes	6.1%	7.8%	na	-1.7%
Other measures and ratings				
Tax Foundation business climate ranking (1=best)	1	na		
Citizens for Tax Justice S+L taxes as % of income for poorest quintile	7.6%	11.4%	66.7	-3.8%
Citizens for Tax Justice ratio of taxes for poorest quintile to richest 1%	4.8	2.7	na	2.0
Governing magazine's # of stars for revenue adequacy (4=best)	4	2.1	na	1.9
Governing magazine's # of stars for revenue fairness (4=best)	2	2.1	na	-0.1

Comments

Wyoming is one of only nine states without a broad-based income tax. The state relies instead on mineral income and interest from mineral production. The largest share of revenue comes from federal sources, including federal grants-in-aid, payments-in-lieu-of-taxes on federal property, mineral royalty for state activities, and revenue received but later transmitted through the state to local governments. The remainder of the state's revenue comes from severance tax, property tax on mineral production, interest, property taxes, fees, sales, miscellaneous, and other taxes.

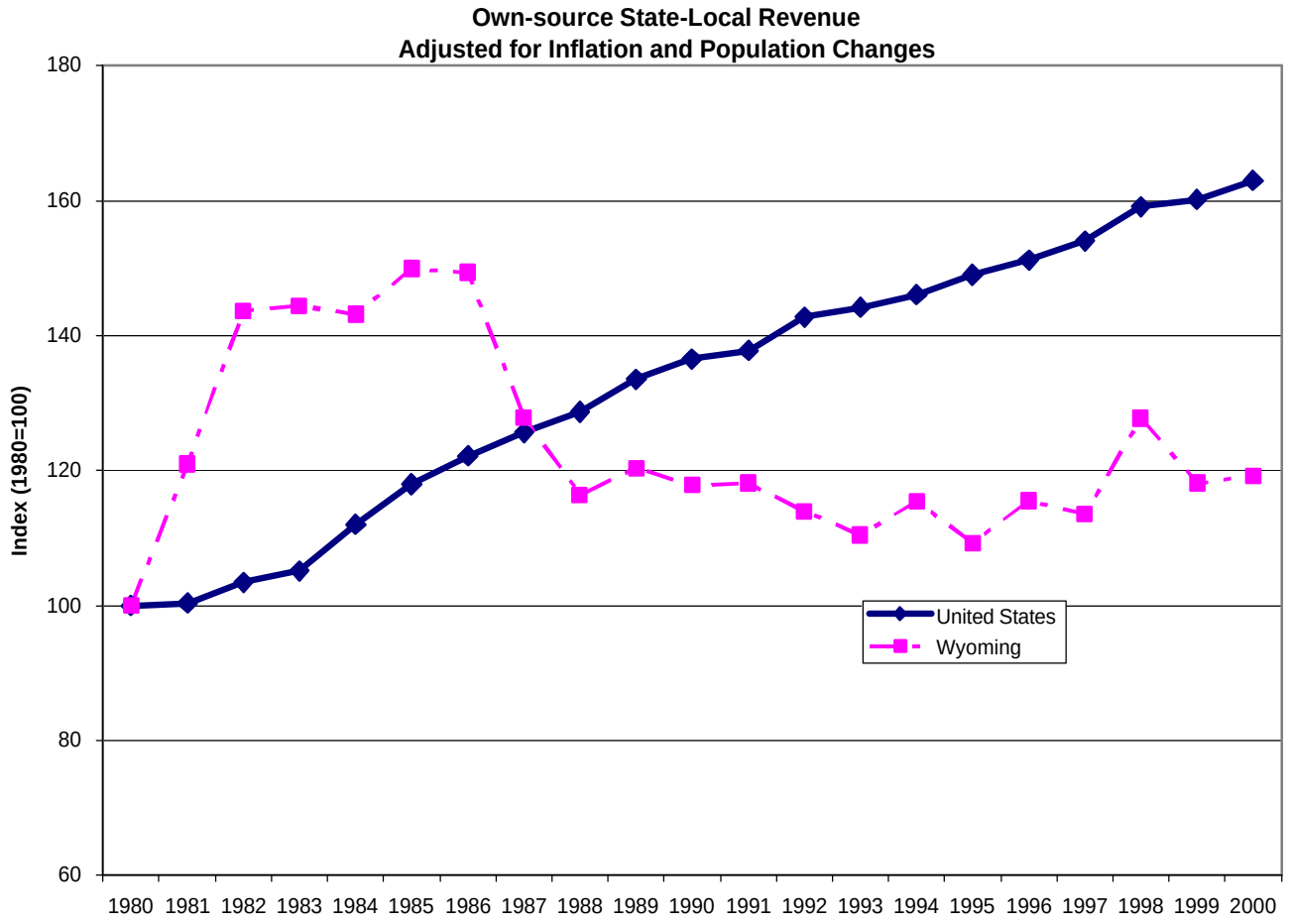
This tax structure allows Wyoming to raise more revenue than the average state, relative to the income of its residents, while having a lower tax burden – taxes as a percentage of personal income are 4 percent above the U.S. average, but the Tax Foundation's "tax burden" index actually is 12 percent lower than the U.S. average. The general sales tax and the property tax both are well above the U.S. average as a percentage of personal income.

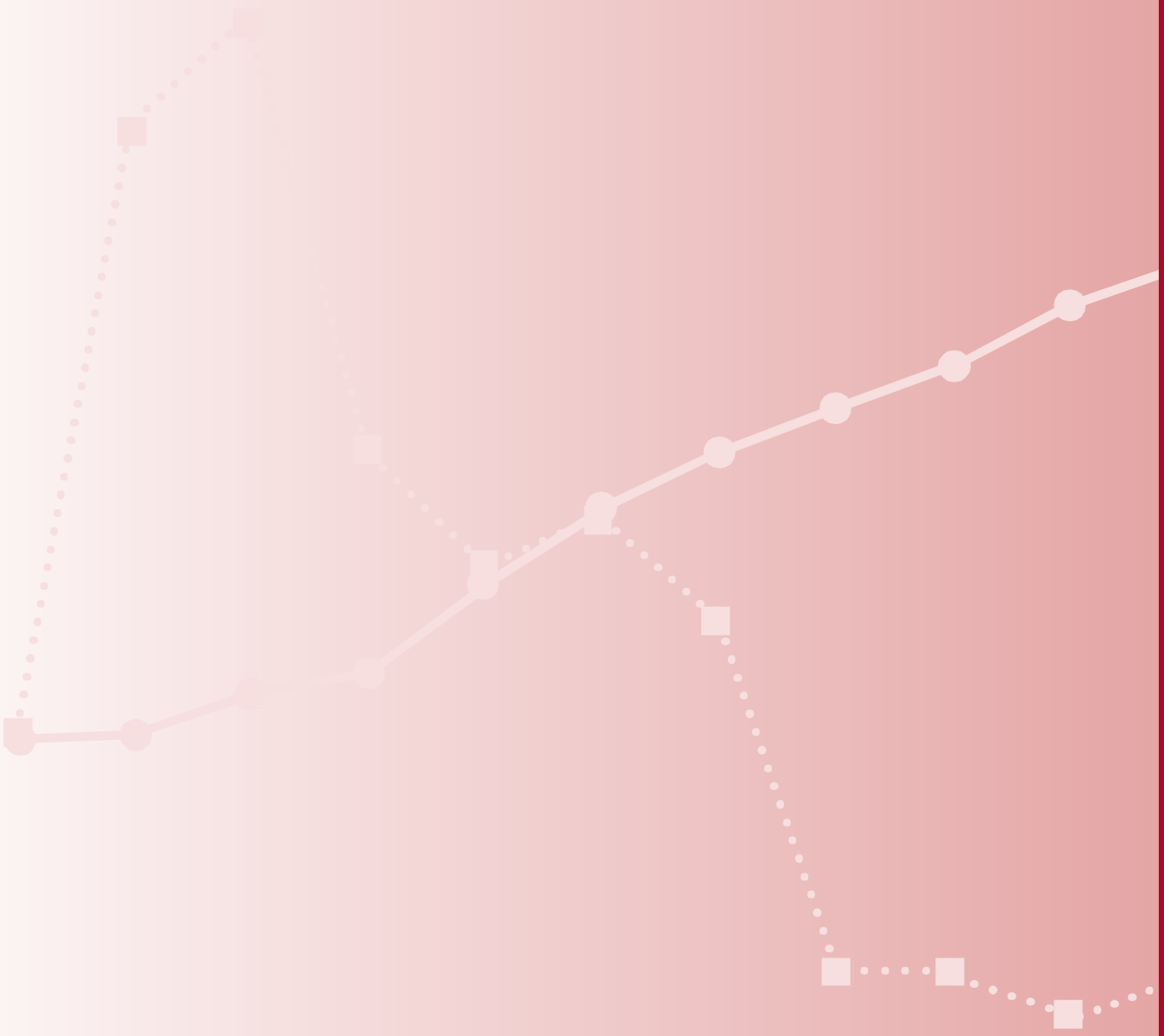
This tax structure makes the system quite regressive – according to Citizen's for Tax Justice, taxes as a percentage of income are nearly five times as large for the poorest quintile as they are for the richest 1 percent. At the same time, the Tax Foundation considers ranks Wyoming's tax structure #1 (best) in its business tax climate survey.

The state's heavy reliance on mineral-related revenue means that its tax structure is far more volatile than the typical state's structure, although it is not as volatile as Alaska's. Meanwhile, in addition to year-to-year volatility, longer term growth has lagged: between 1990 and 2000, growth in Wyoming's real per-capita state and local taxes lagged the nation by about 10 percentage points. Despite its volatility, *Governing* magazine gave Wyoming four stars (best) for "adequacy" because its mineral base gives it capacity to raise substantial amounts of revenue with relatively low effort.

Comments (continued)

When Wyoming's "Tax Reform 2000" committee, appointed by the governor and legislative leaders, issued its final report in June 1999, it concluded among other things that Wyoming's tax structure is not equitable; tax collections in Wyoming are less stable than in other states; the tax structure is not balanced; and future revenue streams may not be adequate to fund the services provided by the state and local governments. The committee recommended the adoption of a corporate income tax; adoption of an individual income tax with a credit for sales and property taxes paid; expansion of the sales tax to more services; and enaction of a real estate transfer tax.





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