Notes

Chapter 1

1. One concern that the method does not address is temporal. The timing of this study is limited to the mid-1990s, so I cannot conclude that states will never act to raise income taxes. How well these principles interact and play out over time is a good question that further research may elucidate.

2. This research is not an analysis of public finance or tax incidence (Phares 1980). Footnotes offer technical points that may help readers understand the significance or implications of a policy alternative. The appendixes offer summaries of policies or institutional arrangements that affected the pertinent policies.

Chapter 2

1. I also assume that no change in either spending or taxes implies a change in the economic efficiency of financing government goods and services.

2. In this illustration I focus on trade-offs in spending only to keep the analysis as neat as possible. Governments could decide not to trade public goods and particular benefits but could instead choose to cut taxes and thus increase citizens' private incomes.

Chapter 3

1. In Mississippi, the legislature in 1992 established contingency trust funds for education and a general fund to offset future revenue swings resulting from the state's reliance on gambling revenues.

2. For example, New York and New Jersey have agreements regarding the tax treatment of New Jersey residents who work in New York City, and Pennsylvania and New Jersey have agreements about New Jersey residents who work in Philadelphia.

3. Previous work on state politics has largely ignored the influence of symbolic politics. One notable exception is Lowery and Sigelman (1981), which tests the strength of various econometric models designed to explain tax revolts. The

authors conclude that the relative weaknesses of these more conventional models resulted in part from their failure to incorporate measures of symbolic politics. My research offers positive evidence that conforms to Lowery and Sigelman's conclusions.

Chapter 4

1. There has also been a great deal of activity centered on property tax reductions and limitations. I consider these changes in chapter 5 and concentrate on income and sales taxes in this chapter.

2. Much of the increase in state taxes during the 1970s resulted from states assuming greater financial responsibility for local programs, particularly education. Overall, 20 percent of local expenditures shifted to state government between 1960 and 1985.

3. Among states considering income tax reductions are Arizona, Connecticut, New York, New Jersey, Massachusetts, and Montana.

4. In Washington, state and local taxes consume 17.3 percent of the incomes of the poorest fifth of all citizens in the state. Florida and Tennessee also rank among the top ten states in terms of the tax burden placed on low-income citizens.

5. In both New Jersey and Michigan, court order or the threat of litigation motivated some legislators to support major tax changes.

6. The increase in the personal exemption would have been fully offset by the higher tax rate with seven thousand dollars in taxable income. Thus, single people would have received no benefit from the personal-exemption change if their gross annual incomes exceeded ten thousand dollars. The exemption reduction/rate increase would have been tax neutral for a family of four with a gross annual income of forty thousand dollars.

Chapter 5

1. Because both education and infrastructure spending can have characteristics of public goods yet confer particular benefits, many legislators argued for a mixed strategy for providing such goods. They suggested that the appropriate strategy was to have citizens pay according for a portion of individual benefits they might receive from a program but to have the state pay from its general revenues for the portion of benefits likely to accrue to the state. For example, in an education program, the state could subsidize tuition at a technical vocational school and yet require some tuition from students, who would benefit from higher wages in the future. In the case of infrastructure spending, the state could initially finance road construction but then apply a gas tax or toll to recoup its investment from those most particularly benefiting from new roads.

2. Jackson and Hawthorne (1987) and Jackson and King (1989) argue that the tax incidence generates a particular income distribution that in turn can be considered a collective good within a polity.

3. The same legislator hoped that there would be positive spin-off effects from Mercedes's new plant in Alabama. He suggested that since his district was near the

border, he hoped Mercedes's suppliers would locate across the border in Mississippi. The representative readily conceded that such a scenario was preferable to having to forgo Mississippi revenues to attract the initial or anchor business (i.e., Mercedes).

4. Literature from the State Department for Economic Development confirmed that more than 60 percent of the geographic area of Colorado was covered by various enterprise zones.

5. At least one legislator in every case-study state except Massachusetts mentioned the tax incentive package that Alabama offered Mercedes in a successful bid to have Mercedes locate its North American plant there. With only two exceptions, legislators felt that Alabama had offered an excessively generous package of incentives. The majority perceived that foregone revenues coupled with marginal expenditures for new services and infrastructure would outweigh marginal revenue benefits attributable to the plant.

6. Legislators cited environmental, health, and workplace safety regulations as most burdensome to employers.

7. The overall number of legislators' preferences shown in table 9 is less than that of table 8 simply because fewer legislators identified a specific second economic-development priority.

8. The schedule for bond assessment fees was 2 percent of an employee's salary for wages between five and seven dollars an hour, 4 percent for wages between seven and nine dollars an hour, and 6 percent for wages over nine dollars an hour.

9. Further exacerbating this situation are the relatively low tax rates on personal income in Mississippi. In all cases, the effective marginal tax rates were lower than employees would pay in debt-service assessments.

10. The initiative limited the rate of growth in state spending to the combined rates of inflation and population growth.

Chapter 6

1. Among the "unfunded" mandates legislators most derided were federal court orders requiring districts to pay for full and equal special education for students with various handicaps or special needs. Although many legislators admired the goal, they felt the individual costs of special education—up to eight times that of the average per-pupil cost—were disproportionate and forced school districts to divert money from programs with broader benefits. Fifteen percent of the legislators interviewed cited special education as the most onerous federal mandate on state government.

2. It would be fair to say that the issue of property taxation as a source of tax rebellion had just emerged at the time of Peterson's analysis, with California's infamous Proposition 13 having appeared on the ballot in 1978.

3. In the well-known case of Kalkaska, Michigan, where the superintendent closed the schools in March 1993 because voters rejected millage increases necessary to fund schools, the district spent $3,800 per pupil in the 1994–95 school year.

4. A similar situation has begun in Colorado, where voters enacted Amendment 1, capping government spending, and subjected all tax increases to popular

votes at the same time they rejected a one cent increase in the sales tax. Colorado legislators expressed concerns that when millage increases were rejected, school districts would turn to the state for relief but the state government would not have the latitude to bail out the localities.

5. The term *backfilling* is used even in official documents in Oregon. If general revenues for a specific program are at their maximum and the expenditure cannot be reduced, the remaining portion of its appropriation must be backfilled. Typically, the legislature has relied on lottery revenues to backfill its budgets.

6. Oregon is one of five states with no sales tax.

7. One proposal designed to control costs was the initiation of a statewide teachers' contract in which the legislature would create a single salary schedule and regulate future raises.

8. One of Vermont's programs provided income tax credits to citizens whose property tax bills exceeded 5 percent of their income.

9. Governor Florio and assembly Republicans financed the initial sales tax reductions with replacement revenue from the state pension fund. They agreed to accounting changes in the valuation of the fund, which created an $800 million surplus in the account. Noting the "excess deposits," Governor Florio ordered $769 million withdrawn to cover the revenue loss from the sales tax rate reduction for the first year and a half of the change. As of 1995, the federal Internal Revenue Service was considering action against the state for this change since the IRS considered the $769 million to have originally been a nontaxable source of employee income (i.e., pension contributions), and then the state changed its accounting and spent the windfall.

10. In 1990 Governor Florio and the Democrat-controlled legislature raised the state sales tax from 6 to 7 percent and added a 7 percent income tax rate for those making in excess of fifty thousand dollars per year.

Chapter 7

1. Legislators justified increased tobacco and alcohol taxes on the grounds that citizens who engaged in those activities would demand more state services later in their lives and therefore deserved to pay taxes to fund health programs.

2. Fifteen Republican legislators noted that they would have difficulty funding increases for anticrime and corrections programs in the absence of Medicaid cost containment.

3. In contrast, 21 percent of representatives cited ballot initiatives as the most constraining or costly mandates, whereas 15 to 17 percent of legislators identified environmental regulations or special-education mandates as the most onerous.

4. Legislators in New Jersey, Michigan, and New York noted that their states offered benefits beyond those required by the federal government. They suggested that they would cut those ancillary benefits prior to attempting any reform efforts.

5. The states' particular health systems to some extent influenced the shape of reforms. In Washington and Oregon, extensive HMO systems and networks offered ready-made avenues for shifting Medicaid recipients into managed care. In Tennessee there was no such HMO system, and the state's dominant insurer, Blue

Cross of Tennessee, developed Tenncare in conjunction with the McWherter administration.

6. Nearly a dozen states had come to rely on health-services-assessment taxes by the early 1990s. Among these states, Tennessee was the most dependent on an assessment tax to operate its entire Medicaid program. Medicaid's hospital tax raised $344 million, which the federal government matched with $688 million to provide more than 60 percent of Tennessee's total Medicaid funding. In contrast, New York's services-assessment tax raised $341 million, equally matched by the federal government to provide 7 percent of the funding for that state's total Medicaid spending.

7. Some of the proponents of Initiative 602 stated that they had reservations about the benefits and service provisions in the 1993 health plan but that they supported the underlying financing.

8. Several legislators who spoke on this issue also noted that health care had been eclipsed in the early months of 1994 by crime as the issue most concerning constituents. Given a limited session and the necessity of addressing a state budget and several state constitutional issues and developing a crime package, several legislators suggested that they relegated health to the back burner both because its complexity would yield little political payoff and because other issues had emerged that could either yield a political dividend or yield negative consequences if the legislature failed to address them.

Appendix A

1. I had selected Oregon to be among the original nine case studies, but its legislature only meets in odd-numbered years. I replaced Oregon with Colorado, which had an identical profile in terms of partisan control of its political institutions, its geography, and its population. Voters in Colorado rejected a 1992 sales tax increase. In 1993 Oregon voters rejected the enactment of a 5 percent sales tax. In the end, Colorado provided more information regarding health-care reform, and Oregon was critical in my research on education finance.

2. The Nexis service at the University of Michigan was invaluable in enabling me to prepare background on each state. The service provided newspaper reviews for every state except Vermont. For that state, I relied on *Vermont Magazine* and several *New York Times* articles from 1992 through 1995.

3. In one case, I conducted a forty-five-minute interview with a lobbyist in Florida while we both waited for a representative who was running behind schedule.

4. In Mississippi, the House sergeant at arms graciously provided me space in which to work in the same general location as the lobbyists' corridor. Several lobbyists included me in their weekly Friday luncheon, which commenced immediately after the House recessed at noon and ended after dinner. This was an excellent format for garnering information.

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