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30Aug2001 USA: U.S. state lawmakers having less fun in tight times.

By Brett Graff

MIAMI, Aug 30 (Reuters) - In New York, the contention lies between the governor and the legislature. In North Carolina, it's Senate Democrats vs. House Democrats. And in South Carolina, the fight is split across party lines.

While the opponents vary from state to state, the battle among lawmakers spans nationwide: some want to raise taxes and others want to cut services. The economic meteor that had been flooding state coffers with tax dollars for the past eight years has fizzled out and state budgets are left unbalanced.

"States are seeing a much tighter fiscal situation than they have in a long time," said Scott Pattison, executive director of the National Association of State Budget Officers, in Washington, D.C. "I've heard several legislators say 'It's not as much fun being an elected official when times are tighter.'"

More than 34 states realized back in June that revenues were going to be lower than the projections used to prepare their budgets, according to data from the association. Corporate income taxes are most quickly drying up, but sales taxes are not far behind.

Worsening matters is that health care costs are rising, due to higher prescription drug prices and more patients using government health plans, said Pattison. In some cases, those costs make up one-fifth of a state's spending.

"For years during the Clinton era, states could count on new money without raising taxes," said Jim Kyle, a Democratic state senator from Memphis, Tennessee. "We have hard decisions to make and we have to make them."

While Tennessee senators were crafting the state spending plan and weighing a tax hike, protesters organized by a local radio personality stormed the capital, chanting anti-tax rhetoric. The protest filled up government buildings, exceeding capacity under fire safety regulations, forcing officials to lock the doors.

Tennessee lawmakers ultimately decided to use \$560 million of one-time tobacco money to cover recurring expenses, a move that would dig a \$250 million hole for next year. Republican Gov. Don Sundquist called the budget "irresponsible" and issued a veto.

A Wall Street rating agency agreed and quickly lowered Tennessee's credit rating. But that didn't sway lawmakers, who voted to overrule the veto and put the spending plan into law.

"There was no (other) solution," said Matt Kisber, a Democrat from Jackson, Tennessee, who voted to override Sundquist's veto. "There was a stalemate among various revenue option camps that had not been broken."

South Carolina is another state that chose to cover next year's costs by dipping into its cash reserves. It tapped \$87 million of its "rainy day" fund, but not before Republican gubernatorial candidate and state Attorney General Charlie Condon sued the Democratic governor for diverting \$28 million earmarked for state colleges back into the state general fund.

NEW YORK GOVERNOR DROPS A BOMBSHELL

In New York, the discord between the governor and the legislature hit a pinnacle when, in an unprecedented move, Gov. George Pataki sued the legislature for passing a bare-bones budget that cut \$4 billion of his recommended spending. The budget was due on April 1, but temporary spending plans have kept operations running.

North Carolina's spending plan is also late. On Wednesday, the state yet again passed an interim spending plan. The vote had been expected a day earlier, along with discussion of a package of tax increases, but a bomb threat at the capitol forced a quick evacuation.

North Carolina's revenues are \$820 million less than its spending plan, and Democratic lawmakers in the House and Senate cannot agree on a tax remedy. The House worries that a sales tax increase will

disproportionately hurt the poor, while Senate leaders do not want to create a higher income tax for families earning over \$200,000 because they fear it will scare away industry.

Republicans, meanwhile, point out that revenue has increased, just not by the leaps and bounds that had been forecast. They would like to see across-the-board spending cuts instead of tax hikes. It is a view shared by many fiscal conservatives, who say states should simply live within their means.

"It doesn't mean they have an actual fiscal deficit," said Chris Edwards, director of fiscal policy for the CATO Institute, a conservative think tank in Washington. "I don't see any great pain in adjusting the spending side of the budget to somewhat lower tax revenues."

But liberals counter that they've made deep cuts and have now reached the budget's bone and muscle. North Carolina has already sliced spending by \$700 million, said Phil Baddour, the Democratic majority leader of the state House. While the state will still spend 3 percent more than last year, North Carolina has grown enough to gain a new seat in the U.S. Congress, meaning there are more people to serve, he said.

In Tennessee, which will need to reevaluate its budget again next year, anything can go on the chopping block. "I don't think anything is sacred," Sen. Kyle said.

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