

---

# REMAPPING DEBATE

---

Asking "Why" and "Why Not"

## States to residents, localities: forget promises to restore funding

**Original Reporting** | By Mike Alberti | Budget deficit, State government, Taxes

June 6, 2012 — When Wichita Public Schools Superintendent John Allison learned that, thanks to rising revenues, Kansas was projected to have a budget surplus of more than \$300 million at the end of the year — the state's first surplus since the recession — he hoped that the legislature would use the money to restore the hundreds of millions of dollars that it had cut from education in the last three years.



Students at Emerson Open Magnet elementary school in Wichita, Kansas won't be returning this September. The school is one of several being closed for lack of funding.  
*Photo credit: Rachel Crane, Wichita State University*

From 2008 to the end of the current fiscal year on June 30th, Kansas will have [slashed school funding](#) by nearly \$700 per student, a decline of more than 12 percent in inflation-adjusted dollars. In Wichita, the state's largest school district, those cuts came to about \$60 million of its \$600 million budget, Allison said, and translated into large-scale layoffs; the closure of five schools; the elimination of programs such as driver's education, art, and music; the curtailment of professional development for teachers; and the deferral of necessary maintenance to school buildings.

"We couldn't take another year like the last three," Allison said. When news broke about the surplus, "We thought, 'Finally, things are going to start getting back to normal.'"

But lawmakers in Kansas had different ideas. In the final days of the legislative session last month, they used the surplus to justify the largest tax cut in the state's history. Among other changes, the cuts reduce the top rate to [4.9 percent from 6.45 percent](#), and are projected to cost \$3.7 billion over the next five years, converting this year's surplus into long-term budget deficits that could total \$2.5 billion by 2018.

Meanwhile, Kansas's schools will receive a modest increase of [\\$58 per student](#) next year, an amount that Allison said "does not even meet inflation, and is a drop in the bucket compared with the cuts we've taken."

That has left Allison feeling betrayed. “Over and over, we heard from our elected officials that this was the worst recession since the Great Depression, and they had no choice but to cut school funding,” he said. “We were told that once the economy improves, our funding would be restored. But this year, when they did have a choice, a very clear choice, they decided that tax cuts were more important than education.”

Since education funding makes up the largest part of the state budget, Allison expects further cuts in coming years as state revenue falls. “That’s going to mean more layoffs, more schools closed. The kids are going to feel it,” he said. “The light at the end of the tunnel has suddenly disappeared.”

## “We have no choice”

When the recession hit, state revenues — made up primarily of sales and income taxes — declined dramatically, prompting deep cuts to state services. In [at least 30 states](#), funding for K-12 education was lower in fiscal year 2012 than in 2008, despite growing student populations. States have also made deep cuts in health care programs and in higher education funding. State aid to local governments has declined, and state and local governments have shed more than 500,000 jobs since the beginning of 2009.

In state after state, politicians justified the large budget cuts on the grounds that the condition of the state budget made it temporarily necessary to reduce services.

For example, when Arizona was facing a budget deficit of more than \$2 billion in 2010, state lawmakers closed the budget gap by eliminating tightening eligibility requirements for Medicaid — eliminating health insurance for 300,000 people — and by ending a state preschool program and cutting funding from K-12 education.

“We can’t spend what we don’t have,” Bob Burns, then the president of the Arizona State Senate, [said at the time](#). “The choices were education and health care, because to even get us close to being balanced, we had to go where the money was, and the money is in education and health care.”

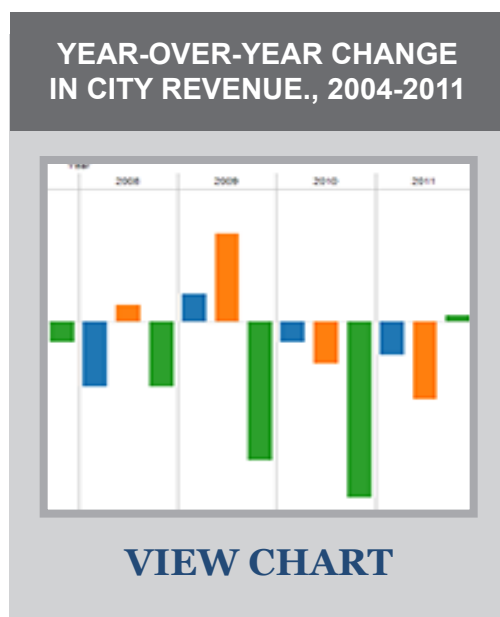
---

“That’s going to mean more layoffs, more schools closed. The kids are going to feel it. The light at the end of the tunnel has suddenly disappeared.” — John Allison, superintendent of the Wichita Public Schools

---

## But when revenues increased...

But state income and sales taxes, which were quick to decline during the recession, have also improved relatively quickly in the recovery. According to the Census Bureau, state revenues were beginning to improve by the middle of 2010 and continued to rise last year. Rising revenues have meant that at least 25 states, including Kansas, are projected to finish their current fiscal year (ending in June) with a budget surplus, according to the National Conference of State Legislatures.



Now that states do have a choice about their spending priorities, the question in state legislatures around the country has been, “What to do with the surplus?”

Because of the size of the budget cuts over the last three years, many advocated for states to restore — or “backfill” — funding to programs that had been cut.

“Most states haven’t backfilled the cuts they made to education, state services and local governments,” said Elizabeth McNichol, a senior fellow at the Center on Budget and Policy Priorities, a think tank in Washington. “People are still hurting. States should look at rising revenue as an opportunity to give them some relief.”

Additionally, several experts pointed out that, while sales and income tax revenues are rising, property tax revenues have not yet begun to recover. Property tax revenues are the largest source of funding for most local governments, and school districts depend heavily on those revenues, as well.

Because the property values are generally not assessed every year, property tax revenues continued to rise even as property values crashed around the country in 2008. As assessments began to reflect those declining values, however, property tax revenues started to decline. Total property tax collections by state and local governments fell by more than \$2 billion from 2010 to 2011, according to the Census Bureau, and experts believe that is only the start. (See sidebar.)

Lucy Dadayan, a senior policy analyst at the Rockefeller Institute of Government, which analyzes trends in state and local revenues, said that while states may be beginning to recover, local governments and school districts may not yet have hit bottom.

“Because it takes states three to five years to do full reassessments, I expect property tax revenues to continue to fall well into 2013,” she said. “That may mean even further budget cuts at the local level next year.” (See chart showing year-over-year changes to the revenue of cities from 2004 through 2011.)

Most local governments also receive a significant portion of their funding from their states: nationally, state aid makes up about a third of local government revenues. But according to a [report released last week](#) by the Pew Charitable Trusts' American Cities Project, from 2009 to 2010, state aid to local governments was cut in the vast majority of states. That decline marked the first time since 1980 that state aid and property tax revenue fell simultaneously, according to Pew.

It appears as though those lost funds have not been restored in most states, even as demand for services in local governments continue to rise. That disjunction has led many experts to advocate for states to increase funding to their towns, cities, and counties to help fill the revenue gap in the coming year.

But instead of either restoring cuts in state services or increasing aid to local governments and school districts, several state legislatures are choosing to use their surpluses to cut taxes. Besides Kansas, at least seven other states have passed bills that cut taxes and reduce revenue in future years, and several more are still considering doing so.

“We have these three factors: huge state budget cuts in recent years, property tax revenues just starting now to show a decline, and state lawmakers seeming to respond to this by passing tax cuts,” said Matthew Gardner, the executive director of the liberal-leaning Institute on Taxation and Economic Policy, which tracks state and local tax policy. “If you’re looking at those three developments and asking yourself how they can all make sense together, the short answer is that they can’t.”

Kim Rueben, a public finance economist with the Tax Policy Center, agreed.

---

“States with a little money to play with have a huge number of worthy ways to use it. That they are choosing to cut taxes makes you wonder if they even have any kind of long-term plan.” — Kim Rueben, Tax Policy Center

---

“States with a little money to play with have a huge number of worthy ways to use it,” she said. “That they are choosing to cut taxes makes you wonder if they even have any kind of long-term plan.”

## Other priorities

The states that have already passed tax cuts, or have proposals to do so pending, range from Arizona to Michigan, Maine to New Jersey, and Nebraska to South Carolina. The nature of the tax cuts varies, as well. Some will have a relatively small fiscal impact, while others will significantly affect the state budget outlook for many years to come.

But in every state, critics were quick to identify other critical spending priorities that the legislature has subordinated to cutting taxes.

Restoring funding to education was the first priority for many. Indeed, tax cuts were proposed in several of the states that have cut education funding the most during the last three years.

South Carolina, which will have a surplus this year of [nearly \\$1 billion](#), has cut K-12 education funding by over 24 percent since 2008, [the most of any state](#). The legislature has proposed several tax cuts this year, including one that would [reduce the income tax rate on small businesses](#) by five-tenths of a percentage point each year for four years, ultimately bringing the rate from five percent to three percent, at a [loss of \\$65 million](#) a year. Another bill, which Governor Nikki Haley has pushed, would consolidate some personal income tax brackets, reducing revenue by a further [\\$78 million](#).

---

“Giving money away to businesses when there are thousands of people who now have to resort to going to the emergency room because the state took their health insurance away shows you something about the priorities of our legislature.” — Arizona State Senator Steve Gallardo

---

“I don’t understand how anyone could argue that this a good time for a tax cut,” said Democratic state representative Seth Whipper. “After all the money that we’ve taken away from schools, furloughing teachers, deferring repairs, what sense does it make to give some people \$50 in tax cuts?”

“Education was very underfunded *before* the recession in this state,” said Holley Ulbrich, a distinguished scholar at the Strom Thurmond Institute of Government and Public Affairs at Clemson University in South Carolina who has long studied the state’s education policy. “Now, we’re at the level we were at in the nineties. And that’s because every time there’s an increase in revenue, rather than catch up on where we’ve fallen behind, the state wants to give it back” in the form of tax cuts.

Critics in other states argued that the legislatures should use budget surpluses to restore funding to state services that have been cut or eliminated.

Arizona, for example, eliminated more than [300,000 people from its Medicaid roles](#) in 2010, became the first state to eliminate its Children’s Health Insurance Program — thereby leaving nearly 47,000 low-income children without coverage — and also dramatically [reduced mental health services](#).

Arizona will end the fiscal year with a budget surplus of at least \$500 million. But state Republicans, who control both legislative houses and the governor’s office, have passed tax cuts in both of the last two legislative sessions, most of which will go into effect in 2014. In 2011, lawmakers passed a package of cuts that, among other things, will reduce the corporate income tax by a third. The total package will mean [\\$538 million less revenue](#) over the next ten years. This year, the state supplemented those cuts with further cuts in business taxes, and a 25 percent reduction in individual income tax on capital gains, amounting to nearly another \$100 million in lost revenue.

“These cuts are coming directly at the expense of the people of this state,” said Arizona State Senator Steve Gallardo. “Giving money away to businesses when there are thousands of people who now have to resort to going to the emergency room because the state took their health insurance away shows you something about the priorities of our legislature.”

---

“[Investment] decisions were not being made on the basis of any kind of rigorous quantitative criteria,” said John Conley of the University of North Carolina. “They were being made on the basis of relationships with the money managers, who were just there to sell them stuff.”

---

And in other states, local officials who are seeing their property tax revenue drop are asking state lawmakers for help.

In New Jersey, where [state aid to local governments was slashed](#) over the last three years, Governor Chris Christie is now proposing to [cut income taxes by 10 percent](#), even though the state’s projected \$588 million surplus [is disappearing](#) as tax collections come in under expectations.

In Maine this year, the legislature simultaneously [reduced some funding for local governments](#) and passed the [largest tax cut in the state’s history](#). “You can’t simultaneously say we don’t have money, and then give tax breaks to people that reduce state revenues,” [said](#) Portland Mayor Michael Brennan.

These states are not alone (see bottom box on the plight of Hillsborough County, Florida).

## Broken promises

When the budget cuts were enacted in 2009, 2010, and 2011, many state officials justified them by claiming that, due to the loss in state revenue, there was little choice but to reduce services, school funding, and aid to local governments.

In Oklahoma, before lawmakers voted to cut the state budget by 10 percent last year, a spokesperson for Governor Mary Fallin [said](#), “The reality of the budget situation is that every agency is going to have to find ways to tighten its belt and save money.”

As Florida lawmakers proposed cutting public school funding by \$455 per student, State Senator David Simmons said, “No one wants to go home cutting school funding, but we’ve run out of options.”

Now that states are using surplus revenues to fund tax breaks instead of reversing those cuts, however, such promises ring hollow to many who had reservations about the cuts in the first place.

“We heard all of this rhetoric about shared sacrifice,” said Jeff Clemens, a Democratic state represen-

tative in Florida. “And we sacrificed. Students, the poor, seniors all sacrificed. And now, when the state could give them a break, we’re giving billions of dollars to businesses that didn’t have to sacrifice at all.”

Even some Republican state officials have been taken aback by the decisions to cut taxes before restoring some of the funding that has been cut.

“I really believe that we did not have a choice but to cut funding in the worst of the recession,” said state representative Charlie Roth, a Kansas Republican. “But this year, we did have a choice, and the choice we made was to give away money instead of re-investing in our children. That makes me doubt how sorry my colleagues were about the cuts in the first place.”

Remapping Debate asked several state Republicans how they can justify enacting tax cuts during this session in light of their supposed reluctance to cut funding in past years.

Arizona State Representative Victor Williams [said of proposed education cuts in 2010](#), “The good choice [versus] the bad choice doesn’t exist anymore. They’re all poor choices.”

### Hillsborough County, Florida: “We can’t take it anymore”

In Hillsborough County, Florida, which includes the City of Tampa, budget manager Tom Fessler said that property tax revenue has declined by 30 percent since its peak in 2007. At the same time, funding from state revenue-sharing has also declined, meaning that the county has been forced to eliminate 1600 positions and reduce a range of services, from health care to after-school programs..

“We were hoping that this would be the last year that property tax revenue would fall,” Fessler said. “Unfortunately, we’re still projecting decreases into next year.”

But no help will be forthcoming from the state government. Instead, state lawmakers [enacted a package of tax cuts this year](#), including a cut in the corporate income tax, which will cost more than \$1 billion over the next three years.

“That’s going to put pressure on their budget, and so instead of asking them to help us, the cities and counties are now just asking them not to shift services onto our backs,” Fessler said.

Next year, Fessler anticipates further cuts as revenue continues to fall. “We’ve already cut out all the fat and we’re now at the bone,” he said. “If we cut one more dollar, our residents are going to feel that.”

When asked for this article why he did not choose to restore some of that funding this year, Williams said, “Because we are not out of the woods by any measure.”

And what about the money for tax cuts? “We think of [the cuts] as economic development,” he said, “and that’s our priority right now.” (See bottom box titled “Rationales for further tax cuts.”)

In 2011, when Kansas Governor Sam Brownback cut more than \$50 million from public schools, he [said](#), “I wish we didn’t have to do this. It’s been difficult, but it’s something we need to do.”

Remapping Debate asked Brownback’s spokesperson, Sherriene Jones-Sontag, why, if he wished not to make the cuts in the first place, the Governor chose to reduce taxes this year instead of restoring those spending reductions, but the only answer she gave was that, “The Governor believes that the state government should live within its means.”

## A new normal?

Other Republican advocates of tax cuts in the states were more forthright about their ultimate objectives.

Tommy Stringer, a Republican in the South Carolina House of Representatives, agreed. “Those who are calling for more money may be disappointed,” he said. “They’re assuming that we’re in 2007. But 2008 established a new baseline for everything, and we aren’t going back there.”

Owen Donohoe, a Republican state representative in Kansas, said that he saw the income tax cuts there as a step on the path to abolishing the tax altogether. “The faster we can get those rates to zero, the better,” he said.

Though he firmly believes that the tax cuts passed this year will actually lead to higher revenues, an assessment not shared by many independent analysts, he admitted that if that were to happen, he still wouldn’t use that increased revenue to backfill the cuts that have been made since the recession.

“Then we would be able to afford more tax cuts,” he said. “I’d like to make this government as small as I can.”

---

Arizona State Representative Victor Williams, asked why he did not choose this year to restore some of 2010’s cuts in education funding, said, “Because we are not out of the woods by any measure.” And what about the money for tax cuts? “We think of [the cuts] as economic development,” he said, “and that’s our priority right now.”

---



## Rationales for further tax cuts

Aside from fulfilling the goal of shrinking the size of governments, the primary justifications used for tax cuts around the country has been the belief that the cuts will improve the economic climate, luring businesses to low-tax states, thereby creating jobs and, it is hoped, greater revenue from the taxes that remain. “It is my fundamental belief that when you cut taxes, you increase revenue,” said Owen Donohoe, a Republican State Representative in Kansas.

Thus, many advocates of tax cuts do not accept the projected fiscal impacts of the cuts from independent legislative analysts. The evidence for their position that cutting taxes will actually increase revenue, however, is sparse. In fact, there is substantial evidence to the contrary, including [a recent, comprehensive analysis](#) of state fiscal policy by economists at Tulane University that found tax and spending cuts in states are actually associated with lower economic growth.

According to Kim Rueben of the Tax Policy Center, the claims of these Republicans are examples of “supply-side economics,” a doctrine that gained prominence during the Reagan Administration, but has since been rejected by most economists and budget analysts. “I don’t understand how 30 years later, people still believe that cutting taxes increase revenue,” she said. “I don’t want to impugn their honesty, but if they truly believe this, then we are not looking at the same evidence.”

Kim Rueben pointed out that another common justification for the tax cuts has been the perceived need to compete with bordering states that have lower tax rates. Lawmakers in Oklahoma and South Carolina, for example, said that their states were uncompetitive with states like Texas and Florida, which have no income tax.

What Reuben called the “beggar thy neighbor philosophy” has [also been followed](#) by the conservative American Legislative Exchange Council (ALEC), a partnership of corporate leaders and like-minded state legislators, in crafting “model legislation” for adoption in the states. Several of the lawmakers who proposed the largest tax cuts in the last legislative sessions were members of the organization. ALEC’s analysis, too, has been fiercely challenged by the [Institute on Taxation and Economic Policy](#) and others.

“Beggaring thy neighbor is not a long-term economic strategy,” Rueben said. “It is not building new industries and creating new jobs. You’re just giving the businesses that are already there a present.”

Donohoe characterized the current level of services being provided in Kansas as “adequate,” an assessment shared by several Republican legislators in other states. John Kavanagh, who sits on the appropriations committee in the Arizona House of Representatives, said that he does not think the cuts there have done very much harm.

“It doesn’t seem to me that they’ve caused people to struggle that much, so I don’t see why we should be spending more” he said.

---

“Those who are calling for more money may be disappointed. They’re assuming that we’re in 2007. But 2008 established a new baseline for everything, and we aren’t going back there.” — South Carolina State Rep. Tommy Stringer

---

But Scott Smith, the Republican Mayor of Mesa, Arizona, disagreed. “Some of our state leaders seem to believe that when they cut programs, the need for those programs disappears, too,” he said. “It doesn’t disappear. When you cut funding for homeless veterans, those veterans are still there.”

Smith pointed out that while state legislators have the ability to “abdicate” the responsibility for delivering services onto local governments, local governments have no such option. “We are the last line,” he said. “If we’re not providing services, then people aren’t getting them, period.” (See bottom box on giving local governments more flexibility to raise revenue.)

But several state lawmakers said that wasn’t their problem. “It isn’t the state’s responsibility to bail out the cities and towns,” said Arizona Representative Victor Williams. “They need to figure this out on their own.”

## What’s next?

Smith hopes that as state revenues increase while local governments continue to make cuts in necessary services in coming years, it will prompt a more productive discussion about what the government is supposed to do. “When you’re making cuts of the size we’ve seen here, you’re fundamentally changing the understanding of what our responsibilities are. We need to step back and ask, ‘what are the basic functions of government?’ Then we can fight the battles over additional revenue.”

Florida State Representative Jeff Clemens agreed. “These tax cuts are obviously a strategy to ‘starve the beast,’” he said. “But I’ve lost track of who the beast is. Public education, teacher salaries, parks and roads, public safety? Is that the beast?”

As this legislative session comes to a close, some Republican lawmakers are already gearing up for next year’s fights. In Oklahoma, several proposals to cut taxes were introduced this year, including

one that would gradually eliminate the income tax altogether. In the end, however, none of the proposals passed before the session ended, as lawmakers could not agree on how much to cut taxes, or for whom.

When asked whether he believes that the fight will continue next year, Republican State Representative Don Armes laughed. “Oh, don’t worry. This isn’t over. We’ll be back.”

### More options for local governments?

In addition to cutting the funding to local governments, many states have placed restrictions on the ability of those local governments to raise their own revenue. Some states, like New Jersey and Indiana, have instituted restrictions on the amount that local governments can raise property taxes each year. Remapping Debate has [previously reported](#) on how property tax caps have forced cities to make deep cuts in essential services like public safety as property tax revenue falls. Other states, such as Michigan, have banned municipal governments from levying sales or income taxes without state approval.

“If state governments are going to cut funding to cities, the least they can do is allow them the flexibility to raise their own revenues,” said Christopher Hoene, director of the Center for Research and Innovation at the National League of Cities.

In some states the restrictions also apply to school districts, which are often otherwise empowered to levy property taxes to fund their operations. In Arizona, for example, the legislature has restricted some districts from raising property taxes.

David J. Peterson, the superintendent of the Scottsdale Unified School District, said that because the district is not able to raise its own property taxes, even through a direct referendum, he has had to fire 100 teachers over the last three years. Additionally, a one-cent sales tax increase that was put on the ballot by voters in 2010 — part of which funds local governments and school districts — is set to expire in 2013. Because state lawmakers consistently refuse to raise revenues, Arizona residents are currently gathering petitions to put an extension of the tax on the ballot in November.

“If they are not successful in passing that extension,” Peterson said, “we will be in deep, deep, major trouble.”

*This content originally appeared at <http://www.remappingdebate.org/node/1298>*