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ABSTRACT

This paper reviews recent state tax-commission recommendations in selected states and identifies critical factors for the success of state tax-reform commissions. The paper focuses on factors linked to the process of forming a commission and generating the necessary consensus to enact tough reforms. It describes and compares comprehensive studies of state tax systems and evaluates the factors that contribute to successful state tax-study commissions. Tax systems are examined from 7 states for which comprehensive tax studies have been conducted in the past 10 years: Arizona, Maryland, Minnesota, Nebraska, New Jersey, Ohio, and Texas. Data were obtained from a review of the final reports of each commission study and interviews with study directors and commission members. A conclusion is that the primary fiscal issues facing state and local governments are state structural deficits, state financing of local school districts, and antiquated revenue structures. Although organization of the different commission reports makes across-the-board comparisons difficult, many of the reports' proposed solutions are similar. The reports recommend simplifying the state personal-income tax, making it more progressive, broadening the state's sales tax base, implementing property tax reforms (to either simplify the tax or provide tax relief), and examine corporate income tax. All studies also looked in varying degrees at the fiscal relationships between the state and local governments. Most of those interviewed identified the objective of a commission study as the ability to produce sound recommendations and "raise the level of the debate." One table is included. Appendices contain state-by-state findings and a list of state tax studies. Information on the Finance Project and its available resources is included. (LMI)

TOWARD STATE TAX REFORM

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November 1995

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PREFACE

State and community leaders are under increasing pressure to improve their education, health and welfare systems. If Congress has its way, they will also play a larger role in designing, operating and paying for education and other supports and services for children and their families. The success of any efforts to reform these systems will be determined, in part, by the extent to which they are tied to sound revenue sources.

Most states are in the best financial shape they have been in for years.[1] Revenues and expenditures were higher than originally budgeted in most states during 1993 and 1994, and strong revenue growth has allowed some states to build reserves to their highest levels since 1980. Yet changing demographic and economic conditions, as well as a changing policy landscape, suggest that many states will face significant fiscal and budgetary challenges during the remainder of the decade and beyond. Expected reductions in federal funding will also create considerable pressures for state and local governments to change the way in which they fund education, health and welfare systems.

As policymakers consider whether and how to fill the expected revenue gap, they will need to be aware of the fiscal, legal and political challenges they can expect to face. Governors, legislators and other policymakers will need strategies to prevent the potential erosion of state tax bases due to a variety of economic and demographic changes including shifts in the composition of personal income and movements towards a more service-based economy. They can also be expected to craft legal provisions for dealing with new financing strategies, both those sparked by changes in state revenue bases and those initiated by the changes in the federal-state relationship. And state and local decisionmakers will need to consider not only the legally possible and economically desirable directions for revenue reform but also what is politically feasible in the current environment.

Against this backdrop, The Finance Project's Working Group on Strategies for Generating Revenue for Education and Other Children's Services has prepared a series of studies of systemic revenue generation issues for education and other children's services. It includes:

- *Issues and Challenges in State and Local Finance* -- an outline of the major challenges to raising state and local funds for education and other children's services, suggesting principles that should guide attempts to address these problems.
- *The Effects of Economic and Demographic Changes on State and Local Budgets* -- an analysis of the long-term economic and demographic trends that affect revenue generation, it highlights current and anticipated changes to the economic base and the implications of these changes for the overall mix of state government revenue sources, as well as the most promising sectors and activities for tax revenue growth.

[1] National Conference of State Legislatures and National Association of Legislative Fiscal Officers, State Budget and Tax Actions 1995: Preliminary Report. Denver, CO: National Conference of State Legislatures, July 1995.

- *Legal Issues and Constraints Affecting Finance Reform for Education and Related Services* -- an examination of the federal and state constitutional and statutory issues that affect the capacity of governments to raise revenue for education and other children's services, including mandates and key legislation which limit revenues, expenditures, and borrowing.
- *Toward State Tax Reform: Lessons from State Tax Studies* -- a review and analysis of recent state tax commission recommendations in selected states which identifies critical factors to the success of state tax reform commissions, focusing on factors linked to the process of forming a commission and generating the necessary consensus to enact tough reforms.

Taken together these studies paint a vivid picture of the current fiscal context as well as the emerging fiscal and budgetary challenges that states and localities will face over the coming several years. They clarify a number of the critical policy and political issues that will confront governors, state legislatures, educators and others who run programs to serve children and their families. And they highlight a variety of options for reform that policymakers may pursue to improve public revenue generation for education and other children's services.

These papers are part of a larger series of working papers on salient issues related to financing for education and other children's services produced by The Finance Project. Some are developed by project staff; others are the products of efforts by outside researchers and analysts. Many are works in progress that will be revised and updated as new information becomes available. They reflect the views and interpretations of their authors. By making them available to a wider audience, the intent is to stimulate new thinking and induce a variety of public jurisdictions, private organizations, and individuals to examine the ideas and findings presented and use them to advance their own efforts to improve public financing strategies.

The Finance Project was established by a consortium of national foundations to improve the effectiveness, efficiency, and equity of public financing for education and an array of other community supports and services for children and their families. Over a three-year period that began in January 1994, the project is conducting an ambitious agenda of policy research and development activities, as well as policy-maker forums and public education. The aim is to increase knowledge and strengthen the capability of governments at all levels to implement strategies for generating and investing public resources that more closely match public priorities and more effectively support improved education and community systems.

Cheryl D. Hayes
Executive Director

INTRODUCTION

In the last ten years or so, several states have undertaken special evaluations of their revenue systems. Often, an important part of the process is to appoint a blue-ribbon commission whose charge is to study the revenue system and make recommendations for reform. The impetus for such efforts usually involves some fiscal crisis or a general dissatisfaction with the workings of the state's tax system. In contrast to normal legislative responses to fiscal problems, a tax study allows a state to take a long-run, comprehensive view of the issues. The recommendations and research reports of the tax study provide useful tools for lawmakers and their staffs as they try to craft tax policies to serve the state well over an extended period of time. In cases where the recommendations come from a blue-ribbon commission and the research reports are generated outside of the state government, a state tax study gives lawmakers an added credibility and a solid foundation for proposals to reform the state's fiscal system.

The purpose of this paper is to describe and compare comprehensive studies of state tax systems and to evaluate the factors that contribute to successful state tax study commissions. We chose to examine seven states for which comprehensive tax studies have been performed in the past ten years.[1] Our approach was to review the final reports of each study and interview at least two individuals from each state (see Appendix B for a list of final reports). We sought information from those interviewed about (1) the structure and process of the tax study, (2) the fiscal issues prior to the start of the study, (3) the findings and recommendations of the study commission, and (4) the perceived success of the tax study, especially in terms of the impact of the process on the policy debate. Appendix A presents the results of this research, the bulk of which comes from interviews with study directors and commission members. These individuals were chosen because they are most familiar with the work of the commissions, though we acknowledge that those interviewed may not be the most objective of evaluators. In the next section, we provide a synthesis based on the interviews of lessons learned from the various state tax studies. In a concluding section, we give our assessment of the importance and usefulness of state tax studies for addressing today's fiscal issues.

LESSONS AND COMPARISONS

Table 1 summarizes and compares some of the basic information about the seven state tax studies. The information--including the size of the commission, the presence or absence of elected officials, the duration of the tax study, the key fiscal issues facing the state prior to the

[1]A number of states have had tax studies of various types. Some are less comprehensive than those reviewed here; others are more than ten years old. At least two states have an institutionalized tax study system. An incomplete list of state tax studies would include the seven discussed herein plus Nevada (1988), Massachusetts (1993), Louisiana (1995), New York (ongoing, periodic), New Hampshire (1992), Indiana (1992), Michigan (1981), Hawaii (ongoing, periodic), and Washington, DC (1978). For a brief discussion of these efforts see, appendix B.

study, and selected key recommendations--is taken from the final reports of the commissions and the interviews conducted. Again, a more detailed comparison can be made by reading the descriptions of each study in Appendix A.

A Comparison of Tax Commission Characteristics

The individuals interviewed for this report commonly noted several characteristics as being important to a good tax study commission. Respondents from a majority of states studied thought that commissions worked best when there were no elected officials among the members. The feeling was that the political interests of elected officials interfere with the objectivity of the commission and compromise the range of solutions the commission might recommend. A related issue is having a staff that is independent of the state bureaucracy.

Representatives of four of the seven studies (Arizona, Maryland, Ohio, and Texas) also mentioned the importance of a diverse commission. Most respondents were referring to diversity in terms of the commission members' occupations or the interests they were representing, such as business, labor, and academe. Diversity also referred to the bipartisan nature of commissions, such as in Arizona. Gender diversity was distinctive in Ohio. Geographic diversity--that is, individuals with perspectives from different parts of the state--was particularly important for responding to the mandates of the commissions in Texas and Maryland.

A key function of a commission is to lend credibility to a study and its conclusions. For a successful commission, its members must be leaders in the state, whether or not they hold elective office. These individuals should be recognized for their integrity in their respective fields. As Henry Coleman of the New Jersey study put it, they should have both "access and influence."

Besides the credentials and leadership of commission members, a number of respondents thought that a critical difference between commissions that work well and those that do not is the willingness of commission members to learn about the issues and dedicate themselves to working hard. The commissions in Ohio and Arizona, in particular, were praised in this regard. Similarly, Billy Hamilton of the Texas study emphasized the importance of members being open to different points of view and willing to think creatively about the issues and options.

Findings and Recommendations

All of the studies reviewed here are comprehensive in that they each evaluate and make recommendations on at least three of the following areas for their state: the state revenue system, expenditures, state-local fiscal relations, economic development, and school finance.

Commissions generally organized their findings and recommendations concerning revenues by type of tax. Indeed, most commissions divided their entire workload this way, structuring their regular meetings around specific topics. Thus, it is difficult to compare particular recommendations outside of the context of each state.

But many of the commissions' proposed solutions are generally the same. For instance, several reports recommended simplifying the state personal income tax, and several others were concerned with making it more progressive. All seven reports had some type of recommendation for broadening the state's sales tax base, usually with the inclusion of at least some services. All studies also recommended property tax reforms with the goal of either simplifying the tax or providing tax relief. Most reports contained recommendations for the corporate income tax or other business taxes. Texas and Ohio devoted the most attention to business tax issues and economic development concerns.

All studies also looked at the fiscal relationships between the state and local governments, though to varying degrees and with different emphases. In Minnesota, intergovernmental fiscal relationships were an overall concern. In the charge to the New Jersey commission, the issue was defined specifically: the State relied too much on local governments to provide services, and the burdens of the state tax system were considered to be unfairly distributed. One of the main purposes of the Maryland tax study commission was to making recommendations to promote equity among local governments in receiving state resources.

Three commissions (those in Arizona, Maryland, and Nebraska) made recommendations about school finance reform. In two of these states (Nebraska and Arizona), courts later ruled the school finance method unconstitutional, thus superseding the recommendations of the commissions. Maryland's tax study advised the reform of school financing, but did not itself explore alternative finance methods.

Three states (Arizona, Maryland, and New Jersey) looked at expenditures. Neither Maryland's nor New Jersey's study was able to treat the question of expenditures in much detail. Each study had funding problems and late starts that precluded thorough treatment of this issue. Roy Bahl, director of the Ohio study, noted that the Ohio commission's recommendations regarding revenues would have been stronger if their mandate had included an examination of corresponding expenditures. Only the Arizona study made a thorough evaluation of expenditures, documenting a structural deficit in the state that became a major finding and lightning rod for interest in the study.

Success of the Commissions

Those interviewed revealed several measures by which to judge the success of a tax study commission. If measured by the extent to which recommendations end up in policy, the record of success is mixed, as indicated in the descriptions for each state in Appendix A. In fact, few respondents reported changes in legislation that they thought could be directly attributed to the results of the tax study. Identifying a connection between a commission's report and resulting legislation is a task complicated by the timing of recommendations in relation to policy debates, the extent to which the issues were discussed before the report, and the political receptivity to the report itself.

Perhaps the most straightforward standard of a commission's "success" is producing sound recommendations that are based on the findings of the research team. As discussed above, respondents felt that objectivity was important in a commission and judged a commission successful if it made considered recommendations that were not compromised by political agendas. The long-term usefulness of a study as a reference material--a feature noted of the studies in Minnesota, Texas, and Arizona in particular--is one indication of a commission's success in providing reasoned advice and a lasting framework of analysis to state legislators and the public.

Of course, coming to agreement as a commission is an important part of presenting findings and recommendations to policymakers. Several respondents noted that debate among the diverse interests and backgrounds represented on a commission and agreement on recommendations are important factors in the success of a study commission. Therese McGuire, director of the Arizona study, observed that bringing the diverse commissioners to agreement on issues in a highly charged political context was one of the main goals and principal successes of that commission. In New Jersey, too, a noted achievement of the commission was working out conflicts in committee and presenting final recommendations as a body. Here again, the quality of the research from which the commission is working is important, because the first step in reaching a group decision is agreeing to rely on the same information. Respondents from Maryland and Minnesota, in particular, praised the respective research teams for their work in preparing the commission and in contributing to scholarship in their fields.

A commission's ability to provide the results of this research to a wider audience and encourage consensus in a larger arena is another standard by which to measure the commission's success. There are mixed reports on this measure from those interviewed. According to respondents in both Maryland and Texas, for instance, the purpose of the commission was not to generate widespread consensus, so this criterion is not highly relevant for Maryland and Texas. Roy Bahl, director of the Ohio study, pointed out that no provision had been made for the commissioners to act as advocates after the completion of the study; the purpose had been an objective review of the state's taxes and economic outlook. In some cases, including Maryland, members of the study commission spoke to groups about the final report, but respondents did not identify this as an exercise in "constituency-building" for the report's recommendations.

Barring consensus, however, most respondents thought that a clear objective of all study commissions was to "raise the level of the debate." This goal is reflected in the importance placed on the objectivity of the commission members and the credibility of the economic research. Measuring the impact of these reports on the policy debate, however, is difficult. There are cases, such as the uncovering of the structural deficit in Arizona, where a commission's influence is to bring an issue into the public consciousness. In other cases, the commission's influence is in providing a technical basis for a long-standing public debate. This was the case with recommendations to simplify the property tax in several states.

More subtle, but perhaps no less important, is the influence a commission can have on the way in which people think about their state tax system and the way its performance should be evaluated. Respondents found that a commission's role in engaging people in debate about the state's options and priorities was important to its success.

A related issue is the apparent correlation between public interest or support for a commission and a judgment that the commission was successful. In Minnesota, the idea for a tax study commission first came from a citizen's group, along with the governor, and the public interest was maintained throughout. The Arizona commission worked under intense public attention, owing to the crisis situations (both fiscal and political) in which the state found itself. The Texas commission was formed under the atmosphere of falling oil revenues, and interest in its activities was high, with large turnouts at public meetings. However, by the time the commission's final report was prepared, the state's immediate economic situation was not as dire, and it became difficult to sustain public support for reform.

While perhaps slower than ideal for the circumstances of the state, Texas' 18-month study was about average in duration (see Table 1). Arizona and Minnesota, two other states in which there was strong public interest in their commissions' progress, conducted 12-month studies. The longest studies examined were New Jersey's (33 months) and Maryland's (36 months). Each of these studies was delayed by budgetary difficulties and lengthy appointment processes. The sense of fiscal crisis a state is facing seems to relate to the duration of the studies. For instance, the Arizona study was conducted on a strict time line in order to present the committee's recommendations to a special session of the state legislature (as it turned out, the session was not called). New Jersey however, by contrast, was enjoying relatively good economic conditions at the time of the study, and the commission was not under the same pressure to deliver recommendations for reform.

CONCLUSION

The primary fiscal issues facing state and local governments today are state structural deficits, state financing of local school districts, and antiquated revenue structures that are inappropriate for today's economy. All three issues are best understood and addressed free from the day-to-day pressures of government operations. They require a systematic and comprehensive examination that leads to findings and recommendations for long-term reform. This is precisely what can be accomplished with a well-designed state tax study. In the states that have undertaken tax studies in recent years, policymakers are equipped to craft a meaningful, long-lasting structural reform of their fiscal systems.

That many of the reforms succumb to political maneuvering soon after being enacted is disappointing, if not too surprising. The disconnection between political expediency and enduring, sensible fiscal policy is a difficulty that proponents of the tax study process have not been able to solve. However, even in states where politics eventually wins over good policy, the tax study is still a valuable tool. More than ten years after the Minnesota study and five years after the Arizona study--in our view, two of the more successful studies--the findings and recommendations and the research reports provide guidance to policymakers and their staffs. Indeed, one of the lasting legacies of state tax studies is that ineffective, nonsensical, or politically biased fiscal policies are compared against alternatives that have met a strict dual test: the test of in-depth scrutiny by reasonably dispassionate researchers, and the test of public debate and consensus-building among a politically savvy and publicly engaged group of citizens.

Table 1: State Tax Studies Compared

State (Year)	Commission/Study/Structure			Key Fiscal Issues Prior to Study	Key Recommendations
	Members	Elected Officials?	Duration		
Arizona (1989)	15	yes	12 months	recurring budget deficits; desire for long-term revenue solution	increase reliance on personal income tax and broaden sales tax to services to address structural deficit; simplify property tax
Maryland (1990)	16	yes/no	36 months	fiscal disparities across local governments; adequacy of revenue system	broaden sales tax to services; equalize state aid to locals
Minnesota (1984)	16	no	12 months	appropriateness of tax structure; complex taxes; promoting economic growth	simplify personal income and property taxes; lower income tax; broaden sales tax base
Nebraska (1988)	0	n.a.	24 months	equity of tax system; school consolidations; property tax relief	improve property tax assessment; undertake major school consolidation; increase state budget to finance schools
New Jersey (1988)	33	yes	33 months	fiscal disparities across local governments; revenue-raising responsibilities between state and locals	consider recommendations for tax reforms as a comprehensive package; simplify property tax
Ohio (1994)	15	no	18 months	effect of taxes on economic development	tax utilities and telecommunications more uniformly; lessen tax burden on investment; simplify personal income tax
Texas (1988)	13	yes	18 months	impact of economy on state finances; need to rely less on oil and gas revenues	broaden sales tax base; do not adopt a state personal income tax

APPENDIX A: State-By-State Descriptions

ARIZONA

Arizona Joint Select Committee on State Revenues and Expenditures, 1989

Interviewed

Therese McGuire, Director
Sharon Megdahl, Committee Chair
Dana Naimark, Project Manager

Committee Structure

The Arizona state tax study was formed jointly by the legislature and governor, and the seats were appointed--five each--by the governor, the senate majority leader, and the speaker of the house. The committee was bipartisan and about half the members held elected positions. Proxies were not permitted to attend meetings. The committee chair hired the staff director, who in turn hired researchers. Staff work took place on-site in the state house. The legislature appropriated $600,000 for the one-year study.

The committee was asked to identify issues and propose solutions for the state to consider for both revenues and expenditures. Committee members met every three to four weeks for about seven months to discuss different topics. Votes were only taken in the last month, when the committee reviewed its final list of findings and recommendations.

Fiscal Issues Prior to the Study

Arizona's trouble in balancing its budget prompted the formation of the joint select committee. Growth had brought about capital needs that were not getting adequate response. The state was hungry for an end to bandaid fixes and asked the commission to take a long-term view in recommending changes. The committee became known broadly as Fiscal 2000, with the idea that the reforms would take the state to the year 2000. A significant fiscal issue in the state was uncovered in the course of the committee's work. The final report revealed a structural deficit that was predicted to represent almost a quarter of the budget by the year 2000.

Major Findings and Recommendations and Their Impact:On the revenue side, the committee found that: (1) Arizona's personal income tax was complex and that the state relied little on this tax compared to the general sales tax, (2) the sales tax was too broad in that it included business purchases and too narrow in that many consumer services were omitted, and (3) the property tax was inefficient. The committee recommended simplifying the personal income tax and increasing reliance on that revenue source, broadening the sales tax base and cutting the rate, and simplifying the property tax by reducing the number of classes.

The impact of the report was mixed in terms of legislative changes. The income tax was indeed simplified, and reliance on the tax increased in the next legislative session. Much controversy centered around the sales tax recommendations. The state did not broaden the sales tax base to include services. This issue is still discussed, though it is not clear to what extent the commission report has contributed to the longevity of the debate. For property taxes, the number of classes has actually increased since the committee's report. Property tax reform is still a high profile issue. Naimark credits the study with raising awareness and points out that it served the purpose of generating consensus around the concept of reform.

The committee was particularly concerned with school finance reform and made a number of recommendations aimed at reducing disparities in spending across school districts. Since the committee released its report, the state's supreme court has ruled that Arizona's system of capital financing for schools is unconstitutional. The state is currently looking for a way to adjust the system. Again, it is not clear how Fiscal 2000 influenced the debate. According to Naimark, some of the concepts raised by the committee can be found in the current discussion, but school finance reform prior to the court ruling was not debated as extensively as it might have been.

One of the most distinctive features of the Arizona state tax study is the quantification of a structural deficit in the state. Communicating the concept of the structural deficit to a wider audience was a distinct point of success for the committee. Documenting and understanding the implications of a structural deficit provided the context for recommendations that taxes be raised–particularly through the relatively progressive personal income tax--and that the sales tax base be broadened to include services.

Success of the Committee

Respondents judged the committee successful on several levels. First, the committee met its initial goal in "getting closure" on the recommendations that appeared in the report. The committee was representative of state leadership, and members worked hard and were invested in the outcome of the study. Second, the committee was highly successful at raising the level of education and debate about state tax issues. According to Naimark, people still refer to Fiscal 2000 and the concepts raised by the study's findings and recommendations. Megdahl echoed the importance of this lasting effect, since there has been a lot of turnover in the state legislature since the study.

One reason given for success in raising the level of debate is that people from outside government were asked to take a fresh look at long-standing problems. Another reason why the committee was able to engage people in the debate was that all meetings were held in public and all votes were taken in public. The credibility of the committee was further enhanced by the quality of the staff research and the fact that it was a joint select committee of the governor and legislature.

In terms of long-term reforms, the picture is less bright. Megdahl felt that the study was perceived by some as a tax increase study and that this dampened the committee's influence with the public. Some of the changes that were made have since been reversed. Other recommendations were never acted on, and conditions have worsened.

MARYLAND

Maryland Commission on State Taxes and Tax Structure, 1990

Interviewed

Philip Dearborn, Executive Director
Jay Ladin, Deputy Director
Robert Linowes, Commission Chair

Commission Structure

Maryland's governor appointed the Commission on State Taxes and Tax Structure in 1987 to review and make recommendations on the state's revenue and expenditure systems. The 16-member commission was officially charged with paying particular attention to equity and responsiveness to service needs. However, as Jay Ladin, deputy director of the commission staff, pointed out, the unwritten charge from the governor had less to do with reform than with increased spending. The mission was not so much to correct the tax system as to justify changing the state's allocation of resources and to find a way of paying for it.

Politics between the governor and the legislature (both Democratic) impacted the commission from the beginning. The legislature cut the money for the commission from the governor's budget, and the study was put on hold for several months before private funding was secured. Members of the legislature who had requested spots on the commission left before the study was complete.

Fiscal Issues Prior to the Study

According to Bob Linowes, chair of the commission, the main fiscal issue facing Maryland--both at the time of the study and today--is revenue and expenditure disparities across the state. One of the main obstacles that the commission faced in presenting the final report was the widespread perception that the purpose of the commission was to justify the redistribution of state resources. Many felt that the governor, who was formerly the mayor of Baltimore, had set up the commission to favor Baltimore City.

Major Findings and Recommendations and their Impact

The final report of the commission highlighted the overall regressivity of the state's tax system and the differences in revenue raising and spending across jurisdictions, which result in some areas of the state lacking the capacity to provide basic services. Education spending and school performance were particularly noted as being unequal across districts. The commission recommended that revenues received from broadening the sales tax base be allocated to schools. However, the commission did not comment on alternative school aid formulas. Finally, the commission found that the tax system had not kept pace with structural changes in the economy.

The commission recommended increasing the progressivity of the personal income tax. Some reforms of the tax were made eventually, though the changes were temporary and not in accordance with the commission's recommendations. Linowes thought that the study had an impact on the subsequent debate over changes in the personal income tax. Broadening the sales tax base to include services is another recommendation that received attention in policy debates. The state later broadened the general sales tax base to include some services, and repealed some exemptions. The study was used as the analytical basis for pushing for such changes. According to Ladin, state-local aid is more equal today than at the time of the study, primarily because of adjustments made in school finance.

Reforms of the property tax system in Maryland are always high-profile and controversial. Modifications that have been made to the property tax since the study did not follow the recommendations of the commission, but the study did help focus attention and shed light on the issue. The legislature did not pass a recommendation to tax the personal property of financial institutions. When asked if this recommendation had an impact on the debate, Linowes replied that it did: "It increased lobbyists' fees." Another controversy prompted by the commission report was a recommendation to apply the property tax to automobiles and boats. The measure did not survive, though Montgomery County has tried since to pass a similar bill.

Success of the Commission

Each of the three interview respondents judged the Maryland Commission on State Taxes and Tax Structure to be a success. In this case, success refers to the fact that many of the commission's recommendations were ultimately passed, despite the lack of public acknowledgement about where the ideas were first presented. Each of the respondents said that the commission's recommendations were not seriously discussed as policy options until a year after the report was released, when recession created the need for revenue-raising options. Ladin remarked that several of the reports written for the commission stood out as high-quality research.

Evaluated on its ability to build consensus for reform, respondents judged the commission less favorably. The final report did get a lot of media attention, and some of the commission members advocated for the recommendations in the report. But the governor's reason for setting up the commission had less to do with consensus-building than with providing a basis for his proposals to reallocate spending priorities.

The commission's chances for success were enhanced by the credibility and perceived integrity of its members: high-profile, occupationally diverse individuals generally recognized as independent of the political system. The commission was also geographically representative of the state, an important consideration when a main goal of the effort is to justify the reallocation of state funds.

Asked what might have been done differently to enhance the quality of the study and report, each of those interviewed emphasized the opportunity that was lost in this case to promote agreement on the reforms, both in the legislature and with the general public. Though many of the commission's proposals were later adopted, Linowes said that he would have encouraged the governor to take more time in developing legislative support. Dearborn raised the issue of more public involvement, so that the resulting report was not viewed strictly as the governor's reform from the top. Ladin summed up the analysis by pointing out that there are only a limited number of solutions to the identified problems. It is therefore important to devote effort not only to identifying those options, but to generating consensus for the options that are preferred.

MINNESOTA

Minnesota Tax Study Commission, 1984

Interviewed

Robert Ebel, Executive Director

Dan Salomone, Director of Research, Department of Revenue

Commission Structure

The Minnesota Tax Study Commission was formed and appointed by the governor in 1983 with the charge of describing and analyzing the state's economy and tax structure and recommending reforms for legislative action. The 16-member commission consisted of business, labor, farming, and academic leaders. The commission chair was the Mayor of St. Paul. There were no elected state officials on the commission. The 15-month study was funded by state appropriation ($625,000); the commission chair was responsible for hiring the research director, who in turn hired a research staff.

The commission met monthly and voted on each of the recommendations made in the final report. Bob Ebel, executive director of the study, emphasized the extensive background work done to describe the state's tax system as a whole and the links between issues such as the state's intergovernmental relations, demographic trends, and economic concerns.

Fiscal Issues Prior to the Study

The commission was the object of widespread interest from the beginning, having originally been the idea of a citizen's league and having been advanced by a governor noted for "big ideas." The state had convened several special legislative sessions in the recession years of the early 1980s. This and the benefit of having perspective on the so-called "Minnesota Miracle" of a decade earlier contributed to a general feeling in the state that fundamental changes were taking place in the state's economy and that it was therefore important to evaluate the appropriateness of the state tax structure. As Ebel put it, "Everybody wanted to reform--they love it there." Minnesota's most pressing fiscal concerns at the time were dealing with complex property tax and personal income tax systems and promoting economic growth.

Major Findings and Recommendations and their Impact

The Minnesota study found that the state personal income tax was progressive compared to the rest of the country, and that it was complex and high enough to discourage some job growth. The commission recommended radical simplification of the personal income tax, and, in 1987, Minnesota passed massive reforms. In the estimation of Dan Salomone, the Tax Study Commission certainly laid the groundwork for the later legislation by analyzing the issue and proposing policy changes.

The commission found the state general sales tax to be low compared to other states. The commission recommended broadening the tax base to include clothing and personal services. While this issue had been raised before, the 1984 study stirred much controversy, and Minnesota today is one of only several states that do not tax clothing. The sales tax base was broadened somewhat following the commission's recommendations; there is another commission at work in the state now that is looking specifically at sales tax reform, according to Salomone.

The commission found the property tax one of the most complex in the country, and urged the state to simplify the system. One of the commission's specific conclusions was that tax classification is not a good tool for property tax relief. The commission recommended reducing the number of property tax classes to three. The study documented and diagnosed the problems with the property tax system. However, Minnesota's property tax remains the most complex of all of the states, and there are now tiers within the classification system, for a grand total of 14 property tax classes. Property tax complexity, along with the fiscal relationship between the state and local governments, was cited by those interviewed as the main fiscal issue in the state today.

The impact of the study thus ranges from documenting problems that persist today to laying the foundation for major changes. Though some of the suggestions in the report had been raised previously in a number of settings, the Minnesota Tax Study Commission is credited with igniting and informing the debate among both legislators and taxpayers. The commission also contributed innovative recommendations, such as placing a stamp tax on illegal drugs, thereby making the selling of drugs a tax violation. The measure has survived court challenge and has been adopted by many other states. The commission also recommended taxing the health premiums of insurance companies, a suggestion that did not survive politically.

Success of the Commission

Respondents judged Minnesota's tax study, the oldest of those reviewed here, a success on several levels. Some of the specific recommendations are now dated, but the concepts that underlie those recommendations are its primary legacy. According to Ebel and Salomone, the most important success of the commission was that it changed the way people thought about the state tax system. In explaining the commission's "overwhelming" success, those interviewed pointed to the make-up of the commission, the work of the research staff, and the involvement of a broad coalition of interested parties.

The individuals who served on the commission were leaders in the state, though without the political responsibilities or agendas of elected officials. The commission members were not chosen for their prior knowledge of tax issues per se, but were deeply involved in the final result and actively promoted the recommendations to their constituencies. Finally, citizens' groups and the media followed the activities of the commission from its inception. The broad educational effect of the final product is another measure of its success.

The work of the research staff was also critical to the success of the commission. One distinctive contribution of the 1984 study was its look at some of the more arcane aspects of the Minnesota tax system. Salomone added that the research staff made good use of "institutional memory" and local technical talent in serving the commission. Finally, Ebel noted that in addition to informing policy decisions in Minnesota, some of the research prepared for this study also contributed to scholarship in public finance. Staff reports on business climate issues and property tax relief programs later appeared in scholarly journals (the National Tax Journal and Public Finance Quarterly, respectively).

NEBRASKA

Nebraska Comprehensive Tax Study, 1988

Interviewed

Michael Wasylenko, Executive Director
Deb Thomas, Committee Council for Revenue
Michael Calvert, Director of Legislative Fiscal Office

Study Structure

Nebraska's state tax study differs from the others discussed here in that there was not an appointed study commission. Rather, the leader of the revenue committee of the state legislature requested the study. The study was put out to bid, with the goal of hiring a team that was removed from Nebraska state politics. Michael Wasylenko and John Yinger directed a staff of six researchers at Syracuse University. Findings and policy alternatives were brought to hearings with members of the state's revenue and appropriations committees held in Lincoln about once per month.

Fiscal Issues Prior to the Study

In Nebraska, the main issues were the recession, school consolidation, and property tax relief. Those who called for the study felt that the tax system was unfair and that the state needed to understand better its revenue problems.

Major Findings and Recommendations and their Impact

The commission did not recommend making changes to the personal income tax system, because it was changed just prior to the conclusion of the tax study. The new system, which conformed closely to the federal base, resulted in decreased progressivity and increased horizontal equity. The study team advised repealing a recently passed sales-only apportionment formula for the corporate income tax. The study recommended measures for raising additional revenue through the general sales tax by including items such as repair and maintenance services and gourmet foods in the base.

The study also focussed on property tax relief measures, school finance reform, the state-local tax system, and economic development. According to Wasylenko, the most controversial issues for debate were school consolidation, economic development issues, and the recent changes to the personal income and corporate income taxes. Some of the areas on which the study focussed--most notably, property tax reform and school finance reform--were later addressed in legislation. However, respondents said that the changes were generally piecemeal and were not made as a direct result of the study's conclusions.

Success of the Study

According to Thomas, the Nebraska Comprehensive Tax Study was doomed from the start and ultimately unsuccessful. Thomas explained her definition of failure: "There was no

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impact. No minds were changed. There was no debate to speak of." The study team did good work, according to Thomas, and should not deserve any blame for the failure of the study to produce legislative results: "You just can't take politics out of politics." Still, according to Calvert, the study got quite a bit of exposure through hearings and discussions of the findings as they emerged. Calvert added that the study was informative and valuable, regardless of the reaction it fostered.

Wasylenko called the study successful in terms of contributing to the level of thinking about these issues. The legislature needed help in understanding and documenting the problems and possible solutions.

Opinions were divided on the effect of not having a commission structure. In Wasylenko's view, a commission structure would have helped in several ways. It would have raised the level of the debate among a broader group of people who were in a position to think creatively, would have laid out the issues for the legislature to view more objectively, and would have served the crucial functions of education and consensus-building around the recommendations. In contrast, Thomas thought that an outside commission would not have made a difference in the outcome. She said that the likely candidates to sit on such a commission were the same as the interests that were advocating (and winning) in opposition to the study's recommendations.

NEW JERSEY

New Jersey State and Local Expenditure and Revenue Policy Commission, 1988

Interviewed

Henry A. Coleman, Executive Director
Charles Costenbader, Commission member

Commission Structure

The New Jersey legislature and the governor convened the State and Local Expenditure and Revenue Policy Commission (SLERP) to conduct an extensive review of the state's revenues and expenditures. The commission was especially concerned with revenue raising and spending responsibilities between state and local governments.

The commission was large by the standards of other states, consisting of 33 members from state and local government (including several elected officials), business, labor, universities, and public interest groups. Partly due to its size, assembling the SLERP commission took three-quarters of the time allotted for the study. The state legislature eventually extended the time and money allowed for the study, and also made some adjustments to the structure of the commission. A total of $1.5 million was ultimately allocated for the study.

Public hearings were held at the outset to raise some of the issues the commission would consider. The commission was divided into four task forces, each led by a staff member. Each task force and the whole group met about once per month during the study. Members were allowed to designate a stand-in for these meetings. The groups reviewed background information and developed discussion papers with the staff. However, there was no voting until the end of the study, and the task forces were not given decision-making power for the larger group. In addition, provisions were made in the beginning for presenting minority opinions in the final report.

Reaction to the commission's work as it was in progress ranged from a wait-and-see attitude to the Speaker of the House's assertion that the report was "dead on arrival."

Fiscal Issues Prior to the Study

According to Coleman, there were several contributing factors to the commissioning of New Jersey's tax study. The governor and legislature had recently raised the general sales and personal income taxes significantly in response to budget deficits. Some observers were concerned that the tax system was simply being made more complicated and not keeping pace with the state's economy.

A final main concern was that much of the property tax burden imposed at the local level was the result of state-mandated service provisions. Of specific concern were the disparities in both property taxes and services provided among jurisdictions.

Major Findings and Recommendations and their Impact:

The commission's final report included 111 recommendations for reform of the state revenue and expenditure system. The report was organized according to revenue reforms, expenditure reforms and safeguards for the new system. Costenbader labeled the expenditure portion of the report "weak" in comparison to the revenue analysis. Moreover, both Costenbader and Coleman expressed disappointment that the commission's recommendations were not considered as a package, but that the legislature picked and chose revenue-raising options as needed later.

In 1990, two years after the study, newly elected governor Florio pushed a tax package through the legislature that took as its base the recommendations made by the SLERP commission. For instance, the commission recommended increasing the progressivity of the personal income tax while keeping the rate structure competitive with New York. This would mean a tax rate of about five percent. Florio's package raised the personal income tax to seven percent. The current administration in New Jersey is reducing both the level and the progressivity of the personal income tax.

Another SLERP recommendation surpassed by the Florio tax package centered on the controversial issue of broadening the state sales tax base. Seven items were singled out for inclusion in the base: admission charges, disposable paper products, soap products, non-prescription drugs, cable television service, cigarettes, and telephone equipment. Opponents of the recommendation dubbed it the "toilet paper tax." The Florio package included an additional one-cent charge that had been considered and rejected by the commission two years earlier. This charge was rolled back again during the Florio administration.

Both Coleman and Costenbader named property tax relief as remaining the state's main fiscal issue. The property tax accounts for approximately 98 percent of local government revenues, and New Jersey has a large number of special districts, municipalities, and school districts to complicate reform. The state's move to reduce the personal income tax as a business incentive put further pressure on the property tax.

One of the commission's most innovative suggestions was to apply differential property taxes to encourage development in certain areas in accordance with the state's proposed development plan. The idea was to phase in taxes on improvements and new construction in these areas. This proposal did not survive politically. The SLERP commission's recommendations did inform the ongoing debate about property taxes, but they have not been adopted as substantial changes to the property tax system.

The SLERP report had suggestions for incremental changes to the state's system of funding public education. Recommendations included calculating aid based on the current year rather than the previous year budget, requiring spending levels in districts based on performance criteria, putting debt-service aid on a current-year basis, and paying higher salaries to attract quality teachers. These suggestions were not adopted because of a court ruling, after the commission's report was released, that found New Jersey's system of school financing unconstitutional. More radical suggestions than those raised by the commission were thus required.

Success of the Commission

Both Coleman and Costenbader called the SLERP commission successful in that it delivered solid recommendations with a comprehensive approach. Some recommendations, most notably those associated with the Florio tax package, made their way into legislation. Other recommendations served to stimulate debate in the legislature or to educate members of the media and the public.

According to Coleman, those who criticize the commission's work are generally responding to the political skepticism raised by the Speaker of the House prior to the release of the report and to the fact that legislative results do not come quickly in New Jersey. An additional difficulty in advancing the commission's report was that New Jersey was, except for property taxes and school finance, doing rather well economically at the time of the report, and many people were not convinced of the need for structural reform. Coleman noted that the study would have been more useful if it had taken place during a less prosperous time in the business cycle. At the time of the study, New Jersey's economy was recovering from recession. This allowed the study to be conducted without the pressures of an immediate crisis. On the other hand, the lack of an imperative undermined widespread interest in or support for the findings and recommendations.

Asked what other conditions could have improved the outcome of the commission, Costenbader again mentioned the weakness of the expenditure portion of the report. Coleman noted that both the commission and the research staff were large and at times unwieldy. Having 33 commission members, each with an official designee, complicated both the logistics of meetings and the production of documents.

On the other hand, both respondents said that the size and representation of the commission were key to its success. Conflicts among "natural enemies" were worked out in the process of commission meetings, so that the final report was championed as a sound compromise. Dissenting reports were allowed if at least six commission members signed off on the opinion. A maximum of five pages was allotted for minority reports. According to Coleman, outside skepticism that the commission was merely the toy of the governor and legislature made the members all the more committed to producing and advancing a quality report. Members contributed the influence and access to power necessary for advocacy of the commission's recommendations. Some members also had extensive knowledge of tax issues and were able to contribute to the work of the commission on that level as well.

OHIO

Commission to Study the Ohio Economy and Tax Structure, 1994

Interviewed

Roy Bahl, Project Director
Frank Mosier, Chair of the Commission

Commission Structure

The Commission to Study the Ohio Economy and Tax Structure was formed by both the governor and state legislature, with the commission chair appointed by the governor. There were no elected officials appointed to the commission. Instead, its 15 members represented business, labor, a utility, a university, farming, a hospital, and a family services organization. The commission is also notable among those studied for having the greatest percentage of women (almost one-third). A subcommittee of the commission put out a bid to hire the research staff, subject to the approval of the entire commission.

The charge to the commission was to look at the state's economy and tax structure, with particular attention to the relationships between the state's tax system and economic development.

Fiscal Issues Prior to the Study

The issue that was raised most in the commission's initial hearings was the effect of investment taxes on economic development. The taxes at issue were personal property taxes for businesses and the tax on net worth. Both Bahl and Mosier noted that the most conspicuous tax issues for many taxpayers were those that account for a very small part of state revenues, such as taxes on soft drinks, alcohol, and racing.

Major Findings and Recommendations and their Impact

The final report of the commission was submitted in December, 1994. Some of the issues and recommendations raised in the report were discussed by the legislature in the first part of 1995, most notably the recommendation to make uniform the taxation of utilities and telecommunications companies.

Most recommendations have yet to be addressed or decided. According to Bahl, the governor did not embrace the report at the time of its release. The commission found that the economy of Ohio had been falling not only in relation to the rest of the country, but more dramatically than other midwestern states. The governor also did not agree with the commission's general conclusion that it was of primary importance to alleviate the tax burden of investment. The commission specifically recommended eliminating the taxing of inventories, new machines, and equipment.

Bahl and Mosier have similar predictions about which recommendations will receive the most attention. Two of these are reductions in the corporate income tax and the tangible personal property tax. According to Mosier, the governor agrees with the suggestions, but they will be politically difficult to address because this revenue currently flows to school districts and there is bound to be a lot of local concern. In terms of tax reductions, Bahl also predicts controversy on recommendations to eliminate the inventory tax, equalize new investment taxes, and institute user charges on utility bills instead of using the gross receipts tax.

Outside of business taxes, the two recommendations Bahl and Mosier cited as being key are: (1) to broaden the sales tax base by including services, and (2) to apply a flat state tax rate to federal personal income tax liability. This would be a radical simplification of the personal income tax in Ohio, but it was a favorite recommendation of the tax study commission.

Success of the Commission:

The final report having been issued less than a year ago, Bahl suggests that time will be the best judge of the commission's success. In the short-term analysis, Mosier thinks that the commission was successful because it performed the tax and economic analysis that was requested. Furthermore, according to Bahl, the commission succeeded in raising awareness of the problems that Ohio faces in revenue raising and economic development and of the options for reform. Pointing to a broad mandate to evaluate objectively and no provision for ongoing work by the commission, Bahl did not feel that consensus-building was an objective in setting up the Commission to Study the Ohio Economy and Tax Structure.

In terms of the characteristics of a good commission, Bahl noted the importance of a strong chair that is able to negotiate conflict, the absence of elected officials, and the appointment of commissioners with a willingness to learn and to work hard. Mosier agreed that it was an advantage not to have elected officials on the commission and saw a further advantage in the commission's economic, gender and occupational diversity. He also emphasized the importance of a well-planned process. The Ohio commission agreed on the criteria by which they would judge recommendations, conducted a secret ballot to decide how to weight those criteria, and voted at the end. According to Mosier, the criteria that were weighted most highly were the effect on economic development and horizontal equity.

Both Bahl and Mosier felt that timing was a hindrance to the commission's work. Half of the 18 months provided for the study were used to line up the commission and staff. In addition, the research staff had to generate a lot of background information because there was not a lot of good work done on the state's economy prior to the study. Finally, the mandate for the commission did not include studying either expenditures or the fiscal issues of local governments. Bahl thinks these ommissions limited the usefulness of the recommendations on state revenue; likewise, the commission missed an opportunity to address property tax issues.

TEXAS

Select Committee on Tax Equity, 1988

Interviewed

Billy Hamilton, Executive Director

Bill Allaway, Texas Association of Taxpayers

Committee Structure:The idea for the Select Committee on Tax Equity, commissioned in 1987, originated with the state legislature. The seats on the 13-member committee were appointed by the governor, lieutenant governor, and speaker of the house. The thirteen included five legislators and the state comptroller. There were five paid research staff members. The charge to the committee was broad: to conduct a detailed analysis of the Texas tax system, to make recommendations for updating the tax system, and to prepare for future expenditure needs.

The committee met monthly on particular topics. Votes on each recommendation were taken at the final meeting. Hamilton emphasized the importance of stimulating creative discussion by presenting different points of view. On a related note, he stressed the importance of keeping the committee mindful of the "big picture" so that the suggestions for action were not conceived too narrowly. To this end, the committee's regular meetings were described as some mixture of three ingredients: substantive review of the Texas system, discussion of the philosophy of taxation, and entertainment in the form of debate.

Fiscal Issues Prior to the Study

According to Hamilton, the main fiscal issue at the time of the study was the impact of the general economy on state finances. A systemic imbalance in revenues and expenditures, masked in the 1970s, was recognized. In terms of the events that immediately preceded the study, oil prices dropped dramatically in 1984 and fell further yet in 1986. The financial and insurance industries began to suffer; it was clear that the state revenue system, which was based on oil taxes, should be examined.

Major Findings and Recommendations and their Impact

The study committee recommended broadening the sales tax base. Bills introduced in 1989 and 1991 tinkered with this recommendation, but no major changes have been made since a 1984 tax bill broke ground by extending taxes beyond those for tangible personal property. The state is still leery of taxing professional services. Texas does not have a personal income tax, and this was a key issue for the tax study committee. The committee eventually sided with "political wisdom" when it decided against recommending the tax.

The committee recommended increasing the motor fuels tax and dedicating half of the increase to local governments and one-quarter of the increase to schools. The legislature voted an increase in the tax, but the new revenue was not dedicated. In fact, recommendations concerning the state-local fiscal relationship were among those that received less attention than they should have, according to Hamilton. The legislature "never really came around to the idea to help cities."

Property tax issues are still unresolved and controversial. The role of the property tax on business development is one area that got a lot of attention after the report. The committee advocated careful use of property tax abatements; this issue continues to be actively debated.

Success of the Committee

The Select Committee on Tax Equity enjoyed political support, favorable press and mass interest. As many as 150 to 200 people attended commission meetings. The study was the most comprehensive since the 1950s; eight years later, it is still a standard reference for understanding taxes in the state.

The committee was most successful at fostering informed debate on tax issues. The research staff and the committee both believed that making the issues understood and explaining the linkages and trade-offs of revenues and expenditures were of primary importance. Allaway noted that many people were under a false impression of the base of the state's tax system, not realizing the dwindling role of oil and gas revenues. Generating consensus for particular reforms was less important, given that the committee had a broad mandate to analyze the tax system as a whole rather than trying to respond to a very particular problem. Allaway felt that the most important accomplishment of the committee was reaching agreement on a description of the state's problems. This then became the basis for discussing potential solutions.

One problem with the study was a matter of timing. When the study was completed, 18 months after it was commissioned, the financial crisis that precipitated it had abated. Consequently, the level of interest in the study decreased. If given the opportunity to do the study again, Hamilton would like to complete it more quickly and "get good issues out while people are interested."

Hamilton listed four characteristics of the committee that were key to its success. First, though the committee might appear homogeneous, members were open-minded and willing to learn from the staff and to discuss a variety of options. Second, the committee followed a well-ordered plan that was agreed upon in the beginning. Third, the studies and hearings presented a range of ideas and encouraged broad input. Finally, the committee did not solely represent business concerns from the largest metropolitan areas (the "Texas triangle"), but was geographically representative of the state.

APPENDIX B: State Tax Studies

Studies Cited

Arizona Joint Select Committee on State Revenues and Expenditures, Final Report; November, 1989.

"Making a Great State Greater": Final Report: Maryland Commission on State Taxes and Tax Structure; December, 1990.

Final Report of the Minnesota Tax Study Commission: Findings and Recommendations; Butterworth Legal Publishers; 1986.

Nebraska Comprehensive Tax Study Final Report; Metropolitan Studies Program, The Maxwell School, Syracuse University; July, 1988.

"Creating a Better Balance": State and Local Expenditure and Revenue Policy Commission Final Report; New Jersey, July, 1988.

Taxation and Economic Development in Ohio: A Blueprint for the Future; Final Report of the Commission to Study the Ohio Economy and Tax Structure; December, 1994.

Rethinking Texas Taxes; Final Report of the Select Committee on Tax Equity; January, 1989.

Other State Tax Studies

The **Hawaii** Tax Review Commission was established in a 1978 state constitutional amendment. The seven-member commission is appointed by the governor and activated every five years. The first commission was appointed in 1983 and completed its review in 1984. The commission is charged with conducting a systematic review of the state's tax system and making recommendations for revenue and tax policy. The most recent report available was presented in December, 1989.

A comprehensive tax study was completed in 1992 as part of a series of studies on **Indiana** public finance sponsored by the Purdue University Center for Tax Policy Studies. James A. Papke authored the report, A Reexamination of the Indiana State Tax Structure: Introduction and Overview. The first study in a decade, the report looks at the Indiana tax system in light of changes in the local economy and intergovernmental relations.

A Report on **Louisiana**'s Tax Structure was completed by James A. Richardson for the Select Council on Revenues and Expenditures in Louisiana's Future in February, 1995. The most recent study before that was also edited by Richardson (1988) for two non-governmental groups, the Council for a Better Louisiana and Louisiana State University. In both cases, the analysis and recommendations are regarded as the author's and not those of the sponsoring organizations. The 1995 report presents comparative analysis, and provides tax alternatives to address economic development issues and state-local relations.

A special commission was created by the **Massachusetts** state legislature to investigate and study the Commonwealth's business tax policies. Findings and recommendations were completed and released in November, 1993.

Edited by Harvey E. Brazer and published in 1982, **Michigan**'s Fiscal and Economic Structure is the earliest of the tax studies noted here. The University of Michigan initiated the comprehensive study, which included comparative analyses and reviews of both revenues and expenditures with special attention given to school finance and intergovernmental fiscal relations.

The Urban Institute and Price Waterhouse conducted a study of the **Nevada** state tax system in 1988. The comprehensive study of the state's revenue system was reviewed by the Governor's Commission to Study the Fiscal Affairs of State and Local Governments in Nevada and then transmitted to the state legislature. The study was published as A Fiscal Agenda for Nevada in 1990, edited by Robert D. Ebel.

The Policy Economics Group of KPMG Peat Marwick conducted a 1992 study of the **New Hampshire** tax system at the request of the state legislature. The report contains policy options and revenue alternatives based on microsimulation models.

THE FINANCE PROJECT

The Finance Project is a national initiative to improve the effectiveness, efficiency, and equity of public financing for education and other children's services. With leadership and support from a consortium of private foundations, The Finance Project was established as an independent nonprofit organization, located in Washington, DC. Over a three-year period that began in January 1994, the project is undertaking an ambitious array of policy research and development activities, as well as policymaker forums and public education activities.

Specific activities are aimed at increasing knowledge and strengthening the nation's capability to implement promising strategies for generating public resources and improving public investments in children and their families, including:

- examining the ways in which governments at all levels finance public education and other supports and services for children (age 0-18) and their families;
- identifying and highlighting structural and regulatory barriers that impede the effectiveness of programs, institutions, and services, as well as other public investments, aimed at creating and sustaining the conditions and opportunities for children's successful growth and development;
- outlining the nature and characteristics of financing strategies and related structural and administrative arrangements that are important to support improvements in education and other children's services;
- identifying promising approaches for implementing these financing strategies at the federal, state and local levels and assessing their costs, benefits, and feasibility;
- highlighting the necessary steps and cost requirements of converting to new financing strategies; and
- strengthening intellectual, technical, and political capability to initiate major long-term reform and restructuring of public financing systems, as well as interim steps to overcome inefficiencies and inequities within current systems.

The Finance Project is expected to extend the work of many other organizations and blue-ribbon groups that have presented bold agendas for improving supports and services for children and families. It is creating the vision for a more rational approach to generating and investing public resources in education and other children's services. It is also developing policy options and tools to actively foster positive change through broad-based systemic reform, as well as more incremental steps to improve current financing systems.

RESOURCES AVAILABLE FROM THE FINANCE PROJECT'S WORKING PAPERS SERIES

Federal Financing Issues and Options

The Budget Enforcement Act: Implications for Children and Families by Karen Baehler (November 1995)

Dollars and Sense: Diverse Perspectives on Block Grants and the Personal Responsibility Act (Joint publication of The Finance Project and the American Youth Policy Forum and the Policy Exchange of the Institute for Educational Leadership) (September 1995)

Rethinking Block Grants: Toward Improved Intergovernmental Financing for Education and Other Children's Services by Cheryl D. Hayes, with assistance from Anna E. Danegger (April 1995)

Reform Options for the Intergovernmental Funding System: Decategorization Policy Issues by Sid Gardner (December 1994)

Federal Funding for Children and Families: An Analysis of Trends and Patterns by Cheryl D. Hayes, Anna E. Danegger, and Carol Cohen (Forthcoming--Winter 1995)

State Financing Issues and Options

Issues and Challenges in State and Local Finances by Therese McGuire (November 1995)

Toward State Tax Reform: Lessons From State Tax Studies by Therese McGuire (November 1995)

Legal Issues and Constraints in Revenue Raising by Thomas Triplett (November 1995)

State Investments in Education and Other Children's Services: The Fiscal Challenges Ahead by Carol Cohen and Martin Orland (November 1995)

State Investments in Education and Other Children's Services: Fiscal Profiles of the 50 States by Steven D. Gold and Deborah Ellwood (October 1995)

State Investments in Education and Other Children's Services: Case Studies of State Innovations by Ira M. Cutler, Alexandra Tan, and Laura Downs (October 1995)

Spending and Revenue for Children's Programs by Steven D. Gold and Deborah Ellwood (December 1994)

The Significance of Market Forces in Determining State and Local Governments' Fiscal Behavior by Claire Cohen (Forthcoming--Winter 1995)

The Macroeconomic Context for Revenue Raising by Sally Wallace (Forthcoming--Winter 1995)

Local Financing Issues and Options

Issues and Challenges in State and Local Finances by Therese McGuire (November 1995)

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Case Studies of the Financing of Children's Services in Six Communities by Bill B. Benton (Forthcoming--Winter 1995)

Financing Comprehensive, Community-based Supports and Services

Conceptualizing the Costs of Comprehensive, Community-based Support Systems for Children by Jennifer Rice (November 1995)

Creating More Comprehensive, Community-based Children's Services and Support Systems: The Critical Role of Finance by Martin Orland, Anna E. Danegger and Ellen Foley (November 1995)

A Compendium of Comprehensive Community-based Initiatives: A Look at Costs, Benefits, and Financing Strategies by Cheryl D. Hayes, Elise Lipoff, and Anna E. Danegger (August 1995)

The Role of Finance Reform in Comprehensive Service Initiatives by Ira M. Cutler (December 1994)

Beyond Decategorization: Defining Barriers and Potential Solutions to Financing Comprehensive, Community-based Support Systems by Ellen Foley (Forthcoming--Winter 1995)

School Finance Issues

Securing Equal Educational Opportunities: Past Efforts and the Challenges Ahead by Alexandra Tan and Martin Orland (February 1995)

School Finance Litigation: A Review of Key Cases by Dore Van Slyke, Alexandra Tan and Martin Orland, with assistance from Anna E. Danegger (December 1994)