New England

Fiscal Facts

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Will the Tobacco Settlement Payments Go Up in Smoke?

By Daniel G. Swaine

In December 1995, Massachusetts attorney general Scott Harshbarger filed a civil suit against the tobacco industry. The Commonwealth's lawsuit charged that the tobacco industry had conducted research into the addictive properties of nicotine and used this research to willfully manipulate the nicotine level of cigarettes in order to addict smokers and increase cigarette sales. The lawsuit asked the court for damages to compensate the Commonwealth for expenditures paid to treat smoking-related illnesses. At the time this litigation was filed, Massachusetts was the fifth state in the nation to bring such a lawsuit, behind Mississippi, Florida, Minnesota, and West Virginia.

Three years later, in November 1998, Harshbarger joined the attorneys general of 46 other states to sign the national tobacco settlement, an agreement in which the states dropped their civil actions against the tobacco industry in return for a stream of payments that will last forever (in perpetuity). In this issue of *Fiscal Facts*, we discuss four main issues:

- history of the tobacco litigation;
- terms of the tobacco settlement and the amounts to be paid to the New England states;
- risks to the states in receiving the settlement payments; and
- state plans for disbursement of the settlement payments, as enacted in FY2000 annual and FY2000-2001 biennium state budgets.

A Brief History of the Tobacco Litigation

Throughout the 1980s, individuals filed product liability lawsuits against the tobacco companies, claiming that cigarettes were addictive and that smoking led to fatal illnesses such as emphysema and lung cancer. However, in 1969, the surgeon general of the United States had forced cigarette makers to add a warning to their packaging stating that smoking may be harmful to the health of smokers. Moreover, the surgeon general did not rule that nicotine was addictive until 1988. The product liability lawsuits of the 1980s were unsuccessful because the surgeon general's warning made it easy for the tobacco companies to argue that smokers knew the risks when they lit up a cigarette, and the tobacco companies argued that nicotine was not addictive.

In congressional hearings in 1994, a former researcher for Philip Morris testified that a scientific report he prepared in 1983 contained strong evidence that nicotine was addictive and further, that this report was suppressed by Philip Morris. On the basis of this testimony, a new series of lawsuits were filed against the tobacco companies in 1994 and 1995. These lawsuits took two different tacks:

- In one tack, groups of individuals banded together to file class-action civil lawsuits. Typical of this litigation is *Castano* v. *American Tobacco*. The *Castano* plaintiffs sought more than $40 billion in damages for 90

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State Budget Timetables

Annual Budgets
Massachusetts
Rhode Island
Vermont
FY00: July 1, 1999 to June 30, 2000

Biennial Budgets
Connecticut
Maine
New Hampshire
FY00-01: July 1, 1999 to June 30, 2001

million smokers, claiming that the tobacco companies knowingly caused smokers to become addicted to their products.

- In the second tack, state governments filed civil lawsuits, as in Massachusetts, that sought to recover expenditures paid by the states to treat their residents for smoking-related illnesses. Eventually, all 50 states filed such civil actions on the basis that the tobacco companies knowingly manipulated nicotine levels in order to cause the addiction that led to smoking-related illnesses.

These state civil actions uncovered damaging industry documents. For example, in the lawsuit filed by the state of Minnesota, investigators uncovered a memo in which scientists from R.J. Reynolds concluded that two of their industry rivals were deliberately using ammonia to enhance the nicotine levels in cigarettes in order to boost sales. The document suggested that R.J. Reynolds should pursue the same strategy. Such damaging information eventually led the Liggett Group – financially, the weakest of the tobacco companies – to break with the industry and separately settle all pending litigation against it in March 1996. The rest of the industry eventually followed in June 1997, when a comprehensive national tobacco settlement was announced.

The settlement required federal government approval for some of its provisions – such as having the Food and Drug Administration regulate nicotine as a drug. However, Congress was unable to pass the necessary authorizing legislation, and the agreement was scuttled in June 1998. Four states (Mississippi, Florida, Texas, and Minnesota) separately settled their respective lawsuits with the tobacco companies, while the remaining 46 state attorneys general immediately entered into talks with the tobacco companies to renegotiate the agreement so that it would not need federal approval. These negotiations would last another six months.

The Tobacco Settlement

In November 1998, the attorneys general of the remaining 46 states signed an agreement with most of the major tobacco companies to settle the claims from the state civil lawsuits. This national settlement contains five major provisions:

- First, the tobacco companies will pay a share of their profits to the states in perpetuity. The current, or present, value of this stream of annual payments totals $306 billion in 1999 dollars.[1] These payments come without any restrictions on how they can be spent.
- Second, there are certain prohibitions against tobacco industry advertising.[2]
- Third, the settlement commits the industry to fund an anti-tobacco public education program.
- Fourth, the states are prohibited from filing such lawsuits in the future, while the tobacco industry agreed to drop its pending litigation against the state governments.
- Fifth, the tobacco industry will separately pay (through a process of arbitration) the attorneys' fees that the states accumulated during the course of their civil actions.

Table 1
Tobacco Settlement Payments

	Up-front Payment	Average Annual Payment in Perpetuity	Total Value
	millions of 1999 dollars	millions of 1999 dollars	billions of 1999 dollars
Connecticut	45	141	5.7
Maine	18	59	2.4
Massachusetts	97	307	12.3
New Hampshire	16	51	2.0
Rhode Island	17	55	2.2
Vermont	10	31	1.3
New England	203	644	25.9
Nationwide (46 states)	2,400	7,612	305.5

The payments that the tobacco companies will make to the states include two components: an "up-front" signing bonus, and a stream of annual payments that begins in calendar year 2000 and lasts in perpetuity. Nationwide, the initial signing bonus totals $2.4 billion for the 46 states, while the annual payments in perpetuity average $7.6 billion per year (in inflation-adjusted 1999 dollars). For each of the six New England states, Table 1 lists the initial signing bonuses in column 1, the average annual payments in column 2, and the total present value of the combined perpetuity in column 3. For example, according to the National Association of Attorneys General, Massachusetts will receive an initial signing bonus of $97 million and a stream of annual payments that will average $307 million per year in perpetuity (in inflation adjusted 1999 dollars). Column 3 shows that the total combined value for the Massachusetts share of the settlement is $12.3 billion.[3]

Risks to the Payments

While the tobacco settlement represents a potentially large financial windfall for the states, there are four risks to the payment amounts that the states will eventually receive:

- Reductions in the payment amounts due to declines in the level of tobacco consumption.
- Termination of payments due to pending litigation by the tobacco industry. While the tobacco manufacturers agreed to drop all litigation against the states, tobacco distributors, wholesalers, and importers were not party to the agreement. Recently, tobacco distributors, wholesalers, and importers filed a lawsuit in federal court against all the parties involved in the tobacco settlement (*PTI, Inc. et al.* v. *Phillip Morris, et al.*). The suit argues that the settlement violates the U.S. antitrust laws and harms the plaintiffs' businesses through a restraint of trade. The plaintiffs seek avoidance of the financial settlement and unspecified financial damages.
- Termination of payments due to bankruptcy of the tobacco industry. A class-action suit filed by a group of Florida smokers has brought a jury decision against the tobacco industry. Analysts expect the jury to award punitive damages to the group of smokers in an amount that could exceed $100 billion. In order to appeal the decision, tobacco companies would have to post a bond for the amount of the award — an event that could force the companies to file for bankruptcy protection from creditors. This filing would freeze the payments to the states.
- Reductions in the payments received due to pending litigation by smokers. A number of class-action lawsuits by smokers against the states are in the process of being filed to claim a portion of the tobacco settlement funds. These lawsuits claim that any portion of the settlement that is in excess of the historical Medicaid payments made by states belongs to the smokers.

Spending Plans

States have received their initial bonus payments and anticipate receiving the calendar year 2000 payments. The FY2000 budgets passed last June provide some information concerning spending plans for the first few payments. The states have two basic choices for allocating these funds: spend the payments immediately upon receipt, or invest them in a trust fund, the earnings of which would be available to finance future expenditures. Considering the possibility of interruptions to and reductions in the payment stream as mentioned above, it may be risky for the states to become dependent on this large new source of revenues in financing additional expenditures. This is the reason why some states have decided to establish trust funds in which to save a portion of the payment stream.

In Tables 2 and 3, we list the state spending plans for the tobacco settlement funds. Table 2 lists the percentage of the payments invested in trust funds, versus the percentage immediately spent by the New England states. Table 3 lists expenditure shares by category for immediately spent funds in the enacted FY2000 budgets. Table 4 lists the restrictions imposed by the states on spending amounts accumulated in the trust funds.

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1 This figure is different from published accounts, which list the total sum of the payments made over the first 25 years, a value of $206 billion. The value of $306 billion is a present value concept – the present value of a stream of payments is the lump-sum amount that an investor would be willing to pay up front to buy the payment stream.

2 The prohibitions on advertising and promotion are as follows. First, tobacco advertisements are prohibited from using cartoon characters, such as Joe Camel. Second, the settlement prohibits the industry from targeting youth in marketing campaigns. Third, the settlement prohibits all outdoor advertising. Fourth, the settlement prohibits the sale of merchandise with brand-name logos. Fifth, the settlement bans promotions in movies, television shows, and live performances, and limits brand-name sponsorships to one per year.

3 This total value is the same present value concept mentioned in footnote 1 above. The present value of a perpetuity is the annual payment divided by the assumed discount rate. Since the states will spend the payments received, the appropriate discount rate is the inflation rate, that is, the rate of interest that will keep state services purchased at a constant dollar value. We assume an inflation rate of 2.5 percent. The present value of the perpetuity is $307 million divided by 0.025, or $12.2 billion. Adding the initial bonus payment of $97 million to the value of the perpetuity makes the total present value $12.3 billion, which is what we report above.

Table 2

Tobacco Payment Allocations

(Percent)

	Initial Bonus Payment		FY2000 Annual Payment		Subsequent Annual Payments	
	Expenditures	Trust Fund Deposit	Expenditures	Trust Fund Deposit	Expenditures	Trust Fund Deposit
Connecticut	86.6[a]	13.4	86.6[a]	13.4	NA	NA
Maine	100.0	0.0	90.0	10.0	90.0[b]	10.0
Massachusetts	100.0	0.0	30.0	70.0	30.0	70.0
New Hampshire	100.0	0.0	100.0	0.0	100.0[c]	0.0
Rhode Island	100.0	0.0	100.0	0.0	NA	NA
Vermont	47.6	52.4	47.6	52.4	NA	NA

NA: No plan exists for the perpetuity.
[a] Figures represent the average over the 2000-2001 biennium budget.
[b] A five-year plan exists. No plan exists for the perpetuity.
[c] Education finance reform passed in 1999 commits the state to spend $40 million annually for public education.

Four of the six New England states (Connecticut, Maine, Massachusetts, and Vermont) have set up trust funds in which to invest at least some portion of the tobacco settlement payments. Of these four states, Massachusetts is the only one that has established a long-range plan for the tobacco settlement funds by choosing to deposit 70 percent of the annual payments in a trust fund, while spending the remaining 30 percent on health care expenditures. The earnings of the trust fund will also be used in a 30/70 percent split – 30 percent will be spent on health care, while 70 percent will be reinvested in the trust fund. Of the amount spent on health care in FY2000, 25 percent is to be spent on tobacco control efforts, while the other 75 percent is for a variety of health care programs not restricted to smoking-related illnesses. The Commonwealth also plans to spend all of the initial bonus payment that will be received in FY2000 on health care programs.

Connecticut and Vermont have also established trust funds to finance health care expenditures. However, neither state has set up a long-range plan for the investment, but will continually revisit the spending/investment decision as part of the normal budgetary process. During the FY2000-2001 biennium, Connecticut will invest 13.4 percent of the tobacco settlement funds in the health care trust, and will spend the remaining 86.6 percent on a variety of state programs, including tax relief (see Table 3 for the breakdown). In FY2000, Vermont will deposit 52.4 percent of the initial bonus and the year 2000 annual payment in the health care trust fund, and will spend 47.6 percent of the combined payments on health care programs. In a manner similar to Massachusetts, the health care expenditures financed by these funds are not restricted to smoking-related illnesses.

Maine has also established a health care trust fund. Maine plans to invest 10 percent of all annual payments received over the first five years of the settlement period and to spend the remaining 90 percent on health care programs. Maine also plans to spend the entire initial bonus payment on health care programs. Principal and earnings of the trust fund cannot be touched for five years; thereafter, the trust fund is to be liquidated, with 90 percent of the accumulated balance spent on health care, and the remaining 10 percent placed in a health care contin-

Table 3

Tobacco Payment Expenditure Outlays

(Percent)

	Connecticut[a]	Maine[b]	Massachusetts	New Hampshire[a]	Rhode Island[c]	Vermont
Tobacco Control	2.5	0.0	25.0	10.0	0.0	5.5
Health Care	14.0	100.0	75.0	0.0	0.0	94.5
Education	22.7	0.0	0.0	90.0	0.0	0.0
Tax Relief	38.6	0.0	0.0	0.0	0.0	0.0
Budget Reserves	22.2	0.0	0.0	0.0	0.0	0.0
General Spending	0.0	0.0	0.0	0.0	100.0	0.0

[a] Figures represent the average over the 2000-2001 biennium.
[b] Figures represent the outlay from the initial bonus payment. An additional advance of $3.5 million was made for tobacco control. Subsequent annual payments must be expended for health care, including tobacco control efforts.
[c] Rhode Island is currently treating settlement payments as general fund revenues, which can be used for any spending purpose.

Table 4

Tobacco Trust Fund Use

Connecticut	Trust fund earnings used for health care programs.
Maine	Trust funds cannot be used for five years. After five years, trust fund is to be liquidated, with 90 percent spent on health care and 10 percent transferred to a contingency reserve health care fund.
Massachusetts	Trust fund earnings use: 30 percent spent on health care, 70 percent reinvested in trust fund.
New Hampshire	No trust fund established.
Rhode Island	No trust fund established.
Vermont	Trust fund established for the support of health care and tobacco control efforts. Use of trust fund earnings or principal has not been determined.

gency reserve fund. The health care expenditures financed by these funds are not restricted to smoking-related illnesses.

New Hampshire and Rhode Island have not established trust funds for the tobacco settlement payments. Both states have decided to spend most or all of these funds. The education finance reform enacted in 1999 commits New Hampshire to spend $40 million of the $51 million annual payments as well as the $16 million initial bonus payment on local educational expenditures. During the FY2000-2001 biennium, the portion of the calendar year 2000 annual payment that is in excess of $40 million will be spent on tobacco control programs. Rhode Island is currently treating all tobacco settlement payments as general fund revenues, all of which will be spent in FY2000 on a variety of state programs.

Conclusions and Implications

The national tobacco settlement is an historic event. The amount of money to be paid to the states is large and represents an important new source of revenue for state coffers. However, there are risks that the payment stream may be reduced, interrupted, or even terminated.

Two important risks to the payment stream stem from litigation: one is a lawsuit filed in federal court by the tobacco distributors against the states; the second is a class-action lawsuit in Florida that has been decided against the industry. Either lawsuit has the potential to terminate the settlement payments to the states. Because of this uncertainty about future payments, state policymakers will want to be prudent in how they allocate the payments that they do receive.

Of the six New England states, Massachusetts and Vermont have chosen to be the most prudent by investing a majority of the settlement payments received in trust funds. By investing in an interest-bearing trust fund, these states indemnify themselves against the contingency of having to pay back the stream if the tobacco distributors' litigation is successful. Further, by leaving the earnings alone, the trust funds will grow such that eventually the earnings could be used to provide a payment stream of similar magnitude, which would then be available to finance significant new expenditures. These states also indemnify themselves against the contingency that the payment stream could be terminated or reduced.

Two other New England states, Connecticut and Maine, have chosen to establish trust funds, but are currently investing relatively small shares of the payments, while spending more than 80 percent of the payments on current expenditures. The remaining two states, New Hampshire and Rhode Island, have initially chosen to spend most or all of the first couple of payments on new current expenditures. **FF**

Vermont

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tion is designed to accommodate higher costs in health care, corrections, and special education. The governor also submitted his $1.53 billion spending proposal for FY2001, up 3.2 percent from FY2000 appropriations. The highlights of this new budget include a 14.0 percent increase in expenditures for corrections, a $5 million increase in Vermont's current $890,000 anti-tobacco efforts, and a 13 percent increase in the budget for the health care programs operated by the Department of Social Welfare.

Vermont's education funding law (Act 60) continues to generate lawsuits and debates. Last December, the 55-member Coalition of Municipalities filed a suit against the state for its use of an "unreliable, capricious and arbitrary" process to assess town wealth. This is the tenth lawsuit against Act 60.

Across *the* Region

Tax revenues continue to grow across the region, but at a less robust pace than over the last couple of years. The region's budget officials had expected even slower growth. As a result of the continuing growth, the New England states expect to realize substantial surpluses at the end of this fiscal year. Because of these surpluses, many states have proposed to accelerate spending growth, and tax cuts are the predominant issue in current legislative sessions.

Enacted State Appropriations for FY2000 and Proposed Appropriations for FY2001[a]

(Excluding Federal Dollars)

	FY2000	FY2001	Percent Change
	Millions of Dollars		
Connecticut	9,410.5	10,013.4	6.4
Maine	2,544.4	2,805.7	10.3
Massachusetts	17,226.8	18,183.3	5.6
New Hampshire[b]	2,028.4	2,083.3	2.7
Rhode Island[c]	2,965.0	3,092.6	4.3
Vermont[d]	1,481.6	1,529.0	3.2

[a]Unless otherwise noted, includes general fund and transportation fund appropriations only. Excludes expenditures of federal grants and reimbursements.
[b]Includes budgeted income from sweepstakes earmarked for foundation aid and special education.
[c]Includes general revenue and other unrestricted funds.
[d]Includes Act 60 education fund spending.
Source: Official budget documents, state financial statements, and conversations with state budget officials.

Six-State Review

Connecticut

Through the first eight months of FY2000, Connecticut collected revenues totaling $4.8 billion, up 4.0 percent from the same period in FY99, and above the 3.0 percent forecast. Collections in the two major tax categories, income and sales, grew 6.4 percent and 4.6 percent, respectively, and in combination were slightly less than revenue projections. If the other tax categories continue to grow faster than predictions and if revenue predictions are not revised, the state will realize a tax revenue surplus of $354 million.[1]

In early February, Governor Rowland proposed supplemental appropriations for FY2000 totaling $266.6 million, an increase of 2.8 percent over the $9.4 billion own-source budget enacted last June.[2] The governor also proposed adjustments to the FY2001 budget that would set own-source spending at $10.0 billion, an increase of $602.9 million, or 6.4 percent, above FY2000 appropriations. Highlights of his FY2001 tax proposals include:

- Cutting 7 cents from the gasoline tax – estimated to cost $100 million annually.
- Eliminating the gift tax – estimated to cost $52.1 million annually.
- Increasing the income tax credit for property taxes paid by $75 per household – estimated to cost $42 million in FY2001. This increase would bring the total credit for property taxes to $500 per household in FY2001.
- Gradually eliminating the hospital gross earnings tax, totaling nearly $75 million annually once fully phased in.
- Establishing a $500 education tax credit for families that send their children to private schools – estimated to cost $16.5 million annually.

1 A tax revenue surplus is defined as tax revenues in excess of budgeted, or enacted, revenue estimates.
2 Own-source revenues are total state revenues less federal grants and reimbursements. Similarly, own-source expenditures are total state spending less federal grants and reimbursements.

- Switching from three-factor to single-factor (sales) apportionment of manufacturing profits – expected to cost $21 million annually in corporate tax revenues.

Maine

by *Pei Zhu*

For the first half of FY2000, Maine collected $1.1 billion in tax revenues, up 6.1 percent over the same period last year. Leading the way were income tax collections, up 10 percent. Although sales tax collections were basically flat – down 0.1 percent – the lack of growth reflected a reduction in the sales tax rate from 6.0 percent to 5.5 percent in October 1998. (Because the sales tax rate was higher in the first half of FY1999, this increases the FY1999 sales tax collections figure from which the FY2000 growth rate is computed. If we adjust for the tax rate change, the sales tax base grew 5 percent during the first half of FY2000.) Another 0.5 percentage point cut in the sales tax rate, from 5.5 percent to 5.0 percent, is scheduled to take effect on July 1.

The Consensus Economic Forecasting Committee revised revenue estimates upward by $339 million for the current biennium, and the state of Maine appears to be awash in surplus revenues. Consequently, Governor King unveiled a $287 million supplemental budget package in mid January. The package includes an $87.6 million supplemental appropriation for FY2000, an increase of 3.4 percent over the enacted FY2000 budget. For FY2001, the governor has proposed to spend $2.8 billion, up $261.3 million, or 10.3 percent, from FY2000 expenditures. About 60 percent of the supplemental appropriation is for one-time expenditures, including $33 million for highway/rail connections, $27 million for state infrastructure investments, and $20 million on educational technology.

The governor's proposal includes three tax cuts: indexing income tax brackets for inflation; making the state personal exemption consistent with the federal personal exemption; and providing a $6,000 exemption for public-retiree (state, federal, military) pensions. The three tax cuts would reduce income tax revenues by $2.9 million, $0.6 million, and $5.1 million, respectively.

Massachusetts

Through the first eight months of FY2000, the Commonwealth collected $9.5 billion in tax revenues, up 6.2 percent from the same period one year ago. In contrast, the enacted FY2000 budget had projected tax revenue growth rate of just 2.7 percent. Income and sales tax revenues have exhibited strong growth, increasing 7.1 percent and 9.1 percent, respectively. If tax revenues continue to grow at this pace, and if the revenue estimate enacted with the FY2000 budget is not changed, Massachusetts will realize a tax revenue surplus of $496 million.

At the end of January, Governor Cellucci submitted an own-source revenue budget (see footnote 2) of $18.2 billion for FY2001, an increase of 5.6 percent over FY2000 appropriations. The budget proposal includes a few minor spending initiatives, but no major changes in spending priorities. The governor's energy has been directed toward cutting the personal income tax rate to 5 percent, an initiative that will be on the ballot in November. Two other tax-cutting initiatives will also be on the November ballot, one granting tax credits for tolls and auto excise taxes, and the other making charitable contributions deductible for state tax purposes. The cost of the three tax cuts is estimated at $1.9 billion annually. The governor's budget increases local aid to education by $132 million, far less than the $250 million increases granted during the seven-year phase-in of the state's education reform act.

Finally, in early February, the Massachusetts Turnpike Authority (MTA) announced that unforeseen cost overruns had increased the cost estimate for the Central Artery/Tunnel Project by $1.4 billion, to a total of $12.2 billion. In late February, the governor proposed a $1.3 billion financing plan to cover the cost overrun, including $1.0 billion in bonded debt, $200 million in cash reserves from the MTA, $50 million in contributions from the Massachusetts Port Authority, and $45 million in reimposed driver's license fees.

New Hampshire

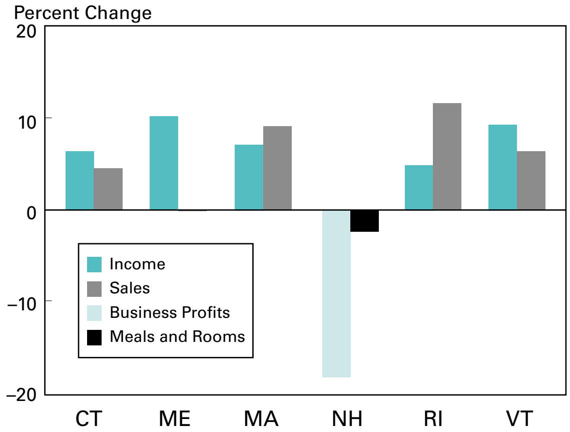
New Hampshire collected $713.4 million in tax revenues during the first eight months of FY2000, up 33.0 percent over the same period in FY99. However, this growth rate is skewed because of tax increases required by recently enacted education finance reform.[3] Adjusting for these tax changes, revenues were flat. Adjusted revenues from the two largest taxes – (1) the combined business profits tax and business enterprise tax and (2) the meals and rooms tax – declined by rates of 18.2 percent and 2.3 percent, respectively.

Last June, the legislature enacted a $2.1 billion own-source revenue budget for FY2001, up 2.7 percent from

[3]See *Fiscal Facts*, Spring/Summer 1999, for additional information.

Revenues from the Two Largest Taxes in Each New England State

July through February, FY2000 Compared with FY1999[a]



[a]July through December revenues for Maine.
Source: Official budget documents, state financial statements, conversations with state budget officials.

enacted FY2000 expenditures. Although Governor Shaheen did not propose a mid-term budget adjustment, she did advise the legislature to close an estimated $38 million funding gap in the education budget. This gap was created by a mismatch between expenditures and revenues in the school finance reform act.

Rhode Island

Through the first eight months of FY2000, Rhode Island collected $1.06 billion in tax revenue, up 6.3 percent from the same period last year, and above the recently revised 4.1 percent revenue growth projection. Personal income tax collections were up 4.9 percent from FY1999 levels. Sales tax collections also exhibited strong growth of 11.6 percent. Both tax categories are ahead of projections. On a less sanguine note, business income tax collections declined 21.1 percent. If revenues continue to grow at this pace, Rhode Island will realize a tax revenue surplus (see footnote 1) of $55 million.

In mid February, Governor Almond proposed a supplemental spending bill of $48.4 million for FY2000, a 1.6 percent increase from enacted appropriations. Also in mid February, the governor submitted an own-source spending proposal (see footnote 2) of $3.1 billion for FY2001, up $127.7 million, or 4.3 percent, over enacted FY2000 appropriations. Highlights of the FY2001 budget proposal include two spending initiatives: (1)increase local education aid by $31.7 million (up 5.4 percent), and (2) increase expenditures for public higher education by $16.8 million (up 3.5 percent); and four revenue initiatives: (1) increase parking fees at state beaches by $1 for residents and $2 for non-residents, a 20 percent fee hike, (2) transfer 1.5 cents of the gas tax from the general fund to transportation uses, (3) implement the fourth out of five 0.5-percentage-point cuts in the personal income tax rate – from 26 percent to 25.5 percent of federal tax liability, and (4) end the phase-out of local motor vehicle excise taxes, and the accompanying plan to replace these revenues with local aid.

Vermont

by Pei Zhu

Eight months into fiscal year 2000, general fund tax collections totaled $544.7 million, up 3.5 percent from the same period last year. Collections from the personal income tax grew 9.3 percent. Revenues from the two major consumption taxes, the sales tax and the meals and rooms tax, increased 6.4 percent and 5.2 percent, respectively. In contrast, revenues from the corporate income tax registered a 35 percent decline. Generous new incentive programs explain part of this decline, but weak corporate profits (especially among electric energy companies) were the main culprit. The February numbers are subject to changes because of a mail-processing backlog in the revenue office.

In January, Governor Dean presented a budget adjustment for FY2000 that will increase appropriations by 0.2 percent, if approved. This supplemental appropria-

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New England Fiscal Facts

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