



NATIONAL CONFERENCE *of* STATE LEGISLATURES

*The Forum for America's Ideas*

TESTIMONY OF

**DELEGATE SHEILA E. HIXSON**

**MARYLAND HOUSE OF DELEGATES**

ON BEHALF OF THE

**NATIONAL CONFERENCE OF STATE LEGISLATURES**

BEFORE THE

**NATIONAL COMMISSION ON FISCAL RESPONSIBILITY AND REFORM**

*June 30, 2010*

Senator Simpson, Mr. Bowles and distinguished members of the National Commission on Fiscal Responsibility and Reform, I am Delegate Sheila Hixson, Chair of the Ways and Means Committee in the Maryland House of Delegates. I appear before you today on behalf of the National Conference of State Legislatures, a bipartisan organization representing the fifty state legislatures and the legislatures of our nation's commonwealths, territories and the District of Columbia.

The recent national discussion on the need to reduce the federal government's deficit is nothing new to state legislatures. NCSL was one of the first national organizations, more than 20 years ago, to call on Congress and the president to eliminate the federal budget deficit. So it should come as no surprise when I say, state legislatures stand ready to work with you, the president and Congress to meet our common goals—to improve our nation's fiscal stability, our competitiveness with the rest of the world, and our ability to invest for our country's future, while maintaining our commitment to pressing intergovernmental challenges.

State governments, as partners in the federal system, have an incalculable stake in how the federal government balances its budget. Too often the federal government has responded to budget pressures by simply shifting costs to the states, limiting state flexibility and intruding on state revenue systems. These practices stifle the creativity and responsiveness of state governments and exacerbate fiscal pressures. NCSL urges the commission to refrain from such approaches when recommending federal expenditure or revenue changes. We urge you to have additional conversations with NCSL and its members about proposals you are considering to ensure they are structured in a way that is most favorable to our intergovernmental system. We also urge you to include in your recommendations the requirement that Congress and the federal departments and agencies conduct meaningful consultation with state legislatures as they develop and take the necessary legislative and regulatory steps to further this process.

As the commission examines options to address the gap between projected revenues and expenditures, we want to remind you that states are partners with the federal government in the delivery of vital services to the nation's citizens. Consequently, states have much at stake. While examining options to reduce expenditures, NCSL urges the commission to:

- recommend that all federal spending programs be scrutinized for savings. NCSL has concerns that domestic discretionary programs will be disproportionately affected;
- ensure that reductions in entitlement spending are done as part of a comprehensive review and reform of the individual programs. Where appropriate, include regulatory and administrative relief for states;
- include participation from state, county and municipal governments in the decision-making process and development of new federal approaches to entitlement programs. Entitlement reform must take into account the fiscal conditions and impact of changes on the entire intergovernmental system;
- respect the fiscal integrity of trust funds; and
- last but not least, avoid unfunded or underfunded mandates.

As for the revenue side of this discussion, the federal and state tax systems are inextricably linked and any federal reform will have fiscal and administrative ramifications on the states. NCSL urges you to ensure your recommendations:

- preserve the ability of states to adopt fair and effective tax systems;
- avoid retroactive application of tax changes;
- provide states with adequate transition time to implement and respond to new tax systems;
- ensure that federal tax changes are made in a manner that preserves federal data collection used by the states; and
- preserve the flexibility of state and local governments to use tax-exempt financing, including the use of public-private partnerships.

As an example of preserving states ability to adopt fair and effective tax systems, states acknowledge that their revenue systems are challenged by changes in the marketplace and technological advances. States have developed the Streamlined Sales and Use Tax Agreement

as a significant attempt to modernize sales and use tax collection systems. We believe the Agreement substantially simplifies state and local sales tax systems, removes the burdens and costs to interstate commerce. The system can only be effective when Congress enacts legislation to allow states to impose collection requirements on all sellers. We urge the commission to include congressional support for this effort in your recommendations.

NCSL and its members understand the daunting task the commission faces in developing its recommendations and the potential political will needed to fulfill these obligations. Forty-nine states have balanced budget requirements. As a result of the most recent downturn states have closed a \$291.4 billion gap in FYs 2009 and 2010. In developing our FY 2011 budgets, states have or are in the process of addressing another cumulative shortfall of \$89 billion. We have exhausted the least painful options like tapping reserves, so the only way to close this gap is to reduce expenditures even further or raise more revenue through tax or fee increases. Take it from me, none of these actions are easy. Thank you again for the opportunity to participate today. I would be happy to answer any questions.