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This year's budget-cutting was only a prelude

If you think Idaho has an issue with paying for its roads and bridges, just look at its general fund. It's a real mess and it's getting worse. In other words, the account responsible for basic state expenses - schools, colleges, public employees, prisons, social services - is shriveling under stress of a recession.

Lawmakers already have sliced \$450 million in state spending. That should have balanced the budget except for one thing - Idaho's tax revenues keep falling. They were another \$65 million behind in April. So it's likely some portion of the \$300 million in various "rainy day" funds will be needed to plug holes in the new, already leaner budget that takes effect July 1.

If the holes continue to widen through the summer and fall, Idaho's 2010 Legislature will be forced to cut even deeper. Lawmakers can only hope the economy stabilizes. Even that best-case scenario leaves budget writers short of the money they will need to cover inflation, growing school enrollments and rising Medicaid caseloads.

Which brings us to Senate Assistant Majority Leader Joe Stegner of Lewiston. Speaking to the Lewiston Chamber of Commerce last week, Stegner offered a solution: update the sales tax. When that tax was enacted in 1965, it exempted services, which then were dwarfed by the retail transactions the tax covered. Today, services, Internet and catalog sales are two-thirds of the economy.

Repealing some of those exemptions is not a new idea. Six years ago, Stegner was a member of an eight-member task force that looked it. At the time, the governor's budget office said the state was losing \$1.2 billion while the State Tax Commission put the number at \$867 million. Moreover, lawmakers continue to grant new sales tax exemptions. Among the examples now on the books:

- Health and medical services - Between \$228 million and nearly \$247 million.
- Professional services - Between \$84 million and \$116 million.
- Construction - \$60 million to almost \$119 million.
- Business services - \$33.6 million to \$67.7 million
- Information services - \$48 million to \$50 million.
- Repairs - \$36 million to \$45 million.

Leaving so much of the economy off limits makes the sales tax more erratic - it runs hotter than the economy during good times and cooler during lean years. Because the tax is so narrow, its rate must be higher. With the rate now at 6 percent, lawmakers have begun to gradually expand the credit designed to compensate Idahoans for the sales tax they pay on food. But that will cost \$122 million when fully implemented in seven years.

Broadening the sales tax base would raise more money. But it also would allow Idaho to lower its overall sales tax rate. As a rule of thumb, for every \$200 million in exemptions lawmakers repealed, they could lower the sales tax by a penny. Stegner offered no hope lawmakers will follow this path. The Legislature, especially the conservative-dominated House, is not "interested in experimenting or doing anything differently," he said.

How times have changed. When Idaho's economy was booming, lawmakers rejected the idea of changing the tax system. Only a crisis forces politicians to confront the need to reform taxes, so the argument went. What would you call this? - M.T.