Arizona Tax Research Association

Revenue and Budget Update

November 18, 2022

Key Points

- After a 17% increase in ’22, General Fund revenue growth is expected to moderate to 6% in ’23 and 2% in ’24.
- The declining growth rate is related to recession concerns as the Fed raises interest rates in an attempt to lower inflation.
- This growth path plus prior legislative commitments results in an available ongoing balance of $140 M and a one-time balance of $2.5 B

Our October FAC Estimates Use a "Maximum Commitment" Scenario
- Not a Prediction of Results

- The federal government does not extend the enhanced Medicaid match rate past December 2022
  - Since our October estimates, Feds subsequently extended until 3/23 which generates $150 M in 1-time savings.
- Prop 123 is not renewed – which would reduce the level of K-12 land trust distributions starting in 7/25 (FY 26)
- Absent any other statutory change, the General Fund would backfill the Prop 123 loss at a cost of $300 M in '26

Forecasting State Revenues

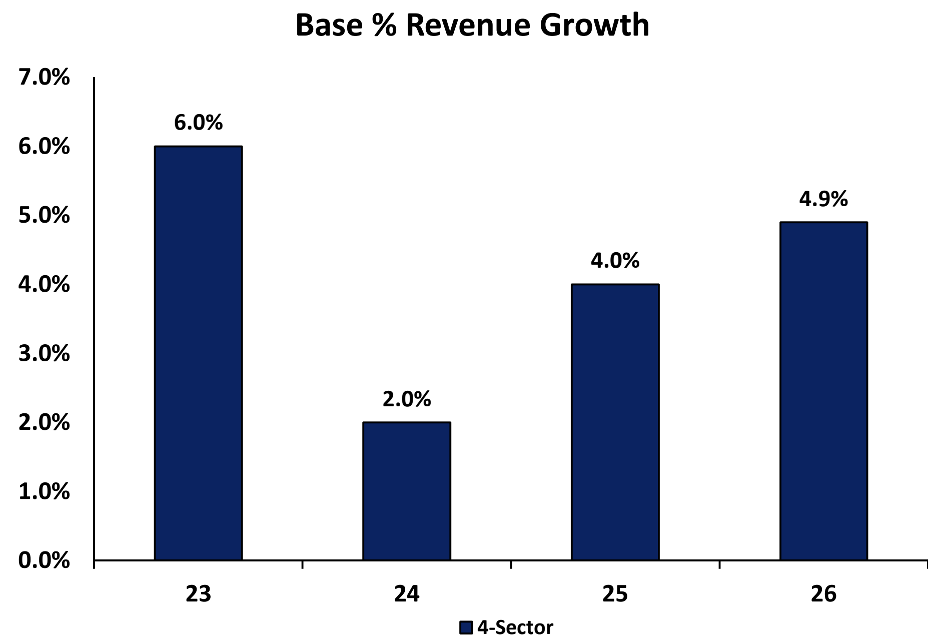
October 4-Sector: Much Slower Growth in ’24
- With Moderate Recovery in ’25 and ’26

4-Sector Components

- Finance Advisory Committee
- UA model – base forecast
- UA model – more cautious
- JLBC Staff

Represents Base Growth

- Prior to Enacted Tax Reductions



Excludes balance forward, one-time transfers, tax law changes and urban revenue sharing

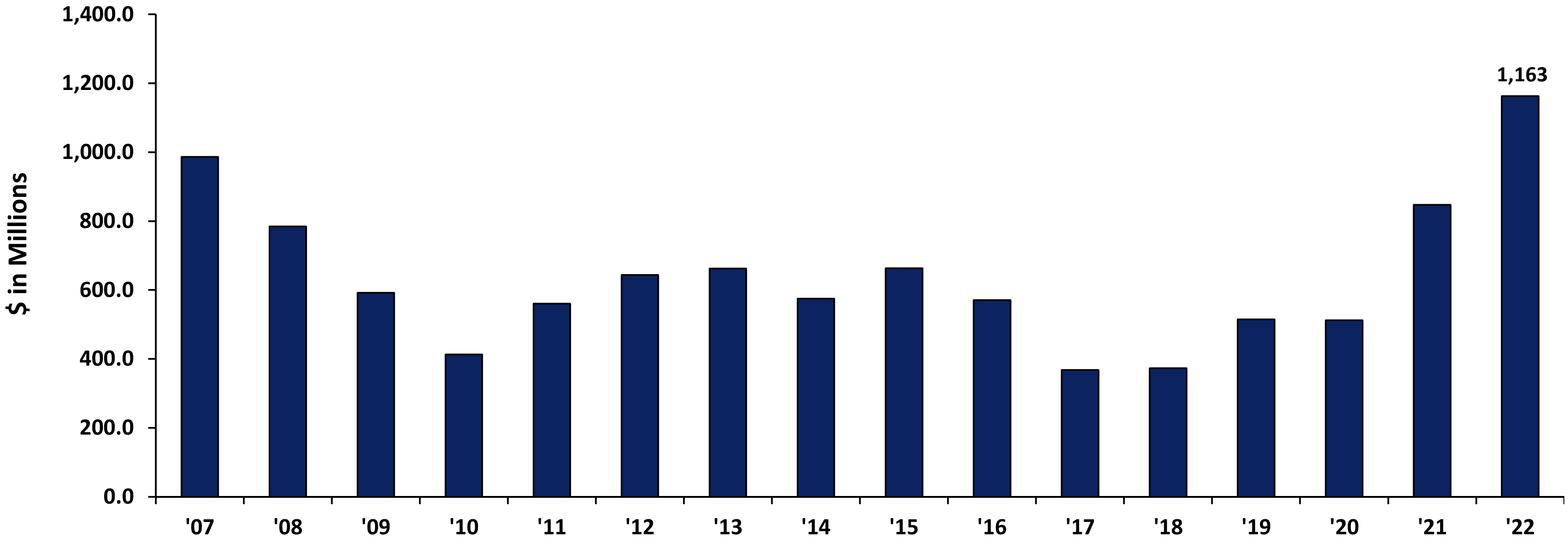
See Appendix A

’23 Revenue Growth is Expected to Slow Compared to ’22

- But Will Generate Gains Relative to the Enacted Budget

- Due to recession concerns this past spring, the enacted budget assumed that base revenue growth would decline by (2.0)% in ’23
- Through 4 months, however, revenue growth has been 12.1%
- While the recession risk remains, the economy’s current momentum will likely keep revenue growth positive in ’23 at 6.0%
- The increase in the growth rate above the enacted budget will generate over $1.0 B in unanticipated revenue in ’23, thereby helping to increase the available one-time balance

Corporate Income Tax - Up 125% in 2 Years
- Given the Cyclic Nature of CIT, this Rapid Growth Poses Significant Downside Risk



Spending Adjustments

Baseline Spending Projections

- Baseline reflects changes to active statutory/other funding formulas - no discretionary additions

- Also reflects changes due to the enacted ’23 budget’s 3-year spending plan
  - Assumes spending classified as one-time does not continue
  - Includes future year spending increases that were agreed to in the budget

- If we ultimately continue the “ongoing 1-times” of school building repairs and state employee health insurance, the cost would be $287 M

Baseline Spending Projected To Decrease By $(383) M

'24 Ongoing Spending Changes	
	$ in M
Medicaid Formula	245
ADE – K-12 Formula	220
Pension Payoff Savings	(100)
Other	30
Total	**395**

Total Spending Changes	**$(383) M**
Total Spending	**$15,066 M**
% Change	**(2.5)%**

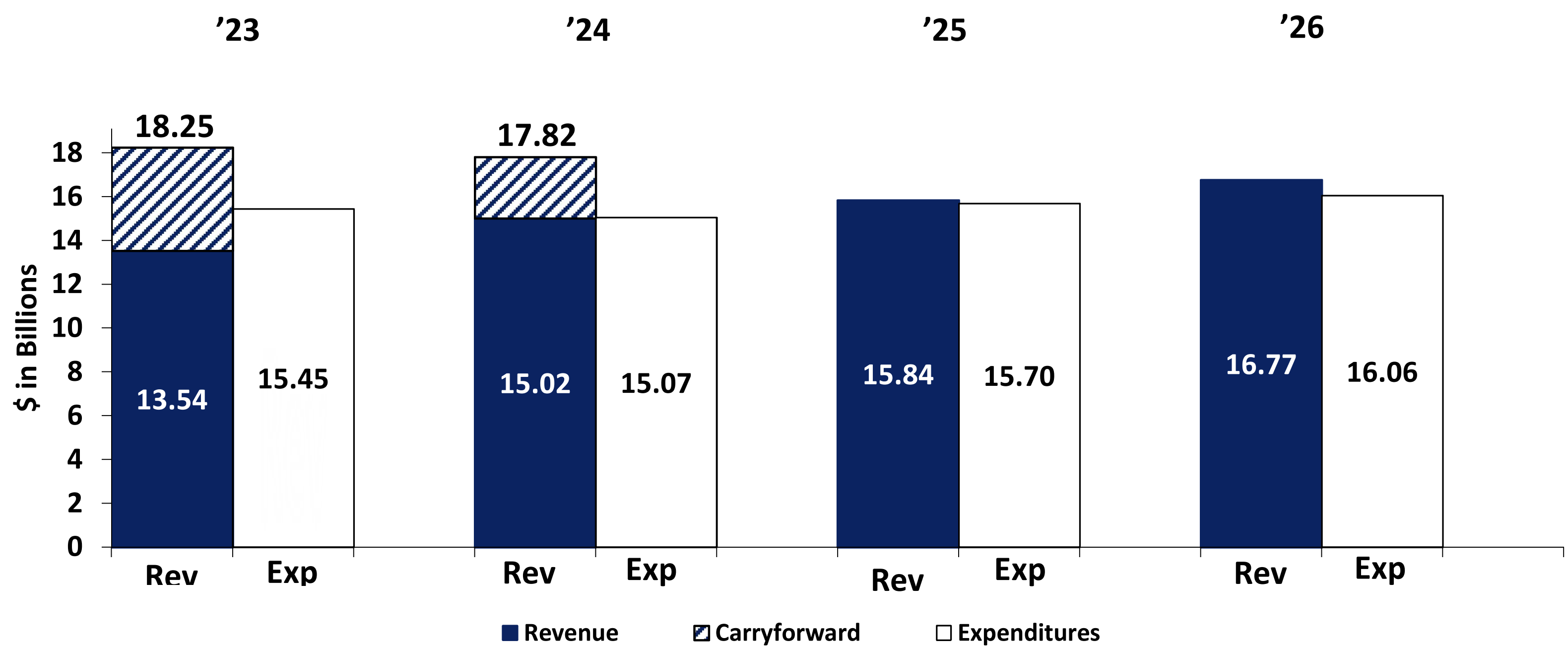
'24 One-Time Spending Additions/Deletions	
	$ in M
Loss of Medicaid Match Savings	307
Water Supply Funding	333
Remove K-12 Rollover Payoff	(65)
Wildfire Expenses	(65)
State Employee Health Insurance	(103)
K-12 Capital – Building Repair Grants	(183)
K-12 Capital – Fewer New Schools	(81)
University Funding	(123)
Other Agency Spending	(506)
Transportation Projects	(73)
Capital Projects	(219)
Total	**(778)**

Projected Ending Balances

Excludes $1.4 B in Budget Stabilization Fund

Available Balances: $140 M Ongoing & $2.5 B One-Time

- Assumes Available Balance is Fully Used at the End of ’24



Cash Balance	$2.80 B	$2.75 B	$142 M	$705 M

Final Thoughts

- Given the economic uncertainty, our revenue estimates could change considerably as we go through the ’24 budget process.
- May not want to allocate entire $2.5 B 1-time surplus in ’24 to maintain flexibility due to this uncertainty.
- Empowerment Scholarship Account enrollment is much higher than budgeted and will likely absorb substantial ongoing spending capacity.

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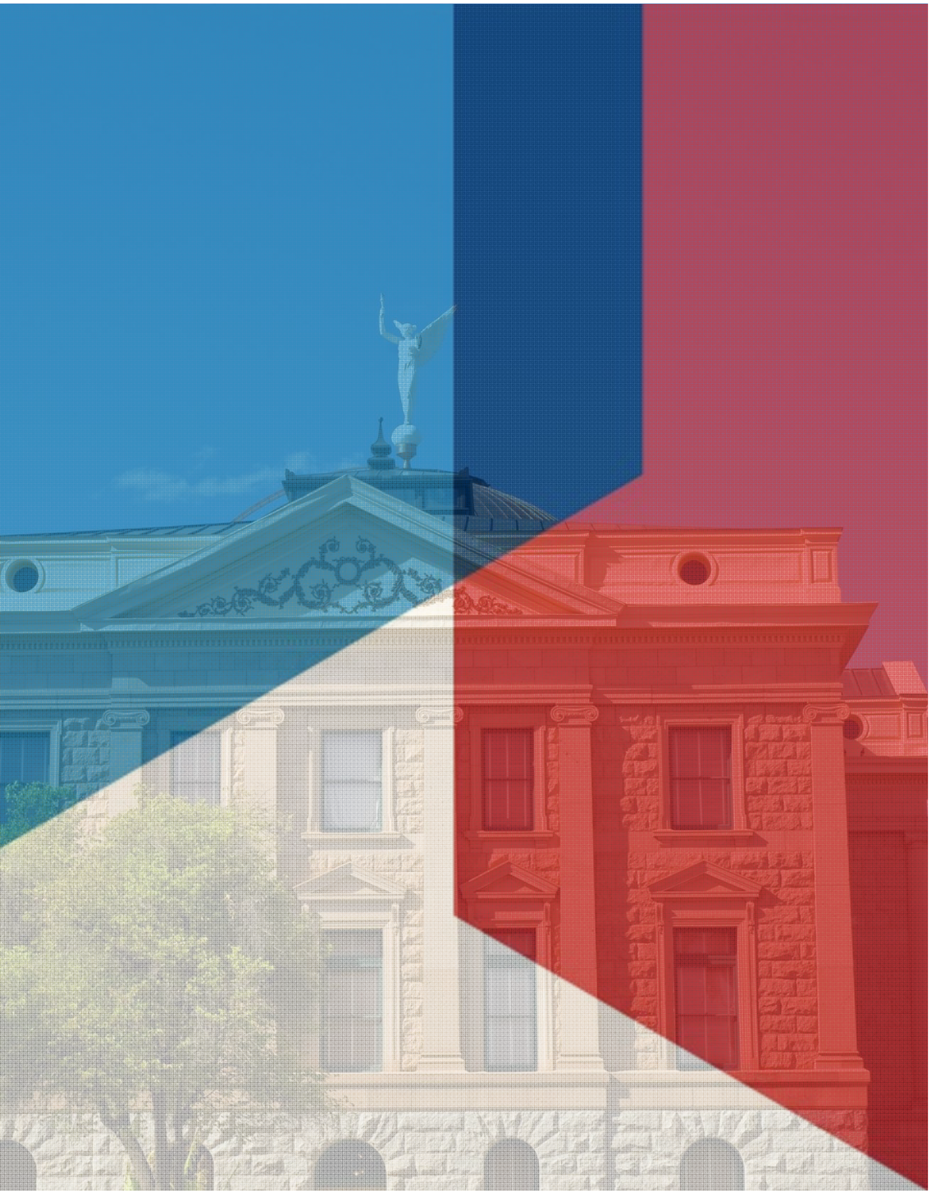
Appendix A: 4-Sector Forecast

	2023	2024	2025	2026
Sales Tax				
JLBC Forecast	6.0%	2.0%	4.0%	4.5%
UA – Low	4.3%	1.5%	3.1%	3.9%
UA – Base	6.5%	3.5%	4.2%	4.5%
FAC	6.7%	2.9%	5.3%	5.7%
Average:	**5.9%**	**2.5%**	**4.2%**	**4.7%**
Individual Income Tax with Deferral				
JLBC Forecast	5.3%	2.0%	4.6%	4.9%
UA – Low	5.9%	2.8%	4.3%	4.7%
UA – Base	6.3%	4.8%	5.1%	5.1%
FAC	4.6%	1.9%	6.6%	6.3%
Average:	**5.5%**	**2.9%**	**5.1%**	**5.2%**
Corporate Income Tax				
JLBC Forecast	5.3%	-1.6%	3.8%	4.0%
UA – Low	4.3%	-2.3%	3.7%	4.9%
UA – Base	6.0%	0.3%	4.2%	5.1%
FAC	8.3%	-1.8%	9.4%	7.7%
Average:	**6.0%**	**-1.4%**	**5.3%**	**5.5%**
Insurance Premium Tax				
JLBC Forecast	4.6%	-2.4%	4.0%	3.7%
UA – Low	6.6%	5.0%	4.5%	4.7%
UA – Base	7.0%	5.6%	5.1%	5.0%
FAC	6.0%	3.9%	5.2%	5.5%
Average:	**6.1%**	**3.1%**	**4.7%**	**4.8%**

JLBC Weighted Average	**5.6%**	**1.6%**	**4.3%**	**4.6%**
UA Low Weighted Average	**5.1%**	**2.0%**	**3.8%**	**4.4%**
UA Base Weighted Average	**6.4%**	**4.0%**	**4.7%**	**4.8%**
FAC Consensus Weighted Average	**5.9%**	**2.2%**	**6.2%**	**6.1%**
"Big-4" Weighted Average	**5.7%**	**2.4%**	**4.7%**	**5.0%**
Consensus Weighted Average	**6.0%**	**2.0%**	**4.0%**	**4.9%**

* Represents ongoing revenue adjusted for small revenue categories.



US & Arizona Economic Outlook

Arizona Tax Research Association
November 18, 2022

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Presentation Roadmap

- **About CSI**
- **The 2020 Recession and Recovery**
- **What Happened This Year**
- **Where Are We Going Next Year**
- **What Can We Do About It**
  - Policy Successes of the past decade
  - Policy Concerns on the Horizon

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About CSI

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Common Sense Institute is a non-partisan research organization dedicated to the protection and promotion of Arizona's economy. CSI's mission is to examine the fiscal impacts of policies, initiatives, and proposed laws so that Arizonans are educated and informed on issues.

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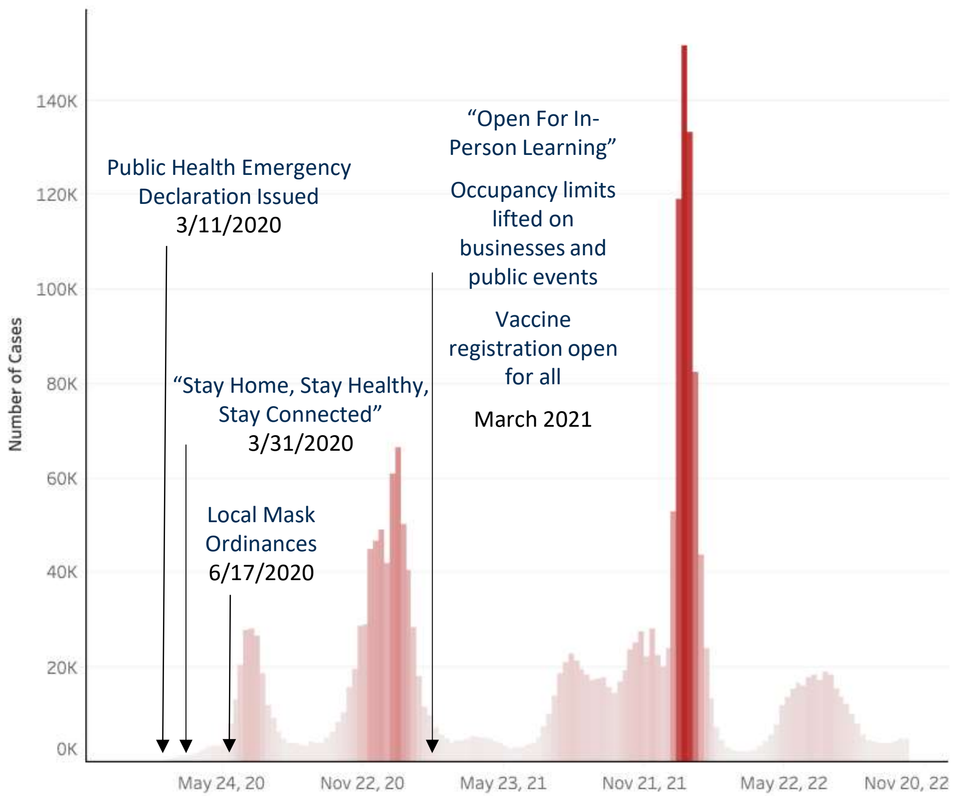
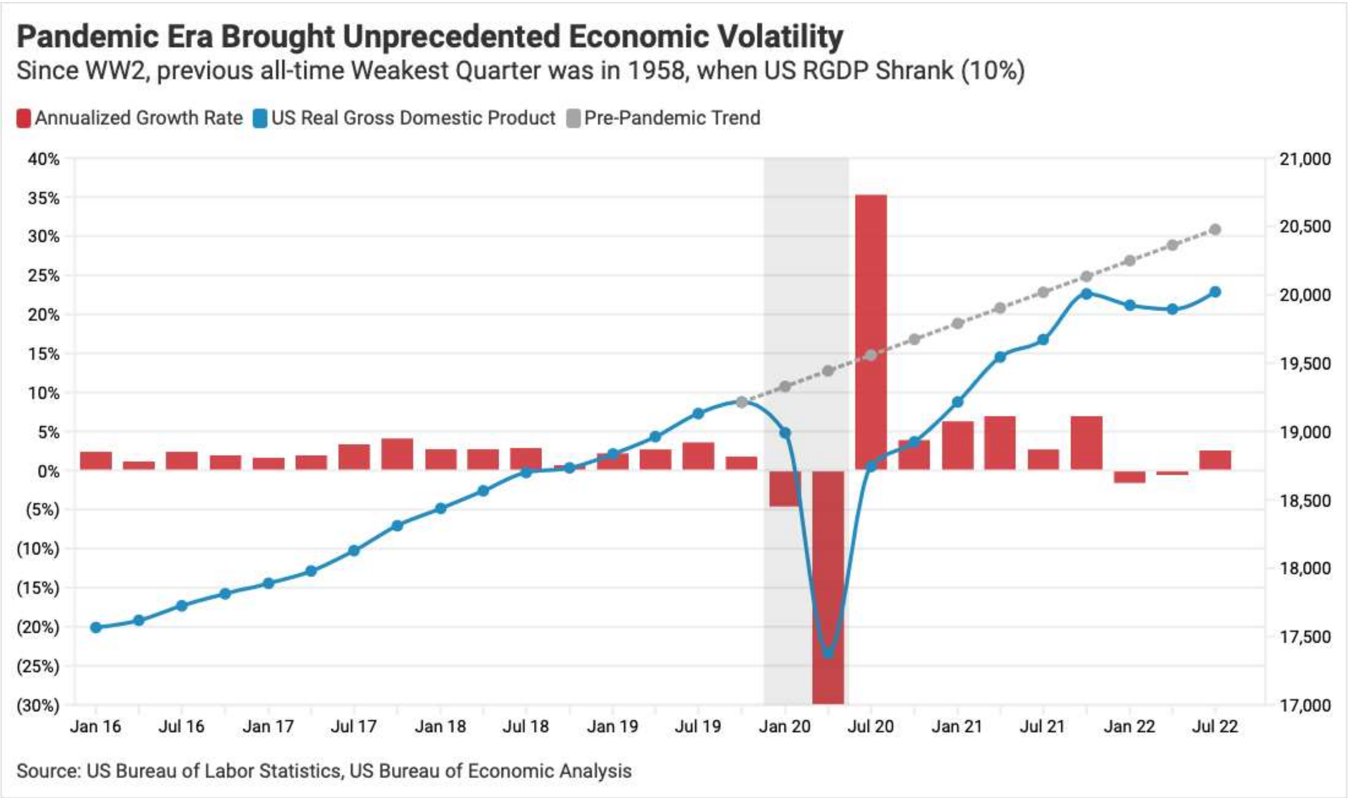
The 2020 Recession & Recovery

Recession & Recovery



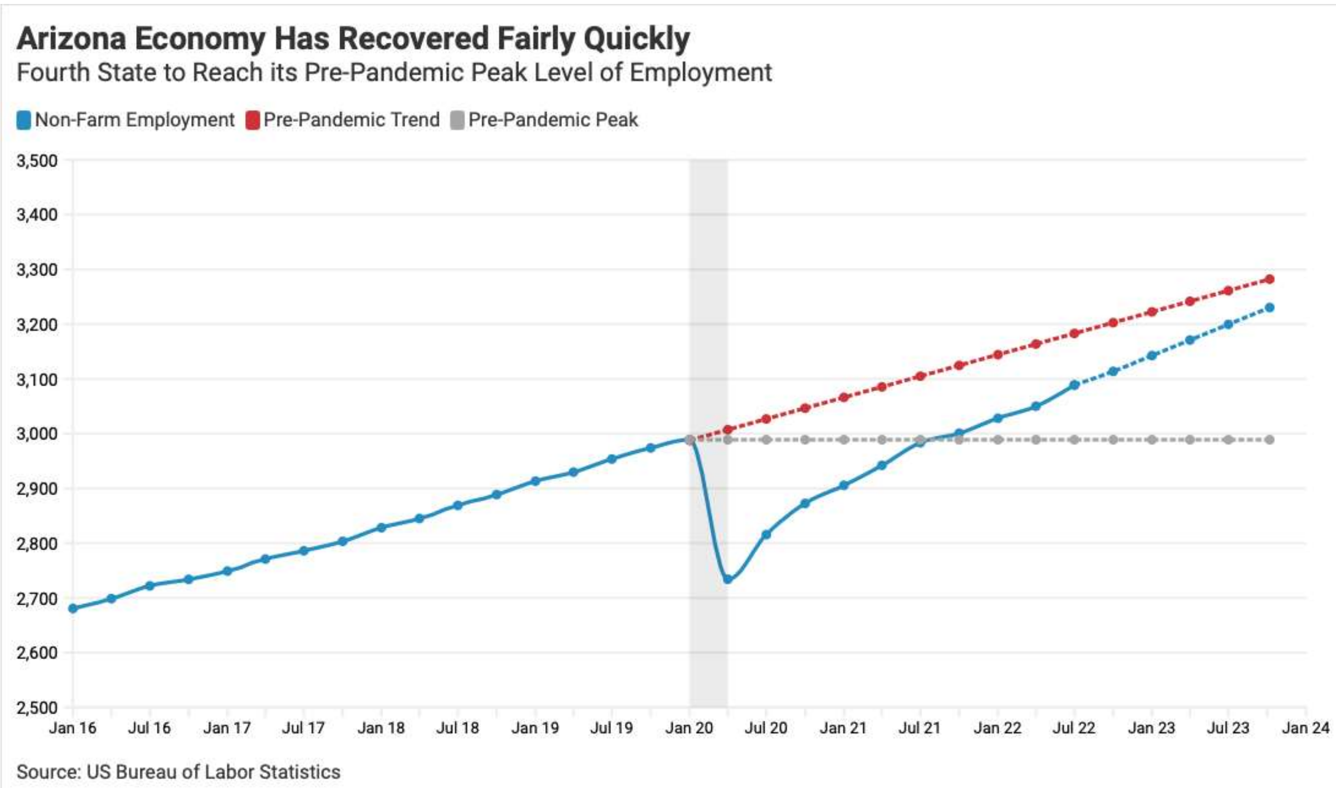
- On January 21, 2020, the first confirmed case of COVID-19 in the United States was detected in Washington State
- On January 26, Arizona's first confirmed case was detected in Tempe
- On March 11, Gov. Ducey issued the states Public Health Emergency order
- Ultimately, 43 of 50 US Governors would go on to issue some kind of 'stay-home' order between March and April 2020

Recession & Recovery



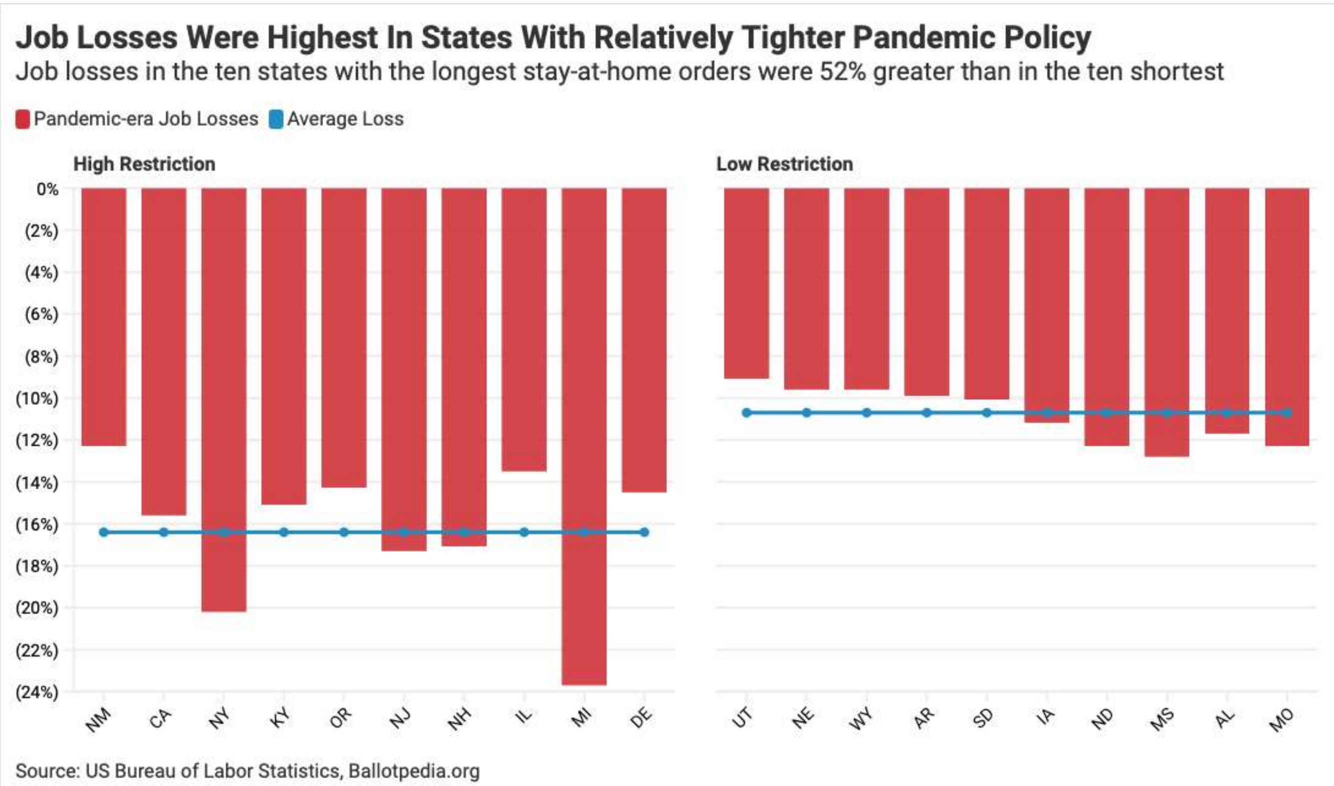
- Through 2021, the US Economy was growing relatively rapidly and on track to return to prior trend
- Since then, **growth has collapsed**
- At this point, it is unclear when/if the United States will return to its prior growth trend

Recession & Recovery



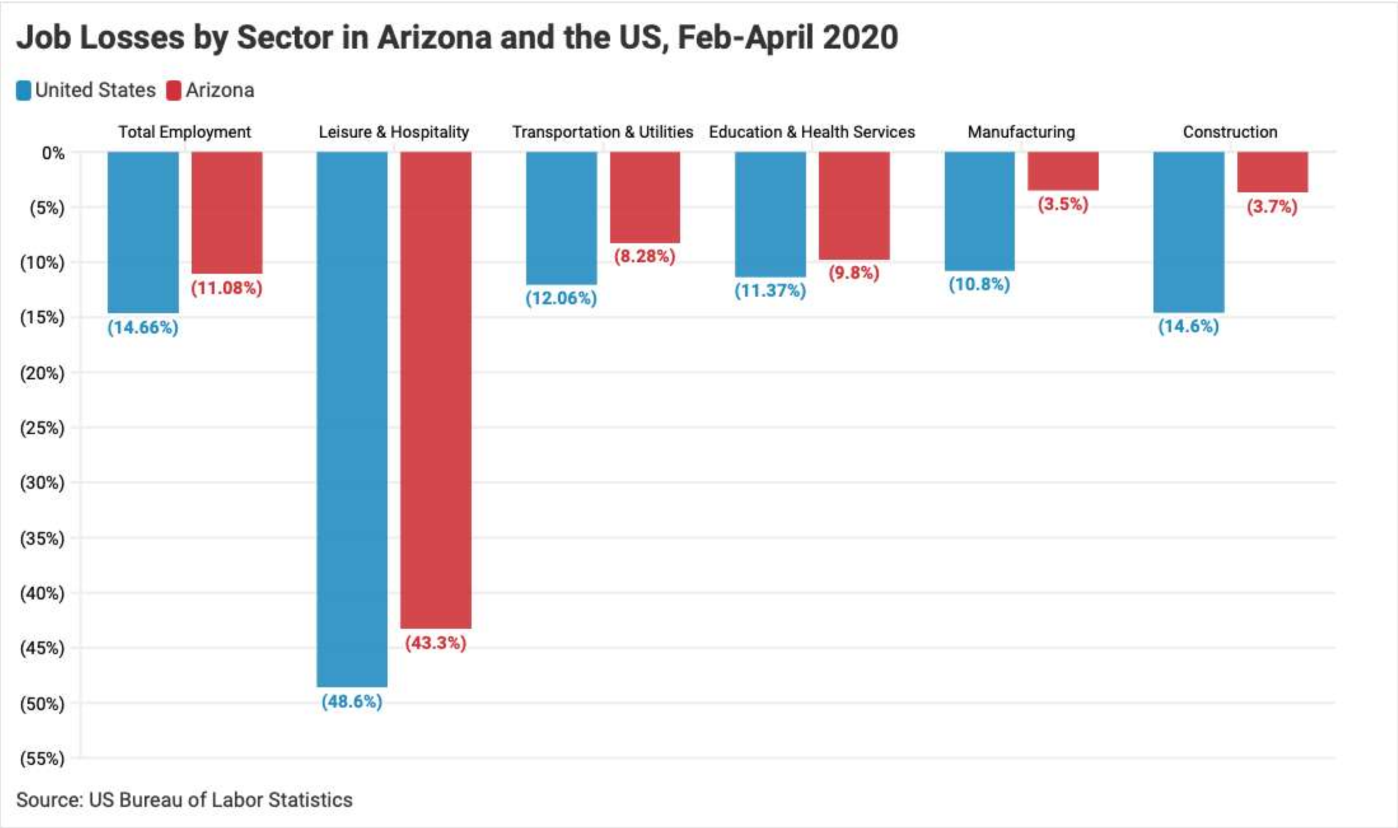
- Arizona exhibited less overall volatility than the United States
- We lost fewer jobs than all but 10 other states; regained those jobs in 15 months
- In general, **strong correlation between a state’s pandemic-era policy response and subsequent economic recovery**

Recession & Recovery



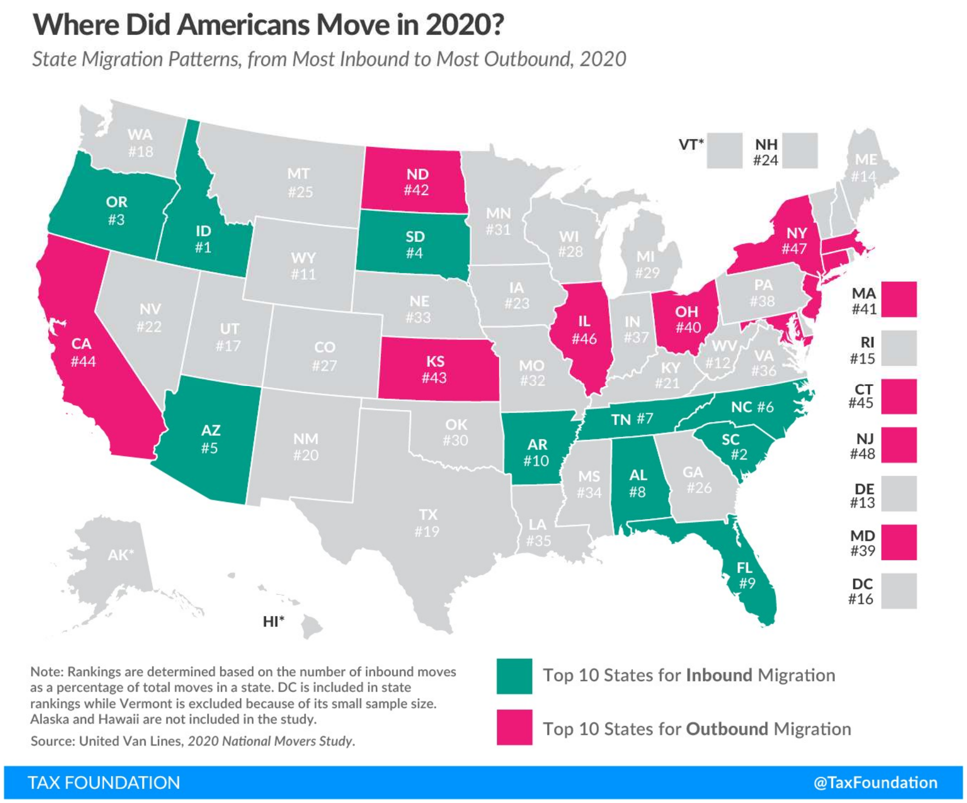
- During 2020 Federalism mattered – states all did something different
- Can we objectively proxy nature of policy response by length of each states stay-at-home order?
- **This proxy tracks well with that state's economic performance**
- Maybe policy response correlated with outbreak severity? Unclear but possible.

Recession & Recovery



- AZ and US follow similar job loss patterns, but overall fewer losses here
- Note the Manufacturing & Construction sectors, however
- Both designated "essential" in the stay-at-home EO
- ***Policy matters***

Recession & Recovery



- **More than 100,000 (net) Americans moved to Arizona during 2020 – most since at least 2010**

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What Happened This Year

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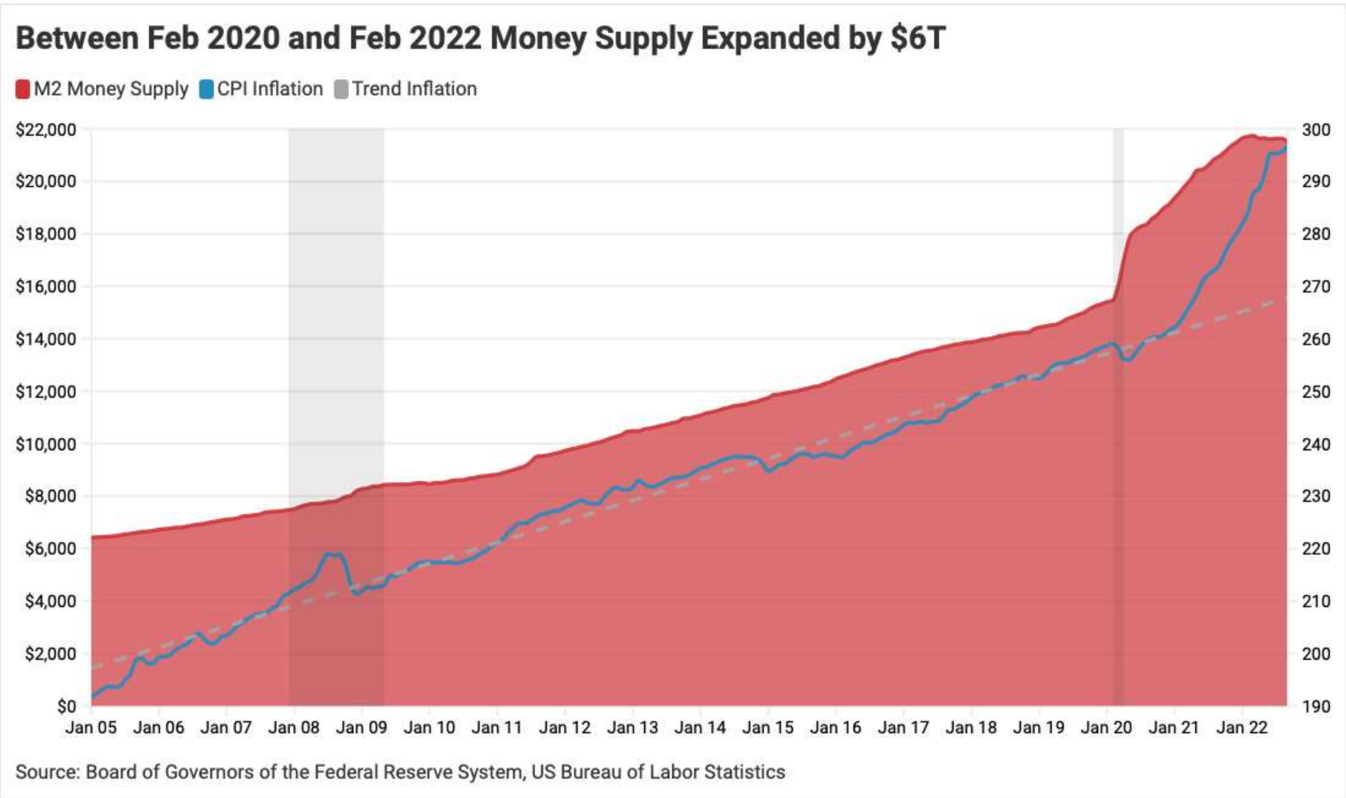
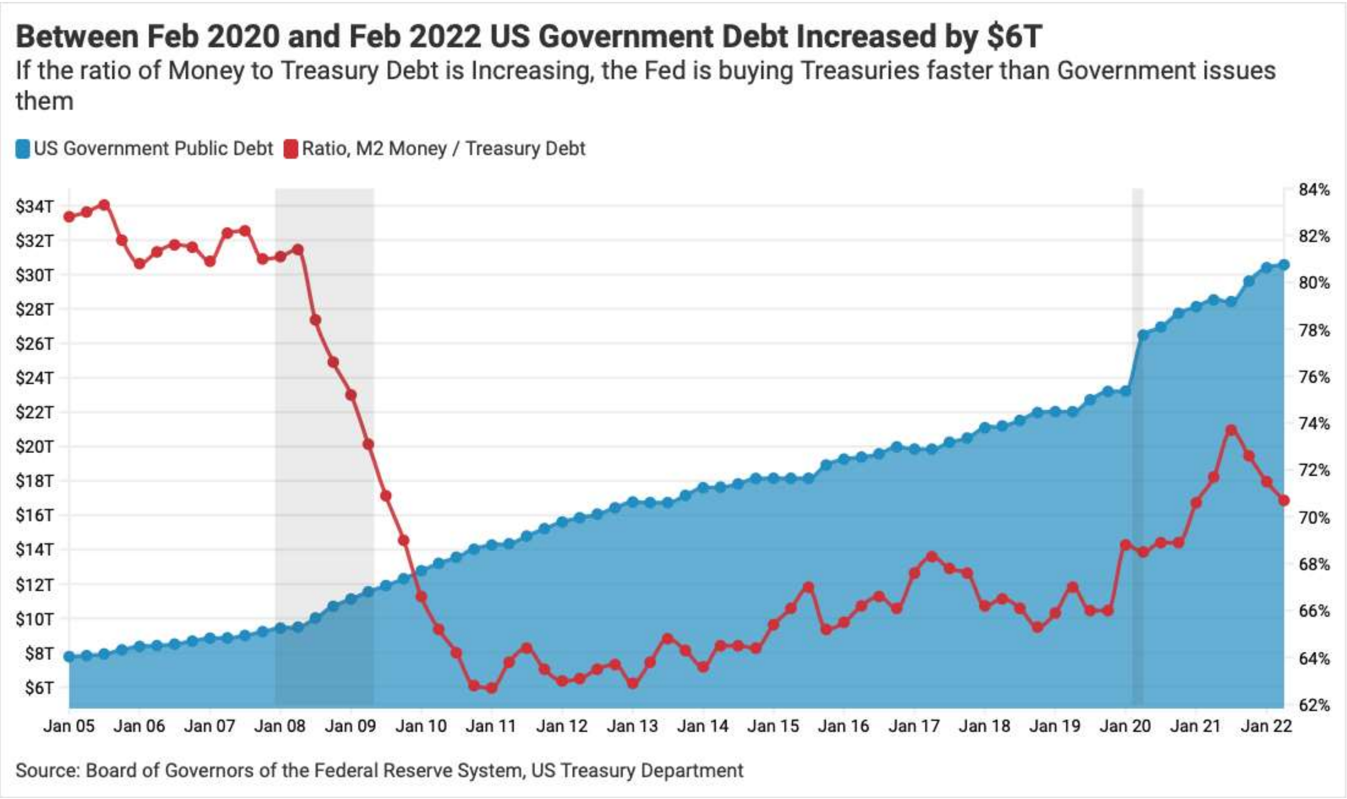
"Inflation is always and everywhere a monetary phenomenon"

What Happened This Year



- Unprecedented fiscal expansion by the Federal Reserve Board was met with unprecedented borrowing & spending by the Treasury
- Together, this created the perfect environment for runaway inflation
- Real-time (annualized) inflation hit ***17%*** in June

What Happened This Year

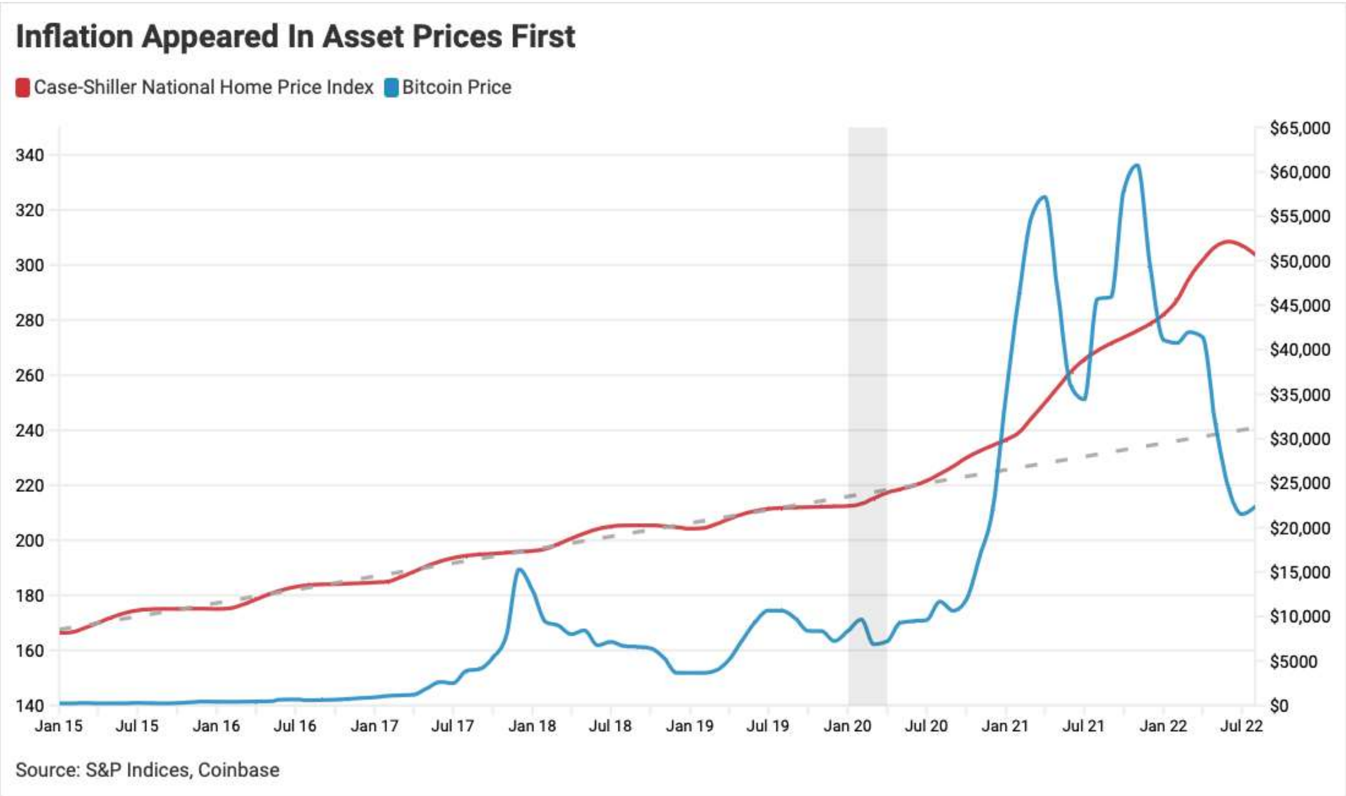


- When Government borrows, two short-run possibilities:

1. Crowding out private investment
2. Generating inflation

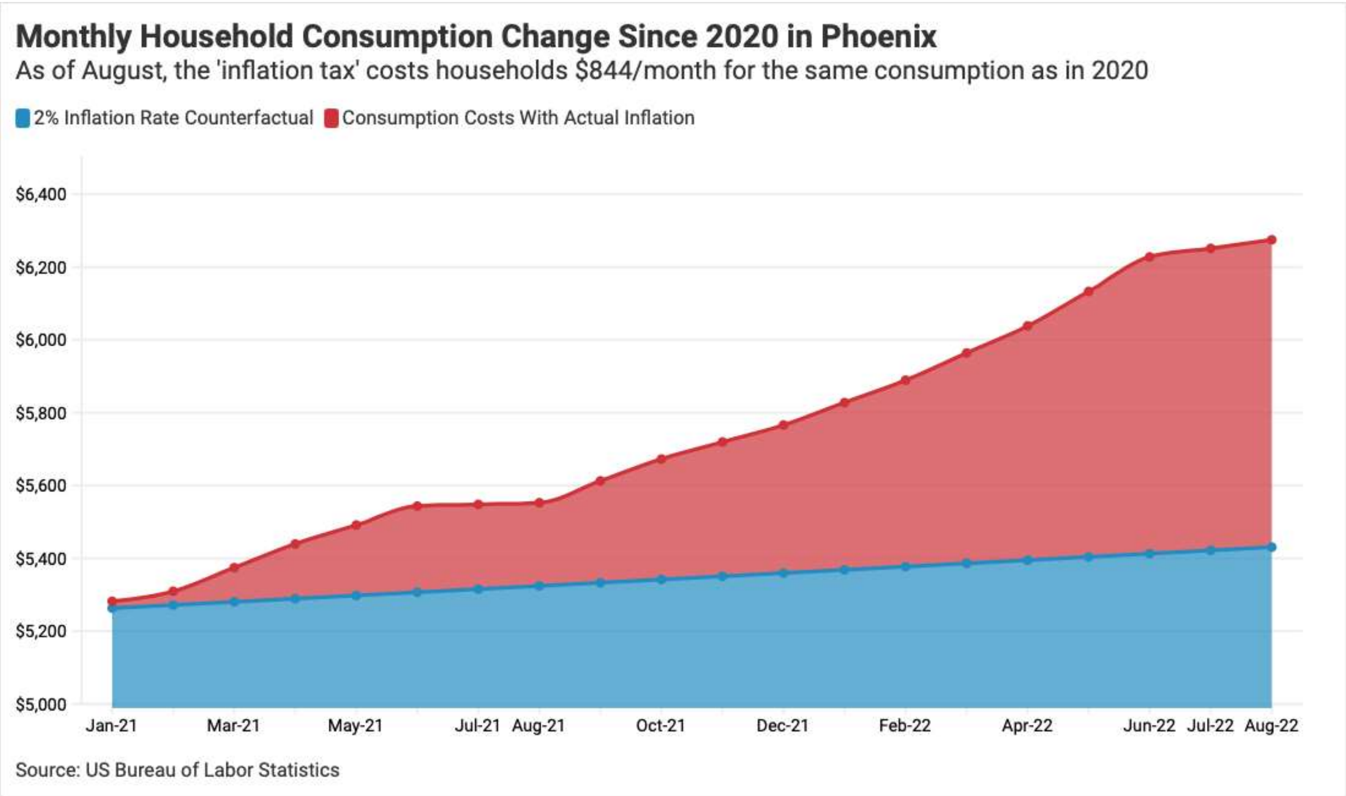
- Generally, former happens if private investors purchase the public debt
- If the Fed does the buying, though….

What Happened This Year



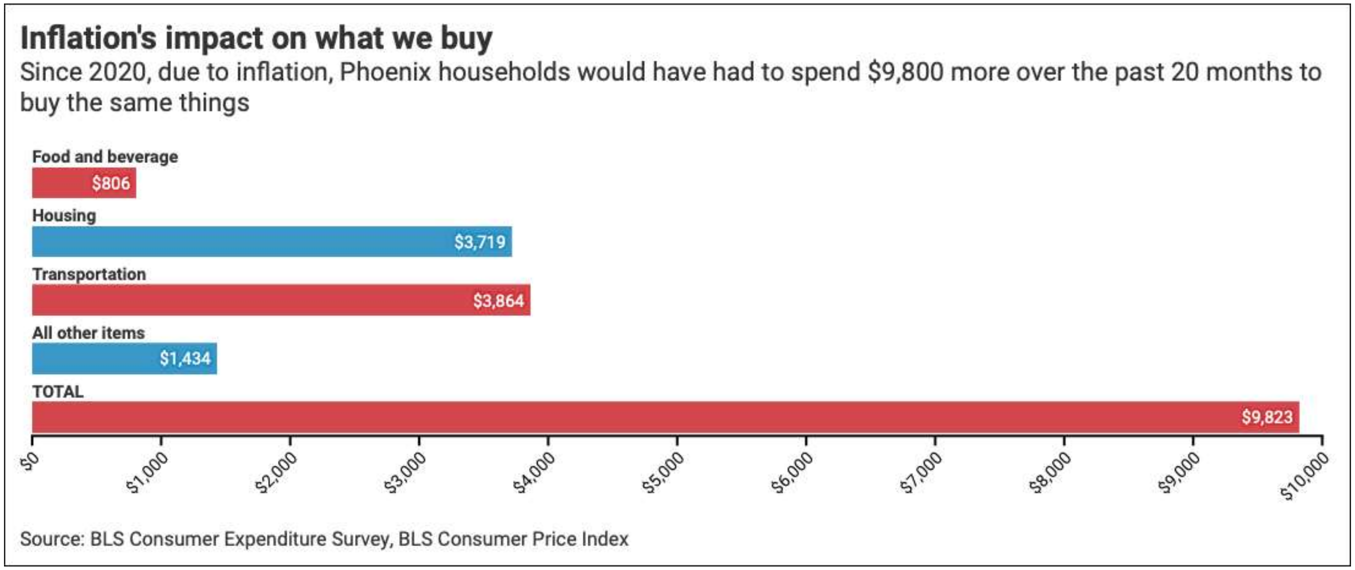
- This is clearer in hindsight than perhaps it was at the time
- **Remember:** government debt means either lower investment or inflation
- Asset inflation in late-2020 inconsistent with a ‘crowding out’ theory of offset

What Happened This Year



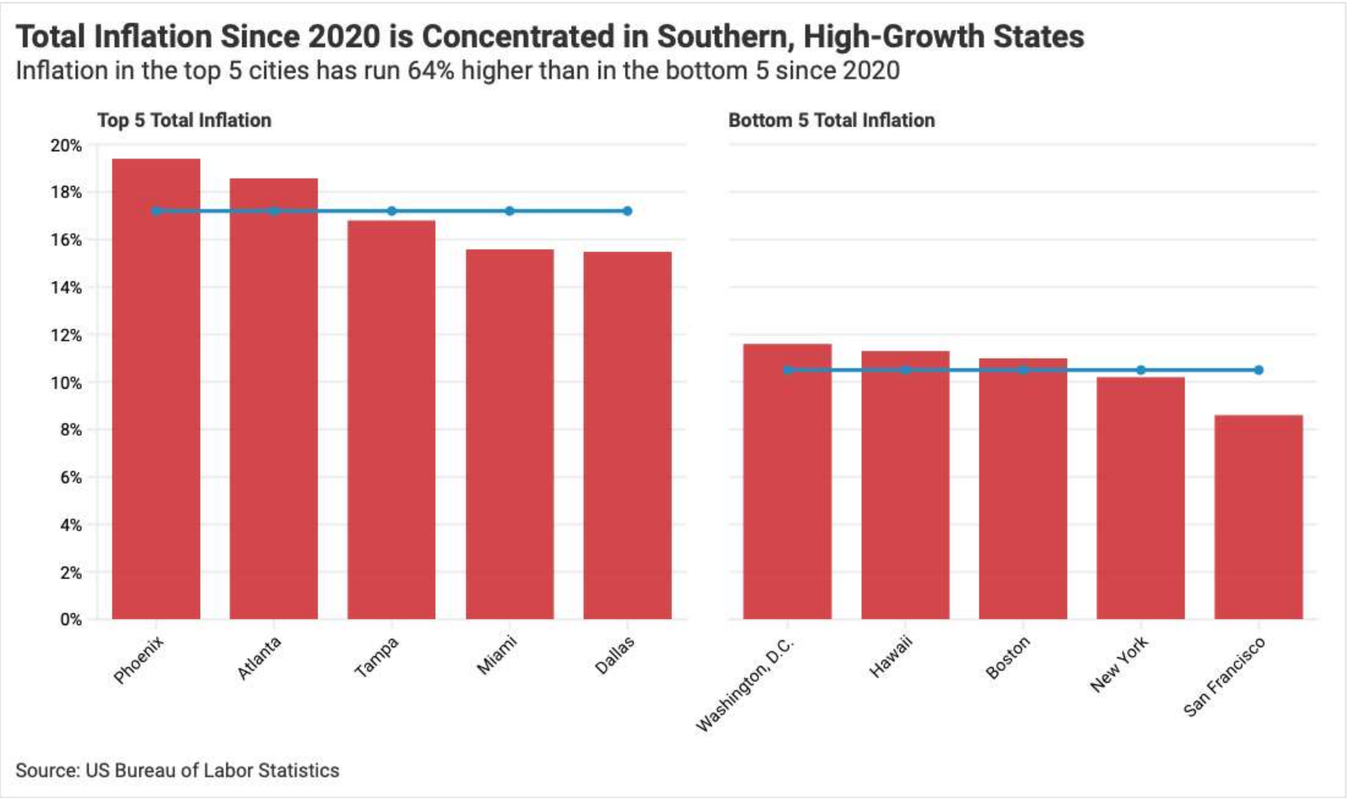
- Since spreading into consumption costs in early 2021, inflations impact has been rapid and painful
- As of August 2022, the **monthly household 'inflation tax' in the Phoenix area is over $840**
- The current annual inflation rate in Phoenix is 13%; in the US it is over 8%

What Happened This Year



- Since 2020, the average Phoenix area household would have had to spend **$9,800 more** to fund the same consumption
- **60%** of this increase is in the cost of housing, food and gasoline

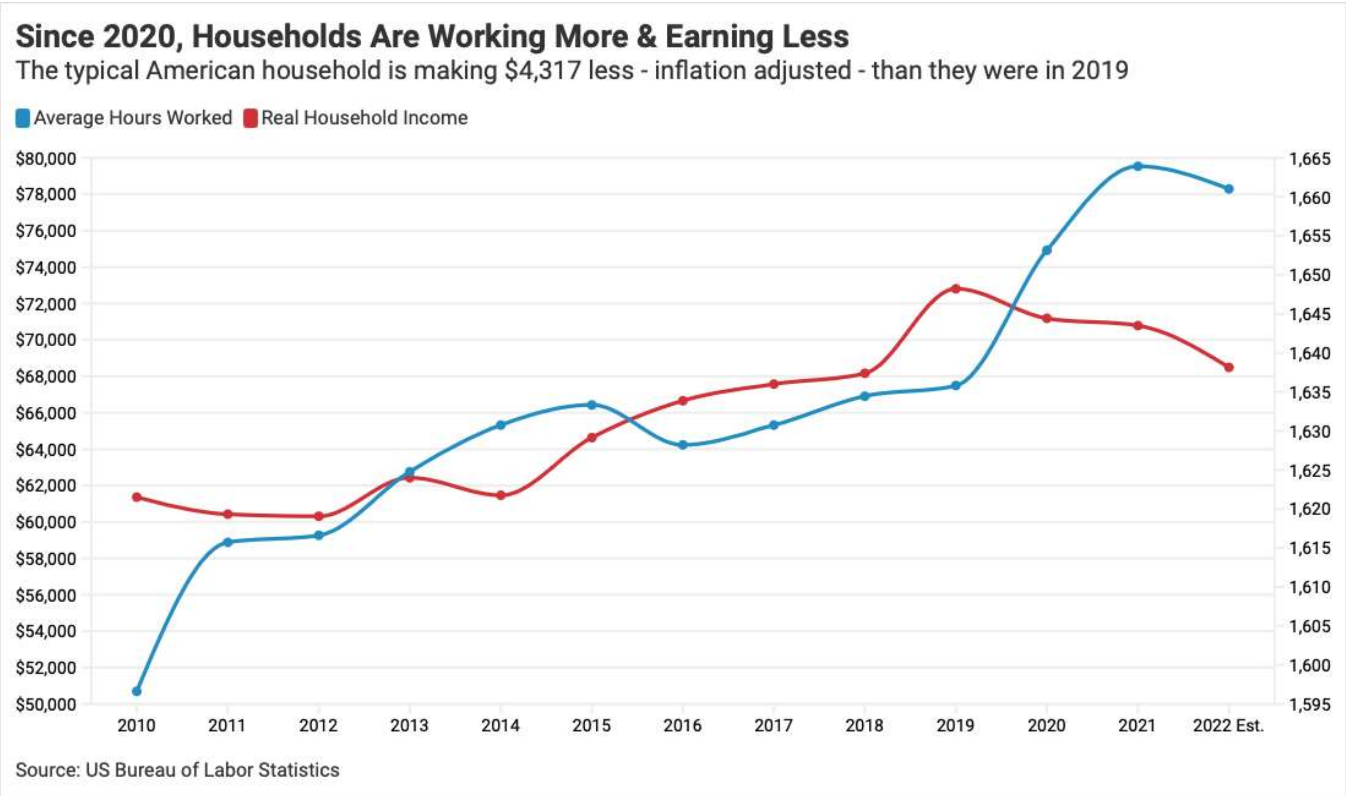
What Happened This Year



- This is very unusual from an historical perspective, as prices are generally higher in "Bottom 5" cities

- At current rates, by 2034, Phoenix would have a higher cost of living than San Francisco

What Happened This Year



- As a result, households are getting poorer
- Inflation is eroding earnings faster than households can keep up by increasing working hours & wages
- Wages are up less than 5% over the past year (versus >8% inflation)

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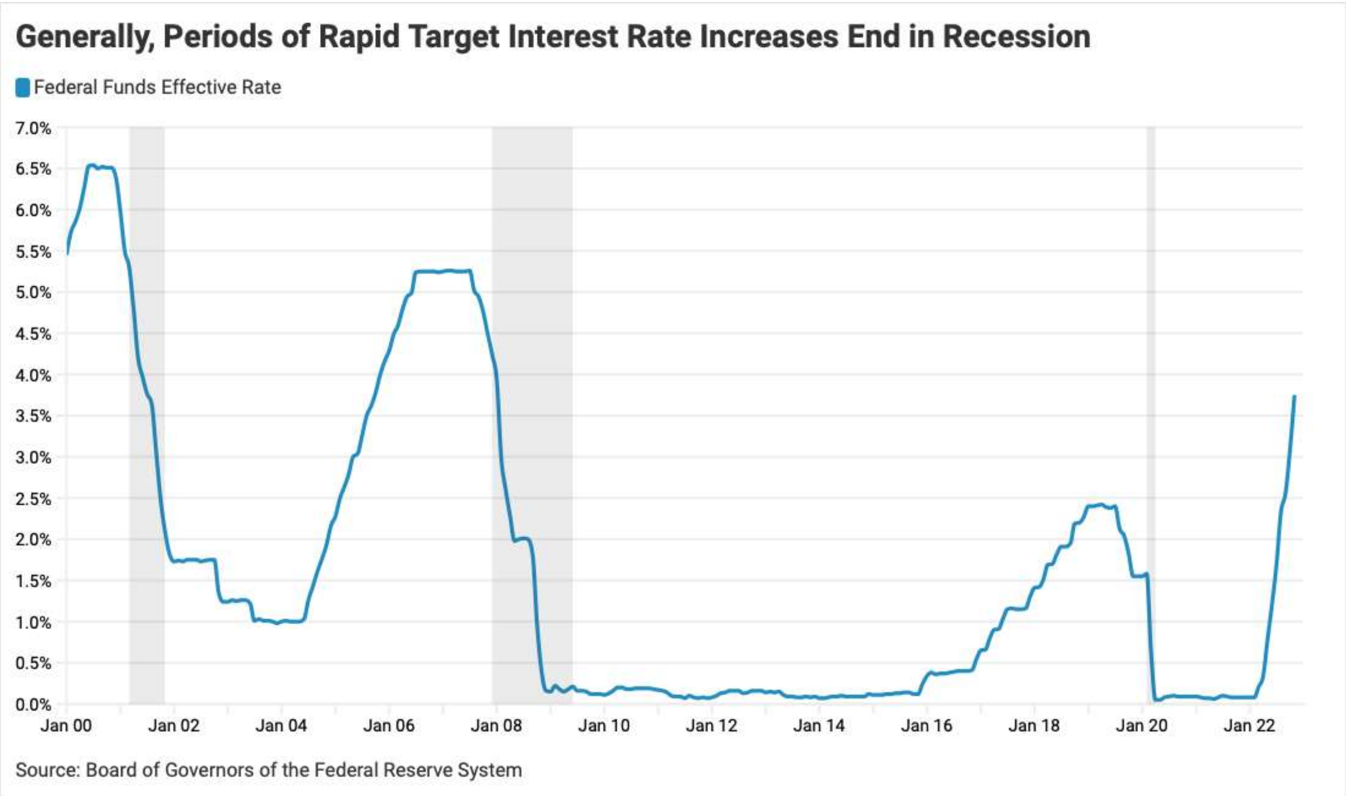
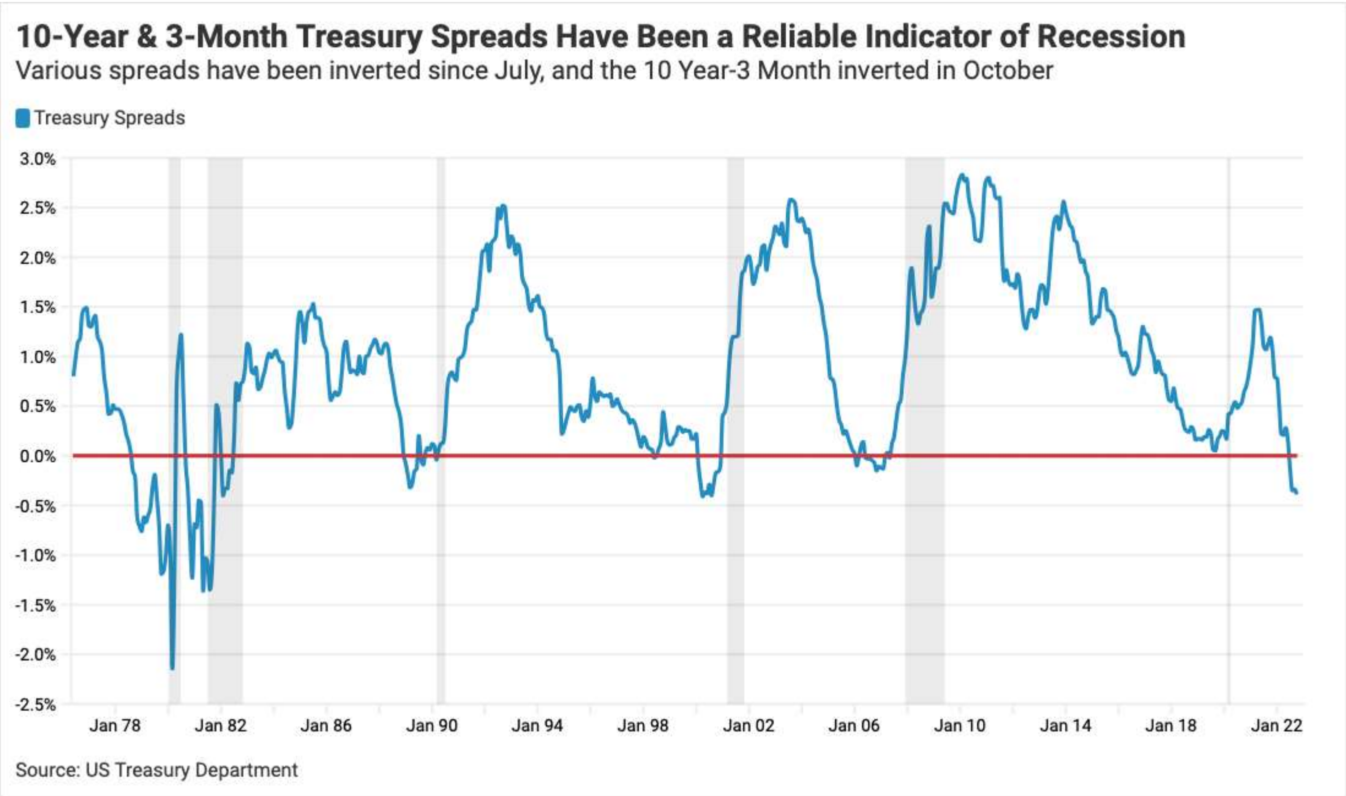
Where Are We Going in 2023

Where Are We Going



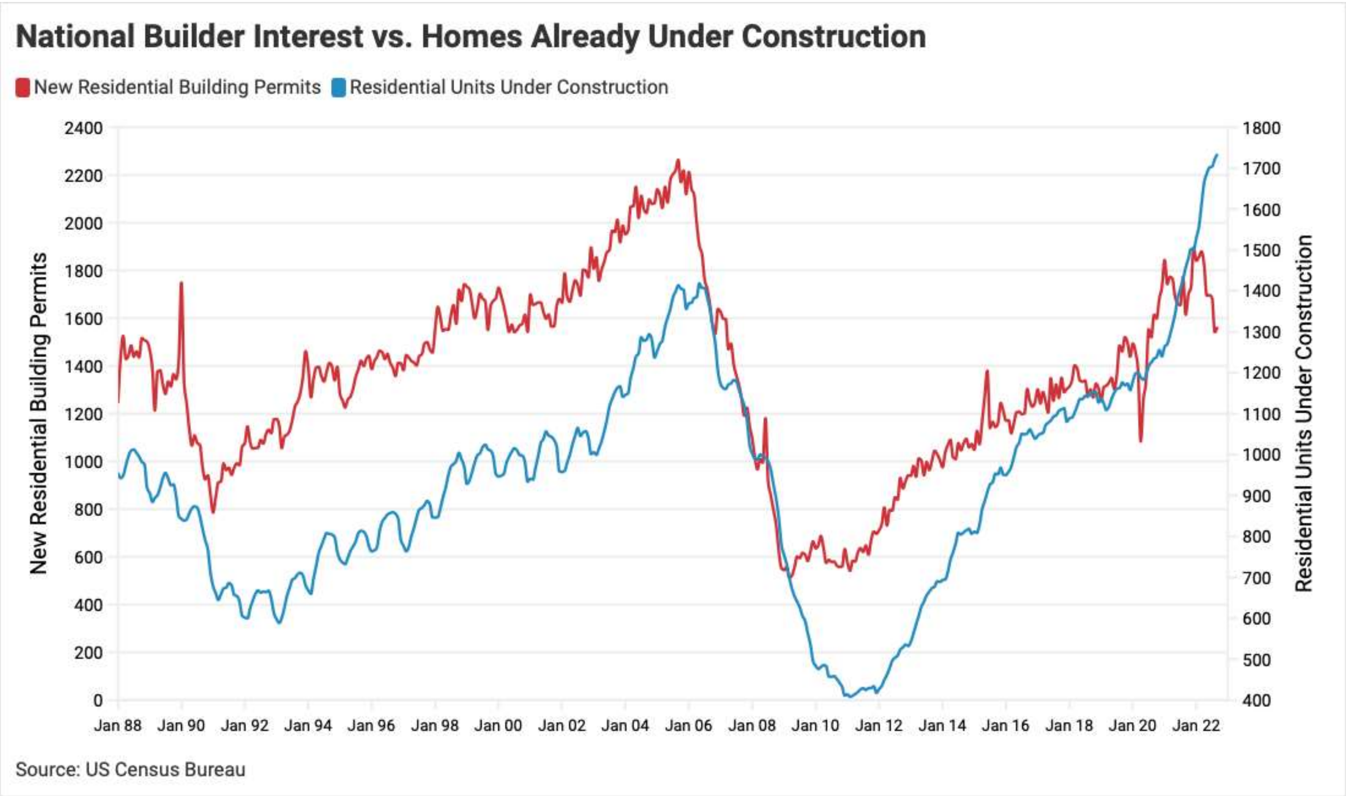
- Since 1955, depending on how you look at it, *every* Fed tightening period has ended in recession
- Once exception is maybe the mid-80's and mid-90's ('great moderation')
- **It is improbable that the current cycle does not end in recession**

Where Are We Going



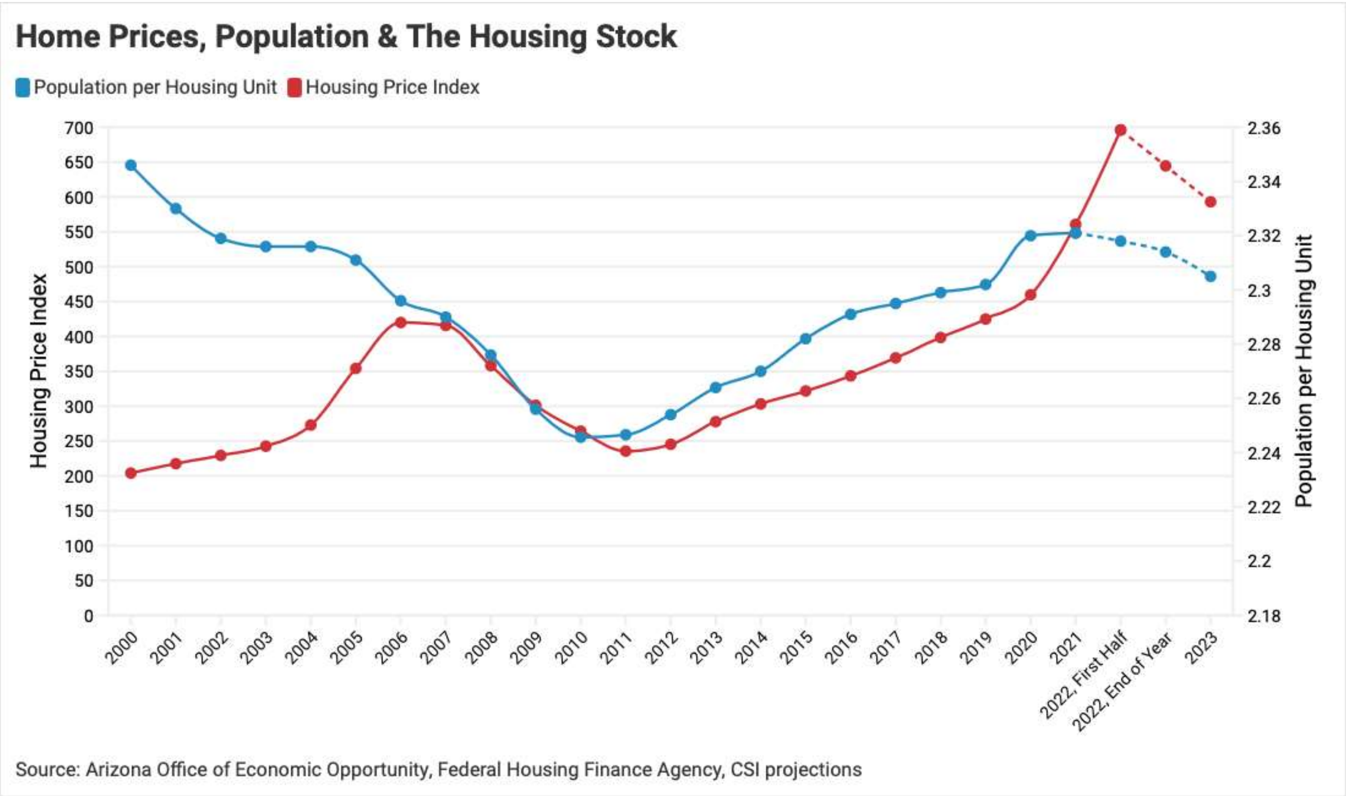
- Similarly, every Recession since the 1950's has been led by an inverted yield curve
- This happens because investors become more averse to short-term risk
- **The lead from inversion to Recession is typically fairly long**

Where Are We Going



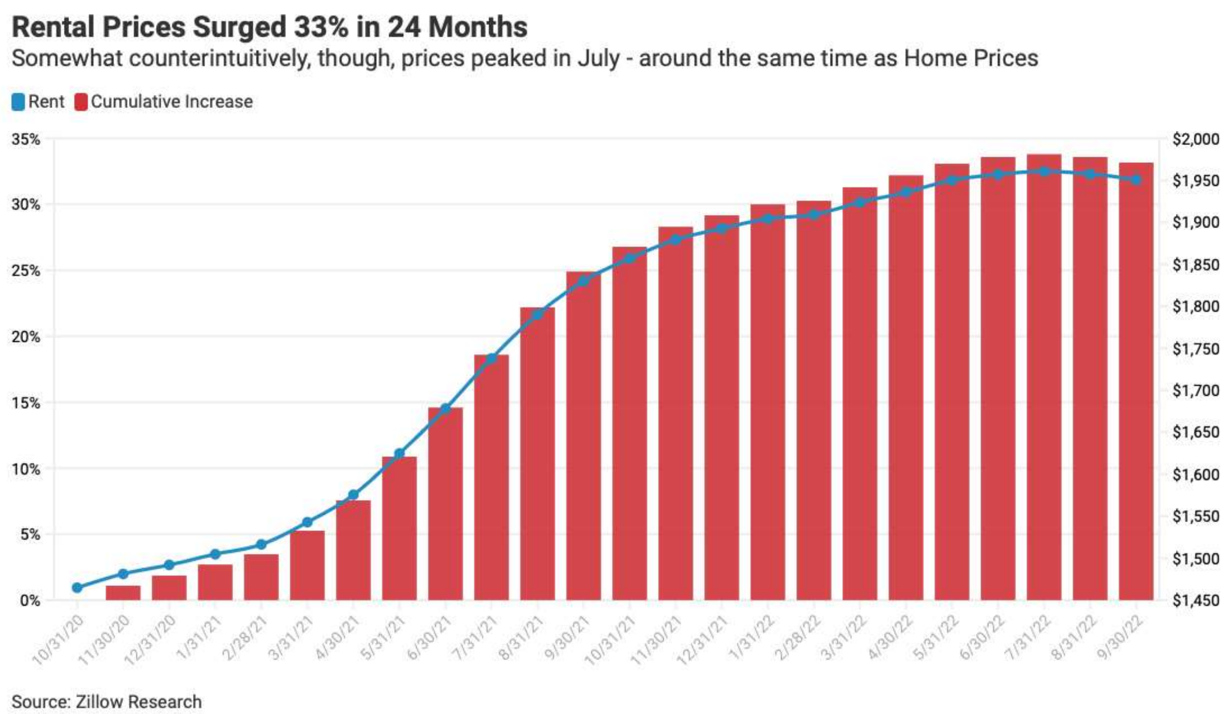
- The real estate market is in correction – prices have been falling since June
- Builder interest – pulled permits – is in free fall
- But 1.7 million homes remain in the new construction pipeline
- These properties will enter the market over the next year

Where Are We Going



- In Arizona, home prices began declining in June
- Through September prices are down about 4%
- CSI estimates prices need to decline ~15% from the peak to get back to fundamental levels
- **There may be considerable volatility about this level**

What Happened This Year



- The housing correction should be concerning for policymakers…
- While rental costs are coming down, they are still very elevated
- During the 2008 housing correction, though, rental costs went **up** – consistent with a substitution story of demand
- What do falling rents in Arizona this time tell us?

Where Are We Going

- Housing market is in correction
- Two-decade high inflation is crippling the American consumer
- Conference Board: “90% chance of recession in next 12 months”
- EIA: “U.S. has only 25 days of reserve diesel supply”
- Federal Reserve Board is increasing interest rates at the fastest pace in over 40 years
- Federal regulatory actions/rulemakings are up 35% over the past two years

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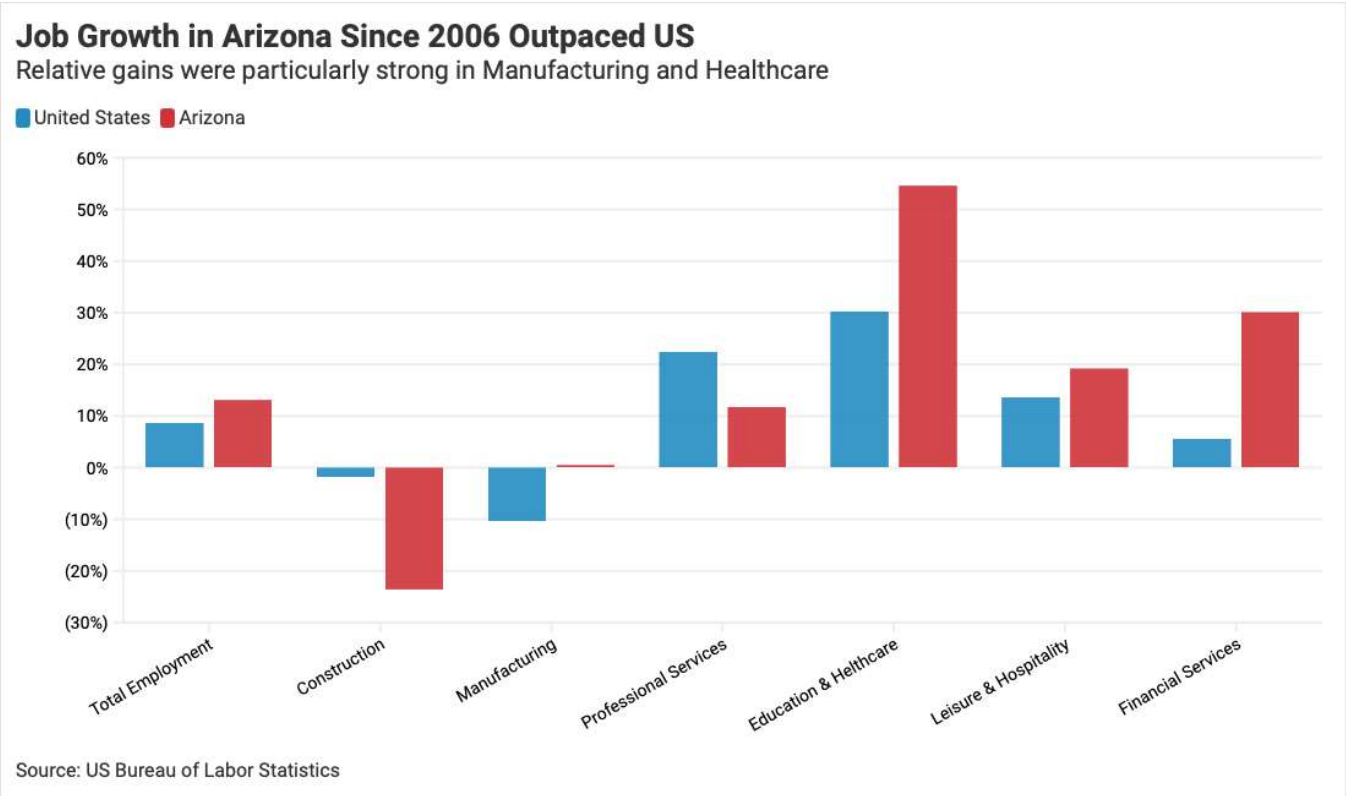
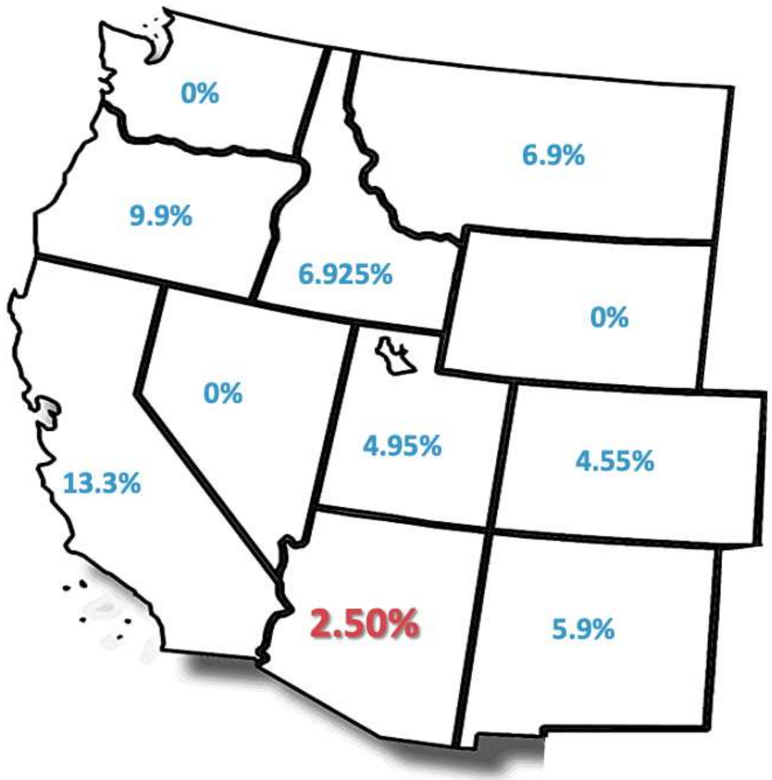
What Can We Do About it

What Can We Do About It



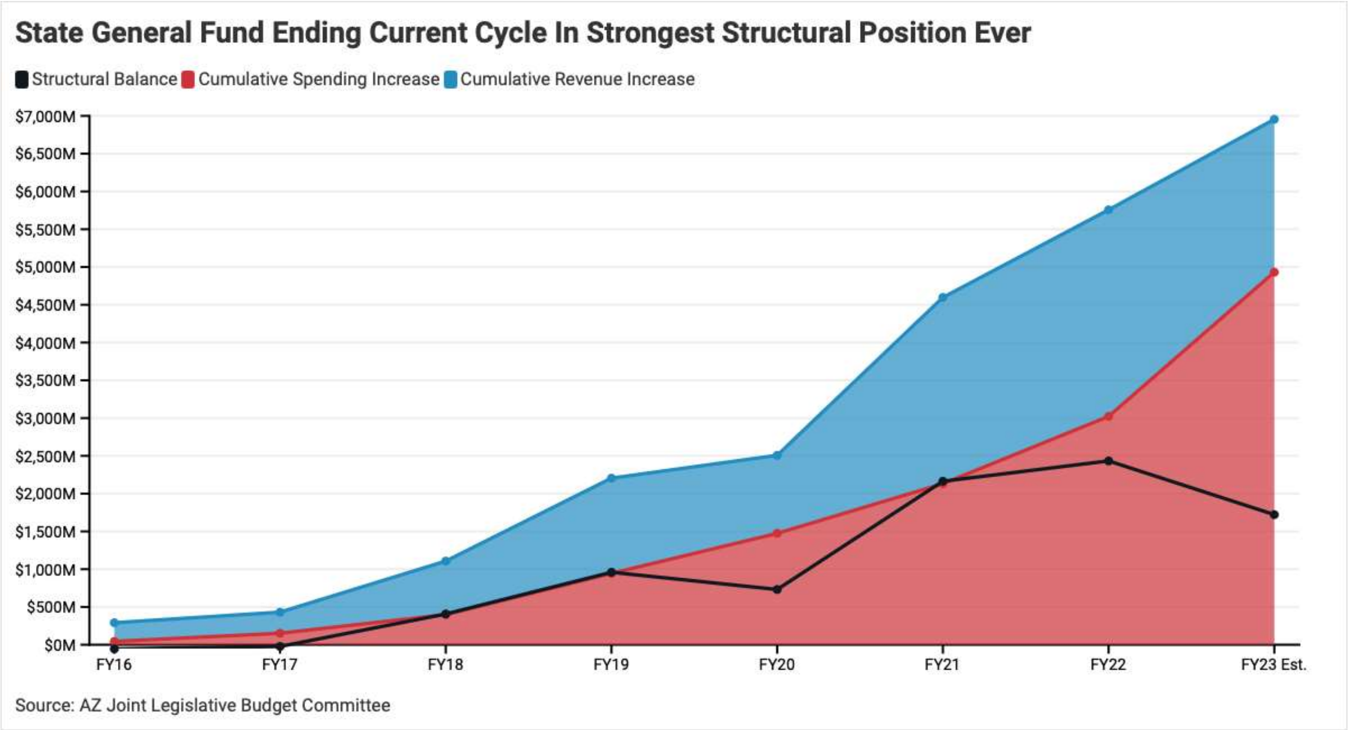
- Arizona's labor market outpaced the US by over 50% since 2006
- Today, we have a more diverse and mature economy than in '06
- Arizona's relative growth has been particularly strong in healthcare, financial services, and manufacturing

What Can We Do About It



- Arizona’s 2.50% single-rate income tax is the lowest in the country among states with an income tax
- It makes us particularly attractive relative to California, which has been a huge growth driver for AZ in recent years
- Commercial property tax reforms will also drive investment in upcoming years

What Can We Do About It



- State has $2.8B cash; $1.4B structural balance; $1.4B rainy day fund
- At about 30% of spending, **State's total cash reserves are substantial**

What Can We Do About It

Looking Ahead, State & Local Policymakers Can:

- Continue to limit the growth in ongoing budgets – revenues are likely to slow down
- Meaningful, supply-side housing reform is more important now than before; rising prices alone won’t drive our growth
  - Rental sales tax relief
  - Zoning & other local restrictions on new building
  - Amenity & feature mandates that add to construction costs
- Further reduce taxes – particularly taxes on investment & business expansion
  - The combination of Wayfair remote seller's taxes & Income Tax Reform has permanently expanded the tax base, and can finance continued cuts elsewhere
- Invest meaningfully in the states water, power, and transportation infrastructure – rapid post-2020 growth will likely stress these resources relative to historic estimates

What Can We Do About It

WHO DO WE WANT TO BE AS A STATE?

New Governor
New Legislature
Strong Fiscal & Economic Position
National/Global Recession

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Questions?

ARIZONA TAX RESEARCH ASSOCIATION

Kevin McCarthy, *ATRA President*

Jennifer Stielow, *ATRA Vice President*

The taxpayer's watchdog for over 80 years

AZ's Historic Progress on Tax Reform

- The last two years have been highlighted by major reforms in Arizona's tax system
- Reality is they have been a part of a consistent 30-year effort to improve Arizona's tax code
- Reforms primarily focused on Arizona's economic competiveness. Huge progress has been made through many pieces of legislation passed over the last three decades

Property Tax Reforms

- In the early 1990's, it became apparent that Arizona's classification system was pushing Arizona business property taxes to among the highest in the nation
- At the time, dealing with the underlying problem – higher assessment ratios – was next to impossible
- City representatives and economic development groups encouraged policymakers to side step the underlying problem by offering targeted tax breaks through class 6 (5% assessment ratio) and GPLET
- A ten-year year effort finally broke through in 2005

Property Tax Reforms

	Tax Year	A/R	H.O. Rebate
HB2779	**2005**	25.0%	35.00%
	2006	24.5%	36.00%
HB2784	**2007**	24.0%	37.00%
	2008	23.0%	38.00%
	2009	22.0%	39.00%
	2010	21.0%	40.00%
HB2001 (SS)	**2011**	20.0%	40.00%
	2012	20.0%	40.00%
	2013	19.5%	40.00%
	2014	19.0%	43.559%
	2015	18.5%	45.003%
	2016	18.0%	47.190%
	2017	18.0%	47.190%
	2018	18.0%	47.190%
	2019	18.0%	47.190%
	2020	18.0%	47.190%
SB1828	**2021**	18.0%	47.190%
SB1093	**2022**	17.5%	50.00%
	2023	17.0%	50.00%
	2024	16.5%	50.00%
	2025	16.0%	50.00%
	2026	15.5%	50.00%
	2027	15.0%	50.00%

TY 2005 vs. 2021 Effective Tax Rates (ETR)

TY 2005 ETR's

Class	Assessment Ratio	Total Taxable Full Cash Value	Percent of Total	Total Yield	Percent of Total	Effective Rate
1	25%	77,639,438,613	20.99%	2,067,055,937	40.74%	2.66%
2	16%	24,871,825,014	6.73%	381,472,409	7.52%	1.53%
3	10%	230,354,442,559	62.29%	2,206,080,931	43.48%	0.96%
4	10%	33,300,215,237	9.00%	374,976,334	7.39%	1.13%
5	21%	1,354,696,047	0.37%	31,126,393	0.61%	2.30%
6	5%	2,267,257,439	0.61%	13,012,748	0.26%	0.57%
7	25%/1%	24,753,707	0.01%	440,071	0.01%	1.78%
8	10%/1%	10,413,991	0.00%	88,785	0.00%	0.85%
9	1%	15,731,377	0.00%	11,482	0.00%	0.07%
Total		**369,838,773,984**	**100.00%**	**5,074,265,089**	**100.00%**	**1.37%**

TY 2021 ETR's

Class	Assessment Ratio	Total Taxable Full Cash Value	Percent of Total	Total Yield	Percent of Total	Effective Rate
1	18%	167,575,217,836	19.90%	2,893,391,653	34.35%	1.73%
2	15%	30,183,283,575	3.58%	346,326,839	4.11%	1.15%
3	10%	415,709,297,944	49.38%	3,311,631,077	39.32%	0.80%
4	10%	217,015,609,138	25.78%	1,787,131,867	21.22%	0.82%
5	15%	2,558,122,244	0.30%	38,571,915	0.46%	1.51%
6	5%	8,407,446,152	1.00%	44,615,770	0.53%	0.53%
7	18%/1%	66,709,622	0.01%	638,325	0.01%	0.96%
8	10%/1%	27,868,982	0.00%	245,007	0.00%	0.88%
9	1%	396,506,305	0.05%	425,415	0.01%	0.11%
Total		**841,940,061,797**	**100.00%**	**8,422,977,869**	**100.00%**	**1.00%**

- ETR Improved dramatically from reductions in Class 1 (business) A/R's from 25% to 18% - TY 2005 ETR of 2.66% vs. TY 2021 ETR of 1.73%

AZ Industrial Property Tax Ranking (2005 – 2021)

A/R 25%/Statewide T.R. $11.56

Industrial Property Taxes Payable 2005 $25,000,000 Land and Building $12,500,000 Machinery and Equipment $10,000,000 Inventories $2,500,000 Fixtures			
Rank	**State**	**NET TAX**	**ETR**
13	Arizona	$1,045,237	2.090%
	U.S. Average	*$795,687*	*1.591%*

A/R 15%/Statewide T.R. $11.89

Industrial Property Taxes Payable 2021 $25,000,000 Land and Building $12,500,000 Machinery and Equipment $10,000,000 Inventories $2,500,000 Fixtures			
Rank	**State**	**NET TAX**	**ETR**
28	Arizona	$668,886	1.338%
	U.S. Average	*$699,777*	*1.400%*

Personal Property Tax Reforms

- Locally Assessed Personal Property Reductions
  - Accelerated Depreciation

Percent Good

Assessment Year	1994-2007	2008-2011	2012-2021	2022
First Year	35%	30%	25%	2.5%
Second Year	51%	46%	41%	
Third Year	67%	62%	57%	
Fourth Year	83%	78%	73%	
Fifth Year	DOR	94%	89%	
Sixth Year	DOR	DOR	DOR	

  - 1996 - $50,000 Small Business Exemption – now $207,366
  - 2022 - Reduced taxable value to 2.5% for new property
- Will success of reform dampen pursuit of targeted tax relief through use of class 6 (5% assessment ratio) and GPLET?

Individual Income Tax Rate Differences
(1992-2023)

1992 Tax Rates	2023 Tax Rate	Delta
3.80%	2.5%	-34%
$760 plus 4.40%		-43%
$2,080 plus 5.25%		-52%
$4,705 plus 6.50%		-62%
$17,705 plus 7.00%		-64%

Income Tax Reforms

- In 1990, Arizona's top marginal rate was 8%, which kicked in at $7,374 of income

AZ @ 4.50%			AZ @ 2.98%			AZ @ 2.5%		
35	Utah	4.85%	35	Utah	4.85%	35	Utah	4.85%
36	Oklahoma	4.75%	36	Oklahoma	4.75%	36	Oklahoma	4.75%
37	Colorado	4.50%	37	Colorado	4.50%	37	Colorado	4.50%
38	**Arizona**	**4.50%**	38	Louisiana	4.30%	38	Louisiana	4.30%
39	Louisiana	4.30%	39	Michigan	4.25%	39	Michigan	4.25%
40	Michigan	4.25%	40	Ohio	3.99%	40	Ohio	3.99%
41	Ohio	3.99%	41	Indiana	3.23%	41	Indiana	3.23%
42	Indiana	3.23%	42	Pennsylvania	3.07%	42	Pennsylvania	3.07%
43	Pennsylvania	3.07%	**43**	**Arizona**	**2.98%**	43	North Dakota	2.90%
44	North Dakota	2.90%	44	North Dakota	2.90%	**44**	**Arizona**	**2.50%**

- Beginning in tax year 2023, Arizona will have a flat rate of 2.5%. The lowest flat rate in the country

The taxpayer's watchdog for over 80 years

The Future for Arizona’s PIT

- The reduction in the top rate from 4.54% to 2.5% has increased discussions regarding the complete elimination of the Personal Income Tax (PIT)
- That might be feasible if PIT revenues drop markedly over the next several years
- ATRA research suggests that isn’t likely. Arizona’s aggressive rate reductions in the 1990’s and early 2000’s (36%) only resulted in dramatic PIT revenue growth. Adjusted for inflation, Arizona’s PIT produced 185% more revenue ($5B) in 2019 than 1991 ($1.2B). Growth doubled population growth over that period
- Recent Tax Foundation study ranks Arizona #3 in Interstate Migration

Corporate Tax Rate Reductions

- 1990 – 9.3%
- 1997 – 9.0%
- 1998 – 8.0%
- 2000 – 7.968%
- 2001 – 6.968%
- 2014 – 6.5%
- 2015 – 6%
- 2016 – 5.5%
- 2017 – 4.9%
- National ranking improves from 7th to 43rd

HB2001 enacted during 2011, 2nd SS

Note: $50 minimum tax

Update on 2023 Major Property Tax Issues

- Most property tax problems on the levy side of the system are usually connected to inequities in the school finance system
- ATRA has continually advocated for greater equity in the school finance system. In addition to tax problems, inequities lead to policy and legal challenges
- General obligation bond debt limit abuse
- Property tax increment financing again?

ATRA School Finance Principles

- Additional funding cannot be the only discussion
- Solutions should
  - Be in line with policy maxims
  - Be data driven
  - Reduce state's legal liability

Taxpayers should not agree to increased funding unless its paired with and consistent with policy maxims

Maxims	**Equity**	**Choice**	**Achievement**
Why?	Fairness for Everyone Involved + Constitutional demands	Fundamental Right of Parents + Improves Outcomes	Public's expectation; their ROI
	Match Funding System to the Delivery Model	Empower parents with knowledge of school options	Increase transparency of student outcomes
	Phase out Inequitable/ Hold Harmless Formulas	Choice creates competition which improves student outcomes	Measure cohort gains; hold LEAs accountable
	Cautious with programs that disrupt equity	Choice encourages spending efficiency	Promote excelling programs

ATRA Proposals

- State Funding Formula – allow districts with no secondary tax to switch to charter funding
- Begin reducing/eliminating inequitable funding streams outside the school budget limits:
  - Transportation formulas – TSL/TRCL
  - Desegregation funding
  - Adjacent Ways
- School Overrides - huge increases associated with dramatic increases in state funding
  - State funding has climbed $3.6 billion (40%) since FY17, driving override levies up 31%. Undermines goal of equitable funding
- Progress is important. Doesn't need to be fixed in one year. Additional teacher compensation eliminated this year

Update on 2023 Sales Tax Issues

Major sales tax issues that need to be fixed:

- Arizona businesses deserve one tax code in state statute
- Taxation of Digital Goods and Services desperately needs to be resolved
- 2013 Reform of state and local TPT audits seems to have fallen apart
- Prime Contracting/MRRA

Taxation of Digital Goods and Services

- In 2017, ADOR said the current law in Arizona regarding taxation of digital goods and services was unsatisfactory. ADOR said:

- The limited statutory guidance creates immense uncertainty for taxpayers and ADOR
  - The current law forces ADOR to engage in a fact-intensive analysis of every taxpayer's business model, which is a <u>**complex**</u>, <u>**inefficient**</u> & <u>**ineffective**</u> undertaking
  - Taxpayers are unclear what is taxable and what is not, resulting in a <u>**multitude of compliance & equity issues**</u>

- A <u>technically sound & administratively feasible</u> set of laws are needed: 1) To define what is taxable and what is not; 2) Furnish framework concerning what factors will be considered to determine taxability of emerging technologies

ADOR also said legislative clarity was critical

- Clarity in the law enables more taxpayers to voluntarily comply with Arizona tax laws
- More voluntary compliance frees up capacity at ADOR to serve taxpayers faster, smarter, and better
- ADOR stands ready in good faith to help draft, analyze, and implement a better set of laws around digital goods than exist today

DGS uncertainty, confusion & litigation

- Five years later, Arizona businesses face the same uncertainty and confusion
- ADOR has produced one proposed rule since 2017 to provide guidance in this area. ATRA and others opposed that rule and it hasn’t been finalized yet
- The chaos ATRA predicted is now in full swing. Audits leading to litigation. Some audits leading to settlements – raising the question of uniform treatment among taxpayers
- The next administration should make it a priority to create greater certainty for both taxpayers and ADOR

State & City TPT Auditing

- 2013 TPT reforms tried to address some historic taxpayer concerns with state and city audits. The Final Report of the TPT Task Force said "A Majority of the Task Force maintains that it would be a vast improvement if all audits were the responsibility of one statewide entity, ADOR."
  - Centralization of Audit Function by ADOR minimizes differences in interpretations & audit results
    - Standardized State Audit Program
    - Businesses subject to only one audit covering state, county and city TPT liabilities
    - City audits, unless authorized by ADOR, limited to taxpayers engaged in business in only that city/town; All multijurisdictional audits conducted by ADOR

2022 ATRA Outlook Conference

November 18, 2022

Scottsdale, AZ

National SALT Trends

Presented by:

David Sawyer, Senior Manager

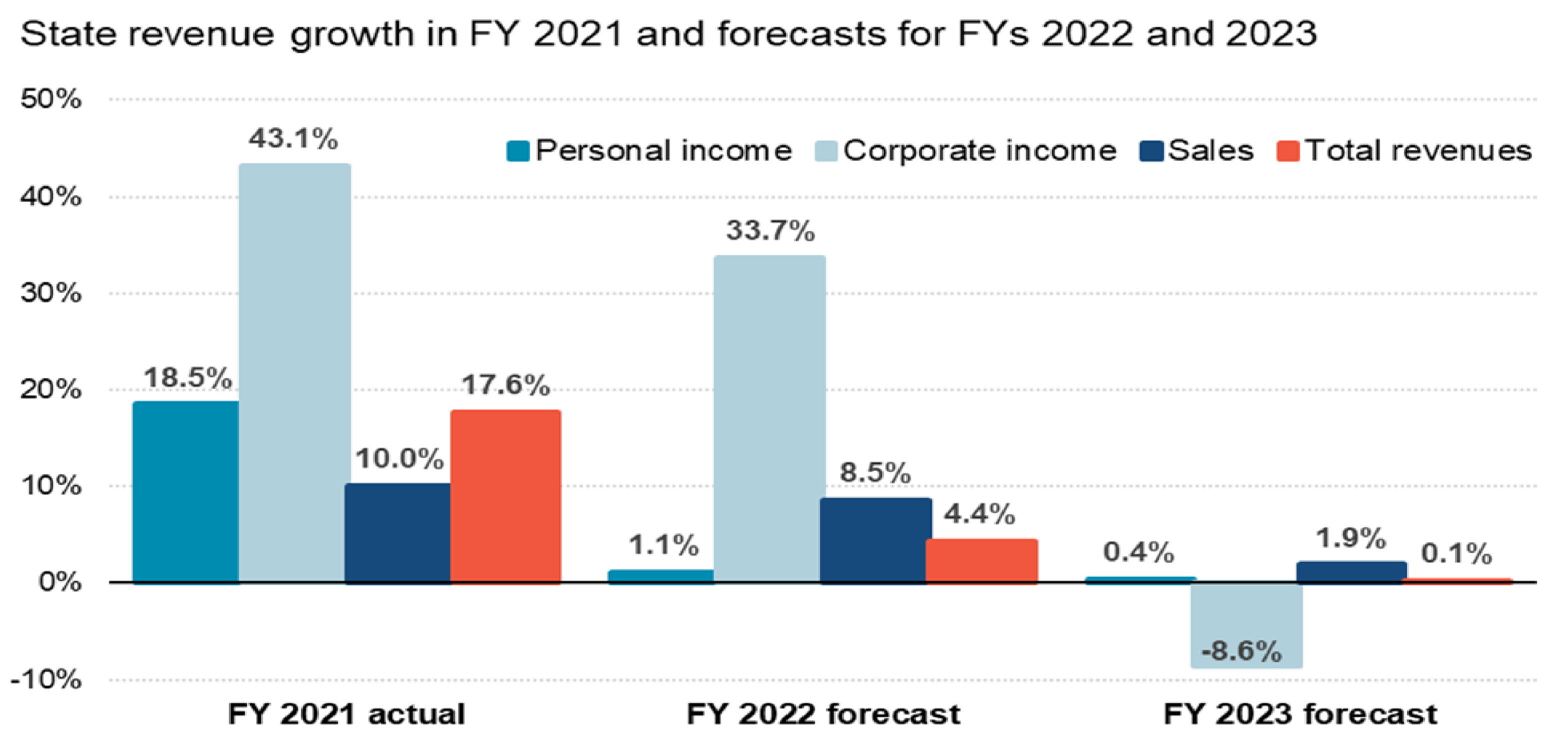
Ernst & Young LLP National Tax Dept.

Agenda

- Revenue Forecast
- State Election Results
- State and Local Business Tax Burden Study and COST/STRI Publications
- Indirect Taxes
  - Digital Advertising and Data Taxes
  - Sales and Use Tax – Digital Goods and Services
  - Sales and Use Tax – Consequences and Ramifications of *Wayfair*
- Taxation of Traveling and Teleworking Employees
- Corporate Income Tax
  - Market-Based Sourcing
  - Combined Reporting
  - Income Tax Nexus & P.L. 86-272

Revenue Forecast

Expected Revenue Growth – FYs 2022 & 2023



Source: "States Forecast Weaker Revenue Growth Ahead of Growing Uncertainties," Lucy Dadayan, Tax Policy Center, April 19, 2022.

State Election Results

Expected Red Wave Turns Into Blue Ripple

- **Governor's Races**
  - **36 State Governor's Races**
    - 16 Democratic Victory
    - 16 Republican Victory
    - 6 States with Democratic Incumbent with No 2022 Election
    - 6 States with Republican Incumbent with No 2022 Election
  - **4 state races not called yet: AZ, OR, NV, AK**
  - **Largely status quo election results, with incumbent governor's surviving**
    - Democratic incumbents swept in competitive states: KS, MI, NY, NM, WI
- **State Trifectas**
  - 4 new democratic trifecta gains in MA, MD, MI, MN
  - 41 states will have state trifectas, highest number in modern history

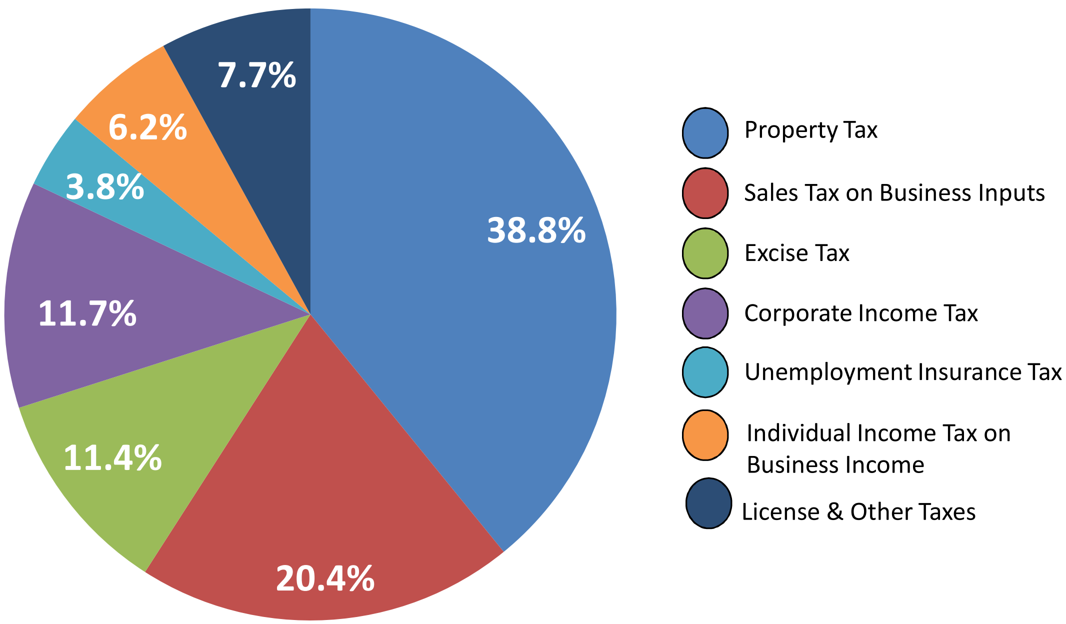
Key Tax Ballot Initiatives

- MA passed a “millionaire’s tax” - 4% surtax on income > $1M
- CA rejects “millionaire’s tax” – 1.75% additional on income >$2M
- CO passed income tax rate cut (corporate & personal – 4.55% to 4.4% in tax year 2022)
- CO passed a deduction limit/cap for high-income earners
- 2 states legalized pot (MD & MO); 3 states didn’t (AR, ND, SD)
- CA rejects 2 measures to legalize sports betting

State and Local Business Tax Burden Study and COST/STRI Publications

FY 2021 State and Local Business Tax Burden Study

State and Local Business Taxes by Type, FY21



How Much Do Businesses Pay?

- Businesses paid more than $951 Billion in U.S. state and local taxes in FY21, an increase of 13.6% from FY20
- State business taxes increased by 17% and local business taxes grew by 10.2%
- Corporate income tax revenue increased by 53.3% in FY21.
- In FY21, business tax revenue accounted for 43.6% of all state and local tax revenue
- Remarkably, the business share of SALT nationally has been within approximately **1% of 44% since FY03**

Source: Total State and Local Business Taxes: State-by-State Estimates for Fiscal Year 2021, study prepared by Ernst & Young LLP for the State Tax Research Institute and the Council On State Taxation (Release TBD)

COST Scorecards

Goal is to work with the state tax policy makers (legislative and executive branches) to improve tax administration

- The Best and Worst of State Tax Administration, December 2019
- The Best (and Worst) of International Property Tax Systems, June 2019
- The Best and Worst of State Sales Tax Systems, (2nd edition forthcoming) November 2022
- The Best and Worst of State Unclaimed Property Laws, 2013

Recent COST/STRI Studies

- **State and Local Business Tax Burden Study**, **Fiscal Year 2021,** October 2022
- **Locally Administered Sales and Accommodations Taxes: Do They Comport with *Wayfair*?,** July 2022
- **Resisting the Siren Song of Gross Receipts Taxes: From the Middle Ages to Maryland's Tax on Digital Advertising,** July 2022
- **Down the Rabbit Hole: Sales Taxation of Digital Business Inputs** (*Tax Notes State*, July 18, 2022)
- **A Global Perspective on U.S. State Sales Tax Systems as a Revenue Source: Inefficient, Ineffective, and Obsolete,** November 2021
- Upcoming STRI Studies

https://cost.org/state-tax-resources/cost-studies-articles-and-reports/

Indirect Taxes

Indirect Taxes

Historical Trends

Broad based services proposals-often coupled with repealing/phasing out income taxes

These proposals often garnered opposition from widely diverse service industries

Representational/affiliate nexus/use tax reporting

Pre-*Wayfair*, states were focused on getting online retailers to collect

Digital goods defined to include e-books, videos and music

Sales tax prepayments allowed states to have use of revenues more quickly

Current Trends

Proposals to impose new, discrete taxes on specific services/transactions

E.g. digital advertising, data sharing, financial trades/stock market transactions

"Digital goods" broadly defined to capture additional internet-based services

Shift in collection responsibility from the seller to the marketplace facilitating the transaction

Expanded to include all aspects of the sharing economy

Expand obligation to collecting other fees related to retail sales, e.g., battery, e-waste

Massachusetts (and a few other states) consider "real time" sales tax collection

Digital Advertising and Data Taxes

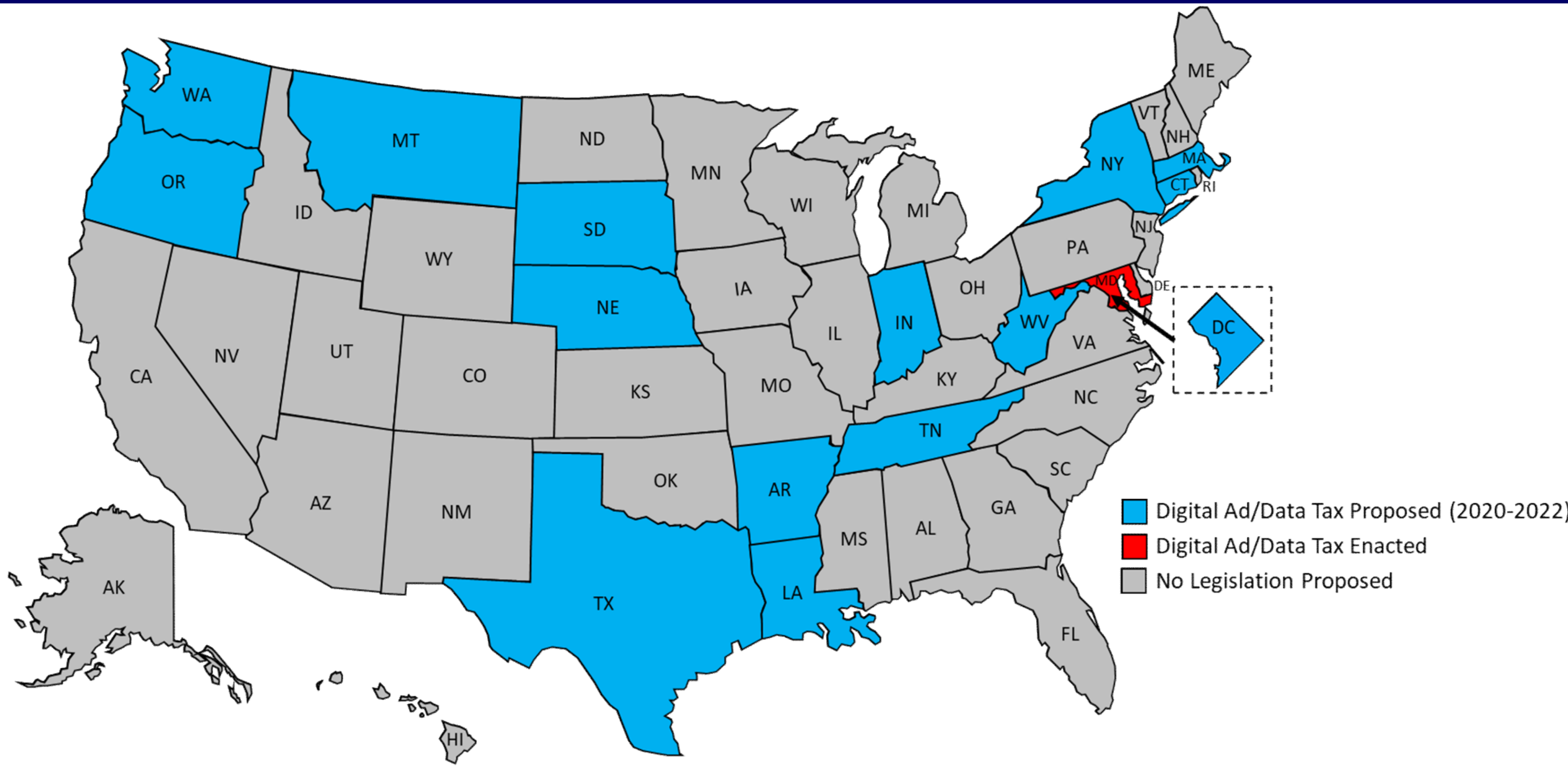
Recent COST/STRI Report

Resisting the Siren Song of Gross Receipts Taxes: From the Middle Ages to Maryland's Tax on Digital Advertising

By:
Professor Richard D. Pomp

Distinguished Professor, University of Connecticut

2020-2022 Digital Advertising Services & Data Tax Proposals



Proposed New Tax Regimes on “Big Tech”

Three Types of Tax Proposals

Digital Advertising Services

- Tax on apportioned gross revenue from digital advertising services
- Connecticut, Louisiana, Maryland, Massachusetts, Montana, New York, Texas, Washington, West Virginia

Social Media Advertising

- Tax imposed on social media companies’ gross revenue advertising services or number of users
- Arkansas, Connecticut, Indiana

“Data Mining” Services

- Tax on companies selling personal information or data, akin to a severance tax
- District of Columbia, Massachusetts, New York, Oregon, Washington, West Virginia

What’s Driving the Trend?

Social “Big Tech” backlash following 2020 elections on both antitrust and perceived free speech concerns

Recurring “fair share” arguments and perception

- Maryland Senate Budget and Taxation Committee Vice Chair Jim Rosapepe (D) during March 3, 2020, floor debate on S.B. 787:
  - “The purpose of the big tech bill is to make sure the big tech guys pay their fair share. We want to be sure that there was no unintended consequence here for our local businesses.”

Digital ad tax proposed by Paul Romer in a May 2019 New York Times Editorial

- Discourage use of individuals’ data in exchange for free services
- Restore the “commons of shared values and norms on which democracy depends” that are undermined by current practices
- Big Tech / Social Media companies have “created a haven for dangerous misinformation and hate speech that has undermined trust in democratic institutions.”

Countries (e.g., France, Canada) unable to tax advertising revenues under existing international rules imposed similar (but temporary) taxes

Maryland Digital Advertising Gross Revenues Tax

HB 732 – Enacted February 12, 2021 (Veto Override)

- Creates a new digital advertising gross revenues tax separate from, and in addition to, the existing Maryland sales tax.
- The tax is imposed on a person's annual gross revenues derived from digital advertising services in Maryland.
- Delegated apportionment determination to the State Comptroller.

SB 787 – Enacted May 30, 2021

- Delayed the start of the digital advertising tax by one year, to January 1, 2022.
- Included a direct pass-through prohibition.

Maryland Digital Advertising Gross Revenues Tax Litigation

State Court

Comcast et al. v. Comptroller (Cir. Ct. Md., filed Apr. 15, 2021)

- Seeking declaratory judgment that the tax:
  - Violates the Internet Tax Freedom Act;
  - Violates the Due Process Clause;
  - Violates the Commerce Clause's fair apportionment requirement and discriminates against interstate commerce; and
  - Improperly delegates taxing authority to Comptroller.

On October 17, 2022, the Court invalidated the tax on a bench ruling finding ITFA, Commerce Clause, and First Amendment violations.

Federal Court

US Chamber of Commerce v. Comptroller, Civil No. 21-cv-410 (D. Md., filed Feb. 18, 2021)

- Seeking injunctive and declaratory relief on similar grounds as the state case.

Case pending on the pass-through provisions.

Sales and Use Tax

Digital Goods and Services

Sales Taxation of Digital Commerce

- Sales taxation of digital commerce has emerged as one of the most prominent and contentious issues in state taxation
- **Four significant issues have dominated the public dialogue:**
  - Whether states have jurisdictional nexus over remote sellers
  - Which digital goods and services should be included in (or excluded from) the sales tax base
  - How to define and categorize digital products for sales tax purposes
  - How to source sales of digital products
- **One central problem has been generally ignored or underreported:**

The extent to which the sales tax base includes not only business-to-consumer (B2C) transactions but also business-to-business (B2B) transactions

Sales Taxation of Digital Business Inputs
Forthcoming 2022 Sales Tax Scorecard (2nd Edition)

- COST researched the sales taxation of both consumer and business purchases of software and digital products in six categories:
  - Canned software (including electronic delivery)
  - Custom software
  - Digital software accessed remotely (SaaS)
  - Digital information services
  - Data processing services
  - Specified digital products (video, audio, books)
- In addition to conducting our own state-by-state research, COST reached out to State Departments of Revenue and tax practitioners in each state.

Sales Taxation of Digital Business Inputs

Forthcoming 2022 Sales Tax Scorecard (2nd Edition)

Key finding: Sales taxation of business purchases of digital products (*e.g.* digital business inputs) is not just commonplace, but the overwhelming norm among states that tax software and digital products.

- In each of the six categories of software and digital products, **over 90% of the taxing states** include both business and consumer purchases in the sales tax base.
- In each category, no more than two states provide an exemption for digital products purchased by business.
- Currently **only one state (Iowa) has a broad exemption for business purchases of software and digital products**, three states have narrow exemptions (Maryland, New Jersey and Washington), and one state has a reduced rate for business purchases (Connecticut).

Down the the Rabbit Hole

For more information see: Karl A. Frieden, Fredrick J. Nicely, and Priya D. Nair, Tax Notes State, "Down the Rabbit Hole: Sales Taxation of Digital Business Inputs", July 18, 2022

Down the Rabbit Hole: Sales Taxation of Digital Business Inputs

by Karl A. Frieden, Fredrick J. Nicely, and Priya D. Nair

Karl A. Frieden

Fredrick J. Nicely

Priya D. Nair

Karl A. Frieden is vice president and general counsel, Fredrick J. Nicely is senior tax counsel, and Priya D. Nair is legislative tax counsel for the Council On State Taxation.

In this article, the authors examine key issues regarding state sales taxation of digital commerce, focusing on the absence of sales tax exemptions in most states for purchases of software and digital products by businesses.

The authors thank Megan Wilson, a 2021-2022 COST fellow, for her assistance in researching state sales taxation of digital products.

Introduction

Most state sales taxes had their beginnings in the 1930s and 1940s and were drafted broadly to include all sales of tangible property in their tax bases, absent specific exemptions.[1] Most states did not initially impose sales taxes on services because consumer services were a small part of the economy. Moreover, because the enactment of sales tax statutes predated the widespread use of computers and the creation of the internet, early state statutes did not (and could not) address the taxation of digital goods and services.[2]

Over the last 25 years, however, the sales taxation of digital commerce has emerged as one of the most prominent and contentious issues in state taxation. This is a function of both the rapid growth of digital commerce and of the unique challenges of imposing transaction taxes on sales of non-tangible goods or services.

In analyzing digital goods and services (collectively referred to as digital products), this article focuses on products delivered to or accessed by a consumer electronically over the internet. These digital products include both goods previously sold to a purchaser in tangible form (for example, books, films, record albums, and software on a disk) and goods and services with no clear tangible equivalent (for example, computer applications, software as a service

[1] See SalesTaxHandbook.com, "History of Sales Taxes in the United States," which notes that 24 states began imposing sales taxes during the Depression. References to state sales taxes throughout this article encompass state and local sales and use taxes.

[2] Karl A. Frieden and Douglas L. Lindholm, "A Global Perspective on U.S. State Sales Tax Systems as a Revenue Source: Inefficient, Ineffective, and Obsolete," State Tax Research Institute, at 89-91 (Nov. 2021).

COST
Council On State Taxation

Sales and Use Tax

Consequences and Ramifications of Wayfair

Local Sales Tax Burdens After *Wayfair*

No More Physical Presence	• The US Supreme Court in *SD v. Wayfair* (2018) held that a state can impose a sales tax collection duty even if a remote seller has no physical presence in the state. That portion of *Quill v. ND* (1992) suggesting otherwise is overruled.
Focus on Burdens on Interstate Commerce	• The Court noted that the South Dakota law minimizes potentially unconstitutional burdens by 1) imposing a threshold for small taxpayers, 2) avoiding retroactive enforcement, and 3) adoption of the Streamlined Sales & Use Tax Agreement (SSUTA).
Are Other State Sales Tax Systems in Jeopardy? Arguably, yes.	• If a taxpayer/plaintiff can show that the tax collection burdens imposed in a state discriminate against interstate commerce, the system(s) is/are potentially unconstitutional under *Complete Auto* (1977).
States with Decentralized Local Sales Tax Systems are Obvious Targets	• In Louisiana, after an effort to simplify local (parish) sales tax collection failed at the ballot box, a small remote seller (Halstead Bead) filed suit in federal court arguing the system is unconstitutional.

Local Sales Tax Burdens After *Wayfair*

Halstead Bead, Inc. v. Lewis, U.S. Dist. Ct. for Eastern Dist. of Louisiana (May 23, 2022)

- Halstead Bead, an internet seller in AZ, filed suit in Louisiana the day after the LA electorate voted down a constitutional amendment seeking to streamline local sales tax collection.
- Louisiana imposes a $100,000/200-transaction threshold before requiring remote sellers to remit sales tax.
- Halstead Bead halts sales into the State before reaching the threshold, for fear of entanglement in compliance burdens they cannot meet.
- Argues the tax system is unconstitutional under both the Dormant Commerce Clause and the Due Process Clause of the U.S. Constitution, as outlined in *South Dakota v. Wayfair,* U.S. Supreme Court (2018)
- On May 23, the Court dismissed the case under the federal Tax Injunction Act, noting their belief that an adequate remedy is available in Louisiana courts. Taxpayer has indicated they intend to file an appeal.

Wayfair LLC v. City of Lakewood, et al., Case #2022CV30710, Dist. Ct., County of Jefferson, CO (June 22, 2022)

- The City of Lakewood issued a Notice of Deficiency against Wayfair in an amount exceeding $600,000. The City ordinance requires companies to collect sales tax if their statewide annual sales exceed $100,000
- Wayfair sued the City and the Exec Dir f the CO DOR, Mark Ferrandino, claiming “complex, overlapping and competitive sales tax ordinances” are a burden to comply with, and an “undue burden on interstate commerce”
- Wayfair argues the local ordinance violates the Commerce Clause of the U.S. Constitution, and that Wayfair did not engage in business in the City.
- Counsel for Wayfair is George Isaacson, who also argued *South Dakota v. Wayfair* in front of the U.S. Supreme Court
- Wayfair filed a complaint on June 22, 2020; the City of Lakewood has not yet responded

Recent COST/STRI Report

Locally Administered Sales and Accommodation Taxes:
Do They Comport With *Wayfair*?

By:
Harley T. Duncan and
Sarah L. McGahan, KPMG LLP

With a Foreword by Jeffrey A. Friedman and Nikki E. Dobay, Eversheds Sutherland LLP:

'Observations on the Constitutionality of Locally Administered Taxes'

Idaho Says Oregon Can't Tax Business in Idaho
Wayfair Too Far?

- Under Idaho H.B. 677, signed by the Governor on March 29, no out-of-state taxing authority may tax an Idaho business for conducting business taking place in Idaho between an Idaho business and a nonresident who enters into a business transaction while physically present in Idaho.
- The Oregon DOR has taken a position that the purchase and delivery in Idaho of a vehicle by an Oregon resident who registers the vehicle in Oregon is sourced to Oregon for CAT purposes.
- The bill's legislative intent states:

> The OR DOR's extension of its corporate activity tax upon a seller in Idaho based on a sale that took place in Idaho to an Oregon resident in Idaho is an unwarranted and unsupported extension of the holding in *Wayfair*, violates the Commerce Clause and the Due Process Clause of the US Constitution, and is not acceptable to the sovereign State of Idaho.

Taxation of Traveling and Teleworking Employees

Inconsistent Rules for Traveling Employees
(Temporary Nonresidents)

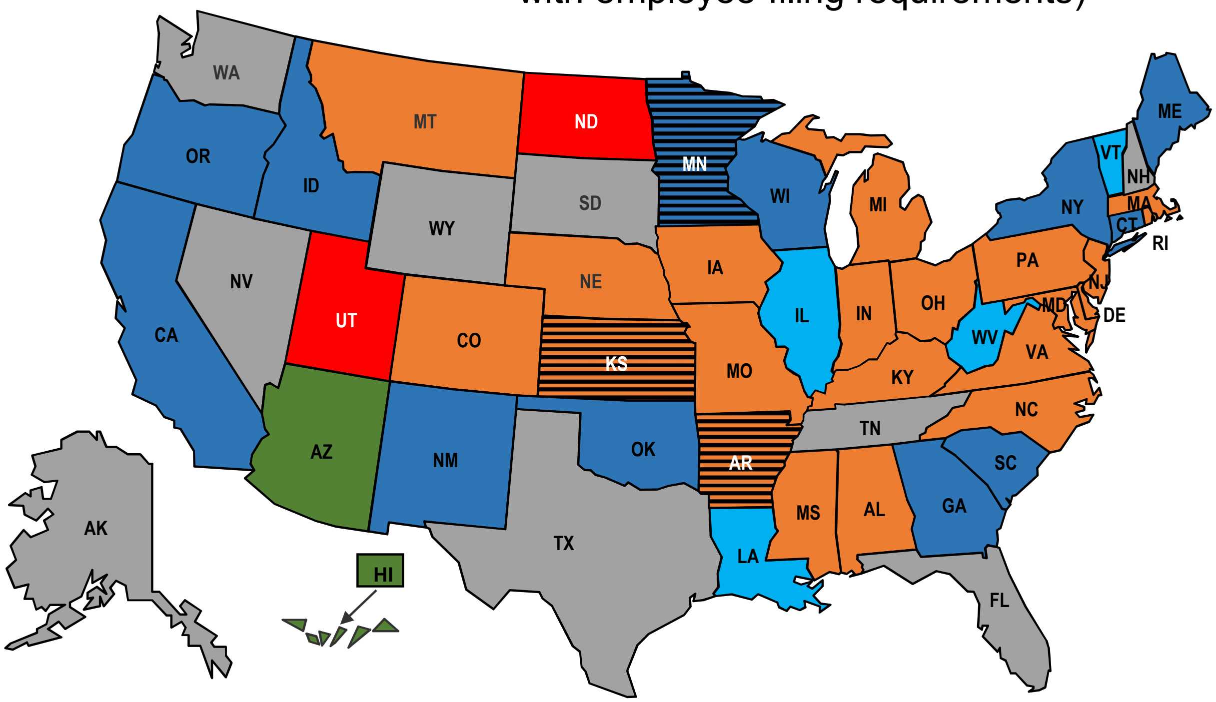
States have widely varied and inconsistent requirements for:

- **Personal Income Tax Liability:** Employees to file personal income tax returns when traveling to a nonresident state for temporary work periods.
- **Withholding:** Employers to withhold income tax on employees who travel outside of their state of residence for temporary work periods.

In nearly half the states, nonresident employees incur a liability as of the first day in the state, and employers incur a related withholding obligation.

Inconsistent Rules for Traveling Employees
(Temporary Nonresidents)

(Important note: these don't necessarily align with employee filing requirements)



Nonresident employee is subject to withholding on the first day of travel into the state

Nonresident employee is subject to withholding after reaching a specific threshold

AZ & HI: 60 days for withholding only

IL: 30 working days (2019)
WV: 30 days (2021)
LA: 25 days (2021)
VT: 30 days (per DOT guidance)

ND, UT: 20 days (MTC Model)

No general state personal income tax

Legislation in 2020, 2021: AR, KS, MN

The Problems

Unnecessary compliance burdens for employees, employers, and state tax administration agencies.

Significant compliance gap because of expense of processing small dollar nonresident tax returns.

Selective enforcement where taxpayers are "caught".

Mobile Workforce State Income Tax Simplification Act

For States

Statutory Framework

No state personal income tax on:

- "wages or other remuneration," earned by "employee" performing "employment duties," except by:
  - 1) employee's state of residence, or
  - 2) state in which employee is "present and performing employment duties" for more than 30 days

No state withholding or reporting rules apply unless taxable

- If taxable, rules apply as of commencement of employment duties

Exclusions for athletes, entertainers, persons of prominence, production employees

Taxation of Teleworking Individuals
"Convenience of the Employer" Rule

Personal Income Tax

- 41 states impose a personal income tax.
- AL, FL, NV, SD, TX, WA, and WY impose no personal income taxes.
- NH imposes an individual income tax on interest and dividend income.

Sourcing

- Most states source employee work based on location where performed.
- A handful of states impose permanent "convenience of the employer" rules.

Convenience of the Employer Rule

- Taxes employees based on managing office location, not actual work location.
- NY, PA, CT, DE, NE, (MA during the pandemic)
- Applies if employee is working remotely just for the employee's convenience (not for job duty):

COST Council On State Taxation

New Hampshire v. Massachusetts, No. 22O154, U.S. Supreme Court (2021)

- New Hampshire filed a Motion for Leave to File a Bill of Complaint in the United States Supreme Court on behalf of its residents, requesting the Court to find Massachusetts' temporary emergency regulation (imposing a temporary convenience of the employer rule) an unconstitutional "extraterritorial assertion of taxing power."
- On June 24, 2021, the United States Supreme Court held a conference to review New Hampshire's motion.
- On June 28, 2021, the Supreme Court denied New Hampshire's motion.
- Next steps? Short-term and long-term impacts
  - 14 States participated as *amicus curiae*, including New Jersey and Connecticut.
  - *Amicus curiae* briefs were also submitted by Professor Zelinsky and numerous industry associations, who mostly argued in favor of granting NH's motion.

New Hampshire Stakes Its Claim

New Hampshire Residents Cannot be Taxed by Another State

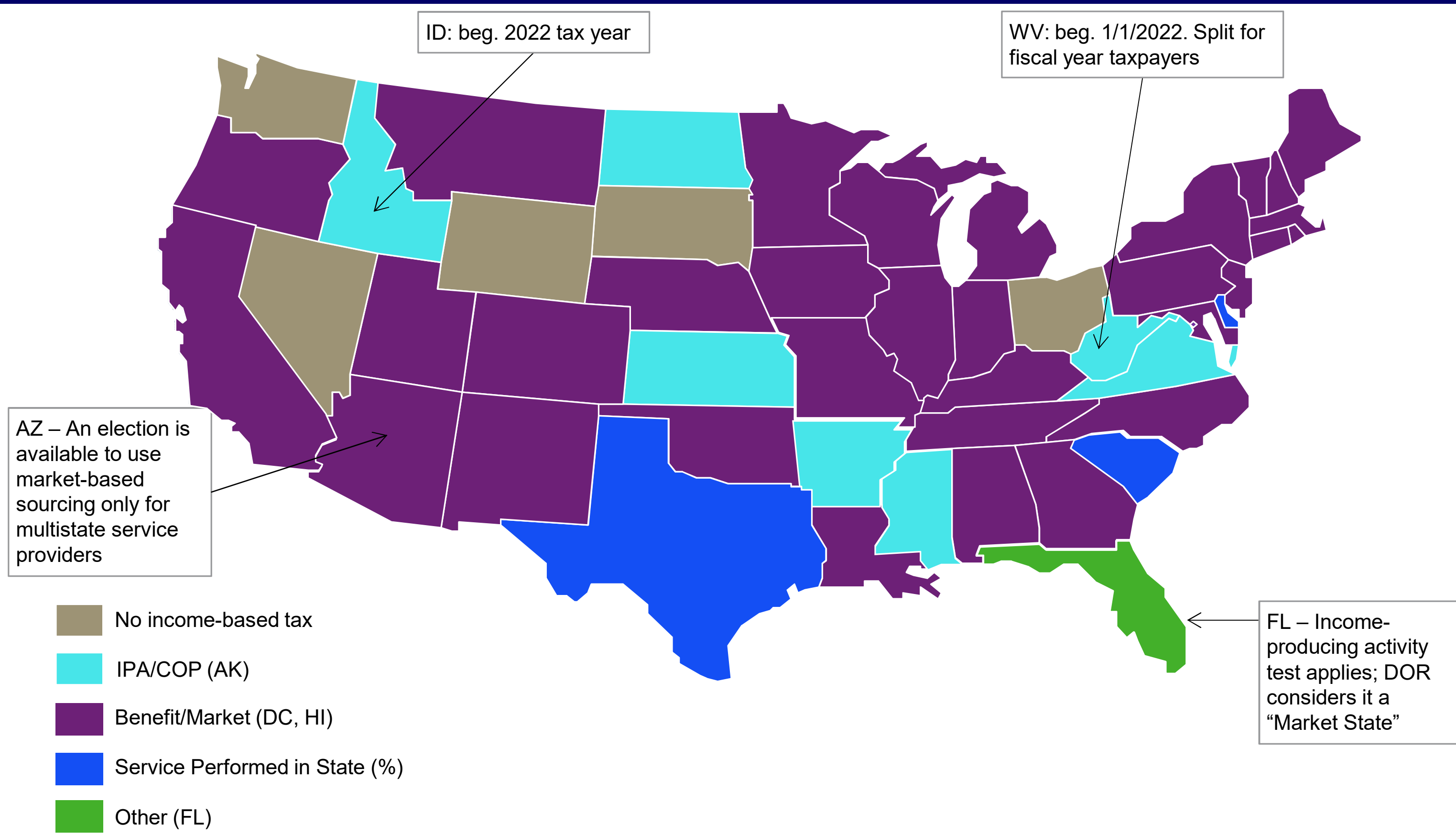
- H.B. 1097, a law signed by the New Hampshire governor on June 17, 2022, New Hampshire residents working remotely and performing their work from within New Hampshire cannot be subject to another state's income tax.
  - This conflicts with Massachusetts' practice of continuing to tax New Hampshire residents that previously worked within Massachusetts but performed work remotely during the pandemic.

This law sets up another conflict between New Hampshire and Massachusetts that may make its way to the Supreme Court—even if not through original jurisdiction.

Corporate Income Tax

Market-Based Sourcing

Sales Factor: Market-Based Sourcing for Services (2021)



NOTE: Different sourcing rules may apply to intangibles

Market-Based Sourcing for Services

Benefit Received

- Arizona (elective)*
- California*
- Georgia*
- Indiana
- Iowa*
- Michigan*
- Missouri*
- New Jersey *
- New York*
- Ohio (CAT)
- Rhode Island*
- Utah
- Washington (B&O)
- Wisconsin*

Service Delivered

- Alabama*
- Colorado*
- District of Columbia*
- Idaho (2022)*
- Kentucky*
- Louisiana*
- Massachusetts
- Montana
- New Hampshire
- New Mexico
- North Carolina*
- Oregon (CAT and corporate income tax)*
- Pennsylvania*
- Tennessee
- Vermont
- West Virginia (2022)

*Single Sales Factor

Service Used/Customer location

Service Used

- Connecticut*
- Hawaii

Customer Located

- Maryland* (SSF phase in)
- Nebraska*
- Oklahoma

Service Received

- Illinois*
- Maine*
- Minnesota*

Market-Based Sourcing – Continued Controversy

- **New York:** *BTG Pactual NY Corp. v. New York State Tax Appeals Trib.*, 165 N.Y.S.3rd 149 (March 10, 2022)
- **Florida:** *Target Enter., Inc. v. Florida Dep't of Rev.,* Fl. 2nd Judicial Cir. Ct., Case No. 2021 CA002158 (complaint)
  - Florida Technical Assistance Advisement (TAA 21C1-005)
- **Oregon:** *Oracle Corp. v. Ore. Dep't of Rev.*, Dkt. No. 5340 (Ore. Tax Ct. Revised opinion Oct. 6, 2021)
- **Texas:** *CITGO Petroleum Corporation v. Hegar*, 636 S.W.3d 281 (Tex. Ct. App. Oct. 14, 2021)
- **Texas:** *Sirius XM Radio, Inc. v. Hegar,* 643 S.W.3d 402 (Tex. 2022)
- **Washington:** *Walter Dorwin Teague Assoc., Inc. v. Wash. Dep't of Rev*., 500 P.3d 190 (Wash. Ct. App. Dec. 14, 2021)
- **Pennsylvania:** *Synthes USA HQ, Inc. v. Commonwealth,* 236 A.3d 1190 (Pa. Commonwealth Ct. 2020)
- **Washington:** *LendingTree, LLC v. Dep't of Revenue*, 460 P.3d 640 (Wash. Ct. App., 2020)
- **Ohio:** *Defender Security Company v. McClain*, 165 N.E.3d 1236 (Ohio 2020)
- **South Carolina:** *DirecTV, Inc. & Subsidiaries v. South Carolina Dep't of Rev*., 804 S.E.2nd 633 (S.C. App. Ct. 2017)

COST
Council On State Taxation

Corporate Income Tax

Combined Reporting

Eroding the Water’s Edge

- **Water’s Edge Election:** Exclude foreign affiliates from combined group
- **Tax Haven:** Seven states adopted tax haven legislation in mid 2010’s
  - Includes foreign affiliates in combined return if formed or located in a “tax haven”
  - Most states have rejected legislation
  - Constitutionally questionable
- **Transfer Pricing/Alternative Apportionment Authority**
  - Some states have tried to use transfer pricing or alternative apportionment authority to force combination of foreign affiliates
  - Agilent/Oracle
- **Mandatory Worldwide Combination?**
  - Legislatively mandated studies (e.g., Maine, New Hampshire)

Corporate Income Tax

Income Tax Nexus & P.L. 86-272

Public Law 86-272

- Protects sellers of tangible personal property from imposition of income taxes outside its home state.
- Three criteria must be met:
  - The only activity “within” a state consists of the soliciting sales of tangible personal property,
  - Such sales are approved by the home office outside of the customer’s state, and
  - The tangible personal property is shipped to the customer from outside of the state.

MTC P.L. 86-272 Statement

- The Multistate Tax Commission approved proposed revisions to its Statement of Information Concerning Practices of Multistate Tax Commission and Supporting States Under Public Law 86-272 (Aug. 4, 2021).
- These revisions effectively revoke the protection provided by P.L. 86-272, as any taxpayer with a functioning website (one with more than static information) would not receive P.L. 86-272 protection.
  - COST opposes these protections noting that the revisions render P.L. 86-272 a nullity
- **In light of this revision, several states have adopted or are considering adoption of the revised Statement, e.g., California, New York, Oregon**

Questions?

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