

the problem though. There is that additional need for an income tax adjustment. What would be the possibility if we would take 38 million dollar reductions and follow this proposal that the Board may not then take the next step and adjust the tax rates. I guess from the figures that the Governor has been using, the \$38 million would be about what he was looking for anyway, and if his feeling is that there really isn't any greater problem than what he has said in the past, \$38 million figure or \$30 million figure, then perhaps he would not be willing to adjust the income tax rates as we would have them do. If that happens, then we are back to the problem, it looks to me to be at least a \$26 million problem, and that doesn't take into account the additional obligations that are listed at the bottom of the page that we all know about coming up with the medicaid transfer. So we are back to the same sort of problem that we are in right now. If it happens that we do take the steps that you outlined here, Senator Warner, and if it so is not followed by the Board of Equalization and the adjustment is not made on the income tax rates, what ideas do you have for further action at that point?

SENATOR LAMB: Senator Warner, would you yield?

SENATOR WARNER: Well, obviously, there is nothing I am aware of the Legislature could do that would compel the Board of Equalization to follow this proposal or any other, for that matter, other than the level of appropriation. There are two or three things I might indicate that obviously the amount of shortfall is a judgmental thing. It could be anywhere from \$38 million which was the most optimistic to the vicinity of \$69 million. I do want to caution you that the figures that we are using assumes, this figure here assumes that the 2% rate adjustment will be done this November to accommodate the federal change that most tax law changes most of which occurs July 1, some of which, however, takes effect on January 1. Should the State Board fail to take that 2% adjustment in the rate, then the figures you are looking at, if they fail to do it, would be \$12 million higher than what you are looking at. So if we used the \$57 million which was a midpoint of the most conservative, should they fail to adjust for the federal income tax change coming, that figure would actually be \$12 million higher or \$69 million. So I am assuming again that there is no choice but what to do that either by law or by the simple facts of the situation the state is in. Secondly the only compelling argument for the 1% retroactive part is to look at the cash flow sheets that are included in the Board of Equalization's report, and again depending upon what rate they may use and whether or not they do the 2%, it would appear that cash flow problems on even a June 30th balance would not be adequate without that 1% retroactive, and particularly that is true because those funds would generally become available in April and March and May when it would appear the most severe cash flow problems would occur. And secondly, the rate adjustments only needs to be half by collecting over twelve months as if you tried to collect it through the future fees. Obviously, if they fail to do the 1% tax increase retroactive, I would suspect we will be looking for a major adjustment in sales tax sometime in the first quarter of next year in order to try to generate money as quickly as possible to cover these things because the sales tax is the only place that