State Tax Revenues Skyrocket in Early 2005

Economic growth spurs revenue rise

by John W. Skorburg

State tax revenues are climbing much faster than initial estimates in most states, according to a U.S. Census Bureau survey. Total state tax revenues increased almost three times faster than inflation in the first quarter of 2005. Based on figures updated July 17, the 50 states received $154.9 billion in tax revenues from January through March. This compares to $141.1 billion during the same months in 2004—an increase of nearly 10 percent.

Maryland Tax Receipts Balloon
On July 14, Maryland State Comptroller William Donald Schaefer (D) announced, “unanticipated Maryland general fund revenues have expanded $141 million from previous reports made just two months ago due to rapid expansion of the state’s economy.” According to Schaefer, the state’s tax revenue surplus stands at nearly $400 million, far surpassing the $250 million surplus announced in May. Tax revenues show a “13 percent increase in total tax revenue

TENNESSEE p. 6

Tenn. Town’s TABOR Pays Off for Taxpayers

by Steve Stanek
Unlike government officials in many fast-growing communities, who point to growing demands on services to maintain or hike taxes, the city of Spring Hill, Tennessee, 30 miles south of Nashville, is pointing to lower taxes as a reason for its growth.

Rapid growth has brought about a $515,000 budget surplus in the town of 19,000 over the past two years, and the mayor and other city officials are returning the surplus to taxpayers.

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Gas Tax Increase Will Go Before Wash. Voters

by Michael Coulter
Washington state voters will get a chance this November to repeal a gasoline tax increase lawmakers passed at the end of the spring legislative session. Volunteers gathered more than 420,000 signatures in barely 30 days, almost twice as many as were needed to place Initiative 912 on the ballot.

“We’ve seen nothing like this in more than 30 years in this state,” said John Carlson, a radio talk show host on Seattle-based KVI who has criticized the
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Congress Considers Beer a Luxury—but Not Mink Coats, Private Jets, or Yachts

Legislators urge rollback of steep federal beer tax

by Steve Stanek

President George H.W. Bush and Congress in 1990 raised a host of excise taxes on “luxury” items including expensive cars, fur coats, jewelry, yachts, and private airplanes. Included in the list of luxury items was beer, which at the time saw a doubling of the federal excise tax, from $9 to $18 per barrel.

Fifteen years later, the taxes on expensive cars, fur coats, jewelry, yachts, and private airplanes have been rolled back. The beer tax remains, even though the main purchasers of beer are lower- and middle-income consumers. Taxes make up an astounding 44 percent of the retail price of beer, according to the Beer Institute.

Tax Cut Proposed

Some lawmakers want to roll back the beer tax to its 1990 level. “The tax burden on beer is far higher than the average consumer good in the American economy,” said Sen. Rick Santorum (R-PA) when he introduced legislation earlier this year to roll back the beer excise tax. “As a result of this tax the government collects approximately seven times more in beer taxes than the nation’s brewers make in profits.”

In April, Santorum introduced legislation to amend the Internal Revenue Code. Since then, his measure has attracted 140 House sponsors and nine Senate sponsors. In a statement announcing his bill, Santorum noted, “All of the other luxury taxes enacted in 1990 have been repealed. Yet the beer tax increase remains in place.”

He said if the beer tax were rolled back, the federal government would still collect almost $3.7 billion in excise taxes and the industry would pay $21 billion in other federal, state, and local taxes.

House Already Approves

Two hundred forty Congressmen—a majority—signed on as sponsors of legislation to roll back the beer tax in the 108th Congress, but lack of support in the Senate kept the legislation from advancing.

Beer industry representatives hope Santorum’s new bill will spark a serious push to reduce the tax in the months ahead. They also hope the federal legislation sends a message to state lawmakers to hold off on further state beer tax increases.

“We’ve been lobbying for a tax rollback for a long time,” said Michelle Semones, public affairs director at the National Beer Wholesalers Association. “The chances of the Santorum bill being passed as a stand-alone bill are probably slim, but it could be rolled into a larger tax-cut bill.

“The beer tax remains, even though the main purchasers of beer are lower- and middle-income consumers. Taxes make up an astounding 44 percent of the retail price of beer, according to the Beer Institute.”

“Having the bill out there sends a clear message to the states that the federal government is not for increasing taxes on beer,” said Semones. “While the federal government is not going backward, it’s also not going forward with increasing the beer tax, and there’s a chance a rollback could be included in tax-cut legislation.”

Steve Stanek (stanek@heartland.org) is managing editor of Budget & Tax News.

Sen. Rick Santorum
As Michigan’s Cigarette Tax Clirms. Trafficking Surges

by Michael D. LaFaive

With a cigarette tax of $2 a pack, fourth-highest in the nation, after another increase took effect on July 1, Michigan has been making a name for itself as home to smugglers and other scofflaws of the tobacco tax. Because most other states have lower tobacco taxes, Michigan’s differential may be reason enough for individuals to cross the state border to purchase cigarettes at a lower price. In Michigan, smuggling is big business. The estimated number of cases smuggled into Michigan in 2002 was 642 cases, more than double the number of cases in 1997.

In May, four residents of Windsor, Canada were charged in Ontario courts with smuggling and possession of unstamped tobacco products. They are often marked with a stamp from the area where they were sold, to prove taxes have been paid on them. According to a Canadian Newswire report, officers believe “approximately 642 cases of tobacco were smuggled into Canada” from Michigan, suggesting Michigan may now be a distribution hub for cross-border smuggling.

Terrorist Connections

Those are by no means the first tobacco-related smuggling arrests involving Michigan. In 2002, two cigarette smugglers were arrested in an FBI sting. The duo were driving vans of illicit cigarettes from North Carolina to Detroit and allegedly using portions of their profits to subsidize Hezbollah, a terrorist organization in Lebanon with possible links to al-Qaeda.

An associate of one of those smugglers, a resident of Dearborn, was arrested in a different operation. He pleaded guilty to smuggling as much as $72,000 worth of illicit tobacco each month to Michigan. According to the U.S. Department of Justice, he gave a portion of his profits to an “orphans of martyrs program” run by Hezbollah to help the relatives of those killed in the group’s terrorist operations or by its enemies.

Cigarette Stick-ups

Nor is smuggling the only issue. In October 2004, the Detroit News reported a truck holding 135 cases of cigarettes worth more than $27,000 was hijacked in Washtenaw County, Michigan. The truck driver was reportedly pistol-whipped and blindfolded during the assault. According to the Washtenaw County Sheriff’s Department, that was the second cigarette-related hijacking in that county since 1998.

As a result of the recent increase in smuggling, Michigan has been making a name for itself as home to smugglers and other scofflaws of the tobacco tax. The 2006 general election ballot gives Ohio voters an opportunity to support the initiative to be a major element of my platform to be a major element of my platform of fiscal restraint for government and job creation for the private sector,” Blackwell said in the statement.

‘Huge Political Error’

TEL supporter State Rep. Tom Brinkman Jr. (R-Cincinnati) said he was “very disappointed to learn [Blackwell] decided not to go for the referendum once the second cigarette-related hijacking in that county since 1998.

Thief is not limited to the cigarettes themselves. In 1997, the Michigan legislature responded to concerns over illicit cigarette sales by passing a law requiring that stamps be placed on all cigarette packages bought and sold in the state. In September 2000, the state obtained a felony charge against a suspect from Ypsi-}

Ohio Spending Cap Delayed Until 2006 Ballot

by Matthew Hisrich

A referendum for a constitutional amendment to cap state and local government spending that appeared headed for the November 8 ballot in Ohio has been held until the 2006 general election.

Citizens for Tax Reform (CFTR), an organization directed by Ohio Secretary of State J. Kenneth Blackwell (R), announced in early August it would file petitions on August 10 calling for the referendum, the legal deadline to get the Tax Expenditure Limitation Amendment on the November 2005 ballot.

However, in a statement released August 8, CFTR announced it would file its petitions on August 11, qualifying the referendum for the 2006 election. “After consultation with legislative leadership, Ohio Republican Party Chairman Bob Bennett, and TEL supporters, the committee decided this issue deserves the widest possible exposure and debate,” said Blackwell, CFTR’s honorary chairman. “The 2006 general election ballot gives Ohio voters an opportunity to support the initiative.”

“I intend to be the GOP nominee for governor and express this amendment to be a major element of my platform of fiscal restraint for government and job creation for the private sector,” Blackwell said in the statement.

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gies, which conducted the random sample telephone poll of 500 likely voters, support for the amendment was widely bipartisan, with 56 percent of Democrats and 61 percent of Republicans favoring the concept. Support increased to 71 percent, with only 15 percent opposed, after respondents were given more information about the amendment.

Opposition Concerned
Opponents of the amendment include the nonprofit Center for Community Solutions.

“TABOR proposal would seriously diminish the ability of our elected governmental officials to deal with the challenging economic realities we are confronting,” stated the chairman of its board of directors, David S. Goodman, in a news release. “It would undermine the legislative process at both the state and local levels by taking away the right to make state and local decisions about state and local needs and resources.”

State Rep. Catherine Barrett (D-Cincinnati) also opposes the measure.

“We need it now. By delaying this until 2006, [Blackwell] gives opponents time to rally opposition. ... This was a huge political error on his part.”

STATE REP. TOM BRINKMAN JR. R-CINCINNATI

Wasteful Spending Documented
Supporters of the proposal, however, remain convinced most Ohio citizens back the amendment.

“Much of the public is frustrated with their city councils and legislators, because we don’t seem able to discipline ourselves. This tax and expenditure alternative is something they may feel is necessary to have spending restraint and bring discipline to government budgeting,” said State Rep. Jim McGregor (R-Gahanna). “Our lack of discipline has required this level of restraint. If it gets on the ballot, I’d be surprised if Ohioans don’t support it.”

News that the amendment is going on the ballot in 2006 comes on the heels of detailed findings about waste in Ohio government.

On August 9, Buckeye and Citizens Against Government Waste (CAGW) released the 2005 Ohio Piglet Book, the first comprehensive analysis of wasteful spending in Ohio’s state budget. It counters arguments made by state officials that they’ve trimmed the budget back to the bone.

Buckeye and CAGW report having identified $3.5 billion of pork and waste in the state’s budget.

Matthew Hisrich (hisrich@buckeye institute.org) is a policy analyst at The Buckeye Institute for Public Policy Solutions.

INTERNET INFO
Information on the Ohio Tax and Expenditure Limitation Amendment is available online at the Web site of Citizens for Tax Reform, http://www.repealtax.com/.


OHIO continued

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Tennessee
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City’s TABOR Rules
They’re doing it under the terms of a city Taxpayer’s Bill of Rights, which limits growth in taxes and returns excess tax revenues to the taxpayers.

“In July 2003 we passed a Taxpayer’s Bill of Rights which says any [proposed] increase in the tax bill would go to the public in the form of a referendum, and any surplus in the general fund would go to citizens in the form of a tax decrease,” said Spring Hill Mayor Danny Leverette. “We’ve been chipping away at our property tax rate. It’s 19 cents [per $100 of assessed value] now and was 41 cents just five years ago.”

Eliminating the 19 cents per $100 property tax comes out to $350,000, and the city in July decided to rebate that money. Leverette said he fully expects the city to rebate additional money to equal the $515,000 surplus.

“We are fully committed to doing this,” he said. “I expect the rest of the refund to pass unanimously.”

“The Citizens’ Money”
He said the response from local citizens has been great.

“I’ve had extremely good, positive feedback from most people,” Leverette said. “There are a few naysayers, who say, ‘What if? What if? What if?’ But our view is it’s the citizens’ money. If we don’t need it, we should give it back.

“If we get in a situation where we have to request a tax increase, the TABOR requires us to make a good case for it to the citizens,” Leverette said. “With the past five years of showing we want to give people their money back, I think we have some credibility. They’ll understand if we ask for an increase and make a good case for it.”

Taking a city service contract worth at least $500,000, with a city service contract worth at least $75,000, and companies that receive city loans or economic assistance worth at least $100,000.

But a new study of “living wage” laws indicates the Sonoma City Council’s decision may not help those the law is intended to benefit.

“Living wage’ laws that require employers to pay more than the minimum wage do little to improve the standard of living for low-income families ...”

Ordinances Achieve Little
“Living wage” laws that require employers to pay more than the minimum wage do little to improve the standard of living for low-income families, according to economists Aaron Yelowitz of the University of Kentucky and Richard Toikka of the Lewin Group.

Over the past decade, more than 110 ordinances mandating “living wages” for employees in businesses contracting with a locality or receiving government financial assistance (through tax incentives or economic development grants) have been passed. The wage rates set by these ordinances often exceed the federal minimum wage of $5.15 an hour by 150 to 200 percent.

In “Effective Tax Rates and the Living Wage,” published in May by the Employment Policies Institute, Yelowitz and Toikka used government data to determine the effect of those ordinances on earnings, income, and government assistance levels.

“A reasonable reading of our results is that the living wage has a limited capability in improving the economic status of the poor,” Yelowitz said. “The limited benefit found in this report must be weighed against the decades of research clearly showing that mandated wage floors create employment limitations—particularly for the low-skilled employees these laws are intended to help.”

Total Income Examined
Unlike many studies that focus on poverty levels, the Yelowitz and Toikka report examines total income—cash income and benefits—to determine the full effect on living wage ordinance could increase cash earnings by $16 per month. benefits assistance by $34 per month, while the effect of a living wage ordinance decreased earnings by $16 per month.

For every dollar in increased earnings from a living wage ordinance, then, families can expect to lose up to $2.12 in benefits assistance, greatly limiting the ability of the wage policy to help low-income families.

Idea is Spreading
The authors’ findings are important because of a recent movement to expand traditional living wage laws. While the original ordinances were restricted to a small number of businesses, their relative popularity has led many cities to consider passing broader local minimum wages—despite evidence these laws cause unemployment among the low-skilled without substantially increasing the standard of living of potential beneficiaries.

In 2003, Santa Fe, New Mexico became the first city to pass a local living wage applying to all businesses. Initially set at $8.50 an hour, the wage floor is set to rise to $10.50 by 2008.

Later that year, voters in San Francisco passed an $8.50 minimum wage for city businesses. Madison, Wisconsin soon followed suit, as the city council passed a $7.75 minimum wage.

Craig Garthwaite (garthwaite@epi-online.org) is director of research at the Employment Policies Institute.

INTERNET INFO
AFL-CIO Defections May Weaken Unions’ Influence

by David Denholm

The defection of two major unions from the AFL-CIO has stirred questions about the possible impact on local, state, and national tax and budget policies.

The Teamsters and the Service Employees International Union dropped out of the AFL-CIO on July 25, during the organization’s convention in Chicago. Four other AFL-CIO unions boycotted the convention.

Most of the unions’ campaign cash and foot soldiers have gone toward candidates, mainly Democrats, who advocate increased government spending and higher taxes. With the apparent split, some political observers are suggesting Democrats will lose valuable support. Michael Reitz, director of labor policy at the Evergreen Freedom Foundation, said he thinks little will change, as far as campaign cash goes.

“The talk among union dissidents is that they can’t be tied to one party,” Reitz said. “But those individual unions are largely supporting Democrats. I don’t think we will see a huge decline in the flow of money to the Democrats.”

He added, though, the split might reduce the number of union campaign workers who hit the streets, because organizing efforts may become more fragmented.

Government Unions Raise Costs

While private-sector unions have seen big declines in membership, government-employee unions, which have a vested interest in expanding government, have seen big increases. This has consequences for government reform efforts.

Public-sector unions strongly resist efforts to privatize the delivery of government services. Unionized government workers also are better paid on average than their private-sector counterparts. In 2004, the average hourly wage of a government employee was $19.25 compared to $16.04 on private payrolls. That’s a 20 percent premium for government employees.

The same is true of benefits. The Bureau of Labor Statistics reports the employer cost of providing health insurance to state and local government employees averages $3.26 per hour worked and is equal to 9.6 percent of total compensation, compared to $1.50 per hour and 6.5 percent of compensation in the private sector.

Union Membership Raises Taxes

As might be expected, there is a strong correlation between how heavily a government workforce is unionized and the level of taxation. Nationally, union penetration in the public-sector workforce averages 36.4 percent. In the top 10 high-tax states, however, average unionization is 45.6 percent. In the 10 states with the lowest rates of state and local taxes, average unionization is 27.0 percent. These figures are based on a comparison of union penetration among government employees and an annual Tax Foundation report that shows the percentage of income in each state that goes to state and local taxes.

In other words, the public sector workforce is 69 percent more unionized in the high-tax states than in the low-tax states.

Poll Shows Falling Support

 Barely one in three non-union workers would consider voting to unionize their workplace, while a 56 percent majority would not, according to a Zogby/Public Service Research Foundation poll released July 22.

The survey of 802 workers nationwide was conducted June 14 through 21. The poll has a margin of error of 3.6 percentage points.

Of the 35 percent of respondents who said they would consider voting for a union, only 6 percent said they would definitely vote to unionize. Two in three of those who oppose unionizing said they would definitely vote against it.

The responses held for all age groups under 65 but were most noticeable among workers ages 30-49, where 60 percent said they would oppose unionizing.

Opposition to unionizing holds in every region of the country, according to the poll.

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INTERNET INFO

Additional information about unionism in government is available online at the Web site of Public Service Research Foundation, http://www.psrf.org/issues/index.jsp.
Washington

Continued from page 1

tax hike on his program. The 9.5 cents per gallon tax increase will be phased in over four years, starting with a 3 cents per gallon increase that took effect July 1. The increases come on top of the state’s existing 28 cents per gallon tax.

Voters Opposed Previous Increases

In 2002, the legislature placed a referend- on the ballot that would have increased the gas tax by 9 cents a gal- lon. Voters overwhelmingly defeated the referendum. The legislature responded in 2003 by raising gas taxes by 5 cents without a referendum.

Carlson said this year’s tax increase was passed in late April because the proponents “thought there would be no time for an initiative [to repeal the measure].” According to Brett Bader, spokesman for Nonewgasatx.com, which is spon- soring the repeal initiative, opposition to the tax increase quickly developed. During May an initiative was developed and the organization planned a signature drive.

Entirely by Volunteers

On June 7, once the legal hurdles were cleared, petitions were distributed to volunteers. About 225,000 signatures had to be submitted to the Secretary of State’s office by July 8 to get the mea- sure on the ballot. Petitioners submit- ted 420,518.

Paid signature-gathering firms weren’t interested in the effort, accord- ing to Bader, thinking there would not be enough time. The signatures were collected entirely by volunteers.

Talk Show Hosts Are Sued

Carlson and fellow KVI talk show host Kirby Wilbur have spoken in favor of the repeal initiative on the air. That led to a lawsuit contending the radio station was making campaign contributions because of the activities of its on-air personalities.

Gov. Christine Gregoire

by Jason Mercier

Four days after the Washington Supreme Court dismissed a law- suit asking to protect voters’ right to file a referendum on legislative actions, groups representing Wash- ington State taxpayers filed a new law- suit to preserve tax and spending lim- its approved in Initiative 601.

The new suit, filed July 19, asks the court to invalidate new taxes that were passed on April 16 with- out a vote of the people, as is required under a section of I-601 that remains in place. The suit also asks the court to invalidate Senate Bill 6078, which scrapped the requirement for a two-thirds major- ity vote to raise taxes.

Legislative Tactic Criticized

Another portion of the lawsuit accuses the legislature of shifting $250 million from one account to another for the sole purpose of arti- ficially increasing the state’s adopt- ed expenditure limit. The suit also alleges SB 6078 is unconstitutional because it amends certain provi- sions of I-601 without spelling them out in the new law.

“The constitution is very plain—the legislature cannot leave a law on the books and change it at the same time. Otherwise you have, as is the case here, two conflicting laws,” said Dan Wood, government relations director of the Washington Farm Bureau.

Plaintiffs in the new lawsuit include the Washington Farm Bureau, National Federation of Independent Business (NFIB), the Liberal Northwest Progressive Institute, Defense, a program sponsored by the Sierra Club, Commerce, a state realtors’ organiza- tion, and the Sierra Club. The coalition first tried to discourage Washing- ton residents from signing the I-912 petition. Failing in that effort, the coalition is now organizing a campaign to defeat the initiative.

On KeepWashingtonRolling.com, several fliers prepared for distribution by activists argue the gas tax will cost most voters less than $1 per week. They also say the additional tax revenue will be an “investment” in the future of Washington.

Andrew Villeneuve, of Washington Defense, a program sponsored by the liberal Northwest Progressive Insti- tute, said the tax increase “should not more properly be called an invest- ment.” Villeneuve said he believes additional funds are needed to make the existing state transportation infrastructure safer.

Would Be Nation’s Highest

Also at issue is the burden on taxpayers. Bader said once the entire tax increase is in effect, Washington will have the highest gas tax rate in the nation.

Villeneuve rejects that claim, saying, “To say that we are overtaxed is really quite ridiculous.” Voters in November will have the final say.

Michael Coulter (mcoulter@gcc.edu) teaches public policy at Grove City College in Pennsylvania.

“KVI talk show host[s] ... have spoken in favor of the initiative on the air. That led to a lawsuit ... contending the radio station was mak- ing campaign contributions because of the activities of its on-air personalities.”

INTERNET INFO

More information on Initiative 912 is available online at http://www.none wgasatx.com.

Battle over Washington State Spending Limits Law Continues in Court

Washington State Grange, Building Industry Association of Washington (BIAW), Evergreen Freedom Foun- dation (EFF), and Washington Asso- ciation of REALTORS®

Named in the lawsuit are Gov. Christine Gregoire (D), the expendi- ture limit committee, and the State of Washington.

‘Emergency’ Wording

Lawmakers had blocked a potential referendum on SB 6078 by declar- ing the law an emergency. Without the emergency clause, SB 6078 would not have taken effect until 90 days after the session ended, and citizens could have tried to gather enough signatures to force a statewide vote in November.

Instead, the law took effect upon the governor’s signature in April.

By a 6-3 margin, the state supreme court on July 14 ruled in Washington State Farm Bureau Fed- eration et al. v. Sam Reed that the legislature can declare nearly any- thing it wants to be an “emergency,” thereby negating the chance for a vote of the people.

The majority opinion, by Justice Charles Johnson, relied predominant- ly on past opinions where the court gave deference to the legislature in determining what is an emergency.

“The Washington State Constitu-
Chicago Taxes Keep Climbing, This Time for School Funding

by Dennis Byrne

Chicago public school officials on July 27 approved what they called a “bare bones” budget that imposes a maximum allowable 1.9 percent property tax increase, the latest of a series of tax hikes imposed on Chicagoans to raise $85 million in new taxes and fees and one of the highest in the nation.

The school property tax increase follows $85 million in new taxes and fees imposed last December by the city of Chicago. That includes a quarter-cent increase in the city’s sales tax that was delayed until July 1, pushing the Chicago sales tax to 9 percent, by far the highest sales tax rate in the area and one of the highest in the nation.

A new preliminary city budget, which projects a $95 million deficit in 2006, may forebode still-higher levies. The school property tax increase is the ninth since Chicago Mayor Richard M. Daley (D) effectively took control of the school system 11 years ago. The exceptions were 1995, the first year he controlled the system, and 1998, before a mayoral election. Each hike was the maximum allowed under state law.

As he did the previous hikes, Daley approved the new tax increase, saying it was better than increasing class size. The mayor, schools chief executive officer Arne Duncan, and other officials lamented having to consider either action but said they were forced to because a $90 million increase in state aid wasn’t enough.

School officials emphasized the point by pulling $20 million from the system’s reserve funds. That was the second drawdown in three years, reducing the fund balance to $190 million, from $350 million in 2002.

“Costs Far Outstripping Revenue”

Over the past five years, operating revenues rose 17.7 percent, while employee compensation increased 18.8 percent and employee benefits costs jumped 34.7 percent. “This trend of personnel costs far outstripping revenue growth is clearly unsustainable,” the Civic Federation report said.

School property taxes, which account for about half of total property tax bills paid by Chicagoans, are only a part of the city’s budget woes. In addition to the July 1 sales tax increase in Chicago, taxes on hotel rooms, liquor, cigarettes, parking, amusement and natural gas also have been raised this year. Daley has steadfastly resisted any increases in the property tax for the city budget.

How long he can keep up resistance to raising the city’s share of the property tax is in question. The city’s Office of Budget and Management now predicts a $94 million shortfall in the 2006 budget, a hole that won’t be covered by the new tax increases or labor concessions.

On July 28 the mayor ordered a 3.3 percent cut in spending by all non-emergency city departments for the rest of the year. However, Daley’s maneuvering room on taxes may be crimped by a growing corruption scandal in the mayor’s administration and a 2007 mayoral election, in which he may be challenged by Rep. Jesse Jackson Jr. (D-IL).

Dennis Byrne (dennis@dennibyrne.net) is a Chicago writer and consultant.
Minnesota Lawmaker Is “Hero of the Taxpayer”

by Sandra Fabry

For standing up for taxpayers in a hard-fought budget battle, Minnesota State Rep. Phil Krinkie (R-Lino Lakes) was named “Hero of the Taxpayer” by Americans for Tax Reform, a national taxpayer advocacy group in Washington, DC.

Despite Krinkie’s efforts, Minnesota taxpayers will see their taxes go up, most noticeably on cigarettes and other tobacco products. On July 13, lawmakers passed what they dubbed “health impact fees”: a 75 cents per pack increase in the state’s cigarette tax (taking the tax to $1.23 per pack) and a doubling of the wholesale tax for cigars, snuff, and other tobacco products (resulting in a 70 percent surcharge).

Gov. Tim Pawlenty (R) maintained, “some people call it a tax, some call it a fee,” said Krinkie after passage of the tax increase.

Earlier, on the House floor, he stated, “I won’t vote for a bill that has deception in the heart and essence of the bill.” He cast his vote against the Health and Human Services Bill, which included the tax increases.

“Having to step back from it, letting go of it, was very difficult. Like the goalkeeper who lets the winning goal in, you feel as though you have not succeeded in helping out the team—and I felt almost ill.”

MINNESOTA STATE REP. PHIL KRINKIE

Principles Compel Resignation

Krinkie’s strong beliefs and principled stance on taxes not only led him to vote against the cigarette tax increase, but also to resign as chairman of the House Working Group on Taxes.

In a July 7 letter to House Speaker Steve Svigsva (R-Kenyon), Krinkie wrote he could no longer be effective as the chairman of the conference committee because he strongly disagreed with the governor’s cigarette tax increase proposal.

The Saint Paul Pioneer Press on July 8 quoted Krinkie as asking, “How far are you expected to stray from your principles in order to support the governor and the speaker?” He added, “My point is I can no longer support their positions.”

Governor blindsided him

After six weeks of failure to pass finance bills and a continuing resolution, and after a partial government shutdown because of that failure, Krinkie was called into Pawlenty’s office. Krinkie said the governor explained all of his previous offers were off the table, including the cigarette tax, and that he would put the 10 conference committee members in charge of coming up with a total revenue figure.

Krinkie accepted, and the committee worked through the July 4 weekend.

Then, seven days later and without warning, the governor came back and put an offer on the table that included both the cigarette tax and additional gambling revenue.

Said Krinkie, “At this point I realized the governor was going to not include me in the negotiation process, that he was going to reverse course to when he said all his previous offers were off the table, and put only one, but two offers back on the table. It was at that point that I said I am not going to be able to support the governor’s position nor the position of the speaker.”

Could have cut taxes

Krinkie admitted it was not easy to resign from the conference committee’s work.

“After endeavoring for six months to put together and pass a bill, which we did, that actually would reduce the tax burden for over a million taxpayers in Minnesota, having to step back from it, letting go of it, was very difficult,” he said. “Like the goalkeeper who lets the winning goal in, you feel as though you have not succeeded in helping out the team—and I felt almost ill.”

However, he was no longer able to carry water for the governor, whom Krinkie said had disappointed and shocked him for three reasons: because he gave no notice of his intentions to come out with a tax-hike proposal; because he was violating his no-new-taxes pledge; and because there was no “quid pro quo.”

“You’ve got to make the kids eat their broccoli before they get dessert,” he said. “Anything that could have been used to persuade members to modify their positions would have been helpful at the end of the session.”

“Dr. No” consistently fights for tax and spending restraint

Minnesota State Rep. Phil Krinkie is a Republican and successful businessman from Lino Lakes who was first elected to the House of Representatives in 1990, when the Democratic Farm and Labor Party (DFL) overwhelmingly outnumbered Republicans.

Early on, one of his liberal colleagues gave him the nickname “Dr. No,” in an attempt to criticize his no-new-taxes stance.

The moniker has stuck, and Krinkie is still considered the legislature’s most consistent opponent of higher taxes, increased government spending, and more regulation.

Sights set on Congress

Krinkie hopes his fiscal conservatism helps propel him to higher office. He is running for the U.S. House of Representatives in Minnesota’s 6th congressional district next year.

Fellow conservatives appreciate his principled stances. The Taxpayers League of Minnesota, headed by David Strom, gave him a “Taxpayers Hero” award in 2000 and named him “Lifetime Friend of the Taxpayers” in 2004. Strom calls him the “most principled politician I know.”

Founded watchdog group

Krinkie’s list of accomplishments is long. In 1995 he founded Citizens for Fiscal Responsibility, a watchdog organization that monitors state spending. In 1997 he was the first legislator to call for an across-the-board state income tax cut, which was enacted in 1999. In 2003 he wrote the state’s Taxpayer’s Bill of Rights, a proposed constitutional amendment that would put a tight lid on spending.

This year, as chairman of the House Tax Committee, Krinkie again put his efforts into crafting a fiscally responsible budget. The House tax bill would have balanced the budget without raising taxes. An important provision of the tax bill called for a Taxpayer Satisfaction Survey, which would have given property owners a voice in evaluating government spending by their cities and counties.

— Sandra Fabry
Taxes, Spending Climb After Minn. Shutdown

by David Strom

The 2005 legislative session proved to be brutal for Minnesota taxpayers and Republican lawmakers.

Senate Democrats, smarting from policy losses over the past few years and emboldened by gains in the 2004 elections, pushed back hard and won major tax and spending increases after a partial government shutdown and the temporary layoffs of thousands of state workers.

Republican Party platform explicitly rejects state-run gambling, and Pawlenty himself had strongly opposed any expansion until a conversion on the issue late last year. Pawlenty's gambit left Republicans split and Democrats united.

Democrats made gains early in the legislative session, successfully passing a $945 million bonding bill, a dollar-an-hour increase in the minimum wage (to $6.15), a 50 percent increase in the gas tax to 30 cents a gallon (later vetoed by the governor), and in partnership with the governor an increase in the mandated ethanol content of gasoline to 20 percent.

In the third week of May—nearing the constitutionally mandated deadline for passing a budget—the legislature remained in deadlock. Republicans refused to budge on raising taxes, and Democrats refused to reduce their spending goals.

'Health Fee' Stunned Lawmakers

In a move to break the deadlock, Pawlenty surprised everyone by proposing a 75 cents a pack "health impact fee" on cigarettes, just two days before the deadline for ending the legislative session. Insisting his fee was not a tax, Pawlenty suggested using the increased revenue to fund new education and health care spending called for by the Democrats.

Pawlenty hoped that increasing expected revenue by $400 million and earmarking the proceeds for education would break the impasse.

His concession had the opposite effect. The cigarette tax increase was accepted and Democrats dug in, hoping Pawlenty's move was simply the first crack in the dam holding back additional tax increases. Republicans divided even further, with about one-third of the caucus having vowed not to raise taxes and unwilling to go along with the governor.

Government Was Shut Down

Chaos followed. Six weeks of special session without resolution led to a first-ever partial government shutdown. Nine thousand government employees were laid off, a special master was appointed by the courts to run state government, and the political gridlock spurred a backlash expected to influence the 2006 elections, although no one knows how that will play out. Most legislators wouldn't appear at Fourth of July events for fear of being lambasted.

After little more than a week the showdown ended, with Pawlenty having given ground on revenue increases and the Democrat Senate having settled for about half the new spending it had proposed.

Small Businesses Hit Hard

The largest unknown is how Republican constituencies will react to the session. Small businesses, in particular, took a real hit, with increases in the minimum wage, the ethanol mandate (which will require convenience stores to make new capital expenditures because ethanol is so corrosive to equipment), and the tobacco tax hike.

Buzz Anderson, president of the Minnesota Retailers Association, summed up the session as follows: "This year's legislative session was one of the most difficult ever experienced by the retail community. There appears to be less and less understanding of the role of free enterprise in our economic system."

Pawlenty came out of the session battered and bruised. His once-soaring approval rating sank to 43 percent in the SurveyUSA poll released in July.

State Democrats see the session as largely a success, with significant policy and political goals having been met, while Republicans are squabbling among themselves over why things went so wrong.

Bill Cooper, a former state party chair, endorsed Ron Eibensteiner's opponent, for the chairmanship of the Minnesota Republican Party. Cooper took a direct shot at the party's current direction in a June 11 interview posted on the Minnesota Public Radio Web site. "We don't need any more taxes. Income taxes are rising at over 15 percent in Minnesota. What's happened to your property tax assessments? Mine went up 16 and a half percent. We don't need any more taxes. We don't need any more fees."

Big Tax Hikes Proposed

This year's legislative session began with the state running a budget deficit of about $400 million a year. But Democrats pushed for a $1.4 billion tax increase, including a proposal that would have given Minnesota the top income tax rate in the nation at 10.65 percent.

The income tax proposal didn't pass, but the session ended with tax and fee increases of $560 million and spending increases of about $2 billion, bringing total spending to $30.1 billion for the fiscal 2006-7 budget.

From the beginning Republicans appeared to be on the defensive. Pulling back from his earlier insistence that "Minnesota has a spending problem, not a revenue problem." Republican Gov. Tim Pawlenty proposed a state-run casino in partnership with some of the poorer Indian tribes to raise hundreds of millions of dollars of revenue.

Governor's Idea Flopped

Pawlenty's efforts fell flat, largely because neither conservative Republicans nor liberal Democrats were interested in expanding gambling. The
Americans, Left and Right, Work to Counter Kelo Decision

by Paul Jacob

Controversial Supreme Court decisions animate much of American history, but few have been so widely condemned as the Supreme Court’s 5-4 ruling in the case of Kelo v. New London, handed down June 30. The case is spurring Americans across much of the political spectrum into action to defend their homes and businesses from seizure by local government.

In Kelo, the nation’s highest court agreed with the Connecticut Supreme Court in allowing the town of New London to take homes under the legal principle of eminent domain. The city will turn the land over, allowing the town of New London to take with the Connecticut Supreme Court in their homes and businesses from seizure.

The Kelo decision sent a message to local governments nationwide that any private home or business could be considered for condemnation under the Court’s view of eminent domain.

“Unlike many U.S. Supreme Court decisions, which leave no remedy except the arduous path of a constitutional amendment, the Kelo decision allows states to set tighter standards for use of eminent domain.”

Overwhelming Opposition Arises

The public response has been staggering. A Quinnipiac University poll found Connecticut citizens, by an 89 percent to 8 percent margin, disagreed with the Kelo decision and want state legislators to take action to protect against eminent domain abuse. That’s a whopping 11-to-1 margin.

An unscientific online poll at MSNBC.com showed 98 percent of the almost 200,000 respondents opposed government taking property for use in private development projects.

Public outrage is turning into action. Unlike many U.S. Supreme Court decisions, which leave no remedy except the arduous path of a constitutional amendment, the Kelo decision allows states to set tighter standards for use of eminent domain.

Accordingly, the country has erupted at the grassroots.

Opponents Spring into Action

At least 31 states are considering legislation to ban the use of eminent domain for private projects, impose additional restrictions on its use, or redefine “public use.” “Economic development,” and “blight,” according to the Castle Coalition. The coalition was formed in 2002 by the Institute for Justice, whose lawyers argued the Kelo case for the seven home-owner plaintiffs, and is spearheading legislative efforts to address eminent domain abuse.

Alabama became the first state to enact eminent domain reform after the Kelo decision, when Gov. Bob Riley (R) on August 3 signed legislation prohibiting cities and counties from using eminent domain for private development or to boost tax revenue. While property rights advocates praised the new law, they were quick to point out the state’s definition of “blight” remains vague enough to allow considerable mischief.

“The Kelo ruling means that property owners are paid ‘just compensation’ – usually a code word for ‘we’d like something else here.’”

States Making Changes

Connecticut Gov. Jodi Rell (R) has called for a moratorium on all eminent domain proceedings until the legislature can consider and enact changes to the process. New London officials have agreed to abide by the moratorium, allowing Susette Kelo, the lead plaintiff in the case that bears her name, and the other plaintiffs to keep their homes for now.

New York state legislators have made a similar call for a moratorium until the issue can be addressed legislatively.

The Texas House of Representatives passed legislation unanimously that would amend the constitution to prevent local governments from taking property for private economic development. The state senate passed similar legislation, but the two chambers couldn’t reconcile their differences. The bills could be brought up again in the next legislative session in 2007.

Reform legislation is pending in California, Connecticut, Delaware, Florida, Illinois, Kentucky, Massachusetts, Michigan, Minnesota, New Jersey, New York, Oregon, Pennsylvania, Rhode Island, and Tennessee. In Alaska, Louisiana, Ohio, Oklahoma, South Carolina, South Dakota, and Wisconsin, legislators have announced plans to introduce bills in their upcoming sessions. In Colorado, Georgia, and Virginia, legislators have announced plans to revive previously introduced measures to curb eminent domain abuse.

Constitutional Amendments Considered

In several states—Alabama, California, Florida, Michigan, New Jersey, and Texas—legislators are mobilizing to support proposed state constitutional amendments prohibiting eminent domain for private development. In states with voter initiative, citizen activists are considering direct action.

Governors and legislators in Arkansas, Delaware, Florida, Indiana, Missouri, New Hampshire, and Tennessee have created state commissions to study the use of eminent domain and needed reforms. Legislators in Nevada and Utah took action to improve protections for property owners before the Kelo ruling.

Numerous localities have reacted by passing new ordinances limiting use of eminent domain, and citizens are urging action from local councils or in some cases considering local voter initiatives to restrain governments from taking private property.

Congress Voices ‘Grave Disaprooval’

Congress is also reacting to the ruling. A symbolic resolution registering the House of Representatives’ “grave disapproval” of the ruling passed with 365 votes, and legislation has since been introduced to put legal teeth behind that sentiment.

Conservatives, including House Judiciary Committee Chairman James Sensenbrenner (R-WI), are teaming up with liberal Reps. Sheila Jackson Lee (D-TX) and Maxine Waters (D-CA) to restrict use of federal development assistance and community development block grants in communities that allow property to be seized for private redevelopment. They and other Republicans and Democrats are working with a coalition whose members range from the NAACP to religious groups to farmers.

“One positive from this [Court decision] is the interesting alliance between traditional conservatives, who want to look out for the little guy, and libertarians, who defend individual rights and property rights,” said John Tillman, president of Americans for Limited Government, a group that works to defend property rights. “A tremendous grassroots movement is building on eminent domain.”

Ruling Redefined Public Use

Kelo centered on the legal notion of “pub-

licit use.” The Court ruled that taking homes from private owners and giving them to a real estate developer to build a commercial complex projected to increase jobs and tax receipts was a constitutionally sound “public use.”

The Fifth Amendment to the Constitution allows governments to take private property for “public use,” provided that property owners are paid “just compensation.” For most of the nation’s history, public use was understood to be something used by and for the public, such as government buildings or public roads.

In the Kelo case, the private developer stands to reap millions of dollars of profit, and the property would be under the control of private owners.

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INTERNET INFO


and industry representatives, decided 11 states would oversee the network and provide incentives for retailers to participate voluntarily. Incentives would include free software to calculate, collect, and remit taxes on Internet sales and a one-year amnesty for companies that may owe taxes on past online sales to any of the participating states. The software and amnesty would be offered beginning in October.

“This was a landmark meeting for the whole effort,” said Stephen Kranz, a spokesman for the SSTP and tax counsel for the Council on State Taxation, an industry trade association that is promoting the project.

The 11 states—Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, North Carolina, Nebraska, Oklahoma, South Dakota, and West Virginia—have amended their sales tax laws to comply with project rules and definitions of taxable items. Six of the seven other states in the network—Arkansas, North Dakota, Ohio, Tennessee, Utah, and Wyoming—have not made the necessary amendments but plan to do so.

“[T]he SSTP is obsolete. The need for it is gone. No state should bother trying to change its tax rates or sales tax rules to accommodate some other states, because the private marketplace has solved the problem.”

WILLIAM AHERN
TAX FOUNDATION

The remaining state, New Jersey, brought its sales tax law into project compliance after the June 30 meeting. It did not fully comply, however, until after the 11 states were designated to oversee the network.

Internet and mail order retailers that agree to collect and remit taxes do so for sales originating in any of the states that have amended their laws to fully comply with the SSTP standards. “Originating” refers to the location of the buyer.

The National Governors Association and National Conference of State Legislatures released a report in July 2004 that estimated state and local governments lost as much as $16 billion by not being able to tax Internet sales.

No Longer Needed?

Some taxpayer groups doubt the need for the SSTP.

“The SSTP was started by states that feared they would lose revenue to Internet sales. Since then, there are now software solutions that even a one-person business with a Web site can get to compute sales tax in every ZIP Code in the country,” said William Ahern, spokesman for the Tax Foundation in Washington, DC.

“So in one sense the SSTP is obsolete,” Ahern said. “The need for it is gone. No state should bother trying to change its tax rates or sales tax rules to accommodate some other states, because the private marketplace has solved the problem.”

Ahern said, “From my perspective, the simplification is in the technology,” said Rory Rawlings, Avalara’s founder. “No matter how simplified they make the laws, they’re still very complicated for small business owners to comply with. The answer is in technology and not in policy.”

Rawlings said his company’s Web-based product, which works with most small-business accounting software packages, starts at $9.95 a month. Prices climb from there, depending on the number of sales transactions a business makes each month.

As an SSTP-certified vendor, Avalara Inc. is responsible for the accuracy of the tax collections and remittances, Rawlings noted. Any mistakes would be covered by Avalara, that holds true for other certified vendors as well. Seven vendors have been certified already.

Others Doubt Technology

Rich Prem, director of global indirect taxes for Amazon.com, said, “Technology isn’t a silver bullet to resolve the real administrative burdens facing both large and small Internet sellers. I believe that the real benefit of the technology solutions being developed by companies like Avalara will be to enable even the smallest of Internet sellers to be able to collect sales tax on Internet sales, once the more than 7,000 sales and use tax regimes are appropriately streamlined.”

He added, “Amazon’s position is that if the system is truly simple, and if the states follow through on their commitments relating to certified service providers and certified automated software that would largely eliminate the costs and burdens of collecting sales taxes, then sellers of all sizes should be able to comply.”

Loss of Tax Competition Feared

Ahern said he fears nationwide enactment of the SSTP would reduce tax competition between states or between communities within states. In Chicago, Illinois, for instance, the sales tax climbed to 9 percent on July 1. In many Chicago sub-

urbs, the tax rate is 6.5 percent.

“That 6.5 percent rate helps restrain Chicago’s rate,” Ahern said. “The city’s rate would probably be even higher if the suburbs’ rates were higher.”

States Keep Sovereignty

Kranz, though, said tax competition would remain under the SSTP.

“The agreement says wherever a product is delivered is the jurisdiction that gets to impose the tax,” Kranz said. “A jurisdiction could tax something or not tax it. And the tax could be whatever the jurisdiction wants.”

Alaska, Delaware, Montana, New Hampshire, and Oregon do not have state sales taxes and would not have to impose them under the SSTP. (Some Alaska communities have their own local sales taxes.)

Without a destination-based tax system, Kranz said, “every company that sold online should set up in one of the states without a sales tax. Some people think an origin-based system is a good approach, because companies will relocate where there is no tax. We think it would be a race to the bottom.”

Steve Stanek (stanek@heartland.org) is managing editor of Budget & Tax News.

Project Stems from Supreme Court Ruling

In 1992 the U.S. Supreme Court ruled states could not require sellers that do not have a physical presence or “nexus” within the same state as the consumer to collect state taxes. The court also ruled that buyers owe the tax, but said the current tax system, with its thousands of jurisdictions and differing definitions of taxable items, is too burdensome to force online or mail order retailers to charge and collect sales taxes.

The Streamlined Sales Tax Project (SSTP) was organized in 2000 by state governments, with involvement from local governments and the private sector, to address the Supreme Court ruling by simplifying and modernizing sales and use tax collection and administration.

They hope to simplify the tax system so it overcomes the Supreme Court’s ruling that the current system is too burdensome to collect the tax, even though buyers owe it.

In November 2002, 30 states and the District of Columbia approved the provisions of the SSTP’s interstate agreement. Twenty-one states have moved forward and enacted all or part of the conforming legislation.

In essence, the project is designed to enable retailers to charge whatever sales tax is in place where the buyer is located. There are more than 8,000 sales tax jurisdictions across the country.

Two years ago legislation was introduced in Congress that would have sanctioned the SSTP efforts and required out-of-state retailers to collect sales taxes. The bill did not move, and no such legislation has been introduced in the current session of Congress.

— Steve Stanek
Outsourced Flight Services to Save $2.2 Billion

by Robert W. Poole, Jr.

The Federal Aviation Administration (FAA) expects taxpayers to save $2.2 billion over the next 10 years, thanks to a contract with Lockheed Martin that goes into effect in October.

That’s when Lockheed Martin begins taking over the FAA’s Automated Flight Service Station (AFSS) program. The company’s $1.9 billion bid reduces the cost of the program nearly 40 percent.

The AFSS program consists of 58 facilities that provide weather briefings, flight plan filing services, and other assistance to private pilots. The contract includes consolidation of facilities.

The program has been costing nearly $600 million per year, paid for as part of the FAA’s overall budget. Though most of the FAA is paid for through user taxes (e.g., the 7.5 percent tax on airline tickets), private pilots pay $60 million per year in fuel taxes.

The discrepancy between program cost and taxes paid by private pilots prompted calls for competition to modernize the AFSS program.

**Will Absolutely Benefit Pilots**

“This will absolutely benefit pilots,” said Kathleen Roy, spokesperson for the Aircraft Owners and Pilots Association, which represents private pilots. “This will accomplish modernization and be much more efficient. There obviously will be large savings in money, with no loss in safety.”

KATHLEEN ROY
AIRCRAFT OWNERS AND PILOTS ASSOCIATION

Roy said the briefers at the flight service stations will be able to provide pilots “local knowledge” that includes weather patterns, closed runways, lights out on runways, and other items of importance to pilots.

“They will look at the same screen the pilot is looking at to share information,” she said. “This new system will have a lot more technology.”

The existing FAA workforce put in a bid with frequent FAA contractor Harris Corp. Other bidders in addition to Lockheed Martin were Computer Sciences Corp., Northrop Grumman, and Raytheon.

**Technology, Consolidation Are Key**

Lockheed Martin’s winning proposal was able to achieve savings through the use of advanced technology and facility consolidation. Instead of the current 58 geographically dispersed facilities, there will be 20 under Lockheed Martin. The facilities will be equipped with more advanced technology, enabling each flight specialist to be more productive. Pilots will no longer be able to obtain walk-in briefings, but only about 2 percent of pilots used that service.

Consolidation of facilities will begin in April 2006 and end a year later. During that time, about half of the 2,500 AFSS employees will become eligible to retire, which will reduce the workforce without the need for layoffs. Until then, Lockheed Martin will offer jobs to all the employees, with no loss in salary and with comparable benefits.

In addition, about 400 of the existing staff have been certified as air traffic controllers and will be able to apply for transfer to the FAA’s Air Traffic Organization.

Robert W. Poole, Jr. (bo@reason.org) is director of transportation studies and founder of Reason Foundation.

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Florida “Holy Land” Park Exempt from Property Tax

Religious-themed park merits the break given to churches and museums, judge rules

by Mark Schlueb

The Holy Land Experience may seem like just another theme park, with its $30 admission charge, $5 parking fee, and souvenir shops.

But, ending a four-year legal battle, a judge has ruled that the religious-themed attraction deserves the same tax-exempt status given to churches and museums. The ruling spares its tax-exempt status given to churches and museums.

But Orange County Property Appraiser Bill Donegan’s decision to deny Holy Land tax-exempt status has given owner from paying a delinquent property tax bill that would have climbed to more than $1 million by the end of the year.

The Rev. Marvin Rosenthal, executive director of Zion’s Hope, the park’s owner, said regardless of what the attraction is called, its mission is to spread the Gospel—not make money.

**A Method to Communicate**

“The message of the Bible is fixed and unchanging. But the methods of communicating that message have evolved over thousands of years,” said Rosenthal, a Baptist minister. “We are simply trying to use modern technology to communicate a spiritual message.”

The 15-acre attraction opened in 2001 at Interstate 4 and Conroy Road, designed by the same high-tech firm responsible for Universal’s Islands of Adventure.

Modeled after ancient Jerusalem, Holy Land’s attractions include a life-sized walled gate and re-creations of Herod’s Temple and courtyard, Jesus’ garden tomb, a street market with artisans’ workshops, a Bedouin tent, and the caves where the Dead Sea Scrolls were discovered. It also boasts the Scripture Museum, which houses the largest private collection of biblical texts and artifacts in the country.

From the start, the Holy Land Experience was controversial. Local rabbis greeted it with trepidation, given its parent company’s stated mission of converting Jews to Christianity. And the owner’s decision to publish it charismatic and Pentecostal Christians from working there prompted picketing early on.

Appraiser Saw Theme Park
But Orange County Property Appraiser Bill Donegan’s decision to deny Holy Land tax-exempt status has given owner Zion’s Hope, pointing out that the nonprofit company produces and distributes biblical cassette tapes, videos, books and CDs; publishes a religious magazine; broadcasts a syndicated radio show; and supports missionaries in Israel.

“The property appraiser has failed to direct the court’s attention to any evidence that Plaintiff is using The Holy Land Experience to make money or for some other purpose than evangelizing and worshiping,” MacKinnon wrote.

**The message of the Bible is fixed and unchanging. But the methods of communicating that message have evolved over thousands of years. We are simply trying to use modern technology to communicate a spiritual message.**

THE REV. MARVIN ROSENTHAL
ZION’S HOPE

Would Have Owed $1 million

The company faced a $1.9 billion bid reducing the cost of the program nearly 40 percent. That’s when Lockheed Martin begins taking over the FAA’s Automated Flight Service Station (AFSS) program. The company’s $1.9 billion bid reduces the cost of the program nearly 40 percent.

**Appraiser Sees Ministry**

In her ruling, Circuit Judge Cynthia MacKinnon sided with Zion’s Hope, pointing out that the nonprofit company produces and distributes biblical cas- settes, videos, books and CDs; publishes a religious magazine; broadcasts a syndicated radio show; and supports mis- sionaries in Israel.

“The property appraiser has failed to direct the court’s attention to any evidence that Plaintiff is using The Holy Land Experience to make money or for some other purpose than evangelizing and worshiping,” MacKinnon wrote.

“None of those that I know of charge $30 admission,” Donegan said. “It’s a business.”

The judge also determined that Done- gan had violated the company’s right to due process by not stating a reason for denying its exemption.

**Appraiser Fears More Exemptions**

On Monday, Donegan said he worries the ruling could open the door for other businesses to open tourist attractions that don’t deserve a break on property taxes.

Visitors, meanwhile, continue to pass through Holy Land’s gate, though at a slower pace than developers anticipated when the attraction opened.

At the time, they said they needed to attract 180,000 to 200,000 visitors a year to break even. Rosenthal said Monday that a total of about 250,000 people have attended in the past 4 1/2 years.

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Iowa: Small State with a Big Tax Watchdog Group

by Steve Stanek

Iowa may be one of the smallest states—just five congressional districts and a population of 2.94 million—but it can boast the nation’s largest state taxpayer advocacy group, Iowans for Tax Relief (ITR).

Across the country, there are other strong state taxpayer advocacy groups, but none can claim more than 50,000 members and four full-time lobbyists working their state capitol. Iowans for Tax Relief stands toe-to-toe with the state teacher union and other well-heeled groups that usually lobby for increases in state spending and taxes.

In for Long Haul

“I think one of the reasons we have had success and have been around so long is that we do not have citizen initiatives or referendums in Iowa,” said Jeffrey Boeyink, ITR’s secretary. “We knew the only way to make positive changes was to work with the legislature, and that takes time.

“Most groups burn out as soon as their initiative is done. We started with the idea we’re going to have to be around a long time, build a big membership base, and have the same tools our opponents use to influence policy.”

JEFFREY BOEYINK
IOWANS FOR TAX RELIEF

Working for “Right to Vote” on Most Taxes

Iowans for Tax Relief’s big push now is for the People’s Right to Vote Amendment, which ITR secretary Jeffrey Boeyink said would give the people of Iowa the final say on taxes, by majority vote in a state general election.

The amendment would require voter approval for most tax and fee increases. If total tax and fee increases adopted by the legislature and governor in any fiscal year exceed 1 percent of state general fund revenue in the preceding year, all increases above that limit starting with the largest increase would go on the ballot and would not take effect unless a majority of Iowa voters approve.

Boeyink said citizens would have been able to vote on most of the big tax increases in Iowa over the past 30 years if the amendment had been in effect. Items that would have needed a majority vote for approval include:
• a state law that added more brackets to the Iowa income tax,
• each one-cent increase in the state sales tax, and
• last year’s cut of more than $60 million in state transfers to local governments.

Under the amendment, any state law that requires or even allows local governments to impose or increase any property tax, income tax, or sales tax would require a vote of the people, according to Boeyink. The only exception is the annual law setting the state growth percentage for school aid. Any cut in total state funds transferred to local governments in a fiscal year, and any new or increased unfunded state mandate on local governments, also would be put to a statewide vote.

— Steve Stanek

String of Victories Achieved

Before long ITR was able to claim significant successes.

“We have deductibility of federal income tax from state taxes. No tax on a tax was one of our founding issues,” Boeyink said. “We also have the option of filing separately if you’re married. They tried to eliminate that in the late 1980s. That was a huge rallying cry. We jammed the capitol phone lines with people in support of our position. That issue helped put us on the map.”

In 1987 ITR lobbied for and won a major victory for Iowa taxpayers when the state’s top income tax rate was slashed from 33 percent to 9.98 percent.

In 1995 ITR sponsored a presidential candidates forum, attracting eight candidates and more than 50 national media outlets.

Two years later, at ITR’s urging, the state income tax was cut by 10 percent across the board, and the inheritance tax was repealed for lineal ascendants and descendants.

Since then the state has repealed the residential utility tax and has granted “back to school” sales tax holidays.

Membership Launches Political Career

Stewart Iverson Jr. of Clarion, Iowa has been a member for more than 20 years. When he joined he had no idea his involvement with ITR would lead to a political career that now has him serving in the Iowa Senate as Republican floor leader. He has been in the Iowa General Assembly for 16 years.

Iverson learned of ITR through his banker, who invited him to a meeting.

“I had never heard of the group,” Iverson said, “but my banker invited me to go. David Stanley was putting on the meeting, I listened to what their causes were and liked what I heard. The basic premise of their cause is to watch how much taxes are spent and watch out for taxes that might be raised. I am not a believer in raising taxes. Government should live within its means. I have worked closely with ITR throughout my political career.”

State Rep. Jamie Van Fossen

Iverson credits ITR with helping to stave off numerous tax hikes in recent years, including last year’s proposed doubling of the state cigarette tax, from 36 to 72 cents a pack.

“The governor [Democrat Tom Vilsack] said we should raise the cigarette tax to pay for Medicaid,” Iverson said. “People realized it was just a way to grow government. ITR helped get that message out.”

Another influential supporter of Iowans for Tax Relief is State Rep. Jamie Van Fossen (R-Davenport), chairman of the Iowa House Ways and Means Committee.

“When ITR speaks, the legislature listens,” Van Fossen said. “There are all kinds of groups wanting a piece of the taxpayers’ buck. ITR is the only group that sticks up for the taxpayer, whether it’s income, sales, or property taxes. That’s why they have such a large membership. Our Farm Bureau does a great job on property taxes, and there are other groups that have their particular area of interest, but there is no other group that does all of the big taxes, and no other group that can go toe to toe with the teachers.”

Van Fossen said lawmakers also know ITR will stand behind candi- dates throughout an election.

“If you’re a pro-taxpayer candidate, they’ll support you all the way,” he said. “Those candidates and their opponents both know that.”

Steve Stanek (stanek@heartland.org) is managing editor of Budget & Tax News.

STATE SEN. STEWART IVERSON JR.
R-CLARION

STATE REP. JAMIE VAN FOSSEN (R-Davenport), chairman of the Iowa House Ways and Means Committee.
Ten Commandments for Budget Health


First, thou shalt keep taxes low.
Second, thou shalt reduce taxes on income and wealth.
Third, thou shalt keep marginal tax rates low and relatively uniform.
Fourth, thou shalt not engage in corporate welfare by giveaways to favored investors.
Fifth, thou shalt limit taxes and/or expenditures constitutionally.
Sixth, thou shalt be diligent and moderate in collecting and spending rainy day funds.
Seventh, thou shalt protect employees from extortion of their funds for political purposes.
Eighth, thou shalt privatize much of current expenditure of funds.
Ninth, thou shalt provide help to children, not schools, in promoting learning.
Tenth, thou shalt pay your public servants according to their contribution to prosperity.

Being a legislator is tough work, but the legislative toils can make a difference if guided by the ten commandments I outline,” Vedder said. “The beneficiaries are not just the legislators themselves and their fellow citizens, but innocent children, born and unborn, who will inherit our world. Let us leave them something of which we can be proud.

“With revenues up and deficits down, this might be the ideal time to use all ten,” Vedder said.

INTERNET INFO

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Or drop us an email: stanek@heartland.org

State Tax Collections by Type of Tax (thousands of dollars)
First Quarter (January, February, March) 2005

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<th>Type of Tax</th>
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State Treasurer
William Donald Schaefer
Maryland Comptroller

Continued from page 1

over FY 2004 receipts.”

“This is good news for the state,” Schaefer said, “but it’s important to remember that this is not ‘extra’ money.” Schaefer added, “Marylanders are working hard, the economy is responding and revenues are soaring.”

‘These Are the Good Times’
Maryland’s experience is not unique.

On July 16, the Lincoln, Nebraska Journal Star reported, “A special legislative committee that is the ‘warning bell for bad times’ met this week and took no action. There is no need for a warning. State tax revenues have been above the official projections every month but February during the fiscal year that ended June 30. These are the good times.”

In May 2005, Arizona took in $466,5 million in tax revenues, a 30 percent increase over May 2004 and $99.5 million more than was forecast for the month, according to a July 6 report from the state’s Joint Legislative Budget Committee.

Job Growth Drives Gains
A June 2-3 economic symposium held in Detroit by the Chicago Federal Reserve Bank revealed job growth for the past 18 months has been strong.

“Employment gains were solid in 2004, with the addition of over 2.1 million jobs, which averaged to 183,000 jobs per month,” said William A. Strauss, a senior economist at the Chicago Fed. “This was above the trend growth rate of between 140,000 and 150,000 jobs per month. Job growth for the first five months of 2005 has been slightly lower, averaging just under 180,000 jobs per month. These 2005 figures are still above trend.”

Concerning the future of the economy, Strauss noted, “The forecasts for 2005 and 2006 are for growth to moderate in almost every economic sector but still expand at a rate regarded as close to trend. Real GDP is anticipated to rise by 3.2 percent this year and by 3.3 percent in 2006.”

Sales, Income Taxes Lead Rise
The Census data indicate sales and income taxes are leading the climbs in state revenue. In the first three months of 2005, state governments obtained 33.9 percent of their revenues from state sales taxes and 32.1 percent from state individual income taxes.

Since the first three months of 2005—sales, severance, and gift and death taxes—have increased 6.5 percent, while state individual income tax revenues have increased a whopping 11.7 percent. Together, these two taxes accounted for more than $100 billion in all state revenues in January-March 2005.

Lower Tax Rates Are Key
The American Legislative Exchange Council (ALEC), a bipartisan Washington, DC-based organization of state legislators, sees lower taxes as key elements in fostering higher state economic growth.

Iowa State Rep. Jamie Van Fossen (R-Davenport), public-sector chairman of ALEC’s Tax and Fiscal Policy Task Force, said, “A recent survey of members indicated that tax policy was still their top concern. In the most recent legislative session, over 500 bills to lower the tax burden and curb excessive government spending were introduced by ALEC members.”

Van Fossen added, “Current tax revenue forecasting methods score a tax cut as a ‘loss’ to the government, while tax increases are scored as a ‘gain.’ This assumption is in conflict not only with the Jeffersonian theory of limited government but also empirical evidence showing that behaviors change in response to tax changes.

“Under general equilibrium theory, tax increases may bring in less revenue due to a reduction in economic activity, while tax cuts may bring in more revenue due to increases in economic activity,” Van Fossen said. “As legislators consider tax changes, it is important that information on these behavioral changes is available.”

Top State Revenue Producers
The Census data indicate eight states—California ($22.5 billion), New York ($14.4 billion), Florida ($9.3 billion), Texas ($7.9 billion), Pennsylvania ($7.6 billion), Illinois ($7.4 billion), New Jersey ($5.3 billion), and Ohio ($5.3 billion)—generated more than $5 billion each in state tax revenues during the first three months of 2005.

John W. Skorburg (skorburg@heartland.org) is a visiting lecturer in economics at the University of Illinois, Chicago and associate editor of Budget & Tax News.
Tax-Hike Votes Haunt Some Virginia Republicans

Other lawmakers run away from their tax-hike records

by Sandra Fabry

In June, Virginia voters selected the state’s House of Delegates candidates for the fall elections. It was the first election since Virginia lawmakers passed the largest tax increase in the state’s history last year.

As results came in, three points became clear: Voters overwhelmingly chose candidates who pledged to oppose tax increases; several Republican legislators who voted for the tax hikes saw their political careers end; and those who survived the election did so by running away from their tax votes.

“[W]e continue to make incremental progress to a fiscally responsible, conservative, state government in Virginia.”

JOHN TAYLOR
VIRGINIA INSTITUTE FOR PUBLIC POLICY

Gubernatorial Candidates Oppose Hikes

Statewide, former attorney general Jerry Kilgore won the GOP nomination for governor with more than 80 percent of the vote. Kilgore and his chief rival, Warrenton Mayor George Fitch, had both committed in writing to oppose new taxes.

“Opposing taxes was the price of entry into this race. No one could be a serious Republican candidate for governor without absolutely disavowing new taxes,” said taxpayer advocate Grover Norquist, president of Americans for Tax Reform.

“Voters know that [current governor] Mark Warner promised not to raise taxes when he ran in 2001. Then after the election, Warner backed regional sales taxes and finally the 2004 tax package. Voters were burned once; they will not be burned again.”

Staunchly anti-tax State Sen. Bill Bolling (R-Hanover) easily won the GOP nomination for lieutenant governor, with 57 percent of the vote. Bolling signed the Taxpayer Protection Pledge, a written commitment to “oppose and vote against/veto any and all efforts to increase taxes.”

Bolling’s opponent, Prince William County Board Chairman Sean Connaughton, had refused to sign the pledge.

Tax Hikers Faced Challenges

In House of Delegates races, seven of the 19 GOP tax hikers, or 37 percent, faced a primary challenge from a candidate who signed the pledge. Taxpayer advocates say that is a very high number of challenges to incumbents, and they speculate it will discourage legislators from voting for tax increases in the future.

Of the remaining 41 Republicans, all of whom voted against the tax hike, only three faced challengers. Of the 38 Democrat incumbents who backed the tax hike, three faced challengers.

As James Parmalee, chairman of NorthernVirginia.com, said, “But the bottom line is, if you voted for Governor Warner’s tax increase, you ended up with an approximately one in three chance of drawing a well-organized, strong primary challenger. That should make people think twice before supporting higher taxes.”

Of the seven races with well-organized challengers, one delegate, James Dillard (R-Fairfax), retired rather than risk losing his primary, and another delegate, Gary Reese (R-Fairfax), was defeated. Michael Golden won the Republican nomination to replace Dillard, and Chris Craddock won the nomination to replace Reese. Both challengers centered their campaigns on opposition to tax increases.

“No one wants to play Russian roulette, because they have a one-in-six chance of dying,” said Paul Prossoski, state government affairs manager at ATR. “In the same way, no legislator will want to face a challenger on the tax issue, because they will have a two-in-seven chance of losing.”

Hike Costs Congressional Candidate

The two delegates who will not be returning to Richmond next year are not the only casualties of the tax hike. Last September, State Sen. Ken Stolle (R-Virginia Beach) was denied a seat in Congress because of his vote for the tax increase. Thelma Drake, an anti-tax delegate, won the seat instead.

Even those pro-tax delegates who survived the primary did not run on their tax records, according to a study by ATR. The group sent a survey to all delegates, Republican and Democrat, who voted for the 2004 tax increase. The survey asked each candidate to characterize how they portrayed their vote in the campaign, if they mentioned it at all. It also asked for copies of their campaign documents.

After repeated requests, only two delegates responded: Mitch Van Yahres (D-Charlottesville), who is retiring, and Vivian Watts (D-Alexandria). Both said they were proud of their votes and included their record in their publications.

Running from Tax Votes

“No one ran on raising taxes,” Norquist said. “The tax hikers ran as far away from the issue as they could.”

A quick look at the Web sites of pro-tax incumbents shows they are trying to claim the mantle of opposition to tax increases. The front page of the Web site for Delegate Ed Scott (R-Madison), for example, says, “As your Delegate, I have been working hard to improve the lives of every Virginia family. I have voted to cut taxes, protect our traditional family values, create jobs, improve our schools, and make our transportation systems better for the future.”

“Opposing taxes was the price of entry into this race—no one could be a serious Republican candidate for governor without absolutely disavowing new taxes.”

GROVER NORQUIST
AMERICANS FOR TAX REFORM

conservative and staunch defender of private property rights, crushed the big-government Republican, Steve Baril, 65 percent to 35 percent.

“Michael Golden won his primary with 73 percent of the vote to replace liberal Republican Jim Dillard in the House of Delegates. And, by a 2-to-1 margin, Chris Craddock defeated the incumbent, Delegate Gary Reese, who broke with his Republican colleagues in 2004 to vote for the largest tax increase in Virginia history.

“The end result is that we continue to make incremental progress to a fiscally responsible, conservative, state government in Virginia,” Taylor said.

Sandra Fabry (sfabry@atr.org) is state government affairs managers for Americans for Tax Reform.

FISCAL POLICY FORUM
State Tax and Budget Policy Strategies
September 29, 2005
The Mills House Hotel, Charleston, S.C.

- Taxpayers’ Bill of Rights and Tax Expenditure Limits
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FISCAL POLICY NEWS SEPTEMBER 2005 17
by John Semmens

The Social Security system, also known as Old Age, Survivors, and Disability Insurance (OASDI), was enacted in 1935. In 1940, the first benefit check, for $22.54, was paid to Ida May Fuller. She ended up collecting $22,889 in benefits payments over her lifetime, paying only $49.50 in taxes into the system. That 46,000 percent return was a fabulous deal for Fuller. Such large returns compared to payments have cemented support for the program among beneficiaries.

However, those large returns were made possible only by the Ponzi features of the system. When Fuller received her first Social Security check in 1940, there were 42 workers paying into the system for each retiree drawing funds out of it. Today there are just more than three. With fewer workers to pay the taxes to support Social Security benefits, future retirees face dwindling returns.

Intergenerational Transfer

Anyone who knows anything about Social Security knows it is an intergenerational income transfer program. The transfer is largely from the working young to the retired old. Though there is a so-called Social Security Trust Fund, it is not truly operated as a trust.

Those who pay into this fund have no ownership rights to any benefits. In 1960 the U.S. Supreme Court ruled in the case of Flemming v. Nestor that Social Security benefits were not contractual in nature. The government can bestow the benefits on whomever it chooses, without regard to how much, if anything, that individual may have paid into the system.

Recipients of Social Security benefits have generally received more than they paid into the system. This has not been due to astute investment of the monies paid in payroll taxes. It has been due to the robust growth in wages of those still in the workforce.

Paying benefits to early participants by extracting the money from later participants is a classic “Ponzi scheme.” This type of scheme works only if the number of those paying increases at a faster pace than the number of those receiving. Given the slowing population growth in the United States and increases in longevity, the Social Security Ponzi scheme cannot survive.

UnTenable Demographics

In the 1930s average life expectancy in the U.S. was 57 years. Setting the age for retirement benefits at 65 years meant the U.S. was 57 years. Setting the age for full retirement benefits at 65 years meant the U.S. was 57 years. Setting the age for eligibility for full benefits was aimed at adjusting for longer life expectancies. The adjustments, though, were paltry considering the substantial changes in life expectancy since 1935.

To put Social Security on an actuarial par with the life expectancy change since the 1930s, the age for full retirement benefits would need to be somewhere in the 80s.

People who live longer can be expected to work longer. Medical care is better. People stay healthier longer. Work is less physically demanding. Fewer jobs entail backbreaking manual labor in harsh environments. More jobs are behind desks in air-conditioned comfort.

Raising the retirement age would be one way of heading off the crisis by adapting to changed life expectancies.

Increasing Population Growth

If each new generation were larger than the previous one, more workers would be paying into the Social Security system. That could enable the Ponzi scheme to continue.

There are two ways to achieve this: (1) raise the birthrate or (2) increase immigration. Raising the birthrate would require a reversal in the downward trend of births per fertile female. Given the high cost of rearing a family in an increasingly urban environment, it is difficult to see what would induce people to take on such a burden.

Raising more young adults from other countries would be less costly. The costs of raising children from birth to adulthood would be borne elsewhere. People would be entering the country as they entered the workforce. They would be paying Social Security taxes for decades before becoming eligible to collect.

Whether we boost the population by increasing the birthrate or the immigration...
“Recipients of Social Security benefits have generally received more than they paid into the system. This has not been due to astute investment of the monies paid in payroll taxes. It has been due to the robust growth in wages of those still in the workforce.”

Social Security and Medicare Board of Trustees, the program could be brought into actuarial balance over the next 75 years with an immediate increase in the tax rate to 17 percent of payroll earnings up to $90,000. Analyst Peter J. Ferrara has estimated that by the middle of this century the tax rate necessary to keep Social Security solvent would rise to about 26 percent. The downside of the tax increase option, though, is its negative impact on economic growth. Whatever is taxed is discouraged. Increasing the payroll tax will increase the cost of employing American workers. Outsourcing production to other countries will become more attractive. In the long run, the economy will grow more slowly.

Depending on which side of the Laffer curve we are on, an increase in Social Security taxes may even result in lower revenues for the program.

Necessary Choice
We must choose one of the five approaches outlined above. We cannot continue “as is.”

Given the relative impacts of the options, personal accounts may offer the best long-term solution. All of the other options rely upon reducing benefits as the means for overcoming the insolvency of the current system. Only personal accounts offer gains.

And unlike the other options, personal accounts offer an additional benefit: They are more compatible with individual freedom.

John Semmens is an economist at the Laissez Faire Institute in Tempe, Arizona.

Bills Send Social Security Surplus to Private Accounts

by Max Pappas

A movement to allow workers to put a portion of their payroll tax dollars into an account they own and could pass on to heirs is taking hold in Washington, DC as bills have been introduced in Congress to implement such a plan.

A group of prominent Senators and Representatives has proposed putting surplus Social Security funds into individual retirement accounts for workers younger than 55 years old. The surplus is the amount of Social Security tax collected from workers that exceeds the amount needed to pay Social Security recipients.

The surplus will be about $85 billion next year. The amount is falling each year, and Social Security will begin to run a deficit by about 2017.

In the House version of the legislation, introduced July 14, the proposed accounts are being called GROW Accounts, an acronym for “Growing Real Ownership for Workers.”

Introduced by Rep. Jim McCreery (R-NC), the measure (HR 3304) has 44 co-sponsors, including Jeff Flake (R-AZ), Sam Johnson (R-TX), Clay Shaw (R-FL), and Paul Ryan (R-WI). A similar bill has been sponsored in the Senate by Sen. Jim DeMint (R-SC) and has 11 co-sponsors. That bill, S 1302, is the Stop the Raid on Social Security Act of 2005.

“Despite the gimmicks and smoke screens, this bill unmasks the real Republican agenda by abandoning the pretense of addressing solvency and simply proposing massive borrowing and private accounts,” said Rep. Sander Levin of Michigan, the top Democrat on the House Ways and Means Committee, in a statement shortly after the GROW Accounts Act was introduced.

On June 22, House Minority Leader Nancy Pelosi (D-CA) issued a statement noting, “Despite cosmetic changes, the Republican privatization plan would divert Social Security contributions to fund private accounts, explode the national debt, weaken Social Security rather than strengthening it, and continue the raid on the Social Security trust fund.”

Money Already Being Taken
In a July 9 statement from FreedomWorks, Flake noted, “I have news for the opponents of Social Security reform: money is already being taken out of Social Security” [emphasis in original].

The G.R.O.W. Accounts proposal stops the money from being taken out of Social Security. Washington, DC will not change its ways—the surplus will continue to be spent. The only way to stop the raid on the Trust Fund is to transfer ownership of the money to U.S. workers.”

Max Pappas (mpappas@freedomworks.org) is director of policy at FreedomWorks.
The Heartland Institute

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  $60 by Sept. 1; $70 after Sept. 1; $75 at the door
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  $850 by Sept. 1; $1,000 after Sept. 1
- RESERVED TABLES—NONMEMBERS (Seat 10)
  $850 by Sept. 1; $1,000 after Sept. 1

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