Government Workers Very Well-Paid: Report

By David Denholm

Growing evidence shows government employees are highly compensated as compared with their counterparts on private payrolls.

The U.S. Bureau of Labor Statistics reports that in 2005 median weekly earnings for full-time government workers averaged $758, compared to $625 for those in the private sector. Those figures are from the Current Population Survey.

Another view can be seen in the Bureau of Labor Statistics National Compensation Survey, which reports that in the first quarter of 2006 the cost of compensation per hour worked for state and local workers averaged $8.91, compared to $7.07 for private workers. Those figures are from the Bureau of Labor Statistics.

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Chicago Mayor Vetoes ‘Big-Box’ Wage Ordinance

By Steve Stanek

Chicago Mayor Richard M. Daley (D) has won praise from consumer advocates, business organizations, and neighborhood activists, and condemnation from labor unions and left-wing social activists, for his veto of a “big-box” wage ordinance.

Daley issued his veto September 11, saying in a letter to the Chicago City Council, “I understand and share a desire to ensure that everyone who works in the city of Chicago earns a decent wage. But I do not believe that this ordinance, well intentioned as it may be, would achieve that end. Rather, I believe it would drive jobs and businesses from our city, penalizing neighborhoods that need additional economic activity the most. In light of this, I believe it is my duty to veto this ordinance.”

It was the first veto in Daley’s 17 years as mayor. Two days later the City Council sustained the veto, with 31 votes to override and 18 to sustain. The council needed at least 34 votes to override the veto.

Daley had spoken against the ordinance in the weeks leading up to the initial July 26 vote in the city council. In a rare display of defiance, aldermen nevertheless went against him and supported the measure by a 35-14 vote.

Alaska’s Voters Oust Tax-Hiking, Big-Spending Gov. Murkowski

By Steve Stanek

The former mayor of a city of 7,000 people trounced Alaska’s incumbent governor to win the Republican Party nomination for the November general election.

Gov. Frank Murkowski, characterized by critics as a pork-loving big spender, garnered only 19 percent of the vote cast in the August 21 Republican primary election.

Sarah Palin, former mayor of Wasilla, a town about 40 miles north of Anchorage, won the nomination with 51 percent of the vote. Former state senator John Binkley received 30 percent.

Palin will square off against former two-term governor Tony Knowles, the liberal Democrat.

Seattle to Vote on Stadium Tax Subsidy

By Jason Mercier

Taxpayers across the nation are voicing concern over tax subsidies for private sports teams. One of those debates is occurring in Seattle, Washington, centered on the National Basketball Association’s proposal to build a new arena.

The Seattle City Council is scheduled to vote on the proposal in December.

Seattle Mayor Greg Nickels has backed the proposal, saying it would bring jobs and economic benefits to the city.

But critics argue that the city should not subsidize a private sports team.

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There's More to Numbers Than One & Two.

There's More to Politics Than 1) Left & 2) Right.

One and two are where numbers start—not where they end. And in politics, right and left are part of the equation, but not the sum total. That's why so many people say “right” and “left” fall short of properly defining their politics.

No wonder. A simple line from “left” to “right” isn’t sophisticated enough to include every possible variety of political ideology.

That’s where the World’s Smallest Political Quiz comes in. It’s a better “map” of politics. Answer 10 questions about personal and economic issues, and the Quiz pinpoints your political identity on its innovative political “Diamond Chart” that includes liberal, conservative, libertarian, statist, and centrist.

The World’s Smallest Political Quiz has been praised by the Washington Post, and more than 7.8 million people have taken it online. What’s your real political identity? Take the Quiz. For each statement below, circle A for agree, M for maybe/not sure, and D for disagree. Then find your position on the chart.

How do you stand on PERSONAL issues?

- Government should not censor speech, press, media or internet. A M D
- Military service should be voluntary. There should be no draft. A M D
- There should be no laws regarding sex between consenting adults. A M D
- Repeal laws prohibiting adult possession and use of drugs. A M D
- There should be no National ID card. A M D

PERSONAL SCORING: Take 20 for every A, 10 for every M, and 0 for every D: _______

How do you stand on ECONOMIC issues?

- End “corporate welfare.” No government handouts to business. A M D
- End government barriers to international free trade. A M D
- Let people control their own retirement: privatize Social Security. A M D
- Replace government welfare with private charity. A M D
- Cut taxes and government spending by 50% or more. A M D

ECONOMIC SCORING: Take 20 for every A, 10 for every M, and 0 for every D: _______

Find Your Place on the Chart

Mark your PERSONAL score on the lower left scale, your ECONOMIC score on the lower right. Then follow the grid lines until they meet at your political position. The chart shows the political group that agrees with you most. LIBERALS tend to value personal freedom. CONSERVATIVES tend to value economic freedom. LIBERTARIANS value both. STATISTS are against both. CENTRISTS tend to hold different values depending on the issue.

To learn more about the Quiz, visit: www.TheAdvocates.org

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Make a Difference is both a compelling memoir and convincing proof that we now know important answers to help solve America’s poverty problem—without spending any more of the taxpayers’ money.

Author Gary MacDougal spent years working in Illinois inner cities and rural communities—talking with “ladies in the backyard,” befriending community leaders, and working with local organizations in his quest to find solutions that have long eluded academic researchers and politicians. As chairman of the Governor’s Task Force on Human Services Reform, MacDougal was the catalyst for the complete overhaul of the state’s welfare system, which included the largest reorganization of state government since 1900.

Eight years after MacDougal’s suggestions were implemented, Illinois now stands well ahead of California, New York, and other big-city states, with a spectacular 86 percent reduction in the welfare rolls since reform implementation in 1996, second only to Wyoming among all 50 states. The welfare rolls in Chicago’s Cook County have been reduced an amazing 85 percent, with studies showing that most who left the rolls are working, and at pay above minimum wage.

MacDougal’s extraordinary journey shows the way for the rest of the nation and proves there are ways we can all help provide a ladder of opportunity for those in poverty. We each can Make a Difference in the ongoing effort to end America’s poverty problem.
Minn. Subsidy Recipients Press for Higher Taxes

By Mark Giga

"We can afford to pay more state taxes. And we can’t afford not to."

That was the headline on an ad that greeted thousands of Minnesotans in June when a group calling itself Works For Minnesota partnered with the self-described “progressive” think tank Growth & Justice to make a pitch for a $2 billion hike to the state’s income tax.

The two groups call their campaign Invest for Real Prosperity. Cynics might say a better name would be Invest for Us.

Some of the ad signers—including Carl Pohlad, who owns the Minnesota Twins baseball franchise—have received millions of dollars in state subsidies.

Huge Stadium Subsidy

In May, Minnesota lawmakers gave Hennepin County, where the Twins are located, authority to raise the sales tax without a voter referendum. The Hennepin County Board on August 29 used the state’s authority to approve a 15 percent sales tax hike (3 cents of every $20 spent).

The hike is expected to generate nearly $400 million in taxpayer funds over the next 30 years for Pohlad’s stadium. (See “Minn. Twins Win Stadium Subsidy Deal,” July 1, 2006, Budget & Tax News.)

David Strom, president of the Taxpayers League of Minnesota, said an income tax hike won’t come without a fight.

“There simply is no groundswell for raising taxes in Minnesota. Despite efforts by Growth & Justice to build momentum for their proposal, only a few hundred of the state’s five million residents have signed on to their petition,” Strom said.

“Even the DFL’s [Democratic-Farmer-Labor Party] likely candidate for governor, state Attorney General Mike Hatch, won’t go on the record saying he’ll raise taxes,” Strom noted.

‘Zero Likelihood’

State Rep. Phil Krinkie (R-Lino Lakes), who serves as chairman of the state House Taxes Committee, agreed. “Zero. That’s the likelihood of a $2 billion tax increase coming out of the 2007 legislative session.”

Gov. Tim Pawlenty (R), who presided over a legislature that turned a $4.5 billion deficit in January 2003 into a $1 billion surplus by February 2006, was quick to offer an outlet for those, like the ad co-signers, who believe they aren’t paying their fair share.

“I invite the people on the list to send in a voluntary contribution to the state, of $250,000 to $2 million each,” Pawlenty said in a press statement in response to the ad.

“I will also personally pose with each of them for a commemorative photo in the Governor’s Reception Room accepting their contribution and issue them a certificate of appreciation,” Pawlenty said. “I look forward to the state receiving checks from each of these 203 individuals.”

Big Spending Proposals

Of course no commemorative photos have been released, but neither that nor the lack of public legislative support has diminished the plans of the Invest for Real Prosperity group.

Topping their legislative agenda are funding increases for:

• early childhood education programs for all Minnesota 3- and 4-year-olds;

• health insurance for every child whose family income is less than $80,000 per year;

• construction of a complete metro Area light rail transit network for Minneapolis;

• programs to allow more elderly people and those with disabilities to remain in their homes; and

• subsidizing college tuition so more Minnesotans can earn post-secondary degrees.

A big hurdle facing any proposal to increase taxes is the state’s historically high state and local tax burden.

Tell Me What You Think!

Write to me at: Budget & Tax News
Steve Stanek
Managing Editor
The Heartland Institute
19 South LaSalle Street #903
Chicago, Illinois 60603

Or drop me an email: stanek@heartland.org

By Mark Giga

"The Heartland Institute is a nonprofit and nonpartisan public policy research organization serving the nation’s federal and state elected officials, journalists, Heartland Members, and other opinion leaders. Its activities are tax-exempt under Section 501(c)(3) of the Internal Revenue Code."

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... I look forward to the state receiving checks from each of these 203 individuals.”

TIM PAWLENTY
GOVERNOR - MINNESOTA

According to the Minnesota Taxpayers Association, a nonpartisan tax research group, in 2004 Minnesota had the 18th highest tax burden in the United States. That’s down from fifth highest in 1997.

Mark Giga (markg@taxpayersleague.org) is director of outreach at the Taxpayers League of Minnesota."
Foundation Helps States Reorganize Social Services

By Steve Stanek

B.J. Walker vividly remembers the call her department received shortly after she became commissioner of the Georgia Department of Human Resources in May 2004. A woman and her two young daughters were living in a car. Local school officials reported the family to the state child welfare agency because of the living conditions.

“The children were going to school, they were clean, they were doing their schoolwork, they were being cared for, but the woman had no money,” Walker said.

“We typically would have investigated and probably would have taken the children away from her,” Walker continued. “Instead, we simply helped her with the local United Way to provide funds so she could pay the first month’s rent and security deposit on an apartment. That’s all she needed to get out of that car.”

“B.J. Walker is one of several state family services agency officials who credit [Casey Strategic Consulting] with huge improvements in how their agencies handle cases.”

Consultants Helped
Walker said this is one of thousands of examples of how Baltimore-based Casey Strategic Consulting has helped bring a new focus to the department to improve the lives of families at risk while sharply reducing the agency’s caseloads.

Casey Strategic Consulting is the consulting arm of the $3 billion Annie E. Casey Family Foundation, whose mission is to help disadvantaged children.

Walker is one of several state family services agency officials who credit the firm with huge improvements in how their agencies handle cases.

Alabama, Arkansas, Florida, Georgia, Louisiana, Maine, Maryland, Michigan, New Jersey, New York City, and Philadelphia have all worked with Casey Strategic Consulting for help in turning around family services agencies in crisis or in need of major changes.

Casey’s advice and ongoing assistance costs nothing. It is offered free of charge.

Here are some case studies of how Casey Strategic Consulting and state human services agencies have been working together for the benefit of clients and taxpayers.

**Children, families benefit from turnarounds**

**Louisiana**

Simon Gonsoulin, director of the Louisiana Office of Youth Development, said the office is focusing more on treatment than corrections for youthful offenders, thanks to Casey Consulting.

Before Casey’s involvement began in 2002, two-thirds of the state’s incarcerated youths had committed misdemeanors or low-level property offenses. From 2002 to 2004 Casey helped weed out youths who had committed relatively minor offenses, reducing the number of incarcerated youths by more than half, from nearly 1,350 to about 580.

Now Casey is assisting with the development of another plan to further reduce the number of incarcerated youths and make better use of community services.

“These are kids who society has failed in many different areas—in education, in family life—and this is their last chance,” Gonsoulin said. “When they are with us they must go to school. And while they’re with us we’re bringing services close to home to work with the families. If you don’t work with the family and send a kid home, he will be sent back to the same problems.”

The impetus for seeking Casey’s help was a lawsuit filed against Louisiana by the U.S. Department of Justice (DOJ) more than six years ago. The DOJ alleged that incidents of violence against youths in state custody violated their rights, as did poor educational, medical, and mental health services. In May 2006, a court order dismissing the lawsuit was agreed to by the DOJ and all interested parties.

All parties agreed the reforms that have been implemented with the aid of Casey Consulting have solved the problems.

Gonsoulin said Casey “did tremendous work in making the state’s youth facilities safer. They footed the bill for several of our leaders to go to Missouri to study their system. Casey participated in the trips. Everybody loved the Missouri model because of the approach they take and the good data showing low recidivism.”

**Maine**

James Beougher, director of Maine’s Bureau of Child and Family Services, said his agency has seen the number of youths in state care drop from 3,100 in 2001 to about 2,400 now. Since 2004 the number of youths in group care has dropped from 3,901 to 114, and the number of investigations more than 90 days old was reduced 99 percent (from 3,030 to 3), Walker said. Statewide, the caseload has gone from 34,000 to about 20,000 now.

“We track diversion cases to be sure we’re doing the right work,” Walker said. “We have diverted about 18,000 families, and only 8 percent of them have been reported back to us for any problem. And of the 8 percent [who reported back with a problem], only 3 percent have a substantiated instance of abuse or neglect. This is an indication that we had been bringing in far too many families.”

Turnover among case workers also has been cut in half, and the average caseload has dropped from as many as 60 cases per worker to 21 or 22 per worker.

“No we can focus on families that should legitimately be in the system,” Walker said.

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“Our leaders partnered with and shadowed their peers in Missouri for several days,” Gonsoulin continued. “This was real immersion training, not sitting in a room for eight hours a day. That was tremendous for our staff.”

Gonsoulin said the entire mindset of the Office of Youth Development has changed for the better.

“Instead of security staff being front-line, we have created youth care workers,” Gonsoulin said. “It’s therapy all day long. Everybody is a therapist, a teacher, an activist for each kid. It’s no longer punitive. We’re here to provide a safe environment for these kids to learn and be successful when they get out. The results have been excellent.”

Continued on right
Reformer Steers Casey to Help Children and Families

"Big money relating to the problems of the disadvantaged is already in government," said Gary MacDougal, the driving force behind Casey Strategic Consulting's aid to state and local youth and family services agencies. MacDougal is a member of the Annie E. Casey Foundation board of trustees, director of United Parcel Service (UPS), former CEO of Mark Controls Corporation, and former partner with McKinsey & Co., an international management consulting firm.

"As long as that money is there, we may as well do what we can to produce results," said MacDougal, who four years ago won approval for his idea to have Casey offer its service free to human services agencies in crisis. "It's not easy for these government agencies to find outside objective analysis that cares about the people they're trying to help. That's where Casey comes in."

Led Illinois' Successful Reform
MacDougal has long been concerned about the lives of children and disadvantaged families. He is the architect of Illinois' welfare reform program, which has resulted in a remarkable 86 percent drop in welfare enrollment and better lives for thousands of former Illinois welfare recipients.

MacDougal has written a book about his work in Illinois, Make a Difference: A Spectacular Breakthrough in the Fight Against Poverty. A limited number of copies are available for free to elected officials. (See ad on page 2.) The book also can be purchased in The Heartland Institute's online store at http://www.heartland.org.

"There is about $400 billion there (in family services funding in the 50 states)," MacDougal said. "Illinois had about $10 billion budgeted when I started working on welfare reform [in the mid-1990s] at the request of then-Gov. Jim Edgar, and it wasn't producing any results."

MacDougal continued, "Out of that experience I got the idea that most governors and legislators don't have the resources to call on what is knowable in terms of getting accountability, integrating services, and measuring outcomes. I said, 'Let's take some of Casey's money and provide free consulting to people who want to fix these dysfunctional state systems.' The idea was approved, and the results have been good." — Steve Stanek

Integrating Services Helps Parents Help Children

"The mission of the Casey Foundation is to improve outcomes for children and families, and you can't help children without helping parents. That's how we come at this," said Kathleen Feely, Casey Strategic Consulting's managing director.

"Casey Strategic Consulting Group has been working mostly with child welfare, juvenile justice, and human service agencies," Feely said. "We help bring an analytical framework to problems they are trying to resolve. We also bring best practice solutions."

"We want people in the systems we work with to see where they're headed and plan for it. Often they are social workers and are not usually trained for analysis." — Kathleen Feely

"I said, 'Let's take some of Casey's money and provide free consulting to people who want to fix these dysfunctional state systems.' The idea was approved, and the results have been good." — Gary MacDougal

Steve Stanek (stanek@heartland) is managing editor of Budget & Tax News.
While Broad-Based Taxes Are Cut, Targeted Taxes Hiked in Many States

States changing tax strategies in wake of 1990s recession

By Daniel Clifton and Elizabeth Karasmeighan

Over the past 25 years, state tax policy has fundamentally changed as restructuring of state economies has forced policymakers to enact more competitive policies and as the tax issue has become potent in political campaigns. This has resulted in major shifts in tax policy, and not all of them for the better.

An analysis of 25 years of state tax data finds:

- Tax increases are getting smaller (particularly in recessions).
- Tax cuts during growth periods are becoming more prevalent.
- Revenue sources have shifted away from income taxes to more targeted taxes such as tobacco and other forms of double taxation on consumption.

State Tax Hikes Declining

The change in policy is timed to the post-1990 recession as governors and state legislators were voted out of office in response to the massive tax increases enacted during the recession. Subsequently, the new governors and legislators began enacting tax cuts as the nation entered a sustained period of growth.

Moreover, migration flows began to accelerate as higher-income taxpayers and an aging population moved to lower-tax jurisdictions. That migration is placing competitive pressures on other states to keep their income, sales, and corporate tax rates at restrained levels.

However, the increases in excise taxes and the multiple layers of taxation on certain products are a cause for concern, as it is rapid entitlement spending, which could threaten the gains achieved over the past decade.

Without significant reforms to state spending, those gains will be short-lived.

Broad Base Wasavored

Twenty-five years ago, faced with the deep recession in the early 1980s, states raised expansive taxes such as income, sales, and corporate taxes. By imposing broad-based tax burdens, states were able to generate large amounts of revenue from the population to fund massive spending increases. Even after the recession, states raised their income taxes (albeit much more slowly than during the recession) throughout the economic expansion of the 1980s. Due to strong economic growth, state government coffers continued to swell; yet, states continued raising taxes in order to fund costly new programs.

Between 1990 and 1994, states raised their income taxes 42 times, generating a cumulative $33 billion in tax revenue.

Migration Expands

The voters’ unhappiness over the early 1990s tax increases severely changed the dynamics of state tax policy. Concurrently, the spread between the highest- and lowest-tax states was increasing, which led to an out-migration of higher-income residents to low-tax states.

It was during this recession that Pennsylvania Gov. Robert Casey (D) enacted a $2 billion income tax increase by hiking the rate from 2.1 to 2.8 percent. From 1990 to 1995, net job creation in the state was stagnant.

In New Jersey, Gov. Jim Florio (D) increased the state income, sales, and corporate taxes in 1990. Many consider his failed campaign for reelection in 1993 to be a condemnation of those tax hikes. In New York, one-time presidential favorite and longtime governor Mario Cuomo (D) was defeated by little-known Assemblyman George Pataki (R) in a campaign that focused on the tax increases enacted during that time.

California Gov. Pete Wilson (R) and state legislators hit taxpayers in 1991 with $7.2 billion in tax increases, including a 5/4-cent sales tax increase, expand ing to cover snack foods, newspapers, and bottled water; two new personal income tax brackets; and a two-year suspension of corporate net operating loss deductions.

“Over the past 25 years, state tax policy has fundamentally changed as restructuring of state economies has forced policymakers to enact more competitive policies and as the tax issue has become potent in political campaigns.”

By 1993, more than 30,000 corporations had shut down, and for the first time in California’s history, more people left the state than entered.

Tax Cutting Begins

While states continued to increase spending at rates well above inflation in the boom of the late 1990s and early 2000s (state general fund spending grew 7 percent in 1999, 6.6 percent in 2000, and 8 percent in 2001), the policy decisions differed from the earlier expansion.

In the 1990s, tax cuts were in vogue, and states cut taxes overall an unprecedented seven consecutive years, saving taxpayers more than $37 billion. In an effort to stem the out-migration of residents, state income taxes were cut nine consecutive years.

In 1999 alone, 29 states cut their income tax rates, because more people working and higher capital gains revenue left states flush with tax revenues. From 1995 through 2002, states cut their income taxes 137 times, resulting in nearly $20 billion in savings for taxpayers. Clearly, the tide was shifting as the U.S. entered the 2001 recession.

2001 a Turning Point

Although states were asserting they faced the worst budget deficits since the Great Depression, the 2001 recession marks a transformation of state tax policy. State tax increases were far smaller in the 2001 recession than in the recessions of the 1980s and 1990s.

With tax increases less palatable compared to the 1990 recession, state policymakers were forced to tighten the belt of government operations. In the 1990 recession, states had continued to increase spending by 4 to 5 percent annually. This time around, spending increases were in the range of 1.5 to 3 percent.

Fewer Corporate Tax Increases

A clear decline exists in sales tax increases as well. In a deviation from the late 1980s and the early 1990s, when states hiked their sales tax rates 66 times, sales taxes were increased only 13 times following the 2001 recession. In addition, the sales tax increases following the 2001 recession were 36 percent lower than those of the previous recession.

What the former governors and their successors learned from the early 1990s tax increases is that large, broad-based tax increases are political losers and lead to a loss of businesses, jobs, residents, and economic growth. However, there is still no appetite among elected officials for spending cuts, so tax increases continue to be enacted, albeit in smaller amounts.

Tobacco a Big Target

Specifically, states found tobacco to be their biggest cash cow in the most recent recession. During the 1990s recession, states raised $5.15 in new income tax revenues for every $1 of increased tobacco tax revenue. In the 2001 recession, states raised just $0.86 of increased income tax revenue for every $1 of increased tobacco tax money.

In other words, states raised more new money from tobacco than they did from the income tax in the recent recession. Tobacco tax increases represented 30 percent of all dollar increases in state taxes during the last recession, compared to just 5 percent during the 1990 recession. In 2002 alone, 20 states raised their tobacco taxes.

Excise Taxes Attractive

Tobacco is not the only item targeted in states’ shifting tax policies. In 2006, 31 states debated alcohol tax increases, seeking to raise taxes on a product already subject to a sales tax and then hit it with a special tax. This is also emerging in telecommunications and housing. Most of these smaller tax increases are occurring in states with already high tax burdens. And although less visible to voters than broad-based taxes, these tax increases compound over time and increase the cost of living.

People Fleeting

Taxes matter, and states that are raising taxes are losing population. In 2004 alone, the nine states with no income tax gained an additional $22,579 domestic residents from the 41 states with an income tax.

The residents moving to states with no income tax took with them an additional $10.8 billion of adjusted gross income, according to Internal Revenue Service data.

Furthermore, the states facing the largest fiscal problems from large
unfunded liabilities in health care and pensions already have the largest out-migration of residents. Tax increases will only further that out-migration.

The problem will be compounded in 2007 and beyond as states will be required by the Governmental Accounting Standards Board to account for unfunded health care liabilities.

States have not been reporting the expected liabilities for future health care services promised to government workers and qualifying dependents. The GASB requirement is expected to reveal hundreds of billions of dollars in unfunded liabilities collectively owed by state governments. As the nation’s population ages, many state workers will be retiring and ready to collect their generous pensions and health care benefits.

More to Be Done

Despite the progress on state taxes over the past 25 years, more needs to be done to build on this foundation. States continue to spend too much during upturns in the business cycle, leaving taxpayers to pay the bill with additional tax increases during recessions.

- First, a state constitutional limit on state spending to the rate of population plus inflation growth will ensure tax revenue gains during upturns can be used to offset revenue losses during recessions. Such limits prevent large entitlement programs from being created during upturns in the business cycle, thus minimizing risk to taxpayers.
- Second, large-scale reforms of state pension and health care systems are needed to prevent large tax increases in the future. Eight of the past 10 changes to states’ pension systems have come in the form of moving from defined benefit (DB) to defined contribution (DC) plans.

By removing capital gains tax revenue as a major factor driving tax increases during recessions, the state sector has done, creates better predictability for state taxpayer contributions and will remove the current unfunded liabilities in the system.

Similar changes should be made for health care through the use of health savings accounts (HSAs).
- Finally, states need to curtail their reliance on taxes on volatile revenue sources, such as non-wage income, including capital gains and dividends.

With the run-up in the 1990s stock market, states became flush with temporary capital gains tax revenue and used that to increase spending permanently. When the stock market declined, states lost up to 80 percent of this revenue source but continued spending. That was a major factor driving tax increases thereafter.

By removing capital gains tax revenue from the general budget (or eliminating this growth-inhibiting tax altogether), states will have greater predictability in budgeting and consequently less appetite for tax increases.

Daniel Clifton (delifton@atr.org) is chief economist at Americans for Tax Reform. Elizabeth Karasmeighan (ekarasmeighan@atr.org) is state government affairs manager at Americans for Tax Reform. This article was excerpted from ATR’s State Tax Policy Research paper published August 14. Used with permission.

Report Blasts Federal Universal Service Fund

By Steven Titch

The federal Universal Service Fund (USF) is both wasteful and inefficient, encouraging rural phone companies to keep costs high while doing little to make service affordable, according to a report by Thomas Hazlett, professor of law and economics and director of the Information Economy Project at George Mason University.

Hazlett’s 91-page paper dissects the inefficiency of the USF, concluding that its processes, which ignore current telecom market realities such as wireless and Voice over Internet Protocol (VoIP), actually undermine the “universal service” mission.

Funds rarely find their way into the hands of those who truly need them, Hazlett writes. Instead, they flow directly to the coffers of small and mostly rural phone companies, some in quite wealthy areas such as Jackson Hole, Wyoming, where they act largely as huge reimbursements for hefty infrastructure investments, the necessity of which is never adequately reviewed.

Hazlett’s paper, “Universal Service” Telephone Subsidies: What Does $7 Billion Buy? released on June 1, meticulously documents what many have long suspected: That it would cost taxpayers less if the government directly paid the phone bills for individuals living in high-cost areas.

Inefficient Subsidies

“Federally subsidized phone service costs taxpayers a large multiple of what the most efficient network solutions would,” Hazlett writes. “That is because ‘high-cost’ subsidies are delivered not to low-income customers, but to rural phone companies, typically on a ‘cost-plus’ basis. The more service costs, the more money the phone carrier receives—a clear incentive to avoid cost savings.

“This not only bloats administrative expenses, it undercuts market forces that would naturally lead consumers to abandon traditional fixed lines in favor of newer, cheaper, and functionally superior technologies,” Hazlett concludes.

“Proponents of the USF have long suspected: That it would prove to be a ‘sink hole’ in areas where regulators deemed local services insufficient, bidding a price to be paid by the government, to supply such services. The lowest-cost bidder wins.

Steven Titch (titch@heartland.org) is a senior fellow of The Heartland Institute and managing editor of IT&T News.
Texas Demands Refund from Retailer

By Steve Stanek

The State of Texas is demanding that Cabela’s Inc. return $28,000 and forfeit another $200,000 from a state grant for failing to create enough jobs at a store that received economic incentives.

Citizens for More Important Things, founded in 1995, recently submitted 17,700 petition signatures to qualify an initiative to give Seattle voters a chance to block the Sonics’ shot at possible tax subsidies for a new stadium.

“The State of Texas is demanding that Cabela’s Inc. return $28,000 and forfeit another $200,000 from a state grant for failing to create enough jobs at a store that received economic incentives.”

“The open display of disdain for sports teams is just one more instance Cabela’s is managing editor of Budget & Tax News.

Seattle

Continued from page 1

Citizens for More Important Things, founded in 1995, recently submitted 17,700 petition signatures to qualify an initiative to give Seattle voters a chance to block the Sonics’ shot at possible tax subsidies for a new stadium.

Open Disdain Displayed

Seattle taxpayers are fighting back. Citizens for More Important Things makes no attempt to hide its disdain for public resources being used on private sports teams.

Market Return Required

Initiative 91 would require the city to receive a return “at or above fair market value” for any taxpayer investment in KeyArena or another facility leased to “for-profit professional sports organizations.”

“Fair market value” is defined by I-91 as “no less than the rate of return on a 30-year U.S. Treasury Bond.”

If approved by Seattle voters, I-91 likely would kill subsidy proposals being pushed by the Sonics and area politicians.

Sonic ownership has made it known the team wants taxpayer subsidies, but team owners and local politicians have provided no details about the subsidy discussions.

New Arena Proposed

Prior to the Sonics being sold this past July, then-owner Howard Schultz, chairman of coffee conglomerate Starbucks, was seeking approximately $200 million in taxpayer subsidies to renovate KeyArena.

KeyArena was renovated in 1994 to accommodate the Sonics, at a cost of more than $100 million, with most of the money coming from public funds.

Schultz sold the Sonics this year for $350 million to Oklahoma businessman Clay Bennett. Bennett is no longer seeking renovations to KeyArena but is instead planning for a new “world-class multiuse arena.” He is threatening to move the team to Oklahoma if a new stadium isn’t subsidized.

Open Disdain Displayed

Seattle taxpayers are fighting back. Citizens for More Important Things makes no attempt to hide its disdain for public resources being used on private sports teams.

According to its Web site, supporters have a “single agenda focus on what matters most, on more important things, and leave sports entertainment to the private sector. ... We simply question the reasonableness of any government that would subsidize private entities whose average player salaries are in the millions of dollars per year.”

‘Political Statement’ Heard

Responding to news that I-91 had qualified for the November 7 ballot, Seattle City Council Member Tim Ceis told the Seattle Times the measure was “not helpful” to the city’s efforts to keep the Sonics in Seattle.

Ceis went on to say, “All this is is a political statement against professional sports franchises. That’s their right and privilege, but let’s not kid ourselves this is some legitimate mechanism to establish fair-market rent for KeyArena.”

Chris Van Dyk, a spokesperson for Citizens for More Important Things, is unconcerned about attempts by politicians to end-run the initiative should it be successful in November.

“If we come in with a decent vote total it will be really tough for the city, county, or state to overturn this,” Van Dyk said.

Encouragement Offered

Sensing an attitude of resignation across the nation among taxpayers facing public subsidies for sports teams, Van Dyk offered the following encouragement:

“The problem with this fight is that it’s a national fight that gets battled at the local level. Some will say we can’t fight subsidies, this is the way the game is played. That’s nonsense. I-91 is proof that taxpayers can fight back.”

State taxpayer advocates are encouraged by Van Dyk’s efforts.

“It’s unfortunate elected officials are incapable of limiting spending to core functions of government,” said Bob Williams, president of the Evergreen Freedom Foundation.

“With the qualification of I-91, Seattle voters now have the opportunity to determine if the city will remain a haven for taxpayer sports subsidies,” Williams said.

Jason Mercier (jmercier@effwa.org) is senior budget analyst at the Evergreen Freedom Foundation in Olympia, Washington.
‘Ending Earmarks Express’ Drives Extra Mile to Fight Wasteful Spending

By Ed Frank

The Americans for Prosperity Foundation has driven its Ending Earmarks Express recreational vehicle more than 10,000 miles since April, crusading against wasteful federal spending on pork-barrel earmarks, those questionable local pet projects that benefit well-connected insiders.

By the end of September, the group had visited the sites of 50 pork-barrel earmarks in 37 states in every part of the country, from Alaska’s infamous “Bridge to Nowhere” to the possible future home of the world’s largest Teapot Museum, in Sparta, North Carolina.

“Some of the projects we’ve visited may have some value to a local community, but with an $8 trillion national debt, we need to start having a debate about whether the federal government can and should fund them,” said Tim Phillips, president of Americans for Prosperity (AFP) Foundation.

“The key to ending pork-barrel politics is to have local grassroots taxpayers tell their elected officials to stop wasting their money on these questionable pet projects, and that’s what we’re accomplishing with the Ending Earmarks Express,” Phillips explained.

Mixed Reception

The Ending Earmarks Express team hasn’t always been warmly received when they have rolled into towns to question federal funding for local projects.

The group’s “Bridge to Nowhere” news conference in Ketchikan, Alaska was crushed by the town’s pro-bridge mayor and chamber of commerce representatives.

“The Americans for Prosperity Foundation has driven its Ending Earmarks Express recreational vehicle more than 10,000 miles since April, crusading against wasteful federal spending on pork-barrel earmarks ...”

By contrast, when the group arrived in Flagstaff, Arizona after driving across the desert from Albuquerque on a 105-degree day in July, they were kindly greeted with cold sodas by the staff at the Mountain Line bus headquarters, site of $7.4 million in pork-barrel earmarks.

Along the way, the AFP Foundation has staged taxpayer rallies and news conferences to help build and organize grassroots support for earmark-reform efforts on Capitol Hill.

Most of the pork-barrel earmarks the group has spotlighted were secretly inserted into appropriations bills late in the process, with little or no public debate, behind the closed doors of a conference committee.

Others were stuck into bills anonymously by members of Congress who apparently didn’t want their names attached to such questionable projects.

Waiting for Congress

While the Express has been greeted cordially at most stops, it’s not clear what kind of reception the group’s call for real and comprehensive earmark reform will receive on Capitol Hill.

The U.S. House of Representatives on September 14 approved a package of changes to its internal rules that would make it harder to add earmarks anonymously behind the closed doors of a conference committee. The changes would force members of Congress to attach their names to many earmarks.

However, the rules changes included several loopholes, and at press time the Senate had not moved to change its own internal rules regarding earmarks.

In addition, if partisan control of the House or Senate changes after November’s elections, it’s likely the new earmark rules could fall by the wayside.

“While there is certainly more that needs to be done, these reforms would provide taxpayers, bloggers, and grassroots organizations with more transparency so they can work together to fight waste, fraud, and abuse,” Phillips said. “In the past year, activists have been able to block pork-barrel earmarks for ‘Bridges to Nowhere’ in Alaska, a ‘Railroad to Nowhere’ in Mississipi, and other boondoggles. With these reforms, they’re going to be able to fight even more wasteful projects like these in the future.”

Ed Frank (efrank@afphq.org) is the Americans for Prosperity Foundation’s vice president for public affairs.

Need a Speaker with a Crystal Ball?

Brian Wesbury is The Heartland Institute’s senior fellow for economics and chief investment strategist for Claymore Advisors, LLC in Lisle, Illinois. He is one of the nation’s most widely cited authorities on interest rates, economic trends, trade, and government policy.

The Wall Street Journal ranked Wesbury the nation’s number one U.S. economic forecaster in 2001 and USA Today ranked him a top 10 forecaster in 2004. He is a regular contributor to the Wall Street Journal’s editorial page and is regularly featured on CNBC and Bloomberg TV. He was dubbed “Chicago’s most prominent New Era Economist” by the Chicago Tribune.

Wesbury is available through The Heartland Institute for a limited number of speaking engagements across the country.

Contact Nikki Comerford at 312/377-4000, or by email at nikki@heartland.org, to schedule Brian Wesbury to keynote your next event! We predict he’ll get rave reviews.
Governments Increasingly Turning to Competition and Privatization: Study

By Leonard C. Gilroy

In recent decades, governments of all political complexes have increasingly embraced privatization as a strategy to lower the costs of service delivery and achieve higher performance and better results, according to the Reason Foundation's 20th Annual Privatization Report (APR), released in July.

Once considered radical, privatization has largely shifted from an ideological concept to a well-established, proven policy management tool. Decades of successful privatization policies have proven private-sector innovation and initiative can do certain things better than the public sector.

For the past 20 years, the APR has chronicled and analyzed the most important developments in privatization and government reform.

This year's 20th anniversary report features special contributions by several pioneering policymakers and researchers at the forefront of privatization and government reform, including Margaret Thatcher, Indiana Gov. Mitch Daniels, South Carolina Gov. Mark Sanford, and former Indianapolis mayor Stephen Goldsmith.

The following sections address some of the many highlights from the 230-page report.

“Governments of all political complexes have increasingly embraced privatization as a strategy to lower the costs of service delivery and achieve higher performance and better results . . . ”

Federal Competitive Sourcing

President George W. Bush’s plan to bring more competition to federal programs—competitive sourcing—continued to expand in 2005, though it was used less often than in the previous two years.

In FY 2005 federal agencies completed 181 public-private competitions for a total of 9,979 positions. In addition, competitions for nearly 5,000 other positions have been announced and are moving through the process.

While agencies used competitions for a wide range of services, they focused on logistics, maintenance and property management, and information technology.

Collectively the competitions are expected to generate net savings, or cost avoidance, of approximately $3.1 billion over five to 10 years. When combined with previous years’ savings, competitive sourcing is expected to save taxpayers $5.6 billion over the same time period, with annual savings expected to approach $1 billion.

Fixed costs and expenses to provide central direction and oversight between 2003 and 2005 totaled $211 million—better than a 27 to 1 return on investment; for every dollar spent on competitive sourcing, 27 were saved.

Indiana Continues to Lead

Under the leadership of Gov. Mitch Daniels (R), Indiana has continued to be one of the most privatization-active states over the past year.

As Daniels writes in the APR, his privatization reforms “demonstrate that people specializing in delivering a given product or service, and spurred to constant improvement by competition and the profit motive, can achieve their goal better than the best-intentioned administrators of the best-organized government bureaucracies.”

In the biggest news, the 75-year lease of the Indiana Toll Road for $3.85 billion has become the talk of 2005 in transportation circles and has encouraged public officials in other states to consider privatization of their toll roads. Other potential partnerships in Indiana are to be examined as this part of the governor’s transportation plan unfolds.

Daniels also has employed strategies for cost savings and efficiency inside Indiana’s government. In just two years in office Daniels has cut 3,000 state jobs and eliminated seven departments.

The governor also has launched an aggressive review of the size, scope, function, and budget of each agency. Dubbed PROBE—Program Results: an Outcome Based Evaluation—the review will require each program to justify its work and demonstrate results. It is similar to the federal Performance Assessment Rating Tool (PART) analysis established under Daniels’ leadership as federal OMB director.

Florida Formalizes Process

In June 2006, Gov. Jeb Bush (R) signed into law S.B. 2518—known as the “Florida Efficient Government Act”—which codified the state’s GATE management process. The GATE process, established by the Governor’s Center for Efficient Government, was the result of a review of the state’s privatization process focused on establishing firm guidelines to create more transparency, consistency in contracting, and high performance.

The new law requires that a business case be developed for each initiative. It must then be evaluated for feasibility, cost-effectiveness, and efficiency before an agency can sign a contract.

In addition, the legislation establishes a Council for Efficient Government that will play an advisory role and provide additional oversight of privatization initiatives.

The bill also provides some guidance for privatization policy in general. It establishes legislative intent to direct state agencies to focus only on their core mission and to deliver services efficiently and effectively, and requires them to leverage the private sector whenever doing so will reduce costs of government.

Decades of successful privatization policies have proven private-sector innovation and initiative can do certain things better than the public sector.

Toll Road Privatization Strong

Chicago’s 99-year lease of the eight-mile-long Chicago Skyway for $1.8 billion was the talk of 2005 but was topped by the $3.85 billion lease of the Indiana Toll Road.

Unlike the Chicago transaction, the proceeds of which are being used to pay off debt and fund other municipal balance sheet items, the Indiana lease proceeds are the key to funding a proposed 10-year highway program.

In Virginia, the privately concessioned Dulles Greenway changed hands when Macquarie Infrastructure Group bought an 86.7 percent interest from the original owner for $620 million.

Also, the Virginia DOT announced in May 2006 it had reached an agreement to lease its financially troubled start-up toll road, the Pocahontas Parkway in Richmond, to Australia’s Transurban. The company will lease the toll road for 99 years, pay off all its debt, and build the long-sought 1.6-mile connector to the Richmond Airport.

In addition, a state legislator has introduced a bill to study potential privatization of the Chesapeake Bay Bridge Tunnel. In April 2006 Illinois legislators released a request for proposals for a study of the privatization, via long-term lease, of the Illinois State Toll Highway Authority system of toll roads.

Managed Competition in Ohio

Faced with declining revenues and ever-increasing costs, the Hamilton County (Ohio) Board of County Commissioners adopted a resolution establishing a citizen-led task force charged with developing recommendations on cost-saving initiatives through managed competition.

The task force, called the Hamilton County Competition and Efficiency Committee (CEC) was charged with several tasks, including recommending managed competition initiatives, service consolidations, and program eliminations; developing a fair competition process; and setting specific cost-savings goals and monitoring results.

With an initial goal of finding $25 million in immediate savings, the CEC is undertaking several initiatives in areas including fire hydrant repair and maintenance, vehicle fleet maintenance, divestiture of unneeded or underused land or buildings to bring an immediate infusion of cash and long-term savings through reduced maintenance costs, and putting operations and maintenance functions (such as janitorial services) through a managed competition initiative.

In addition, the CEC is reviewing the county’s information technology infrastructure with a focus on reducing duplication to generate savings, as well as improving security, and it is conducting two separate reviews to find efficiencies in how the county buys and uses utilities and telecommunications.

Leonard C. Gilroy (leonard.gilroy@reason.org) is a senior policy analyst at Reason Foundation.

INTERNET INFO

Sandy Springs Incorporates, Inspires New Wave of ‘Private’ Cities in Georgia

By Leonard C. Gilroy and Steve Stanek

Fed up with high taxes and poor service delivery, the nearly 90,000 residents of Sandy Springs in Georgia’s Fulton County voted in 2005 to incorporate, making Sandy Springs the first new city in Georgia in 50 years.

The incorporation has gone so well that two new municipalities are about to be created in Fulton County, which includes Atlanta. Residents of John’s Creek and Milton voted to incorporate in July. The areas will become cities on December 1.

Incorporation votes in other unincorporated areas of the county are slated for next year.

Services Contracted

What makes Sandy Springs interesting is that instead of creating a new municipal bureaucracy, the city opted to contract out nearly all government services.

City leaders started with a blank slate, enabling them to ask fundamental questions about what role government should play. Every “traditional” service or function was required to prove its worthiness and proper role and place within government, and officials had to decide whether to “make” or “buy” public services.

Ultimately they decided to “buy” most services from the private sector, signing a contract with CH2M-Hill, an international firm that oversees and manages the day-to-day operations of the city. The $32 million contract was just above half what the city traditionally was charged in taxes by Fulton County. That will save the new city’s citizens millions of dollars a year.

Performance Lauded

Mike Bodker, chairman of the Northeast Fulton County Study Commission heading up the effort for John’s Creek, said the new city will likely follow Sandy Springs’ model and “use privatization and partnering to use tax dollars more effectively.”

Sandy Springs’ first mayor, Eva Galambos, said the city’s relationship with CH2M-Hill “has been exemplary. We are thrilled with the way the contractors are performing. The speed with which public works problems are addressed is remarkable.

All the public works, all the community development, all the administrative stuff, the finance department, everything is done by CH2M-Hill,” Galambos said.

“The-only services the city pays to its own employees are for public safety and the court to handle ordinance violations.”

Police, Fire Government-Run

Sandy Springs had been contracting for public safety services from Fulton County since its incorporation last December.

In July, Sandy Springs started its own 100-member police department.

The city and county also recently agreed to the sale of three fire stations from the county to the city.

Sandy Springs bought the fire stations for $5,000 each. The county owed money on two of the fire stations, and Sandy Springs agreed to assume the debt.

The city is hiring its own fire personnel.

Galambos said the city would have preferred to use private firefighters, but there is no company in the area that provides private fire services.

“This has been more problematic,” Galambos said. “We have been struggling with whether to continue with the county for fire and 911 services or make other arrangements.

“We’ve had arguments with the county about charging us too much and not giving us the proper equipment,” Galambos said.

County, City Dealing

Fulton County Chairman Karen Handel, who backed the Sandy Springs incorporation, acknowledged “there is still some tension with the board of commissioners. However, there are four of us [on the seven-member board] who want to move in a productive way.”

She pointed to a pending agreement between Sandy Springs and the county to allow the city to lease several county-owned parks in Sandy Springs.

“Some members of the commission believed the county should recoup fair market value for the park land,” Handel said. “But there is a big difference between selling property to a private entity and transferring it to another government.”

Handel said she took a county job to work for Sandy Springs or have taken jobs elsewhere as a result of the reduced need for county-supplied services.

Secondary Provider

“From a county perspective, Fulton County will become a secondary service provider, more like a county-city model of the Northeast,” Handel said. “This means our focus will be on countywide services such as courts, jail, public hospital, basic health and human services. We are really getting back to what county government is supposed to be focused on.

“I see this as a natural evolution for a county that started with one urban core [Atlanta] and that has become more and more urban,” Handel said. “Unincorporated areas across the country have traditionally been rural, and we’ve become extraordinarily urban.”

Leonard C. Gilroy (leonard.gilroy@reason.org) is a senior policy analyst at the Reason Foundation. Steve Stanek (stanek@heartland.org) is managing editor of Budget & Tax News.

Florida Gov. Jeb Bush Vetoes Car Rental Tax Surcharge

By John W. Skorburg

Florida Gov. Jeb Bush (R) has vetoed a bill that would have allowed local governments to impose a tax surcharge on car rentals.

The bill would have allowed an additional $2-a-day local tax on rental car customers. In his June 27 veto message Bush wrote, “These taxes will be paid disparately by tourists visiting Florida, consequently creating taxation without representation on a large scale. Philosophically, I cannot support this.”

‘User Fee’ Gambit

Several legislators who had signed a “no new taxes” pledge supported the local surcharge, arguing it was not a tax but a user fee, said Andrew Chamberlain, staff economist at the Washington, DC-based Tax Foundation.

“We’ve often warned against the trend among lawmakers to redirect labeling taxes as fees, allowing them to surreptitiously increase revenues while hiding increased tax burdens from taxpayers—violating basic principles of tax transparency,” said Chamberlain.

“If public projects are really worthwhile expenditures of taxpayer dollars,” explained Chamberlain, “it’s better to rely on broadly based revenue sources that distribute tax burdens equitably, instead of heavily penalizing a politically out-of-favor industry with new taxes that are user fees in name only.”

Already High Rental Taxes

Large segments of the tourism industry mobilized to oppose the new local car rental tax, including national rental car companies, travel groups, and county tourism agencies.

D.T. Minich, director of the Lee County Convention & Visitors Bureau in Fort Myers, told Bush in a letter made public by the St. Petersburg Times that a $2-a-day local surcharge on top of an existing $2 daily state surcharge would make Florida “one of the highest-taxed rental car markets in the country.”

“Florida Gov. Jeb Bush (R) has vetoed a bill that would have allowed local governments to impose a tax surcharge on car rentals.”

Taxes and fees already add up to a 23 percent tax on airport rental customers in Tampa. 29 percent in Jacksonville, and 27 percent in Miami, according to figures provided by tax opponents to the St. Petersburg Times.

“Rental car companies and our visitors already pay their fair share into state and local coffers,” Minich wrote. “Why should our one industry be charged with solving a transportation problem that it does not individually create?”

John W. Skorburg (skorburg@heartland.org) is a visiting lecturer in economics at the University of Illinois at Chicago and associate editor of Budget & Tax News.

INTERNET INFO

Elevated Express Lanes Relief for Urban Congestion

By Robert W. Poole, Jr.

Many agree there is a need to expand urban highway capacity to restore the kind of mobility we had 20 years ago, but most throw up their hands and say, “There’s no room to add any lanes to our freeways.” Those people should see what has happened in Tampa, Florida.

In August the Tampa-Hillsborough County Expressway Authority (THCEA) opened its new elevated express lanes. THCEA operates the Crosstown Expressway, an east-west toll road that brings commuters to downtown Tampa from both eastern and western suburbs. As new eastern suburbs grew over the past decade, the westbound morning commute on the expressway became heavily congested.

“In August the Tampa-Hillsborough County Expressway Authority (THCEA) opened its new elevated express lanes.”

Elevated Lanes

Although THCEA could have squeezed in one more lane in each direction, they took a longer-term view of the need for increased capacity. They came up with an innovative plan to add three express lanes, elevated above the median of the expressway.

Because traffic on this route is highly directional—westbound in the morning, eastbound in the afternoon—they made the express lanes reversible. The new lanes add three lanes of capacity to the two inbound lanes in the morning, and likewise for the outbound trip in the afternoon.

That’s a 150 percent increase in capacity.

Economical Construction

You might think that because the new lanes are elevated, they must cost a fortune, but they don’t. The overall project is nine miles long, of which 7.5 miles are elevated. The design permits three full lanes plus a breakdown lane on each side (56 feet of total width) to be supported on a single central pillar just six feet wide.

This is possible because the bridge is made of pre-cast segments that were made offsite, trucked to the construction site, and hoisted into place.

This is the most economical way yet devised to build elevated roadways. It was developed by Figg Engineering, a Florida firm that has built bridges in areas across the country.

Inexpensive, Effective

The original budget was $320 million, but due to some errors by one of the contractors involved, many of the original pillars were not properly anchored in the ground and had to be replaced, boosting the cost to $420 million.

Still, for 27 lane-miles of physical capacity, most of it elevated, that comes to only $15.5 million per lane-mile—well below what many highway engineers and DOTs have thought possible for elevated expressway construction in 2006.

I drove the elevated lanes during the morning rush-hour in mid-August, and we zipped along at the speed limit the entire way, not even having to slow down to pay the toll.

All toll collection on the elevated lanes is open-road, electronic toll collection, so there isn’t even a toll plaza—just overhead gantries that read your Sunpass transponder. There are also video cameras to nab violators.

“[D]on’t let anyone tell you there’s no feasible way to add capacity to congested expressways. I’ve been to Tampa—I’ve seen the future, and it works.”

Feasible Elsewhere

Because such elevated lanes have great potential for unblocking other freeways across the country, I asked THCEA to work with Figg Engineering to develop generic cost estimates for such projects. Here’s what they came up with:

Not including right of way (because we’re presuming the new lane would be built on pillars in the median of the existing congested expressway), the total cost is estimated at $18 million per lane-mile for a two-lane facility, $15 million per lane-mile for a three-lane, and $13.6 million per lane-mile for a four-lane elevated highway.

These are 2006 costs, reflecting today’s costs of steel, concrete, and other materials and labor.

So don’t let anyone tell you there’s no feasible way to add capacity to congested expressways. I’ve been to Tampa—I’ve seen the future, and it works.

Robert Poole (bop@reason.org) is director of transportation studies at the Reason Foundation and an engineering graduate of MIT.

Elevated Express Lanes Relief for Urban Congestion

Car Rental Taxes Violate Basic Principles: Study

In a study commissioned by Enterprise Rent-A-Car and released by the National Business Travel Association (NBTA) on July 17, economists William G. Gale of The Brookings Institution and Kim Rueben of the Urban Institute contend car rental excise taxes are “inconsistent with basic principles of good taxation.”

“Although local governments may need to raise revenue, they should still seek to raise revenue in the most equitable and efficient manner possible,” Gale and Rueben wrote. “Stacking extra taxes on car rental customers is unjustified by almost any criteria.”

“The dramatic increase in car rental excise taxes in 38 states goes above and beyond the usual sales tax,” said Gale. “There is a better alternative.”

Rental Tax Cuts Business

In an interview for this article, Rueben cited an analysis of 900,000 rentals at 49 Enterprise Rent-A-Car branches in Kansas and Missouri that revealed car rental behavior changed after a tax increase on local Kansas City car rentals.

“The tax had a real bad effect, lowering auto rentals per month by 9 percent in the impacted localities,” Rueben said.

“This study supports NBTA’s position that excessive excise taxes on rental cars have a negative impact on American businesses, consumers, and local economies,” said Bill Connors, executive director and chief operating officer of the NBTA.

“Car renters have been hit with more than $3 billion worth of these taxes,” Connors said. “The projects funded by these users either have nothing to do with renting a car or benefit a broad base of additional constituents who are not taxed accordingly. We hope cities and counties can find funding solutions for major projects that don’t damage the local economy or unfairly discriminate against select consumers or businesses.”

— John W. Shorburg

INTERNET INFO


Car Rental Taxes Violate Basic Principles: Study

Elevated Express Lanes Relief for Urban Congestion

“Although local governments may need to raise revenue, they should still seek to raise revenue in the most equitable and efficient manner possible.”

WILLIAM G. GALE AND KIM RUEBEN

AUTHORS

“Taken for a Ride”

director and chief operating officer of the NBTA.

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Illinois, Missouri Argue Over New Bridge Funding

To toll or not to toll; that is the question

By Steve Stanek

Transportation officials in Illinois and Missouri agree there is a dire need for more highway lanes over the Mississippi River at St. Louis, but they disagree over how to pay for them.

Missouri wants to build a toll bridge. Illinois wants a bridge built without tolls. The standoff is delaying plans for a bridge to relieve one of the most badly traffic-congested areas in either state.

Fewer Lanes Available Now

“In the 1960s there were 22 lanes that crossed the river there. Today there are only 16 lanes, even though there’s been a big increase in traffic,” said Matt Vanover, a spokesman for the Illinois Department of Transportation (IDOT).

“This is a big concern. We anticipate that by 2020 rush-hour congestion periods will double in the St. Louis area,” Vanover said.

His counterpart in the Missouri Department of Transportation, Jeff Briggs, agrees with that assessment.

“Those bridges are impossibly backed up at times,” Briggs said, “and it’s only going to get worse.”

On the fundamental question of how to address the problem, though, there is big disagreement.

“Transportation officials in Illinois and Missouri agree there is a dire need for more highway lanes over the Mississippi River at St. Louis, but they disagree over how to pay for them.”

Missouri Wants Private Partnership

Briggs said there is an excellent reason to go the toll bridge route: It would save taxpayers a huge amount of money. In June Missouri Gov. Matt Blunt (R) signed into law a measure that allows a public-private partnership for the bridge project.

“We could contract with a vendor for them to build this bridge,” Briggs said. “They could finance their investment with tolls.

“We could get a bridge built without having to come up with tax money. Somehow, we’re going to have to have some agreement [with Missouri officials] before we get to the point to solicit proposals from anybody,” Briggs said.

Illinois Rejects Toll Idea

Vanover said Illinois wants to pay for a bridge out of its normal road program revenues.

“We’re hopeful we can work a solution,” Vanover said. “IDOT’s policy always has been there should be a bridge where Illinois residents are not required to pay a toll. The majority of residents are going to St. Louis for work or spending money in St. Louis.

“Missouri gets a lot from Illinois,” Vanover continued. “Our residents would be paying for a bridge out of their taxes. They shouldn’t have to pay a toll as well.”

Briggs responded that Illinois residents would not have to pay a toll to cross the river, even if a new bridge is funded by tolls.

“Existing bridges would remain free,” Briggs said. “If [Illinois drivers] don’t want to pay a toll, they would be free to go across the other bridges.”

In addition to the argument over how to pay for a new bridge, there is an argument over what type of bridge to build.

Illinois Presents Smaller Plan

Planning for another bridge began in 1992. Original plans included a bridge that would have cost almost $2 billion, to be shared by both states. Officials in both states balked at the high cost, and Missouri officials came back in 2005 with a design for an eight-lane bridge estimated at present to cost $910 million.

Illinois has responded with plans for a “coupler” bridge of four lanes adjacent to the existing Martin Luther King bridge. The King bridge, now four lanes wide, would be narrowed to three lanes, for a net gain of three lanes over the river.

The cost of the coupler bridge would be about half the cost of Missouri’s proposed eight-lane bridge. Vanover said the coupler bridge “would relieve I-70 traffic and improve traffic downtown.”

Not good enough, said Briggs. “Our concern is that three additional lanes instead of eight does not address the long-term needs of the area,” he said.

“We say build a bridge that meets needs for the long term.”

The current river crossings include the eight-lane Poplar Street bridge, one of only two bridges in the United States that carries traffic from three interstate highways (I-55, I-64, and I-70), according to state transportation officials.

Missouri Congressman Backs Illinois

U.S. Rep. William Lacy Clay (D-MO) has expressed his support for the Illinois proposal. The Missouri side of the proposed bridges would land in his 1st Congressional District.

In a July 12 announcement, Clay said, “The Illinois Department of Transportation and Governor [Rod] Blagojevich are not proposing that we contribute the half of the price tag that one might expect. Instead, they are only proposing that the State of Missouri put $50 million into the bridge project. Essentially, the people of Missouri are getting a $450 million bridge for $50 million, 11 percent of the total cost. ... As I see it, that is one heck of a deal for Missouri tax payers!”

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

Continued from page 1

Democratic nominee for governor, in the November general election.

‘Disconnected from People’

In a telephone interview the day after the election, Palin said, “Governor Murkowski seems to have been disconnected from the people who live here. Some of the actions he’s taken have frustrated Alaskans, obviously. We were outspent four to one. We didn’t solicit oil industry dollars andtourist industry dollars and dollars from other major industries as he did, and we won.”

Palin’s victory angered Alaska’s Republican machine politicians.

“Palin has so far prevailed against all odds, and against her own party’s mainstream, which not only is against her but at times lately has seemed to be trying to dismantle her campaign,” wrote Anchorage Press reporter Amanda Coyne shortly before primary election day, when polls showed Palin the likely winner.

“A. Alaska’s Republican Party has had its share of meltdowns, but no politician has stepped from its ashes like Palin, a small-town, angel-faced mother of four, an avid hunter and a fisherman who’s taking it to the boys ever so softly,” Coyne added.

Contrasting Records

Palin built on her six-year tenure as mayor of Wasilla, where she eliminated personal property taxes, small business inventory taxes, and business license renewal fees, and where the property tax levy was reduced each year she was in office.

Palin left office before she was term-limited.

“That fiscally conservative way of budgeting and taxing produced good results,” Palin said. “Wasilla is one of the fastest-growing communities in Alaska. It was all about fair taxation. Other than that the focus was on roads, water, sewer, and police.”

Murkowski went out of his way to antagonize Alaska’s citizens, critics say.

“Governor Murkowski has made plenty of mistakes in his sole term in Juneau. It actually started before that, with campaign promises that he wasted no time breaking,” wrote Coyne in her pre-election profile for the Anchorage Press.

Coyne continued, “He ran on a no-tax platform but almost immediately proposed a sales tax and then settled for that great tax work-around, ‘user fees.’

He slashed the longevity bonus, the senior-citizen stipend that had become a virtual entitlement. He appointed his daughter, Lisa Murkowski, to fill his term in the U.S. Senate, a position for which both Binkley and Palin were said to be vying.”

“[Alaska] Gov. Frank Murkowski, characterized by critics as a pork-loving big spender, garnered only 19 percent of the votes cast in the August 21 Republican primary election.”

Oil Taxes, Jet Plane

Palin said one of the last straws may have been when Murkowski proposed new oil taxes and terms for a natural gas pipeline to the state after two years of negotiations with oil companies. She chuckled at Murkowski’s purchase of a state jet for himself to use. That purchase, she said, caused a lot of anger among lawmakers and constituents.

“The legislation said ‘no’ to the jet, and he went out and got it anyway. One of my commitments is we get rid of that jet,” Palin said.

There were also the makings of a scandal involving the Murkowski family and Alaska’s infamous “Bridge to Nowhere,” a proposed bridge from Ketchikan to Gravina Island, home to 50 people and the local airport. Sen. Ted Stevens (R-AK) has been championing more than $200 million in federal funds for the bridge, the final price tag for which could top $1 billion.

As Sen. Tom Coburn (R-OK) and other critics inside Washington and at the grassroots turned up the heat against funding for the bridge, news came out that Murkowski’s wife and three of her siblings own land on the Gravina Island end of the bridge. A bridge likely would increase property values there.

“The Murkowski family owning land where that bridge would go was one of many, many, many things that upset Alaskans,” Palin said.

Misplaced Priorities

That only one in five members of Murkowski’s party voted for him shows how intensely disliked his spending and budget priorities were, said Emily Ferry, coordinator of the Alaska Transportation Priorities Project, a statewide watchdog organization that focuses on transportation issues.

“For the past four years Murkowski pushed a lot of really unpopular agenda items, from roads and bridges to nowhere when we have other important transportation needs, to purchasing a jet after the legislature told him no,” Ferry said the day after the election.

“He ignored the public, ignored the voters, ignored the important things,” explained Perry. “On Tuesday voters had the opportunity to tell him what they thought about that.”

National taxpayer watchdogs agreed.

“The taxpayers of Alaska have sent a message that pork-barrel spending does not pay at the ballot box,” said Tom Schatz, president of the Council for Citizens Against Government Waste. “This shows that fiscal responsibility is of prime importance to voters and incumbents everywhere should take notice.”

“Too bad Murkowski was blinded by power and did not learn the lesson many leaders, including the first President Bush and former governors Jim Florio, Mario Cuomo, and Gray Davis provided,” said taxpayer advocate Grover Norquist, president of Americans for Tax Reform.

“You raise taxes, you lose.”

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Liberal Republican Chafee Wins Party’s Nomination

With help from the Bush administration, whose initiatives he has repeatedly snubbed, Rhode Island Sen. Lincoln Chafee (R) won the Republican Party nomination for governor of the state’s September 12 primary election.

Associated Press reporter Robert Tannen noted Chafee’s primary win over Cranston Mayor Steve Laffey “was notable in a year that saw moderates from each party lose primaries to hard-line candidates.”

The politics of the race were strange indeed, as Chafee thanked Democratic-leaning independents for supporting him while he also received backing from the Bush administration.

Chafee has opposed Bush on the Iraq war, tax cuts, and environmental legislation. The pro-growth and limited government organization Club for Growth backed Laffey. Club for Growth Executive Director David Keating said, “There is enthusiasm for taking on pro-tax, pro-spending incumbents, regardless of party affiliation.”

Support for ‘Potted Plants’

First Lady Laura Bush campaigned for Chafee despite his opposition to the president’s policies.

“Most of the firepower for Chafee came from the National Republican Senatorial committee,” Keating said. “Republicans back incumbents. The incumbent could be a potted plant, and if it is a Republican potted plant, they’ll back it.”

On the whole, said Keating, he has been pleased with primary election results. Club for Growth-supported candidates this year have won nine of 13 races, he said.

“Chafee will face off against Democratic nominee Sheldon Whitehouse, a former attorney general, in the November election.”

— Steve Stanek
Chicago
Continued from page 1

Big Mandate Averted
The ordinance would have applied to stores of at least 90,000 square feet operated by firms with $1 billion or more in annual sales nationwide. It provided that beginning next July, employees would receive a minimum of $9.25 an hour in wages and $1.50 in fringe benefits, rising to $10 and $3, respectively, by 2010. Automatic annual cost-of-living increases would have applied thereafter.

Vocal Backers
ACORN has been a vocal advocate of minimum wage hikes in cities and states across the country. For several weeks, Chicago ACORN members had gone door-to-door and called Chicago residents in targeted wards to ask their aldermen to override a possible mayoral veto.

Standing with ACORN in support of the big-box wage ordinance was a coalition of unions including the United Food and Commercial Workers, Service Employees International Union, Chicago Federation of Labor, and Change to Win.

Also on board was the Brennan Center for Justice at New York University, which drafted the law.

Walmart, Target, and Lowe’s had threatened to delay or kill plans to build stores in Chicago as a result of the ordinance.

Michael Lewis Sr., vice president of store operations for Wal-Mart’s Midwest Division, told the Chicago Tribune for a September 13 article the mayor’s veto “encourages desperately needed business investment and development” in Chicago.

Neighborhood Support for Mayor
Also supporting the mayor were thousands of residents in some of the poorest neighborhoods in the city.

Rev. Leon Finney of the Woodlawn Organization stood with Daley at a September 12 news conference and declared, “We’ve been working for 10 years trying to get a big box on 63rd Street.” Finney added, “Mr. Mayor, I want to say this to you: I’ve served under and worked with more mayors than I care to remember. And I don’t remember, though, a time that I was more proud of this city. I want to thank you because now we have a chance to rebuild our community.”

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Members of ACORN and labor unions stood nearby and tried to shout down Walker’s remarks.

Walker added, “This scheme’s purpose is to increase labor union membership and dues collection and put union leaders in a stronger position in dealing with the management of Wal-Mart and other nonunion companies.”

Steve Stanek (stanek@heartland.org) is managing editor of Budget & Tax News.
Spending Limit Foes Feign Support for Tax Relief

By Kristina Rasmussen

The gloom-and-doom arguments must not be working for opponents of tax-and-expenditure limits (TELs) that are popping up on ballots across the country.

The traditionally pro-big-government anti-TEL folks are now spreading the word that tax cuts might be “endangered” if voters approve proposals to control the growth of government.

Ranging from Maine’s proposed Taxpayers Bill of Rights (TABOR) to Oklahoma’s Stop OverSpending (SOS) initiative, at least six states are likely to have some sort of TEL on the ballot this fall.

Generally, the plans would limit state (and in some cases local) expenditure increases to the yearly rise in population plus inflation. Legislative “super-majority” and/or voter approval would be required for higher rates of spending.

Fear of Nationwide Movement

The tax-and-spenders know success for these measures at the ballot box could ignite a nationwide movement to limit state and local government, so they’re retooling the propaganda machine.

Because the tired “state programs will be hurt” mantra against TELs hasn’t made headway with undecided voters, the sky-is-falling crowd hopes to attract center-right support by playing to tax relief concerns.

Yes, that’s right—the same groups who have a vested interest in keeping the spigot of taxpayer funds flowing are claiming that passing TEL initiatives would hurt the chances for tax cuts.

Don’t buy it. Voters have no reason to believe the disingenuous arguments coming from those who pretend to care about overburdened taxpayers but are really only looking to keep state budgets increasing by double-digit percentages every year.

Fiscal Falsehoods

The fight over Nebraska’s Stop OverSpending measure is a perfect example of the hypocrisy in action.

The main anti-SOS group, “Nebraskans for the Good Life,” claims, “SOS would hurt our pocketbooks [and] localities would have to raise property taxes” to make up for the supposed shortfall of state funds to lower-level governments if SOS is approved.

The sincerity behind this concern is questionable on its face, considering that an August 13 Lincoln Journal Star news article described the Nebraska faction as “a coalition of state associations, including many dependent on state tax dollars.”

“The gloom-and-doom arguments must not be working for opponents of tax-and-expenditure limits (TELs) that are popping up on ballots across the country.”

These “gimme” groups are unlikely to be on the taxpayer’s side when it comes to fiscal battles.

Doug Kagan, chairman of Nebraska Taxpayers for Freedom, rightly points out that the Nebraskans for the Good Life argument is “still false, because state aid has never lowered or [even] kept our property taxes static. In fact, in 1990 the Nebraska Legislature passed a bill which heralded state aid from our state income and sales taxes as a means to lower our property tax burden. However, this was no more than a revenue grab, as all three taxes have risen since then.”

Special interest groups aren’t the only ones picking up the “endangered tax cuts” mantle: State government is also coothing itself in this game of political charades.

In a not-so-surprising turn of events, for example, the Montana Revenue Service (whose director was appointed by an opponent of Montana’s Stop OverSpending plan) recently announced that passage of the proposed TEL would require voters to approve any form of fixed-dollar tax relief, including the one-time $400 property tax rebate being touted by the governor. Supposedly, refunds like these will be limited and harder to obtain.

Wide Range of Relief

In response, taxpayer advocates point out there is a wide range of tax relief Montana could enact with SOS in place. “Pro-rata” reductions of property and income taxes made in proportion to each contributor’s share of the total tax burdens would be one option, along with refunds of user charges and fees.

Giving voters more control over the budget process is what the spending limit plans are all about, supporters say. If taxpayers want fixed-amount tax cuts, then they can vote for them at the ballot box. In fact, a resounding electoral margin on behalf of tax cuts might help remind many a stubborn state legislature what citizens’ priorities really are. In short, passage of spending limits empowers both the legislative branch and the voters to reduce taxes.

Revenue Returns

In almost all cases, the TEL amendments on this year’s ballots have some sort of provision for returning to taxpayers any surplus revenues collected beyond the spending limit.

Nebraska’s Tax and Spending Control initiative, for example, helps taxpayers by returning excess revenues—those left over after the Emergency Reserve Fund and the Budget Stabilization Fund have been filled—to the people who paid them. This would occur via proportionate refunds or credits on items like state motor vehicle taxes and fees.

Similarly, Maine’s TABOR would remit 80 percent of all receipts that breach the cap, through a “Tax Relief Reserve Fund.”

While politicians make empty promises, these mechanisms constitute the very definition of tax relief at work.

“Yes, that’s right—the same groups who have a vested interest in keeping the spigot of taxpayer funds flowing are claiming that passing TEL initiatives would hurt the chances for tax cuts.”

Tax Cut Protections

Finally, nearly all the TEL initiatives make exceptions to the spending limit for money designated for tax relief. This is important because these provisions protect taxpayers from governments that tend to portray tax relief as an “expedience” that “costs” the state money.

For example, Oklahoma’s SOS measure provides a special exemption from the state spending cap for “moneys appropriated proportionately for taxpayer relief,” while Oregon’s Rainy Day Amendment excludes “money to fund tax and other refunds” along with money dedicated to income tax rebates.

Simply put, voters who support tax relief should likewise support the TEL plans being presented to them this November. When the opposition comes knocking on taxpayers’ doors with “tax relief is in danger” slogans, state residents should let the doomsayers know they won’t be conned into confusion.

Kristina Rasmussen (krasmussen@ntu.org) is senior government affairs manager at the National Taxpayers Union. A version of this article originally appeared August 31 at Human Events Online. Used with permission.

In Other Words

“. . . Cook County insiders once again lied about their self-serving waste of scarce tax dollars.”

“… This is knowledge voters need as they prepare to vote for a new County Board president.”

“Knowledge voters need as they hear county officials whine about their shortage of revenue.”

“Knowledge voters need as they pay those property taxes. Because all that tax money helps to prop up this deceitful government.”

House Editorial
Chicago Tribune
August 29, 2006


Maine Taxpayer Bill of Rights, http://www.taxpayerbillrights.com

Nebraska Stop OverSpending, http://esnnebrskastopoverspending.com

Oklahoma Stop OverSpending, http://www.stopoverstoppingoklahoma.com
Movement for State Spending Caps Picks Up Momentum

By J.D. Tuccille

Millions of Americans across the country this November will have an opportunity to decide the course of their states’ financial future, opting for controlled government growth and financial responsibility ... or business as usual.

That is the choice in a series of ballot initiatives known by a variety of names but sharing the aim of limiting growth in taxes and government spending.

While there are differences from state to state, all of the spending cap initiatives seek to limit annual state spending increases to the rate of inflation plus increases in state population, a measure known as P+1.

Following a P+1 formula, the caps would not force a budget cut in real dollars in lean years. State governments would be able to spend at least as much in any given year as they did the year before.

Excess revenue would fill reserve funds that would be used only during budget crises. Remaining excess revenue would be returned to taxpayers annually.

In many states, government is growing at a rate much faster than the economy. When aligned with the P+1 index, government spending as a percentage of gross domestic product (GDP) would remain stable.

Initiatives Coast to Coast

The states where voters are considering spending caps are a diverse bunch. They range from Maine in the Northeast to Oregon in the Northwest and include Michigan, Missouri, Montana, Nebraska, and Oklahoma in between.

At press time, the Missouri measure was tied up in court, awaiting a ruling from the state supreme court on whether to put the measure on the ballot. In mid-September a tax and spending limitation was put to the vote. In mid-September, the state supreme court on the ballot.

“Our opponents have been brutal here in Nevada,” said Adney. “They’ve sued us every step of the way on everything they can throw at us. Also, they used ‘blockers’ during the petition gathering stage of the campaign. These were hired thugs that used intimidation, threats, coercion, slander, and even physical force to try to stop us. We finally had to ask a judge for a temporary restraining order against the group.”

Still, the campaigns report they believe they are winning the battle for public opinion.

Polls Encouraging

Before the Nevada Supreme Court’s decision to keep the TASC off the November ballot, newspaper polls showed the measure with a 54 to 59 percent approval rating with only 20 percent opposed and the rest undecided, Adney said.

“Our internal polling shows it in the 60 percent support range,” Adney said.

Michigan’s Tillman pointed to a recent newspaper poll that had initiative supporters “up by 10 points.”

Oregon’s Evans echoed his colleagues elsewhere, saying the Rainy Day Amendment enjoys a “substantial lead” in polling.

Government Unions Upset

Another common denominator among the spending cap efforts is the nature of the opposition. Evans characterized the main opponents of the Rainy Day Amendment as “the big government employee unions.”

Adney identified “the AFL-CIO and other government employee unions” as the major opponents in Nevada.

Tillman noted his main opposition was the Defend Michigan Coalition, which he described as “a coalition of people who spend tax dollars.”

The Defend Michigan Web site lists dozens of member organizations, prominently featuring both associations of government agencies and government employee unions such as the American Federation of State, County, and Municipal Employees and American Federation of Teachers.

NEA Spending Millions

Spending cap opponents have not been shy about committing major resources to the efforts to defeat the initiatives.

“The National Education Association recently pledged $2 million to defeating the Rainy Day Amendment,” said Evans.

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Budgets Go Boom, Then Bust

You don’t have to look hard to document the devastating results of state governments’ binge spending.

In Oklahoma, for example, year 2000 revenue collections exceeded estimates by about $250 million. The state spent all of that surplus revenue and even managed to appropriate $80 million from the “rainy day fund.”

That level of funding couldn’t be maintained when the economy took a downturn. In each of the next three years state tax revenue collections declined. In the second year, the rainy day fund went dry.

That pattern has been repeated in many other states. Money that pours into government coffers during periods of strong economic growth has been spent at a rate that can’t be sustained when the economy inevitably takes a tumble.”

“Money that pours into government coffers during periods of strong economic growth has been spent at a rate that can’t be sustained when the economy inevitably takes a tumble.”

A greatest hits album of aggressive growth in government programs followed by cuts in programs, government borrowing, deferred payments to government pensions or state vendors, tax hikes, or a combination of these moves.

Tax and expenditure limitations would end this boom and bust budgeting cycle, taxpayer advocates note.
Court Ruling Opens Door to Reform of the IRS

By Bruce Bartlett

A federal appeals court in Washington, D.C., in August handed down an important decision relating to the definition of income for tax purposes. The decision is the first one in decades to say the Constitution itself limits what the government may tax. If upheld by the U.S. Supreme Court, the decision could significantly alter tax policy and possibly open the door to radical reform.

“If upheld by the U.S. Supreme Court, the decision could significantly alter tax policy and possibly open the door to radical reform.”

In the case, a woman named Marrita Murphy was awarded a legal settlement that included compensation for physical injury and emotional distress. The former has always been tax exempt, just as insurance settlements are. Obviously, it makes no sense to tax as income the payment for a loss that only makes one whole again. One is not being made better off, and therefore there is no income. But under current law, compensation for non-physical injuries is taxed.

Murphy argued that just as compensation for physical injuries only makes one whole after a loss, the same is true of awards for emotional distress. In short, it is not income within the meaning of the 16th Amendment to the Constitution.

The appeals court agreed and ruled her award for emotional distress is not income, and therefore not taxable. Tax experts immediately recognized the far-reaching implications of the Murphy decision for other areas of tax law. Tax protesters have long argued the 16th Amendment did not grant the federal government the power to tax every single receipt it deems to be income. Yet in practice, that is what the Internal Revenue Service does.

IRS Defines Income

The problem is that the very concept of income itself has never been defined in the tax law. It is pretty much whatever the IRS says it is. Tax analysts generally use a definition devised by two economists named Robert Haig and Henry Simons, who said income consists of consumption plus the change in net worth between two points in time. But the Haig-Simons definition goes far beyond that in the tax law. Most importantly, it includes unrealized capital gains. There is also no place in the Haig-Simons definition for things like 401(k) plans, individual retirement accounts or other retirement savings, or lower tax rates on realized capital gains.

Under Haig-Simons, owner-occupied homes would be treated as businesses, with homeowners taxed on the implicit rent they pay to themselves, less depreciation. And if your home’s value increased over the course of a year, you should pay tax on that even if you didn’t sell your house.

“[T]he very concept of income itself has never been defined in the tax law. It is pretty much whatever the IRS says it is.”

Court Sets Constitutional Limit

Now, clearly, the IRS is not going to do any of these things, nor would Congress allow it to do so. But because tax analysts implicitly accept the Haig-Simons definition of income, even though it appears nowhere in law, there has been a long-term tendency for the IRS to push the limit of what can be considered taxable income. Now, a federal court has said there is a constitutional limit.

One area where I would like to see the court go further has to do with the question of whether interest constitutes income. To economists, some portion of the interest we receive on our savings is merely compensation for loss—loss of the immediate enjoyment we would receive if we consumed our income today instead of saving it.

Think of it this way: Would you be satisfied receiving your paycheck a year from now instead of on payday? Of course not. You would be suffering a real loss if you had to wait a year to get paid for your work. But if you were offered, say, 10 percent more in a year, you might say that was OK. Collectively, our willingness to put off consumption today for greater consumption in the future is what determines the pure rate of interest.

Interest Could Be Excluded

In the view of many great economists, such as John Stuart Mill, the future interest one receives is merely compensation for the loss of immediate satisfaction. Therefore, it is not income, but more like an insurance settlement that simply makes us whole.

Now, obviously, market interest rates are more than simply a discount between present and future, as my example implies. A lot represents a return to risk and an adjustment for expected inflation. But in principle, some portion of interest is compensation for loss and therefore not income.

Given the logic of the Murphy decision, it is quite possible that the risk-free, inflation-adjusted rate of interest could also be excluded from taxation on constitutional grounds. Following through on logic consistently would revolutionize taxation and eventually lead to a pure consumption tax, which most economists today favor.

I’m not predicting the Supreme Court will follow this logic. But it does open an interesting possibility that tax analysts will follow with interest.

Bruce Bartlett is a syndicated columnist, author of Imposter: How George W. Bush Bankrupted America and Betrayed the Reagan Legacy (ISBN 0-385-51827-7), and an economist who served as a domestic policy adviser to President Ronald Reagan and in the Treasury Department during the George H. W. Bush administration. This article originally appeared August 29 at Townhall.com. Reprinted with permission.

Court Orders NEA Affiliates to Reveal Financial Details

By Steve Stanek

State affiliates of the National Education Association (NEA) may be required to disclose financial information such as income and expenses, salaries and benefits, and election rules, according to a ruling by the U.S. Court of Appeals ...

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Unions consisting entirely of public-sector employees are exempt from federal requirements. But if they represent any private-sector employees, Department of Labor requirements apply. Although the NEA consists primarily of public school teachers, it has a handful of private members. Therefore, the Department of Labor argued the national organization and any state affiliates that have private employee members should have to comply with LMRDA.

“Unprecedented Disclosure”

The Court of Appeals agreed with that argument, overturning a lower court ruling. “[W]e conclude the district court erred in holding the Department’s new interpretation was inconsistent with the Act,” wrote Chief Judge Douglas Ginsburg.

“The implications are huge,” said Michael Reitz, director of the Labor Policy Center at the Evergreen Freedom Foundation in Olympia, Washington. “If state affiliates are required to comply with federal law, we’ll have unprecedented disclosure for teachers and other public employees.”

Reitz said the Court of Appeals directed the Department of Labor to reissue its policy analysis before the new rules can take effect.

The NEA said it had no comment on the situation.

Steve Stanek (stanek@heartland.org) is managing editor of Budget & Tax News.
Workers
Continued from page 1
government employees averaged $36.97 compared to $25.09 for private industry workers.
That’s an overall difference of 47.3 percent. The difference in costs of benefits is much greater than the difference in wages and salaries.

“Most states require government agencies to collectively bargain with unions representing their employees, but public-sector unions, unlike private-sector unions, also play a big role in electing the boss.”

Fringe Benefits Disparity
The hourly cost of wages and salaries is $17.73 on private payrolls compared to $25.01 in state and local government (a difference of 41 percent), while the hourly cost of benefits is $7.36 in private industry compared to $11.96 in state and local government (a difference of 62.5 percent), according to the National Compensation Survey.

There are undoubtedly many factors that contribute to those differences.

One that doesn’t get enough attention is the unusual power of public-sector unions. Most states require government agencies to collectively bargain with unions representing their employees, but public-sector unions, unlike private-sector unions, also play a big role in electing the boss.

Unions of public employees, particularly at the local government level, have an extremely high level of motivation to influence elections.

In addition, in many areas of the country Election Day for local government officials is different from the general election date. Turnout for local elections is usually quite low, giving local government unions a greater chance to influence election outcomes by rallying members and their families to vote.

High Taxes, Higher Raises
Consider two households—one with a private-sector worker and one with a local government employee—with equal incomes of $40,000. Assume state and local taxes are approximately 10.5 percent of income.

If the local government imposes a 4 percent tax increase to fund a 5 percent pay increase for government employees, both families face an increased tax burden of $168 ($40,000 x .105 x .04 = $168).

But the government employee’s household would also anticipate a $2,000 pay hike ($40,000 x .05 = $2,000), for a net gain of $1,832. A $1,832 gain likely would provide greater motivation to walk precincts, stuff envelopes, contribute money, and turn out on Election Day than the expected $168 increase in taxes.

Public-sector compensation also exceeds private-sector compensation because most pay scales in the public sector include automatic step increases based solely on longevity.

Control of the internal politics of most labor unions, and therefore their collective bargaining positions, is thus dominated by the interests of senior employees.

As a result, the union’s negotiating position is weighted toward the interests of older workers, which tends to increase the number and value of steps at the high end of the scale.

Workers at the Top
Because most public retirement systems base benefits on earnings during the final years of employment, this arrangement provides incentives for senior employees to stay on the job longer, increasing the number of employees at the top of the pay scale while making it difficult to fill vacancies in entry-level positions.

Another factor is that managers in the private sector are under pressure to ensure their labor costs are in line with market forces. Few managers in the public sector are subject to the same pressures.

Yet another factor is the role, or lack thereof, of state associations of cities, counties, and school boards. Personnel costs make up 70 to 80 percent of expenditures at the local government level, yet organizations representing elected public officials have done almost nothing to develop programs to control those costs.

David Denholm (david@perf.org) is president of the Public Service Research Foundation, an independent, nonprofit organization that studies labor unions and union influence on public policy.

<table>
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<th>Compensation</th>
<th>Private Industry</th>
<th>State and Local Government</th>
<th>Percent Difference</th>
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<td>Total</td>
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Source: Bureau of Labor Statistics National Compensation Survey

Median Weekly Earnings of Full-time Wage and Salary Workers, 2005

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Mean Weekly Earnings, 2005

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Mean Hourly Earnings, 2005

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