Hospital Loses Tax Exemption in Ill. Ruling

By Steve Stanek

The state of Illinois has yanked a non-profit hospital’s tax-exempt status in a decision that is being called a threat to the tax exemptions of all nonprofit organizations in the state.

On September 29 the director of the Illinois Department of Revenue ruled Provena Covenant Medical Center in the central Illinois town of Urbana provided too little charity care to qualify for its property tax exemption. Champaign County officials had challenged the

Pennsylvania Pay Scandal Keeps Rolling

By Steve Stanek
The Pennsylvania Supreme Court has ruled lawmakers violated the state constitution when they passed midterm pay raises last year, but the justices kept pay raises for themselves and 1,000 other judges that were approved

Legislation also allows counties to hike sales tax

By Mike Jerman

The Utah Legislature passed a bill in the fall special session cutting individual income taxes by $78 million per year and another bill that will allow counties to raise their sales taxes by about $100 million per year. The result is a net tax increase of $22 million per year if all major counties (Davis, Salt Lake, Utah, Washington, and Weber) approve the sales tax hike.

The two special-session bills include expanded income tax brackets, automatic adjustments to the brackets based on the rate of inflation, and an optional flat tax.

At press time Utah Gov. Jon Huntsman Jr. (R) had not yet signed the bill but was expected to do so.

The tax changes follow $90 million in tax cuts passed in the general session, which means the legislature reduced taxes in 2006 by a net $68 million.

"Finally, we have closure on the business of the last session," said Huntsman, a proponent of lower taxes and tax reform, at the end of the fall session. "This will provide the tools to improve the state’s long-term economic competitiveness and our transportation infrastructure."

High Court to Consider Wash. Paycheck Protection Measure

By Ryan Bedford

In a victory giving hope to millions of workers across the country, the U.S. Supreme Court has agreed to weigh the constitutionality of Washington state’s paycheck protection law.


The Court’s decision will determine whether millions of workers across the

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Taxes and Growth

Budget & Tax News

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www.heartland.org
By Byron Scholmacht

Texas Governor Proposes Spending Reforms, More Accountability

S tanding spending and increased accountability for how taxpayer money is spent are the goals of a five-point budget reform plan put forth in the first of September by Texas Gov. Rick Perry (R).

Perry’s proposed reforms include:

• a stricter state spending growth limit; 
• using dedicated revenue sources strictly for their dedicated purposes; 
• constructing a budget with a more detailed listing of expenditures; 
• requiring that individual state expenditures be posted online; and 
• amending the Texas constitution to allow for tax refunds when surpluses occur.

Tied to Population, Inflation

First among these reforms would be a stricter spending limit based on the state’s population growth rate and inflation, similar to Colorado’s Taxpayers Bill of Rights measure.

The current limit, made part of the state constitution in 1978, is based on growth in personal income. Personal income growth in Texas regularly exceeds the sum of population growth and inflation.

“Tying how much we spend to how much we make is a recipe for runaway spending,” said Perry.

Dedicated Means Dedicated

The second reform would require dedicated revenues—revenues from fees and taxes intended to fund specific types of expenditures—to be used only for the specific purpose for which they were intended. 

In the most recent biennial Texas budget, according to Senate Finance Committee Chairman Steve Ogden (R-Bryan), $1.8 billion in dedicated revenues were appropriated to purposes other than those for which they were dedicated in the first place.

“We created a myriad of fees in order to balance the budget [in the past],” Ogden said.

Greater Detail, Internet Publication

The third budget reform Perry is offering would require more detail in the state’s budget document. Currently, each agency’s appropriation is arranged into various categories, called strategies. A strategy can correspond either to a single program or to multiple programs.

Mike Morrissey, who heads the Governor’s Office of Budget, Planning, and Policy, said “there is not enough detail to answer reasonable questions” regarding the state’s budget.

Perry’s fourth recommendation is for agencies to post individual expenditures on the Internet in a clear, concise, consistent format.

“If the taxpayers are picking up the bill, they ought to be able to look at every item on the receipt,” said Perry. The intent is to publish the state’s check register online.

Calls for Refund Mechanism

The fifth reform would allow the return of tax money to the state’s taxpayers in the event the state runs a budget surplus.

Currently, surpluses can’t be returned, because the Texas Constitution requires that all expenditures be made for a “public purpose.” Refunds would not qualify because the recipients of the funds would spend it on personal needs.

“Spending restraints and increased accountability for how taxpayer money is spent are the goals of a five-point budget reform plan put forth at the end of September by Texas Gov. Rick Perry.”

Texas Gov. Rick Perry has proposed a reform package that includes returning money to the state’s taxpayers if the state runs a budget surplus.

Other Suggestions Offered

Scott McCown, who heads the Center for Public Policy Priorities, which advocates for persons with low incomes, questioned the need for most of the reforms.

“We have a structural deficit in this state that will last for decades,” McCown said. While he applauds the governor for asking that dedicated funds be spent as intended or be eliminated, “the problem is that other revenue has to be raised or cuts have to be made to balance the budget.”

McCown suggested agencies be required to submit current-services budgets. He said a tightening of the budget growth limit “assumes we have the right base of spending, which Texas clearly does not.”

State Rep. Bill Keffer (R-Dallas), a prominent member of the legislature, likes the governor’s suggested reforms. He thinks the tax refund can be implemented through tax reductions, and he called a spending limit based on population growth and inflation “common-sensical.”

Keffer offered a suggestion for further reform, saying, “The number one thing I’d like to see is zero-based budgeting, a process like what we saw in 2003.” In 2003, Texas balanced its budget without a general tax increase despite a projected $10 billion shortfall.

Byron Scholmacht (bscholmacht@texaspolicy.com) is chief economist for the Texas Public Policy Foundation.
Bush Tax Cuts Have Helped All Income Groups, IRS Data Show

By Gerald Prante

Data recently released by the Internal Revenue Service for the 2004 tax year show all income groups—including lower- and middle-income taxpayers—have seen their effective federal income tax rates fall. The accompanying table shows how the tax picture has changed for each income group (as defined by adjusted gross income, AGI) from 2000 to 2004 when all tax returns within each group are included.

Lower Incomes, Bigger Break

The table shows effective tax rates have fallen for every income group. Those in the bottom and middle income groups, as well as millionaires, have seen their tax rates fall. The percentage decrease in tax burden was greatest for those in the lowest income groups between 2000 and 2004.

For example, in 2000 a taxpayer with an AGI of $35,000 who paid 8.5 percent of his income in federal income taxes would pay $2,959 in federal income taxes after credits. Following the tax cuts, he paid $437,500. That amounts to a 14.8 percent reduction in tax burden.

"Data recently released by the Internal Revenue Service for the 2004 tax year show all income groups—including lower- and middle-income taxpayers—have seen their effective federal income tax rates fall."

Second, even though their effective tax rates have fallen, taxpayers in the $75,000-$500,000 AGI range are shouldering a larger burden of the total taxes paid. For example, the $100,000-$200,000 income group paid 19.4 percent of all federal income taxes in 2000, and 22.5 percent in 2004.

There are two reasons for this increase: (1) This income group’s fraction of the total AGI has increased; and (2) taxpayers in these groups are most likely to be hit by the Alternative Minimum Tax (AMT), which has been changed very little since 2000.

More People Pay Nothing

Third, as shown by the “percent of returns that are taxable” column, the tax cuts have taken many taxpayers in the low-income groups off the tax rolls entirely.

In 2000, approximately 29 million tax returns had no income tax due. By 2004, that number had risen to around 43 million returns. That is largely due to expansion of the Child Tax Credit and establishment of the 10 percent tax bracket.

Finally, in 2004 much more money was given to low-income earners than in 2000, through the tax code via programs such as the Earned Income Tax Credit (EITC) and the Refundable Child Tax Credit.

The table shows that among lower- and middle-income groups, many taxpayers receive more back from the IRS than they actually pay in federal income taxes. Every AGI group up to $250,000 actually receives more back from the IRS in the aggregate than it pays in federal income taxes.

### Tax Rates Have Fallen for All Incomes Groups from 2000 to 2004

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* "Federal income taxes paid" equals income taxes after credits minus the refundable portions of both the Earned Income Tax Credit (EITC) and the additional child care tax credit.

** "Tax cut" is the percentage point fall in the effective tax rate for that income group from 2000 to 2004.

Source: Internal Revenue Service
State, Local Taxes Top $1 Trillion

By Robert Ward

As conservatives lament budget trends in Washington, a historic milestone came and went with little notice: The Census Bureau has reported that state and local governments nationwide now collect more than $1 trillion a year in taxes.

It wasn’t that long ago—1970, to be exact—when the entire output of the American economy totaled $1 trillion. Higher, inflation since then means the figures aren’t exactly equivalent. But there’s only one conclusion to be drawn from this latest fiscal indicator. State governments, and the localities they control, are inflicting an increasingly unsustainable cost burden on workers and businesses.

The take from state and local taxes is virtually the same as Washington’s own collections from sources other than the social insurance taxes that pay for Social Security, Medicare, unemployment, and related programs.

Half the Problem

In other words, if you think Congress collects too much from the federal income tax, corporate income tax, estate, and other taxes, you may be right, but that’s only half of the problem. We’re paying just as much to our state legislatures, municipal officials, and school boards.

In statehouses and local offices, there’s a cycle very much like that at the federal level. Political candidates promise more spending on health care, education, local projects, and other popular programs. Voters increasingly believe government exists to take care of all our needs. The elected officials have to deliver still more taxpayer dollars to gain the political rewards they crave.

Unions Drive Spending

But in Albany, Sacramento, and other government centers, there’s another, powerful, and politically sophisticated force that drives spending and taxes higher: Public employee unions. State and local governments employ 19 million workers, seven times the civilian federal payroll. While private-sector unions such as the autoworkers are losing thousands of jobs to international competition, government payrolls have no such market discipline.

State and local government employment jumped more than 6 percent nationwide from 2000 through 2005, more than 10 times the rate of private-sector job growth.

Those expanding payrolls are part of an increasing trend. Public-sector officials create more government jobs, public-sector unions gain dues dollars and members who can rally for favored causes. Politicians respond to that pressure by creating still more taxpayer-funded jobs and doing other favors for the unions, inevitably leading to yet more spending and higher taxes.

“The Census Bureau has reported that state and local governments nationwide now collect more than $1 trillion a year in taxes.”

New York State Adds 52,000

New York is the classic example. This spring, for instance, the legislature in Albany passed a bill to add 52,000 home-based daycare providers to the state payroll. Some influential unions could add dues-paying members. The bill could drive up costs by $75 million a year.

Local social services officials warned it might jeopardize federal funding of several times that amount, and reduce the quality of care for kids because of union work rules. But the powerful United Federation of Teachers wanted the bill, and the Republican-controlled Senate passed it unanimously.

Last Christmas season, the Transit Workers Union shut down New York City’s subways and commuter trains with a three-day strike because state and local unions insisted on high salary and pension enhancements. New York’s law makes strikes by public employees illegal. A judge read the statute, fined the union, and sent a union leader to jail for several days.

Although such penalties have been in the law since Nelson Rockefeller codified public-sector unionization in the 1960s, the unions feigned outrage. They demanded that the legislature repeal most penalties for striking public employees. Bipartisan majorities in both houses quickly obeyed.

Lawmakers Roll Over

Just to make perfectly clear which side they’re on, Albany legislators went still further. They passed a bill giving public employees an automatic 1 percent raise (aside from any contractual increase) if a state labor panel finds that a public employer has failed to “bargain in good faith.”

Further automatic raises apply every three months if the union does not agree to a contract. School boards and municipal officials had a long list of bills the legislature could have passed to offset the damage to taxpayers; legislative leaders refused even to bring those proposals up for a vote.

Lawmakers’ actions this year will make it even harder for New York’s next governor—most likely Democrat Eliot Spitzer or Republican John Faso—to rein in runaway spending on employee salaries and benefits. The result will be not only pressure for higher taxes but fewer dollars available for actual public services.

While public employee union clout in states such as New York and California is well known, others may be headed in the same direction. Arizona, New Jersey, and Florida each increased state and local government employment by more than 10 percent in the last five years. With growth like that, the next $1 trillion in taxes is only a matter of time.

Robert Ward (bob.ward@bcnys.org) is director of research for the Public Policy Institute, the research affiliate of the Business Council of New York State. This article originally appeared August 16 in The New York Sun. ©2006. Used by permission of The New York Sun.

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“State and local government employment jumped more than 6 percent nationwide from 2000 through 2005, more than 10 times the rate of private-sector job growth.”
California’s Borrowing Propositions Go Down to Wire

By Adrian Moore

Despite strong support from California Gov. Arnold Schwarzenegger (R), most Democratic Party lawmakers in the state, and business groups and labor unions, November ballot proposals to raise California’s borrowing by more than $40 billion are facing stiff opposition.

Recent polls indicated the outcome of the November 7 vote on most of the proposals was too close to call at press time.

Five bond measures totaling $42.65 billion would enable the state to boost spending on “infrastructure”—including transportation, housing, school construction, and water resources.

Because of interest that would be charged on the borrowed money, the total cost of the bond proposals is actually about $80 billion.

Unusual Coalition

Supporting the proposals is an unusual coalition of individuals and organizations that usually oppose one another.

The pro-Democrat California Teachers Association and the pro-Republican pro-Republican California Chamber of Commerce are supporters Association and the pro-Republican trim the state needs 13,100 new lane-miles at a cost of nearly $122 billion to deal with expected population growth and relieve severe traffic congestion across the state.

Reason researchers say the state could successfully recruit private companies, who are already pouring more than $25 billion into road projects in other states, to pay for and construct California’s much-needed roads. The companies would recoup their investments by charging tolls to trucks and cars that use the roads.

To do this successfully, Reason says the state’s existing public-private partnership law needs to be updated.

Proposition 1B

Despite its massive $19.9 billion price tag ($38.9 billion including the interest), Proposition 1B, a transportation bond, delivers minuscule road capacity additions that barely scratch the surface of what is needed across the state. Supporters contend the proposition would fund safety improvements and repairs to state highways; upgrade freeways to reduce congestion; repair local streets and roads; upgrade highways along major transportation corridors; improve seismic safety of local bridges; expand public transit and car pool lanes; and improve anti-terrorism security at shipping ports.

With six California cites ranking among the 18 most-congested areas in the country, the Reason Foundation estimates the state needs $19.9 billion in bonds to fund affordable housing programs. Yet with low interest rates driving a massive housing boom, the median home price in California rose from $324,000 in mid-2002 to $475,000 in July 2006.

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Proposition 1C would borrow another $2.85 billion in bond money (that will actually cost taxpayers $6.1 billion) to fund shelters for battered women and their children; housing for low-income senior citizens; homeownership assistance for the disabled, military veterans, and working families; and repairs and accessibility improvements to apartments for families and disabled citizens.

The Reason study contends more government involvement in the housing market won’t lower prices or fix the state’s supply and demand problem. Each year California’s housing shortage worsens the state’s supply and demand problem.

The Reason study notes affordable housing is created when existing homeowners upgrade to newer units, placing older units on the market for young and first-time homeowners. Thus, the state should look for ways to increase the total stock of new and used housing. Removing regulatory barriers and streamlining the permitting and environmental review processes would be a start. The report also says prevailing wage laws should be repealed—they increase housing prices by 9 to 37 percent.

Proposition 1D
In the past decade, California voters have approved nearly $100 billion in school construction bonds at the state and local levels. Now lawmakers are asking to borrow another $10.4 billion (costing taxpayers $20.3 billion with interest) for school construction and repairs.

In the past two years, California’s increased education funding by $7 billion, but lawmakers didn’t earmark any of that money for these “critical” infrastructure projects.

The Reason study says the state’s reliance on bonds exacerbates inherent problems in the school construction process and cost overruns are common. The scandal-plagued Belmont Learning Center in Los Angeles, tagged as the most expensive school in America, will have cost taxpayers more than $300 million once—or if—it is finished.

“Cost overruns and long construction delays are the norm,” said Lisa Snell, director of education at the Reason Foundation. “We all want schools to be safe and clean, and to house the right number of students. But a troubling lack of accountability allows these bond projects to go two or three times over budget without any repercussions.”

Snell said Arizona is now paying for new school construction out of the general fund and California should do the same. The Reason report also recommends utilizing developer-built schools in new neighborhoods and suburbs.

Propositions 1E, 84
California voters have approved more than $11 billion in water resources bonds over the past 10 years. Much like those previous bonds, Propositions 1E and 84 actually cost taxpayers $6.1 billion to $2.85 billion in bond money (that will cost taxpayers more than $300 million without any repercussions).

CONTINUED From right

By Brian Phillips

A n inevitable surge in black market activity and related crime would accompany passage of California’s Proposition 86 on November 7, according to a new study by a Washington, DC-based taxpayer group, the Reason Foundation.


“The state with the highest cigarette tax is the preferred destination of every cigarette smuggler, and the potential profits are enormous,” Fleenor said.

“Even now, with an 87-cent tax per pack, several tractor trailers full of cigarettes roll into California every day, and Internet sales are booming,” Fleenor continued. “If the tax goes to $3.47 per pack, the black market will boom, and a lot of serious crime will boom with it.”

Previous Crime Increase
In 1998, Californians raised their cigarette tax from 37 cents to 87 cents per pack. Californians saw increases in three types of crime associated with the cigarette tax:

• cross-border shopping for low-tax cigarettes by California smokers over the road or the Internet;
• large-scale smuggling by organized criminals; and
• ancillary crimes committed in the state.

According to the California Board of Equalization (BOE), which is charged with enforcing the collection of cigarette taxes, some 300 million packs of cigarettes are brought into the state each year and sold without paying California taxes. Despite requiring elaborately printed tax stamps to be affixed to each pack, the BOE has been at pains to stop counterfeiters and smugglers.

Robbery, Kidnapping, Murder
“Armed robbery, kidnapping, and even murder are committed because of the cigarette smuggling trade,” Fleenor reports, “all because of a hard-to-enforce tax that dangles easy money in front of the criminal element.”

The California BOE estimates cigarette tax evasion has leveled out and even diminished slightly in recent years, as California’s tax has stayed at 87 cents and other states have raised their taxes and made themselves better smuggling targets.

Fleenor’s report traces the bizarre history of cigarette taxes and crime in California.

The first large state tax imposed in 1998, Fleenor notes, sent customers scurrying to military bases and Indian reservations. Now, his study notes, shipping containers filled with counterfeit cigarettes are unloaded at the ports of Long Beach and Los Angeles, and Web-based foreign firms promise to defy tax authorities and ship tax-free cigarettes directly to customers in unmarked packages.

Brian Phillips (phillips@taxfoundation.org) is manager of media relations at the Tax Foundation.

INTERNET INFO


INTERNET INFO

For more information on reports related to California and the November bond measures, visit http://www.reason.org/california.
Scandal
Continued from page 1

as part of the pay package.
The September 14 ruling has renewed anger about the scandal, and a legisla-
tive move is afoot to roll back judicial pay and take other actions against judges.

“The Pennsylvania Supreme Court cherry-picked a provision from a non-
severable bill that had been repealed—a bill they deemed to be partially unconsti-
tutional—and made a ruling that would fill its pockets and the pockets of every
other member of the judicial branch,” said Republican state Rep. Daryl Met-
calf (R-Butler), who opposed the pay raise and the budget that funded it.

“The judiciary, through this decision as well as others, has indicated that it
believes it is above and beyond the reach of the people and their representatives
in the legislature,” said Metcalf.

‘Rekindled Outrage’
Less than two weeks after the court’s
ruling, Metcalf announced a package of
“checks and balances” bills to terminate the judicial pay raise, reduce the term
of office for judges from 10 to five years, and strike the constitutional provision that prohibits
the reduction of a judicial salary in the middle of a term in office.

Nate Benefield, a policy analyst at the
Commonwealth Foundation in Harris-
burg, said the court ruling “rekindles
the anger. In the mid-state region, Pittsburgh and Harrisburg especially,
it’s rekindled the outrage against an out-
of-control state government. People are
looking at the ruling as being in the
court’s self-interest.”

By ignoring the non-severability pro-
vision of the bill to uphold their own pay
raise while striking down the pay raise
for lawmakers and salaried officials in
the executive branch, “It’s like the court
was saying we’ll take your bribe but we’re not going to do what you bribed us for,” Benefield said.

The only justice to dissent from the
ruling—Thomas Saylor—is the next
Pennsylvania Supreme Court justice
who will face a retention election, in
2007.

Rolling Since 2005
The pay raise scandal has been roiling Pennsylvania politics since the raise was
enacted in July 2005. Some members of Pennsylvania’s Supreme Court alleg-
edly worked with lawmakers in 2005 to
finalize the pay raises to get around the
Pennsylvania constitution’s ban on mid-
term pay raises for elected officials. They
devised a scheme to allow the payment of “unvouched”
expense items for reimbursement. Those
unvouched expenses resulted in pay
raises for lawmakers that ranged from
16 to 34 percent. Their base pay effec-
tively rose to $81,050 from $69,647.

Top legislative leaders saw their pay rise to $145,000, up from $110,000
a year. Annual salaries for supreme
Court justices went from $150,369 to
$171,800.

“The Pennsylvania Supreme Court has ruled lawmakers
violated the state constitu-
tion when they passed mid-
term pay raises last year,
but the justices kept pay
raises for themselves and
1,000 other judges that were
approved as part of the pay
package.”

Price Paid at Polls
The pay raise scheme sparked howls of protest among the Pennsylvania citi-
zens, and they struck back in Novem-
ber 2005 by voting against the retention of
Justice Russell Nigro. Justice Sandra
Schultz Newman was barely retained.
Nigro, a Democrat, became the first
justice denied retention in the state’s
history. Newman, a Republican, kept
her job only with the help of a last-
minute barrage of advertisements and
endorsements from former Republican
governor Tom Ridge and other Republi-
can heavyweights.

One week after the stunning 2005 judicial retention results, lawmakers
repealed the pay raise package.

But the electoral anger carried over to this year. Dozens of Pennsylvania law-
makers are being driven out of office.

Thirty incumbents decided not to seek reelection, and 17 others were defeated
in this year’s Democratic and Republi-
can Party primary elections.

Money Kept
Meanwhile, some state judges chal-
 lenged the repeal of the pay package,
arguing the state constitution bars cuts
to judicial salaries that are not part of an
across-the-board salary reduction for all
state officers. The state supreme court
agreed with those judges and ordered the
decisional money they collected before the
pay raise was repealed.

About 40 of 158 lawmakers who
accepted the raise have kept the money.
The rest have voluntarily returned it.

Steve Stanek (stanek@heartland.org)
is managing editor of Budget & Tax News.
Taxing the Internet, One Bagel at a Time

By Elizabeth Karasmeighan

These days, policymakers have been haggling over how to tax bagels, which is different from how rolls are taxed. In Vermont, Joe Six-Pack will start paying a tax on beer next year.

These are the kinds of discussions policymakers in most states have been having because of the Streamlined Sales and Use Tax Agreement (SSUTA), which is designed to help states charge sales taxes on Internet and mail order purchases. States that are party to the agreement have been trying to make their tax structures match up with those of the other states in the agreement.

Threat to Autonomy

Competition is the key to healthy state and local economies, but the Streamlined Sales and Use Tax Agreement threatens states’ autonomy to shape their own tax policies, costs each state’s economy jobs, and devastates their technology sectors.

Formed in 2002, the Streamlined Sales Tax Project, as the SSUTA was originally called, was created to push Congress toward taxing the Internet. Because two Supreme Court decisions (most recently 1992’s Quill v. North Dakota decision) have ruled that requiring remote sellers to collect state sales taxes is an undue burden on interstate commerce, a state cannot require sellers to collect its sales tax unless they are physically located in the state.

Supporters of Internet taxation claim SSUTA will “simplify” and “streamline” the sales and use tax system. Critics say implementation of SSUTA would preserve many of the current complexities of calculating and collecting sales taxes and would force merchants to comply with thousands of different tax rates and exceptions.

“The real motivation of SSUTA is to target businesses that are not physically located in the customer’s state and to export a state’s tax burden. Possible Tax Cartel

Several states have looked at ways to reduce compliance costs to lower local jurisdictions’ liability regarding tax collections. Taxpayer advocacy groups express concern that this will reduce competition among local jurisdictions to attract businesses and homeowners and increase the likelihood of a tax cartel in which counties, cities, and towns are aligned to the special interests of another nationwide tax collector.

SSUTA would destroy incentives to keep tax rates moderate and foster competitiveness, and inefficient local retailers and governments would be artificially shielded from competitive forces. The pressures to raise taxes in the nation’s 30,000 state and local tax jurisdictions would lose their counter-balance.

As of August 1, 2006, 13 states qualified as full “member states” in the SSUTA. These states—Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Nebraska, New Jersey, North Carolina, North Dakota, Oklahoma, South Dakota, and West Virginia—have agreed to comply fully with the rules and definitions of the agreement. Overall, 44 states have taken steps toward compliance with the agreement.

Rhode Island, categorized by the SSUTA as an “implementing state,” has faced challenges with complying with the agreement’s definitions. In 2004, some Ocean State bakeries owed the agreement’s definitions. In 2004, some Ocean State bakeries owed the state thousands of dollars in uncollected sales tax because they were unaware of the state’s tax laws.

By Elizabeth Karasmeighan (ekarasmei


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. The “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.

Military service should be voluntary. There should be no draft.

There should be no laws regarding sex between consenting adults.

There should be no laws prohibiting adult possession and use of drugs.

There should be no National ID card.

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.

End government barriers to international free trade.

Let people control their own retirement: privatize Social Security.

Replace government welfare with private charity.

Cut taxes and government spending by 50% or more.

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 you 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. CENTRISTS tend to hold different values depending on the issue.

TO LEARN MORE ABOUT THE QUIZ, VISIT: www.TheAdvocates.org
Lowest Business Tax States Have Best Economies: Study

By Steve Stanek

The states with the most competitive business tax climates have much faster rates of growth in population, employment, economic output, and personal income than those with unfriendly business tax climates, according to the Tax Foundation’s recently released 2007 State Business Tax Climate Index.

“Taxes matter to business,” said Tax Foundation President Scott A. Hodge in announcing the October 11 release of the fourth annual index, which ranks the business tax climate of all 50 states. “Taxes are an important cost to business, as important as the cost of labor and raw materials.”

Hodge pointed out these tax costs get passed on to consumers and investors, the ultimate payers.

“The states with the most competitive business tax climates have much faster rates of growth in population, employment, economic output, and personal income than those with unfriendly business tax climates ...”

Income Rose Much Faster

The 2007 State Business Tax Climate Index shows that between 2000 and 2005:

- Personal income in the top 10 states in the index grew 44 percent faster than in the bottom 10 states.
- Employment in the top 10 states grew 115 percent faster.
- Economic output grew 52 percent faster.
- Population grew 164 percent faster.

“The Business Tax Climate Index gives lawmakers a benchmark comparison to other states and a road map to make their state more attractive to business and investment,” Hodge said. He noted, “Nearly all of the best states raise sufficient revenue without imposing at least one of the three major state taxes: sales taxes, personal income taxes, and corporate income taxes.”

The state with the best-ranked tax climate is Wyoming, followed by South Dakota, Alaska, Nevada, Florida, Texas, New Hampshire, Montana, Delaware, and Oregon.

The state with the worst-ranked tax climate is Rhode Island, followed by Ohio, New Jersey, New York, Vermont, Nebraska, Iowa, Maine, and Minnesota at 41st.

Corporate Taxes Hurt Nation

Hodge noted states are competing for investment in a global environment as well as a national one. On the global front the United States has one of the highest corporate income tax rates in the industrialized world, at nearly 40 percent when federal and state corporate income taxes are averaged. That exceeds corporate income tax burdens in France, Germany, and Sweden, all known for high taxes.

“Israel has a 12.5 percent corporate income tax rate. Slovakia has a 20 percent flat tax. US Steel has a plant in Slovakia, and it is one of its most profitable plants because of the low corporate tax rate. We’re at a disadvantage,” Hodge said.

Even so, states are much more likely to lose jobs to other states than to other countries.

For this reason, policymakers “should be less concerned about competition from India and more concerned about competition from other states,” Hodge said. “Eighty percent of business moves [since 2000] were from state to state.”

Tax Neutrality Key

Index authors Curtis Dubay and Chris Atkins, Tax Foundation economist and staff attorney, respectively, in an interview for this article, said the guiding principle of the index is tax neutrality. Tax neutrality means the system does not reward or punish particular types of taxpayers.

The index evaluates the tax rate and tax base in each of five areas: corporate taxes, individual taxes, sales taxes, unemployment insurance taxes, and property taxes. There are 113 variables in these five areas. States are measured on the five indices to arrive at an overall ranking.

“People are making their own decisions to invest and can make those decisions better than lawmakers can,” Atkins said.

Atkins pointed out that in states where lawmakers use the tax system to manipulate the economy, “Overall economic growth is lower because government can’t pick better than the market can. The index punishes states that offer certain types of credits, and rewards those that don’t.”

Targeted Incentives Fail

“A trend we have detected is that states feel tax incentives are the road to economic development,” said Dubay. On the contrary, Dubay said, “The data show the way to spur economic growth is to have a broad-based tax with a low rate that is fair, simple, and neutral.”

Dubay also addressed what he said is a flawed argument often put forth by defenders of heavily developed high-tax states such as New Jersey and New York, whose key economic indicators are growing more slowly than those in developing states. Defenders of high taxes say economic indicators in those states cannot be expected to climb as rapidly because they are already much higher than those of developing states.

“Dubay pointed to Texas to debunk that reasoning. “Texas comes in seventh in population growth, 11th in output growth, and 17th in increasing personal income,” even though it is one of the nation’s largest and most developed states, Dubay noted.

Low Taxes Bring Jobs

“State tax systems that are simple, fair, broad-based, and low-rate can experience significant growth regardless of size or level of economic development,” Dubay said.

“State tax systems that are simple, fair, broad-based, and low-rate can experience significant growth regardless of size or level of economic development,” Dubay said.

“We can see this trend clearly by looking at the labor force growth rates of highly competitive states that neighbor those with poor business tax climates,” Dubay noted. “Since the beginning of 2004, the average labor force in each state has grown by about 3 percent nationwide.

“However, California, with its punitive business tax climate, saw only a 2 percent growth in labor, while its more business-friendly neighbors, Nevada and Arizona, doubled and tripled the national average, respectively,” Dubay said.

Hodge said policymakers need to look at where new investment is going, not just at where corporations are headquartered.

“Is investment going to New York or California or somewhere else?” Hodge asked. “Intel built a $1 billion wafer manufacturing plant in New Mexico. Why? Because it’s more expensive in California. New investment is going elsewhere” even though corporate headquarters may remain in place.

Tax Cuts Spur Competitiveness

With most states seeing a big surge in revenues, now is the time for policymakers to focus on how to improve competitiveness and economic growth, Hodge noted.

“We think the fastest way is to improve the tax system,” Hodge said. “Increased funding for education, roads, and other infrastructure can take years, if not decades, to have any effect. Modest improvements in a state’s business tax climate can produce rapid growth in income, output, employment, and population.”
Low-Tax States Economically Outperform High-Taxers: Study

By Jason A. Fortin

Low-tax states outperform high-tax states economically, according to a new issue brief by The Maine Heritage Policy Center.

“If Maine policymakers are serious about increasing economic activity and providing Mainers with the same economic opportunities that residents of low-tax states experience, they need to lower the tax burden on Mainers,” Moody wrote.

Table 1: 50 States Ranked From Highest to Lowest Level of Taxation, 1994-2004

<table>
<thead>
<tr>
<th>State</th>
<th>Average Tax Burden</th>
</tr>
</thead>
<tbody>
<tr>
<td>New York</td>
<td>9.5%</td>
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<tr>
<td>Maine</td>
<td>13.0%</td>
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<tr>
<td>Alaska</td>
<td>13.2%</td>
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<tr>
<td>Hawaii</td>
<td>14.2%</td>
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<tr>
<td>Arizona</td>
<td>14.5%</td>
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<tr>
<td>Louisiana</td>
<td>14.6%</td>
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<tr>
<td>Mississippi</td>
<td>14.7%</td>
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<tr>
<td>Alabama</td>
<td>14.8%</td>
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<tr>
<td>Utah</td>
<td>14.9%</td>
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<tr>
<td>Nebraska</td>
<td>15.0%</td>
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<tr>
<td>Colorado</td>
<td>15.1%</td>
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<tr>
<td>New Mexico</td>
<td>15.2%</td>
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<tr>
<td>Ohio</td>
<td>15.3%</td>
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<tr>
<td>Texas</td>
<td>15.4%</td>
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<tr>
<td>Arizona</td>
<td>15.5%</td>
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<tr>
<td>California</td>
<td>15.6%</td>
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<tr>
<td>New York</td>
<td>15.7%</td>
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<tr>
<td>Georgia</td>
<td>15.8%</td>
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<tr>
<td>South Carolina</td>
<td>15.9%</td>
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<tr>
<td>North Carolina</td>
<td>16.0%</td>
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<tr>
<td>Michigan</td>
<td>16.1%</td>
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<tr>
<td>Colorado</td>
<td>16.2%</td>
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<td>Kansas</td>
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<td>Utah</td>
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<td>Virginia</td>
<td>16.7%</td>
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<tr>
<td>New Mexico</td>
<td>16.8%</td>
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<tr>
<td>South Dakota</td>
<td>16.9%</td>
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<tr>
<td>Idaho</td>
<td>17.0%</td>
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<tr>
<td>Wyoming</td>
<td>17.1%</td>
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<tr>
<td>Idaho</td>
<td>17.2%</td>
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<tr>
<td>Montana</td>
<td>17.3%</td>
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<td>North Dakota</td>
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<td>Oregon</td>
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<td>Idaho</td>
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<td>Oregon</td>
<td>19.9%</td>
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<tr>
<td>Idaho</td>
<td>20.0%</td>
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</tbody>
</table>

Source: Maine Heritage Policy Center, September 2006

Table 2: 10 Lowest Tax States Economically Outperform 10 Highest Tax States State Fiscal Years Between 1994 and 2004

<table>
<thead>
<tr>
<th>Category</th>
<th>Lowest Tax States</th>
<th>Highest Tax States</th>
<th>Advantages to Low Tax States</th>
<th>National Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average State and Local Taxes as a Percent of Personal Income</td>
<td>9.5%</td>
<td>13.0%</td>
<td>27.2% Lower Tax Burden</td>
<td>10.7%</td>
</tr>
<tr>
<td>Population Growth</td>
<td>17.5%</td>
<td>6.4%</td>
<td>172.1% Higher Population Growth</td>
<td>11.7%</td>
</tr>
<tr>
<td>Personal Income Growth</td>
<td>75.6%</td>
<td>57.3%</td>
<td>31.9% Higher Personal Income Growth</td>
<td>65.7%</td>
</tr>
<tr>
<td>Employment Growth</td>
<td>23.3%</td>
<td>13.0%</td>
<td>78.6% Higher Employment Growth</td>
<td>17.6%</td>
</tr>
</tbody>
</table>

Source: Census Bureau, Bureau of Economic Analysis; Maine Heritage Policy Center

Table 3: 25 Lowest Tax States Economically Outperform 25 Highest Tax States State Fiscal Years Between 1994 and 2004

<table>
<thead>
<tr>
<th>Category</th>
<th>Lowest Tax States</th>
<th>Highest Tax States</th>
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<th>National Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average State and Local Taxes as a Percent of Personal Income</td>
<td>9.9%</td>
<td>11.5%</td>
<td>13.7% Lower Tax Burden</td>
<td>10.7%</td>
</tr>
<tr>
<td>Population Growth</td>
<td>14.8%</td>
<td>8.5%</td>
<td>74.4% Higher Population Growth</td>
<td>11.7%</td>
</tr>
<tr>
<td>Personal Income Growth</td>
<td>70.3%</td>
<td>61.1%</td>
<td>15% Higher Personal Income Growth</td>
<td>65.7%</td>
</tr>
<tr>
<td>Employment Growth</td>
<td>20.0%</td>
<td>15.1%</td>
<td>32.6% Higher Employment Growth</td>
<td>17.6%</td>
</tr>
</tbody>
</table>

Source: Census Bureau, Bureau of Economic Analysis; Maine Heritage Policy Center

New Accounting Rules to Identify Unfunded Pension, Benefit Liabilities

By David Denholm

While there has been a great deal said in recent years about the impending problems with financing the Social Security, Medicare, and Medicaid systems, much less attention has been paid to similar problems with public employee pensions and other post-employment benefits (OPEB) for public employees, such as health care.

Revised rules from the Government Accounting Standards Board (GASB) are changing that, bringing increased attention to the problem by requiring government bodies to report on these obligations.

GASB Statements Nos. 43 and 45, initially codified in 2004 with compliance to begin phasing in this December, require state and major local governments to account for the actuarial liabilities of post-employment benefits and amortize the expense over 30 years.

May Top $1 Trillion

Under the new rules, government bodies now must acknowledge hundreds of billions of dollars of liabilities that have not been accounted for previously. In August, JP Morgan released a preliminary estimate projecting the present value of unfunded government employee health care and other non-pension benefits at between $600 billion and $1.3 trillion.

In mid-October, Chris Edwards, director of tax policy at the Cato Institute, released a report putting the number at $1.4 trillion.

The GASB statements include phased-in deadlines for compliance. The effective date for governments with revenues of $100 million or more is December 15, 2006; for those with revenues of $10 million or more but less than $100 million it is December 15, 2007; and for those with revenues of less than $10 million it is December 15, 2008.

States only recently have begun to seriously analyze their potential unfunded liabilities for retiree health care and other non-pension benefits.

Beginning to Tally

“Delaware would need about $3.9 billion if it were to set up the kind of perpetual account required to fully fund the liability in one shot. It already has set aside $28 billion and is developing a plan to phase in the fund over time,” said an October 9 article in The News Journal of Wilmington, Delaware.

Delaware Deputy Finance Secretary Tom Cook told the Journal it would cost the state an additional $200 million per year over 30 years to fund the benefit fully. Currently the state spends about $100 million per year to pay health care benefits for the more than 20,000 pensioners covered under its program, according to the Journal.

And Delaware is a small state.

In Alabama, officials estimate the state’s unfunded liability for state employees and teachers over the next 30 years could be nearly $20 billion. The Montgomery Advertiser took note of this in an October 11 editorial, calling the estimate a “colossal unfunded liability that should give pause to every Alabama taxpayer.”

No Set-Aside Requirement

There is no requirement in the GASB standards that governments begin to set aside money for these obligations, though the standards do require that financial statements amortize them over the anticipated career of the employees, typically 30 years.

However, not funding these liabilities could damage a state or local government’s bond rating and increase the cost of borrowing.

The October 11 Montgomery Advertiser editorial noted this, calling for a plan to meet these costs: “Without such a plan or at least the satisfactory beginnings of one, the state’s bond rating could suffer, adding greatly to the cost of issuing bonds for state projects.”

Don Rueckert, Jr., an actuary and senior vice president at Aon, an international risk management and employee benefits consulting firm, said few lawmakers understand the GASB statements are much more than an accounting change.

“Interpret this as a financial crystal ball,” Rueckert said, pointing out that after an actuarial analysis of retiree health care obligations, “most people are amazed at the gargantuan unfunded liabilities. It’s not uncommon for government officials to see their cash outlays will double in a four- to five-year period, or triple in six to eight years,” Rueckert said.

“Revised rules from the Government Accounting Standards Board (GASB) are … bringing increased attention to the problem by requiring government bodies to report on these obligations.”

Retirees More Expensive

Demographic trends—more retirees living longer and using health services that are climbing in cost—are the big reason for the skyrocketing liabilities.

Rueckert said the cash-flow implications are huge. Governments currently pay for non-pension benefits as the bills roll in, with no money set aside for future liabilities.

“What will all these monies to fund these liabilities come from?” Rueckert asked. “What priorities will need to be reconsidered? It’s going to be a big issue. Probably 90 percent of these OPEB programs have no assets funding them.”

In its “plain language” explanation of the new rules the GASB notes: “Although the OPEB may not have the same legal standing as pensions in some jurisdictions, the GASB believes that pension benefits (as a legal obligation) and OPEB (as a constructive obligation in some cases) are a part of the compensation that employees earn each year, even though these benefits are not received until after employment has ended. Therefore, the cost of these future benefits is a part of the cost of providing public services today.”

Attention Increasing

The GASB statements on financial reporting of pensions and OPEB were initially issued in April 2004 and June 2004, respectively. At the time, the statements received little attention except from those directly involved with the administration of these benefits and those responsible for accounting for them.

In February 2006 the Commonwealth Foundation of Pennsylvania issued “Beneath the Surface,” a comprehensive report on state employee pension and OPEB obligations. The report called accounting for OPEB “problematic,” explaining most state retiree health care costs were incurred on a “pay-as-you-go” basis. The report predicted the GASB statement on OPEB would “dramatically change” state budgets.

In April 2006 the Rockefeller Institute of Government issued “Retiree Pensions and Health Care Benefits: State and Local Governments Face New Budget Challenges,” which said the unfunded liability of health care costs for retirees may be greater than the unfunded liability for pension benefits.

The report used as an example the state of Maryland, which shows an unfunded liability of $4.6 billion for pensions but a staggering $22 billion for retiree health care.

Another Blow to Defined Plans

It remains to be seen whether small, local government units will be able to do a better job in preparing for these obligations—and, if they have not, what they will do about them now.

Rueckert said for years the belief has been that people who work for government would receive lower pay than their private-sector counterparts in exchange for better benefits in retirement. He said as private-sector workers increasingly see the bills come due for government workers who retire younger and with better pension and health care benefits, “That’s going to get thrown out on its head.”

David Denholm (david@psrf.org) is president of the Public Service Research Foundation in Vienna, Virginia.

INTERNET INFO


LaSalle Street TIF Plan Has Chicago Politician Calling for Moratorium

By Steve Stanek

As a member of the Cook County, Illinois board of commissioners, Mike Quigley has watched the City of Chicago create more than 100 tax increment financing (TIF) districts during the past 10 years, giving the city more than 140 TIF districts in all. Most of them are in already-prosperous sections of the city.

Now, with Mayor Richard M. Daley proposing a $550 million TIF district that would include the Chicago Board of Trade and the rest of the city’s high-priced LaSalle Central financial district, Quigley says the city has gone too far.

“If the mayor announced a 10 percent property tax hike, that would be headlines. We haven’t raised taxes 10 percent, [but] we’ve shifted the burden 10 percent. ... Here we have a hidden tax hike, and that’s wrong.”

MIKE QUIGLEY
COMMISSIONER
COOK COUNTY BOARD

10 Percent Tax Shift

“Right now you get a property tax bill, and for businesses as well as Joe Citizen, that bill is 10 percent higher in the City of Chicago because of TIFs,” Quigley said. “If the mayor announced a 10 percent property tax hike, that would be headlines. We haven’t raised taxes 10 percent, [but] we’ve shifted the burden 10 percent. ... Here we have a hidden tax hike, and that’s wrong.”

Quigley noted, forcing city and county revenue growth to these TIF districts, property tax money from Chicago end up in already-prosperous sections of the city. That forces those other governments to raise taxes to offset their losses. The county has a huge stake in curbing TIF abuse. It’s confounding that the Cook County Board has so little interest in doing so.”

Chicago Tribune
House Editorial
October 9, 2006

But he said he’s standing firm, patiently trying to line up support among fellow Cook County Board members. That will be no easy task, as those commissioners include the mayor’s brother, John Daley, who runs the county’s Finance Committee.

In early October the Finance Committee killed two of Quigley’s proposals, though he may try to bring them up again. One would have required the county’s representative on a joint review board to consult the full county board before voting on whether to agree to a TIF. The joint review board is made up of members who represent taxing bodies that would be affected by a new TIF.

“Right now we’re just a rubber stamp for these things,” Quigley said. “Six entities are represented on the review board, and four of them are appointed by the mayor. It’s a rigged system.”

The Finance Committee also shot down Quigley’s request that the state study how TIFs are applied and whether the law is working as intended.

“[Cook County Commissioner Mike] Quigley is calling for a moratorium on TIF districts in the city until the state determines whether the existing TIF districts are actually benefitting the city.”

Millions Diverted

A third Quigley proposal still has life. That proposal would require tax bills to show how much is being paid into TIFs. Last year, more than $53 million that showed up on citizens’ tax bills under “Cook County” was actually diverted to TIFs, according to Quigley.

“I’ve had problems with TIFs before, but this [LaSalle Central] TIF would be in the central part of the Loop,” Quigley said. “TIF was created to redevelop blighted, rundown areas. How can anyone say here’s our blighted area, the Loop?”

“We brag about the Loop, tell how great it is, show it off to visitors,” said Quigley. “There is nothing blighted about it. With this TIF, practically the entire Loop would be in a TIF district.”

Quigley continued, “They say this area needs a TIF because it is competing against other parts of the Loop. So we’ll be using TIF dollars to compete against other TIF dollars. I think we will find developers wrote the report saying we need to do this TIF.”

“I am not anti-development,” Quigley said, “but there is no developer that would say he wouldn’t take that TIF money if it’s available. The City of Chicago has 45 TIFs that haven’t gotten their TIF money [for development] yet, and in 37 of them property values have been soaring anyway.”

Steve Stanek (stanek@heartland.org) is managing editor of Budget & Tax News.
Pennsylvania School District Embraces Land Value Taxation Reform

By Joshua Vincent

The Clairton, Pennsylvania school district has adopted land value taxation (LVT) as the basis for its property tax revenue, a reform that has stabilized the school district income despite the LVT being in place since July 1 of this year.

Under LVT, property tax bills show two values, one for land and the other for buildings. Ninety percent of the tax in the Clairton school district is based on land, and the remaining 10 percent on buildings.

Clairton is a town of about 8,000 people in Allegheny County on the west side of the state. The Clairton city government adopted LVT in 1988. Each taxing district decides for itself whether to use LVT or a traditional property tax system.

Most Saw Tax Cut
Most homeowners have seen a decrease in their property taxes as a result of the reform, with reductions of about $500 off the school portion of property tax bills. A typical homeowner had been paying about $500 to the school district.

William Boucher, a certified public accountant and business administrator for the Clairton school district, explained the district’s decision to do away with the conventional property tax system and embrace LVT:

“The incentive to do this came about because of US Steel,” Boucher said. “US Steel has a big coke plant in Clairton. We [the Clairton school district] have $2 million in tax revenue, and $500,000 of it is from US Steel. They appealed their property tax assessment and used a profits sort of approach to argue their tax bill. They were a 900 pound gorilla. It would have cost us $200,000 just for an appraisal and legal fees to challenge them. We couldn’t afford that, and they won.

“We have a school board member who worked for the city [government of Clairton] when the city went the LVT route in 1988,” continued Boucher. “He said we needed to stabilize our tax base and provide incentives for vacant land to be developed. We listened, talked, listened, talked, and then USX did this appeal. The appeal wouldn’t have happened if we had had LVT, because their profit analysis didn’t tie to the land, the way LVT does.”

Prior System Porous
“A second thing happened where a developer came in, a for-profit builder, and he built new townhouses and duplexes and tore down a whole section of town,” Boucher said. “It was public housing that looked like private housing. He appealed his tax assessment based on the value of the subsidized mortgage and profit. We thought to ourselves, ‘If he wins this one, we’re out another bunch of money.’

“Third, there were a number of taxpayers who were appealing their taxes because of USX and the profits sort of approach to argue their tax bill. We couldn’t afford that, and they won.

“We have a school board member who worked for the city [government of Clairton] when the city went the LVT route in 1988,” continued Boucher. “He said we needed to stabilize our tax base and provide incentives for vacant land to be developed. We listened, talked, listened, talked, and then USX did this appeal. The appeal wouldn’t have happened if we had had LVT, because their profit analysis didn’t tie to the land, the way LVT does.”

Developers Interested
The LVT made an immediate difference. “Right now there are four properties going up for sheriff’s sale,” Boucher noted. “They’re all vacant land but have industrial zoning. These buyers are going to put industrial buildings on them. Now they are looking at property next to them, and another parcel is about to be developed.

“We’re seeing five properties that are being turned over because of this LVT,” Boucher added. “It’s an incentive to develop the vacant land.”

Understanding Land Value Taxation

Land value taxation (also known as the split-rate tax or two-tiered tax) is a type of real property taxation. Whereas the typical real property tax taxes both land and improvements on the land at the same rate, land value taxation (LVT) taxes land at a higher rate while reducing or even eliminating the tax on improvements.

For example, Clairton and its school district in Allegheny County, Pennsylvania have a tax rate of 103 mills on land and 4.32 mills on buildings. A mill equals $1 of tax for every $1,000 of assessed property value.

LVT usually ends up reducing the amount of tax paid for buildings and increasing the amount paid for land. This has been shown to provide an incentive for “infill” development in urban areas and new development where needed, and to reduce sprawl pressure where development is not wanted.

— Joshua Vincent

More Winners than Losers with LVT

Though most property owners in Clairton have seen their property tax bills shrink as a result of the school district’s decision to use land value taxation (LVT), some property owners have seen increases.

“One of the problems we had is people who had businesses with big parking lots,” said William Boucher, a certified public accountant and business administrator for the Clairton school district. “We struggled long and hard and looked at almost everyone before going to the LVT. It was a utilitarian decision. There are eight businesses with big parking lots that got dinged.

“Because I have the data, I know who were the winners and losers,” Boucher said. “We’ve heard from only the losers. USX [US Steel] wasn’t real happy, I can tell you. But most homeowners saw a decrease in their property taxes. The increase was primarily on USX and the public housing.

The district is working with taxpayers to work out the bugs. “There are cases of people owning a hillside that’s worthless, but those appeals are easily won,” Boucher noted. “I’m helping a little old lady with an appeal this week. She owns three acres that’s essentially a cliff, so she can’t build anything on it.

“We don’t want people in that kind of situation to be hurt, and that’s why we’re helping her,” Boucher said.

— Joshua Vincent

About Clairton

Clairton, Pennsylvania is a city of 8,000 people in Allegheny County that has grown from boom in the early 1980s to bust because of the decline of the area’s steel and manufacturing industries.

“In the early 1980s Clairton had three movie theaters and five car dealers, a wonderful downtown, nice restaurants,” said William Boucher, the business administrator for the Clairton public school district. “Now it’s eight pizza shops and two diners open till noon. There’s no Glory store anymore. Just a Dollar General and a Rite-Aid.”

Clairton’s population is about 75 percent white, but 75 percent of the public school population is black.

“Retired steel workers are still living in the brick bungalows they built in 1948,” Boucher said. “People do not leave. They die here. Almost 40 percent of the residents are over age 55.

“We don’t have a lot of young people,” Boucher said. “We have 980 kids in the district, 100 in kindergarten and 43 high school seniors, which gives you an indication of the problems. Because the school district doesn’t look like the community, how hard do you think it is to raise taxes?”

— Joshua Vincent
“Last, but not least, LVT is more fair. Here in Clairton, assessments are all out of whack,” Boucher said. “I don’t know how many buildings sit side by side and one is valued at $10,000 and the other is valued at $40,000.”

“The Clairton, Pennsylvania school district has adopted land value taxation as the basis for its property tax revenue, a reform that has stabilized school district income while dropping the tax bill for most property owners.”

With LVT, Boucher noted, “There is less variation with land values. When you do an assessment on buildings you have condition of the building and other variables that affect values. That’s one of the problems with the property tax. It’s a bunch of estimates. I believe the fairest system is based on [this type of] sales and use tax on land.”

Joshua Vincent (incentivetaxation@urbantools.net) is executive director of the Center for the Study of Economics, based in Philadelphia.

TIF-Backed Mall Kills Nearby Businesses

By Eric Montarti and Jake Haulk

In Pennsylvania’s Allegheny County, two businesses have succumbed to the new Pittsburgh Mills development in suburban Pittsburgh, which received a tax increment finance deal and other public dollars totaling $58 million.

Pittsburgh Mills opened for business in 2005. On August 27 of this year two restaurants, Abate and Dingbats, closed after 23 years of operation. They were located in the Waterworks, a shopping center a few miles from the Mills.

“In Pennsylvania’s Allegheny County, two businesses have succumbed to the new Pittsburgh Mills development in suburban Pittsburgh, which received a tax increment finance deal ...”

“It was a decision revolving around the loss of business resulting from chain restaurants opting to move into the area and pulling the existing population base from local entrepreneurs like us,” said Victor Son, chief financial officer of Food Service Management Associates, which owned the two restaurants, in a September 10 article in the Pittsburgh Tribune-Review. “In the state the city is in, with people moving out, all they’re doing is dividing up the pie among everyone that’s left, so we get a smaller share by definition.”

Subsidies Hurt

Son said new competition from restaurants that opened at the taxpayer-subsidized Pittsburgh Mills mall along Route 28 in Frazer Township was a big factor in the closings.

Business at the restaurants had dropped 25 to 30 percent since the mall opened in 2005. The Route 28 corridor runs from the city of Pittsburgh to north/northeast Allegheny County.

The experience of the two restaurants is similar to the 2001 case of Keystone Plumbing, which saw a 30 percent drop in its business after a new tax increment finance-supported Home Depot opened nearby in the East Liberty neighborhood of Pittsburgh.

County Loses Revenue

Local business closures represent a net tax loss to local governments because the established businesses were not receiving tax subsidies and were thus paying their full share of the local tax bill. Pittsburgh Mills also has had an impact on another nearby tax-subsidized development, Deer Creek Crossing, which has lost tenants to the Mills.

Despite the subsidies, Pittsburgh Mills is suffering problems itself. A planned go-cart track at the development never materialized, and its upscale bowling alley has already announced it will close.

Eric Montarti (eric@alleghenyinstitute.org) is policy analyst and Jake Haulk (jake@alleghenyinstitute.org) is president of the Pittsburgh-based Allegheny Institute for Public Policy.

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Make a Difference is both a compelling memoir and convincing proof that we 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.
Tax Reform, Reduction

Nearly all Utah taxpayers will receive an income tax cut, because less income will be taxed and marginal rates will drop. The typical household is expected to receive an income tax drop of $50 to $55.

The tax bracket changes are estimated to reduce taxes by $42 million, and implementation of the optional flat tax is estimated to reduce taxes by an additional $36 million. About 95 percent of the state’s taxpayers are expected to choose the traditional system, with the rest, most of them high-income earners, choosing the flat tax.

The top marginal tax rate of 7 percent will drop slightly to 6.98 percent, and will be applied to taxable income exceeding $11,000 for married couples, up from $8,626. Thresholds are also being increased for lower tax rates. For example, the 6 percent rate now starts at $8,000 for a married couple, up from $6,900.

Instituting annual tax bracket adjustments based on inflation should benefit middle- and lower-income households the most.

5.35 Percent Flat Tax

Taxpayers will have a choice between the traditional income tax system with deductions, exemptions, and tax brackets, and a flat tax with no deductions or exemptions.

Taxpayers will be allowed to calculate their Utah individual income taxes based on a flat tax rate of 5.35 percent applied to federal adjusted gross income. No deductions or exemptions will be available under the flat tax option, except for state tax refunds and deductions required by federal law, such as interest on U.S. bonds.


“The Utah Legislature passed a bill in the fall session cutting individual income taxes by $78 million per year and another bill that will allow counties to raise their sales taxes by about $100 million per year.”

Continuing Efforts

Huntsman and other key legislators said they are not finished with tax reform.

“It’s true that changes to the current system are targeted more to tax relief than tax reform, but incorporating a flat tax option into our tax system is significant reform, despite what the skeptics say,” said Dougall, one of the architects of the optional flat tax system.

Bramble, a certified public accountant, wrote in the Utah Senate Republican blog before the end of the special session, “The proposal legislators will consider [during the special session] doesn’t take reform as far as many of us would like, but injecting a flat tax computation into the system is a very significant step in the right direction.”

Harper told the Salt Lake Tribune for a September 1 article, “It was apparent to me that the legislature was not ready to throw out the old system and do a complete reform.”

Big Revenue Increase

Utah is in a strong position to cut taxes and enact tax reform. State general tax revenues increased 18 percent in fiscal year 2005, which followed a 12 percent increase in fiscal year 2004. Over the past 10 years, state general revenues have outpaced inflation and population growth by about 10 percent. Additionally, the state’s rainy day funds are at all-time highs and the state budget relies heavily on ongoing cash flows instead of bonding for capital projects such as roads and buildings.

Sales Tax Hike

The legislature approved a 0.25 percent county-option sales tax. One quarter of the increase must be spent on preservation of transportation corridors. Land acquisition in some cases can account for 50 percent of the total cost of a highway. By purchasing the land many years before residential and commercial development encroaches on the transportation corridor, the state can save tens of millions of dollars.

The legislation allowing a county sales tax increase for transportation requires road and transit projects to be prioritized based on the cost effectiveness of each project to reduce congestion. Such prioritization has never been done in Utah.

The legislation empowers councils of governments, which include county governments and cities, to establish a prioritization process within each county. To ensure that councils of governments prioritize the projects accurately, each county must receive legislative approval of its prioritization process. Prioritization will be for projects within the county.

Mike Jerman (mike@utahtaxpayers.org) is vice president of the Utah Taxpayers Association.
STATE OF THE UNIONS

Colo. Court Says Teacher Unions Can Spend Dues on Politics without Asking

By Ryan Bedford

A state court has blocked enforcement of a rule issued by the Colorado Secretary of State requiring all membership organizations in the state to obtain permission before sending membership dues to political committees or small donor committees.

The rule was issued in mid-August to curb unions’ abuse of laws covering small donor committees, which have higher contribution limits provided they do not receive individual donations of more than $50. Using the committees, Colorado teacher unions pumped more than $1.3 million into legislative races this year—far more than other organizations.

Colorado teacher unions immediately challenged the new rule in court and won an injunction in September prohibiting its enforcement against their committees until a full trial is held. The injunction cleared the way for an immediate influx of more than $389,000 in campaign cash to union-backed candidates.

The injunction prohibits enforcement of the rule against only the teacher unions. All other small donor committees of membership organizations must comply. A membership organization is a group, such as a labor union, that requires persons to pay dues to be accepted as a member.

A new Web site by the Independence Institute, http://www.TheyMustAsk.com, provides links to key Secretary of State documents and encourages members to continue to find ways to hold their unions accountable. Another Independence Institute Web site chronicles the teacher unions’ reported campaign spending in 2006: http://www.independentmindedteacher.org.

Source: http://www.TheyMustAsk.com

Kentucky River Cases

Ruling on a trio of cases known as the “Kentucky River” cases, the National Labor Relations Board on September 29 cleared up confusion over the definition of employees who are supervisors and cannot join a union. The ruling holds that those who assign tasks to other workers, are responsible for the performance of others, and must exercise independent judgment are supervisors. Union officials say the ruling could affect 8 million workers in unions by having them declared to be supervisors ineligible for membership. They say they will probably appeal the decision to the U.S. Supreme Court.

The NLRB Redefines Union Eligibility, http://www.townhall.com/News/NewsArticle.aspx?ContentGuid=0ee0d47-a1bd-463f-8290-a8a71eb6c9e&

Rise of Public-Sector Unions

Public-sector union growth is outpacing union growth in the private sector. In 24 states and the District of Columbia, public-sector union members outnumber those in the private sector.

There has been small growth in the number of private-sector union members nationwide, but as a percentage of the private workforce, union membership is declining.

The Evergreen Freedom Foundation’s second annual State of Labor Report discusses why public-sector workers are forced to pay dues. The report notes, compared to one of 19 for the rest of the country.

In addition, the Center for Union Facts has released an interactive map showing the unionized percentage of each state’s public-sector workforce.


Public Pensions Burden Taxpayers

The collapse of San Diego’s pension fund and the massive pension shortfalls faced by New York City provide more ammunition for arguments that pension reform is necessary.

The National Center for Policy Analysis suggests problems such as these are caused when ambitious career politicians purchase short-term budget relief and political success at the expense of long-term fiscal responsibility.


Union Officials Could Exempt Businesses from Minimum Wage

This fall, voters across the nation are facing ballot initiatives calling for increases in the minimum wage. The measure before Nevada voters, however, has an unusual twist. It will permit union bosses to exempt employers from having to pay employees the new minimum wage.

“In short,” writes the Nevada Policy Research Institute, “the state minimum wage can be waived [for] a company that makes it ‘worthwhile’ [to] the union boss.” If it passes, the initiative will give union businesses an unfair competitive advantage and encourage unscrupulous deals between union bosses and employers.

The Ohio-based Buckeye Institute has created a Web-based resource on the minimum wage for policymakers.

Go to http://www.buckeyeinstitute.org/article/777 for more information.

Source: “The Trojan Horse Amendment,” http://biz.npri.org/minimum/trojan_horse.htm

Paycheck Protection Laws Prove Union Model Outdated

A study by the Washington, DC-based Heritage Foundation found “paycheck protection” laws expose the contrasting priorities of union officials and union members. The study shows union officials’ political and social agendas do not match members’ concerns, and that paycheck protection laws allow members to avoid forced political speech.

Another study by The Heritage Foundation explains why unions believe they can bargain for wages, benefits, and respect better than individual workers can. They view the economy “through a 1950s lens,” the report notes, and assume “monopoly power for employees, lifetime employment for workers, and an unequipped, low-skilled labor force.”

With today’s highly educated and mobile workforce, the union model is irrelevant and oppressive, the report concludes.


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Tell Me What You Think!

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In Other Words

“The blame for all this [burden of retiree health care]—which amounts to a tremendous tax burden on the public in return for essentially no services at all—rests squarely on the shoulders of elected officials who have played up to public-employee unions in order to win endorsements and support.”

Santa Cruz Sentinel
House Editorial
September 28, 2006

stake$1,100,000. As noted below, to obtain 7% of total revenue. The property tax activities cost it only $831,724, or about $113,000,000 and that its charitable admissions and were charitable,” Bilimoria said. “The director flipped that decision on its head.”

Since 2003, when Champaign County revoked the hospital’s tax exemption, Provena has paid about $5 million in property taxes. The hospital’s parent organization, Catholic-owned Provena Health, operates hospitals in five other Illinois communities and is one of the state’s largest health care companies.

Too Little Charity: Director
In his ruling, Illinois Revenue Director Brian Hamer said, “The primary basis of my conclusion is simple: Covenant admitted that its 2002 revenues exceeded of my conclusion is simple: Covenant admitted that its 2002 revenues exceeded $113,000,000 and that its charitable activities cost it only $831,724, or about 7% of total revenue. The property tax exemption it requested was worth over $1,100,000. As noted below, to obtain the exemption Covenant was required to prove that its primary purpose was charitable care. These financial figures fall far short of meeting the primary purpose standard.”

Hamer declined to consider as charity more than $10 million in care to Medicaid and Medicare patients the hospital writes off each year, in addition to write-offs for persons not covered by a government program. He also declined to consider the hospital’s free community programs such as health care screenings, wellness fairs, and ambulance service.

Hamer also objected to Provena’s contracts with private physicians and other service providers, and based his decision in significant part on the fact that most of Provena’s revenue comes from payments for services rendered rather than from public and private charitable donation support.

“The state of Illinois has yanked a nonprofit hospital’s tax-exempt status in a decision that is being called a threat to the tax exemptions of all nonprofit organizations in the state.”

Other Nonprofits at Risk
“Director Hamer has made a terrible decision which can be a threat not just to hospitals but to all not-for-profits of any size or complexity,” said Howard Peters, senior vice president of government relations for the Illinois Hospital Association. “When you look at how he reasons his ruling the mere fact that the hospital offers market services, and not all revenues come from donated sources—that is such an outdated notion, it’s going to have an adverse impact on good works that are being done all over the state.”

Peters said the decision fails to take into account the “partnership between government and not-for-profit entities” that includes government saying, “we believe forgiving the tax burden will allow the enterprise to go forward to return a value to the community.”

He cited as an example tax-exempt orchestras. “They don’t give away free tickets, but it’s been decided the community is better off with that enterprise,” Peters said.

Misunderstands Industry
Peters and Bilimoria both said Hamer’s ruling demonstrates a fundamental misunderstanding of the modern hospital industry.

“Brian Hamer, who certainly doesn’t have a lot of health care experience, criticizes that the hospital was renting space on the hospital campus to for-profit physician groups. Well, there are no such things as non-profit physician groups,” Bilimoria said. “Physicians must provide the services, and they must make a profit to stay in business.

Hamer implies we should have the hospital employ doctors, referring to a 1907 case. The truth of the matter is, in today’s health care market, hospitals don’t want to employ doctors,” Bilimoria explained. “They did that in the 1990s, and that model did not work. Hospitals and doctors couldn’t get along. Things like this make this an antiquated decision.”

Legislation on the Way
Hamer did not state in his ruling how much charity care nonprofit hospitals had to provide, but Illinois Attorney General Lisa Madigan (D) has announced plans to propose legislation that would mandate a minimum percentage of nonprofit hospitals’ care go toward charitable care. Hospitals that don’t meet the minimum will not be eligible for property tax exemptions.

Illinois Attorney General Lisa Madigan plans to work with state legislators to introduce legislation that would require a minimum percentage of nonprofit hospitals’ care go toward charitable care. Hospitals that don’t meet the minimum will not be eligible for property tax exemptions.

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Continued from page 1
Pricetag for Rebuilding Ill. Expressway Doubles

By Dennis Byrne

I

n Illinois’ own mini-version of Boston’s Big Dig, the costs to rebuild Chicago’s Dan Ryan Expressway have nearly doubled from original estimates, to about $1 billion.

Most taxpayers and state lawmakers were unaware of the soaring costs, run up in the first four years of the five-year project, until an enterprising transportation writer for the Chicago Tribune, Jon Hilkevitch, revealed them in a September 17 article.

Long List of Reasons

Diane O’Keefe, deputy director of highways for the Illinois Department of Transportation (IDOT), attributed the explosive increase to higher costs of labor and materials, and to engineering and design changes meant to improve safety. Additional costs also were incurred to satisfy “community concerns” about reduced neighborhood access to the expressway.

The original $550 million projection, cited in a 2000 state road plan, long ago was surpassed, as $800 million already has been spent on construction, design, engineering, land acquisition, and other expenses. Bids have yet to be let for further work, including final paving.

The expressway carries almost 320,000 vehicles daily on up to 14 lanes. It is better known outside of Chicago as Interstate 90/94.

IDOT, under the then-new administration of Gov. Rod Blagojevich (D), in 2003 rejected simply rebuilding the expressway to its original 40-year-old standards, opting instead for a more expansive network of bridges, ramps, and other features.

Elaborating on some of the add-ons in an interview for this article, IDOT spokesperson Mike Claffey said the newer, thicker pavement and base would have a longer life than the original. He argued the public would have been ill-served to spend a half-billion dollars on an expressway that retained the flaws of the original.

Only One Contractor

The stunning cost leap, however, again turns the spotlight onto a recurring budget issue: what oversight legislators and, ultimately, taxpayers can exercise over the costs of such a massive project when its size limits the number of contractors that can compete for the work. It also raises questions about how lawmakers can oversee a huge project run by a governor who has made something of a habit of bypassing legislative intent.

Claffey said the department had attempted to segment the main construction work into four bidding packages, but found only one contractor was experienced and large enough to bid on all four contracts and thereby provide the best price.

Complicating the problem is a large amount of work underway on Chicago-area tollways, under the direction of a separate, regional government agency. Still, the department was able to award competitive contracts for smaller parts of the project, such as frontage roads and landscaping, Claffey said.

Diverted Bond Proceeds

State Sen. Larry K. Bomke (R-Springfield), the Republican spokesman for the Senate Transportation Committee, said the overruns would get a close look from lawmakers. He said the governor may redirect the proceeds from state transportation bonds issued for certain projects to other projects, despite the intent of lawmakers. For instance, money that may have been borrowed to pay for road work in rapidly expanding suburban areas may instead be used elsewhere, if the governor redirects the money.

“There is no way of knowing how he is going to spend it,” Bomke said. “That’s been a chronic problem with this governor; he has been consistently inconsistent.”

Bomke cited as an example that Blagojevich promised lawmakers not to spend any appropriated monies on any kind of stem cell research—and then last year directed $10 million into a state stem cell research program.

“T|he cost to rebuild Chicago’s Dan Ryan Expressway have nearly doubled from original estimates, to about $1 billion.”

Department Mum on Costs

Critics also object to IDOT’s failure to announce the cost overruns.

Asked why the department hadn’t done so, O’Keefe told Tribune reporter Hilkevitch, “At one point we did look at the fact, hey, maybe we should say this is an over $700 million construction project at this point. Unfortunately, it was right when we were ready to close down the express lanes. We said, ‘Is this the time to tell people, or do we want the focus on getting people off the expressway?’”

Claffey denied any attempt to keep the overrun quiet, noting the contract figures were available to anyone who examined the department’s project Web site.

“We feel we weren’t hiding anything,” Claffey said. Hilkevitch had submitted a Freedom of Information Act request for the project costs. “We had no problem talking with Jon about it,” Claffey said.

Dennis Byrne (dbyrne1d@earthlink.net) is a Chicago writer.

“T|he costs to rebuild Illinois’ Dan Ryan Expressway doubles.”

Some of the justices concluded getting permission from 4,000 non-member teachers was too burdensome for the union ... even though it had no trouble corresponding with its 72,000 members.

Justice Richard Sanders dissented from the majority decision, saying the state supreme court’s ruling “turns the First Amendment on its head” by putting the union’s speech rights ahead of teachers’ rights.

The ruling broke new ground by saying unions have a First Amendment right to force workers to support the organizations’ political views.

Concerned teachers, represented by the Evergreen Freedom Foundation and National Right to Work Legal Defense Foundation, and Washington state Attorney General Rob McKenna jointly appealed to the U.S. Supreme Court, which accepted the two cases for review.

Ryan Bedford (rbedford@effwa.org) is a labor analyst with the Evergreen Freedom Foundation in Olympia, Wash.

The cost to rebuild Interstate 90/94, known in Chicago as the Dan Ryan Expressway, was originally projected at $550 million. More than $800 million has already been spent, with more work to be done.

Washington

Continued from page 1

country can be forced to pay for politics they may disagree with.

Washington state’s paycheck protection law was approved in 1992 by an overwhelming majority, 72 percent of voters. It requires unions to obtain “affirmative authorization” from work- ers who are not union members before spending their mandatory dues on poli- tics.

Union Defied Law

Despite the clear intent of the law, the Washington Education Association (WEA) continued to spend dues on poli- tics without asking workers’ permis- sion.

When concerned teachers learned of the violation in 2000, they approached the Evergreen Freedom Foundation (EFF) with evidence of the WEA’s activi- ties. After conducting its own investi- gation, EFF filed a complaint against the WEA with the Public Disclosure Commission (PDC), Washington state’s campaign finance reporting agency.

The complaint initiated a state inves- tigation, during which the union was forced to admit to “multiple violations” of the law.

In July 2001, a trial court concluded the WEA had intentionally ignored the law. It imposed a $580,375 penalty.

Claiming Constitutional Right

The WEA appealed, and the case worked its way up to the Washington State Supreme Court. In March 2006 the state court issued its decision, say- ing the law violated the union’s First Amendment rights because of the administrative burden it placed on the union.

“T|he U.S. Supreme Court has agreed to weigh the constitutionality of Washington state’s paycheck protection law.”

Some of the justices concluded getting permission from 4,000 non-mem- ber teachers was too burdensome for the union ... even though it had no trouble corresponding with its 72,000 members.

Justice Richard Sanders dissented from the majority decision, saying the
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