Washington Legislature Reinstates Property Tax Cap in Special Session

By Jason Mercier

A tax earthquake with the potential to reshape the 2008 general election has shaken Washington State.

The state supreme court on November 8 overturned a ballot measure (I-747) adopted by 58 percent of the voters in 2001 that limited property tax increases to 1 percent per year.

Within hours of the ruling, demands for a special legislative session arose. Dino Rossi, a Republican challenging Gov. Christine Gregoire (D) in 2008, called on her to call a special session immediately to restore the 1 percent property tax cap.

“If Christine Gregoire is serious about providing property tax relief and reinstating the will of the people, then she will act now to cap property tax increases at 1 percent,” said Rossi in a statement. “This cannot wait until January. Homeowners are threatened with a huge tax hike, and local governments and tax districts now have...

WASHINGTON p. 8

California Okays 1,550% Tax Hike on Flavored Malt Beverages

By Sandra Fabry

In a move that has roused constitutional and legal concerns in California, the State Board of Equalization has voted to uphold a ruling that amounts to a huge stealth tax increase on certain alcoholic beverages.

With a vote of 3 to 2, the board raised the tax on flavored malt beverages, such as Smirnoff Ice, from 20 cents to $3.30 a gallon. They did so by changing the classification of the beverages from beer to distilled spirits.

The reclassification must be approved by the Governor’s Office of Administration...

CALIFORNIA p. 17

States Resist REAL ID Implementation

By Sharon J. Watson

With the deadline for issuing licenses that meet the criteria of the federal REAL ID Act of 2005 less than three months away, it appears few if any states are prepared to issue compliant licenses by then.

Seventeen states have passed legisla-

REAL ID p. 18

Political Feuding Blocks Transit Funding in Ill.

By Steve Stanek

The Illinois General Assembly in 2007 was supposed to finish its business in May, but seven months later lawmakers remained in session to wrestle with mass transit funding in Chicago and the surrounding counties.

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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 fifty 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.

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Stadium Subsidies Hitting Taxpayers Harder: Study

Access to public money brings cost increases, luxuries

By Natasha Altamirano

Selling out several hundred million taxpayer dollars for a shiny new sports stadium is common practice for cities today, but a recent study from the research arm of the 362,000-member National Taxpayers Union (NTU) shows this wasn’t always the case.

“Stadiums and Subsidies: Home Run for Wealthy Team Owners, Strike-out for Taxpayers” illustrates some alarming trends in taxpayer subsidies and building construction costs.

“Shelling out several hundred million taxpayer dollars for a shiny new sports stadium is common practice for cities today, but a recent study ... shows this wasn’t always the case.”

“Publicly funded stadiums are, at best, an inefficient investment of taxpayer dollars for the meager benefits produced and, at worst, massive payments to rich team owners and players at the expense of ordinary taxpayers,” wrote study author Andrew Moylan, government affairs manager for the NTU Foundation.

Skyrocketing Costs

Moylan found average major league stadium construction costs jumped nearly 60 percent in inflation-adjusted terms during the study’s 15-year period. The average stadium built from 1990 to 1992 cost $240.6 million in 2006 dollars, compared to $383.64 million for those built from 2002 to 2004.

The study analyzed 53 stadiums built from 1990 to 2004 for use in the three most popular professional sports leagues, Major League Baseball, the National Football League, and the National Basketball Association.

Sticker Shock

Stadium sticker shock isn’t a new phenomenon by any means, but in previous decades hundreds of millions of dollars in taxpayer subsidies were virtually unheard of, according to the study. Louisiana’s Superdome, where the NFL’s New Orleans Saints play, cost more than $500 million (in 2006 dollars) to build more than 30 years ago—and at the time was viewed as an extravagant outlier in a world where stadiums had seldom cost more than $200 million (in 2006 dollars).

In their 1997 book Sports, Jobs, and Taxes: The Economic Impact of Sports Teams and Stadiums, economists Roger Noll and Andrew Zimbalist highlighted the rise in the public’s expectations—and cost—of stadiums since the Superdome was built. “For a long while, this project [the Superdome] stood out as a wild anomaly,” they wrote. “Today, it would fit nicely in the upper range of standard experience.”

Tax Factor

Moylan’s research shows as the taxpayers’ tab increases, so does the total stadium construction cost. Stadiums that were built with 50 percent or more in taxpayer subsidies were $65 million more expensive on average than those built with less than 50 percent in subsidies.

The Florida Marlins Major League Baseball team is seeking a new stadium funded in large part by taxpayers in Miami-Dade County.

The reason? Not surprisingly, Moylan argues, private financiers demand more fiscal accountability with their own money than government bureaucrats do with other people’s tax dollars.

Not only is the average percentage of stadium costs subsidized by taxpayers growing, but total subsidy amounts are rising too. Between the two periods of 1996-98 and 2002-04, the taxpayer’s subsidy share increased an average of 10 percent. During the same timeframe, total subsidy amounts increased more than 41 percent.

Expensive Expectations

The study also found expensive tastes, not rising building-related costs, are most to blame for the increases.

“Standard fare for the modern-day stadium includes ultra-luxury suites, complete with leather couches and flat-screen televisions galore,” Moylan notes. “Pricey features like this have sent costs way up, and taxpayers are footing a large portion of the bill.”

The study paints a bleak picture of future stadium funding schemes preying upon taxpayers—more extravagant, multibillion-dollar “redevelopment plans” with a stadium project or two tucked among the details of the blueprints.

“Stadium costs are skyrocketing, heavily subsidized stadiums are more expensive than others, and subsidies ... are shooting straight up,” Moylan concludes. “The only way for taxpayers to stop this unaffordable spiral is by coming together to say no to wealthy team owners asking for public dollars.

“Unfortunately,” Moylan notes, “our legislators seem to still buy into the ‘voodoo economics’ of stadium funding, while taxpayers get to ‘take one for the team.’”

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Transit
Continued from page 1

Political observers say the record overtime session was due at least in part to personal animosities between Gov. Rod Blagojevich (D) and key lawmakers.

The animosity between House Speaker Michael Madigan (D-Chicago) and the governor has grown so bitter that in early December Madigan boycotted two days of mass transit discussions involving the governor and other legislative leaders.

Proposed transit funding solutions have included a regional sales tax hike, diverting gasoline sales tax money, and a huge expansion of gambling, including putting a casino in Chicago. The additional revenue would fund the Regional Transportation Authority (RTA), which oversees mass transit in the city and suburbs. The transit agencies include the Chicago Transit Authority (CTA), Metra (commuter rail), and Pace (suburban bus service).

Gas Tax Diversion Fails
All the proposals have failed. The most recent would have sent the RTA another $440 million, $385 million of it from the gas tax diversion. Lawmakers rejected the idea November 29, in part because they could not work out a deal for infrastructure spending elsewhere in the state.

Even if the proposal had passed, funding still would have been $90 million less than the transit agencies wanted.

CTA has threatened to cut service and raise fares starting January 20 if it does not receive more money. In November the governor diverted $27 million to CTA to stave off earlier threats of service cuts and fare hikes. That followed a $91 million advance on scheduled 2008 funding that Blagojevich sent CTA in September.

State Sen. Chris Lauzen (R-Aurora) complained the $91 million advance digs a deeper transit funding hole in 2008 and said the $27 million diversion also presents problems, because the money was borrowed from another fund that had bonding authority.

“The Illinois General Assembly in 2007 was supposed to finish its business in May, but seven months later lawmakers remained in session to wrestle with mass transit funding in Chicago and the surrounding counties.”

“There was capacity to issue $27 million, and he took it,” Lauzen said. “The RTA said it would not borrow money, so instead of them borrowing it, the state has borrowed it. Now all of us in Illinois, not just in the RTA counties, are going to pay for it. It will cost us $44 million when you include the interest we’ll pay over the next decade.”

Senator Slams Management
Lauzen also complained about wasteful management at RTA, starting with its handling of fares. In a meeting with RTA Chairman Jim Reilly, Lauzen said he learned average annual fare increases for buses and trains over the past decade have been 1.2 percent and 2.1 percent, respectively, even though fuel costs have climbed 173 percent over that time.

Lauzen said he also learned pension and health benefits for CTA employees are “unbelievably aggressive. To get free lifetime hospital benefits, a CTA worker has to be on the job only three years. That’s unbelievable. I told Reilly, ‘Of course you’ve got a [financial] problem with benefits like that.’”

Bipartisan Anger Erupts
Lawmakers on both sides of the aisle have expressed anger and exasperation at what they characterize as the governor’s disrespect and lack of trustworthiness.

Shortly before the collapse of the gas tax diversion proposal, Blagojevich flew from the state capital to Chicago to attend a Chicago Blackhawks hockey game instead of remaining to work with lawmakers before the vote. He charged taxpayers $5,800 for the chartered flight.

“It’s a train wreck,” state Rep. Jack Franks (D-Woodstock) said of the overtime session. “It never should have gotten to where it is. It’s about talking to people and relationships and having a word that can be trusted. We cannot trust [Blagojevich]. He has no interest in governing. His interest is in issuing ultimatums.”

In one such case Blagojevich threatened to order the General Assembly into session every day through Christmas and New Year’s Day to get a transit funding solution. He has also threatened to veto hikes in sales taxes or income taxes to raise more mass transit money.

Mayor Wants Gambling
The standstill has put emphasis on a proposed casino, to be owned by the city of Chicago, as a funding source. Daley has long advocated a city-owned casino.

He “deeply believes that in these uncertain economic times, it is important to think creatively if we are going to keep the region moving forward,” said City of Chicago Chief Financial Officer Paul A. Volpe in testimony before the Illinois House Gaming Committee in October.

The mayor’s office projects annual revenues of $1 billion and 4,000 new jobs if Chicago gets its own casino.

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Critics Slam Illinois Gambling Plan
While some powerful political and business leaders in Illinois are proposing a huge expansion of legal gambling to provide funding for mass transit in the Chicago region, coalitions of Chicago ministers, other political leaders, and economists are coming together to fight the proposal.

Supporters include Chicago Mayor Richard M. Daley (D) and Senate President Emil Jones (D-Chicago). Gov. Rod Blagojevich (D), who campaigned on promises of a block gambling expansion, has been holding closed-door talks with lawmakers to hammer out a gambling expansion deal.

Political Opposition
Illinois has 10 riverboat casino licenses, nine of which are in use. House Bill 2035 would increase the number of casino licenses to 12. Slot machines at horse racing tracks also would be allowed, turning them into “racinos.” Many analysts say Illinois would end up on a par with Nevada and New Jersey as a haven for legal gambling.

Strong opposition is building. State Sen. James Meeks (D-Chicago), pastor of Salem Baptist Church, has joined other Chicago ministers in calling gambling “a tax on poor people” and has promised he will oppose expansion.

In a Chicago appearance last October, U.S. Sen. Dick Durbin (D-IL) struck the same theme, warning state lawmakers not to rely on gambling to solve their budget problems. He said gambling tends to attract people who lose money “they can’t afford to lose.”

Studied Opposition
Some respected academic researchers are also siding with the anti-gambling forces.

“I’ve said before, ‘You cannot gamble your way to prosperity,’” said University of Illinois business professor John Kindt, who has been researching the economics of gambling for nearly 20 years.

“It’s poor tax policy. The social costs of gambling [from increased crime, lost worker productivity, and other problems] are $3 for every $1 in benefits,” Kindt said. “It results in a net loss of thousands of jobs every year. You’re just dumping money into casinos and out of the consumer economy.”

— Steve Stanek
Chicago Approves Record Tax Hike

Opponents decry spending, corruption

By Steve Stanek

The Chicago City Council has approved the biggest property tax hike in the city’s history, plus higher taxes and fees on a host of other items. City officials project the additional tax take will total nearly $280 million in a city budget of $5.9 billion.

Councilmen approved the tax hikes in November, but not without giving Mayor Richard M. Daley (D) the biggest budget fight of his 18-year tenure as Chicago’s mayor. The vote for the $86 million property tax hike was 29-21. The vote for the rest of the tax-hike package was 40-10.

Litany of Tax Targets

Other items to see tax or fee hikes include liquor, telephone service, natural gas, car leases, DVD rentals, and city vehicle stickers. The tax package also includes a new tax of five cents on each bottle of bottled water sold in the city. Daley vigorously defended his calls for higher taxes and was visibly angry during the debate and afterward. He described as “hypocrisy” votes by council members who supported the budget but opposed the tax hikes to fund it.

“No one wanted to make the tough decisions” on what to cut to keep from raising taxes, Daley said. “But it was the easy decision to vote ‘no’ on the tax and fee hikes.

Scandals Undermine Confidence

Corruption was a theme of some aldermen who opposed the tax hikes. The Daley administration has been stung by dozens of indictments and criminal convictions of city workers and officials in recent years, and criminal investigations are continuing.

“Nothing has eroded public confidence in our local government more than the constant drumbeat of criminal indictments and convictions of people who have enriched themselves at public expense,” said Alderman Joe Moore (D-49th Ward), who opposed both the budget and the tax hikes, during the floor debate. “And nothing has made the public more cynical than the endless string of broken promises to end business as usual in city government.”

Chicago Considers Gambling as Possible Economic Cure-All

By Harriette Johnson

Four panelists squared off at the Union League Club of Chicago on December 4 to debate a proposal to expand legalized gambling in Illinois by allowing a city-owned casino in Chicago.

State Rep. Bob Molaro (D-Chicago), one of the lead negotiators for the pro-gambling lawmakers working with legislative leaders and the gambling industry, said during the panel discussion a local casino would “raise $1.5 billion annually to be used for infrastructure, mass transit, and public education.”

According to Molaro, under the pending gaming proposal the city government would receive 10 to 20 percent of the adjusted gross receipts annually and create thousands of jobs for local residents.

Molaro also supports increasing the number of riverboat gambling licenses and allowing slot machines at race tracks.

The Rev. Thomas Grey, national spokesman and field director for the National Coalition Against Legalized Gambling, disagrees with the projected revenue windfall and questions the number of jobs a Chicago casino would create.

“Can’t Gamble Yourself Rich”

“You can’t gamble yourself rich as an individual,” Grey said. “How much less so as a government?”

Gerald Roper, president and CEO of the Chicagoland Chamber of Commerce, disagreed, noting, “A Chicago-based casino would recapture hundreds of millions of entertainment dollars that flow into neighboring states and [would] position Chicago as a dynamic place to live and work. It would continue to move the city forward.”

“Four panelists squared off at the Union League Club of Chicago on December 4 to debate a proposal to expand legalized gambling in Illinois by allowing a city-owned casino in Chicago.”

But Jeanette Tamayo, general counsel for the Chicago Crime Commission, pointed to Chicago’s long and ongoing history of political corruption as a reason to oppose putting a casino in the city.

“Do the people of Chicago want this city government, the facilitators of the Hired Truck scandal, to own a casino?” Tamayo asked.

The Hired Truck scandal refers to dozens of federal indictments, guilty pleas, and convictions against Chicago city officials, contractors, and others who allegedly bilked taxpayers out of millions of dollars through a program the city created to hire politically connected independent trucking companies for certain jobs.

Though the first indictments were revealed in 2004, the case remains in Chicago news headlines. In November 2007, Valerie Jones, a former secretary to the head of the city’s Hired Truck program, pleaded guilty to lying to a federal grand jury investigating the program.

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In a final shot at the tax hikes, Moore added, “How many bottles of water must be sold to pay for the $12 million fund created to compensate victims of the city’s rigged hiring system?”—referring to a lawsuit settlement the city is still paying for years of corrupt hiring practices that favored politically connected persons for jobs and promotions.

Three weeks after Moore made those comments, the city announced an agreement to pay nearly $20 million to four men who sued the city after they were allegedly tortured into falsely confessing to murder by Jon Burge while he was a Chicago Police Commander. The four men were later sentenced to death but released after evidence cleared them of the crimes. The settlement comes on top of $18 million the city has already spent on legal fees and other expenses defending the case.

Dozens of other suspects also have accused Burge and his underlings of torture, and other lawsuits remain open. Burge was fired in 1993 after special prosecutors concluded he and other officers under his command routinely tortured suspects in the 1970s and 1980s.

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Proposed Surtax Would Be Worse than Existing Alternative Minimum Tax

By Michael Schuyler

Some Democrats are floating a proposal developed by the Tax Policy Center, a joint undertaking of the Urban Institute and Brookings Institution, to repeal the Alternative Minimum Tax (AMT) and replace it with a 4 percentage point surtax on adjusted gross incomes in excess of $100,000 for singles and $200,000 for couples.

“[T]he surtax would act more like the AMT in disguise. It would be pegged to adjusted gross income ... and disallow many legitimate deductions and credits.”

The AMT was originally designed to tax wealthy households that paid little income tax due to deductions and credits they claimed. Today’s AMT, however, is hitting more and more middle-income households in spite of temporary fixes, such as raising the threshold of income not subject to the tax.

The last temporary patch expired at the end of 2006. If Congress does not act, it is estimated the number of AMT taxpayers will mushroom to more than 23 million for the 2007 tax year.

Would Increase Taxes

It sounds like a simple solution, but the surtax would act more like the AMT in disguise. It would be pegged to adjusted gross income (AGI)—income before subtracting personal exemptions, the standard deduction, itemized deductions, and tax credits.

The proposed surtax would go further than the AMT and disallow many legitimate deductions and credits. It would hit all tax filers with AGIs above $100,000 for singles and $200,000 for couples, regardless of how much regular income tax they pay.

As a result:

- Affected taxpayers now in the 25 percent income tax bracket would see their marginal tax rate increase to 29 percent, higher than the 28 percent rate prior to the Bush tax cuts.
- The marginal tax rate for taxpayers in the 28 percent income tax bracket would jump to 32 percent, higher than the pre-Bush 31 percent bracket.
- Taxpayers currently in the 33 percent bracket would pay a marginal tax of 37 percent, higher than the pre-Bush 36 percent bracket.
- For taxpayers in the 35 percent bracket, the marginal rate would increase to 39 percent, almost as high as the pre-Bush 39.6 percent.

Would Hit More Households

The surtax would also apply to other forms of income. For instance:

- The rate on long-term capital gains, which was reduced from 20 percent to 15 percent in 2003, would go back up to 19 percent for taxpayers subject to the surtax.
- Only the marginal rate on qualified dividends, which would rise from 15 percent to 19 percent, would remain appreciably below what it was prior to the Bush tax cuts, when dividends were taxed at the ordinary rate.

Since the surtax would be based on adjusted gross income instead of taxable income, it would affect households surprisingly low on the income ladder.

For a single filer with itemized deductions equal to 20 percent of AGI, it would begin at a taxable income of about $147,000, which is in the regular tax’s 28 percent bracket.

Harmful to Economy

Many of these taxpayers have considerable discretion in how much they work, spend, and save. A surtax would reduce work effort, reduce saving and investment, and increase tax avoidance and evasion. The economic damage would be especially serious because the millions of people the surtax would target are among the most productive and economically dynamic people in society.

For example, as high-productivity, upper-income people cut the time and intensity of their work effort in response to a higher tax rate on their labor, they employ fewer people, reducing job creation. In addition, as they save and invest less due to a higher tax rate on their capital income (at the corporate or shareholder level, or on income from non-corporate businesses), the rate of capital formation will drop, reducing plant and equipment purchases and construction of buildings and other structures.

In essence, part of the tax burden would be shifted to the rest of the population, and middle- and lower-income workers would thus indirectly bear a significant part of the burden of the surtaxes on higher-income individuals. They also would suffer if they own stock shares directly or through pension funds, as the higher tax burden on capital would reduce the value of stocks.

Middle- and lower-income households would additionally bear some of the tax as consumers, because output would be reduced, and consumers of all income levels would have to make do with fewer, higher-priced goods and services.

Would Cut Revenue

Ironically, the surtax or any other revenue-raiser Washington uses to fix the AMT would collect much less revenue than estimates predict. Official revenue scoring models assume tax increases have no ill effects on employment, investment, productivity, output, and growth.

“A surtax would reduce work effort, reduce saving and investment, and increase tax avoidance and evasion.”

It doesn’t work that way. The 1986 increase in the capital gains tax collected much less revenue than the government’s static revenue estimates had predicted. The stock market crashed in 1987, and capital gains realizations were depressed for years.

CONTINUED on right
Tax Increment Financing Raises Costs, Hides Giveaways to Politically Connected

By Mitch Kokai

A decision by city officials in Kannapolis, North Carolina to borrow $168 million through tax increment financing exposes key problems with that type of funding, according to a new report by the John Locke Foundation.

“Tax increment-financed bonds, or TIFs, are more expensive for local taxpayers than other options, such as general obligation bonds or certificates of participation,” said report author Joseph Coletti, a fiscal policy analyst at the North Carolina think tank. “A TIF scheme will also allow local governments to hide the targeted tax incentive they’re providing to a private developer.”

The Kannapolis City Council approved its TIF plans November 26, about the time the foundation released Coletti’s report, “Debt Is Debt: Taxpayers on hook for TIF’s despite rhetoric.”

Three Disadvantages

“Tax increment-financed bonds have three disadvantages for taxpayers, and it’s no surprise that these disadvantages make TIF’s extremely valuable to some government officials,” Coletti said.

First, TIFs do not require voter approval. Second, TIFs divert tax revenue before it reaches the general fund. That means the fiscal effect is hidden, along with the TIF’s role as a taxpayer subsidy to private developers. Third, the lack of voter approval and transparency help make TIF’s far more expensive than other forms of debt,” Coletti continued.

Most of the borrowing in the Kannapolis case is tied to a private developer’s plans for the North Carolina Research Campus, which covers the grounds of the former Cannon Mills Co. textile plant in downtown Kannapolis in Cabarrus County, about 20 miles northeast of Charlotte. Project supporters say the 350-acre campus eventually will be home to more than 100 biotech companies.

Billionaire Benefits

Billionaire businessman David Murdock, who owns a house overlooking the campus property, announced plans for the project in 2005 and pledged $100 million of his own money. Murdock owns Dole Foods Co. and the lead development firm, Castle & Cooke, Inc.

At the time of the announcement, Murdock said the campus eventually could cost up to $700 million to build. Area colleges and universities, local and state governments, and private investors are participating.

North Carolina’s local governments gained the right to pursue TIFs when voters approved Amendment One in 2004. Voters had repeatedly rejected tax increment financing in the past, but advocates secured passage of a statewide referendum on the issue after they started calling TIFs ‘self-financing’ bonds, according to Coletti.

Tax increment financing allows local governments to build capital projects with debt that’s repaid from new tax revenues collected in special districts tied to the projects. Nearly every state uses TIFs, and they bring mixed results, Coletti said.

Expensive Option

Tax increment financing costs taxpayers more money than other borrowing options, according to Coletti’s analysis. As an example, Coletti studied the costs of different borrowing options to secure $67 million, the amount of Cabarrus County’s portion of the debt for the North Carolina Research Campus.

“In present-value terms, a general obligation bond could save local taxpayers $6.8 million compared to the TIF,” Coletti said. “Over the life of the debt, the interest savings could be $38.5 million.”

TIF advocates contend the bonds impose no burdens on taxpayers. “This is simply not true, and those who say it have confused costs with budget items,” Coletti wrote in the report. “It is true the government does not use general tax dollars to pay the debt tied to a TIF. That’s because the revenue never makes it to the general fund in the first place.”

Coletti continued, “This has no cost in the same way that having taxes deducted from your paycheck has no cost. The money used to pay off the TIF debt is not available for other needed services, even in the special TIF district itself. A private development without tax increment financing would pay the same amount of taxes, with all of the tax revenue available to pay for city services instead of new debt.”

Hidden Subsidy

“If this [research park development] is a legitimate purpose for local government, the city and county governments could have chosen less-expensive options for meeting that goal,” Coletti said. “Instead, Kannapolis has chosen the most expensive form of borrowing to hide both the fact that it is borrowing money and that the borrowing leads to a taxpayer subsidy for a private developer.”

“Tax breaks for individual developers and similarly targeted economic development incentives are never a good idea,” Coletti notes in his report. “Hiding the incentives behind the veil of a TIF that also can lull people into not recognizing the risks of a project’s driven worse.”

“Local governments need to be honest with taxpayers about the costs and risks involved in TIFs,” Coletti wrote, “and also about their use as targeted economic incentives.”

CONTINUED from left

By contrast, U.S. Treasury studies in the mid-1980s found the 1980 cut in personal capital gains tax rate to 20 percent actually increased revenues just by spurring realizations. Those studies did not consider additional revenue gains resulting from a higher stock market, additional investment, and higher productivity and wages. But such gains do occur in the real world.

Following the enactment of the 15 percent cap on tax rates for long-term capital gains and qualified dividends, many firms either increased their dividend payouts or began paying dividends for the first time. Consequently, there has been a surge in taxes from non-withheld sources, including capital gains and dividends.

Enacting a 4 percentage point surtax would at least partially undo these positive changes, would raise little revenue, or would do sufficient economic damage to result in a revenue loss.

Surtax No Solution

The best that can be said for the proposed surtax or some other large tax increase is that it does not look quite so bad if it is assumed to be the only alternative to the out-of-control AMT, Leonard Burman and Gregory Leiserson of the Tax Policy Center correctly note the surtax would be simpler than the complex AMT.

Burman and Leiserson write, “The proposed add-on tax would be extremely simple: subtract the threshold ($100,000 or $200,000) from AGI and multiply the difference (if any) by 4 percent. Add that to income tax.” The surtax attains its simplicity, however, by being even gullier than the AMT of using an overly broad tax base that disallows many adjustments found in the normal income tax.

The history of the AMT offers the caution that a tax initially billed as applying only to the rich can quickly extend its reach far down into middle-income households. Policymakers are talking about repealing the AMT permanently, but enacting a large surtax in its place would ultimately be another massive tax hike.

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“Kannapolis has chosen the most expensive form of borrowing to hide both the fact that it is borrowing money and that the borrowing leads to a taxpayer subsidy for a private developer.”

JOSEPH COLETTI
FISCAL POLICY ANALYST
JOHN LOCKE FOUNDATION

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the ability to retroactively tax up to the 6 percent limit. ... It is time for Gregoire to turn her words into action and call a one-day session to protect the will of the taxpayers.”

Gregoire eventually did call the special session, and lawmakers overwhelmingly reinstated the tax cap.

Governor Wanted to Wait
The governor initially wanted to wait until January, when the legislature would be in regular session, to address the court ruling, provided local governments didn’t rush to raise taxes.

“I plan to push for legislation that establishes a 1 percent cap on annual property tax increases. I am already in discussions with legislative leaders on the best next steps to make sure we can implement this correctly,” Gregoire said. “I am urging local leaders and taxing districts to not increase their tax levies, based on the court decision, to give the legislature time to act. The voters approved Initiative 747, it has been in place for five years, and I think we need to leave it in place.”

“The [Washington] state supreme court on November 8 overturned a ballot measure adopted by 58 percent of the voters in 2001 that limited property tax increases to 1 percent per year. ... Gov. Christine Gregoire ... [called a] special session, and lawmakers overwhelmingly reinstated the tax cap.”

Cities Rush Tax Hikes
Despite the governor’s request, some cities rushed to raise property taxes before the legislature could meet. That resulted in a one-day special session on November 29 to reinstate the provisions of I-747 and the 1 percent property tax cap.

Despite the objections of some Democrats that the legislature should not adopt such a “draconian” property tax cap, the proposal was overwhelmingly approved, 86-8 in the House and 39-9 in the Senate.

“I have traveled the state and heard from citizens worried about losing their homes because their property taxes are high due to skyrocketing property values. It is a very real concern for people who have worked their entire lives to pay for their home and now fear losing it,” said Gregoire. “That’s why I am pleased that the Legislature acted so decisively today to reinstate the 1 percent cap.”

Challenger Wants More Cuts
Rossi, however, was among those disappointed that more property tax relief wasn’t provided.

“I commend Christine Gregoire and the Legislature for restoring I-747. But unfortunately this only solves half of the problem,” said Rossi. “By choosing not to address banked capacity, Christine Gregoire is allowing local governments to raise property taxes higher than 1 percent without local citizens voting on it themselves. This is against the will of the people.”

Banked capacity is the practice of allowing local governments to raise taxes higher than 1 percent in the future by the amount they are under the limit in previous years. Republicans were hoping any bill re-approving I-747 would repeal banked capacity so that future property tax increases without voter approval would be limited to 1 percent.

Payment Deferral Passes
The governor also requested a second bill to be considered during the special session. The proposal, a property tax deferral, would allow low-income homeowners to defer some of the property tax owed until they sold their home, granting the state a lien on the property until the taxes were paid with interest.

The bill passed on a nearly party line vote, with a few Democrats joining minority Republicans in voting no. The bill passed 27-21 in the Senate and 55-39 in the House.

Serious constitutional questions were raised, with almost universal opposition expressed by those testifying at the House and Senate hearings. The closeness of the vote illustrates the unease some lawmakers had in moving forward with such a controversial bill after less than a day’s time to review the details.

Rep. Kathy Haigh (D-Shelton) told The Olympian newspaper, “I admit I don’t really know all the implications. I’m going to try to keep my head down and I’m going to vote as my caucus needs me to. On the surface it sounds good.”

“With the demand for property tax reform even stronger after the special session, lawmakers will consider multiple proposals for additional relief when they convene for the 2008 regular session that begins in January.”

More Proposals to Come
With the demand for property tax reform even stronger after the special session, lawmakers will consider multiple proposals for additional relief when they convene for the 2008 regular session that begins in January.

Washington Gov. Christine Gregoire was pressured into calling a November special session of the legislature to reinstate a property tax cap.

The Seattle-based Washington Policy Center is encouraging state of working families to keep more of what they earn. Increasing take-home pay by allowing working families to keep more of what they earn.

Jason Mercier (jmercer@washingtonpolicy.org) is director of the Center for Government Reform at the Washington Policy Center.

Court’s Ruling Is Widely Condemned
The Washington Supreme Court’s 5-4 ruling to overturn ballot measure I-747 brought nearly universal condemnation in Washington State. The court majority ruled voters were misled when they enacted the 1 percent cap on property taxes in I-747.

“The Voters’ Pamphlet was ambiguous as to whether the effect of I-747 would generally lower the property tax levy limit by 1 percent or by 5 percent,” wrote Justice Bobbe Bridge for the justices in the majority.

“The Washington Supreme Court’s 5-4 ruling to overturn ballot measure I-747 brought nearly universal condemnation in Washington State.”

The four dissenting judges, however, took issue with the majority’s condescending treatment of voters.

“No reasonable argument can be sustained that voters were in any way misled or confused by the effect of I-747, which expressly and was specifically aimed at lowering the tax growth to 1 percent,” said dissenting Justice Charles Johnson.

“The majority seems to suggest that the voters are unable to think or read for themselves,” Johnson continued, “when in fact our democratic process is based on the assumption that voters do in fact read and understand the impact of their votes.”

—— Jason Mercier
South Carolina Governor Wins Broad Support for Spending Transparency Order

Appeal of monitoring Web sites continues to spread nationwide

By Sandra Fabry

In a move that has the support of conservatives and liberals in the Palmetto State, Gov. Mark Sanford (R) of South Carolina is about to implement executive order 2007-14 mandating the creation of a single searchable Web site for state expenditures. It is to be implemented no later than March 1.

Items to be listed on the Web site include, but are not limited to, grants, contracts, and subcontracts.

The order, issued last August 30, further requires each state agency to establish a searchable Web site on its own Web page for specific agency expenditures, such as travel, office supplies, and contractual expenditures of $100 or more. Those Web sites also must be online by March 1.

Holding Government Accountable

“We’ve long believed that transparency is key to voters’ ability to hold government accountable for the decisions it makes,” said Sanford. “This transparency, he added, “is particularly important given the way spending has increased in Columbia over the past three years.”

As in all states where the issue has surfaced in the past year, the efforts to increase transparency in government spending have met with bipartisan support.

“Spreading Around Country”

Sanford’s executive order is part of a bigger trend, as he explained on a radio show hosted by Grover Norquist, president of Americans for Tax Reform.

“We didn’t come up with this idea on our own,” Sanford said. “To the credit of Americans for Tax Reform and a lot of those you are associated with, this idea has been spreading around the country.”

Fueled by passage of the Federal Fund Accountability and Transparency Act of 2006, five states in 2007 passed legislation mandating the creation of Web sites detailing information on government expenditures including, but not limited to, grants and contracts.

Like Sanford, Missouri Gov. Matt Blunt (R) took executive action and created the “Missouri Accountability Portal” via executive order in July 2007. Within four months, the Web site was accessed more than 1.77 million times, showing taxpayers appreciate the new level of transparency.

Getting to Local Level

The movement for transparency in government spending is not limited to federal and state-level efforts. In Texas, 58 school districts have begun posting their check registers online.

That effort began after the Texas Education Agency opened a loophole for districts trying to avoid compliance with Gov. Rick Perry’s 2005 executive order, which required districts to earmark 65 cents per dollar of revenue for classroom instruction. The transparency idea is quickly gaining momentum, with school district residents asking for spending transparency during school board meetings.

Said Brooke Dollens Terry, education policy analyst at the Texas Public Policy Foundation, “Texas has increasingly made transparency a priority for state spending. Yet school district spending continues to escape the scrutiny of local taxpayers. Taxpayers deserve to know where their hard-earned dollars are being spent and should not be expected to pay the bill unless they can see an itemized receipt.”

Terry estimates the 58 check registers currently posted online represent 22 percent of public school enrollment and 21 percent of public school spending in Texas.

Advancing in Florida

Local spending transparency efforts are also gaining momentum in Florida. During the 2007 legislative session, lawmakers passed local transparency provisions out of the property tax reform conference committee, but they were dropped in the final language.

State Sen. Mike Haridopolos (R-Indialantic) believes the “Truth in Spending” provisions will pass easily this year. Haridopolos serves as Florida’s Senate finance and tax chairman and majority whip. He is also chairman of the state’s Taxpayer Protection Caucus.

Playing off Florida’s nickname as the Sunshine State and invoking the wide-ranging “sunshine laws” on the books, Haridopolos said, “We have government in the sunshine, but sadly spending is in the shade. We are finally going to bring spending into that same light.”

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

In Other Words

“The surplus must be used judiciously, not frittered away on half-baked, feel-good campaign fodder such as the paid family leave bill. As we’ve editorialized before, there’s nothing wrong with competitive, private-sector enterprises offering paid family leave to workers, and paying for it.

“But state-subsidized paid family leave is wrong on two counts. It diverts public money to many families that don’t even need it, and it absolves people of the traditional financial-planning responsibilities that every family has appropriately faced.

“This notion, further burdened by supporters’ lingering inability to fund it, should be abandoned.”

House Editorial

The Columbian (Washington State)

November 16, 2007
Colorado Moves To Public-Sector Collective Bargaining

By Ryan Bedford

Colorado Gov. Bill Ritter (D) has signed an executive order recognizing labor unions and permitting them to negotiate with the state. The order allows the state and public employee unions to negotiate for the first time.

The governor insists the agreements will be non-binding to the state, but the plan nevertheless has raised serious concern from citizens, politicians, and some of the largest newspapers in the state.

Unions Were Ready

The move to establish “partnership agreements” with the state’s public employee unions took almost everyone but the unions by surprise after the governor’s November signing. Within four days, the state’s largest public-sector unions—the Service Employees International Union (SEIU); American Federation of State, County, and Municipal Employees (AFSCME); and American Federation of Teachers (AFT)—had signed a power-sharing agreement creating Colorado Workers for Innovation and New Solutions (WINS). Colorado WINS calls for the unions to cooperate with each other.

It’s difficult to imagine the intensely competitive unions were able to negotiate and formalize such an agreement in so short a time without the groundwork having been laid much earlier.

Unions have targeted Colorado since Ritter’s predecessor, former governor Bill Owens (R), rescinded the state’s authority to deduct union dues from state employee paychecks, making it more difficult for unions to recruit members and collect dues. Hoping to regain that ground and then some, unions had shepherded a bill through the legislature that eliminated the current two-step election process to implement union security clauses. Ritter vetoed the bill.

Veto Enraged Unions

The unions reacted vehemently, jeopardizing the 2008 Democratic National Convention in Denver with threats to strike and picket the convention and prompting national Democratic and AFL-CIO leaders to intervene. Those negotiations set the stage for the November executive order.

While the order prohibits strikes and stipulates any resulting agreements are “non-binding,” Colorado WINS has one primary purpose, according to the Education Intelligence Agency: To push a collective bargaining law for Colorado public employees through the legislature and make Colorado WINS their exclusive representative.

The agreement stays in effect until December 30, 2012, but the Education Intelligence Agency notes, “if there were any remaining doubt as to the overriding purpose of the organization and the transactional role of Gov. Ritter’s partnership agreements, it is erased by the provision that allows the member unions to terminate the merger and dissolve Colorado WINS.”

The agreement reads, “in the event that no state employee collective bargaining legislation is in effect by July 1, 2009,” Colorado WINS will be terminated.

Public Bypassed

The Independence Institute in Golden, Colorado noted in a statement, “Something is missing from Gov. Bill Ritter’s executive order. ... The order emphasizes ‘partnerships’ between state officials and employees, but it does not discuss any ‘partnerships’ with the taxpaying public.”

The statement observed, “No one working to improve customer service should have any reason to fear an open negotiation process. After all, Coloradans deserve to see everything that transpires in collective bargaining over their tax money.”

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

Model Labor Policy Language

Big Labor’s political clout has grown over the past decade despite falling membership, and much of this power has been gained at the expense of the First Amendment rights of workers.

Many union bosses are now employing their newfound clout for personal and political gain. Legislators, however, have the authority to put workers on equal footing with union bosses and can empower them to take back their unions.

The Evergreen Freedom Foundation has compiled pertinent labor policies into a model policy booklet. The booklet is a valuable resource for policymakers, their staffs, and others.

Financial Transparency

Most union bosses say members have free access to their union’s financial records. When workers ask for the documents, however, union bosses often lead them into a slew of onerous procedures and voluminous records.

David E. Bradley, an executive board member for the Fresno Teachers Association, described the situation in his union: “[PTA President Larry Moore] runs the union like a dictator. He doesn’t want his members to know the truth about how dues are spent.”

The federal government has imposed reporting requirements on private sector and federal employee unions. States can implement similar guidelines for unions not covered by the federal guidelines (state and local level public-sector unions.).

Limitation on Agency Fees

Legislators can limit agency fees—also called “fair share” fees—to the portion of union expenditures for activities germane to collective bargaining, rather than permitting unions to require non-members to pay a fee equivalent to full membership dues.

Open Bargaining Sessions

Legislators can open collective bargaining negotiations to the public. The negotiations are in the public and legislative interest because, in many cases, personnel expenses are an agency’s highest costs. They are also negotiated on the public’s behalf, funded by taxpayers, and approved by the legislature.

The process in which those costs are determined should be open to the public.

— Ryan Bedford

In Other Words

“Gov. Rod Blagojevich was mighty disappointed to learn that the transit deal had fallen apart while he was at the Blackhawks game Wednesday night. But there are still 24 shopping days till Christmas, and the governor is prepared to call lawmakers back into session for every single one of them, if necessary, while he finishes up at Macy’s. He’ll be on his cell.

“Though he’s rarely in the Capitol or at his desk in the Thompson Center, Blagojevich insists he’s on the job 24/7. If that means he has to spend thousands of taxpayers’ dollars to fly from Springfield to Chicago to watch the Blackhawks play while lawmakers work late, well, he’s not going to apologize for that. ...

“Lawmakers were outraged that the governor skipped the floor debate after dragging them all back to work the week after Thanksgiving. ... Perhaps the taxpayers should spring for season tickets to keep Blagojevich from underfoot.”

House Editorial
Chicago Tribune
December 1, 2007
Government Unions Hide Behind Secrecy Protections

By David Denholm

There is little doubt that financial transparency is a major deterrent to labor union and political corruption. Yet, where the two meet—unions of government employees—there is virtually no financial transparency.

Unions composed entirely of government employees at the state and local level are not covered by the federal Labor-Management Reporting and Disclosure Act (LMRDA), also known as the Landrum-Griffin Act. Among other things, the act requires labor unions to file annual financial reports with the U.S. Department of Labor.

Unions of federal employees are required by the Civil Service Reform Act of 1978 to file financial disclosure forms with the U.S. Department of Labor.

Right to Know

Public-sector labor unions take an active role in the election of candidates for local office—school board, city council, etc.—and transparency of their political expenditures is in the public interest, says Brian M. Johnson, policy director for the Alliance for Worker Freedom.

“As we have seen, unions often act contrary to the best interest of their members,” Johnson said. “By mandating public-sector union financial disclosure, union members and the general public will finally get to see where all these offers of money are going.”

A few states have laws requiring public-sector unions to file financial reports or make them available to members on request. Where financial reports are required, however, it does not appear any effort is made to make them generally available—on the Internet, for example.

The law in Connecticut specifically states the reports “shall not be open to public inspection” and authorizes the state Labor Commissioner to “destroy any report filed under the provisions of this section after such report has been on file two years.”

Requiring unions to make financial statements available only to members does little to help public officials or the general public, because this requirement does not enable those outside the union to gauge the political influence of unions on public policy.

Court Rulings Help

Some public employees receive their union’s financial information thanks to the efforts of the National Right to Work Legal Defense Foundation. These are employees in states where the laws giving public-sector unions monopoly bargaining power also sanction contracts requiring nonmembers to pay a fee for union representation.

In 1974, after the Watergate scandal, Congress enacted the Labor-Management Reporting and Disclosure Act (LMRDA), also known as the Landrum-Griffin Act. Among other things, the act required labor unions to file annual financial reports with the U.S. Department of Labor.

The original union financial disclosure forms required by LMRDA, LM-2, provided little information of real value and for all practical purposes were inaccessible to most union members.

“Government employee unions, particularly at the local government level, have a significant impact on the political process.”

While the original purpose of union financial disclosure under LMRDA was to allow union members to monitor their union’s finances, in the case of government employee unions there is a broader need. Government employee unions, particularly at the local government level, have a significant impact on the political process.

In recent years the Office of Labor-Management Standards, the office in the U.S. Department of Labor responsible for enforcing LMRDA, has made significant improvements in the content of the reports and in making them available on the Internet. Organized labor has resisted these needed reforms.

In 1974, after the Watergate scandal, again in an effort to prevent corruption, Congress enacted the Federal Elections Campaign Act, requiring candidates for federal office to file financial reports.

In Other Words

“[P]ublic employee unions exert enormous upward pressure on state and local government spending and enormous downward pressure on the accountability of public employees. Over time this will tend to increase the share of the economy devoted to state and local government spending, with significant macroeconomic effects.”

Michael Barone
U.S. News & World Report
November 13, 2007

Disclosure Law Sparked By Corruption

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n 1959, after extensive hearings into labor union corruption, Congress enacted the Labor-Management Reporting and Disclosure Act (LMRDA), also known as the Landrum-Griffin Act. Among other things, the act required labor unions to file annual financial reports with the U.S. Department of Labor.

The original union financial disclosure forms required by LMRDA, LM-2, provided little information of real value and for all practical purposes were inaccessible to most union members.

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

— David Denholm
New Jersey Voters Rebel Against High Taxes, Debt

By Gregg M. Edwards

New Jersey voters have said “No” to constitutionally dedicating a portion of the sales tax to fund property tax relief programs and to issuing debt to fund stem cell research. The ballot measures were defeated by identical percentages, 53-47.

The November vote marks the first time in 17 years New Jersey voters defeated public questions that appeared on a general election ballot.

The election results were a stinging rebuke to New Jersey’s Democratic Party leadership, which placed the questions on the ballot and campaigned for their passage.

Two other ballot questions passed. One authorized state government to issue $200 million in bonds to purchase open space and preserve farmland. The other question removed archaic language from the state constitution.

Discontented Voters

Political observers said the results are a sign of voter discontent with New Jersey’s fiscal policies and taxes, particularly the local property tax.

New Jersey has the highest property taxes per capita in the nation, according to Congressional Quarterly’s State Fact Finder 2005. In addition, the state’s $33 billion in bonded debt is the fourth-highest total among the 50 states, according to Moody’s Investor Services.

The administration of Gov. Jon Corzine (D) estimates New Jersey’s budget contains a $3 billion structural deficit. Those gloomy statistics apparently were on the minds of voters as they cast their ballots.

Stunned Political Leaders

The defeat of the sales tax dedication was particularly stunning to Democratic Party leaders. Voters rejected the measure even though it did not mandate new spending or higher taxes. The proposal was to constitutionally dedicate a portion of the existing sales tax to unspecified property tax relief programs. Only one year earlier, voters had approved an identical dedication measure.

“New Jersey voters have said ‘No’ to constitutionally dedicating a portion of the sales tax to fund property tax relief programs and to issuing debt to fund stem cell research.”

“What a difference a year makes,” said Jerry Cantrell, president of the New Jersey Taxpayers Association. “Last year’s ballot question was voted on while the Legislature was holding a special session to devise a property tax reform program. I think that voters were willing to give the Legislature and the governor the benefit of the doubt, so they approved the question hoping that it would be part of meaningful property tax reform.”

“But the special session produced no significant reforms,” Cantrell added. “By defeating the sales tax dedication, the voters, in effect, gave a failing grade to the special session’s meager initiatives.”

Property Tax Angst

Voting on local ballot initiatives also illustrated the prevailing angst over property taxes. Municipal and county programs to purchase open space—financed by special assessments on the local property tax—had become popular over the years. In November, however, only one-half of the questions proposing to create or increase existing open space funds passed.

It was the worst success rate since 1988, when the funds were created.

The proposal to issue $450 million in bonds to fund stem cell research was defeated soundly in spite of polls consistently showing broad support for stem cell research. Corzine personally contributed $150,000 to the unsuccessful campaign promoting the ballot question.

Several concerns fueled opposition. Some voters opposed adding to the state’s already-heavy debt load. Others believed stem cell research should be funded through private capital, not public subsidies. Because the program envisioned five separate research centers, some voters also worried they would be paying for another government boondoggle. Some opposed on moral grounds the embryonic stem cell research the bond act would have permitted.

Underestimated Anger

Steve Lonegan, executive director of the New Jersey chapter of Americans for Prosperity, said voters were unusually attuned to the ballot questions.

“Political observers said the results are a sign of voter discontent with New Jersey’s fiscal policies and taxes, particularly the local property tax.”

“In the past,” Lonegan said, “it was considered a ‘given’ that statewide ballot questions would pass with comfortable margins. The state’s political leadership vastly underestimated voter anger and concern over government spending and high property taxes. With a little effort and some modest resources, we were able to galvanize these sentiments into political action.”

Lonegan’s organization paid for radio commercials against the three ballot questions that affected government spending. It also placed lawn signs around the state urging voters to vote against all the ballot questions.

Gregg M. Edwards (gmedwards1@verizon.net) is president of the Center for Policy Research of New Jersey.

Indiana Lawmakers Eye ‘Fees’ on Tax-Exempt Organizations

By Nick Baker

Rapidly rising property taxes in Indiana have caused some lawmakers to look to the state’s tax-exempt nonprofit organizations to help ease the burden on individual taxpayers.

State Rep. Thomas Saunders (R-Lewisville) is proposing legislation that would require nonprofits such as hospitals, museums, charities, and other tax-exempt social organizations to pay a “fee” for fire and police protection. The proposal is called “payments in lieu of taxes” (PILOTS). Churches would be exempt from the proposal.

State Rep. Bill Crawford (D-Indianapolis), chairman of Indiana’s House Ways and Means Committee, has promised Saunders’ proposal will receive a hearing in the 2008 legislative session.

Nonprofits are currently exempt from taxes on property that is directly used for their charitable activities. ‘Issue of Fairness’

“As a former county assessor, it always comes down to an issue of fairness with me,” said Saunders. He said many nonprofit entities, including nursing homes, receive emergency services yet do not pay for them.

“Every property benefits from that [provision of police and fire services],” Saunders said. “I hope my proposal will begin a debate. It’s an issue no one in the legislature wants to touch. If not this year, when?”

If lawmakers do not act, Saunders said, local governments will be forced to cut emergency services.

While some voters might not like the idea of nonprofits paying a fee for fire and police protection, Saunders pointed to a recent poll commissioned by the Indianapolis Star and WTHR Channel 13 that showed of 600 Hoosiers polled, 44 percent were in favor of nonprofits paying for fire and police services, 49 percent opposed the idea, and 7 percent were unsure.

Saunders said the poll was taken before discussion on the issue started, and he thinks the idea might gain support once his bill gets a hearing.

‘Nonprofits Already Pay’

Douglas Johnson of the Indiana Hospital Association (IHA) said his organization has yet to take an official position on the matter. However, he said, “We feel that nonprofit hospitals already

CONTINUED on right
New Jersey Governor Recommends Selling Toll Roads to Pay Down Debt

By Gregg M. Edwards

New Jersey Gov. Jon Corzine (D) is developing a plan to sell the state’s two toll roads to raise money to erase the state budget’s structural deficit and address other needs he says have been neglected.

Opponents charge the plan looks like a continuation of the state’s failed borrow-and-spend practices. Some critics of the “monetization” plan also oppose it because they believe Corzine will use the money that was being used for debt payments to fund new programs.

Corzine would sell New Jersey’s two toll roads to a public benefit corporation the state would create for the sole purpose of buying and maintaining the roads. The sale could yield anywhere from $20 billion to $40 billion, according to estimates from the governor’s office.

Kurt Ferguson, an analyst with Standard and Poor’s, told The Star-Ledger newspaper the bond sale could be the largest in U.S. history.

Tolls Could Double

The bonds would be paid off with scheduled toll increases. SaveOurAssetsNJ.com, a coalition of groups opposed to selling the New Jersey Turnpike, one of the state’s two toll roads, estimated tolls on the turnpike would have to double to raise $15 billion.

Corzine has called his approach “asset monetization,” turning public assets into hard cash. Other countries and U.S. jurisdictions have done this by selling or leasing toll roads to private entities.

Corzine repeatedly postponed release of his proposal so that it would not become a prominent issue in the November 6 general election, in which the entire Legislature was up for election. Nevertheless, many candidates of both parties expressed their opposition to the concept.

In a November 15 speech at the annual meeting of the League of Municipalities, Corzine explained he would use the cash to cut New Jersey’s public debt by half. That would reduce the amount of general revenues currently used for debt service, freeing the state to use that money for other purposes, he said.

Lawmakers Have Doubts

“Monetization is debt, and you can’t solve our debt problem by simply shifting our obligations to a new account,” said Alex DeCroce (R-Essex/Morris/Passaic), the General Assembly’s Republican leader, in reaction to Corzine’s League of Municipalities speech.

“He (Corzine) again today avoided the crux of the state’s fiscal problems: unrestrained spending,” said DeCroce’s Senate counterpart, Leonard Lance (R-Hunterdon), after Corzine’s speech.

Since winning the governorship in 2006, Corzine—former chairman of the Goldman Sachs investment firm—has been frustrated by his inability to initiate some programs he promised during his gubernatorial campaign.

Debt Ties Up $2.8 Billion Annually

Instead Corzine has had to grapple with a multibillion-dollar structural deficit he inherited from his predecessors. In addition, he has used money from an increase in the sales tax to pay for new spending.

“New Jersey Gov. Jon Corzine is developing a plan to sell the state’s two toll roads to raise money to erase the state budget’s structural deficit and address other needs he says have been neglected.”

In his first year in office, Corzine persuaded lawmakers to increase the state sales tax from 6 to 7 percent. The higher tax burden has provided no budget relief, in part because Corzine allowed the Legislature to spend additional revenues on new programs. He had said the tax increase was needed to reduce the structural deficit.

The state’s $33 billion debt load—the fourth highest in the nation, according to Moody’s Investor Service—ties up a large chunk of annual tax revenues for debt repayment. The state currently is spending $2.8 billion annually on debt repayment.

Gregg M. Edwards (gmedwards1@verizon.net) is president of the Center for Policy Research of New Jersey.

CONTINUED from left

pay PILOTS in the form of community benefit, which includes providing charity care and absorbing losses associated with serving Medicaid patients.”

“Rapidly rising property taxes in Indiana have caused some lawmakers to look to the state’s tax-exempt nonprofit organizations to help ease the burden on individual taxpayers.”

Johnson said a recent survey of IHA member hospitals reveals they paid more than $1.1 billion in such benefits during their most recent fiscal year. That figure included $359 million in charity care, acceptance of $495 million in Medicaid underpayments, and $232 million in community activity expenses such as free health screenings, education, and health improvement initiatives.

‘Alleviating Taxpayer Burdens’

“Many of these nonprofit organizations are providing important services and alleviating taxpayers from burdens they would otherwise have,” said Prof. Kirsten Gronbjerg, Efroymson Chair in Philanthropy at Indiana University.

“When you get to food pantries, they are operating very close to the margin. I think there is a major challenge for some of them to increase expenditures without having an opportunity to raise revenues.”

Gronbjerg said in Indiana about half of all health care, 80 percent of social assistance, and “a fairly significant chunk of services in other fields” is provided by nonprofits. And, she said, there are other ways in which nonprofits benefit the state.

“They do pay their employees, and the nonprofits’ payroll in Indiana is about $7.5 billion,” Gronbjerg said. “Those individuals own houses, pay property taxes, go shopping, and pay sales taxes, so there is tax revenue although it’s indirectly from nonprofits.”

Gronbjerg said the reason such organizations were long ago granted tax exemptions is because of the community benefits they deliver.

Concern for Fairness

Saunders said he understands nonprofits perform a service to indigent citizens, but he does not believe it is fair to force taxpayers to pay taxes on services that benefit someone else.

He pointed to a nursing home in his district where a relative resides. “Ambulances and fire trucks go in and out of that place all the time. All I’m asking is that they [the nursing home] pay for that service,” Saunders said.

“Nick Baker (nbaker@heartland.org) is legislative specialist for budget and tax issues at The Heartland Institute.”
Henry Paulson’s Mortgage Mulligan

A new subprime debacle, caused by government

By Nicole Gelin

The Bush administration, federal regulators, and major investment banks are “aggressively pursuing,” in the words of treasury secretary Henry Paulson, a plan to save some mortgage borrowers and their lenders from the consequences of their bad decisions. The deal is called “Hope Now.” It should be subtitled: “Worry Later.”

Part of the pact likely will call for mortgage lenders and their agents—including teetering mortgage giant Countrywide Financial and tottering financial-services giant Citigroup—to change the terms of, potentially, more than $100 billion worth of mortgages they approved for home buyers over the past few years. In those cases, borrowers, often those who couldn’t afford high monthly mortgage payments or who didn’t have much money for down payments, took on mortgages that carried initial “teaser” interest rates.

That is, instead of signing mortgages that required the same monthly payment for 30 years, the borrowers agreed to pay a super-low rate for one or two years, and then to pay a much higher one for the remaining 28 or 29 years. Investment banks then packaged and sold huge bundles of these mortgages to outside bond investors, providing the original lenders with more money to make more such loans.

Ignored Risks

For these deals to work after the teaser rates expired, the housing market could never falter, because few borrowers could afford the new, higher rates they would have to pay in a few years. Both the borrowers and the lenders understood this risk, or should have, but they ignored it.

They assumed when the teaser rate came close to expiration, the borrower could simply refinance his loan, taking out a new mortgage with a similar teaser rate—which would buy more time for the borrower and also provide new fees to mortgage lenders and brokers.

This scenario collapsed when the housing market started to decline, because a borrower can’t refinance a mortgage loan if his home is worth less than the amount of money he already owes.

[A Bush administration] plan to save some mortgage borrowers and their lenders from the consequences of their bad decisions ... is called ‘Hope Now.’ It should be subtitled: ‘Worry Later.’

Resets Trigger Scare

Now the Bush administration and the markets are terrified, because they know nearly half a trillion dollars’ worth of these “adjustable-rate, subprime mortgages” will “reset” over the next year, triggering the higher rates.

If a borrower can’t pay the rate and can’t refinance his loan, the normal procedure—under the terms of the agreement he signed with his lender—calls for the lender’s agent to take possession of the home, writing off the loss and selling the home to another buyer.

But Paulson is devising an escape from this harsh reality. Under his plan, banks and investors will agree to keep the teaser mortgage rates in place, likely for several years, for borrowers who can afford those rates but not the higher “reset” ones. (Hope Now won’t cover all struggling subprime borrowers, though, since many borrowers can’t even afford their starter payments, as high default rates for such mortgages approved in the past two years show.)

Paulson’s program is somewhat analogous to the price fixing that economically illiterate governments do to stop inflation—only in this case, the government is fixing rates rather than prices.

Fatal Flaws

The Paulson plan’s flaws are manifold—and fatal.

• First, it will reward and encourage irrational behavior by future home buyers. It wasn’t logical for people to take on mortgage obligations they couldn’t afford, but it will become logical in the future if they can reasonably expect the government and their lenders will bail them out when the going gets tough.

• Second, the deal will thwart the market by keeping home prices artificially high.

In recent years, laughably easy credit has allowed many people to “buy” homes who otherwise couldn’t have. We’ve had “liar” loans, in which people could claim a false annual income without fear that their mortgage lenders would confirm the figure. We’ve had “Nina” loans (short for “No Income, No Assets”). And we’ve had “Ninja” loans, for “No Income, No Job or Assets.”

Consumers, armed with the easy money provided by these lenient arrangements, have pushed home prices to record levels as measured against personal income. The decline of home prices, then, was both inevitable and healthy.

But Hope Now, by placing an artificial floor under home prices, will penalize first-time buyers who did the right thing: not taking out mortgages they knew they couldn’t afford, but renting instead until prices fell and they could afford homes with more conventional mortgages.

• Third, the deal may hurt some borrowers it was meant to help, by encouraging homeowners who can barely afford their teaser rates to continue making those monthly payments in the hope the property market will recover quickly and allow them to sell their homes. If that doesn’t happen, they’ll be right back where they started in a few years.

While it would cause them short-term pain, they’d likely be better off losing their houses and renting cheaper homes. They could then regroup, save money, and rebuild their credit to buy an affordable property, with a more conventional mortgage, a few years down the road.

• Fourth, the deal will allow investors in these mortgage securities and participants in the housing market to delay new pain, beyond what they’ve already experienced. America’s economy is successful, in part, because of its efficient markets. Companies and investors periodically make mistakes, sometimes disastrously, but when they do, they have to take their punishment in the market so that everyone can move on to the next big thing.

Hope Now would allow investors instead to push today’s losses off to the future, implicitly assuming the housing market will resume its formerly unsustainable rise and solve lenders’ and borrowers’ problems for them.

It would also discourage new investors from diving into the housing market soon, helping the market find its level, because they’ll know the feds have kicked the problem down the road. It’s similar to how Japanese government officials and regulators encouraged banks to keep bad loans on the books during that country’s
Two Parties’ Congressional Spending Agendas Differ Radically, Study Finds

By Natasha Altamirano

Members of the current, 110th Congress have proposed more spending cuts than in recent years, but fewer than one in seven representatives and fewer than one in 10 senators have overall spending agendas that would reduce the taxpayers’ tab, according to the latest BillTally report from the National Taxpayers Union Foundation (NTUF).

“It is often said that money does not grow on trees, but based on Congress’s overall fiscal work product, many taxpayers would be led to believe that this adage never reached Capitol Hill,” said Demian Brady, senior policy analyst and BillTally director for NTUF, the nonpartisan research arm of the nonprofit, 362,000-member National Taxpayers Union (NTU).

“The average House Democrat proposed total spending reductions of $731 million ... The average House Republican proposed to reduce spending by nearly 10 times as much, $6.5 billion ...”

Since 1991 BillTally has computed a “net annual agenda cost” for each representative and senator based on individual sponsorships or co-sponsorships of legislation. This Congress gave BillTally its busiest start yet, with 1,410 bills in seven months. And while lawmakers are introducing more bills that would save money, they’re also introducing more spending bills.

Little Savings, Lots of Spending
The average House Democrat proposed total spending reductions of $731 million, nearly matching the level proposed by the average Democrat in 2001, the last time Democrats averaged sizable spending cut proposals ($736 million that year).

The average House Republican proposed to reduce spending by nearly 10 times as much, $6.5 billion, the most since the 106th Congress. Senate Democrats and Republicans also called for the most savings since the 106th Congress: $453 million and $6.5 billion, respectively.

Despite introducing more savings legislation, the average House Democrat also sponsored 55 spending bills that would increase the federal budget by $471.3 billion, more than 600 times as much as they proposed to save. This is the highest level of new spending proposed in the opening months of Congress since the inaugural BillTally report 17 years ago.

The savings proposals of the typical House Democrat offset 0.2 percent of their spending-hike bills, resulting in a net agenda of $470.5 billion, the highest amount over the past nine Congresses, according to the study.

House Republicans on average sponsored savings of $6.5 billion, offsetting 70.6 percent of their proposed increases, for a net agenda of $2.7 billion, the lowest since the 106th Congress. Net spending agendas for the typical Senate Democrat and Republican were $48.4 billion and $696 million, respectively.

Hikes Still Dominate
“This interest in savings initiatives led to a decline in the ratio of spending increase to decrease bills, a retreat from peak levels reached by both chambers in years past,” Brady said.

That decline, however, more closely resembles a gradual slope rather than a precipice. “The ratio of decline has been slow because Representatives and Senators continue to overwhelm the savings bills with legislation to increase spending,” Brady added.

Representatives this year wrote a total of 40 savings bills among them, up 38 percent from the 29 of last Congress. Senators proposed 17 savings bills, a 55 percent boost from last year’s 11.

The ratio of spending-increase bills to spending-decrease bills may have eased from previous highs, but budget boosts still dominate members’ fiscal agendas. For every House bill that would reduce spending, there were 20 proposals to increase it. In the Senate, there were nearly 33 proposed spending increases for every suggested reduction.

More Interest in Savings
The number of representatives and senators with net agendas that would reduce total spending has increased slowly but surely since the 107th Congress, when there were none in the House and one in the Senate. This year, 65 representatives (all Republicans) called for net budget cuts, while 84 (all Democrats) called for net spending increases of at least $100 billion.

Nine senators (all Republicans) proposed net spending reductions, and three (two Democrats and one Independent) proposed net increases of $100 billion or more.

Rep. Tim Walberg (R-MI) was among the 65 Congressmen with net spending agendas that would reduce the budget.

“With high gas prices, rising health care costs, and economic insecurity, the last thing Michigan families need is a tax increase or out-of-control spending,” said Walberg, who sponsored bills to save taxpayers $17.15 billion.

“I came to Congress not to maintain the status quo in Washington, DC but to work for real, meaningful reform on how Congress spends taxpayer dollars,” Walberg said. “Though this Democratic Congress has shown little, if any, fiscal restraint or desire to control wasteful spending, I will continue to advocate for a disciplined federal budget and significant cuts in wasteful Washington spending.”

Big Increases Proposed
The study also found that sometimes a “do-nothing” Congress costs less.

If the House were to pass all the bills introduced during the first seven months of the 110th Congress, spending would increase by $1.5 trillion (excluding overlaps), or $42,840.50 per household. Senate bill sums would increase spending by $958 billion, or $26,239.54 per household.

“Unless lawmakers curb gratuitous spending, ‘shaking the money tree’ will turn into complete deforestation of our most precious economic resource—the dollars earned by hardworking taxpayers,” Brady concluded.

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economic malaise. They succeeded only in prolonging Japan’s stagnation.

• Fifth, the deal essentially calls for banks and mortgage investors to rewrite billions of dollars in private-investment contracts under government pressure. It’s likely, for example, that banks that have actively approved or underwritten subprime mortgages feel an implicit threat from the government. They fear the feds

and state attorneys general will go after them for supposedly using aggressive sales tactics with weak, vulnerable, and often minority mortgage borrowers—unless they provide some extraccontractual relief to those borrowers now.

• If not for this pressure, investors in bank stocks and in mortgage securities would be better off foreclosing, taking their losses, and getting it over with. The broader economy, too, would benefit.

• Sixth—and most important—Paulson’s mortgage mulligan will permanently alter investors’ perception of the risk of government interference in the American credit markets. Investors bought mortgage-backed securities because they hoped to make money through the higher interest rate they expected in future years, or from the extra fees borrowers would pay as they refinanced to escape those higher interest rates. The risk they undertook—lending money to less-than-stellar borrowers—was market risk, not political risk.

Now, though, a Republican president seems willing to endorse mass-scale interference in private markets. This bodes poorly for future interest rates on all American consumer financing—including mortgages—because investors will see the political risk is far greater than they had thought.

Nicole Gelinas (nicole@city-journal.org), a City Journal contributing editor and the Searle Freedom Trust Fellow at the Manhattan Institute, is a Chartered Financial Analyst.
The Coming Tax Tsunami

Baby boomers will be pummeled if tax policies aren’t changed

By Pamela Villarreal and D. Sean Shurtleff

Over the next 25 years American taxpayers will face a fiscal tsunami. The first of the Baby Boomers will be eligible for early retirement beginning this year and will be eligible for Medicare in 2011. The last of the Baby Boom generation, born in 1964, will reach normal retirement age (67 years) in 2031.

Most Baby Boomers are now approaching their peak earning years, when they have the greatest capacity to save for retirement. Many failed to save when they were younger, however, and need to catch up.

Unfortunately, expected tax increases will make it increasingly difficult for each succeeding age cohort to save for retirement. The following are some of the tax hikes coming down the pike.

2007: AMT Explosion
The idea behind the Alternative Minimum Tax (AMT) was to tax wealthy households that had so many deductions they paid no income tax. The tax excludes a basic amount of income and imposes AMT rates on income above that amount. Taxpayers must pay what they owe under the standard tax code or the AMT—whichever is higher.

But the income threshold for the AMT was not adjusted for inflation for many years, and the number of people required to pay the tax grew steadily. The 2001 Bush tax cut bill included an AMT inflation adjustment. From 2000 to 2005, the AMT income threshold for single filers rose 26 percent, from $33,750 to $42,500, and the exclusion for joint filers rose 39 percent, from $45,000 to $62,550.

But those exemptions expired in 2007. As a result, almost 19 million additional taxpayers earning less than $100,000 will be subject to the AMT (see accompanying figure), and each will pay on average nearly $3,000 more in taxes on income earned in 2007.

Income saved in tax-deferred accounts is excluded from taxable income for AMT calculations, but deposits to after-tax retirement accounts, such as Roth IRAs, are made from disposable income. Boomers with Roth accounts will have $3,000 less, on average, available to save because of their higher tax payments.

2008: Medicare Deficits Mount
Over the past four years, the revenue generated by the 2.9 percent payroll tax for Medicare Part A (hospital insurance) has fallen short of outlays. In 2006, this annual deficit reached $10 billion. Over the next 10 years, Part A expenditures are expected to grow 85 percent to $385 billion, and the projected annual shortfall will grow to nearly $45 billion in 2016.

“Over the next 25 years American taxpayers will face a fiscal tsunami.”

In addition, Medicare Part B, which covers office visits and physicians’ fees, is financed by beneficiaries’ premiums and general revenues. Premiums are adjusted periodically to cover about one-fourth of Part B expenditures while general revenues (income taxes) finance the remaining three-fourths. Premiums are up to 73 percent higher for single seniors with taxable incomes greater than $80,000 and couples with incomes greater than $160,000.

These income thresholds have been adjusted annually for inflation. However, President George W. Bush’s budget proposal for 2008 calls for eliminating these inflation adjustments. As inflation pushes more Medicare beneficiaries above the income thresholds, they will pay higher premiums.

Filling the projected shortfall in all parts of Medicare will require an income tax increase of 22.7 percent by 2030. Thus, younger Baby Boomers could face a much higher tax burden in their retirement years to pay for their own Medicare benefits.

2009-2011: Tax Cuts Expiring
The 2001 and 2003 Bush income tax cuts lowered rates throughout the income range and reduced capital gains taxes. But if the provisions are not made permanent, those reduced rates will expire soon.

• In 2009, the tax bracket for the lowest income earners will rise from 10 percent to 15 percent.
• The highest earners will face an increase from 35 percent to more than 39 percent.

• In 2011, the capital gains tax rate will increase from 15 percent to 20 percent for most taxpayers, and from 5 percent to 10 percent for taxpayers in the 10 percent and 15 percent federal tax brackets.

• The tax rate for dividends will rise from 15 percent for most taxpayers to normal income tax rates, which can exceed 39 percent.

“Expected tax increases will make it increasingly difficult for each succeeding age cohort to save for retirement.”

Older Workers, Retirees Vulnerable
These tax changes, especially the tax hikes on capital gains and dividends, will have a significant impact on retirees and workers approaching retirement. The Tax Foundation reports that in 2004:

• The 45- to 54-year-old age group, all of whom are Boomers, claimed 22 percent of all dividend income and 22 percent of all capital gains, the highest percentage of dividends and capital gains for any age group.
• Like the cohorts before them, Boomers are likely to receive substantial income from capital gains in retirement.
• In 2004, 30 percent of 65- to 74-year-olds claimed capital gains, a higher percentage than any other age group.

2017: Social Security Deficit
Currently, payroll taxes of today’s workers pay the Social Security benefits of today’s retirees, with a “surplus” left over that is spent on other government programs. In 2017, however, Social Security expenditures are projected to exceed dedicated revenues. By 2020, the deficit will reach almost $68 billion, and it will continue to increase thereafter.

Closing this growing fiscal gap will...
Slammed As ‘Alcopops’
Proponents of the new tax claim the current taxes on flavored malt beverages encourage underage drinking. Michelle Simon, research and policy director with the Marin Institute, said, “by correctly taxing ‘alcopops’ as distilled spirits, we could see a 35 percent decrease in the number of youth drinking ‘alcopops.’”

Board of Equalization member Michelle Steel (R) voted against the reclassification on November 15 because she doubts its effectiveness.

In an exclusive column for the online publication FlashReport, which covers California politics, Steel wrote, “Raising taxes by fifteen hundred percent on some alcoholic beverages won’t stop underage drinking. Studies on underage drinking indicate that teens consume all types of alcohol, regardless of the alcohol’s tax rate. When was the last time you saw a teenager clip coupons, comparison shop, and fret about price when trying to score a six-pack on a Saturday night?”

‘Unaffordable’ for Many
During a Board of Equalization public hearing last August 14, Lara Diaz Dunbar spoke against the reclassification on behalf of the California Restaurant Association. She pointed out many of the association’s 22,000 members are small, independently owned restaurants and mom-and-pop stores that, in many instances, can obtain only beer and wine licenses.

“This increase of the tax burden from 20 cents a gallon, if it’s classified as beer to ... $3.30 a gallon as a distilled spirit would certainly have an impact and make it quite unaffordable for many restaurants,” Dunbar said.

Legality Doubted
Beyond whether a reclassification of flavored malt beverages would be wise policy, the issue has raised other, more fundamental questions about the constitutional and statutory authority of the Board of Equalization.

“The Legislature’s own attorneys, the Legislative Counsel’s Office, issued a legal opinion questioning the Board of Equalization’s legal authority to pass a new alcohol tax increase,” Steel said. “Under the Legislature’s interpretation of the state constitution, the Department of Alcohol Beverage Control (ABC) has exclusive authority to classify alcoholic beverages. Consequently, the Board’s actions create a bureaucratic nightmare that pits one branch of state government against another.”

The chief counsel of the Department of Alcohol Beverage Control agreed in public comments submitted to the Board of Equalization.

“The ABC’s position is twofold (1) ... the ABC has acted properly in treating FMB’s [flavored malt beverages] as beer; and (2) this public policy discussion is properly before and should be dealt with by the Legislature, and not before the court,” the chief counsel wrote. “Just as this important public policy discussion was improperly before the court, it is equally inappropriate before the Board.”

Michelle Steel was one of two members of the California Board of Equalization to vote against its stealth tax on flavored malt beverages.

“In a move that has roused constitutional and legal concerns in California, the State Board of Equalization has voted to uphold a ruling that amounts to a huge stealth tax increase on certain alcoholic beverages.”

Board of Equalization member Bill Leonard (R), the second vote with Steel in opposition to the reclassification, sides with ABC’s legislative counsel.

“I think it would be incumbent upon this board to ... work with our legislative colleagues and develop a legislative solution,” Leonard said. He added, “I think we’re exceeding our authority. We’re going to tie up our Legal Department and all sorts of complications down the line. And that’s assuming OAL [the Office of Administrative Law] even approves it, and I wouldn’t give that a great chance right now.”

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

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require higher taxes or benefit cuts.
According to the 2007 report of the Social Security trustees, an immediate payroll tax increase of almost 16 percent would keep the program solvent through 2075, assuming the revenues are saved and invested. Alternatively, benefits could be reduced 13 percent.
Baby Boomers, both working and retired, could face both.

Avoiding the Tsunami
As a result of all these trends, workers planning to retire in the next 25 years will have fewer opportunities to save and will face a higher tax burden. The way to avert this impending disaster is to maximize the opportunities for Baby Boomers to earn and save without tax penalties, while restraining spending particularly the income, dividends, and capital gains tax rates.

• To continue to raise the ceiling on retirement account contributions, and retain the higher “catch up” contribution allowed for 50-year-old and older workers.

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Tax-Hike Advocates Keep Their Money

By Mitch Kokai

People who urge local governments to dig deeper into taxpayers’ pocketbooks are unwilling to part with their own cash voluntarily, according to a new report from the John Locke Foundation.

“The reality is that you can donate as much money as you wish to your county government and school system. This report highlights one major county in which few people take advantage of that option,” said report author Joseph Coletti, a fiscal policy analyst for the foundation.

Coletti studied voluntary gifts to local governments in Wake County, North Carolina and issued “Leading By Not Doing: Few counties and school districts receive donations, even from pro-tax residents” last November.

“People can offer cash or in-kind contributions in the same way they make other charitable contributions, according to what they believe is the best use of their money,” Coletti said. “One would presume that the people who use the most lung power to argue for more government or education funding are also willing to devote more of their own resources to those goals.”

Few Walk the Talk

Coletti tested that theory by examining donation patterns in Wake County, which has a vocal base of public education advocates. In a 2005 poll of Wake County residents, 49 percent said they would be willing to pay higher taxes for more public school teachers and smaller class sizes.

“People who urge local governments to dig deeper into taxpayers’ pocketbooks are unwilling to part with their own cash voluntarily . . . ”

North Carolina state government does not accept donations. If the potential donor already has paid his tax bill, the state will refund the money.

Local schools and county governments have no such restrictions, however. Taxpayers are free to spend as much money as they choose to support public schools and county services.

“I was shocked—shocked!—to learn that Wake County schools and the county government have received little in voluntary contributions for their budgets,” Coletti said.

“Since May 2003, the school system has tracked less than $2.4 million in donations,” Coletti said. “That’s just 0.1 percent of one year’s spending in a district that has a $1.1 billion operating budget and a $900 million voter-approved building program. Eighty-eight percent of the donations headed to individual schools, often for particular programs. Very few donations target a generic goal of improving education.”

County Gets Even Less

Donations to Wake’s county government made up an even smaller slice of total county spending, Coletti said. Most voluntary contributions targeted the sheriff’s K-9 unit or the emergency medical system.

“Many people who urge more taxation and more government spending seem to have a disconnect between what they claim as their public priorities and what they actually follow in their private resource allocations,” Coletti said.

Coletti explained, “Any time a family saves money, goes to a movie, or takes a vacation, it’s placing a higher priority on those options than on donating money to schools or local government services.”

Coletti said until most of those who call for higher taxes start paying them voluntarily, “they have no right to demand that their neighbors, who may have different values and priorities, be compelled to have more money taken away from them.”

Mitch Kokai (mkokai@johnlocke.org) is director of communications at the John Locke Foundation in Raleigh, North Carolina.

Real ID

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Real ID opponents want to see the act call for higher taxes start paying them away from them.”

Experts say it is highly unlikely states will be able to issue drivers’ licenses compliant with the federal Real ID act by the May 2008 deadline.

problems: privacy and financial issues. For certain states, the privacy implications are paramount. “The very idea that Americans would need an i.d. card to travel around their own country is a huge privacy issue,” said New Hampshire State Rep. Joel Winters (D-Manchester).

For other states, cost issues drive opposition. “State leaders got serious about privacy when they saw the cost of REAL ID compliance,” said Jim Harper, director of information policy studies at the Cato Institute and a member of DHS’s Data Privacy and Integrity Advisory Committee.

“Some states would be more likely to go along if it were paid for,” agreed Winters, though not New Hampshire. He points out his state was offered a $3 million grant to test REAL ID and turned it down.

Pushback in Congress

Congress has raised questions about the effectiveness of REAL ID. Bills calling for its repeal have been introduced in both the House and Senate, and few REAL ID opponents expect the federal government to enforce the act’s provisions come the May deadline.

REAL ID opponents want to see the act greatly altered or repealed. Simply working to delay REAL ID by extending deadlines helps support the act, said Harper, because it gives technology and security firms hoping to win lucrative REAL ID contracts more time to influence DHS and wear down states’ resistance.

Privacy advocates and some security experts say the emphasis on proof of identity mandated by REAL ID gives a false sense of security for extreme amounts of money. They hope exposing the flaws in REAL ID will result in a freer discussion of how and where to increase security effectively.

“The cost of the REAL ID Act in dollars and in lost privacy is greater than the security benefit,” said Harper.

Winters agreed. “REAL ID does more harm than good.”

Sharon J. Watson (sjwatson44@comcast.net) writes from Sugar Land, Texas.
Public Transit Creates Value but Fails to Collect

By Chuck Metalitz

Like many transit agencies around the nation, Illinois’ Regional Transportation Authority (RTA) and its service boards (Chicago Transit Authority, Metra commuter rail, Pace suburban bus) have been in financial difficulty for a long time.

Transit officials say they’ve reached the point where huge increases in public funding are needed to avoid (or minimize) service cuts and fare increases.

RTA says it needed $226 million (in addition to existing subsidies) just to balance the books for 2007, more to balance in 2008; additional sums to meet backlogs of repair and maintenance, and still more to expand service where a demonstrable need exists. To get transit on a sound financial basis, something in the neighborhood of $2 billion every year (plus fares) would be needed.

Subsidies now come mainly from one percent sales tax in Chicago and Cook County, and one-quarter percent in the five other RTA-area counties, federal capital grants, and sometimes other sources.

Transit agency advocates have proposed further increases in the sales tax to obtain the desired funding. Other proposals also have surfaced, including increases in taxes on auto registration and gasoline.

In the meantime, short-term infusions of cash from the state have staved off service cuts and fare increases threatened by the transit agencies.

Does this mean transit just isn’t worth what it costs, so we need to cut it back to what can be supported by fares? No, and we can readily see why.

Broad Benefits

Only part of transit’s benefit goes to those who pay fares. The whole community benefits from transit. Where do those benefits show up in the economy?

As dozens of studies across the globe have shown, the benefits of transit show up as increased land values. Land served by public transportation is worth more than land not served. The amount varies, of course, depending on the quality of service, type of development, general standard of living, etc., but the effect is large.

A study published in 1997 for RTA, “The Effect of CTA and Metra Stations on Residential Property Values,” by Gruen Gruen & Associates, implies that just the existing rail system adds land value in excess of $1.6 billion a year.

Another study, published in Regional Science and Urban Economics in 1995, considered land prices before and after construction of CTA’s Orange Line and calculated the line added 17.4 percent to land values.

“The Regional Transportation Authority says it needed $226 million ... just to balance the books for 2007, more to balance in 2008, additional sums to meet backlogs of repair and maintenance, and still more to expand service where a demonstrable need exists.”

Potential Job Losses

This research sheds light on the question, Who should pay the transit subsidy? Should it be consumers, motorists, or landowners?

To some extent these are the same people, but the economic impacts of taxing them aren’t the same.

A sales tax, especially when it covers food and drugs, is regressive, burdening poor people the most, and it tends to drive commerce out of the area. A study I wrote in October 2007 for the Henry George School of Social Science, “Retrieving Transit’s Benefits,” estimates the sales tax increase proposed for RTA would cost more than 30,000 jobs.

Increased auto registration fees may be a little less regressive than a sales tax because many of the very poorest people don’t own cars. But in the Chicago area, almost everyone needs a car, including low-income families who cannot afford to live in the areas with good transit service. Why should the person whose residential and work locations make it impractical to use transit pay as much as (or more than) others who can ride transit, or who benefit from the reduction in traffic congestion?

And how can authorities effectively prevent evasion by people who register their cars at the address of a friend or relative outside the region?

Land Tax Advantages

We can avoid these difficulties by taxing the value of land.

A land value tax is like the real estate tax we all know, with at least one important difference: All buildings and other improvements are entirely exempt from taxation. Only the value of the land itself is taxed.

If you own a home, you would pay no tax on the house under land-value taxation. The tax on your land would be based on what the land would be worth if it were vacant.

A land tax isn’t regressive because many poor people own no land at all, and if they do own land it is of relatively low value. A land tax can’t be evaded because land is visible and real estate tax information is public. A land tax for transit is fair because transit service increases land values, and those who benefit the most pay the most. And a land tax can’t drive away jobs because it isn’t a tax on economic activity.

$40 Annual Tax Hike

How much would a land tax cost the average homeowner? The answer depends on how much revenue is needed. The Henry George School study estimates that to generate $400 million a year—enough to avoid Chicago’s transit “doomsday” service cuts for years to come—would cost an average homeowner about $40 a year. It’s likely to be a lot less expensive than a sales tax increase.

Although I’m not aware of any public transit service subsidized exclusively from land value, several transit services do obtain funds from a real estate tax, and some have benefited by selling land after its value has increased.

In Japan, private railroads provide passenger service funded, in part, by the increased value of lands the railroads own.

Management Still Key

A successful public transportation system requires adequate funding, which can be raised by a land tax, but it also requires competent management. A transit system used as a dumping ground for disgraced political insiders or seen primarily as a source of patronage jobs, or that just isn’t efficiently managed, may cost too much to justify even when the land value increases are taken into account.

Unless the higher land value created by public transit is captured to fund public transit, it is unfair to expect passengers and taxpayers to cough up more.

Chuck Metalitz (taxpayer@pobox.com) is director of the Henry George School of Social Science in Chicago.
Isn’t it time you joined a think tank?

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