Chicago Gets Nation’s First Bottled H₂O Tax

By Steve Stanek
Chicago has become the first city in the nation to tax bottled water. The 5 cents a bottle took effect January 1.

The average price for a case of 24 bottles of water in Chicago is about $4, according to the Illinois Beverage Asso-

BOTTLED p. 16

OMB Launches Transparency Web Site

By Sandra Fabry
The federal Office of Management and Budget (OMB) has accomplished an early launch of USASpending.gov, a Web site that allows taxpayers to track how the federal government spends their tax dollars.

TRANSPARENCY p. 12

Feds Investigate Evidence of Fraud in Seattle Port Projects

By Amber Gunn
The U.S. Department of Justice has launched a criminal investigation of the port of Seattle after a recent performance audit uncovered compelling evidence that fraud may have occurred in some of the port’s construction projects.

The port’s facilities, including the Seattle-Tacoma International Airport, support nearly $12 billion in annual revenue. Five elected part-time commissioners oversee a 1,700-member staff.

The audit, released December 20 by State Auditor Brian Sonntag, found the port wasted nearly $100 million in taxpayer dollars and violated numerous state laws on projects from January 2004 through March 2007.

No Controls in Place
The audit’s findings revealed “no controls were in place to deter, prevent, or detect bribery, kickbacks, illegal gra-

SEATTLE p. 9

St. Louis County Pulls Planned Sales Tax Hike from February Ballot

By Aaron Hilmer
Less than one month after voting to put a 200 percent sales tax increase on the February 5 ballot, the St. Louis (Missouri) County Council voted to remove the proposal. Likely defeat of the measure was the apparent reason for the reversal.

The tax hike was intended to raise an estimated $80 million a year for the St. Louis Metro transit agency, which runs the St. Louis metropolitan region’s MetroBus, MetroLink light rail, and Metro Call-A-Ride paratransit systems.

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

PERSONAL SCORING: take 20 for every A, 10 for every M, and 0 for every D: ___________

How do you stand on ECONOMIC issues?

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

ECONOMIC SCORING: take 20 for every A, 10 for every M, and 0 for every D: ___________

Find Your Place on the Chart

Mark your PERSONAL score on the lower left scale; your ECONOMIC score on the lower right. Then follow the grid lines until they meet at your political position. The chart shows the political group that agrees with you most.

TO LEARN MORE ABOUT THE QUIZ, VISIT: www.TheAdvocates.org
California Budget Woes Underscore Need for a Tough State Spending Limit

By George Passantino

Four years ago, California Gov. Arnold Schwarzenegger (R) rode into Sacramento brandishing the sword of fiscal discipline. He vowed to avenge the California taxpayer and end the budget deficit created by former Gov. Gray Davis’ (D) profligate spending.

“I will not rest until our fiscal house is in order,” Schwarzenegger proclaimed. Four years later, the budget is still far out of balance.

The Legislative Analyst’s Office warned several months ago that this year’s state budget faces a deficit of $10 billion to $11 billion, then in late December upped the estimate to $14 billion. In addition, California already has approximately $20 billion in debt related to previous budget problems.

Revenue Up; Spending Up More

Since Schwarzenegger’s first budget, revenue has increased by approximately 32.2 percent while general fund spending has increased by 36.6 percent. Increases in revenue have simply triggered more spending.

Elizabeth Hill, the state’s legislative analyst, tried to offer a measure of optimism, suggesting the budget crisis could nearly correct itself within three years if current projections hold.

But even the most sophisticated analysts have been unable to accurately predict an end to the current economic conditions, so it is unlikely current projections will remain viable in three years. The fiscal condition of the state has worsened by $6 billion since August—the state has trouble with three-month projections, let alone three-year forecasts.

Schwarzenegger has proposed leasing the California State Lottery to a private operator for a lump-sum payment, estimated at $14 billion to $37 billion. That cash should be used to eliminate the current deficit and create breathing room to achieve permanent budgetary reform, rather than finance his universal health care proposal.

Reforms Already Identified

The governor has already identified many of the needed long-term reforms in his landmark California Performance Review, which he can immediately implement.

For example, the Performance Review plan included an ambitious effort to trim some of the fat out of state government by consolidating similar departments, which would allow the state to take advantage of a continuing wave of employee retirements to reduce its workforce gradually without firing anyone. This could save more than $3 billion over five years, according to the report.

Similarly, the plan identified several billion dollars in surplus or questionable real estate owned by the state that could be sold to a more productive private use within the next two years or so. This could easily add more than $1 billion to the state’s coffers while reducing ongoing state maintenance costs for the sites.

During this fiscal transformation, California also could shift to a performance-based budget, where spending decisions are based, not just on what was spent last year, but on performance measurements of state programs. Just because a program got money last year doesn’t mean it deserves money this year.

Spending Limits Essential

To be truly successful, Schwarzenegger must limit the state’s ability to spend recklessly. He can reform all he wants, but if he does not put in place reasonable limits on state spending, the state will inevitably find itself in this position again.

Spending and revenue limits are effective because they force lawmakers to prioritize spending and make choices, the way normal families live every day. This is precisely what California needs—a fiscal policy that forces smarter spending.

Even former governor Davis, recalled by voters in 2003 for his tax-and-spend ways, has seen the light. In a November 2007 speech, Davis said, “Every governor who serves more than just a couple years will experience both the good and the bad that comes with our economy. ... The answer, of course, is to adopt a spending limit, which stockpiles money in good years that you can draw down in bad years.”

George Passantino (georgepass@sbcglobal.net) is senior fellow at the Reason Foundation and served as a director of the California Performance Review in 2004.
AMT ‘Patch’ Saves Millions from Higher Taxes
More relief needed, tax experts say

By Steve Stanek

Federal income tax refunds for millions of taxpayers could be delayed this year, but higher income tax bills for millions of taxpayers will be avoided as a result of Congressional action to “patch” the Alternative Minimum Tax (AMT).

Nearly 20 million taxpayers will avoid tax bills that could have averaged $2,000 higher. Still, many taxpayer organizations remain bothered the AMT remains in effect.

“The outcome on the patch was as good as we could have expected. There were no tax hikes attached to it, but we’re back to being in the same situation for 2008,” said Phil Kerpen, director of policy at Americans for Prosperity, a national grassroots fiscal watchdog organization in Washington, DC.

“The AMT is an unplanned, unintended tax hike on the middle class. The way to fix a tax hike that was never supposed to happen is to get rid of it,” Kerpen continued.

Filing May Wait

Because the patch that keeps the AMT from affecting millions of Americans for the 2007 tax year (with tax returns due to be filed in 2008) came at the end of 2007, the IRS says more than 13 million Americans may have to wait until mid-February before filing their tax return, depending on what tax forms they need. The IRS needs time to reprogram computers to make adjustments.

Scott Hodge, president of the Tax Foundation, a national tax watchdog organization, had much the same take on the AMT situation as Kerpen.

“Save the stories written today about AMT, because you’ll be able to recycle them next year,” said Hodge in a press statement. “Crises like these happen because the tax code is such an unwieldy, uncontrollable mess. Sound tax policy requires these one-year fixes, gimmicks, and patches to end.”

At Americans for Tax Reform, Tax Policy Director Ryan Ellis said, “The AMT patch was good in that it prevented any more taxpayers from falling into the AMT trap.

“The bigger victory,” Ellis said, “was that it enshrined, once and for all, the principle that tax increases aren’t needed merely to keep current tax law in place. This is the beginning of the end of PAYGO, the lie that tax increases are necessary merely to prevent other tax increases.”

‘PAYGO’ Rules Dropped

PAYGO is the shortened term for “pay-as-you-go” budget rules. The idea behind PAYGO was to pay for tax cuts by raising other taxes or cutting spending to match tax cuts. Democrats who led Congress promised to follow PAYGO rules in 2007 but backed down and ignored the rules. Most Republicans in Congress opposed PAYGO.

PAYGO supporters said the rules would be fiscally neutral. PAYGO opponents argued the policy ignored economic dynamics that tend to boost government revenues as tax cuts spark economic growth.

Not Indexed for Inflation

Congress created the AMT in 1969 to ensure a handful of citizens who had high incomes but paid no income tax would pay something. These few high-income earners—at the time, fewer than 200—were legally able to avoid paying income tax by using deductions, credits, and other means to wipe out their liability.

“Federal income tax refunds for millions of taxpayers could be delayed this year, but higher income tax bills for millions of taxpayers will be avoided as a result of Congressional action to ‘patch’ the Alternative Minimum Tax.”

The AMT does away with most credits and deductions, forcing taxpayers at certain income levels to figure their taxes under both the standard system and the AMT system and pay whichever amount is higher.

The AMT has never been indexed for inflation, and today millions of middle-income taxpayers are being pulled into it. Congress has declined to make indexing adjustments a permanent feature of the tax code, hence the need for temporary patches.

Congress Moves to Fix Tax Penalties Against Incentive Stock Options

By Tim Carlson and Brian Trauman

Congress is finishing work begun in 2006 to remedy an unintended consequence of the Alternative Minimum Tax (AMT)—the treatment of a form of employee compensation called incentive stock options (ISOs). (See “Taxpayers Cry Foul as AMT Affects Millions of Americans,” Budget & Tax News, May 2007.)

The proposed legislation would fully restore the economic incentives and benefits Congress intended for ISOs when it allowed companies to offer them beginning in 1981. Under the AMT, thousands of workers who received incentive stock options have faced enormous unintended tax liabilities.

Additional Relief Proposed

ISO AMT relief legislation introduced in 2007 is now moving through Congress. It addresses two remaining critical elements of equitable relief:

• Removal of limits on overpayment refunds to employees with incomes above AMT deduction phase-out amounts. These employees still cannot recover their ISO AMT overpayment credits.
• Help for thousands of families who were unable to pay their ISO AMT liability by immediately abating unpaid liability, interest, and penalties. These families have struggled for almost eight years with ongoing liability and significant accrued interest and penalties (accruals). The 2006 legislation does not stop the IRS from demanding full payment of all liabilities including accruals, and the employees will lose forever the interest and penalty amounts paid.

High-Tech Left Out

Families living in high-technology corridors, which are typically high cost-of-living areas, were disproportionately left out of the 2006 relief. Recognizing that reality, Lezlee Westine, CEO of TechNet, expressed the firm’s commitment to comprehensive fair relief.

“We look forward to working with the Coalition for Tax Fairness and Congressional leadership to extend this much-needed relief to all families in key regions where employees were hit particularly hard, including Silicon Valley, Northern Virginia, Massachu-
Congress passed legislation to create incentive stock options (ISOs) in 1981 to provide entrepreneurial companies that must conserve cash a way to attract and retain top talent with an alternative form of compensation. ISOs give employees a stake in the company’s success, providing a non-cash incentive to work hard and build long-term value.

Congress provided two significant incentives to encourage employees to invest in and work for the long-term growth of their companies:

- Employees are not required to pay tax on the “spread” between exercise price and current fair market value when the ISOs are exercised.
- Employees enjoy capital gains treatment on any long-term gain when the stock is sold.

The Alternative Minimum Tax (AMT), however, nullifies these incentives by imposing a prepayment tax on the spread at the time the options are purchased, without beneficial capital gains treatment. Although the prepayment generates an AMT credit intended to offset roughly the same amount of tax that will be imposed under the regular tax law upon sale of the stock, an unintended flaw in the AMT law renders the credit nearly useless when the stock’s value plummets or becomes worthless.

Taxed on Phantom Income
When the stock market crashed earlier this decade, tens of thousands of employees and entrepreneurs in small and large companies across America were forced to pay tax on stock options they did not receive, resulting in a tax burden that bore no relationship to actual income. Many faced AMT burdens that were three and four times their entire actual annual income.

For many, the consequences have been devastating and life-altering. Families have been forced to liquidate assets, take out a second mortgage on their home, or have their wages garnished to pay an AMT initially designed as a temporary prepayment for future expected stock sale income.

“The goal of this legislation is to restore a basic sense of fairness to a provision in the tax code that has gone tragically awry. "While everyone should pay a just and proportionate amount of tax on money they actually make," Van Hollen continued, “no one should lose their homes, savings, and retirement to a wildly disproportionate tax on phantom income they never saw, because our tax laws failed to anticipate the circumstances in which a number of our citizens now find themselves.”

“Congress is finishing work begun in 2006 to remedy an unintended consequence of the Alternative Minimum Tax—the treatment of a form of employee compensation called incentive stock options.”

Relief Expected in 2008
The 2007 ISO AMT relief bill quickly gathered bipartisan support and broad geographic area support and was included in the first two “AMT patches” passed by the House in November and December 2007.

Kerry's identical counterpart bill (S. 2389) was co-sponsored by Sen. Maria Cantwell (D-WA), Sen. Joseph Lieberman (I-CT), and Sen. Barbara Boxer (D-CA), demonstrating strong support for this second phase of ISO AMT relief in America’s high-tech corridors and technology incubator regions.

This full relief came close to being included in the final AMT patch passed by the Senate and House in mid-December 2007 but was ultimately deferred to 2008.

Tim Carlson (tcarlson@ti.com) is president of the Coalition for Tax Fairness. Brian Trauman (btrauman@mayerbrown.com) is an attorney specializing in tax issues at Mayer Brown LLP in New York City.
By Dan Pilla

Congressman Paul Ryan (R-WI), a member of the House Budget Committee, has weighed in on the debate to end the Alternative Minimum Tax (AMT).

Ryan’s bill is called the Taxpayer Choice Act, H.R. 3818. It was introduced in the House on October 10, 2007.

The good news in Ryan’s bill, unlike the proposal of Rep. Charlie Rangel (D-NY), is that the AMT would actually be repealed if H.R. 3818 passes. The bad news is that the bill sets up another alternative tax, albeit much simpler than the current version.

Key Difference

Rangel last fall introduced the Tax Reduction and Reform Act, which would “pay for” an $800 billion repeal of the AMT by imposing a 4 percent tax surcharge on adjusted gross incomes over $200,000 for married couples and a 4.6 percent surcharge for those with incomes of more than $500,000. (See “Dueling Tax Packages Proposed in Congress,” Budget & Tax News, January 2008.)

“The good news in [Congressman Paul Ryan’s Taxpayer Choice Act] ... is that the AMT would actually be repealed. ... The bad news is that the bill sets up another alternative tax, albeit much simpler than the current version.”

The key difference between the Ryan and Rangel approaches is that the Ryan bill would give citizens the chance to choose to be taxed under either the alternative system or the current system, but not both. One major problem with the existing AMT is that it applies to all taxpayers, whether they like it or not, and most never find out until it’s too late.

Though there are some exceptions, the election provided for in H.R. 3818 is a one-time choice to be taxed under the new alternative system or to remain under the current system. Once the election is made, the taxpayer will be stuck with the consequences.

The new system, called the Simplified Individual Income Tax System, will not be available to corporations.

It purports to be a flat tax system, but it has more than one tax rate, which means it is not a flat tax.

The Details

Under the plan, married persons and surviving spouses with taxable income of less than $100,000 would pay a tax equal to 10 percent of their taxable income. If your taxable income is $75,000, your tax is $7,500. Those with taxable incomes of more than $100,000 would pay $10,000, plus 25 percent of taxable income over $100,000.

Unmarried persons would pay a tax of 10 percent on income less than $50,000. Those with income more than $50,000 would pay $5,000, plus 25 percent of taxable income over $50,000. For example, if a single person had taxable income of $70,000, his tax would be $10,000 ($5,000 plus 25 percent of $20,000).

For purposes of the alternative tax under this proposal, the taxpayer would be allowed a deduction for only three items:

- A personal exemption of $3,500 each for an individual and his spouse;
- A dependent allowance of $3,500 for each dependent; and
- A standard deduction of $25,000 for joint returns and surviving spouses, and $12,500 for single persons and married filing separately.

The Problems

While it’s true this bill contains an election provision, it is nevertheless a second income tax system running alongside the existing system. It continues to be a huge Band-Aid designed to mask the profound problems with the existing system.

And though it’s a positive that citizens would have the right to choose to be treated under one system or the other, why not just acknowledge that our primary system is deplorable and fix it?

The second problem is that this system, like the one proposed by Rangel, is unwilling to give up the expected revenue represented by the current AMT. The number one impediment to repealing the AMT is that Congress simply will not give up the money.

“[W]hy not just acknowledge that our primary [income tax] system is deplorable and fix it?”

The only way to have real tax relief is if there are honest-to-God spending cuts.

All you have to do is examine the growth in spending over the past 20 years to guess what the chances are of that happening.

Dan Pilla (comments@taxhelponline.com) is a nationally known expert on taxpayers’ rights and IRS abuse, founder of TaxHelpOnline.com and the Tax Freedom Institute, and author of 11 books including The IRS Problem Solver, number one on The Wall Street Journal’s top five tax books list.
Indiana Governor Orders Agencies to Cut Spending

By Nick Baker
Indiana Gov. Mitch Daniels (R) ordered all state agencies to cut budgets by 5 percent after receiving word 2008 state revenues could be $231 million less than expected.

The 5 percent spending cut includes 2 percent Daniels had already requested agencies not spend.

“We thought it was important months ago to develop a contingency plan in case something like this happens,” said Chris Ruhl, director of the State Budget Agency.

To avoid cutting spending for vital state services such as pensions, Medicare, and education, the Daniels administration put together a series of contingency plans several years ago in case tax revenues dropped.

$100 Million Savings
The cost-cutting measures are expected to result in a spending reduction of between $90 million and $100 million, according to the governor’s office. Savings will come from cutting overhead, leaving vacant jobs unfilled, and delaying projects.

Additionally, Daniels’ staff is creating a list of projects that will be delayed until the state’s economic forecast improves. This is expected to save another $12 million.

Daniels still intends to seek property tax reform in the upcoming legislative session. Speaking at a campaign fundraiser, he said the state’s budget situation should act as an incentive for legislators to consider cutting property taxes.

“I think it’s appropriate that we’re going to try and cut spending and give it back to Hoosiers at a time when they need it,” said Ruhl.

Tax-Cutting Incentive
Daniels found grounds for optimism in the state’s economic forecast: His office released figures citing worse economic forecasts for Indiana’s neighbors. Illinois has a projected $3.1 billion deficit, and Michigan faces a projected $1.8 billion shortfall.

Economic analysts cited several reasons for the lower-than-expected revenues, including higher energy costs and problems in the sub-prime mortgage market. The state will end its budget cycle with $91 million in the bank, instead of the $332 million expected when the biannual budget was passed last year.

Nick Baker (nbaker@heartland.org) is legislative specialist for budget and tax issues at The Heartland Institute.

Supreme Court Backs Railroad, Throws Out Tax Assessment

By Joseph D. Henchman
In a decision establishing stronger protection for railroads from discriminatory state taxes, the U.S. Supreme Court has ruled in favor of CSX Transportation, a national railroad company that was hit with a huge jump in property taxes in Georgia. In December the court ruled unanimously for the railroad.

Supported by a friend-of-the-court brief from the Tax Foundation, a national tax research group, CSX successfully argued Georgia’s assessment method effectively gutted federal law that protects railroads from discriminatory taxes.

Spurious Assessment Method

The case, CSX Transportation v. Ga. Bd. of Equalization, dates to 2002, when Georgia hired a new utilities property assessor. Using new assessment methods he calculated a 36 percent increase in CSX’s assessed value over 2001, which led to a 47 percent increase in the firm’s property tax bill even though there was little actual change in the property.

CSX argued the assessor’s method was flawed, and an assessment expert testified other methods would have been more accurate.

CSX was able to bring a lawsuit because railroads are protected by a federal law—the “4-R Act”—from discriminatory state taxation.

The 4-R Act dates to the 1970s, when states punitively taxed captive railroads so badly that many were failing. The law prevents states from taxing more of a railroad’s “true market value” than they do for other commercial property. If a state is taxing railroads at 80 percent of their value but other commercial property at only 40 percent, the tax violates federal law.

CSX appealed, and the Tax Foundation’s brief in support argued the lower court’s reasoning would eviscerate the 4-R Act’s purpose, meaning, and text.

“Discriminatory assessment methods cannot be shielded from legal challenge because Congress has exercised its power to limit states’ ability to use any conceivable method of assessing and taxing railroad transportation property,” the brief stated. “Otherwise, states would get immunity for even absurd assessment schemes, like basing it on the property’s height above sea level.”

A unanimous Supreme Court reversed the lower courts and held for CSX. Chief Justice John Roberts, who delivered the Court’s opinion, echoed the Tax Foundation’s argument.

“Total Lack of Support”

“The total lack of textual support for Georgia’s position is not surprising,” the opinion states. “The dichotomy the State presses would eviscerate the statute by forcing courts to defer to the valuation estimate of the State, when discriminatory taxation by States was the very evil the Act aimed to ban.”

The Tax Foundation’s brief emphasized judges should be able to consider all available evidence in determining whether discrimination exists. Excluding evidence that the state’s chosen method is skewed simply makes it more likely a discriminatory state tax system can persist.

“Tax legislation should be based on careful economic analysis and transparent procedures,” the Tax Foundation argued in the brief. “Permitting criticism and challenge can help ensure neutrality, simplicity, and fairness in our tax system.”

The Court’s opinion recognized that, noting “preventing courts from scrutinizing valuation methodologies would render [the 4-R Act] a largely empty command.”

Similar Tax Discrimination
CSX is not alone in facing discriminatory property taxation. Florida’s practice of imposing higher property taxes on out-of-state landowners is currently pending in the state courts, and a Pennsylvania judge recently held Allegheny County’s property tax assessment scheme is so disproportional as to violate the state constitution.

Joseph D. Henchman (jdh@taxfoundation.org) is tax counsel at the Tax Foundation, a national nonpartisan tax research organization in Washington, DC.

INTERNET INFO

Indiana Gov. Mitch Daniels has ordered state agencies to cut their budgets by 5 percent to address a projected revenue shortfall.
Report: Indiana Should Downsize and Cut Waste

By Nick Baker

Public outcry over rising property taxes could lead to a major reorganization of Indiana's local governments.

Reorganization is recommended by a report of the Indiana Commission on Local Government Reform, informally known as the "Kernan-Shepard" report. The report calls for more streamlined, cost-efficient local government. Currently, there are more than 3,000 local governments and more than 10,000 elected officials in Indiana.

Bipartisan Commission

Last summer Gov. Mitch Daniels (R) appointed former Gov. Joe Kernan (D) and Indiana Supreme Court Chief Justice Randall Shepard to head a bipartisan commission to study the state's government operations. Anger over soaring property taxes was a major impetus.

The commission conducted a series of hearings with the goal of finding ways to cut wasteful spending.

Daniels called the findings a "terrific roadmap" for keeping property taxes down. They were issued in December through the Center for Urban Policy and the Environment at Indiana University.

"Public outcry over rising property taxes could lead to a major reorganization of Indiana's local governments."

The report made 27 recommendations. Some, such as moving funding for child welfare from the county to the state, and moving all municipal elections to even-numbered years, seem to face little opposition. Others, including abolishing most county elected officials and eliminating township government, have sparked heated debate.

"Antiquated Government"

The report called Indiana's government "antiquated" and "designed for the realities of a state more than a century and a half ago."

Ray Scheele, a professor of political science at Ball State University, called Indiana's 1851 constitution a "hydra-headed monster" written in an era of Jacksonian democracy.

"The constitution's authors believed in the long ballot. Their philosophy was the cure for democracy was more democracy," Scheele said. "That meant electing everybody."

Later, Theodore Roosevelt and his reformist, Progressive message took hold in the early twentieth century.

Many elected administrative offices were seen as a source of corruption and patronage, and states began abolishing them.

"For the most part, Indiana ignored the Progressive era. Patronage was a way of life," said Scheele.

Single County Executive

The report suggests counties scrap their elected three-member board of commissioners in favor of a single elected county executive. The county executive would provide "a single point of leadership, contact, and accountability," the report states. Additionally, the duties of the county council would be expanded to make it the legislative unit of county government.

The reorganization is modeled in part after reforms in Allegheny County, Pennsylvania, which includes Pittsburgh. In 1998, the county's board of commissioners was replaced by an elected county executive and county council. Recently, voters approved a second referendum abolishing most elected county offices and allowing the county executive to oversee those responsibilities.

Kevin Evanto, director of communication for Allegheny County, said the changes proved beneficial and cost-effective. So far, $1 million has been saved, with more expected once the additional offices are consolidated in 2008.

'Makes Perfect Sense'

Henry County, Indiana Councilman Nate LaMar, a Republican, welcomed the recommendations.

"I think it's great. It makes perfect sense," LaMar said, noting taxpayers are demanding government spend less and become more efficient.

However, he believes implementing some proposals will be difficult.

"It will take courageous elected officials not only willing to give up their own offices but also urge their colleagues to do the same," said LaMar.

Opposition to Appointments

Among other suggestions, the Kernan-Shepard report recommends the now independently elected county clerk, recorder, treasurer, coroner, surveyor, auditor, and sheriff be appointed by the county executive.

Marion County Assessor Greg Bowes, a Democrat, said he supports many of the recommendations. However, he said his fellow county assessors are "up in arms" over the proposal to make their positions appointed. He said they feel an elected assessor would be closer to voters than a political appointee.

Marion County Clerk Beth White, a Democrat, is also opposed to making her position appointed. She told the Indianapolis Star the state has a "very strong local-control culture. This is a bold move away from that."

Fears of Cronyism

Bowes believes the report's goal is to depoliticize county government but fears the opposite might happen.

"How can there be a guarantee the County Executive will hire these people based on merit and not politics? How do you know it won't be political payback for helping on the campaign?" Bowes asked.

Wayne County Commissioner Ken Paust, a Republican, called the proposals "sweeping." He thinks replacing the commissioners with a single executive "could work very well." Wayne County has already instituted some of the 27 recommendations, Paust noted, such as establishing a countywide 911 dispatch system.

Paust believes making the other elected offices appointed could prove difficult.

"You will see the various associations who represent these officeholders lobby the legislature to keep things they way they are," Paust said.

David Bottorff of the Association of Indiana Counties said in a statement, "Local government needs to remain accessible. People are very comfortable entering their local courthouses or county offices and appreciate finding a responsive elected official."

"The report called Indiana's government 'antiquated' and 'designed for the realities of a state more than a century and a half ago.'"

No Savings Estimates

Absent from the report was any estimate of how much money would be saved if the recommendations were implemented.

Scheele believes if any reforms are enacted, the state legislature will allow voters to choose which system works best for their county.

"One size doesn't fit all. What works in Indianapolis might not work in Gnaw Bone," Scheele said.

Paust is not as optimistic about some of the other proposals being implemented, citing a "we've always done it that way" mentality. He pointed to a previous study recommending government be reorganized, including eliminating elected assessors.

That study, which received scant attention, was published in 1935.

Nick Baker (n baker@heartland.org) is legislative specialist for budget and tax issues at The Heartland Institute.

INTERNET INFO

"Streamlining Local Government: We've got to stop governing like this," Indiana Commission on Local Government Reform: http://www.heartland.org/article.cfm?artid=22629
Ind. Township Government Targeted for Elimination

One recommendation of the Indiana Commission on Local Government Reform is to eliminate township government in Indiana.

Township government duties, which include performing property tax assessments and providing financial relief to the poor, would be transferred to the county executive.

Henry County Councilman Nate LaMar (R) said support among the public and state legislators for township government is “fading fast.”

Wayne County Commissioner Ken Paust (R) agreed.

“I think they [lawmakers] are going to do something this session about towns. The anger over property taxes almost guarantees that,” Paust said.

Uniform Property Assessment

The main goal of eliminating township government would be to provide a more uniform approach to assessing property. When property tax bills went out in Indianapolis in 2007, many homeowners criticized the assessment as unfair and complained the bills varied wildly from house to house or from one year to the next.

Auditors claim some port workers doctored documents, delayed responses, and destroyed information for the auditors’ investigation or altered information, saying instead they “updated and assembled” information for the auditors’ response.

Details of certain contracts were concealed from the port’s Commission, the audit notes. For example, port management authorized a third runway contract that cost $32.7 million more than the port engineer’s original estimate and that the auditors say violated state law.

Astonishing Cost Increases

The audit lists several examples to support the overall conclusion that port construction management lacks cost controls and accountability.

A consulting agreement awarded in 1993 grew without competition from $950,000 to more than $30 million. In another case, a consulting agreement awarded in 1998 increased without competition from $10 million to more than $120 million and is currently being used “to augment port staffing, unnecessarily costing taxpayers $80.5 million,” the audit charges.

Refused to Tell Truth

Auditors claim some port workers doctored documents, delayed responses, and tried to obstruct the investigation.

At least 13 port officials refused to sign standard statements confirming what they had told the auditors was true, among other things.

These normally routine statements included language saying the officials had “no knowledge of any allegations of fraud or suspected fraud” in the port’s construction contracts.

Informal Denials Issued

Port officials did not agree with all of the audit’s findings.

Chief Executive Tay Yoshitani issued a formal statement disputing auditor claims that the port wasted taxpayer dollars (http://www.portseattle.org/about/organization/commessage.shtml). He also denied accusations port employees deliberately obstructed the audit investigation or altered information, saying instead they “updated and assembled” information for the auditors’ convenience.

“Given the get-it-done attitude of the staff members involved with many of these large construction projects, I’m sure that some employees went on to the next challenge and left the paperwork for later. In the future, we will not let good intentions get in the way of good record keeping,” Yoshitani said.

Robert L. Jamieson Jr.
Seattle Post-Intelligencer columnist
“Arrogance at port reflects ex-CEO”
December 27, 2007

That is exactly what the commission hopes to stop, according to former Gov. Joe Kernan (D), who co-chaired the commission.

“Assessors within the same community all need to be uniform, or somebody is going to end up paying more in taxes than they should,” Kernan said.

Lots of Finger Pointing

Marion County Assessor Greg Bowes (D) said there is a lot of “finger pointing” by elected officials when something goes wrong.

“There is a diffusion of responsibilities. There is no ‘the buck stops here’ mentality,” Bowes said.

Bowes said little can be done if an officeholder is incompetent, citing a township assessor in Marion County who left the office in “shambles.”

“He didn’t like computers, so no records were computerized. The incoming assessor had to clean up that mess,” Bowes said. Marion County includes Indianapolis, Indiana’s largest city and the state capital.

— Nick Baker

Seattle

Continued from page 1

ty, or bid-rigging schemes.” In addition, auditors found the port frequently circumvents competitive bidding requirements and fails to enforce basic contract provisions, “resulting in delays, extra costs, and an inability to defend against claims.”

Numerous contracts were awarded without any evidence of competition, and in some cases, the audit found, the port awarded sole-source contracts to former port employees. Auditors also found evidence some employees illegally altered contractor invoices to pay them for work that exceeded maximum contract amounts.

“In the case of the Port of Seattle, this means sickening arrogance.”

“Faced with a damning state audit showing the port to be rife with sloppiness, waste and the potential for rampant fraud, the man long responsible for shaping port culture—its former chief executive, Mic Dinsmore—replied with haughty grandeur.

“I have no doubt that there is nothing of substance in anything that has been alluded to,’ Dinsmore huffed to the Seattle P-I after the audit blast came last week. ‘Let the process show what I just said to be true.’

“This much is true: Dinsmore’s arrogant tone is dismissive and misplaced.”

In Other Words

“Institutions take on the worst characteristics of the people who head them.

“In the case of the Port of Seattle, this means sickening arrogance.

― Nick Baker

Amber Gunn (agunn@effwa.org) is a policy analyst for the Evergreen Freedom Foundation’s Economic Policy Center.

INTERNET INFO

Performance Audit Report: Port of Seattle Construction Management:
http://www.sao.wa.gov/Reports/AuditReports/AuditReportFiles/ar100008.pdf
High Taxes Drive People and Jobs Out of States

Rich States, Poor States ranks states’ competitiveness

By Steve Stanek

Just as nations compete economically, so do the individual states within the United States. In fact, states are much more likely to lose jobs and people to other states than to other nations.

With this in mind, economists Arthur Laffer and Stephen Moore have released Rich States, Poor States, published by the American Legislative Exchange Council (ALEC). The book offers lawmakers and citizens facts with which to evaluate their states’ fiscal and economic policies and analyze their results and ramifications.

“States that have controlled spending and taxes are doing better than states that have not done these things,” Moore said. “High taxes don’t redistribute income; they redistribute people. Our work on this book shows that.”

Laffer’s “Laffer Curve” analysis of tax rates, economic growth, and government revenues shaped the tax-cutting policies of the Reagan administration in the 1980s. Laffer served as a member of President Ronald Reagan’s Economic Policy Advisory Board for both of Reagan’s terms as president. Moore is founder of the Club for Growth and senior economics writer and editorial board member at The Wall Street Journal.

South, Southwest States Lead

The authors provide economic competitiveness rankings for all 50 states based on 16 policy variables with a proven effect on the migration of people and investment capital in and out of states.

States with the lowest tax, spending, and regulatory burdens win the competitiveness contest. These are primarily in the South and Southwest regions of the nation.

California and states in the Northeast and Midwest are the biggest losers.

A record eight million Americans moved to lose jobs and people to other states in 2006, a jump of 28 percent.

“Just as nations compete economically, so do the individual states within the United States. In fact, states are much more likely to lose jobs and people to other states than to other nations.”

The Golden State also has tarnished itself among less-wealthy persons. Moore said migration trends based on moving company data show California had the second-highest domestic population outflow of any state in 2005 “despite the beautiful weather, beaches, and mountains.”

California budget officials are predicting another $14 billion deficit this year, although the state has some of the highest tax burdens in the nation. The state budget has ballooned from $79.8 billion in fiscal 2004-05 to $102.3 billion this fiscal year, a jump of 28 percent.

“States are in direct competition with each other for human capital and business investment. State governments that think they can attract jobs and people, and grow their economies, by taxing their citizens at a higher rate than their neighbors are sadly mistaken,” said Arkansas state Sen. Steve Faris (D), ALEC’s 2008 National Chairman. “Legislators should take a close look at where their state ranks in this book and use it as a tool to help them improve.”

Good Policies Reversed

Moore said he has become somewhat discouraged that government officials at all levels apparently have failed to recognize the benefits of tax cuts, spending controls, and open markets.

“We’ve gone from $25 trillion to $56 trillion of asset value in 25 years,” said Moore. “Policies that were enacted in the 1980s to bring this about are being reversed.”

He cited presidential candidates and state lawmakers who have been promoting and enacting tax hikes, expanded entitlement programs, and trade restrictions.

“I think we are going to see tough times in state budgets in 2008,” Moore said. “Most states have had enormous spurts of spending growth. They can’t keep growing their expenditures as they have been doing. Much of the rest of the world is using the Reagan model, because they see the benefits that have resulted, and here many people are moving away from it.”

Steve Stanek (stanek@heartland.org) is managing editor of Budget & Tax News and a research fellow at The Heartland Institute.
A Look at Rich States, Poor States

Rich States, Poor States, by Arthur Laffer and Stephen Moore, ranks states’ economic competitiveness based on policies that have been shown to cause people and investment capital to move into and out of states. The book is divided into three sections in addition to the State Competitiveness Rankings.

Winners and Losers
Section I: State Winners and Losers details the migration of thousands of Americans from areas with high tax burdens to places with greater economic freedom. States with a high propensity to tax and spend are finding their wealthiest and most productive citizens moving across borders into those imposing less of a financial burden.

The authors note these former citizens are generally the “highest achievers and those with the most wealth, capital, and entrepreneurial drive.” Laffer and Moore note that when the wealthy leave a state with high taxes, the tax base is reduced and the state is worse off than before.

Evidence of this is taking place all over the country, the authors note, as Americans are leaving California and the New England states in record numbers, preferring southern states such as Florida, Georgia, and Tennessee, and western states such as Idaho, Nevada, and Wyoming.

Important Factors
Section I introduces the 16 factors used in the ALEC-Laffer State Economic Competitiveness Index:
- Highest marginal personal income tax rate
- Highest marginal corporate income tax rate
- Progressivity of the personal income tax system
- Property tax burden
- Sales tax burden
- Tax burden from all remaining taxes
- Estate tax/inheritance tax (Yes or No)
- Recent tax policy changes 2005-06
- Debt service as share of tax revenue
- Public employees per 10,000 residents
- Quality of state legal system
- State minimum wage
- Workers’ compensation costs
- Right-to-work state (Yes or No)
- Tax/expenditure limit
- Education freedom index

‘Roadmap to Prosperity’
Section II: The State Roadmap to Prosperity shows low taxes increase the incentive to work and thus increase income, wealth, employment, investment, and immigration. An in-depth look at the “Irish Miracle” proves this point.

The decision by Ireland’s lawmakers in the 1990s to dismantle that nation’s welfare state—cutting taxes and privatizing a variety of government services—has paid huge dividends. Businesses and skilled workers are flocking to Ireland.

Within a decade Ireland went from being one of Europe’s weakest economies to being one of its strongest. “The Irish are the Celtic Tiger of Europe,” Laffer and Moore write, “and low tax rates have played a critical role in this amazing economic rehabilitation.”

“Rich States, Poor States... ranks states’ economic competitiveness based on policies that have been shown to cause people and investment capital to move into and out of states.”

Laffer Curve
Within Section II, the Laffer Curve is used to explain the adverse effects of high taxes. The principles behind the Laffer Curve state there is a point where any increase in taxes actually reduces tax revenue, and tax cuts increase revenue. Delaware, for example, makes an excess profit, relative to its neighbors, on alcohol sales because of its much lower beer taxes. This is yet another example of consumers “voting with their feet” and opting to spend their money in states that will tax them less.

Section II also examines regulation, debt, minimum wage laws, tort system costs, education, fiscal discipline, the progressive income tax (in which tax rates go up as taxable income climbs), and the estate tax.

Laffer and Moore argue a progressive income tax encourages taxpayers to leave, discourages businesses from entering, and increases unemployment while lowering real income. The estate tax, or “death tax,” they write, “is an unfair double tax on income,” as income is taxed at the time it is earned and then again when it is passed on to heirs.

‘State Spending Binge’
Section III: The State Spending Binge examines the recent lack of fiscal responsibility at the state level. The authors note state lawmakers tend to spend budget surpluses during years of strong economic performance, which later results in budget deficits as the programs remain in place during lean years. Lawmakers then attempt to make up the difference by raising taxes.

The second measure, the Economic Outlook Rank, is a forward-looking forecast based on a state’s current standing on the 16 state policy variables noted above.

In today’s international marketplace the future outlook is critical because the competition for capital and labor is more intense than ever.

Companies looking to invest in the United States face some of the highest tax rates in the industrialized world. The ALEC-Laffer State Economic Competitiveness Index will be valuable for states hoping to attract global investment and lure domestic and local ventures.

—summary by Steve Stanek
Transparency

Continued from page 1

The site was mandated by the Federal Funding Accountability and Transparency Act of 2006, also known as the Coburn-Obama bill after its main sponsors, Sens. Tom Coburn (R-OK) and Barack Obama (D-IL). The site launched December 13.

Coburn, who spoke at the launch briefing in Washington, DC, commended OMB for successfully mastering a “Her-culean task” that will lift a veil on what happens in Washington and help ensure a free society.

“The only thing that enables us to have a free society is transparency,” Coburn said. “It will make the government more efficient through its accounting and financial management.”

Partnership Key

Robert Shea, OMB’s associate director of administration and government performance, who led the development of USASpending.gov, unveiled the Web site and led the audience through a virtual tour.

Shea said he initially doubted whether the task given to him by Congress could be accomplished. He credited a partnership with the watchdog organization OMBWatch, which had previously created a Web site that already incorporated many features similar to those required by the 2006 legislation.

“We saw what could be done when OMBWatch launched their version, and we partnered with them,” Shea said.

Less Than $1M Spent

Shea explained the administration purchased the software on which OMBWatch’s Web site was based for about $600,000 and created the entire database for less than $1 million.

The Web site, accessible at http://www.USASpending.gov and http://www.federalspending.gov, allows taxpayers to access comprehensive information on federal expenditures, including grants and contracts above $25,000. Among other things, the information includes recipient, award, basic details on the transaction, and funding agency.

“It’s a free society. It will make the government more efficient through its accounting and financial management.”

In addition, several features not required by the legislation have been incorporated, such as providing information on the level of competition of a contract and a wiki forum allowing a feedback discussion.

A Washington Times editorial argued the Web site is shedding “too little light,” but added it “does provide real insight into government’s operations, including some genuine outrages, given a little computerized elbow grease.”

Picture Grows Clearer

Sean Moulton, director of federal information policy for OMBWatch, thinks the Web site is a terrific first step toward greater transparency in federal government spending.

“The site gives us a much clearer picture of federal spending, and the fact that it leads us to a series of new questions shouldn’t detract from the fact that it quickly and easily answers so many questions that previously were so frustratingly elusive,” Moulton said. “However, I would agree that the biggest remaining limitation is the data itself, the lack of details, etc.”

Proponents of the movement for transparency in government spending believe this action, plus the fact the federal Web site cost less than $1 million, defies naysayers who often claim achieving transparency in government spending is too costly to pursue.

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

INTERNET INFO


For information on the transparency in government spending movement: http://www.atr.org

Tell Me What You Think!

Write to me at:

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Managing Editor
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The Heartland Institute
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Chicago, Illinois 60603

Or drop me an email: stanek@heartland.org

OpenBooks in Oklahoma


The Web site can be accessed at http://www.openbooks.ok.gov. It provides Sooner State taxpayers with comprehensive information on how their tax dollars are spent.

— Sandra Fabry
Michigan Moves to Collect Union PAC Money

By Ryan Bedford

Michigan’s Office of the State Employer (OSE) wants state agencies to have the power to deduct political action committee (PAC) contributions conflicts with state law and should not be permitted, according to Michigan Attorney General Mike Cox (R).

The OSE in December asked the state’s Civil Service Commission to permit state agencies to take the deductions. A decision is pending.

The Michigan-based Mackinac Center for Public Policy argues the OSE should not be advocating for union political benefits.

“The OSE’s responsibility to deal with the unions in collective bargaining in no way carries over to the unions’ political activities,” according to an analysis by the center’s legal analyst, Patrick J. Wright.

Conflict of Interest

Wright contends permitting payroll PAC deductions would put the state in the position of favoring one special-interest group over others.

“If state agencies are empowered to perform payroll deductions that benefit union PACs, why shouldn’t this opportunity be afforded to other political activists, such as the National Rifle Association, the National Organization for Women, the Sierra Club, National Right-to-Life, or the PACs of the Republican and Democratic parties?” Wright wrote.

“Even if the state received a fee that fully reimbursed the cost of collecting each of these political contributions, the state would shed its neutrality and become a facilitator of special-interest politics,” Wright continued.

INTERNET INFO


VEBAs: Union Slush Funds

Faced with dwindling member rolls and stretched budgets, union bosses have found a new way to fund their operations.

In “VEBAs: Union Slush Funds for the 21st Century,” the Capital Research Center (CRC) writes, “Labor unions have been searching for a revenue enhancer ... and they’ve found it in VEBAs, the acronym for a heretofore obscure entity called a ‘voluntary employee benefit association.’”

“[P]ermitting payroll deductions of PAC contributions conflicts with state law and should not be permitted, according to Michigan Attorney General Mike Cox.”

Major U.S. employers facing bankruptcy have found union bosses will grant major concessions in return for billions of dollars in cash earmarked to fund employee benefit trusts. For union bosses these multibillion-dollar concessions are a “golden ticket to power” and are protected from the U.S. Department of Labor’s transparency regulations, CRC notes.

In 2007, the struggling United Auto Workers assumed responsibility for the health care trust General Motors Corp. owes its retirees, totaling $35 billion. The deal is similar to the 1998 UAW/Caterpillar deal in which the union took over a $32.3 million trust to fund payments for better health care coverage. Little oversight was provided, and within six years the trust fund ran out of money.

The 2007 UAW/GM deal likewise includes little oversight and gives the union an out if it again proves to be a bad manager. If the fund runs short, GM will infuse more funds and lobby for a federal takeover. Nobody knows what will become of the $35 billion if the UAW passes its retiree obligations onto the feds.

GM’s move was incredibly irresponsible because it “endangers the fiscal well-being of its retirees and hurts the public interest by thwarting the progress the Labor Department has been making in trying to more closely monitor union finances,” wrote CRC.

INTERNET INFO


School Board Elections

“A school board member in Rochester and a nonprofit organization in west Michigan ... say the public should be aware of the time, money and organization put into local races in particular by the political arm of the Michigan Education Association and its local affiliates,” writes the Mackinac Center for Public Policy.

The center cites Rochester Community Schools board member Steven Kovacs, who notes candidates not backed by the teachers’ union must run against opponents backed by an organization that covers the costs of fliers, postage, robocalls, public endorsements, get-out-the-vote efforts, phone calls, and mail campaigns.

“How do you run against a machine like that?” Kovacs asked.

The union understands the power its local politicking has established and is unapologetic.

Campaign classes are regularly held during MEA’s state conferences. Classes include “Elect your Employer,” “We Elected Our Employer, Now What?” and “I Brought You into This World and I Can Take You Out!—How to Run a Successful Board Recall Campaign.”

Brochures advertise, “There is no more important elected official in the lives of MEA members than your local school board member.”

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

INTERNET INFO


TEN PRINCIPLES of STATE FISCAL POLICY

1. Above all else: Keep taxes low
2. Don’t penalize earnings and investment
3. Avoid “sin” taxes
4. Create a transparent and accountable budget
5. Privatize public services
6. Avoid corporate welfare
7. Cap taxes and expenditures
8. Fund students, not schools
9. Reform Medicaid programs
10. Protect state employees from politics

From Ten Principles of State Fiscal Policy, The Heartland Institute, 2006.

http://www.heartland.org/Article.cfm?artId=19354

To order copies, please call 312/377-4000 or email think@heartland.org.
Court, Congress Move Against ‘TV Taxes’

By Natasha Altamirano

In a victory for consumers and other advocates of equal tax treatment of telecommunications services, Franklin County, Ohio Judge Daniel Hogan has struck down a state tax levied on subscribers of satellite television.

Hogan found the tax unconstitutional because it applied only to satellite TV and thus gave an unfair advantage to cable companies and providers of other multichannel video services.

“Illogical and Unconstitutional”

Officials with DIRECTV, Inc. and EchoStar Communications Corp., the nation’s leading satellite service providers, applauded the November decision.

“EchoStar and DIRECTV have long said that taxing satellite subscribers more than cable subscribers is illogical and unconstitutional, and that this discrimination is unfair because no group of consumers should be singled out for a heavier tax burden based solely on what technology they use, particularly when they are predominantly rural or price-sensitive,” the companies announced in a joint statement.

Ohio had been one of six states—the others are Florida, Kentucky, North Carolina, Tennessee, and Utah—to levy video service taxes on satellite TV significantly higher than those on cable.

Ohio’s satellite viewers forked over an estimated $26.2 million in extra taxes in 2005.

“Franklin County, Ohio Judge Daniel Hogan has struck down a state tax levied on subscribers of satellite television.”

Congressional Response

A bipartisan group in Congress recently introduced legislation, the State Video Tax Fairness Act, to prohibit states from imposing discriminatory taxes on multichannel video programming products.

“Quality of service, variety, and cost to consumers should be the deciding factor in choosing a television service,” said Rep. Chris Cannon (R-UT), who co-sponsored the bill (H.R. 3679) with House Judiciary Committee Chairman John Conyers (D-MI) and Reps. Rick Boucher (D-VA) and Trent Franks (R-AZ).

“When the government favors one service over another using the tax code, consumers and taxpayers always lose. Instead of playing favorites, we should level the playing field and let businesses compete for subscribers,” Cannon continued.

Reps. Artur Davis (D-AL), Jim Jordan (D-OH) and Janice D. Schakowsky (D-IL) also endorsed the bill.

The Ohio Department of Taxation is appealing Hogan’s ruling, consuming more taxpayer dollars in the process.

Equally Bad Alternative

Noting states could decide to raise taxes on cable instead of lowering them on satellite systems, the National Taxpayers Union (NTU) is fighting to uphold the ruling against satellite taxes, keep additional taxes on any television service at bay, and support the State Video Tax Fairness Act.

“Much of the debate over tax discrimination in the video services community has improperly focused on a form of ‘fairness’ that only fills government’s coffers further—that is, making sure providers of similar services suffer the misery of equally harsh taxes,” NTU Government Affairs Director Kristina Rasmussen wrote in an open letter to Congress supporting H.R. 3679. “The ‘fairest’ fee or tax rate—for providers and taxpayers alike—is zero.”

Natasha Altamirano (naltamirano@ntu.org) is communications manager for the National Taxpayers Union, a nonpartisan citizen group working for lower taxes and smaller government at all levels.

St. Louis

Continued from page 1

opposition proved too much to bear for the beleaguered agency and County Executive Charlie Dooley (D) and his allies on the County Council.

The current transit sales tax is one-quarter cent. On November 19 the council voted 5-2 to ask voters for an additional half-cent sales tax, which would have tripled the tax.

But only 27 days after voting to place Prop M before voters, the council voted 7-0 on December 18 to repeal the ordinance placing the measure on the ballot. County officials obtained a court order the next day removing the proposition from the ballot.

Citizens Rise Up

St. Louis County residents, still in shock from the second consecutive cycle of 20 to 30 percent increases in property tax reassessments on their homes, wasted little time in establishing a campaign committee to defeat the proposal, called Prop M. They received unexpected help from Metro in the form of a bungled court case and a profane insult by Metro’s own chief executive officer.

Even before the council voted to place the sales tax increase on the ballot, the influential weekly publication Call Newspapers came out in opposition to Prop M.

Executive Editor Mike Anthony wrote in an editorial concerning voters in the southern portion of St. Louis County, “They have little incentive to vote for a tax-rate increase that would provide them no tangible benefit whatsoever except for another chance to subsidize public transportation for the rest of St. Louis County.”

In 2003, Metro completed an eight-mile, cross-county extension of the light-rail system known as Metrolink. The project was delivered 15 months late and $126 million over budget.

“Less than one month after voting to put a 200 percent sales tax increase on the February 5 ballot, the St. Louis (Missouri) County Council voted to remove the proposal.”

Jury Slaps Metro

In an attempt to shift the blame for the bungled project, Metro sued the contractors, known as the Cross County Collaborative (CCC), for more than $80 million. After 100 days of testimony in the longest trial in St. Louis County history, the jury denied Metro’s claims against CCC and instead awarded CCC $2.6 million in counterclaims plus $700,000 in interest.

A judge now is considering a request that Metro pay CCC’s legal fees, which total $27.3 million.

CEO Issues Insult

Shortly before the verdict, Metro’s $250,000-a-year CEO, Larry Salci, was being interviewed by the local Fox News television affiliate and was caught on camera afterwards disparaging the reporter by remarking, “He fits right into St. Louis. He’s a [expletive] clown.”

On December 7 Salci and Metro’s chief legal counsel resigned. Together they received a severance package totaling $387,000.

Measure Could Reappear

Asked if Prop M will reappear on the ballot, Republican County Councilman John Campisi, who voted against it from the beginning, said, “Whenever it does, I will oppose it again.”

Dooley has stated he wants to repair Metro’s public image before bringing the proposal back, but Campisi said the agency’s actions have awakened “a sleeping giant” of opposition.

Tom Sullivan, a longtime Metro watchdog, figures the total overrun cost on the light rail extension project at roughly $300 million. That includes an additional $150 million in bonds that were issued, interest on the bonds, legal costs, and judgments. Sullivan says the money could have bought 1,000 buses.

Michael Dooley, county executive for St. Louis County, had hoped to raise sales taxes 200 percent to fund transit in the metro region.
December 22, 2007

Mr. President:

This past week, Congress passed an omnibus spending bill that will soon be presented for your signature. While it is consistent with the total budget targets your administration has set, the 3,417 pages of the bill and associated reports are bloated by more than 9,000 earmarks which were subjected to little or no review during the scant 24 hours between the publishing of the bill text and the House voting to pass it.

When combined with the more than 2,000 earmarks in the Defense Appropriations Bill this Congress has churned out over 11,000 earmarks this year. The vast majority of these earmarks do not even appear in the legislative text, but rather are buried in the committee reports that accompany the bill, further removing them from proper review and scrutiny. While the total number of earmarks is down compared to record highs and there is increased transparency, there are still far too many to be effectively vetted.

The rushed way in which Congress passed the omnibus—one of the largest pieces of legislation ever considered—made a mockery of our legislative process, and Congress itself bears the responsibility and shame for that.

But you have the power to send a message both to Congress and the American people that the waste and corrupting influence of earmarks will not be tolerated. A December 18 legal analysis by the Congressional Research Service concluded that “because the language of committee reports does not meet the procedural requirements of Article I of the Constitution—specifically, bicameralism and presentment—they are not laws and, therefore, are not legally binding on executive agencies. ... Given both the implied legal and constitutional authority as well as the long-standing accepted process of Presidents, it appears that a President can, if he so chooses, issue an executive order with respect to earmarks contained solely in committee reports and not in any way incorporated into the legislative text.”

On December 20, you stated that you were “instructing the budget director to review options for dealing with the wasteful spending in the omnibus bill.” We applaud you for this leadership, and ask that you follow through by issuing an executive order with respect to earmarks tucked into committee reports and statements of managers. Such an action is within your Constitutional powers, and would strike a blow for fiscal responsibility now while setting a valuable precedent for the future.

Tell Congress and the American public that the era of earmarks is over, and that the Congressional “favor factory” which mints earmarks is closed. The American taxpayer will applaud such an action, as will the many honest legislators in Congress who are trying to fight the broken and corrupt appropriations machine. We hope that you embrace this opportunity, and thank you for your leadership on this issue.

Sincerely,

American Conservative Union
American Values
Americans for Prosperity
Americans for Tax Reform
Calvert Institute for Policy Research
Citizens Against Government Waste
Club for Growth
Commonwealth Foundation
Eagle Forum
Evergreen Freedom Foundation
Family Research Council
Freedom Works
Illinois Policy Institute
Larry Kudlow
Kudlow & Company, LLC
National Tax Limitation Committee
National Taxpayers Union
Porkbusters.org
Taxpayers for Common Sense
Taxpayer Revolt, Rebel Commissioners
Stave Off Cook County Tax Hikes

By Steve Stanek
Complaints from thousands of angry taxpayers and infighting among county commissioners have held off nearly $890 million of proposed tax and fee hikes in Cook County, Illinois.

Cook County Board President Todd Stroger (D), who leads the nation’s third-largest county government, had proposed raising revenues by $888 million.

Taxpayers flooded the county commissioners with phone calls, emails, and letters of protest, apparently to good effect.

No Support
“Elected officials, believe me, this is no bluff. There is no support whatsoever for new taxes,” said County Finance Committee Chairman John Daley (D), brother of Chicago Mayor Richard M. Daley, during a committee meeting in late December. “This is not a game.”

Nevertheless, a “tsunami of tax increase proposals,” in the words of Civic Federation President Laurence Msall, remains a possibility. The Civic Federation is a Chicago-based government watchdog organization.

Msall is correct, according to Forest Claypool (D), one of at least seven county commissioners (of 17 total) who have indicated opposition to any tax or fee hikes.

No Compromise
“It’s premature to sound the death knell for tax hikes, because a majority of the board is in support of tax hikes,” Claypool said. “It’s that they can’t agree on what taxes to raise—sales taxes, hotel taxes, telephone taxes, other taxes. February 28 is the deadline for our budget, so there may be compromise as we near that deadline. So far no one wants to compromise.”

“Complaints from thousands of angry taxpayers and infighting among county commissioners have held off nearly $890 million of proposed tax and fee hikes in Cook County, Illinois.”

Claypool said public pressure against any tax or fee increases “has been intense.”

“Taxpayers are seeing a dramatic rise in taxes and a decline in government competence at all levels, whether you’re talking public schools, roads and bridges, or health care,” Claypool said. “Cook County government is probably the most incompetent and dysfunctional of all.”

Corruption Tax
But it’s not just incompetence that has taxpayers crying “enough,” Claypool says. He also believes “the constant backdrop of news stories about government corruption and waste here in the county and in Chicago and Springfield (the state capital) has shown people they really are paying corruption and dysfunction taxes.”

Dozens of former Chicago city workers and close associates of the Daley administration have been convicted of crimes in recent years. Illinois’ immediate past governor and scores of his associates have been convicted of federal crimes, and current Gov. Rod Blagojevich (D), his wife, and associates of theirs are the apparent targets of several federal criminal probes.

Some Blagojevich administration officials have been convicted of crimes

CONTINUED on right

Bottled
Continued from page 1

Bottled Water Association (IBWA) filed a lawsuit in Cook County Circuit Court to overturn the tax. Other plaintiffs in the suit include the Illinois Retail Merchants Association, Illinois Food Retailers Association, and American Beverage Association.

“When you look at Chicago, with the taxes and regulations and bureaucracy that people have to put up with, and you hear complaints that there aren’t enough grocery stores, this tax is another reason people don’t open groceries in the city,” said Tim Bramlet, executive director of the Illinois Beverage Association.

“Chicago has become the first city in the nation to tax bottled water. The 5 cents a bottle tax took effect January 1.”

“Store owners can go to the suburbs and don’t have to put up with this,” Bramlet said. “It’s another burden to collect and pay the tax, not to mention it will discourage sales of bottled water in the city. And that will probably reduce sales of other items that people buy with water. Anyone who lives near the boundary of the city can easily go outside the city and save money.”

Environmental Pretext
The city expects to raise about $10.5 million per year through the tax. It was imposed after environmentalists started slamming bottled water containers as a pollution concern. They reason putting a tax on each bottle of water will reduce consumption and the number of containers that end up in landfills.

Local activist Rachael Albers told the Chicago Tribune, “Bottled water is an easy way to get people involved in protecting the environment. Not everyone can buy a Prius or hybrid car. But everyone can stop drinking bottled water.”

Alderman George Cardenas (D) sympathized with that argument and introduced the tax hike ordinance.

Critics of the tax, including the lawsuit plaintiffs, note none of the expected revenue is earmarked for anything related to the environment.

Statutory Prohibition
The bottled water and retail industries are attacking the tax on several fronts. They argue the ordinance unlawfully taxes a food product, which is expressly prohibited by Illinois law.

Furthermore, the Illinois State Constitution requires tax uniformity, meaning a specific product cannot be taxed when similar products are not. The bottled water tax does not affect other packaged beverage products that are made mostly from water.

‘Narrowly Focused, Punitive’
“This narrowly focused, punitive tax will make it more difficult for consumers to drink bottled water, and that is not in the public interest,” said IBWA President and CEO Joe Doss in a statement announcing the lawsuit.

“Bottled water is growing in popularity because of its consistent quality, taste, and convenience. And many people choose it over other beverages because it does not contain calories, caffeine, sugar, artificial flavors or colors, alcohol, or other ingredients consumers may wish to avoid or moderate,” Doss continued.

Doss added, “The bottled water tax places an unlawful burden on retailers, ranging from small, locally owned grocers to the larger chain operations that employ thousands of Chicagoleans and invest in the City’s economy with jobs, taxes, and development. This tax just doesn’t make legal or fiscal sense, and it will cause consumers to shop for bottled water outside city limits, thereby hurting Chicago’s retail and wholesale businesses.”

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related to their involvement with state government.

“I think people are realizing that paying more taxes is simply enabling decrep-it and dysfunctional government,” Clay-pool said.

Stroger and his allies contend huge tax and fee hikes are needed to keep gov-ernment services running. Stroger also argues taking a big chunk of new revenue now will forestall the need for numerous smaller tax hikes in the future.

Minimum Level
Stroger’s office recently issued a response to criticisms that have rained down upon county leadership.

It states in part, “departments were asked to justify every expenditure as well as to provide a three-year expendi-ture forecast that included agreed-upon union contract salary increases and non-personnel costs based on the industry rate of inflation.”

That statement was followed a few days later by an embarrassing incident on Chicago’s WGN Radio, one of the largest radio stations in the Midwest. In an apparent act of desperation to defend his boss, Stroger’s $100,000-a-year com-munications director called the station during a Stroger appearance and went on

the air pretending to be a sympathizer who identified himself as “Jonathan from Chicago.”

“Jonathan” was actually Andrew Gar-ner, Stroger’s paid spokesman. One day later Garner was back on WGN Radio, where he apologized for “a terrible lapse in judgment” and said Stroger did not know he would call in.

Corruption Fight
Cook County Commissioner Tony Pera-ica (R) is less than impressed with Stroger’s budgeting. He has repeatedly butted heads with the board president and Stroger’s father, who resigned from the board presidency in 2006 after suffer-ing a stroke and installing his son to take his place.

“The best way to fight tax increases is by fighting the corruption that drains tens of millions of dollars from the county budget,” said Peraica. He is running for Cook County State’s Attorney and pledg-es to fight corruption if elected.

Peraica has long complained of ille-gal patronage hiring, rigged contracts, and other waste and corruption in Cook County. In an effort to expose those prob-lems, his campaign Web site includes links for citizens to find information on county vendors and a list of Cook County government workers.

‘Totally Confrontational’
“Stroger is totally confrontational,” said Cook County Commissioner Mike Quig-ley (D).

“My job is to make the budget better,” Quigley said. “They’re not listening to me or Forrest [Claypool] or any of us who are trying to improve the budget. They had all kinds of time. They could have streamlined the budget, made things more efficient.

“Instead,” Quigley continued, “we come back from the holidays and they send out a letter saying, ‘Blame these guys.’ Their answer is still, ‘Give us another 2 per-cent points on the sales tax.’”

Cook County’s sales tax is now 0.75 percent. Stroger has proposed more than tripling the tax to 2.75 percent to raise $750 million a year. The total state and local sales tax would climb to 11 percent in Chicago, Cook County’s largest city.

“I’m going to try to promote positive change without a tax hike,” Quigley said. “If we can make a positive change without a tax hike, I’m all for it.”

— Steve Stanek

States’ Fiscal Conditions Are Getting Shakier

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though most states experienced strong revenue growth during the past fiscal year, expected revenue declines and spending pressures could leave many states in worse financial condition this fiscal year.

That’s one of the findings in the annual “Fiscal Survey of States” conducted by the National Govern-ors Association (NGA) and National Association of State Budget Officers (NASBO). The survey results were released in December.

“NGA and NASBO found that while most states experienced healthy revenue growth during fiscal 2007, some states already have seen significant deterioration of their fiscal conditions and expect revenue and expenditure growth to slow significantly in fiscal 2008,” the groups said in a joint state-ment.

Spending Surge
State spending in fiscal 2007, which ended June 30 in most states, rose 9.3 percent, above the 30-year aver-age rate of 6.4 percent and more than

Medicaid Pressures
Medicaid is supposed to provide health insurance to poor persons, but many states allow individuals earning far more than the poverty level to qualify. Even with the federal govern-ment providing about half the funding for Medicaid, the program is a heavy burden for most states. The report notes Medicaid typically makes up 22 percent of a state’s budget.

The weakening housing market is also expected to have an impact, according to NGA and NASBO, “both directly from lower sales tax revenues and indirectly as local governments struggle with declining property val-ues and decreasing property tax reve nues.”

— Steve Stanek

Growth costs for Medicaid, govern-ment employee pensions, and infra-structure maintenance and repair will put the most pressure on state budgets this year, according to the report.

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INTERNET INFO

“Fiscal Survey of States”: http://www.heartland.org/article.cfm?artId=22630

INTERNET INFO

Tony Peraica’s Cook County govern-ment information: http://www. joinperaica.com/blogs/blogview.asp?blogID=24356
Michigan Governor Promises: ‘I’m Not Ever Going to Raise Taxes Again’

By Jack McHugh

At the end of a year-long, successful campaign to impose a $1.4 billion tax hike on Michigan’s groaning economy, Gov. Jennifer Granholm (D) announced, “I’m not ever going to raise taxes again. It’s too hard. It’s too impossible.”

Granholm made her announcement in a December 5 interview published by the Associated Press.

The tax hike adds a further burden on a state with the nation’s highest unemployment at 7.7 percent, total employment down 10 percent since 2000, falling personal income in absolute terms, and the nation’s deepest real estate price declines.

Year of Tax Hike Rhetoric

Early in 2007 Granholm declared a short-fall in projected state revenue represented a “crisis” for which there was only one answer: a tax increase.

After setting the stage rhetorically, Granholm began her campaign for more revenue with a failed effort to push through a 2 percent excise tax on all services.

On the last day of the 2007 fiscal year the legislature had not passed a budget for FY 2008. In the early hours of October 1, as state government was beginning the process of shutting down, Granholm finally got what she wanted—a $760 million income tax hike and a different service tax, this one a 6 percent levy on selected services, most of which were business-to-business. The service tax was projected to generate another $750 million.

At the end of a year-long, successful campaign to impose a $1.4 billion tax hike on Michigan’s groaning economy, Gov. Jennifer Granholm announced, ‘I’m not ever going to raise taxes again. It’s too hard. It’s too impossible.’

Huge Spending Increases

More than a few eyebrows were raised when the legislature used the new money to increase gross spending by some $900 million, to $42.7 billion. “What happened to the ‘crisis?’” taxpayers asked.

Also, the 6 percent service tax was quickly seen to be a jobs killer that would take a big bite out of Detroit’s struggling Big Three automakers. The service tax component was repealed two months later and replaced by a 22 percent, $600 million surtax on the state’s general business tax.

This has been a long, strange fiscal trip for a state that’s been in a one-state recession since 2003, but it’s easily explained by Granholm’s commitment to her core political base—public employees and their unions.

Despite blather about straitened revenues meaning “people will die” (she actually said this), from the start many newspaper editors, pundits, and scholars at the Mackinac Center for Public Policy viewed the campaign as being about maintaining business as usual in an unsustainable big-government establishment.

Skeptical Public

Business leaders in the state are skeptical about the sincerity of Granholm’s “I’ll never raise taxes again” promise.

“In the same interview where the governor shares her epiphany, she then moves right along to a discussion of support for fee increases to fund state departments,” noted Charlie Owens, director of the state chapter of the National Federation of Independent Business.

Owens predicts the only difference will be “a change in the vernacular whereby tax increases are called something else.” His verdict: “Neither the business community nor the taxpaying public will be fooled by such a play on words.”

Todd Anderson, vice president for government relations at the Small Business Association of Michigan, is a little more optimistic. After affirming the extreme displeasure of his members at the new tax hikes, he said, “We’re pleased at least that new taxes are off the table.”

Questionable Conversion

But Anderson questions the governor’s commitment to “cuts and reforms,” which was the alternative Granholm proposed in her “no new taxes” interview.

“She said tax hikes are off the table because they are ‘too hard.’ Does she think [structural] reforms will be easy?” Anderson said.

Granholm has frequently scoffed at specific recommendations for “transformational reforms” made by organizations such as the Mackinac Center, Michigan’s free-market think tank.

Tricia Kinley is director of tax policy and economic development for the Michigan Chamber of Commerce. Her one-line reaction to Granholm’s putative mid-life conversion sums up the general view in the business community: “Nice news. It just comes one year too late.”

Jack McHugh (mchugh@mackinac.org) is senior legislative analyst for the Mackinac Center for Public Policy, a research and educational institute headquartered in Midland, Michigan.
The Michigan Diaspora—State Policies Drive Out Residents, Jobs

By Michael D. LaFaive and Michael Hicks

Michigan residents continue to flee the Great Lake State and are doing so at a near-record rate, according to one vital measure.

A leading indicator of a Michigan diaspora, or dispersion, comes from United Van Lines (UVL), which annually releases its household moving data for the calendar year.

“Michigan residents continue to flee the Great Lake State and are doing so at a near-record rate, according to one vital measure.”

Citizens Moving Out

In January 2006, Michigan was tied with North Dakota for number one among the 48 contiguous states for outbound client traffic, at 66 percent. Through October 2007, Michigan stood alone in UVL rankings at number one, with 66.4 percent of its traffic being outbound.

“This is only one-half of one percentage point off Michigan’s all-time high of 66.9 percent, a figure the state has not seen since 1981, when the state’s annual unemployment rate was 12.5 percent.

Saginaw-based Stevens Worldwide Van Lines reports numbers similar to those posted by UVL. Morris Stevens, chairman and CEO of the 102-year-old company, told the Mackinac Center that in calendar year 2007 his company’s shipments were running 2 to 1 in favor of leaving Michigan.

Stevens believes the outbound traffic is “a function of the weak economy as displaced workers and young people leave to find better opportunities elsewhere.”

Today Michigan has the worst unemployment rate in the nation, 7.7 percent, but even that figure is deceptive, masked by the state’s ability to export its unemployed.

Policies Prompt Flight

Michigan policymakers have done little to slow this outbound migration. In fact, both political parties have done the opposite, by catering to special interests that benefit from higher taxes or advocate for the imposition of additional regulatory burdens. Such policies raise the relative cost of living and working in Michigan.

Lansing’s most recent policy mistake—a nearly $1.4 billion tax hike imposed in 2007—has not gone unnoticed by political and business leaders alike.

Since the Michigan legislature and governor approved the tax hike last year, the state of Indiana has erected billboards near the border encouraging Michigans to move.

People are the basis of all economic development. It is people who create, produce, employ, work, and generate wealth. Thus few things will have a stronger effect on a state’s economy than stanching the flow of its people to “opportunity states” by making itself more attractive to people and job providers alike.

The impact of Michigan’s diaspora may be starting to sink in with lawmakers. State Demographer Kenneth Darga was invited to speak at the state’s annual Consensus Revenue Estimating Conference, held on January 11. This is the first time a demographer has been invited to testify at this conference since at least 1980, and may be the first time ever.

GDP Plummet

Michigan’s current economic troubles have no precedent. Customarily, the state has done better than other states when the national economy is growing and relatively worse when it contracts. This time it’s different: Michigan’s relative economic performance as measured by its rank among the states in per capita state Gross Domestic Product has plummeted—during a period of economic growth nationally.

State GDP is the value of all the goods and services produced within the state’s geographical borders. In 1999 Michigan ranked 16th in the nation in nominal state GDP per capita. By 2006 it had fallen to 39th place, and it is likely to drop further.

“Today Michigan has the worst unemployment rate in the nation, 7.7 percent, but even that figure is deceptive, masked by the state’s ability to export its unemployed.”

Reforms Long Advocated

Despite all these problems, the Michigan malaise can be reversed. For starters, we recommend the state adopt many of the hundreds of policies the Mackinac Center has already proposed. Below are four categories on which the Center has written exhaustively.

Tax Reform. Repeal the new Michigan Business Tax (which replaced the Single Business Tax) and replace it with nothing.

Budget Reform. Adopt the more-than $2 billion in spending reductions recommended by the Mackinac Center in major budget studies, commentaries, and special Policy Briefs.

Regulatory Reform. Reverse the rapid growth of business regulations, especially in environmental permitting and property rights infringements.

Labor Reform. Adopt labor reforms, such as enacting a right-to-work statute and repealing Michigan’s prevailing wage law.

Economic history over the centuries and from around the world makes it clear that only these types of policies will restore Michigan’s status as a magnet for people and commerce. History also shows what happens to places that fail to attract these.

Michael D. LaFaive (lafaive@mackinac.org) is director of the Morey Fiscal Policy Initiative at the Mackinac Center for Public Policy, a research and educational institute headquartered in Midland, Michigan. Michael Hicks (micks@bsu.edu) is an adjunct scholar with the center and associate professor of economics and director of the bureau of business research for the Miller College of Business at Ball State University in Indiana.
Do you really think Social Security will be there for you?

The current unfunded liabilities of Social Security and Medicare total $33,200,000,000,000*

* Source: Report of the Trustees of the Social Security System

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