High Labor Costs, Housing Slump Drive Calif. City into Bankruptcy

A pedestrian walks down Georgia Street on May 7 in Vallejo, California, where the city council voted overwhelmingly in favor of filing for Chapter 9 bankruptcy protection. The city of 117,000 faces a $16 million shortfall and no reserve funds for the fiscal year that begins July 1.

By Steve Stanek

lavish pay, pensions, and other perks for city workers, combined with a housing slump, have landed Vallejo, California in bankruptcy court. Council members unanimously approved the Chapter 9 bankruptcy filing in May after budget officers told them the city could not continue paying its bills.

Out of a budget of about $80 million, this San Francisco Bay-area city of 120,000 people has a projected $16 million deficit and unfunded pension liabilities of $135 million.

BANKRUPTCY p. 16

Governor Sends Higher Bills to Arizona Property Tax Payers

By Karri Bragg

omeowners across the country are feeling the pinch of higher property tax bills, and tax revolts are popping up all over in response. A recent veto by Gov. Janet Napolitano (D) may have added fuel to the fire for Arizona homeowners.

Since 2006, taxpayers in Arizona have enjoyed a break on their property taxes. Lawmakers that year passed a bill calling for the repeal of the state equalization property tax, saving Arizona homeowners about $250 million in taxes annually.

ARIZONA p. 6
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Tax Rebellion Stirs Talk of Secession in Northwest Cook County, Illinois

By Steve Stanek

A brewing tax rebellion in suburban Cook County, Illinois, which includes the city of Chicago, has local officials and some state lawmakers talking of forming a new county.

The anger at Cook County government was only inflamed on April 30, when County Board President Todd Stroger gave just one day’s notice that he would back out of an appearance in Palatine that had been arranged weeks earlier.

Even without Stroger’s presence, more than 100 persons attended the meeting to vent about a county government that has long had a reputation for political corruption and wasteful spending. The final straw for many of them, though, was the county’s imposition of a $436 million annual sales tax hike that takes effect July 1.

Nation’s Heaviest Burden

That tax hike, which takes the county’s sales tax rate from 0.75 percent to 1.75 percent, gives the area the nation’s highest total sales tax burden and makes businesses in communities on the Cook County side of border lines less competitive than businesses that in some instances are across the street.

“If Stroger had been there, we would have had 300 to 400 people, easily,” said State Sen. Matt Murphy (R-Palatine), who has introduced legislation allowing seven townships in the northwest corner of Cook County to form a new county government. “I was disappointed he didn’t come out here. It was another example of disrespect for this county government’s leadership. According to the Daily Herald [newspaper], for every $7 we send the county, we get $2 back. They could at least pay attention to us.”

Stroger explained his decision to back out of the meeting by saying local officials had “changed the rules” on him. On Chicago Tonight, a local public affairs television program, Stroger said he learned officials would turn the meeting into a village board meeting instead of an open forum for him to discuss issues with residents. He said the meeting format would allow local officials to engage in “political grandstanding.”

Murphy scoffed at the explanation, saying the Illinois Open Meetings Act requires local governments to formally announce a meeting when a quorum of the board would be present at an event where public issues would be discussed. He said Stroger knew this when he agreed to the meeting and should have known it anyway as president of a county board that is also subject to the law.

3-Point Rate Difference

In Palatine and other communities in Cook County, the sales tax burden as of July 1 will be at least 3 percentage points higher than the burden in neighboring counties.

“We’re going to be at 10 percent and Lake County will be at 7 percent,” Murphy said. “We have Costcos equidistant from my house, one in Lake Zurich [in Lake County] and the other in Schaumburg [in Cook County]. Which one do you think people are going to go to? They’re putting us at a competitive disadvantage.”

The Cook County sales tax is one of two huge sales tax hikes to hit the county this year. On April 1 the Regional Transportation Authority, which oversees the Chicago Transit Authority, Metra commuter rail, and Pace suburban bus services, also raised sales taxes. They climbed from 0.75 percent to 1 percent in Cook County and from 0.25 percent to 0.75 percent in neighboring DuPage, Kane, Lake, McHenry, and Will Counties. The RTA tax hike is expected to bring in another $530 million a year.

That $530 million, though, will be spread across six counties. The $430 million Cook County sales tax hike applies only there.

Becoming ‘Crook County’

One Cook County Board member, Republican Tony Peraica, did attend the Palatine meeting. He echoed Murphy’s sentiments, blasting Stroger for failing to “show the respect that the people of the northwest suburbs deserve.” He added “there’s good reason” that Cook County is “beginning to be known nationwide as ‘Crook County.’”

As for the possible creation of a new county, Murphy said it’s a long shot that he’s hoping to make.

“I have had conversations with members on both sides of the aisle,” Murphy said. “I want to get more information on what a new county could look like, what revenues and expenses could look like. If we could do something compelling, we would go to the people to get their legislators to rally for this.”

Steve Stanek (stanek@heartland.org) is a research fellow at The Heartland Institute and managing editor of Budget & Tax News.
Double Taxation of Hospital Services Pushes Patient Bills Up

By Joseph Henchman

As medical costs continue to rise, an under-appreciated factor is states’ double taxation of hospital services. In many states, hospitals must pay sales tax on purchases of medicine and equipment—taxes that get passed on to patients in the form of higher bills.

In a new report, “States Should Avoid Sales Taxes on Nonprofit Hospitals,” the Washington, DC-based Tax Foundation found only seven states exempt all hospital purchases from the sales tax and six states impose sales tax on even nonprofit hospital purchases.

“Just as imposing sales tax on manufacturing inputs leads to hidden taxes and pyramiding on retail consumers, so too does imposing a state sales tax on hospital purchases lead to hidden taxes and pyramiding on patients.”

TAX FOUNDATION

“Ideally, a sales tax should be levied on all goods and services sold at retail, and to prevent distortions and hidden taxes, it should be levied only once on each good or service sold at retail,” the study points out. “Just as imposing sales tax on manufacturing inputs leads to hidden taxes and pyramiding on retail consumers, so too does imposing a state sales tax on hospital purchases lead to hidden taxes and pyramiding on patients.”

The report reviews all 50 states and the District of Columbia to see which impose sales taxes on hospital purchases of medicine, equipment, and other materials.

Thirteen states have a generic sales tax exemption for purchases made by charities.

Thirteen others have provisions specifically exempting nonprofit hospital purchases from the sales tax but not necessarily purchases by other nonprofits or charities.

Seven states exempt inputs purchased by all hospitals. Arkansas and North Carolina exempt certain purchases by nonprofit hospitals.

Seven Tax Everything

Seven states are the worst on taxing hospital inputs. Louisiana, Oklahoma, and West Virginia tax all inputs purchased by nonprofit hospitals, and Tennessee, Washington, and Wyoming tax all but medical equipment purchases. Oklahoma’s tax is upside-down: It taxes hospitals’ inputs but exempts retail sales.

Greg Barker, director of planning and business development with Touro Infirmary in New Orleans, estimated his facility spends $4 million annually in sales taxes on hospital inputs.

“This disadvantage in the marketplace is not good tax policy and does not offer fairness among area hospitals because the tax burden is not equally applied to all facilities,” Barker said. “A $4 million savings goes a long way to improving the financial status of one of New Orleans’ longest-serving hospitals.”

Tennessee Hospital Sues

In the 1970s in Tennessee, Parkridge Hospital in Chattanooga brought a lawsuit after the state ordered it to pay sales tax on its business-to-business purchase of human blood for patient transfusions, even though Tennessee law limits the sales tax to retail sales. Tennessee legislators responded by enacting a specific sales tax exemption for blood purchased by charities.

While the “blood exemption” is still on the books, many other purchases of inputs by hospitals in Tennessee remain subject to the sales tax. Patients in Tennessee thus pay hidden taxes embedded in their hospital bills, and Tennessee’s tax system is less transparent and neutral.

Even states that exempt nonprofit hospital purchases tax other business-to-business transactions that should be exempt.

**Business-to-Business Taxes**

Of those states that impose a state-level sales tax (45, plus the District of Columbia), many impose sales taxes on business-to-business transactions that do not involve a final retail sale, the study notes.

“[M]ore than half the states (27 plus D.C.) tax two or more inputs. 14 states and D.C. tax the purchase of manufacturing machinery, an especially distortionary tax, and Hawaii imposes sales tax on all but one examined business-to-business transactions,” the report notes.

“For many states, exempting inputs from the sales tax should be a part of any tax reform effort,” the study concludes.

**INTERNET INFO**


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Former Illinois Governor, Cubs Owner Try to Swing State Ballpark Buyout

By Liam Rinehart

L ast December, real estate mogul Sam Zell closed one of the biggest deals of his life—a buyout of the Tribune Company, owner of some of the nation’s largest newspapers and broadcast stations.

Zell is now looking to sell two of the Tribune’s other well-known assets—the Major League Baseball (MLB) Chicago Cubs and their home ballpark, Wrigley Field.

Prominent among the potential bidders for Wrigley Field is the Illinois Sports Facilities Authority, a state agency currently run by former Illinois governor Jim Thompson (R). The authority’s best-known asset is US Cellular Field, home of the MLB Chicago White Sox.

Could Cost $800 Million

A purchase of Wrigley would require a steep initial outlay. While Forbes magazine has estimated the value of Wrigley Field at $120 million, reports suggest Zell is asking nearly $500 million. With an estimated $300 million to $400 million needed for ballpark repairs, the potential cost to the buyer could go to $800 million.

Though no deal has been reached, the authority has proposed various financing mechanisms.

The latest proposal, in which Thompson insists no tax dollars would be at stake, would involve private financing, with no bonds issued by the state. Thompson has said team lease payments and the sale of partial naming rights would cover the cost of buying the ballpark.

But Thompson has offered virtually no details on what revenues could be used to pay for renovations. He has ruled out selling personal seat licenses to fund the renovation.

As of press time Thompson had not formally presented his plan to Cubs management.

Some sports fans have asked, on newspaper blogs and sports radio programs, why the state should have any involvement, especially if the ballpark’s sale and renovation can be arranged without taxpayer support.

Opposition to Taxpayer Backing

Thompson’s sketchy proposal, announced in late April, follows an earlier proposal that would have had the state issue bonds to pay for Wrigley’s renovation. That proposal drew widespread opposition, including from Chicago Mayor Richard M. Daley.

The bonds would have been repaid using anticipated growth in sales tax revenues in the Wrigleyville neighborhood, supposedly resulting from the ballpark’s renovation.

Daley, many state lawmakers, and policy experts in the state objected to diverting sales tax revenue to renovate a baseball stadium that is currently privately owned and arguably the most popular MLB park in the United States.

Thompson’s original plan was a new twist on tax-increment financing districts, or TIFs, that tap property taxes. The Illinois Sports Facilities Authority called the new scheme a STIF (for Sales Tax Increment Finance).

“[T]here is still a big question of whether or not stadium revamps actually generate the added economic benefits that everyone is touting. Someone will have to pay, and the taxpayers are definitely in the crosshairs.”

JOHN TILLMAN, CEO
ILLINOIS POLICY INSTITUTE

No Blight in Wrigleyville

In theory, TIF zones are used to promote development in blighted areas, but Wrigleyville by no means falls into that category. The city of Chicago would have taken a financial hit, giving up its share of sales tax revenue growth for the next 30 years.

John Tillman, CEO of the Illinois Policy Institute, pointed out there were fundamental issues at play.

“When you look at this deal with a clear head, you can see that Zell is going to benefit at the expense of the people of Illinois,” Tillman said. “What’s more, there is still a big question of whether or not stadium revamps actually generate the added economic benefits that everyone is touting. Someone will have to pay, and the taxpayers are definitely in the crosshairs.”

The proposed STIF was lambasted by critics and Cubs fans alike, and intense media speculation on the issue took its toll.

Shortly before Thompson announced the authority had dropped its plan to divert sales tax revenues for the stadium, Patty Schuh, spokeswoman for Illinois Senate Minority Leader Frank Watson (R-Greenville), said, “At this point it does appear that it would not be a prudent proposal for the taxpayers of Illinois. Wrigley Field is a functioning, thriving business, and we’re not sure the state should get into that business.”

Liam Rinehart (liam.e.rinehart@gmail.com) is a policy associate at the Illinois Policy Institute, a nonpartisan policy research organization.
Illinois Senate Mulls $8 Billion Tax Hike

By Collin Hitt

The Illinois Senate is considering legislation that would raise state taxes by nearly $8 billion to pay down state debt, finance road construction, and increase education funding. Critics argue the tax increase would strike a devastating blow against the state's already stagnant economy.

“Taxes. Pay local governments to lower property taxes. Would increase income taxes in order to fund massive road construction, increase education funding. Criticized by Senate President Emil Jones (D-Chicago) and is co-sponsored by Sen. John Cullerton (D-Chicago), a co-sponsor of the legislation.

’Worst Thing’

Other critics argue Illinois simply cannot afford another tax increase. “Worst thing that Illinois could do is raise its income tax,” said Ohio University economist Richard Vedder, speaking in the state capital of Springfield on April 2. “Your income tax is flat. It’s relatively low. Leave it alone.”

An Illinois native, Vedder was addressing state lawmakers and businesspeople regarding a new book, Rich States, Poor States, which ranked Illinois’ economic outlook as eighth-worst in the nation. According to the book’s authors—well-known economists Arthur Laffer and Stephen Moore—states should cut taxes to increase economic growth. Such growth would lead not only to greater prosperity for the state’s taxpayers but also greater revenues for state government.

SB 2288 takes precisely the opposite approach, despite the warnings issued by Laffer and Moore in their book. “If history is any guide, states that try to respond to slow revenue growth and budget deficits with tax hikes will not gain tax revenues; they will lose businesses, jobs, and families.”

Collin Hitt (collin@illinoispolicyinstitute.org) is director or education policy and reform at the Illinois Policy Institute in Springfield, Illinois.

Alabama

Continued from page 1

ally. Without legislative action to make the repeal permanent, the tax was set to return in 2009.

This spring, state legislators set out to erase the equalization property tax permanently and approved House Bill 2229, which would have implemented that goal.

But Napolitano vetoed the bill in April, leaving fiscal conservatives and taxpayers across the state aghast.

Veto Stuns Taxpayers

The governor had long promised not to use tax increases to close the state’s estimated $1.4 billion budget deficit, emphasizing in her January 2008 State of the State address, “State government must live within its means, so the budget I will deliver to you for our next budget year, fiscal year 2009, will be balanced, and will not raise taxes” [emphasis added].

“What the governor has essentially done is reject an opportunity to provide tax relief at a time when soaring property tax bills are already forcing homeowners to pinch their pennies.”

GROVER NORQUIST, PRESIDENT AMERICANS FOR TAX REFORM

Taxpayer advocates beyond Arizona are concerned about the long-term implications of Napolitano’s veto.

Americans for Tax Reform President Grover Norquist noted, “What the governor has essentially done is reject an opportunity to provide tax relief at a time when soaring property tax bills are already forcing homeowners to pinch their pennies.”

“Given today’s uncertain economic outlook and the already-tight squeeze on Arizona’s state budget,” Norquist continued, “the governor should be looking to free up taxpayer dollars to stimulate the state economy. Instead, she has swiftly moved to suck more money from the private economy, which will only aggravate the sour economic climate.”

Homeowners See Record Increase

Many Arizonans, including Steve Voeller, president of the Arizona Free Enterprise Club, view the governor’s veto of the property tax relief bill as a record property tax hike.

“It’s pretty gutsy to be for property tax increases when property taxes are already going up,” Voeller said, “but with her veto, Governor Napolitano paved the way for the largest property tax increase in Arizona history.”

Arizona voters could have their say in the matter yet.

With a simple majority vote in the legislature, a measure to permanently eliminate the state equalization property tax may be referred to the ballot this November without the governor’s consent. Arizona voters would then have the opportunity to dictate the future of their property tax bills.

“Thankfully, the Arizona legislature is prepared to refer this measure to the November ballot and give voters the chance to override the governor’s veto,” Voeller said.

Karri Bragg (kbragg@atr.org) is a state government affairs manager at Americans for Tax Reform.
Illinois Governor’s $1 Million Grant Under Investigation

House blocks executive order, lawmakers consider impeachment

By Steve Stanek

With some lawmakers talking impeachment of Illinois Gov. Rod Blagojevich (D), state auditors are asking exactly how a $1 million grant for a church ended up going to a private school operator with a felony aggravated battery conviction on her record.

In April, after the Chicago Sun-Times revealed where the money went, Illinois lawmakers voted 105-0 to order an audit of the grant. On the same day lawmakers also voted overwhelmingly to reject an executive order by Blagojevich to consolidate 20 state agencies’ functions, including personnel decisions. It was the first rejection of an Illinois governor’s executive order since 1978.

“While the state is nearing financial crisis, the governor’s office is unable to explain how and why it gave away $1 million, and yet it expects the General Assembly to sit by idly while it grabs $1 million, and yet it expects the General Assembly to sit by idly while it grabs that money,” said State Rep. Jack Franks (D-Woodstock). “At this point we have no other option than to call for a state audit in order to provide needed accountability to Illinois taxpayers.”

Only one chamber of the General Assembly is needed to order an audit or block an executive order.

Questions Unanswered

The moves came one month after Deputy Gov. Louanner Peters refused to answer almost 60 questions about the grant before a legislative hearing called by Franks.

In the month the House overwhelmingly approved a measure that would have given citizens a chance to amend the state constitution to allow for the recall of elected officials. Franks denies Blagojevich was the target, but he has been one of the Governor’s most vocal opponents, despite being a fellow Democrat.

The state Senate, led by President Emil Jones (D-Chicago), blocked the measure by just three votes, leading some lawmakers to raise the idea of impeaching the governor, whose administration has been mired in political corruption scandals and trials.

‘Pay-to-Play’ Alleged

One of those scandals arose in a two-month federal corruption trial that ended in May, when witnesses against Antoin “Tony” Rezko, a powerful Blagojevich fundraiser and advisor, repeatedly brought up the governor’s name, alleging he was in on a scheme to exchange high-paying state jobs, contracts, and appointments to state boards for thousands of dollars in bribes.

The Chicago Tribune reported it had uncovered 235 donations of exactly $25,000 apiece (for a total of $5,865,000) to the governor. Three-fourths of those donations came from persons who received financial benefits from the Blagojevich administration.

Blagojevich ordered the $1 million grant in question to help rebuild Pilgrim Baptist Church in Chicago, which burned to the ground in 2006. The church was renowned for its Gospel music heritage and architecture.

The money instead went to the Loop Lab School, a private facility whose owner, Chandra Gill, obtained a pardon from Blagojevich for a felony aggravated battery conviction against an off-duty downstate police officer. The pardon came shortly before the school received the money intended for the church.

Gill had been renting space at the church and says she used the money to purchase space for classrooms in Chicago. Her school has not reopened.

Blagojevich has told reporters the grant money went to the private school as a result of a “bureaucratic mix-up,” and he promised another $1 million to Pilgrim Baptist Church. The church had not received its money at press time.

“The governor has demonstrated a complete lack of accountability for the way he spends the hard-earned money of Illinois taxpayers,” Franks said.

Regarding Blagojevich’s overturned executive order to consolidate hiring in 20 state agencies, Franks said, “The public is finding out more and more every day about the improper hiring practices of the governor’s office. This is no time to give more power to an administration that is proving to be very untrustworthy when it comes to hiring state employees or doling out state contracts.”

Steve Stanek (stanek@heartland.org) is a research fellow at The Heartland Institute and managing editor of Budget & Tax News.
Residents of Newly Incorporated Village Want Out

By Drew Veeneman

In April 2007, the area now known as Campton Hills, Illinois voted to incorporate as a village with the goals of preserving the area’s rural character and “no new taxes.” Now, however, concerned citizens fear the village itself may be the principal threat to both.

Initially, pro-village advocates supported incorporation based on three principles: self-determination, preservation, and no new taxes. They claimed becoming a municipality would give residents necessary leadership to stop encroaching developers while maintaining a minimal village government run solely on state funds (at no local expense to residents). Most importantly, village advocates promised outlying residents could disconnect from the village by petition.

Residents are now learning, however, there’s no such thing as a free lunch. There are currently eight separate disconnection initiatives filed and in progress, with more on the way. The most recent case is Arbor Creek, a large subdivision with 162 homes.

Contrary to incorporation campaign promises when the referendum was passed last April, the village has chosen to fight each of the disconnection initiatives in court.

Village President Patsy Smith says she feels duty-bound to defend the original boundaries of Campton Hills as passed in the referendum. She says by allowing detachments “we could be disenfranchising and taking action against what the people in those areas wanted.” Smith also argues detachments are a tax base issue as any dollar lost “would unduly harm our village.”

Grassroots Struggle

In response to what they see as oppressive village leadership, a grassroots movement of local activists has organized to form the Free Us from Campton Hills Committee. Stated grievances range from basic property rights to government transparency.

“[A] grassroots movement of local activists has organized to form the Free Us from Campton Hills Committee. Stated grievances range from basic property rights to government transparency.”

Free Us activists started with a referendum for village dissolution, which required 2,059 signatures—as opposed to the 250 required for incorporation. Their first petition was determined invalid after 1,600 signatures were collected, due to a format technicality. In a second, rushed effort, they gathered 2,354 signatures on a corrected petition between November 4 and 18 of last year.

Village proponents then challenged the petition, accusing Free Us activists of “widespread fraud.” Such a challenge would normally be reviewed by the local Village Electoral Review Board, but Free Us activists successfully filed an injunction with 16th Circuit Court Judge Michael Colwell so the petition would be reviewed by another governing body. The challenge was assigned to the Kane County Electoral Review Board, and the referendum petition was ruled valid on December 28.

Bureaucrats’ Backlash

But village officials weren’t finished yet. Although the petition was ruled valid, the village dug up one more technicality. Ballots in Campton Hills are limited to three referendum questions. The village filled the February 5 ballot referendum slots and could conceivably continue to do so in the future. This would effectively block a dissolution referendum indefinitely.

Additionally, while circulating the dissolution petitions, a full slate of Free Us candidates also filed for the first village election on February 5. Petitions were challenged for village president candidate Robert Young and village clerk candidate Carolyn Higgins, then subject to the Campton Hills Village Electoral Review Board. Higgins’s papers were approved, but Young’s petitions were dismissed on a technicality. Consequently, Young was removed from the ballot and forced to reapply on a write-in basis.

Down But Not Out

The February 5 election results gave a slim victory to Campton Hills incumbents. Young performed well as a write-in candidate (more than 1,500 votes) but lost to Smith’s 54 percent of the vote.

Succinctly summing up the tax and budget situation, commission member Howard Weitzman told The New York Times, “Taxes are high because governments spend money. And therefore, the less government we have, the less money we’ll be spending.”

Government employee unions criticized the report, saying it unfairly puts most of the burden of solving the state’s budget and tax problems on them.

New York Commission Says State Could Save $1 Billion

By Jason Mercier

A commission appointed last year by former New York governor Eliot Spitzer (D) has announced the state’s taxpayers could save $1 billion a year by consolidating government services and requiring government employees to pay more for their health insurance.

In an April 30 news conference, Gov. David A. Paterson (D) said he welcomed the report, which identified thousands of local government entities with the power to levy taxes. The report states these thousands of tax-levying entities give New York “arguably the most complex property tax system in the nation.”

Paterson described some of the local governments, many of which have politically appointed officials, as “patronage mills” and said consolidations must be made to reduce New York’s high property tax burden.

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HOWARD WEITZMAN, MEMBER
NEW YORK STATE COMMISSION
ON LOCAL GOVERNMENT EFFICIENCY AND COMPETITIVENESS

“We recognize that this has been talked about before,” Paterson told reporters. “We recognize that this has been tried before. But we are in an economic time that may be unparalleled.”

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Unique Opportunity Is at Hand for Far-Reaching Federal Tax Reform

By Scott Hodge

For the first time since 1986, the stars may be aligning for a grand bipartisan compromise on fundamental federal tax reform.

Regardless of who wins in November, the next president and Congress will have to deal with the collision of two cataclysmic tax events: The 2011 expiration of the Bush tax cuts and the growing irritation of the Alternative Minimum Tax (AMT).

The seeds for compromise lie in the fact that both sides have something to gain by addressing these problems at once. Naturally, Republicans want to avert the largest tax hike in history by maintaining the lower tax rates on income, capital gains, dividends, and married families with children. Meanwhile, Democrats will be brought to the table by the fact that the AMT is largely a Blue State problem, mostly affecting those living in high-tax and high-income states such as California, Massachusetts, New Jersey, and New York.

43 Million Pay Nothing
The first land mine is the distribution of the tax burden itself. The 2001 and 2003 tax cuts knocked millions of lower-income people from the tax rolls. When Bill Clinton left office, some 29 million tax filers had no income tax liability after they took advantage of their credits and deductions. Today, the number of “non-payers” has grown to more than 43 million, or one out of every three Americans who file a tax return.

And since so many lawmakers see the IRS as a giant ATM dispensing “refundable” credits, such as the Earned Income Tax Credit, it will be very difficult to convince them to support fundamental tax reform.

With the nation’s tax burden now so concentrated at the top—the top 20 percent of taxpayers pay about 86 percent of all the income taxes—any tax reform plan is caught in a rhetorical Catch 22: tax reform equals “tax cuts for the rich.”

Enter land mine number two: AMT and tax reform equals “tax cuts for the rich.”

Politicians are not likely to put the non-payers back on the tax rolls by shrinking the value of the personal exemption, standard deduction, or child credit. With the political consensus that some low-income people should be protected from income taxes, the practical solution is to collapse the various credits and deductions into a super-deduction that accomplishes what current policies already do inefficiently: Eliminate the income tax bill for a family of four earning up to about $42,000.

Continuing to protect low-income taxpayers in this way will help earn good-will from the left without actually creating any new programs.

Step 4: Make everyone a stakeholder. An ideal plan would take this process a step further (as did the 1986 act) by slashing all tax rates equally, giving every taxpayer a stake in the reform. Better yet, the plan could condense the number of brackets to no more than two, as existed in 1988.

Such a tax code would be simpler, fairer, and closer to the kind of efficiency economists have long called for. It would reduce the compliance costs for families and small businesses. It would also almost certainly strengthen the American economy and help move the tax code back to its proper purpose of revenue-raising and away from its current distorted function of social policymaking.

Unique Opportunity Is at Hand

Step 5: Fend off the special interests. None of this is to say that fundamental tax reform will come easily or cheaply. With absolute certainty, every interest group and lobby will line the halls of Congress demanding their interest have protections carved into the new legislation. Advocacy groups of every stripe will take to the airwaves bemoaning the plight of their specific interest. They will scream that this new tax bill will evict people from their homes, leave children hungry on the street, and force seniors into destitution.

Of course, like most cries from special interests, none of this would be true. What would be true is that the United States would enjoy one of the best and most effective tax systems the world over. The new tax code would still show compassion for the poor and take a hefty chunk from the rich, while becoming considerably more fair and equitable.

Scott Hodge (hodge@taxfoundation.org) is president of the Tax Foundation. An earlier version of this essay appeared in the February/March 2008 issue of The Ripon Forum, www.riponsociety.org. Reprinted with permission.
Private Investment, Tolls Will Play an Increasing Role in Funding Tomorrow’s Transportation Infrastructure

By C. Kenneth Orski

Private capital and toll revenue financing will play a major role in funding future transportation infrastructure. That is the overall conclusion my colleagues and I have drawn from conversations and interviews conducted over the past two months with a large and diverse group of individuals of varying political persuasions.

“The great majority of participants in our survey believe total reliance on public resources and the fuel tax to fund investments in transportation infrastructure is no longer a realistic option.”

The survey was undertaken in support of a background paper for Infocast’s Conference on Transportation Infrastructure in Washington, DC on May 15-16, 2008. Infocast produces conferences and other events for clients in various industries including transportation, real estate, pharmaceuticals, and energy.

Among the individuals who shared their views with us have been U.S. Department of Transportation (DOT) officials, state legislators, congressional staffers, members of the two congressionally chartered commissions, state and local transportation officials, executives of trade and professional associations, members of the financial and investment community, and analysts in think tanks, academia, and private consulting firms.

Our inquiry also has benefited from participation in several conferences and private briefings organized by corporate entities and financial organizations. By common request, all conversations, briefings, and interviews were held off the record to allow for the freest possible expression of views.

Partnerships Coming of Age

The great majority of participants in our survey believe total reliance on public resources and the fuel tax to fund investments in transportation infrastructure is no longer a realistic option. State officials tell us they are embracing private-sector financing and tolling not because of any ideological commitment to “privatization” or a philosophic attachment to market-driven solutions but out of sheer fiscal necessity. Increasingly, state DOTs are obliged to commit a major part of their tax-supported transportation budgets to preserving and modernizing existing infrastructure, leaving little money for new construction.

As one senior state official told us, “since Congress is not likely to come up with adequate resources to help us meet our future infrastructure needs, we have no option but to move on our own and find new ways of funding our capital needs.”

Influential political leaders in state capitals, on Capitol Hill, and in the Bush administration are coming to the same conclusion. Texas Gov. Rick Perry (R), in a keynote speech at the annual meeting of the Texas Transportation Forum on April 22, said, “I am convinced that private dollars, administered through public-private partnerships, are a significant part of the answer to our transportation infrastructure challenge.”

Pelosi Sees Continued Expansion

House Speaker Nancy Pelosi (D-CA) agrees. “Private investment is playing an increasingly larger role in public infrastructure,” she observed in an

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Political Roadblocks Still Slowing PPPs

Questions about the proper role of the private sector in infrastructure development persist, according to proponents and critics of public-private partnerships (PPPs).

A two-year moratorium on PPPs in Texas has been a vivid reminder of the continued opposition to tolling and private-sector involvement—even though it has not stopped as many as 21 local toll projects from moving forward.

A more recent example has been the failure of bills in the California legislature (AB 2600, for example) to establish an Office of Public-Private Partnerships to promote PPPs among local agencies, and to permit the use of such partnerships in infrastructure development.

Opposition to PPPs is motivated by a belief that the public interest demands strong public oversight over investment decisions about public infrastructure. Advocates of this point of view argue the national road system is “a public good” that should be provided and maintained by the public sector to serve the public interest.

They contend a series of private toll concessions would lead to a patchwork of uncoordinated facilities and undermine the integrity of a national system. They are particularly critical of long-term leases or private concessions of existing toll facilities and diversion of upfront lump-sum lease payments for non-transportation purposes.

“Opposition to private-sector involvement is motivated by more than just an altruistic desire to protect the public interest.”

Favoring Beltway Control

Opposition to private-sector involvement is motivated by more than just an altruistic desire to protect the public interest. It is fueled by a complex mix of motives including concerns a widespread use of PPPs would weaken the federal role and shift more power over infrastructure development to the states; fear among congressional lawmakers that PPPs would erode congressional control over investment decisions and reduce opportunities for earmarking; and a worry by Beltway interest groups and lobbying organizations that private-sector involvement would lessen their ability to influence the transportation program.

Thus there are well-founded speculations there may be attempts next year to assert congressional oversight over public-private partnerships and place conditions on private toll road concession agreements, ostensibly “to protect the public interest.”

How that issue will be resolved may determine whether the private sector will become an active participant or remain on the sidelines in the national efforts to renew and expand the country’s aging transportation infrastructure.

— C. Kenneth Orski
CONTINUED from left

address before a Regional Plan Association luncheon on April 18. “Innovative public-private partnerships are appearing around the country, bringing much-needed capital to the table.

“It is important to ensure that the public interest is well-served in public-private partnerships, since they are here to stay and likely to grow in importance,” Pelosi continued. “User fees will continue to play a major role in financing many types of infrastructure. Reliance on tolls for transportation funding is likely to continue and expand.”

U.S. Secretary of Transportation Mary Peters also has been a longstanding advocate of public-private partnerships. “Unleashing the investment locked in the private sector by partnering with business is the most efficient path to the transportation future this country needs and deserves,” she told an audience of Arizona contractors in February. It’s a message she and her senior staff have conveyed many times before and since.

Using the leverage of private capital to supplement public funding also lies behind the proposal by Senators Christopher Dodd (D-CT) and Chuck Hagel (R-NE) for a National Infrastructure Bank bill. “Using limited federal resources, it would leverage the signif-

The proposal would establish “a unique and powerful public-private partnership,” Dodd said in his opening statement at a March 11 hearing on the bill, held by the Senate Committee on Banking, Housing and Urban Affairs. “Using limited federal resources, it would leverage the significant resources and innovation of the private sector. It would tap the private sector’s financial and intellectual power to meet our nation’s critical structural needs.”

Numerous States Mull Tolls

By our count, a total of 22 states are contemplating the use of tolls to support road capacity expansion.

Some of them, such as California, Florida, Pennsylvania, and Texas, may resort to private tolling concessions, while others will choose the more traditional route of municipal bond financing and publicoperation.

Our survey participants thought public-private partnerships and private concessions will play a significant role in the nation’s efforts to expand infrastructure capacity.

Engaging the private sector in the task of modernizing the nation’s roads, bridges, ports, transit systems, and intermodal facilities may be the best way to ensure the continued growth of the nation’s transportation capacity without imposing an unacceptable fiscal burden on the American taxpayer or burdening future generations with further debt.

Private Investors Lining Up

The viability of the partnership model depends, of course, on the willingness of the private sector to invest in pub-

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In the aggregate, those funds are estimated to have raised in excess of $120 billion. After leveraging the estimated capital pool through bank loans and capital markets, the infrastructure funds could support investments in the range of $340 billion to $600 billion.

Most of the infrastructure funds have a global reach, but many focus on mature markets in the developed countries where political risks and legal and regulatory uncertainties are less severe. The United States has lately become a favorite investment target because of the perception that a large percentage of its existing transportation infrastructure needs rehabilitation, modernization, and expansion.

Toll Road Investments Favored

Many of the infrastructure funds tend to favor investments in toll roads. That’s because roads generate strong demand even in times of slower economic growth and produce steady and predictable cash flow relatively unaffected by economic downturns.

Toll road-related investments appeal especially to long-term investors such as pension funds and insurance companies, which require stable, income-oriented investments to match their long-term liabilities and payout obligations.

Ports also have come to be recognized as a sound investment by global capital markets. Institutional investors with long-term investment horizons see container port facilities as safe investments offering returns comparable to those from fixed income and real estate.

The growing scarcity of deep water port capacity, environmental obstacles to building new “greenfield” ports, and the prospect of Panama Canal expansion have enhanced the value of existing port facilities on the eastern seaboard and raised expectations of higher earning potential.

Experts Express Concerns

Participants in our survey, while generally sympathetic to public-private partnerships, were careful to note several potential caveats. First, in the face of the spreading credit crisis, banks may be less willing to lend the high cash multiples that have made past infrastructure deals profitable.

Second, the multiplicity of new entrants into the field of public infrastructure investments has created an intensely competitive environment. New deals coming to market have not kept up with the growth in the supply of investment capital, resulting in vigorous bidding for existing assets and new assets under development. This is driving up their prices, reducing yields, and lowering the attractiveness of investments in public infrastructure compared to investments in other, more traditional asset classes.

Third, private capital is generally available only for income-producing assets, not for maintaining existing infrastructure.

Fourth, it is not yet clear how strong or widespread interest will be at the state and local level in long-term private concessions of the Indiana Toll Road and Chicago Skyway variety. Public support for such initiatives varies from jurisdiction to jurisdiction.

“State officials tell us they are embracing private-sector financing and tolling not because of any ideological commitment to ‘privatization’ or a philosophic attachment to market-driven solutions but out of sheer fiscal necessity.”

Mixed Success

For example, New Jersey Gov. Jon Corzine (D) has abandoned his plans for “monetizing” the New Jersey Turnpike in the face of widespread public opposition and lack of legislative support. Instead he has proposed creating a new public agency that would issue bonds backed by higher tolls on New Jersey toll roads.

On the other hand, Chicago, Florida, and Pennsylvania are proceeding with plans to lease existing infrastructure assets.

Pennsylvania Gov. Ed Rendell (D) intends to seek bids on a concession of the Pennsylvania Turnpike, the Florida Department of Transportation is considering a long-term private concession for the Alligator Alley toll road (I-75), and the City of Chicago is in the process of negotiating a long-term lease of Midway Airport.

Should these projects come to fruition, “the floodgates will open,” speculated one senior investment bank official.

C. Kenneth Orski (korski@verizon.net) is editor and publisher of Innovation Briefs (http://www.innobriefs.com), a transportation newsletter, where an earlier version of this article and sidebar appeared. Used with permission.
Kentucky Considers Tolls to Fund New Bridges

Philosophy meets reality at state’s borders

By Jim Waters

One outspoken Northern Kentucky mayor warns steps must be taken “soon” to repair an aging bridge in his community and avoid a catastrophe similar to last year’s fatal Minnesota bridge collapse.

Nearly all parties agree the Brent Spence Bridge needs to be replaced. The bridge carries traffic on Interstates 75 and 71 across the Ohio River and links Covington, Kentucky and Cincinnati, Ohio.

There is far less agreement on how to finance a new bridge, estimated to cost more than $2 billion.

House Bill 689, which would allow tolls as one method for repaying bonds issued to finance construction of new interstate bridges, passed 84-13 in the Kentucky House but did not receive a hearing in the Senate—largely because of opposition from Northern Kentucky lawmakers.

Adamantly Opposing Tolls

“My constituents in Northern Kentucky feel the federal government should pay to replace the bridge,” said state Rep. Damon Thayer (R-Georgetown). “Everybody up there pays the gas tax, and it’s unfair to ask Northern Kentuckians to foot the bill for this project.”

Thayer’s sentiments are mild compared with those of Covington Mayor Butch Callery, who adamantly opposes any plan to charge tolls for a new bridge.

He calls toll-friendly proposals “reverse voodoo economics” and insists the federal government should fund needed bridges in Northern Kentucky and Louisville.

“Federal tax dollars appear to be abundant to fund a war and to build infrastructure in foreign lands, but some say we can’t use federal dollars to build our own American bridges,” Callery wrote in a commentary published by the Kentucky Post online. “Does that make sense? No, it does not.”

“We Need New Bridges”

Response to toll proposals has been much more favorable in Louisville, where a recent analysis by the Texas Traffic Institute ranked the city as having the third-worst congestion in the nation among mid-sized cities.

“The reality is, we need new bridges and we need new revenue streams to get it done,” said Kay Stewart, executive director of the Build the Bridges Coalition. “The public supports this type of financing rather than higher taxes or fees—and those basically are the options for new revenues.”

The coalition has been instrumental in keeping the Louisville bridges project moving forward. It includes representatives from 20 different Louisville businesses and organizations, including Mayor Jerry Abramson (D), UPS, and Ford Motor Co.

Planned are two new bridges and a rebuilding of what has come to be known as “Spaghetti Junction,” where Interstates 65, 64, and 71 come together near the Kennedy Bridge, which carries I-65 traffic between Kentucky and Indiana. While the Kennedy would still carry southbound traffic into downtown Louisville, a new six-lane bridge is planned to carry northbound traffic.

“My constituents in Northern Kentucky feel the federal government should pay to replace the bridge. Everybody up there pays the gas tax, and it’s unfair to ask Northern Kentuckians to foot the bill for this project.”

DAMON THAYER (right)
STATE REPRESENTATIVE
GEORGETOWN, KENTUCKY

Money Budgeted

The state budget passed in April includes $231 million to keep work for bridge projects planned in Louisville on track. Budget language allows for non-stop electronic tolling as a future funding option.

The estimated price tag for Louisville’s bridges is more than $4 billion. Indiana would pay much of its $1.1 billion share with funding generated by a toll road in the northern part of the state.

Louisville’s East End Bridge is scheduled to open by 2014, followed by the downtown bridge in 2019.

‘Time Is Running Out’

The Louisville projects are ahead of plans for a replacement for the Brent Spence Bridge in Covington, which will cost between $2 billion and $3 billion. Time is running out, said Callery.

“If steps are not taken to correct the problem soon, I fear that another Minnesota Bridge collapse will occur in our own backyard,” Callery wrote in a recent commentary.

Considering what’s happening around the country—at least 30 states now have toll authorities—Callery may find his philosophical opposition to tolls clashing with the reality that engineering experts have indicated the Brent Spence Bridge will be adequate for only another decade or so.

One in four workers in Kenton County, Kentucky, directly south of Cincinnati, Ohio, used the bridge to commute to work in 2000, according to the most recent information available from the Ohio Kentucky Indiana Regional Council of Governments.

That number has likely increased significantly since 2000, as state transportation officials estimate traffic volume on the bridge increases by 2,000 vehicles annually. The bridge was designed to carry 80,000 vehicles per day when it opened in 1963, but it now carries nearly twice as many.

By comparison, the Mississippi River bridge that collapsed August 1 in Minneapolis opened to traffic in 1967 and carried 140,000 vehicles at the time it collapsed.

Bridge Judged Obsolete

The Spence bridge has no emergency lanes on either side—the state removed them in the 1980s so a fourth lane could be added—and less than a yard of space separates big trucks running side-by-side. It’s one of 15 major interstate bridges considered “functionally obsolete” by the U.S. Department of Transportation’s National Bridge Inventory.

Technology may provide an answer for Callery and other Northern Kentucky elected officials concerned about local residents shouldering an unfair amount of the cost of a new bridge. Non-stop electronic tolling enables authorities to charge lower rates for residents. In addition, Stewart said, the technology will continue to improve, providing even better options during the next decade.

Jim Waters (jwaters@bipps.org) is director of policy and communications at the Bluegrass Institute for Public Policy Solutions in Bowling Green, Kentucky.
IRS

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stepped down last year.

The most important element of Shulman’s resume from a tax service perspective is his service on the National Commission for Restructuring the IRS. That commission was formed in 1997 as a result of the mounting pressure on Congress to deal with growing IRS abuses and the fallout of an impossibly complex tax system. Shulman was senior policy advisor for the commission and later its chief of staff.

Fresh Perspective

This experience brings a fresh perspective to the IRS at a time when the agency has been returning to the heavy-handed tactics that caused congressional reprisals in the first place. In his role with the Restructuring Commission, Shulman, who took over as commissioner on March 24, was directly involved in some of the most significant pro-citizen changes to the tax system in 80 years. These include:

• establishment of the collection due process appeal rights;
• expansion of innocent spouse relief;
• imposition of the so-called “10 deadly sins,” the prohibited acts that could lead to the firing of an IRS employee; and
• removal of the Office of the Taxpayer Advocate from enforcement management chains of command.

When Shulman was asked whether his administration would emphasize taxpayer service or law enforcement, he stated to the Senate Finance Committee during his confirmation hearing, “to be forced to choose between the two is a false choice. In order to execute its mission, the IRS must do both.”

“[W]hether serving taxpayers or enforcing the law, it is absolutely essential that Americans believe the IRS is fair and that it respects the rights of all taxpayers.”

DOUGLAS SHULMAN
COMMISSIONER
INTERNAL REVENUE SERVICE

Guidance, Service, Enforcement

Shulman added these details in the March hearing: “For taxpayers who pay their taxes willingly and on time, which is the great majority of Americans, there must be clear guidance, accessible education, and outstanding service. Our aim should be to make it as easy as possible for them to pay the correct amount of taxes in the most efficient and least burdensome manner possible.

“For taxpayers who intentionally evade paying their taxes, there must be rigorous enforcement programs,” Shulman continued. “But whether serving taxpayers or enforcing the law, it is absolutely essential that Americans believe the IRS is fair and that it respects the rights of all taxpayers.”

Those statements draw a stark contrast between Shulman and former IRS Commissioner Margaret Richardson on the subject of the continuing friction between taxpayer service and enforcement of the tax laws. Richardson was the IRS head during the 1990s when the IRS was by all accounts out of control.

Former Punishment Focus

Richardson once stated if given a choice between taxpayer service and enforcement, “enforcement will win out every time.” Put plainly, she (and her administration) preferred to ground people into powder for failing to comply instead of helping them to comply properly.

That attitude, which prevailed during the 1990s, is in my view primarily responsible for the growing problem of IRS abuse. Shulman is not the first IRS commissioner to come from outside the agency’s culture of enforcement. Charles O. Rossotti, who served for five years beginning in 1997, was hired from outside government to reform the IRS’s computer and information systems and bring the agency into line with “customer service” strategies used by the private sector.

Enforcement actions under Rossotti’s headship fell substantially, primarily because of the need to implement the changes brought by the Restructuring Act. IRS enforcement actions fell by up to 90 percent.

When Rossotti stepped down, Everson was hired to put the teeth back into the IRS. That he did—I have chronicled over the past five years the return, under Everson’s watch, of what I’ve often called the Darth Vader approach to tax collection. In fact, insiders in Washington, DC stated of Everson, “enforcement is his middle name.”

Middle Ground

Does Shulman’s confirmation mean we’ll return to the days of the “kinder and gentler” IRS? I doubt it. It appears Shulman falls into more of the middle ground between Rossotti and Everson.

But what is refreshing about Shulman is his experience with the Restructuring Commission. His service on that commission means he is well aware of the far-reaching damage caused by out-of-control tax collectors.

He also knows errors—both on the part of the IRS and by citizens—drive a great deal of what the IRS’s enforcement theologians call “noncompliance.”

Given that background, perhaps we can hope for more evenhanded treatment in the resolution of outstanding tax problems. Perhaps the “just squeeze them harder” attitude might mitigate to some extent. We’ll see.

Commissioner Has Broad Background in Public, Private Sectors

New Internal Revenue Service Commissioner Douglas Shulman has a long history of both private- and public-sector service. In the private sector he was involved in the creation and spin-off of technology companies with major corporations.

He was heavily involved in the investment industry as a private investor and manager of several private investment funds, managing the financial and legal aspects of investments and transactions.

Shulman was recently a member of the Office of the Chairman of the National Association of Securities Dealers, Inc. In that capacity he oversaw operations and services. He also oversaw the relationship between NASD and the Nasdaq Stock Market. He is credited with facilitating NASD’s market transparency rules and practices.

Shulman also served on the National Commission for Restructuring the IRS in the late 1990s.

Shulman has an MBA from Harvard University’s Kennedy School of Government and a law degree from the Georgetown Law Center.

— Dan Pilla

Internal Revenue Service Commissioner Douglas H. Shulman is congratulated after his confirmation hearing before the U.S. Senate Finance Committee on January 29, 2008.

Pilla Talks Taxes.

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Colorado Right-to-Work Initiative Qualifies for Ballot

By Scott Dilley

A right-to-work initiative in Colorado has qualified for the November ballot. The Colorado Secretary of State’s office confirmed initiative proponents had gathered 94,546 valid signatures, thousands more than the 78,047 necessary for qualification.

The proposal is formally titled “Prohibition on Certain Conditions of Employment” and will appear on the ballot as Amendment 47. The measure would bar union membership. Mandatory union dues would be barred.

Opponents May Challenge

Supporters of the amendment submitted 136,608 signatures, of which 69 percent were deemed valid. Labor-reform opponents quickly alleged fraud when they noticed the unusually high invalidity rate. Jess Knox, executive director of opposition group Protect Colorado’s Future, hinted at possible legal challenges.

"With one-third of their signatures deemed invalid, the special interests behind Amendment 47 have a lot of questions to answer about whether they used fraudulent means to gather signatures," Knox said in a statement. Knox’s group is supporting two possible ballot initiatives of its own. One would deal with corporate fraud accountability, and the other would require employers to find just cause before firing employees.

Unions also have discussed supporting measures to increase mandates on employers. One proposal would force employers to give annual cost-of-living increases to employees. Another would mandate major medical health insurance for all employees.

Optimistic Supporters

Supporters of the right-to-work amendment remain undeterred and are optimistic voters will approve the measure. Proponent Jonathan Coors said the measure will "constitutionally guarantee the basic rights that all Coloradans deserve.

Independence Institute policy analyst Ben DeGrow believes Colorado’s current law, the Labor Peace Act, “offers some limited protection for worker freedom, but it is far from complete protection. A right-to-work law would greatly improve safeguards for protecting an individual’s right to decide about workplace representation issues.”

Because right-to-work laws allow for voluntary employee participation in union activities, representation, and dues, unions must maintain levels of service and accountability to their members, proponents note.

Sources: “‘Right-to-work’ initiative approved for November ballot,” Denver Post: http://www.denverpost.com/CI_9090044

"Amendment 47 ... would ensure individual workers in Colorado have the right to choose whether to join a labor union. Mandatory union dues would be barred.”

Union Violence Claimed in Michigan

The latest chapter in an ongoing dispute between two labor unions—the Service Employees International Union (SEIU) and the California Nurses Association (CNA)—turned physical in April.

Three buses of SEIU members crashed a conference that representatives of the California Nurses Association were attending in Dearborn, Michigan. Witnesses said SEIU members shoved their way into the hotel, bruising bystanders and forcing one person to be taken to the hospital to be treated for lacerations.

SEIU and CNA have had an ongoing dispute for months over the unionization of 8,300 workers at nine hospitals in Ohio. SEIU alleges CNA tried to hijack SEIU’s potential members by introducing itself as an alternate union shortly before nurses were scheduled to vote on union representation. CNA is associated with the AFL-CIO, an intra-labor SEIU rival, and believes SEIU collaborated with the nurses’ employer in an effort to deny the nurses a choice in union representation.

After the altercation in Michigan, CNA asked for and received a temporary restraining order against SEIU. SEIU President Andy Stern denied his union was involved in harassing CNA leaders or members. He claims CNA is spreading misinformation.

A judicial officer later lifted the order.

Sources: "Nurses Accuse Members of SEIU Of Assault During Mich. Parley," New York Sun: http://www2.nysun.com/article/74674

California Rebuffs SEIU Fund Bill

California lawmakers dealt a blow to a recent attempt by SEIU to increase its membership at the expense of California teacher pensions.

In an attempt to unionize the employees of ManorCare, a nursing home chain owned by a private equity firm, SEIU attempted to exert pressure on the owners by cutting off major sources of their funding—capital from the state pension systems.

SEIU used human rights as the pretext for a bill to limit the state investment options. The list of human rights violators included Singapore and Abu Dhabi. The sovereign wealth funds of those countries invest with the private equity firm that owns ManorCare.

California, absent from the list, invested with a different private equity firm that owns another company with SEIU-union member employees.

Lobbyists for the state pension systems derailed the bill even before a committee vote. Taking high-performing investment options off the table for the pension systems would have forced pension managers to neglect their fiduciary duties, fund less-productive investments, and eventually cost government employees through lost investment returns.


Scott Dilley (sdilley@effwa.org) is a labor policy analyst at the Evergreen Freedom Foundation in Olympia, Washington.
Backlash Brewing Against Prevailing Wage Expansion

By David Denholm

As the share of the construction workforce that is unionized continues to decline, state laws requiring payment of prevailing wages on public works and other government-funded construction projects are becoming more controversial.

At the same time, organized labor is pressing to expand coverage of prevailing wage laws in states where unions wield political power.

The resulting conflicts are affecting a variety of government objectives. Evidence of these stresses is anecdotal but widespread.

Water Project Goes Nowhere

For instance, the Canyon Lake Property Owners Association, a private organization in California, received $900,000 of a $15 million water quality improvement grant to buy a dredge. The plan was to improve water quality by dredging a portion of the lake that tended to silt up due to runoff.

Shortly after the dredging work began, a Southern California engineer filed a complaint with the state’s Department of Industrial Relations (DIR) saying the association should be required to pay the prevailing wage. The DIR agreed, but that made the project financially unfeasible, so the dredge sits in dry-dock.

Priest Becomes Union Target

In Beckley, West Virginia, Forward Southern West Virginia (FSWV), an economic development organization, received a federal grant for construction of an education facility as part of a program to revitalize Beckley’s downtown area.

Construction unions complained the work should be covered by the state’s prevailing wage law. FSWV’s director, Fr. Thomas S. Acker, doesn’t oppose prevailing wages but argues the wage determinations don’t reflect the wages that truly prevail.

Acker is now suing the state to get accurate prevailing wage determinations, and the construction unions have asked the leaders of the Jesuit order to assign Acker elsewhere. Acker is the former president of Wheeling Jesuit University.

Flagmen Paid More than Cops

Massachusetts has a unique problem with prevailing wages. Under a state law only state police officers may serve as a “flagman” on a road construction project. The police union loved this because it helped pile on overtime hours.

Governor Deval Patrick (D) and legislative leaders had proposed saving millions of dollars by using “civilian” flaggers, but they quickly learned the devil is in the details. It turns out Massachusetts’ prevailing wage for flaggers is higher than the cost of using highly paid state police officers.

In normally union-friendly New York a controversy is brewing about applying prevailing wages to economic development. Economic development directors say a prevailing wage requirement on privately financed construction, albeit aided by tax breaks or other government incentives, would be a deal breaker and force companies to look elsewhere to locate new facilities.

“California actually required volunteers to be paid prevailing wages, and several years ago a nonprofit organization there was fined $30,000 for failing to pay prevailing wages to volunteers on a stream bed clean-up.”

Forced to Pay Volunteers

California actually required volunteers to be paid prevailing wages, and several years ago a nonprofit organization there was fined $30,000 for failing to pay prevailing wages to volunteers on a stream clean-up.

The legislature enacted a law exempting volunteers, but it had a sunset provision. The expiration of the exemption is nearing, and as lawmakers take up the issue again, some want to make the exemption permanent, but construction union officials are arguing for another limited extension. Perhaps they are waiting for a more favorable political climate to go for complete repeal.

Flawed Formula

The evidence of the impact of prevailing wage laws is virtually limitless, but it doesn’t get to the heart of the problem.

There would be little harm in prevailing wage laws if the wage determinations truly prevailed. They do not. The method for determining them is fatally flawed. Even though union density in the construction workforce is less than 14 percent, all too often union wages are determined to be prevailing.

In 2007 construction union density at the state level ranged from 1.5 percent in North Carolina to 37.6 percent in Illinois. The decline in union density also has varied among the states. Between 1983 and 2007 the largest percentage decline occurred in Arkansas, where union density dropped from 19.8 percent of the construction workforce to 1.7 percent, a decline of 91.5 percent. The smallest decline occurred in Alaska, where union density went from 31.1 percent to 30.4 percent of the construction workforce, a decline of 2.1 percent.

The flawed method for determining prevailing wages is coming under increased scrutiny. There is little doubt that as construction union density continues to decline, public budgets are stretched thinner, and unions use political pressure to expand prevailing wages beyond public works, this will become an increasingly controversial topic.

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

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


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Momentum Keeps Building for Spending Transparency Movement

By Sandra Fabry

Those who thought the movement to increase transparency in government spending would be a flash in the pan have been proven wrong by a flurry of legislative and executive efforts in 2008, several of which were still ongoing at press time.

The movement kicked off in the wake of the Federal Funding Accountability and Transparency Act of 2006. In 2007, five states passed legislation mandating the creation of online databases for government expenditures, and Governors Matt Blunt (R) of Missouri and Mark Sanford (R) of South Carolina issued executive orders to that effect.

Four states—Louisiana, Mississippi, Utah, and Washington—have already passed and signed spending transparency legislation this year. In Georgia and Maryland, similar bills are awaiting the governor’s signature.

Governors, Other Officers Help

Governors Bobby Jindal (R) of Louisiana, Sarah Palin (R) of Alaska, and Jim Gibbons (R) of Nevada have taken executive orders mandating the creation of online databases for government expenditures. Five state legislatures that year passed transparency measures, and four more have passed such measures this year.

In 2007, Governors Matt Blunt of Missouri and Mark Sanford of South Carolina issued executive orders to that effect.

Continued from page 1

Bankruptcy

Continued from page 1

$200,000 Firefighters

Ten Vallejo firefighters last year earned more than $200,000 apiece, nearly four times Vallejo’s median family income of $56,805. That pay does not include huge pension, health insurance, and disability benefits, critics note.

“This is probably the tip of the iceberg,” said Kris Vosburgh, executive director of the California-based Howard Jarvis Taxpayers Association. “So many of these cities have over-promised pension and health care benefits to their employees. It’s not unusual [in California] for firefighters to earn more than $200,000 with overtime.”

Vosburgh said that happens because “public employee unions are all-powerful. They’ll send police or firefighters out to election time and tell people the candidate they support is tough on crime and for public safety, when they really support the candidate because he’ll do what the union wants. They get the council elected, and when they sit down at the bargaining table, they have representatives on both sides of it.”

Inflated Pensions

Pay is not the only issue. Many California cities also allow employees to accrue a pension benefit of 3 percent of their final year’s salary for each year worked. So employees who spend 30 years on the job can retire with 90 percent of their final salary.

“So many of these cities have over-promised pension and health care benefits to their employees. It’s not unusual [in California] for firefighters to earn more than $200,000 with overtime.”

KRIS VOSBURGH
EXECUTIVE DIRECTOR
HOWARD JARVIS TAXPAYERS ASSOCIATION

“And it gets better” for them, said Vosburgh. “They’ll pad their final year by piling up unused vacation, sick days, overtime, and other benefits and then collecting in their final year to drive up their last salary and inflate their pension even more.”

Rising Labor Costs

JoAnn West, Vallejo’s public information officer, said pay and benefits packages to the city’s 407 workers are a big factor in the city’s problems.

“Our labor costs continue to increase,” West said. “We have been trying to find a way to meet our expenses by mediating and negotiating with labor unions to reduce labor costs. We’ve been unsuccessful with both [approaches].”

The city had tried to persuade its police, firefighter, and electrical workers unions to grant contract concessions through 2012. Now it will be up to a bankruptcy court to decide how those contracts should look.

Forced Negotiations

“Chapter 9 will allow us to go in under the umbrella of bankruptcy and negotiate with labor unions and bankers regarding the terms of agreements with them,” West said. “The goal is to negotiate long-term plans.”

West said the city will be out of money by June 30. In addition to continually rising labor costs, the city also faces temporary revenue declines, mainly because of the area’s falling property values and slowing economy. West said property and sales tax revenues are both down from last year.

About 30 city residents, including city employees, addressed the council during a five-hour meeting that culminated in the decision to seek bankruptcy protection. Most agreed the city had no choice but to file for bankruptcy, though some city workers said they doubt the city’s numbers.

Skeptical Union Rep

John Riley, president of the International Association of Firefighters, called for an independent state audit of the city’s finances.

But council members agreed the city’s finances are so shaky bankruptcy has become the only option.

Councilwoman Stephanie Gomes told residents, “I want to make sure the City Council is in charge of this city and not those who comprise 80 percent of our general fund,” referring to employees whose wages and benefits consume almost 80 percent of the city’s spending.

Steve Stanek (stanek@heartland.org) is a research fellow at The Heartland Institute and managing editor of Budget & Tax News.
CONTINUED from left

“It seems to be catching on at the local level by word of mouth,” Terry said.

**Slowed by Small Setbacks**

Amid the flurry of good news for taxpayers, however, some state legislative proposals have been stymied.

In South Dakota, Gov. Mike Rounds (R) vetoed a spending transparency measure in March. Duane Sand, state director of Americans for Prosperity in South Dakota, questioned the governor’s motive.

“He reasoning for vetoing it is based on phony cost projections that really have no basis in reality,” Sand said. “The state of Alaska was able to put its spending on the Internet in the form of Excel spreadsheets in less than three weeks, utilizing employees and college interns. One must wonder what the real motivation is behind this veto. Is there something in the records of state spending that the taxpayers don’t deserve to see?”

In Florida, observers anticipated swift passage of comprehensive spending transparency legislation that would have included not only state government spending but also local government spending. But lawmakers could not find common ground before the legislature adjourned for the year.

**Washington Provides Model**

Lawmakers may find it increasingly difficult to resist the growing trend to make government finances more transparent. Washington State may provide a strategic model as states pursue efforts going forward.

Jason Mercier, director of the Center for Government Reform at the Washington Policy Center, outlined the secret to Washington’s success: “Engaging and educating stakeholders was critical to our successful effort in Washington.

“We held ongoing one-on-one meetings with elected officials and media to answer their questions and provided instant updates to the public on any progress or obstacles,” Mercer explained.

“By keeping a bright light shining on the process each step of the way, lawmakers had no path to follow except the one leading to more transparency.”

**Sandra Fabry (sfabry@atr.org) is a government affairs manager for Americans for Tax Reform. She is also the executive director of the Center for Fiscal Accountability, a new project of Americans for Tax Reform dedicated to promoting increased transparency in government spending and fiscal restraint.**

**INTERNET INFO**

Maryland
Continued from page 1

“I call it the ‘Get Out of Maryland Tax Act,’” said economist Stephen Moore, a Wall Street Journal editor and author, with economist Arthur Laffer, of Rich States, Poor States, published a few months ago by the American Legislative Exchange Council.

“Politicians continue to believe they can slay the goose that lays the golden egg, which is wealthy people and business owners,” Moore continued. “Two-thirds of the Maryland residents who will be hammered [by the new tax bracket] are business owners. Most states are trying to cut back on their taxes, and Maryland is going in the opposite direction.”

The new tax rate of 6.25 percent replaces a computer services tax that was approved by lawmakers last year and widely reviled by business interests that paid the bulk of it. Maryland has seven other income tax brackets, starting at 2 percent for incomes up to $1,000 and rising to 5.5 percent on incomes of more than $500,000. State budget officials project the “millionaires” tax bracket will bring in $328.5 million over three years.

Maryland’s Department of Legislative Services has said about 6,300 households filed returns in 2005 with a taxable income of more than $1 million.

Killed Computer Tax
Ed Hale, chief executive of First Marion Bank in Baltimore, told Baltimore Sun reporter Michael Dresser he lobbied Gov. Martin O’Malley (D) to get rid of the computer services tax in exchange for the millionaires tax bracket.

“We explained to some of our farm people, ‘If you sell land, you are now a millionaire.’ I’m a CPA. I have a client who sold a farm for $10 million. I said, ‘Aren’t we glad we did that last year instead of this year?’”

GAIL BATES
DELEGATE
HOWARD COUNTY, MARYLAND

Delegate Gail Bates (R-Howard County), who opposed the tax hike, said it is much ado about something important.

“The whole class warfare thing is what they’re playing on,” Bates said of the governor and supporters of the tax hike. “We explained to some of our farm people, ‘If you sell land, you are now a millionaire.’ I’m a CPA. I have a client who sold a farm for $10 million. I said, ‘Aren’t we glad we did that last year instead of this year?’

“A lot of people don’t understand it isn’t just your earned income,” Bates continued. “We have people whose income comes through a subchapter S corporation or other business income. It’s an attack on business.”

‘Flatness Is a Virtue’
Ohio University economics professor Richard Vedder, Ph.D. has extensively studied the impact of taxes on where people choose to live. He says there is a clear correlation between rising taxes and out-migration.

“I call it the ‘Get Out of Maryland Tax Act.’”

STEPHEN MOORE
ECONOMIST AND AUTHOR
RICH STATES, POOR STATES

Vedder’s studies show “growth tends to be higher the flatter the tax is. Flatness itself is a virtue because people respond at the margins [the places where rates change]. When the maximum federal income tax rate went down from 70 percent to 50 percent in 1982, the number of people reporting $1 million or more on their income taxes almost doubled in a single year. By 1986 we went to a 26 percent top rate, and total tax revenues from that group of people increased substantially.”

Vedder said he expects most of Maryland’s wealthy to look for ways to reduce taxable income as a result of the higher tax bracket. He also expects some to move out of state.

Wealthy Move Away
“We know from migration statistics, it’s very clear that no-income-tax states are receiving massive numbers of immigrants relative to income tax states,” Vedder said. “Those new people are coming from states that have income taxes.”

Bates said the tax bill for Maryland’s millionaires will increase by about $17,000 a year on average, prompting some of them to move elsewhere.

“You’ll find most people in that bracket have multiple homes,” Bates said. “A friend of mine has a home in Maryland and a home in Delaware. He can switch his legal residence in a heartbeat and has more incentive to do so now that Maryland income taxes will go up.

Moore noted in Rich States, Poor States the ease with which wealthy people can move, citing the example of California, which has a maximum income tax rate of 9.3 percent.

“When California faced a Mount Everest-sized $14 billion deficit in 2003, one of the major causes for the red ink was the stampede of millionaire households from the state,” Moore and Laffer wrote. “Out of the 25,000 or so seven-figure-income families, more than 5,000 left in the early 2000s, and the loss of their tax payments accounted for about half the budget hole.”

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

With the General Assembly’s passage of the new 6.25 percent top tax rate on incomes above $1 million, and Gov. Martin O’Malley’s signing of the bill, Maryland has apparently become the first state to create an actual millionaires’ bracket.
Brazen Contempt from Union Firefighters? Or an Attitude We Should Emulate?

By Jeff Jacoby

What do you see when you look at the Boston Firefighters Union? Do you see brazen greed and naked contempt for the taxpayer? That’s what I used to see, too. But maybe we’ve been too hard on the firefighters. Maybe what we’ve perceived for so long as avarice and arrogance is really a style of self-help that the rest of us should emulate.

I used to look at the Fire Department and see a culture of corruption and rip-offs. I used to find it infuriating that unethical firefighters would so brazenly misuse sick leave, or file bogus disability claims, or, as recent evidence suggests, cheat on a civil service exam. I thought it was especially disgusting that even after two firefighters died last year with intoxicants in their system—autopsies found that one was drunk and the other had used cocaine—the union vehemently insisted that it would agree to random drug testing only, to quote spokesman Scott Salman, “if it were a contractual thing, if it were more money.”

I was appalled when the union stuck to that demand—more money—even after it transpired that a dozen firefighters had been kicked off the force for substance abuse and scores more ordered into treatment programs because they seemed drunk or stoned on the job.

“We’re Not Dogs!”

But in the wake of April 30’s raucous firefighters rally at the State House, I’d changing my attitude about their attitude. Did you see that rally? There were hundreds of firefighters, marching up from the Boston Common in their red union T-shirts and chanting: “What do we want? Respect! When do we want it? Now!” And there was Robert McCarthy, president of the Professional Firefighters of Massachusetts, bellowing, “We’re not dogs! We won’t be treated like dogs!”

Well, how can you argue with that?

Boston firefighters earned an average of $92,756 in 2006—$103,817 if health benefits are included. According to the authoritative Boston Municipal Research Bureau, 55 percent of the city’s firefighters take home an annual compensation package worth $100,000 or more. You call that respect?”

“Boston firefighters earned an average of $92,756 in 2006—$103,817 if health benefits are included. According to the authoritative Boston Municipal Research Bureau, 55 percent of the city’s firefighters take home an annual compensation package worth $100,000 or more. You call that respect?”

No one is forced to become a firefighter. Those who choose to do so are entitled to be paid for the dangers they bravely face. They’re not entitled to be paid for agreeing not to endanger others. Insisting otherwise makes the union look ridiculous and greedy. If the Firefighters’ Union really wants more “respect,” it might consider showing some for the rest of us.

Jeff Jacoby (jacoby@globe.com) is a syndicated columnist for the Boston Globe, where an earlier version of this column appeared. Reprinted with permission.

Learning from the Best

Not a pretty picture. But the more I think about it, the more I wonder whether the rest of us shouldn’t take a page from the firefighters’ playbook. Let’s all refuse to do our jobs properly unless we’re paid extra to do so. UPS wants its drivers to obey traffic laws? Pay up! Massachusetts General Hospital expects doctors and nurses to protect patients’ privacy? Show ‘em the money! Schools want to ban teachers from improper contact with students? Give ‘em a raise! Superior Court judges should be banned from taking bribes? Only if the price is right!

Preposterous? Yes—but no more preposterous than firefighters demanding a reward before they’ll agree to random drug testing.

Three-Fourths Retire ‘Disabled’

And that doesn’t include pension benefits; According to the research bureau, the average pension for a retiring firefighter is nearly $67,000 a year. And if he retires on a disability claim, he gets it tax-free. (Would you believe that nearly 75 percent of all Fire Department retirees in recent years have been based on “disabilities?” Probably just a coincidence.)

So you can see why the firefighters bris-

Members of the firefighters union rally on the Boston Common on April 29.

Personnel from across the state attended a rally near the State House as part of the annual lobbying day, April 29, of the Professional Firefighters of Massachusetts. (DAVID L. RYAN/ GLOBE STAFF)
FEATURED SPEAKERS

George Gilder
Chairman, George Gilder Fund Management, LLC

Leonard Liggio
Atlas Economic Research Foundation

Carrie Lukas
Independent Women’s Forum

Terence Kealey
Author, The Economic Laws of Scientific Research

Brian Lee Crowley
Atlantic Institute for Market Studies

DISCUSSION SALONS

• Spontaneous Order for Fun and Profit
• The Birth of the Modern Freedom Movement
• From Serfdom to Freedom—A Personal Journey

EXCURSIONS

• Historical tour of Fort Niagara
• Wine Tasting at one of the area’s local vineyards
• Explore the Falls on the Maid of the Mist!

PANELS

• Democracy and Its Discontents: Is the machinery of democracy hijacked in a manner that erodes liberty?
• Corporate Social Responsibility: What would truly responsible behavior from the corporate world look like?
• Freedom Movement 2.0—Learn about the newest strategies and organizations that aim to advance liberty in the U.S. and beyond.

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