California Voters Reject Budget ‘Reform’ Measures

By Adam B. Summers

With the state government in deep financial straits, California voters resoundingly rejected, by nearly a 2-1 margin, the main propositions Gov. Arnold Schwarzenegger (R) and the state legislature had billed as “budget reform measures” in the state’s May 19 special election.

The rejected measures all attempted to raise more tax money, borrow, or move funds from other programs into the general fund.

The special election resulted from a February budget deal that attempted to plug an estimated $42 billion budget deficit over 18 months.

In a sign of Californians’ frustration and anger toward their elected officials, the only measure to pass was Proposition 1F, which prohibits the governor, members of the legislature, and other statewide consti-CALIFORNIA, p 6

California Gov. Arnold Schwarzenegger speaks to the media the day after voters rejected “budget reform measures.”
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Illinois Lawmakers Reject Income Tax Hike

By Kristina Rasmussen

In the tense final hours of the Illinois General Assembly’s regular session, the state House rejected a $3 billion income tax increase on May 31 by a nearly 2-1 margin.

The two-year, 50 percent income tax rate increase had been championed by Illinois Gov. Pat Quinn (D) as a way of partially filling an $11 billion multi-year budget deficit.

Before adjourning, the General Assembly sent a half-year budget to Quinn’s desk. Legislators are expected to return this summer or fall to act on a full-year spending plan.

Procedural rules governing Illinois’ budget process mean the support of a supermajority of legislators will be needed to pass a revenue increase. Prior to June 1, only a simple majority was required.

Democrats Join GOP Opposition

Forty-two legislators voted for the tax hike, with 74 voting against. No Republican representatives voted in favor of the tax hike; 26 Democrats joined in opposition to the bill.

Most political observers had expected a tax hike to pass in some form. The defeat was a stunning reversal of fortune for plans to bring in new revenue. “Raising the Illinois income tax burden on our citizens without analyzing the programs and policies which have created the state’s fiscal mess of overspending our revenues will only put us deeper in debt,” said Rep. Jil Tracy (R-Quincy).

Even as the House voted down a tax increase, the state Senate approved a costlier revenue bill by a vote of 31 to 27. The Senate’s plan, championed by state Sen. James Meeks (D-Chicago), included a 67 percent income tax rate increase and an expansion of the sales tax to 39 previously exempt services, such as video rentals.

“Illinois lawmakers need to remember it is the small business community keeping this recession from getting any worse than it already is,” said Kim Clarke Maisch, state director for the National Federation of Independent Business/Illinois. “To now target them through a series of tax-hikes, we need to balance the budget without tax increases.”

The institute countered Quinn’s “doomsday” budget with a menu of spending reduction options that would balance the budget without tax increases or drastic cuts. Ideas proffered by the institute included reducing the 10 percent share of state income tax receipts given directly to localities, reducing public employee pay, and rolling back any 2010 departmental spending increases to the lower 2009 allocation.

Other policy research organizations, including the Chicago-based Civic Federation, also produced reports with suggestions for state pension reform and other measures to plug the state budget hole without the need for sharp tax increases.

“We have an opportunity to reform our state’s policies and create a new era of fiscal responsibility and transparent government. The public must demand it.”

Kristina Rasmussen (krasmussen@illinoispolicyinstitute.org) is executive vice president of the Illinois Policy Institute.
N.M. Film Subsidies Bring Poor Return

By Paul J. Gessing

New Mexico may be the site of many film productions, but recent studies call into question the claimed benefits to the state’s economy.

With New Mexico taxpayers spending nearly $60 million a year on subsidies to the film industry, and with states competing with each other to attract film productions, the issues of job creation and overall economic benefit loom large.

New Mexico’s film program is viewed as a national model and such an important part of the state’s economic development efforts that three government bodies have completed separate studies of the program in the past year.

Two of those reports tear apart the third, a glowing study by consulting firm Ernst & Young that concluded New Mexico receives a surprising $1.50 return on each taxpayer dollar spent. “We are involved in a race to the bottom with dozens of other states, dreaming up more and more extreme film incentives. It is time to take a deep breath and pull back from the brink.”

GERRY BRADLEY, ECONOMIST
NEW MEXICO VOICES FOR CHILDREN

from online and telephone surveys of the film industry, the analysis found. Ernst & Young then added in the income of millionaire movie stars, producers, and directors, some of whom make 100 times more than the income of a film crew member.

Ernst & Young also excluded the cost to taxpayers of making interest-free loans to Hollywood. At a simple annual interest rate of 5 percent on a $15 million loan (the largest given out under the program), taxpayers are giving up $750,000 in interest annually.

On a six-year loan, the loss to taxpayers is $4.5 million.

“Wildly Unrealistic Assumptions”

“There are some wildly unrealistic and undocumented assumptions in the Ernst & Young study,” said economist Gerry Bradley of the left-leaning New Mexico Voices for Children. “We are involved in a race to the bottom with dozens of other states, dreaming up more and more extreme film incentives. It is time to take a deep breath and pull back from the brink.”

Bradley reached that conclusion after reviewing the other two studies.

The first, commissioned by the Legislative Finance Committee and conducted by the New Mexico State University-affiliated Arrowhead Center, determined the film subsidy program generated a return of only 14 cents for every dollar spent.

Because Gov. Bill Richardson (D) prizes the film subsidy program, the governor’s office and the Film Office (which the governor controls) did their own study.

Months after the Arrowhead Center report showed New Mexico’s film subsidies to be an economic loser, the Ernst & Young report claiming a $1.50 return on each taxpayer dollar spent was released in January of this year.

Inflated Salary Figures

A follow-up analysis comparing both studies was undertaken by the Legislative Finance Committee. That study shot several holes in the Ernst & Young analysis.

Instead of looking at payroll data, the Ernst & Young study used data collected

“Twilight Zone’ Assumptions

“It is clear to me that Ernst & Young were told to come up with a report that backed the film industry incentives, and that is what they did,” Bradley said. “The film incentives study done by Arrowhead at NMSU is a careful and well-researched study that makes its assumptions clear.”

While the finance committee’s study sat on the shelf garnering little media attention, investigative reporter Jim Scarantino of the Rio Grande Foundation publicized the report with his own analysis, “A Modern Spaghetti Western: Shooting Holes in the Ernst & Young Study of Film Industry Subsidies.”

Scarantino argued, “Ernst & Young’s data was based on assumptions made in the Twilight Zone. New Mexicans should rely on the Legislative Finance Committee and other nonpartisan public servants before spending millions to subsidize the film industry.”

Unions Among Beneficiaries

The head of the local film industry labor union, Jon Hendry of IATSE Local 480, wrote in a blog posting, “Ernst and Young are the 7th largest private employer in the country and their research carries a little more credibility than the Arrowhead Institute.”

Given the structure of the subsidy program and New Mexico’s lack of “right to work” laws, the film industry’s many labor unions have been among the biggest beneficiaries of the subsidies.

New Mexico’s film subsidy package includes a 25 percent Film Production Tax Rebate on all direct production expenditures, including New Mexico labor, subject to taxation by the State of New Mexico. This is a refund, not a credit, on the full amount of the expenditure, not just the tax portion. There is no minimum spending requirement and no maximum subsidy amount.

New Mexico also offers a loan of up to $15 million per project (which can represent 100 percent of the budget) for qualifying feature films or television projects.

Private Investment at Risk

Jason Hariton, vice president for operations at Albuquerque Studios, points out his company built a $81 million studio with zero government (state or local) money or tax breaks. The company’s studio was used to film the summer blockbuster Terminator Salvation.

But Hariton and other New Mexico film advocates worry a removal or sharp reduction of film subsidies could cause film work to go elsewhere, jeopardizing private investments. For New Mexico, finding a way to reduce the program’s cost without killing the industry is a complicated issue.

Paul J. Gessing (pgessing@riograndefoundation.org) is president of the Rio Grande Foundation in Albuquerque, New Mexico.

"A Modern Spaghetti Western: Shooting Holes in the Ernst & Young Study of Film Industry Subsidies": http://www.riograndefoundation.org/new/articles/?EC=ReadArticle&ArticleID=280

“The Film Industry in New Mexico and the Provision of Tax Incentives,” Arrowhead Center of New Mexico State University: http://www.nmlegis.gov/lcs/lfc/lfcdocs/film%20credit%20study%20TP&JP_08.pdf
N. Carolina Raises Taxes While Giving Breaks to Apple

By Paul Chesser

As North Carolina lawmakers and Gov. Beverly Perdue (D) struggled to cut spending and raise taxes to cover a $4.6 billion budget deficit, they gave Apple Computer a multimillion-dollar package of tax incentives to build a data center with 50 employees.

The abatements will save Apple about $3 million per year and could go as high as $12.5 million.

The company expects to create 50 jobs for the state, with possibly another 250 contractors getting work related to the so-called “server farm,” a warehouse filled with computers to host and support Apple services and downloads.

‘A Necessity’

“It’s not something we want to do,” state Sen. David Hoyle (D-Gastonia), who sponsored the bill, told Raleigh NBC affiliate WNCN-TV regarding the June 1 deal. “It’s something that is a necessity. We have got to rebuild this state’s economy.”

North Carolina’s unemployment rate stood at 10.8 percent in April, its third consecutive month in double digits and among the five states with the highest jobless rates.

Opponents of the incentives—mostly Republicans—said the state should make its tax structure more friendly to all businesses by lowering disincentives such as the state’s corporate tax rate, which at 6.9 percent is highest in the Southeast and ninth-highest in the nation.

‘Argument Almost Ludicrous’

“This particular deal is being advertised for jobs,” said state House Minority Leader Paul Stam (R-Apex), “and yet there are so few jobs involved, it makes the argument for it almost ludicrous.”

The Apple deal is not North Carolina’s first foray into targeted incentives for high-profile technology companies.

In 2004, state and local governments offered Dell Inc. $280 million in various breaks to build a computer assembly plant in Winston-Salem. In 2007, economic development officials convinced Google to build a data center—larger than Apple’s—in little Lenoir, North Carolina, at an estimated cost of more than $200 million in city and county tax breaks.

Disappointing Job Creation

In December, however, Google announced it would forgo its right to apply for a $4.7 million grant from the state attached to job creation. Instead of creating 210 jobs and spending $600 million in the state per the incentives agreement, Google had slowed construction of its facility and employed only 50 people by that time, the Triangle Business Journal reported.

As North Carolina moved to close its deal with Apple, another company it had rewarded with incentives declared bankruptcy. R.H. Donnelley Inc., a publisher of Yellow Pages directories in 28 states, announced on May 29 it would reorganize under Chapter 11 protection of the bankruptcy code. The company employs about 570 people in the Raleigh area but cut 20 percent of its workforce in 2008.

The state gave Donnelley $4.3 million in incentives in 2003 to relocate its headquarters to the Raleigh area.

Paul Chesser (pc@climatestrategieswatch.com) is a special correspondent for The Heartland Institute.

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California Voters Reject Budget ‘Reform’ Proposals

Continued from page 1

tutional officers from receiving pay raises in years when the state is projected to run a budget deficit. It passed by a 3-1 margin, 74 percent to 26 percent.

“I think this was a stunning victory for California taxpayers and ordinary citizens,” said Jon Coupal, president of the Howard Jarvis Taxpayers Association, based in Sacramento. “They spent $35 million and we spent $650,000 and trounced them pretty bad. It sent a message that Californians are taxed enough and that our legislature needs to do its job in prioritizing spending.”

Played Both Sides
Proposition 1A was probably the most significant and controversial of the ballot measures. In an attempt to appease both sides of the political aisle—particularly the politically powerful public employees’ unions on the left and tax fighter groups on the right—the measure would have extended the tax increases imposed in the February budget deal for up to two years, enhanced the state’s rainy-day fund, and enacted a new spending limit.

In the end, the measure’s provisions upset both sides. The unions feared the impact of a spending limit, and fiscal conservatives balked at the estimated $16 billion of additional tax increases. The measure failed by a vote of 66 percent to 35 percent.

Proposition 1B would have guaranteed the state would spend an additional $9.3 billion on education to “make up” for the money it was not spending because of the current fiscal crunch. Proposition 1B would have gone into effect only if Proposition 1A also had passed, in an obvious attempt to buy the support of the teachers’ unions for Proposition 1A or at least keep them from campaigning against it. The proposal ultimately failed anyway, and the measure went down by a 63-37 vote.

Lottery Borrowing Rejected
Proposition 1C would have allowed the state to borrow against the future revenues of the California State Lottery. According to the February budget deal, the state was relying on the passage of Proposition 1C for $5 billion in such funds, although the measure did not place any limit on the amount that could be borrowed, so the measure did not place any limit on the amount that could be borrowed, so the state could have borrowed even more from the lottery in the future.

Voters apparently thought it was too much of a gamble for a state already drowning in debt, and the measure failed by a 64-36 vote.

Funds Diversion Defeated
Propositions 1D and 1E both sought to take money from dedicated funds established previously by voter initiatives and transfer them to the General Fund to help address the budget shortfall.

Proposition 1D would have redirected up to $608 million in funding currently dedicated to children’s health and human services programs in FY 2009-10, and $268 million a year from FY 2010-11 through 2013-14. Proposition 1E would have redirected approximately $230 million a year for two years from funds currently dedicated to mental health programs.

As with Proposition 1C, the February budget deal assumed these measures would be approved by voters. Instead, voters rejected the measures by votes of 66-34 and 67-33, respectively.

California now faces a projected budget shortfall of $24 billion. Schwarzenegger supported the plan even though he entered office speaking with much fanfare of “blowing up the boxes of government” and “cutting up the credit cards.” Schwarzenegger was elected to office during the recall election of former Gov. Gray Davis, who was ousted chiefly for his fiscal mismanagement.

Governor Vowed No More Trouble
In 2004, while campaigning for Proposition 58, which established a state rainy-day fund, Schwarzenegger argued, “By voting yes on Proposition 58, you are basically taking the credit cards, cutting them up, and throwing them away so that the politicians over there [at the Capitol], those big spenders, will never, ever, get the state into this kind of trouble again.” The proposition passed by a big margin, gaining nearly 72 percent of the vote.

During the same election, the governor lobbied voters to approve $15 billion in “Economic Recovery Bonds” (Proposition 57) offered as a onetime fix to get California out of a budget hole so the state’s fiscal woes could be solved once and for all, with promises the state could start anew. Five years later, the state is in an even bigger fiscal mess.

State budget analysts and policy researchers have pointed out that if California had simply held spending to the rate of growth in population plus the cost of living since former Gov. Pete Wilson first came to office in fiscal year 1990-91, the state would have been sitting on a $15 billion surplus instead of the $42 billion deficit it faced earlier this year.

Coupal cited this as one reason millions of Californians believe the state’s lawmakers “are incapable of being fiscally responsible. The margin of defeat [of the Propositions] is as important as the victory for taxpayers. The governor, the unions, and most major corporations supported the propositions, yet the people rejected them. This sent a huge message.”

JON COUPAL, PRESIDENT HOWARD JARVIS TAXPAYERS ASSOCIATION

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“Proposition 1C would have allowed California to borrow against the future revenues of the state lottery. It failed by a 64-36 margin.”
Record Sales Tax Stands As Cook County Board Sustains Rollback Veto

By John W. Skorburg

Despite a 12-3 vote to reverse a sales tax hike imposed last year, the Cook County Board of Commissioners failed to overturn a veto by Board President Todd H. Stroger (D).

To overturn the veto, support from 14 of the board’s 17 members was needed. The vote to overturn was 11-4 with two voting “present.”

The one percentage point increase is expected to generate $400 million annually for the county. It more than doubles Cook County’s portion of the area’s total sales tax burden and gives Chicago the nation’s highest sales tax rate.

A few days later Stroger vetoed a measure that would have phased out the tax increase over time.

Merchants, Mayors Disappointed

The total sales tax rate in most of Chicago stands at 10.25 percent. The Cook County share is 1.75 percent. In one part of the city the sales tax hits 11.25 percent because of a special taxing district.

In neighboring Lake and Will Counties the sales tax rate is 7 percent, while in nearby DuPage County it is 7.25 percent.

David F. Vite, president of the Illinois Retail Merchants Association (IRMA), said the organization “is very disappointed that the veto was not overridden. The malaise that the tax increase has brought to citizens and retailers of Cook County continues. The high sales tax. Palatine borders Lake County, where the total sales tax is three points lower, at 7 percent. Local business people say they are losing customers to businesses in Lake County because of the big difference in sales tax rates.

Citizens in Palatine and several suburban townships are so angry about the sales tax hike that a move to secede from Cook County has taken root. Mullins was among the supporters of an advisory referendum calling for secession, which received strong support in the April election.

Schwantz, 39, is new to the political scene and said he wants to “give back” to the community where he has been raising his family. He said one of those ways would be to “work with the county, state legislators, and neighboring communities to do everything possible to reverse the [sales] tax increase.”

— John Skorburg

‘Government Run for Insiders’

Several board members see Stroger’s stance as a purely political maneuver.

Commissioner Forrest Claypool (D) voted to repeal the tax completely, telling reporters immediately after the Stroger veto, “This is a choice between a well-managed government and a government that frankly is run for the benefit of political insiders.”

Republican board member Peter Silvestri, who also voted to repeal, said, “I think this is a central issue in the [next] campaign. It is a very unpopular tax.”

Schwantz offered the taxpayers a ray of hope: “I am hopeful that [a] phased repeal will be successful as any form of relief is better than the situation we have today.”

The next opportunity for taxpayers to attack the tax hike could be the February 2010 local elections. Chicago Alderman Toni Preckwinkle (D) has vowed to challenge Stroger for the county board’s top position.

John Skorburg (jskorburg@heartland.org) is associate editor of Budget & Tax News and a policy advisor to The Heartland Institute

In early 2008, ex-Chicago Bears linebacker Jim Schwantz declared his intention to run for mayor of Palatine in northwest suburban Chicago in the April 2009 election. He ran unaffiliated, won, and was sworn in as mayor in early May.

Schwantz defeated three challengers, including longtime mayor Rita Mullins, who ended up placing a distant third.

Though they were opponents, Schwantz and Mullins both strongly opposed last year’s one percentage point increase in the Cook County sales tax. Palatine borders Lake County, where the total sales tax is three points lower, at 7 percent. Local business people say they are losing customers to businesses in Lake County because of the big difference in sales tax rates.

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FORREST CLAYPOOL, COMMISSIONER

COOK COUNTY, ILLINOIS

"The malaise that the tax increase has brought to citizens and retailers of Cook County continues. The highest sales tax rate in the nation is not a moniker that is befitting a county that includes the City of Big Shoulders."

DAVID F. VITE, PRESIDENT, ILLINOIS RETAILMercants Association
New Jersey Governor Seeks Income Tax Hike

By Gregg Edwards

New Jersey’s tax revenue problems continue to grow and further complicate Gov. Jon Corzine’s effort to balance the state’s budget, leading him to call for an income tax hike on high earners.

Income tax collections for the critical month of April suggested revenues for fiscal years 2009 and 2010 would be more than $2 billion less than the Corzine administration’s revenue projection issued in March.

April’s income tax receipts fell an astounding 40 percent ($800 million) from the previous year.

‘Problems Related to Income Tax’

“New Jersey’s fiscal problems are directly related to its income tax policy,” said Jim Leonard, senior vice president of the New Jersey Chamber of Commerce.

“First, the comparatively high top rate enacted in 2004 contributed to the anemic growth that characterized New Jersey’s economy even before the recession,” Leonard said. “Second, the progressive structure of the income tax also makes New Jersey highly reliant on a volatile revenue source” as high income earners are affected by the economic downturn.

Leonard said the recession “is an object lesson in the dangers of this tax structure. The economic downturn has significantly reduced the taxable income of those paying a lion’s share of New Jersey’s income tax revenues; 40 percent of the tax is paid by only 1 percent of the filers. Consequently, the bad economy caused income tax revenues to drop precipitously.”

Leonard noted the New Jersey government “knows how to adjust spending in one direction only—upward. Because government is largely incapable of cutting spending, its typical response to a bad economy is to increase taxes. It’s a vicious cycle. Hiking the income tax rate on high-income earners again will make the problem more acute.”

Big Shortfall

Corzine, a Democrat, proposes raising the income tax rate on households earning more than $500,000, from 8.97 to 10.25 percent. That would take New Jersey’s top income tax rate from the fifth- to second-highest in the nation. The Corzine administration says the tax hike will raise another $780 million.

The legislature’s nonpartisan professional staff estimated the total revenue shortfall for the current budget is an astounding 40 percent ($800 million) from the previous year.

Unfortunately, ignoring our pension obligation has become the norm rather than the exception.”

Legislative staff also concluded revenues for the FY10 budget would be $800 million less than the Corzine administration’s initial projection.

Should the administration concur with that estimate, Corzine and the legislature will have to make adjustments to the FY10 budget. Under New Jersey’s constitution, the governor determines the revenues on which the budget is based.

Small Group, Big Impact

Jon Aneson, a leader in the New Jersey Restaurant Association, said, “The political establishment knows too well that it’s easy to increase taxes when those affected are small in number. The problem is that this small group can have a significant impact on the economy. When forced to choose between the tax consumers and tax producers, Gov. Corzine usually protects government. That preference ensures that there are fewer tax producers.”

Aneson said, “New Jersey’s growth of high-income earners already lags behind most of the country. Gov. Corzine’s proposed income tax hike ignores this reality and imperils both New Jersey’s economy and those who must rely on government services,” Aneson said.

“Governor Corzine already has indicated that he won’t be making the full $1.1 billion pension contribution that was approved in the current budget. That amount represented less than one half of the actuary’s recommended contribution for this fiscal year,” Oroho said.

“The large revenue shortfall makes the pension contribution a tempting place from which to steal funds. The pension systems already are drastically under-funded, so canceling this year’s payment will make a bad problem even worse. The payments we skip today eventually will have to be paid with interest,” Oroho added. “Unfortunately, ignoring our pension obligation has become the norm rather than the exception.”

On August 22, 1996, President Bill Clinton signed the Personal Responsibility and Work Opportunity Reconciliation Act of 1996. The measure fulfilled Clinton’s campaign pledge to “end welfare as we know it,” and the law enjoyed bipartisan support in Congress.

Some governors and legislators seized the opportunities provided by the new law, while others were less ambitious, benefitting from the policy changes at the national level but not seizing the opportunities available to improve effectiveness at the state level.

The variation from state to state in policy changes makes a survey of welfare reform in all 50 states plus the District of Columbia, 10 years after PRWORA’s enactment, revealing and valuable to policymakers at all levels of government. This unique report offers the first survey we are aware of that ranks and grades states by the success of their anti-poverty efforts and by the reform policies they adopted.

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Gregg Edwards (gmedwards1@verizon.net) is president of the Center for Policy Research of New Jersey.
Washington Gov. Gregoire Protects Performance Audits

By Jason Mercier

Thanks to the veto pen of Gov. Chris Gregoire (D), Washington state’s performance audit program remains intact and adequately funded. The move gives the state auditor a green light for conducting performance audits to help identify opportunities for government reform as the state looks to rebound from the economic recession.

Gregoire rejected a $29 million raid by lawmakers on State Auditor Brian Sonntag’s (D) dedicated performance audit account to help balance the 2009-11 biennial budget.

Despite Sonntag’s willingness to share in the budget pain, lawmakers went a step further and tried to take 73 percent of the funds from the dedicated performance audit account. The state's voters created the account in 2005, when 57 percent approved Initiative 900, giving independent performance audit authority to the state auditor.

At stake was whether the auditor would be able to do a comprehensive statewide performance review requested by the governor while also conducting robust performance audits of state and local governments.

Raid Gutted Funding

The raiding of the performance audit program brought a strong rebuke from the state auditor.

On April 24 Sonntag sent a letter to House Speaker Frank Chopp (D-Seattle) which read in part, “The section that sweeps away most of our performance audit funding is ridiculous and offensive both to us and to citizens.

“The cuts are unacceptable and will severely undercut our ability to do independent performance audits,” Sonntag continued. “I am deeply disappointed in the way the budget process has worked this year. The lack of clear, ongoing communication with your members regarding our budget has led to confusion and, now, this unacceptable budget proposal.”

Reform Efforts Endangered

This wasn’t the first time the state auditor expressed outrage at legislative attacks on the dedicated performance audit funding.

Testifying before the Senate Ways and Means Committee on March 31, Sonntag said of the fund raid, “It is unacceptable to me. It is unacceptable to citizens who in such a time as this look to us more than ever to ensure that government is accountable and transparent. They recognize this office is uniquely positioned to be part of the reform, the governance change, that everybody talks about and wants.”

Sonntag continued, “What particularly disappoints me is that the effects of this budget come at a time when our office is looked upon to be part of the solution. Every discussion we’ve had with legislative leadership and the governor centered on how we can help bring about meaningful, cost-saving government reform.”

Having failed to persuade lawmakers, on May 5 Sonntag formally requested the governor veto the $29 million funding cut.

Accepted 50 Percent Cut

The auditor told the governor, “The $15 million we agreed to have the legislature sweep from our current performance audit fund balance would have reduced that budget by about 50 percent, but it was similar to fund balance sweeps at other agencies. As passed by the legislature, the budget reflected a 73 percent cut ($29 million) in our performance audit funds. We also are disappointed at the legislature’s failure to recognize that our 15 completed audits identified nearly $500 million in cost savings and unnecessary spending for state government alone. Considering the cost to conduct those audits, we have achieved a 10-to-1 return on investment.”

Discussing her veto, the governor said the state auditor agreed to keep $15 million of the funds in reserve to be transferred the next time the legislature meets—the same amount the auditor had previously agreed to be reduced from the performance audit account.

“Next session, there will be a bill introduced that takes away $15 million from I-900’s dedicated performance audit account. During the hearing on that bill next year, all of us will work together to push against their proposed illegal transfer.”

TIM EYMAN, CITIZEN ACTIVIST

Sonntag said of Gregoire’s veto, “We can now move ahead in our effort to help bring about real reform to state government programs, and at the same time honor our commitment to the citizens of the state who gave us performance audit responsibility.”

Worried About Precedent

Citizen activist Tim Eyman, sponsor of I-900, expressed concern about the deal between the governor and state auditor.

“Sonntag was given a choice: Agree to a $15 million transfer later or allow the entire $29 million transfer to go forward now. In Olympia, that’s business as usual and it’s called a ‘deal.’ Out here in the real world, it’s called blackmail,” said Eyman.

“But because of the governor’s veto, we live to fight another day,” Eyman acknowledged. “Next session, there will be a bill introduced that takes away $15 million from I-900’s dedicated performance audit account. During the hearing on that bill next year, all of us will work together to push against their proposed illegal transfer.”

Sonntag by contrast, is happy with the compromise.

“This will allow us to maintain our commitment to move forward with the statewide performance review and to have an acceptable level of funding for specific performance audits,” Sonntag said.

Jason Mercier (jmercier@washingtonpolicy.org) is director of the Center for Government Reform at the Washington Policy Center.
N. Carolina Hits Large Families with Tax Refund Delay

By David N. Bass

The North Carolina Department of Revenue has a surprise for large families this tax season: an audit.

Taxpayers who claimed eight or more exemptions on their state return are being asked to submit additional documentation on their dependents, including copies of birth certificates and Social Security cards. Failure to comply means a forfeited tax refund.

Scorned as Delaying Tactic

The move is intended to ensure families gave valid information on their returns, according to Revenue Secretary Kenneth Lay.

“There is material noncompliance with taxpayers claiming excessive exemptions. And it is material,” Lay said.

But the audit has angered some parents who see it as a way to keep funds in state coffers longer.

“This is a revenue-generating situation for them in a very down economy,” said one taxpayer, who asked to remain anonymous. “If you talk about floating millions of dollars, it absolutely is in the state’s interest to do this.”

Donna Chapman, a pastor’s wife who educates her children at home, said she was upset by the request. “I honestly think it’s just a ploy by the state to hold up tax refunds until they can get the money to pay people,” she said.

Refunds Already Delayed

Responding to a worsening budget hole now estimated at more than $4 billion, the state’s Department of Revenue has already delayed refunds to keep the state government operating. According to its Web site, the department “is working with the Office of State Controller staff on a daily basis to determine the amount [of refunds] available each week for release.”

Lay, a former Bank of America executive who was appointed earlier this year by Gov. Beverly Perdue (D), said the state’s revenue debacle and requests for proof of exemptions are unrelated.

“They are two separate issues,” Lay said. “They are somewhat related, because it has to do with tax collection and refunds, but they are not directly related to each other.”

In addition to copies of Social Security cards and birth certificates, the Revenue Department has asked parents to provide copies of their federal tax returns and statements indicating their relationship to, and the physical address of, all claimed dependents.

Divorce Papers Demanded

Auditors also have asked taxpayers who filed as a head of household to provide a divorce decree or custody agreement and provide documents “to substantiate proper support of any dependents that did not live with you during the year(s) in question.”

Families are required to submit the information within 30 days. “Your refund will not be processed unless proper documentation is provided,” the notice says.

Families who marked a high number of exemptions in past years say it’s the first time they’ve received such a request.

“I have never received a letter like this,” said Raleigh resident Tobin Wells. “I had a red flag thrown up because I was getting a large refund and have five kids.”

Asked if every taxpayer who marked eight or more exemptions fell into the audit pool this year, Lay said “not necessarily.”

“There could be a number of factors, but that’s one of them. ... I hate to answer a hypothetical question, because it’s hypothetical,” Lay said.

Smaller Families Also Audited

Several families contacted by this writer claimed fewer than eight dependents on their state return but still received the audit letter. North Carolina has 86,421 family households with six or more persons, according to the U.S. Census Bureau’s 2005-2007 American Community Survey.

Lay declined to offer details on how much cheating his department expected to catch through the audit, or how much the action is costing in manpower and overhead.

“I’m not at liberty to say,” Lay claimed.

Asked if targeting large families is a new policy or if similar audits have been conducted in past years, Lay said the move is “not a policy.”

“It’s a matter of what we find when we look,” Lay said. “When we find noncompliance in an area, that’s where we tend to concentrate.”

A spokeswoman for the governor’s office offered no comment other than to say the governor would look into the audits.

Refund Delays Hurt Taxpayers

For their part, taxpayers are annoyed at the hoops they have to jump through to comply. Chapman said the delays have caused scheduling glitches, since she uses her refund to buy schoolbooks for her kids.

“I schedule it so that I can get my refund the second week in May, because the home school conference is the third week,” Chapman said.

Cynthia Leugers, a homeschooling mother of eight children in Charlotte, had to request new birth certificates from North Carolina and Oklahoma for two of her children, which “took forever,” she said. Her husband also had to get a new Social Security card.

“And I still don’t know, having sent all that in, if we’re going to get our refund,” Leugers said.

David N. Bass (dhass@carolinajournal.com) is associate editor of Carolina Journal, where an earlier version of this article appeared. Used with permission.

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DONNA CHAPMAN, NORTH CAROLINA TAXPAINTER

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NORTH CAROLINA TAXPAINTER
Soft Drinks Tax an Inefficient, Ineffective Way to Fight Obesity

By Richard Williams and Katelyn Christ

Policymakers think they have found a magic pill of sorts to cure obesity: excise taxes. Most economists, particularly those in public finance, find it preferable to raise revenue by taxing a broad base at a low rate, in order to maximize the amount of revenue while reducing distortions to the economy. The opposite of a broad-based tax is an excise tax, a tax levied on particular goods.

Taxing sugar-sweetened soft drinks to reduce obesity and, in some cases, raise funds to advance this goal seeks the same economic legitimacy as past attempts to tax “sin products” such as tobacco, alcohol, and firearms. Not surprisingly, though, this tax raises efficiency concerns similar to those taxes.

Taxes on sugar-sweetened soft drinks do not necessarily advance the overall public interest, may be regressive in nature, and hardly ever work as intended.

Unfair Taxes

Economists have found taxpayers are more tolerant of tax increases if the stated objective of the increase is to reduce activities that are widely frowned upon and to increase funding for projects or programs believed to promote worthy objectives.

However, evidence shows governments often divert the funds to other political purposes, and taxpayers have no knowledge of or control over this diversion.

A classic example of this is the Arkansas soft drink tax passed in 1992. The money was supposed to go into the state’s Medicaid program, but when there was an attempt to repeal the tax, taxpayers discovered policymakers were diverting the revenue to the general fund.

Soft drink excise taxes also may be regressive, because the weight of these taxes often falls disproportionately on the poor.

Unless a good is disproportionately consumed by the rich, an excise tax on any specific commodity will be regressive. That is, even if soft drinks are consumed at the same rate by rich and poor people, spending on soft drinks will represent a larger proportion of earnings for low-income families, and thus the taxes represent a larger share of poor people’s total income.

Ineffective Taxes

Generally, an increase in taxes passed on to consumers in the form of higher prices will lead to a decrease in the amount of the good purchased. The questions for policymakers are, (1) does this occur, and if so, (2) by how much does consumption decrease?

Recent studies challenge the case for using excise taxes to solve social problems. In their 2008 study, Emory University economists Jason M. Fletcher, David Frisvold, and Nathan Tefft specifically evaluate the effectiveness of soft drink taxes at reducing obesity, analyzing the impact of changes in states’ taxation rates from 1990 to 2006 on changes in BMI and obesity.

Their results show soft drink taxes have a statistically significant impact on behavior and weight but the effect is small because soft drinks are only 7 percent of a person’s total calorie intake. The authors calculate that if a 75 cent soda were taxed to a higher price of 90 cents, the BMI of a severely obese person would fall from 40 to 39.98.

Several Problems

The ostensible reason for taxing sugar-sweetened soft drinks is to reduce the rate of obesity and simultaneously raise revenue to fund projects and programs that will further this end. However, multiple problems arise when trying to resolve this serious social problem by imposing excise taxes on sugar-sweetened soft drinks.

First, the effectiveness of these taxes appears to be trivial because soft drink consumption is a relatively small part of the diet for overweight people and drinks that serve as substitutes for sugar-sweetened sodas—milk, sports drinks, fruit juices, etc.—may also be highly calorically consumed in greater amounts than the soft drink.

In addition, governments may not spend the increased revenue from these taxes on the intended social purpose, and consumers have little control over these funds.

Soft drinks are only 7 percent of a person’s total calorie intake. ... [If 75 cent soda were taxed to a higher price of 90 cents, the BMI of a severely obese person would fall from 40 to 39.98."

Also, the burden of soft drink excise taxation would likely fall disproportionately on the poor.

Richard Williams is managing director of the Regulatory Studies Program and the Government Accountability Project at the Mercatus Center at George Mason University. Katelyn Christ is a graduate student in economics at George Mason University and a graduate student fellow in the Regulatory Studies Program and the Government Accountability Project. This article is excerpted from their Mercatus Center policy study, “Taxing Sins: Are Excise Taxes Efficient?” Reprinted with permission.


Proposed Soda Tax a Bitter Pill for Taxpayer Advocates

By John Nothdurft

Congress is considering imposing a federal tax on nondiet sodas and other sugary drinks to help pay for President Barack Obama’s new health care proposal, estimated to cost well in excess of $1 trillion.

The soda tax is expected to bring in about $24 billion over the next four years.

Opponents of the tax point out Obama already has broken his pledge not to raise taxes on families making less than $250,000, by signing a bill sharply raising the federal excise tax on tobacco products, including a 156 percent increase on cigarettes.

The soda tax—another so-called sin tax—would similarly increase the tax burden on low- and middle-income families.

‘Massive Tax on Groceries’

“If President Obama approves new taxes on beer, wine, and sodas, then he will be imposing a massive new tax on the groceries of millions of middle- and lower-income Americans,” said FreedomWorks spokesperson Adam Brandon.

Public health groups argue a tax on carbonated soft drinks and other sweetened drinks would promote better public health by discouraging people from using these legal products while bringing in revenue to fund new health programs.

“The soda tax is expected to bring in about $24 billion over the next four years.”

Brandon argues the real aim of these taxes is to find “new, untapped sources of government revenue.”

‘Eating More, Exercising Less’

Brandon dismisses these claims, saying, “For years, critics of soda have argued that it is a unique contributor to obesity. This flies in the face of both common sense and scientific research. The fact is that Americans are getting heavier because we’re eating more and exercising less. You can’t tackle our nation’s obesity problem by making scapegoats of soda, alcohol, or any one product.”

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Blocked in New York

Recent proposals by state legislators to hike these excise taxes have caused considerable taxpayer blowback. In New York, a plan backed by the governor and health commissioner to impose an 18 percent state excise tax on sugary drinks so far has been rebuffed.

Opponents also warn sin taxes may not be as efficient or as effective in changing consumer behavior as advocates claim. A recent study by researchers at the Mercatus Center on the efficiency of excise taxes found, “taxes on sugar-sweetened soft drinks do not necessarily advance the overall public interest, may be regressive in nature, and hardly ever work as intended.” (See story on page 17.)

The study also notes, “the [health] effectiveness of these taxes appears to be trivial because soft drink consumption is a relatively small part of the diet for overweight people.”

John Nothdurft (jnothdurft@heartland.org) is a legislative specialist for budget and tax policy at The Heartland Institute.

A Lively Account of Fluoridation and its Discontents

Since its first implementation in Grand Rapids, Michigan, in 1945, public drinking water fluoridation and its attendant conflicts, controversies, and conspiracy theories serve as an object lesson in American science, public health, and policymaking. In addition to the arguments on the issue still raging today, the tale of fluoridation and its discontents also resonates with such present concerns as genetically modified foods, global warming response, nuclear power, and environmental regulation.

Offering the best current thinking on the issue, The Fluoride Wars presents a witty and detailed social history of the fluoridation debate in America, illuminating the intersection of science and politics in our recent past. This reader-friendly assessment explores the pro- and anti-fluoridation movements, key players, and important events. Full of amusing and vivid anecdotes and examples, this accessible recounting includes:

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- The back-and-forth drama between pro- and anti-fluoridation factions, with all its claims, counterclaims, insults, acrimony, and lawsuits
- Case studies of various cities and their experiences with municipal water fluoridation initiatives
- Fluorophobia and popular conspiracy theories involving fluoride
- The colorful characters in the debate including activists, scientists, magicians, and politicians

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A richly and considerably told tale of American science and public life, The Fluoride Wars offers an engrossing history to both interested general readers and specialists in public health, dentistry, policymaking, and related fields.
Unfair burden cited by tourism industry

By Phil Britt

Multnomah County, Oregon, which includes the city of Portland, might raise its rental car tax from 12.5 to 17 percent, a move opponents say could hurt the city’s tourism industry and other businesses and residents.

“It seems unfair to tax only one small slice of business,” said Deborah Hall Wakefield, vice president of communications and public relations for Travel Portland, which promotes area tourism.

“The increase is probably shortsighted. It would put us at the top of the list of cities with the highest taxes on rental cars,” Wakefield said. “We have always marketed Portland as an affordable city for meetings and conventions. Our costs for most things are lower than in other large cities. We don’t have any sales tax. But increasing the sales tax on rental vehicles so much is a hidden tax on local citizens and businesses who make up a significant portion of the car rental customer base,” Connors added.

Locals Make Most Rentals

Grover Norquist, president of Americans for Tax Reform, emphasized those points in a May letter to the county’s Board of Commissioners.

“What policymakers who support rental car tax increases ignore is that the majority of car rentals are actually made by local residents and companies,” Norquist wrote. “High rental car taxes—especially one set at 17 percent—prompt visitors to offset increased costs by spending less on meals, entertainment, or accommodations. Additionally, car rental demand or the length of rentals will decline due to tourists opting to stay in downtown Portland and walk or take other forms of transportation.”

Norquist added, “Residents and businesses often seek rentals in surrounding counties with lower tax rates, while there will be little to no demand from those living in or operating a company in surrounding counties to rent cars in Multnomah County. As such, this proposed tax increase will result in reduced demand for rental cars and likely not raise the estimated $4.7 million in new revenue for the county.”

Phil Britt (spenterprises@wowway.com) writes from South Holland, Illinois.
Chicago Parking Meter Privatization Creates Controversy

By Steve Stanek

A parking meter fiasco has enraged Chicago citizens, shoppers, and business owners, and their fury has raised the hackles of the city’s aldermen.

In a raucous city council meeting in June, council members who have long been accused of being little more than rubber stamps for Mayor Richard M. Daley approved a measure to require they have at least 15 days to vote on privatization deals of city assets worth $100 million or more.

The ordinance followed hard on the heels of a report by the city’s inspector general criticizing the mayor’s office and city council for approving the $1.15 billion, 75-year parking meter lease just two days after Daley’s office briefed the council on the particulars and without aldermen seeing the contract.

The report said the city could have netted more than $2.13 billion in revenue from the meters if Chicago had kept them.

Prices Soar, Meters Break
The lease, approved in December, allowed parking prices at the 36,000 meters to skyrocket. But most infuriating to motorists is that thousands of meters have not worked properly or at all. Many have been so stuffed with quarters they have broken or have made it impossible for persons to buy more time.

These and other problems have resulted in thousands of parking tickets, which in turn have led to hundreds of meters being vandalized with spray paint, Super Glue, hammers, concrete blocks, fire, and more.

“People keep on saying this is why privatization is bad. Well, no, this is why it’s bad when it’s done badly,” said the Parking Ticket Geek, a Chicagoan who declines to reveal his identity because the city’s parking situation has inspired him to start a Web site, http://thedel immense.com, that tracks Chicago’s parking problems and skewers Daley and other officials for them.

“It’s bad when you have 72 hours to discuss and vote on it. It’s bad when you undervalue the asset. Seventy-five years is too long. Why not 10 years and then reevaluate it?” the Parking Ticket Geek said. “When you quadruple the cost to park, and people aren’t getting out of cars because they are afraid to get tickets, that’s got to be hurting businesses. Then you have to put the city’s 10.25 percent sales tax on top of that. And the morons are surprised when their tax revenues fall.”

High-Powered Lawyers Involved
Chicago Alderman Leslie Hairston (D-5th Ward) in May alleged the companies have been defrauding thousands of motorists by knowingly using meters that are mismarked or are running fast, cheating parkers out of time they have paid for.

Illinois Attorney General Lisa Madigan (D) then issued subpoenas to Morgan Stanley, Chicago Parking Meters, and LAZ Parking.

A week later, Morgan Stanley Infrastructure and Chicago Parking Meters LLC, the main investors, hired former Illinois governor Jim Thompson and attorneys in the Winston & Strawn law firm he runs. LAZ Parking, hired to operate the meters, retained the equally politically connected law firm of Mayer Brown Rowe & Maw, whose staff includes two former Daley chiefs of staff and once included Bill Daley, the mayor’s brother and former U.S. commerce secretary.

Daley dismissed criticisms of the parking meter deal from aldermen, the public, and the city’s inspector general.

“Like anything else, you can issue any type of report,” Daley told reporters after an inspector general’s report questioning the privatization of the city’s parking meters appeared in early June. “I can criticize anything.” He added, “This is a good financial deal.”

IN OTHER WORDS

“Go ahead, beef about meters that cost too much on the days when they work. Those driver-unfriendly aspects aren’t the essence of this damning report from [Chicago Inspector General David] Hoffman. The real value here is that Hoffman and finance experts on his staff have given Chicagoans what a high-pressure Daley administration didn’t offer, and what an intimidated City Council didn’t demand: an independent review of this lease and how Chicago bumbled into it.

“Let’s posit that some leases or sales of public assets make sense, some do not. But precious few deals of any sort make sense during the sort of bum’s rush that characterized this one: The Daley administration announced a lease agreement on Dec. 2 and the City Council approved it Dec. 4 by a vote of 40-5. Due diligence? Fiduciary responsibility? Simple scrutiny? No time.

“One troubling result, Hoffman reports, is that City Hall didn’t assess other options—when, in fact, there were valid alternatives to this lease deal that could have solved the city’s short-term budget problems’ without raising rates so high or ceding control of the meters for three generations. Instead, says the report, the Daley administration argued that ‘the city had to take the best deal the market would offer at the time, whether good or bad.’”

— House Editorial, Chicago Tribune, June 3, 2009

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Hawaii Has Nation’s Highest Income Tax

Rash of other taxes raised as well

By Jamie Story

Faced with a $1.8 billion budget shortfall, Hawaii’s state legislators have passed a host of tax increases, including new brackets, one of which imposes the highest state income tax burden in the nation.

Gov. Linda Lingle (R) vetoed several of the bills, but legislators voted the next day to override those vetoes.

Among other increases, legislators approved three additional income tax brackets on top of the current nine, taking the top income tax rate from 8.25 percent to a whopping 11 percent. Hawaii now has the highest state income tax rate in the country and more tax brackets than any other state.

Another tax increase targets the state’s most important, and already taxed, industry: tourism. With hotel occupancy at a record low, the legislature raised the “transient accommodations” tax on hotel rooms from 7.25 to 9.25 percent—a 28 percent increase.

Workers Rally for Veto

At an early May veto ceremony hosted by the governor’s office, at least 1,000 citizens showed up to express their support for Lingle’s vetoes. Waikiki hotel employees attended en masse along with hundreds of other Hawaii citizens, in a demonstration reminiscent of the April 15 Honolulu Tax Day Tea Party.

“My administration presented the legislature with responsible, prudent, and fair alternatives to balance the budget in order to avoid tax increases which would further burden Hawaii’s residents and businesses, discourage visitors from traveling to Hawaii, jeopardize our economic recovery, and result in more job loss,” said Lingle. “The Democrat majority has ignored these alternative solutions and instead turned to tax increases that will take more money out of the pockets of our residents and visitors and diminish business investments.”

‘Jobs Will Be Lost’

Andre Tatibouet, former chairman of the Hawaii Hotel Association, was disappointed with the legislature’s decision to raise the tourism tax.

“Thousands of jobs will be lost as the result of this action,” said Tatibouet. “And it’s important to note that we’re not talking only about those people who work in the hotels. We’re talking also about a sales clerk in a souvenir shop, or a fry cook in Waikiki.”

Lingle also vetoed a 257 percent increase in the real estate conveyance tax and a 75 percent increase in the tax on smokeless tobacco. Lawmakers overturned those vetoes the following day, May 8.

The legislature also passed a bill to increase cigarette taxes for the sixth time in seven years, from $2 to $3 a pack by 2011. The governor did not veto this bill, which will bring total state and federal cigarette taxes to about $4 per pack in Hawaii.

Oil Tax Awaits Action

Another major tax increase on oil awaits the governor’s signature or veto. This bill aims to increase the tax from 5 cents to $1 per barrel, which is estimated to raise gasoline prices by approximately 3 cents a gallon and pull more than $80 million out of the state’s economy.

Supporters of the tax increases argued they were necessary to balance the budget.

State Sen. Donna Kim (D-Honolulu), chair of the Ways and Means Committee, told the Honolulu Star-Bulletin, “We looked under every single rock that we could to find ways in which we could cut, and at the end of the day, we still had holes in the budget.”

Speaker of the House Calvin Say (D-Honolulu) went even further, telling the Star-Bulletin, “By the end of the day, the legislature will look good because they were responsible in balancing their budget.”

‘Taxes Protect Government Workers’

State Sen. Sam Slom (R-Hawaii Kai), who opposed all tax increases, stated, “We already have double the unemployment we had a year ago, a record number of business failures, and plummeting visitor arrivals. Tax collections have nosedived. How can any rational person believe that the answer is to both protect the legion of government workers and their benefits while at the same time raising taxes on all levels?”

Slom added, “Hawaii is already at a major cost and distance disadvantage; more taxes and a more hostile business climate will only make that worse.”

Jamie Story (jamie@grassrootinstitute.org) is president of the Grassroot Institute of Hawaii.

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Texas House Rejects New Taxes, Fees on Motorists

By Justin Keener
Despite furious lobbying for higher taxes and fees on motorists in Texas, the legislative session ended with defeats for the tax hikers and victories for taxpayers and motorists.

One bill in particular, the Texas Local Option Transportation Act (TLOTA), was aggressively marketed as the most workable solution to meet the state’s need for transportation infrastructure.

The proposal would have allowed larger counties to call elections to increase local gas and diesel taxes by up to 10 cents per gallon and indexing the rate to inflation; double the driver’s license renewal fee from $24 to $48; add $60 each to motor vehicle registration and vehicle emissions fees; establish an hourly parking fee; and create a $250 “new resident” fee for anyone moving into the Dallas/Fort Worth metroplex.

The measure eventually was pared down to the gas tax increase (non-indexed), driver’s license fee, and vehicle registration fee. It passed the state Senate twice, once as a standalone bill and once as an amendment to sunset legislation for the state’s transportation agency, but the conference committee stripped out the amendment before approving the conference report in May on the next-to-last day of the session.

Recession Worries
Many legislators expressed concerns about increasing taxes during a recession, as well as the potential for a “Swiss cheese” effect if some counties had the ability to raise taxes and fees while others did not.

State Sen. Dan Patrick (R-Houston) said during floor debate, “Transportation funding should be a statewide issue, not a patchwork quilt of taxes that vary from county to county. In addition, this bill could cost the average Texas driver nearly $200 a year with no guarantee the money would actually go to roads; the money could all be directed to rail under this bill.”

The failure of TLOTA came as a blow to many state and local leaders who had hoped for billions in new revenue to help expand transportation infrastructure and alleviate congestion. But as some groups are pointing out, local governments can still increase transportation spending.

“Local communities have the ability to pay for additional transportation infrastructure now,” noted Talmadge Heflin, director of the Texas Public Policy Foundation’s Center for Fiscal Policy. “All they need to do is redirect these additional funds is redirect existing sales tax capacity that was originally intended for mobility and reexamine their communities’ expenditures and root out the waste to apply a portion of that to transportation.”

$300 Million Available
Heflin, a former chairman of the Texas House Appropriations Committee, performed a detailed analysis of local government taxing capacity and spending, in which he identified more than $300 million that could be generated annually for transportation within the Dallas/Fort Worth metroplex without raising taxes. The money would be freed up by prioritizing existing spending currently dedicated to areas other than transportation.

Ironically, Texas’s strong economic performance relative to most states sparked the calls to raise taxes and fees for transportation. Texas continues to attract nearly 1,000 new residents a day, prompting many state and local officials to worry the influx threatens to overwhelm the state’s transportation infrastructure.

In a recent Dallas Morning News interview, Dallas Mayor Tom Leppert said without additional funding for roads and rail, “What could be a bright future is going to turn gloomy.”

Tax Hikers Vow to Persist
Some state lawmakers had made it their top priority this past session to enact legislation allowing local communities to raise more money for transportation through increased taxes and fees.

Local leaders already have indicated they are preparing their strategy and campaign to continue the fight to raise taxes in the 2011 legislative session, if an opportunity does not present itself sooner.

Justin Keener (jkeener@texaspolicy.com) is vice president of policy and communications for the Texas Public Policy Foundation.

Supreme Court Green-Lights Chrysler Sale

The sale of automaker Chrysler was delayed but not derailed in June, as the U.S. Supreme Court declined to hear a challenge to the constitutionality of the sale.

The Court’s June 9 decision did not rule on the merits of claims by Indiana State Treasurer Richard Mourdock, who objected on behalf of state pension funds that had invested in Chrysler bonds.

Judges on the Second Circuit U.S. Court of Appeals had stayed the federal government-engineered bankruptcy sale of most Chrysler assets to Italian automaker Fiat. Fiat will own about 20 percent of the company, with the possibility of owning up to 35 percent.

The Obama administration had publicly vilified Chrysler bondholders who objected to accepting 28 cents for every dollar the company owed them. As senior secured lenders, they should have been entitled to a far larger return. Most lifted their objections under the intense White House pressure.

Indiana held firm, however. “Hoosier retirees and taxpayers are being deprived of millions of dollars in their funds while a foreign corporation receives a windfall at no cost; this is not equitable,” Mourdock said in a press statement.

— Steve Stanek

"Transportation funding should be a statewide issue, not a patchwork quilt of taxes that vary from county to county.”
DAN PATRICK
STATE SENATOR, HOUSTON, TEXAS
The physician’s creed to “First, do no harm” also is a warning to America’s policymakers and leaders as they consider massive changes to our health sector. Our freedom to make basic decisions about life, liberty and our health is at stake.

The Galen Institute invites you to sign our petition, which urges decision-makers to use the following principles to judge any health reform proposal:

✔ No new government-run health insurance plan
✔ No one-size government-dictated package of health benefits
✔ No requirement on individuals to buy this expensive coverage
✔ No new jobs-killing mandates on employers
✔ No federal institution controlling private health insurance
✔ No government intrusion into our medical privacy
✔ No federal government control over the practice of medicine through a federal health board, comparative effectiveness review, or other government intrusions into doctor-patient medical decision-making

DO NO HARM PETITION

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PUT PATIENTS FIRST

OUR VISION: Only those reform proposals that preserve the freedom, innovation, and quality of American medical care should be supported. We believe we need fairer subsidies to level the playing field for those who are uninsured, and that a better-functioning, more competitive and transparent marketplace would cover more people and deliver the higher-value care we seek.

We believe health decisions should be made by doctors and patients, not by government bureaucracies.

Do you agree?

Please sign our petition urging officials to Do No Harm to health care.

Learn more at www.DoNoHarmPetition.org

sponsored by the Galen Institute
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With the financial stakes so high, it’s no time for policy gambles.

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