Billionaire’s Basketball Team Gets More Money from Indianapolis Taxpayers

By Nick Baker

Indianapolis taxpayers are being forced to bail out the city’s National Basketball Association team, whose billionaire owner is one of the nation’s wealthiest individuals.

The city’s Capital Improvement Board (CIB), the government agency that owns and manages the city’s professional sports venues, voted 6-1 in July to provide $30 million over three years to the Indiana Pacers. Most of the funds are intended to help cover the Pacers’ operating costs for using the CIB-owned Conseco Fieldhouse. Approximately $3.5 million will be used to pay for improvements to the facility.

Additional terms of the deal allow the Pacers to keep revenue from game and non-game events. Should the team move before the 2013-2014 season, it will be required to repay $30 million to the CIB. The amount the team would be required to repay will decrease every season it stays in Indianapolis, falling to $1 million if the team leaves before the 2018-2019 season.

“I’m not sure how you can operate in one of the nicest facilities in the league for essentially rent-free and be so far in

Basketball, p 6

Tax Hikes Coming Unless Congress Acts

By Alyssa Carducci

President Barack Obama campaigned on the promise that middle-income earners—those earning $250,000 or less annually—would experience no tax increases. On New Year’s Day, 2011, however, virtually every American will be facing the possibility of higher taxes.

Lowered rates on personal income, capital gains, dividends, and estate taxes, which became law in 2001 and 2003, are set to expire on January 1 unless Congress extends them.

“Everyone’s tax rates will go up; everyone will see significantly higher taxes,” said Curtis Dubay, a senior policy analyst for The Heritage Foundation. “For the middle class that were promised not

Hikes, p 4
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Wisconsin’s Medical Fund Is Not a ‘Piggy Bank,’ State High Court Rules

By Maureen Martin

The Wisconsin Supreme Court dealt a blow to the budgetary manipulations of Gov. Jim Doyle (D) and the Wisconsin legislature when it ruled their $200 million raid on a medical trust fund was unconstitutional.

The fund was established by state law in 1975 to help control increases in medical malpractice insurance premiums for Wisconsin doctors and other health care providers. As ultimately amended, the law requires providers to carry private malpractice insurance with annual coverage of $1 million per claim and $3 million for total claims per year.

Health care providers also pay an annual assessment to the state fund. The fund covers providers who maintain the required private insurance and are found liable for malpractice claims in excess of the $1 million or $3 million coverage amounts. The fund pays the excess verdict amounts so injured patients are fully compensated beyond the negligent providers’ policy limits.

The purpose of the fund, the state law says, is “to curb the rising costs of health care by financing part of the liability incurred by health care providers as a result of medical malpractice claims and to ensure that proper claims are satisfied.”

No Tax Dollars in Fund

Doctors say the fund’s purposes were being accomplished, with physicians coming to Wisconsin from other states where malpractice premiums are skyrocketing.

For the 2007-09 budget, however, the legislature transferred $200 million from the fund to make up for deficits in other areas. That put the fund $109 million in the red, the court found.

Since 1975, the court noted in its July ruling, about $771 million in claims have been paid. It also said the claims payment amounts have steadily increased since 2006, but the amount payable in any particular year is unpredictable.

Therefore, a surplus in one year can be quickly wiped out in another as jury verdicts in excess amounts become final in court and thus payable.

Unconstitutional Taking of Property

After the transfer, the Wisconsin Medical Society and Dr. David Hoffman of Mauston, Wisconsin sued the state, alleging the diversion of funds was an unconstitutional taking of property. In a 5-2 decision, the court agreed.

The law establishing the fund created an “irrevocable trust account,” the court found, giving providers “a constitutionally protected property interest in the Fund” and naming them as beneficiaries to both the fund’s principal and any interest earned.

The court remanded the case to Dane County Circuit Court in Madison and directed the court to enter an order requiring the state to replace the funds, along with lost interest, and forbidding any further transfers.

The assessment amounts range from approximately $1,300 to just under $9,000 per year per doctor, with those in high-risk specialties paying higher assessments. Interest earned from investing fund balances helps reduce the assessments.

‘Stabilizing Influence’ on Premiums

Hoffman said the law has been “a stabilizing influence” on malpractice premiums. Dr. Thomas Luetzow, president of the Wisconsin Medical Society, which represents approximately 12,500 physicians, said in a statement the ruling is “a great victory for patients, their families, and health care professionals across Wisconsin.” It “sends an important message that the fund is not a piggy bank. The raid was wrong, and justice has been served,” he added.

In the past seven years, Doyle and the legislature have diverted more than $2 billion from funds established for particular purposes such as road building and bridge repairs, according to a 2009 report by the legislative budget bureau. Those diversions may now be challenged in court, but the court’s medical fund ruling might not apply. The statute creating the medical fund contains unique and legally significant language establishing that fund as an “irrevocable trust.” That language is not present in statutes creating other special-purpose funds.

Maureen Martin (mmartin@heartland.org) is an attorney and senior fellow for legal affairs at The Heartland Institute.
“If you’re a large employer, the expiration of the tax extenders—particularly the research and experimentation credit—gives you no ability to plan. So there’s no sense of stability there.”

RYAN ELLIS
TAX POLICY DIRECTOR
AMERICANS FOR TAX REFORM

“If Congress allows the 2001 and 2003 tax cuts to expire, these are major changes that would happen:

• Income tax would increase by 3 to 5 percentage points for every bracket. The lowest tax bracket, currently 10 percent, would be eliminated entirely.
• Capital gains tax rates would rise from 15 percent to 20 percent, and dividends taxes would jump from 15 percent to 39.6 percent.
• The death tax would rise from zero to 55 percent on estates greater than $1 million.
• The child tax credit would drop from $1,000 to $500 per child.

— Alyssa Carducci

“Everyone’s tax rates will go up; everyone will see significantly higher taxes. For the middle class that were promised not to pay tax increases, they’ll certainly see a much smaller paycheck starting in January.”

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If Congress allows the 2001 and 2003 tax cuts to expire, these are major changes that would happen:

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• The child tax credit would drop from $1,000 to $500 per child.

— Alyssa Carducci
Some legislators are attempting to turn the energy bill being debated in Congress into a vehicle for repealing the tax code’s “subsidies” to the oil and gas industry. A White House proposal to eliminate tax expenditures that benefit oil and gas companies would, according to the FY 2011 budget, collect an additional $36 billion over 10 years.

However, this includes several provisions that benefit a broad cross-section of industries. Some interest groups have piled on, claiming even bigger tax collections.

These charges invite the larger question: How valuable to the public are tax provisions that benefit particular industries or groups of people?

By Scott Hodge

We can find these answers within President Barack Obama’s 2011 budget published last February, in a volume titled Analytical Perspectives. This volume contains estimates produced by the Treasury’s Office of Tax Analysis of the budgetary costs of all the tax preferences benefiting corporate or individual taxpayers. In budgetary parlance, these preferences are called tax expenditures.

All of the tax expenditures available to corporations in 2011 total $102 billion. These preferences, taken together, are less than the budgetary cost of popular individual tax breaks such as the mortgage interest deduction ($104 billion), individual tax breaks benefiting state and local government ($96 billion), and the exclusion for employer-provided health insurance ($174 billion). But even if all of the biggest tax expenditures are on the individual side of the tax code, it is still worth examining those on the corporate side. The $102 billion in corporate tax expenditures break down into five major categories:

- Provisions that benefit all firms regardless of industry,
- Industry-specific or targeted provisions,
- Provisions benefiting charitable and social policy objectives, and
- Changes to depreciation rules.

Generally Available Benefits

The largest category of corporate tax expenditures, with a budgetary cost of $54.4 billion in 2011, includes provisions generally available to all firms regardless of industry. Some of the tax provisions in this category—such as the deferral of taxes on active income earned abroad and the domestic manufacturing deduction—are the ones the Obama administration wrongly described as unjustly benefiting the oil and gas industry.

For the administration to argue it is unjust for oil companies to benefit from a generally available tax provision is no more valid than to argue that because people don’t like lawyers, it is somehow “unjust” when a lawyer takes advantage of the mortgage interest deduction.

When these generally available provisions are subtracted from the administration’s figures, their estimate of the “tax subsidies” benefiting the oil industry is cut by roughly half.

Renewable Energy Handouts

The next-largest category is “Industry-Specific Preferences,” with a budgetary cost of $19.6 billion in 2011. Most of these provisions, some $11 billion in total, benefit companies engaged in renewable energy activities—the biggest of which is the alcohol fuel credit ($8.85 billion)—and energy production activities—such as the energy production credit ($1 billion). These large tax benefits to renewable energy firms are actual tax penalties on the oil and gas industry because wind and solar energy are substitutes for oil and gas.

The “subsidies” to the oil and gas industry are to be found in the category “Changes to Depreciation Rules.” Over the years, lawmakers have enacted numerous changes to the standard depreciation rules—which require firms to write down an investment over time—in order to persuade firms to invest in activities Congress thought were not receiving enough investment capital.

Most of these provisions benefit companies engaged in oil, gas, minerals, and renewable resource activities. The total value of benefits available to oil and gas firms is about $2.8 billion, and those for mining and timber firms total less than $1 billion.

State, Local Government Handouts

It turns out that in 2011, state and local governments will benefit more from “corporate” tax expenditures—thanks to the tax exclusion for municipal bonds—than will any other targeted industry or sector, nearly five times as much as the oil and gas industry.

Other types of energy firms, such as those engaged in renewable and energy-efficient activities, will benefit from more than $11 billion in tax expenditures—more than the $10 billion from which all domestic manufacturers will benefit.

The low-income housing industry will benefit from nearly $6 billion in tax expenditures, twice what will be made available to the oil and gas industry. The tax benefits for oil and gas are roughly on par with the budgetary costs of the tax benefits for the insurance industry and charities.

Surprising Beneficiaries

There has been plenty of rhetoric about how much certain industries are being “subsidized” by the tax code, yet all of the corporate tax preferences taken together are still less than the budgetary costs of the preferences available to individuals, such as the mortgage interest deduction and the exclusion for employer-provided health insurance.

More surprising is that state and local governments are the biggest beneficiaries of so-called corporate tax expenditures. And among energy firms, producers of renewable energy receive more than four times as much in tax benefits as the oil and gas industry.

Scott Hodge (hodge@taxfoundation.org) is president of the Tax Foundation, a nonpartisan educational organization in Washington, DC. Reprinted with permission from Tax Foundation Fiscal Fact No. 236.

“The tax benefits for oil and gas are roughly on par with the budgetary costs of the tax benefits for the insurance industry and charities.”
Billionaire’s Team Gets More Money from Indianapolis

Continued from page 1

can’t be operated profitably in the city?"
If that’s the case, what could possibly change in two to three years to turn this thing around? Or are we looking at a long-term situation of paying to keep the Pacers here?"

Ballard has stated keeping the Pacers in Indianapolis is vital to the city’s economy and that a deal had to be struck. In a guest editorial he wrote for the Indianapolis Star newspaper, Ballard cited a CIB study estimating the Pacers pump $55 million into the local economy each year.

“By maintaining the economic engine and cultural hub that is our downtown, we will preserve our status as one of America’s top-tier cities—a destination for employers, conventions, and visitors from around the world,” Ballard wrote.

Public Expressing Doubt
Few public officials have voiced dissent to the Pacers bailout, but some citizens are expressing discontent.

“I feel like this was done without any input from the taxpayers,” said bailout opponent John Beckman.

“I’m tired of hearing from the mayor and others that the Pacers will move if they don’t get this money. I don’t believe it for a minute,” said resident Theresa Westbrook. “The Simons are billionaires. Let them pay for it since they bought the Pacers to begin with. Why do the taxpayers have to pay for their team’s playground?”

CIB board member Douglas Brown was the only one to vote against the deal. He said the team should craft a longer-term deal now rather than delay it for three more years.

“I don’t think the environment for a long-term deal is going to get any better [than it is now],” Brown said during the CIB’s July meeting. “I think we need to strike while the iron is hot. I would hate to think that we’d be perpetually in negotiations with the Pacers.”

Nick Baker (nhbaker2006@gmail.com) writes from Washington, DC.
Austin Hands Formula One $250 Mil. in Taxpayer Cash

Track would be built on 900-acre site

By Julie Drenner

Formula One racing promoter and Austin, Texas resident Tavo Hellmund has announced the international Grand Prix race will be coming to the Texas state capitol in 2012 on a track to be built on approximately 900 acres in southeast Travis County, a few miles from the local airport.

Critics point out the public has had no say in bringing the Grand Prix project to the city, and they object to $250 million in taxpayer funding over 10 years. The quarter-billion dollar pledge comes as Austin officials are proposing tax increases for the city budget and Texas officials have imposed 10 percent cuts in spending in all state agencies.

The track would be the first one built specifically for the Grand Prix. City and state leaders see the development of the 900 acres for Formula One racing as an opportunity to elevate Austin's presence to the international stage. Hellmund has told reporters Austin is a perfect fit for the technologically advanced sport of Formula One racing.

Austinite Leads Opposition

Austinite Stefan Wray has started a Facebook group called “Concerned About Formula One (F1) Racing Coming to Austin” that has more than 200 members, and he is using the AustinPost.org Web site to post articles that call the project into question.

“We, the people of Austin, have had zero input in any of the decisions surrounding this Formula One racetrack deal. This is wrong.”

STEFAN WRAY, AUSTIN CONCERNED ABOUT FORMULA ONE (F1) RACING COMING TO AUSTIN

No U.S. Racing Team

One irony is that the United States has no Formula One racing team. In June the Formula One organization banned the only Formula One racing team in the United States from all competitions. The ban was punishment for the team missing the 2010 Formula One World Championship. The U.S. racing team’s assets were broken up and sold at auction.

And Formula One racing’s chief executive, British billionaire Bernie Ecclestone, has done more to raise Americans’ ire than enact the ban against its only racing team. Opponents of the Austin Formula One racing proposal have found more ammunition to use against him in a February 15, 2008 interview with Britain’s Daily Mail newspaper in which he said, “I hate democracy as a political system. It stops you from getting things done.”

Sen. Kirk Watson (D-Austin) sponsored SB 1515, which became law in 2009 and expanded the Texas Major Events Trust Fund to include big sporting events such as Formula One racing. Under the program, the Texas Comptroller allocates tax revenue increases that result from a major event and returns a percentage of those gains to the state government to compensate for the added expenses of hosting an event.

Julie Drenner (jdrenner@heartland.org) is director of The Heartland Institute’s Center on Finance, Insurance, and Real Estate in Austin, Texas.
Congress Eyes New Taxes on Private Equity Industry

By Thomas Cheplick

The U.S. private equity industry has seen its total funds raised drop from $139 billion in 2000, to $81.2 billion in the first half of 2009, to $45.1 billion in the first half of this year. Congress is moving to add salt to the wound, imposing new punitive taxes on private equity. The private equity industry helps create new businesses and turn around many of the nation’s underperforming companies.

Alan Patricof, founder of private equity firm Greycroft Partners, LLC, is firmly against Congress’s proposals to impose additional taxes on the industry. The inventory of startup companies Greycroft has helped fund includes the highly successful Huffington Post.com.

No Understanding

Patricof says Congress does not understand how weak the U.S. private equity industry is because of the recession that has lasted since the end of 2007, nor how taxing enterprise value and carried interest in private equity funds will further damage this core job-creating sector of the nation’s economy.

He notes the enterprise value tax singles out for punitive tax treatment the 10 million Americans in investment partnerships.

“I don’t think they have clearly thought it out. I do not think they understand what they are doing. They are not geniuses down there [in Washington, DC]. They really don’t understand how people run their businesses,” Patricof said.

“They don’t understand that carried interest works in promoting partnerships,” Patricof added. “Most partnerships distribute carried interest to individuals at the onset of a new private equity fund. They have a practice of normally keeping half of the carried interest in the fund to invest [in new job-creating companies], and the other half goes to the individual investors.

“They really don’t understand,” Patricof continued. “They are confused. If this gets passed it is going to have all sorts of unintended consequences and we are going to find out that this law has more implications than they are bargaining for.”

‘Outrageous’ Tax

Patricof said he doesn’t think lawmakers “know what exactly they are doing” because it is such a complicated issue, adding the “proposed enterprise value tax is just outrageous. I don’t think it is an appropriate tax: To tax someone’s interest in their company? And also, if, say, the interest in any of these investment partnerships is owned by a corporation, a corporation is already subject to ordinary tax rates, so why hit them again with another tax?”

American Enterprise Institute Senior Scholar Alan Viard said there are several “myths” concerning carried interest, including that it’s taxed at the capital gains rate, receives a special tax break, and is a means of tax avoidance.

Viard said if a fund sells a portfolio it has held for more than a year, the resulting profit would be taxed at the 20 percent capital gains rate. But interest income from bonds that fund managers receive—as well as the fees they are paid—are taxed at the 39.6 percent income tax rate.

‘Nothing to Do With Meltdown’

Robert Stewart, a spokesman for the Private Equity Council in Washington, DC, said if Congress sees private equity industry taxes as a means of going after financial service companies that helped break the America economy in late 2007, they are targeting the wrong industry.

Stewart said none of the equity industry firms “had anything to do with any of the companies implicated in the financial meltdown. These [anti-private equity industry] taxes apply against investment partnerships like family businesses and family partnerships, and these taxes against them will have wide-reaching effects on the economy.

The enterprise value tax, too, singles out these investment partnerships and says if the business is sold they no longer get capital gains treatment but [instead] income tax treatment [which has higher tax rates than capital gains], unlike all other companies that are sold,” Stewart added.

Stewart said the result will be to hurt the small business investor.

“That’s the unintended consequence. All I know is this is going to put considerable pain on our small businesses,” Stewart said.

Patricof stresses he has no stake in whether the enterprise value tax passes or not but is speaking out because he finds the tax unfair to the nation’s owners of and investors in real estate, energy, farming, and other companies.

Two Real Targets

Patricof says he believes the real targets of the proposed taxes are the Blackstone Group, an alternative asset management and financial services company, and Kohlberg Kravis & Roberts (KKR), a global asset manager. Both are prominent Wall Street companies.

“I am not fighting for myself here; I am not going to be touched by this, and my company owns no carried interest,” Patricof said. “But these [proposed] taxes are totally related to [Washington, DC’s] need for income. They are just trying to go after Blackstone and KKR, but they are going to hurt all the other people [in investment partnerships] in doing these taxes, and frankly I do not think it is fair to tax someone like this.”

Congress’s Joint Committee on Taxation has estimated an $18 billion increase in federal tax revenue if the private equity tax changes go through.

“It’s a punitive tax,” Stewart stresses. “It will have significant effects on investment. The enterprise value tax singles out all investment partnerships of all sizes.”

Thomas Cheplick (thomascheplick@yahoo.com) writes from Cambridge, Massachusetts. This article first appeared in the September issue of FIRE Policy News and is used with permission.
$10 Bil. a Year Available for Highway Funding—Without a Tax Increase

By Chris Mitchell

The federal government is diverting $10 billion a year away from necessary building and maintenance of highways, instead spending it on projects with no national benefits, a new study from the Reason Foundation finds.

The federal gas tax was intended to be used to build and maintain the Interstate Highway System. Today, however, gas taxes paid by auto and truck drivers are diverted to projects such as ferries, trails, and mass transit programs. These other programs have proven unable to generate significant user revenues and require large subsidies. The report says they should be funded by state and local governments.

The 18.4 cents a gallon federal fuel tax should be refocused on rebuilding and modernizing the aging but vitally important interstates, the study argues.

"Sooner or later Congress is going to have to deal with the major shortfall in highway investment," said Robert Poole, principal author of the report and director of transportation policy at Reason Foundation.

"Time to Rethink and Refocus"

"It is time to rethink and refocus the federal transportation role, in order to prioritize, to spend more on core federal purposes and less on peripheral concerns," Poole said. "Congress could dramatically increase funding to reduce the large backlog of cost-effective highway projects by shifting non-highway programs either to states or to general revenues."

Robert Poole
Director of Transportation Policy
Reason Foundation

"Could Start Clean"

"If we could start with a clean sheet of paper in the highway sector," the report states, "it would seem obvious that federal transportation dollars should be narrowly focused on transportation projects that are clearly national in scope or impact. Instead of focusing on funding state programs through a highly politicized process plagued by redistribution, pork barrel spending and projects that would never pass a benefit/cost analysis, federal transportation policy should focus on key areas of national interest."

Along with needed investment in an Interstate 2.0 system, the Reason proposal also would reduce federal mandates and give states more control over their transportation spending.

The Interstate 2.0 approach would give states incentives to reduce waste and administrative costs; prioritize projects that will produce the largest benefits; embrace public-private partnerships that shift financing and risk away from taxpayers and onto private investors; and utilize technology, tolling, and congestion pricing to produce a sustainable, user-pays, twenty-first century highway system.

Chris Mitchell (chris.mitchell@reason.org) is director of communications for the Reason Foundation in Los Angeles, California.

Congress, It’s Not Just About Online Poker, It’s About American Freedom

Poker has been played in American homes for nearly two centuries and technological progress has given this great game of skill a new home on the Internet. Today, millions of Americans play Internet poker, yet some in Congress still want to prohibit it. Believe it or not, Congress passed a law that tells Americans they can’t play poker on their own computer, with their own money in their own home.

It’s bigger than just poker. It’s about restricting Internet freedom...American freedom.
And it’s a slippery slope.

Protect Internet freedom by supporting S.1597 and H.R. 2267 which would establish U.S. safeguards for online poker, allowing Americans to play the game they love while providing essential consumer protections.

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Despite Deficits, No Crisis With Municipal Debts Yet

By Steve Stanek

In several major cities and at least one county this year, the specter of bankruptcy and debt default haunts taxpayers and local government officials. And the continuing economic slump is making recovery even more difficult.

Places such as Detroit; Harrisburg, Pennsylvania; Jefferson County, Alabama; Los Angeles; and San Francisco have teetered on the brink of default. Buena Vista, Virginia, population 6,400, could lose its city hall, which the city put up as collateral for a $9.2 million loan for a municipal golf course. And in May, Central Falls, Rhode Island, population 19,000, went into receivership.

Possible $85 Billion Deficit

The National League of Cities says municipal governments cumulatively face budget deficits from 2010 to 2012 of between $55 billion and $85 billion.

Historically, municipal bonds—which help fund sewer and water projects, building construction, and other municipal projects—have proven to be sound investments, with a default rate for investment-grade bonds at less than half a percentage point, according to bond rating agency Moody’s Investor Services. That’s about one-third the rate of corporate debt defaults, Moody’s says.

But are municipal bonds becoming riskier?

Not significantly, says Christopher Hoene, director of research for the National League of Cities.

‘Circumstances Beyond Fiscal Stress’

Hoene said there might be a few bankruptcies but added there has been “too much focus on the bankruptcy question. In almost all of the cases where bankruptcy is on the table, there are extenuating circumstances beyond fiscal stress.”

Case in point: Pennsylvania’s state capitol, Harrisburg. The city is an astonishing $288 million in debt because of its decision to build a huge new trash incinerator. Bond interest payments this year are $68 million—approximately $3 million more than the city’s entire annual budget.

The Harrisburg Authority, the governing body that issued the debt to build the incinerator, has already missed several payments, but it won a court victory August 11 when a Dauphin County Court judge dismissed a lawsuit demanding the county be reimbursed for a $775,652 debt payment it made for the Authority last year.

Revenue from the incinerator was supposed to pay back the borrowed money, but revenues have come nowhere near projections.

‘Sounds Worse than it Is’

Lisa Kreiling, a senior municipal bond analyst for PNC Capital Advisors, LLC in Philadelphia, said she believes news stories about possible municipal defaults “are making the situation sound worse than it really is, because they are focusing on municipalities that are in the worst shape.

‘Most water and sewer districts are in good shape. The financial situation is bad, but the reality is most municipalities are making midyear adjustments to budgets, cutting spending. We don’t hear about ones that had healthy reserves and are weathering through it. Most are doing what they need to do, even though it might be difficult,” Kreiling said.

Hoene said municipal governments are facing two main problems: the economic downturn, which has caused declines in many sources of revenue, including sales, property, and income taxes; and structural problems related to compensation for government workers, including retirement and health insurance benefits.

“The revenue shortfalls plaguing states and local governments are mostly about declining economic activity in comparison to what we were seeing pre-2008,” Hoene said. “However, there are underlying fiscal stresses facing local governments that go beyond the recession. Pension and health care costs are foremost among these stresses.”

‘Won’t Happen Overnight’

Despite the political pull of government worker unions, which fight most attempts to roll back pay and perks, reforms are beginning to happen, Hoene says.

“Pension costs can be brought into line by changing the structure of the benefit packages. Health care costs share some of the same stresses, but are mostly a function of costs that are going up for health care in all sectors of the economy. Cities are moving to restructure health care benefit packages, but in many cases it’s to offset costs that are rising beyond levels that their revenues can keep up with from year to year,” according to Hoene.

“In both cases, the turnaround needed won’t happen overnight. Restructuring benefit packages often means that the packages for newer employees are different from employees and/or retirees that are grandfathered in under existing structures, which means the potential cost savings phase in over time,” Hoene noted.

Spending Discipline Essential

Kreiling says she believes many municipalities have begun taking steps to deal with these problems. In studying the creditworthiness of municipalities, she sees certain common features of financially strong local governments:

“They maintain low debt burdens, have a debt service plan that is strongly monitored, a good mix of commercial and residential tax bases, and good revenue forecasting. By this I mean they are not aggressive in assuming strong revenue growth,” Kreiling said.

“They also show discipline in building reserves. When times are flush, the tendency is to spend it. A lot of cities with the strongest financial profile say X percent goes to a rainy day fund in good times or bad,” Kreiling added. “When we have a recession like this one, they can tap into those reserves. Another good feature is willingness to adjust the budget by making spending cuts instead of papering over problems with additional debt.”

Steve Stanek (sstanek@heartland.org) is a research fellow at The Heartland Institute and managing editor of Budget & Tax News.
2010 Sets Record for Cost of Government to Workers

By Mattie Corrao

The average American worker had to toil through the first 231 days of 2010—more than 63 percent of the year—to pay off the costs of their state, local, and federal governments. That leaves just under four and a half months for Americans to provide for themselves and their families before the growing tab of the cost of government comes due again.

Every year, the Americans for Tax Reform Foundation and its Center for Fiscal Accountability calculate the day on which average Americans have paid off their share of the costs of federal, state, and local spending and regulations. This year that day fell on August 19, a full eight days later than last year’s date.

It is the latest Cost of Government Day ever recorded.

“The fact that Cost of Government Day falls in the later part of August is alarming enough. It is even more harrowing that the 2010 Cost of Government Day constitutes a 34-day jump from COGD just two short years ago, when it fell on July 16,” said Grover Norquist, president of Americans for Tax Reform. “This illustrates the ballooning growth of government, and should be of serious concern to taxpayers who are footing the ever-expanding bill.”

Federal spending, always the largest component of the cost of government, consumed 104 days of the average American’s life this year. The cost of sustaining state and local governments has likewise grown—taxpayers must work 52 days to pay off this burden, four days longer than in 2009.

$23.9 Billion in State Tax Hikes

The growing insolvency of state budgets, coupled with skyrocketing wages and benefits for government workers, continues to push the costs of state and local governments higher. These costs are supported by increasingly onerous tax regimes as state lawmakers refuse to cut spending to ease the burden of government. Across the nation, state taxes were raised by a net of $23.9 billion in FY2010.

In addition, although excise taxes on cigarettes and other less-visible products were popular last year, states became bolder this year, with 12 states increasing income taxes by more than $10.7 billion in total.

States that pursue higher taxes to promote higher spending, however, see taxpayers leave in search of more-friendly environments. The Cost of Government Day report not only details the migration of these taxpayers but also calculates the amount of income that moves with them.

Tax Migration

The nine states with no income tax—Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming—provide a telling narrative. Those states grew by more than 80,000 new residents in 2008, who brought with them more than $900 million in net adjusted income.


This migration is not a recent phenomenon. Between 1998 and 2008, the 10 states with the highest tax burdens lost more than three million residents, who took with them $92 billion in income. In the same period the states with the lowest tax burdens gained 2.3 million new residents, who brought with them $92 billion in wealth.

Pensions, Health Care Liabilities

Taxpayers also recognize the growing unfunded liabilities of health care and state pensions will eventually turn into higher taxes, and they flee accordingly. Pension costs have been on the rise for years as politicians refuse to come to terms with the unsustainable promises made to unionized government workers.

Research shows more than half of total state and local outlays in 2008 were devoted to paying the wages and benefits of government employees—a $1.1 trillion payout. Aggressive market forecasts and a lack of political will to rein in pension costs have resulted in pension funds being overspent by as much as $3 trillion nationwide.

In addition, higher-tax states have higher unemployment rates, with the five highest-tax states having, on average, a 0.5 percentage point higher unemployment rate than those with the lowest.

Spending, Transparency Reforms

Some states have made meaningful reforms to push costs down, specifically with regard to pensions. Illinois has raised its retirement age to the highest in the nation—67—and Utah has closed its defined benefits plan to new workers, switching employees to a defined contribution or hybrid plan. In Indiana, Gov. Mitch Daniels (R) reformed the state health care plan to include high-deductible insurance plans and health savings accounts.

States are also starting to let taxpayers keep a watchful eye on those doing the spending. Thirty-one states currently host spending Web sites that allow taxpayers to track the use of state tax dollars. Some states have adopted local transparency initiatives and even include school district spending in their portals. These efforts promote sustainable spending practices while producing real savings.

In Texas, for example, Comptroller Susan Combs (R) was able to use her state spending site to identify $8.7 million in savings. Putting spending data online for taxpayers to scrutinize made it easily accessible to state officials as well. Other states, such as Kansas and Missouri, have used their spending Web sites to eliminate contract redundancies and streamline travel expenses.

Although transparency is a good first step toward reducing wasteful spending, public pay and benefits remain unsustainable in many states, and spending will have to be limited if these states are to compete for the best and most productive individuals.

Mattie Corrao (mcorrao@atr.org) is government affairs manager for Americans for Tax Reform in Washington, DC.
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Bleak Jobs Report Indicates More Pain to Come

By Steve Stanek

Commentators across the political spectrum had similar reactions to dismal jobs numbers released by the government in August, but markedly different prescriptions for solving the problem.

Nonfarm payrolls fell by 131,000 in July, more than double the drop of 60,000 that economists had expected, the Labor Department reported.

AFL-CIO President Richard Trumka said in a statement the government’s ‘disappointing employment report shows the economy shed 131,000 workers, mostly because of the winding down of the U.S. Census. Of more concern is that private-sector employment increased by only 71,000 new jobs. The unemployment rate was unchanged, but only because another 181,000 workers left the labor force.’

Then, on August 19, a new jobs report showed even more dismal results, as 500,000 people filed for jobless claims in the week of August 12, the highest claims level in nine months.

Trumka praised lawmakers for passing a bill in August “to save hundreds of thousands of essential public servants—teachers, firefighters, and public safety officers—from joining the ranks of the jobless. But the economic recovery is still far too weak to power the job growth we need to offset the almost 8 million jobs lost since the recession began.”

Opponents criticized the bill as a bailout for state and local government workers whose support Democrats need in the fall mid-term elections. Nearly all Democrat lawmakers supported the bill, and nearly all Republicans opposed it.

Even Temp Work Is Falling

David HuetHer, chief economist for the National Association of Manufacturers, said, “While manufacturing has added 26,000 jobs per month so far this year, this is still just a small fraction of the 91,000 jobs lost per month during the prior two years. If this pace is maintained, U.S. manufacturing employment will not return to its pre-recession level for another six years.”

HuetHer said the government’s jobs news “shows little evidence that the labor market will significantly improve in the next couple of months. After starting to increase last October, temporary employment—a good indicator of future permanent jobs—slowed in recent months and actually declined in July.”

In addition, the government revised the June data to reflect a loss of 221,000 jobs, more than the 125,000 decline previously reported for June.

GDP Also Revised Down

The poor jobs reports came on the heels of the Commerce Department’s estimate that U.S. gross domestic product—the value of all goods and services produced—rose at a sluggish 2.4 percent annual rate from April through June. That’s down from 3.7 percent growth in the first quarter, indicating the economy is again slowing.

Peter Ferrara, director of entitlement and budget policy for the Institute for Policy Innovation, noted the official unemployment rate does not include underemployed persons or those who have stopped looking for work.

“The army of the unemployed and underemployed consequently totals nearly 26 million,” said Ferrara, who also served as a senior staff member in the White House Office of Policy Development under President Ronald Reagan and as associate deputy attorney general under President George H.W. Bush.

“This would add up to an unemployed and underemployed rate of 16.5 percent, more than two-and-a-half years after the recession started.”

Stuck in Record Stagnation

Ferrara sharply differs with the AFL-CIO’s Trumka on how to solve the problem.

“The economy is stuck in record postwar stagnation because, since the beginning of this recession, it has been addressed with throwback Keynesian economics, proven to fail long ago, rather than the more modern supply-side economics that proved so successful in leading to a 25-year economic boom starting in 1982,” Ferrara said.

“President Obama, elected promising change, passed another Keynesian stimulus package a year later, only six times larger, which has again failed to generate any real recovery.”

Some Cause for Hope Seen

Robert Genetski, president of the national association of manufacturers, said businesses are holding off hiring for a variety of reasons, including concerns about the higher taxes and regulations that will result from the Obamacare legislation that became law earlier this year, and more tax increases to come if tax cuts enacted in 2001 and 2003 are allowed to expire as planned in 2011.

Nonetheless, he sees some hope in the jobs report.

“The gain in private-sector jobs amounted to a modest 0.8 percent annual rate,” Genetski said. “However, total hours worked increased at a rapid 5 percent annual rate. The latter number shows that the economy is doing better than some of the data for the previous month had suggested.”

Steve Stanek (sstanek@heartland.org) is a research fellow at The Heartland Institute and managing editor of Budget & Tax News.
Obama Vows to Kill AMT Relief

By Dan Pilla

For years I’ve been railing about the “stealth tax” known as the alternative minimum tax (AMT). AMT is the tax that blindsides most people who end up owing it because the vast majority of Americans don’t even know it exists until it’s too late.

The national taxpayer advocate, Nina Olson, also has railed against the AMT. In her annual reports to Congress, the NTA has called for the repeal of the AMT consistently for the past 10 years.

Earlier this year the Congressional Research Service joined the NTA in warning more people will be clobbered by the AMT. Congress created and the president authorized the establishment of a new federal entitlement program (health care) that promises to dwarf the spending of nearly every other entitlement program.

Government’s Money, Not Yours
Not only did Obama vow to keep taxes from being cut through AMT reform, he also guaranteed taxes will go up across the board. This came in the form of a shot he took at so-called “tax expenditures” in the tax code.

“Tax expenditure” is a phrase tax theologians use to describe a tax deduction. You see, in the mind of the typical tax theologian, a tax deduction is not a mechanism that allows you to keep more of your money. On the contrary. A “tax expenditure” means the government is spending its money by allowing you to take advantage of a deduction.

Think of it this way (since this is how tax theologians think of it): All money is “government money.” When the government allows you to keep some of its money by reducing your tax hit through a deduction, the government has actually incurred an “expense” known as a “tax expenditure.” The more “tax expenditures” there are in the law, the less money the government gets.

That’s why politicians often say, “We can’t afford this tax cut.” It’s as if they are spending their own money to do you a favor.

Because the idea of the government getting less money is sacrilegious to tax theologians, they constantly seek ways to reduce these “tax expenditures.” Put another way, they work to cut legitimate tax deductions from the tax code so the net effect is that your taxes go up.

They sell this idea to the public by presenting the deductions as “loopholes,” or means by which “rich people” illegitimately get out of paying taxes. This way, Jane and Joe America believe stopping the tax cuts is a way to get further into the pockets of those rich people who don’t pay their fair share.

Tax theologians don’t tell you that the “rich” already pay such a large percentage of the income tax that any further loophole-closing falls squarely into the laps of the average American. For example, “tax expenditures” that have from time to time been on the chopping block, depending upon the political climate, include the deductions for mortgage interest, charitable contributions, and IRA/401(k) contributions. How’s that for closing “loopholes?”

Loopholes for None
If you think this loophole-closing will be a carefully crafted exercise targeted at just a select few exotic deductions favored only by the very rich, the president’s statements contradict that idea.

He stated, “We’ve got to take out a hose and just eliminate these tax loopholes that are out there.”

The fact is, the vast majority of exotic tax loopholes were eliminated long ago. That was the selling point for creating the AMT in the first place—more than three decades ago.

The president is really saying he wants more of your money. He just wants to make it look like he’s not actually attacking you to get it.

Dan Pilla (pillatax@aol.com) is the best-selling author of 11 books on taxes and dealing with the IRS, including The IRS Problem Solver and How to Get Tax Amnesty. He runs TaxHelpOnline.com and publishes the Pilla Talks Taxes electronic newsletter.
Online Sales Tax Collection Mandate Before Congress

By Alyssa Carducci

A bill to tax all online purchases has been introduced in the U.S. House of Representatives.

Rep. William Delahunt (D-MA) introduced the Main Street Fairness Act (HR 5660) in July to impose nationwide the Streamlined Sales Tax Project (STTP), which would allow states to force retailers to collect sales taxes on purchases by buyers no matter where in the nation they live.

The legislation would overturn a 1992 Supreme Court decision that retailers must collect sales tax only if they have a physical presence in the buyer's state.

Tax Watchdog Opposition

The National Taxpayers Union calls the attempt to tax all Internet purchases "predatory" and warns it would open the floodgate to a rush of oppressive taxation.

"In this economy, the last thing overburdened consumers need is for the Tax Man to reach his hands even further into yet another vital area of our economy—the Internet," said NTU Director of Government Affairs Andrew Moylan.

The National Retail Federation supports the bill for "modernizing" the tax system, said NRF Vice President Maureen Riehl.

Retail Federation's Support

"It shouldn't matter how you sell an item, whether it's in a store, in a catalogue, on the Internet, through a mobile device. It shouldn't be getting special tax treatment. So either everybody that sells a taxable item collects, or nobody does," Riehl said.

NetChoice, a coalition of online retailers, worries the cost of compliance would be overwhelming for small businesses that are currently not set up to collect and remit sales taxes for jurisdictions all across the country.

Braden Cox, policy counsel for NetChoice, points to a study by the STTP governing board, "The Cost of Collection Study," which shows small sellers (those who do less than $1 million of sales annually) spend 17 cents for every dollar they collect for states. And even if Certified Service Providers (CSPs) were to aid in the collection work perfectly, that would save only 2 cents of the 17 cents per dollar collected.

That would still leave small sellers with a 15 percent cost burden in collecting sales taxes, the study noted.

"Collection a Huge Problem"

"These collection burdens will be a huge problem for catalog and online sellers who are handling only their home-state sales tax today. Ask any small business, on Main Street or online, and you'll learn it's hard enough to collect sales tax for one state; adding 45 more states will increase costs, not reduce them," Cox said.

This is because there are thousands of sales tax jurisdictions, and local and state officials keep changing their sales taxes.

Collection Solutions

The NRF has worked with state governments to get around the problem, Riehl says. Businesses could opt to sign up with a third-party company that would handle sales tax collection.

"This company would do all the collection and remittance and calculations for you for free," Riehl stated.

If a company wanted to continue to do its own sales tax collection, an option has been included to allow businesses to purchase an "off-the-shelf calculator" for partial reimbursement.

"Since we also represent small businesses, we've worked very hard to make sure that either they have the option to outsource it for free, which is there, or that they get reimbursement of at least a part of their costs," said Riehl.

Taxes Would Rise

Internet taxation opponents, though, point out the cost of these third-party companies' services would be paid for in the form of higher state taxes.

Riehl suggests the proposed mandate would be good for consumers.

"The consumers that buy online that don't have their sales tax collected still have a legal obligation to pay it," Riehl said. "So basically they're out of tax compliance right now. This law would basically put them into tax compliance and help them from being tax evaders."

In response to Delahunt's bill, Rep. Paul Hodes (D-NH) has introduced a resolution titled, "Supporting the Preservation of Internet Entrepreneurs and Small Businesses." The resolution states the Delahunt bill could "effectively put an end to the robust e-commerce marketplace that consumers in the United States currently enjoy."

NetChoice supports the Hodes Resolution.

Alyssa Carducci (adc.republican@yahoo.com) writes from Florida.

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Illinois Economic Development Agency Wastes Millions

By Kate Campaigne Piercy

The nearly insolvent Illinois state government could save millions of dollars and improve the state’s economy by abolishing the state’s economic development agency.

That’s one of the findings in Budget Solutions 2011, a report published by the Illinois Policy Institute, which offers budget-balancing ideas in three key areas of reform: spending realignment, right-sizing government labor costs, and pension funding reform.

Among the recommendations in Budget Solutions 2011 is the closure of the state’s Department of Commerce and Economic Opportunity (DCEO). According to DCEO’s mission statement, the department is “the lead state agency responsible for improving Illinois’ competitiveness in the global economy” and is responsible for “creating and retaining high-quality jobs and building strong communities.”

In reality, much of the DCEO’s work duplicates services already offered by the private sector, the report finds. Illinois businesses already provide other state businesses with services such as global marketing and technology support, for example.

‘Redundant Government Agency’

Some state lawmakers agree with the call to eliminate the DCEO.

“There would be no need for DCEO if the tax policies in Illinois were attractive to business investment. Moreover, it’s a redundant government agency,” said state Rep. Mike Connelly (R-Naperville). “There are already many economic development organizations like the Naperville Development Partnership that already work to bring new business and retain business in Illinois.”

The DCEO is not needed in these areas and may actually be taking commerce away from Illinois companies, Connelly said.

Puzzling Spending Choices

Illinois owes $6 billion in late payments to businesses that provide goods or services to the state and has an $80 billion unfunded pension liability and the nation’s second-worst credit rating. Budget Solutions 2011 gives examples of what it describes as spending that would be questionable at any time but is especially so when the state is in such a deep fiscal hole.

The report notes the DCEO gave a $100,000 grant in fiscal year 2010 to the Western Illinois Tourism Development Office to help cover costs associated with hosting the Canadian 4th of July Celebration. The DCEO’s grant tracker says the grant’s (#10-372010) purpose is “to assist with costs associated with attracting international tourists to Illinois attractions and events.”

Similarly, the DCEO awarded a $50,000 grant in fiscal year 2009 to the Chicago Convention and Visitor’s Bureau to “increase awareness of Chicago and Illinois in the Republic of Ireland,” according to the grant. The DCEO’s grant tracker says the grant’s (#08-372010) funding will come from “a portion of the state’s hotel-motel tax revenue.”

Sending Money Out of State

In 2009 the DCEO gave the Western Kentucky Carbon Storage Foundation a grant worth $250,000. The foundation was created when “Peabody Energy, ConocoPhillips and E.ON U.S. formed the non-profit foundation to work with the Kentucky Geological Survey in a project that includes drilling a well to test the Knox and Mount Simon geological formations at a site in Hancock County,” according to the grant.

The grant from Illinois was used to fund “a test well to research the permanent storage of carbon dioxide (CO2) deep underground in western Kentucky.”

Promoting Obscure Tourism

The DCEO gave a $10,000 grant in fiscal year 2009 to Ryburn Enterprises in Normal, Illinois to “assist in the restoration and preservation of a 1930s gas station, garage, and restaurant.” The DCEO’s grant tracker explains this grant’s (#09-335011) purpose is to promote tourism in the area, as the old and outdated buildings lie on the historic Route 66 highway.

The Blackhawk Waterways Convention and Visitors Bureau in the town of Polo received $1,272.88 for advertising “bed & breakfasts that specialize in chocolate-themed meals.” The DCEO’s grant tracker explains this grant’s (#10-361014) purpose: “Based off of the increased interest in culinary tourism, it is clear this promotion strategy will promote more tourism to the area.”

The DCEO’s grant tracker also shows a total of $219,067 in the past two years going to the Blackhawk Waterways Convention and Visitors Bureau to promote tourism in the area in other ways.

‘Pay-to-Play Cesspool’

Similarly, the DCEO gave Downtown Springfield Inc. $100,000 for touchscreen kiosks to “provide information on local historic sites, restaurants, retail shops, services, hotels, recreational facilities, maps of downtown and other services.”

The Web-based informational kiosks are located at Eighth and Adams streets, near the Prairie Capital Convention Center, and at Sixth and Madison streets, near Union Station and the Abraham Lincoln Presidential Museum. The DCEO’s grant tracker says the grant (#08-203453) will provide for hiring a part-time employee “to serve as an information/data input operator to collect and post information.”

“There is absolutely no oversight in the Department of Commerce and Economic Opportunity,” said state Rep. Jack Franks (D-Woodstock). “No one knows how money is spent once it gets into the hands of the grantees. It has turned into a pay-to-play cesspool, and it needs to be eliminated.

“Clearly, the DCEO is failing when Illinois is losing business and remaining uncompetitive with other states, like Indiana, that are doing a much better job of promoting a friendly, pro-business environment and welcoming businesses in with better incentives,” Franks continued.

Kate Campagne Piercy (kpiercy@illinoispolicy.org) is director of government reform at the Illinois Policy Institute.

“There would be no need for DCEO if the tax policies in Illinois were attractive to business investment. Moreover, it’s a redundant government agency.”

Mike Connelly
State Representative
Naperville, Illinois
The assignable credit can be sold, making cents of a film infrastructure investment. "assignable" tax credits equal to 25 percent of the expenses incurred in the production of a film in Michigan, plus 42 percent of the income and business tax hikes lawmakers imposed late in 2007.

The law includes subsidies of up to 42 percent of the expenses incurred in the film subsidy program. The assignable credit can be sold, making it another form of cash subsidy.

Center Launched Investigation
Hangar42 would have been the first project to qualify for the infrastructure credit, but it never came about, largely due to reporting by the Mackinac Center for Public Policy, a free-market research institute in Midland, Michigan.

The charge was filed August 2 after an investigation led by Kathy Hoekstra, an in-house investigative reporter for the center. She and a public policy colleague discovered the property that was to become the Hangar42 studio had been listed for sale at $9.8 million just days before it supposedly sold for between $40 million and $45 million.

"We could not fathom what caused such a leap in value, and began asking around," said Hoekstra. The team also wanted to know how the alleged purchase was financed, and how much was actually spent converting the former auto parts plant into a studio. No party to the transaction would answer their telephone calls, however, not even to say "no comment."

All told, center staff called the purported buyer, seller, and state officials 11 times.

Principals Clammed Up
The financing was a critical element because one source had suggested the possibility the deal was put together with a "land contract." This meant a buyer could technically purchase a property without putting any money down, then turn around and ask for a tax credit based on a $40 million investment. If the project failed, ownership would revert back to the seller.

Research by the center and a title company could find no record of a recent transfer of that property, raising red flags.

With all the principals refusing to speak, the Mackinac Center raised these questions in public in a May 20 press release and video report. The result was an explosion of media and official attention, including a series of stories in The Grand Rapids Press and, ultimately, a decision by Attorney General Mike Cox to investigate the deal.

Newspaper Started to Dig
In particular, reporter Chris Knape at The Grand Rapids Press began to dig, producing a series of articles that, among other things, led to the forced resignation of an influential aide to state Rep. Robert Dean (D-Grand Rapids).

The resignation came after an audio recording of a speech the aide gave in Chicago was uncovered. The speech included hints regarding his own involvement in a deal that sounded similar to Hangar42. Here's an excerpt as published in The Grand Rapids Press:

"I'm buying a building from one of my partners for $50 million. To get the building costs us $4 million. The 20 percent tax credit will provide us with $12.5 million. So how much did the building cost us? We made a profit off the state, and you get the $12.5 million when you sign the paper."

Because he was being term-limited out of the state House, Dean sought the Democratic Party's nomination for a state Senate seat. His bid ended on August 3 when he was defeated in the Democratic Party primary. He blamed the loss in part on the negative attention from the Hangar42 flap.

Felon Nearly Snagged $9.1 Million
As if the Hangar42 episode weren't embarrassing enough for state economic development officials, it followed another debacle that happened in March: A $9.1 million refundable tax credit deal (that is, at least a partial cash subsidy) was offered to a company formed by a convicted felon on parole for financial fraud.

Under the terms of his parole, Richard A. Short wasn't even allowed to possess a credit card, yet the state offered a subsidy for what appears to have been a phantom company he concocted. Adding to the embarrassment, Granholm touted the subsidy at a press conference following the state's regular monthly approval of targeted tax breaks and business subsidies.

Short even appeared on the dais with Granholm, and apparently his parole officer spotted him on the evening news coverage of the press conference.

"We've long known the 'jobs' programs of the Michigan Economic Development Corporation don't really create many jobs, if any at all," said James Hohman, fiscal policy analyst at the Mackinac Center. "If 10 years of economic decline in Michigan isn't enough reason for the Legislature to kill these programs, perhaps a few scandals will be."

JAMES HOHMAN
FISCAL POLICY ANALYST
MACKINAC CENTER FOR PUBLIC POLICY

By Michael D. LaFaive
Michigan's attorney general has filed an "attempted false pretense" fraud charge against Joseph Peters, a principal in the Grand Rapids-area Hangar42 movie studio.

As trumpeted by Gov. Jennifer Granholm (D) in her 2010 State of the State speech, the project had been in line to receive a $10 million "assignable" tax credit as part of the state's film subsidy program.

The law authorizing the tax credit was passed by the Michigan Legislature at Granholm's behest early in 2008, hard on the heels of $1.4 billion in personal income and business tax hikes lawmakers imposed late in 2007.

The charge was filed August 2 after an investigation led by Kathy Hoekstra, an in-house investigative reporter for the center. She and a public policy colleague discovered the property that was to become the Hangar42 studio had been listed for sale at $9.8 million just days before it supposedly sold for between $40 million and $45 million.

"[T]he property that was to become the Hangar42 studio had been listed for sale at $9.8 million just days before it supposedly sold for between $40 million and $45 million."
Virginia Governor Seeks End to State’s Liquor Monopoly

By Josh Eboch

The Virginia state government has held a monopoly on liquor sales in the state since the 1930s, and Virginia Gov. Bob McDonnell (R) wants to change that.

McDonnell has introduced a proposal to privatize liquor sales, but he is running into opposition from various groups, including some police officers and lawmakers who express concern about alcohol-related problems possibly increasing if the state allows privatization.

Virtually No Reduction

In a study published in July by the Virginia Institute for Public Policy, Prof. Donald J. Boudreaux of George Mason University found when it comes to frequency of problems related to alcohol consumption, there is virtually no difference between the 18 “control” states, where the state government sells alcohol, and “license” states, where private businesses sell it.

“In control states, for the years 2001-2005, an average of 33.79 persons, per 100,000 persons, died each year from alcohol-related causes,” Boudreaux wrote. “In license states, this figure is 34.64. The figure for the U.S. as a whole is 34.34.” Clearly, “government-monopoly control of spirits does not significantly reduce citizens’ risks of dying from alcohol-related causes.”

Nor would the privatization of liquor sales in a control state such as Virginia increase the chances of individuals engaging in risky behaviors such as binge drinking, Boudreaux found.

After “examining data from each of the 50 states and the District of Columbia … we find that there is no statistically significant relationship between control states and license states in the rates of binge drinking among 12-17 year olds,” the report noted. “The same is true for the rates of binge drinking among 18-25 year olds.” The study concluded, “Government monopoly of spirits does not protect against the menace of binge drinking.”

Boudreaux wrote, “Explaining the above findings is not difficult: Adult alcohol consumption in control states is statistically no different than it is in license states. In other words, the data suggest that if a state shifts from being a control state to a license state (or vice-versa), that switch will not affect the amount of alcohol consumed, on average, by adults in that state.”

Governor: ‘No Difference WHATSOEVER’

Boudreaux’s findings have not escaped the notice of McDonnell, who took office in January and campaigned on a promise to privatize liquor sales. In a radio call-in show in August, the governor said, “All the data shows there is no difference in drunk driving or crime whatsoever between control states and between privatized states.”

Not all Virginia lawmakers share McDonnell’s thinking. State Sen. Emmett Hanger (R-Mount Solon) has expressed concerns per-capita consumption of alcohol would rise if government lost control of the system, according to the Washington Post.

In addition, some Virginia law enforcement officials met with the governor’s staff in August to express worries about the potential for an increase in alcohol-related crimes.

Josh Eboch (jeboch@tertiumquids.org) is vice president for government affairs at Tertium Quids, a nonpartisan public policy organization in Gainesville, Virginia.

North Carolina’s Budget Hole Called Worst in Southeast

By David N. Bass

The next fiscal year could be a perfect storm for North Carolina budget writers, according to an analysis by the bipartisan National Conference of State Legislatures, which ranks the Tar Heel State’s budget gap as the fifth-worst in the nation and worst in the Southeast.

Congress has passed a rescue package that would cover $343 million of North Carolina’s FY2011 $519 million funding gap for Medicaid. The remaining $176 million will be filled by diverting funds from six other budget line items, including disaster relief dollars and unclaimed lottery prize money.

$3 Billion Shortfall Remains

The NC SL report lumped North Carolina in with Nevada, New Jersey, Arizona, and Maine as the five states with the worst shortfalls as a percentage of their general fund budgets. The report’s authors estimated the state was facing a $5.6 billion budget gap for the 2011 fiscal year—about 25 percent of the state’s general fund budget.

During the short session of the legislature this year, lawmakers raised taxes and cut programs, but experts predict the shortfall still will be more than $3 billion.

The report estimates North Carolina will experience a $3.2 billion shortfall in the 2012 fiscal year, or about 17 percent of the general fund budget. Most of that is due to a loss of $1 billion in federal recovery funds and the expiration of $1.4 billion in temporary state taxes.

Republicans, the perennial minority party in the General Assembly, say Democrats missed an opportunity to shore up the financial scenario during the past session.

‘Have to Make Cuts’

“They’ve proven that they either don’t get [it] or don’t want to make cuts, and we have to,” said state Rep. Thom Tillis (R-Mecklenburg). “It should be alarming to everybody that our structural deficit is higher than any other Southeastern state.”

State Rep. Hugh Holliman, a Davidson County Democrat and top leader in the House, told The Lexington Dispatch that unless the economic situation improves, Democrats would be ready to make cuts of up to $2 billion and extend tax increases.

“I don’t think there will be any more stimulus money, so we will have to go in and do some serious cutting again,” Holliman said.

David N. Bass (dbass@carolinajournal.com) is an associate editor of Carolina Journal, where a version of this article first appeared. Used with permission.
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The Heritage Foundation

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We’ve posted video and audio of each speaker at the conference, as well as PowerPoint presentations and other proceedings: 83 videos; 78 podcasts (also available for download from iTunes).

In addition, the entire program of the conference is available, with links to individual PowerPoint presentations.
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