States Push for Internet Tax
One advantage of shopping online is that purchasers often don’t have to pay sales taxes. That could change if two Indiana legislators get their way.

Taxman Pursues Expedia, Orbitz
Municipalities seeking to boost revenues to cover budget shortfalls are setting their sights on online booking companies such as Orbitz and Expedia.

Washington Rejects Income Tax
Washington State voters overwhelmingly rejected a measure that would have imposed the state’s first income tax, one limited to wealthy residents.

Fewer Pay, More Depend
Higher government spending on dependence-creating programs, and an ever-shrinking number of taxpayers, are imperiling the nation’s fiscal position.

Maryland Continues Rail Push
Proponents of subsidized commuter rail are trying to extend a little-used line in Minnesota despite budget difficulties.

Maryland Rail Plan Debate Continues
Debate continues in Maryland over a proposed new metro transit line to be jointly financed by the Old Line State and Washington, DC. The conflict spilled over into the recent campaign between candidates in the state’s gubernatorial race.

The Purple Line project would be the fifth metro line in Maryland. It would not connect Maryland with the District of Columbia, as the Red, Orange, Blue, and Green metro lines do, and it would not go up to Baltimore. Instead it would be a connecting line linking only the Red, Orange, and Green metro lines. The new transit line was supported by incumbent Democrat Gov. Martin
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**ANALYSIS**

**Washington State Officials Look for Medicaid Flexibility as Costs Rise**

By Jason Mercier

With Washington State facing a projected $4.5 billion budget shortfall, officials are debating the possibility of opting out of Medicaid to preserve flexibility in state health care spending.

The alternative is the potential elimination of state-only health care programs such as the Basic Health Plan, prescription drug coverage, and Disability Lifeline program. The state can’t afford to fund state-only programs in addition to Medicaid-match programs.

The debate is not unique to Washington. Health care officials in Nevada and Wyoming already have drafted white papers discussing the impact of opting out of Medicaid to provide more budget flexibility.

‘Will Have to Choose’
The Washington Policy Center recently surveyed state Medicaid directors across the nation to see if they, too, were discussing opting out of Medicaid. Among the responses we received was this one from Carol Steckel, commissioner of Alabama’s Medicaid Agency:

“We have not specifically discussed this issue with the governor. However, we [are] about to be transitioning to a new governor (January 17th). That may be an option he wants to consider. I definitely think that if HHS pushes an expansive definition of the health benefits package and continues to expand in other areas, many states, including Alabama, will have no other choice. If it goes too far, states will have to choose between Medicaid and ALL other general fund services!”

**Crowding Out**

Washington State also is considering opting out of Medicaid. Throughout the fall the Washington Policy Center participated as a member of Gov. Chris Greigore’s Budget Transformation Committee. One of the problems quickly identified concerning health care spending was the crowding out of state-only programs as a result of federal restrictions on Medicaid spending.

According to Washington Medicaid Director Doug Porter, the state is out of options.

“Given the targets I have to reduce expenditures in the current fiscal year ($113M general fund state) and over the next biennium ($521M), I cannot see how Washington can afford to support both the Medicaid program and our state-only programs, such as Disability Lifeline and the Basic Health program.”

Doug Porter

DIRECTOR, MEDICAID

STATE OF WASHINGTON

“I cannot see how Washington can afford to support both the Medicaid program and our state-only programs, such as Disability Lifeline and the Basic Health program.”

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To help determine what indexed growth factor should be used for a Medicaid block grant program, the National Governor’s Association and National Association of State Medicaid Directors should work to design a growth factor that would meet state needs while helping to provide predictability of federal Medicaid exposure, thus assisting federal deficit-reduction efforts.

To avoid radical disruptions to state health care networks, Congress should transform the Medicaid program into an indexed block grant program. Failure to do so will result in states merely becoming an administrator of the federal Medicaid program instead of the laboratories of democracy needed to identify innovative health care reforms.

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

IN OTHER WORDS . . .

“The Federal Reserve has begun its second round of ‘quantitative easing’ aimed at jump-starting an economy so anemic nearly one in 10 American workers remains unemployed . . .

“It doesn’t take a rocket scientist to predict that banks still will hesitate to lend despite having an additional $600 billion in reserves, or to realize that if credit markets ‘unfreeze’ at some future date, as they inevitably will, the disgorging of trillions of dollars in now-idle loanable funds is apt to produce much higher rates of inflation . . .”

— William F. Shughart II, professor of economics at the University of Mississippi, in The Washington Times, November 17.
Illinois Mulls ‘Amazon Tax’ Despite Shortcomings

By Rachael Slobodien

Starved for revenue but unwilling to cut spending, Illinois appears ready to become the latest state government to require out-of-state online retailers to collect sales and use taxes through the retailers’ in-state affiliates.

Elected officials in three states—New York, North Carolina, and Rhode Island—have already saddled affiliates of online retailers with the special levies known as Amazon taxes, named after the Internet retailer representative of companies targeted by the taxes.

Two other states, Colorado and Oklahoma, have enacted laws requiring retailers to remind customers they owe taxes for their purchases. Although California and Hawaii both passed Amazon taxes, the states’ governors vetoed the bills.

Unmet Promises

John Stephenson, state government affairs manager for the National Taxpayers Union, said, “States that have attempted to tax in-state affiliates of out-of-state online retailers have not netted the promised revenues. Instead, what the policies have done is open the door to litigation and cost the states business activity.”

Stephenson cited a report by the nonpartisan Tax Foundation of Washington, DC, which concluded Rhode Island and North Carolina have not collected any revenues as a result of their Amazon taxes. In addition, the report noted New York and North Carolina have been sued for violations of constitutional privacy protections.

Stephenson testified before the Illinois House Revenue and Finance Committee in Chicago on September 29 regarding Senate Bill 3353, a bill to amend the state tax code to establish a taxable presence for out-of-state online retailers with affiliates in the state.

Joined by Illinois Policy Institute Executive Vice President Kristina Rasmussen and dozens of affiliate marketers from Chicago and downstate Illinois, Stephenson explained an Amazon tax would drive revenues away from conventional sources (such as profit and payroll taxes) when the state can least afford it.

‘Hostility to Business’

“Under a misdefined concept of ‘fairness,’ SB 3353 would expand Illinois’ taxing power beyond accepted constitutional limits and declare this state’s hostility to business, all without yielding much revenue for the state,” Stephenson said in his testimony.

After the hearing, Stephenson said, “Based on the questions I had at the hearing, I’m not certain committee members understand the costs of pursuing such a problematic tax policy. It’s critically important for affiliate marketers and consumers across Illinois to contact their legislators before the next session to express their concerns about the Amazon tax.”

Rachael Slobodien (rachael@ntu.org) is communications manager for the National Taxpayers Union in Alexandria, Virginia.

Indiana Lawmakers Push Online Sales Taxes

By Nick Baker

One advantage of shopping online is that purchasers often don’t have to pay sales taxes. That could change in the Hoosier State if two Indiana legislators get their way.

State Rep. Ed Delaney (D-Indianapolis) and state Sen. Luke Kenley (R-Noblesville) are urging Congress to give states the ability to charge consumers sales tax for items they purchase from online retailers such as Amazon.com.

Under a 1992 U.S. Supreme Court ruling, retailers must collect sales taxes only if they have a physical presence in the state. Retailers such as Amazon, which does not have physical stores, are not required to collect sales taxes. Similarly, a candy store in Indiana does not have to charge sales tax to its Illinois customers who purchase chocolates online.

‘Main Street’ Act

That could change if U.S. Rep. William Delahunt (D-MA) gets his way. In 2010, Delahunt introduced the Main Street Fairness Act, which would require retailers to collect state sales taxes on most Internet and mail order purchases.

“The bill is designed to help states retrieve billions of dollars in sales tax revenue that are owed but currently going uncollected,” Delahunt said in a statement. He added the money would help generate new revenue for state governments without having to “raise new taxes.”

Shopping Mall Owner’s Support

Delaney says he began supporting Delahunt’s bill after speaking with David Simon, CEO of Indianapolis-based Simon Property Group, the country’s largest shopping mall developer. The Simon family also owns the Indiana Pacers of the National Basketball Association.

Simon told Delaney his company’s shopping mall tenants are at a disadvantage because they must charge sales taxes.

“We’re looking for fairness in our tax system. We need to level the playing field tax-wise,” Simon said in a speech to the Economic Club in Indianapolis.

Kenley has been lobbying members of Indiana’s congressional delegation to support the Main Street Fairness Act. He said it has been a challenge getting them to do so openly.

‘Will Probably Buy Less’

Paying sales taxes on Internet purchases may not sit well with online shoppers or online retailers. “I buy a lot of books and prefer Amazon because they offer better discounts than stores do, and they have free shipping,” said Indianapolis resident Jerry Hamilton. “The politicians are all the time saying, ‘You owe this, you owe that.’ If I have to pay sales taxes on everything I buy off the Internet, I’ll probably just buy less.”

Joni Knapp sells antiques and collectibles online after doing away with her bricks-and-mortar store. She said she’s against any efforts to tax Internet purchases.

“I can offer my items on the Internet for a lot less than what I could when I had a physical store because I don’t have the overhead,” Knapp said. “If my customers have to pay sales taxes, I may lose business.”

Nick Baker (nhbaker2006@gmail.com) writes from Washington, DC.

“Under a misdefined concept of ‘fairness,’ SB 3353 would expand Illinois’ taxing power beyond accepted constitutional limits and declare this state’s hostility to business ...”

JOHN STEPHENSON
STATE GOVERNMENT AFFAIRS MANAGER
NATIONAL TAXPAYERS UNION
Taxman May Be Coming for Online Hotel Booking

By Phil Britt

Municipalities seeking to boost revenues to cover budget shortfalls caused by overspending are setting their sights on online booking companies such as Orbitz and Expedia.

Booking hotels online has helped lower the cost of travel for consumers, offering discounted rates for budget, mid-range, and upscale hotels. However, state and local occupancy taxes collected by the hotels also reflect the discount.

When a consumer successfully books a discounted rate, the occupancy tax, usually based on some percentage of the cost of the room, is lower as well. Additionally, the rates online bookers pay the hotels tend to be still lower, resulting in a further drop in the occupancy tax.

That doesn't sit well with many municipalities seeking ways to boost revenues. They're moving to recover occupancy taxes for the difference between what the consumer pays the online booking company and the amount the booking company then pays the hotel.

South Carolina cities Mt. Pleasant, Charleston, and Myrtle Beach filed a consolidated case against online booking companies this year. The case was resolved, but terms of the deal remain undisclosed.

Lawsuits Filed

More than 40 lawsuits have been filed nationwide on both sides of the issue, which has had some attention for several months.

A 2006 class-action suit filed in Texas on behalf of more than 170 cities seeking tax revenues was resolved in the cities' favor in 2009. The trial resulted in a $20 million jury verdict against defendants Hotels.com, Priceline.com Inc., Travelocity Inc., and others.

In October, the New York Supreme Court dismissed a case filed by more than 11 online booking companies seeking exemption from the state's Local Law 43, enacted in September 2009. The law levies a tax on the fees collected by online agencies for hotel booking transactions. It also requires the agencies present clients an itemization of hotel taxes on their bill. As a result of the dismissal, booking agencies must now pay the hotel occupancy tax according to what the company collects from the customer instead of the rate the company actually pays the hotel.

Compliance Requirements

In an open letter to the hotel industry earlier this year, the Interactive Travel Services Association in Washington, DC expressed many concerns about cities attempting to rewrite these laws to impose higher taxes.

“If even a fraction of [an estimated 7,000] municipalities succeed, it could result in an impassable web of overlapping, confusing and contradictory local tax schemes,” the letter reads. “Travel intermediaries of every size—from mom-and-pop travel agencies to the largest tour operators—could face unimaginable compliance requirements from hundreds or even thousands of new local regulations...

‘Exporting the Tax Burden’

The occupancy taxes are typically at double-digit rates and, even if charged only on the discounted rate the booking company pays, still bring in significant income to the local jurisdictions from people who usually live outside that jurisdiction, Henchman added.

“It’s an effort to export the tax burden,” Henchman said. “Such taxes can be justified if they are neutral and do not discriminate between residents and nonresidents.”

Phil Britt (spenterprises@wowway.com) writes from South Holland, Illinois. This article first appeared in the December issue of InfoTech & Telecom News and is reprinted with permission.
States Getting Big Bailouts ... and Observers Worry

Continued from page 1

States and local governments also have unfunded – and often under-reported – liabilities for pensions and health care benefits, according to Sheila Weinberg, CEO and founder of the Institute for Truth in Accounting.

“What they have been doing in government budgets is flat-out lying,” Weinberg said. “Financial statements are so opaque. It’s scary now.”

Build America Bonds

The federal government is also helping states and local governments load up on debt to inflate spending. Policy experts contacted by The Heartland Institute are particularly troubled that Congress created a new breed of federally subsidized borrowing, called Build America Bonds, in the wake of the financial collapse of 2008. The U.S. Treasury covers 35 percent of the interest costs of the bonds.

The Treasury Department in November released a report showing more than $150 billion in BABs had been issued through October 31, 2010. The BAB program was to expire at the end of 2010 but many lawmakers and the Obama administration have been pushing to make the bonds permanent.

Here is what several policy experts have to say about the problem:

Stephen Entin, president and executive director of the Institute for Research on the Economics of Taxation, former deputy assistant secretary for economic policy at the Department of the Treasury, former staff economist with the Joint Economic Committee of the Congress:

“Subsidizing state and local spending is bad policy. It encourages state and local governments to overspend, because they do not have to pay the full cost of the spending. It allows states to postpone the spending cuts they must make to bring their budgets back to sustainable levels, in line with the incomes of their citizens.

“Ordinary tax-exempt bonds are treated much like saving in a Roth IRA and like the approach to saving that is part of the Armey Flat Tax. The lender has paid tax on the income that was earned and then saved and used to buy the bond.

“When the bond interest is tax-exempt, the lender is spared an additional tax on the interest, which is what one ‘purchases’ when one buys a bond. This puts the after-tax saving on the same tax basis as after-tax income used for consumption, which is generally not subject to additional federal taxation, except for a few excise taxes. It is one of the ways of constructing a tax system that treats saving and consumption on a level playing field.

“By contrast, Build America Bonds contain a federal subsidy of a fixed amount that is often higher than the tax paid by the saver on the original income. This creates a larger, non-neutral tax subsidy for saving that is directed to state and local governments.

“I worry that these Build America Bonds may come to be regarded as backed by the U.S. government, and therefore by the U.S. taxpayers, in the same way that the bonds of Fannie Mae and Freddie Mac came to be viewed, which led to a bailout by the federal government. We need to make it clear that we are not going to bail out people who lend to states that overspend and later cannot pay their bills.”

Eli Lehrer, senior fellow and director of the Center for Finance, Insurance, and Real Estate at The Heartland Institute:

“States have every manner of fiscal ill, but I’m a little skeptical of the idea that states are really going to have no choice but to ask for bailouts. A lot of people—particularly on the Right—have tended to overestimate the fiscal problems that states face.

“With the important exception of California—which seems almost ungovernable right now—most states can, with some pain, solve their own fiscal problems. Congress does need to foreclose the possibility that it will be there as the states’ sugar daddy, particularly to California.”

Nicole Gelinas, Searle Freedom Trust Fellow at the Manhattan Institute, contributing editor of City Journal magazine, Chartered Financial Analyst, and author of After the Fall: Saving Capitalism from Wall Street—and Washington (2009, Encounter Books):

“I do not expect a TARP/stimulus in the same form in which it came in 2008/09—i.e., multi-hundred-billion-dollar, headline numbers—any time soon. I think the problem is subtler. To avoid default, profligate states need market discipline—vigilant bondholders—in order to pare back their future liabilities for pension payments and health care.

“They are not getting this discipline, because bondholders in the most profligate states—including California and Illinois—believe, probably correctly, that they are ‘too big to fail.’ That is, that the federal government would never allow them to default because of repercussions for global money markets, etc.

“Absent such discipline, bondholders will create a self-fulfilling prophecy. They will lend too much, and in several years’ time states will not be able to service their competing obligations and provide basic public services. That’s when the ‘too big to fail’ issue would come into play.”

Jonathan Williams, economist, director of the Tax and Fiscal Policy Task Force for the American Legislative Exchange Council, and coauthor of Rich States, Poor States: ALEC-Laffer Economic Competitiveness Index:

“I think we have to be careful any time the feds give additional incentives for states or local governments to go into debt. The stimulus bill and Build America Bonds give them incentives to go into debt and to raise taxes for matching funds. I think states and local governments are looking to do questionable increases in spending because they have these debt subsidies.

“Borrowing and spending sprees got them into trouble. This is not going to get them out of trouble. Then there’s the issue of states losing autonomy to the federal government by taking this money. They’re going to have to say ‘no thanks’ to federal dollars. Until they do that, we will continue down the road to loss of federalism. Federal dollars never come without strings attached.”

Steve Stanek (sstanek@heartland.org) is a research fellow at The Heartland Institute and managing editor of Budget & Tax News.
Time for Lower Taxes, Less Government, Voters Say

By Rachael Slobodien

The outcomes of local and statewide tax and spending initiatives on ballots across the country in November sent a strong message to policymakers: Americans want limited government.

The National Taxpayers Union (NTU) examined the results of the state-level ballot contests and identified several trends. Overall, voters across the United States rejected tax increases, frequently embraced tax limits and overwhelmingly approved government accountability measures.

“If one word could sum up voters’ decisions on fiscal-policy issues in the 2010 election, more often than not it would be, ‘enough,’” said NTU State Government Affairs Manager John Stephenson. “Most taxpayers cast their ballots to tell government it already has enough tax, spending, and regulatory power ... and, in many cases, too much.”

In October, NTU released its 2010 General Election Ballot Guide: The Taxpayer’s Perspective, which examined hundreds of ballot questions. A sampling of those measures and their outcomes is highlighted below.

Ballot Measure Highlights

• In Washington State, voters overwhelmingly rejected—by a 2 to 1 margin—Initiative 1098, an attempt to levy a statewide income tax, initially limited to upper-income residents. Washington State voters also easily approved a rollback of tax hikes on soda, bottled water, and candy. And for good measure, by a 2 to 1 margin they reaffirmed a law requiring a legislative “supermajority” or voter consent for tax hikes.
• Voters in Missouri strongly approved, by a 68 percent to 32 percent vote, a proposal to prevent localities from imposing additional taxes on earnings, while requiring referenda on those levies where they currently exist.
• Although Colorado rejected measures to cut taxes and restrict government debt, other traditionally more liberal states saw approval of some ballot initiatives limiting government’s reach. For example, Californians gave the green light to scheduled reductions in business taxes and strengthened a legislative supermajority safeguard against tax increases by extending it to many types of fees. Massachusetts residents turned down the chance to reduce the state’s sales tax by more than half, but they did agree to a plan to ease the state’s taxes on alcoholic beverages.
• Advisory measures on federal policies fared well. By a 3 to 1 margin, Floridians called for an amendment to the U.S. Constitution requiring the federal government to balance its budget without raising taxes. Arizona and Oklahoma voters gave the nod to “health care choice” referenda opposing the new federal health care law, while Coloradans rejected a similar proposal. Propositions upholding secret ballots for union organizing (and therefore opposing federal “card check” legislation) passed in every state where they were offered: Arizona, South Carolina, South Dakota, and Utah.
• Measures in several states made major positive changes to budget structures. Oklahoma, South Carolina, and Virginia will be required to beef up their “rainy day fund” reserves. Voters in numerous Wisconsin counties advised the state to stop siphoning off transportation tax collections to unrelated programs or purposes. In Illinois, citizens approved many local referenda, including calling on the state to implement cost-conscious reforms to public safety employee pensions.
• Property taxes figured prominently in many areas. Although Louisianans decided against new restrictions on non-elected local governments’ taxing powers, Indiana voters adopted constitutional caps on property levies. Missourians banned real estate transfer taxes, and voters in Montana prohibited the imposition of new ones. Many states, including Georgia, Louisiana, and Virginia, approved small measures for targeted property tax relief.

Look to the States

“Those still wondering about how the election results will shape our nation’s future course should look to the outcomes of state ballot initiatives for their answers,” Stephenson said. “There they will find that in numerous places and cases, taxpayers resisted bigger government and even welcomed the chance to limit its reach.”

Rachael Slobodien (rachael@ntu.org) is communications manager at the National Taxpayers Union in Alexandria, Virginia.

INTERNET INFO
Detailed analysis of ballot measures by the National Taxpayers Union: http://www.ntu.org/news-and-issues/state-issues/ballot-measures/results.html
**Washington Voters Reject State Income Tax Proposal**

By Amber Gunn

Washington State voters overwhelmingly rejected a measure that would have imposed the state’s first income tax, one limited to wealthy residents.

Initiative 1098 would have levied a 5 percent tax on individuals earning more than $200,000 a year or households earning more than $400,000, while cutting some property and business taxes. The rate would have been 9 percent on individual incomes greater than $500,000 and household incomes greater than $1 million.

Supporters and opponents poured more than $12 million into the campaign, roughly evenly split. Despite support from the National Education Association, Service Employees International Union, and other unions, the measure was rejected by 65 percent of voters.

**Backed by Bill Gates, Sr.**

Income tax advocate Bill Gates, Sr., whose son co-founded Microsoft, was the leader and public face of the pro-I-1098 campaign and spent $600,000 of his own money on it.

In what was perhaps an awkward situation for Gates, Microsoft CEO Steve Ballmer and Microsoft co-founder Paul Allen opposed the initiative. Alaska Airlines and Boeing also contributed to the defeat campaign, citing fears the tax would harm their ability to attract talent to the state.

Prior to the initiative’s defeat, economist Arthur Laffer penned an editorial in The Wall Street Journal arguing it would destroy Washington’s comparative advantage. “In one fell swoop, Washington would move from being one of the lowest-tax states in the nation to being one of the top nine highest. It’s economic suicide,” Laffer wrote.

**Texas Governor’s Recruiting**

Texas Gov. Rick Perry (R) sent a letter to 88 of Washington’s biggest employers—including Amazon.com, Starbucks, and Microsoft—inviting them to relocate in the event of the tax’s passage.

“Texas Gov. Rick Perry (R) sent a letter to 88 of Washington’s biggest employers—including Amazon.com, Starbucks, and Microsoft—inviting them to relocate in the event of the tax’s passage.”

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**GOP Takes North Carolina Assembly, Stuck with Huge Budget Shortfall**

By David N. Bass

The last time Republicans controlled the North Carolina legislature, lawmakers came to Raleigh by horse and buggy.

After more than a century of Democratic rule, Tar Heel State voters were in the mood for a change November 2, electing the first Republican majority since 1898.

It’s a historic opportunity for the GOP, but one tinged with apprehension by an estimated $4 billion budget shortfall. The legislature’s longtime Democratic leadership put off the fiscal pain during this year’s legislative session by passing a $20 billion spending plan that partly relied on an extension of federal stimulus funds and more than $1 billion in expiring tax cuts.

In 2011, the new GOP majority won’t have that luxury.

“If we’re going to do this right, then we can’t create artificial boundaries, things that can’t be on the table,” said state Rep. Thom Tillis of Mecklenburg County, a top leader in the GOP caucus. “We’ve got to look far beyond where past legislatures have looked to try and balance the budget and get to a more fiscally sound baseline.”

**Chopping Block**

That means bureaucracies will have to be cut, Tillis said. Already, university system leaders say it will be necessary to raise tuition rates and possibly shut down one of the system’s 17 campuses. Gov. Bev Perdue (D) has asked each cabinet-level agency to submit plans for 5 percent, 10 percent, and 15 percent budget cuts.

Republican leaders say tax hikes are off the table.

“That will be a real challenge, and we have to do it because we’ve got to get our tax rates competitive,” said Republican House Leader Paul Stam of Wake County.

Many people expect state workers to be cut loose.

“The unavoidable reality is that roughly 70 percent of the state budget is dedicated to salary and benefits of state employees,” said Brian Balfour, budget and tax policy analyst for the Civitas Institute. “It wouldn’t be surprising to see lawmakers consider furloughs, eliminated positions, and cost-sharing for health insurance and pensions.”

The day after the election, Perdue issued a statement saying she looked “forward to working” with the GOP. But it might not be easy, because Republicans have a veto-proof majority in the state Senate and near-veto-proof majority in the House.

Perdue must propose her budget first. Then the General Assembly gets a crack at it.

North Carolina State University political science professor Andrew Taylor said Perdue could benefit from having Republicans as a foil, but in light of her poor polling numbers, she’ll need to invigorate her standing with the electorate as the 2012 election campaign gets underway.

David N. Bass (dbass@carolinajournal.com) is an associate editor of Carolina Journal, published by the John Locke Foundation in Raleigh, North Carolina.
Property Tax Collections Rose Despite Drop in Values

By Natasha Altamirano

Despite a nationwide decline in home values, state and local property tax collections increased by more than 4 percent across the nation from fiscal year 2007 to fiscal year 2008, according to a new Tax Foundation report based on recently released Census data.

In three states—Florida, Indiana, and New Mexico—property tax revenues rose more than 10 percent.

Four states—Michigan, South Carolina, Texas, and Vermont—had lower property tax collections in FY 2008 (July 1, 2007 through June 30, 2008).

Home Values Down, Taxes Up

“Home values dropped by almost 16 percent from 2007 to 2008, yet property owners in most states paid more in 2008 than they had the year before,” said Tax Foundation Staff Economist Kail Padgitt, who co-wrote the report.

“There are two explanations for this,” Padgitt said. “First, administratively it’s relatively easy for localities to raise property tax rates to compensate for declining property values. Second, lagged or incorrect property assessments meant revenues continued to increase despite a drop in market value,” Padgitt said.

Nationwide, state and local property tax revenues increased by 4.2 percent from FY 2007 to FY 2008, from $1,298 in property tax collections per capita to $1,352.

Just a Few Cuts

State and local property tax revenue dropped from FY 2007 to FY 2008 by 4.9 percent in Vermont, 3.8 percent in Texas, 2.4 percent in Michigan, and 1.7 percent in South Carolina.

“When data for fiscal year 2009 are published, we can expect to see that state and local governments continued to raise property tax rates to make up for lost sales and income tax revenue during the recession, as well as lost property tax revenue from home foreclosures,” Padgitt said.

Natasha Altamirano (naltamirano@taxfoundation.org) is manager of media relations at the Tax Foundation.

big Increases

The states that experienced the largest increases in state and local property tax collections from FY 2007 to FY 2008 are:

- Florida (11.7 percent)
- Indiana (11.6 percent)
- New Mexico (10.2 percent)
- Hawaii (9.7 percent)
- Nevada (9.2 percent)
- Alabama (9.1 percent)
- West Virginia (8.7 percent)
- Oklahoma (8.4 percent)
- Minnesota (7.6 percent)
- California (7.6 percent)

The states that saw the lowest increases are:

- Maryland (0.6 percent)
- Ohio (1.8 percent)
- Tennessee (2.0 percent)
- New York (2.3 percent)
- Iowa (2.4 percent)
- Alaska (2.4 percent)
- Connecticut (2.9 percent)

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the patriot's toolbox
Study: Fewer Taxpayers, More Dependent on Government

By Kenneth Artz

Higher government spending on dependence-creating programs and an ever-shrinking number of taxpayers are imperiling the nation’s fiscal position, says William Beach and Patrick Tyrell of the Heritage Foundation.

In “The 2010 Index of Dependence on Government,” Beach and Tyrell point out the United States is nearing the point where half the population will pay no taxes for the government benefits they receive.

In 2009, 64.3 million Americans depended on the government (read: their fellow citizens) for their daily housing, food, and health care.

Disappearing Taxpayers

Even more alarming than the rise in the number of government dependents is the rapid growth in the percentage of people who do not pay taxes, the authors note. In 1984, 14.8 percent of the population paid no federal income tax or were not claimed as dependents by someone who did pay income taxes. In 2008, 43.6 percent of people fell into these categories.

Tyrell says the damage to the nation’s republican form of government, and to the country’s finances, is significant.

“I’m not surprised by the findings,” said Tyrell. “We knew the index would be higher this year because of all the federal programs being offered by the government, including the First-Time Home Buyer’s Tax Credit and the credit adjustment for the Earned Income Tax Credit. We were a little surprised that the number was so close to 50 percent. “I think 50 percent is the tipping point where you will have too many people dependent upon government programs, and they will keep voting in the politicians that promise them things, which in turn will add to the federal deficit and necessitate higher and higher taxes to pay for it all,” Tyrell said.

No Connection or Accountability

Tyrell says the growing dependency on government for life’s necessities is a problem “because the recipients are getting money from someone that they don’t know. They don’t have any connection to the taxpayers who are paying for their benefits, so there’s no accountability as there would be if you were receiving help from someone you knew in your own community. The problem with federal handouts is that they lead to an entitlement mentality.”

Moreover, the federal deficit is so high, says Tyrell, because the market economy can no longer meet the government obligations. In 10 years, when many of these newer debts start coming due, the interest costs to service them will consume much of the federal budget.

“There will be less capital to start or expand businesses, there will be fewer jobs, and the tax burden will be crushing,” explained Tyrell.

Tyrell says it’s important that the public be made aware of the burdens the welfare state puts on businesses, including a high corporate tax rate, regulatory burdens, and compliance costs.

“These obstacles keep businesses from investing and keep them from hiring,” said Tyrell.

‘Past the Tipping Point’

Scott Hodge, president of the Tax Foundation, says the results of the Heritage Foundation study are not surprising. The Tax Foundation is a nonpartisan educational organization in Washington, DC.

“We’ve been steadily growing these programs for the last 50 years. Instead of expanding them, we ought to be scaling them back,” said Hodge.

“We’ve seen an increase in all manner of programs designed to help people or afford them a lifestyle. It’s the inevitable expansion of the welfare state. But everyone is finding out that the social contract in Europe is unaffordable. Up until this point, we’ve been able to afford it in America. But we can no longer afford a minority of the population supporting the majority,” Hodge said.

“We are past the tipping point in terms of sustainability,” Hodge continued. “The Tax Foundation studies show the top 40 percent of income earners in America are sending $1 trillion to the bottom 60 percent of earners in the form of welfare programs, tax rebates, and the progressive tax code.”

Hodge says if the nation continues on this path it will soon resemble much of Europe, with its chronic high unemployment, slow growth, and high tax burdens.

“Also like Europe, we will see a tremendous tension between the tax feeders and the taxpayers,” said Hodge. “The long-term effect is predictable: There won’t be any capital to start a business, buy new equipment, or hire new workers. It will result in a tremendous misallocation of resources. Lastly, the economy will never generate enough revenue to pay for these obligations.”

Cautious Optimism

But Hodge says there is some reason for optimism.

“I think there is a great demand for politicians to say, ‘We’re no longer going to spread the wealth around.’ There was a great outrage when Barack Obama uttered that phrase during the campaign, and it resulted in the formation of the Tea Party. Today, I think there is a deep-seated animosity at spendthrift politicians.”

Dependency upon government, however, will not be changed overnight, cautions Hodge. Two things must happen, he said:

“We need changes to the tax code to improve it and grow the economy so that people will be more inclined to participate in work. The second change we need is to reduce the value of the benefits. At some point we’re also going to have to inoculate people so that it is no longer cool or OK to be a ‘taker.”

Kenneth Artz (iamkenartz@hotmail.com) writes from Dallas, Texas.
High Court Hears Arizona Tax Credit Scholarship Case

By Ben Boychuk

THe U.S. Supreme Court has heard arguments in a combined case challenging the constitutionality of Arizona’s tax credit scholarship program. It was the first school choice case to reach the Court in nine years.

Arizona’s scholarship program offers individuals a 100 percent tax credit up to $500 (or $1,000 for couples filing jointly) for donations to state-authorized school tuition organizations. Those charitable groups then award scholarships for students to attend a private school of their parents’ choice.

The Ninth U.S. Circuit Court of Appeals in 2009 ruled Arizona’s scholarship program unconstitutionally advances religion because most taxpayers donate scholarship funds to organizations supporting religious schools.

The cases before the Supreme Court are Garriott v. Winn and Arizona Christian School Tuition Organization v. Winn. A decision is expected before July 2011.

Establishment Clause Argued

Lawyers representing the state of Arizona and the U.S. Department of Justice argued the program does not violate the First Amendment because parents and students, not the government, decide where to use the scholarships.

“Arizona’s tuition tax credit does not violate the Establishment Clause, because it’s a neutral law that results in scholarship programs of private choice.”

PAULA BICKETT
CHIEF COUNSEL FOR CIVIL APPEALS
STATE OF ARIZONA

“Arizona’s tuition tax credit does not violate the Establishment Clause, because it’s a neutral law that results in scholarship programs of private choice.”

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CHIEF COUNSEL FOR CIVIL APPEALS
STATE OF ARIZONA

All Money Is State Money?

Tim Keller, director of the Institute for Justice’s Arizona chapter, helped defend the Arizona School Tuition Organization Association in the case. He says he’s unaware of a single case—other than the Ninth Circuit’s decision last year—supporting the ACLU’s claim.

“As I understand [Bender’s] argument, he says tax credits constitute state funds. I’m not sure whether he believes, or is willing to unequivocally admit, that tax deductions also constitute state funds,” Keller said.

“The logical implication of the ACLU’s argument that tax credits constitute state funds is that all money is state money except that which the state declines to collect from us in taxes,” Keller explained. “I do not believe a majority of justices is willing to accept that proposition.”

Threat to Religious Institutions

Andrew LeFevre, who is launching the Arizona Choice in Education Foundation, a school tuition organization near Phoenix, says the Court’s decision could have far-reaching implications for charitable giving.

“The lower court’s flawed reasoning says that giving taxpayers an income tax credit for donations to religiously affiliated scholarship organizations constitutes governmental advancement of religion,” LeFevre said. “If that’s the case, then deductions for donations to churches, synagogues, and other religiously oriented charities would also be unconstitutional.”

Zelman Revisited

If allowed to stand, the Ninth Circuit’s ruling would end one of the nation’s longest-running scholarship tax credit programs. Arizona’s program was enacted in 1997 and distributed $52 million in scholarships in 2009 to 27,000 students attending 373 secular and religious private schools.

A Supreme Court ruling in favor of the Arizona program would clear the way for other states to adopt tax credit scholarship programs. Currently 10 states—Arizona, Florida, Georgia, Illinois, Indiana, Iowa, Louisiana, Minnesota, Pennsylvania, and Rhode Island—offer school tax credit or tax deduction programs.

Arizona’s attorneys argue the choice program is consistent with the Court’s 2002 decision in Zelman v. Simmons-Harris, which upheld the constitutionality of Ohio’s school voucher program.

“On the merits, this case is controlled by the Supreme Court’s precedents, such as Zelman and [Mueller v. Allen in 1983], in which the Court upheld school choice programs based on private choice,” Keller said.

“Arizona’s scholarship program is controlled by private choice at every level,” Keller explained. “Private individuals set up scholarship organizations. Taxpayers freely decide which scholarship organizations to donate to, and parents decide where to enroll their children. The government remains completely neutral and does not encourage either taxpayers or parents to choose religious organizations or schools.”

Question of Standing

John Eastman, director of the Center for Constitutional Jurisprudence at Chapman University in Orange County, California, says the court may not judge the case on its merits at all and instead rule the plaintiffs have no standing to sue.

“The Court could very well avoid deciding the case on its merits, and say instead that taxpayers have no standing to sue in religion clause cases,” said Eastman, who filed an amicus brief in the Winn case.

“In that event, the Court would simply vacate the Ninth Circuit’s decision.”

Eastman said the Court took a similar course in 2004 in Newdow v. Elk Grove, which challenged the constitutionality of the phrase “under God” in the Pledge of Allegiance.

Keller says he isn’t sure enough justices will want to throw the case out on what amounts to a technicality.

“The swing vote, Justice [Anthony] Kennedy, did not appear receptive to the standing issue, so I do think there is a good chance they will reach the merits,” Keller said. “And on the merits I remain optimistic that the Court will find the program is constitutionally permissible.”

Ben Boychuk (bboychuk@heartland.org) is managing editor of School Reform News, where this article first appeared. Reprinted with permission.
Florida Voters Reject ‘Hometown Democracy’ Measure

By Steve Stanek

Florida voters on Election Day overwhelmingly rejected a constitutional amendment that would have required a local referendum on each and every proposed change in city, town, and county comprehensive land-use plans.

“The ultimate result was a collective sigh of relief from Florida’s business community,” said Robert F. Sanchez, policy director at the James Madison Institute in Tallahassee, Florida.

Sanchez said thousands of Florida businesses and people who rely on them for jobs “felt the effects of the nationwide recession and didn’t want this amendment delaying the recovery when it finally occurs.”

Just 32 Percent Support

Approximately two of every three voters opposed the amendment. As with all constitutional amendments in the state, it needed to receive at least 60 percent approval to be enacted. It received approximately 32 percent support.

Proponents dubbed the proposal “The Hometown Democracy Amendment.” Supporters included environmental groups, some civic associations, and growth-limitation advocates.

Blaming Business

Lesley Blackner, president of Florida Hometown Democracy, blasted special interests in a statement: “Unfortunately, it is very difficult to have a rational discussion of a solution to Florida’s horrible growth management problem in 30-second television ads that cost millions of dollars to air. Voters were subjected to the full financial power of those special interests that are committed to maintaining a death grip on their ability to control the status quo of sprawl and overbuilding in our state. We nonetheless respect the voters’ judgment at the ballot box.”

Proponents pitched the measure as a way to counter the political influence they allege developers have over Florida’s city and county officials. Their official Web site portrayed “a rogue’s gallery of corrupt Florida politicians and developers” whom it accused of working together to the detriment of the state.

‘Bad Planning’

The business community and other opponents of the proposition argued the amendment would damage Florida’s business climate and cost the state jobs during the current economic stagnation and in the future.

Opponents included a coalition of business groups and trade unions that spent more than $11 million on advertising against the measure.

“Amendment 4 was bad planning all the way around. It’s one of those few issues that could unite planners, Smart Growth proponents, and free-market developers in opposition,” said Sam Staley, director of urban and land use policy at Reason Foundation. “If it had passed, the ultimate effect would have been to virtually stop all development, since any new change to existing land-use plans would have had to go to popular referenda.”

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

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States’ stiffest economic competition often comes from other states: The U.S. Department of Labor reports most mass job relocations are from one U.S. state to another, rather than to overseas locations.

The modern market is characterized by mobile capital and labor. Therefore, companies will locate where they have the greatest competitive advantage. States with the best tax systems will be the most competitive in attracting new businesses and most effective at generating economic and employment growth.

With that in mind, the Tax Foundation has published the “2011 State Business Climate Index.” The index helps policymakers understand how states’ business climates match up to their immediate neighbors and to other states within their regions.

Taxes Matter
Anecdotes about the impact of state tax systems on business investment are plentiful. In Illinois several years ago, hundreds of millions of dollars of capital expenditures were delayed when then-Governor Rod Blagojevich proposed a hefty gross receipts tax. Only when the legislature resoundingly defeated the bill did the investment resume.

In 2005, California-based Intel decided to build a multibillion-dollar chipmaking facility in Arizona because of its favorable corporate income tax system. Northrup Grumman recently chose to move its headquarters to Virginia over Maryland, citing the better business tax climate.

Anecdotes such as these reinforce what we know from economic theory: Taxes matter to businesses, and those places with the most competitive tax systems will reap the benefits of business-friendly tax climates.

Dangerous Incentives
State lawmakers often are tempted to lure business with lucrative tax incentives and subsidies instead of broad-based tax reform. This can be a dangerous proposition, however, as a case involving Dell Computers and North Carolina illustrates.

North Carolina agreed to $240 million worth of incentives to lure Dell. Many of the incentives came in the form of tax credits from the state and local governments. Unfortunately, Dell announced in 2009 it would be closing the plant after only four years of operations.

A recent USA Today article chronicled similar problems other states are having with companies that receive generous tax incentives.

Lawmakers create these deals under the banner of job creation and economic development, but the truth is that if a state needs to offer such packages, it is most likely covering for a woeful business tax climate. A far more effective approach is to systematically improve the business tax climate for the long term so as to improve the state’s competitiveness.

Two Rules
When assessing which changes to make, lawmakers need to remember these two rules:

1. Taxes matter to business. Business taxes affect business decisions, job creation and retention, plant location, competitiveness, the transparency of the tax system, and the long-term health of a state’s economy.

Most importantly, taxes diminish profits. If taxes take a larger portion of profits, that cost is passed along to consumers (through higher prices), workers (through lower wages or fewer jobs), or shareholders (through lower dividends or share value). Thus a state with lower tax costs will be more attractive to business investment and more likely to experience economic growth.

2. States do not enact tax changes (increases or cuts) in a vacuum. Every tax law will in some way change a state’s competitive position relative to its immediate neighbors, its geographic region, and even globally. Ultimately it will affect the state’s national standing as a place to live and do business. Entrepreneurial states can take advantage of the tax increases of their neighbors to lure businesses out of high-tax states.

Fast Improvement Possible
Clearly, there are many non-tax factors that affect a state’s overall business climate—its proximity to raw materials or transportation centers, its regulatory and legal structures, the quality of its education system and the skill of its workforce, and the intangible perception of a state’s “quality of life.” The 2011 SBTCI does not measure the impact of these important features of a state’s overall business climate. It measures only the tax component of each state’s business climate.

Some of the non-tax factors of a state’s business climate are outside of the control of elected officials. Montana lawmakers cannot change the fact that Montana’s businesses have no immediate access to deepwater ports.

Lawmakers do, however, have direct control over how friendly their tax systems are to business. Furthermore, unlike changes to a state’s health care, transportation, or education system— which can take decades to implement—changes to the tax code can bring almost instantaneous benefits to a state’s business climate.

The ideal tax system—whether at the local, state, or federal level—is simple, transparent, stable, neutral to business activity, and pro-growth. In such an ideal system, individuals and businesses would spend a minimum amount of resources to comply with the tax system, would understand the true cost of the tax system, would base their economic decisions solely on the merits of the transactions, without regard to tax implications, and would not have the tax system impede their growth and prosperity.

Kail Padgitt (padgitt@taxfoundation.org) is staff economist at the Tax Foundation in Washington, DC.
Debate Continues over Maryland’s Purple Line

Continued from page 1

O’Malley and opposed by his main challenger, former Republican governor Robert Ehrlich.

Maryland voters handed O’Malley an easy victory in the November 2 general election.

The Purple Line would be approximately 16 miles long and cost $1.8 billion. Its construction would come in addition to approval of the Baltimore Red Line, a 14-mile light-rail project estimated to cost $1.6 billion.

Some transportation experts question the rationale behind the Purple Line expansion, especially because Maryland is reeling from a budget deficit. Wendell Cox, a visiting fellow at the Maryland Public Policy Institute, an independent public policy organization, and a senior fellow of The Heartland Institute, which publishes Budget & Tax News, is among them.

‘No Good Reason to Build’

“This is a needless metro line, an expensive metro line, with no serious demand,” said Cox. “A transit line of this expense would make sense only if it connects with downtown Washington, but this does not. So I have no good public policy idea why they are building it.”

Although there might not be good policy reasons to build the line, Cox said, there are corporate interests behind it. “The companies that do construction, and the companies that build metro trains, they do spread a lot of money around. They take people on trips to see these systems, give them nice dinners, make campaign donations.”

“This is one of the worst examples of American special-interest politics,” Cox said. “This is about aggrandizing the corporate bottom line of the people that build them. We could easily do what this project does less expensively and more effectively with buses.”

O’Malley has used his position as governor to spearhead the Purple Line project. Ehrlich, who had served as Maryland governor from 2003 to 2007, made no secret during the campaign of his opposition to the Purple Line project. He called the project unnecessary and said some of the money instead should go to some of the money instead should go to establishing a rapid bus system along the Purple Line’s 16 miles.

‘Cards Are Stacked for Rail’

Randal O’Toole, a transportation expert at the Cato Institute in Washington, DC, agrees there is no good public policy reason for the Purple Line and affirms Cox’s criticisms.

“I can tell you that the cards tend to be stacked in favor of rail transit simply because there is so much money to be made building it,” O’Toole said. “Railcar manufacturers and contractors who stand to make millions gladly donated thousands to the campaigns of politicians who support rail.”

Cox notes transit worker unions will also benefit from the proposed line because state and federal government regulations force the use of union labor.

“The unions—the Amalgamated Transit Union, the Metro unions—those unions will benefit” from the operation of the Purple Line, Cox said, while construction unions will benefit from the building of the line.

Cox also said he believes the projected construction costs are lowball estimates and the actual costs “will double by the time they are done.”

O’Toole said another reason to favor buses over light rail is mortality. Light rail, he says, is more dangerous. This bit of information is rarely brought out during debates over light rail.

“Buses are safer. Light rail kills three times as many people, per passenger mile carried, as buses. There is nothing light rail can do that buses can’t do better except spend a lot of tax dollars,” O’Toole said.

“A Hoax on Taxpayers”

“Light rail is basically a hoax perpetrated on taxpayers,” O’Toole said. “Buses can carry far more people faster than light rail. Light-rail average speeds are just 20 mph. And because trains must be about three minutes apart for safety reasons, the number of people they can carry is very limited.”

O’Toole says the Obama administration appears to be at odds with O’Malley’s insistence on the Purple Line project.

“As Peter Rogoff, the Obama administration’s appointee in charge of the Federal Transit Administration, says, ‘Paint is cheap, rail systems are very expensive.’ He goes on to say that ‘you can entice even diehard rail riders onto a bus, if you call it a ‘special’ bus and just paint it a different color than the rest of the fleet,’” O’Toole said. “Using buses for rapid transit is a fine fit for a lot more communities than are seriously considering it.”

Thomas Cheplick (thomascheplick@yahoo.com) writes from Cambridge, Massachusetts.
Minn. Rail Backers Push Ahead Despite High Costs

By Phil Britt

Proponents of subsidized commuter rail are trying to extend a little-used line in Minnesota despite budget difficulties in the cities and towns whose taxes help support it.

The Northstar commuter rail line was initially proposed nearly seven years ago as a way to relieve congestion on roads between Minneapolis and St. Cloud, according to Phil Krinkie, president of the Taxpayers League of Minnesota.

“The population density in this area is very low, so it was a ridiculous idea to start with,” Krinkie said.

A feasibility study by the Federal Transportation Administration showed the project was likely to be a money-loser, yet proponents won state and federal approval for a scaled-back line from Minneapolis and Big Lake, about half the length of the initial 80-mile project.

Proponents still hope to extend the line to St. Cloud, but nine months into the first year of operation, ridership was little if anything the rail line has done little if anything to remove congestion during peak travel times, Krinkie says.

“The insanity is that they want to extend the line,” Krinkie said. “This never should have been built. It’s not so much a question of cost as it is time. If it’s going to take me twice as long on a train or a bus, I’m going to prefer to drive. I’m not going to use [the commuter line] if it’s not near where I live or it doesn’t go near where I work.”

District 2 Metropolitan Council member Tony Pistilli notes the line is coming in $1 million a month under revenue projections. Riders pay an average fare of $3, but the average cost is $21 per ride.

“That subsidy exceeds that of any other transit mode,” Pistilli said. “So I asked [at a recent council meeting] at what point do we consider this a failure? If you own a stock, you have a buy point and a sell point. What is our sell point?

“I think we ought to examine that,” Pistilli continued. “You should always examine the effectiveness and efficiency of your programs. The council has to serve both those who ride the line and those who pay the subsidy. We may have been better to add an additional lane of highway, but that wasn’t part of this plan.”

The plan also didn’t define when the project would be a failure that should be ended, Pistilli added. He says there should be a threshold that the line must meet in order to continue.

District 3 Metropolitan Council member Robert McFarlin said the low ridership numbers might be partly due to the struggling economy, which had yet to slow down when the initial projections were made and the project was approved. McFarlin is chairman of the council’s transportation committee and former head of the state’s department of transportation.

“The ridership numbers are disappointing, but I don’t think it’s time to pull the plug,” McFarlin said.

Fare increases had been planned to help increase revenues, but the Met Council board rejected the planned increases after hearing of the disappointing ridership numbers.

Even without the fare increase, the rail line is costing riders and taxpayers a hefty sum of money, Krinkie says. Eighty percent of the rail system’s costs are paid through subsidies that come from county and state taxes, leaving taxpayers to pick up most of the costs of a rail line that relatively few people use.

Despite the poor performance of the rail line to date and low expectations going forward, Krinkie expects Minnesota taxpayers to be saddled with the expense of the system for some time to come.

“Once you have put the infrastructure in place, made upgrades, and built stations, it’s very hard for proponents to throw in the towel,” Krinkie said. “There is really nothing to sell outside of the rolling stock. This is a boondoggle of significant proportions.”

Phil Britt (spenterprises@wowway.com) writes from South Holland, Illinois.

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—U.S. Sen. Jim DeMint, Republican, South Carolina
House Bill Would End Right to Work in All States

By F. Vincent Vernuccio

S.uealth Gompers, the first and longest-serving president of the American Federation of Labor, once said, “There may be here and there a worker who for certain reasons unexplainable to us does not join a union of labor. This is his right, no matter how morally wrong he may be. It is his legal right, and no one can or dare question his exercise of that legal right.”

U.S. Rep. Brad Sherman (D-CA) recently introduced legislation that would undermine this right on a national level. Sherman’s bill would eliminate state right-to-work laws, forcing workers to pay union dues to keep their jobs.

Union membership is at historic lows. Private-sector union membership fell to 7.2 percent in 2009 and is expected to hit 6.9 percent this year.

Compulsory Unionism

Section 14(b) of the 1947 Taft-Hartley Act allows states to enact right-to-work laws prohibiting unions from requiring employees to pay dues to keep their jobs. Currently, 22 states give workers the option to join a union or refrain from paying dues. In 28 states, employees do not have this right and can be required to pay union dues as a condition of employment (usually deducted directly out of their paychecks).

Sherman’s bill would abolish Section 14(b) and extend compulsory unionism to all 50 states.

In a statement Sherman released to announce his bill, he argues “right to work laws require unions to represent non dues-paying employees, thereby undermining the basic premise and promise of union membership and creating free riders—people who are exempt from paying their fair share.”

Union leaders often repeat this argument. Labor expert Paul Kersey of the Mackinac Center in Michigan responds, “A union that provides valuable service in contract negotiating, even in right-to-work states, should have little problem earning the loyalty and dues of a vast majority of employees.”

As a Democrat who escaped the 2010 Republican Congressional election tsunami in November, Sherman has much for which to thank Big Labor. Unions have donated more than $1.2 million to him throughout his political career. The Carpenters, Machinists, Operating Engineers, and Teamsters donated $10,000 each for his 2010 reelection campaign. The AFL-CIO gave him a 100 percent positive rating on his voting record.

Besides his loyalty to Big Labor, Sherman may have a more provincial interest in eliminating right to work. States such as Sherman’s California are increasingly seeing companies move to areas with more business-friendly environments, including right-to-work states. A recent Cato Institute study noted the population has doubled in right-to-work states, but increased by only 25.7 percent in forced-dues states, since 1970.

In addition, the National Institute for Labor Relations Research found between 2003 and 2009 nonfarm private-sector employment grew 9.3 percent in right-to-work states but only 3.6 percent in forced-dues states. It also found the number of workers covered by health insurance increased more in right-to-work states, and employees had more disposable income.

Sherman recognizes the competitive disadvantage of his and other forced-dues states. He calls the competition a “race to the bottom,” but business leaders see right to work as benefiting both the economy and workers.

For Jobs and Capital

The Wall Street Journal recently noted right to work and tax policy “[stand] out as perhaps the most important in attracting jobs and capital. ... States that permit workers to be compelled to join unions have much lower rates of employment growth than states that don’t. Many companies say they will not even consider locating a factory in a state that does not have a right-to-work law.”

Several forced-dues states—including Indiana, Michigan, and Missouri—have taken notice and are exploring enacting right-to-work laws. Sherman’s bill would halt those efforts.

“Several forced-dues states— including Indiana, Michigan, and Missouri— ... are exploring enacting right-to-work laws. Sherman’s bill would halt those efforts.”

Unlikely Allies Tackle Wasteful Spending

By Matthew Glans

From taxes to the environment, liberals and conservatives have reached little common ground in the past few months. But one issue has brought two groups from across the aisle together in agreement: wasteful spending by the federal government.

A new report by the taxpayer watchdog group National Taxpayers Union and liberal group U.S. PIRG (Public Interest Research Group) identifies areas in the federal budget they consider wasteful and suggests could be eliminated without affecting necessary functions of government.

“Toward Common Ground: Bridging the Political Divide to Reduce Spending” outlines the areas of agreement between the groups and promotes ideas legislators can use to cut wasteful spending.

The study identifies 30 specific items to cut in annual federal spending, including:

- $62 billion in savings by eliminating wasteful subsidies to farmers and large corporations.
- $354 billion in savings from reforming inefficient contract and acquisition procedures.
- $77 billion in savings by improving execution of existing government programs and eliminating unneeded programs.
- $108 billion in savings from ending low-priority or unnecessary military weapons systems and rightsizing other programs.

Matthew Glans (mglans@heartland.org) is a legislative specialist at The Heartland Institute.

INTERNET INFO

Arizona Voters Back Huge Subsidy for Chicago Cubs

By Byron Schlomach

For 50 years, the Chicago Cubs have conducted spring training in Mesa, Arizona.

A business consortium in Florida hoped to lure the Cubs there, but Mesa residents in November voted to let the city help the professional baseball franchise finance a new stadium and training facility, along with ancillary retail space and infrastructure upgrades. The vote will keep the Cubs in Mesa for spring training for decades to come.

The money will come from bonds paid back from the city’s enterprise fund. The fund comes from surplus utilities fees and other city fee-based services.

Specifics of the deal are not final, but the city and the Cubs have signed a memorandum of understanding outlining some basics. In exchange for the Cubs staying in Mesa for 30 years, the city will provide $84 million for baseball facilities. Another $15 million will be for city infrastructure improvements around the development.

Ban on Taxpayer Gifts

Mesa’s voters approved the measure with a 65 percent majority—despite a state constitution that bans publicly funded gifts to private entities. As with most stadium deals around the country, supporters argued the taxpayer subsidies would bring big economic benefits.

Most economists who have studied the issue, however, say the promised benefits of government funding of sports facilities are usually overblown, making sports facilities a bad deal for taxpayers. Allen Sanderson, a sports economist at the University of Chicago, is one such economist. He said he doubts the economic benefits of deals like the one Mesa granted the Cubs.

‘10 to 20 Percent of What’s Promised’

Most of the time, Sanderson said, the economic benefits of government-funded stadium projects are “10 to 20 percent of what’s promised.” In cases where one or more communities are bidding against each other for a sports franchise, the franchises act as monopoly sellers. In such cases, “they [the franchises] are going to come out quite well,” Sanderson said.

As the Cubs and Mesa officials finish the deal, negotiators must make sure the contract complies with Arizona’s constitution. The Goldwater Institute recently won a lawsuit against the city of Phoenix over a $100 million tax concession to a retail and residential development called City North. The state’s supreme court ruled the concession violated the state’s constitutional ban on publicly financed gifts to private entities.

Terms of Deal Still Vague

Carrie Ann Sitren, an attorney with the Goldwater Institute’s Sharf-Norton Center for Constitutional Litigation, said the taxpayer handout to the Chicago Cubs could violate Arizona’s constitution, but she says she’s not certain because the terms are currently too vague. Nevertheless, the majority vote in favor will not affect its legality.

“The fact that voters approved the measure has no effect on the potential gift clause issue. Voters in a city cannot vote to give officials permission to violate the state constitution.”

CARRIE ANN SITREN
SHARF-NORTON CENTER FOR CONSTITUTIONAL LITIGATION
GOLDWATER INSTITUTE

Byron Schlomach (bschlomach@goldwaterinstitute.org) is director of the Center for Economic Prosperity at the Goldwater Institute in Phoenix, Arizona.

“Ban on taxpayer gifts”

“The fact that voters approved the measure has no effect on the potential gift clause issue,” said Sitren. “Voters in a city cannot vote to give officials permission to violate the state constitution.”

When a contract is signed, courts will be asked to determine whether Mesa’s deal with the Cubs violates the state’s gift ban. For now, however, Mesa’s taxpayers are on the hook to subsidize a sprawling new training facility and stadium for the team.

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Government’s Spending Structures Are Fundamentally Unsound

By Robert J. Platt

A s a college undergraduate, I studied civil engineering. One of the first things that is clear to any student of civil engineering is that gravity always works—all the time, now and in the future.

We know that if we somehow fail to properly accommodate those forces of gravity in our structural designs, we will be duly notified, often in a very dramatic way, at an inopportune time and with devastating consequences, when our nonconforming structure fails. The bigger the structure, the greater the consequences.

We engineers know, of course, that those forces will apply regardless of what any politician might promise, no matter how powerful, influential, or popular that politician may be. We also know they will apply regardless of any action by a legislature to enact a law that happens to conflict with the laws of gravity, no matter how partisan or bipartisan it might be.

The same is true for the forces of economics. Over the past six decades we have constructed gigantic government program structures with potentially significant negative economic impacts and consequences to our prosperity. No one can deny that we are experiencing that now. Those programs are invariably sold to the electorate with good intentions and the promise of great benefits for many.

Unanticipated Changes

Over time, those programs are typically expanded and modified, the premises on which they are based change, and other laws and programs are enacted that might have an unanticipated or complicating impact on the original program.

Because those changes transcend congressional and presidential terms, there is little motivation to reexamine the collective impacts. We accept the risk of economic catastrophe as the means to determine whether we obeyed the rules of economics in the design of a program.

Social Security Ponzi Scheme

In the case of Social Security, for example, we accept the known and foreseeable catastrophe as long as it is far enough in the future, like the person that conducts a Ponzi scheme.

The Social Security program was originally sold with the promise that each participant would get back only what they contributed plus earnings, and that their contribution would never exceed 3 percent of their wages. It also set up a trust to hold the funds and assumed a certain population demographic.

It evolved to provide benefits beyond what is contributed by each employee even with the contribution rate raised to 7.5 percent for most.

The funds have been removed from the trust and replaced by a note from the federal government, and the demographics are substantially different than anticipated at the beginning. We know now that it is not solvent beyond a certain point. What will we do with what has come to be known as the third rail of American politics?

Housing, Stimulus Failures

The Community Revitalization Act had its roots in the 1960s and evolved in the 1980s and 1990s to, in part, require that lenders make subprime loans for mortgages with the assumption that home prices would always be rising.

That—combined with the federal government’s support of Fannie Mae and Freddie Mac to be purchasers of enormous quantities of those loans, which they in turn rolled up and sold as the now infamous and failed mortgage-backed securities—is at the root of our current economic problems. Is anything to be done with those agencies to avoid that going forward?

More recently, the economic stimulus was touted as being necessary in order to keep the unemployment rate below 8 percent. We have now blown hundreds of billions of dollars and our unemployment rate is stuck around 10 percent. Would we have been better off not running up that stimulus debt?

Obamacare Burdens

Last, but certainly not least, is the new health care law. Here’s a law that brings under regulation a significant percentage of the economy and seems to have been more designed to just barely pass into law than to address health care issues.

The early returns on the lower-cost claim are not favorable. Why do we think that a law that is so far-reaching and complex will do what it was sold as doing without huge economic risks? Does history tell us anything about that?

Given the complexity and the enormous size of the potential economic impacts of government program structures, there are bound to be many unintended, and, I would add, unknowable economic consequences.

If only for those reasons, the electorate must be very skeptical about allowing their elected officials to implement such programs, looking beyond the benefits promised by politicians seeking election to the realities of implementing them. A responsible engineer doesn’t build a structure simply because it looks good to wait and see if it fails as the means to determine if it is sound.

Robert J. Platt, P.E., J.D., is cofounder and CEO of Mostardi Platt Environmental, an environmental consulting firm based in Oak Brook, Illinois. He delivered these remarks October 18 at a meeting of the Chicago chapter of the World Presidents’ Organization.
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