Tea Party Sends Stern Warning to RINOs on Spending, Debt

By Steve Stanek

“We put you in and we can take you out” seems to be the message Tea Party leaders are sending Republicans in Congress.

Tea Party leaders referred to House Speaker John Boehner (R-OH) as “John Maynard Boehner” and called Rep. Paul Ryan (R-WI) and more than one dozen other Republican leaders “RINOs—Republicans-In-Name-Only”—during a press conference in May at the National Press Club in Washington, DC. Nationally known economists and public policy experts also spoke.

Wireless Taxes Now Double Sales Taxes

By Phil Britt

Wireless telecom customers are paying a combination of federal, state, and local taxes that often far exceed the retail sales tax rate, according to Scott Mackey, partner with KSE Partners in Montpelier, Vermont.

At the top are Nebraska (a combined tax rate of 23.69 percent) and Washington (a combined rate of 23 percent). New York, Florida, and Illinois are the other states in the top five in terms of highest combined tax rates on cell phones and other wireless services.

Wireless consumers in Oregon, Nebraska, Idaho, Montana, and West Virginia pay the lowest combined rates.
The financial crisis continues to shake America. It’s getting a lot worse for towns and communities. Where can you turn for help and information?

www.smarttowns.org

Although the cumulative spending in most states by towns and counties actually exceeds what the state legislatures spend, the growing economic crisis of municipal governments has been largely ignored by policymakers.

Squeezed from the top by the states cutting back on subsidies to schools and local government, while simultaneously squeezed from the bottom by homeowners unable to afford high property taxes on homes with falling values, officials are desperate for cost-effective ways to meet their obligations.

smarttowns.org is the major website dedicated to providing local officials and involved citizens with the tools they need to creatively maintain and improve services at a lower cost.

smarttowns is a trademark of NABR.
Credits Help Take More than Half of U.S. Households Off Income Tax Rolls

By Steve Stanek

More than half of the nation’s households paid no federal income tax in 2009, according to an analysis by Congress’s Joint Committee on Taxation.

At a Senate Finance Committee hearing on May 3, committee chairman Sen. Max Baucus (D-MT) said millions of Americans believe tax “loopholes” and tax benefits exist mainly for the wealthy. That perception, he said, makes it difficult to create a fairer tax system.

Ranking committee member Sen. Orrin Hatch (R-Utah) remarked at the hearing, “How Washington politicians hope to determine this fair share in an ever-handed way that does no harm to our economy and job creators remains a mystery to me.”

Higher Incomes, Heavier Burdens

IRS data show the top 5 percent of income earners in 2008—the latest year of full data available—earned 34 percent of total taxable income reported but paid 59 percent of the income tax burden. The top 1 percent of earners paid 38 percent of the income tax burden on just 20 percent of the nation’s taxable income.

“A couple of interesting things worth noting,” said Pete Sepp, executive vice president of the National Taxpayers Union, “are that the percentage of Americans paying no or little tax was rising even during the Bush years, when the tax system was supposedly favoring ‘the rich.’ All the while, the share of federal income tax shouldered by the top 1 percent of earners kept increasing until tax year 2008, when the recession took its toll on investment income especially.”

Sepp continued, “If the rich did indeed get richer and the poor got poorer during the Bush Administration, it certainly wasn’t because of our federal income tax system. If anything, the system worked in the opposite direction.

“Also of interest, to my mind, is that even when including federal non-income taxes [such as excise taxes on gasoline and diesel fuel, cigarettes, and alcohol, capital gains taxes, etc.], our system still excludes a large portion of the population from paying much,” Sepp said.

Tax Cost Shifts

Sepp cited recent data from the Congressional Budget Office showing the lowest-income fifth of American households paid an effective overall federal tax rate of less than 5 percent, the next fifth—the “working class”—paid less than 11 percent. The top fifth shouldered a 25.1 percent tax rate.

“Our elected officials are making it a deliberate act of policy to expand the Earned Income Credit and other tax-saving provisions to the point where more and more families’ income tax liabilities are being wiped out entirely, and sometimes even more,” Sepp said, forcing everyone else to shoulder higher tax burdens to make up the difference.

Ryan Ellis, tax policy director at Americans for Tax Reform, had mixed thoughts regarding the news that more than half the households ended up paying no federal income tax.

“On the one hand, it’s a good thing that Presidents Reagan, Clinton, George W. Bush, and Obama have so cut taxes on the lower end that half of the population now pays no income tax,” Ellis said. “Good for them.”

He added, though, “For many of these people, they are getting refundable credit payments, which is different and far more problematic.”

Ellis also said that as the number of persons who pay no federal income taxes grows, “more and more of the tax burden is being borne by fewer and fewer productive families and businesses. That creates a moral hazard.”

He added that taxes remain a political issue with most of the 51 percent who had no effective federal income tax burden in 2009 because they “still consider themselves to be taxpayers, because they are for many things besides income tax. They get mad at high property taxes, payroll taxes for bankrupt entitlement programs, etc. So they are still part of the taxpayer movement, even if the most onerous tax—income—is something they don’t end up paying.”

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

Officials lobby for incentive benefiting Canadian steel firm

By Kristy Bailey

Lee County, North Carolina officials are pushing a tax-funded incentive for a Canadian company that is looking to operate in Sanford, where it would compete directly with a homegrown steel fabricator and service center that has been in business more than 60 years.

Allied Crawford, a subsidiary of the North York, Ontario-based Crawford Steel Inc., promises to create about 40 jobs in Lee County. But the move ultimately could shutter Sanford Steel & Pipe Corp., which never has accepted government funding.

“We never sought it, and we don’t agree with it,” said Steel & Pipe President Brian McRae of the proposed incentive. “Free enterprise is free enterprise. We need $500,000 worth of equipment right now. [The economic downturn] has been terrible, but we have managed to hang in there.”

S$2 Billion in Incentives

Allied Crawford would be one of nearly 100 companies to receive some sort of economic incentive during Gov. Bev Perdue’s (D) two years in office. During that time, the state has spent upward of $2 billion to lure businesses to the state, according to the governor’s Web site. That figure includes another $28.3 million the state provided for a Caterpillar manufacturing facility in Lee County. The company is expected to create 325 jobs by 2014.

It’s impossible to say what impact, if any, taxpayer incentives have had on overall employment. But in the case of Allied Crawford, the handout from the state could put a North Carolina company out of business.

County Opposed Plan

The odd nature of the arrangement initially worked to Steel & Pipe’s advantage. The Lee County Commission in January nixed a plan to provide $90,000 in incentives for the Canadian rival. The county had planned to kick in $51,000 in tax breaks; Sanford officials had considered an additional $37,000 in unspecifed incentives.

County Commissioner Linda Shook later told The Sanford Herald the deal was shot down because it would have given Allied Crawford an unfair advantage over Sanford Steel & Pipe.

In early February, Allied Crawford Chief Executive Officer Gary Stern blasted the locals, saying he would take his $3.5 million investment elsewhere. “As of today, I said I’m not spending any more time on it,” Stern said.

City Council Favored Incentives

Then on February 16, the Sanford City Council voted 3-2 to support and endorse Allied Crawford’s application for a $480,000 grant from the North Carolina Rural Economic Development Center, under the Building Reuse and Restoration Grant program. The city submitted an application to the Rural Center to assist Allied Crawford with renovations on the Redman Homes Building in Sanford. City officials agreed to provide a 3 percent match, as required by the Rural Center. The total project cost for retooling the vacant 122,000-square-foot building, built in 1997, is estimated at $4.1 million.

McRae believes Allied’s proposed expansion would pose a considerable threat to Steel & Pipe’s service center. Steel & Pipe buys steel in bulk from mills, breaks it down, and sells it off in pieces. In February, McRae said Steel & Pipe started receiving requests for letters of credit from Allied Crawford. “They’ve got a guy calling on our customers who we normally service,” McRae says. Some 71 percent of Steel & Pipe’s revenue comes from the service center, he says.

McRae’s father, Larry, went to work for Steel & Pipe as a warehouse manager in 1966. Over the years, the company expanded its operations to the 11 acres it now rests on north of Sanford. The elder McRae was named president of the company in 1983. After founder James King died from cancer in 1986, Larry McRae became majority owner. Brian joined the company as its controller in 1993 after graduating from East Carolina University with a degree in finance. He was named president of Steel & Pipe in 2009.

At its height in 1999, Steel & Pipe employed 57 workers. The company’s workforce gradually began shrinking during the post-9/11 recession. In 2003, steel prices skyrocketed and have never corrected, says McRae. In late 2007, the recession crippled the construction industry. Today, Sanford Steel & Pipe employs 32 people.

Wants ‘Level Playing Field’

“If they come here and receive $500,000, and we lose one job—that’s not right,” McRae says. “All we want is a level playing field.”

Founded in 1996, Allied Crawford has eight facilities in the southeastern United States and employs approximately 181 workers company-wide. Its parent company is headquartered in the Ontario province of Canada. The terms of the grant require Allied to create the promised jobs within 18 months of undertaking the project and to retain those jobs for a minimum of six months.

The Rural Center announced March 1 that it had awarded 46 grants totaling $5.4 million to create jobs and promote economic development in rural counties.

The center says the grants will create or retain 1,400 jobs.

Bob Huets, director of the Lee County Economic Development Corporation, who orchestrated the initial incentives deal with Lee County commissioners during a closed-session meeting in January, said the EDC “is still working with that project.”

“We don’t like to talk about those projects until they land,” Huets said. “We don’t have any comments.”

Kristy Bailey (kbailey@carolinajournal.com) is a contributor to Carolina Journal, where a version of this article first appeared. Used with permission.
Oregon lawmakers provided Blue Heron Paper Company in Oregon City with $13.75 million in loans and tax credits, but the intended long-term investment lasted a mere seven years.

The company shut down in April.

Todd Wynn, vice president of the Portland-based Cascade Policy Institute, has been following the Blue Heron case for several years. He said it’s a prime example of what happens when government gets involved in private businesses.

“You have politicians giving incentives to preferred industries,” Wynn said. “Some bureaucrat decides this [Blue Heron] is the future. They shouldn’t be making investments in private companies—private investors should do that.”

‘Green’ Industry Promise

In 2005, owners of the paper mill, which produced newsprint and recycled paper products, wanted to expand its recycling operations and reduce its energy consumption. State officials saw it as an opportunity to promote a green industry and preserve jobs, and they stepped in to provide funding backed by taxpayers and electricity consumers.

Glenn Montgomery, sustainable business liaison at the Oregon Department of Economic and Community Development, said at the time, “Assisting companies like Blue Heron Paper to be more sustainable will ensure Oregon’s long-term economic prosperity.”

“This project will promote economic development, save energy and save jobs,” said Michael Grainey, director of the Oregon Department of Energy, in 2005.

The state’s investments were not enough to keep the plant afloat and in December 2009 the company filed for bankruptcy protection. This spring, Blue Heron closed with little warning, leaving its 175 employees scrambling to find other jobs. Plant officials cited the rising cost of paper scrap, driven higher by foreign competition, as the reason for the plant closing.

Wynn says the Blue Heron failure is one of many examples of the Oregon government rushing to make a green energy investment without doing proper research. Another example of a failed investment he cites is the state’s 2008 loan of $20 million to Cascade Grain Products, LLC, an ethanol producer. Seven months later the ethanol plant was shuttered and the company owners filed for bankruptcy.

Wynn said lawmakers have been silent on the state’s failed investment in Blue Heron, and the minimal media coverage has focused on the job losses, not the cost to taxpayers.

“The government must learn from past mistakes and not cherry-pick which businesses get tax incentives. Taxes should be lowered across the board and for everyone, individuals and businesses,” Wynn said.

Nick Baker (nickbaker1776@gmail.com) writes from Washington, DC.

TEN PRINCIPLES OF P&C INSURANCE REGULATION

1. Price controls are unnecessary
2. Emphasize solvency
3. Minimize residual insurance markets
4. Support an optional federal charter
5. Dismantle catastrophe funds
6. Reform and phase out the National Flood Insurance Program
7. Don’t ban credit scoring
8. Don’t ban territorial rating
9. Don’t interfere in rate-setting
10. Help only the truly needy

1-50 copies $3.95 each • 51-200 copies $3.21 each • 201-1,000 copies $2.66 each

Plus shipping and handling.
Tea Party Warns ‘RINOs’

“[I]t’s called setting priorities and living within your means. We think increasing the credit card limit to people who’ve shown they can’t handle a credit card is dangerous.”

BOB VANDER PLAATS
VICE CHAIRMAN
TEA PARTY FREEDOM JAMBOREE

Tea Party leaders accuse House Speaker John Boehner (left) and Rep. Paul Ryan (right) of betraying Tea Partiers who helped give Republicans control of Congress.

Continued from page 1

Tea Party leaders accuse Boehner, Ryan, and other Republican leaders in Congress of betraying Tea Partiers who helped give Republicans control of Congress in the last election. The betrayal comes in the form of “microscopic” budget cuts several weeks ago to avoid a government shutdown, and willingness to compromise with Democrats to raise the federal government’s debt ceiling.

The “John Maynard Boehner” reference is a play on John Maynard Keynes, father of “Keynesian” economic theory, which calls for government to spend and borrow more to stimulate slowing economies. Opponents of Keynesian theory blame it for deepening and prolonging economic downturns and expanding government at the expense of the private sector.

Betrayal of Grassroots

Boehner has betrayed the grassroots movement by reneging on a promised $100 billion in budget cuts and declining to use “strategic inaction” on the debt ceiling to force reform of health care entitlements, including repeal of Obamacare, said William Temple, chairman of the Tea Party National Convention.

“Boehner and his Republicans are fiddling while Rome burns,” Temple said. “The $38 billion in 2011 cuts they claimed [to avoid government shutdown in April] were actually just $20 billion—about five days’ worth of U.S. borrowing! Washington is piling 40 cents per dollar of federal spending, $4 billion per day, on to the national debt and our children’s backs, yet these wimpy House RINOs refuse to hide President Obama’s Mastercard!”

‘This is the Alamo For Us’

“This is a throwdown issue; this is the Alamo for us,” said Temple of the Tea Party’s stand against raising the debt ceiling. “We don’t want to see the government continue this wasteful spending. The Tea Party is going to hold every RINO accountable. This issue alone is going to determine if they have somebody running against them in their next primary.”

He said he and other Tea Party leaders are fed up with establishment politicians of both major political parties.

‘Hardly a Dime’s Bit of Difference’

“We don’t care what a person calls himself. There’s hardly a dime’s bit of difference between Democrats and Republicans,” Temple said. “The establishment types are all over government. This is not about changing seats. This is about taking back the government. A lot of them don’t get it yet.”

Temple spent 32 years working for the federal government, including in the Secret Service. So it’s not that he is anti-government. He says he’s anti-wasteful, abusive, and overreaching government.

“Not once in the past 65 years has the monthly interest due on debt exceeded monthly Treasury revenues,” Wesbury said.

“As long as the Treasury Secretary manages cash correctly, the U.S. will not default on its obligations to its creditors. Global financial markets are perfectly able to comprehend the nuances of this debate. If the debt limit is used as a tool by some politicians to force serious, significant, and durable corrections to the long-term budget deficit, the markets would react in a very positive manner. Servicing the debt and paying for the operations of government are not equivalent. As long as the debt is serviced, cutting spending, laying-off workers, or slowing down payment for budgeted items is not the equivalent of default.”

Allen Unruh, a South Dakota chiropractor and Tea Party leader who made Obamacare the target of the movement’s fury, said, “The Tea Party, conservatives, and independents of all stripes fought tooth-and-nail to stop Obamacare in 2010—and yet in 2011, RINO Boehner doesn’t even have the horns to demand repeal of Obamacare as a baseline condition of a debt vote! If the House GOP goes with him, RINO season opens with the 2012 Republican primaries.”

Steve Stanek (sstanek@heartland.org) is a research fellow at The Heartland Institute and managing editor of Budget & Tax News.
State Snags $20 Mil. from UConn Malpractice Fund

By Zachary Janowski

T he University of Connecticut Health Center malpractice account is underfunded, with only enough money to cover one-third of the estimated claims against the state-owned hospital.

Two years ago, that underfunding would have been illegal. The state required the health center to deposit money in the account on an actuarial basis.

But the state needed money to balance its 2010 and 2011 budgets, so it passed a law taking $10 million from the account for each budget year, a total reduction of $20 million.

Drop from $25M to $700K

Before the change, the malpractice fund—also known as the John Dempsey Hospital Insurance Fund—held $25 million. After paying $4.3 million in claims, the fund was left with only $700,000, according to a letter to the appropriations committee from Cato Laurencin, dean of the medical school.

Laurencin said the health center would deposit $3.8 million during the 2010 and 2011 budgets, so it passed a law taking $10 million from the account for each budget year, a total reduction of $20 million.

Gov. Malloy ... wouldn’t consider [transferring funds from the malpractice account] because it is only one-time revenue—a type of budget gimmick that the governor refuses to use to balance the state’s budget.

JULIET MANALAN, PRESS SECRETARY
DANIEL MALLOY
GOVERNOR - CONNECTICUT

The health center did not propose nor did it support the transfer of these funds,” said health center spokesman Chris DeFrancesco.

The “sweep” of the malpractice fund was part of a budget signed by former governor M. Jodi Rell (R). Her successor, Gov. Dannel Malloy (D), has opposed similar methods.

“Gov. Malloy isn’t proposing to take more money out of these funds, or cut off revenue to the funds,” said Juliet Manalan, press secretary for Malloy. “He thinks it is a bad idea to have swept these funds in the first place, and wouldn’t consider it because it is only one-time revenue—a type of budget gimmick that the governor refuses to use to balance the state’s budget.”

Connecticut paid the UConn Health Center $250 million, combined, in 2010 and 2011. It paid UConn $466 million over the same period.

Bid to End Fund

Given the reduced balance, the health center proposed legislation to eliminate the fund and have the state cover malpractice claims as they arose.

“To do otherwise essentially would have required the Health Center to pay twice—first for having established the reserve and then again when paying a settlement with new operating funds because the reserves were transferred to the state’s general fund,” DeFrancesco said.

Rather than eliminate the fund, the legislature passed a second law to remove the requirement that the fund have an actuarial basis.

IN OTHER WORDS . . .

“If you don’t have your own little stimulus scam going, you may want to listen up. Your dollars, pounds, euros, and pesos are going to lose value. Don’t trust the government’s inflation figures. An honest measure of the ‘inflation rate’ is available thanks to a pair of professors at MIT. Their ‘Billion Prices Project’ (BPP) doesn’t pussyfoot around. It trolls the Internet, records prices, and reveals the most accurate measure of inflation ever. This new index shows the rate of consumer price increases for the last 12 months at 3.2%. This is more than half again as much as the Labor Department’s own tally—2.1%.

“Something is dreadfully wrong. Either a billion prices are in error. Or, people who buy U.S. treasury bonds are.”

— Bill Bonner, DailyReckoning.com, April 29, 2011

Follow...
The Heartland Institute on Twitter and Facebook!

ON TWITTER: our username is heartlandinst

ON FACEBOOK: search for the Heartland Institute Fan Page or go to: www.facebook.com/HeartlandInstitute

Become a Fan on Facebook and help us reach our goal of 50,000
Wireless Service Taxes Are Now Double Sales Taxes

Continued from page 1

“Wireless users now face a combined federal, state, and local tax and fee burden of 16.9 percent, a rate two times higher than the average retail sales tax and the highest wireless rate since 2005,” Mackey wrote in a recent report on the growing burden of taxes and fees on wireless service.

“The recent increase in rates is mostly attributable to the rapid growth in the rate of the federal Universal Service Fund (USF) charge,” Mackey reported. USF increases have added 0.9 percent to the rate since 2007.

“There’s no one single reason why this is happening. Just about every level of government can add taxes to the wireless bills. When so many different levels of government can levy taxes, it creeps up over time. It really adds up,” Mackey said.

“The problem is a lot of consumers don’t know what they are paying in taxes,” he continued. “So they haven’t gotten to the point of outrage yet. Until consumers start being educated about what they are paying, they won’t reach the level of outrage” that could prompt governments to end the escalation of these taxes.

Consumers can learn more about wireless taxes at www.mywireless.org, which provides consumers with information on the different taxes they are paying on bills. The site also helps taxpayers communicate with elected officials in order to express concerns about wireless taxes and other issues.

Not Like Old Monopolies
Legislators tend to look at wireless as a “cash cow” they can tap whenever they need additional funds, said Jim Kranjc, principal and telecom practice leader in the Pittsburgh office of Ryan Inc., a global tax practices firm.

“Most legislators continue to look at wireless companies as they did at landline companies, which at one time were monopolies that [legislators] could control through rate regulations and could tax heavily,” Kranjc said. “Wireless companies are independent and offer highly competitive services, but the government continues to look at them like utilities and thinks they need to be taxed in the same way.”

High tax rates are impeding growth of the industry and are hurting consumers, many of whom have opted to drop a landline and have only a wireless phone, according to Kranjc.

“A person can end up paying more in taxes and fees than the cost of service for a second line,” Kranjc noted. “Wireless phones are needed for safety concerns. They are extremely helpful in emergency situations.”

Moratorium Proposed
Kranjc has hopes for legislation in the Senate and House—the Wireless Tax Fairness Act of 2011 (S. 543 and H.R. 1002)—which would put a five-year moratorium on these discriminatory taxes and fees.

“In light of today’s challenging economic conditions, it is hard to understand why the average wireless consumer is being charged more than 16 percent in taxes and fees when other taxable goods and services are only 7.4 percent [on average],” said Steve Largent, president and CEO of CTIA-The Wireless Association, in a recent blog post.

“When you add the fact that policymakers are looking for ways to make affordable broadband accessible for all Americans, it’s incomprehensible why 47 states and the District of Columbia charge their wireless consumers a rate that exceeds the general rates for other taxable goods and services,” Largent wrote.

‘Tired of Being Gouged’
“State tax policies are at cross-purposes with economic development,” said Rick Hoffman, managing director of Mobilocity, a mobile productivity company based in Everett, Washington. “High taxes discourage use, yet government says that it is trying to encourage industry to expand wireless. The government is subsidizing different services and saying they want more of this, and on the other hand they are discouraging use through high taxes.”

Businesses are large users of wireless technology, Hoffman points out, but high taxes slow the addition of wireless devices and any business growth that would occur as a result of their use.

The wireless fees on consumer bills aren’t the only revenues the government derives from the wireless business, notes Scott Testa, associate professor of business at Cabrini College in Philadelphia, Pennsylvania.

“Between the high taxes on services, taxes on cell towers, and spectrum auctions, the wireless business generates a lot of income for the government,” Testa said. “When things are good, people really don’t notice. But people notice in a weak economy. Consumers are tired of being gouged.”

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

INTERNET INFO
Cash-Strapped States Continue to Raid 911 Funds

By Bruce Edward Walker

States seeking to cover budget shortfalls are increasingly raiding funds raised from fees paid by cell phone customers for maintenance of and enhancements to state 911 services.

Georgia has joined Hawaii and Michigan among 11 states reallocating funds designated for 911 services to cover expenses in the states’ respective general funds. Lawmakers in Washington state and the District of Columbia are reportedly proposing similar measures.

Kenneth Braun, a senior policy analyst for the Michigan-based Mackinac Center for Public Policy, says the fund raids are tax increases by another name. “Every taxpayer should hold their wallet close whenever a ‘fee’ is discussed as if it is always different from a tax,” Braun said. “Fees created for supposedly specific purposes have a nasty way of morphing into general slush funds when politicians want to avoid making tough choices.”

Infrastructure Completed, Fees Continue

In January, the Atlanta, Georgia Journal-Constitution reported fees the state began collecting three years ago on purchases of prepaid cell phones brought in approximately $25.7 million. The money was designated for 911 call centers but was never appropriated for its originally stated purpose.

Last year, InfoTech & Telecom News reported on a 911 fund raid in Hawaii that moved $16 million to the state’s general fund (“Hawaii Raids Telecom Funds to Balance Budget,” November 2010).

Also last fall, Michigan legislators approved a 911 fund raid that would move $7 million for each of the next two fiscal years. Braun notes the infrastructure the phone tax was intended to create was completed several years ago and the tax was supposed to end, but in 2008 legislators extended it through 2014.

Braun also notes the fund—raised from a 52-cent cell phone fee—was previously raided in 2004 and again in 2006. The 2004 raid took $12 million to cover general fund spending, and the bill in 2006 took another $15 million.

Fees = Taxes

“While the 2008 bill reduced the 911 ‘fee,’ by this point it was nothing more than a ‘tax’ in all but name, a tax with six years of renewed life thanks to state legislators,” Braun noted.

Regardless of the original purpose of fees, they become tax hikes when used for something else, Braun says. “The bottom line is that these tax hikes fuel general spending.”

Braun says lawmakers who vote for fees and later vote repeatedly to divert spending to other uses more than likely don’t see these efforts as raising taxes.

“These fees were taxes to begin with, and they are taxes now,” Braun said. “There is no difference, but implementing a tax for one purpose and switching it to another account to pay for bloated state governments is something taxpayers should hold their lawmakers accountable for.”

Bruce Edward Walker (bwalker@heartland.org) is managing editor of InfoTech & Telecom News. This article first appeared in the April issue of InfoTech & Telecom News and is used with permission.

INTERNET INFO


California’s Redevelopment Agencies

By Steven Greenhut

In Sacramento, Gov. Jerry Brown (D) is planning to close California’s $26.6 billion structural deficit through spending cuts and tax extensions. Opposition has been spirited but less contentious than expected, probably because of the size of the budget hole.

But one item of Brown’s plan—something that would save about $1.7 billion annually—has generated heated debates between local officials and the new administration. The governor has proposed eliminating California’s approximately 400 redevelopment agencies (RDAs).

In theory, RDAs spearhead blight removal. In fact, they divert billions of dollars from traditional services, such as schools, parks, and firefighting; use eminent domain to seize property for favored developers; and run up California’s debt to pay those developers to construct projects of dubious public value, such as stadiums and big-box stores.

So if a redevelopment agency wants to redevelop a particular area, it will find a definition that suits that area; and once it issues a blight finding, the courts will rarely rebuke it.

An Unknown Government

Most Californians have been unaware these agencies exist. As the activist group Municipal Officials for Redevelopment Reform puts it, RDAs constitute an “unknown government” that “consumes 12 percent of all property taxes statewide,” is “supported by a powerful Sacramento lobby,” and is “backed by an army of lawyers, consultants, bond brokers and land developers.”

California’s redevelopment agencies got their start in 1945, when the state legislature authorized their creation to combat urban decay. At the time, politicians nationwide touted urban-renewal projects as a way to jump-start development in impoverished inner cities. Today, many urbanists recall these projects as a national travesty, a failed experiment in top-heavy government and liberal social engineering that obliterated neighborhoods, eroded property rights, gave developers downtown land on the cheap, uprooted city dwellers, and exacerbated urban problems.

The California law lets a city establish a redevelopment agency, governed by a board appointed by the city council—though in almost every case, the board members and the council members are one and the same. A county, too, can create an RDA, through its board of supervisors. The agency’s first task is to find urban blight.

As a state senate committee explains it, “Before redevelopment officials can wield their extraordinary powers ... they must determine if an area is blighted.” But the definition of blight is very broad: It can include not just unsafe buildings but also “incompatible land uses,” stagnant property values, either excessive urbanization or insufficient urbanization, and lack of modern infrastructure.

By steven greenhut

An Unknown Government

Most Californians have been unaware these agencies exist. As the activist group Municipal Officials for Redevelopment Reform puts it, RDAs constitute an “unknown government” that “consumes 12 percent of all property taxes statewide,” is “supported by a powerful Sacramento lobby,” and is “backed by an army of lawyers, consultants, bond brokers and land developers.”

California’s redevelopment agencies got their start in 1945, when the state legislature authorized their creation to combat urban decay. At the time, politicians nationwide touted urban-renewal projects as a way to jump-start development in impoverished inner cities. Today, many urbanists recall these projects as a national travesty, a failed experiment in top-heavy government and liberal social engineering that obliterated neighborhoods, eroded property rights, gave developers downtown land on the cheap, uprooted city dwellers, and exacerbated urban problems.

The California law lets a city establish a redevelopment agency, governed by a board appointed by the city council—though in almost every case, the board members and the council members are one and the same. A county, too, can create an RDA, through its board of supervisors. The agency’s first task is to find urban blight.

As a state senate committee explains it, “Before redevelopment officials can wield their extraordinary powers ... they must determine if an area is blighted.” But the definition of blight is very broad: It can include not just unsafe buildings but also “incompatible land uses,” stagnant property values, either excessive urbanization or insufficient urbanization, and lack of modern infrastructure.

So if a redevelopment agency wants to redevelop a particular area, it will find a definition that suits that area; and once it issues a blight finding, the courts will rarely rebuke it.

An Unknown Government

Most Californians have been unaware these agencies exist. As the activist group Municipal Officials for Redevelopment Reform puts it, RDAs constitute an “unknown government” that “consumes 12 percent of all property taxes statewide,” is “supported by a powerful Sacramento lobby,” and is “backed by an army of lawyers, consultants, bond brokers and land developers.”

California’s redevelopment agencies got their start in 1945, when the state legislature authorized their creation to combat urban decay. At the time, politicians nationwide touted urban-renewal projects as a way to jump-start development in impoverished inner cities. Today, many urbanists recall these projects as a national travesty, a failed experiment in top-heavy government and liberal social engineering that obliterated neighborhoods, eroded property rights, gave developers downtown land on the cheap, uprooted city dwellers, and exacerbated urban problems.

The California law lets a city establish a redevelopment agency, governed by a board appointed by the city council—though in almost every case, the board members and the council members are one and the same. A county, too, can create an RDA, through its board of supervisors. The agency’s first task is to find urban blight.

As a state senate committee explains it, “Before redevelopment officials can wield their extraordinary powers ... they must determine if an area is blighted.” But the definition of blight is very broad: It can include not just unsafe buildings but also “incompatible land uses,” stagnant property values, either excessive urbanization or insufficient urbanization, and lack of modern infrastructure.
Tarnish the Golden State’s Reputation

when Proposition 13, by capping property tax increases, threatened to impose spending limits on cities.

“Since the property tax constraints imposed by Proposition 13 in 1978, local governments have been searching for new sources of revenue,” Dardia wrote. Redevelopment agencies were a windfall—not a way to revamp rundown areas but a way to divert money from the state.

More and more, though, RDAs are dispensing with the pretense of fixing blight. Many are focusing less on tougher, older areas and instead are trying to lure new businesses to “greenfields”—lots on the outskirts of town. Some officials have placed their entire cities in redevelopment areas. And agencies explicitly advance various goals beyond blight removal, claiming to boost economic development, provide affordable housing, reenergize downtowns, and create hundreds of thousands of jobs in the process.

Little Economic Gain

Crunching the numbers, Dardia found that after correcting for local real estate trends, “redevelopment projects do not increase property values by enough to account for the tax increment revenues they receive. Overall, the agencies stimulated enough growth to cover just above half of those tax revenues. The rest resulted from local trends.”

Redevelopment also is based heavily on the mistaken premise that big, often tourist-oriented projects—stadiums, theme parks, Costcos—are the key to the economic growth of cities. In 1997, the Brookings Institution’s Roger Noll and Andrew Zimbalist debunked the idea that stadiums in particular draw much revenue to a region, concluding that “a new sports facility has an extremely small (perhaps even negative) effect on overall economic activity and employment. No recent facility appears to have earned anything approaching a reasonable return on investment.”

As Brown explained in his budget proposal, “There is little evidence that redevelopment projects attract business to the state. Studies indicated most of the business development is simply shifted from elsewhere in the state.”

Played for Fools

Southern California residents don’t care whether they buy their Hondas in the Cerritos Auto Mall or up the 605 Freeway in El Monte. California’s cities care, though, and for good reason: They keep 1 cent of every dollar spent within their borders. That’s a powerful incentive for them to want retail centers rather than, say, factories. And so cities offer rich incentives to entice and satisfy such companies, which in turn often play the cities for fools.

In 1999, Costco demanded that the city of Lancaster condemn a nearby competitor, the 99 Cents Only Store, or else Costco would move to neighboring Palmdale. The 99 Cents Only Store and the Costco were in the same shopping complex; both were in the same condition. Nevertheless, Lancaster’s redevelopment agency proceeded to condemn the 99 Cents Only Store, whose owner fought the condemnation and won—a rare victory over an RDA in court. Eventually, the city gave Costco land in a public park.

Even in the projects that redevelopment supporters like to highlight, it’s hard to see the benefits. Sacramento Mayor Kevin Johnson wrote in the Sacramento Bee that “redevelopment has also helped strengthen the core of our city, the downtown. For example, K Street is now attracting a wide range of entertainment and restaurant choices to boost the economy.”

My office is a block from K Street, which has long been the city’s prime redevelopment focus, so I can testify that it remains a symbol of downtown blight, riddled with vagrants and vacant storefronts.

As the Sacramento Press reported in 2009, “With a 45 percent ground floor vacancy rate, K Street’s health is currently struggling. In an effort to help the street improve the blocks between 7th and 13th streets, the city has been pumping millions of dollars into projects to then watch little to no improvements in foot traffic, empty store fronts and public safety. The list of subsidized projects is getting longer every year.”

After the U.S. Supreme Court’s controversial 2005 Kelo decision allowed the use of eminent domain for economic development purposes, most states followed the court’s additional advice and reformed their eminent domain rules to make it harder for redevelopment agencies to drive property owners off their land. California failed to pass serious reform, however, and its RDAs continue to confiscate private property.

If cities want to spur economic growth, they have a far more effective approach at their disposal—one pioneered by Anaheim. Starting in 2002, under the leadership of former mayor Curt Pringle and current mayor Tom Tait, the city embraced a freedom-friendly approach to land use. Their target was an area called the Platinum Triangle, a collection of one-story warehouses they wanted to become a new downtown with high-rise condos, hotels, restaurants, and shopping.

Instead of taking the redevelopment approach—creating a project area and then forcing businesses to leave—the city “upzoned” the Triangle, allowing far more uses for the land. This was a great stroke of luck for the area’s businesses: They could stay if they chose (the city outlawed eminent domain for economic development), but most sold out to developers, who paid handsome sums for land that was now zoned for more valuable residential and office uses. Then the city encouraged the developers to bring their plans to City Hall. The area boomed with high-rises constructed in a couple of years (though it did hit hard times after the real-estate bubble burst).

The lesson: Deregulation and private enterprise work better than central planning. Developers don’t need subsidies and eminent domain to build in older cities; they need the relaxation of burdensome government rules and a reduction in taxes. ... And they need the freedom to develop their own plans, rather than blueprints from City Hall planners.”

“Developers don’t need subsidies and eminent domain to build in older cities; they need the relaxation of burdensome government rules and a reduction in taxes. ... And they need the freedom to develop their own plans, rather than blueprints from City Hall planners.”


INTERNET INFO
Mich. Film Office Fails to Report $72 Mil. Handed to Hollywood

By Tom Gantert

The Michigan Film Office appears to have under-reported by 31 percent the amount of money it gave to Hollywood’s film producers, according to James Hohman, fiscal policy analyst at the Mackinac Center for Public Policy.

According to Hohman, about $72 million in tax credits were not included in the 2008 and 2009 reports issued by the Michigan Film Office. Hohman caught the budgeting mistake when he examined the office’s 2010 report and compared it to the 2008 and 2009 reports.

“Bureaucrats can’t really be trusted to measure the effectiveness of their programs, including in this case, the most basic costs,” Hohman said. “A lot of people have been focused on the cost of this program. And it is substantially more than advertised the past two years.”

‘No Longer with Film Office’

Michigan Film Office spokeswoman Michelle Begnoche said there could have been a discrepancy involving under-reporting in 2008 and 2009.

“The folks who wrote the reports in past years are no longer with the Film Office, so we can’t speak to the reporting methods used in previous years,” Begnoche wrote in an e-mail. “However, we can say that the 2010 report was comprehensive, transparent and met all the statutory requirements.”

Janet Lockwood, former director of the Michigan Film Office, wrote in an e-mail: “If you all are concerned that there’s a $72 million liability lurking out there somewhere, I sincerely do not believe that is true.”

The apparent under-reporting problem occurred under former Democratic governor Jennifer Granholm. The film tax credit is at risk as Michigan’s current governor, Republican Rick Snyder, proposes to limit it to $25 million a year.

42 Percent Credit

Proponents of the tax credit, including Detroit Free Press columnist Mitch Albom, are trying to keep it alive. The incentive allows a refundable tax credit of up to 42 percent to movie companies for projects in the state.

The 2008 film office report states the reported tax credits that year were $47.9 million as of February 9, 2009. Hohman said one possibility is that film credits that were pending at the time the report was released were never included in later reports.

‘Trying to Hide Costs’

State Rep. Tom McMillin (R-Rochester Hills) sifted through the bills film companies turned in to the state in 2010. He said he thought the state was not being up front about the true costs of the program under Granholm.

“It doesn’t surprise me they were trying to hide the costs to the taxpayers,” McMillin said. “The old way of doing things was to try to hide and obfuscate. The more light we shine on it, the worse it gets.”

Tom Gantert (gantert@mackinac.org) is senior capital correspondent for Michigan Capitol Confidential, a news Web site of the Mackinac Center for Public Policy. Used with permission.

You Can Take Our Experts Anywhere

Whatever your policy interests, our podcasts connect you with key players:

FINANCE, INSURANCE, AND REAL ESTATE: Arin Greenwood interviews some of the nation’s leading experts on FIRE policy issues.
www.firepolicy-news.org

BUDGET AND TAX: Steve Stanek and other budget and tax policy experts relate news and views from the local, state, and federal arenas.
www.budgetandtax-news.org

THE ENVIRONMENT: James M. Taylor conducts interviews and breaks news on climate change and other environment issues. www.environmentandclimate-news.org

SCHOOL REFORM: Ben Boychuk and the staff of the Center for School Reform shares news and views on topics from distance learning to vouchers. www.schoolreform-news.org

HEALTH CARE: Ben Domenech interviews leading health care policy analysts and relates news and views from the health policy arena. www.healthpolicy-news.org

INFOTECH: Bruce Edward Walker brings news and views on information technology and telecom issues. www.infotech-news.org

Subscribe to our podcasts on iTunes or listen from the audio pages.
By C. Kenneth Orski

Pragmatic funding decisions have marked the third and final round of awards in the Obama Administration’s $10 billion High-Speed Rail Program.

The awards, announced on May 9, confirmed what critics have long maintained: The White House high-speed rail initiative, stripped of its high-blown rhetoric, is in fact a program of modest incremental improvements to existing Amtrak passenger rail services. As such, the initiative represents a small but useful step in restoring more reliable intercity passenger rail service—but it hardly deserves the hype and exaggeration that have been used to characterize it.

‘Victory for Incrementalism’

Rather, it is a “victory for incrementalism,” in the words of Scott Thomasson, policy director of the Progressive Policy Institute.

The latest round of awards has redistributed the final $2 billion that had been returned to the U.S. Transportation Department when Florida Gov. Rick Scott (R) in February rejected the offer to fund a rail line between Tampa and Orlando. The funds have been awarded to 22 recipients, with the largest single winner being Amtrak’s Northeast Corridor.

A total of $795 million will enable Amtrak trains to increase their top speeds to 160 mph on a 24-mile stretch of track between New York and Philadelphia and alleviate a major bottleneck in Queens that causes delays for trains coming in and out of Manhattan.

Other major grants were awarded to Illinois, Michigan, and the Midwest region for track upgrades that will allow improved reliability of Amtrak service on the Chicago-St. Louis and Kalamazoo-Dearborn lines, and for the purchase of new passenger rail cars and locomotives. A $300 million grant will enable the California High Speed Rail Authority to extend its Central Valley rail segment by an additional 20 miles. The remaining dollars went for minor enhancements in passenger rail service in eight other states.

Disappointed Transportation Chairman

Despite the commendable new focus on the Northeast Corridor, long advocated by House Transportation and Infrastructure Committee Chairman John Mica (R-FL) as the country’s most legitimate target for rail investment, the Transportation Department’s announcement drew the latter’s renewed criticism.

“Once again the administration has scattered funding to numerous slower-speed rail projects,” Mica said in a press release.

Railroad Subcommittee Chairman Bill Shuster (R-PA) echoed the criticism. “I continue to question the realism of the president’s overall high-speed rail policy,” said Shuster. “We need to focus government funds on the lines that make the most sense. ... Until then, true high-speed rail will remain on the drawing board.”

Foundation for Future

Amtrak spokesman Steve Kulm admitted the final round of projects would not significantly reduce trip times, but asserted they were necessary to lay a foundation for future service improvements. Progressive advocacy groups praised the announcement as putting thousands of Americans to work and reducing dependency on foreign oil.

Now that all of the money in the administration’s passenger rail program has been fully committed, some initial judgments can be formed.

Expanding Federal Role

First, the administration’s initiative took a major step in expanding the federal role in surface transportation by embracing intercity passenger rail as a major new candidate for federal capital assistance. Henceforth, highways and transit may have to compete with passenger rail for available federal surface transportation funds.

Second, by injecting $10 billion into the upgrading of existing intercity rail facilities, the program likely will bring about incremental improvements in the average speed and reliability of Amtrak intercity passenger services in several key corridors. The money has not been totally wasted, as asserted by some critics, but the value and cost effectiveness of the $10 billion investment remains to be demonstrated.

Third, the compelling need to reduce the budget deficit and rein in discretionary spending has dimmed the prospects for further congressional funding of intercity passenger rail. Fiscal 2011 funds for high-speed rail have been rescinded and funding for next year remains in doubt; the House Budget Committee zeroed it out. The ambitious $53 billion high-speed rail plan proposed by the White House earlier this year has been given a quiet burial.

Fourth, given Scott’s decision to cancel the Tampa-to-Orlando line and the uncertain future of the troubled California high-speed rail project, the administration can hardly claim to have launched an era of high-speed rail. (Read the sharply critical report by California’s respected non-partisan Legislative Analyst’s Office, “High-Speed Rail is at a Critical Juncture,” released on May 10, http://lao.ca.gov/reports/2011/trns/ high_speed_rail/ high_speed_rail_051011.pdf.)

Misleading Rail Pledge

The pledge to connect 80 percent of the nation to high-speed rail in the next 25 years, repeated by Transportation Secretary Ray LaHood in a mantra-like fashion, is particularly misleading and has raised false expectations in the rail industry and among transportation reformers.

Last, the president’s initiative came at a most inopportune time—while the nation is recovering from a serious recession and trying to reduce the federal budget deficit. However, the recession will eventually end, the economy will start growing again, and the deficit will, one hopes, come under control. That might be an appropriate time to revive the idea of high-speed rail, at least in the context of the densely populated Northeast Corridor where road and air traffic congestion will soon be reaching levels that threaten its continued growth and productivity.

For now, prudence, good sense, and the nation’s well-being require that the federal government and its surface transportation program live within their means.

C. Kenneth Orski (korski@verizon.net) is editor and publisher of Innovation NewsBriefs. Used with permission.


Strapped States Looking at Gas Tax Alternatives

By Nick Baker

Owners of electric and fuel-efficient vehicles might be in for a bumpy road if some lawmakers have their way. Several states are looking at alternatives to motor fuel taxes, such as levying an electric vehicle tax or basing a tax on the number of miles driven, as a way to fund transportation projects.

In Minnesota, the state transportation department recently announced it is recruiting 500 volunteers to test a system that tracks miles driven. Beginning in July, motorists participating in the study will be given smartphones with a GPS application that allows them to submit information about how much they drive.

“This research will provide important feedback from motorists about the effectiveness of using technology in a car or truck to gather mileage information,” said Cory Johnson, project manager for the transportation department.

‘Researching Alternative Financing’

“We are researching alternative financing methods today that could be used 10 or 20 years from now when the number of fuel-efficient and hybrid cars increases and [we] no longer produce enough revenue from a gas tax to build and repair roads,” Johnson said.

In 2007 Minnesota lawmakers appropriated $5 million for the research. The study is scheduled to conclude in December 2012. Iowa, Nevada, and Texas are also conducting research into mileage-based fees. Oregon completed a similar study in 2007 but has yet to implement such a tax.

In Washington State, lawmakers are considering charging electric car owners a $100 yearly fee as a way to help close a budget deficit and find additional sources of revenue to make up for declining gasoline tax revenue resulting from more fuel-efficient vehicles on the highways. The state’s gas tax rate is 37.5 cents per gallon, the sixth-highest in the nation. A Washington driver pays about $200 a year in gas taxes based on 12,000 miles per year driven in a car that gets 23 miles a gallon.

‘Ensures Fair Share’

“Electric vehicles put just as much wear and tear on our roads as gas vehicles. This simply ensures that they contribute their fair share to the upkeep of our roads,” said bill sponsor state Sen. Margaret Haugen (D-Camano Island).

Currently there are about 1,300 electric vehicles registered with the state. The state Senate already has passed the bill imposing the $100 fee. It awaits action in the state House. Gov. Christine Gregoire (D) has yet to state publicly whether she would sign the bill if it reaches her desk.

Plug In America, an electric car advocacy organization, opposes flat fees and instead favors taxes based on the number of miles driven each year.

“Electric vehicle drivers certainly want to pay their fair share. The danger you get into is if you treat electric vehicles in some radically different way than you treat the rest,” said Jay Friedman, legislative director for Plug In America.

IN OTHER WORDS . . .

“A recent state report projected Washington’s transportation revenues would fall by approximately $25 million between now and the conclusion of the 2011–13 biennium budget. Most of that decline is the result of falling gas tax revenues.

Opposition from GM

General Motors, maker of the Chevy Volt, opposes states levying electric vehicle fees.

“There will be a time and place when electric vehicles should pay their fair share for road maintenance and those associated costs. But we’re not there yet. Right now, we need to create a market that incentivizes people to buy these cars,” said GM spokesman Shad Balch.

State Sen. Dan Swecker (R-Rochester), a co-sponsor of the bill, says something has to be done to make up for declining motor fuel tax revenue.

“The question is how do you account for those trends and begin to capture revenue that reflects actual road usage? We thought $100 was a place to start,” Swecker said.

Nick Baker (nickbaker1776@gmail.com) writes from Washington, DC.
Transportation Secretary Vague About $556 Bil. Proposal

By Steve Stanek

While some state lawmakers consider alternatives to the current motor fuel tax system, including taxing motorists based on the number of miles they drive instead of charging a flat excise tax on gallons of fuel purchased (see related article, page 14), some federal lawmakers are pressing Obama administration officials on how to pay for the president’s transportation proposal.

The president introduced this spring a six-year transportation plan with a $556 billion price tag.

Transportation Secretary Ray LaHood has appeared at several Congressional hearings and has been vague about possible funding sources. At a Senate Environment and Public Works Committee hearing in April, he told Sen. Barbara Boxer (D-CA) only that he looks forward to working with Congress on finding funding.

Favors Tax Indexing

This came after Boxer said she opposes raising motor fuel taxes but favors indexing them to inflation, which would raise the taxes unless there is no inflation.

“We don’t even know if the president would go that far with us,” Boxer told LaHood regarding indexing the taxes to inflation.

Federal motor fuel taxes are 18.4 cents a gallon on gasoline and 24.4 cents a gallon on diesel. States and many local governments also add their own taxes. The American Petroleum Institute in May reported the 50-state average for state, local, and federal taxes combined was 49.5 cents a gallon on gasoline and 55 cents a gallon on diesel.

Boxer said during the hearing, “It’s a good news, bad news story. Good news, because people are getting better fuel economy; bad news because the Highway Trust Fund is slipping. And I’m looking for ways to get more money in there but they’re hard to come by.”

‘Up to Congress’

After the hearing reporters pressed LaHood for an answer on how to fund the administration’s transportation proposal. He answered: “It’s up to Congress now... to come up with their plan and do their debate. We’ve given them an extraordinary blueprint—one that people haven’t seen in a long time.”

A vehicle-miles-traveled (VMT) tax would have an advantage over the current tax system, said transportation expert C. Kenneth Orski, editor and publisher of the Innovation NewsBriefs transportation report.

“The VMT fee would provide a more stable measure because it would not be subject to fluctuating demand for fuel nor to the long-term trend of declining fuel consumption because of improvements in vehicle fuel efficiency and transition to hybrids and electrics,” Orski said.

‘Not the Silver Bullet’

But Orski added, “Once set, raising the VMT fee would be subject to the same political resistance as raising the gas tax. So, in the end, a VMT fee is not the silver bullet that some VMT proponents would have us believe. It would still be vulnerable to Congressional aversion to raising the cost of driving—just as the gas tax is vulnerable today.”

“The tendency in Washington and in state houses would be to use a VMT fee as a cash cow to fund all sorts of other programs,” said Sam Staley, director of urban growth and land use policy at Reason Foundation. “A change to a VMT fee makes sense if it is a substitute for current taxes, and these fees are dedicated to transportation infrastructure based on demand, so they are a true user fee.”

Staley added VMT revenues should be used “to leverage public-private partnerships and other forms of private investment and management of infrastructure.”

‘Huge Privacy Issues’

Staley also addressed the concern that the government could track our movements in vehicles if a vehicle miles tax is adopted.

“Privacy issues are huge, and appropriately so,” Staley said. “In fact, privacy concerns killed a VMT fee initiative in the Netherlands recently. But this is solvable if we put clear restrictions on the use of the information gathered and used, embrace technology as a way to limit government use of this information rather than give it more power, and commercialize the process so that the information is handled by private companies in the same way [it is] used by cell phone providers and credit card companies.”

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

Let’s Look at the Science

What causes climate change? Is it man? That’s one theory. But few people realize it’s not the only one. At least six other theories also enjoy support in the scientific community. As confidence in the theory of human-caused global warming erodes, this passionate account by THE HEARTLAND INSTITUTE reviews the theories and their contributions to our understanding of climate change.

Available for free online at heartland.org.

Print Copies

<table>
<thead>
<tr>
<th>Quantity</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-10</td>
<td>$3.95</td>
</tr>
<tr>
<td>11-50</td>
<td>$2.95</td>
</tr>
<tr>
<td>51-100</td>
<td>$1.95</td>
</tr>
<tr>
<td>101 or more</td>
<td>$0.95</td>
</tr>
</tbody>
</table>

To order, call Cheryl Parker at 312.377.4000.
By John W. Skorburg

The City Council of Evanston, a suburb just north of Chicago, has been weighing the pros and cons of a five-cent tax on each disposable plastic or paper shopping bag used in the city. Now an ordinance to ban plastic and paper shopping bags is on the horizon.

In late April, Evanston’s administration and public works committee recommended the City Council consider enacting a tax of five cents on each disposable shopping bag a person may use. The same ordinance was scheduled to be considered in September 2010, but the proposal was shelved until this spring.

Evanston City Manager Wally Bobkiewicz noted in the late April council meeting minutes that “many discussions have been held, the business community was included and the city government was asked to bring this ordinance in a draft form to get further direction.” He ended the meeting minutes entry by writing “a revised ordinance to ban all bags is possible.”

‘An Opening Salvo’

Alderman Coleen Burrus told fellow council members she wanted consideration of the five-cents-a-bag tax as “an opening salvo, to get people aware about the ecology around us, while the five cents is a figure being suggested to get residents to stop using disposable plastic bags.”

“The cause du jour in the environmental community is plastic bags,” said Illinois Retail Merchants Association President David Vite. “While several municipalities have taken some action in this area, there are several issues of concern to retailers.”

Those issues include excise taxes and outright bans, including on paper shopping bags.

Tax in DC

The Evanston tax ordinance would be based on a similar one that took effect last year in Washington, DC.

“Since January 2010, shoppers in Washington, DC have had to pay five cents on most paper or plastic bags at grocery and convenience stores,” said Justin Higginbottom of the Washington, DC-based Tax Foundation. He said taxes such as these are designed to “decrease consumption, though it is not clear how much environmental benefit the citizens will receive if fewer bags are used. And with the likelihood of inter-governmental transfers, bag taxes may just be another way for a state or city to grab general revenue.”

Bobkiewicz said the city government plans to “reach out to grocers and others, distribute information and come back” with a third draft of the ordinance.

Alderman Ann Rainey said the draft “should be presented to the City Council when all the information is gathered and a revised ordinance is written banning all bags.” That could happen this summer.

Montgomery County Tax

Meanwhile, Montgomery County, Maryland on May 3 passed Bill 8-11 imposing a “five cent excise tax on carryout bags provided to customers at retail establishments, and requiring those retail establishments to collect the carryout bag tax and remit the tax to the county,” with 20 percent of the tax rebated to retailers to cover their costs. The tax takes effect on January 1, 2012.

Supporters, including County Executive Ike Leggett, say the tax is discretionary.

“If you don’t want to pay the fee, get a reusable bag,” he told The Washington Examiner. “It’s that simple. It’s not revenue enhancement. It’s not like it’s filling county coffers. It’s easily avoidable.”

Opponents cited possible “unintended negative” consequences from the tax. Michael Faden, senior legislative attorney for the county, raised such possibilities in his memo to county officials: “These include contamination of reusable bags, increased costs to consumers (particularly low-income and elderly), and discouragement of plastic bag recycling.”

Regressive Burden

In a guest editorial in the Washington Post, County Council Member Nancy Floreen wrote the tax “is regressive, placing the heaviest burden on those with the lowest incomes. The added expense of paying the tax or buying reusable bags may not be much of a problem for the wealthy; not so for families already having a hard time making ends meet. I foresee scenes in which residents, perhaps senior citizens, overload their shopping bags to save money, only to spill groceries all over the sidewalk on the walk home. That’s not saving anybody’s environment.”

NANCY FLOREEN, COUNTY COUNCIL MEMBER
MONTGOMERY COUNTY, MARYLAND

“I foresee scenes in which residents, perhaps senior citizens, overload their shopping bags to save money, only to spill groceries all over the sidewalk on the walk home. That’s not saving anybody’s environment.”

By John W. Skorburg

“I foresee scenes in which residents, perhaps senior citizens, overload their shopping bags to save money, only to spill groceries all over the sidewalk on the walk home. That’s not saving anybody’s environment.”

By John W. Skorburg

“I foresee scenes in which residents, perhaps senior citizens, overload their shopping bags to save money, only to spill groceries all over the sidewalk on the walk home. That’s not saving anybody’s environment.”

“I foresee scenes in which residents, perhaps senior citizens, overload their shopping bags to save money, only to spill groceries all over the sidewalk on the walk home. That’s not saving anybody’s environment.”

“I foresee scenes in which residents, perhaps senior citizens, overload their shopping bags to save money, only to spill groceries all over the sidewalk on the walk home. That’s not saving anybody’s environment.”

“I foresee scenes in which residents, perhaps senior citizens, overload their shopping bags to save money, only to spill groceries all over the sidewalk on the walk home. That’s not saving anybody’s environment.”

“I foresee scenes in which residents, perhaps senior citizens, overload their shopping bags to save money, only to spill groceries all over the sidewalk on the walk home. That’s not saving anybody’s environment.”

“I foresee scenes in which residents, perhaps senior citizens, overload their shopping bags to save money, only to spill groceries all over the sidewalk on the walk home. That’s not saving anybody’s environment.”

“I foresee scenes in which residents, perhaps senior citizens, overload their shopping bags to save money, only to spill groceries all over the sidewalk on the walk home. That’s not saving anybody’s environment.”

“If you don’t want to pay the fee, get a reusable bag,” he told The Washington Examiner. “It’s that simple. It’s not revenue enhancement. It’s not like it’s filling county coffers. It’s easily avoidable.”

Opponents cited possible “unintended negative” consequences from the tax. Michael Faden, senior legislative attorney for the county, raised such possibilities in his memo to county officials: “These include contamination of reusable bags, increased costs to consumers (particularly low-income and elderly), and discouragement of plastic bag recycling.”

Regressive Burden

In a guest editorial in the Washington Post, County Council Member Nancy Floreen wrote the tax “is regressive, placing the heaviest burden on those with the lowest incomes. The added expense of paying the tax or buying reusable bags may not be much of a problem for the wealthy; not so for families already having a hard time making ends meet. I foresee scenes in which residents, perhaps senior citizens, overload their shopping bags to save money, only to spill groceries all over the sidewalk on the walk home. That’s not saving anybody’s environment.”

Staff in the county’s department of environmental protection reported they considered the option of a ban but rejected the idea because “a ban takes the choice of using plastic bags away from consumers. Taking away consumer choice was not an option that was acceptable to us.”

John Skorburg (jskorburg@heartland.org) is associate editor of Budget & Tax News and a lecturer in economics at the University of Illinois-Chicago.

INTERNET INFO

State Tax Revenues Continue Trend Toward Recovery

“State tax revenues grew by 7.8 percent in the fourth quarter of 2010, compared to the fourth quarter of 2009... the fourth consecutive quarter that states reported growth in collections on a year-over-year basis.”

States’ tax revenues finished strong in 2010, continuing a trend toward gradual fiscal recovery, according to the Nelson A. Rockefeller Institute of Government’s latest State Revenue Report.

State tax revenues grew by 7.8 percent in the fourth quarter of 2010, compared to the fourth quarter of 2009, according to Rockefeller Institute research and Census Bureau data. This is the fourth consecutive quarter that states reported growth in collections on a year-over-year basis. Forty-two states reported tax revenue growth during the fourth quarter, with nine showing double-digit growth.

Preliminary figures for January and February 2011 indicate further strength in state tax revenues this year. Overall collections in 45 early-reporting states showed growth of 9.5 percent compared to the same months of 2010, and 7.5 percent compared to the same months of 2009.

Local Tax Revenues Lag

Local tax revenues, however, have experienced the reverse. Tax collections by local governments declined by 2.3 percent in the fourth quarter of 2010, mostly driven by declines in property tax collections, the result in part of the lagged impact of falling housing prices on property tax collections. Such a lag in the recession’s impact on local government coffers is somewhat typical, say report authors Lucy Dadayan and Donald J. Boyd.

“Most local governments rely heavily on property taxes, which tend to be relatively stable and respond to property value declines more slowly than income, sales, and corporate taxes respond,” Dadayan and Boyd write.

Property tax collections made up 85 percent of local tax revenues in the fourth quarter of 2010, the report notes.

Need for Caution

Dadayan and Boyd stress the road to fiscal recovery will remain slow and gradual. States collected $715 billion in total tax revenues in calendar year 2010, a gain of 4.3 percent from $685 billion in 2009. However, that 2010 figure was still about $60 billion or 7.8 percent below the levels reported in 2008.

While tax collections in 2010 were promising in most states, 10 states reported declines. Most of the revenue growth in the early part of 2010 was attributable to tax increases imposed during and after the Great Recession, which were disproportionately concentrated in California, Massachusetts, New Jersey, North Carolina, and New York. In more-recent quarters, economic growth appears to have played a more-important role in tax revenue growth.

Focus on Spending Control

Employment and other economic factors that drive state tax revenues remain somewhat weak. Most states are emphasizing spending restraint rather than tax increases for their upcoming budget years, and there appears little chance that significant new federal assistance will be considered in the coming year. Meanwhile, most states will see significant increases in pension costs and some other expenses.

Dadayan and Boyd conclude, “The bottom line: State budgets will likely face continuing pressure at least until the national economy enters a new period of continuing, robust growth.”

— The Nelson A. Rockefeller Institute of Government

INTERNET INFO


Everything you need to know about budget and tax policy

BUDGET & TAX NEWS

www.budgetandtax-news.org

A Web site combining all the best content on budget and tax policy from The Heartland Institute.

- calendar of events
- petitions and calls for action
- the latest video and audio
- blog, Webinars, and video conference opportunities
- RSS feed, podcasts, and email subscriptions
- research and commentary from PolicyBot
- articles from upcoming issues of Budget & Tax News
- archives of past issues of Budget & Tax News
- Heartland Policy Studies and Research & Commentary collections
- links to allies and experts
AFTER YEARS OF DEFICIT FINANCING, CALIFORNIA IS HURTING TOWARD BANKRUPTCY. YET IN THE MIDST OF THE BUDGET TURMOIL, GOV. JERRY BROWN (D) HAS JUST NEGOTIATED YET ANOTHER ROLLS-ROYCE CONTRACT WITH ONE OF THE BIGGEST BENEFICIARIES OF STATE GOVERNMENT: THE PRISON GUARDS’ UNION.

The deal was so friendly that even the state’s mainstream media began to criticize it.

The California prison system employs more people than any other state agency. It has 69,000 authorized positions.

Soaring Costs in California

Between 1998 and 2009, the prison system’s budget almost tripled, reaching $10.3 billion in the latter year—even though the number of people in prison had increased only 9 percent during the period, according to the department’s own figures.

As of 2009, the average annual cost of maintaining an inmate in this system was more than $49,000, of which about a third was spent on health care. That is more than twice what my own excellent health care insurance costs me and my employer, the University of California, even though I, unlike 85 percent of the inmates in California prisons, am over 50 years old and therefore have higher real health care costs than the average California inmate.

Now, if you think this picture is representative only of California, you are right—in a way. Florida, which is demographically comparable in many respects and also has a “modern” prison system, spends about $20,000 per year per inmate, and of that only $4,300 is spent on health care.

But which state has the better prison system? One measure—bleak and basic—of a prison’s success is the extent to which it prevents its denizens from suffering needless death. The latest comprehensive state and national statistics on this, provided by the U.S. Bureau of Justice Statistics, cover the period from 2001 to 2007. They show that California, with 70 percent more inmates than Florida, had almost 500 percent more homicides in its prisons. When homicides are combined with deaths from “accidents” and drug and alcohol intoxication, that percentage is about 550.

Soaring Costs Nationally

According to a recent report from the Pew Center on the States, between 1987 and 2007 state expenditures on prisons rose nationally by 315 percent. During the same period, the number of people in prison rose by 169 percent, according to the Bureau of Justice Statistics.

Any problems with the prisons—and there are a lot of them—are unlikely to be solved by increased taxation and expenditure. At present, it’s difficult to say how much the 50 states spend, per convict, on their prison systems; their reporting methods vary a good deal. The best estimate is something over $30,000 a year. Yet prisons are almost universally regarded as failures by the people who pay for them.

What can be done?

“Private prisons” are a potential means of making penal institutions more efficient and more humane, but they have never succeeded in clearly demonstrating their benefits, mainly because they are commissioned by the state and are governed by its customs and regulations. Under these conditions, private prisons have only so much ability to innovate.

Drug Decriminalization

Another way of getting a hold on “corrections” is to reduce the size of the prison population by decriminalizing drugs. This idea, which is good in itself, would undoubtedly help reduce both crime and the prison population. In 2008, “drug offenses” accounted for 26 percent of new male inmate admissions in California, and 33 percent of new female admissions. California wasn’t far from the national average.

Any patient review of individual inmate records shows that a very large portion of the prison population leaves, never to return, at the end of even a short sentence. Every opportunity must be taken to reduce sentences—no matter what the crime—to the deterrence level. Some habitual criminals, and many criminals of passion, are not deterred even by the prospect of a long sentence, but many other people are deterred just as much by a one-year as by a five-year jolt.

There is a myth, assiduously cultivated by cinematic sensationalists, that prisons are naturally places where people are constantly being murdered and raped, and there is nothing that anyone can do about it. That is a cynical assumption, embraced by both the modern conservatives who demonize “criminality” and the modern liberals who want to feel sorry for “imprisoned people,” without ever getting serious about safety and good order in the prisons.

During the past two centuries, most prisons in America have been incompetently managed. Yet, as demonstrated by the most extensive sociological study of prison operations (Close Control, by Nathan Kantrowitz), prisons can be run in such a way as to maintain safe conditions for both guards and inmates. It takes some rationality, and it takes some dedication, but it doesn’t take as much money as California currently spends on its dangerous, badly administered joints.

By Stephen Cox

“[P]risons can be run in such a way as to maintain safe conditions for both guards and inmates. It takes some rationality, and it takes some dedication, but it doesn’t take as much money as California currently spends on its dangerous, badly administered joints.”

Stephen Cox (sdccox@ucsd.edu) is professor of literature at University of California-San Diego. His most recent books are The New Testament and Literature (Open Court Publishing) and The Big House: Image and Reality of the American Prison (Yale University Press). Used with permission from LewRockwell.com.
A SPECIAL OFFER FOR ADVERTISERS!

Attention Please!
Reach 20,000+ Readers!

Advertise in the September issue of
Budget and Tax News.

You’re invited to spread your message to more than 17,000+ readers!

Budget & Tax News is offering a special Buy any size ad* in the September issue and get 50% off your ad AND we’ll give you October at NO CHARGE!

*Ads must be the same size. Color and premium positioning extra.

Space reservation by June 27 - materials by July 20.

2011 Editorial Calendar

<table>
<thead>
<tr>
<th>Month</th>
<th>Topic</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>Tax and Expenditure Limits</td>
</tr>
<tr>
<td>February</td>
<td>Unions and Government Spending</td>
</tr>
<tr>
<td>March</td>
<td>Public Pension Reform</td>
</tr>
<tr>
<td>April</td>
<td>Income Tax</td>
</tr>
<tr>
<td>May</td>
<td>skip month</td>
</tr>
<tr>
<td>June</td>
<td>Medicaid</td>
</tr>
<tr>
<td>July</td>
<td>Corporate Welfare</td>
</tr>
<tr>
<td>August</td>
<td>Internet and Telecom Taxes</td>
</tr>
<tr>
<td>September</td>
<td>Privatization</td>
</tr>
<tr>
<td>October</td>
<td>Sin Taxes</td>
</tr>
<tr>
<td>November</td>
<td>skip month</td>
</tr>
<tr>
<td>December</td>
<td>Tax Competition</td>
</tr>
</tbody>
</table>

Circulation

<table>
<thead>
<tr>
<th>Category</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local legislators</td>
<td>8,227</td>
</tr>
<tr>
<td>Donors/members/friends</td>
<td>2,542</td>
</tr>
<tr>
<td>Legislators</td>
<td>8,428</td>
</tr>
<tr>
<td>Media</td>
<td>2,296</td>
</tr>
<tr>
<td>Total</td>
<td>21,493</td>
</tr>
</tbody>
</table>

50% off any size ad!

<table>
<thead>
<tr>
<th>Size</th>
<th>Regularly</th>
<th>Now!</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full Page</td>
<td>$2,090.00</td>
<td>$1,045.00</td>
</tr>
<tr>
<td>Junior Page</td>
<td>$1,270.00</td>
<td>$635.00</td>
</tr>
<tr>
<td>Half-page</td>
<td>$1,045.00</td>
<td>$522.50</td>
</tr>
<tr>
<td>Quarter-page</td>
<td>$530.00</td>
<td>$265.00</td>
</tr>
</tbody>
</table>

For more information or a media kit, please call Nikki at 312/377-4000, email ncomerford@heartland.org
With the financial stakes so high, it's no time for policy gambles.

Let Heartland Be Your Ace!

The Heartland Institute is a 27-year-old national think tank dedicated to discovering, developing, and promoting free-market solutions to social and economic problems. In addition to Budget & Tax News, Heartland publishes five other monthly policy publications: Health Care News, School Reform News, InfoTech & Telecom News, Environment & Climate News and FIRE News Policy. These monthly newspapers serve as national outreach tools for the free-market movement. Heartland’s government relations department is in constant contact with thousands of state and federal elected officials on the top policy issues of the day. That is coupled with an active in-house public relations department that authors daily articles, press releases, letters to the editor, and op-eds. Finally, Heartland is home to PolicyBot, an online database of tens of thousands of free-market articles and research on a wide variety of policy issues.

Our combined publishing, government relations, and public relations efforts make us the premier free-market source for legislators, thought and opinion leaders, and concerned citizens.

Yes! I want to become a Heartland Institute donor.

- My check in the amount of $_______ is enclosed.
- Charge $______ to my
  - Visa
  - MC
  - Am Ex

- ACCOUNT NUMBER
- EXPIRATION DATE

- SIGNATURE

- NAME
- HOME PHONE

- TITLE/COMPANY
- WORK PHONE

- ADDRESS

- CITY/STATE/ZIP
- EMAIL

- Please do not list my name as a sponsor in the Annual Report.
- Please do not share my name with other organizations.

The Heartland Institute is an independent nonprofit organization founded in 1984. Contributions are tax deductible under Section 501(c)(3) of the Internal Revenue Code.

Please return this form to:
The Heartland Institute
19 South LaSalle St. #903
Chicago, Illinois 60603
fax 312•377•5000

BTN 7/11