Pennsylvania’s Corrupt Court
It’s been called the most corrupt court in Pennsylvania, and soon it may be no more.

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Cook County Debt Burden
The 518 taxing districts in Cook County, Illinois have a combined “financial burden” of almost $34 billion—an average of $17,147 per county household.

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Ohio Project Labor Agreements
An Ohio lawmaker says a simple change to state law could save 20 percent on government building projects.

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Congressional Budget Cutters
Congress saw significant turnover between its 111th and 112th incar- nations. The release of the National Taxpayers Union Foundation’s (NTUF) “BillTally” report shows what the political transition has meant.

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$85M for $60M Building
Florida recently gave Hertz Corp.$85 million in incentives to move from New Jersey and build a $60 million headquar- ters.

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Around Much of the World, U.S. Is Considered a Tax Haven

By Steve Stanek
Some international tax experts note a big irony in a U.S. Senate subcommittee recently taking Apple Inc. to task for allegedly using “offshore tax havens” to avoid paying U.S. taxes on foreign income.

They note more irony in continued U.S. government pressure to compel overseas banks to give up information on Americans with bank accounts in the belief those people may be hiding money from the taxman.

The irony: Much of the world considers the United States to be one of the world’s biggest tax havens.

“Some international tax experts note a big irony in a U.S. Senate subcommittee recently taking Apple Inc. to task for allegedly using “offshore tax havens” to avoid paying U.S. taxes on foreign income. They note more irony in continued U.S. government pressure to compel overseas banks to give up information on Americans with bank accounts in the belief those people may be hiding money from the taxman.”

The irony: Much of the world considers the United States to be one of the world’s biggest tax havens.

The U.S. happens to be one of the most [attractive] offshore havens in the world, and the reason is, it’s very easy for anybody in the world today to set up, let’s say, a Delaware Corporation,” said Jim Duggan, a tax, wealth, and estate planning attorney with the Duggan Bertsch

TAX HAVEN, p. 2

Obamacare Leads States and Cities to Consider Dumping Employees, Cutting Back Hours

By Loren Heal
As the employer mandate of President Barack Obama’s health care law goes into effect in the coming months, fiscally strained state and local governments are considering forcing some of their employees onto the new federal health insurance exchanges, while others will cut back hours and add part-timers to avoid hefty penalties for failing to provide adequate insurance.

Chicago Dumps Employees
The city of Chicago is the most prominent

entity shifting retired workers from the city’s rolls and onto the exchanges, effectively moving them from the rolls of city taxpayers to the federal government.

Mayor Rahm Emanuel’s move, slated to go into effect January 1, 2014 at the same time as Obama’s exchanges, is an attempt to address a roughly $20 billion gap between funds and liabilities in city pensions and retirement plans plus an additional $805 million shortage in retiree health care funds.

DUMPING, p. 3

“It would be financially better for Washington state to put its employees into the state exchange and let the federal taxpayers subsidize the employees’ health benefits.”

DR. ROGER STARK
HEALTH CARE POLICY ANALYST
WASHINGTON POLICY CENTER

The Monthly Newspaper for Elected Officials and Taxpayers
Much of the World Considers U.S. a Tax Haven

Continued from page 1

LLC law firm in Chicago. “You can do it online. You have to give very little information to get it up and running. And Delaware’s not alone. There are other states where you can do it as well.”

‘Lowest Hurdle to Hide Wealth’
“But if you’re a U.S. citizen and you go offshore to try to set up a company or a bank account, there are tremendous amounts of [U.S. government-mandated] due diligence and know-your-client information [banks must follow and obtain]. ... They have to comply with the PATRIOT Act, and now they have to worry about FATCA [Foreign Account Tax Compliance Act] compliance. We are actually probably the lowest hurdle to creating structures to hide wealth in the world,” Duggan said.

He’d get no argument from Kevin Packman, chairman of the Offshore Tax Compliance Team at the Holland & Knight international law firm.

“There are a number of countries that have said the U.S. is the biggest tax haven in the world,” Packman said. “There’s something to be said for that view.”

He noted there are many countries where people are rightly concerned about government moves to impose confiscatory taxes or seize assets. They view the United States as more respectful of property rights and therefore look for ways to move investments into the U.S., including by setting up Delaware or other corporations, and parking money in U.S. banks.

“It’s really hit or miss with many countries, especially in South America,” Packman said. “They have the Crazy of the Month down there. We used to joke [the late president of Venezuela, Hugo] Chavez was good for business because of the number of people from there who were coming here with their money. Issues in Mexico are pushing people over here, too.”

U.S. Seeks Money Everywhere

Packman points out the United States “is one of only three countries” that taxes worldwide income. No other industrialized nation does that, using territorial tax systems instead.

In a territorial tax system, tax is paid wherever income is earned. So, for instance, Germany would not try to tax income earned in the United States by German carmaker Volkswagen. That money would be taxed in the U.S.

Under the nearly unique worldwide tax system the United States uses, the U.S. claims power to tax income earned by Ford or other U.S. companies in Germany or anywhere else. If Ford or other U.S. companies were to “repatriate” income earned in other counties, where tax was already paid, the U.S. government would tax that money.

There is a foreign tax credit to offset some of the U.S. tax the corporation would otherwise have to pay. The U.S. has a 35 percent federal corporate income tax. If a corporation in the 35 percent tax bracket were to repatriate $1 million of income earned abroad, it would owe $350,000 in federal tax. But if it had already paid, say, $250,000 in tax to the country where the income was earned, it would pay another $100,000 in U.S. tax.

Though the U.S. waits to tax most foreign earnings when they are repatriated, it does tax “passive” income, which includes many types of investment income.

Apple Paid $6 Billion in Tax
In May 2013 Apple executives including CEO Timothy Cook testified the company is “a powerful engine of job creation in the United States” that “pays an extraordinary amount in U.S. taxes.” Apple’s U.S. tax bill last year was approximately $6 billion.

Over the past four years Apple has earned about $44 billion in overseas income. “Apple has substantial foreign cash because it sells the majority of its products outside the U.S.,” the company said.

Subcommittee Chairman Carl Levin (D-MI) complained “Apple wasn’t satisfied with shifting its profits to a low-tax, offshore tax haven. Apple sought the Holy Grail of tax avoidance.”

Even U.S. citizens are subject to worldwide taxation. The Foreign Account Tax Compliance Act, which goes into effect January 1, 2014, requires every foreign bank, insurance company, or other financial institution to report all U.S. citizens with which they do business, “or we’ll impose a 30 percent withholding tax on you. A great portion of that would have been tax-exempt, now it will be a blanket 30 percent” unless they report on their U.S. customers, said Packman.

He said there are many legitimate reasons for Americans to have overseas accounts.

“If you go abroad as a student, you’ll need a bank account,” Packman said. “What if you do a lot of business overseas or you’re a corporate executive and you’re sent abroad for work? You’ll have to put that on a FBAR [Foreign Bank and Financial Accounts Report] and 1040 tax form. I have clients who want foreign accounts for diversification because they’re afraid the U.S. market will fall apart. Few people have a foreign account to evade tax.”

Steve Stanek (sstanek@heartland.org) is a research fellow at The Heartland Institute and managing editor of two Heartland publications, Budget & Tax News and FIRE Policy News.
Obamacare Leads States, Cities to Consider Dumping Employees

Continued from page 1

Public employee unions have resisted the move, which would shift tens of thousands of retired state workers from their current health plans and doctors to new coverage in the exchanges.

“This uncertainty will cause anxiety and fear for tens of thousands of seniors who gave their working lives to public service,” said Henry Bayer, American Federation of State, County, and Municipal Employees Council 31 executive director, told the Chicago Tribune.

Sen. Ron Johnson, a Republican from Wisconsin, also criticized the move.

“Not long ago, Rahm Emanuel worked for a president who told Americans, ‘If you like your health care, you can keep it.’ Unfortunately, the way Obamacare is designed incentivizes employers to cancel coverage, change health care plans, or simply dump workers into Obamacare exchanges against their will,” Johnson said.

“While White House Chief of Staff Emanuel may have denied that, Mayor Emanuel’s actions demonstrate it.”

Other States Take Steps

Other states have taken steps to dump employees or cut back hours. Virginia, for example, is requiring all part-time employees to work fewer than 30 hours, the threshold at which the state can avoid penalties for not providing health insurance coverage, according to Donna Holt, executive director of the Virginia Campaign for Liberty.

“A letter has gone out to every state agency stating that all hourly employees are prohibited from working more than 29 hours a week on average over the course of a year,” Holt said, in order to “avoid the implementation of Obamacare for state employees.”

Dr. Roger Stark, a health care policy analyst at the Washington Policy Center, said his state is likewise trying to cut its costs.

“Washington state provides health care benefits to its full- and part-time employees. The state has a budget shortfall of between $2 and $3 billion,” Stark said. “It would be financially better for Washington state to put its employees into the state exchange and let the federal tax payers subsidize the employees’ health benefits.”

There may be contractual obligations that could get in the way, Stark said, though the state employee unions have not yet taken a position on the idea.

Stark said the plan makes the situation worse for employees—“potentially much worse financially, and worse as far as the specific plans are concerned.”

Work Time Cut Back

Devon Herrick, a health care policy analyst at the National Center for Policy Analysis, said state and city governments are responding just as any employer would, “by analyzing the marginal costs of their workforce.”

“You have someone who works 31 hours a week, and you suddenly realize you have to pay $4,000 or $5,000 more for an extra 50 hours worked over the course of a year, you think the marginal hours, say it’s 52 hours versus $5,000 in additional benefits, well, you just jacked up the marginal cost of compensation to $100 an hour,” Herrick said.

Herrick said some employers may soften the blow by adding compensation through another benefit, such as increased vacation time or higher 401(k) matching.

“It’s a little mindboggling to me,” Herrick said, “that the architects of the [Affordable Care Act] didn’t stop to think, back three years ago, that these kinds of things would occur. Common sense would dictate that they would have thought about that. They must not have, because supporters seem to be expressing wonderment, or surprise, or amazement when they hear about firms scaling back, fast food restaurants trying to scale back their workforce, especially their part-time workforce, from say, 32 hours to 29.

“It may not seem like much, a couple of hours a week, but it makes a huge difference to someone on a meager income,” Herrick said.

Governments Are Employers Too

Ed Haislmaier, senior research fellow for health policy studies at The Heritage Foundation, said states are simply behaving rationally.

“I would not be at all surprised for states to do that. They have all the same incentives as private-sector employers,” Haislmaier said. “All of this comes down to a calculation on the employer’s part: Can I get the workers I want, for a cheaper price? Cheaper doesn’t do you any good if you lose the workers, but on the other hand, if you can pay less and still get the workers you need, cheaper is better.”

Haislmaier said small municipalities with fewer than 50 workers will face some of the most difficult decisions about dropping coverage.

“People in that situation are likely to be in some sort of multiple employer arrangement for municipal government, run by the state or some other entity, where they all sort of pool together,” said Haislmaier. “Under Obamacare, Andy and Barney are going to lose their plan, because Mayberry is going to drop them into the exchange.”

Loren Heal (loren.heal@gmail.com) is a research programmer at the University of Illinois at Urbana-Champaign and a reporter for The Heartland Institute.
Pennsylvania’s ‘Most Corrupt Court’ Could Be Closed

By Gary Joseph Wilson

It has been called the most corrupt court in Pennsylvania. And now it soon could be no more.

After some passionate dissent from Philadelphia-area Democrats, the state House on June 4 voted 117–81 to pass Senate Bill 333, which begins the process of amending the Pennsylvania Constitution to end the Philadelphia Traffic Court’s existence.

The drive to amend the state constitution came after a wave of scandals in the court.

In January, nine current and former judges of the court were indicted for their alleged roles in a ticket-fixing scheme. The judges are accused of unfairly favoring politically connected friends, business associates, and family and dismissing tickets in exchange for personal favors.

Three Guilty Pleas
Former Traffic Court judges Fortunato Perri Sr., H. Warren Hogeland, and Kenneth N. Miller pleaded guilty to conspiracy and mail and wire fraud in connection with the scandal.

Perri received a free patio, discounted lawn services, and other perks as payment for fixing tickets.

Senate Majority Leader Dominic Pileggi (R-Chester) sponsored successful legislation to kill the court, saying there was no “good reason for taxpayers to continue footing the bill for a court that is unnecessary and has become an embarrassment to the state’s judicial system.”

State Rep. Ronald Waters (D-Philadelphia) argued against the proposed constitutional amendment, saying the legislature should “not throw the baby out with the bathwater.” Waters said although it was fair to criticize the corrupt Traffic Court judges, attacking the institution of the court will only hurt Philadelphians.

Even with the legislative vote, amending the state constitution is an arduous process that takes a minimum of two years and eventually requires a voter referendum.

Traffic Court Transfer

In the interim, the state House on June 5 approved Senate Bill 334, which would shutter the Traffic Court and transfer its responsibilities to a newly established Traffic Division within the Philadelphia Municipal Court.

SB 334 requires Gov. Tom Corbett’s signature to become law. SB 333 does not because it is a proposed constitutional amendment.

The Philadelphia Traffic Court is composed of seven elected judges. There are no real requirements—such as holding a law degree—to be a judge on the court.

Judges on the Philadelphia Traffic Court are paid $91,764 and receive state benefits.

Lynn Marks, executive director of Pennsylvanians for Modern Courts, said SB 334 will transfer sitting Traffic Court judges to the Traffic Division of Municipal Court, but “the bill does not address the duties of these judges.”

Marks stressed that for reform to be successful, the new Traffic Division will need “mechanisms in place to hold the hearing officers accountable for their behavior,” such as a complaints process and performance review program.

The Pennsylvania Senate Appropriations Committee said the state could save $650,000 in the coming fiscal year through judicial reorganization. The committee also said amending the state constitution would cost between $2 million and $3 million.

Lawyers Need Not Apply

Interestingly, Pileggi’s bill does not require the new Traffic Division judges to be lawyers, although it does require they complete a course in traffic law.

Erik Arneson, spokesperson for Pileggi, said this was done to ensure the traffic court judges are kept “analogous to district judges,” who also are not required to hold law degrees in Pennsylvania.

State Rep. Michael McGeehan (D-Philadelphia) criticized the legislature for singling out Philadelphia and focusing only on “transitory problems in the Philadelphia Traffic Court.” McGeehan cited a lengthy list of other judicial misdeeds and argued real reform would come only through requiring district judges to be lawyers.

Will Pileggi’s reform at least end ticket-fixing? Not everyone is optimistic.

John Bowman, communications director of the National Motorists Association, said corruption related to traffic laws is nothing new.

Corruption “tends to thrive when there are enough unreasonable and arbitrary laws on the books that nobody gives a second thought to giving someone a break,” he said.

Gary Joseph Wilson (gary@pa independent) reports for the Pennsylvania Independent, where this article first appeared. Used with permission.
Government Spending Fails to Stimulate Hiring

By Mark Ahlseen

The recent economic performance in Europe casts doubt on the assumption that government can alleviate downturns in economic activity by spending large amounts of taxpayer money that will stimulate employment.

Nations that have made free-market reforms and have imposed government spending cuts, such as Germany, France, and England, are faring much better than those, such as Italy, Greece, and Spain, that still struggle under Keynesian and socialist ideas of centralized planning and deficit spending.

A cursory analysis of OECD data confirms this contention. I found the requisite statistical data for the 30 nations listed in Table 1. The first regression, listed in Table 2, runs 2007 government expenditures (as a percentage of GDP) as the independent variable against 2007 unemployment rates. But these last two regressions give greater statistical support for higher government spending than for higher unemployment rates causing higher government spending.

To determine whether dynamic influences had any impact, the next two regressions were run. That is, did a nation with a large government sector that has undertaken austerity measures but still has a large government sector relative to other nations in the study find its unemployment rate falling or rising? Here, the findings indicate increasing government spending (as a percentage of GDP) will increase the nation’s unemployment rate.

The first of these two regressions uses changes in government expenditures from 2000 to 2005 as the independent variable against changes in the unemployment rates from 2000 to 2005. Here a positive slope parameter of 0.35 was found with a p-Value of .3566.

Interestingly though, this p-Value is lower (signifying a higher level of statistical confidence) than the p-Value found when running the third regression, 2005 unemployment rates as the independent variable against 2007 government expenditures. This suggests there is greater support for higher government spending causing higher unemployment rates than for higher unemployment rates causing higher government spending.

Table 1.

<table>
<thead>
<tr>
<th>Country</th>
<th>Government Spending as a percentage of GDP</th>
<th>Unemployment Rate</th>
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<tr>
<td>Australia</td>
<td>35.19</td>
<td>34.76</td>
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<td>Austria</td>
<td>52.20</td>
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<td>Belgium</td>
<td>49.15</td>
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<td>Canada</td>
<td>41.11</td>
<td>39.30</td>
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<td>Chile</td>
<td>22.30</td>
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<td>Czech Republic</td>
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<td>44.65</td>
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<td>Denmark</td>
<td>53.28</td>
<td>52.51</td>
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<tr>
<td>Finland</td>
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<tr>
<td>France</td>
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<td>Germany</td>
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<td>Greece</td>
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<td>Hungary</td>
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<td>Iceland</td>
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<td>Italy</td>
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<td>Japan</td>
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<td>Luxembourg</td>
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Table 2.

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<td>2005 Government Expenditures</td>
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<td>3</td>
<td>2005 Unemployment Rate</td>
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By mark Ahlseen (mahlseen@shorter.edu) is associate professor of economics at Shorter University in Rome, Georgia.
The American Center for Law and Justice filed a federal lawsuit in Washington, DC on behalf of more than two dozen conservative groups across the country.

The 29-page lawsuit filed in late May names the U.S. attorney general, Treasury secretary, and Internal Revenue Service—including top IRS officials—as defendants. The lawsuit comes after a May 10 admission and apology from Lois Lerner, head of the IRS unit overseeing tax-exempt groups, that Tea Party groups were wrongfully targeted.

The admission may have confirmed what Tea Party and conservative group leaders already believed: The Obama administration used the IRS to harass and intimidate groups viewed as a political threat.

Jay Sekulow, chief counsel of the American Center for Law and Justice, said the IRS and the federal government will not get away with unlawful targeting of conservative groups.

He maintained the “unconstitutional scheme” continues and legal action is the only way to stop the abuse.

‘Not Going to Be Bullied’

“The lawsuit sends a very powerful message to the IRS and the Obama administration, including the White House: Americans are not going to be bullied and intimidated by our government,” Sekulow said. “They will not be subjected to unconstitutional treatment and unlawfully singled out and punished because of their ideological beliefs. Those responsible for this unprecedented intimidation ploy must be held accountable.”

Adrienne King, head of the Honolulu Tea Party on Oahu, joined the lawsuit because the IRS apology was insufficient, she said.

King, an attorney, was shocked and angered last year when she received an inquiry from the IRS demanding she provide detailed information on Tea Party activities, materials, pictures, videos, and names of speakers and attendees, as well as copies and recordings of speeches made during events. The IRS also demanded to know how the speakers were selected, how much time was devoted to each speaker, and the topics they discussed.

The Maui Tea Party on Maui and Hawaii Tea Party on Hawaii Island received similar letters. The local Tea Party groups previously retained the American Center for Law and Justice to help them combat what they saw as a troubling inquiry. The Maui Tea Party is not named in the lawsuit.

IRS Violated Own Rules

The federal lawsuit claims the Obama administration overstepped its authority, violating the First and Fifth amendments of the U.S. Constitution and the Administrative Procedure Act. The lawsuit also says the IRS violated its own rules and regulations.

Also named as defendants in the lawsuit: U.S. Attorney General Eric Holder; the Internal Revenue Service; Treasury Secretary Jacob Lew; Steven Miller, former acting commissioner of the IRS; Lois Lerner, director of Exempt Organizations Division for the IRS; and Holly Paz, director, Office of Rulings and Agreements.

The plaintiffs are asking the court to issue a declaratory judgment to confirm the defendants delayed and obstructed the organizations’ applications for a determination of tax-exempt status.

The lawsuit seeks to protect conservative groups and their officers and directors from “further IRS abuse or retaliation.” It also seeks monetary damages.

13 of 25 Okayed

Of the 25 groups represented in the lawsuit, 13 received tax-exempt status after lengthy delays, 10 are still waiting, and two withdrew applications “because of frustration with the IRS process.”

Although Lerner said only a couple of rogue IRS agents in the Cincinnati office initiated the abusive behavior and were subsequently stopped, the American Center for Law and Justice said it has evidence the tactics were used in other IRS offices, including the headquarters in Washington.

The American Center for Law and Justice obtained letters that show Lerner was personally involved in sending “invasive questionnaires” to 15 of its clients in March 2012, nine months after she says she learned about the scheme and pledged to stop it.

More than 100,000 Americans have called on the president and members of Congress to end the IRS abuse, Sekulow said.

Malia Zimmerman is president and editor of Hawaii Reporter. Reprinted with permission of Watchdog.org.
By John Skorburg

A recent audit by the Chicago Inspector General’s Office concludes the city “could not substantiate a safety motive” for traffic enforcement cameras. The IGO also uncovered some glaring inefficiencies in running the program.

The IGO audit’s findings can be summarized in two simple points. According to the report:

1) “First, CDOT was unable to substantiate its claims that the City chose to install red-light cameras at intersections with the highest angle crash rates in order to increase safety. Neither do we know, from the information provided by CDOT, why cameras in locations with no recent angle crashes have not been relocated, nor what the City’s rationale is for the continued operation of any individual camera at any individual location.”

2) “Second, our audit uncovered little evidence that the overarching program strategy, guidelines, or appropriate metrics are being used to ensure the RLC program is being executed to the best benefit of the City or the general public. Specifically, we found a lack of basic recordkeeping and an alarming lack of analysis for an ongoing program that costs tens of millions of dollars a year and generates tens of millions more in revenue.”

“The City cannot effectively manage its programs unless it measures its programs,” said Inspector General Joe Ferguson in a statement. “In addition to finding that the City cannot prove RLC installation locations are based on safety considerations, we discovered a striking lack of basic recordkeeping and analysis for this $70 million program.”

The city’s official position, spelled out on its Web site, states, “Red light camera enforcement is designed to increase safety on Chicago streets. Cities across the country, and throughout the world, have been using the technology for many years.”

Senator: It’s About Money

Illinois State Sen. Dan Duffy (R-Barrington), who has sponsored bills to ban red-light cameras, says the cameras are about revenue, not safety.

“Ninety percent of tickets statewide are written for right turn on red, and that is not a high-risk activity,” he said.

In a statement on his efforts to ban red-light cameras, Duffy notes, “A 2001 National Highway Transportation Safety Administration report entitled Analysis of Crossing Path Crashes revealed a typical motorist ‘could drive a billion miles before being involved in an accident that resulted from a motorist making a rolling stop on a right-hand turn.’”

Duffy has continued his crusade in the current legislative session by sponsoring Senate Resolution 314, which “urges any municipality operating unconstitutional red-light cameras to remove them immediately.”

The resolution also urges Illinois counties to investigate Redflex, a red-light camera company currently under federal investigation for allegedly bribing Chicago transportation officials to win the city’s business. The resolution further “urges all relevant entities to void all tickets issued in Chicago, the surrounding collar counties, and Madison and St. Clair counties [around and near East St. Louis] due to criminal activity and issue refunds for the fines to the citizens who paid them.”

Studies Question Cameras

Brian Costin of the nonpartisan Illinois Policy Institute led a successful effort to have red-light cameras removed from his hometown of Schaumburg, Illinois and has helped others who oppose the cameras by posting material on the institute’s Web site at IllinoisPolicy.org.

“All elected officials have embraced red-light traffic enforcement cameras, purportedly as a safety tool, a survey of red-light camera studies shows there are at least nine that raise significant concerns about the cameras, finding they increase accidents instead of preventing them,” he writes on the site.

He continued, “Supporters of the cameras claim they make intersections safer by reducing accidents, and they say any money made from the cameras is merely incidental to the primary focus of making intersections safer. Some research studies show the cameras improve safety, while just as many others show the cameras have little or no effect.”

John Skorburg is an associate managing editor of Budget & Tax News and a lecturer in economics at the University of Illinois at Chicago.
By Matthew Glans

The 518 taxing districts in Cook County, Illinois have debts that impose a combined “financial burden” of almost $34 billion—an average of $17,147 per Cook County household—according to a study by The Heartland Institute and Institute for Truth in Accounting.

With a population of 5.2 million persons, Cook County is the nation’s second-most populous county and includes the City of Chicago.

Thirteen of the municipalities have a worse financial burden than Stockton, California, a city of 300,000 residents that is currently in bankruptcy, the report notes. “The Municipal Government Debt Crisis” report finds the financial conditions of many Cook County taxing bodies are far worse than residents know, because of misrepresentations by local officials.

“This study is the first comprehensive analysis of Cook County’s taxing districts. It reveals how officials in many districts have been misrepresenting their financial conditions by telling citizens their budgets were ‘balanced,’ when in fact they have been accumulating an overwhelming amount of debt,” said study coauthor Sheila Weinberg, founder and CEO of the Institute for Truth in Accounting.

The report examines local governments ranging from tiny mosquito abatement districts to the City of Chicago. Over-ambitious building projects and growing employee and retiree pension and health insurance costs are big factors in the financial burdens, the report states. Weinberg also says many municipalities have not followed proper accounting principles and have lacked “truth in accounting” when setting their budgets.

For instance, to give the appearance of balanced budgets, some local governments have used deferred compensation schemes to shift current costs onto future taxpayers. Also, many local governments have not provided adequate funding for retirement costs. In recent years, many have increased retirement benefits without a corresponding increase in funding.

According to the report:

- the current unfunded pension liability for the Cook County taxing districts totals $31.07 billion;
- unfunded liabilities for retirees’ health care benefits total $7.18 billion;
- other debts and liabilities total $24.88 billion;
- the total amount of debts and liabilities tops $63.1 billion; and
- local taxing districts have just $29.41 billion of assets to pay bills, resulting in an unfunded financial burden of more than $33.7 billion.

The growing liabilities many local governments face may be even greater than most people realize, because accurately determining the true financial status of many local governments is complicated by the fuzzy math they use to balance their budgets.

Off-Balance Sheet Accounting

The report found many local governments have used accounting gimmicks to hide debts and liabilities. According to the study, more than $27.1 billion worth of retirement liabilities are maintained off-budget in the county. Although the Governmental Accounting Standards Board has set rules requiring governments to report these liabilities, Weinberg says the rules have been loosely enforced.

The five most heavily burdened municipalities in Cook County, according to the study, are the villages of McCook (with a per-household financial burden of $316,671), Bedford Park ($259,320), Rosemont ($90,468), Hodgkins ($22,990), and Melrose Park ($19,352).

The Illinois state government already has the nation’s worst credit ratings and worst unfunded pension liabilities, conservatively estimated at nearly $100 billion. When the combined local, state, and federal financial burdens borne by Cook County taxpayers are added together, they show a staggering burden.

The financial burden of the Illinois state government is $32,905 per household. The financial burden created by the federal government is $574,042 per household. Adding these burdens to the financial burdens of Cook County’s 518 taxing districts means the total financial burden on the average household is $624,094.

‘More Tax Increases or Bankruptcies’

Report coauthor John Nothdurft, director of government relations for The Heartland Institute, warned of the long-term consequences of growing local government debt.

“The current fiscal state of many of the county’s municipalities is unsustainable, and citizens will continue to see more tax increases or municipal bankruptcies unless drastic pension and spending reforms are made,” he said.

The municipalities with the heaviest financial burdens—McCook, Bedford Park, and Rosemont—have spent fortunes on economic development, often through the use of tax increment financing (TIF) programs that freeze tax receipts to schools and other local governments to pay for redevelopment of blighted areas.

“A lot of it is a result of bond issues,” Nothdurft said. “They all have a very big TIF district. Basically, they took out money to do renovations or economic development in their community, and they say because of these things, we’re going to be able to pay off this huge bond we took out over time. ... The tax revenues from these districts have not come in as fast as they probably would have liked.”

Nothdurft says disappointing TIF district performance is not uncommon, so he was not surprised by that. But he was surprised by the number of supposedly well-managed suburban cities and villages with sizable financial burdens.

“One hundred and two of the 126 suburban municipalities have a negative balance sheet, so they have some type of financial burden. It was overwhelmingly the biggest chunk of the taxing districts that were in bad shape. ... I think it shows that people need to start asking their local city council or village board or township, ‘Why are we building this convention center or things like that?’ There’s a lot of debt there that I think gets swept under the rug.”

Matthew Glans (mglans@heartland.org) joined the staff of The Heartland Institute in November 2007 as legislative specialist for insurance and finance. In 2012 Glans was named senior policy analyst.

13 Cook County Municipalities in Worse Shape than Bankrupt Stockton, Calif.
Illinois Credit Ratings Sink as Its Worst-in-Nation Pension Problems Persist

By Ben VanMetre

Illinois has an unfunded pension liability of nearly $100 billion—the worst in the nation, according to official government numbers.

The problem grows by $21 million every day lawmakers fail to enact reform. This debt growth, coupled with the fact that the quickly growing pension payments continue to crowd out resources for core government services, should have been reason enough for lawmakers to enact reform during the recent spring legislative session.

Instead, political leadership punted on pension reform in the legislative session ended May 31—a move that resulted in back-to-back credit rating downgrades.

Fitch Ratings Downgraded Illinois’ Credit
Fitch Ratings downgraded Illinois’ credit rating to A- from A, calling the state’s pension liability “unsustainable.” The agency said it was concerned about the state being able to deal with its “numerous fiscal challenges.”

Moody’s Investors Service quickly followed suit and downgraded Illinois’ rating to A3 from A2. The rating agency also said it has a negative outlook on Illinois’ credit.

That makes 13 downgrades since Gov. Pat Quinn (D) took office in 2009. Illinois’ rating stands only a few notches away from junk-bond status ...

"Another Reason Not to Invest"

“The biggest issue surrounding these credit downgrades is the message they send to investors, job creators, and entrepreneurs,” said Ted Dabrowski, vice president of policy at the Illinois Policy Institute. “Illinois’ rock-bottom economic outlook for government workers, their future are at great risk.”

Behind the borrowing, tax grabs, and downgrades is the core of Illinois’ pension problems: the defined benefit model. Illinois’ pension systems are in such crisis because lawmakers have continued growing the defined benefit plan instead of following the lead of 85 percent of the private sector by embracing 401(k)-style retirement plans.

The only way to turn around the seemingly endless cycle of credit downgrades and set the stage for a brighter future in Illinois is through real reform. Illinois can prosper if lawmakers eliminate the defined benefit system.

Plan to Halve Pension Debt
A pension solution was introduced during the recent spring session that would solve the problem: House Bill 3303 (and accompanying Senate Bill 2026). That plan would cut unfunded pension debt in half and includes a 401(k)-style defined contribution plan as the main pillar of its reforms, while protecting benefits already earned by government workers.

A comprehensive pension solution focused on 401(k)-style retirement plans is a necessary first step in ending the cycle of credit downgrades and setting the foundation for a positive economic outlook for government workers, taxpayers, and businesses in Illinois.

Ben VanMetre (bvanmetre@illinoispolicy.org) is senior budget and tax policy analyst at the Illinois Policy Institute.
Unions Warping State Finances for Their Own Gain

By Ryan Murphy

When politicians have the choice between raising taxes and cutting benefits for public-sector employees, they choose to ignore both, according to a new study by the Beacon Hill Institute at Suffolk University, "The Public Sector 'Union' Effect: Pushing Up Unfunded Pension Liabilities and State Debt."

Instead, politicians kick the can down the road, borrowing for promises they cannot keep.

Illinois Worst of the Bunch

By way of example, Illinois has the 13th highest percentage of its public-sector employees unionized among the 50 states. Just under 50 percent of public-sector employees in Illinois are unionized.

The Beacon Hill study attributes $50 billion of the state’s $136 billion public debt to the prominence and power of public-sector unions. In addition, it links Illinois’ powerful unions to poor planning by the state to pay for its unfunded liabilities—the promises to pay pensions and retiree health benefits in the future.

As of fiscal year 2010, according to the Pew Center on the States, there was a $1.38 trillion gap nationwide between states’ assets and what they have promised to pay. Pew gave Illinois its worst rating.

$78 x State’s Population

The Beacon Hill Institute’s conclusions follow a two-part study establishing a link between the presence of public-sector unions and poor state fiscal governance.

Americans witnessed the struggles of Wisconsin in 2010 to overcome this force—and with the unions stripped of their power, Wisconsin is the only state to have fully addressed both pensions and retiree health benefits, according to Pew.

The Beacon Hill study puts a dollar figure on the unions’ effect. For each percentage point of public-sector employees who are unionized, the state and local government debt per-capita will be $78 higher. In other words, if the percentage of public-sector employees who are unionized increases from 25 percent to 26 percent, we would expect debt in the state to increase by $78 multiplied by the population of the state.

In the second part of its study, Beacon Hill quantitatively linked the presence of public-sector unions with poor management of unfunded liabilities. The Beacon Hill study relies on Pew’s evaluation of unfunded liability management.

For both pensions and retiree health benefits, Pew rated each state’s management as “serious concerns,” “needs improvement,” or “solid performer.” Using those evaluations, Beacon Hill created an index from 0 to 4, with 4 being the highest rating. A state with a 4—like Wisconsin—is a solid performer in both pensions and retiree health benefits. A state with a 0—such as Illinois—has serious concerns regarding both. A state with a 1 has serious concerns in one area and needs improvement in the other. Beacon Hill considers a 0 or 1 to be a very poor rating, demonstrative of refusing to take the issue of unfunded liabilities seriously.

Beacon Hill finds a one percentage point increase in the percentage of public-sector union employees makes a state about 1 percent more likely to receive a very poor rating. The percentage of public-sector employees who are unionized ranges from 8.8 percent in North Carolina to 71.1 percent in New York. With such great differences in unionization rates, one should expect public-sector unions to have a tangible, visible impact on how well unfunded liabilities are addressed.

High Unionization, Big Debts

North Carolina is an example of a state that has its finances in order. Pew approves of its management of pensions while noting it needs improvement in its plans for retiree health care obligations. North Carolina carries about $5,400 in state and local debt per-capa, 12.8 percent of which Beacon Hill attributes to public-sector unions.

In comparison, 58.7 percent of California’s public-sector employees are unionized. Both its pensions and retiree health care benefits raise serious concerns. Its debt per-capita is about $10,700, nearly double that of North Carolina. Beacon Hill attributes 42.8 percent of California’s debt to its public-sector unions.

These examples illustrate what happens when states fail to curb the power of Big Labor, reforms recognized as necessary in the private-sector decades ago.

Misplaced Blame on Economy

Defenders of public-sector unions blame the financial crisis for the states’ unfunded liabilities. Although economic growth rates are not what they once were, the stock market already has returned to its previous heights ... and unfunded liabilities remain a crushing problem. And if the financial crisis is still placing an undue burden on the U.S. economy, policymakers certainly cannot ignore that fact when making decisions regarding state finances.

States with an unfunded liability problem tend also to be the ones with a public debt problem, as both issues are caused in part by public-sector unions. Leaving unfunded liabilities unaddressed will force drastic increases in tax rates or cuts in basic services. And because these states are heavily indebted already, there will be little wriggle room when budgets become undone.

Wisconsin is the example to follow for states that want to manage their finances responsibly. Concerned citizens and policymakers have an obvious place to look when searching for a culprit for poor state fiscal management: powerful public-sector unions.

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INTERNET INFO

Ohio Lawmaker Seeks End of Project Labor Agreements

By Maggie Thurber

An Ohio lawmaker is offering a simple change to state law that could save 20 percent on building projects and give more companies a chance to compete for work with the state and local governments.

State Rep. Ron Young (R-Leroy) is the lead sponsor of a bill that would do away with a state-level requirement for Project Labor Agreements, or PLAs, on all publicly funded construction projects. Those agreements are essentially collective bargaining deals signed with one or more labor organizations to establish the terms and conditions of employment for a specific construction project.

Most PLAs require all employers, whether or not they’re a union shop, to pay union dues and contribute to union pension and health benefit plans on behalf of their workers. Some opponents call PLAs “forced unionization.”

‘It’s Blatantly Unfair’

Young says state agencies should be required to review each proposal without discriminating, and he sees PLAs as discrimination in favor of a specific group—in this case, unions.

“For anyone to say you have to be a member of a certain group to participate—whether it’s Elks or Masons or unions—it’s just wrong,” he said.

“It’s blatantly unfair,” he continued. “These are all public dollars, and we’re talking about taxpayers. Every taxpayer should have the opportunity to bid on public jobs.”

Robert L. Balgenorth, president of the State Building and Construction Trades Council of California, describes PLAs in benign terms, noting, “A large project involves many separate union and nonunion contractors, each with its own schedule of starting times, holidays, and other ancillary work rules. A PLA coordinates these differences,” he said.

‘Anti-Taxpayer Agreements’

Eric Christen, executive director of the Coalition for Fair Employment in Construction (CFEC), says PLAs are “highly discriminatory, anti-taxpayer agreements that unions have placed on certain construction projects around the state.

“Their purpose is twofold: gain back lost market share by implicitly keeping nonunion contractors from wanting to work on these projects and, secondly, to boost their pension funds with the dollars put into them by the few nonunion contractors who might actually sign onto a PLA,” Christen said.

According to the Bureau of Labor Statistics, only 13.2 percent of the private construction workforce is in a union.

The fight over PLAs has played out at the federal level, too. The National Labor Relations Act prohibits pre-hire agreements on everything except construction projects.

President George W. Bush issued an executive order stating the federal government and agencies using federal funds could not “require or prohibit” construction contractors to sign union agreements as a condition of doing work.

But 17 days after being sworn in, President Barack Obama rescinded that order, issuing a new one saying federal agencies could require PLAs on projects of $25 million or more. Nonunion contractors that bid on such projects have to agree to the PLA if they win the bid.

Ohio Lawsuit Over PLAs

In Ohio, the use of PLAs for school construction projects ended up in court. In October 2010 the 1851 Center for Constitutional Law sued then-Gov. Ted Strickland, Ohio School Facilities Commission (OSFC) Executive Director Richard Murray, and several others alleging violations of Ohio’s Racketeer Influenced and Corrupt Organizations (RICO) law.

Among other things, the suit claimed Murray pressured school districts into using PLAs for their school building projects, rewarding those that did and retaliating against those that didn’t.

On February 24, 2011, the OSFC passed a resolution that:

• prohibited the use of prevailing wage requirements on state-funded school projects;

• prohibited the use of PLAs on state-funded school projects; and

• committed OSFC to the belief that “open contracting for publicly funded construction projects aids in lowering costs of such projects.”

Lawmakers Stepped In

With the passage of the resolution, the 1851 Center dropped its lawsuit, but the Ohio General Assembly had already become involved. HB 102 and SB 89 were introduced in February 2011 to address the use of PLAs throughout the state.

The bills were similar, with language that state agencies and political subdivisions could neither require nor prohibit certain labor agreements as a condition of getting a bid. Both prohibited the use of state funds if a PLA were required or prohibited.

SB 89 was assigned to a committee but no further action was taken. HB 102 was passed by the Commerce and Labor Committee in May 2011 but received no further action.

Young said the law would give the state more bidders to choose from and reduce the price of public projects by as much as 20 percent.

Fewer Terms, Conditions

Young noted Ohio law still requires the payment of prevailing wages in the area in which the project is sited, so the lack of a PLA won’t lower the wages paid on public projects.

“But you don’t have other costly terms and conditions,” he said, referencing such items as who can push a wheelbarrow or “how many electricians must be present to screw in a light bulb.”

Arizona, Arkansas, Georgia, Idaho, Iowa, Kansas, Louisiana, Maine, Michigan, Mississippi, Missouri, Montana, Oklahoma, North Dakota, Tennessee, and Utah have all banned government-mandated PLAs.

Maggie Thurber (info@FranklinCenterHQ.org) owns Corsair Communications and is a contributor to Ohio Watchdog. Used with permission of Watchdog.org.
The Obama administration is pushing for new taxes on the airline industry that would amount to an estimated hike of $14 per flight. But that’s only a drop in the bucket of what the White House proposes, said one industry insider.

“Altogether, the White House budget proposal would increase taxes on airline customers and airlines by a whopping 29 percent, adding another $5.5 billion to their $19 billion annual tax burden,” said Vaughn Jennings, managing director for government and regulatory communications for Airlines for America.

The $14 increase—the first on the White House wish list—is aimed at raising money to reduce the national deficit and hiring thousands of immigration and customs enforcement officers at airline security checkpoints.

Questions Over Spending
Supporters say it is a small price to pay for faster service in security lines, and that excess money would go toward paying for general improvements at the nation’s airports. But detractors say the industry is taxed enough. Moreover, they say, there is a key difference between an airline-initiated fee increase and a government-imposed tax. As one tax analyst posed: Who should rightly pay for airport security and air traffic control?

“If we assume that air travelers should be paying for those things rather than the general public, then airline ticket taxes make sense,” said Richard Morrison, manager of communications for the Tax Foundation. “But there are many questions about whether the FAA and TSA are spending those revenues in a smart, efficient way. In other words, fees for government services make sense, but whether this particular set of increases is a good idea is very much open for debate.”

Congress last year rejected a similar White House proposal to raise taxes on the airline industry. Airline industry executives say that’s a good thing, saying airlines are already hit with high taxes and fees that exceed even those paid by the so-called sin industry, tobacco and alcohol.

20 Percent of Ticket Price
“Taxes and fees amount to about 20 percent of a typical $300 round-trip domestic ticket,” said Gary Kelly, chief executive officer of Southwest Airlines, in a column that passed the PolitiFact smell test for truth. “That’s higher than taxes on products like alcohol, tobacco and firearms.”

Since 1972, Jennings said, taxes on airlines have almost tripled. Adding another one would swing the pendulum in the wrong direction, he said.

“A strong, healthy, and globally competitive U.S. airline industry is vital for Americans,” he said. “Reducing the tax burden … is critical, as it would help keep airline ticket costs affordable, benefiting U.S. citizens, jobs, and the economy.”

Cheryl K. Chumley (ckchumley@gmail.com) writes from Northern Virginia.
More Congressmen Want Spending Cuts, but . . .

By Doug Kellogg

Congress saw significant turnover between its 111th and 112th incarnations. The release of the National Taxpayers Union Foundation’s (NTUF) unique “BillTally” report shows what that political transition has meant to Washington’s fiscal agenda.

The impact is undeniable: For the first time in more than a decade, there were more legislators on Capitol Hill who sought to shrink the budget than those who wanted major spending expansions of $100 billion or more.

Even so, the BillTally results showed the entirety of Congress’s agenda still would have added $1.3 trillion to the debt.

How can these seemingly conflicting trends be reconciled? A closer look at the data provides some clues.

Big Shift in Senate

The Senate showed a particularly dramatic shift, with the average GOP senator proposing $273 billion in cuts, down from $25 billion in spending increases from the last Congress.

This swing is due in part to new blood such as Sens. Rand Paul (R-KY), Mike Lee (R-UT), and Marco Rubio (R-FL), among others. Those freshmen were assisted by a Senate GOP contingent that did not feature even one member who sought to increase the budget.

The House Republicans were no slouches either, more than doubling the spending cut agenda of their predecessors by proposing an average of $169 billion in savings.

If these fiscal changes are so significant, how is the bottom line so expensive?

To understand that, it helps to put the size of the GOP spending cut agenda in perspective. While we all have surely heard plenty of pundits claiming the GOP and perhaps the “Tea Party” are seeking massive budget cuts, in reality the entire party’s net Congressional agenda would slash the federal budget by only 5 percent.

Big Items in Dems’ Plans

The spending picture would not be complete without an analysis of the other party’s fiscal agenda. And for Democrats, that agenda was largely defined by a few big-ticket items.

By far the most prolific spending area for Democrats was health care—including, for many, a $1 trillion “single payer” proposal. Not far behind were plans for more economic “stimulus” spending.

That is how the House Democratic average agenda wound up even higher than that of the previous Congress, at $556 billion (a jump of about $17 billion). Senate Democrats cooled their ardor for higher expenditures significantly, proposing a $39 billion average agenda, $157 billion less than their predecessors.

$1.2T in Cuts, $2.5T in Spending

Thus, despite more in Congress seeking budget reductions, the 112th Congress’s spending proposals amounted to $2.5 trillion in more spending, thanks in no small part to the health care and stimulus bills mentioned earlier. Overall, this figure is enough to dwarf the $1.2 trillion worth of budget cuts that were introduced.

The trends tracked by NTUF’s BillTally show a shifting and polarizing Congress, with reason for optimism among those who want a smaller federal budget. In the end, however, the improvement measured against previous Congresses cannot overcome one fact: The legislative work product of the 112th remained heavily tilted toward bigger budgets.

Doug Kellogg (dkellogg@ntu.org) is communications manager at the National Taxpayers Union.

Virginia Attorney General Rips IRS ‘Incompetence’ in Asset Forfeiture

By Kenric Ward

Virginia Attorney General Ken Cuccinelli has called out the Internal Revenue Service for “incompetence” for being past due in returning $115 million to the state.

Hours later, Cuccinelli’s office announced federal officials pledged to settle up.

Cuccinelli on June 5 said the IRS went beyond “monumental incompetence” in delaying the disbursement of $1.5 billion in asset forfeitures stemming from prosecution of Abbott Laboratories Inc.

Abbott pleaded guilty in May 2012 to criminal and civil liability arising from the company’s unlawful promotion of the prescription drug Depakote for uses not approved as safe and effective by the Food and Drug Administration.

The case—which netted the second largest penalty payment by a pharmaceutical company—included a criminal fine and forfeiture totaling $700 million and civil settlements with the federal government and the states totaling $800 million.

Only $5.5M of $120M

But only $5.5 million of the $120 million owed to Virginia had trickled down from Washington, Cuccinelli said in his announcement.

“There’s a lack of performance, and a refusal to even discuss the matter, much less act on it,” Cuccinelli said of the IRS. He said the ongoing delay smacked of “malevolence” by the agency.

Virginia investigators led the 26-state, multi-year investigation into the Abbott Medicaid case that was officially resolved when the company paid the $1.5 billion penalty last October.

“We were the linchpin of the entire investigation,” said Cuccinelli, who counted 38,500 state agency man-hours versus an estimated 1,500 man-hours by the IRS.

$500K in Interest

With the IRS delays, the attorney general said interest on the remaining amount owed to Virginia totals roughly $500,000. But Cuccinelli’s office said it was satisfied with the result—though no delivery date for the money was announced.

Cuccinelli said the expected reimbursement is earmarked for state and local law-enforcement initiatives, ranging from programs combating elder abuse and domestic violence to funding for equipment and training.

“[O]nly $5.5 million of the $120 million owed to Virginia had trickled down from Washington. ... ‘There’s a lack of performance, and a refusal to even discuss the matter, much less act on it.’”

KEN CUCINELLI, ATTORNEY GENERAL, STATE OF VIRGINIA

The IRS did not respond to requests for comment.

Kenric Ward (kenric@watchdogvirginia.org) reports for Watchdog.org, where a version of this article first appeared.
Lower, Flatter, Easier Taxes Proposed in Wisconsin

By Mary Petrides Tillotson

Wisconsin business owners will get tax cuts and simplified paperwork if a bill sponsored by state Rep. Dale Kooyenga (R-Brookfield) passes.

The bill was expected to go to a vote in June. It would simplify the state’s tax code, allowing businesses to more easily fill out tax paperwork, and would reduce the number of income tax brackets from five to four.

“I want employers and taxpayers to focus on workforce development, investing in companies, and not trying to navigate a complicated tax code,” Kooyenga said.

Ending Business Credits

Most of the simplifications come from eliminating 18 business tax credits, “basically handouts to different companies,” according to John Nothdurft, director of government relations for The Heartland Institute, which publishes Budget & Tax News. Some of the credits applied to only one or two companies, he said.

Also under the bill, income tax rates are lowered for all brackets, and the third and fourth (of an original five) brackets are combined. Families earning $28,650 to $315,460 would pay the same income tax rate, 6.27 percent—down from 6.5 (third bracket) and 6.75 percent (fourth bracket). For families earning more than $315,460, the rate would drop from 7.75 percent to 7.65 percent.

“We still have work to do, but we’re headed in the right direction,” Kooyenga said.

‘Closer to Flat Tax’

Nothdurft called this “another step in the right direction. Fewer tax rates are always better. It’s easier for people to understand what bracket they’re in, and it’s a way of getting closer to a flat tax.”

Flat taxes have been shown to encourage people to be more productive, earn more income, and boost the economy, he said. With a tiered approach to taxes, many people don’t want to move up a tax bracket, so it works as a disincentive for them to produce more, work harder, and earn raises.

Kooyenga said he plans to work on tax reform every two years, lowering taxes bit by bit. He called his plan “fiscally responsible,” noting the importance of moving slowly and striking a balance between lowering taxes and keeping the government running.

“This is a more modest approach to tax reform,” he said. “It’s pretty comprehensive, but we have a long way to go. [Wisconsin is] still a very high tax state, so every two years we’re going to get back at it and do more reforms and make it simpler and easier to understand.”

Wisconsin is “not a state you’d choose to live in if taxes are a factor in your decision,” said John Pavelski, owner of Joseph Company, a small agriculture business in the state.

“Put those tax dollars back in the family’s income stream, and how many mothers wouldn’t have to go to work, or fathers?” he said. “You can’t have kids coming home to a latchkey system and expecting them to watch TV and that morality. … The media is promoting an ideology, a philosophy, and is that really what society wants?”

Modest Improvement

The bill would move Wisconsin from 43rd best state for business tax climate to 40th, according to the Tax Foundation.

“Kooyenga’s plan addresses some longstanding flaws in Wisconsin’s code,” said Tax Foundation economist Scott Drenkard in a statement. “The plan … fosters[es] an equal treatment of various types of businesses and shift[s] the long-run burdens toward a more pro-growth, consumption-based system.”

Nothdurft contrasted Wisconsin with neighboring Illinois.

“[Kooyenga’s bill] shows there are states that are moving forward on real tax reform, and it’s going to put Wisconsin in a much better position to attract business from states like Illinois, which is moving in a totally opposite direction,” he said. “It’s interesting to see the opposite approach from two different states that are similar to each other and right next door. It’ll be an interesting test case to watch.”

Mary Petrides Tillotson (mary.c.tillotson@gmail.com), a former Michigan reporter, now writes from Front Royal, Virginia.

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Iowa Disability Costs Double in Nine Years

By Sheena Dooley

The number of Iowa workers on disability has increased only slightly during the past nine years, while the federal government’s monthly disability payments to state residents have more than doubled, according to the Social Security Administration.

The number of disability claims filed by Iowans grew 8 percent from 2003 to 2011, reaching 592,000 two years ago. That means roughly one in five Iowans are on disability. Total monthly payments to recipients grew 122 percent during that time, from $208.5 million to $463.3 million.

Federal officials attribute part of the increase to cost-of-living increases and how the government pays benefits. Recipients receive payments based on how much they earned while working, according to the Social Security Administration.

57% Cost Increase Nationally

Iowa stands out for its relatively slow growth in the number of claims.

During the same nine years, there was an 18 percent increase in the number of disability recipients nationally, with payments going to more than 55.4 million people. The Feds paid more than $62.2 billion in 2011, a 57 percent increase since 2003.

Some researchers attribute the growth in claims to the growth in the number of workers who retire in their 50s or early 60s. Others say it’s due to increases in mental health disorders and back problems.

Sheena Dooley (dooley@iowawatchdog.org) reports for IowaWatchdog.org, where an earlier version of this story appeared. Used with permission.
By Steve Stanek

Less than one month after Detroit emergency manager Kevyn Orr issued a report declaring the city’s finances to be in worse shape than nearly anyone suspected when he assumed the job in March, Detroit has defaulted on a scheduled debt payment of $39.7 million.

The default happened June 14, the same day Orr issued a debt restructuring plan Moody’s Investors Service described in a statement as “unconventional and precedent-setting in the municipal market. It builds a strong case for insolvency, girding the city for a tough fight with creditors of all types.”

Orr proposes giving unsecured creditors $2 billion of limited recourse participation notes to replace $11 billion of unsecured debts. That’s less than one-fifth what creditors are owed but more than Orr says they might receive if the city goes into bankruptcy.

“The substantial reduction offered to unsecured creditors, the extent of the city’s financial stress and the complexity of the city’s debt add to the uncertainty of many classes of debt ultimately recovering their investment,” Moody’s wrote.

Credit Downgrades

One day earlier, Moody’s had downgraded several classes of Detroit debt and had given other city debt a negative outlook.

The two other major credit rating agencies in the United States, Standard & Poor’s and Fitch Ratings, also downgraded some Detroit debt and gave other city debt a negative outlook.

Fitch Ratings, for example, downgraded more than $2 billion of Detroit debt on general obligation bonds and pension obligation certificates of participation. Fitch also put nearly $5 billion of Detroit’s sewer and water revenue bonds on negative watch, indicating those bonds also could be downgraded.

Orr noted in his proposal to creditors the city’s property tax revenues have dropped nearly 20 percent since 2008 and income tax revenues are down 15 percent in that time. Budget deficits and city debt have skyrocketed, and the city is not paying pension contributions when they come due. The city has more than $9 billion of liabilities.

‘Vast Problems’

“My first reaction [to news of the missed debt payment] was to think the same thing I’ve thought for a while: You can only kick the can down the road so far. Detroit’s problems are vast and have been covered up with short-term fixes. On top of that is an incredible amount of deferred maintenance on city assets,” said James Hohman, assistant director of fiscal policy at the Michigan-based Mackinac Center for Public Policy, who has been closely following developments in Detroit.

Political corruption has been a serious problem in Detroit but does not explain all the city’s problems, he said. On June 10 federal prosecutors filed papers in the U.S. 6th Court of Appeals to keep former Mayor Kwame Kilpatrick in prison as long as 30 years for his conviction on 24 counts of felony crimes, including racketeering, extortion, bribery, and fraud.

Prosecutors accused Kilpatrick and others in his administration of turning city hall into a criminal operation. Kilpatrick was convicted in March and taken directly into custody. He awaits formal sentencing.

Major Mismanagement

“Corruption is only a facet of the problem,” Hohman said. “The broader issue facing Detroit is mismanagement. You generally can’t violate your bidding rules without someone blowing the whistle if you’re managed properly. Orr’s recent restructuring plan lists all sorts of problems in their accounting and financial systems. While those kinds of problems can lead to direct incidents of corruption, they can also lead to bad decisions in general operations.”

Hohman praised Orr’s restructuring plan, saying it is “exactly what it should be. It lists major reforms in nearly every department, finds ways to get better at collecting what the city is due, and gives a plan to equitably pay debts.”

JAMES HOHMAN
ASSISTANT DIRECTOR OF FISCAL POLICY
MACKINAC CENTER FOR PUBLIC POLICY

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

Rein in EPA

EPA Is a Rogue Agency

The Environmental Protection Agency (EPA) is the nation’s leading job killer, implementing and enforcing laws that impose impossible regulatory burdens on American businesses.

The Solution

Congress must rein in EPA through deep cuts in the size, power, and cost of the agency. Congress can repeal EPA’s authority to regulate carbon dioxide in the name of “global warming.”

The Petition

The Citizen’s Petition to Rein in the Environmental Protection Agency calls out EPA’s unscientific and destructive campaign to frighten people over the threat of man-made global warming and demands “deep cuts in the size, power, and cost of the EPA.” You can sign it online at heartland.org, print out copies and fax signed copies to 312/377-5000, or mail them to us at The Heartland Institute, One South Wacker Drive #2740, Chicago, IL 60606.

You Can Help! By working together we can protect the environment without sacrificing jobs or our essential freedoms. Please help us by signing the petition today.

The Heartland Institute
Utah Ranks Best, Vermont Is Worst in Annual Rich States, Poor States Report

By Jonathan Williams

For the sixth consecutive year, Utah’s economic outlook earned the top ranking in America, according to Rich States, Poor States: ALEC-Laffer Economic Competitiveness Index. Like past editions, the report compiles and updates the results from the 50 state “laboratories of democracy” and provides a clear account of how the nation’s top-performing state economies have achieved impressive levels of economic growth.

The report makes clear that limited regulation, low taxes, low debt, pension reform, a predictable tax climate, and balanced budgets all contribute to the success of America’s top-ranked states.

One conclusion stands out from the findings in Rich States, Poor States: In general, states that value limited government and low taxes, particularly on productive activities such as working or investing, experience more growth than states that tax and spend more. Increasingly we are witnessing this economic “Balkanization” effect between states.

No Income Tax vs. Income Tax
One of the great understated facts is that states do not enact policy changes in a vacuum. When a state changes policy, for better or worse, it immediately affects the incentive structure for individuals and businesses alike, and the change in incentives has a direct effect on the state’s competitiveness.

Over a 10-year period, the nine states without personal income taxes on wages have outperformed the nine states with the highest income taxes in growth in population, jobs, and revenue. (See table 5 in the report.) The stakes are high: More than $2 trillion in wealth has moved from one state to another in the past 15 years alone. Additionally, 43 million Americans “voted with their feet” during that period, moving across state lines for new opportunities.

Both investment and human capital are more mobile than ever. For instance, the nine states without personal income taxes have, on net, gained 2.9 million new residents from other states over the past decade. On the other hand, the nine states with the highest income tax rates have, on net, lost more than 3.8 million persons during that time.

Americans continue to move toward more economic opportunity—and that opportunity continues to be greater in the states where economic policy is least competitive.

State lawmakers working to emulate Utah, North Dakota, South Dakota, Wyoming, and Virginia (the top five states in this year’s economic outlook index), and diverge from Minnesota, California, Illinois, New York, and Vermont (the bottom five), should embrace the free market, low tax, limited government principles described in Rich States, Poor States.

Income Tax Especially Damaging

Making sure income tax rates remain low is a centerpiece of sound tax and fiscal policy. As described above, the movement between the no income tax states and the highest income tax states is astounding.

The research done by Rich States, Poor States and other professional observers of economic policy leads to the conclusion that personal and business income taxes are the most harmful to economic growth. Of course, all taxes affect economic growth, but it is worth noting that income taxes are the worst offenders when it comes to slowing this growth.

Rich States, Poor States was created to provide every state legislator the tools to benchmark their state’s policy environment. We hope lawmakers from across America will examine the economic success from states that value economic freedom and competitiveness.

For the well-being of the other states, we hope more elected officials will work to emulate the successful approach to policymaking found in states like Utah, Wyoming, and Texas—and avoid the numerous mistakes being made by government officials in California, Illinois, and New York.

It is the essence of the American experiment with federalism that each state is allowed to shape its own economic destiny.

Jonathan Williams is director of the Center for State Fiscal Reform at the American Legislative Exchange Council (ALEC) and a co-author of Rich States, Poor States.

IN OTHER WORDS . . .

“As to the ‘Agriculture Reform’ element, it can hardly be considered meaningful. Not when it will continue to throw billions of taxpayer dollars at farmers who grow such crops as corn, soybeans, wheat, cotton, rice and sugar.

“Not when it expands the government’s taxpayer-subsidized crop insurance program, which pays out not only for crops lost to bad weather, but also for lost farming income from falling commodity prices.

“Bruce Babcock, an Iowa State University economics professor who helped invent revenue coverage two decades ago, told National Public Radio that federal crop insurance is ‘the Cadillac of insurance products.’

“He noted that, for every dollar of insurance premium, farmers pay, on average, 38 cents, while the taxpayers pay the other 62 cents. ‘Crop insurance is not an insurance program,’ Mr. Babcock criticized. ‘It’s a social program. It’s a regular farm commodity-support subsidy program.’

“If the program was targeted exclusively to family farmers—like the couple famously depicted in Grant Wood’s painting ‘American Gothic’—it would still be problematic, but less odiously so.

“But it also includes large corporate agriculture businesses that hardly should be recipients of billions of dollars in taxpayer subsidies.

“The House soon will consider its own farm bill. We hope its version is less a crop- per like the measure the Senate approved.”

— Orange County Register editorial, June 14, 2013

INTERNET INFO

Rich States, Poor States is available for a free download at www.alec.org/rsps. “Like” Rich States, Poor States on Facebook and follow on Twitter @ALEC_Tax and @ALEC_States.
N.C. Aims to Boost Economic Performance with Tax Cuts, Reforms

By Logan Pike
North Carolina’s General Assembly is considering two reform plans that would markedly improve the state’s economic competitiveness, according to an analysis by the Tax Foundation.

The state would climb from 44th to 19th place on the Tax Foundation’s State Business Tax Climate Index if the two proposals pass.

“North Carolina’s tax system is in desperate need of reform,” said Elizabeth Malm, an economist at the Tax Foundation. “The system includes high individual income taxes, a corporate income tax that exceeds its neighbors’, and a sales tax base that excludes a large portion of transactions. By flattening and lowering income taxes, the system becomes fairer, simpler, and more neutral.”

Flat, Lower Tax

The Senate Finance Committee is considering the Tax Fairness Act of 2013, which would lower the individual income tax rate to a flat 4.5 percent, shrink the corporate income tax rate to 6 percent, and repeal several corporate tax credits. The income tax reductions would be offset by application of a sales tax to include most services, food, and prescription drugs. The act also would decrease the franchise business tax and end the state’s estate tax, which would improve North Carolina’s economic competitiveness by eliminating double taxation of businesses and individuals, according to the Tax Foundation.

By the time the Tax Fairness Act was fully implemented in 2017, taxes would be cut a total of $1 billion.

“The Senate proposal is the most robust in terms of income tax base broadening,” said Malm. “It closes multiple tax expenditures in the individual and corporate income tax code that distort behavior, add unnecessary complexity, and require higher rates to compensate for a small tax base.”

Similar Approach in House

Meanwhile, House lawmakers are debating the Tax Simplification and Reduction Act, which would consolidate the state’s three individual income tax brackets into one and lower the rate to 5.9 percent, lower the corporate income tax to 5.4 percent, and cut the combined state-local tax from 6.75 percent to 6.65 percent while broadening the tax base to include certain services.

“High income and business taxes deter economic development by discouraging higher-income earners and new capital from moving into a state, remaining there, or investing their money. This tax reform plan would improve North Carolina’s economic competitiveness by leaving more money in the pockets of the state’s citizens and businesses to spend, save, and invest,” said Matthew Glans, senior policy analyst at The Heartland Institute, which publishes Budget & Tax News.

One of North Carolina’s border states is Tennessee, which has no tax on wage income.

Highest Taxes in Region

“In the actual House legislation (HBB 998), it states that [North Carolina’s] ‘income taxes are now among the highest in [the] region and among ... peer states,’ so I would venture to guess that one of the driving forces behind the tax reform push is to make North Carolina competitive in terms of taxes,” said Malm. “The top individual income tax rate is the highest among all of the state’s neighbors, as is the corporate income tax rate.”

Both of the tax proposals expand the sales tax to some degree, but the Senate’s Tax Fairness Act increases the sales tax to cover more than 130 additional services. Broadening the sales tax to include most services, food, and prescription drugs could be criticized for being regressive.

“I think it’s important to remember that these income tax cuts benefit everyone, and also that there are ways to address sales tax regressivity [perhaps through a cash ‘prebate’], so I don’t think this is a reason to throw out the plan in its entirety,” said Malm. “North Carolina already stands out for a lot of reasons, and if the state were to adopt a tax reform proposal similar to one of these plans, it could stand out in terms of taxes, as well.”

Logan Pike is a government relations intern at The Heartland Institute.

Federal Judge Stops Kentucky from Enforcing Anti-Competition Law

By Eric Boehm

A Kentucky state law that requires new moving companies to prove to government bureaucrats there is a “need” for their services before they can obtain a license has been blocked by a federal judge.

On June 13, U.S. District Court Judge Danny Reeves ordered the state of Kentucky to halt enforcement of its so-called “competitor’s veto” law for moving companies. The law gives existing licensed companies the ability to block new companies from getting licenses to operate.

Kentucky was seeking to prosecute Raleigh Bruner, owner of Wildcat Moving, in a state court for violating the law. Bruner sued the state in federal court in an attempt to get the law overturned on constitutional grounds.

Reeves’ ruling will prevent the state from trying to shut down Bruner’s company, which employs 36 people in Lexington, until Reeves can rule on the constitutionality of the Kentucky law.

In ordering the injunction, Reeves seemed to indicate skepticism about the purpose of the law.

“Over at least the last five years, the only groups to file protests to new applicants have been existing moving companies,” he wrote. “And it appears that the notice, protest, and hearing procedure in the statutes—both facially and as applied—operate solely to protect existing moving companies from outside economic competition.”

Eric Boehm (eric@paindependent.com) reports for Watchdog.org, where an earlier version of this article appeared. Used with permission.
Fla. Gives Hertz $85 Mil. Incentives for $60 Mil. HQ

By William Patrick

If you’re a large business and you want to relocate near the beach, then boy does Florida Gov. Rick Scott (R) have a deal for you.

In the latest example of northern flight to a Sun Belt state, Hertz Corp., best known as a rental car company, announced in late May it’s packing up its corporate bags and moving its headquarters from New Jersey to the tiny Florida town of Estero.

Florida’s “jobs governor” and the Lee County Economic Development Office are celebrating the Fortune 300 company’s decision and touting the potential economic gains.

**Surprise Move**

To many, the move comes as a surprise. Not just because the state and Lee County governments were exempt from disclosing Hertz as the company on the verge of receiving millions in taxpayer stimulus, but because the firm known previously as “Company A” has been rooted in the New York City metro area for the past 25 years.

Hertz acquired the Tulsa, Oklahoma car rental giant Dollar Thrifty last year for the past 25 years.

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**Direct Payments, Credits, More**

The company initially will receive $14.4 million directly from the state and another $4 million from Lee County. The remaining amount reportedly will be tax credits, tax refunds, and workforce training reimbursement grants.

Florida’s “jobs governor” and the Lee County Economic Development Office are celebrating the Fortune 300 company’s decision and touting the potential economic gains.

**Lower Costs Without Incentives**

Broome did not mention the tax savings and lower costs of business that already exist in the Sunshine State. Hertz’s corporate campus is in Park Ridge, New Jersey, where the state income tax rate is nearly 9 percent, the corporate tax rate is twice Florida’s, and the sales tax is a full percentage point higher.

On the morning of the relocation announcement, Scott defended the taxpayer package in an interview on CNBC’s morning business program Squawk Box. “I’ve done over 300 [similar] projects since I’ve been governor,” Scott said. “You’ve got to get a five-times return [on the taxpayer investment] over the next five years.”

The move is a high-profile event for Scott’s jobs agenda, and the relocation could inspire other businesses looking for a similar deal.

“I believe it will be clear that the incentives will be far more than offset by the economic stimulus Hertz will provide to Lee County and the state of Florida over many years,” Broome said.

Estero is located in Lee County and 25 miles from Naples, where the governor and Hertz Chief Executive Officer Mark Frissora both have homes.

**IN OTHER WORDS . . .**

“Many of the people who have run state governments in this century are fine folks. But they have let their ruinous financial policies define this state’s bleak present and future. Their chosen victims range from people who rely on state services, to suppliers Springfield pays when it can, to employers who won’t invest in this Titanic, to taxpayers who fork over more and more for less and less.

Last week the credit agencies that again downgraded Illinois applied an almost pitying tone to the dysfunction here: They questioned the competence of current leadership. Emphasis ours: On Monday, Fitch Ratings said legislators’ failure to reform pensions ‘exacerbates concern about management’s willingness and ability to address the state’s numerous fiscal challenges.’

Two days later, Moody’s Investors Service wrote, ‘An A3 rating, while very low for a U.S. state, is consistent with the General Assembly’s inability to steer the state from a path to fiscal distress.’

“The question for voters to ask, and urgently: Have our leaders so profoundly abused and neglected Illinois that rescuing it is beyond their limited capacities?

“The next governor of Illinois likely will deal with the strewn debris of this wreckage throughout his or her four-year term.”

— Chicago Tribune editorial, June 9, 2013
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