Hopes for Long-Term Transportation Bill Fading

By Kenneth Orski

With federal transportation spending outpacing tax receipts by some $1.25 billion per month, the cash balance of the Highway Trust Fund is drifting perilously close to the point where the U.S Department of Transportation will be obliged to institute cash management strategies—such as slowing down or delaying state reimbursements—to keep the Trust Fund account solvent.

Based on current spending and revenue trends, the program will reach that critical juncture with a cash balance of only $4 billion in late July, according to the latest U.S. DOT estimate. However, the Congressional Budget Office estimates “both the highway account and the transit account will end the fiscal year with negative balances.”

Costs for major water and wastewater projects will continue to balloon, with a growing number of state officials concerned that the program will be insufficient to fund the projects needed to meet federal and state public health laws.

By Leonard Gilroy

Recent action in Congress may catalyze greater private investment in the United States’ water and wastewater infrastructure.

The House and Senate both passed the Water Resources Reform and Development Act (WRRDA) of 2014 (H.R. 3080) in May with overwhelming bipartisan support. If President Barack Obama signs the bill into law, the legislation will create a five-year pilot program—the Water Infrastructure Finance and Innovation Act (WIFIA)—offering low-interest federal loans and loan guarantees to help finance significant water projects through public-private partnerships (PPPs), lowering the overall cost of such projects.

Under the WIFIA program, the
Legislators:

Make Us Your New Legislative Aide!

Join Heartland’s Legislative Forum today and stay on top of the latest research and policy solutions.

Why Join?
Simply, The Heartland Institute delivers what elected officials need. Busy elected officials have little or no staff and need a reliable source of research and commentary on the most important public policy issues of the day. For 30 years Heartland has been that resource.

Benefits of membership include:
• Travel Scholarships to Heartland’s Emerging Issues Forum
• Priority access to your very own free-market “think tank”
• Bringing experts to your state
• Invitations to Legislative Forum member-only events
• Complimentary copies of Heartland Policy Studies and books

Membership is limited to current elected officials and costs just $99 for two years or $179 for a lifetime membership. As a lifetime member, you will enjoy the great benefits the Legislative Forum offers for your entire time in office, as well as alumni benefits thereafter.

Visit heartland.org/sign-forum to sign up.

For more information, please contact Logan Pike at 312/377-4000 or email her at lpike@heartland.org.

“In a country whose political dialogue has been clouded with the lack of transparency created by conventional political thinking Heartland throws open the door to fresh and creative thought and discussion.”

HON. JEFF ESSMAN
STATE SENATOR
MONTANA

For more information, please contact Logan Pike at 312/377-4000 or email her at lpike@heartland.org.
Seattle’s Upcoming $15 Minimum Wage Is Already Killing Jobs, Cutting Benefits

By Erin Shannon

The Seattle City Council has made Seattle the first city in the nation to mandate a $15 per hour minimum wage for all workers.

Effective April 1, 2015, all businesses must pay $10–$11 per hour, with the remainder of the $15 wage phased in over seven years for small businesses (those with fewer than 500 employees) and three years for large businesses (those with 500 or more employees). While supporters of the $15 wage mandate passed in June say it will have no negative impact on the city’s employment or economy, the reality is that it is already killing jobs.

Some business owners in Seattle say they are holding off on opening new businesses or expanding their current branches, delaying plans to hire new workers, and even moving to neighboring cities. In SeaTac, where some employers have been paying a mandated $15 minimum wage for six months, the benefits workers used to receive have been reduced or eliminated and prices have increased for consumers.

Restaurants, in particular, will be hit hard by Seattle’s new wage. The Puget Sound Business Journal reports one restaurant owner called the $15 wage a “mortal threat” and has halted plans to open another location. The CEO of a restaurant chain says his company is also holding off on opening new locations in Seattle and will likely be forced to reduce employees’ health benefits. The company currently offers health care coverage to employees who work at least 25 hours per week, but that threshold may now increase to 30 hours per week.

That company will also likely eliminate tips for servers, instead automatically charging customers a service charge or gratuity that would be split between servers and other restaurant staff, such as kitchen workers.

Effects Felt Beyond Seattle

Seattle workers aren’t the only ones losing potential jobs and suffering benefit reductions as a result of the new law. In an unexpected twist, the $15 wage is impacting job creation and worker benefits in other cities.

A pizza franchise with 11 locations, six of which are in Seattle, that employs 430 workers has tabled plans to open another location, in Lynnwood, Washington, over concerns the new location and its new jobs would bump the company into the “big business” category.

Under the new law, “big businesses” have a shorter phase-in of the high wage—they must begin paying all workers $15 per hour over the course of three years. By staying under the 500-employee threshold, the company remains categorized as a “small business” and has up to seven years to phase in and adjust to the new wage for its six Seattle stores. That is 70-plus jobs workers in the city of Lynnwood just lost.

The company that says it may reduce worker benefits in other cities.

“Some business owners in Seattle say they are holding off on opening new businesses or expanding their current branches, delaying plans to hire new workers, and even moving to neighboring cities.”

‘Smaller Restaurants Will Die’

The CEO of the chain restaurant warns the increased labor costs imposed by the new law will force many small, mom-and-pop businesses into bankruptcy: “Successful downtown restaurants will find a way to make it work, but smaller restaurants will die.”

That sentiment is echoed by the CEO of CKE Restaurants, which owns the Carl’s Jr. and Hardee’s chains. Andy Puzder, author of the book Job Creation, says the push for a higher minimum wage is one of the greatest threats facing restaurants.

“I think you’ll see a lot of restaurants closing. I don’t think that restaurants can operate profitably if they’re paying a $15-an-hour minimum wage,” Puzder said on Fox News.

Erin Shannon (eshannon@washingtongpolicy.org) is director of the Center for Small Business at the Washington Policy Center. Used with permission of washingtonpolicy.org/blog.
Hopes for Long-Term
Transport Bill Fading

Continued from page 1

cal year with a positive balance,” according to an April 14 memo (“CBO’s Highway Trust Fund Runs, April Baseline”).

Of more serious concern is what will happen at the end of the fiscal year (September 30) when the existing surface transportation program is set to expire. While it is virtually certain that Congress will not allow the program to lapse, it is far from clear what form the renewal will take.

The transportation stakeholders and the Senate Environment and Public Works (EPW) Committee are pressing for a six-year reauthorization funded at the current spending level of $54 billion-per-year plus inflation. They contend a multi-year bill is essential to implementing large-scale multi-year projects, warning that failure to maintain current spending levels will force states to tighten their belts, cut back on planned construction projects, and forgo any new capital investment.

The EPW Committee marked up a proposed six-year bill on May 15. The legislation is not a final product yet, as the transit and safety titles of the bill still await action by the Senate Banking and Commerce committees, respectively.

Enacting a multi-year reauthorization at current spending levels faces long odds in this election year. It comes down to how much money can be raised to supplement the regular annual Trust Fund income of $39 billion ($34 billion credited to the Highway Account and $5 billion to the Transit Account).

Searching for Funds ...

A six-year surface transportation measure would require roughly $330 billion to maintain current FY 2014 spending levels (an average of $56 billion per year including inflation). Trust Fund revenue and interest over the same period are projected to bring in only $234 billion, according to the latest (April 2014) CBO estimate. This would leave a staggering funding gap of $86 billion (or $108 billion—$18 billion per year—according to Sen. Barbara Boxer of California, chairperson of the Senate EPW Committee). Finding such huge sums of money in this tax-averse, deficit-conscious Congress remains a difficult task.

“The hunt has been under way for the last year and a half to find a funding mechanism to fund our infrastructure needs, I wish I could report to you that we’ve found it, but we haven’t.”

JOHN BOEHNER
U.S. REPRESENTATIVE - OHIO

... But Finding Few Answers

The most straightforward solution—increasing and indexing the federal gas tax—a proposal that Rep. Earl Blumenauer (D-OR) resurrected with the endorsement of the U.S. Chamber of Commerce—has not been widely viewed as a viable option. “I’m going to be very honest with you, I don’t see support for raising the gas tax,” Boxer told an audience at a February 26 American Association of State Highway and Transportation Officials legislative briefing.

Talk of increasing the gas tax remains anathema in Congress for a good reason: a Gallup poll in April 2013 found two-thirds of Americans opposed a gas tax hike even if it went toward infrastructure improvements. The White House has not changed its position, siding with the public. Even progressives are ambivalent because of the gas tax hike’s regressive nature.

Another solution—using general funds to supplement Highway Trust Fund revenue—has been severely limited by the bipartisan budget agreement negotiated between Sen. Patty Murray (D-WA) and Rep. Paul Ryan (R-WI) in late December 2013. This agreement requires any General Fund transfers into the Highway Trust Fund to be fully offset during the year in which the transfer occurs (in MAP-21, the current transportation program, some “pay-for’s” were spread over a period of up to 10 years, inviting opposition). General Fund transfers are “not a sustainable formula for the future,” said Sen. John Thune (R-SD) the ranking Republican on the Senate Commerce Committee, reflecting a view widely held in both Houses.

“We have transferred more than $50 billion of general fund money into the Highway Trust Fund (HTF) to maintain funding levels, making a mockery of having a self-sustained trust fund,” wrote Sen. Bob Corker (R-TN) to the Senate leadership on May 14. He went on to say he could not support a multi-year reauthorization bill unless the bill either increases user fees to match spending levels, reduces spending to match...
HTF revenues, or offsets HTF spending that exceeds revenues by reducing other government spending by an equal amount.

A third solution—a wider use of highway tolling—has proven itself as an increasingly popular tool to fund major highway and bridge projects, says the International Bridge, Tunnel and Turnpike Association. Existing toll roads in 28 states generate more than $10 billion a year in revenue—nearly one-third of the annual federal gas tax revenues. The Obama Administration has given a big boost to tolling in its proposed transportation bill by offering to allow states to toll existing interstates, but revenues from tolling flow into individual state treasuries or those of toll road authorities and do not augment federal transportation revenue or enhance the long-term solvency of the Highway Trust Fund.

A fourth approach—a proposal advocated by the White House and embraced by the U.S. DOT in its transportation proposal sent to Congress on April 29—is to use transition revenue generated from corporate tax reform tied to a repatriation of overseas corporate profits. The details of the proposed tax reform have not been released by the administration yet, and leaders in both Houses of Congress have dismissed the proposal as vague and premature.

A comprehensive tax overhaul is “not something that’s going to happen this year,” said Senate Minority Leader Mitch McConnell (R-KY). House GOP leaders have declined to endorse a corporate tax reform plan or commit to a vote. Sen. Orrin Hatch (R-UT), the top Republican on the Finance Committee, has likewise expressed opposition to this idea.

In sum, tax reform as a source of revenue for transportation is dead, at least for this session of Congress. This observation leads many observers to agree with Sen. Johnny Isakson (R-GA) and several of his Senate colleagues that a short-term bill extending the current transportation program (MAP-21) into next year funded by a relatively modest transfer from the General Fund is probably the most one can expect from this deeply divided Congress, whose attention is singularly focused on the upcoming November election.

Kenneth Orski (korski@verizon.net) is editor and publisher of the Innovation Briefs newsletter. Used with permission of InnovationNewsBriefs.

IN OTHER WORDS . . .

“It’s true that improved fuel economy has decreased the amount of fuel tax revenue per vehicle-mile traveled. It’s true that highway material costs have gone up since 1993, the last time the federal fuel tax was increased. And it’s true that highways across America are in desperate need of widening and repair.

“But Congress itself bears great blame for the state of the highway trust fund because lawmakers have, over recent decades, spent huge sums of fuel tax money on things other than federal highways. The tax was created to build and maintain the interstate highway system. Now more than 25 percent of fuel taxes are spent on non-highway projects such as bike paths, trails, safety campaigns and mass transit. Billions of dollars have been poured into transit boondoggles that move only a small percentage of travelers at a far higher cost than highways, forcing motorists to subsidize rail lines they don’t use. Senators make no secret that they want a good portion of a fuel tax increase to fund more big-city mass transit.

“This is a predictable result of Capitol Hill’s political process. Highway funding triggers a lobbying frenzy that creates winners and losers. Many states collect far more fuel tax revenue than is paid by their drivers, while many other states don’t get back what they put in. Washington is an expensive, inefficient middle man motivated by delegation clout instead of need. ... "Instead of boosting the federal fuel tax, a better idea is to have Washington stop collecting the tax altogether and let each state keep 100 percent of the existing levy. States know their infrastructure needs far better than Congress.”


POLICYBOT™

FAST, RELIABLE, FREE.

PolicyBot™ is Heartland’s online database and search engine offering reviews and the full text of more than 30,000 articles and reports from 350 think tanks and advocacy groups.

Visit policybot.org.
States See Sizeable Drop in Income Tax Collections

By Lucy Dadayan and Donald J. Boyd

States that collect personal income taxes enjoyed strong growth in income tax collections last year but face widespread shortfalls this year, according to a new report from the Rockefeller Institute of Government.

The authors of “April ‘Surprises’ More Surprising Than Expected” examined January to April 2014 tax collections for 38 of the 41 states that impose broad-based personal income taxes. The study showed an overall decline of 7.1 percent, or $8.4 billion, when compared to the same period a year earlier.

The large and widespread declines were mostly “due to the mirror-image impact of the federal ‘fiscal cliff’ that led to a one-time surge in income tax collections last year and reversal of that effect this year,” the report found. Last year, states reported 23.6 percent growth in personal income tax collections last year and reversal of the impact of income acceleration from the strong 2013 stock market. While many states tried to be cautious in their forecasts, early figures indicate that income tax collections are below the forecasts in many states,” say the report’s authors.

Overall, 33 of the 38 states studied reported a decline. The bulk of the decline occurred in April and took place in estimated and final payments associated with non-wage income such as capital gains and other investment income. In fact, withholding showed a relatively strong growth of 5.4 percent in the months of January–April 2014 compared to the same period last year. By contrast, both estimated payments and revenue from income tax returns dropped by more than 17 percent in January–April 2014.

Sign of Tax Shifting

The crash in non-wage income tax collections is a clear indication that many taxpayers shifted income from tax year 2013 to tax year 2012 to minimize their federal tax liability. Therefore, the declines in overall income tax collections are not a sign of the overall economy’s weakening.

Nonetheless, the inconsistent revenues created enormous challenges for states with resulting shortfalls, adding more turmoil and pressure to budget discussions.

Lucy Dadayan (ldadayan@albany.edu) is a senior policy analyst at the Rockefeller Institute of Government. Donald J. Boyd (donboyd5@gmail.com) is a senior fellow at the Rockefeller Institute of Government.

Connecticut Could Owe Millions for Improper Computer Licensing

A review by an unnamed software company found 4,500 improper licenses on Connecticut state government computers, according to the Auditors of Public Accounts, a situation that could cost more than $5.2 million.

Auditors, reporting on the state’s former information technology agency now spread across multiple state agencies, suggested the development of a process for disposing of computers and software products. When state agencies questioned the value of developing the policy, considering its costs, the auditors pointed out the manufacturer’s review.

“This is an example of just one software compliance audit,” the auditors wrote. “It would appear, based on potential, future compliance audits and penalties, that the benefits of a central software acquisition, management, use, deployment and disposal platform and policy would far outweigh the costs of development and implementation.”

Auditors also found improperly reported cases of misused state resources. One employee had to pay back the state for using a state cell phone for personal calls, and another received a 30-day suspension for viewing pornography on state computers, but the agency didn’t report either case to auditors or the comptroller, as required by law.

—Zachary Janowski, RaisingHale.com

“While many states tried to be cautious in their forecasts, early figures indicate that income tax collections are below the forecasts in many states”

“APRIL ‘SURPRISES’ MORE SURPRISING THAN EXPECTED”

THE ROCKEFELLER INSTITUTE OF GOVERNMENT
Army Corps of Engineers and Environmental Protection Agency (EPA) would be authorized to provide up to $175 million in direct loans and loan guarantees for the construction of critical water infrastructure projects—such as drinking water systems, wastewater treatment plants, desalination plants, new water supply facilities, levees, and flood control projects. Eligible loan-guarantee recipients include state and local governments, corporations, partnerships, joint ventures, trusts, tribal governments, and state infrastructure financing authorities.

Interest rates on WIFIA loans would be attached to long-term Treasury bonds and could be used to supplement 49 percent of a project’s costs in excess of $20 million (or $5 million for projects serving fewer than 25,000 people), according to a study by the Mayer Brown law firm. Municipalities would not be able to use tax-exempt debt to finance the remaining 51 percent of project costs, encouraging the use of private financing.

**Modeled After Highway Bill**

The program draws upon the Transportation Infrastructure Finance and Innovation Act (TIFIA) administered by the Federal Highway Administration. TIFIA has been used to help finance many transportation PPP projects nationwide, including the Capital Beltway high-occupancy toll lanes in northern Virginia, the Port of Miami tunnel and I-595 expansion projects in Florida, and the North Tarrant express and I-635 managed lanes projects in Texas.

WRRDA also creates a separate 15-project pilot program—the Water Infrastructure Public-Private Partnership Program—to evaluate the use of PPPs to accelerate the planning and construction of projects for coastal harbor improvement, channel renovation, inland navigation, flood damage reduction, aquatic ecosystem restoration and hurricane/storm damage reduction, helping the Corps address a $60 billion project backlog.

Evaluation of potential PPP projects will be based on the extent to which they have national economic significance, leverage federal investments to encourage non-federal contributions, use innovative project delivery and cost-saving methods, involve previously approved projects experiencing delays or schedule slips, have unobligated Corps funding balances, and have not received additional federal appropriations for recapitalization or modernization since originally authorized.

Individual projects will be required to receive specific congressional approval with detailed project management plans. In approved projects, the non-federal partner would receive full project management control for financing, design, and construction (or combinations thereof). The bill also requires the Corps to submit a report to Congress within three years describing the results of the program and recommendations on whether it should be expanded.

**Overwhelming Support**

WRRDA is the product of a House-Senate conference committee formed to forge consensus on a single water infrastructure bill after each chamber passed variants of the current bill last year. Despite the current political dynamics in Congress, the legislation has bipartisan support, as WRRDA passed by overwhelming margins in each chamber: 412–4 in the House and 91–7 in the Senate.

Overall, the legislation authorizes $12.3 billion in water-related spending over the next decade—down significantly from the $23 billion approved in the last water reauthorization in 2007—and makes some other reforms, most notably streamlining the Corps’ environmental review process to accelerate projects and amending the Clean Water Act’s provisions on state revolving loan funds to increase flexibility in their application.

The WRRDA received support from a wide variety of organizations and interest groups, including the U.S. Chamber of Commerce, American Society of Civil Engineers, National Governors Association, National League of Cities, and Nature Conservancy.

It remains to be seen how much of a boost WRRDA will give to water-supply privatization. As the aforementioned Mayer Brown analysis noted, the WIFIA program is much smaller in scale than the TIFIA program was when it was first enacted as a pilot—$20 million in first-year WIFIA funding compared to TIFIA’s $80 million in 1999—despite the larger investments needed nationally in water projects relative to transportation. Although it represents a symbolic step forward in federal credit support for water PPPs, the WIFIA program appears to be more of a toe in the water than jumping in with both feet.

**Middle Ground**

In addition, unlike TIFIA, WIFIA does not allow project sponsors to use tax-exempt debt to cover any portion of the remaining 51 percent (or more) of project costs, including private activity bonds (PABs). A number of transportation PPP projects over the past decade have relied on both TIFIA and PABs to minimize the costs of capital. Even though TIFIA was modified in recent years to allow the program to cover up to 49 percent of project costs like WIFIA, no project has had more than 33 percent of its costs covered through TIFIA. It’s reasonable to expect water projects to be treated similarly.

This restriction on combining tax-exempt debt with WIFIA loans could affect the financial viability of potential PPP projects if interest rates rise significantly. But with the current federal cap on states’ use of PABs, PABs have been less important to water projects than transportation and other sectors.

Still, the PPP provisions in WRRDA have established a positive foundation. Understanding the need to spend $600 billion to $1 trillion on U.S. water and wastewater systems in the coming decades—$384 billion in drinking water investments alone, according to EPA—the WRRDA is a step in the right direction of addressing chronically deferred maintenance and modernizing the nation’s aging infrastructure.

Leonard Gilroy is director of government reform at Reason Foundation. Used with permission of Reason.org.
Right-to-Work States Lead Way in Income Growth

By Zachary Woodman

During the debate in Michigan over right-to-work, the state’s 2012 statute, critics commonly incited fear that it would result in lower incomes for Michigan workers.

For example, President Barack Obama claimed in 2012 that the law meant “giving you the right to work for less money.” Government data, however, show right-to-work states having stronger income growth.

As right-to-work is being discussed in other states, including Missouri, reservations about its impact on income are reiterated. The Committee to Protect Missouri Families, a coalition fighting right-to-work legislation, claims on its website that the law “cuts wages and stifles job growth by reducing people’s discretionary income. When people have less discretionary income, they spend less, which in turn, hurts the economy.”

Higher Income, Population Growth

The concrete evidence, however, contradicts such claims. According to data from the U.S. Bureau of Economic Analysis, inflation-adjusted per-capita personal income growth in right-to-work states is higher than in non-right-to-work states. Between 1990 and 2013, inflation-adjusted per-capita personal income growth in all right-to-work states grew by 30.7 percent compared to 27.5 percent in all forced-unionization states.

Seven of the 10 states with the fastest growth in personal income growth between 1990 and 2013 in right-to-work states were right-to-work and one, Oklahoma, became right-to-work halfway through the period.

The advantage of right-to-work states in income growth becomes more apparent when the components of per-capita income growth are considered. Right-to-work states have enjoyed even more considerable advantages in both population and gross personal income growth. Population in right-to-work states grew by 42.7 percent between 1990 and 2013 as opposed to 18.7 percent for forced-unionization states. For inflation-adjusted gross personal income, right-to-work states gained 86.5 percent between 1990 and 2013 versus 51.3 percent for forced unionization states.

More Disposable Income

When it comes to disposable income—the income workers receive after state, federal, and local taxes—right-to-work states also dominate. According to the Bureau of Economic Analysis, inflation-adjusted per-capita disposable personal income growth between 1990 and 2013 in right-to-work states was 31.8 percent as opposed to 27.2 percent in forced-unionization states. Seven of the 10 states with the fastest growth between 1990 and 2013 in inflation-adjusted per-capita disposable personal income were right-to-work states (again including Oklahoma, which became a right-to-work state halfway through the period).

A 2013 study by Michael J. Hicks, a member of the board of scholars of the Mackinac Center and a professor at Ball State University, and Michael LaFaive, director of the Morey Fiscal Policy Initiative at the Mackinac Center, analyzed the impact of right-to-work legislation on real incomes between 1947 and 2011. The study used an econometric model designed to overcome timing difficulties, economic variables, policies unrelated to right-to-work, and other research difficulties by dividing the data into four time periods. LaFaive and Hicks found that right-to-work laws boosted average annual real personal income growth by 0.75 percent between 1947 and 2011 compared to the growth rates would have experienced without right-to-work laws.

Zachary Woodman (author@mackinac.org) is a research intern with the Mackinac Center for Public Policy. Used with permission of Mackinac.org.
The Race to Waste: Will Florida See Pitfalls of Light Rail Transit?

By Randal O'Toole

Backers of the Greenlight Pinellas project propose building a 24-mile-long light rail line from downtown St. Petersburg to Clearwater, Florida. This would undoubtedly be a disaster for transit riders, taxpayers, and auto drivers in the region.

Suppose someone offered you a new transportation technology that would cost 50 times more than starting up a new bus service while carrying fewer people per hour. That is what light rail transit is all about.

Low-Capacity Transit

Contrary to claims that light rail is “high-capacity transit,” the “light” in light rail refers not to weight but to capacity: light rail means low-capacity rail transit.

Light rail trains can usually be no longer than three cars, each holding up to 150 people. For safety reasons, tracks can carry only about 20 trains per hour, meaning light rail can move about 9,000 people per hour.

By comparison, a single bus stop can serve more than 40 buses per hour, and by staggering bus stops, a city street can serve more than 160 per hour. Standard buses have about 40 seats and room for 20 people standing, making it possible to move more than 10,000 people per hour.

By that seems inadequate, double-decker buses can move 18,000 people per hour.

$50 Million a Mile

Light rail is prohibitively expensive, costing an average of $50 million per rail mile, and the vehicles cost about $4.5 million each. Buses share the cost of streets with cars and trucks, and each bus costs on average only about $400,000 ($700,000 for double-decker buses).

Immediately after a light rail system is built, maintenance costs are low, but those costs grow rapidly as infrastructure ages. American rail transit systems have a $60 billion maintenance backlog that is growing because agencies don’t have enough money to keep systems in shape.

When systems are operating at capacity, more than half of light-rail riders have to stand, clinging to strap-hangers, whereas 80 percent of bus riders get to sit comfortably. New buses may be equipped with power ports at each seat, on-board Wi-Fi, and other amenities to attract riders.

Buses can go anywhere streets go, which means once they leave city centers, they can fan out to many neighborhoods. Trains go only where rails go, forcing most riders to switch to a car or bus to get to their actual destination. Buses are the superior mode of transportation for maintaining public safety. More than a dozen people die in light rail accidents per billion passenger miles carried, compared with just four fatalities in bus accidents.

Dirtier Than Average SUV

Light rail is powered by electricity, and most electricity in the United States comes from burning fossil fuels, so this mode of transportation is not particularly green. Light rail lines in Baltimore, Buffalo, Cleveland, Dallas, Norfolk, Pittsburgh, and Salt Lake City use more energy and emit more greenhouse gases, per passenger mile, than the average SUV.

Proponents claim light rail contributes to economic development. In fact, nearly every light rail city has had to subsidize development along the light-rail route. These subsidies typically come from property taxes that otherwise would have gone to schools, libraries, fire departments, and other services.

Understanding all of these problems, why do so many cities want to build rail? The answer is a federal fund called New Starts, which promises $60 billion for transit agencies to cut bus service, harming transit riders.

The race to build light rail is a race to waste money. Pinellas County and other jurisdictions around the country should stay out of this race and stick to providing comfortable, affordable bus services.

Randal O’Toole (rot@cato.org) is a senior fellow with the Cato Institute and author of The Worst of Both: The Rise of High-Cost, Low-Capacity Rail Transit. Used with permission of Watchdog.org.
Pennsylvania Pension Reform Plan Would Save Billions, But Not Now

By Eric Boehm

An effort to overhaul Pennsylvania’s public-sector pension plans received a key endorsement in June but still faces several hurdles and would do little to solve the short-term pension problems in this year’s state budget.

The plan, sponsored by state Rep. Mike Tobash (R-Schuylkill), would scrap the current defined-benefit pension system in favor of a so-called stacked hybrid pension plan that would incorporate elements of the current system and 401(k) plans more commonly found in the private sector. The changes would affect only new hires—current employees and retirees would keep the current benefit structure.

Up to $14 Billion Over 30 Years

The Public Employees Retirement Commission, or PERC, which advises the General Assembly on pension issues, published an actuarial analysis of the plan showing long-term savings of about $11 billion over the next 30 years, with most of the savings being realized more than two decades from now.

“It’s a shift in liabilities, and it’s a significant change,” said Jim McAneny, executive director of PERC. “But it will take years before the savings are fully realized.”

A separate analysis by actuaries working under contract for Gov. Tom Corbett (R) forecasts $14 billion in savings. Pennsylvania is trying to come to terms with $48 billion in unfunded liabilities. That number is expected to grow to more than $65 billion within a few years, absent any policy change.

Tobash said solving the structural problems in the pension system has to come first, before discussions about paying down the existing debt can take place.

‘No Overnight Fix’

“Short-term fixes are what has gotten us into this mess,” Tobash said. “We have to start digging ourselves out of this situation. There is no overnight fix.”

The current defined-benefit system places the investment risk fully on the employer, which is either the state or the school district in the case of public pensions, ultimately placing that burden on the taxpayers. Tobash’s hybrid model would maintain a defined-benefit system for the first $50,000 in annual salary for each employee.

Employees earning more than that amount would have a 401(k)-style defined-contribution plan “stacked” on top of the defined-benefit plan.

Essentially, there would be a “safety net” defined-benefit plan for all employees, which can be added to with a defined-contribution plan, in which individual employees can choose how much risk they want to take, McAneny said.

From the state’s perspective, those changes will split the risk between the employer and the employees, preventing the state from running up massive pension debts in the event of another severe downturn in the financial markets.

Surging Pension Payments

Tobash’s bill does not address short-term problems such as the ballooning pension payments owed by the state and school districts over the next few years.

Given the year’s already-tight budget, the Corbett Administration has been keen to find savings by reducing pension payments. Annual pension payments are projected to grow from $1.5 billion this year to more than $2 billion next year and $4 billion by 2020.

To address the short-term costs would require potentially unlawful cuts to benefits for current employees and retirees. Making changes only for future hires would avoid those legal problems, McAneny said.

“Short-term fixes are what has gotten us into this mess. We have to start digging ourselves out of this situation. There is no overnight fix.”

MIKE TOBASH, STATE REPRESENTATIVE
SCHUYLKILL, PENNSYLVANIA

“We need to focus on paying down the pension debt—not on making the long-term situation worse just to score political points or free up revenue for an election-year budget. The only way to reduce the debt is to make the payments.”

JOE MARKOSEK
STATE REPRESENTATIVE
ALLEGHENY, PENNSYLVANIA

“Short-term fixes are what has gotten us into this mess. We have to start digging ourselves out of this situation. There is no overnight fix.”

That’s the limitation on what we can do, constitutionally,” he said.

But making the changes Tobash has proposed would improve the state’s long-term pension situation if lawmakers fully fund the plans, according to McAneny. That’s something that hasn’t been done in more than a decade.

Politically, there are still many hurdles to overcome before the pension bill can pass.

Opposition from Varied Groups

House Democrats have poked holes in Tobash’s plan. They would prefer to continue with a pension funding formula approved in 2010 that also includes cuts to future employees’ benefits.

A memo circulated by state Rep. Joe Markosek (D-Allegheny), minority chairman of the House Appropriations Committee, noted the Tobash plan does not provide any short-term savings for the state or school districts and called attention to a component that would eliminate a $100 per month health care supplement for retired school workers.

“We need to focus on paying down the pension debt—not on making the long-term situation worse just to score political points or free up revenue for an election-year budget,” wrote Markosek. “The only way to reduce the debt is to make the payments.”

Unions also oppose the pension overhaul.

Rick Bloomingdale, president of the Pennsylvania AFL-CIO, said Tobash’s proposal would hurt future workers’ retirement security because the $50,000 limit for the defined-benefit portion of the new plan would be indexed by 1 percent per year—a figure that would not keep up with inflation.

Tobash may also face resistance from the conservative flank of his own party, where many members favor a full transition to a 401(k)-style retirement system, instead of his hybrid approach.

The Commonwealth Foundation, a free-market think tank that favors such a 401(k) system for public pensions, published a report earlier this year showing how the state could save $52 billion over the next three decades by making that switch—an approach lawmakers in Oklahoma approved earlier that month.

Still, Tobash said the PERC report was a key step forward for the legislation. But the measure was steered into the House Human Services Committee in early-July, making it unlikely to reach the governor’s desk this session.

Eric Boehm writes for The Pennsylvania Independent, where this column first appeared.
Federal Foreign Bank Filing Requirements Grow More Stringent

By Mark Nestmann

If you think June 30, 2014, was just another lazy, hazy summer day, think again.

If you’re a U.S. citizen or permanent resident, this may be a date to remember. It was the deadline to report signatory or “other” authority over, or financial interest in, any “foreign bank, securities, or ‘other’ financial accounts” if the aggregate value of those accounts exceeded $10,000 USD at any time in 2013 by filing a Report of Foreign Bank and Financial Accounts (FBAR).

There’s even a shiny new form for the FBAR that you must file electronically: FinCEN Report 114. The government will no longer accept the old paper form—FinCEN Form TD F 90-22.1. (FinCEN, the “Financial Crimes Enforcement Network,” is the Treasury bureau responsible for collecting FBARs.)

You might be surprised to discover what Uncle Sam considers a reportable account. If you have a foreign bank account or securities account, it’s clear you must file. But there are other, more ambiguous offshore relationships you may have to report.

The IRS answers some questions about reporting foreign accounts at a link on its site. But traps remain for the unwary.

On Again, Off Again Rules

Sometimes the IRS changes its policies, with catastrophic results for taxpayers. One can look to online poker accounts as an example of this phenomenon.

Since online gambling is (mostly) illegal in the United States, Web sites catering to gamblers operate internationally. Until 2008, FinCEN stated that online poker accounts did not need to be reported on the FBAR. In 2009, it shifted gears and declared these accounts to be reportable. Then, in 2011, FinCEN reversed its decision. Online poker accounts were once again non-reportable.

This written guidance, though, did not help John Hom, who gambled online and set up accounts at two online poker companies. He used a third online company to facilitate the transfer of funds to the poker accounts. All three companies were organized outside the United States.

The IRS charged Hom with not reporting the accounts on the FBAR. It assessed civil penalties of $30,000 for the three unreported accounts for 2006 ($10,000 for each account) and $10,000 for a single unreported account in 2007. Including interest, Hom owes more than $45,000.

Hom appealed the penalty to a federal district court. But on June 4, a judge ruled all three accounts were reportable on the FBAR.

FBAR Instructions Meaningless

Perhaps Hom’s biggest issue was that he represented himself before the court. Still, he made some valid points. He argued that since many of the actual accounts companies maintained were in the United States, the IRS had no proof that he had any “foreign accounts.” He also pointed to the FBAR instructions for support, which state “the geographic location of the account, not the nationality of the financial institution in which the account is found, determines whether it is an account in a foreign country.”

The district court disagreed. It ruled an account’s location is determined by its host institution, not where the physical money might be stored after it is sent to a bank.

Adding insult to injury, the court held that instructions for the FBAR form aren’t legally binding, because “interpretation by taxpayers of the language used in government pamphlets cannot act as an estoppel on the government, nor change the meaning of tax statutes.”

An “estoppel” is a rule of evidence that prevents someone from denying the truth of a statement of facts that person previously asserted. In other words, when it comes to the FBAR, normal rules of evidence simply don’t apply.

In some respects, Hom was lucky. The IRS didn’t accuse him of “willfully” failing to file FBARs. That capped the civil penalty at $10,000 per account per year.

Still, the Hom decision is scary because it ignores FinCEN’s written guidance, not to mention its arrogant dismissal of the plain wording of the FBAR instructions.

Professional Help Is Vital

Those who have any kind of non-U.S. financial relationships, no matter how far removed they are from the ordinary meaning of an “account,” should ask a tax professional for help.

You must disclose any “reportable” foreign accounts on Schedule B of Form 1040. This is a simple “yes or no” declaration, along with a list of the countries in which you hold foreign accounts.

You must file Form 8938 to report “specified foreign financial assets” you hold outside the United States with a total aggregate value of more than $50,000 on the last day of the tax year or more than $75,000 at any time during the tax year.

Both Schedule B and Form 8938 must be filed with your tax return.

Used with permission of Nestmann’s Notes at Nestmann.com.
Tax Incentives for Businesses Cause More Harm Than Good, Study Finds

By Steve Stanek

Although the majority of empirical studies on tax incentives “find that they have little or no effect on employment or the economy as a whole,” states and local governments have been steadily increasing the number of taxpayer handouts to select businesses. The practice “sows the seed of cronyism, the established practice of exchanging favors between powerful people in politics and business.”

So write the authors of a new study on targeted tax benefits for businesses published by the Mercatus Center at George Mason University. “The Political Economy of State-Provided Targeted Benefits,” by Christopher J. Coyne and Lotta Moberg, found large and politically powerful businesses often benefit from these at the expense of smaller and less politically connected businesses, consumers, and taxpayers.

Coyne and Moberg also found most states do a poor job evaluating the true costs and results of targeted incentive programs, including the unseen and often unintended consequences of using government policy to steer money to some businesses and locations and away from others.

‘Institutionalizing Cronyism’

In an email interview, Coyne said he and Moberg launched the study “after realizing that these policies had costs which very few people were discussing. What surprised me most was the one-sided nature of targeted benefit policies. Even the term—‘targeted benefits’—implies that these policies are a net benefit to taxpayers. The reality is that they often aren’t.

‘On top of that, the use of these policies sets off a series of unintended consequences by incentivizing lobbying, which can institutionalize cronyism. The broader issue is that cronyism undermines the very foundations of what makes a market economy so dynamic and effective: competition driven by the profit and loss mechanism, not by political favoritism.”

Walmart, Apple, Google Cited

The study provides the example of Walmart, which has received “at least 260 special benefits in the United States, worth over $1.2 billion in total.” Although this helps Walmart, it hurts the company’s competitors. The authors note evidence showing “while a Walmart store generates an average of 100 jobs, 50 jobs also disappear as other retailers are outcompeted.”

Then there’s Apple. The Cupertino-based company received $370 million of incentives to locate a facility in North Carolina in 2007. With a promise of 50 employees at the facility, the cost comes to $7.4 million per employee. North Carolina also promised $255 million of incentives to Google.

“If a state really is a good location for a particular firm, there should not be a need for the government to lure it with targeted benefits,” Coyne and Moberg write in their study. “Established companies like Google and Apple surely do not need help covering the start-up costs. More generally, nobody knows what the dominant industries in the future will be. Neither can anyone foresee which companies will deliver large positive external effects on other companies in the same state. ... [P]olitical actors have an incentive to invest taxpayer money in large-scale, observable investments that appear to contribute to economic activity and wellbeing—even if they do not.”

‘Risk of Undermining’ the Economy

Coyne said he believes most policymakers have good intentions but “contrary to their intentions, they run the risk of undermining the dynamism and competitiveness of their economy by allowing political competition to replace economic competition. If they are concerned about attracting businesses to their state or municipality, they should focus on general rules that apply equally to all. What regulations, rules, taxes, etc. are preventing businesses from moving to your area? And how can they be changed to make your state or municipality more attractive? This is more effective than selectively choosing some recipients for government handouts.”

He added, “I do think this is an area where both the right and left can, and do, find common ground. The reason is that targeted benefit policies not only undermine free markets (an issue near and dear to those on the right) but also tend to favor businesses that have political connections and resources to lobby at the expense of taxpayers and businesses that don’t have these connections and resources (an issue of particular interest to those on the left).”

Steve Stanek (setanek@heartland.org) is a research fellow at The Heartland Institute and managing editor of Budget & Tax News. He has been writing and editing for Heartland since 2003.
Ohio is considering a back-to-school tax holiday in August, but some tax experts and economists question the effectiveness of the practice.

House Bill 450 would establish a three-day tax holiday in which sales and use taxes would not be applied on back-to-school items such as clothing, school supplies, and computers.

Meg Wiehe, policy director at the Institute on Taxation and Economic Policy, said 16 to 20 states observe similar tax holidays as a way to increase sales, but none of the anticipated economic goals is achieved.

“The policy intent was that there’s a time of year that families had a need to get prepared for school and this is a way of giving them a break,” said Wiehe. “In practice that is not entirely how they work.”

Wiehe said families spend the same amount on necessary items with or without the tax holiday.

‘Not Very Effective’

“I don’t think they are very effective at being targeted,” Wiehe said. “Those very people who are hit the hardest by sales taxes don’t have the ability to shift the timing of their purchases based on when the sales tax holiday is. People who have more money are able to shift their purchases to when the sales tax is scheduled.”

Wiehe notes some states consider tax holidays a way to achieve a competitive edge against neighboring states. She cites Florida as an example of a state that has considered using tax holidays as a way to attract tourists.

Most tax holidays are established for school supplies, computers, and clothes before a school year starts, but some states use them to increase sales of items related to hurricane preparedness, guns and ammunition before hunting season, and energy-efficient appliances, Wiehe said.

“In recent years when lawmakers have debated whether or not to have tax holidays, there are lots of arguments. They’re costly,” Wiehe said, adding that even though the tax holidays aren’t significantly expensive to states, even $20,000 or $30,000 could make a difference in a state that is having financial difficulty.

Scott Drenkard, an economist for the nonpartisan Tax Foundation, agreed tax holidays don’t work.

“The biggest problem I have with them is it gives policymakers who aren’t particularly good at tax reform the ability to claim credit for a policy that doesn’t have the beneficial effects that true tax reform does,” Drenkard said. “It’s a gimmick. They’re not real tax reform.”

Sales Shifted, Not Increased

Drenkard said tax holidays only change when purchases are made. Holidays lead to increased sales on a particular weekend or week, but they do not increase the overall sales for the year.

Drenkard also said tax holidays become complicated for retailers, and especially small businesses, as they have to reprogram their computers and registers to keep from applying sales tax to certain items during the holiday.

Greg Lawson, statehouse liaison and policy analyst at the Buckeye Institute for Public Policy Solutions, also characterized Ohio’s proposed tax holiday as a gimmick.

“Essentially, a specified class of purchasable items is temporarily able to be sold without sales tax attached, frequently back-to-school-type holidays or clothing. The idea is that this will increase purchases and stimulate economic activity.” Instead, the timing of the purchase is shifted and the total amount of purchases is not increased, he said.

“The problem is that there is no lasting effect,” Lawson said. “They are essentially gimmicks that actually reduce revenue to the state without creating a substantial overall increase in economic activity.”

Wiehe, Drenkard, and Lawson all say states should take a different approach if they want to achieve the stated goals of a tax holiday.

Year-Round Cuts Better

“It would make more sense to do it as an exemption. An exemption all year round or a targeted tax credit would make more sense,” Wiehe said.

“What would be a better approach is just cutting tax rates year round,” said Drenkard. “Broader bases and lower rates. That’s real sales tax reform.”

“Sales taxes should be simply and predictably structured at a low rate and a broad base,” Lawson said. “This is the least distortive way of implementing them. Sales tax holidays fly in the face of these principles by temporarily removing items out of the base of what is taxed while adding administrative burdens—for example, reprogramming cash registers. The real problem, however, is that these are temporary gimmicks that do nothing to advance fundamental tax reform. In fact, all they really do is validate the case that the overall tax burden is probably too high in the first place.”

Lawson added, “Ultimately, policymakers should establish simple tax systems that raise necessary revenue in the least obtrusive way possible for the largest number of people and businesses. That won’t be done so long as they cling to temporary band-aids like sales tax holidays.”

Heather Kays (heather.a.kays@gmail.com) reports from River Edge, New Jersey.
State Hands Detroit $195 Million; Pensions Still Big Bankruptcy Issue

By Tom Gantert

The $195 million bailout of bankrupt Detroit that Michigan legislators approved in June prevented steeper cuts to the city’s pensions but does little to solve longstanding pension issues.

Republican Gov. Rick Snyder called the state bailout “a good solution.”

“This is a way we can support one another and again make it Detroit, Michigan instead of Detroit vs. Michigan,” he told reporters after the Senate okayed the measure. The House had approved it two weeks earlier.

But the problems that led to the city’s bankruptcy go back decades, and critics say the bailout does little to solve one of the main problems: the failure to properly fund the city’s pension obligations.

The bailout of Detroit played out over a year and involved an estimated 100,000 individual creditors and more than 40 labor unions. The city’s population has dwindled over decades, falling from 1.8 million residents in 1950 to 684,799 as of December 2012. Unemployment in the city reached as high as 23.4 percent in June 2010.

Assets in Art

The debate sparked controversy, with discussions of potentially selling off the city’s art collection from the Detroit Institute of Arts. The Mackinac Center for Public Policy’s Fiscal Analyst Michael LaFaive wrote that the city could get $200 million if it sold just one of its paintings.

“The sale of a single painting would hardly be a death blow to the city,” LaFaive wrote. “The art museum would still contain a magnificent collection of works by Bellini, Van Gogh, Rembrandt, Monet, Degas, and many others.”

The deal would save the art, with the help of 12 foundations also committing hundreds of millions of dollars to the rescue. The art museum and its assets would be transferred to a private nonprofit organization. City retirees and workers must approve the deal, but it has the endorsement of union leaders and is expected to win rank-and-file approval.

State Rep. Coleman Young II said, “Yes, the collection of the Detroit Institute of Arts will not be sold off to pay shady bankers who made loans to a city who they knew couldn’t afford it—the definition of predatory lending.”

Then and Now

However, it was Young and the state legislature that passed a bill in 2009 that increased the City of Detroit’s borrowing cap from $125 million to $250 million so it could take on more debt. Taxpayers ultimately picked up the tab, despite assurances by Detroit’s emergency manager, Kevyn Orr, just a year earlier they wouldn’t be asked to do so.

In July 2013, Orr told Fox News, “We’ve operated on the assumption that we have to cure this problem on our own. We are not expecting the cavalry to come charging in. We are out here at an outpost, and we have to fix it because we dug this hole. That’s the assumption we’re operating on.”

In December 2013, Orr said in an interview with Public Sector, Inc., “It was made abundantly clear that a state bailout of Detroit’s finances was not a possibility.”

Orr added, “The problems we are addressing are more than 60 years in the making and won’t be solved in a few months.”

The concerns about Detroit’s underfunded retiree pensions were the subject of debate in 1961 at the state’s constitutional convention when Michigan’s constitution was changed. Back then, Detroit had underfunded pensions by $1.2 billion when adjusted for inflation. The delegates were concerned Detroit wasn’t putting in enough money to pay for retirement benefits.

Need Seen as Urgent

The underfunding of pensions has to be addressed in 2014, said James Hohman, assistant director of fiscal policy at the Mackinac Center.

“Your employees should not be your biggest creditor,” Hohman said. “One of the only reasons they are asking for a bailout is because they underfunded their pension systems.” When discussions began about the possibility of the city filing for bankruptcy, there wasn’t even agreement on the size of the city’s unfunded pension liability. The city of Detroit said it was just $640 million but Orr’s office had it at $3.5 billion.

And the bailout doesn’t solve any of Detroit’s lingering problems.

Hohman said the city should get out of a defined-benefit contribution plan where pensioners receive an annual pension and replace it with a 401(k) type defined-contribution plan.

Reform Rollback

In an earlier form the Detroit bailout bill would have closed the city’s pension system and shifted new employees into a defined-contribution plan. But that bill was changed in committee, and the shift to the 401(k) plan was taken out.

Hohman said Detroit has to learn how to operate within its means. The city is allowed by law to collect two taxes available to no other city in Michigan—a utility user’s tax and a casino “wagering” tax—that brought in $221.4 million in 2012.

Detroit also receives $335 per person in state-shared revenue, by far the most among Michigan cities. The second-highest is Pontiac, at $176 per person.

Tom Gantert is senior capitol correspondent for Michigan Capitol Confidential, a daily news site of the Mackinac Center for Public Policy.
Property rights in Minnesota received added protections when Gov. Mark Dayton signed SF 874 into law, requiring property owners to be convicted of a drug crime before their property can be seized through forfeiture. The law goes into effect August 1.

Civil forfeiture makes it easy for police and prosecutors to seize and keep property even if the owner has never been convicted of or even charged with a crime.

Under existing law, cash, cars, and other property may be seized if police merely suspect it was involved in a drug crime. Then, it is up to property owners to sue in civil court to get their property back and prove it was not linked to a drug crime.

In other words, property owners must prove a negative—that they did not do something wrong. The government needs to prove nothing.

A push for civil forfeiture reform began five years ago after a scandal involving a Minnesota police task force that repeatedly lost evidence and seized money and other valuables from people who were never charged with a crime. Police and prosecutors have fought bitterly against reform efforts.

Few Get Property Back

Property owners do not sue to regain their property because the legal costs often are too high.

“No one acquitted in criminal court should lose his property in civil court,” said Lee McGrath, legislative counsel for the Institute for Justice, one of the advocates for the legislation. “This change makes Minnesota’s law consistent with the great American presumption that a person and his property are innocent until proven guilty.”

According to the state auditor’s report on forfeiture, Minnesota law enforcement agencies reported more than 6,850 seizures of property in 2012 worth more than $6.6 million—90 percent of which went to supplement the budgets of law enforcement agencies.

The average property seized was worth about $1,250.

Government Must Prove Guilt

“The average seizure in Minnesota is so small that it makes little sense for even an innocent person to file a civil lawsuit to try to get back his property because of the high cost of hiring a lawyer,” said Max Keller, a criminal defense lawyer and representative of the Minnesota Association of Criminal Defense Lawyers who testified in support of the legislation.

“Under the new law, the government will have the burden of proof that the vehicle and cash are part of the proven crime. By switching the burden of proof to the government, the new law will make it more likely that some innocent people will spend the money to get their property back. In that way, this bill is an important step toward greater protection of due process and property rights.”

SF 874 was written by state Sen. Dave Thompson (R-Lakeville) and state Rep. Susan Allen (DFL-Minneapolis).
Regulations Top Concern to Small Business Owners

By Barbara Pruitt

Small-business owners in Utah, Idaho, Texas, Virginia, and Louisiana gave their states the highest ratings for friendliness to small business, according to Thumbtack.com.

The group released the third annual Thumbtack.com Small Business Friendliness Survey with the Ewing Kauffman Foundation. Small businesses in Colorado Springs, Boise, and Houston gave their cities the highest ratings.

Small-business owners gave California, Rhode Island, and Illinois an “F,” by contrast, and Connecticut and New Jersey both earned “D” grades. Sacramento, Providence, and Buffalo were the survey’s worst-performing cities as rated by their small-business owners.

More than 12,000 entrepreneurs nationwide participated in this year’s survey. The Thumbtack.com Small Business Friendliness Survey is the largest survey of its kind and is the only survey to obtain data from an extensive nationwide sample of small business owners to determine the most business-friendly locations.

The survey ranked 82 cities and most states on what makes a positive environment for small businesses.

‘Keys Are Ease of Compliance’

“Creating a business climate that is welcoming to small, dynamic businesses is more important than ever, but rarely does anyone ask small business owners themselves about what makes for a pro-entrepreneur environment,” said Jon Lieber, chief economist of Thumbtack.com. “Thousands of small business owners across the country told us that the keys to a pro-growth environment are ease of compliance with tax and regulatory systems and helpful training programs.”

Some of the survey’s key findings include:

- Small businesses in Texas, Utah, and Idaho have rated their states in the top five every year this survey has run, while California and Rhode Island have ranked in the bottom five every year.
- The friendliness of professional licensing requirements was the most important regulatory issue in determining a state’s overall friendliness to small businesses. Closely following licensing requirements was the ease of filing taxes.
- Tax rates were a less important factor than the ease of regulatory compliance in determining the overall friendliness score of a jurisdiction. Two-thirds of respondents said they paid their “fair share” of taxes—they thought they were neither underpaying nor overpaying.
- Small-business owners who were aware of training programs offered by their government were significantly more likely to say their government was friendly to small businesses than those who weren’t. Awareness of training programs raised overall scores by 10 percent, as 76 percent of those who said they were aware of government-sponsored training programs for business owners ranked their local government as “somewhat” or “very supportive,” and only 8 percent of these said local government was unsupportive.
- Only 19 percent of respondents said they were prepared for implementation of the Affordable Care Act.
- Female entrepreneurs were more likely than male entrepreneurs to say their state government was friendly to small business, and male entrepreneurs were more likely than female entrepreneurs to have a positive view on the outlook of their state economy.
- Kentucky’s grade was this year’s most improved, jumping from a B- to an A.

‘Critical to Economic Growth’

“It is critical to the economic health of every city and state to create an entrepreneur-friendly environment,” said Dane Stangler, vice president of research and policy at the Kauffman Foundation. “Policymakers put themselves in the best position to encourage sustainable growth and long-term prosperity by listening to the voices of small business owners themselves.”

Complete results are available at the Thumbtack.com website and include full sets of rankings and dozens of easily searchable quotes from small businesses nationwide. Each state and city also has its own data visualization showing its detailed survey results.

Survey Method

Thumbtack.com surveyed 12,632 small businesses across the United States. The survey asked questions about the friendliness of states and cities toward small business, such as:

- “In general, how would you rate your state’s support of small business owners?”
- “Would you discourage or encourage someone from starting a new business where you live?” and
- “Do you think you pay your fair share of taxes?”

Thumbtack.com and the Kauffman Foundation evaluated states and cities against one another along more than a dozen metrics. The full methodology paper can be found online.

Barbara Pruitt serves as director of communications for the Ewing Marion Kauffman Foundation.
Hertz Handed $85 Mil., Hands Back Dubious Financial Reports

By William Patrick

A recent financial disclosure casts a dark shadow over a deal that sent $85 million in tax incentives, including $19 million in upfront cash, from Florida’s public coffers to a Fortune 500 company.

Hertz Corp., best known as a rental car giant, has filed a filing document with the U.S. Securities and Exchange Commission acknowledging that its past three years of financial statements are riddled with errors and unreliable.

According to the filing, an internal audit concluded, “The financial statements for 2011 should no longer be relied upon, and Hertz must restate them. Hertz also needs to correct the 2012 and 2013 financial statements to reflect these errors.”

“Something Deeper Going On’

“There’s clearly something deeper going on than we’ve seen,” Maryann Keller, an auto industry consultant and former director of Dollar Thrifty Automotive Group Inc., which Hertz acquired in 2012, told Bloomberg News.

“We have no idea what we’re dealing with here, no idea what this company’s financial condition is, what the past level of profitability is, and no basis on which to judge what its future profitability may be,” said Keller.

The company’s stock price fell by about 12 percent between the time the accounting issues became public and the close of the stock market on the following Monday, with a further slide in after-hours trading.

During part of the misstated financial periods, Hertz and Florida Gov. Rick Scott’s administration were negotiating in secret, due to exemptions in public records laws relating to economic development. In exchange for the $85 million in tax giveaways, Hertz committed to relocate its corporate headquarters from New Jersey to the small town of Estero, 25 miles outside of Naples.

Incentives Based on Company’s Health

The deal was announced in May 2013 and was based upon Hertz’s economic health and the promise of 700 jobs, as well as other items. Scott called the deal “a huge win for Florida families.”

Watchdog.org contacted Hertz for comment but was told in an email by Richard Broome, executive vice president of corporate affairs and communications, the company wasn’t able to respond beyond the text of the Form 8-K. Form 8-K is a Securities and Exchange Commission form in which companies describe assumptions regarding future events or performance.

“The incentives made our relocation possible because it is necessary to offset our costs to make this work over the long term,” Broome told Watchdog.org last year when the deal was announced.

“Broadly, what you see with tax incentives deals is that businesses, even businesses that already know where they want to relocate, go and ask states and localities for tax incentives,” Nicole Kaeding, a budget analyst for the Cato Institute, told Watchdog.org.

“From their perspective, it doesn’t hurt to ask,” she said. “The worst that a state can tell them is ‘no.’ But they never hear ‘no.’”

Questions About Necessity

Florida has a better tax environment than New Jersey, and the Sunshine State is a huge tourism and car rental market, raising questions at the time as to whether the incentive package was necessary.

In 2012, Hertz Global Holdings Inc. reported a record year in revenue and income before taxes, according to the company’s erroneous annual investor report. Hertz also acquired Dollar Thrifty for $2.3 billion.

“As the world’s largest airport car rental brand, it’s a perfect fit to locate our headquarters in Florida, a global tourism epicenter,” said Mark Frissora, Hertz chairman and CEO, in a press statement.

Enterprise Florida Inc., the state’s chief economic development agency, told Watchdog.org in an email the agency “remains pleased” Hertz selected Florida for its new corporate headquarters.

Sean Helton, director of strategic communications for EFI, said Florida’s economic incentive programs are transparent and performance-based and include claw-back provisions.

“Companies must create jobs, invest capital, and pay state taxes prior to receiving any approved incentive funding or tax rebates,” he said.

Other Incentive Failures

It’s not uncommon for incentive deals to backfire and leave taxpayers exposed to risk. In 2009, former Gov. Charlie Crist directed a $20 million tax incentive package to Digital Domain, a visual effects and digital production company. In 2012, the company shut down its Port St. Lucie office.

Hertz’s accounting problems first appeared when the firm delayed its 2014 first quarter financial statement. The disclosure states major errors were discovered during its preparation and additional inaccuracies were found during further review.

Auditors cited errors in the capitalization and timing of depreciation of non-vehicle assets, uncollectible accounts both domestically and abroad, and other items.

William Patrick (wpattick@watchdog.org) writes for Watchdog.org, where an earlier version of this article appeared. Used with permission.

Putting a Face on America’s Tax Returns

A CHART BOOK

Second Edition

Your guide to understanding America’s tax code and what it means for you.

Order your copy today!
store.taxfoundation.org

Fundamental tax reform can achieve our goals. It can restore the nation’s competitiveness and put us on a path to growth for the future. That is a win for every American.

Scott A. Hodge
President, Tax Foundation
Millions Spent, But No Job Gains from Michigan’s Film Incentives

By Jarrett Skorup

Michigan’s film incentives demonstrate why it is so difficult to get rid of economic development programs.

Susan Dorris, Oakland County film commissioner, found little concrete evidence proving the project’s positive economic impact, even though taxpayers are footing a $35 million corporate welfare break for Warner Bros., a company that brought in $1.2 billion in 2013.

“I have heard the term ‘cast of thousands,’ and I don’t know if that means it’s digitally created or it’s actual people employed,” she said. “But I do know they will be using a lot of extras.”

Even though film subsidies are widely thought to be economically beneficial, such a view is a gross misunderstanding of reality.

Costs Swamp Benefits

There is a lot of economic literature on film subsidy programs, and it is nearly unanimous that they are a poor use of taxpayer dollars. Conservatives, liberals, and everyone in between find the cost outweighs the benefits.

It is only by focusing on the silver lining—an alleged “hundreds of (temporary) jobs for crew members” and “6,000 (low-paying, temporary) jobs for extras”—and ignoring the costs that makes the program look good. Bear in mind that Michiganders have spent $450 million on film subsidies so far with no real gain in the number of actual film jobs. MLive also reported that part of the production could take place at the Michigan Motion Pictures Studio in Pontiac, but the studio missed three payments on $18 million in bond obligations. Under a deal reached in 2010 between the company and then-Gov. Jennifer Granholm, the payments were covered by the underfunded state and public school employee pension funds.

Narrow Benefits, Widespread Costs

This is a case of concentrated benefits with diffuse costs and it is hard to justify state taxpayers propping up a film that admits to having an impact only in Oakland and Wayne counties.

A select number of carpenters and caterers might see a temporary gain from the production if they are hired to build sets or provide food, but what good does that do all the other carpenters and caterers statewide who are forced to chip in to subsidize metro Detroiters?

Estimates show it costs about $15 to fill a pothole. The $35 million subsidy “Batman vs. Superman” is receiving could fill about 2.3 million potholes.

San Diego Council President Calls for Higher Minimum Wage

By Bre Payton

San Diego City Council President Todd Gloria has presented a plan for a ballot measure to increase the minimum wage.

The proposal would increase the minimum wage to $11.50 an hour by January 2017. The increases are phased in. By 2015 the minimum wage would be set at $9.75, and by 2016 it would increase to $10.50.

The minimum wage in the Golden State is currently $8 an hour, 75 cents more than the federal minimum of $7.25. Gloria’s proposed increases coincide with increases to the minimum wage that California has already set. Effective July 1, all Californians will be paid at least $9 an hour. This will increase to $10 an hour by January 2016.

Higher Than State Minimum

Gloria’s proposal would bump San Diego’s minimum wage a bit higher than wages in the rest of the state. The proposal also allows minimum wage workers to acquire sick days.

The Seattle City Council recently passed a minimum wage hike that increased hourly rates to $15 an hour. The rise comes with a few exceptions, unlike Gloria’s proposal.

“Living in San Diego costs more than living in most other areas of California, so it makes sense that our minimum wage should be higher. The modified proposal keeps San Diego’s wage ahead of the state’s and will provide greater opportunities for more of our neighbors,” Gloria said in a news release.

Gloria tweeted a link to the release and the proposal just before the city council was scheduled to meet. It voted 6–3 to begin negotiating with city employees based on Gloria’s wage proposal.

Referendum Possibility in November

After successful labor negotiations, the wage increase will be considered by the council again, at which point it will decide whether the proposal will make it on the November ballot.

This decision to put the measure on the ballot will likely be made in July, a press release from Gloria’s office stated.

This proposal to raise the minimum wage to $11.50 is a modified version of Gloria’s original proposal to raise the wage to $13.09 an hour.

Bre Payton is a reporter for Watchdog.org, where this article first appeared.
ClimateWiki.org
Heartland’s climate change encyclopedia

ClimateWiki is an encyclopedia of climate change research organized by topic. If you are new to the issue, consider reading the Introduction to Global Warming. If you are already well-versed in the issue, search the Featured Categories in the search box to the right or use some of the other navigation tools on this page.

ClimateWiki is moderated and edited by The Heartland Institute, “the world’s most prominent think tank promoting skepticism about man-made climate change.” [The Economist, May 26, 2012].

Interested in becoming a contributor? Visit heartland.org or email think@heartland.org.

The Heartland Institute is a 30-year-old national nonprofit organization based in Chicago. Its mission is to discover, develop, and promote free-market solutions to social and economic problems. For more information, visit our Web site at heartland.org or call 312/377-4000.
You Can Take Our Experts Anywhere

Whatever your policy interests, Heartland’s daily podcasts connect you with key players

**BUDGET AND TAX**
Steve Stanek and other budget and tax policy experts relate news and views from the local, state, and federal arenas.
heartland.org/issues/budgets-and-taxes

**FINANCE, INSURANCE, AND REAL ESTATE**
Stanek also interviews some of the nation’s leading experts on FIRE policy issues.
heartland.org/issues/finance-insurance-and-real-estate

**ENVIRONMENT**
James M. Taylor conducts interviews and breaks news on climate change and other environment issues.
heartland.org/issues/environment

**HEALTH CARE**
Benjamin Domenech interviews leading health care policy analysts and relates news and views from the health policy arena.
heartland.org/issues/health-care

**INFOTECH & TELECOM**
Jim Lakely brings news and views on information technology and telecom issues.
heartland.org/issues/telecom

**EDUCATION**
Joy Pullmann and the staff of the Center for Transforming Education share news and views on topics from distance learning to vouchers.
heartland.org/issues/education

Subscribe to Heartland’s daily podcasts on iTunes or listen from the audio pages at heartland.org

The Heartland Institute is a 30-year-old national nonprofit organization based in Chicago. Its mission is to discover, develop, and promote free-market solutions to social and economic problems. For more information, visit our Web site at heartland.org or call 312/377-4000.