More Tickets, More Crashes
Recent data from Tallahassee, Florida show red-light cameras are costing residents of Florida’s capital city much more than they may realize.  

High-Speed Crack-Up
A court ruled California’s high-speed rail project violated voter-approved safeguards against runaway spending and must draft a new budget and prove there is enough money available to finish the project. Key members of Congress followed up with calls for a review of federal agreements with the California High Speed Rail Authority.  

Illinois School Funding
Local taxpayers in Illinois, through local property taxes, pay $12 billion of the $20 billion it costs to educate kids in the state each year. The state and federal governments cover the rest. But each year, public schools complain they do not have enough money. Some lawmakers want to change how the state funds schools.  

Seeing SPOT Run
The Government Accountability Office says the TSA’s Screening of Passengers by Observation Techniques (SPOT) program does not work and should be defunded.  

Detroit Bankruptcy Judge Says Government Pensions Aren’t Protected
A federal bankruptcy judge has ruled Detroit may reorganize under bankruptcy law. The decision means holders of Detroit bonds could take losses, city workers and retirees could see wages and benefits cut, and other creditors could end up with pennies on the dollars owed. Detroit has more than 100,000 creditors.  

By Steve Stanek
Members of the U.S. House and Senate have approved and the president has signed the first federal budget since 2009, but the deal has received a lukewarm response even from many supporters and outright opposition from many groups on the political left and right.  

Senators voted 64–36 for the measure in December, one week after the House of Representatives voted overwhelmingly in favor of it. Rep. Paul Ryan (R-WI) and Sen. Patty Murray (D-WA) negotiated the deal. Final approval came in January after members of the Tea Party caucus in the Senate were unwilling to support the deal.  

AFSCME attorney Sharon Levine said on CNBC, “It’s a sad day for the people of Detroit. ... We’re going to keep fighting city workers and retirees, civil rights activists, and others oppose the city’s bankruptcy. The American Federation of State, County and Municipal Employees immediately filed a notice of appeal. The union says the judge’s ruling amounts to an unconstitutional attack on retiree benefits.  

Detroit Bankruptcy Judge Says Government Pensions Aren’t Protected
Illinois OKs Pension Reform

By Steve Stanek

Illinois lawmakers approved a bill they and Gov. Pat Quinn (D) say will fix the state’s worst-in-the-nation pension system. Many analysts say it will do no such thing.

Illinois has the lowest credit ratings among the 50 states. The state’s huge unfunded pension obligations are the main reason.

The bill in the Democrat-dominated General Assembly enjoyed bipartisan support, as many Republicans jumped on board to approve it during a special session in early December. Among other things, the law aims to reduce the state’s $100 billion pension shortfall by approximately $20 billion, leaving an unfunded liability of $80 billion.

It also ends the automatic 3 percent annual increase in pension payments retirees have enjoyed. Instead, the 3 percent annual increase applies to a portion of a person’s pension benefit using a formula that multiplies years worked by $1,000. For example, a retiree with 30 years of service would receive the annual increase on a pension benefit of up to $30,000. Any pension benefit above that amount for that retiree would not receive an increase.

The retirement ages to qualify for pension benefits also begin to rise. However, workers currently in their 40s still will be allowed to retire with full benefits in their 50s.

No 401(k) Guarantee

There is also a provision allowing the state’s pension funds to sue if lawmakers fail to make the state’s required payments into the pensions. Lawmakers often have used pension money to fund other spending. This provision appears to put pension funding above all other state spending priorities except debt repayments.

The state also will create a 401(k)-style plan similar to those common in the private sector. In this plan, workers and employers contribute funding, but there is no guaranteed retirement payout as there is with the existing defined-benefit plan. Though pension-reform advocates typically like 401(k)-style plans, this one is already coming in for harsh criticism because it limits participation to only 5 percent of workers hired before 2011, and it allows the state to cancel the plan at any time and “recover” the money. This raises fears the state could seize program participants’ funds.

Warning from History

Though Quinn declared after the House and Senate votes “This is a great day for the taxpayers of Illinois,” taxpayer advocates such as Illinois Policy Institute CEO John Tillman disagree. History is on their side.

House Speaker Michael Madigan (D-Chicago) has been speaker more than 30 years and has presided over pension benefits increases and diversions of state pension system payments to fund other spending. In the 1990s he helped orchestrate a pension system rescue, and since then the state’s unfunded pension liability has grown seven times bigger.

Tillman says this latest Madigan-engineered reform, developed with Senate President John Cullerton (D-Chicago) and the two minority leaders, will perform no better.

“The conversation about pension reform became serious in 2011. At that time, Illinois had an unfunded liability of approximately $80 billion. Today, the official unfunded liability is $100 billion. The bill passed today would—at best—reduce the unfunded liability to $80 billion. It dials back the crisis just to 2011 levels,” said Tillman in a statement.

“The bill passed today purportedly cuts the state’s pension payment by $1 billion next year. Know where that gets us? To the same level payment as the state had for the fiscal year that ended on June 30, 2013,” he added.

Meanwhile, government worker advocates also have serious criticisms of the reform.

“This is no victory for Illinois, but a dark day for its citizens and public servants,” read the statement from We Are One, a coalition of unions representing Illinois government workers and retirees. “Teachers, caregivers, police, and others stand to lose huge portions of their life savings because politicians chose to threaten their retirement security, rather than pass a much fairer, legal, negotiated solution in Senate Bill 2404.”

Union Lawsuit Filed

The unions threatened to sue and followed through on the threat a few days before the start of 2014 in a lawsuit filed by a group of teachers and public school officials. They allege the reform violates a provision in the Illinois Constitution that guarantees pension benefits to government workers cannot be cut.

Dan Montgomery, president of the Illinois Federation of Teachers, said in a statement, “AFT members in Illinois contribute more than nine percent from each paycheck, and 80 percent of them don’t receive Social Security. This bill will rob working people of [their] life savings. It is unconstitutional, and so won’t save a dime. Don’t be fooled by anyone who calls this a solution. All they have done is sent this fight for justice to the courts.”

But Quinn declared in a statement, “This landmark legislation is a bipartisan solution that squarely addresses the most difficult fiscal issue Illinois has ever confronted. This bill will ensure retirement security for those who have faithfully contributed to the pension systems, end the squeeze on critical education and healthcare services, and support economic growth.”

Failed Reforms

Matthew Glans, a senior policy analyst at The Heartland Institute, which publishes Budget & Tax News, observed, “Illinois has been here before and enacted plans designed to fully fund the state’s pension plan over an absurdly long time period. These reforms failed because Illinois legislators have never followed through on their side of the bargain and paid for the pension plans as promised. It was too easy to push the obligation aside. How is this likely to change?”

“Small-scale pension fixes do little to solve the systemic issues created by Illinois’ flawed pension system,” Glans added. “Instead of relying on the state to fund their retirement, a situation that has proven to be flawed, the state workers should support a defined-contribution plan that places their retirement income under their own control. These plans, which are used extensively in the private sector, would allow the state to lower its pension costs while giving employees control over their retirement plans.”

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.
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Judge Says Detroit Pensions Aren’t Protected

Continued from page 1
fighting for the pensions, going to keep
fighting for our members.”

Constitution Trumped
In his ruling, Rhodes declared pension
benefits are not entitled to special pro-
tection from cuts, despite a provision in
Michigan’s constitution that appears to
grant such protection. Rhodes said the
federal court’s power trumps that state
provision.

Last summer Detroit’s emergency
financial manager, Kevyn Orr,
announced a plan that would leave
unfunded most of the $3.5 billion the
city owes to its pensions.

Speaking on local radio station WWJ
Newsradio 950, Orr said, “First of all,
we’re going to put out a plan of how
we’re going to pay off all our credi-
tors with money we don’t have. The
reality is the city has no cash on hand
to pay the magnitude of the debt we
have, which is $12 billion—$5.7 bil-
ion of which has to do with health care
obligations, $3.5 billion has to do with
pensions, and $2 billion has to do with
bondholders. So our plan is going to
have to come up with a payment pro-
posal for these creditors over a period
of time,” he said.

Criminality, Malfeasance in Governance
Orr said the city’s problems have been
decades in the making and still could
have been managed as late as 2005
and 2006, but “there was some form of
mischief going on in the leadership of
the city at that time that wasn’t pay-
ing attention. ... And people have gone
to jail. One of them was your mayor
[Kwame Kilpatrick]; one of them is
some of the counsel to the pension fund.
The problem is, there was no one will-
ing, for whatever reason, to step in and
stop the behavior. Whoever did it, and
I’ve stayed away from pointing blame
because frankly that’s not going to help
the problem, but whoever did it left us
in very sad shape and now we have to
del with it.”

In a written statement issued shortly
after the judge’s ruling, Orr said, “We
are making good progress. In addition
to today’s important decision, Detroit
has transferred its electric opera-
tions and customers to DTE Energy
and begun a program to improve City
lighting. It has announced plans to
privatize trash collection that will save
$6 million a year while improving ser-
dices and adding curbside recycling. It
has invested in sorely needed equip-
ment for its police, fire and other first
responders.”

Orr added, “The City also has
arranged, pending a court hearing
later this month, $350 million of post-
petition financing to improve its finan-
cial condition, lessen some of its debt
obligations, and make much-needed
investments. The City is also commit-
ted to the federal mediation already
underway aimed at resolving disputes
with its creditors and we fully sup-
port U.S. District Court Chief Judge
Gerald Rosen’s efforts to find additive
solutions, particularly from the philan-
thropic community, to the City’s finan-
cial issues.”

Cuts to Illinois Pensions, Too
On the same day Detroit’s bankruptcy
filing was approved, lawmakers in
Illinois passed a pension reform mea-
Sure that lowers benefits for some Illi-
nois government workers. Illinois has
the lowest credit rating among the 50
states and the largest unfunded pen-
sion liability, conservatively estimated
at $100 billion.

“The failure to pay for the work the
government demanded of its workers
is the responsibility of the taxpayers.
Now, without demanding fair pay-
ment for those services, Illinois and
Michigan have decided to punish the
only party that fulfilled its part of the
bargain—the employees and retirees
who showed up, worked hard, and did
the jobs they were asked to do. This is
wage theft on a huge scale, and votes
by the legislature or a judge’s ruling
don’t make it just or palatable,” said
the Economic Policy Institute, a Wash-
ington, DC-based policy organization,
in a statement.

University of Michigan law professor
John Pottow told The Wall Street Jour-
nal, “Unions and pension funds no lon-
ger have the magic bullet of the state
constitution to protect them. And that
could help push all sides into a
negotiated settlement.”

JOHN POTTOW
LAW PROFESSOR
UNIVERSITY OF MICHIGAN

“The reality is the city
has no cash on hand
to pay the magnitude
of the debt we have. ...
So our plan is going to
have to come up with
a payment proposal
for these creditors over a
period of time.”

KEVYN ORR
EMERGENCY FINANCIAL MANAGER
CITY OF DETROIT

“The unions and the
pension funds no longer
have the magic bullet of the
state constitution to protect
them. And that could
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Mich. Dems Join Call for Corporate Welfare Scrutiny

By Jack Spencer

Those who want to bring transparency to the Michigan Economic Development Corp. have some new allies: state House Democrats.

The MEDC is a government authority that is supposed to spur economic activity and promote the state of Michigan that is supposed to spur economic development and job creation and retention. These programs and activities are generally administered by the MEDC.

Initially, however, the bill appeared to represent no more than a pretense of transparency promoted by MEDC officials. There were indications in the spring that House Bill 4480 would be strengthened. Instead, the bill has been in the House Commerce Committee eight months and undergone no significant changes.

Little Reform Seen

James Hohman, assistant director of fiscal policy at the Mackinac Center, said the current version of House Bill 4480 does nothing to increase MEDC transparency.

“Right now all the bill does is tell the legislature how the MEDC wants to be graded,” Hohman said.

House Bill 4480 is part of a multi-bill package that would amend the Michigan Strategic Fund Act. The Michigan Strategic Fund is an entity with broad authority to engage in promoting economic development and job creation and retention. These programs and activities are generally administered by the MEDC.

During the week just before the legislature’s departure, a hearing that had been scheduled to take up the MEDC legislation was canceled. According to well-placed sources, there currently aren’t enough “yes” votes on the committee to move the bill package.

“House Bill 4480, as it currently stands, doesn’t provide any increased transparency regarding performance of programs under the Strategic Fund,” said state Rep. Jon Switalski (D-Warren), the ranking Democrat on the House Commerce Committee. “To me, the Republicans have a choice. If they keep the bill as it is, they’re not interested in transparency. They need to make significant changes to the bill.

“They need to increase the amount of transparency regarding performance to hold the MEDC accountable for the taxpayer dollars it spends,” Switalski continued. “Any money that is not being used efficiently should be paid back.”

House Commerce Committee Chair state Rep. Frank Foster (R-Pellston) said he’s committed to a bill package that includes strong transparency provisions.

“We want to make transparency the centerpiece of this legislation,” Foster said. “We’re willing to talk with as many people as necessary to get this accomplished.”

Sponsor Wants New Draft

State Rep. Tom Leonard (R-Lansing), the sponsor of House Bill 4480, said he wants the bill to be redrafted.

“This remains a work in progress,” Leonard said. “We’re diligently working to try to add as much teeth to it as possible. My intent is that the next time we meet, whenever that may be, we’ll be able to bring in a new substitute that provides real transparency.”

In his first year in office, Leonard bucked the majority on several votes where he opposed expanding various corporate and developer subsidy schemes.

Jack Spencer (spencer@mackinac.org) is Capitol Affairs Specialist for Michigan Capitol Confidential, a news service of the Mackinac Center for Public Policy, where this article first appeared.

IN OTHER WORDS . . .

“ObamaCare includes so many taxes that it’s hard to keep track, but one of the worst takes effect on Jan. 1. This beauty is a levy on health insurance premiums that targets the small business and individual markets.

“At $8 billion in 2014 and $101 billion over the next decade, the insurance tax is larger than ObamaCare’s taxes on medical devices and prescription drugs combined. The Internal Revenue Service classifies the tax as a ‘fee’ but it functions like an excise tax on premiums. The IRS collects an annual flat amount specified by the Affordable Care Act to be allocated among the insurers according to market share.

“But not all markets. IRS regulations published in November excluded ‘any entity that is a self-insured employer to the extent that such employer self-insures its employees’ health risks.’ Since about four of five employers with more than 500 workers and most union-negotiated health plans are self-insured, they are spared from the tax. So is insurance on behalf of ‘government entities,’ such as original Medicare (but not privately run Medicare Advantage).

“This political selectivity means the most gold-plated public, private and labor plans are exempt and the tax burden falls on the saps who work for small businesses, the self-employed and individuals—i.e., the people who can least afford it.

“The White House tells business that the tab will be picked up by deep-pocketed insurers, which is good for a laugh. The Congressional Budget Office reports the tax will be ‘largely passed through to consumers in the form of higher premiums’ and ‘would ultimately raise insurance premiums by a corresponding amount.’”


“We have to be able to know whether or not these programs, which are corporate welfare, have performed effectively. If it turns out that they haven’t, we need meaningful clawback provisions to get the money back …”

TIM GREIMEL, HOUSE DEMOCRATIC LEADER AUBURN HILLS, MICHIGAN

‘Need to Make Significant Changes’

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Tallahassee Taxpayers Get Little Back from Red-Light Cameras

By William Patrick

Red-light cameras are supposed to make dangerous intersections safer. But at what cost?

Recent data from the City of Tallahassee, Florida show that in both human and financial terms, red-light cameras are costing residents of Florida’s capital city much more than they may realize.

But a recent city hall news release touts the program’s “decreases in injuries and violations,” suggesting the city’s program is a success.

A close look at the numbers, however, shows something far less compelling.

In the three years since red-light cameras began flashing fines at the city’s seven busiest intersections—aimed at ticketing in 19 different driving directions—there have been only eight fewer side-impact collisions compared to the previous three years without the cameras.

Side-impacts, or right-angle collisions, can be severe. But the decrease, on average less than three per year, shows a loose correlation at best to the program’s professed benefits. In the same period, 53,140 tickets were issued.

Big Increase in Rear-End Crashes

Rear-end accidents increased by 56 percent during the period, from 231 in the three years before the cameras were installed to 360 accidents after the cameras went online in August 2010.

Allen Seacrest, Tallahassee’s traffic mobility manager, attributed the sizable uptick in rear-end collisions to “distracted driving.” But that flies in the face of numerous studies cited by the nonprofit motorist watchdog, the National Motorists Association.

“The preponderance of independent research (in other words, research that was not funded by ticket camera vendors or units of government interested in justifying camera-based traffic enforcement) has illustrated that ticket cameras typically increase, not decrease, the number of accidents at controlled intersections,” states NMA.

“Red light cameras are all about generating revenue, period.”

John Bowman, communications director for NMA, previously told Watchdog.org.

Safety Claims = ‘Wishful Thinking’

Claims of safety, Bowman said, often are “wishful thinking on the part of red-light camera companies and the public officials who support the use of cameras.”

Tallahassee collected $6.3 million in red-light camera fines through the three-year program. But only about 20 percent of the money benefited local taxpayers.

The state of Florida claimed $3 million, and Affiliated Computer Services, the camera vendor, was paid $2.8 million to provide and operate the cameras, with the remaining $500,000 deposited into the city’s budget.

State Sen. Jeff Brandes (R-St. Petersburg) filed a bill in September that would ban the use of red-light cameras throughout Florida.


IN OTHER WORDS . . .

“Red-light cameras’ supporters like to say their ticket-writing robots ‘change driver behavior.’ That’s true. But that doesn’t mean they’re making our roads any safer.

“Do the cameras teach drivers to navigate intersections safely? Or do they teach them to avoid the expensive tickets mailed out by New Jersey’s robocops?

“A spokesman for American Traffic Solutions, one of the top red-light camera vendors in the United States, told The Star-Ledger that red-light tickets are down 60 percent since New Jersey began its pilot program in 2010, and that nine out of 10 drivers who get a red-light ticket never get a second one, ‘proof’ that driver behavior is changing for the better.

“What does that prove?

“Politifact, in July, summarized a decade’s worth of studies of red-light camera programs across the country. Here’s what they found: At camera-patrolled intersections, the number of serious, right-angle crashes did indeed drop. But overall accidents, including rear-end collisions—the kind that happen when drivers slam on their brakes to avoid a costly ticket—went up.

“So what’s the lesson? Steve Carrellas, head of New Jersey’s chapter of the National Motorists Association, says driver behavior has changed—drivers are learning to avoid tickets. If a driver is ticketed at a camera-covered intersection, he’s probably going to avoid that intersection in the future.

“Here’s what we do know: Red-light cameras mean big money for their host municipalities. ...

“The cameras were meant to be safety tools. But they’re worth millions to the towns that have them. Will they want to stop cashing those checks, or will they keep talking about ‘changing driver behavior’?”

— New Jersey Star-Ledger editorial, December 26, 2013
Nebraska’s Tax Dollars at Work: Promoting a New Outlet Mall

By Deena Winter

A new outlet mall officially opened in Gretna, Nebraska before Christmas, and shoppers were enticed to buy Coach purses and Nike shoes with the help of $16.7 million of public subsidies for marketing and communication alone.

The grand opening festivities for Nebraska Crossing Outlets began one day before the official opening with a fashion show featuring former University of Nebraska football coach Tom Osborne and continued Friday with a Land Rover Evoque.

It’s not clear which of these grand opening festivities might constitute opening festivities might constitute the $16.7 million in subsidies for “marketing and communication” being spent.

Stonewalling on Information

In possible violation of the state open records law, Gretna failed to turn over any documents other than a single memo in response to Nebraska Watchdog’s open records request seeking specifics on how the money is being spent. Apparently, there’s not one document at Gretna City Hall related to how $16.7 million worth of incentives will be doled out.

Instead, the city clerk and city administrator responded with a memo written by Lincoln attorney Kent Seacrest, who was hired by the city to work on the financing plan and redevelopment agreement with the mall developers, Rod Yates of OTB Destination Development and Frank Krejci of Omaha’s Century Development.

The memo largely lifted passages from the redevelopment agreement, which said revenue from a 1.95 percent sales tax on purchases in the mall can be used for public signs, “grand opening promotions,” other promotions, technology infrastructure, and capital improvements.

“Public signs” are defined as seven 40-foot-high digital or non-digital pylon signs and 10 digital or non-digital building signs that can be used for city and community public information and general business and product information, public activities, and promotions of public events.

Taxpayer dollars could be used to pay for grand opening public activities and promotions, including the management, promotion, and advocacy of retail trade activities, according to the redevelopment agreement. Tax revenue also can be used to pay for a public Wi-Fi network.

More than 50% Subsidized

That’s just part of the public subsidies Gretna approved for the outlet mall: More than half the $112 million price tag for Nebraska Crossing is covered by government subsidies. Taxpayer dollars are expected to cover $58 million of the cost, more than the $54 million the developers are expected to invest, according to the redevelopment plan.

Gretna residents overwhelmingly agreed in a vote-by-mail 2011 election to help pay for the renovation of an old, unpopular outlet mall into an upscale outlet mall. But that’s just one piece of the financing plan. In addition to the $14 million in local sales tax revenue Gretna voters agreed to divert to the mall for a decade, the mall is getting:

• $26 million in occupation taxes.
• $13 million in tax increment financing, which diverts additional property taxes generated by the redevelopment into the project rather than public coffers.
• $4 million in general obligation bonds issued by Gretna to fund infrastructure, which will be repaid by property taxes.

Leigh McIvaine, research analyst for Good Jobs First, said subsidizing retail won’t create economic growth in a region unless it’s in an area underserved by retail, such as a food desert in an inner city. In fact, many cities ban subsidies for retail projects, she said.

No ‘Particulars’ on Spending

When asked for specifics on how that $16.7 million would be spent, City Clerk Tammy Tisdall said via email the city wasn’t given “particulars” for the budget on communication and marketing, nor was it required. She deferred to the developers. When reached by phone, Yates said he didn’t have time to talk about it.

City Administrator Jeff Kooistra did not respond to calls seeking comment.

Ordinarily, there should be a few city documents showing how the money is being spent, because the redevelopment agreement requires that the developer submit requests for reimbursement with “receipts, invoices, proof of payment or other documentation satisfactory to the city” to prove the costs are eligible.

Seacrest’s memo also noted that to ensure the developer’s performance, the two principals (Yates and Krejci) provided limited personal guarantees.

Deena Winter (deena@nebraska watchdog.org) reports for NebraskaWatchdog.org, where a version of this article first appeared.
"In two words: Ho Hum. ... The deal is an answer to the question, ‘What can Republicans and Democrats agree on for deficit reduction?’ The answer still is: nothing."

JOHN MAKIN
RESIDENT SCHOLAR, AMERICAN ENTERPRISE INSTITUTE
AUTHOR, ECONOMIC OUTLOOK

First Federal Budget in Four Years Met by Yawns

Continued from page 1

Senate tried unsuccessfully to block it. Sen. Ted Cruz (R-TX) led Tea Party opponents who opposed lifting some of the automatic “sequester” spending cuts that have helped hold down spending increases in recent years. With those cuts lifted, more money will go to the military (favored by Republicans) and to social programs (favored by Democrats). Cruz also tried and failed to win support for an amendment to the budget to defund the Obamacare health insurance law.

Congress has been operating since 2009 by approving a series of “continuing resolutions” to spend money in lieu of a budget. Still, many analysts say in the grand scheme of things, this budget amounts to little.

‘Largely Inconsequential Deal’

“In two words: Ho Hum. This largely inconsequential deal provides modest—$63 billion—relief from sequester cuts in spending spread over two years. The ‘pay for’ comes later and is largely illusory. The deal is an answer to the question, ‘What can Republicans and Democrats agree on for deficit reduction?’ The answer still is: nothing,” said John Makin, resident scholar at the American Enterprise Institute and author of the monthly Economic Outlook, in a statement.

Many organizations on the “progressive” and “conservative” sides of the political spectrum have come out against the deal.

“[T]his budget agreement does nothing for the millions of people who remain without work and asks nothing from the people who caused our economic crisis and continue to benefit from economic inequality,” said AFL-CIO President Richard Trumka in a statement. The AFL-CIO is a reliably left-leaning and Democratic Party-supporting labor organization.

Lawrence Mishel at the left-leaning Economic Policy Institute also wrote, “I support reaching an agreement that will end the culture of periodic crises that has driven policy in recent years. However, this deal addresses the wrong set of priorities: namely, deficit reduction ten years out rather than a stronger recovery now, and tweaking domestic spending for a few years as we continue to ignore the public investments our country needs.”

Leaders Are ‘Out of Touch’

Meanwhile, at Americans for Limited Government, which advocates for smaller government and fiscal restraint, President Nathan Mehrens said in a statement, “It is disappointing that House Republican Budget Chairman Paul Ryan would bust the $65 billion sequestration and raise government fees and other assessments, in return for other supposed cuts in the out years that likely will just be rolled back later.”

Romina Boccia, writing for the conservative Heritage Foundation’s blog, said: “Many had high hopes that the first budget conference in four years would make a substantial down payment toward fixing the U.S. spending and debt crisis. The new ‘Bipartisan Budget Act’ thoroughly disappoints.”

Boccia noted the deal “busts through” spending caps Congress okayed in 2011 and raises spending over the next two years with promises of less spending over 10 years—promises that could be ignored by future Congresses.

‘Bad Policy and Bad Politics’

And at the right-leaning fiscal watchdog organization Americans for Prosperity, President Tim Phillips said in a statement, “This budget compromise is not just bad policy, it is bad politics. The American people remember hard-won bipartisan spending limits set by the sequester, and are not pleased to see their conservative representatives so easily go back on their word to rein in government over-spending.”

Ryan and Murray announced an agreement on December 10 after spending several weeks negotiating in secret. The Ryan-Murray deal sends spending up $63 billion by 2015, thus ending some of the “sequester” cuts imposed in 2011 to hold down spending. In exchange, $85 billion of cuts over 10 years would be made, resulting in more than $22 billion of savings. But with the federal government spending approximately $10 billion a day, $22 billion of savings over a decade is a drop in the bucket, say conservative critics.

The deal also adds a $5 “fee” to airline tickets, higher premiums charged to employers to support the federal Pension Benefit Guaranty Corporation, and larger contributions from new federal employees for their pensions. Most federal civilian employees hired beginning in January will contribute 4.4 percent of their pay to their pensions. This compares to 3.1 percent for those who were hired in 2013 and 0.8 percent for those who were hired before 2013.

American Conservative Union Chairman Al Cardenas said in a statement, “Conservatives prefer a wiser approach to cost cutting than the sequester but appreciate the beginning of a more disciplined approach to spending. The solution is not to walk away from progress and add over $80 billion in spending over the next two years.”

President Barack Obama signed the budget shortly after lawmakers gave their final approval and just one day before funding would have run out.

“This agreement doesn’t include everything I’d like—and I know many Republicans feel the same way,” Obama said in a statement. “That’s the nature of compromise. But it’s a good sign that Democrats and Republicans in Congress were able to come together and break the cycle of short-sighted, crisis-driven decision-making to get this done.”

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Join the Conservative Political Action Conference March 6-8, 2014 at the Gaylord National Resort & Convention Center, where we will feature the movement's top leaders and speakers and train the next generation of conservatives!

Don’t miss out on the premier conservative event of 2014. Stay tuned for speaker announcements!

Register now to join us: CPAC.org/Join
CBO Shows Top 40% Pay More than 100% of Taxes

By Randall Holcombe

The Congressional Budget Office has published a study, *The Distribution of Household Income and Federal Taxes, 2010*, which shows the top 40 percent of income earners paid 106.2 percent of total federal income taxes, while the bottom 40 percent paid -9.1 percent.

This isn’t the study’s headline, so you have to dig a bit, but look at Table 3 on page 13 of the study to find that information.

The table shows the top 20 percent of income earners paid 92.9 percent of total income taxes in 2010 (the latest year available), and the next-highest 20 percent paid 13.3 percent of total income taxes, so the top 40 percent paid 106.2 percent.

Refundable Credits = Negative Liability

Because of refundable tax credits like the earned income tax credit and the child tax credit, the bottom 20 percent received more money refunded to them than they paid in taxes, so they paid -6.2 percent of total taxes. The next-lowest 20 percent paid -2.9 percent, so the bottom 40 percent paid -9.1 percent of total income taxes. More than 9 percent of total income tax payments go toward paying out money directly to people who get more back than they paid in.

Another table in Box 1 on page 7 of that same study shows households in the bottom 20 percent of income received an average of $22,700 in government transfers. The federal government’s official poverty threshold for a family of four in 2010 was $22,050, less than the average family received in government transfers. (Note that some of those transfers, such as Medicaid benefits, are not counted as income for purposes of calculating the poverty threshold.)

President Barack Obama frequently has said the rich should pay more in taxes. That apparently means the upper 20 percent of income earners should pay more than 92.9 percent of total income taxes, and the upper 40 percent should pay more than 106.2 percent.

Rising Poverty Rates Under Obama

Meanwhile, if we are really concerned more about the poor than the rich, note that under the Obama administration the official poverty rate has risen from 12.5 percent to 15 percent of the population. Imagine the outcry if this had happened under a Republican president. The president talks as if he cares about the poor, but they have fared badly under his administration. Results should matter more than intentions.

From a policy standpoint, it appears that President Obama’s route to increased income equality isn’t to bring up the poor, but to bring down the rich.

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Judge’s Rulings Put Calif. High-Speed Rail Project in Doubt

By Steve Stanek

A high-speed rail project championed by California Gov. Jerry Brown (D) and the Obama administration violated voter-approved safeguards against runaway spending and must draft a new budget and prove there is enough money available to finish the project, according to rulings by California Superior Court Judge Michael Kenny.

Kenny also rejected a request by the state to “validate” the issuance of bonds to fund construction, which could have blocked opponents from future court challenges. But he also rejected a request from rail project opponents to entirely end the project and nullify construction contracts that have been signed.

Kenny’s rulings put the massive high-speed rail project in doubt. Spokesmen for the governor and for the California High-Speed Rail Authority declined comment.

Soaring Project Costs

California voters in 2008 approved $10 billion in bonds for a project they were told would cost $33 billion to run high-speed rail from San Francisco to Los Angeles. Rail officials now project a cost of at least $68 billion, and project critics say even that figure is a lowball estimate. Costs would be covered by the state and federal governments. To satisfy the court, the state must show it can come up with another $25 billion to pay for its share of the costs.

“It will be many, many more months before the state can get this thing back in gear, if they ever can,” Michael Brady, a San Francisco attorney who represents opponents, told the San Jose Mercury-News. “The good people of the Central Valley can sleep better tonight knowing their way of life is less threatened.”

In 2012 Brown signed a bill approving construction of the first leg of the project, a 130-mile stretch from Madera to Bakersfield in California’s Central Valley. Kenny’s ruling allows $3 billion of federal dollars pledged by the Obama administration to be used on this leg of construction but does not allow the use of billions of dollars of state rail bonds until and unless the conditions in his ruling are met. Construction on that leg of the project still has not begun.

In a statement, the Howard Jarvis Taxpayers Association, a California taxpayer watchdog group, noted it and other rail opponents had requested the court deny the issuance of the bonds “on the grounds that the High-Speed Rail Authority’s plans had so deviated from the promises made to voters in Proposition 1A, that bonds for the project had not received voter approval.”

“Proposition 1A promised Californians the ability to be able to travel between San Francisco and Los Angeles in two hours and forty minutes, but the revised system strayed far from what the voters intended. The idea of dedicated track for a high speed system was tossed aside in favor of a ‘blended system’ where high speed trains would compete for track space with commuter and freight lines, which would significantly increase commute time,” the statement continued.

Commute Time Estimates Jump

Earlier in 2013 the Los Angeles-based Reason Foundation reported the system’s fastest nonstop trip is likely to take nearly four hours, and most trips on the system would take four hours and 40 minutes or longer.

The California High-Speed Rail Authority already has sharply downgraded its ridership estimates for 2035. In 2008 the authority promised voters 65.5 million to 117 million riders in 2035. Now it predicts 19.6 million to 31.8 million riders in 2035, and the Reason Foundation analysis says even those lower estimates are highly optimistic.

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More Setbacks for California’s Embattled High-Speed Rail Project

By Kenneth Orski

The Sacramento court’s decision denying the California High-Speed Rail Authority (CHSRA) access to Proposition 1A bond funds was the first in a series of setbacks suffered by the high-speed rail project over a period of days.

The day after that court decision, the project was dealt another serious blow when two influential members of Congress, Jeff Denham (R-CA), chairman of the Railroads Subcommittee of the House Committee on Transportation and Infrastructure, and Tom Latham (R-IA), chairman of the House Transportation Appropriation Subcommittee, requested the Government Accountability Office (GAO) review the federal grant agreements with the authority in light of the court’s rulings.

“We are concerned about FRA’s [the Federal Railroad Administration’s] stewardship of Federal funds . . . ,” their joint letter stated. “It is of particular concern that FRA executed grant agreements with the Authority and subsequently amended those agreements to allow the expenditure of Federal funds in advance of State matching funds.”

Referring to the court bond validation ruling, the two lawmakers questioned how the authority will be able to match the federal grants. Under the grant agreements, California is obligated to match the federal contributions with about $2.7 billion of its own money. Without access to the bonds, California will have to find other funding sources, the letter stated.

The congressmen asked GAO to look into a number of other issues, including whether the authority is “violating or on the verge of violating” its grant agreements with the federal government, whether the recent state court rulings put the FRA in violation of any federal laws, and “what responsibility falls on FRA to re-evaluate the grant agreements in light of these court rulings.”

Transportation Board Denies Request

In the meantime, in yet another reversal, the Surface Transportation Board (STB) denied the authority’s request for an early conditional approval to move forward with construction of the 114-mile Fresno-to-Bakersfield leg of the project before environmental reviews are completed. The authority “has not
presented any unique or compelling reason why conditional approval should be given, the board wrote in a four-page decision issued on December 3.

The Fresno-to-Bakersfield leg includes the southernmost five miles of the 29-mile Merced-to-Fresno stretch that constitutes the authority’s “Initial Construction Section” (ICS) and for which the authority awarded a $1 billion construction contract earlier this year.

Likely to Raise Costs
While the authority sought to minimize the impact of the STB ruling, independent observers say the board’s decision is likely to delay and drive up the cost of the initial construction job and may require the contract to be renegotiated if the required environmental reviews are not completed by July.

“If we get to June and we still haven’t gotten the environmental clearances,” the authority spokeswoman was quoted as saying, “then we’ll take another look at innobriefs.com.

“[T]he Surface Transportation Board denied the authority’s request for an early conditional approval to move forward with construction of the 114-mile Fresno-to-Bakersfield leg of the project before environmental reviews are completed.”

Railroad Subcommittee Sets Hearing
Not was this the end of the project’s tribulations. The administration of the federal grants to the California HSR project will be the subject of a hearing by the House Railroad Subcommittee according to unofficial sources. Initially scheduled for December 12, the hearing was postponed to January 14.

Among the issues Subcommittee Chairman Jeff Denham (R-CA) is expected to explore are:

• Why did FRA and the authority amend an existing grant agreement to provide the authority with money in advance of the state’s matching funds? (This is a departure from standard federal/local cost-sharing agreements which require funds to be spent concurrently.)

• How does the authority propose to match the federal contribution now that the court has barred access to Proposition 1A bond funds?

• Where will the $31.5 billion needed to complete the 300-mile Initial Operating Segment (IOS) between Merced and the San Fernando Valley come from? So far the authority has only $6 billion—$3.25 billion in federal funds and $2.7 billion in Proposition 1A funds appropriated to match the federal funds. Authority Chairman Dan Richard and Federal Railroad Administrator Joseph Szabo are expected to testify along with other expert witnesses.

Litigation Enters a Second Phase
The plaintiffs were back in court on December 13 to set the trial date for the second phase of the litigation. They allege the project has strayed significantly beyond the 2008 promises of the Proposition 1A bond measure. Specifically, they argue that the authority’s plan for a “blended system” of high-speed trains on Caltrain’s commuter tracks in the Bay Area and Metrolink tracks in the south cannot meet the performance requirements of Proposition 1A—notably a nonstop trip between Los Angeles and San Francisco in 2 hours 40 minutes and provisions that the system operate without public subsidies.

Whatever the ultimate outcome of the second phase of the litigation (and plaintiffs’ attorneys feel confident they have a solid case), the project’s series of recent reverses has had a serious impact on public opinion and, possibly, on the confidence with which prospective financial backers view the bullet train’s future and fiscal soundness. This should be cause for worry for the project’s promoters who have been arguing that the bullet train will be seen as an attractive investment opportunity by the private sector once the 300-mile stretch of the line (Madera-to-San Fernando Valley) is built and operational.

Further delays in the project’s groundbreaking (already more than a year behind schedule), the prospect of multiple challenges over bond validations, a likelihood of drawn-out negotiations over right-of-way acquisition, steadfast Congressional opposition to providing further federal funds, and, most importantly, the authority’s inability to identify credible sources of non-federal money to complete the entire Initial Operating Segment, all add up to a very problematic future for this “transformative” project.

Kenneth Ors (korski@verizon.net) is editor and publisher of the Innovation Briefs newsletter. Used with permission of Innovation Briefs at innobriefs.com.
Can Schools in Illinois Crack Their Addiction to Property Taxes?

By Benjamin Yount

Illinois schools are like addicts desperate for a change.

Local taxpayers, through local property taxes, pay $12 billion of the $20 billion it costs to educate kids in the state each year. State government chips in about $6 billion, and the federal government kicks in another $2 billion.

But each year, public schools complain they do not have enough money.

Instead of rehashing the annual fight over how much to spend on public schools, some lawmakers want to change how the state funds schools.

“If we don’t get a distribution method that addresses the diversity in terms of rich and poor districts … we will never get the ‘how much we spend’ right,” state Sen. Andy Manar (D-Bunker Hill) said.

Massachusetts uses an “alternative wealth” formula, which blends property taxes with a community’s income level, to distribute K–12 funds.

North Carolina attaches a net worth to students. For every 30 students, for example, the school gets a set amount to hire a teacher.

High Reliance on Property Tax

Manar said Illinois relies too much on local property taxes to pay for schools.

“Property taxes in Illinois fund a large majority of education—that wasn’t the case a decade ago or certainly two decades ago,” Manar said. “The world has changed significantly. Unfortunately the legislature hasn’t.”

Perhaps the biggest change has been the explosion of state grants for local schools.

The state’s school funding formula is complicated, but essentially schools are promised $6,119 per pupil. Wealthy schools get less—sometimes far less—while poor schools get more.

State grants are in addition to those per-pupil dollars and are worth hundreds of millions of dollars to some school districts.

“There is more money going to Chicago Public Schools than downstate [schools] because of the change [in the funding formula],” state Sen. Sue Rezin (R-Peru) said.

Many Redistribution Schemes

Chicago, the largest school system in the state, receives most of the $1.5 billion Illinois spends in “poverty grants” every year.

Poverty grants are supposed to boost school funding where there is a high percentage of low-income families. But Illinois also sends millions in early childhood education grants and grants designed to offset tax caps.

Rezin said as grant funding goes up, regular school funding goes down.

“That’s not paltry change we’re talking about,” State Superintendent Chris Koch said. “If you move around some of those things, and use that money differently, it can have a fairly substantial reach.”

Big Change: Teacher Pensions

But the biggest change in how Illinois pays for K–12 could come from a change in how the state pays teacher retirements.

Illinois House Speaker Mike Madigan (D-Chicago) has been talking for more than a year about “shifting” the nearly $4 billion annual cost of teacher pensions from the state to local districts.

Some of that $4 billion could then be sent back to local schools.

Rezin, Manar, and many other lawmakers worry a “cost shift” will only force local schools to rely on property taxes even more.

Benjamin Yount (byount@watchdog.org) is a reporter for Watchdog.org, where this article originally appeared. Reprinted with permission.
A Tax Hike Al Capone Could Have Loved

By Michael D. LaFaive and Todd Nesbit

Aldermen in the City of Chicago recently passed a 50-cents-per-pack increase in the city’s cigarette tax, and with it a likely increase in smuggling and related crimes.

Chicago now charges a tax of $1.18 per pack. The overall tax on a pack of cigarettes in Chicago is now $7.17 when county, state, and federal taxes are included. That’s 31 cents more tax than in New York City, which now has the second-highest total cigarette tax burden in the nation.

During Prohibition, the Windy City was beset by alcohol smuggling, government corruption, and violence, among other problems. Al Capone and other gangsters profited from smuggling alcohol. Cigarettes are legal but high tobacco taxes have created an era of what we call “prohibition by price.”

Cigarette smuggling is already rampant in the United States. Our 2013 research on state excise taxes and smuggling indicates that as much as 60 percent of New York’s total cigarette consumption is smuggled into the state.

Possibly Number 1 ... in Smuggling

Illinois could displace New York as America’s number one smuggling state. In our 2010 cigarette smuggling report (using 2009 data), we estimated Illinois’ smuggling rate was less than 6 percent of total consumption. But the state cigarette tax has increased $1 a pack since that report. We estimated that higher tax could cause smuggling to jump to more than 26 percent of the total market. And this was before Cook County’s $1-a-pack increase earlier this year.

Cigarette smuggling involves both commercial (such as large-scale criminal operations involving long-distance hauls) and casual forms (usually done by individuals making cross-border purchases for personal use).

Our statistical study is not city-specific, so while additional smuggling would be picked up, we could pinpoint only overall smuggling for all of Illinois, not smuggling specific to the Chicago area. That type of work has been done though. A 2010 study (using 2007 data) by economist David Merriman of the University of Illinois-Urbana examined the tax stamps on discarded cigarette packs found in Chicago. The stamp is evidence taxes have been paid in a particular jurisdiction. Merriman found that 75 percent of the packages collected did not bear the city tax stamp and 29 percent originated in Indiana.

In 2012 a similar analysis was published regarding South Bronx, New York, an area described as “socioeconomically deprived.” The authors found that 76.2 percent of the packs collected did not bear the stamp showing state or city excise taxes had been paid.

Poorest Hit Hardest

This is of particular importance for two reasons. First, because Chicago has passed New York to top the high-tax list; and, second, because the regressive nature of high excise taxes hurts lower-income people more. A 2012 paper from Research Triangle Institute scholars shows that in 2010–11, New York’s “lowest income group spent 23.6 percent of its annual household income on cigarettes,” up from 11.6 percent in 2003–04.

But smuggling isn’t the only result of effectively banning a product. Essentially every misdeed associated with real Prohibition has been found lurking in its prohibition by price corollary. Consider some parallels:

• Public corruption. Capone’s gang (and others) bribed key officials, including police officers, to overlook or participate in their illicit trade.

In 2012 undercover Federal Bureau of Investigation officers busted a Cook County revenue inspector for giving notice to retailers of future tobacco-related visits in exchange for money. A Maryland police officer in Prince George’s County was sentenced for his role in smuggling, which included the use of his patrol car and uniform.

• Theft. Rumrunners were known for getting hijacked during deliveries. Cigarette truck hijackings occur in modern America, as legitimate tobacco wholesalers and retailers are also victimized by robberies.

One wholesaler in Michigan had to hire commando units to guide his cigarette shipments away from his warehouse after several hijackings. In 2010 in East Peoria, Illinois, trucks stuffed with cigarettes were stolen from warehouses. Meanwhile, in November 2012, Chicagoland Charles Watson was sentenced for his role in robbing a retail store of cigarettes while posing as a policeman.

• Murder-for-hire. Prohibition had its share of murderers and some, like Vernon Miller, would do it on a contract basis for other bootleggers. (Miller, incidentally, also had worked as a bootlegger and as sheriff’s deputy).

Last October men associated with a cigarette smuggling case were charged in a plot to murder witnesses in a case against them, according to the New York Attorney General’s Office. This is not the only such case in recent years.

Big Costs, Little Gain

Cigarette taxes do lower smoking rates and usually raise government revenues, but typically not by as much as projected. Although proponents of higher taxes can point to decreased smoking rates and claim success, research shows the consumption rate largely shifts from legal smokes to illegal ones. Even then, these benefits are rarely weighed against the remarkable costs associated with high excise taxes.

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GAO Urges Defunding of TSA Behavior Program

By Robert Poole

In one of the hardest-hitting Government Accountability Office reports I’ve ever read, Congress’s auditing organization has, in effect, said the Transportation Security Administration’s Screening of Passengers by Observation Techniques (SPOT) program does not work and should be defunded.

Members of Congress asked GAO to answer two questions:

1. To what extent does available evidence support use of behavioral indicators to identify aviation security threats?
2. To what extent does TSA have data necessary to assess the effectiveness of the SPOT program in identifying threats to aviation security?

The answer to the first question is that there is no such evidence, and to the second is that TSA does not have such data. This is laid out in 55 pages of text plus seven appendices.

TSA says the purpose of the program is to identify high-risk passengers based on behavioral indicators that indicate “mal-intent.” Accordingly, its Behavior Detection Officers (BDOs) are trained to size up passengers as they await screening using a memo-rized checklist of behaviors indicative of stress, fear, or deception. Passengers with a sufficiently high point score are taken aside for an interview, pat-down, and search of their belongings.

Assuming nothing bad is found and the person’s behavior does not “escalate,” that’s the end of the process and the passenger gets back in line. But if the behavior reaches a pre-defined threshold, a law enforcement officer (LEO) is summoned to question the passenger further and decide whether an arrest is warranted. The initial (pre-LEO) encounter takes an average of 13 minutes.

The program started in 2007 and has grown to about 3,000 BDOs working at 176 airports, at a current annual cost of around $200 million.

TSA’s Studies Lax, Flawed

The GAO team reviewed two TSA studies of the SPOT program and found both to be non-rigorous, with considerable flaws in their methodology. It then carried out a literature review and a meta-analysis of research studies on “whether nonverbal behavioral indicators can be used to reliably identify deception.” They concluded “research from more than 400 separate studies on detecting deceptive behavior based on behavioral cues or indicators found that the ability of human observers to accurately identify behavior based on behavioral cues or indicators is the same as or slightly better than chance.”

GAO provides excerpts from several of these studies, by entities such as RAND Corporation, DOD’s JASON program, and MITRE Corporation. Another section of the report documents the wide variation in referral rates by BDOs at various airports and presents evidence on the subjective nature of some of the behavioral indicators BDOs are taught to look for.

No Terrorists Identified

But the most damning information of all is who actually gets identified as “high risk” and referred to an LEO. Not a single potential terrorist was identified by the BDOs. Those who ended up arrested were for such matters as possessing fraudulent documents or prohibited or illegal items, having outstanding warrants, being intoxicated in public, being in the country illegally, or engaging in disorderly conduct. While all those things may be law violations, not a single one is, per se, a threat to aviation security. And yet the only measure TSA has for the alleged effectiveness of the program is the referrals to law enforcement.

Nonetheless, TSA recently conducted a “return-on-investment analysis” that it claims justified the SPOT program. Despite zero evidence that the program can detect or deter aviation-oriented terrorists, the analysis assumes that the BDO “layer of security” prevents a catastrophic (9/11-type) attack. GAO dryly notes that “the analysis relied on assumptions regarding the effectiveness of BDOs and other countermeasures that were based on questionable information.”

INTERNET INFO


IN OTHER WORDS . . .

“Critics of the [TSA’s SPOT] program say it is essentially subjective and that it has resulted in racial profiling.

“Detractors also say it can easily result in false positives because people who are stressed—and that includes many travelers—often act in ways that might trigger suspicion.

“We’re not saying that travelers should never be screened based on their behavior, but we believe relying on the SPOT system to do this sounds about as scientific as astrology at this point.”

— Denver Post editorial, November 17, 2013
The New Year started by taking its toll on Pennsylvania motorists—literally.

The Pennsylvania Turnpike Commission has raised tolls for the sixth consecutive year, with the price increases taking effect January 5.

Drivers paying in cash have been hit with a 12 percent rate increase, while E-ZPass users incur a less-stinging 2 percent hike as the commission tries to encourage drivers to use the more-efficient electronic option to traverse the toll road.

Increased tolls have become customary after the state in 2007 enacted Act 89 requiring the commission to fork over more than $4 billion during the past six years, but that falls short of the $4.6 billion in debt the commission took on to finance the payments.

**Price Rises 54%**

That debt has helped drive up the price of a cross-state trip on the turnpike by more than 54 percent since 2009, when it cost $28.45 for a passenger vehicle to travel the highway.

A trip across the turnpike now costs $43.90 in cash, up from $39.15. E-ZPass users pay $31.38, a 61-cent increase from the previous rate, but a $12.52 savings compared to paying with cash.

“Unfortunately,” he added, “wasteful spending on federal conferences is not unique to a specific agency.”

A report issued in January found congressional and Inspector General oversight has led to the implementation of tighter controls over conference spending and the elimination of frivolous and gratuitous expenditures.

As a result, taxpayers have saved hundreds of millions of dollars at the IRS, GSA, the Veterans Administration, and the Department of Defense since fiscal year 2010, the report said.

Based on estimated savings from these four agencies over past years, government-wide savings from reductions in conference spending could reach as high as half-a-billion dollars annually, Mica’s office estimated.

— Kenric Ward, Watchdog.org

**“Every American with a bank account should read this book.”**

— ANN COULTER, bestselling author and syndicated columnist

**A trip across the [Pennsylvania] turnpike now costs $43.90 in cash, up from $39.15. E-ZPass users pay $31.38, a 61-cent increase from the previous rate, but a $12.52 savings compared to paying with cash.”**
Government Gets Out of General Motors with Loss of $10.5 Billion

By Steve Stanek

It’s Government Motors no more.

The U.S. government in December sold its last shares of General Motors Company, ending the multi-billion-dollar bailout of the automaker and costing taxpayers a net loss of approximately $10.5 billion.

“This important chapter in our nation’s history is now closed,” Treasury Secretary Jack Lew said in a statement.


$49.5 Billion Infusion

The government poured $49.5 billion into General Motors during the financial crisis that hit in late 2007. General Motors briefly entered bankruptcy in 2009. The government recouped approximately $39 billion.

The government also handed Chrysler more than $8 billion to rescue that company. Chrysler is now a part of Italian automaker Fiat. The Chrysler bailout cost taxpayers a net $1.9 billion loss.

The only major U.S. automaker that did not take rescue money from the government was Ford Motor Company.

Report: 1.2 Million Jobs Saved

The Michigan-based Center for Automotive Research in December released a report estimating the rescue of GM saved nearly 1.2 million jobs and more than $39 billion in government transfer payments and taxes that would have been lost.

Car and truck sales in the U.S. were strong in 2013, with most automakers, foreign and domestic, doing well. GM recorded a profit of $4.3 billion for the first nine months of 2013, mostly as a result of sales of big cars and trucks.

Much Unknown About Effects

When the Obama administration in 2012 announced its intention to sell the last of its GM shares over the coming year, John Berlau of Competitive Enterprise Institute wrote, “There is nothing new or remarkable about businesses showing signs of improvement thanks to massive infusions of public dollars. We will never know how many small businesses may have survived, expanded or moved into more profitable lines of business had the government pursued a more pro-growth alternative to this massive government bailout.”

He continued, “We hear a lot about jobs allegedly ‘saved or created’ by this bailout. But in reality, we will never know how much farther along the road to recovery we might be if we had foregone this ‘investment’ and lowered tax rates so entrepreneurs could invest, grow and hire.”

JOHN BERLAU

COMPETITIVE ENTERPRISE INSTITUTE

The Great Italian Auto

By John Berlau

At the beginning of 2014, Detroit may be bankrupt, but it’s cheering the five-year-old U.S. auto bailout in Italy. That’s because after being the beneficiary of billions in U.S. taxpayer largesse, Fiat, the leading Italian auto company, is buying its final stake in Chrysler from that other big bailout recipient, the United Auto Workers (UAW).

“Chrysler’s Now Fully an Italian Auto Company,” reads the Time magazine online headline. But wait a minute! Wasn’t the bailout supposed to be about saving the American auto industry?

As Mark Beatty and I wrote in The Daily Caller in November 2012, after presidential candidate Mitt Romney made the controversial claim that Fiat would be expanding production of Chrysler’s Jeep in China (a claim that turned out to be correct):

“The real outrage arising from the 2009 Chrysler bailout is not that its parent company, Fiat, is planning to build plants in China. It’s that the politicized bankruptcy process limited Chrysler’s growth potential by tying it to an Italian dinosaur in the midst of the European fiscal crisis. The Obama administration literally gave away ownership of one of the Big Three American auto manufacturers to an Italian car maker struggling with labor and productivity issues worse than those that drove Chrysler to near-liquidation.”

U.S. Money Goes to Italy

As we noted in that article, much of Chrysler’s profits from its overhauled line are going to prop up Fiat’s failing, money-losing Italian business, rather than to expanding production and jobs in the United States. Moody’s had downgraded Fiat’s credit rating to “junk” even before the Obama administration arranged for it to acquire a Chrysler stake, and in Autumn 2012 Moody’s gave Fiat another downgrade that the Financial Times described as even “further into ‘junk’ territory.”

Around this time, Barron’s put it like this in a headline: “This time, Chrysler could bail out Fiat.” Actually, the Barron’s headline is slightly misleading in one respect: Fiat didn’t contribute much of anything to Chrysler’s bailout.

In the 2009 deal overseen by the Obama administration’s auto task force, Fiat paid no money to acquire its initial 20 percent stake in Chrysler, only contributing some of its intellectual property instead. Fiat would later pay $2.2 billion to raise its stake in the company to 58.5 percent.

Continuing the bailout shell game,
Fiat will now pay fellow bailout recipient UAW $4.4 billion for its stake in Chrysler. All the while, the U.S. government has pitched in more than $12 billion in taxpayer infusions.

In “saving” the American auto industry, Obama gave an American company away. And he gave it away at the expense of pension funds and other secured creditors, which were given a much smaller stake in the new company than they would have been given under traditional bankruptcy proceedings.

American manufacturing workers also lost out on the deal; many are now hostages to the woes of Fiat and the Italian economy.

According to Barron’s, “Chrysler’s resurgence has been so strong that it now provides a lifeline for Turin’s Fiat, which faces serious challenges in Western Europe.” Fiat and Chrysler CEO Sergio Marchionne told Barron’s: “The Fiat Group has a future because of Chrysler.” Similarly, Bloomberg reported, “without Chrysler, the Italian automaker would have posted a first-quarter net loss” in 2012.

The divergence between Chrysler’s profits and Fiat’s European losses is striking. In late 2012, Chrysler reported its third-quarter profit surged 80 percent to $381 million. But ironically, Fiat’s Marchionne has made Chrysler profitable again not by producing more of Fiat’s mini-cars, as the Obama administration urged it to do, but rather by doubling down on Chrysler’s most “environmentally incorrect” light trucks and sport-utility vehicles, such as the Jeep Grand Cherokee and Dodge Durango.

In reporting Chrysler’s profit surge, Bloomberg noted these earnings were “boosted by demand” for Jeep Grand Cherokees, while Fiat has “delayed new models such as the Punto hatchback.” Marchionne deserves some credit. By refusing to follow General Motors’ lead to march in lockstep with the Obama administration’s wishes, he did not turn Chrysler into another “Government Motors,” making its own version of Chevy Volts that nobody wants.

But making more Jeeps and Dodge Durangos is—to use a motoring cliché—sort of like reinventing the wheel. Some other competent CEO could have figured that one out. Yet Chrysler being tied to Fiat’s European woes makes it less and less likely that much of the profit will be reinvested in the United States. It’s likely that the bulk of that profit will instead be plowed into Fiat’s operations in Italy.

In June 2012, The Wall Street Journal painted a devastating picture of Fiat’s bloated workforce at its Turin headquarters. “Too many inefficient plants, coupled with a plunge in consumer demand, have left not only Fiat, but other car makers … bleeding cash.” Yet Fiat, which employs 63,000 Italian workers, “says it has no plans to cut jobs.” Instead, due to antiquated Italian labor laws (of the sort that Big Labor champions in the United States), it “furloughs” workers when it idles plants and pays them two-thirds of their salaries.

Because of the dysfunction of its Italian operations, Fiat must squeeze all it can out of its new Chrysler cash cow, bequeathed to it by U.S. taxpayers at the Obama administration’s behest. That may mean lowering costs on profitable vehicles such as Jeeps by moving operations to lower-cost nations such as China, though Chrysler insists it will do so only for vehicles sold in China. Whatever the case, Fiat will be reluctant to put many more American workers on its payroll with so many mouths to feed in its native Italy.

Had Chrysler gone through a traditional court-approved bankruptcy before it received any government money, as Massachusetts Gov. Mitt Romney advocated in a 2008 New York Times op-ed, its investors and workers would have had the opportunity to ask questions about Fiat’s financial viability. Even in 2009, Fiat was showing strains as its credit rating already had been downgraded to “junk,” so a good bankruptcy judge might have blocked such a merger.

Both Romney and Obama backed some form of government guarantees for American auto companies. Government aid to a specific business is something free-market advocates can never support. But Chrysler’s politicized bankruptcy took away a more fundamental guarantee—the rule of law—and many American workers will suffer as a result.

John Berlau is a senior fellow for finance and access to capital at the Competitive Enterprise Institute. Used with permission of the OpenMarket.org blog of the Competitive Enterprise Institute.
FATCA System Fails Probe, Threatens Privacy

By Andrew F. Quinlan

Despite spending more than $8.6 million so far, with another $8 million projected to be spent on developing an online portal for handling the registration of foreign financial institutions for the Foreign Account Tax Compliance Act (FATCA), the IRS is still unprepared for the law, according to a report by the Treasury Inspector General for Tax Administration.

The delay threatens to compromise the information of American citizens and the foreign institutions that have been coerced into serving the IRS under the law.

The report reveals amazing disarray in the implementation process, as the IRS spent considerable resources developing the system before issuing the final regulations, which then had to be scrapped to accommodate new requirements.

The process also has been marred by multiple delays, and the agency has gone well outside the bounds of the law’s authority in both negotiating directly with foreign governments and promising reciprocal information-sharing on foreign deposits within the United States, which will place additional burdens on U.S. financial institutions.

Even in the unlikely event that the Web site manages to keep from prying eyes all the new American taxpayer information the government will be collecting under FATCA, the IRS itself already has proven itself to be an untrustworthy steward of your private financial information.

‘Deleterious Effects on Growth’
In introducing legislation to repeal FATCA (S 887), Sen. Rand Paul (R-KY) cited the “deleterious effects of FATCA on economic growth and financial privacy of Americans.” The implementation process, along with other multiple recent scandals involving infringements on the privacy of American citizens, has done nothing to allay these concerns.

For this and numerous other reasons, repeal of the disastrous FATCA law must be included as a part of tax reform. It remains vulnerable to challenge if the nations, institutions, and individuals most affected stand up to fight it.

Andrew F. Quinlan is president and CEO of the Center for Freedom and Prosperity. Used with permission of the Center for Freedom and Prosperity at freedomandprosperity.org.

Governor Fires Firm that Found 40% Error Rate in Ill. Medicaid Rolls

By Benjamin Yount

Illinois has fired the private company that found 40 percent of the state’s Medicaid enrollees shouldn’t be in the system. Now the state will hire hundreds of unionized, public employees to do the job.

Gov. Pat Quinn (D) signed an agreement with the state’s largest public employee union, the American Federation of State, County and Municipal Employees, to have state workers take over the review of Illinois’ 2.7 million Medicaid enrollees.

“This ruling provides the best and most efficient way forward,” Illinois Healthcare and Family Services Director Julie Hamos said in a statement.

Firm Was ‘Stunning Success’
Lawmakers say the private company, Maximus, was “a stunning success” and never should have been fired.

“As of the latest update, 216,000 people who were receiving Medicaid benefits were taken off the program because the third-party contractor was involved,” said state Sen. Dale Righter (R-Mattoon), noting Maximus looked at only about a half-million Medicaid files.

State Rep. Patti Bellock (R-Hinsdale) said before Maximus took over the review, state workers did a terrible job of checking incomes and addresses.

“These people were not even living in Illinois,” Bellock said. “They were [in] Wisconsin, Indiana, Michigan.”

Maximus was due to be paid $37 million next year, but that’s now likely headed for “renegotiation.”

Instead, Bellock said Illinois is going to spend tens of millions of dollars more to hire 500 new unionized public employees.

“At an average of between $80,000 and $100,000 a year for an average worker, that would be $50 million,” Bellock said.

HFS spokesman Mike Claffey says the state is hiring 50 workers to take over the Maximus review, and 500 jobs are being added in other parts of the state government.

AFSCME represents tens of thousands of state employees. Illinois’ state workforce is nearly 97 percent unionized.

Aimed to Appease Unions?
The union was furious with Quinn for signing pension reform earlier in December. No one is saying if this agreement to hire hundreds of new union members will ease that anger, and Righter says Quinn clearly did not stand up for state taxpayers.

“When so much else is going wrong within his own administration and within state government generally, why on earth would you ever change something that is working well?” Righter asked, wondering aloud about Quinn’s deal with the union.

Benjamin Yount writes for Illinois Watchdog. Used with permission of Watchdog.org.
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