By Matthew Glans

Illinois’ government pension system, arguably the worst in the nation, will continue to worsen in the months ahead. Legislators failed in their early January lame-duck session to do anything to reform the system, which has a $97 billion unfunded liability that rises $17 million a day.

Without a pension system overhaul, Illinois taxpayers will continue to see money siphoned away from education, medical care, and other services to fund pensions. In a desperate attempt to drive home that point, Gov. Pat Quinn (D) had his staff create “Squeezy, the Pension Python,” a cartoon depiction of a giant snake squeezing the state capitol building, schools, a cop, and a hospital. They also created a four-minute YouTube video on pensions that features Squeezy.

Legislators Create Commission
Shortly before the session ended, Quinn made
Bumpy Road for Virginia’s Plan on Gas, Sales Taxes

Continued from page 1

structure maintenance, stagnant motor fuels tax revenues, increased demand for transit and passenger rail, and the growing cost of major infrastructure projects necessitate enhancing and restructuring the Commonwealth’s transportation program and the way it is funded. We simply cannot continue to do what we have always done and expect this problem to go away.”

Expanding Tax Collector’s Reach
The proposal has upset some of McDonnell’s political backers, who say it damages his conservative Republican credentials. Some of his opponents also are none too pleased.

“From the eBay perspective, we’re most concerned about leveraging any revenue from a federal Internet tax bill. We feel it is a huge violation of due process and the Commerce Clause [of the Constitution],” said Lauren Sholley White, eBay’s manager of federal government relations.

“It allows government to be as big as the Internet. State tax authorities no longer would be bound to stay in their borders. They’d be allowed to go anywhere” to collect sales tax on purchases made by state residents from retailers in other states, she said.

It’s not just representatives of companies that do business over the Internet who have problems with the proposal.

Good Idea ... If Goal Is Bigger Government
Ending the gas tax “is a good idea because gas taxes are an imperfect user fee. However, McDonnell proposes to replace the gas tax with a 0.8 cent sales tax that he says will generate more revenue than the gas tax. If your only goal is to make government bigger, then generating revenue is a good idea. However, if your goal is to have better roads, then even a gas tax makes more sense than a sales tax,” wrote Cato Institute transportation expert Randal O’Toole on his blog.

“As imperfect as the gas tax is, it generates feedback to highway agencies: If they build roads no one uses, they get no gas taxes. Sales taxes generate no feedback at all; the agencies get money whether anyone uses the roads or not,” O’Toole added.

Cato is a well-known think tank that leans libertarian and to the right end of the political spectrum. But the proposal is also taking a beating on the political Left.

‘All Annoyance, No Benefits’
At the Left-leaning Slate.com, business columnist Matthew Yglesias wrote of the proposal, “If anything, it makes the tax structure even more regressive since the carless minority in the United States is disproportionately composed of poor people. The nice thing about a gas tax is that for all it annoys people, it does have environmental and highway congestion benefits. Higher retail sales taxes have all the annoyance but none of the benefits.”


Orski said McDonnell’s proposal “can be viewed both favorably and unfavorably. On the positive side, the proposal would provide a more generous dedicated stream of revenue for transportation than that offered by the gas tax—higher vehicle fuel efficiency standards will generate even less gas tax revenue in the future.

“On the negative side, the proposal does away with the concept of the ‘user fee,’ an integral part of the highway funding regimen since the Eisenhower era. Conservatives will decry it because a general sales tax would violate the cherished ‘user-pays’ principle, and liberals will condemn it because it would shift the burden to the general population, thus ‘punishing’ transit users and other non-auto users.”

Under the proposal, Virginia’s sales tax rate would climb from 5 percent to 5.8 percent. There’d also be a $100 annual charge for drivers who own alternative-fuel cars or trucks, with the money dedicated to transit services. Vehicle registration fees would increase by $15, with the extra money dedicated to intercity passenger rail and transit services.

Earlier Failures
Virginia legislators and governors have spent more than a decade trying to find ways to bring in more revenue to build more roads to reduce traffic congestion.

Under former governor Timothy Kaine (D) the state created unelected regional transportation authorities with wide-ranging powers to impose taxes, fees, and fines in the Hampton Road and northern Virginia areas. The authorities generated fierce opposition from motorists and taxpayers, and the effort collapsed after the Virginia Supreme Court in 2008 ruled the authorities were unconstitutional. Kaine is now a U.S. senator representing Virginia.

Under Kaine’s predecessor, Gov. Mark Warner (D), voters rejected a referendum that would have raised Virginia’s sales tax an additional 0.5 cents in eastern and northern Virginia with the promise the additional tax money would go toward $6 billion in regional transportation projects over 20 years.

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.
Illinois Legislators Let Pension System Worsen

Continued from page 1

a last-ditch attempt to salvage pension reform by supporting the creation of an eight-member bipartisan pension commission. Legislative leaders would appoint the members, who would write a bill to fix the pension system and close the $97 billion unfunded liability. The commission’s bill would take effect automatically unless the General Assembly votes to block it.

The legality of the arrangement is an open question. If the House Speaker or Senate President fail to call a disapproval vote, the commission’s bill would become law. The only way to block it would be for both chambers to pass a joint resolution disapproving the measure.

“Gov. Quinn’s last-minute attempts to outsource legislative authority to a commission to fix the state’s pension problems are evidence that the Illinois legislature is too cowardly to make the tough decisions necessary to keep the state afloat,” said John Nothdurft, director of government relations at The Heartland Institute, which publishes Budget & Tax News. “This is even more astonishing since the state is overwhelmingly controlled by one party [Democrats].”

Alternative Plan Offered

The legislation that received the most serious consideration was sponsored by state Reps. Elaine Nekritz (D-Northbrook) and Dan Biss (D-Evanston). Their bill would have frozen cost-of-living increases for all state workers and retirees. After the freeze ended, cost-of-living increases would have applied only to the first $25,000 of pensions. Adjustments for inflation would not have been awarded until a worker reached the age of 67. Most government workers in the state retire much before reaching 67 years old and receive annual pension increases right away.

The Nekritz-Biss bill would have gradually increased the amount employees themselves contribute to their pensions, increasing by 1 percentage point the first year and another percentage point the second year. The proposal also would have placed a cap on the size of the pensionable salary with two standards: a worker’s current salary or a level based on a Social Security wage base, whichever is higher.

State Constitution May Be Obstacle

Illinois’ constitution prohibits fundamental reform of pensions for existing public-sector employees, which makes any reform effort more difficult. Any pension reform bill that makes it through the General Assembly likely will be challenged in court.

The Nekritz-Biss bill contained a new funding guarantee for pension payments that could have proven problematic.

“The guarantee is a dangerous precedent and part of a bill that preserves the same flawed defined benefit system that’s been at the core of Illinois’ pension ills,” wrote Ted Dabrowski, vice president of policy at the Illinois Policy Institute, at the institute’s blog.

“The state’s crisis has been long in the making, but legislators must avoid the temptation to just pass something—anything—on pension reform.”

TED DABROWSKI
VICE PRESIDENT OF POLICY
ILLINOIS POLICY INSTITUTE

“The state’s crisis has been long in the making, but legislators must avoid the temptation to just pass something—anything—on pension reform.”

JOHN NOTHDURFT
DIRECTOR OF GOVERNMENT RELATIONS
THE HEARTLAND INSTITUTE

“Gov. Quinn’s last-minute attempts to outsource legislative authority to a commission to fix the state’s pension problems are evidence that the Illinois legislature is too cowardly to make the tough decisions ...”

Matthew Glans (mglans@heartland.org) joined the staff of The Heartland Institute in November 2007 as legislative specialist for insurance and finance. In 2012 Glans was named senior policy analyst.
Muskegon County, Michigan, wants to build a new jail, and the county’s prevailing wage law means local taxpayers could be on the hook for an extra $2 million for the project.

Prevailing wage laws mandate union-scale wages be paid on construction work funded by taxpayer dollars. Local governments can do nothing about federal prevailing wage laws, which apply if federal dollars are used for a project. However, local governments have to pay the prevailing wage on local projects only if they have a local ordinance that requires it.

Most of Michigan’s 83 counties do not have prevailing wage ordinances. Muskegon County is one of the few that do.

‘No Position to Spend More’

“I’m going to say prevailing wage would mean they’d pay about $2 million more” for the jail, said Chris Fisher, president of the Associated Builders and Contractors of Michigan. “Muskegon County is really in no financial position to be spending $2 million more than they have to. Those are taxpayers’ dollars that could be used for any number of other things.”

Fisher’s $2 million estimate might be low. Depending on which options county officials settle on, the price tag for the proposed Muskegon County jail project could be anywhere from $23 million to $47 million.

The Mackinac Center for Public Policy has researched the costs of prevailing wage laws in Michigan. It concludes prevailing wage laws can add 10 percent to 15 percent to the cost of construction projects.

If Muskegon County’s prevailing wage ordinance were to add 10 percent to the cost of the jail project, the ordinance would put local taxpayers on the hook for an additional $2.3 million to $4.7 million.

On December 13, Muskegon County Administrator Bonnie Hammersley told Michigan Capital Confidential she’d prefer the prevailing wage ordinance not apply to the jail project.

‘It’s an Administrative Burden’

“My understanding is that if we don’t have federal dollars in it, we don’t need to use prevailing wage,” Hammersley said. “We won’t use it unless we have to, because it’s an administrative burden. It adds to the cost.”

Heath Kaplan, Muskegon County’s finance and management services director, said the county’s prevailing wage ordinance would apply to the jail project.

Kaplan was asked if the ordinance would add $2 million or more to the cost.

“That seems somewhat high to me,” Kaplan said. However, he said he wasn’t certain of a better estimate.

Financial consultants advising Muskegon County are suggesting the jail project could be paid for through general obligation county bonds. Local financing to pay off the bonds would come from roughly $7 million the county set aside for the project and savings from efficiency changes. Under the plan, the efficiency changes would include the elimination of 6 to 15 positions and insurance alterations.

It is estimated the staffing changes would save the county roughly $500,000 to $1.1 million annually and the changes in insurance would reduce county expenditures by about $800,000 annually. The estimated efficiency savings in the first year aren’t even enough to cover the estimated $2 million additional cost imposed by the county’s prevailing wage.

Opposition to Project

Muskegon County is already being forced to tighten its belt because of budgetary problems. According to the budget letter presented to the County Board of Commissioners by Hammersley last August, the county is facing “ongoing budget challenges.”

Muskegon County Commissioner Alan Jagger said he opposes the jail project.

“I just don’t believe we’re in a financial position to be doing this,” Jagger said.

Jagger said he thinks the county’s prevailing wage law is an example of why Muskegon County is struggling with its finances.

On December 6, the jail project was put on hold, but not because of the cost factors. Problems selecting a location appear to be the primary reason for the current delay.
‘Enough Is Enough,’ County Officials Tell Maryland Government

By Len Lazarick

After several years of cuts in aid, offloading of state expenses, and unfunded mandates, Maryland county officials who gathered for their annual conference have decided “enough is enough,” said Rick Pollitt, new president of the Maryland Association of Counties.

Like many of the hundreds of elected and appointed officials who met in Cambridge, Wicomico County Executive Pollitt can reel off the series of actions taken by the governor and the legislature to balance the state budget on the backs of county governments, which are just as hard-pressed by flat revenues.

Money for schools has kept pace, but funding for health departments and roads has been slashed. The state has shifted about a quarter of its full funding of teacher pension costs onto the counties, and it has reinforced requirements to maintain local funding for education.

The state also is forcing counties to impose new fees for stormwater management and restrict expansion of septic systems that help fuel residential growth in some rural areas. Counties also have been saddled with new federal requirements to reduce nutrients that flow into the Chesapeake Bay.

Highway Funds Hit

The most serious loss for many local jurisdictions has been the $700 million cut to highway user revenues that were shifted into the general fund to bolster other programs, such as school aid.

“That’s big. That was the most significant hit,” said Pollitt, a Democrat. For his own county, highway funding went from $7 million down to $200,000.

The counties fought those cuts and waged a losing battle against the shift of one-quarter of teacher pension costs and more stringent requirements for “maintenance of effort” on school funding.

“I’m not going to raise taxes just to pay for schools,” said Laura Price, a Republican member of the Talbot County Council. While Talbot is considered one of Maryland’s wealthiest counties, due to the number of high-income residents with shorefront properties, Price said median incomes in Talbot County are actually below the state average.

“Teaching is very important, but they’re not more important than EMTs” and other public safety workers, Price said.

Elaine Kramer, chief financial officer for St. Mary’s County, said other than schools, “we’re operating at 1999 staffing levels.”

Gov. Martin O’Malley (D) emphasizes the continued payment of $5.6 billion in state aid for schools. But Kramer said, “They weren’t paying their fair share for all those years.” The counties were actually picking up the responsibility for school funding mandated in the state constitution.

Rural Development Restrictions

The legislature also has been piling other mandates onto county governments, particularly to reduce the flow of polluting nutrients into the Chesapeake Bay.

Pollitt said there is broad agreement across Maryland “the Chesapeake is a national treasure.”

“There’s got to be a way to protect the bay responsibly,” Pollitt said.

He said scientific experts differ on the most significant source of Chesapeake Bay pollution. Eastern Shore officials recently pointed to the polluted sediment behind the Conowingo Dam at the mouth of the Susquehanna River as a major source of nutrients, particularly after major storms wash sediment from the river’s watershed in Pennsylvania.

“I’m bothered by the sharpness of the debate” and the conflicting views of experts with equally credible credentials, Pollitt said. “Let’s get the right minds at the table and hammer things out.”

Transit Funding Concern

A major concern for Maryland’s two largest counties is the need for more revenues for the Transportation Trust Fund for transit projects such as the 16-mile Purple Line from Bethesda to New Carrollton and the Corridor Cities Transitway along I-270.

Roger Berliner of the Montgomery County Council said there will be no money in the Transportation Trust Fund to build either one unless revenues increase. He favors a sales tax increase to pay for transportation because “it is the easiest to do political-ly” and “it brings in the most revenues.”

“This will be a difficult battle without the governor’s personal commitment and muscle,” Berliner said. “With it, we have a fighting chance.”

Otherwise, “my county will continue to lose its competitive edge to northern Virginia,” he said. “I want to make progress. I want the state to live up to its responsibility.”

Len Lazarick (len@marylandreporter.com) writes for MarylandReporter.com. Reprinted with permission.

Get the Antidote for Keynesian Economics

Classical Economic Principles

& \textit{The Wealth of Nations}

BOOK I: \textit{Classical Economic Principles}

by \textit{Robert Genetski}

Available now at Amazon and Barnes & Noble for $19.99

Available now

Available now at Amazon and Barnes & Noble for $19.99

Available now at Amazon and Barnes & Noble for $19.99
**POLICYBOT™**

**FAST, RELIABLE, FREE.**

*PolicyBot™* is The Heartland Institute’s online database and search engine offering reviews and the full text of more than 25,000 articles and reports from 350 think tanks and advocacy groups.


The Heartland Institute is a 29-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.
UTOPIA Broadband Program Facing Debt, Failure

By Matthew Glans

One of Utah’s most ambitious municipal broadband programs is facing serious subscriberhip and funding problems.

The Utah Telecommunications Open Infrastructure Agency (UTOPIA), a municipal broadband program organized in 2002 by a group of communities in the Wasatch Front area of the state, is facing massive debt, low enrollment, and, despite millions of dollars in taxpayer investments, difficulties raising enough revenue to keep the system running.

Advocates of municipal broadband programs say they create economic renewal and tech-sector growth. To date, however, the programs have spotty records of success, with many suffering cost overruns, service disruptions, debt, and limited use. As a result, taxpayers are saddled with expensive, underused broadband systems that cost millions to maintain.

The UTOPIA system was constructed because the partner communities believed private telecommunications companies were not willing to bring high-speed Internet and other broadband services to them. The partner communities committed roughly $500 million over the next 32 years to back the bonds sold to finance the UTOPIA network’s development and construction.

The system failed to live up to its creators’ promises. Of 56,000 households with access to the network, only 8,572 have signed up for service.

In August 2012, an audit provided to Utah taxpayers, “municipal broadband providers are learning that in many cases, there were good reasons as to why private providers hadn’t built high-speed networks: cost, complexity, and lack of a sufficiently large customer base.”

Andrew Moylan
National Taxpayers Union

Even dissolution of the system would lead to a loss for taxpayers. In an article for Digital Liberty, Kaitlyn Ewing pointed out UTOPIA would receive $120 million for its assets if sold immediately, far less than what it owes, according to the system’s 2011 financial audit.

A National Taxpayers Union study by Andrew Moylan and Brent Mead found UTOPIA debt grew from $85 million in 2005 to $201.5 million in 2011. The UTOPIA obligations are overwhelming the finances of UTOPIA’s partner cities, they noted. The 11 partner cities had four dollars of UTOPIA-related debt for each dollar of debt associated with normal infrastructure operations. Moylan says UTOPIA has failed because its creators did not accurately gauge consumer demand.

“Municipal broadband providers are learning that in many cases, there were good reasons as to why private providers hadn’t built high-speed networks: cost, complexity, and lack of a sufficiently large customer base,” he explained.

In a paper recently released by the Coalition for the New Economy, Dr. Joseph P. Fuhr Jr., professor of economics at Widener University, examined the negative budget and economic side effects of government-owned broadband networks (GONs). He found UTOPIA provides a good case study for how the GON business model simply does not work.

“The UTOPIA network is a good example of what can happen when municipal lawmakers take on a project for which they have little expertise,” said Fuhr in a statement. “A series of missteps, beginning with a faulty business plan, have driven this GON to the point that it has to pay more than $500 million in debt obligations. Taxpayers in the participant cities are now being forced to pay higher property taxes to atone for UTOPIA’s missteps.”

According to Moylan, the effect of UTOPIA’s failures will be strongly felt by the 11 partner cities. “UTOPIA’s failure could prove a costly millstone around the neck of already-overburdened Utah taxpayers,” said Moylan.

He continued, “As I pointed out in my study for NTU, partner cities had four dollars of UTOPIA-related debt for every dollar in general obligation debt. That’s a huge debt load to carry for a system that lost $6.1 million on operations last year. Debt of this size for what is ultimately something of a vanity project is not fair to taxpayers and may prove unsustainable.”

Follow The Heartland Institute on Twitter and Facebook!

ON TWITTER
our username is heartlandinst

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

Become a Fan on Facebook and help us reach our goal of 75,000

Follow The Heartland Institute on Twitter and Facebook!
By Michael D. LaFaive and Todd Nesbit

Cigarette taxes have been in the news lately, and not just because politicians keep raising them. What’s new is that state and local levies have grown so onerous in some parts of the country that they almost could be called “prohibition by price.”

And like other forms of prohibition, this one has led to a spike in smuggling-related criminal activity as smokers turn to illicit distribution channels.

The destructive consequences of rampant tobacco smuggling include the corruption of government officials, violence, theft, counterfeiting, and dangerous, adulterated products. Moreover, while very high taxes are often sold as a way to finance government health programs, in many cases the money goes to fund unrelated spending.

We have just completed our third set of estimates for tobacco smuggling in 47 of the 48 contiguous states, this one based on data through 2011, with previous editions released in 2008 and 2010. Each statistical model matches actual sales against predicted state consumption based on reported smoking rates, with the difference representing our estimate of smuggling.

Michigan’s smuggling rate is up 12.7 percent since our previous study, with the difference representing a staggering 60.9 percent of the total market. Not coincidentally, New York also has the nation’s highest state cigarette tax of $4.35 per pack, plus another $1.50 levied in New York City.

Other notable results from our model include:
- Massachusetts increased its cigarette tax from $1.51 to $2.51 per pack in 2010, and in 2011 it became an even larger market for smugglers, advancing 13 spots since our 2010 report.
- Florida moved up 12 places on the smuggling index after hiking cigarette taxes in 2010 from 33.9 cents per pack to almost $1.34.
- Utah moved up 10 positions. You guessed it—the Beehive State increased is cigarette tax from 69.5 cents to $1.70 in 2011.

New Jersey Sees Big Drop

A few states saw dramatic decreases in estimated smuggling. New Jersey fell by 12 positions, probably because large tax hikes in neighboring states made it a relatively less attractive destination for smugglers. In 2010, New Jersey’s cigarette tax was almost 48 cents higher on average compared to its bordering states. In 2011, the tax in the Garden State was about 39 cents lower than its neighbors.

By our estimate, New Hampshire was the highest-ranking “export” state.

Most NY Smokes Are Smuggled

New York currently holds the top position as the highest net importer of smuggled cigarettes in 2011, with smuggled cigarettes totaling a staggering 60.9 percent of the total market. Not coincidentally, New York also has the nation’s highest state cigarette tax at $4.35 per pack, plus another $1.50 levied in New York City.

For every 100 packs of cigarettes consumed there, almost 27 packs were smuggled out.

We also modeled for Maryland the impact of a recently proposed 50 percent hike in its excise tax, from $2 per pack to $3. If such an increase were enacted in Maryland, the proportion of smuggled cigarettes consumed by its smokers would leap from 26 percent of the total market to 52 percent, resulting in a net decline in tobacco tax revenues.

Corruption, Violent Crime Rise

These findings are troubling enough, but even more disturbing is what appears to be an increase in criminal activity related to illicit tobacco smuggling.

In just one egregious example from last summer, a Maryland police officer in Prince George’s County was sentenced for running illicit cigarettes while using his duty firearm, uniform, and patrol vehicle. In 2010, a Virginia man admitted to hiring someone to kill another over smuggled smokes. Prison guards have been busted smuggling cigarettes into prisons.

Consumers of smuggled cigarettes also incur greater risks. Counterfeiting of legitimate brands is a growing problem, and the phony butts are often adulterated with fillers containing anything from sawdust to human excrement. It’s today’s version of the toxic “bath tub” gin of the alcohol prohibition era.

Official state stamps that are placed on packs to show taxes were paid are also being counterfeited, or sometimes simply stolen, or ignored by sellers of “loosies”—individual cigarettes sold illicitly for 25 cents to 50 cents each.

Cigarette tax hikes come with harsh and real unintended consequences. Before reaching deeper into smokers’ pockets, state lawmakers should consider the deeper social costs of creating a lucrative black market for smuggled cigarettes.

Michael D. LaFaive (lafaive@mackinac.org) is director of the Morey Fiscal Policy Initiative, and Todd Nesbit (nesbit@mackinac.org) is an adjunct scholar, at the Mackinac Center for Public Policy, a research and educational institute in Midland, Michigan. Nesbitt is also a senior lecturer at The Ohio State University.

Texas Governor Asks for Tax-Cutting Ideas

Texas state budget officials forecast a revenue increase of more than 12 percent in the 2012–14 budget compared to the previous two-year budget, and Texas Gov. Rick Perry (R) is using that projection to call for tax relief.

“The best thing that we can do for our economy, for employers, for employees, for our state, and I will suggest to you, for our country, is to provide some tax relief,” Perry said January 10 at a conference organized by the Texas Public Policy Foundation.

He gave no details and instead encouraged citizens to go online to submit ideas to the governor’s office.

— Steve Stanek
La. Gov. Wants to End Income and Corporate Taxes

By Steve Stanek

Louisiana Gov. Bobby Jindal (R) has announced he plans to ask legislators to end the state’s personal income tax and corporate tax and replace them with a higher sales tax.

Jindal said in a statement released January 10:

“We are meeting with every legislator over the coming weeks to discuss the details of the tax reform plan. Our goal is to eliminate all personal income tax and all corporate income tax in a revenue-neutral manner. We want to keep the sales tax as low and flat as possible,” Jindal said in a statement.

He continued, “Eliminating personal income taxes will put more money back into the pockets of Louisiana families and will change a complex tax code into a more simple system that will make Louisiana more attractive to companies who want to invest here and create jobs.

“Tax reform will remove administrative burdens from families and small businesses and improve Louisiana’s business prospects; create more business investment opportunities with increased job growth; and raise the state’s profile in national business rankings.

“The bottom line is that for too long, Louisiana’s workers and small businesses have suffered from having a state tax structure that is too complex and that holds back economic prosperity. It’s time to change that so people can keep more of their own money and foster an environment where businesses want to invest and create good-paying jobs.”

Details to Come
Details apparently are still to be worked out. Louisiana’s legislative session begins in April.

Kevin Kane, president of the New Orleans-based Pelican Institute for Public Policy, said Jindal months ago made clear tax reform “probably would be his priority issue” in this year’s legislative session.

“Louisiana over the years has had a number of odd things in its tax code, like businesses paying inventory tax. There are all sorts of taxes that are not business-friendly. In some cases, rather than get rid of them, they’ve offered credits, tax breaks, refunds. The result is we have a tax code where businesses and individuals at the end of the day pay low taxes in relation to states like New York or California, but our taxes are a lot more complicated than in other states like Texas,” he said.

Simplification Benefits
Kane said making the tax code simpler would make doing business in the state easier and more efficient.

“With [the state's current] tax code, you have to do a lot of navigating” to get tax burdens down to where they should be, he said.

Ending the personal income tax also would leave more money in the hands of individuals and end their need to file state income tax information.

But he cautioned the governor so far has provided no details beyond the statement from his office. Until the details are known, there’s no way to know how workable the plan might be, he said.

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.
COMMENTARY

Taxpayers Aren’t Stationary Targets

By Sheldon Richman

Actor Gérard Depardieu’s decision to flee France for Belgium to avoid a 75 percent marginal tax rate on incomes above $1.3 million sends a message we here in America should heed: Those who are singled out for tax increases are not stationary targets. The means of avoiding and evading the taxman are legion.

U.S. government agencies routinely issue estimates of how changes in the tax code will affect the flow of revenues to the treasury. President Barack Obama says the tax changes he has been seeking will bring in $1.6 trillion over a decade. But such estimates assume taxpayers are something other than human beings who engage in purposive action.

People like to keep the money they make—why shouldn’t they?—and they typically avail themselves of every legal (and not-so-legal) strategy to do so. Change the tax environment by raising rates or adversely modifying the rules, and taxpayers, especially those in the upper echelons of earners, can be counted on to modify their conduct accordingly. There’s no reason to think their wish to hold on to their money has diminished just because the tax code has changed.

Known Long Ago

Economists as far back at J.B. Say and Gustave de Molinari in the nineteenth century understood this. As Molinari wrote in his 1899 book, The Society of To-morrow, “The laws of fiscal equilibrium set a strict limit to the degree within which it is possible to impose new taxes, or to increase the rates of those already in force. The relative productivity of taxes soon shows when this point has been overstepped, for then returns not only cease to rise, but immediately begin to fall.”

Things can work in the other direction too. Other things being equal, cutting tax rates can prompt revenues to rise. This is not to say rising revenue is a good thing. As Milton Friedman once said, if a tax rate cut brings in more revenue, the rates weren’t cut enough. Hear, hear!

Nevertheless, revenues can increase after a rate cut. Case in point: the rate cuts of 2001 and 2003, the so-called Bush tax cuts, which Obama had been hoping would expire for the top 2 percent of earners. According to the Congressional Budget Office, revenues increased from $1.9 billion in 2003—when all the cuts kicked in—to $2.3 billion in 2008 (in constant 2005 dollars). At that point the Great Recession hit, and of course revenues then fell.

Tax revenues always fall in a recession because when people lose their jobs they stop paying the income tax. Companies also pay less as economic activity slows down. When would-be tax raisers today complain that revenues are a smaller percentage of GDP than in previous years, that is the reason. It’s not that the tax rates are too low.

Steady Percentage

Aside from recessions, for the past 60 years federal tax revenues have been rather steady at just under 19 percent GDP regardless of the tax rates. The top income-tax rate has ranged from a low of 28 percent in 1988–90 to a high of 92 percent in 1952–53, yet the flow of money has been a fairly constant proportion of the economy. This would seem to confirm the apparently controversial hypothesis that taxpayers are purposive human beings who can be counted on to modify their behavior according to the incentives and disincentives that government places in their paths.

Yet most politicians don’t get it. In the Wall Street Journal a few years ago, W. Kurt Hauser, formerly of the Hoover Institution, noted: “Even amoebas learn by trial and error, but some economists and politicians do not. The Obama administration’s budget projections claim that raising taxes on the top 2% of taxpayers, those individuals earning more than $200,000 and couples earning $250,000 or more, will increase revenues to the U.S. Treasury. The empirical evidence suggests otherwise. None of the personal income tax or capital gains tax increases enacted in the post-World War II period has raised the projected tax revenues.”

“Hauser’s Law” seems quite robust. Over 60 years, “there have been more than 30 major changes in the tax code including personal income tax rates, corporate tax rates, capital gains taxes, dividend taxes, investment tax credits, depreciation schedules, Social Security taxes, and the number of tax brackets among others. Yet during this period, federal government tax collections as a share of GDP have moved within a narrow band of just under 19% of GDP,” Hauser writes.

Easily Explained

The explanation is simple enough for a child to understand, though politicians have difficulty with it: “When tax rates are raised, taxpayers are encour-

IN OTHER WORDS . . .

“[A]s their lame-duck session became their dead-duck session, the Illinois General Assembly made it official: House Speaker Michael Madigan, Senate President John Cullerton and their Democratic majorities want you to know they simply are not capable of agreeing on any law that would begin to fix their terrible pension debacle. ... “So the dead-duck session has ended, and the next General Assembly will be sworn into service at noon Wednesday. There is, at this writing, absolutely no reason to think the next Legislature will be more committed than the last to solving this problem.

“Public sector workers, retirees, taxpayers, know that, once again, the cowards surrendered. They failed you.” —Chicago Tribune editorial, January 9, 2013
commentary

seeing the top rate raised on people making more than $400,000 and a tax increase estimated to raise the top 33 and 35 percent tax rates to 39.6, respectively, on people making more than $200,000. This, he added, would have raised $1.2 trillion over a decade—again assuming those sons earning more than $1 million a year.

Washington Ritual
But in light of the information above, this all appears to be Washington’s standard ritual dance. When—or if—the economy recovers from the recession, revenues will rise to their historic level regardless of whether Congress tampers with the rates. One need not leave the country, à la Depardieu, to escape taxes. But raising the rates in a struggling economy will help ensure that the economy keeps struggling.

The tax raisers like to point out that the economy boomed during the Clinton years even though top tax rates went up. But this is a simplistic claim. Many other things were going on at the same time—such as the productivity boom ignited by the desktop computer and information revolution—that offset the higher rates. Economic growth likely would have been even greater had the burden of government been lighter.

Alas, the new bipartisan climate in Washington is turning uniformly pro-tax-hike. This is sad news, indeed. If taxes can’t be cut, at least they shouldn’t be raised. First, do no harm! Meanwhile, spending of all kinds must be slashed deeply.

Sheldon Richman (srichman@fff.org) is vice president of The Future of Freedom Foundation (FFF) and editor of its monthly publication, Future of Freedom. Used with permission of www.theprojecttorestoreamerica.org.

Van Lines Data Show People Fleeing States With Big Fiscal Problems

By William Bergman

Citizens and businesses are fleeing states with fiscal problems—that is one apparent message from the latest annual report from United Van Lines.

The company’s study of 2012 interstate shipments, released in December, showed significant continuing flight from states with high state government debt loads as measured by the Institute for Truth in Accounting (IFTA).

For example, the top five states for the share of outbound interstate shipments in the latest UVL survey were, in order from one to five: New Jersey, Illinois, West Virginia, New York, and New Mexico. The average taxpayer burden estimated by IFTA (a careful estimate of state government debt loads) for these five states came to $25,000 in the latest year, more than three times the average of $7,850 for the other 45 states.

The four states with the highest share of inbound moves for UVL in 2012 were, in order, Oregon, Nevada, North Carolina, and South Carolina. The average IFTA taxpayer burden estimate for these four states came to $6,600 in 2011, about 33 percent lower than the average for the other 46 states.

UVL listed five states, not four, in the ‘states’ with the highest share of outbound shipments, but the fifth ‘state’ (actually, it came in first) was the District of Columbia. This result is consistent with other economic data showing the Washington, DC economy doing swimmingly over the past five years despite the worst economic and financial crisis in the nation since the Great Depression.

In the Midwest, some of the harder-hit states in the recession saw improvement. For example, Michigan had ranked first in the nation in the share of outbound shipments in each of the four years until 2009, but the developing economic recovery and other factors have led to some improvement in its relative position in the past few years.

Also in 2009, Indiana ranked fourth in the nation in outbound shipments for UVL, but that rank fell to 10th in 2010 and 14th in 2011—and then fell sharply, to 26th, in 2012.

Both Michigan and Indiana have produced significant improvement in the balance of spending and revenue in their state budgets in recent years. Illinois, by contrast, has been mired in high and rising state government debt and still ranks near the top of the outbound shipments list for UVL.

William Bergman (bbergman@statedatalab.org) is director of research for StateDataLab.org, a project of the Institute for Truth in Accounting.
Judge OKs Suit Alleging Conflict of Interest on FDA Tobacco Panel

By Jeff Edgens

U.S. District Court Judge Richard Leon has allowed a lawsuit seeking an injunction by R.J. Reynolds and Lorillard Tobacco to proceed against the Tobacco Products Scientific Advisory Committee. The suit alleges a conflict of interest on the scientific panel responsible for regulating tobacco products.

Food and Drug Administration officials asked Leon to deny the request but the judge rebuffed their claim, noting in his ruling “the limited number of viewpoints on these issues” and “the scientific as opposed to the political nature of those viewpoints, and the distinct responsibilities of the committee.”

Conflicts of Interest Alleged

At issue is the membership of the Tobacco Products Scientific Advisory Committee (TPSAC). TPSAC was created after passage of the Family Smoking Prevention and Tobacco Control Act. TPSAC has eight members, three of whom allegedly present a conflict of interest with pharmaceutical companies that could benefit from anti-smoking regulations.

Federal law says members of committees governed by the Federal Advisory Committee Act may not have an interest in activities in which the committee is involved. This includes stock holdings or contracts with companies that may be affected by the committee’s recommendations. FDA Commissioner Margaret Hamburg has refused to remove the three members after repeated requests from industry and government ethics groups to do so.

Anti-Smoking Leader’s Support

Dr. Michael Siegel, a major anti-smoking researcher and professor at Boston University School of Public Health, supports the lawsuit and wrote on his blog, “there is a sufficient legal basis for the suit to move forward.” Siegel added, “...it is inexcusable to allow these financially conflicted members to serve on the FDA advisory panel.”

Some anti-tobacco groups claim there is nothing wrong with allowing the members to remain on the panel. Vince Wilmore, spokesperson for the Campaign for Tobacco Free Kids, believes the lawsuit is just a means “to obstruct effective policies to reduce tobacco use and to discredit anyone who advocates such policies.”

But Siegel argues Campaign for Tobacco Free Kids’ rhetoric ignores the central legal question. “That rhetoric may have worked years ago,” he wrote, “but we are now living in a new era, when (ironically, thanks to the Campaign for Tobacco Free Kids), tobacco companies are now under federal regulation. And with federal regulation the law must be obeyed.”

Investigation Request

As far back as 2010, Citizens for Responsibility and Ethics in Washington (CREW) sent a letter to the U.S. inspector general calling for an investigation into TPSAC and the conflict of interest of several of its members. CREW singles out Drs. Neal Benowitz and Jack Henningfield, both of whom have consulting connections with pharmaceutical companies to develop smoking cessation products. Benowitz works for Pfizer, the maker of Chantix, a smoking cessation drug. Henningfield consults with the maker of Nicorette gum. A third member of the panel, Dorothy Hatsukami, has received grants to study the effects of a nicotine vaccine.

Jeff Edgens (jedgens@gmail.com) is an assistant professor of political science at East Georgia State College and an adjunct scholar with the Competitive Enterprise Institute.
Fiscal Cliff Deal Slammed by Political Right ... and Left

By Steve Stanek

So this is what Congress and President Barack Obama meant by “balance” in addressing the “fiscal cliff”: $42 of tax increases for every dollar of spending cuts.

They also apparently meant doling out billions of tax dollars to industries including movies, rum manufacturing, auto racing, and alternative energy.

The new year began with Congress passing $620 billion in tax increases and $330 billion of new spending over the next 10 years to avoid expiration of tax cuts that became law in 2001 and 2003. Other tax provisions that were not part of the “Bush” tax cuts also were affected. Automatic spending cuts totaling $1.2 trillion over the next 10 years also were put on hold.

Complaints Across Political Spectrum

The deal appears to have pleased few people on the political Left or Right.

The Left-leaning American Sustainable Business Council and Business for Shared Prosperity released a joint statement explaining their disappointment the deal “does not restore the economy must be strengthened, not cut.”

Richard Trumka, president of the Left-leaning AFL-CIO union labor organization, praised the deal because it does not touch Social Security, Medicare, or Medicaid benefits, ends the Bush-era income tax cuts for families making more than $450,000 a year, and extends unemployment benefits for a year.

Mixed Labor Union Response

But in a statement, Trumka also complained, “The deal extends the Bush tax cuts for families earning between $250,000 and $450,000 a year and makes permanent Bush estate tax cuts exempting estates valued up to $5 million from any tax. These concessions amount to over $200 billion in additional tax cuts for the 2 percent.

“And because of Republican hostage taking, the deal simply postpones the $1.2 trillion sequester for only two months and does not address the debt ceiling, setting the stage for more fiscal blackmail at the expense of the middle class,” he wrote.

National League of Cities President Marie Lopez Rogers, mayor of Avondale, Arizona, also said in a statement, “[W]e are disappointed that the automatic spending cuts to important federal programs that our cities and families rely upon continue to be an option in resolving the nation’s fiscal challenges.

“Over the last several years, these programs, which support infrastructure, job training, housing, and education investments, have already been subject to significant cuts in the name of deficit reduction,” she said.

Shared Responsibility

On the Right, ForAmerica Chairman Brent Bozell issued a statement in which he called the bill “a surrender. The problem our nation faces is over-spending, and spending is ignored: the perfect Washington, DC ‘solution.’ And not only does this bill fail to make meaningful spending cuts, it actually spends another $4 trillion we don’t have!”

The Republican-controlled House of Representatives voted 257–167 for the bill. Bozell said that vote means “the GOP loses its soul and co-owns the resulting fiscal disaster with President Obama.”

“House Republicans gave lip service to spending restraint, and especially entitlement reform, but managed to play their hand so clumsily that no significant cuts in spending were included in the final deal. The net result of all of this sturm and drang is that the deficit will actually increase as a result of the final bill,” said Marilyn R. Flowers, professor of economics at Ball State University.

“At the end of the day, the only way to get out of the dangerous mess we are in is if we all make sacrifices. And that is what no one seems willing to do,” Flowers said.

Though much of the fiscal cliff rhetoric focused on higher taxes on the “wealthy,” a 2 percentage point reduction in the Social Security tax that was enacted two years ago was allowed to end, forcing almost everyone with a job to pay more. With the extra 2 percentage points on the tax rate, a family that earns $50,000 a year will pay another $1,000 toward Social Security taxes.

Higher Incomes, Higher Tax Rates

For individuals earning more than $400,000 and families earning more than $450,000 a year, taxes on income, capital gains, and dividends all go up. Taxes on estates of more than $5 million at a person’s time of death also go up. Tax deductions and credits also were limited for those who earn more than $250,000 a year, effectively raising their tax rate because more of their income will be subject to tax.

The extra $330 billion in spending results from extending unemployment benefits, a “doc fix” patch to prevent cuts to Medicare, and extension of agricultural subsidies.

The deal also delayed by two months automatic spending cuts that were to happen at the start of the year, setting up another likely fight over spending.

The Treasury Department has announced the federal government’s debt ceiling likely will be hit in late February. To keep spending and borrowing, the debt ceiling would need to be raised. The other alternative would be to reduce spending and use the savings to make interest payments without raising the debt ceiling.

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.
State and union officials are negotiating a new contract. Gov. Terry Branstad (R) has called for substantial concessions to reduce state spending. Under the current contract:

- The state fully covers the cost of individuals’ health premiums, while employees pay just 15 percent of the cost of a family plan. The plan doesn’t include a deductible and charges $15 for a standard doctor visit. The plan has a $250 out-of-pocket maximum for prescriptions under a single plan, while the family plan’s limit is $500. Copayments range from $5 for generics to $30 for name-brand drugs that aren’t preferred by the insurance company.

Workers who are laid off temporarily continue to receive state-funded health insurance and accrue sick and vacation time as if they were still on the clock. Employees can eventually cash out a portion of their leave time.

- Staff returning from leaves of absence and new employees are credited the average number of overtime hours worked by others in their work group. The hours can be used as comp time or be paid out.

- Employees who are on-call receive 10 percent of their hourly salary for each hour they are on stand-by.

- State workers are entitled to as much as three hours of paid time off to vote in a general election.

- Employees who work a shift in which four or more hours fall between 6 p.m. and midnight receive an extra 60 cents an hour. Those who work four or more hours between midnight and 6 a.m. get 65 cents added to their hourly wages.

- Workers who are reassigned to a position at least 25 miles away from their home receive a moving stipend of as much as $50,000. The money can be used to market their current home, pay closing and inspection costs, settle outstanding leases, and pay for travel associated with the move. Employees also can use up to 80 hours of paid time to move, close on a sale, or conduct other “incidental activities.”

Since taking office, Branstad has pledged to reduce government spending by 15 percent, partly by eliminating automatic pay raises and requiring workers to make contributions toward their medical and dental insurance. His administration also is pushing for the state’s largest union to give Iowa officials more say in the size of government and its workforce, according to Branstad’s initial proposal to the union.

Reversing Prior Policy
Leon Shearer, the governor’s advisor on labor and management issues, is leading negotiations for a new contract that would take effect next fiscal year. Branstad’s push for concessions provides a stark contrast to three years ago, when then-Gov. Chet Culver (D) signed off on the union’s initial proposal after losing his reelection bid.

Brian Jennings, spokesman for Iowa AFSCME, and Shearer did not return requests for comment. Representatives from AFSCME’s national office directed requests for comment to Jennings.

Culver’s unusual move afforded state employees salary increases ranging from 1 percent to as much as 15 percent, depending on where they were on the pay scale. It also extended the state’s commitment to fully fund insurance premiums for single workers. Dick Oshlo, director of the Department of Management at the time, estimated the two-year deal would cost Iowans $70.4 million.

Sheena Dooley (dooley@iowawatchdog.org) reports for IowaWatchdog.org. Reprinted with permission.

---

Laying Down the Law

Kurtis B. Reeg is a policy advisor for legal affairs at The Heartland Institute and president/managing partner of Reeg Laywers, LLC. With more than 30 years of trial and appellate experience, Reeg is a frequent speaker at local, regional and national seminars and has published numerous articles.

He has represented clients in a wide variety of products liability, class action and toxic tort litigation, insurance coverage and underlying defense.

His depth of experience — including litigation involving aviation, biotechnology, chemicals, construction equipment, drugs and medical devices, hydraulic equipment, ladders, lead, machinery of various types, mold, pesticides, safety equipment, vehicles, matters related to asbestos, silica, herbicides, chemicals and environmental hazards — makes him uniquely qualified to speak on many legal issues.

To book Reeg as a speaker, or for more information, contact Nikki Comerford (ncomerford@heartland.org), 312/377-4000.
Harrisburg, Pa., Burns Through More Cash than Trash

By Melissa Daniels

There was a time when the Harrisburg, Pennsylvania incinerator was a successful waste-to-energy plant. Then, with the stock market rising and every American looking like a sharp investor, politicians hooked up with Wall Street in a series of exotic financial deals designed to finance plant upgrades. After a decade, they’ve incinerated not just trash—but cash.

Through finance and refinance, the Harrisburg Authority and city officials multiplied the facility’s $80 million debt more than four times to an astonishing $340 million. Despite the rising debt, the improvements failed and the facility earned nowhere near what experts forecasted, leaving no way to pay down the massive debt, save pending sale of the facility. The only winners appear to be the Wall Street dealmakers who collected some $40 million in commissions and fees over a decade of transactions.

Now state lawmakers are scrambling to produce legislation to keep other Pennsylvania municipalities from sinking hundreds of millions of dollars into debt.

Ban on Swaps

State Sen. Mike Folmer (R-Lebanon) has introduced a proposal to ban the kinds of financial swaps that contributed to the Harrisburg fiasco.

“There’s so much market dislocation and so much volatility that, in today’s market, I can’t imagine a Pennsylvania municipality that I would recommend get into one,” said third-party auditor Steven Goldfield.

Swaps allow borrowers to bet against future changes in interest rates on existing bond issues. For example, borrowers can agree to a fixed interest rate instead of a variable one, or vice versa, in an attempt to earn a more favorable rate.

Entering a swap agreement with a lender can provide up-front cash in exchange for making the deal. But quitting the deal early for any reason can cost borrowers millions.

Swaps are complex. They are controversial. And they’re relatively new to Pennsylvania’s local government borrowing rules, allowed by law since 2003 as a way to manage interest rate costs.

But after Harrisburg, Folmer and others have said swaps are a risk not worth taking with public dollars.

‘Very Risky’

“They’re very risky, and all you have to do is have one mistake,” Folmer said. “If a private company wants to do this, that’s fine. They’re risking their own money. But when you’re dealing with taxpayer money, it’s other people’s money. It should not happen.”

Tales of swaps gone wrong are not hard to find in Pennsylvania, as they’ve been called out by government watchdogs and policy analysts.

Auditor General Jack Wagner found in 2009 that 107 school districts and 86 local governments had $14.9 billion in debt tied to swaps. In the city and school district of Philadelphia alone, taxpayers are facing $331 million in debt because of swap deals, according to a Pennsylvania Budget and Policy Center report from 2012.

Elsewhere, officials used swaps in financing deals that led to two of the largest U.S. municipal bankruptcies ever—in Jefferson County, Alabama and Orange County, California.

Officials in Harrisburg entered into multiple swap agreements on incinerator bonds since 2003. A third-party project audit showed three of those swaps involved payments by the Harrisburg Authority to the Royal Bank of Canada well above market prices.

Add this type of financing to the fact that the incinerator never made nearly as much money as it was supposed to. It’s not that managing interest rates is a bad decision, for private or public monies. But some believe the complexity of swaps may be more than a local government can handle.

State Sen. Rob Teplitz (D-Dauphin) was elected in November to represent the Harrisburg area. He previously worked in the auditor general’s office studying swap deals throughout the commonwealth, Teplitz said.

‘Not Sophisticated Enough’

He supports banning swaps for all local governments and school districts.

“What you have, particularly at the local level, are very well-meaning, very dedicated public servants who are not sophisticated enough in these financial instruments in order to make the appropriate decisions,” Teplitz said. “Compounding that problem is that they have to rely on financial advisors who will only get paid if the swap deal goes through.”

Goldfield notes larger cities with a team of independent, intelligent advisors may be able to effectively use swaps to help keep payments under control.

State Treasurer Rob McCord said he was not familiar with the details of a proposed ban or of Harrisburg’s particular swap deals.

McCord, a Democrat who worked in finance before he ran for public office, cautioned against overregulating financial management or villainizing the idea. Swaps can manage interest rate risk over time, which can be valuable for long-term debt, he said.

“If these are well-used, they actually reduce risk in the long-run,” McCord said of swaps.

But officials can get into trouble when they don’t fully understand the financing that’s going on. Sometimes, that’s a case of “sophisticated sales people,” working on commission, who put the deals together, he said.

Worth the Risk?

Despite proven value in certain arenas, the question becomes whether swaps are a risk worth taking in the public sector.

David Unkovic, the former state-appointed receiver for the city of Harrisburg, also testified about swaps during Senate hearings in October 2012. He said local governments, as well as municipal authorities, should be banned from entering new swaps altogether.

The nine years of legal swaps in Pennsylvania have been a failed experiment, he said.

Melissa Daniels (melissa@paindependent.com) reports for PA Independent. Used with permission of PAIndependent.com.
Conn. Studies Impact of Incentives but Not Tax Hikes

By Zachary Janowski

Connecticut officials emphasize the job impact of incentives given to companies, often referencing calculations done using economic modeling software to justify the deals, but they don’t apply the same scrutiny to tax changes such as the largest-in-state-history increase passed two years ago.

Although state officials could use the same software to evaluate budget proposals or tax policy, they don’t, according to a Department of Economic and Community Development response to a Freedom of Information Act request.

“The main reason people don’t ask questions is because people don’t want the answers,” said state Sen. Joe Markley (R-Southington), a proponent of lower taxes. “Or, ‘Gee, it never crossed our mind to be curious about it.’”

Governor’s Signature Policy

Gov. Dannel Malloy (D) has made relocation incentives and other job subsidies signature policies of his administration. The programs—with catchy names like First Five, Next Five, and Small Business Express—transfer state money to specific companies, often identified through an application process or negotiations with economic development officials.

In particular, legislators and Department of Economic and Community Development (DECD) Commissioner Catherine Smith have cited the job projections of the REMI model, software licensed by the state to assess the economic impact of state initiatives.

Smith called REMI “a very sophisticated model” when promoting a $50 million deal with the insurer CIGNA.

“Forecasters and planners use the economic forecasts to predict economic and demographic changes far into the future. Users develop alternative forecasts within the models, providing different potential projections for the regional economy,” according to the REMI Web site. “Tax changes may have a significant effect on economic activity. REMI is recognized for unbiased analysis of the economic implications of tax changes.”

Zachary Janowski (zach@yankeeeinstitute.org) reports for RaisingHale.com, a media project of the Yankee Institute for Public Policy. Reprinted with permission.

**Connecticut Ends Employee Bonuses, Costs Taxpayers More Money**

The bipartisan plan passed in December by Connecticut legislators to balance the state budget eliminated some state employee bonuses that have been the subject of populist ire—but it replaced those bonuses with raises of the same value, which will end up costing taxpayers more.

Under the new rules, nonunion state employees will receive their last longevity payment in April. Beginning in July, their salary will go up by the value of their annual bonus.

Previous money-saving efforts had frozen the value of longevity bonuses at $6.2 million, so these state employees actually benefit from the change because the additional salary will grow with future cost-of-living increases or other percentage increases.

If state employees receive a 3 percent salary increase next year, the transition will cost the state about $200,000.

Nonunion employees will also benefit when they retire, because the value of their accrued vacation and sick time will increase with their salary, resulting in proportionately larger payouts, according to the Office of Fiscal Analysis. Longevity pay is not included in calculations for these payments.

Nonunion state employees with salaries set by statute will continue to receive longevity bonuses, but it is unclear how many fall into this category.

According to OFA, the state could save some money if nonunion employees retire between April and June.


**President Demands Free Hand on Debt Ceiling**

During a wide-ranging news conference January 14, President Barack Obama demanded Congress raise the debt ceiling without conditions. The Treasury Department expects the federal government to hit the $16.4 trillion debt ceiling near the end of February or early March.

“The full faith and credit of the United States of America is not a bargaining chip,” Obama said.

“To even entertain the idea of this happening, of America not paying its bills, is irresponsible. It’s absurd,” he added.

Opponents say raising the debt ceiling would itself be absurd. They point out Congress and the president could cut spending and use the saved money to pay the interest on the national debt, thus eliminating the need to raise the debt ceiling.

“Raising the debt limit does not enable us to pay the bills we have already racked up. It just racks up more bills that will have to be paid, just like raising the credit limit on your credit card and borrowing still more does,” said Peter Ferrara, senior fellow for entitlement and budget policy at The Heartland Institute, which publishes Budget & Tax News.

— Steve Stanek
By Sunana Batra

Troubled by the questionable use of tobacco-tax revenue on grants to fund advocacy for local smoking bans, Colorado lawmakers have decided to ask the Joint Budget Committee to make state health department officials—who disburse tobacco tax money—report those grants as budgetary line items for better tracking and oversight.

A legislative staff attorney, meanwhile, reaffirmed some of the funding allocated to push for tougher local anti-smoking laws wasn’t allowed under the 2004 tobacco-tax hike.

In July 2012, state auditors released an audit of the tobacco tax program and found that taxpayer funds from Amendment 35 tobacco taxes were being doled out beyond the scope of the statute. They concluded the Colorado Department of Public Health and Environment (CDPHE) may be violating the state constitution by using taxes intended for tobacco prevention and cessation programs on policy initiatives to ban smoking at the local level.

Three Different Initiatives
The audit reported that in 2010 and 2011, CDPHE granted $5.2 million to fund three different policy areas: initiatives meant to limit youth access to tobacco products; initiatives aimed at reducing second-hand smoke in multi-unit housing; and policy work related to expanding the reach of the Colorado Clean Indoor Air Act (CCIAA), a 2006 law that banned indoor smoking in public accommodations.

To clarify, the Legislative Audit Committee sought advice from its legal counsel to give the committee more information on whether CDPHE’s actions were legal.

For the 2013 calendar year, according to the Tobacco Education, Prevention, and Cessation Grant Program Web site, they have recommended $13,178,417 in funding to the state board of health for “Community Tobacco Initiatives” including nearly $2.5 million to the “Amendment 35 Program Evaluation Group” for “Evaluation and Surveillance.”

Dubious Spending
Senior Attorney Julie Pelegrin of the Office of Legislative Legal Services (OLLS) explained the policy initiatives funded with grants that were geared toward strengthening the provisions of the CCIAA at the local level likely were not legal.

“Unless it is specifically limited to low-income multi-unit housing, a policy initiative to reduce exposure to second-hand smoke in all multi-unit housing facilities would probably not be eligible under this statutory provision because there is no indication that all multi-unit housing complexes house persons with higher-than-average tobacco burdens,” Pelegrin said.

Pelegrin concluded since there was still confusion in the statute by the way the CDPHE understood it versus the way OLLS is reading it, then the Legislative Audit Committee should clarify the statute.

“It appears as though we still have a very open-ended question here that has not been answered, and if it’s up to the legislature to clarify the statute, I think that’s the action that we need to take,” state Rep. Angela Williams (D-Denver) said.

Sunana Batra (sunanabatra@gmail.com) writes for the Colorado News Agency, where a version of this article first appeared. Used with permission.
‘Yellow Pages Test’ Would Ease Budget Pains

By John Palatiello and Leonard Gilroy

President Barack Obama a few months ago blamed the nation’s economic weakness on spending cuts by state and local officials “who are not getting the kind of help that they have in the past from the federal government and who don’t have the same kind of flexibility of the federal government in dealing with fewer revenues coming in.”

There’s been no significant change in the situation since then, which brings up some important questions, such as why are state and local governments weak, and why aren’t they getting help from the federal government?

Unnecessary Programs

First and foremost, the federal government is in no position to help. It has run four consecutive budget deficits topping $1 trillion. When the president made his remarks last summer, the national debt was $15.7 trillion. It now tops $16.3 trillion.

And it already did “help.” Much of the $787 billion “stimulus” actually went to states and localities to prop up their budgets.

Like their federal counterpart, states and localities are paying the price of years of profligate spending.

They have failed to apply the “Yellow Pages Test.” That is a process of getting government out of activities that are commercial in nature and otherwise available from private enterprise—businesses listed in the Yellow Pages. When governments conduct these activities in-house, they are taking from the private sector and making government unnecessarily bigger.

The federal payroll is growing, not shrinking, in part due to an Obama administration initiative called “in-sourcing”—canceling contracts with private companies, bringing work back into the government, and converting private-enterprise workers into government employees.

Owning Enterprises

An excess of government workers is not uniquely a federal problem. Years of over-employment by states and localities have left these governments with an unfunded pension liability of up to $3 trillion, according to the Congressional Budget Office. And like Uncle Sam, they are in dire straits because they are engaged in activities they had no “business” getting into in the first place.

Here are just a few examples:

• Many states and local governments own and operate golf courses, often at a loss.
• Westchester County, New York owns Playland, an amusement park known to many as the closing scene of the Tom Hanks film Big.
• Harrisburg, Pennsylvania went bankrupt in large part due to a failed venture into the waste incineration business.
• Seventeen states run either retail or wholesale liquor enterprises, or both. Last summer Washington State became the first state since the end of Prohibition to fully divest itself from both markets through privatization.
• Trenton, New Jersey owns a Marriott hotel near the state capitol building. It has a virtual monopoly, being the only hotel in the downtown area, yet it still fails to turn a profit.
• California owns horse race tracks, as did New Jersey until it recently began privatizing its facilities.
• A recent fad is municipal broadband, city or state-owned Internet providers.
• Phoenix suburb Glendale, Arizona owns the arena that is home to the NHL Coyotes. To try to salvage its 10-year-old “investment” in the arena for the bankrupt hockey team, the city approved the equivalent of a $325 million bailout, overpaying a prospective new owner to operate the arena for the next 20 years to avoid the team leaving for another city. Even worse, the city paid $50 million in arena subsidies the last two years while laying off dozens of workers to close a $35 million deficit.

Similar examples abound. Government employees are making maps, designing roads, managing Web sites, writing software, serving meals, mowing lawns, painting walls, washing clothes, and doing thousands of other tasks that have little to do with governing. The government is the nation’s largest banker, insurer, homeowner, landlord, utility provider, and bus, transit, and passenger train operator.

‘The Model’: Privatization

Contrast this with Sandy Springs, Georgia, an Atlanta suburb of 94,000 residents with a public payroll of seven employees. The New York Times noted, “With public employee unions under attack in states like Wisconsin, and with cities across the country looking to trim budgets, behold a town built almost entirely on a series of public-private partnerships—a system that leaders around here refer to, simply, as ‘the model.’ Cities have dabbled for years with privatization, but few have taken the idea as far as Sandy Springs. Since the day it incorporated, Dec. 1, 2005, it has handed off to private enterprise just about every service that can be evaluated through metrics and inked into a contract.”

Sandy Springs proves many government functions can be handled by the private sector, a lesson policymakers at all levels should learn. Furthermore, it should concern every American taxpayer that all government employees, as well as their failure to set priorities is rewarded, indeed subsidized, by the Feds.

Government at every level should inventory its real property assets and sell those that are luxuries rather than necessities. This will not only generate revenue but also eliminate future operating expenditures.

All governments should also carry out a commercial activities inventory and apply the Yellow Pages Test, or the Sandy Springs Test, to identify non-core activities that are commercial in nature and thus could be subject to private-sector competition to lower costs.

John Palatiello (john@jmpa.us) is president of the Business Coalition for Fair Competition. Leonard Gilroy (leonard.gilroy@reason.org) is director of government reform at Reason Foundation.
Subscribe to Heartland’s five monthly public policy newspapers online to keep up with the thousands of subscribers, elected officials, and reporters who also receive them electronically.

- **Environment & Climate News** corrects the inaccurate and misleading coverage of environmental issues that appears in newspapers and magazines and on television.

- **School Reform News** advocates for parental choice, distance learning, and breaking the hold of teachers unions on public schools.

- **Health Care News** keeps up with policy and technology in the health care field and is actively following the ongoing debate over Obamacare and its implementation.

- **Budget & Tax News** features news and commentary on ways to lower taxes and cut government spending.

- **FIRE Policy News** reports on debates taking place at the national and state levels on the full range of finance, insurance, and real estate issues.

Sign up for free online subscriptions! Visit heartland.org and click Subscribe.

For thousands of additional articles and reprints on issues important to you, visit heartland.org and click the PolicyBot™ button, or go to policybot.org.

---

The Heartland Institute is a 29-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

**INFO TECH & 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