Unreported Liabilities
States across the country have accumulated at least $900 billion in off-balance sheet liabilities.

Stadium Boondoggle
The small town of Bridgeview, Illinois has tripled property taxes to pay for a city-owned soccer stadium that has failed to generate the promised operational revenues.

High-Speed Fire Sale
New York Gov. Andrew Cuomo has announced plans to hold a fire sale of unused trains purchased by the state as part of a failed high-speed rail project.

Tax Kickback
Amazon.com Inc. is planning to partner with at least one California city to collect sales taxes—most of which would go back to Amazon.

$200+ Billion Benefits
State and local governments in Illinois collectively owe more than $200 billion in retirement benefits for government workers, according to a recent report.

The Bottom Line
Obama Wants One-Year Extension of Bush-Era Tax Rates—But Only for Some

By Steve Stanek
President Barack Obama has asked Congress to take up legislation that extends for one year the Bush-era tax rates for families earning less than $250,000 annually.

Republican leaders pledged to take up legislation to extend the lower tax rates for everyone, including those earning more than $250,000.

In comments from the White House on July 9, Obama said the aim “isn’t just to reclaim jobs, but to reclaim the security that so many middle class have lost over the past decade.” A “strong middle class,” he said, “is what I believe spurs the economy,” not more tax cuts for the wealthy. He said Republicans have been promoting “top-down economics.”

One unintended irony in Obama’s remarks is that the recent 5–4 Supreme Court ruling upholding the Obamacare health care law declares the personal mandate to carry health insurance to be a tax. This means millions of middle-income persons Obama says he does not want to tax more heavily will...
With 18 titles so far, The Heartland Institute’s ebook offerings range from *The Obamacare Disaster* and *The Patriot’s Toolbox* to *Booker T. Washington: A Re-Examination*. In the convenient, easily downloaded Kindle format, you can read these and other Heartland books on one handy device.

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Obama Wants One-Year Extension of Bush-Era Tax Rates, But Only for Some

Continued from page 1

be subject to the Obamacare tax.

Another unintended irony is that Republican presidential challenger Mitt Romney engineered a state health insurance law that has been dubbed Romneycare while he was governor of Massachusetts in 2006. Obama has said he modeled his Obamacare law on Romneycare, which includes a personal mandate to buy insurance and has tax penalties for those who do not buy it.

After the Supreme Court ruling declaring the mandate to be a tax, Romney said he did not believe the penalty is a tax but then back-tracked to declare it is a tax and unconstitutional. He is calling for the repeal and replacement of Obamacare.

Some Obamacare tax increases already have occurred, and others will go into effect in 2013.

Under $250K in Crosshairs?

Peter Ferrara, senior fellow for entitlement and budget policy at The Heartland Institute and managing editor of two Heartland publications, Budget & Tax News and FIRE Policy News.

for the first time raises the possibility that the Bush tax rates will not be permanently extended for those making less than $250,000 a year. If that is not the case, why else would he propose only to extend the tax rates for them for just one year?” Ferrara said in a statement. “Temporary tax relief does not work to promote the economy, as Obama should have learned by now.”

Taxpayer advocates are referring to January 1, 2013 as the start of “Taxmageddon” because of an estimated half-trillion dollars of annual tax increases that will be imposed if the early 2000s tax rates are allowed to expire and various Obamacare taxes are put into place.

Among the tax increases that are scheduled to occur:

**Obamacare Taxes**

More than 20 new or higher taxes will be imposed because of Obamacare, including taxes on medical devices, a Medicare payroll tax hike on wages and profits exceeding $200,000 ($250,000 for married couples), and a smaller deduction for medical expenses.

**Personal Income Taxes**

- Elimination of the 10 percent personal income tax bracket to be replaced by a new and expanded 15 percent bracket.
- 25 percent bracket rises to 28 percent.

- 28 percent bracket rises to 31 percent.
- 33 percent bracket rises to 36 percent.
- 36 percent bracket rises to 39.6 percent.

**Marriage, Family Penalties**

The “marriage penalty” (narrower tax brackets for married couples) will be imposed on the first dollar of taxable income. The child tax credit will be cut in half from $1,000 to $500 per child. The standard deduction will no longer be doubled for married couples relative to the single level.

**Penalties on Savers, Investors**

The capital gains tax will rise from 15 percent this year to 23.8 percent in 2013. The dividends tax will rise from 15 percent this year to 39.6 percent in 2013. These rates resulted from the scheduled expiration of the early 2000s tax rates plus Obamacare’s investment surtax.

**Business Taxes**

Dozens of additional changes would force businesses to pay higher taxes.

*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.*
Court Upholds Obamacare Mandate, But As a Tax

Continued from page 1

people each year will choose to pay the IRS rather than buy insurance,” Roberts wrote.

“We would expect Congress to be troubled by that prospect if such conduct were unlawful,” he continued. “That Congress apparently regards such extensive failure to comply with the mandate as tolerable suggests that Congress did not think it was creating four million outlaws. It suggests instead that the shared responsibility payment merely imposes a tax citizens may lawfully choose to pay in lieu of buying health insurance.”

Roberts’ decision did, however, restrain the Court’s understanding of the Commerce Clause, which was the Obama administration’s main argument in favor of the mandate.

“The individual mandate ... does not regulate existing commercial activity. It instead compels individuals to become active in commerce by purchasing a product, on the ground that their failure to do so affects interstate commerce,” Roberts wrote. “Construing the Commerce Clause to permit Congress to regulate individuals precisely because they are doing nothing would open a new and potentially vast domain to congressional authority.

“People, for reasons of their own, often fail to do things that would be good for them or good for society. Those failures—joined with the similar failures of others—can readily have a substantial effect on interstate commerce. Under the Government’s logic, that authorizes Congress to use its commerce power to compel citizens to act as the Government would have them act,” Roberts continued. “That is not the country the Framers of our Constitution envisioned.”

Strong Dissent

In a strongly worded dissent, Justice Anthony Kennedy and the three conservative members of the court argued the entire law should have been struck down.

“The Constitution, though it dates from the founding of the Republic, has powerful meaning and vital relevance to our own times. The constitutional protections that this case involves are protections of structure. Structural protections—notably, the restraints imposed by federalism and separation of powers—are less romantic and have less obvious a connection to personal freedom than the provisions of the Bill of Rights or the Civil War Amendments,” Kennedy wrote.

“Hence they tend to be undervalued or even forgotten by our citizens,” he continued. “It should be the responsibility of the Court to teach otherwise, to remind our people that the Framers considered structural protections of freedom the most important ones, for which reason they alone were embodied in the original Constitution and not left to later amendment. The fragmentation of power produced by the structure of our Government is central to liberty, and when we destroy it, we place liberty at peril.

“Today's decision should have vindicated, should have taught, this truth; instead, our judgment today has disregarded it,” Kennedy wrote.

Returns Matter to Politics

Georgetown University professor Randy Barnett, one of the leading voices doubting the constitutionality of the Commerce Clause justification for the mandate, says the Roberts court effectively threw the matter back to Congress to decide.

“Today’s decision validates our claim that a Congressional power to compel that all Americans engage in commerce was a constitutional bridge too far,” Barnett said. “By rewriting the law to make it a ‘tax,’ the Court has now thrown Obamacare into the political process where the people will decide whether this so-called ‘tax’ will stand. And the people will also decide whether future Supreme Court nominees will pledge to enforce the Constitution’s restrictions on the power of Congress.”

Medicaid Expansion Restricted

In another unexpected move, the Court restricted the Medicaid expansion, finding in favor of a federalist argument that states should be free to reject the government’s requirements.

Andrew Grossman, who worked on the case, says the Court’s decision in this regard was fairly limited.

“What the Court seems to have done is limit the Medicaid expansion in a very specific manner, in saying that this did exceed the limits of Congress’s power to coerce the states through exercise of the spending power,” Grossman said. “The remedy for this, rather than striking down the entire Medicaid expansion, was to give states the option to maintain their former status and former funding that they would have received. So the federal government, if the states choose not to abide by the expansion, cannot pull all their funding away.”

States Await Election

Virginia Attorney General Ken Cuccinelli, a Republican and one of the most prominent opponents of Obama’s law at the state level, says Virginia will consider blocking implementation of the health insurance exchange required under Obamacare and rejecting the Medicaid expansion.

“I certainly do hope we decline to implement,” Cuccinelli said. “We don’t need to grow government more. We need to go in the other direction.”

Virginia Republican Gov. Bob McDonnell said his state would wait to move forward.

“Our state is eventually going to follow the law, but we’ll see what the law will be next January,” McDonnell said.

And in a press conference, South Carolina Sen. Jim DeMint called on all states to wait before implementing the law.

“I urge every governor to stop implementing the health care exchanges that would help implement the harmful effects of this misguided law,” DeMint said. “Americans have loudly rejected this federal takeover of health care, and governors should join with the people and reject its implementation.”

Benjamin Domenech (bdomenech@heartland.org) is a research fellow at The Heartland Institute and managing editor of Health Care News, from which this article is reprinted with permission.
Unfunded and Unreported: $900 Bil. in States’ Liabilities

By Matthew Glans

States across the country have accumulated $900 billion in off-balance-sheet liabilities, potentially leaving future taxpayers with much heavier tax burdens than states currently are imposing or acknowledging, according to a new study from the Institute for Truth in Accounting (IFTA).

Government employee pensions and health benefits, combined with years of overspending, have left states with the accumulated debt burden. In some states the obligation totals tens of thousands of dollars for each taxpayer.

“Antiquated government budgeting rules and accounting standards are to blame,” said IFTA founder and CEO Sheila Weinberg. “States pay only what is due during the current budget year, which does not take into account true long-term obligations on their balance sheets. Hundreds of billions of dollars of retirement liabilities are not reported, which pushes these costs onto future taxpayers.”

Sunshine and Sinkholes

The current, second edition of the IFTA’s “State of the States” report reviews the individual financial condition of each state and identifies how each is managing its finances. The study concludes some states are managing their finances well and not creating additional financial burdens on their taxpayers, but many other states are doing the opposite. Those states are creating a swiftly growing debt burden that threatens their economic growth.

The report identifies “sunshine states” that have adequate assets available to pay their obligations. The top five (and their per-taxpayer surpluses) are: Alaska ($21,200), Wyoming ($20,200), North Dakota ($9,500), Utah ($2,600), and Nebraska ($2,400).

Growing Burdens

The study also identifies “sinkhole states,” those in the worst financial condition. The report examines their financial problems and identifies the amount each taxpayer in those states would have to send to their state treasury to cover the liabilities. The five “sinkhole states,” along with the obligation for each taxpayer are: Connecticut ($49,000), New Jersey ($35,800), Hawaii ($32,700), Illinois ($31,600), and Kentucky ($23,500).

“We politicians for years have been saying their budgets are balanced, but that’s because they’re not including these liabilities,” Weinberg said.

These claims of balanced budgets have led citizens to believe their legislators are matching revenues to expenses. In fact, most state governments have been spending more than claimed. She says she believes politicians have been doing this because citizens would have demanded they curtail spending if they had known the true size of retiree obligations and other spending programs.

Lax Accounting Standards

Weinberg points out some state governments have been ignoring money they owe to pretend their budgets are balanced. They do this by using cash accounting, which the IRS allows no business with more than $5 million in annual revenue to use.

“If they don’t write a check, they don’t include it in the budget,” Weinberg said. “So they’re just not paying the bills” even though bills keep coming due. Illinois, for instance, may owe up to $8 billion on overdue bills, according to Weinberg. Government leaders there have gone years pushing bills from one year into the next year, but that just makes the next year’s obligations even bigger.

State governments are able to do this because government sets its own accounting standards and lets itself get away with practices that are illegal for private businesses to use, Weinberg says.

Top Five “Sunshine States”

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Bottom Five “Sinkhole States”

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INTERNET INFO


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Matthew Glans (mglans@heartland.org) is senior policy analyst for The Heartland Institute.
California City Becomes Nation’s Largest to Declare Bankruptcy

By Tim Kelly

Stockton, California has declared bankruptcy, making this city of 300,000 residents the nation’s largest city to seek protection under the U.S. bankruptcy code.

The Stockton City Council voted 6–1 on June 26 to adopt a spending plan for operating under bankruptcy protection and to file a motion with the courts to enter into confidential mediation.

The city council had voted to enter into bankruptcy mediation in February 2012. Negotiations between city officials and the city’s creditors had been ongoing since March, but the two sides failed to come to terms. The bankruptcy filing is in compliance with AB 506, a new California law requiring cities to enter into mediation before they may file for reorganization of their debt.

Several bankruptcy attorneys have said the mediation may help the city avoid the fate of Vallejo, California. That said the mediation may help the city enter into confidential mediation.

The city cut $90 million from its general fund in the past three years, reducing the Fire Department’s budget by 30 percent and the Police Department’s by 25 percent, and cutting pay and benefits for all employees.

“This is not where any of us wanted to be, but, absent restructuring agreements with our creditors, any other options would decimate the city,” said Deis in a statement. “The pendency plan allows us to operate until we can get a long-term plan of adjustment negotiated and approved through bankruptcy.”

A federal judge will now decide how many pennies on the dollar Stockton will pay creditors and how the city’s future budgets will be structured.

“Bankruptcy is a terrible option until it’s the only option” said Stockton City Attorney Marc Levinson.

Stockton’s fiscal health took a turn for the worse when its once-booming housing market turned south and revenue collections fell.

Spending Binge
But some say Stockton’s financial problems were exacerbated by reckless spending during the fat years, which left the city financially vulnerable and burdened with crushing liabilities.

“The unfunded liabilities are so large that it’s unlikely that an economic rebound will correct a problem long in the making. Even when the economy was doing well, legislators continued to increase benefits beyond the ability of taxpayers to pay for them,” wrote Steven Greenhut, vice president of journalism at the Franklin Center for Government and Public Integrity.

California Common Sense, a non-partisan organization dedicated to government accountability, issued a report on Stockton’s financial problems that generally comports with Greenhut’s assessment. “How Stockton Went Bust: A California City’s Decade of Policies and the Financial Crisis that Followed” cites three main factors contributing to the city’s bankruptcy:

• The housing bust and financial collapse decimated the city’s property tax (and related) revenues. This problem was made worse by a skyrocketing home foreclosure rate.

• The real estate bubble encouraged large spending increases, ambitious redevelopment initiatives, and unsustainable compensation packages for city workers.

• The proceeds from Stockton’s 2007 bond offering were given to the CalPERS, which was overexposed to the real estate and stock markets. The original pension obligation bond money is now worth less than $100 million while the city owes $248 million.

Unclear Impact
It is unclear whether Stockton’s bankruptcy will affect the rest of the state. Other cities have been hit hard by the economic downturn and the state’s budget woes and are negotiating with employee unions for concessions.

Most of the 18 municipal defaults since 2008 have involved small cities struggling to maintain general services. Those isolated instances—of about 9,700 rated cities and a $3.7 trillion market—are too small a sample for any sweeping lessons, said Bhu Srinivasan, principal at Munigo, a municipal bond distributor.

“Defaults capture headlines, but it is man bites dog,” he said. “You could go the other way and say in even the deep recession, municipalities are strong and bonds aren’t defaulting.”

“The most important takeaway right now is that, no, Stockton’s decision to file bankruptcy is not necessarily a harbinger of things to come,” said Reason Foundation’s Harris Kenny. “The city’s financial situation is unique and does not reflect the financial standing of a significant number of municipalities in the U.S. That being said, there are relevant themes that policymakers and investors should recognize.”

Spreading Problem
Greenhut sees the long-term outlook for California’s cities as more dire: “The state’s legislators are so beholden to public-sector unions that they are oblivious to the financial meltdown all around them and aren’t about to do anything before more cities’ finances hit the wall.”

According to Greenhut, the problems in Stockton and smaller municipalities constitute evidence of an economic contagion that will eventually force many more cities to implement so-called austerity measures.

“Poor cities, such as Vallejo and Stockton, are going to face fiscal disaster first, but the problem is spreading across California, and there’s nothing much the unions can do once cities start running out of money,” said Greenhut.

Tim Kelly (tkelly67@comcast.net) is a political cartoonist, policy advisor, columnist for the Future of Freedom Foundation, and correspondent for Radio America’s Special Investigator.
California Budget Depends on Billions in New Taxes

By Mike Reid

California legislators in late June approved dozens of amendments to this year’s state budget, but opponents say it’s still unbalanced and incomplete.

The budget depends on voters approving an $8 billion tax increase in November. If they refuse to do so, January 2013 will bring billions in spending cuts.

‘Worst in California History’

Assemblyman Jim Nielsen (R-Gerber) calls this “probably the worst budget in California history.” He contends the budget and the trigger cuts are made up of “goodies” and “disincentives” to manufacture voter consent for the tax increases.

According to the California Budget Project, more than 80 percent of the $6 billion in automatic reductions would hit public schools, and most of the rest would impact community colleges and universities.

‘Idea Is to Coerce Voters’

George Runner, a member of the Board of Equalization, says “the whole idea is to coerce voters” into approving the taxes by threatening cuts “that the administration hopes voters will see as too painful.”

Runner points out the governor’s high-speed rail project, which could cost nearly $100 billion, is not on the chopping block. Neither is the new “transitional kindergarten” program, which adds an extra year to the curriculum.

Most of the proposed tax increases would come from an income tax increase on Californians earning more than $250,000 a year, with the top bracket going from 10.3 to 12.3 percent. Combined with an increase of one-quarter of a percent on the state sales tax, this is expected to take another $8.5 billion from taxpayers and consumers by the end of 2013.

Unfunded Pension Liabilities

Steven Greenhut, the new vice president of journalism at the Franklin Center in Sacramento, says Democrats have presented a “false budget choice: fewer programs or higher taxes” because they are “doing everything they can to protect public-sector unions.”

California has unfunded public pension liabilities of more than $497 billion, according to the Stanford Institute for Economic Policy Research.

In October 2011, Gov. Jerry Brown (D) proposed reforming the pension system through a 12-point plan that, his office stated, “would cut roughly in half the cost to taxpayers.”

Asked what steps the government is actually taking on pensions, Nielsen said, “I hear words, but no movement.”

David Wolfe, legislative director at the Howard Jarvis Taxpayers Association, says Brown needs to follow through on pension reform if he is to have “any prayer” of getting his tax increase passed in November.

‘Cynical Political Theater’

The budget as originally passed on June 15 contained only “broad categories of spending,” said Kris Vosburgh, executive director at Howard Jarvis. “It was like Pelosi said about Obama: ‘We have to pass it to find out what’s in it.’”

The budget was amended with 28 trailer bills on June 27. Such bills may be proposed and passed immediately, without any requirement to wait for public review and comment. Vosburgh says that means “the majority party can do it all in secret.”

Nielsen calls the entire budget process “cynical political theater,” pointing out that one of the 28 bills merely relocated the governor’s tax increase proposition from the bottom of the November ballot to the top. They did that in the belief voters are more likely to approve measures higher on a ballot.

‘Voters Were Deceived’

California’s budget procedure is the result of Proposition 25, which voters approved in November 2010 in an effort to speed up the state’s often-tortuous budget process.

Prop. 25 included a provision to withhold legislators’ pay if they do not deliver a balanced budget by June 15 each year. After a flap over the budget deficit in 2011, the California Superior Court ruled only legislators have the authority to declare a budget unbalanced and thus deny themselves pay.

Vosburgh said as long as lawmakers pass any bill related to the budget, they will be paid. This year “the budget is not balanced unless the voters approve those taxes. So it’s just another flimflam budget.”

Mike Reid (mikereid@invisibleorder.com) is primus inter pares at Invisible Order, a libertarian editorial-solutions company. He also teaches anthropology at the University of Winnipeg.
N.C. Light Rail Plan Hinges on County Tax Vote

By Dan Way

Voters in Orange County, North Carolina will decide in the November 6 general election the fate of a nearly $1.4 billion light rail project for Durham and Orange Counties.

In a 5–2 vote in June, the Orange County Board of Commissioners approved placing a half-cent sales tax increase referendum on the ballot to pay for the 17.3-mile rail line project. The line would run from the University of North Carolina campus in Chapel Hill to East Durham along N.C. Highway 54.

The plan includes expanded bus service.

Voter approval of the sales tax would trigger implementation of a similar tax in Durham County. Voters there approved the sales tax in 2011, but county commissioners said they would not levy the tax until either Orange or Wake counties voted to participate in the project.

Unlike Democrat-dominated county commissions in the other two counties, Wake’s majority Republican board appears unlikely to put the measure on the ballot.

Rural vs. City

The vote again punctuated the political chasm between conservative rural Orange County voters and the liberal Chapel Hill-Carrboro orb.

In a public hearing before the vote, residents accused commissioners of owing selective allegiance to the larger liberal voting bloc, being fiscally reckless, and following United Nations Agenda 21, a “smart growth” model critics say is an anti-capitalist, radical environmentalist mechanism to usher in global socialism.

But even one environment-minded group, the influential grassroots Orange County Voice, is balking at light rail. “As long as light rail remains the cornerstone of the plan we will oppose it,” Bonnie Hauser, the group’s president, told commissioners. “It’s too much money for a single rail plan” that clumsily patches a light rail line to bus and commuter rail connections serving a small area and few residents. Expanded bus service makes more sense, she said.

Orange County Commissioners Earl McKee and Steve Yuhasz opposed putting the sales tax up for a vote. They cited the high cost of light rail and the disparity between service for northern Orange County and the Chapel Hill-Carrboro area. They support expanded bus routes.

Fuzzy Plan

McKee and Yuhasz also characterized the vote as premature because an implementation plan has yet to be finalized.

The commissioners spent a great deal of the three hours leading up to the vote drilling deep into details of the proposed agreement among the various transit partners and Durham County. They debated insertion of even a word or phrase into a confusing series of amendment motions, friendly amendments to motions, and withdrawal of others.

McKee said he was deeply troubled by the “lack of a definitive implementation plan. It is not ready, it is not completed, there are still lines that are blank” and deep disagreements remain unresolved among partners.

“We can talk about the details of this particular implementation,” Yuhasz said. “But in the end we’re going to end up with a plan that is too expensive, provides too little overall service, and I don’t know how we can improve on that at all.”

STUDIED, DEBATED, NEGOTIATED

But the majority of commissioners said the plan has been studied, debated, and negotiated for years, and it was time for a vote.

“There are complications,” said Bernadette Pelissier, chairwoman of the Orange County Board of Commissioners. “To me it doesn’t really help the public understand the plan any better” by having every negotiating point finalized. “Details sometimes don’t help people understand” as much as telling the public what the essence of the project is. There will be time after the plan is passed to help educate voters, she said.

“I think it is time to take it to the voters,” agreed Vice Chairwoman Pam Hemminger. She said the plan’s concept of preparing for population growth and transportation needs is more important than specific numbers because there is no way to foretell what “true costs are going to be.”

“This plan will only go forward if the public decides to pay for it,” said Commissioner Valerie Foushee.

Some Compromise

Despite a partial compromise, Yuhasz and McKee still voted against the referendum.

The compromise directed county staff to work with transit plan partners to resolve lingering implementation plan questions by the commissioners’ August 21 meeting. The referendum will be put on the ballot, with a statement of intent that the county will not authorize Triangle Transit Authority to levy the sales tax until satisfactory agreements are reached on the implementation document.

Triangle Transit would be the revenue collection agency under provisions of the state law that allows for the half-cent sales tax to be levied. It would manage, build, and operate the system. Smaller revenue streams would come from vehicle registration fees and rental car taxes.

Republican Orange County Commissioner candidate Chris Weaver assailed the vehicle registration fees. Half of the vehicles registered in Orange County are outside Chapel Hill and Carrboro, in areas where only “token service” will occur under the transit plan, he said.

He called the light rail a “Duke and UNC employee shuttle” that will be decided, in part, by “seasonal voters” enrolled at UNC.

“I think we’re all intimately aware of the population distribution of the county and the voting strength that the town of Chapel Hill has. If they want something they’re going to get it,” said Cedar Grove resident Jeff Schmidt.

Dan Way (dway@carolinajournal.com) is a contributor to Carolina Journal, where a version of this article first appeared. Used with permission.
American Medical Assn. Edges Toward Soda Tax Support

By Taylor Smith

The American Medical Association has voted to recommend taxes on sugar-sweetened sodas be used to combat obesity.

But the policy statement adopted by the AMA’s House of Delegates did not recommend outright support for taxing sugar-sweetened beverages, acknowledging the taxes would not help much if the proceeds were not directed toward obesity-education programs.

The action came at the AMA’s annual meeting in late June in Chicago. Supporters say such taxes, if applied properly, would help people reduce their intake of sugar-sweetened beverages and improve public health. Opponents contend similar measures have been tried and failed to work.

‘Unlikely to Impact Obesity’

A report from the AMA’s Council on Science and Public Health suggested a penny-per-ounce tax on all sugar-sweetened drinks would lower obesity rates by 5 percent and save $17 billion in medical costs over 10 years.

But the report also acknowledged taxes on sugar-sweetened beverages alone are “unlikely to significantly impact the prevalence of obesity and other adverse outcomes.”

“While there is no silver bullet that will alone reverse the meteoric rise of obesity, there are many things we can do to fight this epidemic and improve the health of our nation,” said AMA board member Alexander Ding, M.D.

If revenue from those taxes is directed toward obesity-education programs, more benefit could ensue.

“Where taxes are implemented on sugar-sweetened beverages, using revenue for anti-obesity programs and educational campaigns explaining the adverse effects of excessive consumption of these beverages will help to reduce the consumption of these caloric beverages and improve public health,” said Ding.

Lack of Trust

The American Beverage Association, a trade association representing the nation’s non-alcoholic beverage industry, sympathized with the AMA’s premise but disagreed with making taxes the solution to the problem.

“The intention of the American Medical Association to seek ways to help reduce overweight and obesity in America is an admirable goal that our industry fully supports. However, funding anti-obesity programs through discriminatory taxes on sugar-sweetened beverages is misguided,” said the ABA in a statement.

In addition, the ABA argues committing the revenue from soda taxes to obesity-related programs will not make the policy any more effective in alleviating obesity.

The ABA says history “shows that revenues from existing soda taxes are not being used to improve public health” and “Americans can’t trust that new taxes would be used any differently.”

Coca-Cola, the world’s largest beverage company, has defended its products against being singled out on similar measures.

“Calories from sugar-sweetened beverages are a small fraction of the American diet—on average, approximately 7 percent. Between 1999 and 2008, obesity rates continued to rise while Americans’ added-sugar consumption from soda decreased by 39 percent.”

Coca-Cola Statement

Taylor Smith (tsmith@heartland.org) is a policy analyst at The Heartland Institute.

Exactly What the Tea Party Needs Right Now!

The Patriot’s Toolbox

On February 19, 2009, CNBC commentator Rick Santelli stood on the trading floor of the Chicago Board of Trade and called for a “new tea party” to protest out-of-control spending by politicians in Washington. Little did he know that his words would become the rallying call for millions of Americans, many of them getting involved in politics for the very first time.

The Patriot’s Toolbox gives the new patriots of the Tea Party movement the intellectual ammunition they need to take their country back! The book consists of 10 chapters, each devoted to presenting ten principles for free-market reform in clear and precise English.

The Heartland Institute has put thousands of copies of The Patriot’s Toolbox into the hands of grassroots activists and wants to keep going. We need your help!

Visit www.heartland.org to download a free PDF version of The Patriot’s Toolbox and learn how you can help get this information into the hands of others.

328 pages, published 2011

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Small Town Gets Big-League Debt with Stadium Deal

By Sean Parnell

While large cities tend to receive attention for big-league deals giving tax money to build stadiums for pro sports teams, small towns also have been stepping up to the plate to lure minor-league or second-tier professional sports teams.

Many of those small towns are losing big.

One is Bridgeview, Illinois, which is in dire financial straits because its taxpayer-owned soccer stadium has failed to generate the operational revenues and regional economic benefits that stadium backers had touted. The town built the stadium with $135 million in general-obligation bonds.

Taxes Up, Credit Rating Down

 Barely six years after Toyota Park opened, Bridgeview’s 16,000 residents have seen the city’s property taxes nearly triple to repay the debt, and the city’s credit rating has been slashed to nearly junk-bond status by ratings agency Standard & Poor’s. S&P noted in its report on Bridgeview, “The downgrade reflects the significant level of stress placed on the village’s finances by its underperforming soccer stadium.”

“The promises made by stadium backers were way too rosy,” said Brian Costin, director of government reform at the Illinois Policy Institute. “If the prospects for the stadium were so positive, why should the taxpayers have had to pay anything at all?”

Costin also noted the downgrade means Bridgeview’s borrowing costs for other projects and operations such as road repair would be higher.

Mayor Steven Landek, who is also a Democrat state senator, strongly defends the city’s involvement in the stadium.

“The stadium made money the first few years, and will be self-sufficient once the economy recovers,” he said. He estimated the stadium this year would likely lose about $2 million.

Sweet Deal for Soccer Team

The stadium was built to bring Major League Soccer’s Chicago Fire to Bridgeview, a working-class community on Chicago’s South Side. In addition to being the home field for the Chicago Fire, Toyota Park also hosts the Chicago Machine (lacrosse) and Chicago Red Stars (women’s professional soccer). The Machine left in 2009 and the Red Stars in 2011 after playing the 2009–10 season there.

The deal signed with the Fire allowed the team to keep much of the revenue generated from soccer games, leaving the city with reduced revenue opportunities to pay for operations and an annual debt service payment of $8.16 million. According to the stadium’s most recent audit for 2010, revenues of approximately $6.1 million were outpaced by more than $10.1 million in expenses, including the debt payment. That $4 million shortfall is nearly one-sixth of Bridgeview’s 2012 corporate fund budget.

Dubious Sales Tax Claim

A 2010 Chicago Tribune article titled “Bridgeview aims to build on success of Toyota Park” noted the city’s sales tax revenue had increased since the stadium opened, and it cited a city official’s claim that “sales tax revenue attributed to the stadium jumped 8 percent between 2005 and 2007.” A brief review of sales tax data available for the Illinois Department of Revenue casts doubt on that claim, however.

According to state records, Bridgeview received approximately $7.602 million in sales taxes in 2005 and nearly $8.225 million in 2007, the second year the Fire played at Toyota Park, for an increase of roughly 8.2 percent. But breaking sales tax data down by month reveals the April to October soccer season brought only an 8 percent increase in sales tax activity, whereas sales tax revenues climbed by 8.5 percent in the other five months—suggesting that whatever was driving increased sales tax revenues in Bridgeview likely had little to do with soccer.

Local officials still tout the economic benefits of the stadium. Landek cited a $23 million grant from the state for an underpass that he attributed to the stadium, and he noted games and concerts at the stadium provided several hundred people with part-time work to supplement their incomes.

Likewise, Village Trustee Norma Pinion said, “Toyota Park has been a big asset for us and as soon as the economy is better things will look better.”

Borrowing to Pay Interest

Those views drew criticism from economist H. Woods Bowman, who specializes in municipal finance issues at DePaul University.

“The mayor’s statements are unsubstantiated and the village hasn’t been able to produce any economic projections or a business plan” to justify these rosy views, Bowman said.

He noted the situation should be alarming to taxpayers because the stadium isn’t covering its costs.

“They’ve had to borrow money to pay off money borrowed earlier to build the stadium, and that can’t go on forever,” Bowman said.

Sean Parnell (sean@impactpolicymanagement.com) is president of Impact Policy Management, a Washington, DC-area full-service public policy firm.
High-Taxing Empire State Loses 3.4 Million Residents in 10 Years

By Elizabeth Harrington

New York State accounted for the biggest migration exodus of any state in the nation between 2000 and 2010, with 3.4 million residents leaving over that period, according to the Tax Foundation.

Over that decade 2.1 million moved to the state, so net out-migration amounted to 1.3 million, representing a loss of $45.6 billion in income.

To where are they escaping? According to the Tax Foundation, more than 600,000 New York residents moved to Florida over the decade—opting perhaps for the Sunshine State’s more lenient tax system—taking nearly $20 billion in adjusted gross income with them.

Over that same time period, 208,794 Pennsylvanians moved to Florida, taking $8 billion in income.

No Income or Estate Tax

“Many of these New York and Pennsylvania residents no doubt moved to Florida for the warm weather,” noted the foundation, a nonpartisan research group. “[B]ut many more may have moved there because the state does not have an individual income tax, an estate tax, nor an inheritance tax.”

The foundation has created a “migration calculator” based on data from the Internal Revenue Service, tabulating the number of individuals moving between states each year, and income affected by the shifts.

The calculator shows 612,520 people renounced their citizenship in New York in the 10-year period, taking with them $19.7 billion in adjusted gross income.

Between 2009 and 2010 alone, 40,195 New York residents moved to Florida, taking $1.3 billion in income.

Decades of Heavy Tax Burdens

According to the group, New York ranked second among the states for the highest state and local tax burden in 2009. The Empire State was ranked highest for tax burden every year from 1977 until 2006, except in 1984 when it was ranked second.

New York State has a progressive personal income tax rate ranging from 6.45 percent to 8.82 percent for those earning more than $2 million. Sales tax, which varies by county, is between 7 percent and 8 percent. In Manhattan, the sales tax is 8.875 percent.

According to the Retirement Living Center, which examines tax burdens by state for those nearing retirement, New York also levies a gasoline tax at 49.0 cents per gallon and a cigarette tax of $4.35 per pack, along with an additional $1.50 per pack in New York City.

New York is also one of 17 states plus the District of Columbia that collects an estate tax, with a $1 million exemption and a progressive rate from 0.8 percent to 16 percent.

In 2007, New York State collected $1.1 billion from its estate and gift taxes, the highest of any of the states, according to the Tax Foundation.

California Losing, Too

California is also known for more onerous taxes and regulations, and the foundation shows similar trends of migration from there to other states, such as Texas and Arizona.

The Tax Foundation ranked the Golden State sixth-highest in the nation for state income tax or estate tax.

Between 2000 and 2010, 551,914 people left California for Texas, taking $14.3 billion in income. Texas has no state income tax or estate tax.

A total of 48,877 people moved to Texas from California between 2009 and 2010 alone, totaling $1.2 billion in income. Another 28,088 from California relocated to Nevada and 30,663 to Arizona, a loss of $699.1 million and $707.8 million in income respectively.

Overall, California had the most departures between 2009 and 2010—406,883 people, representing a loss of $10.6 billion in income. Over that year 365,763 people moved there, representing a net loss of 41,120 residents.

Since 2000, 1.2 million more people have left California than have moved there, the second biggest net loss, after New York.

Florida, Texas Gaining

Florida, meanwhile, had a negative net migration of 966,934 between 2000 and 2010—meaning nearly a million more people moved to the state than left. Texas also has a negative net migration—807,552—during the same time period.

Florida and Texas rank the two lowest in net migration over the decade, followed by North Carolina, Arizona, and Georgia, each of which has a negative rate.

The Tax Foundation acknowledges taxes are not the only reason to flee a state.

“Taxes are one of hundreds of factors that go into a person’s decision to move,” it says on its Web site. “Others include age, technology, job prospects and the quality/quantity of government services provided.”

The foundation also points out the migration calculator is not definitive. “A true study that sought to quantify the importance of taxes for locational decisions would need to account for as many other factors as possible, in addition to possible serial correlation issues between variables, especially taxes.”

Elizabeth Harrington (eharrington@cnsnews.com) reports for CNSNews.com, where this article first appeared. Used with permission.
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Honolulu Authority Requests $1.55 Bil. for Rail Project

By Malia Zimmerman

Calling it “a great milestone,” Honolulu Authority for Rapid Transportation CEO Dan Grabauskas has submitted a Full Funding Grant Agreement to the Federal Transit Administration requesting $1.55 billion for Honolulu’s 20-mile elevated steel-on-steel rail project.

This is the first step toward getting funding for the $5 billion project that U.S. Sen. Daniel Inouye (D) pledged to help secure as Senate Appropriations Committee chairman.

Grabauskas says he is confident the city will win White House approval and Congress will authorize the full amount of the request.

“The U.S. Congress has never reneged, never ever not delivered on a Full Funding Grant Agreement ever. Period. I’ll even go a step further and say I don’t know of any project that has gotten this far to actually have the FTA say submit these documents that didn’t get the award either,” Grabauskas said.

Grabauskas dismissed a recent dispute in Congress in which House Republicans in a subcommittee of Appropriations cut one of Hawaii’s first allocations for its rail project from $250 million to $100 million. The House is still in negotiations with the Senate on the final allocation amount, which comes from New Starts funding.

Stronger City Plan

After considerable criticism from city council members about the rail financing plan’s viability, Grabauskas said the city’s financial plan is now “very strong.”

City Council Budget Chair Ann Kobayashi and City Council Member Tom Berg did not approve of HART’s plan to borrow up to $1.9 billion in city Capital Improvement Project funds, use as much as $450 million in commercial papers, and add another $244 million from the Bus and Handivan maintenance and repair fund to finance the 20-mile system.

Grabauskas said the total cost of the project has dropped by $10 million and up to $214 million from the Bus and Handivan fund could be used instead of the original plan for $244 million.

The FTA’s analysts claim the city will have $193 million left over at the end of construction of the rail project because the federal agency is projecting an increase of $144 million in general excise and use tax revenues on Oahu, a half percent of which goes to rail.

Pledge to be Debt-Free

But Grabauskas could not guarantee that if the rail gets built, it will be without cost overruns. He did pledge the city would be debt-free from the rail project three years after its completion.

The FTA, which helped the city write the financial plan for the rail, did increase the cost of what the city will likely need to spend on maintenance and operations. Grabauskas said he believes the costs are too high, but he will address that with the FTA at a later date.

There are still federal and state legal challenges in the works that could derail the project.

In addition, if former governor Ben Cayetano wins the mayor’s election this August or November, he has promised to kill the project.

And what if Republicans take control of the U.S. Senate this November and Inouye is replaced as Appropriations Committee chairman? Will that impact funding and if so, what will HART do then?

Grabauskas would not discuss whether he has a backup plan if any of these threats to the project come to fruition.

Risks to Project

Honolulu transportation expert Cliff Slater, who founded HonoluluTraffic.com, questions whether House Republicans will allocate $1.55 billion for a project that has lost public support and could be killed in a matter of weeks through court action or the election.

Slater also was critical of HART’s financial plan, saying even if the city reduces the amount of the raid on the Bus and Handivan fund from $244 million to $214 million, that is an amount that will still come out of the city’s General Fund.

He also took notice that instead of increasing the cost of the project, which was an option, HART instead chose to reduce the contingency amount.

Slater also said the operating subsidy for transit has been increased by $600 million over the next 18 years to a total of $6 billion.

Malia Zimmerman (malia@hawaii reporter.com) is president and editor of Hawaii Reporter Inc., an independent online news journal, where an earlier version of this article appeared. Used with permission.

Conn. Pensions Worth 50 Cents for Each $1 in Pay

Pensions for Connecticut state employees are worth nearly 50 percent of their income, according to a memo from the state comptroller, exceeded only by the value of pensions for judges, worth about 58 percent of income.

Regular state employee pensions are worth 46.01 percent of pay, according to a memo from Comptroller Kevin Lembo dated July 1.

Most state employees contribute 2 percent of pay in addition to the state’s contribution, earning them a 2.300 percent return on investment.

Employees hired between 1984 and 1997 contribute nothing to their pensions.

Hazardous-duty employees—including state police, corrections officers, and other designated employee groups—receive pensions worth 48.71 percent of pay. They contribute 5 percent of their income or, for employees hired between 1984 and 1997, 4 percent.

Participants in the Judges Retirement Fund, which also includes certain other employees, receive pensions worth 57.84 percent of income.

Judges contribute 5 percent of pay to the fund, earning them a 1,100 percent return on investment.

Teacher pensions are worth 35.56 percent of pay. Teachers contribute 6 percent of income to their pension fund, for a 600 percent return on investment.

— Zach Janowski, RaisingHale.com
New York's $70 million train to nowhere.

By Brian Fojtik

New York Gov. Andrew Cuomo (D) has announced plans to hold a fire sale of unused trains purchased by the state as part of a failed high-speed rail project.

'Train to Nowhere'

In 1998, then-governor George Pataki (R) announced a “historic” high-speed rail partnership with Amtrak. The state poured $70 million into a plan calling for retrofitting seven sets of Amtrak gas turbine trains and making track improvements to facilitate high-speed travel from Albany to New York City.

Now, 14 years later, the state will sell what’s left of the unused trains, probably for scrap. Four sets of trains have sat unused in a rail yard in Glenville, New York (with spare parts in a Rotterdam industrial park) since 2004, costing state taxpayers $150,000 per year in storage costs. Each Amtrak Turboliner weighs about 400 tons. They may be scrapped by the state for as little as 10 cents per pound.

Cuomo’s director of state operations, Howard Glaser, has called the project “New York State’s $70 million train to nowhere.” Some have called the trains, which never fulfilled their high-speed promise, the most expensive weed plants in the world.

$70 Million Wasted

In the original plan, the state was to take possession of seven trains that were built in the 1970s and retired from Amtrak and rehabilitate them for the planned high-speed rail project.

Four of the trains—each of which included two locomotives, a café car, and two passenger cars—never ran. The three that did run were plagued by technical problems, including malfunctioning air conditioning systems and fires. The three barely functioning trains were eventually towed by Amtrak to Delaware in 2004. The state stored the four remaining trains and spare parts in the industrial parks.

The state is hoping to recoup half a million dollars from the sale of the trains, a far cry from the $70 million the state invested in the project.

Lesson Not Learned

“While Gov. Cuomo is doing exactly the correct thing in this instance, the state under his leadership is still seeking federal funds for high-speed rail in upstate New York,” said E.J. McMahon, a senior fellow with the Empire Center for New York State Policy.

McMahon says the state is proceeding with a “build it and they will come” approach to rail service in and around cities such as Buffalo, Rochester, and Syracuse.

“Much of what [state officials] denounce about the stupidity of the failed high-speed rail plans is still embedded in their expectations for future rail plans,” said McMahon. “Spending $92 million under current plans to put on 17 miles of track from Albany to Schenectady is as wasteful as buying those cars in the initial plan.”

Brian Fojtik (bfojtik@gmail.com) is president of Brownstone Communications. This article first appeared in the August issue of Environment & Climate News and is reprinted with permission.

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California City Might Grab Amazon.com Sales Tax ... but It’s for Amazon

By Mike Reid

Amazon.com Inc. is planning to partner with at least one California city to collect sales taxes from the entire state. Most of the collected tax money would go back to Amazon.

The company is building warehouses in Patterson and San Bernardino, California. Under state law, purchases made by customers anywhere in the state can then technically be declared as occurring at those two warehouses, and those two cities will receive all the local sales taxes.

That will be about 1 percent of the price of every Amazon.com purchase in the Golden State.

As an “incentive” to Amazon, San Bernardino is negotiating to return up to 80 percent of the tax money to the company for several years.

‘Pirate Tax Revenue’

Cities have “gone from smokestack chasing to cash-register chasing” for sales taxes, said Greg LeRoy, executive director of Good Jobs First, which studies economic development around the country.

“And if the busy cash registers pirate tax revenue from the next suburb over, all the better.”

Lenny Goldberg has worked for years as a lobbyist for the Northern California Independent Booksellers Association. He calls the Amazon rebate “a violation of any notion of what we mean by a tax. You think your local tax is going for your local cops, and it’s not. Not only is it not going for your local cops, it’s not going for anybody else’s local service. It’s going into Amazon’s pocket.”

Rebate in Patterson?

The Los Angeles Times reports the small city of Patterson is also considering a large sales tax rebate to Amazon. But Patterson Mayor Luis Molina said his administration has not discussed rebates with Amazon and “did not provide any tax incentive.”

However, Molina said he would be willing to have such discussions.

In September 2011 California agreed to let Amazon delay collecting sales taxes until this fall, and the company agreed to build two warehouses in the state.

Amazon has similar deals with New Jersey, Virginia, Indiana, and South Carolina, and it is negotiating with Florida.

Struck Down in Illinois

An Illinois judge recently struck down a law forcing Amazon to collect sales taxes there.

Illinois tax consultant Susan Russell said many big-box stores are just starting to sell through the Web, and the revenue is “going to be huge down the road.”

California represents about 10 percent of online sales for most companies in the United States, she said, and governments see collecting these taxes as an “easy way” to shore up their budgets.

‘Tax Discrimination’

“Local governments in California have very little tools for economic development in their communities,” said George Runner, a member of the California Board of Equalization. “One they do have is this ability to negotiate a portion of the sales tax.”

In California, local sales taxes are determined and collected by the state. Randall Holcombe, a research fellow with the California-based Independent Institute, points out municipalities such as San Bernardino might be saying in effect the tax is too high. A rebate is one way to lower it.

He believes there’s a ‘seen versus unseen effect’ here. On the one hand you see that you cut the tax for Amazon and they locate their warehouse in your city. What you don’t see is that the higher taxes everybody else pays discourage their businesses.

Holcombe argues cities should avoid “tax discrimination” or “special concessions” and focus instead on lowering taxes in general.

‘Redistribution, Not Rebate’

A New York judge recently struck down a law allowing Amazon.com to charge sales tax for purchases made in New York.

Budget & Tax News September 2012
Illinois Raises Cigarette Taxes to Ease Medicaid Cost Strain

By Loren Heal

The Illinois legislature sent Gov. Pat Quinn a Medicaid reform and tax package that falls short of the governor’s stated goals and raises cigarette taxes to help address a $2.7 billion Medicaid shortfall.

The legislative package sent to the governor on June 7 would cut $1.6 billion from several state programs, increase cigarette taxes by $1 per pack, curtail the practice of pushing back Medicaid bills from one year to the next, and implement the Medicaid expansion mandated under President Barack Obama’s health care law for about 250,000 people in Cook County.

The measures would preserve the amount of federal matching funds Illinois receives for spending on Medicaid, says Jonathan Ingram, a health care policy analyst at the Illinois Policy Institute.

“Lawmakers promised to reduce Medicaid expenditures by $2.7 billion. They fell far short of this mark, opting instead for higher taxes and more spending. By keeping Medicaid spending at unaffordable levels, they’ve endorsed a plan that would make the repeal or sunset of last year’s historic income tax hike all but impossible,” he said.

Short-Term Patch


“There are two problems with a cigarette tax to feed the Medicaid beast. The first is that a tax on cigarettes is a regressive tax, and second, we just drive our sales tax revenues to surrounding states,” Dillard said.

Ingram agrees.

“Research conducted by the Mackinac Center for Public Policy found the proposal to hike cigarette taxes by $1 per pack would quadruple the rate of tobacco smuggling. While it would raise revenues, our estimates indicate smuggling alone would limit the take to about $250 million,” Ingram said.

He continued, “When tobacco tax revenues fall short, as they typically do, other taxpayers will be on the hook for the shortfall. That’s why 70 percent of tobacco tax hikes are followed by other tax hikes within two years.”

‘The Easy Way Out’

Dillard says the legislation would “overload an already-broken system with hundreds of thousands of new people as part of an overall reform package that will hurt taxpayers at a time of record government spending, deficits, and debt.

“You don’t get at the real problem, which is the structural imbalance in Medicaid spending,” he said. “We need to make real, tough cuts in Medicaid eligibility, and make sure we spend our money more wisely, rather than just throw more money at it.

“The cigarette tax was the easy way out, and does not help us two and three years down the road, because we still have not made all of the tough decisions we need to fix a Medicaid program that is out of control,” Dillard said.

Loren Heal (loren.heal@gmail.com) is a research programmer at the University of Illinois at Urbana-Champaign and a reporter for The Heartland Institute. This article first appeared in the August issue of Health Care News and is reprinted with permission.

Baltimore Bottle Tax More than Doubles

By Cheryl K. Chumley

Bottled water, iced tea, soda, and juice at Baltimore groceries and convenience stores began costing more on July 1.

City council members increased the bottle tax from 2 cents to 5 cents a bottle, over the objections of store owners and business groups that say the tax places them at a competitive disadvantage. The tax means a 12-pack of soda costs 60 cents more in Baltimore than in stores outside city boundaries. The price of a case of bottled water increases by $1.20. Excluded are dairy items and beverages sold in bottles larger than two liters.

Reason to Shop Elsewhere

“For people who live inside the city, it will mean just that many more will shop outside the city, and grocers in Baltimore will sell less,” said Dee Hodges, president of the Maryland Taxpayers Association. “Revenues will go down.”

The two cents a bottle tax was established in 2010. Opponents say there is already evidence that retail sales and government revenues suffer.

“Clearly, the five cents will have a pretty significant impact on local businesses,” said Ellen Valentino, executive vice president of the Maryland-Delaware-D.C. Beverage Association. “We suspect it will fail the city. How do we know that? Because the two-cent numbers are in and they fail city projections.”

Store Sees Losses

Robert Santoni, chief financial officer for Santoni’s Supermarket, said the two-cent tax has led to a $438,000 loss in revenue for his store. He expects more of the same when the five-cent tax goes into effect.

“I’ve been on this in Baltimore from the start,” he said, explaining his opposition to the tax stretches back years. Three new grocery stores that have opened within a mile of Baltimore’s border have driven his customers away, he said.

Baltimore Mayor Stephanie Rawlings-Blake proposed the tax increase as part of her Better Schools Initiative to build new schools. City estimates were the extra three cents would bring in approximately $10 million for construction.

Yet one-fifth of Baltimore residents live below the national poverty level, according to U.S. Census Bureau statistics, and concerns are the tax will ultimately hit hardest those least able to pay.

Jobs Lost

Meanwhile, the city’s unemployment rate stands at 9.3 percent. The bottle tax isn’t helping job growth, Valentino said. Shortly after the city imposed its two cents a bottle tax, businesses reported job losses. A Pepsi bottler halted manufacturing in the city.

“This effect will start to be felt right away,” Hodges said. “The bottle tax is a very simple thing. Baltimore is very small geographically. It’s easy to leave Baltimore will sell less.”

Cheryl Chumley (ckchumley@aol.com) is a digital editor with the Washington Times’s newest endeavor, Times247.com.
The central component of California’s Global Warming Solutions Act (AB 32) is taking effect this year, and with the state facing a $15.7 billion deficit, political leaders have ended a long debate over how to spend revenue the act is expected to generate.

The central component of the measure is “cap and trade,” a complex system that aims to reduce greenhouse gas emissions generated in the state by capping the amount of the emissions businesses may produce.

The goal is to reduce carbon emissions to 1990 levels by 2020, then cut them another 80 percent by 2050. Starting this November the state will begin auctioning carbon permits to companies that exceed the emissions limit.

In January 2013 greenhouse gas emissions by the state’s major energy users and pollution emitters will begin to be counted against the cap. Companies with emissions below the cap may sell carbon emissions credits to those that exceed the cap.

Funding Debate
Officials are betting more companies will be buying credits than selling them. The state Legislative Analyst’s Office projects quarterly carbon auctions will raise $660 million to $3 billion annually.

Cap and trade critics predict the program will drive companies out of the state.

“In this budget, we actually bank on $500 million scored in extortion money that we’re going to take from businesses, known as cap and trade—it’s absolutely insane,” said state Assemblyman Tim Donnelly (R-Hesperia) in a June 15 speech on the Assembly floor.

“It’s as if the government of California is the mob,” he continued. “We are going to drive businesses out of the state. This has nothing to do with fixing California’s problems.”

Originally, officials planned to allocate proceeds from AB 32 to technologies and programs aimed at reducing greenhouse gas emissions. They also discussed offering utility rebates for lower-income consumers.

But in the 2012-13 state budget legislators passed in mid-June, the projected $1 billion in revenue over the next two years is slated to offset part of the General Fund’s gaping budget deficit and finance emissions regulation enforcement.

Republican lawmakers have long said the cap and trade program is a scheme for making money, not a well-intentioned climate change effort.

The reason for last year’s breakup of the WCI was simple, said Arizona Department of Environmental Quality Communications Director Mark Shaffer: Overregulation kills jobs, which hurts state economies.

“It became very apparent three or four years ago that cap and trade was going nowhere in Arizona, so we started looking for alternatives,” Shaffer said. “[Cap and trade] was far too regulatory, and it felt like it was impossible to economically improve with all those regulations hanging over the state.”

Whitney Stewart (whitney.stewart04@gmail.com) writes from Minnesota. This article first appeared in the August issue of Environment & Climate News and is reprinted with permission.

California Prepares to Auction Carbon Credits

By Whitney Stewart

The central component of California’s Global Warming Solutions Act (AB 32) is taking effect this year, and with the state facing a $15.7 billion deficit, political leaders have ended a long debate over how to spend revenue the act is expected to generate.

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More Modest Initiative
When California passed AB 32 in 2006, the state government was on a mission to create a massive multistate coalition to fight climate change through carbon trading and taxation. The Kyoto Protocol had just entered into force the year before, with 37 industrial countries committing to develop national enforcement measures on carbon emissions reduction.

By 2010, California was leading the way for seven states and four Canadian provinces to set and enforce targets for greenhouse gas emissions in the western half of the continent through a coalition called the Western Climate Initiative.

But carbon trading is neither easy nor cheap, and in 2011 Arizona, Montana, New Mexico, Oregon, Utah, and Washington dropped out to join a different initiative, North America 2050, which pursues climate change prevention but forgoes cap and trade. British Columbia, Manitoba, and Ontario are still members of WCI, but they bowed out of the first round of carbon auctions. That means California and Quebec will go it alone this fall.

“It reminds me of the old Chinese proverb that the person who thinks he is a leader and has no followers is just simply taking a walk,” said Tom Tanton, president of T2 & Associates, a California consulting firm for the energy and technology industry. “The 2006 law pre-amble said California was going to be a leader. But they’re just taking a walk because no one is following us on cap and trade.”

Innovation imperative
Innovation, not heavy-handed regulation, is the way to improve carbon emission practices, says Tanton, who spent nearly three decades with the California Energy Commission and wrote energy legislation.

“In this budget, we actually bank on $500 million scored in extortion money that we’re going to take from businesses, known as cap and trade—it’s absolutely insane.”

TIM DONNELLY
STATE ASSEMBLYMAN
HESPERIA, CALIFORNIA
Illinoisans Owe $203 Billion for Retirement Benefits

By Collin Hitt

State and local governments in Illinois collectively owe more than $200 billion in retirement benefits for government workers, according to a report by the Illinois Policy Institute. Illinois has long drawn attention for its huge unfunded pension liability, currently pegged by state officials at $85 billion. But that figure is only one part of the total government debt for which Illinois taxpayers are liable, according to “$203 Billion and Counting: Total Debt for State and Local Retirement Benefits in Illinois.”

The institute describes it as the first report to put a number on both state and local retirement liabilities, including pensions, retiree health insurance, and pension and benefit bonds.

$41,000 Per Household

“State taxpayers are local taxpayers. And Illinois taxpayers aren’t on the hook for ‘just’ the $83 billion that the state owes; they’re also facing pension shortfalls borne by local government. The true cost of Illinois’ pension and benefit crisis is $203 billion, or roughly $41,000 per household,” said Ted Dabrowski, vice president of policy at the Illinois Policy Institute. “Any reform plan being talked about must address this full burden or taxpayers will continue to be saddled with debt.”

The full state government debt totals $152.6 billion: state pensions ($82.9 billion); state pension bonds ($15.5 billion); and state retiree health benefits ($54.2 billion).

Local debt totals $50.8 billion: local pensions ($38.2 billion); local pension benefit bonds ($1.9 billion); and local retiree health benefits ($10.7 billion).

The $83 billion the state government owes to its pension funds is only one of the six types of debt for which Illinois taxpayers are on the hook. The figure does not include bonds issued to tide over the pension funds or the additional debt taken on to provide retired government workers with generous health insurance. It further ignores all types of local debt.

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Three Big Steps

The institute’s report identifies three crucial steps that would lower the retirement debts of state and local governments:

• Offer more affordable retirement compensation for future work. Future retirement savings should be contributed to an employee-managed savings account, similar to 401(k) plans used in the private sector.

• Reduce cost-of-living (COLA) increases for all retirees. Lawmakers already have changed COLAs for future employees. “Tier 2” retirees will receive a COLA equal to one-half of inflation, rather than the 3 percent compounded COLA that “Tier 1” retirees receive. Lawmakers should do the same for all state and local retirees.

• Require government retirees to cover a majority of their health insurance premiums. State and local governments should require retirees to pay most of their health insurance costs, just as government retirees in other states do. The state also should give local governments more flexibility in designing health benefits for retired workers.

Additional Step for State

The report identifies an additional step the state government can take to dramatically reduce its pension costs: Stop paying the retirement costs of other governments.

The state should stop paying the retirement costs for state universities, community colleges, and suburban and downstate school districts. This would save more than $1.1 billion in pension costs and millions more in retiree health benefits every year and bring accountability to local governments.

Dabrowski said the only way to rescue the finances of state and local governments is to dramatically reform the structure, incentives, and accountability of government retirement systems.

“If lawmakers and local officials act swiftly, it is possible to maintain a fair and generous system of benefits for government retirees. If they fail to act, the retirement systems could become insolvent,” he said. “The longer Illinois waits to reform its $203 billion retirement debt, the more likely the government will fail to meet its obligations to retirees.”

Collin Hitt (collin@illinoispolicy.org) is senior director of government affairs at the Illinois Policy Institute.

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TED DABROWSKI
Vice President of Policy
ILLINOIS POLICY INSTITUTE

IN OTHER WORDS . . .

“None of the confident predictions that accompanied the $787 billion stimulus bill have come true. Obama said U.S. unemployment would be under 6 percent. Instead, we continue to see the worst sustained unemployment since the Great Depression. The June rate was 8.2 percent and would be much higher if it factored in the 6 million adults who have stopped looking for work. A Gallup tracking poll finds that 17 percent of the adult workforce that is looking for full-time employment can only find part-time work. Add it all up, and well more than one-quarter of adults who want to work can’t find a full-time job.

“So, once again, where does Democrats’ confidence that Obama knows how to create jobs come from? Why should fresh promises be taken seriously when 2009’s promises didn’t remotely come true?

“The president has proved he knows how to preserve government jobs with borrowed money and how to borrow and spend money to goose the economy in the short term. That’s all.

“It’s not obstructionism, sabotage, treason or racism to believe that more of the same is not what America needs.”

— San Diego Union-Tribune editorial, July 15, 2012


INTERNET INFO
With the financial stakes so high, it’s no time for policy gambles.

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