Misspent Millions
Unrestrained spending—on gifts for tenants, on memorabilia, on failed real estate deals, on its own salaries, and especially on contracts with two firms connected to two former board members—has dissipated the Harris County (Texas) Housing Authority's fund balances from $37.9 million to $1.6 million.

Disappointing Cigarette Tax
Cigarette tax revenue in Illinois is falling far short of the amount projected last year, state officials say. In May 2012, state legislators approved a $1-per-pack increase in the state's cigarette tax, nearly doubling it to $1.98 per pack. The tax delivered only $212 million of the expected $350 million for the fiscal year ended June 30.

Huge Incentive, Tiny Payoff
In 2009, a year after signing the nation's most lucrative film incentive program, then-Gov. Jennifer Granholm (D) of Michigan touted the jobs it would create. Now a Bureau of Labor Statistics report shows the incentive failed in at least one key aspect of the film industry: post-production work. In the years since Granholm signed the bill allowing the state to offer up to 42 percent reimbursement, just seven post-production jobs have been added.

Homeschooler Tax Credit
Parents of homeschooled children will pay less in property taxes if a novel bill passes in Ohio. Senate Bill 127, which would become effective in 2014, would give homeschoolers a tax credit equal to the proportion of property taxes on their home that fund their local school district.

Community Development in St. Louis: Potential for More Crony Capitalism?
By Victor Nava and Anthony Randazzo
To amend or eliminate—that is the question that should be facing the Department of Housing and Urban Development as it tries to rein in the crony capitalism of Community Development Block Grants in St. Louis, Missouri.

Chicago’s Struggles Reflected In Big Moody’s Credit Downgrade
By Steve Stanek
First the Motor City, then the Windy City.

In the same week the City of Detroit made national headlines by filing the largest municipal bankruptcy in national history, the City of Chicago made smaller headlines when Moody’s Investors Service announced it had hit the city with a nearly unprecedented triple-downgrade of its credit rating on general obligation bonds.

Chicago now has a credit rating four notches below New York and Los Angeles and below other large cities in the Midwest, including Milwaukee and Cleveland.

In a statement, Chicago Mayor Rahm Emanuel said, “This confirms what I have been saying for more than a year. Without comprehensive pension relief from Springfield, municipalities such as Chicago will continue to receive negative reviews from rating agencies.” Emanuel became mayor in 2011, following the 22-year reign of Richard M. Daley.
Chicago’s Struggles Reflected In Big Credit Downgrade

Continued from page 1

outlook—does not bode well for Chicago’s bond investors, residents, or taxpayers. The city’s debt is estimated at $8.2 billion, and the big drop in its credit rating means its costs of repaying the debt and issuing debt in the future are sure to go up.

“The downgrade of the [general obligation bond] rating reflects Chicago’s very large and growing pension liabilities and accelerating budget pressures associated with those liabilities,” Moody’s wrote in announcing the downgrade. “The city’s budgetary flexibility is already burdened by high fixed costs, including unrelenting public safety demands and significant debt service payments.”

Those fixed costs could soon eat up half of Chicago’s operating budget, according to Moody’s, forcing the city to reduce services or raise taxes to maintain current service levels. The city this year has a budget of approximately $6.5 billion.

Only 22 Percent Funded

Moody’s estimates Chicago’s four government pension funds have only 22 percent of the assets needed to pay promised benefits. City officials peg the figure at 35 percent. Moody’s says using conservative assumptions, Chicago’s pensions could be underfunded by $36 billion. Even generous assumptions put the underfunding at $19 billion.

The city last year shorted its pension fund payments by more than $1 billion, according to Moody’s, which noted payments into the pension funds for Chicago’s police and firefighters will have to climb from $467 million in 2014 to $1.2 billion in 2015 to comply with state law.

Moody’s wrote the Emanuel administration has “made efforts to reduce costs and achieve operational efficiencies,” but added, “the magnitude of the city’s pension obligations has precluded any meaningful financial improvements.”

Shuttered Schools, Angry Teachers

The cost-cutting efforts include the closing of 49 of the city’s public schools and recent layoffs of more than 3,000 teachers and other school personnel, moves that have been met with animosity from the local teachers union and neighborhood groups that object to losing neighborhood schools.

Emanuel also has bucked local government worker unions by proposing to phase out the city’s subsidies for retirees’ health insurance. Those subsidies this year will cost more than $190 million. Emanuel proposes to transition all but the oldest retirees into the Obamacare insurance program starting in 2014.

Illinois, where Chicago is located, has its own pension and related fiscal problems and now carries the worst credit rating among the 50 states. The state’s unfunded pension liabilities are conservatively estimated at $100 billion, though some independent analysts say the true figure could be double that amount.

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

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Community Development in St. Louis: Potential for More Crony Capitalism?

Continued from page 1

least 70 percent of CDBG funds go to projects that benefit low-income households or address immediate community needs.

That hasn’t been modus operandi in St. Louis.

Clout in St. Louis

Since 1984, St. Louis has split its CDBG funds by ward—a process that gives individual aldermen substantial power in determining what projects get funded. The process has drawn the ire of HUD officials, who say the city’s disbursement method doesn’t comply with federal regulations and opens the program up to corruption, nepotism, and other forms of local political favoritism. University of Missouri-St. Louis public policy professor Todd Swanstrom notes the current system “essentially requires community development organizations to stay in the good graces of their aldermen.”

City officials looking to respond to HUD’s complaints have only to look across the river to see how corruption in CDBGs can spin out of control when improperly managed.

In 2005, an East St. Louis, Illinois city employee was convicted of mail fraud and income tax evasion after directing $158,000 in CDBG funds into her personal bank account. In 2011, the director of community development for East St. Louis, Arthur M. Johnson, was sentenced to three years in federal prison after he was caught accepting bribes from a developer to funnel taxpayer funds to a $5.6 million housing project.

But in many other cities and states the track records for these kinds of public-private community development organizations are not very good. The Community Redevelopment Agency of Los Angeles (CRA/LA), for example, has a valuable cautionary tale for St. Louis.

CRA/LA was an independent agency in charge of allocating federal CDBG grants and state property tax revenue from the city of Los Angeles to private developers to create affordable housing and improve blighted areas.

However, the CRA/LA strayed from its core mission and instead was funding pet projects for those with influence, hiring the relatives of state government officials, and selecting projects based on their expected ability to generate tax revenue for the city rather than actually develop the low-income communities. In 2011 the California Supreme Court eliminated the agency and other similar ones.

Another example of an independent organization mismanaging CDBG funds is Enterprise Florida, a agency similar to the CRA/LA that is tasked with providing grants, loans, tax incentives, and subsidies to businesses it believes will spur economic development in Florida. Seventy-six percent of Enterprise Florida’s budget comes from either state or federal funds, which are then allocated to the specific businesses and projects, but not before 35 percent of the funds are skimmed off the top for administrative costs.

Appearance of Impropriety

Watchdog group Integrity Florida claims Enterprise Florida has not only failed to meet its job-creation objectives and obtain the required level of private-sector support, but also has the appearance of pay-to-play, apparent conflicts of interest, and clear favoritism toward certain companies and industries. For example, Enterprise Florida gave taxpayer money to corporations with ties to its board of directors. Staff members who disburse the organization’s CDBG money gave it to the friends of people who control their bonuses and salaries.

These problems will be prevalent whether or not the system is more tightly managed. More importantly, even the most efficiently managed CDBG system will be distributing government subsidies and economic benefits to narrow private interests, thus giving those projects an advantage in the marketplace that would not otherwise exist.

The kinds of projects that end up being funded through CDBG benefit a limited scope of selectively chosen private interests. These agencies and local governments are essentially picking winners and losers when they choose to fund certain projects.

This cronyism, along with the inefficiency of the current system, suggests HUD would be better off suspending CDBG funds for both St. Louis and East St. Louis—and ultimately, for the whole country—rather than trying to find a better grant allocation method.

No matter the fix that local or federal officials come up with, community development block grants will always be plagued by crony capitalism.

Victor Nava (victor.nava@reason.org) is a policy analyst at Reason Foundation, where Anthony Randazzo (anthony.randazzo@reason.org) is director of economic research.

INTERNET INFO

The federal farm bill usually receives bipartisan support because it includes food stamps and other programs desired by liberal politicians from urban areas and commodity price supports and other programs desired by conservative politicians from rural and small-town areas.

This summer, though, it received bipartisan opposition as recently elected Republicans, who have more libertarian and free-market leanings than many of the people they replaced, opposed the bill precisely because of the farm subsidies. Democrats opposed it because of cuts to food stamp spending.

The U.S. House of Representatives in June voted 234 to 195 against the nearly $1 trillion farm bill.

The Republican-controlled House then approved a farm-only farm bill, stripping out food stamps—formally known as the Supplemental Nutrition Assistance Program—which had comprised about 80 percent of farm bill spending.

‘Farm Policy, Food Policy Different’

“As a fourth-generation farmer, I know first-hand how important the farm bill is for farmers but I also know that farm policy and food stamp policy are different. That’s why I am renewing my calls for Congress to have an up-or-down vote to split the farm bill into a true, farm-only farm bill and a separate food stamp bill. Separate consideration of these policies will allow us to forge ahead with real solutions and reform instead of repeating the mistakes of the past,” said Rep. Marlin Stutzman (R-IN) in a statement after his vote against the bill.

Top advisors to President Barack Obama issued a statement opposing the farm-only bill because it “would reduce access to food assistance for struggling families and their children. If the President was presented with HR 1947 [the House version of the bill], his senior advisors would recommend that he veto the bill.”

The House’s rejection of the farm-plus-food-stamps bill came less than two weeks after Senators passed that bill, S-954 (Agriculture Reform, Food and Jobs Act of 2013), by a 66–27 vote. That bill would have spent $973 billion over 10 years.

“The [Senate version of the bill] puts vital risk management tools and conservation programs back in place providing farmers and ranchers with the long-term certainty they need to produce food, fiber and fuel for our country and the world,” said Sen. Jerry Moran (R-KS) in a statement after the bill passed the Senate.

The American Farm Bureau Federation backed the Senate version of the bill. AFBF President Bob Stallman declared in a statement the bill “provides needed risk management tools and a viable economic safety net for America’s farmers and ranchers.”

Policy Group Opposition

A variety of think tank and public policy organizations opposed the Senate version of the bill.

“The image of farmers lacking money and being destitute is a highly inaccurate one. ... The idea is that farm subsidies are something like welfare for poor farmers who are trying to put food on their plate—and the plates of millions of Americans. But the reality is just the opposite,” wrote Jeremy Kolassa, an associate fellow with the R Street Institute, on the institute’s blog.

Ryan Alexander, president of Taxpayers for Common Sense, also noted in a statement, “While the rest of the country has been in the economic doldrums for the past few years, farm country has seen record profits.”

Alexander added, “This is not over. The Senate passed a farm bill that is at least as bad as the [farms-plus-food-stamps] House bill that failed. It’s time for Congress to scrap both bills and start again. As Agriculture Committee Ranking Member Peterson has pointed out several times, you don’t even need a farm bill. Most of the programs continue. So instead of sticking taxpayers with a trillion-dollar farm bill that barely puts a dent in the deficit, lawmakers need go back to the drawing board and come up with something that is fiscally responsible and recognizes that the nation is facing a $16.8 trillion debt.”

John Skorburg (jskorburg@heartland.org) is associate editor of Budget & Tax News and a lecturer in economics at the University of Illinois at Chicago.
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.

Rein in EPA

EPA Is a Rogue Agency
The Environmental Protection Agency (EPA) is the nation’s leading job killer, implementing and enforcing laws that impose impossible regulatory burdens on American businesses. EPA has perverted the Clean Air Act by declaring carbon dioxide a “pollutant,” despite the plain intent of the law’s authors to exclude such naturally occurring gases, and despite major flaws in the science used to claim carbon dioxide endangers human health.

The Solution
Congress must rein in EPA through deep cuts in the size, power, and cost of the agency. Congress can repeal EPA’s authority to regulate carbon dioxide in the name of “global warming,” and it can demand cost-benefit analysis be applied to all environmental regulations.

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

You Can Help! By working together, we can rein in the Environmental Protection Agency! We can protect the environment without sacrificing jobs or our essential freedoms. Please help us by signing the petition today.
New Jersey Signs Lottery Privatization Contract

By Leonard Gilroy

New Jersey has become the third state—after Illinois and Indiana—to privatize the management of its state lottery.

Under the 15-year contract, a private manager will take over the lottery’s marketing and sales functions in exchange for an upfront payment of $120 million and a contractual commitment to generate more than $1.42 billion in additional net income for the state, relative to in-house operation.

The agreement was finalized on June 21 after a state appellate court rejected a request made the previous week by a public employee union for a stay of the contract.

In April, Gov. Chris Christie’s administration issued a notice of intent to award a 15-year contract to Northstar New Jersey Lottery Group—a joint venture of GTECH Corporation, Scientific Games, and the Ontario Municipal Employees Retirement System—to take over the lottery’s marketing and sales functions in exchange for the $120 million upfront payment, the first upfront payment among the three lottery deals thus far, and the commitment to increase net lottery income to the state over the life of the contract.

Northstar will take over the lottery’s marketing and sales functions in October, and the state will retain control over security, auditing, and prize payments. Layoffs are not expected, as state officials have noted current lottery employees affected by the privatization would either be offered an interview with Northstar—which plans to significantly increase the sales staff—or reasigned to other state positions.

Union Tries to Stop Deal

Despite such assurances, the Communication Workers of America (CWA)—the largest union representing state government workers in New Jersey—and some legislative Democrats have made several attempts to stop the deal from moving forward.

In early May, Christie vetoed legislation (A 3614) passed in the 2013 session that would have required prior legislative approval before the contract could proceed. That same month the state rejected a formal protest against the deal filed by the CWA claiming it ran afoul of state law. The state countered that the privatization did not violate state law because the state was only outsourcing marketing and sales functions, not relinquishing full ownership of the lottery. After that setback, the CWA filed in June its appeal in court to block the deal.

Though the appellate court has rejected a stay of the contract—noting the CWA failed to demonstrate that allowing the deal to proceed would bring “irreparable harm”—it has yet to issue a final ruling on the union’s appeal.

Federal Law Sets Parameters

In addition to claiming the deal would violate a state law requiring state ownership of the lottery, which would not undergo an ownership transfer under the deal, the union also claims the deal would violate federal law. Presumably this refers to an October 2008 advisory opinion issued by the U.S. Department of Justice that found states would not be in compliance with federal law if they were to enter into long-term leases of their lotteries with private consortia in which companies were given primary control of business decisions and revenue streams.

The DOJ ruling found that although states may contract with private firms to operate their lotteries, federal law requires states maintain control over significant business decisions and private management firms may not receive more than a “de minimus interest” in the profits and losses of the lottery enterprise.

This ruling helped shape the subsequent private management agreements for the Illinois Lottery, signed in 2011, and Indiana’s Hoosier Lottery, signed in 2012. In those deals, the state retains full control and oversight over the private manager’s business decisions, and the private manager’s revenues are capped. The New Jersey deal includes a provision similar to Illinois’ that places a cap on the potential profits for the contractor at 5 percent of total net income, which is clearly aimed at compliance with the “de minimus” aspect of the DOJ ruling.

Given these aspects of the deal structure—and the fact that two other states already have signed similar private management contracts for their lotteries over the past two years—it is unlikely the New Jersey deal will be struck down on federal grounds. The DOJ’s silence thus far speaks volumes, as it has not responded to a request made in April by several New Jersey legislators for a review of the legality of the deal.

New Jersey is not the only state that has recently navigated opposition to a lottery management contract. In Pennsylvania, Gov. Tom Corbett’s administration is in the process of renegotiating a proposed lottery management contract with Camelot, the private operator of the United Kingdom’s national lottery, after the state’s attorney general rejected the agreement in February over several legal concerns.

Leonard Gilroy (leonard.gilroy@reason.org) is director of government reform at Reason Foundation. Reprinted with permission of reason.org.
**Ohio Lawmakers Mull Property Tax Credit for Homeschooler Parents**

**By Isabel Lyman**

Parents of homeschooled children will pay less in property taxes if a novel bill passes in Ohio.

Senate Bill 127, which would become effective in 2014, would give homeschoolers a tax credit equal to the proportion of property taxes on their home that fund their local school district.

“Home schooling requires an immense amount of parental involvement, which has many positive benefits for children, but it also involves a great deal of sacrifice,” said bill sponsor state Sen. Kris Jordan (R-Powell) in a statement. “Families that elect to home school their children often pay directly out of pocket for many of the materials and other items needed, and my proposal could help significantly in defraying some of these costs. This could free up resources that could be used for other needs or to further enhance a child’s education.”

A handful of states, including Minnesota and Louisiana, grants tax credits to homeschool families, but none currently offers homeschoolers property tax relief, according to the Home School Legal Defense Association (HSLDA).

Homeschoolers Interested, Nervous

Homeschool families and leaders have mixed thoughts about the proposal. Ohioans for Educational Freedom supports tax credits “since home educating families pay, unfairly, for public education in their property taxes,” said Mark Stevenson, the organization’s founder and director.

At the same time, some Ohio homeschoolers are concerned the bill’s passage “would draw attention to us as a whole, and then legislators would be considering ways to regulate us, even more than we are now,” Stevenson said.

Education consultant and writer Melissa Venable has listed Ohio on her “strictest states for homeschooling” list. “Many homeschooling families find Ohio to be a difficult state, not due to its laws, but due to school districts with overreaching policies,” she notes.

Ohio homeschools must submit education plans annually to their local superintendent, who can reject them. They also must have their child complete state tests each year or create an alternative assessment approved by their district, according to HSLDA.

“Home schooling requires an immense amount of parental involvement, which has many positive benefits for children, but it also involves a great deal of sacrifice.”

**Kris Jordan, State Senator Powell, Ohio**

“We have reviewed SB 127 and provided feedback to the sponsor to modify language that could have unintended consequences for home educators,” said Melanie Elsey, legislative liaison for the Christian Home Educators of Ohio. “We are appreciative that Senator Jordan has been willing to listen to our concerns.”

Elsey declined to elaborate further on the group’s concerns.

**Government School Opposition**

Public school advocates have been specific and vocal in opposing the tax credit.

“This just siphons away money that would be used for public education,” Jay Smith, a lobbyist with the Ohio School Boards Association, told Ohio Watchdog. “We will definitely participate if there is opponent testimony for the bill.”

Ohio is home to approximately 24,000 homeschooled children. The 2013 Midwest Homeschool Convention, held in Cincinnati, attracted 15,000 people. SB 127 has been assigned to the Senate Ways & Means Committee for further discussion.

Isabel Lyman writes from Petoskey, Michigan.
Economist Laffer Backs Internet Sales Taxes

Opponents fear setting a bad precedent

By Logan Pike

Economist Arthur Laffer has released a study claiming a measure requiring online and catalog retailers to collect and remit sales taxes regardless of where their customers are located is a pro-growth, pro-jobs economic policy.

The Marketplace Fairness Act (MFA), more commonly known as the Internet sales tax, has passed the U.S. Senate and awaits action in the House. The Laffer study addresses the online sales tax “loophole” and “how enacting policies to close it will jumpstart economic growth across the country.”

Taxing Beyond Borders

Skeptics of Laffer’s conclusions abound, including Katie McAuliffe, federal affairs manager at Americans for Tax Reform and executive director of Digital Liberty. She says there is no online sales tax loophole.

“All businesses collect and remit sales tax for sales made within the states where they are physically present. States have a use tax which they have not adequately tried to collect,” said McAuliffe. “Sure, people who shop online will see their taxes go up, but that is not the biggest problem. The major issue is the precedent this legislation sets for states to tax beyond their physical borders.”

McAuliffe said states would “use this precedent to justify claims to business activity taxes, business income taxes. That’s where the real money is. And once this starts up, you better believe that state regulatory agencies will begin pushing their regulations across borders too.”

Currently, under a longstanding “physical presence standard,” states can force the collection of sales taxes only by businesses that have a physical presence such as a store, factory, or warehouse within their borders. The Marketplace Fairness Act would overturn the physical presence standard and force out-of-state businesses to collect and remit sales tax to the states in which customers are located.

Implications of MFA

In a USA Today article on his report, Laffer wrote, “lawmakers need to come to grips with our subpar economic performance and enact reforms to jumpstart growth.”

Laffer’s study notes that since the MFA would permit states to impose their sales tax rules and regulations on e-businesses outside their borders, states would receive more sales tax revenue. He suggests the extra revenue could be used to reduce other taxes such as state income taxes.

At least three governors have pledged to cut other taxes if their states collect sales taxes from out-of-state retailers. But legislators, not governors, set tax policies, and nothing in the MFA bill requires tax cuts to offset additional sales tax revenue from Internet shoppers.

Dozens of policy analysts dispute Laffer’s suggestion that an Internet sales tax would be good for the economy. A joint memo signed by more than 50 business and public policy leaders argues the MFA would impose “added costs for retailers and American consumers, directly through the sales taxes imposed, but also through the added burden of collecting the taxes for the 9,600 separate taxing jurisdictions in the U.S., each with its own unique definitions, holidays, and rates.”

Fairness at issue

In his study, Laffer writes, “it is not only fair to level the playing field for our local small businesses … but a crucial step towards greater growth and job creation through lower tax rates across the board.”

There is nothing “fair” about the MFA, said Seton Motley, president and CEO of Less Government, an organization whose name describes its aim. Motley is also editor in chief of StopNetRegulation.org.

“This bill does not achieve tax collection uniformity,” he said. “It would only [do so] if it required every brick-and-mortar store to ask every single one of its customers in what city, county, and state each lives, and forced the store to collect those taxes and remit.”

The MFA requires that effort only of online, telephone, and catalog retailers. Motley describes this as “an absurd uber-burden that should never be imposed—and never asked for by anyone who claims to be for a low-tax, low-regulation marketplace.”

Motley also notes online sales represent only approximately 10 percent of total retail sales.

“This is Big Business rent-seeking on parade, where they use the regulatory hammer of government to crush their competition—smash them in the crib before they grow into real, actual competitors. This isn’t parity; it’s pathetic,” said Motley.

Issue of Federalism

Laffer writes in the report, “so-called e-fairness legislation addresses the inequitable treatment of retailers based on whether they are located in state (either a traditional brick-and-mortar store or an Internet retailer with a physical presence in the state) or out of state (again as a brick-and-mortar establishment or on the Internet).”

Motley points out, though, that states have different tax policies in many areas. Saying it is “inequitable” for there to be different tax policies in different states is an alternative way of describing federalism, which is something that should be encouraged.

MFA supporters have predicted an additional $23 billion annually would be collected if the bill becomes law. But McAuliffe said she expects revenue would fall well below the estimate, because MFA supporters and Laffer are not taking into account that the majority of online sales tax is already collected and remitted.

The MFA “is not going to be much of a revenue source for states. It’s not federalism. And it’s not sustainable,” McAuliffe said.

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

"[P]eople who shop online will see their taxes go up, but that is not the biggest problem. The major issue is the precedent this legislation sets for states to tax beyond their physical borders.”

KATIE MCAULIFFE
FEDERAL AFFAIRS MANAGER,
AMERICANS FOR TAX REFORM
EXECUTIVE DIRECTOR, DIGITAL LIBERTY

Logan Pike is a government relations intern at The Heartland Institute.
Owners of hybrid and electric vehicles likely will face new taxes or fees to replace the savings they enjoy from paying less in gasoline taxes, if they drive a hybrid, or no gas taxes, if they drive a fully electric vehicle, based on rules already passed in some states and being considered in others.

North Carolina is the latest state whose legislators are discussing new laws that would impose fees on drivers of hybrid and electric cars. The state of Washington passed a bill late last year to add a $100 annual fee for the ownership of electric vehicles and a $50 annual fee for the ownership of hybrid vehicles. Virginia has a $64 annual surcharge on hybrid vehicles.

According to published news reports, Arizona, Michigan, Oregon, and Texas soon will be coming out with their own proposals. Other states may not be far behind.

“You can look at this a couple of different ways,” said Mitch Kakokai, a policy analyst for the North Carolina-based John Locke Foundation. “The legislature is trying to address long-term transportation needs. Cars are becoming more fuel-efficient in general. That and the introduction of hybrid and electric vehicles means less revenue from the gas tax. Dealing with that problem is a good idea.”

“We don’t have a problem with [the fees],” agreed John Bowman, spokesman for the National Motorists Association, a Waunakee, Wisconsin-based member association. “Our position is that a gas tax is the most equitable way to raise money for highway funds. When these [hybrid and electric vehicles] don’t use as much gas, they are a different animal. They should be kicking in in some way. What is the right amount, no one can say.”

Heavy Reliance on Gas Tax

Loss of transportation funds from gas taxes is particularly critical in North Carolina, which has the second-most miles (behind Texas) of roads maintained by the state government, Kakokai said. Other states have more roads but have more upkeep on a relative basis from municipal and county sources. That is one reason North Carolina has the highest gasoline tax in the Southeast. Cars that generate little or nothing in gasoline taxes don’t contribute enough for the upkeep of the state-maintained roads, he said.

North Carolina is considering a fee similar to the one in Washington, which Kakokai says is reasonable. But the fee likely would be less than the amount of gasoline taxes a similarly sized car with a traditional gasoline engine would generate.

There has yet to be a good, comprehensive study that quantifies the amount the typical car today generates in fuel taxes. Older studies may not be accurate because many older, less fuel-efficient vehicles were removed from the road during the “Cash for Clunkers” program a few years ago.

Opposition from Automakers

Auto manufacturers are objecting to some of these fees.

In early June, Michigan’s House Transportation Committee voted to impose a one-time $75 fee for hybrid vehicles. In testimony against the legislation—Michigan HB 4632—General Motors spokesman Brian O’Connell said such a fee would create additional hurdles for a new market the federal government has sought to promote. The federal government and consumers want auto manufacturers to produce more fuel-efficient vehicles, yet state governments are proposing penalties that negate some of the advantages of those very vehicles, he said.

There is another concern. In North Carolina and other states, legislators often siphon off some of the funds generated from gas taxes, tolls, and auto-related fees to spend on ventures unrelated to highways, such as bicycle trails or rail projects, or that have nothing to do with automobile transportation. This happens even though there are many unmet needs in the state transportation departments in North Carolina and elsewhere, Kakokai said.

Bowman says although the $50 to $100 fees may seem reasonable today, those fees could be increased if states continue to siphon money from transportation funds for other projects. Those fees also could be increased as motor vehicles continue to become more fuel efficient. With higher fuel efficiency, there would be less fuel consumption and, therefore, less fuel to tax.

Phil Britt (spent@spenterprises.com) writes from South Holland, Illinois.
Millions Missing, Misspent at Texas Housing Authority

By Jon Cassidy

The Harris County (Texas) Housing Authority is a generous landlord, one that gave its tenants $8,500 in gift cards to Wal-Mart for Christmas in 2011.

But that sort of unrestrained spending—on tenants, on memorabilia, on failed real estate deals, on its own salaries, and especially on contracts with two firms connected to two former board members—has dissipated the agency’s fund balances from $37.9 million to $1.6 million between 2009 and 2012, according to an audit recently published by the inspector general of the Texas Department of Housing and Urban Development.

The spending included more than $100,000 on a bronze statue of a winged angel designed by the authority’s CEO at the time. Harris County will have to repay HUD another $3.8 million it already owes for other improper expenditures. And it doesn’t have the revenue to repay the new debts.

Between 2009 and 2012, all but $3.9 million of the agency’s $165 million budget came from federal sources. The rest—mostly rent—is where the agency would have to find the money to repay the federal government.

Auditors found the agency’s management and board had “neglected their management and oversight responsibilities; wasted Authority funds, at times for personal gain; circumvented existing internal controls; and manipulated accounting records.”

Auditor Lists Damning Findings

According to the audit, the agency spent:
• $54,000 renting two apartments in the fashionable Museum District for two years for two mysteriously unnamed consultants at a time when there were no projects in development.
• $150,438 on computers and other equipment, mostly laptops and electronic tablets, that it could not locate.
• $66,000 on 1,281 polo shirts, denim shirts, and dress shirts with agency logos, listing them as “office expenses.”
• $1.8 million on excessive pay for managers and staff, categorized as “equalization pay, performance pay, and bonuses,” which “sometimes exceeded the employee’s annual base salary.”
• $44,000 on a Chevrolet Avalanche for a board chairman’s use.
• $18,000 to purchase letters handwritten by Abraham Lincoln.
• $8,780 for five helicopter flights over its housing developments, booked as “office supplies.”
• $6,500 for a book signed by 39 World War II veterans.
• $1,440 to enter foursomes in two golf tournaments.
• $4,326 at Dave & Buster’s for a staff dinner and bowling.
• $4,969 for dental expenses for a director and his daughter.
• $25,000 for “Extreme Makeover” home construction.
• $25,403 for a five-person trip to South Africa that’s largely been repaid.
• $11,138 for gold-plated coins.
• $29,500 on a motivational speaker for a talk and a book project.

HUD auditors acknowledged they were following up on a series of articles published by the Houston Chronicle in early 2012 detailing wasteful spending and conflicts of interest. Those articles led to the replacement of CEO Guy Rankin IV and four members of the agency’s five-member board.

Cites Board Members for Conflicts

Two former chairman of the housing agency’s board, Casey Wallace and Odysseus Lanier, were singled out by auditors for conflicts of interest. Lanier’s consultancy received $11.3 million from the agency, according to agency Director Tom McCasland, most of it for work on some sort of multistate disaster response survey nobody wanted.

Harris County tried to get $7 million in reimbursement for the survey from the Federal Emergency Management Agency, but that request was denied, according to the audit.

Lanier’s consultancy subcontracted with Wallace’s law firm for work on the project. While serving as board chairman, Wallace “personally incurred charges against the contract, and the Authority paid the law firm for his work performed under the contract while he was still the board chairman,” auditors wrote. “According to its accounting records, the Authority paid the consulting firm a total of $920,315 for this contract, which included $773,731 charged for the subcontracted law firm’s services.”

The law firm has repaid that money, saying it was “a misunderstanding.”

Incompetence Also Blamed

There also was incompetence to blame, or at least unfamiliarity with purchase options. The agency ran up $17.8 million in non-reimbursable development expenses, including $6.5 million in 2009 for 92 acres on Lake Houston for a veteran-themed master-planned community that fell through.

“The plan was contingent upon the U.S. Department of Veterans Affairs relocating offices and other facilities to the Lake Houston site,” auditors wrote. “The Department did not move to the site.”

Rankin, the former CEO whose contract was bought out for $137,000 and is now embroiled in a lawsuit with the agency, did have a certain eye for design. A statue based on his sketch of a bare-chested angel was put outside one of the agency’s housing developments, at a cost of $101,450.

The new management team at the housing authority, which has slashed administration expenses by 50 percent, noted it was the organization that notified HUD of most of the questionable expenditures. McCasland has an accountant poring over the $23 million in unsupported expenditures, and he told auditors, “we will have a better sense of the CPA’s findings in the coming months.”

Jon Cassidy (jon@watchdog.org) writes for Watchdog.org, where this article first appeared. Reprinted with permission.
Feds May Raise Phone Taxes to Fund Common Core Test-Taking

“The networks were all built to handle one-tenth of the demand that they’re asked to be able to handle. ... We’re talking about a world where the network is going to be mission critical … if computers and networks stop working, learning will stop.”

EVAN MARWELL, CEO, EDUCATION SUPERHIGHWAY

By Ashley Bateman

The Obama administration may raise taxes on everyone’s phone lines by about $5 per year to increase K-12 tech subsidies because most schools cannot afford to administer the computerized Common Core tests coming out in 2015.

President Barack Obama announced the Federal Communications Commission (FCC) will likely overhaul the schools and libraries universal service support program, commonly known as E-Rate. He also asked the U.S. Department of Education to use federal funding to give teachers more training in using technology.

Telecom observers expect the FCC to propose new rules in an extensive document typical of federal regulation-making, said Douglas Levin, executive director of the State Educational Technology Directors Association.

“It will probably include program reforms,” Levin said. Although Congress oversees the FCC, administration officials told Education Week they believe the agency can change the program without Congress this time.

Established in 1996, E-Rate charges telecommunications companies for long-distance service, including cell lines, and uses the resulting money to subsidize, among other things, school requests for phone lines, broadband Internet, and internal networks. On a conference call with reporters, Obama administration officials estimated the cost of E-Rate changes at $5 per phone line.

Inadequate Infrastructure, Funding

The nonprofit Education Superhighway has sampled K-12 schools’ connectivity levels and bandwidth speed nationwide through 350,000 tests in 18 states, for a representative sample of 15 percent of U.S. schools.

Its research shows about 59 percent of schools have enough bandwidth to administer basic computer tests, but only 23 percent have enough bandwidth to handle online tests and textbooks.

Even fewer will have sufficient bandwidth for the tests by 2017 based on projected growth of usage. By the 2017-18 school year, no Common Core tests will be available offline.

“The networks were all built to handle one-tenth of the demand that they’re asked to be able to handle,” Education Superhighway CEO Evan Marwell said. “That creates issues and schools are going to have to catch up. We’re talking about a world where the network is going to be mission critical … if computers and networks stop working, learning will stop.”

In the 1990s, Marwell said, about 1.5 million students and educators used computers in K-12 schools. Education policies today now expect computer use by all 55 million in that sector.

“E-Rate today provides funding to get bandwidth to the school door, but schools can’t rely on E-Rate to fund the LAN and WiFi equipment they need to get that bandwidth to the classroom,” Marwell said. “That is one of the fundamental reasons that E-Rate needs to be modernized.”

Huge Appetite for Funds

The program covers four categories: phone and Wide Area Networks, Internet access, internal connections, and basic maintenance.

The first two services are considered priority one and the others priority two. Priority one services are financed first for the poorest schools that apply.

“Since the beginning of the program, there have been more demands for funding than the program has,” Marwell noted.

All priority one requests must be filled before any priority two requests can be considered. This past year, priority one requests exceeded the program’s $2.33 billion annual budget. Total requests this year were nearly $5 billion.

“This means no priority two requests will get funded, except for the fact that there is rollover funding, money allocated in the past years that districts have not spent,” Marwell said.

Reforming Infrastructure, Processes

The cost of updating the E-Rate program may delay action, Levin said.

“Everyone expects there will be some component of an expansion of dollars,” Levin said. “That’s not known at this point is whether this will be permanent or temporary. It may be there will be a shifting of resources within the universal service programs, reproritization, or there may be new collections.”

More than a quarter of the money E-Rate gave schools from 1998 to 2006, $5 billion, was not disbursed on schedule, and the program does not evaluate performance, according to a 2009 Government Accountability Office study. The report also noted the program is so complicated many districts choose not to apply; others pay consultants to advise their applications.

In June, acting FCC Chairwoman Mignon Clyburn recommended increasing cost-effectiveness when funding, increasing oversight, increasing dependence on data in decision-making, and drawing more heavily on local public and private officials, organizations, and businesses.

“To ensure a robust future for our children, we must equip them with the necessary tools to compete and flourish in an increasingly global and high tech economy,” Mignon said in a June statement.

The FCC’s plan may be detailed or intentionally vague, hoping to work out more details through the public comment period, Levin said.

“Some think this process will happen quickly, others think this may be somewhat protracted because the conversations about new money whether it’s permanent or temporary are going to get complicated and certainly the industries who are involved in this will lobby on it,” Levin said.

E-Rate and Common Core

Although Common Core implementation demonstrates schools’ lack of technology, the trend for technology-based assessments was well underway before the new standards, Levin said.

“Schools are relying more and more on broadband Internet ... for core functions,” Levin said. “We can provide much richer and better resources to kids and teachers ... but it does require an infrastructure.”

Ashley Bateman (bateman.ae@googlemail.com) writes from Williamsburg, Virginia. This article was first published at the Web site of School Reform News; reprinted with permission.
Wisconsin Inmates Collect $616K in Jobless Benefits

By M.D. Kittle

Who says you can’t collect unemployment in prison?

The law.

But that didn’t stop hundreds of Wisconsin inmates from cashing in on hundreds of thousands of dollars in illegal unemployment payments, according to information obtained by Wisconsin Reporter through an open records request.

There were 593 cases of jobless benefits paid in the names of Wisconsin prisoners between July 2012 and July 2013—a total of $616,248, according to state Department of Workforce Development (DWD) records.

That’s more than double the amount uncovered in an audit in 2011, which found the Unemployment Insurance Division paid out $291,248 to inmates, according to DWD spokesman John Dipko.

Better Fraud Detection

Dipko said the numbers are rising because of collaboration between agencies in targeting fraud.

“We believe the primary reason is we are getting better at tracking down cases through our aggressive approach, stronger relationships with correctional officials, and more effective use of the tools at our disposal ...”

JOHN DIPKO
DEPARTMENT OF WORKFORCE DEVELOPMENT
STATE OF WISCONSIN

The Unemployment Insurance Division also has added 10 investigators to “aggressively pursue and recover overpayments and fraudulent claims,” Dipko said.

With more resources and sharper teeth in laws devoted to going after unemployment fraud, it begs the question: Was there more fraud out there that had gone undetected? Is there more fraud than is being reported? The answer appears to be, probably.

Millions Back to State

Dipko could not provide recovery figures for unemployment benefits paid to inmates, but he noted the Unemployment Insurance Bureau of Tax and Accounting collected more than $25.2 million in fraudulent overpayments and more than $24.9 million in non-fraud overpayments—mistakes made by the UI division or glitches in the system—in 2012.

The UI division attempts to recover fraud and other overpayments through levies, warrants, and tax-refund intercepts.

There are instances in which inmates could be eligible for unemployment benefits. Inmates held at county jails for a short time such as 48-hour holds, or who are permitted to leave jail and look for work and are considered able and available to work, could legally be eligible for unemployment insurance if they are unemployed, Dipko said.

State Rep. Samantha Kerkman (R-Randall), co-chair of the Joint Legislative Audit Committee, said the increased level of overpayments to inmates underscores the importance of agencies cross-checking beneficiaries of public assistance programs.

M.D. Kittle (mkittle@wisconsinreporter.com) writes for WisconsinReporter.com, where this article first appeared.
Washington City Mulls Highest U.S. Minimum Wage

By Bailey Pritchett

The city of SeaTac, Washington might boast the nation’s highest minimum wage if voters pass an initiative this November.

The SeaTac Committee for Good Jobs contends it has collected the necessary number of petition signatures—more than 2,000 signatures, or more than 15 percent of the city’s voting population—to put on the ballot a measure asking establishment of a $15 an hour minimum wage. It would apply only to hospitality and transportation employees of Seattle-Tacoma International Airport and nearby hotels and car-rental firms.

The initiative defines a hospitality employer as any hotel with more than 100 rooms and more than 30 employees. The initiative also applies to food services in hotels and the Seattle-Tacoma International Airport.

The Ordinance Setting Minimum Employment Standards for Hospitality and Transportation Industry Employers offers more than a new minimum wage. In addition to a 60 percent wage increase, minimum-wage employees who fall under the initiative would enjoy a revised paid sick leave policy and other benefits. For every 40 hours worked, one hour of paid time off would be earned. At the end of the year, unused sick days would be paid to the employee in cash.

‘Qualified Displaced Worker’ Preferences

If an employer leaves or is replaced, the new employer would have to keep a “Qualified Displaced Worker List” of employees from the previous company. If the new employer does any hiring, employees of the former company would have to be offered a work period of 90 days. The initiative also mandates that existing part-time employees be offered openings in full-time positions before job offers are extended to outside hires.

If the initiative passes, SeaTac’s airport workers will have the highest minimum wage in the country. San Francisco currently offers the nation’s highest minimum wage, $10.55 an hour for all workers. SeaTac also would be the first city in Washington State to deviate from the state minimum wage of $9.19, the highest state minimum wage in the country.

A Port of Seattle policy bars airport vendors from pricing their products and services higher than what they charge at locations away from the airport, even though they would have to pay substantially higher wages at the airport.

Working Washington, an arm of the Service Employees International Union, has led the charge on the measure. Local businesses have been leading the counterattack.

Multi-Pronged Proposal

On July 7, Alaska Airlines, Filo Foods, BF Foods, and the Washington Restaurant Association filed a lawsuit challenging the initiative’s validity. The four plaintiffs argue the initiative addresses too many topics, has an insufficient number of legal signatures on the petitions backing it, and conflicts with several federal laws. It has not crossed the legal threshold to be on the November ballot, the lawsuit argues.

Under Washington State law, citizen ballot measures may address only one topic. As it currently stands, the initiative contains provisions covering multiple issues, including the new mandated wage and new paid sick leave policy, imposed employment restrictions, tip regulation, and recordkeeping accountability.

The initiative’s supporters needed to collect 1,541 valid signatures to place the measure on the November ballot. They turned in 2,283 signatures. King County election officials rejected 668 of the signatures, and the lawsuit plaintiffs found an additional 200 signatures they say did not meet legal requirements. If their challenges to the signatures are upheld, the measure would have only 1,415 legal signatures, too few to put it on the November ballot.

In a statement released by Alaska Airlines, the plaintiffs argue the initiative conflicts with “provisions of the Railway Labor Act, the National Labor Relations Act and the Airline Deregulation Act,” which govern airline and ground services and would take precedence over the ordinance.

The SeaTac City Council voted July 23 to put the measure on the November ballot.

North Carolina Enacts Pro-Growth Tax Reforms

North Carolina Gov. Pat McCrory (R) on July 23 signed into law a tax reform package that lowers individual and corporate income taxes, abolishes the estate tax, and modestly broadens the sales tax base.

The improvements in the state’s tax code will benefit individual taxpayers as well as business owners and will make North Carolina a more attractive place for new investment, according to an analysis by the Tax Foundation. The simplification of gross receipts taxes and elimination of preferential rates for particular industries also will be a bonus for the state’s economy.

“Charging multiple tax rates on different industries and transactions is non-neutral and adds unnecessary complexity to the tax code,” said Tax Foundation economist Elizabeth Malm. “The expansion of the sales tax base to services is unfortunately far less comprehensive than we originally hoped, but the plan still represents a step forward. We hope that future reform efforts will continue this work.”

The legislation will reduce the income tax from 7.75 percent to 5.75 percent while eliminating carve-outs. It also provides a $7,500 standard deduction, an increase from the state’s existing $3,000 deduction, drops the corporate rate to 5 percent, modestly broadens the sales tax to include some service contracts, and eliminates the state’s estate tax.

— Richard Morrison, Tax Foundation

North Carolina Gov. Pat McCrory

Pat McCrory
Governor - NC

Millions of Dollars for ‘Nashville’ Production, But No Clear Benefits

By Christopher Butler

Nashville’s famous Broadway Street is crowded with tourists year-round, but it’s hard to find even one visitor who regularly watches the ABC drama “Nashville,” which state officials subsidized with taxpayer money to advertise the city.

At least that’s what Tennessee Watchdog discovered when it visited the one part of Nashville that most heavily showcases the city’s rich musical heritage.

Broadway Street has a large number of juke joints and honky-tongs. The Ryman Auditorium, where Hank Williams Sr. and Johnny Cash performed in the 1950s, is nearby.

Michigan residents Doug and Rita Kochis were in Nashville recently to see Broadway and a few other sites.

Did the show have any bearing on their decision to visit?

“No. We would have come anyway,” she said.

Of the 11 other tourists who spoke to Tennessee Watchdog, only one other person had seen “Nashville.” The remainder said they had never seen a single episode. All who were interviewed said the show had no influence on their visit.

“Nashville” ended its first season on ABC in May of this year. The show’s first episode aired nearly a year ago. State officials gave “Nashville” producers $8.5 million to film on location during its first season.

Report Months Away

Laura Elkins, spokeswoman for the Tennessee Department of Economic and Community Development (ECD), which distributed the money, said her agency does not know how well the investment paid off for Tennessee taxpayers during season one.

“We won’t have a number until we receive the CPA’s report. Due to the recent ending of season one, it will take several months for a third-party independent CPA to conclude an audit on the matter,” Elkins said.

As Tennessee Watchdog reported in July, state officials will give the series’ producers an additional $12.5 million for its second season.

Nashville Mayor Karl Dean has promised an additional $500,000 beyond that.

‘Branding Opportunity’

ECD officials see the ABC series and other film and TV productions in the state as “branding opportunities”—similar to tourism outreach.

“According to network figures, some 8.2 million people have viewed each episode of the show, all 26, between the network broadcasts and online streaming services. That is advertising we could never buy,” Elkins said.

“Nashville,” like many adult prime-time dramas, depicts city residents involved in blackmail, adultery, and drug use, among other typical soap opera story lines.

Messages left seeking comment from Lionsgate Entertainment of California, which produces “Nashville,” were not returned.

As part of the branding campaign, ECD officials also have awarded $302,000 in taxpayer money to a Robin Williams film, “Boulevard,” which Elkins said takes place in Nashville and was filmed on location last month.

Officials with the film’s production company, Camellia Entertainment, told state officials they would spend $1.2 million in Tennessee.

Camellia Entertainment had no contact information available on its Web site and could not be reached for comment.

Tennessee Money, California Spending

The Tennessee Comptroller’s Office released a report earlier this year highly critical of the state’s film incentive program. The report said out-of-state production companies took advantage of the state’s generosity with taxpayer money, perhaps as much as $18 million, and redirected that money to California, without spending much in Tennessee.

Elkins told Tennessee Watchdog state officials have since put new controls in place designed to keep that money in-state.

“We are mindful of the need for a better return on investment from the state’s film program,” Elkins said.

“We also do not plan to try to compete with states like Georgia and Louisiana, which spend hundreds of millions annually competing for major motion picture productions,” she said.

Elkins did not offer specifics on when the CPA will release its report on how much money “Nashville” brought to the state during its first season.

Christopher Butler (chris@tennessee watchdog.org) writes for Tennessee Watchdog. Used with permission of Watchdog.org.
Report Shows Little Return from Mich. Film Incentives

By Tom Gantert

In 2009, a year after signing the nation’s most lucrative film incentive program, then-Gov. Jennifer Granholm (D) of Michigan touted the jobs it would create.

“We are working hard to build a diversified economy and create good-paying jobs in Michigan,” Granholm said. “As a result of our aggressive film incentives we are not only bringing new investment to Michigan, we are laying the foundation for an industry that will support long-term job growth for our citizens.”

However, a Bureau of Labor Statistics report shows that has not happened in one key aspect of the film industry: post-production work. In the years since Granholm signed the bill that allowed the state to offer up to 42 percent reimbursement on money spent by movie producers in Michigan, just seven post-production jobs have been added.

There were 290 jobs in “post-production and other related industries” in 2004. That number fell to 153 jobs in 2008 and then increased to 160 jobs in 2011, the most recent year for which data are available.

Film Office Blames Economy

Michelle Begnoche, a spokeswoman for the Michigan Film Office, said in an email the economic crisis hit the entire country and affected jobs across a broad range of sectors.

Begnoche said post-production jobs increased from 144 in 2009 to 148 in 2010 and 160 in 2011.

“That upward trend reinforces our decision to put a priority on attracting digital media and post-production projects that will support and grow these types of jobs here in Michigan,” Begnoche said.

Overall Numbers Little Changed

Numbers from the state on overall film jobs also show stagnation, with the number of jobs floating between 5,500 and 7,000 in the years before and after the subsidy program began. Michigan taxpayers are on the hook for about $400 million in direct incentives.

Some of that money has gone to support projects that didn’t survive in the state. The Weinstein Co., for example, was paid $1.8 million in film subsidies when it paid $4.5 million to Speedshape to do post-production work on “Spy Kids 4” in 2011. After Speedshape, which had its Michigan headquarters in Bingham Farms, was paid, it broke its lease from its leasing agent and left without paying $20,296 in property taxes.

The Republican-controlled state House and Senate recently teamed up with the Democratic caucus to approve $50 million for film subsidies.

Tom Gantert is senior capitol correspondent for Michigan Capital Confidential, a daily news site of the Mackinac Center for Public Policy. Used with permission.

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Amtrak Food Costs Called Off the Rails

By Kenric Ward

Amtrak trains featuring gourmet menus in their café cars are losing more than $400 per passenger ticket, and a leading House Republican wants an investigation.

“With a $72 million food service loss in 2012, it’s time for Congress to stem the financial bleeding from chef-inspired gourmet meals on Amtrak’s money-losing routes,” said Rep. John Mica (R-FL), former chairman of the House Transportation Committee.

“With a total $1.4 billion Amtrak taxpayer subsidy in just the past year, extravagant chef-designed dishes need to be considered for the chopping block,” he said.

Master Chefs Contract

Mica zeroed in on Amtrak’s contract with Master Gourmet Chefs.

Despite a 1981 federal law mandating that Amtrak break even on its food and beverage service by 1982, Amtrak contracted with Seattle master chef and James Beard Award winner Tom Douglas and other high-end chefs to cook up costly recipes for Amtrak dishes.

Other gourmet advisors include Michel Richard, master chef of Washington, DC’s Central restaurant, and Sara Jenkins’ Rustic Italian Specialties, featured in New York City’s East Village restaurants Porchetta and Porsena.

“Despite Amtrak food service losses over the past 11 years now topping $906 million, Master Gourmet Chefs continue to dish up recipes for costly gourmet train cuisine,” Mica said.

Even with long-distance losses mounting, Amtrak retains Executive Chef Daniel Malzhan, who designs menu selections for long-distance routes.

Lamb Shanks and Losses

These heavily subsidized routes whose losses continue to mount currently feature lamb shank and spice-rubbed Atlantic salmon filet. Those entrees are featured on Amtrak’s Sunset Limited East, California Zephyr, and Southwest Chief routes, all of which lost more money on food and beverage service in 2012 than the previous year.

In 2012, every Amtrak passenger ticket sold was underwritten $46 by taxpayers, while money-losing snacks were featured on Acela Northeast Corridor routes, Mica said.

The congressman calculated the cost of every hamburger was underwritten by $4.37 in taxpayer subsidies and every soda carried a $1.40 subsidy.

Mica asked Rail Subcommittee Chairman Jeff Denham (R-CA) to review Amtrak’s food practices as well as to investigate the costs of Amtrak’s “Chefs Conclave” in Wilmington, Delaware.

“Taxpayers would choke if they knew the costs of these gourmet meals,” Mica said.

Amtrak was not immediately available for comment.

‘Soviet-Style Operations’

An unmitting critic of what he calls Amtrak’s “Soviet-style” operations, Mica announced earlier this year he would introduce legislation to end the government-subsidized system’s national monopoly over passenger rail service and boost high-speed rail projects through private ventures.

Speaking before the National High Speed Rail Association, the congressman said his reform proposal would not do away with Amtrak but would allow open competition to provide intercity passenger and high-speed rail service.

“Since 1971, Amtrak has run a costly monopoly with Soviet-style operations,” Mica said.

Kenric Ward (kenric@watchdogvirginia.org) reports for Watchdog.org, where this article first appeared.

The Childishness Behind Economic Development

By Stephen Slivinski

Being the parent of a four-year-old, I’m often the target of my son’s lobbying efforts for a new toy. It usually goes something like this: “If you just get me this new toy, you’ll make me the happiest boy in the world and you’ll never have to buy me anything else again!”

As an adult, I realize this isn’t true. It’s mainly a plea to value the short-term gratification more than long-term financial prudence. As any parent can tell you, four-year-olds aren’t great at long-term thinking.

Instant Gratification

In this sense, economic development consultants act like children when they talk about attracting new businesses. Maybe a “deal closing” fund can help the state attract high-profile corporate relocations, they argue. Or maybe a special job training grant. Just do it this one time and it will make our state an economic powerhouse. Pretty please!

You might also expect corporations are eager to lobby for these sorts of things, too. However, when you ask corporate CEOs what matters most to their decision to relocate, their answers diverge greatly from those of many state policymakers and consultants.

13th On the List

Area Development Magazine recently published its 27th annual survey of more than 200 CEOs. Those corporate heads were asked what factors were most important to them when they consider whether to move or open a facility in a new location.

The “incentives” packages states usually offer were pretty far down the list at 13th place. Costs of doing business day-to-day and the ability to hire good workers were much more important concerns.

First place went to low labor costs; second place was “highway accessibility”; and third place was “availability of skilled labor.” A bit farther down the list—but still higher than special favors and handouts to a company—were corporate relocations, they argue. Or maybe a special job training grant. Just do it this one time and it will make our state an economic powerhouse. Pretty please!

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Wireless Tax Fairness Act Returns to Congress

By Dane Skorup

A bill to impose a five-year moratorium on new state and local taxes on cell phones and other wireless services has been introduced in Congress. “Wireless connectivity is becoming the simplest and easiest route of choice to the Internet, but instead of encouraging that, we’re burdening it with taxes,” said Rep. Zoe Lofgren (D-CA), in a statement. She introduced the Wireless Tax Fairness Act of 2013 (HR 2309) with Rep. Trent Franks (R-AZ).

“This bill is needed to hit the pause button and stop these arbitrary taxes from increasing. By doing so, we’ll bring needed stability to the wireless marketplace for customers to choose their services based on merit and need so we can see these platforms of innovation and job growth expand,” Lofgren said.

The House of Representatives passed a previous version of the Wireless Tax Fairness Act in November 2011, but it did not advance in the Senate.

The disparities in wireless service taxation are substantial. Oregon has the lowest combined wireless tax rate in the country, at 7.67 percent. Neighboring Washington has the nation’s second-highest combined tax rate on wireless services, at 24.44 percent. The combined rate includes local, state, and federal taxes.

Populous states such as Florida, Illinois, and New York also have tax rates on wireless service near 20 percent. The average combined wireless tax rate in the United States is 17.18 percent, up one percentage point from when the 2011 bill was proposed and more than twice as much as the average state sales tax rate of 7.4 percent.

 “[Wireless taxes] fall disproportionately on lower-income and working Americans who tend to rely more exclusively on wireless devices for telephone and Internet access and therefore pay a greater percentage of their income in wireless taxes,” Lofgren and Franks said in a joint statement.

John Nothdurft, director of government relations at The Heartland Institute, which publishes Budget & Tax News, said new discriminatory cell phone taxes “will hinder the growth of an industry that is on the front lines of innovation and job creation.”

Nan Swift of the National Taxpayers Union sent a letter of support to Lofgren and Franks, calling the five-year moratorium “an eminently reasonable, pro-consumer goal that provides a window of time for government and the mobile phone services industry to pursue fundamental telecom tax reform.”

The Wireless Tax Fairness Act is awaiting review by the House Committee on the Judiciary.

Dane Skorup (dane.heartland@gmail.com) is interning at The Heartland Institute.

IN OTHER WORDS . . .

“New York Times” resident government apologist Paul Krugman argues—and we use the term loosely—that Detroit was forced into bankruptcy not because it ‘had especially bad governance’ (which it did), but because ‘for the most part the city was just an innocent victim of market forces.’

“But there’s nothing ‘innocent’ about market perversions that led to the largest municipal bankruptcy in U.S. history. It’s all about ignorance of market forces and the fatal conceit that they can be trumped.

“For more than a few decades, Detroit has been a cesspool for social ‘enlightenment’—kowtowing to the cartels of unionism, rabid reliance on race-baiting and a long string of crooked politicians as ‘leaders.’ Three results of many have been the highest per-capita tax burden in Michigan, a soaring crime rate, and a population of blacks who have become wards of the state, if not the street. . . .”

— Pittsburgh Tribune-Review editorial, July 24, 2013

Cigarette Tax Hike in Illinois Looks Like a Fiscal Flop

By Dane Skorup

Cigarette tax revenue in Illinois is falling far short of the amount projected last year, state officials say.

In May 2012, state legislators approved a $1-per-pack increase on the price of cigarettes, nearly doubling the state’s tax rate to $1.98 per pack, the 17th-highest state tax rate in the nation.

The tax delivered just 61 percent of what state officials had budgeted, $212 million of the expected $350 million for the fiscal year ended June 30.

Gov. Pat Quinn (D) said the cigarette tax increase would help sustain the state’s Medicaid program and the School Infrastructure Fund while also discouraging smoking. But The Heartland Institute, which publishes Budget & Tax News, Illinois Policy Institute, and other public policy groups predicted the state would fail to receive the projected increase in tax revenue.

Opponents of the tax hike had noted the likelihood that consumers would try to avoid the tax by buying cigarettes out of state, where taxes are lower. Illinois neighbor Missouri has the lowest tax rate of all states, at 17 cents per pack. In Kentucky, the per-pack tax is only 60 cents.

University of Illinois at Chicago professors Frank J. Chaloupka and Jidoug Huang published an article in early 2011 titled, “A Significant Cigarette Tax Increase in Illinois Would Produce a Large, Sustained Increase in State Tobacco Tax Revenues.” A more recent study, incredibly from the same university, has since found that 75 percent of cigarettes consumed in Chicago are purchased from across state lines—usually in Indiana, where the state tax is 99 cents a pack.

Illinois state government for many years has been taking steps to reduce smoking, which would reduce cigarette tax revenue. The state banned smoking in or near public places in 2008 with the Smoke Free Illinois Act, and the General Assembly later struck down a bill that would allow many private establishments to purchase smoking licenses.

Dane Skorup (dane.heartland@gmail.com) is interning at The Heartland Institute.
Harvard Historian Warns the State Is Causing the West’s ‘Great Degeneration’

Review by Jay Lehr, Ph.D.

What causes rich nations to lose their way? Symptoms of decline are all around us: slow growth, crushing debts, increasing inequality, and aging populations. What exactly has gone wrong? In his new book, The Great Degeneration, best-selling historian Niall Ferguson argues the intricate framework of our institutions is degenerating.

The condition of representative government, the free market, the rule of law, and a free society are each addressed in separate chapters of this brief book. These institutions set the West on the path to prosperity, and they have dramatically declined in recent decades, Ferguson observes.

Governments have broken the implied contracts among generations by heaping IOUs on our children and grandchildren. Our markets are hindered by overly complex regulations. Why, he asks, is it 100 times more expensive to bring a new medicine to market than it was 60 years ago? He wryly suggests the Food and Drug Administration would prohibit the sale of table salt if it were put forward as a new product today, because of its toxicity in large doses.

Having been more than 20 times wealthier than the average Chinese as recently as 1978, the average American is now just five times wealthier, Ferguson notes. In a wide range of dimensions the gap between the West and the rest has narrowed dramatically. In terms of life expectancy and educational attainment, some Asian countries are now ahead of most in the West.

Ferguson argues these declines in institutional leadership have been partly a result of a lack of transparency, which could not be allowed in private business. The only hope for improvement will come when all institutions are dragged out into the daylight.

Complexity vs. Simplicity

Today it seems the balance of opinion favors complexity over simplicity, rules over discretion, codes of compliance over individual and corporate responsibility. Ferguson believes this results from a flawed understanding of how financial markets work.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 is a nearly perfect example of excessive complexity of regulation, Ferguson notes. The act requires that regulators create 243 new financial rules, conduct 67 studies, and issue 22 periodic reports. No one, however, is regulating the regulators, and the most regulated institutions in the financial system have become the most disaster-prone, he notes.

Reminiscent of Tocqueville

Ferguson’s analysis calls to mind that of Alexis de Tocqueville nearly 180 years ago. Many persons can recall Tocqueville’s compliments in his book Democracy in America, in which the French political philosopher and historian favorably describes the national character and institutions of America observed during his travels around the country in the 1830s. Readers seem to have forgotten his warnings, however. He anticipated a future society in which associational life has died:

“I see an innumerable crowd of like and equal men who revolve on themselves without repose, procuring the small and vulgar pleasures with which they fill their souls,” Tocqueville wrote. “Each of them, withdrawn and apart, is like a stranger to the destiny of all the others: his children and his particular friends form the whole human species for him; as for dwelling with his fellow citizens, he is beside them, but he does not see them; he touches them and does not feel them; he exists only in himself and for himself alone.”

“Thus, after taking each individual by turns in its powerful hands and kneading him as it likes, the sovereign extends its arms over society as a whole; it covers its surface with a network of small, complicated, painstaking, uniform rules through which the most original minds and the most vigorous souls cannot clear a way to surpass the crowd; it does not break wills, but it softens them, bends them, and directs them; it rarely forces one to act, but it constantly opposes itself to one’s acting; it does not destroy, it prevents things from being born; it does not tyrannize, it hinders, compromises, enervates, extinguishes, dazes, and finally reduces each nation to being nothing more than a herd of timid and industrious animals of which the government is the shepherd.”

Tocqueville saw the state—with its seductive promise of security from the cradle to the grave—as the real enemy of civil society. Ferguson agrees with this view.

Need for Private Schools

Toward the end of this both depressing and hopeful book, Ferguson makes a great case for dramatically increasing K-12 school choice. He notes American universities, largely private, are considered among the best in the world, whereas our government-run K-12 schools have sharply fallen in quality, lagging behind those of many other nations. He says we should expect continued educational mediocrity until substantially more private and charter schools are allowed to compete for students.

Ferguson quotes from the “You Didn’t Build That” speech President Barack Obama delivered while campaigning for reelection in 2012.

“If you were successful, somebody along the line gave you some help,” Obama said. “There was a great teacher somewhere in your life. Somebody helped to create this unbelievable American system that we have that allowed you to thrive. Somebody invested in roads and bridges. If you’ve got a business—you didn’t build that. Somebody else made that happen.”

Ferguson calls it the voice of a state destined to further degeneration.

Jay Lehr, Ph.D. (jlehr@heartland.org) is senior fellow and science director of The Heartland Institute.
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