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State of the States

An Analysis of the 2016 Governors' Addresses

ALEC American Legislative Exchange Council
LIMITED GOVERNMENT • FREE MARKETS • FEDERALISM

Center for State Fiscal Reform

Tax and Budget Solutions for Economic Growth

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The 2016 State of the States Report was published by the American Legislative Exchange Council (ALEC) as part of its mission to discuss, develop and disseminate model public policies that promote limited government, free markets and federalism. ALEC is the nation's largest non-partisan, voluntary membership organization of state legislators, with more than 2,000 members across the nation. ALEC is governed by a Board of Directors of state legislators. ALEC is classified by the Internal Revenue Service as a 501(c)(3) nonprofit, public policy and educational organization. Individuals, philanthropic foundations, businesses and associations are eligible to support the work of ALEC through tax-deductible gifts.

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The ALEC Center for State Fiscal Reform strives to educate those who share a commitment to our principles and shared goals. We also strive to educate our legislative members on how to achieve greater economic prosperity by outlining which policies work and which ones fail. This is done by personalized research, policy briefings in the states and by releasing nonpartisan policy publications for distribution such as *Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index; The Unseen Costs of Tax Cronyism: Favoritism and Foregone Growth; Tax Myths Debunked; Keeping the Promise: State Solutions for Government Pension Reform;* and the *State Budget Reform Toolkit*.

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Introduction

In 2016, 44 governors across America delivered State of the State addresses. These addresses included numerous economic policy proposals that will affect the states' economic competitiveness. This report observes and analyzes the economic policy proposals discussed in each governor's State of the State address. In those states where no State of the State address was given, the equivalent inaugural or budget address is discussed when applicable. Also included are special session addresses that had significant discussions of economic policy.

A number of different trends and priorities regarding economic policy were observed when reviewing these addresses. Following a similar trend observed in the majority of 2015 State of the State addresses, many governors focused a considerable portion of their addresses on the issue of tax relief. For the second year in a row, more governors proposed reducing taxes to facilitate economic growth than governors who proposed increasing taxes.

Aside from tax proposals, many governors discussed a number of different policy topics which, while less directly related, can still significantly affect state economies. Some of the most important of these issues included pension reform, expanding or shrinking Medicaid, changes to the state's minimum wage and government efficiency.

The majority of governors seem to understand that lower tax rates and limited government give citizens and businesses a greater incentive to reside and operate in their states compared to others with higher tax rates and more regulations. This concept is further explored in the Center for State Fiscal Reform's *Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index*, in which years of economic data and empirical evidence from each state are examined in order to determine what economic policies lead to prosperity.[1] Generally, states with lower tax rates, fewer regulations and responsible spending habits outperform other states in terms of economic growth.[2] Based on the observations made in reviewing the 2016 State of the State addresses, many governors are following these policies to help their states better compete for residents, jobs and capital.

Best and Worst State of the State Addresses, 2016

The following lists contain the best and worst State of the State addresses of 2016, based on the economic policy proposals included in each address. The "best" addresses include proposals that are proven to enhance economic competitiveness and growth, while the "worst" addresses include proposals that are proven to hinder economic competitiveness and growth. The addresses are ordered by the state's economic outlook ranking in the 9th edition of *Rich States, Poor States*.[3]

Best

Arizona – Governor Doug Ducey
***Rich States, Poor States* 2016 Economic Outlook Ranking: 5**

"A year later, the big spenders who told us we couldn't balance the budget, are beating the drum—celebrating our hard work with plans to spend and party like it's 1999. Some people never learn, no matter how much their heads hurt in the morning."

Governor Doug Ducey of Arizona delivered one of the most impressive State of the State addresses this year, emphasizing the need to continue on a path toward greater prosperity and freedom by eliminating waste and getting government out of the way of businesses and residents. The governor lauded his proposed budget which responsibly prioritized government spending in areas such as education, child safety and public safety. In addition, he stated the budget does not raise taxes and promised the legislature and the people of Arizona that "we will lower taxes this year. Next year. And the year after."

While continuing to highlight the success Arizona has had under his administration, Governor Ducey emphasized that the state cannot go back to their old spending habits which previously led them down a path of economic decline. The policies put in place under Governor Ducey's leadership have led to an Arizona that isn't just strong, but on the rise, with Arizona ranking 5 in the 2016 *Rich States, Poor States* economic outlook rankings.

Florida – Governor Rick Scott
***Rich States, Poor States* 2016 Economic Outlook Ranking: 8**

"First, we must keep doing what's worked the last five years, to help Floridians get a job and live their dreams, and keep cutting taxes!"

The battle cry for Governor Rick Scott's State of the State address was a familiar one to Floridians: "keep cutting taxes!" The governor cited the great entrepreneurship that Floridians young and old embody, which has helped create more than one million jobs during his tenure. With record state revenues, despite having no income tax, and record economic growth, Florida is an example of how pro-growth policy works. Governor Scott advocated for making Florida an even more attractive place for individuals and businesses by proposing to cut another $1 billion in taxes. Part of this tax cut package included cutting the commercial lease tax, which the governor said “unfairly targets small and large businesses across our state.” The governor also indicated he would like to see the tax completely abolished in the future. In addition, the governor proposed permanently ending the sales tax on manufacturing machinery and equipment.

While Governor Scott had many good ideas for tax cuts, one area of concern was his proposal to put $250 million into a new proposed Florida Enterprise Fund. The government should not pick winners and losers in the marketplace. The Florida economy would benefit more from the funds being used to provide additional broad-based tax relief for all taxpayers.

Governor Scott’s vision for the state is one in which Floridians “work together to diversify our economy and help our weakest, poorest and our most disadvantaged” and “work together to cut taxes to help families working hard to live their dream in Florida.” Considering Florida’s strong economic outlook, ranking 8 in the most recent edition of *Rich States, Poor States,* and Governor Scott’s continued commitment to providing tax relief, he is well on his way to realizing that vision.

Maine – Governor Paul LePage
***Rich States, Poor States* 2016 Economic Outlook Ranking: 38**

“Rather than debating a minimum wage, I want to give a pay raise to all working Mainers: eliminating the income tax will put $900 million back in the paychecks of Mainers. It’s the biggest wage increase they can get.”

As the only governor in the country who proposed eliminating their state’s income tax, Governor Paul LePage delivered one of the most meaningful addresses in terms of tax policy. The governor specifically emphasized the need for Maine to look at other states around the country that are prospering economically and to mimic the actions of those states so Maine would similarly prosper. In observing the differences between Maine and other states, Governor LePage noted that Maine’s high taxes, particularly on personal income, are holding the state back, leading him to propose gradual reductions in Maine’s income tax rate and its eventual elimination by 2024. The governor also emphasized that reducing and eliminating the income tax would be far better than increasing the state’s minimum wage due to the fact that eliminating the personal income tax “will put $900 million back in the paychecks of Mainers,” and allow businesses to keep and hire more employees.

Governor LePage also stated that Maine’s death tax must be eliminated “once and for all,” adding that the tax is helping to drive away the state’s wealthiest job creators. Additionally, the governor emphasized the need for the state to enact greater welfare reforms which, he said, “will free up resources for Maine to create a safety net for our most vulnerable.” Maine’s economic outlook ranking of 38 in *Rich States, Poor States* may be discouraging, but the proposals outlined by Governor LePage are an excellent model for any state to follow in order to improve their economic competitiveness and achieve greater economic growth.

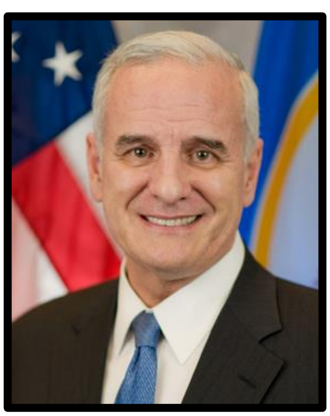
Connecticut – Governor Dannel Malloy
***Rich States, Poor States* 2016 Economic Outlook Ranking: 47**

"They're about changing how we budget in order to preserve that which we hold dear. In order to preserve what makes Connecticut so special."

In the past, Governor Dannel Malloy has proposed major tax hikes which have had significant economic consequences and contributed to Connecticut's very poor *Rich States, Poor States* ranking of 47. However, Governor Malloy's most recent State of the State address indicates he may now understand the economy in Connecticut is not doing well. The governor used his State of the State address to not only confront the reality of the problems that Connecticut is facing, but also propose a number of pro-growth solutions to the economic issues plaguing his state.

The governor spoke extensively about the state's budget and stated "we need to make our budget more predictable, more sustainable and more transparent." Recognizing that Connecticut must prioritize and control its spending, Governor Malloy unveiled a five-point budget plan based on "not how much we want to spend, but how much money we actually have to spend." This level of proposed fiscal responsibility is not common among Northeastern states. It was also encouraging to see the governor deliver his speech in a bipartisan manner, hoping to get both sides of the aisle on board for completing a balanced budget that would address the state's poor spending decisions.

Worst



Minnesota – Governor Mark Dayton
***Rich States, Poor States* 2016 Economic Outlook Ranking: 45**

"They say, 'give it all back' to the taxpayers. But that slogan is based upon a wrong premise and a wrong conclusion."

While Governor Mark Dayton's stated number one priority for this year's legislative session was to protect Minnesota's fiscal integrity, the proposals in his 2016 State of the State address would have the opposite effect. The governor claimed Minnesota's budget surplus has been "entirely from the income tax increases on the wealthiest 2 percent of Minnesotans" and from more residents working, earning higher incomes and paying the now higher tax rates. The fact that he is so eager and willing to justify the previously enacted tax hikes on the state's wealthiest residents is troubling. While the state has seen a short-term surplus due to significant tax increases, this has come at the cost of the state's economic competitiveness and will eventually lead to more residents and businesses leaving, reducing Minnesota's tax base and the job opportunities available to its residents.

Additionally, the governor proposed a number of new initiatives that are likely to increase the size of government and will result in additional financial obligations that are much more likely to hinder, rather than protect, the fiscal integrity of Minnesota. While Governor Dayton said he supported tax reductions for middle class residents, his accompanying budget proposal summary appeared to only include tax credits when it came to middle-class Minnesotans, as opposed to the broad-based tax rate reductions the state needs to be more economically competitive.

Washington – Governor Jay Inslee
Rich States, Poor States **2016 Economic Outlook Ranking: 36**

"I've asked the investment board to go further and exercise its voting authority to reduce the widening pay gap between CEOs and their workers."

Governor Jay Inslee's State of the State address leaves the impression that government is always the solution, especially for problems that do not actually exist. Governor Inslee expressed support for an initiative that would raise the minimum wage, arguing, "If you work 40 hours a week, you deserve a wage that puts a roof over your head and food on the table." A popular talking point, this statement ignores the fact that most workers earning the minimum wage are not working 40 hours a week or providing for a family. They are by and large young and entry-level workers who are saving money for school and gaining work experience for future employment. As explained later in this report, minimum wage increases make it more difficult for this type of worker to find a job.

Additionally, Governor Inslee believes government should influence CEO compensation in the private sector. He asked the State Investment Board to vote against certain executive compensation packages in order to reduce the pay gap between CEOs and other employees. Governor Inslee also encouraged the State Investment Board to "promote this policy with other states and institutional investors." The marketplace effectively rewards talent, hard work and results, and there is no reasonable justification for government to interfere in that process.

Louisiana (Special Session) – Governor John Bel Edwards
Rich States, Poor States **2016 Economic Outlook Ranking: 28**

"So, if you insist on saying that I never said I would raise taxes – that I'm going back on my word – that's fine. Say it. Get it out of your system, and then please come back here ready to work with me to do the job we were all hired to do."

During a special session address to the Louisiana state legislature, Governor John Bel Edwards made a strong call for the need to get control of Louisiana's budget crisis. While the state does face significant budget problems, the governor called for an excessive number of tax increases, second only to Governor Bill Walker of Alaska. While the governor's plan to address the deficit did call for $160 million in spending cuts, Governor Edwards sought to address most of the state's budget problems by raising taxes.

The governor justified his tax proposals by emphasizing the state would have to make a number of additional, painful cuts if the state is not able to generate more revenue. However, the excessive number of tax increases proposed by Governor Edwards will likely come with significant economic problems in the long run. The governor not only proposed a sales tax increase and a tax increase on alcohol and tobacco, but also the suspension of corporate tax deductions and a reduction in business and investment tax credits. Rather than looking for ways to prioritize and control spending, resorting to tax increases will have negative effects on Louisiana residents as they will not be able to keep as much of their hard earned money as they have in the past. Although Governor Edwards' intention to fix Louisiana's budget shortfall is commendable, his proposals to fix the problem are misguided.

Alaska – Governor Bill Walker
Rich States, Poor States **2016 Economic Outlook Ranking: 25**

"I'm proposing a modest income tax linked to the federal income tax."

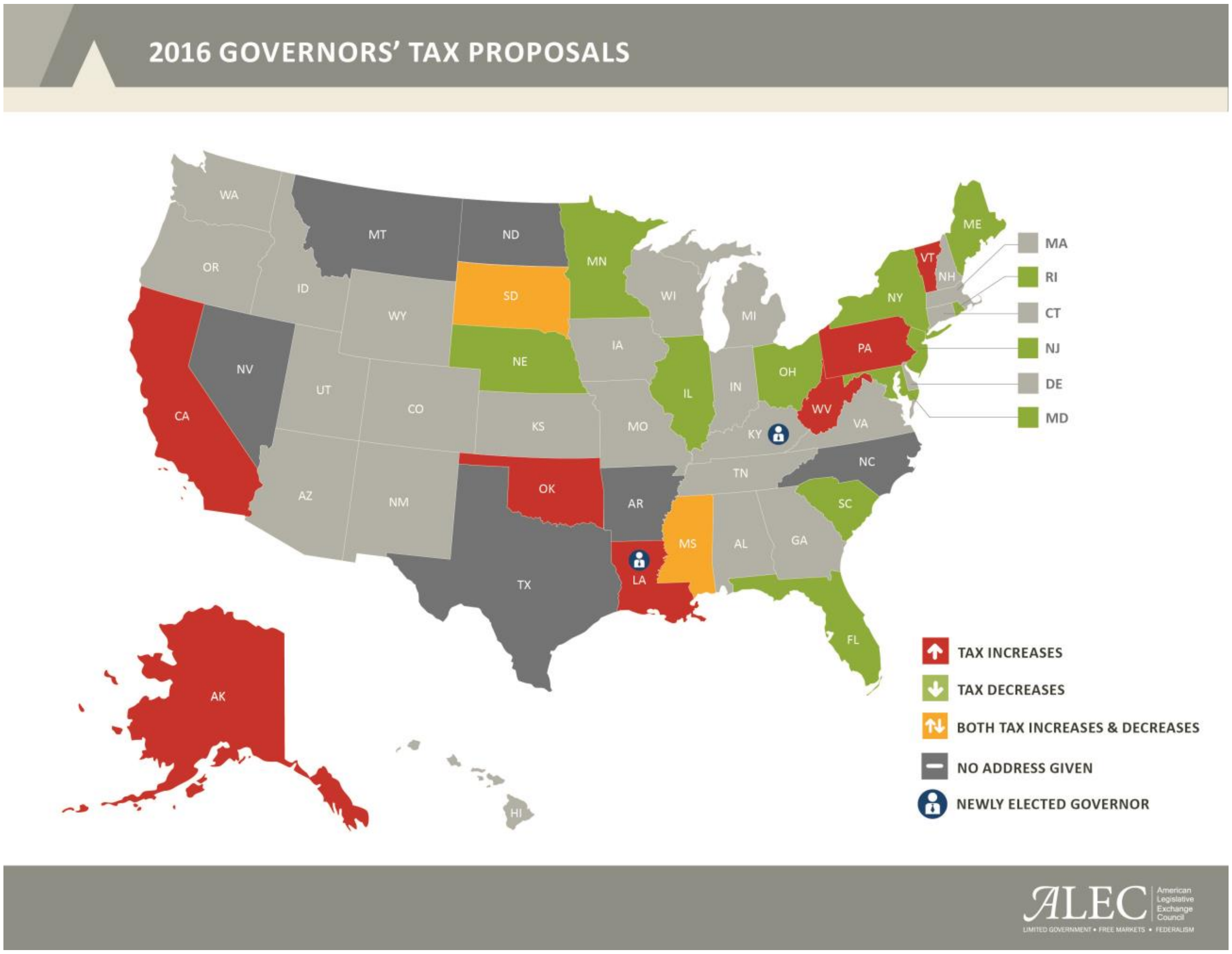
While Alaska may have a mediocre economic outlook ranking of 25 in *Rich States, Poor States*, the state has recently faced severe fiscal problems. There is no doubt Alaska lawmakers needed to address the state's $3.5 billion budget deficit, which was created in large part by the dramatic fall in oil prices. To his credit, Governor Walker recognized the need to cut spending and identified multiple areas where that can be accomplished. While this is commendable, the governor included a large number of proposed tax hikes in his address. In fact, Governor Walker's seven proposed tax increases were more than those found in any other governor's State of the State address this year.

One proposal was the creation of a statewide personal income tax. While Alaska is currently one of nine states without a personal income tax on wages, and the state also has no statewide sales tax, Governor Walker's proposal to implement the former has sparked calls in the state legislature to implement an income tax as early as 2019.[4] This is one of the worst things Alaska could do to try to stabilize their fiscal situation. Income taxes are a volatile source of revenue and directly punish productivity, resulting in less economic growth.[5]

The state cannot continue to face budget crises every time there is a significant decrease in the price of oil. Instead of economically damaging tax increases, Alaska's lawmakers should consider fiscal reforms such as priority-based budgeting. This budgeting strategy enables lawmakers to prioritize spending on the core functions of government that citizens need. While there are tough choices ahead, smart budgeting, not tax hikes, would provide Alaskans with a more secure economic future.

Tax Policy

Tax policy was frequently a major topic in the governors' State of the State addresses. About half of the governors who delivered State of the State addresses offered some form of significant tax policy proposal. Like last year, there were more governors who called for tax reductions than governors who called for tax increases. Eleven governors proposed only tax cuts, while seven pushed for only tax increases. Governors in two states proposed both. The following map shows which governors called for tax increases, tax decreases or both tax increases and decreases in their addresses this year.

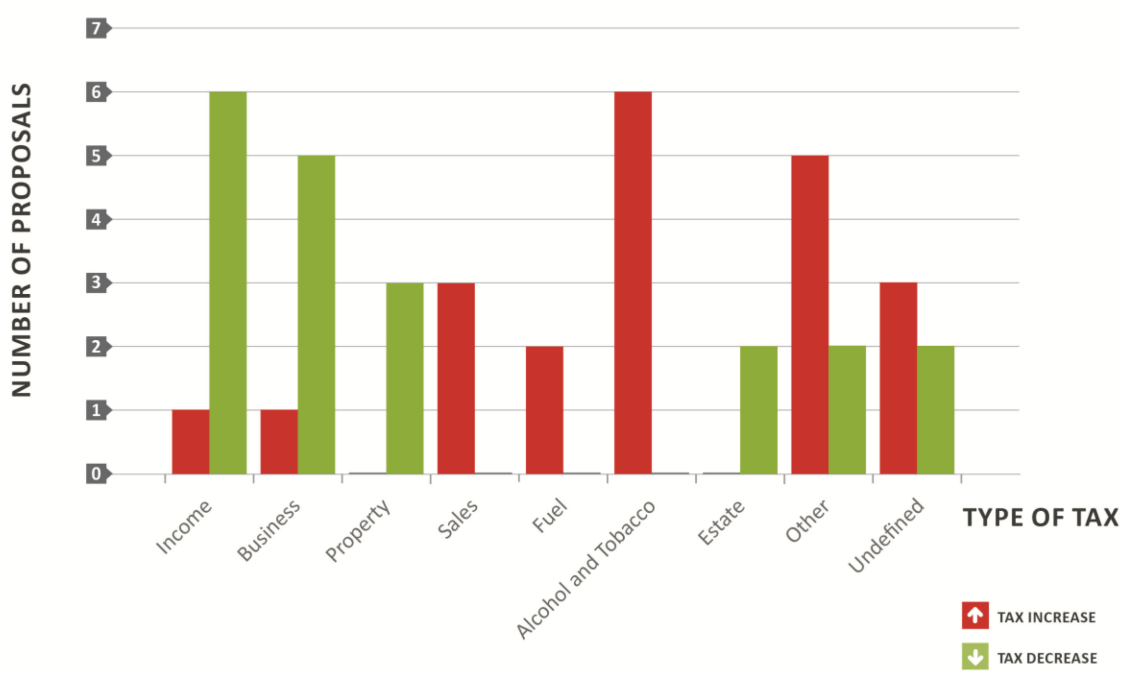


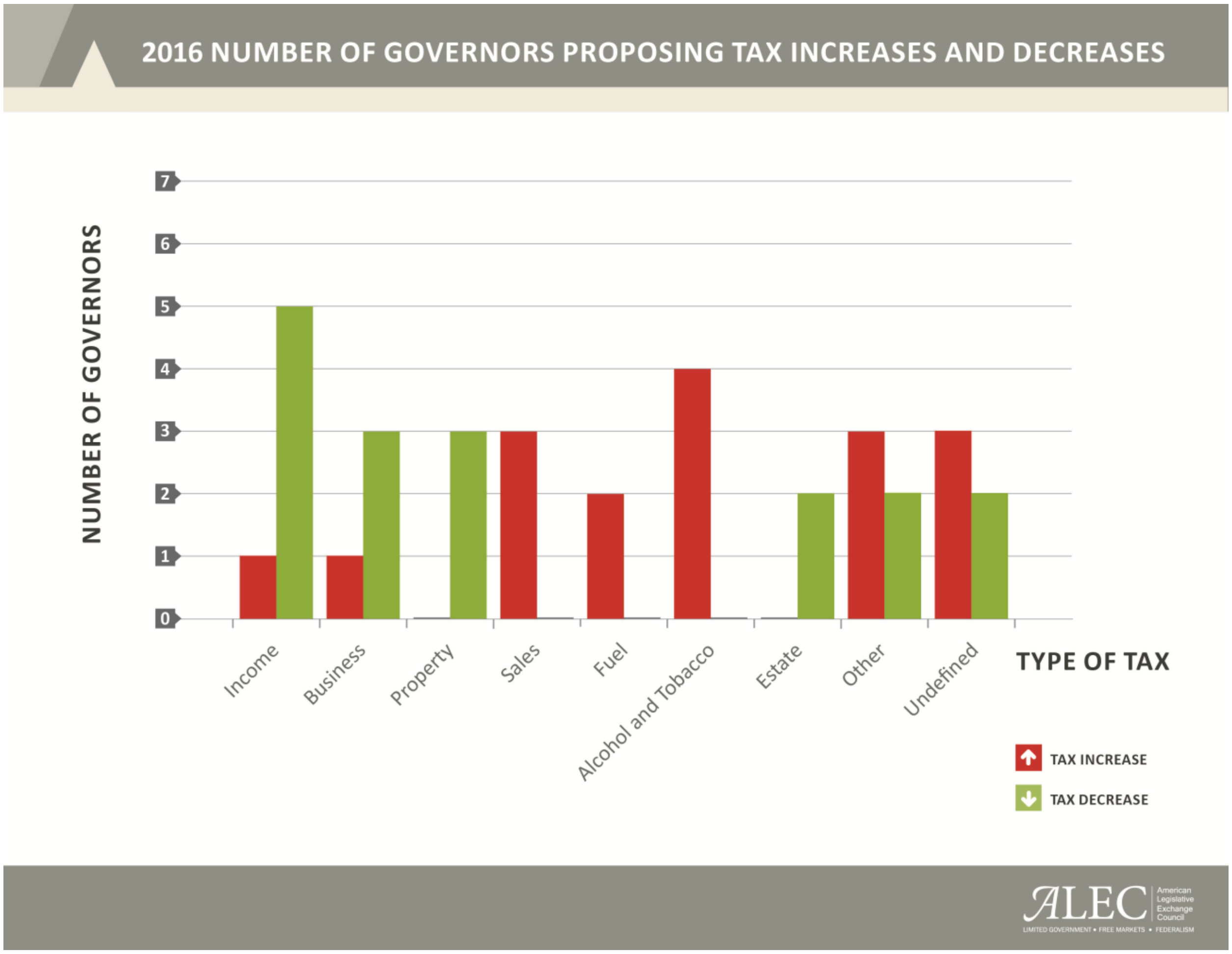
It is no secret that many states are faced with very tight budgets. To address this, some governors focused on raising revenue, while others emphasized spending cuts. The latter option is preferable because states must do all they can to remain competitive—especially during difficult economic circumstances. While it can be politically difficult to make cuts, states must spend taxpayer dollars wisely and avoid tax hikes, which decrease their economic competitiveness and lead to less prosperity for their citizens.

Although more governors called for tax reductions than tax increases, there were a few governors who proposed several tax hikes throughout their addresses. The most dramatic example, in terms of the number of tax proposals, was in Alaska, where Governor Bill Walker called on the legislature to reestablish a personal income tax, which the state repealed in 1980.[6] On top of that, Governor Walker mentioned six other existing taxes that he thought should be raised to meet budget demands. In Louisiana, Governor John Bel Edwards called for the second highest number of tax increases in his address during a special session of the legislature. Governor Edwards pushed for an increase in alcohol and cigarette taxes, a suspension of corporate tax deductions, a one penny sales tax increase to the state's, at the time, four cent sales tax (a 25 percent increase) and a reduction to business and investment tax credits. Thanks to ideas like these, the total number of individual tax increase proposals exceeded tax decrease proposals 21 to 20.

The following graphics show a breakdown of the types of tax cuts and increases that governors called for in their addresses. They include proposals regarding tax rates, eliminating or enacting new taxes and any significant, broad-based tax credit changes. Taxes that did not belong in any regular category are designated as "other" while tax proposals where the governor did not specify a particular type of tax are labeled "undefined."

2016 TOTAL PROPOSED TAX INCREASES AND DECREASES





States are more economically competitive when taxes are kept at the minimum rate that allows the state to balance its budget and perform the necessary functions of government. Revenue is not the only factor to consider when creating tax policy, however, because there are certain taxes that are more harmful to the economy than others. Income taxes, for example, discourage work, while sales taxes and property taxes do not and are consequently less harmful to a state's economic growth.

Beyond this, there is another issue with the income tax that Governor Jerry Brown pointed out in his State of the State address when he said "California has a very progressive but volatile income tax." In fact, California has the most progressive income tax in the country according to *Rich States, Poor States*.[7] Studies continue to confirm that it is dangerous for state governments to depend on income taxes, especially those with a progressive structure, for revenue, on account of their volatility.[8] Unfortunately, Governor Brown's solution to funding California's budget was to simply build up reserves and enact new taxes and fees, rather than reforming the overall tax system, from which California—coming in at 46 in the *Rich States, Poor States* economic outlook rankings—would greatly benefit.

Fortunately for their residents, other governors called for income tax reductions. Governors leading the charge to reduce the income tax burden were Maryland Governor Larry Hogan, who advocated tax relief on retirement income and an acceleration of the Earned Income Tax Credit; Rhode Island Governor Gina Raimondo, who also proposed expanding the Earned Income Tax Credit; and, most notably, Governor

Paul LePage of Maine, who wants to abolish the state's income tax and join the nine others that levy no personal income tax on wages.

Sales taxes offer a less volatile alternative to income taxes.[9] It is not surprising, then, that some governors called for increases in the state sales tax. For example, South Dakota Governor Dennis Daugaard proposed a half cent (12.5 percent) increase in the state's sales tax in order to fund higher salaries for teachers.

Other governors coupled their desire for increased sales taxes with additional discriminatory taxes on alcohol and cigarettes. The idea that these kinds of discriminatory taxes are successful revenue generators that promote public health makes this a tempting policy move. However, neither argument holds up under scrutiny. A recent study examined the unintended consequences of a tobacco tax increase in the state of Minnesota. When the state increased the tax by 130 percent in 2013, retailers along the Minnesota border saw a decrease in tobacco revenue—not because consumers were smoking less, but because they shifted consumption to nearby states. This affected their sales of other products as well, costing small Minnesota businesses in the area more than $38 million in non-tobacco revenue.[10] Finally, empirical data aside, it is inherently unfair for governments to single out specific industries by imposing discriminatory taxes on their products.

Other categories of taxes mentioned this year were business taxes and estate taxes. Here, governors such as New Jersey's Chris Christie, Maryland's Larry Hogan and Maine's Paul LePage offered pro-growth proposals. Corporate income taxes are one of the most harmful forms of taxes that can be levied on an economy because they make it more difficult for businesses to innovate, hire employees and raise wages. Statistics show that "States with the lowest corporate income tax substantially outperform their high tax counterparts in population growth, net domestic immigration, non-farm payroll employment growth, personal income growth and gross state product growth."[11]

Meanwhile, the governors of New Jersey and Maine sought to kill their states' death taxes. New Jersey is one of two states that imposes both an estate and an inheritance tax. Governor Christie said it was time to abolish the estate tax which "penalizes the next generation and harms the long term economic future of our state." Governor LePage made a similar call to "eliminate the death tax once and for all." As argued in *Rich States, Poor States,* "The estate tax is an unfair double tax on income that was already taxed when it was earned by individuals who leave an estate for their family. But the estate tax is not just unfair—it is a killer of jobs and incomes in states."[12]

Other Economic Policies

Government Efficiency

Many governors expressed their desire to improve government efficiency, transparency, accountability and responsibility in their State of the State addresses. Needless bureaucracy and wasteful government programs have hindered both the lives of citizens and operations of businesses, prompting several governors to discuss improving their states by reducing regulations, reforming government programs and responsibly prioritizing state spending.

Several governors expressed the need to cut bureaucracy in order to get government out of the way of the private sector. For example, Governor Robert Bentley of Alabama noted the need to cut the state bureaucracy standing in the way of providing broadband access across the state. The governor stated that Alabama would work with the private sector to provide greater broadband access at more affordable costs. Others proposed bureaucratic reforms to eliminate regulations on businesses and, as Mississippi Governor Phil Bryant put it, "slow down the growth of government."

Similar calls for government efficiency came in terms of reforming government programs. Some, such as Governor Bill Walker of Alaska, discussed reducing spending by cutting down the state workforce. Many emphasized the need to enact reforms for specific departments, such as South Carolina Governor Nikki Haley, who promised to veto any transportation bill that did not include reforms to the Department of Transportation. Reforms such as these help rein in the regulatory power of government agencies and bring efficiency to state governments.

Governors around the country also emphasized the importance of prioritizing government spending in order to balance state budgets. Governors such as Matt Bevin of Kentucky noted the need to exempt only the most important items from budget cuts and to cut out the most wasteful and economically harmful items in the budget. While following through with measures such as these can be difficult for many states, prioritizing state spending is much more beneficial than traditional "tax-and-spend" methods.

The American Legislative Exchange Council's *State Budget Reform Toolkit* points to priority-based budgeting as an excellent solution to fixing state budget problems.[13] This involves states asking themselves what the proper role of government is, what essential services government should provide to fulfill its purpose, how to evaluate if government is doing its job, what government programs and services should cost and, if cuts must be made, how to properly prioritize those cuts. This type of budgeting helps aid government efficiency by cutting costs and provides the opportunity to reallocate the savings from those cuts into more productive government programs or return money to taxpayers.

Medicaid

Due to its share of the budget and its political importance, 11 governors discussed Medicaid to one extent or another. The governors of Missouri, South Dakota, Virginia and Wyoming proposed Medicaid expansion under the Affordable Care Act (ACA). The governors who called for expansion reasoned that, regardless of their position on the ACA, the state should take advantage of the "free" federal dollars that are being offered. Some governors defended previously implemented Medicaid expansion, arguing that it had worked. Some justified the decision further by pointing to certain reforms the state had implemented along with expansion of the program.

However, Medicaid expansion is not the best policy to help families. According to the Congressional Budget Office, the ACA, including Medicaid expansion, will cause 2.5 million full-time employees to leave the workforce by 2024.[14] Furthermore, the Foundation for Government Accountability found that adults earning $1 above the Medicaid eligibility limit would face nearly $2,000 in additional costs per year to obtain health care insurance under the silver ACA plan.[15] Additionally, the National Bureau of Economic Research found that expanding Medicaid to able-bodied adults decreased their earnings.[16]

Families need access to excellent, cost-effective, patient-centered medical care. The best way to achieve this objective is through free market reforms that prioritize patient choice, increase quality and control costs. This can be achieved through a close collaboration with hospitals and insurers. It is particularly important to work with stakeholders for public insurance to keep costs down and not revert to depending on increases in federal funding at a time when the future of the ACA is uncertain.

Along these lines, Governor Terry Branstad of Iowa discussed plans to implement managed care. Kentucky Governor Matt Bevin mentioned means and asset tests to ensure people using Medicaid are those that truly need it. Tennessee Governor Bill Haslam proposed investments to increase efficiency in his state's system. In addition, Governors Nathan Deal of Georgia and Pete Ricketts of Nebraska wisely warned against Medicaid expansion in their states, citing increasing costs and distrust of the federal government's financial stability.

Minimum Wage

"It is time to give hard-working Americans a raise" is an oft-repeated refrain used to call for increases in the minimum wage. This year, the trend of governors calling for minimum wage increases continued. Eight governors discussed minimum wage policy in their State of the State addresses with only one of these, Governor Paul LePage of Maine, specifically voicing opposition to a minimum wage increase. To their credit, other governors have been on record elsewhere opposing such proposals but are not included in this report, which is focused on State of the State addresses. Despite Governor LePage's opposition, an initiative will appear on Maine's November General Election ballot, which, if approved by voters, will increase the state's current $7.50 per hour minimum wage to $12.00 per hour by the year 2020.[17]

The governors of Louisiana, New Hampshire, New York, Oregon, Pennsylvania, Rhode Island and Washington expressed support for minimum wage increases in their State of the State addresses. After his address, Governor Cuomo got his wish in New York, with the legislature voting later in the session to raise the minimum wage to $15.00 in New York City by the end of 2018 and gradually expand the $15.00 rate across the entire state in the years following. Oregon Governor Kate Brown had already signed into law a first-of-its-kind regional minimum wage by the time she gave her address. That law mandates a $13.50 per hour base rate that will be $1.25 higher in Portland and $1.00 lower in rural areas. Those rates will be implemented through gradual increases until the year 2022. In the state of Washington, an initiative is in the works that will likely appear on the November ballot. Other governors have faced more opposition. Minimum wage increases were stalled or defeated in the Louisiana, New Hampshire and Pennsylvania legislatures this year.

The prospect of increasing the minimum wage is attractive to many, which is why ballot initiatives are often successful. However, minimum wage increases are not good policy because of the effect they have on low-skilled and entry-level workers. The minimum wage is essentially a price control for labor that locks these and younger workers out of the job market. This is not only true in theory; it has been proven true in the marketplace. Seattle, for instance, experienced a 31.3 percent increase in the city's seasonally adjusted jobless rate in the nine months after its minimum wage began to increase, while during the same period, the national unemployment rate fell.[18] In addition to job loss, high minimum wages make finding entry-level work more difficult; cause hired workers to lose hours and benefits; and lead to businesses closing while potential owners choose not to open. On top of it all, prices of goods and services increase, which disproportionately affects those the minimum wage is supposed to help.[19]

The following table shows states' current minimum wages; governors' proposals to raise the minimum wage in this year's State of the State addresses; where states' minimum wages are headed in coming years under current state law; whether or not the a state's minimum wage is indexed for inflation; and any action that was taken regarding governors' State of the State proposals to raise the minimum wage as of July 1.

MINIMUM WAGE BY STATE
As of July 1, 2016

GOVERNOR DISCUSSED MINIMUM WAGE IN STATE OF THE STATE ADDRESS

State	Current	Governor's Proposal	Actual Future Wage and Year	Indexed Y/N	Action Since Address
Alabama	N/A		~	N	
Alaska	9.75		~	Y	
Arizona	8.05		~	Y	
Arkansas	8.00		8.50 (2017)	N	
California	10.00		15.00 (2022-23)	N	
Colorado	8.31		~	Y	
Connecticut	9.60		10.10 (2017)	N	
Delaware	8.25		~	N	
Florida	8.05		~	Y	
Georgia	5.15		~	N	
Hawaii	8.50		10.10 (2018)	N	
Idaho	7.25		~	N	
Illinois	8.25		~	N	
Indiana	7.25		~	N	
Iowa	7.25		~	N	
Kansas	7.25		~	N	
Kentucky	7.25		~	N	
Louisiana	N/A	8.50	~	N	Bill to increase stalled in Senate
Maine	7.50	Against raise	~	N	Initiative on November ballot to raise to 12.00 by 2020
Maryland	8.75		10.10 (2018)	N	
Massachusetts	10.00		11.00 (2017)	N	
Michigan	8.50		9.25 (2018)	Y	
Minnesota	9.00 / 7.25*		9.50/7.75 (Aug. 2016)	Y	
Mississippi	$7.25		~	N	
Missouri	7.65 / None*		~	Y	
Montana	8.05 / 4.00*		~	Y	
Nebraska	9.00		~	N	
Nevada	8.25 / 7.25**		~	Y	
New Hampshire	7.25	10.00	~	N	Bill to increase defeated in Senate
New Jersey	8.38		~	Y	
New Mexico	7.50		~	N	
New York	9.00	15.00	15.00 (2019-unspecified)†	N	Increase signed into law April 4, 2016
North Carolina	7.25		~	N	
North Dakota	7.25		~	N	
Ohio	8.10 / 7.25		~	Y	
Oklahoma	7.25 / 2.00*		~	N	
Oregon	9.75 / 9.50‡	14.50/13.25‡	13.50/14.75/12.50 (2022)§	Y	Increase signed into law March 2, 2016‖
Pennsylvania	7.25	10.15	~	N	Bills to increase stalled in legislature
Rhode Island	9.60	10.10	~	N	No action
South Carolina	N/A		~	N	
South Dakota	8.55		~	Y	
Tennessee	N/A		~	N	
Texas	7.25		~	N	
Utah	7.25		~	N	
Vermont	9.60		10.50 (2018)	Y	
Virginia	7.25		~	N	
Washington	9.47	13.50	~	Y	Proposed 2016 ballot initiative to increase
West Virginia	8.75		~	N	
Wisconsin	7.25		~	N	
Wyoming	5.15		~	N	

*** Second dollar amount applies only to smaller businesses**

**** Second dollar amount applies to businesses that offer health benefits**

† Applies to NYC large businesses by Dec. 31, 2018; NYC small businesses by Dec. 31, 2019; Nassau, Suffolk and Westchester Counties by Dec. 31, 2021; rest of the state on indexed schedule

‡ Second dollar amount applies to businesses within nonurban counties

§ First dollar amount is base rate, second dollar amount is Greater Portland area rate, third dollar amount is rate within nonurban counties

|| Governor Brown proposed a minimum wage increase and signed one into law before her address in April

Note: Minimum wage rates reflect current state law. For states with no minimum wage law and states with minimum wage rates below the federal minimum of $7.25, federal law preempts state law and workers earn at least $7.25 per hour.

Source: Current minimum wage and Actual Future Wage and Year data taken from Department of Labor Wage and Hour Division and National Conference of State Legislatures

Public Pension Reform
Leaders in state government have avoided the issue of unfunded pension liabilities for far too long. For many years, the ALEC Center for State Fiscal Reform has sounded the alarm, encouraging states to enact fundamental pension reform in order to protect workers and taxpayers alike. The traditional “defined-benefit” plans utilized by most states require the government—or the taxpayer—to pay former employees a fixed amount all throughout their retirement. In order to meet those obligations, states must continually save and invest. All too often, returns on those investments are much lower than projected, but that does not excuse the state from fulfilling its commitments, which must be paid for at some point down the road. The major problem with these defined-benefit plans is, in the words of former Utah State Senator Dan Liljenquist, “Their long-term health is subject to manipulation for short-term political gain.”[20]

The good news is that governors from both political parties are beginning to recognize the grave threat that unfunded liabilities pose to their state budgets, calling for reform in their State of the State addresses. The states whose governors outlined proposals to tackle this issue were California, Connecticut, Hawaii, Illinois, Kentucky, New Jersey, South Dakota and Virginia. The governors’ plans included auditing individual pension systems, boosting or changing funding to meet contribution requirements and even overhauling the general retirement design. Governor Bruce Rauner of Illinois promoted a plan that would give state employees the choice of higher cost-of-living adjustments (COLAs), but a lower pensionable salary, or a higher pensionable salary at the cost of lower COLAs in retirement.[21] South Dakota Governor Dennis Daugaard announced a new design for future employees that adds variable hybrid benefits and adjusts for longer life expectancies. Governor Chris Christie scolded his New Jersey legislature for considering a constitutional amendment that would give priority to pension payments over all other categories of spending, touting instead a plan put forward by a nonpartisan commission he had created earlier. That proposal would, among other things, freeze existing pension plans and align future benefits with those offered in the private sector.[22]

What is clear is that fundamental pension reform is needed. While a few governors seemed confident in their addresses that their plans would put their pension systems on the path to solvency, there is a tremendous amount of work to do.

Conclusion

The 2016 State of the State addresses were mostly encouraging, with many governors endorsing market-oriented economic policies. Several governors offered detailed proposals that would reduce tax burdens on citizens and businesses; responsibly prioritize spending; streamline government programs; and reform state pension systems. The fact that so many governors are calling for lower taxes is a very positive continuing trend that suggests many governors have come to the understanding that lower taxes put more money in the hands of citizens to spend and invest, allowing the economy to flourish and growing the tax base by making their states more attractive places in which to live and work.

Governors across the United States have the opportunity to implement economic policies which can greatly improve or impede the lives of their citizens. Given the pro-growth agenda that many governors have proposed, many states are on the way to a more free and prosperous economic environment that will benefit the lives of their citizens.

Summaries of Economic Policy Remarks by State

Below are summaries of the economic policy remarks the governors made during their 2016 State of the State addresses. Summaries are listed in alphabetical order by state. Included are the 2016 economic outlook rankings from *Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index* for reference. The *Rich States, Poor States* economic outlook ranking is a forward-looking measure based on a state's standing in the equally-weighted average of 15 important state policy variables. These variables include tax policy, regulatory policy and labor policy. (1=Best, 50=Worst)

Alabama – Governor Robert Bentley
Rich States, Poor States 2016 Economic Outlook Ranking: 21

Governor Robert Bentley noted several increased spending measures which he intended to include in his budget, which he claimed was balanced. The increases included a pay raise for teachers, school support personnel and state employees "with no strings attached" and also continued funding for the Alabama Law Enforcement Agency (ALEA).

The governor also announced the launch of Alabama's Great State 2019 Plan, which aims to tackle issues related to education, prison reform and health care. The plan includes doubling the amount of funding for Alabama's First Class Pre-K Program in the budget and provisions for the state's FUTURE Scholarship Plan, which is designed to help underprivileged students by providing state scholarship money. The governor said these programs will be financed through savings from earlier measures meant to streamline the state's community college system.

The plan also outlines additional streamlining measures for Alabama's workforce system to improve how the state trains workers and to cut the bureaucracy that "stands in the way of providing broadband access" to more state residents. Additionally, the plan includes significant prison reform through renovating state prisons. According to the governor, this will save the state significant funds through lower operational costs and higher staff and maintenance efficiencies. The plan also aims to increase the number of doctors practicing in rural areas of the state and includes a state tax credit of up to $5,000 for those classified as rural health care providers. Furthermore, the governor wants to work with the state's Congressional delegation to advocate for a federal tax credit of up to $50,000 for these same rural health care providers.

Despite his extensive plan for Alabama, the governor failed to discuss any significant pro-growth policy reforms that would improve the state's mediocre economic competitiveness. While working on government efficiency is important, Alabama should also be cutting taxes and looking for additional ways to reduce spending in order to bring more people, businesses and capital into the state.

Alaska – Governor Bill Walker
Rich States, Poor States 2016 Economic Outlook Ranking: 25

In order to address Alaska's alarming $3.5 billion budget deficit, Governor Bill Walker recommended spending reductions and tax increases. For example, the governor's proposed budget would reduce the state workforce to 2007 levels. Furthermore, the state is following a shared service concept similar to Ohio, where the number of employees who do similar tasks for different departments are reduced.

While these are commendable proposals, the governor also stated his support for re-establishing a personal income tax, which the state has not levied on its citizens since 1980. This is one of the most economically harmful taxes because it discourages work, and once implemented, could be subject to future increases. While this would be bad enough, Governor Walker also called for hikes to six other taxes. Specifically, he proposed increasing the Alcoholic Beverages Tax, Tobacco Tax, Motor Fuel Tax, Fisheries Business Tax, Fisheries Landing Tax and Mining License Tax. He also proposed removing the existing port fees credit deduction from the Cruise Ship Head Tax. While Alaska has ranked well in the *Rich States, Poor States* economic outlook rankings in previous years, the large number of tax increases Governor Walker proposed in his address are bound to hurt the state's economy and lead to the state falling further behind in economic competitiveness.

Arizona – Governor Doug Ducey
Rich States, Poor States 2016 Economic Outlook Ranking: 5

Arizona's 2016 State of the State address was an oasis of good ideas, many of which ended up becoming law. Governor Doug Ducey proposed reining in the regulatory arm of state and municipal government. He stated that, all too often, legislative success is measured by the number of bills passed, and asked the legislature to instead consider the proper role of government as they debated new laws. "Are we expanding freedom – or limiting it?" he asked. Specifically, Governor Ducey argued for deregulating businesses operating in the "gig economy" and reforming occupational licensing, stating that burdensome regulations are imposed by elites working to keep the "little guy" from competing.

Governor Ducey's address also highlighted his proposed budget, which prioritized vital commitments such as education and public safety. At the same time, the governor reminded the state that the amount of spending is not itself a measure of success, and that taxpayer dollars must be used wisely to create positive outcomes. He claimed his proposed budget was balanced, would eliminate waste and not raise taxes. In fact, the governor reiterated his commitment to continue cutting taxes year after year. "After all," he said, "it's the people's money, not the government's."

California – Governor Jerry Brown
Rich States, Poor States 2016 Economic Outlook Ranking: 46

Since the recent recession, California has gone through significant fiscal fluctuations. Despite claiming California had a considerable "temporary surplus," Governor Jerry Brown lamented the state's main source of revenue, stating "California has a very progressive but volatile income tax that provides 70 percent of General Fund revenues. If we are to minimize the zigzag of spend-cut-spend that this tax system inevitably produces, we must build up a very large reserve."

Simply put, rather than implementing stronger spending controls, which would allow for lower taxes and help make California more economically competitive, Governor Brown is seeking more revenue. While simultaneously demanding buildup of reserves, Governor Brown also proposed spending $2 billion of the state's supposed surplus on infrastructure. That amount would still be insufficient, however, and the governor stated California would "have to bite the bullet and enact new fees and taxes" to perform infrastructure maintenance.

One positive overture from the address was the recognition that unfunded pension obligations are a drag on the state's budget. "Retirement liabilities for pensions and lifelong health benefits for state workers and university workers total $220 billion," according to Governor Brown. "There is little satisfaction in the notion of chipping away at an obligation for three decades to pay for something that has already been promised. Yet, it is our moral obligation to do so." Morality aside, the financial obligation is considerable, and even more so when California's pension liabilities are calculated using more accurate private sector accounting methods.

Colorado – Governor John Hickenlooper
Rich States, Poor States 2016 Economic Outlook Ranking: 16

Few states have such a built-in tax and fiscal policy advantage as Colorado, with its Taxpayer Bill of Rights (TABOR). TABOR has reliably and consistently controlled spending and taxes in Colorado since the 1990s.[23] However, Governor John Hickenlooper's address made TABOR sound more like an obstacle than a useful tool. "No one can say with a straight face that our budget rules are working for us," lamented Governor Hickenlooper.

Proposing that the Hospital Provider Fee be designated an "enterprise," thereby exempting related revenue from counting against the limit on taxes and spending imposed by TABOR, he went on to note the ever-growing list of activities that count as enterprises. This begs the question: what good is a limit on taxes and spending if too many activities are exempted? However, Governor Hickenlooper appeared not to be concerned with this problem, asking instead, "If we can't make this very reasonable change [designating the Hospital Provider Fee an enterprise] – like many already allowed under TABOR – then what choice do we have but to re-examine TABOR?"

One choice is merely controlling spending, but Governor Hickenlooper's proposals provide little indication that he wishes to do so. He proposed new projects, such as a National Cybersecurity Intelligence Center in Colorado Springs, and said the state would have to find ways to generate new revenue in order to make necessary infrastructure improvements. He did, however, note a $20 million cut to higher education with no increases to financial aid, but expressed exasperation that limits on spending force officials into difficult choices. While the governor may wish he had a limitless stream of revenue, the taxpayer should not be forgotten, and state officials should absolutely have to make difficult choices and prioritize spending.

Connecticut – Governor Dannel Malloy
Rich States, Poor States 2016 Economic Outlook Ranking: 47

Connecticut's weak economy, driven by poor fiscal policy choices, has been limping along for years. Governor Dannel Malloy finally seemed to recognize the precarious situation in his address. In it, he spent considerable time outlining what he called his "Five Budget Principles," which were:

1. Limiting spending to available resources and requesting an enforceable spending cap
2. Reforming "unsustainable pension and post-employment costs"

3. Prioritizing funding for core services
4. Enacting agency reform, requiring transparency and accountability
5. Fixing the budget process itself to be more timely and open

Governor Malloy's address contained many solid proposals not typically heard in Connecticut lately. According to Governor Malloy, "state agencies must be accountable to the public and the legislature for their results" and "we need to make our budget more predictable, more sustainable and more transparent." His only spending proposal, for infrastructure maintenance, was discussed with the major caveat that a constitutional transportation lockbox must be the first priority on the issue.

Delaware – Governor Jack Markell
Rich States, Poor States 2016 Economic Outlook Ranking: 44

Governor Jack Markell recognized the importance of making Delaware an affordable place for small businesses and emphasized the need to develop ways to give companies greater incentives to invest in the state. The governor discussed his attempts to ease regulatory burdens and asked the General Assembly to pass legislation permitting citizens to fully utilize crowdfunding by helping small businesses use online platforms for Delaware residents to make investments. Governor Markell emphasized the need to modernize the state's tax code in order to give businesses a greater incentive to invest and expand in the state and applauded the House of Representatives for passing the Delaware Competes Act, which, as Governor Markell stated, "recognizes that we must change our corporate income tax laws so that Delaware is more competitive."

The governor also proposed increasing funding to raise starting salaries for teachers and to hire health care professionals to help fight the problem of drug addiction. Additionally, he affirmed the need to deal with rising costs associated with heath care, noting that the 50 percent rise in spending on employee health plans since the start of the decade is "not a sustainable trend for taxpayers." However, he did not specifically outline any spending cuts or provisions to bring down rising health care costs.

Florida – Governor Rick Scott
Rich States, Poor States 2016 Economic Outlook Ranking: 8

Building on the economic success low taxes have brought to Florida's economy, Governor Rick Scott heavily emphasized the need to keep cutting taxes, stating that "With record state revenues, we have the opportunity to diversify our economy and help our small businesses grow by cutting taxes by $1 billion." As part of the governor's tax reform package, he proposed cutting the commercial lease tax, which he said unfairly targets small and large businesses alike and prevents them from reinvesting more money into their businesses. Governor Scott also indicated he would like to get rid of the tax completely in the future. In addition, the governor proposed that the state permanently end the sales tax on manufacturing machinery and equipment.

While a majority of the governor's proposals were pro-taxpayer, it was concerning to see such reliance on government's ability to pick winners and losers through the proposed $250 million to create the Florida Enterprise Fund. Florida's policy climate is strong enough, and has a proven record of fostering business growth without government micromanagement.

Overall, between Florida's strong economic outlook, and Governor Scott's proposed $1 billion tax cut, Florida should continue to see strong economic growth in the future.

Georgia – Governor Nathan Deal
Rich States, Poor States 2016 Economic Outlook Ranking: 19

Governor Nathan Deal compared his state to a ship that had been "severely battered by the storms of the Great Recession." After arguing that the state had made a solid recovery, the governor made a series of spending proposals, especially in the area of education. He proposed $17.1 million in workforce training programs, $58.3 million toward a program that allows high school students to attend postsecondary institutions and salary increases for teachers. More than $300 million in new spending was proposed in his budget for K-12 education. He also planned for salary increases for all state employees.

Like other governors, Governor Deal expressed concern about rising health care costs. He stated that the cost of Medicaid had increased 15.7 percent since fiscal year 2013. For this reason, the governor is against Medicaid expansion, which he said would have cost $209 million in this year's budget alone, a number that "would only continue to grow exponentially." Governor Deal is one governor who understands the burdensome costs of the Affordable Care Act, reminding Georgia of the millions of dollars it takes to comply with federal requirements.

While declining to expand Medicaid will help control spending growth in the future, the significant amount of spending proposals in Governor Deal's address are concerning, especially considering the absence of any commitment to fundamental spending or tax reform in the state. Georgia should be careful to live within its means and look for ways to cut taxes to improve its economic competitiveness.

Hawaii – Governor David Ige
Rich States, Poor States 2016 Economic Outlook Ranking: 42

Governor David Ige discussed pension reform and creating an innovative economy in his State of the State address. To address Hawaii's pension woes, the governor asked the legislature to make 100 percent of the annual required contributions to the state's pension fund, as opposed to the customary 60 percent for the next two fiscal years. Governor Ige estimates this would save the state more than $300 million in required contributions over the next 20 years.

Governor Ige also proposed supporting accelerator and venture fund activities in the state. In regards to creating an innovative economy, the governor proposed setting aside $30 million from Hawaii's corporate tax revenue over the next six years to support "innovation enterprises." In other words, the state would pick winners and losers in the marketplace by taking revenue earned by some companies and transferring it to other companies. This is cronyism, something all states should avoid, and a plan which is unlikely to help Hawaii improve its poor economic competitiveness.

Idaho – Governor C.L. "Butch" Otter
Rich States, Poor States 2016 Economic Outlook Ranking: 15

Increasing education spending was a prominent theme in Governor Butch Otter's State of the State address. He called for a 7.9 percent spending increase in public K-12 school funding. While the School Improvement Task Force recommended increasing school district operating funds back to pre-recession levels in the next five years, Governor Otter wants to achieve this target in the next three years. In addition, the governor recommended a 9.6 percent increase in funding for community colleges and an 8.8 percent increase for four year institutions.

While providing children with a quality education is an important priority for state governments, it would have been reassuring had Governor Otter detailed plans to reduce spending in other areas to offset his new spending proposals and offered broad-based tax cut proposals to help bring more residents and businesses to the state.

Illinois – Governor Bruce Rauner
Rich States, Poor States 2016 Economic Outlook Ranking: 43

Governor Bruce Rauner strongly asserted that Illinois must take steps to reduce the burden of property taxes on state residents. The governor noted that jobs and people are continuing to move out of the state, resulting in a shrinking tax base providing less tax revenue. In order to offset this trend, Governor Rauner echoed parts of his 2015 State of the State address, calling for a reduction of the property tax and stating that local governments must be given the necessary tools to help control property costs.

The governor recommended a number of ways in which the state can cut costs. He recognized the state's workers compensation system as "the biggest factor driving our job losses" and recommended decreasing and aligning workers compensation costs with other states, like Massachusetts, which could save taxpayers more than $300 million per year. Governor Rauner also recommended restoring the "balance between taxpayers and state government," noting that state employees are paid almost 30 percent more than the average private sector worker.

The governor also announced the need to focus on pension reform, stating "we have the worst pension liability in the nation." He went on to announce that he and Senate President John Cullerton had agreed to support a pension proposal that would save $1 billion per year from four of the state pension plans.

Indiana – Governor Mike Pence
Rich States, Poor States 2016 Economic Outlook Ranking: 6

Indiana's economic competitiveness has improved significantly in recent years on account of tax cuts, responsible levels of spending and enacting right-to-work. This year, Governor Mike Pence's State of the State address emphasized the need for low taxes and infrastructure investments in order to support a growing economy. The governor asked for $1 billion over four years for state road and bridge improvements with an additional $400 million for local roads. He also pitched the idea of building a fourth port in the state.

Governor Pence also made education a priority, supporting a scholarship program that would cover up to $7,500 in tuition every year for top students who would commit to teaching in the state for five years. Fortunately, the governor stated these new investments could be paid for without raising taxes.

Iowa – Governor Terry Branstad

Rich States, Poor States 2016 Economic Outlook Ranking: 29

In his State of the State address, Governor Terry Branstad proposed what he called a tight budget designed to maintain the stability of the state. One of the growing costs within the budget is Medicaid, for which the governor plans to implement managed care. In his view, a tightening of the belt in areas such as these will allow for his proposed $145 million increase in pre-K through 12th grade funding, as well as spending increases for school infrastructure and water quality.

While it is important to look for ways to operate government programs more efficiently, Iowa needs more than that to significantly improve its economy. The state has had only a mediocre economic competitiveness ranking for years and needs to make fundamental pro-growth reforms such as cutting taxes to better compete for residents, jobs and capital.

Kansas – Governor Sam Brownback

Rich States, Poor States 2016 Economic Outlook Ranking: 27

Governor Sam Brownback has been defending his state's controversial tax reform package since its passage in 2012. He continued to do so in his State of the State address, detailing the positive results of the cuts. The few new proposals offered by the governor included strengthening the lid on property taxes by "closing existing loopholes and [putting] it in place sooner."[24] In a state with such a large agricultural sector, property tax relief would serve to keep struggling farms in business, and is a better solution than additional subsidies.

Kentucky – Governor Matt Bevin

Rich States, Poor States 2016 Economic Outlook Ranking: 33

Newly elected Governor Matt Bevin outlined his vision for a new, fiscally sound, strong and responsible state government in his 2016 State of the Commonwealth Budget Address. The governor emphasized that Kentucky cannot ignore its debt problems any longer and that balancing the state budget, along with controlling state spending and pension reform, should be among Kentucky's top priorities this year. Governor Bevin put forth a budget proposal that would cut spending for the remainder of fiscal year 2016, which was already half over when he delivered his address. These spending reductions constituted a 4.5 percent cut to non-exempted spending in the budget. These same cuts would continue for the next two fiscal years, resulting in a 9 percent annual reduction in non-exempted spending.

While emphasizing the need for meaningful spending cuts, Governor Bevin noted a significant number of government programs and benefits that would be exempted. Some exemptions included veteran's affairs, school district health insurance, Medicaid, state pension funds, dedicated coal severance programs and "other necessary government expenditures." In fact, according to the governor, the vast majority of state budget spending would be exempted.

The governor took time to emphasize the need for sweeping pension reform, stating "we are going to start by auditing every single one of the pension systems." Auditing these state pension systems should give Kentucky a true assessment of each individual pension plan in order to fully understand the size and scope of the state's pension liabilities. Governor Bevin also stated that the budget bill he would put forward would not allow for pension funds to be diverted for any other use, along with other appropriated funds specifically outlined in the budget.

Governor Bevin's sound fiscal policy proposals will help get the state back to a better financial situation. Unfortunately, the governor also stated that due to the significant budget deficit the state faces, his budget did not include any tax cuts, stating "I would love to see tax cuts… We can't afford them right now."

Louisiana – Governor John Bel Edwards
Rich States, Poor States 2016 Economic Outlook Ranking: 28

In his first year, Governor John Bel Edwards faced one of the largest budget deficits in the history of Louisiana. In his address, Governor Edwards spoke about his and the legislature's efforts to solve the problem, saying that the process and final results were "lacking." He argued that new revenue was required in addition to budget cuts. He also said the fiscal situation was difficult to calculate due to last-minute changes to legislation, but next year's deficit would be "well over $800 million." This, according to the governor, would not allow the state to fund its critical priorities through the general fund.

Despite the difficulties, Governor Edwards planned to propose "meaningful budget and tax reform solutions" that included increasing efficiency and savings by conducting a "comprehensive review of contracts and programmatic changes." Encouragingly, he also called for returning control of education to local school boards and restructuring the Department of Children and Family Services. However, Governor Edwards also proposed significant increases in transportation and infrastructure spending.

Governor Edwards touted his executive order that expanded Medicaid under the Affordable Care Act. Although this will make the state more dependent upon federal dollars, the governor claimed the expansion will stimulate the local economy, improve the workforce and ultimately save money. He also mentioned several reforms to Medicaid that would make "personal responsibility for health" a fundamental element of the program. These include "charging copays, providing premium assistance, requiring work referrals and promoting healthy behaviors." Later in his address, Governor Edwards used familiar rhetoric like the importance of a "living wage" to propose raising the minimum wage from $7.25 to $8.50 per hour by January 2018.

Louisiana – Governor John Bel Edwards (Special Session)
Rich States, Poor States 2016 Economic Outlook Ranking: 28

Governor Edwards did not take much time in his 2016 State of the State address to discuss the state's fiscal issues and problems, but he did discuss them earlier in detail in an opening address to the state's special session given in February. The governor discussed the importance of controlling the state budget and referred to a number of different areas where funding is being threatened by the fiscal instability of the state.

While highlighting the need to fix Louisiana's budget crisis, Governor Edwards proposed a long list of tax increases, which he attempted to justify on account of the state's current $940 million deficit and what he claimed would be a $2 billion deficit next year. These new tax policies include an increase in alcohol and cigarette taxes, suspending corporate tax deductions and reducing business and investment tax credits across the board. He also proposed "adding one penny of sales tax" (or 25 percent) to what was, at that time, the state's four cent statewide sales tax, a proposal which was later adopted and went into effect April 1.

Maine – Governor Paul LePage
Rich States, Poor States 2016 Economic Outlook Ranking: 38

In lieu of a direct address in front of the Maine State Legislature, Governor Paul LePage gave his State of the State address in a letter addressed to the President of the Senate, Speaker of the House and the rest of the body. In the letter, Governor LePage reiterated his desire to reduce Mainers' tax burdens. He specifically noted a continued desire to "lower the income tax rate to 0% over time" and "eliminate the death tax once and for all." In fact, Governor LePage noted his preference for tax cuts compared to a minimum wage increase, stating he "wants to give a pay raise to all working Mainers." In an effort to attract and keep young workers, Governor LePage also proposed a student loan repayment scheme wherein businesses that repay employees' student loans will receive a "dollar-for-dollar tax credit."

Governor LePage should be commended for fighting to abolish both Maine's death tax and income tax. If these taxes were repealed, the state would improve dramatically in economic competitiveness, leading to more residents and businesses moving in to the state and greater job growth. Like New Hampshire, Maine could be a refuge for taxpayers, businesses and capital fleeing the poor tax and fiscal policies adopted by most Northeast states.

Maryland – Governor Larry Hogan
Rich States, Poor States 2016 Economic Outlook Ranking: 31

Governor Larry Hogan, Maryland's second Republican governor in nearly 50 years, laid out an extensive tax and fiscal policy agenda in his State of the State address that should help improve the state's economic competitiveness. A year after delivering the first state budget in nine years that was free from tax hikes, Governor Hogan proposed additional policies meant to lift the economy and "improve the lives of those who need it most." He called for tax relief on retirement income, an acceleration of the Earned Income Tax Credit and the elimination of dozens of fees.

Additionally, Governor Hogan called for eliminating unnecessary regulations and prioritizing government spending. He outlined specific proposals in this regard, highlighting the need to reduce the amount of money the state borrows. He also argued that mandated spending increases should be reduced during those years in which revenues do not match expectations, in order to ensure the availability of funds for education and health care during tough times. Governor Hogan's future spending plans focus on transportation, including $2 billion toward various infrastructure projects.

Massachusetts – Governor Charlie Baker
Rich States, Poor States 2016 Economic Outlook Ranking: 26

As a governor seeking to improve his state's competitiveness in a region run by the tax-and-spend establishment, Governor Charlie Baker is in a difficult position. Despite saying that "the people of [Massachusetts] live within their means, and [the government] should too," the state's persistent tension between spending and reform was reflected in his address.

While noting that his budget would not raise taxes or fees, Governor Baker also expressed a desire to increase local and education aid, as well as pass an economic development package to spend $75 million on technical schools. Further, the governor's budget would endeavor to add money to Massachusetts' Stabilization Fund, the state's rainy day fund. Lastly, reacting to a disastrous winter storm, Governor Baker proposed doubling capital investment in Boston's mass transportation infrastructure.

Michigan – Governor Rick Snyder
Rich States, Poor States 2016 Economic Outlook Ranking: 22

Much of Governor Rick Snyder's State of the State address was understandably dedicated to the water crisis in Flint. The situation prompted the Governor to request a $28 million supplemental appropriation for Flint, with $22 million from the general fund, noting that more budget requests were on their way.

This led into a discussion of a broader infrastructure challenge across the state. Governor Snyder stated that Michigan's infrastructure, which was given a D rating by the American Society for Civil Engineers, is in need of attention. He called for more spending to improve roads, bridges and pipes—many of which are more than 100 years old. To tackle these and other challenges, Governor Snyder plans to create the Commission for Building the 21st Century Infrastructure.

He also called for spending in the area of intelligent vehicles in order to maintain the state's leadership in the auto industry. In other matters, the governor highlighted the need for Detroit Public Schools to overcome its $515 million debt, which is preventing resources from reaching the classroom.

Minnesota – Governor Mark Dayton
Rich States, Poor States 2016 Economic Outlook Ranking: 45

In his 2016 State of the State address, Governor Mark Dayton declared that his "number one priority" for the session was to "protect the fiscal integrity of our state government." He went on to propose spending increases and hinted at possible tax hikes for Minnesota's wealthiest residents. However, the governor did state his support for tax reductions for middle income Minnesotans and expressed his desire to increase the child care tax credit. Additionally, he showed support for federal tax conformity which he claimed will reduce state income taxes for many Minnesota residents. Unfortunately, Governor Dayton did not shy away from showing support for his previous tax hikes on Minnesota's wealthiest residents, claiming that "our budget surpluses have resulted entirely from the income tax increases on the wealthiest 2 percent of Minnesotans."

Touting a $900 million dollar budget surplus, the governor proposed a number of spending increases. He specifically highlighted the need to spend more money on the state's transportation systems to improve highways, roads and bridges.

Mississippi – Governor Phil Bryant

Rich States, Poor States 2016 Economic Outlook Ranking: 17

Governor Phil Bryant delivered his State of the State address just a couple months after imposing 1.5 percent cuts on many state agencies and transferring $35 million from the Rainy Day Fund to the General Fund in order to adjust to the 2016 revenue estimate that was reduced by $65 million. Governor Bryant demonstrated a commitment to fiscal discipline, saying that he was willing to transfer additional funds and make more cuts if revenue continued to fall short of expectations. He said a review of state spending during recent years led him to the conclusion that "it is time to slow down the growth of government and give some relief to hardworking taxpayers." He called for a tax dividend for blue-collar families once the state returned to a budget surplus with a full savings account and proposed using state revenue to fund a school voucher program.

While the governor did call for an increase in the fuel tax in order to maintain roads and bridges, he said this would be offset with an "equal and sufficient" tax reduction that would not apply to large corporations. From his address, it is unclear what that tax reduction is, why it would not apply to large corporations and how "large corporations" are defined. Other new spending proposals included $50 million toward workforce training and the funding of a separate Family and Children's Services agency, currently housed in the Department of Human Services.

Missouri – Governor Jay Nixon

Rich States, Poor States 2016 Economic Outlook Ranking: 24

While many governors proposed budgetary constraints and tax relief, others, like Missouri Governor Jay Nixon, proposed all sorts of spending proposals. Governor Nixon made clear in his address that he believes Missouri has been fiscally responsible, claiming balanced budgets for the past seven years and said the state "will continue on that path under my budget." However, most of his proposals included new spending initiatives, including $5 million to expand ports, a $150 million increase to education spending, $56 million in "performance funding" to suppress public university tuition rates and an increase of $200 million to spending on disability and mental illness services. Governor Nixon also alluded to expanding Medicaid, which will put an ever-increasing burden on the state budget as the federal government begins phasing down its matching contributions. One accomplishment of note, however, is Missouri's shrinking government workforce, which, according to Governor Nixon, "will keep getting smaller."

Nebraska – Governor Pete Ricketts

Rich States, Poor States 2016 Economic Outlook Ranking: 32

If his State of the State Address is any indication, Governor Pete Ricketts' fiscal priorities are very clear and should help the state deal with its fiscal challenges without diminishing its economic competitiveness. He expressed desire to "make structural changes to property taxes" and "deliver property tax relief" to Nebraskans. Further, he proposed managing the budget not by raising taxes, but by controlling spending. To deal with a budget shortfall, Governor Ricketts proposed tightening the belt, "returning re-appropriated funds to the state's general fund" and "transferring money from the banking and insurance cash funds into the general fund." Most importantly, because of the Federal Government's inability to keep spending commitments and unsustainable long-term prospects, he warned against Medicaid expansion.

New Hampshire – Governor Maggie Hassan
Rich States, Poor States 2016 Economic Outlook Ranking: 23

In her final State of the State address, Governor Maggie Hassan proposed increasing the minimum wage and implementing a 10-year transportation plan. Governor Hassan did not specify how much she would increase the current minimum wage, but any increase would have the usual effect of restricting job growth. Under the transportation plan, the governor proposed spending $3.7 billion over the next 10 years for infrastructure. Governor Hassan wants more funding for the Capitol Corridor Rail project, which would create a commuter rail between Boston, Massachusetts and Nashua, New Hampshire. Governor Hassan's spending and minimum wage proposals are a cause for concern regarding the economic future of New Hampshire and are not the type of pro-growth reforms the state needs to be more economically competitive.

New Jersey – Governor Chris Christie
Rich States, Poor States 2016 Economic Outlook Ranking: 48

After touting improvements in the management of New Jersey during his time in office—with much progress yet to be made—Governor Chris Christie addressed the issue of pension reform, a major topic in his State of the State last year. The governor chided members of the legislature who had only 24 hours earlier voted for a constitutional amendment that would guarantee pension payments over all other categories of spending. Were such an amendment to pass, Governor Christie argued, massive tax increases would be required to keep up spending in other areas and not "savage the lives of all New Jerseyans." According to Governor Christie, the amendment would cost $3 billion. In his trademark direct style, he asked, "Who are you going to steal this money from in New Jersey?" Instead, the governor asked the legislature to consider a pension reform plan previously put forward by his non-partisan commission.

Governor Christie called for additional spending to expand the Recovery Coach Program for overdose victims and announced a "historic financial commitment of more than $100 million to increase access to care for mental health and substance use," long a priority for the governor. His plans to bolster the state economy include finally abolishing the Estate Tax, which the state imposes along with an inheritance tax. He also announced plans to "aggressively prioritize regulatory relief for charter schools."

New Mexico – Governor Susana Martinez
Rich States, Poor States 2016 Economic Outlook Ranking: 34

New Mexico is one of several states coping with budget shortfalls due to suppressed severance tax revenue. "I recognize that revenues are uncertain due to persistently low energy prices, and that most agency budgets will have to be held flat," said Governor Susana Martinez. "This means that, with the limited new revenue we will have, we have to prioritize more – and better." Governor Martinez did not propose tax increases, instead promoting the idea of tax reforms that encourage growth, particularly with small business.

However, she did offer multiple new spending proposals, including $15 million for new pre-Kindergarten classrooms and reading programs, maintaining the state's $50 million closing fund to entice businesses to move into New Mexico and creating a rapid workforce development fund. The Governor also requested more education spending in the form of a higher minimum salary for teachers ($36,000 per year) and $15,000 scholarships for college students who pledge to teach in New Mexico. Committed to worker freedom, Governor Martinez's most important reform was demanding that New Mexicans should not be forced to join a union or "give money to one just to have a job."

New York – Governor Andrew Cuomo

Rich States, Poor States 2016 Economic Outlook Ranking: 50

In his State of the State address, Governor Andrew Cuomo proposed increasing education spending, a tax cut for small businesses, an efficiency competition and increasing the minimum wage. In regards to spending, Governor Cuomo wants to increase K-12 spending by $2.1 billion over the next two school years. The governor also supports raising the minimum wage to $15.00 per hour for all workers in New York City by December 31, 2018 and by July 1, 2021 for workers in the rest of the state. In addition, the governor announced that the State University of New York (SUNY) will increase the minimum wage for their employees to $15.00 per hour, although he did not specify a time frame in his address. Governor Cuomo also proposed an efficiency competition with local governments. Counties, cities, towns and villages are encouraged to create consolidation partnerships to help reduce the property tax. The consolidation partnership that has the greatest reduction in property taxes will receive $20 million from the state.

Finally, the governor discussed reducing taxes for certain small businesses. For small businesses that file under the corporate tax code, the governor proposed cutting the net income tax rate from 6.5 percent to 4 percent by January 1, 2017. Small businesses that qualify for this cut must have fewer than 100 employees, with net income below $390,000. For small businesses that file under the personal income tax code, such as sole proprietors and other pass-through entities, Governor Cuomo proposed increasing the income exemption from 5 percent to 15 percent. Partnerships, S-corporations and LLCs can also qualify, as long as some of their business income is from a business entity with less than $1.5 million in gross receipts, and their total business income is below $250,000. The tax proposal is estimated to affect more than one million businesses, but the savings will not make up for the increased labor costs imposed by the governor's minimum wage increases.[25]

Ohio – Governor John Kasich

Rich States, Poor States 2016 Economic Outlook Ranking: 18

Governor John Kasich emphasized the need to continue promoting fiscal responsibility but also advocated for what he described as "common sense regulations" to continue the progress Ohio has made under his leadership. On taxes, the governor stated he will send the Ohio General Assembly legislation to put more money in the pockets of hard working citizens by "accelerating the benefits of income tax cuts we passed last year." This would be done by decreasing the income tax withholding in workers' paychecks and equally decreasing the size of their tax refund when they file income tax returns. Governor Kasich also proposed a comprehensive tax reform package for early next year which he hopes will include additional income tax cuts and other tax reforms to "better align our tax code with the way Ohio works in today's economy."

The governor proposed a number of spending and reform measures. Many of them referred to K-12 and higher education such as expanding the scope and size of the states STEM education program. Governor Kasich also continued to show his support for Common Core initiatives, stating that Common Core has created "tougher standards" for students to aspire to. In addition, the governor defended the expansion of Medicaid stating that "we've worked hard to improve the system's quality and accountability so taxpayers get the value they deserve."

Oklahoma – Governor Mary Fallin
Rich States, Poor States 2016 Economic Outlook Ranking: 10

At the time of Governor Mary Fallin's State of the State Address, Oklahoma was facing a budget deficit that could not be ignored. "We must start with the budget," Governor Fallin said. "We have tough decisions ahead, folks. We need to roll up our sleeves and do the hard work." One of the few addresses that included visual aids, Governor Fallin's address was clearly intended to provide a road map for state legislators, even going so far as to evoke traffic light imagery. The "red light" budget reflected the result of doing nothing differently, while the "yellow light" budget reflected slight cuts and dipping into the state's Rainy Day Fund. Neither was considered optimal by Governor Fallin.

Governor Fallin's proposal was the green light plan, which included a series of proposals. Among them were adjustments to the tax code, such as increasing the discriminatory tax on cigarettes (an estimated $181.6 million in new annual revenue) and adjusting and eliminating some sales tax exemptions ($200 million). The governor also called for Congress to pass a uniform system for applying sales taxes to online purchases, which would be highly burdensome to online retailers. It would be an especially large obstacle to small businesses that are seeking to use the internet as a tool for growth.

On a positive note, the proposed green light plan also included across-the-board spending cuts of 6 percent, although certain areas would only see a 3 percent cut. Especially encouraging was Governor Fallin's proposal for priority-based budgeting, under which an estimated $40 million would be returned to the General Fund from noncritical functions annually. Additionally, proposed reforms to bureaucracy and the appropriations process were estimated to allow Oklahoma to recover hundreds of millions of dollars.

It is worth noting that Governor Fallin's address came one month after the top income tax rate fell from 5.25 to 5 percent, thanks to a trigger law passed in 2014. Some lawmakers later voted to roll back the cut, but their efforts failed as the governor and others supported keeping the tax cut in place. A vote for the law in 2014 was a vote for smaller government, and the change this year pressures lawmakers to honor that commitment.

Even in a time of fiscal distress, however, the address contained new spending initiatives. Governor Fallin proposed a $10 million appropriation increase to the Department of Corrections, $178 million in new education money, including a permanent teacher pay raise of $3,000, and $120 million in new money to complete repairs and renovation of the Capitol building. Although not mentioned in her address, in November voters will be asked to accept or reject a ballot measure that would implement a one penny addition to the state sales tax, an increase of more than 20 percent designed to generate additional revenue for education funding.[26]

Oregon – Governor Kate Brown
Rich States, Poor States 2016 Economic Outlook Ranking: 41

Governor Kate Brown proposed supporting small business and increasing infrastructure spending in her State of the State address. The governor wants to encourage entrepreneurship through two state economic development agencies, her Small Business Advisory Cabinet and Business Oregon. Her plans to use these agencies to spur economic growth are immediately suspect due to the potential for cronyism. Rather than use state funds to support select "innovative startups and entrepreneurs," the state should pursue broad-based reforms to make the state more competitive as a whole.

Governor Brown also voiced her support for more infrastructure spending, although she did not specify how much her transportation plan would cost. Despite proposing additional spending, she failed to provide any sound explanation of exactly how the state will be able to fund her proposed programs.

Pennsylvania – Governor Tom Wolf
Rich States, Poor States 2016 Economic Outlook Ranking: 39

Governor Tom Wolf declared that the Commonwealth is in crisis due to its $2 billion budget deficit. The governor regretted having to dedicate his entire speech to resolving the issue, stating that he would rather discuss proposals he favored such as raising the minimum wage and creating "partnerships" between the public and private sector. He said that if lawmakers couldn't find a way to meet the state's obligations, property taxes would continue to increase and painful cuts would have to be made.

Governor Wolf emphasized the need to raise more revenue, accusing Republicans of playing games to avoid doing so. The address consisted of much finger-pointing regarding the state budget woes, including the lack of a finalized budget for the previous year. The governor blamed Republicans for credit downgrades and for walking away from a supposedly bipartisan and agreeable budget deal. He also criticized Republicans for opposing spending increases. Finally, Governor Wolf said his pen was ready to sign a budget when lawmakers could create one that, in the governor's eyes, could finally be taken seriously.

Rhode Island – Governor Gina Raimondo
Rich States, Poor States 2016 Economic Outlook Ranking: 35

From an economic policy perspective, Rhode Island is a mixed bag. Governor Gina Raimondo's most recent State of the State address was one, too. The address contained many tax reform proposals as well as spending initiatives. Governor Raimondo proposed expanding the state's Earned Income Tax Credit and Research and Development tax credit, and also lowering unemployment insurance taxes on businesses, which she estimated would save Rhode Island businesses $30 million in the next year. The governor also proposed some deregulation in the form of expanded online permitting to make it “easier for businesses to operate.”

While admitting that “Rhode Island already ranks 7th in the country in spending” and “resources alone aren’t the answer,” Governor Raimondo made several new spending proposals. They include an additional $50 million toward schools, making the SAT free for all students and expanding the Wavemaker fellowship to incentivize Rhode Islanders to stay home and work in science and technology. To that end, the governor also proposed a “statewide competition funded by a bond initiative to build an innovation campus in Rhode Island.” One proposal in her budget to actually control spending is to target waste and fraud, particularly regarding Temporary Disability Insurance. Lastly, Governor Raimondo expressed desire for Rhode Island to raise its minimum wage to $10.10 per hour.

South Carolina – Governor Nikki Haley
Rich States, Poor States 2016 Economic Outlook Ranking: 30

After a year that included tragic shootings and massive flooding in South Carolina, Governor Nikki Haley delivered an optimistic address, calling the state of the state “bent but not broken.” Governor Haley cited the steady footing of South Carolina’s fiscal state, which had been achieved without raising taxes. The governor outlined a plan to recruit teachers to struggling rural districts by providing scholarships to students committed to teach in those areas, also offering to repay the student loans of recent graduates and cover the cost of graduate coursework. She noted the facilities problem facing K-12 school districts and proposed legislation that would permanently dedicate one percent of the state’s bond capacity to addressing it.

She also pushed for spending on roads, but firmly promised to veto any bill that did not reform the flawed Department of Transportation and cut taxes. Specifically, Governor Haley proposed cutting the income tax. She said her budget “includes every dollar needed to pay for this year’s tax cut.”

South Dakota – Governor Dennis Daugaard
Rich States, Poor States 2016 Economic Outlook Ranking: 11

Governor Dennis Daugaard’s State of the State address included detailed policy proposals across a range of issues. One key problem that the governor discussed was the shrinking public educator workforce. Governor Daugaard insisted that teacher salaries in South Dakota, the lowest in the nation, must be increased. To pay for it, he called for a one-half cent, or 12.5 percent, increase to the state sales tax. According to the governor, the increase would generate $40 million more in revenue than actually needed, which he said could be applied toward property tax relief.

Governor Daugaard acknowledged the pension crisis that is plaguing states across the nation. He said that South Dakota should be proud of its system, stressing that it is “among the best-funded retirement systems in the nation.” However, to avoid complacency, the governor described a new retirement design for public employees who begin working after June 2017, stating that “The new design accommodates longer life expectancies, adds variable hybrid benefits and eliminates inequitable subsidies.” He affirmed that both the new design and the current design would be self-sustaining.

One controversial topic the governor approached was Medicaid. On one hand, he was clear about his opposition to the Affordable Care Act, saying that “the law needs to be repealed or significantly changed.” On the other hand, he was working on a plan to use the law to expand Medicaid in his state. Governor Daugaard’s justification for this stance is that “at the state level, we do not make federal policy. It’s our responsibility to understand the federal programs as they exist and to make the best decisions for our state.” He also argued that expansion is necessary to improve health care for Native Americans and cover 50,000 South Dakotans, all at no cost to the state’s general fund. He did call on the legislature to pass “trigger” language which would withdraw South Dakota from the Medicaid expansion program if the federal government changes the deal South Dakota has been working out with federal officials about reimbursement to the state for services provided to Indian Health Service enrollees. While the governor may see Medicaid expansion as fiscally responsible for South Dakota, it would create significant new costs down the road for the state and lead to more reliance on federal funds.

Finally, Governor Daugaard described multiple construction and investment projects already underway and announced upcoming bills to cut red tape from the statute books.

Tennessee – Governor Bill Haslam
Rich States, Poor States 2016 Economic Outlook Ranking: 7

Governor Bill Haslam outlined in detail many of his spending proposals for the coming year. These include $60 million for salary increases to state employees, $232 million to fix state educational facilities, $350 million in one-time funds for new buildings, $10 million for Labor Education Alignment Program (LEAP) grants, $20 million to help schools meet the demand for degrees and certificates, $30 million to provide teachers with year-round health insurance, $9 million toward a network of literacy coaches and a doubling of the funds to improve technology in the schools. Higher education would receive $390 million in new dollars and $414 million would go toward K-12 schools and teacher salaries. In other areas, the governor requested funding for security upgrades at the Military Department, as well as additional road troopers, drug recovery courts and veterans’ courts. He also proposed $10 million to go toward economic development in rural areas.

Despite the long list of new spending proposals, Governor Haslam discussed repaying old debts, including $262 million that was borrowed from the Highway Fund. Additional savings would be needed to fully fund other transportation projects. The governor also spoke about his concern with the growth of Medicaid, “which immediately takes up roughly half of any new recurring dollars.” He proposed additional spending in TennCare meant to increase efficiency and serve more people.

Utah – Governor Gary Herbert
Rich States, Poor States 2016 Economic Outlook Ranking: 1

As the top-ranked state for economic outlook in all nine editions of *Rich States, Poor States*, Utah’s fiscal house has long been in order, with the state typically living within its means. There were few new economic policy proposals, but Governor Gary Herbert made clear that his budget called for no tax increases and no new debt, and in fact proposed paying off $350 million of existing debt. Governor Herbert did request new spending on long-term water solutions, but no specific cost was given. Bureaucratic reform was also on the agenda, including the proposed repeal of dozens of obsolete executive orders and the request to eliminate similarly unnecessary code sections in the state code.

For years, Utah has been a great example of the benefits that come from pro-growth tax and fiscal policies. While Governor Herbert did not make any proposals that would harm the state economy or impact its progress, it would have been good to see some more proposals that would specifically help Utah continue to build on the remarkable progress their economy has made in recent years.

Vermont – Governor Peter Shumlin
Rich States, Poor States 2016 Economic Outlook Ranking: 49

In his final State of the State address, Governor Peter Shumlin discussed proposals regarding the Vermont Enterprise Fund, marijuana legalization and local school spending caps. The Enterprise Fund provides taxpayer dollars to incentivize businesses to come to Vermont or to stay in the state. This is an anti-free market proposal under which certain companies receive preferential treatment by the government. The governor discussed enhancing and expanding the fund, but he did not specify the level of funding or how the legislature would raise the funds.

Governor Shumlin also discussed legalizing, regulating and taxing recreational marijuana. A key part of the legalization proposal is to tax the sale of marijuana and use that tax revenue for government addiction programs. The governor did not elaborate on the structure or rate of this proposed tax in his speech.

Finally, Governor Shumlin proposed repeal of the local school spending caps the state assigns to each school district as outlined in Act 46. The governor proposed a one-year moratorium on the act's spending caps if outright repeal would not pass.

Virginia – Governor Terry McAuliffe
Rich States, Poor States 2016 Economic Outlook Ranking: 13

Governor Terry McAuliffe spent much of his State of the Commonwealth address discussing items from his proposed budget, many of which were increases to education spending. The governor promoted a $2.43 billion bond proposal meant to boost economic growth, in part through construction and research and development. He added that $850 million in bonds were designated for universities, while $214 million in bonds would be spent on community colleges to "strengthen and expand STEM and workforce programs." The budget would provide more than $1 billion in new education funding, bringing the total spent on education to $6.78 billion, "the highest level in the Commonwealth's history." Like too many other governors, Governor McAuliffe proposed expand Medicaid. He argued that "each month we are wasting $15 million in costs to state taxpayers that could be covered entirely with federal dollars" and pointed to other governors that have opted to expand the program.

On a positive note, Governor McAuliffe acknowledged the need to boost long term pension funds and said that his budget was a starting point toward a stable and sustainable program. His hope was that pension contributions could by fully funded by the end of the coming biennium. Governor McAuliffe also plans to spend additional funds on diversion and community-based services to reduce the juvenile correction population.

Washington – Governor Jay Inslee
Rich States, Poor States 2016 Economic Outlook Ranking: 36

In his State of the State address, Governor Jay Inslee proposed passing a minimum wage increase initiative, increasing salaries for educators and increasing the authority of the State Investment Board to address pay gaps between CEOs and employees. The minimum wage initiative he supported would increase the state's minimum wage from $9.47 an hour to $13.50 an hour by 2020. While this was sold as an effort to help workers, it would have the unfortunate effect of costing many low-wage workers their jobs and make it more difficult for businesses to succeed in the state.

The governor also proposed increasing salaries for educators. He discussed increasing the beginning salary for educators from under $36,000 to $40,000 per year, which would impact about 8,800 new educators. He also discussed providing a minimum 1 percent increase for all other educators. Governor Inslee plans to pay for the proposal by eliminating several tax credits.

In addition, the governor discussed increasing the authority of the State Investment Board to address salary gaps between CEOs and their employees. The Washington State Investment Board oversees investments for all state retirement plans. As a shareholder in the companies that the state invests in, the board has the authority to vote against executive compensation packages. Governor Inslee asked the investment board to exercise their voting authority to reduce the pay gap between CEOs and employees. He also encouraged the board to promote this policy with other states and institutional investors.

West Virginia – Governor Earl Ray Tomblin
Rich States, Poor States 2016 Economic Outlook Ranking: 37

Governor Earl Ray Tomblin took the time in his State of the State address to touch on promises he made in last year's address regarding paying off the state's post-employment debt. The governor stated that West Virginia is not only paying off their current bills, but also paying off workers compensation debts, as well as teacher and public employee retirement debts, all "without a single tax increase, while reducing tax burdens on West Virginia families." Continuing this effort, he introduced legislation to pay off workers compensation debt more than a decade ahead of schedule.

Unfortunately, Governor Tomblin went on to propose tax increases. These included an increase of 45 cents per pack to the tobacco tax and the elimination of sales tax exemptions on telecommunications, resulting in the state's 6 percent sales tax applying to cell phone and phone line usage. He claimed that these tax increases would generate more than $70 million and $60 million, respectively, in revenue and that his proposed budget would result in nearly a $7 million budget surplus by 2019.

Governor Tomblin also discussed a number of proposals to increase funding for education, proposed expanding and redirecting additional funds to the state's Learn and Earn workforce training program and discussed his request to the Federal Energy Regulatory Commission for a $2 billion investment in the Columbia Gas Mountaineer Xpress pipeline project. He also stressed that none of his proposed budget changes would use any money from the state's rainy day fund, nor include any across-the-board budget cuts.

Wisconsin – Governor Scott Walker
Rich States, Poor States 2016 Economic Outlook Ranking: 9

Governor Scott Walker commented on his tax and fiscal policy accomplishments in years past in his State of the State address, but did not propose any new specific tax increases or reductions. The governor mentioned that taxes on both property and income are down from when he took office and that the overall tax burden on Wisconsin residents has been reduced from where it was five years ago.

Governor Walker put a significant focus on the importance of getting more Wisconsin residents back into the workforce. He discussed the success Wisconsin's workforce training programs have had in achieving this goal, in part by putting restraints on some government benefits to give individuals a greater incentive to find jobs rather than continue to be dependent on entitlements. The governor noted Wisconsin now requires adults with children to be enrolled in a job training program before they can receive food stamps as an example of other possible reforms to come. He also pointed out that these programs benefit not only the unemployed, but also Wisconsin's taxpayers and employers.

Governor Walker also stressed the importance of continuing to support education, saying that "we need to do more to reform state government and put those savings into public education." He announced that the state would provide $3 million for dual enrollment programs through the Wisconsin Fast Forward program, which helps districts to partner with local technical colleges so students can get a jumpstart on their career plans. He also urged lawmakers to pass a legislative package to help lower the cost of higher education in Wisconsin.

Wyoming – Governor Matt Mead
Rich States, Poor States 2016 Economic Outlook Ranking: 4

In his State of the State address, Governor Matt Mead proposed giving the executive branch contingent borrowing authority of the state's rainy day fund, the Legislative Stabilization Reserve Account (LSRA). Taking advantage of the lack of rainy day fund guidelines, Governor Mead is seeking the ability to spend these funds on large economic development projects in an attempt to encourage businesses to expand to the state. However, no fund, let alone the state's rainy day fund, should be used to offer special economic rewards to specific businesses and industries.

Finally, Governor Mead again argued for Medicaid expansion despite its failure in the legislature last session. Expanding Medicaid would increase the state's dependency on resources from the federal government and create a burden on the state down the road.

Appendix

ALEC PRINCIPLES OF TAXATION

The proper function of taxation is to raise money for core functions of government, not to direct the behavior of citizens or close budget gaps created by overspending. This is true regardless of whether government is big or small, and this is true for lawmakers at all levels of government.

Taxation will always impose some level of burden on an economy's performance, but that harm can be minimized if policymakers resist the temptation to use the tax code for social engineering, class warfare and other extraneous purposes. A principled tax system is an ideal way for advancing a state's economic interests and promoting prosperity for its residents.

The goal of American tax policy should be to raise revenue for functions of government in a way that minimizes distortions, so as to grow the overall economy and facilitate commerce.

Guiding principles of taxation

The fundamental principles presented here provide guidance for a neutral and effective tax system; one that raises needed revenue for core functions of government, while minimizing the burden on citizens.

- Simplicity – The tax code should be easy for the average citizen to understand, and it should minimize the cost of complying with the tax laws. Tax complexity adds cost to the taxpayer, but does not increase public revenue. For governments, the tax system should be easy to administer, and should help promote efficient, low-cost administration.
- Transparent – Tax systems should be accountable to citizens. Taxes and tax policy should be visible and not hidden from taxpayers. Changes in tax policy should be highly publicized and open to public debate.
- Economic Neutrality – The purpose of the tax system is to raise needed revenue for core functions of government, not control the lives of citizens or micromanage the economy. The tax system should exert minimal impact on the spending and decisions of individuals and businesses. An effective tax system should be broad-based, utilize a low overall tax rate with few loopholes, and avoid multiple layers of taxation through tax pyramiding.
- Equity and Fairness – The government should not use the tax system to pick winners and losers in society, or unfairly shift the tax burden onto one class of citizens. The tax system should not be used to punish success or to "soak the rich," engage in discriminatory or multiple taxation, nor should it be used to bestow special favors on any particular group of taxpayers.
- Complementary – The tax code should help maintain a healthy relationship between the state and local governments. The state should always be mindful of how its tax decisions affect local governments so they are not working against each other – with the taxpayer caught in the middle.
- Competitiveness – A low tax burden can be a tool for a state's private sector economic development by retaining and attracting productive business activity. A high-quality revenue

system will be responsive to competition from other states. Effective competitiveness is best achieved through economically neutral tax policies.
- Reliability – A high-quality tax system should be stable, providing certainty in taxation and in revenue flows. It should provide certainty of financial planning for individuals and businesses.

Benefits of a principled tax burden

Since taxes lower the economic welfare of citizens, policymakers should try to minimize the economic and social problems that taxation imposes. Citizens then directly gain the benefits of a low tax burden. These benefits are summarized below:

- Greater economic growth – A tax system that allows citizens to keep more of what they earn spurs increased work, saving and investment. A low state tax burden would mean a competitive advantage over states with high-rate, overly progressive tax systems.
- Greater wealth creation – Low taxes significantly boost the value of all income-producing assets and help citizens maximize their fullest economic potential, thereby broadening the tax base.
- Minimize micromanagement and political favoritism – A complex, high-rate tax system favors interests that are able to exert influence in the state capitol, and who can negotiate narrow exemptions and tax benefits that help only limited taxpayers and not the general economy. “A fair field and no favors” is a good motto for a strong tax system.

Amended by the Task Force on Tax and Fiscal Policy at the Spring Task Force Summit on April 23, 2010. Amendments approved by the ALEC Board of Directors on June 3, 2010.

Re-Adopted by the Task Force on Tax and Fiscal Policy at the Spring Task Force Summit on May 15, 2015. Approved by the ALEC Board of Directors on June 29, 2015.

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