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# **State of the States**

An Analysis of the 2017 Governors' Addresses



# CENTER FOR STATE FISCAL REFORM

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TAX AND BUDGET SOLUTIONS FOR ECONOMIC GROWTH

## State of the States

An Analysis of the 2017 Governors' Addresses

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The *State of the States: An Analysis of the 2017 Governors' Addresses* was published by the American Legislative Exchange Council (ALEC) as part of its mission to discuss, develop and disseminate model public policies that expand free markets, promote economic growth, limit the size of government and preserve individual liberty. 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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# Introduction

In 2017, 50 governors across America delivered State of the State or other policy addresses. These speeches 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.

A number of different trends and priorities regarding economic policy were apparent after a full review of these addresses. Following a similar trend observed in the majority of 2016 State of the State addresses, many governors focused a considerable portion of their addresses on the issue of tax relief. Aside from tax proposals, 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.

Overall, most governors conveyed an understanding that lower tax rates and limited government give citizens and businesses a greater incentive to reside and operate in their states relative to others with higher tax rates and more regulations. This concept is further explored in the Center for State Fiscal Reform publication *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.<sup>1</sup> Generally, states with lower tax rates, fewer regulations and responsible spending habits outperform other states in terms of economic growth.<sup>2</sup> Based on the observations made in reviewing the 2017 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, 2017

The following lists contain the best and worst State of the State addresses of 2017, based on the economic policy proposals included in each address. The “best” addresses featured proposals proven to enhance economic competitiveness and growth, while the “worst” addresses pitched ideas demonstrated to hinder competitiveness, growth and prosperity. The addresses are ordered by the last name of the state’s governor. Each state’s economic outlook ranking in the 10<sup>th</sup> edition of *Rich States, Poor States* is also included.<sup>3</sup>

## Best Policy Proposals for Taxpayers

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**North Dakota – Governor Doug Burgum**

**2017 Rich States, Poor States Economic Outlook Ranking: 4**

*“While declining revenues are a problem, the root culprit is spending. Our general fund budget has more than tripled in the past decade. Our total budget, including federal funds and special funds, has increased by nearly two-and-a-half times.”*

Governor Doug Burgum delivered his first State of the State address, with a focus on the need to make government more efficient, decrease spending and reduce tax and regulatory burdens.

Of particular note, the governor plans to implement zero-based budgeting, as opposed to traditional business as usual budgeting, when crafting the next full budget. Relatedly, Burgum stressed the need to consider state and local agencies as “a network of programs with overlapping areas.” He challenged his fellow public servants to work more closely with one another in order to identify and reduce redundancy.

Governor Burgum also discussed the need to utilize dynamic technological advancements to improve the state’s approach to the biggest budgetary line items, including health care and education. Beyond providing basic services, Burgum emphasized, “For the most part, government needs to get out of the way and let the powerful, positive forces of free markets—including competition, price and consumer choice—shape our future.”



**Missouri – Governor Eric Greitens**

**2017 Rich States, Poor States Economic Outlook Ranking: 24**

*“Over the course of the last 17 years, Missouri has issued over 40,000 pages of new regulations. If you laid those pieces of paper end to end, that’s over 5 miles of new regulations. These regulations, and those that come down from Washington, cost people money.”*

Governor Eric Greitens presented an ambitious agenda in his first State of the State address including the need for right-to-work legislation, which later passed in the 2017 legislative session. He also discussed the need to shrink government, reform the tax code and decrease regulations such as occupational licensing.

He also discussed the importance of civil service reform, noting the percentage of Missourians employed by state government dwarfs that of numerous other states—double that of Indiana, for example.<sup>4</sup> He wants the state “focused on doing fewer things but doing them well.”

The governor also promised “to do a thorough, end-to-end audit of our tax credit system, and create a tax code that works not to benefit privileged insiders, but instead is fair to all.” In other words, he plans to rid the state of special interest tax credits. The governor clearly understands these carve-outs benefit only politically well-connected industries or businesses; often ignored are the unseen costs and foregone growth for the remainder of the state.



**Maine – Governor Paul LePage**

**2017 Rich States, Poor States Economic Outlook Ranking: 42**

*“Successful people are not the problem; they are the solution. They create jobs. They pay the most in sales, excise, income and property taxes. They already pay two-thirds of the tax burden in Maine. Taxing them out of Maine does not help our economy—it harms it.”*

Governor Paul LePage proposed solutions to two recently passed referendums threatening economic growth—one dramatically increasing the personal income tax rate and the other hiking the minimum wage. The state’s income tax jumped 3 percentage points thanks to the November 2016 referendum. The 10.15 rate (state and local combined) is the 4<sup>th</sup> highest rate in the nation. Governor LePage called for a flat 5.75 percent income tax by 2020 with the ultimate goal of complete elimination. He also proposed lowering corporate income taxes, eliminating the estate tax and broadening the sales

tax base. The governor noted “eliminating the income tax is the biggest pay raise Mainers could get,” but he also bemoaned the lack of “political will to promote prosperity in Augusta.”

The governor hammered the recently passed referendum to increase the minimum wage. Governor LePage explained the hike will “wreak havoc” in Maine by harming employees, restaurants and small businesses. To mitigate the damage both to businesses and jobs seekers, the governor proposed a more modest increase. Elderly Mainers on fixed incomes also stand to be negatively impacted as prices on goods and services will rise along with the increase in labor costs.



**Connecticut – Governor Dannel Malloy**

**2017 Rich States, Poor States Economic Outlook Ranking: 46**

*“We need to continue making state government leaner and more cost-effective. The responsible way to do that is by setting priorities and allocating our resources where they are needed most. Because the truth is, we simply can’t afford to continue doing everything we’ve done in the past...Cuts in specific areas, or outright eliminations, should not be taken to mean that certain work is not valued. It simply means that we can no*

*longer afford to do it all and that our spending must be focused on the very core, essential services for our residents.”*

Governor Dannel Malloy proposed making government more cost-effective and reforming pensions. To achieve cost-effectiveness, the governor explained, “The responsible way to do that is by setting priorities and allocating our resources where they are needed most.” He also encouraged commissioners to work with their teams and the legislature to reduce spending. Instead of conventional budgeting, this priority-based budgeting focuses on the key functions of government that are important to taxpayers.

Reforming Connecticut’s troubled pension system was another key theme in the State of the State address. As Governor Malloy acknowledged, “Over many decades, legacy costs, insufficient contributions, lower-than-assumed returns and early retirement packages left us with a significant unfunded liability in the state’s employee and teacher retirement systems.” The governor stated he will continue to negotiate with labor leaders on how to address the rising pension costs. Connecticut workers and retirees deserve a sustainable and secure retirement system. In prior years, the governor’s pro-growth rhetoric has not matched his actions. The lack of follow-through is partially responsible for the plunge in the *Rich States, Poor States* economic outlook from 35<sup>th</sup> in 2011 (the year he assumed office) to 46<sup>th</sup> place in 2017.



#### Nebraska – Governor Pete Ricketts

2017 Rich States, Poor States Economic Outlook Ranking: 32

*“Detractors of this tax relief will point to states that reduced taxes before reducing spending and then struggled to catch up. That’s not how we do things here. We are controlling spending first. That is responsible budgeting and responsible tax relief—it’s the Nebraska way.”*

Governor Pete Ricketts declared he will balance the budget in a responsible manner while prioritizing education, children and family services, public safety and infrastructure. He committed to addressing the revenue gap without increasing taxes while maintaining around \$500 million in the cash reserve. Ricketts also emphasized the need to control spending before moving forward with tax reform.

Ricketts discussed combining various agencies to eliminate redundancy. Similarly, the governor wants to rid Nebraska of unnecessary occupational licensing regulations, which create onerous barriers to work in certain professions.

In his address, the governor bemoaned the fact property taxes have been so harmful for Nebraskans, particularly farmers. He noted, “Between 2003 and 2013, property taxes on farmers and ranchers rose by 137 percent.” He suggested valuing agricultural property based on income potential in order to ensure property taxes are reasonable. The principles of sound tax policy—namely simplicity, economic neutrality and reliability—do suggest some concerns over this proposal to assess agricultural land based on income-earning potential. However, the focus on reducing the 12<sup>th</sup> highest property taxes in the nation (according to *Rich States, Poor States*) is welcomed.

Ricketts also discussed reducing personal income taxes, as Nebraska has one of the highest top rates in the region. A tax plan supported by the governor would reduce the top person income tax and corporate income tax rate from 6.84 percent now to just under 6 percent over a period of years, along with lowering the corporate income tax rate from 7.81 percent now to just under 6 percent. Both reductions would be contingent on revenue growth.





Vermont— Governor Phil Scott

2017 Rich States, Poor States Economic Outlook Ranking: 49

*“We must act now and begin our ascent. We have avoided the reality of this crisis for far too long. I am committed to doing whatever it takes to put us on a new path to a more prosperous future.”*

Governor Phil Scott’s first State of the State address promised to limit spending increases, prevent tax increases, balance the budget, pursue budgetary and education reforms and fund pension obligations. The governor advocated for base spending in the upcoming fiscal year to actually be “below base spending for the current one.” And his Government Modernization and Efficiency Team (GMET) and Program to Improve Vermont Outcomes Together (PIVOT) endeavors promise to focus on outcomes and “Results Based Accountability” throughout the budgeting process.

Commendably, the governor also promised to “fund our pension obligations at their full recommended annual levels” and to “set aside reserve accounts.”

One of the impediments to affordability in Vermont is the 3<sup>rd</sup> highest property tax burden in the nation (according to *Rich States, Poor States*). “We can no longer afford to allow so much of the nearly \$19,000 we spend for each K-12 student to be diverted away from the child and toward empty spaces and overhead costs,” declared the governor. He called for school districts to freeze their funding for the upcoming year at current levels and proposed teachers pay 20 percent of their health insurance premiums instead of 15 percent.

The governor promised “modest tax relief to help working families and create jobs” but regretted budgetary constraints preventing his ability to “go further with broad-based income tax cuts for Vermonters.”

## Worst Policy Proposals for Taxpayers

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**Montana – Governor Steve Bullock**

**2017 Rich States, Poor States Economic Outlook Ranking: 39**

*“Increasing the top tax rate for any income over a half a million dollars, and other modest revenue proposals before you, are fair. I ask that you give them fair consideration—and then pass them.”*

Governor Steve Bullock’s third State of the State in his sixth year in office (Montana only has biannual addresses) had both good and bad news for Montanans. The governor’s plan to once again leave a \$300 million ending balance for the state—nearly 5 percent of the state’s annual budget—demonstrates fiscal restraint. However, returning these funds to taxpayers in the form of a tax cut could prove more beneficial to economic growth.

While Governor Bullock talked about fiscal restraint, he also proposed new infrastructure spending (through “Build Montana”), including \$292 million for bridges, roads, sewer systems, water systems and schools. On education, the governor proposed increasing K-12 spending by \$30 million. Although he rightly advocates for an education system of excellence with results, more funding increases may not be the best solution.

The governor announced for a proposal to increase the top income tax rate. These tax hikes would make Montana even a less attractive place for hard working taxpayers and their families. He also expressed support for other “modest revenue proposals.” Presumably, this includes his prior calls to levy discriminatory cigarette taxes on vaping devices.

**Delaware— Governor John Carney**

**2017 Rich States, Poor States Economic Outlook Ranking: 37**

*“There is something in our budget for everyone not to like. It raises taxes on the very largest businesses incorporated here. And it raises personal income taxes on Delawareans in a way that requires those who can afford to pay more to do so.”*

Delaware Governor John Carney refused to call out the cause of the \$400 million budget deficit, namely the 4<sup>th</sup> highest per capita expenditures in the nation. To close this fiscal hole, the governor called for a “50-50 mix of spending cuts and new revenue,” calling it a “principle of shared sacrifice.” But by his own estimates, expenditures will grow again next year (by 0.3 percent). The governor hopes to raise taxes on the very largest businesses incorporated here and to raise “personal income taxes in a way that requires those who can afford more to pay more.”

But too light a tax burden is certainly not the problem, considering Delaware boasts the 11<sup>th</sup> highest top marginal personal income tax rate and the 3<sup>rd</sup> highest corporate income tax rate at a whopping 11.69 percent (state and local tax rates combined).

The governor also called for placing the Delaware Economic Development Office (DEDO) on the “forefront of moving Delaware into the 21<sup>st</sup> century economy.” But much of this activity involves transferring taxpayer dollars to politically favored private entities through grants or tax subsidies. Such inefficient distortion of the tax code creates yet more drag on economic growth.

Governor Carney claimed the “north star in building this budget was making Delaware more competitive.” Indeed, this would be welcomed. But fixing the economically oppressive tax regime is not on his agenda.

#### **Louisiana – Governor John Bel Edwards**

**2017 Rich States, Poor States Economic Outlook Ranking: 28**

*“The Commercial Activity Tax—or C-A-T as many of you have heard so much about—is based on gross receipts, but will be a minimal graduated amount for businesses with gross receipts of less than \$1.5 million. Corporations with receipts of over \$1.5 million will pay [point] 35% of their gross receipts.”*

Governor John Bel Edwards pitched a massive tax and spending package during his second State of the State. The proposed broadening of the base by eliminating deductions, an income tax cut for the majority of Louisianans, consolidation of the corporate income brackets and the reduction of the sales tax by one fifth are welcomed. However, the pro-growth effects of these reforms are likely overwhelmed by the newly-proposed “Commercial Activity Tax” of 0.35 percent on total gross receipts (or a fixed dollar assessment depending on sales totals) along with a hike in the gas tax referenced by the governor as a plea to “restore the value of our has tax.”

Discussing economic development initiatives, the governor noted the “\$21 billion in capital investments made in Louisiana over the past year,” supposedly incentivized by the Industrial Tax Exemption Program (ITEP). He also announced his support for a bill that would raise the state's minimum wage to \$8.50 by 2019.<sup>5</sup> The tax and spending increases combined with further business wage mandates and cronyism will negatively impact economic performance in Louisiana.

#### **Oklahoma – Governor Mary Fallin**

**2017 Rich States, Poor States Economic Outlook Ranking: 16**

*“To improve the health of our state, I’m also once again asking you to raise our cigarette tax...I am proposing a new revenue stream by increasing our gas and diesel taxes to the regional state average, but still below the national average.”*

Oklahoma Governor Mary Fallin proposed what may end up being the nation's largest tax and spending hike (in percentage terms) during her seventh annual State of the State address. Under her plan, spending will rocket by one billion dollars, from \$6.78 billion in fiscal year 2017 to \$7.79 billion in fiscal year 2018. This whopping 14.9 percent increase is accompanied by a net hike in taxes and fees of approximately \$950 million.

The so-called modernization of the sales tax comprises the biggest component of the massive tax hikes. Applying the tax to services brings in nearly \$840 million while eliminating the sales tax on groceries saves taxpayers nearly \$235 million. On net, this sales tax shift represents a \$605 million increase. Oklahoma taxpayers already endure the 16<sup>th</sup> worst sales tax burden. Now, a family of four could be saddled with an additional \$616 per year in sales taxes alone. The governor's budget seeks to increase the gas tax and diesel tax, equating to \$219.7 million in new taxes. Additionally, she aims to more than double the cigarette tax from \$1.03 per pack to \$2.53 per pack, tallying up to \$257.8 million in new taxes.

Calls by the governor to eliminate the corporate income tax (saving \$140.2 million) should be commended, as that reform would be a significant pro-growth win. Likewise, her proposal to accelerate the sunset of the wind production/zero emission tax credits enhances the neutrality of the tax code. Unfortunately, these positive steps were dwarfed by the slew of tax increases elsewhere.

#### **Washington – Governor Jay Inslee**

##### **2017 Rich States, Poor States Economic Outlook Ranking: 40**

*“My budget asks less than 1 percent of the wealthiest Washingtonians to pay a little more on the gains from their investments. It taxes carbon pollution that harms our kids and imperils the planet. And it asks service providers, such as lawyers and accountants, to pay B&O taxes more comparable to those paid by goods-based businesses.”*

Governor Jay Inslee proposed a \$4 billion tax increase package in his State of the State address. He proposed new taxes on carbon emissions and capital gains. And although he called for increasing the filing threshold to \$100,000 for the Business and Occupation (B&O) tax, he also proposed increasing the B&O rate from 1.5 percent to 2.5 percent—the biggest B&O tax increase since 1993. Furthermore, he hopes to levy the tax to a wide range of services such as real estate agents, accountants, architects, attorneys and consultants.

Unfortunately, a carbon tax would negatively impact Washington's economic competitiveness. According to the nonpartisan Washington Research Council (WRC), the petroleum industry contributes an estimated \$1.85 billion to the state economy annually.<sup>6</sup> Furthermore, Washington's refineries paid \$126.3 million in state and local taxes.<sup>7</sup> According to the WRC, the tax burden on the state's refineries is already three times greater than California refineries.<sup>8</sup>

The business tax increases would diminish economic opportunity. Currently, Washington state enjoys the most competitive capital gains rate in the region—zero. In fact, the state’s own Department of Commerce agreed, stating, “We offer businesses some competitive advantages found in a few other states. These include no taxes on capital gains or personal or corporate income.”<sup>9</sup>

#### **Alaska – Governor Bill Walker**

**2017 Rich States, Poor States Economic Outlook Ranking: 30**

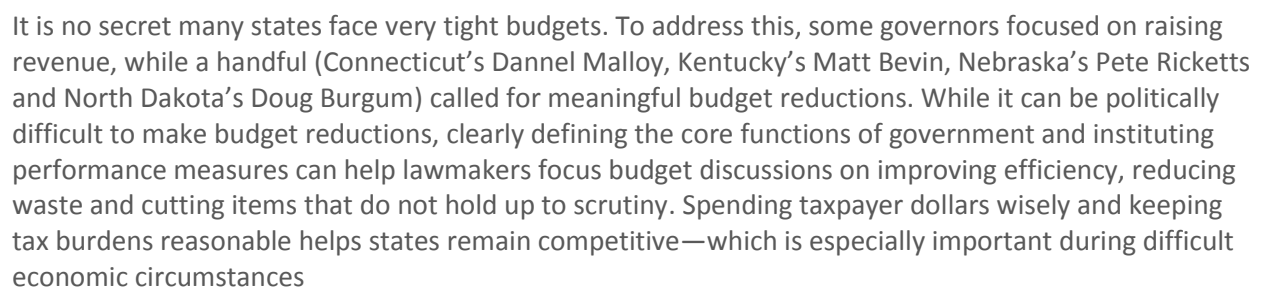
*“I maintain my support for a modest income tax and other revenue bills I introduced last year.”*

Alaskans are trapped in the same time loop. The Last Frontier faces an alarming \$3 billion budget deficit, and Governor Bill Walker still proposed a series of tax increases, including bringing back the economically damaging personal income tax and an unspecified increase to the Motor Fuels Tax.

Governor Walker deserves credit for some thoughtful spending reforms. For example, this session, he will introduce legislation to temporarily freeze the salaries of some state employees after already reducing his own salary by one-third. But his proposed tax increases, especially the personal income tax, will only add to Alaskans’ fiscal burdens.

Clearly, Alaskans face difficult decisions, particularly how to resolve a budget deficit estimated at \$4,000 for every man, woman and child. Unfortunately, Governor Walker’s proposed tax increases would not help Alaskans thrive.

Tax policy was frequently a major topic in the governors' State of the State addresses. In total, 25 governors offered some form of significant tax policy proposal. Unlike recent years, governors called for more tax increases than tax reductions. This year, 12 governors proposed only tax increases, while 10 pushed for only tax reductions. Governors in three states proposed both. The following map shows which governors called for tax increases, tax reductions, or both, in their addresses this year.

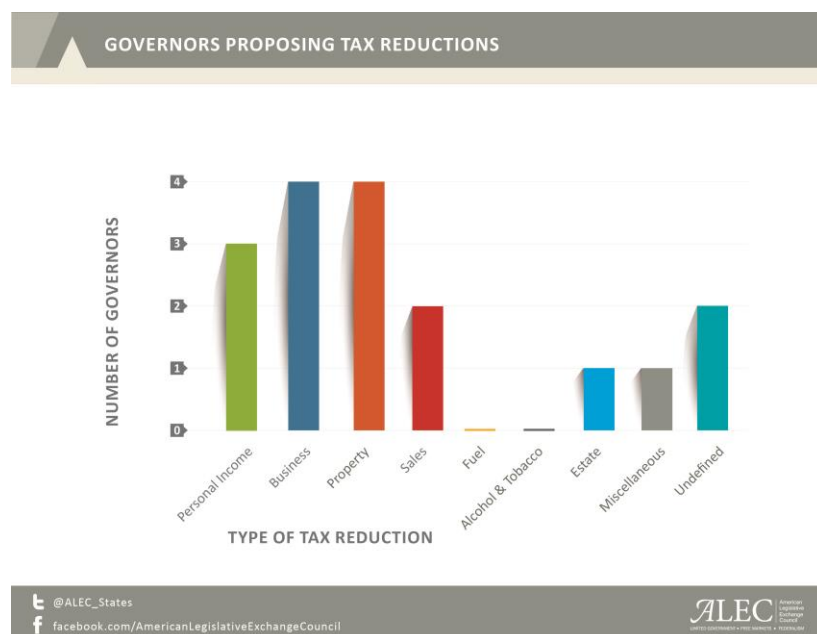


Although more governors called for tax increases than tax relief, a number of governors proposed substantial tax reform throughout their addresses. The most dramatic example, in terms of both the absolute and relative size of the proposed tax cut, is Florida Governor Rick Scott's proposal to provide some \$618 million in tax relief in the next fiscal year (equal to approximately 1.6 percent of total taxes collected last fiscal year). This follows last year's cuts of approximately half a billion dollars in the Sunshine State.

Others quarterbacking efforts to lower tax burdens were Governors Pete Ricketts of Nebraska and Paul LePage of Maine. Both called on lawmakers to lower personal and corporate income tax rates. Governor LePage has also indicated his desire to abolish the state's income tax and join the nine others that levy no tax on wage income. These proposals are particularly encouraging; while securing the necessary revenue for core functions of government is an important part of crafting tax policy, where that revenue is taken from is more crucial. All taxes harm economic growth, but some taxes are more harmful than others. Taxes on income and capital, which discourage work and investment, are far more harmful to an economy than retail sales and property taxes.<sup>10</sup>

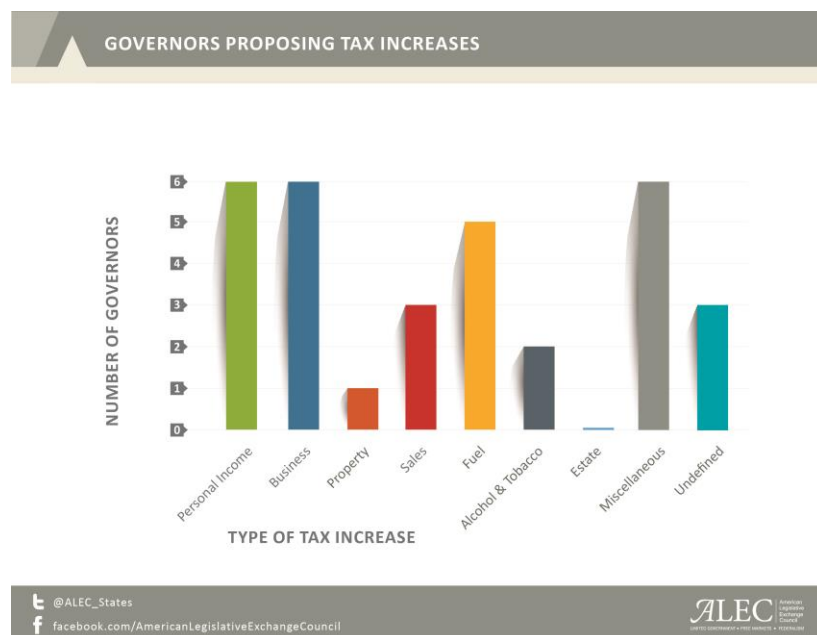
These plans for growth are in stark contrast to Louisiana, where Governor John Bel Edwards called for one of the largest tax increases of any state this year in order to bridge a fast-approaching \$1.3 billion fiscal cliff. The benefits of his call for lower rates and a consolidation of brackets for the state's personal and corporate income taxes are potentially outweighed by the effect of eliminating the federal income tax deduction. This elimination would increase the tax burden on the higher-income earners more likely to create new jobs. Furthermore, the governor pushed for a new 0.35 percent commercial activities tax on the gross receipts of any business with total sales above \$1.5 million and a fixed-dollar levy on all others.

The following graphics break down the types of tax increases and reductions for which governors called 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 "miscellaneous," while tax proposals where the governor did not specify a particular type of tax are labeled "undefined."



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. In addition, excessive

dependence on the income tax for funding of state government is illadvisable due to the relative volatility of income tax revenue, particularly if the tax is highly progressive.<sup>11</sup>



Despite the negative impact on economic growth and fiscal stability, six governors proposed income tax hikes of some variation. The most dramatic example was Alaska Governor Bill Walker’s call for the second year in a row to reestablish the personal income tax, which the state repealed in 1980.<sup>12</sup> In an unfortunate reversal of course, Kansas Governor Brownback referenced his new budget, which has proposed “modest targeted revenue measures” which include a freeze on the scheduled cuts to the bottom income tax bracket, as well as new taxes on passive

income. Passive income includes rental income, dividends and interest. These and other proposals to grow tax burdens on productivity stunt economic growth.

Sales taxes offer a less volatile alternative to income taxes.<sup>13</sup> It is not surprising then two governors called for increases in the state sales tax. Regrettably, Oklahoma Governor Mary Fallin’s proposal merely shifted the burden by expanding the sales tax to services, while eliminating it for groceries. And Washington Governor Jay Inslee’s proposal left base-narrowing carveouts for favored sectors in place while imposing new sales taxes on a wide range of services such as real estate, accountancy, architecture, attorneys and consultants.

Additional discriminatory taxes on alcohol and cigarettes also are components of the proposed increases in Kansas and Oklahoma. The misconception that these kinds of discriminatory taxes are successful revenue generators that promote public health makes this a tempting political move for some. 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.<sup>14</sup>

Cigarette taxes and similar taxes on tobacco substitutes are an extremely volatile source of state revenue. Increases to these taxes create a strong incentive to purchase tobacco from out-of-state or black market sellers, resulting in lackluster revenue collections. Between fiscal years 2009 and 2013, approximately 32 state excise tax increases on tobacco products went into effect. A full 91 percent of these state excise tax increases failed to meet their revenue projections. In fact, budget gaps occurred in New Jersey, Hawaii and Washington, D.C. after cigarette excise tax increases caused revenues to fall below pre-tax-increase levels. Finally, empirical data aside, it is inherently unfair for governments to



single out specific industries by imposing discriminatory taxes on their products. Business taxes attracted much attention this year. Maine's Governor LePage proposed lowering the corporate income tax rate. And Oklahoma's Governor Mary Fallin called upon lawmakers to eliminate the corporate income tax, a plan that would partially mitigate the consequences of her overall 15 percent revenue hike.

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 compiled by *Rich states, Poor States* show 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.

Meanwhile, other governors continue their search for more revenue from businesses. Washington's Governor Jay Inslee proposed increasing the Business and Occupation tax rate from 1.5 to 2.5 percent—the largest increase since 1993. Washington Governor Jay Inslee called upon lawmakers to enact a carbon tax. Unfortunately, this would needlessly further distort energy markets, harm consumers and expand government bureaucracy. Governor Jim Justice of West Virginia called for increasing the severane tax on coal and natural gas. As mentioned previously, Governor Edwards of Louisiana pushed for a gross receipts tax on businesses. No matter what form they take, tax hikes on business are a proven way to stifle economies, kill jobs and restrict opportunity.

States have increasingly looked to repeal their estate and inheritance taxes. Governor LePage announced his intent to eliminate the estate tax. 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."<sup>15</sup> After a steady flow of repeals, only twenty states plus the District of Columbia impose an estate tax, an inheritance tax, or both.<sup>16</sup>

## Fiscal Policy

### Government Efficiency

Several 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 hinder both the lives of citizens and operations of businesses. Several governors discussed improving their states by reducing regulations, reforming government programs and responsibly prioritizing state spending.

Others expressed the need to cut bureaucracy in order to get government out of the way of the private sector. For example, Mississippi Governor Phil Bryant used his address to stress the importance of controlling and prioritizing spending and cutting wasteful and inefficient government programs. In particular, he noted the need to consolidate many state agencies, boards and commissions. This follows the recent overhaul of Mississippi's entire tax code and approximately \$450 million in tax relief.

Many also called for accountability reforms to ensure agencies efficiently use tax dollars. Arkansas' Asa Hutchinson echoed this sentiment, urging a focus on efficiency and service in reforming state government, calling for the elimination of duplicative boards, commissions and state agencies to more wisely use taxpayer dollars while also delivering better core services.

Texas Governor Greg Abbott asked legislators to pass reforms that would increase transparency in government contracts. 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. Vermont Governor Phil Scott discussed a program designed to focus on outcomes and “Results Based Accountability” throughout the budgeting process. 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. Eliminating the most wasteful and economically harmful items in the budget allows focus on more efficiently providing the core functions of government.

Governors around the country also emphasized the importance of prioritizing government spending in order to balance state budgets. Governors such as Matt Mead of Wyoming noted cutting the most wasteful and economically harmful items in the budget allows a heightened focus on more efficiently providing the core functions of government. 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 publication *State Budget Reform Toolkit* points to priority-based budgeting as an excellent solution to fixing state budget problems.<sup>17</sup> This process requires answering the following five questions:

- What is the role of government?
- What are the essential services government must provide to fulfill its purpose?
- How will we know if government is doing a good job?
- What should all of this cost?
- When cuts must be made, how will they be properly prioritized?

### **Medicaid**

Due to its share of the budget and its political importance, six governors discussed Medicaid to a substantial extent. The Virginia and Wyoming proposed Medicaid expansion under the Affordable Care Act (ACA). The governors who called for expansion reasoned regardless of their position on the ACA, the state should take advantage of the federal dollars being offered. These “free” federal dollars come in the form of federal matching funds. From 2014 to 2016, the federal government covered 100 percent of the costs of those added to state Medicaid rolls under the ACA. Under current law, this federal contribution is 95 percent of costs for newly eligible enrollees under the ACA, declining to 90 percent by 2020. But the costs for these newly eligible enrollees covered by the federal government may decline even further if the ACA is even partially repealed or reformed. This could leave states on the hook for hundreds of billions of dollars in health care entitlement spending.

Louisiana Governor John Bel Edwards defended previously implemented Medicaid expansion, arguing “nearly 417,000 individuals have received health coverage through Medicaid expansion” and the state is “projected to save \$200 million in the first year alone.” Ohio Governor John Kasich boasted the rate of growth in Medicaid expenditures dropped to 3 percent annually (following the ACA expansion); but he failed to note rigorous data analysis showing the short-term budgetary benefit from Medicaid expansion—thanks to federal matching funds—turns into a cumulative fiscal hole by 2027 as the federal match proportion declines.<sup>18</sup>

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.<sup>19</sup> Furthermore, the Foundation for Government Accountability found it could cost employed beneficiaries earning more than \$1 above the eligibility limit nearly \$2,000 in additional costs per year to obtain health insurance under the silver ACA plan.<sup>20</sup> Additionally, the National Bureau of Economic Research found expanding Medicaid to able-bodied adults decreased their earnings.<sup>21</sup>

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. 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, Iowa Governor Terry Branstad referenced the state's 2016 "Medicaid modernization" efforts, which privatized Iowa Medicaid program and saved taxpayers \$110 million. Likewise, Wisconsin Governor Scott Walker touted his state's modest surplus in Medicaid and being "one of the best states in the nation for health insurance coverage" despite refusing ACA Medicaid expansion.

### **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."<sup>22</sup>

The good news is governors from both political parties are beginning to recognize the grave threat unfunded liabilities pose to their state budgets, calling for reform in their State of the State addresses. The states whose governors outlined at least basic proposals to tackle this issue were Connecticut, Illinois, Kentucky, Michigan, New Jersey, Maryland, Oregon, Pennsylvania and Vermont. The governors' plans included funding obligations at "full recommended annual levels" (Vermont Governor Phil Scott), consolidating the wide array of state pension funds (Pennsylvania Governor Tom Wolf), transferring discretionary spending savings into the pension fund (New Jersey Governor Chris Christie), creation of an optional defined-contribution plan for government workers (Maryland Governor Larry Hogan), bringing investment services in-house (Oregon Governor Kate Brown), investing more than the annual required contribution (Kentucky Governor Matt Bevin) and lowering the assumed rate of return while (Michigan Governor Rick Snyder and Kentucky Governor Matt Bevin).

What is clear is 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

Although a desire to spend more and a refusal to live within a state's financial means induced a number of calls for tax hikes, many of the 2017 State of the State addresses were quite encouraging, with governors frequently endorsing market-oriented tax and fiscal policies. Several governors offered detailed proposals to reduce tax burdens on citizens and businesses, responsibly prioritize spending, streamline government programs and reform state pension systems. The fact so many governors are calling for lower taxes is a very positive continuing trend that suggests many governors understand competitive tax rates and free market fiscal policies grow their economies and make their states more attractive places in which to live and work.

## Summaries of Economic Policy Remarks by State

Below are summaries of the economic policy remarks the governors made during their 2017 State of the State addresses. Summaries are listed in alphabetical order by state. Included are the 2017 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. Each state is ranked from one (best) to 50 (worst).

### Alabama – Governor Robert Bentley

*Rich States, Poor States* 2017 Economic Outlook Ranking: 21

Former Alabama Governor Robert Bentley attempted to convey his commitment to sowing an Alabama with better jobs, economic growth and education. The governor's speech included calls for expanded pre-kindergarten programs, large-scale infrastructure enhancements and tax reform. He also renewed last year's proposal for new prison construction in an attempt to solve overcrowding problems. The governor also indicated his desire to eliminate sales taxes on groceries. The governor claimed his administration had embarked on an ambitious effort to save \$1 billion from 2012 until the end of his final term. But state expenditures show the reforms have been largely tepid. Even over the prior two years, overall spending has grown by nearly \$1.5 billion.

Governor Bentley also touted Alabama's "Great State 2019 Plan," which aims to improve education and workforce development overall, with a focus on the state's most rural counties. He also promised an additional \$20 million to grow the state's voluntary pre-kindergarten program. ALEC model policy provides parents wider choices beyond public education through the "Smart Start Scholarship Program." This program helps "children from low- and middle-income families attend the public or private four-year-old preschool program or five-year-old kindergarten program of their parents' choice."<sup>23</sup>

He also renewed his plea for the construction of new prisons to help reduce inmate overcrowding and called for more support in curbing the state's opioid epidemic.

The lack of broad-based tax reform, spending reforms, or other pro-growth measures does not bode well for an improved economic outlook in the state.

## **Alaska – Governor Bill Walker**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 30

During his State of the State address, Governor Bill Walker discussed his desire to implement new taxes and further reduce spending in order to address the tough fiscal situation in Alaska. The state faces a \$3 billion deficit even after a 44 percent budget reduction (in operating and capital expenditures) since 2013.<sup>24</sup> But even with these reductions, the “All Funds” spending of \$10.483 billion in fiscal year 2017<sup>25</sup> is still 30 percent higher than the \$8.06 billion in 2005.<sup>26</sup> This 30 percent increase outpaces the 25.6 percent inflation rate for Anchorage throughout the same time frame.<sup>27</sup>

Governor Walker discussed spending reductions. For example, this session, he will introduce legislation to temporarily freeze the salaries of some state employees after already reducing his own salary by one-third.

The governor continues to support his failed proposed tax increases from last session to help fill the gap, which has ballooned so quickly in part due to a decrease in state petroleum revenue by more than 80 percent since petroleum prices peaked in 2014. These proposals include reinstatement of the personal income tax and an unspecified increase to the Motor Fuels Tax. Although he provided no specifics on the income tax proposal in his address, one proposal under consideration in the House this session would result in a nearly \$1,000 in income taxes on a single person earning \$50,000 a year.<sup>28</sup>

A possible personal income tax, however, is the biggest threat to the hardworking taxpayers of Alaska. The obstacle to economic opportunity posed by such a tax is perhaps why Alaskans repealed it over 30 years ago. As research demonstrates, the 11 states that have adopted a personal income tax in the past 50 years experienced troubling deterioration in economic performance. In every case, their share of total U.S. gross domestic product, total U.S. population and total U.S. state tax revenue declined.<sup>29</sup>

## **Arizona – Governor Doug Ducey**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 8

“The state of our state in 2017 is resilient and strong. Our economy is growing, our schools are improving and our citizens are succeeding,” said Arizona Governor Doug Ducey in his State of the State address. Data demonstrates the reality of this enthusiasm and optimism. The most recent edition of *Rich States, Poor States* ranks the state’s economic outlook at 8<sup>th</sup> nationally. The governor recognized “the excellence occurring in our school system.” The recently released ALEC publication *Report Card on American Education* ranks Arizona’s state education policy 1<sup>st</sup> based on six factors including state academic standards and charter school access. But the governor admonished, “We can’t claim opportunity for all, unless every child, regardless of their background, neighborhood, county, or zip code, has access to a quality education.” He called for permanent salary increase for public school teachers, an expansion of incentives to attract teachers to impoverished districts and a debt free college education for those committing to teach in Arizona public schools.

The governor warned, “I’m not promising a money tree. I can’t. There’s no pot of gold or cash hiding under a seat cushion.” And he promised raising taxes to achieve this funding boost is not a possibility. The governor also recognized causes other than funding lie behind the teacher shortage-namely

outdated rules. To remedy this problem, Ducey called for placing “trust in our school boards, superintendents and principals by letting them make the hiring decisions and remove the obstacles.”

Governor Ducey joked California is “harassing self-driving cars to drive themselves right out of California, onto the I-10 and straight into Arizona.” The governor specifically mentioned the “nutty ideas” of cap and trade along with emissions standards for computer monitors.

To continue this spirit of opportunity, Governor Ducey requested entrepreneurs help him identify job-killing regulations and enter these on RedTape.AZ.gov. He announced occupational freedom would be expanded by a continuation of “chipping away at onerous licensing requirements—often designed to keep out competition or stifle new, exciting ideas.” Real credit for robust growth in jobs “goes to our business owners, their hardworking employees and the entrepreneurs out there. What we in this room have done is simply get out of the way and let California move backwards with more nutty ideas.”

### **Arkansas – Governor Asa Hutchinson**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 23

Governor Asa Hutchinson proclaimed, “The state of our state...is exceptional.” His comments covered a wide swath of issues, including economic growth and the need for further tax reform, expanding the impact of higher education and Arkansas’ role in the global marketplace. While highlighting 55,000 more Arkansans have jobs than just two years ago and 50,000 fewer collect food stamps compared to last year, the governor did not hold back in his call for continued reform. The overarching message was the need to continue improving Arkansas’ ability to compete economically.

Pledging to help the economy grow for all Arkansans, Hutchinson stressed the need to overhaul the tax code and called for a new Blue Ribbon panel that will recommend pro-growth tax reform embracing simplicity, fairness and competitiveness. Arkansas’ capability to maintain and expand its global role in agriculture, energy, medicine, retail and manufacturing requires broad income tax relief and regulatory reform.

Governor Hutchinson highlighted the significant positive impact income and capital gains tax reforms have had on job growth and businesses choosing to locate in Arkansas, and he pressed for more:

*“We provided a \$100 million middle class tax cut. We have moved Arkansas to number one in the nation in computer science education. And with all the change in and out of Arkansas, we need to make sure that Arkansas plays a leading role in shaping the future.”*

He urged a focus on efficiency and service in reforming state government, calling for the elimination of duplicative boards, commissions and state agencies, to more wisely use taxpayer dollars while also delivering better core services. A continued emphasis on tax reform and increased government efficiency will attract more businesses and jobs to Arkansas, create opportunity and expand prosperity for all.

### **California – Governor Jerry Brown**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 47

“When California does well, America does well. And when California hurts, America hurts,” proclaimed Governor Jerry Brown during his State of the State address. Unfortunately, nothing in the governor’s remarks indicated any inclination to reduce the highest personal income tax rates in the nation (13.3 percent including local taxes) or the 11<sup>th</sup> highest corporate income tax rates in the nation at 8.84 percent.

The governor praised California’s “voluntary agreement” through the “Under Two M.O.U.” to control greenhouse gas emissions, but California’s participation is little more than an expensive feel-good PR stunt that will suppress economic activity while doing little to help the environment. In fact, California’s track record of big government action masquerading as environmental stewardship creates more carbon emissions and air pollution globally as economic activity is forced to shift elsewhere. Meanwhile, other carbon regulations mean gasoline in the state is often 30 percent higher than the national average.<sup>30</sup> Residential electricity costs 51 percent more than the national average with industrial electricity costing 63 percent more,<sup>31</sup> making manufacturing less competitive.

The governor spoke approvingly of President Trump’s “firm intention to build and build big” on infrastructure. But it’s not as if the state lacks infrastructure resources. Billions have been squandered on Brown’s vision for a high speed train line. The California High-Speed Rail Authority has already spent \$2.2 billion of \$2.5 in federal grant funds,<sup>32</sup> and California voters also approved \$10 billion in bonds funding for the estimated \$64 billion project.<sup>33</sup>

The most glaring problem facing California earned no mention in the address—unfunded pension liabilities. California’s legislature has consistently underfunded public pension plans for years. The ALEC report *Unaccountable and Unaffordable 2016* estimates the funded ratio at just 35.6 percent, using a risk-free rate of return of 2.344 percent. Using this risk-free rate, the nearly \$1 trillion in unfunded pension liabilities exceeds \$24,400 per capita—the 8<sup>th</sup> highest in the nation.

Commendably, the governor’s budget does increase state contributions to its various pension funds. Lowering the assumed rate of return for CALPERS from 7.5 percent to 7 percent (supported by Brown) is another step in right direction, but is still an overly optimistic assumption. Much more work needs to be done on pension reform.

### **Colorado – Governor John Hickenlooper**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 15

Governor John Hickenlooper focused on the hospital provider fee as a continued revenue source during his State of the State address. “It’s a sensible way to solve some of our problems, though it won’t solve all of them. Let’s see if we can take a fresh look at the hospital provider fee itself,” said Hickenlooper.

The hospital provider fee of up to 6 percent is imposed on net patient revenues received by hospital providers. Under Obamacare, the federal government matches revenue from this fee dollar for dollar. It’s the governor’s end run around a technical tax hike, thus avoiding the protections under Colorado’s Taxpayer’s Bill of Rights (TABOR) which requires approval by voters for spending in excess of the rate of growth of inflation plus population or any tax increases. Even if \$1 billion in hospital fees resulted in \$1

billion of additional federal dollars, the fact remains the same—the fiscal burden on Colorado taxpayers increased by another billion dollars.

Governor Hickenlooper turned next to infrastructure development. “Over the next decade, Colorado has \$9 billion dollars of unmet transportation needs and the need will only grow,” he claimed. “We’re already squeezing every penny out of our transportation revenue but efficiencies can only get us so far... With the gas tax unchanged since 1992, more fuel efficient cars and normal inflation. It’s basic math. It’s a funding problem. We’ve had this debate for too long.” But is lack of funding truly the impediment to Colorado quality roads? *Reason Foundation’s 22<sup>nd</sup> Annual Highway Report* ranks Colorado 35<sup>th</sup> in terms of highway performance and cost-effectiveness.<sup>34</sup>

Switching to energy, Hickenlooper claimed, “With the support of both Republicans and Democrats, we have quadrupled the amount of energy we get from wind and sun in recent years. Costs of these technologies are dropping like a rock—while the clean energy industry provides jobs to over 60,000 Coloradans.”

What he failed to mention is much of this increase is due to the state-wide Renewable Energy Portfolio Standard (REPS). Under REPS, investor-owned utilities must generate at least 30 percent of their electricity from renewable sources by 2020. In addition, the state mandates net-metering which forces utilities to pay market rates for excess solar energy produced from solar panels of customers regardless of whether energy can be utilized by the grid. A select group of parties benefit from the production and purchase of energy which could be generated through other means (such as utility-scale solar and natural gas) at a lower cost. Everyday workers suffer from higher prices. In fact, across the nine state mountain region, only Arizonans pay more for electricity than Coloradans.<sup>35</sup> The big-spending agenda put forth by the governor will demagnetize the allure this state holds for those seeking opportunity.

### **Connecticut – Governor Dannel Malloy**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 46

Governor Dannel P. Malloy’s State of the State address acknowledged the \$1.4 billion elephant in the room: unless reforms occur, the Constitution State’s alarming budget deficit will put the financial security of retirees, job creators and taxpayers at risk. To help put Connecticut back on the path to fiscal stability, Governor Malloy proposed making government more cost-effective, reforming pensions and making local aid sustainable. To achieve cost-effectiveness, the governor explained, “The responsible way to do that is by setting priorities and allocating our resources where they are needed most.” He also encouraged commissioners to work with their teams and the legislature to reduce spending.

Reforming Connecticut’s troubled pension system was another key theme in the State of the State address. As Governor Malloy acknowledged, “Over many decades, legacy costs, insufficient contributions, lower-than-assumed returns and early retirement packages left us with a significant unfunded liability in the state’s employee and teacher retirement systems.” The ALEC study *Unaccountable and Unaffordable 2016* found Connecticut’s funded ratio is a mere 22.8 percent, ranking dead last nationally.<sup>36</sup> The governor stated he will continue to negotiate with labor leaders on how to address the rising pension costs. Connecticut workers and retirees deserve a sustainable and secure retirement system.



Finally, Governor Malloy discussed reforming aid for towns and cities, with a special focus on education. Currently, Connecticut provides a total of \$5.1 billion in municipal assistance. Out of that number, \$4.1 billion (or 81 percent) is education funding. The governor asked, “In a time of scarce state resources, are we spending this money in the best way possible?” He stated his new proposed school funding formula would be based on current enrollment, local property tax burdens and student need.

It is encouraging to see Governor Malloy once again acknowledge Connecticut’s fiscal woes in this annual address. Pro-growth initiatives, such as priority-based budgeting and pension reform can help create real fiscal stability in Connecticut. These reforms, not economically damaging tax hikes, can help provide Connecticut families with the brightest economic future.

### **Delaware – Governor John Carney**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 37

Delaware Governor John Carney acknowledged the looming \$400 million budget deficit in his State of the State address. But he refused to address the cause of the problem, namely the 4<sup>th</sup> highest per capita expenditures in the nation (greater than \$10,000 annually).<sup>37</sup> To close this fiscal hole, the governor called for a “50-50 mix of spending cuts and new revenue. It’s built on the principle of shared sacrifice.” But by his own estimates, expenditures will grow again next year (by 0.3 percent). The governor hopes to raise taxes on the very largest businesses incorporated here” and to raise “personal income taxes...in a way that requires those who can afford more to pay more.”

However, years of poor fiscal management created this turmoil. Debt service now eats up nearly 11 percent of every dollar of tax revenue (4<sup>th</sup> worst ratio nationally). Too light a tax burden is certainly not the problem, considering Delaware boasts the 11<sup>th</sup> highest top marginal personal income tax rate (7.85 percent state and local combined) and the 3<sup>rd</sup> highest corporate income tax rate (a whopping 11.69 percent state and local combined).

Notably, the governor called for placing the Delaware Economic Development Office (DEDO) on the “forefront of moving Delaware into the 21<sup>st</sup> century economy.” But much of this activity involves transferring taxpayer dollars to politically favored private entities through grants or tax subsidies. Politicians easily claim credit for the visible jobs “created” by these “investments”; but the economic opportunity costs of taking these funds from taxpayers prior to showering them on a select few are far harder to document.

On the bright side, the governor did announce the creation of the Government Efficiency and Accountability Review Board (GEAR), which is a step in the right direction. Ultimately, a transition from baseline budgeting (where line items are presumed to increase year over year) to a priority-based budgeting is desirable.

Governor Carney claimed the “north star in building this budget was making Delaware more competitive.” Indeed, this would be welcomed. Economic outlook in the First State ranks 37 in the 10<sup>th</sup> edition of the American Legislative Council’s annual *Rich States, Poor States*. But the governor did not even entertain the notion of lowering the economically oppressive tax regime.

### **Florida – Governor Rick Scott**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 6

Gov. Rick Scott's message of hope and opportunity exhibited dedication to maintaining economic vibrancy. He took pride in a job creation rate that is more than twice the national average, evidenced by the 1.25 million increase in private sector jobs since he took office in 2011, more than 237,000 of which were added over the last year. He congratulated lawmakers on the remarkable feat over the last six years of cutting taxes 55 times and allowing families to keep \$6.5 billion in hard-earned dollars. Imploring, "We must do more!" Governor Scott asked lawmakers to provide another \$618 million in tax relief this year, to "cut costs for small businesses, students, veterans, teachers and families."

The governor aggressively countered critics of his "Enterprise Florida" (EFI) and "Visit Florida" economic development programs. "It's easy to throw out catch phrases like 'picking winners and losers' and 'corporate welfare'... but that's not what we are doing. We are competing with 49 other states and hundreds of countries for jobs. When we bring new jobs to Florida, there are only winners," claimed the governor. But these massive tax incentives come at a high cost. By giving special deals to a select few, tax rates remain higher for everyone else than they would be. Millions have already moved their families and businesses to Florida without any handouts or incentives other than the substantial competitive edge of the state's pro-growth tax policies.

Fortunately, the "Fighting for Florida's Future" tax cut package currently quarterbacked by Governor Scott aims to "encourage businesses of all sizes to create jobs and build opportunities for generations of Floridians." Elimination of the sole surviving state commercial lease tax in the nation is a core component of this package. The governor also seeks to solidify all of the recent tax policy changes while also enacting legislative hurdles to future tax increases.

### **Georgia – Governor Nathan Deal**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 17

Governor Nathan Deal discussed his plans for education, the state budget and a wide array of healthcare-related issues. Governor Deal began by noting the improved economic performance throughout his tenure, citing the drop in the unemployment rate from 10.4 percent to 5.3 percent and the creation of more than 575,000 jobs. In addition, he touted the growth in the state's rainy day fund from \$116 million to approximately \$2.03 billion and maintenance of the Peach State's AAA bond rating without raising taxes.

Governor Deal labeled his newly proposed 19 percent pay increase for caseworkers in the state Department of Family and Children Services as vital for the recruitment and retention of the best possible employees. The governor also requested \$50 million to help fund the construction of a new cybersecurity training center near Augusta, calling the center "a resource unlike any other in the country. This will solidify Georgia's reputation as the Silicon Valley of the south."

Governor Deal applauded the 20 percent pay raise given to state-level law enforcement last fall. Further, as part of his plan to fix failing schools, he announced a two percent pay raise for public school teachers to help attract and retain quality educators.

The governor requested lawmakers to expand mental health coverage for children under the age of four in the state's Medicaid and PeachCare programs, as well as to allow pharmacists to dispense naloxone (the opioid overdose-treatment) over the counter. Georgia will expend over \$10.5 billion in next year's budget on Medicaid. Hospital provider fees, a form of tax directed specifically at hospitals, are one of

the primary funding sources for Georgia's healthcare spending. With the fee set to lapse in its authority this year, the governor pleaded with lawmakers to reauthorize it.

While bringing attention to much-needed reforms, his proposals for increased spending on a myriad of programs along with extension of the hospital provider fee threaten to hold back Georgia from regaining its top 10 economic outlook status from just two years ago.

### **Hawaii – Governor David Ige**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 43

Governor David Ige discussed the details of his \$28.5 billion budget, over \$14 billion for each of the next two years, in his third State of the State address. Due to an apparent slowdown in revenue growth, legislators will need to shave more than \$300 million in spending over the next two years. The governor's proposals included education, housing and tourism/natural resources (which are closely intertwined in Hawaii).

Homelessness and affordable housing have been two related problems in Hawaii. The governor proposed an assortment of new spending including producing more rental units, providing rent subsidies and constructing dozens of homeless shelters.

The governor also acknowledged the need for education reform in the state, proposing greater local control. He also budgeted \$700 million for new schools, \$150 million for state universities and \$61.7 million to continue installing and improving air conditioning in K-12 classrooms.

Hawaii already endures the highest cost of electricity in the nation at more than twice the national's average.<sup>38</sup> Yet, the governor reiterated Hawaii's Clean Energy Mandate of "generating 100 percent of our electricity from renewable resources by 2045." He claimed this is "good for both our economy and the environment." But these energy mandates can make energy more expensive by artificially inflating the price of fossil fuels, benefiting politically-preferred forms of energy and a favored class of business interests.

As a means to generate more economic innovation, Governor Ige also focused on the government capital investment arm—the HI Growth Initiative. The initiative has invested an average of \$160,000 in each of 65 companies. Politicians easily claim credit for the visible jobs created by these expenditures, but ignore the economic opportunity costs of diverting these funds from taxpayers who could more readily create growth with these resources.

### **Idaho – Governor C.L. "Butch" Otter**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 10

Education spending and reducing the base tax rate for unemployment insurance were the major fiscal themes in Governor Butch Otter's State of the State address. Overall, Governor Otter's proposed budget increases state spending by 9 percent, according to the Idaho Freedom Foundation.<sup>39</sup>

Governor Otter proposed increasing K-12 education funding by an estimated \$104 million, or by 6.4 percent. Additionally, under his proposal, colleges and universities would increase spending by \$6 million and community colleges would increase funding by an estimated \$2.1 million.

The governor discussed reducing the base tax rate for unemployment insurance by 6.3 percent this year, which can help Idaho's economy grow. Under current law, an unemployment tax of 1.395 percent must be paid on the first \$37,800 of income in 2017. This proposal would reduce this to 1.307 percent. He estimates his proposal will provide \$46 million in tax relief for employers in 2017 alone and \$115 million over three years.

### **Illinois – Governor Bruce Rauner**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 44

Illinois Governor Bruce Rauner's State of the State address mainly focused on streamlining state government and making it more efficient, reining in Illinois' high tax rates and reforming education. He openly acknowledged the horde of Illinois local government units that need to be consolidated, the state's dismal credit rating, Illinois's massive unfunded pension liabilities and low rates of job growth. The road ahead for Rauner and his state is unclear serious problems remaining, including the lack of a formal state budget since the start of FY 2016 (July 1, 2015).

Governor Rauner mentioned the state has an unfunded pension liability of \$130 billion, but even that astronomical number is optimistic. When one uses a more realistic rate of return for state pension plans, such as the ALEC report *Unaccountable and Unaffordable 2016* report, Illinois's unfunded pension liability explodes to more than \$360 billion, with only California owing more.

In addition, Illinois's property tax remains the second highest in the nation, with a statewide average rate of more than 2 percent. And in addition to the 7.75 percent corporate income tax rate, Illinois's regulations still remain an impediment to starting or moving a business there. The Pacific Research Institute ranks Illinois 38<sup>th</sup> in the nation in severity of regulatory burden as of July 2015.<sup>40</sup>

From Illinois's crushing taxes and regulations to the state's dire fiscal problems, it is easy to see why people in the state experience a net loss of more than 690,000 people through domestic outmigration from 2006 to 2015.

### **Indiana – Governor Eric Holcomb**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 2

Governor Eric Holcomb enthusiastically informed Indiana legislators, "The state of our state is sound!" He continued, "Because we've created one of the best business climates in the country, we've become national leaders in business growth. Businesses and jobs that a dozen years ago were going to Austin or Boston or the Silicon Valley are now coming to Indiana." He was sure to assign part of the credit for the surging Hoosier economy to his two predecessors—Mike Pence and Mitch Daniels.

This momentum is real. Thanks to reforms such as an end to forced unionization in 2012 and a slashing of income tax rates, Indiana's economic outlook rocketed from 20<sup>th</sup> in 2010 to 2<sup>nd</sup> in the 10<sup>th</sup> annual ALEC report, *Rich States, Poor States*.

To continue the expansion, the governor unveiled “five pillars” of “transformational priorities.” The governor wants to “start with strengthening and diversifying our economy.” And he correctly notes “businesses from around the world are coming to Indiana now because our costs of living and doing business are low and the quality of our workforce is high.” To expand economic growth, Holcomb seeks to “make available \$1 billion over the next 10 years to make Indiana the capital of innovation and entrepreneurship. This will include the Next Level Indiana Fund, the 21<sup>st</sup> Century Fund and a new grant program to support innovation and entrepreneurship initiatives among higher education and in our local communities.” Unfortunately, these tax handouts for one company result in other businesses or individuals picking up the slack.

The governor also hinted at tax increases, asking Hoosiers to “invest a little” more as “existing sources of revenue are just not keeping up” with infrastructure needs. Perhaps cost-effectiveness should be addressed first. But the Reason Foundation’s 22<sup>nd</sup> *Annual Highway Report* ranks Indiana a dismal 36th for performance and cost-effectiveness.<sup>41</sup> Governor Holcomb should continue the legacy of his predecessors by ensuring a phase-in of the tax cuts, expanding educational choice and minimizing intrusive regulations.

#### **Iowa – Governor Terry Branstad**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 29

Governor Terry Branstad, the longest-serving governor in American history, delivered his 2017 Condition of the State address with a focus on his legacy of fiscal responsibility.

Branstad stated he has spent much of his 20 plus years as the governor of Iowa creating a “smaller and smarter government.” He applauded the state’s low unemployment rate (under four percent), the large amount of private investment throughout Iowa and the continued focus on balancing the state’s budget. Branstad blamed the “antiquated collective bargaining system” for a continuous increase in benefits for public employees at the state and local level. He also credited the 2016 “Medicaid modernization” efforts, privatizing Iowa Medicaid and saving taxpayers \$110 million, thus allowing for an increase in education funding.

Branstad noted he will seek justification for each taxpayer dollar spent rather than utilize incremental budgeting, in an effort to maximize efficiency and keep government as small as possible.

#### **Kansas – Governor Sam Brownback**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 26

Governor Sam Brownback reminded Kansans that despite the struggles in certain sectors of the economy, the state enjoyed “record population, record new businesses, record grain production and record income.” As a result of the tax cuts on small businesses back in 2013, “Businesses from Missouri are moving across the border, making Kansas City more of a Kansas city.” Thanks to tax reforms in 2012; Kansas’ outlook jumped from 26<sup>th</sup> all the way to 11<sup>th</sup> just one year later.

To close a budget gap, the governor promised to “propose modest, targeted revenue measures to fund essential state services.” Indeed, the governor’s budget report released on January 11 recommended

increasing cigarette taxes by \$1 per pack, doubling the tobacco products tax and doubling the liquor enforcement tax. Cigarette taxes and similar taxes on tobacco substitutes can be a less than steady source of state revenue. Increases to these taxes create a strong incentive to purchase tobacco from out-of-state or black market sellers, resulting in lackluster revenue collections. But empirical data aside, it is inherently unfair for governments to single out specific industries by imposing discriminatory taxes on their products.

The governor also seeks to freeze the bottom income tax bracket (rather than continue the scheduled cuts) and would tax passive income. Passive income includes rental income, dividends and interest; taxation of this can deter the capital savings and investment necessary to fuel economic growth. All told, the budget proposal calls for tax hikes of nearly \$380 million over two years. Any tax increases would diminish hard fought attempts to bolster the economic competitiveness of Kansas, but some legislators proposed increases nearly three times greater than the governor's.

Brownback stressed a commitment to streamlining operations by "finding necessary efficiencies" while still supporting "the core functions of state government." Presently, Kansas employs 670 people per 10,000 residents-a higher ratio than 47 other states. Perhaps it's time to give more consideration to the recommendations drafted by Alvarez & Marsal at the behest of the Kansas legislature which would have saved Kansas taxpayers \$2 billion over five years.<sup>42</sup>

One area in which Kansas continued to shine in 2016 was on healthcare. The governor noted the majority of the 23 Obamacare state exchanges have failed. The decision to turn down the \$31.5 million grant to engage in early adoption "looks increasingly like declining a discount ticket on the Titanic..."

Perhaps the most interesting remarks by Governor Brownback centered on education reform. He bemoaned "for decades, the children of Kansas suffered under an overly complicated education finance formula that lacked accountability for results, hand-cuffed local school boards and spent money unrelated to student achievement." The governor promised greater transparency for reporting performance of individual schools to the public along with funds for teacher merit based pay increases and called for an expansion of the tax exempt scholarship program."

Governor Brownback's focus on introducing further revamps of agencies, healthcare and education bodes well. However, saddling Kansas taxpayers with hundreds of millions of dollars of varied tax increases is counterproductive.

### **Kentucky – Governor Matt Bevin**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 33

Governor Matt Bevin proposed a \$650 million (or 9 percent) reduction in baseline spending over the next two years. Exempted from these reductions in baseline spending growth are items considered to be budgetary priorities by the governor.

Exceptions include a proposed a \$39 million increase in SEEK spending to maintain per-pupil spending levels in the face of an increase in the Kentucky student population. More spending is not the only solution. The lack of charter schools and private school choice programs has denied children access to

quality educational choices. Improvement may be arriving shortly, as Governor Bevin recently signed legislation allowing for charter schools to begin operation.

The underfunded state pension plans are the most urgent fiscal issue. Bevin has proposed investing more than the annual required contribution (ARC); in addition, he has proposed lowering the assumed rate of return for the Kentucky Retirement System lower than the present 6.75 percent to a “true” rate of return. The recently released ALEC report *Unaccountable and Unaffordable 2016* ranks the state’s pension funding level at 49<sup>th</sup> nationally. Using a risk-free rate of return of 2.344 percent, Kentucky’s state pensions are unfunded by more than \$95 billion or in excess of \$21,600 per capita. To ensure the state government honors its promises to the hundreds of thousands of public retirees reliant on these plans, more change is needed.

On a very bright note, Bevin signed legislation into law earlier this year that officially made Kentucky a right-to-work state, an important step in attracting business and expanding freedom of choice for workers on the decision regarding unionization. A continuation of this spirit of reform bodes well for the state’s future.

#### **Louisiana – Governor John Bel Edwards**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 28

Governor John Bel Edwards pitched a massive tax and spending package during his second State of the State. The tax hike proposal was disguised with some features of needed income tax reform. “I am asking you all to give 90 percent of the citizens of Louisiana an income tax cut, and simplify the corporate tax structure,” he pleaded. Although the plan does reduce the tax burden for most individuals, it eliminates the Federal Income Tax deduction, potentially increasing the tax burden on higher income earners more likely to create new jobs.

Likewise, the proposed broadening of the base, consolidation of the corporate income brackets and the reduction of the sales tax by one fifth is welcomed. But the pro-growth effects of these reforms are likely countervailed by the newly-proposed commercial activity tax of 0.35 percent on total gross receipts on any business with total sales of \$1.5 million or higher, or a fixed-dollar assessment in proportion to the business’ total receipts if below \$1.5 million. Governor

The governor also highlighted the “success” of the Medicaid expansion, boasting “nearly 417,000 individuals have received health coverage through Medicaid expansion.” Although he claimed “Louisiana is projected to save nearly \$200 million in the first year alone,” these savings could prove temporary if the federal government rolls back its infusion of dollars under Obamacare, potentially leaving Louisiana on the hook for hundreds of millions of dollars in health care entitlement spending.

Discussing economic development initiatives, the governor noted the “\$21 billion in capital investments made in Louisiana over the past year,” supposedly incentivized by the Industrial Tax Exemption Program (ITEP). Unfortunately, crony giveaways to a favored few result in higher tax rates for everyone else than they would be. He also announced his support for a bill that would raise the state’s minimum wage to \$8.50 by 2019.

Unfortunately, the tax and spending increases combined with further business wage mandates and cronyism all favored by the governor will negatively impact economic performance in Louisiana.

## **Maine – Governor Paul LePage**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 42

Governor Paul LePage’s State of the State address noted Maine’s progress in lowering income taxes, reducing the budget gap and bolstering the Budget Stabilization Fund. Unfortunately, two recently passed referendums—one dramatically increasing the personal income tax rate and the other hiking the minimum wage—threaten any recent progress. The governor proposed solutions to both.

Targeting Maine’s burdensome tax rate, the governor proposed counteracting “the damage from the 10.15 percent income tax.” This 4<sup>th</sup> highest rate in the nation represents an enormous 3 percentage point jump thanks to the November 2016 referendum. The governor called for a flat 5.75 percent income tax by 2020 with the ultimate goal of complete elimination. He also proposed lowering corporate income taxes, eliminating the estate tax and broadening the sales tax base. The governor noted “eliminating the income tax is the biggest pay raise Mainers could get,” but he also bemoaned the lack of “political will to promote prosperity in Augusta.”

Lower personal and corporate income taxes are essential to enhancing Maine’s economic competitiveness. Raising taxes will chase away more wealthy individuals and small businesses. The governor hammered the recently passed referendum to increase the minimum wage. As drafted, the governor explained the hike will “wreak havoc” in Maine by harming employees, restaurants and small businesses. To mitigate the damage both to businesses and job seekers, the governor proposed a more modest increase. Although well-intentioned, the elevated minimum wage threatens to price many young Mainers right out of the market. Elderly Mainers on fixed incomes also stand to be negatively impacted as prices on goods and services will rise along with the increase in labor costs.

On the education front, the governor pressed for funding reforms and waste reduction, along with spending a greater proportion of funds on classroom instruction. According to the governor, only 59 percent of education funding reaches classrooms, significantly less than the national average of 64 percent.

Maine’s economic outlook has improved from 48<sup>th</sup> in 2011 to 42<sup>nd</sup> in 2017. But the tax hike and minimum wage increase passed in referendums threaten to roll back all of the recent progress. Legislators will decide whether to work with the governor to undo the damage.

## **Maryland – Governor Larry Hogan**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 34

With a mediocre *Rich States, Poor States* economic outlook ranking of 34, Maryland has plenty of room for improvement. In his third State of the State address, Governor Larry Hogan discussed his proposals to strengthen the state’s economy. His fiscal policy proposals focused primarily on education, taxes and pension reform. School choice and pension reform are extremely positive developments for Maryland families.

According to the governor, education spending is at record levels for three consecutive years now. Overall, a full two-thirds of Maryland’s capital budget is spent on education. Despite the past two years of record high education funding, Maryland’s educational performance has only ranged from C- to D+ in the past two editions of the *ALEC Report Card on American Education*.<sup>43</sup> The proposed \$2 million for



private school scholarships is a step toward expanding educational choice—a key component of a results-focused educational system.

Governor Hogan correctly observed not all Marylanders are experiencing economic success. But the More Jobs for Maryland program, part of Governor Hogan’s Maryland Jobs Initiative, fosters the government selection of winners and losers rather than a growth-friendly environment across the board. The program eliminates all state taxes for 10 years for qualifying new businesses and grants tax credits along with accelerated depreciation deductions of capital assets for existing businesses.<sup>44</sup> However, only specific industries headquartered in specific jurisdictions qualify. Tax carve-outs stifle innovation, pick winners and losers and hinder real economic competition.<sup>45</sup>

Governor Hogan encouraged the legislature to pass the State Retirement Choice Act for the 21<sup>st</sup> Century Workforce, which would create an optional defined-contribution plan for government workers. According to the ALEC Center for State Fiscal Reform publication, *Unaccountable and Unaffordable 2016*, Maryland’s unfunded pension liabilities total an estimated \$93 billion (using an assumed rate of return at a risk-free rate of 2.344 percent annually). The steps toward school choice and pension reform are welcome news for hardworking Maryland taxpayers and their families.

#### **Massachusetts – Governor Charlie Baker**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 25

In his second State of the Commonwealth address, Massachusetts Governor Charlie Baker celebrated that “over the past two years we’ve added over 120,000 jobs,” a reduction in the welfare caseload of 25 percent and a reduction in bureaucracy the governor credits with saving “hundreds of millions of dollars.” Noting the state’s habit of using its rainy day fund to manage budget deficits, Governor Baker proposed investing into this fund each year. The newly released economic outlook rankings in the ALEC 10<sup>th</sup> annual *Rich States, Poor States* reflects the improvement. Economic performance in the Bay State jumped from 30<sup>th</sup> to 18<sup>th</sup> in the recently released index as economic outlook improved to 25<sup>th</sup> in 2017; in fact, Massachusetts outlook is higher than five of its six neighbors.

The largest spending priority identified by Governor Baker was \$130 million for K-12 education, an increase of more than \$90 million. Given Massachusetts has increased education spending by over \$2,000 per-pupil from 2013 to 2015 and still saw a decline in average NAEP scores by 1.5 points,<sup>46</sup> The governor might consider addressing the burdensome regulations on home schooling, the lack of private school choice programs and relatively restrictive charter school regulations for more cost effective means of raising education outcomes in Massachusetts.

The governor mentioned the benefits derived by cutting the Massachusetts Bay Transit Authority’s (MBTA) operating deficit in half. Those savings were reallocated within MBTA for transportation infrastructure projects. Funding upgrades for the commonwealth’s infrastructure by reducing operating spending instead of raising new revenue is commendable.

An item of concern is the governor’s Executive Order on Climate Change.<sup>47</sup> Rather than revisit the draconian limit of an 80 percent reduction in carbon emissions by 2050 compared to 1990, the executive order calls on the Commonwealth to make “new, additional reductions in greenhouse gas emissions from Government operations” along with pursuing the establishment of interim statewide greenhouse gas emissions limits for 2030 and 2040. Such restrictions by one state will have virtually no impact on global climate; however, the economic impact on the state itself will be felt as regulatory hurdles block

some businesses from thriving. Another concern is Governor Baker's continued support for closing the "tax loophole on Airbnb." This legislation will potentially limit the number of days Airbnb hosts can rent to guests, levy new taxes on hosts and subject properties to onerous regulations.<sup>48</sup>

Overall, however, the state's steps towards economic competitiveness are yielding results. Governor Baker rightfully recognized this achievement, "We built a bipartisan team, worked in partnership with the legislature and looked for common ground." Shrinking the state's budget gap by over \$1 billion without tax or fee increases is just one example. To further improve economic competitiveness both regionally and nationally, broad-based tax reform is desirable. But Governor Baker's strong opposition to any such "broad-based tax increase" is a positive, nonetheless.

### **Michigan – Governor Rick Snyder**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 20

Governor Rick Snyder's State of the State address celebrated the vastly improved economic conditions in the Wolverine State. "In the last few years since 2010, we created almost 500,000 jobs, making us number one in the Great Lakes region and number six in the nation for private sector job growth," boasted the governor. He explained this was accomplished as "over the last few years we dumped the dumbest tax in America, we cut needless regulations, we started paying down our long-term debt, we started saving for the future, we laid the groundwork for success we have today so our businesses could create jobs."

According to *Rich States, Poor States*, Michigan is ranked 20<sup>th</sup> in economic outlook, a big jump from 34<sup>th</sup> place in 2009.

Although Michigan does boast many positive free-market reforms, there is still wasteful spending, namely tourism promotion. The governor claimed, "Thanks to Pure Michigan we are showing America just how beautiful we think our home state is." But a recent analysis by the nonpartisan Mackinac Center of similar programs in 48 states over 39 years indicates found that "for every dollar taxpayers spend on tourism promotion, they lose 98 cents and create only 2 cents of value for their state's hotel industry."<sup>49</sup>

Unfunded pensions for government employees is another major issue facing Michigan. Governor Snyder warned "we have 334 local units that provide retiree health care and pension, that have \$14 billion dollars in unfunded liabilities." According to a new ALEC report *Unaccountable and Unaffordable 2016*, using an assumed rate of return of 2.344 percent (an estimated "risk-free" rate"), Michigan's state pension plans funding ratio is 5<sup>th</sup> worst in the nation at under 28 percent-or \$15,817 per capita in unfunded liabilities.<sup>50</sup> Governor Snyder's Executive Budget recommendation to lower the state pension plan's assumed 8 percent annual rate of return by half a percentage point is only a first step in recognizing the problem.

The governor hinted at new taxes and debt to fund more infrastructure spending: "We need to look at all public and private sources for this, including fees, taxes, grants, bonds," he said. In addition, the Reason Foundation's 22<sup>nd</sup> *Annual Highway Report*, shows the state spends more money per mile of state-owned highways on capital and bridge disbursements of state-owned highways than 35 other states and spends more money on maintenance per mile than 32 other states.<sup>51</sup>

More reform is needed. As Governor Snyder remarked, “We create the environment for job creation, we don’t create those jobs.”

### **Minnesota – Governor Mark Dayton**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 45

Governor Mark Dayton emphasized the need to balance the state’s budget in his 2017 State of the State address. In fact, the state is awash with hard-earned taxpayer dollars. Much of his address centered on the various ways in which he plans to increase spending even further. Minnesota has one of the highest overall tax burdens in the country. The governor’s biennium budget recommendation includes nearly 10 percent more general fund spending than the previous budget, a proposal totaling \$45.8 billion. The governor focused heavily on spending increases in education. He proposed a 2 percent hike in the per-pupil aid formula for each of the two years included in the biennium budget, at an estimated cost of \$371 million. He also recommended further increases for higher education, on top of the 20 percent increase since FY 2013. . He also plans to spend more heavily on Pre-K programs.

In addition to education spending increases, he proposed billions in transportation infrastructure along with \$36 million in additional spending on lakes, rivers and streams.

Governor Dayton referenced the “failures of the ACA are having devastating effects on the lives of many Minnesotans.” Four years ago the state enjoyed some of the lowest individual health market premiums in the country, but now ranks in the middle of the pack after only a few years of skyrocketing premiums.<sup>52</sup> He suggested increasing competition and choice in the marketplace as a possible remedy.

### **Mississippi – Governor Phil Bryant**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 22

Governor Phil Bryant reminded lawmakers their power is derived from the sovereign taxpayers in an address covering government process reform, budget and economic development policy, improvements in education and a revamp of the state’s troubled foster care system.

The governor noted the success of education reform efforts—particularly a pass rate of more than 90 percent in reading for third-graders along with the state enjoying the most improved fourth grade reading and math scores. He touted Mississippi’s high school graduation rate reached a record 80 percent this year and voiced support for legislative efforts to overhaul the state's education funding formula.

He also highlighted his \$34 million request from the prior year to facilitate reforming the state's troubled foster care system. Governor Bryant applauded the lowest unemployment rate since February 2004.

Despite recent cuts, the state budget has still grown from \$5.53 billion in 2012 to \$6.26 billion this year. Noting the growth in state spending lowered the solvency of the rainy day fund, the governor asked lawmakers to consider transferring another \$57 million to it at the end of the fiscal year. The governor also asked lawmakers to create a "new and separate savings account" to hold the remaining \$110 million BP oil disaster settlement for spending on the Coast.

He also called for consolidation of the state's many agencies, boards and commissions. To further revenue raising efforts, the governor indicated his support for a general discussion regarding the implementation of a state lottery.

### **Missouri – Governor Eric Greitens**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 24

Governor Eric Greitens presented an ambitious agenda in his first State of the State address. Highlights of his speech include the need for right-to-work legislation (signed into law just weeks later), decreasing regulations, shrinking government and reforming the tax code.

The governor noted the average Missouri family would be making an additional \$2,400 per year if income growth had risen at the same rate as the rest of the country since 2009. He blamed forced-union membership as well as burdensome regulations. One such regulatory burden is occupational licensing, which, for example, requires 1,500 hours of expensive training in order to obtain a hair braiding license. Greitens highlighted the issues of overregulation and right-to-work specifically when discussing the need for quality, high-paying jobs. He also referenced government jobs and the need to engage in civil service reform, noting the percentage of Missourians employed by state government dwarfs that of other states—double that of Indiana, for example. “Because of this, we are 50<sup>th</sup> out of 50 in state employee pay,” explained the governor. He wants the state “focused on doing fewer things but doing them well.”

In addition to shrinking the size of government and ridding Missourians of the state’s burdensome regulatory structure, Governor Greitens plans “to do a thorough, end-to-end audit of our tax credit system – and create a tax code that works not to benefit privileged insiders, but instead is fair to all.” In other words, he plans to rid the state of special interest tax credits. Greitens clearly understands these carve-outs benefit only politically well-connected industries or businesses; often ignored are the unseen costs and foregone growth for the remainder of the state.

### **Montana – Governor Steve Bullock**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 39

Governor Steve Bullock’s third State of the State address discussed a wide variety of tax increases and spending projects. The governor plans to once again leave a \$300 million ending balance for the state—which is nearly 5 percent of the state’s annual budget. However, returning these funds to taxpayers in the form of a tax cut rather than maintaining such a slush fund could prove more beneficial to economic growth.

The governor proposed new infrastructure spending (through “Build Montana”), including \$292 million for bridges, roads, sewer systems, water systems and schools. On education, the governor proposed increasing K-12 spending by \$30 million. Although he rightly advocates for an education system of excellence with results, more funding increases may not be the best solution. From 2013 to 2015, Montana increased per-pupil spending from \$10,625 to \$10,859. During that time frame, the average National Association of Educational Progress (NAEP) score for eighth and fourth grade reading and math declined.<sup>53</sup>

Unfortunately, the governor announced a sought-for increase in the top income tax rate for so-called high income earners. These tax hikes would make Montana even a less attractive place for hard working taxpayers and their families. He also expressed support for other “modest revenue proposals.” Presumably, this includes his prior calls to levy cigarette taxes on vaping devices, which would extend discriminatory taxes to other products. In a further blow against businesses, the governor also announced his support of the Paycheck Transparency Act. This Act would force employers to disclose wages paid to other employees. Tilting the “playing field” in negotiations in favor of one party over the other could further hinder business competitiveness.

The tax code is an important component for economic growth, but the proposed property tax deduction for increasing energy efficiency and a tax credit for businesses that utilize apprenticeships are not the bold reforms which could lift Montana’s economic outlook from its current 39<sup>th</sup> place rank.

### **Nebraska – Governor Pete Ricketts**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 32

Governor Pete Ricketts delivered his State of the State address focusing on the need to increase government efficiency, cut spending, balance the state’s budget and deliver tax relief to all Cornhuskers. The state is facing a revenue shortage largely due to reduced tax receipts from farm revenue.

Ricketts discussed combining various agencies to eliminate redundancy. He also touted the success of several agencies significantly reducing wait time for their services, which resulted in saving the state millions of dollars. Similarly, the governor wants to rid Nebraska of unnecessary occupational licensing regulations, which create onerous barriers to work in certain professions.

Governor Ricketts declared he will balance the budget in a responsible manner while prioritizing education, children and family services, public safety and infrastructure. His budget recommendation for the upcoming biennium was informed by several principles, including addressing the revenue gap without increasing taxes and maintaining around \$500 million in the cash reserve. Ricketts emphasized the need to control spending before moving forward with tax reform.

The governor bemoaned the fact property taxes have been so harmful for Nebraskans, particularly farmers. He noted, “Between 2003 and 2013, property taxes on farmers and ranchers rose by 137 percent.” He suggested valuing agricultural property based on income potential, which is the system in nearly all nearby Midwestern states, to ensure property taxes are reasonably based on income derived from farmland. Ricketts also discussed reducing personal income taxes, as Nebraska has one of the highest top rates in the region. His proposal includes reducing the top rate by one-tenth of 1 percent per year, starting in 2020, until the rate is under 6 percent. The reduction each year would only materialize if revenue growth exceeds 3.5 percent. Ricketts emphasized this is not a tax break for the rich, as the top personal income tax rate in Nebraska kicks in at \$29,831 for a single filer and \$59,661 for married couples.

### **Nevada – Governor Brian Sandoval**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 13

Nevada Governor Brian Sandoval declared, “The state of our state has dramatically improved and we are growing stronger every day.”

Gov. Sandoval recognized the success of the state's charter school system which "serves nearly 10 percent of our student population." He also called for \$60 million to fund education savings accounts (ESAs). This innovative program allows families to customize a completely individualized program of education. Nevada's program is accessible to 96 percent of the state's students, and the average account will be funded at \$5,100 per student. The most recent ALEC *Report Card on American Education* ranks Nevada 4<sup>th</sup> in the nation on state education policy, largely because of its broad ESA program.<sup>54</sup> On economic matters, cause for concern exists. Sandoval touted Tesla's gigafactory presence in the state as an "economic growth story." But he ignored the nearly \$1.3 billion in tax "preferences" used to lure Tesla to the state. Tax credits (just 15 percent of the entire incentive package) issued in December for the six month period from January to June of 2016 totaled more than \$8 million for the 331 qualifying employees at the time of the audit—a whopping \$24,202 per employee.<sup>55</sup>

On the spending side, the governor admitted the biennial budget is "10 percent larger than the last budget." This budget explosion is partially due to the "4 percent cost of living adjustment and increased funding for health benefits" for state employees. This increase in public employee pay follows a 1 percent adjustment in July 2015 along with another 2 percent adjustment in July 2016.<sup>56</sup> The ALEC Report *Rich States, Poor States* still ranks Nevada a respectable 13<sup>th</sup> in economic outlook, but this is five spots lower than just three years ago. In fact, Nevada now ranks 2<sup>nd</sup> worst in the nation in terms of recently legislated tax changes.

Despite recent tax increases that have harmed the state's economy, Nevada remains one of the most business-friendly states. It's no surprise many choose to escape the high-tax regime of California for no-income-tax Nevada.

### **New Hampshire – Governor Chris Sununu**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 18

New Hampshire Governor Chris Sununu's proposed budget (including federal funds) for the next two fiscal years is a 7.1 percent increase compared to the current biennium budget.<sup>57</sup> Spending increases aside, the governor's plan continues the longstanding Granite State tradition of no personal income tax and no state sales tax—which has been an important reason for New Hampshire's pro-growth economic outlook.

The governor also hopes for the state government to pick up an \$18 million tab over two years for full day kindergarten. Current New Hampshire policy only pays for half-day costs per student. Instead of this approach, ALEC has recommended accomplishing the policy goal of full-day kindergarten through the use of vouchers, as articulated in the Smart Start Scholarship Program model legislation. This "allows students to use a scholarship to attend a public school outside their district as well as a private school." Such a policy gives "parents the widest array of choices so they can choose the school that best meets their child's needs."<sup>58</sup>

One of the most important proposals Sununu has offered is his idea for an "Infrastructure Revitalization Trust Fund" (IRTF). The fund would use much of the collected surplus revenue to increase the grant money allocated to towns for repair of their roads and bridges along with assisting schools in dealing with safety concerns. Perhaps more focus should be placed on increasing the overall cost-effectiveness (22<sup>nd</sup>)<sup>59</sup> rather than diverting so much surplus revenue to IRTF instead of tax reductions. The IRTF proposal also grants the Governor broad authority to spend the money on a host of different projects—

despite the stated intent of the fund to deal specifically with infrastructure matters. This could lead to abuse if a future governor successfully markets pet projects as infrastructure investment.

The proposed budget also allocates more money from the state to authorized charter schools, reaching almost \$44 million in 2019. The governor promises this funding will be linked “to the state’s average per pupil expenditure” and will help “eliminate uncertainty and volatility for administrators, teachers and parents.”

Despite the Granite State’s strengths (currently 18<sup>th</sup> in *Rich States, Poor States* economic outlook), much work remains to be done. For example, the top marginal tax rate for corporations is a steep 8.2 percent. Although New Hampshire doesn’t have a personal income tax or sales tax, it does have the highest property tax burden in the nation.

### **New Jersey – Governor Chris Christie**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 48

Governor Chris Christie focused much of his final State of the State address on how to combat the opioid crises afflicting the region while also touching on tax reform and partial solutions to the ongoing pension crises. In particular, the governor proposed using \$1.9 billion in discretionary spending savings as an infusion to shore up the state’s pension fund. According to him, this would constitute the largest one-time pension investment in the last 23 years. He also applauded recently passed reforms estimated to save New Jersey’s pension system nearly \$120 billion over 30 years.<sup>60</sup>

These reforms—although commendable—are only small first steps toward ensuring the state honors its promises to the hundreds of thousands of public retirees reliant on these plans. New Jersey’s legislature consistently underfunded the programs from years past. The ALEC report *Unaccountable and Unaffordable 2016* ranks the state’s pension funding level at 47<sup>th</sup> nationally. Using a risk-free rate of return of 2.344 percent, New Jersey’s state pensions are underfunded by more than \$235 billion, or \$26,288 per capita.<sup>61</sup>

The governor failed to mention the tax cut savings are almost entirely offset by the enormous 23-cent per gallon increase in the gas tax.<sup>62</sup> This year’s sales tax reduction of 0.125 percent will save a whopping \$1.25 on a \$1,000 purchase; meanwhile, the gas tax hike will cost twice this much on a single 11 gallon fill-up. While Governor Christie commended the implementation of a property tax cap during his tenure (projected to save taxpayers \$520 million), he failed to mention New Jersey’s property tax burden is the 2<sup>nd</sup> worst in the nation. Capping the tax does not alter this harsh reality.

Despite the governor’s repeated exhortations for reforms since assuming office in 2010, substantial change has proved elusive for the Garden State. As a result, economic outlook remains dismal relative to the other states (48<sup>th</sup> in the latest edition of the ALEC report *Rich States, Poor States*). The top marginal income tax rate for individuals and corporations (state and local rates combined) remain the 5<sup>th</sup> and 9<sup>th</sup> highest in the nation respectively.

### **New Mexico – Governor Susana Martinez**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 35

New Mexico Governor Susana Martinez commended legislators from both parties who “have chosen to make tough decisions” and “resisted taking the easy way out” by choosing to reign in government spending rather than increase taxes throughout the current budget crises.

The governor identified the “cause of the crisis” as being “at the mercy of the federal government and an unpredictable oil and gas market.” But other factors are also to blame for the sluggish state economy and fiscal situation.

Latest numbers from Census Bureau (2014) do show New Mexico as fourth most dependent on federal dollars at nearly \$2,600 per capita.<sup>63</sup> However, total expenditures in FY 2015 of \$8,209 per capita dwarfed the national median by more than \$2,300 annually, according to Kaiser Family Foundation.<sup>64</sup> This suggests responsibility for budget crises stems from overspending in general.

The governor should be commended for opposing legislation which would have delayed the implementation of the lowered corporate tax rate of 6.2 percent. The governor also advocated for using “funds in idle accounts that can be swept” along with seizing the opportunity to “modernize the tax code, eliminate loopholes and make government smaller and more efficient.” She also pointed to the bloated bureaucracy with “twice as many agencies as the federal government.” In fact, the New Mexico government employs more people per capita than 42 other states.

At the same time, Martinez touted the Local Economic Development Act (LEDA) which dishes out public money to politically favored private entities. The governor claims “for every \$1 million of LEDA we spend, private businesses invest \$16 million. And, when you take into account the construction, wages, taxes and other economic activity around new businesses, every LEDA dollar we spend brings back 20 and 30 times that.” But as Paul Gessing of the Rio Grande Foundation stated to Watchdog.org, “Taxing productive economic activity and transferring it to some new player is inherently unfair.”<sup>65</sup>

In contrast to cronyist endeavors, tackling issues such as tort reform, workers’ compensation costs and right-to-work could significantly warm the economic climate for job creators of all stripes.

#### **New York – Governor Andrew Cuomo**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 50

Governor Andrew Cuomo’s sixth regional State of the State address provided plenty to chew on for New York taxpayers. Despite acknowledging the need for tax relief and controlling spending, he proposed increased infrastructure spending along with picking winners and losers through tax incentives and a plan to purchase expensive equipment exclusively from American corporations. These proposals will not improve New York’s dead last economic outlook.

In regards to spending, Governor Cuomo proposes the largest infrastructure spending in state history at \$100 billion.<sup>66</sup> These projects include initiatives such as \$10 billion for a “new John F. Kennedy airport” and \$2 billion for water treatment for local communities. Another large spending item is the second phase of Governor Cuomo’s “Buffalo Billion” proposal, which allocates \$500 million for economic development projects in the Buffalo region.<sup>67</sup>



Governor Cuomo also proposes tuition-free college at SUNY and CUNY schools for New York residents with family income up to \$100,000 annually (rising to \$125,000 in 2019).<sup>68</sup> But “free” tuition may not be the best option for New York families. As Catherine Hill, president and professor of economics at Vassar College, explained, “If the revenue is not replaced, free tuition means fewer resources to teach students. Unintended consequences could include reductions in need-based financial aid, which would harm the low- and middle-income students free tuition is meant to help.”<sup>69</sup>

Governor Cuomo’s ill-advised incentives program continues to shower favored companies with taxpayer dollars if they “invest” in New York. The governor offered a generous \$30 million incentive package to encourage a company to move to New York and “create” over 250 jobs.<sup>70</sup> That is an estimated cost of about \$120,000 taxpayer dollars per job. Tax carve-outs hinder economic competition and stifle innovation.<sup>71</sup>

The governor’s plan to “buy American provisions” (any procurement over \$100,000) will only cost New York residents what they could have saved if the state purchased a comparable item in an open market. The governor should seek to procure the necessary equipment for the state at the best price possible.

The governor proposed doubling the state’s Middle Class Child Care Tax Credit. The governor also proposed a process for development of cost-savings plans for local governments in order to potentially reduce the property tax burden on taxpayers. Other proposed positive reforms included allowing ridesharing throughout the state instead of only in select regions.

#### **North Carolina – Governor Roy Cooper**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 3

Governor Roy Cooper began his first State of the State address highlighting the shared interests of all Tar Heel State citizens; but he focused most on proposals for spending on education, healthcare, the opioid crisis, disaster recovery and jobs growth. In fact, in total, he proposed a \$23.4 billion budget, with \$1.1 billion in new spending— a 5.1 percent increase over the current fiscal year.

Claiming businesses face difficulties in attracting skilled workers, the governor asked lawmakers to focus on “making North Carolinians better educated.” To accomplish this, he proposed teacher pay raises averaging 10 percent over the next two years, in order to “bring teacher salaries up to the best in the Southeast in three years” and “make North Carolina a Top Ten Educated State by 2025.”

On tax policy, the governor lobbied for a reinstatement of tax carve-out cronyism – some of the very favoritism eliminated by the pro-growth reforms of former Governor Pat McCrory. He also called for creation of a workforce program, “NC Grow” (Getting Ready for Opportunities in the Workforce), which would provide tuition-free community college. ALEC has recommended a different approach—namely a voucher program for in-state students. Dependent on circumstances, these vouchers could be used by a student to pay for tuition at a variety of public and private higher education institutions within the particular state. This would expand student choice and academic competition.<sup>72</sup>

The governor implored legislators to address issues stifling small businesses and jobs growth; but rather than embracing efficient government and lower taxes, he called for tax carve outs—hardly economic dynamism.

The governor’s proposals are substantial increases in spending over years prior, rewarding education interests with \$783 million of the \$1.1 billion increase. All in all, the spending largesse represents a

marked departure from the fiscal prudence largely responsible for the state placing in the top 10 in economic outlook for the 7<sup>th</sup> consecutive year.

#### **North Dakota – Governor Doug Burgum**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 4

“While declining revenues are a problem, the root culprit is spending. Our general fund budget has more than tripled in the past decade. Our total budget, including federal funds and special funds, has increased by nearly two-and-a-half times.”

Governor Doug Burgum delivered his first State of the State address, with a focus on the need to make government more efficient, decrease spending and reduce tax and regulatory burdens on hardworking North Dakotans.

The state of North Dakota has weathered the effects of the Great Recession relatively well, largely due to the development of the profitable Bakken oil fields. However, the state also benefits from many pro-growth policies, including comparatively low income, property and corporate tax rates. Its economic outlook and economic performance score are both in the top four in *Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index*.

Governor Burgum plans to reduce spending in a variety of ways, citing the tripling of the state’s general fund budget in the past decade. He highlighted the need for commonsense infrastructure designs, which will result in lower spending and property taxes. He plans to implement zero-based budgeting, as opposed to incremental budgeting, when crafting the next full budget, with the intention to increase transparency, uncover cost-saving efficiencies and siphon spending to the areas with the highest return. Relatedly, Burgum stressed the need to consider state and local agencies as “a network of programs with overlapping areas.” He challenged his fellow public servants to work more closely with one another in order to identify and reduce redundancy.

Governor Burgum also discussed the need to utilize dynamic technological advancements to improve the state’s approach to the biggest budgetary line items, including health care and education. Beyond providing basic services, Burgum does not believe the government should play a large role in the lives of North Dakotans. “For the most part, government needs to get out of the way and let the powerful, positive forces of free markets – including competition, price and consumer choice – shape our future.”

#### **Ohio – Governor John Kasich**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 19

Governor John Kasich celebrated the strengthening economic recovery in the Buckeye State. Six years ago “we lost 350,000 jobs...Now we are up 460,000 new jobs in our state,” he exclaimed. Indeed, Ohio’s economic outlook jumped from 45<sup>th</sup> in 2009 to 19<sup>th</sup> this year.

This success he largely attributed to reigning in spending, income tax reductions (specifically on small businesses) and regulatory reform. The top marginal personal income tax rate declined from 8.24 percent in 2009 to 7.5 percent (state and local combined) in 2017; the top marginal corporate income tax rate plunged from 10.5 percent to just 3.64 percent. (Of important note, Ohio does levy a

“commercial activity tax” with a base rate of 0.26 percent. This is levied on gross receipts (i.e. revenue) rather than on net income. Thus, the 3.64 percent on net income is an approximation). Workers’ compensation costs during this period were slashed in half; in fact, the governor hinted at another \$1 billion in rebates from the workers’ compensation board in the coming year.

The governor called for a “new Ohio Institute of Technology” headed by a “chief innovative officer for Ohio.” That official “will mine our strengths, coordinate our resources and always looking ahead to what’s coming next.” This top-down tendency to micromanage economic growth displayed itself again with the governor’s warning regarding changing jobs market: “Business, education, government, all of us, we need to start thinking about what new jobs are going to exist and which ones will change.” A state created private-public sector task force would “look into the future” and ...“outline what Ohio needs to do to prepare our people for the coming changes.”

Governor Kasich also acclaimed the continued efforts of JobsOhio, technically a private, non-profit corporation. This entity invests in hundreds of private ventures and companies across the state. The JobsOhio Beverage System (JOBS) is the primary source of funding for JobsOhio. This entity was granted the “exclusive franchise for the sale of spirituous liquor throughout Ohio” by the state in exchange for an initial payment to the “private” JobsOhio corporation in addition to transferring all of its annual net revenues to JobsOhio as well.<sup>73</sup> JobsOhio could not operate on this grand scale without this state—created investment capital stream derived from a state-created liquor monopoly.

The governor failed to talk directly regarding his decision to bypass the legislature in expanding Medicaid through Obamacare. He commended the reduction in the rate of growth of Medicaid expenditures from 9 percent to 3 percent annually. But he ignored rigorous data analysis showing the short-term budgetary benefit from Medicaid expansion (thanks to federal matching funds) turns into a cumulative fiscal hole by 2027 as the federal match proportion declines.<sup>74</sup> Under current law, this federal contribution is 95 percent of costs for newly eligible enrollees under the ACA, declining to 90 percent by 2020. The costs covered by the federal government may decline even further if the ACA is even partially repealed or reformed.

A renewed focus on reforms--rather than government micromanagement—can ensure the governor’s homestretch is one of continued economic renewal.

### **Oklahoma – Governor Mary Fallin**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 16

Oklahoma Governor Mary Fallin proposed what may end up being the nation’s largest tax and spending hike (in percentage terms) during her seventh annual State of the State address. Under her plan, spending will rocket by one billion dollars, from \$6.78 billion in fiscal year 2017 to \$7.79 billion in fiscal year 2018. This whopping 14.9 percent increase is accompanied by a net hike in taxes and fees of approximately \$950 million.

The so-called modernization of the sales tax comprises the biggest component of the massive tax hikes. Applying the tax to services in addition to goods brings in nearly \$840 million while eliminating the sales tax on groceries saves taxpayers nearly \$235 million. On net, this sales tax shift represents a \$605 million increase. Oklahoma taxpayers already endure the 16<sup>th</sup> worst sales tax burden. Now, a family of four could be saddled with an additional \$616 per year just in sales taxes.

The governor's budget seeks to increase the gas tax and diesel tax, equating to \$219.7 million in new taxes. Additionally, she aims to more than double the cigarette tax from \$1.03 per pack to \$2.53 per pack, tallying up to \$257.8 million in new taxes.

Calls by the governor to eliminate the corporate income tax (saving \$140.2 million) should be commended as that reform would certainly help Oklahoma compete. Likewise, her proposal to accelerate the sunset of the wind production/zero emission tax credits enhances the neutrality of the tax code. This favoritism could funnel \$840 million to government selected producers from taxpayer pockets over the next 15 years. Unfortunately, these positive steps were dwarfed by the slew of tax increases elsewhere.

Rather than enacting these permanent tax increases, a continuation of spending reforms will preserve the Sooner State's economic competitiveness. More focus should be given to lightening the footprint of the state government. According to the Kaiser Family Foundation, the state of Oklahoma spent more per capita in fiscal year 2015 than 21 other states. In fact, for every \$1 per capita spent by Texas, Oklahoma spent \$1.31.<sup>75</sup> As she stated, "Government in and of itself does not create jobs, but it should provide the right environment to grow the economy through a free-market system, unfettered by burdensome regulation."

#### **Oregon – Governor Kate Brown**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 41

Governor Kate Brown discussed pension reform, streamlining government and "tax fairness" in her inaugural State of the State address, as a \$1.7 billion budget deficit looms over this year's legislative session. The governor also identified infrastructure, jobs, healthcare and education as primary areas of focus for Oregon. Despite Oregon's budget problems, she hinted at expanded infrastructure spending but did not specify an exact price tag.

The governor acknowledged Oregon's unfunded pension promises. According to *Unaccountable and Unaffordable 2016*, Oregon's unfunded pension liabilities total more than \$97 billion when assuming a risk-free rate of return- \$24,270 for each resident. According to Governor Brown, these unfunded pension promises account for an estimated one fifth of the budget deficit. As a remedy, the governor suggested bringing investment services in-house. This may be a politically safe suggestion, but does little to solve the underlying structural problems.

To help close the state's alarming budget deficit, the governor announced the creation of a panel of public and private leaders to focus on government efficiency. The panel will make recommendations just in time for the 2018 legislative session. Governor Brown warned the business as usual budgeting approach has failed Oregon families.

#### **Pennsylvania – Governor Tom Wolf**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 38

Pennsylvania Governor Tom Wolf called for spending efficiencies totaling \$2 billion rather than "broad-based tax increases" to remedy the state's structural deficit. Even with these efficiencies, his budget calls for a 1.8 increase in the General Fund budget in FY 2018.<sup>76</sup> He also discussed the need for education spending reform.

To reduce overhead, the governor proposed consolidating human resources departments, information technology departments and the dazzling number of state pension funds. Additional fiscal savings include selling off unused state-owned lands, allowing vacant positions in Pennsylvania's bureaucracy to go unfilled and offering early retirement options to some civil servants.

On tax policy, the governor also seeks to close what he called "loopholes" in the corporate income tax code. However, this includes a proposal to limit deductions for operating losses, imposition of a severance tax on natural gas drillers and applying a sales tax to certain businesses purchases formerly excluded. This amounts to approximately \$800 million tax revenue<sup>77</sup>, or about 2.5 percent of next year's proposed General Fund operating budget. His budget does include a proposal to lower the top marginal corporate income tax rate by 3.5 percentage points. The suffocating tax environment created by this 9.99 percent tax rate—and a combined state and local rate of 17.02 percent—contributes immensely to the Keystone State's dismal 38<sup>th</sup> economic outlook ranking in the annual ALEC publication *Rich States, Poor States*.

Turning to education, the governor called for reversing previously enacted spending cuts, labeling these cuts "short-sighted." The proposed \$125 million on K-12 education, \$75 million on early childhood education and \$8.9 million on the state's higher education system may be welcomed news to many. But according to the latest available data (2014) from the Census Bureau, Pennsylvania already spends more per pupil for elementary and secondary education than 40 other states, or more than 126 percent of the national average.<sup>78</sup> Rather than follow the governor's focus on a perceived funding shortfall, state legislators should consider reforming policies on teacher quality and expanding school choice programs.

### **Rhode Island – Governor Gina Raimondo**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 36

Not only does Rhode Island's economic outlook rank a dismal 36 out of 50 according to the 10<sup>th</sup> annual *Rich States, Poor States*, but more than 63,000 have exited the state over the past decade. Governor Gina Raimondo's State of the State address proposes free college tuition, increasing the minimum wage and reducing the burdensome Motor Vehicle Excise Tax. Taxpayers should welcome the governor's call in the State of the State address to reduce the Motor Vehicle Excise Tax. However, her other agenda items of free tuition (i.e. higher education spending) and increasing the minimum wage will further inhibit Rhode Island's economy.

Her proposal, Rhode Island's Promise, would provide two years of free tuition at Community College of Rhode Island, Rhode Island College and University of Rhode Island for all Rhode Island high school graduates. Annual costs upon are estimated to be \$30 million.<sup>79</sup> But two years of "free" college may not be the best option for Rhode Islanders. As Gary Sasse, director of the Hassenfield Institute for Public Leadership at Bryant University explains, "The question of affordability is about choices and priorities. Thirty million for free college means that amount will not be available for elementary education, social services or tax cuts."<sup>80</sup>

All Rhode Islanders need a fair shot to get ahead and stay ahead. Unfortunately, the governor's proposal to increase the minimum wage from \$9.60 per hour \$10.50 per hour will not expand opportunities for workers. A recent ALEC study *Raising the Minimum Wage: The Effects on Employment, Business and Consumers* explains how increasing the minimum wage causes unintended economic consequences for young people and working families.<sup>81</sup> While some workers may enjoy an income boost, many others

may lose their jobs or see their hours cut. When employers are forced to pay higher wages, they often leave entry-level workers—those who need a paycheck the most—out of the job market.

Rhode Island's burdensome Motor Vehicle Excise Tax is another barrier to opportunity. Governor Raimondo proposes requiring cities and towns to use fair trade-in value for assessment purposes, or 70 percent of full valuation. The governor estimates her proposal will cut the dreaded tax by at least 30 percent, putting more than \$50 million back in Rhode Islanders' pockets. While reforming the tax is a step in the right direction, Rhode Island still compares negatively to the nearly half of the states which do not impose one at all.<sup>82</sup>

### **South Carolina – Governor Nikki Haley**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 27

Governor Nikki Haley used her seventh and final State of the State address to bid farewell to a job she called "the greatest honor" of her life and to highlight growth made in jobs, business investment and educational achievement, as well as reforms in ethics, criminal justice and domestic violence.

The governor noted the results of efficiency and budget reforms. According to the Governor Haley, since she assumed office six years ago, no cabinet agency has run a deficit, the state doubled its reserve fund and reduced its debt service by half and legislators enacted significant tax relief. She also highlighted the 85,000 jobs gain in just six years as the unemployment rate dropped from 11.1 percent to 4.4 percent—the lowest since January 2001. In fact, every one of the state's 46 counties experienced job growth; the state has become a haven for tire, automotive and aeronautics manufacturing and attracted \$21.5 billion in business investment inflows since January 2011.

She also celebrated reforms to the state's K-12 education system, noting improvements in reading proficiency and the success of English and reading coaches. Haley also praised the overhaul of the formulas used to allocate dollars to school systems, which have equipped more students with resources and opportunities necessary to succeed.

Progress on criminal justice reform also received a mention. Prisoner education programs are promising to develop human capital and reduce recidivism.

### **South Dakota – Governor Dennis Daugaard**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 12

Governor Dennis Daugaard touched on the need to balance the budget, roll back burdensome regulations and make government more efficient during his 2017 State of the State address. Although South Dakota dropped out of the top 10 most economically competitive states in the latest edition of *Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index*, it remains at a respectable 12<sup>th</sup> out of 50.

One cause for this drop was a sales tax increase put into effect last year, in an effort to increase teacher salaries. The pay increase paired with low revenue collections has strained the budget, particularly due to the weakness in the agricultural sector and increase in online sales. Governor Daugaard lauded the state for receiving the highest possible ratings from all three major credit rating agencies, an especially impressive feat considering South Dakota boasts one of the lowest overall tax burdens in the country.

Daugaard also plans to continue “red tape repeal” efforts to eliminate unnecessary or obsolete laws and rules. In his effort to make the state government more open and accessible, many additional documents are now viewable online, including economic development grants and restaurant inspections.

The state will continue to face several fiscal challenges in the coming year. For instance, South Dakota—similar to other parts of the country—is struggling to maintain its vast infrastructure network. The state has already appropriated millions of dollars to upgrade state-owned rail line, and money will continue to be siphoned to build and repair roads and bridges. And as noted by the governor, “the state’s average [teacher] salary increased by 11.9 percent,” resulting in larger demands on the state’s budget.

### **Tennessee – Governor Bill Haslam**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 5

Thanks to the new tax plan touted by Governor Bill Haslam and now largely approved by the legislature, Tennesseans will pay more at the pump. This increase is partially offset by a sales tax cut on groceries.<sup>83</sup>

Governor Haslam’s \$37 billion budget proposal for fiscal year 2017-18 included many big-ticket items, such as \$100 million in pay raises for K-12 teachers, \$132 million for the state’s reserve fund and a \$57.8 million expansion of Tennessee’s free community college program. “Even with all of the progress and unprecedented opportunity, we know that we have to do more,” Governor Haslam said, announcing his quest for Tennessee to become the first state to offer tuition-free community college for all adult residents (rather than just the high schoolers covered under the current Tennessee Promise program). The governor signed the community college bill into law on May 24.<sup>84</sup>

Prior to the speech, Haslam proposed raising the state’s gas tax by 7 and 12 cents per gallon for unleaded and diesel, respectively. As passed by the legislature and signed into law by the governor, the gasoline tax will rise by 6 cents over three years while the diesel tax will rise by 10 cents over three years.<sup>85</sup> The Governor plans to use the hike (more than \$300 million) to help pay for more than \$10 billion in infrastructure projects. .

Governor Haslam also proposed a one-half percentage point cut in the state’s sales tax on groceries, which follows a previous reduction of the same size. He claims this new cut would save Tennesseans \$55 million annually. As signed into law, the sales tax on groceries declines by 1 percentage point. The governor also highlighted his proposal fully funds the cuts to the Hall Income Tax (on dividends and interest), which is already on track to be eliminated by 2022. But despite these specific tax reductions, Tennessee is experiencing an overall tax increase totaling more than \$2 billion over ten years.

### **Texas – Governor Greg Abbot**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 9

Governor Greg Abbott began his State of the State address acknowledging the economic toll of falling energy prices, while applauding the drive enabling Texas to “come roaring back.” He noted even when oil prices bottomed out; Texas added 200,000 new jobs and rose to 2<sup>nd</sup> in the number of Fortune 500 companies headquartered in state. In fact, if Texas were still a sovereign country its economy would be the 10<sup>th</sup> largest in the world—eclipsing Australia, Canada and Russia.

Governor Abbott presented a packed agenda of tackling persistent problems- including reforms of the Child Protective System and public schools, securing the border, improving tax policy, strengthening ethics standards and embracing further union reforms. Citing the horrific deaths of more than 100 children in the Child Protective System, the governor called for an increase in funding to hire more workers, implement better training, create more accountability and devise smarter strategies to safeguard children.

With energy prices continuing to squeeze the state's budget, Governor Abbott announced an immediate state agency hiring freeze, freeing nearly \$200 million in the budget. He also pushed legislators to fund educational innovation through school choice and charter schools, rather than simply divert more taxpayer dollars to the status quo. Governor Abbott decried, "Texans are being crushed by property taxes...we need serious property tax reform." With increases in property tax bills outpacing household income growth, he implored legislators to enact a real revenue cap as well as reforms prohibiting cities from raising property taxes without voter approval. The governor also called for an end to "the practice of government deducting union dues from the paychecks of employees" and asked legislators to pass ethics reforms that would ensure Texans know "if elected officials have government contracts paid for by taxpayers."

Governor Abbott asked that legislators call for a convention of the states to remedy fiscal failures at the federal government and to send a message to Washington to "leave us alone, and let Texans govern Texas."

#### **Utah – Governor Gary Herbert**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 1

Utah Governor Gary Herbert reflected on the economic success story of the Beehive State. "Utah had one of the fastest growing technology sectors in the nation, and Utah businesses added more than 43,000 jobs to our economy," declared the governor. But complacency is not on the agenda. Despite the state's 4<sup>th</sup> place economic performance and 1<sup>st</sup> place economic outlook ranking in the annual ALEC report *Rich States, Poor States*, the governor showed no signs of complacency. In fact, he placed renewed emphasis on education reform and tax reform. The governor cautioned against "failure to take into account how tax rates affect business investment won't help us make good policy decisions." He also advised the "best way to ensure ongoing growth of education funding is to continue to grow our economy." Indeed, the relatively low top marginal personal and corporate income tax rates (18<sup>th</sup> and 11<sup>th</sup> lowest, respectively) are partly responsible for Utah holding the top economic outlook for 10 consecutive years.

At the same, the governor recognized a flaw in the current system—the narrowing tax revenue base. Much of this narrowing is due to tax carve-outs, deductions and loopholes created to favor particular businesses or special interests. "I also urge a thorough legislative review of each and every tax exemption and tax credit to examine whether it has outlived its usefulness. That means making our taxes fairer by eliminating loopholes and broadening the base," said Governor Herbert. As an example of tax favoritism, consider the rising number of sales tax exemptions in Utah (rising from 48 in 1997 to 89 currently) or the tripling in income tax credits from 12 to 38. Such an emphasis on expanding the tax base while maintaining low rates (or enacting further reductions) will spread the stability of the state's "diversified revenue policy" and the booming job market.



Unfortunately, the governor hinted at requiring out-of-state online retailers with no physical presence in Utah to collect and remit sales taxes on purchases made by Utah consumers not only would such a demand would run contrary to the United States Constitution, but negative consequences could arise should the Supreme Court overturn precedent. Other states could likewise burden Utah online businesses with similar tax collection demands, subjecting small businesses to a patchwork of roughly 10,000 taxing jurisdictions across the nation.

One of area of cronyism still enjoying bipartisan support is the Rural Partnership Board (RPB). The governor committed to working through this entity to help creating “25,000 new jobs in the 25 counties...over the next four years.” The RPB is part of the Utah Governor’s Office of Economic Development (GOED) which redirects taxpayer dollars to favored businesses through items such as tax credits, tax-exempt bonding authority for politically favored construction projects. The rampant favoritism of the RPB and GOED stands in marked contrast to the otherwise free-market oriented policies in Utah.

As a whole, the address indicated a steadfast zeal to maintain fiscal responsibility, a sensible regulatory environment and low income tax rates. Utah’s outlook is almost certain to remain the envy of the nation.

#### **Vermont – Governor Phil Scott**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 49

Gov. Phil Scott’s first State of the State address promised to limit spending increases, prevent tax increases, balance the budget, pursue budgetary and education reforms and fund pension obligations. With Vermont’s economic outlook continuing to languish at 49<sup>th</sup> legislators may be ready to take the governor’s charge to heart: “We must act now and begin our ascent.”

People vote with their feet. The governor noted in the Green Mountain State “from 2010 to 2016, we lost an average of 2,300 workers per year from the workforce...With fewer workers, we have less revenue and the state becomes less and less affordable.”

Acknowledging the hard choices required to achieve fiscal balance this year, the governor advocated for base spending in the upcoming fiscal year to actually be “below base spending for the current one.” And his Government Modernization and Efficiency Team (GMET) and Program to Improve Vermont Outcomes Together (PIVOT) program promises to focus on outcomes and “Results Based Accountability” throughout the budgeting process.

Commendably, the governor proposed “fund our pension obligations at their full recommended annual levels” and to “set aside reserve accounts.” However, the recommended funding levels in Vermont are based off an assumed rate of return of 7.9 percent for teachers’ pensions and 7.95 percent for other state employees. These are some of the highest assumed rates of returns in the nation. The annual contribution assuming a more reasonable (and likely) rate of return would be far higher. The ALEC report *Unaccountable and Unaffordable* 2016 estimates the funded ratio at just 30.4 percent, using a risk-free rate of return of 2.344 percent.<sup>86</sup>

One of the impediments to affordability in Vermont is the 3<sup>rd</sup> highest property tax burden in the nation. One of the factors is the 3<sup>rd</sup> highest per pupil administration costs in the nation (according to the U.S.

Census Bureau).<sup>87</sup> “We can no longer afford to allow so much of the nearly \$19,000 we spend for each K–12 student to be diverted away from the child and toward empty spaces and overhead costs,” declared the governor. “To start us on this new path, I’m proposing a realignment of priorities and spending that allows us to unify the system from early care to higher education and trades training.”

Governor Scott called for school districts to freeze their funding for the upcoming year at current levels. He also proposed teachers pay 20 percent of their health insurance premiums (the same rate as other state employees) instead of 15 percent. “We can no longer ask property tax payers to pay more every year for education without offering better efficiency and better outcomes,” explained the governor.

The governor promised “modest tax relief to help working families and create jobs” but regretted budgetary constraints preventing his ability to “go further with broad-based income tax cuts for Vermonters.” The top marginal personal and corporate income tax rates are 7<sup>th</sup> and 13<sup>th</sup> highest nationally, respectively. “Please don’t instinctively lock up with resistance to change,” Governor Scott implored legislators. Indeed, reforms on budget priorities, public pensions, taxation levels and education funding are all sorely needed. Although solutions to each of these issues present challenges, reality may be sinking in as people-and jobs-continue to exit the state.

### **Virginia – Governor Terry McAuliffe**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 11

In his final State of the Commonwealth address, Governor Terry McAuliffe spent the bulk of his time discussing Virginia’s economic condition, blaming federal budget cuts between 2011 and 2013 for the loss of 154,000 jobs. To his credit, the governor noted Virginia’s economy had too often “floated atop a massive wave of federal spending. “As a solution, Governor McAuliffe called for a redoubling of efforts to make Virginia more attractive to businesses, especially those in the cyber, bioscience and manufacturing industries.

His key message was for lawmakers and citizens to create “a more open and welcoming climate” to draw families and businesses from all walks of life. The addition of 167,000 jobs over the last three years and an unemployment rate of 4.2 percent were offered as proof of the state’s upward trajectory.

Proclaiming, “400,000 people living without healthcare is a problem,” the governor also voiced support for expanding Medicaid under the Affordable Care Act and asked lawmakers to set sights on improving the state’s healthcare services and to address the opioid crisis. Medicaid expansion would be primarily funded initially by federal dollars. Under current law, this federal contribution is 95 percent of costs for newly eligible enrollees under the ACA, declining to 90 percent by 2020. This federal contribution declines to 90 percent in 2020. But the costs for these newly eligible enrollees covered by the federal government may decline even further if the ACA is even partially repealed or reformed. This could leave states on the hook for hundreds of billions of dollars in health care entitlement spending.

The governor may blame faltering tax revenues for Virginia’s \$1.2 billion budget deficit. But general fund revenues rose by 1.7 percent to \$18.04 billion in fiscal year 2016 and are projected to rise another 2.9 percent in the current fiscal year ending on June 30, 2017.<sup>88</sup> Meanwhile, Virginia’s operating budget has grown by nearly 29 percent in fiscal year 2017 compared to fiscal year 2012.<sup>89</sup> Excessive spending and government inefficiency created this crisis. Lackluster economic growth (23<sup>rd</sup> in economic performance according to the 10<sup>th</sup> edition of *Rich States, Poor States*) and business investment are largely responsible

for disappointing tax revenues. Freeing businesses from overly burdensome regulations and taxation (21<sup>st</sup> highest corporate income tax rate nationally) will generate the jobs and revenue sought by the governor.

### **Washington – Governor Jay Inslee**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 40

Governor Jay Inslee proposed a \$4 billion tax package in his State of the State address. He proposed new taxes on carbon emissions and capital gains. And although he called for increasing the filing threshold to \$100,000 for the Business and Occupation (B&O) tax, he also proposed increasing the B&O rate from 1.5 percent to 2.5 percent—the biggest B&O tax increase since 1993. Furthermore, he hopes to levy the tax to a wide range of services such as real estate agents, accountants, architects, attorneys and consultants.

Unfortunately, a carbon tax would negatively impact Washington’s economic competitiveness. According to the nonpartisan Washington Research Council (WRC), the petroleum industry contributes an estimated \$1.85 billion to the state economy annually. Furthermore, Washington’s refineries paid \$126.3 million in state and local taxes. According to the WRC, the tax burden on the state’s refineries is already three times greater than California refineries.

The business tax increases would diminish economic opportunity. Currently, Washington state enjoys the most competitive capital gains rate in the region—zero. In fact, the state’s own Department of Commerce agreed, stating, “We offer businesses some competitive advantages found in a few other states. These include no taxes on capital gains or personal or corporate income.”

These tax hikes will help fuel the governor’s spending desires, particularly on education. But before simply spending another estimated \$3.9 billion on public education—on top of the \$4.6 billion already spent—policymakers should more fully explore how best to deliver results for students.

### **West Virginia – Governor Earl Jim Justice**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 31

The policy prescriptions contained within Governor Jim Justice’s inaugural speech generally fell short of practical solutions. Unfortunately, tax hikes seem to be the governor’s preference. “We have to got to find a way to raise revenue,” the governor admonished.

The governor is hinting at saddling coal and natural gas extracting firms with yet more taxes, arguing “when the companies are really hurting, I say we try to help, but when the companies are really winning, we’ve got to get more too.” West Virginia currently imposes severance taxes on coal and oil in addition to a 6.5 corporate income tax.

Perhaps the most interesting item of the speech was a call for “an environmental subsidy” from the federal government to cover a percentage of wages for hardwood furniture. Because hardwood furniture sequesters carbon otherwise released into the atmosphere, the governor claims this subsidy is justified. The 200 kilograms of sequestered carbon contained within a large kitchen table has a

sequestration value of just over \$7, using a “social cost of carbon,” estimated at \$36 per ton by a recent Obama Administration interagency working group.<sup>90</sup> Not only is Congress unlikely to enact such a subsidy, but a \$7 subsidy on a \$1,500 dining room table is hardly the spark required to draw furniture mills into the state.

The governor’s infrastructure spending proposals bordered on an alternative reality: “There’s a way to get things going with no money.” The governor explained he hopes to parlay \$225 million in capital into a \$4.5 billion financial instrument (presumably bonds) issued by Wall Street. The state will receive \$1.4 billion up front by discounting the value of this debt, which will be repaid over a period of 15 to 25 years. Under the governor’s plan, “as many highway matching dollars” as possible will supplement this \$1.4 billion. But is using long-term debt of equal to more than \$9,700 for each family of four in the state prudent?

The governor also called for putting “real dollars into tourism and marketing.” But a recent study by the non-partisan Mackinac Center for Public Policy found, “The new spending generated by taxpayer-funded tourism advertising is funneled to just a few sectors of the economy: retail, accommodations and amusements, where the impact is visible, but tiny. Meanwhile, the cost of these programs is spread across...taxpayers and the employment losses in other sectors of the economy more than offset the gains to the tourism sector.”<sup>91</sup>

The governor did indicate a desire for serious reform of the public education system. “We’ve got to get the bureaucrats out of the way,” complained the governor as he called for “elimination of a bunch of unnecessary agencies” related to education. He pointed out compared to 1980, the state instructs “half as many students and [employs] ten times as many bureaucrats.” By continuing to allow public schools to be micro-managed from Charleston, “we have proven how to be last.” If the governor wants to cease being “50<sup>th</sup> at everything coming and going,” maybe it’s time to embrace the pro-growth agenda nearby states such as Michigan, Ohio and Indiana are following. Raising taxes, begging for federal subsidies and plunging into debt are not solutions to West Virginia’s woes.

### **Wisconsin – Governor Scott Walker**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 14

Governor Scott Walker highlighted the state’s low unemployment rate, healthy tax and business climate, strong education system and balanced budget in his 2017 State of the State address.

In regards to spending, the governor promised a “significant increase for public schools,” billions of additional dollars for the state transportation system and an extra \$35.5 million to expand access to high speed, reliable internet service. Walker emphasized with the installation of the high speed network, no need for a continuing government presence will exist since local service providers would then deliver the actual service. Additionally, he noted no gas tax or vehicle registration fee increase is needed to cover the growth of infrastructure spending.

In a rhetorical shot at Wisconsin’s high-tax neighbor, Illinois, he boasted that a packaging company relocated to Kenosha, Wisconsin. The company cited “the state’s favorable business climate” as a

primary motive behind the decision. The governor noted nearly 8,000 jobs have been created in Kenosha County, which borders Illinois, over the past three years.

Governor Walker discussed health Wisconsin's modest surplus in Medicaid and ranks as "one of the best states in the nation for health insurance coverage" despite turning down ACA Medicaid expansion dollars.

Governor Walker vowed to continue fighting for a state government that is "more effective, efficient and accountable to the people." While he plans to increase spending for certain large budgetary items such as education and infrastructure, he has committed to keeping the tax burden low and making the Badger State as economically competitive as possible.

### **Wyoming – Governor Matt Mead**

*Rich States, Poor States* 2017 Economic Outlook Ranking: 7

In his State of the State address, Governor Matt Mead thanked citizens and lawmakers alike for keeping the state strong through tough budgetary times. He credited the streamlining of government, the utilization of the state's rainy day fund (LSRA) and state's development of its natural resources strategies.

With \$1.59 billion in LSRA and \$7.4 billion in the Permanent Mineral Trust Fund, the governor resisted complacency by encouraging lawmakers to adopt more stringent guidelines for when LSRA should be accessed. He asked lawmakers to find ways to refill the fund; highlighting the importance of a flush emergency fund, he credited from the drawdown from the LSRA with helping Wyoming remedy a nearly \$221 million gap and maintain all its core government functions.

The governor announced Wyoming maintained its AAA credit rating from Standard & Poor's throughout the three-year energy bust and was ranked "best state to start a business" and "best state to make a living" in 2016. Turning to policy priorities, Governor Mead discussed the Water Initiative's "10-in-10" project, which aims to build 10 reservoirs in 10 years. He noted four of these projects, to be included in this year's appropriations bill.

Earlier this year, amidst worsening revenue shortfalls, the governor asked state agencies to make \$250 million in "difficult but necessary" cuts to the 2017-2018 biennium budget. His announced supplemental budget proposal makes these cuts permanent.

# Appendix

## ALEC PRINCIPLES OF TAXATION

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*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.  
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