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10th EDITION

RICH STATES, POOR STATES

ALEC–LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

ARTHUR B. LAFFER
STEPHEN MOORE
JONATHAN WILLIAMS

FOREWORD BY
GOV. MATT BEVIN

ALEC American Legislative Exchange Council

LIMITED GOVERNMENT • FREE MARKETS • FEDERALISM

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Dr. Arthur B. Laffer is the founder and chairman of Laffer Associates and Laffer Investments, and many publications have named him "The Father of Supply-Side Economics." Dr. Laffer served as a member of President Reagan's Economic Policy Advisory Board for both terms and advised Prime Minister Margaret Thatcher on fiscal policy in the UK during the 1980s. He has been a faculty member at the University of Chicago and University of Southern California. One of his earliest successes in shaping public policy was his involvement in Proposition 13, the groundbreaking California initiative that drastically cut property taxes in the state in 1978. In March 1999, he was noted by *Time* magazine as one of "the Century's Greatest Minds" for his invention of the Laffer Curve, which has been called one of "a few of the advances that powered this extraordinary century." He has received many awards for his economic research, including two Graham and Dodd Awards from the Financial Analyst Federation and The Hayek Lifetime Achievement Award in 2016. He graduated from Yale with a Bachelor's degree in economics in 1963 and received both his MBA and Ph.D. in economics from Stanford University.

STEPHEN MOORE

Stephen Moore formerly served on *The Wall Street Journal*'s editorial board and frequently wrote on the economy and public policy for *The Wall Street Journal*. In January 2014, Moore returned to The Heritage Foundation—about 25 years after his tenure as the Grover M. Hermann Fellow in Budgetary Affairs from 1984 to 1987—and is now a Distinguished Visiting Fellow for the Project for Economic Growth at the leading conservative think tank. He was previously the founder and president of the Club for Growth, which raises money for political candidates who favor free market economic policies. Moore also founded the Free Enterprise Fund before joining *The Wall Street Journal*. Over the years, Moore has served as a senior economist at the Congressional Joint Economic Committee and as a senior economics fellow at the Cato Institute, where he published dozens of studies on federal and state fiscal policy. He was also a consultant to the National Economic Commission in 1987 and research director for President Reagan's Commission on Privatization. During the 2016 presidential campaign, Moore served as a senior economic adviser to Donald Trump, where he worked on tax reform, regulatory reform, and energy policy. Moore is a Senior Economic Analyst at CNN along with writing regularly for *National Review*, *Forbes*, *Investor's Business Daily*, *The Washington Times*, and *Orange County Register*. Moore holds a master's of arts in economics from George Mason University. He has authored numerous books, including *Who's the Fairest of them All*, *It's Getting Better All the Time*, *Still an Open Door?*, *An Inquiry into the Nature and Causes of the Wealth of States*, and the recently released *Fueling Freedom: Exposing the Mad War on Energy*.

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Jonathan Williams is the vice president for the Center for State Fiscal Reform and chief economist at the American Legislative Exchange Council (ALEC), where he works with state policymakers, congressional leaders, and members of the private sector to develop fiscal policy solutions for the states. Prior to joining ALEC in 2007, Williams served as staff economist at the nonpartisan Tax Foundation, authoring numerous tax policy studies. Williams's work has appeared in many publications, including *The Wall Street Journal*, *Forbes, The Financial Times,* and *Investor's Business Daily*. He is a contributor for *The Hill* and a columnist at *Tax Analysts*, the leading provider of tax news and analysis for the global community. Williams also serves on the Advisory Board of the State Financial Officers Foundation. He has written for the Ash Center for Democratic Governance and Innovation at Harvard's Kennedy School of Government. In addition, Williams was a contributing author of *In Defense of Capitalism* (Northwood University Press). He has testified before numerous legislative bodies and spoken to audiences across all 50 states. He is a frequent guest on talk radio shows and has appeared on numerous television outlets, including the PBS NewsHour, Fox Business News and Bloomberg. Williams was also the recipient of the prestigious Ludwig von Mises Award in Economics.

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Foreword

The Commonwealth of Kentucky possesses everything needed to have one of the most vibrant economies in the United States. Kentucky is blessed with geographic advantages (we are within 600 miles of 65 percent of the nation's population), four distinct but temperate seasons, affordable cost of living, low electricity rates, logistical experience, abundant natural resources, highways, railroads, and riverways that cannot be bought at any price. These assets, along with the strength of Kentucky's workforce, are why I have set the vision of making Kentucky the engineering and manufacturing hub of excellence in America.

Our administration has taken several tactical steps to make that vision a reality. During our legislative session of 2017, I signed right-to-work legislation, paycheck protection, and a repeal of our state's antiquated prevailing wage laws. These new laws have made Kentucky much more attractive to businesses. It is no coincidence that once these laws went into effect, Kentucky broke its all-time record for new economic development in a single year, and it did so in just the first five months of 2017. In the 18 months since taking office, we have announced $10.5 billion in new economic development projects, resulting in the creation of 28,943 jobs. Through our Red Tape Reduction Initiative (RedTapeReduction.com) we have repealed or amended hundreds of outdated and inefficient government regulations. Our efforts resulted in our state being presented a Golden Shovel Award for economic development by Area Development Magazine in 2017.

Kentucky faces challenges resulting from decades of fiscal mismanagement. Our state pension systems are severely underfunded. In fact, they are the most underfunded in America. This is also a problem for public pension plans across America and political leaders must stop kicking the can down the road. Our children and grandchildren will not be able to afford the cost of our continued inaction.

Due to much hard work and determination by our administration and the current General Assembly, we are meeting these challenges head on. Kentucky will pass legislation that effectively balances our legal and moral obligations to workers and retirees with the fiscal responsibility demanded by taxpayers and actuarial reality. I am confident that this legislation will serve as a model to other states for how to address America's looming pension crisis.

In the near future, we will work to modernize our tax code, bring about additional, sensible reductions in government spending, implement further tort reform, and continue with our already successful Red Tape Reduction Initiative. As we move forward, we are confident that more and more businesses will recognize Kentucky as a premium location for growth or expansion.

The sun is shining brightly on Kentucky's economic future. On behalf of the Commonwealth of Kentucky, I am grateful to the authors of the 10th Edition of *Rich States, Poor States*, Dr. Art Laffer, Stephen Moore, Jonathan Williams, and the American Legislative Exchange Council for their support and promotion of free market, pro-growth policies that benefit our state and our entire nation. By implementing these fiscally responsible, commonsense policies, we expect to see Kentucky rise in the rankings for years to come.

Sincerely,

Matt Bevin
Governor of Kentucky

Executive Summary

While the federal government in Washington, D.C., has struggled to reach solutions that will unleash a new era of American economic growth, many state governments have forged ahead in meeting their particular fiscal and economic challenges. States that have adopted pro-growth policies have generally seen their economies grow, while their citizens enjoy wage growth and increased opportunities. Yet, despite this strong empirical evidence supporting free market policies, some states choose a less prosperous path.

In this 10th edition of *Rich States, Poor States,* authors Dr. Arthur Laffer, Stephen Moore, and Jonathan Williams review policy choices made by the 50 states and discuss whether or not those choices have improved economic competitiveness. The empirical evidence and analysis in this edition of *Rich States, Poor States* make clear which policies encourage greater economic opportunity and which policies serve as obstacles to growth.

In chapter one, the authors discuss important developments since the last edition of this publication, including results of the 2017 state legislative sessions. An extensive review of how citizens are increasingly "voting with their feet" and moving to states with better economic outlooks underpins the fact that taxes absolutely bear relationship to the economic health of states. The authors examine significant policy battles, including promising developments on pension reform, and what this all means for pro-growth reform moving forward.

In recognition of the *Rich States, Poor States* 10th edition, chapter two reviews which states have improved (or eroded) their economic outlook scores the most. These policy rankings are highly correlated with future economic success in the states. Fortunately, across the states, good policy is generally crowding out bad policy. Many states have witnessed benefits like higher in-migration and economic growth after implementing policy tools that include lowering corporate and personal income taxes, reducing overall tax burdens, reducing or eliminating state death taxes, simplifying tax codes, and supporting worker freedom.

In chapter three, the authors outline reforms needed at both the state and federal level to usher in new economic growth. Since the end of the Great Recession, real national economic growth has barely averaged 2 percent per year. For states, this anemic recovery has led to tepid revenue growth, and—in the absence of spending reductions—corresponding budget deficits. If economic growth after the Great Recession had been as strong as the growth rate during the Reagan recovery, the higher output and larger tax base would have allowed states and cities to collect more than $142 billion in additional general fund revenues in 2017 and every year thereafter. This would have erased nearly every state and local deficit and left money for more education, transportation, social services, and depleted pension funds. Pro-growth reform in tax, energy, regulatory, and healthcare policy areas is the key to avoid slashing core government services or hiking taxes.

Chapter four tells the alarming story of the state and local pension crisis currently threatening taxpayers. The authors detail the numerous causes for the growth in unfunded liabilities, including failure to move toward the defined-contribution retirement model, neglect of annually required contributions, poor investment options, and stagnant economic growth. Though the situation is dire, there are important steps states can take to improve the health of their pensions and avoid breaking promises made to retirees and taxpayers alike.

Chapter five highlights many recent, positive developments in Tennessee and offers policy tools that will help ensure growth remains strong over the next decade. With wage income already tax-free, the legislature this past year also phased out the state's investment income tax, known as the Hall Tax. Just last year, the Volunteer State also jettisoned its gift and estate tax. The state has exhibited strong economic performance and achieved the highest bond rating all while making numerous key improvements to pension and spending policy in addition to these tax reforms. Tennessee sets an example in delivering core government services in a cost-effective manner while keeping tax and regulatory burdens to a minimum so businesses and families can continue to flock to the state.

Finally, chapter six delivers the highly anticipated 2017 ALEC-Laffer State Economic Competitiveness Index. The index is comprised of two separate economic rankings. The first ranking is the economic performance ranking, which is based on three important metrics over the past decade. Growth in gross state product (GSP), absolute domestic migration, and growth in non-farm payroll employment are calculated for each state using the most recent data available. The second ranking provides a forecast for state economic outlook. This forecast is based on a state's current standing in 15 equally-weighted policy areas that are influenced directly by state lawmakers. These 15 policy areas are among the most influential factors in determining a state's potential for future economic growth. Generally, states that spend less, especially on transfer payments, and states that tax less, particularly on productive activities such as work or investment, tend to experience higher rates of economic growth than states that tax and spend more.

The following 15 policy variables are measured in the 2017 ALEC-Laffer State Economic Competitiveness Index:

- Highest Marginal Personal Income Tax Rate
- Highest Marginal Corporate Income Tax Rate
- Personal Income Tax Progressivity
- Property Tax Burden
- Sales Tax Burden
- Tax Burden from All Remaining Taxes
- Estate/Inheritance Tax (Yes or No)
- Recently Legislated Tax Policy Changes (2015 & 2016, per $1,000 of personal income)
- Debt Service as a Share of Tax Revenue
- Public Employees per 10,000 Residents
- Quality of State Legal System
- Workers' Compensation Costs
- State Minimum Wage
- Right-to-Work State (Yes or No)
- Tax or Expenditure Limits

This 10th edition of *Rich States, Poor States* provides a decade-long inquiry into state economic growth. Using the latest data and well-founded empirical research, the evidence is clear that pro-growth state tax and fiscal policies lead to more opportunities for all Americans. Competitive tax rates, thoughtful regulations, and responsible spending can help states spark economic growth and opportunity.

ALEC-Laffer State Economic Outlook Rankings, 2017

Based upon equal-weighting of each state's rank in 15 policy variables

Rank	State	Rank	State
1	Utah	26	Kansas
2	Indiana	27	South Carolina
3	North Carolina	28	Louisiana
4	North Dakota	29	Iowa
5	Tennessee	30	Alaska
6	Florida	31	West Virginia
7	Wyoming	32	Nebraska
8	Arizona	33	Kentucky
9	Texas	34	Maryland
10	Idaho	35	New Mexico
11	Virginia	36	Rhode Island
12	South Dakota	37	Delaware
13	Nevada	38	Pennsylvania
14	Wisconsin	39	Montana
15	Colorado	40	Washington
16	Oklahoma	41	Oregon
17	Georgia	42	Maine
18	New Hampshire	43	Hawaii
19	Ohio	44	Illinois
20	Michigan	45	Minnesota
21	Alabama	46	Connecticut
22	Mississippi	47	California
23	Arkansas	48	New Jersey
24	Missouri	49	Vermont
25	Massachusetts	50	New York

10 Golden Rules of Effective Taxation

1 *When you tax something more you get less of it, and when you tax something less you get more of it.*

Tax policy is all about reward and punishment. Most politicians know instinctively that taxes reduce the activity being taxed—even if they do not care to admit it. Congress and state lawmakers routinely tax things that they consider "bad" to discourage the activity. We reduce, or in some cases entirely eliminate, taxes on behavior that we want to encourage, such as home buying, going to college, giving money to charity, and so on. By lowering the tax rate in some cases to zero, we lower the after tax cost, in the hopes that this will lead more people to engage in a desirable activity. It is wise to keep taxes on work, savings, and investment as low as possible in order not to deter people from participating in these activities.

2 *Individuals work and produce goods and services to earn money for present or future consumption.*

Workers save, but they do so for the purpose of conserving resources so they or their children can consume in the future. A corollary to this is that people do not work to pay taxes—although some politicians seem to think they do.

3 *Taxes create a wedge between the cost of working and the rewards from working.*

To state this in economic terms, the difference between the price paid by people who demand goods and services for consumption and the price received by people who provide these goods and services—the suppliers—is called the wedge. Income and other payroll taxes, as well as regulations, restrictions, and government requirements, separate the wages employers pay from the wages employees receive. If a worker pays 15 percent of his income in payroll taxes, 25 percent in federal income taxes, and 5 percent in state income taxes, his $50,000 wage is reduced to roughly $27,500 after taxes. The lost $22,500 of income is the tax wedge, or approximately 45 percent. As large as the wedge seems in this example, it is just part of the total wedge. The wedge also includes excise, sales, and property taxes, plus an assortment of costs, such as the market value of the accountants and lawyers hired to maintain compliance with government regulations. As the wedge grows, the total cost to a firm of employing a person goes up, but the net payment received by the person goes down. Thus, both the quantity of labor demanded and quantity supplied fall to a new, lower equilibrium level, and a lower level of economic activity ensues. This is why all taxes ultimately affect people's incentive to work and invest, though some taxes clearly have a more detrimental effect than others.

4 *An increase in tax rates will not lead to a dollar-for-dollar increase in tax revenues, and a reduction in tax rates that encourages production will lead to less than a dollar-for-dollar reduction in tax revenues.*

Lower marginal tax rates reduce the tax wedge and lead to an expansion in the production base and improved resource allocation. Thus, while less tax revenue may be collected per unit of tax base, the tax base itself increases. This expansion of the tax base will, therefore, offset some (and in some cases, all) of the loss in revenues because of the now lower rates.

Tax rate changes also affect the amount of tax avoidance. It is important to note that legal tax avoidance is differentiated throughout this report from illegal tax evasion. The higher the marginal tax rate, the greater the incentive to reduce taxable income. Tax avoidance takes many forms, from workers electing to take an improvement in nontaxable fringe benefits in lieu of higher gross wages to investment in tax shelter programs. Business decisions, too, are increasingly based on tax considerations as opposed to market efficiency. For example, the incentive to avoid a 40 percent tax, which takes $40 of every $100 earned, is twice as high as the incentive to avoid a 20 percent tax, for which a worker forfeits $20 of every $100 earned.

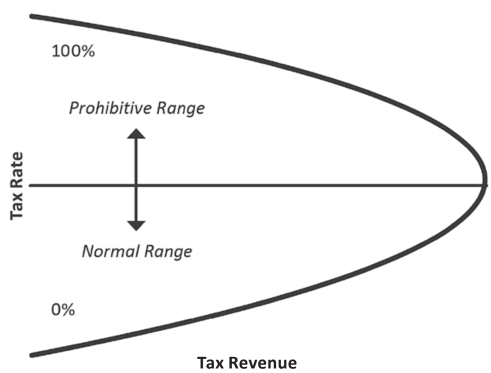
An obvious way to avoid paying a tax is to eliminate market transactions upon which the tax is applied. This can be accomplished through vertical integration: Manufacturers can establish wholesale outlets; retailers can purchase goods directly from manufacturers; companies can acquire suppliers or distributors. The number of steps remains the same, but fewer and fewer steps involve market transactions and thereby avoid the tax. If states refrain from applying their sales taxes on business-to-business transactions, they will avoid the numerous economic distortions caused by tax cascading. Michigan, for example, should not tax the sale of rubber to a tire company, then tax the tire when it is sold to the auto company, then tax the sale of the car from the auto company to the dealer, then tax the dealer's sale of the car to the final purchaser of the car, or the rubber and wheels are taxed multiple times. Additionally, the tax cost becomes embedded in the price of the product and remains hidden from the consumer.

5 ***If tax rates become too high, they may lead to a reduction in tax receipts. The relationship between tax rates and tax receipts has been described by the Laffer Curve.***

The Laffer Curve (illustrated below) summarizes this phenomenon. We start this curve with the undeniable fact that there are two tax rates that generate zero tax revenues: a zero tax rate and a 100 percent tax rate. (Remember Golden Rule #2: People don't work for the privilege of paying taxes, so if all their earnings are taken in taxes, they do not work, or at least they do not earn income the government knows about. And, thus, the government receives no revenues.)

Now, within what is referred to as the "normal range," an increase in tax rates will lead to an increase in tax revenues. At some point, however, higher tax rates become counterproductive. Above this point, called the "prohibitive range," an increase in tax rates leads to a reduction in tax revenues and vice versa. Over the entire range, with a tax rate reduction, the revenues collected per dollar of tax base falls. This is the arithmetic effect. But the number of units in the tax base expands. Lower tax rates lead to higher levels of personal income, employment, retail sales, investment, and general economic activity. This is the economic, or incentive, effect. Tax avoidance also declines. In the normal range, the arithmetic effect of a tax rate reduction dominates. In the prohibitive range, the economic effect is dominant.

The Laffer Curve



Source: Laffer Associates

Of course, where a state's tax rate lies along the Laffer Curve depends on many factors, including tax rates in neighboring jurisdictions. If a state with a high employment or payroll tax borders a state with large population centers along that border, businesses will have an incentive to shift their operations from inside the jurisdiction of the high-tax state to the jurisdiction of the low-tax state.

Economists have observed a clear Laffer Curve effect with respect to cigarette taxes. States with high tobacco taxes that are located next to states with low tobacco taxes have very low retail sales of cigarettes relative to the low-tax states. Illinois smokers buy many cartons of cigarettes when in Indiana, and the retail sales of cigarettes in the two states show this.

6 ***The more mobile the factors being taxed, the larger the response to a change in tax rates. The less mobile the factor, the smaller the change in the tax base for a given change in tax rates.***

Taxes on capital are almost impossible to enforce in the 21st century because capital is instantly transportable. For example, imagine the behavior of an entrepreneur or corporation that builds a factory at a time when profit taxes are low. Once the factory is built, the low rate is raised substantially without warning. The owners of the factory may feel cheated by the tax bait and switch, but they probably do not shut the factory down because it still earns a positive after tax profit. The factory will remain in operation for a time even though the rate of return, after taxes, has fallen sharply. If the factory were to be shut down, the after tax return would be zero. After some time has passed, when equipment needs servicing, the lower rate of return will discourage further investment, and the plant will eventually move where tax rates are lower.

A study by the American Enterprise Institute has found that high corporate income taxes at the national level are associated with lower growth in wages. Again, it appears as though a chain reaction occurs when corporate taxes get too high. Capital moves out of the high tax area, but wages are a function of the ratio of capital to labor, so the reduction in capital decreases the wage rate.

The distinction between initial impact and burden was perhaps best explained by one of our favorite 20th century economists, Nobel winner Friedrich A. Hayek, who makes the point as follows in his classic, *The Constitution of Liberty*:

> *The illusion that by some means of progressive taxation the burden can be shifted substantially onto the shoulders of the wealthy has been the chief reason why taxation has increased as fast as it has done and that, under the influence of this illusion, the masses have come to accept a much heavier load than they would have done otherwise. The only major result of the policy has been the severe limitation of the incomes that could be earned by the most successful and thereby gratification of the envy of the less well off.*

7 ***Raising tax rates on one source of revenue may reduce the tax revenue from other sources, while reducing the tax rate on one activity may raise the taxes raised from other activities.***

For example, an increase in the tax rate on corporate profits would be expected to lead to a diminution in the amount of corporate activity, and hence profits, within the taxing district. That alone implies less than a proportionate increase in corporate tax revenues. Such a reduction in corporate activity also implies a reduction in employment and personal income. As a result, personal income tax revenues would fall. This decline, too, could offset the increase in corporate tax revenues. Conversely, a reduction in corporate tax rates may lead to a less than expected loss in revenues and an increase in tax receipts from other sources.

8 ***An economically efficient tax system has a sensible, broad tax base and a low tax rate.***

Ideally, the tax system of a state, city, or country will minimally distort economic activity. High tax rates alter economic behavior. President Ronald Reagan used to tell the story that he would stop making movies during his acting career once he was in the 90 percent tax bracket because the income he received was so low after taxes were taken away. If the tax base is broad, tax rates can be kept as low and non-confiscatory as possible.

This is one reason we favor a flat tax with minimal deductions and loopholes. It is also why 24 nations have now adopted a flat tax.

9 ***Income transfer (welfare) payments also create a de facto tax on work and, thus, have a high impact on the vitality of a state's economy.***

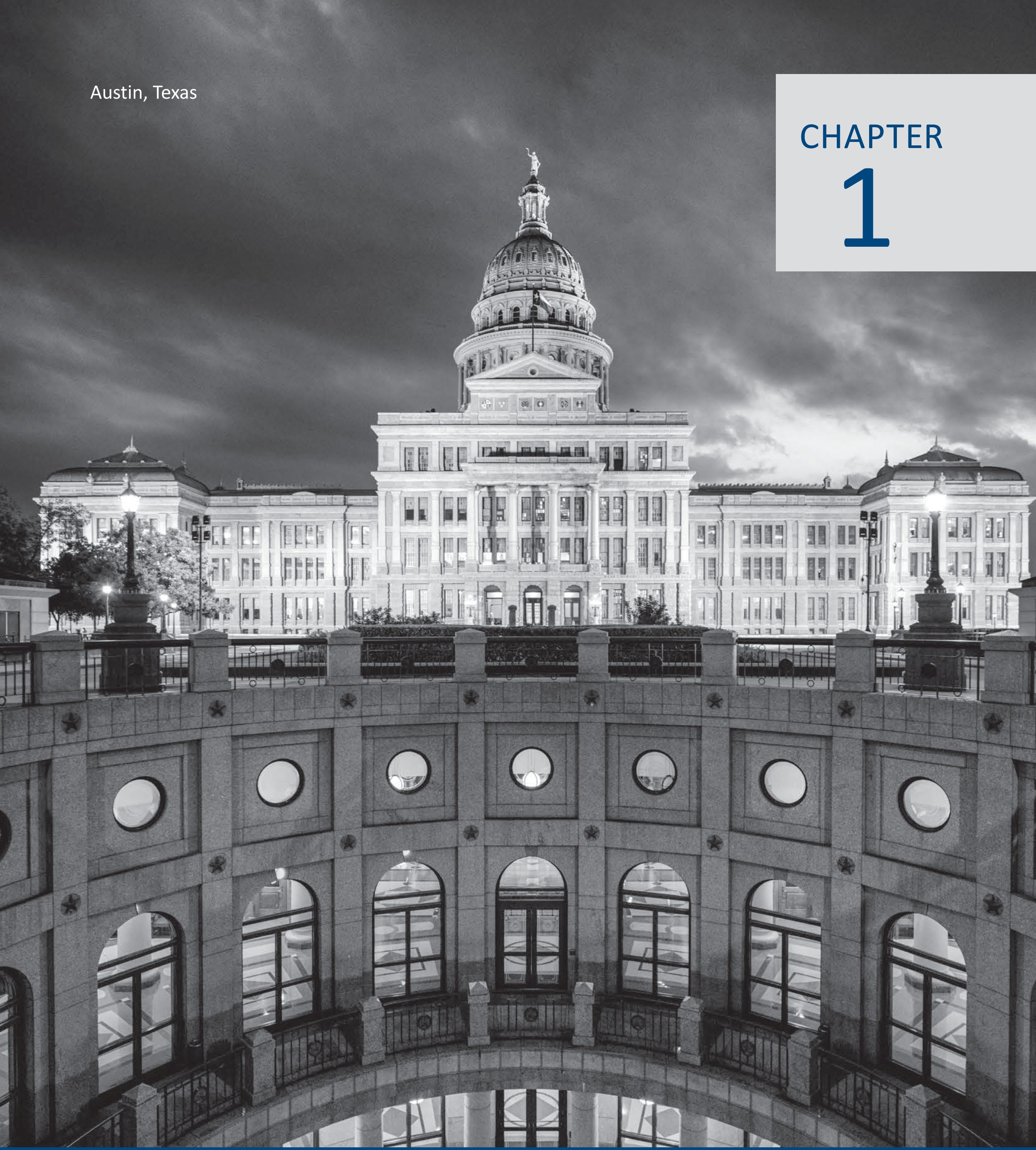
Unemployment benefits, welfare payments, and subsidies all represent a redistribution of income. For every transfer recipient, there is an equivalent tax payment or future tax liability. Thus, income effects cancel. In many instances, these payments are given to people only in the absence of work or output. Examples include food stamps (income tests), Social Security benefits (retirement test), agricultural subsidies, and, of course, unemployment compensation itself. Thus, the wedge on work effort is growing at the same time that subsidies for not working are increasing. Transfer payments represent a tax on production and a subsidy to leisure. Their automatic increase in the event of a fall in market income leads to an even sharper drop in output.

In some high benefit states, such as Hawaii, Massachusetts, and New York, the entire package of welfare payments can pay people the equivalent of a $10 per hour job (and let us not forget: welfare benefits are not taxed, but wages and salaries are). Because these benefits shrink as income levels from work climb, welfare can impose very high marginal tax rates (60 percent or more) on low-income Americans. And those disincentives to work have a deleterious effect. We found a high, statistically significant, negative relationship between the level of benefits in a state and the percentage reduction in caseloads.

In sum, high welfare benefits magnify the tax wedge between effort and reward. As such, output is expected to fall as a consequence of making benefits from not working more generous. Thus, an increase in unemployment benefits is expected to lead to a rise in unemployment.

Finally, and most important of all for state legislators to remember:

10 ***If A and B are two locations, and if taxes are raised in B and lowered in A, producers and manufacturers will have a greater incentive to move from B to A.***



Austin, Texas

CHAPTER 1

State of the States

State of the States

Introduction

For years, states have been leading the way in providing substantive tax relief. In 2016 alone, nine states significantly reduced taxes. This momentum for tax and budget reform continued in 2017. Federal tax cut efforts should follow the sound principles and lessons learned from tax relief efforts at the state level. The case studies in this chapter are intended to show the correlation of a healthy economy, job growth, and greater take-home pay with substantive tax relief. After experiencing the weakest economic recovery since World War II, an economic course correction is greatly needed to give American taxpayers a boost.

This 10th edition of *Rich States, Poor States* continues the now decade-long analysis of the 50 states and their economic outlook. These 50 "laboratories of democracy" yield examples every year of the benefits from pro-growth tax cuts and the dangers of pursuing policies to the contrary. It is our hope that upon consideration of the proven relationship presented by this publication between policies and performance, more states will embrace free market tax and fiscal policy reforms. As we review the past 10 years of state rankings, one thing is clear: Taxes matter, and some taxes matter more than others.

Americans Continue to "Vote with their Feet"

This chapter discusses how Americans are "voting with their feet" in response to policy decisions and state competitiveness. Net domestic migration and non-farm payroll data reveal that millions of people are moving their families, businesses, and incomes to states that are more economically competitive. Data from the Internal Revenue Service also show trillions of dollars' worth of economic output shifting between states over the past few decades.

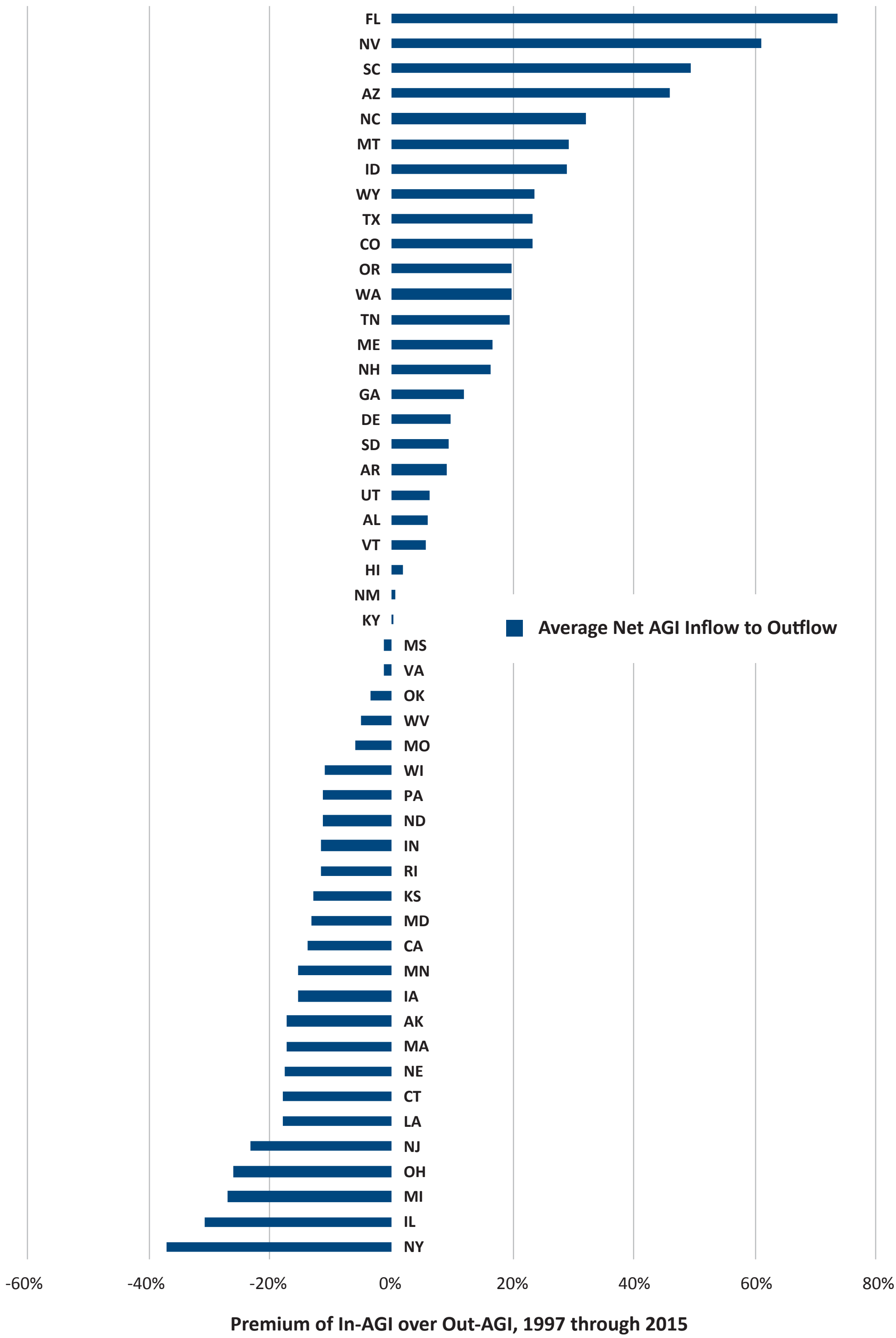
From 2002 to 2016, more than 20 million residents moved from one state to another.[1] That is nearly four times the number of people who live in the state of Colorado. Many of these Americans uprooted themselves for more promising economic prospects. A disproportionate share of that migration is just from the last five years. Americans in search of better opportunity often turn to states that are economically attractive. This is a boon for states whose fiscal house is in order and outlook is bright, but a substantial growth deterrent to states whose outlook is already dire.

From 1997 through 2015, this annual shift in domestic population represented $2.8 trillion in adjusted gross income (AGI) in aggregate. Generally speaking, taxpayers moved away from states with high personal and corporate income taxes to states with lower or—as is more often the case—no income taxes.[2]

Net domestic migration differs from simple population growth, as it filters out death rates, birth rates, and international migration. It isn't the result of happenstance but rather a relatively reliable measure of the decisions Americans make when they move from one state to another.

To be clear, Americans move for many reasons including job opportunities, higher incomes, bet-

FIGURE 1 | **Wealth Flows to Low-Tax States and Away from High-Tax States**



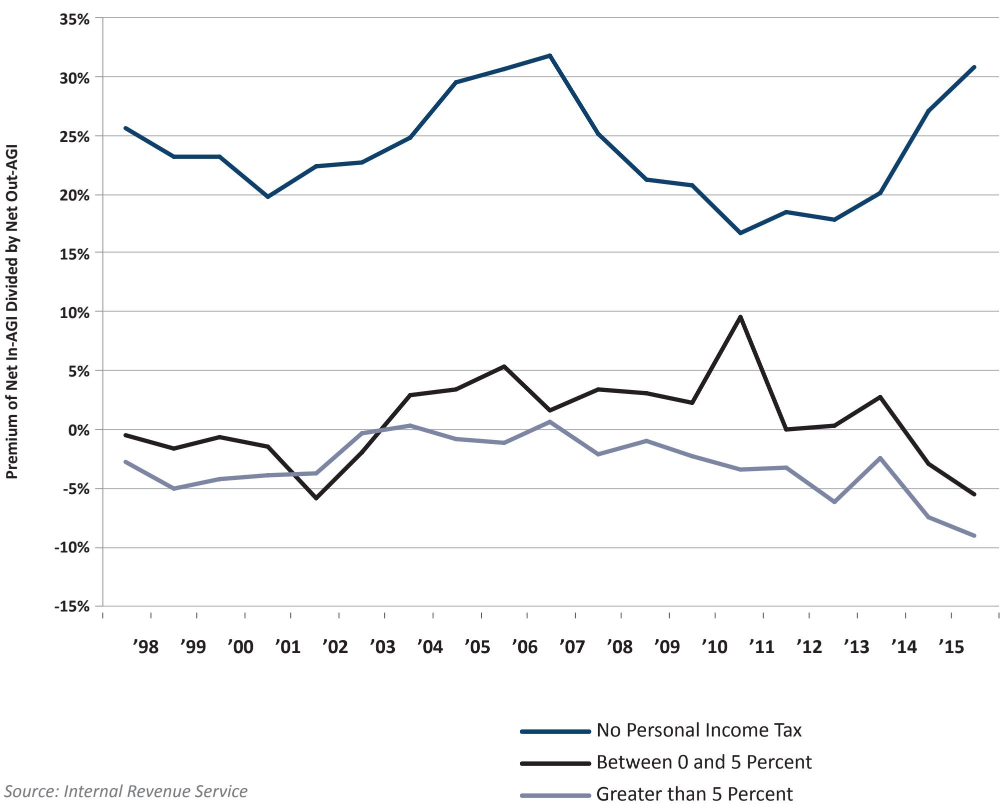
Source: Internal Revenue Service

ter social mobility, and improved quality of life. States with relatively lower taxes, smaller regulatory burdens, and better budgeting have demonstrated over time that these incentives lead to in-migration.

The ratio of AGI flowing into a state, thanks to domestic in-migration, compared to the loss of AGI from domestic out-migration, constitutes a simple way to quantify the strength of an economic tide towards or away from a given state. Figure 1 graphs this AGI "premium" by states from 1997-2015. For instance, a premium of 0.25 indicates that for every $1 lost through out-migration, the state gained $1.25 from in-migration. A premium of -0.25 indicates that for every $1 lost through out-migration, the stated gained only $0.75 from in-migration. The states that gained the highest AGI premiums were predominantly those without personal income taxes whereas those with high personal income taxes experienced the worst outcomes. It's no surprise that all nine states with no personal income tax experienced a net increase in AGI from domestic migration during this period. In fact, Florida and Nevada (both with no personal income tax) experienced the highest AGI premiums; for every $1.00 of AGI flowing out, Nevada gained more than $1.60 over this period and Florida gained more than $1.70. Meanwhile, New York and Illinois languished at the bottom. New York lost close to $1.40 for every $1.00 in incoming AGI. Illinois lost approximately $1.35 for every $1.00 brought in by new residents. Beautiful California lost nearly $1.20 for every $1.00 in incoming AGI over this extended timeframe.

The states that lost both the most residents and the most AGI are the usual suspects—New York, Illinois, and California. On the other hand, the

FIGURE 2 | **Wealth is Fleeing High-Tax States**



Source: Internal Revenue Service

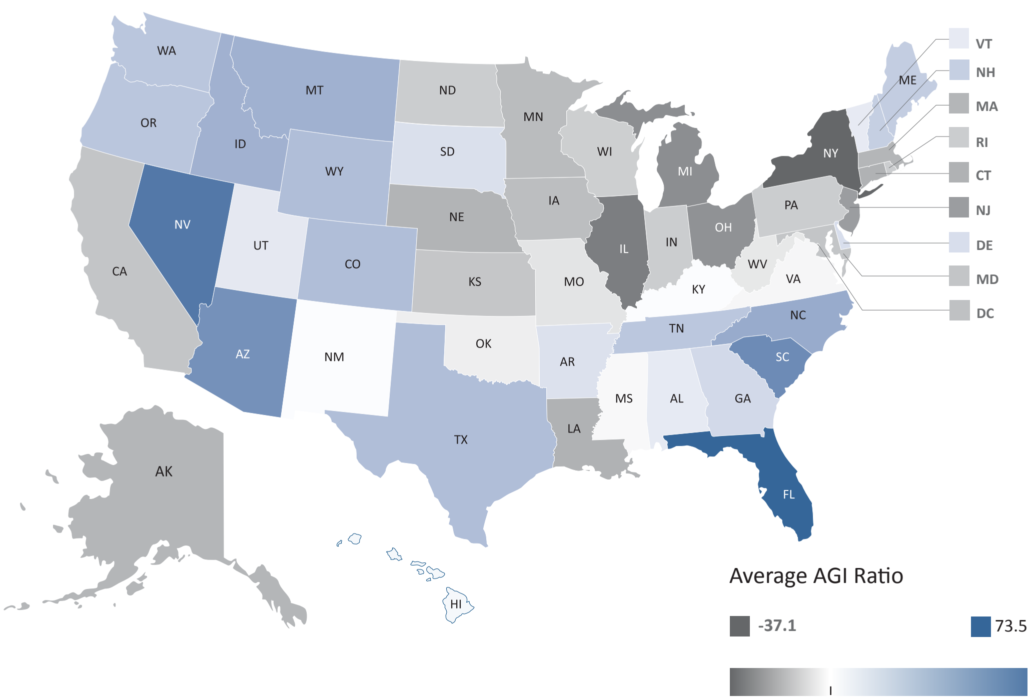
states that have been most successful in attracting residents are Florida, Texas, and Arizona. New York and California have personal income taxes far greater than 5 percent, whereas Texas and Florida do not have an income tax. In addition, transitions from high-tax to low-tax status during this period tended to correlate with an increase in the flow of wealth (or a smaller rate of net outflow) as represented by the AGI premium. The opposite results in the flow of wealth tended to occur as a state transitioned from low-tax to high-tax status.

This trend has held true for two decades. Each and every year, the nine no-income-tax states as a group have attracted a net positive number of tax filers (i.e. income earners). Meanwhile, with the exception of 2012, the states with personal income taxes greater than 5 percent lost tax filers to out-migration each and every year.

Skeptics may point to the sunny weather in Florida, Texas, Arizona, and the Carolinas as a primary factor behind the flow of people and income away from places such as Illinois and New York. However, Figure 3 shows New Hampshire, Maine, Montana, and other states with hard winters gaining AGI from domestic migration as picturesque California experiences steady losses.

The trend in migration is related to state policy. For example, New York is doing nearly everything in its power to discourage growth and opportunities for its residents. The state has the highest corporate income tax and second-highest personal income tax in the country. The dampening effect of an overly burdensome tax and regulatory regime can be seen in New York's poor economic performance over the past decade—despite years of being the hub of global finance and business. Unsurprisingly, New York experienced a net loss of nearly 1.4 million residents. In fact, between 1996 and 2015, the Empire State lost a net $76 billion of AGI from persistent domestic out-migration.

FIGURE 3 | **States by Average AGI Ratio Between 1997 and 2015**



Source: Internal Revenue Service

In contrast, New Hampshire experienced both a net increase of 12,000 residents and $3 billion of AGI in the same period of time. Unlike New York, New Hampshire does not have a global, urban center like New York City. The state creates a competitive advantage through state policy, more specifically, by not having personal income taxes. For added measure, New Hampshire also avoids a sales tax. Through this "New Hampshire Advantage," the Live Free or Die State has fared remarkably well, given the weather.

States with growing populations enjoy several benefits that shrinking states often miss: Greater

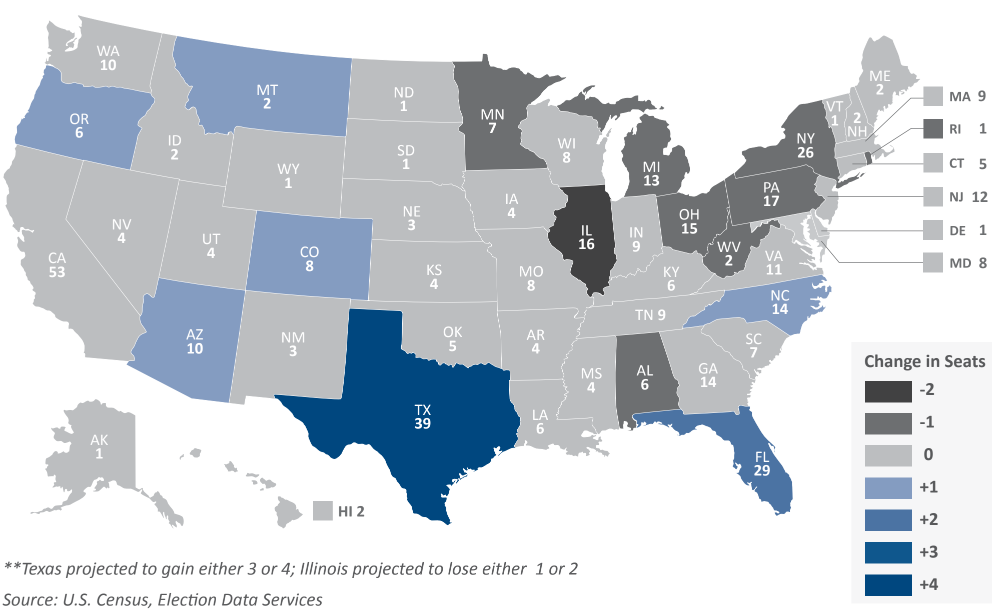
TABLE 1 | Anticipated Gains/Losses in 2020 Reapportionment

Top States Gaining	Number of Seats	RSPS Outlook	Top States Losing	Number of Seats	RSPS Outlook
Texas	+4	9	Alabama	-1	21
Florida	+2	6	Illinois	-2	44
North Carolina	+1	3	Michigan	-1	20
Arizona	+1	8	Minnesota	-1	45
Colorado	+1	15	New York	-1	50
Oregon	+1	41	Ohio	-1	19
Montana	Even or +1	39	Pennsylvania	-1	38
			Rhode Island	-1	36
			West Virginia	-1	31

***Texas projected to gain either 3 or 4; Illinois projected to lose either 1 or 2*

Source: U.S. Census, Election Data Services

FIGURE 4 | Anticipated Gains/Losses in 2020 Reapportionment



***Texas projected to gain either 3 or 4; Illinois projected to lose either 1 or 2*

Source: U.S. Census, Election Data Services job opportunity and higher take-home pay for taxpayers, better social mobility, and improved quality of life, to name a few. These states with lighter tax burdens, better budgeting practices, and less draconian regulatory frameworks tend to experience sustained in-migration. This continued growth fuels the economy even further, enhancing business and entrepreneurial opportunities in the market.

Another aspect to these demographic trends is the effect on state political power. Table 1 highlights the projected gains and losses in 2020 reapportionment based on the Census and historical data.[3]

Interestingly, there is a strong, positive relationship between a state's *Rich States, Poor States* economic outlook ranking and that state's projected likelihood to gain seats in reapportionment.[4] This relationship indicates that states experiencing higher population growth relative to others are the same states that have lower tax and regulatory burdens, better labor policies, lower government debt, and greater transparency and accountability for government spending. New York, California, Illinois, Michigan, and New Jersey have suffered extensive out-migration over the past decade. Take California, for example. From 2006-2015, 1,103,301 people left on net in search of sunnier economic opportunities. At 13.3 percent, California levies the highest top marginal personal income tax rate in the nation. Or look at New York, which over the same period lost 1,381,449 residents to more economically competitive states, on net. It is no surprise that taxpayers opt to move to greener pastures rather than endure a top combined state and local marginal personal income tax rate of 12.7 percent—the highest in the Northeast—and the worst economic outlook ranking in America.

Contrastingly, the two states with the highest in-migration—Texas and Florida—levy no taxes on personal income. Furthermore, North Carolina has continued to significantly reduce tax burdens through historic tax reform.

Despite these trends, there is no rule that all Southern states maintain a growth-friendly posture, or that all Northeastern states strictly adhere to a tax-and-spend philosophy. South Caro-

TABLE 2 | **State Migration Winners and Losers**

The Ten States with the Greatest Net In-Migration Net Domestic Migration (Cumulative 2006-2015)			The Ten States with the Greatest Net Out-Migration Net Domestic Migration (Cumulative 2006-2015)		
Rank	**State**	**Absolute Domestic Migration**	**Rank**	**State**	**Absolute Domestic Migration**
1	Texas	1,475,425	41	Pennsylvania	-127,785
2	Florida	779,441	42	Maryland	-158,444
3	North Carolina	609,275	43	Connecticut	-165,489
4	Arizona	450,976	44	Louisiana	-223,156
5	Georgia	378,095	45	Ohio	-363,913
6	Colorado	362,153	46	New Jersey	-525,338
7	South Carolina	359,754	47	Michigan	-593,157
8	Washington	302,829	48	Illinois	-690,578
9	Tennessee	261,544	49	California	-1,103,301
10	Oregon	209,592	50	New York	-1,381,449

Source: U.S. Census Bureau

lina is below average in this publication's 2017 economic outlook rankings, while Mississippi and Alabama are slightly above average. All three states have continued pursuing policies that will enhance future growth. As mentioned prior, New Hampshire has many pro-growth policies and continues to be an outlier in the Northeast. In fact, Gov. Chris Sununu nearly made the Granite State a right-to-work state this year. Meanwhile, Maine Gov. Paul LePage and pro-growth legislators successfully pushed back against a tide of harmful economic policies approved in 2016 ballot measures.

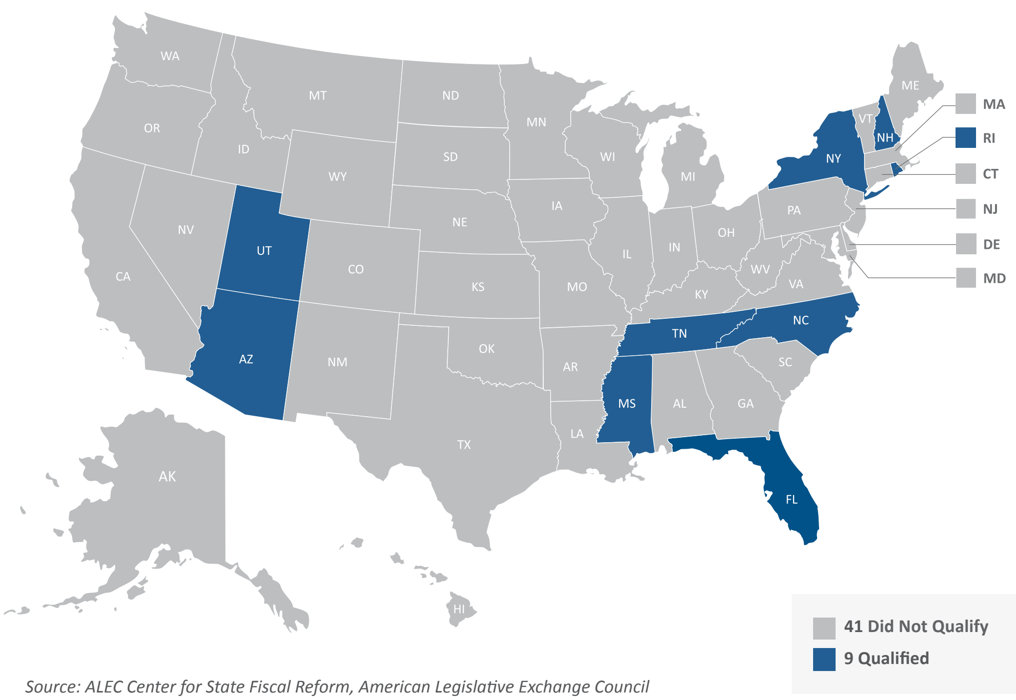
Pro-growth policies, such as lighter tax and regulatory burdens, boost economic activity and attract citizens looking for better opportunities.

State Tax Cut Roundup 2016

In *State Tax Cut Roundup,* the ALEC Center for State Fiscal Reform annually details state tax cuts during their respective legislative sessions.[5] Due to several factors in the 2016 session, the number of states enacting new significant tax relief legislation—nine—is lower than in years prior. The weak economic recovery coming out of the 2008 recession and the significant decline in commodity prices teamed up to cause major weakness in the fiscal condition of many states. Still, tax rates in numerous states declined in 2016 thanks to phased-in tax cuts from previous sessions. The momentum for pro-growth tax relief in recent years has been strong, as 17 states qualified for *State Tax Cut Roundup* in 2013[6], 14 states qualified in 2014[7], and 17 qualified in 2015.[8] In total, 30 different states have substantially cut taxes since 2013. This is astounding progress for pro-taxpayer policymaking in the states. Of these states, Florida deserves special credit for providing a near-constant stream of pro-growth reforms, qualifying for all four editions of *State Tax Cut Roundup*.

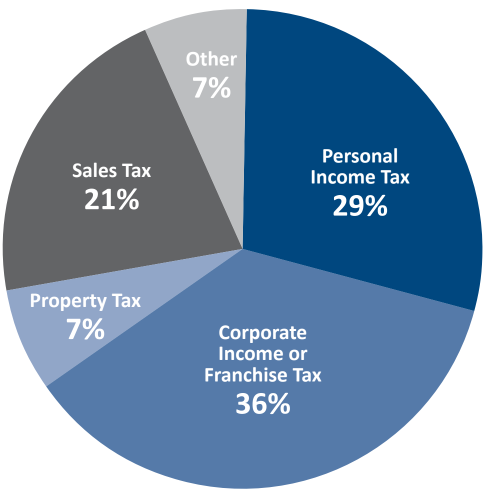
These nine qualifying states made great strides to lessen the burden of both personal and cor-

FIGURE 5 | **States that Qualified for State Tax Cut Roundup During the 2016 Legislative Session**



Source: ALEC Center for State Fiscal Reform, American Legislative Exchange Council porate income taxes. Five of the nine states elected to reduce or eliminate business franchise or corporate income taxes; if this trend continues, these cuts will prove a significant benefit to the economies of all states involved. Four of the nine states also took steps to reduce or eliminate personal income taxes. Most notably, Tennessee, by eliminating its Hall Tax, joins the seven other fully no-income-tax-states. Three states made reforms to sales taxes. Florida deserves special recognition for inching closer to eliminating harmful business-to-business taxes by permanently exempting manufacturing machinery and equipment from the sales tax. Figure 6 illustrates the types of tax burdens reduced by qualifying states. Note that some states cut multiple forms of taxes.

FIGURE 6 | **Types of Taxes Cut During the 2016 Legislative Session**



Source: ALEC Center for State Fiscal Reform

State Tax Cut Roundup also reports on previously enacted tax cuts that took effect in 2016. Arkansas, Indiana, New Mexico, North Dakota, Texas, and Wisconsin all qualified in previous editions of the report, and planned phase-ins of tax cutting legislation from previous sessions allowed hardworking taxpayers to take home more of their money in 2016. Amid a still tepid economic recovery and low commodity prices, the momentum for pro-growth tax reform continues, and pushes states to innovate and improve. If states choose not to act, they can fall behind the competitors that choose to provide relief. Fortunately, for hardworking taxpayers in the nine states, 2016 yielded beneficial tax relief.

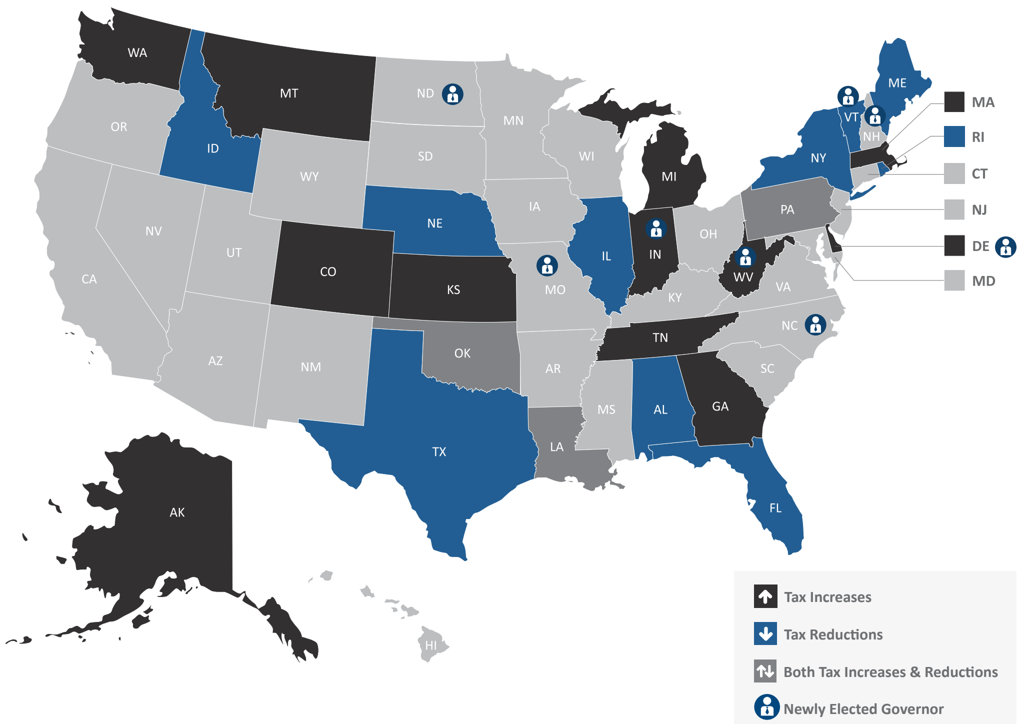
What America's Governors Said About Fiscal Policy in 2017

In 2017, all 50 governors delivered a State of the State or equivalent budget address. In the third edition of its annual *State of the States* report, the Center for State Fiscal Reform reviewed the economic policy proposals discussed in each governor's address.[9]

Though it's ultimately the actions of state executives that are most important, much can be gleaned from their words. This year, 25 governors made significant comments on tax policy. Unlike recent years, governors called for more tax increases than tax reductions, a sign of budget troubles in the states amidst weak national economic growth. 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.

One of the most significant proposed tax changes was an effort by Florida Gov. Rick Scott to provide some $618 million in tax relief in the next fiscal year. This follows last year's cuts of approximately $500 million in the Sunshine State. Gov. Scott congratulated lawmakers on the remarkable feat of cutting taxes 55 times over the last six years and allowing families to keep $6.5 billion in hard-earned dollars. The "Fighting for Florida's Future" tax cut package quarterbacked by Gov. 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 sought to solidify all of the recent tax policy changes while enacting legislative hurdles to future tax increases.

FIGURE 7 | **2017 Governors' Tax Proposals**



Source: Center for State Fiscal Reform, American Legislative Exchange Council

While 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. The fact that so many governors are calling for lower taxes is a very positive continuing trend suggesting that many governors understand that competitive tax rates and free market fiscal policies grow their economies and make their states more attractive places to live and work.

A Snapshot of Significant Policy Battles in 2017

Getting America Back to Work—Right-to-Work Sweeps Middle America

Missouri is "Open for Business!" Back in February, newly-elected Gov. Eric Greitens signed monumental right-to-work legislation, making Missouri the 28th and newest right-to-work state.[10] As defined by the National Right to Work Legal Defense Foundation, a right-to-work law "guarantees that no person can be compelled as a condition of employment, to join or not to join, nor to pay dues to a labor union."[11] Effective August 2017, SB 19 restores employee freedom, strengthens the state's economy, and encourages business expansion. This landmark victory for workers in Missouri continues a recent trend across the states. Now, with Missouri, the last two years have seen three states grow their competitiveness and opportunities for workers by becoming right-to-work states.

In the first week of 2017, Kentucky lawmakers and Gov. Matt Bevin quickly delivered on one of the most common and salient election promises—making Kentucky a right-to-work state. Signed during a rare weekend session, HB 1 took immediate effect and is a major win for Kentucky workers and businesses, and is a much-needed boost for the state's economy.[12]

TABLE 3 | **Economic Performance: Right-to-Work States vs. Forced-Union States**

Average of 22 Right-to-Work States vs. Average of 28 Forced-Union States (right-to-work status is as of 1/1/2012; performance metrics are 2006 to 2016 unless otherwise noted)				
	10-Year Growth			
State	Population	Nonfarm Payroll Employment	Personal Income	Gross State Product
Equal-Weighted Average of the 22 Right-to-Work States	11.3%	6.5%	44.8%	34.8%
50-State Equal-Weighted Avg.	7.9%	5.2%	41.0%	32.6%
Equal-Weighted Average of the 28 Forced-Union States	5.3%	4.1%	38.0%	30.8%

**Right-to-Work status is as of 1/1/2012. As such, Kentucky (1/7/2017), Indiana (2/1/2012), Michigan (3/8/2013), Missouri (8/28/2017), West Virginia (2/12/2016), and Wisconsin (3/9/2015) have been counted as forced-union states*

***Non-farm payroll employment as of December of a given year. GDP and personal income annual totals.*

Source: National Right to Work Legal Defense Foundation, Bureau of Labor Statistics, Bureau of Economic Analysis

Before that, in February of 2016, West Virginia became a right-to-work state after the legislature overrode former Gov. Earl Ray Tomblin's veto of SB 1.[13] While this is certainly a victory for workers in the state, the law has been marred by legal disputes, largely halting the initial positive effects.

Since the beginning of 2012, Indiana, Michigan, and Wisconsin also joined the ranks of states embracing worker freedom. Critics often misrepresent right-to-work laws as "anti-worker," but they are far from it—put simply, they prohibit forced-union membership as a condition of employment. Essentially, these laws make it illegal for a company to mandate its employees belong to a union as a condition of employment. They do not ban labor unions, force workers out of union membership, or prohibit unionization in any way. Right-to-work protects a worker's fundamental freedom to choose. From 2006 to 2016, states with worker freedom created new jobs at a pace 50 percent faster than forced-union states.[14] Overall, right-to-work states enjoy more impressive growth in population, employment, personal income, and gross domestic product: Worker freedom boosts economic growth potential.

Indiana, Michigan, and Wisconsin each lagged behind national nonfarm payroll employment growth in the portion of this 10-year period preceding right-to-work implementation. Post-enactment, Indiana and Michigan have completely closed the gap, outpacing the nation as a whole (along with outpacing non-right-to-work states). Meanwhile, in the first year since its enactment, Wisconsin's job growth rate was 75 percent of the national average, a significant improvement from growth at just one-third the national average prior to right-to-work enactment.[15]

Though it is notably a short time horizon to examine growth statistics, the evidence observed in these three states confirms the improvements observed over longer time horizons of states with worker freedom.[16]

Unreasonable Regulations Threaten Economic Viability of Short-Term Housing Industry

Economic benefits from short-term housing rentals accrue to property owners earning extra income from their homes and investment properties and also to travelers and family vacationers who can save money by renting fully furnished homes. The growth of this new market is encountering resistance from many local governments in the form of discriminatory zoning restrictions and prohibitions that prevent homeowners from using their residences for short-term rentals. Fortunately, states continue to implement ALEC model policy preempting political subdivisions from enforcing an ordinance or law that has the express or practical effect of prohibiting residential dwelling rentals.

At the same time, ALEC model policy gives local governments the leeway to enforce rules and regulations related to protection of the public's health and safety as long as the government demonstrates that the primary purpose is indeed protecting the public's health and safety; likewise, residential use and zoning ordinances are permitted so long as the relevant codes are applied in the same manner to other properties.[17]

Recent flashpoints include legislation passed by the Missouri House that stalled in the Senate which would have restricted the ability of local governments to regulate home sharing,[18] legislation enacted into law in Virginia (SB 1578)[19] authorizing the creation of local home share registries and specifically refusing to place limits on the local regulation of home sharing through zoning and general land use, and enacted legislation in New York restricting advertising for home sharing (with fines up to $7,500 for violations).[20]

Unreasonable restrictions on this developing marketplace threaten to impact local economies by suppressing tourism as a result of higher lodging costs, diminish the financial security from a potential second source of income for property owners, and reduce potential for real estate valuation gains.

Unconstitutional Mandates on Online Retailers

Article I, Section 8, of the U.S. Constitution provides that "Congress shall have the power…to regulate commerce…among the several states." Under a long line of U.S. Supreme Court rulings, states are prohibited from placing "undue burdens on interstate commerce." In the context of state taxation of interstate commerce, the Supreme Court held in *Quill Corp v. North Dakota* (1992) that businesses lacking a "substantial nexus" or link to a state through a physical presence, or an employee or agent, cannot be forced to collect and remit taxes to that state. These concerns about extraterritorial taxation are also embodied in ALEC model policies—the Sales and Use Tax Collection Protection Act along with the 21st Century Commercial Nexus Act.[21]

Under constitutional precedent, a state can only compel a business to collect and remit taxes if such business has a physical presence (or nexus) within the borders of that state. Yet a number of state legislatures chose once again to force retailers with no physical presence in the state to remit sales taxes—in direct contravention of established constitutional law. For instance, Indiana's H.B. 1129 requires out-of-state retailers with more than $100,000 per year of sales, or at least 200 separate transactions to residents of Indiana (whichever comes first), to collect and remit sales taxes to the state. Washington state legislators hope mandating remote sellers or online marketplaces to either report sales or collect sales taxes on behalf of the state will yield more than $350 million annually.[22]

Such legislation invites expensive legal action against these states. Legal battles already have occurred, or are underway, stemming from unconstitutional legislation passed in Indiana, Massachusetts, South Dakota, Tennessee, Wyoming, and Colorado.[23] Of course, even if the Supreme Court were to overturn precedent, a net economic loss would follow as businesses engaged in online enterprises would be subject to a patchwork of thousands of taxing jurisdictions across the country. This unfairly favors "brick and mortar" retailers who only must comply with one tax jurisdiction per location. It also favors larger online retailers who possess economies of scale in compliance technology. The compliance costs, both time and financial, along with the potential of audit risk will be substantial and will suppress growth.

However, a proper understanding of federalism involves a balance between federal and state governments. In the case of protecting interstate commerce, Article 1 of the United States Constitution clearly allocates the federal government the role of protecting the American people.

During this past Congressional session, Rep. Jim Sensenbrenner of Wisconsin introduced the “No Regulation Without Representation Act of 2017,” which would codify Constitutional protections and limit the ability of states to tax and regulate outside of their boundaries.[24] Importantly, this policy would protect taxpayers as well as the proper understanding of federalism.

A complex network of taxes and reporting regulations stretching beyond the purview of residents and into other states is inherently a violation of sound tax policy. In fact, there are more than 12,000 tax jurisdictions[25] across the states—roughly twice as many as when the U.S. Supreme Court decided the landmark *Quill* case in 1992.[26]

Depression-Era Gross Receipts Taxes Reemerge

One troubling trend in fiscal policy is the dangerous return of gross receipts taxes (GRTs). Widely regarded as the epitome of bad tax policy, the GRT is undoubtedly among the worst of options available to policymakers and violates nearly all principles of sound taxation.

The very nature of the GRT structure—a tax being levied at each transaction in the production cycle—results in what economists refer to as tax pyramiding. Complex goods that require more production stages are taxed at a higher effective rate. And consumers ultimately foot the bill as the tax is passed along and baked into the final price of a good or service. This results in arbitrary treatment of businesses and concealment of true tax burdens. GRTs pick winners and losers by treating similar businesses differently, simply due to their organizational structure or volume. These taxes impede growth and are a uniquely terrible policy.

Gross receipts taxes unfairly disadvantage businesses with complex supply chains and are particularly harmful to start-ups and businesses with low profit margins and high volumes. Because tax liability is calculated from gross receipts, not profit, businesses owe taxes whether they have a successful year or not. Under this tax structure, firms with the same amount of profit could face drastically different tax burdens depending solely on their volume. For instance, consider a company operating at a 1 percent (or less) net profit margin—such as recently the case in the beverage manufacturing and mining support sectors.[27] In other words, for every $10,000 of business, just $100 profit accrues. Even a 0.50 percent GRT would cost this firm $50, or a whopping 50 percent of profits—exceeding even the current corporate income tax rates.

A gross receipts tax appears to have a low rate, a broad base, and low administrative cost. This appearance—though patently false—makes a gross receipts tax sound palatable to the average citizen. The costs associated with a gross receipts tax—violations of transparency, neutrality, fairness, equity, simplicity—are greater than any perceived benefits.

Unfortunately, this did not stop policymakers in states such as West Virginia, Louisiana, and Oregon from exploring, or even advocating for, adoption of GRTs this year. Currently, only five states impose a broad-based, statewide GRT,[28] and their experience confirms the economic harm they can cause. Economic history plainly demonstrates this fact, and legislators would do well to resist the political temptation and instead embrace sound policy tools fitting for the modern economy.

Legislative Supermajority Levies Enormous Income Tax Increase in Illinois

As the state of Illinois approached an unprecedented two years of operating without a budget, rather than blame political squabbling, the focus should have been on fixing the big-government policy prescriptions that are killing economic growth and opportunity. Instead, a legislative supermajority overrode Gov. Bruce Rauner’s veto of an increase in the personal income tax rate from 3.75 percent to 4.95 percent retroactive to July 1, 2017. This whopping 32 percent increase in the tax rate will cost a married couple making $75,000 jointly with two children upwards of $800 annually.[29]

It should come as no surprise that businesses and citizens continue to leave the Land of Lincoln in droves. From 2006-2015, nearly 700,000 Illinois residents left, on net. Only New York and California experienced higher levels of domestic out-migration during the same period. The credit rating agencies are right to question Illinois' ability to pay its bills, as the tax base flees to other states. A change of direction, one in which government lives within its means, is necessary if Illinois ever plans to dig itself out of this fiscal ditch.

Finger-pointing is rampant in Illinois as the state's credit rating has been downgraded by S&P and Moody's to near junk status, the lowest ever for a state.[30] Without a significant policy shift in the direction of fiscal responsibility, it won't be surprising when worldwide headlines announce that Illinois is the first state in America to fall into the junk bond category.

It is not news that Illinois is in a compromising position when it comes to public pension obligations. As one of the biggest line-items in the state budget, at more than 20 percent, the cost cannot be ignored any longer.[31] Over time, the state's revenue will be further funneled into paying pension benefits at the expense of other budgetary items, such as education, health care, and infrastructure. According to *Unaccountable and Unaffordable 2016*, the situation is worse than previously believed. Illinois reports its liabilities based off an expected rate of return on investments, and unfortunately this number has been vastly overestimated. When the rosy accounting assumptions are stripped away, Illinois has a dismal 23.77 percent funding ratio and $362.6 billion in unfunded liabilities. That staggering number represents an unfunded pension liability of $28,200 for every man, woman, and child in Illinois.[32]

Considering the enormous budget issues the state is facing, with pensions being a key driver, one might assume the state government is not bringing in enough revenue and merely needs to raise taxes. This is simply false. According to Tax Foundation's analysis, Illinois' taxpayers pay the 5th highest combined state-local tax burden in America.[33]

Due to uncompetitive and unsustainable policies, this publication consistently ranks Illinois' economic outlook in the bottom 10 nationally. The Illinois Policy Institute points out that it is nearly three times more expensive to rent a U-Haul from Chicago to Houston than from Houston back to Chicago.[34] This is simple supply and demand, as many more citizens are looking to escape Illinois than move there.

Twin Tornadoes of Tax Hikes and Spending Increases Target Kansas

Ever since enacting tax reform in 2012, Kansas' efforts have received more media attention than any other state-level tax relief effort in recent memory. Unfortunately for the hardworking taxpayers of Kansas, in May of 2017, the Kansas Legislature pushed through a massive tax increase, overriding multiple vetoes from Gov. Sam Brownback. The $1.2 billion tax increase over two years was enacted while Kansas legislators substantially increased state spending. Here is the kicker: With the massive amounts of new spending as a part of the tax increase package, the budget will once again become unbalanced in a couple of years.

While the prevailing media narrative is overwhelmingly negative, the data from Kansas does not support many of the arguments the critics of the 2012 tax cuts make. In reality, the Kansas tax relief is far from the abject failure some like to suggest. In fact, recent data suggest there are some very positive trends for hardworking taxpayers in Kansas.

Perhaps the most important complexity to keep in mind is the Kansas tax reform plan was never fully implemented as intended. Many political compromises contributed to the fiscal policy patchwork Kansas taxpayers face. Taxes were lowered, but spending was not. Then taxes were raised in a significant way. Some of the tax increases came in the form of broad-based retail sales taxes, while others were discriminatory taxes on consumers of specific products, such as cigarettes.

Many left-wing pundits claim tax reform has been "disastrous for Kansans" and that these cuts have devastated public services.[35] Unluckily for the backers of these claims, the data is generally not on their side. Throughout the debate, the media and politicians often relied on anecdotes and hearsay rather than statistical data.

Tax reforms that became effective in January 2013 made Kansas more competitive. Compared with a group of eight other states with the most highly correlated private sector workforce composition, post-reform job growth has been quite competitive.[36] U.S. Bureau of Economic Analysis (BEA) data show annualized growth of 1.3 percent per 10,000 residents from the end of 2012 through 2015 in Kansas, higher than five of those eight other states. Contrasted with the nation as a whole, Kansas exhibited marked improvement from the pre-reform era, jumping from 40th place for private sector job growth between 1998 and 2012 to 30th place from 2012 to 2015—the latest year for BEA data. Yes, the state still lags nationally, but relative performance after the tax reform has improved. National pundits who claim tax reform hobbled the Kansas economy display an ignorance of the facts.

Pass-through entities are responsible for much of the job gains enjoyed in recent years, a particular fact which detractors from the 2012 tax cuts refuse to acknowledge. In the two years prior to reforms, employment growth in pass-through entities was just over half of the national average. The latest data from the U.S. Census Bureau show Kansas lags the nation by far less, achieving 92 percent of the national pass-through entity growth rate following implementation of the pass-through exemption.[37] In fact, pass-throughs account for 98 percent of jobs gains in Kansas between 2012 and 2015.[38]

Data from the Kansas Department of Revenue (KDOR) strongly counters the erroneous claim that the pass-through exemption sparked a cascade of tax avoidance switches to new pass-throughs from C-corporations. According to KDOR's Kansas Tax Policy and Economy Review, "In tax year 2013, 2 percent of C-corporations switched to a pass-through entity. In 2014, 1.3 percent of C-corporations switched to a pass-through entity."

The number of total existing pass-through entities attributable to these switches from C-corps is minimal as well. Excluding sole proprietorships and counting one partner per partnership, KDOR data shows just 0.4 percent of the total number were switches in 2012, 0.65 percent in 2013, and 0.41 percent in 2014.

So, is this pass-through exemption responsible for the current budget gap? An academic study released last year estimated that "recharacterization of pass-through income accounts for roughly 8.6 million" of negative revenue impact in 2013.[39] Furthermore, the total pass-through exemption has "cost" the state less than $220 million in "lost" tax dollars each year. In other words, it's a misnomer to assign primary blame for the budget shortfall to the small business tax cuts.

Even as the Kansas tax cuts benefitted the state's economy, politicians created a budget failure by refusing to match the tax cuts with meaningful spending control. General Fund spending from 1995 through 2017 rose approximately 55 percent, adjusted for inflation, and a whopping 89 percent in current dollars.[40] Population increased just 12 percent from 1995-2017. In other words, for every 1 percent in population growth, spending increased by nearly 5 percent in real terms. Since 2012, General Fund spending has increased by more than 4 percent adjusted for inflation. If General Fund spending growth had been held to the rate of inflation throughout this period, FY 2017 spending would be $1.12 billion less, dwarfing the predicted deficit by a factor of at least two. In short, at the state level, you cannot cut taxes without keeping an eye on the spending side of the ledger.

Detractors are correct that the nation does have much to learn from the Kansas tax reforms. But, the lessons are far different than those misleadingly promoted by the naysayers. Lower taxes on both business and personal income indeed spur job growth. Despite the markedly improved job growth in Kansas relative to other states, the politically induced resistance to prioritize spending or tackle government inefficiency continues to be a major problem. Unfortunately, a majority of Kansas legislators chose to avoid the heavy lifting by maintaining the excessive spending and then growing it yet again this year. Here is what President Trump, Congress, and policymakers from the other 49 states can learn from the Kansas experience: Pursue lower taxes, but resist the ever-present temptation to overspend.

Rolling Back Economically Damaging Referendums in Maine

In 2016, six questions were added to Maine's general election ballot. Of the six, five were approved by Maine voters, including an income tax surcharge and a minimum wage increase.

The passage of Question 4 put into motion an increase in the state minimum wage to $12 an hour by 2020.[41] In addition to increasing the state minimum wage, the initiative increased the base pay for tipped workers to $5 per hour, scheduled to rise by a dollar each year until 2024. The ballot measure passed by a large margin, but the harm of increasing artificial wage floors became quickly apparent for restaurant workers.

Many restaurant workers saw a decrease in their tip income greater than the increase in their base pay, leaving them worse off. To the surprise of minimum wage advocates, restaurant workers testified against the minimum wage increase en masse.[42] Their testimony led to a legislative compromise this year which reduced the minimum wage for restaurant workers to the original lower level and reinstated the tip credit.[43]

Question 2 applied a 3 percent income tax surcharge to residents making more than $200,000 annually.[44] This raised the top marginal rate of the state income tax to 10.15 percent, the second-highest in the nation. Question 2 was estimated to generate $124 million in revenue for education programs.

Maine's *Rich States, Poor States* outlook rank worsened from 38th in 2016 to 42nd in 2017, due in large part to the passage of the income tax surcharge. Gov. LePage and a large portion of the legislature recognized the potential damage the surcharge would cause to residents' economic opportunity. However, House and Senate Democrats wanted to increase education funding by $320 million, using the surcharge.[45] A partisan divide emerged around the issue of the surcharge, leading to a budget battle.

Over the Independence Day weekend, Gov. LePage partially shut down the state government. Finally, the legislature and governor came to a compromise that removed the income tax surcharge but reallocated revenue to education programs.[46] Gov. LePage's gamble turned a dire situation into a historic win for Maine's hardworking taxpayers and has set the state on a path toward greater opportunity and prosperity.

Massachusetts Fights Back Against its "Taxachusetts" Moniker

Tax revenues underperformed projections across the country, which triggered budget battles, new taxes, and service cuts. Massachusetts was one of 10 states to begin their fiscal year without a budget, due to lower than expected tax revenues. Where many states passed new and higher taxes, Massachusetts chose to live within its means.

Massachusetts had based its 2017 and 2018 revenue projections on a 3.9 percent increase over 12 months.[47] However, revenues only increased 1.2 percent. The result was a $749 million shortfall for fiscal year 2017 and a more than likely deficit in 2018.[48] New and higher taxes, particularly on high earners, were proposed to cover the gap; a "millionaire's tax" will likely be on the 2018 ballot.

However, Massachusetts Gov. Charlie Baker recognized that raising taxes and going back to being "Taxachusetts" would erode the competitive advantage the state enjoys relative to its Northeastern neighbors, such as Connecticut, New Jersey, and New York. Gov. Baker took a firm stance against raising taxes, stating, "We will oppose any effort to pass a broad-based tax increase on the hardworking people of the Commonwealth."[49] As with many states this year, the fight between those who wanted higher taxes and those who were willing to find efficiencies in their existing budget led to an impasse.

Behind closed doors, legislators crafted a budget that fell within the new, lower revenue projection. The $4.1 billion budget was nearly a 3 percent increase over the previous year, but also about $750 million lower than the original budget.[50] The budget avoided raising broad-based taxes.

Gov. Baker signed the budget into law and then proceeded to strike about $260 million from the budget through line-item vetoes, including $220 million in Medicaid funding. The Medicaid funding veto is part of Gov. Baker's ongoing attempt to address the rapid growth of MassHealth, which now consumes 41 percent of the state's budget.

After the line-item vetoes, the total state budget amounts to $39.4 billion, a 1.7 percent increase over the previous year. Massachusetts's legislature and governor practiced fiscal restraint, and their state will be better for it.

A Close Call: Alaska Taxpayers Narrowly Avoid Imposition of State Personal Income Tax

Gov. Bill Walker of Alaska was recognized by ALEC as having some of the worst tax policy ideas of 2016 and 2017, as he called for a second year in a row to reestablish the personal income tax, which the state repealed in 1980.[51] The governor continues to champion failed tax increase proposals to help fill a large budget gap, which has quickly ballooned in part due to a more than 80 percent decrease in state petroleum revenue since prices peaked in 2014. These proposals include reinstatement of the personal income tax and an unspecified increase to the Motor Fuels Tax. One proposal under consideration in the House would have resulted in a nearly $1,000 in income taxes on a single person earning $50,000 a year.[52]

Thankfully, Gov. Walker's efforts to reinstate the personal income tax failed to gain traction. The continued possibility of a personal income tax in future years, 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 more than 35 years ago.

The impact of that income tax would have been stark.

- Alaska would shift from being one of just nine no-income-tax states to having the 17th highest top personal income rate in the country (a 7 percent top rate).
- According to the Alaska Department of Revenue, revenue over the first two years from this tax would total $992 million.[53] This represents 2.4 percent of annual personal income,[54] and would make Alaska 6th worst in the nation in recently legislated tax change impact.
- Overall, this income tax would decrease Alaska's economic outlook from 30 to 43.

Alaskans have tough choices ahead to address the state's budget woes. Smart budgeting solutions outlined in the ALEC *State Budget Reform Toolkit,* such as priority-based budgeting, can provide a secure financial future for the next generation of Alaska families.

As we have noted time and time again in past editions of this publication, the personal income tax is toxic for economic competitiveness and growth. For example, over the past half-century the 11 states that adopted a personal income tax have seen alarming decreases in state economic growth.[55] Connecticut and New Jersey both adopted a "modest" personal income tax in the past; however, today their economic outlooks rank at a dismal 47 and 48, respectively.

Relying less on highly volatile revenue sources, such as corporate income and personal income taxes, makes revenue collections more stable and the budgeting process far more predictable. Broad-based consumption taxes, like retail sales taxes, are among the least volatile sources of revenue, as sales generating the revenue generally do not fluctuate as much as capital-based taxes. Relying on volatile income tax revenue sources ensures that economic cycles and economic shocks have massive and devastating effects on tax revenues.

Delaware Raises Taxes, Repeals Estate Tax

Delaware's propensity to spend became increasingly apparent this year as the state faced a nearly $350 million budget gap. Rather than address spending that has nearly doubled since 2004 and is now fourth-highest per capita in the nation, they primarily relied on discriminatory tax hikes to make up the difference.[56]

Among the tax hikes were increases to the corporate franchise tax that adjusts the maximum payment upward to $200,000 and creates a second bracket for large corporations.[57] A host of discriminatory tax increases were also approved including tax increases on beer from $4.58 to $11.46 per barrel and wine from $0.97 to $1.72 per gallon.[58] Cigarette taxes increased by $0.50 per pack, tobacco retailer license fees were raised, and the state introduced a new tax levied on vapor products of $0.05 per fluid milliliter.[59] To round off the increases, Delaware raised their realty transfer tax from 3 percent up to 4 percent, which is now one of the highest in the nation.[60]

It is disappointing to see Delaware resort to discriminatory tax increases rather than address the problem with meaningful tax and spending reform. However, many state lawmakers and Gov. John Carney deserve credit for taking a small but important step in a positive direction by repealing Delaware's estate tax.

North Carolina Continues Implementation of Historic Tax Reform

The past several years in North Carolina exemplify the strength of pro-growth tax reform. Since 2011, the state skyrocketed from 26th to 3rd in this publication's economic outlook rankings. Described as "the most significant tax reform of this decade,"[61] reforms encompassed the sales tax, property tax, personal income tax, and even the corporate income tax.

Upon taking control of the legislature in 2010, North Carolina Republicans faced a budget gap of $3 billion. To resolve this, lawmakers pursued pro-growth reforms that closed the gap and provided substantial tax relief. At the time, North Carolina's personal and corporate income tax rates of 7.75 percent and 6.9 percent, respectively, were higher than any other state in the region. With yearly repeated tax relief efforts, beginning with the 2013 tax reform act and continuing through the most recent 2017 budget and tax bill, the single rate flat personal income tax rate is 32 percent lower than the top marginal rate of just four years ago. After annual reductions, each contingent on achieving revenue targets, the corporate income tax will drop to 2.5 percent in January 2019, nearly 64 percent lower compared to its peak of 6.9 percent in 2013!

In a spectacular end to fiscal year 2017's session, the North Carolina legislature passed an override of Gov. Roy Cooper's veto. By doing so, North Carolina enacted a new budget that once again prioritizes spending and provides additional pro-growth cuts to the state's personal and corporate income tax rates. The budget delivers a total of $530 million in broad-based tax relief, pay raises and bonuses for public school educators, $263 million for the rainy day fund, and additional hundreds of millions for various infrastructure repairs.

This year's budget phases in several major tax relief objectives, most notably, lowering the state's flat personal income tax rate further from 5.499 percent to 5.25 percent and the corporate tax rate from 3 percent to 2.5 percent, effective January 2019. The franchise tax rate for S-Corporations was also reduced. With a corporate income tax rate already the lowest in the country among states that levy such a tax, these cuts further enhance the pro-growth momentum of the last four years.

Since lawmakers started down this road in 2013, they've held the line on responsible spending as well. Annual growth in state spending has been held well below the rate of population growth plus inflation. Repeated budget surpluses in the hundreds of millions demonstrate that pro-growth tax relief paired with responsible spending prioritization can bring real growth, and thus, alleviate fiscal impasses.

Taking all reforms into account, lawmakers will have provided more than $6.9 billion in tax relief for citizens of the Tar Heel State by 2020. These significant tax reforms have been a boon for the hardworking taxpayers of North Carolina and the state's economy. North Carolina's continued efforts in broad-based and pro-growth tax reforms have helped it experience near-record growth since the tax reforms of 2013. The phase-in of more tax relief has further enhanced the state's economic competitiveness. Strong domestic in-migration and non-farm payroll job growth put North Carolina ahead of every regional competitor and in the top-10 nationwide.

Louisiana Says Good-Bayou to Tax Reforms

After multiple special legislative sessions this year, Louisiana lawmakers passed a $28 billion budget. The budget gives more money to many of the governor's favorite priorities, but does little to address the archaic tax code and trend of spending growth that have combined to send the state's economic growth and tax revenue into coordinated tailspins. Colleges and universities will get a larger increase in funding than they've seen in a decade, a major state scholarship program will be fully funded, and pay will be raised for nearly 38,000 state employees. Unfortunately, the budget makes few efforts to responsibly prioritize spending, instead adding an additional $100 million in recurring expenses[62] and merely advising that Gov. John Bel Edwards' administrative agencies hold back from spending $60 million to hedge against continued revenue shortfalls.

Despite a months-long study by a blue ribbon panel commissioned to recommend tax overhaul ideas, Louisiana's lawmakers opted to continue the status quo, sending the recommendations to the same cold-case file from past years.

Worse still, the bloated budget follows years of billion dollar tax hikes with nothing in the realm of meaningful tax relief. Louisiana's fiscal problems are nothing new. The Pelican State has faced budget deficits in every one of the past eight years, ranging from $34 million in fiscal year 2014, to more than $1 billion in fiscal year 2016.[63] Numerous and complex tax holidays, credits, and exemptions play a role in the ongoing budget woes; but wasteful spending on inefficient, outdated, and unnecessary government programs are also to blame.

Through early 2017, Louisiana experienced nearly 18 straight months of year-over-year job losses while the rest of the country was growing.[64] A new report from the Bureau of Economic Analysis found that Louisiana has the worst economic growth in the Gulf Coast. During the first quarter of 2017, at only 1 percent GDP growth, Louisiana hangs below its region and the national average.[65] Tax-and-spend policies have not done Louisiana any favors, and its economic competitiveness isn't likely to get better. With the national economy improving overall, if lawmakers in Louisiana cannot alter the state's current course, the state will only fall further behind.

The worsening jobs trend should be a sign to state lawmakers it is high time to end the tax-and-spend cycle and bid farewell to excessively onerous taxes.

State Taxes Affect State Growth

Year after year, the data presented in this publication demonstrably bear a relationship with states' economic condition. Dr. Randall Pozdena, formerly the research vice president at the Federal Reserve Bank of San Francisco, was the lead author of *Tax Myths Debunked*. This research compared *Rich States, Poor States* economic outlook rankings to the Federal Reserve Bank of Philadelphia's state economic health indices from 2008 to 2012. Findings reveal a distinctly positive relationship between *Rich States, Poor States* economic outlook rankings and both current and subsequent state economic health:

> "The formal correlation is not perfect (i.e., it is not equal to 100 percent) because there are other factors that affect a state's economic prospects. All economists would concede this obvious point. However, the ALEC-Laffer rankings alone have a 25 to 40 percent correlation with state performance rankings. This is a very high percentage for a single variable considering the multiplicity of idiosyncratic factors that affect growth in each state—resource endowments, access to transportation, ports and other marketplaces, etc."[66]

This study annually contrasts the nine states with no income tax—Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming—with the nine highest-income tax states. Two of these states with no income tax—Tennessee and New Hampshire—currently tax so-called "unearned income." As recently as 1960, 11 other states had no income tax but have since adopted one.

Whether, and how, a state taxes income can provide an important glimpse into its pursuit of economic growth and prosperity. This gives us a head-to-head comparison of no-income-tax states with the highest income tax rate states along with an observation of the effects experienced by the 11 states that chose to adopt an income tax over the past 57 years.

For the head-to-head comparisons, our research uses a 10-year rolling period to smooth out extraneous noise and one-off events in order to highlight the long-term systematic effects taxes have on state economic performance. The results are remarkable. The table below compares the

TABLE 4 | The Nine States with the Lowest and Highest Marginal Personal Income Tax (PIT) Rates

	As of 1/1/2017	10-Year Growth				
		2006-2016				2004-2014
State	Top Marginal Earned PIT Rate†	Population	Employment	Personal Income	Gross State Product	State & Local Tax Revenue‡
Alaska	0.00%	9.9%	3.1%	48.8%	13.5%	135.1%
Florida	0.00%	13.5%	7.5%	34.2%	24.2%	22.9%
Nevada	0.00%	16.5%	9.1%	27.4%	14.9%	38.0%
South Dakota	0.00%	10.5%	4.5%	50.9%	48.0%	55.9%
Texas	0.00%	19.3%	17.6%	62.3%	48.6%	68.7%
Washington	0.00%	14.4%	9.2%	51.6%	48.3%	50.2%
Wyoming	0.00%	12.0%	5.2%	43.1%	15.9%	54.7%
New Hampshire§	0.00%	2.0%	2.9%	36.0%	29.9%	41.7%
Tennessee§	0.00%	9.2%	3.7%	43.8%	37.6%	34.6%
Average of 9 Zero Earned Income Tax Rate States*	0.00%	11.9%	7.0%	44.2%	31.2%	55.7%
50-State Average*	**5.60%**	**7.9%**	**4.2%**	**41.0%**	**32.6%**	**51.3%**
Average of 9 Highest Earned Income Tax Rate States*	10.31%	5.6%	3.6%	38.6%	32.9%	53.1%
Hawaii	8.25%	9.1%	6.9%	42.7%	35.2%	68.4%
Maryland	8.95%	6.9%	6.5%	35.1%	36.3%	50.6%
Vermont	8.95%	0.3%	-3.0%	36.6%	27.9%	51.9%
Minnesota	9.85%	6.9%	4.0%	41.4%	34.0%	58.5%
New Jersey	9.97%	3.3%	1.5%	32.3%	25.0%	45.7%
Maine	10.15%	0.6%	-0.8%	30.0%	22.7%	25.7%
Oregon	10.64%	11.5%	9.5%	44.7%	38.7%	55.4%
New York	12.70%	3.4%	0.5%	40.8%	38.0%	63.8%
California	13.30%	9.0%	7.6%	44.1%	38.5%	57.7%

**averages are equal-weighted*

† Top Marginal PIT Rate is the top marginal rate on personal earned income imposed as of 1/1/2017 using the tax rate of each state's largest city as a proxy for the local tax. The deductibility of federal taxes from state tax liability is included where applicable.

‡ State & Local Tax Revenue is the 10-year growth in state and local tax revenue from the Census Bureau's State & Local Government Finances survey. Because of data release lag, these data are 2004 to 2014.

§ New Hampshire and Tennessee tax interest and dividend income—so-called "unearned" income—but not ordinary wage income. Tennessee's unearned income tax, the Hall Tax, is being phased out.

Source: Laffer Associates, U.S. Census Bureau, Bureau of Labor Statistics, Bureau of Economic Analysis nine states which currently have no income tax to the nine states which currently have the highest tax rates for the 2006-2016 period.

On average, the nine no-income-tax-states over the past 10 years not only outperformed the nine highest income tax states, but also the nation as a whole, in population, employment, personal income, and tax revenue growth. Gross state product growth slightly lagged in the nine no-income–tax-states; however, it's important to note that Texas and Wyoming lead the nation in energy production.[67] In addition, energy production and mining as a percentage of states' economies are highest in Wyoming (nearly 35 percent) and Alaska (25 percent).[68] Despite the plunge in energy prices—which has without a doubt hurt GSP in these states—employment, personal income, and population growth overall continues to outpace the nation as whole and high-income-tax-states in particular. It would be difficult to find more reliable evidence than this that state income taxes really do matter for economic growth.

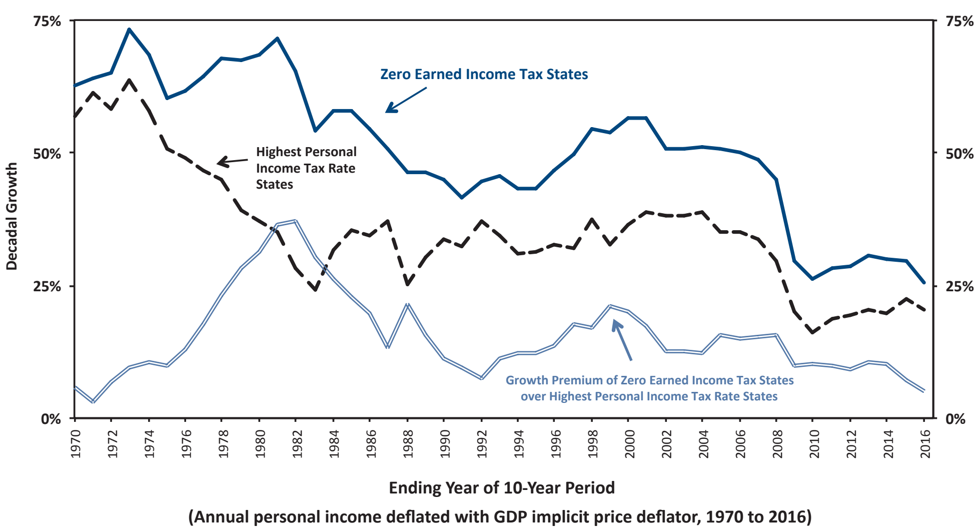
Using the same methodology, which for data reasons only permits comparisons back to 1970, Figure 8 plots the 10-year growth of personal income for the zero-tax-rate-states, the equivalent number for the highest-tax-rate-states, and the growth premium for the states that avoid income taxes.

Here too, the results are astounding. In every single year, the no-income-tax states outperformed the states with the highest income tax rates.

Data from the 11 states that adopted a personal income tax between 1961 and 1991 are also illuminating. These include West Virginia (1961), Indiana (1963), Michigan (1967), Nebraska (1968), Illinois (1969), Maine (1969), Rhode Island (1971), Pennsylvania (1971), Ohio (1972), New Jersey (1976), and Connecticut (1991).

Again, the results are shocking. The authors looked at each of the primary economic metrics (population, employment, personal income, gross state product, and state and local tax revenues) in each of the 11 states for the four years prior to adopting the income tax plus the actual year the income tax was adopted relative to the subsequent years. Each and every one of the 11 states declined relative to the rest of the nation in each

FIGURE 8 | **10-Year Real Personal Income Growth Rates: No-Income-Tax-States and Highest-Income-Tax-States**



Source: Bureau of Economic Analysis, Laffer Associates and every economic metric used above, including state and local tax revenues. New Jersey may serve as the most vivid case study. In 1965, New Jersey had neither an income tax nor a sales tax, and it enjoyed some of the fastest growth in the nation. New Jersey also had a balanced budget. Contrast that with the Garden State today: excessive sales, property, and income taxes combined with one of the most sluggish economies in the nation and massive out-migration. These conditions and the gargantuan structural deficit prove that a ballooning budget and its associated tax burden can cripple economic prosperity. State taxes indeed matter for economic competitiveness.

Pension Reform Arrives in the Great Lakes

Michigan

Michigan's public pension system needed structural changes in order to honor promises to public sector retirees while protecting hardworking taxpayers. The hybrid—defined-benefit (DB)/defined-contribution (DC)—plan in place since 2010 for the Michigan Public Schools Employees' Retirement System represented a step in protecting employees and taxpayers. But according to the ALEC report *Unaccountable and Unaffordable 2016*, Michigan's pensions are the 5th worst funded in America despite these modest reforms. The unfunded liabilities exceed $15,800 for every man, woman, and child in Michigan using a risk-free assumed rate of return on pension investments. The comprehensive pension reforms contained within HB 4647 begin to address those daunting challenges and, if implemented properly, would result in a national model for reform and establish Michigan as one of the brightest turnaround stories among the states.

The recently enacted reforms build on the prior reforms of 2010 by closing the current hybrid plan to new employees hired as of February 1, 2018. New employees will join the existing DC plan by default unless they opt into the hybrid plan instead. A key component of the DC plan is automatic employee contribution of 4 percent of pay, matched 100 percent by the employer. An employee can contribute up to an additional 3 percent annually, also fully matched by the employer. This 100 percent match is a core component of the DC plan and provides a fully funded retirement option.

For those new employees opting to join the new hybrid plan, numerous features will enhance the fiscal health of the pension system, including the following:

- Requiring the school system and employees to share the costs of future unfunded liabilities equally. If investment return assumptions are not met, the employer and employee will share the costs of the increased Annual Required Contribution (ARC) equally.
- Closing this new hybrid plan to new employees if the funded ratio remains below 85 percent for two consecutive years. This funding ratio requirement helps ensure that the unfunded liabilities do not continue to soar, and will push the government to meet its annual obligations for the DB component. If closed, new hires will be enrolled and remain in the default, DC plan.
- Continuing to provide a DC component match of 50 cents per dollar match up to 1 percent of compensation in lieu of annual Cost of Living Increases (COLAs).
- Raising the retirement age in certain instances if longevity increases.
- Assuming a more modest 6 percent rate of return, rather than the current 7 percent.

Without reform, the state would have continued to promise benefits now and pay for them later. This habitual underfunding of pension plans over the past three decades has deferred the financial reckoning and compounded the severity of the problem. As a result, payments for teacher's pensions consume 30 percent of total payroll.[69] Underfunding today increases the ARC in the future. If annual contributions had been prudently made, investment revenue from accumulated plan assets would be far higher than the present time. In effect, the state unintentionally made school employees the state's largest creditors; this is unfair to teachers and taxpayers alike. Fortunately, with the reforms of 2017, Michigan lawmakers have put their pension system on a much more sustainable path for the future.

Pennsylvania

According to the ALEC report *Unaccountable and Unaffordable 2016*, Pennsylvania's pensions are the 10th worst funded (28.9 percent) in America and the unfunded liabilities exceed $16,500 for every man, woman, and child in the Commonwealth. The comprehensive pension reforms enacted into law from Senate Bill 1 this year begin to address those daunting challenges.

Prior efforts in this area, such as a 2010 reform that attempted to ensure proper pension payments, failed to prevent the state's pension liability from ballooning to $212 billion. This is largely related to the overly optimistic annual assumed rates of return, such as 7.5 percent for the Public School Employees, Retirement System and the State Employees, Retirement System. Over time, failure to meet this assumed rate creates a gap between actual and required contributions, which are necessary to pay out promised benefits at a given point in the future.

The "side by side" enacted pension reform seeks to provide workers with several retirement options, including two DB/DC hybrids and a 401(k)-style plan. This type of model has been successfully implemented in Tennessee, Virginia, and Washington. The most beneficial part of the plan creates a defined-contribution component for every new state and school district employee by 2019.

New workers can choose to participate solely in the DC plan rather than also contributing to the DB plan. Current employees may elect to join one of these hybrids or the 401(k) plan, although current employees may also opt to remain in the existing DB plan.

In the Commonwealth Foundation's call for reform, they reported that "from 2009 to 2015, school district revenue statewide grew by $3.9 billion, yet 47 percent of this increase went to pension payments."[70] Failure to address the looming crisis means one or more of the following: Higher tax burdens, cuts in essential government services, or reneging on promises to public sector retirees.

These measures will help Pennsylvania keep its promises to employees and retirees alike. Better still, they can serve as a platform for further improvements. Employees, especially millennials, benefit from the portability of the 401(k) component, which empowers workers to make career and geographic decisions based on their own aspirations and preferences rather than out of fear of losing retirement benefits. By preserving retirement security for existing and future employees while putting in place a more fiscally sustainable benefit for new workers, both public employees and taxpayers win.

Conclusion

All Americans—Republicans, Democrats, and Independents—can agree on this: We need a healthier economy. As the recent successes across states on pension reform, tax relief, and sound budgeting show, fundamental fiscal reform is within the grasp of the American people. Fortunately, as this publication annually highlights, we have 50 laboratories of democracy from which to learn. Each and every year, the states continue to lead the way on pro-growth, business friendly policies that respect hardworking taxpayers. Even in difficult economic times in many corners of our nation, state policymakers realize the race for human and investment capital will not end. States can shape their own economic destiny, and it is clear which economic model produces the best outcomes for all hardworking taxpayers. Freedom works—and we find evidence of this each and every year as policy choices continue to shape the fabric of America.

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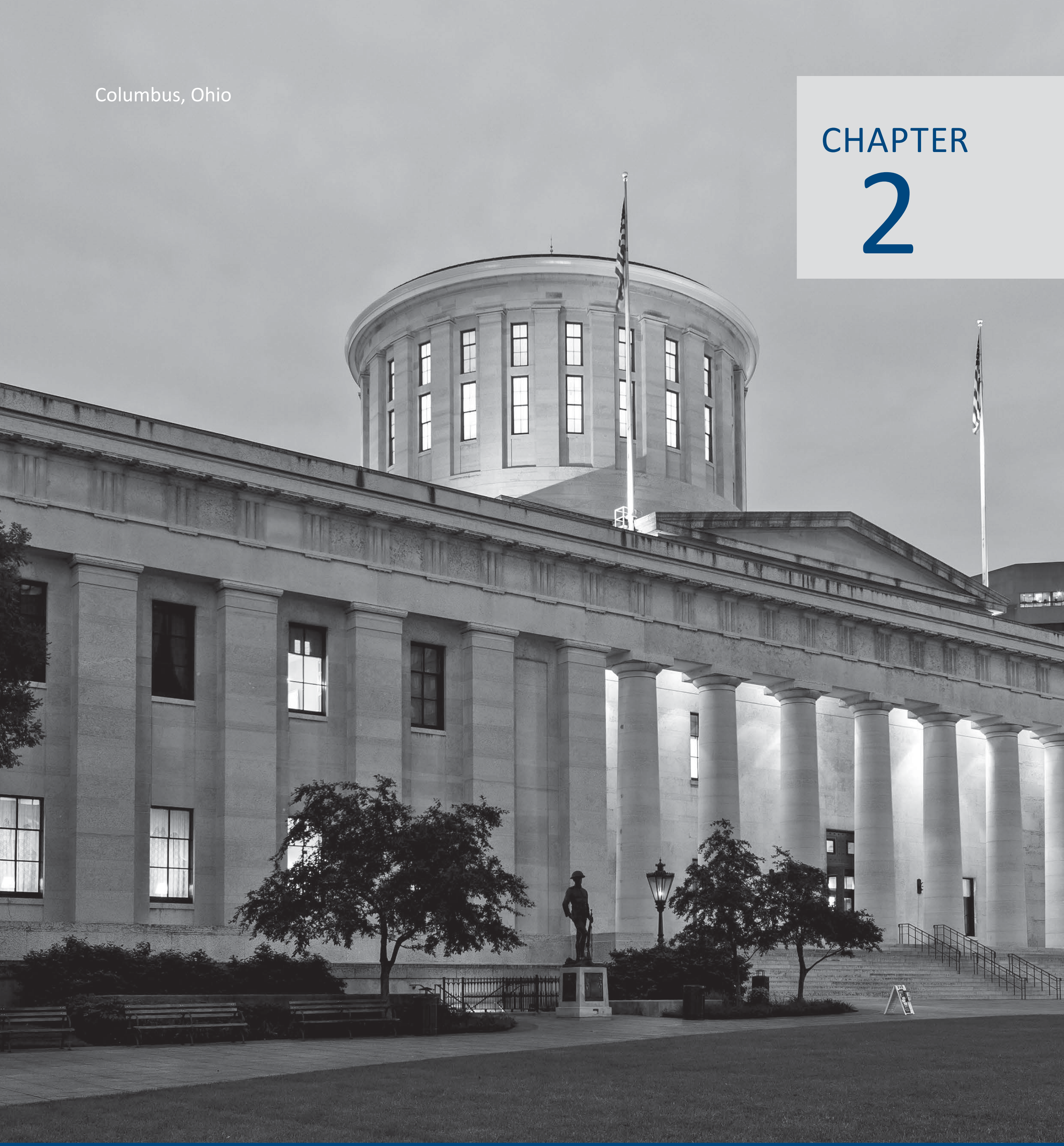


CHAPTER 2

Movers and Shakers—A Decade of Pro-Growth Policy Progress in the States

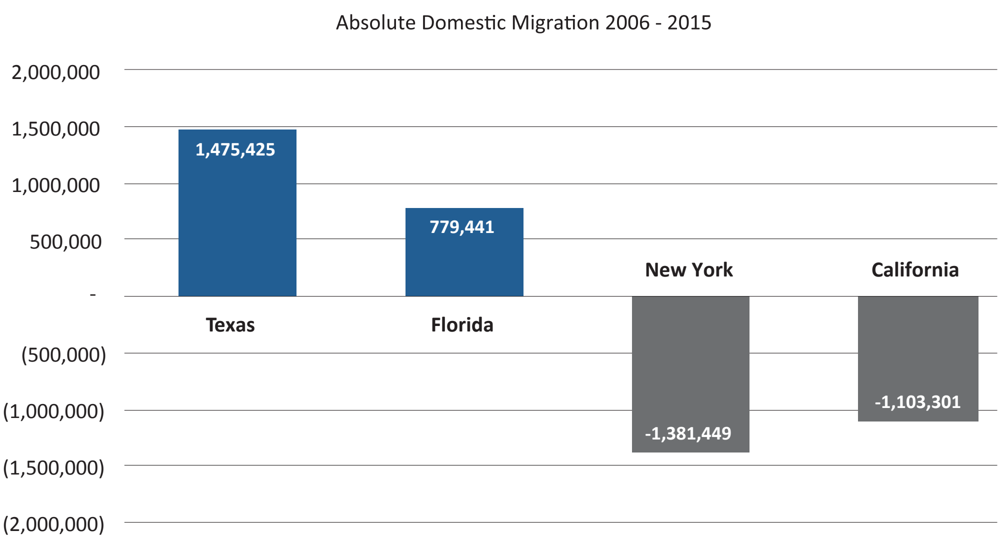
Movers and Shakers—A Decade of Pro-Growth Policy Progress in the States

States Get It Right

As we celebrate 10 years of producing this publication, we are proud to report that many states have rehabilitated their policies to a more pro-growth bearing. We would like to think this publication, and our diligence in prodding states to get it right, has shaken the marble in state capitals. Although sometimes it is two steps forward and one step back, the direction is unmistakably positive. For every policy setback—the massive Kansas tax hike of 2017 comes immediately to mind, as does the ongoing budget debacle in Illinois—states like Tennessee, West Virginia, Indiana, North Carolina, and Arizona are providing their hardworking taxpayers with some very gratifying policy victories.

Kudos to Ohio, North Dakota, North Carolina, and Wisconsin—the states that have made some of the most encouraging progress in improving their economic climates. These states have a very positive economic outlook. By contrast, Delaware, Minnesota, South Dakota, Washington, and Georgia moved in the wrong direction.

FIGURE 1 | **Domestic Migration in the Big Four Diverges Based on Business Climate**



Source: Rich States Poor States, American Legislative Exchange Council

On balance, states are getting it right on policy, and one reason is that they can observe the positive results of states like Texas, Florida, and Tennessee. The migration of people and businesses into low-tax, light-regulation states is accelerating. New York, Illinois, and California, states that keep getting policy wrong, have lost more than 3 million residents on net to other states in just the 10 years from 2006-2015.[1] Since the beginning of the Great Recession through May 2017, nonfarm employees grew by 16.5 percent in Texas—more than triple the 4.9 percent growth nationally without Texas' performance.[2] Something is driving this migration of people and jobs to the south—and it is not just the weather.

Policy decisions create the economic climate that provides some of the strongest impetus for individual and business relocation. States are laboratories of democracy, and states that get it wrong are starting to learn from states that get it right. We are strong advocates of a renewed federalism that pushes responsibilities and funding to the states from the federal government. It is much more likely that 50 states experimenting will get it right than the one-size-fits-all approach of Washington, D.C. We need to look no further than the dismal failure of the so-called Affordable Care Act to deliver the promised results of choice, lower premiums, and lower costs to consumers.

Policymakers at all levels of government should examine the national healthcare collapse and learn that dictates and mandates from Washington almost never produce innovative solutions and often backfire—making the problems in America worse, not better. It is time for Congress and the President to return power to the states in the areas of welfare reform, tax policy, job training, health care, education, and transportation.

It is time for Washington to let 50 flowers bloom.

Coast to Coast Policy Successes

In this publication, we examine 15 variables to see which states are pursuing policy changes proven to enhance prosperity and which states continue to perpetuate failed ideas. Here are some of the policy areas where the trends are in the right direction:

Income tax rates—Top marginal personal income tax rates have declined in 17 states since 2008.[3] North Dakota, North Carolina, Rhode Island, Kansas, Ohio, and Oklahoma each reduced their rate by more than 1 percentage points. But 14 states experienced an increase in the personal income tax. California, Montana, New York, Minnesota, Connecticut, Maine, Oregon, Maryland, and New Jersey each increased the rate by at least 1 percentage point. California and New York each now have a combined top state and local rate in excess of 10 percent. Overall, the equally-weighted average top marginal personal income tax rate increased slightly from 5.49 percent in 2008 to 5.50 percent in 2017.

Top marginal corporate income tax rates have declined in 16 states since 2008; in six of those states, the rate declined by 2 percentage points or more. Meanwhile, the top rate increased in 11 states; in three of those states, the increase was more than 2 percentage points.[4] Ohio implemented significant corporate tax reform, with an effective top rate plunging from 10.5 percent in 2008 to 3.64 percent in 2017. North Carolina's corporate income tax rate declined from 6.9 percent in 2008 to just 3 percent in 2017-the 4th lowest in the nation. The rate jumped by 2.99 percentage points in Delaware during this period. After a 2.73 percentage point increase in Pennsylvania, the corporate rate remains the nation's worst at 17.03 percent. Overall, the equally-weighted average top marginal corporate income tax rate declined from 7.11 percent in 2008 to 6.94 percent in 2017.

Income taxes are one of the most destructive ways for states to raise the revenues they need to pay for important services to their citizens. California and New York are the outliers with double-digit income tax rates. We see movement from the left side of the political spectrum to raise personal income tax rates up to as high as 12 to 15 percent in some of the states. So far, most of those misguided measures have been defeated. Time will tell whether resistance to this "soak the rich" taxes will persist.

TABLE 1 | Top Marginal Personal Income Tax Changes 2008 to 2017*

State	Percentage Point Decrease 2008 to 2017	Percent Change	State	Percentage Point Increase 2008 to 2017	Percent Change
North Dakota	-2.64%	-47.65%	Michigan	0.25%	3.91%
North Carolina	-2.50%	-31.25%	Delaware	0.65%	9.03%
Rhode Island	-2.01%	-25.13%	Indiana	0.70%	16.28%
Kansas	-1.85%	-28.68%	Illinois	0.75%	25.00%
Ohio	-1.37%	-15.45%	Wisconsin	0.90%	13.33%
Oklahoma	-1.25%	-20.00%	New Jersey	1.00%	11.15%
Vermont	-0.55%	-5.79%	Maryland	1.15%	14.74%
Iowa	-0.42%	-7.19%	Oregon	1.64%	18.22%
Idaho	-0.40%	-5.13%	Maine	1.65%	19.41%
Pennsylvania	-0.40%	-5.43%	Connecticut	1.99%	39.80%
New Mexico	-0.40%	-7.55%	Minnesota	2.00%	25.48%
Utah	-0.35%	-6.54%	New York	2.20%	20.95%
Louisiana	-0.28%	-7.18%	Montana	2.41%	53.67%
Arizona	-0.25%	-5.22%	California	3.00%	29.13%
Alabama	-0.23%	-5.41%			
Massachusetts	-0.20%	-3.77%			
Arkansas	-0.10%	-1.43%			
NATIONAL AVERAGE	Increase of 0.11 percentage points from 2008-2017	Increase of 1.43 percent from 2008-2017			

See Appendix explaining methodology in computing highest marginal personal income tax rate

TABLE 2 | Top Marginal Corporate Income Tax Changes 2008 to 2017*

State	Percentage Point Decrease 2008 to 2017	Percent Change	State	Percentage Point Increase 2008 to 2017	Percent Change
Ohio	-6.86%	-65.33%	Missouri	0.35%	6.02%
North Carolina	-3.90%	-56.52%	Illinois	0.45%	6.16%
Indiana	-2.25%	-26.47%	Nevada	0.49%	no tax in 2008
West Virginia	-2.25%	-25.71%	Michigan	0.49%	6.52%
Arizona	-2.07%	-29.70%	Oregon	1.00%	9.76%
Rhode Island	-2.00%	-22.22%	Maryland	1.25%	17.86%
Texas	-1.94%	-43.11%	Washington	1.34%	25.67%
Massachusetts	-1.50%	-15.79%	Connecticut	1.50%	20.00%
New Mexico	-1.40%	-18.42%	Virginia	1.57%	26.17%
New Hampshire	-1.05%	-11.35%	Pennsylvania	2.73%	19.10%
Kentucky	-1.00%	-10.87%	Delaware	2.99%	34.37%
New York	-0.44%	-2.50%			
Vermont	-0.40%	-4.49%			
Kansas	-0.35%	-4.76%			
North Dakota	-0.24%	-5.27%			
Idaho	-0.20%	-2.63%			
NATIONAL AVERAGE	Decline of 0.17% percent from 2008-2017				

NOTE: Washington comparison is 2017 compared to 2010 in order to maintain consistency in methodology
**See Appendix explaining methodology in computing highest marginal corporate income tax rate*

Estate taxes—States continue to eliminate their death taxes, which is a very positive development. Since 2008, the number of states imposing death taxes declined from 23 to 18. Death taxes are the most unfair taxes of all because they tax people on a lifetime of earnings and saving on which they have already paid taxes. A lifetime of paying taxes to the state should be enough without the revenue vultures raiding one's grave. Moreover, the economic implications of death taxes are particularly negative for states, as documented in a chapter in the ninth edition of this publication.

Right-to-work—We are proud that six states over the last decade have expanded worker freedom. Right-to-work allows workers to decide for themselves whether they want to join the union or not. The states that have adopted right-to-work include Indiana, Michigan, Wisconsin, Kentucky, Missouri, and West Virginia. No states moved from right-to-work to forced-union. For the first time in many decades, more than half the country has worker freedom. We hope to see several other states—New Hampshire, Ohio, Montana, and Pennsylvania—move into the right-to-work column in the next year or two. Right-to-work states created new jobs at a pace more than 50 percent higher than forced-union states over the 10 years from 2006-2016 (6.5 percent vs. 4.1 percent).[56]

States are seeing the benefit of right-to-work laws already. A recent example is Kentucky. In the first five months after Gov. Matt Bevin signed right-to-work into law, $5.8 billion in capital investments were made in the state—a record pace. This will create nearly 10,000 new jobs.[7]

Pension reforms—The ALEC *Unaccountable and Unaffordable 2016* study estimates state public pension plans are underfunded by nearly $5.6 trillion (using a "risk-free" assumed rate of return to value pension assets).[8] Hoover Institution, using its own alternative market valuation of assets, estimates the unfunded liabilities at a stunning $3.846 trillion. The same study estimates the unfunded liabilities at $4.967 trillion using a 2.77 percent alternative discount rate based on the Treasury yield curve.[9] Assuming overly optimistic rates of return and refusing to make the annual required contributions causes widespread pension insolvency, tax increases, and rollbacks of essential government services.

Fortunately, we have seen much progress in recent years as states move away from defined-benefit plans and toward portable and safe defined-contribution plans, owned by individual workers, where politicians cannot take away benefits. Utah, Michigan, Pennsylvania, and Oklahoma deserve credit for blazing this path.

Educational choice—States like Arizona and Florida expanded education savings accounts and widely expanded charter schools, vouchers, tuition tax credits, and other reforms that give parents more choice over what schools their children attend—Texas is on the cusp of similar expansions. These programs deliver higher academic progress, better test scores, higher college enrollment, and higher parental satisfaction. The beneficiaries of local school choice programs are often low-income and minority children. Nevada enacted expansive school choice legislation in 2015. In 2016, a Nevada Supreme Court decision placed implementation on hold until the funding mechanism is resolved, but legislators may reach an agreement next year.[10] School choice could prove to be the single most successful policy in closing the economic opportunity gap between rich and poor in America by making quality education more accessible to all.

Work-based welfare reforms—Welfare reforms requiring work and training, with time limits and other improvements began in the 1990s in states like Wisconsin and Michigan. In the last decade, more states moved forward with work-based requirements, including Maine, North Carolina, and Kansas, among others. Smart welfare reforms can reduce caseloads by as much as 50 percent over time, as government payments are replaced with private sector paychecks.[11]

To be sure, taxpayers are losing ground in several areas. Many states opted to expand Medicaid under the Affordable Care Act—a federally incited bait and switch financial mistake. This program is now bankrupting the federal government, and will soon leave states with much higher matching costs at a time when they already struggle to pay the bills. There are now more than 74 million

Americans on state Medicaid rolls—up nearly 25 million over the last decade.[12,13] Medicaid will soon become the most expensive program in state budgets if these trends continue.

Minimum wage hikes—In total, 21 states increased the minimum wage in 2017. At the start of the year, the minimum wage in a dozen states increased because of either voter referendum (five states) or legislative action (seven states). An additional seven states automatically increased the minimum wage based on inflation. In July, the minimum wages in two more states increased.[14]

While we support higher take home pay for America's workers, minimum wage laws tend to drive the least skilled workers and the young out of the workforce, denying them the opportunity to gain valuable work skills.[15] Higher minimum wages in states are associated with lower teenage labor force participation rates—as less-skilled workers are priced out of the job market—and higher teen unemployment. About half of minimum wage workers are below the age of 24.[16]

And the Winners Are...

In recognition of this publication's 10th edition, we went back to the first report's rankings to see which states have improved their economic outlook scores the most. These policy rankings are highly correlated with future economic success in the states. Jobs, money, business, and people flow to the states near the top of the rankings and avoid the states at the bottom. The work in *Tax Myths Debunked* confirms this using both theoretical and empirical evidence.[17] There are exceptions—for instance, Oregon has a poor ranking but has done relatively well economically, whereas Alaska has improved its ranking, but has performed poorly of late, in large part because of the dramatic fall in oil prices.

We would also note many states—such as Utah, which has enjoyed the best economic outlook in America for 10 straight years—have no way to increase in ranking any further. For example, Texas has been the highest performing state economically; it started with a high rating and remains in the top tier. Meanwhile, states such as New York, Connecticut, New Jersey, California, Illinois, and Vermont have been stuck at the bottom of the heap for most of the decade, with little improvement.

We should add there are scores of factors that determine whether a place becomes rich or poor. Factors like nice weather and sunshine, energy resources, agricultural commodity prices, proximity to world-class universities such as Stanford or Harvard, access to deep water ports and international markets, housing prices, and so on, are ancillary determinants of growth, as far as those resource constraints affect capital allocation and

TABLE 3 | **Top 10 Winners in Economic Outlook, 2007-2017**

Top 10 Winners	State	Improvement in Ranking	Economic Outlook 2007-2017
1	Ohio	+28	47 to 19
2	North Dakota	+20	24 to 4
3	North Carolina	+16	19 to 3
4	Wisconsin	+16	30 to 14
5	Kentucky	+13	46 to 33
6	Rhode Island	+12	48 to 36
7	Indiana	+10	12 to 2
8	West Virginia	+9	40 to 31
9	Florida	+8	14 to 6
10	Alaska	+8	38 to 30

Source: Rich States Poor States, American Legislative Exchange Council

TABLE 4 | **Top 10 Losers in Economic Outlook, 2007-2017**

Top 10 Losers	State	Drop in Ranking	Economic Outlook 2007-2017
1	Delaware	-15	22 to 37
2	Minnesota	-10	35 to 45
3	South Dakota	-9	3 to 12
4	Washington	-9	31 to 40
5	Georgia	-9	8 to 17
6	Arkansas	-8	15 to 23
7	Connecticut	-7	39 to 46
8	Louisiana	-7	21 to 28
9	Missouri	-7	17 to 24
10	New Mexico	-7	28 to 35

Source: Rich States Poor States, American Legislative Exchange Council

comparative advantage. These factors, however, are not fundamental to, or root causes of growth. Policymakers would be hard-pressed to influence most of these factors. The rankings in this publication are based on the policies that state lawmakers can control.

Ohio

Over the past 10 years, Ohio has advanced 28 places in economic outlook from 47th to 19th through a series of sweeping changes. Though a positive improvement on net, some changes have been rather harmful. In 2005, Ohio lawmakers made several modifications to the state tax code, including phase-outs of two antiquated business taxes. Beginning in 2006, the corporate franchise tax—a business tax figured as the higher calculation on the basis of either net worth or net income—and the tangible personal property tax—a complex calculation based on inventory and other classes of property—were slowly phased out.[18] The corporate franchise tax was fully eliminated for most businesses by tax year 2010, which is reflected in the top marginal corporate income tax rate ranking—Ohio improved from 48th to 10th.[19] Personal income taxes also saw changes, as the bill reduced rates and eliminated some brackets for low-income taxpayers.[20] Though these are commendable improvements, Ohio unfortunately adopted a gross receipts tax—billed the Commercial Activities Tax, or CAT—that was fully phased-in over five years. As currently structured, the CAT excludes the first $1 million of taxable gross receipts and applies a 0.26 percent tax on gross receipts in excess of the exclusion. The reliance on a highly distortive tax like the CAT has led to serious disproportionate effects: Effective rates range from 0.4 percent for some industries up to 8.6 percent for others, far from the seemingly low statutory rate of 0.26 percent.[21]

Under leadership of Gov. John Kasich in 2011, the General Assembly approved a budget that repealed the estate tax effective in 2013 and closed a nearly $8 billion budget shortfall without raising taxes.[22,23] Ohio's rainy day fund has since grown from 89 cents in 2011 to $2 billion today.[24,25] In the years following, lawmakers approved further tax changes that included significant reductions in personal income taxes and some business taxes as well as increases in excise taxes and the sales tax rate.[26] In addition, Ohio focused on regulatory reform, creating an entire office with the sole objective of conducting business impact analysis on all proposed and currently existing laws, and removing those that adversely affect business.[27] While many of these changes are promising, much work remains to be accomplished to modernize Ohio's tax structure and further advance the state's economic outlook.

North Dakota

North Dakota advanced 20 places in economic outlook, from 24th to 4th. Thanks to the shale oil boom in the Bakken shale and some solid policy decisions to back it up, North Dakota's GDP growth rates climbed as high as 24.5 percent and the state experienced substantial growth in nonfarm employment.[28] The state's economy also benefitted from a 47 percent reduction in the top marginal personal income tax rate and reductions in both corporate income and property taxes. Although real GDP dropped by around 12 percent from the end of 2014 to the beginning of 2016 as energy prices plummeted (and has remained near this level since then), real GDP is still 62 percent more than just 10 years ago.

North Carolina

North Carolina advanced 16 places in economic outlook, from 19th to 3rd. Most of North Carolina's economic success began in 2013 with a comprehensive tax overhaul signed into law by former Gov. Pat McCrory. This reform led to a rank advance from 22nd to 6th. The overhaul included consolidating North Carolina's personal income tax brackets into one single rate, flat tax, effectively lowering the top personal income rate by two percentage points, and lowering the corporate income tax rate from 6.9 percent to 3 percent. North Carolina also tackled welfare reform, ending the food stamp waivers from the federal government and moving recipients back into the workforce.

Wisconsin

Over the past 10 years, Wisconsin advanced 16 places in economic outlook, from 30th to 14th. The most important reforms were contained within Wisconsin Budget Repair Bill (also called 2011 Wisconsin Act 10). Despite all 14 Democratic state senators leaving the state at one point to impede the voting quorum being met and despite tens of thousands of protesters congregating and at times physically threatening legislators, Gov. Scott Walker signed Act 10 into law on March 11, 2011. After a series of court challenges, the Wisconsin Supreme Court upheld Act 10 on July 31, 2014.

This legislation dramatically reduced the scope of collective bargaining for most government employees (notable exceptions are fire fighters and police officers). Collective bargaining is now limited to wages only; and wage increases must generally not exceed the rate of inflation unless approved by voters in a referendum. Additionally, public employees were required to cover half the annual pension payments for their future retirements. Prior to Act 10, employees contributed only minimally from their salary. Likewise, reforms were made to public employee health insurance in two primary ways. First, plan benefits were adjusted in order to reduce premium costs. Secondly, employees were required to contribute either at least or on average 12.6 percent of the premium costs.

Other meaningful reforms under Gov. Walker's leadership include a simplification of the tax code, condensing income tax brackets, eliminating tax deductions, and cutting taxes across all income levels. Wisconsin also benefitted immensely from right-to-work legislation signed into law in 2015 along with continued national leadership in expanding school choice through school voucher programs.[29]

Kentucky

Kentucky advanced 13 places in economic outlook, from 46th to 33rd. Right-to-work legislation has been at the forefront of debate in the Kentucky legislature for years. The election of Gov. Matt Bevin in 2015 and new legislative majorities in 2016 led to the final passage of right-to-work into law. This makes Kentucky more competitive with surrounding states, and has already sparked an increased interest in investment in the state.

Rhode Island

Rhode Island advanced 12 places in economic outlook, from 48th to 36th. Rhode Island's improvement results primarily from tax and pension reforms. In 2015, the state expanded the Earned Income Tax Credit, lowered the Corporate Minimum Tax, and increased the death tax exemption from $921,655 to $1,500,000 (which will now rise with inflation).[30] The following year, Rhode Island again lowered the Corporate Minimum Tax and decreased the Unemployment Insurance Tax. The state gained national praise for its 2011 pension reform in 2011; and in 2009, they received a waiver to run their own Medicaid program that improved quality of care while capping costs.

Indiana

Over the past 10 years, Indiana demonstrated the benefits of excellent leadership in the governor's office. Former Gov. Mitch Daniels and now Vice President Mike Pence both enacted nationally acclaimed free market reforms leading Indiana to advance 10 places in economic outlook, from 12th to 2nd. Tax reform has been integral to the improvement. In 2011, Gov. Daniels signed into law a corporate tax cut, and then signed a law that made Indiana a right-to-work state—paving the way for Wisconsin, Michigan, and now Kentucky.[31] In 2013, a package passed that cut the personal income tax and repealed the inheritance tax. The state has also been fiscally prudent on spending and debt, and has even tackled higher education reform.

West Virginia

West Virginia advanced nine places in economic outlook, from 40th to 31st. Though West Virginia has struggled relative to other states in the past and has faced tough times because of the national war against coal, the state's legislature proves increasingly open to tax and budget reforms. Over the last 10 years, they have cut the top marginal corporate income tax rate by 26 percent, down from 8.75 percent to 6.5 percent. The state also completely phased out the business franchise tax effective January 1, 2015. West Virginia recently became a right-to-work state, which will bring jobs, and help West Virginia keep up with other right-to-work states in the surrounding region.

Florida

Things continue to be sunny in Florida, as they advanced eight places in economic outlook, from 14th to 6th. Gov. Rick Scott's first budget reduced spending by $4.6 billion and cut taxes by $3.6 billion. Since then, he has signed several tax cuts into law, including a $266 million tax cut on communication services. Florida's pro-growth tax policies have contributed to their high levels of in-migration. Gov. Scott is one of the nation's foremost experts on health care, and he has held Florida's Medicaid costs in check despite one of the most elderly populations in the country. Gov. Scott states, "Every time another northeastern state raises taxes, Florida is the beneficiary."[32] Florida has been one of the top five states in job creation over the last five years.

Alaska

Over the past 10 years, Alaska advanced eight places in economic outlook, from 38th to 30th. Alaska recently transitioned newly hired state employees into defined-contribution plans to stabilize pension funds. Fortunately, Alaska also remains one of only nine states without a personal income tax, as the state legislature rejected Gov. Bill Walker's economically damaging proposal for a new personal income tax. Now the challenge for Alaska is to fend off an income tax in 2018 or 2019 given the steep fall in oil revenues in the state.

States Going in the Wrong Direction

New York, Vermont, New Jersey, and California continue to hold the distinction of being the biggest losers among the states. Over the past 10 years, they have occupied the lowest competitive rankings, with little upward movement. New York continues to spend more than $200 million on TV ads to—unsuccessfully—convince people and employers that New York is low-tax and business friendly.[33] The Empire State has tried everything except to change its progressive policies that drive people out. Meanwhile, the left trumpets California as a success story for progressivism, but over the last decade, one million more U.S. residents left the Golden State for one of the other 49. If California is so prosperous, why are people leaving day after day?

Here are the states sliding down toward New York and California.

Delaware

Delaware dropped 15 places in economic outlook, from 22nd to 37th over the past 10 years. In 2009, the state raised both personal and corporate income tax rates. Delaware's top marginal corporate tax rate currently stands at 11.69 percent, nearly 3 percentage points higher than it was in 2009, making it one of the highest in the country and—when added to the federal corporate income tax—one of the highest in the world. In addition to increasing cigarette taxes, former Gov. Jack Markell signed into law a minimum wage increase in 2014.

Minnesota

Over the past 10 years, Minnesota dropped 10 places in economic outlook, from 35th to 45th. There is not much further down the state can go. In addition to a minimum wage hike to $9.50 for some businesses, Gov. Mark Dayton signed into law a $2 billion tax hike that included a 2 percentage point increase in personal income tax, as well as increases in taxes on cigarettes. The state has some of the highest and most progressive taxes in the country, which led to out-migration in each of the last 10 years.

South Dakota

Over the past 10 years, South Dakota dropped nine places in economic outlook, from 3rd to 12th. The no-income-tax state lost ground because of several tax hikes, ranking 48th in recently legislated tax increases. In 2015, Gov. Dennis Daugaard not only raised the state's gas tax from 22 cents to 30 cents, but also signed a bill to increase the sales tax to boot. In addition to raising taxes, South Dakota fell because of a series of minimum wage increases following a ballot initiative approved by voters in 2014.

Washington

Over the past 10 years, Washington dropped nine spots in economic outlook, from 31st to 40th. In 2010, former Gov. Christine Gregoire signed an $800 million tax increase, which included tax hikes on tobacco, candy, and bottled water. The state also increased their business and occupation tax, which taxes gross income or gross sales from business activities. In addition, Washington has one of the highest minimum wages in the country at $11 per hour and up to $15 per hour in Seattle.

Georgia

Over the past 10 years, Georgia dropped nine places in economic outlook, from 8th to 17th, and currently ranks 44th in recently legislated tax changes. In 2015, the state voted to increase the gas tax from 19 cents to 26 cents per gallon. Worse still, in a bid to raise revenue for infrastructure spending, lawmakers implemented a new $5 per night tax on all hotel and motel stays, effective July 1, 2015. Tax hikes are not Georgia's only problem, however, as state spending also continues to grow at the expense of the private sector. With every budget, the governor and lawmakers have put more money into the state's education system, but as outcomes fail to budge, this budgeting fact comes to life: Throwing more money at something does not make it more likely to succeed. Where more money has failed to fix public education, increasing freedom and school choice have prevailed.

Unfortunately, the Republican-led state continues to have a hard time keeping up with their northern neighbors in Tennessee and their southern neighbors in Florida. Georgia lawmakers would be better suited to undertake a plan for broad-based tax relief and pro-growth spending prioritization. Reducing tax burdens on productivity and returning capital to where it is most productive in the private sector is the best kind of stimulus package.

Arkansas

Over the past 10 years, Arkansas dropped eight places in economic outlook, from 15th to 23rd. Unlike many states in the region, Arkansas raised their minimum wage above the federal floor in a series of increases beginning in 2015 following a ballot initiative passed with 66 percent support in 2014. The state also has a top marginal personal income tax rate of 6.9 percent, which is higher than nearly every regional competitor. Attempts to reduce the tax rate have continually failed. If Gov. Asa Hutchinson and the legislature fail to cut tax rates, the state will continue to lose ground to its neighbors.

Connecticut

Connecticut dropped seven places in economic outlook, from 39th to 46th and is now challenging New York and California for last place. Connecticut's poor performance is a result of a series of substantial tax increases. The first tax hike, in 2011, increased taxes by $1.4 billion in the first year, and another $1.2 billion in the following year. The plan included increases in the sales tax, luxury sales tax, personal income tax, and corporate tax. In 2015, Gov. Dan Malloy approved a budget that increased taxes by another $1.17 billion over two years. As a result, Connecticut ranks 43rd in cumulative domestic migration, losing thousands of taxpayers each year. When it raised its income tax in 2015, one of the wealthiest people in the state moved out and left a $50 million hole in the state budget.[34] However, the exodus to Florida and other lower tax states was not limited to residents,[35] but also businesses such as General Electric and Aetna.[36] Both companies cited rising taxes, the inability of the state to govern itself responsibly, and an increasingly hostile business atmosphere.[37] Anyone who believes a state can tax its way to prosperity should take a close look at the financial collapse of Connecticut, which as recently as the 1980s had no income tax at all—and was the tax refuge state in the Northeast.

Louisiana

Over the past 10 years, Louisiana dropped seven places in economic outlook, from 21st to 28th. In 2015, the legislature approved $720 million in tax increases. One year later, lawmakers approved another $1.5 billion tax increase to address budget problems. In addition, Gov. John Bel Edwards approved increases in the sales tax, cigarette tax, alcohol tax, and rental car taxes. As a result, taxpayers are leaving the state. Louisiana ranks 44th in cumulative domestic migration, and higher taxes will not bring people back to the Bayou.

Missouri

Over the past 10 years, Missouri dropped seven places in economic outlook, from 17th to 24th. While they deserve praise for their recent right-to-work success (not factored into this year's outlook rank), their personal income tax structure is the 16th highest and 13th most progressive in the country. High city wage taxes in St. Louis and Kansas City also hinder the state. As a result, Missouri ranks 32nd in cumulative domestic migration, and has experienced out-migration each year since 2008.

New Mexico

Over the past 10 years, New Mexico dropped seven places in economic outlook, from 28th to 35th. New Mexico has the second most burdensome sales taxes in the United States and has a corporate income tax rate higher than has each of its neighboring states. New Mexico suffers from job and GDP growth rates that are in the bottom 10 nationwide. In addition to its economic outlook drop, high unemployment and a credit downgrade led to a rating of the worst run state in the country.[38]

Conclusion

States that move in the right direction on economic and fiscal policy take competitiveness seriously; they understand states cannot tax and regulate their way to prosperity. These states are moving up—states like Michigan that just passed one of the most sweeping pension reform bills of any state to erase billions of dollars of unfunded liabilities—and they understand the economic climate of a state can be even more enticing than the weather climate of a state. After all, no state has better weather than California, but in the stretch of 2014 and 2015 alone, the state lost 100,000 residents. Every state should pay attention to what is happening in Minnesota, Connecticut, Illinois, New York, and other high-tax states. Almost all of these states are losing their greatest resource—their people—and have bigger budget problems than before taxes were raised. Will they ever learn?

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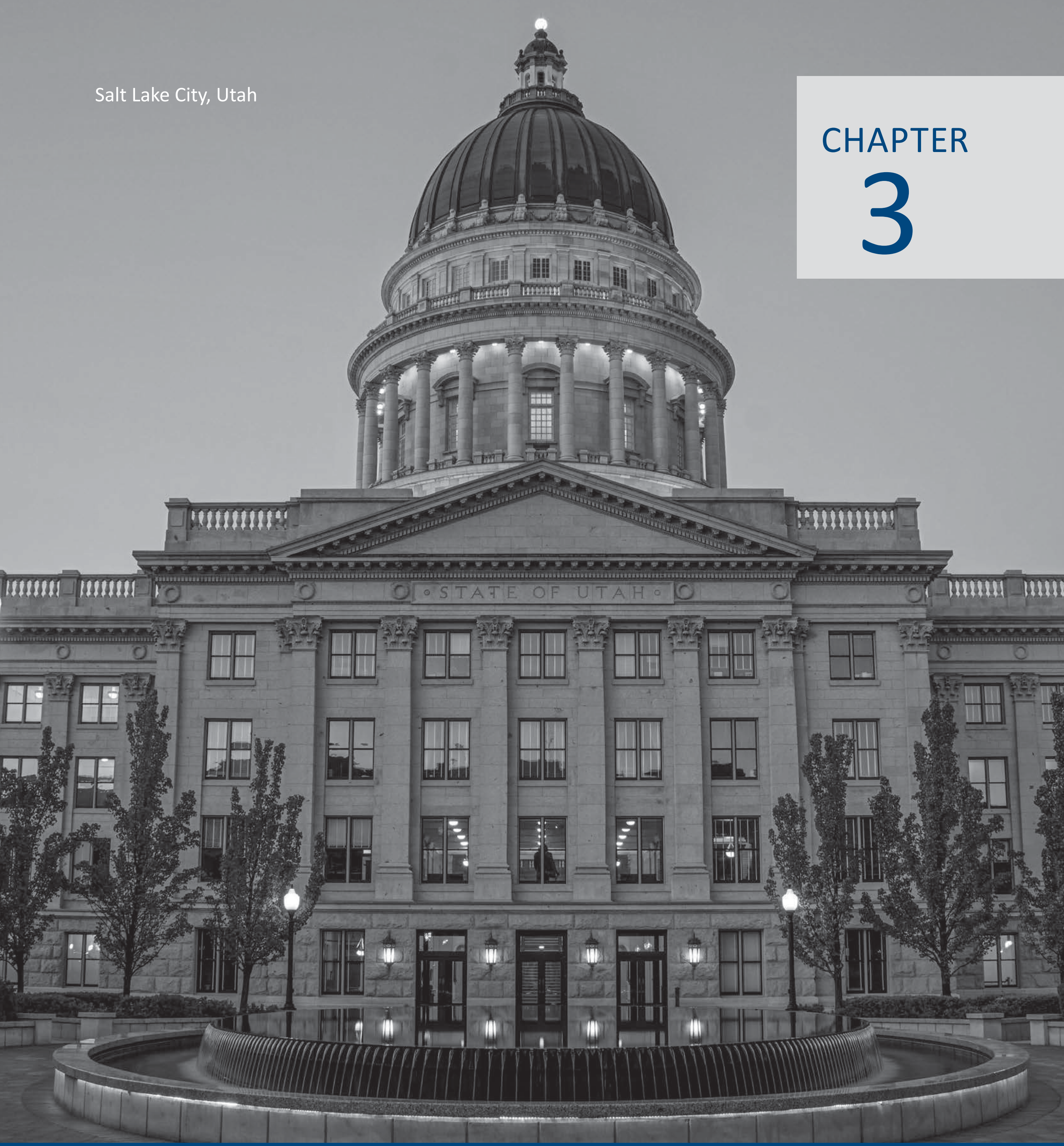


Salt Lake City, Utah

CHAPTER
3

Economic Growth is the Key to State Fiscal Health

Economic Growth is the Key to State Fiscal Health

Introduction

As it turns out, the past decade, fiscal years (FY) 2008-2017, which includes the Great Recession years, has been one of lackluster general fund revenue growth for state governments. Throughout this period, cumulative general fund revenue grew by 24.4 percent;[1,2] at the same time, inflation as measured by the Consumer Price Index (CPI) rose by approximately 20 percent[3] as population grew by approximately 8 percent.[4,5] In other words, general fund revenue grew by 3.6 percentage points less than the combined inflation rate plus population growth rate over the past decade. Although general fund revenue did enjoy a relatively strong recovery from 2011-2015 (a 12 percent excess over inflation and population growth combined), weakness returned over the past two fiscal years, with revenue growth dipping below the inflation plus population growth rates. FY 2018 growth may turn out tepid as well, with the National Association of State Budget Officers (NASBO) estimating 3 percent growth—barely keeping up with population and inflation growth.[6]

Of course, a "real" inflation-adjusted spending increase of around 3.5 percent over a decade should hardly be a calamity—even when considering population growth. But with tepid revenue growth and a reluctance to pare back spending levels by even 5 percent after decades of overall explosive increases, it's no surprise that more than half of all states faced budget deficits throughout FY 2017.[7] The fiscal situation is so dire in Illinois, for example, that its bonds are now near junk status.[8]

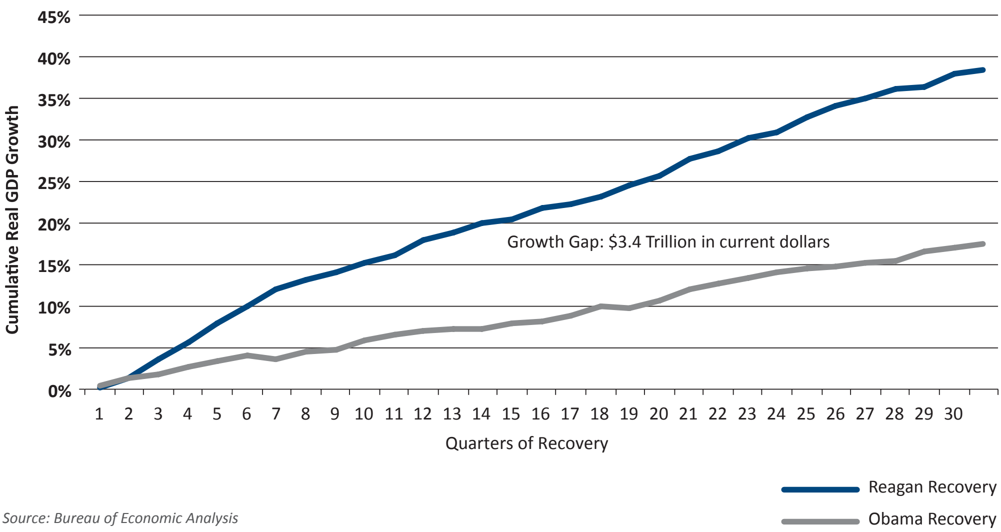
The solution to this impasse is not more federal money, gambling revenues, or internet sales taxation. It is not income or sales tax hikes or even slashing essential government social services.

No, what states desperately need is a return to robust national economic growth combined with fiscal discipline on the spending side of the ledger. Governors, legislators, and mayors need five, six, or seven years of American prosperity (3 to 4 percent annual GDP growth) with healthy job and wage increases and a rise in the number of new business startups and profits. Fortunately, states can counteract bad federal policies with pro-growth policies of their own—indeed, this publication is a "how to" guide for lawmakers to do that. North Carolina, Utah, and Texas are but three examples of states sparking growth with a more favorable regulatory and taxation climate. Imagine if Washington, D.C., played an active role in promoting growth nationally rather than being an economic drag to contend with! When Washington, D.C., gets policy wrong, everyone loses.

This means state and local officials must be outspoken and tireless advocates of national economic growth strategies. We haven't had a strong economy in America for at least a decade; slow growth compounds the problem of lack of state fiscal restraint.

Good national economic policy will give states a big boost in helping pay their bills. One way to appreciate the impact that growth has on states' tax bases is to compare what happened to the economy under President Reagan, when federal tax rates were cut, to the years under President Obama, when tax rates were raised. The economy

FIGURE 1 | **Annual GDP Growth Gap of Current Recovery $3.4 Trillion vs. Reagan-Style Recovery**



Source: Bureau of Economic Analysis

after the Reagan tax cuts (effective January 1982) grew at more than 4 percent annually during the late 1982 through mid-1990 expansion. In the recovery under President Obama, the economy grew by barely 2 percent annually. During his last year in office, 2016, the economy limped forward at just 1.9 percent.[9] This is half our historical average over the last 75 years.[10] This anemic growth was reflected in record low labor force participation, tens of millions more Americans on welfare programs like food stamps, disability, and Medicaid—and more business failures than startups.[11]

America's growth deficit in the 31 quarters of recovery since the end of the Great Recession (ending officially in June 2009) resulted in roughly $3.4 trillion of lost annual national output relative to what a Reagan tax relief strategy would predict. Even an "average" recovery would have generated more than $2 trillion in additional GDP by 2017.[12] In other words, the economy would be 17.8 percent larger than present.

This slow growth exacted an amazing toll on state and local governments. If economic growth after the Great Recession had been as strong as the growth rate during the Reagan recovery, the higher output and larger tax base would have allowed states and cities to collect more than $142 billion in additional general fund revenues in 2017 and every year thereafter. This would have erased nearly every state and local deficit and left money for more education, road, and social service spending and provided more funding for depleted pension funds. For instance, NASBO projected Illinois to collect $23.567 billion in general fund tax collections (sales tax, personal income tax, corporate income tax) in FY 2017.[13] At the same time, the state faced a $6.2 billion deficit at the end of the same fiscal year.[14] With a tax base 17.8 percent higher (Reagan recovery growth), general fund revenue would have been $5.67 billion higher this year—covering 91 percent of this past year's whopping budget gap. Total state and local spending this year (using an estimated 14 percent of GDP), would be $420 billion higher. Of course, governments could also choose to return some or all of this $420 billion to the taxpayers who created the wealth.

State lawmakers must become more active advocates for national economic growth policies, including energy exploration and development, federal tax cuts, regulatory relief, block grants to states, and choice-based solutions to education and health care.

Why Growth Matters So Much to States

The Congressional Budget Office recently estimated that the U.S. economy will grow, or rather limp ahead, at a 1.9 percent annual growth rate for the next 30 years.[15]

This is a sharp downgrade from the historical economic performance average from 1950-2000, when the U.S. economy skated forward at an equally weighted average of 3.7 percent each year.[16] Without a resumption of historical growth rates, almost no combination of politically feasible spending cuts and tax hikes will get us anywhere near a balanced budget at the federal level and it will hinder resolving other economic problems for the nation, such as further reducing poverty and infrastructure inadequacies.

To appreciate how vital it is for the American economy to get back on a faster growth track, consider what happens if, instead of 1.9 percent real GDP growth, we make it a national commitment to ratchet growth up to a 3 percent real GDP growth path over the next 30 years.

With 3 percent growth, by early 2040 the economy will grow not to $29.3 trillion, but to $37.6 trillion, in constant 2017 dollars. The economy will spin off $8.2 trillion more output and $1.5 trillion more annual federal revenues in constant 2017 dollars (based on an estimated 18 percent of GDP). State and local income tax revenue would be $1.15 trillion higher (based on an estimated 14 percent of GDP). This $8.2 trillion in additional annual economic output is roughly the entire annual production today of every state west of the Mississippi River.

In 30 years' time the economy will grow to $46.2 trillion in constant 2017 dollars, almost $13 trillion more annual output than envisioned with the lower 1.9 percent growth rate. This spins off a gargantuan $2.3 trillion more annual tax revenues for the federal government and almost $1.78 trillion a year more in state and local receipts. That is more than enough to pay all the bills and cover a substantial portion of the unfunded costs of Social Security and Medicare. Albert Einstein was right: The most powerful force in the universe is compound interest.

Faster growth also means that instead of the federal debt to GDP ratio skyrocketing to 150 percent over the next 25 years, it starts to fall almost immediately and will eventually fall below 50 percent of GDP. Because faster growth means fewer people on welfare and lower expenditures necessary for other social programs, the debt shrinks even further.

Congress, the White House, and state and local policymakers need to understand that what matters most in terms of heading off a financial crisis in the years to come is making sure the economy grows faster than the government. No debt reduction policy—certainly not a tax hike—comes close to having the fiscal impact that sustained prosperity does.

A good example is the late 1990s, the only time in nearly the last 50 years that the budget was balanced. Budget surpluses happened because a 16-year economic surge allowed revenues to catch up to expenditures, a booming stock market aided by a cut in the capital gains tax brought in floods of unexpected revenues, and the spending restraint under President Bill Clinton and a Republican Congress. State receipts surged too; governors and legislators were rich with surpluses. Those were the good old days.

To better understand the relationship between economic growth and state finances, consider the last decade (2008-2017)—one of the worst periods ever for state budgets. Tax receipts grew by only about 4.4 percent, adjusted for inflation.

The Left and the media continue to make the case that states will be the victims of President Donald Trump's economic policies—that the President's proposal to send less federal money to states and cities will force governors and mayors to slash social services or raise taxes to make up the difference.

This is unlikely to happen. If states are unburdened from federal regulations and strings, they will be able to innovate and provide better services to their citizens with lower costs. The welfare reforms of the 1990s proved that giving states more responsibility and flexibility in solving social and economic problems can benefit everyone. Welfare caseloads fell by more than half once states adopted work requirements, time limits, training and education programs, and positive incentives to get into the labor market.[17]

The state of Rhode Island provides an example of this holding true on health care as well. In 2009, Rhode Island received a waiver from federal Medicaid rules in exchange for a cap on federal costs. It worked like a charm. A 2013 analysis by Gary Alexander, the former secretary of Rhode Island's Department of Human Services, found that in the first four years the state's annual cost increases dropped to less than half of the national pace.[18]

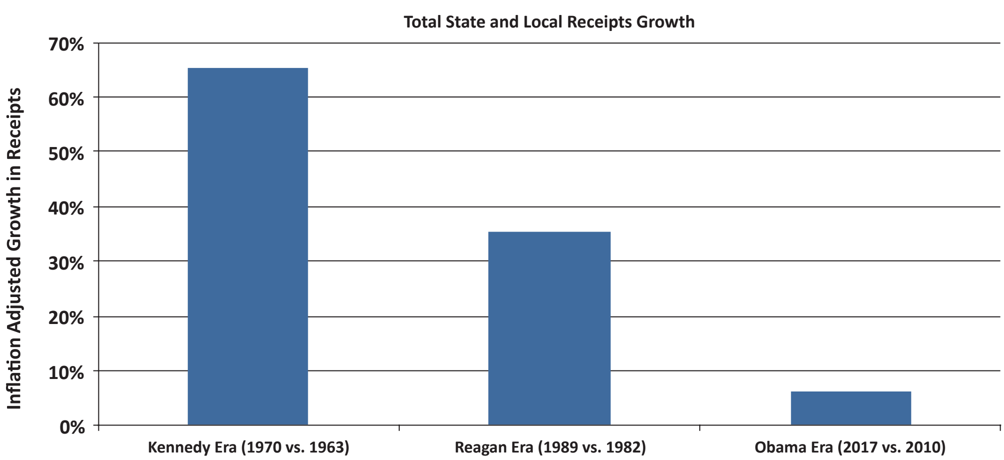
When Rhode Island received its Medicaid waiver, one of every five residents was enrolled and costs were growing by 7.6 percent annually. Under the waiver, the state's official Medicaid documents show that costs rose an average of only 1.3 percent a year from 2009-2012—far below the 4.6 percent rate in the other 49 states.[19]

Rhode Island saved money by reducing costly emergency room visits by Medicaid recipients for routine medical needs. The state saved even more by shifting the elderly out of expensive nursing homes by offering homecare subsidies and promoting assisted living arrangements. An independent assessment by the economic consulting firm Lewin Group concluded that reforms allowed under the waiver were "highly effective in controlling Medicaid costs." The program was found to have "improved access to more appropriate services."[20]

More importantly, state policymakers should be celebrating federal tax cuts that boost growth. The largest beneficiaries of a federal tax cut would be states and cities. When the federal government collects less tax revenues, the after-tax income of businesses and workers in the states rise—as Washington no longer intercepts this money. With various tax reform proposals potentially poised to allow upwards of $4 trillion of income to remain in the hands of workers and businesses relative to the current tax code,[21] we are talking about an enormous stimulus to state and local economies. Tax relief will help the U.S. economy grow faster, and thus more Americans will find jobs and earn a paycheck.

Critics will say this windfall to the states is wishful thinking or voodoo economics. On the contrary, it is all based on historical record. Noted in Figure 2 below, in the seven years after the President John Kennedy-inspired tax cuts, real state and local receipts grew by 65 percent (in constant dollars). In the seven years after the President Ronald Reagan rate cuts, the real increase was 35 percent. After President Barack Obama's tax increases took ef-

FIGURE 2 | **State and Local Receipts Growth Following Historic Tax Cuts of Kennedy and Reagan Eclipsed Obama Era**



Source: Federal Reserve Bank of St. Louis (adjusted by the Consumer Price Index) fect at the start of 2011, these inflation-adjusted receipts by the first quarter of 2017 grew by a meager 6 percent compared to 2010—nearly six times slower than under President Reagan and nearly 11 times slower than under the President Kennedy-inspired era. What is past is prologue.[22]

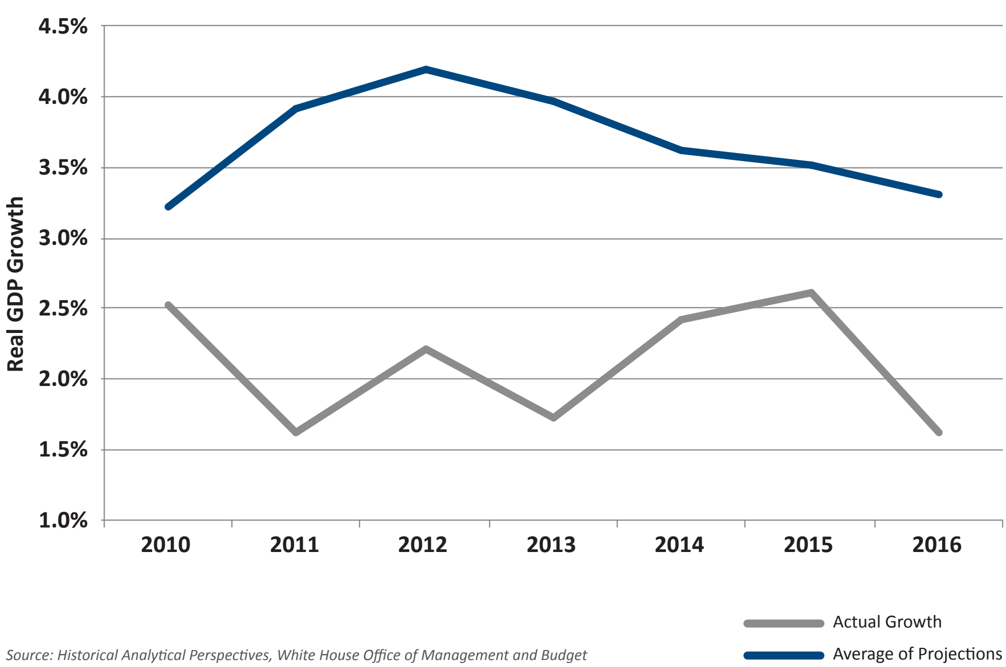
Policy Lessons from the Failure of "Obamanomics"

What are the policies that will create a rising tide of growth that will enrich households, businesses, and state and local governments? One solution is to understand why the economy grew so slowly under President Barack Obama versus every other recovery. Usually after a deep recession, such as the one we suffered in 2008-2009, with 7 million lost jobs and hundreds of billions in missed opportunities, the economy bounces back even stronger. That was not the case in the recovery following the Great Recession.

Growth was not anemic because of something inherent to the recession, but rather because of the "solutions" effectuated by President Barack Obama. Each year, the White House issues GDP growth projections for subsequent years. Repeatedly, reality failed to reach these projections. Each annual update of the projections continued to grossly overestimate future economic growth. Figure 3 below shows that White House economists often predicted growth almost twice the actual pace. Despite repeated predictions of soon-to-arrive 4 percent growth, the last decade ended up being the first 10-year period in recorded history that economic growth failed to exceed 3 percent in at least a single year. A cascade of policy errors under Presidents Bush and then Obama are largely to blame. President Bush's bailout of banks and insurance companies merely redistributed income from companies that acted responsibly to companies that made horrendous errors in judgment and took enormous risks. The lesson here for states is to never bail out a failing company.

President Bush's errors were compounded by his successor. One of the more glaring and costly mistakes was the $830 billion stimulus plan passed in 2009. Relying on predictions of a Keynesian

FIGURE 3 | **President Obama's White House Growth Projections Greatly Overestimated Reality**



Source: Historical Analytical Perspectives, White House Office of Management and Budget multiplier effect, and the theory that government spending will increase economic health, the spend-and-borrow policy flopped.

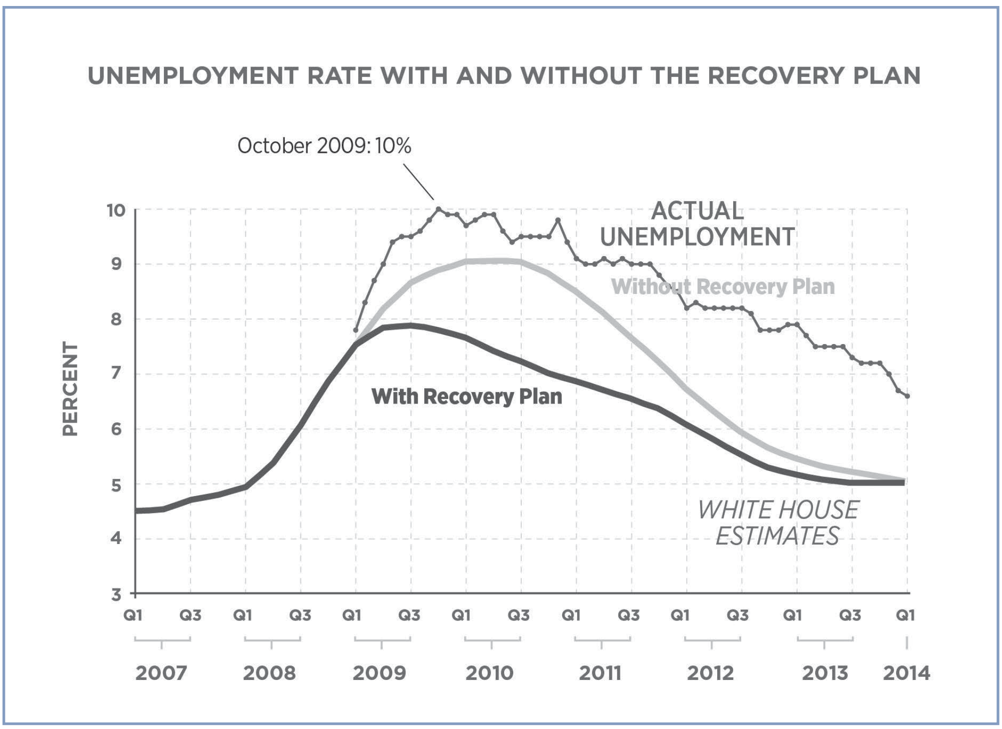
The best evidence of the stimulus' failure comes by comparing the Obama Administration's own predictions. In early 2009, the White House economics team published a report showing what unemployment would be with and without the stimulus spending.[23] Not only was unemployment much higher than the White House predicted it would be with the glut of spending, joblessness also turned out to be higher than what the White House estimated would occur in the absence of this recovery plan. Although determining what the actual employment rate would have been in the absence of the Keynesian-styled stimulus is impossible, past experience indicates that replacing this gusher of federal spending with a diminished tax and regulatory burden could have produced far superior economic results.

The lesson for policymakers is that reliance on government borrowing and spending to stimulate the economy defies experience; broad-based tax reform and regulatory reform produces real economic growth.

The worst recovery in modern times cannot all be blamed on the failed stimulus bill. The Affordable Care Act, tax hikes on the rich, minimum wage increases, excessive EPA regulations, and the Dodd-Frank bank regulations have slowed growth and hiring too. Almost all tax rates on business owners, investors, and savers went up substantially under President Obama.[24,25]

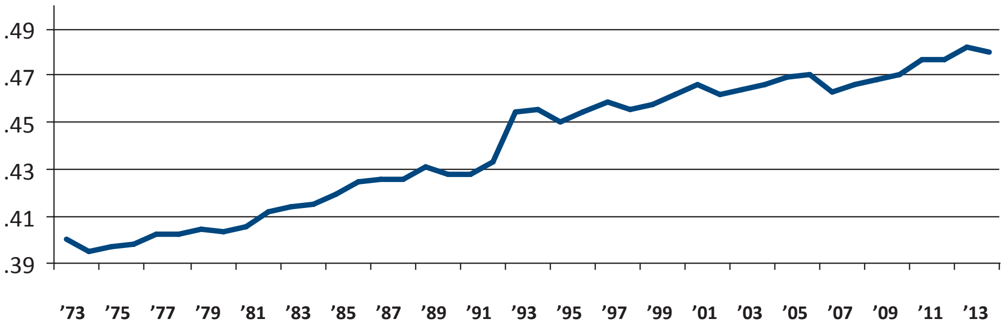
These tax increases were intended to soak the rich and help the middle class and poor, but again, the record shows just the opposite effect. The long-term upward trend in income inequality continued under the President Obama era—at a slower pace than under President Ronald Reagan

FIGURE 4 | **Unemployment Rate with President Obama's Recovery Plan Exceeded White House Estimates of Rate Without Plan**



Source: "The Job Impact of the American Recovery and Reinvestment Plan," 2009, president's Council of Economic Advisers; Bureau of Labor Statistics, Labor Department. Graphic: The Heritage Foundation, April 2015.

FIGURE 5 | **Income Inequality Growth (Gini Ratio) through the Decades**



Source: U.S. Census Bureau

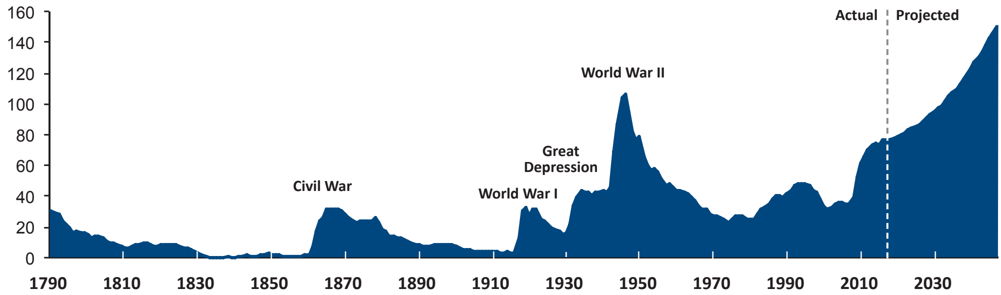
or President Bill Clinton but at a faster pace than under President George W. Bush. Contrary to conventional wisdom, a slowdown or reversal in widening income inequality is not typically a positive indicator for robust improvement in the well-being of the middle class or GDP growth overall. In fact, historically, the Gini ratio (a measure of income inequality) flattens or even declines during periods of sluggish GDP growth or recessions. This held true in the years surrounding Great Recession and throughout portions of President Barack Obama's weak recovery.[26]

Median household income fell by 1.3 percent during President Barack Obama's time in office, according to Sentier Research based on Census Bureau data.[27] In fact, in December 2016, more than six years after the end of the Great Recession, income levels remained 1.8 percent below pre-recession highs. Over the entire 16-year period from the end of 2000 to the end of 2016, real median household incomes have barely budged, rising just 0.5 percent. From 2012-2016 nearly every poll showed that the major concerns for Americans were jobs and the economy. Washington, Silicon Valley, and Hollywood prospered following the Great Recession, but for much of the nation it has been a non-recovery.

There were other policy mistakes. Lawmakers raised the minimum wage during the recession, making unemployment even worse. The Affordable Care Act clobbered small employers with higher costs at a time when they were already pulling back on hiring. Many employers stopped hiring workers when they hit 49 employees to avoid the "50 worker" rule under the law, which required businesses with 50 or more workers to cover every employee with health insurance. Regulations like the Dodd-Frank financial services regulation, hurt small and community banks and their lending capability while consolidating more power into the hands of the very large mega-banks.

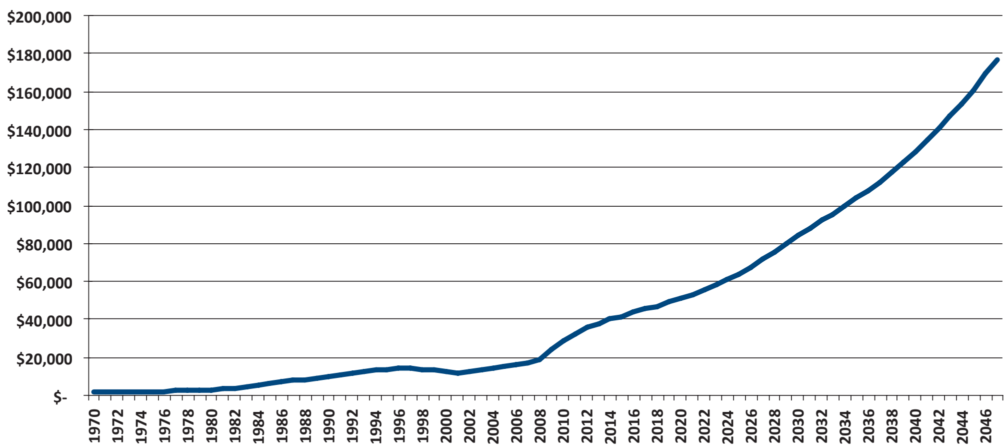
Meanwhile, the national debt exploded under President Obama. More debt was accumulated in two terms under President Obama than in the first 200 years of America as a nation. Accumulated federal debt held by the public eclipsed 75 percent of GDP for the first time since World War II; and gross federal debt to GDP eclipsed 100 percent of GDP for the first time since World War II as well.[28] Following the end of World War II, and again after the fall of the Soviet Union, federal debt as a percentage of GDP declined. In the 1990s under President Bill Clinton, the budget was balanced through growth of the economy and relative spending restraint (spending growth was equal to approximately the rate of inflation). Government spending fell from about 21 percent of GDP to below 18 percent during President Clinton's term even as the economy boomed.[29] In this most recent case, we have very little to show for the cumulative borrowing over this period, except for a larger welfare state and failed policy experiments, like the now-bankrupt solar company Solyndra. The most recent Congressional Budget Office numbers show this debt explosion will continue.

FIGURE 6 | **Federal Debt Held by the Public as a Percentage of GDP**



Source: Congressional Budget Office. For details about the sources of data used for past debt held by the public, see Congressional Budget Office, Historical Data on Federal Debt Held by the Public (July 2010), www.cbo.gov/publication/21728.

FIGURE 7 | **Publicly Held Federal Debt per Capita**



Source: Calculations based on Federal Reserve of St. Louis data and Congressional Budget Office projections

The trillions in accumulated debt are almost incomprehensibly large. Each child born today inherits more than $45,000 of publicly held federal debt. By the time they reach the age of 24 that debt is projected to more than triple to $134,000, and the numbers skyrocket as time goes on. For a family of four the debt would exceed $500,000.[30] Worse, the servicing cost of the debt is expected to triple from $270 billion this year to more than $768 billion in 2027.[31] The rate of borrowing under President Barack Obama undoubtedly impaired future growth of our economy. And the situation is set to worsen.

Free Market Policies Will Unleash Economic Growth

In early 2017, a front page story in *The Wall Street Journal* proclaimed that 3 percent economic growth isn't achievable.[32] This is the new conventional wisdom. We are told that 2 to 2.5 percent growth is the best we can do, because of low labor force and productivity growth. Liberals are now arguing that slow and sluggish growth is the "new normal" in America and that Americans should get used to this "secular stagnation" as it is called.

This isn't the first time that many politicians and economists declared America an economic powerhouse in decline. In the late 1970s, we were told about "limits to growth" and that the only way to get rid of double-digit inflation was to tolerate a decade of slow growth. When President Ronald Reagan declared tax cuts, sound money, and deregulation would jumpstart rapid and sustained growth with low inflation, economists like Paul Samuelson, the Nobel Prize winner and the man who sold more economics textbooks than anyone in history, said that if President Reagan could increase growth and slay inflation at the same time it would be "a miracle." That miracle happened.

The economic naysayers are arguing against history. According to an analysis by Robert Barro of Harvard and the Hoover Institution, the average economic growth rate for the nation for the last 100 years has been 3.2 percent.[33]

How do we get back on that path?

One way to spur growth would be to reduce the federal corporate income tax. Some Republican tax plans call for cutting U.S. business tax rates of 35 percent (the highest in the industrialized world) to 15 percent (which would be among the lowest rates in the world).

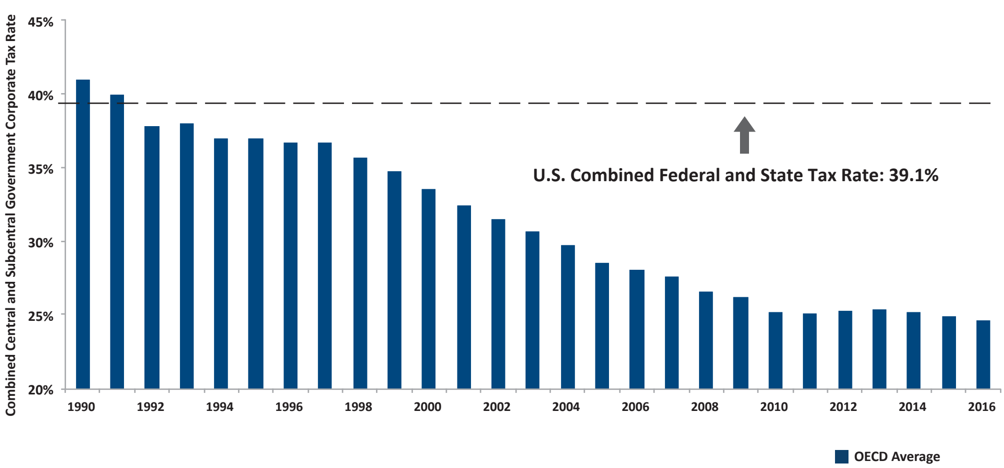
We have seen companies like Burger King, Medtronic, Pfizer, and dozens more leave the U.S. in search of lower tax rates. In January 2016, Johnson Controls announced a merger with Tyco, which was completed less than nine months later, resulting in yet another American company leaving to reside in foreign nations—this one to low-tax Ireland.[34]

If U.S. corporate tax rates are not chasing out businesses and jobs, why are so many nations we compete with slashing their rates? See Figure 8. The international average has declined from almost 40 percent in 1990 to 25 percent today.[35] For two and a half decades, the U.S. rates have not budged, while the rest of the world keeps chopping.

A more competitive corporate income tax system will spark more domestic and foreign investment in the United States. Apple CEO Tim Cook says a business tax cut could bring $250 billion in Apple profits back to these shores, where it can be reinvested in Michigan, Ohio, and California rather than Ireland, China, or India.[36]

States cannot control the federal corporate tax rate, but they can control their own business taxes. Business income taxes tend to raise very little revenue for a very high toll on state and local economies. Figure 9 below shows the states with

FIGURE 8 | **U.S. Corporate Tax Rate vs. OECD Average**



Source: OECD Tax Policy Analysis

the highest corporate income tax rates.[37] These rates make states like Pennsylvania, Oregon, and Connecticut some of the most expensive places in the world to run a profitable business. We recommend that states look toward alleviating this burden on state and local employers. Without healthy, prosperous employers, you cannot have healthy, well-paying jobs.

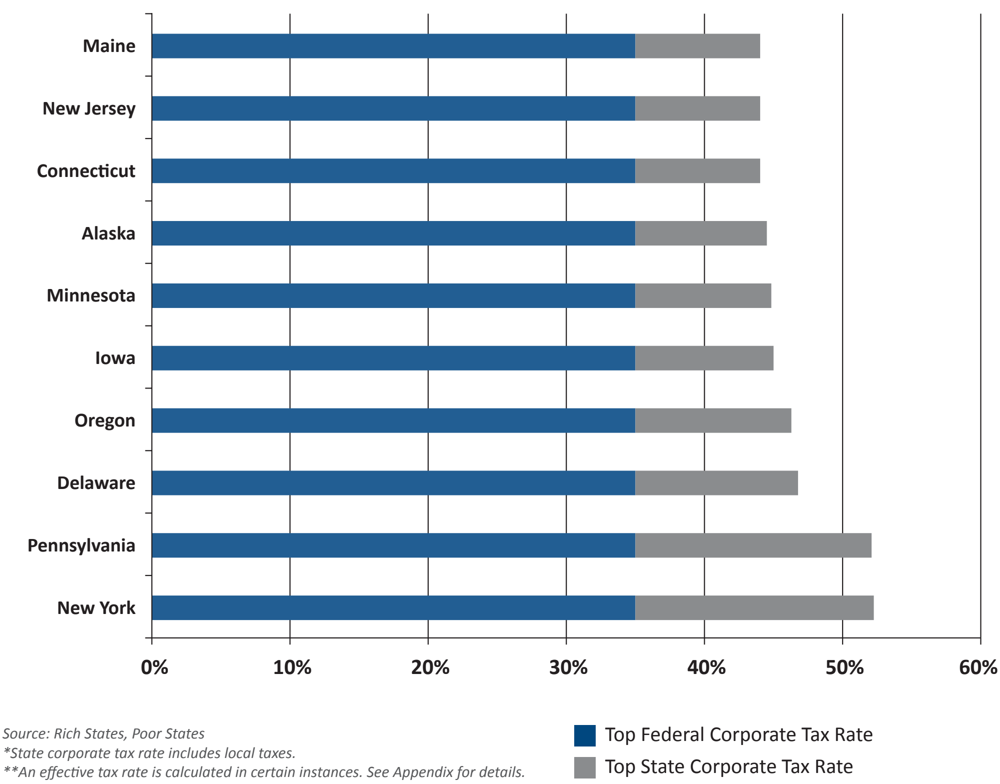
Many economists believe that 2 percent growth will be the new normal because of irreversible demographic changes. Baby boomers are retiring and there presumably aren't enough younger workers to achieve higher growth. That fails to consider the 5 to 7 million Americans of working age who aren't working, but could be.[38]

How can we get Americans to start working or working more hours on the job? Here again, tax cuts matter. A tax cut raises take-home pay and makes work more rewarding. It happened in the 1980s after the Reagan tax cuts: We saw huge gains in people entering the workforce, especially women. By the way, states with low tax rates tend to have greater population and labor force growth than high-tax states as this annual publication has demonstrated for 10 years now.

Tax cuts aren't the only way to boost the national growth rate and boost national output above the 3 percent mark. We should admit more skilled immigrants (legally) to replace the wave of retirees. It would also make sense to put work requirements on our $1 trillion a year welfare state. States will hopefully be given more flexibility by the Trump Administration to impose work requirements as a condition of social service aid.

For the able-bodied, work should always be a condition of taxpayer assistance. In the 1990s, the nation discovered this was the best way to lift the poor out of poverty and to get adults on the road to economic success. With some 42 million Americans on food stamps[39] and nearly 69 mil-

FIGURE 9 | **Top 10 Highest Combined State and Federal Corporate Tax Rates[40]**



Source: Rich States, Poor States
**State corporate tax rate includes local taxes.*
***An effective tax rate is calculated in certain instances. See Appendix for details.*

lion on Medicaid,[41] work requirements can add dramatically to the number of Americans working and thus speed up growth. Some states have been experimenting with work requirements for social assistance, and they have produced positive results in expanding the workforce.[42]

The good news here is that the skeptics are wrong: 3 to 4 percent national economic growth is achievable and even realistic with the right set of policy changes. Under President Reagan, we had months with one million new jobs created and quarters of GDP growth of 7 and 8 percent. So yes, 3 to 4 percent growth is a realistic target. But it takes good policy in regards to factors such as regulatory reform, tax reform, expanded free trade, and labor force growth. States can help in this regard by being advocates for national economic growth and adopting sound policies at home. The combination of bad economic policy at the national level and anti-growth policies inside a state can lead to economic and fiscal disaster. Illinois, which has become a deadbeat state incapable of paying its bills on time, is a flashing warning sign to other states about why growth is vital to fiscal stability and a more prosperous citizenry.

Conclusion

Fortunately, the future of state finances does not have to look like the debacle in Springfield, Illinois.

A 10-year growth plan for states and the federal government designed to increase economic output to 3 percent growth per year would greatly benefit the balance sheets of state and local governments. Three percent real growth would increase state and local receipts by more than $1.8 trillion in inflation-adjusted dollars from 2018-27 over a 1.9 percent annual growth. Just think of what states and communities could do with $1.8 trillion more revenue in terms of cutting their own taxes, fixing their roads, modernizing their schools, and keeping citizens safe. State lawmakers should be the loudest advocates of pro-growth tax, energy, regulatory, and health care policies at the federal level. A rising tide of prosperity would lift the boats of all states from coast to coast.

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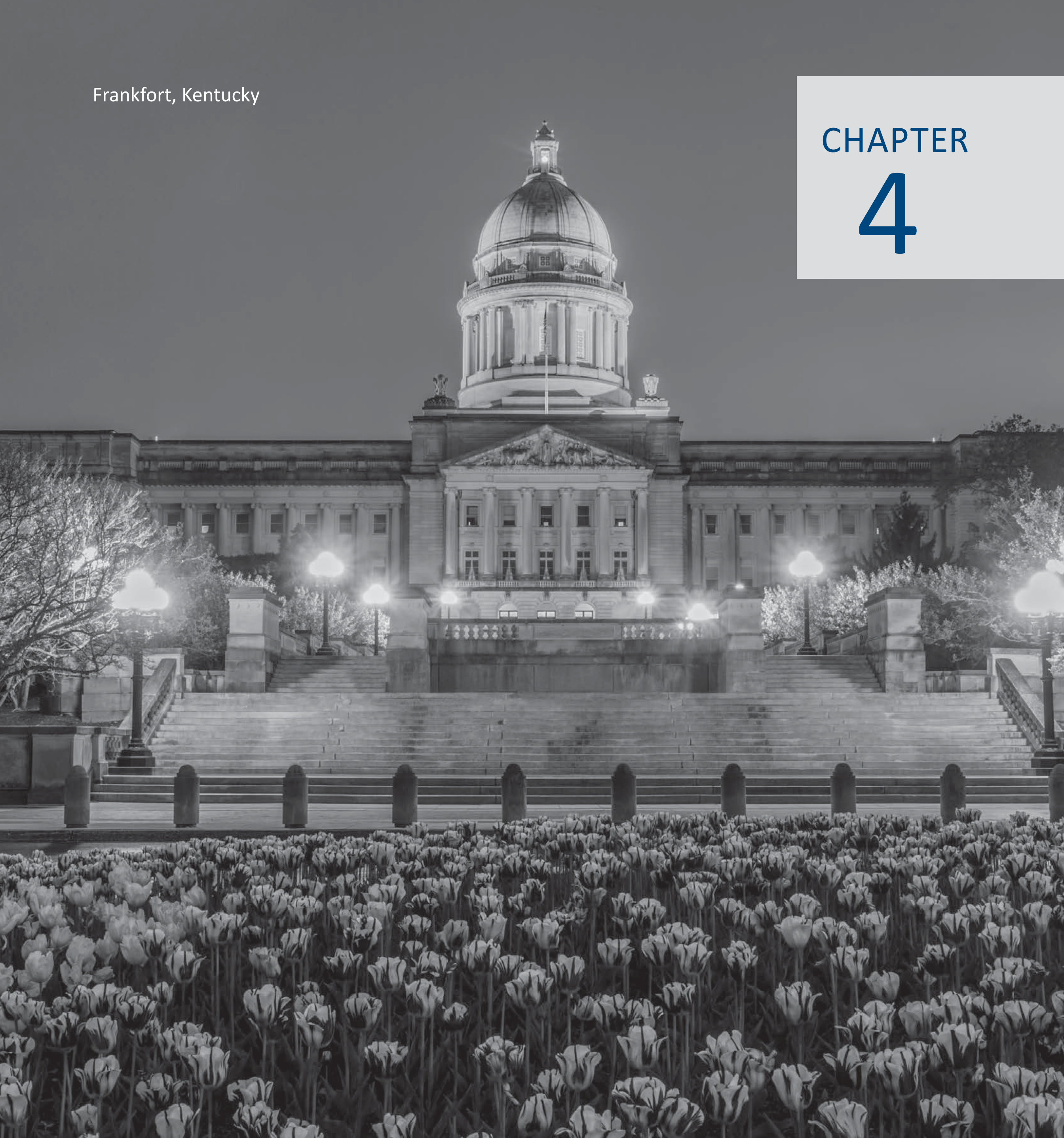


Frankfort, Kentucky

CHAPTER 4

The State and Local Pension Crisis

The State and Local Pension Crisis

> *I sort of had the impression that the cupboard was going to be bare. I just didn't know the cupboard was going to be gone too.*
>
> *—Former Kentucky Gov. Steve Beshear (D) on the state's growing pension debt, January 14, 2008*[1]

Introduction

After two years of delays and embarrassing reductions in Illinois' bond ratings to just above "junk" status, the state legislature finally passed a budget.[2] Unfortunately, rather than pursuing pro-growth policies, Illinois opted for the same policies that put the state in its current crisis, including individual income tax rate hikes. The budget increased the individual income tax rate from 3.75 percent to 4.95 percent—approximately the same 5 percent tax rate Illinois had from 2011 to 2014. Though the budget expects the tax hike to bring in $5 billion, Moody's, which downgraded its general obligation bond rating for the state earlier this year, is doubtful:

> *…the state's baseline tax collections declined in fiscal 2017, suggesting that any tax increase may yield less revenue than anticipated in coming months.*[3]

A large part of Illinois' problem is the state's public pension program. In 2015, the state's pension was the third worst funded—both in terms of net pension liability and funded ratio—in the country.[4] Every year since 2003, it has failed to meet annual funding requirements. As a result, Illinois' $200 billion in obligations to beneficiaries were underfunded to the tune of at least $119 billion as of 2015.[5] The additional contributions the state must now make to the pension fund because of forgone payments over the last decade are displacing funding for schools, which saw a 5 percent cut in the 2017 budget. In fact, teacher retirement costs absorbed 89 cents of every $1 in new education spending in Illinois from 2009-2014.[6]

Unfortunately, numerous states are in the same position as Illinois. As the Mercatus Center noted in its annual assessment of the fiscal condition of the states for 2017, "…debt obligations in the forms of unfunded pensions and healthcare benefits continue to drive each state into fiscal peril. Each state holds tens, if not hundreds, of billions of dollars in unfunded liabilities—constituting a significant risk to taxpayers in both the short and the long term."[7] While the outlook for state and local pension systems as a whole is dim, some states have been responsible stewards of their pension programs. Despite trillions in unfunded liabilities, there remains reason for optimism. Here is the story—which is anything but a new story—of how the current pension crisis came to be, and how it can be solved.

The State of State Pensions

Pew Charitable Trusts releases an annual report that ranks public sector retirement systems among the 50 states. The Pew report includes the following data for state-managed pension systems (as opposed to locally-managed systems) in each state: The size of the assets and liabilities of the pension fund, the rate of return on the fund's investments, membership size, and the amount of annual required and actual contributions. By looking at long-term trends in these data and comparing them across the 50 states, fairly accurate assessments of the relative health of state pension funds compared to other states can be made. Of course, the public should keep in mind that this annual study relies on each state's own reported data which often use unrealistically high rate of return assumptions. The Pew numbers therefore give essentially a best case scenario for pension debt.

In 2015, the total unfunded pension liability for state and local pension funds increased by $157 billion to $1.1 trillion; in 2016, Pew estimates this liability increased by approximately $200 billion to total $1.3 trillion.[8] Poor investment performance in pension portfolios was the key driver of the increase. According to Pew, "Investment returns that fell short of expectations proved to be the largest contributor to the worsening fiscal position, with the median rate of return on investments in public pension portfolios increasing 3.6 percent." This was less than half of the average assumed rate of return by pension fund managers of 7.6 percent for the year.[9]

According to Pew, in 2015, the funding ratio, i.e., the asset-to-total-liability ratio, for the pension systems of all 50 states was 71.6 percent (refer to Table 1), a significant decrease from the 74.8 percent funding ratio in 2014 and lower still than the 2003 funding ratio of 88.5 percent.[10]

Pew's study on pension obligations reflect data contained within Comprehensive Annual Financial Reports (CAFRs). Although recent Governmental Accounting Standards Board (GASB) reforms are a step in the right direction, states often continue to employ accounting tricks, which paint a rosier picture than is actually the case. One accounting trick is the use of artificially high assumed rates of future investment returns on fund assets. A recent report by the Center for State Fiscal Reform at ALEC analyzed more than 280 state-administered pension plans and found the simple, unweighted average discount rate (the assumed rate of return used to determine the present value of a future liability) to be 7.37 percent. In other words, investing an amount today equal to the present value of that future liability would result in earnings and principal sufficient to cover that unfunded future liability. Unfortunately, past experience strongly suggests earning this 7.37 percent assumed rate of return is unlikely. A more prudent rate of return assumption based on a hypothetical 15-year U.S. Treasury bond yield results in a "risk-free" rate of 2.344 percent. Using this rate, the unfunded pension debt nationally totals $5.6 trillion.[11] Likewise, Hoover Institution, using its own alternative market valuation of assets, estimates the unfunded liabilities at a stunning $3.846 trillion.[12]

The funding ratios among the states vary considerably according to all three reports. But even according to the optimistic assumptions contained with the CAFRs, only one state (South Dakota) has a 100 percent funding ratio. According to the Hoover Institution study, not a single state is at least 80 percent funded. Only 23 states have public plans even 50 percent funded. The ALEC study reports that only Wisconsin's funding ratio exceeds 50 percent. As the table below illustrates, regardless of the actuarial assumptions used, state and local public plans are woefully underfunded. And the ranking of the 50 states' pension systems is fairly similar regardless of these valuation differences. Connecticut, Illinois, Kentucky, and New Jersey are amongst the five worst funded states. Meanwhile, South Dakota, Tennessee, and Wisconsin rank in the top five in all three studies.

While a portion of these states appear to be in good shape (at least when basing funding ratios off the optimistic return assumptions for the pension plans), even some of the best are severely underfunded on their liabilities for other post-employment benefits (OPEB). A large chunk of these OPEB liabilities are in retiree health plans. A 2016 study found that in 2013, 22 states were less than 1 percent pre-funded to handle their OPEB liabilities, and of the total $627 billion liability, the 50 states had only $40 billion (6 percent) set aside.[13] Among those least prepared were four of the five highest funded states on the

TABLE 1 | **2015 State and Local Pension Systems Ranked by Funded Ratio**[14,15,16]

Pew Study (2015)			Hoover Institution Study (2015)			ALEC Study (2016)		
State	Funded Ratio (Assets: Total Liability)	Funding Ratio Rank	State	Funded Ratio (Assets: Total Liability)	Funding Ratio Rank	State	Funded Ratio (Assets: Total Liability)	Funding Ratio Rank
South Dakota	104.1%	1	South Dakota	64.1%	3	South Dakota	47.8%	3
Wisconsin	98.3%	2	Wisconsin	64.8%	2	Wisconsin	63.4%	1
New York	98.1%	3	New York	61.2%	7	New York	44.9%	6
North Carolina	95.5%	4	North Carolina	58.2%	9	North Carolina	47.9%	2
Tennessee	95.4%	5	Tennessee	62.8%	5	Tennessee	47.3%	4
Oregon	91.9%	6	Oregon	62.0%	6	Oregon	36.3%	20
Idaho	91.8%	7	Idaho	63.4%	4	Idaho	46.5%	5
Nebraska	91.3%	8	Nebraska	55.9%	13	Nebraska	40.3%	11
Delaware	89.3%	9	Delaware	77.3%	1	Delaware	44.7%	7
Washington	87.1%	10	Washington	53.9%	15	Washington	39.9%	12
Florida	86.5%	11	Florida	57.8%	10	Florida	40.5%	10
Utah	85.7%	12	Utah	57.4%	11	Utah	41.7%	9
Iowa	85.1%	13	Iowa	56.8%	12	Iowa	39.8%	13
Maine	82.5%	14	Maine	58.2%	8	Maine	42.1%	8
Arkansas	82.4%	15	Arkansas	52.9%	19	Arkansas	36.4%	19
Missouri	81.4%	16	Missouri	54.4%	14	Missouri	36.9%	16
Georgia	80.9%	17	Georgia	49.0%	26	Georgia	38.8%	14
Minnesota	79.8%	18	Minnesota	50.1%	23	Minnesota	34.5%	25
Oklahoma	79.2%	19	Oklahoma	53.8%	16	Oklahoma	34.9%	23
West Virginia	76.9%	20	West Virginia	53.1%	17	West Virginia	35.5%	22
Ohio	76.4%	21	Ohio	49.3%	25	Ohio	34.3%	26
Texas	75.6%	22	Texas	48.6%	27	Texas	36.9%	17
Nevada	75.1%	23	Nevada	47.1%	29	Nevada	32.7%	29
Virginia	74.6%	24	Virginia	53.0%	18	Virginia	37.4%	15
Montana	74.5%	25	Montana	50.5%	20	Montana	33.6%	27
California	74.0%	26	California	49.9%	24	California	35.6%	21
Wyoming	73.1%	27	Wyoming	50.1%	22	Wyoming	36.6%	18
New Mexico	70.6%	28	New Mexico	47.2%	28	New Mexico	32.1%	30
North Dakota	70.4%	29	North Dakota	44.8%	34	North Dakota	28.9%	42
Maryland	68.2%	30	Maryland	45.3%	33	Maryland	33.1%	28
Vermont	67.8%	31	Vermont	44.5%	35	Vermont	30.4%	34
Alaska	67.5%	32	Alaska	44.2%	36	Alaska	31.4%	31
Alabama	67.0%	33	Alabama	42.0%	40	Alabama	30.3%	35
New Hampshire	65.5%	34	New Hampshire	45.5%	31	New Hampshire	28.0%	43
Kansas	64.9%	35	Kansas	42.9%	37	Kansas	29.9%	38
Indiana	64.6%	36	Indiana	45.9%	30	Indiana	34.8%	24
Michigan	63.7%	37	Michigan	41.9%	41	Michigan	27.5%	46
Louisiana	63.3%	38	Louisiana	45.4%	32	Louisiana	31.3%	32
Arizona	63.2%	39	Arizona	34.4%	47	Arizona	31.2%	33
Hawaii	62.4%	40	Hawaii	50.1%	21	Hawaii	29.2%	40
Massachusetts	62.0%	41	Massachusetts	41.1%	42	Massachusetts	27.7%	45
Mississippi	61.8%	42	Mississippi	38.9%	43	Mississippi	27.9%	44
Colorado	60.4%	43	Colorado	42.1%	39	Colorado	30.3%	36
South Carolina	57.8%	44	South Carolina	37.8%	44	South Carolina	30.1%	37
Rhode Island	57.1%	45	Rhode Island	42.1%	38	Rhode Island	29.6%	39
Pennsylvania	55.8%	46	Pennsylvania	36.9%	45	Pennsylvania	28.9%	41
Connecticut	49.4%	47	Connecticut	34.5%	46	Connecticut	22.8%	50
Illinois	40.2%	48	Illinois	29.3%	50	Illinois	23.8%	48
Kentucky	37.8%	49	Kentucky	30.7%	49	Kentucky	23.4%	49
New Jersey	37.5%	50	New Jersey	33.5%	48	New Jersey	26.9%	47
US Total	71.6%	n/a	US Total	44.47%	n/a	US Total	35.0%	n/a

Sources: Pew Charitable Trusts, Hoover Institution, and American Legislative Exchange Council.

list below—states that would appear to be fully prepared if we simply looked at pensions.[17] This is an even more relevant discussion at the city level. For example, Nashville, TN, appeared to be in the "healthy" zone with a pension funding ratio of 85 percent. However, the Study and Formulating Committee of Metro Nashville found that the city's healthcare obligation was less than one percent funded, and the unfunded liability was over $3 billion.[18]

TABLE 2 | **State and Local Pension Systems Funding Ratios Change 2015 vs. 2014**[19]

State	Change in Percent Funded (vs. previous year)
Oregon	-11.7%
Vermont	-6.9%
Wyoming	-6.3%
Mississippi	-5.5%
Massachusetts	-5.4%
New Jersey	-5.0%
Indiana	-4.6%
Wisconsin	-4.4%
Florida	-4.1%
Ohio	-3.9%
Missouri	-3.9%
Colorado	-3.8%
Pennsylvania	-3.8%
North Carolina	-3.8%
Rhode Island	-3.7%
Texas	-3.6%
New Mexico	-3.5%
Alabama	-3.5%
Tennessee	-3.4%
Idaho	-3.4%
Maine	-3.3%
Kentucky	-3.2%
South Dakota	-3.2%
US Total	-3.1%
Arkansas	-3.1%
Delaware	-3.1%
Maryland	-3.0%
Michigan	-3.0%
Washington	-3.0%
South Carolina	-2.9%
Utah	-2.8%
North Dakota	-2.8%
Georgia	-2.5%
Iowa	-2.3%
California	-2.3%
Minnesota	-2.1%
Oklahoma	-2.0%
Nebraska	-1.7%
Kansas	-1.7%
Louisiana	-1.6%
Hawaii	-1.5%
Montana	-1.5%
Nevada	-1.2%
Arizona	-1.2%
Connecticut	-1.2%
Illinois	-1.2%
West Virginia	-0.8%
New Hampshire	-0.8%
Virginia	-0.5%
New York	0.0%
Alaska	7.3%

Source: *The State Pension Funding Gap: 2015*. Pew Charitable Trusts.

Origins of the Pension Crisis

Numerous factors have contributed to the current pension funding crisis. The financial crisis in 2008 withered away much of the values of pension portfolios. The retirement of baby boomers has meant pension systems have been required to support a larger number of retirees in the last decade who, in keeping with their benefits, were able to retire earlier than most Americans but also live far longer than retirees of the past. However, the ultimate cause of the pension crisis has been a failure of stewardship on the part of those managing pension funds and of state and local policymakers.

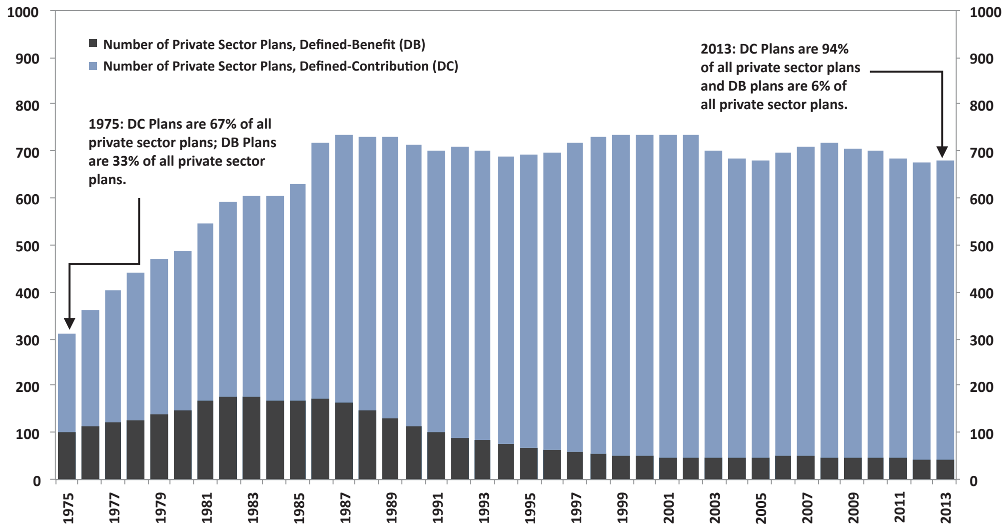
From this perspective, four factors have contributed to the current condition of state and local public pension systems:

1. **A Failure to Adapt:** Defined-contribution (DC) plans place responsibility for retirement planning on the employee, rather than on the employer, as with defined-benefit (DB) plans. DC plans have advantages over DB plans, namely that DC plans incentivize greater employee performance and reduce costs for the employer (for a primer on various retirement plans and details on the benefits of DC plans, see the Appendix).

   Over the last few decades, the retirement benefit of choice in the private sector has been the DC plan (see Figure 1 below). In 1975, DC plans were approximately 67 percent of all private sector retirement plans and DB plans were 33 percent of all plans. By 2013, 94 percent of all retirement plans were DC plans.

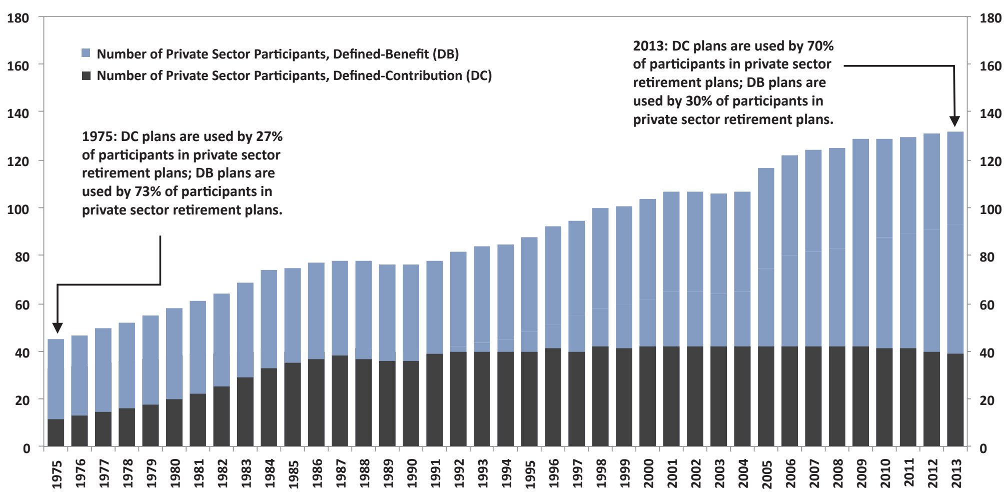
In the last few decades, the composition of participants in private sector retirement plans has also shifted away from DB plans and towards DC plans (see Figure 2 below). In 1975, 27 percent of participants in private sector retirement plans were enrolled in DC plans, and 73 percent were enrolled in DB plans. By 2013, 70 percent of all participants in private sector retirement plans were enrolled in DC plans.

FIGURE 1 | Private Sector Qualified Defined-Benefit and Defined-Contribution Plans[20]
(Annual, 1975–2013, Number of Plans)



Source: EBRI Databook on Employee Benefits, Chapter 5: Private- and Public-Sector Retirement Plan Trends, Updated October 2015." Employee Benefit Research Institute.

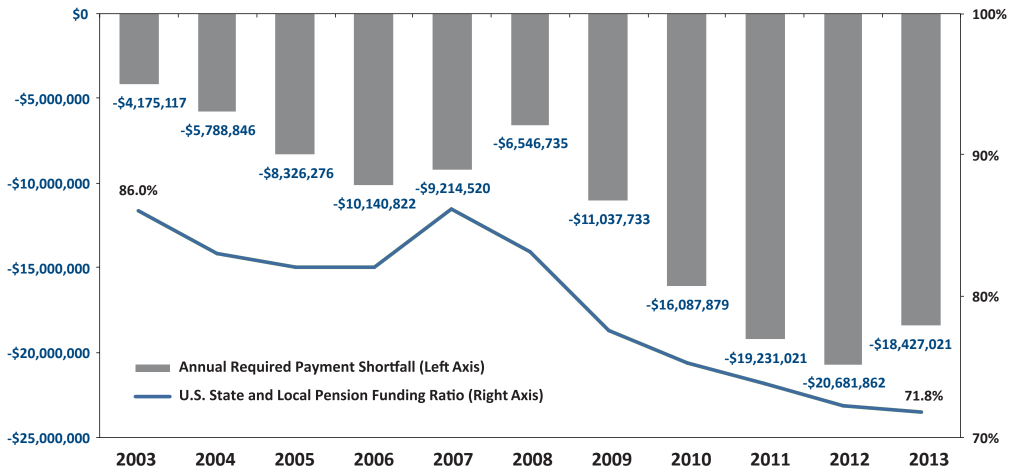
FIGURE 2 | Private Sector Qualified Defined-Benefit and Defined-Contribution Plans[21]
(Annual, 1975-2013, Number of Plans)



The shift away from DB plans and towards DC plans did not occur to the same extent among state and local governments as it did in the private sector. The Employee Benefit Research Institute reports that in 1987, 93 percent of participants in state and local retirement plans were enrolled in DB plans and 9 percent were enrolled in DC plans. By 2015, 82 percent of participants were enrolled in the DB plans and 17 percent were enrolled in DC plans.[22]

Neglecting to transition to DC plans decades ago meant that state and local budgets were destined to face additional strain in the event of economic

FIGURE 3 | **State and Local Retirement Systems: Shortfall in Annual Required Contributions and Funding Ratios**[23] (annual, 2003-2013 Negative = amount of annual shortfall, $ in 1000s)



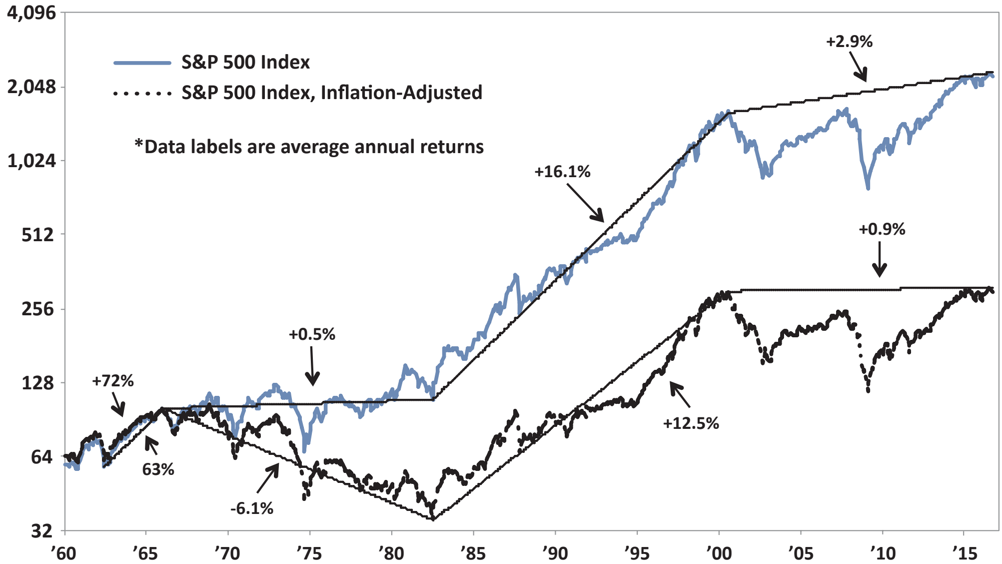
downturn, demographic shifts, or lower than expected investment returns, as they have witnessed over the last decade. Had state and local governments transitioned to DC plans decades ago, the trillions of unfunded pension liabilities would be a fraction of their current levels.

2. **Failure to Meet Annual Required Contributions (ARCs):** A comprehensive account of the attempts by different state administrations, committees, panels, and lawsuits brought against state and local governments seeking to understand the public pension problem could fill hundreds of pages, but the obvious and uncontestable fact is this: For more than a decade, states have rarely chosen to pay their annual pension bills. Figure 3 depicts the amount states neglected to pay on an annual basis that would have been required to keep their systems actuarially sound. It also shows the corresponding decrease in overall funding ratio. Shortfalls totaled $4.2 billion in 2003 and jumped to $18.4 billion in 2013; at the same time, the overall funding ratio fell from 86 percent to 72 percent. As mentioned earlier, these reported shortfalls would be even higher if more realistic assumed rates of return were applied.

3. **Poor Investment Performance:** State and local retirement systems currently manage about $3.6 trillion in public pension fund investments. Approximately half of these assets are invested in equities; a quarter in government or corporate bonds and cash; and the remainder are held in private equity, hedge funds, real estate, or commodities.[24] State and local pension fund managers expect returns on investments in their portfolios to meet about 60 percent of commitments to pension beneficiaries.[25]

The stock market boom of the 1980s and 1990s (see Figure 4 below) led many public pension managers to shift their portfolios predominantly from bonds and cash to equities, thus increasing risk. However, the returns gifted by the 20-year bull market that ended in the year 2000 pushed the average state and local pension plan to 100 percent funded. Stock market returns since the year 2000, when adjusted for inflation (see Figure 4), have been, on average, flat. The poor

FIGURE 4 | **S&P 500 Index: Real and Nominal Price Returns**
(monthly, Jan-1960 to Jul-2017, semi-log smoothing, both indexes equal 100 in Jan-1966)

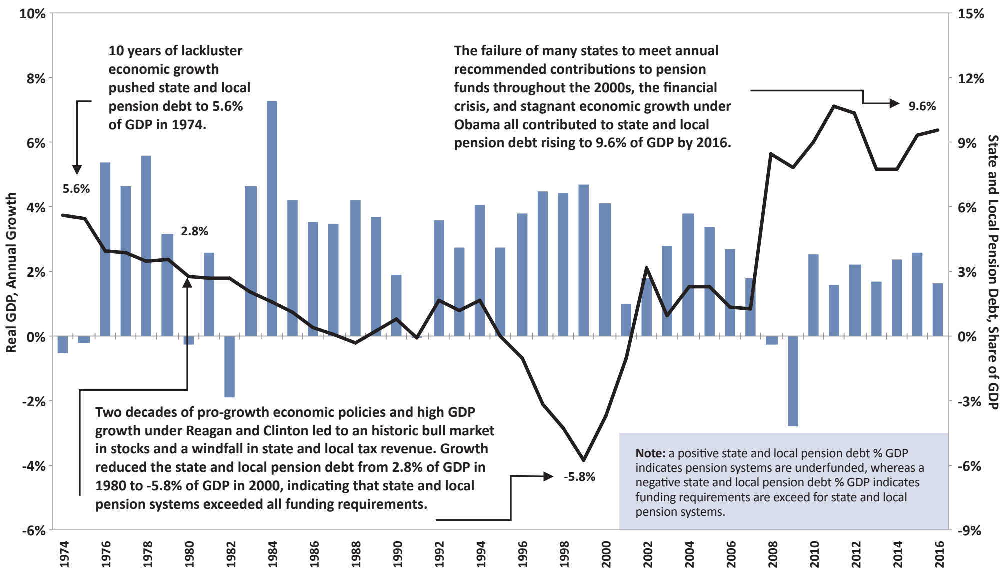


performance of the stock market pushed pension fund managers into even riskier investments (often with higher than average fees[26]), with little to show for it: Nominal returns for pension fund investment strategies were 4 percent in 2015 and 1 percent in 2016.[27] As outlined in *Keeping the Promise: Getting Politics Out of Pensions,* pension fund cronyism has contributed to this, as some policymakers and pension trustees recklessly put political agendas ahead of what is best for workers and retirees.[28] This injects additional needless risk into the system through investment schemes that do not set focus on the highest, long-term rates of return for pension dollars.

4. **Stagnant Economic Growth:** One solution is often lost in the discussion of how to solve the pension crisis: Boosting economic growth. While the current pension crisis is indeed serious, economic growth solved the pension crisis of the 1970s, when the situation was significantly worse. While the average state and local pension system was 71.8 percent funded in 2015, the average state and local pension fund was only 50 percent funded in 1978.[29]

The tremendous GDP growth of the 1980s and 1990s generated incredible amounts of tax revenue, thereby improving the fiscal position of state and local pension funds (see Figure 5 below). In 1974, the total unfunded state and local pension debt was approximately 5.6 percent of GDP. New York City devoted 16.6 percent of its tax collections to meeting the city's pension obligations and *still* the pension system was only 50 percent funded.[30] But, by the time President Ronald Reagan left office in 1988, state and local pension funds were *overfunded*—meaning the pension funds anticipated having more than enough assets to meet all obligations to beneficiaries. The overfunding trend continued under the pro-growth policies of the 1990s; however, the trend has dramatically reversed since 2000, and once again state and local pension funds had unfunded debt totaling 9.6 percent of GDP in 2016 (using pension plans' optimistic rate of return assumptions).

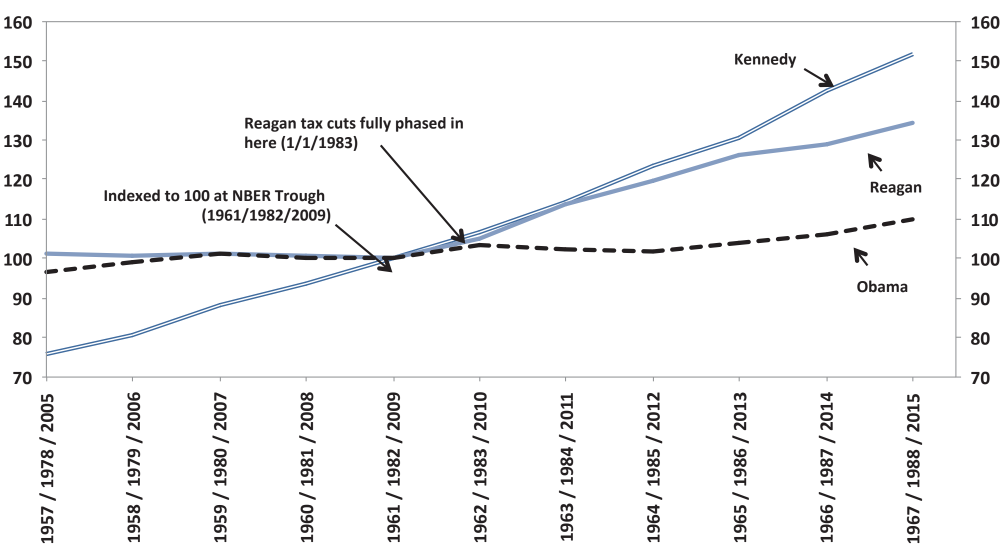
FIGURE 5 | **Real Gross Domestic Product Growth and State and Local Benefit Pension Debt As a Share of Gross Domestic Product**[31] (Annual, 1974-2016)



Source: Laffer Associates calculations based on Financial Accounts of the United States (Z.1), Federal Reserve Board of Governors, and Bureau of Economic Analysis.

Real GDP, Annual Growth (left axis)
State and Local Pension Debt, Share of GDP (right axis)

FIGURE 6 | **Real Total State and Local Receipts under Presidents Kennedy, Reagan, and Obama**[32] (Annual, Kennedy: 1957-1967, Reagan: 1978-1988, Obama: 2005-2015, deflated with GDP price index to 1970$ and indexed to 100 at NBER cycle troughs in 1961, 1982 and 2009)



Higher GDP growth will also increase state and local tax revenue,[33] thus making more revenue available to fund pension systems. Looking at the different rates of economic growth under Presidents Reagan and Obama, Figure 6, demonstrates the impact of those growth differences in the coffers of state and local governments, which in turn allows states to fund the safety net for residents, including beneficiaries of state and local pensions.

The chart above compares and contrasts the state and local tax revenue surges following President Reagan and President Kennedy's tax cuts with the relative stagnation following President Obama's increases in federal spending, regulation, and taxes. It's eye-opening. What was true for President Reagan was equally true for President Kennedy. The Kennedy and Reagan tax cuts and the ensuing prosperity caused a surge in state and local tax revenues.

Conclusion

Accelerated growth alone will not resolve the pension crises in its entirety. But, if states are able to achieve similar growth to that of the 1980s and 1990s, the current pension crisis can be more easily navigated. The alternative outcome involves more debt, lower bond ratings and higher borrowing costs, more cuts in essential services, tax increases, and ultimately benefit reductions to pensioners—a scenario nobody wants. While individual states are subject to a policy environment influenced by the federal government, states nonetheless have the ability to chart their own course: Economic growth, as always, should be their primary goal.

Appendix

How Pensions Work: A Primer

Public pensions offered by state and local governments may take on several different forms. Below is a brief description of the most common plan forms:

1. **Defined-Benefit (DB) plans:** The traditional pension plan in which employees receive set, guaranteed monthly payments after retiring, until death or the death of their spouse (whichever occurs later). DB plans may also include cost-of-living adjustments. The amount of the monthly benefit is based upon the employee's wages and tenure.[34] In 2013, 86 percent of state and local employees eligible for public retirement plans were enrolled in defined-benefit plans.[35]

2. **Defined-Contribution (DC) plans**: Under DC plans, employers make contributions to an employee's account during employment with no guaranteed monthly benefit upon retirement. The ultimate benefit is based solely upon the contributions to, and investment earnings of, the plan. The benefit ceases when the account balance is depleted, regardless of the retiree's age or circumstances. Examples of such plans are 457(b),[36] 401(k), and 403(b) plans.[37,38] DC plans are the preferred retirement plan in the private sector. In 2015, only 3 states—Alaska, Michigan, and Oklahoma—had mandatory DC plans for all new state employees.[39]

3. **Hybrid plans:** combine features of defined-benefit and defined-contribution plans, and come in two forms:

   a. **Two-tier DB-DC plans:** Two-tier DB-DC plans combine small DB pensions with DC plans, with the DB component typically funded by the employer and the DC component funded by the employee, the latter being required to ensure adequate funds for the retirement of the employee. Nine states had mandatory two-tier plans for eligible state and local government employees in 2015.[40]

   b. **Cash Balance (CB) plans:** Cash Balance (CB) plans are employer-provided plans with automatic participation in which employers and employees make contributions.[41] Investments in cash balance funds are professionally managed and guarantee an annual return. If long-term returns exceed the guaranteed rate of return, the excess funds are shared between employees and a rainy day fund within the pension plan to cover years when returns fall below the guarantee. And when a worker is ready to retire, the money in his or her account is converted to lifetime income in the form of an annuity. Very few state and local governments offer cash balance plans.[42]

Advantages of a Defined-Contribution System

From an economic perspective, the most significant benefit of a defined-contribution (DC) system relative to other retirement plans stems from the incentive structure. DC plans put employees in charge of funding their own retirement, which causes employees to think "on the margin," that is to make decisions about work, and leisure—and thus income and productivity as well—in light of the trade-offs between each activity.

Under DC, employees regularly contribute a share of their income to a retirement account, which is often matched in whole or in part by the employers. To increase the funds available at the time of their retirement, employees must do one or more of the following: 1.) increase the share of their income contributed to the retirement account, 2.) increase their income, which increases the amount of the contribution to retirement, holding the contribution rate constant, and 3.) improve investment returns by becoming educated about investment choices. All three of these choices give employees incentive to take an active role in funding their retirement by improving work performance and output, and thus increasing income and the funds available to them at the time of retirement.

In terms of aligning incentives for each and every employee, it's critical to realize that each additional dollar added to any one employee's plan will increase the discounted future benefits by exactly $1 for that specific employee. A DC plan removes all distortions resulting from any disassociation between effort and reward.

In addition to the incentive effects under a DC plan, there are many secondary benefits of a DC relative to most other plan offerings.

1. **Control:** Adopting a defined-contribution (DC) system, such as a 401(k), allows employees to make their own investment decisions, which may be preferable to many employees given the poor performance of pension fund managers in recent years.

2. **Flexibility:** Requiring employees to serve long tenures in order to qualify for pension benefits is not attractive to all potential workers. Younger workers who don't want to work for the government for decades will prefer the portability of DC plans. And with vesting schedules, younger workers are still incentivized to work in government positions for longer tenures, ensuring worker retention.

3. **Greater Benefits over Shorter Time Periods:** Shorter tenure employees leave service with greater benefits under a DC arrangement than in a defined-benefit (DB) system.[43]

4. **Cost Variability:** With a DC system, the employer assumes none of the risk that investment returns will adequately fund retirement, although the employer still pays only through contemporaneous contributions. This allows for greater planning on the part of the employer and requires more responsibility on the part of employees to plan their retirement.

5. **Lower Administrative Costs:** Actuarial services are not required to the extent necessary for defined-benefit plans; however, provision of participant investment education and the cost of administering many individual funds in a DC can make DC plans more expensive than DB plans. Typically, however, DC plans are less expensive to administer, with smaller employers reaping the most savings.[44]

6. **Access:** Unlike DB or most hybrid plans, employees can access DC funds pre-retirement.

7. **End of Life Planning:** In a DC plan, account balances may be inherited by heirs other than spouse upon the beneficiary's death.

(ENDNOTES)

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2 Beforehand, Fitch Ratings and S&P Global Ratings put Illinois' bond rating at "BBB-minus," which is one place away from junk bond status. Moody's followed suit with its downgrade to a "Baa3" from "Baa2." "The downgrade to Baa3 for Illinois' General Obligation bonds is consistent with the state's intensifying pressure from pension liabilities." For more information refer to the following: "Rating Action: Moody's Places Illinois' GO and Related Ratings Under Review for Possible Downgrade." Moody's Investors Service. July 5, 2017. https://www.moodys.com/research/Moodys-Places-Illinois-GO-and-Related-Ratings-Under-Review-for--PR_904088987

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18 We would like to thank Mike Shmerling for sharing this research with us.

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37 A 403(b) is an annuity plan for certain employees of public schools, tax-exempt organizations, and certain members of the clergy. Contributions to 403(b) plan accounts are only made by employers and are typically taxed as income when withdrawn. For more information refer to the following: "403(b) Plan Basics," Internal Revenue Service. https://www.irs.gov/publications/p571/ch01.html

38 Ibid.

39 Morrissey, Monique. "Will Switching Government Workers to Account-Type Plans Save Taxpayers Money?" Economic Policy Institute. March 5, 2015. http://www.epi.org/publication/will-switching-government-workers-to-account-type-plans-save-taxpayers-money/

40 "In 2015, the nine states with two-tier db-dc plans were California, Georgia, Indiana, Michigan, Oregon, Rhode Island, Tennessee, Utah, and Virginia." For more information refer to the following: Morrissey, Monique. "Will Switching Government Workers to Account-Type Plans Save Taxpayers Money?" Economic Policy Institute. March 5, 2015. http://www.epi.org/publication/will-switching-government-workers-to-account-type-plans-save-taxpayers-money/

41 However, the amount in the Cash Balance account is hypothetical and exists for the planning purposes of the employee; the actual payout the employee receives is an annuity or less frequently, a lump-sum payment.

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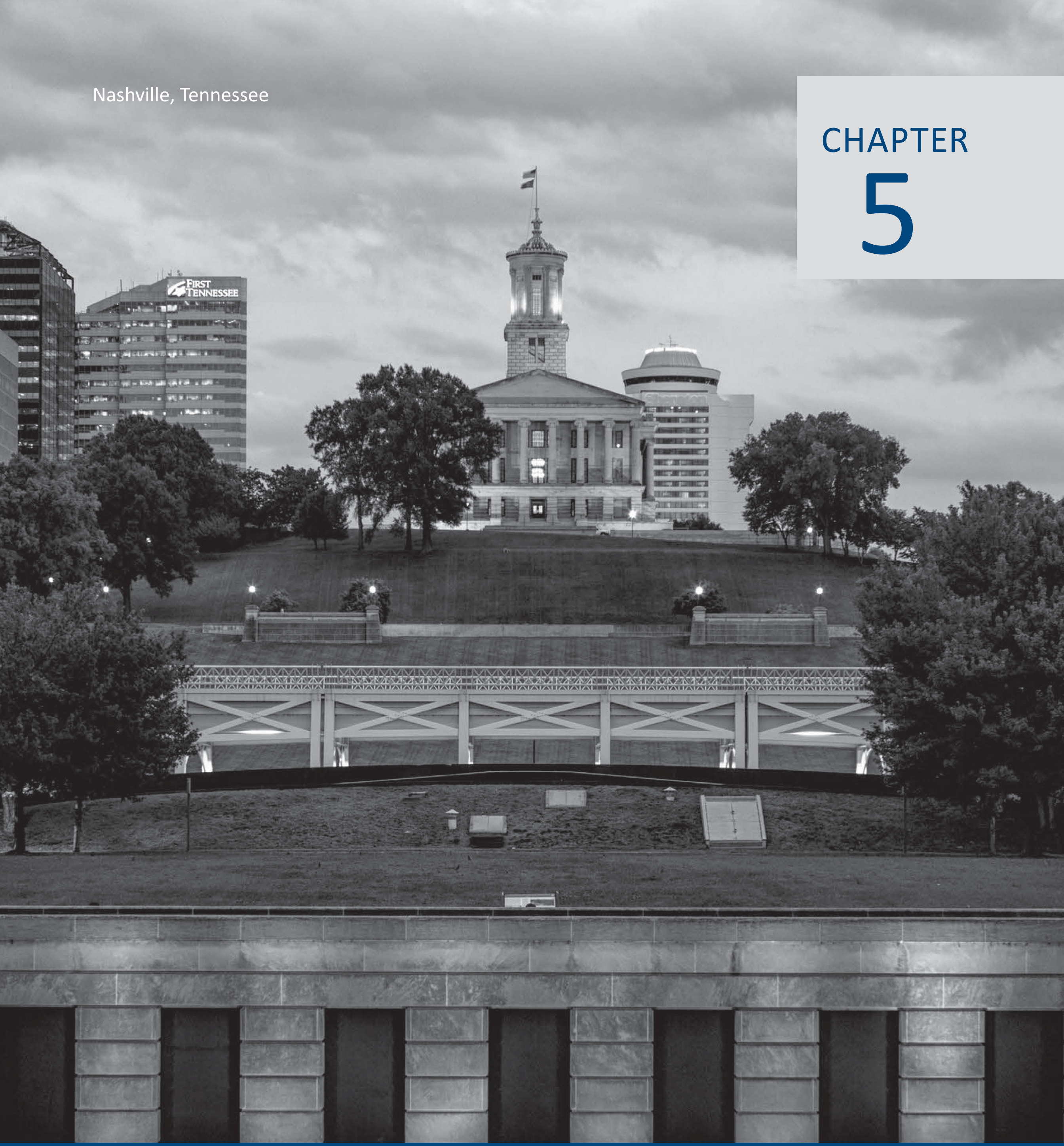


Nashville, Tennessee

CHAPTER 5

Tennessee's Model for Growth is Working

Tennessee's Model for Growth is Working

People are moving to Tennessee every day. Why? With no taxes on wage income, we can tell you it's not entirely for the country music. The state has experienced tremendous growth over the last 10 years, and much of that, if not all, is due to its pro-growth policies and a citizens-first approach to governing.

Adding to the magnetism derived from no income tax on wages, this year the legislature also forced its governor to sign legislation that phases out the state's investment income tax called the Hall Tax. Just last year, the Volunteer State also jettisoned its gift and estate tax. Likewise, Tennessee is in the bottom 10 states for property tax burdens.

TABLE 1 | **Tennessee Taxes**
(Taxes: FY13-14, GSP: 2014, Ranking: lowest tax burden = 1, highest tax burden = 50)

	Tennessee	U.S. Rank
Earned Income Tax	0%	1
Unearned Income Tax*	0%	1
Estate and Gift Tax	0%	1
Property Tax as % of GSP	1.8%	9
Corporate Tax as % of GSP	0.4%	38
Sales Tax as % of GSP	3.8%	41
All Other Taxes as % of GSP	0.8%	6
Total Tax Burden	6.8%	3

** The Hall Tax is currently in the process of being phased out and will be eliminated as of 2022.*

Source: ALEC Rich States Poor States, Bureau of Economic Analysis, Census Bureau

Although the state has a high sales tax—the 8th highest sales tax revenues as a percentage of gross state product (GSP) in the nation—total tax revenues as a share of GSP make Tennessee the 3rd lowest-taxed state in the nation. Of the common tax structures, the sales tax is one of the least distortive. Therefore, a dollar collected through the sales tax is less destructive than a dollar collected by, for example, an income tax.

Outcomes Matter—Low Tax Rates, Soaring Tax Revenues, and Budget Surpluses

Now, for the facts on Tennessee's political and fiscal status, as reported by *The Tennessean* on December 29, 2016:[1]

- *Based on State Funding Board projections, the Tennessee General Assembly will have close to $2 billion in extra money to distribute during the upcoming legislative session above current year spending [about $35 billion], prompting legislator talk of tax cuts as Gov. Bill Haslam seeks a tax increase.*

- *The Funding Board projections, adopted unanimously on Nov. 29, foresee up to $878 million in new, recurring money available for spending on an annual basis starting in the 2016-17 state fiscal year that begins June 30. Economists involved in analyzing the data suggest the figure might be conservative—as the estimates have been in recent past years.*

TABLE 2 | **Public Sector Retirement Systems in 2015**[2,3]

Top 25				
State	**Liability (Total Pension Liability)**	**Assets (Plan Fiduciary Net Postion)**	**Funding Ratio**	**Funding Rank**
SD	10,352,405	10,776,534	104.1%	1
WI	89,999,506	88,504,670	98.3%	2
NY	193,065,921	189,412,416	98.1%	3
NC	93,392,819	89,165,193	95.5%	4
TN	**45,338,192**	**43,260,914**	**95.4%**	**5**
OR	70,665,100	64,923,600	91.9%	6
ID	15,669,157	14,385,946	91.8%	7
NE	13,031,010	11,901,127	91.3%	8
DE	10,341,683	9,233,919	89.3%	9
WA	85,810,249	74,705,075	87.1%	10
FL	171,619,936	148,505,168	86.5%	11
UT	31,150,334	26,686,840	85.7%	12
IA	34,091,215	29,004,424	85.1%	13
ME	15,403,693	12,711,411	82.5%	14
AR	29,827,439	24,580,957	82.4%	15
MO	64,812,863	52,780,814	81.4%	16
GA	102,015,080	82,498,305	80.9%	17
MN	75,522,040	60,257,182	79.8%	18
OK	36,539,396	28,930,879	79.2%	19
WV	17,633,674	13,566,069	76.9%	20
OH	191,957,918	146,641,904	76.4%	21
TX	203,472,276	153,834,670	75.6%	22
NV	46,195,357	34,714,400	75.1%	23
VA	88,985,488	66,406,631	74.6%	24
MT	13,561,567	10,105,644	74.5%	25

Bottom 25				
State	**Liability (Total Pension Liability)**	**Assets (Plan Fiduciary Net Postion)**	**Funding Ratio**	**Funding Rank**
CA	669,955,702	495,833,306	74.0%	26
WY	10,146,720	7,416,066	73.1%	27
NM	36,736,096	25,937,531	70.6%	28
ND	6,645,726	4,676,590	70.4%	29
MD	67,480,080	46,027,685	68.2%	30
VT	5,622,530	3,813,881	67.8%	31
AK	20,807,716	14,034,857	67.5%	32
AL	48,599,317	32,563,509	67.0%	33
NH	11,471,453	7,509,926	65.5%	34
KS	25,614,471	16,635,521	64.9%	35
IN	46,839,007	30,268,263	64.6%	36
MI	85,938,974	54,738,206	63.7%	37
LA	50,259,386	31,818,943	63.3%	38
AZ	65,738,240	41,569,951	63.2%	39
HI	23,238,395	14,505,465	62.4%	40
MA	84,574,770	52,456,994	62.0%	41
MS	40,863,600	25,246,219	61.8%	42
CO	70,582,830	42,658,493	60.4%	43
SC	50,658,085	29,305,690	57.8%	44
RI	11,106,191	6,338,857	57.1%	45
PA	139,139,830	77,640,521	55.8%	46
CT	54,636,335	26,976,213	49.4%	47
IL	199,089,640	80,017,234	40.2%	48
KY	56,913,362	21,501,210	37.8%	49
NJ	217,055,414	81,354,848	37.5%	50
US Total	3,850,168,189	2,758,340,673	71.6%	N/A

**All $ figures are in thousands*

Source: Pew Charitable Trusts. Note, Pew's study on pension obligations reflect data contained within Comprehensive Annual Financial Reports (CAFRs). States often employ accounting "tricks," which paint a rosier picture than is actually the case.

- *In addition to the bonanza in recurring funds for next year, the state is expected to have about $1 billion in surplus tax collection funds to spend on a one-time basis—or "non-recurring" money in budgeting lingo.*

- *In recent years, the board has consistently underestimated revenue. The new recurring figure incorporates $500 million of past surpluses into anticipated annual revenue for the years ahead. Beyond that, the economists projected the state can rely on a further revenue increase during the coming year of $378 million.*

Minimal Debt, Great Credit Ratings, and Fifth Best Funded Pensions

The large surplus in Tennessee's budget in conjunction with low taxes stems from the state's ability to successfully manage its long-term liabilities and state expenditures.

In 2016, Tennessee received the highest credit rating in the nation: an AAA credit rating from all three of the major credit rating agencies—Standard and Poor's (S&P), Fitch, and Moody's—for the first time since 2000 and only the second time in the state's history.[4]

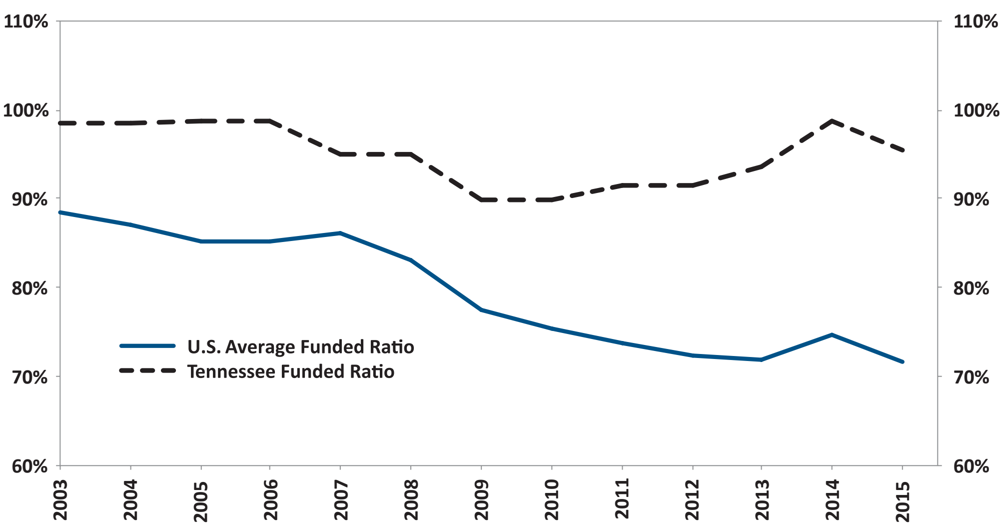
When it comes to state and local government employee pensions, Tennessee is up there with the best of the best. Tennessee ranks 5th best in the nation in its state and local pension funding ratio. Table 2 lists by state for 2015 the following: i.) total pension fund liabilities, ii.) total assets, iii.) the funding ratio, and iv.) funding rank based upon the funding ratio. We also plotted the funding ratio over time for Tennessee versus the U.S. as a whole (see Figure 1). Tennessee's pension system is in relatively good condition in large part due to responsible stewardship of the investments in the pension system's portfolio. A recent report by the ALEC Center for State Fiscal Reform estimated Tennessee's unfunded pension liabilities using a "risk-free" rate of return assumption, based on the equivalent of a hypothetical 15-year U.S. Treasury bond yield of 2.344 percent. Using this rate, Tennessee public pension plans are just 47.3 percent funded—still fifth best funded in the nation.[5] Likewise, Hoover Institution, using its own alternative market valuation of assets, estimates Tennessee is fifth best funded as well, at 62.8 percent.[6] A 2013 study determined that Tennessee had the 4th highest five-year rate of return on investments and the 4th lowest investment expenses.[7]

Low Taxes, Right-to-Work, and Restrained Spending Work Miracles for the Economy

Tennessee governments, state and local, have kept a very tight lid on government spending, thereby protecting taxpayers' money. For example, Tennessee has closely controlled state and local government employees' salaries as well as the overall number of employees (see Table 3 and Table 4).

Here is a state governed exclusively for its citizens, *not* for its politicians, subcontractors, or state and local government employees. And goodness knows it's not like California where it seems like the sole purpose of the state's government is to benefit the California Teachers Association.

FIGURE 1 | **State Pension Funding Ratio: Tennessee vs. U.S. Average[8]**
(annual, 2003-2015)



Source: Issue Brief: The State Pension Funding: 2015, Market volatility deepens the divide between assets, liabilities. Pew Charitable Trusts. April 20, 2017.

TABLE 3 | 50 States: Average Annual Salary of Public Sector Full-Time Equivalent Employees (FTEE)[9]

2005		
Rank	State	Public Sector FTEE Avg. Salary
1	California	57,441
2	New Jersey	54,507
3	Connecticut	53,493
4	New York	53,347
5	Rhode Island	51,209
6	Maryland	49,989
7	Massachusetts	49,464
8	Washington	49,050
9	Alaska	48,601
10	Nevada	48,478
11	Minnesota	45,699
12	Michigan	45,633
13	Colorado	45,206
14	Illinois	45,097
15	Delaware	44,656
16	Pennsylvania	44,512
17	Wisconsin	44,346
18	Hawaii	44,251
	United States	43,801
19	Oregon	43,391
20	Arizona	41,908
21	Ohio	41,545
22	Florida	40,479
23	Virginia	40,211
24	Vermont	39,226
25	North Carolina	38,594
26	Nebraska	38,530
27	Iowa	38,318
28	New Hampshire	38,293
29	Indiana	38,019
30	Utah	37,495
31	North Dakota	37,425
32	Wyoming	37,216
33	Georgia	37,065
34	Texas	36,947
35	Kansas	36,242
36	Maine	36,149
37	Tennessee	35,799
38	Idaho	35,439
39	South Carolina	35,272
40	Missouri	35,228
41	Kentucky	35,160
42	Alabama	35,141
43	South Dakota	34,839
44	New Mexico	34,618
45	Montana	34,546
46	Louisiana	34,139
47	West Virginia	34,042
48	Arkansas	33,160
49	Oklahoma	32,682
50	**Mississippi**	**32,629**

2015		
Rank	State	Public Sector FTEE Avg. Salary
1	California	72,934
2	New Jersey	69,662
3	New York	68,824
4	Washington	65,053
5	Connecticut	64,781
6	Alaska	64,082
7	Rhode Island	63,838
8	Massachusetts	62,461
9	Maryland	61,898
10	Nevada	61,264
11	Illinois	60,135
12	Oregon	57,611
13	Minnesota	57,294
14	Pennsylvania	56,240
15	Michigan	56,056
16	Hawaii	55,668
	United States	55,276
17	Colorado	55,169
18	Delaware	54,690
19	Iowa	53,288
20	Wisconsin	52,931
21	Wyoming	52,449
22	Vermont	52,030
23	Ohio	51,331
24	Arizona	51,139
25	Virginia	51,077
26	New Hampshire	50,648
27	North Dakota	50,477
28	Utah	49,256
29	Nebraska	49,178
30	Texas	48,678
31	Florida	48,543
32	North Carolina	48,171
33	New Mexico	47,353
34	Montana	46,213
35	Maine	45,711
36	Kansas	45,511
37	Indiana	45,154
38	Idaho	45,149
39	South Carolina	45,120
40	Alabama	44,733
41	Louisiana	44,000
42	Georgia	43,953
43	Tennessee	43,616
44	South Dakota	43,575
45	Missouri	43,229
46	Kentucky	43,158
47	Oklahoma	42,073
48	West Virginia	42,028
49	Arkansas	40,751
50	**Mississippi**	**40,027**

2005 - 2015 Growth (1 = Greatest Decline of FTEE as Share of 10,000 Population)		
Rank	State	Growth in Avg. Public Sector FTEE Avg. Salary
1	Wyoming	40.9%
2	Iowa	39.1%
3	New Mexico	36.8%
4	North Dakota	34.9%
5	Montana	33.8%
6	Illinois	33.3%
7	Oregon	32.8%
8	Vermont	32.6%
9	Washington	32.6%
10	New Hampshire	32.3%
11	Alaska	31.9%
12	Texas	31.8%
13	Utah	31.4%
14	New York	29.0%
15	Louisiana	28.9%
16	Oklahoma	28.7%
17	South Carolina	27.9%
18	New Jersey	27.8%
19	Nebraska	27.6%
20	Idaho	27.4%
21	Alabama	27.3%
22	Virginia	27.0%
23	California	27.0%
24	Maine	26.5%
25	Nevada	26.4%
26	Pennsylvania	26.3%
27	Massachusetts	26.3%
	United States	26.2%
28	Hawaii	25.8%
29	Kansas	25.6%
30	Minnesota	25.4%
31	South Dakota	25.1%
32	North Carolina	24.8%
33	Rhode Island	24.7%
34	Maryland	23.8%
35	Ohio	23.6%
36	West Virginia	23.5%
37	Arkansas	22.9%
38	Michigan	22.8%
39	Kentucky	22.7%
40	Missouri	22.7%
41	Mississippi	22.7%
42	Delaware	22.5%
43	Colorado	22.0%
44	Arizona	22.0%
45	Tennessee	21.8%
46	Connecticut	21.1%
47	Florida	19.9%
48	Wisconsin	19.4%
49	Indiana	18.8%
50	**Georgia**	**18.6%**

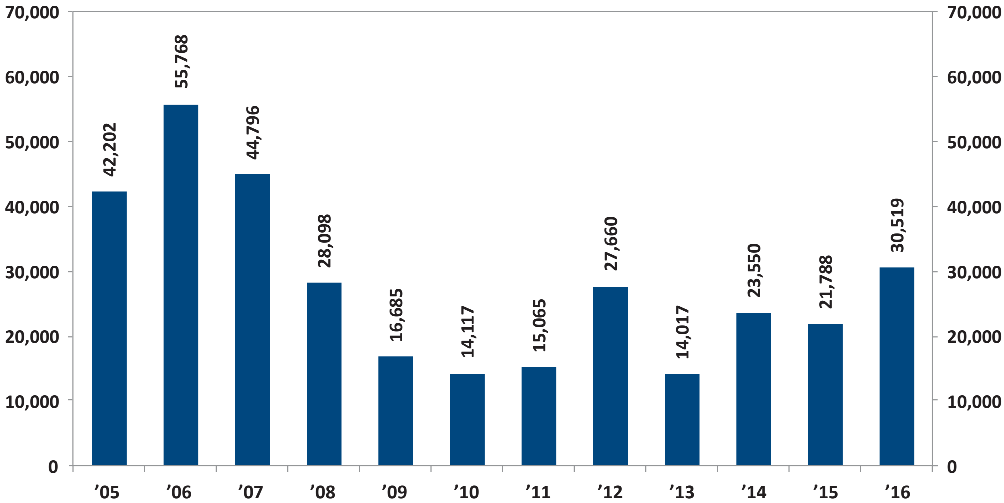
Source: U.S. Census Bureau

TABLE 4 | **50 States: Public Sector Full-Time Equivalent Employees per 10,000 Population[10] Ranked From Lowest to Highest** (2005-2015, Largest decrease is ranked #1, Largest increase is ranked #50)

2005			2015			2005 - 2015 Growth (1 = Greatest Decline of FTEE as Share of 10,000 Population)		
Rank	State	Public Sector FTEE / 10,000 Population	Rank	State	Public Sector FTEE / 10,000 Population	Rank	State	Growth in Public Sector FTEE / 10,000 Population
1	Nevada	412.8	1	Nevada	374.0	1	Arizona	-64.4
2	Pennsylvania	463.1	2	Arizona	418.2	2	Louisiana	-63.9
3	Rhode Island	468.8	3	Florida	432.3	3	Georgia	-63.1
4	Florida	472.6	4	Michigan	440.1	4	New Mexico	-62.6
5	Arizona	482.6	5	Pennsylvania	443.4	5	Idaho	-55.0
6	Michigan	492.5	6	California	453.5	6	Michigan	-52.4
7	California	494.4	7	Rhode Island	454.9	7	Washington	-48.6
8	Maryland	498.0	8	Utah	475.5	8	Maine	-47.2
9	Massachusetts	503.3	9	Oregon	477.1	9	New Jersey	-46.6
10	Oregon	504.8	10	Washington	478.6	10	Tennessee	-46.0
11	Illinois	505.4	11	Indiana	485.1	11	Alaska	-45.6
12	Utah	519.6	12	Idaho	485.3	12	Indiana	-44.9
13	Minnesota	526.0	13	Illinois	488.3	13	Utah	-44.1
14	Washington	527.2	14	Tennessee	491.4	14	Iowa	-43.4
15	Connecticut	528.1	15	Georgia	495.7	15	California	-40.9
16	Wisconsin	529.6	16	Wisconsin	496.2	16	Florida	-40.3
17	Indiana	530.0	17	Massachusetts	497.2	17	Nevada	-38.9
18	Hawaii	530.9	18	Ohio	503.0	18	Ohio	-38.3
19	New Hampshire	532.8	19	Maryland	505.2	19	South Carolina	-37.1
20	Tennessee	537.4		United States	596.5	20	Texas	-35.8
	United States	538.8	20	Colorado	518.1	21	Delaware	-34.9
21	Colorado	539.9	21	Minnesota	519.2	22	Wisconsin	-33.4
22	Idaho	540.3	22	Missouri	520.7		United States	-32.4
23	West Virginia	540.6	23	Delaware	522.6	23	Missouri	-29.1
24	Ohio	541.3	24	Hawaii	524.5	24	Oregon	-27.7
25	Missouri	549.8	25	Maine	529.2	25	Montana	-27.5
26	Virginia	551.4	26	Texas	530.9	26	New York	-26.1
27	North Carolina	555.4	27	Virginia	532.2	27	Oklahoma	-22.1
28	Delaware	557.5	28	New Jersey	533.2	28	Colorado	-21.8
29	Georgia	558.8	29	Connecticut	534.5	29	Kentucky	-20.4
30	South Dakota	562.6	30	South Carolina	535.0	30	Pennsylvania	-19.7
31	Texas	566.7	31	New Hampshire	535.2	31	South Dakota	-19.3
32	Kentucky	570.0	32	North Carolina	538.3	32	Virginia	-19.2
33	South Carolina	572.1	33	South Dakota	543.3	33	Alabama	-17.9
34	Arkansas	575.7	34	Kentucky	549.6	34	Illinois	-17.1
35	Maine	576.3	35	Louisiana	555.1	35	North Carolina	-17.0
36	Oklahoma	578.5	36	West Virginia	556.0	36	Rhode Island	-13.8
37	New Jersey	579.8	37	Oklahoma	556.4	37	Mississippi	-11.5
38	Montana	590.2	38	Montana	562.8	38	North Dakota	-11.2
39	Alabama	598.9	39	Arkansas	571.0	39	Nebraska	-9.0
40	New York	618.9	40	Alabama	580.9	40	Minnesota	-6.8
41	Louisiana	619.0	41	Iowa	583.6	41	Hawaii	-6.4
42	Iowa	627.0	42	New York	592.8	42	Massachusetts	-6.1
43	Nebraska	633.5	43	New Mexico	600.5	43	Arkansas	-4.7
44	Vermont	634.6	44	Nebraska	624.4	44	New Hampshire	2.4
45	North Dakota	637.9	45	North Dakota	626.6	45	Connecticut	6.4
46	Mississippi	649.4	46	Mississippi	637.8	46	Maryland	7.2
47	Kansas	661.4	47	Vermont	647.0	47	Kansas	8.4
48	New Mexico	663.0	48	Kansas	669.8	48	Vermont	12.4
49	Alaska	775.5	49	Alaska	729.9	49	Wyoming	13.7
50	Wyoming	851.1	50	Wyoming	864.8	50	West Virginia	15.4

Source: U.S. Census Bureau

FIGURE 2 | **Tennessee Net Domestic Migration**
(annual, 2005-2016)



Source: U.S. Census Bureau

Jobs, People, and Money Are All Flocking to Tennessee

In 2016, Tennessee attained a tie for the third largest increase in employment-to-population in the nation: up 1 percentage point compared to 2015.[11]

Tennessee has been a population magnet for years and years because of its pro-growth conservative fiscal stance, bringing into the state some 334,000 people on net from 2005 to 2016 (see Figure 2), the 9th largest net in-migration of any state in the nation.

Tennessee has not only attracted people into the state, but has also attracted their incomes and businesses. Comparing tax return data from the IRS for Tennessee and other states, total reported AGI for people moving into Tennessee exceeds total AGI for people moving out of Tennessee. In fact, looking at the net inflow of AGI relative to the state's total AGI for all tax filers, Tennessee on balance is in the top 12 most attractive states in the nation (see Table 5).

In Table 5 below, the first two numbers for each column represent the year the income was earned, and the second two numbers represent the year when that income was reported to the IRS for tax filing purposes. For example, column 1011 is for earning year 2010 that was reported in 2011.

When it comes to net inflows and outflows of AGI, some states are even more attractive than Tennessee, including, of course, Florida, Texas, Nevada, and Colorado, as well as Wyoming, North Carolina, South Carolina, and Arizona. Virtually all of those are fiscally responsible. Doesn't that just say it all?

At the bottom of the attractiveness heap, we have the District of Columbia, New York, Illinois, New Jersey, Connecticut, Michigan, Ohio, Alaska, and Rhode Island (see Table 5).

Tennesseans Pay Less in Taxes and Get More in Services

Tennessee has accomplished all of these wonderful facts by having low taxes, spending restraint, and excellent public services. Tennessee highways are ranked 18th best in the nation, which is

TABLE 5 | **Migration of AGI across the U.S.** (annual, FY05-FY14)

05-06		06-07		07-08		08-09		09-10		10-11		11-12		12-13		13-14		14-15	
AZ	2.2%	NV	2.0%	SC	1.8%	WY	1.4%	MT	2.1%	FL	1.1%	FL	1.5%	ID	1.7%	FL	2.1%	FL	2.0%
FL	2.0%	SC	1.9%	NC	1.3%	SC	1.4%	FL	1.0%	SC	0.9%	WY	1.2%	NV	1.7%	NV	1.9%	NV	1.8%
SC	1.9%	AZ	1.5%	MT	1.2%	NC	0.8%	SC	1.0%	AZ	0.5%	SC	1.2%	SC	1.6%	SC	1.6%	WY	1.0%
NV	1.9%	NC	1.5%	AZ	1.2%	FL	0.8%	WY	0.7%	SD	0.5%	NV	1.2%	FL	1.6%	ID	0.8%	SC	1.0%
ID	1.9%	FL	1.4%	WY	1.1%	CO	0.7%	AZ	0.6%	ID	0.5%	CO	0.7%	MT	1.4%	AZ	0.8%	AZ	0.7%
NC	1.4%	MT	1.2%	FL	1.1%	NV	0.6%	NC	0.5%	WY	0.4%	AZ	0.7%	AZ	1.0%	OR	0.7%	DE	0.5%
WY	1.2%	ID	1.1%	NV	1.0%	MT	0.6%	TX	0.5%	NC	0.4%	ND	0.6%	TX	0.8%	TX	0.7%	MT	0.5%
OR	1.1%	WY	1.0%	CO	1.0%	AZ	0.6%	SD	0.5%	CO	0.4%	NC	0.6%	WY	0.7%	MT	0.6%	CO	0.5%
MT	1.1%	TN	0.9%	TN	0.7%	TX	0.6%	NM	0.5%	MT	0.4%	MT	0.5%	HI	0.7%	CO	0.6%	TX	0.4%
WA	0.9%	CO	0.9%	ID	0.7%	WA	0.5%	TN	0.4%	NV	0.4%	TN	0.4%	ND	0.7%	TN	0.6%	WA	0.4%
TN	0.9%	OR	0.8%	OR	0.7%	TN	0.5%	NV	0.4%	TX	0.4%	TX	0.4%	NC	0.7%	NC	0.5%	NC	0.4%
CO	0.8%	UT	0.8%	SD	0.6%	SD	0.5%	CO	0.3%	ND	0.4%	ME	0.4%	CO	0.6%	NH	0.5%	OR	0.4%
AR	0.8%	WA	0.7%	TX	0.6%	OR	0.5%	DE	0.3%	TN	0.3%	HI	0.4%	WA	0.6%	WA	0.4%	HI	0.4%
NM	0.8%	TX	0.7%	WA	0.6%	AR	0.4%	WA	0.3%	WA	0.3%	WA	0.3%	NH	0.5%	SD	0.4%	ND	0.4%
UT	0.8%	GA	0.7%	UT	0.6%	NM	0.3%	ID	0.3%	OR	0.3%	SD	0.3%	OR	0.5%	WY	0.3%	TN	0.4%
TX	0.7%	SD	0.5%	GA	0.4%	DE	0.3%	OR	0.3%	ME	0.2%	OR	0.3%	DE	0.4%	UT	0.3%	SD	0.1%
GA	0.7%	NM	0.5%	AL	0.3%	AL	0.3%	VA	0.3%	DE	0.2%	UT	0.2%	UT	0.3%	DE	0.2%	ID	0.1%
NH	0.7%	DE	0.5%	DE	0.3%	ID	0.3%	OK	0.2%	HI	0.2%	OK	0.1%	TN	0.2%	HI	0.2%	UT	0.1%
DE	0.5%	AR	0.4%	AR	0.3%	OK	0.2%	AL	0.2%	DC	0.2%	KY	0.1%	ME	0.2%	ME	0.2%	GA	0.0%
AL	0.5%	AL	0.4%	NM	0.2%	UT	0.2%	UT	0.2%	NH	0.1%	AL	0.1%	OK	0.1%	GA	0.1%	AL	-0.1%
VT	0.5%	NH	0.4%	ME	0.2%	GA	0.2%	GA	0.2%	GA	0.1%	CA	0.0%	SD	0.1%	ND	0.0%	AR	-0.1%
SD	0.4%	ME	0.3%	HI	0.2%	DC	0.2%	KY	0.2%	UT	0.0%	GA	0.0%	AL	0.1%	AL	0.0%	MO	-0.2%
ME	0.3%	OK	0.2%	MS	0.1%	NH	0.1%	WV	0.2%	NM	0.0%	NH	0.0%	VT	0.1%	CA	-0.1%	CA	-0.2%
HI	0.2%	MS	0.1%	VT	0.1%	WV	0.1%	AR	0.1%	VA	0.0%	ID	0.0%	MO	0.0%	OK	-0.1%	RI	-0.2%
WV	0.2%	KY	0.1%	NH	0.1%	VT	0.1%	ND	0.1%	OK	0.0%	LA	-0.1%	RI	-0.1%	AR	-0.1%	OK	-0.2%
OK	0.1%	VT	0.0%	KY	0.1%	VA	0.1%	LA	0.1%	AR	0.0%	IA	-0.1%	AR	-0.1%	KS	-0.2%	ME	-0.2%
MO	0.1%	WV	0.0%	OK	0.0%	KY	0.0%	HI	0.0%	AL	0.0%	DE	-0.1%	IA	-0.1%	MO	-0.2%	KY	-0.2%
KY	0.0%	MO	-0.1%	WV	0.0%	MS	0.0%	MD	0.0%	VT	0.0%	NE	-0.2%	KY	-0.1%	IN	-0.2%	IN	-0.2%
PA	-0.1%	WI	-0.2%	MO	-0.1%	PA	-0.1%	VT	0.0%	KY	0.0%	AR	-0.2%	GA	-0.1%	MI	-0.3%	MI	-0.2%
IA	-0.2%	PA	-0.2%	IA	-0.1%	IA	-0.1%	ME	0.0%	WV	0.0%	MS	-0.2%	IN	-0.1%	IA	-0.3%	VA	-0.2%
VA	-0.2%	VA	-0.2%	PA	-0.1%	LA	-0.1%	MS	0.0%	LA	-0.1%	IN	-0.2%	WV	-0.2%	MA	-0.3%	PA	-0.3%
WI	-0.2%	IN	-0.3%	WI	-0.2%	MO	-0.1%	NH	-0.1%	MS	-0.1%	PA	-0.2%	MI	-0.2%	WV	-0.3%	MN	-0.3%
IN	-0.2%	MN	-0.3%	VA	-0.2%	ND	-0.1%	PA	-0.1%	CA	-0.1%	MI	-0.2%	MS	-0.2%	WI	-0.3%	LA	-0.3%
MN	-0.3%	NE	-0.3%	LA	-0.2%	ME	-0.1%	IN	-0.1%	CT	-0.1%	VA	-0.3%	PA	-0.3%	KY	-0.3%	MA	-0.3%
MS	-0.3%	KS	-0.3%	MN	-0.3%	MA	-0.2%	AK	-0.1%	MD	-0.1%	WI	-0.3%	WI	-0.3%	OH	-0.4%	IA	-0.3%
KS	-0.4%	HI	-0.4%	IN	-0.3%	MN	-0.2%	IA	-0.1%	PA	-0.1%	MN	-0.3%	CA	-0.3%	MS	-0.4%	WI	-0.3%
AK	-0.4%	IA	-0.4%	CA	-0.3%	CA	-0.2%	CA	-0.1%	IN	-0.2%	MA	-0.3%	KS	-0.3%	PA	-0.4%	WV	-0.3%
CT	-0.5%	ND	-0.4%	MA	-0.3%	KS	-0.2%	MO	-0.1%	WI	-0.2%	MD	-0.4%	LA	-0.3%	LA	-0.4%	MS	-0.4%
NE	-0.6%	LA	-0.5%	IL	-0.4%	HI	-0.3%	NE	-0.2%	MA	-0.2%	MO	-0.4%	NE	-0.3%	NE	-0.5%	NE	-0.4%
MD	-0.6%	IL	-0.5%	NE	-0.4%	IN	-0.3%	MA	-0.2%	MN	-0.2%	KS	-0.4%	OH	-0.4%	RI	-0.5%	NM	-0.4%
IL	-0.6%	CA	-0.6%	ND	-0.4%	WI	-0.3%	KS	-0.2%	NE	-0.2%	NM	-0.4%	MA	-0.4%	VA	-0.5%	VT	-0.4%
DC	-0.7%	AK	-0.6%	KS	-0.5%	NE	-0.3%	MN	-0.3%	MO	-0.3%	OH	-0.4%	VA	-0.4%	MN	-0.5%	DC	-0.4%
CA	-0.7%	OH	-0.6%	NJ	-0.6%	CT	-0.3%	CT	-0.3%	IA	-0.3%	WV	-0.5%	MN	-0.4%	VT	-0.5%	OH	-0.4%
MI	-0.7%	MA	-0.7%	CT	-0.6%	MD	-0.4%	WI	-0.3%	KS	-0.3%	VT	-0.5%	NJ	-0.5%	NM	-0.6%	NH	-0.4%
ND	-0.8%	CT	-0.7%	AK	-0.6%	AK	-0.4%	DC	-0.4%	AK	-0.4%	NY	-0.6%	NM	-0.5%	MD	-0.6%	MD	-0.5%
OH	-0.8%	RI	-0.7%	MD	-0.6%	IL	-0.4%	OH	-0.5%	MI	-0.5%	NJ	-0.7%	NY	-0.8%	CT	-0.7%	AK	-0.5%
MA	-0.8%	MD	-0.7%	OH	-0.7%	NJ	-0.5%	NJ	-0.5%	OH	-0.5%	IL	-0.7%	MD	-0.8%	NY	-0.7%	NY	-0.6%
NJ	-0.8%	NJ	-0.8%	NY	-0.8%	OH	-0.5%	IL	-0.5%	NY	-0.5%	RI	-0.7%	IL	-0.9%	NJ	-0.9%	KS	-0.6%
RI	-1.1%	NY	-1.0%	DC	-0.9%	RI	-0.6%	RI	-0.6%	RI	-0.5%	AK	-1.1%	CT	-1.0%	IL	-1.0%	NJ	-0.7%
NY	-1.2%	MI	-1.0%	RI	-1.0%	NY	-0.7%	NY	-0.7%	NJ	-0.5%	DC	-1.3%	AK	-1.8%	AK	-1.1%	CT	-0.8%
LA	-3.4%	DC	-1.2%	MI	-1.1%	MI	-0.9%	MI	-0.8%	IL	-0.5%	CT	-1.3%	DC	-2.5%	DC	-1.7%	IL	-0.8%

**Constant-AGI AGI Gained (Lost) due to migration from '05/'06 to '14/'15 as a share of 2015 Total AGI Earned in a Given State*

Source: IRS, Laffer Associates

TABLE 6 | **Tennessee's Annual Highway Ranking**[12]

Year	Ranking
1987	37
1990	36
1995	30
2000	20
2001	21
2002	24
2003	22
2004	24
2005	20
2006	19
2007	19
2008	19
2009	21
2011	20
2012	17
2013	18

Source: Annual Highway Report. Reason Foundation.

an enormous improvement from the rank of 37th best in 1987 (see Table 6).

Tennessee has also been dramatically improving educational outcomes at the primary and secondary levels as measured by National Association of Education Progress (NAEP) scores.[13] In 2013, Tennessee's NAEP scores saw the fastest improvement of any state in the nation for math and reading among all students tested (4th grade and 8th grade students). Notably, growth was also very strong for African American students in 2013.[14] And in 2016, Tennessee accomplished another remarkable feat: Tennessee's science scores improved more than any other state in the nation. The achievement gap in science test scores between male and female students was completely eliminated, and the achievement gap between white and African-American students narrowed, as did the gap between white and Latino students.[15]

It's not luck that all of these wonderful things are occurring in Tennessee, which has one of the most pro-growth, low tax rate fiscal structures in the nation.

The New Gas Tax Increase and Other Potential Blunders

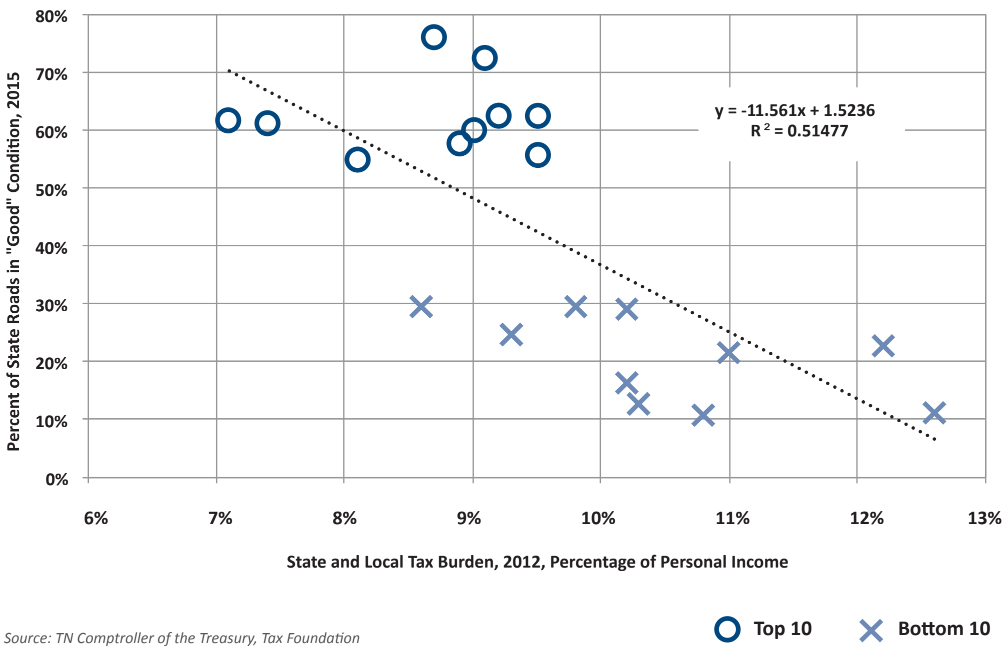
The temptation to grab even more revenue is ever-present, even in an exemplary state like Tennessee. On April 26, 2017, Tennessee passed the IMPROVE Act, which, among other things, raises the current gas tax from 21 to 27 cents per gallon over the next two years.[16] The whole package is a net tax increase, and with the treasury reporting a two billion dollar surplus, it's hard to understand the justification for raising any taxes.[17] This will only work against Tennessee's economic growth.

The goal is to use the revenue from the tax to boost road repairs. However, according to the historical record, states with high tax burdens don't usually have better roads. If we look at the trend between road quality and state and local tax burden, the numbers speak for themselves (see Figure 3).

Defenders of the six cent per gallon gas tax increase (10 cents per gallon for diesel) point to the cut in the food sales tax rate (from 5 percent to 4 percent) along with an expedited phase-out of the Hall Tax also included in the IMPROVE Act.[18] But, the Hall Tax on dividends was already going away regardless of this new law. The apportionment formula for net income was changed specifically for manufacturers. For the franchise and excise tax, the current law states that all firms must apportion net income as an average of the ratios of in-state property values, payroll, and receipts, which are double weighted.[19] The IMPROVE Act simplifies this equation for manufacturers—they simply have to apportion their net income as a fraction of in-state receipts versus total receipts.[20] This should theoretically offer a sizeable break to those firms with a high number of out-of-state sales as their new coefficient should be smaller. Manufacturing is an important sector in Tennessee, which ranks 12th among states for manufacturing as a percent of Gross State Product (GSP).[21] However, the IMPROVE Act is really a net tax increase.

In 2016, the Tennessee legislature passed legislation to reduce the Hall Tax from 6 percent to 5 percent beginning January 1, 2016. The Department of Revenue's tax notice explaining the law expresses the "legislative intent that the tax be statutorily reduced by one percent annually,

FIGURE 3 | **Top 10 and Bottom 10 States with Percent State Roads in "Good" Condition versus State and Local Tax Burdern**



Source: TN Comptroller of the Treasury, Tax Foundation

though this will require new legislation each year."[22] Full repeal would be mandatory by January 1, 2022. But, if the legislature failed to take action, the rate would remain at five percent until January 1, 2022. This legislation established that:

> *In any year, beginning with FY14-15, in which state revenue growth exceeds three percent over the previous fiscal year, the Hall Income Tax (HIT) rate will be reduced by one percentage point on January 1 for the following calendar year; except that when the rate is reduced to three percent and in the event state revenue growth exceeds three percent over the previous fiscal year after such reduced rate becomes effective, then the subsequent reduction to the rate shall be three-fourths of one percent.*[23]

The fiscal note estimated the fiscal impact of this reduction based on this intended phase-in.

Despite last year's Hall Tax phase-out legislation, the fiscal note for the recently passed IMPROVE Act attributes approximately $815 million in decreased taxes to the Hall Tax phase-out. The fiscal note assumes that "under current law, the HIT rate would remain at five percent until it is fully eliminated for tax years that begin on or after January 1, 2022."[24] The IMPROVE Act eliminates the Hall Tax for tax years beginning January 1, 2021, with a series of 1 percent reductions retroactive to January 1, 2017. In short, the fiscal note assumes that the legislature would NOT have followed the legislative intent expressed in the prior year's legislation. This assumption was made despite the fact revenues in the fiscal year ending June 2015 exceeded the prior by 7.24 percent, and revenues in the fiscal year ending June 2016 exceeded the prior by 5.13 percent. Counting the Hall Tax phase-out as tax savings arguably amounts to double-counting tax cut benefits, considering the fiscal note from last year's phase-out legislation.

According to the fiscal note estimates, after full phase-in of the tax hikes and phase-out of the Hall Tax, annual revenues will increase by $109 million annually. This exceeds $1 billion over the 10 year period beginning in 2022-2023. If we do not attribute the phase-out of the Hall Tax to the current legislation, we reach approximately $900 million in the 10-year period beginning this fiscal year. In other words, no matter how you attribute the Hall Tax, the IMPROVE Act becomes a net tax increase by 2022-2023. In addition, the fiscal note clearly warns, "authorizing local governments…to levy a surcharge on the same privileges subject to the taxes specified in the Act, could result in a significant fiscal impact to state and local government. State and local revenue could increase as a result of additional surcharges imposed on taxpayers…"[25]

Of course, the 10-year estimate of the fiscal note, which shows just an $83 million net revenue increase over the period, paints an incomplete picture. First, these estimates attribute Hall Tax phase-out savings to the IMPROVE Act, although prior legislative intent specified a similar phase-out. Second, beginning in 2022-2023, the legislation results in increased revenues of $109 million annually.

And more spending is on the horizon. The legislature has granted the Tennessee governor's wishes with increased public employees' salaries, increased funding for Tennessee's version of Obamacare called TennCare, and increased school spending on school administrators.[26] In 2013, the growth rate in the number of administrators outpaced the growth rate in teachers by 2 to 1 and outpaced the growth rate in students by almost 5 to 1.[27] While Tennessee has been improving at an exceptional clip in K-12 education, dedicating a higher share of resources to public school bureaucracy could slow that progress. If Tennessee wants to continue its remarkable path of educational improvement, their best option is universal school choice, which has been incredibly successful wherever it has been used.

It's amazing how so many politicians in this country find it easy to justify spending other people's money. Tennessee has been performing exceptionally well, and its pro-growth policies are the main driver. Why has the state government changed the equation? It works just fine as it is. We hope that this most recent legislation will be an exception to the rule. Tennessee has a bright future if it can simply stay the course.

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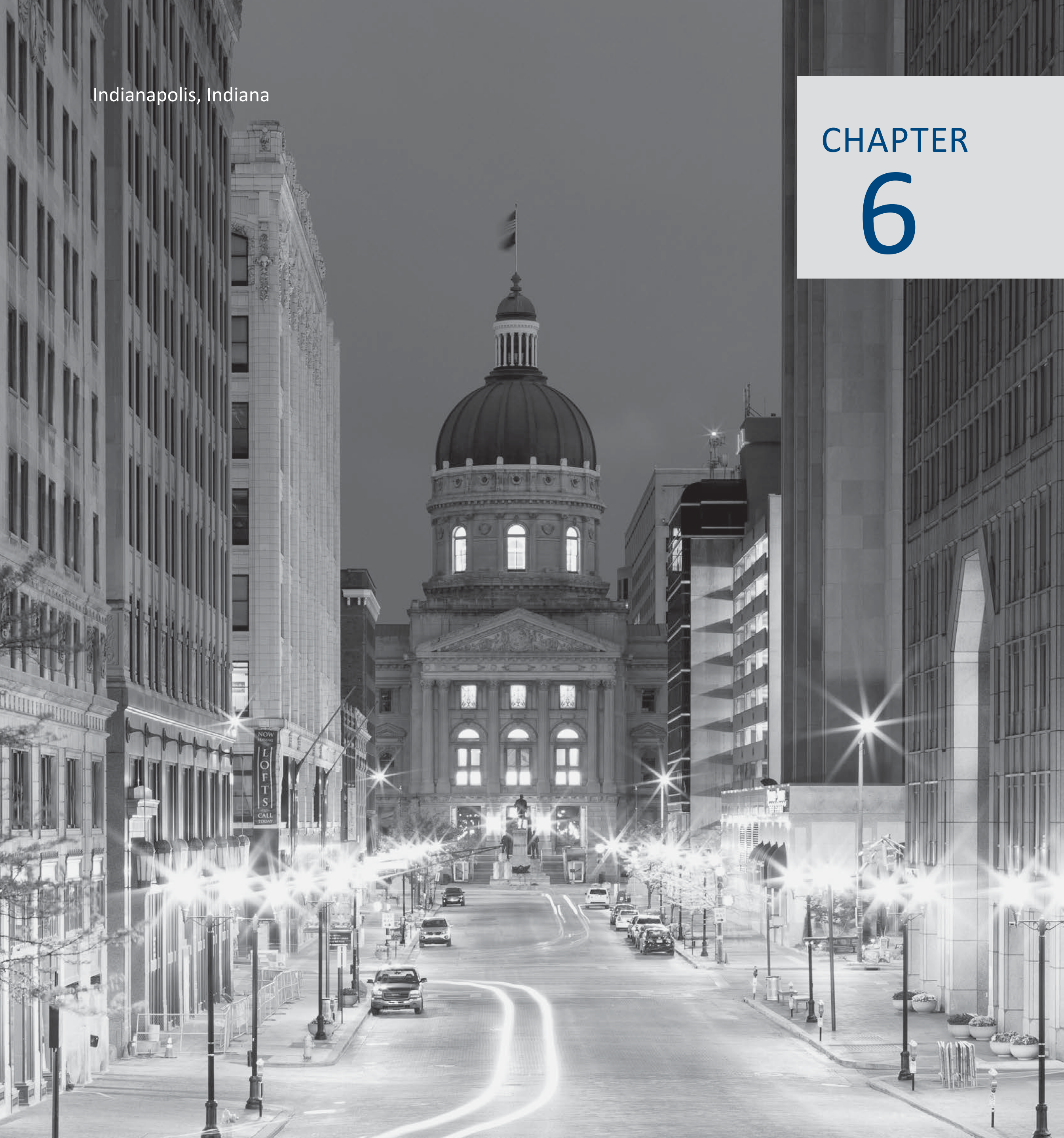


Indianapolis, Indiana

CHAPTER 6

State Rankings

State Rankings

The Economic Outlook Ranking is a forecast based on a state's current standing in 15 state policy variables. Each of these factors is influenced directly by state lawmakers through the legislative process. Generally speaking, states that spend less—especially on income transfer programs—and states that tax less—particularly on productive activities such as working or investing—experience higher growth rates than states that tax and spend more.

The Economic Performance Ranking is a backward-looking measure based on a state's performance on three important variables: State Gross Domestic Product, Absolute Domestic Migration and Non-Farm Payroll Employment—all of which are highly influenced by state policy. This ranking details states' individual performances over the past 10 years based on this economic data.

ALEC-Laffer State Economic Outlook Rankings, 2017

Based upon equal-weighting of each state's rank in 15 policy variables

Rank	State	Rank	State
1	Utah	26	Kansas
2	Indiana	27	South Carolina
3	North Carolina	28	Louisiana
4	North Dakota	29	Iowa
5	Tennessee	30	Alaska
6	Florida	31	West Virginia
7	Wyoming	32	Nebraska
8	Arizona	33	Kentucky
9	Texas	34	Maryland
10	Idaho	35	New Mexico
11	Virginia	36	Rhode Island
12	South Dakota	37	Delaware
13	Nevada	38	Pennsylvania
14	Wisconsin	39	Montana
15	Colorado	40	Washington
16	Oklahoma	41	Oregon
17	Georgia	42	Maine
18	New Hampshire	43	Hawaii
19	Ohio	44	Illinois
20	Michigan	45	Minnesota
21	Alabama	46	Connecticut
22	Mississippi	47	California
23	Arkansas	48	New Jersey
24	Missouri	49	Vermont
25	Massachusetts	50	New York

ALEC-Laffer State Economic Performance Rankings, 2005-2015

Rank	State	State Gross Domestic Product	Absolute Domestic Migration	Non-Farm Payroll
1	Texas	2	1	2
2	North Dakota	1	16	1
3	Washington	6	8	5
4	Utah	3	14	3
5	Colorado	12	6	4
6	Oklahoma	7	12	16
7	Oregon	9	10	17
8	South Dakota	5	23	8
9	North Carolina	22	3	13
10	Montana	8	18	12
11	South Carolina	18	7	15
12	Idaho	20	15	7
13	Nebraska	4	30	14
14	Wyoming	10	21	18
15	Tennessee	21	9	21
16	Georgia	38	5	20
17	Iowa	13	28	22
18	Massachusetts	14	40	11
19	Arizona	40	4	27
20	Kansas	11	35	25
21	Alaska	31	31	9
22	Florida	43	2	29
23	Virginia	28	22	24
24	New York	17	50	10
25	Kentucky	27	20	31
26	Hawaii	24	33	23
27	West Virginia	19	24	38
28	Arkansas	32	17	33
29	California	15	49	19
30	Delaware	36	19	30
31	Minnesota	26	37	26
32	Maryland	23	42	28
33	Indiana	25	34	34
34	Pennsylvania	16	41	36
35	New Hampshire	37	25	32
36	Louisiana	48	44	6
37	Nevada	50	11	40
38	Vermont	41	27	35
39	Alabama	42	13	48
40	Wisconsin	29	39	37
41	Missouri	33	32	41
42	New Mexico	44	29	42
43	Mississippi	35	38	43
44	Illinois	30	48	39
45	Maine	45	26	47
46	Ohio	34	45	45
47	New Jersey	39	46	46
48	Rhode Island	46	36	49
49	Connecticut	47	43	44
50	Michigan	49	47	50

Alabama

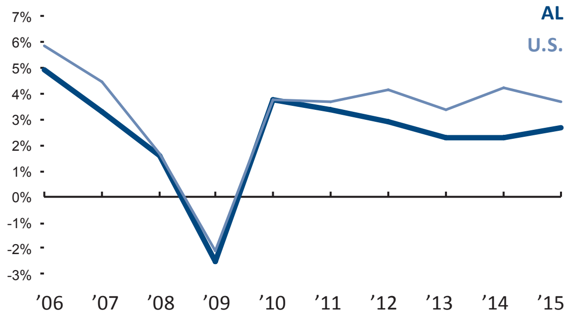
2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

39 Economic Performance Rank

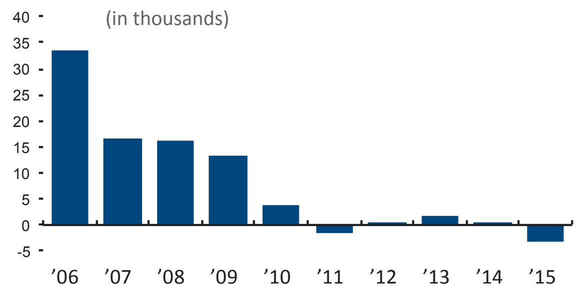
21 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

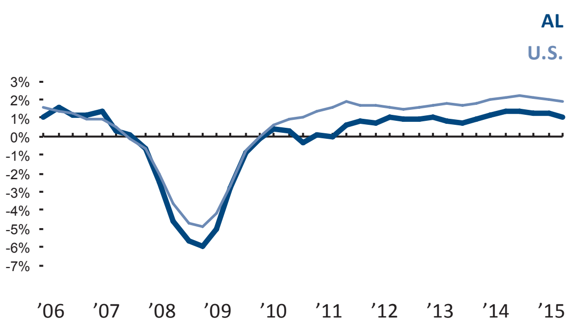
State Gross Domestic Product
Cumulative Growth 2005-2015 27.4% Rank: 42



Absolute Domestic Migration
Cumulative 2006-2015 81,672 Rank: 13



Non-Farm Payroll Employment
Cumulative Growth 2005-2015 -0.4% Rank: 48



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	17	20	21	17	20	19	21

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	4.02%	13
Top Marginal Corporate Income Tax Rate	4.23%	7
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	-$2.18	1
Property Tax Burden (per $1,000 of personal income)	$14.44	2
Sales Tax Burden (per $1,000 of personal income)	$24.67	31
Remaining Tax Burden (per $1,000 of personal income)	$22.07	39
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	-$0.05	21
Debt Service as a Share of Tax Revenue	8.7%	33
Public Employees Per 10,000 of Population (full-time equivalent)	580.9	40
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	55.1	46
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.85	26
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	0	34

Alaska

2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

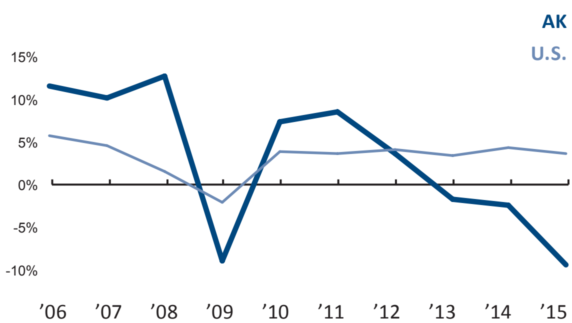
21 Economic Performance Rank

30 Economic Outlook Rank

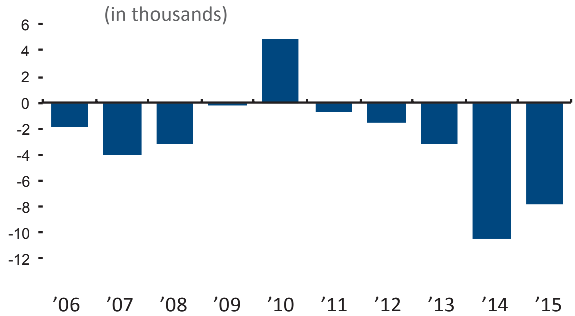
Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

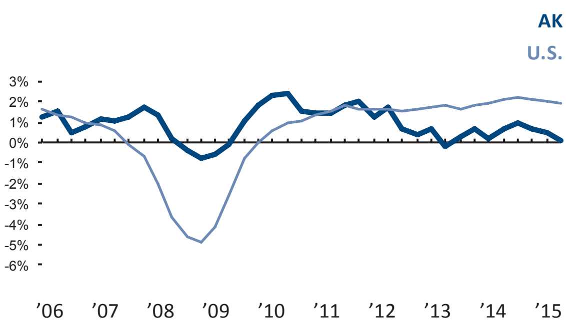
State Gross Domestic Product
Cumulative Growth 2005-2015 31.7% Rank: 31



Absolute Domestic Migration
Cumulative 2006-2015 -28,058 Rank: 31



Non-Farm Payroll Employment
Cumulative Growth 2005-2015 9.2% Rank: 9



Historical Ranking Comparison

	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	22	29	29	21	18	14	25

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	0.00%	1
Top Marginal Corporate Income Tax Rate	9.40%	44
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$0.00	2
Property Tax Burden (per $1,000 of personal income)	$49.97	47
Sales Tax Burden (per $1,000 of personal income)	$5.60	5
Remaining Tax Burden (per $1,000 of personal income)	$13.86	7
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	$0.18	31
Debt Service as a Share of Tax Revenue	8.2%	30
Public Employees Per 10,000 of Population (full-time equivalent)	729.9	49
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	68.1	12
State Minimum Wage (federal floor is $7.25)	$9.80	44
Average Workers' Compensation Costs (per $100 of payroll)	$2.74	46
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	1	15

Arizona

2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

19 Economic Performance Rank

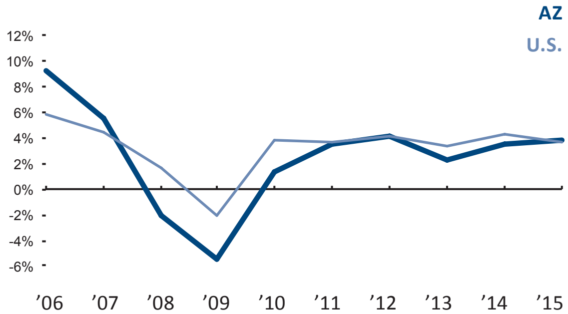
8 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)

A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

State Gross Domestic Product

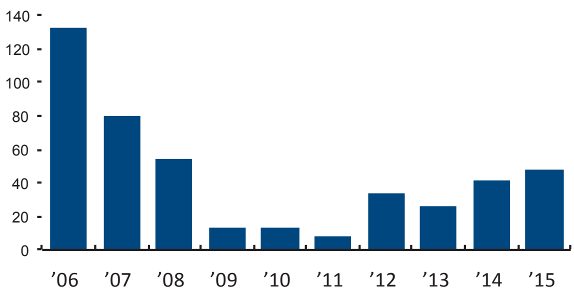
Cumulative Growth 2005-2015 27.9% Rank: 40



Absolute Domestic Migration

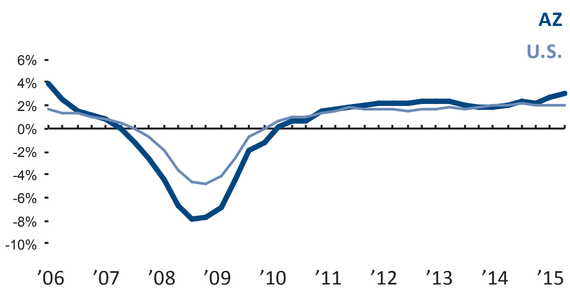
Cumulative 2006-2015 450,976 Rank: 4

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2005-2015 4.5% Rank: 27



Economic Outlook Rank (1=best 50=worst)

A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	**3**	**12**	**9**	**6**	**7**	**5**	**5**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	4.54%	14
Top Marginal Corporate Income Tax Rate	4.90%	10
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$10.64	32
Property Tax Burden (per $1,000 of personal income)	$26.71	18
Sales Tax Burden (per $1,000 of personal income)	$35.89	44
Remaining Tax Burden (per $1,000 of personal income)	$11.65	2
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	-$0.15	16
Debt Service as a Share of Tax Revenue	8.7%	34
Public Employees Per 10,000 of Population (full-time equivalent)	418.2	2
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	65.4	25
State Minimum Wage (federal floor is $7.25)	$10.00	45
Average Workers' Compensation Costs (per $100 of payroll)	$1.50	13
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	2	3

Arkansas

2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

28 Economic Performance Rank

23 Economic Outlook Rank

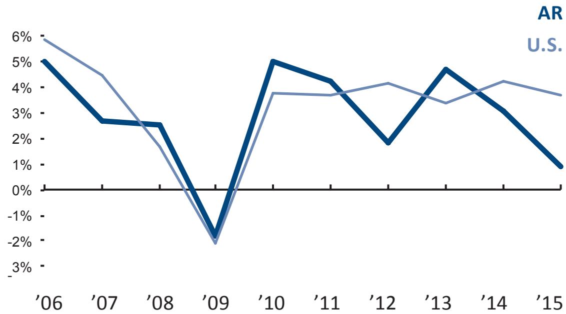
Economic Performance Rank (1=best 50=worst)

A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

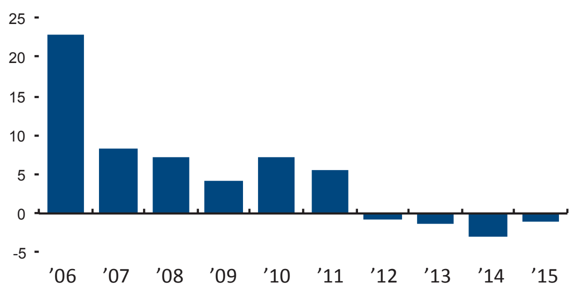
Economic Outlook Rank (1=best 50=worst)

A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

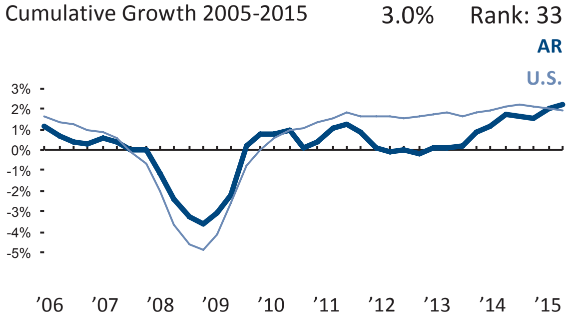
State Gross Domestic Product
Cumulative Growth 2005-2015 31.7% Rank: 32



Absolute Domestic Migration
Cumulative 2006-2015 49,414 Rank: 17
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2005-2015 3.0% Rank: 33



Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	13	13	11	24	26	22	20

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	6.90%	31
Top Marginal Corporate Income Tax Rate	6.50%	22
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$16.56	43
Property Tax Burden (per $1,000 of personal income)	$18.45	3
Sales Tax Burden (per $1,000 of personal income)	$38.49	48
Remaining Tax Burden (per $1,000 of personal income)	$17.13	24
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	-$0.25	12
Debt Service as a Share of Tax Revenue	4.8%	8
Public Employees Per 10,000 of Population (full-time equivalent)	571.0	39
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	57.7	41
State Minimum Wage (federal floor is $7.25)	$8.50	31
Average Workers' Compensation Costs (per $100 of payroll)	$1.06	3
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	1	15

California

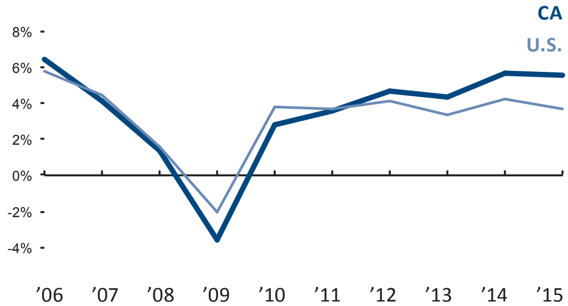
2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

29 Economic Performance Rank

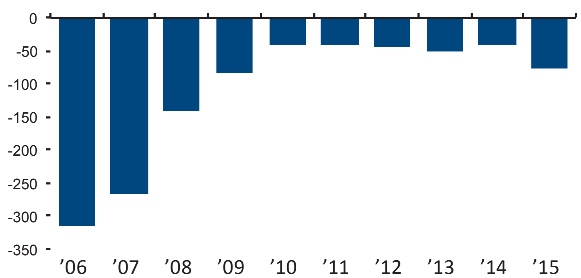
47 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

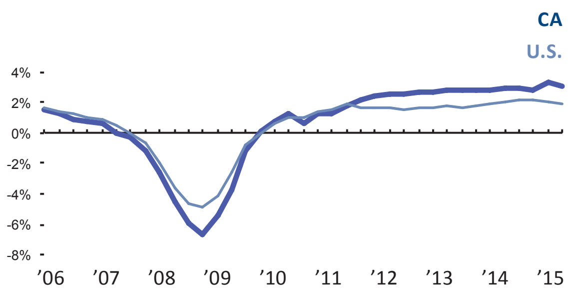
State Gross Domestic Product
Cumulative Growth 2005-2015 40.5% Rank: 15



Absolute Domestic Migration
Cumulative 2006-2015 -1,103,301 Rank: 49
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2005-2015 7.2% Rank: 19



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	46	47	38	47	47	44	46

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	13.30%	50
Top Marginal Corporate Income Tax Rate	8.84%	40
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$38.22	50
Property Tax Burden (per $1,000 of personal income)	$28.06	20
Sales Tax Burden (per $1,000 of personal income)	$25.28	33
Remaining Tax Burden (per $1,000 of personal income)	$16.89	22
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	$0.36	33
Debt Service as a Share of Tax Revenue	9.1%	41
Public Employees Per 10,000 of Population (full-time equivalent)	453.5	6
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	49.9	47
State Minimum Wage (federal floor is $7.25)	$10.50	48
Average Workers' Compensation Costs (per $100 of payroll)	$3.24	50
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	2	3

Colorado

2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

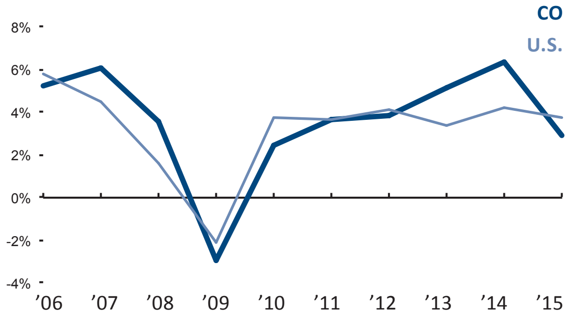
5 Economic Performance Rank

15 Economic Outlook Rank

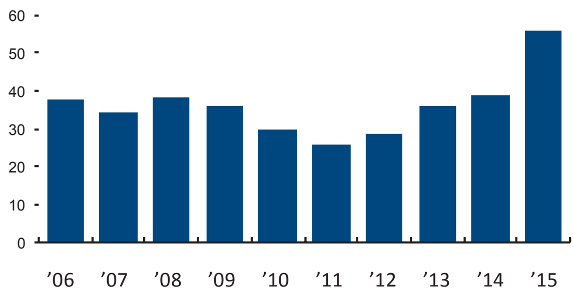
Economic Performance Rank (1=best 50=worst)

A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

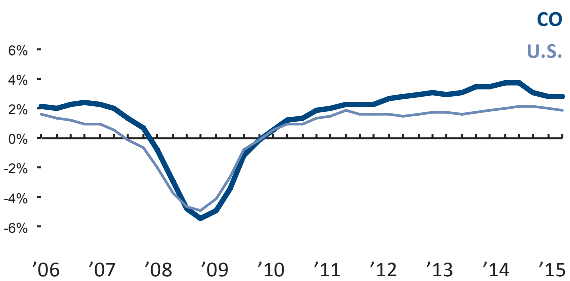
State Gross Domestic Product
Cumulative Growth 2005-2015 42.3% Rank: 12



Absolute Domestic Migration
Cumulative 2006-2015 362,153 Rank: 6
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2005-2015 14.4% Rank: 4



Economic Outlook Rank (1=best 50=worst)

A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	**2**	**6**	**8**	**16**	**22**	**21**	**16**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	4.63%	16
Top Marginal Corporate Income Tax Rate	4.63%	9
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$6.42	21
Property Tax Burden (per $1,000 of personal income)	$28.55	23
Sales Tax Burden (per $1,000 of personal income)	$23.55	29
Remaining Tax Burden (per $1,000 of personal income)	$13.28	6
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	$0.02	27
Debt Service as a Share of Tax Revenue	10.9%	48
Public Employees Per 10,000 of Population (full-time equivalent)	518.1	20
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	67.8	16
State Minimum Wage (federal floor is $7.25)	$9.30	39
Average Workers' Compensation Costs (per $100 of payroll)	$1.56	16
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	3	1

Connecticut

2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

49 Economic Performance Rank

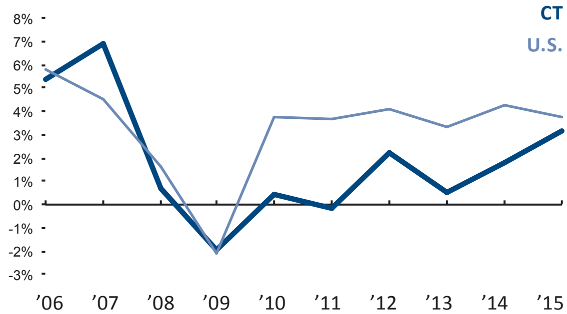
46 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)

A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

State Gross Domestic Product

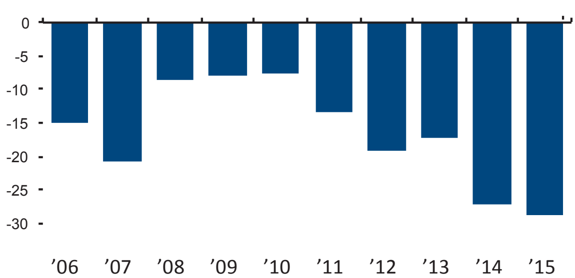
Cumulative Growth 2005-2015 20.3% Rank: 47



Absolute Domestic Migration

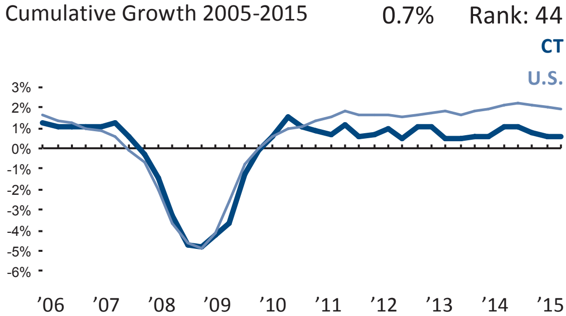
Cumulative 2006-2015 -165,489 Rank: 43

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2005-2015 0.7% Rank: 44



Economic Outlook Rank (1=best 50=worst)

A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	**36**	**35**	**44**	**43**	**44**	**47**	**47**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	6.99%	34
Top Marginal Corporate Income Tax Rate	9.00%	42
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$7.67	28
Property Tax Burden (per $1,000 of personal income)	$42.53	43
Sales Tax Burden (per $1,000 of personal income)	$16.98	12
Remaining Tax Burden (per $1,000 of personal income)	$15.81	16
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	$3.51	47
Debt Service as a Share of Tax Revenue	7.1%	20
Public Employees Per 10,000 of Population (full-time equivalent)	534.5	29
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	65.9	22
State Minimum Wage (federal floor is $7.25)	$10.10	47
Average Workers' Compensation Costs (per $100 of payroll)	$2.74	46
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	1	15

Delaware

2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

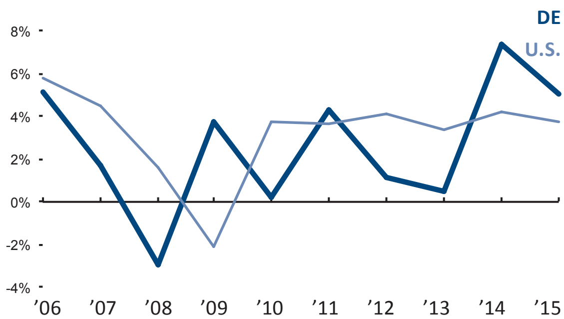
30 Economic Performance Rank

37 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

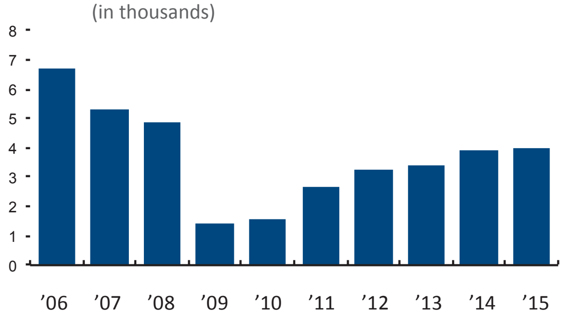
Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

State Gross Domestic Product
Cumulative Growth 2005-2015 29.1% Rank: 36

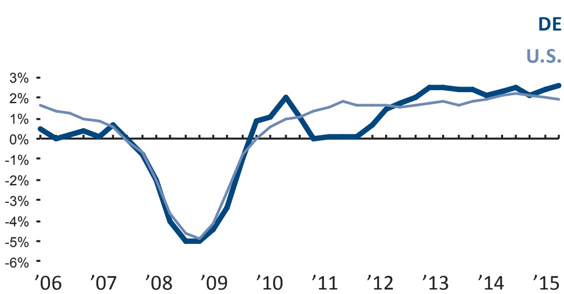


Absolute Domestic Migration
Cumulative 2006-2015 36,998 Rank: 19

(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2005-2015 4.0% Rank: 30



Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	37	34	34	30	27	38	44

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	7.85%	40
Top Marginal Corporate Income Tax Rate	11.69%	48
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$15.10	39
Property Tax Burden (per $1,000 of personal income)	$18.73	4
Sales Tax Burden (per $1,000 of personal income)	$0.00	1
Remaining Tax Burden (per $1,000 of personal income)	$47.57	50
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	-$0.18	13
Debt Service as a Share of Tax Revenue	10.7%	47
Public Employees Per 10,000 of Population (full-time equivalent)	522.6	23
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	76.5	1
State Minimum Wage (federal floor is $7.25)	$8.25	27
Average Workers' Compensation Costs (per $100 of payroll)	$2.32	45
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	2	3

Florida

2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

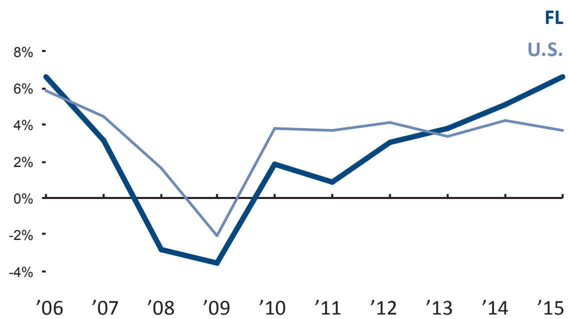
22 Economic Performance Rank

6 Economic Outlook Rank

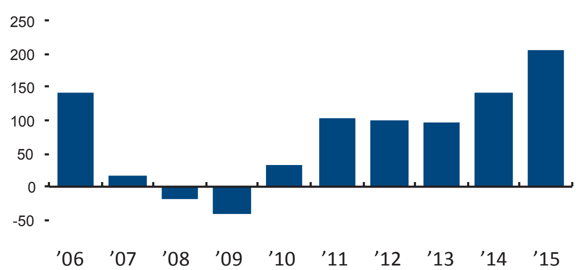
Economic Performance Rank (1=best 50=worst)

A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

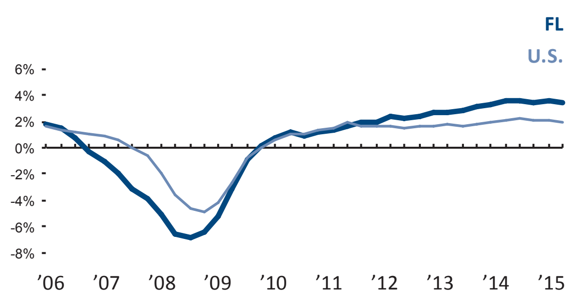
State Gross Domestic Product
Cumulative Growth 2005-2015 26.8% Rank: 43



Absolute Domestic Migration
Cumulative 2006-2015 779,441 Rank: 2
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2005-2015 4.0% Rank: 29



Economic Outlook Rank (1=best 50=worst)

A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	5	10	13	9	16	15	8

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	0.00%	1
Top Marginal Corporate Income Tax Rate	5.50%	15
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$0.00	2
Property Tax Burden (per $1,000 of personal income)	$28.63	24
Sales Tax Burden (per $1,000 of personal income)	$28.33	36
Remaining Tax Burden (per $1,000 of personal income)	$20.80	34
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	-$0.47	10
Debt Service as a Share of Tax Revenue	9.0%	39
Public Employees Per 10,000 of Population (full-time equivalent)	432.3	3
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	56.0	44
State Minimum Wage (federal floor is $7.25)	$8.10	24
Average Workers' Compensation Costs (per $100 of payroll)	$1.66	18
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	2	3

Georgia

2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

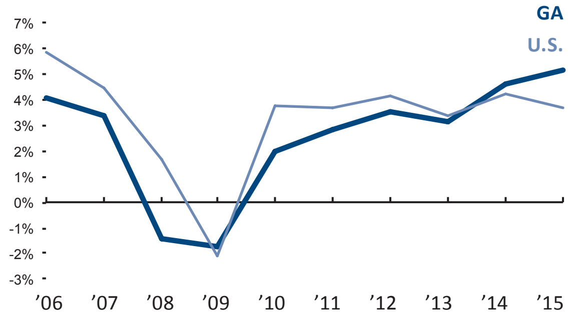
16 Economic Performance Rank

17 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

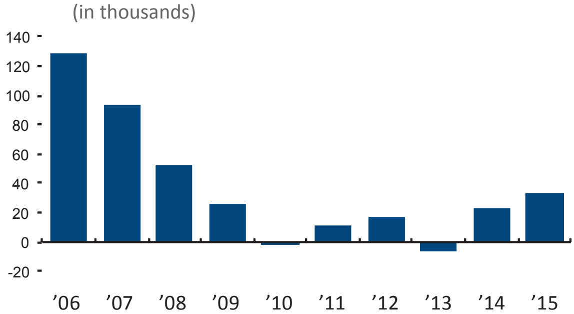
Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

State Gross Domestic Product
Cumulative Growth 2005-2015 28.2% Rank: 38

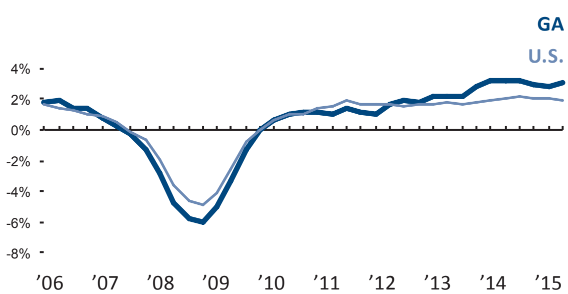


Absolute Domestic Migration
Cumulative 2006-2015 378,095 Rank: 5

(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2005-2015 6.3% Rank: 20



Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	**9**	**11**	**10**	**8**	**9**	**7**	**19**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	6.00%	27
Top Marginal Corporate Income Tax Rate	6.00%	16
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$6.53	23
Property Tax Burden (per $1,000 of personal income)	$28.90	25
Sales Tax Burden (per $1,000 of personal income)	$23.34	28
Remaining Tax Burden (per $1,000 of personal income)	$11.42	1
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	$1.63	44
Debt Service as a Share of Tax Revenue	7.3%	22
Public Employees Per 10,000 of Population (full-time equivalent)	495.7	15
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	62.4	31
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.80	24
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	0	34

Hawaii

2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

26 Economic Performance Rank

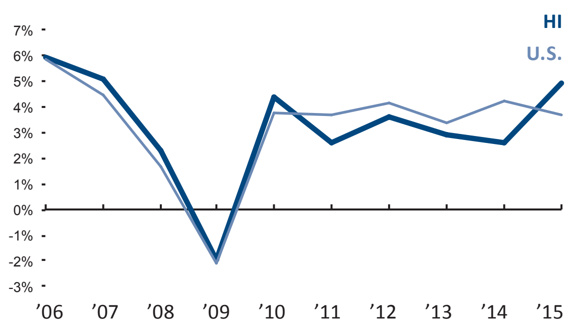
43 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)

A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

State Gross Domestic Product

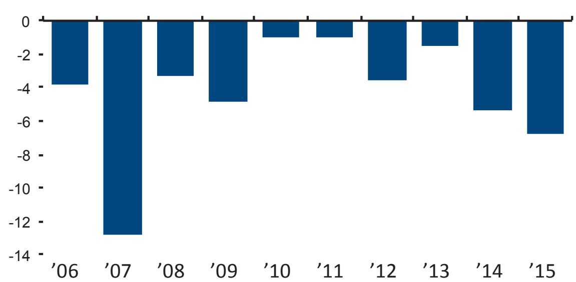
Cumulative Growth 2005-2015 37.2% Rank: 24



Absolute Domestic Migration

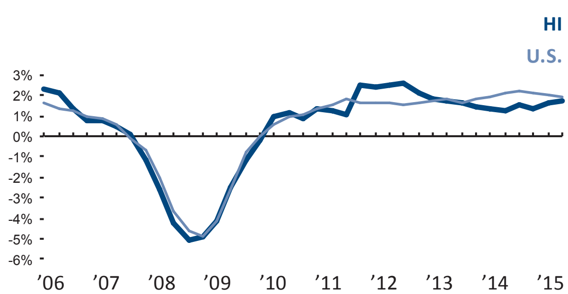
Cumulative 2006-2015 -43,856 Rank: 33

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2005-2015 5.5% Rank: 23



Economic Outlook Rank (1=best 50=worst)

A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	39	46	46	40	36	37	42

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	8.25%	42
Top Marginal Corporate Income Tax Rate	6.40%	21
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$13.54	36
Property Tax Burden (per $1,000 of personal income)	$21.69	10
Sales Tax Burden (per $1,000 of personal income)	$47.43	50
Remaining Tax Burden (per $1,000 of personal income)	$27.99	46
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	-$1.01	7
Debt Service as a Share of Tax Revenue	7.4%	26
Public Employees Per 10,000 of Population (full-time equivalent)	524.5	24
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	62.8	30
State Minimum Wage (federal floor is $7.25)	$9.25	38
Average Workers' Compensation Costs (per $100 of payroll)	$1.96	34
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	1	15

Idaho

2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

12 Economic Performance Rank

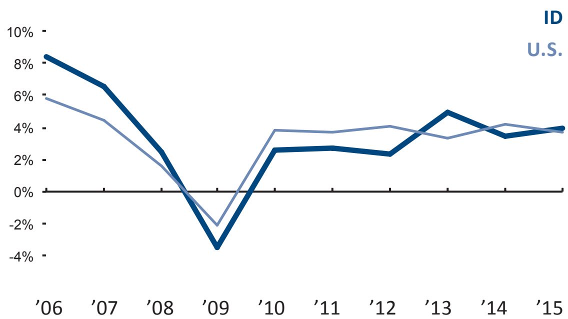
10 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)

A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

State Gross Domestic Product

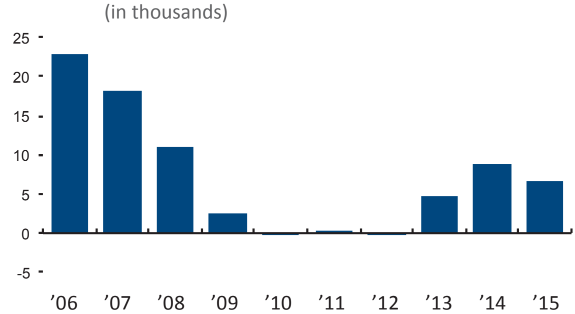
Cumulative Growth 2005-2015 38.9% Rank: 20



Absolute Domestic Migration

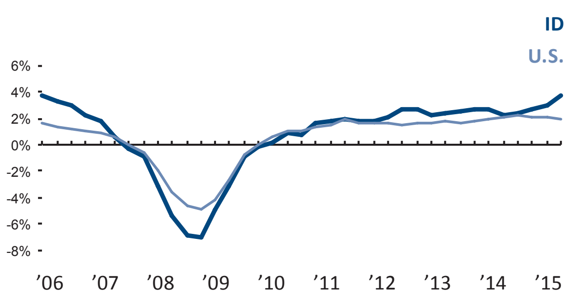
Cumulative 2006-2015 74,832 Rank: 15

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2005-2015 10.1% Rank: 7



Economic Outlook Rank (1=best 50=worst)

A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	7	5	6	7	5	6	15

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	7.40%	37
Top Marginal Corporate Income Tax Rate	7.40%	29
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$13.61	37
Property Tax Burden (per $1,000 of personal income)	$25.68	16
Sales Tax Burden (per $1,000 of personal income)	$23.27	26
Remaining Tax Burden (per $1,000 of personal income)	$14.62	10
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	$0.25	32
Debt Service as a Share of Tax Revenue	4.7%	5
Public Employees Per 10,000 of Population (full-time equivalent)	485.3	12
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	70.5	6
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.79	23
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	1	15

Illinois

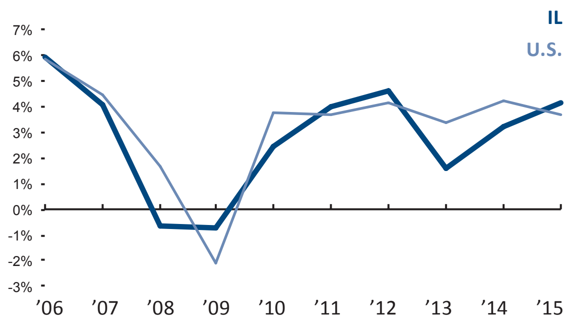
2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

44 Economic Performance Rank

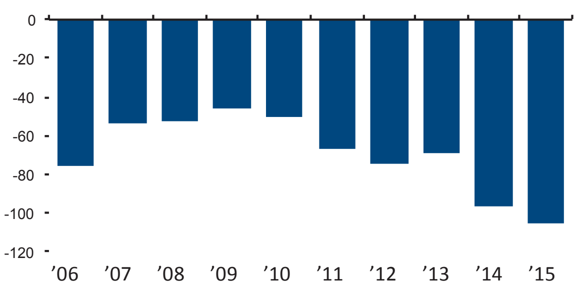
44 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

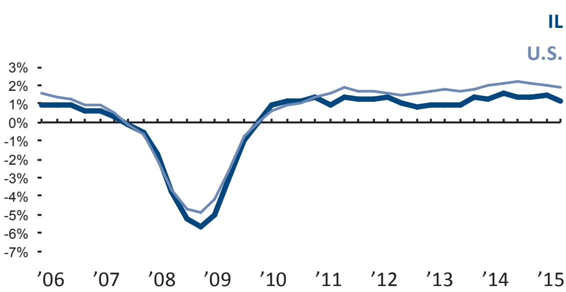
State Gross Domestic Product
Cumulative Growth 2005-2015 32.5% Rank: 30



Absolute Domestic Migration
Cumulative 2006-2015 -690,578 Rank: 48
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2005-2015 1.6% Rank: 39



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	47	44	48	48	48	40	43

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	3.75%	12
Top Marginal Corporate Income Tax Rate	7.75%	31
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$1.09	14
Property Tax Burden (per $1,000 of personal income)	$42.25	42
Sales Tax Burden (per $1,000 of personal income)	$16.42	10
Remaining Tax Burden (per $1,000 of personal income)	$22.62	41
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	$0.00	25
Debt Service as a Share of Tax Revenue	9.8%	43
Public Employees Per 10,000 of Population (full-time equivalent)	488.3	13
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	48.0	48
State Minimum Wage (federal floor is $7.25)	$8.25	27
Average Workers' Compensation Costs (per $100 of payroll)	$2.23	43
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	0	34

Indiana

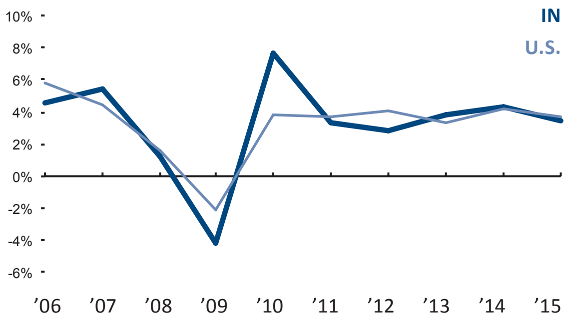
2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

33 Economic Performance Rank

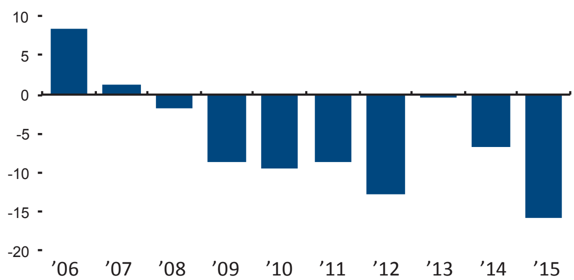
2 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

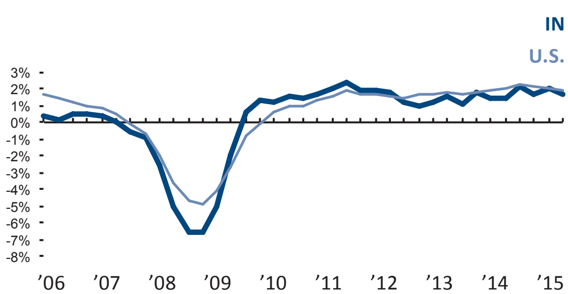
State Gross Domestic Product
Cumulative Growth 2005-2015 37.1% Rank: 25



Absolute Domestic Migration
Cumulative 2006-2015 -54,159 Rank: 34
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2005-2015 2.7% Rank: 34



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	**20**	**16**	**24**	**14**	**3**	**3**	**6**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	5.00%	18
Top Marginal Corporate Income Tax Rate	6.25%	20
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$0.67	13
Property Tax Burden (per $1,000 of personal income)	$24.59	14
Sales Tax Burden (per $1,000 of personal income)	$26.90	34
Remaining Tax Burden (per $1,000 of personal income)	$16.93	23
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	-$1.72	4
Debt Service as a Share of Tax Revenue	9.0%	40
Public Employees Per 10,000 of Population (full-time equivalent)	485.1	11
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	67.7	18
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.05	2
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	1	15

Iowa

2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

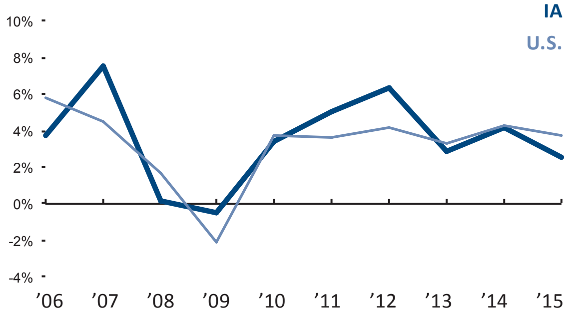
17 Economic Performance Rank

29 Economic Outlook Rank

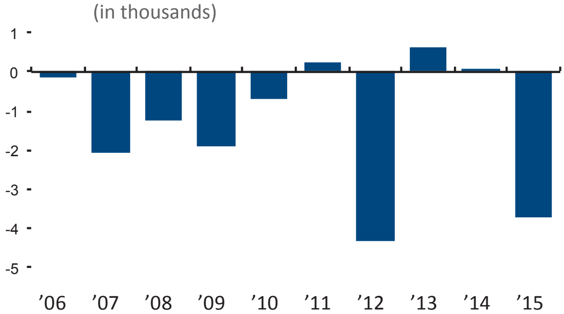
Economic Performance Rank (1=best 50=worst)

A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

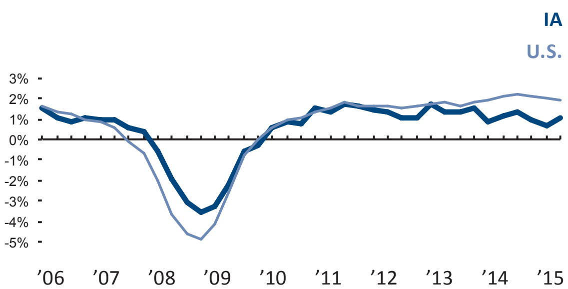
State Gross Domestic Product
Cumulative Growth 2005-2015 41.1% Rank: 13



Absolute Domestic Migration
Cumulative 2006-2015 -13,141 Rank: 28



Non-Farm Payroll Employment
Cumulative Growth 2005-2015 5.5% Rank: 22



Economic Outlook Rank (1=best 50=worst)

A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	**28**	**23**	**22**	**25**	**25**	**25**	**29**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	5.42%	23
Top Marginal Corporate Income Tax Rate	9.90%	46
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$11.86	33
Property Tax Burden (per $1,000 of personal income)	$35.04	35
Sales Tax Burden (per $1,000 of personal income)	$21.86	21
Remaining Tax Burden (per $1,000 of personal income)	$17.38	25
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	$1.52	43
Debt Service as a Share of Tax Revenue	4.8%	6
Public Employees Per 10,000 of Population (full-time equivalent)	583.6	41
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	72.2	4
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.86	27
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	1	15

Kansas

2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

20 Economic Performance Rank

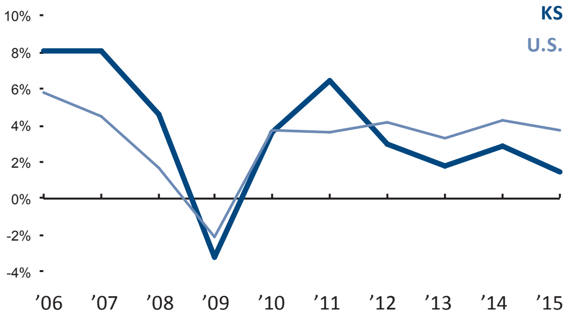
26 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)

A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

State Gross Domestic Product

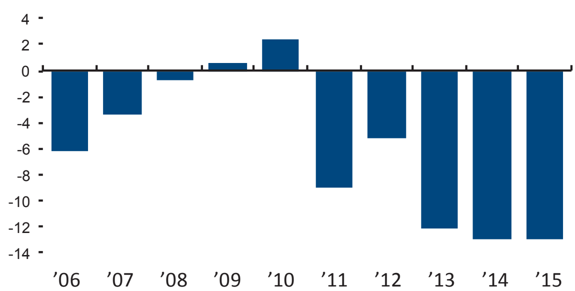
Cumulative Growth 2005-2015 42.7% Rank: 11



Absolute Domestic Migration

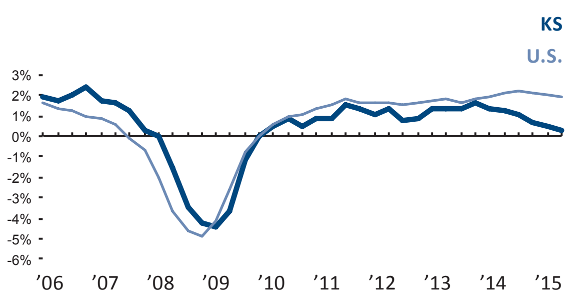
Cumulative 2006-2015 -59,710 Rank: 35

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2005-2015 4.7% Rank: 25



Economic Outlook Rank (1=best 50=worst)

A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	25	27	26	11	15	18	27

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	4.60%	15
Top Marginal Corporate Income Tax Rate	7.00%	27
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$7.02	25
Property Tax Burden (per $1,000 of personal income)	$31.23	32
Sales Tax Burden (per $1,000 of personal income)	$29.24	38
Remaining Tax Burden (per $1,000 of personal income)	$12.53	3
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	$2.66	46
Debt Service as a Share of Tax Revenue	7.9%	29
Public Employees Per 10,000 of Population (full-time equivalent)	669.8	48
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	67.6	19
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.41	10
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	0	34

Kentucky

2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

25 Economic Performance Rank

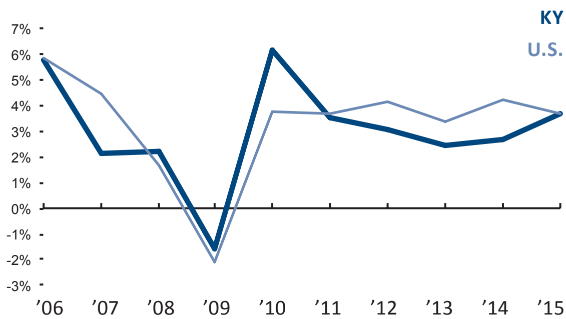
33 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)

A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

State Gross Domestic Product

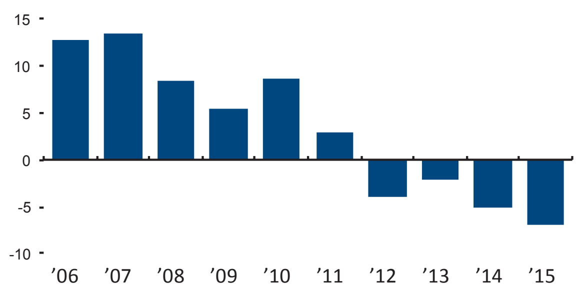
Cumulative Growth 2005-2015 34.3% Rank: 27



Absolute Domestic Migration

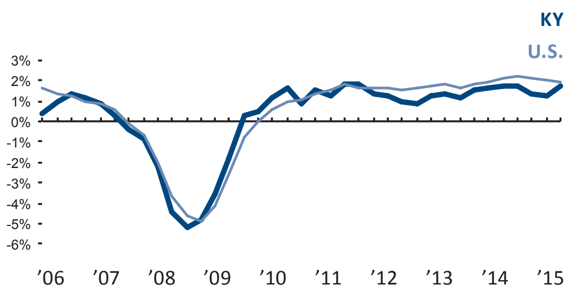
Cumulative 2006-2015 33,698 Rank: 20

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2005-2015 3.8% Rank: 31



Economic Outlook Rank (1=best 50=worst)

A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	40	40	39	38	39	30	33

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	8.20%	41
Top Marginal Corporate Income Tax Rate	8.20%	36
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$5.47	19
Property Tax Burden (per $1,000 of personal income)	$20.40	6
Sales Tax Burden (per $1,000 of personal income)	$19.63	16
Remaining Tax Burden (per $1,000 of personal income)	$21.85	38
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	-$0.03	23
Debt Service as a Share of Tax Revenue	11.2%	50
Public Employees Per 10,000 of Population (full-time equivalent)	549.6	34
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	59.0	39
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.52	15
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	1	15

Louisiana

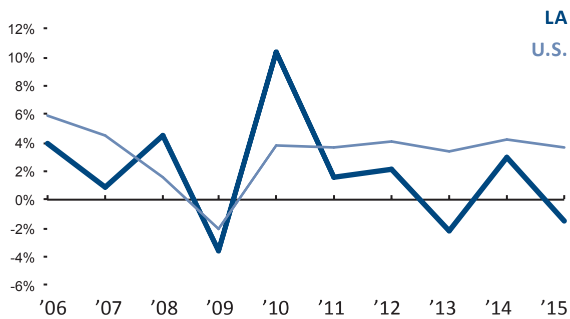
2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

36 Economic Performance Rank

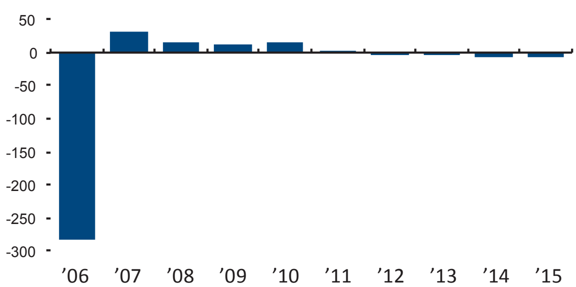
28 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

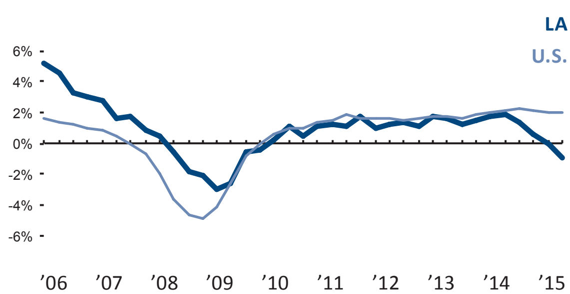
State Gross Domestic Product
Cumulative Growth 2005-2015 19.8% Rank: 48



Absolute Domestic Migration
Cumulative 2006-2015 -223,156 Rank: 44
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2005-2015 10.8% Rank: 6



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	16	15	19	28	29	26	28

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	3.62%	11
Top Marginal Corporate Income Tax Rate	5.20%	14
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$10.15	30
Property Tax Burden (per $1,000 of personal income)	$20.60	7
Sales Tax Burden (per $1,000 of personal income)	$36.63	46
Remaining Tax Burden (per $1,000 of personal income)	$16.65	21
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	$10.89	50
Debt Service as a Share of Tax Revenue	8.8%	35
Public Employees Per 10,000 of Population (full-time equivalent)	555.1	35
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	46.5	49
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.11	41
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	2	3

Maine

2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

45 Economic Performance Rank

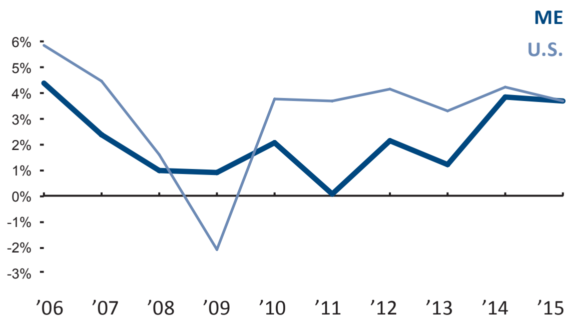
42 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)

A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

State Gross Domestic Product

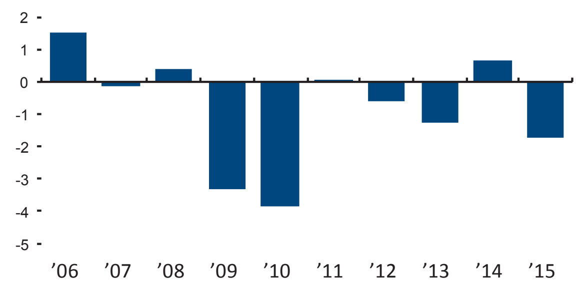
Cumulative Growth 2005-2015 23.8% Rank: 45



Absolute Domestic Migration

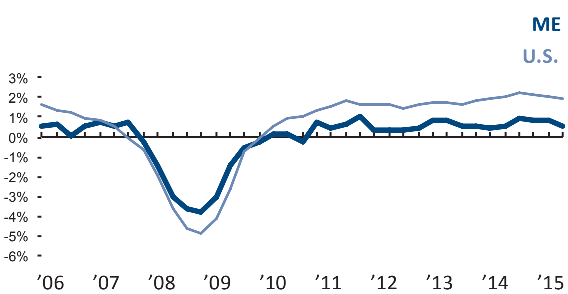
Cumulative 2006-2015 -8,264 Rank: 26

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2005-2015 -0.3% Rank: 47



Economic Outlook Rank (1=best 50=worst)

A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	44	48	47	41	40	42	38

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	10.15%	47
Top Marginal Corporate Income Tax Rate	8.93%	41
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$19.01	47
Property Tax Burden (per $1,000 of personal income)	$47.66	45
Sales Tax Burden (per $1,000 of personal income)	$22.31	24
Remaining Tax Burden (per $1,000 of personal income)	$19.63	31
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	-$1.02	6
Debt Service as a Share of Tax Revenue	5.2%	9
Public Employees Per 10,000 of Population (full-time equivalent)	529.2	25
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	68.0	14
State Minimum Wage (federal floor is $7.25)	$9.00	36
Average Workers' Compensation Costs (per $100 of payroll)	$2.02	37
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	1	15

Maryland

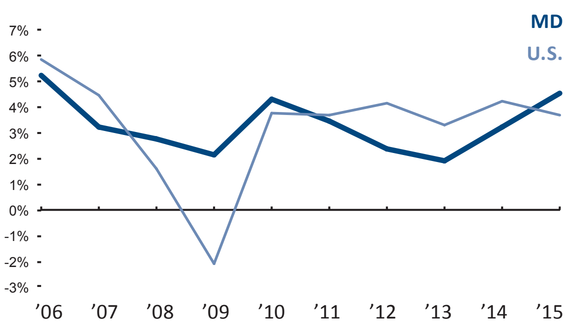
2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

32 Economic Performance Rank

34 Economic Outlook Rank

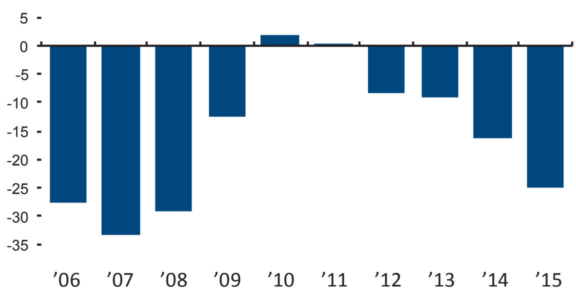
Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

State Gross Domestic Product
Cumulative Growth 2005-2015 38.5% Rank: 23

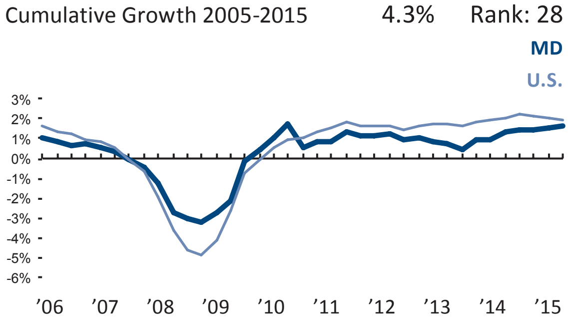


Absolute Domestic Migration
Cumulative 2006-2015 -158,444 Rank: 42

(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2005-2015 4.3% Rank: 28



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	29	21	20	35	34	33	31

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	8.95%	43
Top Marginal Corporate Income Tax Rate	8.25%	38
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$5.03	18
Property Tax Burden (per $1,000 of personal income)	$28.19	22
Sales Tax Burden (per $1,000 of personal income)	$13.28	8
Remaining Tax Burden (per $1,000 of personal income)	$21.67	37
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	-$0.04	22
Debt Service as a Share of Tax Revenue	6.2%	15
Public Employees Per 10,000 of Population (full-time equivalent)	505.2	19
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	63.9	28
State Minimum Wage (federal floor is $7.25)	$8.75	33
Average Workers' Compensation Costs (per $100 of payroll)	$1.50	13
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	0	34

Massachusetts

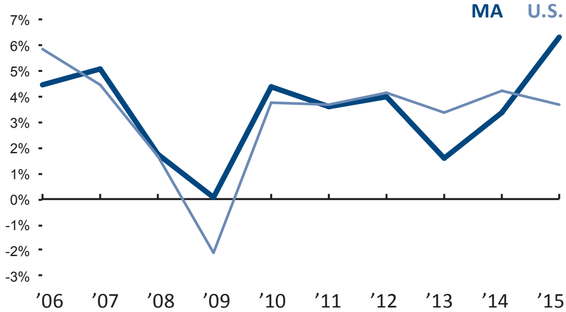
2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

18 Economic Performance Rank

25 Economic Outlook Rank

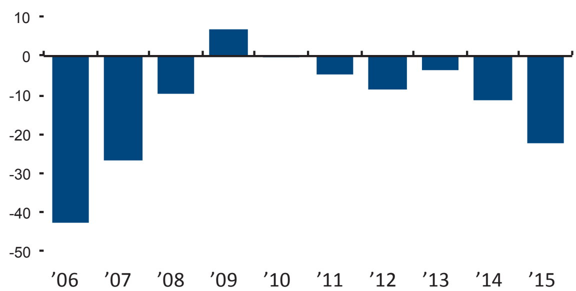
Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

State Gross Domestic Product
Cumulative Growth 2005-2015 40.5% Rank: 14

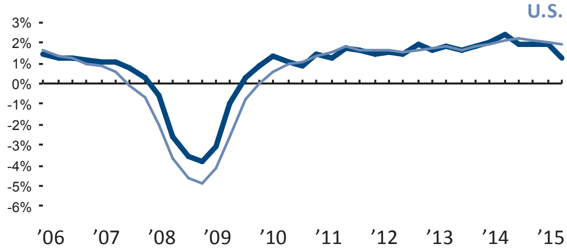


Absolute Domestic Migration
Cumulative 2006-2015 -123,286 Rank: 40

(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2005-2015 8.5% Rank: 11



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	32	24	25	29	28	28	26

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	5.10%	22
Top Marginal Corporate Income Tax Rate	8.00%	34
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$2.99	16
Property Tax Burden (per $1,000 of personal income)	$37.62	38
Sales Tax Burden (per $1,000 of personal income)	$14.09	9
Remaining Tax Burden (per $1,000 of personal income)	$12.59	4
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	-$0.17	15
Debt Service as a Share of Tax Revenue	8.9%	37
Public Employees Per 10,000 of Population (full-time equivalent)	497.2	17
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	67.8	17
State Minimum Wage (federal floor is $7.25)	$11.00	49
Average Workers' Compensation Costs (per $100 of payroll)	$1.29	8
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	1	15

Michigan

2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

50 Economic Performance Rank

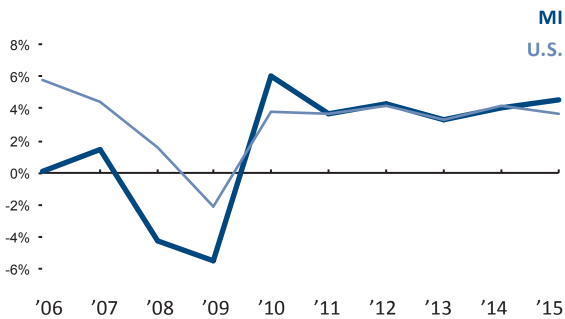
20 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

State Gross Domestic Product

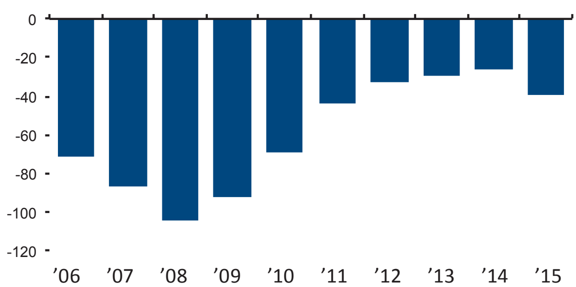
Cumulative Growth 2005-2015 18.5% Rank: 49



Absolute Domestic Migration

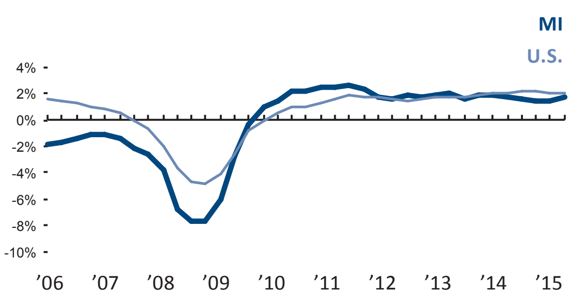
Cumulative 2006-2015 -593,157 Rank: 47

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2005-2015 -2.3% Rank: 50



Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	**26**	**25**	**17**	**20**	**12**	**24**	**22**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	6.65%	29
Top Marginal Corporate Income Tax Rate	8.00%	34
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$2.27	15
Property Tax Burden (per $1,000 of personal income)	$33.42	33
Sales Tax Burden (per $1,000 of personal income)	$22.00	23
Remaining Tax Burden (per $1,000 of personal income)	$15.60	14
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	$1.03	40
Debt Service as a Share of Tax Revenue	8.8%	36
Public Employees Per 10,000 of Population (full-time equivalent)	440.1	4
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	65.5	24
State Minimum Wage (federal floor is $7.25)	$8.90	35
Average Workers' Compensation Costs (per $100 of payroll)	$1.57	17
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	2	3

Minnesota

2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

31 Economic Performance Rank

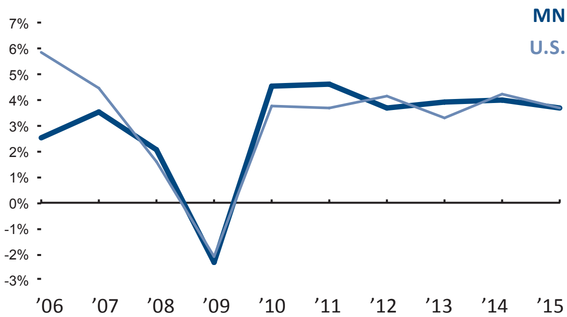
45 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)

A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

State Gross Domestic Product

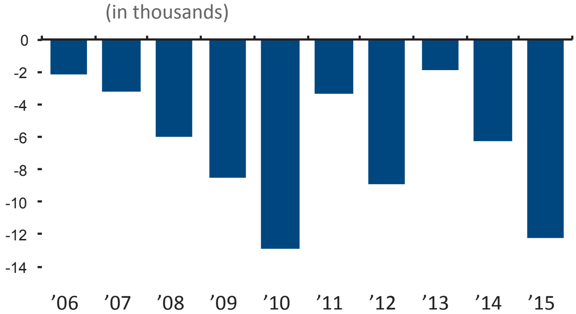
Cumulative Growth 2005-2015 34.6% Rank: 26



Absolute Domestic Migration

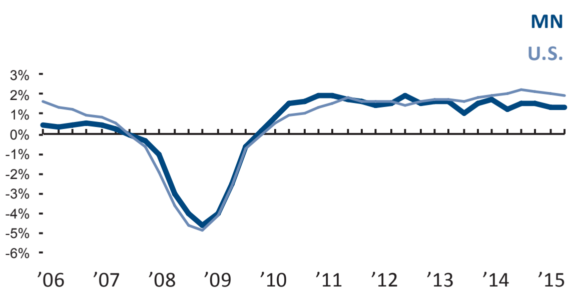
Cumulative 2006-2015 -65,205 Rank: 37

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2005-2015 4.5% Rank: 26



Economic Outlook Rank (1=best 50=worst)

A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	38	37	41	46	46	48	45

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	9.85%	45
Top Marginal Corporate Income Tax Rate	9.80%	45
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$18.53	45
Property Tax Burden (per $1,000 of personal income)	$29.48	28
Sales Tax Burden (per $1,000 of personal income)	$21.59	19
Remaining Tax Burden (per $1,000 of personal income)	$24.65	45
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	-$0.03	24
Debt Service as a Share of Tax Revenue	5.6%	11
Public Employees Per 10,000 of Population (full-time equivalent)	519.2	21
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	68.0	13
State Minimum Wage (federal floor is $7.25)	$9.50	40
Average Workers' Compensation Costs (per $100 of payroll)	$1.91	29
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	0	34

Mississippi

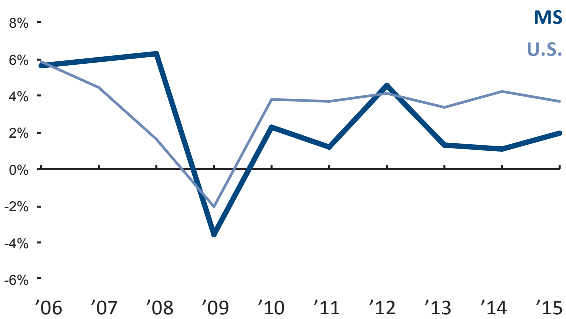
2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

43 Economic Performance Rank

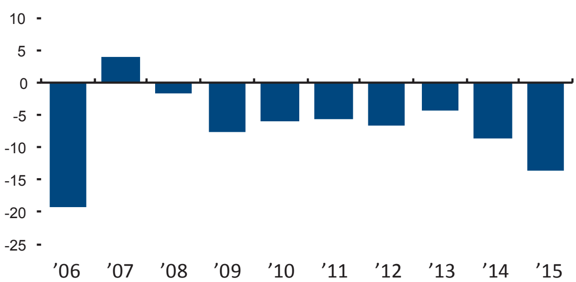
22 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

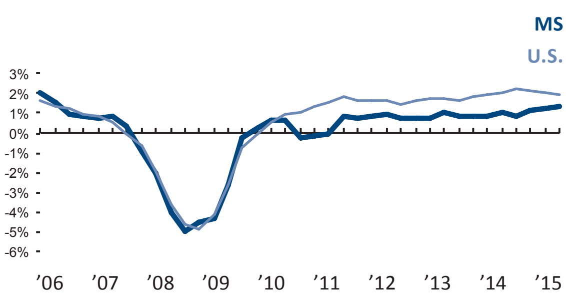
State Gross Domestic Product
Cumulative Growth 2005-2015 29.6% Rank: 35



Absolute Domestic Migration
Cumulative 2006-2015 -69,036 Rank: 38
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2005-2015 1.3% Rank: 43



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	18	19	15	10	14	20	17

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	5.00%	18
Top Marginal Corporate Income Tax Rate	5.00%	11
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$7.53	27
Property Tax Burden (per $1,000 of personal income)	$27.19	19
Sales Tax Burden (per $1,000 of personal income)	$32.75	41
Remaining Tax Burden (per $1,000 of personal income)	$21.30	36
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	$0.52	34
Debt Service as a Share of Tax Revenue	5.3%	10
Public Employees Per 10,000 of Population (full-time equivalent)	637.8	46
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	56.3	43
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.70	22
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	2	3

Missouri

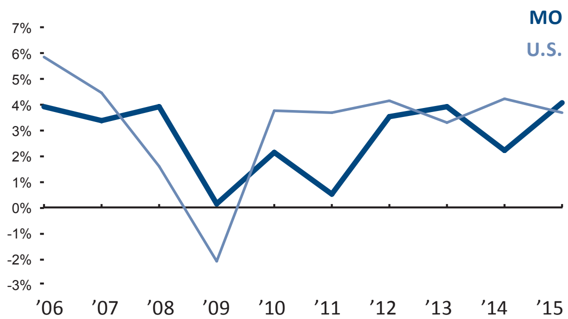
2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

41 Economic Performance Rank

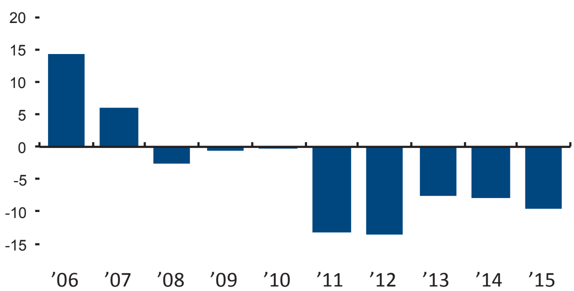
24 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

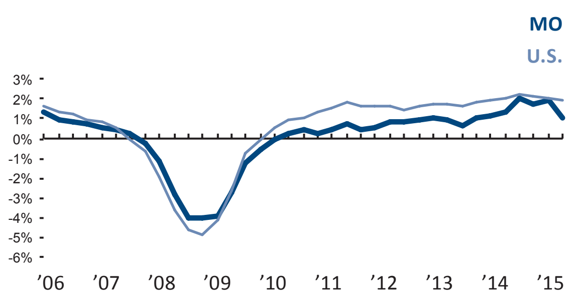
State Gross Domestic Product
Cumulative Growth 2005-2015 31.4% Rank: 33



Absolute Domestic Migration
Cumulative 2006-2015 -34,539 Rank: 32
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2005-2015 1.3% Rank: 41



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	15	9	7	23	24	27	24

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	7.00%	35
Top Marginal Corporate Income Tax Rate	6.16%	18
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$14.00	38
Property Tax Burden (per $1,000 of personal income)	$23.84	11
Sales Tax Burden (per $1,000 of personal income)	$22.78	25
Remaining Tax Burden (per $1,000 of personal income)	$14.53	9
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	-$0.06	20
Debt Service as a Share of Tax Revenue	8.4%	32
Public Employees Per 10,000 of Population (full-time equivalent)	520.7	22
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	56.6	42
State Minimum Wage (federal floor is $7.25)	$7.70	23
Average Workers' Compensation Costs (per $100 of payroll)	$1.92	31
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	3	1

Montana

2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

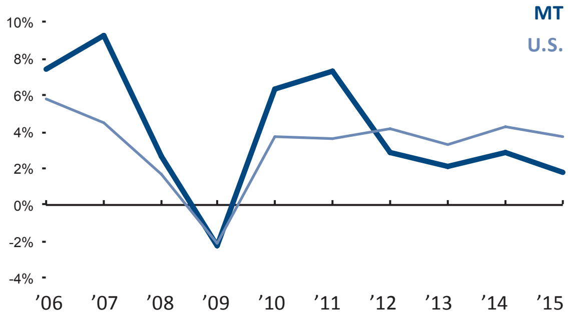
10 Economic Performance Rank

39 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

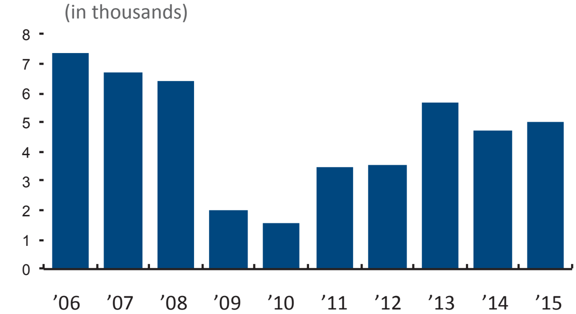
Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

State Gross Domestic Product
Cumulative Growth 2005-2015 47.7% Rank: 8

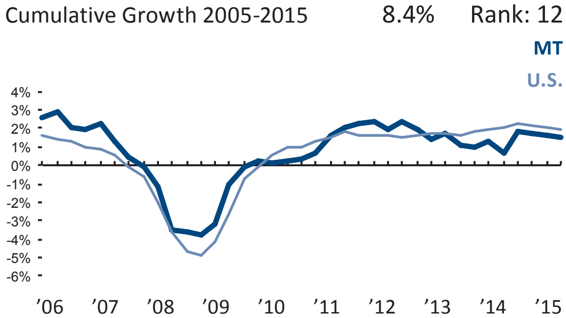


Absolute Domestic Migration
Cumulative 2006-2015 46,509 Rank: 18

(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2005-2015 8.4% Rank: 12



Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	**33**	**36**	**36**	**42**	**43**	**43**	**40**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	6.90%	31
Top Marginal Corporate Income Tax Rate	6.75%	26
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$18.43	44
Property Tax Burden (per $1,000 of personal income)	$36.89	36
Sales Tax Burden (per $1,000 of personal income)	$0.00	1
Remaining Tax Burden (per $1,000 of personal income)	$22.41	40
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	-$0.10	18
Debt Service as a Share of Tax Revenue	4.8%	7
Public Employees Per 10,000 of Population (full-time equivalent)	562.8	38
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	60.5	34
State Minimum Wage (federal floor is $7.25)	$8.15	25
Average Workers' Compensation Costs (per $100 of payroll)	$2.10	40
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	0	34

Nebraska

2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

13 Economic Performance Rank

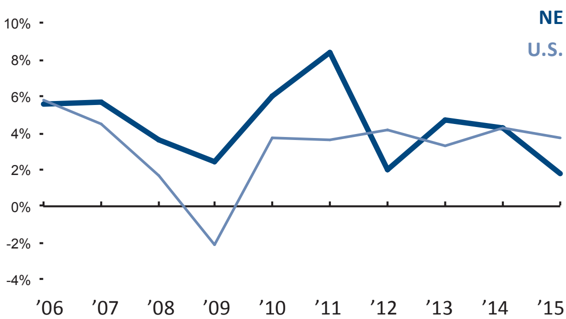
32 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)

A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

State Gross Domestic Product

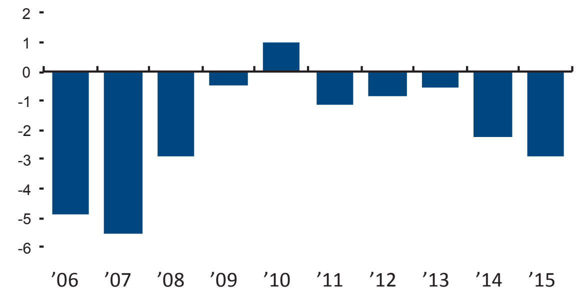
Cumulative Growth 2005-2015 54.2% Rank: 4



Absolute Domestic Migration

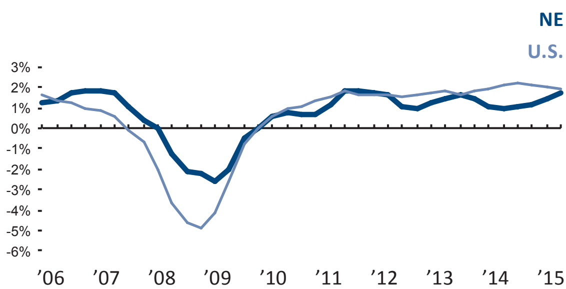
Cumulative 2006-2015 -20,444 Rank: 30

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2005-2015 8.0% Rank: 14



Economic Outlook Rank (1=best 50=worst)

A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	34	32	31	37	35	31	32

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	6.84%	30
Top Marginal Corporate Income Tax Rate	7.81%	32
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$18.96	46
Property Tax Burden (per $1,000 of personal income)	$37.65	39
Sales Tax Burden (per $1,000 of personal income)	$24.01	30
Remaining Tax Burden (per $1,000 of personal income)	$15.13	12
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	-$2.41	2
Debt Service as a Share of Tax Revenue	6.0%	14
Public Employees Per 10,000 of Population (full-time equivalent)	624.4	44
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	73.0	3
State Minimum Wage (federal floor is $7.25)	$9.00	36
Average Workers' Compensation Costs (per $100 of payroll)	$1.67	19
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	0	34

Nevada

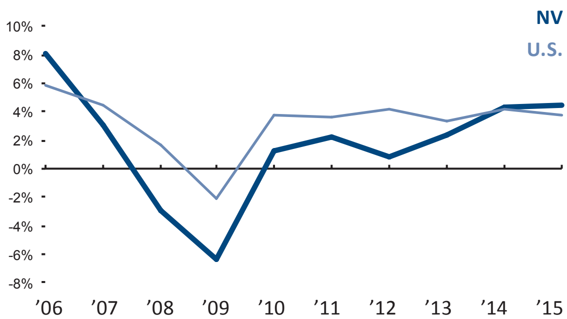
2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

37 Economic Performance Rank

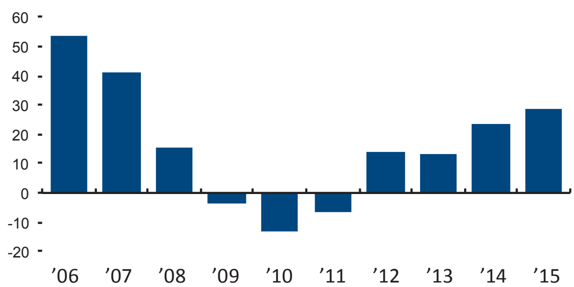
13 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

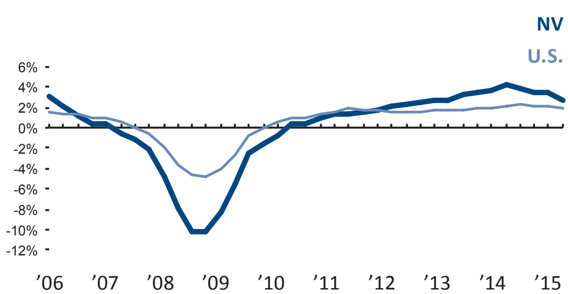
State Gross Domestic Product
Cumulative Growth 2005-2015 17.6% Rank: 50



Absolute Domestic Migration
Cumulative 2006-2015 165,667 Rank: 11
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2005-2015 1.6% Rank: 40



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	11	17	18	13	8	10	14

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	0.00%	1
Top Marginal Corporate Income Tax Rate	0.49%	3
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$0.00	2
Property Tax Burden (per $1,000 of personal income)	$24.30	13
Sales Tax Burden (per $1,000 of personal income)	$37.71	47
Remaining Tax Burden (per $1,000 of personal income)	$35.84	49
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	$7.08	49
Debt Service as a Share of Tax Revenue	9.5%	42
Public Employees Per 10,000 of Population (full-time equivalent)	374.0	1
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	60.4	35
State Minimum Wage (federal floor is $7.25)	$8.25	27
Average Workers' Compensation Costs (per $100 of payroll)	$1.31	9
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	2	3

New Hampshire

2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

35 Economic Performance Rank

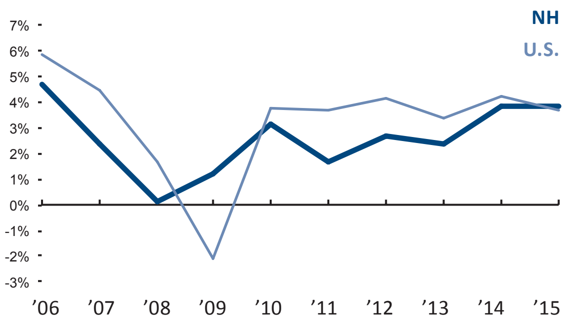
18 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)

A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

State Gross Domestic Product

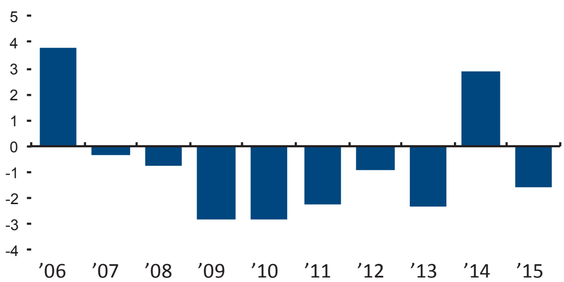
CCumulative Growth 2005-2015 29.0% Rank: 37



Absolute Domestic Migration

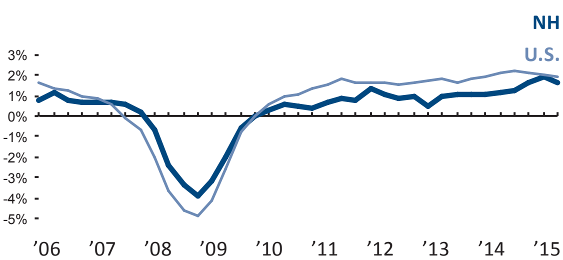
Cumulative 2006-2015 -7,055 Rank: 25

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2005-2015 3.2% Rank: 32



Economic Outlook Rank (1=best 50=worst)

A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	**30**	**28**	**28**	**27**	**32**	**29**	**23**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	0.00%	1
Top Marginal Corporate Income Tax Rate	8.20%	37
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$0.00	2
Property Tax Burden (per $1,000 of personal income)	$54.67	50
Sales Tax Burden (per $1,000 of personal income)	$0.00	1
Remaining Tax Burden (per $1,000 of personal income)	$18.89	28
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	-$0.28	11
Debt Service as a Share of Tax Revenue	8.2%	31
Public Employees Per 10,000 of Population (full-time equivalent)	535.2	31
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	70.7	5
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.96	34
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	0	34

New Jersey

2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

47 Economic Performance Rank

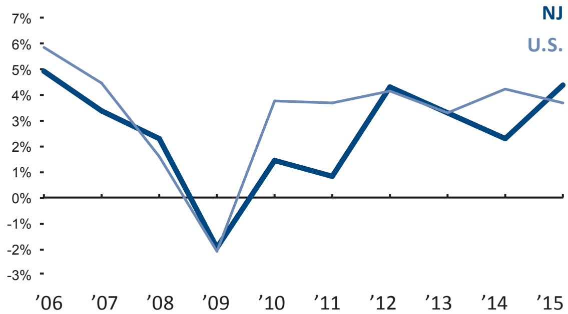
48 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)

A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

State Gross Domestic Product

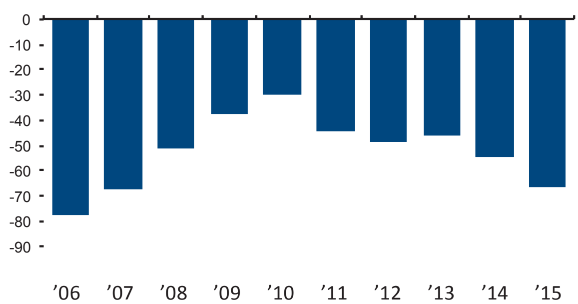
Cumulative Growth 2005-2015 28.1% Rank: 39



Absolute Domestic Migration

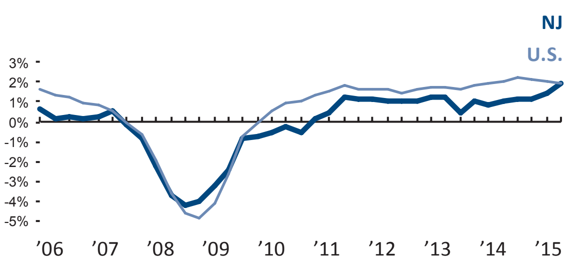
Cumulative 2006-2015 -525,338 Rank: 46

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2005-2015 0.4% Rank: 46



Economic Outlook Rank (1=best 50=worst)

A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	**48**	**45**	**42**	**39**	**45**	**46**	**48**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	9.97%	46
Top Marginal Corporate Income Tax Rate	9.00%	42
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$24.81	48
Property Tax Burden (per $1,000 of personal income)	$54.37	49
Sales Tax Burden (per $1,000 of personal income)	$17.64	13
Remaining Tax Burden (per $1,000 of personal income)	$13.92	8
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	$0.79	37
Debt Service as a Share of Tax Revenue	5.9%	13
Public Employees Per 10,000 of Population (full-time equivalent)	533.2	28
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	59.3	38
State Minimum Wage (federal floor is $7.25)	$8.44	30
Average Workers' Compensation Costs (per $100 of payroll)	$2.92	49
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	1	15

New Mexico

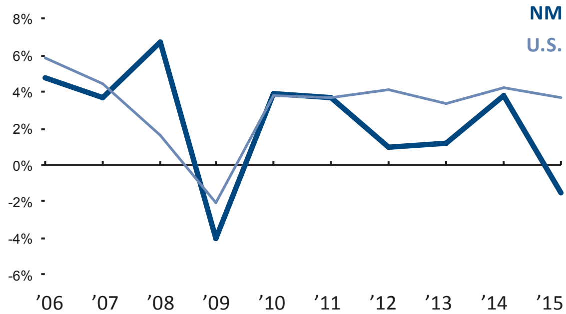
2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

42 Economic Performance Rank

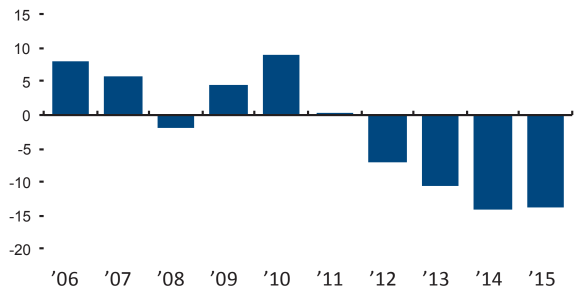
35 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

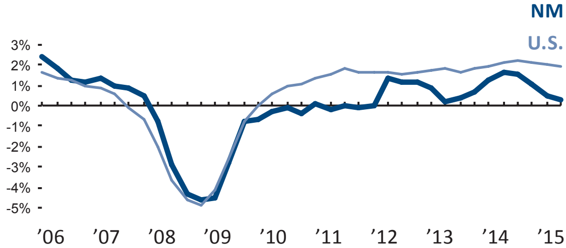
State Gross Domestic Product
Cumulative Growth 2005-2015 25.5% Rank: 44



Absolute Domestic Migration
Cumulative 2006-2015 -20,154 Rank: 29
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2005-2015 1.3% Rank: 42



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	35	39	35	33	37	34	34

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	4.90%	17
Top Marginal Corporate Income Tax Rate	6.20%	19
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$10.52	31
Property Tax Burden (per $1,000 of personal income)	$20.63	8
Sales Tax Burden (per $1,000 of personal income)	$41.20	49
Remaining Tax Burden (per $1,000 of personal income)	$15.32	13
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	$0.13	29
Debt Service as a Share of Tax Revenue	6.7%	17
Public Employees Per 10,000 of Population (full-time equivalent)	600.5	43
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	55.2	45
State Minimum Wage (federal floor is $7.25)	$7.50	22
Average Workers' Compensation Costs (per $100 of payroll)	$1.92	31
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	0	34

New York

2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

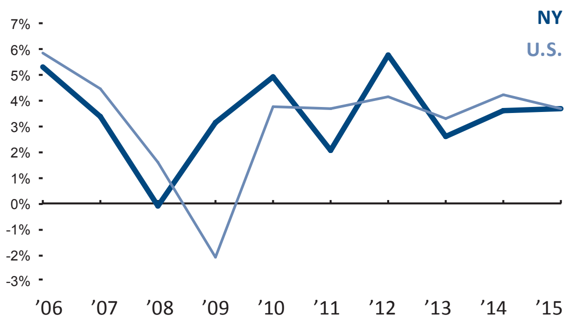
24 Economic Performance Rank

50 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

State Gross Domestic Product

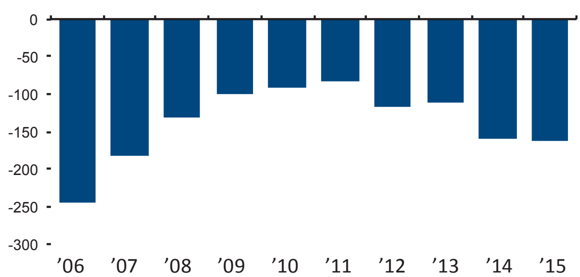
Cumulative Growth 2005-2015 40.1% Rank: 17



Absolute Domestic Migration

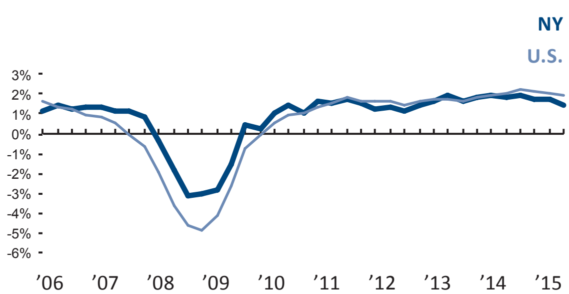
Cumulative 2006-2015 -1,381,449 Rank: 50

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2005-2015 8.7% Rank: 10



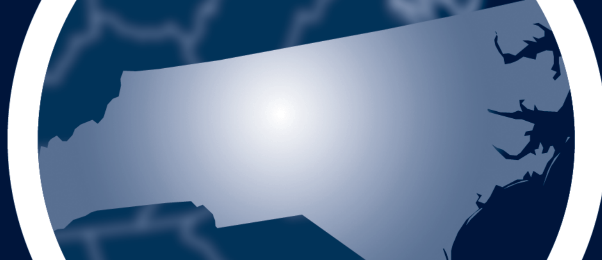
Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	**50**	**50**	**50**	**49**	**50**	**50**	**50**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	12.70%	49
Top Marginal Corporate Income Tax Rate	17.19%	50
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$12.78	35
Property Tax Burden (per $1,000 of personal income)	$46.63	44
Sales Tax Burden (per $1,000 of personal income)	$25.11	32
Remaining Tax Burden (per $1,000 of personal income)	$20.86	35
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	-$0.12	17
Debt Service as a Share of Tax Revenue	8.9%	38
Public Employees Per 10,000 of Population (full-time equivalent)	592.8	42
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	66.3	21
State Minimum Wage (federal floor is $7.25)	$9.70	42
Average Workers' Compensation Costs (per $100 of payroll)	$2.83	48
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	0	34

North Carolina

2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

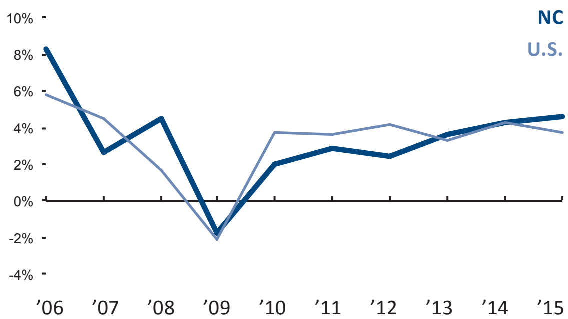


9 Economic Performance Rank

3 Economic Outlook Rank

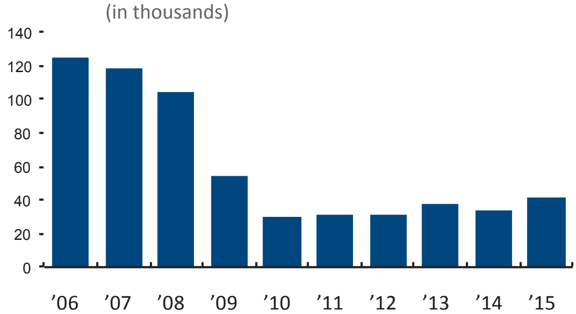
Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

State Gross Domestic Product
Cumulative Growth 2005-2015 38.7% Rank: 22

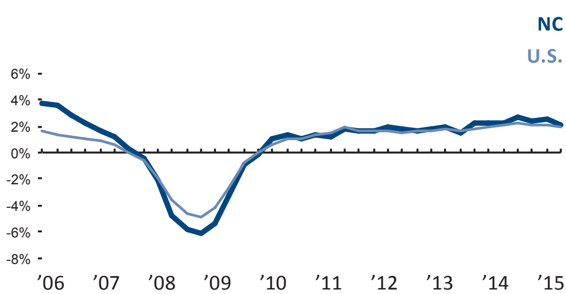


Absolute Domestic Migration
Cumulative 2006-2015 609,275 Rank: 3

(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2005-2015 8.2% Rank: 13



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	21	26	23	22	6	4	2

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	5.50%	24
Top Marginal Corporate Income Tax Rate	3.00%	5
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$6.42	20
Property Tax Burden (per $1,000 of personal income)	$24.88	15
Sales Tax Burden (per $1,000 of personal income)	$21.50	18
Remaining Tax Burden (per $1,000 of personal income)	$17.43	26
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	-$0.53	9
Debt Service as a Share of Tax Revenue	6.8%	19
Public Employees Per 10,000 of Population (full-time equivalent)	538.3	32
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	70.2	7
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.91	29
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	1	15

North Dakota

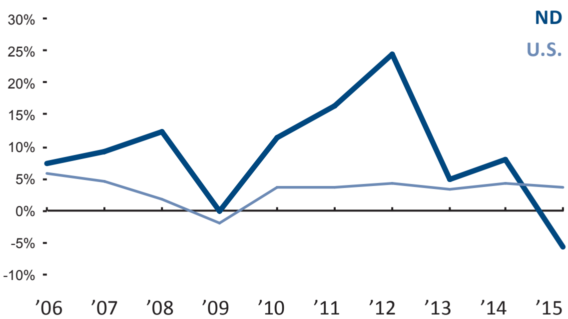
2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

2 Economic Performance Rank

4 Economic Outlook Rank

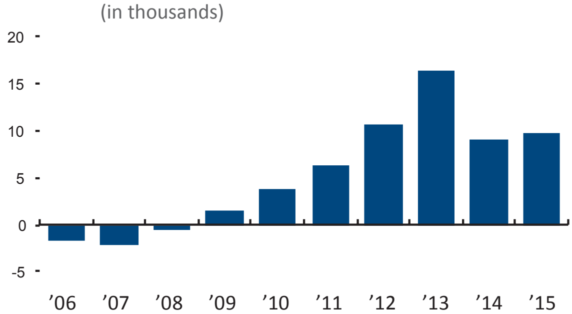
Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

State Gross Domestic Product
Cumulative Growth 2005-2015 126.9% Rank: 1

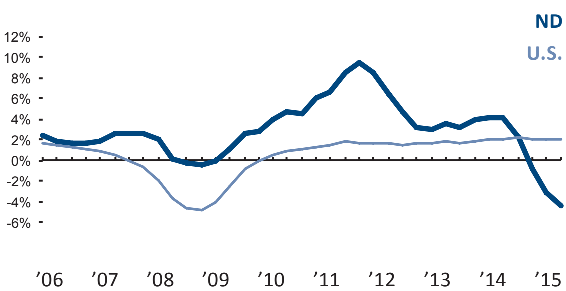


Absolute Domestic Migration
Cumulative 2006-2015 52,997 Rank: 16

(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2005-2015 29.1% Rank: 1



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	12	7	5	2	4	2	3

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	2.90%	10
Top Marginal Corporate Income Tax Rate	4.31%	8
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$8.32	29
Property Tax Burden (per $1,000 of personal income)	$19.97	5
Sales Tax Burden (per $1,000 of personal income)	$36.55	45
Remaining Tax Burden (per $1,000 of personal income)	$19.76	32
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	-$2.62	1
Debt Service as a Share of Tax Revenue	2.6%	2
Public Employees Per 10,000 of Population (full-time equivalent)	626.6	45
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	67.9	15
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$0.89	1
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	0	34

Ohio

2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

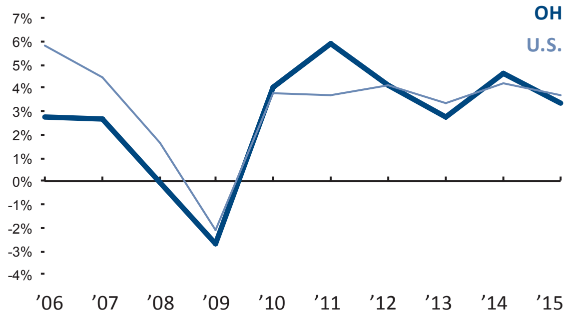
46 Economic Performance Rank

19 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

State Gross Domestic Product

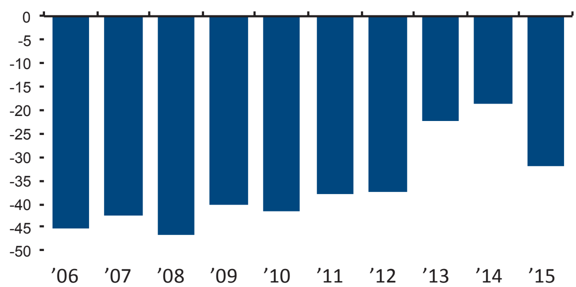
Cumulative Growth 2005-2015 30.7% Rank: 34



Absolute Domestic Migration

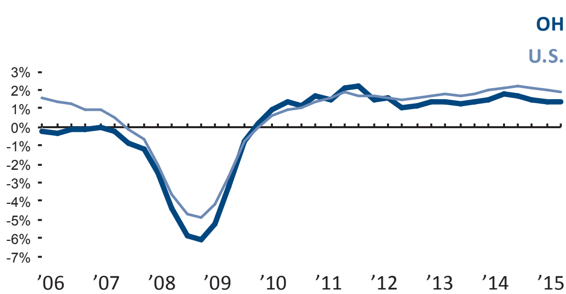
Cumulative 2006-2015 -363,913 Rank: 45

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2005-2015 0.4% Rank: 45



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	42	38	37	26	23	23	18

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	7.50%	38
Top Marginal Corporate Income Tax Rate	3.64%	6
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$11.94	34
Property Tax Burden (per $1,000 of personal income)	$29.19	27
Sales Tax Burden (per $1,000 of personal income)	$21.98	22
Remaining Tax Burden (per $1,000 of personal income)	$19.52	30
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	-$2.05	3
Debt Service as a Share of Tax Revenue	7.1%	21
Public Employees Per 10,000 of Population (full-time equivalent)	503.0	18
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	64.2	27
State Minimum Wage (federal floor is $7.25)	$8.15	25
Average Workers' Compensation Costs (per $100 of payroll)	$1.45	11
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	1	15

Oklahoma

2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

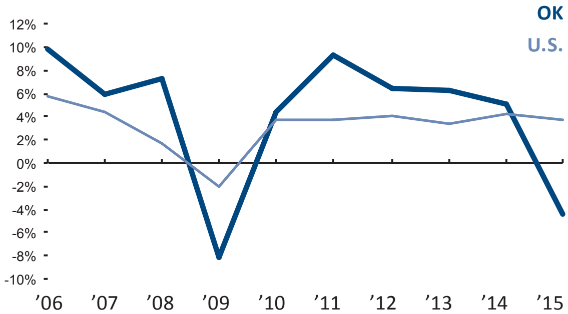
6 Economic Performance Rank

16 Economic Outlook Rank

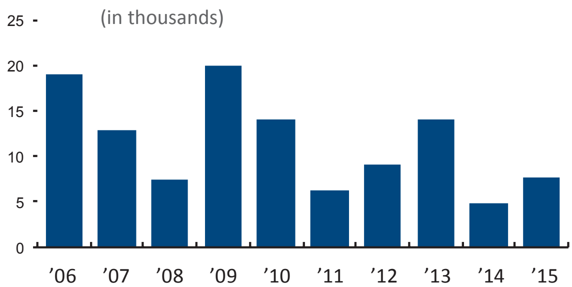
Economic Performance Rank (1=best 50=worst)

A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

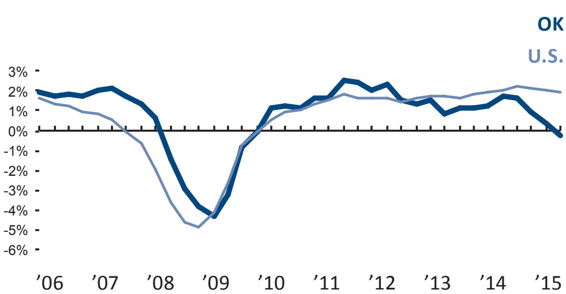
State Gross Domestic Product
Cumulative Growth 2005-2015 48.5% Rank: 7



Absolute Domestic Migration
Cumulative 2006-2015 114,917 Rank: 12



Non-Farm Payroll Employment
Cumulative Growth 2005-2015 7.9% Rank: 16



Economic Outlook Rank (1=best 50=worst)

A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	14	14	14	19	21	16	10

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	5.00%	18
Top Marginal Corporate Income Tax Rate	6.00%	16
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$7.41	26
Property Tax Burden (per $1,000 of personal income)	$14.28	1
Sales Tax Burden (per $1,000 of personal income)	$27.19	35
Remaining Tax Burden (per $1,000 of personal income)	$16.37	18
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	$0.99	39
Debt Service as a Share of Tax Revenue	5.7%	12
Public Employees Per 10,000 of Population (full-time equivalent)	556.4	37
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	61.0	33
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.23	43
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	2	3

Oregon

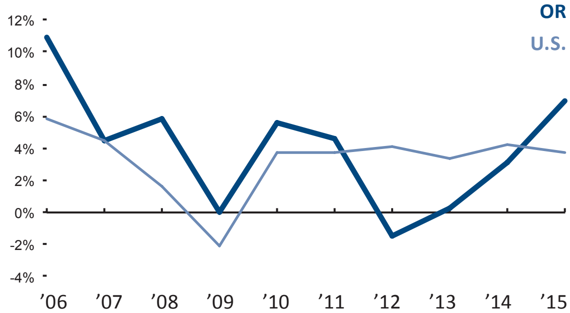
2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

7 Economic Performance Rank

41 Economic Outlook Rank

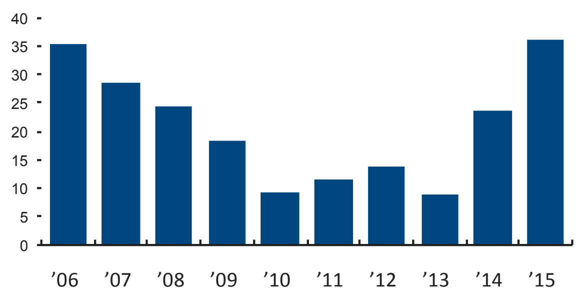
Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

State Gross Domestic Product
Cumulative Growth 2005-2015 47.5% Rank: 9

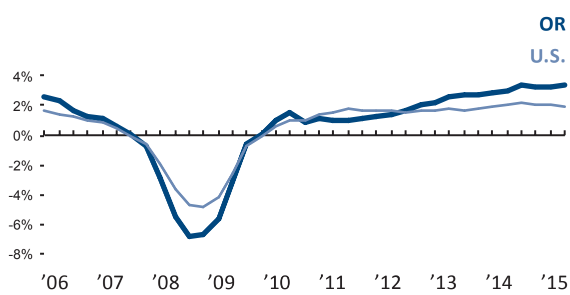


Absolute Domestic Migration
Cumulative 2006-2015 209,592 Rank: 10

(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2005-2015 7.7% Rank: 17



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	41	43	45	44	42	45	41

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	10.64%	48
Top Marginal Corporate Income Tax Rate	11.25%	47
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$15.62	41
Property Tax Burden (per $1,000 of personal income)	$33.54	34
Sales Tax Burden (per $1,000 of personal income)	$0.00	1
Remaining Tax Burden (per $1,000 of personal income)	$23.10	44
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	$0.01	26
Debt Service as a Share of Tax Revenue	7.9%	28
Public Employees Per 10,000 of Population (full-time equivalent)	477.1	9
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	61.2	32
State Minimum Wage (federal floor is $7.25)	$9.75	43
Average Workers' Compensation Costs (per $100 of payroll)	$1.28	7
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	2	3

Pennsylvania

2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

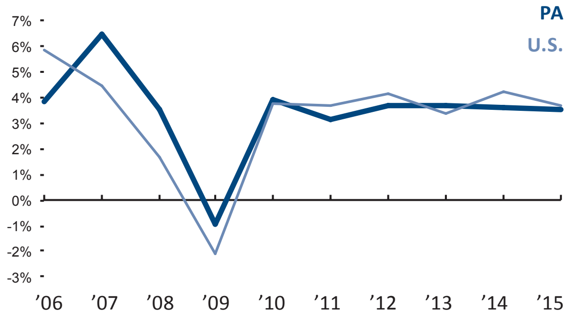
34 Economic Performance Rank

38 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)

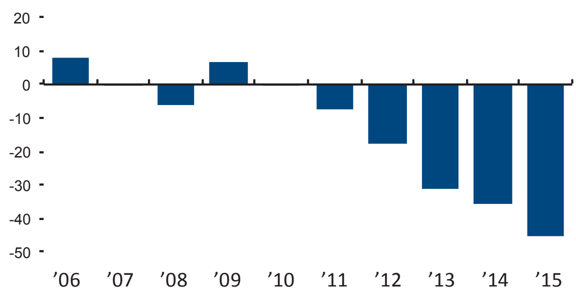
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

State Gross Domestic Product
Cumulative Growth 2005-2015 40.1% Rank: 16

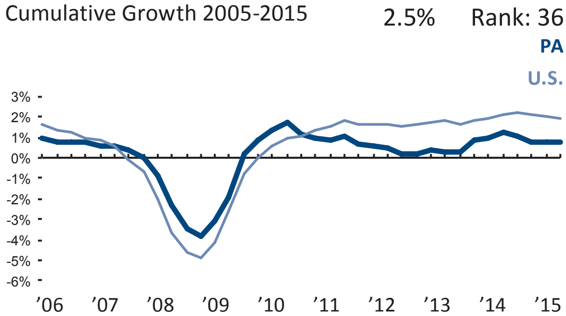


Absolute Domestic Migration
Cumulative 2006-2015 -127,785 Rank: 41

(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2005-2015 2.5% Rank: 36



Economic Outlook Rank (1=best 50=worst)

A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	**43**	**41**	**40**	**34**	**33**	**41**	**39**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	6.97%	33
Top Marginal Corporate Income Tax Rate	17.02%	49
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$0.00	2
Property Tax Burden (per $1,000 of personal income)	$29.97	30
Sales Tax Burden (per $1,000 of personal income)	$16.98	11
Remaining Tax Burden (per $1,000 of personal income)	$22.82	42
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	$0.82	38
Debt Service as a Share of Tax Revenue	7.5%	27
Public Employees Per 10,000 of Population (full-time equivalent)	443.4	5
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	59.4	37
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.84	25
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	0	34

Rhode Island

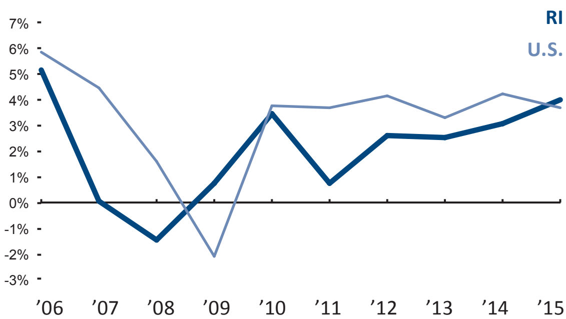
2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

48 Economic Performance Rank

36 Economic Outlook Rank

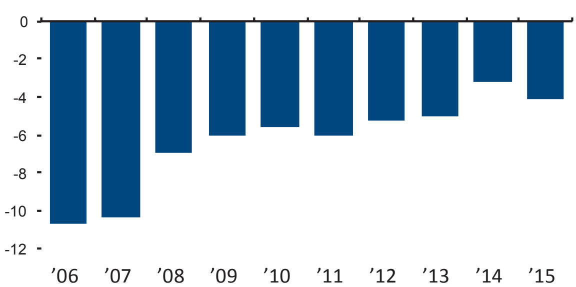
Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

State Gross Domestic Product
Cumulative Growth 2005-2015 22.8% Rank: 46

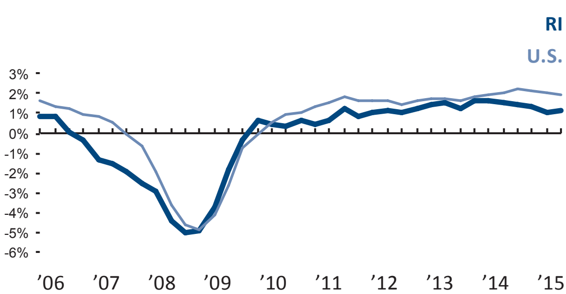


Absolute Domestic Migration
Cumulative 2006-2015 -63,249 Rank: 36

(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2005-2015 -0.7% Rank: 49



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	**45**	**42**	**43**	**45**	**41**	**39**	**35**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	5.99%	26
Top Marginal Corporate Income Tax Rate	7.00%	27
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$6.79	24
Property Tax Burden (per $1,000 of personal income)	$49.09	46
Sales Tax Burden (per $1,000 of personal income)	$18.46	14
Remaining Tax Burden (per $1,000 of personal income)	$18.08	27
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	-$0.89	8
Debt Service as a Share of Tax Revenue	11.1%	49
Public Employees Per 10,000 of Population (full-time equivalent)	454.9	7
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	64.6	26
State Minimum Wage (federal floor is $7.25)	$9.60	41
Average Workers' Compensation Costs (per $100 of payroll)	$2.20	42
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	2	3

South Carolina

2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

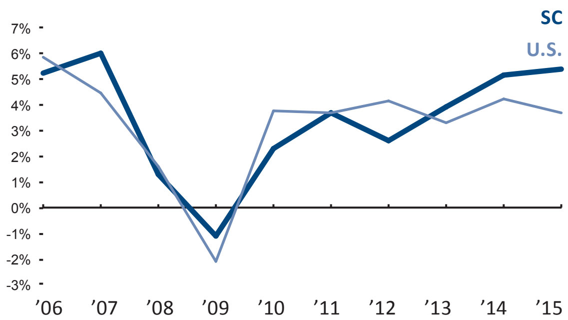
11 Economic Performance Rank

27 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)

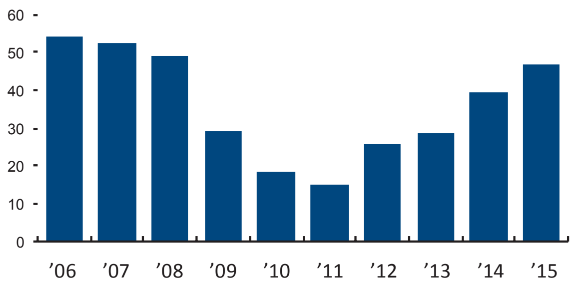
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

State Gross Domestic Product
Cumulative Growth 2005-2015 40.0% Rank: 18

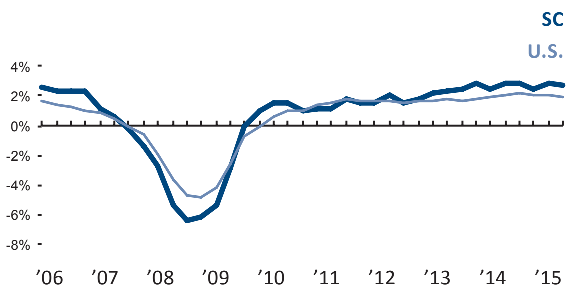


Absolute Domestic Migration
Cumulative 2006-2015 359,754 Rank: 7

(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2005-2015 8.0% Rank: 15



Economic Outlook Rank (1=best 50=worst)

A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	**31**	**22**	**27**	**31**	**31**	**32**	**30**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	7.00%	36
Top Marginal Corporate Income Tax Rate	5.00%	11
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$16.35	42
Property Tax Burden (per $1,000 of personal income)	$30.22	31
Sales Tax Burden (per $1,000 of personal income)	$21.72	20
Remaining Tax Burden (per $1,000 of personal income)	$16.43	19
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	-$0.18	14
Debt Service as a Share of Tax Revenue	9.9%	44
Public Employees Per 10,000 of Population (full-time equivalent)	535.0	30
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	59.4	36
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.94	33
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	1	15

South Dakota

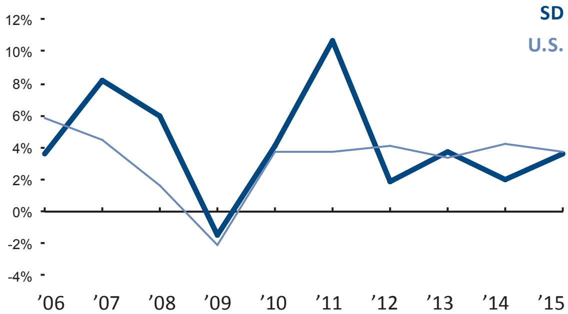
2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

8 Economic Performance Rank

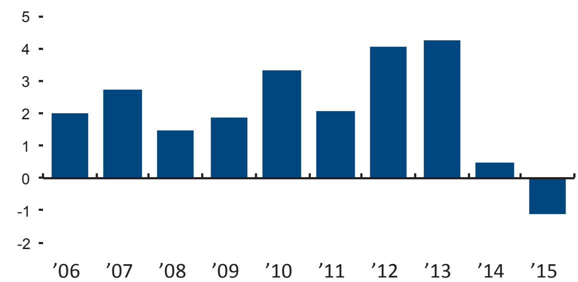
12 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

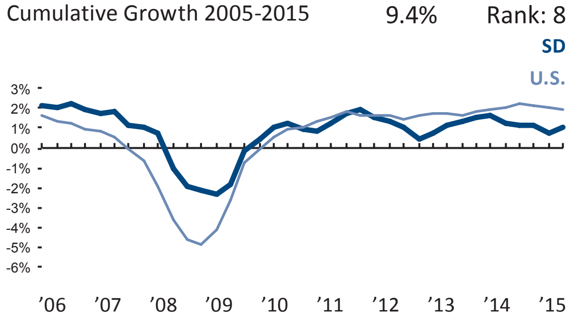
State Gross Domestic Product
Cumulative Growth 2005-2015 50.6% Rank: 5



Absolute Domestic Migration
Cumulative 2006-2015 21,142 Rank: 23
(in thousands)



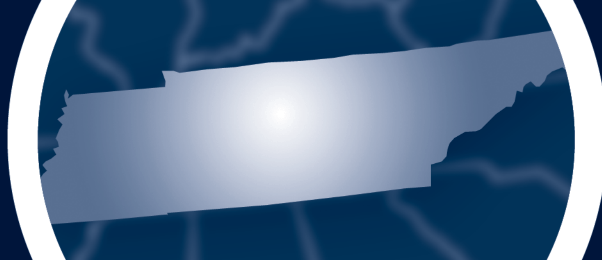
Non-Farm Payroll Employment
Cumulative Growth 2005-2015 9.4% Rank: 8



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	4	2	2	3	2	9	11

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	0.00%	1
Top Marginal Corporate Income Tax Rate	0.00%	1
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$0.00	2
Property Tax Burden (per $1,000 of personal income)	$28.99	26
Sales Tax Burden (per $1,000 of personal income)	$33.18	43
Remaining Tax Burden (per $1,000 of personal income)	$19.00	29
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	$3.66	48
Debt Service as a Share of Tax Revenue	6.4%	16
Public Employees Per 10,000 of Population (full-time equivalent)	543.3	33
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	69.5	9
State Minimum Wage (federal floor is $7.25)	$8.65	32
Average Workers' Compensation Costs (per $100 of payroll)	$1.67	19
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	1	15



Tennessee

2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

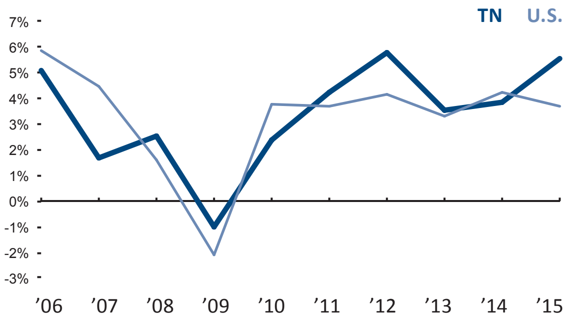
15 Economic Performance Rank

5 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)

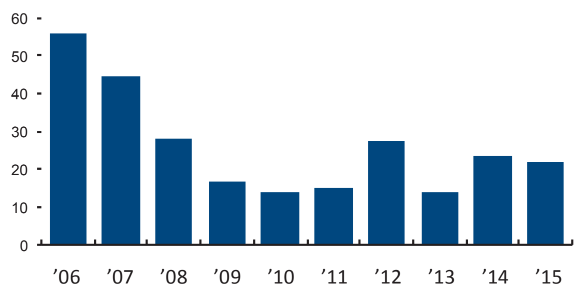
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

State Gross Domestic Product
Cumulative Growth 2005-2015 38.8% Rank: 21

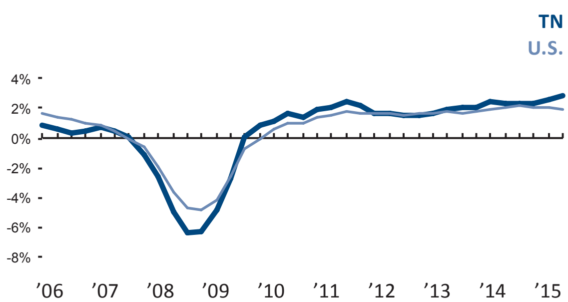


Absolute Domestic Migration
Cumulative 2006-2015 261,544 Rank: 9

(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2005-2015 6.2% Rank: 21



Economic Outlook Rank (1=best 50=worst)

A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	10	8	12	18	19	17	7

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	0.00%	1
Top Marginal Corporate Income Tax Rate	6.50%	22
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$0.00	2
Property Tax Burden (per $1,000 of personal income)	$21.14	9
Sales Tax Burden (per $1,000 of personal income)	$32.21	40
Remaining Tax Burden (per $1,000 of personal income)	$19.88	33
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	$0.07	28
Debt Service as a Share of Tax Revenue	7.3%	24
Public Employees Per 10,000 of Population (full-time equivalent)	491.4	14
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	65.7	23
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.68	21
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	1	15

Texas

2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

1 Economic Performance Rank

9 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

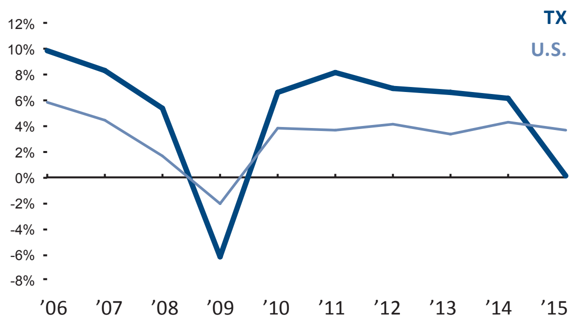
Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison

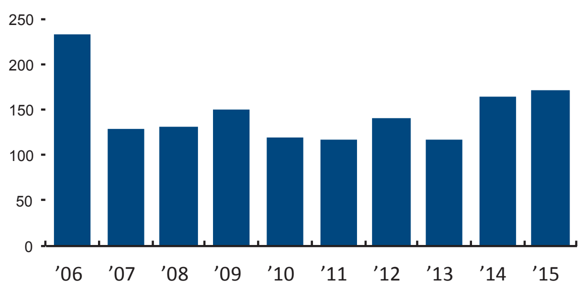
	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	19	18	16	12	13	11	12

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	0.00%	1
Top Marginal Corporate Income Tax Rate	2.56%	4
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$0.00	2
Property Tax Burden (per $1,000 of personal income)	$37.14	37
Sales Tax Burden (per $1,000 of personal income)	$29.06	37
Remaining Tax Burden (per $1,000 of personal income)	$16.63	20
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	-$1.11	5
Debt Service as a Share of Tax Revenue	10.5%	46
Public Employees Per 10,000 of Population (full-time equivalent)	530.9	26
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	58.5	40
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.45	11
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	1	15

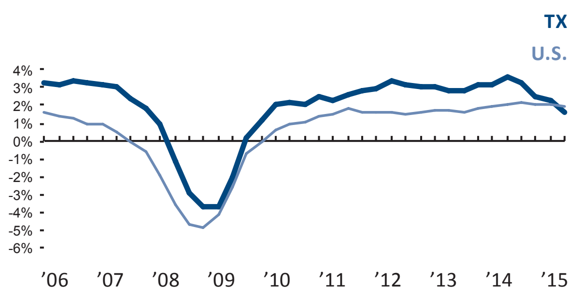
State Gross Domestic Product
Cumulative Growth 2005-2015 64.6% Rank: 2



Absolute Domestic Migration
Cumulative 2006-2015 1,475,425 Rank: 1
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2005-2015 20.9% Rank: 2



Utah

2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

4 Economic Performance Rank

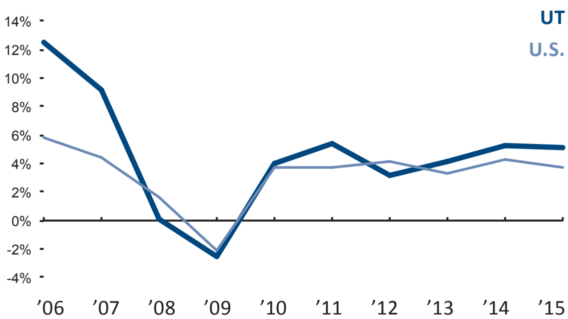
1 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)

A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

State Gross Domestic Product

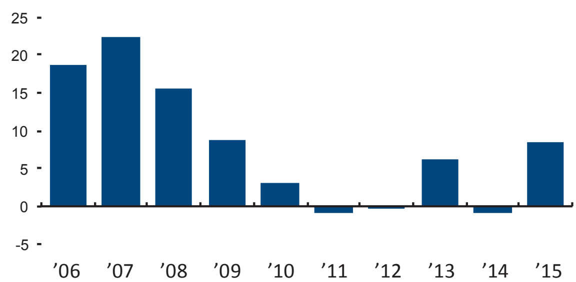
Cumulative Growth 2005-2015 56.1% Rank: 3



Absolute Domestic Migration

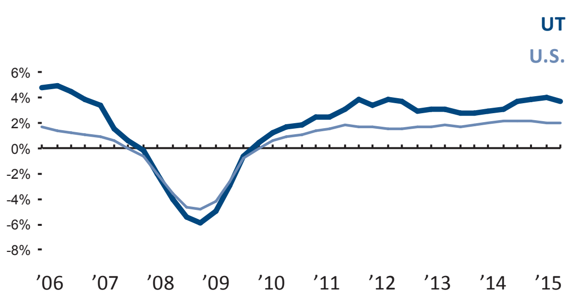
Cumulative 2006-2015 81,389 Rank: 14

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2005-2015 19.5% Rank: 3



Economic Outlook Rank (1=best 50=worst)

A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	1	1	1	1	1	1	1

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	5.00%	18
Top Marginal Corporate Income Tax Rate	5.00%	11
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$0.00	2
Property Tax Burden (per $1,000 of personal income)	$26.55	17
Sales Tax Burden (per $1,000 of personal income)	$23.33	27
Remaining Tax Burden (per $1,000 of personal income)	$14.91	11
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	$1.51	42
Debt Service as a Share of Tax Revenue	7.4%	25
Public Employees Per 10,000 of Population (full-time equivalent)	475.5	8
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	69.0	10
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.27	6
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	1	15

Vermont

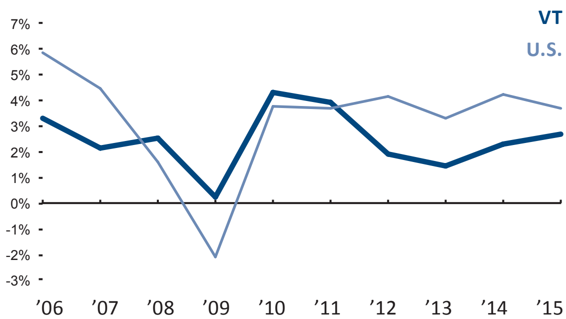
2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

38 Economic Performance Rank

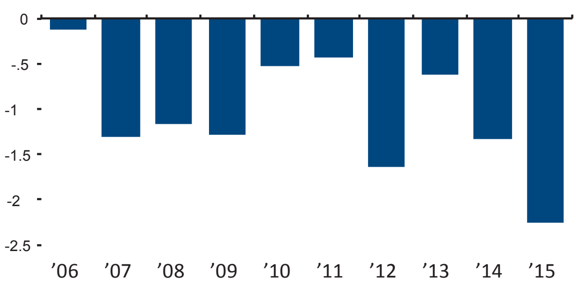
49 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

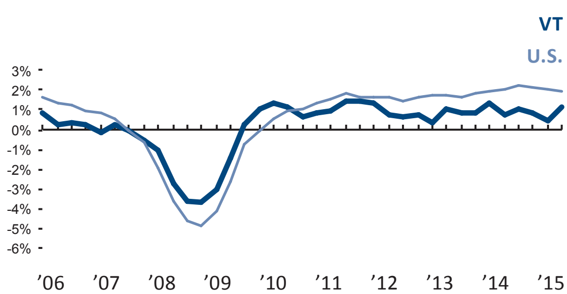
State Gross Domestic Product
Cumulative Growth 2005-2015 27.6% Rank: 41



Absolute Domestic Migration
Cumulative 2006-2015 -10,684 Rank: 27
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2005-2015 2.6% Rank: 35



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	**49**	**49**	**49**	**50**	**49**	**49**	**49**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	8.95%	43
Top Marginal Corporate Income Tax Rate	8.50%	39
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$29.05	49
Property Tax Burden (per $1,000 of personal income)	$50.62	48
Sales Tax Burden (per $1,000 of personal income)	$12.63	7
Remaining Tax Burden (per $1,000 of personal income)	$29.71	48
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	$1.75	45
Debt Service as a Share of Tax Revenue	3.9%	3
Public Employees Per 10,000 of Population (full-time equivalent)	647.0	47
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	73.8	2
State Minimum Wage (federal floor is $7.25)	$10.00	45
Average Workers' Compensation Costs (per $100 of payroll)	$2.02	37
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	0	34

Virginia

2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

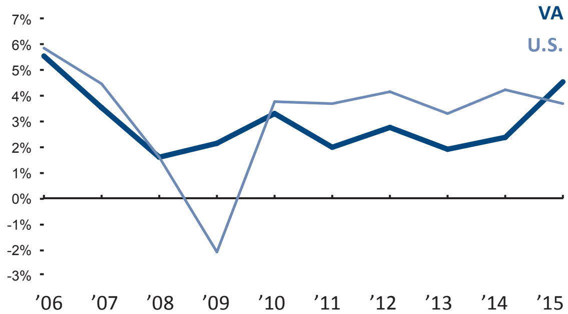
23 Economic Performance Rank

11 Economic Outlook Rank

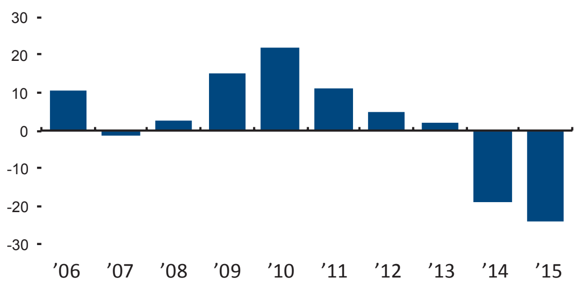
Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

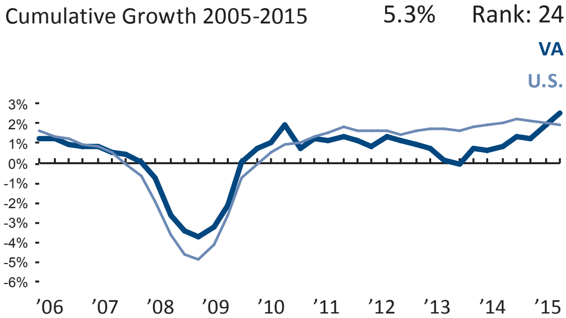
State Gross Domestic Product
Cumulative Growth 2005-2015 33.9% Rank: 28



Absolute Domestic Migration
Cumulative 2006-2015 23,600 Rank: 22
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2005-2015 5.3% Rank: 24



Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	**8**	**3**	**3**	**5**	**11**	**12**	**13**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	5.75%	25
Top Marginal Corporate Income Tax Rate	7.57%	30
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$6.45	22
Property Tax Burden (per $1,000 of personal income)	$29.79	29
Sales Tax Burden (per $1,000 of personal income)	$11.82	6
Remaining Tax Burden (per $1,000 of personal income)	$15.74	15
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	$0.56	35
Debt Service as a Share of Tax Revenue	7.3%	23
Public Employees Per 10,000 of Population (full-time equivalent)	532.2	27
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	68.3	11
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.24	5
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	0	34

Washington

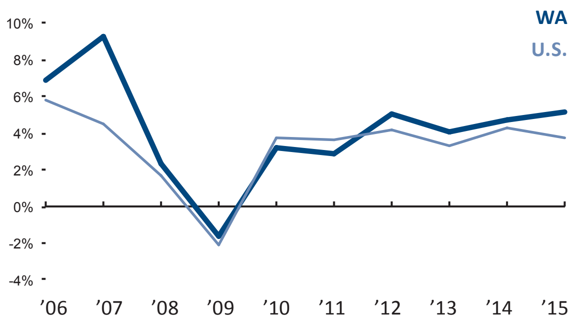
2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

3 Economic Performance Rank

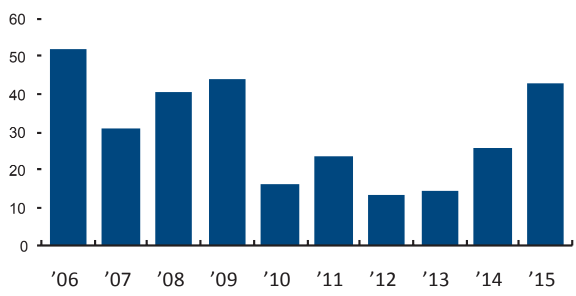
40 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

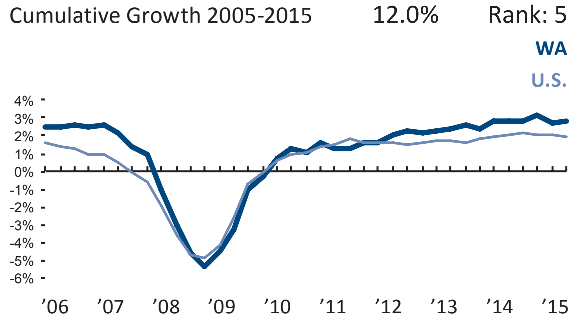
State Gross Domestic Product
Cumulative Growth 2005-2015 50.3% Rank: 6



Absolute Domestic Migration
Cumulative 2006-2015 302,829 Rank: 8
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2005-2015 12.0% Rank: 5



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	**24**	**33**	**33**	**36**	**38**	**35**	**36**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	0.00%	1
Top Marginal Corporate Income Tax Rate	6.56%	25
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$0.00	2
Property Tax Burden (per $1,000 of personal income)	$28.07	21
Sales Tax Burden (per $1,000 of personal income)	$33.16	42
Remaining Tax Burden (per $1,000 of personal income)	$22.92	43
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	$0.75	36
Debt Service as a Share of Tax Revenue	10.3%	45
Public Employees Per 10,000 of Population (full-time equivalent)	478.6	10
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	63.8	29
State Minimum Wage (federal floor is $7.25)	$11.00	49
Average Workers' Compensation Costs (per $100 of payroll)	$1.97	36
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	1	15

West Virginia

2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

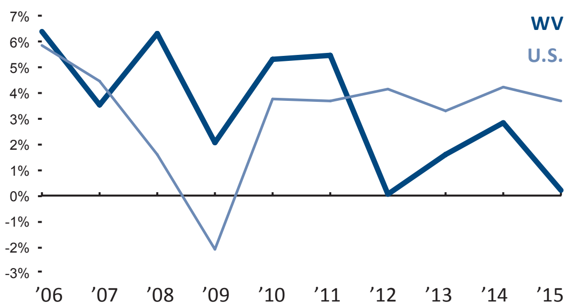
27 Economic Performance Rank

31 Economic Outlook Rank

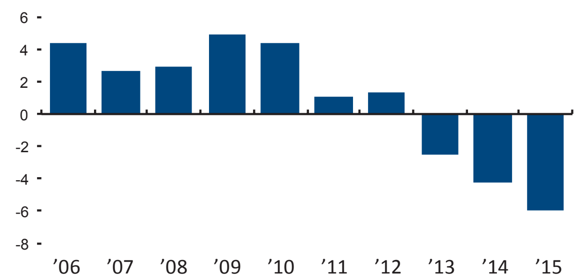
Economic Performance Rank (1=best 50=worst)

A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

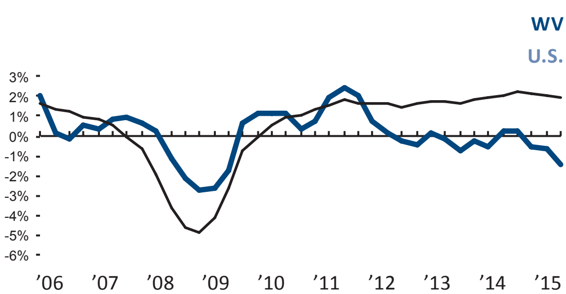
State Gross Domestic Product
Cumulative Growth 2005-2015 39.0% Rank: 19



Absolute Domestic Migration
Cumulative 2006-2015 8,874 Rank: 24
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2005-2015 1.7% Rank: 38



Economic Outlook Rank (1=best 50=worst)

A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	27	31	30	32	30	36	37

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	6.50%	28
Top Marginal Corporate Income Tax Rate	6.50%	22
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$15.53	40
Property Tax Burden (per $1,000 of personal income)	$24.29	12
Sales Tax Burden (per $1,000 of personal income)	$18.84	15
Remaining Tax Burden (per $1,000 of personal income)	$28.68	47
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	$1.39	41
Debt Service as a Share of Tax Revenue	4.6%	4
Public Employees Per 10,000 of Population (full-time equivalent)	556.0	36
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	46.3	50
State Minimum Wage (federal floor is $7.25)	$8.75	33
Average Workers' Compensation Costs (per $100 of payroll)	$1.22	4
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	0	34

Wisconsin

2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

40 Economic Performance Rank

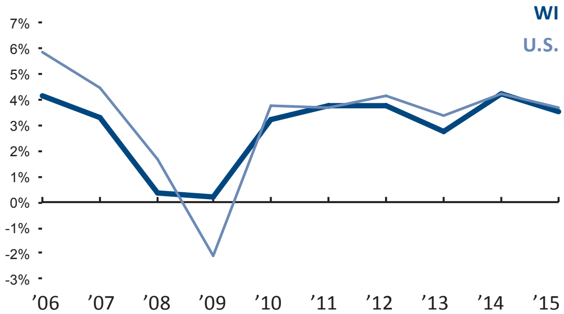
14 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)

A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

State Gross Domestic Product

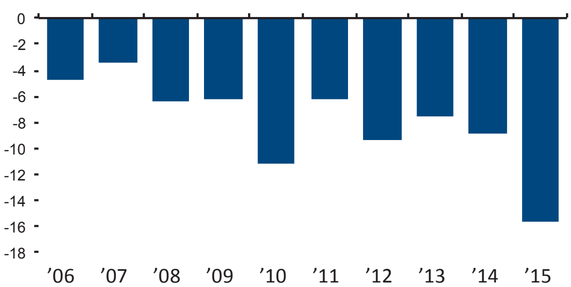
Cumulative Growth 2005-2015 33.5% Rank: 29



Absolute Domestic Migration

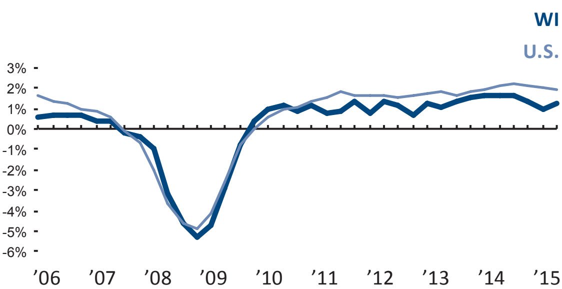
Cumulative 2006-2015 -79,667 Rank: 39

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2005-2015 2.0% Rank: 37

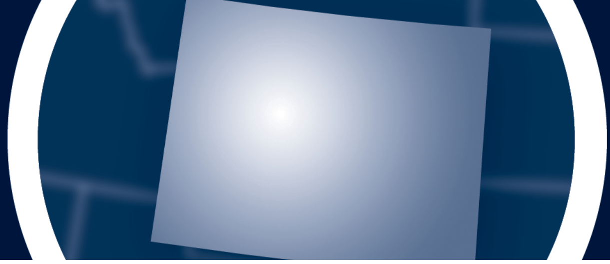


Economic Outlook Rank (1=best 50=worst)

A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	23	30	32	15	17	13	9

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	7.65%	39
Top Marginal Corporate Income Tax Rate	7.90%	33
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$4.63	17
Property Tax Burden (per $1,000 of personal income)	$38.19	40
Sales Tax Burden (per $1,000 of personal income)	$19.93	17
Remaining Tax Burden (per $1,000 of personal income)	$16.37	17
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	-$0.09	19
Debt Service as a Share of Tax Revenue	6.7%	18
Public Employees Per 10,000 of Population (full-time equivalent)	496.2	16
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	66.6	20
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.06	39
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	2	3



Wyoming

2017 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

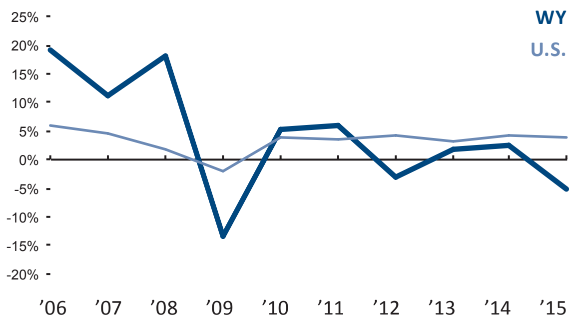
14 Economic Performance Rank

Economic Performance Rank (1=best 50=worst)

A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

State Gross Domestic Product

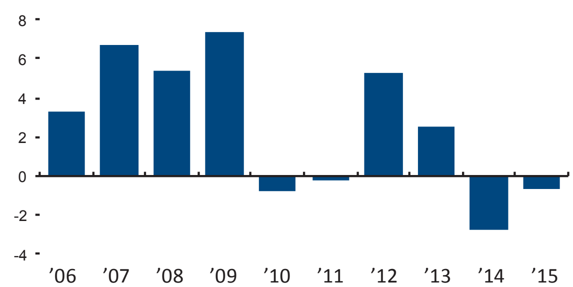
Cumulative Growth 2005-2015 45.2% Rank: 10



Absolute Domestic Migration

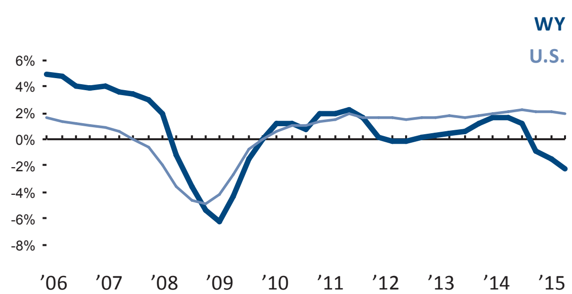
Cumulative 2006-2015 26,108 Rank: 21

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2005-2015 7.3% Rank: 18



7 Economic Outlook Rank

Economic Outlook Rank (1=best 50=worst)

A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2010	2011	2012	2013	2014	2015	2016
ECONOMIC OUTLOOK RANK	6	6	6	6	10	8	4

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	0.00%	1
Top Marginal Corporate Income Tax Rate	0.00%	1
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$0.00	2
Property Tax Burden (per $1,000 of personal income)	$39.02	41
Sales Tax Burden (per $1,000 of personal income)	$30.15	39
Remaining Tax Burden (per $1,000 of personal income)	$12.84	5
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2015 & 2016, per $1,000 of personal income)	$0.14	30
Debt Service as a Share of Tax Revenue	2.2%	1
Public Employees Per 10,000 of Population (full-time equivalent)	864.8	50
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	69.7	8
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.87	28
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	0	34

Appendix

2017 ALEC-Laffer State Economic Competitiveness Index: Economic Outlook Methodology

In previous editions of this report we introduced 15 policy variables that have a proven impact on the migration of capital—both investment and human—into and out of states. The end result of an equal-weighted combination of these variables is the 2017 ALEC-Laffer Economic Outlook rankings of the states. Each of these factors is influenced directly by state lawmakers through the legislative process. The 15 factors and a basic description of their purposes, sourcing and subsequent calculation methodologies are as follows:

HIGHEST MARGINAL PERSONAL INCOME TAX RATE

This ranking includes local taxes, if any, and any impact of federal deductibility, if allowed. A state's largest city was used as a proxy for local tax rates. Data were drawn from Tax Analysts, Federation of Tax Administrators and individual state tax return forms. Tax rates are as of January 1, 2017.

HIGHEST MARGINAL CORPORATE INCOME TAX RATE

This variable includes local taxes, if any, and includes the effect of federal deductibility, if allowed. A state's largest city was used as a proxy for local tax rates. In the case of gross receipts or business franchise taxes, an effective tax rate was approximated using NIPA profits, rental and proprietor's income and gross domestic product data. The Texas franchise tax is not a traditional gross receipts tax, but is instead a "margin" tax with more than one rate. A margin tax creates less distortion than does a gross receipts tax. Therefore, what we believe is the best measurement for an effective corporate tax rate for Texas is to average the gross receipts tax and the margin tax, leading to our measure of 2.56 percent. Data were drawn from Tax Analysts, Federation of Tax Administrators, individual state tax return forms and the Bureau of Economic Analysis. Tax rates are as of January 1, 2017.

PERSONAL INCOME TAX PROGRESSIVITY

This variable was measured as the difference between the average tax liability per $1,000 at incomes of $50,000 and $150,000. The tax liabilities were measured using a combination of effective tax rates, exemptions and deductions at both state and federal levels, which are calculations from Laffer Associates.

PROPERTY TAX BURDEN

This variable was calculated by taking tax revenues from property taxes per $1,000 of personal income. We have used U.S. Census Bureau data, for which the most recent year available is 2014. These data were released in December 2016.

SALES TAX BURDEN

This variable was calculated by taking tax revenues from sales taxes per $1,000 of personal income. Sales taxes taken into consideration include the general sales tax and specific sales taxes. We have used U.S. Census Bureau Data, for which the most recent year available is 2014. Where appropriate, gross receipts or business franchise taxes, counted as sales taxes in the Census data, were subtracted from a state's total sales taxes in order to avoid double-counting tax burden in a state. These data were released in June 2016.

REMAINING TAX BURDEN

This variable was calculated by taking tax revenues from all taxes—excluding personal income, corporate income (including corporate license), property, sales and severance per $1,000 of personal income. We used U.S. Census Bureau Data, for which the most recent year available is 2014. These data were released in September 2016.

ESTATE OR INHERITANCE TAX (YES OR NO)

This variable assesses if a state levies an estate or inheritance tax. We chose to score states based on either a "yes" for the presence of a state-level estate or inheritance tax, or a "no" for the lack thereof. Data were drawn from McGuire Woods LLP, "State Death Tax Chart" and indicate the presence of an estate or inheritance tax as of January 1, 2017.

RECENTLY LEGISLATED TAX CHANGES

This variable calculates each state's relative change in tax burden over a two-year period (in this case, the 2015 and 2016 legislative session) for the next fiscal year, using revenue estimates of legislated tax changes per $1,000 of personal income. This timeframe ensures that tax changes will impact a state's ranking immediately enough to overcome any lags in the tax revenue data. ALEC and Laffer Associates calculations used raw data from state legislative fiscal notes, state budget offices, state revenue offices and other sources, including the National Conference of State Legislators.

DEBT SERVICE AS A SHARE OF TAX REVENUE

Interest paid on debt as a percentage of total tax revenue. This information comes from 2014 U.S. Census Bureau data. These data were released in June 2016.

PUBLIC EMPLOYEES PER 10,000 RESIDENTS

This variable shows the full-time equivalent public employees per 10,000 of population. This information comes from 2015 U.S. Census Bureau data. These data were released in December 2016.

QUALITY OF STATE LEGAL SYSTEM

This variable ranks tort systems by state. Information comes from the U.S. Chamber of Commerce Institute for Legal Reform 2015 Lawsuit Climate Survey.

STATE MINIMUM WAGE

Minimum wage enforced on a state-by-state basis. If a state does not have a minimum wage, we use the federal minimum wage floor. This information comes from the U.S. Department of Labor, as of January 1, 2017.

WORKERS' COMPENSATION COSTS

This variable highlights the 2016 Workers' Compensation Index Rate (cost per $100 of payroll). This survey is conducted biennially by the Oregon Department of Consumer & Business Services, Information Management Division.

RIGHT-TO-WORK STATE (YES OR NO)

This variable assesses whether or not a state requires union membership for its employees. We have chosen to score states based on either a "yes" for the presence of a right-to-work law or a "no" for the lack thereof. This information comes from the National Right to Work Legal Defense and Education Foundation, Inc. Right-to-work status is as of January 8, 2017.

TAX OR EXPENDITURE LIMIT

States were ranked only by the number of state tax or expenditure limits in place. We measure this by i) a state expenditure limit, ii) mandatory voter approval of tax increases and iii) a supermajority requirement for tax increases. One point is awarded for each type of tax or expenditure limitation a state has. All tax or expenditure limitations measured apply directly to state government. This information comes from the Cato Institute and other sources.

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– Governor Pete Ricketts, Nebraska

"If you want to understand the best way to expand opportunity all you need to do is look to the states. While Washington, D.C., offers one-size-fits-all solutions, states are coming up with innovative models that can be studied by all and adapted by anyone. No other publication does a better job of highlighting where to look than *Rich States, Poor States*. It is a must-read for policymakers, taxpayers, and journalists alike."

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National Chairman, State Financial Officers Foundation

"A few short years ago, Michigan's economy was the worst in the nation, our population was declining, and the state ran so short of funds that it shut down twice. Now, Michigan is a national leader in job growth, our unemployment has fallen by two-thirds, and families are coming back home. We needed to identify what went wrong and change course to pursue smarter, pro-growth policies. Publications like *Rich States, Poor* States are a tremendous resource that allow us to look at real, measurable results from around the country, learn from best practices, and make better-informed policy decisions."

– Speaker Tom Leonard, Michigan

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