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# **State of the States**

An Analysis of the 2018 Governors' Addresses



# CENTER FOR STATE FISCAL REFORM

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TAX AND BUDGET SOLUTIONS FOR ECONOMIC GROWTH



## State of the States

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The *State of the States: An Analysis of the 2018 Governors' Addresses* was published by the American Legislative Exchange Council (ALEC) as part of its mission to discuss, develop, and disseminate model public policies that expand free markets, promote economic growth, limit the size of government, and preserve individual liberty. ALEC is the nation's largest non-partisan, voluntary membership organization of state legislators, with more than 2,000 members across the nation. ALEC is governed by a Board of Directors of state legislators. ALEC is classified by the Internal Revenue Service as a 501(c)(3) nonprofit, public policy, and educational organization. Individuals, philanthropic foundations, businesses, and associations are eligible to support the work of ALEC through tax-deductible gifts.

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## Introduction

In 2018, 47 governors across America delivered State of the State addresses. These addresses included numerous economic policy proposals that will affect the states' economic competitiveness. This report observes and analyzes the economic policy proposals discussed in each governor's State of the State address.

A number of different trends and priorities regarding economic policy were observed when reviewing these addresses. In a majority of the 2018 State of the State addresses, governors focused heavily on tax policy, with many pointing to the pro-growth effects their states have experienced as a result of tax relief. As a result of the first federal tax reform in more than 30 years, many states are looking forward to higher tax revenues or surpluses. A number of governors outlined their plans for this unexpected tax revenue, often with the focus of giving it back to the people through their own tax relief plans. Aside from tax proposals, many governors discussed spending, with an emphasis on infrastructure and education. Other important issues included workforce development funding, pension reform, Medicaid and healthcare spending, and government efficiency. More than a few governors proposed or lauded the creation or expansion of a variety of subsidies and tax breaks in the name of "economic development." Unfortunately, these programs come at the expense of broader tax relief and sustainable economic growth. Notably, few governors took on the minimum wage issue, possibly in response to its recent economic failures in several cities and states.

Most governors seem to understand that lower tax rates and limited government give citizens and businesses a greater incentive to reside and operate in their states compared to those with higher tax rates and more regulations. This concept is further explored in the Center for State Fiscal Reform's *Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index*, in which more than 10 years of empirical economic data from each state are examined to determine what economic policies lead to prosperity.<sup>i</sup> Generally, states with lower tax rates, fewer regulations, and responsible spending habits outperform other states in terms of economic growth.<sup>ii</sup> Based on the observations made in reviewing the 2018 State of the State addresses, many governors are following these policies to help their states better compete for residents, jobs, and capital.

## Best State of the State Addresses, 2018

The following lists contain summaries of the best State of the State addresses of 2018, based on the economic policy proposals on such matters as taxation (including income, property, sales, and fuel), tort reform, right-to-work, pension reform, regulatory reform, and minimum wages. The “best” addresses featured proposals proven to enhance economic competitiveness and growth. The addresses are ordered by the last name of the state’s governor. Each state’s economic outlook ranking in the 11<sup>th</sup> edition of *Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index* (2018) is also included.<sup>iii</sup>

### Best of the Best

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*Photo By Jim Bowdoin*

#### **Maine – Governor Paul LePage**

*Rich States, Poor States* 2018 Economic Outlook Ranking: 42

In his final state of the state address, Governor Paul LePage outlined a series of proposals ranging from conforming the state income tax code to the federal code, implementing voter-approved Medicaid expansion in as fiscally responsible a way as possible, and pursuing substantive property tax reform. In the 13 states (including Maine) that link their personal exemption to the federal personal exemption, some individuals might experience an increase in their state income taxes should lawmakers fail to act.<sup>iv</sup> Gov. LePage declared he “will not support any conformity measure that results in a net increase in income taxes.” His proposal ensures federal code conformity and ensures the state tax burden does not grow.

Since Maine voters approved a ballot initiative to expand Medicaid, Gov. LePage declared plans to implement Medicaid expansion as responsibly as possible through four guiding principles<sup>v</sup>: “(1) No tax increases on Maine families or businesses. (2) No use of the ...Rainy Day Fund. (3) No use of other one-time funding mechanisms—known as budget gimmicks. (4) Full funding for vulnerable Mainers who are still waiting for services, and no reduction of services or funding for our nursing homes or people with disabilities.”

The governor also touched on property tax exempt real estate, noting Maine’s municipalities report \$18 billion of exempted property. As a result, homeowners are forced to pay higher property taxes to the tune of \$330 million annually. His call for property tax reform required political courage as the property tax is highly visible. The governor indicated he intends to conclude his tenure the way he began: tirelessly chasing economic and tax reform.



### **South Carolina – Governor Henry McMaster**

*Rich States, Poor States* 2018 Economic Outlook Ranking: 33

In his first State of the State address, Governor Henry McMaster declared that federal tax reform and state tax cut proposals promise a new era of opportunity.<sup>vi</sup> His remarks contained key proposals to cut taxes and rein in government excess. The governor's budget included nearly \$2.2 billion in cumulative tax relief over the next five years. Under the plan, each of the state's five tax brackets would be lowered by 1 percentage point per year for five years, saving residents \$139 million in just year one.<sup>vii</sup> He said the change would enhance financial well-being during retirement and would help improve workforce retention. Gov. McMaster also pointed out "South Carolina currently has the highest marginal income tax rate in the southeast...taxes of all kinds at all levels add up – little by little – to smother growth," imploring lawmakers to consider a comprehensive overhaul of the

state's tax code.

Looking to address the state's large unfunded pension liability, Gov. McMaster called lawmakers to close the state's defined benefit system to new entrants and move to a sustainable defined contribution model. The system's official report show \$24 billion in unfunded liabilities, but the situation is far worse under more realistic actuarial assumptions. According to the latest edition of *Unaccountable and Unaffordable*, unfunded public pension liabilities in the state totaled \$81.9 in 2017 when valued using a risk-free rate of return.<sup>viii</sup> Gov. McMaster applauded prior pension reforms that increased employee and employer contributions. Asking lawmakers to build on this, he proposed reforms to cost-of-living adjustments and age of retirement eligibility. In fiscal policy, Gov. McMaster called for increased spending on workforce education. His proposal focused on rural communities, aiming to connect high schools with technical colleges. Further, he proudly announced the state's Department of Education found \$338 million in potential savings over five years simply from consolidation and noted they would allow funding prioritization on those activities making the most impact on student education. The governor showed he understands opportunities flourish by lowering the burdens of excessive taxation and bloated government. The reforms he hinted at will be welcomed by many taxpayers.



### **Iowa – Governor Kim Reynolds**

*Rich States, Poor States* 2018 Economic Outlook Ranking: 29

In her first State of the State address, Governor Kim Reynolds covered a wide variety of topics from the prior legislative session's accomplishments to her tax and fiscal agenda moving forward.<sup>ix</sup> Some of the accomplishments she touted include balancing the state budget while protecting taxpayers, preparing students for the changing economy, and reforming collective bargaining. Gov. Reynolds' priorities for the 2018 session included improving the water quality in the state, investment in rural Iowa, fixing the state's health care market, tax reform, focusing on mental health care, stemming the opioid crisis, and recalibrating the education system to enable students to seize the opportunities of the 21st century

economy. The governor focused on the impact on the state of the federal Tax Cuts and Jobs Act of 2017. She celebrated that “across the board, in virtually every income bracket, Iowans will see relief, and for that, I want to thank Congress and the President.” Gov. Reynolds elaborated on her discussions with Iowans struggling financially who will now benefit from lower federal taxes.

At the same time, Gov. Reynolds warned that absent legislative action to alter the state tax code, Iowans will effectively see a tax *increase* on their state tax returns. Iowa is one of only three states with a full federal deductibility provision, which allows taxpayers to fully deduct their federal taxes from their state return.<sup>x</sup> Gov. Reynolds declared she will propose “a tax reform package that significantly reduces rates, modernizes our tax code, eliminates federal deductibility, and provides real tax relief for middle-class families, farmers, and small businesses.” She expects substantive reforms over a multi-year period and plans to create a bipartisan task force to analyze the state’s many inefficient tax credits.



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

*Rich States, Poor States* 2018 Economic Outlook Ranking: 49

Governor Phil Scott exemplified non-partisan, economic realism during his State of the State address. Over the past decade, Vermont has faced extreme economic difficulties, many self-inflicted and some due to swiftly changing macroeconomic trends. The governor called the state legislature to “restore our economic and fiscal foundation to ensure we have the funding needed to achieve our aspirations for Vermont.”

Gov. Scott pointed out that as a slow-growth economy with a much smaller tax base than other high tax states, any additional tax burden is one Vermonters “cannot afford.” He also gave voice to an uncomfortable truth: social services are largely contingent on economic growth, and warned that without broad, economic growth, even core services such as infrastructure could be curtailed. Further, Gov. Scott acknowledged a rapidly eroding tax base, saying that high “costs deter young people from moving or staying here and encourage older Vermonters to leave for a more affordable retirement elsewhere. In fact, from 2013 to 2016, 2,000 more tax filers moved out of state than moved in, according to IRS data. This alone represents \$150 million in adjusted gross income leaving our state.”

Going forward, he promised to again fend off tax increases, despite a projected budget deficit. According to the governor, a resolution to the shortfall is not binary choice of “cut programs we value, or raise taxes.” The third way asks all to “come together, and focus our efforts on growing our working-age population. If we do this, we can expand our tax base.” The latter choice is the only long-term solution for Vermont’s demographic and fiscal crises.

The governor promised to “present a budget that continues our transition to a strategic and results-based approach” which will allow the state to provide more services to residents without raising taxes. The address included recommendations such as developing metrics, budgeting for performance, and weeding out inefficient practices (see the Program to Improve Vermont Outcomes Together).<sup>xi</sup> The governor’s clear strategy is one of no tax increases, the continuation of budget reform, and exploration of ways to reduce the cost of living in the Green Mountain State. Economic opportunity can



reverse the population trend by ending the exodus of young adults and attracting new workers and businesses to communities in dire need of revitalization.



**Florida – Governor Rick Scott**

*Rich States, Poor States* 2018 Economic Outlook Ranking: 6

In his final State of the State, Gov. Rick Scott renewed the call for more pro-growth tax relief, lower licensing fees, and regulations.<sup>xii</sup> He also asked for a constitutional amendment requiring supermajority approval of the legislature before taxes can be raised. He cited many improving key economic metrics over the past seven years, including that the private sector added nearly 1.5 million jobs, the GDP grew 26 percent, state debt fell by \$9 billion, and the unemployment rate dropped from over 10 percent to a 10 year low of 3.6 percent. Gov. Scott applauded the cumulative \$7.5 billion in tax reductions over his tenure, crediting Florida's incredible economic rebound to the nearly 80 times lawmakers were able to cut taxes.

Looking to the future, Gov. Scott outlined a series of narrowly targeted tax cuts aimed at helping consumers, including more sales tax holidays for hurricane and emergency preparedness supplies. In efforts to reduce regulatory burdens, he called for reducing new driver's license fees to \$20. Sadly, these proposals will generate minimal economic growth. By contrast, permanently reducing overall tax rates and broadening the base through closing loopholes and eliminating exemptions will enhance economic growth and efficiency.

Perhaps his most important call for pro-taxpayer action was a constitutional amendment to require a two-thirds majority in the legislature to raise taxes. A stronger than currently existing limitation on the growth of government will "force leaders to contemplate living within their means rather than taking the easy way out and just sticking it to the public by raising taxes on families and job creators." This type of amendment would safeguard the pro-growth reforms of the past seven years and Gov. Scott's legacy as a champion of economic growth. Enacting a supermajority requirement in his final year fits well with his closing plea to "fight together until our last minute...to secure Florida's future for every family."





## Worst Policy Proposals, 2018

The following contains a list of the “worst” policy proposals based on their propensity to hinder economic competitiveness, growth, and prosperity.

### Taxes

Alaska Governor Bill Walker’s “long-term sustainable fiscal solution” centered on tax hikes. While specifics were sparse, he called for “broad-based direct participation by individuals” in the revenue scheme and a need to establish “a financial connection between its economy and the government services provided.” Specifically, he continues to favor an economically damaging payroll tax.

Louisiana Governor John Bel Edwards demanded lawmakers renew a slew of expiring tax hikes or face making \$692 million in cuts, outlining several popular programs facing cuts. Left unsaid was the fact that Louisiana’s total appropriations grew by a shocking 25.5 percent between 2014 and 2017 – more than five times the annual rate of inflation during the same period.<sup>xiii,xiv</sup>

Oklahoma Governor Mary Fallin endorsed a series of significant tax hikes in her address. Shortly thereafter, she signed into law legislation nearly doubling cigarette taxes, increasing diesel taxes by 6 cents per gallon, and increasing gasoline taxes by 3 cents per gallon. In addition, Oklahoma more than doubled the gross production tax on many oil and gas wells from 2 percent to 5 percent.

Pennsylvania Governor Tom Wolf once again embraced a severance tax on oil and natural gas extraction to be imposed on top of both the existing impact fee and the state’s high corporate income tax. This would make Pennsylvania a less competitive state for energy exploration, development, and extraction.

Washington Governor Jay Inslee once again called for enactment of a carbon tax. “Now is the time to join in action and put a price on carbon pollution,” advised Gov. Inslee. As summarized in *The News Tribune*, “The plan would tax carbon emissions generated by transportation fuels and power plants at \$20 per metric ton starting in July of 2019.<sup>xv</sup> After that, the tax would increase by 3.5 percent each year, plus inflation.” The tax would generate an estimated \$1.5 billion in higher taxes in just the first two years.

### Minimum wage

Connecticut Governor Dannel Malloy called for raising the minimum wage to \$15 per hour. Louisiana Gov. John Bel Edwards pushed for a state minimum wage to reach \$8.50 per hour by 2020 despite recent evidence of the failure of minimum wage laws in Seattle and other localities.<sup>xvi</sup> Employees on the margins are often laid off or have their hours reduced to ensure the cost of the employees are equal to their output.

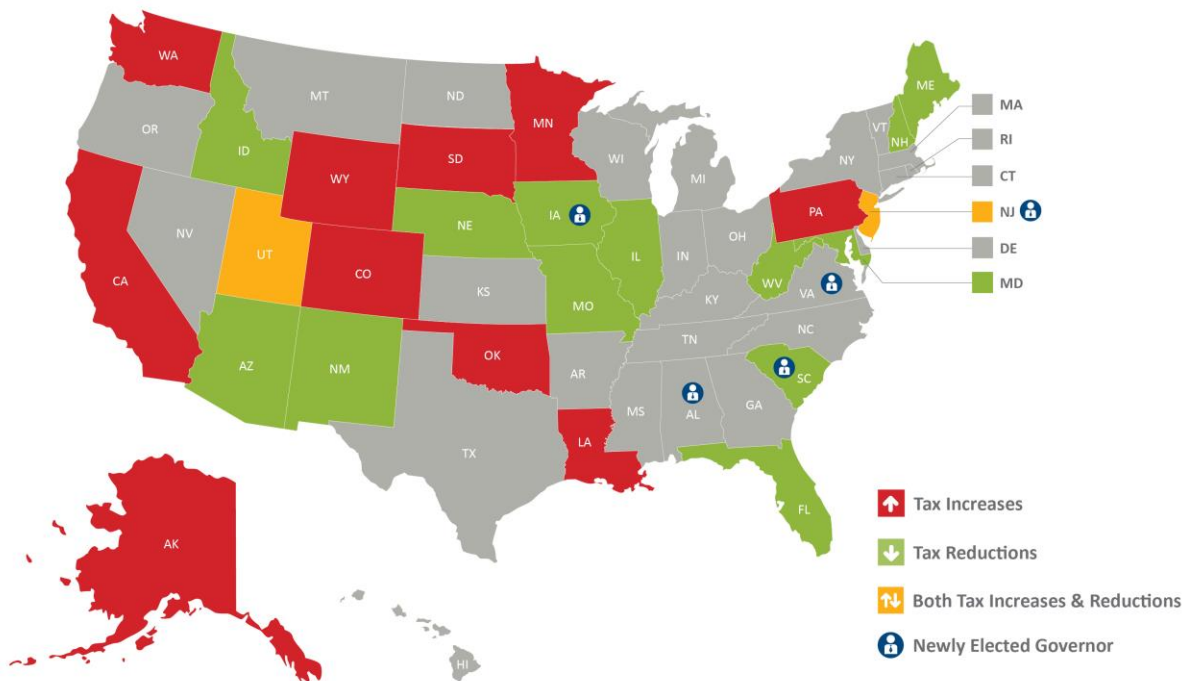
### Energy Regulations

California Governor Jerry Brown promised a plethora of energy regulations, including a 50 percent renewable electricity mandate, and more zero-emissions vehicle incentives. Connecticut Gov. Dannel Malloy declared that we should “mandate that by the year 2030, 75 percent of Connecticut energy is clean energy.” Hawaii Governor David Ige applauded the state’s decision “to abide by the Paris Climate Accord” and require “100% of Hawaii’s electricity to come from renewable sources by 2045.” These proposals will sadly harm lower income households and small businesses the most.<sup>xvii</sup>

## Tax Policy

Tax policy was a major topic in many of the governors' State of the State addresses. This year, 25 governors offered some form of significant tax policy proposal. Contrary to last year, more governors called for tax reductions than tax increases. This year, 13 governors proposed only tax reductions, while 10 exclusively pushed for tax increases. Governors in two states proposed both. The following map shows which governors called for tax increases, tax reductions, or both, in their addresses this year.

### 2018 GOVERNORS' TAX PROPOSALS



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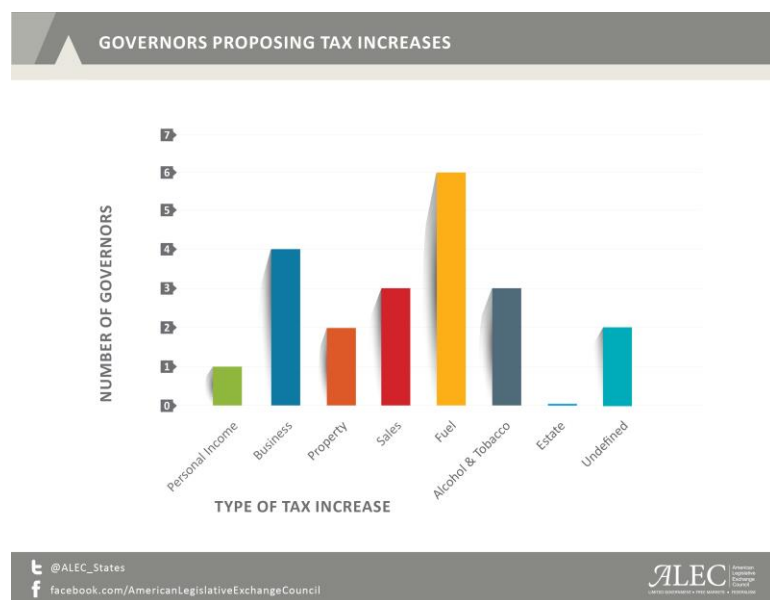
While a few states that last year faced very tight budgets continue to struggle, a majority of states are busy counting up the extra tax revenue they're receiving as a result of the 2017 federal tax reforms.<sup>xviii</sup> Although many governors are still focused on raising revenue or hiking spending, a number of governors grabbed ahold of the federal momentum and called for spending cuts and a complete overhaul of their state's tax code.

Refreshingly, more governors called for tax relief than tax increases, and a number proposed substantial tax reforms in their addresses. All taxes harm economic growth, but some taxes are more harmful than others. Income and capital gains taxes, which discourage work and investment, are found far more harmful to an economy than sales and property taxes.<sup>xix</sup>

Gov. Henry McMaster of South Carolina proposed possibly the largest tax and fiscal reforms of any governor this year. To start, his budget included nearly \$2.2 billion in cumulative tax relief by lowering each of the state's income tax brackets by 1 percentage point each year for five years. Further, he worked with a variety of state agencies to find efficiency savings, the most significant being the \$338 million in education spending savings simply from consolidation and prioritization.

These plans for growth are in stark contrast to Washington, where Gov. Jay Inslee once again pushed for a carbon tax that would hike taxes by some \$3 billion. An unfortunate court mandate on education spending substitutes higher spending for true education reforms and school choice, hamstringing lawmakers' available options. The carbon tax is just one of the many proposed tax hikes to speed up the mandated funding fix. Down South in Louisiana, Gov. John Bel Edwards called lawmakers to renew more than \$600 million in expiring tax and fee hikes, and therefore pass the buck on addressing the state's excessive spending problems. Worse, Gov. Edwards again renewed his call for a minimum wage hike to \$8.50 per hour by 2020. To his credit, Gov. Edwards also proposed major occupational licensing reforms and created a review committee to tackle the issue. Onerous licensing regulations stymie entrepreneurship and social mobility. It is refreshing to see Gov. Edwards take such a strong stance on the subject, his minimum wage and tax hike proposals would simultaneously hurt taxpayers.

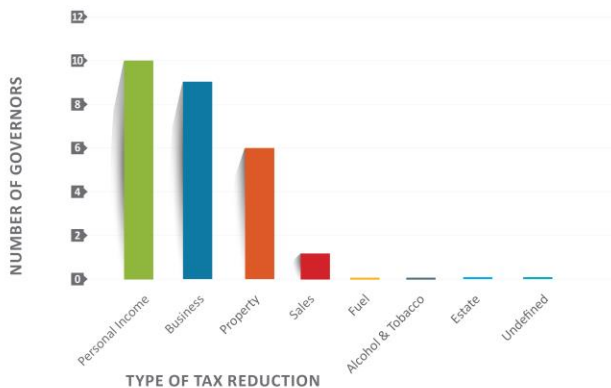
The following graphs break down the types of tax increases and reductions governors called for in their addresses. They include proposals regarding tax rates, eliminating or enacting new taxes, and any significant, broad-based tax credit changes. If the governor did not specify a particular type of tax, the proposal is labeled "Undefined."



An increasing number of states are beginning to recognize the consequences to economic growth and revenue stability of reliance upon personal and corporate income taxes. This year, only Alaska Gov. Bill Walker proposed personal income tax hikes of some variation. For the third year in a row, he called on the legislature to reestablish some form of the personal income tax, which the state repealed in 1980.<sup>xx</sup>

Studies continue to show how dependence on volatile income tax revenue poses a threat to state budget stability, especially when paired with a progressive structure.<sup>xxi</sup> Retail sales taxes, specifically those with the broadest bases and lowest rates, offer a less volatile alternative to income taxes.<sup>xxii</sup> It is not surprising, then, that some governors called for increases in the state sales tax. Regrettably, many of the proposals to increase reliance on sales taxes merely shifted burdens or left base-narrowing carveouts in place. Other governors coupled their desire for increased sales taxes with proposals for gas and fuel tax hikes or discriminatory taxes on alcohol and cigarettes.

## GOVERNORS PROPOSING TAX REDUCTIONS



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In a particularly disturbing reversal from her prior status as a promising tax reformer, Oklahoma Gov. Mary Fallin continued her push for a variety of tax hikes on cigarettes, fuels, and energy production. Although Oklahoma's 3/4 supermajority requirement staved off multiple tax hike attempts throughout the legislative session, the House and Senate ultimately enacted approximately \$450 million in tax hikes.<sup>xxiii</sup> The growth in tax burdens in addition to hikes in spending are only likely to worsen economic woes.

Discriminatory taxation as a revenue generator that simultaneously promotes public health is a tempting policy move. However, both goals may fail to be realized. A recent study examined the unintended consequences of a tobacco tax increase in the state of Minnesota. When the state increased the tax by 130 percent in 2013, retailers along the Minnesota border saw a decrease in tobacco revenue—not because consumers were smoking less, but because they shifted consumption to nearby states. This affected their sales of other products as well, costing small Minnesota businesses in the area more than \$38 million in non-tobacco revenue.<sup>xxiv</sup> Putting aside their efficacy in raising revenue or altering behavior, singling out specific industries by imposing discriminatory taxes on their products is not just bad tax policy – it's also unfair.

Other categories of taxes mentioned this year were business taxes and property taxes. Maine Gov. Paul LePage took a bold stance against both cronyism and the state's high property tax burden, noting a variety of property tax exemptions totaling \$330 million leave citizens to foot the bill while politically connected entities get off easy. Rhode Island's Governor Gina Raimondo called lawmakers to build on prior reforms to the Unemployment Insurance Tax and find more ways to reduce tax burdens on entrepreneurs and job-creators. In stark contrast to last year's tax hike proposals, Governor Jim Justice of West Virginia proposed a substantial tax reform bill aimed at lowering taxes on manufacturing machinery, inventory, and equipment. Lowering economically damaging "business-to-business" taxes like these could prove especially helpful to the state's competitiveness.

Corporate income taxes are one of the most harmful forms of taxes that can be levied on an economy because they make it more difficult for businesses to innovate, hire employees, and raise wages. Statistics show that "States with the lowest corporate income tax substantially outperform their high tax counterparts in population growth, net domestic immigration, non-farm payroll employment growth, personal income growth, and gross state product growth."<sup>xxv</sup>



# Fiscal Policy

## Regulatory Reform and Government Efficiency

Many governors expressed their desire for regulatory reform in their State of the State addresses. Needless bureaucracy and wasteful government programs hinder both the lives of citizens and business operations.

Nebraska Governor Pete Ricketts acknowledged much work remains following a review last year of the state regulatory burden uncovered more than 7.5 million words of state regulations. New Hampshire Governor John Sununu discussed his three-phase approach to deregulation. Last year alone, by executive order, over 1600 regulations were removed from New Hampshire's books. Several weeks ago, the Regulatory Reform Steering Committee, created by Gov. Sununu last year, released further suggestions for comprehensive reform.

In particular, several governors discussed the importance of occupational licensing reform. Across the nation, tradespeople in a variety of professions ranging from hair braiding to florists to electricians to barbers find relocating to a new state difficult due to state-specific licensure requirements. Most notably, South Dakota Governor Dennis Daugaard proposed to alter state alcohol laws which currently discourage microbreweries from setting up shop in the state. The governor is working closely with the Trump Administration to streamline professional licensure. South Dakota is eager to enter into agreements with other states to create reciprocity or at the very least to grant relocating practitioners 18 months to work while obtaining a license in the new state. Florida Gov. Rick Scott also called for lower licensing fees and regulations.

Others expressed the need to cut bureaucracy in order to get government out of the way of the private sector. For example, Vermont Gov. Phil Scott promised to “present a budget that continues our transition to a strategic and results-based approach” which will allow the state to provide more services to residents without raising taxes. The address included recommendations such as developing metrics, budgeting for performance and weeding out inefficient practices.<sup>xxvi</sup> Kentucky Governor Matt Bevin stressed the need to “get the state’s financial house in order” by thinking strategically about what government dollars should and should not be funding. With a laser- sharp focus on “PIE” (protection, infrastructure, and education), his budget calls for a 6.25 percent spending reduction by eliminating 70 government programs and slicing administrative and overhead costs.

Cutting the most wasteful and economically harmful items in the budget allows for efficiency and inexpensively providing the core functions of government. While following through with measures such as these can be difficult for many states, prioritizing state spending is much more beneficial than traditional “tax-and-spend” methods.

The *State Budget Reform Toolkit* points to priority-based budgeting as an excellent solution to fixing state budget problems.<sup>xxvii</sup> This defining what the proper role of government is, and then asking what essential services government should provide, if government is doing its job, what government programs and services should cost and, if cuts must be made, how to properly prioritize those cuts. This type of budgeting helps aid government efficiency by cutting costs, and provides the opportunity to reallocate the savings from those cuts into more productive government programs or return money to taxpayers.



## Medicaid

Due to its share of the budget and its political importance, five governors discussed Medicaid to a substantive extent. Idaho is one of 18 states not adopting Medicaid expansion under the Affordable Care Act (ACA) provisions.<sup>xxviii</sup> Governor Butch Otter's healthcare plan may prove controversial. The proposed Idaho Health Care Plan would allow "those with the most costly, medically complex conditions to move their coverage to Medicaid during the course of their illness." The intended outcome is enabling health insurers to lower premiums on the relatively healthier plan holders as those in need of the most care transfer to Medicaid. The governor claims this is "not expanding Medicaid." But although these eligibility changes would be unrelated to the ACA, Medicaid eligibility technically does expand under the proposal with federal dollars funding more than 70 percent of the expansion. Growing the size of government in a manner so similar to ACA expansion may prove controversial. The debate over Medicaid expansion likely will continue with a possible Medicaid Expansion Initiative on the ballot in November.

Alaska Gov. Bill Walker boasts that "nearly 40,000 additional Alaskans are now receiving healthcare since I accepted Medicaid expansion....Medicaid expansion has brought over \$500 million additional federal dollars and hundreds of jobs into our economy during a time of recession, all at a minimal cost to the state." Advocates for expansion often reason that regardless of their position on the ACA, the state should take advantage of the "free" federal dollars that are being offered. However, federal dollars for this expansion gradually taper, leaving the state with the financial responsibility for the costs of this increased caseload. In Arkansas, nearly 60 percent of the \$172 million increase in the Department of Human Services spending stems from the increase in the state's share of Medicaid expansion costs under the Affordable Care Act (\$35.7 million) and changes in the Medicaid matching rate (48.6 million). Unfortunately, budget actuaries continue to underestimate costs for Medicaid expansion beneficiaries.<sup>xxix</sup> Future governors will likely struggle with these costs.


Oddly enough, Colorado Governor John Hickenlooper suggested the Affordable Care Act (ACA) has made it more likely for people to "take a chance and start a business." Many small business owners impacted by the mandates and regulations ardently disagree and it's getting worse in Colorado on the ACA front with individual plan premiums on the state's insurance exchange leaping by nearly 27 percent this year on top of the 20 percent in 2017.

Medicaid expansion is not the best policy to help families. According to the Congressional Budget Office, the ACA, including Medicaid expansion, will cause 2.5 million full time employees to leave the workforce by 2024.<sup>xxx</sup> Furthermore, the Foundation for Government Accountability found that not only would 2.5 million adults leave the workforce by 2024, but it could cost them nearly \$2,000 in benefits for earning more than \$1 above the eligibility limit.<sup>xxxi</sup> Furthermore, the National Bureau of Economic Research found that expanding Medicaid to able-bodied adults decreased their earnings.<sup>xxxii</sup>

Minnesota Gov. Mark Dayton now acknowledges the "failures of the ACA are having devastating effects on the lives of many Minnesotans." Five years ago the state enjoyed some of the lowest individual health market premiums in the country, but now ranks in the middle of the pack after only a few years of skyrocketing premiums. Gov. Dayton suggested increasing competition and choice in the marketplace as a possible remedy, an undoubtedly prudent move.

Families need access to excellent, cost-effective, patient-centered medical care. The best way to achieve this objective is through free-market reforms that prioritize patient choice, increase quality and control costs. This can be achieved through a close collaboration with hospitals and insurers. It is particularly





important to work with stakeholders for public insurance to keep costs down and not revert to depending on increases in federal funding at a time when the future of the ACA is uncertain.

### **Education spending**

Education featured prominently in addresses by governors in more than a dozen states. Unfortunately, the focus remained primarily on funding increases rather than on bureaucratic reforms, instructional quality, and expanded school choice. Of note, Georgia Governor Nathan Deal boasted about the increase of \$3.6 billion in education spending "over the past seven years." State education expenditures throughout his tenure are on track to reach roughly \$14 billion. He called for investing more in the state's K-12 programs to improve a "chronically failing" system. Unfortunately, simply spending more money has repeatedly failed to get better results. Kansas Governor Sam Brownback promised \$600 million in new education spending over the next five years. In Rhode Island, Gov. Gina Raimondo requested more than \$1 billion of increased education funding over the next five years, declaring a need for "once-in-a-generation investment to fix our schools." Tennessee Governor Bill Haslam asked lawmakers for more than \$200 million in additional funds for K-12 and \$100 million more for higher education. Michigan Governor Rick Snyder announced he will "be proposing the largest increase in the basic per-pupil student foundation allowance in the last 15 years."


Oklahoma proved most jolting in the spending category. Gov. Mary Fallin vocally supported tax hikes to pay for large increases in education spending. As a result of the package signed into law shortly after her address, pay is set to increase by \$6,100 per teacher. With this increase, Oklahoma is 31st highest in teacher pay, a big jump from 2nd lowest. However, simply comparing teacher pay without taking into consideration cost of living adjustments provides a skewed analysis. For instance, the cost of living is nearly 12 percent less in Oklahoma City compared to Phoenix and 24 percent less compared to Miami. Incidentally, statewide teacher pay prior to the \$6,100 increase was just 4.6 percent less in Oklahoma compared to Arizona and 8.4 percent less compared to Florida.<sup>xxxiii</sup> Despite the giant pay raise, teachers still walked out days later demanding more.

Some governors did focus on reform. Indiana Governor Eric Holcomb called for modernizing the state's education system and preparing Hoosiers for the 21st-century economy. This includes apprenticeships, on-site training and education opportunities, and prison programs. Mississippi Governor Phil Bryant reaffirmed his support for updating the education funding formula and expanding school choice. New Hampshire Gov. John Sununu rejected a "one-size-fits-all" approach to education and suggested Education Savings Accounts to make the state's system more competitive. New Mexico Governor Susana Martinez proposed 2 percent raises for all teachers along with a \$5,000 bonus for high-performing teachers but also recognized increased spending alone will not eradicate public education problems. She hopes to cap state education dollars being spent on administrative expenses. In addition, she wants to expand the options available to parents of children attending failing schools.

### **Tax Cronyism**

Preferential giveaways to a favored few creates higher tax rates for everyone else. The jobs "created" by the favoritism are seen and thus easily referenced as evidence of "success" by politicians, but unseen are the many more jobs lost or never created due to the forced diversion of capital from other possible enterprises. Instead of flooding a few enterprises with taxpayer capital, lowering overall tax rates broadly applied would spark sustainable, higher growth. The ALEC report *Unseen Costs of Tax Cronyism: Favoritism and Foregone Growth* explains this in full.<sup>xxxiv</sup> The following are several examples of calls for tax favoritism in this year's state of the state addresses.





Colorado Gov. John Hickenlooper touted the Rural Venture Fund as a means to “reinvigorate more of our smaller communities.” The fund is well-intentioned “to incentivize companies and...entrepreneurs,” but is “backstopping loans for rural markets” the best solution to spark more widespread economic growth? Too often, state-run investment entities divert limited capital to companies unable to successfully and fairly compete for funding on an even, private-sector playing field

New Mexico Gov. Susana Martinez focused on the closing fund that has “helped create thousands of jobs.” This typically consists of grants to new or expanding businesses for land, buildings, or infrastructure.<sup>xxxv</sup> In New Mexico, local governments are permitted under the Local Employment Development Act (LEDA) to pass local option gross receipts taxes to pay for “qualified” projects. In particular, the governor boasted of the \$40 million of tax dollars used to stoke the “catalyst fund” for tech companies. She also embraced the preferences for in-state companies for state contracts. Picking winners and losers based on place of domicile is not sound policy.


Indiana Gov. Eric Holcomb discussed “upping the ante” for a variety of state initiatives, including the Indiana Economic Development Corporation. This unfortunately could involve government taking a central planning role to lure businesses to Indiana with tax breaks and other incentives.

Louisiana Gov. John Bel Edwards noted the state was listed by several magazines among the top states for per capita economic development investments. Unfortunately, this merely reflects the state’s propensity for subsidies and tax handouts.<sup>xxxvi</sup> According to Gov. Edwards, Louisiana “landed 43 new projects totaling \$4.6 billion in capital investment” in 2017. All told, “nearly 24,000 more Louisianans gained employment,” due to these investments, the governor claimed. Unfortunately, these investments have cost taxpayers billions through the state’s Industrial Tax Exemption Program (ITEP).

Georgia Gov. Nathan Deal bestowed undue credit for these successes on the special favors doled out by the state’s Department of Economic Development. He cited the 377 business expansions statewide generated by some \$6.33 billion in investments. In particular, the governor singled out the state’s film production industry which generated \$9.5 billion in the past year alone, a huge growth over \$241 million just 10 years ago. He further lauded the industry for being responsible for more than 92,000 jobs in the state, with average salaries around \$84,000. Targeted tax breaks, subsidies, or preferential treatment incentivized many of these investments. The Peach State has a long history of favoring certain industries, through tax preferences.<sup>xxxvii</sup> Sadly, these tax incentives come at a high cost.

As a positive, New Jersey Governor Phil Murphy decried “massive tax breaks to a handful of select and connected big corporations,” like the \$7 billion Amazon proposal. The American Legislative Exchange Council, Americans for Prosperity, and New Jersey Policy Perspective, unlikely allies, spoke out against the proposal in October.<sup>xxxviii</sup> Unfortunately, the governor remains opposed to broad-based tax rate reductions.

Texas Governor Greg Abbott’s *Report to the People of Texas* claims the Texas Enterprise Fund (TEF) provides “financial resources to help strengthen the state’s economy.”<sup>xxxix</sup> In 2017, TEF “helped close the deal” on 21 projects representing roughly \$655 million in new capital investments over the last two years. Unfortunately for taxpayers, doling out TEF subsidies and tax incentives worth \$230 million represents a high opportunity cost to individuals and businesses forced to pay higher rates. Rhode Island Gov. Gina Raimondo argues “performance metrics” or cost-benefit analysis make her incentives



programs superior to those in other states. She also boasts of the diversification of Rhode Island's programs. But despite any visible results in the select companies in a variety of industries receiving the handouts, tax rates remain higher for everyone else as a result. This stunts broad prosperity and economic growth.

Unfortunately, Delaware Governor John Carney's solution for his state's lack of job growth is an expansion of crony tax subsidies and carve outs rather than broad-based reform. He boasted that the state has "partnered with the private sector to drive job creation...[and] directed new resources to support small business," and called for an expansion of the Angel Investment Tax Credit. This tax credit flows for particular "qualified investors" in specific types of businesses. This does nothing to reduce the negative impact of the 11.69 percent top corporate income tax rate—the 3rd highest in the nation. And special favors do nothing to alleviate the damage from the 11th highest top personal income tax rate of 7.85 percent.


Wyoming Governor Matt Mead's focus on the Economically Needed Diversity Options for Wyoming (ENDOW) is somewhat troubling. The governor's budget indicates several ENDOW activities potentially at odds with a free market economy, including "stimulating new and emerging industries" and "allocating resources to best promote economic diversification." A better way to spur growth and innovation would be to lower tax rates across the board.

By giving special deals to a select few companies, tax rates remain higher for everyone else. In addition, experts continue to argue that tax incentives are rarely the reason for relocation decisions. A focus on maintaining low tax rates, quality education, and core infrastructure is preferable to any form of state favoritism towards specific businesses or industries.

### **Public Pension Reform**

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

The good news is that governors from both political parties are beginning to recognize the grave threat that unfunded liabilities pose to their state budgets, calling for reform in their State of the State addresses. This looming debt crisis threatens taxpayers and public workers. South Carolina Gov. McMaster decried the state's large unfunded liability, calling lawmakers to close the state's defined benefit system to new entrants and move to the more sustainable defined contribution model. Gov. McMaster also proposed reforms to cost-of-living adjustments and age of retirement eligibility. While the pension system's official documents show just \$24 billion in unfunded liabilities, the situation is far more dire. After stripping away rosy accounting assumptions, South Carolina's unfunded pension liability



stands at nearly \$82 billion according to *Unaccountable & Unaffordable 2017*. Worse, the report shows South Carolina's pensions are only 28 percent funded, ranking 42nd nationally.

Kentucky Gov. Matt Bevin acknowledged the state has historically failed to pay the full ARC or the annual required contribution. Enthusiastic applause greeted his declaration that "this year they will be funded in their entirety for the first time in the history of the Commonwealth of Kentucky." Months later, the governor signed a pension reform package into law.

Michigan's public sector pension reform—a product of much work on the part of the Gov. Snyder and the legislature—proved one of the biggest success stories across the states in 2017. The governor celebrated that beginning this month, "new public school teachers and staff will automatically be enrolled in a 401(k)-style retirement plan unless they instead choose a revised hybrid pension." Gov. Snyder applauded the changes and declared "we've reduced our long-term debt...by more than \$20 billion and we put a payment plan in place to say we can move forward to make sure these retirees get the benefits they deserve and at the same time not leave future generations in debt because of past decisions."

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

## Conclusion

Though fiscal pressures induced a number of calls for tax hikes, many of the 2018 State of the State addresses were quite encouraging, with governors frequently endorsing market-oriented tax and fiscal policies. Several governors offered detailed proposals to reduce tax burdens on citizens and businesses, responsibly prioritize spending, streamline government programs, and reform state pension systems. The fact that so many governors are calling for lower taxes is a very positive continuing trend that suggests many governors have come to the understanding that lower taxes put more money in the hands of citizens to spend and invest. This allows the economy to flourish and grow the tax base by making their states more attractive places to live and work.

Governors across the United States have the opportunity to implement economic policies which can greatly improve or impede the lives of their citizens. Given the pro-growth direction that many governors have proposed, many states are on the way to enhancing the lives and liberties of their citizens.



## Summaries of Economic Policy Remarks by State

Below are summaries of the economic policy remarks the governors made during their 2018 State of the State addresses. Summaries are listed in alphabetical order by state. Included are the 2018 economic outlook rankings from *Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index* (2018) for reference. The *Rich States, Poor States* economic outlook ranking is a forward-looking measure based on a state's standing in the equally-weighted average of 15 important state policy variables. These variables include tax policy, regulatory policy, and labor policy. (1=Best, 50=Worst)

### **Alabama – Governor Kay Ivey**

*Rich States, Poor States* 2018 Economic Outlook Ranking: 20


Governor Kay Ivey delivered her first State of the State address emphasizing Alabama's rising revenues, increased economic development, and jobs growth.<sup>xli</sup> In particular, she lauded the state's unemployment rate continues its downward trend, hitting a record-low of 3.5 percent in November. In her budget proposal, she asked for "pay raises for both education employees and state employees." In recognition that "quality state employees are essential to good government," she implored, "It is long past time for us to honor their service with better pay," and called for 2 to 3 percent salary increases. Further, she proposed \$144 million more for K-12 and an additional \$50 million for higher education – an increase requested by the Department of Education. Gov. Ivey also expressed support for a \$23 million increase for "First Class," Alabama's pre-kindergarten program. Unfortunately, the governor did not call for tying this funding to performance measures and outcome achievement.

On her plans for education, the governor proposed "Strong Start, Strong Finish," a plan to improve teaching from pre-kindergarten all the way up to career training and higher education. In economic development policy, she expressed a desire to enhance broadband internet access for rural residents. A market-based approach, avoiding the tax breaks and cronyism other states have fallen to, could serve as a model for a better way. The approach preferred by the governor remains to be seen. On broader economic policy, Gov. Ivey focused on tax carveouts for businesses that hire veterans, rather than true, broad-based reform. Carveouts such as this may be politically popular, but they keep overall rates higher. Broad-based tax relief for hardworking individuals and businesses is the best way to spur economic growth – as evidenced by the economic success in some of Alabama's regional competitors. Florida and Tennessee experienced record in-migration, economic growth, and jobs numbers by creating business-friendly, competitive economic environments through substantial pro-growth tax cuts – and Gov. Ivey could help Alabama do the same.

### **Alaska – Governor Bill Walker**

*Rich States, Poor States* 2018 Economic Outlook Ranking: 34

Gov. Bill Walker called for an expansion of energy production within the state, and noted Alaska is the only state admitted into the Union "with exclusive ownership of the resources in the ground." With this in mind, he applauded the "accelerated momentum to develop our huge natural gas reserves." He also celebrated the joint development agreement signed between China and Alaska last fall to supply China with Alaskan natural gas. On fiscal policy, Gov. Walker argued "embracing deficits is not fiscally conservative." Unfortunately, the governor's "long-term sustainable fiscal solution" centered on tax hikes. While specifics were sparse, he called for "broad-based direct participation by individuals" in the revenue scheme and a need to establish "a financial connection between its economy and the



government services provided.” His repeated support for a payroll tax continues to hinge on the fact that “oil revenues which once funded up to 90 percent of our state budget, now fund approximately 30 percent.”

While decrying deficits, Gov. Walker boasts that “nearly 40,000 additional Alaskans are now receiving healthcare since I accepted Medicaid expansion....Medicaid expansion has brought over 500 million additional federal dollars and hundreds of jobs into our economy during a time of recession, all at a minimal cost to the state.” But as federal dollars for the expansion taper, the state will be left holding the bag. Gov. Walker rejected suggestions of state spending restraint, stating “some folks find it politically useful to talk as if we could solve all of our fiscal challenges by cutting state jobs.” He argued the state is at “its lowest staffing levels in 15 years,” but failed to acknowledge that the number of state employees per capita in Alaska has historically been 2nd highest in the nation. Gov. Walker also asked lawmakers to begin passing the budget within the proscribed 90-day period. Going further, he recommended withholding legislator pay upon failure to do so. Though well-intentioned, such a setup could backfire and harm taxpayers.

The governor’s wholehearted support for a continued energy production renaissance and expanded international trade bode well for an Alaskan economic rebound, but his continued advocacy for income and sales taxes, combined with a failure to acknowledge much-needed operational reforms, threatens to negatively counter those pro-growth actions.


#### **Arizona – Governor Doug Ducey**

*Rich States, Poor States* 2018 Economic Outlook Ranking: 5

Governor Doug Ducey delivered a sunny State of the State address, highlighting the “capacity of our state, and its people, to always be ahead of the curve – knocking down barriers and breaking with conformity.”<sup>xlii</sup> He celebrated Arizona now has “the highest percentage of female legislators of any state in the nation,” and commended the legislature for their pursuit of bipartisan solutions. In health policy, the governor promised a “more aggressive approach” to the opioid epidemic, but at the same time emphasized the importance of rehabilitation of convicted criminals. He explained the need to teach “life and career skills to inmates who are scheduled to leave prison soon.... Let’s get people off the streets; and in a job – with the goal of shutting down prisons, not building new ones.”

Gov. Ducey outlined plans for increasing education spending, but rather than simply present funding as a cure for failing schools, he stated, “the most compelling argument for investing in our public schools is that they are improving and getting better.” He listed evidence, including the fact that “Arizona students continue to lead the nation in improvements in reading and math.” He also promised “to increase spending on K-12 education, above and beyond inflation” every year he’s in office to provide all-day kindergarten and expanded career and technical education.

In economic matters, Gov. Ducey announced the state “wiped out” 676 needless regulations” last year, saving \$48 million in compliance costs and spoke out harshly against licensure requirements that serve only to block out competitors and entrepreneurs, such as the 1,000 hours of training required to “make a living blow-drying hair. No scissors involved.” He pointed out fewer hours are required to be certified as an EMT, Certified Nursing Assistant, or a truck driver.” Gov. Ducey credited Arizona’s success to a recipe of “lower taxes, light regulation, [and] great public schools.” As taxes declined, Arizona “went from a billion-dollar budget shortfall three years ago, to discussion today over where to spend our additional dollars.” Companies and people are flocking to Arizona. A continued commitment to



streamline government, regulatory reform, low tax burdens, and cutting-edge education policies will assist the governor in his mission to make Arizona “the Entrepreneurial Capitol of the US.”

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

*Rich States, Poor States* 2018 Economic Outlook Ranking: 22

In his January address to the Joint Budget Committee, Arkansas Governor Asa Hutchinson outlined the details of his \$5.6 billion FY 2019 budget proposal.<sup>xliii</sup> While it is around \$100 million lower than his initial FY 2019 recommendation in a 2-year budget proposal presented a year ago, it still increases state spending by more than \$172 million in FY 2019. Of the increased spending, nearly 83 percent flows to the Department of Human Services. Other leading recipients include Division of Children and Family Services, county jails and the state corrections system, and state police vehicles. To his credit, efficiency improvements and “real spending cuts” across multiple government agencies did help limit overall proposed spending growth to 3.2 percent rather than 5 percent.

Gov. Hutchinson applauded lawmakers for their hard work in putting \$100 million back “in the consumer’s pocket” through pro-growth tax relief in 2015. He touted that in 2017, Arkansas “had the lowest level of unemployment” in state history, as well as a “record number of Arkansas that entered the workforce.” Better still, wages are rising, Medicaid enrollment has fallen, and SNAP (food-stamp) usage is the lowest in nine years.

Thanks to economic growth, revenue collections have grown despite tax cuts. The Department of Finance and Administration estimates the state will end FY 2019 with a \$64 million surplus. Gov. Hutchinson asked lawmakers to devote a majority of the projected surplus to a reserve fund. The governor highlighted the proposed \$12 million increase on four-year colleges and universities as part of a formula change in providing increased funding in exchange for freezing tuition for in-state students.


The governor called his budget “conservative in spending” and stated its goal is to “create a surplus that will be a cushion for future economic changes...and future tax cuts.” Lawmakers also set the stage for future improvements, assembling a tax reform task force in last year’s session.

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

*Rich States, Poor States* 2018 Economic Outlook Ranking: 47

In his 16<sup>th</sup> and final State of the State address, Gov. Jerry Brown declared, “California is prospering.” He pointed to the budget surplus today vs. the \$27 billion deficit in 2011 and boasted that “in just the last eight years alone, California’s personal income has grown \$845 billion and 2.8 million new jobs have been created. Very few places in the world can match that record.” Unfortunately, the governor’s proposals threaten to exacerbate many of the economic ills ignored in his address.

To his credit, the governor proposed to save some of the surplus, but even with the new funds, the “rainy day fund” is estimated at just 7 percent of the total budget. Should an economic slow-down reduce revenue growth, the budget situation will still be in peril. Income tax collections plunged by 20 percent during the last recession. Gov. Brown also applauded the latest in the series of tax hikes on both fuel purchases and carbon emissions. Equaling roughly \$6.7 billion in additional annual taxes, nearly \$700 for a family of four on average, Gov. Brown labeled the vote as “not easy, but...essential.” He called the funds “absolutely necessary if we are going to maintain our roads and transit systems in good repair,” and promised to do everything to “defeat any repeal effort that may make it to the ballot.”



In climate policy, Gov. Brown announced “the revenues that the cap-and-trade auctions have generated...was a major achievement and will ensure that we will have substantial sums to invest in communities...both urban and agricultural.” The goal of cap-and-trade may be to save the world from rising tides, but it also doubles as a tool for politicians to redistribute wealth. Gov. Brown also promised a plethora of energy regulations, including a 50 percent renewable electricity mandate and more zero-emissions vehicle incentives. To his credit, Gov. Brown also discussed enacting bipartisan pension and workers’ compensation reform to build upon cost-reducing reforms enacted to both in 2013.

The governor also boasted that “whether it’s roads or trains or dams or renewable energy installations or zero-emission cars, California is setting the pace for America.” However, despite the lengthy economic recovery and gusher of social services funding, California’s poverty rate is the highest in the nation. Government entities across the state dish out spending while simultaneously enacting policies that block the poor from accumulating wealth—such as restrictive land use regulations. Unfortunately, the governor has encouraged the trend toward ever-higher taxes and government control of the economy.

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

*Rich States, Poor States* 2018 Economic Outlook Ranking: 15

Gov. John Hickenlooper delivered his final State of the State Address as a campaign-style mix of platitudes, progressive policy stances, and a few pro-growth initiatives. Unfortunately, most of his agenda centered on higher taxes and government regulation.


The governor boasted, “we finally fixed the Hospital Provider Fee” (a tax of up to 6 percent levied on hospital inpatient and outpatient services). The revenue is matched by the federal government and redistributed to hospitals based on the extent of their services to indigent or Medicaid patients. In FY 2016-2017 total fees exceeded \$782 million (\$1.166 billion after federal matching).<sup>xliv</sup> This threatened to propel spending growth beyond the limit of inflation plus population growth outlined by Colorado’s Taxpayer Bill of Rights (TABOR). To sneak around this, the governor and legislators reclassified the fee as an “enterprise fund” not subject to TABOR limits.<sup>xlv</sup>

Gov. Hickenlooper also called lawmakers to protect “our rural communities by addressing the intense, negative impact of Gallagher amendment.” This provision guarantees that residential property owners bear no more than 45 percent of the overall property tax burden. As residential values have skyrocketed upwards in excess of commercial properties it has forced residential property assessments downward.<sup>xlvi</sup> Over time, businesses have been left with a higher property tax rate than residential properties due to this limit.

In order to reinvigorate small communities, the governor proposed the Rural Venture Fund, “to incentivize companies and...entrepreneurs.” Sadly, “backstopping loans for rural markets” with taxpayer dollars diverts limited capital to companies unable to successfully and fairly compete for funding on the open market. The governor strongly advocated for increases in taxes to fund transportation, commending some for hiking local rates.

Commendably, the governor expressed a desire to “find the right solution to PERA’s unfunded liability.” Gov. Hickenlooper’s budget proposal from late 2017 offered several partial solutions, including





increasing employee contributions by 2 percent of pay and capping cost-of-living raises to 1.25 percent.<sup>xlvii</sup> These may place the pension system in a better position, but bolder reforms are needed. The governor is right that “by almost any measure, we’ve become one of the best places for business in America.” But expanding cronyism and increasing the tax burden make maintaining this coveted status more difficult.

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

*Rich States, Poor States* 2018 Economic Outlook Ranking: 40

In his final state of the state address, Connecticut Gov. Dannel Malloy sidestepped most of the fiscal and economic issues plaguing the state to promote the popular but ill-conceived proposals. When it comes to the problems of Connecticut, the governor is right: “Too many people are falling behind financially, even as they work harder and harder...too many of our fellow citizens are denied a real chance...at a good and productive life.” But nearly every policy he proposed compounds this problem.

On energy, he declared that we should “mandate that by the year 2030, 75 percent of Connecticut energy is clean energy,” a move that will sadly harm lower income households and small businesses.<sup>xlviii</sup> The same problem with mandates can be seen with the governor’s call to raising the minimum wage to \$15 per hour. Employees on the margins are often laid off or have their hours reduced to ensure the cost of the employees are equal to their output.

On urban development, the governor noted “the supply of affordable housing is simply not keeping up with demand...we need to take action this year to build more housing. We need to incentivize cities and towns to develop more inclusive options for their residents.” Curtailing municipal over-regulation of land use would be the most effective way to improve the supply of housing in Connecticut. Instead, Gov. Malloy invites tax breaks that benefit politically favored municipalities and construction companies. He went on to claim “Connecticut Fairness means caring not just about our own immediate interests, but also about the interests of future generations” and yet Connecticut has the lowest state pension funding ratio in the country.<sup>xlix</sup>


Gov. Malloy may believe that “holding a full-time job should afford a person a standard of living that meets their basic needs,” but he’s had 7 years to improve job opportunities in the state. Instead, he raised taxes that drove out businesses large and small, blocked pension and OPEB reform for the next decade through the SEBAC agreement, and continues to shovel liabilities onto a generation that did not vote for him or have not been born yet.<sup>l</sup> There is nothing “fair” about Gov. Malloy’s legacy.

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

*Rich States, Poor States* 2018 Economic Outlook Ranking: 36

To his great credit, Gov. John Carney admitted in his 2018 State of the State address that the state’s substantial future structural budget deficits are “a simple math problem.”<sup>lii</sup> Our long-term growth rate for state spending is two times the growth rate of our revenues. We have to find a long-term way to limit our spending growth.” Indeed, general fund spending jumped more than 14 percent in just five years, 2012-2017.<sup>liii</sup> Despite a doubling of revenue over 20 years, Delaware continues to experience budget deficits.<sup>liv</sup>

Citing rising healthcare costs as chief-driver of high state spending, Gov. Carney warned healthcare spending is set to more than “double over the next decade,” putting “a squeeze on both Delaware



families and business owners,” and making it “harder to invest in education, public safety, and our workforce.” He also called for more spending to fight opioid addiction, hire hundreds more teachers for schools across the state, and to devote additional infrastructure resources to schools and neighborhoods in Wilmington.

Gov. Carney boasted that the state has “partnered with the private sector to drive job creation...[and] directed new resources to support small business” and called for an expansion of the Angel Investment Tax Credit<sup>lv</sup> Unfortunately, expansion of crony tax subsidies and carve outs does nothing to reduce the negative impact the 11.69 percent top corporate income tax rate—the 3<sup>rd</sup> highest in the nation. Broad-based tax reforms are necessary.

Excessive spending is a key factor of the state’s long-term structural deficit, and only compounds the problem of a shrinking working-age population relative to retirees. The governor rightly pointed out Delaware “cannot build new ongoing spending on top of one-time revenues. It’s just not responsible, and we can’t allow it, no matter how compelling the cause.” But his hints at budgetary discipline were overshadowed by proposals increased spending on infrastructure, education, health, and law enforcement.

#### **Florida – Governor Rick Scott**

*Rich States, Poor States* 2018 Economic Outlook Ranking: 6

As one of the best addresses of 2018, the summary appears in the front of this publication.

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


*Rich States, Poor States* 2018 Economic Outlook Ranking: 11

*“As we stand beneath the trees and orchards of opportunity we have planted and look up to the heavens, we see that the light of our star now shines brightest of all, and that light will endure and not fade away...”*

Georgia Gov. Nathan Deal unveiled an ambitious and packed legislative agenda for the coming year in his final State of the State address.<sup>lvi</sup> He celebrated the 675,000 new jobs created by Georgia’s private sector over the last seven years, a period in which the state’s unemployment rate plunged from 10.4 percent to just 4.3 percent.

Unfortunately, the governor bestowed undue credit for these successes on the special favors doled out by the state’s Department of Economic Development. He cited the 377 business expansions statewide generated by some \$6.33 billion in investments. In particular, the governor singled out the state’s film production industry which generated \$9.5 billion in the past year alone. Targeted tax breaks, subsidies, or preferential treatment incentivized many of these investments. Just last year, lawmakers expanded the policy to the music industry.<sup>lvii</sup> By giving special deals to a select few, broad prosperity is stunted and tax rates remain higher for everyone else.

Gov. Deal boasted the increase of \$3.6 billion in education spending over his tenure, for a total of roughly \$14 billion by the time he leaves office. He called for investing more in the state’s K-12 programs to improve the “chronically failing” school system.<sup>lviii</sup> Unfortunately, more money has repeatedly



failed to get better results.<sup>lix</sup> Education funding should be tied to academic results and teacher performance. Looking to higher education, Gov. Deal applauded the expanded certificates and degrees available through the 22 campuses of the Technical College System of Georgia (TCSG). The governor announced an additional \$1 million in his budget proposal to expand the program.

The state's economic climate is certainly better than average, but complacency on many policies hold it back. Since the governor's address, lawmakers heeded the examples of North Carolina, Tennessee, and Florida, and cut income taxes for every hardworking taxpayer – but more work is still to be done.<sup>lx</sup>

### **Hawaii – Governor David Ige**

*Rich States, Poor States* 2018 Economic Outlook Ranking: 45

Gov. David Ige opened his State of the State Address with his vision of Hawaii “as a place and a people where we still believe in the promise of Hawaii and limitless opportunities.” He noted several pressing concerns in energy, affordable housing, education, and income growth, but his solutions threaten to aggravate the underlying problems. Gov. Ige complained “so many of us are living paycheck to paycheck,” but failed to mention that Hawaii families endure some of the highest taxes in the nation.<sup>lxi</sup> “The challenge is...creating *quality* jobs and the training to go with them,” Gov. Ige argued, but rather than trying to control markets, his focus should be on making the climate more business friendly.

“Owning a home is out of reach for many families, with housing costs rising faster than wages,” bemoaned the governor. However, he touted “the largest annual increase in production of affordable housing with thousands of new units,” and requested an additional \$100 million to continue these efforts. Sadly, \$100 million doesn't go far when the typical house in Honolulu costs nearly \$695,000 and artificially lowering the costs of construction pushes up costs on remaining units.<sup>lxii</sup>


Gov. Ige acknowledged the affordability issue, saying “it is important to our economy and our wallets as we work to reduce our reliance on imported fossil fuels.” And yet, he applauded the state's decision “to abide by the Paris Climate Accord” and require “100% of Hawaii's electricity to come from renewable sources by 2045.”

He also touched on the pension reform without mentioning it by name. “We also worked to make sure those who have served our state get to retire with the dignity they were promised and deserve. With the Legislature's support, we took aggressive steps that will save us \$1.6 billion over the next 20 years,” he boasted. In actuality, these “aggressive steps” consisted of mostly modest changes such as slightly increasing the retirement age, lowering benefits for new workers, and revising purchase of service credits.<sup>lxiii, lxiv</sup> Hawaii still suffers from some of the worst per-capita unfunded pension liabilities. Failure to achieve real reform threatens the retirement security of public workers and saddles future taxpayers with higher taxes and diminished services to make up the shortfall.<sup>lxv</sup>

The governor certainly identified some of Hawaii's leading causes for concern: family financial security, jobs opportunities, housing affordability, and energy affordability amongst them. Unfortunately, he failed to identify the role of public policy in creating these livability issues.

### **Idaho – Governor C.L. “Butch” Otter**

*Rich States, Poor States* 2018 Economic Outlook Ranking: 2



In his twelfth and final state of the state address, Gov. C.L. “Butch” Otter celebrated Idaho’s continued strengths and proposed a series of healthcare, education, and tax reform initiatives. Looking to healthcare, he proposed the Idaho Healthcare Plan. It would allow “those with the most costly, medically complex conditions to move their coverage to Medicaid during the course of their illness.” While claiming it is “not expanding Medicaid,” Medicaid eligibility technically does expand under the proposal.<sup>lxvi</sup> In education, he asked for a continued shift to include student outcomes in determining teacher pay, as well as additional funds for professional development, school technology, college and career advising, literacy intervention, educational assistance for high school dropouts, and low-income scholarships. Although he expressed a desire to add “to the more than \$1.2 billion in tax relief...over the past decade,” he tempered his embrace of tax cuts by noting his “constitutional and statutory obligations.”


Specifically, he called for unemployment tax relief, noting that due to economic growth, the unemployment compensation fund has more cash on hand than recommended by the federal government.<sup>lxvii</sup> Gov. Otter also promised a “plan to enable Idaho’s substantial conformance with the new federal tax code” while also “reducing individual and corporate income tax rates with an eye toward stimulating more economic growth.” Preferential tax credits and exemptions continue to detract from Idaho’s sterling free-market reputation, with Gov. Otter arguing “targeted, performance-based incentives” are superior to the way others “mortgage” their future by “throwing money at business attraction.”<sup>lxviii</sup> Broad-based rate reductions, would better promote economic growth. Overall, Gov. Otter exhibited zeal to ensure Idaho remains “among the most stable, business-friendly tax and regulatory climates in the country.” Low taxes, returning excess unemployment insurance funds to businesses, federal tax code conformity, and education innovation all conspire to perpetuate opportunities.

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

*Rich States, Poor States* 2018 Economic Outlook Ranking: 48

Governor Bruce Rauner focused largely on the financial stress plaguing Illinois during his 2018 State of the State Address and Budget Address.<sup>lxix, lxx</sup> The Land of Lincoln is one of the world’s largest economies, boasting diverse industries, numerous Fortune 500 companies, Lake Michigan and the city of Chicago. The governor expresses disappointment that despite all the advantages, Illinois is still falling behind. Property taxes in the state unfortunately continue to worsen. Gov. Rauner noted “Ordinary people — the ones without clout or connections or money to pay high-powered lawyers — are victims of a system rigged against them.” Just last year the Illinois Legislature overrode Gov. Rauner’s veto massively increasing both personal income and corporate income taxes.<sup>lxxi</sup>

Gov. Rauner pointed to the need for accountability, a fairer cost-sharing scheme and lower overall costs in the state’s unhealthy public pension system. An article in *The Wall Street Journal* earlier this year detailed an idea by Illinois state legislators to address the problem: over \$100 billion in new state bonds.<sup>lxxii</sup> Rather than meaningful reform, the Editorial Board noted, “The real goal with these bonds is to shift the pension-liability risk from public workers and retirees to investors and taxpayers.” According to *Unaccountable and Unaffordable: 2017*, Illinois has the third-worst funding ratio in the country, with more than \$380 billion in unfunded liabilities when using a risk-free rate of return.<sup>lxxiii</sup> Pension costs consume nearly a quarter of the state’s budget, which will continue to increase absent real reform.<sup>lxxiv</sup> Gov. Rauner is on the right track in demanding the legislature act.



He also called for property tax reform legislation “that brings true property tax relief, giving people the ability to lower their property taxes through a simple voter referendum.” As a percentage of personal income, Illinois has the 8<sup>th</sup> highest property tax burden in the country.<sup>lxxv</sup>

Looking at how partisanship prevented many reforms, the governor noted other politically-divided states have successfully taken bipartisan steps toward a more sustainable path. “We have the power to take similar steps... the question is whether we have the will to take them.” “It is time we do what the people of Illinois want. Halt the advance of taxes. Stop spending money we don’t have. Get our pensions under control. And give power back to the people.”

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

*Rich States, Poor States* 2018 Economic Outlook Ranking: 3

Gov. Holcomb’s 2018 State of the State address echoed many of the themes he promoted in his 2017 address.<sup>lxxvi</sup> Just a few years ago, high taxes and fiscal profligacy dampened the state’s economic growth, but things are on the up-and-up. Decreases in the corporate tax rate and property tax burden, a repeal of the state’s inheritance tax, and the passage of right-to-work legislation aided this improvement. In his address, Gov. Holcomb declared “Indiana is on a roll” and the state continues “to operate within an honestly balanced budget” with “a AAA credit rating and nearly \$2 billion in our state’s savings account.” Further, he applauded the state’s low tax and sensible regulatory environment, the reasonable cost of living, and the low cost of doing business.

Gov. Holcomb fixated on modernizing the state’s education system and preparing Hoosiers for the 21st-century economy, promoting apprenticeships, on-site training, and prison education programs. The governor also discussed “upping the ante” for a variety of state initiatives, including the Indiana Economic Development Corporation. Unfortunately, government using tax breaks and incentives to lure businesses to Indiana is unlikely to create as much growth as the continued cultivation of a free market environment and efficient state government.

Gov. Holcomb also focused his attention on infrastructure needs, including repaving roads, maintaining and replacing bridges and building an additional water port. Considering the large increase in the gas tax and other motor vehicle fees passed last year, additional tax hikes to cover these costs would be especially disappointing.<sup>lxxvii</sup>

Indiana’s rapid improvement in tax and fiscal policy is nearly without rival. Complacency after such success, along with interference in the free market, pose the biggest risks to continued economic growth.

### **Iowa – Governor Kim Reynolds**


*Rich States, Poor States* 2018 Economic Outlook Ranking: 29

As one of the best addresses of 2018, the summary appears at the front of this publication.

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

*Rich States, Poor States* 2018 Economic Outlook Ranking: 26

In his final State of the State Address, Gov. Sam Brownback highlighted the mounting evidence of economic strength across the Sunflower State, celebrating “another record for most Kansans ever



employed, 1.4 million, and the lowest unemployment rate we've seen since 2000." In addition, he pointed out "the state's childhood poverty rate has shrunk to the lowest level we've seen since before the Great Recession." Gov. Brownback quickly took on the largest issue – school finance with a multifaceted approach that promises no new taxes. He promised \$600 million in new education spending over the next five years, but other than support for a teacher pay raise, the parameters were unspecified.

He also offered several goals for consideration by the Board of Education, including dual credit court work for high schoolers enrolled in higher education classes. Stressing that "money by itself will not solve the problem," he used the example of the dismal results in Kansas City, Missouri, following a \$2 billion court-spurred infusion of funding over 10 years. Numerous states spend less per pupil than Kansas while obtaining superior academic results, and legislators incentivize innovation by expanding school choice rather than simply increasing funding levels. To stop what has been a "never-ending cycle of litigation on school finance," Brownback called for the "legislature to put a Constitutional amendment on the ballot this year addressing our school finance system."

The governor's rejection of a tax increase is welcomed news for taxpayers. Just last year, legislators overrode his veto in order to enact an enormous tax increase of \$1.2 billion over the next two years alone.<sup>lxxviii</sup> This tax hike on individuals and businesses wiped out much of the tax reductions from the 2012 reforms. Avoiding a new tax increase, pushing for a voter-approved constitutional amendment on school financing, and demanding educational reforms will help avoid compounding the damage from last year's tax hikes.

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

*Rich States, Poor States* 2018 Economic Outlook Ranking: 31

During his 2018 State of the Commonwealth address, Gov. Bevin recounted the biggest accomplishments of his tenure so far, including the passage of right-to-work legislation and the repeal of prevailing wage law.<sup>lxxix</sup> Gov. Bevin pointed to the huge increase in capital investment, a record \$9.2 billion last year crushing the prior high of \$5.1 billion, as evidence of Kentucky's improving economic competitiveness. The governor stressed the need to "get the state's financial house in order" by thinking strategically about what government dollars should and should not be funding. With a laser-sharp focus on "PIE" (protection, infrastructure, and education), his budget calls for a 6.25 percent spending reduction by eliminating 70 government programs and slicing administrative and overhead costs.

Pension reform was another major component of Gov. Bevin's address. According to the ALEC report *Unaccountable and Unaffordable: 2017*, Kentucky's public pension system is the 2nd worst-funded in the nation at 20.9 percent.<sup>lxxx</sup> This equates to \$25,100 of unfunded liability per-capita. Bevin acknowledged the state has historically failed to pay the full ARC or annual required contribution. Enthusiastic applause greeted his declaration that "this year they will be funded in their entirety for the first time in the history of the Commonwealth of Kentucky." Gov. Bevin demonstrated his understanding of the structural flaws of the pension system with his proposal last year to vastly improve the system's sustainability.<sup>lxxxi</sup> The governor can further his agenda by educating the public that simply diverting more money into the current system cannot resolve the long-term problem.

Gov. Bevin also addressed the need to tackle comprehensive tax reform and promised that "it is coming." Kentucky's outlook will greatly improve if the governor achieves his goals of pension reform, budget prioritization, and tax reform.



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

*Rich States, Poor States* 2018 Economic Outlook Ranking: 27

Gov. John Bel Edwards gave his third State of the State address, jumping from the Medicaid expansion and tax policy to minimum wage and occupational licensing.<sup>lxxxii</sup> He highlighted Louisiana's 4.6 percent unemployment rate, the lowest in a decade, and "record employment in construction, education, and healthcare" in 2017. Spending half his time touting the state's economic "improvements" and his accomplishments, he also subtly chided lawmakers for their "failure" to renew taxes.

Although he explored some positive reforms, he continued to push unsustainable spending and tax hikes. On the budget, he demanded lawmakers renew a slew of expiring tax hikes or face making \$692 million in cuts, outlining several popular programs facing cuts. The governor remarked, "Many of you have suggested that the fiscal cliff could be solved by simply making spending cuts. If that's what you truly believe, now is your opportunity." Louisiana's total appropriations grew by a shocking 25.5 percent between 2014 and 2017 – over 5 times the annual rate of inflation during the same period.<sup>lxxxiii, lxxxiv</sup>

The governor praised the \$600 million of new spending on highway improvements. According to the governor, Louisiana "landed 43 new projects totaling \$4.6 billion in capital investment" in 2017 and was listed by several magazines among the top states for per-capita economic development investments. Sadly, this only reveals the state's propensity for subsidies and tax handouts.<sup>lxxxv</sup> He also applauded the Medicaid expansion, he claimed "over 460,000 working people have enrolled...and is producing savings for Louisiana's budget." These "savings" could prove temporary should the federal government roll back its infusion of cash.

To his credit, Gov. Edwards took a bold stance against restrictive occupational licensing laws, directing his cabinet to "review all regulations, especially related to small businesses," and creating a licensing review committee. Its first targets are florist and outdoor activity licenses. Yet, he also pushed for a state minimum wage to reach \$8.50 by 2020 despite recent evidence of the failure of the Seattle minimum wage.<sup>lxxxvi</sup>

Gov. Edwards is right to call for substantial reforms to the state's occupational licensing laws, but those changes will mean little if the state doesn't address taxes and spending. Instead of redistributing wealth through the tax code, lawmakers who wish to bring the most prosperity to the most people should focus on creating a competitive economic climate that enhances economic growth.

## **Maine – Governor Paul LePage**

*Rich States, Poor States* 2018 Economic Outlook Ranking: 42


As one of the best addresses of 2018, the summary appears at the front of this publication.

## **Maryland – Governor Larry Hogan**

*Rich States, Poor States* 2018 Economic Outlook Ranking: 32

In a largely positive speech, Governor Larry Hogan delivered his fourth State of the State address, highlighting the economic improvements that coincided with state tax cuts. He called on the legislature to provide further tax relief to ensure a greater number of residents realize a net benefit following





federal tax reform. He also presented the capping of the state and local tax (“SALT”) deduction as an opportunity to cut taxes, rather than misinterpreting it as the act of “war” claimed by some.

The week before the address, the Office of the Comptroller issued a report on the potential impact of the federal Tax Cuts and Jobs Act on Maryland.<sup>lxxxvii</sup> Gov. Hogan implored the legislature to “protect hardworking Marylanders from the impact that the federal tax overhaul will have on Maryland’s state and local taxes” through broad-based cuts and reforms to the state’s tax code.

Luckily for the residents of Maryland, Gov. Hogan knows tax cuts work, and proudly said, “We submitted the first balanced budget in a decade, which eliminated nearly all of the \$5.1 billion structural deficit which we inherited. We did it while cutting taxes three years in a row. And we’ve put all that money back into the pockets of hardworking Marylanders, retirees and small businesses and back into our growing economy, which has helped us create an incredible economic resurgence in our state.”

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

*Rich States, Poor States* 2018 Economic Outlook Ranking: 25

Governor Charlie Baker delivered his third State of the State address highlighting the states’ successes and challenges, and his administration’s plans to tackle future challenges.<sup>lxxxviii</sup> The governor’s address reflected the bipartisan nature of his administration, embracing ideas from both parties.

In 2017, 11 states began their fiscal year without a budget, including Massachusetts.<sup>lxxxix</sup> Some budget battles were resolved over the Independence Day weekend, whereas others dragged on for four months.<sup>xc,xcii</sup> Gov. Baker began the battle with a \$1 billion structural deficit and ended with a deficit under \$100 million without raising taxes. In the end, the final 2018 fiscal budget increased spending 1.7 percent over the previous year. Massachusetts’ recent legislative changes have improved its business climate relative to its high tax neighbors, and has enjoyed higher economic and population growth than the regional average as a result.<sup>xcii,xciii</sup> This growth has allowed Massachusetts to increase spending in FY 2018 without increasing statutory tax rates.

The governor also highlighted lawmakers and the administration’s efforts to find cost savings. Some examples were as broad as his efforts to trim \$320 million from the 2018 budget while others were more detailed, such as reducing the energy consumption of streetlights by 60 percent.


On the greatest challenge ahead, finding a way to reform MassHealth and lower future costs, the governor was brief.<sup>xciv</sup> He noted only that discussions between relevant parties and the legislature have been helpful and that he believes a solution to shared goals can be reached.

Through job-friendly regulatory and tax reform, priority-based budgeting, and healthcare reform, Massachusetts could continue to grow faster than its rising costs.<sup>xcv,xcvi</sup> Massachusetts compares favorably to Connecticut, New York and New Jersey; but some of the booming economies of the South and Midwest have already lapped Massachusetts on needed reforms.

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

*Rich States, Poor States* 2018 Economic Outlook Ranking: 18

Fortune is changing in the state of Michigan following decades of extreme economic adversity, from the rapid downturn in the auto industry to the downward population spiral in Detroit. Gov. Snyder delivered



his last State of the State address an optimistic tone.<sup>xcvii</sup> Enacting right-to-work and killing the hated Michigan Business Tax were game changers for Michigan’s economic outlook. Gov. Snyder celebrated the state’s largest private sector job growth in the Great Lakes region, reminding all that “we as a government don’t create the jobs, we create the environment for success.” Going hand-in-hand with job growth, the state’s per capita income grew 28 percent over the last seven years alone, translating to an additional \$10,000 per Michigander. Gov. Snyder proudly stated “last year for the first time since the turn of the century, more people came into Michigan than left Michigan.”

Michigan’s public sector pension reform proved one of the biggest success stories across the states in 2017. New public school teachers and staff being will automatically be enrolled in a 401(k)-style retirement plan unless they choose a revised hybrid pension.<sup>xcviii</sup> Additional changes, included assuming a more modest rate of return, raising the retirement age in certain instances and requiring the school system and employees to share the costs of future unfunded liabilities equally.<sup>xcix</sup> During his address, Snyder applauded the changes and declared “we’ve reduced our long-term debt...by over \$20 billion and we put a payment plan in place to say we can move forward to make sure these retirees get the benefits they deserve and at the same time not leave future generations in debt because of past decisions.”

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


*Rich States, Poor States* 2018 Economic Outlook Ranking: 44

Gov. Mark Dayton delivered his final State of the State address in a largely optimistic tone, declaring “Our number one priority should be tax fairness for individual Minnesotans and their families.”<sup>c</sup> After the Minnesota Budget Office projected a modest surplus for the current two-year budget cycle, rather than lowering tax rates or returning money to taxpayers, Gov. Dayton has been exploring ways to spend it and raise taxes.<sup>ci</sup> His proposals are complicated, but the governor’s idea of “tax fairness” seems to mean taking more money from the pockets of hardworking Minnesotans to fill government coffers.<sup>cii</sup>

Gov. Dayton spent much of his address requesting spending hikes for education, health care, and infrastructure. This follows a period of excessive state spending growth of approximately 38.5 percent between 2007-2017 – nearly double the rate of population growth plus inflation over the same period.<sup>ciii</sup>

The governor claimed that “Individual Minnesotans did not receive much of any benefit from the federal tax bill. However, over 10 years, the federal tax reform package lowers individual income tax revenue by \$1.1 billion.<sup>civ</sup> In terms of overall tax burden, Minnesota is amongst the worst.<sup>cv</sup> While Gov. Dayton claims it is “fortunate” that Minnesota has never been a low-tax state during his career, the state lost over \$7.5 billion in adjusted gross income between 1992-2016 due to outmigration—largely a result of people fleeing these high taxes.<sup>cvi</sup> Gov. Dayton applauded the 2013 effort of raising taxes on the wealthiest 2 percent of taxpayers, but left out the countless stories of job creators fleeing because of the high-tax environment.<sup>cvi</sup>

Minnesota is one of the states that expanded Medicaid under the ACA, and Gov. Dayton acknowledged the “failures of the ACA are having devastating effects on the lives of many Minnesotans.”<sup>cviii</sup> Five years ago the state enjoyed some of the lowest individual health market premiums in the country, but now ranks in the middle of the pack after only a few years of skyrocketing premiums.<sup>cix</sup> Gov. Dayton rightly suggested increasing competition and choice in the marketplace as a possible remedy.



Perhaps it is time for Minnesota to buck the status quo by cutting government spending and allowing taxpayers to keep more of their hard-earned money.

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

*Rich States, Poor States* 2018 Economic Outlook Ranking: 24

*“As Ronald Reagan once said, the best social program is a job. Now, that’s a program we have been very successful in expanding. In the past, Mississippi has had people looking for jobs. Today, we have more than 40,000 jobs looking for people.”*

In his seventh State of the State address, Gov. Phil Bryant proclaimed Mississippi is on the rise and celebrated his administration’s success in achieving government reforms and pro-growth tax cuts.<sup>cx</sup> The governor noted the state’s unemployment rate fell to 4.8 percent in November and “the lowest since unemployment levels began to be recorded in 1979.” He cited the more than 60,000 new jobs along with the billions of dollars of foreign and domestic investments flowing into the state. In particular, the governor touted Milwaukee Tool’s new 660 job addition to their already 1,400-person advanced manufacturing team, representing \$33.4 million in business investment. He also recognized many other multi-million dollar investments in the state linked to thousands of new jobs.

In education policy, the governor announced that for the first time in state history, the high school graduation rate rose above 80 percent. Further, more than 90 percent of third-graders passed reading exams. Gov. Bryant called lawmakers to update the education funding formula and expanding school choice. Both of these reforms have a strong history of improving educational achievement and outcomes.

On healthcare, Gov. Bryant promised to find ways to improve medical care for the sick and mentally ill, incentivize preventative care and lifestyle education, and save taxpayers money on Medicaid spending. Mississippi is beginning to see positive results related to the tax reforms of 2016—including individual income tax reductions and a gradual phasing out of the franchise tax.


Prosperity and opportunity will be within reach of every hardworking Mississippian if lawmakers continue with pro-growth tax and budget reforms, as well as needed pension reform.

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

*Rich States, Poor States* 2018 Economic Outlook Ranking: 23

In his second State of the State address, Governor Eric Greitens echoed of the themes from last year, including the adage that Missouri’s state government “needs to do fewer things and do them better.”<sup>cx</sup> He spent much of his speech addressing tax reform, spending restraint and reducing the state’s regulatory burden, declaring this session will encompass “the boldest state tax reform in America,” promising to align state spending with available resources. The governor also stressed the need to reform spending alongside reducing taxes to put the state on a sustainable path that avoids future tax hikes.

Gov. Greitens analogized the state’s overregulated environment to “plaque in the arteries of Missouri’s economy.” A thorough audit of all state regulations last year found more than seven million words on the books. Gov. Greitens declared the state plans to remove nearly one-third of these, equal to a whopping 33,000 regulations, slowing economic growth and prosperity. Undoubtedly, the governor is



on the right track to boost the state’s tepid economic growth.<sup>cxii</sup> If he and the Missouri Legislature can successfully lower taxes across the board and continue to reform the state’s regulatory environment, we could see a further improvement in ranking and the beginning of a great comeback story for the Show-Me State.

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

*Rich States, Poor States* 2018 Economic Outlook Ranking: 28

Gov. Pete Ricketts focused his 2018 address on maintaining competitiveness in the Cornhusker State in an ambitious Midwest region largely getting it right regarding tax and fiscal policy.<sup>cxiii</sup> He notes, “Our neighboring states are making themselves more competitive...The only surrounding state with an income tax higher than ours is Iowa, and right now Iowa Governor Kim Reynolds and their legislature are lowering their taxes.”

In addition to tax reform, Gov. Ricketts focused on the need to lighten the state’s regulatory burden. Nebraska groups such have strived to cut red tape in the state for years with some success, such as reducing time requirements to obtain certain job licenses.<sup>cxiv</sup> But the governor acknowledged much work remains.

The governor also proposed across-the-board spending cuts to balance the budget without raising taxes. He plans to remain focused on child welfare, services for the developmentally disabled, education funding and the corrections system, while also ensuring Nebraskans keep more of their own money. The governor commended Nebraska for having the “most economic development projects per capita of any state in the country.” These projects can be a net economic gain so long as cronyism-based tax incentive packages are not utilized.

Enacting broad-based tax reform this year will brighten the state’s economic outlook.


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

*Rich States, Poor States* 2018 Economic Outlook Ranking: 17

Gov. Chris Sununu delivered his second State of the State address, focusing on New Hampshire’s unique strengths, and saying “those of us who are born in New Hampshire are lucky, and those of you who moved here are smart.”<sup>cxv</sup> Sununu homed in on school choice, regulatory burdens, and the mental health and opioid crisis.

Education and regulatory loom large on the governor’s agenda. He continues to reject a “one-size-fits-all” approach to education. Instead, he proposed Education Savings Accounts to make the state’s system more competitive. Turning to the state’s regulatory climate, Gov. Sununu outlined a three-phase approach to deregulation and announced that just last year, over 1600 regulations were removed from New Hampshire’s books. Better still, the Regulatory Reform Steering Committee created by Gov. Sununu last year released further suggestions for reform. This is commendable, as compliance costs burden both citizens and businesses alike. Gov. Sununu is undoubtedly on the right track with this important issue.

With the highest property tax burden in the nation, an uncompetitive top marginal corporate income tax rate of 8.2 percent, and forced-union dues, further reforms are needed. On the whole, the Live Free or Die State continues to serve as a beacon of hope in the overtaxed and overregulated Northeast. The



relatively low-tax environment plays a large role in the state's economic competitiveness—zero tax is levied on wage income, sales, and inheritances. It's no surprise that New Hampshire's economic outlook is the highest in the region. Despite several ongoing challenges, Gov. Sununu's tax and fiscal policy takeaway message remains spot on: "Make no mistake—reducing taxes and returning money to citizens promotes economic growth."

### **New Jersey – Governor Phil Murphy**

*Rich States, Poor States* 2018 Economic Outlook Ranking: 46

Gov. Phil Murphy delivered his first inaugural address covering a vision of justice, fairness, and growth.<sup>cxvi</sup> Unfortunately, his economic proposals would likely erect barriers to these goals. The governor called for a "an economy that creates better jobs and provides higher wages...that creates places where industries can grow and communities can rise, where innovative companies are born and where millennials want to live and where seniors want to retire." A noble goal indeed, but with one of the most uncompetitive economic climates, the governor has his pick of where to start. Reforming the state tax code would dramatically improve the state's economic outlook, but the governor only barely acknowledged the problem, merely stating that a "stronger and fairer New Jersey...delivers on the promise of property tax relief." Sadly, the speech made no mention of one of the pension crises fueling the upwardly spiraling tax burden.


To his credit, Gov. Murphy aligned against cronyism, and the "massive tax breaks to a handful of select and connected big corporations." The governor could improve the state's economic environment through revenue neutral corporate tax reform by eliminating deductions, credits, and exemptions to pay for lowering the tax rate. If he continues to paint policy disagreements as a "battle between right and wrong," he may find common ground elusive. Even when directed at "The Swamp," moralistic rhetoric inflames partisanship by assuming a difference of opinion comes from malice rather than a different perspective or set of information. New Jersey's dire economic and fiscal condition demands significant reform across a spectrum of issue and dialog to build consensus around pragmatic ideas.

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

*Rich States, Poor States* 2018 Economic Outlook Ranking: 35

Gov. Susana Martinez commended the economic turnaround following the loss of 10,000 oil and gas jobs, applauding that "in the midst of these headwinds, we chose the right path. We didn't lean on the flimsy crutch of the federal government. We set a new course and chose to diversify the economy instead." Although she proposed much-needed tax reform, other economic policy reforms were untouched. The governor touted cutting tax rates 37 times since taking office and a corporate tax rate reduction of 26 percent. With a \$330 million projected budget surplus for the current fiscal year, she called for "comprehensive tax reform" to reduce "the cost of doing business" in New Mexico. "Wages are up, per capita income is up, and as people look for work again and find jobs, the unemployment rate is falling," proclaimed the governor.

Gov. Martinez advised legislators, "We must realize that economic diversification is our state's path out of poverty... We are building a broader private sector than ever before." The state has made progress, as oil and gas production comprised just 40% of growth in the current recovery while past recessions have been double that.



Unfortunately, the governor also gave credit to the multiple forms of favoritism used to attract specific businesses or sectors to the state, specifically the closing fund that “helped create thousands of jobs.”<sup>cxvii</sup> Generally, this consists of grants to new or expanding businesses for land, buildings, or infrastructure, but part allows local governments to pass gross receipts taxes to pay for “qualified” projects. The governor boasted of the \$40 million of tax dollars put in the “catalyst fund” for tech companies and embraced preferential treatment of in-state companies for state contracts. Picking winners and losers based on place of domicile is not sound policy. Commendably, she encouraged legislators to reject pork-laden infrastructure projects, asking for a focus on projects that “lay a foundation for economic growth,” such as border infrastructure for expanded global trade.

In education, she proposed 2 percent raises for all along with a \$5,000 bonus for high-performing teachers. Noting spending hikes alone will not solve education problems, she called to cap state education dollars being spent on administrative expenses. In addition, she wants to expand the options available to parents of children attending failing schools.

The governor’s proposals for comprehensive tax reform, economic diversification, infrastructure spending prioritization, and education reform can generate longer-term opportunities. More pro-growth reforms are needed to keep enchantment alive in the state.

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


*Rich States, Poor States* 2018 Economic Outlook Ranking: 50

In Governor Andrew Cuomo’s State of the State address, he declared New York is “once again the nation’s beacon for social progress” due in part to enacting “a more progressive tax code.”<sup>cxviii</sup> In the same speech, he also claimed that capping the state and local tax deduction (SALT) and mortgage interest deductions (MID) amounted to an “economic civil war” waged against “blue states.” Given the regressive structure of these deductions, the governor should applaud rather than abhor the reforms.

The governor’s diatribe against federal tax reform is a diversion from the brutal reality of New York’s poor fiscal policies and low-growth tax structures. The SALT deduction allowed itemizing taxpayers to deduct state and local property from their federal taxes. Itemizers fell roughly in the top third of the income spectrum. This allowed high-income individuals in high tax states to pay lower federal taxes than they would otherwise owe, keeping federal tax rates for the rest of the country higher. Much like the SALT deduction, the mortgage interest deduction disproportionately skewed toward the top of the income spectrum. The recently enacted federal tax reform addressed the regressivity of the SALT and mortgage interest deduction, capping them at \$10,000 and \$750,000 respectively.<sup>cxix</sup> The reform not only limits the benefit for high-income households but doubled the standard deduction.

Despite these improvements, Gov. Cuomo derided federal tax reform claiming it is, “robbing the blue states to pay for the red states.” His past support for a progressive income tax is now trumped by raw political tribalism as he argues that lower income earners in a state like New Hampshire should subsidize a relative handful of high-income earners in his home state. It’s no surprise that Gov. Cuomo pivoted to the “economic civil war” more than a dozen times during his speech. After all, railing against the federal government serves as an excellent distraction from the tax, regulatory and labor policies weighing down one of the most powerful economic engines in the world.

New York ranks last in *Rich, States, Poor States*, and the policy choices of New York legislators and Gov. Cuomo are driving residents into other states, causing New York’s population to dip for the first time in a



decade.<sup>cxx,cxxi</sup> Reforming the bureaucracy, streamlining regulations and reducing taxes are the key to sustained prosperity for all—not pursuing imagined villains.

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

*Rich States, Poor States* 2018 Economic Outlook Ranking: 4

In his second State of the State address, Governor Doug Burgum covered technological innovation, budget prioritization, higher education initiatives, and lessons learned from the Dakota Access Pipeline controversy.<sup>cxxii</sup>

Although the recent slump in oil and commodity prices forced lawmakers to cut state’s general fund appropriations by \$1.7 billion the last biennium, the governor argued there is room for optimism, highlighting signs of a recovery, including tax revenues are running ahead of forecast for the 2017-19 biennium. Despite the modest recovery, he cautioned a revenue gap is still expected for 2019 and expressed his desire to work closely with lawmakers to keep spending restrained. Gov. Burgum pointed to the importance of the Legacy Fund approved by voters in 2011, noting it helped fill a budget gap last session and may again be needed. He also warned against drawing on the fund’s principal to pay for core services and government operations. Further, he called upon lawmakers and voters to come up with a plan for how to use its earnings for projects with long-term benefits.

Gov. Burgum highlighted the success of the state’s hands-off approach to the energy industry: “There’s lots of competition. We have an approach in our state, which is all of the above. So we’re supporting oil and gas. We’re supporting coal. We’re supporting wind.” He noted that oil production is set to hit record levels this year.

As part of his effort to improve higher education, Gov. Burgum announced plans to reform the governance structure of North Dakota’s public colleges and universities to ensure they are meeting the educational and workforce needs of employers and jobs. He pushed to adopt technological advancements to lower costs in the budget’s biggest line items, including health care and education, noting that one of the responsibilities of citizens and governments under free markets is to evolve and adapt to the changing times. “The success we’re seeing in our state right now, the resilience we have...it’s not about government, it’s about the private sector,” the governor said. He further credited “free markets and the ability to take risks.”

The state greatly benefits from its pro-growth policies. A continued focus on responsible budget processes, low tax burdens, and efficient government operations will safeguard the prosperity of the hardworking North Dakotan taxpayers and businesses.


### **Ohio – Governor John Kasich**

*Rich States, Poor States* 2018 Economic Outlook Ranking: 21

Governor John Kasich delivered his final State of the State address in an optimistic tone, exclaiming “I believe the state of Ohio is stronger today than it’s been in a generation.”<sup>cxxiii</sup> Available data largely backs up this claim. The 11th edition of *Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index* illustrates Ohio leaping from 45th in economic outlook in 2009 to 21st this year.<sup>cxxiv</sup>

Gov. Kasich focused his address on what he believes are his biggest accomplishments over the course of his two terms in office, saying “much of what we have done in the state I like to think is a reflection of





[Ohio] virtues and values.” These policies include: expanding health care, improving the mental health system, stemming the opioid crisis, criminal justice reform, and putting a stop to human trafficking. He touched on job creation and stated Ohio must “have an environment where small businesses can work and where businesses can grow.”

Accomplishments aside, Gov. Kasich’s eight years in office have included a fair share of controversy. He faced backlash for turning away from fiscal conservatism on several occasions, most notably with his unsustainable decision to expand Medicaid.<sup>cxxv</sup> Additionally, the Buckeye State has one of the worst-funded public pension systems in the nation, according to the most recent edition of the ALEC report *Unaccountable and Unaffordable*.<sup>cxxvi</sup> While these liabilities largely existed prior to when Gov. Kasich took office, no substantial steps have been taken to address the problem. Ohio has more than \$350 billion in total unfunded liabilities – an unfathomable \$30,538 per capita.

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

*Rich States, Poor States* 2018 Economic Outlook Ranking: 16

Gov. Mary Fallin’s final State of the State address focused almost exclusively on a plethora of tax hikes.<sup>cxxvii</sup> She applauded the “group of business and community leaders” working “tirelessly in a bipartisan manner to sculpt a series of budget and reform compromises.” Variations of this “Step Up Oklahoma” tax hike plan repeatedly failed to get the requisite three-fourths supermajority vote before legislators finally acquiesced weeks later to a \$450 million tax hike on cigarettes, gasoline, diesel, and oil and natural gas production.<sup>cxxviii, cxxix, cxxx</sup>

Teachers’ union demands for a \$10,000 pay hike under threat of a walkout fueled the drive for these tax hikes.<sup>cxxxi</sup> As a result of the enacted package, pay is set to increase by \$6,100 per teacher. Despite the giant pay raise, teachers still walked out days later demanding more.<sup>cxxxii</sup>

Abandoning her early promise of being a bold reformer, the governor now zealously pursues the tax and spend mantle. She also promised spending on “initiatives that each of you are passionate about” including infrastructure and road construction. She failed to mention that Oklahoma already spends more funds per state-controlled highway mile than five of its six neighboring states.

Under Gov. Fallin’s direction, cigarette taxes nearly doubled overnight, diesel taxes jumped by 6 cents per gallon diesel, and gasoline taxes by 3 cents per gallon. In addition, legislators more than doubled the gross production tax on many oil and gas wells from 2 percent to 5 percent. “Just as compromise formed the foundation of America, I believe compromise can fortify the foundation of Oklahoma,” explained the governor. But tax hikes embraced by the governor and passed into law go beyond the pale of compromise. Considering politicians in D.C. just managed to enact the most substantive tax cuts in more than 30 years, the governor’s admonition that “we don’t want to be like Washington, D.C.” is mildly ironic.

Rather than enacting these tax increases, spending reforms such as those contained in the ALEC *State Budget Reform Toolkit* will enhance the Sooner State’s economic competitiveness.<sup>cxxxiii</sup> For now, individuals and businesses will bear the costs of the numerous tax hikes forced through at the governor’s insistence.



## Oregon – Governor Kate Brown

*Rich States, Poor States* 2018 Economic Outlook Ranking: 41

In her State of the State address, Governor Kate Brown outlined a litany of policy proposals to expand economic opportunity by funneling more money into technical education and workforce development.<sup>cxxxiv</sup> She recognized “Oregon is a leader in economic recovery, and unemployment is hitting record lows,” but lamented “for too many...the American Dream has become the Impossible Dream.” Gov. Brown complained many “hardworking families are still underwater” with low-paying jobs, and a lack of local skilled labor, is forcing businesses to look out of state to fill some 66,000 job openings. Economic data suggests the governor’s dismal rhetoric doesn’t jive with reality.<sup>cxxxv</sup> Oregon’s non-farm employment has risen impressively to a level nine percent higher than prior to the Great Recession. Average hourly earnings have risen 16 percent over the past six years in Oregon—more than twice the 7.1 percent cumulative inflation.<sup>cxxxvi,cxxxvii</sup> Real personal income in Oregon has been growing at a rate faster than many other states since 2013.<sup>cxxxviii</sup>

Gov. Brown lauded the five percentage point rise in the high school graduation rate throughout her three year tenure and cited the 86 percent graduation rate of those enrolled in vocational training or other technical courses as an impetus to enact “Future Ready Oregon.” She proposed the five-step program to incentivize rural infrastructure, expand apprenticeships, create loan programs for skilled construction workers, provide affordable housing, and align training with entry-level job requirements. A dearth of charter schools, lack of private school choice programs, and lackluster teacher quality are all factors. “Future Ready Oregon” leaves these concerns largely untouched.

While acknowledging the need to “make the PERS system more sustainable and keep the debt we owe from hobbling public education,” the governor presented no plan to do so. According to *Unaccountable and Unaffordable: 2017*, per capita, unfunded public pension plan liabilities are ninth highest in the nation at more than \$26,700.<sup>cxxxix</sup> This looming debt crisis threatens taxpayers and public workers.


Reforming Oregon’s tax and regulatory environment is a far better way to foster business development, job growth, and economic prosperity. The strong growth following the Great Recession should not be taken for granted. A “future ready Oregon” requires more than just a slew of programs.

## Pennsylvania – Governor Tom Wolf

*Rich States, Poor States* 2018 Economic Outlook Ranking: 38

Gov. Tom Wolf’s Budget Address targeted three main policy areas: education, job training and a natural gas extraction severance tax. Unfortunately, it contained a strong undercurrent of authoritarianism revealing a desire for a more central planning and State control. One push for “progress” alluded to by the governor was his attempt to end the 2017 budget battle by issuing a \$1.23 billion bond through the state liquor system.<sup>cxl</sup> Gov. Wolf’s general theme was to resolve systemic problems by continuing the cycle of taxing and spending, the source of the systemic problems.

The governor discussed his proposed severance tax, to be imposed on top of both the existing impact fee and the state’s high corporate income tax. Returning once again to his three-year-old argument for a severance tax on natural gas production, he cited the revenue seen by states that impose such taxes. Sadly, many of those states currently struggle with revenue volatility due to shifts in the energy market. The imposition of a severance tax would make Pennsylvania a less competitive state for energy exploration, development, and extraction – and the jobs involved.



Gov. Wolf called for more investment in Pennsylvania’s education system, especially for schools in lower socio-economic status (“SES”) communities. He proposed enacting a “fair funding formula” that makes “sure that your zip code doesn’t determine what kind of education you can get.” While the sentiment is appreciated, more funding isn’t the best way to close the achievement gap. The governor should instead focus on improving state education policy by expanding school choice and tying teacher pay to teacher performance. The governor lauded the Department of Community and Economic Development’s workforce training program, but while advocates like Gov. Wolf can point to specific individuals who benefited from the program, the tax dollars expended for each job “created” divert resources from where they’d be even more productive.

The proposed tax hikes, gushers of spending and jobs market interventionism, have not and will not create prosperity.

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

*Rich States, Poor States* 2018 Economic Outlook Ranking: 39

In her State of the State address, Gov. Gina Raimondo pointed to “cranes in the sky” and a plunge in the state’s unemployment rate to 4.3 percent as a sign of a boom.<sup>cxli</sup> The state is hardly the standard bearer of economic competitiveness with high property taxes, personal and corporate income taxes, and debt service burdens. However, to the governor’s credit, responsible fiscal management enabled a steep reduction in unemployment insurance taxes. She lauded the state for going from 50th to 23rd in unemployment tax burden in one year.

She credited many of her projects— including tuition-free programs for community college, economic development tax incentives, small business loan initiatives, and vocational training programs— as primary reasons for the state’s recovery. Although she deserves recognition for often fighting unfair preferential tax treatment policies, she has fallen short of putting a complete end to the practice. The governor argued by combining incentives with work-training programs, Rhode Island avoids the pitfalls of cronyism seen in other states. Tax incentives—whether subsidies, carve-outs, or credits—impair long-term growth, the only exception being those that maintain symmetry.

In education, Gov. Raimondo requested a more than \$1 billion funding increase for the next five years, declaring a need for “once-in-a-generation investment to fix our schools.” Her plan would require a \$400 million increase in general revenue appropriations and \$250 million in bond offerings. Cities would be responsible for the remaining \$350 million. She also asked lawmakers to expand on-the-job and high school technical training programs. The governor renewed her call for a line-item veto proposition on the November ballot, asking voters for this constitutional change to enhance fiscal responsibility. She reminded voters that many other governors already possess this power to “eliminate waste and give taxpayers confidence in their government.”

Between spending growth, the failure to address rising pension debt, and the governor’s dangerous divestment efforts in pension management, Rhode Island has a long way to go. Building on the unemployment tax reductions would be a good place to start.



## **South Carolina – Governor Henry McMaster**

*Rich States, Poor States* 2018 Economic Outlook Ranking: 33

As one of the best addresses of 2018, the summary appears at the front of this publication.

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

*Rich States, Poor States* 2018 Economic Outlook Ranking: 9

Gov. Dennis Daugaard’s 2018 State of the State focused on workforce development, public education, occupational licensing reform, a possible transportation tax increase, and support for overturning legal precedent that could saddle online business with substantially increased costs. Unfortunately, substantive spending restraint, budget reform, and tax relief proposals were absent from the address.

Many of the solutions the governor offered were education-centered, such as apprenticeship programs and post-secondary education. He reported that just one-fourth of those entering South Dakota public high schools complete post-secondary education within 10 years. The solutions discussed hold promise, with the Career Launch incentivizing “apprenticeships, internships and job shadowing during school.” He also applauded the Blue Ribbon Task Force on Education, but noted it largely only focused on spending.

Gov. Daugaard proposed two pro-growth measures – streamlining professional licensure and lowering barriers to entrepreneurs. He pushed South Dakota to enter into agreements with other states to create licensure reciprocity, or grant relocating practitioners 18 months to work while obtaining a new license. He also proposed to reform state alcohol laws to make it easier for microbreweries to locate in the state. Support for professional licensure and alcohol law reforms bodes well for business opportunities.

Looking to infrastructure, he indicated support for tax increases to fund transportation infrastructure. “No one likes tax increases but it is less expensive to maintain a good road than to rebuild a bad one.” With overall state government tax receipts increasing by 14 percent from 2013-2016, perhaps he should reconsider.<sup>cxliii</sup>


Celebrating the state’s challenge to established constitutional precedent prohibiting states from placing “undue burdens on interstate commerce,” Gov. Daugaard set himself as a vocal proponent of overturning *Quill*. Currently, states generally cannot impose tax reporting or collection duties on out-of-state businesses unless the business maintains a significant physical presence in the state.

Although the modest regulatory reform proposals are encouraging, the lack of substantive fiscal reforms and the possibility of additional tax hikes suggest competitiveness may continue to decline.

## **Tennessee – Governor Bill Haslam**

*Rich States, Poor States* 2018 Economic Outlook Ranking: 12

In his eighth and final State of the State address, Gov. Bill Haslam counseled lawmakers to continue their efforts to lead the nation on job growth, economic opportunity, and education reform.<sup>cxliiii</sup> Increasing government efficiency, cutting waste, further improving education, and growing the workforce are amongst his final priorities. He celebrated that Tennessee has “become one of the best destinations to live, work, and raise a family,” with the lowest unemployment in state history, cumulative job growth over seven years of more than 17 percent representing nearly 400,000 private sector jobs, and \$500 million in annual tax cuts.



The governor thanked legislators for cutting spending by half a billion dollars annually, tripling the Rainy-Day Fund, and maintaining a AAA bond rating. He credited the state's capacity to "deliver critical services" regardless of economic conditions to fiscal responsibility.

In his budget proposal, Gov. Haslam made several substantive requests. This includes more than \$200 million in additional funds for K-12 and \$100 million more for higher education. The governor noted Tennessee has the nation's fastest-improving student test scores in math, science, and reading along with the highest high school graduation rates in state history – all with far more restrained spending than other states.<sup>cxliiv</sup> Gov. Haslam called for higher healthcare spending as well, asking lawmakers to devote another \$30 million to combat opioid addiction, improve treatment, and enhance law enforcement capabilities. Further, he recommended another \$50 million for the Rainy Day Fund. Gov. Haslam also called for \$128 million in economic development investments, and although politicians enjoy being able to point to specific businesses directly benefiting from this favoritism, economic opportunity is more efficiently and widely expanded through broad-based tax reform.

Gov. Haslam lauded that because of—not in spite of— reductions in the size of government, Tennessee has improved its core services in every metric, and annual budget growth has been below the rate of population growth plus inflation. Overall, his final budget reflects this commitment to responsible spending by eliminating more than 335 outdated or inefficient government positions. Further, it continues the phase-out of the Hall Tax, the state's tax on dividend and savings income. Every day Tennesseans are reaping the benefits of a climate of economic opportunity thanks to responsible governance.


### **Texas – Governor Greg Abbott**

*Rich States, Poor States* 2018 Economic Outlook Ranking: 14

In his *Report to the People*, Gov. Greg Abbott wrote the state of the state is strong, highlighting "a year of triumphs and challenges – and challenges overcome." Job creation boomed as Texas' population increased by more than any other state thanks to domestic migration.<sup>cxlv</sup> The governor reports that the 3.9 percent November 2017 unemployment rate was Texas' lowest in four decades. December 2017 marked 92 consecutive months of consecutive job growth. According to the governor's Small Business Study, entrepreneurs and small businesses contribute more than \$1 trillion to the state's economy. Better still, "Texas is the top exporting state, the top tech exporting state, and one of the top states for startups." The Lone Star State continues to achieve top rankings in business – earning "Best State for Business" for the 13<sup>th</sup> consecutive year from a *Chief Executive Magazine* survey.<sup>cxlvi</sup>

Unfortunately, the governor also lauded the preferences doled out through the Texas Enterprise Fund (TEF). TEF ostensibly provides "financial resources to help strengthen the state's economy," and "helped close the deal" on 21 projects representing roughly \$655 million in new capital investments over the last two years. Unfortunately for taxpayers, the subsidies and tax incentives doled out by TEF come at the high cost of \$230 million.<sup>cxlvii</sup> By giving special deals to a select few companies, tax rates remain higher for everyone else.

Gov. Abbott also noted how education metrics also vastly improved, with Texas reaching a record 89.1 percent on-time high school graduation rate – in the top five nationwide. He also highlighted exceptional growth in math scores of K-12 students, especially among those from lower income households.



In fiscal policy the governor called on lawmakers to maintain a fiscally responsible state budget and restrain spending growth below the combined increases in population and inflation. Maintaining the Lone Star State's status as one of the world's most competitive economies requires vigilance.

### **Utah – Governor Gary Herbert**

*Rich States, Poor States* 2018 Economic Outlook Ranking: 1

"Our state is healthy, growing, and successful," proclaimed Governor Gary Herbert in his State of the State Address. Unlike dozens of other states, government shutdowns are unheard of in Utah. The governor noted that in 2017, the legislature managed to pass 500 bills along with a balanced budget in a 45 day session. "By every meaningful metric, the state of Utah is truly exceptional," glowed the governor.


Few details of legislative priorities were given based on the belief that "we already know what we need to be doing..." However, his opening remarks hinted at his goals regarding education spending, infrastructure, and tax reform. Specifically, the governor mentioned the need to "prioritize [education] funding and standards." Education funding for the following school year will increase \$292 million thanks to the budget passed weeks later.<sup>cxlviii</sup> The governor also asked legislators to "think proactively about infrastructure so that we maintain what we build, so that users pay their fair share, and so that we are investing in the future."

Gov. Herbert also expressed hope that the tax reform bill sponsored by Senate President Wayne Niederhauser "will have meaningful impacts on the state not only today—but will lay a foundation for the success and well-being of our children and grandchildren." The tax reform legislation signed into law weeks later reduced the individual and corporate income tax rates by 0.05 percent.

Unfortunately, the tax legislation also included provisions meant to ensure longer term revenue increases. A provision signed into law by the governor instituted a statewide property tax rate levy floor of 0.0016 for five years.<sup>cxlix</sup> Thanks to "Truth-in-Taxation" in Utah, if a taxing entity desires more revenue from its property base, public notice and hearings are required along with a vote by the corresponding legislative body.<sup>cl</sup> Absent this process, property tax rates decline as property valuations increase, ensuring property tax revenue remains constant. This ensures that the property tax burden does not expand simply as a result of inflationary increases in property values. Blocking property rates from falling below this arbitrary rate is a subtle tax increase of more than \$125.6 million in revenue by 2023.<sup>cli</sup>

With the governor's support, the legislature placed a 10 cent gas tax increase indexed for inflation on the November 2018 ballot.<sup>clii</sup> This is expected to generate \$170 million in new revenue to the Transportation Fund in the first year. Of this \$170 million, "Thirty percent would be dedicated to local roads and the remaining 70 percent would be used to offset an equivalent cut in funding for transportation that would then go toward education."<sup>cliii</sup> Of important note, the legislature placed this measure on the ballot in order to keep a much larger tax increase proposal from appearing on the ballot.

Lastly in relation to tax reform, the governor stressed the importance of keeping "tax rates low and revenue reliable by broadening the base." Herbert held true to this economic principle by opposing efforts to eliminate the sales tax on food while raising the overall sales tax.<sup>cliv</sup> Although potentially



politically advantageous, shrinking the sales tax base sets a poor precedent for the future. Each segment of the economy securing favored tax treatment results in higher taxes elsewhere.

“What is most important for our prosperity and our well-being, today and 100 years from now, is a strong culture of work, self-reliance, shared responsibility, and mutual respect. This unique culture is not just about rugged individualism,” explained the governor. Perhaps Utah has indeed “become that shining city on a hill for our nation.”

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

*Rich States, Poor States* 2018 Economic Outlook Ranking: 49

As one of the best addresses of 2018, the summary appears at the front of this publication.

#### **Virginia – Governor Ralph Northam**

*Rich States, Poor States* 2018 Economic Outlook Ranking: 10

In his Inaugural address, Governor Ralph Northam bucked his historic trend of supporting new and higher taxes, refraining from calling for either.<sup>clv,clvi</sup> Rather than promote specific policies, he outlined a decision framework of commitments for his tenure, acknowledging that “no one has a monopoly on good ideas.” In education, Gov. Northam proposed his “G3” campaign, which is short for Get Skilled, Get a Job, and Give Back. He called lawmakers to invest in the program, which will pay tuition and fees for any Virginian who commits to one year of public service. He also asked for \$500 million in new funding for schools, as well as increased funding for the “New Virginia Economy Workforce Credential Grant Program.” Whether the governor plans to have this funding tied to performance and achievement remains to be seen.

Between 2012 and 2017, Virginia’s economic competitiveness suffered.<sup>clvii</sup> The decline is partly due to other states engaging in economic reforms at a faster rate than Virginia, but also an increase in the top marginal corporate income tax rate. Virginia is facing interregional, interstate, and international competition for the new businesses, jobs, and innovations that will drive growth. The governor promised to work with lawmakers to “make Virginia work better for everyone, no matter who they are or where they are from,” but that “achieving that goal begins with creating new jobs by helping Virginia companies grow and attracting new ones to every corner of the Commonwealth.”

Driving those jobs to Virginia will require some changes. Less than a three-hour drive south, North Carolina promises a far more hospitable economic climate. The results of North Carolina’s 7 years of tax cuts speak for themselves - higher GDP growth, more domestic migration and more non-farm payroll employment than Virginia. Economic opportunity flowed to the geography of least policy resistance.


If Gov. Northam is truly willing to explore alternative perspectives, reforming Virginia’s tax structure and modernizing the state’s regulatory code should be high on his list.<sup>clviii,clix</sup> These changes would promote economic growth— and thus “do the most good for the most Virginians.”

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

*Rich States, Poor States* 2018 Economic Outlook Ranking: 37

In a State of the State address packed with a range of legislative demands, Washington Gov. Jay Inslee renewed his push for a carbon tax to speed up funding to fix the K-12 school system mandated by the





*McCleary v State of Washington* court case.<sup>clx</sup> He also called for workforce development initiatives, healthcare regulations, and myriad new social regulations. The governor prodded lawmakers to pass a capital budget that fully funds his requests for school construction, affordable housing, and mental-health initiatives.

These proposals were just a prelude to his primary agenda: enactment of a carbon tax. “Now is the time to join in action and put a price on carbon pollution,” advised Gov. Inslee. As summarized in *The News Tribune*, “The plan would tax carbon emissions generated by transportation fuels and power plants at \$20 per metric ton starting in July of 2019.”<sup>clxi</sup> After that, the tax would increase by 3.5 percent each year, plus inflation.”

The tax would generate an estimated \$1.5 billion in higher taxes in just the first two years.

The governor proposed spending the gusher of carbon tax revenue first on education but also for a variety of environmental programs, including grants for people to add energy-saving insulation to their homes, tax incentives for electric vehicles and buses, subsidies for building more solar panels, and a myriad of other incentives for development clean energy systems.

Between economic growth and the benefits of the federal tax reform, The Evergreen State is looking at \$671 million in additional revenue for the 2019-2021 biennium.<sup>clxii</sup> That’s in addition to the \$647 million extra they’re expecting for 2017-2019. Should Washington choose, it could chart a course for pro-growth, broad-based tax cuts, enhancing economic prosperity, and job opportunities for all.

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

*Rich States, Poor States* 2018 Economic Outlook Ranking: 30

In his 2018 State of the State address, Gov. Jim Justice lamented last year’s failed push for higher taxes, saying “It was really unfair to think that what I wanted to do was just come in and say, oh, we got a hole in the bucket.”<sup>clxiii</sup> Let’s just raise taxes. That’s the last thing on earth I wanted to do. But I didn’t know what to do. I didn’t know where to turn.” He credited the people of West Virginia for pulling the state from the brink of economic collapse, despite a substantial part of it being the failure of last year’s proposals. Last year, Gov. Justice delivered a bleak State of the State address, prophesying “dead” residents absent enactment of a slew of new spending, tax hikes, and fines.<sup>clxiv</sup> He expressed no hope of budget stabilization through spending restraint, warning the state would become a “nuclear waste site” with any tax or spending cuts, and proposed increasing DMV fees, hiking the gas tax and turnpike tolls, and imposing a gross receipts tax and increasing the sales tax.

While the legislature fought to a standstill on those and other economic “development” proposals, the economy, particularly the coal industry, had a surprisingly good year.<sup>clxv</sup> The unexpected growth helped close the budget gap. Reversing course completely, this year the governor called for the elimination of taxes on manufacturing machinery, equipment, and inventory. Ideally tax reform should be focused on reducing rates and broadening the base, but eliminating taxes on the production process is a laudable goal and helps properly define the correct tax base. Federal regulatory reform and avoidance of state tax hikes contributed to a modest improvement in West Virginia’s economy this past year. Surprisingly, the governor failed to mention a major advancement in the business climate: West Virginia joined the ranks of right-to-work states in 2017. If lawmakers expand on the pro-growth theme of lower taxes embodied in the governor’s Just Cut Taxes And Win Act, long-term improvement lies within sight.



## Wisconsin – Governor Scott Walker

*Rich States, Poor States* 2018 Economic Outlook Ranking: 19

Wisconsin Governor Scott Walker delivered his 8<sup>th</sup> State of the State address in Madison, highlighting his “ambitious agenda” for the 2018 legislative session.<sup>clxvi</sup> Major areas of focus include education, job growth, welfare reform, and ensuring a stable environment for small business.

Gov. Walker began by illustrating the current condition of the Badger State compared to when he took office eight years ago. Major accomplishments include the state’s budget surplus, low long-term outstanding debt, upgraded bond ratings, increased healthcare coverage, and significantly lower taxes. Research conducted by the ALEC Center for State Fiscal Reform lends validity to the claim that Wisconsin has improved in many respects over the last eight years. The state’s economic outlook ranks a healthy 19th in *Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index*, climbing more than a dozen spots from a low of 32nd in 2012.<sup>clxvii</sup>

Gov. Walker touted several tax reform accomplishments during his tenure, noting “a typical family will have saved \$1,400 since 2010,” largely due to decreases in personal income and property taxes. By the end of the current budget cycle in 2019, Wisconsin taxpayers will have received approximately \$8 billion in cumulative tax relief over his time in office.<sup>clxviii</sup> Relatedly, the business community has become more optimistic about the state. Gov. Walker pointed out for the first time in the report’s history, *Chief Executive Magazine* ranked Wisconsin as a top-10 state to do business.<sup>clxix</sup>


## Wyoming – Governor Matt Mead

*Rich States, Poor States* 2018 Economic Outlook Ranking: 8

Gov. Matthew Mead proclaimed in his 8<sup>th</sup> and final State of the State Address, “With our great citizens, improved revenues, large savings, well-funded pension plans, investments in our future and opportunities on the horizon, the state of our state is strong.” With a continued slump in the energy market impacting Wyoming’s economy, the steadfastness of the state is especially commendable. Gov. Mead applauded that “we have smaller government, that is, we have a smaller budget, fewer employees and fewer rules.” Roadblocks to growth set by the federal government compounded the economic stress, but the state persevered. The governor reminded citizens, “We have fought the good fight on federal overreach. The Attorney General’s office has been very busy the past seven years.” In particular, the state fought back against the EPA Waters of the United States rule, a federal haze plan for Wyoming, the Clean Power Plan, and a federal hydraulic fracturing rule – all of which would have further hampered the state’s economy.

But the governor’s focus on the Economically Needed Diversity Options for Wyoming (ENDOW) is troubling.<sup>clxx</sup> Gov. Mead claimed ENDOW’s intent is to “develop a 20-year economic strategy...to grow and expand our economy,” but his budget indicates several ENDOW activities are potentially at odds with a free economy, including “stimulating new and emerging industries” and “allocating resources to best promote economic diversification.”<sup>clxxi</sup> A focus on maintaining low tax rates, quality education, and core infrastructure is preferable to any form of state favoritism towards specific businesses or industries.

The governor also indicated support for tax hikes to fund education spending. Specifically, he mentioned “broadening the base” along with lodging taxes and tobacco taxes. The governor’s commitment to state regulatory reform, bureaucratic downsizing, and budget reform has resulted in the state weathering this storm with a strong balance sheet and low taxes. Rather than resort to higher taxes or centrally planned



economic development, the continuation of a business-friendly climate is needed to incentivize further diversification and future growth of the economy.

## Appendix

### ALEC PRINCIPLES OF TAXATION

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


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

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

#### Guiding principles of taxation

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

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

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- Competitiveness – A low tax burden can be a tool for a state’s private sector economic development by retaining and attracting productive business activity. A high-quality revenue system will be responsive to competition from other states. Effective competitiveness is best achieved through economically neutral tax policies.
  - Reliability – A high-quality tax system should be stable, providing certainty in taxation and in revenue flows. It should provide certainty of financial planning for individuals and businesses.

### **Benefits of a principled tax burden**

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

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

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