



FISCAL POLICY
REPORT CARD
ON AMERICA'S
GOVERNORS
2012

CATO
INSTITUTE

FISCAL POLICY
REPORT CARD
ON AMERICA'S
GOVERNORS
2012

CHRIS EDWARDS

CATO
INSTITUTE

Copyright © 2012 by the Cato Institute.
All rights reserved.

Cover design by Jon Meyers.

Printed in the United States of America.

CATO INSTITUTE
1000 Massachusetts Ave., N.W.
Washington, D.C. 20001
www.cato.org

Executive Summary

The recovery from the recent recession has been very sluggish, and the nation's governors have struggled with the resulting budget deficits, unemployment, and other economic problems in their states. Many reform-minded governors elected in 2010 have championed tax reforms and spending restraint to get their states back on track. Other governors have expanded government with old-fashioned tax-and-spend policies.

That is the backdrop to this year's 11th biennial fiscal report card on the governors, which examines state budget actions since 2010. It uses statistical data to grade the governors on their taxing and spending records—governors who have cut taxes and spending the most receive the highest grades, while those who have increased taxes and spending the most receive the lowest grades.

Four governors were awarded an "A" in this report card—Sam Brownback of Kansas, Rick Scott of Florida, Paul LePage of Maine, and

Tom Corbett of Pennsylvania. Five governors were awarded an "F"—Pat Quinn of Illinois, Dan Malloy of Connecticut, Mark Dayton of Minnesota, Neil Abercrombie of Hawaii, and Chris Gregoire of Washington.

Many states are facing major fiscal problems in coming years. Rising debt and growing health and pension costs threaten tax increases down the road. At the same time, intense global economic competition makes it imperative that states improve their investment climates. To that end, some governors are pursuing broad-based tax reforms, such as cutting income tax rates and reducing property taxes on businesses. The bad news is that many governors are expanding narrow "tax incentives," which clutter the tax code in an attempt to micromanage the economy.

This report discusses these trends and examines the fiscal policy actions of each governor. Hopefully, policymakers in more states will be encouraged to follow the fiscal reform approaches of the top-scoring governors.

Introduction

Governors play a key role in state fiscal policy. They propose budgets, recommend tax changes, and sign or veto tax and spending bills. When the economy is growing, governors can use rising revenues to expand programs, or they can return extra revenues to citizens through tax cuts. When the economy is stagnant, governors can raise taxes to close budget gaps, or they can cut spending.

This report grades governors on their fiscal policies from a limited-government perspective. The governors receiving an “A” are those who cut taxes and spending the most, while the governors receiving an “F” raised taxes and spending the most. The grading mechanism is based on seven variables, including two spending variables, one revenue variable, and four tax rate variables. The same methodology was used on Cato’s 2008 and 2010 report cards.

The results are data-driven. They account for tax and spending actions that affect short-term budgets in the states. But they do not account for longer-term or structural changes that governors may make, such as reforms to state pension plans. Thus, the results provide one independent measure of how “fiscally conservative” each governor is, but they don’t reflect all the fiscal actions that governors may make.

Tax and spending data for the report came from the National Association of State Bud-

get Officers (NASBO), the National Conference of State Legislatures (NCSL), the Tax Foundation, the budget agencies of each state, and news articles in *State Tax Notes* and other sources. The data cover the period January 2010 to August 2012, which was a time of modest budget expansion in most states.¹ The report covers 48 governors. It excludes Mississippi’s governor because of his short time in office, and it excludes Alaska’s governor because of peculiarities in that state’s budget.

The following section reviews the records of the highest-scoring and lowest-scoring governors, and it discusses some of the policy trends that emerged from the analysis. After that, the longer-term outlook for state budgets is discussed, focusing on the crisis in state debt and unfunded obligations. Appendix A discusses the report card methodology. Appendix B provides brief summaries of the fiscal records of the 48 included governors.

Main Results and Policy Trends

Table 1 presents the overall grades for the governors. Scores ranging from 0 to 100 were calculated for each governor based on seven tax and spending variables. Scores closer to 100 indicate governors who favored smaller-government policies. The numerical scores were converted to the letter grades “A” to “F.”

This report grades governors on their fiscal policies from a limited-government perspective.

Table 1
Overall Grades for the Governors

State	Governor	Score	Grade
Kansas	Sam Brownback (R)	69	A
Florida	Rick Scott (R)	69	A
Maine	Paul LePage (R)	65	A
Pennsylvania	Tom Corbett (R)	65	A
Louisiana	Bobby Jindal (R)	62	B
New Hampshire	John Lynch (D)	62	B
North Dakota	Jack Dalrymple (R)	62	B
Alabama	Robert Bentley (R)	61	B

Continued next page

State	Governor	Score	Grade
Idaho	C.L. "Butch" Otter (R)	58	B
Wyoming	Matt Mead (R)	58	B
Ohio	John Kasich (R)	58	B
New Jersey	Chris Christie (R)	58	B
Michigan	Rick Snyder (R)	57	B
Nebraska	Dave Heineman (R)	57	B
Wisconsin	Scott Walker (R)	57	B
Nevada	Brian Sandoval (R)	57	B
Iowa	Terry Branstad (R)	55	B
South Carolina	Nikki Haley (R)	55	B
Oklahoma	Mary Fallin (R)	55	B
Massachusetts	Deval Patrick (D)	55	B
Indiana	Mitch Daniels (R)	55	B
New Mexico	Susana Martinez (R)	54	C
Missouri	Jay Nixon (D)	53	C
Georgia	Nathan Deal (R)	53	C
South Dakota	Dennis Daugaard (R)	53	C
Colorado	John Hickenlooper (D)	53	C
Arkansas	Mike Beebe (D)	52	C
Montana	Brian Schweitzer (D)	51	C
Texas	Rick Perry (R)	51	C
North Carolina	Beverly Perdue (D)	51	C
West Virginia	Ray Tomblin (D)	50	C
Virginia	Bob McDonnell (R)	50	C
California	Jerry Brown (D)	49	D
Delaware	Jack Markell (D)	48	D
Arizona	Jan Brewer (R)	48	D
Kentucky	Steven Beshear (D)	47	D
Utah	Gary Herbert (R)	47	D
Oregon	John Kitzhaber (D)	45	D
New York	Andrew Cuomo (D)	45	D
Tennessee	Bill Haslam (R)	43	D
Maryland	Martin O'Malley (D)	42	D
Rhode Island	Lincoln Chafee (I)	41	D
Vermont	Peter Shumlin (D)	40	D
Washington	Chris Gregoire (D)	38	F
Hawaii	Neil Abercrombie (D)	32	F
Minnesota	Mark Dayton (D)	21	F
Connecticut	Dan Malloy (D)	17	F
Illinois	Pat Quinn (D)	16	F

Highest-Scoring Governors

The highest-scoring governors are those who have supported the largest tax and spending cuts. Here are the four governors who received grades of “A”:

- **Sam Brownback of Kansas** signed into law one of the most impressive tax reforms of any state in recent years. Brownback called for a “fairer, flatter, and simpler” income tax system and he proposed a detailed reform plan. In May, the legislature delivered a plan to his desk and he signed it into law. The reform simplified the personal income tax structure from three tax rates to two and cut the top rate from 6.45 to 4.9 percent. It also increased the standard deduction, reduced the taxation of small business income, and repealed numerous special-interest tax breaks. The cuts are expected to save Kansas taxpayers about \$800 million a year.
- **Rick Scott of Florida** has championed major tax and spending reforms. He has proposed substantial budget cuts, vetoed hundreds of millions of dollars of wasteful spending, and trimmed state employment. Scott is also determined to give Florida the best economic climate for business investment and job creation in the country. He wants to phase out the corporate income tax (CIT), and he has made progress toward that goal by raising the CIT exemption to end the tax for thousands of small businesses. Scott’s plan to cut taxes on business personal property is on the November ballot. If citizens approve the plan, it would end this tax for about 156,000 businesses.
- **Paul LePage of Maine** signed into law a major income tax cut. The reform reduced the top individual tax rate from 8.5 to 7.95 percent, simplified tax brackets, and reduced taxes on business investment. LePage then signed legislation to reduce the top individual tax rate to 4 percent over time if there

are sufficient budget surpluses. The governor says that his ultimate goal is to phase out the individual income tax completely, and he wants to cut the corporate tax rate from 8 to 4 percent. LePage has also focused on spending cuts. He signed into law reforms to reduce the costs of welfare, health care, and pensions, and he wants to end funding for Maine Public Broadcasting, calling it “corporate welfare.”

- **Tom Corbett of Pennsylvania** has been a frugal budgeter. The state is expected to spend less next year than it did when he came into office. Corbett is also pursuing the phase out of the Capital Stock and Franchise Tax, which is paid by 100,000 Pennsylvania businesses. So far Corbett has sliced the tax from \$819 million a year to \$479 million, and he plans to fully repeal it by 2014. Corbett argues: “This tax is a job-killer. . . . We don’t need it. We don’t benefit from it, and we must get rid of it.”²

Lowest-Scoring Governors

The lowest-scoring governors are those who have increased taxes and spending the most. These governors seem to view the government’s financial priorities as more important than the financial priorities of average tax-paying citizens. Here are the six governors who received a grade of “F”:

- **Pat Quinn of Illinois** took office after his predecessor, Rod Blagojevich, was impeached and removed. Unfortunately, Quinn is following the same approach that earned Blagojevich an “F” grade from Cato in 2008.³ In 2009 Quinn signed into law a \$1.1 billion tax increase. In 2011 he pushed through a massive \$7 billion tax increase, which included higher individual income taxes, corporate taxes, and estate taxes. Quinn raised the top individual income tax rate from 3 to 5 percent, and raised the top corporate rate from 4.8 to 7.0 percent. Illinois corporations pay

Sam Brownback of Kansas signed into law one of the most impressive tax reforms of any state in recent years.

In this year's results, there are fewer governors than in prior reports who are out of step with the typical policies of their parties.

a special tax on top of the basic rate to bring the overall rate to 9.5 percent. In 2012 Quinn approved a large cigarette tax increase. Quinn also spends too much, and he has tried to paper over the state's fiscal problems by issuing billions of dollars of bonds to cover unpaid state bills and to fund the state pension plan.

- **Dan Malloy of Connecticut** signed into law a huge \$1.8 billion tax increase, which increased the top individual income tax rate from 6.5 to 6.7 percent, the top corporate tax rate from 8.25 to 9.0 percent, and the sales tax rate from 6.0 to 6.35 percent. The governor also increased hotel taxes, luxury goods taxes, online sales taxes, alcohol taxes, and the state death tax. After this tax-hike orgy, Malloy had the gumption to claim that some small tax credits he approved were a “far reaching” and “rigorous initiative to grow jobs.”⁴
- **Mark Dayton of Minnesota** soon revealed his taste for bigger government after he entered office in 2011. General fund spending jumped almost 10 percent in his first year in office.⁵ To fund the spending, he proposed a large tax increase to raise \$2 billion a year. The plan would have raised the top personal income tax rate from 7.85 to 10.95 percent, with an additional 3 percentage point tax on top of that for the highest earners. Dayton also wanted business tax increases and a new property tax on higher-valued homes. The legislature rejected Dayton's tax-increase plans.
- **Neil Abercrombie of Hawaii** has focused on increasing both taxes and spending as governor of the Aloha State since 2011. General fund spending jumped about 12 percent during his first year in office.⁶ To fund the spending, the governor has supported a slew of tax increases. He signed into law higher income taxes, excise taxes, and taxes on rental cars. He has also proposed

higher taxes on pension income, soda, and alcohol.

- **Chris Gregoire of Washington** earned a well-deserved “F” on the last Cato report card. There has been a never-ending stream of tax-increase proposals coming from this governor since 2005. In her first year, she raised taxes on cigarettes, gasoline, liquor, and vehicles. She also re-established an estate tax after a previous version had been struck down by the courts. In 2009 she signed into law increases in business taxes, sales taxes, cigarette taxes, beer taxes, soda taxes, and candy taxes. In 2010 she approved a large increase in the cigarette tax, a huge hospital tax, and increases in business taxes and beer taxes. In 2011 she proposed a half cent increase in the sales tax rate, but that was rejected by the legislature. In 2012 Gregoire proposed a new tax on crude oil to raise \$275 million a year.

Are Republicans and Democrats Any Different?

Advocates of smaller government often lament that politicians of both major parties tax and spend too much. While that is certainly true, Cato report cards have found that Republican governors are a bit more fiscally conservative than Democratic governors, on average. In the 2008 report card, Republican and Democratic governors had average scores of 55 and 46, respectively. In the 2010 report card, they had average scores of 55 and 47, respectively.

This pattern is even more pronounced in the 2012 report card. This time around, Republican and Democratic governors had average scores of 57 and 43, respectively. And, as in prior report cards, the difference between the two parties is slightly more pronounced on taxes than on spending.

The fiscal differences between governors of the two parties have increased a bit. In this year's results, there are fewer governors than in prior reports who are out of step with the typical policies of their parties. In both

the 2008 and 2010 reports, for example, Democrat Joe Manchin earned an “A,” while Republican Jodi Rell earned an “F.” But in this year’s report, all four “A” governors are Republicans and all five “F” governors are Democrats.

Business Tax Reforms

With the struggling economy of recent years, a growing number of governors are trying to make their states more attractive for business investment. Governors are pursuing cuts to corporate income taxes, sales taxes on business inputs, and property taxes on machinery and equipment.

Corporate income tax rates have plunged around the world over the last two decades. The average rate in major industrial countries has fallen from more than 40 percent in the 1980s to just 25 percent today.⁷ But until recently, most governors were asleep at the switch regarding this growing competitive threat. The average state corporate tax rate is actually a bit higher now than it was in the 1980s.⁸ Some states have increased their business tax burdens in recent years. Governor Rick Perry, for example, signed into law the costly Texas Margin Tax in 2006, while Governor Pat Quinn increased the Illinois corporate income tax rate in 2011.

However, many governors are now responding to the challenge of national and international tax competition. Indiana’s Mitch Daniels signed into law a 2 percentage point corporate tax rate cut, Arizona’s Jan Brewer signed a 2.1 percentage point cut, and North Dakota’s Jack Dalrymple signed a 1.25 percentage point cut. Other governors who have proposed corporate tax rate cuts include Rick Scott of Florida, Terri Bradstad of Iowa, Paul LePage of Maine, and Nikki Haley of South Carolina. Governor Haley says that the corporate tax “generates a relatively small portion of the state’s overall receipts” and repealing it “would send a strong signal that we want to attract jobs and businesses.”⁹ She’s right. State corporate income taxes raise just 5 percent of state tax revenues,

yet they deter economic growth and impose high compliance burdens.¹⁰

Another recent trend is the reduction of retail sales taxes on business inputs. In theory, retail sales taxes should be imposed only on final consumption. But many states impose sales taxes on capital and intermediate products used by businesses, which raises the costs of production. Ernst and Young analysts found that a remarkable 43 percent of all sales taxes fall on business purchases of capital and intermediate inputs.¹¹ This is an important tax burden that deters investment, but it hidden from the view of most citizens.

Georgia Governor Nathan Deal notes correctly that “because the sales tax is intended to be a tax on consumption, it should not be applied to business inputs.”¹² Deal signed legislation to end sales taxes on energy used in manufacturing. Florida’s Rick Scott and other governors are also pursuing reforms to reduce sales taxes on business inputs.

High property taxes are another deterrent to business investment. Tax rates on commercial and industrial real property (land and buildings) are often higher than the rates on residential property. One study found that effective property tax rates on real commercial property are 72 percent higher, on average, than on residential property for a large sample of U.S. cities.¹³ There seems to be no good economic reason for this disparity. Instead, imposing higher rates on business-owned property seems to be just a politically convenient way of raising taxes in a manner invisible to most voters.

In addition to taxes on real property, governments in most states impose property taxes on some types of business personal property, which includes assets such as machinery, equipment, computers, furniture, vehicles, and inventories.¹⁴ There is no economic rationale for these taxes. Indeed, they punish investments in the very machines that help to create the nation’s gross domestic product. Unlike land, which is immobile, business personal property is mobile across state lines. Thus when a state or county

With the struggling economy of recent years, a growing number of governors are trying to make their states more attractive for business investment.

State and local taxes on businesses cost a huge \$644 billion, which is more than double the cost of federal corporate income taxes.

imposes higher taxes on business personal property, investment will gravitate toward other jurisdictions.

Some governors are taking action. Colorado's John Hickenlooper has signed legislation reducing that state's "much-hated" business personal property tax, as one reporter called it.¹⁵ A Colorado news story explained: "Business leaders have long complained that the personal property tax, which assesses a perpetual fee on every piece of equipment used by a business, is one of the most onerous in the state, as it requires payment even in years in which the business does not make a profit and discourages companies from expanding or purchasing new equipment."¹⁶

Governor Rick Snyder of Michigan is also pushing for reductions to business personal property taxes, which raise about \$1 billion a year in that state. A study by Anderson Economic Group found that these taxes are particularly harmful to the highly capital-intensive industrial sector in Michigan.¹⁷ In addition to the direct damage, Anderson found that the complexity of these taxes creates large compliance costs for businesses.

Snyder is proposing to exempt business personal property valued at under \$40,000, which would remove from the rolls about 60 percent of businesses that currently pay the tax.¹⁸ At the same time, he is proposing to phase out many special interest tax breaks. These proposals come on the heels of Snyder's landmark reform last year that scrapped the Michigan Business Tax and replaced it with a less costly corporate income tax. This reform will save Michigan businesses about \$1.6 billion a year.

In Florida the legislature approved Governor Scott's proposal to increase the exemption amount for taxes on business personal property, which would end the tax for about half of the more than 300,000 businesses that currently pay it. The measure will be on the ballot this November for voters to decide. Scott has also proposed reducing sales taxes on business purchases of machinery and equipment.

Other business tax reformers include Io-

wa's Terry Branstad, who is pushing hard to reduce taxes on industrial and commercial property, and Pennsylvania's Tom Corbett, who is leading the drive to repeal that state's Capital Stock and Franchise Tax.

A study by the Council on State Taxation and Ernst and Young tallied the total cost of state and local taxes on businesses.¹⁹ In 2011 property taxes cost businesses \$245 billion, sales taxes on business inputs cost \$130 billion, and state corporate income taxes cost \$46 billion. A slew of other state and local taxes cost businesses a further \$223 billion. All in all, state and local taxes on businesses cost a huge \$644 billion, which is more than double the cost of federal corporate income taxes.

The focus on business tax reduction by a growing number of governors is long overdue. Policymakers who want to reinvigorate America's manufacturing and industrial sectors should look at reforming the many state and local taxes that impede business investment.

Tax Incentive Disease

While some governors are pursuing broad-based tax reforms, others are trying to micromanage their states' economies with "tax incentives." These narrow, special-interest tax breaks have spread like a contagious disease over the last decade or so. Most states now offer dozens of tax incentives targeting favored types of businesses and activities. In Missouri, for example, the value of state tax credits quadrupled between 1999 and 2009, with the state now providing 64 different credits.²⁰ Wisconsin has 170 official "tax exemption devices" under its income tax, including credits, exclusions, and other sorts of breaks.²¹ Wisconsin has tax breaks for technology zones, dairy and livestock investment, ethanol, meat processing, Internet equipment, job creation, and many other things.

The growth in state tax incentives is bad policy for many reasons. For one thing, tax incentives create unequal treatment between different companies and industries, which is

unfair and distorts the economy. In Michigan, for example, Boar's Head meat company received a government grant and an "economic development" tax credit for one of its facilities, which prompted the president of Michigan's Koegel Meats to complain that the government was unfairly subsidizing his competitor.²²

Tax incentives favor companies and industries that have good lobbyists or that politicians find sexy and appealing. Film production tax breaks are the poster child for tax incentive disease. These breaks were first enacted in the 1990s and are now provided by more than 40 states.²³ In 15 states, these credits are "refundable," meaning that businesses receive a cash benefit whether or not they actually paid any taxes.²⁴ When governors bestow special benefits on film production, it affords them the chance to have press conferences with famous Hollywood stars. But such credits inefficiently tilt investment toward the film industry—which often features temporary jobs and fly-by-night companies—and away from more durable but unsexy industries that have to pay the full burden of state taxation. Why should film production get a tax advantage over, say, furniture manufacturing?

In recent years, there has been an explosion in "jobs" tax credits, which provide breaks to companies that hire workers based on conditions set by the government. Arizona's Jan Brewer signed into law a "quality jobs" program that provides companies a \$3,000 per job tax credit if they meet certain criteria, such as providing health insurance, investing a certain amount, and paying certain levels of wages depending on the particular county in the state.²⁵ Idaho's Butch Otter approved a business tax credit worth 6 percent of wages for each new hire. The jobs must include health benefits and pay at least \$15 per hour, except in counties with high unemployment where they must pay at least \$12 per hour.

Jobs tax credits make no economic sense. There is no evidence that American businesses are not hiring the correct number of workers to serve their customers. Yet with

jobs credits, governments are essentially stepping inside company boardrooms and deliberately distorting workforce decisions. Such tax credits are criticized because some studies have found them to be ineffective at increasing hiring.²⁶ But even if they were "effective," they wouldn't be a good idea because by distorting business decisions they misallocate resources and reduce overall economic output.

Tax incentives also generate costly bureaucracies. Many state governments have set up whole agencies to hand out tax and spending benefits to businesses, such as film offices to hand out film tax credits and economic development offices to hand out jobs credits. Every incentive creates compliance burdens because businesses need to apply for the breaks, report on how they used them, and deal with all the accounting and legal paperwork. Have companies created all the jobs that they promised when they took the jobs credits? States need bureaucrats to audit the companies and figure that out.

The proliferation of tax incentives also increases the likelihood of fraud by businesses and corruption by public officials. Iowa recently suffered a far-reaching scandal involving its film tax credit program. Prosecutors have convicted seven people for offenses related to the illegal pocketing of millions of dollars in credits. Those convicted include both filmmakers and the former head of the state film office who "got caught up in the allure of making Iowa 'the Hollywood of the Midwest.'"²⁷ Investigations found that 80 percent of the value of the state's film tax credits had been taken improperly.²⁸

Unfortunately, most governors support tax incentives. Republican governors often claim allegiance to free markets, but their support of tax incentives amounts to support of central planning. As for Democrats, they often support broad-based tax increases that harm businesses, but then they also offer narrow breaks to favored businesses and claim that they are creating jobs.

Consider Pat Quinn of Illinois. He signed a \$1.1 billion tax increase in 2009 and then

The proliferation of tax incentives also increases the likelihood of fraud by businesses and corruption by public officials.

The spread of state tax incentives represents a troubling move away from free markets and toward crony capitalism.

a massive \$7 billion tax increase in 2011, which included a big hike in corporate income taxes. But then Quinn apparently noticed that high taxes were pushing businesses out of Illinois, so he has dished out a series of special breaks to particular companies that threaten to leave, including Sears, Motorola, and the companies that operate Chicago's financial exchanges, CME Group and CBOT Holdings.²⁹ Quinn has also handed out fiscal goodies to the film and TV industries.³⁰

Dan Malloy of Connecticut increased individual income taxes, corporate income taxes, sales taxes, and other taxes in a huge tax bill in 2011. Then, after hitting the state economy with that tax sledgehammer, Malloy signed into law a jobs tax credit for small businesses. This credit, he claimed, represents a "rigorous initiative to grow jobs . . . and the result is a state that is finally ready and able to compete in the global marketplace."³¹

In sum, the spread of state tax incentives represents a troubling move away from free markets and toward crony capitalism, similar to what we have seen at the federal level in recent years. But policymakers at all levels of government need to understand that we will achieve the strongest economic growth if we have low and neutral taxation that treats all industries equally.

Health Care Provider Taxes

Like tax incentives, taxes on health care providers are a bad tax policy idea that has nonetheless spread across the country with bipartisan support. Forty-six states have implemented taxes on hospitals, nursing homes, and other health providers to fund their Medicaid programs.³² The purpose of these taxes is not to raise money from the health care industry, but for the states to grab more "matching funds" from Washington.

State governments impose taxes on health care providers, and then they increase spending on health care to pay back the providers. The extra spending draws more matching funds from the federal government. Health care providers often support these taxes be-

cause "the cost of the tax is promised back to providers through an increase in the Medicaid reimbursement rate for their patient treatment and services."³³ In the last couple of years, Indiana, Oklahoma, Maryland, North Carolina, and a number of other states have expanded these taxes.

In Tennessee, Governor Bill Haslam increased and extended that state's hospital tax. A news story summarized the purpose of the bill: "A 'temporary' 3.52 percent hospital gross-receipts tax enacted last year will be extended and raised to 4.52 percent, generating \$450 million that will draw down an additional \$871 million in federal Medicaid money for TennCare."³⁴

In New Hampshire, a battle over the hospital tax last year prompted one reporter to describe the "accounting sleight of hand" whereby "hospitals wire the state millions of dollars to pay the 'Medicaid Enhancement Tax,' and the state then wires the amount back, often within minutes. The goal of the tax [is] to create the illusion of raising money so the state [can] apply for and receive more federal matching funds."³⁵

In Oregon, Governor John Kitzhaber signed a bill last year increasing hospital taxes. A state official explained:

The state raised \$315 million with the hospital tax over the last two years and could raise twice that much in 2011-13 by increasing the tax, said Dr. Bruce Goldberg, director of the Oregon Health Authority. Each state dollar flowing to Medicaid is matched by about \$1.60 by the federal government, Goldberg said. Hospitals would pay more taxes, but they also would get back more in Medicaid payments and would come out ahead.³⁶

An Oregon legislator added: "When people look at the hospital provider tax, they sometimes miss the key point . . . This is not a tax. It doesn't cost them a penny. We're making them completely harmless. For every dollar the hospitals get assessed, they get

it right back. We just use the hospital tax to get the federal match.”³⁷

But that is the Santa Claus theory of government. *Of course* these policies raise taxes—they raise federal taxes. All those “federal dollars” showered on state health programs ultimately have to come from taxpayers who live in the 50 states. There is no free lunch when the states spend federal money, but the current federal-state structure of Medicaid makes state policymakers act as if there is. Finally, note that the NCSL considers these health care provider charges to be taxes in its annual review of state tax changes.³⁸

Federal grant programs that include matching create a powerful pro-spending bias in state fiscal policy.³⁹ They encourage states to expand their programs beyond reasonable levels, while giving them less incentive to reduce fraud and inefficiencies. Thus the first step toward cutting Medicaid’s rising costs should be to get rid of matching and convert the program to a block grant.⁴⁰ Health care provider taxes would be eliminated and the states would receive a fixed handout from the federal government. That would give the states a strong incentive to re-

strain health care spending, rather than trying to pass the buck for overspending onto federal taxpayers.

Fiscal Policy Outlook

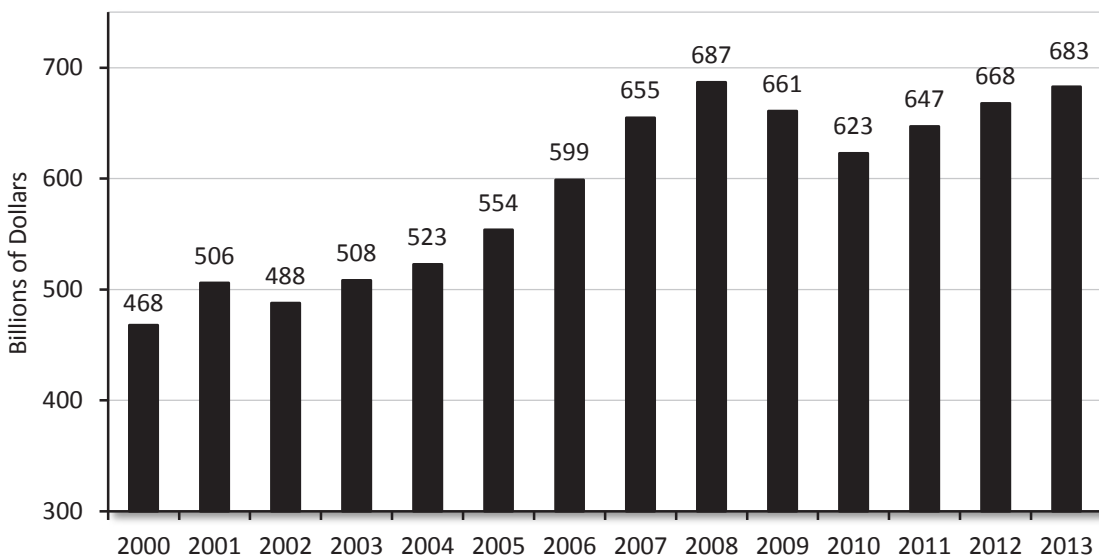
Figure 1 shows state general fund spending since 2000. Spending rose 47 percent between 2000 and 2008, and then it fell for two years as the states trimmed their budgets. But spending has bounced back since 2011, according to NASBO.⁴¹

NASBO also produces data on total state spending, which includes spending financed from general fund revenues, federal aid, and other sources. Unlike general fund spending, total state spending never fell. It rose 5.3 percent in 2009, 4.0 percent in 2010, and 4.1 percent in 2011.⁴² During those years, infusions of federal “stimulus” dollars allowed the states to keep on spending.

We can broaden the budget picture even further by looking at total spending by both state and local governments. Figure 2 shows that state and local spending rose 62 percent between 2000 and 2010 and then flattened

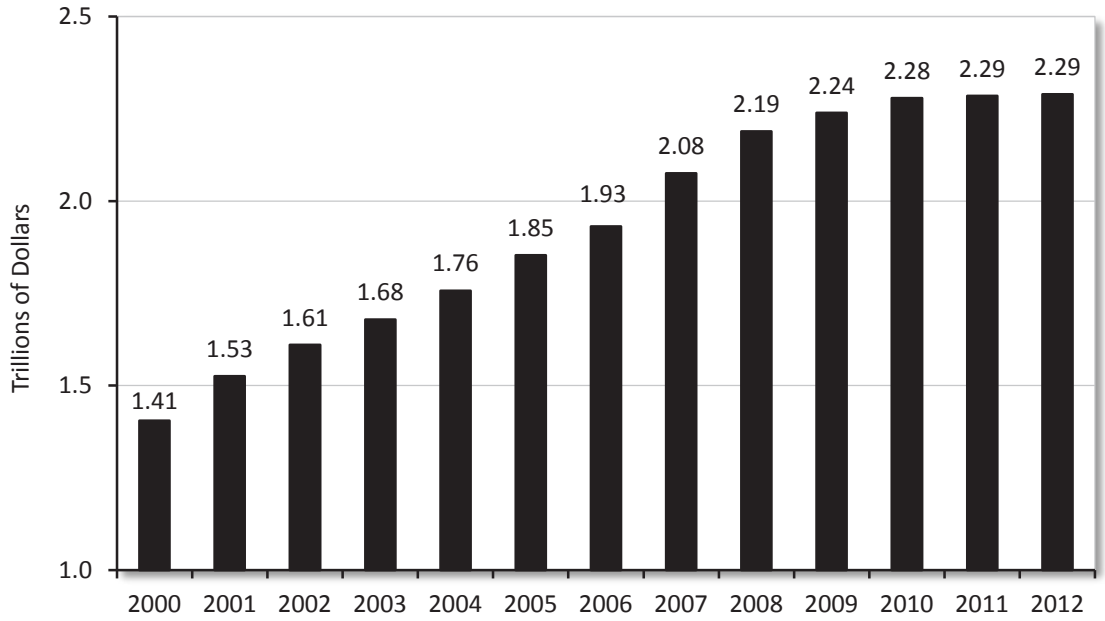
Unlike general fund spending, total state spending never fell. It rose 5.3 percent in 2009, 4.0 percent in 2010, and 4.1 percent in 2011.

Figure 1
State General Fund Spending



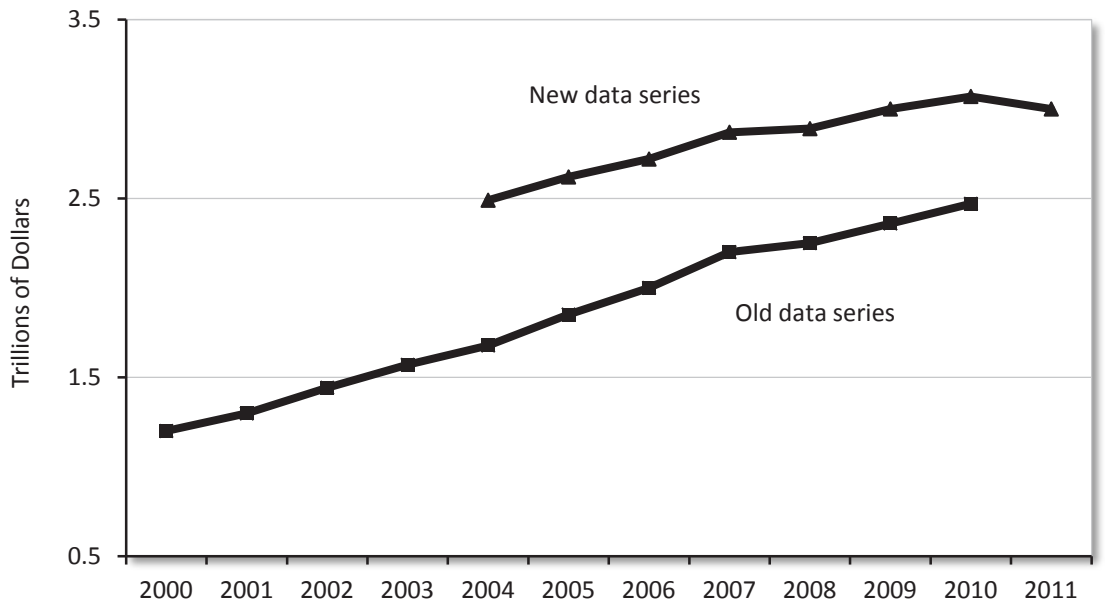
Source: National Association of State Budget Officers (NASBO), “Fiscal Survey of the States,” Spring 2012.
Notes: These are fiscal years. Data for 2012 and 2013 are NASBO estimates.

Figure 2
Total State and Local Government Spending



Source: U.S. Bureau of Economic Analysis, National Income and Product Accounts, Table 3.3.
 Note: These are calendar years. Data for 2012 is estimated based on two quarters.

Figure 3
State and Local Government Bond Debt Outstanding



Source: Federal Reserve Board, "Flow of Funds Accounts of the United States," June 7, 2012, Table D.3.

out after that.⁴³ Total state and local government spending never fell. Thus while many states trimmed their general fund budgets during the recession, the overall state and local fiscal situation has not been as dire as many news reports have suggested.

An even broader look at the state and local fiscal situation would include the rise in government debt. Figure 3 shows that bond debt outstanding expanded rapidly over the past decade. Until recently, Federal Reserve data on state and local debt showed an increase from \$1.2 trillion in 2000 to \$2.5 trillion in 2010. This is the bottom line in the chart. But the Federal Reserve recently switched to a new data series that added about \$600 billion to the total.⁴⁴ The new data show that state and local bond debt is now \$3 trillion, which works out to more than \$25,000 for every household in the nation.

Now let's consider state-level debt only. Moody's Investors Service collects data on "tax-supported debt," which is debt that will have to be paid back by state taxpayers.⁴⁵ State tax-supported debt more than doubled from \$230 billion in 2000 to \$510 billion in 2011. If all this debt was used for productive capital investments, it might not be a big problem. However, some governments are becoming more irresponsible with their debt issuance. Pat Quinn of Illinois, for example, is proposing to issue \$7 billion in bonds to pay for past-due operating bills that the state has failed to pay.⁴⁶ And in recent years, Illinois has issued billions of dollars in bonds to cover its contribution to the state's pension plan. The truth about bond issuance is that it is just a nontransparent way of raising taxes. So efforts such as Quinn's to expand the use of bonds is a serious fiscal threat that citizens should be very concerned about.⁴⁷

Alongside the rise in bond debt is the rise in unfunded pension obligations of governments. Official estimates show that state and local pension plans are underfunded (or overpromised) by about \$1 trillion.⁴⁸ However, official estimates understate the poor shape of pension plans because they rely on optimistic assumptions in valuing future liabilities. Us-

ing more realistic assumptions, Robert Novy-Marx and Joshua Rauh found that state and local government pensions have a funding gap of about \$3 trillion.⁴⁹ Even that higher number doesn't reflect the full problem because it only includes the costs of benefits that have already accrued. Cato's pension expert, Jagadeesh Gokhale, estimated that the funding gap for accrued benefits plus future accruals is about \$10 trillion.⁵⁰ On top of that, state and local retirement health plans have huge funding gaps as well.⁵¹

What all this means is that policymakers in many states have created a big fiscal mess that may spawn large tax increases down the road. This report card focuses on short-term taxing and spending, but a fuller assessment would also include how the actions of each governor affected the long-term fiscal health of his or her state. The good news is that some governors—such as Wisconsin's Scott Walker—are taking steps to reduce the long-term costs of government. And, indeed, numerous states have taken modest steps to reform their pension plans, but much more needs to be done to reduce debt and unfunded obligations.

Appendix A: Report Card Methodology

This study computes a fiscal policy grade for each governor based on his or her success at restraining taxes and spending since 2010, or since 2011 for governors entering office that year. The spending data used in the study come from the National Association of State Budget Officers (NASBO) and budget documents of the individual states. The data on proposed and enacted tax cuts comes from NASBO, the National Conference of State Legislatures (NCSL), and hundreds of news articles in *State Tax Notes* and other news sources.⁵² The tax rate data comes from the Tax Foundation, but is updated by the author for any recent changes.⁵³

This year's report card uses the same methodology as the 2008 and 2010 Cato re-

State and local bond debt is now \$3 trillion, which works out to more than \$25,000 for every household in the nation.

port cards. The report focuses on short-term taxing and spending actions to judge whether the governors take a small-government approach or big-government approach to policy. Each governor's performance is measured using seven variables: two for spending, one for revenue, and four for tax rates. The overall score is calculated as the average score of these three categories. Tables A1 and A2 summarize the governors' scores.

Spending Variables

1. Average annual percentage change in per capita general fund spending proposed by the governor.
2. Average annual percentage change in actual per capita general fund spending.

Revenue Variable

3. Average dollar value of proposed, enacted, and vetoed tax changes. This variable is measured by the reported estimates of the annual dollar effects of tax changes as a percentage of a state's total tax revenues. This is an important variable, but is a challenge to measure as it is compiled from hundreds of news articles, budget documents, and reports.⁵⁴

Tax Rate Variables

4. Change in the top personal income tax rate approved by the governor.
5. Change in the top corporate income tax rate approved by the governor.
6. Change in the general sales tax rate approved by the governor.
7. Change in the cigarette tax rate approved by the governor.

The two spending variables are measured on a per capita basis to adjust for the fact that state populations are growing at different rates. Also, the spending variables are only for state general fund budgets, which are usually the budgets that governors have the most control over. Variable 1 is measured through fiscal 2013, and variable 2 is measured through fiscal 2012. Variables 3 to 7 cover changes during the period January 2010 to August 2012, or January 2011 to August 2012 for governors entering office in 2011.

For each variable, the results are standardized, with the worst scores near 0 and the best scores near 100. The score for each of the three categories—spending, revenue, and tax rates—is the average score of the variables

Table A.1
Spending and Revenue Variables

State	Governor	Spending Score	Proposed Changes	Actual Changes	Revenue Score	Changes in Revenues
			in Per Capita Spending (%)	in Per Capita Spending (%)		from Proposed and Enacted Tax Changes (%)
Alabama	Robert Bentley (R)	80	-4.8	1.5	53	0.1
Arizona	Jan Brewer (R)	42	4.3	3.1	51	0.3
Arkansas	Mike Beebe (D)	50	2.9	2.2	55	-0.1
California	Jerry Brown (D)	88	-1.6	-6.4	6	4.7
Colorado	John Hickenlooper (D)	50	3.1	1.9	58	-0.5
Connecticut	Dan Malloy (D)	32	6.2	4.0	0	7.4
Delaware	Jack Markell (D)	34	3.5	8.1	59	-0.6
Florida	Rick Scott (R)	87	-6.6	-1.5	69	-1.5
Georgia	Nathan Deal (R)	53	2.8	1.1	56	-0.2
Hawaii	Neil Abercrombie (D)	15	6.6	10.7	29	2.5
Idaho	C.L. "Butch" Otter (R)	58	2.5	-0.4	58	-0.5

Continued next page

State	Governor	Spending Score	Proposed Changes	Actual Changes	Revenue Score	Changes in Revenues
			in Per Capita Spending (%)	in Per Capita Spending (%)		from Proposed and Enacted Tax Changes (%)
Illinois	Pat Quinn (D)	33	4.8	6.2	0	9.2
Indiana	Mitch Daniels (R)	45	3.7	2.9	52	0.2
Iowa	Terry Branstad (R)	57	3.1	-1.3	57	-0.4
Kansas	Sam Brownback (R)	40	2.3	7.7	100	-6.2
Kentucky	Steven Beshear (D)	38	4.3	4.9	53	0.1
Louisiana	Bobby Jindal (R)	81	-1.0	-4.1	54	0.0
Maine	Paul LePage (R)	45	1.1	7.9	91	-3.7
Maryland	Martin O'Malley (D)	40	3.8	5.1	39	1.4
Massachusetts	Deval Patrick (D)	54	1.2	3.5	49	0.4
Michigan	Rick Snyder (R)	60	0.4	2.6	60	-0.6
Minnesota	Mark Dayton (D)	13	10.2	8.9	0	5.5
Missouri	Jay Nixon (D)	52	2.3	2.4	57	-0.4
Montana	Brian Schweitzer (D)	47	3.7	1.9	56	-0.2
Nebraska	Dave Heineman (R)	57	1.4	1.8	63	-0.9
Nevada	Brian Sandoval (R)	96	-4.6	-5.8	22	3.1
New Hampshire	John Lynch (D)	79	0.5	-5.9	56	-0.3
New Jersey	Chris Christie (R)	48	3.6	1.8	75	-2.1
New Mexico	Susana Martinez (R)	48	2.1	4.7	62	-0.9
New York	Andrew Cuomo (D)	51	2.7	2.4	47	0.6
North Carolina	Beverly Perdue (D)	58	1.1	2.1	42	1.1
North Dakota	Jack Dalrymple (R)	38	-1.0	27.1	68	-1.4
Ohio	John Kasich (R)	61	0.7	1.5	58	-0.5
Oklahoma	Mary Fallin (R)	51	2.0	3.3	59	-0.5
Oregon	John Kitzhaber (D)	43	3.8	3.8	42	1.2
Pennsylvania	Tom Corbett (R)	83	-1.8	-3.7	60	-0.6
Rhode Island	Lincoln Chafee (I)	29	5.1	7.5	44	0.9
South Carolina	Nikki Haley (R)	39	2.6	7.7	75	-2.2
South Dakota	Dennis Daugaard (R)	55	0.6	4.5	54	0.0
Tennessee	Bill Haslam (R)	24	3.1	13.1	55	-0.1
Texas	Rick Perry (R)	47	2.7	3.8	54	0.0
Utah	Gary Herbert (R)	47	3.0	3.1	49	0.4
Vermont	Peter Shumlin (D)	28	6.0	6.1	46	0.8
Virginia	Bob McDonnell (R)	46	2.6	4.4	52	0.1
Washington	Chris Gregoire (D)	46	4.7	0.7	23	3.1
West Virginia	Ray Tomblin (D)	28	2.5	12.5	61	-0.8
Wisconsin	Scott Walker (R)	53	2.0	2.8	66	-1.2
Wyoming	Matt Mead (R)	70	-0.3	-0.6	54	0.0
Average of 48 states			2.2	3.6		0.4

Table A.2
Tax Rate Variables

State	Governor	Tax Rate Score	Change in Top Individual Income Tax Rate	Change in Top Corporate Income Tax Rate	Change in General Sales Tax Rate	Change in Cigarette Tax Rate (cents per pack)
Alabama	Robert Bentley (R)	51	0.00	0.00	0.00	0
Arizona	Jan Brewer (R)	51	0.00	-2.07	1.00	0
Arkansas	Mike Beebe (D)	51	0.00	0.00	0.00	0
California	Jerry Brown (D)	51	0.00	0.00	0.00	0
Colorado	John Hickenlooper (D)	51	0.00	0.00	0.00	0
Connecticut	Dan Malloy (D)	18	0.20	0.75	0.35	40
Delaware	Jack Markell (D)	51	0.00	0.00	0.00	0
Florida	Rick Scott (R)	51	0.00	0.00	0.00	0
Georgia	Nathan Deal (R)	51	0.00	0.00	0.00	0
Hawaii	Neil Abercrombie (D)	51	0.00	0.00	0.00	0
Idaho	C.L. "Butch" Otter (R)	60	-0.40	-0.20	0.00	0
Illinois	Pat Quinn (D)	16	2.00	2.20	0.00	100
Indiana	Mitch Daniels (R)	67	0.00	-2.00	0.00	0
Iowa	Terry Branstad (R)	51	0.00	0.00	0.00	0
Kansas	Sam Brownback (R)	66	-1.55	0.00	0.00	0
Kentucky	Steven Beshear (D)	51	0.00	0.00	0.00	0
Louisiana	Bobby Jindal (R)	51	0.00	0.00	0.00	0
Maine	Paul LePage (R)	59	-0.55	0.00	0.00	0
Maryland	Martin O'Malley (D)	48	0.25	0.00	0.00	0
Massachusetts	Deval Patrick (D)	61	0.00	-0.75	0.00	0
Michigan	Rick Snyder (R)	53	-0.10	0.00	0.00	0
Minnesota	Mark Dayton (D)	51	0.00	0.00	0.00	0
Missouri	Jay Nixon (D)	51	0.00	0.00	0.00	0
Montana	Brian Schweitzer (D)	51	0.00	0.00	0.00	0
Nebraska	Dave Heineman (R)	51	0.00	0.00	0.00	0
Nevada	Brian Sandoval (R)	51	0.00	0.00	0.00	0
New Hampshire	John Lynch (D)	51	0.00	0.00	0.00	0
New Jersey	Chris Christie (R)	51	0.00	0.00	0.00	0
New Mexico	Susana Martinez (R)	51	0.00	0.00	0.00	0
New York	Andrew Cuomo (D)	37	1.97	0.00	0.00	0
North Carolina	Beverly Perdue (D)	51	0.00	0.00	0.00	0
North Dakota	Jack Dalrymple (R)	80	-0.87	-1.25	0.00	0
Ohio	John Kasich (R)	56	-0.32	0.00	0.00	0
Oklahoma	Mary Fallin (R)	55	-0.25	0.00	0.00	0

Continued next page

State	Governor	Tax Rate Score	Change in Top Individual Income Tax Rate	Change in Top Corporate Income Tax Rate	Change in General Sales Tax Rate	Change in Cigarette Tax Rate (cents per pack)
Oregon	John Kitzhaber (D)	51	0.00	0.00	0.00	0
Pennsylvania	Tom Corbett (R)	51	0.00	0.00	0.00	0
Rhode Island	Lincoln Chafee (I)	51	0.00	0.00	0.00	4
South Carolina	Nikki Haley (R)	51	0.00	0.00	0.00	0
South Dakota	Dennis Daugaard (R)	51	0.00	0.00	0.00	0
Tennessee	Bill Haslam (R)	51	0.00	0.00	0.00	0
Texas	Rick Perry (R)	51	0.00	0.00	0.00	0
Utah	Gary Herbert (R)	44	0.00	0.00	0.00	101
Vermont	Peter Shumlin (D)	47	0.00	0.00	0.00	38
Virginia	Bob McDonnell (R)	51	0.00	0.00	0.00	0
Washington	Chris Gregoire (D)	44	0.00	0.00	0.00	100
West Virginia	Ray Tomblin (D)	61	0.00	-0.75	0.00	0
Wisconsin	Scott Walker (R)	51	0.00	0.00	0.00	0
Wyoming	Matt Mead (R)	51	0.00	0.00	0.00	0
Average of 48 states			0.01	-0.08	0.03	8

Note: These are the tax rate changes approved by the governors. It excludes the expiration of temporary increases. The changes are the actual changes in the rates. For example, Illinois' top individual income rate increased from 3.00 to 5.00 percent, and thus the table shows 2.00.

within the category. One exception is that the cigarette tax rate variable is half-weighted because that tax is a smaller source of state revenue than income and sales taxes. The average of the scores for the three categories produces the overall grade for each governor.

Measurement Caveats

This report uses publicly available statistical data to measure the fiscal performance of the governors. There are, however, several unavoidable problems in such grading.

For one thing, the report card cannot entirely isolate the policy effects of the governors from the fiscal decisions of state legislatures. Governors and legislatures both influence tax and spending outcomes, and if a legislature is controlled by a different party, a governor's control over fiscal policy may be diminished. To help isolate the performance of governors, variables 1 and 3 measure the effects of each governor's proposed, but not necessarily enacted, recommendations.

Another factor to consider is that the

states grant governors differing amounts of authority over budget processes. For example, most governors are empowered with a line item veto to trim spending, but some governors do not have that power. Another example is that the supermajority voting requirement to override a veto varies among the states. Such factors give governors different levels of budget control that are not accounted for in this study.

Nonetheless, the results presented here should be a reasonable reflection of each governor's fiscal approach. Governors receiving an "A" have focused on reducing tax burdens and cutting spending. Governors receiving an "F" have put the government's desire for program expansion ahead of the public's need to keep its hard-earned money. In the middle are many governors who gyrate between fiscal approaches one year to the next. Hopefully, the leadership shown by the "A" governors will inspire other governors to pursue the bold fiscal reforms that the states will need in coming years.

**Brewer supports
business tax
cuts to improve
Arizona's
competitiveness.
In 2011 she
signed into law a
corporate tax rate
cut from 6.97 to
4.9 percent.**

Appendix B: Fiscal Policy Notes on the Governors

Following are highlights of the fiscal records of the 48 governors covered in this report. The discussions are based on the tax and spending data used for grading the governors, as well as other information that sheds light on their fiscal policy approach. Note that the grades are calculated on the basis of each governor's record since 2010, or since 2011 if that was the first year in office for the governor.

Alabama

Robert Bentley, Republican
Grade: B

Legislature: Republican
Took Office: January 2011

Former doctor Robert Bentley scored much better on spending than on taxes. As governor, he has opposed tax increases, but he hasn't pushed for major tax reforms. Instead, he has supported narrow tax breaks for particular companies and industries. In 2011, for example, he signed into law a tax credit for companies that hired new workers, but only if companies had fewer than 50 employees and workers were paid more than \$10 per hour. In 2012 he provided Airbus with a slew of incentives to build a new assembly plant in Mobile.

On spending, however, Bentley has been frugal. His most recent budget proposed a 9 percent cut in general fund spending, and he signed into law reforms to reduce the unfunded costs of state pension plans. Furthermore, state government employment is down 9 percent since Bentley entered office.⁵⁵

Arizona

Jan Brewer, Republican
Grade: D

Legislature: Republican
Took Office: January 2009

Governor Brewer has gained a national profile with her conservative border enforcement policies. Her fiscal policies have been less conservative. Her budgets have usually proposed substantial increases in spending, and her tax policies have included a mix of tax increases and cuts. In 2010 she helped push through a "temporary" increase in the state sales tax rate from 5.6 to 6.6 percent to raise \$1 billion a year. The tax is set to expire in 2013, but an interest group has succeeded in putting a permanent extension on the ballot for this November. To her credit, Brewer wants the tax hike to expire as promised, but she should have known that "temporary" tax increases often become permanent.

The good news is that Brewer supports business tax cuts to improve Arizona's competitiveness. In 2011 she signed into law a corporate tax rate cut from 6.97 to 4.9 percent, which is phased in over four years. In 2012 she approved further business tax cuts, which mainly included pro-growth reforms such as a capital gains tax cut.

Arkansas

Mike Beebe, Democrat
Grade: C

Legislature: Democratic
Took Office: January 2007

Governor Beebe has approved reductions in sales taxes on groceries, but he has also sup-

ported some tax increases. In 2008 he approved a large increase in severance taxes on natural gas companies, and in 2009 he hit cigarette consumers with a tax increase of 56 cents per pack. More recently, the governor has supported small and narrow tax cuts, and he has increased sales taxes on online purchases. The governor's budgets have proposed spending increases a bit higher than the average governor.

California

Jerry Brown, Democrat
Grade: D

Legislature: Democratic
Took Office: January 2011

Jerry Brown was sworn in for his third term as governor in 2011, after previously serving between 1975 and 1983. Brown has been confronted with a sluggish California economy and chronic budget deficits. He has pursued spending restraint and large tax increases to reduce deficits. He cut general fund spending from about \$92 billion in fiscal 2011 to about \$87 billion in fiscal 2012. But his most recent budget reversed that progress and proposed spending of about \$93 billion in fiscal 2013.

In 2012 Brown approved \$2.7 billion in bonds for the first segment of the state's high-speed rail project. The project threatens to create a huge and ongoing drain to the state budget. The officially estimated cost of the California high-speed rail project has soared from \$43 billion to almost \$100 billion.

Brown and many California legislators seem to think that the state's fiscal problems can be solved by raising taxes to fill budget gaps. But the real problem is a combination of chronic overspending and high state tax rates that suppress economic activity. California's top personal income tax rate of 10.3 percent is the nation's second highest; the corporate tax rate of 8.8 percent is the ninth highest; and the state-level sales tax rate of 7.25 percent is the nation's highest. The Tax Foundation finds that California has the third worst tax climate for businesses in the country.⁵⁶

Despite this high-tax reality, Brown wants to increase taxes further. He is pushing for approval of a November ballot measure to increase the sales tax rate to 7.5 percent and increase the top individual income tax rate to 13.3 percent.⁵⁷ These hikes would raise a huge \$6 billion a year in an effort to help the government balance its books. But such a tax increase would cause further damage to the state economy, which in turn wouldn't help average families or aid state tax collections over the long run.

Brown has supported other tax increases, including a broadening of the corporate tax base and an increase in vehicle-related taxes. But California voters have recently shown their displeasure with high taxes when they rejected a cigarette tax increase on the ballot in June 2012.

Colorado

John Hickenlooper, Democrat
Grade: C

Legislature: Divided
Took Office: January 2011

Former entrepreneur, brewpub owner, and Denver mayor John Hickenlooper is steering a fiscally centrist path as governor. His spending record has been about average among the governors. However, he has opposed major tax increases, and he says that he supports a flatter tax system with fewer loopholes. He wants to improve the tax climate for business investment, and he cut the state's business personal property tax. A news story explained this reform: "Business leaders have long complained that the personal property tax, which assesses

Brown is pushing for approval of a November ballot measure to increase the sales tax rate to 7.5 percent and increase the top individual income tax rate to 13.3 percent.

a perpetual fee on every piece of equipment used by a business, is one of the most onerous in the state, as it requires payment even in years in which the business does not make a profit and discourages companies from expanding or purchasing new equipment.”⁵⁸ Another indicator of Hickenlooper’s fiscal stance was that he did not actively support a November 2011 ballot question to increase income and sales taxes. That was wise because Colorado voters overwhelmingly rejected it with 64 percent voting no.⁵⁹

Connecticut

Dan Malloy, Democrat
Grade: F

Legislature: Democratic
Took Office: January 2011

Governor Dan Malloy signed into law one of the largest tax increases of any state in recent years.⁶⁰ His 2011 bill increased revenue by \$1.8 billion annually, equal to about 15 percent of the state’s total tax collections. The top personal income tax rate was increased from 6.5 to 6.7 percent, and the top corporate tax rate was increased from 8.25 to 9.0 percent. The retail sales tax rate was increased from 6.0 to 6.35 percent, and the sales tax base was broadened. There were also increases in cigarette taxes, hotel taxes, alcohol taxes, luxury goods taxes, online sales taxes, and the state death tax.

Malloy is a good example of a governor who creates a more hostile climate for businesses in general, but then tries to compensate for the damage with tax incentives. After enacting his large tax increase, Malloy signed into law a “jobs bill” with narrow tax breaks for hiring. In his February 2012 budget update, he claimed that these breaks were a “far reaching” and “rigorous initiative to grow jobs . . . and the result is a state that is finally ready to compete in the global marketplace.”⁶¹ The truth is that Connecticut would be more ready to compete in the global marketplace if the governor hadn’t put in place one of the highest corporate tax rates in the nation.

Delaware

Jack Markell, Democrat
Grade: D

Legislature: Democratic
Took Office: January 2009

When he first came into office, Governor Markell walloped Delaware residents with a whole range of tax increases. In 2009 he signed into law increases in the top personal income tax rate, the corporate franchise tax, the gross receipts tax, and cigarette taxes. In 2011 Markell seemed to partly realize the error of his ways and signed legislation to cut taxes so that the state could “stay competitive” and “create jobs.”⁶² The bill slightly reduced his previous income tax increase, trimmed the state’s gross receipts tax, and provided a few other modest tax breaks. However, Markell’s score on this report card was dragged down by his substantial spending increases in recent years.

Florida

Rick Scott, Republican
Grade: A

Legislature: Republican
Took Office: January 2011

Former health care entrepreneur Rick Scott has pursued reforms on both the spending and tax sides of the Florida budget. Governor Scott has made some progress, but the legisla-

Governor Dan Malloy signed into law one of the largest tax increases of any state in recent years.

ture has blocked some of his major initiatives. The legislature hasn't cut spending as much as Scott has proposed, but the overall state budget will be down slightly in fiscal 2013 compared to fiscal 2011. Scott has vetoed hundreds of millions of dollars of unneeded spending, put in place pension reforms for state workers, and cut state government employment by about 4 percent.⁶³ He also wisely rejected federal subsidies for a high-speed rail system. The governor's package of proposed reforms (the "7-7-7" plan) includes spending cuts, budget transparency, regulatory reforms, education reforms, and tax reduction.⁶⁴

Scott understands tax competition, and he wants Florida's business climate to be the best in the country. He proposes to phase out the state corporate income tax, which he says "will allow companies to receive the greatest return on their investment, expand their businesses and create jobs. The eventual elimination of the corporate income tax will remove a major barrier to attracting Florida job creators such as future Fortune 100, Fortune 500, and other growing companies."⁶⁵

Scott has proposed an initial cut in the corporate tax rate from 5.5 to 3.0 percent, followed by a complete repeal of the tax by 2018. So far the legislature hasn't passed the rate cut, but it has passed more modest reforms. It agreed to two expansions in the corporate tax exemption, which has removed more than 12,000 small businesses from the tax. Scott plans to keep chipping away at the corporate tax with the ultimate goal of repealing it for all Florida businesses.

In addition, the legislature has approved Scott's plan to increase the exemption amount for taxes on business tangible personal property from \$25,000 to \$50,000, which would end the tax for about 156,000 businesses.⁶⁶ This tax cut will be on the November ballot for voters to make the final decision. Scott is also tackling another anti-investment tax burden with his reductions to sales taxes on business purchases of machinery and equipment. Finally, Scott signed a property tax cut for water management districts.

Scott understands tax competition, and he wants Florida's business climate to be the best in the country.

Georgia

Nathan Deal, Republican
Grade: C

Legislature: Republican
Took Office: January 2011

Governor Nathan Deal was on the wrong side of a major fiscal policy issue in Georgia this year. By a large margin, state voters shot down a one percentage point increase in regional sales taxes to fund transportation on a July 2012 ballot. The governor supported the tax hike, but he was out of step with the mood of the citizens, who were distrustful about giving the government more money.⁶⁷ Nonetheless, Deal has approved some tax cuts. In 2011 he approved a temporary freeze in the gasoline tax rate, and in 2012 he signed a package that included reduced income taxes for married couples, a phase-out of the property tax on vehicles, and an end to the sales tax on energy used in manufacturing. The package also raised sales taxes on Internet purchases. On spending, Governor Deal's two budgets have proposed increases slightly higher than the average increases in other states.

Hawaii

Neil Abercrombie, Democrat
Grade: F

Legislature: Democratic
Took Office: December 2010

Neil Abercrombie has been governor of Hawaii for less than two years, yet he has already revealed his strong preference for higher taxes and spending. State general fund spending

The 2011 Illinois tax increase was by far the largest increase of any state in many years.

jumped almost 12 percent in his first year in office.⁶⁸ To fund the higher spending, the governor has supported a slew of tax increases. He signed into law higher taxes on rental cars, limitations on income tax deductions, and an expansion of excise taxes. He has also proposed higher taxes on pension income, soda, and alcohol. No wonder that the governor's approval ratings have been some of the lowest of any governor.⁶⁹

Idaho

C. L. "Butch" Otter, Republican
Grade: B

Legislature: Republican
Took Office: January 2007

In his first couple years as governor, Butch Otter pushed for major increases in vehicle-related taxes, although he also supported some modest tax cuts, such as reductions to sales taxes on groceries. More recently, Otter approved substantial income tax cuts. In 2012 he signed legislation cutting the corporate tax rate from 7.6 to 7.4 percent and the individual income tax rate from 7.8 to 7.4 percent. Idaho's income tax rates are still too high, but these reductions certainly move in the right direction.

Unfortunately, Otter has also expanded some narrow tax incentives that clutter the tax code. In 2011 legislation, Idaho created a tax credit of up to 6 percent of wages for businesses that hire new workers. The jobs must include health care benefits, pay \$15 per hour, and fulfill other criteria. Such tax credits distort business decisions, and they are costly for companies and the government to administer.

On spending, Otter pursued reductions for fiscal 2010 and fiscal 2011, but he supported substantial increases for fiscal 2012 and fiscal 2013.

Illinois

Pat Quinn, Democrat
Grade: F

Legislature: Democratic
Took Office: January 2009

Governor Quinn took office in 2009 after his predecessor, Rod Blagojevich, was impeached and removed from office. Unfortunately, Quinn is following the same big government approach to fiscal policy that his predecessor did. In 2009 Quinn signed a \$1.1 billion per year tax increase, which included higher taxes on beer, wine, liquor, candy, beverages, hygiene products, and video gaming. In 2011 he pushed through a massive tax increase of \$7.3 billion a year, which included higher individual income taxes, corporate taxes, and estate taxes. The top individual income tax rate rose from 3 to 5 percent, and the top corporate tax rate rose from 4.8 to 7.0 percent. Businesses in Illinois pay an extra 2.5 percentage point charge on top of the basic rate, which brings the overall rate on corporate income to 9.5 percent.

The 2011 Illinois tax increase was by far the largest increase of any state in many years. The \$7.3 billion of added net revenue represents about one-quarter of the state's total tax collections. To top that off, Quinn signed a \$1 per pack increase on cigarette taxes in 2012, which will hit lower-income residents particularly hard.

Quinn has apparently noticed that high taxes are pushing businesses out of Illinois, and so he has dished out special breaks to particular companies that threaten to leave, including Sears, Motorola, and the companies that operate Chicago's financial exchanges, CME Group and CBOT Holdings.⁷⁰ Quinn is also a strong supporter of handing out fiscal goodies to the film and TV industries, which gives him a chance to do media events with Hollywood stars.⁷¹

Governor Quinn’s spending policies are similarly irresponsible. Spending has increased at a faster clip than in most states in recent years, and Quinn has a penchant for issuing debt to paper over the state’s budget problems. He has proposed issuing \$7 billion in bonds to pay for past-due bills that the state has failed to pay.⁷² And in recent years, Illinois has issued billions of dollars in bonds to cover its required contributions to the state pension plan.

Indiana

Mitch Daniels, Republican
Grade: B

Legislature: Republican
Took Office: January 2005

Former George W. Bush budget director Mitch Daniels has been praised for his fiscal management, but he seems to be more interested in balancing the budget than in shrinking state government. Indiana’s general fund spending has risen a little more slowly than the average state since 2005 when Daniels took office. However, state government employment is about the same today as it was in 2005.

Daniels has a mixed record on taxes. In his first term, he signed an increase in the cigarette tax and he proposed a temporary increase in the top income tax rate. In 2008 he signed a tax package that swapped an increase in the state sales tax rate for lower local property taxes. The plan delivered an overall tax cut, but it increased state power at the expense of healthy tax competition between local jurisdictions.

In 2011 Daniels signed legislation to reduce the state’s corporate tax rate from 8.5 to 6.5 percent. That was a good reform, but the cut was offset with tax increases to make the overall package revenue neutral. In 2012 he signed legislation phasing out the state inheritance tax over a 10-year period.

Daniels also approved some tax increases in recent years. In 2011 he signed into law a large increase in unemployment insurance (UI) taxes on businesses. The increase was coupled with reductions in UI benefits, but the tax increases accounted for most of the package. Daniels also approved a large increase in health care provider taxes.

Iowa

Terry Branstad, Republican
Grade: B

Legislature: Divided
Took Office: January 2011

Terry Branstad was governor of Iowa for a remarkable 16 years between 1983 and 1999. He returned to the governorship in 2011. During the 1990s, Cato report cards gave Branstad fairly poor reviews, particularly for his spending increases.⁷³ Today, Branstad is older and wiser, and perhaps more frugal.

The governor is promoting the idea of “reducing the size and cost of government by 15 percent,” which is an admirable goal.⁷⁴ But state spending has risen a bit, not fallen, since he has been in office. Nonetheless, he has reduced state government employment by about 6 percent so far, which is a good start toward shrinking government.⁷⁵

On taxes, Branstad is pursuing reforms to make Iowa more competitive for business investment. One goal is to reduce property taxes on industrial and commercial properties in the state. In particular, Branstad wants to cut the assessment levels for this property from 100 percent to 60 percent of market value. Branstad also recognizes the economic damage caused by the Iowa’s high 12 percent corporate tax rate, and he wants to cut the rate in half. Despite Branstad’s admirable leadership on these issues, the legislature has not passed his reforms yet.

In 2011 Daniels signed legislation to reduce the state’s corporate tax rate from 8.5 to 6.5 percent.

The top personal income tax rate in Kansas was cut substantially and the tax bracket structure was simplified.

Kansas

Sam Brownback, Republican
Grade: A

Legislature: Republican
Took Office: January 2011

As governor of Kansas, former U.S. senator Sam Brownback has gained a major policy success with income tax reforms. In his 2012 State of the State address, he called for a “fairer, flatter, and simpler” tax system, and he proposed a detailed plan. A few months later, the legislature delivered a tax reform bill to the governor’s desk and he signed it into law.

The top personal income tax rate in Kansas was cut substantially and the tax bracket structure was simplified. The three existing tax rates of 3.5 percent, 6.25 percent, and 6.45 percent were replaced by rates of 3.0 percent and 4.9 percent. The standard deduction was increased from \$6,000 to \$9,000 for married filers and from \$4,500 to \$9,000 for head-of-household filers. The reform also got rid of numerous special-interest tax breaks. And it exempted from tax certain nonwage income of limited liability corporations, S corporations, and sole proprietorships. That change will allow 191,000 Kansas businesses to keep more of their earnings for reinvestment and expansion.

The tax cuts are expected to save Kansas households more than \$800 million a year. Relative to total state tax collections, these are the largest tax cuts of any state in recent years. The reforms have made the Kansas tax code simpler and more supportive of economic growth.⁷⁶

Governor Brownback doesn’t score as well on spending, particularly because of the substantial increase in the Kansas budget in fiscal 2012. Nonetheless, Brownback has signed into law needed pension reforms for state workers, and he has abolished some state agencies including the Kansas Parole Board and the Kansas Arts Commission, although the latter seems to have been recently resurrected.

Kentucky

Steven Beshear, Democrat
Grade: D

Legislature: Divided
Took Office: December 2007

Early in Governor Beshear’s tenure, he pushed through a doubling of the state cigarette tax and an increase in taxes on wine, beer, and liquor. But in recent years, Beshear has generally avoided tax increases, arguing “taxes, my friend, are not the answer.”⁷⁷ He has, however, pushed for increased revenues from gaming. In 2012 the governor discussed tax reform in his State of the State speech, and he has assembled a commission to study the issue. Beshear’s spending record is the main cause of his low grade on this year’s report card. He has proposed substantial spending increases in recent years.

Louisiana

Bobby Jindal, Republican
Grade: B

Legislature: Republican
Took Office: January 2008

Bobby Jindal is a popular and accomplished governor with a fiscally conservative record. Jindal repealed income tax increases that were put in place in 2002, and he has supported modest business tax cuts while vetoing tax increases. However, Jindal has succumbed to “tax incentive disease.” He has supported tax breaks for film production, music recording, and other activities. In 2011 he even made the state’s digital media tax incentives “refundable,” which means that the government will hand out cash to favored digital media businesses.

Jindal's score is boosted by his frugal spending record. General fund spending is expected to be lower in fiscal 2013 than it was in fiscal 2010. And state government employment is down about 10 percent since Jindal came into office in 2008.⁷⁸ In 2012 Jindal signed into law major reforms to pensions, which will move new state workers to a 401(k)-style plan.

Maine

Paul LePage, Republican
Grade: A

Legislature: Republican
Took Office: January 2011

Paul LePage was one of 18 children growing up in an impoverished home in Maine to French-speaking parents. He had a rough childhood, but he pulled himself up and had a successful career in business. As governor, LePage has a "rough and tumble" style, but he has some solid achievements.⁷⁹ Most importantly, he signed into law a major income tax cut in 2011.⁸⁰ The reform reduced the top personal income tax rate from 8.5 to 7.95 percent, simplified the tax brackets, and eliminated taxes for 70,000 low-income households. The package also included some business tax cuts.

In 2012 the governor signed legislation to reduce the top personal income tax rate to 4 percent over time if there are sufficient budget surpluses.⁸¹ LePage says that his ultimate goal is to phase out the Maine personal income tax completely.⁸² Another step toward that goal is LePage's proposal to eliminate taxes on pension income to discourage retirees from leaving Maine for warmer and tax-friendlier states. LePage is also aiming to chop the corporate tax rate from 8 to 4 percent.⁸³

LePage's record on spending is a little more mixed. General fund spending increased about 8 percent in fiscal 2012, although it is expected to drop a bit in fiscal 2013. The governor has signed cost-cutting reforms to welfare and health care programs, and he wants to eliminate funding for Maine Public Broadcasting, which he calls "corporate welfare."⁸⁴ LePage has also signed reforms to reduce pension obligations for state workers, and he has modestly trimmed state government employment.

Maryland

Martin O'Malley, Democrat
Grade: D

Legislature: Democratic
Took Office: January 2007

Martin O'Malley has been in politics his entire career, and he has long supported an expansionary approach to government. In his first year as governor, O'Malley signed a \$1.4 billion package of tax increases. It included increases in corporate taxes, personal income taxes, sales taxes, and cigarette taxes. O'Malley has been at it again recently, approving increases in income taxes, alcohol taxes, hospital taxes, and tobacco taxes during 2011 and 2012. For singles earning more than \$100,000 and couples earning more than \$150,000, the top income tax rate was raised to 5.75 percent. Local taxes in Maryland bring the total top income tax rate to 8.95 percent. O'Malley's legislation also reduced personal exemptions under the income tax. Higher taxes are fueling higher spending in Maryland. The general fund budget jumped more than 13 percent in fiscal 2012.

LePage says that his ultimate goal is to phase out the Maine personal income tax completely. LePage is also aiming to chop the corporate tax rate from 8 to 4 percent.

**Former
businessman
Rick Snyder's
most important
fiscal
achievement
as governor so
far has been
repealing the
Michigan
Business Tax.**

Massachusetts

Deval Patrick, Democrat
Grade: B

Legislature: Democratic
Took Office: January 2007

Governor Patrick has supported numerous tax increases during his time in office. In 2008 he approved a cigarette tax increase and a corporate tax overhaul. The latter included a tax rate cut and a broadening of the tax base, which resulted in a net overall increase in tax revenues. In 2009, Patrick raised taxes by \$1 billion a year, mainly from increasing the sales tax rate from 5.0 to 6.25 percent. In 2012 Patrick proposed more tax increases, including increases on cigarettes, soda, and candy.

However, Patrick's score in this report was substantially boosted by his corporate tax rate cut, which was phased in over time. The corporate tax rate fell from 8.75 percent in 2010 to 8.0 percent in 2012. Also, Patrick's spending record during the period of this report was slightly better than the record of the average governor. And to his credit, he signed into law a pension reform package last year that raised retirement ages, ended some pension abuses, and cut costs for taxpayers.

Michigan

Rick Snyder, Republican
Grade: B

Legislature: Republican
Took Office: January 2011

Former businessman Rick Snyder's most important fiscal achievement as governor so far has been repealing the Michigan Business Tax (MBT). That unique tax imposed a heavy burden on both corporate and noncorporate businesses, and it was a serious impediment to investment in the state. Governor Snyder signed legislation replacing the MBT with a less-costly corporate income tax. The effect of the bill was to remove a layer of taxes from 95,000 businesses and provide an overall business tax cut of \$1.6 billion a year.

This tax cut was partly offset by increases in individual income taxes, including higher taxes on pension income and reduced tax credits. However, Snyder signed legislation in 2012 to accelerate a planned reduction in the top individual income tax rate from 4.35 to 4.25 percent and to increase personal exemption amounts.

Snyder is currently pushing to reduce business personal property taxes, which raise about \$1 billion a year in Michigan. The Anderson Economic Group found that these taxes are particularly harmful to the capital-intensive industrial sector in Michigan.⁸⁵ In addition to the direct costs, Anderson found that the complexity of these taxes imposes large compliance burdens on businesses. Snyder is proposing to remove from business tax personal property valued under \$40,000, which would exempt about 60 percent of businesses currently paying the tax.⁸⁶ To offset this tax reduction, the governor is proposing to phase out numerous special interest tax breaks.

Minnesota

Mark Dayton, Democrat
Grade: F

Legislature: Republican
Took Office: January 2011

It didn't take long after he entered office for Governor Dayton to reveal his preferences for higher taxes and spending. General fund spending jumped almost 10 percent his first year in office.⁸⁷ To fund the spending increase, Dayton proposed a tax increase of more

than \$2 billion annually, including raising the top personal income tax rate from 7.85 to 10.95 percent and adding a 3 percentage point charge on top of that for the highest earners. Dayton also wanted a new statewide property tax on higher-valued homes, higher taxes on corporations, and other tax increases. The legislature rejected his tax increases, but Dayton returned the favor by vetoing various tax cuts passed by the legislature.

After trying to clobber the Minnesota economy with higher taxes in 2011, Dayton apparently wanted to show that he was helping the economy and has supported narrow giveaways to businesses. For example, he proposed a temporary tax credit of \$1,500 to businesses for each new person hired, and he signed legislation to subsidize a new stadium for the Minnesota Vikings.

Missouri

Jay Nixon, Democrat
Grade: C

Legislature: Republican
Took Office: January 2009

Governor Nixon has followed a centrist approach to fiscal policy. Budget growth under Nixon has been about average among the states, and he has cut state government employment since 2010. He has also signed legislation requiring state workers to contribute to their pension plans, which will reduce taxpayer costs over time.

Nixon has generally avoided tax increases and focused on business tax cuts in recent years. One achievement was signing 2011 legislation to phase out the state's business franchise tax over five years. Nixon said that "phasing out this burdensome tax will encourage businesses to expand their operations and create jobs in Missouri."⁸⁸

However, tax incentive disease runs rampant in Missouri, as it does in many states.⁸⁹ Missouri's tax code is littered with more than 60 tax credits. In 2012 Nixon approved a small business tax deduction of \$10,000 for each job created, but only if the job pays more than a specified wage. The deduction rises to \$20,000 if the job comes with health insurance.

Montana

Brian Schweitzer, Democrat
Grade: C

Legislature: Republican
Took Office: January 2005

Former agronomist and rancher Brian Schweitzer has a generally centrist fiscal record as governor. Montana general fund spending grew rapidly during Schweitzer's first few years in office, but spending has been fairly flat in recent years. In 2011 Schweitzer approved a modest reduction in property taxes on business equipment. The bill reduced the rate from 3 to 2 percent on the first \$2 million of equipment owned. This is a good reform, but Schweitzer has blocked larger tax reforms proposed by the legislature, including full repeal of corporate income taxes and property taxes on business equipment.⁹⁰

Nebraska

Dave Heineman, Republican
Grade: B

Legislature: Nonpartisan
Took Office: January 2005

Governor Heineman is a fiscal conservative, and his record on tax cutting stands out. In 2006 he approved substantial personal income tax cuts. In 2007 he signed further income

After trying to clobber the Minnesota economy with higher taxes in 2011, Dayton apparently wanted to show that he was helping the economy and has supported narrow giveaways to businesses.

Sandoval said that he would not extend temporary tax increases that had been enacted in 2009. But he reversed course and signed into law a two-year extension of the increases.

tax cuts and a repeal of the estate tax. Nebraska still has an inheritance tax, and Heineman wants to repeal that as well. In 2012 he proposed trimming the top personal and corporate income tax rates. He didn't get the rate cuts, but he did convince the legislature to pass modest individual income tax reductions. The legislature hasn't passed Heineman's corporate tax cuts or inheritance tax repeal yet, but the governor says that he will keep on trying. His recent record on spending is pretty good compared to other governors. In his first four years in office, general fund spending expanded substantially, but since 2009 spending has been fairly flat.

Nevada

Brian Sandoval, Republican
Grade: B

Legislature: Democratic
Took Office: January 2011

Brian Sandoval is a former judge and Nevada attorney general. As governor, he has had to be tight with the purse strings because of Nevada's poor economy. Sandoval proposed a 9 percent cut to the budget for fiscal 2012, and the legislature ending up approving a cut of about 5 percent. State government employment has fallen 4 percent under Sandoval.⁹¹

Sandoval's fiscal shortcomings are on the tax side of the budget. He came into office promising no tax increases, and he specifically said that he would not extend temporary tax increases that had been enacted in 2009.⁹² But he reversed course and signed into law a two-year extension of the increases, which included higher sales taxes, higher business taxes, and business license fees. He recently said that he wanted to extend the "temporary" tax increases through 2015.

New Hampshire

John Lynch, Democrat
Grade: B

Legislature: Republican
Took Office: January 2005

John Lynch has been a popular governor, and he has the highest score on this report card of any Democrat. New Hampshire residents are blessed with having neither a sales tax nor a personal income tax, and Governor Lynch supports that tax structure. In an address last year he said, "Our businesses have grown and thrived in part because of our tax advantage . . . to continue to grow, we must move forward keeping our taxes low—with no sales or income tax."⁹³ Nonetheless, Lynch has supported occasional tax increases. In 2009 he approved an increase in cigarette taxes, hotel taxes, restaurant meal taxes, and vehicle license fees. However, he hasn't pursued tax increases in recent years, and he has supported some small tax cuts.

Lynch oversaw a substantial increase in spending his first few years in office, but spending has been cut in recent years. For the latest biennium budget, the New Hampshire legislature made large spending cuts, which had the effect of boosting Lynch's score on this report card. State spending in the current biennium is expected to be down about 10 percent from the last biennium.

While Lynch is generally a centrist on tax and spending policies, he has opposed government-cutting reforms that are outside the scope of this report. For example, he has blocked recent efforts by the legislature to reform state pensions and repeal the state minimum wage.

New Jersey

Chris Christie, Republican
Grade: B

Legislature: Democratic
Took Office: January 2010

Chris Christie is a charismatic governor whose battles with unions and efforts to reform government pensions have gained him national attention. Christie scores well on taxes in this report. He has repeatedly vetoed increases to individual income tax rates. Last year, for example, the legislature passed an increase in the top income tax rate from 8.97 to 10.75 percent. In vetoing the hike, Christie noted: “Increasing taxes on businesses and highly productive taxpayers who we need here in New Jersey to create jobs and grow our economy will only serve to drive those individuals out of New Jersey in search of states with lower tax burdens.”⁹⁴

Christie turned the tables on the legislature this year and pushed for a 10 percent across-the-board income tax cut. Then he proposed a property tax cut. Those cuts have not passed yet, but they are changing the dynamic of the debate in New Jersey from nonstop threats of tax increases to a discussion of tax reductions.

In 2011 Christie approved a package of generally sensible business tax cuts that are being phased in over four years. The cuts included changes to the net operating loss rules, changes to corporate tax apportionment rules, a repeal of an energy tax, and other reforms.

However, Christie has a weakness for narrow breaks that clutter the tax code. In 2011, for example, he expanded a “business retention” break that offers firms up to \$2,250 in tax credits for each job retained. In 2012 he approved a “Grow New Jersey” tax credit of \$5,000 or more to companies for each job created or retained, provided that companies jump through various government hoops.⁹⁵

Governor Christie scores lower on spending. The general fund budget was flat in Christie’s first year, but then increased at a robust pace in fiscal 2012 and fiscal 2013. The governor has made some good spending decisions, such as canceling a \$9 billion project to build a rail tunnel under the Hudson River. Christie was rightly concerned that the project might have a large cost overrun. Christie has also trimmed state government employment slightly. However, some of Christie’s spending decisions have been panned, such as his investment of \$200 million of public money into the American Dream Meadowlands mall.

New Mexico

Susana Martinez, Republican
Grade: C

Legislature: Democratic
Took Office: January 2011

Former district attorney Susana Martinez has been governor since 2011. Her spending score in this report is a little below average, and was likely dragged down by New Mexico’s liberal legislature. For example, her proposed spending increases have been lower than the final enacted increases.

However, Martinez scores well on tax policy. She promised to oppose tax increases, and she has stuck to that pledge. In 2011, for example, she vetoed a tax increase to fund unemployment compensation saying, “I support reducing unemployment benefits to protect the solvency of the fund, but I do not support increasing job-killing taxes on small businesses while we are struggling to recover from a recession.”⁹⁶ She also vetoed a bill to expand the corporate tax base.

She has pursued business tax cuts to make New Mexico more competitive. She signed a bill to reduce the “pyramiding” or layering of gross receipts taxes on inputs to construction

Christie scores well on taxes in this report. He has repeatedly vetoed increases to individual income tax rates.

In his January 2011 State of the State address, Governor Cuomo said that New York must “hold the line on taxes now and reduce taxes in the future.” Unfortunately, the governor has not lived up to that pledge.

and manufacturing. And she has called for exempting about 40,000 small businesses from the state’s gross receipts tax. Another good move by the governor was approving a reduction in film tax credits, which are wasteful corporate welfare.

New York

Andrew Cuomo, Democrat
Grade: D

Legislature: Divided
Took Office: January 2011

In his January 2011 State of the State address, Governor Cuomo said that New York must “hold the line on taxes now and reduce taxes in the future.”⁹⁷ Unfortunately, the governor has not lived up to that pledge. In December 2011, Cuomo signed an increase in the top personal income tax rate, which is expected to raise \$1.9 billion annually. A previous “temporary” hike in the top rate from 6.85 percent to rates of 7.85 percent and 8.97 percent was supposed to expire at the end of 2011. But Cuomo’s legislation will “temporarily” create a new top rate of 8.82 percent through the end of 2014. Cuomo’s tax plan included some tax breaks, but the overall net tax increase was more than \$1.5 billion a year. These tax hikes won’t help the New York economy, which already suffers from having the second worst business tax climate in the nation.⁹⁸

There were no new taxes in the governor’s budget this year, and his spending increases have been about average among the governors. Also to his credit, Cuomo approved pension reforms for public sector workers, which could save state and local governments in New York tens of billions of dollars over coming years.⁹⁹ In New York City alone, the annual cost of pensions for city workers has exploded from \$1.3 billion to \$8 billion in just the past decade.¹⁰⁰ So Cuomo’s reforms were desperately needed, but much more needs to be done to reduce government spending in New York.

North Carolina

Beverly Perdue, Democrat
Grade: C

Legislature: Republican
Took Office: January 2009

Early in her tenure, Governor Perdue signed a giant package of tax increases that raised \$1 billion annually. Middle-income households were hit with a 2 percent surtax on their incomes, and higher earners and corporations were hit with a 3 percent surtax. In addition, the state sales tax rate was raised by one percentage point, bringing the typical state-local rate in North Carolina to 7.75 percent. Perdue also broadened the sales tax base, increased cigarette taxes, imposed a new hospital tax, and hiked taxes on beer, wine, and liquor.

Perdue promised that the sales tax increase would be temporary, but in 2011 she changed her mind and proposed extending most of it. However, since the hike was put in place the legislature has flipped to Republican control and it has blocked extension of the sales tax increase.

Purdue seems undecided on the issue of business taxes. She opposed a major tax cut for small businesses last year, which passed over her veto. However, she proposed cutting the corporate income tax rate from 6.9 to 4.9 percent, but that pro-growth reform has not yet passed.

North Dakota

Jack Dalrymple, Republican
Grade: B

Legislature: Republican
Took Office: December 2010

North Dakota is enjoying an economic boom as the energy sector grows rapidly. The strong economy is creating a government revenue boom, which is allowing legislators to both increase spending and cut tax rates. The biennium general fund budget is expected to jump from \$3.3 billion in 2010–2011 to \$4.2 billion in 2012–2013, which is a huge 27 percent increase. The result is that Governor Dalrymple receives a low score on spending in this report card.

However, the governor greatly boosted his grade by signing into law large tax cuts in 2011. The cuts reduced individual income rates by about 18 percent and corporate tax rates by about 20 percent. The top individual rate falls from 4.86 to 3.99 percent and the top corporate rate falls from 6.4 to 5.15 percent. The governor also approved local property tax relief. Dalrymple has recently suggested that he will propose additional property and income tax cuts in his next budget.

Ohio

John Kasich, Republican
Grade: B

Legislature: Republican
Took Office: January 2011

John Kasich took the helm of Ohio government after a career in the U.S. Congress as a committed budget reformer. Governor Kasich has held state spending down the last two years, and he has pursued a variety of tax reforms. In 2011 he signed a repeal of the Ohio estate tax, which had been one of the most onerous estate taxes in the nation. He also approved an investment tax credit, and he supported the final segment of a phase-in of a prior income tax cut. However, the governor's score was dragged down a bit by his approval of a hospital tax increase in 2011.

Kasich understands the importance of tax cuts to spur economic growth. He argues: "Too many successful entrepreneurs are fleeing the state to escape high taxation. When they leave, we lose the money. That's one thing; we also lose the jobs, and their entrepreneurial spirit."¹⁰¹ To that end, Kasich is exploring major income tax reforms. One idea he suggested is to raise severance taxes on Ohio's growing energy industry and using the revenues to reduce income tax rates. The legislature hasn't gone along with that idea yet. Kasich is also looking at repealing loopholes or "special deals" in the tax code in return for reducing tax rates.

The Tax Foundation's annual study on state taxation finds that Ohio is the 12th worst state in terms of tax competitiveness.¹⁰² A key problem, says the Foundation's Joe Henchman, is Ohio's unique Commercial Activities Tax, which is imposed on business gross receipts. Henchman argues "this pernicious tax hits the receipts of profitable and unprofitable companies alike, and pyramids through the chain of production, distorting price signals. Essentially all public finance experts revile such taxes, and they hit business activity hard."¹⁰³ Clearly, Ohio is far from a tax-friendly place for entrepreneurs right now, so Governor Kasich has his work cut out for him.

Governor Kasich has held state spending down the last two years, and he has pursued a variety of tax reforms. In 2011 he signed a repeal of the Ohio estate tax, which had been one of the most onerous estate taxes in the nation.

Mary Fallin ran for office on a “no income tax” platform, and she has pursued that goal as governor. And she is championing a plan to gradually phase out income taxes in Oklahoma.

Oklahoma

Mary Fallin, Republican
Grade: B

Legislature: Republican
Took Office: January 2011

Mary Fallin ran for office on a “no income tax” platform, and she has pursued that goal as governor. She supported a scheduled cut in the top income tax rate from 5.5 to 5.25 percent. And she is championing a plan to gradually phase out income taxes in Oklahoma. The plan would initially replace the seven current tax brackets with just three brackets, and it would cut the top income tax rate from 5.25 to 3.5 percent. The base would be dramatically simplified and many tax credits and other special breaks would be eliminated.

Governor Fallin almost reached a deal along these lines with the Republican legislature this year, but the plan stalled before final passage. One hurdle to reform is that special interest groups have lined up to defend their current tax breaks. Hopefully the legislation will move ahead next year because it appears to be an excellent reform.

Fallin has pursued other fiscal reforms, including approving pension changes for state workers. However, the governor’s score was dragged down a bit on this report because she approved a new hospital tax in 2011.¹⁰⁴

Oregon

John Kitzhaber, Democrat
Grade: D

Legislature: Divided
Took Office: January 2011

John Kitzhaber started his third term as governor in 2011, having previously served as governor between 1995 and 2003. His prior scores on Cato report cards were dismal. He earned an “F” three times for his support of rapid spending growth and large tax increases.¹⁰⁵

Governor Kitzhaber still supports substantial spending increases. Oregon’s general fund budget is expected to grow about 9 percent in the current biennium. The good news is that Kitzhaber hasn’t imposed any broad-based tax increases in his current term, although he did approve a substantial increase in Oregon’s hospital tax. And Kitzhaber wants to change the state’s “kicker” mechanism, which refunds excess revenues to taxpayers. The governor wants to retain more of any excess revenues in a rainy day fund rather than rebating funds back to the citizens.

Pennsylvania

Tom Corbett, Republican
Grade: A

Legislature: Republican
Took Office: January 2011

Former state attorney general Tom Corbett has followed a fiscally conservative path as governor. His two budgets have been fairly frugal with general fund spending in fiscal 2013 expected to be lower than in fiscal 2011. State government employment is down a bit under Corbett, and he wants to privatize Pennsylvania’s government-run wine and liquor stores. He says, “I don’t believe we belong in the business of selling alcohol. It’s that simple.”¹⁰⁶

Corbett has also focused on business tax reform. He signed a repeal of the state’s inheritance tax on farmers, and he signed a reform in corporate tax apportionment rules. But Corbett’s main fiscal achievement is to push ahead with ending Pennsylvania’s Capital Stock and Franchise Tax, which is paid by about 100,000 businesses.¹⁰⁷ Phasing out the tax had been planned for years, but delayed by previous governors worried about losing revenue. Corbett has sliced the tax from \$819 million in 2011 to an expected \$479 million in 2013,

and he plans to fully repeal it by 2014. Corbett argues: “This tax is a job-killer . . . We don’t need it. We don’t benefit from it, and we must get rid of it.”¹⁰⁸

An accountant described the state’s business tax problem: “Pennsylvania has a corporate income tax rate of 9.99 percent. Only Iowa, with a graduated rate that can reach 12 percent, has a higher rate. Coupled with Pennsylvania’s Capital Stock tax, which is levied on assets, not income, the state hits companies twice, while many other states do not.”¹⁰⁹ Since the Capital Stock and Franchise Tax is based on asset values, it hits companies every year whether they are profitable or not.

An economic advisory panel formed by Governor Corbett recently recommended cutting the corporate tax rate, so hopefully that will be the next item on the governor’s reform agenda.¹¹⁰

Rhode Island

Lincoln Chafee, Independent
Grade: D

Legislature: Democratic
Took Office: January 2011

Lincoln Chafee is a former Republican U.S. senator who served one term and lost his reelection bid in 2006. He is now a political independent, but he leans left on fiscal policy. As governor, Chafee has presided over a substantial increase in spending. General fund spending in fiscal 2013 is expected to be up more than 11 percent from fiscal 2011. The rise in spending has generated a demand for higher taxes. Governor Chafee has signed bills to modestly broaden the sales tax base and raise the cigarette tax. To Chafee’s credit, however, he signed into law major reforms to the state pension plan.¹¹¹

South Carolina

Nikki Haley, Republican
Grade: B

Legislature: Republican
Took Office: January 2011

Nikki Haley is a former accountant and businesswoman. As governor, she has vetoed dozens of spending items in budget bills, approved reforms to state pensions, and moderately trimmed state government employment. But despite some reforms, the state’s general fund budget is expected to be more than 11 percent higher in fiscal 2013 than it was in fiscal 2011.

Governor Haley scores much better on taxes. She has proposed major corporate tax reforms. She wants to initially cut the corporate tax rate from 5.0 to 3.75 percent, and then fully phase out the tax over four years. She also wants to simplify the individual income tax. Her plan would reduce the number of tax brackets from six to three and provide a substantial overall tax reduction. The proposed reform, however, wouldn’t drop the state’s top income tax rate of 7 percent.

So far, the Republican legislature has blocked these individual and corporate tax reforms. However, Haley did sign into law a tax rate cut for small business income from 5 to 3 percent. This reform will benefit about 60,000 businesses in the state.

South Dakota

Dennis Daugaard, Republican
Grade: C

Legislature: Republican
Took Office: January 2011

South Dakota has a relatively low tax burden, and Governor Daugaard wants to keep

Governor Haley has proposed major corporate tax reforms. She wants to initially cut the corporate tax rate from 5.0 to 3.75 percent, and then fully phase out the tax over four years.

Haslam approved an increase in the state's hospital tax from 3.5 to 4.5 percent of hospital net income. Haslam has also been leading the charge to increase taxes on Internet sales.

it that way. The state does not have a personal or corporate income tax, and it has a sales tax rate of just 4 percent. The Tax Foundation found that the state has the second best tax climate for businesses in the nation.¹¹² Daugaard has spearheaded an advertising campaign targeting investors in high-tax California and Illinois to open or expand their businesses in South Dakota.¹¹³

Daugaard's modest grade of "C" reflects the lack of any major steps by the governor to cut taxes and spending. But it is also true that there are fewer tax and spending targets to cut in relatively small-government South Dakota.

Tennessee

Bill Haslam, Republican
Grade: D

Legislature: Republican
Took Office: January 2011

Bill Haslam is a former businessman and mayor of Knoxville. As governor, his best fiscal move so far is to repeal Tennessee's inheritance tax. Haslam says that the tax is prompting "a whole lot of people" to leave the state because "it's cheaper to die in Florida."¹¹⁴ Haslam originally called for an increase in the exemption amount, but he ultimately agreed to a full phase-out of the inheritance tax over three years. Haslam also signed a small cut in the sales tax on groceries. Balancing out those tax cuts, Haslam approved an increase in the state's hospital tax from 3.5 to 4.5 percent of hospital net income. Haslam has also been leading the charge to increase taxes on Internet sales.¹¹⁵ State general fund spending rose about 14 percent during Haslam's first year in office, which was a key factor in the governor's low grade.

Texas

Rick Perry, Republican
Grade: C

Legislature: Republican
Took Office: December 2000

Governor Perry has a conservative reputation, but he hasn't cut state taxes substantially or reduced the size of Texas government. Indeed, Perry has presided over steady increases in spending. Between the 2000–2001 biennium when Perry assumed office and the 2012–2013 biennium, state general fund spending rose at an annual average rate of 3.2 percent, and total state spending rose at an annual average rate of 4.6 percent.¹¹⁶

His record on taxes is mixed. In 2003 he signed into law a package of tax and fee increases. In 2006 he approved a business tax overhaul that replaced the corporate franchise tax with a modified gross receipts tax called the "Texas Margin Tax." The new tax hit 180,000 additional businesses and increased state-level taxes by more than \$1 billion annually.¹¹⁷ The added state revenues were used to reduce local property taxes, but the overall effect of the package has been to centralize government power in the state and reduce beneficial tax competition between local jurisdictions.

Nonetheless, Perry has supported increases in small business exemptions for the Margin Tax. And in 2011 he vetoed a bill to tax online purchases. In 2012 he proposed a five-point Texas Budget Compact, which includes transparency in budgeting, a constitutional limit on spending growth, opposition to new taxes, a strong rainy day fund, and the cutting unnecessary government programs.¹¹⁸

Utah

Gary Herbert, Republican
Grade: D

Legislature: Republican
Took Office: August 2009

Utah is a generally inviting state from a tax perspective, particularly since a 2006 reform that replaced a personal income tax that had multiple rates of up to 7 percent with a 5 percent flat tax. Governor Herbert hasn't undone his state's positive tax climate, but his record is not particularly good. On the one hand, he cut the state's unemployment insurance tax rate. But on the other hand, he approved a tax increase on hospitals and allowed to pass a \$1.01 per pack tax increase on cigarette consumers. The governor has overseen steady increases in spending in recent years, and state government employment is up 6 percent since the beginning of 2010.¹¹⁹

Vermont

Peter Shumlin
Grade: D

Legislature: Democratic
Took Office: January 2011

Governor Shumlin has taken a generally expansionist approach to fiscal policy. In 2011 he signed a 38 cent per pack tax increase on cigarette consumers after initially opposing it. He also approved a tax increase on health care providers. In 2012 he approved increases in automobile license and registration fees. His spending increases have been quite large. The general fund budget is expected to increase 12 percent between fiscal 2011 and fiscal 2013.

Virginia

Bob McDonnell, Republican
Grade: C

Legislature: Divided
Took Office: January 2010

Governor McDonnell has a conservative reputation, but he hasn't taken any major actions to shrink the Virginia government. McDonnell has signed into law a smattering of small tax increases and tax cuts, but he hasn't proposed any major tax reforms. McDonnell hasn't been very conservative on spending either. The Virginia general fund budget increased from \$14.8 billion in the governor's first year of fiscal 2010 to an estimated \$17.2 billion in fiscal 2013, which is a 16 percent expansion. To his credit, McDonnell pushed to privatize the government's liquor stores, but he couldn't get his own party in the legislature to go along with the plan.

Washington

Chris Gregoire, Democrat
Grade: F

Legislature: Democratic
Took Office: January 2005

Governor Gregoire earned a well-deserved "F" on the last Cato report card. Under Gregoire there has been a never-ending stream of proposals to raise taxes. In her first year, she approved tax increases on cigarettes, gasoline, liquor, and vehicles. She also re-established an estate tax after a previous version had been struck down by the state supreme court. In 2009 she signed a large tax package that included increases in business and occupation taxes, sales taxes, cigarette taxes, beer taxes, soda taxes, and candy taxes. In 2010 she signed

The Virginia general fund budget increased from \$14.8 billion in the governor's first year of fiscal 2010 to an estimated \$17.2 billion in fiscal 2013, which is a 16 percent expansion.

Governor Walker signed a law requiring a two-thirds supermajority in both legislative chambers to raise income, sales, or franchise tax rates.

a package including a dollar-per-pack increase in cigarette taxes, a new hospital tax, higher beer taxes, and an increase in business and occupation taxes. In 2011 she proposed a half cent increase in the state sales tax rate. In 2012 she proposed a new \$1.50 per-barrel tax on crude oil to raise \$275 million annually.

Gregoire's big government approach has also played out in Washington's referendum process. In 2009 Gregoire opposed a ballot measure (I-1033) that would have put a legal cap on government revenue growth. In 2010 she supported a ballot measure (I-1098) to create a state income tax. But Washington voters have turned down an income tax numerous times in the past, and they did so again in 2010 by a large margin. Finally, Washington voters have approved legislative supermajority requirements for tax increases a number of times, but these past limits have either been put aside by the legislature or by the courts. Gregoire has repeatedly opposed these limits. Voters will try again this November with a ballot measure (I-1185) to create a legislative supermajority requirement for tax increases.

West Virginia

Earl Ray Tomblin, Democrat
Grade: C

Legislature: Democratic
Took Office: November 2010

Governor Tomblin's predecessor, Joe Manchin, earned an "A" on Cato's report card as a result of his pro-growth tax cuts and moderate spending. Tomblin has a more mixed record. He approved a tax increase on hospitals, but he also approved a phase-out of sales taxes on food. Also, Tomblin supports the scheduled reduction in the corporate tax rate originally enacted under Manchin. However, spending has risen under Tomblin. The general fund budget is expected to increase more than 10 percent between fiscal 2011 and fiscal 2013.

Wisconsin

Scott Walker, Republican
Grade: B

Legislature: Divided
Took Office: January 2011

Scott Walker has been a high-profile governor as a result of his efforts to overhaul pensions and union rules for government workers. Act 10, passed in 2011, imposed restrictions on collective bargaining (monopoly unionism) and required increases in worker contributions to health and pension plans. These changes were designed to save money at both the state and local levels of government. In addition, Governor Walker signed a law requiring a two-thirds supermajority in both legislative chambers to raise income, sales, or franchise tax rates. These are all impressive reforms that have improved the long-term fiscal outlook for Wisconsin.

Walker's short-term tax and spending policies are not quite as impressive. His spending increases over two years have been about average among the governors. On taxes, he has signed into law a number of sensible pro-growth cuts, such as reductions in capital gains taxes. But he has also approved narrow incentives that will clutter the tax code, such as breaks for hiring and business relocation. Walker created the Wisconsin Economic Development Corporation to distribute government grants, tax credits, and other types of corporate welfare.

However, major tax reforms are needed, not narrow giveaways to favored companies. Tax Foundation rates Wisconsin as having the eighth worst tax climate for businesses in the nation.¹²⁰ Thus the state should be pursuing big changes such as repealing its high (7.9

percent) corporate income tax. Governor Walker has shown himself to be an outstanding reformer with his pension and labor union changes, but he should focus his energies on fundamental tax reforms rather than WEDC-style giveaways.

Wyoming

Matt Mead, Republican
Grade: B

Legislature: Republican
Took Office: January 2011

The Tax Foundation rates Wyoming as having the best tax climate for businesses in the nation.¹²¹ Wyoming has neither a corporate income tax nor an individual income tax. This happy state of affairs may explain why Mead hasn't made any major changes to the state's tax system since taking office.

Mead is a frugal budgeter. Wyoming's current biennium budget spends no more than the last one. And Mead has prepared plans to cut spending if revenues aren't as high as planned, rather than tapping the rainy day fund. Mead also signed into law modest reforms to cut the costs of government pensions.

Notes

1. For governors elected in 2010, the data cover the period January 2011 to August 2012.

2. Office of Governor Tom Corbett, "Governor Signs Budget that Controls Spending without Increasing Taxes," press release, June 30, 2012.

3. Prior Cato report cards are available at www.cato.org/state-local-fiscal-policy.

4. State of Connecticut, "Governor's Midterm Budget Adjustments, FY2013," February 8, 2012, p. 1.

5. This is the change in general fund spending between fiscal 2011 and fiscal 2012.

6. Ibid.

7. Data are available at www.oecd.org/ctp/taxdatabase. And see Chris Edwards and Daniel Mitchell, *Global Tax Revolution: The Rise of Tax Competition and the Battle to Defend It* (Washington: Cato Institute, 2008).

8. See Figure 2 in Robert S. Chirinko, "State Tax Incentives: What Are the Facts," Federal Reserve Bank of San Francisco, November 2006.

9. Karen Setze, "South Carolina Governor Proposes Income Tax Cuts," *State Tax Notes*, January 23, 2012.

10. In 2010 corporate income taxes raised \$37 billion out of total state taxes of \$702 billion. See

Bureau of the Census, State Government Finance data at www.census.gov/govs/state. And see Chris Edwards, "State Corporate Income Taxes Should Be Repealed," Cato Institute Tax and Budget Bulletin no. 19, April 2004.

11. Robert Cline et al., "Sales Taxation of Business Inputs," *State Tax Notes*, February 14, 2005.

12. Amy Hamilton, "Georgia Governor Proposes Business Tax Breaks," *State Tax Notes*, January 16, 2012.

13. Lincoln Institute of Land Policy and Minnesota Taxpayers Association, "50-State Property Tax Comparison Study," April 2011.

14. Author's e-mail exchanges with Aaron Twait, Minnesota Taxpayers Association, and Scott Drenkard, Tax Foundation. Tax Foundation has a detailed study forthcoming on this issue.

15. Ed Sealover, "Hickenlooper Signs Business Property Tax Measure," *Denver Business Journal*, March 26, 2012.

16. Ibid.

17. Anderson Economic Group, "Personal Property Tax Reform in Michigan," April 24, 2012, p. 10.

18. Ibid., p. 1.

19. Council on State Taxation and Ernst and Young, "Total State and Local Business Taxes," July 2012.

Wyoming has neither a corporate income tax nor an individual income tax. This happy state of affairs may explain why Mead hasn't made any major changes to the state's tax system.

20. Howard J. Wall, "Tax Credits as a Tool of State Economic Development Policy," Show-Me Institute, October 2011, p. 4.
21. State of Wisconsin, Department of Revenue, "Summary of Tax Exemption Devices," February 2011, www.revenue.wi.gov/ra/11sumrpt.pdf. This is a count of all the "devices" under the individual and corporate income taxes. Note that some of these breaks would be supported by most tax experts as a step toward tax efficiency, so only a portion of the 170 devices are economically unjustified.
22. Rick Haglund, "Do State Tax Incentives Create Real Jobs, or Just Ribbon-Cutting Ceremonies?" www.mlive.com, July 18, 2010.
23. Will Luther, "Movie Production Incentives: Blockbuster Support for Lackluster Policy," Tax Foundation, January 2010.
24. Joseph Henchman, "States Slashing Film Subsidies," Tax Foundation, November 24, 2010.
25. The instructions for this credit are 10 pages long. See www.azcommerce.com/assets/QJTC-Guidelines.pdf.
26. For a survey of academic studies, see Wall.
27. Billy Hamilton, "Anatomy of a Muddle," *State Tax Notes*, August 20, 2012.
28. Ibid.
29. Amy Hamilton, "Illinois Governor Signs Incentive Bill to Keep Sears, CME in State," *State Tax Notes*, January 2, 2012. And see David Mercer, "Jobs Cuts to Cost Motorola Tax Credits," *CB-SNews.com*, August 14, 2012.
30. For example, see John Buhl, "Governor Approves Five-Year Extension of Film Tax Credit," *State Tax Notes*, May 23, 2011.
31. Office of Governor Dan Malloy, "Governor's Midterm Budget Adjustments, FY2013," February 8, 2012, p. 1.
32. National Conference of State Legislatures, "Health Care Provider and Industry Taxes/Fees," April 2012.
33. Ibid.
34. Richard Locker, "Gov. Haslam Unveils Tennessee Budget," *Commercial Appeal*, March 14, 2011.
35. Michael McCord, "State's Hospitals Battle Over State's Medicaid Funding Experiment," *New Hampshire Business Review*, August 12, 2011.
36. Bill Graves, "Oregon Legislators Look to Hospitals for Tax Increase," *The Oregonian*, May 19, 2011.
37. Diane Lund-Muzikant, "Hospital Association Raises Objections to New Provider Tax," *The Lund Report*, June 3, 2011.
38. See National Conference of State Legislatures, "State Tax Actions 2011," February 2012.
39. For a full discussion about problems with federal grant programs, see Chris Edwards, "Federal Aid to the States," Cato Institute Policy Analysis no. 593, May 22, 2007.
40. For background, see www.downsizinggovernment.org/hhs/medicaid-reforms.
41. National Association of State Budget Officers, "The Fiscal Survey of States," Spring 2012. These are fiscal years.
42. National Association of State Budget Officers, "State Expenditure Report 2010," December 2011. These are fiscal years.
43. U.S. Bureau of Economic Analysis, National Income and Product Accounts, Table 3.3, www.bea.gov/iTable/index_nipa.cfm. These are calendar years.
44. Federal Reserve Board, "Flow of Funds Accounts of the United States," June 7, 2012, Table D.3.
45. Moody's Investors Service, "2012 State Debt Medians Report," May 21, 2012.
46. Office of Governor Pat Quinn, "Economic and Fiscal Policy Report," January 3, 2012.
47. For more on state bonds, see Chris Edwards, "State and Local Government Debt Is Soaring," Cato Institute Tax and Budget Bulletin no. 37, July 2006.
48. Robert Novy-Marx and Joshua D. Rauh, "The Liabilities and Risks of State-Sponsored Pension Plans," *Journal of Economic Perspectives* 23, no. 4 (2009): 191-210.
49. Ibid., pp. 191-210.
50. Jagadeesh Gokhale, "State and Local Pension Plans: Funding Status, Asset Management, and a Look Ahead," Cato Institute White Paper no. 34, February 21, 2012.
51. Chris Edwards and Jagadeesh Gokhale, "Un-

- funded State and Local Health Costs: \$1.4 Trillion,” Cato Institute Tax and Budget Bulletin no. 40, October 2006.
52. For NCSL data on enacted state tax changes, see National Conference of State Legislatures, “State Tax Actions 2011,” February 2012, and National Conference of State Legislatures, “State Tax Actions 2010,” February 2011. *State Tax Notes* is published by Tax Analysts, Falls Church, Virginia.
53. See <http://taxfoundation.org/tax-basics>.
54. The National Association of State Budget Officers reports on proposed tax changes, while the National Conference of State Legislators reports on tax changes that were actually enacted. However, these data sources have numerous shortcomings, so the author assembled a detailed file of news articles and state budget documents to assess the major tax changes during each governor’s tenure. Tax changes proposed by governors, tax changes vetoed, and tax changes signed into law were taken into account. The measurement of this variable is not perfect, but legislated tax changes represent a key measure of a governor’s fiscal stance, so this variable carries substantial weight in the study. Legislation that created temporary tax changes were valued at one-half the value of permanent tax changes. Also note that this report excludes changes to unemployment compensation taxes.
55. This is average employment May–July 2012 compared to January–March 2011. U.S. Bureau of Labor Statistics data available at www.bls.gov/sae.
56. Mark Robyn, “2012 State Business Tax Climate Index,” Tax Foundation, January 2012.
57. This includes the current 1 percentage point millionaire surcharge.
58. Sealover.
59. Jeremy P. Meyer, “Colorado Election Day Results Prove a Killing Field for Tax Measures,” *Denver Post*, November 2, 2011.
60. Illinois is the only state with a recent tax increase that is larger as a share of total state tax collections.
61. State of Connecticut.
62. Simon, “Delaware Governor Approves Business, Individual Tax Cuts,” *State Tax Notes*, July 11, 2011.
63. This is average employment May–July 2012 compared to January–March 2011. U.S. Bureau of Labor Statistics data available at www.bls.gov/sae.
64. Details available at www.letsgettowork.state.fl.us.
65. See item seven in Scott’s plan at www.letsgettowork.state.fl.us.
66. Governor Rick Scott, “Policy and Budget Recommendations, Fiscal Year 2012–2013.” Available at www.letsgettowork.state.fl.us.
67. Ariel Hart, “Voters Reject Transportation Tax,” *Atlanta Journal-Constitution*, August 1, 2012.
68. National Association of State Budget Officers, “Fiscal Survey of the States,” Spring 2012.
69. Polls last year by Public Policy Polling found him to be the least popular governor in the nation. See www.publicpolicypolling.com.
70. Amy Hamilton, “Illinois Governor Signs Incentive Bill to Keep Sears, CME in State,” *State Tax Notes*, January 2, 2012. And see David Mercer, “Jobs Cuts to Cost Motorola Tax Credits,” *CBSNews.com*, August 14, 2012.
71. For example, see John Buhl, “Governor Approves Five-Year Extension of Film Tax Credit.”
72. Office of Governor Pat Quinn.
73. He received a combination of C and D grades during the 1990s.
74. See <https://governor.iowa.gov/about> and see <https://governor.iowa.gov/goals/15-reduction-in-the-cost-of-government>.
75. This is average employment May–July 2012 compared to January–March 2011. U.S. Bureau of Labor Statistics data available at www.bls.gov/sae.
76. Todd Davidson, et al., “Tax Reform Gears Kansas for Growth,” Kansas Policy Institute, July 12, 2012.
77. John Buhl, “Governor Reiterates Opposition to Tax Increases,” *State Tax Notes*, February 7, 2011.
78. This is average employment May–July 2012 compared to January–March 2008. U.S. Bureau of Labor Statistics data available at www.bls.gov/sae.
79. John Richardson, “LePage’s First Year: Contentious, Extreme, and Yes, Effective,” *Portland Press Herald*, January 8, 2012.

80. Office of Governor Paul LePage, "Governor LePage Signs Budget," press release, June 20, 2011.
81. Douglas Rooks, "Legislature Approves Using Future Surpluses for Tax Relief," *State Tax Notes*, May 28, 2012.
82. Mal Leary, "LePage: Eventual Goal Is to Eliminate Income Tax," *Kennebec Journal*, March 19, 2012.
83. Mal Leary, "LePage Outlines Tax Goals at New York City Conference," *Maine Sun-Journal*, April 11, 2012.
84. Susan M. Cover, "LePage: Funding MPBN Is Like Corporate Welfare," *Kennebec Journal*, March 16, 2012.
85. Anderson Economic Group, p. 10.
86. Ibid.
87. National Association of State Budget Officers, "Fiscal Survey of the States," Spring 2012.
88. Simon Brown, "Missouri Governor Signs Franchise Tax Phaseout Bill," *State Tax Notes*, May 2, 2011.
89. Wall., p. 4.
90. Charles S. Johnson, "Schweitzer Pans GOP Tax Eliminations," *Billings Gazette*, March 9, 2012.
91. This is average employment for May–July 2012 compared to January–March 2011. U.S. Bureau of Labor Statistics data available at www.bls.gov/sae.
92. David McGrath Swartz, "How Sandoval's Decision on Taxes Remakes Politics for the Next Year," *Las Vegas Sun*, March 18, 2012.
93. Lorna Colquhoun, "Governor Pledges to Keep Taxes Low," *State Tax Notes*, January 17, 2011.
94. Simon Brown, "New Jersey Governor Vetoes Millionaire Tax," *State Tax Notes*, July 4, 2011.
95. Amy Hamilton, "New Jersey Governor Signs Job Creation Tax Credit," *State Tax Notes*, January 16, 2012.
96. Barry Massey, "New Mexico Governor Rejects UI Tax Increase," *State Tax Notes*, April 18, 2011. Note that unemployment insurance tax changes are not included in the scoring of this report.
97. Simon Brown, "Governor: Hold Line on Taxes Now, Reduce Them Later," *State Tax Notes*, January 10, 2011.
98. Robyn.
99. Office of Governor Andrew Cuomo, "Governor Cuomo Announces Passage of Major Pension Reform," March 15, 2012.
100. *New York Times*, "Gov. Cuomo's Pension Proposal," editorial, February 27, 2012.
101. Karen Setze, "Governor Promises Clawbacks, No Tax Increases," *State Tax Notes*, March 14, 2011.
102. Robyn.
103. Joseph Henchman and William Ahern, "Ohio Is Not a Low-Tax Paradise," Tax Foundation, June 8, 2009.
104. National Conference of State Legislatures, "Health Care Provider and Industry Taxes/Fees," April 2012.
105. Prior Cato report cards are available at www.cato.org/state-local-fiscal-policy.
106. Evan Forrester, "Governor Tom Corbett Discusses Possible Liquor Privatization," www.fox43.com, February 22, 2012.
107. Pennsylvania Office of the Budget, "2011–2012 Budget Highlights," 2011.
108. Office of Governor Tom Corbett.
109. Ford Turner, "The Tax That Will Not Die," *Reading Eagle*, February 21, 2012.
110. John Buhl, "Governor's Panel Seeks Lower Corporate Tax Rate," *State Tax Notes*, August 27, 2012.
111. Arthur Laffer, Stephen Moore, and Jonathan Williams, "Rich States, Poor States," American Legislative Exchange Council, 2012, p. 8.
112. Robyn.
113. Simon Brown, "Governor Touts Business Tax Climate in Marketing Campaign," *State Tax Notes*, August 15, 2011.
114. Tom Humphrey, "Governor Calls for Grocery, Inheritance Tax Reductions," *State Tax Notes*, January 16, 2012.
115. Chas Sisk, "Haslam Testifies before Congress on Behalf of the Internet Tax Bill," *The Tennessean*, July 24, 2012.
116. Texas Legislative Budget Board, "Texas Fact Book 2012," pp. 40, 41.

117. Susan Combs, Texas Comptroller of Public Accounts, “Biennial Revenue Estimate, 2012–2013,” January 201, pp. 13–14.

118. See <http://governor.state.tx.us/initiatives/tx-budgetcompact>.

119. This is average employment May–July 2012

compared to January–March 2010. U.S. Bureau of Labor Statistics data available at www.bls.gov/sae.

120. Robyn.

121. Ibid.

Cato Institute

Founded in 1977, the Cato Institute is a public policy research foundation dedicated to broadening the parameters of policy debate to allow consideration of more options that are consistent with the traditional American principles of limited government, individual liberty, and peace. To that end, the Institute strives to achieve greater involvement of the intelligent, concerned lay public in questions of policy and the proper role of government.

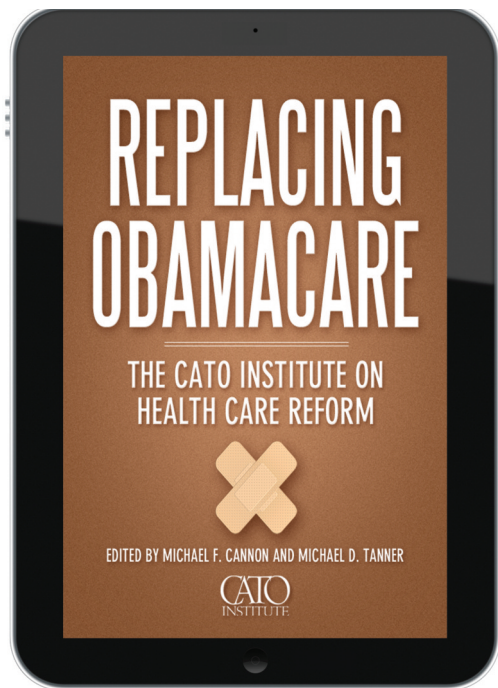
The Institute is named for *Cato's Letters*, libertarian pamphlets that were widely read in the American Colonies in the early 18th century and played a major role in laying the philosophical foundation for the American Revolution.

Despite the achievement of the nation's Founders, today virtually no aspect of life is free from government encroachment. A pervasive intolerance for individual rights is shown by government's arbitrary intrusions into private economic transactions and its disregard for civil liberties.

To counter that trend, the Cato Institute undertakes an extensive publications program that addresses the complete spectrum of policy issues. Books, monographs, and shorter studies are commissioned to examine the federal budget, Social Security, regulation, military spending, international trade, and myriad other issues. Major policy conferences are held throughout the year, from which papers are published thrice yearly in the *Cato Journal*. The Institute also publishes the quarterly magazine *Regulation*.

In order to maintain its independence, the Cato Institute accepts no government funding. Contributions are received from foundations, corporations, and individuals, and other revenue is generated from the sale of publications. The Institute is a nonprofit, tax-exempt, educational foundation under Section 501(c)3 of the Internal Revenue Code.

Also from the Cato Institute



Replacing Obamacare: The Cato Institute on Health Care Reform

EDITED BY MICHAEL F. CANNON AND MICHAEL D. TANNER

The Cato Institute has been a leader in educating the American people on how the Affordable Care Act—Obamacare—jeopardizes individual freedom, democracy, and health care reform. This specially created e-Book, representing the best of Cato’s work on Obamacare, contains the work of over a dozen national experts who have dedicated their professional lives to enabling effective health care reforms.

Focusing on how free markets can make health care better, more affordable, and more secure, *Replacing Obamacare* explains why the law should be repealed and what reforms should be put in its place. By the book’s conclusion, you will understand why pursuing the solid, proven solutions set forth in *Replacing Obamacare* will lead to real health care reform.

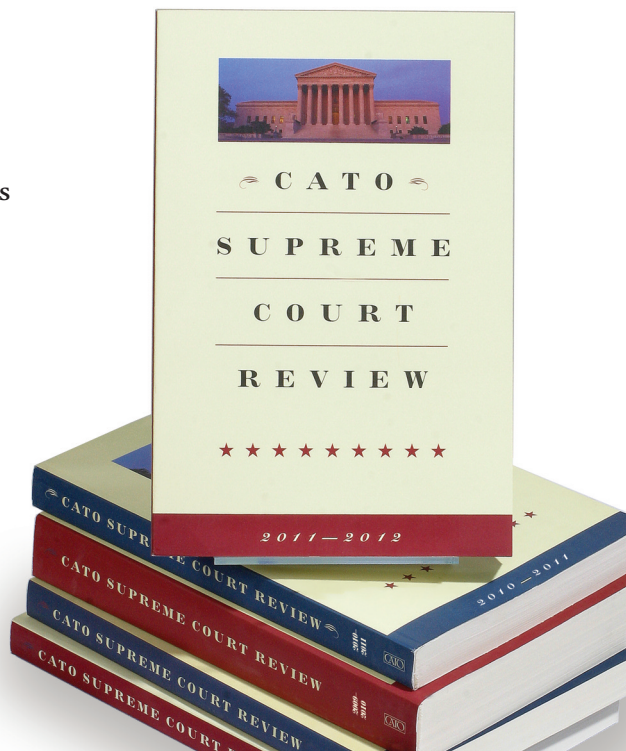
978-1-938048-86-9 • \$3.99 • E-BOOK ONLY

Cato Supreme Court Review 2011–2012

Published every September in celebration of Constitution Day, the Cato Supreme Court Review brings together leading legal scholars to analyze key cases from the Court’s most recent term, plus cases coming up. It is the first scholarly review to appear after the term’s end, and the only review that sheds a Madisonian light on those cases. This year’s Review looks at the Supreme Court’s recent decisions involving the Affordable Care Act, immigration, property rights, intellectual property, GPS surveillance, plea bargaining, and more.

THIS YEAR’S CONTRIBUTORS: David B. Rivkin Jr., Jonathan H. Adler, James L. Huffman, Elizabeth Townsend Gard, Roger Pilon, Jim Harper, Wesley M. Oliver, Roderick M. Hills Jr., and more. Special articles by Hon. Alex Kozinski and Kannon K. Shanmugam.

\$15.00 PAPERBACK • \$6.99 E-BOOK



AVAILABLE ONLINE AT CATO.ORG/STORE, OR AT 800.767.1241

