

Appendix A

2009 ALEC-Laffer Economic Competitiveness Index: Economic Outlook Methodology

Earlier in this book, we introduced 15 policy variables that have a proven impact on the migration of capital – both investment and human – into and out of states. The end result of an equally weighted combination of these variables is the 2009 ALEC-Laffer Economic Outlook Rankings of the states. Each of these factors is influenced directly by state lawmakers through the legislative process. The 15 factors and a basic description of their purposes, sourcing and subsequent calculation methodologies are as follows:

Highest Marginal Personal Income Tax Rate:

This ranking includes local taxes, if any, and any impact of federal deductibility, if allowed. A state's largest city was used as a proxy for local tax rates. Data was drawn from: CCH Tax Research Network, Tax Analysts and Tax Administrators.

Highest Marginal Corporate Income Tax Rate

This variable includes local taxes, if any, and the effect of federal deductibility, if allowed. A state's largest city was used as a proxy for local tax rates. In the case of gross receipts or business franchise taxes, an effective tax rate was approximated, when possible, using NIPA profits and gross domestic product data. Data was drawn from: CCH Tax Research Network, Tax Analysts, Tax Administrators and the Bureau of Economic Analysis.

Personal Income Tax Progressivity

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

Property Tax Burden

This variable was calculated by taking tax revenues from property taxes per \$1,000 of personal income. We have used U.S. Census Bureau data, for which the most recent year available is 2006. This data was released in July 2008.

Sales Tax Burden

This variable was calculated by taking tax revenues from sales taxes per \$1,000 of personal income. Sales taxes taken into consideration include the general sales tax and specific sales taxes. We have used U.S. Census Bureau Data, for which the most recent year available is 2006. This data was released in July 2008.

Remaining Tax Burden

This variable was calculated by taking tax revenues from all taxes – excluding personal income, corporate income (including corporate license), property, sales and severance per \$1,000 of personal income. We used U.S. Census Bureau Data, for which the most recent year available is 2006. This data was released in July 2008.

Estate or Inheritance Tax (Yes or No)

This variable assesses if a state levies its own estate or inheritance tax, in addition to the federal rate. We chose to score states based on either a “yes” for the presence of a state-level estate or inheritance tax, or a “no” for the lack thereof. Data was drawn from: Charles Fox, “2008 State Death Tax Chart,” American College of Trust and Estate Counsel, April 2008.

Recently Legislated Tax Changes

This variable assesses static revenue estimates of recently legislated tax changes per \$1,000 of personal income (in this case, 2007 and 2008). Laffer Associates calculations used raw data from Tax Analysts and other sources.

Debt Service as a Share of Tax Revenue

This variable shows interest paid on state debt as a percentage of total state tax revenue. This information comes from U.S. Census Bureau data.

Public Employees per 10,000 Residents

This variable shows the full-time Equivalent Public Employment per 10,000 of Population. This information comes from U.S. Census Bureau data.

Quality of State Legal System

This variable ranks tort systems by state. Information comes from the 2008 U.S. Chamber of Commerce State Liability Systems Ranking.

State Minimum Wage

This variable highlights the minimum wage enforced on a state-by-state basis. If a state does not have a minimum wage, we use the federal minimum wage floor. This information comes from the U.S. Department of Labor, as of July 2008.

Workers' Compensation Costs

This variable highlights the 2008 Workers' Compensation Index Rate (cost per \$100 of payroll). Note: This survey is conducted by the Information Management Division, Department of Consumer & Business Services.

Right-to-Work State (Yes or No)

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

Tax or Expenditure Limit

This variable ranks states by the number of tax or expenditure limits in place. We measure this by 1) a tax expenditure limit, 2) mandatory voter approval of tax increases, and 3) a supermajority requirement for tax increases. This information comes from the National Conference of State Legislatures and the Cato Institute.

CHANGE IN METHODOLOGY FROM 2008

Last year's State Economic Competitiveness Index included 16 economic outlook variables. However, the authors determined the Education Freedom Index had to be removed because of data limitations. For proper comparison purposes, readers should use the 2008 Economic Outlook Rankings included in this year's book (see Appendix B) as a benchmark, as they were calculated using the 2009 methodology.

Appendix B

2008 ALEC-Laffer Economic Outlook Rankings

To ensure accurate comparability between the 2008 and 2009 Economic Outlook Rankings, the 2008 rankings have been updated below, using the 2009 methodology. For a detailed description of the 2009 methodology, please see Appendix A.

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

Appendix C

ALEC Model Legislation

An Act Relating to Creating a Searchable Budget Database for State Spending

Intent Section

The Legislature finds that taxpayers should be able to easily access the details on how the state is spending their tax dollars and what performance results are achieved for those expenditures. It is the intent of the Legislature, therefore, to direct the [state budget office] to create and maintain a searchable budget database Web site detailing where, for what purpose and what results are achieved for all taxpayer investments in state government.

Short Title

This Act shall be known and may be cited as the “Taxpayer Transparency Act.”

Definitions

“Searchable budget database Web site” means a Web site that allows the public at no cost to

- 1) search and aggregate information for the following:
 - a. the name and principal location or residence of the entity/and or recipients of funds,
 - b. the amount of funds expended,
 - c. the funding or expending agency,
 - d. the funding source of the revenue expended,
 - e. the budget program/activity of the expenditure,
 - f. a descriptive purpose for the funding action or expenditure,
 - g. the expected performance outcome for the funding action or expenditure,
 - h. the past performance outcomes achieved for the funding action or expenditure,
 - i. any state audit or report relating to the entity or recipient of funds or the budget program/activity or agency,
 - j. and any other relevant information specified by the [state budget office].
- 2) “programmatically search and access all data in a serialized machine readable format (such as XML) via a web-services application programming interface.”
- 3) “Entity/and or recipients” means:
 - k. a corporation,
 - l. an association,

- m. a union,
- n. a limited liability company,
- o. a limited liability partnership,
- p. any other legal business entity including non-profits,
- q. grantees,
- r. contractors, and
- s. a county, city or other local government entity.

“Entity/and or recipients” does not include an individual recipient of state assistance.

- 4) “Agency” means a state department, office, board commission, bureau, division, institution, or institution of higher education. This includes individual state agencies and programs, as well as those programs and activities that cross agency lines. “State agency” includes all elective offices in the Executive Branch of government and the Legislature.
- 5) “Funding source” means the state account the expenditure is appropriated from.
- 6) “Funding action or expenditure” shall include details on the type of spending (grant, contract, appropriations, etc.). This includes tax exemptions or credits. Where possible, a hyperlink to the actual expenditure document (in a format that is, at a minimum, as searchable as a searchable PDF format) shall be provided.
- 7) “State audit or report” shall include any audit or report issued by the [state auditor, inspector general, or comptroller], legislative auditor, legislative committee, or executive body relating to the entity or recipient of funds or the budget program/activity or agency.
- 8) “Director” means the Director of the [state budget office].
- 9) “Shall” means the obligation or duty to perform; no discretion is granted.

Searchable Budget Database Web Site Created

By January 1, 20xx, the Director shall develop and make publicly available a single, searchable budget database Web site including the required data for the [most recent state budget]. The Web site shall be given a unique and simplified Web site address. Each state agency that maintains a generally accessible Internet site or for which a generally accessible Internet site is maintained shall include a link on the front page of the agency’s Internet site to the budget database web site.

Updates

The Director shall provide guidance to agency heads to ensure compliance with this section. “Effective [insert date], the searchable budget database Web site shall be updated as new data becomes available, if feasible, but no later than 30 days upon receipt of data from the agency.”

By January 1, 20xx, the Director shall add data for the [previous budgets] to the searchable budget database Web site. Data for previous fiscal years may be added as available and time permits. The

Director shall ensure that all data added to the searchable budget database Web site remains accessible to the public for a minimum of 10 years.

Compliance with Act

The Director shall not be considered in compliance with this act if the data required for the searchable budget database Web site is not available in a searchable and aggregate manner and/or the public is redirected to other government Web sites, unless each of those sites has information from all agencies and each category of information required can be searched electronically by field in a single search.

Supermajority Act: An ALEC Model

Summary

Supermajority requirements are based on the premise that tax increases fuel excessive government spending. Therefore, to more effectively control the budgetary process, the ability to raise taxes or enact new taxes should be made as politically difficult as possible, require broad consensus, and be held to a high standard of accountability. This Act calls for a constitutional provision requiring all tax and license fee impositions and increases to be approved by two-thirds of all members of each House. It provides for an exemption if there are insufficient revenues to pay interest on the state's debt.

Model Legislation

“An Act concurring in a proposed amendment to the Constitution of the State relating to the imposition of taxes or license fees.”

WHEREAS, an amendment to the Constitution of the State was proposed in the (session number) Legislature, being Chapter (number), Volume (number), as follows:

This Act may be cited as an amendment to the State Constitution relating to the imposition of taxes or license fees.

Be it enacted by the Legislature (two-thirds of all members elected to each House thereof concurring therein):

Section 1. Amend Article (number) of the Constitution of the state by adding a new Section there-to as follows:

- A) Imposition or levy of new taxes or license fee.
- 1) No tax or license fee may be imposed or levied except pursuant to an act of the legislature adopted with the concurrence of two-thirds of all members of each House.
 - 2) This amendment shall not apply to any tax or license fee authorized by an act of the legislature which has not taken full effect upon the effective date of this bill.
- B) Limitation on increase of rate of taxes and license fees.
- 1) The effective rate of any tax levied or license fee imposed may not be increased except pursuant to an act of the legislature adopted with the concurrence of two-thirds of all members of each House.
- C) Exemption to meet obligation under faith and credit pledge; allocation of public monies to meet such an obligation if revenues are not sufficient to meet such pledge.
- 1) Prior to the beginning of each fiscal year of the state, the legislature shall appropriate revenues to pay interest on its debt to which it has pledged its faith and credit and which interest is payable in the year for which such appropriation is made and to pay the principal of such debt, payable in such year, whether at maturity or otherwise. To the extent that insufficient revenues are provided to pay the principal and interest on such debt when due and payable, the first monies thereafter received by the state shall be set aside and applied to the payment of the principal and interest on such debt. To make up for such insufficient revenues, the legislature may increase the rate of taxes and fees without regard to the limitations of Subsection (A) and Subsection (B) of Section 1, hereof after the failure to pay when due the principal of and interest on such debt; and

WHEREAS the said proposed amendment was adopted by two-thirds of all members elected to each House of the (session number) legislature;

NOW THEREFORE, BE IT RESOLVED BY THE LEGISLATURE (two-thirds of all members elected to each House thereof concurring therein) said proposed amendment is hereby adopted, and shall forthwith become a part of the Constitution of the state.

Section 2. {Severability clause.}

Section 3. {Repealer clause.}

Section 4. {Effective date.}

Please contact Jonathan Williams, ALEC's Tax & Fiscal Policy Task Force Director, at jwilliams@alec.org or (202) 742-8533 if you have any questions or concerns about ALEC's model legislation.

ABOUT THE AMERICAN LEGISLATIVE EXCHANGE COUNCIL

The American Legislative Exchange Council (ALEC) is the nation's largest, nonpartisan, individual membership association of state legislators. With 2,000 members, ALEC's mission is to advance the Jeffersonian principles of limited government, federalism and individual liberty, through a nonpartisan public-private partnership of state legislators, the business community, the federal government and the general public.

Founded in 1973, ALEC is a 501(c)3 nonprofit organization that promotes free-market principles through "model legislation," developed by its public- and private-sector members in eight Task Forces:

Civil Justice

To promote systematic fairness in the courts by discouraging frivolous lawsuits, to fairly balance judicial and legislative authority, to treat defendants and plaintiffs in a consistent manner, and to install transparency and accountability in the trial system.

Commerce, Insurance, and Economic Development

To enhance economic competitiveness, to promote employment and economic prosperity, to encourage innovation, and to limit government regulation imposed upon business.

Public Safety and Elections

(Formerly known as Criminal Justice and Homeland Security)

To develop model policies that reduce crime and violence in our cities and neighborhoods; while also focusing on developing policies to ensure integrity and efficiency in our elections, and within our systems of government.

Education

To promote excellence in the nation's educational system, to advance reforms through parental choice, to support efficiency, accountability, and transparency in all educational institutions, and to ensure America's youth are given the opportunity to succeed.

Health and Human Services

To reduce governmental involvement in health care, to support a consumer-driven health care system, and to promote free-market, pro-patient health care reforms at the state level.

Natural Resources

To operate under the principles of free-market environmentalism, that is to promote the mutually beneficial link between a robust economy and a healthy environment; to unleash the creative powers of the free market for environmental stewardship, and to enhance the quality of our natural resources for the benefit of human health and well-being.

Tax and Fiscal Policy

To reduce excessive government spending, to lower the overall tax burden, to enhance transparency of government operations, and to develop sound, free-market tax and fiscal policy.

Telecommunications and Information Technology

To advance consumer choice in the dynamic and converging areas of telecommunications and information technology by furthering public policies that preserve free-market principles, promote competitive federalism, uphold deregulation efforts, and keep industries free from new burdensome regulations.