

Rich States, Poor States: a guide to economic prosperity

Jonathan Williams

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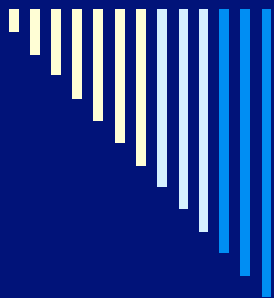
Director, Center for State Fiscal Reform

American Legislative Exchange Council



About ALEC

- ❑ Founded in 1973
- ❑ Largest nonpartisan individual membership organization of state legislators
- ❑ *ALEC's mission is to advance and promote the Jeffersonian principles of free markets, individual liberty, limited Government, and federalism through our nonpartisan public-private sector partnership of state legislators, members of the private sector, the federal government, and the general public.*

A light blue map of the United States, showing state boundaries, is centered behind the text. The map is slightly offset to the right and has a subtle drop shadow.

CENTER FOR STATE FISCAL REFORM



On one side of the fiscal coin...





Budget Shortfalls: How to Make Ends Meet

□ Problem:

- Budget Shortfalls from the Beginning
- Spending Growth over the Past Decade

□ *Solution:* Priority-Based Budgeting

- Ask 5 Key Questions while Budgeting
 - Success Story: Washington state
-



Q: What's the biggest threat to state finances?

A: Unfunded Pension Liabilities

□ Problem:

- Defined-Benefit Plan
- Revenues \neq Employee Benefits

□ Solution: Defined-Contribution Plan

POP QUIZ: What do they have in common?



Bill Gates



Warren Buffett



Willie Brown

HINT: It's not their political party.

Applying Basic Math to the Unfunded Liabilities Problem

START:

\$100 Investment



Economic Downturn:

Lose 30% of Investment



Applying Basic Math to the Unfunded Liabilities Problem

**New Investment
Balance:**
\$70

=

**\$30
LOSS**



Applying Basic Math to the Unfunded Liabilities Problem

**New Investment
Balance:**
\$70



Recover Loss:
Gain 30% on Investment



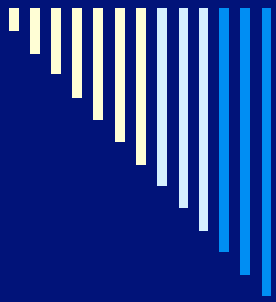
Applying Basic Math to the Unfunded Liabilities Problem

**New Investment
Balance:**
\$91

=

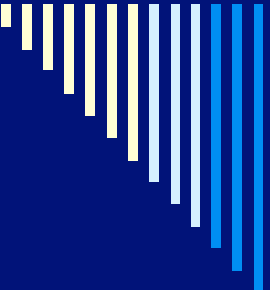
**\$21
Gain**





Applying Basic Math to the Unfunded Liabilities Problem

$$\begin{array}{rcccl} \$30 & + & \$21 & = & \$9 \text{ NET} \\ \text{Loss} & & \text{Gain} & & \text{LOSS} \end{array}$$



If we really had an 8% rate of return,
where would we be today?

Dow Jones Industrial Average

January 2000

\$11,501.85

January 2012

(based on 8% year over year return)

\$28,963.61



On the other side of the coin...

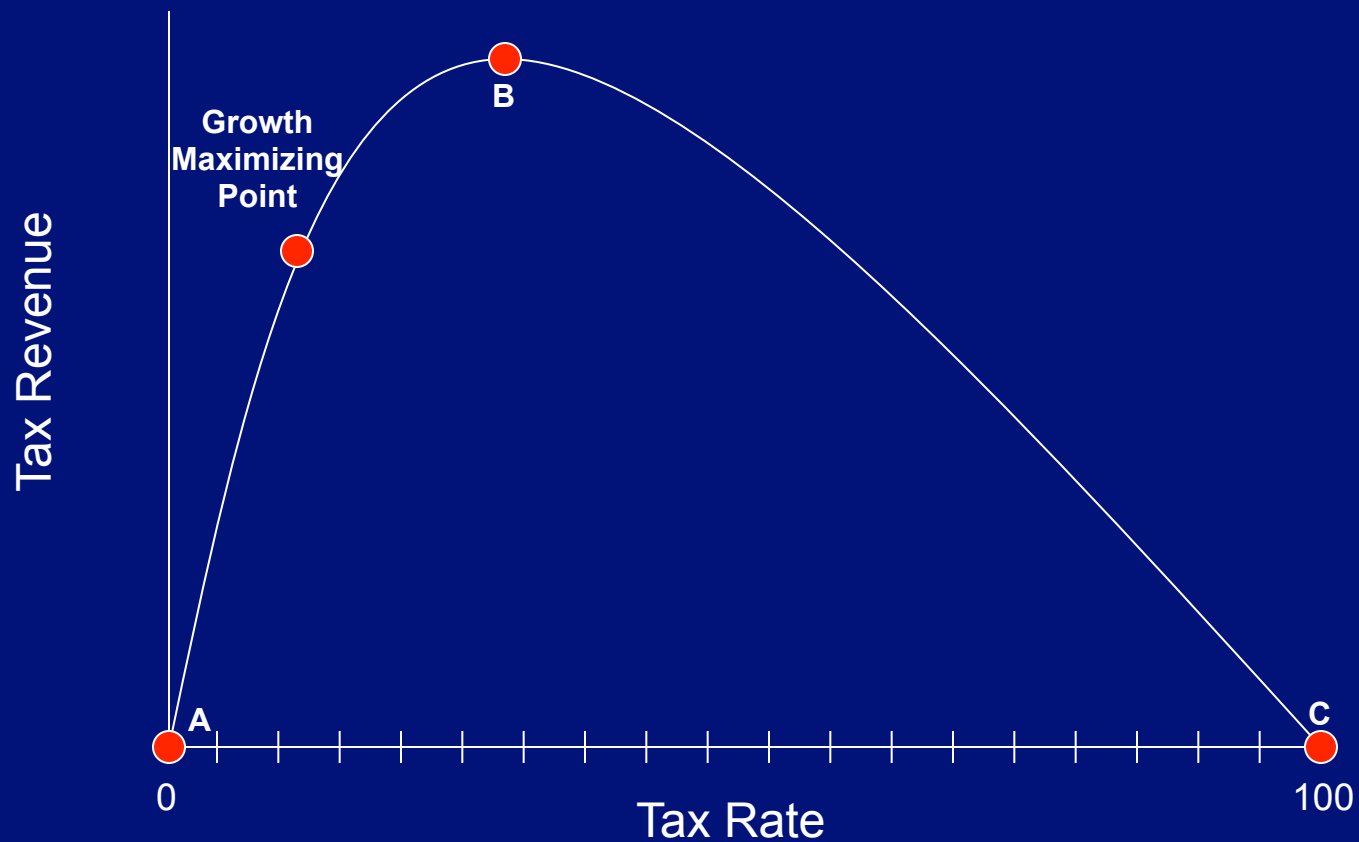




ALEC Principles of Taxation

- Simplicity
 - Transparency
 - Neutrality
 - Predictability
 - Pro-Growth
-

The Laffer Curve





**Does weather matter
more than taxes?**



Hawaii

*Lost population 8 out
of the last 10 years*

Maui's Avg. Temperature:
84°



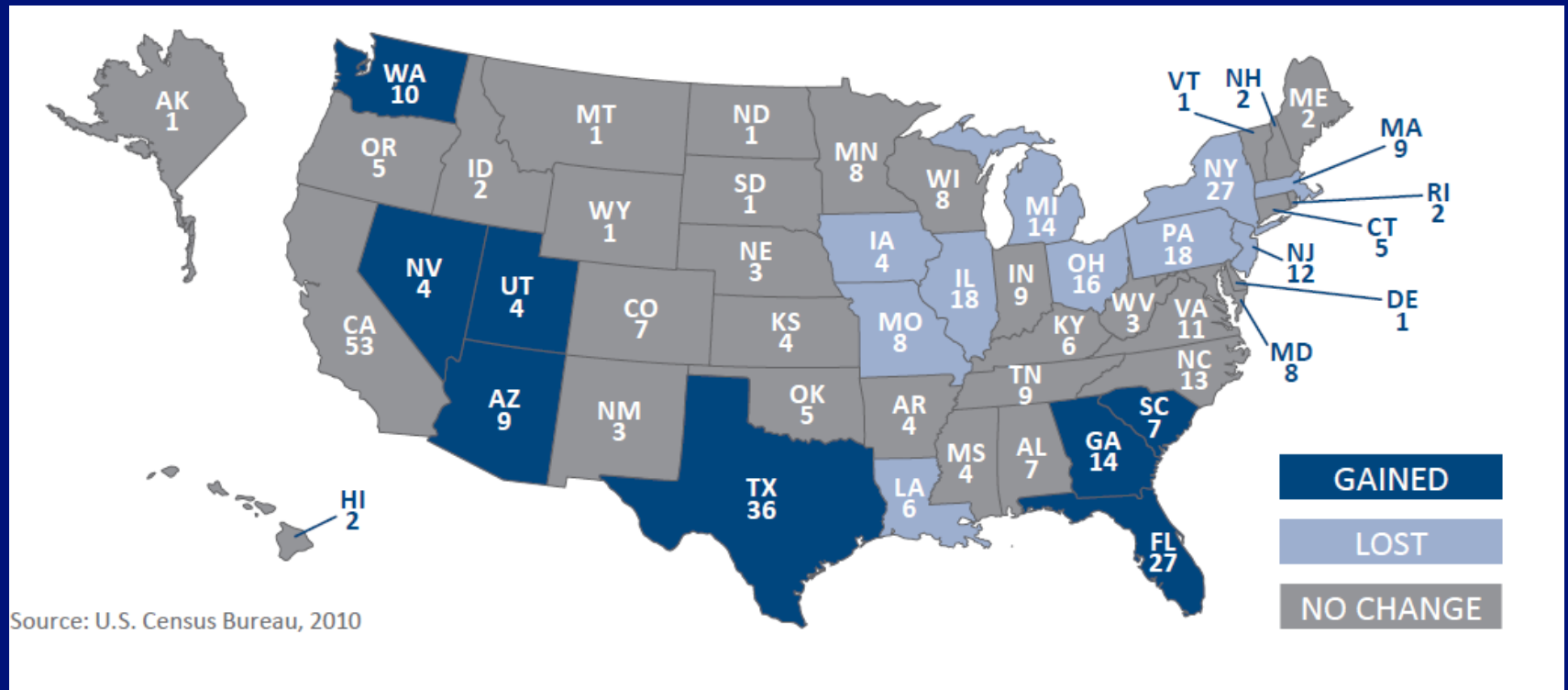
California

*Net loss of 1,505,126 people
over the last decade*

San Diego's Avg. Temperature:
71°

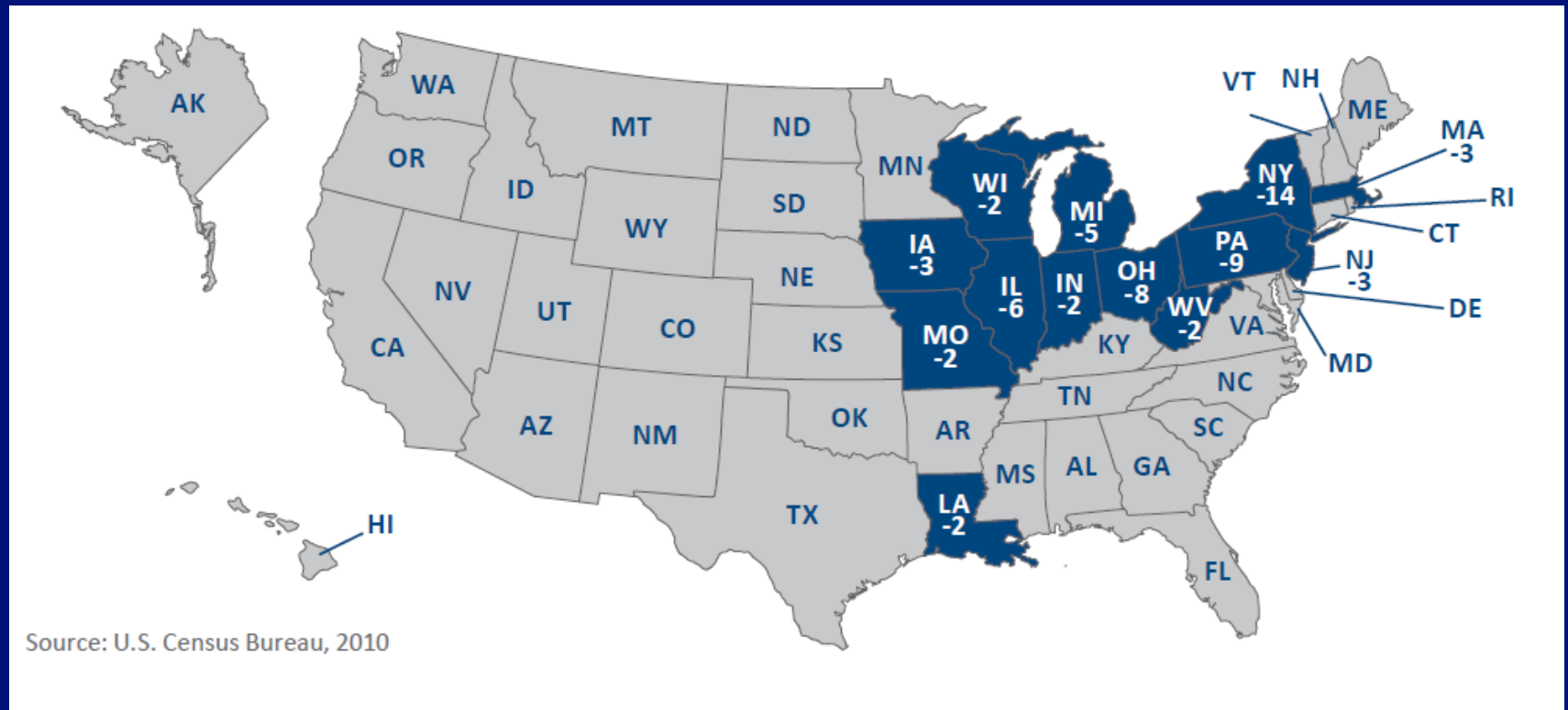
Taxpayers Vote with their Feet

Apportionment of the U.S. House of Representatives based on the 2010 Census



Taxpayers Vote with their Feet

States with the Largest Net Loss of Congressional Seats Since 1960





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

Highest PIT

Avg. Top Rate: 9.79%

(OH, ME, MD, VT, NJ,
CA, OR, HI, NY)

No PIT

(AK, FL, NV, NH, SD,
TN, TX, WA, WY)

42.06%

Gross State Product Growth

58.54%

5.49%

Population Growth

13.65%

44.88%

Total State Tax Receipt Growth

81.53%

-1.68%

Job Growth

5.36%



The Eight States with the Highest and Lowest Marginal Corporate Income (CIT) Tax Rates

Highest CIT

Avg. Top Rate: 11.92%

*(AK, IL, MN, IA,
DE, OR, NY, PA)*

Lowest CIT

Avg. Top Rate: 2.56%

*(NV, SD, WY, ND,
OH, AL, TX, CO)*

47.75%

Gross State Product Growth

59.13%

6.67%

Population Growth

11.98%

57.87%

Total State Tax Receipt Growth

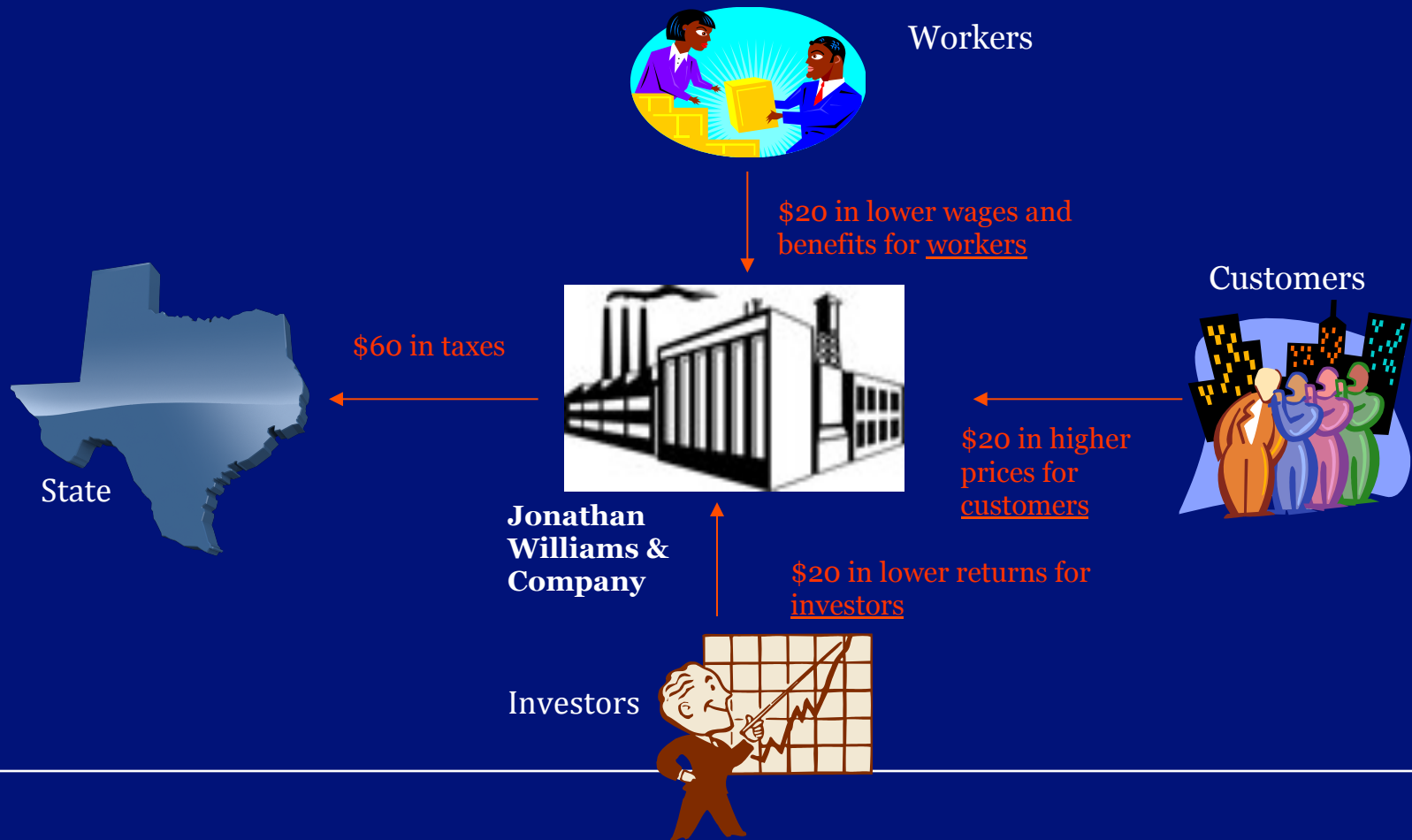
69.32%

0.09%

Job Growth

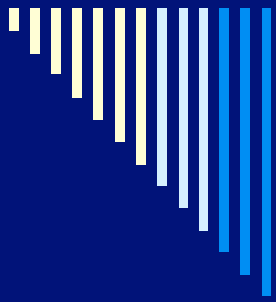
4.80%

Businesses Don't Pay Taxes — People Do



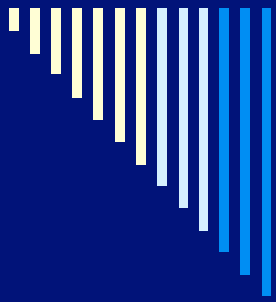
State Tax Revenue





The Best of the Best: 10 Highest Ranked States

- | | |
|-----------------|-------------|
| 1. Utah | 6. Idaho |
| 2. South Dakota | 7. Missouri |
| 3. Virginia | 8. Colorado |
| 4. Wyoming | 9. Arizona |
| 5. North Dakota | 10. Georgia |



The Worst of the Worst: 10 Lowest Ranked States

50. New York

49. Vermont

48. Illinois

47. Maine

46. Hawaii

45. Oregon

44. Connecticut

43. Rhode Island

42. New Jersey

41. Minnesota



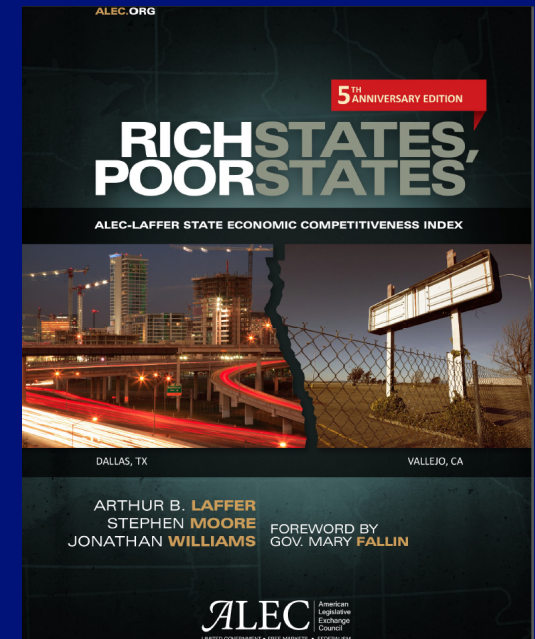
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