Fiscal Policy Report Card on America's Governors 2020

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Executive Summary

Going into 2020, the United States was in its 11th year of economic expansion and state governments were enjoying robust revenue and spending growth. Then COVID-19 hit and triggered a deep recession. State governments have seen their projected revenues decline and have started trimming spending to keep their 2021 budgets balanced. Some states had accumulated large rainy day funds and were prepared for the downturn, but other states have been overspending, accumulating debt, and saving little for the rainy day that has now arrived.

That is the backdrop to this year's 15th biennial fiscal report card on the governors, which examines state budget actions since 2018. It uses statistical data to grade the governors on their tax and spending records—governors who have restrained taxes and spending receive higher grades, while those who have substantially increased taxes and spending receive lower grades.

Four governors were awarded an A on this report: Chris Sununu of New Hampshire, Kim Reynolds of Iowa, Pete Ricketts of Nebraska, and Mark Gordon of Wyoming. Seven governors were awarded an F: Ralph Northam of Virginia, Andrew Cuomo of New York, Gretchen Whitmer of Michigan, Phil Murphy of New Jersey, J. B. Pritzker of Illinois, Kate Brown of Oregon, and Jay Inslee of Washington.

This report examines the widely varying tax and spending choices that governors have made in recent years. It discusses ways that states can respond to today's budget challenges, including tapping revenues from marijuana legalization and cutting costs by prohibiting public-sector collective bargaining. The report also describes how states can prepare for future downturns by building large rainy day funds and creating stable and pro-growth tax bases.

With the 2020 health crisis and recession, governors across the nation are facing tough fiscal choices. However, the need for restraint and recovery provides an opportunity for governors to prune low-value spending from state budgets and to pursue growth-enhancing tax reforms.

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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 the public through tax cuts. When the economy is stagnant and budget deficits appear, governors can respond by raising taxes or trimming spending.

This report grades governors on their fiscal policies from a limited-government perspective. Governors receiving an A are those who have cut taxes and spending the most, whereas governors receiving an F have raised taxes and spending the most. The grading mechanism is based on seven variables: two spending variables, one revenue variable, and four tax-rate variables. Cato has used the same methodology on its fiscal report cards since 2008.

The results are data-driven. They account for tax and spending actions that affect short-term budgets in the states. However, 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 measure of how fiscally conservative each governor is, but they do not reflect all the fiscal actions that governors make.

Tax and spending data for the report come from the National Association of State Budget Officers, the National Conference of State Legislatures, the Tax Foundation, the budget agencies of each state, and many news articles. The data cover the period January 2018 to August 2020, which was mainly a period of strong budget expansion before the recession began.[1] The report rates 47 governors. It excludes the governors of Kentucky and Mississippi because they have been in office only a brief time, and it excludes the governor of Alaska because of peculiarities in that state's budget.

The next section discusses the highest-scoring governors and some differences between the two political parties. After that, the report examines fiscal trends in the states, including spending growth rates and new sources of revenue that states are tapping.

Subsequent sections look at ways that states can reduce budget gaps during the current downturn and better prepare for future downturns. States can legalize and tax marijuana to raise revenues. States can end public-sector collective bargaining to reduce costs. States can begin building large rainy day funds when the economy returns to growth. And states can reform their tax codes to create stable revenue bases less susceptible to declines during recessions.

Appendix A discusses the methodology used to grade the governors. Appendix B provides summaries of the fiscal records of the 47 governors included in the report.

Main Results

Table 1 presents the overall grades for the governors. Scores ranging from 0 to 100 were calculated for each governor on the basis of 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.

The following four governors received grades of A:

- **Chris Sununu** has led New Hampshire as governor since 2017 after a career as an engineer and business owner. Sununu has defended New Hampshire's status as a low-tax state and kept general funding spending close to flat in recent years. While neighboring Massachusetts imposed a costly payroll tax to fund a new paid leave program, Sununu has twice vetoed such a plan in his state. He said a payroll tax is "an effective income tax," which would "destroy the New Hampshire advantage."[2] Sununu also cut the rates of the state's two main business taxes and defended the cuts from legislative efforts to undo them. The governor is proud that New Hampshire is top-rated on economic freedom and has worked hard to keep it that way.[3]
- **Kim Reynolds** was a state senator and lieutenant governor of Iowa before assuming office as governor in 2017. She has translated her stated beliefs in limited government and personal responsibility into fairly lean state budgeting and the pursuit of tax reform. She signed into law a major reform in 2018 that cut corporate and individual income tax rates, broadened online sales tax collections, and reduced taxes overall by more than $300 million a year. Reynolds proposed further tax-rate cuts in 2020, but the recession and health crisis have put those reforms on hold.
- **Pete Ricketts** is an entrepreneur and former corporate executive. Since taking office as Nebraska governor in 2015, he has pursued income tax reforms, fended off tax-increase proposals, and held general fund spending to 2.8 percent annual average growth. Ricketts signed into law an income tax cut in 2018 that will save Nebraskans more than $250 million a year.

Table 1

Overall grades for the governors

State	Governor	Score	Grade
New Hampshire	Chris Sununu (R)	75	A
Iowa	Kim Reynolds (R)	71	A
Nebraska	Pete Ricketts (R)	70	A
Wyoming	Mark Gordon (R)	66	A
Arkansas	Asa Hutchinson (R)	64	B
Texas	Greg Abbott (R)	62	B
Vermont	Phil Scott (R)	61	B
Georgia	Brian Kemp (R)	61	B
Florida	Ron DeSantis (R)	61	B
South Dakota	Kristi Noem (R)	59	B
Nevada	Steve Sisolak (D)	57	B
Indiana	Eric Holcomb (R)	56	B
South Carolina	Henry McMaster (R)	56	B

State	Governor	Score	Grade
North Carolina	Roy Cooper (D)	54	C
West Virginia	Jim Justice (R)	53	C
California	Gavin Newsom (D)	53	C
Montana	Steve Bullock (D)	53	C
Louisiana	John Bel Edwards (D)	53	C
Wisconsin	Tony Evers (D)	52	C
Missouri	Mike Parson (R)	52	C
New Mexico	Michelle Lujan Grisham (D)	51	C
Idaho	Brad Little (R)	51	C
Pennsylvania	Tom Wolf (D)	51	C
Maryland	Larry Hogan (R)	51	C
Delaware	John Carney (D)	51	C
Colorado	Jared Polis (D)	50	C
Hawaii	David Ige (D)	49	D
Utah	Gary Herbert (R)	49	D
North Dakota	Doug Burgum (R)	49	D
Rhode Island	Gina Raimondo (D)	49	D
Ohio	Mike DeWine (R)	49	D
Arizona	Doug Ducey (R)	49	D
Oklahoma	Kevin Stitt (R)	48	D
Massachusetts	Charlie Baker (R)	48	D
Maine	Janet Mills (D)	45	D
Minnesota	Tim Walz (D)	44	D
Connecticut	Ned Lamont (D)	43	D
Alabama	Kay Ivey (R)	42	D
Kansas	Laura Kelly (D)	41	D
Tennessee	Bill Lee (R)	40	D
Virginia	Ralph Northam (D)	39	F
New York	Andrew Cuomo (D)	39	F
Michigan	Gretchen Whitmer (D)	39	F
New Jersey	Phil Murphy (D)	32	F
Illinois	J. B. Pritzker (D)	30	F
Oregon	Kate Brown (D)	29	F
Washington	Jay Inslee (D)	18	F

He has proposed further reforms to cut individual and corporate income tax rates and signed into law property tax relief legislation in 2020.

- **Mark Gordon** experienced the boom-bust pattern of Wyoming finances as state treasurer, and he now manages the state budget as governor since 2019. Even before the nationwide recession, Gordon began trimming state spending as revenues in the energy-dependent state fell. He has not supported efforts in the legislature to impose a corporate

> income tax, which would undermine Wyoming's ability to rebuild its economy by attracting people and businesses as a haven free from income taxation.

All the governors receiving a grade of A in this year's report are Republicans, and all the governors receiving an F are Democrats. There have been some high-scoring Democrats in past Cato fiscal reports, but Republican governors tend to focus more on tax cuts and spending restraint than do Democrats.

The biennial Cato report has used the same grading method since 2008. Republican and Democratic governors, respectively, have had average scores of 55 and 46 (2008), 55 and 47 (2010), 57 and 43 (2012), 57 and 42 (2014), 54 and 43 (2016), and 55 and 41 (2018).

The pattern continues in the 2020 report. This time, Republican and Democratic governors had average scores of 56 and 45. Republicans received higher scores than Democrats, on average, on both spending and taxes, although the Republican advantage on taxes was greater than on spending, which was also the case in prior reports.

When the economy is growing and state coffers are filling up, Democrats tend to increase spending, while Republicans tend to both increase spending and cut taxes. During economic downturns, Democratic governors often pursue tax increases to balance their budgets, while Republicans put greater focus on spending restraint. We will see whether that pattern holds as governors and legislatures face tough decisions as they work to close large budget gaps in the months ahead.

Fiscal Policy Developments

Figure 1 shows state general fund spending since 2000, based on data from the National Association of State Budget Officers (NASBO).[4] After spending fell during the recession a decade ago, state budgets grew strongly until earlier this year. General fund spending grew at an annual average rate of 4.1 percent between 2010 and 2020, including increases of 5.5 percent in 2019 and 5.8 percent in 2020. The largest shares of general fund spending are for K–12 education (36 percent), Medicaid (20 percent), and higher education (10 percent).

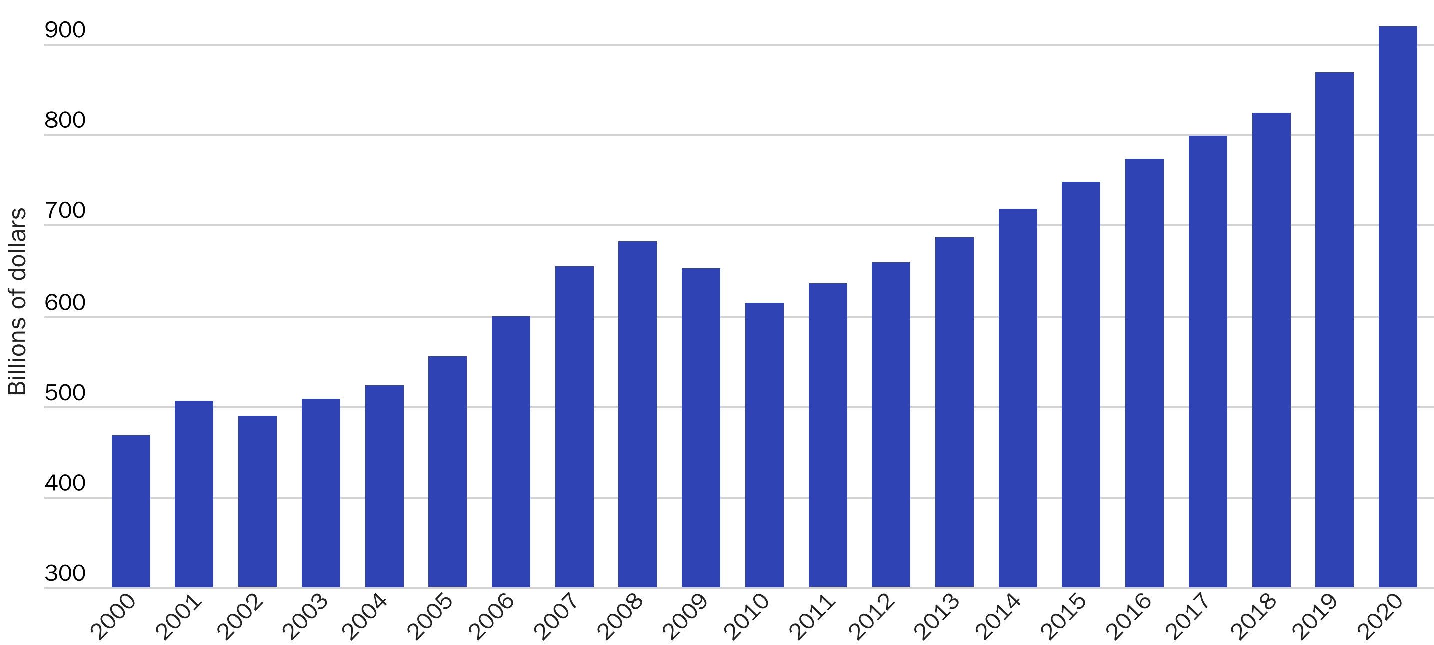
NASBO's most recent state survey in June found that the nation's governors had proposed to increase spending in fiscal 2021 a combined 2.8 percent. We used the June data in this report because they are comparable across the states and reflect parallel actions taken by the governors in proposing budgets for the coming fiscal year. Note that for 46 of the 50 states, fiscal years run July to June.[5]

However, the recession has reduced projected revenues, prompting many states to adjust spending downward for 2021. Governors and legislators have begun taking tax and spending actions to rebalance their budgets and will continue to do so in coming months. During the last recession, states passed a slew of tax increases and they cut general fund spending 10 percent between 2008 and 2010.

A September survey of 37 states by the National Conference of State Legislatures found that revenues are estimated to be down 10 percent in 2021 compared with pre-crisis projections.[6] Projections by the Tax Foundation and Tax Policy Center show similar projected declines.[7] Note that the percentage declines would be less when compared with the 2019 revenue totals.

To relieve budget pressures, the states have started tapping their rainy day funds, and they have received hundreds of billions of dollars in emergency aid from the federal government. State policymakers should also cut spending and rescind planned spending increases. They should view the downturn as an opportunity to prune excesses after a decade of growth and to find ways to increase efficiency, as private businesses do during recessions.

Figure 1
State general fund spending



Source: National Association of State Budget Officers, "Fiscal Survey of the States," Spring 2020. Fiscal years.

Some states will likely pursue tax increases in coming months, as many states did during the last recession. Indeed, even during the recent expansion, state governments enacted net overall tax increases every year from 2016 to 2020.[8] Cigarette tax increases have been popular with legislators, although the pace of increases has slowed as tax rates have reached high levels.[9] Gasoline tax increases also continue to be popular with legislators, with 31 states increasing their rates since 2013.[10]

State governments are turning to new sources of revenue. Prior to 2018, businesses were generally not required to collect online sales taxes unless they had a physical presence in a customer's state. But a U.S. Supreme Court ruling that year, *South Dakota v. Wayfair*, eliminated the physical presence rule, paving the way for states to aggressively expand sales tax collections from out-of-state, or remote, sellers. Nearly all states now require remote sales tax collections, although they have typically created a $100,000 exemption for sellers with limited sales in a state.[11] Online sales are currently 16 percent of overall U.S. retail sales.[12]

A few states are considering "digital advertising taxes," which would land on the estimated gross revenues of online advertisers in a state. Such taxes would be complex and are of dubious legality.[13] Maryland Governor Larry Hogan vetoed such a tax earlier this year, which would have raised about $250 million.[14] Policymakers in Nebraska and New York have also considered imposing these taxes.[15]

Gambling is a growing source of tax revenue. In 2018, the Supreme Court in *Murphy v. National Collegiate Athletic Association* overturned a 1992 federal law that had banned sports betting except in a few states.[16] Today, at least 20 states have enacted laws allowing sports betting and taxing it.[17] In 2020, for example, Michigan legalized sports betting and imposed a tax of 8.4 percent on gross betting receipts, and it also legalized internet gaming and imposed a tax on gross receipts of up to 28 percent.[18] In July, Louisiana enacted a law allowing parishes to impose an 8 percent tax on the net revenue of online fantasy sports betting contests, which had recently been legalized.[19]

A growing number of states are mandating that private employers provide paid leave, including California, Connecticut, Massachusetts, New Jersey, New York, Oregon, Rhode Island, and Washington State.[20] The new programs are all financed by payroll taxes on either employers or employees, but both approaches reduce after-tax wages over the long term. Three governors have signed these expensive programs into law since 2018—Ned Lamont of Connecticut, Charlie Baker of Massachusetts, and Kate Brown of Oregon—and their scores suffered on this report because of the large tax increases they imposed.

We take all tax actions into account in grading the governors in this report. Some actions broaden tax bases in sensible ways that improve neutrality, but governors should use the resulting revenue increases to reduce marginal tax rates and further improve economic efficiency. Revenue-neutral tax reforms that include reductions in top income and sales tax rates are scored favorably in this report.

In the following subsections, we discuss some of the tax and revenue options that state policymakers can pursue to balance their budgets during the current downturn, and we examine reforms to make state finances more stable over the longer term.

LEGALIZE AND TAX MARIJUANA

Recreational marijuana is now legal in Alaska, California, Colorado, Illinois, Maine, Massachusetts, Michigan, Nevada, Oregon, Vermont, Washington State, and the District of Columbia. Four other states—Arizona, Montana, New Jersey, and South Dakota—have measures on the ballot in November to legalize recreational marijuana. Virginia under Governor Ralph Northam decriminalized marijuana in 2020 and may soon legalize it.[21] Rhode Island's Governor Gina Raimondo has proposed legalizing marijuana in her state.[22] In Canada, recreational marijuana has been legal since 2018.

One incentive for states to legalize marijuana is to raise tax revenues. Most of the states with legal recreational markets impose excise taxes on the retail price, which range from 10 percent to 37 percent.[23] Numerous states impose taxes on growers, usually in addition to retail taxes. California, for example, imposes a 15 percent tax on the retail sales price plus taxes on growers based on plant weight. Illinois taxes marijuana based on THC content.

Some states impose their regular retail sales taxes on top of these product-specific taxes.

Colorado has the longest experience with a legal recreational marijuana market. It imposes a 15 percent retail tax and a 15 percent wholesale tax on the product. In 2019, the state raised $263 million, which was 2.1 percent of the state's general fund revenues.[24] Total general fund revenues for the 50 states in 2020 were $913 billion, so if all states legalize recreational marijuana and raise relatively the same amount as Colorado, the total would be about $19 billion annually.[25]

However, states should be careful not to impose heavy taxes or regulations on marijuana because that would harm industry entrepreneurs, suppress government revenues, and encourage the survival of a large black market.[26] Marijuana demand is responsive to taxation. One empirical study found that the "medium-run elasticity of demand for marijuana is higher than the consensus estimates for cigarettes or gasoline."[27] Unfortunately, a number of states appear to be imposing excessive taxes and regulations, and raising only a fraction of expected revenues while fueling black market sales.[28]

How should marijuana tax revenues be used? One option is to use them to reduce corporate income taxes, which are highly inefficient sources of revenue.[29] Another option during the recession is to use marijuana tax revenues to help close state budget gaps. Then, as the economy recovers, states could channel marijuana taxes into rainy day funds to help prepare for the next downturn. If a state raised about 2 percent of its general fund revenues from marijuana taxes, it could build a hefty rainy day fund over the next economic expansion. Currently, Nevada's 10 percent retail sales tax on marijuana goes into its rainy day fund, but other states use the revenues to fund new spending.[30]

The federal government should take steps to normalize marijuana markets by removing the product from the list of Schedule 1 drugs, legalizing interstate commerce in the product, allowing for normal banking transactions for the industry, and allowing marijuana businesses to deduct expenses on tax returns as other businesses do. By legalizing the industry, the federal government would help state governments convert black markets to normal markets and boost state tax revenues.

BAN COLLECTIVE BARGAINING TO CUT COSTS

The government workforce is heavily unionized. In 2019, 35 percent of state and local government workers were members of labor unions, which was far higher than the private-sector union share of 6 percent.[31] Most public school teachers and a large majority of officers in big city police departments are covered by collective bargaining agreements.[32]

The union share in state and local government workforces varies widely—from less than 10 percent in North Carolina to 73 percent in New York.[33] Union shares are related to state rules on collective bargaining. Three-quarters of the states have compulsory collective bargaining for at least some state and local workers, usually police, teachers, and firefighters.[34] At the other end of the spectrum, North Carolina prohibits collective bargaining in government altogether, as did Virginia until recently.[35] The rest of the states either prohibit collective bargaining in some parts of government or have no statewide mandates.

Union rules for public employees changed in 2018 when the U.S. Supreme Court decided *Janus v. American Federation of State, County, and Municipal Employees* (AFSCME). The court found that public employees cannot be forced to pay agency fees to a workplace union as a condition of employment. However, governments can still impose collective bargaining agreements, which are monopoly structures that restrict worker freedom and undermine efficiency and accountability.[36]

Government labor unions are in the spotlight in 2020 because of concerns about police misconduct. The killing of George Floyd by a Minneapolis police officer with a history of misconduct highlights how collective bargaining creates barriers to disciplining and firing bad officers. In the wake of Floyd's killing, the mayor of Minneapolis said that the "elephant in the room" on police reform is "the police union, the contract associated with that union, and then the arbitration that ultimately is necessary."[37]

Even when bad officers are fired, a *Wall Street Journal* analysis found that it is common under collective bargaining for arbitrators to reinstate them.[38] In Minnesota, "officers who are fired for misconduct or charged with criminal behavior often end up back on the force," the *Journal* found.[39] Numerous studies have found that collective bargaining is associated with higher rates of police misconduct and with rules that undermine accountability.[40] Similar problems are found in other unionized public-sector jobs. The layoff and firing rate of state and local workers is only about one-third the rate in the private sector.[41]

Labor unions also raise government costs, which policymakers should consider as they struggle to close budget gaps.[42] Half of the $3 trillion in total state and local government spending in 2019 was for employee compensation, so cutting these costs would go a long way to balancing state budgets.[43] Note that 29 percent of state spending consists of grants to local governments for schools and other activities, so labor cost savings in local governments would also reduce state government costs.[44]

In state governments nationwide, union member wages averaged 19 percent more than nonmember wages in 2019, while in local governments union wages averaged 30 percent more, according to the Bureau of Labor Statistics.[45] However, the states and their workforces differ in numerous ways that should be accounted for in comparing union and nonunion compensation.

Kevin O'Brien analyzed police and fire department pay data across the country, and controlling for various factors he found that departments with collective bargaining paid about 13 percent higher wages.[46] In another study, Bahman Bahrami, John Bitzan, and Jay Leitch found that unionized workers in local governments made about 15 percent higher wages than nonunionized workers in local governments, while unionized state workers made about 11 percent more.[47]

Sarah Anzia and Terry Moe studied the effects of collective bargaining on fire and police compensation.[48] They found for the 1992 to 2010 period that collective bargaining increased wages for fire department employees by 9 percent and benefits by 25 percent, while collective bargaining increased wages of police department employees by 10 percent and benefits by 21 percent.

Finally, Thom Reilly and Mark Reed surveyed 134 large local governments after the last recession to see how collective bargaining had affected government budget gaps.[49] They found that governments with collective bargaining were more likely to have raised compensation during the recession than other governments.

Aside from putting upward pressure on compensation, labor unions can raise costs by pushing for larger staffing levels, resisting the introduction of new technologies, and creating more rule-laden workplaces. Labor unions are also a lobby group inside government pushing for higher spending in general.

In a 2016 analysis, Heritage Foundation analysts using a variety of statistical methods found that states that had widespread collective bargaining for state and local employees spend $600 or more a year per capita than states that did not.[50] This suggests that if, say, New York adopted North Carolina's ban on collective bargaining, it would save about $10 billion a year, which is more than 10 percent of New York's general fund budget.

When workers have a choice, they tend to reject unions, which is why unionization in the U.S. private sector has plunged from more than 30 percent in the 1950s to 6 percent today. In the public sector, labor union shares have declined in recent years in a few states, such as Michigan and Wisconsin, that have narrowed union powers.

In sum, state governments facing budget challenges should reduce costs by repealing collective bargaining in the public sector. Government workers should be free to join voluntary associations of teachers, police officers, and other professional groups. However, repealing collective bargaining would give government agencies the flexibility they need to reduce workforce spending in today's tough budgeting environment.

BUILD RAINY DAY FUNDS

Economic downturns are a blow to the private sector and to governments. As the sales, profits, and incomes of businesses and individuals fall, government tax revenues are undermined. While the federal government can easily increase borrowing when its tax revenues decline, state governments operate within statutory and constitutional rules that require them to balance their general fund budgets.[51] When a recession hits, state governments often need to rebalance their budgets by raising taxes or reducing planned spending.

Another option for states during recessions is to tap their rainy day or budget stabilization funds. During boom years, the states typically save a portion of incoming tax revenues in such funds to be available in a downturn or crisis. All the states have rainy day funds, but they use a wide variety of rules and mechanisms for deposits into the funds and withdrawals.[52] Large rainy day funds are viewed favorably by bond rating agencies, which boosts state credit ratings and reduces borrowing costs.[53]

Going into the recession in 2020, rainy day fund balances totaled 8.7 percent of annual general fund spending for the states as a whole, which is substantially higher than the 4.8 percent going into the last recession in 2008.[54] Rainy day funds are a portion of "total balances," which are the accumulated state funds left over after expenditures. Total balances are a broader cushion for state budgets, and they averaged 12.1 percent of annual spending going into this recession.

The size of rainy day funds varies widely. In 2020, they totaled 10 percent or more of annual spending in 20 states, but they totaled less than 5 percent in 12 states.[55] Among these less-prudent states, New Jersey, Pennsylvania, Illinois, and Kansas had saved virtually nothing in their rainy day funds going into 2020, and that was after a decade-long economic expansion.

Some states learned a tough lesson from the recession a decade ago and adopted rules to beef up rainy day funds. California has a volatile tax base and suffered a 13.9 percent drop in state tax revenues in 2009 compared with the average drop across all states of 8.5 percent.[56] A California government report noted, "The personal income tax is highly volatile, which has in the past led to large increases in spending in good economic times and the need to make large cuts in bad economic times."[57] California voters recognized the problem and approved a ballot question in 2014 (Proposition 2) that created a more robust structure for the rainy day fund.[58] The report noted the double advantage of rainy day funds: "Proposition 2 takes volatile revenues off the table in good economic years so that they can be used to reduce the need for cuts in bad economic years."[59] The California rainy fund grew from 4.6 percent of annual spending in 2014 to 13.7 percent by 2020.[60] The state is in a better place today both because the reserve fund is available during the crisis and because additions to the fund during the boom years reduced spending.

Energy-producing states have also learned from experience. Those states tend to have boom-bust economies and rely on severance taxes (on resource extraction) for revenues, which makes governments vulnerable. Alaska, North Dakota, Texas, and Wyoming knew their vulnerability to downturns, planned ahead, and went into 2020 with robust rainy day funds.

In recent months, states have begun taking actions to rebalance their budgets for 2021, including freezing hiring, reducing wage increases, and postponing new initiatives. Many states have also begun tapping their rainy day funds. States that were prudent and built large rainy days will have an easier time budgeting over the next year or two. This year's crisis shows that states should plan ahead because recessions usually happen without warning.

REFORM TAXES TO INCREASE STABILITY

State governments raised $1.09 trillion in tax revenues in 2019. Individual income taxes were 38 percent of the total, general sales taxes were 31 percent, selective sales taxes were 16 percent, corporate income taxes were 5 percent, and other taxes were 10 percent.[61] To reduce the boom-bust pattern in their budgets as the economy fluctuates, state policymakers should move toward sources of tax revenue that are more stable across cycles.

Income tax revenues are generally more volatile than sales tax revenues.[62] During the last recession, from 2007 to 2009, state personal income tax revenues fell 12 percent, state corporate tax revenues fell 18 percent, and state sales and excise tax revenues fell 6 percent.[63]

An Urban Institute study looking at state revenues over recent decades found that "the corporate income tax tends to be the most volatile source of tax revenue; the personal income tax, which includes the highly unpredictable capital gains tax, is a close second."[64] A related problem is that forecasts of future income tax revenues are more error-prone than forecasts of sales tax revenues, and thus more problematic for states in planning their budgets.[65]

Examining state data from 1994 to 2019, economists Christos Makridis and Robert McNab estimated that a 1 percentage point change in employment changes sales taxes 1.19 percentage points, individual income taxes 1.63 percentage points, and corporate income taxes

4.13 percentage points.[66]

The Urban Institute study noted that states have become more dependent on volatile revenue sources since the 1970s as the share of revenues from income taxes has risen and the share from sales taxes has fallen.[67] A Federal Reserve study noted the same, and it also found that within the income tax base, investment income (dividends, interest, and capital gains) is more volatile than wage income.[68] In New York State, for example, "personal income tax volatility is attributable largely to the volatility of capital gains—a major source of income for top earners."[69]

Progressive personal income taxes that have higher rates on top earners can be more volatile than proportional or flat-rate systems. That is because a large share of top incomes is investment and business income, which fluctuates strongly with economic ups and downs. During the last recession, federal adjusted gross income of the top 1 percent of highest earners fell 34 percent between 2007 and 2009, compared with a 6 percent drop in adjusted gross income for the other 99 percent of taxpayers.[70]

The volatility of high-end incomes creates major problems for states that have progressive income tax structures. In California, the top 1 percent pays about 50 percent of state income taxes.[71] In 2019, income taxes accounted for 61 percent of California's overall state tax revenue, so when the investment and business income of the top 1 percent drops, it generates a major budget crisis.

In 2009, California's personal income tax revenues plunged 20 percent compared with a 9 percent fall in the other 49 states.[72] California's top personal income tax rate of 13.3 percent is the highest in the nation. An analysis by California's legislature found that the state's personal income tax revenues are about five times more volatile than overall personal income because of the income tax system's progressive rate structure and other tax design features.[73] Within income taxes, capital gains taxes are particularly volatile.[74]

Pew Charitable Trusts examined tax revenue volatility between 1998 and 2017 and found that California had the fifth highest volatility among the 50 states.[75] The three states with the most volatile tax revenues were energy producers that rely heavily on severance taxes. The state with the least volatility according to Pew was South Dakota, which does not have a personal income tax and relies on sales taxes for 83 percent of state tax revenues.[76] During the last recession, South Dakota's total state tax revenues dipped less than 2 percent and then started rising again.

Governor J. B. Pritzker spearheaded the effort to put a question on the Illinois ballot in November 2020 to change the state constitution and replace the state's single-rate 4.95 percent individual income tax with a system with six rates topping out at 7.99 percent.[77] An Illinois think tank modeled how this multirate system would have performed in previous years and found that it would have produced substantially more volatile revenues than a flat-rate system.[78]

To increase tax stability, states should transition away from individual and corporate income taxes and rely more on general retail sales taxes. It is true, however, that the current recession is somewhat different than past recessions because of the direct hit to retail sales created by virus-related business shutdowns. For 2021, the Tax Policy Center estimated that sales tax revenues will fall about the same percentage as individual income tax revenues, although the Tax Foundation estimated that income tax revenues would fall more.[79] Corporate tax revenues are very likely to fall more sharply than either individual income tax or sales tax revenues.

Aside from being a generally more stable revenue source, sales taxes are less harmful to economic growth than income taxes because they do not create a tax bias against saving and investment.[80] The Tax Cuts and Jobs Act of 2017 (TCJA) created a further incentive to move away from individual income taxes, particularly systems with progressive structures. The law capped the federal deduction for state and local taxes at $10,000, which increased taxes on many middle and higher earners living in high-tax states. The reform means that millions of households have more of an incentive to move to lower-tax states. As explored in a separate Cato study, state policymakers should rethink their tax codes because of today's heightened interstate tax competition.[81]

In sum, corporate income taxes and high-rate individual income taxes make less sense than sales taxes because of the greater volatility, larger economic harm, and increased threat from tax-driven interstate mobility.

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 2018, or since 2019 for governors who entered office that year. The spending data used in this study come from NASBO and, in some cases, from the budget documents of individual states. The data on proposed, enacted, and vetoed tax changes come from NASBO, the National Conference of State Legislatures, state budgets, and news articles.[82] Tax rate data come from the Tax Foundation and other sources.

This year's report uses the same methodology as the 2008, 2010, 2012, 2014, 2016, and 2018 Cato fiscal reports. The report focuses on short-term taxing and spending actions to judge whether governors take a small-government or a big-government approach to fiscal policy. Each governor's performance is measured using seven variables: two for spending, one for revenue, and four for tax rates. Their overall score is calculated as the average of their scores in these three categories. Tables A.1 and A.2 summarize the governors' scores.

SPENDING VARIABLES

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

REVENUE VARIABLE

3. Average annual dollar value of proposed, enacted, and vetoed tax changes. This variable is measured by summing the reported estimates of the annual dollar effects of tax changes as a percentage of a state's total tax revenues. For example, vetoing a $50 million tax increase would boost a governor's score the same amount as signing into law a $50 million tax cut. This is an important variable, and it is compiled from many news articles, budget documents, and reports.[83]

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 state populations that are growing at different rates. Also, the spending variables measure only the changes in general fund budgets, which is the portion of state budgets that governors have most control over. Variable 1 is measured through fiscal year 2021 and variable 2 is measured through fiscal 2020. Variables 3 through 7 cover changes from January 2018 to August 2020, or from January 2019 to August 2020 for governors who entered office in 2019.

For each variable, the results are standardized so that the worst scores are near 0 and the best scores are near 100. The scores for each of the three categories—spending, revenue, and tax rates—are calculated as the average score of the variables within the category, with one exception: the cigarette tax rate variable is quarter-weighted because that tax is a smaller source of state revenue than the other taxes measured in its category. The average of the scores for the three categories produces the overall grade for each governor.

MEASUREMENT CAVEATS

This report uses publicly available data to measure the fiscal performance of the governors from a small-government perspective, but there are imprecisions in such grading. The report cannot fully isolate the policy impact of governors from state legislatures, but to help separate the impact, variables 1 and 3 measure the effects of each governor's proposed, although not necessarily enacted, policies.

Another factor to consider is that the states grant governors differing amounts of authority over budget processes. For example, most governors can use 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 reflect each governor's fiscal approach. Governors who received a grade of A have focused on reducing tax burdens and restraining spending. Governors who received a grade of F have pursued government expansion. In the middle are many governors who oscillate between different fiscal approaches from one year to the next.

Table A.1

Spending and revenue changes

State	Governor	Spending score	Proposed changes in per capita spending (%)	Actual changes in per capita spending (%)	Revenue score	Changes in revenues from proposed and enacted tax changes (%)
Alabama	Kay Ivey (R)	26	4.9	6.5	52	0.7
Arizona	Doug Ducey (R)	28	4.1	7.2	69	-0.5
Arkansas	Asa Hutchinson (R)	56	3.7	1.9	58	0.2
California	Gavin Newsom (D)	58	1.0	5.4	52	0.7
Colorado	Jared Polis (D)	53	3.7	2.5	47	1.0
Connecticut	Ned Lamont (D)	66	2.9	1.1	14	3.3
Delaware	John Carney (D)	40	3.5	5.4	61	0.0
Florida	Ron DeSantis (R)	68	2.0	1.8	64	-0.2
Georgia	Brian Kemp (R)	75	2.3	0.0	59	0.2
Hawaii	David Ige (D)	37	5.0	3.9	61	0.0
Idaho	Brad Little (R)	43	3.6	4.8	61	0.0
Illinois	J. B. Pritzker (D)	46	3.7	4.0	0	7.9
Indiana	Eric Holcomb (R)	61	2.3	2.9	58	0.3
Iowa	Kim Reynolds (R)	60	2.6	2.6	78	-1.1
Kansas	Laura Kelly (D)	21	3.7	10.2	53	0.6
Louisiana	John Bel Edwards (D)	67	2.5	1.3	42	1.4
Maine	Janet Mills (D)	25	5.7	5.3	59	0.2
Maryland	Larry Hogan (R)	32	4.1	6.4	71	-0.6
Massachusetts	Charlie Baker (R)	49	2.1	5.5	44	1.2
Michigan	Gretchen Whitmer (D)	62	2.6	2.4	5	3.9
Minnesota	Tim Walz (D)	52	3.5	3.2	30	2.2
Missouri	Mike Parson (R)	35	5.2	4.1	61	0.1
Montana	Steve Bullock (D)	64	0.2	5.3	45	1.2
Nebraska	Pete Ricketts (R)	67	1.7	2.6	94	-2.3
Nevada	Steve Sisolak (D)	70	3.8	-2.0	53	0.6
New Hampshire	Chris Sununu (R)	80	0.5	1.5	87	-1.8
New Jersey	Phil Murphy (D)	46	2.7	5.4	29	2.3
New Mexico	Michelle Lujan Grisham (D)	78	2.0	-0.2	45	1.2

State	Governor	Spending score	Proposed changes in per capita spending (%)	Actual changes in per capita spending (%)	Revenue score	Changes in revenues from proposed and enacted tax changes (%)
New York	Andrew Cuomo (D)	20	5.5	6.9	47	1.0
North Carolina	Roy Cooper (D)	56	3.4	2.5	56	0.4
North Dakota	Doug Burgum (R)	35	4.4	5.3	64	-0.1
Ohio	Mike DeWine (R)	47	3.2	4.7	47	1.1
Oklahoma	Kevin Stitt (R)	32	4.1	6.4	62	0.0
Oregon	Kate Brown (D)	36	4.4	5.1	0	4.4
Pennsylvania	Tom Wolf (D)	48	3.4	4.1	56	0.4
Rhode Island	Gina Raimondo (D)	56	2.5	3.6	42	1.4
South Carolina	Henry McMaster (R)	45	4.7	2.9	73	-0.8
South Dakota	Kristi Noem (R)	65	0.8	4.1	62	0.0
Tennessee	Bill Lee (R)	15	4.5	9.9	56	0.4
Texas	Greg Abbott (R)	76	0.2	2.8	59	0.2
Utah	Gary Herbert (R)	43	2.3	6.7	54	0.6
Vermont	Phil Scott (R)	56	3.0	2.9	73	-0.8
Virginia	Ralph Northam (D)	37	4.3	5.1	33	2.0
Washington	Jay Inslee (D)	4	6.6	8.5	0	4.6
West Virginia	Jim Justice (R)	43	1.7	7.5	67	-0.4
Wisconsin	Tony Evers (D)	52	4.1	2.1	55	0.5
Wyoming	Mark Gordon (R)	96	-4.4	-0.2	53	0.6
Average of 47 states			***3.1***	***4.1***		***0.8***

Table A.2
Tax rate changes

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	Kay Ivey (R)	50	0.00	0.00	0.00	0
Arizona	Doug Ducey (R)	51	-0.04	0.00	0.00	0
Arkansas	Asa Hutchinson (R)	77	-1.00	-0.60	0.00	0
California	Gavin Newsom (D)	50	0.00	0.00	0.00	0
Colorado	Jared Polis (D)	50	0.00	0.00	0.00	0
Connecticut	Ned Lamont (D)	50	0.00	0.00	0.00	0
Delaware	John Carney (D)	50	0.00	0.00	0.00	0
Florida	Ron DeSantis (R)	50	0.00	0.00	0.00	0
Georgia	Brian Kemp (R)	50	0.00	0.00	0.00	0
Hawaii	David Ige (D)	50	0.00	0.00	0.00	0
Idaho	Brad Little (R)	50	0.00	0.00	0.00	0

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)
Illinois	J. B. Pritzker (D)	46	0.00	0.00	0.00	100
Indiana	Eric Holcomb (R)	50	0.00	0.00	0.00	0
Iowa	Kim Reynolds (R)	76	-0.45	-2.20	0.00	0
Kansas	Laura Kelly (D)	50	0.00	0.00	0.00	0
Louisiana	John Bel Edwards (D)	50	0.00	0.00	0.00	0
Maine	Janet Mills (D)	50	0.00	0.00	0.00	0
Maryland	Larry Hogan (R)	50	0.00	0.00	0.00	0
Massachusetts	Charlie Baker (R)	50	0.00	0.00	0.00	0
Michigan	Gretchen Whitmer (D)	50	0.00	0.00	0.00	0
Minnesota	Tim Walz (D)	50	0.00	0.00	0.00	0
Missouri	Mike Parson (R)	61	-0.50	0.00	0.00	0
Montana	Steve Bullock (D)	50	0.00	0.00	0.00	0
Nebraska	Pete Ricketts (R)	50	0.00	0.00	0.00	0
Nevada	Steve Sisolak (D)	50	0.00	0.00	0.00	0
New Hampshire	Chris Sununu (R)	54	0.00	-0.50	0.00	0
New Jersey	Phil Murphy (D)	20	1.78	1.50	0.00	0
New Mexico	Michelle Lujan Grisham (D)	32	1.00	0.00	0.00	34
New York	Andrew Cuomo (D)	50	0.00	0.00	0.00	0
North Carolina	Roy Cooper (D)	50	0.00	0.00	0.00	0
North Dakota	Doug Burgum (R)	50	0.00	0.00	0.00	0
Ohio	Mike DeWine (R)	54	-0.20	0.00	0.00	0
Oklahoma	Kevin Stitt (R)	50	0.00	0.00	0.00	0
Oregon	Kate Brown (D)	50	0.00	0.00	0.00	0
Pennsylvania	Tom Wolf (D)	50	0.00	0.00	0.00	0
Rhode Island	Gina Raimondo (D)	50	0.00	0.00	0.00	0
South Carolina	Henry McMaster (R)	50	0.00	0.00	0.00	0
South Dakota	Kristi Noem (R)	50	0.00	0.00	0.00	0
Tennessee	Bill Lee (R)	50	0.00	0.00	0.00	0
Texas	Greg Abbott (R)	50	0.00	0.00	0.00	0
Utah	Gary Herbert (R)	52	-0.05	-0.05	0.00	0
Vermont	Phil Scott (R)	54	-0.20	0.00	0.00	0
Virginia	Ralph Northam (D)	57	0.00	0.00	0.00	30
Washington	Jay Inslee (D)	50	0.00	0.00	0.00	0
West Virginia	Jim Justice (R)	50	0.00	0.00	0.00	0
Wisconsin	Tony Evers (D)	50	0.00	0.00	0.00	0
Wyoming	Mark Gordon (R)	50	0.00	0.00	0.00	0
Average of 47 states			***0.01***	***-0.03***	***0.00***	***3***

Note: These are the tax rate changes since 2018 that were approved by the governors. It excludes the expiration of prior temporary changes. The changes are the actual changes in the rates. For example, Asa Hutchinson cut Arkansas's corporate tax rate from 6.5 percent to 5.9 percent, so the table shows -0.60.

Appendix B: Fiscal Notes on the Governors

This section discusses the fiscal records of the 47 governors covered in the report. The discussions are based on the tax and spending data used to grade the governors as well as other information that sheds light on each governor's fiscal approach. All spending data discussed are from NASBO unless otherwise noted.[84] The grades are calculated based on each governor's record since 2018, or since 2019 if that year was the governor's first in office.

ALABAMA

Kay Ivey, Republican
Legislature: Republican
Grade: D
Took office: April 2017

Kay Ivey has been in Alabama government a long time. She was a reading clerk in the Alabama House of Representatives, an assistant director of the Alabama Development Office, the state treasurer, and the lieutenant governor. She was sworn in as governor in 2017 after the resignation of her predecessor, Robert Bentley, in a scandal.

Running for a full term in 2018, Ivey said she opposed tax increases.[85] Nonetheless, Ivey has raised some taxes, including by signing a bill in 2019 increasing Alabama's gas tax by 10 cents per gallon.

Ivey scored poorly on spending in this report. General fund spending increased 4.1 percent in 2019 and 9.7 percent in 2020. Ivey initially proposed a 6.5 percent spending increase for 2021, although the enacted increase was lower. Ivey has supported large increases in the state education budget but has opposed expanding Medicaid under the Affordable Care Act (ACA).[86]

ARIZONA

Doug Ducey, Republican
Legislature: Republican
Grade: D
Took office: January 2015

Doug Ducey has a background in business and finance and was the head of Cold Stone Creamery. Ducey has pro-market instincts on many policy issues. He has approved occupational licensing reforms, placed a moratorium on new regulatory rulemaking, and pushed back against minimum wage increases. However, Ducey scores poorly on this report because of large spending increases.

General fund spending increased 6.6 percent in 2019, and Ducey proposed increasing spending 8.7 percent for 2020, including spending on more than half a billion dollars of "new initiatives."[87] Ultimately, the governor approved an 11.5 percent spending increase for 2020.

Ducey has approved numerous tax cuts, including ending sales taxes on some business purchases, reducing insurance premium taxes, and indexing income tax brackets for inflation. In 2019, he signed into law income tax reductions that conformed the state's tax code to changes in the 2017 federal Tax Cuts and Jobs Act, while increasing the standard deduction, reducing the number of tax brackets, and trimming income tax rates. In 2020, Ducey called for eliminating taxes on military pensions.

Ducey has also increased taxes. The governor approved an extension of a sales tax surcharge to fund education in 2018.[88] He also imposed a new vehicle registration fee on Arizona drivers. The *Arizona Capitol Times* noted, "Ducey, who promised not to raise taxes while in office, maintains that it is a fee and not a tax," but that is a distinction with little difference.[89]

Arizonans are scheduled to decide on a ballot initiative in November (Proposition 208) that would raise income taxes 3.5 percentage points on high earners.[90] Ducey opposes the increase. Arizona voters will also have an opportunity to vote for Proposition 207, which would legalize and tax recreational marijuana. Ducey also opposes this measure.

ARKANSAS

Asa Hutchinson, Republican
Legislature: Republican
Grade: B

Took office: January 2015

Former U.S. congressman and federal official Asa Hutchinson entered the governor's office in 2015. He campaigned on tax cuts and has delivered.[91] The governor said in 2015, "Arkansas has been an island of high taxation for too long, and I'm pleased that we are doing something about that."[92]

Hutchinson approved income tax cuts in 2015 and 2017, mainly for lower- and middle-income taxpayers. In 2018, Hutchinson proposed further cuts including reducing the top individual income tax rate and offsetting the revenue losses with budget surpluses and closing narrow tax breaks.

In 2019, Hutchinson approved a series of tax reforms. The top individual income tax rate was cut from 6.9 percent to 6.6 percent, and the rate is scheduled to fall to 5.9 percent in 2021.[93] Six income tax brackets were consolidated into four. The corporate income tax rate is set to fall from 6.5 percent to 6.2 percent in 2021 and then to 5.9 percent in 2022.[94] The savings for taxpayers were partly offset in 2019 by a gas tax increase and base broadening in the sales tax.

CALIFORNIA

Gavin Newsom, Democrat
Legislature: Democratic
Grade: C
Took office: January 2019

Gavin Newsom is a former lieutenant governor of California and mayor of San Francisco. Newsom received a middling grade, but he did better than prior governor Jerry Brown who scored poorly on past Cato fiscal reports. The pace of spending growth has fallen under Newsom, compared with the 13.7 percent increase in Brown's final year. In Newsom's first year as governor, general fund spending increased 5.6 percent.

Newsom raised business taxes by more than $1 billion in 2019, including by limiting loss deductions. He signed into law additional large business tax increases in 2020, including sharply limiting the use of business tax credits and loss deductions for three years.[95] Imposing higher taxes on businesses during a recession is the wrong way to revive growth and get Californians back to work.[96]

Rather than raising taxes, California should reform its tax system to create greater revenue stability. During the last recession, state tax revenues fell 13.9 percent in 2009 compared with the average drop across all states of 8.5 percent.[97] A California government report noted, "The personal income tax is highly volatile, which has in the past led to large increases in spending in good economic times and the need to make large cuts in bad economic times."[98] One problem is that the state's top 1 percent of earners pay about 50 percent of all state income and capital gains taxes, but these tax revenues are highly variable.[99] California should move toward greater reliance on sales taxes and less reliance on income and capital gains taxes.

Fortunately, California entered the current recession in a better position than the last one. In 2014, voters approved Proposition 2, which created a more robust funding structure for the state's rainy day fund. The rainy day fund balance has grown from 4.6 percent of annual spending in 2014 to 13.7 percent by 2020.[100]

In November, voters will decide on a ballot initiative to raise taxes on commercial properties. If passed, the initiative (Proposition 15) will amend the state constitution to impose property taxes on commercial and industrial properties above $3 million in value using current market prices rather than purchase prices adjusted by a capped annual growth rate. The change would raise taxes up to $12 billion per year.[101] In September, the governor endorsed the huge tax hike, although this action came too late to be scored in this report.

COLORADO

Jared Polis, Democrat
Legislature: Democratic
Grade: C
Took office: January 2019

Jared Polis is a former U.S. House member from Colorado. He has a reputation as a moderate Democrat, and he scores about average on taxes and spending in this report.

General fund spending increased 3.7 percent in 2020, with the budget including initiatives to streamline programs and beef up the rainy day fund. The budget for 2021, passed in June, trims general fund spending by 3 percent and relies on one-time measures and tax increases to close a substantial budget gap.[102]

Polis has taken varying positions on the state's Taxpayer Bill of Rights (TABOR), which includes a mechanism that distributes surplus revenues back to taxpayers. In 2019, Polis supported retaining excess revenues and using them to boost spending on education and highways. However, voters rejected that idea at the ballot box in November 2019 (Proposition CC).[103]

Conversely, Polis celebrated a TABOR-triggered tax cut that temporarily reduced the individual income tax rate from 4.63 percent to 4.5 percent. He said, "As governor, I hope to deliver an economy next year and the years beyond that produces tax cut refunds more regularly."[104] Polis says that he supports reforming the tax code by eliminating loopholes and reducing income tax rates.

In 2020, Polis approved a bill (HB 1420) that increased business taxes, despite TABOR's requirement that voters need to approve tax increases.[105] Polis compromised on a version of the bill that will raise taxes about $100 million in 2021 after opposing a larger tax increase favored by Democrats in the legislature.[106]

Polis is also supporting an initiative on the November 2020 ballot to increase taxes on tobacco. If approved, the measure will phase in a cigarette tax increase of $1.80 per pack and raise $450 million over the first two and a half years.[107] Colorado voters rejected a tobacco tax increase at the ballot box in 2016 (Amendment 72).

Colorado voters will have a chance to vote on a tax cut in November 2020. If approved, Initiative 306 on the ballot would cut the state's flat individual and business income tax rate from 4.63 percent to 4.55 percent.

CONNECTICUT

Ned Lamont, Democrat
Legislature: Democratic
Grade: D
Took office: January 2019

Ned Lamont is a former cable television executive who has been active in state politics for years, including a failed run against Joe Lieberman for the U.S. Senate in 2006. Lamont's poor grade of D matches the poor grades of his predecessor, Dan Malloy, who never scored above a D on prior Cato fiscal reports.

Lamont scored well on spending but very poorly on taxes. Connecticut's economy has been sluggish for years, and with slow revenue growth Lamont and the legislature have had to restrain spending. Adding to Connecticut's problems is that pension and debt servicing costs "eat up nearly 30% of the General Fund—about three times what they consume in other state budgets."[108]

Lamont has opposed raising individual income tax rates, which is wise because Connecticut has been losing high-earning households to other states for years. Internal Revenue Service (IRS) data show that the state loses four taxpayers earning more than $200,000 to other states for every three that it gains.[109]

However, Lamont signed into law a mandatory paid leave program in 2019 that imposes a new wage tax on private employers in the state. The tax will raise more than $400 million a year beginning in 2021.[110] Lamont has approved numerous other tax increases, including extending an expiring corporate tax surcharge, increasing taxes on prepared foods, broadening the sales tax base, and imposing taxes on plastic bags. He also proposed higher sales taxes from broadening the tax base and a new tax on soda that would have raised about $160 million a year.[111]

Lamont has voiced his support for legalizing and taxing marijuana. In his 2020 state of the state address, he said, "like it or not, legalized marijuana is a short drive away in Massachusetts and New York is soon to follow."[112] He said he would support a proposal to legalize the drug and impose "a fair tax structure that will provide meaningful new state and municipal revenues."[113]

DELAWARE

John Carney, Democrat
Legislature: Democratic
Grade: C
Took office: January 2017

John Carney has had a long political career. Before entering office as governor, he was a member of the U.S. Congress, Delaware's lieutenant governor, and Delaware's secretary of finance. He also served on the staff of Joe Biden in the U.S. Senate.

On the last Cato fiscal report, Carney scored a D because of his support for tax increases, including increases on corporations, alcohol, and cigarettes. Carney also proposed a plan to raise individual income taxes, but that plan did not pass.

Carney has been more restrained on the tax front in recent years and only a few small tax changes have passed, thus boosting the governor's score on this report. However, Carney scored poorly on spending. Delaware's general fund budget rose 6.7 percent in 2019 and 6.3 percent in 2020.

FLORIDA

Ron DeSantis, Republican
Legislature: Republican
Grade: B
Took office: January 2019

Ron DeSantis served in the U.S. House from 2013 to 2018. His predecessor in the governor's office, Rick Scott, earned high grades on prior Cato fiscal reports, and DeSantis has continued Florida's fiscally conservative record.

DeSantis has been a lean budgeter. General fund spending rose just 3 percent in 2020, and in response to the recession this year, DeSantis vetoed $1 billion in spending from the legislature's original 2021 budget.[114]

DeSantis scored above average on taxes because of his support of numerous modest tax cuts. He signed legislation to extend a corporate tax cut that reduced the rate from 5.5 percent to 4.5 percent, and he approved a bill to avoid business tax increases related to changes in the federal TCJA. The governor has approved other breaks including sales tax holidays and a reduction in the state tax rate on commercial leases.

GEORGIA

Brian Kemp, Republican
Legislature: Republican
Grade: B
Took office: January 2019

Brian Kemp is an entrepreneur who has owned and invested in companies involved in agriculture, banking, manufacturing, and real estate. He was a state senator from 2003 to 2007 and Georgia's secretary of state from 2010 to 2018.

Kemp scored highly on spending in this report. Even with the growing economy last year, Kemp issued a directive for state agencies to come up with substantial budget cuts, saying, "I have instructed all state government offices to reduce expenditures and streamline operations through proactive leadership. By reducing waste and ending duplication in government, we can keep Georgia the best place to live, work, and raise a family."[115] The *Atlanta Journal-Constitution* noted, "Georgia's economy is still growing, but state agencies will have to look for ways to cut their budgets under a directive the Kemp administration sent out Tuesday. It is the first time budget cut proposals have been requested from agencies since the state was hammered by the aftereffects of the Great Recession nearly a decade ago."[116]

With this leadership, Kemp was able to restrain general fund budget growth to just 1 percent in 2020. That restraint has put the state in a better position this year because the recession has reduced available revenues. In June, Kemp announced that the 2021 budget will contain substantial across-the-board spending reductions.[117]

Regarding state revenues, Kemp expressed concern about scheduled reductions to the individual income tax rate, and the cut has been put off for now. The rate was cut from 6.0 percent to 5.75 in 2018 and was scheduled to fall to 5.375 percent in 2021.[118]

HAWAII

David Ige, Democrat
Legislature: Democratic
Grade: D
Took office: December 2014

David Ige pulled up his grade to a D this year after earning an F on the last Cato fiscal report. Prior to entering the governor's office, Ige was a state legislator and a manager in the telecommunications industry.

In his first few years in office, Ige proposed and signed into law increases in income taxes, sales taxes, gas taxes, hotel room taxes, and other charges. Since 2018, Ige has both raised taxes and vetoed tax increases. He approved a bill that created a higher estate tax rate bracket for the largest estates, and he also increased travel-related taxes.

In 2019, Ige vetoed two bills that would have raised taxes more than $50 million annually. One would have increased taxes on real estate investment trusts, which Ige argued would have discouraged investment. The other would have raised taxes on vacation rentals such as Airbnb.

Hawaii's general fund spending rose a hefty 5.7 percent in 2020, thus reducing the governor's score in this report.

IDAHO

Brad Little, Republican
Legislature: Republican
Grade: C
Took office: January 2019

Brad Little had a career in ranching, and he has served as state senator and Idaho's lieutenant governor.

Little received a C on this report. His grade was pushed down by a 7 percent increase in general fund spending in 2020. In 2018, Medicaid expansion was approved by voters at the ballot box as Proposition 2. At the time, Little took no position on the matter even though he was running for governor, and since expansion passed he has enthusiastically supported it.[119]

On taxes, Little has supported both cuts and increases, including expanding online sales taxes. Recently, Little and state legislators used $200 million of federal coronavirus relief funds to pay for local property tax cuts, which illustrates how states did not need some of the crisis-related cash they received from Washington.[120]

ILLINOIS

J. B. Pritzker, Democrat
Legislature: Democratic
Grade: F
Took office: January 2019

Billionaire J. B. Pritzker has been long involved in Democratic politics and is a member of the family that owns the Hyatt hotel chain. Governor Pritzker earns one of the lowest grades on this study due to his large tax increases.

Pritzker signed into law $2.7 billion in net annual tax increases last year. He increased the gas tax from 19 cents to 38 cents per gallon, hiked vehicle registration fees, increased the cigarette tax from $1.98 per pack to $2.98, and expanded online sales taxes. One good move, however, was enacting a phaseout of the state's corporate franchise tax, which is an unneeded burden on businesses in addition to the state's corporate income tax.

The big issue looming for Illinois taxation is whether voters this November will amend the state constitution to convert the state's flat individual income tax to a multirate (progressive) system. Pritzker is pushing hard in favor of the change.

The current income tax has a flat rate of 4.95 percent, and, if the amendment passes, legislation is in place to replace it with a six-rate system with a top rate of 7.99 percent. The plan to increase taxes on higher earners threatens to erode the tax base as people move out of Illinois to lower-tax states. IRS data show that Illinois loses two taxpayers earning more than $200,000 per year to other states for each one moving in.[121]

The tax-increase plan would also raise the corporate income tax rate from 9.5 percent to 10.49 percent.[122] Overall, the individual and corporate income plans would raise taxes by an enormous $3.9 billion a year.[123]

Even with all the state's budget woes—including high debt, unfunded obligations, and the lowest bond rating in the nation—Pritzker's 2021 budget proposed to increase general fund spending by 5.7 percent. Funding for the budget partly depends on borrowing funds from a Federal Reserve emergency program, which would put the state even further into debt.

INDIANA

Eric Holcomb, Republican
Legislature: Republican
Grade: B
Took office: January 2017

Eric Holcomb entered office in 2017 after a career in the U.S. Navy and numerous public positions, including being an adviser to former Indiana governor Mitch Daniels.

Holcomb scored poorly on the 2018 Cato fiscal report, mainly because of his support for tax increases. In 2017, he signed a transportation bill that increased the state's gas tax from 18 cents to 28 cents per gallon and imposed new fees on vehicle owners. Since then, Holcomb has approved further modest tax increases, including expanding taxes on online sales.

However, Holcomb scored well on spending. He has proposed lean budgets, and general fund spending rose an average of just 3.4 percent annually the past two years.

IOWA

Kim Reynolds, Republican
Legislature: Republican
Grade: A
Took office: May 2017

Kim Reynolds started her career in public service as a county treasurer. She also served as a state senator and lieutenant governor of Iowa, and then became governor after Terry Branstad stepped down to become the U.S. Ambassador to China.

Reynolds says that her politics are based on the ideas of limited government, personal responsibility, and individual initiative.[124] As governor, she has translated those beliefs into fairly lean budgeting and the pursuit of tax reform, earning her the second highest score on this report.

Reynolds signed into law a major tax reform in 2018. The legislation cut the top individual income tax rate from 8.98 percent to 8.53 percent. Contingent on revenue goals being met, the legislation drops the top rate to 6.5 percent in 2023 and collapses a nine-bracket system to four brackets. The law also cuts the top corporate income tax rate from 12 percent to 9.8 percent starting in 2021, while raising revenue from broadening online sales taxes. All in all, the cuts will initially save Iowans about $300 million a year and then rising amounts after that.[125]

In January 2020, Reynolds proposed a second round of tax reforms that would raise the retail sales tax rate by 1 percentage point and use the revenues to further cut income tax rates across the board. The reform would have amounted to a small overall tax reduction and would bring the top individual income tax rate down to 5.5 percent by 2023. Shifting away from a high-rate income tax to sales taxation would enhance revenue stability and support economic growth.

Unfortunately, the recession has shelved Reynolds' latest tax reform plan for now, as Iowa policymakers have changed their focus to spending restraint and the health crisis.[126]

KANSAS

Laura Kelly, Democrat
Legislature: Republican
Grade: D
Took office: Jan 2019

Laura Kelly served as the executive director of the Kansas Recreation and Park Association and has worked in mental health services. She served in the Kansas Senate and was the ranking member on the Ways and Means Committee.

Kelly came into the governor's office saying that she would stabilize the budget after her predecessor, Sam Brownback, had "wrecked" it.[127] Yet in her first year in office, Kelly oversaw a huge increase in general fund spending of 10.3 percent, which included increases on education, public safety, and infrastructure.[128] Those increases were ill-timed because the economic downturn in 2020 has made her program expansions less affordable. To rebalance the budget this year, Kelly has proposed to delay debt payments, use federal aid, and pursue one-time spending cuts.[129]

The 2017 federal tax reform (the TCJA) broadened the income tax base and boosted state revenues in states such as Kansas that automatically conform to changes in the federal code.[130] Republicans in the legislature called for offsetting the higher state tax revenues with adjustments to the Kansas tax code. But Kelly has resisted these measures, and she twice vetoed bills to offset the tax increases, even though she had campaigned in 2018 promising not to raise taxes.[131]

LOUISIANA

John Bel Edwards, Democrat
Legislature: Republican
Grade: C
Took office: January 2016

John Bel Edwards is a graduate of the U.S. Military Academy at West Point, and he served eight years with the U.S. Army as an airborne ranger. Edwards also served in the state legislature before being elected governor in 2015.

Edwards scored an F on the last Cato fiscal report because of his support for large tax increases, including a higher sales tax rate and higher taxes on alcohol, cigarettes, health care providers, vehicle rentals, and other items. In 2017, Edwards proposed a new gross receipts tax for the state, but fortunately the legislature shot that idea down.[132]

Edwards signed into law an extension of a higher sales tax rate in 2018, and he has approved an expansion in online sales tax collections. In July, Edwards approved a range of narrow business tax breaks designed to aid recovery from the recession.

MAINE

Janet Mills, Democrat
Legislature: Democratic
Grade: D
Took office: January 2019

Janet Mills served as attorney general for Maine before running for governor in 2018. Mills has a tough act to follow because her predecessor, Paul LePage, earned an A all four times he was graded on the Cato fiscal report.

Governor Mills scores poorly because of her support for substantial spending increases. The general fund budget rose 5.8 percent in 2020, with large increases for education and health care. On her first day in office, Mills approved the expansion of Medicaid under the ACA, which LePage had resisted agreeing to. Medicaid expansion will cost about $146 million over the first two years.[133]

MARYLAND

Larry Hogan, Republican
Legislature: Democratic
Grade: C
Took office: January 2015

Larry Hogan has enjoyed high favorability ratings in polls, and he has nudged Democrats in the legislature toward tax relief. Hogan scores well on taxes but poorly on spending.

Hogan has signed into law numerous modest tax cuts and resisted tax increases pursued by the legislature. In 2018, Hogan approved tax cuts to offset automatic tax increases created by the federal TCJA. In 2020, he proposed eliminating income taxes for retirees earning less than $50,000 and cutting taxes for retirees earning less than $100,000. Hogan noted: "We're losing many of our best citizens. . . . People who have been lifelong Marylanders, who have contributed so much and still have so much to offer, are moving to other states for one simple reason: our state's sky-high retirement taxes."[134] Hogan is correct that Maryland is, on net, losing seniors to other states.[135]

Hogan has vetoed a number of tax hikes passed by the legislature, including a new digital advertising tax and a $1.75 per pack increase in cigarette taxes. The downside of Hogan's tax policy approach is that he favors narrow breaks for individuals and businesses rather than pursuing major reforms aimed at simplifying the tax base and reducing overall rates.[136]

Hogan's grade was dragged down by his spending increases. Maryland general fund spending increased 9.7 percent in fiscal 2020. Much of the increased spending has gone to education and Medicaid expansion.

MASSACHUSETTS

Charlie Baker, Republican
Legislature: Democratic
Grade: D
Took office: January 2015

After a career in the health care industry and state government, Charlie Baker was elected governor in 2014. He scored poorly on this report mainly because of his support for a large payroll tax to fund a new paid leave program.

In originally running for office, Baker said that he would not raise taxes, but he has broken that promise many times. Baker signed into law a tax on short-term rentals, such as Airbnb, and he has approved increases in online sales taxes. He has proposed increasing taxes on ride-sharing services, such as Uber. And in 2020, Baker proposed "real-time" sales tax remittance to boost state revenues $300 million while raising compliance costs on businesses.[137]

Baker's largest tax increase came in July 2018, when he approved a 0.63 percent payroll tax on private employers to fund a new paid leave benefit.[138] The law increased taxes on workers in the state by $750 million or more a year.[139]

MICHIGAN

Gretchen Whitmer, Democrat
Legislature: Republican
Grade: F
Took office: January 2019

Gretchen Whitmer served in the Michigan House and the Michigan Senate before being elected governor in 2018. Whitmer scores poorly on this report because of her support for large tax increases.

When campaigning in 2018, Whitmer "scoffed at the idea" that she supported a gas tax hike in a televised debate, calling the accusation "ridiculous."[140] Despite that dismissal, Whitmer pushed hard for a gas tax increase her first year in office. Her plan would have increased the 26 cents per gallon tax by 45 cents over time to raise $2 billion annually. Polls found large-scale public opposition, and the plan did not pass the legislature.[141]

It is not clear why Michigan would need higher road funding. In 2015, lawmakers approved a huge tax-increase package to fund roads, and Michigan's population has been static at 10 million people for two decades. A Reason Foundation study ranked Michigan in the bottom half of states in highway spending efficiency, so Whitmer should focus on using current highway funds more efficiently.[142]

Whitmer approved an increase in online sales taxes and she proposed increasing taxes on passthrough businesses. In a flip-flop that is angering retirees in the state, Whitmer campaigned in 2018 on repealing a pension tax imposed by the prior governor, but now she seems to have dropped the idea.[143]

MINNESOTA

Tim Walz, Democratic-Farmer-Labor
Legislature: Divided
Grade: D
Took office: January 2019

Tim Walz is a former member of the U.S. House and served in the Army National Guard. He was elected governor in 2018.

Walz entered office when Minnesota was projected to have large budget surpluses going forward. Rather than save the excess or give it back to taxpayers, Walz planned to spend it and then increase taxes to fund even more spending.[144] Walz's budget "would add $2 billion more in new spending and taxes would increase by $1.3 billion to pay for it, with the rest of the money coming from an existing surplus."[145] But Walz had to compromise with the legislature and the final tax increase passed last year was about $330 million annually, mainly consisting of base broadening related to the federal TCJA.

Walz also pushed for higher gas taxes and vehicle fees to raise about $1 billion annually for transportation.[146] Fortunately for Minnesota taxpayers, the final budget abandoned those increases.

With the recession in 2020 and lower projected revenues, surpluses have switched to deficits. Lawmakers are now looking at a deficit of $4.7 billion for the 2022–2023 biennium.[147] Walz has had difficulty agreeing with the legislature on budget restraint and other important issues, such as police reforms in the wake of the George Floyd killing by a Minneapolis police officer in May 2020.[148]

MISSOURI

Mike Parson, Republican
Legislature: Republican
Grade: C
Took office: June 2018

Mike Parson is a veteran who served 6 years in the U.S. Army, followed by 22 years in law enforcement as a county sheriff. He served in the Missouri House and the Missouri Senate. He was the lieutenant governor, and was then sworn in as governor after his predecessor, Eric Greitens, resigned.

Soon after being sworn in, Parson signed into law a major tax reform. The reform, which was roughly revenue neutral overall, broadened the income tax base and reduced the top individual income tax rate from 5.9 percent to 5.4 percent.[149] Before he resigned, Greitens had signed into law a bill reducing Missouri's corporate tax rate from 6.25 percent to 4.0 percent.

Parson was less successful with another tax project in 2018. He argued in favor of a ballot initiative to increase the state gas tax by 10 cents per gallon. In November 2018, voters struck down the measure by a 54–46 margin.

General fund spending increased a robust 5.9 percent in 2020, but state leaders have shifted course to trim spending for 2021 because of the recession. Parson announced hundreds of millions of dollars in cuts to planned spending as revenue projections have fallen.[150]

MONTANA

Steve Bullock, Democrat
Legislature: Republican
Grade: C
Took office: January 2013

Steve Bullock is a long-time governor who received middling grades on previous Cato fiscal reports. He received a C in 2018, a C in 2016, and a D in 2014. In this report, Bullock scored above average on spending but below average on taxes.

In 2018, Bullock was a strong supporter of a ballot initiative (I-185) to increase cigarette taxes from $1.70 per pack to $3.70 per pack.[151] If it had passed, the increased revenue would have been used to fund the state's Medicaid expansion. Montana voters shot down the tax increase by a 53–47 margin, but Medicaid expansion has gone ahead nonetheless.[152]

NEBRASKA

Pete Ricketts, Republican
Legislature: Nonpartisan
Grade: A
Took office: January 2015

Pete Ricketts is an entrepreneur and a former executive with TD Ameritrade. He is a consistent fiscal conservative and earns the third highest score on this report. Since taking office in 2015, Ricketts' proposed budgets have been lean and general fund spending has risen at a modest 2.8 percent annual average rate.

Ricketts has pursued numerous tax cuts and tried to fend off tax increases, but he has been often stymied by the legislature. In 2015, Ricketts vetoed a gas tax hike, but the legislature overrode him to enact it. In 2017, Ricketts supported a tax overhaul that would have cut the top individual and corporate income tax rates. In his state of the state speech that year, the governor said, "If we want to outpace other Midwestern states, we have to be competitive on taxes."[153] Unfortunately, the legislature did not pass the plan.

In 2018, Ricketts proposed another plan to cut individual and corporate income tax rates, as well as limit local property taxes. The top individual tax rate would fall from 6.84 percent to 6.69 percent, while the corporate tax rate would fall from 7.81 percent to 6.69 percent. Again, the plan did not pass the legislature.

However, Ricketts did sign into law a major tax cut in 2018. The bill offset the tax-raising effects of the federal TCJA and provided Nebraskans with about $250 million in annual income tax relief.[154]

This year, Governor Ricketts approved a bill that exempts half of military retirees' benefits from state taxes. Ricketts has also been pursuing property tax relief, and this year he signed into law a package of income and franchise tax credits to offset property taxes for homeowners and businesses. That provides a partial solution to the state's problem of high property taxes, but the governor is right that the real long-term solution is local spending control.[155]

NEVADA

Steve Sisolak, Democrat
Legislature: Democratic
Grade: B
Took office: January 2019

Steve Sisolak chaired the Clark County Commission before running for Nevada governor in 2018. He is the highest-scoring Democrat in this report based on his record of keeping spending flat and avoiding major tax increases.

However, Sisolak did extend a higher rate for Nevada's modified business tax (MBT) in 2019, rather than allowing the rate to decline as scheduled. The MBT is complex, it creates uneven taxation across industries, and it is hidden from view of most voters since it is collected from businesses. It is a poor way for the state to raise revenues.

The MBT extension created a battle with Republicans in the legislature. Sisolak and the Democrats contended that the extension was not a tax increase and thus was not subject to Nevada's constitutional requirement of a two-thirds supermajority vote.[156] The Republicans argued that the tax extension was indeed unconstitutional.

In 2020, Sisolak supported a plan to make up for budget shortfalls by reducing the amount that mining companies can deduct from their taxes. The measure would raise about $55 million annually and hit businesses when they are already suffering from the downturn.

Finally, while Sisolak's spending score was higher than average, he signed a law in 2019 imposing collective bargaining in state government, which had previously been prohibited. That action will likely boost state spending for employee compensation in coming years.

NEW HAMPSHIRE

Chris Sununu, Republican
Legislature: Democratic

Grade: A
Took office: January 2017

Chris Sununu is a former business owner and executive, as well as a former member of the New Hampshire Executive Council. With his record of spending restraint and tax cuts, Sununu receives the highest score on this report.

Throughout his tenure, Sununu has resisted pressure to increase taxes and spending, and he has defended New Hampshire's status as a low-tax state with no individual income tax. A battle in recent years has been over a legislative plan to create a paid leave program funded by a new payroll tax. The payroll tax would be essentially an income tax, and its imposition would undermine New Hampshire's unique tax-friendly status in the Northeast. Republican Governor Charlie Baker in neighboring Massachusetts signed into law a paid leave program funded by a payroll tax in 2018.

In a gubernatorial debate in 2018, Sununu explained his opposition to a mandatory paid leave program and payroll tax: "It was an effective income tax. . . . I can't think of anything that would destroy the New Hampshire advantage more."[157] In 2019, Sununu vetoed a paid leave bill passed by the legislature that would have been funded by a 0.5 percent payroll tax. Sununu vetoed another version of the plan in 2020. Sununu supports reducing barriers for private provision of paid leave, but he is against a mandatory tax-funded program.[158]

While New Hampshire is free of an individual income tax, it does impose two major business taxes, the Business Profits Tax (BPT) and Business Enterprise Tax (BET). In 2017, Sununu signed legislation to cut the rates of both taxes. Over several years, the BPT rate was phased down from 8.2 percent to 7.7 percent and the BET phased down from 0.72 percent to 0.6 percent.

In 2019, the legislature passed a bill to halt the phased-in tax cuts. Sununu vetoed it, arguing that the move would "hurt our family-run small businesses, the lifeblood of our economy."[159]

NEW JERSEY

Phil Murphy, Democrat
Legislature: Democratic
Grade: F
Took office: January 2018

Phil Murphy worked at Goldman Sachs for more than 20 years and has been a major political donor.[160] He has served as finance chair of the Democratic National Committee and as U.S. ambassador to Germany. Unlike his predecessor in the governor's office, Chris Christie, who rejected tax hikes, Murphy has embraced them and receives one of the lowest scores on this report.

Murphy criticized the sales tax rate cut approved by Christie. He said that revenue losses from that cut prevented him from boosting funding for mass transit, college tuition, and other initiatives.[161] His first budget pushed to raise the sales tax rate to bring in more than $500 million a year, but the legislature rejected the plan.

In 2018, Murphy signed into law a surtax on corporations with incomes above $1 million. The surtax is 2.5 percent for 2018 and 2019, and then it drops to 1.5 percent for 2020 and 2021. At the higher rate, the surtax drained more than $400 million a year out of New Jersey businesses. In September, Murphy and the legislature were making a deal to extend the corporate surtax.

Murphy proposed and the legislature enacted a "millionaire's tax," which raises about $280 million a year. The law raised the tax rate on incomes above $5 million from 8.97 percent to 10.75 percent. Murphy has pushed to expand the millionaire's tax further, and in September he struck a deal to impose the 10.75 percent rate on incomes above $1 million.

Raising income taxes threatens to increase the flow of skilled people and small businesses out of the state. The head of the New Jersey Society of Certified Public Accountants said that Murphy's "proposal to expand the millionaire's tax will drive high-earning residents and their tax dollars out of the state and hurt small businesses that flow their income taxes through personal returns, while doing nothing to address New Jersey's ballooning pension liability."[162] IRS data for 2018 show that New Jersey already loses four taxpayers earning more than $200,000 a year to other states for every three moving in.[163]

Murphy has proposed other tax increases, including hiking the cigarette tax rate from $2.70 to $4.35 per pack to raise $220 million a year and imposing a "corporate responsibility fee" to raise $180 million a year.[164]

Like some other governors, Murphy imposes large overall tax increases, but then carves out narrow breaks for favored industries. For example, Murphy approved extending New Jersey's film and television tax credits and raising the annual cap for these special-interest breaks. Yet previously, Murphy had described New Jersey's business tax incentives as "a national embarrassment."[165]

Because of the recession, New Jersey is facing a large budget deficit and has little money in its rainy day fund. Instead of prudently cutting spending, Murphy signed a bill in 2020 allowing state officials to borrow up to $9.9 billion to cover the budget gap.[166]

NEW MEXICO

Michelle Lujan Grisham, Democrat
Legislature: Democratic
Grade: C
Took office: January 2019

Michelle Lujan Grisham previously served as secretary of health for New Mexico and was a U.S. House member from 2013 through 2018. Lujan Grisham's predecessor, Susana Martinez, received the top score on the 2018 Cato fiscal report. Unfortunately, Lujan Grisham has taken a different policy approach than Martinez.

New Mexico's spending was relatively flat for Lujan Grisham's first year in office, but in March this year she approved a budget increasing spending 7.5 percent in 2021.[167] The large increase turned out to be ill-timed with the health crisis and recession around the corner. In June, the governor and legislature agreed to roll back some of the increases.[168]

Lujan Grisham approved substantial tax increases her first year in office despite a large surplus at the time. She approved raising the top individual income tax rate from 4.9 percent to 5.9 percent in 2021 if state revenue growth is below a specified threshold.[169]

The governor also approved a cigarette tax hike from $1.66 to $2.00 per pack, imposed a tax on e-cigarettes, increased motor vehicle taxes, raised taxes on health care providers, expanded the taxation of online sales, and raised other taxes and fees.[170]

NEW YORK

Andrew Cuomo, Democrat
Legislature: Democratic
Grade: F
Took office: January 2011

For a while, Governor Andrew Cuomo was regarded as a centrist who reformed public pensions and approved business and individual income tax cuts. But in recent years, Cuomo has moved to the left on economic policies, and his grade dropped to an F on this Cato fiscal report.

In 2019, Cuomo approved a tax-hike package that included a five-year extension of "temporary" income tax increases on high earners to raise about $4 billion a year.[171] That was a mistake because federal reforms in 2017 limited the deductibility of state and local taxes, which increased the pain of state income taxes and encouraged New Yorkers to move out of the state.

New York has long suffered from domestic net out-migration, and the health crisis and recession in 2020 are likely to exacerbate the trend. IRS data in recent years show that New York loses two taxpayers earning more than $200,000 per year for every one moving in.[172] Cuomo himself noted that the top 1 percent of New Yorkers pays a huge share of the state's income taxes, so even a small out-migration of these individuals has a big impact on the state budget.[173] The governor should have done more to reduce the size of New York government so that tax rates can be cut.

A raft of tax increases pushed down Cuomo's score on this report. He approved an increase in the real estate transfer tax in New York City to raise $378 million per year and an expansion in online sales taxes to raise $250 million per year. He also approved a "congestion charge" in Manhattan that would raise hundreds of millions of dollars a year but is on hold for now.

Cuomo has also approved large increases in general fund spending. Spending increased 4.4 percent in 2019 and 8.6 percent in 2020. Under Cuomo from 2011 to 2020, general fund spending increased at a rapid 4.0 percent annual average rate—even though the state's population remained completely flat over that period.

NORTH CAROLINA

Roy Cooper, Democrat
Legislature: Republican
Grade: C
Took office: January 2017

Roy Cooper entered office in 2017 after serving as North Carolina's attorney general for 16 years. Cooper and the legislature have battled over taxes and spending. Cooper has vetoed dozens of bills, and the legislature has overridden many of them.[174] The governor has pushed for Medicaid expansion under the ACA, but that has been blocked by the legislature.[175]

In 2018, Cooper vetoed the state budget because it preserved scheduled reductions in the individual income tax rate from 5.5 percent to 5.25 percent and the corporate tax rate from 3.0 percent to 2.5 percent. Cooper wanted to retain higher rates to fund more spending, but the legislature overrode him.[176]

In 2019, Cooper and the legislature agreed on a bill that expanded online sales taxes but more than offset that tax increase by increasing the standard deduction under the individual income tax. However, Cooper and the legislature have disagreed on other tax cuts. Cooper vetoed a bill that would have reduced the state's franchise tax on businesses.

NORTH DAKOTA

Doug Burgum, Republican
Legislature: Republican
Grade: D
Took office: December 2016

Doug Burgum is a former entrepreneur and software company executive. He earned a grade of A on the last Cato fiscal report because he cut spending and did not raise taxes. However, as North Dakota state revenues increased, Burgum has presided over substantial spending increases.

When he first took office, Burgum needed to restrain spending as North Dakota's economy slowed as the energy industry sank. He downsized state spending during the 2017–2019 biennium. Then last year, revenues were growing again and North Dakota enacted a budget for the 2019–2021 biennium that included a two-year spending increase of 12.4 percent.[177] With the crisis this year, Burgum has switched back to restraint. He directed state agencies to identify cuts of up to 15 percent as they prepare their budgets for the next biennium.[178]

There have not been any major tax changes in recent years, but Burgum did weigh in on a proposed income tax cut in 2019. A bill proposed to divert a portion of future earnings from the state's Legacy Fund—a reserve fund built from energy tax revenues—toward income tax cuts. Burgum instead favored using the fund's earnings for spending projects.[179] He does not oppose an income tax cut but does not support diverting Legacy Fund earnings to facilitate it.

OHIO

Mike DeWine, Republican
Legislature: Republican
Grade: D
Took office: January 2019

Mike DeWine has been a prosecutor, a state senator, and a member of the U.S. House and U.S. Senate. He scored a bit below average on this report.

As soon as he entered office, DeWine called for a $1.2 billion per year tax increase for transportation. DeWine and the legislature ultimately agreed to a package that raised taxes by $865 million a year, including a gas tax hike from 28 cents per gallon to 38.5 cents. DeWine also approved tax increases on online sales and vape products.

However, DeWine also signed into law income tax cuts in 2019 to save Ohioans about $350 million annually. The reform reduced the number of individual income tax brackets, reduced tax rates slightly, and dropped the top rate from 4.997 percent to 4.797 percent.

OKLAHOMA

Kevin Stitt, Republican
Legislature: Republican
Grade: D
Took office: January 2019

Kevin Stitt is an accountant and an entrepreneur who founded a mortgage lending business before running for governor in 2018.

Stitt's predecessor in the governor's office, Mary Fallin, scored poorly on the 2018 Cato report because of her support for tax increases. During his campaign, Stitt rejected Fallin's endorsement, with a spokesperson saying that Stitt was "focused on changing the structure of state government and cleaning up the mess we are currently in at the Capitol."[180] On taxes, Stitt has reversed course from Fallin, and there have been no major tax increases on his watch.

Instead, Stitt's score was pulled down by spending increases. Oklahoma's general fund budget increased 6.8 percent in 2020. However, the crisis has forced the governor and legislature to shift their attention to budget restraint. The state budget for 2021 cuts spending for most agencies 2 to 4 percent and helps cover deficits with a withdrawal from the rainy day fund.[181] Also to his credit, Stitt opposed the costly expansion of Medicaid in his state, but the public disagreed and narrowly approved expansion by a 50.5–49.5 margin in a June 2020 ballot measure (Question 802).

OREGON

Kate Brown, Democrat
Legislature: Democratic
Grade: F
Took office: February 2015

Kate Brown, an attorney and former legislator, became governor in 2015 after Governor John Kitzhaber resigned during a corruption scandal. Brown received grades of F on both the 2016 and 2018 Cato fiscal reports, and she repeats that poor grade on this report. Even with the strong Oregon economy filling state coffers with rising revenues over the years, she has pressed for large tax increases to fund new initiatives.

Under Brown, general fund spending grew from $8.1 billion in 2015 to $11.0 billion in 2020, which amounts to an annual average growth rate of 6.2 percent. Since entering office, all her budgets have proposed large spending increases and the legislature has generally gone along.

Brown supported Measure 97 on the November 2016 ballot, which would have imposed a new gross receipts tax on businesses. Despite Oregon voters soundly defeating the measure by a 59–41 margin, Brown and the legislature went ahead and imposed the tax in 2019 anyway. The new tax is a "corporate activity tax" or CAT, which despite the name is imposed on all types of businesses.[182]

The CAT is imposed at a rate of 0.57 percent on gross receipts over $1 million plus a minimum tax of $250, and it will raise about $1.3 billion annually.[183] Only five other states have gross receipts taxes, which are complex, are imposed even on businesses losing money, and apply unevenly across industries.[184] Why do policymakers impose these harmful taxes? Because they are collected from businesses, and thus the burden is hidden from the view of most voters.

Brown has spearheaded an effort to put a cigarette tax increase on the November 2020 ballot. If approved, Measure 108 will increase cigarette taxes from $1.33 to $3.33 per pack and raise about $175 million a year. In 2007, a cigarette tax increase was rejected at the ballot box by Oregon voters by a 59–41 margin.[185]

In 2019, Brown approved a paid leave bill funded by a payroll tax of up to 1 percent of wages.[186] The program will go into effect in 2023 and cost workers hundreds of millions of dollars a year. Brown has also pressed to impose a cap-and-trade program for greenhouse gas emissions, which would act like a tax increase by raising the costs of energy and other products.[187] Republicans in the legislature have blocked that legislation so far.

PENNSYLVANIA

Tom Wolf, Democrat
Legislature: Republican
Grade: C
Took office: January 2015

Tom Wolf was elected governor after a career in business and short stints in state government. Wolf scores better on this Cato fiscal report than the F he received on the last one because spending has been more restrained and his recent tax increases have been smaller.

Wolf has pushed to impose a natural gas severance tax to raise about $250 million per year.[188] The new tax would be imposed on top of existing charges on the industry. A leader in the state senate opposed to the tax said that it would "stifle investment, chase away new jobs, and boost energy costs to consumers."[189]

In 2019, Wolf issued an executive order to bring Pennsylvania into the Regional Greenhouse Gas Initiative, a cap-and-trade program covering states in the Northeast.[190] One effect of the initiative will be to essentially impose a large tax increase in the form of higher energy prices.

This year, Wolf's budget called for greatly broadening the state corporate tax base while cutting the tax rate over five years. The proposal would require that businesses use combined reporting, under which all companies in a corporate group file on a single return, and it would limit business loss deductions. To partly offset the tax increases, the corporate tax rate would fall from 9.99 percent to 5.99 percent. If passed, the plan would raise taxes $240 million a year.[191]

RHODE ISLAND

Gina Raimondo, Democrat
Legislature: Democratic
Grade: D
Took office: January 2015

Gina Raimondo has a background in economics, law, and the venture capital industry. She has had a fiscally centrist record, but her score was undermined on this report by her support for a series of tax increases.

Raimondo has expanded taxes on online sales and online sports betting. She has supported increased hotel taxes, hospital fees, and real estate transfer taxes. However, she has also cut unemployment insurance taxes on businesses.

The governor approved cigarette tax increases in 2015 and 2017. And even with the current cigarette tax at $4.25 per pack, she proposed increasing the rate another 25 cents per pack this year.

In 2019, Raimondo approved a plan to impose a penalty on Rhode Islanders who do not have health insurance. The penalty, or tax, for uninsured households can be up to thousands of dollars per year.[192]

SOUTH CAROLINA

Henry McMaster, Republican
Legislature: Republican
Grade: B
Took office: January 2017

Before entering the governor's office, Henry McMaster served as lieutenant governor, attorney general, and U.S. attorney for the District of South Carolina. McMaster earned an A on the last Cato fiscal report. He has restrained spending, supported pension reforms, vetoed tax increases, and proposed income tax reforms.

In 2017, McMaster vetoed a transportation bill that phases in a 12 cents per gallon gas tax increase, but the legislature overrode him. One reason for McMaster's opposition was that one-quarter of the state's gas taxes are diverted to nonroad activities.[193]

In 2018, McMaster proposed cutting individual income tax rates across the board, with the cuts phased in over time. The bill would have provided $2.2 billion in tax relief over the first five years. In his state of the state speech, the governor said, "Taxes of all kinds at all levels add up—little by little—to smother growth. . . . We must respect the right of the people to their own money, for their own purposes, according to their own priorities."[194] The legislature declined to enact the proposal at the time.

McMaster pushed for tax cuts again in 2020. He proposed a one-time rebate for all taxpayers, a retirement income tax exemption for veterans and first responders, and a 1 percentage point reduction to all individual income tax rates. The aim of such tax rebates is to take surplus cash off the table so that it does not fuel increased government spending.[195]

SOUTH DAKOTA

Kristi Noem, Republican
Legislature: Republican
Grade: B
Took office: January 2019

Kristi Noem was a member of South Dakota's lower chamber and then served in the U.S. Congress from 2011 through 2018. As governor, Noem's fiscal conservatism is welcome after her predecessor, Dennis Daugaard, received an F on the 2018 Cato report. Noem has kept state spending relatively flat and has not supported any tax increases.

Noem has proposed two budgets. Both were lean, with proposed general fund spending increases averaging just 1 percent. Even with this year's crisis and recession, South Dakota wrapped up the 2020 budget with a surplus, and as of July the state was not expecting a substantial drop in revenues in 2021.[196]

The Supreme Court decision *South Dakota v. Wayfair* in 2018 paved the way for states to expand online sales tax collections. South Dakota policymakers had promised they would reduce a sales tax rate they had increased in 2016 if they could raise online sales taxes. Now that online sales tax revenues are rolling in, Noem is supportive of reducing the tax rate.

South Dakota has no individual or corporate income tax, and it raises 83 percent of state tax revenues from sales taxes, which has created a stable revenue base while encouraging inflows of people and investment. IRS data show that the state enjoys net domestic in-migration, while neighboring Iowa, Nebraska, North Dakota, and Wyoming suffer out-migration.[197]

Noem discussed South Dakota's fiscal advantages in her 2020 state of the state address:

> The taxes that we do have to fund state government are stable and predictable. . . . In addition to my commitment to not raising taxes, our constitution requires a two-third vote in both chambers to raise taxes. . . . Government in South Dakota lives within its means. We balance our budget without accounting gimmicks or tricks. . . . I'm proud of our AAA credit rating, and our state pension plan is fully funded. That means businesses that move here don't need to worry about surprise charges, fees, or taxes to make up for an unfunded pension plan like our neighbors in Illinois.[198]

TENNESSEE

Bill Lee, Republican
Legislature: Republican
Grade: D
Took office: January 2019

Bill Lee worked for and then headed the Lee Company from 1992 to 2016, which is a home services and construction company founded by his grandfather.

Lee scored poorly in this study because he has supported large spending increases. After presiding over a 10.8 percent general fund increase in 2020, Lee initially proposed a 7.3 percent increase for 2021. With the health crisis and recession this year, Lee and state legislators are now having to dial back those increases and dip into the state's rainy day fund.[199]

On taxes, Lee's track record has been mixed. He has approved increases in taxes on online sales and sports betting. But he has also signed legislation removing 15 occupations from Tennessee's privilege tax, which is a $400 annual tax on certain professionals, and has called for further cuts to the tax.[200]

TEXAS

Greg Abbott, Republican
Legislature: Republican
Grade: B
Took office: January 2015

Greg Abbott was the attorney general of Texas from 2002 through 2014 before assuming the governorship. As in prior Cato fiscal reports, Abbott scores highly on this report.

Abbott has supported tax cuts and opposed tax increases. In 2019, Abbott signed a bill imposing a 3.5 percent cap on property tax revenue increases for cities and counties. The law creates a shield for homeowners and businesses against big-spending local governments.

Texas does not have an individual income tax, but until recently its legislature had been constitutionally permitted to enact one. Abbott pushed for a state constitutional amendment to ban an income tax in his 2018 reelection campaign, and the legislature passed a bill in 2019 putting the question (Proposition 4) on the November 2019 ballot. Texas voters resoundingly supported the prohibition by a 74–26 margin. If future Texas legislatures want to impose an income tax, they will need to amend the constitution, which would require a two-thirds majority in both House and Senate.

UTAH

Gary Herbert, Republican
Legislature: Republican
Grade: D
Took office: August 2009

Gary Herbert is the nation's longest-serving governor. His grades on Cato fiscal reports have been quite poor.

Spending has soared under Herbert. Since 2010, Utah's general fund spending has risen at an annual average growth rate of 6.0 percent, which is a remarkable pace to sustain for a decade. Spending rose 12.4 percent in 2019 and 4.6 percent in 2020.

Herbert supported a ballot measure (Question 1) in November 2018 to hike the gas tax by 10 cents per gallon to raise $180 million.[201] Utah voters shot down the measure by a 65–35 margin. However, Utah voters that November approved Proposition 3, which increased the sales tax rate from 4.7 percent to 4.85 percent to fund Medicaid expansion under the ACA. The legislature and governor subsequently enacted a modified version of the expansion aimed at reducing the cost.[202]

The governor signed into law a major tax reform in 2019 aimed at boosting slow-growing sales tax revenues. The reform broadened the sales tax base by including more goods and services, and it reduced individual and corporate income tax rates from 4.95 percent to 4.66 percent. Overall, the reform was a net tax cut of about $160 million a year.[203] Herbert signed the bill into law in December 2019.

However, the law created a backlash and Herbert and the legislature reversed course and repealed the tax changes a month later. Public opposition to the changes—particularly higher sales taxes on groceries—were mounting, and it looked likely that a referendum to repeal the bill would be on the November 2020 ballot. That prompted lawmakers to act. Herbert said, "We decided the best course of action, reflecting the will of the people, is in fact to go back and push the restart button."[204]

VERMONT

Phil Scott, Republican
Legislature: Democratic
Grade: B
Took office: January 2017

Phil Scott came to the governor's office after serving as a state senator and Vermont's lieutenant governor. He is also a former small business owner. Scott has battled with the Vermont legislature in his efforts to restrain taxes and spending, and he has issued numerous vetoes. He has been a frugal budgeter: general fund spending rose at an annual average rate of just 2.4 percent between 2017 and 2020.

In 2018, Scott clashed with the legislature over property taxes to fund schools. He vetoed two budget bills that contained property tax increases before letting a third pass without his signature.[205] Unlike in most states, where property taxes are mainly local, in Vermont the state government collects about two-thirds of property taxes.[206] Instead of tax increases to fund schools, Scott proposed to save money by reducing the number of school support staff.

Scott ensured that Vermonters did not get hit by a state tax increase in 2018 as the federal TCJA broadened the income tax base. He signed a bill that conformed to the federal changes but also cut individual income tax rates across the board, reduced the number of tax rate brackets, and cut the top rate from 8.95 percent to 8.75 percent, saving taxpayers $30 million a year overall.

In 2018, Scott vetoed a bill to impose a paid leave program funded by a new payroll tax. In 2020, Scott again vetoed a paid leave program funded by a payroll tax, which would have cost workers about $29 million a year. In his veto message, Scott said, "Vermonters have made it clear they don't want, nor can they afford, new broad-based taxes. . . . We cannot continue to make the state less affordable for working Vermonters and more difficult for employers to employ them—even for well-intentioned programs like this one."[207] Scott has proposed an alternative plan that would be voluntary for private-sector employers.

In 2018, Scott approved a bill passed by the legislature to legalize marijuana. Vermont is the first state to legalize recreational marijuana through legislation rather than by popular initiative.[208] The state has not yet set up a legal market but bills to establish a market and to tax marijuana are being debated in the legislature.[209]

Finally, Scott has defended Vermont's economy against proposals for a carbon tax and a minimum wage increase. In his 2020 veto message on a minimum wage hike, Scott said, "Despite . . . good intentions, the reality is there are too many unintended consequences and we cannot grow the economy or make Vermont more affordable by arbitrarily forcing wage increases. . . . I believe this legislation would end up hurting the very people it aims to help."[210]

VIRGINIA

Ralph Northam, Democrat
Legislature: Democrat
Grade: F
Took office: January 2018

Before entering the governor's office in 2018, Ralph Northam was a U.S. Army doctor, a pediatric neurologist, a state senator, and the lieutenant governor of Virginia.

Northam receives an F because of his low scores on both taxes and spending.

Virginia's general fund spending increased 4.9 percent in 2019 and 6.1 percent in 2020. In 2018, Northam approved the expansion of Medicaid under the federal ACA. To pay for the expansion, Northam approved two new assessments on hospitals that together will raise more than $500 million a year.[211]

Northam has raised other taxes. In 2019, he signed a bill to conform to the broader federal income tax base under the TCJA. For the first year, Northam agreed to a Republican plan to return the increased revenues to taxpayers through a rebate, but in later years Virginians will owe more than $400 million more in annual taxes.

In 2020, Northam approved two large tax increases. He signed into law a statewide gas tax increase of 10 cents per gallon and additional increases in some regions of the state, combined with higher vehicle fees to raise about $250 million a year. He also signed into law a cigarette tax increase of 30 cents per pack to raise $120 million a year.[212] Northam's F on this report is well deserved.

WASHINGTON

Jay Inslee, Democrat
Legislature: Democratic
Grade: F
Took office: January 2013

Jay Inslee received an F on Cato fiscal reports in 2014, 2016, and 2018, and did so again in this 2020 report. His appetite for spending increases is insatiable, and paying for all the increases has driven him to push nonstop for tax hikes.

Under Inslee, state general fund spending rose 16 percent in the 2018–2019 biennium.[213] He proposed a 17 percent increase for the 2020–2021 biennium and the final increase was even higher.[214] This year, with revenues lower than projected because of the recession, Inslee and lawmakers are resisting spending reductions and considering more tax increases.[215]

When Inslee originally ran for the governor's office, he promised not to raise taxes, but then in his first budget he proposed more than $1 billion in hikes.[216] Since then he has proposed or approved myriad new and increased taxes on energy, capital gains, tobacco, businesses, real estate transactions, and online sales.

A ballot initiative to impose a carbon tax in 2016 was rejected by a 59–41 margin, but that failure did not slow Inslee down. In 2018, he proposed a new carbon tax plan to raise about $780 million a year.[217] Washington voters defeated that tax at the ballot box in 2018 (Initiative 1631) by a 57–43 margin.

In 2018, Inslee proposed enacting a capital gains tax with a 9 percent rate. The tax would have raised more than $900 million a year, but it did not pass the legislature. In 2019, Inslee signed legislation creating a new payroll tax. The 0.58 percent tax on wages is expected to raise about $1 billion a year and fund a long-term care program.[218]

There were more tax increases in 2019. Inslee signed into law a $170 million a year increase in the state's real estate excise tax, which is a tax on the sale of property.[219]

Then Inslee signed into law a surcharge on the state's gross receipts tax (the "business and occupation" tax) to raise about $360 million a year. Higher rates were imposed for banks and 43 other industries including "software development, engineering, investment-related services, and independent medical practices. The legislation applies even higher surcharges to some advanced computing businesses."[220] Most states want to attract high-tech businesses, not scare them away, so imposing these punitive taxes seems bizarre.

In 2020, state lawmakers became concerned that the high-tech business surcharges would be too difficult to administer, so they passed a new bill to simplify the surcharges—and those changes raised yet another $117 million a year.[221]

WEST VIRGINIA

Jim Justice, Republican
Legislature: Republican
Grade: C
Took office: January 2017

Before being elected governor, Jim Justice was an entrepreneur who built farm businesses, coal businesses, and many other companies. With a net worth of about $1.5 billion, he is West Virginia's richest person. Justice was elected as a Democrat in November 2016, but he switched to the Republican Party in August 2017.

Justice received an F on the 2018 Cato fiscal report, mainly for raising taxes. On the campaign trail, Justice implied that he would not raise taxes, but in his first budget he proposed tax hikes of $400 million annually.[222] However, Justice has reversed course the past couple of years and proposed and approved tax cuts.

In 2018, he proposed cutting the state's high property taxes on machinery, equipment, and inventory, which create a barrier to investment in manufacturing.[223] And in his 2019 state of the state address, Justice argued that the state's large surpluses at the time should be returned to the people through tax cuts.[224]

Justice proposed exempting Social Security benefits and military retirement income from the individual income tax. The legislature followed through with that reduction, saving taxpayers $25 million a year. Justice has also approved numerous tax cuts on the energy industry.

WISCONSIN

Tony Evers, Democrat
Legislature: Republican
Grade: C
Took office: January 2019

Tony Evers has a background in education and served as the head of public schools in Wisconsin for 10 years. Evers scores about average among the governors on both taxes and spending.

Evers has pursued different priorities than Wisconsin's GOP-controlled legislature. He has wanted to boost education spending, expand Medicaid under the ACA, hike the gas tax, and increase the state's minimum wage. The legislature has opposed those policies and sought middle-class tax cuts.

In 2019, the governor agreed to cut income tax rates for the middle class while increasing vehicle fees, for an overall net tax reduction of more than $100 million a year. In 2020, Evers vetoed a bill that would have used a budget surplus to cut taxes further and to pay off some state debt.[225] Evers had wanted, instead, to use the surplus to increase education spending.

Wisconsin policymakers should keep in mind that their state has seen an increase in net migration from neighboring Illinois over the past decade.[226] Wisconsin has a somewhat lower tax burden than Illinois as well as other policy advantages, and Illinois has become probably the worse-run state in the nation in terms of finances.

WYOMING

Mark Gordon, Republican
Legislature: Republican
Grade: A
Took office: January 2019

Mark Gordon served Wyoming as state treasurer before running for governor in 2018. He has overseen a reduction in state spending as tax revenues have fallen and he has avoided substantial tax increases.

Severance tax revenues from oil, gas, and coal extraction have been drifting downward in Wyoming for a decade.[227] In 2019, they accounted for about one-third of state tax collections, and then collections plunged in 2020. Also, income from the Permanent Wyoming Mineral Trust Fund—which accounts for about one-fifth of general fund resources—has fallen recently as well.[228] The fund was built over the years from a portion of severance tax revenues.

As revenues have fallen, Gordon and the legislature have made substantial spending cuts. Wyoming general fund spending was cut from $3.3 billion in the 2019–2020 biennium to $3.0 billion in the 2021–2022 biennium, a 9 percent reduction.[229]

On taxes, Gordon has supported Wyoming's status as one of the few states without either an individual or corporate income tax. There is a movement in the legislature to create a corporate income tax. In 2019, a plan to impose a 7 percent corporate income tax on certain industries would have raised about $45 million annually.[230] Gordon was not supportive of the plan, and while it passed the House it fortunately died in the Senate.[231]

Gordon did sign into law an increase in the state's lodging tax, but he has mainly focused on spending cuts to tackle Wyoming's large budget deficits.

Notes

1. For governors elected in the fall of 2018, the data cover the period January 2019 to August 2020.

2. Paige Jones, "Paid Family Leave Dominates Gubernatorial Debate," *Tax Notes State*, October 29, 2018.

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4. National Association of State Budget Officers, "Fiscal Survey of States." Spring 2020. These are fiscal years. The figure for 2020 is a NASBO estimate.

5. The exceptions are Alabama and Michigan (October to September), New York (April to March), and Texas (September to October). Most states have annual budgets; some states have biennial budgets with annual budget sessions; and just four states (Montana, Nevada, North Dakota, and Texas) have biennial budgets and biennial sessions. For these four states, the annual NASBO spending data used in this report may not reflect budget choices in a fully parallel manner to the other states.

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17. Ulrik Boesen, "Sports Betting Might Come to a State Near You," Tax Foundation, March 3, 2020.

18. Aaron Davis, "State Legalizes and Taxes Sports Betting, Internet Gaming," *Tax Notes State*, January 6, 2020.

19. Jennifer Kay, "Louisiana Governor Approves 8% Fantasy Sports Betting Tax Rate," *Bloomberg Tax*, July 14, 2020.

20. A Better Balance, "Comparative Chart of Paid Family and Medical Leave Laws in the United States," July 1, 2020. See also National Conference of State Legislature, "Paid Family Leave Resources," July 21, 2020.

21. Ben Adlin, "Virginia Lawmakers Announce Plans to Legalize Marijuana, One Day after Decriminalization Takes Effect," Marijuana Moment, July 3, 2020.

22. Kyle Jaeger, "Rhode Island Governor's Budget Includes Legal Marijuana Sales in State-Run Stores," Marijuana Moment, January 16, 2020.

23. Federation of Tax Administrators, "Status of State Taxation/Sales of Marijuana," August 26, 2020, http://m.taxadmin.org/marijuana.

24. Larson Silbaugh, "Marijuana Tax Revenue in the State Budget," Colorado Legislative Council Staff Memorandum, December 6, 2019.

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27. Benjamin Hansen, Keaton Miller, and Caroline Weber, "The Taxation of Recreational Marijuana: Evidence from Washington State," National Bureau of Economic Research Working Paper no. 23632, July 2017.

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44. U.S. Bureau of Economic Analysis, National Income and Product Accounts, Table 3.20, https://apps.bea.gov/itable/index_nipa.cfm.

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tax changes were valued at one-quarter the value as permanent tax changes.

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