

# Policy Analysis

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## *Fiscal Policy Report Card on America's Governors: 2008*

by Chris Edwards

### Executive Summary

Revenue poured into state governments as the U.S. economy expanded between 2003 and 2007, prompting the nation's governors to expand state budgets and offer the occasional tax cut. But now that the economy has slowed and revenue growth is down, governors are taking various actions to close rising budget deficits.

This ninth biennial fiscal report card examines the tax and spending decisions made by the governors since 2003. It uses statistical data to grade the governors on their taxing and spending records—governors who have cut taxes and spending the most receive the highest grades, while those who have increased taxes and spending the most receive the lowest grades.

Three governors were awarded an “A” in this report card—Charlie Crist of Florida, Mark Sanford of South Carolina, and Joe Manchin of West Virginia. Eight governors were awarded an “F”—Martin O'Malley of Maryland, Ted Kulongoski of Oregon, Rod Blagojevich of Illinois, Chet Culver of Iowa, Jon Corzine of New Jersey, Bob Riley of Ala-

bama, Jodi Rell of Connecticut, and C. L. “Butch” Otter of Idaho.

Republican governors, on average, received slightly higher grades than Democratic governors. More importantly, there has been a disappointing lack of major spending reforms among governors of both parties in recent years. State tax policies have also been uninspiring. Most tax cuts pursued by the governors have been small and targeted breaks, not broad-based rate cuts that can foster economic growth.

Fiscal policies need to be improved if the states are to meet the huge challenges ahead. Medicaid costs continue to rise, state debt is soaring, and the pension and health care plans of state workers have huge funding gaps. At the same time, rising international tax competition makes it imperative that states cut tax rates to attract jobs and investment. Governors don't have an easy job, but they do need to pursue more aggressive fiscal reforms to meet the challenges of an increasingly competitive economy.

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*Chris Edwards is director of tax policy studies at the Cato Institute and coauthor of Global Tax Revolution (2008).*

**State tax revenues increased at an average annual rate of about 6.5 percent between 2003 and 2008.**

## Introduction

Governors play a key role in the fiscal policymaking of state governments. They propose budgets, recommend tax changes, and sign revenue and spending changes into law. During booms when revenues are rising rapidly, they can cut tax rates to sustain economic growth, or they can use surpluses to expand government programs. During slowdowns when budget deficits appear, governors can restrain spending or they can increase tax rates to fund continued program growth.

This report card covers the period from 2003 to 2008, and thus includes periods of both economic growth and slowdown.<sup>1</sup> State tax revenues increased at an average annual rate of about 6.5 percent between 2003 and 2008.<sup>2</sup> State general fund spending rose at an average annual rate of about 6.2 percent between 2003 and 2008.<sup>3</sup> However, with the slowing U.S. economy, spending growth is expected to be much lower in 2009, as shown in Figure 1.

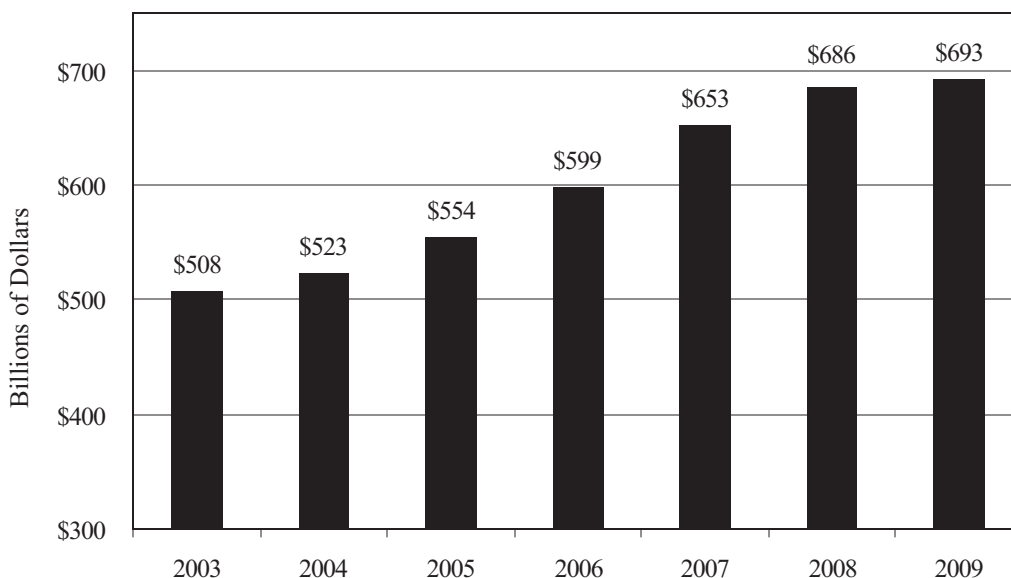
Of the 50 current governors, the largest group took office in 2003, and most of the

rest took office in 2005 and 2007. This report rates the governors on their tax and spending actions back to 2003, or to their first year in office after 2003. The report excludes the governors of Kentucky, Louisiana, and New York because they entered office just this year. And, as in prior report cards, the governor of Alaska was excluded because of peculiarities in that state's budget that make interstate comparisons problematic.

The report card grades the governors on their fiscal performance from a limited-government perspective. The governors receiving an "A" are those who cut taxes and spending the most, while the governors receiving an "F" raised taxes and spending the most. The grading mechanism is based on seven variables, including two spending variables, one revenue variable, and four tax rate variables.

Tax and spending data for the report came from the National Association of State Budget Officers, the National Conference of State Legislatures, the Tax Foundation, the budget agencies of particular states, and news articles in *State Tax Notes* and *www.state line.org*.

**Figure 1**  
**State General Fund Spending**



Source: National Association of State Budget Officers, "The Fiscal Survey of States," June 2008, and prior issues. Fiscal years. Fiscal 2008 and 2009 are NASBO estimates.

The following section reviews the records of the highest-scoring and lowest-scoring governors, and then discusses some interesting patterns that emerged from the analysis. After that, the outlook for state fiscal policy is discussed, focusing on the coming crisis in state debt and unfunded obligations. Appendix A discusses the report card methodology, and Appendix B provides a brief summary of the fiscal record of each governor.

## Main Results

Table 1 presents the overall grades for the governors. Scores ranging from 0 to 100 were calculated for each governor based on seven tax-and-spending variables, and then those scores were converted to the letter grades A to F.

### Highest-Scoring Governors

The highest-scoring governors are those that proposed or signed into law major tax cuts, recommended budget restraint, and kept spending growth to a minimum. Here are the three governors who received a grade of A:

- Charlie Crist of Florida has helped push through major property tax cuts in his year and a half in office. He signed into law a measure that required local governments to roll back a portion of recent property tax increases, while capping future tax increases for some types of property. Crist also supported a successful ballot measure that expanded homestead exemptions and established other property tax breaks. These relief measures are complex and they create some distortions, but they will save Florida taxpayers billions of dollars.<sup>4</sup> On spending, Governor Crist has promoted restraint—his two budgets have proposed roughly flat spending and he has not hesitated in vetoing wasteful pork projects.
- Mark Sanford of South Carolina is a strong supporter of spending restraint and pro-growth tax cuts. He has pushed for income tax rate cuts, and the legisla-

ture agreed in 2005 to cut the small business tax rate from 7 percent to 5 percent. In 2007 Sanford signed into law sales tax cuts and further income tax cuts. This year, the governor has proposed cutting income taxes through an optional 3.4 percent flat tax. Sanford's proposed budgets have been frugal, and he has vetoed hundreds of costly spending bills. He has also pushed for the state to adopt a legal cap on annual budget growth.

- Joe Manchin of West Virginia has concentrated on cutting business taxes to help boost investment in his state. In 2006, Manchin approved reductions in the business franchise and corporate income taxes. In 2007, he cut the franchise tax further. In 2008, Manchin signed into law a repeal of the business franchise tax and a reduction in the corporate income tax rate. Manchin also has an excellent spending record, and recommends cuts to the overall general fund budget most years.

### Lowest-Scoring Governors

The lowest-scoring governors are those that have increased taxes and spending the most. During boom years, they expanded programs with gusto, and when budget deficits appeared they raised taxes to avoid having to make spending trade-offs. Here are the eight governors who received a grade of F:

- The lowest-scoring governor, Martin O'Malley of Maryland, spearheaded the passage of a \$1.4 billion tax increase in 2007, which was unique in its large size and scope. It increased the corporate tax rate, the top personal income tax rate, the sales tax rate, and the cigarette tax rate. It also expanded the sales tax base and raised taxes on vehicles. This enormous increase will hit Marylanders directly in the pocketbook, and indirectly through slower economic growth over time.
- Ted Kulongoski of Oregon has been relentless in his advocacy of tax increases since coming to office in 2003. In his first

**Mark Sanford of South Carolina is a strong supporter of spending restraint and pro-growth tax cuts.**

**Table 1**  
**Overall Grades for the Governors**

State	Governor	Score	Grade
Florida	Charlie Crist (R)	84	A
South Carolina	Mark Sanford (R)	68	A
West Virginia	Joe Manchin (D)	67	A
Nebraska	Dave Heineman (R)	63	B
Nevada	Jim Gibbons (R)	60	B
Texas	Rick Perry (R)	60	B
Utah	Jon Huntsman, Jr. (R)	60	B
Ohio	Ted Strickland (D)	59	B
Georgia	Sonny Perdue (R)	59	B
New Mexico	Bill Richardson (D)	59	B
Oklahoma	Brad Henry (D)	58	B
Maine	John Baldacci (D)	56	B
Minnesota	Tim Pawlenty (R)	56	B
Indiana	Mitch Daniels (R)	55	B
Rhode Island	Don Carcieri (R)	55	B
Tennessee	Phil Bredesen (D)	55	B
Missouri	Matt Blunt (R)	55	B
North Dakota	John Hoeven (R)	54	C
Hawaii	Linda Lingle (R)	53	C
Arkansas	Mike Beebe (D)	52	C
North Carolina	Michael Easley (D)	51	C
California	Arnold Schwarzenegger (R)	51	C
Arizona	Janet Napolitano (D)	51	C
South Dakota	Mike Rounds (R)	50	C
Massachusetts	Deval Patrick (D)	50	C
Colorado	Bill Ritter (D)	49	D
Vermont	James Douglas (R)	49	D
Washington	Christine Gregoire (D)	49	D
Wisconsin	Jim Doyle (D)	47	D
Kansas	Kathleen Sebelius (D)	47	D
Delaware	Ruth Ann Minner (D)	47	D
Michigan	Jennifer Granholm (D)	46	D
New Hampshire	John Lynch (D)	46	D
Mississippi	Haley Barbour (R)	45	D
Virginia	Tim Kaine (D)	45	D
Pennsylvania	Edward Rendell (D)	42	D
Wyoming	Dave Freudenthal (D)	41	D
Montana	Brian Schweitzer (D)	40	D
Connecticut	Jodi Rell (R)	39	F
Idaho	C. L. "Butch" Otter (R)	37	F
Alabama	Bob Riley (R)	37	F
Oregon	Ted Kulongoski (D)	34	F
New Jersey	Jon Corzine (D)	32	F
Iowa	Chet Culver (D)	31	F
Illinois	Rod Blagojevich (D)	30	F
Maryland	Martin O'Malley (D)	23	F
Average of 46 states		50	

year, he supported a ballot initiative to increase income taxes, but that plan was soundly defeated by the voters. The governor has also repeatedly pushed for cigarette tax increases, but the legislature has nixed the idea and voters defeated a cigarette tax increase at the ballot box in 2007. But that vote of the people did not dissuade Kulongoski, and this year he continues to push for a cigarette tax hike. Even in boom years when the government is flush with cash Kulongoski has pushed for tax increases. Spending increases under Kulongoski have also been large.

- Rod Blagojevich of Illinois has been single-minded in his drive for tax increases on businesses. In 2007, he pushed for a huge \$7 billion tax hike in the form of a new business gross receipts tax and increased payroll taxes. That hike was the largest proposed or enacted increase of any governor in this report, measured in total dollars or as a percentage of current taxes. He has proposed schemes to wallop businesses nearly every year since 2003, including plans to raise taxes on refineries, gaming businesses, and software companies. Blagojevich seems un-aware that Illinois is competing against other states and nations for business investment in the global economy.
- Chet Culver of Iowa has been in office just a year and a half, but he has already proposed substantial tax increases on both individuals and businesses. He pushed for a tax increase on cigarette smokers last year and followed up with a corporate tax increase this year. Both of his budgets so far have proposed large spending increases.
- Jon Corzine of New Jersey pushed through a large spending increase and a tax increase of more than \$1 billion in 2006, which included increases in sales taxes, cigarette taxes, and vehicle taxes. However, the governor's performance has improved since then. He cut the state budget for fiscal 2009, and he is trying to reduce New Jersey's huge debt load.
- Bob Riley of Alabama made his biggest fis-

cal blunder in 2003 when he proposed more than \$1 billion in income, sales, and cigarette tax increases. Voters rejected Riley's plan by a 2-to-1 margin, and the governor has moderated his fiscal appetite since then, mixing tax increases with tax cuts. On spending, his record is poor, as he has presided over per capita increases averaging about 8 percent annually.

- Jodi Rell of Connecticut has pushed numerous large tax increases. Her first budget in 2005 proposed increases to cigarette taxes, gasoline taxes, and business taxes. In 2007 she proposed raising cigarette taxes and increasing the top individual income tax rate. Governor Rell's performance on spending is also worse than average.
- C. L. "Butch" Otter of Idaho was considered a conservative when he was in Congress, but he has promoted fiscal expansion as governor since 2007. Otter has pushed for a huge \$200 million increase in vehicle-related taxes to fund higher transportation spending, and his first budget proposed to increase state spending by more than 9 percent.

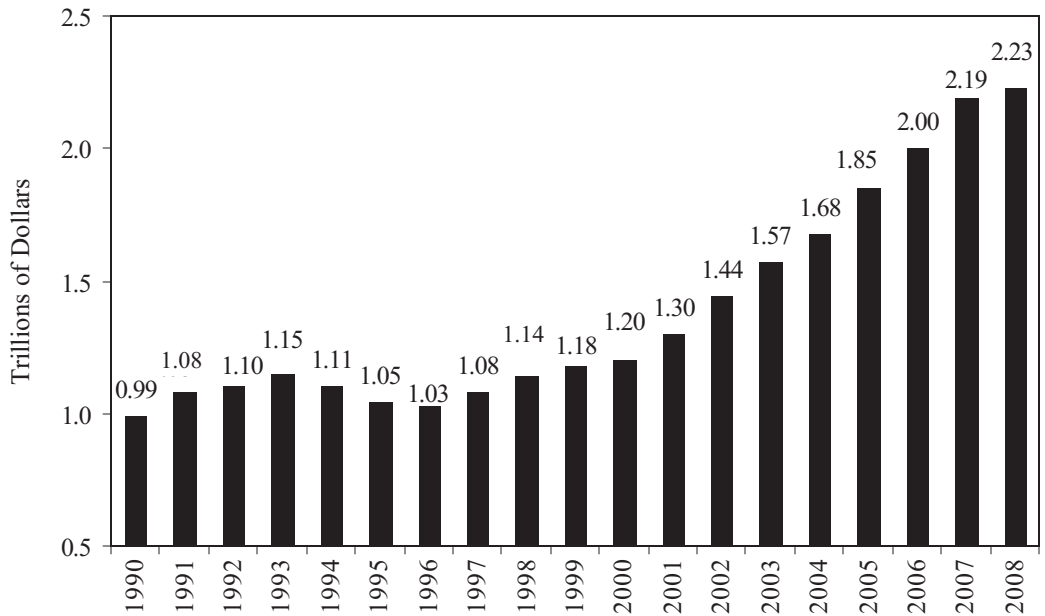
### Other Interesting Results

The data and news stories compiled for this report revealed some interesting fiscal patterns in the states. Those patterns include:

- Republican governors did slightly better in the report card than Democrats, with an average score of 55 compared to an average for the Democrats of 46.
- Republican governors scored better, on average, than Democratic governors on spending (54 to 48), revenue changes (58 to 44), and tax rates (51 to 48). But those are just averages with many exceptions—Democrat Joe Manchin, for example, has enacted probably the most pro-growth tax reforms of any governor.
- The average annual per capita spending increase *proposed* by the governors was 3.2 percent (see Table A-1). By contrast, the average annual per capita spending in-

**Democrat Joe Manchin has enacted probably the most pro-growth tax reforms of any governor.**

**Figure 2**  
**State and Local Government Debt Outstanding**



Source: Federal Reserve Board, "Flow of Funds Accounts of the United States," June 5, 2008, Table D.3.

**Few governors seem to recognize the importance of cutting marginal tax rates and pursuing broad business tax reductions.**

crease *actually enacted* in the states was 5.6 percent, although that figure excludes data for fiscal 2009. Governors generally proposed smaller spending increases than those actually passed by state legislatures.

- The governors, on average, oversaw a large increase in the cigarette tax rate, a small increase in the general sales tax rate, and small cuts to individual and corporate income tax rates (see Table A-2).
- In recent years, many states have overhauled their school finance systems, which have traditionally depended on local property taxes. Most overhauls have raised state-level taxes, with the extra funds channeled back to local governments to cut property taxes. This is an unfortunate trend, as it will likely lead to growth in government by reducing beneficial tax competition between local jurisdictions. It also reduces political accountability because it further divides responsibility for the cost and quality of schooling between two levels of government.
- Most state tax cuts in recent years have been narrow breaks for particular indi-

viduals and industries that will do little to boost economic growth. Few governors seem to recognize the importance of cutting marginal tax rates and pursuing broad business tax reductions. Such supply side tax cuts are needed to respond to an increasingly competitive world economy, but that message has not yet penetrated most state capitols.<sup>5</sup>

## **Fiscal Policy Outlook**

Rising budget gaps in many states this year are forcing governors and legislatures to take corrective actions to balance their budgets. The revenue gusher that state and local governments have enjoyed since 2003 has slowed as the U.S. economy has cooled. Many states are scaling back their spending plans, just as average families do during economic slowdowns.

However, some government officials and news outlets are treating the current slowdown in budget growth as if it were a major crisis.<sup>6</sup> Spending on schools is being "slashed,"



governments are being forced into “painful” and “severe” cuts to “popular” programs, and prisoners are being let out of jails we are told.

Are governments really that hard hit? Let’s look at the data on revenue and spending across the 50 states. Total state tax revenues rose 8.9 percent in 2004, 11.3 percent in 2005, 6.9 percent in 2006, and 4.4 percent in 2007.<sup>7</sup> Tax revenues will rise about 1.4 percent in 2008.<sup>8</sup> On the spending side, total state general fund budgets rose 3.0 percent in fiscal 2004, 5.9 percent in fiscal 2005, 8.1 percent in fiscal 2006, 9.0 percent in fiscal 2007, and an estimated 5.1 percent in fiscal 2008.<sup>9</sup>

Figures from the National Association of State Budget Officers show that spending will rise just 1 percent in fiscal 2009, but that hardly represents a crisis after five years of substantial increases.<sup>10</sup> The current state fiscal situation is not a crisis, and it can be resolved with modest downward adjustments to spending.

Nonetheless, there is a real state fiscal crisis on the horizon. It is a longer-term crisis that is being precipitated by rapid increases in Medicaid spending, rising state debt, and huge unfunded state employee retirement obligations. Medicaid spending is the single largest component of state budgets, and it has been growing at more than 7 percent annually this decade, with its rapid growth expected to continue.<sup>11</sup> While some states have made modest changes to restrain Medicaid costs, many governors are seeking to expand government-funded health care programs. Indeed, NASBO reports that half of the governors proposed to increase government-funded health care in their fiscal 2009 budgets.<sup>12</sup>

As state and local spending has grown rapidly in recent years, there has been a remarkable expansion in state and local government debt. During the 1990s, total state and local debt was fairly stable, as policymakers used rising revenues to pay back previous borrowing. But this decade, state and local debt outstanding has soared, as shown in Figure 2. Debt jumped from \$1.2 trillion in 2000 to \$2.2 trillion by the first quarter of 2008—an 83 percent increase.<sup>13</sup>

Looking just at state governments, Moody’s Investors Service publishes data on “tax-sup-

ported debt,” which only includes debt that will be paid back by tax revenue.<sup>14</sup> Tax-supported state debt increased from \$230 billion in 2000 to \$398 billion in 2007, a rise of 73 percent. Such rapidly rising indebtedness represents irresponsible fiscal policy, and state policymakers ought to reverse course and begin paying debt down.<sup>15</sup> Government debt is simply taxation that is imposed on the next generation, and it is a particularly costly and non-transparent form of taxation.

In addition to this explicit debt, state taxpayers may also face a large burden from underfunded state government pension plans. Estimates of the state pension shortfall have ranged from \$361 billion to \$700 billion.<sup>16</sup> The Government Accountability Office reported that the share of state and local pension plans that are underfunded has soared in recent years.<sup>17</sup> Many governments have used excessively optimistic assumptions about the earnings likely to be generated on pension fund assets, a practice that financier Warren Buffett has called “accounting nonsense.”<sup>18</sup>

In addition to the debt and pension problems, state and local governments have built up huge unfunded obligations in their employee retirement health plans. I have estimated that those unfunded health care obligations total at least \$1.4 trillion.<sup>19</sup> Consistent with that figure, the Pew Center on the States estimated that unfunded retiree health costs for state governments alone are about \$370 billion.<sup>20</sup>

All these figures point to the sad truth that state policymakers have been mortgaging the future with their spendthrift and debt-fueled policies. States have turned to debt to fund projects that used to be funded by current revenues. California and other states have been using debt to cover their short-term operating expenses, which violates all the rules of sound state budgeting. And state and local governments are using exotic financing tools to convert, or securitize, future streams of revenues into cash to spend today.

State and local governments have expanded retirement benefits for their 16 million workers to excessive levels with little thought of how those future benefits would be paid.

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State employee benefits are generally much more generous than private sector benefits, and the costs of those benefits are growing rapidly.<sup>21</sup> Despite all these known problems, some states continue to add to worker benefits and expand expensive programs such as Medicaid.

To make matters worse, rising federal government debt and unfunded obligations for Social Security and Medicare are set to crush taxpayers in coming years unless major reforms are made. Policymakers at all three levels of government have done a great disservice to young Americans, who are threatened by huge tax increases to pay for the irresponsible political promises of the past.

The states need a new generation of reform-minded leaders on fiscal matters. The days of governors coming into office and busily expanding programs and raising taxes to fund new initiatives needs to end. Unless more governors aspire to the approaches taken by this year's A governors, state taxpayers face a bleak future.

## **Appendix A: Report Card Methodology**

This study computes a fiscal policy grade for each governor based on his or her success at restraining the growth of taxes and spending. The spending data used in the study comes from NASBO, as supplemented by data from the budget documents of individual states.<sup>22</sup> The data on proposed and enacted tax cuts comes from NASBO, the National Conference of State Legislatures, and hundreds of news reports in *State Tax Notes* and *www.stateline.org*.<sup>23</sup> The tax rate data comes from the Tax Foundation, as updated for changes through August 2008.<sup>24</sup>

This year's report card uses a somewhat different methodology than prior Cato report cards. This year, each governor's performance is measured using 7 policy variables: 2 for spending, 1 for revenue, and 4 for tax rates. The overall score is calculated as the average score of these 3 categories.

### **Spending Variables**

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

### **Revenue Variable**

3. Average dollar value of proposed and enacted tax and fee changes. These are revenue changes due to proposed and enacted legislation, not the regular changes in state revenues that occur due to economic growth and other factors. Each change is measured by the annual dollar amount of the change when it is fully phased-in, as a percentage of total state tax revenues.<sup>25</sup>

### **Tax Rate Variables**

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

The two spending variables are measured on a per-capita basis to adjust for the fact that state populations are growing at different rates. Variable 1 is measured through fiscal 2009, and variable 2 is measured through fiscal 2008. Each of the 46 governors graded in this report have been in office long enough to have proposed at least two annual budgets.

For all variables, the results are standardized with the worst scores near zero and the best scores near 100. The score for each of the three categories—spending, revenue, and tax rates—is the average of the variable scores within the category. One exception is that the cigarette tax rate variable is half-weighted because that tax is usually a smaller source of state revenue than income and sales taxes. The average of the scores for the three categories produces the overall grade for each governor.

All variables measure state-level tax and spending, and generally do not include the fiscal activities of local governments.<sup>26</sup> Furthermore,



the spending variables are only for state general fund budgets, which are usually the budgets that governors have the most control over.

### Measurement Caveats

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

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

Another factor to consider is that the

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

Nonetheless, the results presented here are a reasonably good reflection of each governor's fiscal approach. Governors receiving an A have focused on reducing tax burdens and restraining government growth. Governors receiving an F always seem to put the government's needs ahead of the average taxpayer's needs. In between A and F are many governors who gyrate between fiscal approaches one year to the next. Hopefully, the leadership shown by the A governors will inspire the next crop of governors to pursue the bolder fiscal reforms that are needed in the years ahead.

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**Table A-1**  
**Spending and Revenue Variables**

State	Governor	Spending Score	Proposed Changes in Per Capita Spending	Changes in Actual Per Capita Spending	Revenue Score	Changes in Revenues from Proposed and Enacted Tax Changes
Alabama	Bob Riley (R)	45	2.0%	8.5%	14	2.8%
Arizona	Janet Napolitano (D)	34	4.7%	7.6%	67	-0.9%
Arkansas	Mike Beebe (D)	41	4.6%	6.1%	61	-0.5%
California	Arnold Schwarzenegger (R)	57	1.0%	7.0%	43	0.8%
Colorado	Bill Ritter (D)	63	2.1%	3.7%	32	1.5%
Connecticut	Jodi Rell (R)	35	5.7%	5.9%	31	1.6%
Delaware	Ruth Ann Minner (D)	59	1.7%	5.3%	35	1.3%
Florida	Charlie Crist (R)	100	-1.4%	-1.1%	100	-4.9%
Georgia	Sonny Perdue (R)	74	0.7%	3.0%	52	0.1%
Hawaii	Linda Lingle (R)	38	4.9%	6.3%	74	-1.4%
Idaho	C. L. "Butch" Otter (R)	37	4.8%	6.6%	21	2.3%
Illinois	Rod Blagojevich (D)	38	6.6%	3.8%	0	4.6%
Indiana	Mitch Daniels (R)	68	2.4%	2.0%	65	-0.8%
Iowa	Chet Culver (D)	16	8.4%	8.0%	33	1.5%
Kansas	Kathleen Sebelius (D)	38	4.1%	7.5%	57	-0.2%
Maine	John Baldacci (D)	74	0.0%	4.0%	50	0.2%
Maryland	Martin O'Malley (D)	66	3.0%	1.7%	0	4.6%
Massachusetts	Deval Patrick (D)	64	1.6%	4.2%	40	1.0%
Michigan	Jennifer Granholm (D)	75	0.9%	2.6%	32	1.5%
Minnesota	Tim Pawlenty (R)	71	0.8%	3.5%	49	0.3%
Mississippi	Haley Barbour (R)	29	4.8%	8.7%	53	0.1%
Missouri	Matt Blunt (R)	47	4.8%	4.0%	64	-0.7%
Montana	Brian Schweitzer (D)	15	5.1%	15.0%	51	0.2%
Nebraska	Dave Heineman (R)	37	5.2%	6.1%	100	-3.5%
Nevada	Jim Gibbons (R)	68	4.5%	-2.0%	60	-0.4%
New Hampshire	John Lynch (D)	55	3.9%	3.3%	35	1.3%
New Jersey	Jon Corzine (D)	27	5.8%	7.7%	33	1.5%
New Mexico	Bill Richardson (D)	36	4.9%	6.9%	77	-1.6%
North Carolina	Michael Easley (D)	50	2.7%	6.3%	47	0.5%
North Dakota	John Hoeven (R)	39	4.5%	6.7%	56	-0.1%
Ohio	Ted Strickland (D)	60	1.5%	5.4%	61	-0.5%
Oklahoma	Brad Henry (D)	44	4.3%	5.5%	71	-1.2%
Oregon	Ted Kulongoski (D)	26	6.8%	6.6%	23	2.2%
Pennsylvania	Edward Rendell (D)	42	4.5%	5.7%	37	1.2%
Rhode Island	Don Carcieri (R)	55	2.6%	5.0%	47	0.5%
South Carolina	Mark Sanford (R)	70	1.1%	3.4%	87	-2.3%
South Dakota	Mike Rounds (R)	57	2.4%	5.0%	50	0.3%
Tennessee	Phil Bredesen (D)	66	-0.1%	6.1%	49	0.4%
Texas	Rick Perry (R)	78	-0.2%	3.4%	57	-0.2%
Utah	Jon Huntsman, Jr. (R)	27	4.0%	10.3%	82	-2.0%
Vermont	James Douglas (R)	55	2.0%	5.9%	48	0.4%
Virginia	Tim Kaine (D)	54	2.6%	5.5%	27	1.9%
Washington	Christine Gregoire (D)	55	3.3%	4.2%	43	0.8%
West Virginia	Joe Manchin (D)	73	-2.0%	6.1%	72	-1.3%
Wisconsin	Jim Doyle (D)	56	3.3%	4.0%	41	0.9%
Wyoming	Dave Freudenthal (D)	8	6.2%	16.6%	66	-0.9%
Average of 46 states		50	3.2%	5.6%	50	0.3%

**Table A-2**  
**Tax Rate Variables**

State	Governor	Tax Rate Score	Change in Top Individual Income Tax Rate	Change in Top Corporate Income Tax Rate	Change in General Sales Tax Rate	Change in Cigarette Tax Rate (cents per pack)
Alabama	Bob Riley (R)	51	0.00	0.00	0.00	26
Arizona	Janet Napolitano (D)	51	-0.50	0.00	0.00	82
Arkansas	Mike Beebe (D)	53	0.00	0.00	0.00	0
California	Arnold Schwarzenegger (R)	53	0.00	0.00	0.00	0
Colorado	Bill Ritter (D)	53	0.00	0.00	0.00	0
Connecticut	Jodi Rell (R)	49	0.00	0.00	0.00	49
Delaware	Ruth Ann Minner (D)	46	0.00	0.00	0.00	91
Florida	Charlie Crist (R)	53	0.00	0.00	0.00	0
Georgia	Sonny Perdue (R)	51	0.00	0.00	0.00	25
Hawaii	Linda Lingle (R)	48	0.00	0.00	0.00	60
Idaho	C. L. "Butch" Otter (R)	53	0.00	0.00	0.00	0
Illinois	Rod Blagojevich (D)	53	0.00	0.00	0.00	0
Indiana	Mitch Daniels (R)	32	0.00	0.00	1.00	44
Iowa	Chet Culver (D)	45	0.00	0.00	0.00	100
Kansas	Kathleen Sebelius (D)	46	0.00	-0.25	0.40	0
Maine	John Baldacci (D)	45	0.00	0.00	0.00	100
Maryland	Martin O'Malley (D)	2	1.50	1.25	1.00	100
Massachusetts	Deval Patrick (D)	45	0.00	0.00	0.00	100
Michigan	Jennifer Granholm (D)	33	0.25	1.09	0.00	75
Minnesota	Tim Pawlenty (R)	47	0.00	0.00	0.00	75
Mississippi	Haley Barbour (R)	53	0.00	0.00	0.00	0
Missouri	Matt Blunt (R)	53	0.00	0.00	0.00	0
Montana	Brian Schweitzer (D)	53	0.00	0.00	0.00	0
Nebraska	Dave Heineman (R)	53	0.00	0.00	0.00	0
Nevada	Jim Gibbons (R)	53	0.00	0.00	0.00	0
New Hampshire	John Lynch (D)	49	0.00	0.00	0.00	56
New Jersey	Jon Corzine (D)	34	0.00	0.00	1.00	18
New Mexico	Bill Richardson (D)	64	-3.30	0.00	0.00	70
North Carolina	Michael Easley (D)	55	-0.50	0.00	0.00	30
North Dakota	John Hoeven (R)	68	0.00	-4.00	0.00	0
Ohio	Ted Strickland (D)	56	-0.32	0.00	0.00	0
Oklahoma	Brad Henry (D)	58	-1.15	0.00	0.00	80
Oregon	Ted Kulongoski (D)	54	0.00	0.00	0.00	-10
Pennsylvania	Edward Rendell (D)	48	0.27	0.00	0.00	35
Rhode Island	Don Carcieri (R)	62	-2.90	0.00	0.00	96
South Carolina	Mark Sanford (R)	45	-2.00	0.00	1.00	0
South Dakota	Mike Rounds (R)	44	0.00	0.00	0.00	120
Tennessee	Phil Bredesen (D)	50	0.00	0.00	0.00	42
Texas	Rick Perry (R)	45	0.00	0.00	0.00	100
Utah	Jon Huntsman, Jr. (R)	71	-2.00	0.00	-0.05	0
Vermont	James Douglas (R)	43	0.00	-1.25	1.00	80
Virginia	Tim Kaine (D)	53	0.00	0.00	0.00	0
Washington	Christine Gregoire (D)	48	0.00	0.00	0.00	60
West Virginia	Joe Manchin (D)	56	0.00	-0.25	0.00	0
Wisconsin	Jim Doyle (D)	45	0.00	0.00	0.00	100
Wyoming	Dave Freudenthal (D)	49	0.00	0.00	0.00	48
Average of 46 states		50	-0.23	-0.07	0.12	40

Note: the changes in income and sales tax rates are the actual changes in the percentage rates. For example, New Mexico's individual income rate was cut from 8.2 percent to 4.9 percent, thus the table shows -3.3. Also note that South Carolina's income tax rate cut applies only to small businesses. As such, the governor was given half credit for this cut in the scoring.

**Governor Riley made his biggest fiscal blunder in 2003 when he proposed more than \$1 billion in income, sales, and cigarette tax increases.**

## **Appendix B: Fiscal Policy Notes on the Governors**

Following are highlights of the fiscal records of the 46 governors covered in this report. The summaries are based on the tax and spending data used for grading the governors, as well as information from *State Tax Notes* and other news sources. All mentions of governors' spending records refer to general fund budgets. The dollar values provided for tax increases and cuts are the annual effects of the tax changes.

### **Alabama**

Bob Riley, Republican  
Grade: F

Legislature: Democratic  
Took Office: January 2003

Governor Riley made his biggest fiscal blunder in 2003 when he proposed more than \$1 billion in income, sales, and cigarette tax increases. Voters rejected Riley's plan by a 2-to-1 margin at the ballot box, and the governor has since moderated his fiscal appetite. He pushed through a

package of tax increases in 2004, including a cigarette tax increase, but he proposed modest income tax cuts in 2007. Governor Riley has also overseen a large expansion in the state budget, with per capita spending rising at an average of about 8 percent annually since he took office.

### **Arizona**

Janet Napolitano, Democrat  
Grade: C

Legislature: Republican  
Took Office: January 2003

Governor Napolitano has a fairly good record on taxes. In 2005, she helped push through a substantial cut to business property taxes. In 2006, she signed into law a personal income tax reduction, including a cut in the top rate from 5 percent to 4.5 percent. Unfortunately, Napolitano

has a poor record on spending, presiding over per capita increases averaging more than 7 percent annually since taking office. She has used the state's strong revenue growth in recent years to expand programs rather than to offer further tax relief.

### **Arkansas**

Mike Beebe, Democrat  
Grade: C

Legislature: Democratic  
Took Office: January 2007

Taking office in 2007, when the state was enjoying large budget surpluses, Governor Beebe started off on the right foot with a substantial reduction in sales taxes. Unfortunately, in 2008 he signed into law a large increase in

severance taxes on natural gas companies, which will make the state less attractive for energy investment. On spending, the governor's two budgets have proposed fairly hefty increases.

## California

Arnold Schwarzenegger, Republican  
Grade: C

Legislature: Democratic  
Took Office: November 2003

When he first came to office, there were high hopes that Arnold Schwarzenegger would make major reforms to California's bloated budget. In his first year in office, Schwarzenegger did provide modest tax relief and he managed to restrain the state budget. However, part of his budget fix at the time—the issuance of \$15 billion in bonds to paper over the state's deficit—foreshadowed the irresponsible fiscal policies to come. In just two years—fiscal 2005 to fiscal 2007—the state budget exploded from \$80 billion to \$101 billion. While the governor's budgets have usually proposed moderate spending increases, the legislature seems to roll over him and enact much larger increases. The governor himself has proposed costly new programs, including a universal health care plan and an expensive scheme to limit greenhouse gases.

The governor's record on taxes is mixed. He has resisted numerous tax increases proposed by the legislature, but in 2007 he proposed a huge payroll tax hike to fund his health care plan. In 2008, he proposed raising the state sales tax by one percentage point to raise \$5 billion annually. The governor has also presided over large increases in state debt, which will likely mean higher taxes down the road. In addition to the initial \$15 billion debt package, the governor supported a huge \$37 billion bond package for infrastructure in 2006, and this year he wants to close the state budget gap by issuing \$15 billion in bonds that securitize future lottery earnings. It is true that Schwarzenegger has had to deal with a state legislature full of big spenders, but he is not the frugal-minded reformer that he appeared to be when he first came to office.

**Schwarzenegger has had to deal with a state legislature full of big spenders, but he is not the frugal-minded reformer that he appeared to be when he first came to office.**

## Colorado

Bill Ritter, Democrat  
Grade: D

Legislature: Democratic  
Took Office: January 2007

Since taking office last year, a main focus of Governor Ritter has been to raise taxes. In 2007, he supported freezing reductions in property taxes that are mandated under the state constitution's Taxpayer Bill of Rights (TABOR). In 2008, he campaigned in favor of

a ballot measure to increase severance taxes by about \$200 million annually. Fortunately, Ritter has a better record on spending. While he has proposed new spending on education and health care, state budget growth has been modest under his tenure.

## Connecticut

Jodi Rell, Republican  
Grade: F

Legislature: Democratic  
Took Office: July 2004

Governor Rell's fiscal record features numerous large tax increases. Rell's first budget proposed increases in cigarette taxes, gasoline taxes, and various business taxes. In 2007 she proposed raising the cigarette tax

from \$1.51 to \$2.00 per pack and increasing the top personal income tax rate from 5.0 percent to 5.5 percent. Luckily for taxpayers, the income tax part of her plan did not pass the legislature. On spending, Governor Rell



has usually proposed substantial increases, and in 2007 she proposed skirting a state

budget cap to spend more than was allowed under normal rules.

### Delaware

Ruth Ann Minner, Democrat  
Grade: D

Legislature: Divided  
Took Office: January 2001

In her first few years in office, Governor Minner demonstrated fiscal restraint, restricting government employment growth and calling for cuts to agency budgets. In recent years, as the economy expanded and revenues poured into state coffers, the budget has grown more

rapidly. On the tax side, Minner has supported increases to cigarette taxes, gasoline taxes, and vehicle fees. For businesses, she has provided a mix of tax cuts and increases—she cut the gross receipts tax, but increased the corporate franchise tax.

### Florida

Charlie Crist, Republican  
Grade: A

Legislature: Republican  
Took Office: January 2007

Governor Crist has promoted major property tax reductions. In 2007 he signed into law House Bill 1B, which required local governments to roll back a portion of recent property tax increases and set limits on future tax growth. This law will initially save taxpayers up to \$2.2 billion annually, and the savings are expected to increase over time.<sup>27</sup> Crist also pushed for passage of Amendment 1, which was approved by voters in January 2008. It increased homestead exemptions and allowed portability of tax relief that peo-

ple enjoy on their current homes from an existing property tax cap. Amendment 1 is expected to cut taxes by about \$1.3 billion in the first year, and rising amounts thereafter.<sup>28</sup> House Bill 1B and Amendment 1 are large tax cuts, but they are complex and they create various economic distortions.<sup>29</sup> On spending, Crist has promoted restraint. General fund spending levels were roughly flat in his first two budgets, and he frequently uses his line item veto to strike unneeded spending from bills.

### Georgia

Sonny Perdue, Republican  
Grade: B

Legislature: Republican  
Took Office: January 2003

Sonny Perdue campaigned on a pledge not to raise taxes, yet shortly after taking office he proposed a tax plan that included higher rates on cigarettes and alcohol. Facing an election in 2006, he claimed to have saved state residents \$2 billion in taxes since he came to office, but

he was taking credit for tax cuts enacted under the prior governor.<sup>30</sup> However, Purdue has proposed some modest tax cuts in recent years, and he has a relatively good record on spending. Per capita spending has risen at an average rate of 3 percent annually during his tenure.

**Governor Crist  
has promoted  
major property  
tax reductions.**

## Hawaii

Linda Lingle, Republican  
Grade: C

Hawaii has one of the highest state tax burdens in the country, and Governor Lingle has put some effort into easing the load. In 2006 she proposed income tax reductions consisting of an increase in the standard deduction and adjustments to tax rate brackets. In 2007 and 2008, she proposed a smattering of further cuts to income

Legislature: Democratic  
Took Office: December 2002

and sales taxes. On spending, Lingle started out well in 2003, calling for an overall reduction in the budget and a statewide hiring freeze. Since then, she has taken various restraint actions, such as vetoing a government employee pay raise. Despite those efforts, Hawaii's budget has grown quite rapidly during her tenure.

**Rod Blagojevich has been relentless in his advocacy of large tax increases on businesses.**

## Idaho

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

While he had a reputation as being a conservative when he was in Congress, Butch Otter has promoted fiscal expansion as governor. In particular, he pushed for a \$200 million increase in vehicle-related taxes to fund higher transportation spending, which is a large hike for a small state. In his first budget address, the governor called for restraint from the legislature, yet he proposed a spending

Legislature: Republican  
Took Office: January 2007

increase of almost 10 percent. Conservatives in Idaho's legislature are scratching their heads at the large spending increases being proposed by self-proclaimed conservative Otter.<sup>31</sup> The governor is taking steps to improve efficiency and accountability in state government, but his large proposed tax increase and his spending increases earned him a low grade.

## Illinois

Rod Blagojevich, Democrat  
Grade: F

Rod Blagojevich campaigned on a promise not to raise sales or individual income taxes. He stuck to that promise, but has been relentless in his advocacy of large tax increases on businesses. In 2007, he pushed for a massive \$7.1 billion annual tax increase in the form of a business gross receipts tax and increased payroll taxes, the largest proposed or enacted hike of any governor in this study.<sup>32</sup> Blagojevich has proposed schemes to wallop businesses nearly every year, including plans to raise taxes on refineries, gaming businesses, software companies, and busi-

Legislature: Democratic  
Took Office: January 2003

nesses in general through "loophole" closing initiatives. His approach ignores that Illinois is competing against other states and nations for investment in the global economy. The main effect of imposing higher taxes on "businesses" is to reduce incomes and job opportunities for Illinois citizens. On spending, Blagojevich has promoted government expansion. Indeed, he is one of the few governors in the study whose proposed spending increases were substantially greater than the amount that the legislature ultimately delivered.

**Sebelius has supported an impressive list of business tax cuts.**

**Indiana**

Mitch Daniels, Republican  
Grade: B

Legislature: Divided  
Took Office: January 2005

Mitch Daniels served as President George W. Bush's first budget director. Daniels was a fiscally conservative voice in the White House, and he has tried to restrain spending in Indiana's budget. He has proposed, and the legislature has passed, general fund budgets with low growth rates. But Daniels has been less of a fiscal conservative on tax policy. In his first year in office, he proposed a temporary increase in the top income tax rate. In

his second year, he proposed a tax increase on cigarette smokers, which was enacted in 2007. More recently, Daniels supported a tax overhaul that swapped a one percentage point increase in the state sales tax rate for local property tax relief. While the plan delivers an overall tax cut of about \$700 million annually, it may lead to larger government in the long run by reducing tax competition between local jurisdictions.

**Iowa**

Chet Culver, Democrat  
Grade: F

Legislature: Democratic  
Took Office: January 2007

Chet Culver campaigned on a plan to increase the state's cigarette tax, and he followed through on that threat in 2007, with the effect of draining the wallets of Iowa smokers by about \$140 million annually. This year, Culver

has gone after businesses with a large corporate tax increase in the form of tax base broadening. On spending, Culver's performance has been equally poor, proposing increases in per capita spending averaging 8 percent annually.

**Kansas**

Kathleen Sebelius, Democrat  
Grade: D

Legislature: Republican  
Took Office: January 2003

Kathleen Sebelius has supported tax increases during her tenure, but she has also supported a number of pro-growth tax cuts. In 2004, she proposed a temporary increase in the sales tax rate that has turned out to be permanent, and more recently she has supported cigarette tax increases. However, Sebelius has also supported an impressive list of business tax cuts, including reductions in corporate income taxes, unemployment com-

pensation taxes, and business property taxes. She has also supported repeal of the estate tax and repeal of the corporate franchise tax, which is being phased out by 2011. With these cuts, the governor has made Kansas more attractive for business investment. It is on spending where Sebelius dragged down her grade by presiding over per capita budget increases averaging about 7 percent annually since 2003.

## Maine

John Baldacci, Democrat  
Grade: B

Legislature: Democratic  
Took Office: January 2003

Residents of Maine face one of the highest state tax burdens in the nation. Thus Governor Baldacci's efforts to cut property taxes on homeowners and get rid of an uncompetitive property tax on business equipment were much needed. He also proposed recently to reduce the state's top personal income tax rate. However,

the governor has supported substantial tax increases on health providers and on consumers of tobacco and alcohol. On spending, Baldacci has a good record, although he supported large spending increases on his Dirigo health care plan, and he opposed a referendum in 2006 to put a legal cap on state budget growth.

## Maryland

Martin O'Malley, Democrat  
Grade: F

Legislature: Democratic  
Took Office: January 2007

Governor O'Malley became a champion tax hiker with the enactment of a \$1.4 billion tax package in 2007. It included an increase in the corporate tax rate from 7 percent to 8.25 percent, an increase in the top personal income tax rate from 4.75 percent to 5.5 percent, an increase in the sales tax rate from 5 percent to 6 percent, an expansion of the sales

tax base, a doubling of the cigarette tax rate, and higher taxes on vehicles. This enormous increase will hit Marylanders directly in the pocketbook, and indirectly through slower economic growth over time. Part of the tax bill—a sales tax hike on computer services—was later repealed and the revenue replaced by a new top income tax rate of 6.25 percent.

## Massachusetts

Deval Patrick, Democrat  
Grade: C

Legislature: Democratic  
Took Office: January 2007

Governor Patrick has focused on business tax changes in his first year and a half in office. In 2008, he signed into law a corporate tax bill that substantially widened the tax base but also phased in a small cut to the corporate tax rate. When the full rate cut is in place in 2012, the

plan will raise a net \$165 million annually. Patrick also signed into law a \$1 per pack tax increase on cigarette consumers, which will raise \$175 million annually. The good news for residents of Massachusetts is that Patrick's spending record is better than his tax record so far.

## Michigan

Jennifer Granholm, Democrat  
Grade: D

Legislature: Divided  
Took Office: January 2003

Governor Granholm has presided over one of the slowest growing states in the nation, and

her tax increases have not helped matters. The biggest tax change in recent years was to the

**Governor O'Malley became a champion tax hiker with the enactment of a \$1.4 billion tax package in 2007.**

**Granholm and the legislature agreed to replace the SBT with the Michigan Business Tax (MBT), but the new tax is turning out to be just as complex and unpopular as the SBT.**

Michigan Single Business Tax (SBT). The tax was generally hated by businesses, and there was wide agreement that it should be repealed. In 2007, Granholm and the legislature agreed to replace the SBT with the Michigan Business Tax (MBT), but the new tax is turning out to be just as complex and unpopular as the SBT, and it may cost businesses more money. In other tax policy initiatives, the governor proposed a \$1.5

billion sales tax increase to close a budget gap in 2007. The plan was rejected, and the governor replaced the expected revenues by increases in personal income taxes and the MBT. The top personal income tax rate was increased to 4.35 percent, and a tax surcharge of 22 percent was imposed on the MBT. Granholm's fiscal record also includes a large tax increase on cigarette consumers.

### **Minnesota**

Tim Pawlenty, Republican  
Grade: B

Legislature: Democratic  
Took Office: January 2003

Tim Pawlenty pledged not to raise taxes when he ran for governor, but his tax record in office is more mixed than that. He backed a \$200 million tax increase on cigarette consumers in 2005 and a \$109 million corporate tax increase in 2008. He has also supported substantial increases in fees and charges. Pawlenty has provided some targeted tax relief and imposed temporary limits on local prop-

erty tax increases, but he has not focused on pro-growth tax rate reductions. Nonetheless, Pawlenty's veto record is impressive, including rejecting a gasoline tax increase, a hike in the top personal income tax rate, and various bloated spending bills. Pawlenty has delivered fairly restrained budgets over the years and kept spending growth to modest increases.

### **Mississippi**

Haley Barbour, Republican  
Grade: D

Legislature: Democratic  
Took Office: January 2004

Former Republican Party chairman Haley Barbour won the governorship in 2004 promising to cut spending, veto tax increases, and create a pro-growth business environment. Barbour has proposed some small, targeted tax breaks over the years and blocked some tax increases proposed by the legislature, but he has not pursued substantial tax cuts. This year Barbour is proposing to

increase taxes on hospitals by \$90 million, claiming that "it's a good, fair deal that taxes the hospitals, not our citizens—and rightly so."<sup>33</sup> Sadly, many governors don't seem to appreciate that the business tax burden ultimately lands on individuals. Barbour's budgets have proposed some reforms, but per capita spending has risen at more than than 8 percent annually since he took office.



## Missouri

Matt Blunt, Republican  
Grade: B

Legislature: Republican  
Took Office: January 2005

Matt Blunt has proposed and enacted some modest tax cuts during his tenure, including health care tax breaks, sales tax cuts for business property, and a repeal of taxation on Social Security benefits. But Blunt has not focused on broader reforms to reduce individual or busi-

ness tax rates. On spending, Blunt began his tenure with bold initiatives to cut state employment and to restrain Medicaid growth, and the general fund budget did not increase in 2006. After that promising start, however, state spending has grown fairly briskly in recent years.

## Montana

Brian Schweitzer, Democrat  
Grade: D

Legislature: Divided  
Took Office: January 2005

Governor Schweitzer has opposed the elimination of an uncompetitive tax on business equipment, and he has pushed to increase corporate taxes. In recent years, the state has enjoyed large budget surpluses, but the governor and legislature have spent all the excess funds rather than providing substantial tax

relief. Schweitzer recently offered Montanans a one-time property tax rebate, but that small break is a pittance compared to the huge revenues that have flowed into state coffers. Per capita spending growth has been enormous under Schweitzer, averaging 15 percent annually since 2005.

## Nebraska

Dave Heineman, Republican  
Grade: B

Legislature: Nonpartisan  
Took Office: January 2005

Governor Heineman is an outstanding tax cutter. In 2006, he proposed substantial cuts to personal income tax rates, and the legislature agreed to a compromise that raised income tax brackets. In 2007, Heineman signed into law another array of tax cuts,

including further income tax cuts and a repeal of the estate tax. He has also supported property tax relief. However, the governor came just short of receiving a grade of A because spending has risen fairly quickly during his tenure.

## Nevada

Jim Gibbons, Republican  
Grade: B

Legislature: Divided  
Took Office: January 2007

Jim Gibbons has promoted spending discipline, while sticking to his campaign promise not to raise taxes. In 2007, he proposed reductions in the Modified Business

Tax, but the legislature only agreed to put off a scheduled increase in the tax. He has opposed gasoline tax increases to fund highway construction, instead calling for private

**Governor  
Heineman is an  
outstanding tax  
cutter.**

sector funding of new highways. To close a state budget gap this year, Gibbons has focused on cutting program spending rather than agreeing to tax hikes. Gibbons has called

on government agencies to cut overall spending by 4.5 percent, and he has formed a commission to cut waste, similar to the federal Grace Commission of the 1980s.

### **New Hampshire**

John Lynch, Democrat  
Grade: D

Legislature: Democratic  
Took Office: January 2005

New Hampshire enjoys the lowest state tax burden in the nation, measured as a share of state income. True to that status, Governor Lynch proposed restrained budgets his first two years and has opposed a state income tax or sales tax. Lynch has also worked to repeal a statewide property tax. But the governor has a penchant for tax increases on cigarette consumers, which greatly pulled down his score on the report card. The governor increased the cigarette tax in 2005, again in 2007, and is propos-

ing another increase this year.

A major fiscal issue in New Hampshire regards a state Supreme Court decision that has mandated big increases in education spending. Lynch has supported a constitutional amendment in an effort to avoid the large spending increases required by the court. But the amendment has failed to pass the legislature, which approved a plan to comply with the court and increase education spending. With a budget gap opening this year, Lynch is calling for spending cuts.

### **New Jersey**

Jon Corzine, Democrat  
Grade: F

Legislature: Democratic  
Took Office: January 2006

Governor Corzine's first budget proposed a spending increase of more than nine percent and large increases in sales, cigarette, and vehicle taxes. The enacted budget raised taxes \$1.9 billion and included an increase in the sales tax rate from 6 to 7 percent, with half the increased sales tax revenue used for property tax rebates. Since then, the governor has changed course, proposing modest tax cuts and property tax rebates in his fiscal 2008

budget, and proposing no major tax changes in his fiscal 2009 budget. Indeed, Corzine's fiscal 2009 budget reduces state spending by cutting programs and offering early retirement to some state workers. The enacted budget included an overall reduction in spending. Also to his credit, the governor is grappling with the state's enormous debt load and the unfunded retirement costs of state workers.

### **New Mexico**

Bill Richardson, Democrat  
Grade: B

Legislature: Democratic  
Took Office: January 2003

Governor Bill Richardson inherited the tax cutting mantle from former governor, Repub-

lican Gary Johnson, who had advocated income tax rate cuts for years but could not get

**Governor  
Corzine's first  
budget proposed  
large increases in  
sales, cigarette,  
and vehicle taxes.**

them through the Democratic legislature. Richardson began cutting taxes his first year in office by enacting a 50 percent capital gains tax cut and major cuts to personal income tax rates, which were phased-in over time. In subsequent years, he worked to keep those cuts in place. The top income tax rate fell from 8.2 percent in 2003 to 4.9 percent in 2008. Richardson

raised cigarette taxes, but he cut the unemployment payroll tax, cut the business gross receipts tax, and provided one-time tax rebates. Governor Richardson's record on spending is not so good, with higher spending increases than the average of the other governors, and he is currently pushing a costly expansion of state health care coverage.

**Richardson began cutting taxes his first year in office by enacting a 50 percent capital gains tax cut and major cuts to personal income tax rates.**

### **North Carolina**

Mike Easley, Democrat  
Grade: C

Legislature: Democratic  
Took Office: January 2001

Governor Easley has consistently worked in opposition to state taxpayers. In 2001, he pushed through increases in sales and income tax rates.<sup>34</sup> Those increases were supposed to be temporary, but Easley supported extension of the higher rates year after year. The higher income tax rate

has now finally expired, but the higher sales tax rate has been made permanent. The governor also championed a cigarette tax increase in 2005, and is pushing for a further increase in 2008. Easley is also currently supporting tax increases on beer and wine consumers.

### **North Dakota**

John Hoeven, Republican  
Grade: C

Legislature: Republican  
Took Office: December 2000

In 2003, Governor Hoeven signed into law a tax overhaul that cut the corporate rate from 10.5 percent to 7 percent, but offset that cut by broadening the corporate tax base. A 2007 law cut the corporate rate to 6.5 percent and further broadened the tax base. Hoeven has approved various targeted tax breaks such as marriage penalty relief, tax credits for renew-

able energy, and property tax relief. However, the governor has supported tax increases on cigarette and gasoline consumers, and he has not pushed for broad-based tax reductions despite large revenue inflows to state coffers in recent years. Hoeven's record on spending is poor having presided over per capita increases of almost 7 percent annually since 2003.

### **Ohio**

Ted Strickland, Democrat  
Grade: B

Legislature: Republican  
Took Office: January 2007

Governor Strickland succeeded in his goal of passing an expanded homestead exemption under the property tax. He is also following through on a phased-in replacement of Ohio's corporate franchise and business property taxes with a gross receipts tax. The plan is supposed

to result in a large net tax cut for businesses.<sup>35</sup> On spending, the governor supports large increases in the education budget and is pushing an expensive debt-financed energy plan. But with the state facing a budget deficit this year, the governor is taking steps to trim spending.

**Governor  
Kulongoski has  
been relentless in  
his advocacy of  
tax and spending  
increases.**

**Oklahoma**

Brad Henry, Democrat  
Grade: B

Legislature: Divided  
Took Office: January 2003

Early in Governor Henry's tenure, he supported a large tax increase on cigarette consumers, but since then has proposed and signed into law numerous tax cuts. In 2005, Henry supported capital gains tax reductions, and he signed into law a phased-in cut to the top personal income tax rate combined with an increase in the standard deduction.

In 2006, he supported another cut to the top income tax rate and a phase-out of the estate tax. In 2007, the legislature and the governor agreed to a package that accelerated the income tax cuts and included other targeted tax breaks. On spending, Henry's budget increases have been about average among the governors.

**Oregon**

Ted Kulongoski, Democrat  
Grade: F

Legislature: Democratic  
Took Office: January 2003

Governor Kulongoski has been relentless in his advocacy of tax and spending increases. In 2003, he supported a ballot initiative that would have increased income taxes by \$400 million annually, but the plan was defeated soundly by the voters. Kulongoski has repeatedly proposed cigarette tax increases, but the legislature has nixed the idea, and voters defeated a cigarette tax increase at the ballot box in 2007. This year, Kulongoski is continuing to push for a cigarette tax hike even though voters said no to the idea.

The governor has thumbed his nose at taxpayers in other ways. He has proposed that automatic tax rebates that are required when the government has surpluses be put on hold, and in boom years when state coffers are overflowing he has pushed for tax increases, not cuts. Oregon is one of the few states that is blessed not to have a general sales tax, but Kulongoski has pushed to impose one on the state. Also, spending increases under this governor have been large, making his grade of F well-deserved.

**Pennsylvania**

Ed Rendell, Democrat  
Grade: D

Legislature: Divided  
Took Office: January 2003

In 2004, Governor Rendell pushed through a \$1.5 billion tax increase that raised personal income tax rates, business gross receipts taxes, and cigarette taxes. In 2005, the governor proposed a reduction in Pennsylvania's 10 percent corporate tax rate, but the reduction was not passed. Indeed, the governor reversed course in 2006 and vetoed a bill that would have cut both

personal and corporate tax rates. In 2007, he proposed increasing the sales tax rate from 6 to 7 percent and imposing a special tax on oil company profits, but the legislature rejected those ideas. On spending, Rendell has supported large increases for transportation, education, alternative energy, and overall general fund spending has increased at a fairly rapid pace.

## Rhode Island

Donald Carcieri, Republican  
Grade: B

Legislature: Democratic  
Took Office: January 2003

Governor Carcieri has supported both tax increases and cuts during his tenure. In his first few years in office, he supported a series of cigarette tax increases. In 2006, however, he signed into law a tax cut plan that created an optional flat income tax. Rhode Islanders can now pay income tax under the regular system with a top rate of 9.9 percent, or they can take fewer deductions and pay at a flat rate of 7.0 percent. That flat rate is scheduled to fall to 5.5 percent by

2012. The governor has also cut motor vehicle taxes and signed into law a reduced cap for the allowable annual growth rate of property taxes. Carcieri has also vetoed numerous tax increases passed by the legislature. On spending, Carcieri's proposed budgets have been restrained. In the last couple years, large budget gaps have developed, but Carcieri has held the line on taxes and proposed program cuts and reductions in state employee costs.

## South Carolina

Mark Sanford, Republican  
Grade: A

Legislature: Republican  
Took Office: January 2003

Mark Sanford is a consistent advocate of spending restraint and pro-growth tax cuts. In 2004, he proposed cutting the top personal income tax rate from 7.0 percent to 4.75 percent. In 2005, the legislature agreed to go half-way and cut the top income tax rate for small businesses from 7 percent to 5 percent. In 2006, the governor and legislature agreed to raise the sales tax rate in a swap for cuts to property taxes and sales taxes on groceries. In 2007 Sanford signed into law substantial cuts to sales and income taxes. This year, Sanford has proposed swapping higher cigarette taxes for cuts to income taxes by means of an

optional 3.4 percent flat tax. In response, the legislature proposed a large cigarette tax hike without an offsetting tax cut, and Sanford vetoed it.

On spending, Sanford's proposed budgets have been quite frugal, and he has vetoed hundreds of costly bills. Unfortunately, the legislature has overridden many of Sanford's vetoes, and actual state spending has risen faster than he would have liked. To help solve the overspending problem, Sanford has pushed for the state to adopt a cap on the budget to limit annual growth to inflation plus increases in population, but that reform has not yet been adopted.

## South Dakota

Mike Rounds, Republican  
Grade: C

Legislature: Republican  
Took Office: January 2003

South Dakota is blessed with one of the lowest state tax burdens in the country, and it does not have an income tax. Governor Rounds has supported some tax increases, but not enough to undo the state's low-tax standing. In 2003, the governor proposed tax

increases for cigarettes, alcohol, and telephone service. With support from the governor, state voters approved another cigarette tax increase in 2006. Rounds has done better on spending, proposing fairly frugal budgets in most years.

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## **Tennessee**

Phil Bredesen, Democrat  
Grade: B

Legislature: Divided  
Took Office: January 2003

Governor Bredesen has generally avoided tax increases. After a four-year battle to impose an income tax in Tennessee ended in 2002 with the state remaining income tax-free, Bredesen wisely sided against the idea when he came to office. The only substantial tax increase under the governor was a 2007 increase in the cigarette tax. The governor has not proposed any

major tax cuts, but he has supported modest breaks such as reducing the sales tax on groceries. When state budget gaps have appeared, Bredesen has focused on budget restraint, including efforts to reduce state employment and rein in health care spending. Per capita spending, however, has risen quickly at about 6 percent annually during his tenure.

## **Texas**

Rick Perry, Republican  
Grade: B

Legislature: Republican  
Took Office: December 2000

Rick Perry inherited the governorship when George W. Bush became president in 2000, and he was elected in 2002 on a pledge to oppose tax increases. His adherence to that promise has been rather loose. In 2003, he supported the enactment of a huge package of fee increases and tax loophole closing measures. In 2004, he proposed swapping local property tax cuts for a large cigarette tax increase, with the effect of shifting more school funding to the state level. In 2005, he revised his plan, proposing to cut property taxes in a swap for higher state sales taxes, cigarette taxes, and business taxes. In 2006, the governor passed a major business tax overhaul. The overhaul repealed the corporate franchise tax and replaced it with a modified gross receipts tax called the “Texas Margin

Tax.” This new tax hit a much broader array of businesses and increased state-level taxes by more than \$3 billion annually. That increase and other state-level increases in the plan are supposed to be more than offset by property tax reductions. Homeowners will receive property tax relief, but the plan really socked it to businesses. Further, the plan centralizes greater fiscal power at the state level, which will encourage government growth in the long run by stifling local tax competition. Governor Perry has put in a better performance on the spending side of the budget. He proposed overall reductions in spending in a number of his budgets, and actual per capita spending has risen at about 3 percent annually during his tenure.

## **Utah**

Jon Huntsman Jr., Republican  
Grade: B

Legislature: Republican  
Took Office: January 2005

Jon Huntsman ran for governor promising to reform the state’s tax system, and he has pursued a variety of tax cuts. In 2005, he proposed eliminating the corporate franchise tax, but was unsuccessful. In 2006, he pushed through a plan

allowing individuals to choose between the regular income tax with a top rate of 7 percent, and an alternative flat tax with a lower rate. In 2007, Huntsman and the legislature agreed to a sales tax cut and a unified income tax system with a

single rate of 5 percent. He was also successful in cutting the sales tax on food to save consumers \$70 million annually. Unfortunately, Hunts-

man has completely dropped the ball on spending, with per capita spending increasing at about 10 percent annually during his tenure.

### Vermont

James Douglas, Republican  
Grade: D

Legislature: Democratic  
Took Office: January 2003

Governor Douglas has a mixed record of tax increases and cuts in his five years in office. In his first year, Douglas signed into law an increase in the sales tax rate from 5 percent to 6 percent. The cigarette tax rate has also increased substantially under Douglas, and he proposed raising capital gains taxes. However, Douglas has worked for property tax relief, and he has proposed modest

individual income tax cuts. Also, corporations have received a small rate cut but pay on a broader tax base. On spending, Douglas has proposed modest budget growth, but actual budgets passed by the legislature have included larger increases. In 2008, Douglas proposed a large “stimulus package,” which relies on borrowing to fund new spending initiatives.

### Virginia

Tim Kaine, Democrat  
Grade: D

Legislature: Divided  
Took Office: January 2006

Governor Kaine has campaigned vigorously to raise taxes and fees to fund higher transportation spending. In 2007, Kaine helped pass a large revenue package that included tax and fee increases, higher penalties for driving infractions, and the creation of regional taxing authorities within Virginia. The Virginia Supreme Court struck down the unelected tax authorities, and citizens hated the new driver penalties so much that they were repealed.

Kaine supported a few tax cuts in 2007, including an increase in the bottom threshold of the individual income tax and a repeal of the estate tax. But in 2008, he is promoting an even bigger transportation plan that would increase taxes and fees by \$1.1 billion annually, and he is advocating higher state borrowing to fund education and transportation. On spending, Kaine promoted a big increase in his first budget, but has favored greater restraint since then.

### Washington

Christine Gregoire, Democrat  
Grade: D

Legislature: Democratic  
Took Office: January 2005

Governor Gregoire has supported numerous tax increases on politically unpopular behaviors such as smoking, drinking, and driving. In her first few months in office, Gregoire pushed through a tax hike of more than \$500 million, which included increases for cigarettes, gasoline, liquor, fuel, and vehicles. She also re-

established an estate tax after a previous version had been struck down by the state supreme court. The state government has enjoyed large surpluses in recent years from rising revenues, but Gregoire has blocked efforts to give back part of the excess to taxpayers, arguing that “a tax break is spending money.”<sup>36</sup> Gregoire

**Governor Kaine has campaigned vigorously to raise taxes and fees to fund higher transportation spending.**

worked to undermine a state law that requires legislative supermajorities to raise taxes, but voters rebuked her when they reinforced the law at

the ballot box in 2007. All that said, spending growth has been fairly modest under Gregoire compared with many other states.

### **West Virginia**

Joe Manchin, Democrat  
Grade: A

Legislature: Democratic  
Took Office: January 2005

Joe Manchin was elected promising to pull West Virginia out of the economic doldrums, and he has taken important steps to that end. After an initial severance tax increase in 2005, Manchin has concentrated on cutting business taxes to help boost investment in his state. In 2006, Manchin approved a reduction in the business franchise tax and the corporate income tax. In 2007, he cut the franchise tax further. In 2008, Manchin signed into law a

phased-in repeal of the business franchise tax and a reduction in the corporate income tax rate, which will save state businesses about \$120 million annually when fully phased in. Manchin has also reduced the sales tax on groceries and supported various other tax cuts. On spending, Manchin has been very restrained in his budgeting, calling for overall reductions in most years, but the legislature has ended up passing substantial increases.

### **Wisconsin**

Jim Doyle, Democrat  
Grade: D

Legislature: Divided  
Took Office: January 2003

When running for governor, James Doyle pledged not to raise taxes. He mostly kept that promise his first few years, and even provided a smattering of tax cuts. His fiscal policies then took a turn for the worse. In 2007 he proposed an array of large tax increases totaling about \$900 million, including higher cigarette taxes, hospital taxes, oil company taxes,

and increased real estate transfer taxes. Doyle has also refused to go along with the legislature in providing property tax relief, and he is fond of using increased debt to finance spending. But Doyle's spending record is better than his tax record, and this year he is insisting on budget restraint to eliminate a deficit.

### **Wyoming**

Dave Freudenthal, Democrat  
Grade: D

Legislature: Republican  
Took Office: January 2003

Governor Freudenthal got off to a bad start his first year by backing tax increases on cigarette consumers and property owners. Since then, he has proposed some modest tax breaks, including cutting the sales tax by half a percentage point. However, the governor could have done much more to reduce taxes because the state has enjoyed huge budget

surpluses in recent years. Instead of tax cuts, Freudenthal has launched expensive program initiatives to disperse the overflowing funds in state coffers. Per capita spending has grown at an average rate of about 16 percent annually under Freudenthal, which is the highest growth rate of any governor in the study.

**In 2008, Manchin signed into law a phased-in repeal of the business franchise tax and a reduction in the corporate income tax rate.**

## Notes

1. Thanks to Rachel Peters and Harrison Moar for their outstanding help on this report. I also appreciate the research performed by Elizabeth Karasmeighan.
2. U.S. Bureau of the Census, "Quarterly Summary of State Tax Revenue Data," [www.census.gov/govs/www/ntax.html](http://www.census.gov/govs/www/ntax.html). These data are for calendar years. The figure for 2008 is estimated based on first quarter data.
3. National Association of State Budget Officers, "The Fiscal Survey of States," June 2008, and prior issues. Spending rose from \$508 billion in fiscal 2003 to an estimated \$686 billion in fiscal 2008.
4. One concern regards the much weaker tax limits on business property than on residential property, which makes it likely that local governments will increase taxes to a greater extent on business property going forward. For background on changes to Florida's property taxes, see [www.floridadatawatch.org](http://www.floridadatawatch.org).
5. Chris Edwards and Daniel Mitchell, *Global Tax Revolution: The Rise of Tax Competition and the Battle to Defend It* (Washington: Cato Institute, 2008).
6. Recent articles on the state budget situation include Keith Richburg and Ashley Surdin, "States Are Hit Hard by Economic Downturn," *Washington Post*, March 31, 2008, p. A1; Jennifer Steinhauer, "As the Economy Falters, So Do State Budgets," *New York Times*, March 17, 2008; and Conor Dougherty, Amy Merrick, and Anton Troianovski, "States Slammed by Tax Shortfalls," *Wall Street Journal*, July 24, 2008.
7. U.S. Bureau of the Census, "Quarterly Summary of State Tax Revenue Data," [www.census.gov/govs/www/ntax.html](http://www.census.gov/govs/www/ntax.html).
8. Estimated based on Census data for the first quarter of 2008.
9. These data are based on NASBO spending totals as presented in Figure 1. They differ a bit from data in National Association of State Budget Officers, "The Fiscal Survey of States," June 2008, Table 2.
10. National Association of State Budget Officers, "The Fiscal Survey of States," June 2008.
11. Medicaid spending represented 22 percent of total state spending in fiscal 2006. See National Association of State Budget Officers, "State Expenditure Report 2006," December 2007, p. 2. For Medicaid projections, see Congressional Budget Office, "The Budget and Economic Outlook: Fiscal Years 2008 to 2018," January 2008, p. 52.
12. National Association of State Budget Officers, "The Fiscal Survey of States," June 2008, pp. 5–7.
13. Federal Reserve Board, "Flow of Funds Accounts of the United States," June 5, 2008, Table D.3.
14. Moody's Investors Service, "2008 State Debt Medians," April 2008.
15. Chris Edwards, "State and Local Government Debt Is Soaring," Cato Institute Tax and Budget Bulletin no. 37, July 2006.
16. The lower figure is from the Pew Center on the States, "Promises with a Price: Public Sector Retirement Benefits," 2007. The higher figure is from Barclays Global Investors, and assumes that government plans used similar accounting methods as private plans.
17. David Cho, "Growing Deficits Threaten Pensions," *Washington Post*, May 11, 2008, p. A1.
18. David Cho, "Growing Deficits Threaten Pensions," *Washington Post*, May 11, 2008, p. A1.
19. Chris Edwards and Jagadeesh Gokhale, "Unfunded State and Local Health Costs: \$1.4 Trillion," Cato Institute Tax and Budget Bulletin no. 40, October 2006.
20. Pew Center on the States, "Promises with a Price: Public Sector Retirement Benefits," 2007.
21. Pew Center on the States, "Promises with a Price: Public Sector Retirement Benefits," 2007.
22. NASBO data is available in annual editions of their "The Fiscal Survey of States."
23. NCSL data on enacted state tax changes is available in National Conference of State Legislatures, "State Tax Actions 2007," May 2008, and prior annual editions. *State Tax Notes* is published by Tax Analysts, Falls Church, Virginia. See [www.tax.org](http://www.tax.org).
24. See [www.taxfoundation.org/taxdata](http://www.taxfoundation.org/taxdata). Tax rate data was supplemented with data from the Federation of Tax Administrators at [www.taxadmin.org](http://www.taxadmin.org).
25. This variable was a challenge to measure. The starting points were NASBO reports showing proposed tax changes and NCSL reports showing tax changes that were actually enacted. However, the NCSL and NASBO reports have many shortcomings and omissions. Thus, a detailed file of news articles from *State Tax Notes* was compiled to

assess the major tax changes during each governor's tenure. Tax changes proposed by governors and those signed into law were taken into account. The measurement of this variable is not perfect, but legislated tax changes represent a crucial measure of a governor's fiscal stance, and thus this variable carries substantial weight in this study. Also note that temporary tax surcharges and temporary rebates were valued at one-quarter the value of permanent tax changes.

26. A caveat is that variable 3 included governors' actions to cut local property taxes. Often these cuts were part of school finance overhauls that caused state taxes to rise and local taxes to fall.

27. Florida House of Representatives, Policy and Budget Council, Staff Analysis for House Bill 1B, June 13, 2007.

28. Florida Legislature, Office of Economic and Demographic Research, "Revenue Estimating Conference: Impact of Senate Bill 2D," November 8, 2007.

29. One concern regards Florida's much weaker tax limits on business property than on residential property, which makes it likely that local governments will increase taxes more quickly on business property in coming years. For background on Florida's property tax reforms, see [www.floridatxwatch.org](http://www.floridatxwatch.org).

30. Karen Setze, "Who Cut Taxes," *State Tax Notes*, October 16, 2006, p. 164.

31. Phil Davidson, "Some Legislators Skeptical of Otter's Spending Plan," *Idaho Falls Post Register*, January 9, 2008.

32. Jonathan Williams, "Governor Blagojevich's Gross Receipts Tax Plan Represents Largest State Tax Increase This Decade," Tax Foundation, March 19, 2007. The gross receipts tax by itself would have raised about \$6 billion annually.

33. Quoted in Nicola White, "Governor Wants to Fund Medicaid With Hospital Tax Increase," *State Tax Notes*, August 11, 2008, p. 370.

34. The original tax increase is not counted toward the governor's report card grade since it was pre-2003, but the effects of the delay were included in the revenue variable.

35. Frederick Church and Christopher Hall, "The Track of the CAT: Forecasting Ohio's New Gross Receipts Tax," *State Tax Notes*, January 7, 2008, p. 25.

36. Quoted in Dave Wasson, "Governor Threatens Veto of Tax Breaks," *State Tax Notes*, February 20, 2006, p. 542.