



AMERICANS FOR TAX REFORM

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Whatever the Question, the Answer is *Not* Raising Taxes

A short list of budget alternatives

Each year when budget time rolls around in the states, there are questions of how to pay for government functions. Often, there are more hands outstretched to lawmakers than tax dollars to dole out. Rather than raiding taxpayers' wallets each year, fiscally responsible legislators and state officials have turned to several key strategies to prioritize and control state spending. The following are just a few examples of successful approaches to meeting state needs without raising taxes.

Competitive Sourcing

Jobs done by government employees may be done more efficiently at a lower cost to taxpayers if they were opened to competition. Not only does competitive sourcing save states money, but by opening government jobs to competition, there is also an incentive for the public sector to focus on continuous performance and efficiency improvement.

An Alabama Policy Institute study found that up to \$87 million per year could be saved in Alabama simply by outsourcing three non-academic functions in schools – bus service, grounds keeping, and cafeteria service:

<http://www.alabamapolicy.org/PDFs/OutsourcingStudyM.pdf>

Pension Reform

By reallocating all state pensions from defined benefit plans to defined contribution plans, states can move from an expensive and outdated pension system to an individual, savings-based approach. Defined benefit plans, which finance specified retiree benefits with contributions from current workers, are not sustainable as Baby Boomers begin to retire and fewer workers are paying for their benefits. The solution: defined contribution plans, which allow workers to contribute a portion of their salaries to a special account for their future retirement, offer workers greater control over their retirement income without leaving the state buried under unfunded liabilities.

An article in *Budget and Tax News* offers an insightful interview in, “State, Local Pension Plans Are 'A Ticking Time Bomb Set to Explode'”

<http://www.heartland.org/Article.cfm?artId=17833>

California is just one of several states moving towards defined contribution plans:

http://govbud.dof.ca.gov/BudgetSummary/MAJORPROGRAMAREAS/StatewideIssues/section2_1.html

See also, "The Gathering Pension Storm: How Government Pension Plans Are Breaking the Bank and Strategies for Reform," a 138-page report published by the Reason Foundation in June 2005, available online at <http://www.reason.org/ps335.pdf>.

Eliminating prevailing wage laws

The Ohio Legislative Service Commission concluded that exempting school construction projects only from Ohio's prevailing wage laws would save \$487.9 million over 5 years, a savings of 10.7 percent:

<http://www.abc.org/user-assets/Documents/Government%20Affairs/PrevailingWageLawStudies/Ohio.pdf>

A Minnesota-focused study found that simply changing the calculation of prevailing wages to conform with other states' treatment – rather than exempting school construction – would have saved \$126-\$172 million in 2002, or 7.4-10% of all capital project expenditures that year:

http://www.abc.org/userassets/Documents/Government%20Affairs/IssuePages/PrevailingWage/mn_prevailingwage_study.pdf

Reforming Medicaid

Governors Sanford and Bush are making strides towards Medicaid reform in South Carolina and Florida. Both states are planning to use federal waivers to introduce competition and choice into government-run health care.

<http://www.heritage.org/Research/HealthCare/wm920.cfm>
<http://www.empoweredcare.com/index.aspx>

Creating Performance Reviews

By implementing performance reviews, several states have found ways to find savings, improve accountability and prioritize programs.

This fall, voters in Washington State successfully passed an initiative requiring performance audits of all state agencies and entities.

<http://www.washingtonpolicy.org/GovtRegulations/PBbarnesi900.htm>

California's performance review includes recommendations for potential state savings of \$32 billion over five years.

<http://cpr.ca.gov/report/>

In Texas, a 2003 performance review report shows potential savings of \$3.5 billion.

<http://www.window.state.tx.us/etexas/>

Florida's performance based budgeting strategies have proven to cut costs and improve accountability in state government agencies.

<http://www.oppaga.state.fl.us/reports/pdf/9845rpt.pdf>

Sunday Sales

By allowing sale of distilled spirits on Sunday, not only do consumers benefit from the added convenience, but state coffers also benefit from increased revenues. Analysis has shown that growth in liquor sales in states that have recently started selling spirits on

Sundays far exceeds the industry average. As Sunday is a major shopping day, consumers and state governments both benefit from opening the week to alcohol sales.

“States OK Sunday Spirits Sales to Increase Tax Revenue, Consumer Convenience” by Randall Ford of *Budget and Tax News* provides more information:

<http://www.heartland.org/Article.cfm?artId=15980>.

Also, the NCPA highlights the benefits of Sunday Sales in “Cash-Strapped States Turning to Sunday Liquor Sales” <http://www.ncpa.org/iss/sta/2003/pd052003e.html>.

Other options:

- Sales of state owned property
- Move state employees to Health Savings Accounts
- Consolidate state agencies
- Freeze state hiring

For more ideas on how to responsibly meet budget challenges:

The American Legislative Exchange Council, ALEC, has also published a guide for budget cutting: <http://www.alec.org/meSWFiles/pdf/ShowMeTheMoney2.pdf>.

Taxpayers elect lawmakers to make the hard decisions and to act in their best interest. As raising taxes unnecessarily hurts a state’s economy and taxpayers, lawmakers have the opportunity to use innovative policy tools to fulfill government’s core functions.

For more information on defeating tax increases in your state, please contact Elizabeth Karasmeighan or Sandra Fabry at ekarasmeighan@atr.org or sfabry@atr.org or (202) 785-0266.