Policy Analysis

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Fiscal Policy Report Card on America's Governors: 2010

by Chris Edwards

Executive Summary

State governments have had to make tough budget choices in recent years. Tax revenues have stagnated as a result of the poor economy, and that has prompted governors to take a variety of fiscal actions to close large budget gaps. Some governors have cut spending to balance their budgets, while others have pursued large tax increases.

That is the backdrop to this 10th biennial fiscal report card of the governors, which examines state budget actions since 2008. 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.

Four governors were awarded an "A" in this report card—Mark Sanford of South Carolina, Bobby Jindal of Louisiana, Tim Pawlenty of Minnesota, and Joe Manchin of West Virginia. Seven governors were awarded an "F"—Ted Kulongoski of Oregon, David Paterson of New York, Jodi Rell of Connecticut, Pat Quinn of Illinois, Jim Doyle of Wisconsin, Bill Ritter of Colorado, and Chris Gregoire of Washington.

Many states have raised taxes the past two years, which has hurt families and businesses at a time when they are already struggling because of the slow economy. Across the 50 states, recent tax increases have been by far the largest in many years. Many states raised taxes even though the federal government showered them with billions of dollars of added funding in last year's "stimulus" bill.

To their credit, many governors have trimmed their budgets to match lower revenue levels. But overall state debt levels have doubled during the past decade, and many states face giant funding gaps in their pension and health care plans. Further budget cuts are needed to deal with these problems. At the same time, rising competition in the global economy calls for the states to reduce their business taxes to attract investment. America needs a lot more "A" governors to face these fiscal challenges and make the needed tax and spending reforms.

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The governors are graded on their fiscal performance from a limited-government perspective.

Introduction

Governors play a key role in the budget processes of the states. They propose budgets, recommend tax changes, and sign or veto tax and spending legislation. During economic booms, some governors cut tax rates to return surplus revenues to citizens, while other governors use extra funds to expand programs. During recessions, some governors close budget gaps by cutting spending, while others close gaps by raising taxes.

This report card covers the period from 2008 to the present, which has been a period of stagnant tax revenues and tough budget choices in most states. After years of robust increases, state general fund spending peaked in 2008, then fell in subsequent years as the sour economy took its toll.[1] Local governments have generally weathered the downturn better than state governments. The result is that total state and local spending did not actually decline, but was flat for a while and has now begun to rise again.[2]

This report card grades 45 governors. It excludes the governors of Kansas, New Jersey, Virginia, and Utah because they have been in office for only a brief period of time. As in prior Cato reports, Alaska is excluded because of peculiarities in that state's budget that make comparisons difficult.

The governors are graded 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. This matches the variables and methodology used in Cato's 2008 report card.

Tax and spending data for this 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 other sources.

The following section reviews the records of the highest-scoring and lowest-scoring governors and then discusses some of the 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. Appendix B provides brief summaries of the fiscal records of the governors.

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. Those scores were then converted to the letter grades "A" to "F."

When readers consider the grades, it is important to remember that the report covers the period 2008 to the present, not the entire tenure of each governor. Thus, Maryland's Martin O'Malley received an "F" on the 2008 report card mainly as a result of a large tax increase he supported in 2007, but O'Malley received a "B" on the current report card because he hasn't pushed tax increases in recent years and state spending has been restrained. Or consider Florida's Charlie Crist, who received an "A" on the 2008 report card mainly as a result of his support for large property tax cuts. In the current report card, Crist moves down to a "D" mainly because of a large tax increase he supported in 2009.

Highest-Scoring Governors

The highest-scoring governors are those who have supported the largest tax and spending cuts. Here are the four governors who received a grade of "A":

- ***Mark Sanford of South Carolina*** has been a staunch supporter of spending restraint and pro-growth tax reforms. In 2005, he cut the top income tax rate for small businesses from 7 percent to 5 percent, and in 2007 he signed into law sales and income

Table 1
Overall Grades for the Governors

State	Governor	Score	Grade
South Carolina	Mark Sanford (R)	74	A
Louisiana	Bobby Jindal (R)	71	A
Minnesota	Tim Pawlenty (R)	66	A
West Virginia	Joe Manchin (D)	66	A
Wyoming	Dave Freudenthal (D)	63	B
Rhode Island	Don Carcieri (R)	62	B
Oklahoma	Brad Henry (D)	62	B
Nevada	Jim Gibbons (R)	61	B
Texas	Rick Perry (R)	61	B
Alabama	Bob Riley (R)	61	B
Montana	Brian Schweitzer (D)	61	B
Georgia	Sonny Perdue (R)	60	B
Missouri	Jay Nixon (D)	59	B
Idaho	C. L. “Butch” Otter (R)	58	B
New Mexico	Bill Richardson (D)	57	B
Vermont	Jim Douglas (R)	56	B
Indiana	Mitch Daniels (R)	56	B
Maine	John Baldacci (D)	55	B
Maryland	Martin O’Malley (D)	55	B
Kentucky	Steven Beshear (D)	54	C
Michigan	Jennifer Granholm (D)	53	C
Mississippi	Haley Barbour (R)	53	C
South Dakota	Mike Rounds (R)	53	C
Tennessee	Phil Bredesen (D)	53	C
Nebraska	Dave Heineman (R)	51	C
North Dakota	John Hoeven (R)	51	C
Hawaii	Linda Lingle (R)	51	C
Florida	Charlie Crist (R)	49	D
Ohio	Ted Strickland (D)	49	D
California	Arnold Schwarzenegger (R)	47	D
Delaware	Jack Markell (D)	47	D
Arkansas	Mike Beebe (D)	47	D
Iowa	Chet Culver (D)	47	D
Massachusetts	Deval Patrick (D)	43	D
New Hampshire	John Lynch (D)	41	D
North Carolina	Beverly Perdue (D)	40	D
Arizona	Jan Brewer (R)	40	D
Pennsylvania	Edward Rendell (D)	40	D
Washington	Chris Gregoire (D)	39	F
Wisconsin	Jim Doyle (D)	35	F
Colorado	Bill Ritter (D)	35	F
Illinois	Pat Quinn (D)	30	F
Connecticut	Jodi Rell (R)	28	F
New York	David Paterson (D)	25	F
Oregon	Ted Kulongoski (D)	19	F
Average of 45 states		**50**	

tax cuts. Sanford has proposed replacing the state's income tax with a flat tax, and he has urged legislators to adopt a legal cap on the state's budget growth. He has also proposed phasing out the state's corporate income tax. On spending, Sanford's budgets have been very frugal. In fiscal 2010, South Carolina's general fund spending was expected to be slightly less than spending in Sanford's first year in office, fiscal 2003.[3] Sanford might have been more effective at getting proposed reforms passed if he hadn't made political and personal mistakes, but he gets a lot of credit for trying to cut government and make the state's tax code more competitive.

Tim Pawlenty of Minnesota has proposed pro-growth tax reforms, opposed tax increases, and been a relatively frugal budgeter.

- ***Bobby Jindal of Louisiana*** has a solid record on both his tax and his spending policies. In 2008, Jindal repealed previous income tax increases to save Louisiana residents more than $350 million a year.[4] He has also provided some modest business tax cuts and opposed efforts to raise taxes. Jindal has consistently proposed reductions in the state budget, with the result that proposed spending in fiscal year 2011 is expected to be 17 percent lower than spending his first year in office, FY08.
- ***Tim Pawlenty of Minnesota*** has proposed pro-growth tax reforms, opposed tax increases, and been a relatively frugal budgeter. He has proposed cutting the state's high and uncompetitive corporate franchise tax, and he has repeatedly vetoed giant tax-hike packages passed by the legislature, including increases to gasoline taxes, beer taxes, wine taxes, and income taxes. Under Pawlenty, state general fund spending rose modestly between FY03 and FY08 and has decreased substantially since then. The governor has also proposed a state constitutional amendment to limit general fund spending growth.
- ***Joe Manchin of West Virginia*** has been a popular governor for good reason. The state economy has done well under his fiscal policies of business tax cuts and relatively frugal budgeting. Manchin cut the corporate income tax rate, eliminated the corporate license tax, and phased out the business franchise tax. Manchin also has a good record on spending and in most years has proposed reductions to the general fund budget.

Lowest-Scoring Governors

The lowest-scoring governors are those who have increased taxes and spending the most. With the poor economy of recent years, these governors have pursued large tax increases in their efforts to balance state budgets. Unfortunately, those policies damage the economy and hurt families and businesses at a time when they can least afford it. Here are the seven governors who received a grade of "F":

- ***Ted Kulongoski of Oregon*** has been relentless in his advocacy of tax and spending increases. In 2003, he supported a ballot initiative to increase income taxes, but the plan was defeated by the voters. He has repeatedly pushed cigarette tax increases, even though voters defeated such an increase at the ballot box in 2007. In 2009, Kulongoski signed into law increases in gasoline taxes, hospital taxes, and business taxes, and he proposed more cigarette tax increases. In 2010, the governor pushed hard for an increase in personal and corporate income tax rates, and that increase was unfortunately approved by the voters. Oregon is blessed by not having a general sales tax, but Kulongoski has advocated imposing one on the state. Under Kulongoski, general fund spending soared 42 percent between FY03 and FY08, and unlike many governors he has not cut spending very much since then.
- ***David Paterson of New York*** has been in office less than three years, but he has already supported many large tax increases. In April 2008, he signed into law $1.7 billion in increases to cigarette taxes, sales taxes, and business taxes. In December 2008, he walloped New Yorkers with a

$1.5 billion "mobility tax," which is a new payroll levy on New York City workers. In 2009, Paterson signed into law a giant $5 billion tax increase, including increases in taxes on income, wine, cigars, health insurance, and utility bills. The law added top income tax rates of 7.85 percent and 8.97 percent—higher than the previous top rate of 6.85 percent. In 2010, Paterson signed into law another cigarette tax increase, bringing the combined state and New York City rate to $5.85 per pack. Paterson has also proposed new taxes on soda and health care.

- ***Jodi Rell of Connecticut*** has supported many tax increases. Rell's first budget proposed increases in cigarette taxes, gasoline taxes, and business taxes. In 2007, she proposed raising the cigarette tax from $1.51 to $2.00 per pack. In 2009, she approved legislation to increase the top income tax rate, add a surcharge to the corporate income tax, broaden the corporate tax base, and raise the cigarette tax to $3.00 per pack. While many states have cut spending in recent years, the Connecticut general fund budget has continued to rise.
- ***Pat Quinn of Illinois*** took office in January 2009 after his predecessor, Rod Blagojevich, was removed. Unfortunately, Quinn is following the same tax-increase approach that earned Blagojevich an "F" on the last Cato report card. In 2009, Quinn signed into law a $1.1 billion tax increase, including higher taxes on beer, wine, liquor, candy, beverages, hygiene products, and video gaming. He has pushed to increase the personal income tax rate from 3.0 percent to 4.5 percent and the corporate rate from 7.3 percent to 9.7 percent. He has also proposed raising cigarette taxes.
- ***Jim Doyle of Wisconsin*** generally avoided tax increases his first few years in office, but he changed course in 2007 and approved an almost $900 million package of tax increases on cigarettes, hospitals, oil companies, and real estate. Doyle topped that increase with a $1.1 billion tax package in 2009. The package broadened the corporate tax base, increased the top personal income tax rate, increased cigarette taxes, reduced the capital gains tax exclusion, and increased hospital taxes. The tax hikes have allowed Doyle to keep on spending, and he has proposed a substantial general fund increase for fiscal 2011.
- ***Bill Ritter of Colorado*** has focused on raising taxes and undermining the budget restraints built into the state's constitution. In 2008, he campaigned in favor of a ballot measure to impose a huge increase in severance taxes on oil production, but that proposal was defeated at the ballot box. In 2009, Ritter signed into law measures to broaden the sales tax base and helped repeal the Arveschoug-Bird legal limit on general fund spending increases. He has also signed into law increases in hospital taxes, property taxes, medical marijuana taxes, and vehicle license fees. Currently, Ritter is campaigning against a series of tax limitation measures that will appear on the November ballot.
- ***Chris Gregoire of Washington*** has supported many large tax increases over the years. In 2005, she raised taxes on cigarettes, gasoline, liquor, and vehicles, and she reestablished an estate tax after a previous version was struck down by the state supreme court. In the boom years before 2008, Gregoire blocked efforts to cut taxes. While campaigning for reelection in 2008, Gregoire argued in favor of spending cuts rather than tax increases to balance the budget. But once reelected, she approved a large tax-hike package including increases in business taxes, sales taxes, cigarette taxes, beer taxes, and candy taxes. Gregoire seems always to take the big-government side in referendum issues before voters. She has opposed ballot efforts to cap government budget growth and to require legislative supermajorities to raise taxes. This year, Gregoire supported putting a measure on the November ballot to cre-

David Paterson of New York has been in office less than three years, but he has already supported many large tax increases.

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ate a state income tax, even though state voters have turned down an income tax numerous times in the past.

Other Interesting Results

The data compiled for this report revealed some interesting fiscal patterns and trends across the states, including the following:

- **Republicans and Democrats.** Republican governors did better in this report card than Democrats, with an average score of 55 for Republicans and 47 for Democrats. Using the same methodology, Republicans edged Democrats in the 2008 Cato report card as well, 55 to 46. This result suggests there are modest but definite differences between the parties on fiscal philosophy. In this report card, Republicans scored better, on average, than Democrats on both spending (53 to 48) and revenue changes (62 to 42). Of course, there are many exceptions—on both the 2008 and 2010 report cards. For example, Democrat Joe Manchin earned an A this year, while Republican Jodi Rell earned an F.
- **Corporate Taxes.** Some governors, such as Quinn of Illinois and Kulongoski of Oregon, seem to view businesses as little more than cash cows to be milked for higher state spending. Other governors, including Carcieri of Rhode Island, Manchin of West Virginia, and Pawlenty of Minnesota, understand that their states are competing in the global economy, and to attract investment they need to reduce marginal tax rates on businesses. Optimally, state governments should abolish their corporate income taxes because they damage job creation and create huge compliance burdens, while raising relatively little money.[5]
- **Income Tax Rates.** One troubling trend is the push to raise individual income tax rates in many states. In the past couple of years, nine states increased their top income tax rates: California, Connecticut, Delaware, Hawaii, New Jersey, New York, North Carolina, Oregon, and Wisconsin. Only three states have cut their top income tax rates recently: North Dakota, Rhode Island, and Vermont.
- **Best Tax Reform.** The best reform enacted in recent years was pushed through by Governor Carcieri of Rhode Island in 2010. He signed off on a package that cut the state's top personal income tax rate from 9.90 percent to 5.99 percent, reduced the number of tax brackets from five to three, raised the standard deduction, and reduced the number of special interest tax breaks.
- **Cigarette Taxes.** Tax increases on tobacco consumers continue to be popular with the governors. But cigarette tax rates have become so high in many states that governments will receive little added revenue from the increases. More importantly, high cigarette taxes have generated a large black market, which has fueled organized crime and created other damaging effects.[6]
- **Tax Credit Disease.** In reviewing the records of the governors, I was struck by how many of them supported special tax "incentives," such as tax credits. At first blush, such credits might seem taxpayer-friendly because they reduce tax burdens. However, giving narrow credits to certain favored taxpayers creates inequality before the law. Tax credits also add complexity to state tax systems and provide opportunities for political corruption.

  Most states offer dozens of tax credits and other narrow tax benefits to aid certain favored activities. Missouri, for example, has 61 different tax credits, and each credit likely requires special tax forms, extensive and complex rules, specialized administrators and auditors, and other sorts of bureaucracy.[7] Missouri's governor, Jay Nixon, tried to scale back tax credits, but he later reversed course and touted the credits that he had previously denounced.[8] In Oklahoma, the government provides tax credits for "breeding of specially trained canines," "railroad reconstruction," "purchases of poultry litter," "purchases of Oklahoma-mined coal," "immunizations of food service operators," and dozens of other activities.[9] Oklahoma governor Brad Henry is trying to reduce these breaks, but special interest lobbying often gets in the way of sensible tax policy.

- **Jobs Incentives.** With the poor economy of recent years, narrow tax incentives to "create jobs" have proliferated. Some governors—including Jennifer Granholm of Michigan, Beverly Perdue of North Carolina, and Pat Quinn of Illinois—have pushed to impose general tax increases on businesses at the same time that they are championing narrow business breaks for job creation. Quinn advocates raising the state corporate tax rate from 7.3 percent to 9.7 percent, but he recently signed into law a tiny jobs tax credit and a 10-day sales tax holiday, which he says will "generate greater sales and create more jobs."[10] Granholm imposed a large surtax on the damaging Michigan Business Tax, yet she recently awarded a slew of narrow business tax breaks and claimed that "Michigan has the most aggressive strategy of any state to grow jobs."[11] Governor Sanford of South Carolina argues that "a better approach would be to simply lower the overall tax rate for corporations, so that we're not only giving companies a good deal when they decide to locate here but we're giving them a reason to stay and expand. . . . [We want] to avoid the unintended consequence that comes with much of today's incentives system, wherein we have one set of incentives for businesses coming in to our state, and much less in the way of help for small and mid-size businesses already here."[12] Alas, even Sanford occasionally succumbs to the incentives disease—for example, providing a package of breaks to Boeing in 2009.
- **Film Incentives.** The tax credit disease is best illustrated by the explosion in film production incentives. These incentives—which include tax credits, tax exemptions, and cash grants—are provided by 44 states.[13] The credits don't make any economic sense. For one thing, any jobs created by luring a Hollywood production to a state will likely be temporary. A study on South Carolina's film tax credit found that the state recoups just 19 cents for every dollar of incentive provided.[14] In Illinois, a state audit determined that the film *Public Enemies* starring Johnny Depp received about $5 million in tax credits, yet the film only generated about $5 million in economic activity. In Iowa, abuses of film incentives have led to front-page newspaper stories detailing the scandals.[15] And in some states, film subsidies have led to battles over whether the government should be aiding the production of movies that have violent or sexual themes.
- **Marijuana Taxes.** As marijuana laws have been liberalized in some states in recent years, policymakers have eyed the drug as a lucrative new revenue source. In California, Governor Arnold Schwarzenegger says that the state should consider legalizing and taxing marijuana, and state officials have estimated that a tax of $50 per ounce would raise more than $1 billion.[16] Some states, including Maine and Colorado, have recently imposed sales taxes on medical marijuana.

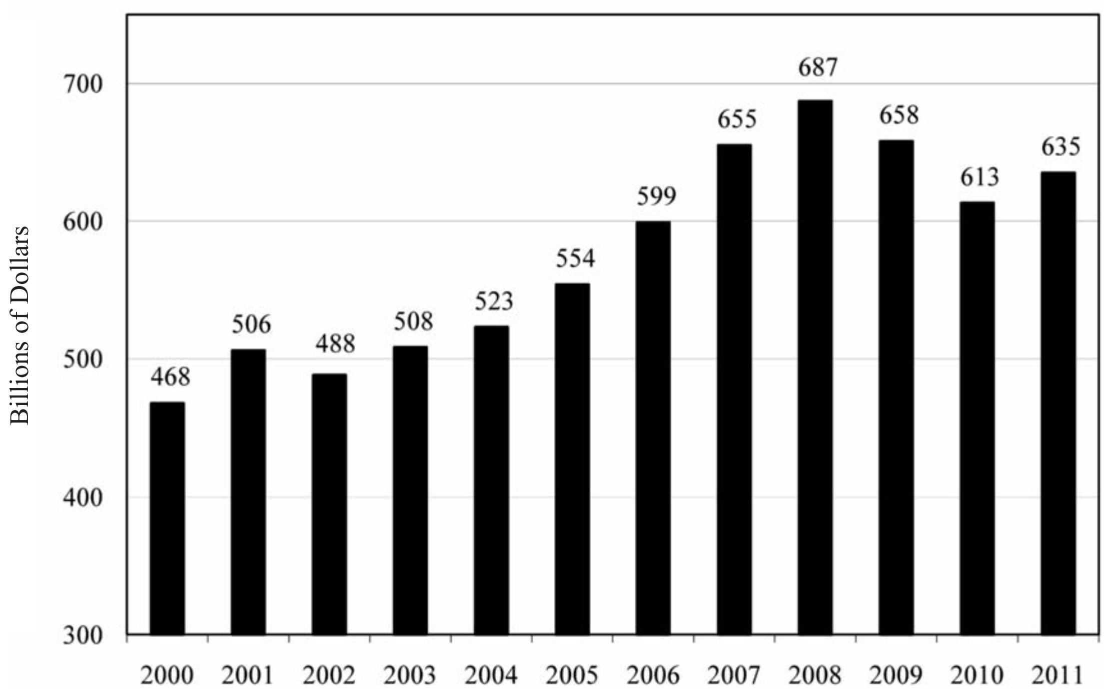
Fiscal Policy Outlook

State governments enjoyed a revenue gusher from the strong economy before the recent recession. That gusher prompted the states to increase general fund spending 47 percent between FY2000 and FY08, according to the National Association of State Budget Officers.[17] Figure 1 shows that after the peak in FY08, spending fell about 4 percent in FY09 and 7 percent in FY10, as many states trimmed their budgets. State general fund spending is expected to start rising again in FY11.

The fall in state general fund spending

The tax credit disease is best illustrated by the explosion in film production incentives.

Figure 1
State General Fund Spending



Source: National Association of State Budget Officers, *The Fiscal Survey of the States* (Washington: NASBO, 2010), and prior issues, www.nasbo.org.
Note: Fiscal years. Data for 2010 and 2011 are NASBO estimates.

since FY08 is only part of a broader budget picture. For instance, state governments do a lot of spending outside of their general fund budgets, and that other state spending does not appear to have fallen in recent years. The National Association of State Budget Officers reports that total state government spending rose 6 percent in FY09, even as general fund spending fell.[18]

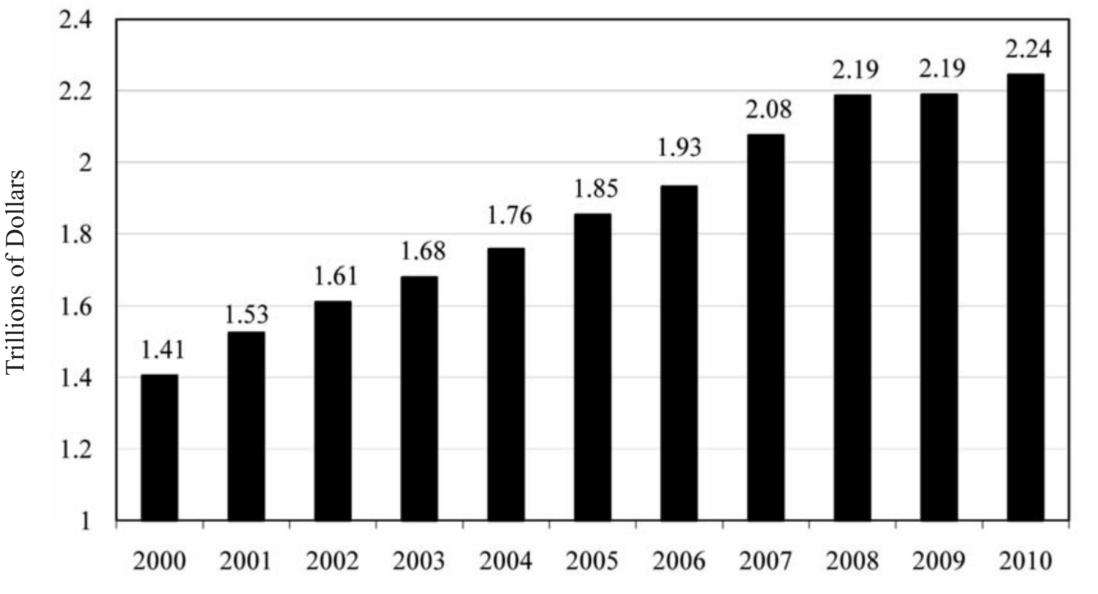
We can broaden the picture even further by looking at spending by both state and local governments. Figure 2 shows that state and local spending rose 55 percent from 2000 to 2008, based on U.S. Bureau of Economic Analysis data.[19] The data show that state and local spending leveled off in 2009 and then started rising again in 2010. In sum, while most states have had to trim their general fund budgets, the overall state and local fiscal situation has not been as dire as many news reports have suggested.

State and local spending rose 55 percent from 2000 to 2008.

Nonetheless, a real budget crisis does exist in the states. It is not the short-term problem caused by the recession, but the long-term problem of soaring debt and unfunded obligations from government retirement programs. Figure 3 shows that there has been an explosion in state and local government bond debt over the past decade. While state and local government debt outstanding was fairly stable during the 1990s, it has more than doubled from $1.20 trillion in 2000 to $2.46 trillion in 2010, according to the Federal Reserve Board.[20] Looking only at state governments, Moody's Investors Service collects data on "tax-supported debt," which is debt that will have to be paid back by state taxpayers.[21] State tax-supported debt doubled from $230 billion in 2000 to $460 billion by 2009. The upshot is that governments have been issuing debt at a rapid pace, which is essentially just an irresponsible and nontransparent way of imposing taxes on future generations.[22]

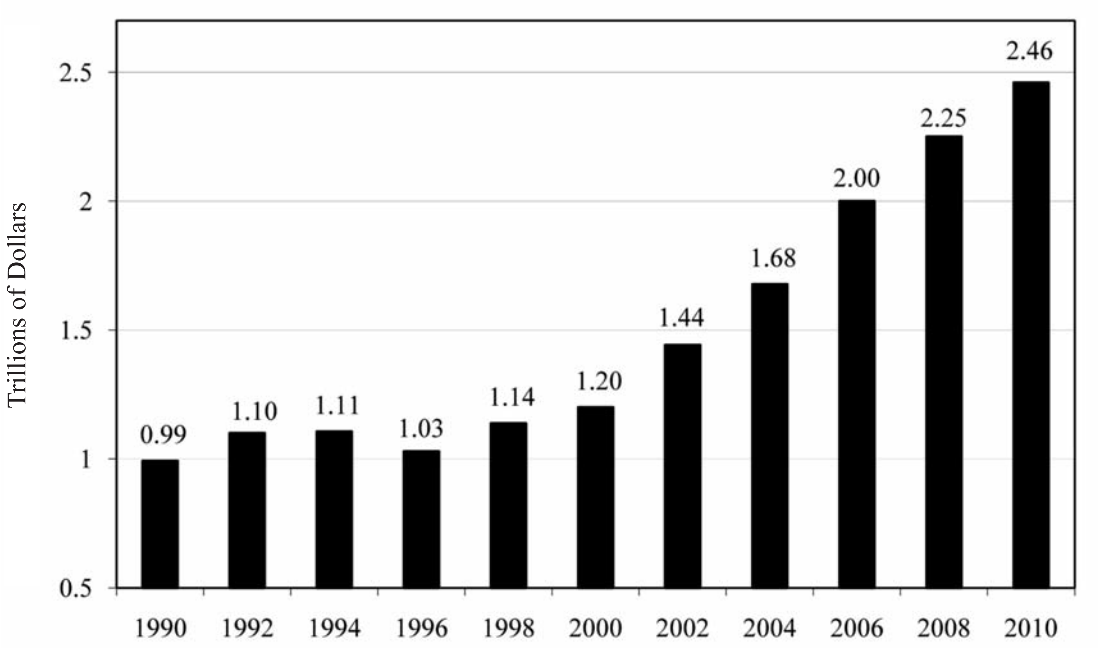
Another way that state policymakers are

Figure 2
Total State and Local Government Spending



Source: U.S. Bureau of Economic Analysis, National Income and Product Accounts, Table 3.3, http://bea.gov/national/nipaweb.
Note: Calendar years. Data for 2010 is estimated by the author based on two quarters.

Figure 3
State and Local Government Debt Outstanding



Source: Federal Reserve Board, *Flow of Funds Accounts of the United States* (Washington: Federal Reserve Board of Governors, 2010), Table D.3.
Note: Data for 2010 is estimated by the author based on one quarter.

Defined benefit pension plans have become a unique luxury of the public sector.

imposing burdens on future generations is by overpromising government pension benefits. State and local governments have expanded retirement benefits for their 20 million workers to excessive levels, with apparently little thought about whether those future benefits can actually be paid.

Defined benefit pension plans have become a unique luxury of the public sector. In 2009, they were available to 84 percent of state and local workers, but to just 21 percent of private workers.[23] Furthermore, public sector plans are generally more generous than the remaining private-sector plans.[24] A flood of recent news articles has highlighted the excesses of public-sector pension plans, with some cities and states providing truly outlandish benefits.[25]

Official estimates show that state and local pension plans are underfunded (or overpromised) by about $1 trillion.[26] However, official estimates typically understate the poor shape of pension plans because they rely on optimistic assumptions to value future liabilities. Using more realistic assumptions, a recent study by Robert Novy-Marx and Joshua Rauh found that state and local pensions had an enormous funding gap of $3.2 trillion.[27]

State and local governments also have large funding gaps in their employee retirement health plans, which likely total more than $1.4 trillion.[28] The combination of funding gaps in state and local pension and health plans amounts to about $40,000 for every household in the United States. That is the amount that taxpayers will be on the hook for unless policymakers start cutting excessive benefit levels.

In sum, the recession has encouraged most states to retrench in recent years and to cut some spending, but more reforms are needed. Policymakers in many states have been mortgaging the future by issuing excessive debt and overpromising retirement benefits. To meet the economic challenges facing the nation, state governments need to be much leaner and more efficient. Low-value programs should be terminated. Employee benefits should be cut. And government assets such as highways and airports should be privatized with the proceeds used to pay down state debt.

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 2008, or since 2009 for governors entering office in that year. The spending data used in the study come from the National Association of State Budget Officers, supplemented in some cases by data from the budget documents of individual states.[29] The data on proposed and enacted tax cuts come from the National Association of State Budget Officers, the National Conference of State Legislatures, and hundreds of news articles in *State Tax Notes* and other news sources.[30] The tax rate data come from the Tax Foundation but were updated by the author to reflect recent changes.[31]

This year's report card uses the same variables and methodology as the 2008 Cato report card. Each governor's performance is measured using seven policy variables: two for spending, one for revenue, and four for tax rates. The overall score is calculated as the average score of these three categories. Tables A1 and A2 summarize the governors' scores.

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, enacted, and vetoed tax changes. This variable is measured by the reported estimates of the annual dollar effects of tax changes as a percentage of a state's total tax revenues. This is an important variable but is a challenge to measure because it is based on information from

Table A-1
Spending and Revenue Variables

State	Governor	Spending Score	Proposed Changes in Per Capita Spending (percent)	Actual Changes in Per Capita Spending (percent)	Revenue Score	Changes in Revenues from Proposed and Enacted Tax Changes (percent)
Alabama	Bob Riley (R)	79	−3.6	−12.1	49	1.0
Arizona	Jan Brewer (R)	54	3.4	−12.0	27	2.6
Arkansas	Mike Beebe (D)	31	2.1	−1.7	57	0.5
California	Arnold Schwarzenegger (R)	69	−3.2	−9.1	35	2.0
Colorado	Bill Ritter (D)	42	2.3	−6.3	7	4.2
Connecticut	Jodi Rell (R)	17	2.7	2.7	46	1.3
Delaware	Jack Markell (D)	56	−0.3	−8.2	39	1.8
Florida	Charlie Crist (R)	64	1.6	−13.5	34	2.2
Georgia	Sonny Perdue (R)	67	−0.7	−11.6	55	0.6
Hawaii	Linda Lingle (R)	43	2.0	−6.1	75	−0.9
Idaho	C. L. “Butch” Otter (R)	62	−3.2	−6.6	54	0.6
Illinois	Pat Quinn (D)	33	−0.5	0.7	0	6.9
Indiana	Mitch Daniels (R)	25	2.7	−0.3	86	−1.7
Iowa	Chet Culver (D)	31	1.3	−0.8	53	0.7
Kentucky	Steven Beshear (D)	45	1.0	−5.8	63	0.0
Louisiana	Bobby Jindal (R)	74	−8.2	−4.5	84	−1.6
Maine	John Baldacci (D)	57	−3.6	−4.1	51	0.8
Maryland	Martin O'Malley (D)	46	−1.0	−3.3	62	0.0
Massachusetts	Deval Patrick (D)	59	0.7	−10.3	23	2.9
Michigan	Jennifer Granholm (D)	66	−3.2	−8.1	38	1.9
Minnesota	Tim Pawlenty (R)	65	−3.2	−7.6	87	−1.8
Mississippi	Haley Barbour (R)	58	−3.6	−4.4	49	1.0
Missouri	Jay Nixon (D)	55	3.3	−12.0	66	−0.3
Montana	Brian Schweitzer (D)	72	−4.6	−8.5	55	0.6
Nebraska	Dave Heineman (R)	21	3.3	0.5	77	−1.0
Nevada	Jim Gibbons (R)	55	−3.5	−3.5	81	−1.3
New Hampshire	John Lynch (D)	34	1.1	−1.4	37	1.9
New Mexico	Bill Richardson (D)	57	−2.4	−5.7	61	0.1
New York	David Paterson (D)	29	1.0	0.5	15	3.6
North Carolina	Beverly Perdue (D)	45	0.5	−4.9	46	1.3
North Dakota	John Hoeven (R)	6	4.7	8.6	82	−1.4
Ohio	Ted Strickland (D)	38	−0.5	−1.1	52	0.8
Oklahoma	Brad Henry (D)	79	−9.5	−6.5	52	0.8

Continued next page

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

State	Governor	Spending Score	Proposed Changes in Per Capita Spending (percent)	Actual Changes in Per Capita Spending (percent)	Revenue Score	Changes in Revenues from Proposed and Enacted Tax Changes (percent)
Oregon	Ted Kulongoski (D)	33	3.7	−4.7	0	6.2
Pennsylvania	Edward Rendell (D)	41	1.5	−4.6	24	2.8
Rhode Island	Don Carcieri (R)	61	−1.0	−8.8	61	0.1
South Carolina	Mark Sanford (R)	96	−7.1	−14.6	71	−0.6
South Dakota	Mike Rounds (R)	41	0.1	−2.9	62	0.1
Tennessee	Phil Bredesen (D)	57	−1.7	−6.6	46	1.3
Texas	Rick Perry (R)	64	−5.0	−5.0	63	0.0
Vermont	Jim Douglas (R)	44	1.0	−5.2	66	−0.2
Washington	Chris Gregoire (D)	20	4.5	−0.9	45	1.3
West Virginia	Joe Manchin (D)	58	−6.3	−1.1	75	−0.9
Wisconsin	Jim Doyle (D)	31	1.2	−0.9	30	2.4
Wyoming	Dave Freudenthal (D)	72	−9.2	−3.8	61	0.1
Average of 45 states		**50**	**−0.9**	**−5.0**	**50**	**0.9**

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)	56	0.00	0.00	0.00	0
Arizona	Jan Brewer (R)	39	0.00	0.00	1.00	0
Arkansas	Mike Beebe (D)	53	0.00	0.00	0.00	56
California	Arnold Schwarzenegger (R)	37	0.25	0.00	1.00	0
Colorado	Bill Ritter (D)	56	0.00	0.00	0.00	0
Connecticut	Jodi Rell (R)	23	1.50	0.75	0.00	100
Delaware	Jack Markell (D)	46	1.00	0.00	0.00	45
Florida	Charlie Crist (R)	50	0.00	0.00	0.00	100
Georgia	Sonny Perdue (R)	56	0.00	0.00	0.00	0
Hawaii	Linda Lingle (R)	34	2.75	0.00	0.00	120
Idaho	C. L. “Butch” Otter (R)	56	0.00	0.00	0.00	0
Illinois	Pat Quinn (D)	56	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)
Indiana	Mitch Daniels (R)	56	0.00	0.00	0.00	0
Iowa	Chet Culver (D)	56	0.00	0.00	0.00	0
Kentucky	Steven Beshear (D)	54	0.00	0.00	0.00	30
Louisiana	Bobby Jindal (R)	56	0.00	0.00	0.00	0
Maine	John Baldacci (D)	56	0.00	0.00	0.00	0
Maryland	Martin O'Malley (D)	56	0.00	0.00	0.00	0
Massachusetts	Deval Patrick (D)	47	0.00	−0.75	1.25	100
Michigan	Jennifer Granholm (D)	56	0.00	0.00	0.00	0
Minnesota	Tim Pawlenty (R)	47	0.00	0.00	0.38	0
Mississippi	Haley Barbour (R)	53	0.00	0.00	0.00	50
Missouri	Jay Nixon (D)	56	0.00	0.00	0.00	0
Montana	Brian Schweitzer (D)	56	0.00	0.00	0.00	0
Nebraska	Dave Heineman (R)	56	0.00	0.00	0.00	0
Nevada	Jim Gibbons (R)	48	0.00	0.00	0.35	0
New Hampshire	John Lynch (D)	52	0.00	0.00	0.00	70
New Mexico	Bill Richardson (D)	52	0.00	0.00	0.00	75
New York	David Paterson (D)	32	2.12	0.00	0.00	285
North Carolina	Beverly Perdue (D)	31	0.23	0.21	1.00	10
North Dakota	John Hoeven (R)	65	−0.68	−0.10	0.00	0
Ohio	Ted Strickland (D)	56	0.00	0.00	0.00	0
Oklahoma	Brad Henry (D)	56	0.00	0.00	0.00	0
Oregon	Ted Kulongoski (D)	25	2.00	1.30	0.00	0
Pennsylvania	Edward Rendell (D)	55	0.00	0.00	0.00	25
Rhode Island	Don Carcieri (R)	64	−3.91	0.00	0.00	100
South Carolina	Mark Sanford (R)	53	0.00	0.00	0.00	50
South Dakota	Mike Rounds (R)	56	0.00	0.00	0.00	0
Tennessee	Phil Bredesen (D)	56	0.00	0.00	0.00	0
Texas	Rick Perry (R)	56	0.00	0.00	0.00	0
Vermont	Jim Douglas (R)	58	−0.55	0.00	0.00	45
Washington	Chris Gregoire (D)	50	0.00	0.00	0.00	100
West Virginia	Joe Manchin (D)	63	0.00	−0.25	0.00	0
Wisconsin	Jim Doyle (D)	44	1.00	0.00	0.00	75
Wyoming	Dave Freudenthal (D)	56	0.00	0.00	0.00	0
Average of 45 states		**50**	**0.13**	**0.03**	**0.11**	**32**

Note: The changes in income and sales tax rates are the actual changes in the percentage rates. For example, New York's top individual income rate increased from 6.85 percent to 8.97 percent, and thus the table shows 2.12.

hundreds of news articles, budget documents, and reports.[32]

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. Also, the spending variables are only for state general fund budgets, which are usually the budgets that governors have the most control over. Variable 1 is measured through FY11, and variable 2 is measured through FY10. Variables 3 to 7 cover changes during the period January 2008 to August 2010.

For each variable, the results are standardized with the worst scores near 0 and the best scores near 100. The score for each of the three categories—spending, revenue, and tax rates—is the average score of the variables within the category. One exception is that the cigarette tax rate variable is half-weighted because that tax is 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.

Governors receiving an "F" have put the government's desire for program expansion ahead of the public's need to keep its hard-earned money.

Measurement Caveats

This report uses publicly available statistical data to measure the fiscal performance of the governors. However, several unavoidable problems arise in the grading process.

For one thing, the report card cannot entirely isolate the policy effects 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 readers isolate the performance of governors, variables 1 and 3 are included to measure the effects 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 spending, but governors in nine states do not have that power. Another example is the supermajority voting requirement to override a veto, which 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 cutting spending. Governors receiving an "F" have put the government's desire for program expansion ahead of the public's need to keep its hard-earned money. In between "A" and "F" are many governors who gyrate between fiscal approaches one year to the next. We hope the leadership shown by the "A" governors will inspire the next crop of governors to pursue the bold fiscal reforms that the states will need in coming years.

Appendix B: Fiscal Policy Notes on the Governors

Following are highlights of the fiscal records of the 45 governors covered in this report. The discussions are based on the tax and spending data used in grading the governors, as well as information from *State Tax Notes* and other news sources. The grades are calculated on the basis of each governor's record since 2008, but earlier budget policies are also discussed to provide context. All mentions of state spending refer to general fund budgets. All mentions of the dollar values of tax increases and tax cuts are the estimated annual revenue effects.

Alabama
Bob Riley, Republican — Legislature: Democratic
Grade: B — Took Office: January 2003

In his first few years in office, Governor Riley pursued income, sales, and cigarette tax increases. He also presided over a very large increase in general fund spending between FY03 and FY08. The governor has demonstrated much more fiscal restraint in recent years. In 2007, he proposed modest income tax cuts; during the current economic slowdown, he has avoided tax increases and worked with the legislature to cut the budget substantially.

Arizona
Jan Brewer, Republican — Legislature: Republican
Grade: D — Took Office: January 2009

Governor Brewer has gained a national profile with her conservative border enforcement policies, but her fiscal policies have not been conservative. Brewer's major fiscal effort was to push through an increase in the state sales tax rate from 5.6 percent to 6.6 percent to raise $1 billion annually. She vetoed the legislature's budget plan in July 2009 because it cut spending to balance the budget rather than increase the sales tax. She pushed to get the sales tax increase on a statewide ballot, and voters approved it in 2010. The tax hike is supposed to be temporary, but weaning politicians from revenue sources is difficult once in place. In September 2009, Brewer used her veto power to keep in place an unpopular state property equalization tax. To her credit, Brewer has proposed cutting the state corporate tax rate from 6.96 percent to 4.55 percent, but she does not seem to have pushed the idea very hard.

Arkansas
Mike Beebe, Democrat — Legislature: Democratic
Grade: D — Took Office: January 2007

Governor Beebe signed into law reductions in sales taxes on groceries in 2007 and 2009. But he has also supported tax increases. In 2008, he approved a large increase in severance taxes on natural gas companies; in 2009, he hit cigarette consumers with a tax increase of 56 cents per pack. On spending, the governor's budgets have promoted larger increases than typical in the other states.

California
Arnold Schwarzenegger, Republican — Legislature: Democratic
Grade: D — Took Office: November 2003

During his years in office, Governor Schwarzenegger has gyrated between support for tax and budget reforms and support for the legislature's big government policies. In his first year in office, Schwarzenegger provided modest tax relief and restrained spending. But in the subsequent few years, the general fund budget expanded rapidly to more than $100 billion. When the economy sank into recession in 2008 and revenues evaporated, the higher spending levels could not be supported and policymakers have battled ever since over how to balance the budget.

In 2009, Schwarzenegger signed into law a huge package of "temporary" tax increases val-

In 2009, Schwarzenegger signed into law a huge package of "temporary" tax increases valued at $14 billion a year.

While many other states have cut spending in recent years, the Connecticut general fund budget has continued to rise.

ued at $14 billion a year. The sales tax rate rose from 7.25 percent to 8.25 percent, all personal income tax rates went up by 0.25 percent, and vehicle license fees increased. The governor also approved a tax increase on health care premiums.

Schwarzenegger has made some reforms to California government, but he will be handing over a giant economic and fiscal mess to the next governor. State unemployment is over 12 percent, the state's pension system has massive funding gaps, and the state's bond debt has exploded. According to Moody's, California's state debt soared from 2.5 percent of state income when Schwarzenegger came to office in 2003 to 4.4 percent in 2009.[33] The rising debt is a looming threat to state taxpayers, yet California's personal, corporate, and capital gains tax rates are already some of the highest in the nation.

Colorado

Bill Ritter, Democrat — Legislature: Democratic
Grade: F — Took Office: January 2007

Governor Ritter has focused on raising taxes and undermining the budget restraints built into the state constitution's Taxpayer Bill of Rights. In 2008, he campaigned in favor of a ballot measure to increase severance taxes on oil production, but that proposal was defeated at the ballot box. In 2009, Ritter signed into law measures to broaden the sales tax base and helped repeal the Arveschoug-Bird limit on general fund spending increases. This year, Ritter is campaigning against a series of tax limitation measures that will appear on the November ballot. He also signed into law increases in hospital taxes, property taxes, and taxes on medical marijuana. Ritter has a poor record on spending as well, proposing budget increases in recent years despite the poor state of the economy.

Connecticut

Jodi Rell, Republican — Legislature: Democratic
Grade: F — Took Office: July 2004

Governor Rell's fiscal record features many large tax increases. Rell's first budget proposed increases in cigarette taxes, gasoline taxes, and business taxes. In 2007, she proposed raising the cigarette tax to $2 per pack. In 2009, she approved a large tax-increase bill that raised the top income tax rate from 6.0 percent to 7.5 percent, added a "temporary" corporate income tax surcharge of 10 percent, broadened the corporate tax base, and raised the cigarette tax to $3 per pack. And while many other states have cut spending in recent years, the Connecticut general fund budget has continued to rise.

Delaware

Jack Markell, Democrat — Legislature: Democratic
Grade: D — Took Office: January 2009

Governor Markell has been in office less than two years, and he has already walloped Delaware residents with a range of tax increases. In 2009, he signed into law an increase in the top personal income tax rate from 5.95 percent to 6.95 percent, an increase in the corporate franchise tax, an increase in the gross receipts tax, and an increase in cigarette taxes of 45 cents per pack.

Florida

Charlie Crist, Republican — Legislature: Republican
Grade: D — Took Office: January 2007

In the 2008 Cato report card, Governor Crist received an "A" based on his support of property tax cuts and spending restraint. But since then, the governor has switched fiscal gears and supported large tax increases on Floridians. Crist signed into law a $2.2 billion increase in 2009, which included a $1 per pack increase on cigarette consumers and more than $1 billion in new "fees" for vehicle licenses, fishing licenses, and other items. Then, exhibiting amnesia, Crist declared in his 2010 State of the State address: "My core principle is to not raise taxes."[34] Crist continues to support property tax relief, but it is not clear that such relief would lead to lower taxes overall. A proposed "tax swap" in 2008 would have reduced local property taxes but increased state-level taxes by perhaps a greater amount.

This report does not consider Governor Crist's troubling fiscal actions with regard to the state's property insurance system. The actions of the governor have helped create a system that keeps insurance rates far below the market level, causing an exodus of private insurers, and leaving a government agency—the Florida Citizens Property Insurance Corporation—as the largest homeowners' insurer in the state. Crist has also helped expand a massively underfunded government hurricane reinsurance fund, the Florida Hurricane Catastrophe Fund. Following a major hurricane or series of hurricanes, claims to the fund could be tens of billions of dollars more than available assets, and taxpayers would probably have to foot a huge bailout bill. Crist has repeatedly opposed bills that would improve the actuarial soundness of the state's insurance system.[35]

Crist has repeatedly opposed bills that would improve the actuarial soundness of the state's insurance system.

Georgia

Sonny Perdue, Republican — Legislature: Republican
Grade: B — Took Office: January 2003

Governor Perdue is sometimes a tax hiker and sometimes a tax cutter. He began his tenure by supporting substantial tax increases, but he then reversed course and supported modest cuts in 2007 and 2008. In 2009, he supported a package of business tax "incentives," but then vetoed more substantial pro-growth tax cuts, including cuts to the capital gains tax and corporate net worth tax. In 2010, Perdue signed into law a tax increase on hospitals, and then cut property taxes and taxes on retirement income. Purdue has a good record on spending and has presided over substantial cuts to the state's general fund budget since it peaked in fiscal 2008.

Hawaii

Linda Lingle, Republican — Legislature: Democratic
Grade: C — Took Office: December 2002

Hawaii has one of the highest state tax burdens in the country. Governor Lingle has supported some modest cuts to income taxes, sales taxes, and other taxes to ease the burden. Lingle has also vetoed numerous tax increases, including a hike to personal income tax rates in 2009, although the legislature overrode her veto. However, Lingle has supported some tax increases. In 2010, she agreed to an increase in cigarette taxes and oil import taxes. Hawaii's general fund budget grew 42 percent between 2003 and 2008 under Lingle, but since then, spending has fallen about 8 percent.

Idaho
C. L. "Butch" Otter, Republican — Legislature: Republican
Grade: B — Took Office: January 2007

Since coming to office, Governor Otter has pushed hard to increase vehicle-related taxes to fund transportation, but the legislature has repeatedly rejected his plans. In 2009, Otter proposed increasing the gas tax by 10 cents per gallon, imposing a 6 percent excise tax on rental cars, and raising vehicle registration fees. Otter has also supported some tax cuts, such as cuts to sales taxes on groceries and business property taxes. On spending, Otter supported a large increase his first year in office, but he has trimmed spending since then as the recession set in. The governor has taken numerous steps to improve efficiency and accountability in state government, such as trimming state employment.

Illinois
Pat Quinn, Democrat — Legislature: Democratic
Grade: F — Took Office: January 2009

Governor Quinn took office in January 2009 after his predecessor, Rod Blagojevich, was impeached and removed. Unfortunately, Quinn is following the same high-tax approach that earned Blagojevitch an "F" on the last Cato report card. In 2009, Quinn signed into law a $1.1 billion tax increase, which included higher taxes on beer, wine, liquor, candy, beverages, hygiene products, and video gaming. He has pushed to increase the state cigarette tax by $1 per pack and to increase personal and corporate income tax rates. Last year, he proposed increasing the personal rate from 3.0 percent to 4.5 percent and the corporate rate from 7.3 percent to 9.7 percent. In 2010, he scaled back his proposed rate increases, but they would still amount to a $2.8 billion hike per year if approved. The Democratic legislature is hesitating to go along with Quinn, as state polls indicate that further tax increases are hugely unpopular.[36]

Indiana
Mitch Daniels, Republican — Legislature: Divided
Grade: B — Took Office: January 2005

Governor Daniels is a fiscal conservative, but he seems to focus more on balancing the state budget than shrinking the size of government. In his first term, he signed into law an increase in the cigarette tax to fund higher health spending, and he proposed a temporary increase in the top income tax rate. The legislature rejected the latter increase. In 2008, he enacted a tax overhaul that swapped an increase in the state sales tax rate for lower local property taxes. The plan delivered an overall tax cut, but it may lead to larger government down the road by increasing state power at the expense of competition between local jurisdictions. Daniels has called for refunds to taxpayers in years when the state has a large budget surplus, but he has not pushed for permanent state tax cuts. For example, the Indiana corporate tax rate is substantially higher than average, but Daniels has made no effort to cut it. On spending, Daniels constrained the general fund budget to a 10 percent increase between FY05 and FY09, but spending has not fallen since then as it has in many other states. The governor has made some pro-market spending reforms—such as leasing the Indiana Toll Road to a private firm—but he also has a soft spot for certain areas of state spending, such as education.

Governor Daniels is a fiscal conservative, but he seems to focus more on balancing the state budget than shrinking the size of government.

Iowa
Chet Culver, Democrat — Legislature: Democratic
Grade: D — Took Office: January 2007

Governor Culver received an "F" on the last Cato report card, and he has not done very well on the current report card either. He increased cigarette taxes in 2007, and he increased the state sales tax rate by 1 percentage point in 2008, although that increase mainly replaced a discontinued local-option sales tax. Culver has called for greater scrutiny of the state's 30 different tax credit programs after a scandal involving the state's film tax credit, but he is supportive of some special breaks, such as a credit for wind energy. Culver proposed large spending increases his first couple of years in office, but he has restrained spending the past couple of years as the economic slowdown has reduced available revenues.

Kentucky
Steven Beshear, Democrat — Legislature: Divided
Grade: C — Took Office: December 2007

Governor Beshear pushed through a doubling of the state cigarette tax from 30 cents to 60 cents per pack and an increase in taxes on wine, beer, and liquor. He has focused on redesigning the state's many tax credits, and he signed into law an expansion of those special interest giveaways in 2009. Beshear's spending record is not particularly good. He proposed increases the past two years even though governors in many states were cutting spending because of the recession.

Louisiana
Bobby Jindal, Republican — Legislature: Democratic
Grade: A — Took Office: January 2008

Governor Jindal is a top-performing governor with regard to both his tax and his spending policies. In 2008, Jindal repealed income tax increases that were put in place in 2002, providing taxpayer savings of more than $350 million a year. Jindal has also provided modest business tax cuts and opposed efforts to reverse the income tax cuts. Like nearly all governors, however, Jindal has succumbed to the tax credit disease and supported special interest breaks for film production, music recording, and other activities. On spending, the governor has consistently proposed reductions to the state budget, with the result that proposed general fund spending is 17 percent lower in FY11 than it was his first year in office, FY08.

Maine
John Baldacci, Democrat — Legislature: Democratic
Grade: B — Took Office: January 2003

Governor Baldacci has put effort into reducing property taxes over the years, and he has opposed broad-based income and sales tax increases. More recently, however, he has supported increases in soft drink taxes, alcohol taxes, and various government fees. He has also opposed efforts to put a legal cap on growth in the state budget. Baldacci has supported cutting the state's top personal income tax rate. In 2009, he signed legislation that cut the income

Baldacci has supported cutting the state's top personal income tax rate.

tax rate from 8.5 percent to 6.85 percent, while broadening the sales tax base in a revenue-neutral package. However, Republicans led a successful campaign to reverse the reform, so the income tax rate is back up to 8.5 percent. Baldacci has a pretty good record on spending. Proposed spending for FY11 will be down about 14 percent from the FY08 peak. In recent years, cuts have been made to health programs, education programs, and state worker pay.

Maryland

Martin O'Malley, Democrat	Legislature: Democratic
Grade: B	Took Office: January 2007

Governor O'Malley became a champion tax hiker in 2007 with the enactment of a $1.4 billion package of tax increases. That package included increases in corporate taxes, personal income taxes, sales taxes, and cigarette taxes. However, during the period of the current study, O'Malley has not pushed for any major tax increases. Indeed, with the poor economy and stagnant state revenues, O'Malley has had to focus on trimming spending in recent years. As a result, the governor's score rose from an "F" on the last report card to a "B" on this one.

In 2009, Patrick approved a legislative package that raised taxes by $1 billion a year mainly by increasing the state sales tax rate from 5.0 percent to 6.25 percent.

Massachusetts

Deval Patrick, Democrat	Legislature: Democratic
Grade: D	Took Office: January 2007

Governor Patrick has supported numerous tax increases during his time in office. In 2008, he signed into law a corporate tax overhaul that included a small rate cut but a large broadening of the tax base, resulting in a substantial overall tax increase. Also in 2008, he signed into law a $1 per pack cigarette tax increase. In 2009, Patrick approved a legislative package that raised taxes by $1 billion a year mainly by increasing the state sales tax rate from 5.0 percent to 6.25 percent. Patrick has also pushed for a gasoline tax increase. Thanks to a successful petition drive, voters will decide on the November ballot whether to repeal Patrick's huge sales tax increase.

Michigan

Jennifer Granholm, Democrat	Legislature: Divided
Grade: C	Took Office: January 2003

Michigan has a very poor economy with high unemployment, and Governor Granholm's efforts to increase taxes have not helped the situation. In 2007, the governor approved increases in personal income taxes and the Michigan Business Tax. In 2009, Granholm proposed a package of tax increases to raise almost $700 million annually, including increases on cigarettes, bottled water, sports events, entertainment tickets, and other items. The legislature rejected her plan. This year, Granholm proposed a package that would reduce the sales tax rate, remove a Michigan Business Tax surcharge, and broaden the sales tax base. The proposal would raise about $550 million a year in the short run but supposedly would be revenue neutral in the long run. The governor has also expressed support for converting the state's flat income tax to a graduated structure, which would penalize higher earners. Michigan's general fund spending has declined substantially in recent years, which has aided Granholm's score on this report card.

Minnesota
Tim Pawlenty, Republican — Legislature: Democratic
Grade: A — Took Office: January 2003

In his first few years in office, Governor Pawlenty backed tax increases on corporations and cigarette consumers. However, the governor has changed course in recent years, consistently supporting tax cuts and opposing tax increases. In 2008, he vetoed a large gasoline tax increase. In 2009, he twice vetoed giant tax packages passed by the legislature, which included increases in the top personal income tax rate and increased taxes on gasoline, beer, wine, and liquor. In 2010, he again vetoed an income tax rate increase. Pawlenty has also proposed substantial business tax cuts to make the state more competitive, and he wants the corporate tax rate reduced from 9.9 percent to 4.8 percent. Under Pawlenty, state general fund spending rose 22 percent between FY03 and FY08, which was less than the average state increase. The governor's proposed spending for FY11 is down 10 percent from the FY08 peak. Pawlenty has proposed a constitutional amendment to limit annual growth in the state's general fund spending over the long term.

Mississippi
Haley Barbour, Republican — Legislature: Democratic
Grade: C — Took Office: January 2004

Governor Barbour has a conservative reputation, but his tax and spending record over seven years as governor has not been very conservative. Barbour has proposed some small tax breaks and blocked some tax increases proposed by the legislature, but he has not pushed for pro-growth reforms such as marginal tax rate cuts. Barbour signed into law a tax increase on hospitals in 2008 and a tax increase on cigarettes of 50 cents per pack in 2009. With regard to the hospital tax, Barbour said, "It's a good, fair deal that taxes the hospitals, not our citizens—and rightly so."[37] But, of course, the cost of higher taxes collected from hospitals will ultimately fall on citizens. On spending, Barbour oversaw large increases in the budget before the recent recession. General fund spending soared 43 percent between FY04 and FY08. But the recession has forced governors to cut back, and Barbour's proposed spending for FY11 is down 14 percent from the FY08 peak.

Missouri
Jay Nixon, Democrat — Legislature: Republican
Grade: B — Took Office: January 2009

Business taxation has been an important focus of Governor Nixon during his short time in office. He signed into law an increase in the taxable threshold for companies under the state franchise tax, which will apparently remove the tax from four-fifths of businesses that currently pay it. Nixon has also struggled with what to do about special interest breaks in the state tax code. Missouri's tax code is littered with 61 tax credits valued at roughly half a billion dollars. Nixon increased some of these in 2009 but then decided to cut them in 2010. Then later in 2010, he began to "tout tax credits he had previously denounced," such as championing a special break for automobile manufacturers.[38]

Business taxation has been an important focus of Governor Nixon during his short time in office.

Gibbons has proposed business tax cuts and opposed and vetoed numerous tax increases.

Montana

Brian Schweitzer, Democrat — Legislature: Divided

Grade: B — Took Office: January 2005

State spending exploded during Governor Schweitzer's first few years in office. General fund spending rose 52 percent between FY05 and FY08. As a result, the governor scored poorly on the 2008 Cato report card. However, spending has been falling recently, and Schweitzer's proposed budget for FY11 is 11 percent below spending at the peak in FY08. The governor has generally avoided tax increases in recent years, with the result that his score is much higher on this report card than the last one. Schweitzer did propose raising taxes on energy production in 2009, but luckily for Montana's economy that idea did not pass the legislature.

Nebraska

Dave Heineman, Republican — Legislature: Nonpartisan

Grade: C — Took Office: January 2005

In his first few years in office, Governor Heineman was an outstanding tax cutter. In 2006, he signed into law substantial personal income tax cuts. In 2007, he approved further income tax cuts and a repeal of the estate tax. He has also supported property tax relief. In recent years, Heineman has proposed neither substantial tax cuts nor tax increases. His grade was dragged down because he has proposed increases in general fund spending in recent years, while general fund spending in many states has fallen.

Nevada

Jim Gibbons, Republican — Legislature: Democratic

Grade: B — Took Office: January 2007

Nevada is enduring tough economic times, and government tax collections have fallen substantially. Governor Gibbons has generally refused to increase taxes to make up for the shortfall because that would make the economic situation even worse. In proposing spending cuts rather than tax increases to balance the budget, Gibbons noted, "It is not the role of the state government to put people out of work."[39] He said the government would be "piling on" the difficulty that citizens and businesses are already having if it raised taxes. Gibbons has proposed business tax cuts and opposed and vetoed numerous tax increases. In 2009, he vetoed a big increase in sales and payroll taxes, but the legislature overrode his veto. Gibbons has supported some modest tax increases, but he seems to understand that broad-based increases would damage the state's pro-enterprise environment.

New Hampshire

John Lynch, Democrat — Legislature: Democratic

Grade: D — Took Office: January 2005

New Hampshire residents enjoy having neither a state sales tax nor a personal income tax, and Governor Lynch has generally supported that unique tax structure. However, Lynch has pushed for other tax increases over the years, including numerous cigarette tax increases. In 2009, Lynch signed into law a bill to raise cigarette taxes, hotel taxes, restaurant meal taxes, and vehicle license fees. To Lynch's credit, he repealed a tax on limited liability corporations that he had signed into law in 2009 after he recognized how economically damaging it would be. With regard to spending, Lynch has pursued some restraint in recent years, but not as much as in most other states.

New Mexico
Bill Richardson, Democrat — Legislature: Democratic
Grade: B — Took Office: January 2003

Governor Richardson has carried through on phased-in income and capital gains tax cuts he put in place seven years ago. The top income tax rate fell from 8.2 percent in 2003 to 4.9 percent in 2008. Richardson has supported other modest tax cuts, but they have not been pro-growth reforms like his income tax cuts. In 2009, for example, he signed into law energy tax credits and one-time income tax rebates. The governor has supported some tax increases. In 2010, he signed into law an increase in the gross receipts tax rate, a broadening of income and sales tax bases, and a cigarette tax increase. On spending, Richardson allowed the budget to balloon during the middle of the decade, but he has cut back recently. Between FY03 and FY09, the general fund budget increased 49 percent. However, Richardson's proposed spending for FY11 is down 11 percent from the peak in FY09.

New York
David Paterson, Democrat — Legislature: Democratic
Grade: F — Took Office: March 2008

Governor Paterson has supported an enormous array of tax hikes during his short time in office. In April 2008, he signed into law a $1.7 billion tax increase, which included a $1.25 per pack increase on cigarettes, a broadening of the sales tax base, higher taxes on financial services, and higher taxes on limited liability corporations and real estate investment trusts. In December 2008, he walloped New York City workers with a $1.5 billion "mobility tax," which is a new payroll levy to fund public transit. In 2009, Paterson approved a huge $5 billion tax increase, which included higher taxes on personal income, wine, cigars, health insurance, and utilities. The "temporary" three-year income tax hike added tax rates of 7.85 percent and 8.97 percent on top of the state's previous top rate of 6.85 percent. In 2010, Paterson signed into law another cigarette tax increase to bring the combined state and New York City tax rate to $5.85 per pack. Paterson has also proposed new taxes on soda, health care services, and other items. You would think that with all of these tax increases, state policymakers must have first cut the budget to the bone. But the New York general fund budget has been roughly flat in recent years, not cut.

Governor Perdue had only been in office a short time when she signed into law a giant package of tax increases to raise $1 billion a year.

North Carolina
Beverly Perdue, Democrat — Legislature: Democratic
Grade: D — Took Office: January 2009

Governor Perdue had only been in office a short time when she signed into law a giant package of tax increases to raise $1 billion a year. Middle-income earners were hit with a 2 percent surtax on their income taxes, while higher earners and corporations were hit with a 3 percent surtax. In addition, the state sales tax rate rose by one percentage point. These are supposed to be temporary tax increases, but temporary increases often become permanent. Perdue also broadened the sales tax base, increased the cigarette tax by $1 per pack, and hiked taxes on beer, wine, and liquor. Seemingly oblivious to the damage caused by these large hikes, Perdue has recently toured the state to tout her plan to create jobs by providing narrow tax "incentives."

North Dakota
John Hoeven, Republican — Legislature: Republican
Grade: C — Took Office: December 2000

Over the years, Governor Hoeven has provided modest reductions in corporate taxes, property taxes, and personal income taxes in the form of marriage penalty relief. In 2009, he signed into law a small cut to personal and corporate income tax rates. The top personal income tax rate was cut from 5.54 percent to 4.86 percent, and the corporate rate was cut from 6.5 percent to 6.4 percent. However, the governor has also supported tax increases on cigarette and gasoline consumers. Hoeven's main fiscal downfall is that he increased spending dramatically during the past decade as the state experienced large revenue inflows. General fund spending in FY11 is expected to be almost twice as high as in FY03.

Ohio
Ted Strickland, Democrat — Legislature: Divided
Grade: D — Took Office: January 2007

Governor Strickland has offered up a mix of tax cuts and tax increases over the years. On the one hand, he expanded the homestead exemption under the property tax, and he replaced Ohio's corporate franchise and business property taxes with a gross receipts tax, which is supposed to reduce business taxes over time. On the other hand, in 2009 Strickland signed into law a two-year delay in scheduled income tax cuts, and he is looking at expanding revenue from gambling. State general fund spending rose the first two years under Strickland but is down slightly the past two years.

Oklahoma
Brad Henry, Democrat — Legislature: Republican
Grade: B — Took Office: January 2003

Henry has supported capital gains tax reductions, and he signed into law cuts to the top personal income tax rate.

Governor Henry supported some tax increases in his first term, but he has proposed and signed into law a number of tax cuts since then. Henry has supported capital gains tax reductions, and he signed into law cuts to the top personal income tax rate and an expansion in the standard deduction. In 2009, Henry cut taxes on oil and gas production. In 2010, Henry switched gears and proposed broadening the sales tax base and suspending various tax credit programs. The governor seems to have a love-hate relationship with tax credits. The credits allow him to dole out benefits to special interest groups, but he also wants to cut them back to raise money. Henry has presided over substantial general fund spending cuts in recent years—which boosts his grade in this report card—but those cuts came after years of increases. Oklahoma's general fund spending increased 41 percent between FY03 and FY09, but Henry's proposed spending for FY11 is 25 percent below the FY09 peak.

Oregon

Ted Kulongoski, Democrat — Legislature: Democratic

Grade: F — Took Office: January 2003

Governor Kulongoski has been relentless in his advocacy of tax and spending increases. After proposing a large tax hike in the middle of the recession last year, he said legislators should "find the political courage to raise revenue" and should not "surrender to fear."[40] In 2003, he supported a ballot initiative to increase income taxes by $400 million annually, but voters soundly defeated the plan. He has repeatedly proposed cigarette tax increases, but voters defeated an increase at the ballot box in 2007. In 2008, he again proposed to increase cigarette taxes. In 2009, Kulongoski signed into law increases in gasoline taxes, hospital taxes, and business taxes. And he proposed another cigarette tax increase. In 2010, the governor pushed for big increases in personal and corporate income taxes that were ultimately approved by voters at the ballot box. The Oregon top personal income rate rose from 9.0 percent to 11.0 percent and the corporate tax rate rose from 6.6 percent to 7.9 percent. Kulongoski has proposed that Oregon's automatic tax rebate program be suspended, and he has pushed for the state to adopt a general sales tax.

Pennsylvania

Ed Rendell, Democrat — Legislature: Divided

Grade: D — Took Office: January 2003

Governor Rendell has supported many tax increases during his tenure. In 2004, he pushed through a $1.5 billion increase that raised personal income tax rates, business gross receipts taxes, and cigarette taxes. In 2006, he vetoed a bill that would have cut personal and corporate tax rates. In 2007, he proposed increasing the sales tax rate from 6 percent to 7 percent. In 2009, he proposed increasing the state's income tax rate from 3.07 percent to 3.57 percent. The legislature rejected that idea, but Rendell did sign into law a $700 million package of tax increases, including higher cigarette taxes and a delay in a cut to the capital stock and franchise tax. He also signed into law a tax increase on natural gas production, and he allowed Philadelphia to hike its sales tax rate by 1 percentage point. In 2010, Rendell proposed to broaden the sales tax base, broaden the corporate tax base, increase taxes on oil companies, and raise taxes to fund higher transportation spending.

Rhode Island

Donald Carcieri, Republican — Legislature: Democratic

Grade: B — Took Office: January 2003

Governor Carcieri has been an impressive tax reformer. In 2006, he signed into law a plan that created an optional flat income tax. Rhode Islanders could pay tax under the regular system with a top rate of 9.9 percent, or take fewer deductions and pay at a flat rate, which was 6 percent in 2010. Carcieri took the reform further in 2010 and approved a major overhaul that dropped the regular top income tax rate from 9.9 percent to 5.99 percent, reduced the number of tax brackets from five to three, raised the standard deduction, reduced tax credits, and eliminated the optional flat tax. The overhaul was revenue neutral. Carcieri proposed phasing out the corporate income tax and repealing the estate tax, and the legislature agreed to a modest reduction in the latter. Over the years, the governor has supported limitations on

Governor Carcieri has been an impressive tax reformer.

property taxes and has vetoed tax increases passed by the legislature, but he did allow cigarette and capital gains tax increases to be enacted. Carcieri has a good spending record. Rhode Island's budget increased modestly between FY03 and FY08, and Carcieri's proposed budget for FY11 is down about 16 percent from the peak in FY08.

South Carolina

Mark Sanford, Republican	Legislature: Republican
Grade: A	Took Office: January 2003

Governor Sanford has been a strong supporter of spending restraint and pro-growth tax cuts during his eight years in office. In 2005, he convinced the legislature to cut the top income tax rate for small businesses from 7 percent to 5 percent. In 2007, he signed into law substantial cuts to sales and income taxes. Sanford has also proposed replacing the state's income tax with a flat tax and imposing a legal cap on annual budget growth, but those reforms have not been adopted. The governor has proposed plans to swap higher cigarette taxes for individual and corporate tax reforms, including a phase-out of the corporate income tax. The House passed a phase-out of the corporate tax in 2010, but the reform did not pass the Senate.

Governor Sanford has been a strong supporter of spending restraint and pro-growth tax cuts during his eight years in office.

Sanford's budgets have been very frugal. South Carolina's general fund spending in FY10 will actually be slightly less than spending when Sanford came into office in FY03. He has vetoed many tax hikes and costly spending bills passed by the legislature. Sanford could have been more effective at getting through his reforms if he had not made political and personal mistakes, but he gets a lot of credit for trying to cut government and make the state's tax code more competitive.

South Dakota

Mike Rounds, Republican	Legislature: Republican
Grade: C	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 a few tax increases, but he has generally kept a hands-off approach to the state's competitive tax system. The governor has supported cigarette tax increases over the years, and in 2009 he proposed increases to various fees and a delay in a scheduled property tax cut. Rounds has been a fairly frugal governor on the spending side, but his score was hurt somewhat in this report card because the South Dakota budget has been flat in recent years, while the budget in many other states has fallen.

Tennessee

Phil Bredesen, Democrat	Legislature: Republican
Grade: C	Took Office: January 2003

Governor Bredesen has supported numerous tax increases. In 2007, he signed into law a cigarette tax increase. In the past two years, he has signed into law tax increases on coal production, hospitals, and cell phones, and he has proposed increases in health insurance taxes, franchise taxes, and gross receipts taxes. Bredesen has, however, supported modest sales tax breaks and has been an opponent of imposing an income tax in Tennessee. Under Bredesen, the state's general fund budget expanded 39 percent between FY03 and FY08, but it has fallen modestly in recent years.

Texas
Rick Perry, Republican — Legislature: Republican
Grade: B — Took Office: December 2000

Governor Perry has generally avoided tax increases during his long tenure, but he has not cut state taxes or reduced the size of state government. In 2003, he signed into law a package of tax and fee increases. In 2006, he approved a major business tax overhaul that replaced the corporate franchise tax with a modified gross receipts tax called the Texas Margin Tax. The new tax hit a much broader array of businesses and increased state-level taxes by more than $3 billion annually.[41] The $3 billion of added state revenues was used to reduce local property taxes, but the overall effect of the package has been to centralize government power in the state and reduce beneficial tax competition among local jurisdictions. In 2009, Perry supported an increase in the exemption amount for the Margin Tax. On spending, he has presided over moderate increases in the Texas general fund budget. In 2010, he proposed an amendment to the state constitution to require a two-thirds vote in both legislative chambers to increase taxes. He has also proposed an amendment to limit increases in the state budget to no more than inflation plus population growth.

Vermont
James Douglas, Republican — Legislature: Democratic
Grade: B — Took Office: January 2003

Governor Douglas has supported a mix of tax increases and tax cuts over the years. In his first year in office, Douglas signed into law an increase in the sales tax rate from 5 percent to 6 percent, and he has increased the cigarette tax rate substantially. However, he has worked for property tax relief, proposed individual income tax cuts, and approved modest business tax cuts. In 2009, he approved an increase in gasoline taxes, but he vetoed increases in sales and liquor taxes. The same year, he approved a reduction in personal income tax rates, with the top rate falling from 9.50 percent to 8.95 percent. In 2010, he approved a capital gains tax cut. On general fund spending, Douglas has a middle-of-the-road record compared to the other governors.

Washington
Chris Gregoire, Democrat — Legislature: Democratic
Grade: F — Took Office: January 2005

Governor Gregoire pushed through substantial tax hikes her first year in office, raising levies on cigarettes, gasoline, liquor, and vehicles. She also reestablished an estate tax after a previous version was struck down by the state supreme court. During the boom years up to 2008, Gregoire blocked efforts to pass tax cuts. While campaigning for reelection in 2008, she argued in favor of spending cuts instead of tax increases to balance the budget. But once safely reelected, she signed into law a large tax-hike package in 2009, costing taxpayers more than $700 million a year. The package included increases in business and occupation taxes, sales taxes, cigarette taxes, beer taxes, soda taxes, and candy taxes.

In 2009, Gregoire opposed a ballot effort to cap government budget growth, and the measure was defeated. She has supported putting a question on the ballot this November regarding whether to create a state income tax, aimed initially at higher earners. Washington voters have turned down the creation of an income tax numerous times in the past.[42]

During the boom years up to 2008, Gregoire blocked efforts to pass tax cuts.

In 2009, Doyle approved a $1.1 billion tax increase.

Voters will also have a chance to reimpose a supermajority requirement for the legislature to pass tax increases. Voters have approved a supermajority requirement three times in the past, but the legislature is allowed to amend the requirement after two years. Gregoire worked to reverse a previous supermajority requirement, but it was reimposed at the ballot box in 2007. The legislature repealed the requirement in 2010, and citizens will vote again on the issue this November.

West Virginia
Joe Manchin, Democrat — Legislature: Democratic
Grade: A — Took Office: January 2005

Joe Manchin has been a popular governor for good reason. The West Virginia economy has done well under his fiscal policies of business tax cuts and fairly frugal budgeting. 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, he signed into law a repeal of the business franchise tax and a reduction in the corporate income tax rate. Manchin has also supported other tax reductions, such as a cut in sales taxes on groceries and a cut in business property taxes. Beginning this year, West Virginia businesses will no longer have to renew their business licenses routinely, which will save them money and eliminate about 100,000 government filings each year. Manchin has slightly tarnished his tax-cutting record with support for various energy tax increases. On spending, Manchin has called for spending reductions in most years that he has been in office. His proposed general fund spending for FY11 is only 9 percent above spending in his first year in office, FY05.

Wisconsin
James Doyle, Democrat — Legislature: Democratic
Grade: F — Took Office: January 2003

Governor Doyle generally avoided tax increases his first few years in office, but he changed course in 2007 and signed into law an almost $900 million package of tax increases on cigarettes, hospitals, oil companies, and real estate. In 2009, Doyle approved a $1.1 billion tax increase, which included broadening the corporate tax base, increasing the top personal income tax rate from 6.75 percent to 7.75 percent, increasing cigarette taxes by 75 cents per pack, reducing the capital gains tax exclusion, and increasing hospital taxes. Doyle has refused to go along with the legislature in providing property tax relief, and he is fond of issuing debt to finance higher spending. With all these fresh revenues in hand, Doyle proposed a 4.7 percent general fund spending increase for FY11.

Wyoming
Dave Freudenthal, Democrat — Legislature: Republican
Grade: B — Took Office: January 2003

Governor Freudenthal did poorly on the last Cato report card because of huge general fund spending increases between FY03 and FY08. However, the boom in state revenues has ended, and the governor has proposed cuts to the general fund in recent years. He has also avoided tax increases and supported property tax relief. With his new more restrained stance on tax and spending, the governor's grade has risen substantially.

Notes

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3. All references to spending amounts or changes in spending in this report refer to current or nominal dollars.

4. All dollar values for tax legislation in this report are the estimated annual effects.

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7. Elizabeth Carvlin, "Missouri Governor Proposes Cap on Tax Credits," *State Tax Notes*, April 5, 2010. (*State Tax Notes* is published by Tax Analysts in Falls Church, Virginia.)

8. Nicola M. White, "Governor Touting Tax Credits He Previously Denounced," *State Tax Notes*, June 14, 2010.

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17. National Association of State Budget Officers, *The Fiscal Survey of States*, June 2010. Fiscal years for most states run from July through June.

18. National Association of State Budget Officers, *State Expenditure Report 2008* (Washington: NASBO, December 2009), http://www.nasbo.org.

19. U.S. Bureau of Economic Analysis, National Income and Product Accounts, Tables 3.3 and 6.2D, http://bea.gov/national/nipaweb. The BEA data are for calendar years.

20. Federal Reserve Board, *Flow of Funds Accounts of the United States* (Washington: Federal Reserve Board of Governors, June 10, 2010), Table D.3.

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23. Cited in Chris Edwards, "Employee Compensation in State and Local Governments," Cato Institute Tax and Budget Bulletin no. 59, January 2010.

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30. NCSL data on enacted state tax changes are available in National Conference of State Legislatures, "State Tax Actions 2009," February 2010, and prior annual editions.

31. See http://www.taxfoundation.org/taxdata.

32. NASBO reports on proposed tax changes, while NCSL reports on tax changes that were actually enacted. However, these data sources have many shortcomings and omissions. Thus, a detailed file of articles from *State Tax Notes* was compiled to assess the major tax changes during each governor's tenure. Tax changes proposed by governors, tax changes vetoed, and tax changes 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, so this variable carries substantial weight in the study. Legislation that created temporary tax changes was given half the value of permanent tax changes. Also note that this report excludes changes to unemployment compensation taxes.

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34. Governor Charlie Crist, State of the State Address, March 2, 2010, http://www.flgov.com/speeches.

35. For information on this issue, see the writings of experts at the Heartland Institute's finance and insurance team at http://www.heartland.org/fire policy-news.org.

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