



# FISCAL POLICY REPORT CARD ON AMERICA'S GOVERNORS 2014

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REPORT CARD  
ON AMERICA'S  
GOVERNORS  
2014

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## EXECUTIVE SUMMARY

**T**he recession of 2007–2009 knocked the wind out of state government budgets, but revenues and spending have grown steadily in recent years. As revenues have risen, some governors have pursued reforms to reduce tax burdens on families and make their states more competitive. Other governors have used rising revenues to expand programs.

That is the backdrop to this year’s 12th biennial fiscal report card on the governors, which examines state budget actions since 2012. 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” on this report card: Pat McCrory of North Carolina, Sam Brownback of Kansas, Paul LePage of Maine, and Mike Pence of Indiana. Eight governors were awarded an “F”: Mark Dayton

of Minnesota, John Kitzhaber of Oregon, Jack Markell of Delaware, Jay Inslee of Washington, Pat Quinn of Illinois, Deval Patrick of Massachusetts, John Hickenlooper of Colorado, and Jerry Brown of California.

With the economy currently growing, governors and legislatures are having few problems balancing their budgets in the short run, but the states face major budget challenges down the road. Many retirement plans for state workers have high levels of unfunded liabilities, and the Medicaid expansion under the 2010 Affordable Care Act will increase stress on state budgets. At the same time, global economic competition is making it imperative that states improve their investment climates, particularly by cutting tax rates on businesses and entrepreneurs.

This report discusses those trends and examines the fiscal policy actions of each governor. More state policymakers should be encouraged to follow the reform approaches of the top-scoring governors.



“This report grades governors on their fiscal policies from a limited-government perspective.”

## INTRODUCTION

Governors play a key role in state fiscal policy. They propose budgets, recommend tax changes, and sign or veto tax and spending bills. When the economy is growing, governors can use rising revenues to expand programs or they can return extra revenues to citizens through tax cuts. When the economy is stagnant, governors can raise taxes to close budget gaps or they can cut spending.

This report grades governors on their fiscal policies from a limited-government perspective. Governors receiving an “A” are those who cut taxes and spending the most, while 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. The same methodology was used on Cato’s 2012, 2010, and 2008 fiscal report cards.

The results are data-driven. They account for tax and spending actions that affect short-term budgets in the states. But they do not account for longer-term or structural changes that governors may make, such as reforms to state pension plans. Thus, the results provide one measure of how fiscally conservative each

governor is, but they do not reflect all the fiscal actions that governors take.

Tax and spending data for the report came from the National Association of State Budget Officers, the National Conference of State Legislatures, Tax Foundation, the budget agencies of the states, and news articles in *State Tax Notes* and other sources. The data cover the period January 2012–August 2014, which was a time of budget expansion in most states.<sup>1</sup> The report covers 48 governors. It excludes Virginia’s governor because of his short time in office, and it excludes Alaska’s governor because of peculiarities in that state’s budget.

The following section reviews the records of the highest-scoring governors, and it discusses some recent policy trends. The next section looks at the outlook for state budgets. Appendix A discusses the report card methodology. Appendix B provides brief summaries of the fiscal records of the 48 governors included in this report.

## MAIN RESULTS AND POLICY TRENDS

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

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

State	Governor	Score	Grade
North Carolina	Pat McCrory (R)	78	A
Kansas	Sam Brownback (R)	78	A
Maine	Paul LePage (R)	75	A
Indiana	Mike Pence (R)	71	A
Alabama	Robert Bentley (R)	62	B
New Mexico	Susana Martinez (R)	60	B
West Virginia	Earl Ray Tomblin (D)	59	B
Texas	Rick Perry (R)	58	B
Oklahoma	Mary Fallin (R)	58	B
South Carolina	Nikki Haley (R)	58	B
Wisconsin	Scott Walker (R)	58	B

*Continued on next page*

Table 1 *Continued*

State	Governor	Score	Grade
North Dakota	Jack Dalrymple (R)	57	B
Nebraska	Dave Heineman (R)	57	B
New York	Andrew Cuomo (D)	57	B
Rhode Island	Lincoln Chafee (D)	57	B
Iowa	Terry Branstad (R)	56	B
Louisiana	Bobby Jindal (R)	56	B
New Jersey	Chris Christie (R)	56	B
Idaho	C.L. "Butch" Otter (R)	55	B
Kentucky	Steven Beshear (D)	54	C
Nevada	Brian Sandoval (R)	54	C
Mississippi	Phil Bryant (R)	54	C
Arizona	Jan Brewer (R)	52	C
Pennsylvania	Tom Corbett (R)	51	C
Wyoming	Matt Mead (R)	50	C
Georgia	Nathan Deal (R)	50	C
South Dakota	Dennis Daugaard (R)	50	C
Connecticut	Dan Malloy (D)	49	D
Arkansas	Mike Beebe (D)	49	D
Tennessee	Bill Haslam (R)	49	D
Montana	Steve Bullock (D)	49	D
Utah	Gary Herbert (R)	48	D
Florida	Rick Scott (R)	47	D
Maryland	Martin O'Malley (D)	45	D
Ohio	John Kasich (R)	44	D
Michigan	Rick Snyder (R)	44	D
New Hampshire	Maggie Hassan (D)	42	D
Vermont	Peter Shumlin (D)	41	D
Missouri	Jay Nixon (D)	41	D
Hawaii	Neil Abercrombie (D)	40	D
Minnesota	Mark Dayton (D)	38	F
Oregon	John Kitzhaber (D)	37	F
Delaware	Jack Markell (D)	36	F
Washington	Jay Inslee (D)	35	F
Illinois	Pat Quinn (D)	32	F
Massachusetts	Deval Patrick (D)	29	F
Colorado	John Hickenlooper (D)	26	F
California	Jerry Brown (D)	19	F

“Pat McCrory of North Carolina signed into law a major tax reform package in 2013, which replaced three individual income tax rates (6.0, 7.0, and 7.75 percent) with a single rate of 5.8 percent.”

tax and spending variables. Scores closer to 100 indicate governors who favored smaller-government policies. The numerical scores were converted to the letter grades “A” to “F.”

### 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 grades of “A”:

- **Pat McCrory of North Carolina** signed into law a major tax reform package in 2013, which replaced three individual income tax rates (6.0, 7.0, and 7.75 percent) with a single rate of 5.8 percent, falling to 5.75 percent in 2015. The package also cut the corporate tax rate, repealed the estate tax, and broadened the sales tax base. These reforms have substantially improved North Carolina’s tax competitiveness.<sup>2</sup> Governor McCrory approved further tax cuts in 2014 and he has kept a tight rein on spending.
- **Sam Brownback of Kansas** has spearheaded major tax reforms. In 2012 he signed into law a package that reduced the number of individual income tax brackets from three to two and cut the top tax rate from 6.45 to 4.9 percent. The reform also increased the standard deduction, reduced taxes on small businesses, and repealed numerous narrow tax breaks. Brownback approved additional changes in 2013, including further income tax rate cuts, broadening the income tax base, and increasing the sales tax rate. The governor has also been a frugal budgeter since 2012, overseeing just small increases in general fund spending.
- **Paul LePage of Maine** pushed through major income tax cuts in 2011, and he has supported further tax and spending reforms in recent years. General fund spending has been roughly flat the past three years, and state government employment has fallen. LePage signed into

law cost-cutting reforms to welfare and health care programs. In 2013 LePage vetoed tax hikes passed by the legislature, but he was overridden. This year LePage proposed matching \$100 million in new tax cuts with \$100 million in spending cuts.

- **Mike Pence of Indiana** has been a champion tax cutter, and he has held the line on spending. He signed into law a 2013 tax package that cut the individual income tax rate from 3.4 to 3.23 percent and repealed the state’s inheritance tax. In 2014 he approved cuts to the corporate income tax rate and to business property taxes, both of which will be phased in over time.

### Are Republicans and Democrats Different?

Supporters of smaller government lament that politicians of both major parties usually tax and spend too much. While that is true, Cato report cards have found that Republican governors are more fiscally conservative, on average, than Democratic governors. In the 2008 report card, Republican and Democratic governors had average scores of 55 and 46, respectively. In the 2010 report card, they had average scores of 55 and 47. In the 2012 report card, they had average scores of 57 and 43.

That pattern continues in the 2014 report card. This time, Republican and Democratic governors had average scores of 57 and 42, respectively. And, as in prior reports, the difference between the two parties is somewhat more pronounced on revenue variables than spending variables. Republicans averaged 62 on the revenue score compared to 34 for Democrats.

During the Great Recession, Democratic governors tended to pursue tax increases to balance state budgets, while Republicans sought spending restraint. Today, with the economy expanding, it is mainly Republicans who are pursuing major tax cuts. No Republicans received an “F” on this report card, and unfortunately no Democrats received an “A.”



## Broad-Based Tax Reforms vs. Narrow Tax Breaks

While the U.S. economy is growing, the recovery has been weak and household incomes are stagnant. To help spur growth, some governors are pursuing reforms to make their states more attractive for job creation and investment. A good way to do that is to cut individual and business tax rates to make them more competitive with rates in other jurisdictions.

Interstate and international competition for investment is intense.<sup>3</sup> Corporate tax rates have plunged around the world as countries have sought to attract new and expanded factories and other business facilities to their shores. The average corporate tax rate in major industrial countries has fallen from more than 40 percent in the 1980s to just 24 percent today.<sup>4</sup> The combined U.S. federal–state corporate tax rate is 40 percent, which is the highest in the world today.<sup>5</sup> Congress has not cut the federal corporate rate since 1986. Most governors have also been asleep at the switch regarding tax competition: the average state corporate tax rate is actually higher today (7.3 percent) than in 1980 (7.0 percent).<sup>6</sup>

The corporate income tax is not the only tax that affects business investment decisions. In 2013 state and local property taxes cost U.S. businesses \$242 billion, sales taxes on business purchases cost \$140 billion, state corporate income taxes cost \$53 billion, and a range of other state and local taxes cost \$236 billion.<sup>7</sup> All of those taxes may affect where businesses expand or contract their operations, and where they hire or lay off workers.

Taxes on individuals are also important. High income tax rates discourage entrepreneurship and small business investment. High capital gains taxes undermine angel investment in young companies. High taxes on pension income and estates drive away wealthy retirees. It is true that many factors affect investment and location decisions, but tax rates are important—and they are under the direct control of state policymakers.

Recognizing the need for competitive tax rates, Sam Brownback of Kansas, John Kasich

of Ohio, and others cut individual income tax rates. Mike Pence of Indiana and Pat McCrory of North Carolina cut individual and corporate income tax rates. Susana Martinez of New Mexico, Lincoln Chafee of Rhode Island, and others cut corporate income tax rates. Andrew Cuomo of New York cut the general corporate income tax rate modestly, but slashed the rate for qualified manufacturers to zero.<sup>8</sup>

Numerous governors cut property taxes on business equipment, including Mike Pence of Indiana, Rick Snyder of Michigan, and Steve Bullock of Montana. Other governors cut sales taxes on business purchases, including Jerry Brown of California and Rick Scott of Florida. These are excellent reforms that will reduce the cost of production and spur greater investment.

Rather than pursuing such reforms to aid overall growth, many governors have supported narrow breaks to particular companies and industries, called “tax incentives.” The *Wall Street Journal* called the increase in tax incentives a “tax-credit arms race.”<sup>9</sup> Tax incentives (or “tax expenditures”) are a misguided attempt to centrally plan the economy rather than allowing markets to allocate investment to the highest-valued uses.

In 2012 the *New York Times* investigated state business subsidies and found \$80 billion worth of tax and spending giveaways across the nation through 1,874 programs.<sup>10</sup> In 2014 the American Legislative Exchange Council examined state government reports on tax expenditures and found \$228 billion worth of breaks under individual and business income taxes.<sup>11</sup> The two studies measured tax subsidies somewhat differently, but they both revealed large efforts by the states to micromanage the economy through their tax codes.

The growth in state tax incentives is harmful for many reasons. Tax incentives create unequal treatment between companies and industries, which misallocates resources. Many tax incentives are “refundable,” meaning that they are actually spending subsidies, which other taxpayers will have to pay for. Tax incentives encourage corruption because they allow politicians and officials to pick winners and

“Most governors have also been asleep at the switch regarding tax competition: the average state corporate tax rate is actually higher today (7.3 percent) than in 1980 (7.0 percent).”

“The spread of tax incentives represents a troubling move away from free markets and toward crony capitalism.”

losers. Iowa suffered a major political scandal involving its film tax credit program.<sup>12</sup> And, finally, tax incentives generate administrative burdens for businesses and state governments.

Film tax credits are the poster child of misguided tax incentive policies. These breaks are now provided by more than 40 states and have an annual value of \$1.4 billion.<sup>13</sup> It is bizarre that state politicians put so much focus on subsidizing the movie production industry, which is known for temporary jobs and fly-by-night companies. Why should film companies get lucrative breaks, while other firms that are the real backbone of state economies have to bear the full tax burden?

In sum, the spread of tax incentives represents a troubling move away from free markets and toward crony capitalism. The strongest economic growth is achieved with low and neutral taxation that treats all industries equally. In this report, the “A” governors have pursued broad-based tax reforms such as income tax rate reductions. Their reforms should inspire more governors to pursue that competitive approach rather than providing narrow breaks.

### Medicaid Expansion under Obamacare

The giant Medicaid program pays for health care and long-term care for 66 million people with moderate incomes.<sup>14</sup> The program is jointly funded by federal and state taxpayers. It is the largest component of state budgets, accounting for 24 percent of total spending.<sup>15</sup>

Medicaid has grown rapidly for years, and the Affordable Care Act of 2010 (ACA) expanded it even more. Individual states can decide whether or not to implement the ACA’s expanded Medicaid coverage, but Congress created strong incentives to do so. The federal government is paying 100 percent of the costs of expansion through 2016, and then a declining share after that, reaching 90 percent by 2020. The Congressional Budget Office (CBO) estimates that Medicaid expansion under the ACA will cost the federal government \$792 billion and state governments \$46 billion over the next 10 years.<sup>16</sup>

Even with the federal government paying most of the initial costs, the ACA will put a large strain on state budgets down the road.<sup>17</sup> State policymakers are concerned that Congress will reduce the federal cost share in coming years because federal deficits will create pressure to cut spending. Without reforms, CBO estimates that federal Medicaid spending will almost double from \$299 billion in 2014 to \$576 billion by 2024.<sup>18</sup> The growth is projected to be so rapid that even President Obama has suggested that Congress decrease the federal cost share.<sup>19</sup>

The expansion of Medicaid under the ACA is bad policy for numerous reasons, and many governors are refusing to go along. Currently, at least 21 states have decided not to go along with the expansion.<sup>20</sup> Those states may lose “free” federal money in the short run, but leaders in those states may be saving their states from huge fiscal burdens later on.

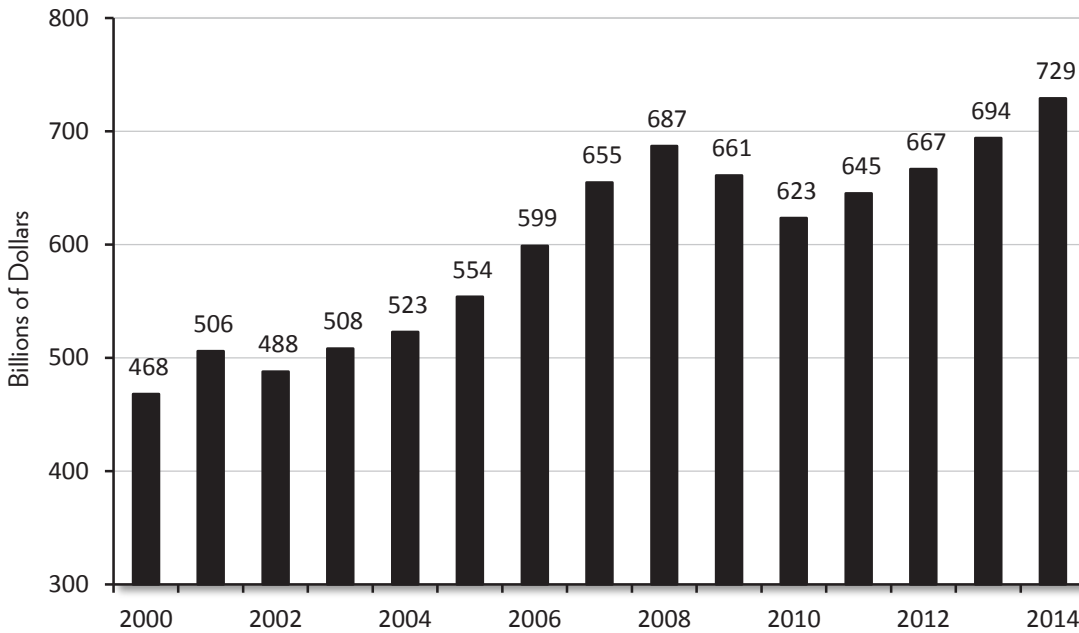
*Washington Post* columnist Robert Samuelson recently described how the aging of America will have a large effect on state budgets as rising Medicaid spending squeezes out funding for other services:

Medicaid’s cost structure is peculiar. Children and adults under 65 represent three-quarters of beneficiaries but only one-third of costs. The quarter who are aged and disabled represent two-thirds of costs. They are especially sickly and poor. More than 60 percent of nursing home residents have Medicaid.

What this means is that, as the population ages, states’ Medicaid spending will rise inexorably. . . . Medicaid becomes a vise squeezing other public services or requiring continuous tax increases. More spending goes toward meeting past obligations and not present and future needs. Underfunded state and local pensions compound the effect.<sup>21</sup>

Medicaid expansion under the ACA adds to the troubling fiscal outlook of many states,

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



Source: National Association of State Budget Officers, "Fiscal Survey of the States," Spring 2014. (Fiscal years.)

Note: The figure for 2014 is an estimate.

particularly those states—such as Illinois—that already have large gaps in their pension plans. While this report card only measures spending from 2012 to 2014, future report cards will reflect whether governors today make responsible decisions regarding Medicaid, pensions, and other long-term spending commitments.

## FISCAL POLICY OUTLOOK

Figure 1 shows state general fund spending since 2000, based on data from the National Association of State Budget Officers.<sup>22</sup> Spending rose 47 percent between 2000 and 2008, and then fell during the recession as states trimmed their budgets.<sup>23</sup> Spending has bounced back strongly in recent years, growing 4.1 percent in 2013 and an estimated 5.0 percent in 2014.

Looking ahead, one of the largest drivers of rising state spending will be Medicaid, as we just discussed. Another budget driver will be compensation for state workers, particularly retirement costs. Total wages and benefits for state and local workers were \$1.3 trillion

in 2013, which accounted for 53 percent of all state and local spending.<sup>24</sup> That is a huge cost that could rise substantially in coming years, particularly in those states that have large funding gaps in their retirement plans. Governments have promised their workers generous pension and retirement health benefits, but most states have not put enough money aside to fund them.

In recent years, many states have modestly trimmed benefits and increased worker contributions for retirement plans. However, more reforms are needed, as recent studies have shown. A study by the Center for Retirement Research (CRR) at Boston College found that the average funding level—the ratio of assets to liabilities—for public employee pensions was just 72 percent in 2013 after declining substantially over the past decade.<sup>25</sup> Based on the usual accounting for these plans, the unfunded liabilities in state and local pensions total \$1.1 trillion, according to CRR.<sup>26</sup>

However, as CRR notes, most financial economists believe that the discount rate used in official valuations of government pension

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liabilities is too high or too optimistic. Thus the official cost estimates do not reveal the poor state that many pension plans are actually in. The CRR estimated liabilities using a 4 percent discount rate, rather than the average official rate of 7.7 percent. At the lower rate, the unfunded liabilities of state and local pension plans are \$3.8 trillion, which is more than triple the official figure of \$1.1 trillion.

Even that higher number does not reflect the full funding gaps in state pension plans because it only includes the unfunded costs that have already accrued. Cato scholar Jagadeesh Gokhale estimates that the funding gap for accrued benefits plus future accruals under today's generous pension rules is about \$10 trillion.<sup>27</sup> Major reforms are needed to reduce these huge pension costs that may fall on taxpayers down the road.

A Standard and Poor's (S&P) analysis found that the average official funding ratio for government pension plans is 71 percent, which is similar to the CRR result.<sup>28</sup> Illinois has the worst funding ratio of any state, at just 40 percent. S&P assigns lower credit ratings to states that have large pension underfunding problems, so the cost of mismanaging a pension plan is not just a larger future burden for taxpayers, it is higher state borrowing costs today.

For each state, S&P looks at unfunded pension liabilities and state bond debt. In 2012 the 50 state governments had \$488 billion in bond debt and \$894 billion in unfunded pension liabilities.<sup>29</sup> (Again, the pension figure would be much higher if we used a lower discount rate and accounted for yet-to-accrue net liabilities of pension plans.) On a per capita basis, the 10 states with the highest combined debt and unfunded pension liabilities were Alaska, Connecticut, Hawaii, Illinois, New Jersey, Massachusetts, Kentucky, Ohio, New Mexico, and Mississippi.

Bond debt and unfunded pension liabilities are not the only costs that politicians are pushing onto future taxpayers. State retirement health plans have huge funding gaps as well. Pew Charitable Trusts estimates that states have unfunded retiree health liabilities of \$627

billion.<sup>30</sup>

All this means that policymakers in many states have created a fiscal mess that will put large pressures on budgets in coming years. This report card focuses only on short-term taxing and spending, but readers should also consider how the policies of each governor will affect state fiscal health over the long run.

## 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 2012, or since 2013 for governors entering office that year. The spending data used in the study come from the National Association of State Budget Officers (NASBO) and budget documents of the individual states. The data on proposed and enacted tax cuts come from NASBO, the National Conference of State Legislatures, and news articles in *State Tax Notes* and other sources.<sup>31</sup> Tax-rate data come from the Tax Foundation, but is updated by the authors for recent changes.<sup>32</sup>

This year's report uses the same methodology as the 2012, 2010, and 2008 Cato report cards. The report focuses on short-term taxing and spending actions to judge whether the governors take a small-government or big-government approach to policy. Each governor's performance is measured using seven 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 A.1 and A.2 summarize the governors' scores.

### Spending Variables

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

### Revenue Variable

3. Average dollar value of proposed, en-

acted, 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 it is difficult to measure because it must be compiled from many news articles, budget documents, and reports.<sup>33</sup>

### Tax Rate Variables

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

The two spending variables are measured on a per-capita basis to adjust for the fact that state populations are growing at different rates. Also, the spending variables are only for general fund budgets, which are the budgets that governors have the most control over. Variable 1 is measured through fiscal 2015, while variable 2 is measured through fiscal 2014. Variables 3–7 cover changes during the period January 2012 to August 2014, or January 2013 to August 2014 for governors entering office in 2013.

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.

### Measurement Caveats

This report uses publicly available statistical data to measure the fiscal performance of the governors. There are, however, several unavoidable problems in such grading. 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 policy may be diminished. To help isolate the performance of governors, variables 1 and 3 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 some governors do not have that power. Another example is that the supermajority voting requirement to override a veto varies among the states. Such factors give governors different levels of budget control that are not accounted for in this study.

Nonetheless, the results presented here should be a 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 government expansion ahead of the public's need to keep its hard-earned money. In the middle are many governors who gyrate between fiscal approaches one year to the next.

“The report focuses on short-term taxing and spending actions to judge whether the governors take a small-government or big-government approach to policy.”



**Table A.1**  
**Spending and Revenue Changes**

State	Governor	Spending Score	Proposed Changes in Per Capita Spending (%)	Actual Changes in Per Capita Spending (%)	Revenue Score	Changes in Revenues from Proposed and Enacted Tax Changes (%)
Alabama	Robert Bentley (R)	85	-0.2	-0.9	51	-0.1
Arizona	Jan Brewer (R)	52	4.0	1.1	53	-0.3
Arkansas	Mike Beebe (D)	50	3.0	3.3	63	-0.9
California	Jerry Brown (D)	23	5.9	5.8	15	2.1
Colorado	John Hickenlooper (D)	22	4.5	8.3	5	2.8
Connecticut	Dan Malloy (D)	50	3.7	2.4	49	0.0
Delaware	Jack Markell (D)	61	2.1	1.8	3	2.9
Florida	Rick Scott (R)	28	4.5	6.7	63	-0.9
Georgia	Nathan Deal (R)	48	2.8	4.2	52	-0.2
Hawaii	Neil Abercrombie (D)	22	5.5	6.6	48	0.1
Idaho	C.L. "Butch" Otter (R)	47	3.0	4.1	63	-0.9
Illinois	Pat Quinn (D)	53	2.3	3.5	0	3.4
Indiana	Mike Pence (R)	65	1.8	1.3	79	-1.9
Iowa	Terry Branstad (R)	37	5.2	3.4	83	-2.1
Kansas	Sam Brownback (R)	85	-0.1	-0.9	100	-3.8
Kentucky	Steven Beshear (D)	61	2.4	1.4	52	-0.2
Louisiana	Bobby Jindal (R)	70	1.4	0.5	48	0.1
Maine	Paul LePage (R)	81	-0.8	1.1	95	-2.9
Maryland	Martin O'Malley (D)	48	4.4	1.7	39	0.6
Massachusetts	Deval Patrick (D)	45	2.7	5.0	0	3.5
Michigan	Rick Snyder (R)	43	1.5	7.4	37	0.8
Minnesota	Mark Dayton (D)	51	0.1	7.6	35	0.9
Mississippi	Phil Bryant (R)	58	2.1	2.4	52	-0.2
Missouri	Jay Nixon (D)	52	2.1	4.1	19	1.9
Montana	Steve Bullock (D)	29	2.5	9.5	67	-1.1
Nebraska	Dave Heineman (R)	41	3.5	4.8	79	-1.9
Nevada	Brian Sandoval (R)	76	-0.6	2.1	36	0.8
New Hampshire	Maggie Hassan (D)	44	2.6	5.5	32	1.1
New Jersey	Chris Christie (R)	45	3.9	3.2	71	-1.4
New Mexico	Susana Martinez (R)	53	2.3	3.6	59	-0.6

*Continued on next page*

Table A.1 Continued

State	Governor	Spending Score	Proposed Changes in Per Capita Spending (%)	Actual Changes in Per Capita Spending (%)	Revenue Score	Changes in Revenues from Proposed and Enacted Tax Changes (%)
New York	Andrew Cuomo (D)	50	2.6	3.9	61	-0.8
North Carolina	Pat McCrory (R)	78	-0.4	1.1	74	-1.6
North Dakota	Jack Dalrymple (R)	43	-0.7	19.2	61	-0.8
Ohio	John Kasich (R)	16	5.7	8.0	77	-1.8
Oklahoma	Mary Fallin (R)	64	-0.5	5.2	61	-0.7
Oregon	John Kitzhaber (D)	26	7.7	4.0	38	0.7
Pennsylvania	Tom Corbett (R)	61	1.8	2.3	43	0.3
Rhode Island	Lincoln Chafee (D)	47	3.3	3.7	56	-0.4
South Carolina	Nikki Haley (R)	47	2.2	5.4	77	-1.8
South Dakota	Dennis Daugaard (R)	55	-0.9	8.2	44	0.3
Tennessee	Bill Haslam (R)	46	2.1	5.5	50	-0.1
Texas	Rick Perry (R)	68	0.8	1.9	56	-0.5
Utah	Gary Herbert (R)	45	3.3	4.2	49	0.0
Vermont	Peter Shumlin (D)	31	5.3	4.7	43	0.4
Washington	Jay Inslee (D)	50	3.3	2.8	5	2.8
West Virginia	Ray Tomblin (D)	80	-0.7	1.1	47	0.1
Wisconsin	Scott Walker (R)	40	4.1	4.2	81	-2.1
Wyoming	Matt Mead (R)	69	-1.5	5.2	31	1.1
<b>Average of 48 states</b>			<b>2.4</b>	<b>4.2</b>		<b>-0.1</b>

**Table A.2**  
**Enacted Tax Rate Changes**

State	Governor	Tax Rate Score	Change in Top Individual Income Tax Rate	Change in Top Corporate Income Tax Rate	Change in General Sales Tax Rate	Change in Cigarette Tax Rate (cents per pack)
Alabama	Robert Bentley (R)	50	0.00	0.00	0.00	0
Arizona	Jan Brewer (R)	50	0.00	0.00	0.00	0
Arkansas	Mike Beebe (D)	34	0.00	0.00	0.50	0
California	Jerry Brown (D)	19	3.00	0.00	0.25	0
Colorado	John Hickenlooper (D)	50	0.00	0.00	0.00	0
Connecticut	Dan Malloy (D)	50	0.00	0.00	0.00	0
Delaware	Jack Markell (D)	44	0.65	0.00	0.00	0
Florida	Rick Scott (R)	50	0.00	0.00	0.00	0
Georgia	Nathan Deal (R)	50	0.00	0.00	0.00	0
Hawaii	Neil Abercrombie (D)	50	0.00	0.00	0.00	0
Idaho	C.L. "Butch" Otter (R)	57	-0.40	-0.20	0.00	0
Illinois	Pat Quinn (D)	43	0.00	0.00	0.00	100
Indiana	Mike Pence (R)	69	-0.17	-1.60	0.00	0
Iowa	Terry Branstad (R)	50	0.00	0.00	0.00	0
Kansas	Sam Brownback (R)	48	-2.55	0.00	0.45	0
Kentucky	Steven Beshear (D)	50	0.00	0.00	0.00	0
Louisiana	Bobby Jindal (R)	50	0.00	0.00	0.00	0
Maine	Paul LePage (R)	50	0.00	0.00	0.00	0
Maryland	Martin O'Malley (D)	48	0.25	0.00	0.00	0
Massachusetts	Deval Patrick (D)	43	0.00	0.00	0.00	100
Michigan	Rick Snyder (R)	51	-0.10	0.00	0.00	0
Minnesota	Mark Dayton (D)	29	2.00	0.00	0.00	160
Mississippi	Phil Bryant (R)	50	0.00	0.00	0.00	0
Missouri	Jay Nixon (D)	50	0.00	0.00	0.00	0
Montana	Steve Bullock (D)	50	0.00	0.00	0.00	0
Nebraska	Dave Heineman (R)	50	0.00	0.00	0.00	0
Nevada	Brian Sandoval (R)	50	0.00	0.00	0.00	0
New Hampshire	Maggie Hassan (D)	49	0.00	0.00	0.00	10
New Jersey	Chris Christie (R)	50	0.00	0.00	0.00	0

*Continued on next page*

Table A.2 *Continued*

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)
New Mexico	Susana Martinez (R)	67	0.00	-1.70	0.00	0
New York	Andrew Cuomo (D)	59	0.00	-0.60	0.00	0
North Carolina	Pat McCrory (R)	82	-2.00	-1.90	0.00	0
North Dakota	Jack Dalrymple (R)	67	-0.77	-0.62	0.00	0
Ohio	John Kasich (R)	39	-0.60	0.00	0.25	0
Oklahoma	Mary Fallin (R)	50	0.00	0.00	0.00	0
Oregon	John Kitzhaber (D)	49	0.00	0.00	0.00	13
Pennsylvania	Tom Corbett (R)	50	0.00	0.00	0.00	0
Rhode Island	Lincoln Chafee (D)	67	0.00	-2.00	0.00	4
South Carolina	Nikki Haley (R)	50	0.00	0.00	0.00	0
South Dakota	Dennis Daugaard (R)	50	0.00	0.00	0.00	0
Tennessee	Bill Haslam (R)	50	0.00	0.00	0.00	0
Texas	Rick Perry (R)	50	0.00	0.00	0.00	0
Utah	Gary Herbert (R)	50	0.00	0.00	0.00	0
Vermont	Peter Shumlin (D)	49	0.00	0.00	0.00	13
Washington	Jay Inslee (D)	50	0.00	0.00	0.00	0
West Virginia	Ray Tomblin (D)	50	0.00	0.00	0.00	0
Wisconsin	Scott Walker (R)	51	-0.10	0.00	0.00	0
Wyoming	Matt Mead (R)	50	0.00	0.00	0.00	0
<b>Average of 48 states</b>			<b>-0.02</b>	<b>-0.18</b>	<b>0.03</b>	<b>8</b>

Note: These are the tax rate changes approved by the governors and enacted between 2012 and 2014. It excludes the expiration of prior temporary changes. The changes are the actual changes in the rates. For example, North Carolina's top individual tax rate was cut from 7.75 to 5.75 percent, thus the table shows -2.00.

## APPENDIX B: FISCAL POLICY NOTES ON THE GOVERNORS

Below are highlights of the fiscal records of the 48 governors covered in this report. The comments are based on the tax and spending data used for grading the governors, as well as other information that sheds light on each governor's fiscal policy approach.<sup>34</sup> Note that the grades are calculated based on each governor's record since 2012, or since 2013 if that was the governor's first year in office.

### Alabama

Robert Bentley, Republican  
Grade: B

Legislature: Republican  
Took Office: January 2011

Governor Bentley scored well on spending. The general fund budget has risen only slightly in recent years, from \$7.6 billion in 2012 to a proposed \$7.8 billion in 2015. Under Bentley, Alabama has made reforms to its pension system, state workforce, and other parts of government to improve quality and reduce costs.<sup>35</sup> State government employment is down about 3 percent since Bentley took office.<sup>36</sup>

His tax policies are less inspiring. He has opposed tax increases, but has not pushed for major tax reforms. Recent tax changes have provided only narrow breaks, such as a tax credit for hiring veterans, a sales tax holiday, and incentives for particular companies that build plants in the state.

### Arizona

Jan Brewer, Republican  
Grade: C

Legislature: Republican  
Took Office: January 2009

Governor Brewer has a generally good record on taxes. While she helped to push through a temporary sales tax rate increase in 2010, she supported the later expiration of that hike. In 2011 she signed into law a cut to the corporate income tax rate of 2.1 percentage points. In 2012 she approved a 25 percent cut to the capital gains tax rate. In 2013 she vetoed an increase in personal income taxes. However, Brewer has supported increased taxes on hospitals and she has vetoed some beneficial tax cuts, including bills to index the income tax for inflation and expand business capital expensing.

Brewer has not been very frugal on spending. She has proposed general fund budget increases averaging 5.2 percent over the past three years. She also supports Medicaid expansion under the ACA, and has been battling members of her own party through the courts regarding the legality of implementing the change.<sup>37</sup>

### Arkansas

Mike Beebe, Democrat  
Grade: D

Legislature: Republican  
Took Office: January 2007

Governor Beebe has supported both tax increases and tax cuts during his tenure. In 2012 he backed a ballot measure that increased the sales tax rate from 6.0 to 6.5 percent, which dragged



down his score. In 2013 he signed modest tax cuts into law, including an adjustment of individual income tax rates and brackets, a 50 percent exclusion for capital gains, and a cut to sales taxes on groceries. Beebe's record on spending since 2012 is about average among the governors.

## California

Jerry Brown, Democrat  
Grade: F

Legislature: Democratic  
Took Office: January 2011

Governor Brown scores as the worst governor in America on this year's report card. He has pushed for numerous large tax increases. In 2012 he championed a plan to increase annual tax revenues by \$6 billion a year. That increase, which passed on a November 2012 ballot, included a hike in the top individual income tax rate to 13.3 percent. He also supported a \$1 per pack increase in cigarette taxes, which failed on a June 2012 ballot. To his credit, he did approve a 2013 law that reduced sales taxes on the purchase of manufacturing equipment.

Brown scores poorly on spending. He has proposed spending increases averaging 6.8 percent annually over the last three years, which is more than twice the national average of 3.1 percent over that period. California's general fund spending has grown from \$86 billion in 2012 to Brown's proposed spending for 2015 of \$107 billion. He has supported numerous dubious spending projects, including a boondoggle high-speed rail system.

## Colorado

John Hickenlooper, Democrat  
Grade: F

Legislature: Democratic  
Took Office: January 2011

General fund spending has ballooned over the past three years under Governor Hickenlooper, from \$7.2 billion in 2012 to a proposed \$9.2 billion in 2015. The governor's proposed spending increases have averaged 6 percent over the past three years. His most recent budget included a 15 percent spending boost for higher education and new spending on corporate welfare programs.<sup>38</sup> State government employment is way up under Hickenlooper, rising 16 percent since he came to office.<sup>39</sup>

He pushed for a huge personal income tax increase on the ballot in 2013 to fund education, which would have raised more than \$900 million annually. If passed, Amendment 66 would have replaced Colorado's flat income tax of 4.63 percent with a two-rate structure of 5.0 and 5.9 percent. Luckily for Colorado taxpayers, this increase was soundly rejected by voters, 65 to 35 percent.<sup>40</sup>

## Connecticut

Dan Malloy, Democrat  
Grade: D

Legislature: Democratic  
Took Office: January 2011

In 2011 Governor Malloy raised taxes by \$1.8 billion annually, which increased total state tax collections by about 14 percent. With those new revenues in hand, he has not been inclined to push for major tax increases in recent years. He did, however, approve fuel tax increases in 2013. In 2014 he reversed course somewhat, and supported giving Connecticut residents with incomes of less than \$200,000 a tiny tax rebate of \$55.<sup>41</sup>

Over the past three years, Malloy has proposed general fund spending increases averaging 3.8 percent, which was above the national average of 3.1 percent over those years. But Connecticut

needs spending restraint: a report by Standard and Poor's shows that the state has the highest debt and unfunded pension liabilities per capita in the nation other than Alaska.<sup>42</sup> Rather than dealing with that problem, Malloy has avoided tough spending decisions. In 2013, for example, he supported shifting \$6 billion of Medicaid spending "off the budget" over two years to avoid hitting a legal spending cap.<sup>43</sup>

### Delaware

Jack Markell, Democrat  
Grade: F

Legislature: Democratic  
Took Office: January 2009

Governor Markell has imposed numerous tax increases on Delaware residents. In 2013 he pushed to make permanent large "temporary" tax hikes that he had approved in 2009. The expiration of those increases would have reduced the top individual income tax rate from 6.75 to 5.95 percent, but he and the legislature decided to keep the top rate at 6.6 percent. Similarly, "temporary" business tax increases passed in 2009 were extended in 2013.<sup>44</sup> In 2014 Markell proposed increases in gasoline taxes, business fees, and the imposition of a new water tax.

### Florida

Rick Scott, Republican  
Grade: D

Legislature: Republican  
Took Office: January 2011

Governor Scott received an "A" on Cato's 2012 report card based on his support of spending restraint and business tax reforms. In recent years, he has continued to push for tax reforms, but spending has risen briskly, pushing down his score on this report.

In 2012 he increased the exemption level for the corporate income tax from \$25,000 to \$50,000, and he expanded the sales tax exemption for manufacturing equipment. He also proposed expanding the property tax exemption for tangible business property. In 2013 he approved a three-year elimination of sales taxes on manufacturing equipment. In 2014 he pushed to raise the exemption level for the corporate tax to \$75,000 and also proposed other business tax relief. His big fiscal success this year was signing into law a \$400 million cut to vehicle fees.<sup>45</sup>

Unfortunately, Scott has allowed state spending to increase substantially. General fund spending rose 6 percent in 2013 and about 10 percent in 2014. Also, he supports expanding Florida's Medicaid program under the ACA, but that proposal has not passed the state legislature.

### Georgia

Nathan Deal, Republican  
Grade: C

Legislature: Republican  
Took Office: January 2011

Governor Deal scored about average in this report on both taxes and spending. In 2012 he supported a ballot measure to increase sales taxes for funding transportation, but voters shot that down by a large margin.<sup>46</sup> Also, he substantially increased vehicle fees. On the other hand, Deal approved a 2012 package that modestly cut income taxes by increasing personal exemptions. He also supported other small cuts, including sales tax holidays and a cut to sales taxes on energy used in manufacturing. Regarding spending, the general fund budget has grown substantially in recent years—5.6 percent in 2013 and an estimated 4.5 percent in 2014.

## Hawaii

Neil Abercrombie, Democrat  
Grade: D

Legislature: Democratic  
Took Office: December 2010

Governor Abercrombie received an “F” on the last Cato report card, partly because of his large tax increases. He signed into law higher taxes on rental cars, reduced income tax deductions, and increased excise taxes. In recent years, he has shown more tax restraint, although he did support an increase of the soda tax in 2013.

One constant during Abercrombie’s tenure has been his support for large spending increases. The general fund budget rose from \$5.5 billion in 2012 to an estimated \$6.4 billion in 2014. He has proposed spending increases averaging 6.5 percent in recent years, which is more than double the national average. But Hawaii taxpayers can now breathe easier because he was defeated in the Democratic primary for the 2014 gubernatorial election.

## Idaho

C. L. “Butch” Otter, Republican  
Grade: B

Legislature: Republican  
Took Office: January 2007

Governor Otter has taken some steps to improve Idaho’s tax competitiveness. In 2012 he signed legislation cutting the corporate income tax rate from 7.6 to 7.4 percent and the individual income tax rate from 7.8 to 7.4 percent. Those cuts were beneficial, but Idaho’s income tax rates are still too high. In 2013 he proposed phasing out Idaho’s taxes on business personal property, which would be a pro-investment reform. General fund spending increases under Otter have been slightly above average among the states.

## Illinois

Pat Quinn, Democrat  
Grade: F

Legislature: Democratic  
Took Office: January 2009

Early in his tenure, Governor Quinn proclaimed that Illinois was entering a “period of reform and recovery.”<sup>47</sup> Yet five years of his tax-and-spend approach has harmed the economy and not solved the state’s budget problems. A recent report by Standard and Poor’s found that Illinois has the fourth-highest debt and unfunded pension liabilities per capita in the nation, after Alaska, Connecticut, and Hawaii.<sup>48</sup>

In 2011 Quinn increased the individual income tax rate from 3 to 5 percent and the corporate income tax from 4.8 to 7 percent. The tax package was enormous, increasing annual state tax revenues by nearly 25 percent. He sold the package as a needed temporary fix to balance the budget and pay down debt.

In 2014 he pushed to make the “temporary” income tax hikes permanent. He also signed into law a \$1 per pack increase in cigarette taxes in 2012 and proposed raising corporate taxes by more than \$400 million in 2013.

Despite the tax increases, Illinois still has a huge debt and \$5 billion in unpaid bills, which is emblematic of poor fiscal management. Rather than “reform,” the fiscal approach of Quinn and the Illinois legislature has been to paper over budget gaps with short-term fixes and gimmicks.<sup>49</sup>

## Indiana

Mike Pence, Republican  
Grade: A

Legislature: Republican  
Took Office: January 2013

Governor Pence has been a champion tax cutter and frugal on spending. In 2013 he proposed a 10 percent cut in individual income tax rates, and the legislature agreed to 5 percent. The income tax rate will be phased down from 3.4 to 3.23 percent by 2017. He also approved a repeal of Indiana's inheritance tax.

In 2014 he signed into law a corporate income tax rate cut, adding to the reductions made by the prior governor Mitch Daniels. The rate had been scheduled to fall to 6.5 percent in 2015. Pence approved a further reduction to 4.9 percent, to be phased in by 2021.<sup>50</sup>

Pence also targeted property taxes on business equipment for reform. In his 2014 State of the State address, he said:

This tax is especially damaging because it makes it harder for Hoosier businesses to grow by directly taxing any investments they make in equipment. Taxing equipment and technology in a state that leads the nation in making and creating things just doesn't make sense. And it looks like our neighboring states have figured that out. Ohio and Illinois don't have a business personal property tax, and Michigan lawmakers just voted to phase theirs out.<sup>51</sup>

He signed off on a plan to phase out property taxes on business equipment over time. It allows local governments to end property taxes on new business equipment, while also allowing them to exempt businesses that have less than \$20,000 of equipment. For 2015 he says that he wants to make tax simplification a top priority.<sup>52</sup>

He has restrained spending growth. The general fund budget increased an estimated 1.9 percent in 2014, and Pence proposed a 2.8 percent increase for 2015. However, his support for Medicaid expansion under the ACA will increase state spending down the road.<sup>53</sup>

## Iowa

Terry Branstad, Republican  
Grade: B

Legislature: Divided  
Took Office: January 2011

Governor Branstad was governor of Iowa for 16 years between 1983 and 1999, and then returned to the governorship in 2011. His main fiscal achievement in recent years was pushing through a large property tax cut package in 2013. The reforms are complicated, but essentially include an annual growth cap for agriculture and residential assessments, reduced assessment levels for commercial and industry property, and tax credits to cut property taxes for small businesses.<sup>54</sup>

Branstad also approved an increase of the earned income tax credit and created a system of income tax rebates for times of budgetary surplus. Residents will receive about \$78 million back in surplus budget funds this year.<sup>55</sup> He also supports reforms to Iowa's high-rate corporate income tax.

On spending, he scores more poorly. He came into office promising to cut the size of state government by 15 percent, but he has instead proposed budget increases averaging 5.7 percent over the past three years. He also supported the state's expansion of Medicaid under the ACA.

## Kansas

Sam Brownback, Republican  
Grade: A

Legislature: Republican  
Took Office: January 2011

Governor Brownback achieved a major policy success with income tax reforms. In his 2012 State of the State address, he called for a “fairer, flatter, and simpler” tax system and he proposed a detailed plan for it. A few months later, the legislature delivered a tax reform bill to Brownback’s desk and he signed it into law.

The reform cut individual income tax rates substantially and simplified tax brackets. Three tax rates of 3.5, 6.25, and 6.45 percent were replaced by rates of 3.0 and 4.9 percent. Standard deductions were increased and numerous special-interest tax breaks were repealed. The reform also exempted nonwage income of small businesses from taxation, which will allow about 190,000 businesses to keep more of their earnings for reinvestment. The tax cuts will save Kansas households more than \$800 million a year and have made the Kansas tax code simpler and more supportive of economic growth.<sup>56</sup>

In 2013 Brownback approved additional tax reforms. Income tax rates were cut further, with the top rate now scheduled to fall to 3.9 percent by 2018. To offset the revenue loss, the value of income tax deductions was reduced and the sales tax rate was increased from 5.7 to 6.15 percent.<sup>57</sup>

Politicians often don’t match tax cuts with spending restraint, but Brownback has held the line on spending. The general fund budget has been roughly flat the past three years and state government employment has trended downward since Brownback took office.<sup>58</sup>

Some pundits are suggesting that the Kansas tax cuts are a failure because they have created large gaps in future state budgets. But the Kansas legislature released budget projections in May showing that even with current tax cuts in place, general fund revenue is projected to rise from \$5.67 billion this year to \$6.52 billion in 2019.<sup>59</sup> That works out to an annual average growth rate of 2.8 percent, although updated estimates are expected to show somewhat lower revenues. Some Kansas legislators may view slower revenue growth as a terrible problem, but it creates an opportunity for them to improve government efficiency and cut unneeded programs.

## Kentucky

Steve Beshear, Democrat  
Grade: C

Legislature: Divided  
Took Office: December 2007

Governor Beshear scores better than average on spending, having overseen only modest budget growth in recent years. He proposed general fund spending increases averaging 2.7 percent over the past three years. In 2014 he proposed a major tax overhaul that would have slightly reduced personal income tax rates, cut corporate income taxes, and expanded the sales tax base.<sup>60</sup> Cigarette taxes would have been increased, while alcohol taxes would have been reduced. The plan would have increased state revenues overall, but it included some pro-growth elements.

## Louisiana

Bobby Jindal, Republican  
Grade: B

Legislature: Republican  
Took Office: January 2008

Governor Jindal proposed a dramatic tax overhaul in 2013, which would have eliminated personal and corporate income taxes in exchange for increasing the sales tax rate and broadening the



sales tax base.<sup>61</sup> The overall plan was revenue neutral, but would have simplified the tax system and encouraged economic growth. Unfortunately, he had to put the plan aside because of some design flaws and resistance to such a large-scale policy change. Hopefully, Louisiana will revisit tax reform in the near future.

Jindal has been tight-fisted on spending. His recent budgets have proposed spending increases averaging just 1.9 percent a year. State government employment is down 18 percent since he came to office.<sup>62</sup> He also opposes Medicaid expansion under the ACA.

## Maine

Paul LePage, Republican  
Grade: A

Legislature: Democratic  
Took Office: January 2011

Governor LePage has pursued many fiscally conservative policies. General fund spending has been roughly flat the past three years, and state government employment is down about 6 percent since he took office.<sup>63</sup> He has signed into law cost-cutting reforms to welfare and health programs.

The governor has been a consistent tax cutter. In 2011 Maine passed a large income tax cut, which reduced the top individual rate, simplified the tax brackets, and eliminated income taxes for 70,000 low-income households. LePage has signed into law an increase in the estate tax exemption, modest business tax cuts, and a halt to automatic increases in the gas tax. LePage has also voiced support for eliminating Maine's income taxes altogether.<sup>64</sup>

In 2013 he vetoed the legislature's budget because it contained numerous tax increases, including raising the sales tax rate from 5.0 to 5.5 percent, increasing the meals and lodging tax, and reducing the value of income tax deductions. Unfortunately, his veto was overridden by the legislature.

LePage's 2014 State of the State address reflected his smaller-government philosophy.<sup>65</sup> He proposed matching \$100 million in tax cuts with \$100 million in spending cuts. And he decried the negative effects of big government: "Big, expensive welfare programs riddled with fraud and abuse threaten our future. Too many Mainers are dependent on government handouts. Government dependency has not—and never will—create prosperity." He also lauded the benefits of entrepreneurs, quoting Winston Churchill: "Some people regard private enterprise as a predatory tiger to be shot. Others look on it as a cow they can milk. Not enough people see it as a healthy horse, pulling a sturdy wagon."

## Maryland

Martin O'Malley, Democrat  
Grade: D

Legislature: Democratic  
Took Office: January 2007

Governor O'Malley has imposed numerous tax increases on Marylanders. In 2012 he raised the top individual income tax rate from 5.5 to 5.75 percent and reduced personal exemptions. In 2013 he signed into law a large fuel tax increase. While imposing such broad-based tax increases, he has supported narrow breaks for favored industries, such as incentives for film companies. His recent budget argues wrongly that business subsidies—which he calls "strategic investments"—spur job creation.<sup>66</sup> Over the last three years, his proposed general fund spending increases have averaged a robust 5.2 percent.

## Massachusetts

Deval Patrick, Democrat  
Grade: F

Legislature: Democratic  
Took Office: January 2007

Governor Patrick's low score results mainly from his record of proposed and enacted tax increases. In 2012 he proposed higher taxes on cigarettes and corporations. In 2013 he signed into law increases in sales taxes, cigarette taxes, and gas taxes. The cigarette tax was increased by \$1 per pack. The same year, he proposed a large income tax increase, which would have raised the individual rate from 5.25 to 6.25 percent. The plan would have reduced the sales tax, but would have been a large tax increase overall. Luckily for Massachusetts taxpayers, the plan did not pass. In 2014 Patrick proposed higher taxes on corporations and applying the sales tax to candy and soda.

## Michigan

Rick Snyder, Republican  
Grade: D

Legislature: Republican  
Took Office: January 2011

After a successful business career, Governor Snyder came into office eager to help solve Michigan's deep-seated economic problems. He has pursued many important reforms, such as spearheading the restructuring of Detroit's finances and signing into law right-to-work legislation. He repealed the damaging Michigan Business Tax and replaced it with a less harmful corporate income tax. In 2014 pushed through a phased-in elimination of property taxes on business equipment, which will help spur capital investment. The cut was approved by Michigan voters in August 2014.<sup>67</sup>

However, Snyder received a low grade on this year's report card largely because he is supporting a \$1.2 billion-a-year fuel tax increase. That would be a huge hike, pushing up overall state tax revenues by nearly 5 percent.

He also scores fairly low on spending. The general fund budget increased 7.3 percent in 2013 and an estimated 7.8 percent in 2014. The governor also supported Medicaid expansion under the ACA, which will be a costly burden on Michigan taxpayers down the road.

## Minnesota

Mark Dayton, Democrat  
Grade: F

Legislature: Democrat  
Took Office: January 2011

Governor Dayton replicated his grade of "F" from the last Cato report card. Under Dayton, general fund spending increased 13 percent in 2013 and an estimated 4 percent in 2014. His poor score also stems from his large tax hikes. In 2012 he signed into law higher taxes on gaming. In 2013 he approved a package raising annual revenues by \$1 billion, which is almost 5 percent of total state tax revenues. The package created a new top individual income tax rate of 9.85 percent above the current top rate of 7.85 percent. It also raised cigarette taxes by \$1.60 per pack. In 2014 he partly reversed course and signed into law modest tax cuts that reduced estate taxes, ended the marriage penalty under the income tax, and reduced sales taxes on business purchases.<sup>68</sup>

### Mississippi

Phil Bryant, Republican  
Grade: C

Legislature: Republican  
Took Office: January 2012

Governor Bryant scored a little above average on taxes and spending. He has supported modest tax cuts, although they have been narrowly focused, such as film tax incentives. On spending, he presided over a reduction to the general fund budget in 2013, but spending has bounced back since then.

### Missouri

Jay Nixon, Democrat  
Grade: D

Legislature: Republican  
Took Office: January 2009

Governor Nixon and Missouri's Republican-controlled legislature have battled over taxes. In 2013 the legislature passed an \$800 million tax cut that would have reduced the corporate income tax rate from 6.25 to 3.25 percent and the individual income tax rate from 6.0 to 5.5 percent. Unfortunately, Nixon vetoed the bill, and the legislature was unable to override. In 2014 the legislature tried again. This time, it passed a smaller package, including a 25 percent deduction for business income reported on individual returns and a phased-in individual income tax rate cut to 5.5 percent contingent on certain revenue targets being met.<sup>69</sup> Nixon vetoed the package, but the legislature was able to override him this time.

On spending, increases under Nixon in recent years have been about average among the states. He wants to expand Medicaid under the ACA, but the legislature has so far refused to go along.

### Montana

Steve Bullock, Democrat  
Grade: D

Legislature: Republican  
Took Office: January 2013

Governor Bullock scored poorly on spending, but somewhat better on taxes. The general fund budget increased 12.6 percent in 2013 and an estimated 10.5 percent in 2014. Bullock supports Medicaid expansion under the ACA, but that plan has not passed the legislature.

On taxes, Bullock proposed a one-time homeowner rebate of \$400, but that legislation has not passed. He did sign into law a property tax cut for business equipment, which is an important pro-investment reform.<sup>70</sup> On the other hand, he vetoed a tax-reform plan passed by the legislature in May 2013, which would have reduced and simplified the individual income tax rate structure and made useful business tax reforms.

### Nebraska

Dave Heineman, Republican  
Grade: B

Legislature: Nonpartisan  
Took Office: January 2005

Governor Heineman has a strong tax-cutting record. In 2006 he signed personal income tax cuts into law. In 2007 he approved further income tax cuts and a repeal of the estate tax. In 2012 he proposed trimming the top individual and corporate income tax rates. He did not convince the legislature to cut rates, but he did get it to approve modest individual tax reductions.

In 2013 Heineman proposed eliminating the individual and corporate income taxes, paired with a substantial broadening of the sales tax base. That plan did not pass, but he pushed tax cuts again in 2014, calling for \$500 million in reductions over three years. Again, the legislature stymied his plan, but it did pass some smaller cuts, including indexing the individual income tax for inflation and exempting portions of Social Security from tax.

## Nevada

Brian Sandoval, Republican  
Grade: C

Legislature: Democratic  
Took Office: January 2011

Nevada has had a poor economy in recent years, and Governor Sandoval and the legislature have had to restrain the budget to match stagnant revenues. The Nevada general fund budget has been fairly flat under Sandoval, and he scores highly on spending. However, he approved the expansion of Medicaid under the ACA.<sup>71</sup>

Sandoval scores below average on taxes. He came into office promising no tax increases, and he specifically said that he would not extend temporary tax increases enacted in 2009.<sup>72</sup> But Sandoval reversed course and approved the extension, which included higher sales taxes, higher business taxes, and business license fees.<sup>73</sup> The taxes are now set to expire in 2015 and he has not decided whether or not to support a further extension.<sup>74</sup> To his credit, Sandoval is opposed to a new business “margin tax” on the Nevada ballot in 2014.

## New Hampshire

Maggie Hassan, Democrat  
Grade: D

Legislature: Divided  
Took Office: January 2013

Governor Hassan’s tenure as New Hampshire governor is moving the state in the wrong fiscal direction. In 2013 she proposed a cigarette tax increase of 30 cents a pack, and the legislature agreed to a 10 cent hike.<sup>75</sup> In 2014 she approved a gasoline tax increase of 4.2 cents per gallon. State general fund spending increased an estimated 5.6 percent in 2014, and Hassan supported Medicaid expansion under the ACA.

## New Jersey

Chris Christie, Republican  
Grade: B

Legislature: Democratic  
Took Office: January 2010

Governor Christie gained national prominence as a result of his battles with public employee unions. He has tried to bring some fiscal sanity to Trenton, although he scores better on taxes than spending. He signed into law substantial business tax cuts in 2011 and proposed a 10 percent across-the-board income tax cut in 2012. He has repeatedly vetoed tax hikes on higher earners passed by the legislature, insisting in 2014 that “income taxes being raised in any way, shape or form will not happen while I’m governor—under no circumstances.”<sup>76</sup> Like many governors, however, he has a weakness for handing out narrow tax breaks and subsidies to businesses.

New Jersey has a large, unfunded pension liability that needs further reforms. A recent report by Standard and Poor’s shows that New Jersey has the fifth-highest debt and unfunded pension liabilities per capita in the nation.<sup>77</sup> This year New Jersey was left with a substantial budget gap

as a result of bad revenue projections, which prompted Christie to seek a delay on \$2.4 billion of pension payments.<sup>78</sup> He has approved Medicaid expansion under the ACA, which will add to New Jersey's budget problems down the road.

### New Mexico

Susana Martinez, Republican  
Grade: B

Legislature: Democratic  
Took Office: January 2011

Governor Martinez scores above average on spending and has pushed major tax reforms. Her proposed general fund spending increases have averaged a modest 2.4 percent in recent years. She has pursued tax cuts to make New Mexico more economically competitive. In 2012 she signed a bill reducing gross receipts taxes on inputs to construction and manufacturing, and she has called for exempting 40,000 small businesses from the gross receipts tax. Her biggest tax policy success was pushing through a cut to the corporate income tax rate from 7.6 to 5.9 percent, phased in over five years.

### New York

Andrew Cuomo, Democrat  
Grade: B

Legislature: Divided  
Took Office: January 2011

Governor Cuomo is one of the highest-scoring Democratic governors in this report. His score is buoyed by a major tax-cut package he signed into law in 2014. The package cut the corporate income tax rate from 7.1 to 6.5 percent, reduced the corporate tax rate on qualified manufacturers from 5.9 percent to zero, ended a separate bank tax system, ended a surcharge on utility customers, increased the estate tax exemption, reduced the property tax burden on manufacturers, and provided property tax breaks to homeowners.<sup>79</sup> The package was far from perfect, but it showed that Cuomo recognizes that New York's tax climate is uncompetitive and needs improvement.

Spending increases under Cuomo have been about average among the states in recent years. However, one recent initiative that will be costly is his effort to expand state funding for pre-kindergarten.<sup>80</sup>

### North Carolina

Pat McCrory, Republican  
Grade: A

Legislature: Republican  
Took Office: January 2013

Governor McCrory came into office promising major tax reforms. In his 2013 State of the State address, he said that the state's tax system:

is out of date. It was written in the 1930s. It no longer applies to the modern economy. We must have an economic and tax policy in North Carolina that is simple, that is competitive, that is modern and that is pro-growth. This policy must reward our people and businesses that build things, produce things, grow things and innovate things.<sup>81</sup>

With leadership by the state legislature, McCrory delivered on his promises with one of the

most impressive tax reforms of any state in years. The overhaul replaced three individual income tax rates of 6.0, 7.0, and 7.75 percent with a single rate of 5.8 percent, which will be reduced to 5.75 percent in 2015. The personal exemption was eliminated and standard deduction expanded.

The 2013 reform also cut the corporate income tax rate from 6.9 to 6.0 percent in 2014, and to 5.0 percent in 2015. The corporate tax rate will fall further in coming years if certain budget targets are met. The estate tax was repealed, and the sales tax base was expanded to cover more services. These reforms will vault North Carolina from 44th to 17th on the Tax Foundation's State Business Tax Climate Index.<sup>82</sup> McCrory signed into law further business tax reforms in 2014.

On spending, McCrory has held down budget growth the past two years, while trimming numerous programs such as unemployment insurance.

## North Dakota

Jack Dalrymple, Republican  
Grade: B

Legislature: Republican  
Took Office: December 2010

North Dakota is enjoying rapid economic growth as the energy sector booms. The strong economy is creating a government revenue gusher, which is allowing legislators to both increase spending and cut tax rates. General fund spending soared from \$2.2 billion in 2012 to an estimated \$3.4 billion in 2014. Much of the added money is being spent on infrastructure and education.

However, rising revenues have also allowed Governor Dalrymple to support large tax cuts, which boosted his score in this report. In 2013 he signed into law a cut to the individual income tax rate from 3.99 to 3.22 percent and a cut to the corporate tax rate from 5.15 to 4.53 percent.

## Ohio

John Kasich, Republican  
Grade: D

Legislature: Republican  
Took Office: January 2011

Governor Kasich scored higher on taxes than on spending, as he has proposed and signed into law numerous tax cuts. The biggest reform was a package in 2013 that cut income taxes and increased sales taxes. It cut individual income tax rates by 10 percent, with the top rate falling from 5.93 to 5.33 percent by 2015. The reform also exempted a portion of small business income from taxation. To partly offset the revenue loss, the plan raised the sales tax rate from 5.5 to 5.75 percent and broadened the sales tax base. This was a sensible pro-growth reform package, which cut Ohio taxes by about \$1.2 billion annually.

Kasich followed up this success with another round of tax cuts in 2014. The income tax rate reductions were accelerated and personal exemptions were increased. However, he also proposed tax increases in 2014, including an increase on cigarettes of 60 cents per pack, an increase in the Commercial Activities Tax, and an increase in taxes on the shale oil and gas industry.<sup>83</sup> Those increases would be swapped for further reductions in individual income taxes.

His score was dragged down by his spending increases. The general-fund budget grew an estimated 13.6 percent in 2014. State government employment is up more than 3 percent since Kasich took office.<sup>84</sup>

Governor Kasich pushed to expand Medicaid under the ACA, which the legislature opposed. Indeed, the legislature passed budget language prohibiting Kasich from expanding Medicaid unilaterally, but the governor vetoed that item and went ahead and expanded Medicaid anyway.<sup>85</sup>



## Oklahoma

Mary Fallin, Republican  
Grade: B

Legislature: Republican  
Took Office: January 2011

When she came into office, Governor Fallin set her sights on phasing out Oklahoma's income tax.<sup>86</sup> She has not achieved that goal yet, but she has made progress on tax reform. In 2012 she proposed a plan to cut individual income tax rates, but it did not pass the legislature. In 2013 she tried again, and the legislature agreed to cuts, but the law was ruled unconstitutional by the state supreme court for procedural reasons.<sup>87</sup> She pushed through another package in 2014, and this time she was successful. The package reduces the income tax rate from 5.25 to 5.00 percent in 2016 and to 4.85 percent in 2017 contingent on budget targets being met.<sup>88</sup> Fallin's record on spending has been good in recent years. Her proposed increases have been typically small, but the legislature has usually ended up passing larger increases.

## Oregon

John Kitzhaber, Democrat  
Grade: F

Legislature: Democratic  
Took Office: January 2011

Governor Kitzhaber has consistently supported tax and spending policies that expand government. General-fund spending jumped an estimated 12.4 percent in 2014 and the governor proposed a 9.4 percent increase for 2015. He embraced Medicaid expansion under the ACA and the creation of an Oregon health insurance exchange. The exchange was a complete debacle and did not enroll a single person. In 2014 the exchange was scrapped after \$248 million had been spent.<sup>89</sup>

Kitzhaber's record on taxes is also disappointing. In 2013 he signed into law increases in cigarette taxes, hospital taxes, the corporate income tax, and the individual income tax.

## Pennsylvania

Tom Corbett, Republican  
Grade: C

Legislature: Republican  
Took Office: January 2011

Governor Corbett fell from an "A" on the last Cato report card to a "C" on this one mainly because of his support for a huge tax increase for transportation. The increase passed in 2013, and will raise more than \$1 billion a year from Pennsylvania motorists. He also supported efforts to raise the cigarette tax by \$2 a pack to fund Philadelphia schools.

Nonetheless, Corbett has been a fiscal reformer on other aspects of the budget. In 2012 he signed a bill to phase out Pennsylvania's damaging capital stock and franchise tax. The phase out was delayed in 2013, but he is again pushing for complete repeal. He is also opposing efforts to impose a severance tax on the energy industry.

His record on spending is quite good, with the general fund rising a modest 2.0 percent in 2013 and an estimated 2.8 percent in 2014. He supports liquor-store privatization and major reforms to state worker pension plans. However, he is moving ahead with a plan to expand health care spending under the ACA through individual subsidies for buying private insurance.<sup>90</sup>

## Rhode Island

Lincoln Chafee, Democrat  
Grade: B

Legislature: Democratic  
Took Office: January 2011

Governor Chafee, a former Republican U.S. senator who is now a Democrat, has increased spending roughly in line with the national average. He has long sought to cut the corporate income tax rate, and in 2013 he signed into law a cut from 9 to 7 percent by 2015. This cut was combined with a broadening of the corporate tax base.<sup>91</sup> Chafee also signed into law a repeal of the franchise tax and a reduction in the estate tax.

## South Carolina

Nikki Haley, Republican  
Grade: B

Legislature: Republican  
Took Office: January 2011

Governor Haley has proposed several large tax cuts in recent years, but the South Carolina legislature has not approved her major reforms. In 2012 she proposed cutting the current six individual income tax brackets to three and phasing out the corporate income tax. The plan did not pass, but she did sign into law a cut in the tax rate on small business income from 5 to 3 percent. In 2014 her budget proposed eliminating the top individual income tax rate of 6 percent, which would be an excellent reform. Recently, she has argued for the full elimination of the state income tax altogether.<sup>92</sup>

Haley's budgets have included about average spending increases. She opposes expanding Medicaid and creating a state health insurance exchange under the ACA.

## South Dakota

Dennis Daugaard, Republican  
Grade: C

Legislature: Republican  
Took Office: January 2011

Spending has risen quickly the last two years under Governor Daugaard. The general fund grew 7.0 percent in 2013 and an estimated 12.2 percent in 2014, although his budgets have proposed much lower increases than the legislature ultimately passed.

He has a mixed record on taxes. He vetoed a hotel tax increase, supported extension of a tourism tax increase, and may support a gas tax increase.<sup>93</sup> In 2012 Daugaard came down on the same side as voters who soundly defeated a ballot measure (Measure 15) to raise the state sales tax rate from 4 to 5 percent.

## Tennessee

Bill Haslam, Republican  
Grade: D

Legislature: Republican  
Took Office: January 2011

Governor Haslam scored a bit below average on spending and about average on taxes in this report. On taxes, he has opposed repealing the state's "Hall tax," which is an income tax on dividends and interest, but he signed into law a tax cut on groceries and the repeal of Tennessee's estate tax.

On spending, he has proposed moderate increases in his recent budgets, on average, but actual

general-fund spending is expected to rise 10 percent in 2014. Like many governors, Haslam talks about rising spending as if it were a good thing. He recently said: “There’s only six states in the last year that have consistently increased education funding, Tennessee being one of those six. . . . [Teacher salaries] have increased at double the national average in Tennessee since we’ve been in office.”<sup>94</sup> It would be better if he instead focused on maximizing quality and minimizing costs for citizens and taxpayers.

## Texas

Rick Perry, Republican  
Grade: B

Legislature: Republican  
Took Office: December 2000

In 2006 Governor Perry approved a business tax overhaul that replaced the corporate franchise tax with a modified gross receipts tax called the “margin tax.” The new tax hit 180,000 additional businesses and greatly increased state-level taxes.<sup>95</sup> The added state revenues were used to reduce local property taxes, but the overall effect of the package was to centralize government power in the state.

Nonetheless, Perry has proposed reforms to reduce the harm caused by taxes. In 2013 he signed into law tax cuts of more than \$700 million annually. The cuts included extending a \$1 million exemption for small business under the margin tax, a temporary cut to the margin tax rate, and various sales tax exemptions for business purchases.

The way the numbers add up for this report, Perry scored well on spending. But looking at his whole tenure since 2000, the Texas general fund budget has gyrated substantially over the biennium budget cycles.<sup>96</sup> Also, total state spending has risen more quickly than general fund spending, with growth coming in at an annual average of 5 percent since 2000. Perry has proposed sound fiscal principles in his “Texas Budget Compact,” including budget transparency, a constitutional limit on spending growth, opposition to new taxes, a strong rainy-day fund, and cutting unneeded spending.<sup>97</sup>

## Utah

Gary Herbert, Republican  
Grade: D

Legislature: Republican  
Took Office: August 2009

Governor Herbert’s below-average grade on this report stems from his above-average spending increases. Proposed spending increases have been higher than the average of other governors the last three years in a row. Utah’s actual general fund spending increased 6.1 percent in 2013 and an estimated 5.7 percent in 2014. State government employment has soared under Herbert, growing more than 17 percent since he came to office in 2009.<sup>98</sup>

## Vermont

Peter Shumlin, Democrat  
Grade: D

Legislature: Democratic  
Took Office: January 2011

Governor Shumlin scores quite poorly on spending and taxes. In 2013 he signed into law an increase in fuel taxes, and in 2014 he approved an increase in cigarette taxes of 13 cents per pack. To his credit, he opposed an income tax increase passed by the Vermont House in 2013.

Shumlin's budgets have proposed spending increases of more than 5 percent annually the past three years. On health care, he signed a 2011 law creating initial steps for the "first single-payer system in America."<sup>99</sup> By 2014, however, the plan's implementation was falling behind schedule and political support was waning.<sup>100</sup>

## Washington

Jay Inslee, Democrat  
Grade: F

Legislature: Democratic  
Took Office: January 2013

Governor Inslee's poor grade stems from his poor record on taxes. Inslee campaigned on a promise not to raise taxes, but within months of taking office he proposed over \$1 billion in new taxes over the budget biennium.<sup>101</sup> The changes would have extended a temporary increase in the business and occupation tax, increased beer taxes, and broadened the sales tax base. In 2013 and 2014, he backed a multibillion-dollar transportation package financed by taxes and debt.<sup>102</sup> Those tax increases have not passed yet, but Inslee did sign into law increases on phone service and estate tax rates.

## West Virginia

Earl Ray Tomblin, Democrat  
Grade: B

Legislature: Democratic  
Took Office: November 2010

Governor Tomblin is the highest-ranking Democrat in this year's Cato report card. Spending growth has been quite low since 2012, with the general fund rising only from \$4.1 billion in 2012 to an estimated \$4.2 billion in 2014. Tomblin proposed a 1.5 percent spending increase for 2015. He has overseen the elimination of sales taxes on food and has continued to phase in reductions in business taxes enacted under his predecessor.

## Wisconsin

Scott Walker, Republican  
Grade: B

Legislature: Republican  
Took Office: January 2011

Governor Walker has reformed retirement plans and union rules for government workers. Act 10, passed in 2011, imposed restrictions on collective bargaining and required increases in worker contributions for health and pension plans. Those changes are saving money at both the state and local levels of government. In addition, Walker signed a law requiring a two-thirds supermajority in both legislative chambers to raise income, sales, or franchise tax rates.

He approved individual income tax cuts in 2013, and followed up with further cuts in 2014. Wisconsin's five income tax rates were reduced to four lower rates, going from 4.6, 6.15, 6.5, 6.75, and 7.75 percent to 4.4, 5.84, 6.27, and 7.65 percent. Those cuts, and other income tax reductions, will save Wisconsin residents more than \$500 million annually.<sup>103</sup> Walker has also approved substantial property tax relief.

He did not score as well on spending. His proposed increases have been a bit higher than the average governor, and actual spending increased 4.2 percent in 2013 and an estimated 4.8 percent in 2014.

His strategy on Medicaid under the ACA is to provide broader coverage without increas-

ing the overall cost. Wisconsin's program already covered people with incomes up to the level required by the ACA. Wisconsin had previously capped the number of enrollees in Medicaid, which created a waiting list. Walker shifted some current enrollees with incomes above the poverty level to the federal health exchange and used the savings to cover new individuals under Medicaid.<sup>104</sup>

## Wyoming

Matt Mead, Republican  
Grade: C

Legislature: Republican  
Took Office: January 2011

The Tax Foundation reports that Wyoming has the best tax climate for businesses in the nation.<sup>105</sup> Wyoming has neither a corporate income tax nor an individual income tax. Governor Mead has not tampered with that efficient tax structure, but he did hike the gas tax from 14 cents per gallon to 24 cents in 2013. He has a fairly good record on spending. His first biennium budget increased spending about 10 percent, but his latest budget proposed to keep spending roughly flat for the next biennium.

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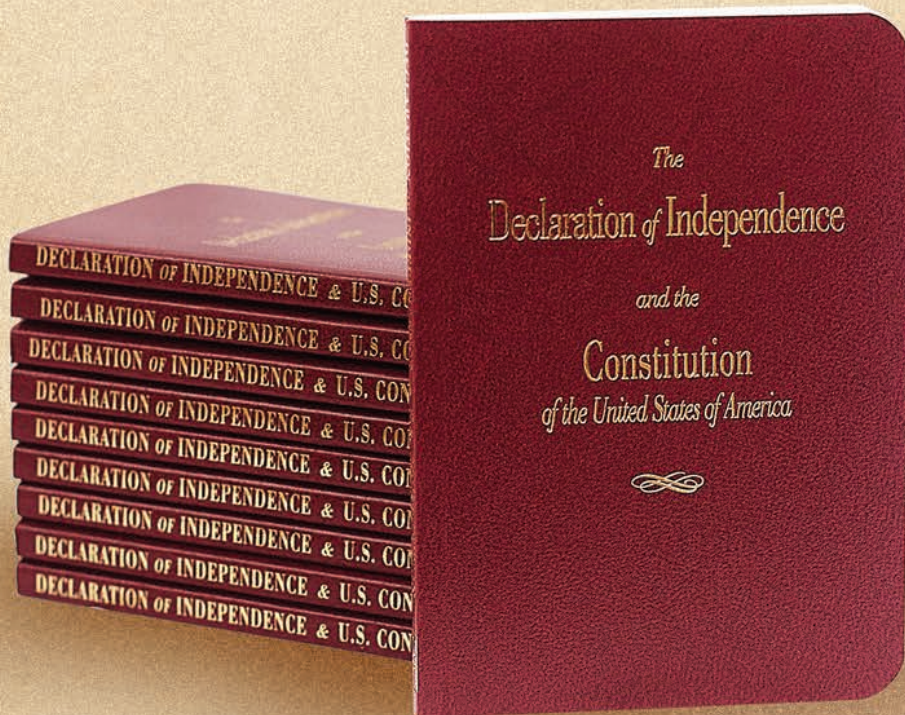






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