Policy Analysis

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Fiscal Policy Report Card on America's Governors: 2006

by Stephen Slivinski

Executive Summary

This report presents the findings of the Cato Institute's eighth biennial fiscal policy report card on the nation's governors. The report card's grading is based on 23 objective measures of fiscal performance. Governors who have cut taxes and spending the most receive the highest grades. Those who have increased spending and taxes the most receive the lowest grades.

Only one governor receives an A this year—Republican Matt Blunt of Missouri. The next two highest-scoring Republicans are Rick Perry of Texas and Mark Sanford of South Carolina. The highest-scoring Democratic governors are John Lynch of New Hampshire and Phil Bredesen of Tennessee.

Nine governors receive Fs. In alphabetical order, they are Kathleen Blanco of Louisiana, Michael Easley of North Carolina, Kenny Guinn of Nevada, Christine Gregoire of Washington, Mike Huckabee of Arkansas, Ruth Ann Minner of Delaware, Janet Napolitano of Arizona, Bob Riley of Alabama, and Brian Schweitzer of Montana.

Governors who received praise in previous editions of the report card but have lower grades this year include Arnold Schwarzenegger of California (current grade, D); Jeb Bush of Florida (current grade, C); Bill Owens of Colorado (current grade, D); George Pataki of New York (current grade, D); and Bill Richardson of New Mexico (current grade, C).

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Introduction

The fiscal news has finally turned good for most state policymakers. The improving national economic condition has reversed the fiscal fortunes of most states. Gone are the reports of massive budget deficits that equaled $265 billion in total between 2001 and 2005. This year at least 42 states will end the fiscal year with a budget surplus. In total, states are estimated to be in the black by $28.9 billion.[1]

But is this good news for taxpayers? It depends, of course, on what each governor and state legislature plan to do with the money. Some plan to spend most or all of the windfall, while others are planning to give it back to those who produced it: the taxpayers of their state.

Such is the context for the Cato Institute's eighth biennial fiscal policy report card on the nation's governors. The study is a comparative analysis of the budget and tax records of 46 governors. (Three governors—James Risch of Idaho, Jon Corzine of New Jersey, and Tim Kaine of Virginia—were excluded because they assumed office too recently for their records to be fully assessed. The governor of Alaska was excluded for technical reasons.)[2] The report card provides an index of fiscal restraint for each governor. Governors who cut taxes and spending the most receive the highest grades. Those who raised taxes and spending the most receive the lowest grades.

The grading mechanism is based on 23 objective measures of fiscal performance. The sources of the tax and spending data in the study are the U.S. Bureau of the Census, the National Association of State Budget Officers, the National Conference of State Legislatures, and the budget offices of each governor and legislature.[3]

Appendix A to this report discusses some caveats to keep in mind while reading this report card. Appendix B provides a detailed discussion of the report card's methodology and the 23 policy variables that it examines. Appendix C contains the tables that outline the grade each governor receives in each broad fiscal policy category—spending, revenue, and tax rates. Appendix D provides a summary of the record of each governor in this year's report.

Main Results

Tables 1 presents the grades for each governor. Governors have been graded on their performance during their current term in office. Past Cato report cards awarded grades to governors on the basis of their cumulative record in office—from their inauguration to the present day. This year, the methodology has been changed to award grades to governors on a term-by-term basis. That will assist readers in tracking how the quality of a governor's fiscal stewardship rises or declines over time.

Only when governors leave office will they receive a cumulative overall grade—an average of all their term grades—to reflect their performance during their entire governorships. The overall grades for each of the eight incumbent governors who are leaving office in 2007 are given in Table 2.

Also bear in mind that some governors graded this year were inaugurated in January 2005 or after. Therefore, they have been awarded "midterm" grades. Those governors have been noted with an asterisk in Table 1.

This year only one governor receives a grade of A: Matt Blunt of Missouri. Nine governors receive Fs. In alphabetical order, they are Kathleen Blanco of Louisiana, Michael Easley of North Carolina, Kenny Guinn of Nevada, Christine Gregoire of Washington, Mike Huckabee of Arkansas, Ruth Ann Minner of Delaware, Janet Napolitano of Arizona, Bob Riley of Alabama, and Brian Schweitzer of Montana.

The High-Scoring Governors

The governor with the best fiscal record is Matt Blunt of Missouri, who is currently in

Table 1
Overall Current-Term Grades

State	Governor	Score	Grade
Missouri	Matt Blunt (R)*	63	A
Texas	Rick Perry (R)	61	B
South Carolina	Mark Sanford (R)	60	B
Tennessee	Phil Bredesen (D)	60	B
South Dakota	Mike Rounds (R)	59	B
Utah	John Huntsman (R)*	59	B
New Hampshire	John Lynch (D)	58	B
Georgia	Sonny Perdue (R)	56	C
New Mexico	Bill Richardson (D)	56	C
Oklahoma	Brad Henry (D)	56	C
Iowa	Tom Vilsack (D)	56	C
Massachusetts	Mitt Romney (R)	55	C
Minnesota	Tim Pawlenty (R)	55	C
Nebraska	Dave Heineman (R)	55	C
Pennsylvania	Edward Rendell (D)	55	C
Mississippi	Haley Barbour (R)*	54	C
Rhode Island	Don Carcieri (R)	54	C
Florida	Jeb Bush (R)	54	C
North Dakota	John Hoeven (R)	54	C
Ohio	Bob Taft (R)	53	C
Kentucky	Ernie Fletcher (R)	53	C
Maryland	Robert Ehrlich (R)	53	C
Vermont	James Douglas (R)	53	C
Michigan	Jennifer Granholm (D)	53	C
New York	George Pataki (R)	51	D
West Virginia	Joe Manchin (D)*	51	D
Kansas	Kathleen Sebelius (D)	51	D
Illinois	Rod Blagojevich (D)	51	D
Maine	John Baldacci (D)	51	D
Colorado	Bill Owens (R)	50	D
Oregon	Ted Kulongoski (D)	50	D
Indiana	Mitch Daniels (R)*	50	D
Connecticut	Jodi Rell (R)	50	D
Hawaii	Linda Lingle (R)	50	D
California	Arnold Schwarzenegger (R)	49	D
Wisconsin	Jim Doyle (D)	49	D
Wyoming	Dave Freudenthal (D)	49	D
Montana	Brian Schweitzer (D)*	47	F
Alabama	Bob Riley (R)	47	F
Washington	Christine Gregoire (D)*	47	F
Arkansas	Mike Huckabee (R)	46	F
Nevada	Kenny Guinn (R)	46	F
Delaware	Ruth Ann Minner (D)*	44	F
North Carolina	Michael Easley (D)*	44	F
Arizona	Janet Napolitano (D)	43	F
Louisiana	Kathleen Blanco (D)*	43	F

*Governor who receives a midterm grade only.

Table 2
The Graduating Class: Final Overall Grades of Governors Leaving Office in 2007

Governor	State	Grade
Jeb Bush (R)	Florida	B
Kenny Guinn (R)	Nevada	D
Mike Huckabee (R)	Arkansas	D
Bill Owens (R)	Colorado	C
George Pataki (R)	New York	C
Mitt Romney (R)	Massachusetts	C
Bob Taft (R)	Ohio	F
Tom Vilsack (D)	Iowa	C

The highest-scoring Democrats in this report card are Phil Bredesen of Tennessee and John Lynch of New Hampshire, both of whom received a grade of B.

the second year of his first term. His success at cutting the state budget in his first year in office has catapulted him to the top of the report card this year. Blunt proposed bold initiatives to cut more than 1,000 state jobs and restrain Medicaid spending by tightening eligibility requirements and requiring many recipients to make copayments. His budget cutting was among the most substantial in the nation—indeed, he was one of only a few governors who attempted to restrain the growth of government health care spending in his state—and the state legislature passed his budget mostly intact. There are signs that Blunt's commitment to fiscal discipline is fading, though. His most recent budget boosts spending by more than 5 percent in real per capita terms. If Blunt spends taxpayer money like that for the rest of his term, his grade will surely drop on the next report card.

The next two highest-scoring governors are Republicans who receive a grade of B. Both Rick Perry of Texas and Mark Sanford of South Carolina have shown a solid commitment to keeping taxes and spending burdens low in their states over their entire terms.

Texas governor Rick Perry has kept spending under control better than most governors in this report card. He also proposed and signed into law a substantial $1.5 billion property tax cut. The main blemish on his record is the tax hikes he lobbied for and signed into law to offset the overall impact of his property tax reform plan. Among them was a new gross receipts tax on the state's businesses, which has the potential to limit homegrown job creation and sap the ability of the state to attract business. That was an unnecessary move, since the state was rolling in a $4 billion budget surplus.

Governor Mark Sanford of South Carolina has been battling a Republican-controlled legislature to keep spending down since his first day in office. He has proposed budgets that reduced government in real per capita terms each year, but the legislature has avoided the tough choices necessary to restrain government. Sanford even vetoed the entire budget this year, but that veto was overturned by the legislature. Still, Sanford's example and leadership seem to have persuaded the legislature to keep spending relatively close to population growth and inflation. Where Sanford really excels is on tax policy. He's gotten the legislature to help him cut the top income tax rate from 7 percent to 5 percent. As he did on the 2004 report card, Sanford ranks as one of America's best governors in terms of fiscal policy in 2006. He was able to maintain a grade of B throughout his entire first term.

The highest-scoring Democrats in this report card are Phil Bredesen of Tennessee and John Lynch of New Hampshire, both of whom received a grade of B. Lynch's strength has been his crusade to eliminate the statewide property tax that was imposed by the last Democratic governor, Jeanne Shaheen. He has been unsuccessful at this task, but he has been able to cut that tax a bit. Unfortunately, as his first term drew to a close, he proposed ways to spend the state's burgeoning surplus instead of pursuing further the goal of broad-based tax cuts.

Phil Bredesen's headliner first-term proposal was his plan to control costs in TennCare, the state-run health program that consumed nearly one-third of the state budget when he arrived in office. Bredesen was able to remove all non-Medicaid-eligible adults and put strict limits on prescription drugs and doctor visits. He also continually stressed that he is against an income tax for Tennessee. But Bredesen, like many governors in this report card, seemed eager to spend more money once the fiscal situation looked better. State spending has grown by an annual average of 5.5 percent in real per capita terms in the past two years. When a $272 million budget surplus materialized, Bredesen and the legislature decided to spend it on bigger government, including more money for TennCare.

Governors Who Fell from Grace

Over time, the grades of most governors tend to drop. Part of that is a product of the nature of this report card. Because it is issued every two years, later editions must revise and update the previous report card's grade for each governor. As a result, many governors who seem to do well at first do poorly in the next report card simply because there are more data on which to base a more comprehensive grade.

But there is also another factor that influences the drop in grades: The longer a governor stays in office, the more prone he or she is to becoming less fiscally disciplined. Once elected on the promise of cutting taxes or spending, governors usually have a good year or two for which they receive praise in this report card. Then those same governors begin to make peace with the big government programs they once vowed to terminate or cut. Soon, taxpayers find that the governors have been seduced by the power of the office.

Thus, the real standouts—the best governors from a fiscal policy perspective—are usually those who do not succumb to this temptation over a multiyear grading cycle, such as Rick Perry of Texas and Mark Sanford of South Carolina. There are, however, a few governors who have received praise in previous report cards but deserve a reprimand this year. Some prominent governors who received a high midterm grade but a lower end-of-term grade this year are discussed below.

- Arnold Schwarzenegger: He received accolades for his first two years on the job when he received an A in the 2004 edition of this report card. This year, however, his grade has dropped to a D. It seems that the California governor has changed his stripes completely. After one year of aggressive budget cutting, he has let the big spenders in Sacramento get to him. Today, California state government is 12 percent bigger in real per capita terms than it was after his hard-fought battle to eliminate the massive $15 billion deficit. Now his efforts are geared toward expanding government, not scaling it back. It's likely many voters no longer recognize the Arnold Schwarzenegger they elected in 2003.
- Bill Richardson: The New Mexico governor scored a B in 2004 largely as a result of his income tax cuts. Those cuts were indeed substantial: the top marginal income tax rate has dropped a remarkable 35 percent. That cut still stands as the largest income tax rate cut in the nation over the past few years. But the more complete picture that has emerged since 2004 is of a governor who is eager to raise other taxes—such as the cigarette tax and the gross receipts tax—and various fees, thereby weakening his record on taxes overall. It has also become obvious that Richardson is happy to increase government spending. All of this has led to an overall first-term grade of C.
- John Baldacci: He received a midterm

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grade of B for his proposed cuts in the income tax rate and property taxes. But looking closer at how the plans are actually structured shows that they aren't really net tax cuts at all. Instead, they are tax shifts. The increases in fees and other taxes that Baldacci has either proposed or signed into law have been enough to overwhelm the tax cuts. As a result, Maine still labors under the highest state and local tax burdens in the nation. And a broader view of his budget record shows that Baldacci is quite the big spender. As a result, his overall first-term grade is a D.

The Graduating Class

In this year's report card, governors were graded on a term-by-term basis. The grades in Table 1 reflect the end-of-term or midterm grade for each governor. However, eight of the governors are in their last term. Therefore, they have received overall, end-of-tenure grades that average the grades of all their previous terms (Table 2). Some governors have ended their tenure with the grade they started with. But most have ended up with a lower overall grade. Four governors have dropped the furthest:

- George Pataki of New York, who started his governorship with an A, ends his tenure with an overall grade of C. His grade declined each subsequent term as a result of abandoning his first-term commitment to lower taxes and smaller government.
- Bill Owens of Colorado earns an overall grade of C after a string of A's because of his crusade to raise taxes by raising the constitutional budget cap known as the Taxpayer's Bill of Rights.
- Kenny Guinn of Nevada, who ends his governorship with a grade of D, went from being one of the best governors in the nation to being one of the worst as a result of his massive tax hikes and his creation of a gross receipts tax.
- Mike Huckabee of Arkansas also went from being one of the best governors in America to one of the worst. He receives an F for his current term and a D for his entire tenure. The main reason for the drop was his insistence on raising taxes at almost every turn throughout his final term.

More detailed descriptions of why each of these governors' grades fell appear in Appendix D.

General Observations about State Fiscal Policy

There are several conclusions about state fiscal policy during the past decade that can be useful policy guides in the years to come:

- First, and most important, the states that spent the most in the boom years generally had the deepest fiscal holes to climb out of when the recession hit.[4] That fiscal calamity was driven almost entirely by reckless overspending in the 1990s when many state budgets doubled during boom times. Governors should be cautious not to repeat that mistake.
- Second, constitutional spending restraints coupled with tax cuts are arguably the best antidote to bloated budgets during boom years and out-of-control deficits during lean years.[5] Governors and legislators of states without such limits would be well advised to experiment with them.
- Third, flat-rate tax systems are highly preferable to graduated income tax structures (personal and corporate), not only because flat-rate taxes create fewer economic distortions and disincentive effects, but also because flat-rate taxes avoid the peaks and valleys in revenues that cause boom-and-bust cycles for states. States such as California with highly graduated income tax structures had the biggest windfalls in revenues

when the economy soared in the 1990s and the most devastating bust cycles when the economy collapsed. Governors should be looking for ways to flatten tax rates not only as a way to make their revenue systems less volatile but also as a way to make their states more attractive to businesses and to spur economic growth. It's also worth noting that the governor who received the highest grade in the category of tax policy in this report card is Jon Hunstman of Utah, who proposed a flat tax reform plan in his state.

- Glancing at the records of many of the governors in this report card, you might notice a smattering of proposals termed "tax reform" that might be more accurately described as "tax shifts"—meaning that taxes are lowered on one segment of the taxpaying base and raised on another to make up the difference. These revenue-neutral plans are certainly preferable to plans that result in net tax hikes. However, now that states are starting to rack up budget surpluses again, coupling tax reform with tax *cuts* should be an easier sell politically. Governors in states with archaic and growth-hindering tax systems should use this opportunity not just to reform those systems but to lighten the tax burden on their citizens, too.
- Finally, if states and the federal government don't do something to slow the stampeding growth of Medicaid, health care costs will swallow up state budgets. An analysis by the American Legislative Exchange Council found that if Medicaid stays on its path of double-digit growth over the next generation, health care costs will consume virtually the entire budget in most states.[6] Of necessity, states will have to move toward cost containment strategies for Medicaid, including copayments, vouchers, and malpractice reform. Constantly raising taxes to cover the cost overruns of a broken system will begin a vicious cycle that will only hurt states.

Tax Policy and Economic Growth in the 1990s

This report card emphasizes the importance of tax cuts in general because the evidence shows that states that reduce taxes improve their prospects for economic growth. For example, a 1996 study by Zsolt Besci of the Federal Reserve Bank of Atlanta found that "relative marginal tax rates have a statistically significant negative relationship with relative state growth averaged for the period from 1961 to 1992."[7] The message of the study for state governments is that "lowering aggregate state and local marginal tax rates is likely to have a positive effect on longterm growth rates."[8] A study for the congressional Joint Economic Committee by Richard Vedder of Ohio University came to a similar conclusion.[9] A study by Thomas Dye of Florida State University found that states with no income tax had higher personal income growth (and smaller government growth) than states that had an income tax.[10]

Tax changes enacted in the states offer a useful laboratory for exploring the effects of tax policy. A comparison of the economic performance of the 10 states that increased taxes the most with the economic performance of the 10 states that cut taxes the most during 1990–2005 suggests that when states reduce taxes they improve their relative economic performance.[11] The results are summarized in Table 3.

Constitutional spending restraints coupled with tax cuts are arguably the best antidote to bloated budgets during boom years and out-of-control deficits during lean years.

Employment Growth

Businesses and jobs migrated to low-tax states in the 1990s. Job growth averaged 25 percent in the top 10 tax-cutting states, higher than the national average of 22 percent, while the top 10 tax-hiking states experienced employment growth of around 20 percent.

Personal Income Growth

Wealth grew faster in the tax-cutting states than it did in the tax-hiking states. Indeed, tax-cutting states saw personal income grow

Table 3
Taxes and State Economic Performance, 1990–2005

	Top 10 Tax-Cutting States	50-State Average	Top 10 Tax-Hiking States
1990–2005 revenue increases (per $1,000 of personal income)	($5.76)	$3.10	$19.17
Employment, 1990–2005	25.3%	21.9%	19.6%
Personal income, 1990–2005	118.7%	110.9%	106.0%
Population growth, 1990–2005	21.0%	19.2%	17.5%

Source: Author's calculations based on data from the Census Bureau, the Bureau of Economic Analysis, and the Department of Labor.

roughly 8 percentage points faster than the national average, while the tax-hiking states saw below-average personal income growth.

Population Growth

Citizens voted with their feet and migrated to the tax-cutting states in great numbers. Population growth averaged 21 percent in tax-cutting states but only 17 percent in tax-hiking states. Again, growth in this variable in the tax-cutting states outstripped the national average.

A comparison of the economic performance of the 10 states that increased taxes the most with the economic performance of the 10 states that cut taxes the most suggests that when states reduce taxes they improve their relative economic performance.

Conclusion

Now that states have moved back toward healthy revenue growth and more stable reserve funds, the temptation will be to start ratcheting up spending again. But spending budget surpluses is precisely what caused the state fiscal mess of 2000–2003 in the first place. The lesson of the last 20 years is that governors can't tax and spend their way to prosperity; they should stop trying. How governors handle the growing budget surpluses will influence how well they do on the next report card in 2008.

Appendix A: Report Card Caveats

This is the eighth Cato report card on the governors. This year some further refinements to the methodology have been made and variables added to improve the results. Note, however, that there are several unavoidable problems in grading the fiscal performance of the governors.

First, the report card cannot entirely isolate the impact of the governors from the fiscal decisions of state legislatures. In most states, the legislature has at least an equal influence on budget outcomes. In addition, if a state legislature is controlled by a different party, then a governor's control over fiscal policy is usually diminished. (Appendix D summarizes the fiscal record of each governor and notes whether the legislature is of the same party.) To isolate governors' performance, they are graded not just on outcomes but also on tax and spending proposals contained in their official budget recommendations.

Second, some states grant governors more authority over the budget process than other states. For example, most governors are empowered with a line-item veto allowing them to unilaterally reduce spending. But in nine states governors do not have that power. Moreover, the supermajority voting requirement to override a veto varies among states. Those factors give the governors different levels of budget control that are not accounted for in this study.

States have other unique features that are difficult to control for. In Hawaii, most school funding comes from the state not local governments, which inflates Hawaii's spending figures. Alaska and several other states receive substantial severance taxes from companies that extract oil and minerals. The burden of those taxes falls on out-of-state residents to some extent. Furthermore, the fiscal condition of those states can improve or deteriorate dramatically in response to changes in the market price of commodities. Severance taxes are a large distortion for Alaska, so its governor has been excluded from this study.

In recent years, many states have moved to reduce reliance on local property taxes as part of school finance overhauls. In 1994 Michigan passed an education finance package that increased the state sales tax in exchange for a larger dollar reduction in local property taxes. Since 1994 other states have followed Michigan's lead, including Idaho, Kansas, South Carolina, South Dakota, Vermont, Michigan, Texas, Florida, and Wisconsin. In most cases, the changes involve a reduction in local property taxes, with the state government compensating local governments by increasing the state share of school funding. For the purposes of this report card, such reforms create a significant challenge. The data on state finances reflect the increased state spending and revenue but do not reflect the reductions at the local level. Yet because local property taxes were substantially cut, the combined state and local burden has not risen in some cases. For states that have implemented such school finance overhauls, adjustments have been made to the spending and tax variables so that governors are not penalized for an increase in state-level spending when the spending was designed to compensate localities for a local tax cut.

Appendix B: Report Card Methodology

This study computes a fiscal policy grade for each governor reflecting his or her relative success at restraining the growth of taxes and spending. All of the tax and spending data used in the study come from the U.S. Bureau of the Census, the National Association of State Budget Officers, the National Conference of State Legislatures, and individual state budget and revenue departments. Each of the 46 governors graded in the report has been in office long enough to propose at least one budget.

Grading Procedure

The report card consists of 23 policy variables: 8 for spending (2 of which have a weight of only one-half), 9 for revenue (2 of which have a weight of only one-half), and 6 for tax rates (1 of which has a weight of only one-half). However, the scores of the governors who took office in 2005 do not include two of the spending variables and two of the revenue variables that are based on Census Bureau data. Those data are published with a two-year lag, making it impossible to include them in the midterm grade calculation of new governors.

For each variable, we use a procedure to standardize the results, such that the governor with the worst score receives a zero and the governor with the best score a 100. An equal weight is assigned to each variable (with the exception the variables that only have a weight of one-half), and the scores are averaged to obtain an overall grade for each governor.

Policy Variable Details

To make meaningful comparisons between the states, the analysis controls for differences in the sizes of state populations and economies by expressing spending and tax revenue data for each state as a ratio of either each state's population or personal income. Most of the revenue and spending variables are expressed in that way (i.e., per capita or as a percentage of personal income). All variables measure state-level tax and spending, and thus the report does not include the fiscal activities of local governments. All variables are measured for only the years of each governor's current term in office.

Expenditure Variables

1. Average annual change in real per capita spending through FY04 (measured only for the governors in office before 2004).

2. Average annual change in spending as a percentage of personal income through FY04 (measured only for governors in office before 2004).
3. Average annual recommended change in real per capita general fund spending through FY07.
4. Average annual recommended change in general fund spending as a percentage of personal income through FY07.
5. Average annual change in actual real per capita general fund spending from FY04 through FY06.
6. Average annual change in actual general fund spending as a percentage of personal income from FY04 through FY06.
7. Real per capita spending, FY05 (this variable is half-weighted).
8. Spending as a percentage of personal income, FY05 (this variable is half-weighted).

Revenue Variables

1. Average annual change in real per capita tax revenue through FY05 (measured only for the governors in office before 2005).
2. Average annual change in tax revenue as a percentage of personal income through FY05 (measured only for governors in office before 2005).
3. Average annual recommended change in real per capita general fund revenue through FY07.
4. Average annual recommended change in general fund revenue as a percentage of personal income through FY07.
5. Average annual change in real per capita general fund revenue from FY04 through FY06.
6. Average annual change in actual general fund revenue as a percentage of personal income from FY04 through FY06.
7. Average annual recommended revenue changes as a percentage of the prior year's expenditures through FY07.
8. Tax revenue in real per capita terms, FY05 (this variable is half-weighted).
9. Tax revenue as a percentage of personal income, FY05 (this variable is half-weighted).

Tax Rate Variables

1. Percentage change in the top personal income tax rate, including governors' recommended changes that were not enacted.
2. Percentage change in the top corporate income tax rate, including governors' recommended changes that were not enacted.
3. Sum of the top marginal personal and corporate income tax rates in 2004. (This variable is given a weight of only one-half.)
4. Percentage change in the sales tax rate under each governor, including governors' recommended changes that were not enacted.
5. Percentage change in the gasoline tax rate under each governor, including governors' recommended changes that were not enacted.
6. Percentage change in the cigarette tax rate under each governor, including governors' recommended changes that were not enacted.

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Appendix C: Detailed Tables

Table C-1
Spending Variables

State	Governor	Spending Score	Spending Grade	Average Annual Change in Real per Capita Spending through FY04	Average Annual Change in Spending as a % of Personal Income through FY04	Average Annual Recommended Change in Real per Capita General Fund Spending through FY07	Average Annual Recommended Change in General Fund Spending as a % of Personal Income through FY07	Average Annual Change in Real per Capita General Fund Spending, FY04–06	Average Annual Change in General Fund Spending as a % of Personal Income, FY04–06	Real per Capita Spending, FY05	Spending as a % of Personal Income, FY05
Missouri	Matt Blunt (R)	66	A			0.63%	-1.22%	-3.46%	-5.22%	$2,254	7.1%
Oklahoma	Brad Henry (D)	61	A	-8.45%	-10.34%	2.30%	0.06%	2.65%	0.47%	$2,553	8.7%
New Hampshire	John Lynch (D)	60	A			0.14%	-0.38%	-1.02%	-3.48%	$2,223	8.5%
South Carolina	Mark Sanford (R)	60	A	-1.84%	-3.73%	-1.08%	-2.75%	1.56%	0.31%	$2,403	8.5%
Texas	Rick Perry (R)	58	B	-1.96%	-1.80%	-0.92%	-3.13%	1.46%	2.44%	$1,895	5.8%
Colorado	Bill Owens (R)	55	B	-3.27%	-5.06%	-0.26%	-2.10%	3.98%	3.34%	$2,266	6.0%
Georgia	Sonny Perdue (R)	55	B	1.48%	0.27%	-0.74%	-2.18%	1.16%	-0.26%	$1,805	5.8%
Iowa	Tom Vilsack (D)	55	B	-0.28%	-5.82%	1.30%	-2.04%	1.86%	-0.26%	$3,395	10.5%
South Dakota	Mike Rounds (R)	53	C	-3.02%	-4.09%	-0.55%	-1.99%	5.34%	3.62%	$2,190	6.9%
Pennsylvania	Edward Rendell (D)	52	C	-3.41%	-5.45%	2.45%	0.57%	2.04%	0.39%	$2,780	8.0%
New Mexico	Bill Richardson (D)	52	C	-0.68%	-3.07%	-0.55%	-3.14%	4.63%	2.24%	$3,703	13.4%
Minnesota	Tim Pawlenty (R)	52	C	-3.37%	-6.09%	0.65%	-0.72%	3.74%	3.09%	$3,768	10.1%
Oregon	Ted Kulongoski (D)	51	C	-4.66%	-6.62%	4.44%	-1.24%	3.08%	0.20%	$3,836	11.9%
Massachusetts	Mitt Romney (R)	50	C	2.82%	-0.40%	-0.23%	-2.42%	2.40%	0.57%	$3,413	7.7%
California	Arnold Schwarzenegger (R)	49	C	-1.18%	-3.79%	-0.26%	-2.46%	5.90%	3.83%	$3,252	8.8%
Arkansas	Mike Huckabee (R)	49	C	3.67%	0.30%	0.69%	-1.56%	0.15%	-1.43%	$3,930	14.6%
Tennessee	Phil Bredesen (D)	49	C	2.30%	0.07%	-2.14%	-3.87%	5.51%	4.10%	$2,520	8.1%
New York	George Pataki (R)	49	C	2.23%	-1.42%	0.87%	-2.17%	2.75%	-0.02%	$3,322	8.2%
Ohio	Bob Taft (R)	49	C	1.99%	0.64%	0.99%	-0.19%	-0.36%	-1.39%	$4,003	12.3%

Indiana	Mitch Daniels (R)	48	C			0.54%	-0.88%	3.25%	1.80%	$2,316	7.4%
Connecticut	Jodi Rell (R)	47	C			1.32%	-1.27%	1.92%	-0.53%	$4,880	10.2%
Michigan	Jennifer Granholm (D)	47	C	8.20%	9.35%	-2.63%	-2.05%	-0.48%	-1.47%	$2,757	8.3%
Rhode Island	Don Carcieri (R)	46	C	4.06%	1.36%	-0.50%	-2.73%	3.13%	0.93%	$4,009	11.1%
Mississippi	Haley Barbour (R)	45	C			-1.42%	-2.57%	6.57%	5.69%	$2,457	9.7%
Washington	Christine Gregoire (D)	45	C			1.42%	-2.80%	4.24%	3.03%	$3,371	9.5%
Alabama	Bob Riley (R)	43	D	0.81%	-1.63%	-1.82%	-4.23%	12.01%	9.60%	$2,497	8.6%
Illinois	Rod Blagojevich (D)	43	D	3.03%	2.82%	0.78%	0.20%	-3.13%	-3.78%	$3,030	8.4%
Maryland	Robert Ehrlich (R)	41	D	-2.06%	-5.06%	4.40%	1.84%	5.46%	3.18%	$2,394	5.7%
Hawaii	Linda Lingle (R)	40	D	-0.51%	-4.41%	2.72%	-0.66%	5.86%	2.80%	$5,747	16.6%
Nebraska	Dave Heineman (R)	40	D			2.16%	0.09%	4.02%	1.92%	$3,262	9.7%
Kansas	Kathleen Sebelius (D)	39	D	1.37%	-0.56%	2.31%	0.12%	5.66%	3.35%	$2,851	8.7%
North Carolina	Michael Easley (D)	39	D			3.11%	-0.01%	4.30%	2.26%	$2,516	8.2%
North Dakota	John Hoeven (R)	39	D			2.22%	0.41%	4.22%	2.38%	$3,190	10.2%
Maine	John Baldacci (D)	37	D	8.52%	5.65%	0.00%	-1.60%	0.00%	-1.18%	$3,336	10.7%
Florida	Jeb Bush (R)	36	D	0.61%	-1.12%	3.77%	1.49%	6.38%	3.58%	$2,279	6.9%
Wisconsin	Jim Doyle (D)	36	D	4.75%	2.51%	1.44%	-1.68%	5.47%	4.08%	$4,496	13.4%
Vermont	James Douglas (R)	34	F			-0.14%	-2.06%	8.71%	6.63%	$4,330	13.0%
Wyoming	Dave Freudenthal (D)	32	F	-0.70%	-4.01%	12.34%	2.41%	8.27%	3.27%	$3,265	8.9%
Utah	John Huntsman (R)	31	F			5.91%	4.02%	3.66%	1.21%	$2,525	9.0%
Kentucky	Ernie Fletcher (R)	30	F			1.33%	-0.52%	4.09%	2.39%	$3,221	11.3%
West Virginia	Joe Manchin (D)	30	F			2.24%	-8.79%	14.07%	11.19%	$7,282	26.8%
Louisiana	Kathleen Blanco (D)	29	F			-3.98%	0.51%	9.51%	17.57%	$4,043	16.3%
Nevada	Kenny Guinn (R)	28	F	6.31%	3.17%	5.47%	1.88%	5.38%	1.87%	$2,373	6.6%
Delaware	Ruth Ann Minner (D)	28	F			1.10%	-1.27%	9.42%	6.87%	$5,074	13.7%
Arizona	Janet Napolitano (D)	23	F	7.49%	4.72%	6.04%	1.65%	6.02%	3.20%	$2,534	8.4%
Montana	Brian Schweitzer (D)	8	F			8.30%	4.82%	17.34%	13.57%	$2,916	9.9%

Table C-2
Revenue Variables

State	Governor	Tax Score	Tax Grade	Average Annual Change in Real per Capita Tax Revenue through FY05	Average Annual Change in Tax Revenue as a % of Personal Income through FY05	Average Annual Recommended Change in Real per Capita General Fund Revenue through FY07
Utah	John Huntsman (R)	73	A			-1.11%
Montana	Brian Schweitzer (D)	68	B			-1.02%
Tennessee	Phil Bredesen (D)	68	B	2.37%	0.86%	-1.32%
Texas	Rick Perry (R)	66	B	1.29%	-0.35%	-3.26%
South Dakota	Mike Rounds (R)	66	B	0.86%	-0.30%	2.55%
Florida	Jeb Bush (R)	65	B	6.30%	4.31%	-2.48%
Nebraska	Dave Heineman (R)	64	B			1.43%
Kentucky	Ernie Fletcher (R)	63	B	3.08%	1.93%	-1.81%
Missouri	Matt Blunt (R)	63	B			-0.14%
Vermont	James Douglas (R)	63	B			-0.86%
South Carolina	Mark Sanford (R)	62	B	2.83%	1.41%	-3.63%
West Virginia	Joe Manchin (D)	60	C			1.68%
North Dakota	John Hoeven (R)	60	C	10.36%		-8.08%
Maryland	Robert Ehrlich (R)	60	C	6.76%	4.13%	0.80%
Massachusetts	Mitt Romney (R)	60	C	4.42%	1.99%	0.04%
New Mexico	Bill Richardson (D)	60	C	6.68%	4.30%	-2.57%
Rhode Island	Don Carcieri (R)	60	C	4.73%	2.25%	-0.14%
Mississippi	Haley Barbour (R)	59	C	1.79%	1.94%	-0.09%
Maine	John Baldacci (D)	59	C	3.04%	1.39%	-0.13%
Minnesota	Tim Pawlenty (R)	59	C	2.72%	1.35%	-0.21%
Georgia	Sonny Perdue (R)	59	C	3.03%	1.88%	0.55%
Kansas	Kathleen Sebelius (D)	59	C	2.23%	0.17%	0.29%
Nevada	Kenny Guinn (R)	58	C	3.01%	0.20%	3.23%
New Hampshire	John Lynch (D)	58	C			2.33%
Wisconsin	Jim Doyle (D)	58	C	1.78%	0.24%	3.32%
Iowa	Tom Vilsack (D)	57	C	4.46%	1.30%	1.96%
Pennsylvania	Edward Rendell (D)	57	C	4.97%	3.19%	2.62%
Michigan	Jennifer Granholm (D)	57	C	-1.51%	-0.89%	0.65%
Hawaii	Linda Lingle (R)	57	C	7.02%	3.76%	-0.78%
New York	George Pataki (R)	55	D	5.71%	2.60%	-1.04%
Arizona	Janet Napolitano (D)	55	D	5.85%	3.39%	2.66%
Illinois	Rod Blagojevich (D)	55	D	5.36%	4.96%	1.12%
Ohio	Bob Taft (R)	55	D	4.50%	3.40%	-0.20%
Oklahoma	Brad Henry (D)	55	D	3.96%	1.94%	1.99%
Wyoming	Dave Freudenthal (D)	54	D	15.19%	11.27%	10.98%
Delaware	Ruth Ann Minner (D)	54	D			-1.18%
Indiana	Mitch Daniels (R)	53	D			0.05%
Alabama	Bob Riley (R)	52	D	6.35%	4.16%	1.53%
Connecticut	Jodi Rell (R)	52	D	8.50%	6.34%	0.11%
Oregon	Ted Kulongoski (D)	51	D	2.69%	0.84%	4.94%
California	Arnold Schwarzenegger (R)	51	D	7.19%	4.93%	-2.65%
Colorado	Bill Owens (R)	49	F	2.88%	1.12%	3.14%
Louisiana	Kathleen Blanco (D)	49	F	7.51%	22.27%	7.48%
Washington	Christine Gregoire (D)	49	F			0.12%
North Carolina	Michael Easley (D)	47	F	5.30%		2.60%
Arkansas	Mike Huckabee (R)	45	F	8.48%	6.46%	0.69%

Average Annual Recommended Change in General Fund Revenue as a % of Personal Income through FY07	Average Annual Change in Real per Capita General Fund Revenue, FY05–06	Average Annual Change in General Fund Revenue as a % of Personal Income, FY05–06	Average Annual Recommended Revenue Changes as a % of Prior Year's Spending through FY07	Real per Capita Tax Revenue, FY05	Tax Revenue as a % of Personal Income, FY05
-4.22%	3.04%	0.18%	-3.25%	$1,898	6.76%
-4.21%	-2.15%	-5.29%	-0.86%	$2,004	6.82%
-2.97%	1.66%	0.34%	-0.02%	$1,678	5.40%
-4.92%	4.07%	1.53%	-0.02%	$1,434	4.49%
0.42%	4.39%	2.56%	0.29%	$1,431	4.53%
-4.61%	-0.04%	-2.55%	-1.33%	$1,905	5.74%
-0.63%	-1.72%	-3.70%	-2.29%	$2,159	6.42%
-3.59%	0.72%	-1.45%	-0.01%	$2,178	7.64%
-1.98%	1.12%	-0.72%	0.00%	$1,645	5.16%
-2.76%	-3.42%	-5.27%	0.12%	$3,600	10.80%
-5.25%	1.69%	-0.31%	-0.62%	$1,720	6.07%
-2.80%	-2.39%	-4.85%	-0.06%	$2,367	8.70%
-9.71%	1.27%	-0.52%	0.16%	$2,204	7.02%
-1.67%	-1.79%	-4.20%	0.51%	$2,410	5.77%
-2.17%	1.97%	-0.12%	-0.08%	$2,815	6.36%
-5.09%	3.90%	0.84%	-0.28%	$2,319	8.39%
-2.38%	3.05%	0.88%	0.10%	$2,443	6.76%
-1.25%	4.83%	2.96%	0.00%	$1,860	7.35%
-1.83%	1.87%	0.04%	1.00%	$2,324	7.44%
-1.62%	0.70%	-0.69%	0.28%	$3,094	8.28%
-0.90%	1.99%	0.20%	0.91%	$1,728	5.55%
-1.85%	3.35%	1.03%	1.33%	$2,040	6.21%
-0.28%	0.49%	-3.56%	5.48%	$2,075	5.78%
-0.15%	2.41%	-0.07%	1.52%	$1,544	4.02%
2.85%	-0.20%	-0.12%	0.09%	$2,430	7.24%
-1.41%	2.80%	-0.83%	1.78%	$1,939	6.00%
0.74%	1.17%	-0.81%	0.94%	$2,193	6.29%
1.25%	0.59%	-4.00%	0.86%	$2,324	7.02%
-4.04%	2.11%	-1.42%	-1.14%	$3,477	10.07%
-4.02%	6.24%	2.97%	1.27%	$2,607	6.44%
-0.19%	5.64%	1.73%	-0.24%	$1,853	6.12%
0.55%	0.44%	-0.32%	1.02%	$2,069	5.73%
-1.37%	-2.58%	-3.82%	2.48%	$2,094	6.45%
-0.25%	7.37%	4.78%	-1.43%	$1,933	6.59%
-2.70%	-1.84%	-4.26%	-0.44%	$3,416	9.29%
-3.49%	3.76%	1.34%	-0.26%	$3,231	8.72%
-1.36%	2.40%	0.96%	1.60%	$2,049	6.55%
-0.97%	1.75%	-0.92%	4.53%	$1,711	5.87%
-2.44%	-0.43%	-3.24%	1.22%	$3,300	6.90%
-1.07%	2.93%	1.50%	3.17%	$1,791	5.58%
-4.79%	10.46%	7.97%	-1.70%	$2,724	7.36%
1.23%	9.27%	7.76%	3.95%	$1,639	4.32%
3.82%	-4.60%	2.17%	0.26%	$1,910	7.69%
-3.99%	4.35%	3.13%	2.10%	$2,360	6.67%
-1.30%	-1.20%	-3.14%	1.43%	$2,147	7.03%
-1.56%	1.82%	-0.70%	2.32%	$2,358	8.77%

Table C-3
Tax Rate Variables

State	Governor	Tax Score	Tax Grade	Percentage Change in Top Personal Income Tax Rate	Percentage Change in Top Corporate Income Tax Rate	Percentage Change in Sales Tax Rate	Percentage Change in Gas Tax Rate	Percentage Change in Cigarette Tax
Utah	John Huntsman (R)	73	A	-29%	-20%	0%	0%	0%
Montana	Brian Schweitzer (D)	68	B	0%	0%		0%	0%
Tennessee	Phil Bredesen (D)	68	B		0%	0%	0%	0%
Texas	Rick Perry (R)	66	B			11%	0%	244%
South Dakota	Mike Rounds (R)	66	B			0%	0%	91%
Florida	Jeb Bush (R)	65	B		0%	0%	0%	0%
Nebraska	Dave Heineman (R)	64	B	-2%	0%	0%	0%	147%
Kentucky	Ernie Fletcher (R)	63	B	-18%	-27%	0%	0%	1333%
Missouri	Matt Blunt (R)	63	B	0%	0%	0%	0%	0%
Vermont	James Douglas (R)	63	B	0%	-13%	0%	0%	50%
South Carolina	Mark Sanford (R)	62	B	-32%	0%	20%	0%	657%
West Virginia	Joe Manchin (D)	60	C	0%	0%	0%	-9%	341%
North Dakota	John Hoeven (R)	60	C	0%	-7%	0%	10%	0%
Maryland	Robert Ehrlich (R)	60	C	0%	0%	0%	0%	0%
Massachusetts	Mitt Romney (R)	60	C	-6%	0%	0%	0%	0%
New Mexico	Bill Richardson (D)	60	C	-35%	0%	0%	6%	333%
Rhode Island	Don Carcieri (R)	60	C	-19%	0%	0%	0%	44%
Mississippi	Haley Barbour (R)	59	C	0%	0%	0%	0%	0%
Maine	John Baldacci (D)	59	C	-1%	0%	0%	0%	100%
Minnesota	Tim Pawlenty (R)	59	C	0%	0%	0%	0%	64%
Georgia	Sonny Perdue (R)	59	C	0%	0%	0%	0%	383%
Kansas	Kathleen Sebelius (D)	59	C	5%	0%	8%	0%	63%
Nevada	Kenny Guinn (R)	58	C			0%	0%	129%
New Hampshire	John Lynch (D)	58	C		0%		0%	54%
Wisconsin	Jim Doyle (D)	58	C	0%	0%	0%	0%	0%
Iowa	Tom Vilsack (D)	57	C	0%	0%	-15%	0%	222%
Pennsylvania	Edward Rendell (D)	57	C	34%	-30%	0%	0%	25%
Michigan	Jennifer Granholm (D)	57	C	3%	16%	50%	0%	60%
Hawaii	Linda Lingle (R)	57	C	0%	0%	0%	0%	17%
New York	George Pataki (R)	55	D	-1%	0%	0%	0%	0%
Arizona	Janet Napolitano (D)	55	D	-10%	0%	0%	0%	0%
Illinois	Rod Blagojevich (D)	55	D	0%	0%	0%	0%	77%
Ohio	Bob Taft (R)	55	D	-8%	-18%	10%	36%	127%
Oklahoma	Brad Henry (D)	55	D	-17%	0%	0%	0%	348%
Wyoming	Dave Freudenthal (D)	54	D			-13%	0%	0%
Delaware	Ruth Ann Minner (D)	54	D	0%	0%		0%	35%
Indiana	Mitch Daniels (R)	53	D	29%	0%	0%	0%	45%
Alabama	Bob Riley (R)	52	D	20%	-8%	0%	0%	158%
Connecticut	Jodi Rell (R)	52	D	0%	0%	0%	14%	49%
Oregon	Ted Kulongoski (D)	51	D	9%	5%		0%	39%
California	Arnold Schwarzenegger (R)	51	D	0%	0%	0%	0%	0%
Colorado	Bill Owens (R)	49	F	0%	0%	0%	0%	0%
Louisiana	Kathleen Blanco (D)	49	F	0%	0%	0%	0%	0%
Washington	Christine Gregoire (D)	49	F		0%	0%	34%	42%
North Carolina	Michael Easley (D)	47	F	5%	0%	6%	0%	900%
Arkansas	Mike Huckabee (R)	45	F	0%	0%	20%	16%	103%

Appendix D: Summary of Fiscal Policy Records of Governors

The following summaries are based on a wide variety of sources, including individual governors' biographies and articles in magazines and local newspapers.

Alabama

Bob Riley, Republican — Legislature: Democratic

First-Term Grade: F

Bob Riley's actions since his crusade to pass the biggest tax hike in Alabama history have not been enough to raise his grade from the midterm D he received on the last report card. His massive $1.2 billion tax increase was resoundingly defeated at the ballot box by 67 percent. After the defeat, a repentant Riley was suddenly able to find more spending to cut. Yet the debacle didn't completely dampen Riley's enthusiasm for higher taxes. He signed into law a 26-cent per pack cigarette tax hike in 2004. His record on spending has been marginally better than before, although Riley has generally been reluctant to keep the big-spending legislature on a shorter leash. While his last two proposed budgets grew by slightly more than population and inflation, Riley was happy to sign into law budgets that ballooned by more than 10 percent in real per capita terms. The unexpected record budget surplus hasn't gone completely to fund bigger government, however. Riley did propose and sign into law a tax cut that would raise the personal exemption and standard deduction for many families. However, compared with other governors in the nation, his overall fiscal performance the past four years has been quite dismal.

Arizona

Janet Napolitano, Democrat — Legislature: Republican

First-Term Grade: F

Janet Napolitano likes to portray herself as a fiscally conservative Democrat. There exists, however, a chasm between that image and the reality of her fiscal record. In fact, she's one of the worst governors in the nation in terms of fiscal policy. She proposed massive budgets throughout the past four years that amount to an annual average increase of 6 percent in real per capita terms. The Republican legislature has been happy to ratify much of her spending spree, too, sometimes sending her budgets even bigger than she originally proposed. After the GOP picked up seats in the state senate in the 2004 election, Napolitano at least had the sense to propose some small tax cuts, including a reduction in the business property tax. But she had to be pressured by the legislature to use some of the state budget surplus to cut marginal income tax rates by 10 percent. Unfortunately, the governor and the legislature conspired to squander the rest of the surplus on grand new spending initiatives, such as a "bioscience fund" boondoggle. It's a shame that the legislature has been so quick to appease such a big-spending governor. Pity the voter interested in restoring small government today in the land of Goldwater.

Arkansas

Mike Huckabee, Republican — Legislature: Democratic

Final-Term Grade: F
Final Overall Grade: D

Thanks to a final term grade of F, Huckabee earns an overall grade of D for his entire governorship. Like many Republicans, his grades dropped the longer he stayed in office. In his first few years, he fought hard for a sweeping $70 million tax cut package that was the first broad-based tax cut in the state in more than 20 years. He even signed a bill to cut the state's 6 percent capital gains tax—a significant pro-growth accomplishment. But nine days after being reelected in 2002, he proposed a sales tax increase to cover a budget deficit caused partly by large spending increases that he proposed and approved, including an expansion in Medicare eligibility that Huckabee made a centerpiece of his 1997 agenda. He agreed to a 3 percent income tax "surcharge" and a 25-cent cigarette tax increase. In response to a court order to increase spending on education, Huckabee proposed another sales tax increase. Huckabee wants to run for the GOP presidential nomination next year. He's already been hailed as a viable big-government conservative candidate by some. That seems about right: Huckabee's leadership has left taxpayers in Arkansas much worse off.

California

Arnold Schwarzenegger, Republican — Legislature: Democratic

First-Term Grade: D

The plot of the second reel of the current Arnold Schwarzenegger film has taken a turn for the worst. In the first reel, Schwarzenegger played an aggressive budget cutter who slashed spending by around $6 billion over two years and reversed Gray Davis's car tax hike. Part of his budget fix, however—a $15 billion bond to cover year-to-year expenses—looks in retrospect like a harbinger of things to come. Lately, while he's held the line against tax increases, he's also been eager to expand government massively. Over the past two years, Schwarzenegger proposed budgets that boosted spending several times faster than population growth. This year he cut a deal with the Democrats in the state legislature to hike the budget by 10 percent. He also conspired with them to put on the ballot a massive $37 billion bond to pay for infrastructure projects, many of which have been rightly criticized as pork. Meanwhile, the recommendations produced by his first-year budget task force, which could produce $32 billion in budget savings, collect dust like a forgotten screenplay on a shelf somewhere. Schwarzenegger is no longer the small-government crusader he claimed he was when he auditioned for the role of governor. He has instead become a borrow-and-spend version of the big-spending governor he unseated in 2003.

Colorado

Bill Owens, Republican | Legislature: Democratic

Final-Term Grade: D
Final Overall Grade: C

Bill Owens has engineered one of the biggest falls from grace in this report card's 16-year history. He was once regarded by conservatives as the best governor in the nation; his income tax cuts made supply siders drool. His defense of the state's Taxpayer's Bill of Rights (TABOR) constitutional amendment—which held the growth of government to population plus inflation—was vital to maintaining an A grade in his first term. Today, Owens receives a grade of a D for what can only be described as a pathetic second term. When faced with a budget deficit, Owens could have asked voters to fix Amendment 23—a constitutional provision that allows education spending to grow above the TABOR budget cap—and defend the budget cap against the big spenders who wanted to eviscerate it. Instead, Owens chose to team up with the Democrats to lift the cap and endorse a $3 billion tax increase. He even made lifting the cap the centerpiece of his final-term fiscal agenda. As a result, Owens leaves office with a final overall grade of C. Owens was once on every conservative's short list of possible candidates for higher office. Now he will probably be long remembered by those same conservatives as a turncoat.

Connecticut

Jodi Rell, Republican | Legislature: Democratic

First-Term Grade: D

The state press has given Jodi Rell high marks for her ability to restore trust in the governor's office after John Rowland resigned under threat of impeachment for various ethical lapses. Rell's fiscal record, however, is not a radical departure from Rowland's. Upon becoming governor, she vowed to keep a leash on government spending, and she has mostly succeeded at that. Spending hasn't grown much faster than population and inflation. On the tax side, though, there is ample room for improvement. In her first budget, she proposed to balance the budget partly by way of a large hike in the cigarette tax and an increase in the gasoline tax. When a surplus finally materialized, she dropped her tax increase plans and proposed eliminating the county car tax and a corporate income tax surcharge. But what Connecticut really needs is bold ideas. Reviving Rowland's abandoned promise to eliminate the Lowell Weicker–created income tax would be an excellent start. Sticking to small-bore tax cuts won't help her grade in the next report card or substantially improve the tax climate in Connecticut.

Delaware

Ruth Ann Minner, Democrat — Legislature: Divided

Midterm Grade: F

Ruth Ann Minner racked up a grade of D during her first term in office. Her grade this year—a midterm grade for her second term—reflects the disappearance of the fiscal discipline that characterized the early part of her first term when she imposed a hiring freeze on all but essential government jobs and ordered $30 million in state agency cuts in 2002. When faced with a budget surplus in 2005, Minner was happy to help find ways to spend most of it. The first budget of her second term grew more than 6 percent in real per capita terms. On the tax side, she continued her years-long crusade to punish smokers by raising the cigarette tax. The legislature declined to pass that tax increase but did get her to agree to a small gross receipts tax cut. As tax revenue continues to flow into state coffers in Delaware, it seems that Minner has more interest in spending it than in giving some back to state taxpayers. Continuing in that fashion will definitely keep her in the lower ranks of this report card.

Florida

Jeb Bush, Republican — Legislature: Republican

Final-Term Grade: C
Final Overall Grade: B

Jeb Bush leaves office with a well-deserved reputation as one of the most aggressive tax-cutting governors in the nation. He has proposed and signed into law a tax cut virtually every year of his tenure, ranging from cuts in property taxes to a phaseout of the intangibles tax—a levy on certain financial assets like stocks and bonds that makes Florida's tax code hostile to capital formation. It is the strength of his tax cutting that has sustained his grade through the past eight years; he received an A on this report card for his first term. What has finally caused his grade to drop to a C this term was explosive growth in state spending, spurred largely by some big-spending schemes proposed by Bush himself, such as the grant of $310 million in taxpayer money to the Scripps Institute to lure it to Florida from La Jolla, California. Real per capita general fund spending has grown an annual average of 5 percent over the past two years, making Bush one of the biggest spending Republican governors in this report card. Bush is seen by many as an attractive candidate for higher office. He certainly has a solid record on taxes. But the one glaring question that his second-term budget record has produced is whether he's turned into a big-government Republican.

Georgia

Sonny Perdue, Republican — Legislature: Republican

First-Term Grade: C

In 2003 Sonny Perdue was inaugurated as the first Republican governor of Georgia since Reconstruction after beating tax-cutting Democratic incumbent Roy Barnes (who scored a B on the 2002 report card). Perdue ran on a pledge not to raise taxes. Once in office, however, he proposed one of the largest tax increases in Georgia history—one even bigger than the divided legislature had a stomach for. In the end, the legislature raised cigarette taxes by 25 cents and killed the rest of Perdue's tax package. In fact, the legislature even made the Barnes property tax cut program permanent. All of this earned Perdue a midterm grade of D. Since then, Perdue has changed course. With the help of a Republican legislature in place since 2004, he has been able to hold government spending to roughly the rate of population and inflation. He managed to cut the Medicaid rolls, too. Since 2004, he has not proposed any new taxes, and in 2005 he even proposed temporarily suspending the fuel tax to provide some relief from high gas prices. If Perdue wins a second term, he could improve his grade by finally cutting taxes for a change.

Hawaii

Linda Lingle, Republican — Legislature: Democratic

First-Term Grade: D

Linda Lingle's grade has dropped from the midterm grade of C in 2004, mostly as a result of large increases in the size of government. On that score, Lingle has been disadvantaged by having to fight against a big-spending and heavily Democratic legislature that is often eager to overturn her line-item vetoes. Within a week of taking office, she announced a 5 percent budget cut and a statewide hiring freeze to help balance the 2003 budget. Since then, she has vetoed a government employee pay raise—her veto was subsequently overridden by the legislature—and proposed budgets that grew slower than population and inflation. Instead, the legislature has maintained a united front to pass budgets that have grown an average of 6 percent in real per capita terms. It is on tax policy that her grade suffers the most, however. Hawaii is still a very heavily taxed state, and her recent proposals to raise the income tax's standard deduction and rebate some surplus revenue simply lack ambition. Her Democratic predecessor Ben Cayetano had a better idea of how to spur economic growth in the state. He sliced the oppressive income tax rates and proposed a phasedown of the capital gains tax. If Lingle wins a second term, she'll be well advised to follow suit.

Illinois

Rod Blagojevich, Democrat — Legislature: Democratic

First-Term Grade: D

Former representative Rod Blagojevich is Ilinois's first Democratic governor in more than 30 years. He campaigned on a pledge not to raise state personal income or sales taxes. Once in office, however, he began proposing increases, particularly in corporate taxes. Over the past four years, Blagojevich has proposed a net tax increase in every year but one, amounting to a net tax hike agenda of more than $1.3 billion. Fortunately for Illinois taxpayers, the Democratic legislature didn't give him most of what he wanted. Meanwhile, overall state spending in his first year grew by 3 percent above population and inflation according to Census Bureau data. Since then, Blagojevich's general fund requests have maintained budget growth at around population plus inflation. Yet his most recent budget reversed that trend and was full of new spending. The governor seems to have finally dropped his crusade to raise business taxes, though he has benefited most in this report card from a state legislature that was not as eager to raise taxes.

Indiana

Mitch Daniels, Republican — Legislature: Republican

Midterm Grade: D

Daniels served as President George W. Bush's budget director until early 2003. During that time Bush gave Daniels the title of "The Blade" for preparing budgets that included cuts to various federal programs. (Unfortunately, most of those budget suggestions were ignored by the White House.) As governor, Daniels has been better able to keep a rein on spending. He has proposed, and the legislature has passed, general fund budgets that have grown by not much more than population plus inflation during his first two years in office. Where Daniels's grade is abysmal is on tax policy. Upon taking office, he proposed an income tax surcharge on taxpayers earning more than $100,000 and a freeze of the property tax relief program, which combined would have amounted to a tax increase of more than $400 million that year. The Republicans in the legislature instead sent Daniels a budget that didn't include the income tax increase, although they eventually agreed to the property tax relief cap. The next year, Daniels proposed a hike in the cigarette tax mainly as a means, he said, to discourage teen smoking. The legislature refused to agree to that proposal, too. Daniels's midterm grade of D is mainly a byproduct of his endorsement of higher taxes. If it weren't for legislative resistance, his grade would be even lower.

Iowa

Tom Vilsack, Democrat — Legislature: Republican

Final-Term Grade: C
Final Overall Grade: C

Tom Vilsack leaves office with the hope of winning the Democratic presidential nomination in 2008 on a fiscally moderate record as governor of Iowa. The reality is that Vilsack was a chief executive who, if left to his own devices, would have been a pro-tax Democrat. Vilsack included some sort of tax increase in almost every budget he proposed as governor. The legislature refused to pass every one he sent to it, and he in turn vetoed every income tax cut that the legislature sent to him. The tax cuts that Vilsack preferred tended to be small and targeted to specific interest groups, not the broad-based, growth-enhancing sort that Iowa needs. In his second term, Vilsack continually proposed raising taxes by closing "loopholes" in state business taxes. He eventually endorsed lowering the sales tax rate to offset a proposed expansive of the tax base, but he simultaneously proposed a tripling of the cigarette tax. In reality, the only thing that protected the wallets of Iowa taxpayers wasn't Vilsack's supposed fiscal moderation. It was a legislature unwilling to rubber-stamp his expensive schemes.

Kansas

Kathleen Sebelius, Democrat — Legislature: Republican

First-Term Grade: D

Kathleen Sebelius finishes her first term with a grade influenced heavily by her insistence on proposing tax hikes on her states' residents who already labor under one of the 20 highest tax burdens in the nation. During her campaign, she vowed to veto any tax increases. Sebelius's first budget was effective at keeping spending at a moderate clip, and she didn't propose any tax hikes. But over the past two years, general fund spending has expanded by an annual average of almost 6 percentage points above and beyond population plus inflation. In 2004 Sebelius proposed a tax hike that included an increase in the sales tax rate from 5.3 percent to 5.7 percent by 2007, a 5 percent "surcharge" on state income taxes, and a property tax increase. The legislature killed the governor's proposal. In November 2004, Sebeliuis set the stage for a battle over health care funding by proposing a 50-cent per pack increase in the cigarette tax. In 2005 she said that she regretted not fighting harder the previous year for her tax hikes and planned to redouble her efforts that year. The legislature again rebuffed her. As she runs for reelection this year, Sebelius can no longer credibly claim she is the anti-tax candidate.

Kentucky

Ernie Fletcher, Republican — Legislature: Divided

First-Term Grade: C

Ernie Fletcher ran as an anti-tax Republican who would "clean up the mess in Frankfort," a direct reference to the scandals that plagued Democratic governor Paul Patton's administration. In Fletcher's first year, he reduced the number of cabinet-level offices. Having balanced the budget with $302 million in spending cuts, he soon proposed a plan to overhaul Kentucky's tax code. There was much to like in the plan, including a reduction in the top personal income tax rate from 6 percent to 4.9 percent and a 27 percent reduction in the top corporate income tax rate. Unfortunately, Fletcher catered to the big spenders in the state legislature by making the plan revenue neutral—at least on paper—by including a 14-fold increase in the cigarette tax. Once revenue started pouring into state coffers, Fletcher's claim that his plan was revenue neutral—a claim that some fiscal conservatives initially greeted with skepticism—began to fall flat. Meanwhile, state spending exploded by 11 percent in fiscal 2006. A state grand jury indicted Fletcher in May 2006 on charges of cronyism. If he survives politically and legally, he would be well advised to get the budget under control again and pursue tax cuts that actually cut the burden on taxpayers, not just shift it to other taxpayers.

Louisiana

Kathleen Blanco, Democrat — Legislature: Democratic

Midterm Grade: F

Kathleen Blanco won the governor's chair after two terms as lieutenant governor under Republican Mike Foster. She campaigned on a platform of change to the state's convoluted tax system to encourage economic development. Since she became governor, however, that goal has taken a back seat to defending herself against criticism of her handling of the state's response to the devastation wrought by Hurricane Katrina. But Blanco hadn't proposed any dramatic changes to the tax code at any point since being inaugurated anyway. The tax changes she did ask the legislature to adopt in a special session in 2004 amounted to technical tinkering around the edges, and even the worthwhile changes, such as an elimination of the tax on business equipment and machinery, were to be phased in over a six- or seven-year period. Government has grown massively, too. Since 2005, the budget has expanded each year by close to 10 percent in real per capita terms. Blanco has two more years to prove that she knows what sort of strong medicine the Bayou State needs.

Maine

John Baldacci, Democrat | Legislature: Democratic

First-Term Grade: D

Throughout his first term, John Baldacci has used rhetoric often heard from governors who want to cut taxes and the budget. His actions, however, don't suggest he is serious about lightening the burden of government on Maine residents. He has proposed cuts in the income tax rate and in property taxes, but the closer one looks at how the plans are actually structured, the less they resemble tax cuts at all. Instead, they are tax shifts. The increases in fees and other taxes that Baldacci has either proposed or signed into law have been enough to overwhelm the tax cuts. As a result, Maine still labors under the highest state and local tax burdens in the nation. Baldacci is a big spender, too. His recent biennial budget request hiked spending by close to 6 percent, far in excess of population growth and inflation. He has dramatically expanded the state's highly expensive Medicaid program. Spending on that program has increased twice as fast as the national average since fiscal 2003, and enrollment has grown substantially faster than the national average, too. If Baldacci's policies actually matched his tax- and budget-cutting rhetoric, Maine would be far better off economically than it currently is.

Maryland

Robert Ehrlich, Republican | Legislature: Democratic

First-Term Grade: C

Bob Ehrlich has spent most of his time keeping the legislature from raising taxes. He has been consistently opposed to income and sales tax increases and hasn't been afraid to veto tax hikes, as he did in 2005 with the legislature's tax on health maintenance organizations. But when it comes to other taxes, Ehrlich's record isn't as strong. He pushed for a $187 million property tax increase his first year in office. His FY05 budget was balanced with more fees, including a sewerage fee that came to be known as the "flush tax." Ehrlich got spending under control his first two years, but in the last two years it has skyrocketed. His last budget proposal hiked general fund spending by an astronomical 20 percent. This year Ehrlich finally got to sign a cut in property taxes, but it was not enough to offset the Ehrlich-endorsed rate hike of three years ago. He is still better on taxes than his predecessor, Parris Glendening. On the spending side, however, there doesn't seem to be much difference between the two anymore.

Massachusetts

Mitt Romney, Republican — Legislature: Democratic

Final Overall Grade: C

As Mitt Romney launches his bid for the Republican presidential nomination, his fiscal record as governor should be scrutinized. Romney likes to advance the image of himself as a governor who has fought a liberal Democratic legislature on various fronts. That's mostly true on spending: he proposed modest increases to the budget and line-item vetoed millions of dollars each year only to have most of those vetoes overridden. But Romney will likely also be eager to push the message that he was a governor who stood by a no-new-taxes pledge. That's mostly a myth. His first budget included no general tax increases but did include a $500 million increase in various fees. He later proposed $140 in business tax hikes through the closing of "loopholes" in the tax code. He announced in May 2004 that he wanted to cut the top income tax rate from 5.3 to 5 percent, but that was hardly an audacious stand. Voters had already passed a plan to do just that before Romney even took office. In his budget for 2006, he proposed $170 million more in business tax hikes, almost completely neutralizing the proposed income tax cut. If you consider the massive costs to taxpayers that his universal health care plan will inflict once he's left office, Romney's tenure is clearly not a triumph of small-government activism.

Michigan

Jennifer Granholm, Democrat — Legislature: Republican

First-Term Grade: C

Jennifer Granholm has spent most of her first term proving she doesn't know how to rescue Michigan from its economic doldrums. She initially started by cutting government spending mainly out of the need to balance the budget, but she quickly started proposing tax hikes. She proposed increasing corporate taxes by ending certain corporate income tax deductions. By November 2003 she had proposed stopping a scheduled income tax cut. In 2004 Granholm proposed a $391 million tax hike, which raised the cigarette tax from $1.25 per pack to $2.00. Granholm then embarked on a quest to reform the state tax code. The centerpiece of the plan was keeping the reviled and economy-sapping Single Business Tax, a tax that was scheduled to disappear over time, while creating a series of credits and complexities designed to shift the tax burden to specific industries. Granholm's industrial-planning streak continued with a $2 billion bond initiative to create a government-run economic development fund (read: corporate welfare program). Overall, Granholm has yet to realize that what really ails Michigan is high taxes and too much industrial planning by the government. Her first term contained far too much of both.

Minnesota

Tim Pawlenty, Republican | Legislature: Divided

First-Term Grade: C

When he ran for governor in 2002, Tim Pawlenty was the only candidate to pledge not to raise taxes. Upon taking office, he tended to rely on expanding revenue through fee increases, instead, which, in this report card, amounts to another form of taxes. Early on, Pawlenty stuck to his guns on spending. In his first two years, he cut more than $2 billion in spending and held the growth of the budget to the lowest rate in 40 years. By 2005, however, Pawlenty started looking like a big spender. His budget that year boosted spending by close to 6 percent mainly fueled by a casino license fee. He stared down the legislature, which wanted to spend even more money, leading to a temporary shutdown of the state government. In the end, he agreed to a cigarette tax increase. Pawlenty has been good at keeping most general tax increases at bay, but it looks like he's beginning to fall prey to the temptation to spend more now that the state has come upon better fiscal times. If he wins another term, he needs to stop just fighting tax increases and instead propose some actual tax cuts to improve his grade.

Mississippi

Haley Barbour, Republican | Legislature: Democratic

Midterm Grade: C

When former Republican Party chairman Haley Barbour won the governorship in 2004, he vowed to cut spending, veto tax increases, and focus on creating an economic environment conducive to job creation. His first budget included substantial spending cuts, which amounted to more than 5 percent in real per capita terms in 2005. But the Democratic legislature has been more than happy to spend far more (and Barbour has been willing to accept those increases), leading to a hike in spending by an average of 5 percent in real per capita terms over the past two years. After Hurricane Katrina hit, Barbour vetoed a cigarette tax increase. Yet he also vetoed a grocery tax cut, too, on the grounds that the state needed the money. With budget growth rates like the ones Mississippi has seen, it's clear that the fiscal problems in the state are caused by too much spending, not too little revenue. Barbour needs to do more to convince the legislature to get the budget under control. In a state that has a worse business tax climate than Alabama and Tennessee, Barbour needs to propose tax cuts, not simply fight tax hikes. It would be a better strategy for spurring job creation than his current approach.

Missouri

Matt Blunt, Republican — Legislature: Republican

Midterm Grade: A

Matt Blunt, the son of former House majority leader Roy Blunt, is the highest-scoring governor on this year's report card. He won the governor's office in a landmark election that brought the first united Republican government to Missouri in eight decades. Blunt ran on a platform of making state government more efficient and accountable after the big-spending and scandal-plagued years of Bob Holden. He started out with bold initiatives to cut more than 1,000 state jobs and restrain Medicaid spending by tightening eligibility requirements and requiring copayments of many recipients. The legislature passed his budget mostly intact, with cuts amounting to 6 percent in real per capita terms. Blunt hasn't had to fight against tax increases since they are nowhere on anyone's political radar screen. The second year of Blunt's tenure, however, indicates that his status as one of the most fiscally disciplined new governors may be short-lived. His second budget proposed a massive spending increase of more than 8 percent, and the legislature was only too happy to oblige. It even reversed some of the cuts to Medicaid that passed in 2005. It's not too late for Blunt to change course one way or the other. His full-term grade in the next report card will depend largely on whether his recent budget was just a sophomore error or a harbinger of things to come.

Montana

Brian Schweitzer, Democrat — Legislature: Democratic

Midterm Grade: F

Brian Schweitzer, the first Democratic governor of Montana since 1988, won the governor's race the same year the Democrats snatched control away from the Republican legislative majority in this usually reliable GOP state. (Perhaps it's ironic in hindsight that Schweitzer geared his campaign around opposition to one-party rule in Helena.) With the help of a friendly legislature, Schweitzer showed his true colors as a big spender. Spending in his first proposed budget exploded, growing 6 percent in real per capita terms. After some supplemental requests and a special legislative session geared to spending even more money, the final budget for fiscal 2006 grew by 17 percent in real per capita terms. To make matters worse, Schweitzer supported reinstating a business equipment tax that was scheduled to disappear. It's not as if Montana's government is hurting for cash, either: The treasury has racked up a record-high budget surplus this year of close to $550 million. Schweitzer only proposed to rebate one-fifth of it and spent the rest. It's no wonder that Schweitzer is the favorite governor of the Daily Kos crowd. He is one of the worst new governors in the nation from a small-government perspective.

Nebraska

Dave Heineman, Republican — Legislature: Nonpartisan

First-Term Grade: C

Dave Heineman became governor in January 2005 after Mike Johanns left the position to become President George W. Bush's agriculture secretary. His record on taxes has been better than Johanns's. Heineman's bold proposal to return personal income tax rates to their 1998 levels was an attempt to reverse the large tax hikes that were enacted over Johanns's vetoes. Heineman was able to get the usually pro-tax legislature to finally agree to a compromise in 2006 that cut taxes—although only by half as much as he wanted—mostly by raising the income tax brackets instead of cutting the tax rate. Yet Nebraska still has a state and local tax burden that is sixth highest in the nation. Where Heineman's grade suffers most is on spending. The budgets he proposed grew massively—by close to 8 percent this year alone. The legislature was happy to give him all he wanted and more. Perhaps not surprisingly, Heineman opposes a state ballot initiative to put a constitutional cap on spending. His predilections for big budgets, however, might just compel voters to clamp down on spending for him.

Nevada

Kenny Guinn, Republican — Legislature: Divided

Final-Term Grade: F
Final Overall Grade: D

Kenny Guinn went from being one of the best new governors in 2000 to one of the worst governors in the nation today. In his first term, Guinn submitted disciplined budgets and opposed new taxes. His second term, however, was mostly a nightmare for taxpayers. Starting in 2002, Guinn's budgets began to grow, and his FY02–03 budget spending grew by 20 percent, including big hikes for college education, health care, and anti-smoking programs. About a month after being reelected in 2002, Guinn announced that he would seek close to $800 million in tax increases, and then the following year he proposed hikes in taxes on cigarettes, alcohol, business licenses, and slot machines. He also called for property tax hikes and a brand-new gross receipts tax on businesses. When legislators rejected those proposals, the state supreme court helped Guinn strong-arm them into passing many of them. In 2005 Guinn finally acknowledged that a tax revolt was likely if the budget surplus that materialized wasn't returned to taxpayers. His motor license fee rebate plan was eventually passed by the legislature. Still, Kenny Guinn's name might as well be synonymous with fiscal failure in Nevada. Perhaps it's telling that the Republican candidate for governor had a tax cut plan at the ready and supported a cap on state spending. It seems it is good politics in Nevada today to be on record against the fiscal damage of the Guinn years.

New Hampshire

John Lynch, Democrat — Legislature: Republican

First-Term Grade: B

Former CEO of Knoll, Inc., a high-end furniture maker, and current New Hampshire chief executive John Lynch is the best new Democratic governor in this report card. The budgets he proposed and signed into law have been very disciplined. He ran on a platform of opposition to a state income or sales tax and has stuck to that promise. He's fought to make good on another campaign pledge, too—elimination of the statewide property tax imposed under the last Democratic governor, Jeanne Shaheen. Lynch's plan was revenue neutral and used a cigarette tax increase to make up the difference. That opened the door for the state legislature to pass the cigarette tax hike but not the property tax elimination, although the property tax was cut a bit. The cigarette tax increase is the main blemish on his record—an unnecessary one, in fact. With the state racking up a budget surplus this year, the government clearly isn't lacking money. Lynch has suggested the surplus should go to a rainy day fund and more government spending on heating assistance and a R&D tax credit. He really should be talking more about broad-based tax cuts instead. Still, Lynch's first term has been mostly friendly to state taxpayers.

New Mexico

Bill Richardson, Democrat — Legislature: Democratic

First-Term Grade: C

Bill Richardson's midterm grade of a B—due in large part to his income tax cutting—has slipped to a final grade of a C for his entire first term. His income tax cuts were indeed substantial. The top marginal income tax rate has dropped a remarkable 35 percent as a result of Richardson's actions and is still the largest income tax rate cut in the nation over the past few years. But the more complete picture that has emerged since 2002 is of a governor who is eager to raise other taxes, such as the cigarette tax and gross receipts tax, and various fees, too. It's also become obvious that, despite Richardson's reputation as a conservative Democrat, he's been happy to increase government spending. His budget proposals have grown faster each year, and the general fund budgets he signed into law between fiscal 2004 and 2006 have grown in total by a whopping 23 percent—almost five percentage points faster than population and inflation. Richardson simply can't maintain a high grade on this report card on the strength of his income tax cuts alone. He needs to stop spending so much if he hopes to keep up the appearance of being a "new Democrat."

New York

George Pataki, Republican | Legislature: Divided

Final-Term Grade: D
Final Overall Grade: C

George Pataki started out as a tax-cutting, small-government governor. He ended up as a big spender seemingly hell-bent on overturning anything good he had done in his first term. Among his leading first-term accomplishments were his $3 billion, 25 percent income tax cut and a substantial cut in the capital gains tax and inheritance tax. But by his second term, he was proposing multi-billion-dollar bond initiatives for roads and pork-barrel environmental projects. He raised the cigarette tax to $1.50 per pack. He raised taxes, on net, by more than $3 billion his final term in office. This year, perhaps in anticipation of a run for the GOP presidential nomination, Pataki tried to convince people that the tax cutter they knew and loved was back. But most of the tax cuts he proposed wouldn't even kick in until after he's left office and are too small to reverse the billions of tax hikes he's already inflicted. Meanwhile, general fund spending has ballooned by more than 25 percent in the Empire State during Pataki's final term. If he runs for the Republican presidential nomination on a record like that, it's going to be very hard for him to convince the small-government advocates who vote in the GOP presidential primaries that he's still one of them.

North Carolina

Mike Easley, Democrat | Legislature: Democratic

Midterm Grade: F

Mike Easley has quickly become one of the worst governors in America in terms of fiscal policy. He racked up a grade of C for his entire first term on the last report card. His already low grade was mainly a result of raising sales and income taxes. The taxes were supposed to be temporary, but in 2003 they were extended through 2005. Easley proposed a cut in the corporate tax rate of 0.1 percentage points in 2003, but, once he was reelected in 2004, he reneged on that proposal. His budgets this term have extended the supposedly "temporary" tax increases of his first. He also proposed to hike the cigarette tax from 5 cents to 50 cents, but the Democratic legislature was willing to boost it to only 30 cents. When the state booked a $2 billion surplus this year, the best Easley could do was scale back the sales tax by one-quarter of a point and the income tax by one-eight of a point—not enough to reverse the previous hikes. Meanwhile, the state budget grew by nearly 18 percent in the past two years. Tax rates and government spending are vastly higher today than they were when Easley took office. Keeping taxes so high with a budget surplus is simply bad policy.

North Dakota

John Hoeven, Republican — Legislature: Republican

Midterm Grade: C

Governor Hoeven's grade has started to flag. He earned a B for his first term mainly on the strength of his cuts in the corporate tax rate—from a 10.5 percent top rate (one of the highest in the nation at the time) to 7 percent. The high point of Hoeven's second term so far is his move to cut the corporate income tax by another half point. Hoeven still has a penchant for corporate welfare boondoggles, like a government-run venture capital fund and his $100 million "Smart Growth" initiative, which hands out taxpayer money to ethanol producers. But it's obvious he has mostly learned what North Dakota needs to spur economic growth: lower taxes. His main deviation from this is the recent 2-cent increase in the gas tax. What's hurting his grade the most are large increases in the state budget. General fund spending has grown an average of more than 4 percentage points in real per capita terms during the last two years. The legislature was a little less eager to cater to the governor's big-spending tendencies during the economic recession. Now that the fiscal picture looks better, it is happy to rubber-stamp many of his increases. In order for Hoeven to get a better grade on the next report card, he'll have to get his big-spending tendencies under control.

Ohio

Bob Taft, Republican — Legislature: Republican

Final-Term Grade: C
Final Overall Grade: F

Bob Taft leaves office scarred by scandal and one of the worst fiscal records in America. In 2001 Taft proposed a $465 million, two-year tax hike, mainly on businesses—he got a $349 million tax increase out of the legislature. In 2002 he raised a panoply of taxes, including the cigarette tax (by 31 cents, a 130 percent increase). Upon reelection, Taft proposed a so-called tax reform package that would raise taxes by $2.3 billion. Although it would make some cuts to corporate and personal income tax rates, it would also broaden the sales tax and result in a net tax increase. Increases in fuel taxes and alcohol taxes were also on the menu. In addition, the plan would cut the sales tax rate to 5.5 percent, which amounted to a tax hike since the sales tax rate was supposed to fall to 5 percent once the "temporary" tax increases of years past had finally lapsed. The income tax rate cuts in Taft's recent plan have boosted his final-term grade to a C, but they weren't strong enough to overturn the fiscal damage he has inflicted over the past eight years. Now Bob Taft is finally going home. That's the best news Ohio taxpayers have had in a long time.

Oklahoma

Brad Henry, Democrat — Legislature: Divided

First-Term Grade: C

Oklahoma gubernatorial candidates of all political stripes in 2002 endorsed some version of a state income tax phaseout. All except Brad Henry, that is. His first term, however, has been better than expected. By his second year in office Henry was proposing tax cuts, such as an elimination of the capital gains tax for sales of Oklahoma property. The main blemish on his tax record is a hike in the cigarette tax from 23 cents to $1.03. But he bounced back with a plan to cut the top income tax rate by more than 20 percent (from 6.25 to 4.9 percent) and eliminate the estate tax. The Republicans in the legislature liked the plan more than did Henry's Democratic allies there. The resulting budget gridlock caused Henry to settle for a smaller tax cut than the one he proposed. The final agreement, which phased the top income tax rate down to 5.25 percent over four years, is the largest tax cut in state history. With revenue pouring into state coffers—by close to 5 percentage points faster than personal income in the state—there is ample room to cut taxes even further. Yet Henry seems too willing to spend most of the new money on new government programs: His FY07 budget request grew by nearly 6 percent.

Oregon

Ted Kulongoski, Democrat — Legislature: Divided

First-Term Grade: D

Ted Kulongoski stated during his 2002 campaign that he would support tax hikes. Unfortunately, that's one campaign promise he kept. He supported a $725 million income tax hike referendum on the ballot at the time. In January 2003 the referendum was soundly defeated, and that prompted a seven-month budget battle that finally ended with a massive $800 million tax increase package that had to be put before voters. Kulongoski actively campaigned for it. In February 2004 the voters again rejected the tax hike, this time by a three-to-two margin. Kulongoski is also a big spender. He proposed an 8 percent budget increase for the current biennium. As Kulongoski campaigned for reelection this year he suggested during a televised debate that Oregon needs a sales tax (it's currently one of the few states without one). He also proposed putting mandated tax rebates on hold for six years. That would mean a tax hike of an estimated $883 million this year alone. Meanwhile, two initiatives—one to cut state taxes and the other to put a cap on the budget—will appear on the 2006 ballot. It seems that voters in Oregon will have a very clear choice in November between limited government and the big-government policies of Ted Kulongoski.

Pennsylvania

Ed Rendell, Democrat — Legislature: Republican

First-Term Grade: C

Ed Rendell started his tenure very poorly. He received an F as a midterm grade largely as a result of his push for a massive $2.8 billion tax hike package that boosted personal income taxes by 35 percent, hiked beer and business taxes, and used less than half of the amount raised to reduce local property taxes. Even when the federal government bailed out Pennsylvania with $900 million, Rendell didn't back down from his tax hike. The state legislature fought Rendell's plan in a bruising year-long fight during which even many Democrats in the Pennsylvania House refused to vote for his tax plan. Ultimately, they accepted a $700 million tax hike, including a 10 percent income tax increase. Since then, Rendell has noticed that the corporate tax rate of 9.99 percent is the second highest in the nation and is a major deterrent to economic growth. He proposed to cut it to 7.9 percent. Because of changes to the tax base, the plan would be almost revenue neutral so it wouldn't substantially change the tax burden, but the rate cut is a much-needed component of any economic development approach for Pennsylvania. Rendell is also to be commended for speeding up the phase-down of the capital stock and franchise tax—another onerous business tax. It's quite a change from his first two years.

Rhode Island

Donald Carcieri, Republican — Legislature: Democratic

First-Term Grade: C

Donald Carcieri's grade has been hurt mostly by a big-spending legislature that has consistently overridden his budget vetoes. Carcieri has proposed budgets that have reined in spending; in fact, if his budgets had been passed as written, the state general fund would only be 2.5 percent larger in real per capita terms than when he assumed office in 2003. Instead, government has grown by an annual average of 3 percent in real per capita terms in just the past two years. Carcieri has done his own bit of damage to his grade, too, by proposing and signing into law an increase in the cigarette tax from $1.71 to $2.46. In 2006, however, Carcieri finally signed into law a tax reform plan that created an optional flat tax with a top rate that would be phased down to 5.5 percent from 8 percent by 2011. The legislation also strengthened the state property tax cap and continued the phaseout of the motor vehicle excise tax. If only the legislature were as eager to cut spending as it has been to agree to cut taxes, Rhode Island would be better off—and so would Donald Carcieri's grade.

South Carolina

Mark Sanford, Republican — Legislature: Republican

First-Term Grade: B

Mark Sanford spent his entire first term in a battle with a legislature controlled by his own party. He has proposed budgets that have, on average, reduced government in real per capita terms each year. The legislature, however, sent him back budgets that were much larger, spurring Sanford to finally veto the entire budget in 2006. That veto, like most of his 106 line-item vetoes the year before, was overturned by the legislature. Where Sanford really excels is on tax policy. In February 2004 he unveiled a bill to reduce the state income tax by 33 percent over 10 years (bringing the top rate of 7 percent down to 4.45 percent). Unfortunately, Sanford lost that particular battle—members of the legislature filibustered his income tax bill—but by 2005 he finally had a victory in the form of an income tax cut that would slice the top tax rate to 5 percent (a 29 percent cut). He next set his eyes on a $151 million income tax rebate and a property tax cut. The latter, however, might be more appropriately called a tax shift since it was accompanied by a sales tax increase. Overall, however, Sanford still ranks as one of America's best governors in terms of fiscal policy.

South Dakota

Mike Rounds, Republican — Legislature: Republican

First-Term Grade: B

Mike Rounds's grade is buoyed mainly by policies that were in existence before he came to office. Gov. Bill Janklow's property tax cuts are still so popular that they are untouchable by lawmakers. And the fact that South Dakota remains one of only a handful of states that have no personal or corporate income tax keeps that state's tax burdens low. Rounds hasn't done much to jeopardize his state's low-tax status, but that doesn't mean he hasn't pursued some misguided policies. His 2004 budget included a cigarette tax hike (almost doubling the tax per pack), a wholesale alcohol tax increase (a 54 percent increase), and a tax on telephone service. The legislature killed the alcohol tax but passed the phone tax and a smaller-than-requested cigarette tax hike. While campaigning for governor in 2002, Rounds proposed further property tax relief and opposed an income tax. Yet he hasn't made a move toward cutting property taxes, and nobody seriously entertains the notion of imposing an income tax in South Dakota. At least he and the legislature have kept spending at a very tame pace. In all, Rounds's first term was far from ambitious.

Tennessee

Phil Bredesen, Democrat — Legislature: Divided

First-Term Grade: B

A businessman who made his millions in the health care industry, Phil Bredesen continually reminded people of his opposition to a state income tax throughout his term. Instead, Bredesen's crusade was going to be budget restraint. He started out his term in bold fashion by declining to draw the governor's $85,000-a-year salary. Bredesen's headliner proposal was his plan to control costs in the state-run health program, the outrageously expensive TennCare, which consumed nearly one-third of the state budget at the time. He was able to remove all non-Medicaid-eligible adults and put strict limits on prescription drugs and doctor visits. What has hurt Bredesen's grade lately is his inability to control spending in the budget overall. State spending has grown by an annual average of 5.5 percent in real per capita terms the past two years. When a $272 million budget surplus materialized, Bredesen and the legislature conspired to spend it on bigger government, including more money for TennCare. As Bredesen's first term comes to a close, he can brag about keeping Tennessee in the ranks of the lowest-taxed states in the nation.

Texas

Rick Perry, Republican — Legislature: Republican

First-Term Grade: B

On fiscal issues, Rick Perry has been a better governor than George W. Bush. Having inherited the office when Bush became president in 2000, he was elected in his own right in a 2002 landslide on a pledge to oppose any new or increased taxes. He has been very disciplined on the spending side: The budget has stayed mainly flat in real per capita terms. In 2004 Perry proposed a $6 billion property tax cut, with a large cigarette tax hike of $1 per pack to offset the revenue loss. Over the next two years, he also tacked on a brand-new gross receipts tax, which has the potential to discourage business growth in Texas—indeed, gross receipts taxes are widely reviled by economists as an economy-sapping levy. It was an unnecessary move, too, since the state was rolling in a $4 billion budget surplus. The saving grace is that the tax plan that Perry finally signed into law will result in a net tax cut of nearly $1.5 billion in the first year alone—quite a substantial achievement. Still, some Texans have rightly been questioning why Perry insisted on tainting his plan with an unneeded tax shift—especially onto the backs of businesses and smokers—when it could have instead been a much larger net tax cut.

Utah

Jon Huntsman Jr., Republican — Legislature: Republican

Midterm Grade: B

Former Reagan staff assistant Jon Huntsman Jr. ran for governor of Utah in 2002 at least in part on a very Reaganesque platform: reforming the state's "dilapidated and anachronistic" tax system. Upon being inaugurated, he told a taxpayer activist group that one of his main goals would be to eliminate the corporate franchise tax and the capital gains tax. He admitted that he couldn't achieve those goals right off the bat, so he tackled the personal income tax first. He proposed an excellent plan: a flat income tax of 5 percent that would be an alternative to the current system with a top rate of 7 percent. He even threw in a plan to end the sales tax on food. When the legislature delivered a halving of the food tax but deadlocked on an income tax plan, Huntsman announced that he intended to call the legislature into a special session in September to finish the job. Where Huntsman fails utterly is on spending. He has proposed an annual average hike in spending of close to 6 percent in real per capita terms, which substantially outstrips personal income growth in Utah, and makes him one of the biggest spending governors in the nation. Jon Huntsman is one of the best governors in the nation when it comes to tax policy. But he cannot be considered one of the most fiscally conservative overall until he gets spending under control.

Vermont

James Douglas, Republican — Legislature: Democratic

Second-Term Grade: C

James Douglas continued to propose budgets that kept spending relatively flat, on average, in real per capita terms—just as he did in his first term. However, the legislature has remained opposed to budget cuts and overridden Douglas's vetoes. Actual real per capita spending has ballooned by an annual average of 8 percent since 2004—almost twice as fast as it grew during Douglas's first two years. In the area of tax cut proposals, Douglas has improved. He expanded his agenda to include cuts in the personal income tax, the corporate income tax, and the Howard Dean–imposed property tax. The legislature ignored the income tax cuts and gave the governor a smaller property tax cut package. Yet Douglas also signed into law a 50 percent increase in the cigarette tax rate to pay for an expansion in Medicaid and a new universal health insurance program. Douglas has lost ground against other governors in this report card partly because he is stuck with a big-spending legislature. However, he hasn't helped his record by agreeing to some of the legislature's big-government schemes.

Washington

Christine Gregoire, Democrat — Legislature: Democratic

Midterm Grade: F

Christine Gregoire, one of the worst new governors in the nation, was elected in 2004 in one of the closest and most contentious elections in Washington history—a controversial Palm Beach–style recount made her the winner of the gubernatorial race by only 129 votes. Famous for being the lead negotiator in the $206 billion shakedown of cigarette companies known as the 1998 multistate tobacco settlement, Gregoire quickly took aim at state taxpayers upon entering office. She's raised multiple taxes already: the cigarette tax (by 42 percent), the gas tax (by 34 percent), the state's liquor tax (by $1.33 a gallon). And she resurrected the estate tax, too. Gregoire even helped the legislature overturn the law that required a supermajority to raise taxes in the future. All of this to fuel her spending binge, which expanded the general fund budget by more than 8 percent in fiscal 2006 alone. Tax activists have placed a repeal of the estate tax on the ballot in Washington, and Gregoire has already stated her opposition. In the meantime, she was quick to propose new ways to spend the $1.6 billion budget surplus this year. With a legislature controlled by her own party, perhaps the only check on Gregoire's big-government ambitions in years to come will be the usually feisty tax activists in the state.

West Virginia

Joe Manchin, Democrat — Legislature: Democratic

Midterm Grade: D

Joe Manchin was elected governor on the campaign promise to concentrate on advancing policies that would help pull West Virginia out of the economic doldrums. Most of his proposals have come in areas beyond the purview of this report card, particularly his crusade to eliminate the $3 billion debt in the state's workers' compensation fund. He's been able to make substantial progress on this front without broad-based tax hikes that would make West Virginia's tax climate worse. When the state racked up a $43 million budget surplus in 2005, Manchin proposed using half of it to eliminate the sales tax on food. He even ordered a freeze in the state's gasoline tax, which was supposed to increase by 2 cents in 2006. Over the next two years of his term, Manchin needs to worry about a rapidly expanding budget, which grew by 14 percent in real per capita terms during his first year in office. That expansion is partly the reason for his low grade on this report card. Manchin also needs to focus more on making the tax climate in West Virginia more conducive to economic growth. He recently held a policy summit to discuss tax reform. If Manchin is able to cobble together a good plan, his grade will likely rise in the 2008 report card.

Wisconsin

James Doyle, Democrat — Legislature: Republican

First-Term Grade: D

While running for governor, James Doyle pledged to hold the line on taxes, scale back the state payroll, and cut corporate taxes by changing complex rules that taxed companies on their payroll and property, not their in-state sales. Once in office, Doyle was able to deliver on the corporate tax cut, and he eliminated around 2,000 government jobs. Yet the state budget still grew in his first year by nearly 5 percent in real per capita terms according to Census Bureau data. The general fund budget has grown, on average, by more than 5 percent in real per capita terms the past two years—only slightly more than Doyle's proposed budgets for that period. In fact, Doyle seems to have little interest in really restraining government spending. He has consistently expressed his opposition to a substantial cap on the state budget. On the tax side, Doyle doesn't seem interested in even holding the line on taxes anymore. He vetoed a plan from the legislature to freeze property taxes. Wisconsin still has the seventh-highest state and local tax burden in the nation. James Doyle has done very little in his first term to change that or to enact policies that might get government under control.

Wyoming

Dave Freudenthal, Democrat — Legislature: Republican

First-Term Grade: D

Dave Freudenthal became governor at a time when he must have been the envy of all other governors: He inherited a budget surplus instead of a budget deficit. But Freudenthal has been eager to spend that surplus, too, and the legislature has been happy to help him. State government has exploded in Wyoming. The general fund budget (which includes the budget reserve account) was around $2.2 billion when Freudenthal assumed office. Today, it's over $3.5 billion—close to a 60 percent increase. The legislature hasn't been a check on Freudenthal's fiscal plans, since it's been happy to deliver budgets that have been slightly larger than the governor proposed. At least Freudenthal proposed cutting the sales tax rate by half a percentage point, a proposal that saved his grade from dipping to an F. Yet it was hardly an audacious proposal since current law states that the tax rate will go down by that amount anyway once the state reaches fiscal solvency. In the meantime, most of the $1.8 billion surplus will not be returned to taxpayers and will go instead to expanding government. Wyoming taxpayers deserve better than what Freudenthal has given them thus far.

Notes

1. Kavan Peterson and Mark K. Matthews, "42 States Foresee a Surplus This Fiscal Year," *Stateline.com*, April 10, 2006.

2. The governor of Alaska is always excluded because of peculiarities in Alaska's budget that make interstate tax comparisons problematic.

3. The U.S. Bureau of the Census provides comprehensive details on state spending and revenue in a variety of reports on its website at www.census.gov/govs/www/index.html. The census data on state governments provide consistent measurement of state tax and spending items across states. The most recent census data on tax revenue are for FY05 and the most recent for expenditures are for FY04. All of these are available on the "State Government Finances" page of the Census Bureau website. More recent data for state general fund expenditures and revenues come from various editions of the National Association of State Budget Officers, "Fiscal Survey of the States," all of which are available at www.nasbo.org. Data from various editions of the National Conference of State Legislatures publication "State Budget and Tax Actions" are also used.

4. For more information about this analysis, see Stephen Moore and Stephen Slivinski, "Fiscal Policy Report Card on America's Governors: 2004," Cato Institute Policy Analysis no. 537, March 1, 2005.

5. For more information on this topic, see Michael New, "Limiting Government through Direct Democracy: The Case of State Tax and Expenditure Limitations," Cato Institute Policy Analysis no. 420, December 13, 2001.

6. Steve Moses, "The Long-Term Care Dilemma: What States Are Doing Right and Wrong," American Legislative Exchange Council, September 8, 2004.

7. Zsolt Becsi, "Do State and Local Taxes Affect Relative State Growth?" Federal Reserve Bank of Atlanta *Economic Review*, March–April 1996, p. 34.

8. Ibid.

9. Richard Vedder, "State and Local Taxation and Economic Growth: Lessons for Federal Tax Reform," U.S. Congress, Joint Economic Committee, December 1995. See also Richard Vedder, "The Effects of Taxes on Economic Growth: What the Research Tells Us," Texas Public Policy Foundation, March 29, 2002.

10. Thomas Dye, "The Economic Impact of the Adoption of a State Income Tax in Tennessee," National Taxpayers Union and Tennessee Family Institute, October 1999.

11. The methodology of these calculations is based on that used in Arthur B. Laffer and Jeffrey Thomson, "The 2004 Laffer State Competitive Environment," Laffer Associates, San Diego, April 12, 2004.

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