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$ REDUCE **TAXES**

THE WALL STREET JOURNAL.
WSJ.com

REVIEW & OUTLOOK | February 8, 2012

The Heartland Tax Rebellion

More states want to repeal their income taxes.

Oklahoma Governor Mary Fallin is starting to feel surrounded. On her state's southern border, Texas has no income tax. Now two of its other neighbors, Missouri and Kansas, are considering plans to cut and eventually abolish their income taxes. "Oklahoma doesn't want to end up an income-tax sandwich," she quips.

On Monday she announced her new tax plan, which calls for lowering the state income-tax rate to 3.5% next year from 5.25%, and an ambition to phase out the income tax over 10 years. "We're going to have the most pro-growth tax system in the region," she says.

Associated Press

Oklahoma Gov. Mary Fallin

She's going to have competition. In Kansas, Republican Governor Sam Brownback is also proposing to cut income taxes this year to 4.9% from 6.45%, offset by a slight increase in the sales tax rate and a broadening of the tax base. He also wants a 10-year phase out. In Missouri, a voter initiative that is expected to qualify for the November ballot would abolish the income tax and shift toward greater reliance on sales taxes.

South Carolina Governor Nikki Haley wants to abolish her state's corporate income tax. And in the Midwest, Congressman Mike Pence, who is the front-runner to be the next Republican nominee for Governor, is exploring a plan to reform Indiana's income tax with much lower rates. That policy coupled with the passage last week of a right-to-work law would help Indiana attract more jobs and investment.

That's not all: Idaho, Maine, Nebraska, New Jersey and Ohio are debating income-tax cuts this year.

But it is Oklahoma that may have the best chance in the near term at income-tax abolition. The energy state is rich

Related Video

WSJ's Laura Meckler reports President Obama will submit a budget plan to Congress that largely resembles the plan he put before lawmakers last year. AP Photo/Susan Walsh

with oil and gas revenues that have produced a budget surplus and one of the lowest unemployment rates, at 6.1%. Alaska was the last state to abolish its income tax, in 1980, and it used energy production levies to replace the revenue. Ms. Fallin trimmed Oklahoma's income-tax rate last year to 5.25% from 5.5%.

Comparing High- and Low-Tax States

Percentage average growth by category for nine states without personal income taxes and nine states with the highest personal tax rates, 2001-2010

	No income tax	Highest rate
Population	13.7	5.5
State product	58.5	42.1
Employment	5.4	-1.7

Note: States without a personal income tax are Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington and Wyoming. The states with the highest rates are California, Hawaii, Maine, Maryland, New Jersey, New York, Ohio, Oregon and Vermont.

Source: American Legislative Exchange Council, 2011

The other state overflowing with new oil and gas revenues is North Dakota thanks to the vast Bakken Shale. But its politicians want to abolish property taxes rather than the income tax.

They might want to reconsider if their goal is long-term growth rather than short-term politics. The American Legislative Exchange Council tracks growth in the economy and employment of states and finds that those without an income tax do better on average than do high-tax states. The nearby table compares the data for the nine states with no personal income tax with that of the nine states with the highest personal income-tax rates. It's not a close contest.

Skeptics point to the recent economic problems of Florida and Nevada as evidence that taxes are irrelevant to growth. But those states were the epicenter of the housing bust, thanks to overbuilding, and for 20 years before the bust they had experienced a rush of new investment and population growth. They'd be worse off now with high income-tax regimes.

The experience of states like Florida, New Hampshire, Tennessee and Texas also refutes the dire forecasts that eliminating income taxes will cause savage cuts in schools, public safety and programs for the poor. These states still fund more than adequate public services and their schools are generally no worse than in high-income tax states like California, New Jersey and New York.

They have also recorded faster revenue growth to pay for government services over the past two decades than states with income taxes. That's because growth in the economy from attracting jobs and capital has meant greater tax collections.

The tax burden isn't the only factor that determines investment flows and growth. But it is a major signal about how a state treats business, investment and risk-taking. States like New York, California, Illinois and Maryland that have high and rising tax rates also tend to be those that have growing welfare states, heavy regulation, dominant public unions, and budgets that are subject to boom and bust because they rely so heavily on a relatively few rich taxpayers.

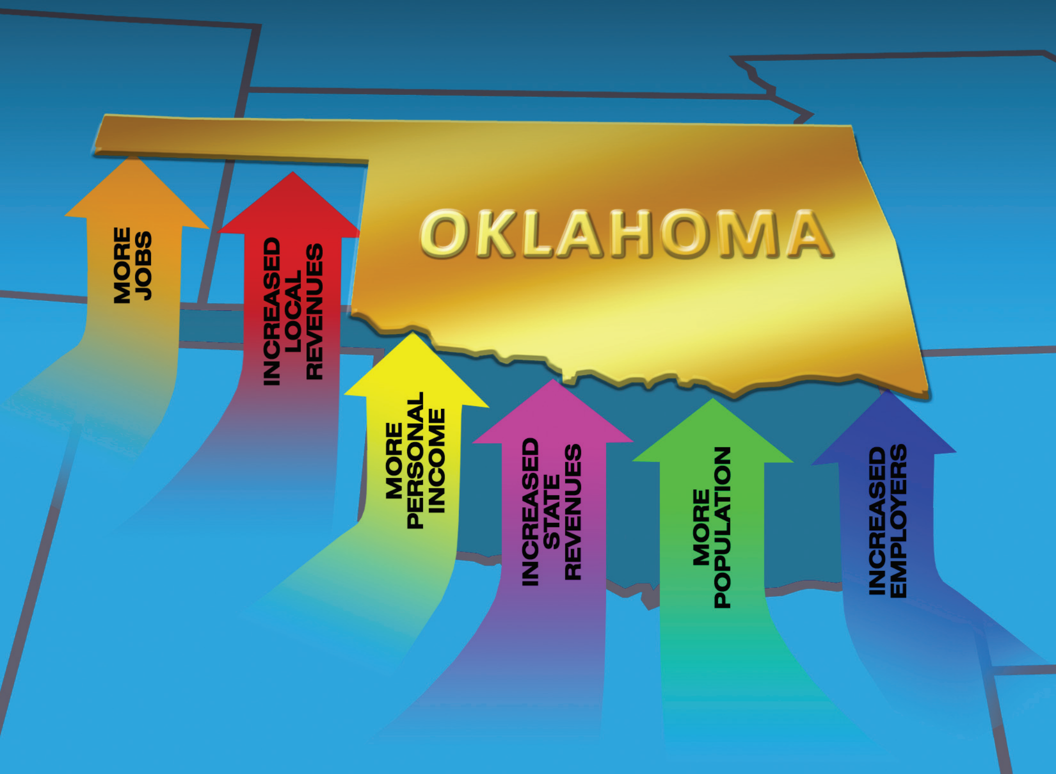
The tax competition in America's heartland is an encouraging sign that at least some U.S. politicians understand that they can't take prosperity for granted. It must be nurtured with good policy, as they compete for jobs and investment with other states and the rest of the world.

"Our goal is for our economy to look more like Texas, and a lot less like California," says Mr. Brownback, the Kansas Governor. It's the right goal.

January 2012

Oklahoma Leading the Nation

Growing Our Economy by Phasing Out the Oklahoma Income Tax



A CITIZEN'S SUMMARY

OCPA
Oklahoma Council of Public Affairs

Arduin, Laffer & Moore
ECONOMETRICS

Oklahoma has the opportunity to establish itself as America's premier destination for economic freedom through a complete phaseout of the state's personal income tax. This would create a long-lasting economic boom, benefiting generations to come. **A 10-year phaseout of Oklahoma's personal income tax would result in Oklahoma having the lowest tax burden of any state.**

> As former U.S. President Ronald Reagan reminded us in his "Time to Recapture Our Destiny" address in Detroit on July 17, 1980:
>
> *"When I talk of tax cuts, I am reminded that every major tax cut in this century has strengthened the economy, generated renewed productivity, and ended up yielding new revenues for the government by creating new investment, new jobs, and more commerce among our people."*

OCPA and Arduin, Laffer & Moore Econometrics (ALME) have evaluated the economic impact of a complete phaseout of the personal income tax. The evidence illustrates that Oklahoma could expect a significant increase in state GDP growth, personal income growth, and employment growth if the proposal were implemented.

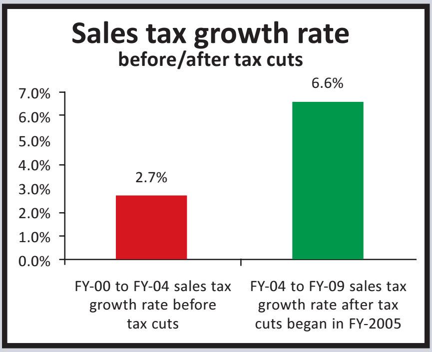
Phasing out the personal income tax would provide Oklahomans with the following approximate savings (based on 2010 data) in state personal income taxes:

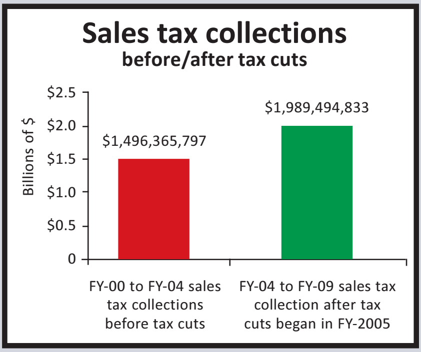
- **Single Person Gross Income $30,000 Savings: $950**
- **Family of four Gross Income $50,000 Savings: $1,373**
- **Family of four Gross Income $60,000 Savings: $1,924**
- **Family of four Gross Income $75,000 Savings: $2,748**
- **Family of four Gross Income $100,000 Savings: $3,651**

As proven by President Ronald Reagan and Art Laffer, when people are allowed to keep more of their own money, the economy grows faster and government revenues still grow.

The goal is simple.
Bring robust prosperity to Oklahoma.
Bring sustained job growth to Oklahoma.
Transform Oklahoma into the best economic climate in America.

Not just better, the best.





Oklahoma has already demonstrated the dynamic effects of tax cuts. For example, prior to personal income tax cuts beginning in FY-2005, the annual state sales tax growth rate was 2.7 percent for the preceding four years. Once the personal income tax cuts began in FY-2005, annual sales tax growth for the following five years was 6.6 percent.

Personal income tax cuts for FY-2007 were estimated to cost $150.8 million, but individual income tax collections actually grew by more than $305 million and state sales tax collections grew by more than $243 million.

Oklahoma could expect the following economic impacts with the proposed tax reform from 2013 through 2022:

- **Oklahoma's real annual personal income growth increasing to 3.27 percent in 2013 and accelerating to 5.65 percent by 2022.**
  - **By 2022, personal income in Oklahoma would be $47.4 billion, or 20.6 percent, larger than it would be without the tax reform.**
- **The annual growth rate of real annual GDP increasing to 2.95 percent in 2013 and accelerating to 5.44 percent by 2022.**
  - **By 2022, state GDP would be $53.4 billion, or 21.7 percent, larger than it would be without the tax reform.**

By 2022, the proposed tax reform would create:

- **312,000 more jobs in Oklahoma**

The reductions of waste, inefficiency and non-core government spending necessary to accomplish this proposal are not draconian by any measure—approximately $300–$400 million, or 6 percent of current appropriations.

It would eliminate the tax on individual income:

- Increasing the incentive to work, produce, and save.

Those states that do not levy an individual income tax and/or levy a lower overall tax and expenditure burden consistently experience greater economic growth than the nation—and Oklahoma.

The Plan:

- In the first year, clean-up the tax code and eliminate all personal deductions, exemptions, credits and loopholes – this allows for a revenue neutral rate reduction from 5.25 percent to 3 percent.
- Next, in the same year, lower from 3 percent to 2.25 percent the personal income tax rate, which only equates to about 6 percent of current state appropriations.
- Every year lower the rate one ¼ of a percent, until the income tax is gradually phased out, responsibly funding government and giving taxpayers much needed relief.

Key Points:

- It's time for Oklahomans to transform our state into the best economic environment in the country.
- Oklahoma's personal income tax is our single biggest dis-incentive for individuals to work, produce and create jobs.
- Those states with no income tax and with the lowest overall tax burdens consistently out-perform the high-tax states, the national average, and Oklahoma in terms of:
    - Economic growth
    - Job growth
    - Population growth
    - and even state and local tax revenue growth!
- **If Oklahoma phases out its personal income tax, Oklahoma will have the lowest tax burden of any state except Alaska.**
- You don't have to raise taxes, to cut taxes.
- OCPA and Art Laffer's proposal requires no increase in the rates or burdens of any other taxes, that **means no sales tax increases and no property tax increases.**
- If government eliminates waste, inefficiencies, and non-core spending of $300-$400 million or 6 percent, Oklahoma can phase out its income tax without affecting any core services such as education, a safety-net for the truly needy, public safety and transportation.

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OCPA Memorandum

A Tale of Two States: The Real Effect of Individual Income Tax Cuts

By Steve Anderson MBA, CPA
October 2010

Executive Summary

- Many people believe that cutting Oklahoma's individual income-tax rate will necessarily result in less revenue for the state.
- But could rate reductions generate economic activity that will provide offsetting revenues? Recent tax policy in Oklahoma and Kansas gives us the closest thing possible in the real world to a controlled experiment.
- Based on increased sales-tax and corporate income-tax collections in Oklahoma, it appears that tax cuts which spur economic activity and build wealth can increase revenues to the state.
- Oklahoma should continue to cut the personal income-tax rate. Putting money back into the hands of Oklahoma's private sector will generate economic activity and boost Oklahoma's economy.

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Kansas and Oklahoma are states with much in common. They share not only a border but also economies and demographics that are in many ways mirror images of each other. They have similar populations made up of a couple of large urban areas but otherwise are largely rural states. The states' economies are both rooted primarily in agriculture and mineral extraction. The business landscape is populated by some large companies, but overall small businesses predominate.

At the turn of the new millennium, the three major tax revenues for the states—individual income tax, corporate income tax, and sales tax—were also near duplicates of each other. In FY-00 Oklahoma was collecting slightly more individual and corporate income tax revenues, and Kansas was roughly offsetting those amounts by collecting more sales tax. However, these states made decisively different decisions regarding tax policy over the ten (10) years following.

This diverging of the states' policy decisions provides the closest thing possible in the real world to a controlled experiment in liberal-versus-conservative tax policy: Does cutting individual income tax rates generate economic activity that will provide revenues to offset the rate reductions, or will those rate reductions simply result in the state having that much less revenue?

Kansas began the decade with a lower individual and corporate tax rate, but with a slightly higher sales tax rate. Through the decade Kansas chose to raise sales and corporate tax rates while standing pat with a relatively high individual income tax rate.

Meanwhile, Oklahoma decided to begin a program of reducing the individual income tax rate significantly, interrupted only by a two-year period during which the rate went back to prior levels due to statutory triggers. Oklahoma's sales tax and corporate income tax rates were kept constant throughout the decade.

The following chart shows the rates of taxation over the last decade for each state in the three major tax categories.

Three Major Tax Categories by Rate (top rate used for comparison)

	Individual Income Tax Rate		Corporate Income Tax Rate		Sales Tax Rate	
	Kansas	Oklahoma	Kansas	Oklahoma	Kansas	Oklahoma
FY-00	6.45%	6.75%	4.00%	6%	4.90%	4.50%
FY-01	6.45%	6.75%	4.00%	6%	4.90%	4.50%
FY-02	6.45%	6.75%	4.00%	6%	5.30%	4.50%
FY-03	6.45%	7%	4.00%	6%	5.30%	4.50%
FY-04	6.45%	7%	4.00%	6%	5.30%	4.50%
FY-05	6.45%	6.65%	4.00%	6%	5.30%	4.50%
FY-06	6.45%	6.65%	4.00%	6%	5.30%	4.50%
FY-07	6.45%	6.25%	4% & 7.35% over $50,000	6%	5.30%	4.50%
FY-08	6.45%	5.65%	4% & 7.35% over $50,000	6%	5.30%	4.50%
FY-09	6.45%	5.50%	4% & 7.05% over $50,000	6%	5.30%	4.50%

Source: http://www.taxfoundation.org/taxdata/show/228.html

Liberals have long argued that a reduction in the individual income tax rate would simply mean that the state would generate that much less in revenue. This static analysis assumes that funds left in the hands of the taxpayer will not stimulate the economy or build wealth. In this view, the net effect of an individual income tax cut will be to leave a hole to fill in the state budget.

By contrast, fiscal conservatives have maintained that a cut in individual income taxes would stimulate the economy. Those in the private sector would take the funds left in their hands and build real wealth, with the result being an uptick in economic activity. This economic activity would then generate new tax revenues, mitigating the decrease in revenue. Those who endorse this concept of a dynamic model of the economy maintain that the government cannot build wealth, and that leaving too much money in government hands slows the economic cycle. Economists refer to this speed as the "velocity of money," which—

using the dynamic model of individual income tax cuts—should manifest itself in increases in corporate sales and profits, thereby generating increased sales tax and corporate tax revenues for the state.

Because the few exogenous variables between Kansas and Oklahoma are so small, these two states' differing tax policies provide a perfect opportunity to test these competing models of conservative and liberal tax policy.

In this study, I use the top individual income tax rates for comparison. In both states the top rate is the rate paid by the majority of taxpayers. Homestead and sales tax exemptions move many people in the lower brackets into credit or no-tax-owed positions. I also excluded from this examination the wellhead taxes that oil and gas producers pay; even though these revenues doubtless have some impact, I believe an examination of the actual structure and composition of the wellhead taxes reduces their influence to acceptably low levels. (An explanation of the wellhead taxes in Oklahoma and Kansas and the rationale for their exclusion is included at the end of this study.)

Oklahoma reduced its top individual income tax rate from 7 percent in 1999 to 5.5 percent over the course of ten years, with the largest cuts in 2000 and 2007 through 2009. This is a 21 percent reduction in the top rate. Meanwhile, Kansas left its top individual income tax rate unchanged over this time period.

Individual Income Tax Collections

	Kansas		Oklahoma		
	Rate	Revenue	Rate	Revenue	KS vs. OK Collections
FY-00	6.45%	$ 1,854,726,000	6.75%	$ 2,134,506,071	$ 279,780,071
FY-01	6.45%	$ 2,214,065,000	6.75%	$ 2,279,364,387	$ 65,299,387
FY-02	6.45%	$ 1,829,609,000	6.75%	$ 2,286,110,394	$ 456,501,394
FY-03	6.45%	$ 1,750,054,000	7%	$ 2,113,947,132	$ 363,893,132
FY-04	6.45%	$ 1,888,434,000	7%	$ 2,319,213,479	$ 430,779,479
FY-05	6.45%	$ 2,050,562,000	6.65%	$ 2,468,608,717	$ 418,046,717
FY-06	6.45%	$ 2,371,253,000	6.65%	$ 2,755,776,194	$ 384,523,194
FY-07	6.45%	$ 2,709,340,000	6.25%	$ 2,784,301,983	$ 74,961,983
FY-08	6.45%	$ 2,896,653,000	5.65%	$ 2,787,444,853	$ (109,208,147)
FY-09	6.45%	$ 2,682,000,000	5.50%	$ 2,544,576,061	$ (137,423,939)

All revenue numbers are from Consensus Revenue Estimate table in 2000–2010 Kansas Governor's Budgets, http://budget.ks.gov/gbr.htm, and table D-1 in Oklahoma Governor's Executive Budget books 2001–2010, http://www.ok.gov/OSF/documents/bud11hd.pdf.

Oklahoma's individual income tax collections grew by 19 percent while Kansas' revenues grew by 44 percent. So at first glance, it appears that the static-model crowd could declare victory. But there are other factors to consider.

First (and quite obvious to me because our accounting firm has a tax office in Kansas), part of the growth in Kansas' individual income tax revenues in FY-07, FY-08, and FY-09 is driven by the change in operating structure by many Kansas businesses to avoid the increase of the top corporate rate from 4 percent to more than 7 percent. In the three years prior to Kansas' huge corporate tax increase, Kansas collected $110 million more than Oklahoma from corporations. However, after increasing the tax rate from FY-07 through FY-09, Kansas collected $149 million less from corporations for that three-year period than Oklahoma. **That is nearly a quarter-billion-dollar increase in Oklahoma's favor. It would appear that raising taxes can have exactly the opposite effect of increasing revenues, just as the dynamic model would predict.**

However, the really important tax-revenue component in dynamic scoring is the sales tax. Sales tax revenues are an undeniable measure of economic activity. When the decade began, Kansas had a 4.9 percent sales tax for the first two years but then increased it to 5.3 percent for the last eight years. Meanwhile, Oklahoma kept its rate constant at 4.5 percent.

In FY-00 Kansas' sales tax collections exceeded Oklahoma's by $88 million, but by FY-09 Oklahoma's sales tax revenues exceeded Kansas' collections by $283 million.[1] While Kansas' sales tax revenues grew by 17 percent over the last ten years, Oklahoma's increased by 46 percent. The majority of the individual income tax rate reduction in Oklahoma occurred in the last three years of the decade while in the middle of a recession, but surprisingly (at least to the static-model crowd) Oklahoma's sales tax revenues grew by 18 percent while Kansas' fell by 3 percent for the same period.

Sales Tax Revenues

	Kansas		Oklahoma		
	Rate	Revenue	Rate	Revenue	KS vs. OK
FY-00	4.90%	$ 1,440,295,000	4.50%	$ 1,351,803,097	$ (88,491,903)
FY-01	4.90%	$ 1,423,059,000	4.50%	$ 1,441,929,046	$ 18,870,046
FY-02	5.30%	$ 1,470,599,000	4.50%	$ 1,443,427,590	$ (27,171,410)
FY-03	5.30%	$ 1,567,722,000	4.50%	$ 1,404,275,611	$ (163,446,389)
FY-04	5.30%	$ 1,612,067,000	4.50%	$ 1,496,238,185	$ (115,828,815)
FY-05	5.30%	$ 1,647,663,000	4.50%	$ 1,546,621,382	$ (101,041,618)
FY-06	5.30%	$ 1,736,048,000	4.50%	$ 1,677,854,488	$ (58,193,512)
FY-07	5.30%	$ 1,766,768,000	4.50%	$ 1,804,313,384	$ 37,545,384
FY-08	5.30%	$ 1,711,398,000	4.50%	$ 1,930,951,193	$ 219,553,193
FY-09	5.30%	$ 1,689,516,000	4.50%	$ 1,972,769,753	$ 283,253,753

All revenue numbers are from Consensus Revenue Estimate table in 2002–2010 Kansas Governor's Budgets, http://budget.ks.gov/gbr.htm, and table D-1 in Oklahoma Governor's Executive Budget books 2001–2010, http://www.ok.gov/OSF/documents/bud11hd.pdf.

Kansas' sales tax rate is nearly 18 percent higher than Oklahoma's, which in the theory of liberals and their static model means that Oklahoma would have had to generate 18 percent more activity just to stay even with Kansas' collections. Yet in the last three years of the decade Oklahoma generated more than $540 million more in sales tax revenue than Kansas. Can there be any question which state's economy is healthier?

Did the income tax cut in Oklahoma really drive this economic activity? Rather than listen to competing economists argue tax theory it is far more instructive to see what happened in a real-world situation. The following chart shows the year-to-year relationship of the top individual tax rates to the sales tax revenues in each state. Note that in FY-03 and FY-04, when the statutory trigger increased Oklahoma's individual income tax rate back to 7 percent, Oklahoma's sales tax revenues compared to Kansas' fell. However, in FY-05, when the Oklahoma's individual tax rate started to fall, sales tax revenues began to increase in relation to Kansas'. FY-07 was the first time that Oklahoma's top individual income tax rate was less than Kansas' top rate, and it began a string of increasing Oklahoma sales tax revenues that amounts to a reversal of nearly a half-billion-dollar difference in Oklahoma versus Kansas sales tax collections between FY-03 and FY-09.

	Kansas Individual Income Tax Rate	Oklahoma Individual Income Rate	KS vs. OK Collections ( ) indicates KS collected more
FY-00	6.45%	6.75%	$ (88,491,903)
FY-01	6.45%	6.75%	$ 18,870,046
FY-02	6.45%	6.75%	$ (27,171,410)
FY-03	6.45%	7%	$ (163,446,389)
FY-04	6.45%	7%	$ (115,828,815)
FY-05	6.45%	6.65%	$ (101,041,618)
FY-06	6.45%	6.65%	$ (58,193,512)
FY-07	6.45%	6.25%	$ 37,545,384
FY-08	6.45%	5.65%	$ 219,553,193
FY-09	6.45%	5.50%	$ 283,253,753

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Now we have an "apples to apples" comparison on which to draw, **it seems that individual income tax cuts do not impair revenues for state services. In fact, it appears to be quite the contrary: Tax cuts that spur economic activity and build wealth can increase revenues to the state, as evidenced by the increases in sales and corporate income tax collections.** In FY-00 Oklahoma collected $135 million more than Kansas in combined individual, corporate, and sales tax revenues. After a decade in which it reduced its individual income tax rate by 21 percent, Oklahoma collected $248 million more in FY-09 than Kansas in those same three tax revenue categories. **It is time that more states (and our federal government) took note by putting funds back in the hands of the private sector so it can generate the sort of economic activity that will allow us to end this recession.**

Now some might argue that differences in the two states' Gross Production Taxes (GPT) are an additional major driver of the change. Oklahoma does collect more than Kansas by a substantial margin, but in FY-08, for example, GPT represented only 14 percent of total tax revenues for Oklahoma.[2] In Oklahoma oil and gas producers pay a top rate of 7 percent and in Kansas 10.37 percent at the wellhead based on market price to fund this source. These revenues are largely tied to the price of oil and gas (since they are taxed on the gross value of the oil and gas) and hence fluctuate wildly. The market price of oil and gas is arguably wholly independent of the movement of the tax rates in either state.

When we examine the relationship between sales tax revenues and GPT in Oklahoma over the last ten years, we find very little consistent correlation.[3] For example, a large GPT revenue increase occurred in 2006 with a subsequent large GPT decrease in FY-07 and then an even further reduction in FY-08,[4] but there was the opposite movement in Oklahoma sales tax receipts. In fact, GPT revenues grew rapidly from 2002 to 2006, but sales tax revenues did not mirror their increases and only began their rapid increase when the tax cuts at the individual income tax level occurred.

There are factors that I believe explain this lack of a positive correlation. The relationship of GPT revenues to business activity and/or sales tax revenues is not as those outside the industry might think. Much of the money from production after the wellhead taxes is paid to out-of-state recipients and, as such, does not generate sales taxes for Kansas or Oklahoma. Market price spikes will not add jobs or stimulate supporting industry in general, simply because regardless of the price the industry has the personnel and facilities in place to handle what is essentially only a slightly higher volume without any additional need for growth. The oil and gas drilling industry typically lags price increases, and if the price of oil and/or gas falls rather quickly the new drilling activity may actually never occur.

Oklahoma's production has grown at a much faster rate than Kansas', which is not a surprise to conservative tax policy analysts who would note that a taxing differential of nearly 48 percent—which Kansas' higher rate of 10.37 percent provides—influences choices. Oklahoma has greater oil and gas reserves than Kansas thanks largely to nature, but it is unknown to what extent the production difference is created by the tax disparity disincentive to drill in Kansas for deeper reserves or to employ costly secondary recovery techniques to enhance field production.

It would also be naïve to believe that from 2007 to 2009, when Oklahoma's top individual income rate fell 17 percent and the Oklahoma corporate rate became less than Kansas' top rate, that there was not some movement by oil and gas companies to produce more in Oklahoma than in Kansas. While it is true that "shutting in" wells to wait for higher prices is not practical, there are some wells that limit their production to less than maximum output during price depressions. It is common sense that net profit will be the determining factor in what wells are produced and where new drilling will occur in general. In other words, income tax rates influence GPT not vice versa, and the reduction in Oklahoma's rates in comparison to Kansas' drove more drilling and production to Oklahoma.

Endnotes

[1] All numbers for tax collections numbers and used in calculations are from Consensus Revenue Estimate table in 2000–2010 Kansas Governor's Budgets, http://budget.ks.gov/gbr.htm, and table D-1 in Oklahoma Governor's Executive Budget books 2001–2010, http://www.ok.gov/OSF/documents/bud11hd.pdf.

[2] Oklahoma Policy Institute, "Fact Sheet: Oklahoma's Gross Production Taxes and Exemptions" (April 27, 2009), 1–3.

[3] Oklahoma Policy Institute, figure 2, "Oklahoma Gross Production Tax Revenues, FY '82–FY '08 (in Millions)," in "Fact Sheet," 1.

[4] Oklahoma Policy Institute, table 2, "Summary of Oklahoma Gross Production Tax Exemptions, as of FY '09," in "Fact Sheet," 3.

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North Carolina as the new Wisconsin

July 11, 2013 @ 11:41 pm

By Grover G. Norquist and Patrick Gleason

[1]North Carolina, a state traditionally associated with Southern hospitality, college basketball and barbeque, is bucking its genteel reputation this summer as state politics reach fever pitch.

“Nowhere is the battle between liberal and conservative visions of government fiercer,” wrote David Graham [2] of *The Atlantic*, “than North Carolina.” NBC Political Director Chuck Todd cited Graham’s piece as “a good argument that the best — and most important — political story that no one has probably heard about is taking place in North Carolina.”

[3]Since April, Democrats and liberal groups upset with the state Republicans’ conservative legislation have gathered every Monday at the capitol in Raleigh — with more than 600 demonstrators arrested so far. A state Senate bill passed last week designed to increase health and safety standards at women’s reproductive rights facilities added fuel to the fire. Public protests escalated and the state garnered even more national media attention.

Heated rhetoric aside, however, close examination shows a vocal minority is overreacting to Republicans implementing the fiscal policies they ran on — and that a majority of voters agreed were needed to make the state economically competitive.

Take tax reform [4], the issue that has been the top item on the docket this year [5] — and drawn the most ire from Democrats. North Carolina has the highest income tax and unemployment rates in the South. This is no coincidence.

North Carolina’s punitive tax rates put the state at a competitive disadvantage in attracting employers and investors. Small businesses, responsible for a majority of job creation, are also held back due to the onerous tax code.

Republican Governor Pat McCrory and legislative Republicans campaigned on cutting the state income tax. The state Senate last week passed a bill to lower and flatten the income tax, and the state House approved similar legislation last month. Lawmakers and budget officials are now developing a compromise bill and McCrory recently announced they are close to a deal.

If Republicans are successful, North Carolina lawmakers will leave for summer break having delivered on one of their top campaign promises.

As North Carolina legislators work to finalize a historic tax reform package and budget, however, outside groups continue to ramp up the Monday protests. Graham, as well as other national commentators on both right and left, have compared [6] them to the Madison, Wisconsin, protest rallies against Republican Governor Scott Walker’s labor reforms in 2011.

North Carolina Republicans should only hope their situation plays out similarly to what transpired in the Badger State.

Since Walker signed these reforms, the state’s unemployment rate has dropped from 7.6 percent to 7 percent — below the national average. Walker has taken the $3.6 billion deficit that his Democratic predecessor left him and turned it into a $419 million surplus — thanks in no small part to the reforms that labor unions, MSNBC and liberal college students decried.

Two years later, it is clear that not only were Walker’s reforms good policy, they were good politics. Walker’s approval rating was at 43 percent by the time he signed the bill. But by May of this year, Walker’s approvals had risen to 51 percent, according to a Marquette University Poll.

Like Walker in Wisconsin, McCrory and the North Carolina state Republicans inherited a budgetary mess from their Democratic predecessors. Rather than raising taxes, and bleeding more revenue from the private sector, as was standard operating procedure under decades of Democratic rule, these Republicans changed course — putting spending in line with revenues. This is what North Carolina voters elected a new Republican majority to do.

Liberal pundits will try to portray what is happening in North Carolina as dysfunction. But it is the opposite. Washington politicians and political commentators bemoan the lack of compromise there. If they want to see what compromise looks like, however, they should watch Raleigh — where Republicans are now compromising on how much tax relief to provide and how best to cut government waste.

Lawmakers on Capitol Hill would be wise to take note.

PHOTO (Top): Wisconsin Governor Scott Walker after signing a bill in Madison, Wisconsin March 11, 2011. REUTERS/Darren Hauck

PHOTO (Insert): Governor Pat McCrory of North Carolina

[1] Image: **http://blogs.reuters.com/great-debate/files/2013/07/walker.jpg**
[2] wrote David Graham: **http://www.theatlantic.com/politics/archive/2013/07/how-north-carolina-became-the-wisconsin-of-2013/277007/**
[3] Image: **http://blogs.reuters.com/great-debate/files/2013/07/mccory.jpg**
[4] tax reform: **http://heartland.org/policy-documents/research-commentary-north-carolina-tax-**

CAROLINA JOURNAL ONLINE

A First In Freedom Legislative Session

By Becki Gray
Aug. 1st, 2013

RALEIGH — The 2013 legislative session has at times been contentious, sometimes controversial, often frustrating, but in the end, very successful. This has been a good session for fiscal responsibility, government efficiency, common-sense reform, school choice, and accountability. State government has made protecting freedom a priority.

Here are a few highlights:

• One of the first issues addressed was preparing young adults for careers by increasing access to career and technical education in high schools and refocusing skills training in community colleges, particularly in areas with high unemployment. (Senate Bill 14)

• The General Assembly started getting the state's fiscal house in order by accelerating repayment of a $2.5 billion debt owed to the federal government for unemployment insurance. Overly generous long-term benefits were trimmed, too. Instead of providing $535 maximum weekly benefits for up to 26 weeks, North Carolina's benefits are now in line with nearby states at $350 a week for 20 weeks. Employers must contribute more, and the unemployment reserve fund is being replenished. As a result, the debt to the federal government will be repaid three years early. (House Bill 4)

• North Carolina made the critical decision to opt out of the Obamacare health exchanges and Medicaid expansion. Instead the focus will be on fixing a broken and expensive Medicaid system by offering real reforms, cost containment, and better patient outcomes. By saying no to the exchanges and expansion, the responsibility for a deeply flawed and widely unpopular health care policy stays right where it belongs — with the federal government. North Carolina decided to focus on fixing health care. (Senate Bill 4)

• Unlike previous General Assemblies and governors, the 2013 session reformed North Carolina's outdated, cumbersome, and complicated 70-year-old tax system. The new tax plan lowers and flattens the personal income rate to 5.75 percent, broadens the sales tax base by eliminating dozens of exemptions, and phases down the corporate tax to as lows as 3 percent. The death tax was eliminated and the gas tax capped.

Most taxpayers will see a tax cut under the new plan, while a few — some married couples with three or more children and those whose annual income comes mostly from self-employment or pensions — may see a small increase. With competitive tax rates to encourage and entice businesses, all North Carolinians will benefit from a more robust economy with more and better jobs. According to the Tax Foundation's State Business Tax Climate Index, this tax reform package catapults our state from 44th to 17th nationally. (House Bill 998)

• Economic growth and long-term recovery need more than a better tax code; they require less burdensome regulations. For the third straight year, the General Assembly passed a reform bill. This one calls for periodic and regular review of rules to make sure unnecessary ones are repealed, necessary rules are maintained, and those we're not sure about get a complete, public review and common-sense reform. Costs associated with implementation and compliance will be considered. (Senate Bill 74)

• Wise investments in infrastructure also spur economic growth. Rewriting the state's equity formula will allow transportation dollars to be spent on priorities and take politics out of highway building and maintenance. (House Bill 817)

• Efforts to curtail unsustainable growth in government started with sounder budgets in the last biennium. The $20.6 billion 2013-14 General Fund budget is fiscally responsible with no tax increases and no new debt. Instead of new programs, there are efficiency and accountability measures. Responsible funding sets aside money for the state's depleted reserve accounts. (Senate Bill 402)

• More of the state's debt, including Certificates of Participation, will require voter approval. (Senate Bill 129)

• Funds are available for opportunity scholarships, letting children from low-income families attend a private school, if that is the best option. Local school districts will gain more funding and more flexibility to best meet their needs, reducing mandates from Raleigh. Teacher tenure will be replaced with regular evaluations based on how well students are learning. (Senate Bill 402)

It hasn't been easy, but this General Assembly and administration are on the right track. This session signaled a commitment to a government that allows taxpayers to enjoy the fruits of their labor, encourages personal responsibility, and protects liberty. Before you know it, First in Freedom should be more than an old license plate slogan in North Carolina.

Becki Gray (@beckigray) is vice president for outreach at the John Locke Foundation.

THE WALL STREET JOURNAL.
WSJ.com

What's Right With Kansas

Governor Brownback calls the bluff of GOP tax-cut opponents.

France's new President wants to impose a 75% tax rate, and Washington is headed for a huge tax cliff in January, but some enlightenment reigns in the American heartland. Last week Governor Sam Brownback continued the post-2010 reform trend among GOP Governors by signing the biggest tax cut in Kansas history. The plan chops the state income tax rate to 4.9% from 6.45% and eliminates income taxes on about 190,000 Kansas small businesses.

Mr. Brownback has made pro-growth tax reform his highest priority, and his original plan called for phasing out the income tax over a decade. That plan ran into opposition in the Senate.

Kansas effectively has two political parties: conservative Republicans and liberal Republicans. Though the GOP holds a 31-9 majority, Senate President Steve Morris was never enthusiastic about the tax cut. In an attempt to embarrass the Governor and House Republicans, the Senate passed a giant income tax cut that it believed the House would reject because of its price tag.

The ploy backfired when the House approved the Senate plan. Now Mr. Morris and his Senate colleagues are grousing that the bill they initiated will cause big deficits. Mr. Brownback gave the House and Senate a week to agree to close tax loopholes to help pay for the rate cut, but the Senate refused to budge.

Mr. Brownback says the income tax cut will put Kansas "on a road to faster growth." Although no one in Europe or the White House agrees with the philosophy, tax-cut initiatives have been spreading in the states.

Already this year Tennessee has eliminated its gift and estate tax, Arizona has cut its capital gains tax (to 3.4% from 4.54%), and Idaho and Nebraska have cut income tax rates. Oklahoma is expected to cut tax rates. The tax cutting Governors all say they hope to be more like no-income-tax Texas, which has far outpaced other states in job creation.

Low tax rates aren't the only policy needed for growth, and Kansas would be better off had Senate Republicans agreed to reduce loopholes while cutting rates. But the tax cut will force state politicians to restrain spending, and above all it sends a signal to businesses and taxpayers that Kansas wants more of both.

YOU CAN TOO!

SECTION 2:

ENACT RIGHT-TO-WORK LEGISLATION

RIGHT-TO-WORK IN MICHIGAN

The Untold Story

BY F. VINCENT VERNUCCIO

In December 2012 something almost inconceivable happened: Michigan became the nation's 24th right-to-work state.

In the birthplace of the United Auto Workers (UAW), the state with the fifth highest union membership in the country gave employees the freedom to choose.

"Right-to-work" simply means that a worker cannot be fired for refusing to support a union. However, this basic concept shows business that the state is willing to put job creators and employees above the special interests. The result is that states with right-to-work laws have lower unemployment, higher population growth, higher wage growth, and when factoring in the cost of living, employees actually make more in right-to-work states.

A near-sighted view of the events that led to the enactment of right-to-work (or "freedom-to-work," as it is called in Michigan) last year would make the process seem simple. Michigan's neighbor, Indiana, went right-to-work in January 2012. That Indiana added 43,300 jobs while Michigan lost 7,300 was a clear message to Michigan's Governor Rick Snyder that his state was at a competitive disadvantage. As Michigan's unemployment hovered around 9 percent, and after a decade of economic decline, that was a disadvantage the Wolverine State could no longer afford.

Governor Snyder always maintained that if a worker freedom bill came to his desk, he would sign it. However, the governor also stated that right-to-work was "not on his agenda," because he believed the conversation over the issue would be too divisive.

However, Michigan's unions overplayed their hand when they put a constitutional amendment on Michigan's ballot. The amendment, Proposal 2, would have given government unions collective bargaining agreements the power to effectively overrule laws. The amendment would have also made right-to-work legislatively impossible.

In the end, this political power-play backfired, forcing Michigan to have the conversation about right-to-work. The result was clear and overwhelming: Michigan voters rejected the union-backed Proposal 2 by a margin of 15 points.

Now, with the voters having spoken and (more importantly) with the need to stay competitive with its neighbor, Michigan took on right-to-work and quickly gave employees the freedom to choose. That simple, right?

Not at all. Like an iceberg, the movement to give employees freedom of choice in Michigan had a large foundation that often went unobserved on the surface.

Naming everyone who deserves credit would take more space than is available here. While the Mackinac Center provided intellectual ammunition, groups such as Americans for Prosperity and the Michigan Freedom to Work Committee deployed a large number of grassroots activists. Terry Bowman, president of Union Conservatives and current UAW member, spoke to rally his fellow union members in support of worker freedom.

There were motivated lawmakers pushing the bill, led by two freshmen legislators: Senator Pat Colbeck (SD-7) and Representative Mike Shirkey (HD-65).

Michigan power players such as Dick Devos and Ambassador Ron Weiser bolstered nervous politicians concerned about being targeted by unions in their reelections.

Worried legislators could take comfort in the electoral victories of their neighbor. In the election after Indiana passed right-to-work, the party that supported right-to-work did not lose a single seat in the state Senate and even picked up nine seats in the House.

A number of national groups coalesced to provide logistical support and advice, such as the National Right to Work Committee, Americans for Tax Reform and the State Policy Network.

No single person or group made right-to-work happen in Michigan, but it was an effort of which if one or two of the players were not present, workers in the state still would be forced to pay a union just to keep their job.

However, that analysis also does not fully grasp the entire picture of the careful two-decade long planning that resulted in right-to-work's eventual passage.

For years, the Mackinac Center carefully made the case for how right-to-work would help Michigan. This planning allowed the center to put out information almost overnight, highlighting prior studies and analyses on the benefits of worker freedom.

The grassroots organizations showed their members over time why they should care about the issue. Donors with political influence held their fire until the time was right. Lawmakers who wanted nothing more than to give their union member constituencies the power to choose kept their powder dry, working to convince their colleagues instead.

All of these pieces were in place and, when the timing was perfect, sprang into action.

But even this is not the full picture. The final component was waiting for the stage to be set. Could right-to-work have happened in 2012 without Proposal 2 or Indiana's passage of right-to-work? Probably not.

Michigan did not have much influence in Indiana; however the concerted effort making the case for worker freedom which resulted in ever increasing support, in conjunction with the governor's labor reforms for government unions is likely what forced the unions to overplay their hand with Proposal 2.

Recently, UAW President Bob King said that the labor reforms enacted around the nation in 2011 and 2012 caused unions to worry about the possibility of right-to-work and without that possibility, he never would have pursued Proposal 2.

In essence, even Proposal 2 was a result of those fighting for labor reform.

Finally, there was messaging. Everyone involved with the right-to-work fight knew the battle would not be won with statistics – which were decidedly in favor of employee freedom, such as employees in right-to-work states make about four percent more when factoring in the cost of living.

The effort needed a clear and convincing message that was understandable to everyone. It had to appeal to a broad base and not simply speak to those who were already predisposed to union reform.

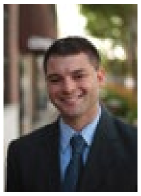
The message had to underline that right-to-work is about helping employees and focus on the positive instead of going negative.

The governor perfectly encapsulated this message when he explained how right-to-work policies lead to more freedom. These policies are "pro-worker," and result in "more and better jobs" for Michigan employees.

Right-to-work does this because it helps make unions more accountable to their membership and may even make them stronger.

A fact reflected in the most recent statistics from the Department of Labor shows that in 2012 right-to-work states (not counting Indiana or Michigan) added 39,000 union members while forced unionism states lost 390,000.

In the end, Michigan had the perfect storm, but the storm conditions arose from a variety of factors precipitated by two decades of hard work, making the impossible possible.



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YOU CAN TOO!

SECTION 3:

REFORM MEDICAID

SPN.ORG

MEDICAID CURE

How it's different. Why it works.

		Old Medicaid Fee-for-Service (FFS)	Primary Care Case Management (PCCM)	Traditional Managed Care (HMO/MCOs)	Medicaid Cure
BASIC SERVICES	Mandatory Medicaid benefits	✓	✓	✓	✓
	Optional Medicaid benefits	✓	✓	✓	✓
	Case manager to help coordinate patient care		✓	✓	✓
CHOICE	Patients can switch plans			✓	✓
	State offers traditional HMO plans (for-profit and not-for-profit)			✓	✓
	Patients choose from at least 2 plans			✓	✓
	Patients choose from at least 4+ plans				✓
	Patients get choice counseling that helps them make health plan decisions				✓
	Patients can buy private coverage, if available				✓
	Patients can buy private coverage, if available				✓
	Provider Service Networks (PSNs) that are hospital-run				✓
	PSNs run by physicians or Federally Qualified Health Centers (FQHCs)				✓
	Specialty plans that treat specific conditions and populations				✓
ACCESS	Plans can negotiate higher fees to network physicians			✓	✓
	Plans can negotiate higher fees to network specialists			✓	✓
	Plans can provide richer optional benefits (i.e. more visits, more prescriptions)				✓
	Plans can tailor preferred drug lists (PDLs)				✓
	Plans can waive copays for patients				✓
BETTER HEALTH	Plans can provide additional benefits, like preventive care and adult vision/dental			✓	✓
	Plans can provide disease management and disease-specific benefits and services			✓	✓
	Plans can provide new benefits, like respite care and over-the-counter pharmacy				✓
	Patients get cash incentives for healthy behavior				✓
	Plans get more money for enrolling sick patients and making them well (risk-adjusted rates)				✓
	State has the flexibility for payment reform and innovation				✓
TRANSPARENCY	State tracks and publicizes patient access and satisfaction (CAHPS survey)			✓	✓
	State tracks and publicizes 30+ patient health outcomes (HEDIS measures)			✓	✓
	State tracks and publicizes patients' plan choices				✓
PREDICTABILITY	Medicaid produces fixed, budgeted costs per person			✓	✓
	State has the ability to control Medicaid cost trends				✓
	Medicaid produces budgetable savings for the state	None	Minimal, if any	Minor	Substantial

FOUNDATION FOR GOVERNMENT ACCOUNTABILITY
www.FloridaFGA.org

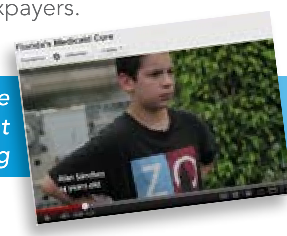
PRO-PATIENT

MEDICAID CURE

7 IMPROVEMENTS TO OLD MEDICAID

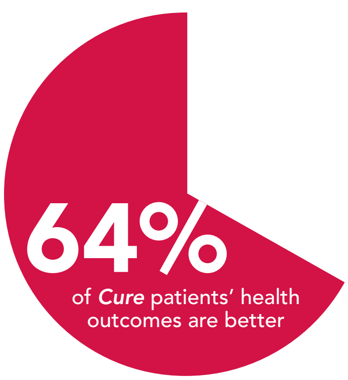
1. **MEANINGFUL CHOICES**
   Patients have the power to choose among numerous private plans (up to 11) and can change their plan for any reason. 70% actively chose their own plan.
2. **MORE SERVICES**
   Patients can access up to 7 extra services not covered by any other Medicaid program (OTC medication, adult dental, adult vision, respite, etc.).
3. **INCENTIVES TO GET & STAY HEALTHY**
   Patients receive financial rewards for healthy behavior (up to $125/person/year). 64% participate in this program.
4. **PATIENT HEALTH IS A PRIORITY**
   Plans get more funding for enrolling sick patients and plans make more profit by making patients well (with risk-adjusted capitated rates).
5. **GREATER ACCOUNTABILITY**
   Key health and satisfaction tracking and reporting to patients and taxpayers (HEDIS, CAHPS).
6. **COMMON SENSE COMPETITION**
   Plans compete on value and outcomes, not price, and can vary benefits, copays and provider networks above old Medicaid (fee-for-service) minimums to meet patient demands.
7. **PRIVATE COVERAGE FOR THOSE WHO WANT IT**
   Patients can opt for private insurance if available, and at a lower or equal cost to taxpayers.

See how the Medicaid Cure helps the Sánchez family at FloridaFGA.org



HEALTHIER PATIENTS

BETTER HEALTH:
Medicaid Cure vs. FL Managed Care



HAPPIER PATIENTS

HIGHER SATISFACTION:
Medicaid Cure vs. U.S. Managed Care

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Sources: Florida Agency for Health Care Administration, National Committee for Quality Assurance, Foundation for Government Accountability, 2010 HEDIS Health Outcomes (31 U.S. measures and 33 Reform/Non-Reform measures), 2009 CAHPS patient satisfaction survey (6 U.S. and Reform measures)

Definitions: Cure Patient—patients enrolled in FL's Medicaid Reform Pilot; FL Managed Care—patients enrolled in the non-Reform managed care. U.S. Managed Care—patients enrolled in traditional Medicaid managed care.

PRO-TAXPAYER MEDICAID CURE

SAVINGS BY THE NUMBERS

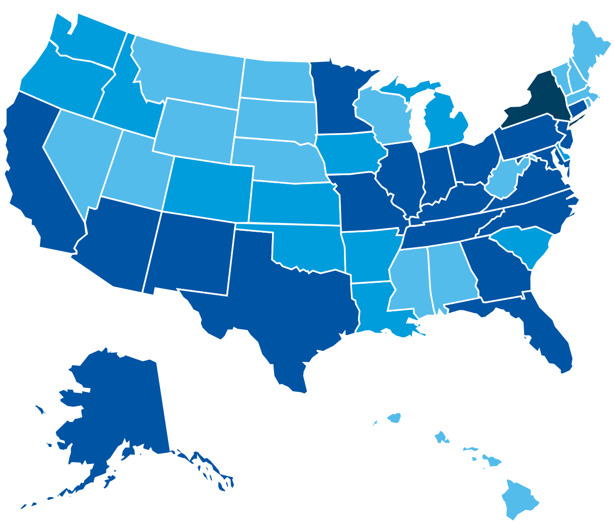
$118 MILLION
Estimated annual savings to Florida taxpayers already achieved by the Medicaid Cure.

$901 MILLION
Annual savings to Florida taxpayers when Medicaid Cure expands statewide.

UP TO $70 BILLION
Total annual savings nationally if Medicaid Cure were replicated nationwide.

UP TO $1 TRILLION
Total savings over the next ten years nationally if Medicaid Cure were replicated nationwide.

PROJECTED SAVINGS FROM FLORIDA'S MEDICAID CURE



Up to $400 Million/Year (17 states)	$1-4 Billion/Year (19 states)
$400-900 Million/Year (13 states)	More than $12 Billion/Year (1 state)

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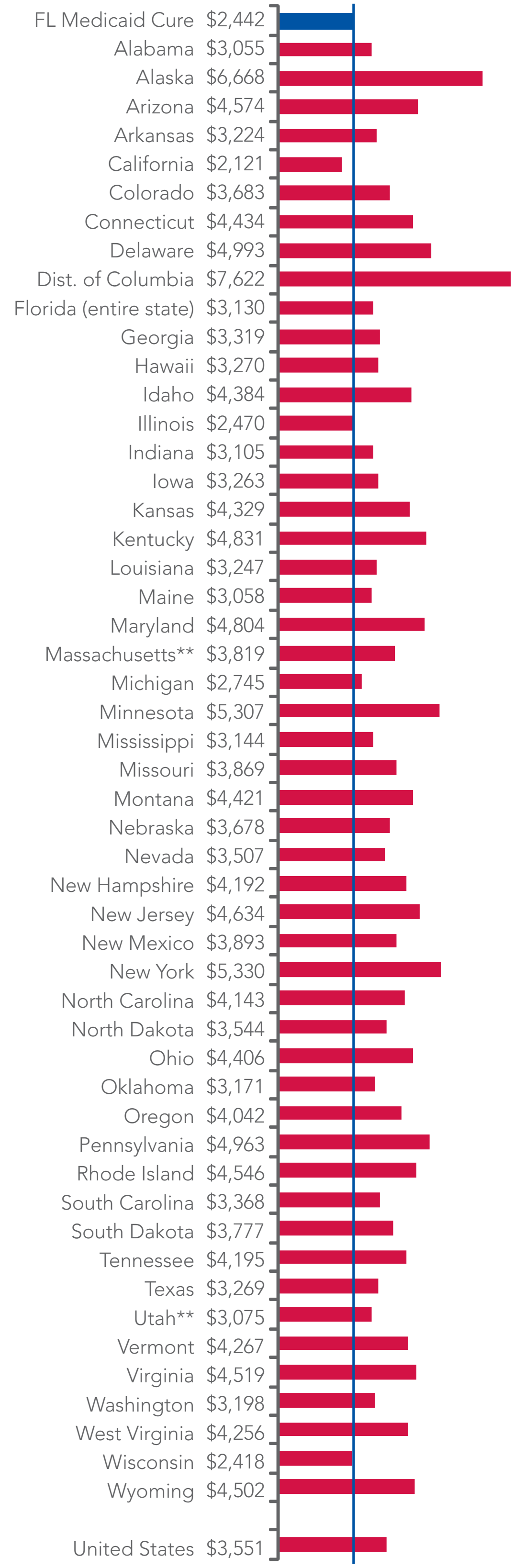
STATE MEDICAID SPENDING

PER PERSON



Sources: Florida Agency for Health Care Administration, Centers for Medicare and Medicaid Services (MSIS for Medicaid spending, 2009 for TANF and SSI populations over age one)
***2008 figures as 2009 data not available*

Florida
Health Choices
PLUS+

Creating a Stronger Marketplace for Better Health, More Choice, and Expanded Coverage

April 2013

By the Florida House Majority Office

Executive Summary

7 Reasons Medicaid Expansion is Wrong for Florida Patients and Taxpayers

1. **Medicaid is already failing patients**
   Medicaid patients already suffer from worse health outcomes compared to privately insured patients as a result of poorer access to specialists, longer wait times, and limited access to early screenings and treatments.

2. **Medicaid expansion will hurt Florida seniors**
   ObamaCare cuts to Medicare, an increase in demand for health services if expansion occurs, and an already declining number of physicians accepting new Medicare patients puts Florida seniors at much greater risk if Medicaid is expanded.

3. **Ever-increasing Medicaid costs prevent critical investments in education and other priorities**
   Between 2000 and 2012, Medicaid spending in Florida spiked 160 percent, while the Consumer Price Index grew just 33 percent. Florida is already expected to spend $270 billion on Medicaid without expansion in the next decade, and as much as $341 billion if Medicaid expands.

4. **There are no reliable projections of taxpayer costs**
   Differences in assumptions of enrollment and per-person costs yield many widely varying projections of overall costs to taxpayers—ranging from $3.7 billion to $19.5 billion.

5. **Florida cannot trust the federal government to keep its funding promise**
   With years of trillion dollar federal deficits, a history of broken funding promises to the states, current and future cost-shifts to the states, and a $900 billion federal price tag over the next decade make it unlikely the federal government can keep its promise to fund Medicaid expansion costs in Florida or any state.

6. **Medicaid expansion is unlikely to reduce charity care and will shift costs to the privately insured**
   Other states that previously expanded Medicaid did not achieve a reduction in charity care; in most states charity care actually increased. Increased charity care, as well as Medicaid's low reimbursements to providers, resulted in cost-shifts that raised premiums for individuals with private insurance.

7. **Medicaid expansion is a flawed approach to reduce the uninsured and will increase government dependency**
   Expanding Medicaid will permanently increase government dependence among a huge population of individuals, despite the fact that living below the poverty level and living without health insurance are short-term circumstances for the majority of the uninsured.

6 Outcomes of a Truly Patient-Centered Health Care Marketplace

1. An open, fair, transparent and highly competitive market where both the patient and provider care about cost
2. An Amazon of health care that gives patients both an Expedia and a Priceline-style menu of care and coverage choices
3. A reduction in the leading cost driver in health care (chronic care) by empowering patients with tools to better care for themselves
4. An ending to the two-tiered health care system that treats low-income families different than everyone else
5. Protection for Florida patients and taxpayers from excessive federal interference and coercion by minimizing the federal government's role playing doctor and payer
6. A prioritized safety net and reduced poverty through combining government help with reasonable work requirements, always promoting independence

Florida Health Choices Plus: A New Approach to Health Care for Florida Families

Florida Health Choices Plus helps about 115,700 eligible adults living in poverty to:

- Fill the coverage gap created by ObamaCare for parents and certain adults with disabilities
- Get access to health care at the lowest cost possible
- Lift themselves out of poverty through a good paying job

Critical Facts

- Only 1 in 4 uninsured Floridians live in poverty
- 71% of the uninsured are reinsured within 12 months; almost half are reinsured within 4 months
- Half of privately insured low-income adults use just $500 in health care services; only 1 in 6 use more than $3,500 in services in a given year
- Just 5% of the uninsured use 68% of all care provided to the uninsured
- 12% of uninsured adults use more than $2,000 in health care in a given year

New and more affordable coverage options for low-income parents, those with disabilities, and all Florida residents

Individuals	Eligibility Criteria	State/Taxpayer CARE Account contribution (annualized)	Individual Contribution
Parents	22%-100% of poverty, Medicaid ineligible	$2,000 ($167/month)	$25/month
Individuals on SSI with Disabilities	74%-100% of poverty, Medicaid ineligible	$2,000 ($167/month)	$25/month
Individuals	Any Florida resident	N/A	Full cost plus small admin fee

Florida Health Choices Plus fills the coverage gap for low-income parents and certain adults with disabilities ineligible for Medicaid or exchange coverage

- Low-income parents and individuals with disabilities who earn too much to qualify for traditional Medicaid but too little to qualify for coverage through the federal exchange will be eligible for state help to purchase private coverage.

- Florida Health Choices Plus is not an entitlement but a market-based approach to designing a health care safety net that promotes better health, private coverage, personal responsibility, reduced poverty and independence.

Many health coverage options will be available through Florida Health Choices Plus and, for the first time, within reach of these uninsured adults in poverty

- Participants will have a robust choice of plans, including comprehensive coverage options that meet Affordable Care Act standards, lower cost Health Savings Account-eligible plans, basic plans with focused fixed dollar benefits, and short-term plans for less than 12 months of coverage.

New provider-led packages and bundled health services encourage affordable new products and services for participants

- Allowing individuals to personalize their health coverage lets Florida Health Choices Plus support new provider-led options that deliver high value health service packages.

Florida Health Choices Plus will provide choice counseling to low-income adults seeking the best coverage for their specific needs

- Florida Health Choices Plus' choice counseling ensures low-income adults are educated about their likely health care utilization and possible packages of care and coverage that would work best for them. Its online tools further assist parents with finding the best, most appropriate option given their individual circumstances.

Reasonable work requirements for recipients of taxpayer help (excluding those with disabilities)

Status	**Work Requirement**
Single parents with a child under age 6	20 hours weekly in core work activities
Other single parent families or two-parent families where one parent is disabled	30 hours weekly with at least 20 hours in core activities
Married teen or teen head of household	Maintain satisfactory attendance at secondary school or equivalent, or participate in education related to employment for at least 20 hours weekly
Two-parent families who do not receive subsidized child care	35 hours weekly (total among both parents) with at least 30 hours in core activities

Required financing of Florida Health Choices Plus

- Based on the actual number of uninsured parents and adults with disabilities in Florida, and assuming a similar take-up rate as those currently in Florida Medicaid, the Florida Health Choices Plus program is projected to have a total annualized cost of $237 million to serve about 115,700 adults (assuming 79.7% of those eligible enroll), with the cost in FY2014 being an estimated $12 million, assuming the program begins April 2014.

Consumer Notice
The Impact of Federal Health Care Reform on Health Plan Costs*

Federal health care reform may change health plan benefits and costs. **After January 1, 2014**, health insurers and HMOs:

- Must offer new benefits.
- Must cover everyone even if they have preexisting medical conditions.
- Must pay new taxes and fees which add to health plan costs.
- Must charge same health plan costs to men and women.
- Must limit how much your age can affect health plan costs.

Below is an **<u>example</u>** using one of our company's most popular plans and the cost of a new plan showing the impact of federal health care reform. <u>This is an example only and it does not show differences in co-payments and deductibles.</u> Your health plan costs may not change in the same way. Your health plan costs may be reduced if you qualify for federal tax credits or subsidies.

This example compares the health plan monthly cost for {Name, most popular plan} before federal health care reform to the health plan monthly cost for the new {Name, new health care plan} health plan offered after health care reform.

	Ages 21-29		Ages 30-54		Ages 55-64	
	Males	Females	Males	Females	Males	Females
{Name, most popular plan} Monthly Health Plan Cost ***<u>before</u>*** Federal Health Care Reform	$ ***	$ ***	$ ***	$ ***	$ ***	$ ***
{Name, new health care plan} Monthly Health Plan Cost ***<u>after</u>*** Federal Health Care Reform	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Portion of Monthly Health Plan Cost due to federal health care reform:						
Cost of **new benefits** we must offer	$ ***	$ ***	$ ***	$ ***	$ ***	$ ***
Cost to **cover everyone**, *even those with preexisting medical conditions*	$ ***	$ ***	$ ***	$ ***	$ ***	$ ***
New taxes and fees we must pay	$ ***	$ ***	$ ***	$ ***	$ ***	$ ***
Cost to charge the same for **men and women** and to limit how **age** can affect plan costs	$ ***	$ ***	$ ***	$ ***	$ ***	$ ***
Dollar Difference in Health Plan Costs	$ -	$ -	$ -	$ -	$ -	$ -
Percentage Difference in Health Plan Costs	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!

**The Patient Protection and Affordable Care Act, Pub. L. No. 111-148, as amended by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, and regulations adopted pursuant to these acts.*

CHAPTER 2013-101

Committee Substitute for Senate Bill No. 1842

An act relating to health insurance; creating s. 624.25, F.S.; providing that a provision of the Florida Insurance Code applies unless it conflicts with a provision of the Patient Protection and Affordable Care Act (PPACA); creating s. 624.26, F.S.; authorizing the Office of Insurance Regulation to review forms and perform market conduct examinations for compliance with PPACA and to report potential violations to the federal Department of Health and Human Services; authorizing the Division of Consumer Services of the Department of Financial Services to respond to complaints related to PPACA and to report violations to the office and the Department of Health and Human Services; providing that certain determinations by the office or the Department of Financial Services are not subject to certain challenges under ch. 120, F.S.; amending s. 624.34, F.S.; conforming provisions to changes made by this act with respect to the registration of navigators under the Florida Insurance Code; providing a directive to the Division of Law Revision and Information; creating s. 626.995, F.S.; providing the scope of part XII, ch. 626, F.S.; creating s. 626.9951, F.S.; providing definitions; creating s. 626.9952, F.S.; requiring the registration of navigators with the Department of Financial Services; providing the purpose for such registration; creating s. 626.9953, F.S.; providing qualifications for registration; providing for submission of a written application; specifying fees; requiring an applicant to submit fingerprints and pay a processing fee; creating s. 626.9954, F.S.; specifying criteria for disqualification from registration; authorizing the department to adopt rules establishing disqualifying time periods; creating s. 626.9955, F.S.; requiring the department to have a publicly available list of navigators and to report certain information to the exchange; creating s. 626.9956, F.S.; requiring a navigator to notify the department of a change of specified identifying information; creating s. 626.9957, F.S.; prohibiting specified conduct; providing grounds for denial, suspension, or revocation of registration; providing for administrative fines and other disciplinary actions; creating s. 626.9958, F.S.; authorizing the department to adopt rules; amending s. 627.402, F.S.; providing definitions for “grandfathered health plan,” “nongrandfathered health plan,” and “PPACA”; amending s. 627.410, F.S.; providing an exception to the prohibition against an insurer issuing a new policy form after discontinuing the availability of a similar policy form when the form does not comply with PPACA; requiring the experience of grandfathered health plans and nongrandfathered health plans to be separated; providing that nongrandfathered health plans are not subject to rate review or approval by the office; specifying that such rates for such health plans must be filed with the office and are exempt from other specified rate requirements; requiring insurers and health maintenance organizations issuing such health plans to include a notice of the estimated impact of PPACA on monthly premiums with the first issuance or renewal of the policy; requiring the Financial Services

CODING: Words ~~stricken~~ are deletions; words underlined are additions.

(a)~~(b)~~ The filing ~~required by this subsection~~ shall be satisfied by one of the following methods:

1. A rate filing prepared by an actuary which contains documentation demonstrating the reasonableness of benefits in relation to premiums charged in accordance with the applicable rating laws and rules adopted ~~promulgated~~ by the commission.

2. If no rate change is proposed, a filing that ~~which~~ consists of a certification by an actuary that benefits are reasonable in relation to premiums currently charged in accordance with applicable laws and rules promulgated by the commission.

(b)~~(c)~~ As used in this section, the term "actuary" means an individual who is a member of the Society of Actuaries or the American Academy of Actuaries. If an insurer does not employ or otherwise retain the services of an actuary, the insurer's certification shall be prepared by insurer personnel or consultants who have ~~with~~ a minimum of 5 years' experience in insurance ratemaking. The chief executive officer of the insurer shall review and sign the certification indicating his or her agreement with its conclusions.

(c)~~(d)~~ If at the time a filing is required ~~under this section~~ an insurer is in the process of completing a rate review, the insurer may apply to the office for an extension of up to an additional 30 days in which to make the filing. The request for extension must be received by the office by ~~no later than~~ the date the filing is due.

(d)~~(e)~~ If an insurer fails to meet the filing requirements of this subsection and does not submit the filing within 60 days after ~~following~~ the date the filing is due, the office may, in addition to any other penalty authorized by law, order the insurer to discontinue the issuance of policies for which the required filing was not made~~,~~ until such time as the office determines that the required filing is properly submitted.

(9) For plan years 2014 and 2015, nongrandfathered health plans for the individual or small group market are not subject to rate review or approval by the office. An insurer or health maintenance organization issuing or renewing such health plans shall file rates and any change in rates with the office as required by paragraph (6)(a), but the filing and rates are not subject to subsection (2), paragraphs (b), (c), or (d) of subsection (6), or subsection (7).

(a) For each individual and small group nongrandfathered health plan, an insurer or health maintenance organization shall include a notice describing or illustrating the estimated impact of PPACA on monthly premiums with the delivery of the policy or contract or, upon renewal, the premium renewal notice. The notice must be in a format established by rule of the commission. The format must specify how the information required under paragraph (b) is to be described or illustrated, and may allow for specified variations from such requirements in order to provide a more accurate and meaningful disclosure of the estimated impact of PPACA on monthly premiums, as determined by the commission. All notices shall be submitted to the office for informational purposes by September 1, 2013. The notice is required only for the first issuance or renewal of the policy or contract on or after January 1, 2014.

(b) The information provided in the notice shall be based on the statewide average premium for the policy or contract for the bronze, silver, gold, or platinum level plan, whichever is applicable to the policy or contract, and provide an estimate of the following effects of PPACA requirements:

1. The dollar amount of the premium which is attributable to the impact of guaranteed issuance of coverage. This estimate must include, but is not required to itemize, the impact of the requirement that rates be based on factors unrelated to health status, how the individual coverage mandate and subsidies provided in the health insurance exchange established in this state pursuant to PPACA affect the impact of guaranteed issuance of coverage, and estimated reinsurance credits.

2. The dollar amount of the premium which is attributable to fees, taxes, and assessments.

3. For individual policies or contracts, the dollar amount of the premium increase or decrease from the premium that would have otherwise been due which is attributable to the combined impact of the requirement that rates for age be limited to a 3-to-1 ratio and the prohibition against using gender as a rating factor. This estimate must be displayed for the average rates for male and female insureds, respectively, for the following three age categories: age 21 years to 29 years, age 30 years to 54 years, and age 55 years to 64 years.

4. The dollar amount which is attributable to the requirement that essential health benefits be provided and to meet the required actuarial value for the product, as compared to the statewide average premium for the policy or contract for the plan issued by that insurer or organization that has the highest enrollment in the individual or small group market on July 1, 2013, whichever is applicable. The statewide average premiums for the plan that has the highest enrollment must include all policyholders, including those that have health conditions that increase the standard premium.

(c) The office, in consultation with the department, shall develop a summary of the estimated impact of PPACA on monthly premiums as contained in the notices submitted by insurers and health maintenance organizations, which must be available on the respective websites of the office and department by October 1, 2013.

(d) This subsection is repealed on March 1, 2015.

Section 16. Subsection (4) is added to section 627.411, Florida Statutes, to read:

627.411 Grounds for disapproval.—

(4) The provisions of this section which apply to rates, rating practices, or the relationship of benefits to the premium charged do not apply to nongrandfathered health plans described in s. 627.410(9). This subsection is repealed on March 1, 2015.

Section 17. Paragraph (a) of subsection (3) of section 627.6425, Florida Statutes, is amended to read:

627.6425 Renewability of individual coverage.—

(3)(a) If ~~In any case in which~~ an insurer decides to discontinue offering a particular policy form for health insurance coverage offered in the individual market, coverage under such form may be discontinued by the insurer only if:

1. The insurer provides notice to each covered individual provided coverage under this policy form in the individual market of such discontinuation at least 90 days before ~~prior to~~ the date of the nonrenewal of such coverage;

2. The insurer offers to each individual in the individual market provided coverage under this policy form the option to purchase any other individual health insurance coverage currently being offered by the insurer for individuals in such market in the state; and

3. In exercising the option to discontinue coverage of a ~~this~~ policy form and in offering the option of coverage under subparagraph 2., the insurer acts uniformly without regard to any health-status-related factor of enrolled individuals or individuals who may become eligible for such coverage. If a policy form covers both grandfathered and nongrandfathered health plans, an insurer may nonrenew coverage only for the nongrandfathered health plans, in which case the requirements of subparagraphs 1. and 2. apply only to the nongrandfathered health plans. As used in this subparagraph, the terms “grandfathered health plan” and “nongrandfathered health plan” have the same meaning as provided in s. 627.402.

Section 18. Section 627.6484, Florida Statutes, is amended to read:

627.6484 Dissolution of association; termination of enrollment; availability of other coverage.—

(1) The association shall accept applications for insurance only until June 30, 1991, after which date no further applications may be accepted.

(2) Coverage for each policyholder of the association terminates at midnight, June 30, 2014, or on the date that health insurance coverage is effective with another insurer, whichever occurs first, and such terminated coverage may not be renewed.

(3) The association must provide assistance to each policyholder concerning how to obtain health insurance coverage. Such assistance must include the identification of insurers and health maintenance organizations

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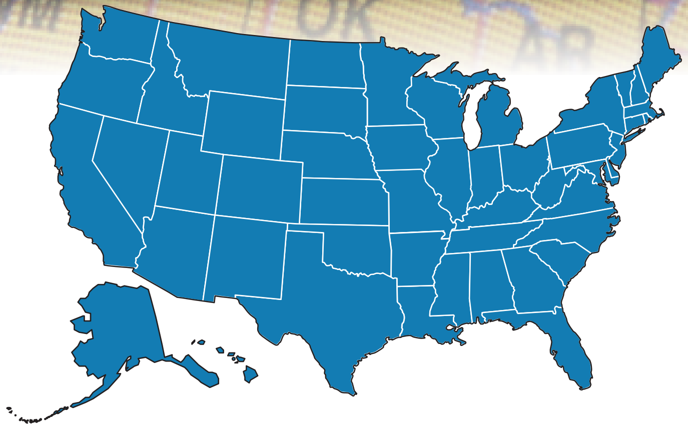

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