



# ELECTION 2018

## PLATFORMS, PROPOSALS, PROJECTIONS

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# Executive Summary

Florida faces a once-in-a-generation election in 2018. The confluence of term limits, macro-economic outlook, and the political environment have combined to place Florida as ground zero in the economic policy debate being waged nationwide.

The two candidates running for Governor of Florida could not have more diametrically opposed agendas. In such a hyper-politicized atmosphere, it is imperative that Floridians become educated on the data and facts that will inform the choice they make on November 6.

Florida currently possesses the 17th largest economy on the planet – one trillion dollars of goods and services will be produced, distributed, and consumed in 2018. Our population has boomed over the past 20 years to more than 20 million residents – an increase of more than 1,000 every single day. Florida's employment growth over the last two decades has been one of the strongest in the U.S., despite the 2007-2008 recession.

Florida's economic policy agenda of low and stable taxes, combined with a pro-growth private sector-oriented strategy, has led to a top business climate ranking among the 50 U.S. States. This has attracted, retained and expanded business activities, resulting in strong employment expansion among most industry sector categories.

The policy agendas of both principal candidates for governor are radically different, impacting economic activity and employment expansion. Every single sector of our economy will either reap the benefits or suffer the consequences of the decisions our elected leaders make.

Candidate Andrew Gillum's policy agenda – to increase the corporate tax rate significantly, almost double the minimum wage, sharply expand government-controlled health insurance, and mandate a \$50,000 starting salary for teachers – would adversely impact the business climate of the State through higher taxes, a sharply higher minimum wage and State mandates to expand government-controlled health insurance.

All told, the policy agenda Candidate Gillum proposes would require an increase in the corporate tax rate to the 2nd highest in the United States, an increase in Florida's sales tax to 39 percent, or the imposition of a state income tax as high as 37 percent.

Consequently, the economic impacts of abandoning the current low tax/top business climate rankings of Florida, based on the experience of the higher tax states presented in this brief, would ultimately cost Florida direct employment losses of 155,000 jobs and \$28.2 billion in economic losses per year.

Candidate Ron DeSantis agenda – to largely maintain the pro-growth-oriented strategy of Florida through low and stable taxes, would preserve and strengthen the state's business climate, which supports the attraction, retention and expansion of employment-generating business enterprises. This agenda also includes investing in the "classroom" the savings from lower educational administration costs, and in technical/vocational programs to improve workforce development. Ultimately, this agenda would lead to the creation of 215,000 jobs annually and \$26.6 billion in annual economic output.

Elections have consequences, and policy agendas have costs and benefits to them. Ultimately, it is up to Floridians to weigh the costs of each candidate's agenda and determine what policies will bring about Florida's more prosperous future.

On November 6, 2018 we will have our say.

# Introduction

On March 3, 1845 Florida joined the United States of America as the 27th state. Over the course of 173 years of statehood, we have seen highs and lows. We weathered the Great Depression, sent valiant young men and women into the theaters of combat in two world wars, embraced both the industrial and technological revolutions, and watched as our economy both sank from the recession of 2008 and bounced back with enormous vigor. Over that 173-year history, 43 individuals have been privileged to be called Governor. Their terms have been as short as three days, and as long as eight years.

On November 7, we will elect our 44th.

The Florida story, a story of cattle ranchers, citrus farmers, immigrants, entrepreneurs, home builders, teachers, and public servants, continues to be told. Where it goes is, to an extent, is a decision Floridians will make on November 6. Two men running for our state's highest political office could not be more distinct and different in their vision for our great state.

It is within the context of this pivotal election that The James Madison Institute has partnered with two of the nation's leading and most widely respected econometric firms – The Washington Economics Group and Arduin, Laffer, and Moore – to produce an objective and non-partisan analysis of the economic platforms of each of the two major candidates to be Florida's 44th Governor.

Our analysis dives into the main elements of each candidate's economic agenda, thoroughly analyzes the fiscal implications of major proposals, and then projects the overall impacts on the economic climate of Florida from each. We present this information to offer Floridians an opportunity to digest the implications of the choice they face on November 6.

For more than 30 years, The James Madison Institute has pursued a mission of providing elected leaders and everyday Floridians with objective, timely, and compelling information on policy issues affecting the economy of the Sunshine State. It is our privilege to continue that mission this election season.

# Section 1. Platform Fiscal Analysis

Every candidate for an executive political office – whether it be Mayor, Governor, or President – will over the course of their campaign outline a specific list of proposals that would be their “policy agenda” should they win. Each proposal – a tax plan, or a healthcare concept, or an environmental platform – brings with it direct and indirect costs to the taxpayers of Florida and our economy. In the sections that follow an analysis of Candidates Andrew Gillum and Ron DeSantis is provided.

## ■ Florida's Current Economic Profile Rich States, Poor States, 2018<sup>1</sup>

Overall Economic Outlook	6th Best	
Top Marginal Personal Income Tax Rate	1st	0%
Top Marginal Corporate Income Tax Rate	14th	5.50%
Property Tax Burden (per \$1,000 of personal income)	22nd	\$28.05
Sales Tax Burden (per \$1,000 of personal income)	35th	\$26.83

## Candidate Andrew Gillum Policy Proposals

### Tax Revenue

*By adjusting our state corporate tax level to a modest 7.75 percent, which allows our richest corporations to receive a tax cut and keeps our corporate tax rate more than 1 percent lower than California, we'll be able to recoup at least \$1 billion and put it where we need it most — investing in our future.<sup>2</sup>*

Candidate Gillum proposes raising Florida's corporate income tax rate by 40 percent, from 5.5 percent to 7.75 percent, which he claims will raise \$1 billion based on a “static” calculation, meaning that the estimate assumes no business (including any corporation either currently located in Florida or considering relocating to or adding a presence in Florida) will change its behavior despite a significant tax increase. However, businesses can, and do, change their behavior based on tax changes, and now more than ever businesses are able to readily take their enterprises elsewhere. Consequently, the proposed corporate income tax rate hike cannot be expected to raise \$1 billion in tax revenue.

Candidate Gillum's spending proposals will cost \$2.6 billion in additional state taxes, not including his support for Medicare-For-All, which will raise taxes significantly more. If Candidate Gillum proposes paying for his spending proposals via Florida's corporate income tax, then on a static basis, his corporate tax rate would have to rise to 11 percent, just above Pennsylvania's tax rate, and even surpassing California's rate.

In late 2017, Congress passed the U.S. Tax and Jobs Act. The Act, among other provisions, cut the federal corporate income tax rate from 30 percent to 21 percent, which finally brought the U.S. back in line with other developed economies after years of having the highest corporate income tax rate in the Organisation for Economic Co-Operation and Development (OECD). Not surprisingly, the worldwide fiscal policy response to the U.S. cutting its corporate tax rate has been noticeable—six other OECD countries have already lowered their corporate income tax rate for 2018 in response to the U.S.'s tax rate cut, with many more considering policy changes with an eye towards improving their competitive stance in the global economy.

In addition to the federal U.S. corporate income tax, states can impose their own corporate income taxes, but at a cost of making the state less competitive both domestically and internationally. Domestically, raising

Florida's corporate tax rate to 11 percent would move Florida's tax rate from 14th best to 49th, making it the second most uncompetitive rate in the country (Table 1).<sup>3</sup> Compared to surrounding states, Florida would become the highest corporate tax rate state in the Southeast, surpassing Alabama and Tennessee at 6.5 percent. Internationally, the state's current 5.5 percent corporate income tax rate places Florida's rate between Spain and Canada's rates. If Florida's rate is raised to 11 percent, its international ranking will slip considerably, placing the state just before Belgium and France in international competitiveness.

**Table 1**

**Florida Corporate Income Tax Rate Ranking: Domestic vs. International  
(FY 2018-19, assumptions for Florida rate based off staff calculations)**

Domestic			International (OECD)		
47	Illinois	9.5%	32	Australia/Japan/Mexico	30%
48	Minnesota	9.8%	33	Germany	30.2%
48	Pennsylvania	9.99%	<b>34</b>	<b>Florida</b>	<b>32%</b>
<b>49</b>	<b>Florida</b>	<b>11%</b>	35	Belgium	34%
50	Iowa	12%	36	France	34.4%

A corporate tax increase of this magnitude would deteriorate Florida's business climate by incentivizing businesses to locate, invest, and create jobs elsewhere. Businesses will find benefits and value in lower tax rate states than they would paying the combined rate of 32 percent under Candidate Gillum's plan. The Tax Foundation estimates that a one percentage point increase in the U.S. corporate income tax rate would reduce GDP by 0.22 percent.<sup>4</sup> Accordingly, a rate increase to 11 percent would reduce Florida's GDP by 1.2 percent, or \$12 billion.

A hike in Florida's corporate tax rate would not only hurt Floridians through diminished economic output, but increasing evidence shows that more than half of the business tax burden falls on workers, not on businesses.<sup>5</sup>

During Governor Scott's term, tax cuts have saved Floridians more than \$10 billion. Reversing this trend will jeopardize the economic and job gains the state has enjoyed. The overall lower economic output would then create further strains on other tax revenue sources (sales and property taxes), creating an even larger drain on Florida's revenues. Taken together, it is clear that raising the corporate income tax rate to 7.75 or 11 percent would not generate the \$1 billion Candidate Gillum proposes, or the \$2.6 billion he needs to pay for his spending proposals.

Candidate Gillum also proposes the legalization and taxation of marijuana to offset the cost of his proposals for education. Florida recently legalized the use of medical marijuana in 2016—using Colorado as its case study, the state estimated that Florida could gain \$67 million a year in new tax revenue.<sup>6</sup>

# BUDGET SPENDING

## Healthcare

Andrew believes that Senator Sanders' Medicare for All plan will help lower costs and expand coverage to more Floridians...As Governor, Andrew will work to expand Medicaid and strengthen the Affordable Care Act.<sup>7</sup>

Candidate Gillum supports Senator Bernie Sanders's Medicare for All plan (M4A). Using cost estimates from Charles Blahous of the Mercatus Institute, M4A would cost Floridians an average of \$176 billion in additional federal taxes each year – \$8,405 more in taxes each year for every Floridian, or \$33,620 for a family of four. Alternatively, if Florida were to implement a state-level version of M4A, without waiting for Congress to pass Senator Sanders's bill, the cost to Florida would be \$163 billion (netting out the current state Medicaid cost).

As a zero-income tax state, Florida's \$32 billion state government is primarily funded by a six percent sales tax rate (\$.06 on every dollar spent)<sup>8</sup>. In order to raise an additional \$163 billion to fund Florida M4A, Florida would have to increase its sales tax rate to 39 percent, or \$.39 for every dollar spent. By way of example, a \$50 purchase would go from \$53.00 to \$69.50 at the cash register.

Given that the Congressional Budget Office (CBO) has no scoring of Senator Sanders' M4A proposal, tax impact estimates presented herein are based off the assumptions and provisions outlined in the M4A text. Therefore, it is important to understand that these cost estimates are likely the best-case scenario for Florida should either proposal pan out. This is because both plans not only rely on unrealistic or extreme market assumptions, but they also fail to consider the dynamic responses that will result regardless of if either plan were to be implemented.

Earlier this year, the Mercatus Center took a closer look at the M4A plan's assumptions in a paper by Charles Blahous, estimating that M4A (as written) would increase federal spending by \$32.6 trillion over its first 10 years of implementation.<sup>9</sup> Using 2022 as an example, Robert Graboyes broke down the math behind this figure, which is shown in Table 2:<sup>10</sup>

**Table 2**  
**Expected Financial Impact of M4A, 2022**  
(projected annual cost)

+/-	Component	Total cost
	National Health Expenditures (NHE)	\$4.562 trillion
–	NHE savings + Added induced demand from increased coverage – Medicare payment rates – Drug cost savings	\$0.100 trillion
–	Medicare expenditures	\$0.828 trillion
–	Federal Medicaid expenditures	\$0.465 trillion
–	"Other" healthcare spending	\$0.416 trillion
<b>Net increase in federal expenditures</b>		<b>\$2.753 trillion</b>

The topic of greatest discussion has been the NHE savings and the assumptions underlying its calculation, which have been estimated using the M4A text.

Medicare, which primarily covers hospital stays and physician visits in Parts A and B of the program, is currently reimburses providers around 40 percent less than private healthcare.<sup>11,12</sup> Under M4A, this reimbursement rate would be applied to all providers, with the burden on providers to absorb any cost differentials that occur.

It should be noted that Medicare's low reimbursement rate is despite the fact that the current cost structure includes several cost-sharing mechanisms, such as coinsurance and—what has become an increasingly popular option—enrollment in a supplemental plan through Medicare Advantage, which allows participation in a private health insurance network and access to Part D (i.e., outpatient prescription drugs).<sup>13</sup>

Yet, under the M4A proposal, there would be “no cost-sharing, including deductibles, coinsurance, copayments, or similar charges,” making it difficult to fathom how the government would be able to reimburse providers at the current 40 percent below market rate. When considering doctors that primarily service Medicaid patients, it has been estimated that M4A would reimburse providers at only 11 percent below private healthcare. While an improvement, 11 percent below market would likely still present a formidable barrier to continuing business for many providers, creating the potential for a greater consolidation and a narrowing in healthcare market options.

Second, the lack of details provided in how to decrease drug or administrative costs should already raise suspicion on feasibility.

Finally, if Sanders's provisions were realized, and the U.S. was able to decrease NHE by \$2 trillion, the reality is that a \$2 trillion decrease in NHE represents less than one percent of total expected NHE for the estimated 10-year period from Blahous's study. To meet the net cost estimate of \$32.6 trillion, Congress would either have to increase the personal and corporate income tax rates by 117 percent or increase payroll taxes 197 percent.<sup>14</sup> Using Florida's share of total federal income taxes paid, this translates into an average of \$176 billion of additional federal income taxes a year. While the specific amount per every family will ultimately depend on the specific tax or taxes raised, a high-level estimate of the cost shows that the average Floridian will pay \$8,405 more in taxes each year, or \$33,620 for a family of four.

The alternative to a national M4A plan would be to implement a statewide option. This statewide option would cost Floridians almost as much as implementing the plan on a nationwide scale, and would force Florida to raise its own funds through an increase in its sales tax from the current six percent to 39 percent to meet the increase in spending. Assuming this sales tax rate increase is unrealistic, the only other major option to implement a Florida single-payer-style system would be to implement an income tax in Florida. However, Florida's state Constitution prohibits taxation of personal income and would have to be amended by a two-thirds vote of the people in order to institute an income tax.<sup>15</sup> And even if voters gave state government the authority to tax personal income, Florida's income tax rate would have to be 37 percent on federally-taxable personal income, making it the highest income tax rate of any state, exceeding personal income tax rates in California, New York, and New Jersey.

A 37 percent income tax would represent a significant wage cut for Floridians. For example, the median teacher salary in Florida is \$45,521. Even after Candidate Gillum's proposed raise to \$50,000, the median teacher's take home salary would be \$31,500, or a 30 percent pay cut from today's median salary. Looking at the state as a whole, Florida's average wage of \$40,750 would drop to \$25,673 as a result of the onset of a 37 percent income tax.

This all assumes that Sanders' cost estimates are correct, and that a new 37 percent personal income tax in Florida won't change anyone's behavior. Neither of these assumptions will pan out. M4A will likely cost significantly more than estimated, and a 37 percent income tax will make Florida's economy look like California's. Consider that over the last 10 years, 928,627 people left California for other states, and 845,239 people moved from other states to Florida.<sup>16</sup>

Candidate Gillum alternatively proposes to expand Medicaid under the Patient Protection and Affordable Care Act (i.e., ACA or Obamacare), which would have added \$4.83 billion in state spending last year, according to Florida's Office of Economic and Demographic Research (EDR), including \$266 million increase in state tax costs.<sup>17</sup> The federal match rate will drop each year until it reaches 90 percent in 2020, increasing state costs to \$564 million in FY 2022-23.<sup>18</sup>

Federal matches are no guarantee in the future and a Medicaid expansion will create an increased dependence on federal spending, which is a risky proposition given that the federal deficit is increasing by about \$1 trillion annually, and the federal debt is over \$21 trillion and climbing.

States that expanded Medicaid under ACA are experiencing spending per newly eligible Medicaid enrollee that is much greater than the CBO expected. Government spending on newly eligible enrollees equaled about \$6,366 in 2015—an amount 49 percent higher than Center for Medicare and Medicaid's (CMS's) projection of \$4,281 from just one year earlier. In April 2014, CBO projected the Medicaid expansion enrollee average cost would be approximately \$4,200 in 2015, a number very close to the erroneous CMS projection.<sup>19</sup>

Both higher-than-expected enrollment and spending per enrollee has resulted in the Medicaid expansion being much costlier than projected. For example, the CBO also projected in its April 2014 report that the Medicaid expansion would cost \$42 billion in 2015. The actual cost was approximately \$68 billion, about 62 percent higher.<sup>20</sup>

The CBO also projects that Silver enrollees will see 15 percent premium increases next year and seven percent annual increase for ten years thereafter, providing further data that Obamacare is expensive, and the federal government will spend \$685 billion on people under age 65 (non-Medicare population) in 2014.<sup>21</sup> Increased spending under Obamacare is paid by cutting payments to hospitals, fees on drug companies, and, before this year, taxation on high income individuals. Because of the continued rising costs, several large insurers have consequently been driven from ACA exchanges.

Candidate Gillum proposes passing a Florida law reinforcing many of the provisions from the ACA, including protecting people with pre-existing conditions from being denied coverage, being charged more for their care due to a pre-existing condition, or women being charged more than men. However, doing so would result in creating redundant and perhaps confusing regulations, as the ACA continues to require insurers to provide community-rated, guaranteed-issue coverage, meaning that people with pre-existing conditions cannot be denied coverage or being charged more due to their condition or gender. Congress has failed to repeal the ACA. While there have been several legal challenges to the ACA mandate (e.g., Texas v. United States) that could change such requirements if determined by the Supreme Court, none thus far have prevailed.

## ***Education***

*He has proposed a \$1 billion investment in our public schools, students, and teachers to boost early childhood education, raise teachers' starting salaries to \$50,000, restore public school construction funds, and increase SHOP 2.0 vocational training.<sup>22</sup>*

Candidate Gillum proposes to spend more state tax dollars on public education, without acknowledging the historic increases in K12 spending over the last six years. Since Governor Scott has been in office, state funding for K-12 public schools has increased by \$3.2 billion, or 37 percent.<sup>23</sup> For the upcoming 2018-19 state budget, public schools will receive an overall \$673 million, or 3.5 percent, increase compared to last year's budget.<sup>24</sup>

Among the initiatives listed, Candidate Gillum proposes spending more on school construction, but does not specify how or by how much. Currently, the state spends over \$300 million a year on school construction, in addition to amounts spent by school districts. The state is only able to increase spending on school construction for one year, and one year only, by selling bonds against future revenues, the result of which will drain future funds for school construction while adding state debt. During Governor Scott's term, the state has paid down \$9 billion in state debt and has earned triple-A bond ratings.<sup>25</sup>

Candidate Gillum also proposes to spend more money on early childhood education. Florida currently spends over \$550 million state tax dollars, and over \$1 billion when including trust funds, annually on early learning programs. Florida has two early learning programs: Voluntary Pre-K (VPK), which all children are eligible for and is fully funded annually, and the School Readiness program that, if expanded, would cost \$45 million state tax dollars annually.<sup>26</sup> Just this year, Florida passed a law that creates further accountability for these programs to ensure that funding is being used responsibly and effectively by providing quantitative methods to evaluate their impact.<sup>27</sup>

Additionally, Candidate Gillum proposes to raise teachers' starting salaries to \$50,000. As of the 2017-18 academic year, data provided by the Florida's Department of Education show that the state employs 175,225 public school teachers with a median annual salary of \$45,521.<sup>28</sup> By using the median, we can examine what salary is earned by the equivalent of 50 percent of Florida teachers. Therefore, if 50 percent of teachers earn \$45,521, the equivalent percentage of teachers that earn up to or below \$50,000 would be 55 percent. In order to bring this 55 percent of teachers' salaries to Gillum's minimum starting salary of \$50,000, the state would require roughly \$1.1 billion in additional tax revenues for salaries and benefits, assuming experienced teachers currently earning \$50,000 or more receive no salary increase.<sup>29</sup> However, raising starting salaries, but not those currently \$50,000 and over, would likely result in salary compression, or when there is little difference in wages regardless of job experience or education level. This new pay structure would not only overly-benefit new over experienced teachers but would also benefit elementary and secondary over high school teachers and, given that the average years of experience is 11 years for Florida teachers, many teachers may decide to leave the education work force rather than remain.

If Florida were to include measures to counter salary compression, the estimated additional cost impact would be \$0.9 billion, or \$2 billion.

Finally, Candidate Gillum proposes "a revitalization of vocational training" by integrating computer education more thoroughly into public schools. Not only is vocational education already a part of Florida's K-20 educational system, but the most recent Florida budget seeks to further expand STEM skill training by recommending \$15 million to expand coding and computer science learning opportunities through teacher training and capital investments in high-need school districts.<sup>30</sup>

Ultimately, Candidate Gillum's education platform would most likely reverse two decades of expanded opportunity for students, which has resulted in significant learning gains and an even brighter outlook for Florida's economic future.

## **Criminal Justice System**

*Andrew wants to reform our bail system so that we stop disenfranchising people of lower economic means, and work with the legislature to find common ground on minimum sentencing reforms.<sup>31</sup>*

Candidate Gillum proposes to reduce prison sentences for non-violent offenders. Other states have experienced budget savings and reduced recidivism rates from criminal justice reforms. Louisiana reduced incarceration costs and reinvested the \$8.5 million savings into community-based reentry programs.<sup>32</sup> Georgia and Michigan have seen reductions in recidivism of 35 percent and 43 percent, respectively.<sup>33</sup> Michigan was able to close eight unneeded prisons to save \$120 million and uses one-third of the savings in community-based supervision. Florida is poised to become a leader in criminal justice data collection and dissemination with the passage of SB1392 this year. Florida spends \$880 million on custody each year, so similar recidivism reductions could save millions of tax dollars if further reforms are implemented.

# Candidate Ron DeSantis Policy Proposals

## Tax Revenue

Maintain Florida's status as a low tax state by opposing tax increases and supporting a constitutional amendment requiring a supermajority vote in the Legislature to raise taxes. Reduce bureaucracy, eliminate unreasonable regulations and crack down on lawsuit abuse.

During Governor Scott's term, tax cuts have saved Floridians more than \$10 billion, putting the money back in the private sector to be invested in job creation. Florida consistently ranks among the best states for business, thanks to its state tax policies, competitive cost of doing business and streamlined regulatory climate.<sup>34</sup> Candidate DeSantis' tax and regulatory policies will maintain Florida's competitiveness in bringing jobs, investment, and opportunity to our state. We live in an area of economic mobility, and Florida has benefited from its economic policies, as indicated by the fact that more than 845,000 people moved to Florida from other states over the past decade.<sup>35</sup> According to the analysis in How Money Walks, during the time period of 1996-2016, more than \$125 billion in annual income has migrated from other states to Florida.

*Ron DeSantis is committed to putting more money back into the pockets of Floridians because he knows they can spend their money better than government. During the last eight years, Florida has consistently cut taxes and fees. In doing so, the state has seen tremendous economic growth and created more than 1.6 million new jobs. Florida's economy continues to grow. Unlike New York, Connecticut, and Illinois, which are high tax-and-spend states, Florida's economy has grown by cutting taxes to increase jobs and encourage business growth. Florida is the envy of the nation as a place to work, live, retire and visit.*

As Governor, Ron DeSantis will ensure we never become a high tax state hurtling towards bankruptcy like states that continue to spend on the backs of their citizens. As Governor, Ron DeSantis will:

## PHASE OUT THE BUSINESS RENT TAX

Florida is the only state in the country that taxes businesses on their rent payments. Florida businesses are taxed at a 5.8 percent rate on commercial leases, reduced from 6 percent in 2017. Business Rent Tax (BRT) collections are nearly \$2 billion. The 2017 reduction saved businesses \$70 million.<sup>36</sup> If the phase out is a continuation of 0.2 percentage points each year, the rate after eight years would be 4.2 percent and businesses would save \$560 million annually by the eighth year.

Reduce the Communication Services Tax on TV, Cellphones, and Streaming Video Services Florida's Communications Services Tax (CST) is one of the highest in the nation, is difficult to administer, and cannot keep up with emerging technologies. A 2012 Florida CST task force concluded that the best way to modernize, streamline, and remove the inequities among technologies would be a statewide holistic replacement of the tax. CST collections are 1.1 billion.

## REDUCE THE CORPORATE INCOME TAX

Domestically, reducing Florida's corporate tax rate to 5 percent would move Florida's tax rate from 14th best to 13th, along with South Carolina, Mississippi, and Utah. Reducing Florida's rate to 4 percent would put us only behind North Carolina at 3 percent, and Washington, Nevada, Wyoming, South Dakota, Texas,

and Ohio who have no corporate income tax. Florida Corporate Income Tax collections are 2.45 billion. A rate reduction to 5 percent would save businesses \$223 million annually. A rate reduction to 4 percent would save business \$668 million a year.

The Tax Foundation estimates that a one percentage point increase in the U.S. corporate income tax rate would reduce GDP by 0.22 percent.<sup>37</sup> Accordingly, a rate reduction to 4 percent would increase Florida's GDP by 0.3 percent, or \$300 million. \$3 billion.

## BUDGET SPENDING

### *Environment*

*The cornerstone of a comprehensive solution to Lake Okeechobee is restoring the Everglades, with the centerpiece being the completion of a southern reservoir to store water. The federal government has fallen nearly \$1 billion short in their commitment to Everglades restoration. Ron DeSantis is committed to completing the suite of Everglades Restoration projects in the Central Everglades Planning Process (CEPP) and Comprehensive Everglades Restoration Plan (CERP).*

Candidate DeSantis proposes to accelerate restoration of The Everglades, a project begun in 2000, in partnership with the federal government; the Comprehensive Everglades Restoration Plan (CERP). While state government has held up its end of the 50/50 funding plan, the federal government has fallen behind by one billion dollars. Candidate DeSantis is committed to completing the suite of Everglades Restoration projects in the Central Everglades Planning Process (CEPP) and Comprehensive Everglades Restoration Plan (CERP). If he is successful in convincing Congress and the President to honor its commitment, state spending will remain unchanged. Alternatively, the billion-dollar cost could be bonded with documentary stamp proceeds. Bonding will deteriorate future funds, but may be beneficial to mitigate environmental damage, especially if the federal funds are delayed.

### *Education*

*As a product of Florida's public school system and a parent of two future Florida students, Ron DeSantis knows the importance of ensuring all Florida students have the opportunity to attend a great school and get a world-class education. Ron DeSantis believes that every student, regardless of their zip code or family circumstances, should have the opportunity to get a great education.*

Candidate DeSantis proposes continuing the education reforms begun 20 years ago and continually improved by Florida's republican governors. Florida's comprehensive education reform agenda has resulted in a measurable, objective rise in student learning, by expanding opportunity, innovation, and quality. Candidate DeSantis' school choice proposals will continue to expand opportunity for all students, and his proposal to emphasize career and technical education and apprentice programs will expand innovation and quality.

Florida students outperformed the nation in grades 4 and 8 Reading and grade 4 Mathematics in 2017. All of Florida's student subgroups – *White, Black, Hispanic, Asian/Pacific Islander, students eligible for free/reduced lunch, students with disabilities and English language learners* – significantly outperformed their national peers in grade 4 Mathematics. All of Florida's student subgroups outperformed their national peers in grade 4 Reading, and many of them significantly outperformed their national peers.<sup>38</sup>

Florida's economic future has been strengthened by these leaning gains.

## Section 2. Economic Climate Analysis

Florida's next Governor will inherit a State economy with strong economic momentum. This positive trajectory is due to a top business climate among the 50 U.S. states, and especially when compared to higher tax states with similarly large populations such as New York and Illinois (among others). Following are samples of the strong business climate fundamentals of Florida:

- #1 Tax climate for business among southeastern U.S. States
- #2 State climate for private-sector growth among the 50 U.S. States
- AAA State credit rating
- Over \$1 Trillion Gross Domestic Product (GDP), with a growing population of over 20 million
- Public-private partnerships that support private-sector growth.
- Pro-growth policymaking
- #1 ranking among the top five-large population states in economic outlook, based on key state policies that influence GDP growth, net domestic migration and payroll employment growth.

Sources: Tax Foundation, Chief Executive Magazine, CompTIA, Moody's Investor Services and ALEC-Laffer State Economic Outlook Rankings, 2018.

The fundamentals of Florida as detailed in the above rankings have created a strong expansion of payroll employment and one of the lowest unemployment rates in the Nation. Table 3 compares the performance of two large states with higher taxes than Florida, New York and Illinois. These two states were chosen based on similar size of population relative to our State, and where Florida also competes to attract, retain and expand business investments for job creation.

**Table 3**  
**Peer Comparison – Economic Indicators**  
**Florida, New York, Illinois**

Economic Indicators/States	2009	2017	D % '09-'17
<i>Payroll Employment</i>			
Florida	7,224	8,567	<b>18.5%</b>
New York	8,540	9,517	<b>11.4%</b>
Illinois	5,656	6,062	<b>7.2%</b>
<i>Unemployment Rate*</i>			
Florida		11.1	3.7
New York		8.8	4.4
Illinois		11.0	4.6

\*December of each year.

Sources: Bureau of Labor Statistics (BLS).

The two principal candidates, Mayor Andrew Gillum (D) and Congressman Ron DeSantis (R) offer radically different policy initiatives. These sharp differences are likely to impact the business climate of Florida and therefore the State's economic performance beginning in 2019. The matrix below presents the expected main policy initiatives of both candidates.

## Expected Policy Initiatives by the Two Principal Florida 2018 Gubernatorial Candidates

<b>Candidate Andrew Gillum (D)</b>	<b>Candidate Ron DeSantis (R)</b>
Increase corporate tax rate from 5.5 percent to 7.5 percent. This would be the highest rate among all southeastern U.S. states and among the highest in the Nation.	Expand economic base by an economic agenda that generates higher public revenues through increased economic activity to fund priorities like transportation and education. No tax increases.
Spend estimated revenue raised from higher corporate tax on mandatory minimum teacher salary of \$50,000/year, on childhood education and on vocational training.	Shift education spending from administrative costs to the classroom, with increased spending on students and teachers. Emphasize career, technical education and apprenticeship programs.
Raise State minimum wage from \$8.25/hour to \$15/hour.	Market-driven wages. No mandatory increase in current State minimum wage.
Either sharply expand Medicaid health coverage or "Medicare for all."	No Medicaid expansion or "Medicare for all." Also, broad environment platform, including continuing Everglades restoration through increased Federal funding.

Sources: Candidates Websites, articles, interviews with both candidates by media outlets.

### CANDIDATE ANDREW GILLUM (D) POLICY PROPOSALS

The policy proposals outlined by Candidate Andrew Gillum, as presented in the matrix, represent a fundamental shift toward a higher level of taxation for Florida, which would ultimately have an adverse impact on the business climate of the state. This is likely to result in much slower employment expansion, as the candidate's proposed corporate tax rate provides a disincentive for jobs generating investments. The corporate tax rate proposed would be one of the highest in the nation, and significantly above states with which Florida competes for business recruitment, such as the southeastern U.S. states and large states such as New York.

Policy proposals to raise the minimum wage sharply by State mandate will also increase the cost to conduct business in the State, leading to much slower employment growth when compared to the prior two decades, especially in labor-intensive industries. Florida business climate rankings to attract, retain and expand job-generating investments will likely deteriorate significantly, impacting the economic performance, the growth of employment expansion and household income of State's residents.

For example, in the ALEC-Laffer State Economic Outlook Rankings, 2018<sup>39</sup>, Illinois ranks #48 among the 50 states, New York ranks #50, and Connecticut, an example of a small state that implemented a state income tax to fund public-sector priorities in the 1990s, ranks #40. All three states have much higher taxes than Florida at present, slower employment growth and lower state credit ratings that increase taxpayer costs to fund policy priorities through the issuance of General Obligation Bonds.

Lower public revenues due to slower economic growth could lead to additional taxes than previously envisioned in the Candidate's platform to fund State spending and to balance the Florida budget (as mandated by the State Constitution).

States such as Illinois, New York, Connecticut and other high-tax states prove the fallacy of raising taxes in a globally and nationally-integrated economy, where each state competes for job-generating business investments. Businesses can relocate quickly, nationally and/or internationally, based on integrated supply chains to lower tax states that offer a favorable business climate.

Therefore, creating a higher tax state in Florida will likely result in a vicious cycle of higher and higher taxes as economic activity and public revenues expand at a much slower pace than initially calculated, and as population growth is driven away toward lower tax states such as Texas and most of the southeast.

While Candidate Gillum's education priorities appear (at first glance) positive for the State, funding initiatives through higher taxes will adversely impact economic opportunity for Florida residents by reducing private-sector investment and thus creating slower employment growth.

The emphasis on business taxes, nonmarket-driven teacher salary increases, and much higher minimum wage mandates will likely slow significantly Florida's strong economic momentum, leading to much slower job growth than in the past two decades.

## CANDIDATE RON DESANTIS (R) POLICY PROPOSALS

Candidate Ron DeSantis' proposed economic policy agenda is conducive to maintaining and likely increasing the growth trajectory that Florida has experienced over the last two decades. Funding State priorities, such as education, through reductions in the costs of educational administration that would allow the shifting of savings to the classroom is a pro-growth policy that improves human resources development without raising taxes.

Administrative savings, combined with strong economic expansion, would allow increased public revenues for growing per student spending and for including in career, technical education and apprenticeship programs. These policies would improve workforce development, which is an area that Florida needs to enhance.

Another important difference in the policy platforms is Congressman DeSantis' emphasis on avoiding state mandated increases in the minimum wage, teacher salaries and government-run health insurance. The economic and employment growth experiences of states such as New York, Illinois, Connecticut and California, for example, demonstrate that increasing the costs of private-sector production leads to poor economic outcomes.

In Florida's case, a \$15/hour minimum wage through government mandate would have significant negative impacts on employment growth in key industries such as leisure/hospitality, retail/wholesale trade and others, while accelerating the displacement of workers for new labor-saving technologies.

### *Economic Impacts*

The adverse economic impacts on the Florida economy from moving toward higher taxation levels and State mandates on health insurance and minimum wages are presented in this section, which compares employment growth rates in Florida (with a top business climate, and low taxes) and the average employment growth of the States of Illinois, New York and Connecticut (high-tax states with low business climate rankings). The period of analysis, to avoid business cycle fluctuations, covers from 1990 through 2017.

Over this period, private employment growth in Florida significantly outpaced the higher tax and low-business climate ranking states, as presented in Table 4.

**Table 4**  
**Private Employment Growth in Florida (1990-2017)**  
**Compared to Illinois, Connecticut and New York**

Sectors	Florida	Illinois	Connecticut	New York	Peer State Average
<b>Total Private</b>	<b>65.2%</b>	<b>15.7%</b>	<b>2.9%</b>	<b>19.9%</b>	<b>12.8%</b>
Construction	30.2%	-1.8%	-6.5%	18.9%	3.5%
Financial Activities	52.3%	4.5%	-16.3%	-8.0%	-6.6%
Professional and Business Services	253.5%	64.0%	26.7%	53.0%	47.9%
Education and Health Services	113.6%	71.7%	68.7%	87.7%	76.1%
Leisure and Hospitality	69.5%	54.8%	44.4%	63.6%	54.3%

Source: Official States Employment Statistics.

Employment growth is a key indicator of the ability of an economy to generate economic opportunities for residents. Florida significantly outpaced the employment generation of the high tax states studied over the 1990 to 2017 period in all top economic industry sectors. It is also important to note that employment growth in Florida increased sharply in higher wage/knowledge-intensive industries like Financial Activities, Professional and Business Services, and Education and Health Services. Higher wage employment opportunities have become more diversified across industries in Florida and have grown at a much faster rate than the average of the three high tax states studied.

The potential economic impacts of moving toward a higher tax and lower business climate ranking in Florida were estimated utilizing the widely accepted IMPLAN Input/Output (I/O) methodology. The IMPLAN Group, LLC. (IMPLAN) provides the software and basic data needed to formulate the economic multiplier model developed for this Brief. IMPLAN has been providing economic multiplier models for regional economic impact analysis since 1985<sup>40</sup>. Models developed using IMPLAN software have been widely used by private sector, economists and by Federal, State and Local government agencies to measure the impacts of specific economic policies and projects. In addition to the direct impacts, indirect and induced economic impacts were calculated using the IMPLAN Model of the Florida economy. The methodology summary below provides an overview of the significance of direct, indirect and induced economic impacts.

## METHODOLOGY FOR ECONOMIC IMPACTS

Economic models that explicitly account for inter-industry linkages (supply relationships), the generation of labor and capital income, and the spending of household income have been used since the 1960's to estimate the contribution that a particular business or industry makes to the general economy. These "input-output" models recognize that, as an industry experiences an increase in the demand for its products or services, it in turn needs more goods and services from its suppliers and must increase its purchases from other industries in the economy. The effect on regional production resulting from successive rounds of these inter-industry linkages are referred to as the indirect effect. The resulting increases in regional production also lead to expansions in employment and labor income, and the increases in labor income lead to increases in consumer spending, further expanding sales and production throughout the regional economy. The latter economic impacts are referred to as the induced effects. The successive waves of production, spending and more production result in economic multiplier effects, where the final or total increase in regional production, income and employment, respectively, is larger than the initial (or "direct") increase in production, income and employment. The total quantitative economic contribution of these activities, therefore, is comprised of a direct effect, an indirect effect and an induced effect.

Table 5 quantifies the projected annually recurring economic losses to Florida of abandoning the low tax – top business climate governance model. On average over the period 1990-2017, the annual rate of employment growth in Florida exceeded the rate of growth of the higher tax/low-business climate states by almost two percent per annum.

**Table 5**  
**Projected Recurring Economic Losses**  
**Candidate Gillum Economic Agenda**

Impact on:	Direct	Indirect & Induced	Total Impact
Employment (Jobs)	155,188	111,355	<b>266,543</b>
Household Income (\$ Billions)	\$6.4	\$5.1	<b>\$11.5</b>
Gross Domestic Product (Value Added \$ Billions)	\$7.1	\$8.7	<b>\$15.8</b>
Total Economic Impact (\$ Billions)	\$12.7	\$15.5	<b>\$28.2</b>

Note: Total may not equal the sum of all due to rounding.

Source: The Washington Economics Group, Inc. (WEG)

Lower employment growth rates in Florida would result in significant and adverse economic impacts each year (recurring). If the rate of employment growth in the State were to decline to the average of the higher tax/low-business climate rankings analyzed, Florida would forgo the direct creation of over 155,000 jobs annually. These declines would be experienced through the State, impacting economic opportunity for all residents.

The economic impact of slower employment growth would result in \$11.5 billion of worker income (Household Income) forgone each year. Total economic impact of slower employment expansion (lost economic output) would be \$28.2 billion annually.

Using the same IMPLAN Methodology, the continuation of Low-Tax, Pro-Growth Policy Mix proposed by Candidate DeSantis would result in important annual (recurring) economic and employment gains for Florida residents. Based on the 1990-2017 experience, Employment would grow by an estimated 215,000 annually. Household Income for Florida residents would expand approximately \$10 billion each year. The recurring (annual) total economic impact would be over \$26 billion, providing strong support to Florida's economic growth. These positive impacts are presented in Table 6:

**Table 6**  
**Annual Recurring Economic Impacts**  
**Candidate DeSantis Economic Agenda**

Impact on:	Direct	Indirect & Induced	Total Impact
Employment (Jobs)	118,702	96,434	215,136
Household Income (\$ Billions)	\$5.4	\$4.5	\$9.9
Gross Domestic Product (Value Added \$ Billions)	\$7.4	\$7.8	\$15.2
Total Economic Impact (\$ Billions)	\$12.9	\$13.7	\$26.6

Note: Total may not equal the sum of all due to rounding.  
Source: The Washington Economics Group, Inc. (WEG)

## Conclusion

Election 2018 has in many respects become a referendum on the path of prosperity Florida has forged over the past 20 years. Elections, and policy agendas, have real-life consequences for 20.5 million Floridians. Those consequences will be borne not just by those of us voting on November 6, but our children, and grandchildren. It is imperative that every Floridian understand the implications of the future they hope for.

For more than 30 years The James Madison Institute has provided policy makers and everyday Floridians with objective, timely, and compelling information on policy issues affecting the economy of the Sunshine State. We are thankful to be living in the greatest state in the U.S. and to be entrusted with providing credible solutions for a more prosperous Florida.

# Endnotes

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