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Race to the Bottom: Proposed “TABOR” Amendment Would Devastate Missouri Economic Development & Basic Services

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An organization called *Missourians in Charge* has filed an initiative petition to amend Missouri’s Constitution. It was approved for circulation by the Missouri Secretary of State on March 31, 2006 and proposes to add a new article to Missouri’s constitution titled, “Article XIV – Pertaining to Finance and Spending.” Currently, signatures are being gathered to place this proposed constitutional amendment on the November 2006 ballot.

The proposed constitutional amendment to add a New Article XIV to Missouri’s constitution is similar in its basic structure and effect to Colorado’s recently-suspended TABOR. It includes all three factors that make Colorado’s TABOR (Taxpayer Bill of Rights) the most severe state budget limit in the country:

- It is a constitutional amendment;
- It restricts growth to a population-change-plus-inflation formula; and
- It requires voter approval to spend above the limit.¹

TABOR has had severe consequences for Colorado during the 13 years it has been in effect and Article XIV would likely have similar negative consequences for. Missouri.

The Initiative Petition

Following is the wording of the initiative petition currently being circulated for voter signatures in Missouri.

Constitutional Amendment to Add a New Article XIV – Pertaining to Finance and Spending

OFFICIAL BALLOT TITLE AS CERTIFIED BY SECRETARY OF STATE, March 31, 2006

Shall the Missouri Constitution be amended to only allow an increase in the total amount of legislative appropriations (excluding federal funds and certain other funds) to be expended in a fiscal year based on a change in inflation and population, unless a legislatively predetermined higher level is approved by a two-thirds vote of the legislature and the change is passed in a statewide election; and to require any revenues in excess of appropriations to fully fund two additional legislatively controlled special funds before any such excess revenues will be refunded to individual taxpayers?

¹ Voter approval is not required in cases of declared emergencies, such as natural disasters or enemy attack.

The estimated fiscal impact on state government is approximately \$280 million for fiscal year 2008. The impact on state government for future years is unknown. The impact on local government is unknown.

Proposed Constitutional Amendment: It's Colorado's TABOR

TABOR is a very specific type of tax and expenditure limit; in fact, Colorado is the *only* state in the nation with a TABOR. While 29 other states have tax and expenditure limits, none of their limits have the combination of the three core elements that set TABOR apart and render it the most rigid limit in the country.

- Colorado's TABOR is *in the state Constitution*. If a limit in the Constitution is found to be flawed or harmful to the state, it can be changed only by waging a costly statewide campaign on the ballot.
- Colorado's TABOR limits the growth of public services to a *population- growth- plus- inflation formula*. This formula virtually guarantees that state services will have to be cut every year because inflation and general population growth do not adequately measure the increase in the cost of what the state buys, including health care, education, and services to the growing elderly population and populations with special needs.
- Colorado's TABOR *requires a vote of the people to override its limit* temporarily in response to unusual circumstance. This cumbersome process greatly limits the flexibility of the governor and legislature to adapt to changing fiscal circumstances and priorities of the citizens of the state. It too can prove very costly. For example, over \$10 million was spent by the proponents and opponents of the successful effort to temporarily override TABOR in Colorado.

Any proposed spending limit, such as the New Article XIV currently being circulated in Missouri, that includes these three elements is a TABOR because it will impair the ability of a state to provide an adequate level of services to its residents. And while there are differences between TABOR and the New Article XIV, these are minor and at best, will only slightly mitigate the deleterious effects of such a strict limit.² Thus, New Article XIV is TABOR.

	Constitutional Amendment	Limits growth to Population + Inflation Formula	Voter Approval to Override Limits
Colorado's TABOR	✓	✓	✓
Missouri's Proposed New Article XIV	✓	✓	✓

The Consequences of TABOR

A growing body of evidence shows that TABOR contributed to a deterioration in the availability and quality of nearly all major public services in Colorado. Voters there recently chose to suspend TABOR for five years, in part to restore some of the service cuts it induced. The Colorado experience has serious implications for the residents of Missouri because TABOR would likely lead to similar outcomes in Missouri.³

- **Since its enactment in 1992, TABOR has contributed to declines in Colorado K-12 education funding.** Under TABOR, Colorado declined from 35th to 49th in the nation in K-12 spending as a percentage of personal income.

² It should be noted that the Missouri Constitution already has strict limits on state government growth. The so-called Hancock Amendment, adopted in 1980, limits state government growth to a percentage of Missouri's personal income growth. The Hancock Amendment was sufficiently restrictive to have mandated \$979 million in tax refunds in the late 1990s. In addition, the Missouri Constitution already requires voter approval of any significant tax increase, which currently means an increase that would bring in revenue of \$75 million or more.

³ For a more detailed analysis of the problems experienced in Colorado under TABOR, please see David Bradley and Karen Lyons, "A Formula for Decline: Lessons from Colorado for States Considering TABOR," Center on Budget and Policy Priorities, October 2005. Available at: <http://www.cbpp.org/10-19-05sfp.htm>.

Colorado's average per-pupil funding fell by more than \$400 relative to the national average.

- **TABOR has played a major role in the significant cuts made in higher education funding.** Under TABOR, higher education funding per resident student dropped by 31 percent after adjusting for inflation. As a result, tuitions have risen. In the last four years, system-wide resident tuition increased by 21 percent after adjustment for inflation.
- **TABOR has led to drops in funding for public health programs.** Under TABOR, Colorado declined from 23rd to 48th in the nation in the percentage of pregnant women receiving adequate access to prenatal care. Colorado also plummeted from 24th to 50th in the nation in the share of children receiving their full vaccinations. Only by investing additional funds in immunization programs was Colorado able to improve its ranking to 43rd in 2004.
- **TABOR has hindered Colorado's ability to address the lack of medical insurance coverage for many children and adults in the state.** Under TABOR, the share of low-income children lacking health insurance doubled in Colorado, even as it fell in the nation as a whole. Colorado now ranks *last* among the 50 states on this measure. TABOR has also affected healthcare for adults: Colorado dropped from 20th to 48th for the percentage of low-income non-elderly adults covered under health insurance.

The proposed New Article XIV can be expected to cause similar sharp declines in public services in Missouri.

TABOR is Not Responsible for Colorado's Economic Growth

Proponents of TABOR often claim that Colorado's economic growth in the 1990s was a result of the adoption of TABOR. However, the evidence does not support this claim. In fact, Colorado's economic growth in the 1990s was similar to the growth experienced by its Rocky Mountain neighbors during that time. None of those neighbors had a TABOR.

- From 1992-2004, Colorado's average annual job growth was 2.6%; the average for its Rocky Mountain neighbors was the slightly higher 2.8%.

In addition, the business community has begun to speak out about the harm TABOR can have on economic development.

“Face it, business leaders have done a sober, businesslike assessment of where Douglas Bruce's Taxpayer's Bill of Rights (TABOR) has left Colorado -- and they don't like what they see. They've figured out that no business would survive if it were run like the TABOR faithful say Colorado should be run -- with withering tax support for college and universities, under funded public schools and a future of crumbling roads and bridges.”

– Neil Westergaard, Editor of the Denver Business Journal

“The Taxpayer's Bill of Rights, with some positive attributes, is about tightly controlling, actually strangling, Colorado's income statement, its income and expenses. Spending on prisons, medical care for the elderly and K-12 education increases faster than inflation, forcing all other public needs to suffer. But while the unrealistically simplistic TABOR strategy is being executed, by constitutional edict, the decay of Colorado's balance sheet, its net worth, representing the publicly owned capital stock that provides the foundation for economic activity, is unprecedented. It will, if unchecked, eventually lead to economic decay.”

– Rocky Scott, President, Colorado Springs Economic Development Corporation

Colorado Voters Suspend TABOR

On November 1, 2005, Colorado voters frustrated with the deterioration in public services passed by referenda a five year-suspension/reprieve of TABOR. A diverse, bi-partisan coalition of Republicans, Democrats, service providers, business leaders and educators led this campaign.

Proposed New Article XIV in Missouri and TABOR Share the Core Problem: the Flawed Population-Growth-Plus-Inflation Formula

TABOR's central flaw is its population-growth-plus-inflation formula. A population-growth-plus-inflation formula would not allow the state to maintain year after year the same level of programs and services it now provides. Instead it would shrink public services over time and hinder the state's ability to provide its citizens with the quality of life and services they need and demand.⁴

Population

The first part of the population-growth-plus-inflation formula is the change in overall population growth. Overall population growth, however, is not a good proxy for the change in the populations served by public services. The segments of the population that states serve tend to grow more rapidly than the overall population used in the formula. An example is senior citizens. According to the U.S. Census Bureau, Missouri's total population is projected to increase by one-half of one percent per year from 2000 to 2030, while Missouri's population aged 65 and older is projected to **more than double** from 2000 to 2030.⁵ As Missouri's elderly population begins to increase, so will the cost of providing them the current level of health care and other types of services. The allowable state spending limit, however, would prevent health care and other services from growing with need because it would be calculated using the much slower growing total population. Services to the elderly could be maintained only if Missouri residents were willing to make sharp cuts in other areas of the state budget, such as education or public safety.

Inflation

The second part of the formula — inflation — also does not accurately measure the change in the cost of providing public services. The measure of inflation in the Missouri TABOR initiative is the nationwide "Consumer Price Index-All Urban Consumers (CPI-U)," which is calculated by the U.S. Bureau of Labor Statistics. The CPI-U measures the change in the total cost of a "market basket" of goods and services purchased by a typical urban consumer. Since a typical urban consumer spends a majority of his or her income on housing, transportation, and food and beverages, those items are the primary drivers of the CPI-U. By contrast, the state of Missouri spends its revenue primarily on education, health care, and public safety. In short, the market baskets of spending are entirely different.

What TABOR Would Mean for Missouri – Severe Budget Cuts Now and in the Future

TABOR would cause immediate and severe cuts in the state budget. The severity of these cuts would increase with time; TABOR would eat away at Missouri's ability to invest in education, health care, and state infrastructure needs. Eventually, the cuts to service would further erode Missouri's economic growth.⁶ The public service reductions required by TABOR would have been in addition to the cuts already made by the state during the fiscal crisis.

In order to estimate the magnitude of such cuts, the *Missouri Budget Project* analyzed the impact of a TABOR in Missouri utilizing state specific data. It found that cuts in FY 2008 would equal \$105 million, but that by FY 2013, these cuts would grow to almost \$1.2 billion.

⁴ For a more detailed analysis of the problems with the population-growth-plus-inflation formula, please see David Bradley, Nick Johnson and Iris Lav, "The Flawed "Population Plus Inflation" Formula: Why TABOR's Growth Formula Doesn't Work," Center on Budget and Policy Priorities, January 2005. Available at <http://www.cbpp.org/1-13-05sfp3.htm>

⁵ U.S. Census Bureau, State Interim Population Projections by Age and Sex: 2000-2030, Table 4. Available at <http://www.census.gov/population/projections/PressTab4.xls>

⁶ The fiscal note prepared by officials in the state Office of Administration-Division of Budget and Planning estimates that the FY 2008 budget would be *reduced* by \$280 million. Their analysis does not extend beyond FY 2008.

Estimated Budget Cuts⁷

Fiscal Year	Mandated Spending Reductions
FY 2008	\$105.2 million
FY 2009	\$299.2 million
FY 2010	\$507.1 million
FY 2011	\$729.6 million
FY 2012	\$967.5 million
FY 2013	\$1,221.7 million

Thus, TABOR would take away the ability of the state to fund necessary services, reprioritize service needs or invest in services in better times.

TABOR would also have several other residual consequences that would result in real costs to all Missourians.

- It would shift the burden of funding basic services to local communities, resulting in increased property taxes.
- It would result in the need for increased fees for licenses, permits, tolls, and even education, as it has in Colorado.
- It would lead to greater state inefficiencies (i.e. deferred maintenance on buildings and roads; outdated technologies).

Why would Missouri want to make the same mistake as Colorado?

- TABOR is a proven failure in Colorado — why adopt it in Missouri?
- TABOR will undermine education, health care, and other vital services in Missouri
- TABOR will not allow the state to grow with the needs of the economy
- TABOR will not allow the state to effectively prepare for or respond to emergencies

The Missouri Budget Project is a statewide, nonprofit, nonpartisan organization that informs the public about the state's budgetary and tax policy options and their impact on low-income Missourians.

⁷ These are annual and not cumulative reductions. The estimates assume that "Spending Limit Revenues" would increase 4.31% per year in FY 2008 and beyond. 4.31% is about the average growth rate in "Total State Revenues" as defined by the so-called Hancock Amendment from 1990 through 2005. The spending limit is based upon the Consumer Price Index forecast published by the *Congressional Budget Office* and assumes that MO population would grow 0.7% per year. The actual reductions would probably be considerably worse because reductions of this magnitude would almost certainly result in the state being unable to match Federal funds.