

FISCAL FOCUS

Budget and Tax Policy in  Perspective

LIMITING GROWTH AND DEMOCRACY:
WHY TABOR IS A BAD IDEA FOR KANSAS

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STATEMENT OF PURPOSE

Government spending has come under fire in recent years across the country. It is no different in Kansas. There are those who think that government is greedy, wasteful, and in need of reduction. However, a closer look at government shows that it is an integral part of our civilized society and we take for granted all of the ways that it touches our daily lives.

The purpose of this publication is to identify fundamental flaws with rigid tax and budget limitations and demonstrate the importance of government in our everyday lives.



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INTRODUCTION

Government is a vague term that is really about hundreds of services that we rely on in our everyday lives and have come to take for granted. Who quibbles about the cost of snow removal when the big blizzard hits? Who doesn't have an aging parent, neighbor or friend who receives help with healthcare, insurance or in-home services from some level of government, be it federal, state or local? We expect our children to have access to an education, for the police to come when there's been a crime committed, for the local health department to provide flu vaccines, to have safe roads to drive on, and to be able to check a book out of the local library. All of these things are provided by government, and there is a cost associated with them.

While groups wishing to limit the role of government often focus on the allure of tax rebates and the potential for government waste and abuse, the true impact of rigid tax and budget limitations is to reduce the quality and quantity of government services. Is it really a benefit to the average taxpayer to pay lower taxes if the city or county can't afford to plow the roads when it snows or if class sizes in public schools increase dramatically? Most of us don't want to go back to the times before government inspected restaurants, licensed doctors, constructed and maintained major highways, and provided funding for the elderly to receive nursing home care when their families cannot.



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WHAT IS TABOR?

TABOR stands for “Taxpayers’ Bill of Rights.” First enacted in Colorado in 1992, TABOR represents the most restrictive tax and expenditure limitation in the country. In recent years there has been a movement towards expanding TABOR into additional states. At least eight states, including Kansas, had active legislative debates on TABOR in 2004.

TABOR is a constitutional measure. In order to enact TABOR in Kansas, a resolution would need to be approved by a two-thirds majority of both houses of the legislature. The measure would then be put to a statewide vote at either the general election or a special election. If a majority of the voters in that election approved the measure it would become law. Unlike other legislation, the approval of the governor is not necessary for constitutional amendments. The flip side of this is that once the measure is approved, the same procedure would need to be used to repeal it, making it very difficult if policymakers in Kansas decided that TABOR was not accomplishing the intended goal.

TABOR limits revenue growth for state and local governments to the percentage of growth in population plus the inflation rate. If the current tax structure generates revenues in excess of the limit, the excess revenues are placed into a “budget stabilization,” or rainy day fund, up to a constitutionally prescribed amount and any excess after that is refunded to the taxpayers. If there is a need for the excess revenues to fund current services, voters must approve of this action in a statewide election. Likewise, if there is a need for additional revenues, voters must approve tax increases in a statewide election. In fact, some TABOR proposals even call for a statewide vote to increase fees.



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WHAT IMPACT HAS TABOR HAD IN COLORADO?

The voters of Colorado passed TABOR in 1992. Under Colorado TABOR, voter approval must be given for any new tax, tax rate increase, debt increase, property tax mill levy increase, or any tax policy change that will result in a net revenue gain. However, voter approval is not necessary for fee increases.

As in other TABOR proposals, Colorado TABOR imposes a limit on how much revenue a government can collect and retain. The Colorado Constitution contains different growth formulas for different levels of government. For state government, the formula is the percentage of population change plus the rate of inflation.

Each growth formula is applied to the prior year's fiscal year spending, which means it is based on actual revenue collections or the formula-limited collections, whichever is lower. This is often called the "ratcheting down effect" and has resulted in dramatic contractions in Colorado revenues and the quality of government services, especially during the economic downturn that began in 2001.

Before TABOR, Colorado generally enjoyed a status near the middle of the pack in terms of national rankings reflecting the quality of government services available. However, in many current rankings, Colorado fares much worse. One of the most dramatic examples of this is the ranking of 50th in the nation in childhood immunizations as of 2003. This is in a state where the average household median income of \$50,224 is higher than that of households in 37 states.



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The following table illustrates the changes in Colorado rankings among the 50 states in the decade since TABOR's implementation.

Measure	Colorado	
	1993	Current
Health insurance coverage	21 st	36 th (02-03)
Childhood immunization	27 th (94)	50 th (03)
Timely prenatal care	21 st (90)	41 st (02)
Low-birth-weight babies	42 nd	40 th (02)
Infant mortality	19 th	11 th (00-01)
Child death rate	16 th	21 st (01)
Teen birth rate	30 th	36 th (02)
K-12 spending per pupil	28 th	33 rd (01)
K-12 spending relative to income	35 th	48 th (01)
Per capita higher education appropriations	31 st	47 th (04)
Percent of teens who are high school dropouts	31 st	48 th (01)
Idle teens (% neither working nor in school)	13 th	32 nd (01)
Morgan Quitno rankings:		
"Most Livable State"	8 th	23 rd (04)
"Healthiest State"	9 th	27 th (04)

Note: This table was prepared by the Wisconsin Budget Project. For all of the measures, a lower number indicates a higher ranking. The data come from many sources, including the KIDS COUNT Data Books, Census Bureau, CDC, Morgan Quitno, and Kaiser Family Foundation.



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WHY IS TABOR A BAD IDEA?

There are many reasons that TABOR is a bad idea, not the least of which is the impact it has had in Colorado. In fact, recent polling shows that even Coloradoans would like to significantly relax the provisions of TABOR.

According to the *Ninth Annual Mind of Colorado Survey of Public Opinion*, published by the University of Colorado at Denver in 2003, two-thirds of Coloradoans would support modifying TABOR's spending limits to make it easier to restore services to pre-recession levels. Likewise, 61 percent of the poll's participants said that the state "should be allowed to keep more revenues collected when the economy is strong so long as the money goes into a rainy day fund that can only be spent when the economy is weak."

A fundamental flaw of TABOR is that it does not provide any flexibility for government to address unforeseen costs such as those attributable to natural disasters, diseases, and advances in infrastructure. For example, when TABOR was first enacted in Colorado, West Nile virus was not known to North America. Twelve years later, Colorado led the nation in West Nile deaths but could provide no funding to local health agencies to address the threat. While the budget stabilization fund, which is a component of recent TABOR proposals, could ease the impact of one-time crises, it would be limited in scope and certainly could not address ongoing costs such as those in the West Nile example.

TABOR does not take into consideration an increasing need for services based on demographics. For example, TABOR does not recognize the aging of the baby-boomers and the resulting increase in demand for services such as Medicaid, which requires a state funding match.



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Another fundamental flaw of TABOR is that it alters the democratic process. When the state constitution predetermines the level of spending for the year, there is no role for elected officials in either the tax or budget process. Unless a taxpayer has significant financial and advocacy resources enabling them to undertake a statewide campaign to retain or increase revenues, there is nothing to be gained by asking for help from their elected officials.

Under TABOR, regardless of the urgency of the need for funding as in the case of childhood immunizations, elected officials are given few choices. They may either cut funding for another worthwhile service or maintain the status quo.

TABOR does not allow for investments in people or technology that require significant costs at the onset but may actually decrease government costs over time. For example, quality early care experiences for children, particularly low-income children, result in economic returns that exceed initial cost.

Based on outcomes such as improved school performance, reduced special education placement, lower school dropout rates, and increased lifelong earning potential, the return on investment to society has been estimated to range from a \$4 to \$7 return for every \$1 spent. However, under TABOR new investments in quality early care would not be possible without a statewide vote to increase taxes for this purpose, even though the investment would reduce long-term costs to the state.

Yet another TABOR flaw is that neither the Consumer Price Index (CPI), which is the inflation measure of choice in Colorado, nor any other existing measure of inflation correctly captures the growth in the cost of the kinds of services purchased in the public sector. Specifically, a major part of state spending goes to personnel, technology, and healthcare costs. Costs in all of these areas exceed the CPI.



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CONCLUSION

Is it possible for government to misuse our hard-earned tax dollars? Of course it's possible, but the democratic process gives us a perfect remedy. Vote for a new governor, new senators, representatives, mayors, or school board members. The answer is not to shift control from the voters to a constitutional provision that is very difficult to amend.

Government is not vague. It's not a scheme for bureaucrats to steal our money. Among other things government is military reservists, teachers, grain inspectors, librarians, prison guards, nutritionists, and road construction workers. These people and the services they provide touch and enhance our lives daily. The real impact of TABOR, as demonstrated in Colorado, is to reduce the quality and quantity of government services.

As is the case in many states, Kansas has experienced a series of lean years during the recent economic downturn. Budgets have been tightened and new funding has been put off until better times. Kansas can ill afford to restrict revenues now. It is clear that TABOR is not in the best interest of Kansas and can only be detrimental to the quality of life Kansas children and their families enjoy.



MISSION STATEMENT OF FISCAL FOCUS

Kansas Action for Children works to improve the economic security of Kansas children and their families through the policy and advocacy efforts of Fiscal Focus. The goal of Fiscal Focus is to ensure a balanced and fair tax system and budget process that protects the well-being of children and families and provides for a stable system of state revenues.

Families must have the opportunity to meet their children's economic and developmental needs through the provision of food, clothing, transportation, healthcare, education, and safe, affordable housing. Ensuring this opportunity requires that essential supports for families are a priority in the state budget process, that state finances are managed in a fiscally sound manner, and that the tax system fairly distributes the tax burden among income levels.

More specifically, Fiscal Focus:

- Analyzes the impact of state budgets and taxes on children and families.
- Publishes short papers and in-depth reports on important fiscal matters.
- Presents written analyses and oral testimony to the state legislature and other public bodies.
- Provides to media organizations and constituency groups the accurate and timely information they need.
- Works with statewide and local organizations in Kansas to improve public understanding of fiscal issues.

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Making a difference for Kansas children.

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