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By Any Other Name:
Montana's "Stop OverSpending" Proposal is a TABOR

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Summary

A proposed ballot initiative in Montana to limit state spending — "Stop OverSpending" or SOS — is similar in its basic structure and effect to Colorado's TABOR. Montana's SOS proposal 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]

SOS can therefore be expected to cause a deterioration in public services in Montana similar to that produced by TABOR in Colorado.

KEY FINDINGS

- The "Stop OverSpending" or SOS spending limit proposed in Montana includes all three central elements of Colorado's TABOR.
- In Colorado, TABOR led to reductions in health, education, public safety, and transportation services. Voters suspended TABOR for five years in November 2005.
- SOS would have similar consequences for public services in Montana as TABOR did in Colorado.

During the twelve years since TABOR was adopted in Colorado, K-12 funding declined to 49th in the nation, and higher education funding dropped by 31 percent. In addition, the share of low-income children lacking health insurance doubled at a time that it was dropping nationally, and Colorado fell to near last in the nation in providing on-time full vaccinations to the state's children.

These problems led Coloradoans to approve in November 2005 a statewide measure to suspend TABOR's population-growth-plus-inflation formula for five years in order to allow the state to restore a portion of its fundamental public services. To date, Colorado is the only state to have adopted a TABOR, as well as the only state to have voted to suspend it.

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

Proponents of SOS claim that their proposal has been designed to avoid the problems TABOR brought to Colorado. However, the differences between the two proposals are minor and at best, will only slightly mitigate the deleterious effects of such a strict limit. SOS would negatively affect the public services upon which Montanans depend, such as health care, education, and public safety, just as TABOR did in Colorado.

What Makes TABOR So Unique

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 28 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 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. Other characteristics, such as how excess revenue is handled, what happens to the limit during a downturn and the portion of the budget covered by the limit are of lesser importance than the three key dimensions described above.

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. Colorado voters 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 Montana because SOS would likely lead to similar outcomes in Montana.[2]

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[2] 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.

- **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. 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.

SOS and TABOR Share the Same Heart: the Flawed Population-Growth-Plus-Inflation Formula

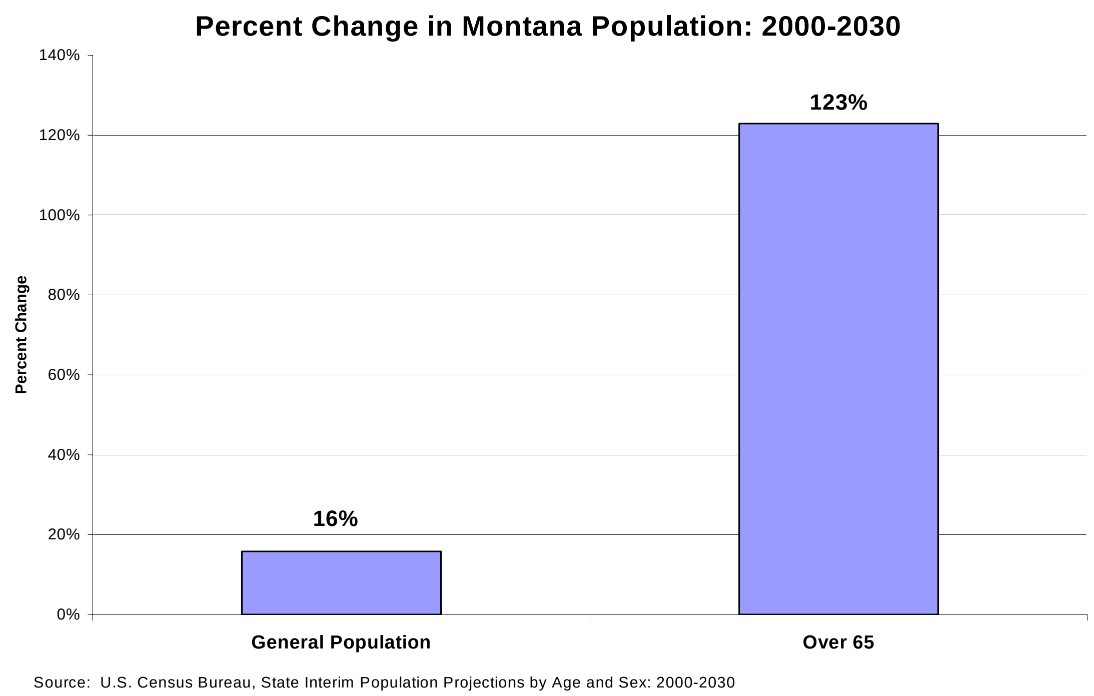
TABOR's central flaw is its population-growth-plus-inflation formula. This formula is not a "soft cap," nor does it allow state services to grow at a "reasonable rate" as SOS proponents claim.[3] A population-growth-plus-inflation formula would not allow the state to maintain year after year the same 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, Montana's total population is projected to increase by 16 percent from

[3] Sources: "Should Montana limit government spending?," Editorial by Sen. Balyeat, The Billings Outpost, March 23, 2006; Rep. Mendenhall quoted in "Analyst rips spending cap proposal," Helena Independent Record, March 7, 2006.
[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

FIGURE 1



2000 to 2030, while Montana's population aged 65 and older is projected to more than double from 2000 to 2030.[5] As Montana'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 Montana 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 Montana 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 Montana spends its revenue primarily on education, health care, and corrections. In short, the market baskets of spending are entirely different.

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[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

Moreover, the "goods"— or public services— in the state of Montana's basket (and in every other state's) are in economic sectors that are less likely to reap the efficiency and productivity gains achieved by other sectors of the economy. For example, teachers can only teach so many students, and nurses can only care for so many patients. As a result, the costs of these public services are rising faster than the costs in other sectors. Indeed, the items in the "basket of goods" most heavily purchased by states — such as health care, education, and prescription drugs — have seen significantly greater cost increases in the past decade than the items in the basket of goods purchased by consumers, and those faster-growing costs are expected to continue. Limiting the growth in public expenditures to a formula that uses the rate of growth in general inflation will not affect the level or growth of these costs in the economy; instead, it will affect the quantity and/or quality of public services the state is able to provide to its citizens.

On the Cutting Block

It is also important to note that *all* programs in the Montana General Fund — not just those with cost pressures exceeding the population-growth-plus-inflation level — are threatened by a rigid population-growth-plus-inflation limit. This is because SOS applies to Montana's entire General Fund budget. And while the General Fund only makes up 37 percent of total state expenditures, it provides the majority of funding for K-12 education, higher education, health care and corrections. Under SOS, if one spending area were to grow faster than population growth plus inflation (for instance due to cost pressure, court order, or popular demand), then another spending area would have to grow at a slower pace — which would mean a reduced level of services in this second area.[6] This type of formula-driven budgeting hamstrings meaningful discussions about the priorities of the citizens and the ability of the state to respond to them.

Despite Minor Differences, SOS is Still a TABOR

Proponents of the Montana initiative seek to distance themselves from the problems TABOR has caused in Colorado. They have changed the name of their TABOR to SOS and have made some slight improvements over Colorado's TABOR. However, these improvements, which include freezing the limit during a downturn and a reserve fund to be used as a safeguard against revenue shortfalls, do not fully fix Colorado's most talked about problem: the "ratchet."

During a recession, states typically reduce the quantity of public services they provide. A ratchet prevents public services from ever recovering from these reductions because the recession-depressed service level becomes the base to which the population-growth-plus-inflation formula is applied. For example, revenues in Colorado fell during the recession, and that reduced level became the base for calculating allowable revenue growth in all subsequent years. As revenue growth returned to normal, spending could not because the TABOR limit was stuck at the low recession level. This prevented Colorado from restoring cuts made in public services during the downturn.

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[6] Sen. Balyeat has acknowledged that "SOS" would require such cuts: "There's nothing in this initiative as such that would specifically limit school spending. ... If they prioritize school spending, other things would have to have slower growth." Quoted in "Groups raise red flags over proposed cap on spending," Great Falls Tribune, March 7, 2006.

If Colorado had not suspended TABOR for five years in November 2005, it would have had to continue making deep reductions in public services each year for a number of years to come. To avoid facing this problem again, Coloradoans also voted to change the way the formula is applied. At the end of TABOR's five-year suspension, the population-growth-plus inflation formula will be calculated from the TABOR limit in the previous year, rather than from actual revenues.

Limit Freeze During Downturn

In the SOS proposal, the dollar amount of the limit would be frozen during an economic downturn. While the limit would not ratchet backward during a downturn, as it did in Colorado, it would remain fixed; it could not continue to rise by the change in population and inflation.[7]

Thus, the SOS proposal would only mitigate and not eliminate the ratchet. If the limit were frozen in response to a downturn, public services would fall substantially behind even the standard of need recognized in the TABOR formula; the population would continue to grow and inflation would continue to push up the cost of services over those years, but the limit would not be adjusted to reflect this growth. So while expenditures wouldn't be ratcheted back to recession levels, they would stagnate. And as revenue growth fully recovered, expenditures could not because they would be based on this frozen level.

Reserve Fund

The SOS proposal briefly mentions a reserve fund that is "to be used as a safeguard against shortfalls in state revenue below the spending limit." However, it does not offer any information on how large this reserve fund would be, how much of the revenues above the limit would be deposited into the fund, whether those deposits would be mandatory, and whether transfers from the reserve fund would be automatic or would require a vote of the Legislature. Furthermore, the language concerning whether transfers from the reserve fund to the general fund would be counted as expenditures in setting the next biennium's limit is unclear.

Without knowing these specifics of the reserve fund, it is impossible to know what role it could play in moderating the ratchet. In the best of all circumstances, a well designed reserve fund (or budget stabilization fund) could eliminate a ratchet. But for a reserve fund to eliminate a ratchet it must be sufficiently large to compensate for all revenue shortfalls during the downturn, it must not face obstacles to its use when it is needed, and transfers from the reserve fund to the general fund must count as expenditures for calculating the subsequent year's limit. Given the lack of information surrounding the reserve fund in Montana's SOS proposal, it is doubtful that it would solve the ratchet problem[8]

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[7] Technically, the TABOR limit for a biennium would be set as the *greater* of previous biennium's appropriations adjusted for inflation plus population growth *or* the largest limit for any previous biennium. Using the largest limit for any previous biennium basically freezes the TABOR spending limit during an economic downturn and keeps it frozen until revenues recover.

[8] For a more detailed analysis of the role of a budget stabilization fund can play in moderating the ratchet, please see David Bradley, Iris Lav and Karen Lyons, "A Faulty Fix: Repairing the "Ratchet" Will Not Repair TABOR," Center on Budget and Policy Priorities, March 2005. Available at: http://www.cbpp.org/3-21-06sfp.htm.

Regardless, it was not the ratchet that caused the sharp decline in public services in Colorado, but rather the operation of the population-growth-plus-inflation formula for more than a decade. Public services in Colorado declined significantly *before* the 2001 recession began, and thus *before* the ratchet could have had any effect. For example, between 1992 (when TABOR took effect) and 2001, Colorado fell from 35th to 49th in the nation in K-12 education spending as a percentage of personal income and from 23rd to 45th in access to prenatal care, a sign of funding shortages in local health clinics.

Conclusion

Despite assertions that SOS is an improved version of Colorado's TABOR, Montana's SOS proposal contains the three core elements of Colorado's TABOR. It is these three aspects that make TABOR so unique and so damaging to a state's public services. Thus, SOS can be expected to cause declines in public services in Montana similar to those experienced in Colorado under TABOR.

	Constitutional Amendment	Limits growth to Population + Inflation Formula	Voter Approval to Override Limits
Colorado's TABOR	√	√	√
Montana's SOS	√	√	√