Vol. X
No. 8

MECEP
Maine Center for Economic Policy

choices

IDEAS FOR SHARED PROSPERITY

August 12, 2009

TABOR II: A DANGER TO MAINE'S ECONOMY, COMMUNITIES, AND PEOPLE

by Kurt Wise

After soundly rejecting TABOR I in 2006, this November Maine voters will face another TABOR initiative. Despite claims by proponents that TABOR I's many flaws have been corrected, TABOR II contains all of the central elements that made the original proposal so dangerous for Maine's economy, communities, and people. In fact, in important respects, TABOR II is considerably more problematic than its predecessor. This policy brief outlines the four core and serious dangers that TABOR II presents.

DANGER ONE:

TABOR II's expenditure caps do not correspond to cost realities

The fundamental problem with TABOR initiatives is that they place rigid, formula-driven limits on public expenditure growth, and make it very hard to adjust these limits when circumstances require. TABOR II restricts state expenditure growth to increases in the Consumer Price Index (CPI) plus average population growth. This growth limit does not reflect the realities either of cost inflation for public services or cost increases resulting from Maine's changing demographics.

The first part of the TABOR II formula, the Consumer Price Index, is a measure designed to gauge cost inflation for the "basket of household goods" purchased by a typical urban American consumer. State and local governments, however, are not purchasing typical household goods. Instead, they are purchasing the inputs for public services: asphalt and school teachers, immunizations and jail cell doors, IT services, energy, and lots of health care.

Over the last 25 years, the CPI has risen by 108% overall.[1] By contrast, the US Bureau of Economic Analysis pegs cost inflation for goods and services purchased by state and local governments at 133% during the same period.[2] Still more problematically, over the last ten years

"You, your parents and your grandparents have all worked too hard making Maine what it is today to let TABOR take that all away from you."

Senate President Joan Fitz-Gerald, Colorado State Senate the average annual increases in the CPI have been falling gradually, while annual change in costs for goods and services purchased by governments has been growing ever larger. As these two measures continue to diverge, the restrictions created by TABOR II will require larger and larger cuts to state and local budgets.

The second component of the TABOR II formula, population growth, is equally problematic. Populations do not merely grow with time, but change in composition, with children and elderly citizens requiring far greater public expenditures than most working age adults. Maine's population is elderly now and will become more so with time. The US Census Bureau projects that between 2000 and 2030, the percentage of Mainer's 65 or older will almost double, growing from 14 percent of the overall population to 27 percent.[3] The TABOR II formula does not take these important changes into account.

We certainly should be concerned by and proactive about the fact that the cost of public service inputs rises more quickly than do household goods and that Maine's population is getting older. TABOR II, however, will do nothing to change these facts. By ignoring reality, TABOR II will simply place public budgets on the path to endless rounds of cuts as costs unwaveringly exceed permitted spending growth. Under TABOR II, Mainers will face steady, ongoing erosion in the range and quality of public services at all levels of government.

DANGER TWO:

TABOR II ratchets down public budgets, locking in every new low as the baseline for all future growth

TABOR II sets the year 2010 as the baseline budget year from which future state and local expenditures will be permitted to grow – unless a year with even *lower* spending levels occurs, in which case this would become the new baseline for future growth. This "ratcheting" effect is perhaps the most dangerous element of all the TABOR II provisions.

Setting 2010 as the initial baseline year is problematic in and of itself. Current projections from Maine Revenue Services indicate that fiscal years 2010 and 2011 will be the low point for revenue collections in the midst of this deep national recession.[4] Accordingly, appropriations in the state's 2010-2011 Biennial Budget are some $350 million lower than the 2008-2009 Biennial Budget,[5] and the 2008-2009 budget was one that already had undergone deep cuts of its own. Maine's Office of Fiscal and Program Review (OFPR) estimates that the 2010-2011 budget is $1.4 billion (or more than 20%) below the amount needed to continue public services at the levels provided in 2009.[6] Meanwhile, preliminary revenue estimates (from late July 2009) suggest that 2010 and 2011 collections will be even worse than was anticipated in May's revised projections.[7] Therefore, unless the legislature can agree on new revenues, still more budget cuts are certain, which under TABOR II will mean an even lower baseline for growth. By setting 2010 as the starting point, TABOR II caps spending at historically low levels, lower than at any time in at least the previous 20 years.[8]

The full impact of these historically low spending levels, however, is not immediately obvious. Over the current biennium, a large infusion of federal stimulus dollars will help Maine continue to provide government services that our own, recession-hammered revenue collections cannot at present support. As a result of this federal help, Mainers are not experiencing the full effect of our current budget crisis. When the economy bounces back and revenues return to normal, Maine again will be in a position to more fully fund education, public health, transportation and other public services, even in the absence of federal help. Under TABOR II, however, the State's recession-limited spending levels will be locked in place, but come 2012, Maine will not continue to receive the hundreds of millions of federal dollars that we now enjoy.[9] Under TABOR II, Mainers will experience an abrupt and steep decline in their public services. As bad as this is, however, the larger problem is TABOR II's "ratchet effect".

Under TABOR II, every time budgets fall - for whatever reason - the new budget low will "lock in", becoming the new baseline for future growth. As an example, highway departments might budget for an average Maine winter, expecting to clear 70-90 inches of snow. Instead, snowfall might be a surprising 40 inches, costing less than half what was anticipated. Under TABOR II, this unusually low spending level would be locked in as the new upper limit. The next year - and every year thereafter – either highway departments would receive only half as much money to work with (leaving them severely under-funded to handle an average winter's snowfall), or an equal amount of cuts would be required in other areas of the budget.

Colorado's experience with TABOR

In 1992, Colorado (CO) became the first and only state ever to have enacted TABOR legislation. Over the following decade, Colorado experienced steep declines in state and local services:

- CO declined from 35th to 49th in the nation in K-12 spending;
- Funding for higher education dropped by 31 percent;
- The share of low-income children in the state who lacked health insurance doubled, making CO the worst state in the nation by this measure;
- Roads deteriorated sharply and state investment in all kinds of business and economic development declined

By 2001, a wide coalition of business leaders, legislators, CO's Republican Governor, and regular citizens – many of whom had been supporters of TABOR in 1992 - banded together to overturn TABOR. In 2005, Coloradoans voted to suspend TABOR in order to allow the state to rebuild its public services.

Locking-in all future State and local spending at the "bottom of the trough" during the deepest recession in three-quarters of a century - and ratcheting budgets down from there - is not a recipe for long term economic success. TABOR II will prevent the State, the counties, municipalities and school districts from making appropriate and necessary re-investments in our schools, universities, public health and corrections systems, transportation infrastructure, and other public services when the economy inevitably turns the corner.

DANGER THREE:

TABOR II denies our state and local elected representatives the ability to make basic budget decisions

Proponents of TABOR II argue that their restrictive spending and tax limits are flexible, and can be exceeded whenever voters approve an increase. In fact, the mechanism for gaining such approval is both cumbersome and costly. It also requires voters to immerse themselves continually in the details of state and local budgeting if they are to make informed decisions about each separate adjustment to state and local budgets.

Under TABOR II, every decision by elected officials to exceed the spending caps or to raise additional revenues (in excess of $300,000) would require additional voter approval at the ballot box. This figure represents a change of just one one-hundredth of one percent (0.01%) in the State's annual General Fund budget. This cap applies to increases of either taxes or fees, and to decisions made at both the State and local levels. There is an additional provision in TABOR II that prevents the tax that funds repairs to Maine's state and local roads and bridges – the "Motor Fuel Tax" – from keeping pace with inflation unless voters specifically approve an increase each year, through a statewide referendum. Currently, that tax rises automatically with inflation. TABOR II also would prevent elected officials from repealing or reducing any existing tax exemption, tax credit, or tax refund, further limiting their ability to balance budgets.

Collectively, these restrictions mean that many individual budget decisions, at both the state and local levels, cannot be made without direct voter approval. The leaders whom Mainers elect to the State Legislature, County Commissions and Town Councils will no longer be able to perform one of their most basic and important functions: determining budget requirements, weighing competing interests and options, and ultimately deciding how best to balance expenditures with revenues.

To override the many restrictions imposed on the budget process, TABOR II sets in place a cumbersome and expensive process. It requires a majority vote of the "legislative body" *followed by* a majority vote of the people in a referendum. The Maine Municipal Association estimates that every statewide referendum vote mandated by TABOR II would have direct costs of $800,000, not including related administrative costs.[10] There is no estimate for the expense associated with the additional, repeated rounds of balloting required at the local level.

Most people are not interested in and do not have the time to follow budget issues in minute and ongoing detail. Instead, that is what we elect our town and state representatives to do on our behalf. Nevertheless, Mainers still exercise considerable control over the direction of government spending and taxes, at both the state and local levels. At the local level, most budgets (including school budgets) already require voter approval of the overall package. At the local and state levels, most elected officials face re-election every two years. Those who are not in line with their neighbors' wishes concerning spending and taxes are very likely to be removed from office. As such, elected officials work hard to balance the need and desire for public services with taxpayers' willingness and ability to pay.

TABOR II creates greater bureaucracy while doing little if anything to improve accountability or control. At the same time, it generates ever larger budget shortfalls for state and local officials to address while denying them the tools they need to work with.

DANGER FOUR:

TABOR II "solves" a problem that doesn't exist

Maine law already provides controls on spending growth at all levels of government. In January 2005, Gov. Baldacci signed into law LD 1, "An act to Increase the State Share of Education Costs, Reduce Property Taxes and Reduce Government Spending at All Levels". This law created spending caps and a graduated timeline to lower Maine's state and local tax burden ranking to the middle one-third of all states by 2015. Every year the State Planning Office reports on the progress made toward reaching the goals outlined in LD 1. In each of the four years since enactment of LD 1, municipalities, counties and state government all have remained below – and often times well below - the mandated growth rates.[11]

Analysis by Maine's Office of Fiscal and Program Review confirms that Maine's spending at the state level has risen very little over the past 10 years. As a percentage of total personal income (a good measure of Mainers' overall ability to afford public services), state spending has grown from 14.15% in 1997 to 14.90% in 2007.[12] Since 2007, State spending has dropped markedly (see "Danger Two", above). Meanwhile, combined state and local effective tax rates have declined from 11.84% to 11.14% for the same period.[13] Notably, both of these measures have been trending steadily downward since enactment of LD 1.

This last session of the Legislature, likewise, offers ample proof that Maine's elected officials have little appetite for growing either spending or taxes. In the face of large revenue declines, legislators reduced total FY 2009 General Fund appropriations by some $110 million compared to FY2008 appropriations, and have appropriated $350 million less for the 2010-2011 biennium than they did for the 2008-2009 biennium.[14] During the same session - and in the face of calls to fill growing budget gaps by relying far more heavily on new revenues - legislators and Governor Baldacci instead approved a sweeping tax reform proposal that drops the top income tax rate from 8.5% to 6.5%. State and local officials have demonstrated their commitment to reducing both taxes and spending. As a result, Maine is on track to achieve the tax and spending reductions required under LD 1, but to do so responsibly.

Conclusion

The central features of TABOR II are no different than those of TABOR I; TABOR II would be just as harmful to Maine's economy and Maine people. TABOR II sets rigid and unrealistic spending and tax growth limits on state and local government, locking in initial baseline spending at 2010's historic lows, and ratcheting down spending from there. TABOR II will require ongoing cuts to public budgets and result in the steady erosion of services and infrastructure, as was experienced in Colorado, the only state ever to have enacted a TABOR initiative.

At the same time, TABOR II removes budgeting decisions - and the budgeting tools needed to respond to the crises TABOR rules generate - from the hands of our state and local elected officials, creating instead a cumbersome and expensive system to override its stringent limits. Finally, TABOR II offers these dangerous "solutions" for a problem that doesn't exist. State spending and taxes are limited under current law and as a result have been trending downward for each of the last four years since enactment of LD 1. TABOR I was bad for Maine in 2006. Arriving in the midst of a deep recession, TABOR II will be even worse.

About the Author

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Special thanks also go to J.B. Chun for the research and data analysis he contributed to this policy brief. Mr. Chun is studying Economics at Bowdoin College and joined MECEP as an intern for the summer of 2009.

Endnotes

1 BLS website: ftp://ftp.bls.gov/pub/special.requests/cpi/cpiai.txt
2 BEA website (Table 3.10.4): http://www.bea.gov/national/nipaweb/SelectTable.asp?Selected=N
3 http://www.census.gov/population/www/projections/statepyramid.html
4 OFPR's "Fiscal News" for April 2009, pg 4: http://www.maine.gov/legis/ofpr/other_publications/fiscal_news/FiscalNews_2009_04.pdf
5 OFPR Budget Summary (pgs 1-2): http://www.maine.gov/legis/ofpr/LD_353_ca_summary.pdf
6 Ibid
7 OFPR's "Fiscal News" for April 2009, pg 8 (see link in endnote #4, above):
8 As a percentage of real Total Personal Income (a reasonable measure of Mainers changing ability to afford public services), State appropriations in 2010 will be lower than in any prior year, going back to 1990, the oldest data available on the OFPR website.
9 Maine's General Fund will see federal stimulus relief of some $630 million between 2009 and 2011. (See OFPR's July 2009 issue of *Fiscal News*, pg 10). Maine as a whole will receive closer to $1.5 billion in total federal stimulus relief, but much of this will go to individuals or organizations rather than to our state gov't.
10 Maine Municipal Association website: http://www.memun.org/public/MMA/svc/SFR/initiatives/TABORII.pdf
11 Maine State Planning Office, "LD 1 Progress Report 2008": http://www.maine.gov/spo/economics/ld1/2008/ld1_2008_report.pdf
12 Maine Center for Economic Policy, *2008 Revenue and Spending Primer*, pg 33 http://www.mecep.org/view.asp?news=444
13 Ibid, pg 34
14 OFPR Budget Summary, pgs 1-2 (See link in endnote #5, above)

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