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## MISSOURI VOTERS BEWARE: TABOR IS NOT WHAT MISSOURI NEEDS

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### TABOR - An Overview

In the 2005 State Legislative sessions, 25 state General Assemblies considered TABOR proposals, including Missouri. The proposals are expected to resurface in state legislatures in 2006. Missouri's TABOR proponents have publicly stated that they will file again in the coming year. The following describes why all Missourians should be concerned, and engaged in this issue.

*“The (TABOR) formula....has an insidious effect where it shrinks government every year, year after year, after year; it's never small enough... That is not the best way to form public policy.”*

– Brad Young, former Colorado state representative (R) and Chair of the Colorado Joint Budget Committee

TABOR is an acronym for the Colorado Taxpayer Bill of Rights, passed in 1992. It is arguably the most restrictive “tax and expenditure limit” (TEL) in the country. Twenty-nine states already have either statutory or constitutional “TELS” that limit the growth of funding for state services to an imposed formula. In Missouri, the state “TEL” is referred to as the “Hancock Amendment”, which since 1980 has limited the growth of Missouri state revenues to a percentage of the growth of personal income in the state.

Colorado's TABOR, however, has proven to be much more restrictive than any other state TEL, and has harmed state services, the economy and Coloradans' family budgets. Even still, conservative advocacy groups based outside of Missouri are attempting to persuade Missouri policy makers to create a TABOR in our State.

As the data indicates, TABOR would have severe negative ramifications for Missouri. This analysis summarizes the consequences in Colorado, and provides clear evidence of the damage TABOR could have on Missouri.

### Colorado and TABOR: Evidence of TABOR's Failure

Colorado's experience with TABOR provides concrete evidence of the ramifications of the proposal for Missouri. While Coloradans passed the TABOR amendment in 1992, the most devastating effects of the amendment are most evident today. Following 13 years under TABOR, Colorado's investment in an array of services for its citizens has declined precipitously<sup>1</sup>:

### Colorado's Elementary & Secondary Education is falling behind:

<sup>1</sup> All indicators related to Colorado as listed in the following paragraphs were taken from the report “A Formula for Decline: Lessons from Colorado for States Considering TABOR”, Bradley & Lyons; Center on Budget & Policy Priorities; October 19, 2005. This report can be found on the Center's website at [www.cbpp.org](http://www.cbpp.org)

- Between 1992 and 2001, Colorado declined from 35<sup>th</sup> to 49<sup>th</sup> nationally for K-12 Education spending as a percent of personal income
- In 1992, Colorado's average per-pupil K-12 funding was \$379 below the national average. By 2001, K-12 per pupil funding had fallen to be \$809 below the national average
- In 2001, Colorado ranked 41<sup>st</sup> nationally for the average student-teacher ratio and dropped from 30<sup>th</sup> in 1992 to 50<sup>th</sup> in 2001 in national rank for the average teacher salary

**Colorado's Higher Education System has been hard hit:**

- In 1992 Colorado's funding for Higher Education as a percent of personal income was 35<sup>th</sup> nationally, by 2004 it had fallen to 48<sup>th</sup> nationally
- Higher Education funding per resident student has dropped by 31%, from an average of \$5,188 per student to just \$3,564 per student
- Between fiscal year 2002 and fiscal year 2005, Colorado public universities increased tuition by 21% to offset the loss of state aid

**Health Care and health outcomes have reduced significantly:**

- From 1992 to 2002, Coloradans access to prenatal care declined from 23<sup>rd</sup> nationally to 48<sup>th</sup>
- From 1995 to 2003, Colorado dropped from 24<sup>th</sup> in the nation to 50<sup>th</sup> in the nation in the percent of children who receive immunizations. Between April 2001 and October 2002 the State actually suspended a program that helped ensure that students were vaccinated against diphtheria, tetanus and whooping cough because the State could not afford to buy the vaccines under TABOR
- Between 1992 and 2004, the percent of Colorado children who were uninsured doubled from 16% to 32%, moving Colorado to dead last in this child well-being indicator as compared to other states
- Between 1992 and 2004, the percent of uninsured, low-income, non-elderly adults in Colorado grew from 31% to 46%

As shown, the wide-ranging impact of TABOR has been severe. It has slowly decayed Colorado's ability to invest in services for its citizens, impacting every sector of its society. Between 1997 and 2001 alone, Colorado was required to refund more than \$3.2 billion to taxpayers due to the TABOR requirements. The revenue was taken from vital services for Coloradans and contributed directly to the drastic cuts to programs described above. Put simply, even though Colorado had the revenues to afford investments in services to improve outcomes for children, families and the larger society, it could not use those revenues under TABOR.

**The TABOR Formula: Fatal Flaws**

There are three fatal flaws in TABOR that have resulted in the devastation to Colorado:

1. The TABOR spending growth formula is flawed when applied to state services;
2. TABOR is constitutional making it permanent, and very expensive to amend; and
3. TABOR "ratchets" down state economies in bad times, basing future expenditures on past fiscal crises.

***The TABOR Formula***

TABOR required that state spending in Colorado grow no more than the change in the state Population plus General Inflation as measured by the Consumer Price Index (CPI). This "Inflation + Population" formula does not capture the growth in costs for the goods and services a state purchases, because it was never meant to.

The CPI was created to measure the growth in costs for what the average *Consumer* buys, not what governments buy. For example, from 1993 and 2003 The CPI rose by approximately 27%. During that same 10 year span, however, education costs grew by over 70% - three times what the CPI reflected.<sup>2</sup>

Further, general population increases, averaging less than 1% per year, do not reflect the changes in the subpopulations of a state that rely on government services. Special education students, the elderly, even prisoner populations tend to grow more rapidly than the total population.<sup>3</sup> Missouri's senior population specifically is expected to grow dramatically in the next 20 years. While in 2005, there are just under 800,000 seniors living in Missouri, by the year 2025 there are expected to be more than 1.2 million Missouri seniors.<sup>4</sup> The growing senior population will require increased government response beyond what TABOR allows in its simplistic formula.

Further, the TABOR formula will not allow Missouri to keep pace with changing demographics, or changing priorities without a cut from a different service area. As a result, TABOR's formula pits vital service needs against each other, and erodes the ability of the state to respond effectively to any of those needs over time.

#### ***TABOR is Constitutional, Making it Permanent***

The TABOR Amendment in Colorado and the TABOR proposal in Missouri are Constitutional, binding future priorities, and future spending needs to today's priorities. If Missouri were to pass TABOR as Colorado did, and decide later that it should revise, suspend or remove TABOR; it would face an arduous process as well as the expense of a statewide constitutional override.

Creating fiscal policy like TABOR through a state constitution would make Missouri less able to respond to state emergencies, as the legislature's hands would be tied by the constitutional formula; the state would be less able to prioritize effectively our state services due to the TABOR artificial constitutional lids.

#### ***The Ratchet Effect***

Because the TABOR growth formula is based on the previous year's spending amount, in years of fiscal crisis TABOR automatically "ratchets" spending growth down to the fiscal crisis amount. Future years are therefore tied to dismal fiscal crisis levels. This is referred to as the "ratchet" effect.

If Missouri were to pass a TABOR in 2006, the TABOR base year for measuring future growth would be based on the current fiscal crisis level revenues. Missouri revenues in FY 2006 have reached an historic low as State General Revenue funds as a percent of State Personal Income (a reflection of the total state economy) dropped to below 1985 levels. If a TABOR were to pass in

### **Colorado citizens agree that TABOR has failed them!**

On Tuesday, November 1, 2005, Colorado voters passed by referenda a five year suspension/reprieve of TABOR.

A diverse, bi-partisan coalition of individuals, service providers, business leaders and educators worked together to pass Referenda C.

The coalition included the advocacy efforts of Colorado Governor Bill Owens (R). Colorado voters, its business leaders, and political leaders on both sides of the aisle have voiced that TABOR has failed them.

<sup>2</sup> Data from the Center on Budget & Policy Priorities

<sup>3</sup> From the Colorado Fiscal Policy Institute

<sup>4</sup> Data from the Missouri Hospital Association

Missouri in the next few years, the growth formula lid will be tied to this era of historic constraint. In other words, TABOR in Missouri would make the fiscal crisis permanent.

**During the Fiscal Crisis Years of 2001 through 2006 Missouri made some of the most devastating cuts in the nation**

- More than 100,000 elderly and disabled Missourians, and parents in low income families lost access to health care due to cuts in the Medicaid program in Fiscal Year 2006. Parents in families of three earning more than \$300 per month will no longer qualify for health care;
- An additional 350,000 Missourians lost access to some specific health care services due to programmatic reductions in the Medicaid program;
- State aid to local K-12 school districts declined, and state funding is currently \$800 million *under* what is constitutionally required;
- State aid to Higher Education Institutions in Missouri was reduced by \$73 million, resulting in tuition increases of 58% for Missouri public universities over that same period; and
- Children's programs including First Steps, the Adoption and Foster Care Program and others were reduced. The Grandparents as Foster Parents Program that gave a small amount of cash assistance to grandparents raising their grandchildren in lieu of foster care was eliminated.

**Missouri under TABOR: The Impact in Our State**

As indicated in Colorado, the TABOR formula impacts state public economies by strangling growth in public services over time. Each year, the formula has a greater impact, as the reductions in services compound, and the need increases. A thorough examination of the potential impact of TABOR on Missouri necessitates an assessment of its impact over time.

The *Missouri Budget Project* analyzed the impact of TABOR in Missouri utilizing state specific data. The Project applied the "TABOR formula" as laid out in *House Joint Resolution 12 (2005)*, the proposed legislation that would create TABOR in Missouri.<sup>5</sup>

This analysis finds that if Missouri had passed TABOR in 1992, when Colorado did, the state would have been required to cut \$792 million more in the current fiscal year (FY 2006) *alone*.<sup>6</sup> The public service reductions required by TABOR would have been in addition to the cuts already made by the state during the fiscal crisis.

During the Fiscal Crisis Years of 2001 through 2006 Missouri already made some of the most devastating cuts in the nation, including:

- More than 100,000 elderly and disabled Missourians, and parents in low income families lost access to health care due to cuts in the Medicaid program in Fiscal Year 2006 alone.

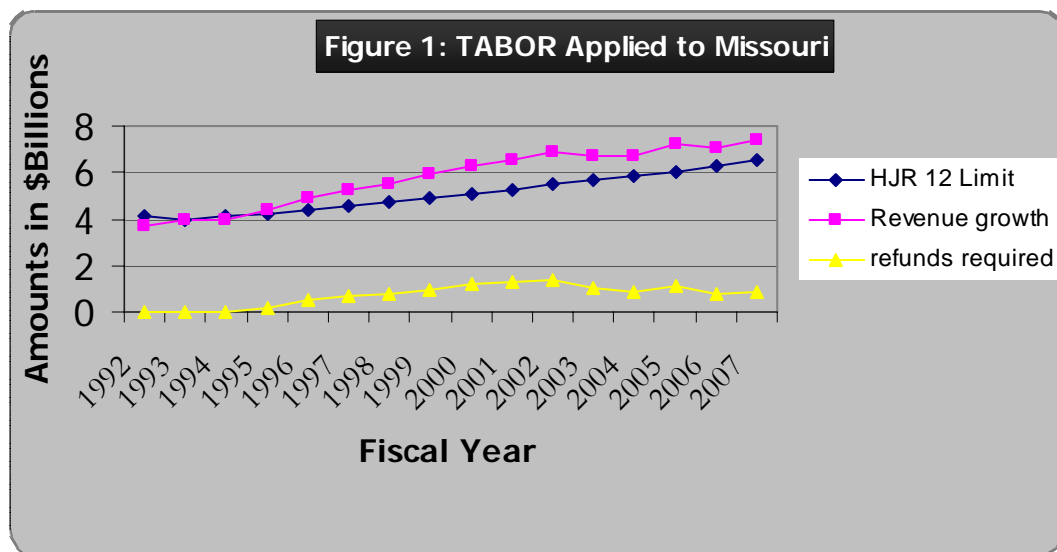
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<sup>5</sup> The HJR 12 TABOR formula is somewhat different than the Colorado lid. Missouri's proposal would allow 20% of state appropriations to grow at the somewhat higher medical CPI rate, and 80% at the general Midwest CPI. The Missouri Budget Project used the calculus provided by HJR 12 to determine TABOR's potential impact in Missouri.

<sup>6</sup> During the 2001- 2006 five year fiscal crisis period in Missouri, the state would have been required to cut more than \$6 billion *additional* dollars from government services.

Parents in families of three earning more than \$300 per month will no longer qualify for health care<sup>7</sup>

- An additional 350,000 Missourians have lost access to some specific health care services due to programmatic reductions in the Medicaid program
- State aid to local K-12 school districts has declined, and state funding is currently \$800 million *under* what is constitutionally required
- State aid to Higher Education Institutions in Missouri has been reduced by \$73 million in the last five years, resulting in tuition increases of 58% for Missouri public universities over that same period
- Services for vulnerable children including First Steps, the Adoption and Foster Care Program and others have been reduced. The Grandparents as Foster Parents Program, which gave a small amount of cash assistance to grandparents raising their grandchildren and helped keep them out of foster care, has been eliminated.



Clearly, Missouri is already struggling to meet the needs of its population. Further cuts as required under TABOR would be severe. To following indicates the level of additional cuts that would be required by service category in Fiscal Year 2006 if Missouri had passed TABOR in 1992. The table assumes that services would be cut in proportion to their current share of the general fund budget.

**Table I: Finding \$792 Million to Cut Due to TABOR in the FY 2006 Budget**

<i>State Service Area</i>	<i>FY 2006 GR Budget<sup>8</sup></i>	<i>Percent of Total GR Budget</i>	<i>FY 2006 Cuts Required under TABOR<sup>9</sup></i>
K-12 Education	\$2.545 Billion	35.66%	\$282 million

<sup>7</sup> Over 250,000 Missourians have lost access to comprehensive health care throughout the State fiscal crisis due to Medicaid cuts from FY 2001 through FY 2006, and other reductions and cuts to health and mental health programs.

<sup>8</sup> State General Revenue (GR) budget figures are from the *2005 Annual Fiscal Report*-prepared by the Missouri Senate Appropriations Staff. The Report is available on the State website at [www.senate.state.mo.us](http://www.senate.state.mo.us)

<sup>9</sup> This assumes that K-12 Spending would not be exempted from the TABOR cuts. If it was, cuts to other areas including health care and higher education would be much more severe.

Higher Education	\$856 million	11.99%	\$95 million
Social Services, Health & Mental Health	\$1.977 Billion	27.69%	\$219 million
Judiciary, Public Safety & Corrections	\$750 million	10.51%	\$83 million
Other Areas – economic development, transportation, parks, etc.	\$1.01 Billion	14.15%	\$113 million
<b>Total</b>	<b>\$7.138 Billion</b>	<b>100%</b>	<b>\$792 Million Cut</b>

Actualized, these cuts could have resulted in the following:

- \$219 million from the Social Services/Health/Mental Health Budget would have doubled the extent of the Medicaid cuts. More than 100,000 additional Missourians would have lost health care under these cuts, hundreds of thousands more would have lost specific health services, and the state would have forfeited hundreds of millions of federal funds for the health care industry
- Higher Education cuts could have resulted in tuition increases of 100% in one year, deterring access to public universities or compromising class size and class offerings
- State funding for local school districts would be more than \$1 billion below what is constitutionally required. A FY 2006 \$282 million cut from State aid to local school districts would most likely result in significant local property tax hikes. As noted further in this paper, local school districts are unable to absorb any further loss of state aid and localities are responding through increased fees, and property taxes.

These are just a few examples of the impact that TABOR would have had on the current year’s services. However, it is clear that given the extent of the current state fiscal crisis, any further cuts brought about by a TABOR would result directly in the further erosion of Missouri’s vital services.

**Summary of TABOR’s Impact on an Array of Missouri’s Critical Service Sectors**

**TABOR Would Harm Missouri’s Health Care**

Missouri has already made severe cuts to publicly funded health care programs during the last five years of the State Fiscal Crisis. Some of these cuts have been the most severe in the nation:

- More than 250,000 Missourians have lost access to comprehensive health care services due to state cuts to the Medicaid Program
- These cuts have impacted people with disabilities, the elderly, children and low income parents
- Cuts to low income parents have been significant. Parents in families of 3 earning more than 22% of the federal poverty level, or \$300 per month, no longer qualify for Medicaid in Missouri
- Women in families living in poverty and of child bearing age no longer have access to prenatal care due to Medicaid cuts and the elimination of the Women’s Health Care Program

Several national studies indicate the very real human and societal consequences of cutting Medicaid eligibility:

- Missouri’s number of uninsured is increasing dramatically. The number of uninsured low-income parents specifically in Missouri grew between 2000 and 2003, from 18.8% of that population to 29.6% - a 10.8% increase.<sup>10</sup>

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<sup>10</sup> *Memo on the Erosion of Health Insurance Coverage for Low-Income Parents in Missouri, 2000 to 2003*, from Leighton Ku, PHD, MPH, Senior Fellow, the Center on Budget & Policy Priorities, December 7, 2004

- Numerous health outcomes studies have found that as the number of uninsured increase, preventable deaths increase, and the spread of contagious disease increases. According to the Institute of Medicine, being uninsured has become the 6<sup>th</sup> leading cause of preventable death of people aged 25-64, resulting in 18,000 deaths per year.<sup>11</sup>

There are documented economic consequences as well for reductions in health care including:

- Reduced productivity in the workforce: A study of the impact of reductions in mental health services in one Connecticut Corporation showed that a 30% reduction in (health) service resulted in a 37% increase in employer costs related to lost productivity and increased sick days.
- Public funds make up 46% of total spending in Missouri's health care industry, and total private and public health care expenditures in Missouri create 16% of Missouri's Total Gross State Product.<sup>12</sup> Cuts to health care directly impact one of the leading industries in the State;
- Medicaid is particularly pivotal in the Missouri's economic production because it is a joint federal and state funded program. For each dollar Missouri expends, it is able to generate nearly \$2 in federal and provider contributions. The health care industry and ancillary industries benefit directly from these expenditures. Medicaid payments contribute to the overall income of health care providers including doctors, pharmacists, hospitals, nursing homes, mental health clinics and others.
- The health care industry in Missouri is compromised when Medicaid is cut. A Missouri Specific study cites that with every \$1 million expended in Medicaid, the State is able to generate an additional \$3-5 million in business activity, creating between 42-71 jobs.<sup>13</sup> Cutting several hundred million from Medicaid (as Missouri has in the last 4 years) will compromise thousands of Missouri jobs.

Health care cuts also impact families' budgets, making insurance more difficult for all Missourians to afford. A recent study by Families USA found that as a state's uninsured population increases, costs for private health insurance increase as well, due to cost-shifting the cost of caring for the uninsured. According to the study, the average Missouri family pays \$291 extra each year in private health care premium costs to cover the cost shifting in our state. By 2010, that amount is estimated to increase to \$609.<sup>14</sup>

TABOR would further strain Missourians' ability to access health care. Further erosion of state funds brought about by TABOR would likely result in more Medicaid cuts, and increased premium costs. The state's health care industry would be further compromised.

### **TABOR Would Harm Missouri K-12 Education**

TABOR would further constrict the already under-funded Missouri schools, erode the educational attainment of Missouri's children and increase local costs for families.

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<sup>11</sup> *The Costs and Consequences of Being Uninsured*; Karen Davis, PHD, the Commonwealth Fund; Medical Care Research and review 60, 2 (June 2003)

<sup>12</sup> *Health Care Expenditures & Insurance in Missouri*, Kenneth E. Thorpe, PHD, Missouri Foundation for Health, October 2003.

<sup>13</sup> Missouri Foundation for Health *Show Me Series Report 5: Economic and Health Benefits of Missouri Medicaid* available at [www.mffh.org](http://www.mffh.org)

<sup>14</sup> "Paying a Premium: The Increased Cost of Care for the Uninsured", Families USA, June 8, 2005, available at [www.familiesusa.org](http://www.familiesusa.org)

According to the Missouri Department of Elementary & Secondary Education, state aid to K-12 school districts in Missouri is currently \$800 million under the level that is constitutionally required. “As a result, property owners and renters in roughly one-fifth of the state are paying more in school property taxes, as school districts seek to offset substantial losses of state aid. Although tax rate increases vary, many homeowners are facing tax hikes of \$100 or more.”<sup>15</sup>

Further, the Missouri Legislature passed a new school aid formula that promises to ameliorate the problem by increasing state aid to local districts by \$700 million over the next several years. A TABOR would jeopardize these funding increases for Missouri by requiring education to grow at the current fiscal crisis level. The result of TABOR would be declining educational attainment, and/or significant increases in local property taxes to support local schools. Again, TABOR would greatly impact the pocketbook of Missouri’s families.

### **TABOR Would Harm Missouri’s Access to Higher Education**

Since state fiscal year 2001 state aid to Missouri’s Colleges and Universities has languished. The results have been skyrocketing tuition costs along with stagnating enrollments. State aid for Missouri’s four year universities has decreased by \$60 million since FY 2001. State aid to Community Colleges has also been cut by nearly \$14 million.<sup>16</sup>

As a direct result of the sharp decline in state aid, tuition and fee rates for Missouri’s four-year public universities have risen by 58% since 2001. More than 88,000 Missouri resident students are paying an average of \$2,122 more per year for Missouri colleges.<sup>17</sup>

As it is becoming increasingly difficult for Missouri families to afford Higher Education, student enrollment is beginning to decline. It is reasonable to assume that many prospective students may be forgoing a college education due to the high cost directly related to the state’s lack of financial support for its four year institutions.

If Missouri had a TABOR, the impact on Higher Education would be severe. Currently, Higher Education funding is not constitutionally protected as K-12 education and its funding is not guaranteed under state or federal mandate. This places funding for Higher Education in a particularly precarious position were a TABOR amendment to pass in Missouri. In addition to the sizeable tuition/fee increases, further funding reductions could result in eroding the quality of Missouri Higher Education. Colleges will be hard pressed to hire and retain quality faculty members and provide students with adequate course offerings as well as other educational resources.<sup>18</sup>

*“When TABOR was enacted, roughly 25% of the state budget went to funding higher education; it is now under 10%.... Without TABOR reform there is only one result – the end of state funding for higher education by the end of the decade.”*

– Michael Carrigan, University of Colorado Regent

<sup>15</sup> Excerpt from “Federal Policies are Worsening Missouri’s Budget Problems”, Center on Budget & Policy Priorities; Johnson, Lav & Blouin; September 2004. Available at [www.cbpp.org](http://www.cbpp.org)

<sup>16</sup> Missouri Department of Higher Education

<sup>17</sup> IBID

<sup>18</sup> Interestingly, as tuition increases equaled 58% in the last five years, during this same time frame, the inflation rate as measured by the Consumer Price Index rose only 10.5%.

TABOR would further increase costs for Missouri students, compromise Missouri's educational attainment and diminish our state's ability to compete in a global marketplace.

### **TABOR's Impact on the Judiciary, Civil Liberties and Public Safety**

Colorado Data again proves that TABOR has taken a toll on the Judicial Branch of government and individual access to court assistance and legal representation. A recent Colorado Bar Association Judicial survey indicates that 87% of Colorado Judges agree that budget reductions have reduced citizens' access to courts. Sixty-nine percent of Judges surveyed indicate that the decreased funds have resulted in increased delays on rulings on motions, and others cite delays in trial, longer lines at Local Clerk's Offices, and other barriers to the judicial system

Colorado's Judicial System is in disarray due to the state funding cuts that TABOR has required:

- Between 2003 and 2004 nearly 100 Colorado court employees were laid off and another 290 positions were left vacant, resulting in a judicial system that is understaffed by 17%
- Colorado has postponed salary increases for court appointed attorneys and investigators due to funding shortages. State attorney's salaries are now one-third the market rate and Colorado is finding it more difficult to recruit and retain quality public defenders as a result
- Trial courts and local clerk's offices have had to restrict the hours they operate, resulting in much longer waits for services, a lack of support for judges and hearing delays. Court Hearings that are statutorily required to occur within two days of filing now take an average of 30 days
- Between 2003 and 2004, 50 probation officers were laid off and caseloads increased for those that remained. Colorado probation officers now have an average caseload of 217 adult offenders, compared to the national average of 130<sup>19</sup>

Missouri has already faced cuts to the state judiciary and public safety: Corrections department staff and probation and parole staff have been reduced. Funding for regional crime labs has been cut nearly in half, resulting in stalling police investigations. Missouri even closed one of its correctional facilities in the last year. Missouri's citizens would be directly impacted by decreased citizen safety and access to a quality judicial system if TABOR were to pass.

*"By any standard, the judiciary faces a heavy workload in the courts and probation. That work has been made more difficult by the state's fiscal crisis.....My constant concern is that we are not able to give the people of Colorado the level of services that they should receive. To compensate for the lost staff, most courts have reduced their public hours. Courts close their doors at noon or 4 pm so that the clerks can process the hundreds of documents going in and out of courts every day. Telephone calls may go unanswered, and the lines of people waiting for services are longer."*

- Colorado Supreme Court Chief Justice, Mary Mullarkey

### **TABOR Would Harm Missouri's Economy**

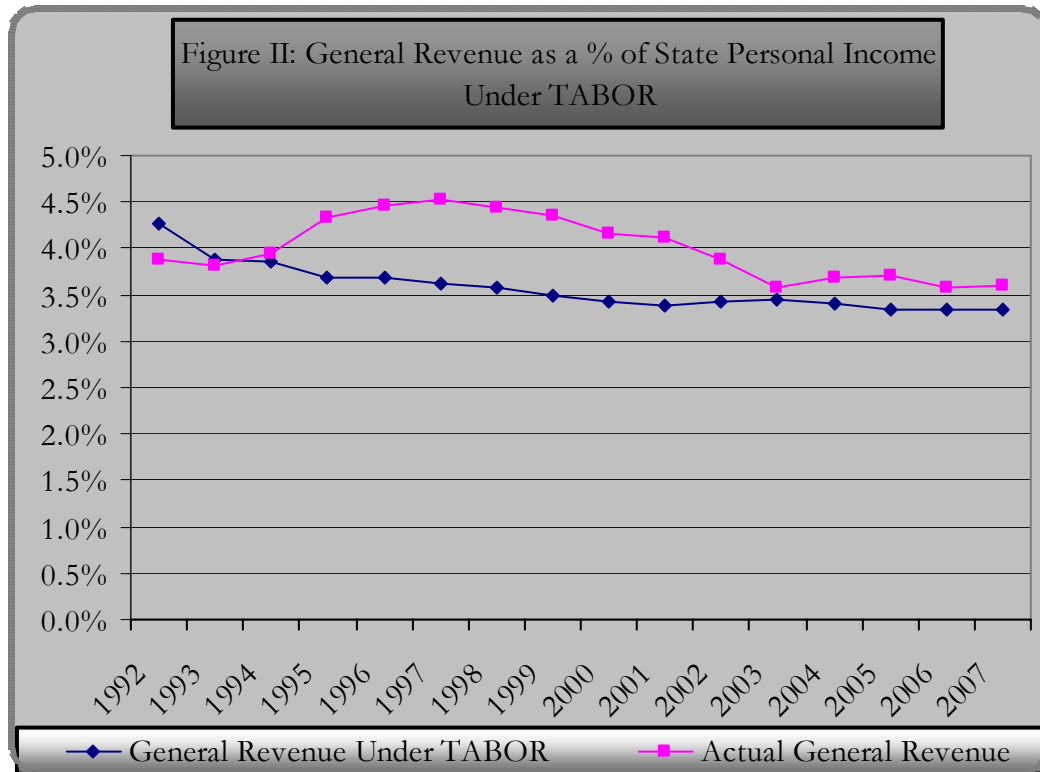
TABOR harms State economies in several ways:

- Through direct cuts to state services that result in the loss of federal funds and investment in state industries
- Through diminished educational attainment of the State population, compromising the ability of the Missourians? to compete in the global marketplace

<sup>19</sup> "Tabor Issue Brief: Judicial Branch", The Bell Policy Center, available at [www.thebell.org](http://www.thebell.org)

- Through decreased funding for infrastructure needs, including transportation, on which the economy depends

Additionally, over time, TABOR reduces funds for state services to a smaller and smaller percentage of the personal income of the state. (See Figure II). The result is that state services are unable to keep pace with the changing economy, and in turn begin to erode the fabric of the economy, and state the infrastructure that supports it.



As indicated in Figure II, if Missouri had passed a TABOR in 1992, state general funds as a percent of State personal Income would have declined to an even greater extent than what has happened through Missouri’s fiscal crisis. State investments in public services that support the economy would be diminished over time. Some poignant examples that while already mentioned elsewhere in this document are worthwhile reviewing in the context of their economic impact:

- Missouri has already reduced funding for state health care programs. These cuts will compromise the funding for the state health care industry as public funds comprise 46% of spending in Missouri’s health care industry. This will restrict a large portion of the state economy as total private & public

*“Face it, business leaders have done a sober, businesslike assessment of where (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 colleges and universities, under-funded public schools and a future of crumbling roads and bridges”*

– Neil Westergaard, Editor of the Denver Business Journal

health care expenditures in Missouri create 16% of Missouri's Gross State Product.<sup>20</sup>

Further cuts brought about by TABOR are certain to have a negative impact on this Industry, which will overflow into diminishing the gross state product;

- Missouri K-12 school districts and attainment of higher education have already been compromised by the loss of state aid. TABOR would further compromise Missourians level of educational attainment, and skills that corporations need in order to remain competitive in a global marketplace;
- A Missouri TABOR would compromise the general revenue funds allotted to state public transportation, road construction and maintenance needs. Transportation serves a vital role in keeping the economy running by allowing Missourians to get to work, and providing the system to transport our products through and beyond the state;
- Further, as individual family budgets are forced to cover increased costs for all services as a result of state cuts, Missouri families will have less disposable incomes. This in turn could reduce retail sales and foster further economic decline.

Microsoft Chairman, Bill Gates in August 2005, told a group of state policy makers that a well-educated workforce, not tax breaks, is the key to luring high-tech business to a state. "The industries that I think about most are far more sensitive to the talent in the area than they are to the tax policies. If you're coming up with a breakthrough in medicine, it doesn't matter if you're paying a little more in taxes."<sup>21</sup>

*"(TABOR)...is about tightly controlling, actually strangling Colorado's income statement, its income and expenses...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 capitol 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

A report from the *Economic Policy Institute* supports the comments of Gates. The report compiled the results of several dozen corporate surveys from throughout the nation. The results of the surveys indicate that access to basic state services - including education, transportation and services which improve quality of life (such as health care) - were more important than tax incentives for corporations choosing to locate in a state.<sup>22</sup>

As the nation prepares to move further into global competition, TABOR would restrain Missouri's ability to compete and would diminish the State's economy.

#### **TABOR's Impact on Localities – Local Tax Increases and Reduced Services**

TABOR will compromise local communities if passed in Missouri. This occurs in several ways:

- As TABOR whittles away the state budget over time, it also diminishes state aid to local communities. TABOR results in a direct loss of state aid for local programs including local emergency response, parks, libraries, and

county health departments.

<sup>20</sup> *Health Care Expenditures & Insurance in Missouri*, Kenneth E. Thorpe, PHD, Missouri Foundation for Health, October 2003.

<sup>21</sup> [www.Stateline.Org](http://www.Stateline.Org) August 17, 2005

<sup>22</sup> *Rethinking Growth Strategies: How State and Local Taxes and Services Affect economic Development*, Economic Policy Institute, Robert Lynch, 2004

- Further reductions in state services including cuts to local schools, health care and Medicaid cuts directly impact the health and educational attainment of the citizens in localities.
- State funding reductions also impact the job base in counties. As health care cuts take effect, hospitals, doctors' offices, and local clinics will be forced to reduce staff or even close. According to a 2005 survey of former state family planning providers, undertaken by the Missouri Family Health Council, 10 Missouri clinics in rural and urban areas of the state have closed as a result of the loss of Women's Comprehensive Health Care funding.<sup>23</sup>

Localities are faced with difficult choices under TABOR- increase local fees and property taxes to offset the loss of State aid, or decrease services and compromise the local economy. No locality should be forced into this choice due to a poor public policy option.

### **TABOR's Impact on the Family Budget**

TABOR makes a false promise to consumers that it will reduce their taxes and save families hundreds of dollars in taxes. On the contrary, TABOR has resulted in increased costs that go far beyond the average \$491 that a Coloradan will receive over the 5 year TABOR respite.<sup>24</sup>

Missourians know the pain of increased costs resulting from tax reductions. The current fiscal crisis has already resulted in an array of "hidden" cost increases:

- 88,000 Missouri resident students are paying an average of \$2,122 more per year for tuition and fee increases at Missouri Universities
- 22% of Missouri property owners are paying an average of \$100 more per year as a result of local property tax increases passed to offset the loss of state aid to local districts
- Several communities have passed additional increases in property and sales taxes to fund other community needs. Kansas City in 2005 successfully passed a new "health levy" that was intended to expand access to local health care. Following the May 2005 Medicaid budget reductions, the county will instead use the funds to maintain some of the services that were cut (not all). St. Louis County, St. Louis City and St. Charles Counties also passed local tax increases to create or enhance "Children's Services Funds" after the loss of state aid
- Missourians have faced local fee increases in some areas as well. The city of Springfield in 2004 levied a \$700,000 increase in various local fees to keep the budget in balance after the loss of state aid

If Missouri passed a TABOR amendment, families could expect to pay even more out of pocket expenses for services that the state previously funded.

### **Missouri , Hancock and TABOR – More Harm Than Good**

#### ***Missouri general revenue is growing at historically low levels.***

Since 2001 net general revenue collections in Missouri have only increased by 5% for the total 5 year period. The state's general revenue fund growth as a percent of personal income growth in the state as mentioned earlier in this report, has reached historic lows. General revenue as a share of Personal Income is now just 3.72% (Fiscal Year 2005). Comparatively, in 1990 Missouri General Revenue as a share of personal income was 4.2%. Our state spends less now as a share of the economy than it has since 1985. By all accounts, Missouri's revenue growth is not out of control.

<sup>23</sup> Survey findings released by the Missouri Family Health Council on June 1, 2004 at a press event in Jefferson City, MO. More information can be obtained at [www.mfhc.org](http://www.mfhc.org).

<sup>24</sup> The *Denver Post*, November 5, 2005

***Missouri already has the Hancock Amendment.***

In 1980, Missouri voters adopted the “Hancock” amendment to the state Constitution. The Hancock amendment is Missouri’s “TEL” that already limits Missouri “Total State Revenue” growth to the growth in Missouri Personal Income (or the ability of Missouri households to support state government).

Although Hancock took affect in 1980, revenue growth did not exceed the growth lid until 1995, at the beginning of the economic surge of the late 1990s. Between state fiscal years 1995 through 1999, Missouri income taxpayers received refunds totaling \$979 million due to the Hancock lid. Approximately \$104 million of that total was refunded to Corporate Income Tax Payers.

During this Hancock growth period, the Missouri general assembly made several significant tax changes that effectively reduced Missouri’s tax base by 11%. Between 1995 and 2000 the state passed 14 tax cuts and created 21 new tax credits. It was the quick reduction of Missouri’s tax revenues that contributed most significantly to the historic decline of Missouri’s general revenue growth. As a result, the “Total State Revenue” as applied by Hancock is now \$1.5 billion below the Hancock threshold. The reduction of the tax base and the fact that Missouri is well below the Hancock lid are both strong indicators that Missouri’s spending is not growing steeply.

Further, between Fiscal Year 1999 and Fiscal Year 2004, Total State Revenue grew only 5.1% cumulatively, while the Total State Revenue Limit (citizen’s ability to pay) grew 26.4%.

The Hancock provisions were amended in 1996 to include an additional “TEL” constraint. Voters made the Hancock Amendment more restrictive by requiring direct voter approval of any significant tax increase. In 2005, any tax increase over \$70 million is already required to go before the people.

***Missouri is Already a Low Tax/Low Spending State***

- In 2002 Missouri Ranked 39<sup>th</sup> in state and local taxes as compared to other states<sup>25</sup>
- Missouri’s Cigarette tax of 17 cents per pack is 49<sup>th</sup> in the nation, and is lower than tobacco producing states
- Missouri has a lower property tax than 36 other states<sup>26</sup>
- Missouri state general fund revenue per capita is 45<sup>th</sup> nationally
- Missouri ranks 42 among the States for tax revenue as a share of personal income<sup>27</sup>
- Missouri’s Per Capita Corporate Income Tax is just \$36 and Missouri ranks 44<sup>th</sup> compared to other states in this indicator.<sup>28</sup>

**Missouri’s tax base, the amount it assesses on its citizens, is by all accounts low as compared to other states. Therefore, it’s no surprise that Missouri’s “spending” indicators are also low:**

- Missouri State employees are now the **lowest** paid state employees in the nation. At an average of \$34,200 they are about \$11,000 below the national average (footnote)
- Missouri ranks **38th** nationally when one considers the amount of state general revenue funds spent on Medicaid as a share of personal income.<sup>29</sup>

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<sup>25</sup> Center on Budget & Policy Priorities analysis of United States Census Data.

<sup>26</sup> IBID

<sup>27</sup> “Missouri State and Local Spending: A Fifty-State Comparison for 2002”, Stallmann, University of Missouri, October 2005, available at <http://extension.missouri.edu>

<sup>28</sup> Morgan Quitno

- In terms of state general fund Medicaid expenditures per state resident, Missouri ranked 34<sup>th</sup> in the nation in 2003.<sup>30</sup>

Missouri's low tax and spending status, the historic decline of general revenue as a share of personal income and the fact that Missouri has a constitutional "TEL" already in the form of the state's Hancock Amendment are all clear indicators that Missouri does not need a TABOR.

### **Conclusion: TABOR is Not an Answer for Missouri's**

- TABOR doesn't provide an answer to Missouri's current fiscal crisis problems. TABOR instead would *constitutionally* lock in the growth of funds for state services to the today's historic fiscal crisis levels
- Given Missouri's already fragile fiscal state, passage of TABOR would result in a permanent fiscal crisis, which would have devastating irreparable impacts.
- The real impact of TABOR in Missouri would be a further erosion of the array of state services and eventual economic decline.
- Missourians deserve public leadership that will provide an opportunity for all citizens to dialogue with each other about our priorities, and create real solutions for our future fiscal well being.

The documentation of TABOR's effects on Colorado is clear, as is the analysis of what TABOR's impact on Missouri would be. TABOR is a proven failure, and Missouri should not follow in Colorado's footsteps.

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<sup>29</sup> Center on Budget & Policy Priorities Analyses of NASBO data on SFY 2003 state general fund Medicaid expenditures and state personal income data from the Bureau of Economic Analysis.

<sup>30</sup> Analysis of Census Bureau data on state and local expenditures and Bureau of Economic Analysis data on personal income.