



1226 Huron Road, Suite 300 Cleveland, Ohio 44115 (216) 781-2944 FAX (216) 781-2988

[www.CommunitySolutions.com](http://www.CommunitySolutions.com)

## **TABOR: A Taxpayer Bill of Goods?**

By John R. Corlett, Senior Fellow and Director of Public Policy and Advocacy • January 14, 2005

A proposal has been made to place a constitutional amendment on Ohio's November 2005 ballot that is more restrictive than a similar amendment adopted by Colorado voters in 1993. Proponents will have to gather 323,000 valid signatures to place the measure on the ballot. The amendment is commonly known as TABOR (Taxpayers Bill of Rights) and would dramatically limit state investment in education, health care, and economic development activities. The measure might better be described as a Taxpayer Bill of Goods since the TABOR hype doesn't match the facts.

Although Colorado is held up as an example of where TABOR has worked well, the facts reveal a state that has seen its education and health care rankings and its economic fortunes plummet. Colorado's unemployment rate has nearly doubled since the recession began in 2001.<sup>1</sup> Colorado business bankruptcies soared in the first quarter of 2004 by 127 percent and total Colorado bankruptcies increased by 16 percent.<sup>2</sup> Personal income growth rates in Colorado have fallen from first in the country during the 1990s to 45<sup>th</sup> in 2003.<sup>3</sup> The Western Blue Chip Economic Forecast for 2004 placed Colorado dead last among western states, for personal income and job growth,<sup>4</sup> and state highway spending, an engine of economic activity, has been sharply reduced because of TABOR.<sup>5</sup> The 2005 Colorado Business Economic Outlook projects Colorado will be last among western states in terms of population growth.<sup>6</sup> According to a 2004 Colorado Association of Non-Profit Organizations survey, 76 percent of Colorado nonprofits said they experienced state budget cuts and 50 percent reported laying off staff. As Colorado's economy has faltered, TABOR actually exacerbated the situation by requiring service cuts in education, health care, parks, highways, and other vital areas.

Perhaps this is why the 2004 Colorado Business Leaders Confidence Index found business leaders concerned about TABOR, and cited increased state government investment in tourism, transportation, and education as critical to an improved state economy.<sup>7</sup> Richard M. Calhoun, the senior managing director of CB Richard Ellis (an international commercial real estate company), wrote, "TABOR ... will put a stranglehold on Colorado's ability to expand and attract new businesses as the economy recovers." He continued, "Colorado will be relegated to a third-world economy."

In 1993, the year that TABOR passed, Morgan Quinto<sup>8</sup> ranked Colorado as the eighth most livable state in the country, but that ranking has since fallen to 23<sup>rd</sup>. In fact, Colorado has slipped behind the nation and Ohio in a number of areas, since passage of the law: Colorado has fallen to 48<sup>th</sup> worse in prenatal care, 48<sup>th</sup> worse in K-12 education spending relative to income, 47<sup>th</sup> worse in per capita higher education spending, 48<sup>th</sup> worse in high school drop outs, 36<sup>th</sup> worse teen birth rate, and dead last — 50<sup>th</sup> — in childhood immunizations. Earlier this year the state cut funding for Denver Human Services by 8.2 percent, forcing cuts to their child welfare

---

<sup>1</sup> Economic Policy Institute Analysis of U.S. Bureau of Labor Statistics seasonally adjusted data for [www.jobwatch.org](http://www.jobwatch.org).

<sup>2</sup> "Bankruptcy Numbers Reach Mile High," Tom Locke, *Denver Business Journal*, April 9, 2004.

<sup>3</sup> "TABOR's Crippling Effect Is Bad for Business," Wade Buchanan, *Denver Business Journal*, March 12, 2004.

<sup>4</sup> The Role of Higher Education & U.S. Global Competitiveness, Larry Edward Pinley, president, Colorado State University, Economic Club of Colorado, June 2004.

<sup>5</sup> "Colorado Economy Still Limping," *The Denver Post*, August, 30, 2004.

<sup>6</sup> "Recovery Arrives for Colorado," *The Denver Post*, December 7, 2004.

<sup>7</sup> "Fostering Growth in Colorado in 2005," Business Leaders Confidence Index, Fourth Quarter 2004.

<sup>8</sup> Morgan Quinto is an independent private research and publishing company that publishes six primary rankings reference books: *State Rankings*, *Health Care State Rankings*, *Crime State Rankings*, *Education State Rankings*, *State Trends* and *City Crime Rankings*.

budget despite the fact that the agency had a 33 percent increase in child abuse cases during the first quarter of 2004.<sup>9</sup>

The amendment has proven so destructive that an original supporter of TABOR, Colorado Republican Senator Ron Teck, has said, "I wouldn't vote for it again. It ties the hands of the representatives. It's like trying to change the spark plugs on a car that's moving down the road at 90 miles an hour."<sup>10</sup> Rural Colorado Republican State Representative Brad Young has this advice for other legislators considering TABOR: "Don't do it, run away from it."<sup>11</sup> Colorado voters also appear frustrated by the effects of TABOR. On November 2, 2004, they handed over control of both legislative chambers in this solid red state to the Democrats for the first time in 44 years. Don Childears, president and chief executive officer of the Colorado Bankers Association, attributed the election turnover in part to "collective frustration with both parties for not solving the fiscal issues - TABOR, Amendment 23 and Gallagher."<sup>12</sup>

## **The Ohio TABOR Proposal**

In November 2004, Ohio Attorney General Jim Petro approved a petition summary presented by Citizens for Tax Reform (the group was previously known as Citizens for Tax Repeal and led an unsuccessful effort to repeal the temporary one-penny sales tax six months earlier than its planned expiration) to amend Ohio's constitution to include dramatic limitations on the ability of the state and its political subdivisions (cities, school districts, libraries, park districts, MRDD boards, etc.) to increase spending and/or taxes.

The proposal would require a two-thirds vote of the Ohio House (66 votes) and the Ohio Senate (22 votes) as well as a majority vote of the state's voters to increase state spending, over and above that of the previous fiscal year in a percentage amount that exceeds the national rate of inflation and the rate of population growth.

The proposal would also prohibit the state from requiring any political subdivision to participate in a program or initiative unless that program is fully funded by the state. The proposed amendment contains no description of how it would be determined whether or not the state had fully funded a mandated program.

No political subdivision would be able to increase spending in a percentage amount that exceeds the national rate of inflation and the rate of population growth without a majority vote of the electors in that political subdivision. The same rule would apply to a tax increase or establishment of a new tax. It does allow for the Ohio General Assembly to pass a law allowing a political subdivision to exceed this tax and/or spending limits with a two-thirds vote of the legislative authority of that political subdivision, as long as such a vote is subject to a referendum by the electors of the political subdivision.

There is no exception for an emergency (e.g., flu epidemic, tornadoes, floods), nor is there any exception for new programs (e.g. Leave No Child Behind Act, Medicare Prescription Drug Benefit) mandated by the federal government. The Center on Budget and Policy Priorities has estimated that over the past five years, unfunded federal mandates have cost Ohio \$5 billion.

## **TABOR Locks In Bad Times**

An Ohio TABOR would make bad budget times permanent. That's because when state revenues decline during a recession (as they did in state fiscal year 2003, and as they would have in state fiscal year 2004 without the temporary one-penny sales tax increase), they can't grow the following year because the new base spending levels are determined by the low levels imposed during the recession. An Ohio TABOR makes permanent the cuts to public services imposed during the bad budget years.

It also locks in current spending patterns and makes it more difficult to make changes in the state's financial priorities. A shift in spending or funding for new priorities usually comes from directing incremental growth in revenues to that new priority. In fact, an Ohio TABOR that caps or shrinks (in a case where a population decline exceeds an increase in the consumer price index) the amount of revenue growth will make it more difficult to fund existing priorities, let alone respond to new challenges.

## **Inflation plus Population Is Wrong Measure**

The consumer price index is not a good measure of the cost of providing services in Ohio that are required either by state law or constitution. The consumer price index measures the price of a "market basket" of goods purchased by a typical urban consumer. The index is heavily weighted towards the cost of housing,

---

<sup>9</sup> "Human Services to Trim 150 Jobs," *Rocky Mountain News*, May 28, 2004.

<sup>10</sup> "The Way We Tax," *Governing Magazine*, February 2003.

<sup>11</sup> "Colorado Fiscal Lid a Tight Fit," Harry Esteve, *The Oregonian*, April 18 2004.

<sup>12</sup> "Execs Hail Vote," Aldo Svaldi, Will Shanley, *Denver Post*, November 4, 2004.

transportation, and food. By contrast, the State of Ohio spends nearly three-quarters of its revenue on health care and education. Government tends to purchase services in areas where productivity gains are harder to come by, and this means that costs tend to rise faster as a result. The table on the next page compares the general inflation rate with the inflation rates of services that state governments tends to purchase.

<b>Inflation Rate, 1993-2003, All Items vs. Specific Sectors</b>	
<b>Inflation Factor</b>	<b>Percent Change, 1993-2003</b>
CPI-U, All Items	27.3%
CPI-U, Medical Care	47.5%
CPI-U, Medical Care Services	50.8%
CPI-U, Education	71.4%
CPI-U, Transportation Services	32.8%

Source: U.S. Bureau of Labor Statistics

### **TABOR Undermines Democracy**

TABOR’s requirement for a two-thirds vote to increase aggregate state expenditures beyond the limit makes it more likely that a minority of legislators will be able to dictate state policy and budget decisions. It could lead to policy paralysis, an even more drawn-out state budget process, and or a series of temporary budget measures.

An Ohio TABOR would also likely lead to an increase in local ballot measures related to taxes and/or spending. For a number of reasons, these types of measures are typically voted on by a small number of eligible voters. In Colorado, they found that fewer than 20 percent of voters made decisions about fiscal policy in off-year elections. It is likely that only those services or programs that were overwhelmingly popular or that had access to significant financial resources would be able to prevail at the ballot. There are no limits on how much anyone can spend to influence a ballot measure in Ohio. So special interests, with lots of money, will be able to spend unlimited amounts of money to defeat or promote referendums.

### **TABOR Hurts Seniors**

An Ohio TABOR proposal treats all populations alike, even when they aren’t. An increase in the population of 25-year-olds is treated the same way as an increase in the population of 85-year-olds. That approach ignores the fact that older adults are more likely to pay less in taxes and depend more on public services. An Urban Institute report in 2000 found that per-capita government health care expenditures for those over the age of 85 were 37 times higher than those in the 20-34 age range.<sup>13</sup> An older population also tends to utilize more tax-exempt services like medical care, which isn’t taxed in Ohio. According to the Scripps Gerontology Center, by 2020 there will be 2.8 million Ohioans over the age of 60 – that’s a 44 percent increase. Over one-third of those individuals will likely have a disability.

An unforeseen consequence of TABOR in Colorado was the elimination of the Homestead Exemption for property owners over the age of 65. The measure halved the taxation rate on the first \$200,000 of a house owned by a senior citizen for over 10 years, regardless of that person’s income level. Due to the budget shortfall caused by TABOR, the legislature was forced to cancel this tax rebate indefinitely. AARP Colorado has said that they have “received many calls from members concerned about the loss of the senior property tax exemption, cuts in Medicaid, the raising of park fees for seniors and long lines seniors face when renewing their drivers licenses.”<sup>14</sup> AARP Colorado has made reform of TABOR one of their top legislative agenda priorities in 2004.

### **Higher Education a Likely TABOR Victim**

During recent Colorado state budget cuts, higher education was often a target for spending reductions. This is because, unlike other state services, it is neither constitutionally mandated nor an entitlement. The decrease in state higher education would likely intensify as a result of an Ohio TABOR. In Colorado, state general fund appropriations for higher education have reached their lowest level in over 20 years.<sup>15</sup> At the University of

<sup>13</sup> *Economic Consequences of Aging*, Urban Institute, 2000.

<sup>14</sup> Letter to State of Colorado Treasurer Mike Coffman from Keli Fritts, advocacy representative, AARP Colorado.

<sup>15</sup> *Colorado TABOR Watch: Higher Education*, The Bell Policy Center, 2004.

Colorado Boulder, state general revenue fund appropriations dropped from 20.3 percent of the budget in 1990 to 10.5 percent in 2004.<sup>16</sup>

The consumer price index measure used in an Ohio TABOR proposal isn't a good measure of how higher education costs can increase. The cost increases of things like new technology, lab equipment, and books that allow a university to remain globally competitive can outpace increases in the consumer price index.

The consequences of reduced support for higher education means that fewer students will have access to higher education, and classes will be offered less frequently, lengthening the time it takes to obtain a degree. The 20 highest earning professions all require at least a bachelor's degree, and occupations that require a college degree are growing twice as fast as others.

---

<sup>16</sup> *Surviving Financial Challenges in Colorado Public Higher Education*, Office of the President, University of Colorado, December 2003.