

*PBPC Policy Brief*ⁱ
**Leaving Pennsylvania Behind:
Locking in Cuts in State Spending Would
Jeopardize Pennsylvania's Future**

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On a fast track, the Pennsylvania General Assembly is now considering several proposals to limit the growth of state spending in the commonwealth. The bills are expected to pass both Houses by the end of October, without the benefit of hearings or other legislative and public deliberation on the consequences of such policies.

These proposals would amend Pennsylvania's constitution to enact permanent limits to state spending. They would profoundly effect the commonwealth's capacity to fund core public services, including education, health care, roads and transportation, public safety and community and four year colleges. While several states have enacted some form of spending limitation, Pennsylvania's proposed legislation would be among the most restrictive in the nation.

Based on an analysis of the proposals and on experience in Colorado under "TABOR" (Taxpayer Bill of Rights) legislation similar to that proposed for Pennsylvania, this policy brief concludes that the proposed state spending limitation proposals would damage Pennsylvania's quality of life and the ability of the commonwealth and its middle class to compete in a knowledge-based global economy.

In Colorado, the adequacy of state K-12 educational spending, access to higher education, children's health and access to health care have all eroded since 1992, when legislation limiting state spending passed. Business leaders and bi-partisan political leaders now recognize Colorado's legislation as a mistake that must be undone. They are supporting a ballot initiative that would increase state spending by more than \$3 billion and sell bonds to pay for critical infrastructure needs neglected after 12 years of TABOR.

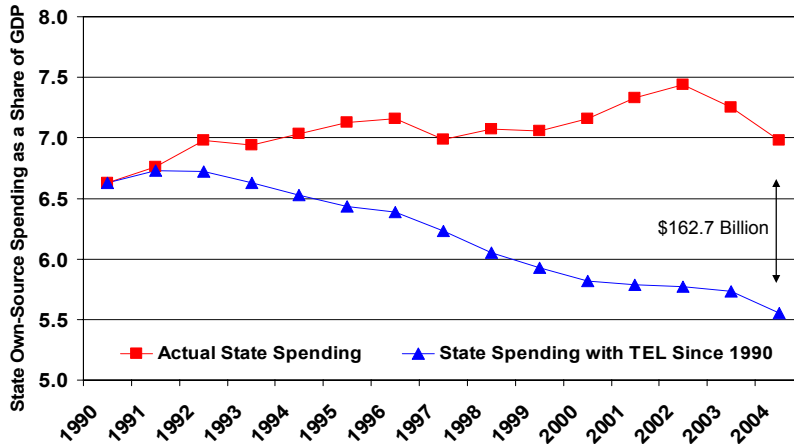
Background

In 1992, Colorado enacted the first so-called TABOR bill to limit the growth of state government spending. Colorado's TABOR legislation is a constitutional amendment that limits the growth of government spending to population growth plus inflation from one year to the next.

While portrayed as preventing growth in state spending, TABOR proposals would actually force a significant decline. (Figure 1 shows the total decline in state spending in all 50 states had TABOR-like provisions been in effect from 1990 to 2004.)¹

ⁱThe newly established Pennsylvania Budget and Policy Center (PBPC), online shortly at www.pennpbc.org, conducts research and policy analysis on Pennsylvania budget and tax issues. PBPC was created with support from Annie E. Casey Foundation and is a project of the Keystone Research Center.

Figure 1. Population-Plus-Inflation Growth Formula
Would Shrink State Government



Notes: TEL's are "Taxpayer Expenditure Limits." The figure shows an estimate for all 50 states. "Own-Source" spending is the sum of general fund and other state spending.

Source: CBPP calculation of NASBO data.

Colorado's law has been the inspiration for proposed policies in many other states and now in Pennsylvania. Proposals now under consideration would have the following consequences.²

- Amend the Constitution to limit state spending growth.
- Limit annual spending increases to a formula: either population growth plus inflation or growth in personal income, whichever is less. In only one of the past 20 years has growth in personal income fallen below population + inflation, so we focus on that measure.
- Allow expenditures above the limit only in the event of an emergency declared by the President or Governor, or with a supermajority vote of the legislature.

Other bills proposed would:

- Establish the limits in statute, allowing them to take effect with the 2006 budget.
- Direct unexpended tax revenues to the Rainy Day fund.

The Logic of the Case: Why TABOR Is a Bad Idea

Nationally and in states, the level of per capita government spending has varied enormously at different points in history in response to the changing structure of our economy and society. Governments need the flexibility to respond quickly both to emergencies, such as the September 11 terrorist attacks and Hurricane Katrina, and to make investments to ensure that their states and the nation remain competitive.

To put the current debate in perspective, had the United States constrained federal government spending in the 1920s at a rate comparable to that imposed by TABOR, the United States would have been

unable to assist Europe in defeating Nazi Germany, implement New Deal policies that lifted the country out of the Great Depression, or pay for a national highway system.

Similarly, strict spending limits offer state government little flexibility to respond to changing demographics and emerging needs. The proposed TABOR limits come at a particularly bad time for Pennsylvanians.

- First, Pennsylvania's populations of elderly (65-85) and very elderly (85+) are growing much faster than the TABOR spending formula.
- Second, health care costs are rising much faster than the rate of inflation.³
- Third, federal spending cuts, in the Medicaid program and in a variety of programs in which responsibility is being "devolved" to the state level, will reduce funds available to the commonwealth and create enormous pressure to increase state spending.
- Fourth, Pennsylvania now competes in a knowledge-based global economy. To succeed in this environment, Pennsylvania needs to raise the education and skill levels of its workforce.⁴

These factors create powerful pressure to increase state spending rather than reduce it. Implementing TABOR would mean that Pennsylvania health care and other human needs would be inadequately funded in the future even while it becomes impossible to invest enough in education and the workforce. That is why TABOR in the commonwealth would "leave Pennsylvania behind" -- just as it has already left Colorado behind.

The Evidence: TABOR in Colorado Has Been a Failure

Pennsylvania citizens can look to the experience in Colorado to understand the likely impacts of spending limitations in Pennsylvania. TABOR has contributed to a significant decline in public services since it was adopted in 1992.⁵

- In 1992, Colorado spent close to the national average on higher education; by 2004, it spent just 57 percent of the national average. Higher education funding in Colorado per capita has plunged by 31 percent, adjusted for inflation.
- Under TABOR, Colorado has declined from 35th to 49th in the nation in K-12 spending as a percentage of personal income.
- Colorado plummeted from 24th to 50th in the nation in the share of children receiving full vaccinations. Only by investing additional funds in immunization programs was Colorado able to improve its ranking to 43rd in 2004. At one point, from April 2001 to October 2002, the state suspended its requirement that school children be fully vaccinated against diphtheria, tetanus, and pertussis (whooping cough) because it could not afford to buy the vaccine.
- Under TABOR, the share of low-income children lacking health insurance has doubled in Colorado, even as it has fallen in the nation as a whole. Colorado now ranks last among the 50 states on this measure.

- Colorado has fallen from 20th to 48th based on the percentage of low-income non-elderly adults with health insurance.
- Under TABOR, Colorado declined from 23rd to 48th in the nation in the percentage of pregnant women receiving adequate access to prenatal care, as defined by the Centers for Disease Control and Prevention.

Colorado Business and Community Leaders Now View TABOR as Deeply Flawed

As expressed in the quotes below, leaders from diverse communities in Colorado have increasingly come to the conclusion that TABOR is deeply flawed.

- "The public didn't realize [in 1992 when it voted for TABOR] that it would contain the strictest tax and spending limitation of any state in the country, and long-term would hobble us economically." Tom Clark, Executive Vice President, Metro Denver Economic Development Corporation
- "The [TABOR] formula . . . has an insidious effect where it shrinks government every year, year after 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 Joint Budget Committee
- "[Business leaders] have 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 college and universities, underfunded public schools and a future of crumbling roads and bridges." Neil Westergaard, Editor of the *Denver Business Journal*
- "While the economy is expected to grow in fiscal year 2005-06 and General Fund revenues will increase 5.5 percent, the amount of General Fund available under current law is approximately \$80 million or a 1.4 percent increase. . . . In FY 2005-06, \$80 million only covers about 54 percent of the expected growth in Medicaid and K-12 education, leaving those programs under-funded and the remaining state priorities without any funding." Governor Bill Owens

As the Washington D.C.-based Center on Budget and Policy Priorities (CPBB) notes, the declines in services in Colorado are not due to a lack of resources in the state. "Colorado is both wealthy and well-educated: it has the 9th-highest per-capita personal income in the nation, and only one state has a larger share of residents with a bachelor's degree or higher. The main reason Colorado's services are declining is not due to its inability to raise sufficient revenues, but rather because TABOR restricts the state's use of these revenues."⁶

In light of the political circumstances of TABOR's acceleration through the Pennsylvania legislature, it is also worth noting its political consequences over time in Colorado. CBPP notes that "In the November 2004 election, the Republicans lost control of both chambers of the General Assembly for the first time since 1960; observers generally attribute this outcome in part to the legislature's inability to craft a solution to relaxing TABOR. This November, Coloradoans will vote on Referendum C, which (among other things) would allow the state to spend all revenues it collects under current

tax rates for the next five years, even if those revenues exceed TABOR limits. This Referendum enjoys broad support from a range of individuals and groups, including business leaders, children's advocates, Republican and Democrat legislators, the Denver Chamber of Commerce, and the conservative Colorado Springs City Council."

Pennsylvania's Proposals Are Highly Restrictive, Just Like Colorado's TABOR

Supporters of TABOR in Pennsylvania claim that by adopting a constitutional spending limit, Pennsylvania would simply be joining the majority of states (30) with some kind of taxpayer expenditure limit (or TEL).⁷ In fact, however the Pennsylvania proposal is nearly as restrictive Colorado's TABOR.

- Pennsylvania's proposal is *constitutional*, like Colorado's TABOR. Of the 29 existing TELs, 16 are constitutional. Placing fiscal policy in a state constitution creates inflexibility and makes a state less able to react to changing circumstances.
- Pennsylvania's proposal uses the same rigid formula as Colorado's TABOR – *overall population growth plus inflation*. Since total personal income typically grows faster than population growth plus inflation, this formula actually mandates that state spending will be a shrinking portion of state personal income over time. As a result, the state becomes progressively less able to provide adequate services, including investments in the future such as community colleges and quality early childhood education.
- Pennsylvania's proposal requires a *supermajority* (two-thirds of the General Assembly) to override the spending limit. This high barrier to changing fiscal policy prevents the legislature from acting flexibly and responsibly to changing circumstances.

Only four other states use the population-plus-inflation formula and only Colorado places this formula in its state constitution.

Local School and Property Taxes Will Rise

The Pennsylvania General Assembly has made property tax reduction a top priority. Since TABOR spending limits would likely reduce state funding for public education, the courts, county services such child abuse and foster care, and local governments, they would force county and local government to pick up some of the slack. Enacting state spending limits thus threatens to make any property tax relief funded by gaming revenues a shell game.

The Right Priorities

The discussion of state spending limits is taking place in an environment in which many Pennsylvania voters are deeply angry at lawmakers. Proposed spending limits, however, will do nothing to prevent lawmakers from using state resources in ways to which the public objects. For example, these limits will not prevent legislators from spending state funds on pet projects for their

districts, including those funded by more than \$200 million annually in Walking Around Money (WAMS).

Instead, TABOR will simply leave inadequate resources for Pennsylvania priorities such as health care for seniors, rural roads and bridges, corrections and public safety, public education and community and higher education.

¹ As long as per capita personal grows in inflation-adjusted terms, which it ordinarily does, the proposed formula for Pennsylvania locks in a decline in state spending as a share of per capita personal income. In a state in which per capita income grows 1.5 percent per year, for example, state spending would drop in half relative to per capita personal income in less than 50 years.

² The bills that contain the ideas summarized in the first three bullets in the text after this footnote are SB 884 and HB 2067. The subsequent two bullets in the text would be accomplished by SB 4 and HB 2082.

³ Private health insurance costs are growing the fastest. State Medicaid and other health care spending is increasing at a lower rate than the private market, but still much faster than the CPI + population formulas.

⁴ Pennsylvania especially needs to invest in post-secondary education because it starts with a very low education level in the middle of the educational attainment curve (i.e., among the core of the middle class). Pennsylvania ranks 45th for the share of adults 25-64 with education beyond high school; it ranks 49th for the share with "some college" education (i.e., more than a high-school degree but less than a college degree). Rankings based on the Current Population Survey for 2003. Pennsylvania does better measured by the share of the workforce with at least a high-school degree (11th) and for the share of the workforce with a college degree (18th).

⁵ This section summarizes David Bradley and Karen Lyons, *A Formula for Decline: Lessons from Colorado for States Considering TABOR* (Washington, D.C.: Center on Budget and Policy Priorities), available online at www.cbpp.org.

⁶ Bradley and Lyons, *A Formula for Decline*, p. 4.

⁷ The National Conference of State Legislatures (NCSL) counts 30 states with TELs. Wisconsin does not meet most definitions of a TEL but we have included it here for purposes of consistency with NCSL.