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A TABOR AT HEART:
South Carolina's H. 3295 Spending Cap Proposal

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Summary

A proposed bill in South Carolina to limit state spending — H. 3295 — contains the core element of Colorado's Taxpayer Bill of Rights (TABOR). It limits spending using a formula based on population growth plus inflation. H. 3295 can therefore be expected to cause a deterioration in public services in South Carolina similar to that produced by TABOR in Colorado.

KEY FINDINGS

- **H. 3295, a proposed spending limit in South Carolina, includes the central element of Colorado's TABOR: its formula.**
- **In Colorado, TABOR led to reductions in health, education, public safety, and transportation services. Business leaders headed a successful campaign to suspend TABOR's formula for five years in November 2005.**
- **H. 3295 would have similar consequences for public services in South Carolina 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 business leaders and Chambers of Commerce across the state to push for the suspension of 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. In November 2005, Colorado voters approved this suspension. To date, Colorado is the only state to have adopted a TABOR, as well as the only state to have voted to suspend it.

The South Carolina proposal is more restrictive than Colorado's TABOR in regards to suspending the limit: it would not permit such a five-year time-out. Instead, it would only allow the limit to be suspended for one year and only after the approval of two-thirds of the legislature.

While H. 3295 does have some features that differ from Colorado's TABOR, it does not change TABOR's key feature: the rigid population-plus-inflation formula. As a result, it would negatively

affect the public services upon which South Carolinians depend, such as health care, education, and public safety, just as TABOR did in Colorado.

The Colorado Example

In 1992, Colorado adopted the Taxpayer Bill of Rights (TABOR), a constitutional amendment that limits budget growth to changes in population plus inflation. A growing body of evidence shows that in the 13 years following its adoption, 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's population-plus-inflation formula for five years, in part to restore some of the service cuts it induced. The Colorado experience has serious implications for the residents of South Carolina because H. 3295 would likely lead to similar outcomes in South Carolina.[1]

- **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.[2] Colorado's average per-pupil funding fell by more than $400 relative to the national average.[3]

- **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.[4] College and university funding as a share of personal income also fell, from 35th to 48th in the nation.[5]

- **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.[6] 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.[7]

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[1] 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.

[2] Center on Budget and Policy Priority (CBPP) calculation of National Education Association and Bureau of Economic Analysis data.

[3] CBPP analysis of National Center for Education Statistics data.

[4] CBPP analysis of Colorado Joint Budget Committee data.

[5] Grapevine, An Annual Compilation of Data on State Tax Appropriations for the General Operation of Higher Education. Center for the Study of Education Policy, Illinois State University

[6] National Center for Health Statistics, Centers for Disease Control and Prevention

[7] National Immunization Program (NIP), Centers for Disease Control and Prevention, http://www.cdc.gov/nip/coverage/default.htm#chart

- **TABOR has hindered Colorado's ability to address the lack of medical insurance coverage for many children 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. [8]

H. 3295 and TABOR Share the Same Heart: the Flawed Population-Growth-Plus-Inflation Formula

TABOR's central flaw is its population-growth-plus-inflation formula. A population-growth-plus-inflation formula does not allow a state to maintain year after year the same level of programs and services it now provides. Instead it shrinks public services over time and hinders the state's ability to provide its citizens with the quality of life and services they need and demand.[9]

H. 3295 limits the growth of general fund appropriations to the *lesser* of six percent or population growth plus inflation. In the last 15 years, population growth plus inflation has consistently been lower than six percent, with an average annual growth over this period of only 3.9 percent. And if population growth plus inflation were to exceed six percent, the limit would become even more restrictive. The allowable adjustment in expenditures would have to be held below the population growth plus inflation level, leading to yet sharper cuts in services.

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, South Carolina's total population is projected to increase by 28 percent from 2000 to 2030, while South Carolina's population aged 65 and older is projected to more than quadruple from 2000 to 2030.[10] As South Carolina'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 South Carolina residents were willing to make sharp cuts in other areas of the state budget, such as education or public safety.

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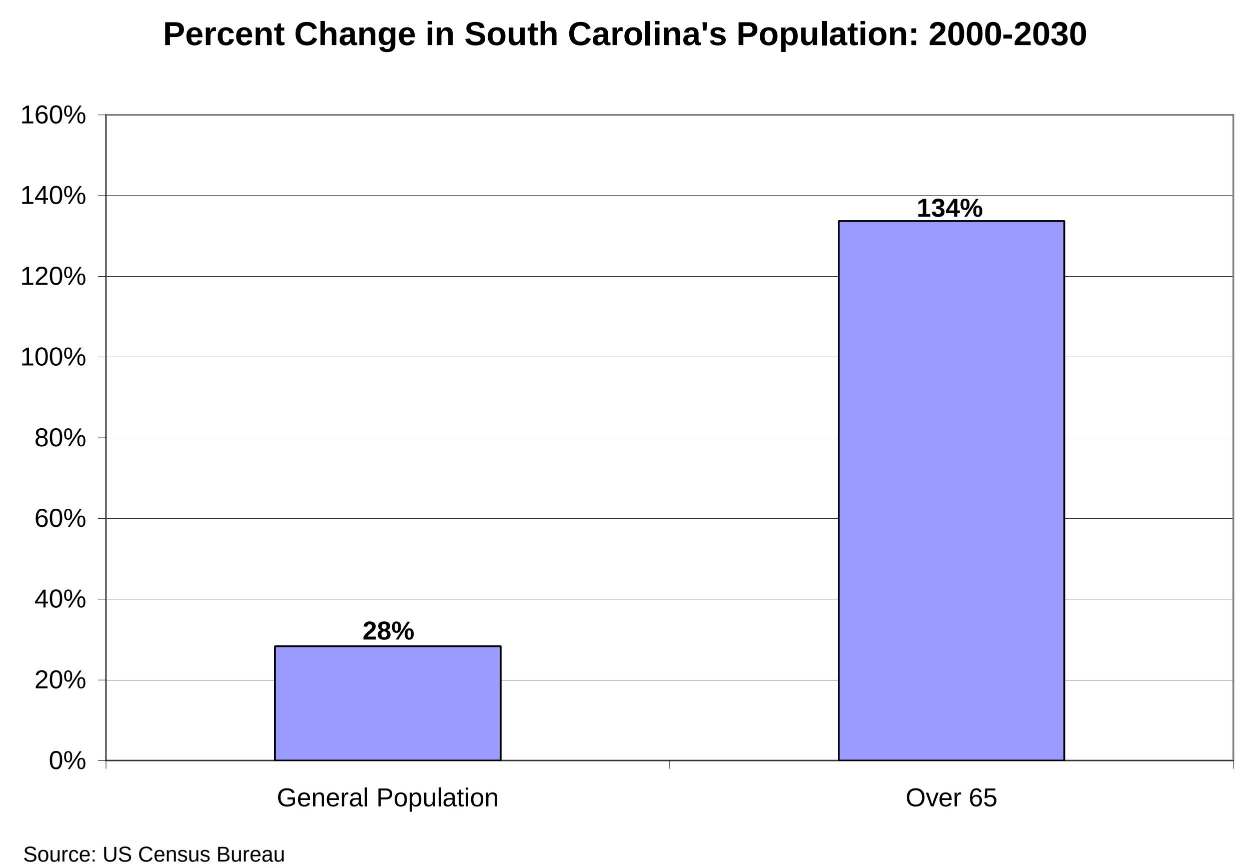
[8] CBPP analysis of the US Census Bureau's Current Population Survey

[9] 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.

[10] 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

FIGURE 1



Inflation

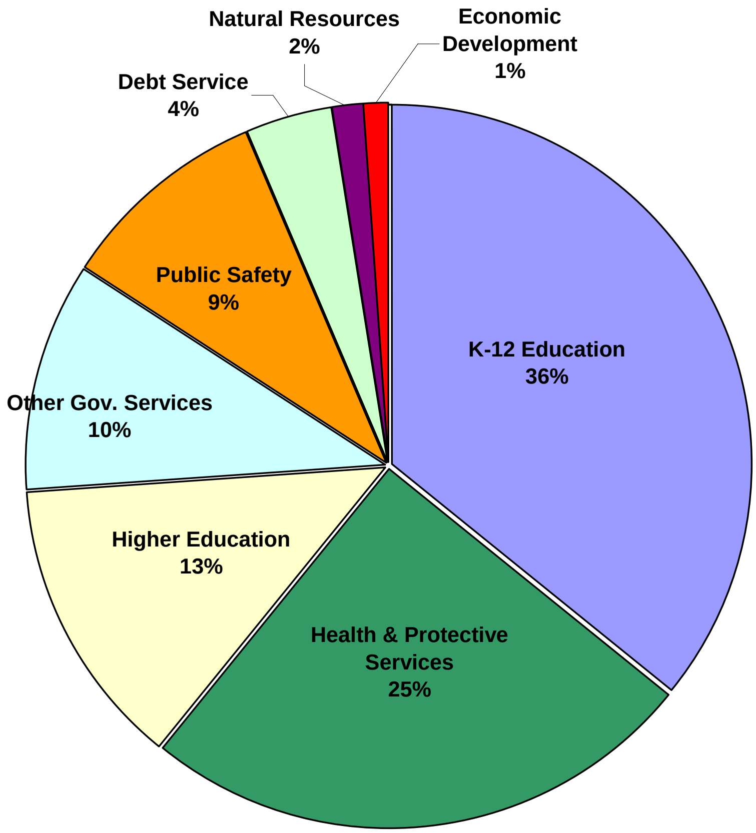
The second part of the formula — inflation — also does not accurately measure the change in the cost of providing public services. The measure of inflation in the South Carolina TABOR initiative is the nationwide "Consumer Price Index-All Urban Consumers (CPI-U)," which is calculated by the U.S. Bureau 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 South Carolina spends its revenue primarily on education, health care, and corrections. In short, the market baskets of spending are entirely different.

Moreover, the "goods"— or public services— in the state of South Carolina'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

FIGURE 2

Key Services at Risk

General Fund appropriations go toward funding priority needs in South Carolina, including Education, Corrections, and Health and Social Services.



Source: South Carolina's Executive Budget, Fiscal Year 2007-08.

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 South Carolina 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 H. 3295 applies to South Carolina's entire General Fund budget, which provides the majority of funding for K-12 education, higher education, health care and corrections. Under H. 3295, 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. 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.

Business Leaders in Colorado Frustrated with TABOR

The effort to suspend TABOR for five years—known as Referendum C— was strongly backed by Colorado's business community. After witnessing declines in the public services the business community cares most about (higher education, transportation, infrastructure), over 80 businesses and business groups, including 10 Chambers of Commerce, endorsed the TABOR suspension. Some business groups suggest that the successful campaign to suspend TABOR already has had some positive impacts for the business climate.

- "For businesses to be successful, you need roads and you need higher education, both of which have gotten worse under TABOR and will continue to get worse." — Tom Clark, Executive Vice President of the Denver Metro Chamber of Commerce[a]
- "[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[b]
- "The business community has said this is not good for business, and this is not good for Colorado." — Gail Klapper, director of the Colorado Forum, an organization of 60 leading CEOs[c]
- "Referendum C's passage was a statement by the electorate that assured business that Colorado's transportation network and higher education system would be able to meet their needs. We saw a spike of activity of out-of-state businesses interested in relocating here when Referendum C passed."— Joe Blake president of the Denver Metro Chamber of Commerce[d]

[a] Quoted in Daniel Franklin and A.G. Newmyer III, "Is Grover Over?," *Washington Monthly*, March 2005.

[b] Neil Westergaard, "Business folks fed up with TABOR worship," *Denver Business Journal,* July 22, 2005.

[c] Will Shanley, "State businesses unite to urge TABOR deal," *The Denver Post*, March 9, 2005.

[d] "Ref. C aids economic recovery," *The Denver Post*, June 30, 2006.

Taking a Time-Out

In response to the large cuts and deterioration in public services experienced under TABOR, the Colorado business community spearheaded an effort to suspend TABOR's population plus inflation formula for five years. Colorado voters approved this plan in November 2005. (See box above)

The suspension mechanism in South Carolina's proposed spending limit is more restrictive than in Colorado's TABOR. It would require that two-thirds of the legislature approve any suspension and would only allow the suspension to be for one year. This would not be sufficient to stem the deterioration of services or allow the state to restore any cuts resulting from the spending limit.

Would There Be Enough for a Rainy Day?

South Carolina currently has a constitutionally mandated General Reserve Fund, which is used to cover operating deficits of the government, if any exist. It must contain a minimum of three percent of the previous year's General Fund revenue. Under H. 3295, any revenue collected in excess of the spending limit would first go toward ensuring that this minimum balance was met. H. 3295 would also cap the amount of revenue this fund could contain at four percent. (Currently, there is no cap.) However, it is unlikely that four percent would be adequate to cover operating deficits during economic downturns; it is below the level most experts recommend that states maintain.

Revenue left over after filling the General Reserve Fund would be allocated to a new fund—-the Spending Limit Reserve Fund. Appropriations from this fund would have to be made by a joint resolution originating in the House of Representatives. These appropriations could only go towards funding infrastructure improvements, temporary tax reductions, school buildings, school buses and expenses incurred because of a natural disaster. This narrow list of uses could be problematic during a downturn. For instance, if moneys in the General Reserve Fund were not sufficient to cover operating costs of programs like K-12 Education or Public Safety during an economic downturn, cuts would have to be made to these programs. Moneys in the Spending Limit Reserve Fund could not be used to offset these cuts.

Conclusion

South Carolina's spending cap proposal— H. 3295— contains the core element of Colorado's TABOR. It is this population-plus-inflation formula that caused serious damage to the state's public services. Thus, H. 3295 can be expected to cause declines in public services in South Carolina similar to those experienced in Colorado under TABOR.