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A FORMULA FOR DECLINE
Lessons from Colorado for States Considering TABOR

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Summary

A growing body of evidence shows that Colorado's Taxpayer Bill of Rights, or TABOR, has contributed to a significant decline in that state's public services. This decline has serious implications not only for the 4.6 million residents of Colorado, but also for the many millions of residents of other states in which TABOR-like measures are now being promoted.

TABOR, a state constitutional amendment adopted in 1992, limits the growth of state and local revenues to a highly restrictive formula: inflation plus the annual change in population. This formula is insufficient to fund the ongoing cost of government. By creating a permanent revenue shortage, TABOR pits state programs and services against each other for survival each year and virtually rules out any new initiatives to address unmet or emerging needs.

Declining services since TABOR's enactment have become increasingly evident in most major areas of state spending: K-12 education, higher education, public health, and Medicaid.

KEY FINDINGS

TABOR has contributed to a significant decline in public services since it was adopted in 1992.

- Under TABOR, Colorado has declined from 35th to 49th in the nation in K-12 spending.
- Higher education funding has dropped by 31 percent.
- Colorado has fallen to near last in providing on-time full vaccinations to the state's children.
- The share of low-income children lacking health insurance has doubled, making Colorado the worst in the nation.
- Colorado business and community leaders now view TABOR as deeply flawed.

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.

- Colorado's average per-pupil funding fell by more than $400 relative to the national average.

- Colorado's average teacher salary compared to average pay in other occupations declined from 30th to 50th in the nation.

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.

- College and university funding as a share of personal income declined from 35th to 48th in the nation.

- Tuitions have risen as a result. In the last four years, system-wide resident tuition increased by 21 percent (adjusting for inflation).

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, as defined by the Centers for Disease Control and Prevention.

- Colorado 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.

- At one point, from April 2001 to October 2002, funding got so low that the state suspended its requirement that school children be fully vaccinated against diphtheria, tetanus, and pertussis (whooping cough) because Colorado, unlike other states, could not afford to buy the vaccine.

TABOR Has Hindered Colorado's Ability to Address the Lack of Medical Insurance Coverage for Many Children and Adults in the State

- 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.

- TABOR has also affected healthcare for adults. Colorado has fallen from 20th to 48th for the percentage of low-income non-elderly adults covered under health insurance.

- In 2002, Colorado ranked 49th in the nation in both the percentage of low-income non-elderly adults and low-income children covered by Medicaid.

Colorado Business and Community Leaders Now View TABOR as Deeply Flawed

TABOR's interaction with other areas of the state's budget has created additional problems. Spending for corrections, for example, has grown substantially faster than the inflation-plus-population formula of TABOR, in part due to strict criminal codes and sentencing laws. Because spending for corrections has grown rapidly, other areas of the budget have been squeezed even more in order to keep overall spending under the strict TABOR limit.

TABOR's costs are becoming clear. A wide range of Coloradoans — business leaders, higher education officials, children's advocates, legislators of both parties, and Governor Bill Owens (R), among others — recognize that TABOR has limited the state's ability to fund critical services.

- "Coloradoans were told in 1992 . . . that [TABOR] guaranteed them a right to vote on any and all tax increases. . . . What the public didn't realize was 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

Colorado's experience provides an important cautionary tale for other states considering TABOR-like measures.

Introduction

A growing body of evidence shows that Colorado's Taxpayer Bill of Rights, or TABOR, has contributed to a significant decline in the state's public services. This has serious implications not only for the 4.6 million residents of Colorado, but also for the many millions of residents of other states in which TABOR-like measures are now being promoted.

This report documents TABOR's effects on five major areas of Colorado government: K-12 education, higher education, public health, Medicaid, and corrections. It shows that Colorado's national rankings in a number of areas of public services have plummeted in recent years. It also presents statements by a range of Coloradoans — including public officials, business leaders, and independent experts — describing the damage TABOR has done to their state.

TABOR, a state constitutional amendment adopted in 1992 in Colorado, limits the growth of state and local revenues to a highly restrictive formula: inflation plus the annual change in population. This formula falls far short of being able to fund the ongoing cost of government. At a time when health care costs are growing much faster than inflation and the population is aging, TABOR's inflation-plus-population formula forces annual reductions in the level of government services.

By creating what is essentially a permanent revenue shortage, TABOR pits state programs and services against each other for survival each year and virtually rules out any new initiatives to address unmet or emerging needs.

This is true even in good economic times. For example, from FY 1997 through FY 2001, amidst a booming economy, Colorado refunded $3.25 billion in "excess" revenue to taxpayers as required by TABOR. (Whenever revenues for a given year exceed TABOR's revenue limit, the extra amount must be returned to taxpayers.) Yet even as the state was giving up more than $3 billion in "excess" revenues, its services were deteriorating: average per-pupil funding for K-12 education was falling; several local public health clinics were forced to suspend prenatal services for low-income women because of insufficient program funding; and between April 2001 and October 2002 the state was forced to suspend its requirement that students be fully vaccinated against diphtheria, tetanus, and pertussis (whooping cough) because Colorado, unlike other states, could not afford to buy the vaccine.

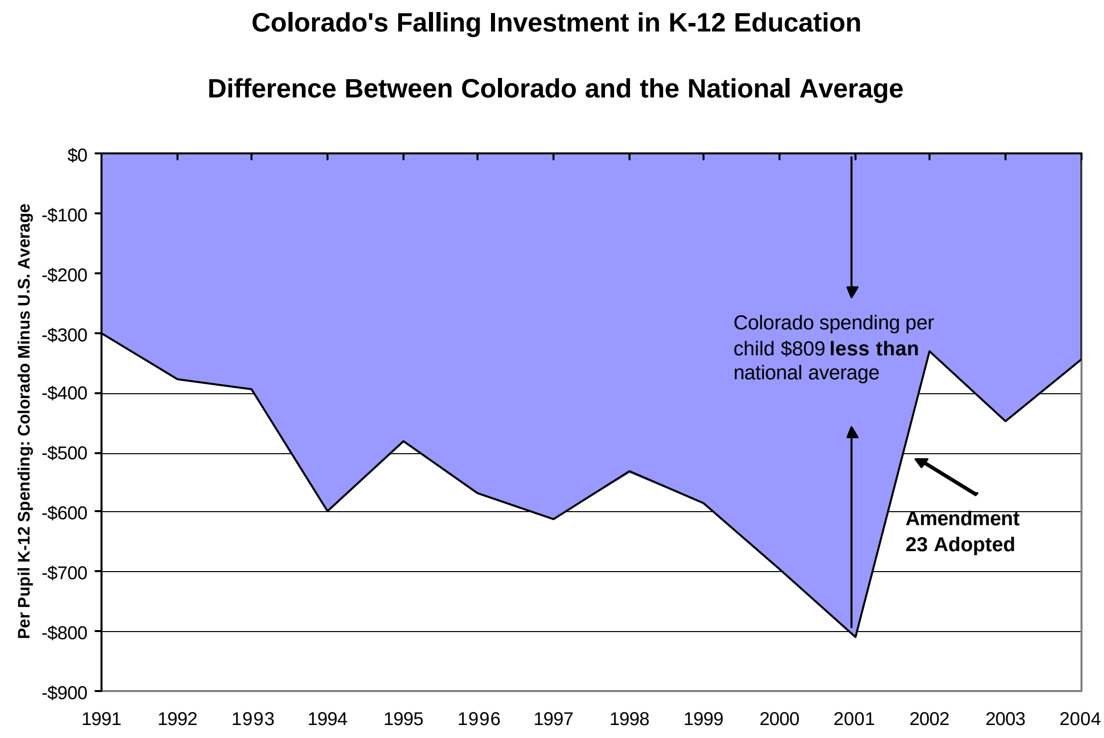
On a related point, it is important to note that the declines in services discussed in this report are not due to a lack of resources in the state. Colorado is both wealthy and well-educated: it has the 9th-highest per-capita personal income in the nation, and only one state has a larger share of residents with a bachelor's degree or higher.[1] 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.

A growing number of Coloradoans are seeking relief from the problems TABOR helped create. 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.[2]

At the same time, however, organizations dedicated to shrinking government are pushing for the adoption of TABORs in other states. Currently, Colorado is the only state with a TABOR.[3] In 2005, TABOR proposals were introduced in about half of the states. None of these proposals has yet been adopted, but pro-TABOR efforts are expected to continue.

The following sections describe the impact TABOR has had in Colorado. Any state that follows Colorado's example and adopts a TABOR could expect similar results.

FIGURE 1



K-12 Education

TABOR contributed to a decline in Colorado's K-12 education funding, with harmful effects across the state's educational system.

- Between 1992 and 2001, Colorado declined from 35th to 49th in the nation in K-12 spending as a percentage of personal income.[4] Thus, even as the state was becoming more prosperous during the economic boom of the 1990s, it was weakening its commitment to K-12 education.

- In 1992, Colorado's average per-pupil K-12 funding was $379 below the national average. By 2001, it was $809 below the national average.[5]

- Between 1992 and 2001, Colorado declined from 30th to 50th in the nation in average teacher salary compared to average annual pay in other occupations.[6] A decline in teacher pay relative to other employment opportunities is likely to reduce the quality of teachers over time by making it harder to recruit and retain them.

- In 2001, Colorado ranked 41st in the nation in the average number of students per teacher.[7]

- More than 90 percent of school children in the Denver metropolitan area were in overcrowded classrooms, according to a 2000 study by the U.S. House of Representatives Committee on Government Reform.[8]

The Consequences of Low Teacher Pay

Colorado educators and analysts point out that low teacher pay — one result of the education funding squeeze under TABOR — impedes efforts to find and keep qualified teachers.

- "The initial salary [makes it] very difficult to attract candidates." — Jack Krosner, Director of Human Resources for Douglas County[i]
- "After several years, [teachers] find that they are not getting ahead financially. Last year, we had a 17 percent teacher turnover, and that's the primary reason." — Superintendent Mel Preusser, Eagle County School District.[ii]
- "[T]he main problem [associated with teacher salaries in Colorado] pertains to the ability to attract skilled teachers." — 2002 study by the Colorado Center for Tax Policy, an independent research organization, and the Daniels College of Business at the University of Denver.[iii]

[i] Quoted in Bill Scanton, "Teacher Shortage on Horizon," *Rocky Mountain News*, February 2, 2000, p.A4.
[ii] Quoted in Steve Lipsher, "Mountain Housing Costs Peak," *The Denver Post*, April 9, 2001, p.B4.
[iii] Elisabetta Basilico, et al., "Teacher's Salaries in Colorado: Reasons, Consequences, and Alternatives for Below Average Compensation," July 2002, www.cpeccenterfortaxpolicy.org/reports/02-teachers_salaries.pdf.

TABOR has weakened both local and state sources of K-12 funding. Even before TABOR's 1992 enactment, the ability of local governments to fund education had been undercut by a property tax limitation adopted in 1982. The state had partially compensated for the resulting decline in local education funding by increasing its own funding. TABOR worsened this situation in two ways. First, it placed further restrictions on local governments' control over their own revenue: TABOR limits the annual growth in local property tax revenue to the sum of inflation and a growth factor (such as the change in student enrollment), and it prevents local governments from raising property tax rates without voter approval. Second, by limiting the amount of revenues the state could keep, TABOR made it impossible for the state to maintain its own funding commitment to education — much less to continue making up for the loss of local funding.[9]

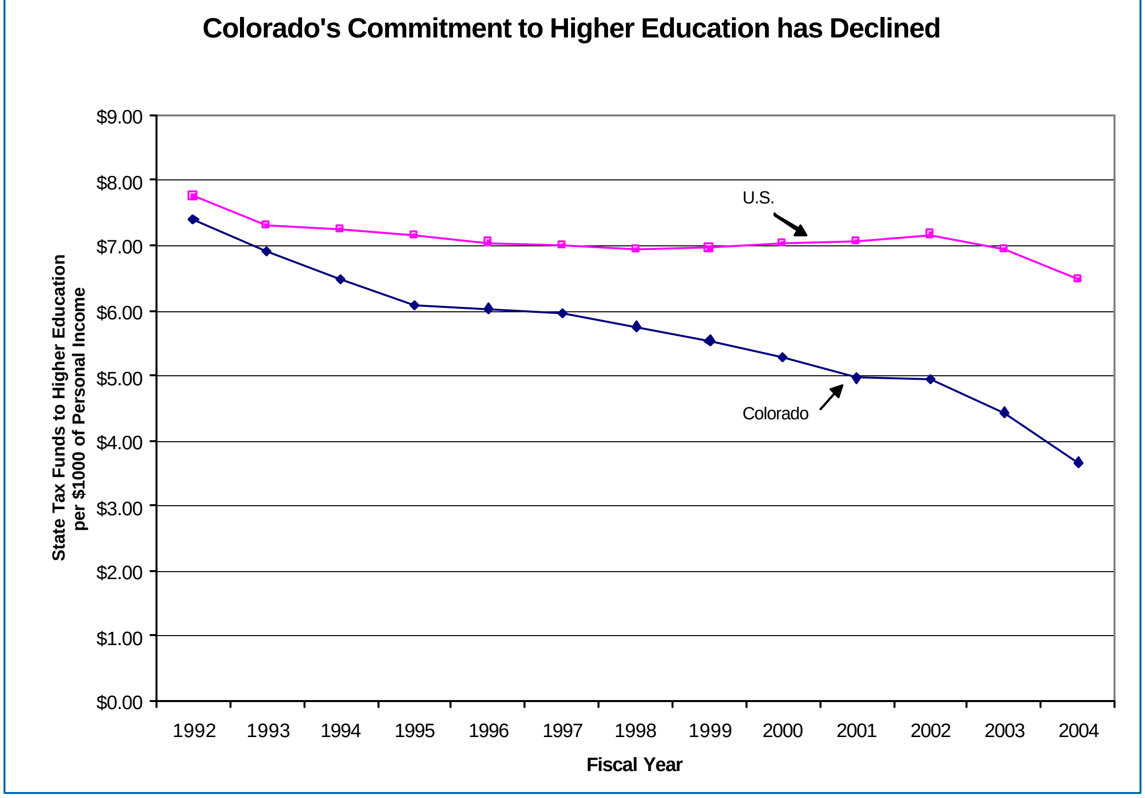
As a result, overall K-12 funding per pupil in Colorado declined during the 1990s, after adjusting for inflation.

The underfunding of education had significant consequences for school districts, such as increased class sizes, textbook shortages, dirty classrooms (due to reductions in janitorial staff), and teachers having to buy their own classroom supplies.[10] By 2000, districts across the state were cutting back on their programs and services.

As just one example, Adams 12 school district, located about seven miles from downtown Denver, was forced to impose reductions in teacher salaries, classroom supplies, transportation and nursing and psychological services. The district also had to eliminate funding for full-day kindergarten and increase sports fees.[11]

These cuts occurred at the same time the state was providing millions of dollars of refunds to Colorado taxpayers, as required by TABOR. The state refunded $679 million in tax revenues in 1999 and $941 million in 2000.

FIGURE 2



As Coloradoans saw the damaging effects of the decline in K-12 funding, they put a constitutional amendment on the ballot in November 2000 that would require the state to increase per-pupil funding by at least one percent above inflation each year for ten years, and by at least inflation thereafter. This amendment, known as Amendment 23, passed.

The problem, however, is that Amendment 23 does not provide Colorado with enough money to get out of the hole caused by past underfunding. As evidence of this, Colorado's K-12 funding rose after Amendment 23's enactment, but the state still spends several hundred dollars less per pupil than the national average (Figure 1). And while Colorado's per-capita personal income is 10 percent above the national average, average salaries for Colorado teachers are seven percent *below* the national average.

Higher Education

Under TABOR, higher education funding in Colorado has declined significantly — by a larger amount, in fact, than any other major program area.[12]

- Between 1992 and 2004, Colorado declined from 35th to 48th in the nation in higher education funding as a share of personal income. In 1992, Colorado spent close to the national average on higher education by this measure; by 2004, it spent just 57 percent of the national average (see Figure 2).

TABLE 1: HIGHER EDUCATION FUNDING HAS PLUMMETED			
General Fund Appropriations per Resident Student (adjusted for inflation)			
	FY 1994-95	FY 2004-05	Percent Change
University of Colorado System	$7,324	$4,337	-41%
Colorado State University System	7,278	5,114	-30%
University of Northern Colorado	4,761	3,414	-28%
Colorado School of Mines	8,438	6,392	-24%
State Colleges (Adams, Mesa, Western, Metro)	3,870	2,970	-23%
Fort Lewis College	3,646	2,860	-22%
Community Colleges	3,032	2,410	-21%
System Wide	**$5,188**	**$3,564**	**-31%**

Source: Colorado Joint Budget Committee and the Center on Budget and Policy Priorities.

- Between 1995 and 2005, funding per resident higher education student in Colorado dropped by 31 percent (from $5,188 to $3,564) after adjusting for inflation.[13] Funding per resident student in Colorado is now lower than at any time in the past 20 years, after adjusting for inflation.

The decline in funding per resident student has affected all schools in the state higher education system. Funding declines have ranged from 41 percent at the University of Colorado system to 21 percent at the community college system (see Table 1).

To compensate partially for decreased state funding, most public higher education institutions have raised tuition in recent years. Between FY 2002 and FY 2005, system-wide resident tuition (adjusted for inflation) increased by 21 percent. At certain schools, however, tuition increases were much greater. For instance, during this same time period, tuition increased 31 percent for residents in the University of Colorado system, 32 percent for residents at Fort Lewis College, 30 percent for residents at the Colorado School of Mines, and 28 percent for residents at the University of Northern Colorado.

Even after taking these tuition increases into account, higher education funding has still decreased in recent years. Total funding per full-time resident student — the combination of General Fund appropriations and tuition — declined by 13 percent between FY 2002 and FY 2005.[14]

As described below, the harmful effects of the decline in funding have rippled through the state's higher education system. They also have created considerable worry among the state's business leaders (see box). David Longanecker, Executive Director of the Western Interstate Commission on Higher Education recently noted, "I'm often quick to say the sky is not falling. Now, I can't find the data that suggests Colorado is not in trouble. I was in Arizona recently before a state higher-education board, and they were saying, 'Life could be worse — we could be in Colorado." [15]

Business Leaders Concerned by Higher Education Cuts

Emphasizing that investment in higher education is a key part of a successful economic development strategy, Colorado's business leaders are expressing widespread concern about the state's funding cutbacks.

- "The bottom line is that institutions of higher learning in Colorado will continue to suffer funding shortfalls under the present system. If you ask the business community, a strong system of higher education is at the top of the list for economic development and the creation of jobs." — Dick Robinson, CEO of Robinson Dairy and member of the Colorado Economic Futures Panel[i]
- "[Colorado's higher education] system is at risk. The way we're going — because of TABOR and Amendment 23 — we're going to be basically out of public funds. . . . [S]peaking from a business standpoint, we're concerned because our success depends on the quality of the higher education system." — Raymond Kolibaba, Vice President of Space Systems, Raytheon Company[ii]
- "A lack of publicly-funded higher education institutions could leave our high school graduates without affordable higher education options, further exacerbating our struggles to 'grow our own' highly educated workforce. At the same time, our businesses could be left uncertain about the resources flowing from higher education institutions." — The Public Education and Business Coalition[iii]
- "[K]ey businesspeople and community leaders tell us . . . [t]hey are looking at the broader issues that will shape the future of Colorado, from the well-being of our higher education centers to the availability of skilled workers as our economy improves." — Bruce Alexander, President and CEO of Vectra Bank Colorado, commenting on a July 2005 survey showing that 71 of 100 Colorado business leaders identified TABOR as their top concern[iv]
- "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[v]

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[i] Dick Robinson, "Solutions to Funding Colorado's Colleges," *The Denver Post*, April 17, 2005, p. E5.
[ii] Quoted in Suzanne Weiss, "Colorado Leaders on Education. Picking Their Brains," *HeadFirst*, May 12, 2005, www.headfirstcolorado.org/adm/view_article.php?story_id=132. Another article reported that Kolibaba recently told Colorado lawmakers that he has seen firsthand the problems caused by cuts to higher education. He said that he is having trouble bringing workers to Colorado and recruiting at local colleges because of deep cuts the state was forced to make in these areas people consider important to their quality of life. Steven Paulson, "Debate begins over fixes to state's economic woes," *The Associated Press*, February 2, 2005.
[iii] The Public Education and Business Coalition, "Investing in the Next Generation: How Education Drives Colorado's Economic Future," November 2004, www.pebc.org/ourwork/policy/ed-econ.pdf.
[iv] Quoted in "New Survey Shows TABOR is Top Concern Among Colorado Business Leaders; Vectra 100 Survey to Track Issues and Views among Influential Executives," *Business Wire*, July 12, 2005.
[v] Quoted in Daniel Franklin and A.G. Newmyer III, "Is Grover Over?," *Washington Monthly*, March 2005.

Funding Cutbacks Have Had Severe Effects

Faced with steadily decreasing funding, higher education institutions have been forced to take a series of painful steps. For example, University of Colorado (CU) has laid off 286 faculty and staff and eliminated six academic programs over the past three years. Construction funding has been cut by $121 million for projects currently underway at CU, even though CU was already facing a $400 million maintenance backlog.

At Colorado State University (CSU), 54 faculty were lost last year to budget cuts. Since 1990, a total of 80 faculty positions have gone unfilled, even as enrollment has grown 20 percent. Also, CSU reported losing 32 tenured faculty in 2002 because it could not match offers from other colleges. CU lost 16 tenured professors in 2004, twice the usual number, because they were recruited by colleges offering higher salaries.[16]

And if Referendum C — the proposal to partially override TABOR limits — does not pass in November 2005, school officials predict things will get even worse. University of Colorado president Hank Brown believes that "if C doesn't pass, there will be no aid for higher education a decade from now... and tuitions would eventually rise to what they are at private universities." Colorado State University president Larry Penley expressed similar sentiment, "Colorado State University could become a private school if voters don't support budget reform."[17]

Public Health Programs

Public health programs have suffered under TABOR as well. Between FY 1992 and FY 2004, state funding for the Department of Public Health and Environment declined by *one-third* as a share of personal income, even as Colorado's population grew rapidly.[18]

The underfunding of Colorado's public health system has had serious consequences.

- Between 1995 and 2003, Colorado declined from 24th to 50th in the nation in the share of children who receive their full vaccinations. Unvaccinated children are at much greater risk of getting measles and whooping cough. Moreover, medical research shows that vaccinated children are much more likely to get these diseases when they live in areas with unvaccinated children. While several factors determine a state's immunization rate, a recent Colorado Health Institute study concluded that "spending restrictions" are a factor in Colorado's low ranking, since TABOR does not give Colorado the same flexibility as other states to meet changing needs. [19]

- From April 2001 to October 2002 the state was forced to suspend its requirement that students be fully vaccinated against diphtheria, tetanus, and pertussis (whooping cough) because Colorado, unlike other states, could not afford to buy the vaccine.[20]

- Between 1992 and 2002, Colorado declined from 23rd to 48th in the nation in access to prenatal care, a sign of funding shortages in local health clinics. In an effort to increase access to prenatal care for low-income women, the state launched the Prenatal Plus Program in 1996, but financial pressures have forced the closing of a number of local sites. [21]

Among the casualties of the decline in public health funding was a state program that provided local public health agencies with vital revenues. The canceling of this program in 2002 forced many counties to eliminate a range of services, from immunization clinics to car-seat safety education. While plummeting state revenues during the economic downturn were the immediate cause of the program's cancellation, TABOR has cemented this cut in place and prevented the restoration of funding. [22]

The Consequences of Funding Declines in Public Health Programs

- "Not having funding does translate to difficulty in promoting immunizations" — Ned Calonge, Chief Medical Officer, Colorado Department of Public Health and Environment[i]
- "It really is a travesty that a state as wealthy as Colorado and with as high an educational level has more restrictive health policies than Mississippi, Alabama, Texas, Wyoming, [and] New Mexico. It's just inexcusable" — Dr. Stephen Berman, Professor of Pediatrics at the University of Colorado School of Medicine and former President of the American Academy of Pediatrics[ii]

[i] Quoted in "Costs of Complacency," *Governing*, February 2004, p. 26-8, 30-2, 34-5.
[ii] Quoted in Diane Carman, "Bad policies aid and abet a killer: flu," *The Denver Post,* December 7, 2003, p. B1.

Funding cuts like these have forced public health agencies to make difficult tradeoffs. "Because per capita and county dollars fund our core public health services, there were no good choices to be made," said Dr. Adrienne LeBailly, director of the Larimer County Department of Health and Environment.[23]

Larimer County responded to the shortfall by, among other things, eliminating hazardous waste inspections and inspections of leaking underground storage tanks; reducing health inspections of restaurants, school cafeterias, and grocery stores; closing a clinic designed to help at-risk children thrive in their home environment; scaling back health-care programs for special-needs children and prenatal risk reduction; and reducing public-information and tobacco-prevention services.[24] While some funding was later restored, these cuts in services seriously hindered the department's ability to provide health services to the county.

Medicaid

TABOR also has hindered Colorado's ability to provide health coverage to its vulnerable residents through Medicaid and related health care programs. Unlike education and public health, Medicaid has not experienced large funding declines in dollar terms under TABOR.

Nevertheless, Colorado (like other states) faces critical health-care challenges posed by the steady erosion of employer-sponsored health coverage and rising health-care costs. Unlike other states, Colorado must also contend with TABOR, which has left it without the necessary resources to meet these challenges.

TABLE 2: LOW MEDICAID COVERAGE AND HIGHER UNINSURANCE RATES

Low-Income Individuals, 2001-2002

	Colorado	US
Low-Income Adults Under 65 Who Are Covered by Medicaid	15.1%	28.5%
Low-Income Children Who Are Covered by Medicaid	24.6%	45.6%
Low-Income Adults Under 65 Who Are Uninsured	38.2%	32.2%
Low-Income Children Who Are Uninsured	28.6%	21.2%

- Between 1992 and 2004 the share of low-income children lacking health insurance doubled in Colorado (from 16 percent to 32 percent) even as it fell in

TABOR Weakens and Limits Medicaid

Experts agree that TABOR is a key reason why Colorado could not adequately address its problems of below-average Medicaid coverage and above-average percentages of uninsured residents.

- **"**Improving access to affordable insurance is a particularly difficult problem in Colorado because of limitations on increasing state spending by virtue of the TABOR Amendment. . . . Even though Colorado was eligible to receive up to $42 million in federal matching funds in 1998, we could produce only $7 million in state funds and ended up with a small fraction of what could have been ours." — Dr. Gary VanderArk, Coalition for the Medically Underserved[i]

- "[The reason the state did not provide Medicaid coverage to more children] was absolutely *not* the recession, because at the same time, we were giving money back to the taxpayers — $100, $200, $300. In return for that, we had 190,000 uninsured children, half of whom would potentially be eligible for Medicaid or the child health plan, yet we weren't able to get these kids health insurance because we didn't have the budget flexibility under TABOR." — Dr. Stephen Berman, University of Colorado School of Medicine[ii]

- "[B]udgetary constraints such as those resulting from the Taxpayers Bill of Rights Amendment (TABOR), combined with increasing medical costs, make the further erosion of government program reimbursements [to health-care providers] a stark reality. Such erosion will only serve to further perpetuate the escalation of uncompensated care, insurance premiums and, ultimately, the ranks of those unable to afford private coverage." — Denver Metro Chamber of Commerce[iii]

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[i] Dr. Gary VanderArk, "Rx for the Uninsured: Casting a safety net for the indigent." *The Denver Post*, February 28, 1999, p. J1.
[ii] Dr. Stephen Berman, Interview, June 2005.
[iii] Denver Metro Chamber of Commerce, "Medicaid, the Uninsured and the Impact on Your Business," 2001, www.denverchamber.org/chamber/paffairs/Whitepaper.pdf.

the nation as a whole (from 21 percent to 18 percent). Colorado now ranks last among the 50 states on this measure.

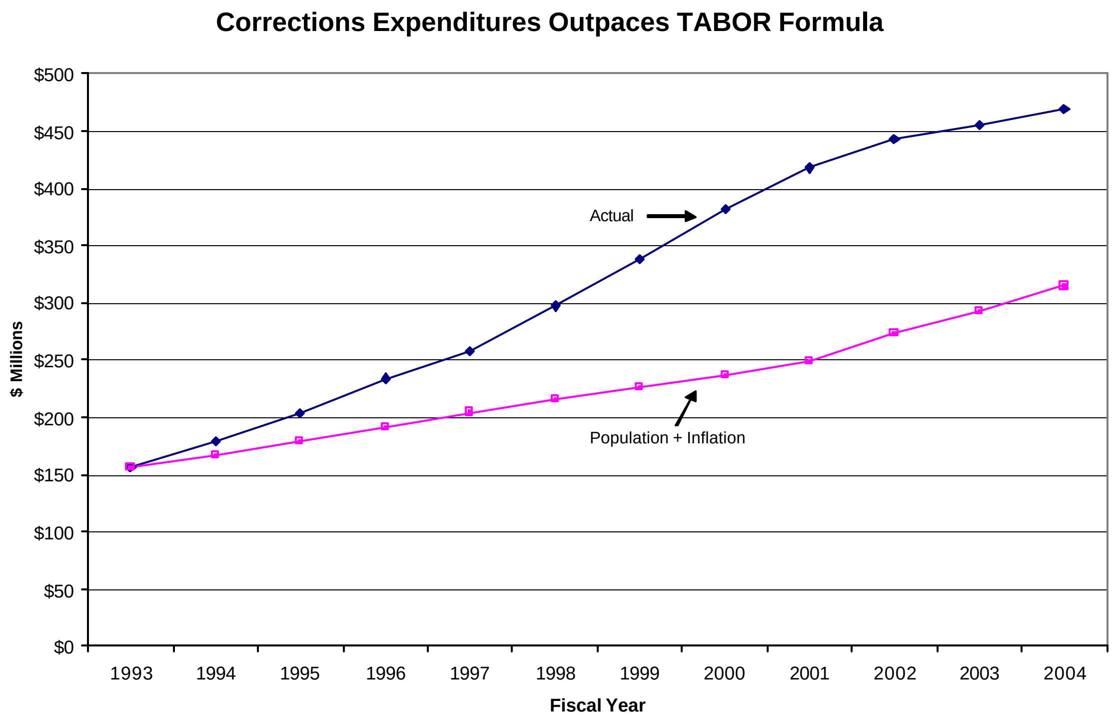
- In Colorado, the percentage of low-income adults under 65 without health insurance rose from 31 percent in 1992 to 46 percent in 2004, dropping its ranking from 20th to 48th.

- In 2002, Colorado ranked 49th in the nation in both the percentage of low-income adults under 65 and the percentage of low-income children covered by Medicaid.[25] This indicates that in Colorado Medicaid is not fully performing the function for which it was designed.

- Consequently, low-income adults and children are much more likely to be uninsured in Colorado than in the nation as a whole (Table 2).[26]

Simply put, Colorado's Medicaid program remains one of the most limited in the country. "For the most part, the Colorado Medicaid program is a 'bare bone' program providing mainly the federally required services for federally required populations," the Colorado Joint Budget Committee staff noted recently.[27] For example:

FIGURE 3



Source: CBPP analysis of Colorado Legislative Council data.

- In Colorado, a *working* family of three is ineligible for Medicaid if its income exceeds $6,132, which is just 39 percent of the poverty line. Only seven other states have stricter income eligibility standards.[28]

- Colorado is one of only 15 states that does not have a "medically needy" Medicaid option, which provides coverage to people whose gross income modestly exceeds Medicaid limits but who have high medical bills that reduce their disposable income below Medicaid limits.[29]

- Colorado is one of only six states that impose an asset test on children applying for Medicaid. In Colorado, children whose families have more than $2,500 in assets are ineligible for Medicaid, no matter how low the family's income is.[30]

- Colorado's separate health program for low-income children, known as CHP+, is one of the most restrictive of any of the state programs established under the State Children's Health Insurance Program (SCHIP). Colorado is one of only six states that limit its children's health program to families with incomes of 185 percent of the poverty line or lower.[31] (SCHIP provides states with federal matching funds to cover children whose families earn too much to be eligible for Medicaid but not enough to afford private insurance. Most parents in such families are not offered health insurance on their jobs or if they are, they cannot afford the premiums for family coverage.)

TABOR's Cost Becoming Clear

TABOR's harmful effects on Colorado have become increasingly clear in recent years, as these statements by key Coloradoans show.

- "Now, as the economy has slowly begun to recover, we are learning that the revenue and spending limits imposed by TABOR curb the recovery of our public-sector budgets to the point where the state is challenged in its efforts to adequately provide services such as higher education, health care and transportation. Because of the negative economic impact of this strain, the Denver Metro Chamber of Commerce supports fiscal reforms that allow the state budget to recover, while promoting responsible, limited government." — Denver Metro Chamber of Commerce[i]

- "Coloradoans were told in 1992 . . . that [TABOR] guaranteed them a right to vote on any and all tax increases. . . . What the public didn't realize was 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[ii]

- "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[iii]

- "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. [A]t some point you'll be cutting services that people will start objecting to, and that's when change happens. That is not the best way to form public policy." — Brad Young, former Colorado Representative (Republican) and Chair of the Joint Budget Committee[iv]

- "When TABOR was enacted, roughly 25 percent of the state budget went to funding higher education; it is now under 10 percent. . . . 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[v]

- "[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[vi]

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[i] Denver Metro Chamber of Commerce, "Statement on TABOR," March 2005, www.denverchamber.org/paffairs/tabor.asp

[ii] Quoted in "The Real Story Behind TABOR," DVD, Center on Budget and Policy Priorities, October 2005.

[iii] Governor Owens, "Submission of FY 2005-06 Budget to the Joint Budget Committee," November 9, 2004, www.state.co.us/gov_dir/govnr_dir/ospb/governorsbudget/govbudgetreq05-06.pdf.

[iv] Quoted in "The Real Story Behind TABOR," DVD, Center on Budget and Policy Priorities, October 2005.

[v] Michael Carrigan, interview by ColoradoPols, March 2005, http://coloradopoliticalnews.blogs.com/colorado_political_news/2005/03/qa_with_cu_rege.html.

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

Corrections

Corrections spending grew at an average annual rate of 10.4 percent between 1992 and 2004, faster than any other program area and substantially faster than TABOR's inflation-plus-population formula.[32] Corrections spending in 2004 alone was $155 million more than it would have been if it had remained within the TABOR limit since TABOR's enactment (see Figure 3).

Corrections' seeming immunity to TABOR is due to the fact that it is governed by state criminal codes and sentencing laws. If state law says that a certain crime mandates a certain sentence, the Department of Corrections must comply by imprisoning the offender and assuming the associated costs (housing, security, food service, medical care, and so on).

The main reason for the large growth in corrections spending has been what the Department of Corrections terms "unprecedented growth" in the inmate population. Between 1985 and 2004, Colorado's inmate population increased a staggering 440 percent or *more than ten times* the increase in the general population (43 percent). Since TABOR's adoption, the prison population has grown three times as fast on average (6.9 percent per year) as the general population (2.3 percent per year).

The growth in the inmate population partly reflects 1985 legislation that doubled the maximum sentence for felonies. As a result of this legislation, the average length of stay for new inmates nearly tripled. Subsequently the legislature attempted to slow the growth in the inmate population by relaxing certain sentencing policies, but with only limited success.

So quickly has the prison population grown that even the large increases in state corrections spending have not been able to keep up. Colorado's corrections facilities were operating at nearly 110 percent of design capacity as of 2003.[33] This is not sustainable: overcrowded prisons can bring a host of problems, from escalating violence to increased litigation by inmates. To rectify the situation, the Department of Corrections will need even more money to expand facilities. Even so, overcrowding is likely to continue, since the prison population is expected to continue increasing. A conservative estimate by the Legislative Council of Colorado is that the prison population will grow another 20 percent between 2005 and 2009.

While Colorado is not the only state facing a rapidly increasing prison population and the associated financial burdens, it is the only state with a TABOR, and that has put Colorado in a terrible bind. Under TABOR, if spending grows faster than the inflation-plus-population formula in one area of the budget — such as corrections — then other budget areas, such as education and/or public health, must be squeezed even more to keep overall spending within the TABOR limit. As the Colorado Legislative Council recently noted, "If inmate population growth exceeds the state's population growth (assuming inflation affects the TABOR limit and departmental costs in the same amount), expenditures of the department may exceed the TABOR limit and create additional budgetary pressure for the legislature to meet the aggregate TABOR spending limit."[34]

Conclusion

TABOR slowly starves the services on which state residents rely. Each year, the TABOR formula produces a maximum expenditure level that is below what is needed, and all state priorities must compete for this inadequate level of funding. If one area, such as corrections, gets first in line because of legal requirements, the funding available for all other services shrinks further. While the cuts in any one year may be modest, the cumulative effect of annual reductions over a number of years is devastating.

Some 13 years after the adoption of TABOR, Colorado is feeling the consequences of this progressive starvation. As described in this report, services have deteriorated to the point at which the quality of life in the state has been undermined — and the state's potential for economic development has been weakened. What has happened in Colorado should be a cautionary tale for any other state considering going down the TABOR path.

End Notes

[1] Income data from the Bureau of Economic Analysis (www.bea.gov/bea/newsrel/SPINewsRelease.htm) and Educational Attainment data from the U.S. Bureau of the Census (www.census.gov/Press-Release/www/releases/archives/education/004214.html).

[2] Referendum C is part of the Colorado Economic Recovery Act, which also includes Referendum D, a bond issuance to provide funding for transportation, higher education, and K-12 capital improvement projects.

[3] Three elements distinguish Colorado's TABOR from other states' tax and expenditure limits (TELs): it is in the state constitution; it limits growth of government services to a formula of inflation plus population growth; and a vote of the people is required to override the limit. For a detailed discussion, see David Bradley and Iris J. Lav, "In a League of Their Own: Colorado's TABOR And Ohio's Proposal Are More Restrictive Than Other Limits," Center on Budget and Policy Priorities, June 2005, www.cbpp.org/6-29-05sfp.htm.

[4] Center on Budget and Policy Priority (CBPP) calculation of National Education Association (NEA) and Bureau of Economic Analysis (BEA) data. Current expenditures provide funding for the operating costs of K-12 schools. Expenditures include items such as salaries, fixed charges, transportation costs, school books, materials, and energy costs but do not include capital expenditures and interest payments on debt.

[5] CBPP analysis of National Center for Education Statistics (NCES) data.

[6] CBPP calculation of National Education Association (NEA) and Bureau of Labor Statistics (BLS) data.

[7] CBPP analysis of NCES and NEA data.

[8] Committee on Government Reform, U.S. House of Representatives, "K-3 Class Sizes in Denver, Colorado," September 2000.

[9] The property tax limit, which was enacted in 1982, is called the Gallagher Amendment. It reduced the non-residential property tax rate and required that the ratio between valuation of residential and nonresidential property be kept constant. This means that when the value of residential property rises more quickly than that of non-residential property — as has been the case in recent years — the residential assessment rate must be reduced to maintain the ratio. TABOR worsened this limit by requiring mill levies to fall when property tax collections increase by more than inflation plus new growth and by not allowing mill levies to rise when collections do not keep pace with inflation and new growth. Despite an increase of 69 percent in assessed value of property in the state from fiscal year 1994 through fiscal year 2001, appropriations from property tax revenues increased by only 28 percent during this period. The gap between assessed value and collections was due in large part to TABOR's restraints on mill levies, which declined from an average of 38.11 in 1994 to 29.04 in 2001 (Data on assessed value, property tax collections, and mill levy are from the Colorado Department of Education.). Given these constraints, it is hardly surprising that from 1993 to 2001, property tax per pupil *decreased* by an average of 0.15 percent

per year and the local share of total K-12 spending declined from 48 percent to 43 percent.

[10] This is true even in school districts that "de-Bruced," that is, districts in which a majority of voters chose to keep revenues in excess of the TABOR limit for a specified time period. They still faced the ever growing challenge of raising enough money to offset the declines in state spending.

[11] Holly Kurtz, "Tough Times at School," *Rocky Mountain News*, March 5, 2000, p. 18A.

[12] As a percentage of total state personal income, total own-source appropriations for higher education fell from 1.37 percent in fiscal year 1992 to 1.01 percent in fiscal year 2004. According to CBPP analysis of Colorado Legislative Council data, this decline exceeds that of any other major program area.

[13] CBPP analysis of Colorado Joint Budget Committee (JBC) data. Funding is expressed as General Fund appropriations for the Department of Higher Education in 2004-05 (fiscal year 2005) dollars per resident student full-time equivalent. The appropriations number excludes funding for programs such as the Council on the Arts, the Colorado Historical Society, the Colorado Commission on Higher Education, etc., so that it reflects the actual state operating support for institutions of higher education. The comparison starts in 1995 because that is the first year that fully comparable data are available by institution.

[14] CBPP analysis of Colorado Joint Budget Committee data. Starting in fiscal year 2006, Colorado will begin a new funding system for higher education — the College Opportunity Fund (SB 04-189) — that is unlike any other state. Direct appropriations currently funding higher education institutions will be replaced by vouchers and "fee-for-service" contracts. The College Opportunity Fund also allows the General Assembly to designate institutions of higher education as enterprises. This means that tuition and other cash revenue that higher education institutions use will be exempt from TABOR limits. Tuition will thus almost certainly rise even more to make up for years of underfunding.

[15] Quoted in Dave Curtin, "State's colleges decry finances," *The Denver Post*. December 20, 2004, p.A1.

[16] Ibid.

[17] Quoted in Julie Poppen, "CU president touts Refs C, D," *Rocky Mountain News*. September 12, 2005, p.12A.
Quoted in Jennifer Brown, "C and D put CSU "at a crossroads": Public or private?," *The Denver Post*, September 9, 2005, p.A14.

[18] It is important to note that as a share of income, state own-source appropriations for the Department of Public Health remained at a constant 0.9 in the decade prior to TABOR's passage. Thus, the state's investment in public health programs was growing with the state's income but began to shrink after TABOR passed.

[19] Ranking is for the 4:3:1:3 series. By investing additional funds to immunize children, Colorado was able to improve their ranking to 43rd in 2004. Information on medical research from D. Feikin et al., "Individual and community risks of measles and pertussis associated with personal exemptions to immunizations," *Journal of the American Medical Association* (Dec. 27, 2000): p.3145-3150. For study, see Colorado Health Institute, "Colorado Childhood Immunization Rates: Policy and Practice," May 2005, www.coloradohealthinstitute.org/Documents/Q&A_final.pdf.

[20] There was a national shortage of the Diphtheria, Tetanus, Pertussis (DTAP) vaccine in 2000 and 2001. The Colorado Department of Public Health and Environment suspended the school entry requirement for the 4th and 5th doses of DTAP. Most other states only deferred the 5th dose DTAP requirement and used state funds to purchase existing vaccine at a higher price. Colorado, however, could not choose this option due to a lack of state funding. See Colorado Health Institute, "Colorado Childhood Immunization Rates: Policy and Practice," May 2005, www.coloradohealthinstitute.org/Documents/Q&A_final.pdf.

[21] Ranking data from National Center for Health Statistics, Centers for Disease Control and Prevention. Information on program participation from Colorado Department of Public Health and Environment, "Prenatal Plus Program Annual Report," various years, www.cdphe.state.co.us/pp/womens/PrenatalPlus.asp#AnnualReports.

[22] The state program is known as "per capita funding." Colorado General Assembly, Joint Budget Committee, "FY 2005-06 Staff Briefing: Department of Public Health and Environment," November 10, 2003, www.state.co.us/gov_dir/leg_dir/jbc/pubheabrf1.pdf.

[23] Larimer County Department of Health and Environment, "Proposed Service Reductions to Mitigate Deficits Larimer

County Dept. of Health and Environment-Summary of Cuts," June 27, 2002, www.co.larimer.co.us/depts/health/admin/cuts.asp.

[24] Robin Baker, e-mail message to author, July 10, 2005.

[25] The Kaiser Commission on Medicaid and the Uninsured, "Health Insurance Coverage in America: 2002 Data Update," December 2003, www.kff.org/uninsured/4154.cfm.

[26] While the statistics quoted in the paper are from 2002, this is not a new trend. In two earlier periods (1997-1999 and 1999-2000), Colorado ranked 49th in Medicaid coverage of low income adults under 65 and either 48th or 49th in Medicaid coverage of low income children. In addition, the uninsured rates of both of these groups of low income Americans were higher in Colorado than in the US as a whole during these time periods.

[27] Colorado Joint Budget Committee, "Department of Health Care Policy and Financing, Fiscal Year 2005-06 Staff Budget Briefing," December 15, 2004, www.state.co.us/gov_dir/leg_dir/jbc/hcpbrf.pdf.

[28] Kaiser Commission on Medicaid and the Uninsured, "Beneath the Surface: Barriers Threaten to Slow Progress on Expanding Health Coverage of Children and Families," October 2004, www.kff.org/medicaid/7191.cfm.

[29] Martha King, "The Public Side of Health Care Focus on Medicaid & SCHIP," Presentation given at National Conference of State Legislatures (NCSL) meeting, November 25, 2002.

[30] Colorado Health Initiative. "Medicaid Fact Sheet," www.cohealthinitiative.org/MEDICAIDfactsheet.htm. In FY 2006, the asset test will be eliminated due to increased revenues resulting from an increase in the tobacco tax.

[31] Kaiser Commission on Medicaid and the Uninsured, "Beneath the Surface: Barriers Threaten to Slow Progress on Expanding Health Coverage of Children and Families," October 2004, www.kff.org/medicaid/7191.cfm.

[32] Refers to expenditures funded by General Purpose Revenues. From 1992-2004, the average annual rate of growth for Corrections was 10.4%. The next highest was K-12 with 6.5%. From 1995, when the Dept of Health Care Policy was formed, the average annual rate of growth for Corrections was 10%. The next highest was Health Care at 7%. Between FY 1994 and FY 2004, the average of inflation-plus-population used in Colorado was 6.5%.

[33] Colorado Department of Corrections, "Statistical Report- Fiscal Year 2003," June 21, 2004, www.doc.state.co.us/Statistics/3StatisticalReports.htm.

[34] From 1990-2000, state prison populations grew by 82%. From 1995-03, the average annual growth rate for state prison populations was 2.9%. During that same time period, five states (North Dakota, Mississippi, West Virginia, Montana and Utah) experienced faster prison population growth than Colorado. (Bureau of Justice Statistics, "Census of State and Federal Correctional Facilities 2000,"Oct. 15, 2003, www.ojp.usdoj.gov/bjs/abstract/csfcf00.htm. Bureau of Justice Statistics, "Prisoners in 2003," November 7, 2004, www.ojp.usdoj.gov/bjs/abstract/p03.htm.) Colorado Legislative Council, "House Joint Resolution 03-1033 Study: TABOR, Amendment 23, the Gallagher Amendment, and Other Fiscal Issues," September 2003, www.state.co.us/gov_dir/leg_dir/lcsstaff/2003/research/03TaborFinalReport.pdf.