

March 20, 2007

A FRIGID FORECAST FOR THE SUNSHINE STATE: PROPOSED REVENUE CAP AS DAMAGING AS COLORADO'S TABOR

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Summary

Recently, the Speaker and other leaders of Florida's House of Representatives unveiled details of their comprehensive property tax relief proposal. One component is a constitutional limit on state and local revenue growth.¹ This proposal deserves a great deal of attention because it is almost a carbon copy of Colorado's Taxpayer Bill of Rights (TABOR):

- it is a constitutional amendment,
- it restricts revenue growth at both the state *and* local level to a population-change-plus-inflation formula, and
- it is difficult to override if circumstances make that desirable.

The limit can therefore be expected to cause a deterioration in public services in Florida similar to that produced by TABOR in Colorado.

During the twelve years since TABOR was adopted in Colorado, K-12 funding declined from 35th 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.

KEY FINDINGS

- The proposed state and local revenue cap contains the key elements of Colorado's TABOR.
- In Colorado, TABOR led to reductions in health, education, public safety, and transportation services. Voters suspended TABOR for five years in November 2005.
- If the proposed limit had been adopted in Florida in FY 1995, capped revenues for FY 2006 would have been \$4.8 billion — 12 percent — less than the actual revenue level.
- Florida is already at the bottom among states on many measures of public services; falling further could make it unattractive as a place to live or do business.

¹ See Florida House of Representatives press release "Speaker Rubio, House Leaders Propose Responsible, Immediate Property Tax Relief," Feb.21, 2007.

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.

Florida already ranks near the bottom among the states on a number of key public services and can't afford any further declines in the public services upon which Floridians depend, such as health care, education and public safety. But as the Colorado experience has shown, this is likely to happen if the proposed revenue limit is adopted.

The Colorado Experience

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. The Colorado experience has serious implications for the residents of Florida because the proposed revenue cap would likely lead to similar outcomes in Florida.²

- **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.³ Colorado's average per-pupil funding fell by more than \$400 relative to the national average.⁴
- **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.⁵ College and university funding as a share of personal income also fell, from 35th to 48th in the nation.⁶
- **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.⁷ Colorado also plummeted from 24th to 50th in the

²For 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>.

³Center on Budget and Policy Priority (CBPP) calculation of National Education Association and Bureau of Economic Analysis data.

⁴CBPP analysis of National Center for Education Statistics data.

⁵CBPP analysis of Colorado Joint Budget Committee data.

⁶Grapevine, 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

⁷National Center for Health Statistics, Centers for Disease Control and Prevention

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 2004.⁸

- **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.⁹

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 on page 9)

The Core of Both Proposals: the 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.¹⁰

Population

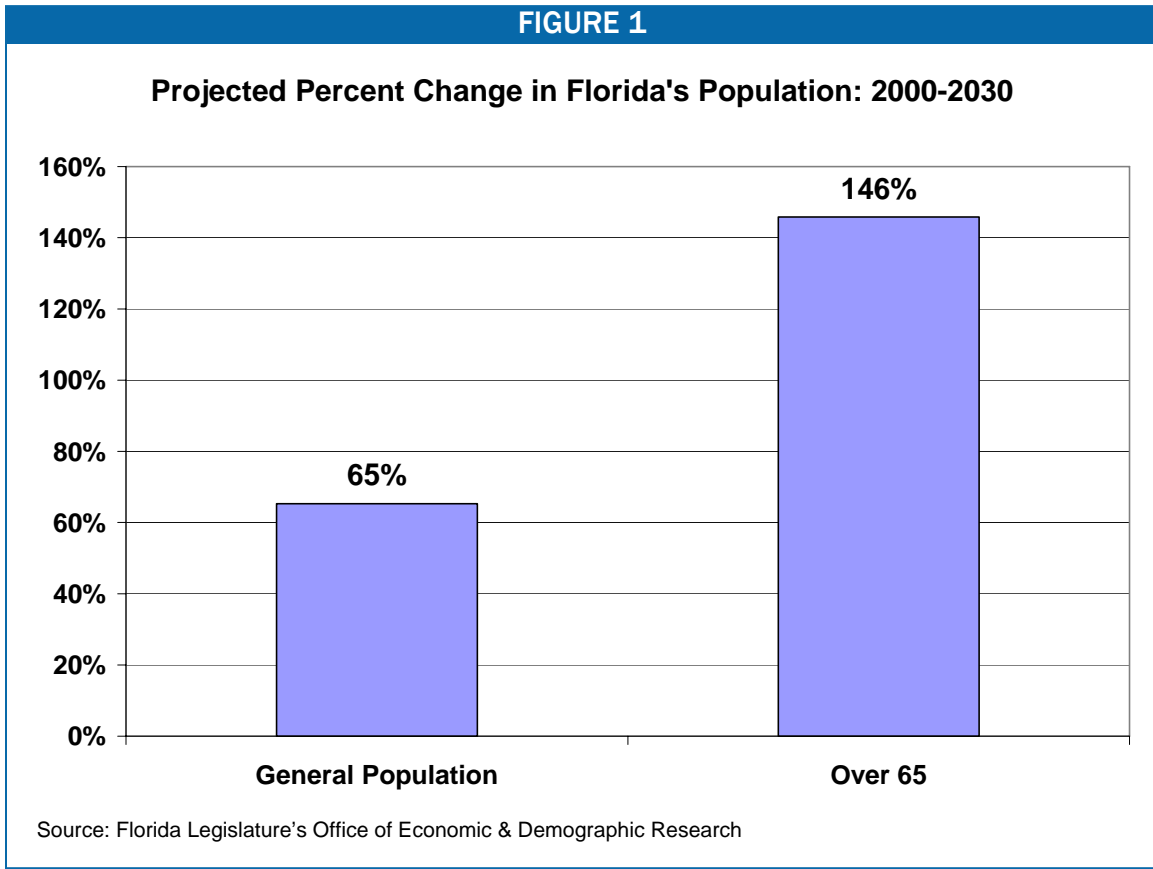
The first part of the population-growth-plus-inflation formula is the change in overall population growth. Overall population growth, however, is not a good proxy for the change in the populations served by public services. The segments of the population that states serve tend to grow more rapidly than the overall population used in the formula. An example is senior citizens. According to Florida’s Office of Economic and Demographic Research, Florida’s total population is projected to increase by 65 percent from 2000 to 2030, while Florida’s population aged 65 and older is projected to increase by 146 percent from 2000 to 2030.¹¹ As Florida’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 revenue 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 Florida residents were willing to make sharp cuts in other areas of the state budget, such as education or public safety.

⁸ National Immunization Program (NIP), Centers for Disease Control and Prevention, <http://www.cdc.gov/nip/coverage/default.htm#chart>

⁹ CBPP analysis of the US Census Bureau’s Current Population Survey

¹⁰ 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>.

¹¹ Florida Legislature’s Office of Economic & Demographic Research, Demographic Estimating Conference Database, updated July 2006, <http://edr.state.fl.us/population.htm>.



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 most commonly used 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 Florida 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 Florida’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 growth in revenues 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* state and local programs— 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 the revenue cap applies to all of Florida's state revenues, which provide a major funding source for K-12 education, higher education, health care and public safety. Under the proposal, if one area were to grow faster than population growth plus inflation (for instance due to cost pressure, court order, or popular demand), then another 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 hampers meaningful discussions about the priorities of the citizens and the ability of the state to respond to them.

With respect to local revenues, the local revenue cap would not apply to revenues designated for education. While exempting education from the local cap does provide it with a safeguard, it still would not be fully protected from any future cuts. K-12 education funding comes not only from localities, but also from the state. In FY 1998, the state contributed 55 percent of all K-12 education funding; by FY 2006 this amount had fallen to 46 percent.¹² This contribution is likely to drop even further if state revenues are restricted by the proposed cap, leading to even greater declines in K-12 education.

Breaking Something That's Not Broken

Florida already has a constitutional revenue limit in place. This limit—based on a five year average of personal income growth— allows state revenues to grow at roughly at the same pace as the economy. The proposed limit, on the other hand, would restrict revenue growth at both the state and local level to a much slower rate of population growth plus inflation, causing public services to shrink over time.

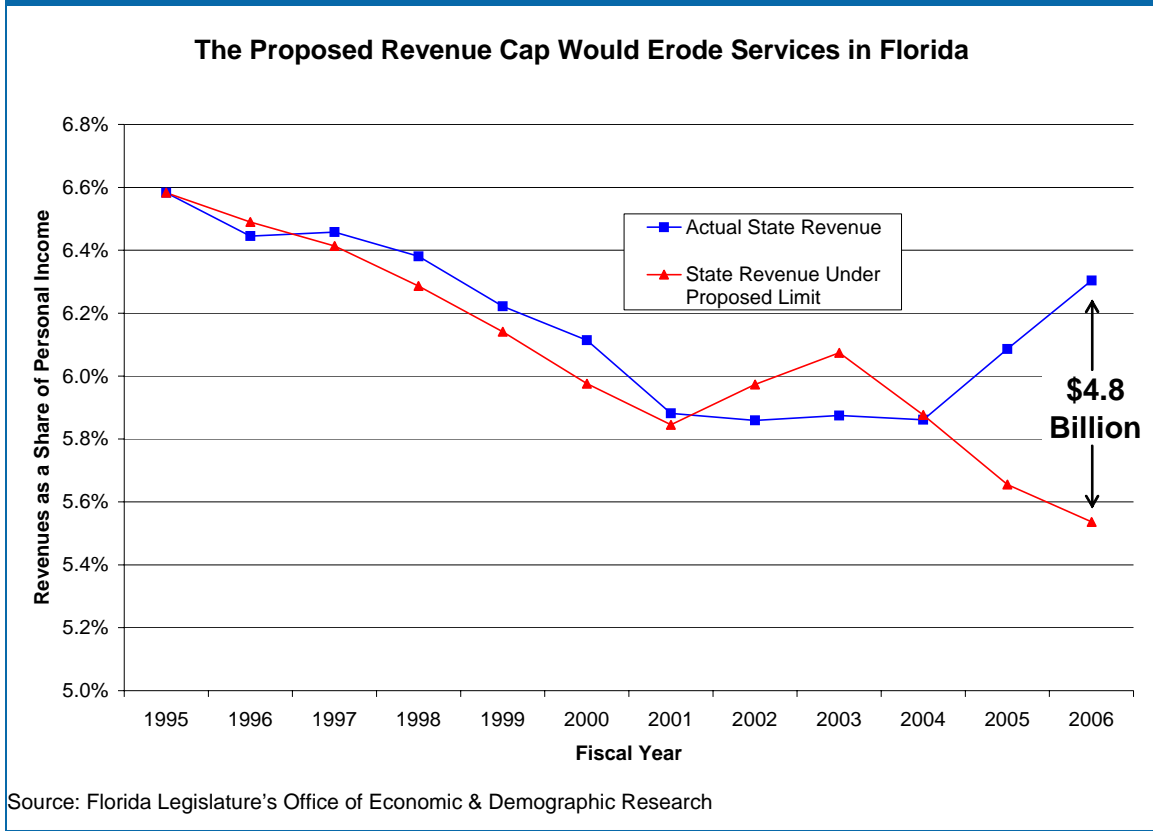
The proposed revenue limit also has another significant difference from the current limit: it would include Medicaid revenues—revenues used to provide matching funds for the federal Medicaid program. As mentioned above, the inclusion of Medicaid revenue would do absolutely nothing to affect the cost pressures facing the program. Instead, it would considerably reduce the amount of money available to other key programs.

Lastly, the distinct time periods of the two limits have important ramifications. The current limit was implemented during a time of economic growth. While Florida's economy is currently growing as well, the limit would use 2001—when Florida and the nation were in recession— as its base year.

Using this time of low economic growth as the starting point increases the severity of the proposed limit.

¹² Source: Florida Department of Education "Profiles of Florida School District Financial Data," EIAS Series, <http://www.firn.edu/doe/fefp/profile.htm> and Office of Funding and Financial Reporting Florida Education Finance Program (FEFP) Calculations, <http://www.firn.edu/doe/fefp/offrfefp.html>.

FIGURE 2



How Would the Cap Affect Revenues and the Programs Funded by Them?

In order to better understand the magnitude of cuts this proposal would require, we conducted two separate analyses. The first analysis looks at what available revenue would have been today had the proposed revenue limit been adopted in 1995 when the current cap was implemented. The second analysis attempts to quantify the future effects of the proposal if it were adopted as currently described.

Looking Back

If the proposed revenue limit based on population growth plus inflation had been adopted in FY 1995 (effective for FY 1996), capped state revenue for FY 2006 would have been \$4.8 billion less than actual revenue levels.¹³ This amount is equal to 12 percent of all state revenues for that year. Over the 10 year period, nearly \$9 billion less would have been available to fund K-12 education, health care and other programs Floridians care deeply about. (See Figure 2)

The graph also shows that even without such a restrictive cap, actual state revenue as a share of the economy has been steadily falling for most of the past 10 years. It has increased in the last couple of years as Florida's economy has recovered from the recession and has started to experience

¹³ State revenue equals total receipts less refunds, debt service and lottery prizes.

Competing Estimates of the Proposed Revenue Cap's Impact

A number of estimates of the impact of the proposed revenue cap are currently circulating in Florida. These estimates differ from the estimates presented in this paper in both their methodology and projections of population change and inflation.

The methodology used in our analysis is the same methodology used in Colorado, as well in other states that have contemplated similar limits. Specifically, it is based off the assumption that the limit will be calculated using the most current *actual* data available and as a result, there will be a lag in the population change and inflation data. For example, in order to find the revenue limit for FY 2008, the budget office would take the revenue limit in FY 2007 and grow it by the change in population and inflation from 2005 to 2006. It appears that the other analyses are assuming that the budget office would use *projections* of population change and inflation to calculate the limit with little or no lag in this data.

There also appears to be some disagreement concerning the projection and measurement of population growth and inflation. The projections employed in this report rely on fiscal year population projections from the state office of Economic and Demographic Research and inflation projections from the Congressional Budget Office. However, there are various ways to calculate inflation and population change: one can do so using monthly, quarterly or yearly data. And small differences in these calculations can make a very large difference in the stringency of the limit.

Regardless of the methodology used, all estimates show that there would be revenue gaps if the proposed revenue cap were adopted. Such gaps would greatly hinder the state's ability to provide an adequate level of services to its residents.

stronger growth — although revenue remains below the share of the economy that it represented in the mid-1990s. This recovery would have been severely hindered had the proposed cap been in place.

Looking Forward

Another way to analyze this proposal is to try to project what it would do to future state revenue growth. This analysis assumes that the limit would have FY 2001 as its base year and would first be applied to FY 2008 revenues. The analysis covers FY 2008- FY 2011, as Florida's Office of Economic & Demographic Research has projected revenue growth only through FY 2011.¹⁴

Our analysis finds that there would be an approximately \$2.4 billion gap over the four years between the available state revenue and the amount that could be spent. This gap between projected revenue and the amount of revenue that could be spent under the limit grows in each subsequent year, as does the gap between available revenue under the cap and the amount needed to maintain services. (See Table 1)

¹⁴ The projected revenue growth numbers used in this report were calculated using data from a number of updated Estimating Conference Reports available on Florida's Office of Economic & Demographic Research (EDR) website (<http://edr.state.fl.us/conferences.htm>). It is our understanding that this calculation conforms to the calculation EDR uses to produce its long term revenue limitation forecast. This calculation was used in lieu of the long term revenue limitation forecast currently available on the EDR website (<http://edr.state.fl.us/reports/specialreports/fvyr0206.pdf>) because the latter was over a year old and did not reflect the softening of the economy. All numbers are subject to change.

It is important to note that the size of the revenue gap depends greatly on the methodology used to calculate the limit. The analysis presented in this paper mimics the methodology used in Colorado, as well as in other states where similar limits have been introduced. This methodology assumes that *actual* population change and inflation data would be used to calculate the limit and as a result, there would be a lag in this data. For instance, to calculate the limit for FY 2002 one would use the change in population and inflation from FY 1999 to FY 2000. If, on the other hand, one calculated the limit for FY 2002 using *projections* of population change and inflation—the change from FY 2001 to FY 2002—instead of lagged data, the result would be substantially different. In the case of Florida’s proposed revenue cap, the size of the revenue gap more than doubles in size if projections are used. (See Table 1 and box on page 7)

TABLE 1. REVENUE GAP FY 2008- 2011 (in Millions)		
Fiscal Year	Amount of Revenue Gap (Lagged)	Amount of Revenue Gap (Projected)
2008	\$239	-\$722
2009	-\$495	-\$1,333
2010	-\$840	-\$1,739
2011	-\$1,099	-\$2,149
Total	-\$2,434	-\$5,943

How Far Can Florida Fall?

When Colorado adopted TABOR it ranked in the middle of the pack among states on a number of key public services. Over the subsequent 13 years, Colorado fell to the bottom in many of these rankings. Florida is not in the same situation; it already ranks near the bottom on measures of education and health care:

- Florida ranks 50th in the nation in K-12 spending as a percentage of personal income.¹⁵
- Florida ranks 42nd in average per-pupil funding—\$1700 less per student than the national average.¹⁶
- Florida ranks 42nd in the nation in the average number of students per teacher.¹⁷
- Florida ranks 42nd in state and local college and university funding as a share of personal income.¹⁸

¹⁵ Source: Center on Budget and Policy Priority (CBPP) calculation of National Education Association (NEA) and Bureau of Economic Analysis (BEA) data.

¹⁶ Source: CBPP analysis of National Center for Education Statistics (NCES) data.

¹⁷ Source: CBPP analysis of NCES and NEA data.

¹⁸ Source: 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.

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.

- Florida ranks 45th in the percentage of all low-income individuals with health insurance.¹⁹
- Florida ranks 45th in the share of low-income children with health insurance.²⁰
- Florida ranks 48th in the percentage of low-income adults under 65 with health insurance.²¹

Adopting the proposed revenue cap, which would restrict the amount of money available to fund these key programs at both the state and local level, would be devastating to Florida. It would hurt not only Florida’s children and adults, but also the economy, which relies on healthy, educated individuals in order to grow.

¹⁹ Source: CBPP analysis of the US Census Bureau’s Current Population Survey.

²⁰ Source: CBPP analysis of the US Census Bureau’s Current Population Survey.

²¹ Source: CBPP analysis of the US Census Bureau’s Current Population Survey.

Overriding the Limit

As mentioned earlier, Colorado's TABOR was suspended for five years in 2005. (See also box above) This suspension required majority approval of the legislature and of voters. The override mechanism for the proposed revenue limit in Florida, while slightly different, is equally as difficult. It would require two-thirds legislative approval. Moreover, as currently described, the suspension would only be allowed 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.²²

Conclusion

Florida's revenue cap proposal contains the core elements of Colorado's TABOR. It is this population-plus-inflation formula that caused serious damage to the state's public services. Thus, it can be expected to cause declines in public services in Florida similar to those experienced in Colorado under TABOR.

²² In both states, voters could in theory also use the initiative process to suspend the limit.

Data Sources

Inflation: Bureau of Labor Statistics for 1994-2006; Congressional Budget Office Jan 2007 projections for 2006-2011

Personal Income: Fiscal year data given by Frank Williams, FL Office of Economic & Demographic Research, 850-487-8268

Population: Fiscal year data given by Frank Williams, FL Office of Economic & Demographic Research, 850-487-8268

State Revenues: Look Back numbers are from “5-year Projection-Revenue Subject to Constitutional Limitation Feb- 2006,” Florida Office of Economic & Demographic Research, <http://edr.state.fl.us/reports/specialreports/fvyr0206.pdf>. Looking Forward numbers were calculated using data from a number of updated Estimating Conference Reports available on Florida’s Office of Economic & Demographic Research (EDR) website (<http://edr.state.fl.us/conferences.htm>).