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REVENUE AND EXPENDITURE CAPS IN FLORIDA: A BAD IDEA GROWING WORSE

The Florida Legislature and the Constitutional Taxation & Budget Reform Commission (TBRC) are considering variations of constitutional revenue and expenditure caps in Florida; primarily one called the Taxpayer Protection Act (TPA) currently before the TBRC (TBRC-CP0045).⁽¹⁾ The proposal is clearly modeled after the failed Colorado experience of implementing its so-called Taxpayer Bill of Rights (TABOR), which was adopted in 1992 and suspended by the Colorado voters for five years in 2005.

The proponents of this amendment to Florida’s constitution claim that only a few years after TABOR’s passage, Colorado’s economy improved. In fact, Colorado’s growth stalled in the early 2000s. Since the nationwide recession began in March 2001, Colorado is the only Rocky Mountain State that experienced virtually no job growth in the ensuing 59 months. While other surrounding states⁽²⁾ enjoyed growth ranging from 7.5% to over 19% with the median close to 10%, Colorado’s was an anemic 0.2%. Nationwide, from 2001 to 2005, Colorado ranked 47th in per capita personal income growth and 40th in job growth.

They claim that prior to enacting its taxpayer amendment, Colorado ranked low in economic growth per capita and in job growth before the amendment and in the years since has ranked high. A 2006 study⁽³⁾ found that “Colorado’s economic performance in the 1990s was not caused by TABOR. Colorado had a high growth economy prior to the amendment’s adoption in 1992 and the conditions for continued high growth already were firmly in place.” In a later study⁽⁴⁾, the authors stated that “Colorado’s prosperity, this research shows, has deep historical and regional roots. It was fueled by extensive public and private investment, high levels of educational attainment, and Colorado’s Rocky Mountain location. Those factors — not TABOR— gave Colorado its strong economy in the 1990s.”

Indeed, while employment growth was about the same prior to TABOR in Colorado and its neighboring Rocky Mountain states, Colorado experienced somewhat less growth than its neighbors in the period after TABOR was enacted.

Average Annual Employment Change: Before & After TABOR

	1980-1992	1992-2004
Colorado	2.1%	2.6%
Mountain States	2.1%	2.8%

Mountain states are Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, and Wyoming

In a study published by the Urban Institute in April 2006⁽⁵⁾, the growth rate of personal income and employment in Colorado was compared to the growth rates in other states in the periods before and after passage of TABOR. The authors concluded, “Although we find some *very limited* evidence for short-term increases to growth, these were not sustained in the longer term. The lack of a sustained effect holds up after controlling for economic and demographic characteristics of the states.”

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The Florida Center for Fiscal and Economic Policy (FCFEP) is an independent, nonprofit, non-partisan organization engaged in research and education on state fiscal and economic matters with particular attention to their impact on low and moderate/middle income Floridians and local small businesses owned by, and employing, Floridians. FCFEP’s mission is to perform and review research on state-level fiscal and economic matters with particular attention to their impact on low and moderate/middle income families and individuals and indigenous small businesses owned by, and employing, such families and individuals.

Another claim proponents make is that the amendment will ensure that government spending is held at responsible levels. TABOR can hold down expenditures. But it is important to ask what the consequences of those expenditure limits are for the quality of life in the state — and for the state’s economic competitiveness.

Several reports have been done on the Colorado TABOR experience and one, in particular, dealt with a proposed Florida TABOR amendment suggested by Speaker of the House Marco Rubio prior to last year’s session, one similar to the one currently being considered by the TBRC.⁽⁶⁾ That study documents that 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,
- 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.

Further details of the decline in a broad range of services may also be found in an earlier May 2005 report.⁽⁷⁾

In short, the results of these analyses show that there is little, if any, sound and empirical support for the notion that TABOR will have a positive effect on Florida’s economy or on the critical services provided by Florida’s state and local governments. In fact, the evidence points to the contrary. In Colorado, these problems led business leaders and Chambers of Commerce across that 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. For example, the editor of the *Denver Business Journal* said: “[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.”⁽⁸⁾

In November 2005, Colorado voters overwhelmingly approved this suspension. It’s important for Florida’s voters to note that up to now, Colorado is the only state to have adopted a TABOR, as well as the only state to have voted to suspend it.

Lost in the discussion is the fact that Florida already has various expenditure limitations and revenue caps,⁽⁹⁾ both on state revenues and on local taxes. The state revenue is set in a way that prevents state revenue growth from outstripping the growth in residents’ incomes, but yet provides enough revenue to maintain vital services. In 2007, the Legislature adopted an act that substantially froze and “rolled-back” local property taxes and imposed a similar cap on that tax.

DETAILS OF THE CURRENT PROPOSAL BEFORE THE FLORIDA TAXATION & BUDGET REFORM COMMISSION

As discussed, the proposal currently before the Taxation & Budget Reform Commission, which meets only once every twenty years, proposes to repeal the existing state revenue limitation and impose state and local spending limits⁽¹⁰⁾ adjusted for changes in population (enrollment for school districts) and inflation using fiscal year 2005-06 as the base year.

THE FORMULA DOES NOT REFLECT REALITY

The rigidities of state and local spending limits, as proposed using the population-plus-inflation growth factor, would not allow funding of the normal yearly growth in the cost of services most years, because — as described below — the formula does not reflect the reality of state needs. The TABOR certainly would not allow funding of new priorities that may be embraced by the Florida public, such as reduced class sizes or more stringent corrections policies. It also would not allow Florida and its local governments to adapt to federal mandates that require greater expenditures in areas such as health care, infrastructure and environmental priorities, security and education. In fact, it would undermine the state’s ability to maintain the quality of life Floridians have come to expect from its state. Worse, and perhaps most dangerously, under this proposal, these limits may not fully allow Florida to respond to emergency spending on natural disasters, terrorist attacks or other unanticipated challenges.

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The formula used in the proposal to adjust expenditures, population growth plus inflation, does not reflect the realities of this state.

Population: The use of the U.S. Census Bureau population estimates does not adequately reflect the subpopulations that require greater governmental services and tend to grow more rapidly than the overall population growth used in the formula. For example, while Florida population grew by 38.2 percent from 1992 to 2007, the total state prison population grew by 97.5 percent. In fact, the only area in which a different population figure is being used is for public schools, where it is based on actual enrollment figures which have been declining for the past two years and are projected to grow by less than 1% annually through 2011.

Moreover, every indication is that, over the next two decades, Florida's elderly population will double in size and grow at two to three times the rate of general population growth. An adjustment for overall population growth will not be sufficient to accommodate the increased service needs of these more rapidly growing, expensive to serve populations.

Inflation: The Department of Commerce's Bureau of Economic Analysis' "Price Index for State & Local Government Consumption Expenditures and Gross Investment (GPI)" is used to measure inflation.

In an accompanying staff analysis chart comparing the GPI and CPI since 1970, the two indices are very close except for the last five years (since 2003). They project that using the GPI will provide a slight annual average increase over the CPI for the next 10 years; but the concept is the same: No existing measure of inflation correctly captures the growth in the cost of the kinds of services purchased in the public sector, so the inflation adjustment generally is not sufficient to allow the continuation of existing services. Plus, neither index accounts adequately for education and health care cost increases which in Florida have been growing at twice the rate of the overall CPI; the GPI does not include Medicaid costs at all in its measure.

Both the CPI and the GPI growth are substantially lower than the Florida-specific governmental price index used by Fishkind & Associates as shown in the March 2007 report "Analysis of County Spending Patterns 1999-2006 Where Did the Money Go?"⁽¹¹⁾

LOCAL GOVERNMENT PROPERTY TAXES

Proponents of this constitutional amendment also propose a local property tax limit adjusted for inflation and "changes in property values due changes, additions, reductions or improvements" using the property tax revenues collected in 2008 – one of the worst years ever for Florida's real estate and construction businesses and, one in which stringent state controls and roll-backs were mandated -- as the base year.

VOTER APPROVAL OF TAXES AND USER FEES

The proponents also require voter approval of any new tax or increased tax rates by a majority of the electors, or any new user fee by two-thirds of the electors. This applies to all units of government, including the state, and only allows the new or increased tax or user fee to not exceed four years.

Had this requirement been in effect on January 29th, any new state tax or increased tax rate would have required a vote of 5,101,557 votes and any new user fee would have required 6,802,076 votes; and, would have been effective for only four years.

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¹ **FLORIDA TAXATION AND BUDGET REFORM COMMISSION - STATE AND LOCAL REVENUE LIMITATIONS (CP0045)**
http://www.floridatbrc.org/proposals41_50.php

² Mountain states' job growth – March 2001 through January 2006

Arizona	12.8%
Colorado	0.2%
Idaho	10.3%
Nebraska	7.5%
Nevada	19.1%
New Mexico	8.7%
Utah	8.0%
Wyoming	9.8%

Source: Bureau of Labor Statistics

³ **SOS (TABOR) WILL NOT JUMPSTART MICHIGAN'S ECONOMY**

By Karen Lyons and Iris J. Lav, Center for Budget & Policy Priorities, March 2007 found at <http://www.cbpp.org/7-18-06sfp.pdf>

⁴ **EDUCATION AND INVESTMENT, NOT TABOR, FUELED COLORADO'S ECONOMIC GROWTH IN 1990S**

By Karen Lyons and Nicholas Johnson, Center for Budget & Policy Priorities, March 2007 found at <http://www.cbpp.org/3-23-06sfp.pdf>

⁵ **THE COLORADO REVENUE LIMIT: THE ECONOMIC EFFECTS OF TABOR**

By Kim Rueben and Therese J. McGuire, Urban Institute, April 2006 http://www.urban.org/UploadedPDF/1000940_TABOR.pdf

⁶ **A FRIGID FORECAST FOR THE SUNSHINE STATE: PROPOSED REVENUE CAP AS DAMAGING AS COLORADO'S TABOR**

By Karen Lyons and Iris J. Lav, Center for Budget & Policy Priorities, March 2007 found at <http://www.cbpp.org/3-20-07sfp2.pdf>

⁷ **FICTION AND FACT: A RESPONSE TO THE TAX FOUNDATION'S DISTORTION OF COLORADO'S TABOR** By David Bradley, Center for Budget & Policy Priorities, March 2007 found at <http://www.cbpp.org/5-2-05sfp.pdf>

⁸ Neil Westergaard, "Business folks fed up with TABOR worship," Denver Business Journal, July 22, 2005 as reported in **A RESPONSE TO THE INDEPENDENCE INSTITUTE'S ATTACK ON "THE REAL STORY BEHIND TABOR" VIDEO** By Karen Lyons, Center for Budget & Policy Priorities, October 2006, found at <http://www.cbpp.org/10-23-06sfp.pdf>. The actual video may be found at <http://www.cbpp.org/taborvideo.htm>

⁹ Florida's Constitution requires a "balanced budget" in Article VII, Subsection 1 (d) which states: "Provision shall be made by law for raising sufficient revenue to defray the expenses of the state for each fiscal period." In addition, Subsection 1(e) imposes a constitutional limitation on Florida's state revenues. Further, Article VII, Section 9, limits the amount of local property taxes that may be levied by Florida's local governments. The local property tax is recognized by the Constitution as the only source of local taxation not pre-empted to the state.

¹⁰ "Revenues and spending" do not include a list of specific items listed under definitions, for example: pension contributions by employees, pension investment income and payments; receipts from Hurricane Catastrophe Fund; bond funds; gifts, donations, sales of property, grants and revenues from another unit of government; costs of operating lottery, electric, water, wastewater, gas or other utility services; revenues from the issuance of licenses and permits to the extent that the revenues do not exceed the costs of issuing and services provided.

¹¹ Found at http://www.fl-counties.com/PDF/PR_fishkind-study.pdf