Montana's SOS/TABOR: Myth vs. Fact

Myth #1: State spending is out of control

Claim:
"Contrary to Colorado, Montana government spending is absolutely out of control."
—Sen. Balyeat ("Should Montana limit government spending?" 3/23/06, *Billings Outpost)*

FACT:
- State spending as a share of total state personal income is lower today than it has been in the last 15 years. In 1990, it was 5.8%, in 1995 it reached a high of 6.6% and in 2005 it was 5.1%.
- Between 2004-05, general fund spending increased by only 6%. Between 03-04, it also increased by only 6%. Between 2002-03, it actually decreased by 9%.
- Montana already has a balanced budget requirement in the state constitution that prevents overspending.
- When asked to say *where* the state is overspending and what they would cut, CI-97/SOS proponents consistently refuse to respond.

Claim:
"Montana has the highest income tax burden in the country." (SOS website)

FACT:
- Together, state and local government taxes per capita in Montana are 4th lowest in the country (2002).
- Montana has the 16th lowest per capita state taxes in the country in 2005. (US Census)

Claim:
"Unfortunately, Montana's economy has suffered decades of high tax burdens, and Montana government spending as a percentage of income is just the opposite of Colorado's — we rank near the nation's highest in that category."—Sen. Balyeat ("Should Montana limit government spending?" 3/23/06, *Billings Outpost*)

FACT:
According to the most recent data from the US Census and Bureau of Economic Analysis, Montana ranks **35th** in government spending as a percentage of income—nowhere near the nation's highest (FY 2002).

Myth #2: SOS/TABOR allows government to grow at a reasonable rate

Claim:

- "SOS is a very flexible, soft cap which limits only about a third of Montana's total budget." —Sen. Balyeat ("Should Montana limit government spending?" 3/23/06, *Billings Outpost)*
- "SOS absolutely allows government to grow, but at a reasonable rate."—Rep. Mendenhall ("Analyst rips spending cap proposal," *Helena Independent Record*, 3/7/06)
- "I just think it makes really good sense to size government according to the growth of the economy and people's income and our population growth." —Rep. Mendenhall ("Sides gear up for fight over spending cap," *Billings Gazette*, 2/26/06)

FACT:

- SOS/TABOR's flawed formula (inflation + population) would shrink government over time.
- *Inflation:* The costs of the goods that state government provides, such as public safety, health care, and higher education, rise more quickly than the general consumer price index (the measure used in the failed formula found in CI-97). By tying state spending to the consumer price index, SOS/TABOR would ensure that the state would be increasingly incapable of meeting its needs.
- "Henry Sobanet, director of the Colorado Office of State Planning and Budgeting, said Colorado also found inflation a notoriously unreliable basis for budgeting." ("Battle joined over ballot initiative to cap state spending," *Great Falls Tribune*, 2/19/06)
- *Population:* The subpopulations served by government programs (such as seniors and the disabled) are different and more costly than the overall population. The rapid growth of the elderly population in coming years will put additional strains on state spending.
- Josh Harwood, an economist for the nonpartisan Colorado Legislative Council, said that the populations that require government services most — the poor, the elderly, and prisoners — increase far more quickly than the overall population, the number to which spending increases are linked. ("Battle joined over ballot initiative to cap state spending," *GF Tribune*, 2/19/06)

Claim:

"SOS…is a far less strict, very reasonable limitation on only a small portion of Montana's very bloated state budget." —Sen. Balyeat ("Should Montana limit government spending?" 3/23/06, *Billings Outpost*)

FACT:

While the General Fund only makes up 37 percent of total state government spending, it provides the **majority** of funding for K-12 education, higher education, health care, and corrections.

Myth #3: SOS/TABOR won't have any negative effects

Claim:
"It won't even result in any blood on the floor." —Sen. Balyeat ("Battle joined over ballot initiative to cap state spending," *GF Tribune*, 2/19/06)

FACT:
- You cannot shrink the state budget without affecting essential programs and services. The SOS/TABOR approach would hurt health care, public schools, higher education, and public safety—services accounting for almost 80 percent of the state's general fund budget.
- In Colorado—the only state with a TABOR—TABOR has had a marked impact on state services, including education and health care. Under TABOR, Colorado declined from 35th to 49th in the nation in K-12 education spending as a percentage of personal income. Funding for higher ed dropped 31%. Colorado fell from 23rd to 48th in the percentage of pregnant women receiving adequate access to prenatal care. Also, 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.
- In November 2005, Coloradoans, frustrated with the deteriorating level of public services and the prospect of even more drastic cuts, voted to suspend TABOR for five years.

Claim:
"Medicaid and elderly programs are primarily federal funds, so the dire predictions of the AARP are simply silly." —Sen. Balyeat ("Should Montana limit government spending?" 3/23/06, *Billings Outpost*)

FACT:
- In order to get these federal funds, Montana must spend state money. SOS restricts its ability to do so.
- As Montana's income increases, the federal government matches less money, meaning the state government will have to contribute more (as happened in the latest budget).
- General fund money goes to support Meals on Wheels, in-home caregiver services, and adult protective services.
- As our population ages, Montana will need to expand services (both through the state and Medicaid), such as home based aid and nursing homes. This will be limited by the formula.

Myth # 4: SOS is not TABOR

Claim:
- "It's not accurate to compare Colorado's spending cap to CI-97, which is less restrictive." —Rep. Mendenhall ("Analyst rips spending cap proposal," *Helena IR*, 3/7/06)
- Sen. Balyeat and Rep. Scott Mendenhall, the main backers of CI-97/SOS, say they've fashioned Montana's proposed initiative to sidestep the problems that so plagued TABOR. ("Battle joined over ballot initiative to cap state spending," *GF Tribune*, 2/19/06)

FACT:

- CI-97/SOS contains all three core elements of Colorado's TABOR:

	Constitutional Amendment	Limits growth to Population + Inflation Formula	Voter Approval to Override Limits
Colorado's TABOR	√	√	√
Montana's SOS	√	√	√

- While the formula in CI-97/SOS would mitigate some of the impacts of Colorado's "ratchet effect" (the spending limit falls when revenues decline), the language of CI-97/SOS would still prevent Montana's budget from fully recovering from budget downturns.
- Under CI-97/SOS, the spending limit is held constant in most years of declining revenue and would not even be able to keep pace with inflation plus population growth.
- Comparing SOS and TABOR is not like comparing apples with oranges. It's like comparing Macintosh apples with Gala apples. The taste is slightly different, but the effect is the same.

Myth #5: SOS/TABOR makes government more responsible

Claim:

- "It creates real responsible government." —Trevis Butcher ("Groups raise red flags over proposed cap on spending," *GF Tribune*, 3/7/06)
- "SOS merely will force legislators to set priorities, with a ceiling on total spending." Rep. Scott Mendenhall ("Sides gear up for fight over spending cap," *Billings Gazette*, 2/26/06)
- "There's nothing in this initiative as such that would specifically limit school spending. ... If they prioritize school spending, other things would have to have slower growth." —Sen. Balyeat ("Battle joined over ballot initiative to cap state spending," *GF Tribune*, 2/19/06)

FACT:

- Under SOS/TABOR, if more than one area of state service is growing faster than population plus inflation, other areas have to get cut, even if they are still important to Montana's people.
- SOS/TABOR would shift responsibility for determining the annual state budget away from the people's elected representatives and transfer it to a complicated formula that would have to be interpreted by the judicial system.
- Formula-driven cuts hamstring the state's ability to have honest debate about what programs government should operate and how to spend public funds more efficiently.
- CI-97 allows anyone who does business in Montana—whether they are a Montana citizen or not—to sue over alleged violations of the spending limit formula and makes taxpayers foot the bill. This invites frivolous lawsuits to tie up the courts.

Myth # 6: SOS/TABOR puts people in control over spending

Claim:

- If politicians want to spend more than the SOS limit, they simply have to go to the voters first. (SOS website)
- "The one similarity between SOS and TABOR is a good one—both measures allow government to spend more if the people vote for higher spending. This ultimate safety valve puts the people in charge of their own government." —Sen. Balyeat ("Should Montana limit government spending?" 3/23/06, *Billings Outpost*)

FACT:

- As Colorado learned, getting voter approval is a very costly endeavor, requiring many special elections. CI-97/SOS does not even allow the reason for spending over the limit to be printed on the ballot.
- Montanans already have a vote on the state budget: We elect representatives who share our values to determine the budget. If those we elect don't perform as we like, we vote them out or recall them.

Myth #7: SOS/TABOR brings economic prosperity

Claim:

"We're guaranteeing ourselves future recessions and future years of Montana once again languishing in the economic doldrums, while states like Colorado, Oklahoma and Washington consistently rank high in wage growth during years when all three states had tax and expenditure limitations in place." —Sen. Balyeat ("Should Montana limit government spending?" 3/23/06, *Billings Outpost*)

FACT:

- Colorado's economic growth during the 1990s stemmed in large part from strong public investment in research, high-tech, education, and infrastructure--not from SOS/TABOR.
- "McGuire and Rueben used statistical analysis to separate TABOR from other factors that were present in Colorado both before and after TABOR's enactment, such as high levels of educational attainment and military spending. …. Their analysis finds that <u>TABOR did little or nothing for Colorado's economy</u>. Indeed, controlling for those other factors, their analysis finds that Colorado had only slightly better growth than would have been expected in the first five years after TABOR, but weaker-than-expected growth in the following five years. For the entire 10-year period, McGuire and Rueben report that Colorado's economic growth was about the same as what it would have been without TABOR. (Therese J. McGuire and Kim S. Rueben, *An Examination of the Economic Effects of Colorado's TABOR Law*, Economic Policy Institute: 2006.)
- A 2003 study conducted by the well-regarded, nonpartisan Colorado Legislative Council staff found no relationship between TABOR's enactment and the state's economic performance. According to the study, Colorado's economic growth was a result of economic factors that predated TABOR and its geographic location. The study specifically found that "there is no

evidence that TABOR was responsible for the economic boom of the 1990s." (Colorado Legislative Council, *House Joint Resolution 03-1033 Study: TABOR, Amendment 23, the Gallagher Amendment, and Other Fiscal Issues*, September 2003, p. 31.)

- TABOR hurts the public services that businesses depend on: education, infrastructure, public safety, and health care.
- Business leaders in Colorado have spoken out about the negative effects of TABOR:
  - "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," says Tom Clark, Executive Vice President of the Denver Metro Chamber of Commerce. (Daniel Franklin and A.G. Newmyer III, "Is Grover Over?," *Washington Monthly*, March 2005)
  - "[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," says Neil Westergaard, Editor of the Denver Business Journal. (Neil Westergaard, "Business folks fed up with TABOR worship," *Denver Business Journal,* July 22, 2005.)
  - "The business community has said this is not good for business, and this is not good for Colorado," says Gail Klapper, director of the Colorado Forum, an organization of 60 leading CEOs. (Will Shanley, "State businesses unite to urge TABOR deal," *The Denver Post*, March 9, 2005.)

Claim:

"Opponents also don't mention that in the decade after Colorado passed the spending caps, the state's economy was one of the fastest-growing in the country." —Rep. Mendenhall ("Analyst rips spending cap proposal," *Helena IR*, 3/7/06)

FACT:

- Colorado's economic growth in 1992-2004 – the years since TABOR's enactment – has not been much different from its growth in previous decades. In fact, job growth and personal income growth were greater in the pre-TABOR years (1950-1992), while population growth was the same.

TABLE 1. ECONOMIC INDICATORS: AVERAGE ANNUAL CHANGE (%)

	1950s	1960s	1970s	1980-1992	1992-2004
Jobs					
Colorado	3.6	3.7	5.5	2.1	2.6
U.S.	1.8	2.9	2.7	1.5	1.6
Difference	1.8	0.8	2.8	0.6	1.0
Personal Income ($2004)					
Colorado	5.3	5.0	5.4	2.8	4.4
U.S.	4.0	4.8	3.1	2.6	2.5
Difference	1.3	0.2	2.3	0.2	1.9
Population					
Colorado	2.9	2.3	2.9	1.6	2.3
U.S.	1.7	1.3	1.1	1.0	1.1
Difference	1.2	1.0	1.8	0.6	1.2

Source: CBPP analysis of data from Bureau of Labor Statistics, Bureau of Economic Analysis, and Census Bureau.

Colorado's Rocky Mountain State neighbors experienced similar and sometimes greater growth than did Colorado during the 1992-2004 time period. Nevada's average annual job growth in the post TABOR years has been almost twice that of Colorado's. Arizona, Idaho, and Utah also have had higher job growth than Colorado. Personal income growth has also been higher in Arizona and Nevada than in Colorado in these last 12 years.

- Colorado is the ONLY Mountain State with negative job growth since the recession.

Job Growth (March 2001- November 2005)	
Arizona	10.2%
Colorado	**-0.5%**
Idaho	7.8%
Montana	8.2%
Nevada	18.3%
New Mexico	7.3%
Utah	6.7%
Wyoming	8.0%

Source: Center on Budget and Policy Priorities