STOP

Bad Ideas

A series of briefs examining proposals that could negatively affect health care coverage

TABOR: A Wolf in Sheep's Clothing

Conservatives sometimes seem to have an endless supply of proposals that sound like plain old common sense but are actually radical, or even dangerous. One new example of such proposals is the so-called Taxpayer Bill of Rights, or TABOR. TABOR is a weapon in the conservatives' campaign to "starve the beast"—that is, to force government spending cuts by first reducing revenues. Because every state is required to balance its budget each year, a shrinking revenue base at the state level will inevitably require cuts in spending. Thus, conservatives have proposed TABOR amendments to state constitutions. A TABOR amendment imposes stringent restrictions on a state's ability to raise and spend tax revenues.

TABOR Results in Harmful Restrictions on State Spending

As of July 2006, Colorado is the only state that has enacted a TABOR amendment. Since adopting TABOR in 1992, Colorado has experienced a decline in many public services. For example, because of the limits set by TABOR, the state pays teachers 7 percent less than the national average, and it has the largest elementary and secondary class sizes in the nation.[1] TABOR has affected other aspects of Colorado life as well, resulting in poorly maintained highways and significantly more uninsured children than the national average (29.7 percent for Colorado, 19.7 percent for the nation).[2] In response to these disturbing trends, Coloradans implicitly repudiated their state's TABOR amendment, voting last year to set aside the TABOR limits on taxing and spending for five years.[3]

Despite Colorado's bad experience, TABOR amendments are set to appear on ballots in Maine and Rhode Island this fall. In addition, TABOR amendments are likely to be on ballots in Michigan, Montana, Nebraska, and Oregon in 2006, and there have been efforts to push TABOR ballot initiatives in several other states.[4] While Colorado's experience clearly shows that TABOR amendments can harm states in many different ways, this fact sheet makes the case that such amendments disproportionately damage health care programs aimed at helping the sick and vulnerable.

How Does TABOR Work?

Under a TABOR amendment, a formula that limits a state's annual revenue growth is imposed on all state spending. Under this formula, state revenues are capped at the previous year's level adjusted to reflect population growth and growth in the annual consumer price index (CPI). If more tax revenues are collected in any given year than permitted under the TABOR formula, taxpayers receive contingent tax credits the following year.

TABOR Squeezes Health Care More than Other Programs

While the reduction in state revenues and limits on spending required by TABOR will be damaging to many state programs, health care will be particularly hard hit. That's because TABOR allows tax revenues and state spending to increase with inflation, but health care spending has been going up faster than inflation. The TABOR formula adjusts for inflation based on increases in the CPI. But medical inflation has increased by at least 8 percent each year for the past six years, rising more than twice as fast as the CPI.[5] Consequently, TABOR will squeeze health care programs sooner—and harder—than other kinds of state programs.

In recent years, as health care inflation has driven up Medicaid costs, states have responded by either raising taxes or cutting Medicaid. States that adopt TABOR amendments will be unable to consider the first option (raising taxes) due to TABOR constraints. Instead, TABOR states will face pressure to cut optional Medicaid benefits and/or drop Medicaid enrollees, thereby increasing the number of uninsured.

"Ratchet Effect" Limits Public Services for Vulnerable Groups

When the economy turns sour, more and more people lose jobs and become eligible for Medicaid coverage, thus pushing up Medicaid spending. A TABOR amendment not only limits Medicaid's ability to grow during hard times, it also—perversely—tightens the screws on spending even further. This is due to what is known as the "ratchet effect." Here's how it works: During recessions or downturns, *overall* state spending usually falls. This lower-than-expected overall spending then becomes the basis for calculating how much can be spent in the state's total budget the next year, and the year after that, and so on, thus "ratcheting down" overall spending from year to year. And even when the state's economy rebounds from the recession, overall spending nevertheless remains capped at the lower level because TABOR amendments do not allow states to adjust their overall spending limits as circumstances change. As the fiscal vise tightens, states have to look for ways to cut spending, and Medicaid is one of the places they look. It's fair to say that the vulnerable groups who depend on Medicaid, especially low-income seniors and people with disabilities, often pay the price for this lack of flexibility. And cuts in Medicaid funding over several years will inevitably lead to larger uninsured populations and/or an increase in the number of Medicaid enrollees who cannot obtain the medical care they need.

TABOR Does Not Account for Growth of Certain Groups

In addition to ignoring medical inflation, TABOR laws do not factor in the growth of certain subpopulations that require more extensive medical care. For example, the numbers of senior citizens and people with disabilities, two of Medicaid's primary constituents, grow at a faster rate than the overall population. Between 1990 and 2002, the total U.S. population grew by 15.4 percent.[6] During that same period, the number of seniors and people with disabilities enrolled in Medicaid increased by 69.6 percent, leading to an increase in Medicaid spending.[7]

States that adopt TABOR amendments will be legally prevented from raising expenditures to handle burgeoning enrollment of Medicaid subpopulations. This will force some states to cut optional Medicaid benefits and/or drop Medicaid enrollees. Cutting optional benefits such as prescription drug coverage, dental care, or physical therapy will lead to a sicker population. Dropping Medicaid enrollees will result in a larger uninsured population. Both options will only increase the number of residents who will either delay seeking medical care until they have a health crisis or forgo health care entirely, potentially leading to an increase in much more expensive emergency room care.

TABOR Strips States of Flexibility

TABOR amendments deny states the flexibility needed to respond effectively to any number of circumstances, from minor economic recessions to major natural disasters or terrorist attacks. If a state has a TABOR amendment, legislators will find their hands tied when responding to unforeseeable circumstances, as they will be unable to consider the option of raising tax revenue. In the aftermath of Hurricane Katrina, legislators in Louisiana and Mississippi would have been unable to consider raising tax revenues if their states had passed TABOR amendments, despite the fact that thousands more people have come to depend on public programs such as Medicaid. TABOR amendments strip important powers from state legislators, who have been elected to make decisions that are in the best interest of their constituents, and instead force legislators to follow rigid formulas that are unable to respond to specific circumstances and unforeseeable events.

States Pay More When They Invest Less in Medicaid

State Medicaid programs are financed by both state and federal funds. For every dollar a state spends on its Medicaid program, the federal government contributes between $1 and $3.36 (depending on the state's per capita income). So, while cutting Medicaid benefits and/or enrollees would seem to save states money, such actions actually cost states more in the end because they lose valuable federal dollars. These federal dollars not only help support Medicaid, but they also fuel state economies and create jobs. Therefore, when a TABOR amendment forces a state to cut its Medicaid program, the state can actually take a substantial financial hit.

States also save money by spending on Medicaid, because Medicaid spending helps limit uncompensated care. Studies have shown that low-income residents enrolled in Medicaid are more likely to seek cost-effective preventive health care than are uninsured people in the same income bracket.[8] In contrast to Medicaid enrollees, uninsured individuals typically delay seeking medical care until they have a health crisis—or they forgo medical care entirely. The uninsured who do seek medical care when they have a crisis are generally treated in the emergency room of a public clinic or hospital. When this happens, the state must foot the entire bill without any federal assistance. And when the uninsured obtain medical care from private providers, the state still must pay for a high proportion of the care without any federal assistance.

Colorado's experience clearly illustrates how the state's most vulnerable residents are denied basic necessities when TABOR laws are on the books. For example, although Colorado has the eighth highest per capita income in the United States, it has the lowest child immunization rate in the nation and the fifth highest uninsured rate among children in the nation. What's more, three-quarters of Colorado pediatricians refuse to treat Medicaid patients because reimbursement rates have significantly decreased since TABOR was implemented.[9]

TABOR: Bad for Business

In contrast to its fellow mountain states (Arizona, Idaho, Montana, Nevada, New Mexico, Utah, and Wyoming[10]), Colorado's fiscal performance has not improved since TABOR was implemented. A report titled *False Promise of Prosperity* notes:

> Colorado's economic performance since TABOR has been comparable to those of other Mountain states—just as it was prior to TABOR. Among the eight Mountain states, Colorado's job creation in the 12 years since TABOR'S enactment (1992-2004) ranked 5th—the same as its ranking in the previous 12 year period (1980-1992). Similarly, Colorado's ranking among Mountain states for per capita personal income growth was the same in the 12 years before TABOR as in the 12 years since.[11]

In fact, in some ways, Colorado's economy is actually worse under TABOR. For example, from 2001-2004, Colorado lost 68,000 jobs, a decline of 3 percent.[12] During the same period, Colorado's fellow mountain states experienced a median job growth of 4.5 percent.[13]

While TABOR may not be solely responsible for Colorado's recent economic downturn, it has by no means served as an asset—a point that several Colorado business leaders have acknowledged. Gail Klapper, director of the Colorado Forum, which represents 60 Colorado CEOs, commented, "The business community has said this is not good for business and this is not good for Colorado." [14] Neil Westergaard, editor of the *Denver Business Journal*, echoed the sentiment: "[Business leaders] have figured out that no business would survive if it were run like the TABOR faithful say Colorado should be run." [15] And Tom Clark of the Denver Chamber of Commerce said, "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." [16]

TABOR—the Bottom Line

Despite the pro-consumer images conjured by its name, the so-called “Taxpayer Bill of Rights” is very anti-consumer legislation. Proponents argue that TABOR amendments result in smaller government, more money for the people, and a better economy. In truth, TABOR laws squeeze state economies and result in cuts to programs that are essential for residents, especially with regard to health care.

Neither the health care needs of a state’s population nor the health of a state’s economy benefit when states put themselves in a fiscal straightjacket like TABOR. Imposing the kinds of restrictions required by TABOR math ties the hands of state legislators and cripples a state’s ability to respond to unforeseen disasters. The result, as seen in Colorado, is an economy that is in worse shape, not better.

Conservatives may claim that TABOR amendments protect taxpayer rights, but the evidence points clearly in the opposite direction.

Endnotes

[1] Nicholas Johnson, Carol Hedges, and Jim Zelenski, *Colorado's Fiscal Problems Have Been Severe and Are Likely to Continue* (Washington: Center on Budget and Policy Priorities, March 17, 2004).

[2] Ibid.

[3] Referendum C in November 2005 elections.

[4] 2006 TABOR ("Taxpayer Bill of Rights") THREATS (Washington: Ballot Initiative Strategy Center, 2006), available online at http://www.ballot.org/vertical/Sites/%7B26C6ABED-7A22-4B17-A84A-CB72F7D15E3F%7D/uploads/%7BCBA4DAD8-822D-497B-9BCE-C9C0966BAA08%7D.PDF.

[5] David Bradley, Nicholas Johnson, and Iris J. Lav, *The Flawed "Population Plus Inflation" Formula: Why TABOR's Growth Formula Doesn't Work* (Washington: Center on Budget and Policy Priorities, January 13, 2005), p. 1.

[6] Ibid.

[7] Ibid.

[8] Ibid., p. 7.

[9] Nicholas Johnson and David H. Bradley, *Public Services and TABOR in Colorado* (Washington: Center on Budget Policy and Priorities, January 13, 2005), pp. 1-2.

[10] U.S. Census Bureau, *Census Regions and Divisions of the United States* (Washington: United States Census Bureau, October 14, 2004).

[11] David Bradley, Nicholas Johnson, and Karen Lyons, *False Promise of Prosperity: For Kansas Economic Growth, TABOR May Do More Harm than Good* (Washington: Center on Budget and Policy Priorities, November 3, 2005), p. 2.

[12] Nicholas Johnson and Karen Lyons, *Is Colorado's TABOR Creating Jobs?* (Washington: Center on Budget Policy and Priorities, January 13, 2005), p. 1.

[13] Ibid.

[14] Will Shanley, "State Businesses Unite to Urge TABOR Deal," *The Denver Post*, March 9, 2005.

[15] Neil Westergaard, "Business Folks Fed up with TABOR Worship," *Denver Business Journal*, July 22, 2005, p.1.

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

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