New Legislative Experiment Would Lock in Crisis Budgeting Brought on by Tax Cuts

Kansas CENTER FOR ECONOMIC GROWTH

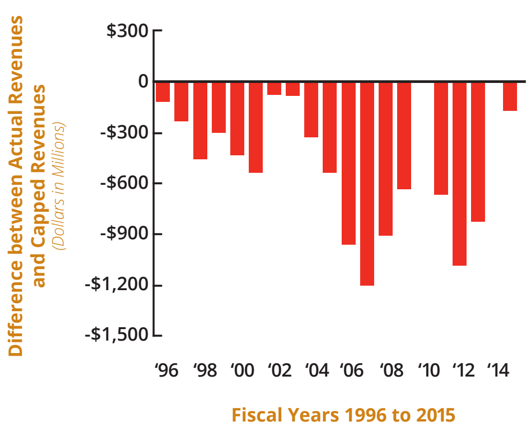
Recent resolutions (SCR 1602 & HCR 5007) introduced in the Kansas Legislature would prevent the state from meeting even its most basic needs and hurt the foundations of the Kansas economy. The bill proposes etching into the state constitution an extreme and inflexible, formula-based cap on state revenue and investments called "TABOR," or the so-called Taxpayer Bill of Rights. TABOR would lock in the current fiscal crisis and keep Kansas in a perpetual state of budget shortfalls.

In Colorado, the only state to have adopted such an extreme limit, TABOR wreaked havoc on state investments in schools, higher education, health, and more. In addition to deep cuts to core services, TABOR doesn't bring any benefits to Kansas. There is no evidence that capping budgets in this way produces any economic boost or other advantages. Kansas needs to focus on undoing the damage of an ill-conceived tax policy experiment. Instead, this dangerous proposal would begin a second fiscal experiment in Kansas – one that is already a proven failure.

Devastating Consequences of TABOR-style Revenue and Spending Caps:

If Kansas had this revenue and spending cap in place over the last two decades, it would have resulted in huge shortfalls and devastating cuts to education, roads, and other important services. In fact, when applying the formula to the previous twenty budget years, this proposal would have resulted in $9.5 billion less in revenue. Here's how the revenue cap would have looked for each year:

Proposed Revenue Cap Would Have Cost over $9.5 Billion in Past 20 Years



Source: Kansas Center for Economic Growth analysis of Budget Data with Proposed Revenue Cap formula in SCR 1602 and HCR 5007

The impact of such shortfalls on everyday Kansans would have been enormous. Had this plan been enacted, here are some of the things Kansans might have had to do without:

What the Cap Would Have Meant to Previous Budgets

FY 2007:
$1.2 billion *less* in revenue would be roughly equal to defunding **all** Regents Universities except Wichita State for the year.

FY 2012:
About $1.1 billion *less* in revenue would equate to no services for older Kansans, the mentally ill and disabled, and closing all adult corrections facilities for the year.

FY 2013:
About $830 million *less* in revenue would compare to cutting K–12 education by **23.5%** that year.

In short, a cap would have made it impossible to meet the needs of the state's most vulnerable residents, its youngest residents, and its brightest residents.

This Experiment Failed in Colorado and Other States Have Rejected It:

In Colorado, the only other state to have instituted similarly rigid and tight caps, residents experienced such serious consequences that they had buyer's remorse shortly thereafter. Colorado passed one of the strictest revenue and expenditure limitations in 1992, known as TABOR. The damage caused by the law eventually led voters to suspend TABOR in 2005.[1] They also voted to remove one of the TABOR formula's most damaging features, sometimes called a "ratchet," because when revenues fall during economic downturns, the TABOR formula locks in that new low as the revenue stream for the next fiscal year. The current proposal in Kansas has this ratchet effect.

Policy experts on TABOR-style revenue and expenditure caps have found that such policies tend to have negative side effects beyond cuts to essential services. For example, TABOR reduces accountability and increases instability. This limit would put the Kansas budget on autopilot. Overriding the limit would require a vote of the people during the next general election, making it impossible to respond to emergencies that arise like natural disasters.

Some research has also shown that extreme limits on taxes and spending, like TABOR, actually increase rather than reduce the volatility of state revenues.[2] Revenue volatility can lead to difficulties in balancing budgets, the over-use of short-term fixes (e.g., fund sweeps, payment rollovers, etc.) that undermine long-term investments, ill-preparation for recessions and an inability to take advantage of good economic times.

Revenue and Spending Caps Won't Help Kansas' Economy:

Little evidence suggests such a policy would help Kansas economically or otherwise, just as research shows that income tax cuts are an ineffective strategy for boosting a state's economy and revenues.

In fact, states with tight revenue caps have lower credit ratings,[3] which can lead to higher infrastructure borrowing costs and also fail to produce state economic growth.[4] At the same time, education and other pillars of a strong economy could be damaged through additional cuts.

TABOR Cements Disastrous "March to Zero"-like Concept into the Kansas Constitution

The "March to Zero," one of the signature components of Governor Brownback's 2012 tax policy, threatens to compound the current, unprecedented fiscal problems for Kansas because it automatically caps the state's ability to invest in new programs or services, regardless of public need. TABOR embodies a similar concept and will result in identical problems. Its rigid formulaic cap on revenue and expenditure growth will – just like the March to Zero – fail to account for Kansas' evolving needs or the uncontrollable factors that create new demands for public resources over time.

Kansans are still reeling from the income tax cut experiment of 2012, which is why they voted overwhelmingly in February 2017 to repeal its core components. TABOR would move Kansas in the opposite direction and instead cement the "March to Zero" philosophy into the state constitution. Kansas lawmakers should reject the newly-proposed experiment to adopt TABOR-style revenue and expenditure caps that have already proven to be a failure in Colorado. Instead, lawmakers should focus on stabilizing Kansas' revenue stream by enacting comprehensive tax reform.

Kansas Center for Economic Growth

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[1] See Center on Budget and Policy Priorities, Policy Basics: Taxpayer Bill of Rights (TABOR). August 13, 2015. Available online: http://www.cbpp.org/research/state-budget-and-tax/policy-basics-taxpayer-bill-of-rights-tabor

[2] See Tucker Staley, 2015. "The Effect of TELs on State Revenue Volatility: Evidence from the American States." Public Budgeting & Finance, Vol. 35, Issue 1. Abstract available online: http://onlinelibrary.wiley.com/doi/10.1111/pbaf.12054/abstract

[3] See Judith I. Stallman, et al., 2012. "Tax and Expenditure Limitations and State Credit Ratings." Public Finance Review, Vol. 40, Issue 5. Abstract available online: http://journals.sagepub.com/doi/abs/10.1177/1091142112446844

[4] See Lindsey N. Amiel, et al. 2012. "Economic Growth and Tax and Expenditure Limitations." The Review of Regional Studies, Vol. 42. Available online: http://journal.srsa.org/ojs/index.php/RRS/article/view/42.3.1/pdf