



VOTE NO ON HOUSE BILL 188, THE JOB-KILLING TABOR BILL

TABOR would undermine public investments, quality of life, and business climate in North Carolina

BY EDWIN McLENAGHAN – Policy Analyst, NC Budget & Tax Center

EXECUTIVE SUMMARY:

-  Because TABOR's restrictive formula does not keep up with the cost of health care, education and many other public services where costs grow faster than inflation, it would force annual reductions in all government services.
-  If North Carolina had adopted TABOR in 1993, it would have slashed appropriations by 23 percent, equivalent to cutting three-fifths of funding for K-12 public schools.
-  Colorado, the only state to adopt TABOR, has failed to address its budget shortfall problems. It has also seen education funding plummet to near the bottom of national rankings. TABOR was such a disaster in Colorado that voters suspended the policy in 2005.

The TABOR proposal currently under consideration in the General Assembly would weaken North Carolina's ability to recover from the Great Recession and undermine the long-term viability of public structures like public schools, community colleges and universities, hospitals and courts.

The proposed TABOR legislation before the General Assembly would impose a restrictive cap on the growth of state General Fund appropriations equal to population growth plus inflation.

TABOR FORMULA LEADS INEVITABLY TO DEVASTATING CUTS TO KEY PUBLIC STRUCTURES

The TABOR formula fails to take into account that the costs of certain services, such as health care and education, grow faster than inflation. In addition, TABOR ignores demographic shifts, such as the increasing share of North Carolina's population made up of elderly residents and college students.

TABOR's population-growth-plus-inflation is not an appropriate way to measure the cost of providing basic government services, and it goes far beyond merely constraining growth in state-funded services. Because TABOR's restrictive formula does not keep up with the cost of health care, education and many other public services, it would force annual reductions in all government services.

Had North Carolina implemented TABOR in 1993, at the same time as the state of Colorado, the TABOR formula would have reduced North Carolina's cumulative investment in public structures by more than \$35 billion between fiscal year 1993 and the current fiscal year. In fiscal year 2008, state policymakers would have had to cut state appropriations by 23 percent to meet the TABOR limit.

Making cuts of that magnitude would have been equivalent to doing any one of the following:

- Cutting roughly three-fifths of the state's appropriation to K-12 public schools

- **Eliminating all state funding for North Carolina’s community colleges and universities, plus 90 percent of all state appropriations for prisons**
- **Eliminating all state funding for Medicaid, Mental Health, Child Development, and Public Health, plus all state appropriations for courts**

TABOR WEAKENED COLORADO’S PUBLIC STRUCTURES

Colorado passed TABOR in 1992, and its budget constraints have seriously weakened Colorado’s public structures. Because of TABOR, Colorado’s funding for K-12 education, colleges and universities plummeted to near the bottom for the nation. In addition, the share of low-income children without health insurance doubled in Colorado between the passage of TABOR and its suspension by voters in 2005.

After 12 years of TABOR, Coloradans voted to bypass TABOR in 2005 to allow state revenues to grow with the economy. It’s been more than five years since Coloradans voted to suspend TABOR, and the state’s public structures have yet to recover. Citizens and business leaders there are calling for TABOR’s end. They also rejected additional tax and spending limits in the 2010 election. Despite TABOR amendments being proposed in 28 state legislatures between 2005 and 2009, Colorado remains the only state where TABOR has passed.

TABOR WOULD NOT PREVENT BUDGET SHORTFALLS

Contrary to the claims of TABOR proponents, TABOR would not prevent North Carolina from facing state budget shortfalls. TABOR did not save Colorado, the only state with a TABOR amendment, from significant state budget shortfalls in the current recession or in the early 2000s recession. In fact, Colorado faced the second-worst budget shortfall in the nation in 2003.

The TABOR proposal under consideration would also reduce the maximum size of the state’s Rainy Day Fund, from 8 percent to only 5 percent, and harshly constrain access to the Rainy Day Fund in times of fiscal crisis. These backward provisions would weaken the state during recessions, increasing the pain felt by North Carolina families and hampering the state economy at the worst possible time.

TABOR IS THE WRONG FORMULA FOR NORTH CAROLINA’S FUTURE

TABOR’s inherent flaws and the experience of Colorado make it clear that TABOR is the wrong formula for North Carolina’s future. North Carolina’s public structures are already compromised by several years of cuts during the Great Recession.

Brightening economic prospects, targeted efficiencies, and the possibility of a balanced approach to closing the state’s current budget shortfall may help to mitigate the depth and duration of the harmful state budget cuts to education, health and public safety.

TABOR’s fiscal straightjacket would eliminate this possibility. Instead, TABOR would permanently lock in the budget cuts made during this recession and further starve the state’s public structures of the resources necessary to put North Carolina and its economy on the path to recovery and future prosperity.

Much of what makes North Carolina a great place to do business, including our educated workforce and our quality infrastructure, would be undone by TABOR. Learn from Colorado’s mistake: don’t force North Carolina down the same, dangerous path.