GBPI
Georgia Budget and Policy Institute

Thoughtful Analysis...Responsible Policy

Senate Resolution 20: What a Tax and Expenditure Limitation Would Mean for Georgia

By Sarah Beth Gehl, Deputy Director

Summary

Senate Resolution 20 limits spending growth by setting a cap on the amount of revenue the state can budget each year. Under SR 20's formula, the state budget can be equal to either of the prior two years' spending levels or can increase over the previous year's spending level by a formula of population growth plus government inflation growth.

In the last two years, population and government inflation combined have been between 1.5 percent and 4 percent. Georgia will need to grow at a pace of at least 6 percent to fund the normal enrollment growth of services, minimal pay raises for teachers and state employees, typical bond packages, and new funding for the Department of Justice settlement. Revenues would need to grow well beyond 6 percent to begin restoring the almost $3 billion in cuts to services made in recent years. Given that Georgia already ranks 49th in state spending per capita, a spending cap such as proposed in SR 20 is a solution in search of a problem. SR 20 strips the governor of his ability to set the revenue estimate and restricts future General Assembly's ability to set the spending priorities of the state.

Background

Senate Resolution (SR) 20 is a constitutional amendment that would limit spending growth by setting a cap on the amount of revenue the state can budget each year. Under SR 20, the cap on spending growth is population growth plus government inflation growth (i.e. the rising cost of inputs to the services provided by state and local governments). For example, assume last year's spending was $18 billion and the most recent available estimate of population growth is 2 percent and government inflation growth is 3 percent. Then the current year spending cannot exceed $18.9 billion (5 percent growth over the prior year).

Any "excess" revenues above the spending limit would be used for the following items in order: (1) K-12 student enrollment increases, (2) the Revenue Shortfall Reserve, and (3) a cut to the income tax rate by one quarter of 1 percent. SR 20 allows for an override to the spending formula if the reserves are empty and both houses of the General Assembly adopt a joint resolution by a two-thirds vote to spend beyond the cap.

SR 20 is a modified version of Colorado's tax and expenditure limitation, commonly known as Taxpayers' Bill of Rights or TABOR. Colorado adopted TABOR in 1992 as a way to limit state spending, with the following results, among others:[1]

- Colorado dropped from 35th in 1992 to 49th in 2001 for K-12 funding as a percentage of income.
- Colorado dropped from 35th in 1992 to 48th in 2001 for higher education funding as a share of income.
- The percentage of children lacking health insurance doubled in Colorado, even as the national percentage of uninsured children fell. Colorado fell from 24th to 50th in the percentage of children receiving their full vaccinations.

In 2005 Colorado residents voted to suspend TABOR for five years to stop the deterioration of state services.

As SR 20 is being debated in Georgia, it is important to look at the conceptual flaws of tax and expenditure limitations, spending trends in Georgia, and the possible effects the proposal would have on basic services such as education, health, and public safety.

Flaws with "Population plus Inflation"

There are several key problems with using "population plus inflation" as a limitation on state spending. For the inflation measure, the traditional TABOR model relies on the Consumer Price Index (CPI), which captures the increasing costs of goods and services for consumers. Since government purchasing is very different from household purchasing, CPI inflation growth is an inadequate tool to use for government spending. SR 20 attempts to correct this problem by replacing the CPI inflation measure with a "state government inflation" measure from the Bureau of Economic Analysis (BEA). While this step improves the bill somewhat, there still exist flaws in the formula. For example, the BEA does not include Medicaid in its state government inflation measure and, thus, does not capture a significant portion of state spending that continues to increase in cost.

For the population measure, the specific populations that state governments serve tend to grow more rapidly than the overall population growth used in the formula. In Georgia, the state population increased by 34 percent between FY 1996 and FY 2009.[2] Over that same time period, the prison population increased by 55 percent, the number of students served by our post-secondary education systems increased by 64 percent, and the number of Medicaid and PeachCare recipients increased by 61 percent.[3] A rigid population and government inflation growth formula can put fast-growing state programs at risk as their specific populations and costs outpace regular population and inflation. Other state programs, not just

Population and Inflation Estimates Continually Revised

It is important to note that a significant drawback to the population and inflation measure is the availability of data. For the current budgeting session for the FY 2012 budget, legislators would have to rely on 2008 to 2009 population change since that is the most recent available data. In addition, these data estimates from the Census and BEA are continuously updated and revised. For example, the most current BEA government inflation index is a preliminary estimate. It will be revised in July 2011, and again in July 2012 and 2013. SR 20 would tie state spending to outdated information and fluctuating estimates.

those with cost pressures exceeding the population plus inflation formula, also are threatened since growth in one area can force cuts in another spending area.

Table 1: **Growth in Populations Served by State Government Often Outpaces Overall Population Growth**

	Population Growth 1996-2009
Total Population	34%
State Prison Population	55%
Medicaid & PeachCare Recipients	61%
Post-secondary Student Enrollment	64%

Sources: U.S. Census Bureau, Georgia Department of Corrections, Georgia Department of Community Health, Technical College System of Georgia, University System of Georgia

The increases in certain populations are often due to specific policy decisions by the legislature. The significant increase in the prison population was due in large part to stricter sentencing policies put in place in 1994 by Senate Bill 441, commonly referred to as "Two Strikes and You're Out". Medicaid has grown at a faster rate than the overall population; in addition, Georgia created the PeachCare program to insure low-income children, thus driving the population for health services even greater. An SR 20 spending cap would have made it difficult to fund those new priorities, or other new priorities like teacher pay raises that go beyond the normal growth in population or cost. These policy decisions deserve debate; however, changes to such policies should be the result of thorough analysis and thoughtful policymaking rather than a hurried reaction to an unrelated cap on spending.

In addition, the spending cap would make it difficult to fund new or expanded federal mandates, such as the Department of Justice settlement for services for Georgians with developmental disabilities and mental illness. According to SR 20, the cap can only be exceeded when the reserves are depleted and the General Assembly adopts a joint resolution by a two-thirds vote to override the limit. SR 20 strips the governor and General Assembly of its ability to fund new priorities or even the growth of certain services above the cap without harming other services.

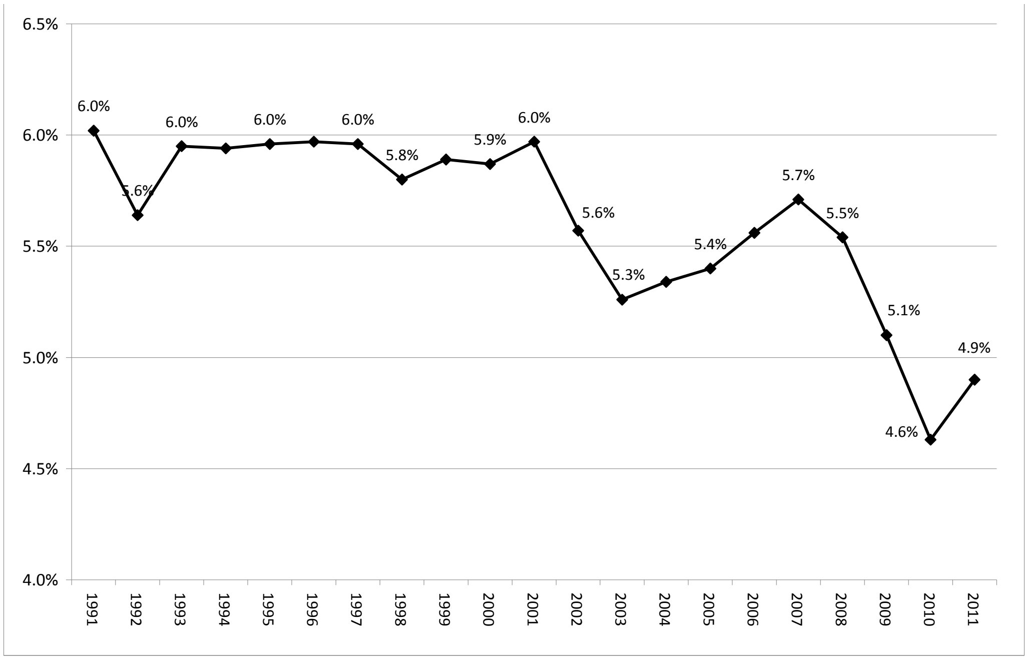
Does Georgia Have a Spending Problem?

Those who propose tax and expenditure limitations use the rationale that the state budget is "out-of-control." But does Georgia have a spending problem?

Georgia currently ranks 49th in state expenditures per capita among the states.[4] Rather than increasing over the past 25 years, state revenues as a percentage of income have decreased significantly. That decline is not just a result of the most recent recession in which revenues dropped by 20 percent. Even the growth years of 2005 through 2007 included state revenues below the historic norm when measured as a percentage of income. As the Special Council on Tax Reform and Fairness for Georgians noted in their final report:

> **"Overall, Georgia's taxes are low, have not increased over the past 30 years as measured by taxes as a share of personal income, and are competitive."[5]**

Figure 1: **State Total Revenues as a Percentage of Personal Income Have Declined over the Last Decade**



What Would SR 20 Mean for Georgia?

SR 20's spending limit would necessarily impact some of our most vital public services because that's where the money is. The majority of funds are dedicated to a handful of essential services, such as education, health care, and public safety. Ninety-six percent of the proposed FY 2012 budget will be expended in six areas: education, health care, public safety, human services, debt service, and transportation. All other state government comprises only 4 percent of state spending.

Table 2: **Proposed FY 2012 State Funds Budget Breakdown**

Education	52.8%
Health	20.2%
Public Safety	10%
Debt Service	6.3%
Transportation	4.1%
Human Services	2.7%
All Other Government	3.9%

Although the potential impact of SR 20 on specific programs such as education and health care is unknown, it is apparent that state revenues will need to grow at a faster pace than recent population plus government inflation figures in order to climb out of the current budget gap caused by the recession. In the last two years, population and government inflation combined have been between 1.5 percent and 4 percent. Georgia will need to grow at a pace of at least 6 percent to fund the normal enrollment growth of services, minimal pay raises for teachers and state employees, typical bond packages, and new funding for the Department of Justice settlement. Revenues would need to grow well beyond 6 percent to begin restoring the almost $3 billion in cuts to services made in recent years.

Table 3: **Population and Inflation Growth in Recent Years Trails What Georgia Will Need to Regain the Ground Lost in the Recession**

	Population Growth	State and Local Government Inflation
2007	2.56%	5.0%
2008	2.18%	5.48%
2009	1.72%	-0.18%
2010	1.35%	2.69%

Conclusion

Georgia is not a state with high taxes or a budget growing "out-of-control." Georgia ranks 49th in state spending per capita. Nationally, tax and expenditure limitations are driven by those who question the role and purpose of taxes and government. Among other things, government is military reservists, state police, emergency responders, teachers, librarians, prison guards, nurses, doctors, hospitals, road construction workers, and child protective service workers. Proponents acknowledge the flaws of Colorado's TABOR and claim that modifications to Georgia's proposal (SR 20) will fix Colorado's mistakes. However, these fixes do not solve the policy's fundamental problems and impact. As in Colorado, the state budget would be subject to a flawed formula that does not reflect the cost of serving the growing population the government actually serves, like children, the elderly and people with disabilities.

A strict TABOR-like tax and expenditure limitation in Georgia would have significant negative consequences by not allowing Georgia to meet the basic needs of a growing 21st century state. The real impact of SR 20 is to reduce the quality and quantity of government services. Instead of arbitrary limits like TABOR, Georgia must enact sensible, sustainable fiscal policy solutions to ensure a more prosperous state. Our success is contingent upon smart investments in building strong education, quality health care, and viable infrastructure systems.

Contact: Sarah Beth Gehl, sbgehl@gbpi.org, 404.420.1324 ext. 102

Endnotes

[1] Lav, Iris and Erica Williams, "A Formula for Decline: Lessons from Colorado for States Considering TABOR," Center on Budget and Policy Priorities, March 15, 2010, http://www.cbpp.org/cms/index.cfm?fa=view&id=753.
[2] U.S. Census Bureau, Population Estimates. http://www.census.gov/popest/states/states.html.
[3] Population data from the websites of the Georgia Department of Corrections, University System of Georgia, Technical College System of Georgia, and Georgia Department of Community Affairs.
[4] Georgia State University Fiscal Research Center analysis of U.S. Census Bureau state government expenditure data.
[5] 2010 Special Council on Tax Reform and Fairness for Georgians, "Recommendations," January 7, 2011, http://fiscalresearch.gsu.edu/taxcouncil/downloads/FINAL_REPORT_Jan_7_2011.pdf.