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Issue Backgrounder

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Referendum C

Rewarding the Colorado General Assembly for Behaving Irresponsibly

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By Dr. Linda Gorman

What does Referendum C do?

Referendum C authorizes the state to increase spending each year by letting it keep the excess tax revenues that the TABOR Amendment would otherwise require be refunded to taxpayers. Ref C lets the state do this for the next five years. It also increases the allowable government spending base to the highest state revenue levels received between FY 2005-06 and FY 2009-10 plus $100,000,000.

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Why the extra $100,000,000? Why not? Like everyone else, the people elected to the legislature enjoy spending other people's money. But before the legislature can spend other people's money, it must first take it from those who have earned it.

The TABOR Amendment was designed to protect taxpayers from the unfortunate fact that everyone likes to spend but no one likes to cut costs. This goes double for elected officials, because those who spend public money receive all kinds of accolades from the people getting the cash. As a result, government has a natural tendency to expand. There is always another program, another bike path, another subsidy, or another facility that would be really nice to have as long as someone else is paying. To curb the expansion and let people make their own spending decisions, TABOR limits total state government spending to last year's expenditures plus the percentage population increase and the percentage inflation increase. Government is not allowed to grow just because people have had a good year. When state government revenues are higher than the TABOR limit in good economic times, TABOR requires that the excess revenues be refunded to taxpayers.

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The spending limit ensures that government shares in people's economic pain as well as their economic gain. It prevents irresponsible legislatures from trying to avoid the dirty business of cost cutting by arbitrarily raising taxes on businesses and households just because a recession causes a fall in tax revenues. Limiting government spending is good economic policy. Governments that plug recession-caused deficits by taking more money from people and businesses struggling to survive a recession harm the most productive sectors of the economy. This retards economic recovery.

Colorado's current problems stem from the fact that the Colorado General Assembly was irresponsible in meeting its refund requirements since 1998, when it voted to spend excess revenues rather than setting them aside to refund to taxpayers in the following year. This worked when revenues were rising. But when revenues fell sharply in FY 2001-02 and the General Assembly had already spent the $927.2 million excess that had to be refunded in FY 2000-01, it created a rather large mess. Referendum C would give an already irresponsible spending authority even more money. This is not a recipe for long-term economic health.

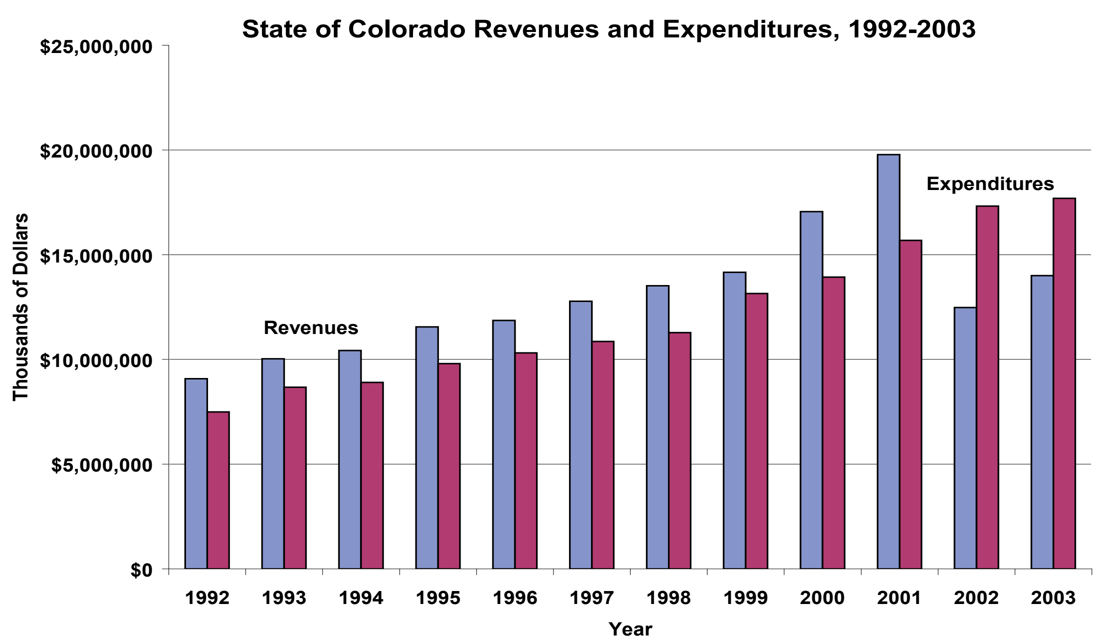
As the chart shows, Colorado's total expenditures continued to rise even though state revenues declined sharply in the recession of 2002. In per capita terms, general revenue fell from $3,130 per person in 2001 to $3,078 per person in 2003, while per capita total expenditure rose from $3,540 in 2001 to $3,890 in 2003.[1] While people were losing their jobs and businesses, earning less and buying less, the Colorado legislature kept right on spending.

A July 18, 2005 memo to Governor Bill Owens from Henry Sobanet and Bill Skewes of Colorado's Office of State Planning and Budgeting makes it clear that TABOR spending limits have nothing to do with the state's fiscal problems. "It is important to note that the budgetary shortfalls that are occurring are not the result of TABOR," the memo says, "The budget shortfalls that occurred in FY 2001-02 and FY 2002-03 are the result of declining revenues and because state expenditures were not reduced enough to compensate for the decline in the amount of revenues collected."[2]

Where did the money go?

The table below shows how state government spending changed in various functional categories between 2001 and 2003. Education enjoyed a 16 percent increase of $846,163,000. Whether any of that money has been well spent remains an open question. Total health and hospital payments, which include both Medicaid and public health functions, increased by $539,808,000 or almost 116 percent. Because it is unlikely that the health expenses of Colorado's needy more than doubled in just three years, the data suggest that the legislature was busy expanding programs despite the financial distress of the Colorado economy.

And, as the data for wages and salaries make clear, the distress felt by those who pay Colorado taxes was not shared by those who worked for state



Colorado State Government General Expenditures by Function (thousands of dollars)				
	2001	2002	2003	Percent change 2001-2003
Education	$5,287,541	$5,798,172	$6,133,704	16.0
Public welfare	3,312,898	3,131,520	3,442,625	3.9
Hospitals	157,390	253,652	297,784	89.2
Health	309,353	792,620	708,767	129.1
Highways	1,342,195	1,421,381	1,378,238	2.7
Police	95,073	103,053	105,653	11.1
Corrections	704,421	734,457	723,572	2.7
Natural Resources	233,924	193,235	198,642	-15.1
Parks and Recreation	64,377	69,307	72,418	12.5
Government Administration	393,523	422,050	457,652	16.3
Wages and Salaries	2,471,751	2,765,058	2,841,045	14.9
Per Capita Personal Income	34,491	34,032	34,542	0.1

government. While per capital personal income remained essentially flat, falling in 2002 and eking only a 0.1 percent increase over the three-year period, wages and salaries for state employees went up by almost 15 percent.

Referendum C supporters invariably claim that the additional funding will be used for health, education, transportation, police, natural resources and the like. One would hope they are correct, because these are the things on which states have traditionally spent money. What supporters fail to mention is that it is not clear that spending more money for these things is likely to improve outcomes, and that leaving the money in the hands of those who earned it may, in fact produce better results.

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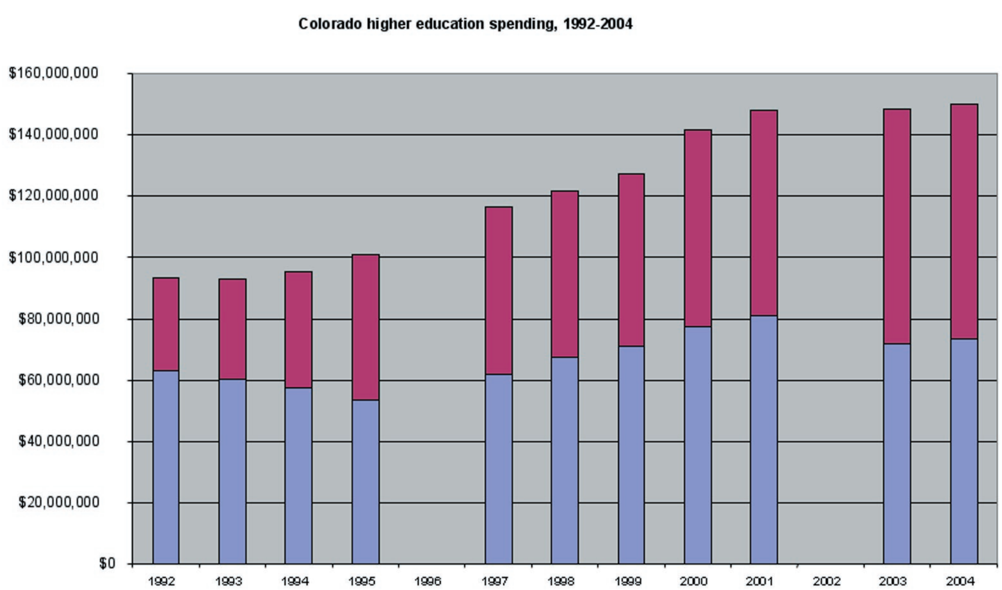
To see how money is wasted even in programs that sound beyond reproach, consider the legislative shenanigans surrounding presumptive eligibility for Medicaid funded prenatal care. Two years ago the Owens administration discovered that about half of the women certified as presumptively eligible for Medicaid prenatal care were not, primarily because they were illegal aliens. It ended presumptive eligibility and required that people prove their eligibility before receiving care. The savings from this were estimated at about $9,000,000 a year.

Community health centers, clinics that received a substantial fraction of the prenatal payments, were particularly vocal in their condemnation of this action. In exchange for federal subsidies, the centers are required to treat all comers for a nominal fee. But if a patient is eligible for Medicaid, federal law says that the centers can bill Medicaid for their costs. Those costs happen to be about $100 higher than a private Medicaid participating physician would receive for the same service.

In short, the health centers have a large financial incentive to say that any pregnant woman, even one that they know just got off the bus from Mexico, is eligible for Medicaid. In spite of this, the 2004-05 General Assembly passed a law requiring that the state resume presumptive eligibility for prenatal care. The only change is that a woman desiring care must affirmatively declare that she is eligible for Medicaid, in any language, before she can enjoy taxpayer financed services.

Not satisfied with legislating health care for illegal aliens, the General Assembly also tried to pass an ideologically motivated Medicaid prescription drug program that would have let the state supplant physicians in prescribing prescription drugs for Medicaid patients. Legislators doggedly justified the program, claiming that it would save money. In fact, Colorado Medicaid already had regulatory restrictions on certain prescription drugs that were high cost or subject to misuse. The restrictions covered drugs for AIDS and brain-based mental illness, about 16 percent of total Medicaid drug spending. In a bow to politically powerful patient groups, the proposed prescription drug program would have eliminated those restrictions, eliminating a program that saved and estimated $2,908,747 in 2004-05 alone.

Higher education, which is rife with operators like Ward Churchill in programs such as women's studies, black studies, and ethnic studies, may be another fertile arena for cost cutting. The chart below shows state spending on higher education staff from 1992 to 2004. The upper section of the bars shows the proportion of payroll spent on non-instructional staff. The bottom section of the bars shows the proportion of spending on instructional staff. As the chart makes clear, though payrolls have climbed rapidly over the last decade, teaching has been a relatively low priority.



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Endnotes

[1] All numbers on Colorado spending are from the U.S. Census Bureau, State Government Finances, various years. http://www.census.gov/govs/www/state.html.

[2] "Questions Regarding the State Budget," Memo to Governor Bill Owens from Henry Sobanet and Bill Skewes, Office of State Planning and Budgeting, July 18, 2005.