Michigan League for Human Services

August 2005
Revised

DANGER AHEAD: NEW SPENDING LIMITS PROPOSED IN MICHIGAN

A discussion regarding the need for a new limit on state spending has begun in Michigan. The advocates for this proposal, which would hold year-to-year spending increases to no more than inflation plus population growth, while placing no limits on program reductions during periods of declining revenues, argue that such a limitation would force the state to "live within its means," and prevent runaway state spending and program growth.

Background on State Spending Limitation Proposals

The spending limitation proposals being advanced in Michigan mirror legislation enacted a decade ago in Colorado, which is now being promoted across the country by ardent advocates of tax cuts and reduced government spending. The Colorado legislation is known as TABOR, or Taxpayer Bill of Rights. In Michigan, two resolutions have been introduced that would limit state spending along the lines of TABOR. HJR-E, introduced by Representative Hoogendyk (R- Portage), and SJR-D, introduced by Senator Cassis (R-Novi), both call for constitutional amendments to limit the growth of state spending.

Legislation to limit state spending through proposals similar to Colorado's TABOR legislation is also being aggressively promoted in Michigan by FreedomWorks (formerly Citizens for a Sound Economy), a national organization dedicated to "less government, lower taxes, and more freedom," and headed by former U.S. House Majority Leader Dick Armey and former White House Counsel C. Boyden Gray. Michigan is one of ten states where FreedomWorks has a staff director who works directly with grassroots volunteers. FreedomWorks has scheduled a "TABOR Tour" that includes 16 stops across Michigan throughout Michigan during August.

State Spending in Michigan

Ironically, the impetus for a spending limit in Michigan comes at a time when Michigan's spending is approximately $5.8 billion below a constitutional spending limit enacted in 1978 – the Headlee Amendment. Reduced spending is primarily a result of revenue losses from tax cuts enacted over the last decade, particularly a phased-in reduction of the state's income tax rate and a phase-out of the state's Single Business Tax, both enacted in 1999. Federal and state taxes in Michigan are now at a 40-year low.

Further, Michigan is one of only three states to have actually reduced state general fund spending during the historically prosperous 1990s. According to a survey by the National Association of State Budget Officers (NASBO), from FY2002 to FY2006 Michigan General Funding spending fell 5.6 percent compared to an increase in general fund spending for all states of 9.4 percent. Michigan instituted over $3 billion in program reductions since the state's current downturn began in 2001.

1115 South Pennsylvania Avenue, Suite 202, Lansing, MI 48912-1658 (517) 487-5436
Fax: (517) 371-4546 Website: http://www.MiLHS.org
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The persistent tax cuts during the 1990s, and multi-year tax cuts enacted in 1999, have resulted in a massive structural deficit that will require increased state revenues and/or truly stunning additional program cuts to resolve. Thus, the real concern of spending limitation advocates is that this deficit, estimated to range from $5 to $7 billion over the next decade (approximately $400 million per year, plus the potential loss of nearly $2 billion in general fund revenue if the Single Business Tax sunsets as scheduled at the end of 2009), threatens to force a reversal of a trend that has seen state general fund taxes decline by 40 percent as a share of personal income since 1990.

The Impact of a Spending Limitation in Michigan

If a proposal similar to Colorado's TABOR legislation were to be adopted by Michigan's voters, the projected annual structural deficit would still exist and would have to be resolved through program cuts. And, if revenues failed to keep pace with the spending limit, additional cuts would be necessary, resulting in the ratcheting down of the budget base on which future spending limits would be calculated. This methodology would assure that any program reductions necessitated by the decline in revenue could not be restored when the economy strengthened. In other words, while there would be limits on state spending, there would be no floor below which expenditures could sink.

Further, while Senator Cassis' resolution differs from Colorado's TABOR in that revenues in excess of the spending limit would be placed in the state's rainy day fund rather than returned to the voters, it should be noted that given Michigan's recent revenue trends, no such deposits could have been made to the state's rainy day fund during the last five years.

Given the magnitude of the state's structural deficit, and certain modest assumptions related to future revenues, a TABOR-type spending limitation would have far from the benign impact that its supporters claim.

Assuming that a new spending initiative precludes revenue increases, AND:

- negotiations over the Single Business Tax result in a revenue neutral solution;
- no additional revenue solutions are adopted to balance the 2006 budget;
- recent rapid growth in tax expenditures (credits, exemptions, deductions) is limited; and
- state revenues grow at approximately 4 percent per year over the next decade;

program cuts averaging roughly $400 million per year would be necessary to address expected spending growth in excess of anticipated revenues, driven primarily by rapid increases in Medicaid, the Department of Corrections and in other state employee and program health care costs.

Deficits of this magnitude, roughly equivalent to all of the non-mandated spending remaining in the state general fund budget, would require spending reductions comparable to the following to balance the state's books through Fiscal Year 2015:

- Elimination of State Funding For Higher Education
  ($1.88 billion)

- Elimination of Discretionary Revenue Sharing for Local Units of Government
  ($.44 billion)

- Reduction of Funding For All Other Departments Excluding K-12 Ed. by at least 30%
  ($1.7 billion or more)

While reductions of this magnitude may seem improbable, few could have imagined in 1999 that within six years the state could exhaust over $5 billion dollars in reserves while making over $3 billion dollars in program reductions. It should be noted that these program reductions were made based on anticipated deficits that assumed moderate revenue growth and a stable tax code. To the extent that an economic downturn materializes in the near future, as it has in virtually every decade of the last century, and/or that a more restrictive state spending policy is implemented, projected deficits could be expected to increase and hasten additional program reductions.

Summary

According to the Center on Budget and Policy Priorities, which is carefully monitoring TABOR developments across the states, “There is no better way to shrink the scope of what government can accomplish. TABOR creates conditions that each year pit programs and services against each other for survival. And once such limits are embedded in a state constitution, they are virtually impossible to remove or even modify. They undermine existing services for children, youth, and families and make any new initiatives virtually impossible to undertake.”

A recent *Governing* magazine article notes that the effect of TABOR as it is implemented in Colorado will likely be “to starve public services and drive the state to the brink of bankruptcy in the next decade.” The Denver Post reported in a recent article that a Republican member of the Colorado House said that “…under TABOR, basic state services — even at their most bare bones — are unsustainable”… and that TABOR is a recipe for chaos.

TABOR’s toll on public services in Colorado is well-documented. In Michigan, spending cuts have already been plentiful and painful, despite the fact that current expenditure levels are far below the long-standing mandated state spending limit established under the Headlee Amendment. Michigan does not need TABOR to constrain spending; TABOR advocates in Michigan appear to be advancing a solution in search of a problem.

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