



The Montana Policy Institute

Policy Note 01-08

A Taxpayers' Bill of Rights for Montana

Montana stands at a crossroads. Legislators and citizens need to examine carefully the current fiscal situation and decide if we really want to continue the trends of the last few years. The Montana Policy Institute (MPI) believes we need a new plan to address a mounting problem – uncontrolled government growth. Drawing upon recent research, looking at examples from other Western states, and appealing to Montanans' good sense, we're proposing a Taxpayer's Bill of Rights (TABOR) to rein in this government growth and give Montanans a voice in how their hard earned money is spent.

The idea is not new. As early as 1973, Californians voted on Proposition 1, a tax and expenditure limitation, or TEL. They voted it down then, but 31 TELs have become law across the nation since. Montana law currently includes statutory limitations on government growth, but this measure, passed in 1981 has been largely ineffective. Colorado has perhaps the best known measure, but even it has had some growing pains. Our TABOR proposal includes measures to correct deficiencies found with Colorado's law, as well other improvements.

A Taxpayer's Bill of Rights amendment for Montana would create the mechanism to 1) limit the growth in state spending to the growth of population plus inflation, 2) ensure surplus revenue above this amount is invested in emergency and budget stabilization funds or returned to taxpayers, and 3) require voter approval for tax increases or any weakening of the amendment limits. It would decouple the state's tax and spending capacity from the business cycle, and prevent government from increasing its already large share in the economy.

Why is this necessary?

Governments typically increase spending as revenues rise independent of other considerations, such as the appropriateness or sustainability of programs that receive this increased spending. The problem arises when income growth or other revenue sources drop. Governments seldom cut spending to offset decreased revenues during economic downturns. Rather than prioritizing spending to fit existing revenues, either taxes are raised or deficits are created to avoid cuts or even maintain growth. This results in government growing faster than the private sector and taking an increasing portion of the economic pie.

Montana is particularly susceptible to this phenomenon thanks to clever word play. Many citizens believe that the legislature is acting very responsibly, and have seen the charts to prove it. What they see however, is "on budget" spending. Excessive spending each year is hidden in other "off budget" programs, that is, spending that doesn't appear as a budget line but occurs nonetheless. Montanans deserve to be informed about all spending the legislature authorizes.

The following charts show just how much this has been happening.

General Fund Revenues & Expenditures, 1990 - 2007 (millions of dollars)

Year	Revenue	Spending
1990	730	719
1991	805	849
1992	880	921
1993	952	928
1994	891	904
1995	935	945
1996	963	984
1997	986	997
1998	1,034	1,020
1999	1,068	1,043
2000	1,163	1,106
2001	1,269	1,269
2002	1,265	1,356
2003	1,246	1,276
2004	1,382	1,282
2005	1,398	1,370
2006	1,421	1,428
2007	1,466	1,463

A tertiary reading indicates that in most years state government has lived well within its means. Recent surpluses have garnered much attention and even resulted in taxpayer rebates. But this chart does not tell the whole story, and in fact hides a looming structural deficit in the state's revenues and expenditures that will come home to roost when revenues stall..

The following chart demonstrates, when "off budget" expenditures are included, we see an entirely different picture. It also shows that this is a relatively new phenomenon.

Total Revenues & Expenditures, 2002 - 2007 (millions of dollars)

Year	Revenue	Spending	'Off Budget' Spending
2002	1,266	1,356	0
2003	1,246	1,276	0
2004	1,382	1,282	0
2005	1,531	1,354	(16)
2006	1,708	1,567	139
2007*	1,762	1,732	269
2008*	1798	2015	400
2009*	1875	1941	287

* estimated for 2007-2009

The sharp rise in "off budget" funding goes to a variety of programs, many of them worthwhile. But this type of fiscal obfuscation taints the process and hides the true cost of

government. Creating a smoke-screen for additional spending also prevents the citizens of the state from weighing in on where and how money is being spent. Such disingenuous actions strike at the very heart of an open, democratic society.

A TABOR amendment to Montana’s constitution is essential to reform this process. It will limit state government spending growth to open and sustainable levels. This will lead to a careful, reasoned analysis of program priorities. Legislators and programs will be required to demonstrate continued value for continued spending to be justified. Expenditures beyond TABOR limits would have to go before voters. This newfound accountability will open the door to further reforms. The legislature and the public will have a model to evaluate where their money is going and how effectively it is being spent.

How Would a TABOR Amendment work in Montana?

Our TABOR proposal for Montana contains these attributes:

1. It has teeth: By changing the constitutional rather than relying on easily sidestepped statutory tax and spending limits.
2. It is transparent: By requiring voter approval for any increase in taxes or debt.
3. It contains government growth: By limiting government spending growth to the sum of inflation and population growth, government’s share of the economy does not increase so programs require ongoing justification and prioritization.
4. It decouples budgets from normal business cycles: By creating emergency and budget stabilization funds that provide stability during slow economic times.
5. It sets the stage for true tax reform: By requiring that surplus revenue be returned to taxpayers through tax rebates or cuts.

A Simulated TABOR since 1990

The illustration below shows what could have happened if a TABOR amendment had been in place since 1990, using 10 percent of revenues for the budget stabilization fund. The state of Montana would have maintained fiscal responsibility, returned over \$2.2 billion to taxpayers, paved the way for permanent tax cuts, created a substantial emergency fund, given taxpayers a voice, and established a new tone for conscientious government growth in the legislature.

Simulating a Taxpayer’s Bill of Rights Amendment with an Emergency and Budget Stabilization Fund and Rebates

Year	Revenue	Tabor Limit	Revenue Surplus	Emergency and Budget Stabilization Fund (annual)	Emergency and Budget Stabilization Fund (total)	Tax Rebates
1990	730	720	10	10	10	
1991	805	759	46	46	56	
1992	881	800	80	34	80	46

1993	953	840	112	4	84	108
1994	892	885	7	7	89	2
1995	935	925	10	10	93	6
1996	963	967	-	-	89	-
1997	987	967	20	8	97	12
1998	1034	994	40	2	99	38
1999	1068	1012	56	2	101	54
2000	1164	1040	124	3	104	121
2001	1269	1083	186	4	108	182
2002	1266	1103	163	2	110	161
2003	1246	1135	111	4	114	107
2004	1382	1166	216	3	117	213
2005	1531	1216	315	5	122	310
2006	1708	1270	438	5	127	433
2007	1762	1317	445	5	132	440

Conclusion

It is time to end Montana’s fiscal feast or famine budgeting process. We have seen over and over again that attempts to restrict government growth by limiting revenues simply do not work. We have also become slaves to the business cycle, living high on the hog during good times and scrambling for revenues when the economy slows down. Given the current system this outcome is not only predictable, it is inevitable. Only fundamental change will fix it and allow government to grow at a reasonable rate and be able to meet its obligations to our citizens without overtaking the economy and becoming an impediment to prosperity.

It’s easy to see from the illustrations here that Montana Policy Institute’s proposed TABOR amendment will cut through the murky state of current Montana government spending. The usual fear mongers will no doubt decry anything that threatens their unaccountable monies by telling of firehouses, schools, and hospitals that will be financially deprived under any change to the current system. This simply will not happen. Government will continue to grow with the economy, with inflation, and with our population. What will happen is our leaders will have to budget just like the rest of us. They will have to set and justify priorities. And as a result, citizens will keep more of their hard earned dollars and make decisions for themselves about what is best for them. Montanans rightfully take pride having good common sense – let’s let them use it. A Taxpayer’s Bill of Rights for Montana would be a step in the right direction.

The Montana Policy Institute is a 501(c)(3) policy research organization that equips Montana citizens and decision makers to better evaluate state public policy options from the perspective that policies based upon limited government, individual rights, and individual responsibility will result in the greatest common good. To find out more or for copies of the complete TABOR study, visit us at www.montanapolicy.org.