

Let's Get Specific

Wisconsin State Spending on Health Care, K-12 Education, and Human Services under TABOR

Executive Summary

One thing both opponents and supporters of the “Taxpayer Bill of Rights” agree on is that it would result in significantly less government spending over time. In fact, if TABOR had been in place in the mid-1980’s, by 2003 state spending would have been \$8.4 billion less – about one-third less – than it actually was, according to a recent analysis by Professor Andrew Reschovsky of the University of Wisconsin.

If a full discussion of TABOR is to take place, though, the analysis can’t stop there. Determining the likely impact of TABOR on Wisconsin residents requires an examination that goes beyond the *overall* fiscal impact and looks at how *specific* areas – such as health care, education, and human services – would be affected.

Recent state spending in these areas has expanded health care coverage to kids in low-income families and prescription drug coverage to seniors, improved educational opportunities throughout our K-12 system, and served hundreds of thousands of Wisconsin residents in need of various human services.

Under TABOR, state officials would have found it difficult if not impossible to implement some of our most successful policies in these areas, and existing programs would have been under increasing budget pressure as well.

Examining what a state spending reduction of one-third would have meant in health care, education, and human services begins to show us the real impact TABOR would have had – and would have in the future – on residents of Wisconsin.

A number of factors influence how state officials allocate available resources, and some areas of spending would certainly have been cut by a smaller amount than others. Even if one assumes a reduction of less than one-third in any given area of state spending, however, it’s clear that TABOR’s limits would have had serious consequences for thousands of Wisconsin residents. Also, under a cap system like TABOR, when one spending item is protected other items must take a deeper cut in order to meet the overall limit.

Specifically:

Health Care

- State spending in 2003-04 (this represents one state fiscal year, which runs from July 1st to June 30th) on Medicaid and related health care programs was \$1.6 billion, meaning a reduction of one-third would have resulted in \$528 million less funding – and a much more conservative estimate of a ten percent reduction would have resulted in \$160 million less state funding (and roughly \$280 million fewer federal dollars from lost matching funds).

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- Under either scenario, it is unlikely that the state would have been able to create BadgerCare – which extended medical assistance benefits to low-income children and other family members – or SeniorCare – which provides a prescription drug benefit to seniors. Together these programs were serving 175,322 Wisconsinites as of December 2004.
- Combined, these two programs account for \$102 million in state spending in 2003-04, only two-thirds of the necessary health care reduction under the most conservative of estimates (a 10 percent cut), and only 19 percent of the health care cuts needed if the one-third reduction had been applied across-the-board. Other health care programs would necessarily have been impacted as well.

K-12 Education

- The state portion of K-12 school funding in 2003-04 totaled \$4.8 billion, with a one-third reduction equaling \$1.6 billion, and a conservative estimate of ten percent equaling \$480 million.
- In an effort to provide property tax relief in the mid-1990s, the state took on a commitment to pay two-thirds the cost of K-12 education, upping the state's share of school funding by \$860 million from the previous year. Such a move would have been unlikely under the revenue stream produced by TABOR.
- Other efforts, such as SAGE – the program in which schools are assisted in lowering class sizes in grades K-3 (\$95.6 million in 2003-04) – and efforts to provide early learning opportunities through 4-year-old kindergarten (roughly \$48 million in 2003-04) would have been difficult if not impossible to fund as the state faced a sharply reduced budget.

Human Services

- A significant source of funding for county-mandated human services programming is provided through the Community Aids appropriation to the counties. The state's portion of Community Aids funding in 2003-04 amounted to \$177 million. A one-third reduction would have meant \$58.5 million less in community aids, a ten percent reduction \$17.7 million less that year.
- Community treatment services for those with mental health problems served nearly 75,000 individuals in 2002 and cost \$87 million.
- Community treatment services for those with alcohol and other drug abuse problems served over 25,000 residents and cost \$27.6 million.
- At a cost of \$28.1 million, 4,660 people with physical and sensory disabilities received supportive home care.
- Together, these programs provided critical services to 104,000 Wisconsin residents at a cost of nearly \$143 million. The one-third cut would have gutted these programs and impacted tens of thousands of individuals from around the state in need of some of the most critical services government can provide.

In short, state efforts to expand health care coverage to those most in need, to provide excellent educational opportunities, and to serve people with disabilities and those with other human service needs in our communities would have been seriously curtailed by TABOR passage.

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Introduction

The "Taxpayer Bill of Rights" – TABOR – has once again been proposed in Wisconsin.¹ After failing to gain enough support in 2004 to bring the proposal to a vote, TABOR proponents have introduced a slightly modified version, still based on a similar amendment passed in Colorado in 1992.²

While the specifics of TABOR proposals can differ, the basic goals remain the same: to limit spending and taxing authority of state, local, and school district elected officials, and to allow exceptions to the limits only when approved in referenda.

According to the latest proposal, state spending increases would be limited to population growth plus a three-year rolling average of inflation, as measured by the consumer price index. Local government spending increases would be limited to inflation plus the change in their property values due to new construction, and school district spending growth would be limited to inflation plus the statewide increase in student population.

¹ Representative Frank Lasee has introduced a TABOR proposal in an Assembly Joint Resolution which can be found at <http://www.legis.state.wi.us/assembly/asm02/news/05-04675.pdf>, as of the release of this report, it had not yet been referred to a committee.

² For more information on the Colorado TABOR experience, see The Bell Policy Center report, "Ten Years of TABOR" which can be found at <http://www.thebell.org/TaborFP.html>

Opponents of TABOR have raised a number of issues, and much has been written about both the intended and unintended consequences of restrictive fiscal limits.³ What has been lacking so far is a discussion of the potential *specific* impacts of TABOR on Wisconsin residents.

In other words, what would the impact be on the quality of our schools or on the number of children in the state not covered by any health insurance? What would the impact be on an elderly couple's ability to obtain prescription drugs or on a county human services worker's ability to provide critical child welfare services?

In this report we briefly look at existing research on the effect TABOR would have had on *total* state spending, and then examine its potential impact on three distinct areas, health care, education, and human services. These categories were chosen because they directly impact the lives of people all over Wisconsin on a daily basis.

While the analysis used for the total *state* impact is based on TABOR having been in effect between 1986 and 2003, the implications are just as applicable for future passage of TABOR and the impacts it would have over the next couple of decades.

³ See the Wisconsin Council on Children and Families' "TABOR Resource Page" at <http://www.wccf.org/projects/taborresources.htm>

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TABOR's Impact on Total State Spending

In order to reach the potential TABOR impacts on specific areas of spending, we must first determine the overall fiscal impact TABOR is likely to have on state spending.

Professor Andrew Reschovsky of the University of Wisconsin – Madison, has provided such an analysis. Using the formulas included in the latest TABOR proposal, he analyzed the impact TABOR would have had on government spending had it been put in place in Wisconsin in 1985.⁴

He concluded that in fiscal year 2003, state spending would have been about \$17.1 billion – \$8.4 billion less than actual state spending of \$25.5 billion. This amounts to 32.9 percent lower spending at the state level – or nearly one-third. School district spending would have been 20 percent less than actual spending in 2003, and other local government spending would have been roughly seven percent less.

The table below shows what a one-third reduction would have meant in 2003 for the state share of spending in various

⁴ Professor Reschovsky has shared his research in many public forums. For a detailed report on TABOR and its potential impacts in Wisconsin, which includes a similar analysis of earlier TABOR versions, as well as the underlying assumptions made by proponents of TABOR, see, Andrew Reschovsky, "The Taxpayer Bill of Rights (TABOR): A Solution to Wisconsin's Fiscal Problems or a Prescription for Future Fiscal Crisis?" April 2004 (Revised August 31, 2004), available at [http://www.lafollette.wisc.edu/publications/otherpublications/economics/2004/TABOR-solution-or-prescription\(revised\).pdf](http://www.lafollette.wisc.edu/publications/otherpublications/economics/2004/TABOR-solution-or-prescription(revised).pdf), also available through the WCCF website's TABOR Resource Page.

areas, including those that are the subject of this report.

Spending Area	2003-04 Spending	Under TABOR	Difference
K-12	\$4.8 B	\$3.2 B	\$1.6 B
Medical Assistance	\$1.6 B	\$1.1 B	\$528 M
UW System	\$1 B	\$670 M	\$330 M
Shared Revenue	\$970 M	\$650 M	\$320 M
Corrections	\$852 M	\$571 M	\$281 M
Community Aids	\$177 M	\$119 M	\$58 M

Not all areas of state spending would likely be cut by the same amount. In other words, simply concluding that current Medicaid, education or human services spending would have been about one-third less than actual 2003 levels had TABOR been in effect since the mid-1980s ignores the many complexities of state budget decision-making.

For example, some areas of state spending are fixed, such as pension fund contributions, with others mandated by the federal government, such as special education. Still other state spending captures federal matching dollars, as with our Medicaid programs, and is likely to be cut by a smaller amount in order to protect that federal funding.

All of these circumstances would have played a part in how state funds were allocated between 1985 and 2003, and would certainly play a part in how state funds are spent in the future. Each area of state spending will have its own pressures and circumstances to consider.

It's important to keep in mind, however, that under a cap system such as

TABOR, if spending was not reduced by one-third in one area, other areas would have been cut by *more* than one-third in order for state spending to meet the TABOR limits.

While we focus in this report primarily on what the reduced state spending could mean for residents, there are programs in which local or school district spending is linked closely to state spending, and we point those out where appropriate.

This report is meant as a first step in raising the issues involved, and is not meant to act as a definitive piece on all of the fiscal impacts of TABOR. More research is needed, and would be helpful for Wisconsin residents, as the debates on TABOR return.

TABOR's Impact on Medicaid in Wisconsin

Wisconsin's medical assistance (MA) program – known as Medicaid – funds a number of health care services for low-income individuals – and in some cases their families – in the state. There are Medicaid or related programs that target the elderly, blind, disabled, kids under 19 and their parents or caretaker relatives, and pregnant women.

Federal law requires that states provide MA services to certain groups of people, and states have the option to extend their programs to others.

Wisconsin has obtained waivers to operate several programs that serve “non-mandatory” groups. These programs include BadgerCare, SeniorCare, Family Care, a number of long-term care programs, and

community-based programs (such as the Community Options Program).

Medicaid and these related programs are funded with both state and federal money and are guided by federal parameters regarding eligibility, scope of services, provider reimbursement, and administration.

In the 2003-04 fiscal year, \$4.4 billion was spent on Medicaid and related programs in Wisconsin. The federal share amounted to \$2.8 billion, or 63 percent. The remaining 37 percent - \$1.6 billion – was paid by the state (either with general purpose revenue, segregated funds, or program revenue).

A full one-third reduction would have resulted in approximately \$528 million fewer state dollars spent on these programs than was actually spent in 2003-04.

Because there is a federal match for every dollar of state money spent (different match levels exist for different programs), cutting state expenditures on Medicaid and related programs will result in additional, federal monies lost as well. In light of this, as well as the relative importance of Medicaid and related programs to the health and well being of residents, a full cut of one-third to state expenditures in this area would have been unlikely.

If one assumes that Medicaid only took a 10 percent cut, the state share of health care expenditures would have been \$160 million lower in 2003-04. Federal cost-sharing would have been roughly \$280 million less under this scenario, assuming a 10 percent

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reduction in the federal spending as well.

Even under this very conservative estimate, the impact of TABOR caps on state health care-related expenditures would have been significant. In turn, these cuts would have directly and negatively impacted thousands of Wisconsin residents.

Looking at just a couple of recent state efforts to provide health care services to those most in need offers an illustration of the scope of the necessary cuts as well as the number of people who would suffer under the TABOR limits.

BadgerCare

Families with dependent children that are not eligible for MA may qualify for health care assistance through BadgerCare if they meet a number of financial and non-financial criteria.⁵ The program was approved in 1997 and is funded with both federal and state revenue. Participants in the program receive all of the services available to MA recipients.

In 2003-04, the state spent \$64.8 million on BadgerCare, with another \$134.7 million coming from the federal government and another \$6.1 million in program revenue (which comes from premiums paid by participants).

As of December of 2004, BadgerCare was bringing health care coverage to over 93,000 low-income Wisconsinites

⁵ For more information on the state's Medicaid and related programs, such as BadgerCare, see the Legislative Fiscal Bureau's report at <http://www.legis.state.wi.us/lfb/Informationalpapers/43.pdf>

who would otherwise be without health insurance coverage. Residents in every county of the state utilize BadgerCare.

The table below shows a dozen counties and their BadgerCare enrollment numbers (the calendar year average for 2004).

County	BadgerCare Enrollment
Brown	3,257
Dane	4,233
Eau Claire	2,194
Fond du Lac	1,549
Forest	423
Iowa	528
Kenosha	3,181
LaCrosse	1,999
Milwaukee	23,052
Polk	1,103
Shawano	1,095
Waushara	633

It would have been difficult if not impossible for the state to extend MA benefits to these low-income children and their families through BadgerCare under the restricted revenue stream produced over time by TABOR.

While the impact of not extending coverage would have been significant for those going without health care, the fiscal savings – \$64.8 million in general purpose revenue in 2003-04 – would only begin to make up the difference between actual spending and TABOR-limited spending authority. The possibility of extending care in other areas and to other residents would have been impacted as well.

SeniorCare

Wisconsin seniors who are 65 or older can receive assistance with purchasing prescription drugs from the state's SeniorCare program. Wisconsin is one of very few states that have implemented their own prescription drug benefit.

SeniorCare covers seniors who do not have prescription drug coverage through MA. Participants pay an enrollment fee and then co-pays, which are based on several different "participation levels."

The state spent over \$38 million in 2003-04 to bring this prescription drug benefit to over 82,000 seniors in Wisconsin, as of December 2004.

Until just recently, the federal government had failed to provide any such relief through Medicare, the federal health care program for low-income individuals. That recent federal benefit has been criticized in some respects, including its complexity and the fact that states remain responsible for many of the costs associated with dual-eligibles (those who are eligible for both Medicaid and Medicare). It also remains in doubt what will happen to Wisconsin's prescription drug benefit once the federal program goes into effect.

Regardless of the federal impact in 2006, it is difficult to imagine state officials in 2001 being able to extend a prescription drug benefit to seniors with a funding stream approximately one-third less than what was actually seen, or for that matter, even if health care spending was cut by just 10 percent.

Existing coverage comes under fire in such budget situations, and creating new programs becomes unlikely.

BadgerCare and SeniorCare are just two examples of the state deliberately and voluntarily choosing to extend health care coverage to those who need it the most in recent years. They also offer examples of what would have been difficult if not impossible to do under a TABOR-reduced funding stream.

The \$102 million spent on these two programs in 2003-04 is a small portion of the difference between what was actually spent and what would have been available had TABOR been put into place in the mid-1980s. A number of other Medicaid and related health care services – and the thousands of Wisconsin residents who receive them – would certainly have been impacted as well.

Tabor's Impact on K-12 Education in Wisconsin

TABOR proposals typically include a specific formula for how school districts would be treated. For example, in the latest Wisconsin version, school district spending growth would be limited to statewide enrollment growth plus inflation. This would have reduced school district spending by 20 percent by 2003 as pointed out by Professor Reschovsky.

It is important to note that this reduced school district spending is in comparison to the already tight fiscal constraints contained in the current revenue caps. In other words, the significant cuts made by schools throughout Wisconsin in recent years would have been more

dramatic under TABOR, with larger class sizes, fewer course offerings and fewer extracurricular programs, such as music and athletics.

Likewise, school funding would be impacted due to the significant reduction of *state* spending required under TABOR as well.

The amount of state funds paid as school aids in fiscal year 2003-04 was \$4.8 billion. A full one-third reduction in the amount of direct state aid to schools would therefore have resulted in \$1.6 billion less revenue for schools in 2003-04.

Assuming a much more conservative assumption of a ten percent reduction being made in school aids results in \$480 million less that same year.

There have been several developments in recent years that have resulted in an increased state investment in K-12 education. Some of these were focused on increasing the quality of educational opportunities in the state. Others were more focused on reducing upward pressure on the local property tax, such as taking on the commitment to fund two-thirds of public education costs not paid by the federal government.

The latter development, which took effect in 1997, increased state spending on K-12 education by \$860 million from the previous year. Under a more slowly growing revenue stream, such a shift in school funding would have been all but impossible.

Likewise, the effort to reduce class sizes through the Student Achievement Guarantee in Education (SAGE)

program would have been difficult to implement, despite the growing body of research that indicates that teachers are able to spend more time teaching and kids are able to learn more in classrooms with fewer students.

State funding for SAGE amounted to \$95.6 million in 2003-04. By the end of 2004, 524 schools in 227 school districts were participating in the program. Not having SAGE would impact thousands of students around the state, and that impact would not be limited to any particular city or community.

The positive impacts of early education programs have also been widely studied and publicized in recent years. The state has made efforts for some time to offer four-year-old kindergarten. In 2003-04, the state's share of the costs associated with providing these early education opportunities was \$48 million. In the 2003-2004 academic year, nearly half of Wisconsin's school districts offered four-year-old kindergarten. The state funding for the program is not made through a separate allocation, but through the equalization aids paid to schools.

As with other areas of spending, TABOR's reduced funding stream would have meant fewer educational opportunities and would have negatively impacted learning environments.

TABOR's Impact on Human Services Funded through Community Aids in Wisconsin

"Community Aids" consist of financial aids to counties to provide a number of human services. These services fall into two broad categories: (1) social services for low-income individuals; and (2)

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mental health, developmental disabilities, and substance abuse services.

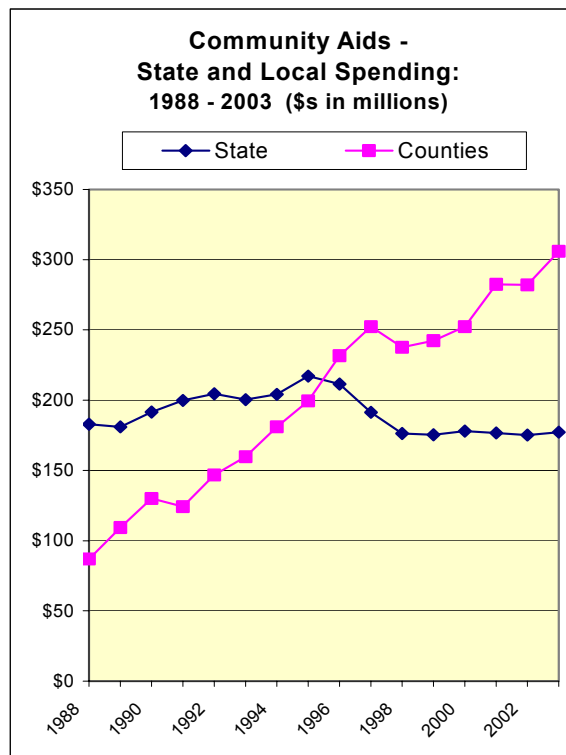
Specific activities within the social services category include: in-home services such as home-delivered meals and transportation; investigation and services in child abuse and neglect cases; community programs for juvenile offenders, and supervision of foster care, short-term shelter care, or placement in a group home or residential care center for children and youth.

The second category includes activities geared to assist those with mental, developmental and behavioral disabilities. The range of services includes: diagnosis and evaluation; emergency treatment; inpatient and outpatient care; training; assistance with group homes, adult family homes, and supervised apartments; transportation, and work-related activities.

These programs are state-supervised and county-administered. Funding comes from both the state and federal governments with the counties required to provide a match for some of the programs.

In order to serve those in need in their communities, and in order to account for the stagnant state commitment to Community Aids, counties have increasingly been spending much more than the required match (set in statutes at 9.89 percent of the state and federal aids). The amount above the match is, not surprisingly, referred to as the county "overmatch."

The chart below shows the recent trend in the Community Aids funding paid by the counties and that paid by the state.



In 2003-04, state general purpose revenue spent on Community Aids amounted to \$177.2 million, with the federal government providing another \$84.1 million. The counties in 2003 paid about \$26 million in matching funds and \$279 million in overmatch.

Although state funding for Community Aids has not increased at the same rate as funding for K-12 education or Medicaid, it would be a likely target of cuts, particularly if policy makers wished to increase state funding for other programs beyond the amounts allowed under TABOR. This analysis, as a result, assumes that the state investment in Community Aids, could be reduced by as much as a third under TABOR.

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Reducing state funding for Community Aids by a third would have resulted in \$58.5 million less than was actually spent, and a ten percent reduction would have meant \$17.7 million less for Community Aids than was spent in 2003.

Community Aids services assist hundreds of thousands of Wisconsin residents every year. For instance, in 2002, approximately:

- 43,000 reports of child abuse and neglect were investigated, with over 9,000 cases in which maltreatment was substantiated, and over 2,500 cases in which abuse and neglect were found likely to occur, with many families receiving follow-up services such as supervision and observation, AODA services, medical care, and others.
- 39,000 received services designed for the developmentally disabled;
- 98,000 received mental health-related services;
- 59,000 received alcohol and other drug abuse services;
- 11,000 received physical and sensory disabled services,
- and another 43,000 adults and elderly with special needs received community services that do not fall into the other categories.

As with other programming, it is difficult to conclude with any certainty how the reduced funds would have been allocated *within* the Community Aids budget. Examining any of the alternatives, however, quickly illustrates the impacts caused by such restrictive limits.

Keeping the needed \$58.5 million reduction from actual state spending levels in mind, the following alternatives indicate the types of services that could have been lost and the number of those served that could have been impacted:

- Community treatment services for those with mental health problems served nearly 75,000 individuals in 2002 and cost just over \$87 million.
- Community treatment services for those with alcohol and other drug abuse (AODA) problems served over 25,000 residents and cost \$27.6 million.
- At a cost of \$28.1 million, 4,660 people with physical and sensory disabilities received supportive home care.

Combined, these specific programs cost approximately \$143 million and in 2002 served 104,000 Wisconsin residents.

The required cut of state spending on Community Aids would have gutted programs such as those mentioned above. A cut of that magnitude, for example, is the equivalent of a fifty percent reduction in the services to 100,000 people receiving community treatment for mental health and AODA problems.

This analysis does not take into account the loss of federal funds because most of those funds are independent of state matching dollars. Nor does it take into account the lower county commitment that would stem from the TABOR provisions limiting *their* spending as well.

The result of these various TABOR provisions and related funding issues

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would be that services would likely be cut significantly, waiting lists utilized or lengthened, and thousands of the state's neediest residents not being served.

Conclusion

One thing both proponents and opponents of TABOR agree on is that its restrictive limits on state, local, and school district budgets would result in significantly less spending over time on public services. Professor Reschovsky calculated that if TABOR had been in effect since 1986, by 2003 Wisconsin would have been spending \$8.4 billion less per year.

But it's hard for anyone to imagine what \$8.4 billion less in state spending by 2003 would have meant. So stopping the analysis there will not be very helpful to Wisconsin residents as they listen to the coming debates surrounding TABOR. It will be more helpful, and more honest, to delve deeper and to

explore the likely *specific* impacts of the proposal.

By even the most conservative estimates, TABOR would require significant curtailment of the state's commitment to expanding educational opportunities, to providing health care to the state's neediest residents, and to those hundreds of thousands of residents who benefit from community aids services every year.

If TABOR proponents honestly believe that TABOR is good for Wisconsinites, they should be willing to go beyond the anti-government rhetoric and discuss and debate the specific impacts it would have on the daily lives of thousands of Wisconsin residents. Until that happens, it's clear that TABOR remains little more than a political gimmick.

John Keckhaver
May 3, 2005