



A Colorado Example: What TABOR Could Mean for Public Education in Wisconsin

Executive Summary

Early this summer, the Wisconsin Legislature may take up a controversial constitutional amendment that would significantly restrict the ability of state and local elected officials to raise spending or taxes. The measure, called the “Taxpayer’s Bill of Rights” (TABOR), is at least partially based on a Colorado amendment passed in 1992. The aim of such amendments, according to their proponents, is to shrink the size of government and the corresponding tax burden.

Determining the potential impact of TABOR on Wisconsin residents requires a detailed examination, one that goes beyond the *overall* spending and taxing caps and looks at how those changes are likely to be parsed out among the various areas of state and local spending.

In this paper we examine public K-12 and higher education spending in Colorado and Wisconsin. We compare some key indicators and trends as well as discuss several procedural issues that arise from applying – or not applying – TABOR limits to education spending.

The effects of TABOR on public education in Colorado are shown in the following statistics:

- Colorado consistently ranks behind WI in K-12 class size, teacher pay, and spending per pupil.
- Colorado’s 69 percent high school graduation rate ranks 30th; WI’s 78 percent rate ranks 7th.
- WI ranks 1st in the ACT college entrance exam, while Colorado ranks 21st out of the 25 states that use it.
- State support of higher education in Colorado has fallen from 17.6 percent of

their general fund budget in 1992 to 10.6 percent in 2004.

- Only 17 percent of 18-24-year-olds from low-income families in Colorado are enrolled in higher education, which ranks the state 45th. Wisconsin ranks 17th at 28 percent.

While Wisconsin’s commitment to public education has been significant and the results readily apparent, school districts around the state are currently under intense budget pressure. Declining enrollments, rising health costs and existing revenue caps are forcing teacher layoffs, program cuts and increased fees for school activities.

TABOR opponents in Wisconsin argue that it would be unwise to enshrine these problems in a constitutional amendment that would be difficult to modify and impossible to fine-tune. On the other hand, adopting a version of TABOR that exempts education systems from the limits, as some have proposed, would increase pressure on other, “unprotected” areas of state and local spending.

It’s impossible to know the exact extent and timing of the effects on Wisconsin’s public education systems if the state implements constitutional spending and taxing constraints similar to those in Colorado. There is little doubt, though, that the level of funding for public education would be eroded significantly. Our education indicators associated with long-term success would likely decline, and the general value of these public investments – investments that are known to be significant drivers of state and local economies – would fall.

A Colorado Example: What TABOR Could Mean for Wisconsin's Public Education Systems

Though the 2004 regular session has ended, legislators may soon be called back to the Capitol for a special session to consider a significant spending and tax cap that would apply to state and local governments. The measure is commonly referred to as the "Taxpayer's Bill of Rights" (TABOR) and is based on a similar amendment passed in Colorado in 1992. Republicans, who comprise a majority in both houses, are reportedly attempting to reconcile competing versions of the proposal.¹

Because TABOR is a constitutional amendment and not statutory law, it would have to be passed in the next legislative session as well, which begins in January of 2005, and would then be placed on the ballot for approval by the voters, most likely in the fall of 2006. The details have yet to be finalized, but any such amendment would have significant ramifications for the level and quality of services provided in Wisconsin.

Since different areas of state and local expenditure are treated differently under most TABOR schemes, it is important to parse out the amendment's potential impacts, instead of focusing solely on the bottom-line spending and taxing cap, as many proponents of the measure have done.

In this paper we examine the potential implications of adopting TABOR for Wisconsin's public education systems, both K-12 and higher education. To do so, we pulled together statistics and other information from national databases, the Colorado Legislative Council (a well-respected non-partisan service agency), the Bell Policy Center (a non-partisan public-policy center in Denver)², and a recent report by Professor Andrew Reschovsky of

the University of Wisconsin, a recognized expert on taxation and school finance

K-12 Education

A Brief Comparison of Commitment and Outcomes

Wisconsin's commitment to public K-12 education is historic and significant. We see the results of this commitment in test scores, graduation rates and many other measures. The state consistently ranks well in most studies of education funding and outcomes. By comparison, Colorado's appropriation level for public education – already one of the lowest in the nation – was severely eroded after TABOR was adopted.

The most recent annual state education report cards from *Education Week* gave Colorado a "C-" for "adequacy of resources appropriated for K-12 education." Wisconsin received an "A." The following table shows some other key indicators for the long-term success of education systems³ as well as key performance measures, and shows how Wisconsin and Colorado compare.

In 2000, voters in Colorado agreed with state lawmakers that education funding had reached dangerously low levels (garnering an "F" grade for "adequacy of resources" from *Education Week* in 1999), and passed another constitutional amendment to shore up funding for K-12. Voters passed Amendment 23, creating the State Education Fund and making several other funding changes.⁴

In the first two years after Amendment 23, 2001 and 2002, \$154,513,369 went into the state education fund, accounting for over one-third of the growth from 1992-2002. If

Table 1: K-12 Education System Statistical Comparison: CO and WI

	US average	Wisconsin	Rank	Colorado	Rank
K-12 spending per pupil (2001)	\$7,284	\$8,158	12 th	\$6,515	34 th
K-12 spending per \$1,000 of personal income (2001)	\$41.59	\$47.53	10 th	\$33.66	48 th
K-12 spending per capita (1999)	\$1,246	\$1,441	7 th	\$1,176	27 th
Pupils per Teacher (2002)	15.9	14.7	11 th	17.1	29 th
Average salary of public school teachers (2002)	\$44,683	\$42,232	21 st	\$40,659	25 th
High School Graduation Rates (2001) ⁵	67.3%	78.2%	7 th	69.3%	30 th
ACT Scores (2003)	20.8	22.2	1 st	20.1	21 st

Sources: US Census Bureau Annual Survey of Local Government Finances, National Center for Education Statistics, U.S. Dept. of Education, Bureau of Economic Analysis

you take the amount resulting from the Amendment 23 change out of the equation, Colorado’s school spending growth during that period – under the original TABOR amendment – decreases by one-third, from an annual K-12 education increase of 1.5 percent to 0.9 percent.

Amendment 23 has not completely alleviated the severe budget problems faced by K-12 education in Colorado. In 2003, the legislature eliminated at-risk funding, reduced preschool slots and 4-year old kindergarten funding, eliminated funding for new textbooks, repealed a teacher pay incentive program, reduced funding for charter school capital construction, and repealed summer school grants. Amendment 23 has also created significant problems for other, unprotected areas of spending, discussed in more detail below.

Wisconsin’s Education Commitment Under TABOR

Colorado’s K-12 funding experience under TABOR raises the following question: what would have occurred in Wisconsin had TABOR been in effect here? In a recent paper, Professor Andrew Reschovsky of the

University of Wisconsin’s Robert M. LaFollette School of Public Affairs answered that very question. Among other findings, he concluded that, “If TABOR had been in place since 1986, by 2003 public school spending in Wisconsin would have been 20 percent lower than the current level of spending.” That amounts to a reduction of \$1.7 billion.

While it’s difficult to say exactly how that decrease would have been meted out among K-12 programming, it is safe to say the indicators and measures listed above in Table 1 would have suffered under such a scheme.

Wisconsin’s K-12 System Already Under Pressure

Wisconsin’s significant commitment to public K-12 funding does not mean that school districts are not experiencing budget pressures. Due to existing revenue caps, rising fringe benefit costs, declining enrollments, and decreased state aid, the current funding scheme in Wisconsin is proving difficult for both urban and rural school districts around the state. Newspapers abound with stories of

increased fees for school activities, teacher layoffs, delayed construction, and even potential school closings.

In Milwaukee, for instance, residents were shocked to hear of plans to cut more than 300 teaching jobs in the district and also raise property taxes for schools by 15.4 percent. The tax increase would be the highest in 22 years in Milwaukee. Teaching positions were already cut by 327 last year. According to school district personnel, state aid is likely to decrease by \$4 million for the district from last year's amount. Milwaukee is not alone. School districts throughout the state are implementing cuts in their 2004-05 budgets.

Making School Funding Changes Via the Constitution

Wisconsin's school funding formula has been criticized for a number of years as unresponsive to expanding mandates from the federal government, to costs associated with special education needs, to changes in enrollment patterns, and to variations in property values among school districts, among other things.

Recognizing these problems, Governor Doyle appointed a "Task Force on Educational Excellence" in 2003. The Task Force plans to release its recommendations in June of this year, and the Governor has indicated a desire to include some or all of them in his 2005-07 budget. Individual legislative leaders have also been working on changes to Wisconsin's school funding formula for some time.

TABOR would enshrine our current funding scheme and its apparent shortcomings in a constitutional amendment, something that can only be altered with subsequent constitutional amendments. This process is a lengthy one and not well suited for fine-tuning funding formulas and dealing with exigencies brought about by factors beyond

the control of state and local leaders. Allowing legislative reforms to move forward on a statutory basis, on the other hand, would allow for fine-tuning by the legislature as such needs arise.

No Easy Way to Avoid Education Impacts

In apparent response to these concerns, some TABOR proponents have suggested exempting K-12 funding from TABOR limits. While this may or may not solidify K-12 funding, it raises other issues. K-12 funding in Wisconsin represents a significant amount of the state's resources – 45.5% of the 2003-05 general fund budget if you include the School Levy Tax Credit, 41.4% if you don't.

If K-12 funding is taken out of the TABOR umbrella entirely – meaning education funding is not limited nor counted toward the cap – then reducing government spending in any meaningful way is going to be difficult to do, since it is by far the largest state expenditure. Under such a scheme the effectiveness of the cap would be severely diluted.

If K-12 is simply exempted from cuts to *its* funding but kept under the TABOR limits umbrella – meaning education funding counts toward the cap on total growth – the remaining "unprotected" areas are crowded out. In other words, they are left to bear the brunt of the TABOR limits entirely and would probably be severely depleted.

Another issue that arises with caps in general is the simple fact that some costs to state and local governments rise faster than others. Health care, special education, pension funding, debt service and fuel costs, for example, are difficult if not impossible to maintain at a particular level, and are to a large extent, beyond the control of the responsible governmental entity. When placed under a cap framework such as

TABOR, these cost pressures represent another form of “crowding out.”

A good example of this effect is what occurred in Colorado from 1992 to 2002. During that time, the average annual real per capita change in appropriations for Medicaid increased by 6.0 percent, and corrections by 4.9 percent. Public health funding actually decreased on the same basis by -0.16 percent, and higher education by -0.9 percent.

These two factors – exempting certain areas of spending from the caps, and the difficulty in containing certain costs – work together to increase the budgetary pressure placed on the remaining, unprotected areas of state and local expenditure.

Higher Education

A Brief Comparison of Commitment and Outcomes

Under most TABOR schemes, higher education falls into the “unprotected” category of spending. The impact from this

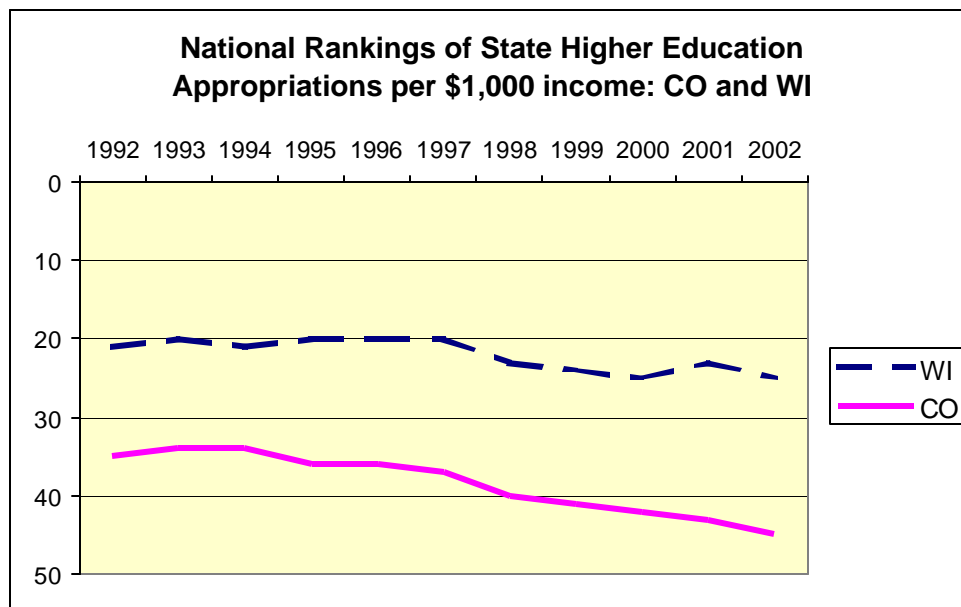
heightened pressure can be dramatic. The figure below shows the per capita spending on higher education in Wisconsin and Colorado. What we see is a steady state commitment to higher education in Wisconsin compared to the rest of the country, and consistent erosion, comparatively, of such a commitment in Colorado.

What Colorado has recently done to address this trend is discussed in more detail below. Heading into the 2005 budget, however, if the funding limits were not altered – or bypassed – higher education in Colorado would have received effectively zero state support by 2010.

The following statistics begin to give an indication of the relative health of our respective systems of higher education.

- Colorado ranks 42nd and Wisconsin 25th in state tax funds appropriated for higher education per personal income.⁶

Figure 1. Comparative State Commitment to Higher Education



Source: Grapevine Center for the Study of Education Policy: A National Database of State Tax Support for Higher Education, available at <http://coe.ilstu.edu/grapevine/Welcome.htm>.

- Only 17 percent of 18-24-year-olds from low-income families in Colorado are enrolled in higher education which ranks the state 45th; WI ranks 17th at 28 percent.⁷
- At the same time that state support for higher education is slipping in Colorado, the public colleges and universities there absorbed a 16.2 percent increase in new in-state students.
- WI ranks 19th in higher education expenditures as a percentage of gross state product, Colorado ranks 36th.⁸

The National Center for Public Policy and Higher Education recently released a report titled, “Education Pipeline: Big Investment, Big Returns” which offers a useful approach to analyzing higher education systems.⁹ The report focuses on policies the Center considers key for helping students make transitions from high school to college, and from college admission to completion of a degree – what they call the “education pipeline.” The Center argues that the strength of a state’s education pipeline plays a significant role in increasing a state’s education capital, that is, the number of highly knowledgeable, skilled people in a

state’s workforce. The following table utilizes information from their report.

Colorado does not rank poorly in the categories included in this study on a national basis, though Wisconsin clearly ranks higher, being in the top ten in each. The long-term economic effects of a comparatively strong education pipeline are hard to quantify, but it represents a practical and useful approach to viewing a state’s commitment to higher education.

Again Looking for Ways Around TABOR

A Denver Post columnist summed up Colorado’s higher education troubles when she wrote, “Simply put, the problem comes down to the budget squeeze created by the Taxpayer’s Bill of Rights and Amendment 23, and the Byzantine legal maneuvers required if universities are to continue to survive.” As shown in Figure 1, Colorado’s commitment to higher education has been steadily declining for years. Reminiscent of the situation facing K-12 education and the subsequent passage of Amendment 23 in 2000, higher education funding in Colorado had reached such a critical stage by spring of 2004 that state leaders were searching for

TABLE 2. Comparative Strength of the Education Pipeline: CO and WI (Success Rate per 100 Ninth Graders at Each Transition Point - 2002)

	Graduate from High School		Immediately Enter College		Still Enrolled in Sophomore Year		Graduate Within 6 Years	
	Percent	Rank	Percent	Rank	Percent	Rank	Percent	Rank
Colorado	70	29 th	42	15 th	29	20 th	20	18 th
Wisconsin	79	6 th	47	7 th	34	9 th	25	9 th
US (ave.)	68		40		27		18	

Source: National Center for Education Statistics and the Western Interstate Commission for Higher Education, for more detailed information on the sources used by the National Center for Public Policy and Higher Education see www.highereducation.org/reports/pipeline/.

ways to maneuver around the TABOR limits. University officials, unable to raise tuition significantly as a way to offset the state funding cuts imposed by TABOR, were also exploring several avenues.

In early May, the Colorado Legislature approved a package that dramatically changes the financing of the state's higher education system. The new law establishes stipends that will be available to each student attending the public universities or – at half that level – one of three private colleges in the state. The primary purpose of the change is to make the university system qualify for an exemption that will allow it to raise fees without that revenue counting against the TABOR limits. Nevertheless, the total TABOR spending limit will continue to put downward pressure on the state tax funding available for higher education in Colorado.

TABOR's Impact on Higher Education in Wisconsin

Because universities and technical colleges play such a significant role in local and state economies – in garnering federal resources, in providing for an educated workforce, and so on – the impact of TABOR-like caps on higher education should be closely scrutinized. This is especially true at a time when government officials at all levels are attempting to foster economic growth and spur job creation.

Since it is one of the few areas of state spending that lawmakers retain some discretion over – as compared to the rising costs of pension funding, debt service, health care costs, and so on – higher education is often one of the first areas of spending cut in tough budget times. TABOR exacerbates this problem because cuts made in one year cannot be restored in the future without engaging in “Byzantine legal maneuvering” in the words of one

journalist. A steady erosion of state support would almost certainly take place in Wisconsin with the passage of TABOR. The issue then becomes whether university and technical college officials could raise tuition as a way of offsetting these losses. If tuition increases are utilized – as they have been in recent years in Wisconsin – issues of affordability and access arise.

Conclusion

While there has already been much debate behind closed doors on the various TABOR proposals, public discussion is just beginning. Colorado provides us with a case study of both the substantive and procedural effects of rigid spending constraints.

The Colorado experience after 12 years of TABOR illustrates that these sorts of constitutional spending limits can achieve one of the primary goals of the proponents of such measures -- substantially reducing expenditures. Colorado also provides very strong support for the adage that “you get what you pay for.” On almost every one of the education indicators that we examined, Wisconsin's K-12 and higher education systems performed far better than Colorado's.

Since Colorado is a wealthier state than Wisconsin, one might expect it to have a stronger education system; yet the opposite is true. We did not track the historical development of the current disparities between the two states, and we cannot say with certainty that TABOR caused all the differences. Yet it seems to be quite safe to conclude that Colorado's constitutional constraints are impeding efforts there to narrow the gap and improve the quality of K-12 and post-secondary education for its residents.

It would be a serious mistake, however, to suggest that Wisconsin does not face serious

challenges in the financing of both K-12 education and its post-secondary education programs. Both systems are under severe budget pressures, and many people worry that the quality of these systems will soon begin to suffer, if it has not already.

Depending on the form the final TABOR proposal takes, it might create constitutional limits on K-12 spending that are similar to those already in the statutes. In other words, it could lock into place the current constraints that many fear are a threat to education quality. Policymakers and the

general public need to think carefully about whether a TABOR amendment would give Wisconsin the flexibility to adopt the education financing reforms that many state and local officials have discussed, or whether it would cause our education systems to look more like those in Colorado.

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¹ Several versions of TABOR have been informally or formally introduced in Wisconsin. The version most-often cited is the Lasee-Wood measure, Assembly Joint Resolution 55. There is also a proposal being discussed by Representative Underheim. Links to these resolutions as well as Wisconsin Legislative Fiscal Bureau notes and briefs on these measures can be found at www.thewheelerreport.com.

² For a thorough review of the effects of TABOR in Colorado, see The Bell Policy Center's report, "Ten Years of TABOR," available at <http://www.thebell.org/Revisedt.pdf>.

³ For a more complete discussion of indicators, as well as policies states can implement to improve the overall health of their education systems, see *Raising Educational Achievement: A Discussion Paper for the Policy Matters Project*, available at www.cssp.org/uploadFiles/2568_Education_final.pdf.

⁴ Amendment 23 changed the way in which the Colorado funds K-12 public schools by requiring the General Assembly to provide specific increases each year. The amendment made four major changes:

- it requires that the statewide "base" in the school finance act be increased by at least inflation plus one percent for ten years - through FY 2010-11 - and at the rate of inflation thereafter;
- it requires that total funding for all categorical programs be increased by at least inflation plus one percent for ten years and at the rate of inflation thereafter;
- it created the State Education Fund and transfers to the Fund an amount equivalent to a tax of one-third of one percent of federal taxable income. These revenues are exempt from TABOR limitations, and spending of such revenues is not subject to the six percent statutory limitation on General Fund appropriations;
- for the next ten years, it requires the state's General Fund contribution to the school finance act to increase by a minimum of five percent annually if personal income grows by at least 4.5 percent. This is known as the maintenance of effort provision.

⁵ National Center for Education Statistics Common Core Data used by Tom Mortenson, *Postsecondary Opportunity*, as found at www.higheredinfo.org. The calculation includes the number of 9th graders/High school graduates four years later in public high schools, and does not account for students that are still enrolled or transfers to private high schools or out-of-state.

⁶ National Center for Education Statistics

⁷ U.S. Dept. of Education

⁸ Bureau of Economic Analysis and National Center for Educational Statistics

⁹ The National Center for Public Policy and Higher Education, *Policy Alert*, April 2004, available at www.highereducation.org.