

**The Task Force to Consider A Meals Tax Referendum
Response to Member Request for Review Member-Provided Information**

Statement:

Residential Real Estate Assessments increased 6.5% for FY 2015. The real estate tax rate was \$1.105 per \$100 of assessed value. The rate necessary to keep the average real estate tax bill flat was \$1.04.

Response:

The number accurately reflect the assessment increase, and the base real estate tax rate for FY2014 of \$1.085 and the \$0.02 rate for Stormwater. The necessary rate advertised to maintain an average flat tax bill was \$1.04.

Statement:

The Supervisors advertised a real estate tax rate close to \$1.13 which would have a typical homeowner's real estate tax bill increase 133% since FY2000.

Response:

The Board of Supervisors advertised a base real estate tax rate of \$1.105, not including the Stormwater rate. The Board adopted a base rate of \$1.09, and increased the Stormwater fee to \$0.025 for a total real estate tax rate of \$1.125 for an overall increase of 130%, or an average annual increase of 5.7%.

Statement:

Since FY2000, 77% of FCPS total increase in spending of \$1.6 billion was for compensation as opposed to population growth.

Response:

It is unclear whether the claim of total increase in compensation includes additional teachers hired to accommodate the 16.9% increase in student enrollment from FY2001 to FY2015. In addition, 88.6% of FCPS' FY2015 Budget is compensation, as schools are traditionally a labor intense operation.

Statement:

FCPS employees received average yearly salary increases of 4.6% since FY2000.

Response:

Approximately 93% of FCPS employees are school-based. The average salary for FCPS teachers increased from \$48,497 in FY2000 to \$65,927 in FY2014, for an average annual increase of 2.2%.

Statement:

County employees can retire at age 55 with 75% of their salaries and receive health insurance plans with zero-deductible in-network.

Response:

County employees may receive retirement benefits starting at age 55 if their age added to their years of service equals 80 (or 85 for employees hired after 2012.) The more years of service an employee has, the greater percentage of their previous salary the employee may receive in retirement.

Retired county employees receive a health care subsidy but are not provided health care plans.

Statement:

FCPS SAT scores were in the 69th percentile.

Response:

It appears that the figure of the 69th percentile refers to the average of all Fairfax County Public School students who took the SAT, compared against the College Board's percentile ranking of individual students' scores.(CITE) However, this would be an invalid comparison, since it does not compare jurisdictions versus jurisdictions. When comparing a jurisdiction's average score against individual students' scores, the jurisdiction is competing against its own, higher-performing students whose higher scores are part of that jurisdiction's average. There does not appear to be a listing of all jurisdictions that would permit a percentile ranking.

Statement:

According to ACT college admissions test, only 54% of FCPS seniors were prepared for college.

Response:

The ACT provides curriculum-based measures for college readiness in 4 designated, benchmark college courses, English Composition, Algebra, Social Science, and Biology. The 54% figure refers to the percentage of Fairfax students who met the criteria in all 4 benchmarks and compares to 37% of Virginia students taking the ACT in all 4 benchmarks, and 26% of nationwide students taking the ACT in all 4 benchmarks (CITE).

Statement:

Persons living below the poverty line increased 70% from 2000 and 2011.

Response:

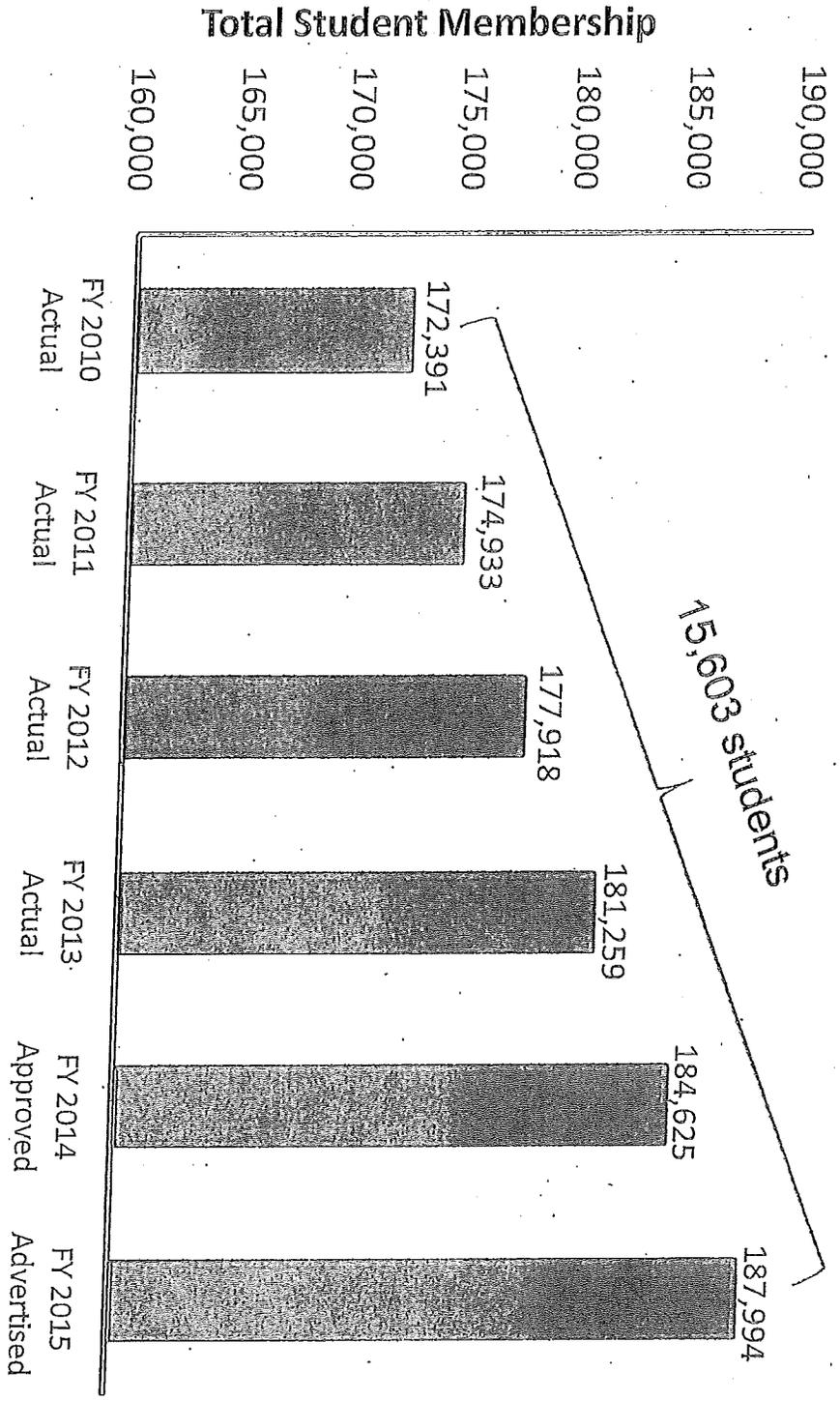
The increase in total amount of Fairfax residents below the poverty line from 2000 to 2011. (Roughly 43,396 to 73,694).

However, that does not reflect the fact that total population increased, so the poverty rate increased 51.1%, from 4.5% in 2000 to 6.8% in 2011.

However, the latest poverty data is from 2012, where there was a decrease in the number of residents below the poverty line from the previous year. Using 2000 to 2012, the total number of residents below the poverty line increased from 43,396 to 64,600 – for a percentage increase of 48.9% in total numbers. The poverty rate from 2000 to 2012 increased from 4.5% to 5.8%, for a percentage increase of 28.9%.



Expenditure Driver—Student Enrollment





Fairfax County Public Schools: An Overview

Fairfax County Public Schools (FCPS) is a fiscally dependent school system comprised of 207 schools and centers with a projected enrollment of 160,966 students. FCPS is the 12th largest school system in the country when ranked by enrollment and is located about 10 miles outside Washington, DC. FCPS has 19,827 positions budgeted for full-time employees, approximately 92 percent of which are school-based. The school system is the largest employer in Virginia.

8.1%		
FCPS-Funded	19,427.3	100.0%
State and Federal Projects	399.7	
TOTAL	19,827.0	

Fairfax County is the 37th largest county in the United States, with a January 2000 population of 968,225, making it larger than the population of seven states. Over 56 percent of all residents over 25 have at least a four-year college degree.

Fairfax County is one of the most affluent counties in the nation; the 1997 median household income of \$72,000 was almost twice the national average. Per capita income in Fairfax County, at \$39,951 in 1997, was the 18th highest of all U.S. counties. The median value of a single family home was \$238,000 in 1999.

A Legacy of Excellence

In the 20th century, Fairfax County has worked to provide every child with an equal opportunity to learn. FCPS continues to maintain its legacy of excellence even in the face of unprecedented change and growth that has marked the recent past.

In FY 1991, FCPS enrollment was 130,619. By FY 2001, FCPS is projected to have 160,966 students, an increase of 30,347 students, or equal to about 50 typical 600-student elementary schools in our school system.

In the last two years, membership has grown by 9,548 students, exceeding the total enrollment of the cities of Manassas and Falls Church combined. FCPS has become more diverse in the last decade as well. The number of students for whom English is a second language has increased from 5,539 in FY 1991 to a projected level of 15,635 students in FY 2001.

In FY 1990, the portion of the student body that was minority had risen to 26.5 percent. In FY 2000, minorities comprised 40.5 percent of total enrollment.

A Legacy of Innovation

Over the past decade, FCPS has implemented many educational innovations. These include:

- The seven-period day in middle and high schools
- Block scheduling in selected middle and high schools
- Middle school teaching teams
- Foreign language partial-immersion programs
- Elementary Success by Eight program
- Project Excel for selected elementary schools
- An extended year in two elementary schools
- Seven elementary Magnet and Focus schools
- Three Focus middle schools
- Alternative high schools offering nontraditional academic settings



FY 2015 Expenditures By Category

Percent of FY 2015 budget

- Compensation 88.6%
 - Salaries
 - Benefits
- Logistic 10.3%
- Transfers to Other Funds 1.2%
 - For Preschool, Summer School, and Construction

Does not add due to rounding.

Fairfax County Public Schools

- Fairfax County Public Schools (FCPS), the nation's 11th largest school division, is a world-class school system inspiring, enabling, and empowering students to meet high academic standards, lead ethical lives, and demonstrate responsible citizenship.
- The FY 2014 Budget, which increased by \$27.3 million from the FY 2013 approved, included an increase of 3,089 students.
- Despite challenging economic trends, the School Board has maintained focus on student achievement. Click this link to view [Student Achievement Goals and Operational Expectations](#).
- FCPS' 2013 SAT average of 1663 exceeds both the state (1517) and national average (1474).
- Based on the 2013 *Washington Post* rankings, of 1,900 top U.S. high schools, all eligible Fairfax County high schools were designated among the most demanding public schools in the country.
- Thomas Jefferson High School for Science and Technology was ranked by *U.S. World and News Report* in 2013 as the number four gold medal school. In total, FCPS received 13 gold medal awards and three awards.
- Eighteen Fairfax County Public Schools received the 2013 Board of Education Excellence Award, a recognition of schools and divisions that have met all state and federal achievement benchmarks for at least two consecutive years and have made significant progress toward goals for increased student achievement and expanded educational opportunities.
- Ninety-three percent of eligible FCPS schools earned full state accreditation from the VDOE for 2013-2014. Statewide, 77 percent of schools are accredited compared to 93 percent for 2012-2013.

Highlights at a Glance

FY 2014 Cost Per Pupil	\$13,472
Average Teacher Salary	\$65,927
2013 Actual Membership	
Total Membership	181,259
Percent ESOL Enrollment	15.5%
Percent Free/Reduced Price Meal Eligible	26.4%
Percent Special Education Enrollment	13.9%
2014 Approved Membership	
Number Increase/Decrease from 2013 Actual	3,366
Percent Increase/Decrease from 2013 Actual	1.9%
Schools	
Elementary	139
Middle	23
Traditional (K-8)	0
Secondary and High	25
Special Education	7
Alternative	2
Sources of Revenue	
Local	68.7%
State	22.7%
Other	8.5%
Authorized Positions	
School-Based	93.0%
Nonschool-Based	7.0%

www.fcps.edu

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FY 2000 SALARY INFORMATION

SCHOOL DISTRICT	CONTRACT LENGTH	BEGINNING TEACHER BACHELORS DEGREE	AVERAGE TEACHER ¹	TEACHER 9TH STEP + MASTERS DEGREE	MAX TEACHER SALARY	INSTRUCTIONAL ASSISTANTS BEGINNING	MAXIMUM
Alexandria City	190 days	\$31,166	\$47,930	\$49,385	\$66,260	\$10.83/hr	\$17.53/hr
Arlington County	200 days	\$30,230	\$50,652	\$49,240	\$74,612 ²	\$10.72/hr	\$17.08/hr
Fairfax County	193 days	\$30,761	\$48,497	\$45,953	\$69,375	\$9.89/hr	\$21.32/hr
Falls Church City	200 days	\$29,710	\$47,567	\$44,298	\$67,293	\$10.59/hr	\$17.63/hr
Loudoun County	193 days	\$29,619	\$42,177	\$42,274	\$66,398	\$11.21/hr ⁴	\$20.25/hr
Manassas City	200 days	\$30,000	\$41,294	\$41,426	\$62,965 ³	\$9.53/hr ⁴	\$16.68/hr ⁵
Montgomery County	191 days	\$31,669	\$51,267	\$46,667	\$67,972	\$11.41/hr	\$17.96/hr
Prince George's County	192 days	\$30,577	\$42,469	\$40,176	\$59,990	\$8.00/hr	\$20.07/hr
Prince William County	194 days	\$30,328	\$41,389	\$41,829	\$59,509	\$10.61/hr	\$18.54/hr

¹ Total teacher payroll divided by number of teaching positions (FTEs)

² Arlington County - includes longevities.

³ Manassas City - Longevity step 24

⁴ Manassas City - Grade 6 special education classes -- \$10.36

⁵ Manassas City - Grade 6 special education classes -- \$18.14



Table 1

2011-2013

**SAT Average Scores for Fairfax County Public Schools, Virginia, and the Nation
as Reported by College Board**

	Critical Reading Average			Mathematics Average			Writing Average		
	2011	2012	2013	2011	2012	2013	2011	2012	2013
FCPS	551	550	554	563	568	568	540	542	541
Virginia*	509	508	512	507	510	511	492	492	494
Nation*	494	491	491	506	505	503	483	481	480

*All Public School Students.

2013

**SAT Average Scores for Fairfax County Public Schools
as Reported by FCPS and by College Board**

	Critical Reading Average		Mathematics Average		Writing Average	
	FCPS	College Board	FCPS	College Board	FCPS	College Board
FCPS	565	554	579	568	554	541

SAT[®] Percentile Ranks for Males, Females, and Total Group



SAT

2013 College-Bound Seniors — Critical Reading + Mathematics + Writing

Score	Total		Male		Female	
	Number	Percentile	Number	Percentile	Number	Percentile
1690	15,610	72	7,388	70	8,222	74
1680	16,049	71	7,736	69	8,313	73
1670	16,199	70	7,691	68	8,508	72
1660	16,610	69	7,890	67	8,720	71
1650	16,840	68	7,950	66	8,890	70
1640	17,176	67	8,112	65	9,064	69
1630	17,576	66	8,385	64	9,191	68
1620	17,755	65	8,367	63	9,388	67
1610	17,827	64	8,377	62	9,450	66
1600	18,224	63	8,528	61	9,696	65
1590	18,227	62	8,425	60	9,802	64
1580	18,493	61	8,627	59	9,866	63
1570	18,774	60	8,822	57	9,952	61
1560	19,055	58	8,815	56	10,240	60
1550	19,323	57	9,056	55	10,267	59
1540	19,630	56	9,095	54	10,535	58
1530	19,307	55	8,911	53	10,396	57
1520	19,957	54	9,114	52	10,843	55
1510	20,063	52	9,124	51	10,939	54
1500	19,884	51	9,079	49	10,805	53
1490	20,122	50	9,223	48	10,899	52
1480	19,895	49	9,082	47	10,813	51
1470	19,985	48	9,150	46	10,835	49
1460	20,435	46	9,343	45	11,092	48
1450	20,185	45	9,126	43	11,059	47
1440	20,189	44	9,111	42	11,078	46
1430	20,320	43	9,287	41	11,033	44
1420	20,273	42	9,036	40	11,237	43
1410	20,331	40	9,095	39	11,236	42
1400	20,394	39	9,222	38	11,172	41
1390	19,925	38	8,868	36	11,057	39
1380	19,910	37	8,847	35	11,063	38
1370	19,653	36	8,692	34	10,961	37
1360	19,590	34	8,823	33	10,767	36
1350	19,813	33	8,773	32	11,040	34
1340	19,398	32	8,573	31	10,825	33
1330	19,213	31	8,579	30	10,634	32
1320	19,028	30	8,559	29	10,469	31

Definitions of statistical terms are provided online at research.collegeboard.org/definitions.



FOR IMMEDIATE RELEASE

September 26, 2013

FCPS Students Continue to Post SAT and ACT Scores Above State, National Averages

Students in Fairfax County Public Schools (FCPS) class of 2013 outperformed their peers in Virginia and the nation on the SAT, according to results released by the Virginia Department of Education. FCPS scores are 42 points above the state's average in Critical Reading, 57 points above the state's average in Mathematics, and 47 points above the state's average in Writing. SAT results compiled by the College Board show that FCPS students posted average scores of 554 in Critical Reading, 568 in Mathematics, and 541 in Writing for an overall composite score of 1663, up from last year's overall composite score of 1660 (see [Table 1](#)). The state composite score was up 7 points and the national composite score down 3 points in comparison to last year's scores.

Top schools in Fairfax County improved over last year in all three sections: Edison, Langley, Madison, Marshall, McLean, Mount Vernon, South Lakes, Stuart, West Springfield, and Woodson High Schools. Students at Stuart High School posted the greatest gains by increasing the school's Critical Reading average by 23 points, the Mathematics average by 18 points, and the Writing average by 17 points. Students at Woodson High School increased the Critical Reading average by 16 points, the Mathematics average by 9 points, and the Writing average by 11 points. Students at Edison High School increased the Critical Reading average by 14 points, the Mathematics average by 10 points, and the Writing average by 14 points (see [Table 2](#)).

Of the 25 high schools in FCPS, 18 saw an increase in their Critical Reading average, 16 saw an increase in their Mathematics average, and 10 saw an increase in their Writing average over last year. Students at Marshall High and South Lakes High School made steady gains in all three areas over the last three years.

Additional highlights of the SAT results for FCPS, as reported by the College Board, include the following:

- FCPS students posted higher average scores than students in the state or nation by student group in Critical Reading, Mathematics, and Writing (see [Table 3](#)).
- FCPS Asian students exceeded the state average for Asian students by 19 points in Critical Reading, 29 points in Mathematics, and 23 points in Writing (see [Table 3](#)).
- FCPS Black students exceeded the state average for Black students by 42 points in Critical Reading, by 43 points in Mathematics, and by 42 points in Writing (see [Table 3](#)).
- FCPS Hispanic students exceeded the state average for Hispanic students by 14 points in Critical Reading, by 19 points in Mathematics, and by 16 points in Writing (see [Table 3](#)).
- FCPS White students exceeded the state average for White students by 40 points in Critical Reading, by 48 points in Mathematics, and by 44 points in Writing (see [Table 3](#)).
- FCPS average scores increased 3 points in Critical Reading, increased 5 points in Mathematics, and increased 1 point in Writing when compared to 2011 results (see [Table 1](#)).
- The state average score increased 3 points in Critical Reading, increased 4 points in Mathematics, and 2 points for Writing when compared to 2011 results (see [Table 1](#)).
- The national average scores went down 3 points in all three areas when compared to 2011 results (see [Table 1](#)).

FCPS does an additional analysis of College Board data that includes only students from FCPS class of 2013 in its results (see [Table 4](#)). (College Board data may include the scores of students from other jurisdictions and students who are home schooled who took the SAT in a Fairfax County high school. The FCPS analysis uses the test scores of students who were members of the senior class in June 2013—based on the FCPS student information system—and race-ethnic designations taken from school registration records. The FCPS analysis excludes all non-FCPS students as well as students who were tested while enrolled in FCPS but who moved or may have been retained and were not part of the senior class.) Data from this FCPS analysis show an average critical reading score of 565, a mathematics score of 579, and a writing score of 554. According to FCPS, 76 percent of the FCPS class of 2013 took the SAT; when students attending alternative high schools are included in the calculation the percentage is 72 percent.

ACT Scores

The ACT tests are designed to assess the general educational development of high school students and the ability of high school students to complete college-level coursework. The tests represent a curriculum-based measure of college readiness in English, mathematics, reading, and science. A writing test is optional. According to data released by ACT, Inc., the number of FCPS students taking the ACT increased from 3,916 in 2012 to 4,029 in 2013, with average ACT scores increasing in English, mathematics, reading, science reasoning, and the composite. [Table 5](#) shows the three-year trend of the division's ACT average scores in comparison to the average scores of Virginia and nation.

FCPS has also released a set of ACT data separate from that reported by the ACT, Inc. The FCPS-compliled data are based on more accurately analyzed FCPS results. A comparison of ACT scores as reported by FCPS and as reported by ACT, Inc. is also included. According to FCPS, approximately 19 percent of the FCPS class of 2013 took the ACT.

Through collaboration with postsecondary institutions, ACT has established college readiness benchmark scores for designated college courses. (English Composition: 18 on ACT English test; Algebra: 22 on Mathematics test; Social Science: 22 on ACT Reading tests; and Biology: 23 on ACT Science test). Highlights of FCPS ACT results released by ACT, Inc., on these college readiness benchmarks include the following (see [Table 6](#)):

- 87 percent of FCPS students who took ACT tests are ready for college-level coursework in English composition. That can be compared to 76 percent of students in Virginia and 64 percent of students nationwide.
- 76 percent of FCPS students who took ACT tests are ready for college-level coursework in mathematics. That can be compared to 57 percent in Virginia and 44 percent nationwide.
- 70 percent of FCPS students who took ACT tests are ready for college-level coursework in social science (based on reading scores). That can be compared to 57 percent in Virginia and 44 percent nationwide.
- 63 percent of FCPS students who took ACT tests are ready for college-level coursework in science. That can be compared to 47 percent in Virginia and 36 percent nationwide.
- 54 percent of FCPS students who took ACT tests met all four ACT benchmark scores. That can be compared to 37 percent in Virginia and 26 percent nationwide.

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Note: For more information, contact Kathy Oliver at 571-423-1405 or koliver@fcps.edu.

POVERTY IN FAIRFAX COUNTY



64,600 persons or 5.8% of Fairfax County residents live in poverty. These residents are more likely than others to live in poverty:

7.8% of children under 18 years old (20,550 children live in poverty).

11.9% of Hispanic and 9.9% of Black residents (21,206 Hispanics and 9,824 Blacks live in poverty).

21.1% of single-mother families with children under 18 years (4,264 families headed by single-mothers contain 13,733 children live in poverty).

9.2% of persons, age 16 and older, who speak a language other than English at home (86,650 other language speakers live in poverty).

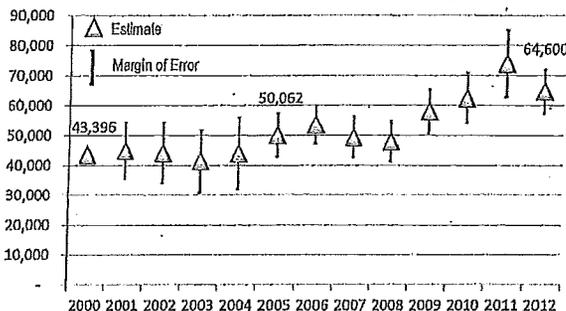
14.7% of women age 25 and older who have not pursued education beyond high school (14,767 women live in poverty).

9.5% of men age 25 and older who have not pursued education beyond high school (7,128 men live in poverty).

10.5% of persons age 18 and older who have a disability (67,835 persons with disabilities live in poverty).

9.5% of foreign-born residents (31,729 immigrants live in poverty).

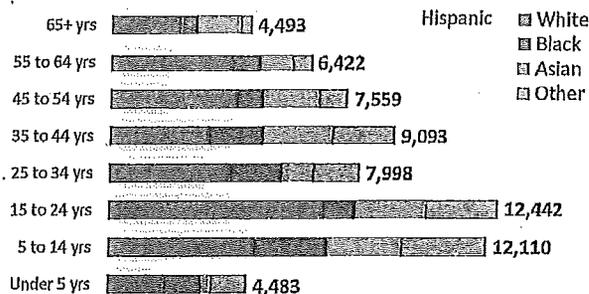
Population Below Poverty Estimates and Margins of Error



The number of persons living in poverty increased in Fairfax County since 2008. In addition, the poverty rate increased from 4.5% in 2000 to 5.8% in 2012. The increase in the poverty rate and in persons living in poverty was not caused by poverty-level persons moving into the county from other areas. The growth in poverty is more likely the result of lower income persons losing economic ground and slipping into poverty. The U.S. Census Bureau's 2012 poverty threshold used for determining who is living in poverty is \$11,946 for a single individual under age 65 and is \$23,384 for a family of four with three children.

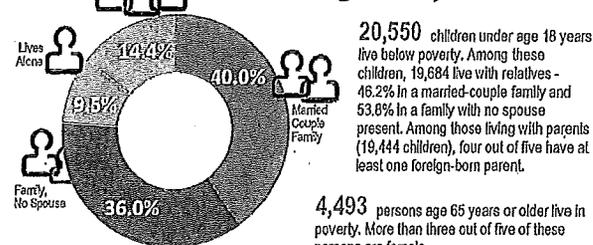
Sources: U.S. Census Bureau, 2000 Decennial Census, 2001 Supplemental Survey, 2002 to 2012 American Community Surveys poverty data, and 2005-2009 American Community Survey migration data, and 2012 Poverty Thresholds.

Persons Who Live in Poverty by Age, Race and Ethnicity



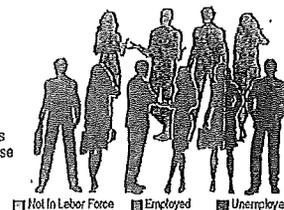
Note: Hispanics may be of any race.

Living Arrangements of Persons Living in Poverty

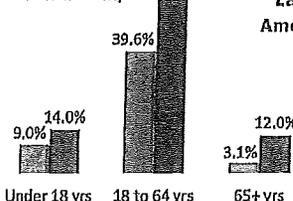


Employment Status Persons Living in Poverty Age 20 to 64 Years

59.7% of those persons age 20 to 64 years who live in poverty are in the labor force. Of those in the labor force, over three quarters are employed (77.4%).



United States vs. Fairfax County



Lack of Health Care Coverage Among Persons Living in Poverty

Low income residents in Fairfax County are more likely to lack health insurance coverage than low income residents nationwide.

41.5% of those who live in poverty in Fairfax County lack health insurance coverage.

Source: Unless otherwise noted is the U.S. Census Bureau, 2012 American Community Survey. Prepared by: Anne Pickford O'Neil, Economic, Demographic and Statistical Research, Fairfax County Department of Neighborhood and Community Services, October 2013.

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January 13, 2005

THE FLAWED "POPULATION PLUS INFLATION" FORMULA Why TABOR's Growth Formula Doesn't Work

By David H. Bradley, Nicholas Johnson, and Iris J. Lav

Limiting the growth of state revenue collections and state expenditures to a population-growth-plus-inflation formula is a central provision of a new generation of "tax and expenditure limits" — or TELs — now being promoted by national anti-government groups. Under such proposals, state constitutions would be amended to bar state and local expenditures from rising at a percentage rate that exceeds the rate of growth of state population plus an inflation factor. A population-growth-plus-inflation limit is central to Colorado's "Taxpayer Bill of Rights," arguably the strictest TEL in the country and the model for TELs currently under consideration in several states.

Such formulaic limitations may sound reasonable, but are actually a recipe for sharply reduced public services and an impaired ability to respond effectively to public needs, federal mandates, and changing circumstances.

- If a population-plus-inflation TEL had been in place in all states from 1990 to 2004, aggregate state own-source expenditures in 2004 would have been \$162.7 billion, or 21 percent, below its actual level.
- Closing this gap in 2004 could have been achieved by cutting 78 percent of all state K-12 education budgets; all state Medicaid and transportation spending; or 60 percent of all other state spending.

There are a number of reasons that a population plus inflation limit leads to such a dramatic scale-back in government services.

- No existing measure of inflation correctly captures the growth in the cost of the kinds of services purchased in the public sector, so the inflation adjustment generally is not sufficient to allow the continuation of existing services. State governments spend much of their money on education and health care, which typically have cost increases greater than the general rate of inflation. Within the Consumer Price Index (CPI) itself, medical care and education have been growing at twice the rate of the overall CPI.
- The subpopulations that state governments serve tend to grow more rapidly than the overall population growth used in the formula. For example, while total population grew by 15.4 percent from 1990 to 2002, total state prison population grew by 83

Population Growth Plus Inflation in Colorado

The population-growth-plus-inflation formula is a key reason why Colorado's TABOR amendment — a 1992 constitutional provision — has caused severe problems for the provision of public services in that state.

After 12 years of TABOR, Colorado has among the nation's poorest-funded — and poorest-performing — public services. For example, Colorado ranks 47th in K-12 education funding as a share of state income. The ratio of teacher salaries to average private-sector earnings is lower in Colorado than any other state. Child immunization rates are also lowest in the nation. More poor children lack health insurance in Colorado than in all but five other states, and three-quarters of Colorado pediatricians won't treat Medicaid patients because reimbursement rates are so low. High school graduation rates, support for public colleges and universities, and access to prenatal care all have fallen since 1992.

Just since 2001, as a result of the formula (combined with the ratchet effect described in the box on the previous page), Colorado policymakers have been forced to make \$1 billion in spending cuts. Unlike in other states, TABOR's limit will not allow those services to be restored; in fiscal year 2006 Colorado is scheduled to refund \$459 million to taxpayers while being required to cut an additional \$263 million out of its budget.

Source: Nicholas Johnson and David Bradley, *Public Services and TABOR in Colorado*, Center on Budget and Policy Priorities, January 2005.

The Population-Plus-Inflation Benchmark and the Cost of Government

Central to the strictest TELs, such as Colorado's TABOR amendment, and to the new TEL proposals in other states, is a provision limiting the rate of growth of government spending to the sum of the population growth rate and the inflation rate, as measured by the Consumer Price Index-All Urban Consumers (CPI-U). Mathematically, this is equivalent to saying that government spending per state resident, adjusted for inflation, cannot increase. In calling for the adoption of strict tax and expenditure limits as a way to limit government, Barry Poulson of the conservative Americans for Prosperity Foundation (AFP) notes that to be effective a TEL should "impose a stringent limit on the revenue that governments can keep and spend, such as the sum of inflation and population growth."¹ The model TEL legislation from the American Legislative Exchange Council, which urges lawmakers to enact conservative policies that reduce the size of government, also uses a spending growth formula of change in population plus CPI-U.

A casual observer of state finances might believe that such a formula is quite reasonable. After all, this formula not only allows the public sector to maintain its current level of expenditures, but allows for some growth in nominal terms. Nevertheless, a one-size-fits-all population-growth-plus-inflation formula is deeply flawed. Such a formula is likely to hinder the ability of state governments to continue to provide services at their current levels. A state that

¹ Barry Poulson, "The Next Generation of Tax and Expenditure Limits," Americans for Prosperity Foundation, May 12, 2004.

Local Governments and TABOR

Most current state TEL proposals would apply the population plus inflation formula to local government budgets as well as to those of the state government. This causes two problems for local governments.

- Local governments, like state governments, face costs that tend to rise faster than population plus inflation, for many of the same reasons: rising health care costs, changing demographics, and changing and unanticipated needs.
- A population-plus-inflation formula at the state level may increase the likelihood that states will cut aid to local governments, or pass on mandates and responsibilities to localities without adequate funding, in order to make room for other fast-growing budget items.

For these reasons, organizations of local governments—which represent elected officials across the political spectrum—have expressed particular concern about such proposals. For instance, the National League of Cities has taken a strong stance against Colorado-style TABOR proposals and the Wisconsin Alliance of Cities has been among the leading voices against a TEL proposal in that state.

Realistic Budgeting for Public Services

Proponents of TABOR-type tax and expenditure limits sometimes contend that a growth formula based on population plus inflation would be adequate to maintain public services at a roughly constant level. But researchers long have recognized that the services provided in the public sector, such as education, health care, and law enforcement, tend to rise in cost faster than many other goods and services in the economy in general. This analysis was first put forward by economist William Baumol, who pointed out that technology and productivity gains may make goods cheaper to produce, but the services that government provides are different. Baumol said public services typically rely heavily on well-trained professionals—teachers, police officers, doctors and nurses, and so on—and technology gains do not make these services cheaper to provide.³ It may take far fewer workers to build an automobile than it did 30 years ago, but it still takes one teacher to lead a classroom of children. (In fact, as education has become increasingly important, the trend is toward more teachers per pupil, not fewer.) Doctors generally still see patients one by one, and nursing care remains labor intensive despite technology.

³ William J. Baumol, 1967. "Macroeconomics of Unbalanced Growth: The Anatomy of Urban Crisis." *American Economic Review* 57(2), 415-426.

Caps Won't Stop Growth in Health Care Costs

When people say state spending is growing “out of control,” they often are referring to the rapid rise in the cost of Medicaid in recent years. But Medicaid is not growing out of control.

Medicaid costs are growing at less than half the rate of growth of private health insurance on a per-person basis. Medicaid is also more efficient than private insurance, with lower per-person costs.

Growth in Medicaid spending reflects the problem of rising health care costs that is affecting all health insurance, both private and public. The growth in health care costs is largely driven by advances in medical technology. It is a major national policy challenge, and only system-wide approaches to health care costs will address it.

Moreover, Medicaid faces two challenges that private insurers do not.

- Increased enrollment during a weak economy, as more people become unemployed or lose employer coverage.
- Filling in gaps in Medicare coverage. More than 40 percent of Medicaid spending is on services for Medicare beneficiaries — primarily elderly and disabled people. Costs have been shifting from the wholly federally paid Medicare program to Medicaid as medical practice has changed, reliance on hospital care has decreased, and patients increasingly use other services like prescription drugs. (Under the new Medicare law, states will remain responsible for most of the cost of prescription drugs for the population that is eligible for Medicare and Medicaid.)

No state can solve these larger problems on its own. Only the federal government can stop the shift in costs from Medicare to Medicaid. And it will require some combination of the federal government and the health care industry to bring down the annual rate of increase in health care costs in the country.

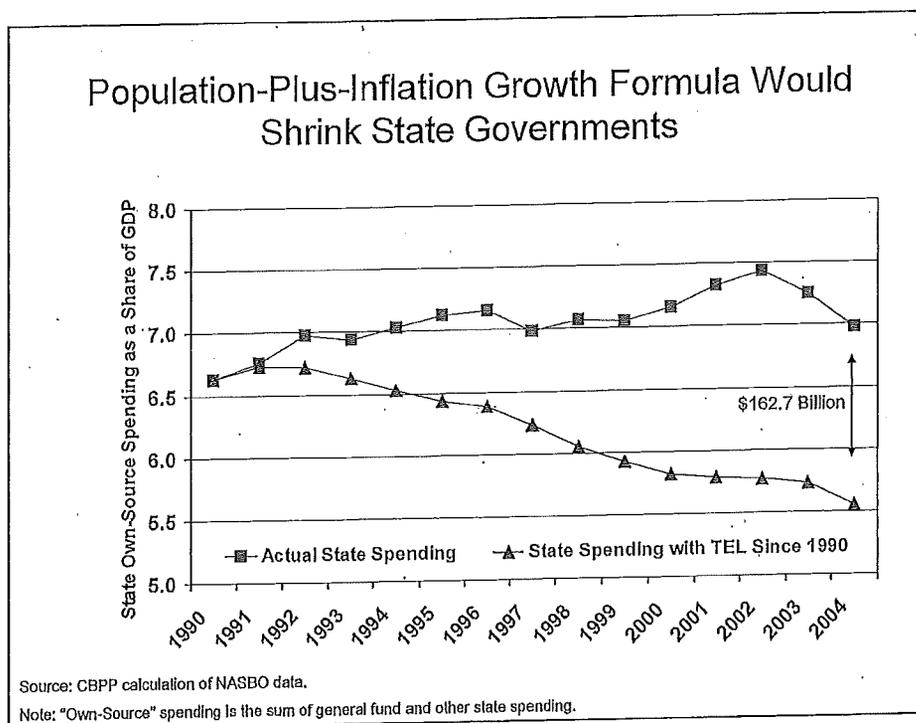
Many states already have, however, taken actions to improve the efficiency of their Medicaid programs through promoting disease management, managed care, prescription drug cost containment and similar policies. Beyond that, states have few good options to bring down the rate of growth in Medicaid costs.

Policies such as reducing eligibility or imposing cost sharing on families living at the poverty line unfairly shift the burden of a system-wide problem onto the most vulnerable members of society. And such policies are often counterproductive because they increase the ranks of the uninsured. Sick people cost more when they are uninsured — and receiving care in emergency rooms — than when they are covered by Medicaid.

state expenditures will cause a sharp drop in the amount of medical care and education services a state can support, and reduce its quality. This is what has happened in Colorado.⁵

⁵ Nicholas Johnson and David Bradley, *Public Services and TABOR in Colorado*, Center on Budget and Policy Priorities, January, 2005.

Figure 1



When TABOR proponents argue that spending limitations will not shrink government, they imply that the limits will allow government to continue providing services at current levels. The reality is that spending increases limited to increases in population and general inflation will result in a reduction of service provision over time. For example, if caseload in the average program grows just 1 percent faster than general population and the cost of providing public services on average grows just 1 percent faster than general inflation, within ten years state government would be providing services to 20 percent fewer people than it would without the limit, or would be providing a level or quality of services 20 percent lower.

A formula that fails to take into account the cost factors in Tables 2 and 3 would force a state to scale back public services. Figure 1 shows trends in state own-source spending under two scenarios — actual spending and spending limited to the growth of population plus CPI. From 1990 to 2004, total state own-source spending rose slightly, from 6.6 to 7.0 percent of gross domestic product (GDP). If state own-source spending had been limited to changes in population plus inflation over this same time period, total spending would have declined from 6.6 to 5.6 percent of GDP.⁶

⁶ Spending data for Figure 1 are from the National Association of State Budget Officers' (NASBO) *State Expenditure Report*, various years. "State own-source" spending is the sum of general fund and "other" state spending. This sum was divided by GDP adjusted for the normal state fiscal year (July-June) to determine state spending as a percent of GDP. To calculate state spending under a population-plus-inflation TEL, the previous year's allowable spending limit was multiplied by the sum of the percent growth in population plus inflation. Since the model starts in 1990, actual (not allowable) spending was used to determine the spending limit in 1991. Specifically, actual state own-source spending was \$375.3 billion in 1990 and the growth in population plus

- The 1990 Kentucky Education Reform Act (KERA) was passed in response to a state Supreme Court judgment mandating Kentucky to make its school funding more adequate and equitable. In order to comply with KERA the Kentucky General Assembly passed House Bill 940 that generated \$532 million in new revenue in fiscal year 1991.
- In New Jersey, the cost of implementing various state Supreme Court orders from the multiple Abbott cases of the 1990s was estimated to be more than \$1 billion in fiscal 2003.⁷

Voter mandates and initiatives have also increased costs to the several states, both through funded and unfunded initiatives. Ballot measures often do not have dedicated funding sources or even specific cost estimates. By definition a population-plus-inflation TEL does not provide funds for policy changes, but only for the current service levels. When confronted with new voter demands, policymakers must accommodate voter mandates by squeezing funding for existing programs or by getting voter approval for a tax increase.

- In the 1990s voters in California, Oregon, and Washington approved ballot measures that strengthened sentencing laws, thus increasing these states' incarceration costs. The Legislative Analyst's Office in California estimated ongoing annual costs to the state of Proposition 21 (passed in 2000), which primarily strengthened sentencing laws for juveniles, of more than \$330 million.
- In the past decade, voters in several states, including Florida, New Jersey, Ohio, and Rhode Island approved funding for open space preservation. Voters in Florida passed Amendment 6 in 1996 to create the Everglades Trust Fund. This Fund did not have a specified funding source but has spent over half a billion dollars to date. Of the 122 tax financed open space measures on state and local ballots in 2000, 70 percent passed, indicating a strong desire to spend money for environmental protection.
- Beyond internal changes, federal pressures — such as increased demands for states to improve homeland security or underfunded education mandates — have driven up costs to state and local governments. Just three underfunded mandates from the federal government — election reform, education of disabled children, and the No Child Left Behind law — are costing states around \$73 billion from fiscal year 2002 through fiscal year 2005.

States are also shouldering a larger share of health care costs for low-income people because of the cost shift from Medicare (a federal program) to Medicaid (a joint program in which states bear an average of 43 percent of the costs). States are expected to spend around \$28 billion in state and local funds from fiscal year 2002 through fiscal year 2005 to provide prescription drugs to low-income elderly and disabled beneficiaries eligible for Medicare and Medicaid. While the new Medicare law enacted in 2003 will cover under Medicare some of the cost of prescription drugs for all Medicare beneficiaries beginning in 2006, states will not realize

⁷ New Jersey Office of Legislative Services, See <http://www.njleg.state.nj.us/legislativepub/budget/educ04.pdf>.

The Slow Squeeze of a TEL Formula

It may be a period of time — years, even decades — before the reductions in public services shown elsewhere in this paper as a consequence of a strict TEL actually result in reduced services — and even longer, perhaps, before a decline in the quality of life becomes apparent. There are several reasons to expect such delayed impacts.

- Spending limits typically rise at a rate only slightly lower than the cost of providing services, perhaps a difference of one or two percentage points. Over time, however, the difference grows dramatically. A one- or two-percentage point difference every year can translate into a 13 to 26 percent gap over the course of a dozen years.
- Short-term deferrals can become long-term problems. Any time that a state needs to cut spending, it looks first to cut items that can be deleted without a short-run impact on the provision of services. For example, states may defer routine maintenance items, capital improvements, staff training, or other investments in infrastructure or workforce. Such changes may help balance budgets in the short run, but can be costly in the long run.
- Accounting maneuvers are only effective in the short-run. Even under a tightly worded limitation, policymakers may be able to find a way to push spending into a future fiscal year in order to avoid the caps — a strategy that defers but cannot avert the financing squeeze. For several years under its revenue limit, for instance, Colorado accounted for tax rebates in the fiscal year following the year in which revenues exceeded the limit — a strategy that worked as long as revenue collections remained strong, but which led to even greater budget cuts when revenue collections slowed in the recession.
- Fluctuations in the formula itself may provide unexpected “room” in some years. Colorado’s spending formula is based on population growth plus the Denver-area inflation rate. As it happens, local consumer prices — particularly the cost of housing — rose rapidly in the mid-1990s due to a Denver-area housing crunch. So it was not until 1997 that state revenues even began to hit up against the limit. Of course, the opposite can happen also: in a housing slump, consumer prices might hardly rise at all, further holding down the limit.
- When public expenditures are investments, it may take many years for the harm from lack of investment to be evident. Much state spending is intended to have long-term impacts. Studies show, for instance, that early childhood spending has great benefits for a state that do not begin to show up for many years. Infrastructure spending is another example. Certain spending, therefore may not affect a state’s quality of life for decades.

Unanticipated Needs

State governments inevitably face spending needs that cannot be anticipated. Natural disasters, public health emergencies, economic changes, and other such occurrences place expensive but unexpected demands on state and local governments. In the last few years, for instance, states have faced: