

**It Ain't No "Rainy Day Amendment"**  
*The Measure 48 TABOR proposal would make recessions worse  
and undermine any rainy day fund that the Legislature might create*

by Michael Leachman and Chuck Sheketoff

Oregon's TABOR proposal – Measure 48 – would place an arbitrary spending growth scheme in Oregon's constitution. Although proponents refer to it as the "rainy day amendment," Measure 48 does not create a rainy day fund. By including unemployment insurance in the scheme, Measure 48 would make recessions worse and undermine any rainy day fund that the Legislature may later create.

Had Measure 48 been in effect in Oregon during the last recession:

- Four out of every five dollars of the increase in spending promised under the limit would have been spent on unemployment benefits, forcing schools, health care, and other public services to shoulder deeper cuts.
- State services for which demand rises in recessions, such as the Oregon Health Plan, would have been incapable of keeping up with rising needs.

These cuts would have happened even if Oregon also had a rainy day fund, because unemployment spending uses most of the allowable increase, and spending from a rainy day fund is also limited by the Measure 48 TABOR scheme.

Measure 48 is modeled on Colorado's "taxpayer bill of rights," commonly referred to as "TABOR." Last November, Colorado voters suspended use of TABOR for five years after Republican Governor Bill Owens, business leaders, and the state legislature agreed that TABOR was damaging Colorado's universities, health care system, road maintenance, and other crucial public services.

Like Colorado's TABOR, Oregon's Measure 48 restricts spending growth to population growth plus inflation, an unsustainable level that would force deep and unpopular cuts in schools and other public services no matter how well the economy performs.

If Measure 48 had passed in 1990:

- Oregon would have had to cut \$7.3 billion (24 percent) from the current 2005-07 budget cycle.
- The cut would be equivalent to eliminating all state funding for K-12 education, all state funding for Oregon Health Plan payments, all state funding for the Department of Corrections including all state funding for prisons, and all state funding for services provided by the Department of Agriculture, the State Police, and the Department of Environmental Quality, combined.

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Measure 48 would place an arbitrary spending growth scheme in Oregon's constitution. The measure is modeled on Colorado's "taxpayer bill of rights," commonly referred to as "TABOR." Last November, Colorado voters suspended use of TABOR for five years in the midst of bi-partisan agreement about the damage TABOR was doing to Colorado's universities, health care system, road maintenance, and other crucial public services. A broad and bipartisan coalition of Colorado political, business, and civic leaders supported TABOR's suspension, including major business groups and Republican Governor Bill Owens.

Measure 48 contains the three core provisions that make Colorado's TABOR the most restrictive limit in the country: it is a constitutional amendment, it limits budget growth to a population growth plus inflation formula, and it requires a vote of the people to override. While sharing certain core traits with Colorado's TABOR, Measure 48 includes other provisions that would make it even *more restrictive* and would cause *more damage* than was the case in Colorado (Table 1).

<b>Table 1: Oregon's Measure 48 is similar to, but worse than, Colorado's TABOR</b>		
	<b>Colorado's TABOR</b>	<b>Oregon's Measure 48</b>
<b>Measure 48 is a TABOR like Colorado's</b>		
<i>Population plus inflation formula</i>	Yes	Yes
<i>Constitutional amendment</i>	Yes	Yes
<i>Voter approval to temporarily override</i>	Yes	Yes
<i>Creates rainy day fund</i>	No	No
<b>But Measure 48 is worse than Colorado's TABOR</b>		
<i>Includes Unemployment Insurance benefits in scheme</i>	No	Yes
<i>2/3 vote of the legislature to temporarily spend above the limit</i>	No	Yes

Most importantly, Measure 48 goes a step further than Colorado's TABOR by counting unemployment insurance payments against the TABOR limit. This provision would make recessions worse in Oregon as rising unemployment insurance payments force deeper cuts in other state services.

When a recession hits and unemployment rises, Oregon, like every other state, must increase the amount of unemployment insurance payments it makes to laid-off workers. Had the provisions of Measure 48 been in effect during Oregon's last recession, four out of every five dollars of the increased spending allowed under the limit would have been used to finance unemployment benefits. In other words, during a recession the increased unemployment insurance

payments would squeeze out a substantial part of funding for schools, health care, senior services, and other state programs, including other public services the unemployed need.

Although proponents refer to it as the "rainy day amendment," Measure 48 does not create a rainy day fund, and by including unemployment insurance in the scheme Measure 48 would undermine any rainy day fund that the Legislature may later create. Unemployment insurance benefits would consume most of the allowable

growth in spending under TABOR during recessions, leaving little room under the Measure 48 TABOR limit for any infusion of rainy day funds to save other state services and investments.

### **Including unemployment benefits in the spending formula makes recessions even more painful and can impede economic recovery**

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Unemployment compensation is an insurance program that provides benefits to workers and their employers, ultimately helping the communities where they are located.<sup>1</sup> The program provides temporary, partial wage replacement for laid-off workers. Unemployment insurance helps families avoid the worst aspects of unemployment. The payments help sustain the local economy when workers lose their jobs. Unemployment insurance also benefits the employers who temporarily lay off workers by helping to assure the employers that those workers will be available to return to work when the employers need them again.

Unemployment insurance payments come from a tax that employers pay based on their payroll of covered employees. No state income taxes are used to support the unemployment insurance program. The tax revenue is placed in a trust fund that is used to pay the benefits to unemployed workers. The State is obligated by law to provide benefits to all unemployed workers who apply and qualify.

When a recession hits, the number of Oregonians losing their jobs and needing unemployment insurance increases. Hence, spending from the trust fund on unemployment insurance benefits necessarily goes up during a recession. The trust fund that supports the program is designed to grow large enough during good economic times to sustain the increased demand for unemployment insurance during bad economic times.

During a recession, state corporate and personal income tax revenues decline and the Legislature must reduce funding for many programs and services that rely on those sources of funding. Because Measure 48 would include unemployment insurance payments toward the "population plus inflation" spending limit, when unemployment rises and more unemployment insurance benefits are distributed in a recession, funding for health care, schools, and other state services would be squeezed even tighter. The deeper cuts in these other services caused by Measure 48's inclusion of unemployment insurance would make the recession worse for Oregonians.

Unemployment insurance is not the only state cost that increases during a recession. For example, unemployed workers often need retraining, or the Oregon Health Plan, or both. Moreover, some families whose income is not enough to meet basic needs require other cash assistance. It would be difficult, if not impossible, to meet these other recession-caused cost increases when rising unemployment insurance costs are included in the spending cap.

The provisions of Measure 48 would interfere with, and to a significant degree negate, the counter-cyclical benefits unemployment insurance provides to individuals and the economy. Unemployment insurance helps the state economy by making payments that Oregon's unemployed typically spend locally on necessities. This replacement revenue for local spending is an important counter-cyclical force during a recession, and prevents further job loss among retail and service workers. But, if increases in unemployment costs would have to be offset by cuts in other state services - entailing laying off state or local employees or canceling contracts with vendors - the boost that unemployment benefits could have provided would be undermined. As a result, the economy would suffer and economic recovery could be delayed.

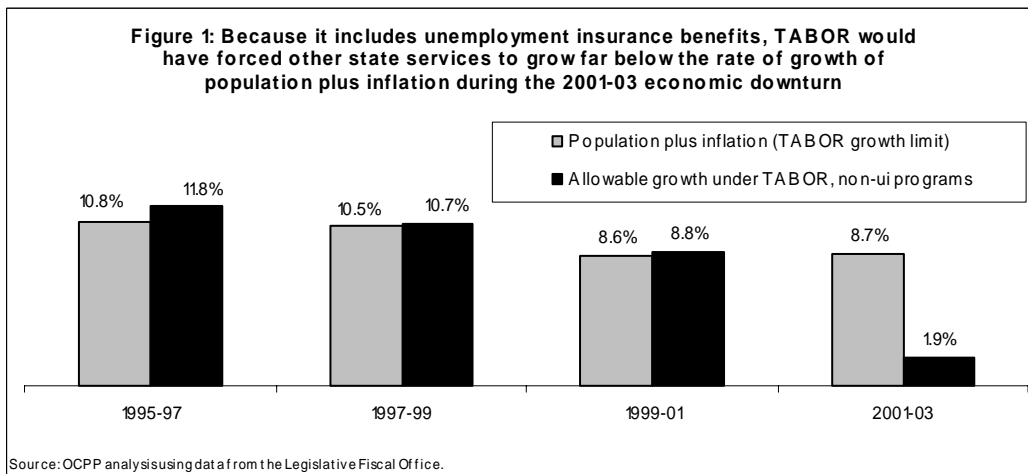
Finally, because TABOR includes payments of unemployment insurance in the formula, it diminishes the capacity of state legislators to offer extended unemployment benefits to

**When unemployment rises and more unemployment insurance benefits are distributed in a recession, funding for health care, schools, and other state services would be squeezed even tighter.**

laid-off workers, as happened during the last downturn.<sup>2</sup> While increasing unemployment insurance payments have no effect on state income tax revenues, because the spending would count against the Measure 48 limit, lawmakers would be loath to increase unemployment insurance spending further at the expense of schools, seniors, and others reliant upon state income tax-generated general fund programs.

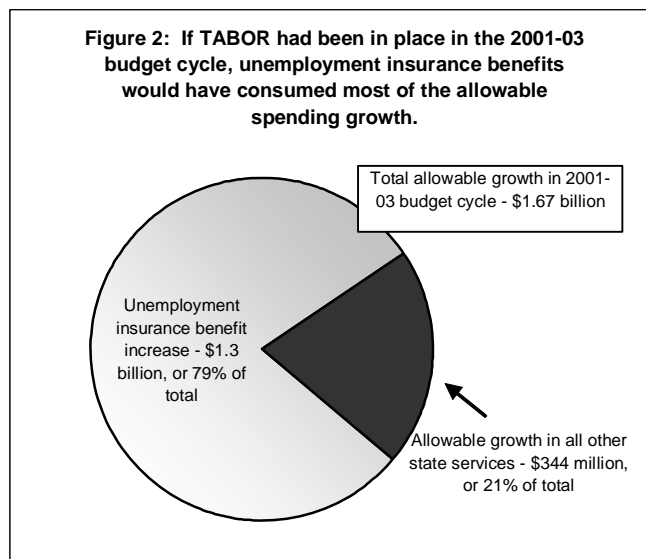
**What if we had TABOR during the last recession?**

If TABOR had been in place when the economic downturn hit in 2001, it would have stifled funding for schools, health care and other state services. Specifically, TABOR would have forced state expenditures outside of unemployment insurance to grow by no more than 1.9 percent compared to the previous biennium, even though population growth plus inflation grew 8.7 percent (Figure 1). That is because unemployment insurance costs increased as unemployment rose during the downturn, and that increase would have consumed most of the expenditure increase allowed under the TABOR limit.



**TABOR would have forced state expenditures outside of unemployment insurance to grow by no more than 1.9 percent compared to the previous biennium, even though population growth plus inflation grew 8.7 percent.**

Put another way, of the \$1.67 billion increase in state expenditures that would have been allowed under TABOR for the 2001-03 budget cycle, \$1.3 billion (79 percent) would have had to have been spent on increased unemployment insurance benefits (Figure 2).<sup>3</sup> Had TABOR been in effect in Oregon during the last recession, four out of every five dollars of the increase permitted under the limit would have been spent on unemployment benefits. All other state expenditures combined – those for schools, universities, senior care, courts, prisons, the Oregon Health Plan, roads and more

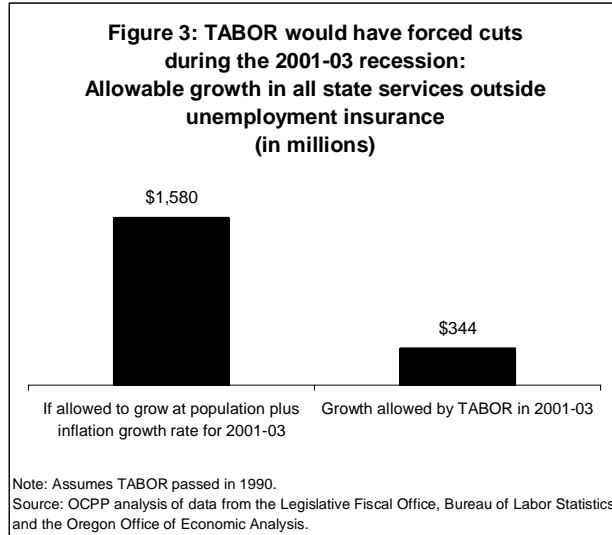


Note: Figures are based on a hypothetical TABOR passed in 1990. Source: OCPP analysis using data from the Legislative Fiscal Office.

– would have had only a fraction of the total allowable funds - \$344 million or 21 percent- to cover costs related to population growth, inflation, and other increases relative to the previous budget cycle.

If state services outside of unemployment insurance had been allowed to grow by population growth plus inflation in 2001-03, they would have increased by \$1.58 billion (Figure 3).

**If state services outside of unemployment insurance had been allowed to grow by population growth plus inflation in 2001-03, they would have increased by \$1.58 billion, but TABOR would have allowed these services to grow by just \$344 million.**



In other words, TABOR would have forced cuts in state services and investments even as inflation and population growth increased the cost of maintaining existing services. Adding insult to injury, state services for which demand rises in recessions, such as the Oregon Health Plan, would have been incapable of keeping up with rising needs.

TABOR also would have made new investments crucial to future economic growth - investments in universities, affordable housing, public transportation, and other areas - nearly impossible during 2001-03.

TABOR would force expenditures in these areas to compete for funding with schools, seniors, police departments, and the Oregon Health Plan.<sup>4</sup> With the increase in unemployment insurance benefits squeezing all other state expenditures, crucial investments in Oregon's economic future likely would have been delayed if not foregone altogether.

### **The basic TABOR formula is flawed and unsustainable**

Even in good economic times, TABOR would undermine Oregon's capacity to invest in its future, provide quality public services that all Oregonians enjoy, and protect its most vulnerable residents. The basic TABOR formula - restricting spending growth to population growth plus inflation - would force deep and unpopular cuts in schools and other public services no matter how well the economy does.

The formula is flawed for a number of reasons. First, demographic groups that require disproportionate government expenditures, such as seniors and prisoners, can grow faster than the general population. The number of seniors in Oregon is projected to grow twice as fast as the general population over the next five years, and prisoners are projected to grow nearly twice as fast.<sup>5</sup> The TABOR spending scheme does not take these differences into consideration.

Second, government experiences higher inflation than consumers because government has different costs than consumers. Under Measure 48, inflation is measured by the Consumer Price Index, which tracks a basket of goods and services that consumers typically buy. State governments must spend a higher share of their income on health care than the typical individual consumer. Health care costs are rising much faster than inflation, driving up costs for state government faster than general inflation. Again, the TABOR scheme ignores this difference.

Third, some government costs stem from labor intensive public services that are unable to achieve significant productivity improvements while maintaining quality. Productivity

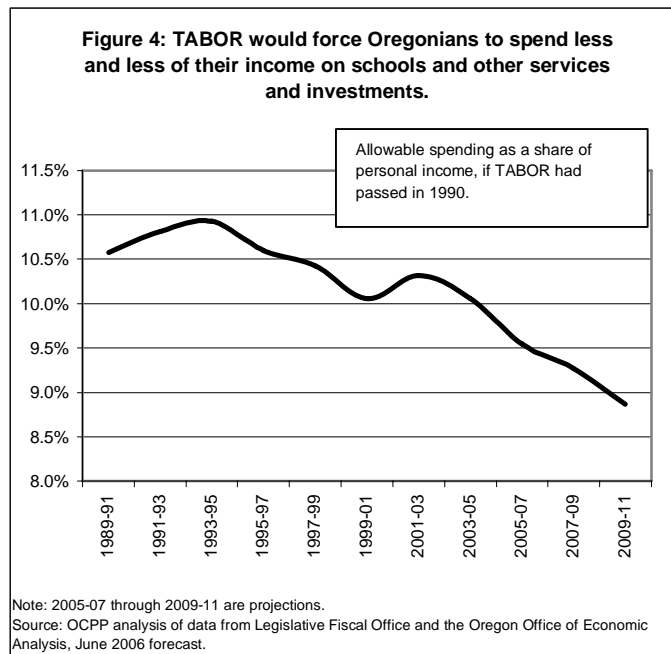
improvements tend to drive down the cost of consumer items over time, slowing the rate of general inflation. On the other hand, certain labor-intensive public services, such as state police, corrections, and teaching, are not easily made more efficient without losing quality. Calculators are cheaper today than they were a generation ago, but a concept that took a math teacher an hour to teach in 1980 still takes about an hour today. Housing a prisoner for a year still requires guards to work 24-7, 365 days a year. TABOR ignores these differences, as well.

For these reasons, the "population plus inflation" formula is a poor fit when applied to public services as a whole. This is why the TABOR experiment failed in Colorado. In Colorado the TABOR formula painfully underfunded that state's schools, universities, health services, and other key state investments.

The Measure 48 TABOR would force funding for schools and other services to decline as a share of what Oregonians can afford. Since 1960, "population plus inflation" in Oregon has grown less than half as fast as Oregon personal income, and there is no reason to believe this long term trend would not continue. Since "population plus inflation" increases more slowly than personal income over time, funding for schools and other services would decline as a share of what Oregonians can afford over time.

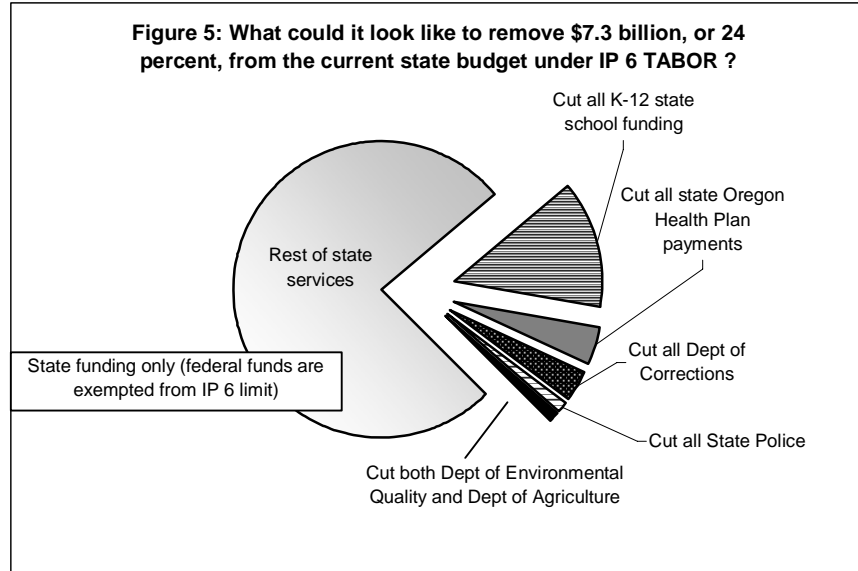
If TABOR had been passed in 1990, allowable state funding for schools and other services would have declined steadily from 10.6 percent of Oregon personal income in the 1989-91 budget cycle to a projected 8.8 percent in the 2009-11 budget cycle (Figure 4).

As TABOR forces state services to shrink relative to the incomes of Oregonians, the quality and quantity of state services and investments would suffer. Ultimately, as the Colorado experience shows, TABOR would leave Oregon incapable of adequately serving its residents or investing strategically for the future. Other states not hamstrung by TABOR's spending scheme would continue making strategic investments, diminishing Oregon's ability to compete.



If TABOR had been passed in 1990, allowable state funding for schools and other services would have declined steadily from 10.6 percent of Oregon personal income in the 1989-91 budget cycle to a projected 8.8 percent in the 2009-11 budget cycle.

If Measure 48 had passed in 1990, Oregon would have had \$7.3 billion less to spend on state services in the current 2005-07 budget cycle.



If Measure 48 had passed in 1990, Oregon would have had \$7.3 billion less to spend on state services in the current 2005-07 budget cycle (Figure 5). That amounts to a 24 percent cut in spending levels. This size of cut is equivalent to eliminating all state funding for K-12 education, all state funding for Oregon Health Plan payments, all state funding for the Department of Corrections including all state funding for prisons, and all state funding for services provided by the Department of Agriculture, the State Police, and the Department of Environmental Quality, combined.<sup>6</sup>

### **Oregon's TABOR would undermine any later effort to create a rainy day fund**

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A rainy day fund is a savings account that can be used to maintain state services during an economic downturn, protecting schools, health care programs, programs for seniors, and other state services when the business cycle has a downturn and income tax revenues that support the General Fund decline. Oregon currently does not have a general purpose rainy day fund to offset the decline in general fund tax revenues during a recession.

Measure 48 - Oregon's TABOR - does not create a rainy day fund and in two ways it is designed to limit the use of a rainy day fund should the Legislature choose to create one.

While allowing funds to be deposited into a future rainy day fund, Measure 48 subjects rainy day fund spending to the TABOR spending scheme and requires unemployment insurance spending increases to count against any help that a rainy day fund might otherwise provide in a recession.

During a downturn, when unemployment insurance spending increases and uses up most of the TABOR limit, rainy day fund spending would not be able to come to the rescue of schools, health care and other important public services.

### **Conclusion**

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TABOR failed in Colorado because its spending plan is flawed and unsustainable. If Measure 48 passes in Oregon, it will prove to be even more unsustainable than Colorado's, especially during a recession.

Oregon's TABOR would make recessions worse for unemployed workers, seniors, school children, and other vulnerable Oregonians. TABOR would also slow Oregon's economic growth by delaying crucial investments in universities, affordable housing, public transportation, and other areas squeezed for funding by the increase in unemployment insurance spending when the economy turns sour.

Finally, not only does the Measure 48 TABOR fail to create a rainy day fund, but it would permanently damage Oregon's ability to provide adequate public services during recessions and render any future rainy day fund impotent by subjecting rainy day fund spending to the TABOR spending scheme and requiring unemployment insurance spending increases to count against any help that a rainy day fund might otherwise provide in a recession.

Measure 48 is certainly no "rainy day amendment."<sup>7</sup>

#### Endnotes:

<sup>1</sup> Unemployment compensation is a federal-state program. The state is required to set benefit levels within the framework of federal requirements. An overview of the program is available at [Unemployment Compensation: Federal-State Partnership](http://workforsecurity.doleta.gov/unemploy/pdf/partnership2005.pdf) <http://workforsecurity.doleta.gov/unemploy/pdf/partnership2005.pdf>

<sup>2</sup> During the 2003 legislative session, legislators enacted SB2 and SB903, providing state-funded unemployment benefits to laid off workers who had exhausted their regular unemployment insurance benefits but remained eligible to receive benefits.

<sup>3</sup> Based on a hypothetical TABOR passed in 1990.

<sup>4</sup> Measure 48 includes under the TABOR limit expenditures of revenue from bonds that have not been approved by voters.

<sup>5</sup> OCPP analysis of data from the June 2006 Oregon Economic & Revenue Forecast and the Office of Economic Analysis' "Oregon Corrections Population Forecast April 2006." Oregon's population is projected to grow 6.9 percent between 2006 and 2011, while seniors (persons over 65) are projected to grow 14.0 percent and prisoners are projected to increase by 12.9 percent over the same time period.

<sup>6</sup> According to the Legislative Fiscal Office's *Detailed Analysis of the 2005-07 Legislatively Adopted Budget*, the 2005-07 budget includes \$4.3 billion in state K-12 school funding, \$1.2 billion in state Oregon Health Plan payments, \$1.1 billion in funding for the Department of Corrections, \$326 million for the State Police, \$77 million for the Department of Agriculture, and \$227 million for the Department of Environmental Quality.

<sup>7</sup> The proponents of Measure 48 apparently are trying avoid being identified as similar to TABOR. After initially boasting that their measure is modeled after TABOR, they started to call it an "SOS" amendment, and now are calling it "the rainy day amendment."

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