SAFEGUARDING PENNSYLVANIANS' TAX DOLLARS

A Legislator's Guide to the Taxpayer Protection Act

Over the past several decades, state government spending growth has outpaced the growth in Pennsylvania's economy. As a result, Pennsylvania families have been burdened with higher and higher taxes. A cycle has formed in which the state over-spends in good economic times, and raises taxes when the economy slows. This cycle must stop.

The Taxpayer Protection Act, or TPA, would break the cycle. Current TPA legislation that would cap the growth of state spending include:

- SB 7 – sponsored by Sen. Mike Folmer
- SB 70 – a constitutional TPA sponsored by Sen. Camera Bartolotta
- HB 472 – a constitutional TPA sponsored by Rep. Tim Krieger

This policy brief **explains the Taxpayer Protection Act**, dispels myths about state spending limits, includes talking points about the TPA, and shares public opinion about limiting the growth of state spending.

TAXPAYER PROTECTION ACT

THE TAXPAYER PROTECTION ACT (TPA)

- Reasonably limits future growth in state government spending to inflation plus population growth.
- Requires the government to prioritize spending.
- Ensures a prudent Rainy Day Fund that could be used to balance the budget in times of recession.
- Provides tax relief for working families and stimulates private-sector job growth.

PROTECTING TAXPAYERS

- Pennsylvania government spending has consistently outpaced the growth of personal income.
- Pennsylvanians currently pay **$4,374 per person** in state and local taxes, equaling 10.3% of resident's total income. Pennsylvania currently has the **10th highest** state and local tax burden in the nation, up from 25th in 1991.
- The TPA would ensure that a portion of excess revenues are returned to taxpayers by reducing the income tax rate, providing much needed relief to families.
- If the TPA had been applied to the General Fund between FY 2003-04 through 2013-14, a cumulative $28.7 billion would have remained in the hands of taxpayers rather than state government—**almost $9,200 per family of four over 10 years**.

ENCOURAGING RESPONSIBLE BUDGETS

- The TPA would require responsible budgets with sustainable levels of growth in both good economic times and bad, avoiding budgets that have resulted in the deficits of recent years.
- A spending limit merely slows the growth in spending, it does not mandate any cuts.
  - Under the TPA index, state spending in FY 2014-15 could have increased by 2.38%, or $678 million if applied to the General Fund.
  - For 2015-16, the TPA would allow for spending growth of 1.71%, or $498 million.
- The TPA is not a hard cap, but could be exceeded: 1) in cases of emergency, or 2) a two-thirds supermajority vote by legislators. Other states have also required voter referendum to approve additional spending.
- Had the TPA been in effect since 2003, spending would have increased every single year, yet **Pennsylvania would be facing a budget surplus**, not a deficit, next year.
- Overspending—that is, spending increases above the rate of inflation and population growth—has been the cause of budget deficits and tax increase.

Fiscal Year	Actual General Fund Spending (Final)	General Fund + New Funds Spending	TPA Index	Spending Limit if TPA in place in 2003
2002-03	$20,400,104,000	$20,400,104,000	2.83%	
2003-04	$21,885,366,000	$21,885,366,000	2.65%	$20,940,184,136
2004-05	$23,054,037,000	$23,054,037,000	2.18%	$21,396,131,330
2005-06	$24,664,610,000	$24,664,610,000	2.58%	$21,949,016,568
2006-07	$26,298,095,000	$26,298,095,000	3.36%	$22,686,281,980
2007-08*	$26,988,310,000	$27,384,322,000	3.15%	$23,401,206,045
2008-09	$28,323,830,000	$28,708,630,000	3.29%	$24,171,056,860
2009-10	$27,640,453,000	$28,023,953,000	3.05%	$24,908,174,979
2010-11	$28,129,063,000	$28,518,186,000	2.88%	$25,624,965,396
2011-12	$27,030,539,000	$27,448,832,000	2.29%	$26,211,737,471
2012-13	$27,656,000,000	$28,068,368,000	2.29%	$26,812,457,260
2013-14	$28,492,333,000	$28,921,334,000	2.72%	$27,542,212,220
2014-15	$29,098,996,000	$29,536,577,000	2.40%	$28,203,467,850
2015-16			1.71%	$28,685,660,099

** The Public Transportation Assistance Fund was created in 2007, earmarking part of sales tax revenue for mass transit. The TPA would cover any "new funds" created after the limit was enacted.*

MYTHS AND **FACTS**

Despite the TPA's pro-taxpayer and pro-economic growth bent, critics have sought to derail this necessary reform with a number of myths that are addressed below.

MYTH #1:

Capping the growth of government spending would harm Pennsylvania's economy.

FACTS:

- Total state government spending, adjusting for inflation, has increased by approximately $13,800 per family of four since 1970 ($3,800 from the General Fund alone).
  - Despite rapid spending growth, Pennsylvania ranks 49th in job growth, 48th in population growth, and 45th in personal income growth over this same period. Government spending has failed to stimulate our state's economy.
  - In fact, since 2007, Pennsylvania has ranked first in economic development spending, but slow growth persists.
- Instead of massive increases in government spending (and taxes to pay for it), lawmakers should consider limiting spending growth and lowering tax rates on all individuals and businesses, which has proven to be an effective method for stimulating growth.
  - The Commonwealth Foundation conducted an analysis of the highest and lowest tax states, finding those states with a lower tax burden saw faster employment growth than states with a higher tax burden.

MYTH #2:

The Taxpayer Protection Act would require devastating cuts to the state budget.

FACTS:

- The TPA does not mandate any cuts to government spending. It simply slows the growth of spending by tying increases to the rate of inflation and population growth.
  - For example, if the TPA were law during the passage of the most recent budget, the General Fund budget could have increased by $684 million.
- If lawmakers believe such an increase does not adequately fund essential government functions, they would be free to redirect resources from other areas of the budget that are deemed non-essential to those which are.
  - Rather than increasing spending at an unsustainable rate, lawmakers would need to prioritize government spending, which would be a win for taxpayers.

MYTH #3:

Spending limits failed in Colorado.

FACTS:

- In 1992, Colorado passed the Taxpayer's Bill of Rights (TABOR), which used a formula to implement tax and spending limits, and it worked.
  - Between 1997 and 2002, Colorado provided more tax relief than any state in the country, returning $3.2 billion to taxpayers, nearly $3,200 to the average family of four.
- Colorado experienced one of the strongest growth rates in personal income and gross state product after limiting spending.
  - Colorado was 43rd among states in median family income growth in the 8 years before spending limits, in the 8 years following, it ranked 7th.
  - Colorado was 33rd in job growth before spending limits, but 6th after.
  - Colorado was 43rd in economic growth per capita before spending limits, but 7th after.
- Despite the success of spending limits, this reform has received blame for the budget challenges Colorado faced in the early 2000s, but the blame is misplaced.
  - The challenges were the result of an economic recession, a devastating drought, government mandates, and the failure of state lawmakers to bring expenditures in line with revenue.
  - Not only was TABOR not responsible for the budget crisis in Colorado, but it made the state's finances much more manageable.
- According to an analysis by the Tax Foundation, Colorado's budget deficit in FY 2002 would have been 6 times larger without TABOR.

MYTH #4:

The Pennsylvania Constitution already requires fiscal restraint.

FACTS:

- Pennsylvania's Constitution does require a balanced budget, but it does not shield taxpayers from higher tax burdens.
  - Theoretically, the state could increase spending above TPA limits and still balance the budget. But it would be forced to do so on the backs of taxpayers. This would not be fiscally responsible or fair to taxpayers already handing over a sizable portion of their income to pay for the state's current expenditures, which are at an all–time high.
- If the TPA had been applied to the General Fund between FY 2003-2004 through 2014-15, a cumulative $28.7 billion would have remained in the hands of taxpayers rather than state government—almost $9,200 per family of four over 10 years.
  - Instead of facing a $1.7 billion deficit and possible tax increases, lawmakers would be looking at a $400 million surplus next year—which would be used for tax refunds.

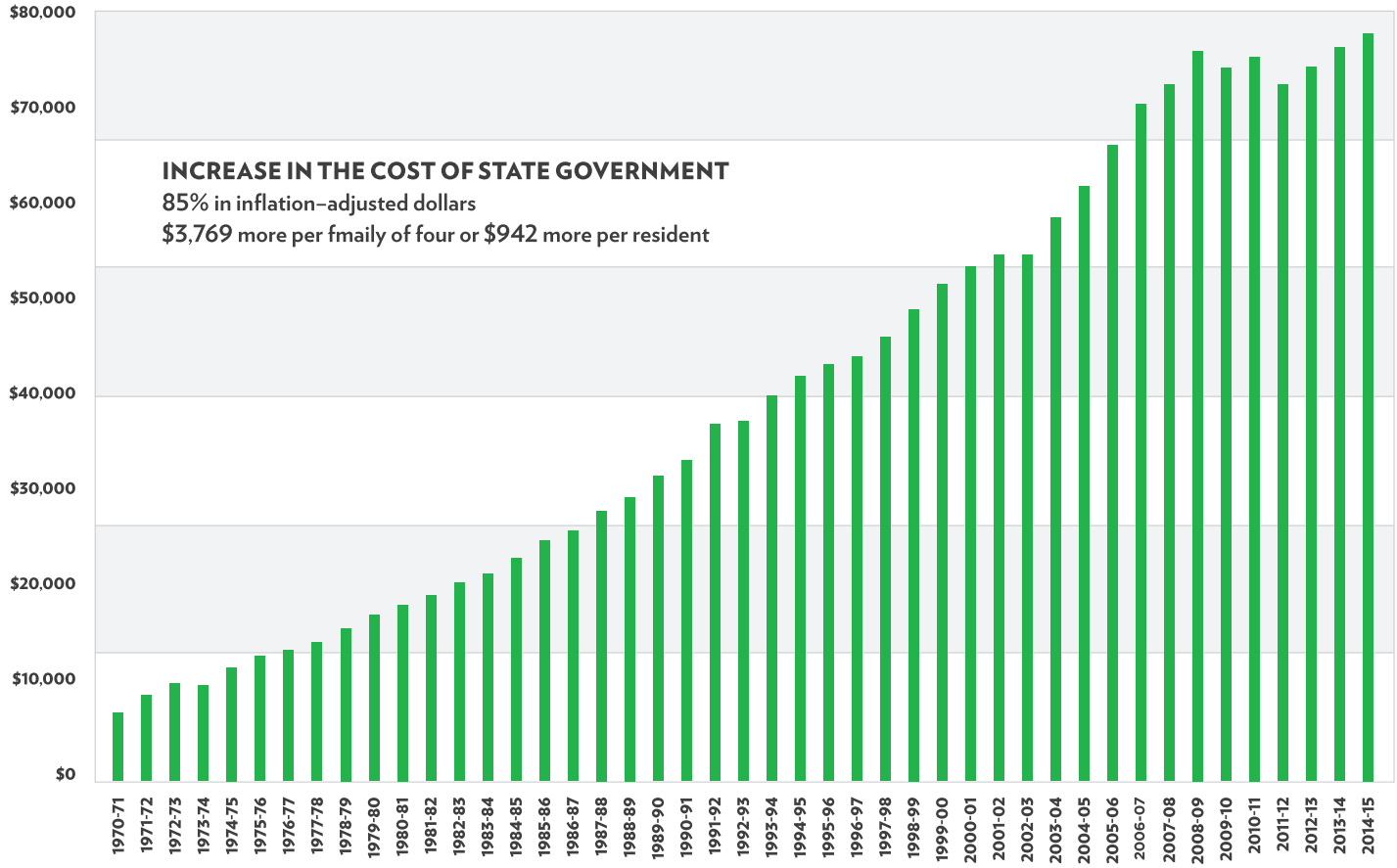
MYTH 5:

Government costs for health care, pensions, transportation, and salaries grow faster than inflation.

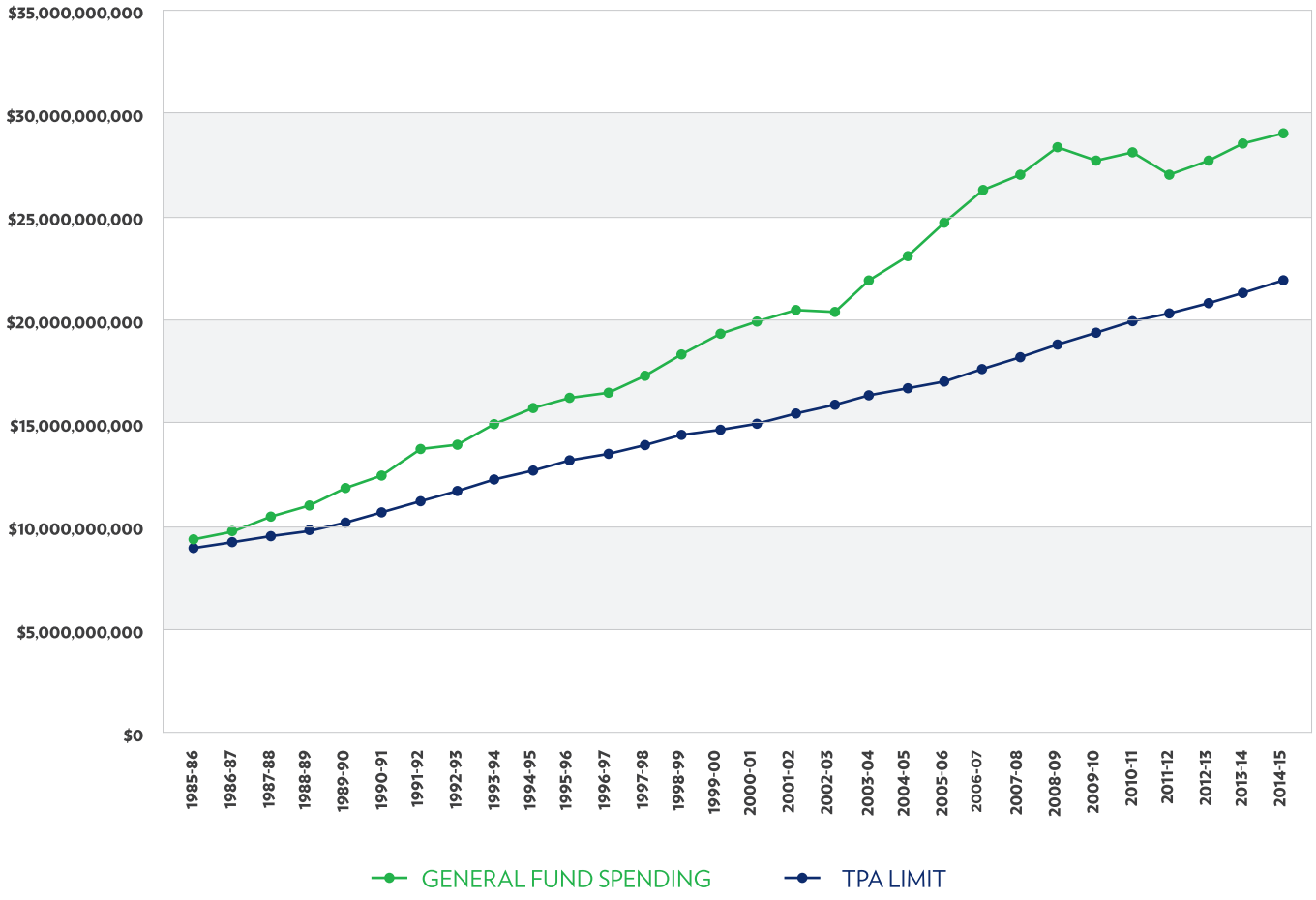
FACTS:

- Inflation measure items including transportation, health care and other categories. While individual components may grow faster, other costs are growing less.
- The reality is that welfare and pension costs, among other categories of state spending, have grown beyond taxpayers' ability to pay. Lawmakers must control the growth in these areas, and the TPA provides the fiscal guardrails to ensure responsible levels of spending growth.
    - The alternative to controlling costs is forcing families to pay more through higher taxes.
- The TPA is not a hard cap, but allows lawmakers to grow spending above the rate of inflation and population when situations require.
    - However, instead of simply voting for spending increases which may not be sustainable in the long run, the TPA requires a supermajority of lawmakers to pass a spending increase that exceeds the rate of inflation and population.

PENNSYLVANIA GENERAL FUND BUDGET, 1970–2015
IN MILLIONS OF DOLLARS



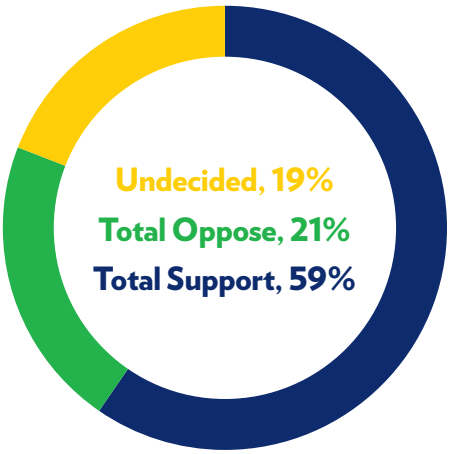
GENERAL FUND SPENDING VS TPA, 1985–2015



PUBLIC OPINION ON THE **TAXPAYER PROTECTION ACT**

SPENDING LIMITS ARE POPULAR WITH ALL PENNSYLVANIANS

- Three out of five Pennsylvania voters support limiting the growth of state government (59%), with only one–fifth opposed.
- Democrats support spending limits by a 52 to 26 margin. More than 60% of Republicans and Independents support spending limits.
- Voters in all regions of the state support spending limits, from 54% in Southeastern PA to a high of 67% in the South Central PA.
- Support is consistent over time—on similar questions asked on the Susquehanna Polling and Research statewide spring polls in 2005, 2008, 2010, AND 2012 between 65% and 70% of voters indicated support of spending limits.



SURVEY QUESTION AND RESULTS BY PARTY AND REGION

Pennsylvania lawmakers are considering a law that would limit increases in government spending to the rate of inflation plus the rate of population growth. For example, if we had three percent inflation and one percent population growth, government spending could increase no more than four percent for that year. The limit could only be exceeded by a two-thirds vote of both houses of the General Assembly or by a declared emergency. Generally speaking would you...?

SUPPORT FOR STATE SPENDING LIMITS, PENNSYLVANIA VOTERS, FALL 2014

PARTY	Overall	Republican	Democrat	Independent
TOTAL SUPPORT	59%	68%	52%	60%
TOTAL OPPOSE	21%	15%	26%	24%
UNDECIDED	19%	17%	21%	16%

REGION	NW	SW	Central	NE/Lehigh Valley	S Central	SE	Allegheny	Philly
TOTAL SUPPORT	52%	63%	62%	59%	65%	54%	58%	56%
TOTAL OPPOSE	23%	22%	17%	20%	17%	26%	26%	18%
UNDECIDED	21%	14%	21%	21%	18%	19%	19%	19%

HISTORIC SUPPORT	2014	2012	2008	2005	2010
TOTAL SUPPORT	59%	65%	70%	69%	66%
TOTAL OPPOSE	21%	21%	18%	18%	20%
UNDECIDED	19%	14%	12%	12%	13%

Susquehanna Polling and Research poll of 700 likely voters, October 4-9, 2014

The Commonwealth Foundation transforms free-market ideas into public policies so all Pennsylvanians can flourish.