November 2004

A Taxpayers' Bill of Rights (TABOR) for Oklahoma

by Barry W. Poulson, Ph.D.

OCPA

AMERICANS FOR PROSPERITY FOUNDATION

Barry W. Poulson (Ph.D., Ohio State University) is a professor of economics at the University of Colorado at Boulder and a visiting fellow with the Americans for Prosperity Foundation. His publications include over 60 books, monographs, and journal articles, and he has held visiting appointments at universities in Spain, Mexico, England, Kuwait, and Japan. He is an adjunct scholar of the Heritage Foundation and a member of the Tax and Fiscal Policy Task Force of the American Legislative Exchange Council (ALEC), for whom he wrote the model legislation on tax and expenditure limits. Dr. Poulson has written numerous papers on Colorado's "Taxpayers' Bill of Rights" and other tax and expenditure limits across the nation, and has worked with legislators in more than a dozen states in designing such legislation. He is a member of the Colorado Commission on Taxation and vice chairman of the State Treasurer's Advisory Group on Constitutional Amendments.

Executive Summary

Oklahomans are a fiscally conservative people. Reputable public opinion surveys indicate that Oklahomans think taxes are too high and that state government wastes too much money. By a wide margin, Oklahomans prefer cutting state spending to raising taxes, and they believe the state's budget should not grow faster than their family budget.

A Taxpayers' Bill of Rights (TABOR), modeled after a similar constitutional amendment in Colorado, is the tool Oklahomans need to help manage the size of their government. In 1992, Colorado voters passed TABOR by citizen initiative, amending the state constitution to (1) limit the growth in state revenue and spending to the growth of population plus inflation, (2) ensure surplus revenue above this amount is returned to taxpayers, and (3) require voter approval for tax increases or any weakening of the amendment's limits. As a result, Colorado taxpayers have received more than $3 billion in surplus revenue since 1992.

This paper examines how Oklahoma would benefit from a similar Taxpayers' Bill of Rights proposal. It begins with a thorough examination of recent trends in the Oklahoma economy and the public sector as well as the state's current fiscal problems. Next, it outlines a TABOR proposal for Oklahoma. Importantly, this includes identifying ways Colorado's TABOR can be refined and improved upon – specifically, by the creation of emergency and budget stabilization funds for Oklahoma.

This paper simulates how a TABOR amendment would have affected Oklahoma's fiscal condition had it been implemented in 1991. In all, the TABOR amendment would have stabilized the budget over the long term while providing significant relief for Oklahoma taxpayers. Specifically, under TABOR, the state would have amassed a budget stabilization fund of $317 million that would have been used to offset the budget shortfall when the budget crunch arrived in 2002. In addition, according to conservative estimates, $581 million would have been returned to taxpayers in the form of tax cuts or rebates.

While this paper suggests that a well-drafted Taxpayers' Bill of Rights amendment would benefit taxpayers and the state's long-term fiscal condition, special interest groups have too much at stake to allow common-sense government constraint. Indeed, TABOR can be understood in terms of a battle between citizens and special interests, i.e., between taxpayers and tax consumers. Taxpayers want to limit the burden imposed by government taxation and spending. Special interests seek to preserve what they perceive to be their rights to that spending. But as more Oklahomans become aware of the need for fiscal discipline, TABOR could become a reality in Oklahoma.

Rationale for a TABOR Amendment in Oklahoma

Tax and Spending Limits in the States[1]

Tax and spending limits are designed to address two problems: the increase in government revenues and spending relative to income in the long run; and the volatility of government revenues and spending over the business cycle.

Since World War II, the growth of government revenue and spending has outpaced the growth of income in most states. This is particularly true in states such as Oklahoma that rely heavily on income tax revenues. Income taxes, especially progressive ones, have greater elasticity than other taxes. This means that when income rises, income tax revenues rise more rapidly than income. Similarly, when income falls, income tax revenues fall more rapidly than income.

A "ratchet up" of taxes and revenues often accompanies this volatility in income tax revenue over the business cycle. In periods of prosperity, because income is rising, governments tend to increase spending to match the increase in revenues. However, when income growth slows or a recession hits, and revenues fall, governments are reluctant to cut spending. As a result, there is pressure to increase taxes to offset the budget shortfall. Over time, this "ratchet up" effect results in increased government revenues and spending relative to private income.

A variety of different tax and spending limits have been introduced in the states. In total, 26 states have introduced such limits.[2] Recent studies show that the most effective of these tax and spending limits constrain the growth of government revenue and spending to the sum of inflation and population growth. This type of tax and spending limit has been introduced in four states: California, Colorado, Missouri, and Washington. In all four states the tax and spending limit has at various points both constrained the growth of government and stabilized the budget over the business cycle. In recent years California, Missouri, and Washington have suspended their tax and spending limits.[3] In Colorado, however, the TABOR amendment remains the most effective tax and spending limit in the country.[4]

Learning from Colorado's TABOR Amendment

Colorado's Taxpayers' Bill of Rights amendment is a state constitutional amendment that limits the growth of revenue and expenditure to the sum of inflation and population growth. The amendment also requires that surplus revenue be returned to taxpayers through tax rebates or cuts. In addition, voter approval is needed to approve any increase in taxes or debt.

In 1992, Colorado voters approved the Taxpayers' Bill of Rights amendment with a majority of 54 percent on the ballot.[5] Since then TABOR has effectively constrained the growth of government. The result has been that more than $3 billion in surplus revenue has been returned to taxpayers in the form of rebates or tax reductions. A recent survey found that more than 60 percent of Coloradoans support TABOR – more than when it was passed a decade ago, suggesting that TABOR has become more popular over time.[6]

What Would Have Happened Without TABOR in Colorado?

To understand what would have happened in Colorado without TABOR, all one has to do is compare Colorado to other states in which tax and spending limits have not effectively constrained the growth of government. If Colorado had gutted the TABOR amendment the way California gutted the Gann Limit (California's tax and expenditure limitation which was implemented by referendum in 1979 but later undermined in 1990),[7] there is no question that the Colorado state government would be in the same situation as the California state government.

California ratcheted up government spending to match the high levels of revenue growth in the 1990s. California's response to the current recession was to increase debt to the highest level in the state's history and to increase taxes to offset the revenue shortfall. The higher debt and taxes that result from this unconstrained growth in government have driven business and jobs from California to other states such as Colorado that have successfully constrained the growth of government.

The Effort to Refine Colorado's TABOR

Despite more than a decade of success in Colorado, the TABOR amendment has come under fire recently because of the so-called "ratchet down" effect.[8] TABOR limits the growth of revenue to the sum of inflation and population growth. The limit applies to the previous year's limit, or to actual revenue, whichever is lower. When revenue falls in a recession, this sets a lower base against which the limit is applied. When revenue increases above the limit, surplus revenue must be rebated to taxpayers. As Colorado has recovered from the recent recession, revenue is projected to increase above the TABOR limit, requiring taxpayer rebates. The criticism is that these taxpayer rebates may be paid even though state revenue and expenditures have not yet recovered to the pre-recession level.

Efforts are underway in Colorado to correct this "ratchet down" effect of the TABOR amendment.

One proposal would hold the TABOR limit constant when there is a fall in revenue, and then trigger the limit once revenue has recovered to pre-recession levels. The proposal would also create a budget stabilization fund linked to the TABOR amendment. In periods of economic growth, some surplus revenue could be set aside in a budget stabilization fund and then used to offset revenue shortfalls in periods of recession. This modified TABOR amendment is the basis for a model tax and spending limit recently adopted by the American Legislative Exchange Council.[9] It is also the basis for a proposed Taxpayers' Bill of Rights in Oklahoma, to be discussed later in this study.

Is Oklahoma an Underachiever in Economic Growth and Development?

To understand the rationale for a TABOR amendment in Oklahoma, we need to explore some trends in the state economy.

Income per capita in Oklahoma has been about 15 percent below the national average for the last three decades. There have been periods of more rapid growth in Oklahoma. In the late 1970s and early 1980s, Oklahoma grew rapidly and income per capita grew closer to that of the country as a whole. But over the last two decades, Oklahoma has been an underachiever in economic growth, and income per capita has again fallen significantly below the national average. Oklahoma has begun to recover from the recent recession with increased income per capita. However, the gap between income per capita in Oklahoma and that for the rest of the country remains about five thousand dollars.[10]

Underachievement in economic growth is most evident when we compare the performance of the Oklahoma economy with that of its neighbors in the Rocky Mountain region, such as Colorado.[11] In the 1970s, Oklahoma and Colorado were growing at about the same rate, with increases in income per capita more than 160 percent. In the 1980s, both states experienced a slowdown in economic growth; income per capita grew at about half the rate of the previous decade. In the 1990s, there was divergence in rates of economic growth: Income per capita in Colorado increased 70 percent, while that in Oklahoma increased 51 percent.[12] The gap between income per capita in Colorado and in Oklahoma increased to almost nine thousand dollars. Oklahoma has recovered in the recent recession, but the large gap in income per capita remains.

Oklahoma has done somewhat better in terms of employment growth, but there is evidence of underachievement here as well. Until the recent recession unemployment rates in Oklahoma were significantly below the national average. During the recent recession unemployment rates in Oklahoma increased sharply, from 3.1 percent in 2000 to 5.7 percent in 2003, converging with unemployment rates for the national economy. Unemployment rates are projected to fall as Oklahoma recovers from the recession.[13]

We must conclude that over the past two decades Oklahoma has been an underachiever in economic growth, especially when compared to the more rapidly growing states in the Rocky Mountain region. Many factors have contributed to this relative retardation in economic growth in Oklahoma. There is a growing body of evidence that a heavy tax burden is a major factor contributing to slower growth in the states, and Oklahoma in recent years has seen an increase in its tax burden.[14]

The Increasing Tax Burden on Oklahoma Citizens

Historically, Oklahoma has had a low tax burden compared to other states. In the 1970s, Oklahoma had one of the lowest tax burdens in the country. State and local taxes were less than 8 percent of income, and the state's tax burden ranked 50th, the lowest in the country.[15]

Over the last three decades, however, the tax burden in Oklahoma has increased relative to the national average. State and local taxes as a share of income peaked at 9.8 percent in 2001, ranking the state 34th in the country. Despite this recent upward trend in the tax burden, we could conclude that Oklahoma remains a relatively low-tax state. But from the perspective of individual taxpayers this conclusion does not hold true.[16]

State taxes in Oklahoma are $1,738 per capita, ranking the state 28th, or about average compared to state taxes for the country as a whole. However, Oklahoma collects $68.16 in state taxes per $1,000 of income. The share of state taxes as a percent income is one of the highest tax burdens in the country, with Oklahoma ranking 15th highest. The culprit in this heavy state tax burden is the individual income tax.[17]

Oklahoma's individual income tax rates are high and progressive compared to the rest of the country. There are eight brackets ranging from .5 percent to 7 percent (though with the recent passage of State Question 713, the top rate will be reduced to 6.65 percent next year). Oklahoma citizens earning more than $1,000 begin paying the bottom rate. The top rate of 7 percent kicks in at a relatively low level of income, $10,000. This top rate is the 18th highest among states levying the personal income tax. Nor do Oklahoma citizens get much of a break with a standard deduction of $2,000 and a personal exemption of $1,000, among the lowest in the country. This means that even some families below the poverty line pay the top rate of 7 percent.[18]

A recent OCPA study documents how the high and progressive individual income taxes have negatively impacted economic growth in Oklahoma.[19] Oklahoma's income tax ranks among the most progressive in the nation. This means that the state income tax burden increases much more rapidly than state income compared to other states. The more progressive the income tax structure, the greater the variability of state income tax revenues over the business cycle. The more progressive the income tax structure, the more it harms economic growth.

Thus the major fiscal problems in Oklahoma can be traced to this fatal flaw of high and progressive individual income taxes. The growth of state revenue and spending relative to personal income, and the variability of state revenue over the business cycle, are linked to the high and progressive personal income tax structure. To promote economic growth, it is crucial for Oklahoma to reduce this personal income tax burden.

Other taxes in Oklahoma are low compared to the rest of the nation. Oklahoma corporations pay a flat 6 percent rate on all corporate income. The corporate income tax rate ranks as the 10th lowest among states that levy this tax. Oklahoma sales and excise taxes are also low compared to the national average. Oklahoma is one of 12 states that collect no state property tax. Local property taxes in Oklahoma are among the lowest in the nation.[20]

The Tax Burden and the Business Tax Climate in Oklahoma

The Tax Foundation ranks the states' business tax climates by using five different indices of the tax burden. Oklahoma ranks 14th – an above-average business tax climate. Oklahoma ranks above three of its bordering states (Kansas, New Mexico, and Arkansas) and ranks below three of its bordering states (Texas, Colorado, and Missouri).

While Oklahoma's overall ranking is above average, it is clear that the individual income tax is a deterrent to new business investment. The individual income tax in Oklahoma is ranked 39th – among the worst in the nation. The state's ranking on individual income taxes is the worst of any state in the region.

According to Steve Wilkerson, Oklahoma state director for the National Federation of Independent Business: "We need to definitely continue to work on cutting or eliminating the personal income tax and making the corporate tax palatable to those who have to pay it. … Oklahoma's personal income tax is onerous and deters the creation of small businesses, especially when competing with a neighboring state like Texas that does not tax income."[21]

Business investors are particularly sensitive to recent trends in Oklahoma's tax policies. In response to the revenue shortfall in the recent recession, the Oklahoma legislature implemented a variety of "revenue-raising" measures. Many of these could be described as "stealth" taxes and fees, because they tend to fall below the radar and, therefore, generate little opposition. For example, in 2004 the legislature increased car tag fees to generate $5.5 million. They increased various court filing fees equal to $10 million. Measures to increase sales tax compliance generated $19.9 million in revenue. Other measures to increase personal income tax compliance increased revenue $13.2 million. General bond refinancing yielded $29 million. Remittance charges for abandoned property generated $2.2 million.[22]

The recently approved State Question 713 increases the state excise tax on cigarettes and other tobacco products while eliminating the sales tax on these products. These tax changes are expected to generate close to $150 million in additional state revenue, which would be spent on a variety of health care programs. The measure also lowers the income tax on specified capital gains and retirement income and reduces the top income tax rate from 7 percent to 6.65 percent. The full impact of the tax cuts is estimated at $75 million.[23]

Trends in State Spending

Taking the Mystery Out of State Spending in Oklahoma

Has state government in Oklahoma pursued prudent or profligate spending policies? How this question is answered often depends upon the political views of the respondent. Those who wish to portray state legislators as prudent use evidence to support that view; those who want to portray legislators as spendthrifts do the opposite. This analysis provides the empirical evidence needed to sort through this controversy and demystify state spending trends.

Sources of Funding

The following table breaks down state spending into the different sources of funding. State funding is generated from general funds and from other state funds. The state also receives funding from federal government transfers. Bond funding is treated separately from these sources of funding.

General fund spending grew at a modest pace from 1994 to 2002 – increasing slightly faster than

Table 1. State Spending by Funding Source (millions of dollars)

Year	General Fund	Federal Funds	Other State Funds	Bonds	Total
1994	3,232	1,917	2,174	95	7,418
2002	4,882	3,883	4,083	205	13,053
2004	4,287	4,711	4,810	174	13,986
% change	32.6%	145.7%	121.3%	83.2%	88.5%

Source: State Expenditure Reports, 1996-2003, National Association of State Budget Officers

personal income from 1994 to 2002. Over the past two years, general fund spending decreased sharply in response to the revenue shortfalls that accompanied the recession.

Spending from other state funds exhibited a quite different trend. From 1994 to 2002, spending from other state funds increased much more rapidly than total spending; over the past two years, it increased at a very rapid pace. At the beginning of the decade, spending from other state funds was about two thirds of general fund spending. By the end of the decade, spending from other state funds exceeded general fund spending by 12 percent.

This means that Oklahoma has become less dependent on taxes as a source of general fund spending, and more dependent on other state funds. This is what we would expect with the proliferation of user fees and other fees and charges.

However, the most rapid increase in state spending was that financed by federal funds, which increased 146 percent over the past decade. The increase in spending from federal funds has been especially rapid over the past two years. In fact, federal funds now account for more state spending than general funds, and almost as much as other state funds.

Oklahoma citizens may be surprised to learn that they have become an actual "welfare state," more dependent on the federal government to finance spending than their own tax-generated funds.

Total state spending in Oklahoma increased 89 percent over the past decade, far outstripping the 67 percent growth in personal income. Even if we exclude spending from federal funds we reach a similar conclusion. Spending from state funds increased 68 percent over the decade, exceeding the growth of personal income.

These trends in state spending are important not only in capturing the increased burden of state spending on Oklahoma citizens, but also in revealing changes in the funding for that spending. The state is becoming increasingly dependent on federal transfers. It is also increasingly reliant on non-tax sources of revenue. During the recent recession, the legislature increased user fees and other charges. The legislature also transferred money from trust funds and other state funds to finance current expenditures.

Dissecting the Rapid Growth in State Spending

The rapid growth in state spending can be explained by dissecting spending into the different state programs. We begin with the most comprehensive measure of state spending including all sources of funding. The National Association of State Budget Officers (NASBO) provides this data for the past decade (1994-2004).

The winner is higher education.* While total expenditures grew 89 percent, higher education spending grew 133 percent. As a share of total state spending, higher education spending increased from 16 percent to 20 percent.

Elementary and secondary education spending increased less rapidly than total state spending, and decreased as a share of the state budget. However, this number is misleading because of the earmarking of state funds for K-12 education. For a discussion of the funds currently earmarked for education, and the additional funds that would be earmarked by the governor's education initiative, see the governor's FY-2005 Executive Budget.[24]

Not far behind was Medicaid spending, which increased 129 percent over the decade. As a share of the state budget, Medicaid spending increased from 14 percent to 17 percent.

Spending for corrections also increased at a rapid clip – 120 percent. The share of the budget going for corrections increased from 2.6 percent to 3.1 percent.

Table 2. Total State Spending by Program (millions of dollars)

State Program	1994	2004	% increase
Elementary and Secondary Education	2,037	3,030	48.7
Higher Education	1,200	2,793	132.8
Public Assistance	207	217	4.8
Medicaid	1,047	2,395	128.7
Corrections	194	427	120.1
Transportation	654	1,082	65.4
All Other	2,079	4,042	94.4
Total	7,418	13,986	88.5

Source: State Expenditure Reports, 1996-2003, National Association of State Budget Officers

*NASBO data include both operating expenditures and capital expenditures (construction, renovation, and other capital projects). Also, higher education expenditures include support of vocational education institutions.

Spending in the "all other" category (94 percent) increased slightly higher than total spending (89 percent). As a share of the state budget, all other spending increased slightly from 28 percent to 29 percent.

Spending for transportation increased less rapidly than total state spending, and decreased as a share of the state budget. Spending for public assistance was almost the same at the end of the period as at the beginning.

Dissecting the Growth in State Spending from General Funds and Other State Funds

While the state is responsible for all spending, it is most responsible for spending from general funds and other state funds. In Table 3, we trace the growth in this state spending from its own funds over the last decade.

Again, the surprising winner is higher education, with increased spending of 133 percent. As a share of state spending, higher education spending increased from 19 percent to 26 percent. The state spends almost as much for higher education as it does for elementary and secondary education. This is especially surprising because state spending for higher education in many states has slowed, and in some states declined. Clearly the higher education lobby in Oklahoma wins the prize for rent seeking.

More prudent states have responded to the revenue shortfall in the recent recession by reforming higher education. For example, Colorado has introduced the first voucher system for higher education, replacing direct subsidies to public universities with vouchers which students can use to offset tuition at both private and public universities. This reform of higher education holds the promise to not only constrain the growth of spending, but also to increase efficiency in higher education. As the playing field for private and public institutions is leveled, this will increase competition and create incentives for improved quality and lower costs.

Table 3. State Spending from Own Funds by Program (millions of dollars)

State Program	1994	2004	% increase
Elementary and Secondary Education	1,796	2,514	40.0
Higher Education	1,030	2,395	132.5
Public Assistance	89	83	-6.7
Medicaid	312	760	143.6
Corrections	194	426	119.6
Transportation	433	575	32.8
All Other	1,647	2,348	42.6
Total	5,501	9,101	65.7

Source: State Expenditure Reports, 1996-2003, National Association of State Budget Officers

It is not surprising that the highest growth in state spending is for Medicaid. Most of the funding for Medicaid is provided by the federal government (which helps explain Oklahoma's aforementioned "welfare state" status). The only way that the state can capture this increased federal funding is with sharp increases in state matching funds. However, some states have begun to challenge the unconstrained growth in Medicaid spending mandated by the federal government. Some states are tightening the eligibility requirements for Medicaid and the generous benefits package provided by the program.

Most states have introduced cost-saving measures to reduce Medicaid spending. Perhaps momentum for such reforms will grow and a governor will come along to challenge this "welfare state" approach to Medicaid, demanding reforms in the program similar to the reforms that Tommy Thompson introduced in the federal welfare system. The effects of welfare reform are clearly evident in Oklahoma, as indicated by the 6.7 percent drop in state spending for public assistance.

The other big number in state spending growth is that for corrections, which increased 120 percent. Unconstrained growth in corrections spending is also being challenged in other states, as legislators take a critical look at sentencing laws and other mandates in state funding for corrections.

All other state programs – including elementary and secondary education, transportation, and the "all other" category – have increased less rapidly than total state spending. As noted earlier, the numbers for K-12 education are misleading because of the earmarking of funds for education. Nonetheless, this is the counterpart to the growth of the "welfare state" mentality in Oklahoma. Oklahoma legislators are so busy chasing federal dollars that they have neglected the core programs they are primarily responsible for.

Oklahoma's Flawed Fiscal Rules

Oklahoma's state finances are governed by a set of constitutional rules. While it appears that these fiscal rules are designed to constrain the spending powers of the state and stabilize spending over the business cycle, in reality they have failed to accomplish these objectives. The following discussion points to some fatal flaws in the design of these fiscal rules.

Cash Flow Reserve Fund

The Oklahoma Constitution restricts total appropriations to 95 percent of estimated general revenues. The Board of Equalization is responsible for approving revenue estimates, based upon information provided by the Office of State Finance and the

Oklahoma Tax Commission. The certified revenue estimate then sets the amount the legislature can appropriate.[25]

Unlike many states that use seasonal borrowing to meet cash demands, Oklahoma maintains a cash flow reserve fund to meet fluctuating cash needs. Each year, 10 percent of the certified revenue estimate is set aside to meet the anticipated monthly cash flow needs for the new fiscal year.[26]

Any cash remaining in the cash flow reserve fund is carried over into the next fiscal year. The carryover funds reflect the difference between the 95 percent appropriation limit and actual receipts up to 100 percent of the estimate. Funds required to replenish or increase the cash flow reserve fund also come from this source.[27]

If actual revenues are less than the estimated revenues, the director of finance is required by the Constitution to declare a revenue shortfall and reduce appropriations to the extent required to allow appropriations to be covered by current year tax collections. Appropriations must be reduced pro rata. General obligation indebtedness is prohibited by the Constitution without a vote of the people.[28]

In 2002 general fund revenues fell 6 percent, and in 2003 they fell another 4.4 percent. In these fiscal years, there was no carryover of cash in the cash flow reserve fund. Since the general fund collections were below the estimate and below the 95 percent appropriation level, automatic budget reductions were triggered during the fiscal year to ensure that no deficit spending occurred. The Office of State Finance announced budget cuts of 2.1 percent in 2002. When the severity of the revenue shortfall became apparent, more budget cuts equal to 3.7 percent were implemented. In 2003, revenue shortfalls continued, resulting in budget cuts of 6.7 percent. In 2004, revenues have begun to recover, exceeding both prior years and estimated revenues.[29]

Rainy Day Fund

The Oklahoma Constitution also established a Constitutional Reserve Fund (popularly known as the Rainy Day Fund). If actual revenues are in excess of the certified revenue estimate, the excess funds must be deposited in the Rainy Day Fund. The cap on the Rainy Day Fund is set at 10 percent of the prior year's certified revenue estimate.[30]

The Rainy Day Fund is allocated to either an emergency fund or a budget stabilization fund. Up to one half of the Rainy Day Fund may be allocated to the emergency fund. Funds in the emergency fund may be appropriated upon emergency declaration by the governor and two thirds vote of the House and Senate, or by a declaration of an emergency by the Speaker of the House and President Pro Tempore of the Senate and concurrence of three fourths of the members of each House.[31]

Table 5 shows deposits into, and appropriations from, the Rainy Day Fund. During the 1990s, deposits into the Rainy Day Fund about equaled appropriations from the fund. In fact, in most years the amount appropriated from the fund equaled the amount available for emergency appropriation, i.e., one half of the amount in the fund.

Clearly what is labeled an emergency fund is not a true emergency fund. Each year, the legislature declares an emergency that enables them to spend the funds available. As Oklahoma state treasurer Robert Butkin recently lamented, "While half of the Rainy Day Fund can be spent each year for emergencies, nowhere in the constitution is the term 'emergency condition' defined. It's anything the politicians agree to call an emergency. … Some of these so-called emergencies (such as construction of new golf courses) would be highly questionable under any standard."[32]

The emergency fund is simply a pass-through account that the legislature uses to appropriate the maximum amount of revenue each year. There were no emergencies that would justify this decade-long appropriation from the fund. The result was that at the end of that decade Oklahoma ended up with a modest amount of money in the Rainy Day Fund, about equal to the amount at the beginning of the decade.

That portion of the Rainy Day Fund not available for emergencies can be earmarked and used for budget stabilization, but only in instances when one year's certified revenue available for appropriation is less than the preceding year. The only time that this occurred was in the middle of the recent recession, in 2002 and 2003. During the 1990s, virtually all of the money deposited in the Rainy Day Fund was spent as emergency appropriations. After a decade of the most rapid economic expansion in the post-WWII period, Oklahoma had set aside no funds for budget stabilization. This profligate fiscal policy would come back to haunt the state as the economy entered the recent recession.

The recent passage of State Question 708, which amends how money in the Rainy Day Fund can be expended, represents a step towards fiscal prudence. It will allow a portion of the fund's balance to be spent to meet current year revenue shortfalls while decreasing the amounts that can be spent for upcoming year shortfalls and upon declaration of an emergency. Unfortunately, this Band-aid approach to reforming the Rainy Day Fund does not address the fundamental flaw in the way that this fund is designed.

Automatic Tax Increases

Legislation passed in 1999 cut the maximum tax rate on the individual income tax to 6.65 percent and increased the Sales Tax Relief Act income qualifications to $20,000 for households without children or seniors and $50,000 for households with children or seniors.[33]

Table 4. Rainy Day Fund History (millions of dollars)

Fiscal Year	Certified Revenues	Certified Appropriations (95% of certified revenues)	Maximum Rainy Day Fund (10% of prior year certified appropriations)
1988	2,319.8	2,203.8	0
1989	2,499.8	2,374.8	220.4
1990	2,661.2	2,528.1	237.5
1991	3,034.4	2,882.7	252.8
1992	3,213.9	3,053.2	288.3
1993	3,365.2	3,196.9	305.3
1994	3,398.5	3,228.6	319.7
1995	3,515.3	3,339.5	322.9
1996	3,613.6	3,432.9	334.0
1997	3,531.1	3,354.5	343.3
1998	3,866.4	3,673.1	335.5
1999	4,185.6	3,976.3	367.3
2000	4,271.4	4,057.9	397.6
2001	4,456.0	4,233.2	405.8
2002	4,828.7	4,587.3	423.3
2003	4,725.3	4,489.0	458.7
2004	4,395.8	4,176.0	448.9
2005	4,496.8	4,272.0	417.6

Source: FY-2005 Executive Budget, State of Oklahoma, p. 451.

That law also contained a "trigger mechanism" to automatically increase income taxes. If certified revenue for the coming year is less than certified revenue for the current year, the "trigger mechanism" increases the individual income tax rate to 7 percent, and reduces the maximum income limit for sales tax relief.[34] (As noted earlier, the recently passed State Question 713 will remove this trigger mechanism.)

As a result of the estimated revenue shortfalls in 2002 and 2003, the trigger mechanism was implemented, increasing the income tax rate to 7 percent and reducing the income eligibility of the sales tax relief. In December 2003, the equalization board certified revenue estimates for 2005 greater than that for 2004. As a result, the individual income tax rate decreased from 7 percent to 6.65 percent effective January 1, 2004, and the income eligibility of the sales tax relief increased.[35]

In part due to this trigger mechanism, in 2001 and 2002 deposits were made into the Rainy Day Fund. In these years, the legislature continued to appropriate the money earmarked for emergency appropriations, as it had over the previous decade. But for the first time a portion of the Rainy Day Fund was earmarked for budget stabilization. Since the economy was in a recession, the money in the budget stabilization fund was also immediately appropriated.

By the end of 2003, the legislature had appropriated virtually all of the money in the Rainy Day Fund. 2004 would prove to be a gloomy fiscal year indeed, with continued revenue shortfalls and no money in the Rainy Day Fund.

The bottom line is that Oklahoma has neither a true emergency fund nor a true budget stabilization fund. No money was retained in the budget stabilization fund in the prosperous years of the 1990s. In the middle of the recent recession the legislature earmarked a portion of the Rainy Day Fund for budget stabilization and then immediately appropriated those funds to offset the revenue shortfall. Like the emergency fund, the

Table 5. Rainy Day Fund Deposits and Appropriations (millions of dollars)

Fiscal year	Deposits and Re-deposits	Rainy Day Funds Available	Available for Emergency Appropriations	Available for Budget Stabilization	Appropriations from Rainy Day Fund
1988	0	0	0		0
1989	78.0	78.0	39.0		26.0
1990	100.8	178.8	89.4		75.0
1991	73.9	252.7	126.4		30.0
1992	75.1	327.9	163.9		61.9
1993	0	327.9	163.9		43.9
1994	0	327.9	45.6		45.6
1995	0	327.9	22.8		22.8
1996	0	45.6	22.8		22.7
1997	91.4	114.3	57.1		52.8
1998	247.0	308.9	154.5		154.4
1999	144.0	298.5	148.7		148.6
2000	0	150.0	74.9		74.9
2001	82.6	157.6	78.8		78.8
2002	262.2	341.0	170.3	98.2	268.6
2003	0	72.4	36.2	36.2	72.3
2004	0	0	0	0	0
2005	n.a.	n.a.	n.a.	n.a.	n.a.

Source: FY-2005 Executive Budget, State of Oklahoma, p. 451.

budget stabilization fund is nothing more than a pass-through account, permitting the legislature to spend every penny available.

The funds that were earmarked for budget stabilization were generated in part by a trigger mechanism that raised taxes. Increasing the tax burden in the middle of a recession is a perverse fiscal policy that exacerbates the recession. The legislature should refer to this as the budget destabilization fund.

Dangerous Fiscal Rules and Fiscal Policies

It is difficult to imagine more imprudent fiscal rules and fiscal policies than those pursued by Oklahoma policy-makers. A prudent fiscal policy would set aside and retain money in the budget stabilization fund in periods of prosperity, such as the 1990s, and then use those funds to offset revenue shortfalls in periods of recession, such as we have experienced over the past few years. An emergency fund should not be treated like a slush fund to finance any increase in appropriations. The legislature needs to rethink what is meant by an emergency, and the purpose of an emergency fund. Oklahoma has certainly experienced true emergencies, such as the Dust Bowl years of the 1930s. While the state has experienced modest drought in recent years, it is certainly possible for the state to experience a more catastrophic and extended period of drought such as that of the 1930s. The state should also prepare for other emergencies such as terrorist attacks.

One must conclude that there are fatal flaws in Oklahoma's fiscal rules of the game. As noted earlier, Oklahoma has failed to constrain the growth of state revenue and spending. It has also failed to establish an emergency fund that would be available in periods of true emergency. Finally, it has failed to establish a true budget stabilization fund required to stabilize the budget over the business cycle. The following section will consider a proposal for alternative fiscal rules and alternative fiscal policies designed to achieve these objectives.

A Taxpayers' Bill of Rights Amendment for Oklahoma

Designing a TABOR Amendment for Oklahoma

The fatal flaw in Oklahoma's fiscal policies is unconstrained, unmanaged growth in spending that has created a structural deficit in the state budget. Even with the recent recovery, revenue growth will be insufficient to fund the spending projected under current policies. Solving Oklahoma's fiscal crisis in the long run requires the elimination of this structural deficit. The most effective way to constrain spending is to incorporate a Taxpayers' Bill of Rights (TABOR) amendment into the state constitution.[36]

A Taxpayers' Bill of Rights could be designed to both constrain the growth of spending and to stabilize the budget over the business cycle. Colorado's TABOR amendment has several essential features:

- It is a constitutional rather than a statutory tax and spending limit.
- It requires voter approval for any increase in taxes or debt.
- It limits the growth of revenue and spending to the sum of inflation and population growth.
- It requires that surplus revenue be returned to taxpayers through tax cuts or rebates.

Colorado policy-makers are now considering refining their TABOR amendment by including an emergency fund and a budget stabilization fund. In periods of prosperity, when revenue growth exceeds the TABOR limit surplus, revenue should be allocated to an emergency fund and a budget stabilization fund. When the cap on these funds is reached, surplus revenue is then returned to taxpayers through tax cuts. When the economy enters a recession, money is transferred from the budget stabilization fund to the general fund to offset revenue shortfalls and stabilize the budget. Including these important refinements in a Taxpayers' Bill of Rights amendment for Oklahoma would help the state avoid some of the difficulties caused by Colorado's TABOR.

Simulating a TABOR Amendment in Oklahoma

The following is a simulation of a TABOR amendment for Oklahoma, assuming that the above-described TABOR amendment had been implemented in 1991. The simulation begins by examining past trends in Oklahoma's fiscal cycle. Table 6 shows the trends of general fund revenue and expenditures. Revenue increased rapidly in the 1990s, and then fell in 2002 and 2003, despite the tax increase that was triggered. Revenue is projected to recover in 2004 and 2005, but will remain below the pre-recession level.

Expenditures increased more rapidly than revenue in the 1990s, in some years growing at double-digit rates. With the onset of recession, expenditures decreased but are projected to recover over the forecast period to 2005.

In Table 7, a TABOR amendment is simulated for the Oklahoma economy. This simulation makes several simplifying assumptions. The TABOR limit is defined as the sum of inflation plus population growth. The limit is applied to actual revenues or the previous limit, whichever is lower. This limit constrains the growth in revenue the state can keep

Table 6. General Fund Revenue and Expenditures in Oklahoma (millions of dollars)

Year	General Fund Revenue	General Fund Revenue (annual % change)	General Fund Expenditures	General Fund Expenditures change) (annual %
1991	3,099	14.9	3,067	13.3
1992	3,148	1.6	3,160	3.0
1993	3,256	3.4	3,318	5.0
1994	3,315	1.8	3,302	-.5
1995	3,498	5.5	3,436	4.1
1996	3,705	5.9	3,549	3.3
1997	4,093	10.5	3,880	9.3
1998	4,341	6.1	4,199	8.2
1999	4,506	3.8	4,460	6.2
2000	4,713	4.6	4,545	1.9
2001	5,095	8.1	4,819	8.0
2002	4,791	-6.3	5,016	4.1
2003	4,581	-4.6	4,653	-7.8
2004	5,024	9.7	4,699	1.0
2005	*4,906*	*-2.4*	*4,716*	*.4*

Source: Fiscal Survey of the States, National Association of State Budget Officers, various issues. Data for 2005 is estimated.

Table 7. Simulating a TABOR Limit for Oklahoma (in millions of dollars)

Year	Revenue	TABOR Limit*	TABOR Surplus
1991	3,099		
1992	3,148	3,254	(106)
1993	3,256	3,287	(31)
1994	3,315	3,386	(71)
1995	3,498	3,430	68
1996	3,705	3,555	150
1997	4,093	3,695	398
1998	4,341	3,817	524
1999	4,506	3,915	591
2000	4,713	4,037	676
2001	5,095	4,193	902
2002	4,791	4,328	463
2003	4,581	4,425	156
2004	5,024	4,554	470
2005	*4,906*	*4,693*	*213*

*Based on U.S. Census data for population growth and inflation. Data for 2005 is estimated.

and spend each year. The assumption is that surplus revenue is rebated to taxpayers.

Beginning in FY 1995, actual revenue exceeds the TABOR limit, resulting in surplus revenue, which is rebated to taxpayers. Over the entire period 1991-2005, a total $4.6 billion in surplus revenue would have been rebated to taxpayers.

The criticism of Colorado's TABOR amendment is that it is effective in constraining the growth of government, but not very effective in stabilizing the budget over the business cycle. Some would argue that TABOR actually exacerbates the revenue shortfalls in periods of recession, in that it is possible that surplus revenue is generated (requiring taxpayer rebates) before the economy has recovered from the recession. Several refinements in the Colorado's TABOR amendment have been proposed to correct these flaws. These refinements are incorporated in the proposed TABOR for Oklahoma, and in the following simulations of that proposed amendment.

In Table 8, several refinements of the TABOR amendment discussed earlier in this paper are incorporated in this simulation experiment. The TABOR limit is defined as the sum of inflation plus population growth. This limit constrains the growth in revenue the state can keep and spend each year.

The TABOR limit is linked to both an emergency fund and a budget stabilization fund. These funds are not to be confused with the Rainy Day Fund currently in place in Oklahoma. For the reasons cited earlier in this paper, the current Rainy Day Fund has not functioned as either an emergency fund or a budget stabilization fund, and therefore would be replaced in this proposal.

When revenue exceeds the TABOR revenue limit, the surplus revenue is allocated first to an emergency fund. The cap on the emergency fund is set at 5 percent of revenue. When the cap on the emergency fund is reached, surplus revenue is then allocated to a budget stabilization fund. The cap on the budget stabilization fund is set at 20 percent of revenue. When the cap on the budget stabilization fund is reached, surplus revenue is allocated to tax cuts. To simplify the analysis, a lump sum reduction in revenue equal to the tax cut is assumed in subsequent years.

When there is a fall in revenue, it is assumed that surplus revenue is retained in the general fund until revenue recovers. Funds are transferred from the budget stabilization fund to the general fund to offset the revenue shortfall. When revenue falls below the TABOR revenue limit, the limit is held constant until revenue again exceeds the limit.

The following is a chronology of the impact of the TABOR limit over this period:

From 1992 to 1994, actual revenue is less than the TABOR limit so it is not a binding constraint.

From 1995 to 1999, revenue growth exceeds the TABOR revenue limit, resulting in a TABOR surplus. In 1995, the TABOR surplus is allocated to the emergency fund. In 1996 and 1997, the surplus is allocated to both the emergency fund and the budget stabilization fund. In 1998 and 1999, the cap on both of these funds is reached, and additional surplus revenue is offset by tax cuts.

Table 8. Simulating a TABOR Limit for Oklahoma Linked to an Emergency Fund and a Budget Stabilization Fund (in millions of dollars)

Year	Revenue	TABOR Limit*	TABOR Surplus	Emergency Fund	Budget Stabilization Fund	Tax Cuts
1991	3,099					
1992	3,148	3,254	(106)			
1993	3,256	3,287	(31)			
1994	3,315	3,386	(71)			
1995	3,498	3,430	68	68		
1996	3,705	3,555	150	117	33	
1997	4,093	3,695	398	20	378	
1998	4,341	3,817	524	12	457	55
1999	4,451	3,915	536	6	22	508
2000	4,150	4,037	113			
2001	4,532	4,193	339	4	317	18
2002	4,210	4,328	(118)			
2003	4,000	4,328	(328)			
2004	4,443	4,454	(11)			
2005	*4,325*	*4,603*	*(278)*			

*Based on U.S. Census data for population growth and inflation. Data for 2005 is estimated.

In 2000, there is a fall in revenue from the 1999 level, due in part to the tax cut. The TABOR surplus in this year is returned to the general fund. Funds are also transferred from the budget stabilization fund to the general fund to offset the revenue shortfall.

In 2001, revenue recovers and revenue growth exceeds the TABOR revenue limit. TABOR surplus revenue is allocated to the emergency fund, the budget stabilization fund, and tax cuts.

In 2002, the recession brings a sharp fall in revenue, which drops below the TABOR revenue limit. The TABOR limit is held constant until 2004. Funds are transferred from the budget stabilization fund to the general revenue fund, offsetting the revenue shortfall.

Revenue is estimated to fall below the TABOR limit again in 2005. No funds are available from the budget stabilization fund to offset the revenue shortfall.

TABOR Would Likely Cause Economic Growth

This simulation experiment is a static analysis. It assumes that the Taxpayers' Bill of Rights amendment would not have changed the actual revenue generated by the tax system. In reality, this is an overly conservative assumption.

In the simulation, when we assume that surplus revenue is offset with permanent tax cuts, expenditures would be correspondingly reduced to match the revenue that the state is allowed to keep and spend under the tax limit. This, of course, is required by the balanced budget provisions of the Oklahoma Constitution. Thus, the TABOR amendment would limit both revenue and spending.

Returning surplus revenue to taxpayers would certainly have stimulated economic activity, generating higher levels of income and revenue. Indeed, the major argument for tax cuts from a "supply side" perspective is the stimulus this gives to economic growth. This argument is particularly relevant to Oklahoma because of the relatively high marginal rate of income taxation. Offsetting the surplus revenue by reducing these high marginal income tax rates would have provided a significant stimulus to economic growth over this period. The higher revenues generated by that economic growth would have offset reductions in revenue resulting from the lower tax rates.

TABOR Would Stabilize Spending Over the Business Cycle

In periods of recession (when revenue falls below the TABOR revenue limit), the revenue limit is held constant until revenue recovers to the pre-recession level. In the simulations, this occurs in 2003. Further, the assumption is that money from the budget stabilization fund is used to offset the revenue shortfall. What this means is that while revenue is falling during the recession, state spending is maintained.

In this simulation, over the period from 1992 to 2003, state general fund revenue as a share of state personal income would have decreased from 5.6 percent to 4.6 percent.[37] However, because transfers from the budget stabilization fund are used to sustain spending during the recession, the share of spending as a percent of personal income remains relatively stable during the recession.

Thus, there are two reasons why this TABOR amendment stabilizes the budget over the business cycle. First, with lower levels of revenue and spending, it is easier to adjust spending to balance the budget when the economy enters a recession. Second, the existence of a budget stabilization fund allows the state to sustain the level of spending in the face of declining revenues.

Designing TABOR to Suit Policymakers' Needs

The design of a TABOR amendment for Oklahoma could be modified to incorporate assumptions different from those made in this simulation experiment. The TABOR amendment can be designed to achieve any desired trade-off between constraining the growth of government and stabilizing the budget over the business cycle.

For example, if the emphasis is on constraining the growth of government, then a smaller share of surplus revenue could be allocated to the budget stabilization fund, and a larger share allocated to tax cuts. If the emphasis is on stabilizing the budget over the business cycle, then a larger share of surplus revenue could be allocated to the budget stabilization fund.

It is clear that the design of a TABOR amendment is unique to each state. A TABOR amendment is especially important for a state such as Oklahoma which relies heavily on income tax revenues. As the data have demonstrated, income tax revenues are volatile compared to most taxes. Even if Oklahoma reduced income taxes, as we have assumed in this simulation experiment, income tax revenues would remain the major source of revenue. A generous budget stabilization fund equal to 20 percent of revenues is assumed to stabilize the budget over the business cycle. This generous budget stabilization fund would permit the state to offset most (but not all) of the revenue shortfall in the recent recession. If one wanted to offset less of the revenue shortfall, this would require a less generous fund. One could argue that the state should reduce expenditures when revenue falls in a recession. This more stringent approach would allocate less of the surplus revenue to a budget stabilization fund.

The Prospects for TABOR in Oklahoma

Oklahoma needs to constrain the growth of government and to stabilize the budget over the business cycle. To achieve these objectives, Oklahoma needs a tax and expenditure limit (TEL), such as the Taxpayers' Bill of Rights (TABOR) amendment simulated in this study.

Undoubtedly, special interests in Oklahoma will pursue tactics designed to block an effective tax and expenditure limit or to introduce a watered-down limit that would do little to manage the growth of government or stabilize the budget over the business cycle. Indeed, the debate over TABOR can be understood in terms of a battle between citizens and special interests, i.e., between taxpayers and tax consumers. Taxpayers want to limit the burden imposed by government taxation and spending. Special interests seek to preserve what they perceive to be their rights to that spending.

Public opinion appears to be on the side of the taxpayers. A Cole Hargrave Snodgrass survey conducted in May once again revealed Oklahomans' fiscal conservatism.[38] Oklahoma voters think taxes are too high. They think state government is too big and wastes too much money. By a wide margin (73 percent to 16 percent) they prefer cutting state spending to raising taxes. An overwhelming 88 percent of them believe state spending should grow at the same rate or slower than family income. And they favor an Oklahoma TABOR by a margin of 73 to 18 – an astonishing level of support that neither term limits nor Right to Work ever enjoyed.

Conclusion

Tax and spending limits are designed to address two problems: the increased burden of government taxation and spending in the long run, and the instability of revenue and spending over the business cycle. This study has shown that in recent years the tax burden in Oklahoma has increased significantly relative to that in other states. Government revenue and spending have increased relative to state income in the long run. Because of the heavy reliance on the income tax, revenue and spending are very unstable over the business cycle. A Taxpayers' Bill of Rights (TABOR) amendment could be introduced to address both of these problems.

This study simulates the impact of a TABOR amendment on the Oklahoma economy. A TABOR amendment could both constrain the growth of government and stabilize the budget over the business cycle. This would set the stage for much-needed reform in Oklahoma's fiscal policies. Income tax rates could be lowered to reduce the heavy tax burden on Oklahoma citizens. Fundamental reforms could be enacted in spending programs for K-12 education, higher education, corrections, and Medicaid. This would improve the business climate, attracting new investment and jobs. Higher rates of economic growth could allow income per capita in Oklahoma to again converge toward the national average.

TABOR proposals in Oklahoma have not made much headway in years past. But as more Oklahoma citizens and legislators become aware of the need for fiscal discipline, fundamental reforms like TABOR could become a reality.

Endnotes

[1] Much of this discussion is drawn from Barry W. Poulson, "Tax and Spending Limits: Theory, Analysis, and Policy," Independence Institute Issue Paper 2-2004, January, 2004. Available at www.i2i.org.

[2] Ibid, p. 2.

[3] For a discussion of the experience with tax and spending limits in these states, see ibid, pp. 10-16.

[4] Ibid, pp. 10-16.

[5] Barry W. Poulson, "Colorado's TABOR Amendment: Past Trends and Future Prospects," Americans for Prosperity Foundation, July 2004. Available at www.americansforprosperity.org.

[6] "Even in Budget Crises Coloradoans Support TABOR Amendment Limits on Taxes and Government Spending," Poll Analysis, Ciruli Associates, Denver, Colorado, April 15, 2003.

[7] Michael J. New, "A Mixed Legacy on Limiting Taxes," Cato Institute Daily Commentary, June 6, 2003.

[8] Barry W. Poulson, "Colorado's TABOR Amendment: Past Trends and Future Prospects," Americans for Prosperity Foundation, July 2004. Available at www.americansforprosperity.org.

[9] Ibid, passim.

[10] Bureau of Economic Analysis, Regional Economic Accounts, http://www.bea.doc.gov/bea/regional/statelocal.htm.

[11] While Oklahoma is often compared to other states in the high plains, it is also competing with more rapidly growing states in the Rocky Mountain and Southwest regions.

[12] Bureau of Economic Analysis, Regional Economic Accounts, http://www.bea.doc.gov/bea/regional/statelocal.htm.

[13] U.S. Department of Labor, Bureau of Labor Statistics, http://stats.bls.gov/schedule/archives/laus_nr.htm.

[14] "State Business Tax Climate Index Ranks State Tax Systems On How Friendly They Are to Business," Tax Foundation, May 22, 2003.

[15] "Oklahoma's Tax Burden Compared to U.S. Average," Tax Foundation, April 7, 2004.

[16] Ibid.

[17] Ibid.

[18] "State Tax Rates," Tax Foundation, December 31, 2003.

[19] Russell S. Sobel, Robert A. Lawson, and Joshua C. Hall, "Income Tax Progressivity in Oklahoma: Hindering Economic Growth, Variating State Revenue," Oklahoma Council of Public Affairs, December 2003. Also see the discussion of this study in Robert S. McIntyre and Casey C. Cabalquinto, "Tax Measurement Misleading," *The Oklahoman*, April 30, 2004; and the reply by Sobel, Lawson, and Hall, "Progressive Taxes Harmful," *The Oklahoman*, July 2, 2004.

[20] Op. cit., "State Tax Rates."

[21] Ray Carter, "Oklahoma Ranks 14th in Survey of Business Friendly Tax Systems," *The Journal Record*, October 18, 2004.

[22] "Fiscal Survey of the States, 2003-2004," National Association of State Budget Officers; and FY-2005 Executive Budget, State of Oklahoma. For a discussion of the growth of total state tax collections over time, see "State Budget," chap. in *Oklahoma Policy Blueprint '04*, Oklahoma Council of Public Affairs.

[23] "Fiscal Survey of the States, 2003-2004," National Association of State Budget Officers; and FY-2005 Executive Budget, State of Oklahoma.

[24] FY-2005 Executive Budget, State of Oklahoma, pp. 55-66.

[25] "Oklahoma 2003: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2003," Office of State Finance, pp. 8-14.

[26] Ibid.

[27] Ibid.

[28] Ibid.

[29] Ibid.

[30] Ibid.

[31] Ibid.

[32] Robert Butkin, "Help control state spending," *The Oklahoman*, October 3, 2004, p. 25A.

[33] Op. cit., "FY-2005 Executive Budget," p. 15.

[34] Ibid.

[35] Ibid.

[36] The discussion in this section is based on op. cit., Barry W. Poulson, "Tax and Spending Limits: Theory, Analysis, and Policy," and op. cit., Poulson, "Colorado's TABOR Amendment: Past Trends and Future Prospects."

[37] Based on U.S. Census Bureau estimates of personal income and projections of income growth in Oklahoma.

[38] Cole Hargrave Snodgrass & Associates, telephone interviews of 400 registered voters in the state of Oklahoma, May 10-12, 2004. Available at http://www.ocpathink.org/ViewResearchAndIdeasStory.asp?ID=547.

Oklahoma Council of Public Affairs (OCPA) is a state-based public policy research organization – a think tank – whose mission is to formulate and promote public policies consistent with the principles of free enterprise and limited government. Through a variety of publications and public forums, OCPA is helping to improve the quality of life for all Oklahomans by promoting sound solutions to state and local policy questions.

Oklahoma Council of Public Affairs, Inc.
100 W. Wilshire Blvd., Suite C-3
Oklahoma City, OK 73116
405-843-9212
www.ocpathink.org
ocpa@ocpathink.org

OCPA

Americans for Prosperity Foundation (AFPF) is a nationwide organization of citizen leaders committed to advancing every individual's right to economic freedom and opportunity. AFPF believes reducing the size and scope of government is the best safeguard to ensuring individual productivity and prosperity for all Americans. AFPF educates and engages citizens in support of restraining state and federal government growth, and returning government to its constitutional limits.

Americans for Prosperity Foundation
1726 M Street NW, 10th Floor
Washington, DC 20036
202-349-5880
Toll Free: 866-730-0150
www.americansforprosperity.org
info@AFPhq.org

AMERICANS FOR PROSPERITY
FOUNDATION