

TABOR: Ten Years Later

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*The Bell Policy Center's
TABOR Project*

November 2001 through February 2003

Extensive research on TABOR's impact at the state level:

- TABOR and Spending
- TABOR and Taxes
- TABOR and the Economy
- TABOR and Democracy

March 2003

- Published *Ten Years of TABOR.*



MAJOR TABOR PROVISIONS

- Voter Approval of Revenue Increases
- Revenue Limits
- Spending Limits
- Limitations on Tax Options

TABOR is the most restrictive tax and spending limitation in the country.



KEY FINDINGS

TABOR has achieved its primary goal of restricting the growth of government.

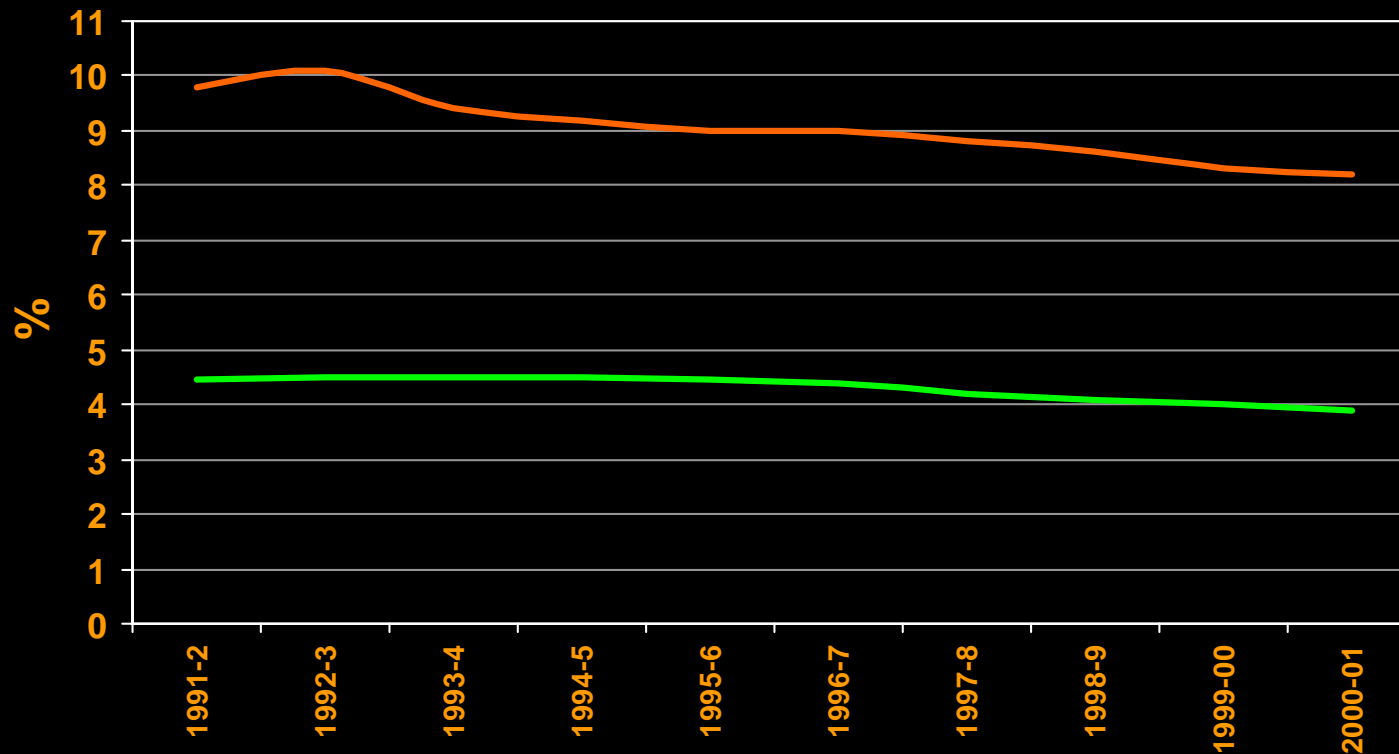
In fact, as a percentage of the economy, state government actually shrank between 15% and 30% during the decade.



SHRINKING GOVERNMENT

TABOR AND GROWTH IN GOVERNMENT:

State Expenditures and Tax Revenue as a Percent of Gross State Product

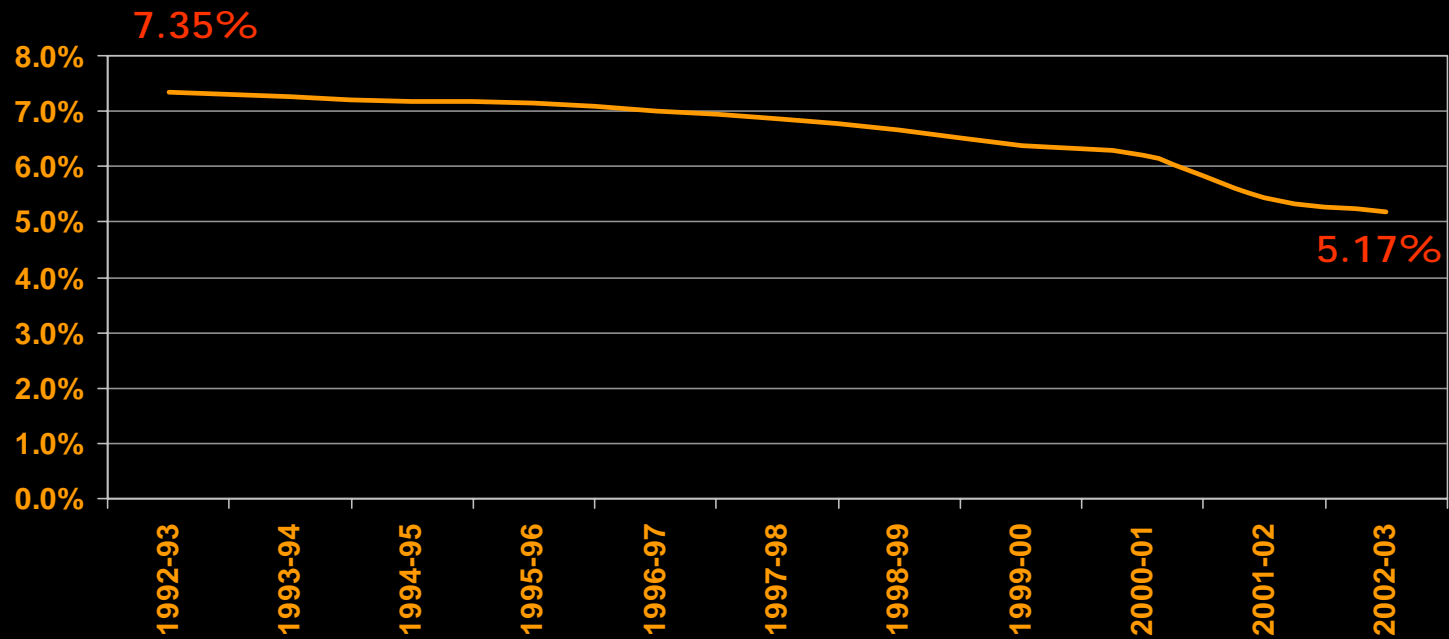


Source: State Controller's Office, Financial Report, June 30, 2002



SHRINKING GOVERNMENT

TABOR Expenditures as Percentage of Personal Income





KEY FINDINGS

However, TABOR's successes
have come at a very high
cost.

TABOR IS TOO RESTRICTIVE



Four Fundamental Flaws

- Services can't keep pace with growth in the economy.
- Temporary budget cuts become permanent.
- Multiple limits restrict flexibility and force false choices.
- Saving and planning very difficult.



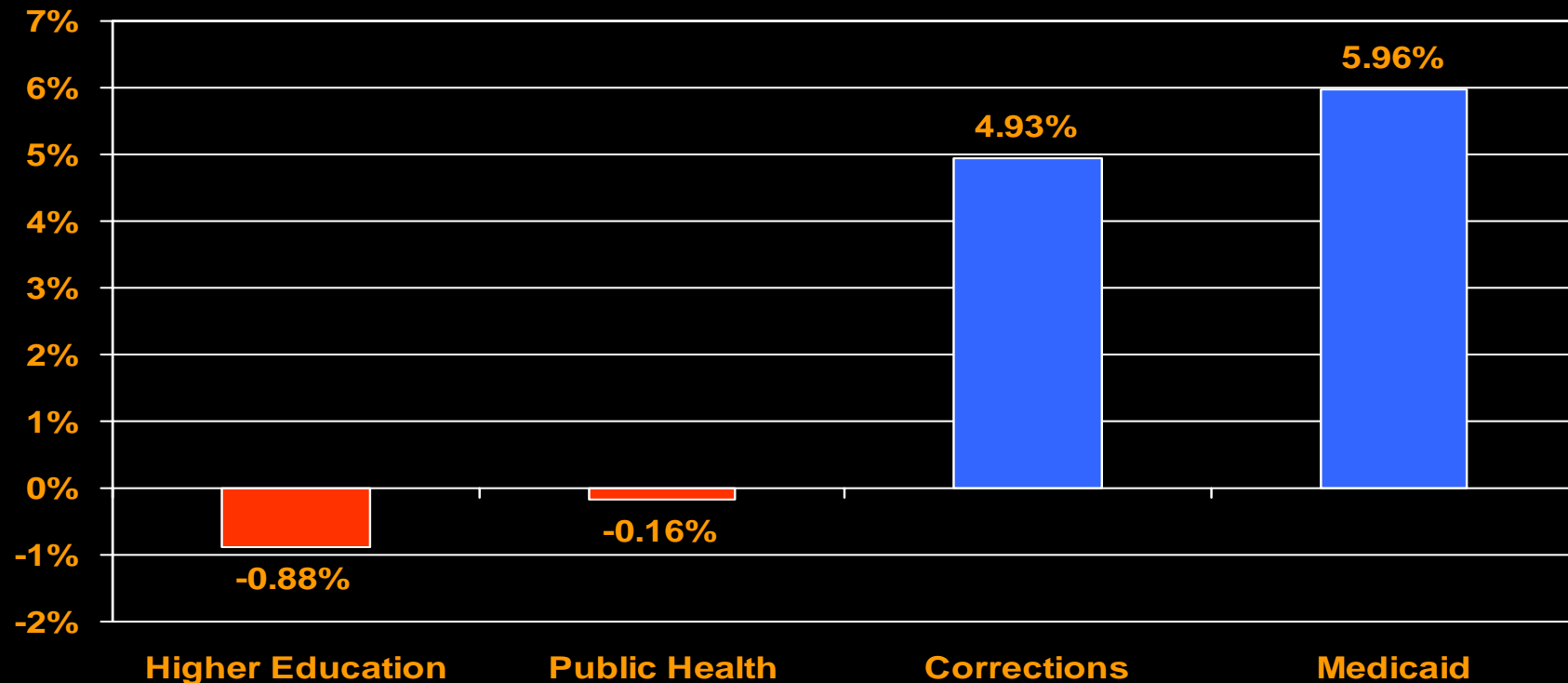
TABOR has deleterious effects in all segments of the boom and bust cycle.



Good Times

■ Restricts Ability of Services to Keep Up

**Average Annual Real Per Capita Change in Appropriations
1992-2002**





Good Times

- Restricts ability to save
 - Savings had to come at the expense of services
 - Services didn't even keep up with inflation and population
 - Money most states use to save was returned to taxpayers--\$3.2 billion between since FY 1998



Good Times

- Limits ability to invest and innovate
 - Restricting growth to CPI and population only doesn't allow for real growth
 - Real growth is the source of innovation and investment
 - Colorado has had to restrict investment in transportation, technology, higher education.



Bad Times

- No cushion to allow for counter-cyclical expenditures-Medicaid, Unemployment Insurance
- No savings or cushion means public sector spending is withdrawn from the economy at a time when the economy needs more spending
- Lack of investment and innovation means no ability to reap their savings



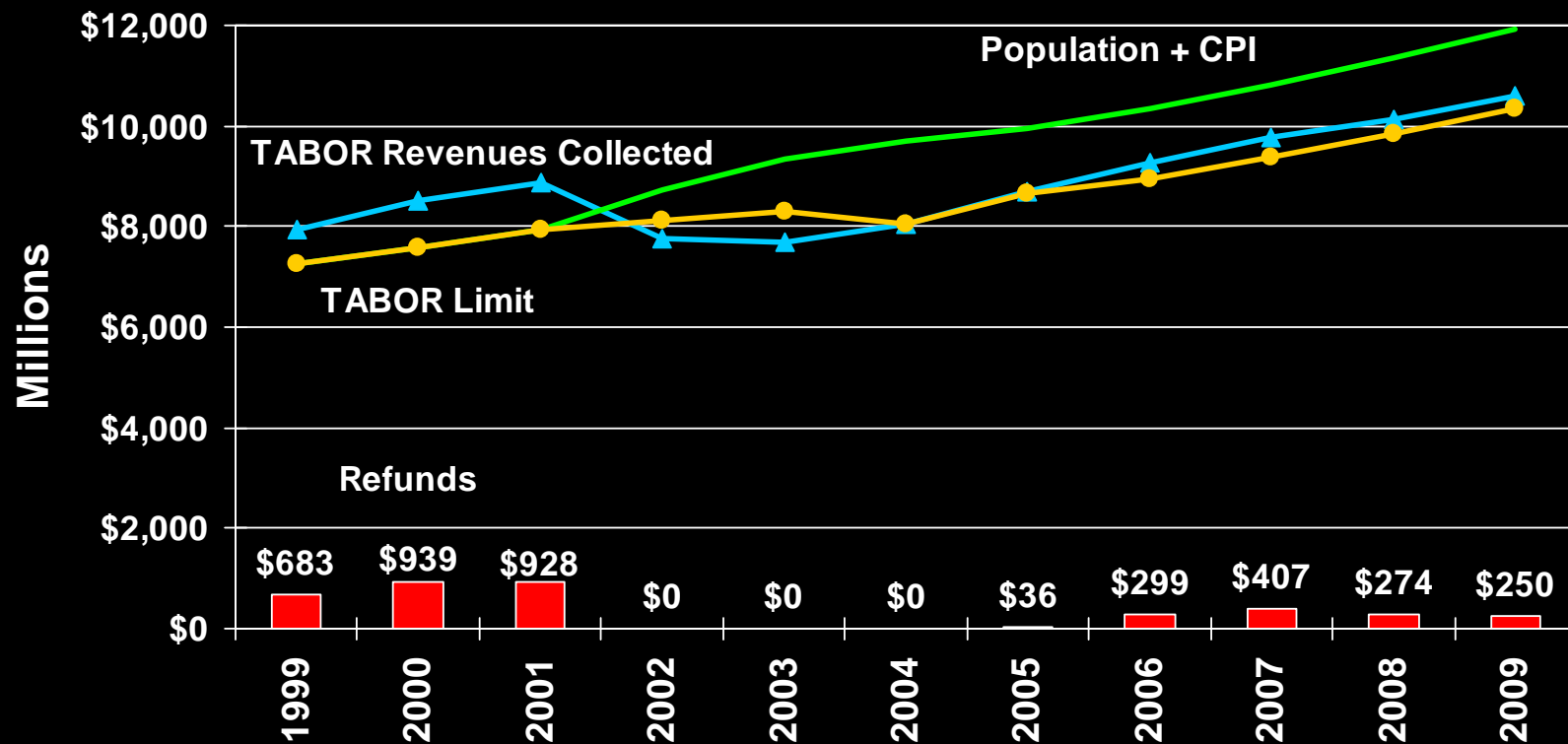
Economic Recovery

- Ratcheting means cuts can't be restored even when revenue is available



Cuts Become Permanent

The Ratchet Effect



The Ratchet Effect Applied to Water Supply:
Our Reservoirs are Always "Full."
The Drought is Permanent.

Do NOT fill
beyond this level



Photo source: Colorado Division of Water Resources, August 2002



Nothing fundamentally, economically unsound about limitations on growth in government but TABOR, as current written and applied, constrains government's role in the business cycle and its ability to respond to the inevitable changes in revenue that result.



CHALLENGE

Create a limit that allows government to be more responsive to the boom and bust of the economic cycle



The Bell Policy Center is
crafting a Practical, Workable
and Effective Solution



Solution

- Apply limitation to a constant base rather than refiguring the base each year—Eliminates the Ratcheting Effect on Revenue
- Allow for portion of excess revenue to be used for saving—Capitalize Rainy Day Fund



Solution

- Link government growth and contraction to overall economic activity
 - Limit size of government to a percentage of total personal income



Solution

- Eliminate conflicting limitations
 - Allow elected officials to use limited resources to meet the needs of citizens



NEXT STEPS

Propose initiatives, for 2004, that include the outlined improvements to TABOR

Through the Title Board process, explore single subject implications

Continue to develop consensus and coalition around TABOR amendments

Refine ideas and proposals to reflect best possible solutions –Research and outreach