



The Bell Action Network

The Voice of Opportunity for Colorado

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Testimony by Penfield Tate to the House Finance Committee Regarding HB 1194 - The Colorado Economic Recovery Act February 2, 2005

Testifying on behalf of the Bell Action Network, former State Senator Penfield Tate expressed concern about the permanent tax cut in the plan, and reaffirmed the Bell's continued commitment to a solution that would permanently change the spending limits at both the state and local levels, make it easier for all levels of government to save for a rainy day, and eliminate the weakening provision.

Former State Senator Penfield Tate presented testimony about The Colorado Economic Recovery Act (HB 1194) at the House Finance Committee on February 2. Following are his prepared remarks:

My name is Penfield Tate, and I am here today on behalf of the Bell Action Network, the lobbying affiliate of the Bell Policy Center.

In the summer of 2001, when the economy was still booming, the Bell Policy Center launched an extensive 18-month study of the effects of the TABOR amendment, testing assertions of TABOR supporters and detractors alike.

The result was *Ten Years of TABOR*, published in March 2003 - a report that is widely accepted as a thorough and accurate assessment of TABOR's strengths and weaknesses.

In the report, the Bell identified four structural flaws in TABOR. Those were - and are:

1. Because the spending limits are based on consumer price inflation rather than inflation in products the public sector actually buys, they virtually ensure public services will not keep pace with need and will have to be cut over time;
2. Because the annual spending limits are based on previous year expenditures, we have a ratchet effect that makes permanent the cuts forced by economic downturns;
3. Because of TABOR's so-called weakening provision, the existing statutory 6% general fund spending limit became, in essence, constitutional, restricting the legislature's flexibility to set priorities; and
4. Because the spending limits are so restrictive, and because of the definition of emergency in TABOR, it is very difficult for government to save for a rainy day.

We believe the best solution is a constitutional amendment to permanently change the spending limits at both the state and local levels, to make it easier for all levels of government to save for a rainy day, and to eliminate the weakening provision.

HB05-1194 is a long way from that ideal.

On the positive side, it moves away from consumer price inflation as the basis for spending limits at the state level, and it eliminates the ratchet effect at the state level by pegging limits to a specific year. And by allowing the state to keep more revenues, it creates an opportunity to build a rainy day fund.



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But as a statutory rather than a constitutional amendment, it does nothing to help cities, counties, school districts or special districts deal with these same structural flaws.

And as a statutory rather than a constitutional amendment, it does nothing to address the weakening provision that locks the 6% general fund growth limit rigidly in place.

Most troubling, however, is the inclusion of a tax cut in this measure, and let me explain why:

Our challenge is to restore very serious cuts that were made during an historic downturn in revenues and to ensure we are on a more stable path and able to invest for the future. Cutting taxes does not help us accomplish that goal - in fact, it will hamper our ability to maintain college stipends at their current level, to invest in highways or to restore other critical services cut in recent years.

And a tax cut is permanent. Under the rules of TABOR, the only way it can be reversed is by a vote of the people. At a minimum, that means that the rest of this measure should be permanent as well.

That's the principle I would recommend to you - if the tax cut is permanent, then the spending fix should be permanent as well.

I know there is a great deal of talk about sun-setting the provisions of this bill. But you cannot sunset the tax cut - so if you are going to put a time limit on the provisions that allow us to restore funding and invest for the future, then you should not have a tax cut in this bill at all.

Finally, let me address the issue of refunds. In our minds, the tax cut provides the refund up front. More to the point, the whole idea of refunds is not to be an entitlement, but to be a fail-safe provision in the case of explosive growth like we saw in the late 1990s.

A limit that results in refunds in times of extraordinary economic growth is probably prudent. But a limit that guarantees refunds in most years simply as an entitlement is a recipe for continued imbalance and continued crisis.

Thank you for this opportunity to express some of the Bell Action Network's concerns with HB05-1194. I am happy to answer any questions.