February 2002

Understanding TABOR:

The First Steps

The Bell Policy Center

Research • Advocacy • Opportunity

FOREWORD

In the nearly 10 years since its passage, The Taxpayer's Bill of Rights (TABOR) amendment has become one of the most hotly debated issues in Colorado. It is celebrated as a stimulant of unprecedented economic growth and vilified as a blunt tool blindly chopping services to the poor. It is touted as the best friend of tax-conscious businesses and ridiculed as an enemy of rational government spending policy. It is alternatively characterized as either controlling unmitigated government growth or strangling government innovation.

Whether demonized or sanctified, TABOR is clearly on everyone's mind. In recent meetings with community leaders and policy-makers convened by The Bell Policy Center, it was the one topic raised at every gathering across the state. TABOR has become the litmus test of economic conservatism in a state recognized for its anti-government tendencies. It is a major factor in virtually every fiscal decision. It has even spawned a new genre of ballot measures at the state and local level.

In summer 2001, the Bell conducted a 13-stop Listening Campaign to learn more about critical issues facing Colorado communities. In meetings with policy-makers, educators, non-profit workers and community leaders statewide, Coloradans said they are unclear about the effects of the amendment. Although TABOR has been in effect for nearly 10 years, almost all expressed unease about their ability to understand its implications for the operation of state and local governments. This uncertainty seems to be heightened by deteriorating economic conditions in the state and nation.

With a mission to reinvigorate the debate on important public issues, the Bell's goal is to explore and explain the effects of TABOR as we near the tenth anniversary of its passage. To start, the Bell reviewed the 1992 state voters' guide — or Blue Book — and literature and research produced by other groups. Then we surveyed fiscal policy-makers and experts on both sides of the debate to determine their impressions of TABOR. The results of these reviews and interviews, discussed later in this document, will serve as the basis for our research and a final report that will be released in summer 2002. To set the context, this document:

- provides a concise description of the major provisions of TABOR;
- outlines some of the most significant economic changes of the last decade that affect the implementation of TABOR;
- summarizes the findings of the Bell's survey of fiscal leaders;
- sets forth a research outline that will be the foundation of the final report.

UNDERSTANDING TABOR

The TABOR amendment contains numerous provisions that directly affect the government's ability to raise and spend revenue. TABOR applies to all levels of government in Colorado, from special districts such as fire protection and schools to county and state governments. Although various levels are treated differently, TABOR'S primary objective is to "restrain the growth of government" (Colorado Constitution, Article X, Sec. 20 (1)). Four of the most significant provisions of TABOR are:

1) TABOR Requires Voter Approval of Revenue Increases

TABOR requires advance voter approval of "any new tax, tax rate increase, mill levy above that for the prior year, valuation for assessment ratio increase for a property class, extension of an expiring tax or a tax policy change directly causing a net tax revenue gain" for any government. Tax rates, mill levies, and debt limits can be lowered without voter approval, but increasing them requires a positive vote.

2) TABOR Limits Revenue Collections

Referred to as spending limits in the state constitution, TABOR effectively limits the amount of revenue that a government can collect and keep by prescribing a formula for growth in spending (see box) and requiring that all revenue in excess of that amount be returned to taxpayers.

TABOR FORMULAS FOR CALCULATING ALLOWABLE GROWTH IN GOVERNMENT SPENDING:

CPI = Denver-Boulder-Greeley Consumer Price Index

STATE:	LOCAL:	SCHOOL DISTRICTS:
CPI + % Growth in Population	CPI + % Growth in Real Property Values	CPI + % Growth in Enrollment

In effect, TABOR prescribes that **state government** cannot grow faster each year than household-consumer prices plus population growth and that **local government** cannot grow faster each year than the value of real estate plus the increase in inflation.

Revenue collected in excess of these limits must be returned to the taxpayers in the following fiscal year by any "reasonable means," including refunds or temporary tax credits, unless voters approve of the government keeping and spending it.

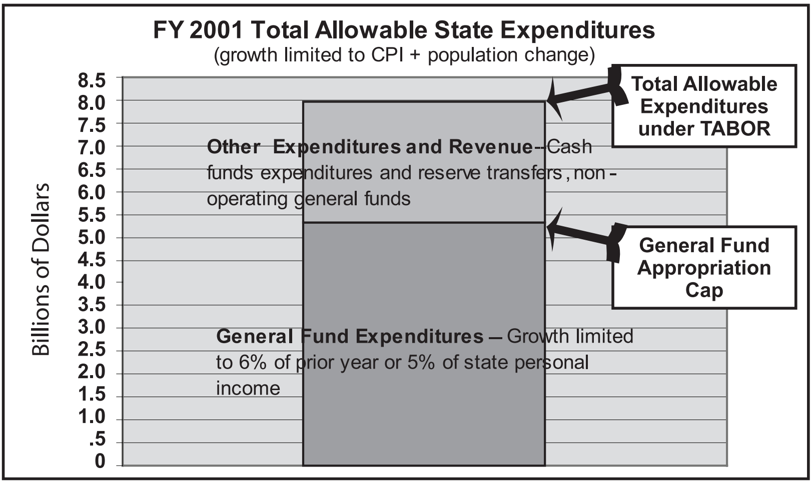
In 1997, the state exceeded the revenue limitation for the first time. Since then, each year through 2001, the state exceeded the limit and used a combination of temporary tax credits and refunds to return the money to taxpayers.

3) TABOR Limits Spending

TABOR limits the ability of government to spend the revenue it raises. TABOR states that "other limits on…revenue spending and debt may be weakened only by future voter approval." This rule, often referred to as the "weakening" provision, locked into place a 1991 state statute that limited growth in state general fund appropriations to 6% over the prior year's appropriation (or, if it is less, to an amount equal to 5% of state personal income). Similarly, some local governments had imposed spending limits which, after TABOR, could not be weakened without voter approval.

Expenditures can be lower than the statutory limits, but any money that is not spent in one fiscal year cannot be "saved" for use in the next year without being counted in the limit for that second year. Since the provision allows a percentage increase based on actual expenditures, any savings in one year effectively reduces the spending amounts in subsequent years.

The state limitation applies to general fund operating expenditures for state programs and agencies. Growth in other expenditures, such as capital construction and cash funded programs, is limited only by the TABOR revenue limitation (CPI plus population growth) explained in the prior section.



Source: Office of State Planning and Budgeting

4) TABOR Limits Taxation Options

TABOR places limitations on the kinds of taxes that can be proposed and implemented. The amendment specifically prohibits real estate transfer taxes, local income taxes and state property taxes. It requires that any state income tax change have a single rate, with no surcharges, and that all tax increases begin in the year following their enactment.

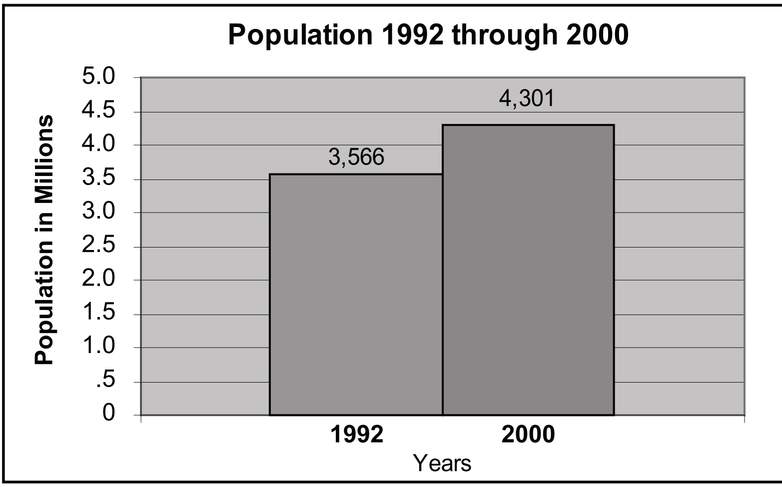
TABOR AND THE ECONOMY

To fully appreciate the impact of TABOR, the amendment must be considered in light of the 1990s economy. The Bell's final report will pursue this analysis, but here we provide a brief overview of the macroeconomic measures that directly affect implementation of TABOR at the state level. This review will help explain the perceptions of TABOR as articulated by our survey respondents. (See Perceptions of TABOR, p 11).

TABOR was implemented during a period of unprecedented economic expansion. Colorado's economy was one of the strongest state economies in the country, capturing top rankings from the Corporation for Enterprise Development every year from 1994 - 2001. This economic vigor directly affects TABOR implementation, since all government growth limits are tied to measures of economic performance.

Factors Affecting the Revenue Limit

Population change is one measure included in the TABOR growth formula at the state level. During the 1990s, Colorado's population increased an average of 2.3 percent per year — the third highest growth rate in the country. Between 1992 - 2000, the state's population grew to over 4.3 million people (see chart next page).



Source: U.S. Census Bureau

Inflation is the other factor used in the TABOR growth formula at the state level. The index of inflation used is the Denver-Boulder-Greeley Consumer Price Index (CPI). The CPI measures the costs of goods purchased by urban consumers in these areas. The CPI rose 24.2% from 1992 to 1998.[1] The combination of inflation and population growth set the state revenue growth limit as illustrated in the following chart:

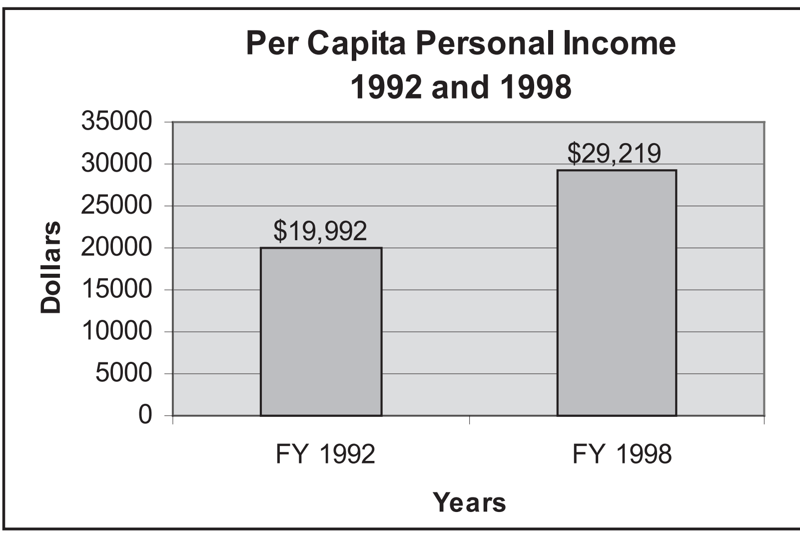
Calendar Year	1992	1993	1994	1995	1996	1997	1998	1999	2000
Denver-Boulder CPI	3.7%	4.2%	4.4%	4.3%	3.5%	3.3%	2.4%	2.9%	4.0%
Population change	2.7%	2.9%	2.6%	2.3%	2.0%	2.1%	2.0%	2.2%	6.0%*
TABOR Limit	6.5%	7.1%	7.0%	6.6%	5.5%	5.3%	4.4%	5.1%	10.0%

* Figure represents an adjustment to annual population growth for the decade based upon the decennial census.
Source: Office of State Planning and Budgeting

Factors Affecting Revenue Growth

The booming economy resulted in large increases in revenue collected at all levels of government.

The primary factor affecting revenue at the state level is personal income. During the 1990s, Colorado's per capita income grew the fastest in the nation. Between 1992 and 1998, per capita personal income grew over 46%. For 1998, per capita personal income was $29,219. (1998 is the latest year that estimates of personal income are available from the U.S. Census Bureau).



Source: U.S. Census Bureau

The second factor in the revenue equation is tax rates. For 1992-1998, state tax rates remained relatively stable. The state adopted permanent tax cuts in 1999 and 2000, but the effect of those cuts is not reflected in the fiscal years examined here.

The combined effect of increasing personal income and stable or falling tax rates was state revenue collections that exceeded the TABOR limit each year since 1997.

Fiscal Year	Allowed TABOR Growth Limit ★	Actual Growth in State TABOR Revenue
1997 (7/96 - 6/97)	6.6%	8.9%
1998 (7/97 - 6/98)	5.5%	14.2%
1999 (7/98 - 6/99)	5.3%	15.3%
2000 (7/99 - 6/00)	4.4%	17.4%

Source: Office of State Planning and Budget

★ Fiscal year limits are determined by actual growth in prior years. For example, the fiscal year 1999 limitation is determined by calculating year 1997 growth.

The revenue collected in excess of the TABOR limit means that over $2.322 billion[2] has been returned by the state to taxpayers through a variety of refund mechanisms, including tax credits and sales tax refunds. Local governments have also refunded significant amounts to taxpayers.

This cursory review of economic measures does not explain the impact of TABOR as much as it sets the context for future analysis. It does, however, help us understand what influences people's perceptions of TABOR. The following summarizes what policy-makers and experts are thinking about TABOR.

THE BELL POLICY CENTER SURVEY:

PERCEPTIONS OF TABOR

Because policy-makers and experts play a significant role in the implementation of TABOR, the Bell staff set out to survey the perceptions of this group. The staff designed a questionnaire of broadly worded, open-ended questions to elicit how this group perceived TABOR.

Those who responded cover the political spectrum and have a broad range of experience with TABOR. They represent both local and state government interests as well as other interests directly affected by government. In addition, respondents have been directly involved in the implementation of TABOR in some significant way. Questions were designed to explore the impact of the amendment in a number of areas: economics, politics, taxes and fiscal policy. Following is a brief summary of answers to specific questions:

Q: What impact has the TABOR amendment had on the economic and/or political landscape in Colorado?

Economic: While all those surveyed said that TABOR had played a role in the economics of the state, perceptions varied widely. Respondents said the amendment:

- had helped shrink the role of government during the economic expansion;

- was more than coincidental to the rapid expansion of the economy in the 1990s;
- had a stimulus effect that comes from the efficiency gained by letting individuals, rather than the government, spend the money;
- undermined infrastructure investment;
- made it more difficult for government to set policy;
- smoothed the effect of the business cycle;
- adversely affected the state's credit rating.

Political: The amendment was consistently described as having significant political effects. Respondents said TABOR had:

- increased competition for election resources;
- increased voter participation by increasing the number of issues that voters have a direct say in;
- decreased voter participation by creating complicated ballots that discourage voting;
- decreased the authority and/or flexibility of elected officials;
- created less recourse for the public in ensuring that projects, programs and ongoing services would have funds to meet basic needs.

Q: What have been the major effects of TABOR on the tax and fiscal situation in Colorado?

Taxes: Respondents said TABOR had:

- made the state legislature reluctant to further decrease taxes since they can't raise them without a vote of the people;
- reduced the options available to the legislature for addressing potential inequities in the tax system;
- created an overall tax system that is less regressive in its effects as a result of the variety of refund mechanisms adopted by the legislature;
- created increased uncertainty of tax policy because of the use of temporary tax cuts as a means of refunding excess revenues;
- permanently restricted government from enacting certain "unfair" taxes, such as the real estate transfer tax.

Fiscal Policy: The theme of decreased flexibility also was evident in relation to fiscal policy. Those surveyed said TABOR had:

- limited the tools that can be used to affect the economy — i.e., tax cuts can't be restored so the government can't shift reliance between various kinds of taxes;

- restricted the ability of government to help during economic difficulties, since the amendment specifically exempts economic conditions in the definition of emergency (TABOR mandates that governments reserve an amount equal to 3% of annual budgets for emergencies);
- resulted in program cuts even without any tax cuts;
- reduced spending even as needs had grown.

Q: If you were reading an analysis of the TABOR amendment, what questions would you like to see posed and answered?

Most respondents asked for more clarity on the effects of TABOR:

- How are spending limitations affecting state programs?
- Is there a more appropriate measure of economic growth than CPI plus population growth?
- Do Coloradans really comprehend the effects of TABOR — do they understand how the revenue and spending limits work, do they know that mill levies can't float, do they understand the 6% general fund spending limit, do they understand the weakening provision?
- Why have so many local governments been motivated to "de-bruce" — vote themselves out from under the provisions of TABOR?

THE RESEARCH OUTLINE

Building on issues raised by the survey results, literature search and 1992 Blue Book, the Bell will develop objective, quantifiable means of testing the effects of TABOR. For example, the project will attempt to:

- determine if TABOR has affected who bears the burden of taxes;
- determine if TABOR has reduced the role of elected officials and, if so, how this has impacted the fiscal and budget process and tax and spending decisions;
- study the effects of TABOR's election requirements to ascertain if they have increased voter participation, what they have cost, and how they impact civic participation;
- examine program expenditures in education, health care and training and determine if the funding levels for these programs have been affected;
- look to other states to see if Colorado offers more or less services and taxes its citizens at a higher or lower rate;
- determine if TABOR contributed to the economic growth of the 1990s.

CONCLUSION

Most people interviewed had strong overall negative or positive perceptions of TABOR. It is the Bell's goal to gather and analyze concrete data about TABOR to give individuals the ability to judge the impact of perhaps the most significant law change of the last decade.

[1] C.P.I. data — U.S. Department of Labor, U.S. Bureau of Labor Statistics.

[2] Office of State Budget and Planning, TABOR Refund, 1997-2000.

LET US HEAR FROM YOU!

The Bell strives to make its work relevant to public discussion, so we invite comment on the proposed research topics by April 1, 2002. Contact Carol Hedges, senior policy analyst at hedges@thebell.org or at The Bell Policy Center, 1801 Broadway, Suite 280, Denver, CO 80202.

The Bell Policy Center
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1801 Broadway, Suite 280
Denver, CO 80202

Address Correction Requested

303-297-0456 (voice) • 303-297-0460 (fax)
www.thebell.org