# TABOR: Amend, End, or Let it Be?

**How TABOR works:** TABOR restricts the amount of tax revenue that state and local government can keep. Any excess must be refunded to taxpayers. State revenues are allowed to grow by inflation plus population growth. Most local property tax growth is limited to inflation plus "annual local growth," except K-12 education, which is allowed to grow by inflation plus student population growth. TABOR also requires approval by a vote of the people for any tax increase.

These are the main provisions that most people think of when they think of TABOR. However, there are two other technical provisions in TABOR about which there is currently a hot debate. These are the "ratchet effect" and the "weakening provision."

**The Ratchet Effect:** Say that state revenues were $100 last year and that population grew 1% and inflation was 3%. In this case, the state would be allowed to keep $104. (1% + 3% = 4%) But what if the economy is weak, revenues are down and the state only takes in $90 in revenue? In that case, next year's revenue ceiling is about $94 even if the economy rebounds and the state generates $104 without raising taxes. Under TABOR's ratchet effect, services and most capital projects that are suspended during a downturn cannot be restored even when the economy recovers.

**The Weakening Provision:** When TABOR passed in 1992, a spending limit called Arveschoug-Bird had just been passed by the legislature. This law effectively limits growth of a portion of the state budget known as the "General Fund" to a maximum of 6% per year. The General Fund pays for most state services. The weakening provision of TABOR effectively locked the 6% limit into the constitution so that it can only be changed by the voters. So if we experience high levels of inflation, as we have in past economic cycles, the legislature cannot adjust appropriately and must substantially cut services even if they have funds available under the TABOR revenue limits. And these cuts are cumulative over the years.

**The Long Term View:** Legislative Services has looked at what impact TABOR, including the ratchet effect, would have had if it had been in place prior to 1992. Had TABOR passed in 1981, the revenue limit in 2000 would have been 65% of what was actually allowed. Given the economic cycles Colorado has experienced over the past 20 years, by 2000 there would be funding available to pay for that year's K-12 budget plus the state's portion of Medicaid, with a little left over. There would be almost no funding for prisons, higher education, the courts, parole, probation, mental health, child welfare, or at-risk youth intervention. All reform measures need to pass the tests of a long-term financial analysis. So, what are some of Colorado's options for change?

The background information in the packet describes some of the critical issues surrounding the TABOR Amendment. The following options are not exhaustive. They are offered as a way to stimulate your thinking about TABOR.

**Option #1:**
Repeal most of TABOR, but retain the right to vote on tax increases.

**Option #2:**
Maintain the citizens' right to vote on tax increases and a revenue limit based on population growth plus inflation. Eliminate the ratchet effect. Choose a revenue limit base year prior to the recent economic downturn, such as FY 2000-2001.

**Option #3:**
Maintain the citizens' right to vote on tax increases but change the limit to a percentage of statewide personal income, which eliminates the ratchet effect and is a much more generous limit over time than inflation plus population growth.

**Option #4:**
Don't change TABOR but allocate the TABOR surplus to a Rainy Day Fund with all excess revenue dedicated to K-12 public education to help fund Amendment 23 obligations. TABOR surplus refunds could be resumed by a popular vote in the future.

**Option #5:**
Maintain the citizens' right to vote on tax increases but change TABOR's revenue limit to a constitutional spending limit that can be exceeded with a supermajority vote of the state legislature.

**Other considerations:**
Should the "weakening provision" be eliminated?

Should local governments be allowed to permanently exclude themselves from the provisions of TABOR by a vote of the people?

Should a Rainy Day Fund or changes to the other constitutional fiscal policies be contingent upon changes to TABOR?

**What are *your* opinions and ideas?**