

**NEWS
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**COLORADO'S TAX AND EXPENDITURE LIMITS MORE A CAUSE
THAN CURE FOR STATE'S FISCAL PROBLEMS**

"TABOR" Worsened Fiscal Crisis, Will Impede Recovery

Colorado's "Taxpayer Bill of Rights" (TABOR), a 1992 constitutional amendment setting strict limits on state revenue and spending, contributed to the severe budget problems the state now faces and will hinder state efforts to address those problems, according to a new report from the Center on Budget and Policy Priorities.

These findings are sharply at odds with claims by anti-government activists that TABOR has enabled Colorado to weather the economic downturn better than other states and thus should be a model for other states and the federal government.

"Colorado isn't the oasis of sound budgeting that it is sometimes claimed to be," said Nick Johnson, the report's lead author. "Even before the downturn, studies said Colorado's finances were among the most poorly managed in the country due to TABOR. In 2003, the state had the second-largest budget shortfall in the nation as a share of the budget."

Colorado residents now are feeling the negative impact of TABOR. Colorado is investing less in schools, health care, and other services than most other states. In the coming years, TABOR will require reduced levels of spending even in the face of rising school enrollments, prison populations, health care costs, and other changes. The result will be continued erosion in public services.

TABOR Left State Unprepared for Recent Economic Downturn

Colorado has lost more jobs and income than virtually every other state during the downturn, primarily because its economy depends on sectors such as high-tech and tourism, which have been hit hard in recent years.

While TABOR is not to blame for the severity of Colorado's downturn, it did worsen the impact of the downturn on the state budget. For example, TABOR prevented the state from preparing for the downturn by setting aside revenues in a "rainy-day" reserve fund.

Even as late as 2002, when revenues were falling and Colorado was cutting services to help balance its budget, TABOR required the state to distribute close to a billion dollars in tax rebates. TABOR's flaws were the main

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reason why *Governing* magazine and Syracuse University, in two detailed, 50-state studies in 1999 and 2001, ranked Colorado's finances as among the worst-managed in the country.

Strict Revenue Limits Will Slow Fiscal Recovery

Under TABOR, state revenues may not grow faster in a given year than the sum of the population growth rate and the inflation rate. In some years, however (such as during the recent downturn), revenues decline or grow more slowly than the sum of population growth and inflation. In such years, the TABOR formula uses the new, reduced level of revenues as the base for computing the next year's limit.

As a result, over time TABOR is causing state revenues to fall further and further below what they would be if they had grown at the pace of population and inflation since TABOR's enactment. This is known as TABOR's "ratchet effect."

Under TABOR, even if Colorado's economy improves substantially starting this year, state General Fund spending — which has not grown in nominal terms since 2002 — will likely remain flat through 2006. Inflation and population growth over that period will steadily erode the government's ability to provide a range of services, especially since the downturn has expanded the need for services such as unemployment insurance and Medicaid.

"Even today, our public services don't compare favorably with those of other states," noted co-author Carol Hedges of the Bell Policy Center, a Denver-based nonprofit research institute. Colorado's K-12 class sizes are larger, and its teachers paid less, than the national average; only three states invest less than Colorado in public higher education; and the share of low-income children in the state who are uninsured is 50 percent above the national average. And the state is falling further behind. For instance, Colorado recently froze enrollment in its children's health care program, denying coverage to more than 15,000 low-income children.

"There's a growing consensus in Colorado on both sides of the aisle that TABOR is undermining the state's fiscal foundations," said Jim Zelenski of the nonprofit Colorado Fiscal Policy Institute, another of the report's co-authors. Yet this consensus has not yet made it possible to fix TABOR, in part because TABOR is so complex, and in part because of the hardened and well-financed opposition of TABOR's supporters.

The Center on Budget and Policy Priorities is a nonprofit, nonpartisan research organization and policy institute that conducts research and analysis on a range of government policies and programs. It is supported primarily by foundation grants.

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