1st Draft

#126 - TABOR Revenue and Property Tax Limits

The proposed amendment to the Colorado Constitution:

- Changes the limit on state government revenue, allowing the state to spend more money and reducing refunds to taxpayers; and

- Repeals limits on each local government's total revenue and changes the property tax revenue limit.

Background

The TABOR amendment to Colorado's constitution restricts the amount of money from taxes and fees that the state and local governments may collect and spend. This proposal changes some TABOR limits and repeals others. Both the current and proposed limits are defined as *spending* limits. In practice they are generally considered to be *revenue* limits because governments in Colorado cannot spend more than they collect.

State revenue limit. TABOR currently restricts state revenue growth to the rate of inflation plus the percentage change in the state's population, and any money collected above this limit must be refunded to taxpayers. Growth in revenue is further restricted when the state collects less than the limit allows, because the lower amount is used to calculate the limit in the future. For example, if the limit allows the state to collect and spend 7 percent more than in the prior year, but the state only collects 2 percent more in revenue, then the amount the state can spend in the future is permanently reduced.

This proposal sets a new revenue limit for the state using a fixed percentage of statewide personal income. Personal income is a measure of economic activity in the state; it includes all the money that individuals earn or receive in government assistance payments. In 2003, statewide personal income was $150 billion. The proposed limit caps state revenue at roughly 6.1 percent of personal income, which would allow a higher level of state spending than current law allows. State revenue is currently 5.1 percent of personal income. This increase in spending would come from money that would otherwise have to be refunded to taxpayers beginning after July 1, 2005. Just like current law, the proposal requires that any money collected over the limits be refunded to taxpayers. However, the proposed limits are estimated to eliminate any TABOR refunds for at least the next five years.

Tying the state's spending limit to statewide personal income means that state spending could increase to previous levels following a recession. For example, an economic recession in 2001 caused state revenue to decline, and state spending was cut to match the decline in revenue. Under current law, an economic recovery might increase what the state collects, but the state's revenue limit remains at the reduced level and any collections over the limit must be refunded to taxpayers.

Local government revenue. The proposal also affects the amount of money that local governments may collect and spend. Current law restricts what local governments may spend in total, and what they may collect from property taxes. This proposal repeals the overall limit, and substitutes a new property tax limit. Repealing the overall limits will generally allow local governments to collect and spend more than current law allows, except where voters have already voted to waive the current limits.

Increased property tax collections for most local governments are restricted under a formula that includes the rate of inflation. The proposal replaces the inflation rate with another factor — the change in per capita personal income — which will generally let local governments collect more property taxes than under current law.

Other limits. In addition to the specific limits described above, current law also requires voter approval to weaken other limits on revenue or spending. Under the proposal, this prohibition is repealed and the state or local governments may modify any such limits without first seeking voter approval. The proposal does not change the existing requirement that voters approve any new tax or tax rate increase. It also would not affect any previous election held under TABOR.

Arguments For

1) The proposal provides budget flexibility for the legislature to restore services that were cut or eliminated during the most recent economic recession, when state General Fund revenue declined by $1.1 billion. Without the proposal, the state will be forced to cut future services at the same time it is issuing taxpayer refunds.

2) By allowing state government to grow at an equal pace with the economy, the state can better meet the needs of its citizens. When TABOR first passed in 1992, state revenue was more than 7 percent of personal income. This proposal establishes a revenue limit of about 6 percent of personal income. In addition, the cost of providing government services, such as health care and prisons, often exceeds the rate of inflation. The rate of inflation may understate the actual cost of providing government services because it is based on household spending. Population growth may also understate actual costs because certain groups served by government, such as inmates, Medicaid recipients, and students, may grow faster than the state's population.

3) Colorado's business climate and future economic growth requires investment in roads, higher education, and public schools. Current revenue limits constrain government investment in these and other critical services.

Arguments Against

1) The proposal is equivalent to a tax increase. The increase in the state revenue limit will eliminate state taxpayers' refunds for the foreseeable future. Governments can already ask voters for a tax increase or to retain revenue if they need more money.

2) No change is needed in the amount of money that governments are allowed to spend. Current limits permit spending to grow as population and prices increase. The current limits require governments to live within their means and to be more efficient, while ensuring that Colorado residents keep more of their money.

3) The proposal may result in homeowners and businesses paying higher property taxes because the property tax revenue limit is greater than the one under current law. Higher property taxes make it harder for the state to maintain a competitive business climate and may cause businesses to choose to relocate to another state. Further, this proposal will eliminate the business personal property tax refund that businesses receive when there is surplus revenue because the state will not have surplus revenue to fund the refund for the foreseeable future.

Estimate of Fiscal Impact

Not available at this time.