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Think Tanks Debate "Taxpayers Bill of Rights"

John LaPlante

One of the most contentious fiscal issues to occupy state-level policy over the last decade is the "Taxpayers Bill of Rights." State-focused think tanks have taken lead roles in advocating and opposing such measures.

The measure is the latest version of tax and expenditure limitations. Some limits require super-majority legislative votes for tax increases, while others tie government growth to growth in personal income.

The Taxpayers Bill of Rights (TABOR) takes a different approach. Used in Colorado for over a decade, it limits the percentage growth of spending and tax collections to the sum of inflation and population growth. It also contains an opt-out: the limit may be exceeded with voter approval, with terms specified on a ballot question.

Colorado's measure has long been under fire, especially for its so-called ratchet effect. Under TABOR, the official spending limit is adjusted each year to accommodate expanding demands on government. But when tax collections fall—not merely grow at a slower rate, but actually decline one year to the next—the limit is ratcheted downward.

The leading advocate for TABOR is the **Independence Institute** (i2i.org), a group based in suburban Denver. The institute touts the economic benefits of TABOR. Every person in the state has received an average of $800 in refunds as a result of the law's requirements. It also credits TABOR for fueling Colorado's economic growth relative to the nation and region.

A leading critic of TABOR is the **Bell Policy Center** (thebell.org), of Denver. It argues that the limit requires draconian cuts, and dismisses the role of TABOR in the state's economic boom. Further, it says that the consumer inflation rate, used to calculate the limit, is much too stingy. Health care inflation regularly exceeds consumer inflation, and health care spending is a major component of public spending. TABOR advocates reply that the pressure applied by the limit is vital for government reform.

The dispute came to a head in 2005, when critics prevailed in a public election. Voters approved letting the state keep $3.1 billion over a 5-year period, money that would otherwise be returned in refunds. TABOR opponents claimed vindication. Pro-TABOR forces, while disappointed, pointed to the election as proof that the limit worked as designed.

The concept is being advanced in elsewhere. In 2006, according to the Bell Center, there have been TABOR campaigns in nine states. Legal and political developments kept plans off the ballot in six of those states. In a few weeks, voters in Maine, Oregon, and Nebraska will vote on some measure of TABOR.

The **Maine Heritage Policy Center** (www.mainepolicy.org) notes that state and local taxes in Maine, as a percentage of income, are 24 percent higher than the national average. It is conducting an extensive education campaign in favor of the ballot proposal, and says that it has been greatly outspent by opponents.

In years when Maine tax collections exceed the limit, 80 percent of the excess would be refunded to taxpayers, and 20 percent would be placed in a budget stabilization fund. A leading opponent is **Citizens United** (notabor.org), which says that the plan would "slowly and steadily cut funding for programs like health care, education and services for the elderly."

Drafters of similar measures face several questions: should it be constitutional, or statutory? Should some of the excess funds be put into a rainy day fund? If so, how much? How should refunds be distributed? Should the goal be to smooth out budget cycles, restrain spending growth, or some of each?

The answers to these and other questions—and the fate of the ballot questions in November—will determine the number and shape of expenditure limits for years to come.