A lesson for Ohio:
Colorado voters decide to suspend spending limits

Voters in Colorado decided November 1 that a constitutional limit on state spending should be lifted. The five-year suspension of the spending limit under what is called the Taxpayer's Bill of Rights (TABOR) is a victory for a broad coalition that saw how public services had been harmed by the spending limit. It sends a message to Ohio, where a similar proposal may be on the ballot next year: Such limits harm the ability of our state to make needed investments in our people and infrastructure. The following summary provides background on the situation in Colorado.

Colorado's Budget Restrictions

When TABOR was passed in Colorado in 1992, the act amended Colorado's constitution to limit the annual increase in revenue that state and local governments could spend. It required voter approval on all tax increases and mandated that tax dollars collected above the limit be returned to the public. TABOR limited growth of government services to a formula of inflation plus population growth. Since these factors do not accurately measure the increasing costs of government purchases, state services were virtually guaranteed to be cut.

Colorado also suffered a recession starting in 2001. During the recession, state revenues dropped below the previous year's spending level, leaving a deficiency of tax dollars needed for state services, much less that could be returned to the public. Because of provisions in the TABOR amendment, spending growth for the state has depended on the previous year's level of spending. The spending limits caused by the recession further exacerbated the funding problems in Colorado. The limits caused a downward "ratchet" effect, which meant spending levels were permanently lower even when the economy started to recover.

Because of TABOR, Colorado has suffered a drastic decline in public services since 1992. Education and health services were particularly hard hit:

- In 2000-01, Colorado ranked 49th among all states in current expenditures per $1,000 of personal income for public K-12 schools.
- Adjusted for student enrollment and inflation, the state's contribution to higher education in 2004-05 was 38 percent below its level in 1991-92.
- Colorado's ranking for expenditures on higher education relative to personal income dropped from 35th in 1992 to 48th in 2004.
- The percentage of Coloradans with no health insurance rose from 12.7 percent in 1992 to 15.6 percent in 2001, dropping its ranking from 24th to 36th.
- Colorado's ranking for on-time vaccination of children fell from 20th in 1995 to 50th in 2003.[1]

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[1] Bradley, David and Iris Lav. "In a League of Their Own." *Center on Budget and Policy Priorities*, June 29, 2005. http://www.cbpp.org/6-29-05sfp.htm

The 2005 Referenda

The Colorado constitution requires a popular vote to temporarily override the TABOR budget limits. Accordingly, to deal with the shortfalls caused by TABOR, Coloradans placed two referenda on the 2005 ballot:

Referendum C allows the state to spend revenue collected by the elimination of TABOR refunds for the next five years, estimated at $3.7 billion. It will establish a new spending base equal to the maximum revenue collected in any year during the initial five-year period, reducing the "ratchet" effect that permanently reduces later spending if revenues decline in a recession year. The referendum specifies that revenue retained be used to fund health care, public education, and transportation projects.

A second proposal, Referendum D, would have permitted the state to borrow up to $2.1 billion to be used for transportation projects, construction and maintenance projects for public education, and local fire and police pension obligations. Referendum D, which would only have taken effect upon the passage of Referendum C, was voted down by a narrow margin.

Support for Suspending TABOR limits

Support for suspending the TABOR spending limit came from a broad spectrum of citizens. Educators, healthcare workers, nonprofit associations, firefighters, and road construction crews were recognizable supporters who would benefit from a return to reasonable state funding levels. The Colorado Nonprofit Association, which represents the state's 17,000 nonprofits, as well as other leading organizations such as Pikes Peak United Way, and Colorado State University, were also visible supporters of the initiatives. However, just as prominent in the campaign to suspend the spending limit were the business leaders of the state. The Colorado Association of Commerce and Industry urged all members and businesses to educate their workers about the imminent shortfalls in the state budget should the referenda fail.[2] Commerce and economic development groups in fifteen major communities supported the suspension of the TABOR limits, as did Colorado Concern, a group of 80 top CEOs and business leaders in Colorado. Even the Chamber of Commerce in Colorado Springs, the community that originated the TABOR amendment, endorsed putting the spending limit on hold. This broad coalition counted Colorado's Republican governor, Bill Owens, in its number. Owens, a longtime TABOR supporter, was concerned about Colorado's deteriorating ratings on measures of health, education, and the environment, as well as the deteriorating infrastructure of the state. He was a vocal proponent of suspending the spending limit.[3] The governor did not want to be faced with a state budget that, according to an October 20 memo by his budget director, would have had

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[2] Lewis, Al. "Big Business Hungry for C, D Passage." *Denver Post*, October 16, 2005. http://www.denverpost.com/legislature/ci_3120954
[3] Frates, Chris. "Verdict Out on Governor's Future." *Denver Post,* November 2, 2005. http://www.denverpost.com/politics/ci_3173638

to cut $365 million in the next year that would close parks, raise college tuition, and eliminate programs that feed the elderly, to name a few examples.[4]

By passing Referendum C and suspending the TABOR spending limits, Coloradans made it clear that increasing program funding to reasonable levels has become a necessity for the state.

Tracking TABOR in Ohio

The outcome of Colorado's election has important implications for Ohio. Citizens for Tax Reform, a private organization chaired by Ohio Secretary of State J. Kenneth Blackwell, has put forward a proposed TABOR amendment to the Ohio Constitution. This proposed amendment is similar in structure to Colorado's TABOR amendment.[5] It would impose an overall cap on state spending and a separate spending cap for each local government, likely resulting in the same kind of funding shortfalls for school districts, social services, and infrastructure that Colorado has seen under TABOR. Policy Matters Ohio has issued a report, *"Flawed By Design: A Review of the Proposed Tax and Expenditure Limitation Amendment,"* which details the structural problems with a TABOR amendment. The report is available at http://www.policymattersohio.org/flawed_by_design.htm. Ohio does not need a tax expenditure limitation amendment to exacerbate its already lagging performance on too many measures of education and health and human services. Colorado's experience with TABOR should be a lesson in caution to those seeking simplistic solutions to Ohio's problems.

[4] Couch, Mark. "Budget Cuts Detailed in a Ref. C Defeat." *Denver Post*, October 21, 2005. http://www.denverpost.com/legislature/ci_3137176

[5] Bradley, David & Iris Lav. "In a League of Their Own." *Center on Budget and Policy Priorities*, June 29, 2005. http://www.cpbb.org/6-29-05sfp.htm