Support HB 17-1187: Change Excess State Revenues Cap Growth Factor

Sponsors: Rep. Thurlow, Sen. Crowder

HB 17-1187 is a better way to measure government growth

Article X, Section 20 of the Colorado Constitution, also known as TABOR, contains an arbitrary limit on government growth that neither accurately reflects what is occurring in the economy nor serves as a realistic measure of government growth. HB 17-1187 modernizes the current TABOR formula by tying revenue growth to personal income, a much more accurate indicator of the economy and a more reflective measure of state revenue.

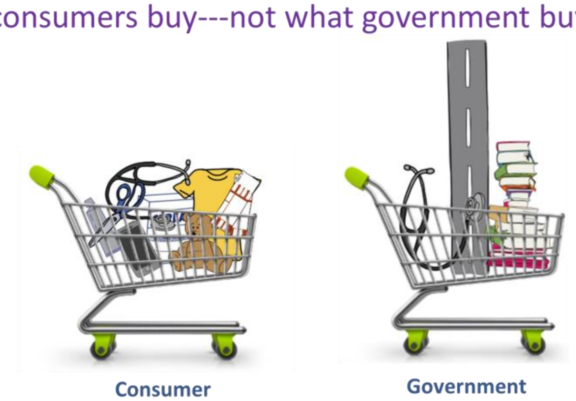
Consumer inflation plus population is an inaccurate measure of the economy

Every state has a limit on how much the state government can spend each year. It's called economic growth. This is because every state's tax revenue systems are based on how well the economy is doing. When the economy slows, so does tax revenue, and this means less money to invest in public services such as roads, schools, police and parks. Likewise, for most states, when the economy is booming, policymakers can increase public investments and retain revenue to protect against the next economic downturn.

However, in Colorado, that isn't the case. Colorado decided to further limit how much money the state can collect. Article X, Section 20 of the Colorado Constitution, also known as TABOR, limits revenue growth to the rate of consumer inflation plus population each year. If the state collects more in taxes and fees than the limit allows, that extra revenue gets returned to taxpayers in rebates.

This formula is a terrible way to limit revenue. It is not linked to what the state buys; it's linked to what consumers buy. This inflation metric is calculated by the items that a typical Colorado consumer buys: haircuts, cereal, clothes, cell phone bills and airline tickets, for example. This doesn't measure the costs of public services such as education, transportation and healthcare, which comprise the majority of what Colorado's government purchases.

The current TABOR formula measures what consumers buy---not what government buys



For example, since 1993, prices of consumer goods have grown by 64 percent, while the cost of education has increased 207 percent, the cost of health care increased by 122 percent and the cost of building roads has doubled. So, even if state revenue is allowed to grow by the rate of consumer inflation each year, the state loses ground in real dollars, since what the state buys grows faster in price than the goods a consumer buys.

Businesses don't look just at consumer inflation, either. A construction company, for example, might look at the costs of bricks and concrete and the costs of hiring bricklayers and electricians — not the costs of milk, pantyhose and toasters. In other words, just as any business's costs are dictated by the goods and services it buys in its individual sector of the economy, so are the state's.

Personal income is a better measure of economic growth

Instead of a revenue limit that is adjusted by the rate of consumer inflation and population growth each year, state revenue collections should be measured by personal income, a more accurate reflection of the economy and the actual source of state tax revenue. Personal income is basically the sum total of all household earnings in Colorado in a given year.

Vote yes on HB 17-1187!

HB 17-1187 ensures that the growth in government is measured by a five-year average of personal income, an accurate measure of economic growth but also one that avoids sudden spikes or drops in revenue. This change will require that government growth be limited by actual economic growth, instead of an arbitrary measure of consumer spending, and allow policymakers to make budgeting decisions based on current economic conditions.

Twenty-five years after the installation of TABOR, it is time we move forward with this commonsense modernization of the TABOR formula and invest in our state in a more fiscally responsible manner.

For more information, please contact:

Ali Mickelson
Colorado Fiscal Institute
mickelson@coloradofiscal.org
720-379-3019 x 222

Carolyn Siegel
Siegel Public Affairs
carolyn@sielgelpa.com
303-710-2856

Colorado Fiscal Institute
1905 Sherman St., Suite 225
Denver, CO 80203
www.coloradofiscal.org