MINNESOTA BUDGET PROJECT
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Constitutional Revenue Limits Damaged Colorado's Business Climate, Quality of Life

Colorado provides a clear example of how strict constitutional revenue limits fail to improve a state's business climate and quality of life. Since the passage of their revenue limit, known as the Taxpayer Bill of Rights or TABOR, Colorado has found itself falling behind in many economic performance and achievement indicators. Colorado's economy, hamstrung by TABOR, was not able to recover strongly from the 2001 recession. Ultimately, a bipartisan, broad-based coalition of state leaders and groups succeeded in temporarily suspending TABOR in 2005 – but not before it had caused great damage to the state's education system, health care and fiscal stability. As Minnesota considers strict revenue limits, it's important to consider the unintended consequences they create.

Education

TABOR forced drastic education funding cuts in Colorado, leading voters to approve another constitutional amendment in 2001 that guarantees inflationary increases in K-12 education spending.

- Before TABOR, Colorado was a middle-of-the-pack state in terms of education funding. By 2001, Colorado had fallen precipitously to near dead last (49th) in K-12 spending as a percentage of personal income.
- Teacher salaries dropped compared to the national average, falling from 30th to 50th in the nation.
- Colorado fell to 48th in the nation in state funding for higher education as a share of personal income. As a result, tuition has increased dramatically, creating a financial barrier for students seeking degrees.

Health Care

TABOR forced reductions in funding for health care services for Colorado workers, families and seniors. These services were particularly vulnerable to inflexible spending caps because costs in both the public and private sectors rose faster than the limit. The aging baby-boomers will place additional pressures on the need for health care services in the future.

- After 10 years of TABOR, Colorado had fallen from 23rd to 48th in the nation in access to adequate prenatal care, a sign of funding shortages in local health clinics.
- The state also plummeted from 24th to 50th in the nation in the share of children receiving their full vaccinations. At one point, Colorado suspended the requirement that children be fully immunized before enrolling in school because there were not enough state funds to buy the vaccines.

Economic Development

TABOR did not improve Colorado's economy as promised. Instead, it delayed the state's recovery from the 2001 recession.

- In the 12-year period after TABOR was passed, Colorado's job growth lagged behind that of its Rocky Mountain neighbors.
- Immediately following the 2001 recession, Colorado general fund revenues fell by about 17 percent – much higher than the national average of only four percent – leading to one of the largest shortfalls in the nation as a percentage of the general fund budget. Colorado was one of the final states to emerge from the 2001 recession.

Fiscal Stability

TABOR created instability for businesses, communities and families when Colorado entered the economic recession. At a time when businesses and families needed services most, the public sector became a weak partner in the recovery.

- Prior to the 2005 time-out from TABOR restrictions, bond-rating agencies downgraded Colorado's credit rating because of TABOR's effect on the state's fiscal stability. Standard & Poor's report raised the concern: "the state will

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be forced to permanently collect revenues at a level reflective of the bottom of a recession, adjusted only for changes in population and inflation, regardless of future economic growth."

- After less than a decade of TABOR, *Governing* magazine ranked Colorado's finances as among the worst managed in the country.

Sources

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