



TABOR AND TODAY'S ECONOMY

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We aren't in a recession, at least yet. Economic growth was positive in the last quarter of 2000. Most economists, including Alan Greenspan, are guessing that it is probably no lower than zero now. But the threat of an economic downturn has already caused Colorado legislators to think twice about the level of highway spending proposed. Ironically, any cutbacks in state spending will only reinforce any tendencies in the economy toward recession. Contractors and workers will see their paychecks go down, and consumer and business confidence will suffer..

Most citizens like the fact that the state cannot get into a deficit spending bind and wouldn't want to abandon the balanced budget principle. But one result is that when times are good government contracts for highways and public buildings, and when times are bad it tightens its belt. There is a simple way that state government can be a stabilizing rather than a pro-cyclical force in the Colorado economy. It requires the state to plan ahead for the fact that good times don't last forever. It also enables the state to save substantial sums on constructions costs in public projects.

In a few states, when personal income growth is above average, a predetermined percentage of tax revenues is set aside into a "rainy day" fund. The fund is invested in Treasury securities and other safe investments and can be drawn down only when there is an economic downturn. This dampens state spending when the economy is already booming from consumer and business spending, and gives it a boost when other areas are faltering.

Not only does such an approach put the state in the role of smoothing out economic ups and downs, rather than exacerbating them -- it also saves taxpayer money. The way we do things now, highway and other capital construction projects are at their peak in the state budget at the same time that the private sector is paying top dollar to get work done. If the state budgeted money to spend on projects during downturns it could get the same work done for fewer dollars, saving the taxpayer substantial sums.

Do we have a rainy day fund approach in Colorado? Could legislators adopt one? The answer is no. Article XX of the Colorado Constitution, enacted by popular vote in response to the 1992 "TABOR" initiative, not only forbade new taxes. It also stipulated a number of other budgeting and tax rules. They include the fact that the state must have an "emergency reserve fund" which is 3% of the annual budget. However, this emergency reserve fund is *specifically forbidden* for use in economic emergencies. It can only be used in the case of a natural disaster like a flood or tornado, and all dollars used must be repaid by the close of the fiscal year.

Given the restrictions on the use of the TABOR based emergency reserve fund, it is necessary to continue having a general fund reserve. By a majority vote, this can be reduced from by one or two percentage points, freeing up some funds for other uses in a downturn. But the general fund reserve is not a true rainy day fund. In a downturn, prudence will restrict the amount legislators will take from the fund. If even 1% of the budget had been set aside during each of Colorado's years of economic boom, there would be a much greater cushion this year to support continued funding of highways, schools, and other basic expenditures.

Under the current provisions of TABOR, the legislature cannot legally hold over money from one year to the next. Any excess funds must be returned to taxpayers through tax cuts or refunds rather than saved for a rainy day. This is just one example of the many provisions in TABOR which affect state and local budgeting. Since TABOR took effect in 1993, Colorado has seen nothing but good economic times. If current perceptions of a slowdown turn out to be correct, it will be interesting to see how TABOR's constitutional provisions work when the economy slows down

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