

Colorado – We Lost Control

Executive Summary

I was inspired by a question from an acquaintance to find out what, here in Colorado, TABOR has done to the perceived spending proclivities of our elected officials. Has TABOR limited spending and, if so, how much?

I compared the growth of four major Colorado economic metrics over the 1993 to 2008 time frame. These metrics were: (1) Constitutional TABOR limit, (2) Actual TABOR spending, (3) Appropriation (total state spending) and, (4) Colorado's Gross Domestic Product (GDP).

I found that the growth of the Constitutional TABOR limit (population growth plus inflation) for programs controlled by TABOR over the period analyzed was 210%. The actual spending growth on TABOR controlled programs over this same period was 170%. The difference can be accounted for by the economic downturn which began in 2001 that resulted in lowered revenue streams and therefore reduced spending profiles for TABOR controlled programs.

Colorado's appropriations (read - total spending including TABOR spending) increased 280% by 2008 over the appropriation level in 1993. The explanation for the difference between the growth of the TABOR limit (210%) and growth of appropriations (280%) was articulated quite well by Colorado's Legislative Council:

"... the TABOR limit is not a limit on total appropriations but instead limits certain types of revenue. Most General Fund revenue is subject to TABOR and between a third and half of all cash fund revenue is subject to TABOR, depending on the year. Federal funds are not subject to TABOR's limitations."

TABOR programs account for about 50% of total Colorado's spending. The remaining 50% is controlled by legislative and/or judicial action and/or voter wants and/or Federal funds. Therefore, we the citizens of Colorado thought we were in control via TABOR but in reality our control via TABOR is limited and in many cases non-existent.

The real surprise came when the growth of the yearly appropriations was compared to the yearly growth of the State's Gross Domestic Product (GDP) for years 1993 to 2008. As mentioned earlier, appropriations rose to 280% from 1993 to 2008. The GDP rose 270% over the same period. In fact, a graph of appropriation and GDP growth seem to overlap each other. Again, the Colorado Legislative Council explains the similarity between GDP and appropriation growth by stating:

“Most sources of state revenue are dependent upon the strength of the economy. Therefore, perhaps it is not surprising that state spending—which is dependent upon revenue, some of which is not subject to the TABOR limit—would share a pace closer to economic growth than population plus inflation.”

An alternate explanation should be considered. The GDP measures productivity of workers. The appropriations essentially are a measure of how much money is collected from Colorado’s citizens. Since the growth rates are similar, Colorado seems to take money from its citizen based on the citizen’s productivity and not (as it should) in accordance to Colorado’s needs. Otherwise, there would be a difference in growth patterns between the GDP and appropriations.

Therefore, the answer to the question posed above is surprising. TABOR and for that matter, we the taxpayers in Colorado via TABOR, have little or no affect on total spending. We somehow lost control of how our representatives in state government spend our money. Our representatives spend our money in accordance to how productive we are and not in accordance to our needs.

A new question arises. Did they forget whose money they are spending?

Colorado – We Lost Control

INTRODUCTION

I got a question earlier this year. How has TABOR controlled government spending? That was an interesting question since I thought everyone knew TABOR controls spending. I didn’t have a good quantitative answer. All I could say was – TABOR is supposed to limit spending according to a voter approved formula which includes population growth and inflation.

I was inspired by the question to find out exactly what TABOR has done to the perceived spending proclivities of our elected officials. Did TABOR limit spending and, if so, how much?

The answer I got to the question was surprising.

THE SEARCH

There are four basic metrics that I have chosen to quantify Colorado’s economic growth: (1) TABOR spending limit as defined by Colorado’s Constitution, (2) Actual spending on TABOR controlled programs, (3) Appropriations i.e. total state spending and, (4) Colorado’s Gross Domestic Product (GDP).

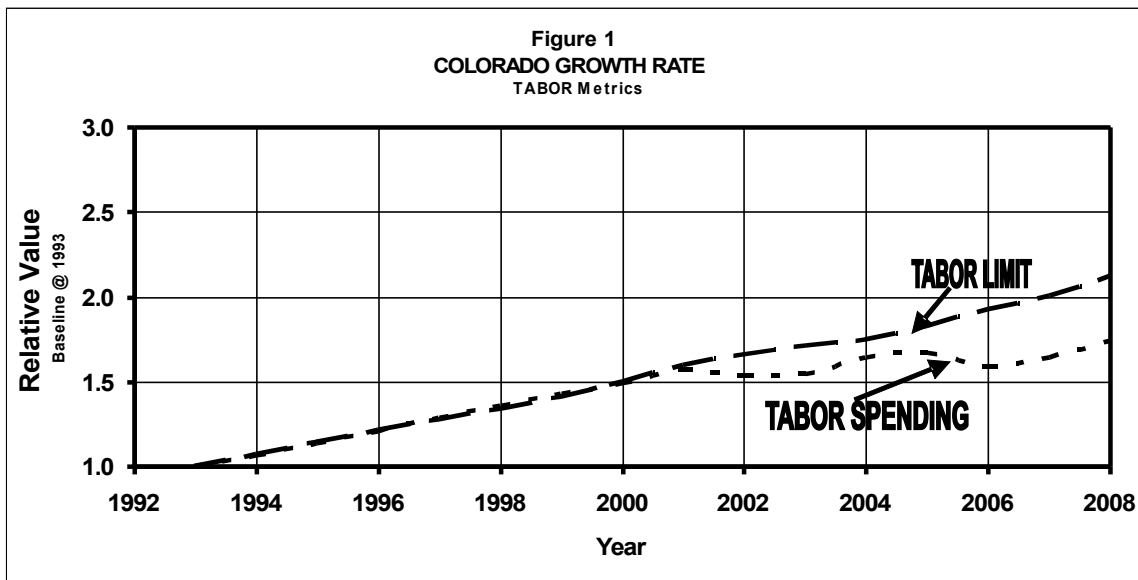
Information and data on these four metrics were gathered from the Bureau of Economic Analysis, Colorado Legislative Council, Bureau of Labor Statistics and Colorado’s Joint Budget Committee.

Given the fact that the absolute value of these growth metrics vary widely, the best way to analyze growth and visually depict differences is by normalizing each to one. That is to say all values that I used to compare relevant metrics of Colorado growth are assumed to be one at a chosen year and then proportionately higher than one in subsequent years. When the data is plotted, the normalization procedure allows one to visualize and easily compare the growth trends of each metric.

THE DATA

Figures 1, 2, and 3 show the progression of my analysis – from a quantification of a couple of TABOR growth metrics to a comparison of the growth of appropriations and Gross Domestic Product (GDP). The time frame analyzed was from 1993 to 2008 with a normalization point of one in 1993.

Figure 1 shows the growth of the TABOR limit on spending (defined in Colorado’s Constitution as an increase in spending per year equal to the previous year’s percentage increase in population plus inflation) starting at the normalized value of one in 1993. Figure 1 also shows the actual spending growth on TABOR controlled programs, also normalized to one in 1993.



As can be seen the TABOR limit rises to just above two in 2008. That is to say, it more than doubles by 2008 from its value in 1993. However, as shown in Figure 1, the actual spending on TABOR controlled programs never reaches the limit in 2008 that is allowed by TABOR. From 1993 to 2001, the TABOR spending growth matches quite well that of the TABOR limit. These were the boom years where all TABOR programs were fully funded and taxpayers even got a refund. The bubble had burst in 2001. The tax revenue of previous years was

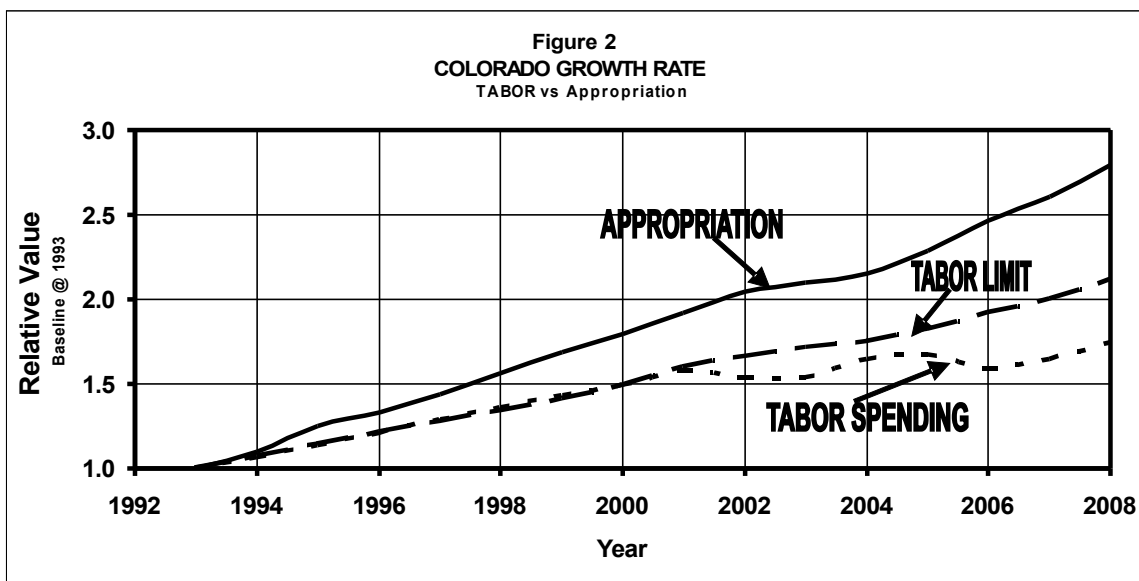
unobtainable. As a result, spending on TABOR programs decreased and the spending growth deviated from the TABOR limit.

TABOR spending went up and down during the subsequent years of 2002 to 2008. Unique actions by the legislature, many times with voter approval, periodically acquired additional revenue, e.g. the 2004 and 2005 growth dividend as well as Amendment 35 tobacco amendment in 2004. The constitutional requirements of TABOR took hold at times and, at times the economy continued to falter. In 2005 the electorate passed Referendum C which allowed the Colorado government to spend, on TABOR controlled programs, whatever they received from the taxpayer without any regard to constitutional TABOR limits.

Analysis of Figure 1 data can be summarized as: (1) The TABOR limit rises nicely from 1993 to 2008 since Colorado's population continued to grow and inflation continued to devalue the dollar; (2) The TABOR spending matches the TABOR limit from 1993 to 2001; (3) After 2001, TABOR spending deviates from the TABOR limit and levels out with some bumps due primarily a faltering economy competing with new revenue streams; (4) TABOR spending then rises again beyond 2006 due to Reference C.

It seems that hard economic times trump TABOR (as it should) and in boom years TABOR does its job.

Figure 2 compares the growth of the constitutional TABOR limit and TABOR spending (from Figure 1) to Colorado's appropriation growth (read - growth in the budget or growth in total state spending). As stated earlier, all data has been normalized to one in 1993, then rises proportionately.



It is obvious that the appropriation growth doesn't match the TABOR limit growth or TABOR spending growth. The appropriation growth is about 55% faster than the TABOR limit growth and much faster than the TABOR spending growth. The reason is articulated quite nicely by the Colorado Legislative Council,

"... the TABOR limit is not a limit on total appropriations but instead limits certain types of revenue. Most General Fund revenue is subject to TABOR and between a third and half of all cash fund revenue is subject to TABOR, depending on the year. Federal funds are not subject to TABOR's limitations."

Therefore, TABOR only controls part of our State's spending. In 2008 the total appropriations totaled about \$18B, up 280% from 1993. The TABOR spending was about \$8.8B, up 170% from 1993. The TABOR limit would have allowed a spending level of about \$11B, up 210%.

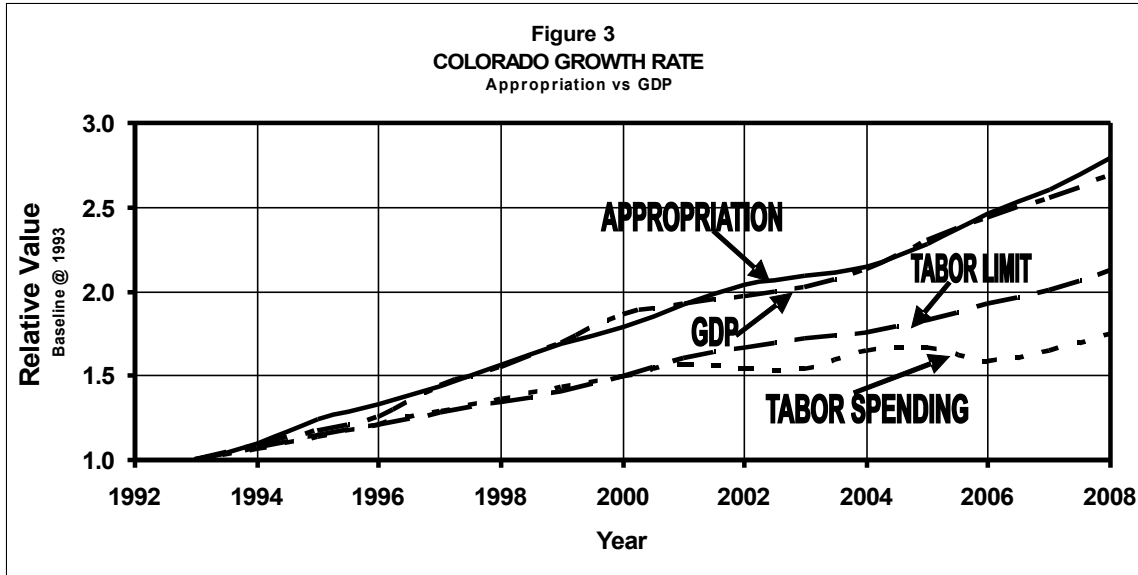
There are many programs as well as fund sources that are exempt from TABOR (see above from Colorado's Legislative Council). These account for about 50% of the appropriations. Programs that are exempt from TABOR limits and not counted in TABOR spending include Federal funds as well as cash exempt programs (those programs funded by legislative action with voter approval). TABOR controlled programs (general fund and non-restrictive cash funds) account for the remaining 50%.

CONCLUSION No. 1

We can conclude that TABOR, the most maligned part of any economic discussion, contributes little to controlling the budget. Comparing TABOR spending to appropriations in Figure 2 shows that even when TABOR spending on TABOR programs leveled out in the early 2000's (a rise of only 11% in 2008 from the 2001 value), the appropriation growth i.e. total state spending growth increased substantially (a rise of 45% over the same period). One may now ask a question. How did TABOR control total state spending? The answer is obvious. Our elected representatives in Colorado's government found ways around TABOR in order to keep appropriation growth on its steep track.

THE SURPRISE

Figure 3 compares growth of appropriations to Colorado's GDP and for completeness shows the growth of the TABOR limit and TABOR spending from the baseline year of 1993 to proportionately higher values up to year 2008.



Here is where it gets interesting. As can be seen the growth of appropriations almost exactly matches the growth of Colorado's GDP and both grow much faster than either the growth of the TABOR limit or the growth of TABOR spending. As stated earlier, TABOR spending grew 170% from 1993 to 2008 while the TABOR limit grew 210%. Colorado's appropriation (total state spending) grew 280% to close to \$18B in 2008 while Colorado's GDP grew 270% to \$250B in 2008.

The differences between appropriation growth and TABOR growths have been discussed (see above). But, why is there a strong similarity between the growth in appropriation (total state spending on all programs) and the growth of Colorado's GDP?

The Colorado Legislative Council offers the following clinical, technical explanation:

"When indexed, total appropriations and Colorado's gross domestic product (GDP) have grown at a closer pace than total appropriations and the TABOR limit or other indicators such as population plus inflation growth It is difficult to provide a single explanation for why total appropriations have grown at a rate similar to economic growth. Most sources of state revenue are dependent upon the strength of the economy. Therefore, perhaps it is not surprising that state spending—which is dependent upon revenue, some of which is not subject to the TABOR limit—would share a pace closer to economic growth than population plus inflation. That said, state spending is determined by a number of other factors including legislative actions and federal and constitutional spending mandates. State spending is also a part of economic activity and is therefore reflected in the growth of

Colorado's GDP. It is likely that some or all of these factors play into why these growth rates show similar trends."

A more ideological, succinct explanation should be considered. Conventional wisdom defines the GDP as a measure of the productivity of workers, while the appropriation essentially is a measure of how much money is collected from Colorado's citizens. It is easy to take the next logical step, a small step indeed.

CONCLUSION No. 2

Since the growth of appropriations (total state spending) follows the growth of the GDP, one should come to the conclusion that Colorado spends a fraction of worker's productivity (read - income) independent of what Colorado needs. Colorado seems to take money from its citizen based on the citizen's productivity and not (as it should) in accordance to Colorado's needs. Otherwise, there would be a difference in growth patterns between appropriations and the GDP. The magnitude of Colorado needs was defined by Colorado voters in 1992 when voters approved TABOR. The needs were not defined, at that time, as a percentage of productivity.

FINALLY

I can swallow a total state spending growth profile (appropriation profile) not matching our wishes according to TABOR. I'll, with reluctance, accept losing control here at least for a short period, but I can't swallow spending based on availability of funds and not on the need for these funds. We totally lost control of our wallets here.

Is this spending attitude of our State's elected officials acceptable? Did they forget whose money they are spending? The only conclusion I can come to is that our representatives in our state's government spend whatever they believe they can get out of our back pockets.

Thank you for your time.

John Bozek
805 Stevens Circle
Pagosa Springs, CO 81147
970 731 4933
bozekjs@aol.com

File = E + T COLORADO – WE LOST CONTROL (White Paper for web site) 1.20.10