MEMO
October 25, 2005

This memo is preliminary in nature and subject to revision and review. Any views expressed are not necessarily those of the Federal Reserve Bank of Boston or the Federal Reserve System.

To: Kenneth F. Payne, Senior Policy Advisor, Rhode Island Senate
From: Heather Brome, Policy Analyst
Re: Tax and Expenditure Limitations Annotated Bibliography

On October 12, 2005 you requested that the New England Public Policy Center prepare background research on Tax Expenditure Limitations (TELs), particularly Colorado’s TABOR. This memo summarizes the results of our research and provides an annotated bibliography for further research.

Much of the research on TELs focuses on whether they effectively limit government expenditures or how they have changed state and local fiscal structures. A smaller body of literature focuses on what reduced government revenues or limitations on government for raising revenues means in terms of economic growth, quality of public services, and implications for state government finances.

TELs arose out of the taxpayer revolt of the 1970s and 1980s. Taxpayers wanted greater government accountability and efficiency, without a decrease in the level of service. However, many state and local governments have found alternate sources of revenue while staying within the restrictions of a TEL. Revenues have shifted from property and income taxes to user fees, lotteries, and other non-tax revenues. This has meant that most TELs have not actually shrunk the size of government. Thus, the focus of academic literature has been on the success/failure of TELs to limit government expenditures and the impact of TELs on state and local fiscal structures.

Colorado’s Taxpayers’ Bill of Rights (TABOR) has received a great deal of attention in media and think tanks because it has so effectively tied the hands of legislators to increase government expenditures. This has made the questions of economic growth, quality of public services, and implications for state government finances more important. However, there is limited empirical research, since, at best, Colorado’s TABOR can be viewed as a case study.

Important points to consider with examining the effects of TABOR-type TELs on quality of public services and implications for state government finances include:

- Costs of services to government grow at different rates than the CPI. Government costs including education and health care have grown at rates greater than inflation. Therefore continuing with
the current level of services in these areas would require greater than inflation plus population growth increases.

- Unfunded mandates from the federal government further restrict state legislators’ control over expenditures, especially for education, homeland security, and other locally provided services.
- TABORs prevent states from saving rainy-day funds to ride out economic downturns.
- Much of the success attributed to TABOR in the early 1990s was a result of drastic demographic and economic changes with the expansion of the electronics and communications industry in Colorado.
- With TABOR, government revenues are limited to the lower of the previous year’s allowable revenues or actual revenues plus a growth factor. This means that if a state faces one or two years of revenue shortfalls due to a recession, that shortfall is carried through indefinitely. This leads to a “ratchet-down” effect.

The following bibliography is not meant to be comprehensive; it focuses on key resources and attempts to research specific questions regarding TELs. It draws from academic resources, as well as publications by think tanks. It also provides web-based resources in addition to journal articles and working papers. When one resource has relevance for more than one topic, it is listed in more than one section of the bibliography. This bibliography attempts to provide resources for addressing the following questions:

1. What are TELs?
2. What are the known unintended consequences of TELs?
3. Do TELs limit government expenditures?
4. What is TABOR?
5. What effect has TABOR had on economic growth?
6. Has TABOR made government finances more fragile?
7. What effect has TABOR had on government services?
Bibliography

TELs – General


TELs – Unintended Consequences


This paper attempts to bridge the two dominant models of local government fiscal behavior, the median-voter model and the Leviathan model.


Mullins and Joyce examine the shift from local-responsiveness to centralized state governments as a result of TELs. An unintended consequence of TELs has been a fundamental change in the structure of state and local government, as well as the ability of the public sector to respond to citizen preferences.


This paper finds that states with relatively tight constitutional or statutory rules that make it more difficult to run deficits such as TELs experience more rapid adjustment to short-term economic shocks.


James Poterba and Kim Rueben argue that one of the unintended consequences of TELs are increased borrowing costs because limits hamper the state’s perceived ability to pay it’s long-term debt.

**TELs – effectiveness in limiting government expenditures**


**TABOR**


A comprehensive analysis of the overall impact of TABOR on Colorado. While TABOR has effectively limited the size of government, it has seriously impaired the ability of government to respond to changing needs of a growing state or to respond to fiscal crises.

10. Bradley, David and Iris Lav, “In a League of their Own: Colorado’s TABOR and Ohio’s Proposal are More Restrictive Than Other Limits.” Center on Budget and Policy Priorities, June 29, 2005, http://www.cbpp.org/6-29-05sfp.htm


Bullets summarizing the Colorado TABOR Amendment and its consequences for fiscal policy in the state of Colorado.

**TABOR- Does TABOR spur economic growth?**

   A comprehensive analysis of the overall impact of TABOR on Colorado. While TABOR has effectively limited the size of government, it has seriously impaired the ability of government to respond to changing needs of a growing state or to respond to fiscal crises. The report also shows no change in economic growth in response to TABOR.


**TABOR – Government Financing More Fragile?**


**TABOR – Decline in Quality of Public Services?**


   A comprehensive analysis of the overall impact of TABOR on Colorado. While TABOR has effectively limited the size of government, it has seriously impaired the ability of government to respond to changing needs of a growing state or to respond to fiscal crises. Through cross-state comparisons and several key statistics, the Bell Policy Center shows that TABOR has led to budget cuts in several key areas including education and health care. In order to meet TABOR requirements, more cuts will be necessary.


**Websites of Interest:**

22. Bell Policy Center (accessed October 24, 2005)
   [http://www.thebell.org/TABORFP.html](http://www.thebell.org/TABORFP.html)

23. Center for Budget and Policy Priorities (accessed October 20, 2005)
The Center for Budget and Policy Priorities (CBPP) has a large body of research on tax and expenditure limitations, particularly TABOR-like models. The primary methodology for examining the impacts of a TABOR on a state’s expenditures is to apply the TABOR limitations to historic state budget data and compare actual expenditures with the TABOR expenditures. This would illustrate the decrease in spending the state would have experienced over the past ten or twenty years.

   http://www.cclponline.org/cfpi/pubs.htm

   http://i2i.org/TABOR2003.aspx


The National Conference of State Legislatures has put together a comprehensive web resource on TELs, including a balanced assessment of the future of TELs, a guide for legislators considering TELs, and a comparison of existing TELs.