TABOR for Texas Overview

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God and the devil are in the details. A Taxpayer Bill of Rights (TABOR) must restrain government growth while providing budget stability over the business cycle, and the flexibility to address emergencies, and changes in priorities within the government, and between private and public spending. The appropriate limit on spending growth is population growth, plus inflation (POP+INFL). Since productivity growth raises incomes faster than inflation, a POP+INFL limit on spending growth above the previous year's limit will yield surplus revenue most years. And over time, a POP+INFL growth cap would shrink the state government's share of total income.

Many, many issues arise. For example, what is meant by spending? I would only exempt specific spending fully supported by a specific user fee; for example, spending of road toll revenues to maintain and expand the roads where the money was collected. I would definitely NOT exempt borrowing by the state, or any state-created, or controlled (like local govt) entity. 'State-created' is an important loophole to close. Caps on spending growth tempt legislators to go 'off-budget,' either through mandates to local government (they should also have POP+INFL TABORS), or by creating 'Off-Budget Enterprises'. OBEs are surprisingly little-know, large end-runs around spending limits.

To avoid the 'ratchet down' effect of recessions that has been a troublesome aspect of the Colorado TABOR's otherwise fabulously successful POP+INFL cap, the base for each year's allowed spending growth should be the previous year's TABOR limit, not revenue or actual spending, which could be lower depending on rules for use of money in the budget stabilization fund. Some states call it a 'rainy day' fund.

The revenue generated above the TABOR limit on spending growth should be divided between taxpayer refunds, tax rate cuts, additions to an emergency fund, additions to a budget stabilization fund, and if capital spending is budgeted separately, an addition to the capital spending fund. Refunds to taxpayers are awkward, so there needs to be a criterion established that would determine when refunds signal that rates are too high.

The POP+INFL cap on spending growth should apply to capital spending except in actual or projected economic downturns. Actual vs. projected is an under-explored issue. Of course it would be better to respond to a recession, if at all, before it's a year old, or more. During periods of slow economic growth, the permitted rate of increase in capital spending should rise by the positive difference between the average annual rate of increase in personal income growth over the preceding ten years and the projected (or most recent actual) personal income growth. So, for example, if the average annual rise in personal income has been 7%/year for the past ten years, and the upcoming year is projected to have personal income growth of 4%, the permitted rate of increase in capital spending for the upcoming year is pop + infl + 3 (3 = 7% - 4%).

Within tight enforcement of those overall limits, legislators should be left with the discretion to decide what to tax, and where/when to re-allocate spending. That's why we send them to the capitol; to make tough decisions about how to use limited resources. The TABOR keeps them from ducking tough decisions with rapid growth in spending and then tax hikes in bad times to avoid difficult cuts. So, unlike the authors of some actual, and proposed, TABORS, I would not require a public vote to enact new taxes. Voters have too much to vote on as it is. I would provide only for voter referenda on whether to exceed the TABOR limit on spending growth.