

An Overview of TABOR II

(prepared by the Maine Municipal Association)

Maine Leads, a non-profit advocacy group, has collected signatures for a citizen's initiative entitled "An Act to Provide Tax Relief", often referred to as "TABOR II". The initiative was written by the Maine Heritage Policy Center, an organization dedicated to promoting conservative public policies.

TABOR II makes changes to the current law that since 2005 has imposed spending limits on Maine's State, county, and municipal governments and all school systems. That law, many elements of which were developed by the Maine State Chamber of Commerce, is referred to as "LD 1". TABOR II repeals the LD 1 spending limit system as it applies to State government and replaces it with a structurally different system. TABOR II modifies the LD 1 spending limit system as it applies to municipalities and counties without totally replacing it.

Generally, the TABOR II changes would place additional statewide limits on the authority of: (1) the voters at town meeting; (2) the representative town or city councils; (3) the boards of county commissioners and the county budget advisory committees, and (4) the Maine Legislature to adopt budgets or enact tax changes that exceed certain limits established by formula in the TABOR II initiative.

TABOR II is different in a number of respects from its predecessor, "An Act to Create a Taxpayer Bill of Rights" (now referred to as "TABOR I"), which Maine voters rejected in 2006. The following is an outline of key differences between TABOR II and Maine's current spending limit law (LD 1).

With respect to state government:

- **TABOR II imposes growth limits on all state spending, including the State's Highway Fund, not just General Fund allocations like current law.** Current law restricts state spending from the General Fund account. TABOR II would also apply its spending restrictions on each dedicated account in the state budget, including the Highway Fund and dozens of "Other Special Revenue Fund" accounts.

- **TABOR II recalibrates the entire spending limit system for state government, and in so doing TABOR II establishes Fiscal Year 2010 as the baseline year for all future growth in the State’s General Fund, Highway Fund and Special Funds revenue.** Because of the current nationwide economic recession, the FY 2010 General Fund and Highway Fund revenues are currently projected to come in at unusually low levels (see General Fund and Highway Fund baseline chart, below). For example, the General Fund appropriations for FY 2010 are fully \$202 million less than the total General Fund appropriations two years ago, in FY 2008. The FY 2010 General Fund appropriations are \$51 million less than the appropriations of FY 07, which represents the period of time the first version of TABOR was rejected by the voters. Similarly, Highway Fund appropriations for FY 2010 are \$40 million less than the Highway Fund appropriations of FY 2007. Going forward, therefore, TABOR II will have the effect of locking-in state-level spending at historically low levels.
- **TABOR II’s growth limits are more volatile than current law.** TABOR II limits the growth of state spending to three-year average population growth plus previous year’s inflation. Current law (LD 1) limits growth to ten-year average real growth in total personal income plus ten-year average population growth. The LD 1 limit is more stable over time.
- **In certain circumstances, TABOR II may result in higher growth limits than current law.** Under current law the state’s spending growth allowance is the average annual real increase in total personal income (2.28%) plus the 10-year average state population growth rate. The total growth allowance would be calculated today as 2.87%. Under TABOR II, the state’s spending growth allowance would be the most recently calculated rate of inflation plus the 3-year average state population growth rate. The TABOR II total growth allowance would be calculated today as 4.15%. As evidence of the volatility of the TABOR II growth allowance, the Legislature’s Office of Fiscal and Program Review projected the going-forward growth allowances under TABOR II to be 1.84% in FY 2011 and then jump to 3.22% in FY 2012.
- **TABOR II creates a financial disadvantage for State government if the Legislature enacts a budget that is more frugal than the TABOR II spending allowance.** An element of the LD 1 spending limit system designed by the Maine State Chamber of Commerce allows a government to be more frugal than the spending limit might allow without losing forever that authorized spending capacity. The policy behind this element of LD I is to avoid creating a “use-

it-or-lose-it” phenomenon where the government maximizes its spending allowance in order to save those resources for a rainy day. TABOR II rejects that policy for State government. If the Legislature enacts a budget that spends less than the TABOR II allowance, it would lose forever that authorized spending capacity.

- **TABOR II changes the rules to erase a reserve built-up by the State over the last four years.** As described above, LD 1 allows a government that spends less in a fiscal year than its spending allowance to effectively carry-over the unspent allowance into the subsequent fiscal year. Over the four fiscal years since LD 1 was enacted, the State has consistently spent less in General Fund revenue than the State’s spending limit would allow. According to the “LD 1 Progress Report 2008” authored by the State Planning Office, the spending allowance reserve built up by the State over the first four-year period was valued at \$221 million. Because TABOR II re-writes the rules the State has been working under and recalibrates the State’s spending allowance system, all of that reserved spending authority disappears.

- **TABOR II imposes significant additional costs on state and local governments by requiring referendum voter approval for all revenue increases and for expenditure increases above the growth limit.** On the State level, this includes: (1) any increases in General Fund spending and Highway Fund spending over the newly-designed TABOR II limits; (2) any state-level tax rate increase, tax base expansion or repeal of any tax exemption that net generates more than one-hundredth of one percent of the state’s General Fund (approximately \$300,000 a year), and (3) the annual increases to the motor fuel taxes, which are currently indexed to inflation.

- **Prior to any statewide referendum vote, TABOR II requires that certain notices and financial information be mailed to every registered voter in the State.** Without considering the administrative costs of assembling the data required by this mandatory requirement to mail a special notice to the State’s 994,000 active registered voters, the direct costs are estimated to be approximately \$800,000 for each mandated referendum.

- **Municipal costs of conducting statewide referenda.** In addition to the costs of providing the special mailed notice that the State would pay, the municipal costs to the property taxpayers associated with conducting a statewide referendum election are approximately \$1 million.

With respect to municipal and county government:

- **TABOR II mandates referendum voting on the county and municipal level.** On the county and municipal level, TABOR II requires a referendum vote to approve any budget that exceeds the municipal or county spending limit, and those limits would be specially capped by TABOR II in high-growth communities.

- **Although TABOR II preserves the current method for calculating growth limits for municipal property taxes and county assessments, it further specifies that they may not exceed the statewide ten-year average real income growth plus forecasted inflation.** This could restrict the ability of communities that experience new residential and commercial development to meet increased service and infrastructure needs.

- **TABOR II would require municipalities and counties to adopt a uniform budget format as developed by the State Planning Office.**

General Fund and Highway Fund Appropriations 1999-2011

Fiscal Year	General Fund \$	General Fund % Change	Highway Fund \$	Highway Fund % Change
1999	2,201,734,442	16.6%	215,167,045	-0.4%
2000	2,316,629,198	5.2%	268,704,902	24.9%
2001	2,645,121,992	14.2%	293,315,365	9.2%
2002	2,565,345,849	-3.0%	290,385,517	-1.0%
2003	2,540,382,576	-1.0%	288,309,449	-0.7%
2004	2,642,999,485	4.0%	293,574,323	1.8%
2005	2,784,473,472	5.4%	310,931,897	5.9%
2006	2,871,878,613	3.1%	349,584,284	12.4%
2007	2,978,358,710	3.7%	346,221,340	-1.0%
2008	3,129,325,355	5.1%	336,160,213	-2.9%
2009*	3,019,596,034	-3.5%	335,410,803	-0.2%
2010*	2,926,891,598	-3.1%	306,623,946	-8.6%
2011*	2,885,022,849	-1.4%	303,913,274	-0.9%

Source: Maine State Legislature, Office of Fiscal and Program Review

- The General Fund appropriations for FY 2009-2011 include approximately \$194 million in federal “stimulus” funding and \$116 million from the state’s “Rainy Day” (Budget Stabilization) Fund, both of which represent one-time funding sources.

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