



## New Mexico Fiscal Policy Project

### TELS AND TABOR

## Why Limiting State Spending Puts Everyone in the Red

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Few states have adopted a Tax Expenditure Limit (or TEL) – also known as a Taxpayer Bill of Rights (or TABOR) – although many a state legislature has tried. These initiatives amend the state's constitution to put strict spending limits in place. While that may not sound like a bad idea on the surface, these limits have very negative consequences:

**Public services decline** Thanks to their TABOR, Colorado has one of the strictest spending limits in the nation – but residents voted in 2005 to suspend it for five years because they saw the need for reinvesting in public infrastructure – such as public health, primary and higher education, and highways and roads – that had been crumbling under TABOR.

**Emerging needs cannot be addressed** Ten years ago methamphetamines were not the scourge they are today. If we'd put strict limitations on our state budget a decade ago, dealing with this epidemic would be nearly impossible.

**Departments and programs fight over an ever-shrinking pool of money** Colorado found that it had to increase spending on corrections when it toughened sentencing laws. But since overall spending could not be increased without approval from the voters – which would mean a costly election – that money was drained from other departments' budgets instead.

**"Rainy-day" funds are drained** Because the amount of money that can be set aside for emergencies is based on a formula, legislators would be unable to take advantage of higher-than-usual gas and oil revenues, for example, to strengthen the rainy-day fund. Meanwhile, the fund might be raided to pay for unmet or emerging needs.

**Recovering from a recession is impossible** Because the formula for revenue collection and spending is tied to the economic performance of the previous year, recovering from a recession is impossible since spending can never be restored to pre-recession levels.

**Special elections and ballot initiatives are costly and don't draw voters** Determining complex revenue and spending formulas is the work of economists and the politicians they advise, not voters. Voter participation is low for even national elections, so what happens at the polls regarding taxes will not likely represent the will of the public at large.

**New Mexico already does a very good job of keeping its state spending in check** The growth of New Mexico's general fund budget has been consistent with its growth in personal income. The ratio of state spending to personal income has been at about 8.5 percent for many years.

**There's no reason to burden our state budget with superfluous spending limits.**