City of Minneapolis
FACT SHEET

Revenue Cap / Taxpayer's Bill of Rights

The Taxpayer's Bill of Rights (TABOR) is a concept that limits the growth of government expenditures, generally by requiring that tax revenue increases be tied to other measures of growth, such as population and inflation; however, many local-level TABOR laws have exceptions for revenue increases approved through referendum.

The only state that has a TABOR law in effect is the State of Colorado. Approved by referendum in 1992, the law is applicable not only to the State, but also to municipal governments within Colorado. The law is contained within Article 10, Section 20 of the Colorado Constitution. Every other time a TABOR proposal at a statewide level has been put to voters in other states, it has been defeated – twenty times in all.

Occasionally, since implementation in Colorado, actual State tax revenues have seen year-over-year declines because the law does not account for rising income from the existing population, and because the law looks backwards at prior-year revenue as the basis for calculating the expenditure cap. For example, when revenues fail to meet expectations during a recession, planned expenditures are not allowed to rise back to pre-recession levels without a referendum. Since introduction, Colorado's TABOR law has been loosened and amended to include provisions to allow revenues to match the highest level in the prior five years and to ensure against education funding drops.

In late 2009, Governor Tim Pawlenty proposed asking Minnesota voters to amend the State Constitution to cap State spending at the prior-period's revenue collection. He called his proposal the "Spending Accountability Amendment." Currently, Minnesota State budgets are based on future projections made by State finance officials. A comparison of the four, two-year budget plans submitted by the Pawlenty Administration showed that all proposals exceeded the revenue collected during the prior budget period – at times by as much as $1 - $3 billion.

In late 2008, when State expenditures were exceeding revenues, the Governor used his executive power to "unallot" many State programs, including aid to cities. He further unalloted such programs in 2009 and 2010. In late 2009, a group representing low-income and disabled Minnesotans filed a lawsuit to try to reinstate some funding to the unalloted programs, with the Minnesota House of Representatives filing a "friend-of-the-court" brief in favor of the plaintiffs. The lawsuit will likely be appealed regardless of the initial ruling.

In many regards, what the Governor proposed is actually more strict than a typical TABOR in that it doesn't allow exceptions for programs such as education, and because planned expenditures in a given budget cycle wouldn't be allowed to surpass revenues from the prior cycle – unlike most TABOR laws where planned expenditures are based on the prior period's revenue compounded by inflation and population growth.

Minnesota currently faces a projected $4 billion deficit in FY 2012-2013, based upon the assumption of a projected $34 billion in revenues for that period. If the Governor's proposal were in place, the State would only be allowed budget expenditures at $31 billion – the amount of revenue in FY 2010-2011, adding an additional $3 billion to the $4 billion deficit. This would create a need to cut an additional $7 billion from the biennial budget for 2012-2013. Even if policymakers chose to raise revenues in that biennium, they could not raise expenditure budgets until FY 2014-2015 if the proposal were in place. In fact, from 2003 to 2008, total State revenue has fallen 5.9 percent.

MORE INFORMATION

City of Minneapolis Finance Department
Room 325M, City Hall
350 S. 5th Street
Minneapolis, MN 55415
(612) 673-2918

March 2010