# WHAT IS QUESTION #1, THE TAXPAYER'S BILL OF RIGHTS (TABOR) AND HOW WILL IT AFFECT CAPE ELIZABETH?

## Town of Cape Elizabeth TABOR Task Force

**Question #1: Do you want to limit increases in state and local spending to the rate of inflation plus population growth and require voter approval for all tax and fee increases?**

**Yes ❑** **No ❑**

**Introduction**

In May 2006 the Cape Elizabeth Town Council invited citizens to participate in a task force (the "Task Force") to examine Question #1, the Taxpayer Bill of Rights (TABOR) referendum scheduled for vote on November 7. The charge to the Task Force was to educate citizens about Question #1 and its possible effects, and to plan for possible impacts of the government-spending initiative in Cape Elizabeth. Over 30 citizens have been meeting every other Wednesday since July 26. Task Force members include both supporters and opponents of the Taxpayer's Bill of Rights, and some who are undecided. This report seeks to answer important questions raised during Task Force discussions about how TABOR might operate at state, municipal and school levels. The Task Force did not examine possible effects at the county or other local district levels. Task Force members are in agreement about the answers to a number of questions. On others, they cannot agree on facts or their interpretation, or on the meaning and implications of specific provisions in the TABOR proposal. These differences will be noted as the following questions are answered.

### 1. What are the goals of the Taxpayer Bill of Rights?

Question #1 is a proposed law, the major goals of which are to:

- limit the annual rate of increased spending in state and local government;
- reduce the overall tax burden on Maine residents; and
- make it more difficult for government bodies to increase taxes.

### 2. Why was TABOR put on the Maine ballot for this November?

- The Taxpayer's Bill of Rights is the result of a citizen initiative that gathered over 50,000 signatures statewide.
- Maine's overall tax burden relative to income is one of the highest if not the highest in the U.S.
  - In 2005 Maine had the highest state/ taxes as a percent of per capita income of all 50 states. (*Source: U. S. Census Bureau Government Finances and Bureau of Economic Analysis*.)
  - In 1958 Maine state/local taxes were 9% of per capita income but increased to 13% in 2002. (*Source: U.S. Census and BEA*)
- Maine lags the U.S. average in job, population and income growth.
  - Maine is one of the two states in the nation whose economic activity declined in 2005. (*Federal Reserve Bank of Boston*)
  - In the first quarter of 2006, the personal income growth rate for Maine was 0.9%---44th lowest of the 50 states. (Bureau of Economic Analysis, June 22, 2006.

### 3. What do the Taxpayer's Bill of Rights supporters say the initiative will do?

They say that TABOR will:

- result in lower spending, lower taxes and a lower over all tax burden compared to other states,
- lead to higher employment, a growing economy, stronger school funding and higher incomes, and
- provide more control for taxpayers over their tax dollars and reduce influence by special interest groups as a result of the 2/3 supermajority vote required of elected officials to seek voter approval in order to exceed spending limits or raise taxes.

### 4. What do the Taxpayer's Bill of Rights opponents say the initiative will do?

They say that TABOR:

- will take away local control by requiring a single formula to restrict spending that must be used in a wide variety of towns that are in very different financial circumstances,
- may require many towns to actually reduce their municipal and school budgets resulting in steep cuts in programs and services such as road maintenance, public safety and education, including raising class size, and
- will weaken representative democracy by allowing a 1/3 minority of elected officials to block any proposal to seek voter approval in order to exceed spending limits or to raise taxes.

### 5. How will Question #1 work?

- Limits annual increase in spending
  - At state level---Cost of Living (CPI) adjusted by population change
  - At town level---lower of:
    - CPI adjusted by town population change, or
    - Change in the town's assessed value of taxable property. (see Question 6 – disputed definition)
  - For schools---CPI adjusted by change in enrollment. (See Question 6, disputed definition)
- Allows proposed spending limits to be exceeded if approved by both:
  - 2/3 vote of state legislature or town council, and
  - majority vote of citizens (town or state)
- Distributes revenue collections in excess of approved spending limit
  - State
    - 20% of excess revenue goes into state "rainy day" fund.
    - 80% of excess revenue goes toward tax relief.
  - Town
    - Can be kept in a reserve account for unanticipated contingencies up to 10% of a town's previous year's expenditures.
    - Any additional excess revenue must be used to reduce property taxes in the following year.
- Limits increases in certain town and school fees. (Cape Elizabeth has roughly 200 municipal and school fees)

**6. Three important areas of disagreement about the meaning and implications of specific provisions in the Taxpayer Bill of Rights proposal:**

- *Can Question #1 cause a town to reduce its spending from the level of the previous year?*
  Supporters. **No**. It can only limit the growth in spending. If the spending limit calculation for a town results in a negative number (spending reduction), the town can pass a budget that doesn't change---it stays the same as the previous year's budget.
  Opponents. **Yes**. If the spending limit calculation is a negative number, the town must reduce spending from the level of the previous year by that amount.

- *Is the change in assessed value of a town's taxable property used to determine Question #1's spending limit each year?*
  Supporters. **No**. The change in assessed value of a town's taxable property is only used in those years when the town does a comprehensive revaluation. In those years in which the town does not do a comprehensive revaluation, the spending limit will be the CPI adjusted by population.
  Opponents. **Yes.** The change in assessed value of a town's taxable property would be used to determine the TABOR spending limit every year if it is lower than the CPI adjusted by population, which is the case most years in many towns.

- *Is Cape Elizabeth a School Administrative Unit (SAU) or a local school district?*
  Supporters. **No**. Cape is not a SAU but rather a local school district according to the initiative. Therefore, the spending limit will be the lower of:
    - CPI adjusted by the change in the town's population, or
    - Change in assessed value of taxable property.

  Opponents. **Yes**. Cape is a SAU according to existing statutes. Therefore, the spending limit for schools is CPI adjusted by the change in student enrollment.

**7. If the Taxpayer Bill of Rights passes, how will these differences be resolved?**

Differences will be resolved in either of two ways: (1) the Legislature can amend the statute to clarify differences and ambiguities or, (2) if that does not occur, differences and ambiguities could be settled by litigation.

**8. What would have been the affect in Cape Elizabeth if TABOR had been in place when the Town Council adopted the 2007 budget this past spring?**

The affect on the Cape depends on whether one accepts the supporters' or the opponents' interpretation of the requirements in the proposed initiative as discussed in question #6 above. The approved 2007 budget is $1,040,340 or 3.9% higher than the 2006 budget. If the opponents' interpretation of Question #1 is used, the spending limit would be 1.3%. This would allow an increase of $373,161, which is $667,180 less than the approved budget. If the supporter's interpretation applies (CPI adjusted by population change), the spending limit would be 3.6% allowing an increase of $984,758, which is $55,583 less than the approved budget.

**Effects on Cape Budget and Taxes Under Different Interpretation of TABOR Requirements**

If five of the seven town councilors had approved (given the 2/3 supermajority rule), the difference in either case could have been presented to Cape voters in referendum. Moreover, the council could have sought voter approval for the even larger difference between the budget actually adopted for 2007 with the 3.8% increase and the additional funds requested by the Board of Education, which would have been another $586,008.

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**Please note that the information contained herein represents the Task Force's best effort to present a complex issue as understandably as possible. We acknowledge that more information will be forthcoming on the issue between now and November 7th, including varying interpretations on the wording of the initiative. We encourage you to read the initiative document for yourself and to attend our Oct. 22 Panel Discussion at 1 pm in the Middle School Cafetorium.**

**For more information see the Cape Elizabeth Town web site:
http://www.capeelizabeth.com/
Click on TABOR tab on left**

| | Town Council Approved Increase 3.9% | Opponent's Interpretation 1.3% | Supporter's Interpretation 3.6% |
|---|---|---|---|
| **Increase 06-07** | $1,040,340 | $373,161 | $984,758 |
| **Difference** | -- | ($667,179) | ($55,582) |
| **Tax Reduction on Average Value Home ($332,000 Value)** | -- | ($173) Annual 3.2% | ( $17) Annual 0.3% |
| **Tax Reduction on Median Value Home ($247,500 Value)** | -- | ($129 ) Annual 3.2% | ( $12 ) Annual 0.3% |

*(*CPI-U August 2005-2006, 3.8%; Population Change –0.2%)*