



Jon Caldara is President of the Independence Institute, a market-oriented think tank based in Golden, Colorado. His career brings a unique mix of experience and activism to the think-tank world. In 1994, he was elected to the Regional Transportation District Board of Directors, the fourth largest governmental entity in Colorado, where he distinguished himself by opposing wasteful projects and promoting competitive service delivery reforms. In 1998, Caldara became Chairman of the Board of the RTD. Caldara has successfully led two referendum campaigns to defend the interests of Colorado taxpayers. In 1997, he led the effort to defeat "Guide the Ride," a referendum mandating a 66% increase in the RTD sales tax. In 1998, Caldara led the statewide effort to kill Referendum B, a proposal that the state keep a billion dollars of its surplus for unspecified projects. He is also a radio talk show host on News Radio 850 KOA, host of the current affairs television program "Independent Thinking" on KBDI and a weekly columnist for the Boulder *Daily Camera*. He was interviewed before his speech to the Frontier Centre on June 1, 2004. ...

Frontier Centre: Colorado's Taxpayers Bill of Rights or TABOR is arguably the strongest restriction on the size of government anywhere in the world. What is the limit placed on the size of state government as a percentage of the economy?

Jon Caldara: It is not really looked at as a percentage of the economy. It is based on a limit of last year's spending, plus growth in inflation and growth in population. So, the size of government in Colorado grows with the needs of population and with inflation.

FC: How are increases in population and the cost of living index mixed into the formula?

JC: The state does estimates on growth and population. In fact, Colorado puts out a Colorado Price Index (CPI) which is adjusted yearly and used by several financial institutions. So, we take those calculations from a state formula.

FC: In Canada, federal budget surpluses are consistently understated in advance, a method which leaves the government holding considerable amounts of extra money, much of which is then used in political ways. What happens to surpluses in Colorado?

JC: Anything that is overpaid from the formula of inflation, plus population, is returned to the taxpayers. So a surplus, other than surpluses for emergency reserves, is returned to the people. The thought here is that individuals deserve surpluses as well so they can put together a rainy-day fund for their own families. This way the surpluses are put into the most productive segment of society and that is in people's wallets.

FC: Does it cover only state spending? How encompassing is it?

JC: That is one of the beauties of the Taxpayer Bill of Rights – it encompasses every government in Colorado. In Colorado, as in many western states, the size of the state government is not as powerful as the collective size of all the local governments. So, every school board, water board, county commissioner, city council is covered by the Taxpayer Bill of Rights.

FC: Would that not make the voting process a little complicated?

JC: We have had the Taxpayers Bill of Rights for over a decade now and it has not overly complicated the ballot. All tax elections have to be held on the general election day

which is the second Tuesday in November. Cities or counties will add questions on TABOR overrides, that is keeping the change or raising taxes, and so far the people of Colorado have easily adapted to these questions and, in fact, expect them and debate them as any other issue.

FC: How big are the ballots?

JC: Ballots are actually relatively small. Every now and then a city or a county or a local government will place a question on for a taxpayer override and, therefore, there will be a small ballot question which is a paragraph long. So very, very, short.

FC: How difficult was it to pass TABOR in the first place?

JC: Colorado has a citizen's initiative process which allows individuals to petition to get questions on the ballot. The Taxpayer Bill of Rights passed on its third such attempt and that was in 1992.

FC: Did state politicians appreciate how much power they were losing in the process?

JC: The governor of Colorado at the time was so fearful of TABOR that he warned that, should it pass, we could just put a "going out of business" sign on the entrance to Colorado. In fact, in the decade after TABOR, Colorado's economy soared and the size of government certainly didn't wither. Thanks to the adjustments for population and inflation, the state government grew by 64% in a decade.

FC: Some here would say that this type of restriction on government would damage the economy. What would you say to that?

JC: Job growth in Colorado grew substantially higher than in most other states under the Taxpayer Bill of Rights. The Taxpayer Bill of Rights has fostered a terrific climate for businesses coming to Colorado. Businesses want to know that there is fiscal stability as well as tax stability. Many companies have located in Colorado because they know that taxes will not be easily raised on their industries. Compared to other states throughout the country, Colorado in the last decade has seen incredible prosperity.

FC: While we are talking about job growth, let's compare public sector and private sector job growth. In Canada a large expansion of public sector employment has accompanied the current boom. How

would you compare public and private growth in Colorado under TABOR?

JC: Again, private sector job growth has really exploded in the last decade. Amazingly, government sector job growth has increased only slightly. This has been because governments have grown at population plus inflation, while the private sector has grown at a level of personal income growth. In other words, we are getting more government for less. We are getting more services and more people doing those jobs without having to raise taxes.

FC: What sort of role did the Independence Institute play in garnering public acceptance of TABOR?

JC: You cannot undercount the role of public policy think tanks for real world change. The Independence Institute, now going on its twentieth year, made TABOR a top priority during all three of its attempts to be passed. The Independence Institute did the intellectual research and provided the intellectual ammunition for pundits, politicians and editorialists to make the idea of TABOR not only palatable but desirable.

FC: Was there much of a debate?

JC: The debate was fierce, absolutely fierce. It was those entities who profit by unchecked government growth that screamed the loudest that TABOR would destroy their ability to provide services to the public. Again, in fact, in a decade over TABOR, the size of Colorado's state government has grown by 64%. Without TABOR that would have gone much faster but then when our recession hit, the free fall would have been much more drastic.

FC: Is there a referendum mechanism by which the public can alter the law and approve tax increases?

JC: Yes, but there are a couple of ways to do that. First, within the limits of TABOR, which is a constitutional amendment, citizens can vote on referred tax increases, debt increases or what are known as TABOR overrides, that is to let the government keep the excess tax revenue that has been collected. Beyond that, if citizens want to change statute or constitutional law they can do so by petitioning the government. State policy-makers can also refer measures to change the constitution directly to the ballot.

FC: Can you explain the rebate mechanism whereby money has to be returned if the government or the economy grows too fast?

JC: If the economy grows too fast, anything that is collected above the rate of inflation, plus population growth, must be returned to taxpayers or the government has to ask permission to keep those excess revenues. The refund mechanism is therefore left to the government. For instance, on a state level, the state has put refunds in the income tax forms for Coloradans and lowered the sales tax rate. Local governments can also choose different refund mechanisms including lowering tax rates, putting refunds on utility or phone bills, or cutting cheques directly to taxpayers. It is left to the government how best to return those funds.

FC: How much has been rebated since TABOR was instituted?

JC: On a state level Colorado has refunded \$800 for every man, woman and child in Colorado. That's \$3,200 per family of four and that is only on the state level. Colorado has over 2,000 local governments. Those who have not voted in a TABOR override have also refunded those dollars to taxpayers.

FC: Manitoba's Balanced Budget Law exempts spending done to meet public emergencies. Is there such a provision in TABOR?

JC: TABOR has an emergency fund clause. What this clause does is require all governments to keep a certain percentage of their budget in an emergency reserve. However, that reserve is meant for true emergencies. That is it cannot be used for "fiscal emergencies," that is government spending more than they have. It can only be used for natural disasters and other types of emergencies. And, more importantly, whatever is pulled out one year out of the emergency fund must be repaid the next year. Therefore, it cannot be used for debt financing of government.

FC: Manitoba's Auditor General regularly complains that our provincial governments evade the intent of our Balance Budget Act by leaving some items like unfunded pension liabilities off the books. Are such dodges a problem in Colorado or does the legislation anticipate such behaviour?

JC: There are always attempts to find clever ways around the Taxpayer Bill of Rights, including certificates of participation which are a long term debt mechanism that the courts have allowed to get around TABOR. Pensions in the United States are usually done outside of the government in a private fund other than Social Security which is on a federal level. Therefore, we have not had to deal with it in the state.

FC: Instituting a TABOR mechanism in Manitoba, where the size of government is proportionately larger compared to other provinces, means we would be starting from a higher base. Is that not a disadvantage?

JC: No, in fact, it only speaks to the need that Manitoba has for a Taxpayer Bill of Rights. If Manitoba were to put in a Colorado style TABOR law, over time you would see that the percentage of your economy that goes to government here in Manitoba would begin to shrink, therefore, your economy would become more competitive. Beyond that, by having a TABOR and the security and stability that TABOR would offer, more businesses would be attracted to the area and that would increase your economy as well.

FC: Ontario's Premier was recently elected after promising to support the existing Taxpayer Protection and Balance Budget Act and not increase taxes. He has now announced his intention to repeal the law and levy tax increases without a referendum. Could that happen in Colorado and what content do you recommend to prevent politicians from simply canceling the law?

JC: The answer to that question is that you need a TABOR in your law here. You need something where politicians' promises cannot be undone. No politician in Colorado can pass a tax increase and most politicians can pass a

question that goes to a public ballot about raising taxes or raising debt, therefore giving citizens the final check in this system of checks and balances.

One of the big problems in other states is that they have put in taxpayer limitations or spending limitations but they do it by statute, and since it takes a simple majority to change a statute, they have changed the law. For instance, some states have had a super majority requirement for tax increases. When they couldn't do that, they would use a simple majority and change the law on it. That's why Colorado's law is set in the state constitution. The only way that the state constitution can be changed is by the vote of the people. So, again, TABOR has taken the spending and taxing decisions largely away from politicians and placed it in the hands of the people who have to pay the bill – taxpayers.

FC: Given the runaway spending of the Bush government, is there any movement to impose such constitutional limits on the federal level?

JC: There is a lot of discussion in Washington now of taking a Taxpayer Bill of Rights and making it into a federal issue. It would be more difficult to do on a federal level because there is no initiative process. Politicians from all parties become threatened by a spending limitation bill because it limits their power to give away pork.

FC: Do some politicians simply off-load their responsibilities to other jurisdictions?

JC: Which responsibilities? What TABOR has done is made every level of government more accountable. That is, before politicians ask for more taxes, or more debt, they have to be certain that they are doing their job as effectively and efficiently as possible, otherwise they know their voters will turn them down. What TABOR has done is give taxpayers the accountability they so desperately needed. Before any government can go forward with a TABOR override, they better be certain they are spending our money wisely, otherwise the answer will simply and overwhelmingly be, "no."

FC: There is considerable debate about the best level at which the limits on government spending should be placed -- the optimum size of government. What overall limit do you recommend?

JC: I strongly recommend the limit we use in Colorado under the Taxpayer Bill of Rights which is population, plus inflation. Those who want unchecked government spending suggest that that's the wrong limit – that something like personal income should be the limit. Now personal income would be no limit at all because government then would grow by the amount the economy is growing. If services from government are at the right level, in order to keep those constant, next year we will need to increase it by inflation, plus population, that keeps the size of government constant. It is not to say that government is being strangled or withering away. If we need more government services all the government needs to do -- and get this -- is ask us. The size of government can be huge, all they have to do is ask for permission. They can keep every single penny left over from excess tax revenues – all they have to do is ask us. The proponents who say that they should take away

this mechanism are worried that when voters say "no" they mean "no" and many politicians and those addicted to government spending don't want to hear "no." What they would like to do is legalize fiscal date rape and not give us the opportunity to say "no".

FC: Summarize the theoretical case for the TABOR which, in one phrase, is concentrated benefits and diffused costs.

JC: Colorado's Taxpayers Bill of Rights puts accountability for government back where it belongs – back with voters. TABOR saved Colorado's fiscal fanny because so many states during the boom years in the late 90's spent all the money that they received. Colorado was forced to return that money and because of that, when the recession hit, our budget cuts were only mild compared to states like California that went into near bankruptcy. Because of TABOR we have economic stability and with economic stability comes prosperity and that is what we have seen in Colorado. The concentrated interests who want to see more government spending have successfully over the years been able to lobby through their pressure groups to get their bit of money. What TABOR has done is brought power back to the diffused interests – those of us who have to pay. So, it doesn't limit the growth of government. All it does is say that we need to go back to the diffused interests, the ones who are really paying the bills, if this is an investment they feel is worthwhile. TABOR empowers individuals, it empowers families and it brings a needed check and balance to government spending.

FC: Competitive contracting – what's the experience in Colorado with transit?

JC: Denver's transit authority, called the Regional Transportation District, was mandated by state government in 1988 to competitively contract out 20% of its fixed route services. To no one's surprise, the transit agency fought this proposal and wanted to keep all its service in-house. In the first decade, actually within the first several years, RTD was realizing savings of about 40% on transit services. Many people think that this, as a contracted-out service was because of lower pay for drivers and employees, but that was only part of the savings, in fact the smallest part of the savings. It really had to do with work rules. Since the service was contracted out to private providers, those providers were not under the same obligations like job separation or timetables. They could hire part-time workers, they could have workers who would both drive the bus and then work dispatch and then perhaps clean the buses and do a variety of tasks, saving 40% to taxpayers. This was a boon not only to taxpayers but, more importantly, it was a boon for transit users. Transit users saw a 40% increase in bus service. These are still RTD buses going on government routes on government timetables, even wearing the government approved uniforms. Service levels, by the way, did not decline. All of RTD's buses are tracked by global positioning systems, so on-time performance and breakdowns are carefully recorded. The private operators have the same, and in some cases, a little better in-house union. That level from 20% has now been raised to 35% and is now on its way to 50%.

FC: Your Institute is involved with the intellectual war on “Smart Growth”, an idea that we need to densify cities and restrict urban sprawl. What is the problem with the “Smart Growth” philosophy as you see it?

JC: The idea of “Smart Growth” is that some collective knows how we should best live and what is the best life-style. This is antithetical to the American dream of being able to own a home and own a car. The proponents of so-called “Smart Growth” or growth limitation are really hurting the people on the lowest end of the economic scale. What they are saying is the benefits we all enjoy from home ownership, equity that we built – our home is usually our largest investment -- that future generations should not have that. In Colorado, for instance, where “Smart Growth” proponents have been very active and successful in many cities, the costs of buying a home have skyrocketed. The median price in Denver for a home is \$270,000 – in my hometown of Boulder it is over \$400,000 – in American dollars and that is directly because of “Smart Growth” activities. People should be free to own their property and do what they wish with their property. In most of America, similar to Canada, we are not running out of space. In Colorado, 98% of our land has yet to be developed. There is plenty of room, there is no reason why younger families should be cramped on top of each other in “Smart Growth”

developments when they could have a slice of the American dream with their own home.

FC: Why should people support independent think tanks?

JC: If individuals truly care about freedom, the best investment they can make is to support independent think tanks like the Frontier Centre. All investors are looking for a return on their investment and you will see no better return than to invest in organizations like the Frontier Centre, which don’t have a window of the next election season but are planning for freedom for the next generation. In Colorado the Independence Institute is now going on its 20th year. The think tank takes ideas which are unacceptable and promotes them until they are acceptable and until it is politically safe for politicians to grab those ideas and turn them into reality. The Independence Institute has been key in issues from privatization, flat taxes, school choice, open enrolments, school report cards, issues on gun control and, of course, the Taxpayer Bill of Rights. None of these issues which are now commonplace and which are now law in Colorado would have come into being if not for the Independence Institute making the ideas of political and economic freedom not only palatable but desirable to the people of Colorado.

