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COLORADO'S FISCAL CHALLENGES

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Part 1

The Current Crisis:

Striking a Better Balance



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Current Budget Crisis is the Product of an Economic Crisis

Economy struggling-- unemployment up,
spending down, property tax values down

State and local revenue suffers

Demand for services increase

Medicaid, Higher Ed enrollment,
Unemployment Insurance

Demand for other services doesn't decrease

Colorado's Budget Challenge Short Term—2009-10



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2009-10 budget preparation was challenging
state revenue down \$1.4 billion

2010-11 budget request includes another \$1.3
billion in budget balancing decisions



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Steps to Offset 2009-10 \$1.4 b Shortfall initially-

\$235 m in cash fund transfers

\$174 m in one time changes (Sr prop tax and tobacco funds)

\$148 m in reserve reductions (from 4% to 2%)

\$110 m revenue increases (vendor fees, sales taxes on cigarettes, capital gains)

\$334 m in ARRA (Federal Stimulus) for FMAP (larger share of Medicaid paid by the feds)

\$214 million in program cuts



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Federal Stimulus Totals

FEDERAL STIMULUS

\$2.88 B in new federal dollars over the next 2 years

\$1.63 B to help offset cuts

\$1.25 B new investments (includes \$506 m for transportation)

Additional Cuts needed after FY 09-10 budget adopted



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- August Cuts
 - Eliminated 270 positions
 - Cut payments for health services
 - Closed two health care facilities
- October adjustments
 - An additional \$286 million in budget balancing actions
 - Replaced state dollars with federal dollars for Higher education
- December adjustments



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FY 2010-11 proposed budget makes more cuts

- Per pupil cuts to K-12 of \$425 dollars that come on top of FY 10 cut of \$140
- In 2007 Colorado per pupil funding lagged the national average by \$1449
- Average total spending on Health Care Policy and Financing in Colorado has decreased \$887.29 per client since FY 2006 (11.76%)
- Total cuts for health care services are 5.5%
- 2.5% reduction is funding for employee retirement (having received wage increases in years)
- Continues elimination of Senior Property Tax Exemption

Options For Striking a Better Balance in FY 2010-11



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Legislature has the authority to make certain tax policy decisions*

Governor has included 13 revenue enhancements measures in his budget recommendation**

Other revenue options are available as well—



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Even When the Economy Improves, the Challenges Remain

- We weren't in great shape before the recession— Looking Forward analysis
 - http://www.cclponline.org/pubfiles/BW_LookingForward.pdf
 - <http://www.thebell.org/sites/default/files/LookingForwardJuly2009.pdf>
- Our tax system is old, outdated and unfair— Who Pays analysis
 - <http://www.itepnet.org/whopays3.pdf>
- Constitutional limitations mean few options for the Legislature



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Part 2

Our Current Investment Strategy

Low Taxes Low Spending



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Where We Rank In State Taxes

(Legislative Council Jan 2009)

| Colorado's Rank in Selected State Taxes | | | | |
|---|----------|---------|----------|---------|
| per \$1,000 income, FY 2007-08 | | | | |
| | Colorado | | National | |
| Tax | Rank | Tax | High | Low |
| Total Taxes | 48 | \$48.25 | \$308.91 | \$41.20 |
| Individual Income | 29 | \$25.41 | \$40.59 | \$0.00 |
| Sales and Use | 44 | \$11.59 | \$52.26 | \$0.00 |
| Corporate Income | 41 | \$2.55 | \$35.99 | \$0.00 |
| Motor Fuels | 31 | \$3.19 | \$7.60 | \$0.59 |

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Where We Rank In State And Local Taxes

(Legislative Council Jan 2009)



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Combined State and Local Tax Collections

per \$1,000 Income, FY 2005-06

| State | Rank | Tax |
|--------------|------|----------|
| Wyoming* | 1 | \$165.92 |
| U.S. Average | n/a | \$116.22 |
| Colorado | 46 | \$98.01 |
| South Dakota | 50 | \$91.03 |



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2007 is as Good as it Gets

| | State Ranking |
|-----------------------------|---------------|
| ● Total Expenditures | |
| ● per \$1000 of income | 47 |
| ● per capita | 44 |
| ● K-12 education | |
| ● per \$1000 of income | 48 |
| ● per capita | 32 |
| ● Medicaid | |
| ● per \$1000 of income | 49 |
| ● per capita | 49 |
| ● Higher Education | |
| ● per \$1000 of income | 48 |
| ● per capita | 48 |
| ● Highways | |
| ● per \$1000 of income | 48 |
| ● per capita | 48 |

PRE-RECESSION RANKINGS 2007

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What It Would Take To Reach The Middle

(Aiming for the Middle, COFPI, 2009)



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| | | | |
|--|------------------------|----------|-------------------------------|
| State Spending per \$1000 of personal Income | RANK | 47 | Additional State funds needed |
| | US | \$140.5 | |
| | 25th | \$149.66 | |
| | CO | \$106.49 | |
| | Amt below US | \$34.02 | \$4.886 B* |
| | average Amt below 25th | \$43.16 | \$6.199 B* |



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Part 3

Performance of our Current Investment Strategy



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KIDS

- More than 180,000 or 15.7 % live in poverty with 82,000 in extreme poverty
- Co has the fastest rate of growth of kids living in poverty in the country ('00-'06)
- 12,000 school age kids are homeless
- Over 10,000 suffer abuse or neglect. Up 43% since 2000. 179 kids have died.



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EDUCATION

- Nearly a quarter of students fail to graduate from high school. For Native American and Hispanic students the number is 43%.
- 39% of 3rd graders are not “proficient” readers for their grade. 31% of 10th graders aren’t either.
- 50% of 3rd graders are not “proficient” at math. 50% of 10th graders aren’t either.
- Colorado provide \$182 per student for English language instruction for non English speakers.
- Education Week gives Colorado a grade of 74.2% or a C on school finance.



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HEALTH CARE

- 37% of poor kids lack health insurance, the highest rate in the country. For non poor kids, 14% are uninsured
- Over 825,000 (16.6%) Coloradans lack health care coverage putting us in the top 15 for number of uninsured.



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SAFETY NET

Colorado is in the bottom 10 states in providing Food Stamps, Unemployment insurance, housing assistance, cash assistance to those who are eligible

We have licensed pre school slots for just over 25% of the kids who are eligible



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TRANSPORTATION

- Only 60% of the Colorado's roadway surfaces on the state highway system are good/fair
- By 2030, that will fall to 32%
- Without additional investments, the average driver will spend 53 hours in traffic congestion at a annual cost of about \$500 per driver.
- Additional delays will cost Colorado businesses more than \$740 million in wasted time and fuel.



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Is this good enough?



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Part 4

Explanation of Unique Constraints:

How We Arrived at Our Current Investment Strategy



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Major Constraints

TABOR—Constitutional-Limits Revenue and
Legislative Authority

MODIFIED BY REFERENDUM C

Gallagher Amendment—Constitutional—
Property Taxes

Amendment 23—Constitutional—Compels
Spending for K-12 Education



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TABOR

TABOR-Taxpayer Bill of Rights



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Adopted by voters in 1992 on the third try

Encompasses a philosophy of shrinking the size of government relative to the economy, “preferred interpretation shall reasonably restrain most the growth of government”

Attempts to adopt in other states failed largely based on the Colorado experience



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TABOR's Major Provisions

Voter Approval of
Tax Increases

Revenue Limits

Limits on
Revenue
Options



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The first major provision: **VOTER APPROVAL OF TAX INCREASES**

TABOR requires voter approval of any new tax, tax rate increase, debt increase, increase in mill levies, and any tax policy change that will result in a net revenue gain.

Tax policy change language recently interpreted to mean a change that increases revenue beyond the revenue limit in Section 7.



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The second major provision: REVENUE LIMITS

- Imposes a limit on how much revenue that is collected by government can be kept.
- Constitution contains different formulas for growth at different levels of government but all are based on a calculation of inflation and growth.
- Many local governments have voted themselves out from under the local revenue limit restrictions



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Revenue Limits: TABOR Formulas

Amount of revenue each district is allowed to keep is an increase equal to:

State

% POPULATION CHANGE + RATE OF INFLATION

Local Government

NET NEW CONSTRUCTION + RATE OF INFLATION

School Districts

% CHANGE IN STUDENT ENROLLMENT+ RATE OF INFLATION



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Revenue Limits: What counts as revenue?

REVENUE

- General Fund Revenue— income taxes, sales & use taxes, estate taxes, excise taxes
- Cash Funds—license fees, gas tax

NOT REVENUE for TABOR purposes

- Federal Funds
- Litigation settlements
- Enterprise revenue – enterprises defined narrowly in TABOR



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Revenue Limits: What if revenue exceeds the limit?

VOTERS MUST APPROVE KEEPING IT
Often called a De-Brucing measure.

Or

IT MUST BE REFUNDED

TABOR does not specify the manner or mechanism to refund the surplus. It allows for any “reasonable” method.



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Revenue Limits: How is revenue refunded?

- Automatic, temporary reduction in income taxes*
- Contingent Tax Credits (TABOR refund mechanisms)
- 6-Tier Sales Tax Refund on individual tax returns
- Local Mill Levy Reductions
- Tax Free Days
- Free Public Service Days

*New since last state refund



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Revenue Limits: How much revenue has been refunded?

Between 1997 and 2002--\$3.2 billion was
refunded

No contingent tax credits or sales tax refund will
be funded unless revenue exceeds the limit

Revenue not estimated to exceed the limit
through 2014



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The third major provision: **LIMITS ON REVENUE OPTIONS**

No new or increased real estate transfer taxes

No state real property taxes

No local district income taxes

No graduated income tax and new state income tax rate or definition of taxable income shall not apply before the next calendar year



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TABOR Constrains Public Services

TABOR limits the relative size of government to its relative size in 1992.

- Growth formula keeps government from occupying a larger share of economy than it did in 1992.
- Envisioned that any new demands beyond population growth or inflation would be funded by eliminating waste or by not funding something else the government did in 1992.



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TABOR Makes Budgeting Political

- Increases in revenue require elections
- Keeping up with the economy requires elections
- Pits one interest against another—not special interests but basic interests
- Pits locals versus state



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TABOR Constrains Local as well as State Resources

Override elections and revenue enhancements more successful at local level but rules still hamper ability to provide services—reserve requirements, etc.



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Gallagher



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Gallagher

Constitutional Residential Property Tax Relief

Sets Non-Residential Assessment Rate at 29%

Establishes that statewide property assessment should be approximately 55% from non residential sources and 45% from residential sources. In 1982 assessment rate to accomplish this ratio was 29% for non residential, 21% for residential

In order to maintain this statewide ratio over time, however, the residential assessment rate has fallen from 21% in 1982 to 7.96% in 2003 thru today

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TABOR And Gallagher

Prior to TABOR, mill levies could float up or down, allowing local governments to maintain funding levels.

TABOR prohibits mill levy increases without a vote. As the residential assessment rate falls to maintain statewide ratio, same mill levy raises less money.

$$\$100,000 \times 21\% \times .020 = \$420$$

VS

$$\$100,000 \times 7.96\% \times .020 = \$159$$



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TABOR And Gallagher

Amount/value of residential property has increased more rapidly than non-residential.

Per unit burden, in general, has shifted to non residential property.

Statewide averages play out differently in different locations.

Gallagher Effect on School Funding



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- Reducing the amount raised locally for schools means more money coming from State sources to fund schools
- 1989 state share of K-12 funding was 43%; in 2009 state share was 64%
- If assessment rates and mill levies were still at their 1995 levels, in 2008 the local contribution to school funding would have been \$3.1 billion higher annually.



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Amendment 23



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Amendment 23

Reaction to TABOR's and Gallagher's effect on public education funding.

Statistically, support for public education had fallen dramatically since passage of TABOR.

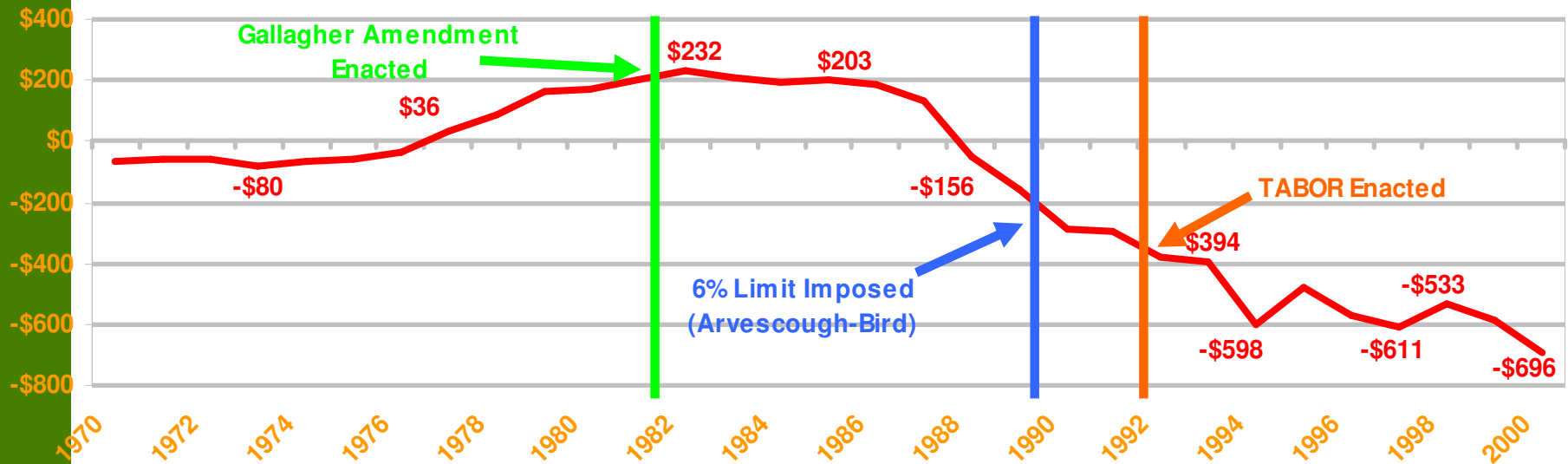
As a percentage of personal income, Colorado's total state spending on education was 49th in the country.



How Colorado Compares

K-12 Per-Pupil Funding: Colorado vs. National Average

Source: National Center for Education Statistics



Per pupil spending compared to U.S. Average:

2008: \$1,034 below the national average

2009: \$1,449 below the national average



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Amendment 23

Amendment 23 mandated increased levels of funding for K-12 public education

- Base K-12 education funding should increase by a rate of inflation plus 1% for ten years.

- After 2010, base K-12 education funding should increase by the rate of inflation.

Currently there is a debate on what funding falls under the “base” mandated funding increases.



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Amendment 23

Diverts 1/3 of 1% of state income tax to the State Education fund to help pay for increases

Requires the State general fund contribution to per pupil base funding to increase by 5% annually unless:

- personal income increases slower than 4.5%



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Referendum C



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Referendum C

Adopted by voters in November 2005

Authorized the state to keep money collected in excess of the limit for 5 years

Changed the calculation of the base to eliminate the constitutional revenue ratchet effect in the future

Voters told retained revenue would be used for Higher Education, K-12, Health Care



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Referendum C

Because it didn't suspend a statutory provision, Arveschoug Bird, much of the retained revenue wasn't spent on priority areas

Increased significantly the general fund revenue for transportation and other capital expenditures

Current revenue projections are almost exactly the same as election projections even though the timing of the re

venue collection was different



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Other Constraints

Single subject provision

Prohibition on debt

Balanced budget requirement

Strong local control



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Part 5

Thinking Beyond the Recession:

What Kind of Colorado Do We Want



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What Can We Do if it is Not!

BELIEVE IN A BETTER COLORADO

- Share the vision with our friends
- Join the CCLP mailing list and stay involved www.cclponline.org
- Find opportunities to spread the word that we want a better future

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