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Colorado's Fiscal Situation

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Role of government in the Economy

Market Enhancement

Economic development

Counter cyclical spending



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Budgets Document Priorities

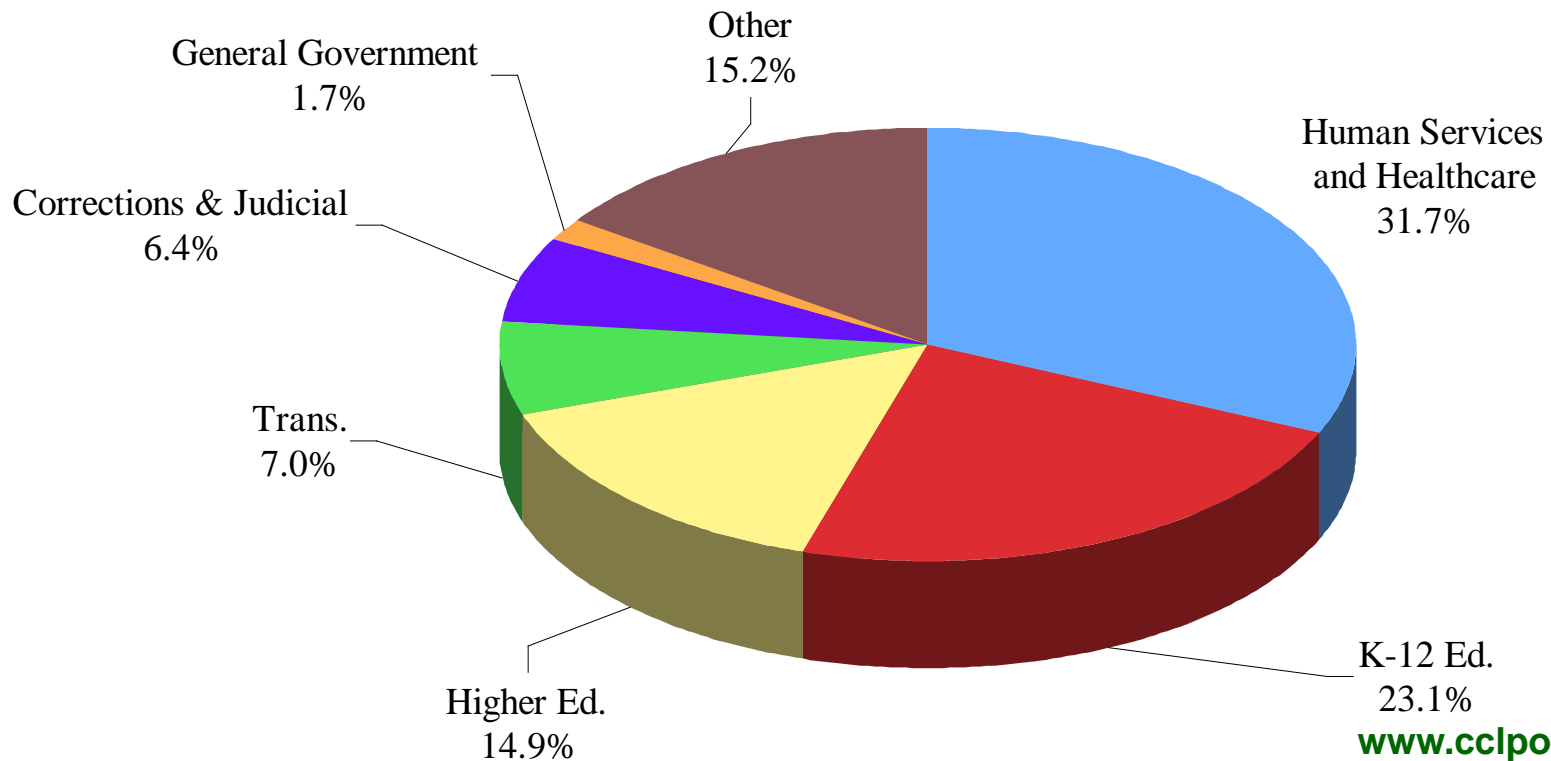
What Priorities Should State
Government Provide?



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TOTAL STATE BUDGET

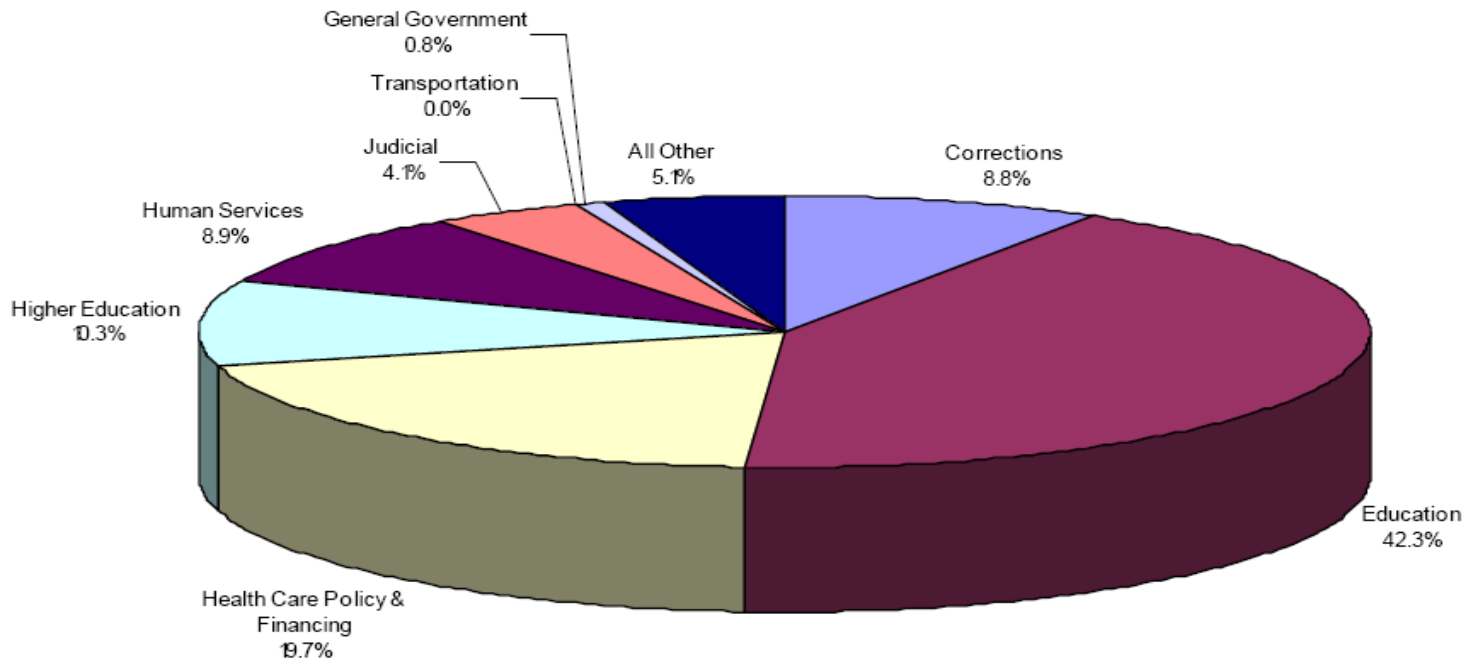
State Spending by Program-- All Funds FY 2008-2009





STATE GENERAL FUND BUDGET

Percent General Fund Appropriation FY 2007-08 By Program





Where We Rank in Spending?

Total Expenditures	State Ranking
per \$1000 of income	49
per capita	44
K-12 education	
per \$1000 of income	49
per capita	34
Medicaid	
per \$1000 of income	49
per capita	47
Higher Education	
per \$1000 of income	48
per capita	48
Highways	
per \$1000 of income	44
per capita	39



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TOTAL EXPENDITURES

State Spending per \$1000 of personal Income	RANK	49	Additional State funds needed
	US	\$144.30	
	25th	\$156.21	
	CO	\$107.30	
	Amt below US average	\$37.00	\$4.918 B*
	Amt below 25th	\$48.90	\$6.501 B*



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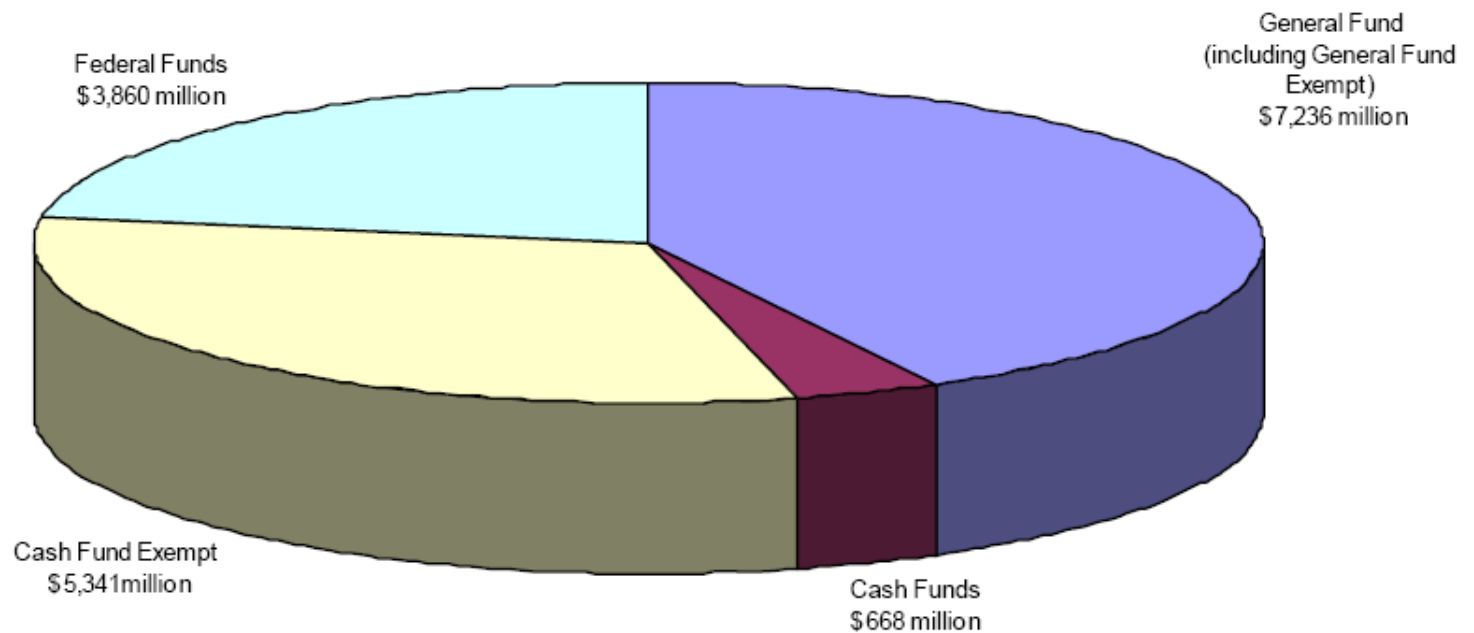
Where does public money come from and how is it used?



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WHERE THE MONEY COMES FROM

FY 2007-2008 Appropriations By Fund Source

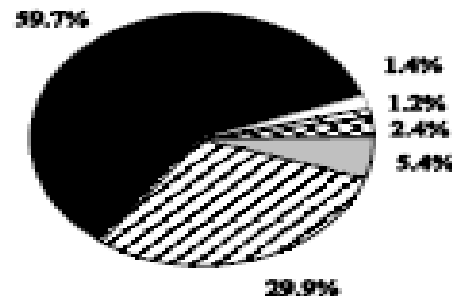




Where the General Fund Comes From

COLORADO STATE BUDGET SOURCES OF GENERAL FUND REVENUE (Fiscal Year 2007-08)

Estimated Gross General Fund Revenues = \$7.693 Billion*





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Income Taxes

How do they work

State

Single rate applied to Federal Taxable
income

What do they buy?



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Property Taxes

- How do they work

Market Value X Assessment Rate X Mill Rate

- What do they buy

- Schools

- County services—roads, corrections, recreation, public safety, human services



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Sales Taxes

How do they work

State and local

Applied to purchase of goods only

Exemptions

What do they buy

General state services and Transportation



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Where We Rank In State Taxes

Colorado's Rank in Selected State Taxes

per \$1,000 income, FY 2006-07

Tax	Colorado		National	
	Rank	Tax	High	Low
Total Taxes	49	\$48.91	\$133.26	\$41.65
Individual Income	28	\$21.68	\$45.53	\$0.00
Sales and Use	44	\$11.79	\$54.03	\$0.00
Corporate Income	43	\$2.55	\$31.50	\$0.00
Motor Fuels	31	\$3.52	\$7.23	\$0.61



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Where We Rank in Combined State and Local Taxes

Combined State and Local Tax Collections

per \$1,000 Income, FY 2004-05

State	Rank	Tax
Wyoming *	1	\$150.45
U.S. Average	n/a	\$104.11
Colorado	46	\$95.73
South Dakota	50	\$88.09

All tax burden data from Colorado Legislative Council Staff Issue Brief,
"How Colorado Compares in State and Local Taxes", April 15, 2008

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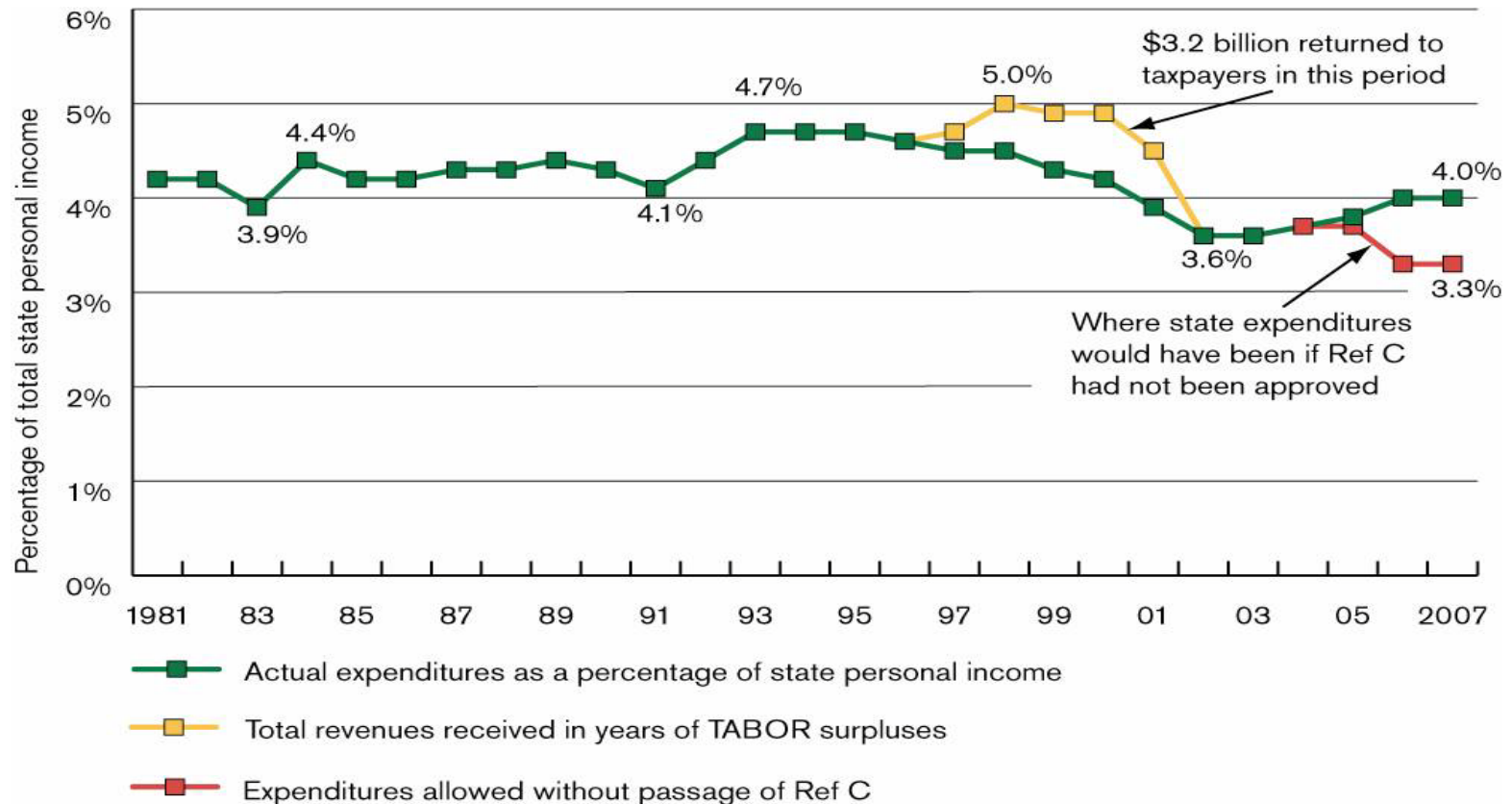


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What role should government spending and collection throughout the economic cycle?



Spending below historical averages





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Colorado is a low spending, low tax state

How did we get here



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TABOR's Major Provisions

Voter Approval of Tax Increases

Revenue Limits

Spending 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.



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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.
- Each growth formula is applied to the prior year's "fiscal year spending" which translates to actual revenue collections or the formula-limited collections, whichever is lower.



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Revenue: TABOR Revenue Limitation 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



Revenue

What counts as revenue?

- **REVENUE**
 - General Fund Revenue— income taxes, sales & use taxes, estate taxes, excise taxes
 - Cash Funds—Tuition, license fees, gas tax, UI tax
- **NOT REVENUE for TABOR purposes**
 - Federal Funds
 - Litigation settlements
 - Enterprise revenue – enterprises defined narrowly in TABOR

Revenue: What if revenue exceeds limits?



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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.

Revenue: How much has been refunded?



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- Between 1997 and 2002--\$3.2 billion was refunded
- No contingent tax credits or sales tax rebates years without revenue above the limit



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The third major provision: SPENDING LIMITS

- TABOR prohibits weakening of other spending limitations and for the last 15 years A/B has been considered a spending
- Arveschoug-Bird (statutory limit) limits state general fund appropriations to a growth rate of 6% or 5% of personal income, whichever is less.
- Applies to all state general fund operating budgets but not capital.



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The fourth 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 new state income tax rate or definition of taxable income shall apply before the next tax year



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The Ratchet Effect

- Makes the effect of cuts in spending permanent.
- Never recover costs associated with inflation plus population that occur during times of declining revenue.
- Makes the worst of times the best of times.



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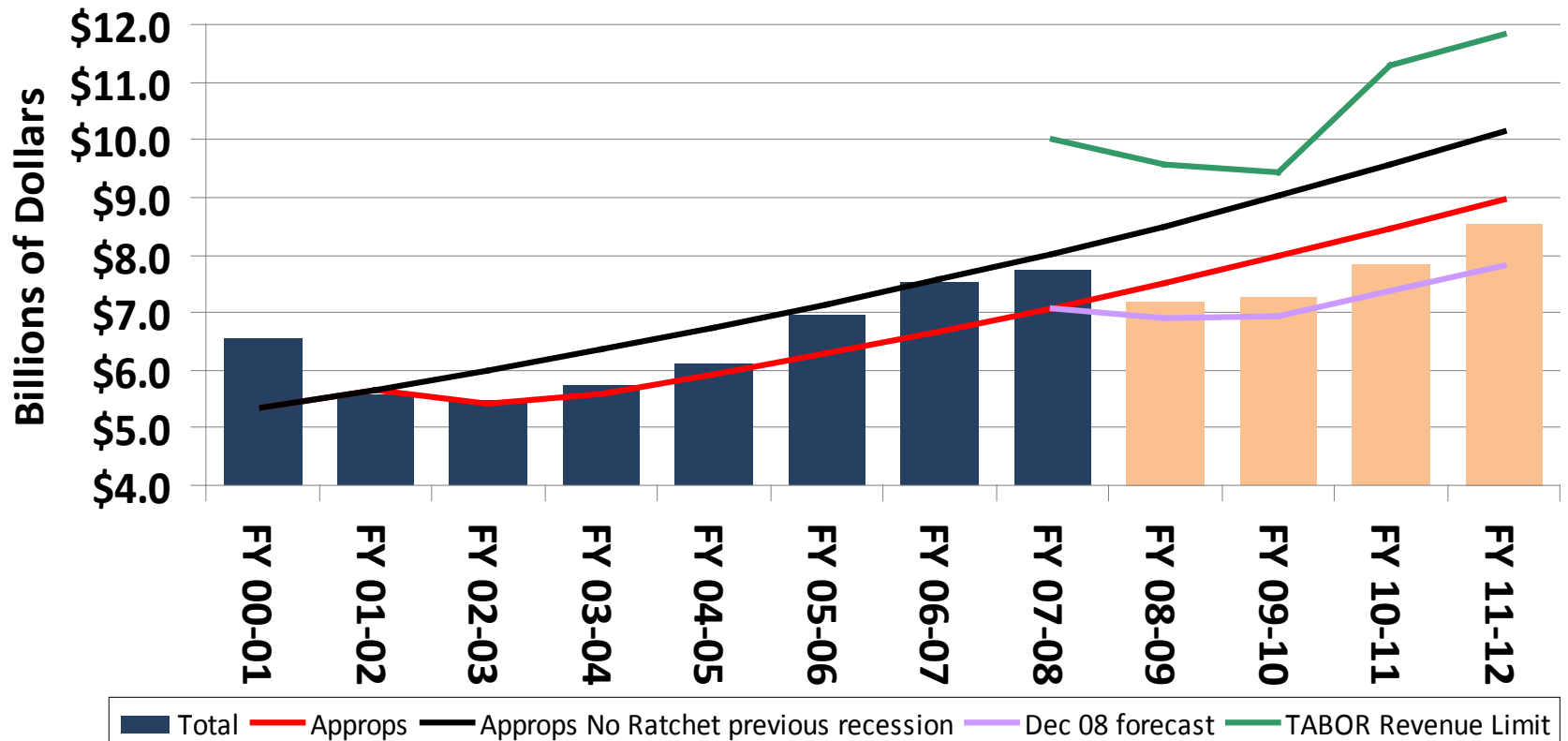
THE RATCHET EFFECT

Spending

- Limitation applies to general fund operating appropriations.
- Any time appropriations do not reach 6% above the prior year's level, the un-appropriated amount is lost forever.
 - Reduces the size of the base against which all future increases apply.
 - Even if it is “saved”, it can't be spent in another year in excess of the spending limits.



The Ratchet



Adapted from a chart prepared by Natalie Mullis, Colorado Legislative Council Staff



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THE CROWDING OUT EFFECT

- Total general fund operating expenditure increases are subject to the 6% statutory limit.
- The costs of certain categories in the budget increase much more quickly than 6% each year e.g. Medicaid, Corrections.
- Increases are the result of either inflation greater than CPI, service demand greater than population growth or a function of increased marginal costs.



THE CROWDING OUT EFFECT

- 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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Referendum C

- Adopted by voters in November 2005
- Authorized a five year time out from TABOR spending limit-- Authorized the state to keep money collected in excess of the limit
- Changed the calculation of the base to eliminate the constitutional revenue ratchet effect in the future
- Voters told retained revenue used for Higher Ed, K-12, Health Care



Referendum C

- Because it didn't suspend statutory spending limit, much of the retained revenue can't be spent on priority areas
- Increased significantly the general fund revenue for transportation and other capital
- Current revenue projections exceed election projections by \$2.6 B



GALLAGHER

Residential Property Tax Relief

- Caps Non-Residential Assessment Rate at 29%, Residential at 21%
- Establishes that 55% of total property tax collections statewide must come from non residential sources and 45% from residential sources
- In order to maintain this statewide ratio over time, the residential assessment rate has fallen from 21% in 1982 to 7.96% today



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.

$$\$100,000 \times 30\% \times .020 = \$600$$

VS

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



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TABOR AND GALLAGHER

- Typically the mount/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.



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AMENDMENT 23

- Reaction to TABOR's and Gallagher's effect on public education funding.
- Statistically, state 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.



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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.



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AMENDMENT 23

- Mandated increases funded by increased general funds and the new State Education Fund (SEF) established in the law.
- The SEF is capitalized by annual deposits of .33% of taxable income.
- The SEF was to grow and compound to support expanded funding for the long term.